# Dunham Small Cap Value Fund (DNSVX)

## Ziegler Capital Management, LLC

DUNHAM Trust and Investment Services

*Hold Us To Higher Standards*

### Investment Objective

The objective of the Fund is to maximize total return from capital appreciation and income. The Fund focuses on domestic, small capitalization, value-oriented equity securities. The Fund defines small capitalization companies as those companies whose market capitalizations are equal to or less than the largest company in the Russell 2000® Value Index during the most recent 12-month period. For the most recent annual reconstitution published as of June 2022, as listed in the current prospectus dated March 1, 2023, the maximum market capitalization of companies in the Russell 2000® Value Index was approximately $10.3 billion, which will vary daily.

### Sub-Adviser Background

Ziegler Capital Management, LLC (ZCM) founded in 1991, is a wholly-owned subsidiary of Stifel Corporation. Ziegler provides asset management services for institutional investors, including: Public, Corporate and Taft-Hartley Pension Funds, Endowments, Foundations and Insurance Companies.

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

| | | |
|---|---|---|
| Quarter: -10.34% | 1-Year: -5.83% | 3-Year: 14.52% |
| 5-Year: 3.99% | Since Inception (12/10/04): 5.57% | Total Expense Ratio: 1.61% |
| 10-Year: 6.95% | | |

**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

Small cap value stocks had a relatively calm start to the fiscal quarter ended April 30, 2023, but experienced significant volatility toward the end of the period. Investors continued to speculate on whether the Federal Reserve can successfully bring down inflation without pushing the economy into a recession. Concerns of recession mounted following the first domestic banking failure since 2020 as many questioned whether pressures on beleaguered regional banks would have broader negative impacts on the economy. Amidst the height of these concerns, the Fed remained steadfast with their monetary tightening, raising the Federal Funds Rate twice over the fiscal quarter for a total increase of 50 basis points. Softer-than-expected Consumer & Producer Price Index reports, combined with lower Purchasing Manager's Index reports, helped reinforce investor optimism as a slowdown in price growth and tightening business conditions supported the depiction of peak inflation. However, in the minutes following the Federal Open Market Committee meeting in March, Fed Chairman Jerome Powell noted that despite pressures on regional banking and inflation data, labor markets remain resilient and must be kept in check to combat inflation. Small cap value stocks, as measured by the Russel 2000 Value Index, declined 11.5 percent, underperforming their small cap growth counterparts, as measured by the Russel 2000 Growth Index, which declined 4.9 percent over the fiscal quarter ended April 30, 2023, shifting the tide from small cap value stocks outperformance last fiscal quarter, and narrowing the overall chasm of performance between the two asset classes developed in the last three fiscal years.

### Allocation Review

The Sub-Adviser matches the Fund's sector allocation to the benchmark index; therefore, any changes to benchmark weights will be quickly reflected within the Fund. With that being said, the Fund is reliant on superior stock selection to generate excess returns. The Sub-Adviser seeks to generate alpha through proprietary sector-specific multi-factor models combined with qualitative analysis. The largest boost to performance came from the producer durables sector, where superior stock selection heavily outshined a slight overweight to the sector. In addition, the materials, consumer staples, and utilities sectors all contributed meaningfully to performance through superior stock selection. When looking at the benchmark as of April 30, 2023, the largest sector by weighting was the financial services sector, at 34.60 percent, or more than one-third of the Funds benchmark index. The Fund's exposure to the financial services sector was the most significant detractor from Fund performance over the fiscal quarter, as poor stock selection in the regional banking industry dragged down performance in combination with a relative overweight to the sector. In addition, exposures to the energy sector detracted from performance as poor stock selection in the space was a headwind to performance.

### Holdings Insights

The largest contributor to Fund performance over the fiscal quarter was SkyWest, Inc. (SKYW) (holding weight*: 1.68 percent), an American regional airline headquartered in St. George, Utah. Over the fiscal quarter ended April 30th, 2023, SKYW increased 36.3 percent, aided by a stronger-than-expected earnings report highlighting lower costs and debt. Superior stock selection within the healthcare sector overshadowed a slight overweight to the sector. Another one of the best performing positions was Amphastar Pharmaceuticals, Inc. (AMPH) (holding weight*: 1.20 percent), an American specialty pharmaceutical company whose primary lines of business include the development, manufacturing, and sale of inhalation and intranasal medication. Over the fiscal quarter, AMPH increased 18.2 percent, aided by the Food and Drug Administration's approval of its nasal spray, naloxone hydrochloride, for emergency treatment of known or suspected opioid overdose. In homebuilders, one of the largest contributors to Fund performance over the fiscal quarter also happened to be the largest position by the end of the fiscal quarter; Meritage Homes Corporation (MTH) (holding weight*: 2.04 percent). MTH is an American real estate development company that constructs a variety of single-family detached homes across the United States. MTH announced earnings that exceeded expectations, highlighted by record home closing revenue and record first quarter closing units. MTH may have been helped by a lack of supply of existing homes, potentially driven by an unwillingness of some homeowners to forgo lower interest rate mortgages locked in previous to the Federal Reserve's hiking cycle, for higher interest rates mortgages found on the market now. MTH increased 19.2 percent over the fiscal quarter.

The most significant detraction from Fund performance was exposure to the financial services sector, as a slight overweight to the sector was eclipsed by poor stock selection. The largest detractor from performance was Heritage Financial Corporation (HFWA) (holding weight*: 0.96 percent), the holding company of Heritage Bank, a full-service commercial bank providing financial solutions to small and medium-sized enterprises in Washington, Oregon, and Idaho. HFWA declined 37.8 percent over the period, hurt by a disappointing earnings report that showed declining deposits in the first quarter in combination with mounting concerns regarding the strength of the regional banking industry. Another such position was Heartland Financial USA, Inc. (HTLF) (holding weight*: 1.11 percent), a bank holding company that provides commercial banking services. HTLF declined 33.8 percent over the fiscal quarter, hurt by a worse than expected corporate earnings report and downbeat overtones by executive management during the report. Within energy, a detractor was RPC, Inc. (RES) (holding weight*: 1.20 percent), an American oilfield services and equipment company primarily serving companies engaged in the exploration, production, and development of oil and gas properties throughout the United States. Petroleum exploration is historically a more volatile industry than production and may have been impacted by higher financing costs and a decline in oil prices from 2022 highs. Over the fiscal quarter, RES declined 25.1 percent.

## Sub-Adviser Outlook

The Sub-Adviser believes the outlook for value stocks remains attractive despite headwinds such as persistent inflation, tightening credit conditions, and continued geopolitical turmoil. The Sub-Adviser will continue to implement its quantitatively driven approach, focusing on what its industry-specific factors have identified as attractive opportunities. The Sub-Adviser remains disciplined in its application of its models and factors, as it is aware that subjective tampering during periods of large dislocations, such as the environment in 2022, erodes the effectiveness of its quantitatively driven process. The Sub-Adviser believes that historically, environments where low quality thrive are short-lived and difficult to predict. Therefore, the Sub-Adviser does not reposition its industry specific factors based on market expectations or macroeconomic outlook. The Sub-Adviser believes that the current market continues to over appreciate growth-oriented factors, while maintaining the expectation that valuation-oriented, high-quality seeking signals may succeed as a positive contributor to the Fund going forward.

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