INCORE SMA Investment Grade Convertible Securities Quarterly Commentary

As of June 30, 2021

Executive Summary

- Investment grade convertibles returned 1.33% in the second quarter, as measured by the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the "Constrained Convertible Index") (VX5C), participating in 16% of the S&P 500® return. The unconstrained ICE BofA Investment Grade U.S. Convertible Index (the "Unconstrained Convertible Index") (VXA1) returned 1.16% in Q2. Year-to-date, the Constrained Convertible Index (VX5C) returned 7.08%, participating in 47% of the S&P 500 return. The Unconstrained Convertible Index (VX1N) returned 4.41% YTD.
- The INCORE SMA Investment Grade Convertible Strategy (the "Strategy") exhibited strong relative performance in the second quarter, outperforming both its primary performance benchmark (the Constrained Convertible Index [VX5C]) and the Unconstrained Convertible Index (VX1N) on a gross and net basis.
- 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 should participate in a rising market, while providing a measure of stability during market volatility.

Market Review

Market returns remained strong in the second quarter, although convertible equity participation was unusually low following the very high equity participation experienced in the first quarter. Fueled by robust economic growth and continued fiscal and monetary stimulus, the S&P 500 gained 8.55% in the quarter, bringing its year-to-date total return to 15.25%. Stocks began the quarter on a strong note, with the S&P 500 returning 5.34% in April as government stimulus, vaccinations and reopening progress led to a series of positive economic data points. Investors cheered a 60 Minutes interview in mid-April in which Fed Chairman Powell reiterated both his optimism toward growth and his reluctance to raise rates or curtail bond purchases. Stocks managed a modest gain in May, even with a mid-month downdraft caused by the Labor Department report that April CPI had jumped 4.2%. Stocks finished the quarter strong in June despite investor concerns that resulted after Fed officials, including Chairman Powell, signaled initial consideration of rate increases and/or bond purchase tapering. In the end, economic and market momentum proved the stronger force as investors quickly shrugged off the Fed's latest comments. Falling interest rate spurred a recovery in bonds, leading to a 1.83% quarterly gain for the Bloomberg Barclays U.S. Aggregate Bond Index. Bond returns are still negative for the year, with a 1.60% YTD loss for the index. Notable during the quarter, the Commerce Department reported that first quarter GDP grew at a 6.4% annualized rate, up from the 4.3% fourth quarter pace.

Second Quarter Convertibles

Investment grade convertibles as measured by the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the "Constrained Convertible Index") (VX5C) returned 1.33%, capturing a meager 16% of the S&P 500 return. Better equity capture in the first quarter allowed the YTD return of 7.08% for the Constrained Convertible Index (VX5C) to capture a more respectable 47% of the S&P 500 return. In the second quarter and the first half, the unconstrained ICE BofA Investment Grade U.S. Convertible Excluding 144a Index (the "Unconstrained Convertible Index") (VX1N) returned 1.56% and 4.41%, respectively. The Constrained Convertible Index (VX5C) sector contributions were led by Financials followed by Health Care and Energy. Top sector detractors included Industrials, Consumer Discretionary and Information Technology. Top individual performers in the index for the quarter included KKR & Co., Wells Fargo, and Illumina. Bottom performers were Southwest Airlines, Micron Technology, and Booking Holdings. The delta, or equity sensitivity, of the Constrained Convertible Index (VX5C) fell from 55% to 47% as several high-delta convertibles left the index, including Micron Technology.

The new issuance market remained quite strong in the second quarter with 72 new issues YTD, raising close to $60 billion. Issuance was met with high demand as investors looked to take advantage of the positive attributes that convertibles offer.

Portfolio Performance

The Strategy exhibited strong relative performance in the second quarter, outperforming both its primary performance benchmark (the Constrained Convertible Index [VX5C]), which returned 1.33% for the quarter, and the Unconstrained Convertible Index (VX1N), which returned 1.56% for the quarter. The Financials, Health Care and Information Technology sectors contributed most to absolute returns. The Industrials, and Consumer Discretionary sectors detracted from returns. Versus the Constrained Convertible Index (VX5C), relative performance benefited the most from an overweight in Health Care and an underweight in Consumer Discretionary. Relative performance was helped by positive security selection in Information Technology, Health Care, and Utilities. Top individual contributors included KKR & Co., Nuance Communications, Danaher, and Wells Fargo. Bottom performers included Southwest Airlines, Booking Holdings, Fortive Corp., and Vishay Intertechnology.

The Strategy also exhibited strong relative performance YTD, outperforming both the Constrained Convertible Index (VX5C), which returned 7.08% YTD and the Unconstrained Convertible Index (VX1N), which returned 4.41% YTD on a gross and net basis.

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 Strategy portfolio has a current yield of 2.8%, a delta (sensitivity to common stock) of 52% and an average credit rating of BBB. The Constrained Convertible Index (VX5C) yields 3.2%, has a delta of 47% and an average credit rating of BBB, so the portfolio has a lower yield, higher delta, and similar credit quality. The portfolio is diversified across all economic sectors. Compared to the Constrained Convertible Index (VX5C), we maintain an overweight in the Health Care and Information Technology sectors. We maintain an underweight in the Consumer Discretionary, Real Estate, and Utilities sectors. We maintain approximately neutral sector exposure in the Energy, Financials, and Industrials sectors.

Buys & Sells

During the second quarter we initiated a position in Pioneer Natural Resources. Pioneer is favorably positioned versus its peers with a low-cost structure, great acreage and a solid balance sheet. It carries a BBB rating by all three ratings agencies. We continued purchases of genetic sequencing company Illumina Inc., which replaced a similar Illumina convertible bond that matured in June. We also added to our position in Vishay Intertechnology. We trimmed Nuance

Communications after it gained from its takeover agreement with Microsoft. Finally, Spirit Realty matured during the quarter.

Outlook

Investment grade convertibles appear well positioned in the current environment in that they should participate in a rising market, while providing a measure of stability during market volatility.

We are in the midst of an economic boom in the U.S. coming off the severe COVID-19 induced recession of 2020. Government has their foot on the accelerator with the one-two punch of the $1.9 trillion COVID-19 relief bill and a planned trillion-dollar-plus infrastructure plan. Additionally, the fiscal stimulus is coming on top of continuing doses of monetary stimulus out of the Federal Reserve. The rollout of vaccines is allowing the economy to reopen, thus unleashing a buildup of pent-up demand. First quarter GDP grew at a 6.4% rate, and a Bloomberg survey of economists calls for still stronger 9.2% growth when the second quarter figure is released. The survey also points to 6.6% growth for 2021 and a further 4.1% growth pace in 2022. The stronger economy is translating into much higher earnings, with S&P 500 EPS expected to grow over 50% in 2021 to $188, according to Bloomberg. At its quarter-end price of 4297, the S&P 500 stood at a 22.8 times P/E multiple. Fundamentals appear to support further stock market gains; however, we still believe that we are in an environment with elevated levels of uncertainty and volatility.

We believe that economic strength has increased the possibility of higher inflation and interest rates. Fed Chairman Powell has indicated his willingness to accept somewhat higher inflation in exchange for lower unemployment. We are seeing some higher inflation in various recent data points such as CPI, but interest rates actually declined in the second quarter after rising significantly in Q1. Our current expectation remains that rates will stay relatively low on a historical basis, and that inflation will not get out of hand. Convertibles could provide a hedge to higher rates because they have performed quite well during past periods of rising rates.

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 an excellent addition to balanced portfolios.

Top 5 Contributors (%)	
KKR & Co. Inc. 6 % Conv Cum Red Pfd Registered Shs 2020-15.09.23 Series C	0.7
Nuance Communications, Inc. 1.0% 15-dec-2035	0.6
Danaher Corporation Cum Conv Red Pfd Registered Shs Series A	0.5
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	0.4
Anthem, Inc. 2.75% 15-oct-2042	0.4

Top 5 Detractors (%)	
Southwest Airlines Co. 1.25% 01-may-2025	-0.5
Booking Holdings Inc. 0.9% 15-sep-2021	-0.3
Vishay Intertechnology, Inc. 2.25% 15-jun-2025	0.0
Fortive Corporation 0.875% 15-feb-2022	0.0
NextEra Energy, Inc. Corporate Units Cons of Debenture 01.09.24 + 1 PC 01.09.22	0.0

Source: FactSet.

Past performance cannot guarantee future results.

Investing involves risk, including loss of principal. 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 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 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. The percent displayed is contribution to return.

Holdings are as of the date shown and are subject to change. Portfolio holdings should not be construed as a recommendation to buy, sell, or hold any security.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

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The ICE BofA Investment Grade U.S. Convertible 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. It includes 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 BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C) 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. It includes Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher. All positions are capped at 5% of market value.

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.

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