Core Plus Fixed Income Managed Account

MARKETING COMMUNICATION

Quarterly Review

- Sector allocation was a strong contributor to overall performance during the quarter, due to the out-of-benchmark position in High Yield corporates, as risk appetites remained healthy and the sector experienced positive excess returns and spread tightening. An underweight to the government related sector was a very slight drag on sector allocation.
- Security selection also contributed, primarily due to select positions in convertible bonds within corporates. Within securitized sectors, performance benefited from an out-of-benchmark allocation to Agency Commercial Mortgage Backed Securities (CMBS) and positioning in the asset-backed securities (ABS) sector. Security selection in Agency Mortgage-Backed (MBS) pass-throughs was a modest detractor.
- Yield curve and duration effects were neutral overall. Portfolio duration was modestly long versus with the benchmark (the Bloomberg US Aggregate Bond Index) during the period, which detracted as interest rates rose; however, the decision to underweight the front end of the yield curve in favor of the belly (10-year portion) was a positive offset.

Outlook

- Fixed income markets delivered solid total returns for the second quarter as rates reversed from the mid-May peak, despite a backdrop of a strong US economy and record quarterly equity market returns. US corporate earnings continued to impress (driven in large part by continued robust AI spend) and jobs growth exceeded expectations. Under this stronger economic backdrop, a sharp drop in Middle East tensions helped moderate rates and fueled risk markets. By end of quarter, global oil prices had fallen back to pre-war levels, as the US and Iran implemented a 60-day cease-fire. Credit spreads also narrowed and as anticipated, The Federal Reserve (Fed) stayed on hold in Kevin Warsh's first meeting as new Fed Chair, but with a more hawkish press conference post FOMC (Federal Open Market Committee) and Statement of Economic Projections. The lack of forward guidance was also in focus, fulfilling one of Warsh's pre-nomination promises. Treasury yields initially rose across the board immediately following the Fed statement, before moderating in the following weeks as markets digested the Fed's new more hawkish stance. Fed Fund Futures markets are currently pricing in around 35 bps of rate hikes by year-end, a reversal of what was priced just three months prior, when investors had anticipated as many as one or more cuts by year-end 2026.
- Corporate fundamentals remain at a healthy level by historical standards, buoyed by the boom in AI-related capex. However, corporations may eventually seek to pass through higher input prices or shed labor to preserve margins. Consumer demand in aggregate has remained resilient, despite higher inflation, supported by stable job markets and wealth effects. The "K"-shaped economy continues to be the narrative, with higher income earners maintaining strong spending, but lower income earners feeling the pinch from higher food, energy and housing/rental costs.
- We continue to believe that we are in the late expansion phase of the credit cycle, and anticipate an eventual return to more trend-like growth and importantly, moderating inflation, as the effects of tariffs and disruptions to the supply of oil dissipate. Aggregate demand could continue to be resilient, increasing the probability of continued upside surprises. Recession risks now appear closer to historic norms, but remain a concern, especially in light of current risk market valuations. Key risks include a stock market correction and diminished wealth effect, a resumption in the conflict in Iran, continued tight oil supplies through summer and the fall, an increase

to the fiscal burden, and potentially overly reactive monetary policy.

- We continue to maintain an "up in quality and price transparency" bias in the portfolio, given our base case view that the economy is more likely to slow than to re-accelerate from current elevated levels. We currently hold over 1/3 of the portfolio in US Treasurys. Looking ahead, we expect Treasurys to be supported by slowing economic activity and continued disinflation. Importantly, we have significant liquidity for re-entering spread markets should valuations cheapen meaningfully from current levels.

- During the quarter we maintained our modestly long duration target, as we continue to believe that the balance of risks seems to favor lower rates. We are currently roughly 4/10ths of a year long on a nominal basis and 2/10ths of a year long on an empirical basis. We continue to favor the belly (5-10 year) of the yield curve, which we believe currently offers a better relative risk/reward in alternative scenarios including a growth scare.

- We continue to have a modest underweight agency mortgage-backed securities, in favor of more liquid and higher quality US Treasurys, and continue to emphasize favorable convexity and structure through coupon and specified pool selection.

- Within investment grade corporate credit, we remain underweight on both market value and contribution-to-duration measures. However, we do have a bias towards BBB-rated securities, as we believe they currently offer attractive valuations within a sector where spreads are close to historical tights. We tend to favor industries that have benefitted from higher rates, such as banks and business development companies, and those with favorable demand dynamics such as aircraft leasing companies.

- We have a large overweight to high quality investment grade securitized credit, primarily in the front end of the yield curve, for more defensive, non-corporate carry. We continue to favor higher-rated asset-backed securities (ABS) related to consumer receivables, as well as aircraft-related, automotive rental fleet, infrastructure, and whole loan ABS. We have minimal exposure to commercial real estate.

- Within the plus sectors our allocation to high yield remains at around 9% in total, including roughly 1% in bank loans. We remain at the low end of our historical allocation range in high yield given stretched valuations, and continue to favor front-end, lower spread duration yield,

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