

INCORE Investment Grade Convertible Securities Quarterly Commentary

As of June 30, 2023

Executive Summary

- Equity market participation from investment grade convertibles remained low in the second quarter mostly due to the lack of index exposure to mega-cap technology companies. For the quarter the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) rose 1.77%, while the ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) rose 1.58%.
- The INCORE Investment Grade Convertible Securities Strategy (the “Strategy”) outperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the second quarter.
- Historically, convertible returns have closely matched or even exceeded equity returns over the long term, with lower volatility.
- 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 during market rallies.

Market Review

After a strong first quarter gain of 7.48%, equities rose a further 8.74% in the second quarter to bring their year-to-date total to an impressive 16.89%, as measured by the S&P 500. Stocks produced rather tepid returns early in the second quarter before regaining momentum in June. Markets tread water for most of April, although encouraging Consumer and Producer Price Index reports (CPI and PPI) provided a short-term boost mid-month. A round of strong earnings reports was needed to push April into positive territory late in the month. Stocks fell early on in May as the Federal Reserve raised rates another quarter point, extending the streak of 10 consecutive rate hikes. The downtrend was quickly reversed, however, by an upbeat jobs report and positive earnings reports, notably from Apple. Back-and-forth talks to extend the debt ceiling held sway over markets for most of the remainder of May. Stocks came out hot in June, rising sharply the first two days after a much stronger than expected jobs report. They continued higher throughout the first half of the month, bolstered by still elevated but improving inflation and a pause in Fed rate hikes. From there, stocks drifted lower for a few sessions before finishing the quarter on a strong note. In contrast to the rest of 2023, when the majority of gains came from a handful of technology stocks, all 11 S&P sectors advanced in June. Equity leadership has been very narrow so far in 2023, with the Information Technology sector providing 65% of the S&P 500 return. Just three stocks – Apple, Microsoft and NVIDIA – together provided 45% of the S&P 500 return in the first half. After rising in the first quarter, bond returns slipped in 2Q as the Bloomberg U.S. Aggregate Total Return Index fell 0.84% to bring its YTD gain to 2.09%.

Second Quarter Convertibles

Equity market participation from investment grade convertibles remained low in the second quarter, mostly due to the lack of index exposure to mega-cap technology companies. For the quarter the Constrained Convertible Index (VX5C) rose 1.77%, while the Unconstrained Convertible Index (VXA1) rose 1.58%. Sector contribution was overwhelmingly led by the Energy sector, followed by Financials. The Utilities and Consumer Discretionary sectors subtracted from returns. Top individual performers in the index included EQT Corp., KKR & Co., and Pioneer Natural Resources. Bottom performers included PPL Corp., Duke Energy, and Alliant Energy.

New convertible issuance picked up substantially from a year ago. So far 40 new convertibles have been issued in the U.S. this year, raising \$23 billion. Eight of the issues were rated investment grade, raising \$7.9 billion.

Portfolio Performance

The INCORE Investment Grade Convertible Securities Strategy (the “Strategy”) outperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the second quarter. Absolute sector contributions were led by the Financials, Energy, and Information Technology sectors. Both the Utilities and Health Care sectors detracted from returns. Relative performance was helped by an overweight and superior security selection in the Financials sector and by superior security selection in both the Information Technology and Consumer Discretionary sectors. Relative performance was hurt by negative security selection in the Energy and Health Care sectors. Top performing individual convertibles included EQT Corporation, Barclays Bank (exchangeable into Microsoft), KKR & Co., and Ford Motor. Bottom performing convertibles included Bristol-Myers Squibb, Expedia Corp., PPL Corp., and Alliant 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’s portfolio have an average current yield of 2.8%, a delta (sensitivity to common stock) of 50%, and an average credit rating of BBB. The Constrained Convertible Index (VX5C) yields 3.4%, has a delta of 46%, and an average credit rating of BBB. The holdings are diversified across all economic sectors. Compared to the Constrained Convertible Index (VX5C), we maintain an overweight in the Information Technology, Industrials, Financials, and Consumer Discretionary sectors. We maintain an underweight in the Real Estate and Utilities sectors. We maintain approximately neutral sector exposure to other sectors.

Buys & Sells

During the second quarter, we initiated positions in five new investment grade convertible bond issues from Duke Energy, CMS Energy, Welltower Inc., Ventas Realty, and American Water Works. Duke Energy and CMS Energy are electric utilities; American Water Works is a water utility; Welltower and Ventas are health facility REITs.

We also initiated a position in Dexcom Inc. convertible bonds. Dexcom is a \$50 billion market capitalization medical device company specializing in glucose monitoring systems for diabetics. During the quarter, we sold our position in a JP Morgan bond exchangeable into Voya Financial prior to its maturity. We also trimmed positions in American Electric Power, Illumina and Euronet Worldwide. Finally, we trimmed a NextEra Energy mandatory convertible preferred maturing in September, replacing it with a similar NextEra mandatory convertible maturing in 2025.

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 during market rallies.

We believe that the U.S. economy is on a slow growth path and the chances of recession later this year or early next year remain elevated. The latest revision shows that real GDP grew at a 2.0% pace in the first quarter of 2023. We expect that will prove to be the high point for the year as the latest Bloomberg survey of economists points to 1.3% GDP growth for all of 2023. 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.

Inflation continues to be a primary concern. However, it appears that inflation has peaked, with the June CPI report showing just a 3.0% annual increase. The Federal Reserve remains diligent in its effort to curtail inflation, raising the federal funds rate 10 times this cycle for a total increase of 500 basis points. The Fed paused their rate hikes in June, but signaled a further hike or hikes were likely. With the federal funds rate already exceeding long Treasury yields, the yield curve has become increasingly inverted, further pressuring economic prospects.

Earnings estimates have remained resilient in the face of weakening worldwide economies. Bloomberg's survey of strategists indicates a median S&P 500 forecast of \$213 in 2023, putting the S&P 500 at nearly 21 times earnings based on its quarterly close of 4450. Something worse than a mild recession could put earnings and valuations under pressure.

We believe that markets will continue to be volatile, and we remain neutral on stock market prospects. The rebound in equities so far this year has been primarily driven by technology-related stocks, which has made it difficult for investment grade convertibles to participate. June equity returns showed evidence of a more balanced return picture as all 11 S&P 500 sectors advanced. A continuation of more balanced returns could improve convertible participation rates. We continue to believe that investment grade convertibles are well positioned in the current environment to provide a measure of downside support while still providing upside potential during market rallies.

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.

Investment Performance (%)

Average Annual Returns as of June 30, 2023

INCORE Investment Grade Convertible Securities	Inception Date	Q2 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Expense Ratio	
									Gross	Net
INCORE Investment Grade Convertible Securities (Gross)	1/1/87	2.88	4.67	5.65	7.57	7.24	9.12	8.29	1.20	1.20
INCORE Investment Grade Convertible Securities (Net)	1/1/87	2.74	4.39	5.07	6.99	6.67	8.53	7.65	1.20	1.20
ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C)	-	1.77	2.01	3.73	7.12	6.90	9.07	-	-	-
ICE BofA Investment Grade U.S. Convertible Index (VXA1)	-	1.58	1.10	3.35	5.93	5.85	9.67	-	-	-

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. The composite net-of-fees returns shown reflect gross performance less actual investment management 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.

Top 5 Contributors (%)	Contribution to Absolute Return
EQT Corporation 1.75% 01-may-2026	1.2
Barclays Bank Plc 0.0% 04-feb-2025	0.7
Ford Motor Company 0.0% 15-mar-2026	0.3
KKR & Co. Inc. 6% Conv Cum Red Pfd Registered Shs 2020-15.09.23 Series C	0.3
Vishay Intertechnology, Inc. 2.25% 15-jun-2025	0.3

Top 5 Detractors (%)	Contribution to Absolute Return
Bristol-Myers Squibb Company Fm 15-sep-2023	-0.1
Expedia Group, Inc. 0.0% 15-feb-2026	-0.1
PPL Capital Funding, Inc. 2.875% 15-mar-2028	-0.1
Wells Fargo & Company 7.5% Non Cum Perp Conv Pfd Registered Shs A Series L	-0.0
Alliant Energy Corporation 3.875% 15-mar-2026	-0.0

Top Ten Holdings	% Composite
Pioneer Natural Resources Company 0.25% 15-may-2025	6.4
Southwest Airlines Co. 1.25% 01-may-2025	5.6
EQT Corporation 1.75% 01-may-2026	5.3
Wells Fargo & Company 7.5% Non Cum Perp Conv Pfd Registered Shs A Series L	5.3
Bank of America Corp. 7.25% Non Cum Perp Conv Pfd Registered Shs Series L	5.2
Booking Holdings Inc. 0.75% 01-may-2025	4.2
Western Digital Corporation 1.5% 01-feb-2024	4.8
KKR & Co. Inc. 6% Conv Cum Red Pfd Registered Shs 2020-15.09.23 Series C	4.8
Expedia Group, Inc. 0.0% 15-feb-2026	4.5
NiSource Inc. Purchase Contract 2021-01.12.23 (Exp.17.11.23) on NiSource	4.3
Total	51.3

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.

The INCORE Investment Grade Convertible Securities Composite includes all accounts, except wrap fee paying accounts, invested in investment grade convertible securities with a minimum convertible commitment goal of 70%-90%. The composite creation date is 1Q93 and the composite inception date is January 1987.

The benchmark of the composite is the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C). Prior to 12/1/2017, the benchmark was the ICE BofA Investment Grade U.S. Convertible Index (VXA1). The ICE BofA Investment Grade U.S. 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, 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. 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. 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.

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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

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.

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.

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