

# High Yield Bond Wrap

## TAXABLE FIXED INCOME STRATEGY

**SEIX**   
INVESTMENT  
ADVISORS LLC®

### Overview

The high yield sector posted a positive return in the fourth quarter but it was the weakest quarter of 2017. The quarterly return of 0.38% brought the year-to-date return to 7.48%, as measured by the ICE BofAML US Cash Pay High Yield Index. By credit quality, lower quality outperformed with BBs up +0.38%, Bs +0.60% and CCCs +0.72%. Energy (+2.00%), boosted by rising oil prices, was a leader on a sector industry basis, while telecommunications (-2.00%) and retail (-0.97%) lagged.

Gross issuance for the quarter was \$72.5 billion, the lowest of the year. For 2017, issuance was \$320 billion compared to \$286 billion in 2016. Net issuance, however, was only \$120 billion, the lowest level since 2011 (\$110 billion). In terms of flows, 2017 saw outflows of \$20.3 billion compared to inflows of \$9.6 billion in 2016. Exchange-traded funds (ETFs), however, had inflows of \$1.5 billion for 2017. Trading volumes were generally good at \$12 billion for the year, and dealer inventories at year end were approximately \$5 billion. Overall, technical conditions for high yield are favorable with flexible supply able to adjust to modest demand.

Fundamentals for the high yield issuer universe continue to improve as evidenced by favorable year-over-year metrics for revenue and EBITDA growth, interest coverage, and leverage. The default rate has been creeping up slightly, but reflects a number of large capitalization structures that were anticipated to default and were already priced into the market. The fundamental backdrop should provide a good tailwind for high yield in spite of valuations that are close to post-Financial Crisis tights.

### TOP 10 HOLDINGS

	% of Portfolio
Rowan Companies Inc.	1.95
Ally Financial Inc.	1.84
Mgic Investment Corp.	1.44
Envision Healthcare Corp.	1.07
Cnx Resources Corp.	1.07
Sabine Pass Liquefaction	1.06
Sprint Communications	1.05
Pulte Group Inc.	1.05
NRG Energy Inc.	1.04
MGM Resorts Intl	1.04

### PORTFOLIO MANAGERS



**George Goudelias**  
Head of Leveraged  
Finance  
Senior Portfolio Manager  
Industry experience  
since 1987  
Joined Seix in 2001



**Mike Kirkpatrick**  
Senior Portfolio  
Manager  
Industry experience  
since 1991  
Joined Seix in 2002



**James FitzPatrick, CFA**  
Head of Leveraged  
Finance Trading  
Portfolio Manager  
Industry experience  
since 1996  
Joined Seix in 1997

Holdings are subject to change. The top holdings are as of the period indicated. There is no assurance that any of the securities noted will remain in a portfolio at the time you receive this commentary. Actual holdings and percentage allocation in individual client portfolios may vary and are subject to change. It should not be assumed that any of the holdings were, or will prove to be, profitable, or that the investment recommendations or decisions we make in the future will be profitable. A list of all securities held in this strategy in the prior year is available upon request.

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### Performance

The SMA's 0.29% return was 9 basis points behind the 0.38% return of the ICE BofAML US Cash Pay High Yield Index. The underperformance was due to the SMA's underweighting in CCC and lower Energy exposure and a modest cash position. Helping to offset these factors, as wireline issuers sold off mid-quarter, we took advantage of mispricing, added to positions, and profited when prices recovered.

### Current Strategy

During the quarter, we again took the opportunity to reduce higher yielding, higher beta positions as prices rose and bonds hit our price targets. The allocation to specific energy companies with substantial links to oil price volatility was reduced and proceeds were reinvested in higher quality healthcare, cable, and financial issuers.

### Outlook

The potential for tightening is limited at current valuation levels. In this environment, we believe that playing defense is the most prudent course of action and we have positioned our portfolios accordingly, which includes an upgrade in quality. At the same time, we will take advantage of potential opportunities as they arise, such as price volatility or situations where an individual credit brings down an entire sector. The economy, nonetheless, continues to improve and issuer fundamentals are positive. As investors keep up their search for yield in a still-low interest rate environment, we think that a mid-single-digit return is a reasonable expectation for 2018.

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### ANNUALIZED PERFORMANCE (%) AS OF 12/31/2017



**Net returns are calculated by subtracting the highest applicable wrap fee (2.50% on an annual basis, or 0.21% monthly) on a monthly basis from the gross composite monthly return.**

**Past performance is not indicative of future results.** The information shown above is supplemental information only and complements the fully compliant presentations. Periods greater than one year are annualized.

ICE BofA Merrill Lynch High Yield Cash Pay Index is an unmanaged index consisting of all domestic and Yankee high-yield bonds maturing over one year. The quality range is less than BBB-/Baa3 but not in default (DDD1 or less). The index does not reflect the deduction of expenses associated with a mutual fund, such as investment management and fund accounting fees. A fund's performance reflects the deduction of fees for these services. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

**For information, contact:**

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## High Yield Bond Wrap Composite Data

Year End	Total Firm	Composite Assets		Annual Performance and Standard Deviation					
	Assets (\$ mil)	US\$ (\$ mil)	# of Wrap Sponsors	Net Composite Return	Pure Gross Composite Return	Composite 3-Year Std. Dev.	ICE BofA Merrill Lynch High Yield Cash Pay Index	Index 3-Year Std. Dev.	Composite Dispersion
2017	24,843	2,013	9	2.91%	5.51%	4.11%	7.48%	5.58%	0.0%
2016	27,631	2,060	6	7.24%	9.93%	4.80%	17.34%	6.01%	0.2%
2015	25,698	1,527	6	-4.20%	-1.77%	4.93%	-4.55%	5.27%	0.1%
2014	30,989	1,482	6	1.52%	4.08%	4.23%	2.44%	4.42%	0.1%
2013	26,600	1,486	6	2.43%	5.02%	4.99%	7.38%	6.33%	0.1%
2012	26,141	1,535	6	9.91%	12.67%	5.44%	15.44%	6.93%	0.1%
2011	26,147	746	7	4.77%	7.41%	7.53%	4.50%	10.78%	0.2%
2010	25,855	682	8	8.67%	11.40%	-	15.24%	-	0.3%
2009	24,338	368	7	26.69%	29.83%	-	56.28%	-	0.6%
2008	17,375	111	6	-15.95%	-13.73%	-	-26.21%	-	0.3%

N/A - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Seix Investment Advisors LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Seix Investment Advisors LLC has been independently verified for the periods 1/1/1993 through 12/31/2016. The verification reports are available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Seix Investment Advisors LLC is an SEC-registered investment adviser and wholly owned subsidiary of Virtus Investment Partners. The firm maintains a complete list and description of composites, which is available upon request.

The Seix High Yield Wrap composite consists of all High Yield Wrap Fee accounts managed by Seix in all participating Wrap Fee Sponsors' Programs. The minimum account size for inclusion in the composite is \$250,000. Prior to 6/1/2015, the account minimum was \$500,000. For comparison purposes, the composite is measured against the ICE BofA Merrill Lynch High Yield Cash Pay Index. The ICE BofA Merrill Lynch High Yield Cash Pay Index is an unmanaged index consisting of all domestic and Yankee high yield bonds maturing over one year. The quality range is less than BBB-/Baa3 but not in default. Index returns do not reflect the deduction of any fees.

The Seix High Yield Wrap Composite was created 1/1/2003, and has a performance inception date of 7/1/1997. Prior to 9/30/2017, the Seix High Yield Wrap Composite was named the Seix High Yield SMA Composite.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The U.S. dollar is the currency used to express performance. Returns include the reinvestment of all income. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the wrap sponsors in the composite the entire year.

Pure Gross returns are presented as supplemental information, do not reflect the deduction of any trading costs, fees or expenses and are presented for comparison purposes only. Net returns are calculated by subtracting on a monthly basis the highest assumed wrap fee (2.50% annually or 0.21% per month) from the gross composite monthly return. The assumed wrap fee includes all charges for portfolio management, trading costs, custody and other administrative fees.

Actual wrap fees vary by Program Sponsor. Please refer to the Program Sponsor's ADV 2A for a full disclosure of the fee schedule for wrap fees. Returns realized by clients will be reduced by the actual wrap fee rates and rates incurred by clients will vary.

Performance presented for the period prior to March 31, 2008 occurred while the Portfolio Management Team was a part of Seix Advisors, the Fixed Income division of Trusco Capital Management, Inc. ("Trusco") and the predecessor of Seix Investment Advisors LLC. Effective as of 3/31/2008, Seix Advisors began operating as a separate legal entity, named Seix Investment Advisors LLC ("Seix"), and Trusco was renamed as RidgeWorth Capital Management, Inc. Effective as of 5/23/2014, RidgeWorth Capital Management, Inc. became RidgeWorth Capital Management LLC, and Seix merged with StableRiver Capital Management LLC, a wholly owned subsidiary of RidgeWorth Capital Management LLC. Effective 6/1/2017, RidgeWorth Capital Management LLC was acquired by Virtus Investment Partners, Inc. ("Virtus"). Seix is an SEC-registered investment adviser and is a wholly owned subsidiary of Virtus Partners, Inc., a wholly owned subsidiary of Virtus.

Seix has retained the identical investment style since the inception of the composite. Seix also maintains the records necessary to support the performance of all composites and will provide these records upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. **Past performance is not indicative of future results.**

## DEFINITIONS &amp; DISCLOSURES

Bonds offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a Portfolio's fixed income securities will decrease in value if interest rates rise and vice versa. Although a Portfolio's yield may be higher than that of fixed income strategies that purchase higher rated securities, the potentially higher yield is a function of the greater risk of that strategy's underlying securities.

This information and general market-related projections are based on information available at the time, are subject to change without notice, are for informational purposes only, are not intended as individual or specific advice, may not represent the opinions of the entire firm, and may not be relied upon for individual investing purposes. Information provided is general and educational in nature, provided as general guidance on the subject covered, and is not intended to be authoritative. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. This information may coincide or conflict with activities of the portfolio managers. It is not intended to be, and should not be construed as investment, legal, estate planning, or tax advice. Seix Investment Advisors does not provide legal, estate planning or tax advice. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decisions.

**HOLDINGS DISCLOSURE** The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.