

# High Yield Bond Wrap

## TAXABLE FIXED INCOME STRATEGY

**SEIX**   
INVESTMENT  
ADVISORS LLC®

### Overview

The high yield sector produced solid results in the third quarter as investors continued to reach for yield in a still-low interest rate environment and against a favorable fundamental backdrop for the asset class. Though some reversal occurred intra-quarter, lower quality continued to outperform higher quality. By rating tier, CCC-rated issues posted a return of 2.74% versus the BB return of 2.05%. In terms of industries, energy, utilities, and metals & mining were the best performing industries with returns of 4.6%, 3.6%, and 3.4%, respectively. Telecommunications, food, and retail were the bottom performing sectors with returns of 0.1%, 0.3%, and 0.6%, respectively. The energy sector has generally underperformed year to date, but rising oil prices in September have turned the sector around.

Issuance for the quarter was about \$80 billion, following a fairly steep downturn in July (down 28.6% year over year) and a modest rebound in August. At the end of the third quarter, issuance was up roughly 3.3% from the previous quarter and 11.9% for the year to date. In terms of the type of supply, acquisitions represented about 20.7% of the use of proceeds; general corporate purposes, 19.6%; and refinancings, 58.6%. Refinancings have dominated the use of proceeds, and that number is up by approximately 2-3% since 2016.

On the flow side, contributions have essentially matched withdrawals this quarter. Trading volumes have generally been good at \$12.2 billion year-to-date which is higher than last year. Inventory is light in the dealer community. They are long about \$1.6 billion in bonds year to date against a range of -\$1 billion to \$8 billion. Overall, technical conditions for high yield are balanced with flexible supply being able to adjust to modest demand.

From a fundamentals perspective, the high yield market continues to show improvement. Revenue growth and EBITDA growth have both been trending positively this year. As a result, the default rate continues to decline. The default rate started the year running higher than 3.5%, according to JPMorgan, but is now closer to 1%; adding distressed securities brings the rate closer to 1.5%. Of note, August was the first month since January 2014 that we have not seen a default. As another indication of healthy fundamentals, the upgrade/downgrade ratio is 1.7 in terms of number of issues, and 1.3 in terms of volume.

Valuations continue to be stretched and close to historical tights, though the fundamental backdrop provides a good tailwind.

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.

### TOP 10 HOLDINGS

	% of Portfolio
Rowan Companies Inc	1.97
Ally Financial Inc	1.87
Mgm Resorts Intl	1.64
Mgic Investment Corp	1.44
NRG Energy Inc	1.08
CDWLLc/CDW Finance	1.07
Sabine Pass Liquefaction	1.06
Consol Energy Inc	1.06
Navigent Corp	1.05
Pultgroup Inc	1.05

### 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

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### Performance

The portfolio's 1.71% return lagged the 2.04% return of the BofA Merrill Lynch High Yield Cash Pay index by 33 basis points. Among the positive contributors to the Fund's performance were an overweighting in energy as oil prices firmed, especially in September. Offsetting these positive factors were the portfolio's underweighting in metals & mining, negative security selection in Healthcare as well as the drag from holding a modest cash position in a rising market.

### Current Strategy

During the quarter, we took the opportunity to reduce exposure in the retail/grocery sector as we felt we were not being paid for taking the risk posed from online shopping. We also reduced exposure to certain healthcare providers noting the pickup in leverage. We increased the portfolio's energy exposure by adding several oil and natural gas exploration and production names as well as offshore drillers. Companies are tendering for bonds and we have been reinvesting the proceeds into already existing issuers in the portfolio.

### Outlook

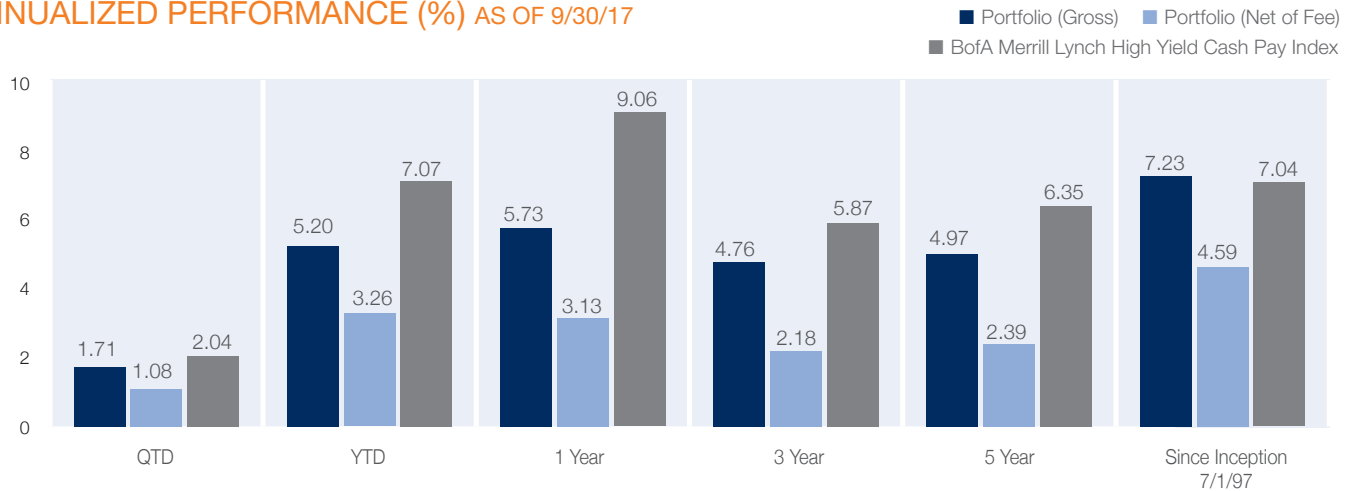
If the fundamentals remain positive, we foresee a return environment going forward of "coupon clipping plus." Potential for tightening is limited at current valuation levels. One of the biggest wildcards is what happens to oil. If oil prices continue to rise, as they have in September, the energy sector may trade higher and provide some spread tightening. But potential opportunities are otherwise limited and selective.

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### ANNUALIZED PERFORMANCE (%) AS OF 9/30/17



**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.

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.	BofA Merrill Lynch High Yield Cash Pay Index	Index 3-Year Std. Dev.	Composite Dispersion
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%
2007	21,534	201	6	-0.10%	2.42%	-	2.17%	-	N/A

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 1/1/93 through 12/31/16. 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 6/1/15, the account minimum was \$500,000. For comparison purposes, the composite is measured against the BofA Merrill Lynch High Yield Cash Pay Index. The 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 1/1/03, and has a performance inception date of 7/1/97. Prior to 9/30/17, 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 3/31/08 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 3/31/08, 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 5/23/14, 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 6/1/17, RidgeWorth Capital Management LLC was acquired by Virtus Investment Partners, Inc. ("Virtus") and was renamed Virtus Fund Advisers, LLC ("VFA"). Each of VFA and Seix is an SEC-registered investment adviser. Seix is a wholly owned subsidiary of VFA, which is an indirect, 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 & 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.