Strategic Enhanced Yield Fund Commentary

Market Overview

Bonds rallied during January only to reverse direction in February and reverse again in March. The end result for the quarter was a positive return for the Treasury sector. Financial corporate bonds were affected by the bank crisis in March, which lowered the investment grade corporate sector return. Pass-through mortgages also contributed to relative performance. The high yield securities in the portfolio behaved similarly to their higher-rated counterparts. Emerging market debt was the performance laggard during most of the quarter. Longer-duration issues performed significantly better than short and intermediate-duration ones.

Positioning the Strategic Enhanced Yield Fund

Portfolio composition is subject to change.

With the present economic and geopolitical environment, we are maintaining the portfolio in a defensive position, as the Federal Reserve (the Fed) continues to indicate that the fight for lowering inflation is ongoing. Overall, shorter duration, and a neutral duration Treasury sector will help to protect the portfolio against sudden “flight to safety” instances. We are maintaining the Fund’s positions in the financials and high yield sectors while monitoring them closely.

Notable Changes to the Portfolio

Although the investment grade corporate index performed well in March due to its longer duration, the volatility associated with that sector calls for caution as corporate spreads fluctuated across a 45-basis point (0.45%) range. And despite the creditworthiness associated with the mortgage-backed securities (MBS) sector, that sector’s performance was somewhat disappointing in March and year to date due to spread widening. Hence, our positioning favors the Treasury and Agency sectors as we maintain a more defensive position in the MBS and credit sectors. Finally, we assume trading range in rates during this quarter as the market sorts out the Fed’s dilemma of addressing inflation while aware of concerns over financial stability.

Why should investors consider investing in this Fund?

The portfolio’s yield remains attractive with potential price improvements. As inflation pressures are tamed, capital appreciation could also contribute to positive performance. As the global economy continues to strengthen, sectors such as emerging market debt and high yield bonds could contribute significantly to make this fund a high risk-adjusted return investment.

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Investment Risks

Fixed income securities are subject to interest rate risks. The principal value of a bond falls when interest rates rise and rise when interest rates fall. During periods of rising interest rates, the value of a bond investment is at greater risk than during periods of stable or falling rates. Bond funds will tend to experience smaller fluctuations in value than stock funds. However, investors in any bond fund should anticipate fluctuations in prices, especially for longer-term issues and in environments of changing interest rates.

Short-term investment-grade bonds offer less risk and generally a lower rate of return than longer-term higher yielding bonds. High-yield bonds,"commonly referred to as junk bonds," have a higher risk of default or other adverse credit events, but have the potential to pay higher earnings over investment-grade bonds. The higher risk of default, or the inability of the creditor to repay its debt, is the primary reason for the higher interest rates on high-yield bonds. International investing involves increased risk and volatility.