

## Investment Objective

The Fund's objective is to seek current income and capital appreciation. The Fund looks to achieve its investment objective by investing in Treasuries, agencies, mortgage-backed securities, asset-backed securities and corporate fixed-income instruments.

## Sub-Adviser Background

Newfleet Asset Management LLC (Newfleet) founded in 1989, formerly SCM Advisors LLC, is an independently operated investment management firm located in San Francisco. The firm manages assets for a national and international client base that includes individuals and institutions.

## N-SHARE Fund Performance As of 4/30/2020

Quarter: -1.40%	1-Year: 5.68%	3-Year: 3.00%	
5-Year: 2.42%	Since Inception (12/10/04): 3.86%	SEC 30-Day Yield (4/30/20): 2.17%	Total Expense Ratio: 1.20%
10-Year: 3.31%			

Prices and returns quoted represent past results and are no guarantee of future results. Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate, so your shares, when redeemed, may be worth more or less than their original cost. To obtain performance data current to the most recent month-end, call us at (800) 442-4358. Dunham Class N Shares have no initial sales charge or contingent deferred sales charge (CDSC).

## Asset Class Recap

Since the beginning of the fiscal year through the beginning of March, broad U.S. investment-grade bonds, as measured by the Barclays U.S. Aggregate Bond Index, had experienced a fairly steady increase. This was primarily promoted by an accommodative and reassuring Federal Open Market Committee, low default rates, and a strong economic backdrop. As the virus reached pandemic status and investors around the globe panicked into a rampant selling spree, nearly every asset class saw declines during the most negative two-week period in March that spanned from March 6 through March 20. Within the fixed income markets, that two-week period left little unscathed as broad U.S. investment-grade bonds fell 5.4 percent. Within that investment-grade basket, Treasury and government agency bonds, as measured by the BofA Merrill Lynch U.S. Treasury & Agency Index, declined 1.5 percent, while U.S. corporate bonds, as measured by the BofA Merrill Lynch U.S. Corporate Index, plummeted 15.1 percent. Outside of the investment-grade bond market, high-yield bonds, as measured by the BofA Merrill Lynch U.S. Cash Pay High-Yield Index, declined 17.1 percent, within close earshot to their investment-grade corporate bond counterparts, signaling that sellers were showing little regard to credit quality. When assessing the entire fiscal quarter, broad U.S. investment-grade bonds posted a positive 3.0 percent return, which was primarily attributable to the 6.4 percent gain in Treasury and government agency bonds. U.S. investment-grade corporate bonds and high-yield bonds remained in negative territory, down 1.3 percent and 9.8 percent, respectively. The Treasury and government agency bonds, which tended to have longer durations, were greatly benefitted by the Fed's actions in March where it decreased interest rates by 150 basis points and committed trillions of dollars to backstop liquidity markets, massively buoying the highly-interest-rate-sensitive Treasuries and agency securities.

## Allocation Review

Broad U.S. investment-grade bonds in the benchmark index have more than 90 percent allocated to Treasury and government agency bonds and U.S. investment-grade corporate bonds. During the fiscal quarter, the Fund maintained a similar exposure as the benchmark index to U.S. investment grade corporate bonds, as it had an approximate 24 percent allocation. As this was one of the less negative bond sectors during the fiscal quarter, the weighting neither detracted nor contributed toward relative returns. However, the Fund's significant underweight to Treasury and government agency bonds, which comprise more than 40 percent of the benchmark index, significantly detracted from relative performance, as the Fund held less than a third of the benchmark index's 70 percent allocation to these bond sectors. Therefore, where the Fund was most overweight versus the benchmark index was in residential mortgage-backed securities, corporate high-yield bonds, and asset-backed securities. While all three of these asset classes suffered negative performance during the fiscal quarter, the worst-performing was the high-yield bond exposure, albeit the total allocation in the Fund to high-yield bonds was less than 10 percent. The Fund did not have any exposure to derivatives during the fiscal quarter that meaningfully affected performance.

## Holdings Insights

As the investment-grade corporate bond exposure in the Fund was similar to the benchmark index, the security selection within the sector generally lagged during the

fiscal quarter. For example, one of the holdings that was directly in the crossfire of industries most affected by the global shutdown was Aviation Capital Group LLC. The Fund's held the bond maturing in 2027 (05369AAA9) (holding weight\*: 0.30 percent). Aviation Capital Group is an aircraft lessor, and with the coronavirus effectively shutting down the air travel industry, many investors expect that airlines, Aviation Capital Group's primary customers, will seek lease deferrals and in some cases file for bankruptcy. This sentiment resulted in the sell-off of these bonds, as they declined 28.2 percent during the fiscal quarter.

Despite the high-yield bond sector exhibiting some of the worst overall performance during the fiscal quarter, some of the Fund's holdings held up rather well. For example, the Fund held the Par Pharmaceutical, Inc. bond maturing in 2027 (69888XAA7) (holding weight\*: 0.10 percent). After the company posted strong fourth quarter results, Par Pharmaceutical's ties to the generic drug industry cause it to be minimally impacted by the COVID-19 crisis. During the fiscal quarter, the Par Pharmaceutical bond increased 1.3 percent. Not faring quite as well within the high-yield bond space was the Fund's holding in the Patterson UTI Energy Inc. bond maturing in 2029 (703481AC5) (holding weight\*: 0.11 percent). Patterson UTI provides contract drilling and pressure pumping services to domestic companies. Demand for both services has plummeted with the decline in oil prices (pressure pumping declining more rapidly than the more publicized rig count due to shorter contracts) and while the company benefits from what the Sub-Adviser considers as a favorable liquidity position, the bonds traded down 35.7 percent given the poor industry outlook.

The Fund also held some municipal bonds, including a taxable municipal bond, the Texas State municipal bond maturing in 2044 (882724QP5) (holding weight\*: 1.27 percent). As the long-maturity on the bond generally translated to higher interest-rate sensitivity, the extreme drop in long-term Treasury yields greatly benefitted this bond, as it increased 3.0 percent over the fiscal quarter. The Fund also held some foreign bonds, including the Petroleos Mexicanos SA bond maturing in 2050 (71654QCW0) (holding weight\*: 0.15 percent). Petroleos Mexicanos (aka Pemex) was impacted mainly by the sharp drop in oil prices which is estimated to result in a \$15 to \$20 billion funding gap in 2020. While the Sub-Adviser expects the Mexican government will ultimately step in and provide adequate support, there has been no comprehensive plan announced at this juncture. The Pemex bonds declined 31.7 percent during the fiscal quarter.

## Sub-Adviser Outlook

While nearly all technical indicators that the Sub-Adviser follows are negative across most of the bond sectors, the Sub-Adviser believes that valuations are highly attractive in many of those same sectors. While fundamentals have been shaken and may be tested further, the Sub-Adviser is optimistic that there are many opportunities that have been exposed during the recent sell-off. Therefore, the Sub-Adviser is confident that bond sector positioning and security selection will become increasingly more relevant in the months and quarters ahead.

\*Holdings percentage(s) As of 4/30/2020. \*\*Holdings percentage(s) as of the date prior to the sale of the security.