



Investment team

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Characteristics

Total Net Assets
(billions): \$2.13

Number of holdings: 303

Top 10 holdings

FNCL 5.5 5/23

US Treasury N/B T
4¼ 08/15/35

US Treasury N/B T
4½ 11/15/45

US Treasury N/B T
3⅞ 08/31/32

US Treasury N/B T
4¼ 08/15/54

US Treasury N/B T
4¾ 02/15/56

Treasury Bill B 06/23/26

FNCL 5 4/23

US Treasury N/B T
3⅞ 08/15/34

US Treasury N/B T
4¾ 08/15/55

Market overview

Geopolitical uncertainty

US President Donald Trump’s administration pursued unusually aggressive foreign policies during the first quarter of 2026. In early January, President Trump authorized a covert operation to arrest Venezuelan President Nicolás Maduro, who was subsequently transported to New York to face trial. During the president’s appearance at the World Economic Forum in Davos, he publicly articulated a US interest in claiming Greenland, currently under Denmark’s control. In March, the United States initiated military action to halt Iran’s nuclear development efforts and remove the country’s leadership, which President Trump regarded as uncooperative. Following several weeks of retaliatory exchanges that involved Israel and other regional actors, Iran significantly disrupted commercial traffic through the Strait of Hormuz. The resulting surge in global oil prices compounded economic and strategic pressure on President Trump’s administration, leaving few clear options for a rapid de-escalation of the conflict.

Warsh nomination

President Trump selected Kevin Warsh as his long anticipated nominee to chair the US Federal Reserve (Fed), and many observers regarded his choice as a dark horse outcome. Although the position of Fed chair holds substantial public visibility and influences the central bank’s agenda, it does not confer additional voting power within the Federal Open Market Committee, making persuasion and consensus building the Fed chair’s essential elements of effective leadership. We view Warsh’s nomination as both unexpected and potentially consequential. He has been a longstanding critic of the Fed’s expanded post-crisis role, consistently advocating for a return to a more traditional, monetarist policy framework. Warsh is also widely viewed as an inflation hawk, which is likely to be welcomed

by those concerned about the persistence of above-target inflation. His principal challenge will be to reconcile two often-competing objectives: lowering short-term interest rates while simultaneously reducing the Fed’s balance sheet. Achieving both objectives will prove difficult as he seeks to move monetary policy away from the “Fed put” mindset that has prevailed since the Global Financial Crisis.

International Emergency Economic Powers Act (IEEPA) tariff ruling

Although the US Supreme Court’s ruling against the Trump administration’s IEEPA tariffs was widely anticipated, its timing caught some market participants by surprise. The administration responded to the adverse decision by quickly invoking a 15% global tariff under Section 122 of the Trade Act. This authority is inherently temporary, permitting tariffs for a maximum duration of 150 days unless extended by Congress, which is widely viewed as unlikely. The use of Section 122 provides a near-term backstop for tariff revenue collection and affords time to conduct the required investigations that would support more permanent trade measures, but it does little to resolve the broader uncertainty facing markets. Questions remain regarding potential rebates for previously collected tariffs, the status of bilaterally negotiated trade agreements, and the likelihood and scope of future tariffs following the conclusion of the investigative process.

Private credit

Reports of suspended redemptions and asset write-downs at several private credit funds rippled through financial markets during the quarter. The collapse of Market Financial Solutions, driven by losses associated with double-pledged collateral, echoed the governance and risk management failures at Tricolor and First Brands. These developments contributed to a growing sense of investor unease and triggered elevated redemption requests, particularly from retail in-

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Market overview (continued)

vestors, that in some cases far exceeded the standard 5% quarterly redemption cap. This episode underscores the inherent structural risks of giving retail investors access to products with limited liquidity that are fundamentally designed for institutional capital.

Spread sectors underperformed

Increased geopolitical uncertainty meant that credit sectors produced negative excess returns during the quarter, and high-yield securities declined more than their investment-grade counterparts. Returns for securitized sectors were all positive, led by commercial mortgage-backed securities (CMBS) and followed by mortgage-backed securities (MBS) overall and asset-backed securities (ABS). Interest rates generally moved higher, with the intermediate 1- to 10-year portion of the yield curve lagging. The very front of the curve normalized as anticipation of Fed rate cuts faded.

Portfolio review

The first quarter of 2026 saw rate volatility hovering around the previous quarter's lows before spiking upward in March, when geopolitical risk took center stage. At the start of the year, markets anticipated two rate cuts from the Fed in 2026, and those expectations repriced to zero by the end of the quarter. Rate increases were almost parallel across the yield curve, reflecting the new expectations. The Fund's relative duration positioning contributed to performance during the quarter.

Sector allocation remained a key driver of excess returns during the quarter, with performance broadly supported across most spread sectors. Structured macro positioning was the largest contributor, followed by emerging markets/foreign exchange exposure, which both provided meaningful tailwinds. Within securitized assets, allocations to ABS/collateralized loan obligations (CLO) and agency MBS added modestly to performance, reflecting the portfolio's continued emphasis on sector positioning and security selection. Investment-grade corporate bonds made positive contributions that were partially offset by weaker security selection. CMBS exposure was a small net positive, but performance was muted due to neutral security selection. High-yield corporate bonds were the primary detractors during the quarter, driven by sector allocation decisions as spreads widened while the benchmark had no exposure. Overall, total selection effects were positive. Sector allocation drove results while security selection was broadly neutral.

The allocation to agency MBS declined during the quarter and remains underweight relative to the benchmark. However, when combined with non-agency exposure, mortgages continue to represent an overweight in the portfolio; the allocation to non-agency MBS increased modestly because relative value remained attractive. The allocation to investment-grade corporate bonds increased during

the quarter to remain modestly above the benchmark's weight on a market value basis. High-yield exposure also increased, reflecting an increase in spreads near the end of the quarter. ABS exposure increased slightly during the quarter and remains significantly overweight relative to the benchmark because the asset class continues to offer attractive relative value, particularly in higher-quality segments of the capital structure. CMBS exposure declined during the quarter and the allocation remains small – the team continues to be selective within the sector.

Exposure to emerging markets increased modestly and remains overweight relative to the benchmark, and the continuing absence of government-related securities remains an underweight versus the index. The weight in US Treasuries increased during the quarter, but it remains notably underweight relative to the benchmark. Cash and equivalents declined as capital was redeployed into higher-conviction sectors.

The portfolio's duration increased slightly while the benchmark's duration fell, increasing the overweight relative to the benchmark. The overweight continues to acknowledge contributions to risk while reflecting real rates that are not only attractive on a long-term basis, but also increased during the quarter. Yield curve exposure at the end of the quarter featured overweights to the 0- to 1-year, 7- to 10-year, and 20- to 30-year segments. This was offset by underweights to the 1- to 2-year, 2- to 5-year, 5- to 7-year, and 10- to 20-year segments.

Outlook

Looking for an Iranian off ramp

Although the precise objectives behind the US military action against Iran were not fully articulated, one of the primary goals clearly involved degrading the country's nuclear and ballistic missile capabilities. As of quarter end, the amount of tangible progress remained uncertain. However, the conflict's global impact has been felt acutely through higher oil prices driven by Iran's disruption of shipping through the Strait of Hormuz. These dynamics make it increasingly likely the administration pursues the least costly path toward de-escalation. Most alternative actions carry the risk of significant economic and geopolitical costs while offering limited prospects for meaningful advancement toward clearly attainable objectives.

Warsh's Fed will have much to digest

Markets entered 2026 anticipating a more dovish Federal Reserve, reflecting expectations that President Trump's nominee for chair would face significant pressure to move quickly on interest rate cuts. That outlook shifted materially in March. The conflict with

Outlook (continued)

Iran pushed oil prices higher and led investors to reassess the trajectory of inflation, which had already shown signs of stabilizing rather than continuing to decline. Labor market weakness failed to meaningfully materialize over the past year, but any deterioration will considerably complicate the Fed's policy calculus. The potential for rising energy driven inflation combined with a softening labor market raises concerns about stagflationary dynamics. Although current conditions remain far removed from those of the late 1970s, renewed inflationary pressures and weakening employment would present a challenging backdrop for a new Fed chair at the outset of his tenure.

Tariff uncertainty could fade

The long awaited IEEPA ruling delivered greater clarity around the trajectory of US tariff policy. The decision did little to resolve near-term questions, particularly regarding the potential rebate of previously collected tariffs. However, it materially constrained the administration's ability to rapidly deploy punitive tariffs in response to perceived foreign policy or trade slights. By requiring formal in-

vestigations before longer-term tariffs are implemented, the ruling meaningfully reduces the likelihood of sudden, headline-driven announcements. Uncertainty surrounding trade policy has been dampened, but not eliminated. Although tariff related risks remain a factor for markets and businesses, the decision represents a step toward a more structured and predictable policy framework.

Private credit concerns may linger

It is unsurprising that weaknesses have emerged within segments of the private credit market after the substantial capital inflows of recent years. Several structural concerns are unlikely to be resolved quickly, including elevated concentration in software related exposures, variability in underlying loan quality, and institutional-focused products distributed to retail investors. The initial wave of investor redemptions may subside and ease near-term pressure as market conditions stabilize, but a longer adjustment period will be necessary before meaningful improvements are made to fundamental characteristics of the asset class.

Risk considerations:

The return of principal in a fixed income fund is not guaranteed. Fixed income funds have the same interest rate, inflation, issuer, maturity and credit risks that are associated with underlying fixed income securities owned by the fund. Mortgage- and Asset-Backed Securities are subject to prepayment risk and the risk of default on the underlying mortgages or other assets.

High-yield securities involve greater risk than investment grade securities and tend to be more sensitive to economic conditions and credit risk.

Foreign investments present additional risks due to currency fluctuations, economic and political factors, government regulations, differences in accounting standards and other factors. Investments in emerging markets involve even greater risks.

Derivatives such as options, futures contracts, currency forwards or swap agreements may involve greater risks than if the Fund invested in the referenced obligation directly. Derivatives are subject to risks such as market risk, liquidity risk, interest rate risk, credit risk, and management risk. Derivative investments could lose more than the principal amount invested. The Fund may use derivatives for hedging purposes or as part of its investment strategy. The use of leverage and derivatives investments could accelerate losses to the fund. These losses could exceed the amount originally invested.

The Fund may, at times, experience higher-than-average portfolio turnover, which may generate significant taxable gains and increased trading expenses, which, in turn, may lower the Fund's return.

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Benchmark Index

Bloomberg US Aggregate Bond Index – Measures the total US investment-grade bond market. The market-weighted index includes Treasuries, agen-

cies, CMBS, ABS, and investment-grade corporates. It is not possible to invest in an index.

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