INCORE SMA Investment Grade Convertible Securities Quarterly Commentary

As of December 31, 2022

Executive Summary

- Investment grade convertibles as measured by the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the "Constrained Convertible Index") (VX5C) rose 4.16% in the fourth quarter, participating in 55% of the S&P 500 return. The ICE BofA Investment Grade U.S. Convertible Excluding 144a Index (the "Unconstrained Convertible Index") (VX1N) rose 3.47% in the quarter, participating in 46% of the S&P 500 return.
- The INCORE SMA Investment Grade Convertible Securities Strategy (the "Strategy") underperformed the Constrained Convertible Index (VX5C) and outperformed the Unconstrained Convertible Index (VX1N) in the fourth quarter.
- Historically, convertible returns have closely matched or even exceeded equity returns over the long term, with lower volatility.
- Investment grade convertibles appear well positioned in the current environment in that they are expected to continue to provide a measure of downside support, while providing upside potential if markets rally.

Market Review

Investment grade convertibles showed strong relative performance during the challenging environment of 2022, in which stocks and bonds both fell double digits. During the year, stocks as measured by the S&P 500 Index fell 18.11%, bonds as measured by the Bloomberg U.S. Aggregate Bond Index fell 13.01%, and investment grade convertibles, as measured by the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the "Constrained Convertible Index") (VX5C) fell 6.26%. The ICE BofA Investment Grade U.S. Convertible Index (the "Unconstrained Convertible Index") (VX1N) fell 8.09% for the year.

The continuation of Covid-19, Russia's invasion of Ukraine, and rising interest rates and inflation combined to create a demanding environment for financial markets during the first quarter of 2022. Following a stellar year in 2021, stocks began 2022 with the S&P 500 dropping 8% in January and February as worries of higher interest rates and inflation gave way to turbulence caused by the Russian invasion of Ukraine. Surging oil prices contributed to further declines, dropping the S&P 500 to a greater than 12% loss at its lowest point in March. Stocks rebounded in mid-March despite a quarter-point Fed rate hike as investors were encouraged by Fed Chairman Powell's efforts to tame inflation and his positive comments on the economy. The March rally allowed the S&P 500 to cut its first quarter decline to just -4.60%. Bonds performed even worse than stocks in the first quarter as interest rates rose, resulting in a 5.93% drop in the Bloomberg U.S. Aggregate Total Return Index.

The investing environment turned increasingly sour in the second quarter as disappointing earnings, rising rates, spreading Covid-19, China's economic woes, and the war in Ukraine resulted in a dreadful 16.1% quarterly loss in the S&P 500. Notable in the second quarter, the Federal Reserve raised rates by a half-point for the first time in the cycle in May, followed by a three-quarter-point increase in June. Also notable in the quarter were the beginnings of the crypto-currency collapse.

Markets experienced another volatile period in the third quarter, which that saw the S&P 500 rise by 9.22% in July and fall by the same amount in September. Following dreadful second quarter losses, stocks bounced back in July to post their best month since November of 2020. Faced with conflicting economic signals, investors chose to focus on better-than-feared earnings reports and the prospect that a slowing economy may shorten the tightening cycle. The rally continued halfway through August until Fed Chair Powell's Jackson Hole speech, which was more hawkish than anticipated, emphasizing the need to stomp out inflation even at the expense of economic growth. September began with a glimmer of hope as bargain hunting initially pushed stocks higher. However, this abruptly changed when the August Consumer Price Index (CPI) report showed 8.5% inflation. On the day of the report the Dow Jones Industrial Average (DJIA) fell 1,276 points, or 3.9%; the S&P 500 fell 4.3%; and the Nasdaq Composite dropped 5.2%. The S&P 500 fell 4.88% in the third quarter to bring its YTD total return to -23.87%. Bonds provided little solace during the third quarter as the Bloomberg U.S. Aggregate Bond Index declined 4.75%, bringing its YTD total return to -14.61%.

The fourth quarter did bring a partial reprieve, as stocks rocketed higher in October and November partially due to better-than-expected inflation readings and signs that the Fed may consider pivoting to a less aggressive rate increase schedule. The reprieve lasted only until the December Fed meeting. As expected, the Fed raised rates only 50 basis points in December after four consecutive 75-basis-point increases; however, they struck a uniform hawkish tone, promising future rate hikes. This, along with a renewed focus on possible recession, threw cold water on the stock rally, causing stocks to give back in December all they had gained in November

Fourth Quarter Convertibles

Investment grade convertibles as measured by the Constrained Convertible Index (VX5C) rose 4.16% in the fourth quarter, participating in 55% of the S&P 500 return. The Unconstrained Convertible Index (VX1N) rose 3.47% in the quarter, participating in 46% of the S&P 500 return. The Constrained Convertible Index (VX5C) sector contributions were led by Financials and Utilities, followed by Health Care. The only detracting sector was Energy. Top individual performers in the index for the quarter included Elevance Health, Booking Holdings, and Pioneer Natural Resources. By far the worst performing index member was EQT Corp., which subtracted 75 basis points from the Constrained Convertible Index (VX5C).

The new issuance market fell from the prior year in 2022 with 58 new issues raising $28.4 billion, as low and volatile stock prices made companies reluctant to tap the market. In comparison, 2021 saw over 150 new issues raising $93.5 billion.

Portfolio Performance

The INCORE SMA Investment Grade Convertible Securities Strategy (the "Strategy") underperformed the Constrained Convertible Index (VX5C) and outperformed the Unconstrained Convertible Index (VX1N) in the fourth quarter. Relative performance was hurt by negative security selection in Utilities and by an underweight and negative security selection in Financials, two sectors that particularly benefited from a decline in longer-term interest rates. Relative performance was helped by positive security selection in Energy and an overweight in Information Technology. Absolute performance was spread over several sectors, with Health Care and Utilities providing the greatest contributions. Top performing individual convertible included Elevance Health, Booking Holdings, and Pioneer Natural Resources. Bottom performing individual convertibles included EQT Corp., New York Community Bank, and DTE Energy.

Portfolio Characteristics

We strive to invest in high-quality convertibles with attractive underlying common stocks. We structure our portfolios by spreading our holdings across the three types of convertibles: 1) equity-sensitive, high-delta convertibles; 2) total return, middle-of-the-road convertibles; and 3) fixed income oriented convertibles. This structure provides a balance between upside participation during good markets and downside protection during bad markets.

The holdings in the Strategy had a delta (sensitivity to common stock) of 47%, matching the The Constrained Convertible Index (VX5C) which had a delta of 47%. The holdings are diversified across all economic sectors. Compared to the Constrained Convertible Index (VX5C), we maintain an overweight in the Information Technology and Health Care sectors. We maintain an underweight in the Financials, and Real Estate sectors. We maintain approximately neutral sector exposure to all other sectors.

Buys and Sells

During the fourth quarter, we sold the mandatory convertible preferreds of DTE Energy, and Stanley Black & Decker. We invested the proceeds in several securities including convertible preferreds of American Electric Power, NiSource, Inc., KKR & Co., and New York Community Bank. We also added to convertible bonds of business development company (BDC), Ares Capital, and to financial transaction company, Euronet Worldwide.

Outlook

We believe investment grade convertibles are well positioned in the current environment to continue to provide a measure of downside support while still providing upside potential if markets rally.

Coming off the strong Covid-19 recovery in 2021, economic growth slowed dramatically in 2022. We expect that the economy will slow further in 2023, with an elevated chance of recession. Tighter economic conditions causing higher interest rates are acting to slow economic growth both domestically and worldwide. The Conference Board Leading Economic Index (LEI) remains in negative territory. The latest Bloomberg survey points to just 0.3% growth in 2023. The chances of recession have increased, and at least a mild recession has become consensus.

Inflation remains elevated and continues to be a major concern. However, it has potentially peaked from its highest levels. Commodity prices have declined, and supply chain issues have improved. In an effort to curtail inflation, the Federal Reserve hiked the federal funds rate seven times in 2022 for a total of 425 basis points. All indications are that the Fed will continue to raise rates into the spring. With the federal funds rate already exceeding long Treasury yields, the yield curve is becoming increasingly inverted, further pressuring economic prospects.

Actual and estimated earnings have been surprisingly resilient given weakening worldwide economies. After rebounding 70% in 2021, S&P 500 earnings fell just 5% in 2022, to $200 according to S&P. A Bloomberg survey of strategists indicates a median S&P 500 forecast of $210 in 2023. We do believe this estimate could come down in a recession. At a closing level of 3840, the S&P 500 price earnings multiple (P/E) stood at 18.3 times the median forecast.

Lower stock prices and higher interest rates have improved the valuation levels of both stocks and bonds. However, given the uncertainties present in the current environment, we remain neutral on the prospects for both major asset classes. Depending on the direction and/or outcome of a long list of variables such as inflation, Fed policy, earnings, international conflict, trade policy and Covid-19, markets could remain volatile for some time. Investment grade convertibles have done an excellent job of lessening the downward impacts of the stock and bond markets in 2022. We believe they remain well positioned in the current environment in that they can continue to provide a measure of downside cushioning, while providing upside potential if markets rally.

Historically, convertible returns have closely matched or even exceeded equity returns over long periods, with lower volatility. In general, convertibles have tended to underperform stocks in bull markets, outperform stocks in bear markets, and provide competitive returns in normal markets. In addition, their lack of perfect correlation to either the stock or the bond market makes them a worthy addition to balanced portfolios.

Top 5 Contributors (%)	
Elevance Health, Inc. 2.75% 15-oct-2042	0.9
Booking Holdings Inc. 0.75% 01-may-2025	0.5
Pioneer Natural Resources Company 0.25% 15-may-2025	0.4
American Electric Power Company, Inc. Equity Units Cons of USD 50 Nom Nts 15.08.25 + 1 PC 15.08.23	0.3
KKR & Co Inc 6 % Conv Cum Red Pfd Registered Shs 2020-15.09.23 Series C	0.2

Top 5 Detractors (%)	
Eqt Corporation 1.75% 01-may-2026	-0.5
New York Community Capital Trust V 6 % Bifurcated Option Note Unit Secs Cons of 1 6% Trust Pfd Sec 1.11.51 + 1 Wt 7.5.51	0.0
DTE Energy Co Corporate Units Cons of 1 PC + 1/20 Notes	0.0
Tyler Technologies, Inc. 0.25% 15-mar-2026	0.0
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	0.0

Source: FactSet.

					Annualized Returns			
Average Annual Returns (%)	Inception Date	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception
INCORE SMA Investment Grade Convertible Securities (pure gross)	1/1995	3.69	-8.86	-8.86	4.55	7.38	9.36	7.74
INCORE SMA Investment Grade Convertible Securities (net of fees)	1/1995	2.92	-11.58	-11.58	1.46	4.23	6.16	4.27
ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C)	—	4.16	-6.26	-6.26	4.12	7.05	9.64	—
ICE BofA Investment Grade Convertibles ex 144A Index (VX1N)	—	3.47	-8.09	-8.09	3.07	6.86	10.82	—

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 returns are gross of the wrap fee and do not reflect the deduction of any trading costs, fees, or expenses and are presented for comparison purposes only. Net returns are net of the total wrap fee. The wrap fee will normally include all charges for trading costs, portfolio management fee, custody and other administrative fees. Composite net returns are calculated by subtracting 1/12th of the highest applicable wrap fee (3.00%) from the pure gross return. Actual fees may vary depending on the individual sponsor's wrap fee.

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. Interested parties are strongly encouraged to seek advice from qualified tax and financial experts regarding the best options for your particular circumstances. Convertible securities rank senior to the issuer's common stock, but may be subordinate to senior debt obligations. In part, the total return for a convertible security may depend upon the performance of the underlying stock into which it can be converted. Synthetic convertibles may respond differently to market fluctuations than traditional convertible securities. They are also subject to counterparty risk. The value of the portfolio's direct or indirect investments in fixed income securities may be negatively affected by changes in interest rates and/or changes in the actual or perceived ability of an issuer to meet its (or their) obligations. High yield securities may be more volatile, be subject to greater levels of credit or default risk, and may be less liquid and more difficult to sell at an advantageous time or price than higher-rated securities of similar maturity. Technology companies may be adversely affected by economic downturns, short product cycles, aggressive pricing, market competition and government regulation. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. The value of your investment is also subject to geopolitical risks such as wars, terrorism, environmental disasters, and public health crises; the risk of technology malfunctions or disruptions; and the responses to such events by governments and/or individual companies.

The INCORE SMA Investment Grade Convertible Securities Composite includes separately managed wrap accounts invested in investment grade convertible securities with a minimum convertible commitment goal of 70%-90%. The composite creation date is July 2003 and the composite inception date is January 1995.

The benchmark of the composite is the ICE BofAML Investment Grade US Convertible 5% Constrained Index (VX5C). Prior to 12/1/2017, the benchmark was the ICE BofAML U.S. Convertible - Investment Grade Index (VXA1). The ICE BofAML Investment Grade US Convertible 5% Constrained Index (VX5C) is a market-capitalization weighted index of domestic corporate convertible securities, with all positions capped at 5% of market value. Bonds and preferred stocks must be convertible only to common stock, ADR's or cash equivalent and have a market value of at least $50 million. Composed of Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher. The ICE BofAML U.S. Convertible - Investment Grade Index (VXA1) is a market capitalization-weighted index of domestic corporate convertible securities. Bonds and preferred stocks must be convertible only to common stock, ADRs or cash equivalent and have a market value of at least $50 million. Composed of Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index.

The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. Holdings are subject to change and should not be construed as a recommendation to buy or sell individual securities.

A complete list of all holdings for the previous 12 months, each holding's contribution to the strategy's performance, and the calculation methodology used to determine the holdings' contribution to performance is available on request. Victory Capital Management Inc., and its affiliates, as agents for their clients, and any of its officers or employees, may have a beneficial interest or position in any of the securities mentioned, which may be contrary to any opinion or projection expressed in this report. This information should not be relied upon as research or investment advice regarding any security in particular.

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The opinions are as of the date indicated and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

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