INCORE Fixed Income Strategy Quarterly Commentary

As of June 30, 2023

From Bank Crisis to Confidence: Q2 Economic Resilience

As we close out the second quarter of 2023, the resilience of the economy and markets has been a surprising outcome in light of the substantial tightening measures imposed by the Federal Reserve over the last year. Faced with a potential banking crisis in Q1, the Fed intervened with remarkable efficacy, protecting deposits at failing regional banks and providing short-term loans to stabilize the banking sector. This prevented a more systemic financial crisis and boosted market confidence into Q2.

Throughout the majority of the second quarter, market sentiment was clouded by two primary anxieties: apprehension about a potentially impending credit crunch due to the recent banking turbulence, and concerns about the unresolved debt ceiling negotiations. However, by the start of June, just under the wire, a consensus was reached by Congress and the president to put the debt ceiling dispute to rest, resulting in its suspension until 2025. Concurrently, Federal Reserve surveys and data indicated a deceleration in lending practices, though not severe enough to trigger a full-blown credit crunch.

Despite expectations of an imminent slowdown, the economy remained buoyant in the face of substantial hikes in interest rates over the past year. Interest rates moved higher by 20-90 basis points throughout the quarter, with the most notable increases appearing in the short end of the curve as fears subsided. Despite higher rates, the economy demonstrated few signs of the anticipated slowdown.

Fixed-income market performance was mixed, with investment grade delivering negative returns for the quarter as interest rates rebounded from the banking scare in March. Investment grade corporate bonds outperformed U.S. Treasurys, while the Bloomberg U.S. Corporate High Yield Bond Index and the ICE BofA Investment Grade U.S. Convertible Index posted the strongest total returns, 1.75% and 1.58%, respectively. The S&P 500® Index delivered an impressive 8.74% total return for Q2, fueled by resilient economic data and excitement about the possibilities in artificial intelligence.

Continued economic strength in the face of tightening measures can be attributed in part to persistent fiscal stimulus, including the underestimated impact of the CHIPS and Inflation Reduction Acts, as well as the extended Employee Retention Tax Credit. This influx of fiscal stimulus has contributed to the surprisingly robust performance of the economy. On the inflation front, the Fed's rate hikes are beginning to show some desired moderating effects; however, core inflation continues to run above the Fed's 2% target, lingering in the 4% range, and it remains to be seen whether downward momentum will continue. Moreover, the labor market remains tight, with payroll growth averaging a pace of 244K in the second quarter, well above the Fed's goal to slow job growth to a pace closer to labor force growth.

The second quarter of 2023 demonstrated an economy that has borne the brunt of higher rates remarkably well. Moving into the second half of the year, the resilience of the economy and the proactive measures taken by the Federal Reserve provide a foundation of cautious optimism. However, we acknowledge the historical pattern that a rate-hiking cycle of this magnitude is often followed by a recession. Thus, we remain vigilant in monitoring risks and will continue to make investment decisions that reflect the complex and evolving economic landscape. We maintain a considered overweight positioning in corporate bonds with strong balance sheets and robust business models, along with well-structured and seasoned commercial mortgage-backed securities. These assets provide sufficient credit protection, reasonable loan-to-value ratios, and limited exposure to the office sector.

Index	YTM 06/30/23	Total Return Q2	Excess Return Q2*	Total Return YTD	Excess Return YTD*
Federal Funds Target Rate	5.00%	1.25%	n/a	2.40%	n/a
U.S. Treasury 2-year	4.90%	-0.89%	n/a	0.56%	n/a
U.S. Treasury 10-year	3.84%	-1.91%	n/a	1.78%	n/a
Bloomberg U.S. Aggregate Bond Index	4.81%	-0.84%	0.59%	2.09%	0.52%
Bloomberg U.S. Corporate Bond Index	5.48%	-0.29%	1.31%	3.21%	1.56%
Bloomberg U.S. Corporate High Yield Bond Index	8.58%	1.75%	2.79%	5.38%	4.11%
ICE BofA Investment Grade U.S. Convertible Index	3.48%	1.58%	n/a	1.10%	n/a
S&P 500® Index	4.95%**	8.74%	n/a	16.89%	n/a

Source: Bloomberg
*Excess returns are returns above or below an equivalent duration treasury portfolio.
**Earnings yield based on one-year forward earnings estimates.

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Performance

INCORE Total Return Strategy: The strategy returned -0.63% gross of fees, -0.78% net of fees during Q2, beating the Bloomberg U.S. Aggregate Bond Index benchmark at -0.84%. For the trailing 12 months the strategy returned -0.47% gross of fees, -1.06% net of fees, underperforming the Bloomberg U.S. Aggregate Bond Index benchmark at -0.94%. The strategy's positions in currency and overweight allocations to investment-grade convertible bonds and commercial mortgage-backed securities (CMBS) all contributed positively to relative performance for the quarter. We continue to maintain overweight positions in investment grade and high yield corporate bonds, as well as CMBS. Our focus is on companies with solid balance sheets where the business model can withstand higher interest costs and a slowing economy. Our focus in CMBS is on well-structured and seasoned securities that provide ample credit protection, reasonable loan-to-value ratios, and limited exposure to the office sector. Duration relative to the benchmark is close to neutral, as we think the Federal Reserve is approaching the end of its hiking cycle.

INCORE Core Fixed Income Government/Credit Strategy: The strategy returned -0.58% gross of fees, -0.68% net of fees during Q2, beating the Bloomberg U.S. Government/Credit Bond Index benchmark at -0.93%. For the trailing 12 months, the strategy returned -0.06% gross of fees, -0.46% net of fees, beating the Bloomberg U.S. Government/Credit Bond Index benchmark at -0.70%. The strategy's shorter relative duration position (meaning less interest rate risk than the benchmark) and its overweight allocation to commercial mortgage-backed securities (CMBS) both contributed positively to relative performance for the quarter. We continue to maintain overweight positions in investment grade and high yield corporate bonds, as well as CMBS. Our focus is on companies with solid balance sheets where the business model can withstand higher interest costs and a slowing economy. Our focus in CMBS is on well-structured and seasoned securities that provide ample credit protection, reasonable loan-to-value ratios, and limited exposure to the office sector. Duration relative to benchmark is close to neutral, as we think the Federal Reserve is approaching the end of its hiking cycle.

INCORE Intermediate Fixed Income Government/Credit Strategy: The strategy returned -0.54% gross of fees, -0.58% net of fees during Q2, beating the Bloomberg Intermediate U.S. Government/Credit Bond Index benchmark at -0.81%. For the trailing 12 months, the strategy returned 0.23% gross of fees, 0.08% net of fees, beating the Bloomberg Intermediate U.S. Government/Credit Bond Index benchmark at -0.10%. The strategy's shorter relative duration position (meaning less interest rate risk than the benchmark) and its overweight allocation to commercial mortgage-backed securities (CMBS) both contributed positively to relative performance for the quarter. We continue to maintain overweight positions in investment grade corporate bonds, as well as CMBS. Our focus is on companies with solid balance sheets where the business model can withstand higher interest costs and a slowing economy. Our focus in CMBS is on well-structured and seasoned securities that provide ample credit protection, reasonable loan-to-value ratios, and limited exposure to the office sector. Duration relative to the benchmark is close to neutral, as we think the Federal Reserve is approaching the end of its hiking cycle.

INCORE Low Duration Strategy: The strategy returned 0.08% gross of fees, -0.08% net of fees during Q2, beating the Bloomberg U.S. 1-3 Year Government Bond Index benchmark at -0.58%. For the trailing 12 months, the strategy returned 2.21% gross of fees, 1.59% net of fees, outperforming the Bloomberg U.S. 1-3 Year Government Bond Index benchmark at 0.17%. The strategy's shorter relative duration position (meaning less interest rate risk than the benchmark), as well as its positions in currency and allocation to commercial mortgage-backed securities (CMBS), contributed positively to relative performance for the quarter. We continue to maintain overweight positions in investment grade and high yield corporate bonds, as well as CMBS. Our focus is on companies with solid balance sheets where the business model can withstand higher interest costs and a slowing economy. Our focus in CMBS is on well-structured and seasoned securities that provide ample credit protection, reasonable loan-to-value ratios, and limited exposure to the office sector. Duration relative to the benchmark is close to neutral, as we think the Federal Reserve is approaching the end of its hiking cycle.

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Average Annual Returns (%)	Inception Date	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception
INCORE Total Return Fixed Income Strategy (Gross)	12/1/1991	-0.63	1.92	-0.47	-2.75	1.30	2.14	4.96
INCORE Total Return Fixed Income Strategy (Net)	12/1/1991	-0.78	1.61	-1.06	-3.31	0.72	1.58	4.50
Bloomberg U.S. Aggregate Bond Index	12/1/1991	-0.84	2.09	-0.94	-3.96	0.77	1.52	4.72

Average Annual Returns (%)	Inception Date	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception
INCORE Core Fixed Income Strategy (Govt/Credit) (Gross)	1/1/1992	-0.58	2.42	-0.06	-3.32	1.66	2.18	5.15
INCORE Core Fixed Income Strategy (Govt/Credit) (Net)	1/1/1992	-0.68	2.21	-0.46	-3.70	1.27	1.82	4.85
Bloomberg U.S. Government/Credit Bond Index	1/1/1992	-0.93	2.21	-0.70	-4.11	1.03	1.66	4.73

Average Annual Returns (%)	Inception Date	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception
INCORE Intermediate Fixed Income Strategy (Govt/Credit) (Gross)	2/1/1988	-0.54	1.51	0.23	-1.98	1.69	1.77	5.26
INCORE Intermediate Fixed Income Strategy (Govt/Credit) (Net)	2/1/1988	-0.58	1.45	0.08	-2.14	1.52	1.58	4.99
Bloomberg Intermediate U.S. Government/Credit Bond Index	—	-0.81	1.50	-0.10	-2.46	1.23	1.41	4.96

Average Annual Returns (%)	Inception Date	QTR	YTD	1-YR	3-YR	5-YR	Since Inception
INCORE Low Duration Credit Strategy (Gross)	9/1/2016	0.08	1.50	2.21	0.71	2.07	1.97
INCORE Low Duration Credit Strategy (Net)	9/1/2016	-0.08	1.19	1.59	0.12	1.48	1.38
Bloomberg U.S. 1-3 Year Government Bond Index	—	-0.58	1.00	0.17	-1.11	0.93	0.71

Past performance does not guarantee future results. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings. Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns reflect gross performance less investment management fees. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV.

All investments carry a certain degree of risk, including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

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