

# INCORE Short Government Quarterly Commentary

As of December 31, 2020

## Commentary

For the quarter ended December 31, 2020, the INCORE Short Government Strategy (gross of fees) (the "Strategy") had a total return of 0.20%. The Strategy's benchmark, the Bloomberg Barclays U.S. 1-5 Year Government Bond Index, had a total return of 0.02%.

Risk markets rallied moderately in the fourth quarter of 2020 with news of successful vaccines and the resolution of the presidential election. In equity markets, the Dow, the S&P 500 and the Nasdaq Composite were up solidly at 10.2%, 11.7% and 15.4%, respectively. With the advent of colder weather and the holiday season, as expected, Covid-19 cases climbed. Rates fell at the short end and rose at the long end of the U.S. yield curve, which caused the curve to steepen as market participants looked through the recent virus-related slowdown in some measures of U.S. economic data in favor of expectations of future growth once vaccines provide herd immunity and pent-up demand is unleashed, perhaps in late summer. Bond prices move opposite yields.

During the quarter's moderate risk-on sentiment, the corporate debt and commercial mortgage sectors outperformed most relative to duration-neutral U.S. Treasury bonds. U.S. government agency bonds and asset-backed and mortgage-backed securities were all positive versus duration-neutral U.S. Treasury bonds. Within the mortgage market, Freddie, Fannie and GNMA were all moderately positive versus duration-neutral U.S. Treasury bonds.

Our performance leader was GNMA multi-family (0.3% of the Strategy), while GNMA single-family pass-through bonds (51.2% of the Strategy) and GNMA structure (2.8% of the Strategy) all recorded moderately positive performance. U.S. Treasury bonds (45.7% of the Strategy) were slightly negative. We

continue to selectively buy or create high-coupon GNMA platinum pools as opportunities arise.

To paraphrase Fed Chair Powell, as the virus goes, so goes our economy. We are experiencing a third wave of Covid-19 infections this winter. With the election behind us, we have some clarity. More stimulus is likely coming in short order. While we have a couple of successful vaccines now being distributed to the most vulnerable, it is likely to be months before life can return to any semblance of normality. We are undergoing structural employment shifts, with the Fed likely to be on hold for years as they struggle to lift both employment and inflation, and thus rates lower for longer and lingering. While we may get a temporary pop once vaccines have reached critical masses due to pent up demand, we expect it to be short lived. We expect the U.S. economy to return to the shallow growth trajectory it was on, due to demographics, before the pandemic hit. No matter the weather, the goal of our strategy remains consistent, we seek to deliver high, reliable income and preservation of capital.

Composite Performance (%)	ANNUALIZED RETURNS						
	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception*
INCORE Short Government (gross of fees)	0.20	3.81	3.81	3.43	2.68	2.68	6.07
INCORE Short Government (net of fees)	0.12	3.45	3.45	3.07	2.32	2.32	5.55
Bloomberg Barclays U.S. 1-5 Year Government Bond Index	0.02	4.34	4.34	3.36	2.35	1.79	—

\*Since inception results are as of October 1, 1987

## Past performance is no guarantee of future results.

**Investing involves risk, including loss of principal.** Returns for periods of greater than one year are annualized. Returns are expressed in U.S. dollars. Composite returns are net of transaction costs and gross of non-reclaimable withholding taxes, if any, and reflect the reinvestment of dividends and other earnings.

Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. 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 equity 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 II of its Form ADV.

The INCORE Short Government Fixed Income Composite includes all accounts, except wrap fee paying accounts, primarily invested in 2-10 year weighted average maturity mortgage-backed obligations and collateralized mortgage obligations issued by the Government National Mortgage Association and normally less than 5 year weighted average maturity obligations issued or guaranteed by the U.S. government, its agencies, or instrumentalities. The composite creation date is April 2011. The benchmark of the composite is the Bloomberg Barclays U.S. 1-5 Year Government Bond Index.

The Bloomberg Barclays U.S. 1-5 Year Government Bond Index (BBgBarc U.S. 1-5 Y Govt Bond Index) seeks to measure the performance of U.S. Treasuries and Agencies with less than five years to maturity.

Index returns reflect the reinvestment of dividends and capital gains but do not include advisory fees, transaction costs, or other expenses. One cannot invest directly in an index.

The information provided is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections, or recommendations in this report

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