

Investment Objective

The Fund seeks to provide positive returns in rising and falling market environments. The Fund pursues its investment objective using a combination of event-driven and tactical long/short equity investing.

N-SHARE Fund Performance As of 10/31/2019

Quarter: 0.24%	1-Year: 2.55%	3-Year: 2.97%
5-Year: 1.82%	Since Inception (9/29/08): 3.26%	Total Expense Ratio: 2.17%
10-Year: 3.87%		

Asset Class Recap

As the fiscal year began with lingering fears and uncertainty surrounding trade deals and interest rates, investors broadly approached each new headline with caution and even some trepidation. During the first fiscal quarter, the volatility reached levels seen only four other times in the last decade. Volatility relatively subsided through the second and third fiscal quarters, but meaningfully spiked once again to begin the most recent fiscal quarter, as heightened concerns regarding trade between the U.S. and both China and the European Union weighed on investors. Similar to the beginning of the fiscal year, these sell-offs and corresponding spikes in volatility were generally triggered by “concerns” and headlines rather than deteriorating fundamentals. Regardless of the cause, volatility spikes generally correspond with widening spreads on merger deals and other risk-arbitrage opportunities – therefore, the fact that volatility levels subsided before the end of the fiscal quarter allowed for these risk-arbitrage strategies to recover and rally. During the most recent fiscal quarter, event driven strategies, as measured by the Credit Suisse Event Driven Liquid Index, rose 1.8 percent. While broader in scope, long/short equity strategies, as measured by the Credit Suisse Long/Short Liquid Index, increased 0.9 percent.

Allocation Review

Within the Fund, the event driven allocation is primarily represented in the form of announced mergers. The event driven holdings allocation fell to a low of 38 percent in the second fiscal quarter as prominent positions came to fruition. As predicted by the Sub-Adviser, this allocation rose to approximately 47 percent by the end of the most recent fiscal quarter as the Sub-Adviser was able to identify above average spreads in strategic deals with manageable regulatory hurdles. Despite the increase in the event allocation, announcements for new deals have slowed. The Sub-Adviser attributes the lack of new deals to uncertainty around both the economic outlook and the predicted regulatory framework. Executives are unlikely to make transformational mergers. With that being said, the Fund finished the fiscal year with a lower than average gross exposure, giving the Sub-Adviser the ability to easily capitalize on alpha generating opportunities when they present themselves.

Holdings Insights

The largest pharmaceutical deal ever, combining two of the world's largest cancer drug businesses, was announced in the first fiscal quarter of this year and has been a highlight of the Fund's event driven allocation ever since. The deal spread between Celgene Corp. (CELG) (holding weight: 9.25 percent) and Bristol-Myers Squibb Co. (BMY) (holding weight*: -5.23 percent) has compressed over the fiscal year following the deal receiving the backing from a prominent proxy advisory firm.

Sub-Adviser Background

THE DUNHAM MONTHLY DISTRIBUTION FUND is managed by Weiss Multi-Strategy Advisers, LLC effective August 1, 2019. The sub-adviser, collectively with its affiliates (Weiss), is a leading independent, client-focused financial services firm providing advisory, asset management and energy securities research, underwriting and trading services to clients around the world.

The Sub-Adviser is confident that the deal will close. Over the previous fiscal quarter, BMY reported impressive earnings, and reiterated the target of completion and timing for the deal's approval. Another contributor from the event driven allocation originally came from Chevron Corp.'s (CVX) (holding weight**: -1.24 percent) announcement that they intend to acquire Anadarko Petroleum Corp. (APC) (holding weight**: 6.73 percent) in the second fiscal quarter. Although the spread was not initially attractive, the prospect of another suitor was intriguing enough for the Sub-Adviser to enter the deal. On April 29, 2019, Occidental Petroleum Corp. (OXY) (holding weight*: 0.29 percent) made an offer to acquire all outstanding shares of APC. The spread on this deal tightened from a high of \$3.94 to closing in the beginning of this most recent fiscal quarter.

Many other mergers closed within the Fund over the most recent fiscal quarter including Nexstar Media Group's (NXST) (not held) acquisition of Tribune Media Company (TRCO) (holding weight**: 2.12 percent), Salesforce.com Inc.'s (CRM) (holding weight**: 1.21 percent) acquisition of Tableau Software Inc. (DATA) (holding weight**: 3.47 percent), UGI Corps (UGI) (holding weight**: -0.56 percent) acquisition of AmeriGas Partners (APU) (holding weight**: 0.75percent), and Health Equity Inc.'s (HQY) (not held) acquisition of WageWorks, Inc. (WAGE) (holding weight**: 0.50 percent).

The low net profile of the long / short equity allocation within the Fund resulted in a negative contribution to Fund performance over the most recent fiscal quarter. The market hedges were, as expected, a positive contributor to Fund performance during the heightened volatility. However, as markets rallied, these hedges acted as a headwind to performance. The exposure to the financial sector within the long / short equity allocation also detracted from Fund performance as macro headlines, yield curve inversion, and recession concerns weighed on the sector. Overall, the derivative exposure had a muted impact on performance. Some broad market options had meaningful moves during the fiscal quarter but were generally offsetting due to the structure of the trade.

Sub-Adviser Outlook

Throughout the volatility and subsequent rally during the fiscal quarter, the Sub-Adviser continued to reiterate its commitment to its investment approach and philosophy, focusing on capital preservation and opportunistically looking to deploy capital as appropriate. The Sub-Adviser's multi-lens approach served the Fund during the volatility throughout the beginning of 2019, and the Sub-Adviser is optimistic that its approach is well suited for additional volatility that may arise through the end of the calendar year.

*Holdings percentage(s) As of 10/31/2019. **Holdings percentage(s) as of the date prior to the sale of the security.