



**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**

Virtus Fixed Income Advisers, LLC (VFIA), Newfleet Asset Management Division founded in 1989, formerly SCM Advisors LLC, is an investment management firm located in Hartford, CT, 100% owned by Virtus Investment Partners, Inc. The firm manages assets for a national and international client base that includes individuals and institutions.

**N-SHARE Fund Performance As of 04/30/23**

Quarter: 0.42%		1-Year: -1.76%		3-Year: -1.35%	
5-Year: 1.09%	Since Inception (12/10/04): 2.99%	SEC 30-Day Yield (4/30/23): 3.41%		Total Expense Ratio: 1.34%	
10-Year: 1.09%					

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**

Investment-grade bonds, as measured by the Bloomberg U.S. Aggregate Bond Index, sold off in tandem with equity markets the previous fiscal year as the asset class's duration adversely impacted performance. In turn, the Federal Open Market Committee became increasingly hawkish as persistent inflation, coupled with data illustrating a strong consumer and resilient job market, helped justify a series of rate hikes in the Federal Funds Rate. The aggressive actions continued to begin the most recent fiscal quarter ended April 30, 2023, as the Federal Reserve raised interest rates another 25 basis points in early February and mid-March. However, sentiment meaningfully turned amid hopes of a Federal Reserve pivot on the horizon due to economic data indicating that inflation was slowing, combined with the pace of rate hikes easing. Also, sentiment was helped by commentary from the Federal Reserve indicating that it considered a pause amid banking pressures in March following the collapse of Silicon Valley Bank (SVB) (not held). Meanwhile, over the fiscal quarter the 2-year U.S. Treasury yield declined 19 basis points to 4.01 percent, and the 10-year U.S. Treasury yield fell 9 basis points to 3.42 percent, softening the inversion of the yield curve. During the fiscal quarter, intermediate-term BBB-rated corporate bonds spreads widened 21 basis points, intermediate-term single-B rated bond spreads increased 23 basis points, and intermediate-term CCC-rated corporate bond spreads expanded 70 basis points. For the fiscal quarter, investment grade bonds, Bloomberg U.S. Aggregate Bond Index, added 0.5 percent, underperforming equity markets, as measured by the S&P 500 index, which increased 2.7 percent.

**Allocation Review**

Nearly half of the U.S. investment-grade bonds in the benchmark index are represented by Treasury and government agency bonds. Therefore, most of the performance of the benchmark index is dictated by how those U.S. government-related bonds perform, and far less is dependent on the performance of corporate bonds and non-agency mortgage-backed securities. During the prior fiscal quarter, U.S. Treasury bonds, as measured by the ICE BofA U.S. Treasury & Agency Index, increased 1.0 percent. As the Fund had approximately 20 percent allocated to Treasury and government agency bonds, this is far less than what is represented by the benchmark index, and this significant underweight generally detracted from relative performance during the most recent fiscal quarter. The Fund's largest exposure was to investment-grade corporate bonds, comprising more than 27 percent of the Fund. Investment-grade corporate bonds, as measured by the ICE BofA U.S. Corporate Index, increased 0.4 percent during the fiscal quarter.

The Fund's off-benchmark exposure to securitized products, such as non-agency residential mortgage-backed securities, was one of the strongest positive contributors to Fund performance. Although commercial mortgage-backed securities' demand has stayed muted due to higher interest rates and challenging valuations, non-agency RMBS still benefited from robust demand. Over the fiscal quarter, non-agency RMBS, as measured by the Markit iBoxx Broad U.S. Non-Agency RMBS Index, declined 1.2 percent. However, superior credit selection in the Fund resulted in a gain of 1.0 percent within that credit sector.

**Holdings Insights**

The non-agency residential mortgage-backed security exposure provided one of the largest contributions to relative and absolute performance over the fiscal quarter. One such credit that contributed to Fund performance over the fiscal quarter was the Verus Securitization Trust 2023-1 floating rate, due 12/25/2067 (92539BAA0) (holding weight\*: 1.47 percent), which increased 1.4 percent over the fiscal quarter. This Sub-Adviser attributes this RMBS' performance through the quarter to good demand, wide spreads for the rating and limited supply to start the year. Exposure to investment-grade corporate bonds also contributed positively to Fund performance over the fiscal quarter. The Exelon Corporation 5.6% due 03/15/2053 (30161NBL4) (holding weight\*: 0.34 percent) increased 6.7 percent over the period. The Sub-Adviser attributes this bond's outperformance to its longer duration as this was a new 30-year bond issued during the quarter, and rates declined into quarter end as regional banking pressures mounted. The Sub-Adviser also noted that while spreads in the broader market widened, Exelon spreads remained tight, which they attributed to the defensive nature of utilities. Also, the composition within U.S. Treasury holdings was a contributor to performance. One such position was the U.S. Treasury Note 4.125%, due 11/15/2032 (91282CFV8) (holding weight\*: 3.17 percent), increasing 1.8 percent over the period.

Although the high-yield corporate sector held positions that contributed to Fund performance, some of the worst performing credits within the Fund came from this sector. Two such positions were the Level 3 Financing, Inc. 4.25%, due 7/1/2028 (527298BR3) (holding weight\*: 0.08 percent) and the 3.625%, due 1/15/2029 (527298BS1) (holding weight\*: 0.12 percent), declining 25.0 percent and 23.49 percent respectively over the fiscal quarter. The Sub-Adviser believes that these credits traded lower stemming from the parent company, Lumen Technologies, Inc. (LUMN) (not held), giving poor guidance for 2023 during its fourth quarter earnings report, highlighting far less deleveraging and free cash flow than investors expected, thus resulting in investors' expectations

\*Holdings percentage(s) of total investments, cash and unsettled trades excluding collateral for securities loaned as of 4/31/2022.

\*\*Holdings percentage(s) as of the date prior to the sale of the security.



that Level 3 will ultimately become a funding vehicle for LUMN and increase leverage significantly. The Fund was also adversely impacted by the exposure to high-quality corporate bonds. The Wells Fargo & Company 3.90%, due 3/15/2169 (949746TD3) (holding weight\*: 0.38 percent) is a subordinated banking bond that declined in price by 4.5 percent. The Sub-Adviser attributes this underperformance to a general underperformance of these hybrid instruments following the collapse of Silicon Valley Bank (SVB) (not held) and takeover of Credit Suisse (CS) (not held) in March. Although larger banks outperformed regional banks, subordinated paper did underperform in this environment. Another high-quality corporate bond that detracted from performance was the Charles Schwab Corporation 4.0%, due 3/1/2069 (808513BJ3) (holding weight\*: 0.19 percent), which declined 9.5 percent over the fiscal quarter.

### **Sub-Adviser Outlook**

Following the volatile 2022 calendar year, where bond markets experienced their worst selloff since 1949, the Sub-Adviser views fixed-income markets as transitioning to a more range-bound environment moving forward. The Sub-Adviser is optimistic that the economy is building for a soft landing, and if it enters a recession, it anticipates that it will be mild. As a result, it thinks the worst-case scenarios for the economy are already priced in. The Sub-Adviser believes that spread valuations are currently at fair levels; therefore, it remains neutral on the direction of risk markets but continues to be ready to add risk exposure if the opportunity arises.

\* Holdings percentage(s) of total investments, cash and unsettled trades excluding collateral for securities loaned as of 4/30/2023.