# **Dunham** International Opportunity Bond Fund (DNIOX)

## Virtus Fixed Income Advisers, LLC

*Hold Us To Higher Standards*

## Investment Objective

The investment objective of the Fund is to provide a high level of current income with capital appreciation as a secondary goal.

## Sub-Adviser Background

Virtus Fixed Income Advisors, LLC (VFIA), Stone Harbor Investment Partners division is a fixed income investment manager focused on credit and multi-sector credit strategies with approximately 125 professionals across its New York, Chicago, London, Melbourne, and Singapore locations. Stone Harbor investment partners division was founded in 2005 and is 100% owned by Virtus Investment Partners, Inc., with fixed income specialists that have worked together for more than 20 years.

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

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|---|---|---|---|
| Quarter: -1.05% | 1-Year: -1.57% | 3-Year: 0.90% | |
| 5-Year: -2.16% | Since Inception (11/1/13): -1.40% | SEC 30-Day Yield (4/30/23): 4.93% | Total Expense Ratio: 1.33% |

**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

Interest rate volatility has been a meaningful theme during the most recent fiscal quarter. This volatility was evident on a global level, as central banks around the world attempted to navigate inflationary pressures and as bonds benchmarked to the US Treasury market adjusted to fluctuating US interest rates. Encouraging economic data continued to indicate that inflation is falling and the global economy is slowing. It also appears that an energy crisis in Europe was alleviated by a warmer-than-anticipated fall and winter, despite a lack of resolution to the conflict between Ukraine and Russia. For the most recent fiscal quarter, foreign bonds, as measured by the Bloomberg Global Aggregate Bond ex US Index, rose 1.6 percent, outperforming US investment-grade bonds, as measured by the Bloomberg US Aggregate Bond Index, which increased 0.5 percent. The historically more volatile foreign high-yield bonds, as measured by the Bloomberg Pan-European High-Yield Total Return Index Unhedged, and emerging market debt, as measured by the Bloomberg Emerging Markets USD Aggregate Total Return Index Unhedged, were mixed during the fiscal quarter as they rose 0.2 percent and fell 0.6 percent, respectively.

## Allocation Review

The Fund had a slightly higher exposure to emerging market debt at the end of the fiscal quarter than at the start of the fiscal quarter, as the allocation remained just shy of 46 percent. This was commensurate with the allocation to developed market debt ending close to 54 percent. Within the developed market allocation, there was a meaningful shift in the exposure to high-yield debt, as the weighting increased from 8 percent to 12 percent, which was primarily sourced from reducing the exposure to developed market government bonds. This increase in developed market high-yield debt contributed to the increase in total high-yield allocation for the Fund from 54 percent at the beginning of the fiscal quarter to over 57 percent at the end. As the developed market government debt is predominantly rated AAA, the allocation to AAA-rated bonds was reduced from 12 percent to less than 9 percent. The allocation to emerging markets debt and high-yield bonds continued to represent the most significant allocation differences between the Fund and the benchmark index. However, contrary to the previous fiscal quarter, the overall allocation to emerging market debt significantly detracted from performance during the most recent fiscal quarter. The best performing allocation was to pan-European high-yield debt, which managed to provide an overall positive performance for the Fund. The Sub-Adviser maintained the Fund's duration around 5.7 years, which continued to be less than the benchmark by approximately 1.5 years. The derivative exposures within the Fund, which was primarily comprised of bond futures to manage duration and broad government bond exposure, provided mixed results over the fiscal quarter, but none were material to overall performance.

## Holdings Insights

Within the best performing group, Pan-European high-yield bonds, the Fund continued to hold Techem Verwaltungsgesellschaft 6%, Due 07/30/2026 (BG1TGX2) (holding weight*: 0.19 percent), a German global energy service provider. During the previous fiscal quarter, the Techem Verwaltungsgesellschaft bond increased 3.8 percent, and that was followed by a flat 0.0 percent return in the most recent fiscal quarter. Another Pan-European high-yield bond that contributed to Fund performance in the previous fiscal quarter was VF Ukraine PAT via VFU Funding plc 6.2%, Due 02/11/2025 (918212AA9) (holding weight*: 0.32 percent). This credit surged 13.6 percent in the previous fiscal quarter and 7.8 percent in the most recent fiscal quarter. Some European investment-grade bonds comprised the worst performing positions within the Fund in the previous fiscal quarter, such as the Spain Government Bond 4.2%, Due 01/31/2037 (B05L4R2) (holding weight*: 0.42 percent) and the Ireland Government Bond 5.4%, Due 03/13/2025 (B4TV0D4) (holding weight*: 0.19 percent). In the previous fiscal quarter, the Spanish government bond gave back 0.2 percent, and the Irish government bond declined 0.6 percent. However, in the most recent fiscal quarter these same two bonds returned a flat 0.0 percent and a positive 0.4 percent, respectively.

As the largest overall detractor in the most recent fiscal quarter, the Fund's holdings in emerging markets corporate debt contained some of the largest declines. For example, the Fund had exposure to China, which had just benefitted in the previous fiscal quarter from a rebound in the country's housing sector thanks to supportive regulatory measures from Chinese authorities. The Fund continued to hold China SCE Group Holdings Ltd. 7.375%, Due 04/09/2024 (G21190AB2) (holding weight*: 0.28 percent), a residential property developer, and Wanda Properties International Company Ltd. 7.25%, Due 01/29/2024 (G9429CAA8) (holding weight*: 0.75 percent) a multinational conglomerate based in China. After surging more than 300 percent in the previous fiscal quarter, China SCE decreased 7.6 percent, while Wanda Properties tumbled 24.2 percent after rising more than 100 percent in the previous fiscal quarter. The Fund also continued to hold corporate and government bonds in Argentina. This included the Argentine Republic Government International Bond 0.125%, Due 07/09/2035 (040114HT0) (holding weight*: 0.16 percent), which decreased 26.4 percent after surging 56.1 percent in the previous fiscal quarter, and the YPF S.A. 8.5%, Due 07/28/2025 (984245AL4) (holding weight*: 0.60 percent), a state-owned Argentine energy company, which dropped 7.1 percent after it added 29 percent in the previous fiscal quarter.

Derivates within the Fund were implemented to express the views of the Sub-Adviser further and provided mixed results over the fiscal quarter. For example, the short position in the CBOT 5 Year U.S. Treasury Note 12/30/2022 (FVZ3 COM) (holding notional weight*: -4.15 percent) and the long exposure to Long Gilt Future 12/28/2022 (G Z2 COM) (holding notional weight*: 11.11 percent) detracted from Fund performance as the positions increased 1.3 percent and decreased 1.7 percent, respectively since being added to the Fund. Conversely, the short position in the Italian Bond Future 03/08/2023 (IKHS COM) (holding notional weight*: -2.34 percent) contributed to Fund performance. Since being added to the Fund in December, this future contract declined 0.2 percent.

## Sub-Adviser Outlook

The Sub-Adviser remains cautious but optimistic for the remainder of the fiscal year. With interest rates potentially peaking, and many central banks moving to halt tightening policies or even ease, there is some light at the end of the tunnel. However, recessions in developed markets could spill over into significant problems for high-yield bonds and risk-appetite for bonds from emerging markets. While opportunities across fixed-income markets may continue to be abundant, the potential for meaningful volatility still exists. Therefore, the Sub-Adviser believes that retaining the flexibility to invest in both emerging and developed markets, as well as both corporate bonds and sovereign debt, will allow the Fund to take advantage of the dispersion.

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