IN BRIEF

INCORE | CAPITAL MANAGEMENT℠

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Don't get boxed in

An allocation to investment grade convertibles might help investors diversify in this tricky economic environment.

Although convertible bonds don't fit neatly into traditional asset class boxes, they could play an important role in an updated investment portfolio. In the current economic environment, the extreme measures taken by the Federal Reserve are likely to have longer-term ramifications. To prepare, investors may wish to consider how an allocation to higher-quality, investment-grade convertible bonds might help protect investors and unlock their potential benefits, including:

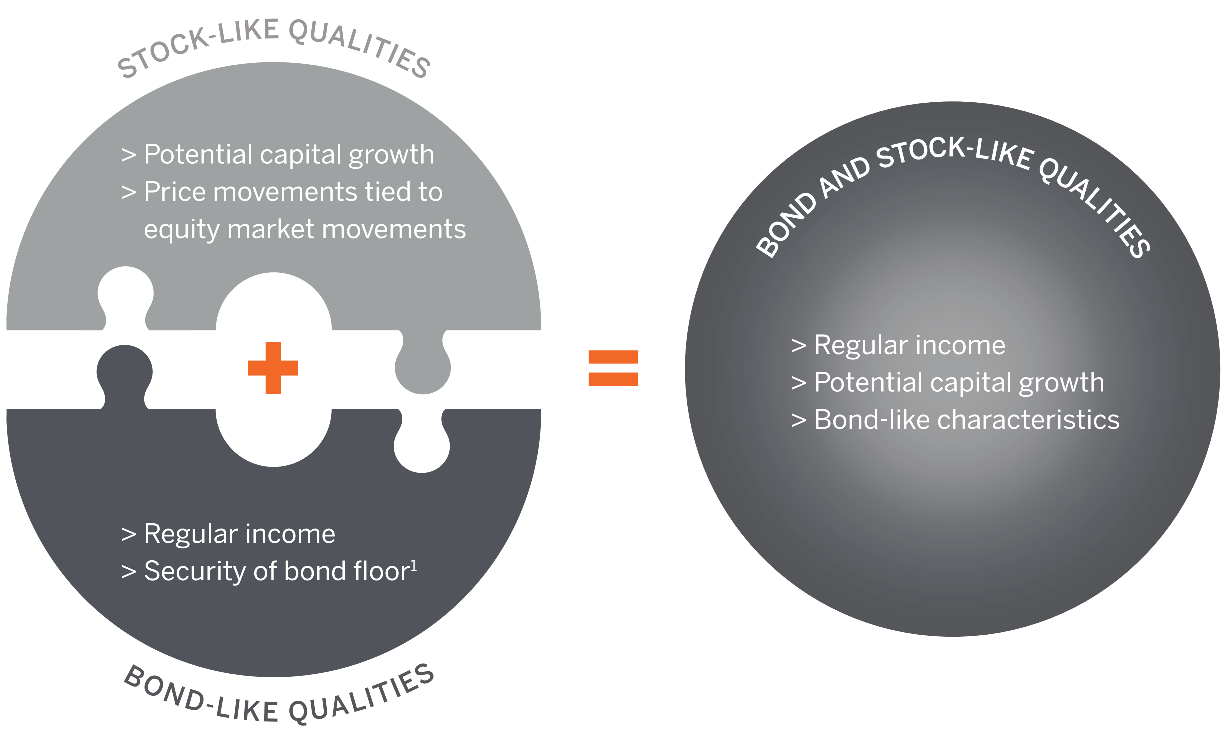
1. Inflation protection, thanks to lower interest rate risk
2. Diversification that may lower portfolio volatility
3. Historically attractive, risk-adjusted returns

CONVERTIBLES, DECONSTRUCTED

Convertibles are simply corporate bonds with an embedded call option on the stock of the issuing firm, meaning they can be converted into a fixed number of common stock shares at a specified price.

As a result, they can exhibit qualities of both bonds and stocks, and give investors a unique opportunity to diversify by changing the risk-return profile of a portfolio.

A convertible is comprised of a bond component and an equity component (in the form of an embedded call feature).



Investing involves risk including loss of principal. Convertible securities rank senior to the issuer's common stock, but may be subordinate to senior debt obligations. In part, the total return for a convertible security may depend upon the performance of the underlying stock into which it can be converted.

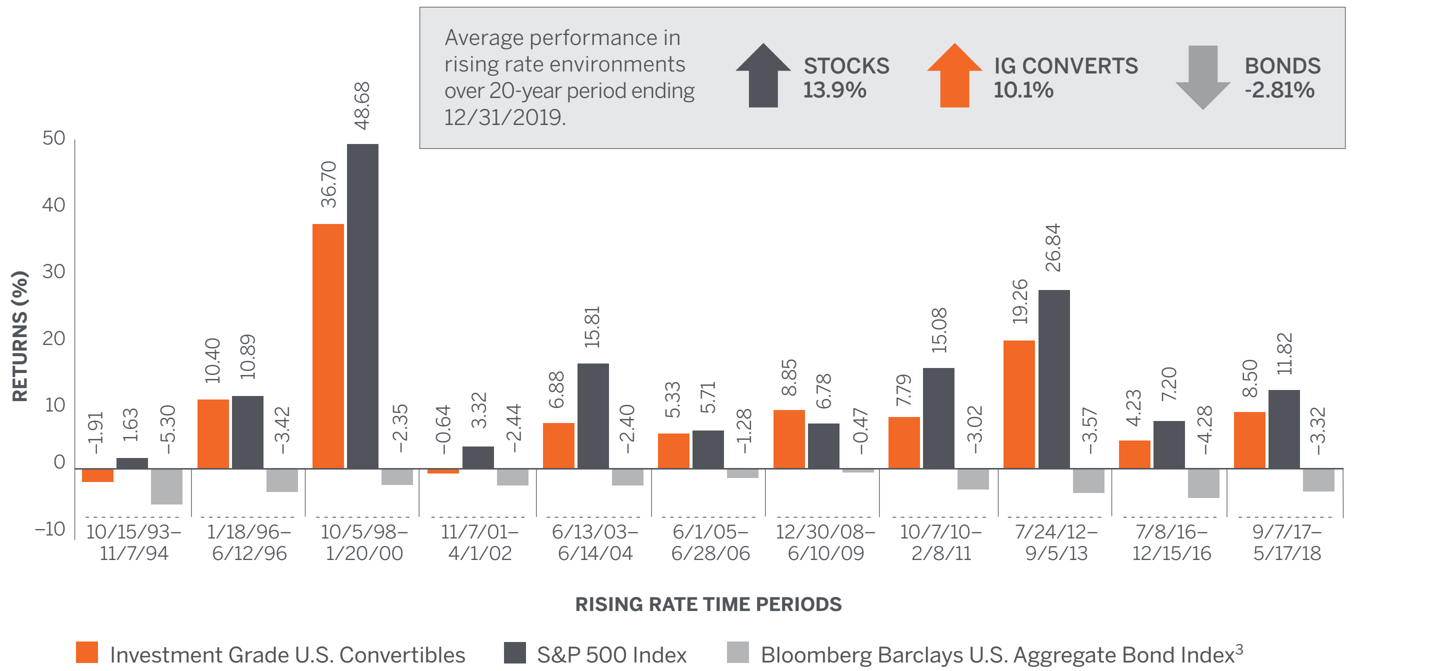
Synthetic convertibles may respond differently to market fluctuations than traditional convertible securities. They are also subject to counterparty risk. Diversification neither assures a profit nor eliminates the risk of experiencing investment loses.

1 Inflation protection, thanks to lower interest rate risk

Due to their low correlation to traditional bonds, investment grade convertibles may be an effective hedge against rising interest rates. This could be critical after central bank intervention that might prove inflationary. Moreover, during some turbulent times (like the tech bubble of the late 1990s and the global financial crisis of 2008–09) investment grade convertibles outperformed the S&P 500® Index[2].

Investment grade convertibles have historically outperformed traditional bonds in rising rate environments

While traditional bond returns were negative in all 11 rising rate periods below, investment grade convertible returns were positive in 9 out of those 11 periods.



Sources: Morningstar, Bloomberg, and U.S. Department of the Treasury.

Past performance does not guarantee future results. *Index returns do not reflect management fees, charges and expenses. One cannot invest directly in an index.*

Traditional bond returns represented by Bloomberg Barclays U.S. Aggregate Bond Index. Investment Grade U.S. Convertible returns represented by the VX5C[4] Index in rising rate periods after the index inception date of 1/12/2012. In periods prior to 1/12/2012, Investment Grade U.S. Convertible returns are represented by the VXA1 Index.[5]

2 Diversification that may lower portfolio volatility

Whether investors are looking to capture equity-like returns in their fixed income portfolio, mitigate downside risk in their equity portfolio, or potentially hedge against rising interest rates, convertibles present an opportunity to diversify with a uniquely correlated asset class.

May reduce overall portfolio volatility

Since they are not perfectly correlated to traditional asset classes like bonds or stocks, investment grade convertibles have the potential to provide additional and distinctive diversification.

CORRELATION MATRIX *(10 years ended March 31, 2020)*	1	2	3	4
1—Investment Grade U.S. Convertibles	1.00			
2—Bloomberg Barclays U.S. Aggregate Bond Index	–0.09	1.00		
3— Bloomberg Barclays U.S. Corporate High Yield Index	0.70	0.13	1.00	
4— S&P 500 Index	0.84	–0.22	0.74	1.00

Source: Zephyr.

Correlation Matrix illustrates results for the period ending March 2020. Investment Grade U.S. Convertibles represented by VXA1 Index.[5]

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3 Historically attractive, risk-adjusted returns

Due to their non-traditional composition, convertibles have the potential to earn equity-like returns with significantly less volatility over total market cycles. Standard deviations[6] and sharpe ratios[7] for the asset class have been attractive relative to equities over both the long and short term.

As a result, convertibles may provide a measure of downside protection against falling equity markets. Over the long term, investment grade convertibles have lost less in falling markets while capturing commensurate upside returns.

Investment Grade Convertibles vs. S&P 500 over a 20-year period ending 3/31/2020.

CAPTURE 99%

LESS RISK 33%

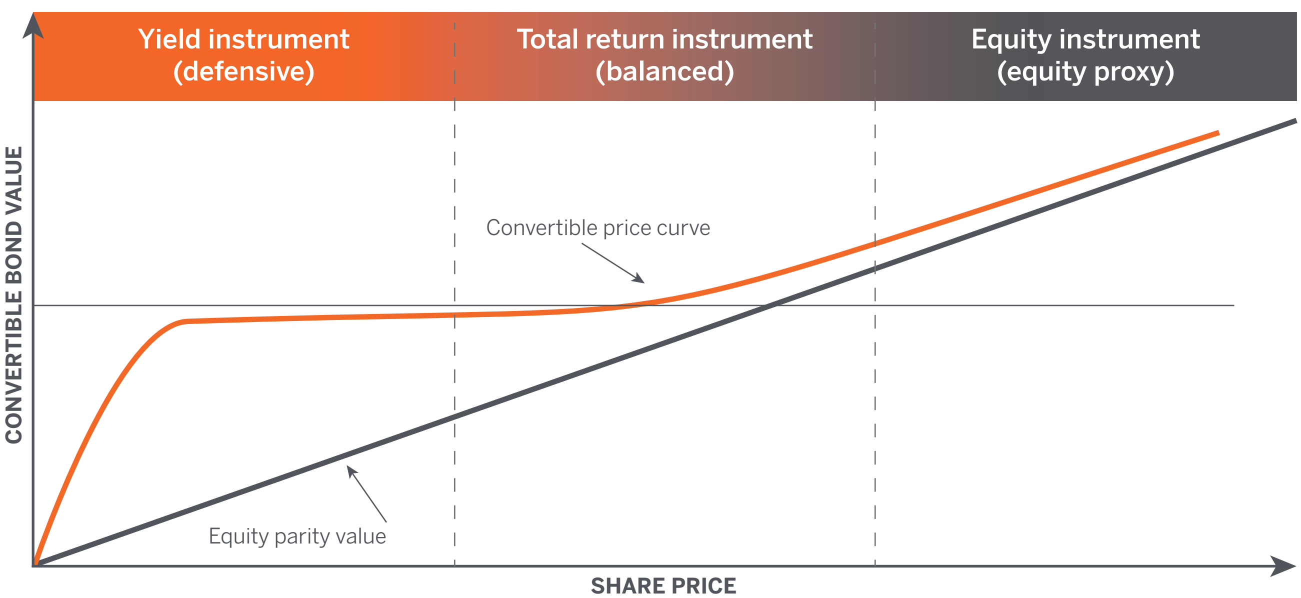
Potential to capture stock-like returns with less risk
(20 year period, ending March 2020).

	ANNUALIZED RETURNS (%)		ANNUALIZED STANDARD DEVIATION (%)		SHARPE RATIO	
	5–YR	20–YR	5–YR	20–YR	5–YR	20–YR
ICE BofAML US IG Convertibles Index (VXA1)	8.48	4.77	9.40	9.93	0.78	0.31
S&P 500 Index	6.73	4.79	13.65	14.72	0.41	0.21

Source: Zephyr, as of May 2020, IG convertibles represented by VXA1 Index.[5]
Past performance does not guarantee future performance. *Index returns do not reflect management fees, charges and expenses. One cannot invest directly in an index.*

Hybrid behavior of convertible bonds

Convertibles can be classified in one of three ways: as a yield instrument, a total return instrument, or an equity instrument. How a portfolio balances these three types of convertibles determines its behavior on the spectrum of bond-like to stock-like (often illustrated by delta[8]).



Convertibles behave on a spectrum of bond-like to equity-like. At issuance, they are typically in the balanced zone, and shift based on movements in the underlying share price on interest rates movements in the bond market.

The example provided is hypothetical and used for illustration purposes only.

THE INCORE ADVANTAGE

OUR PHILOSOPHY

We believe that the optimal manner in which to enhance the volatility-reducing behavior of the convertible asset class is through high-quality companies, with stable-to-improving credit profiles, which allows them to maintain their financial flexibility during both favorable and unfavorable markets conditions.

OUR APPROACH

We take a balanced approach to portfolio construction and include all three types of convertibles—yield, total return, and equity. Our focus on high-quality credit helps manage risk and volatility versus many other convertible strategies.

OUR EXPERIENCE

We have employed the same investment process and philosophy since our team's inception 25 years ago, which has resulted in a record of accomplishment throughout numerous market cycles.

For more information on the INCORE Investment Grade Convertible Fund, please contact your financial advisor or visit ***www.vcm.com***

1 A **Bond Floor** is the minimum value to which a convertible bond can fall, considering repayment of principal and interest payments until maturity.

2 The **S&P 500® Index** is a market capitalization-weighted index that measures the performance of the common stocks of 500 leading U.S. companies.

3 The **Bloomberg Barclays U.S. Aggregate Bond Index** is an unmanaged index of publicly issued investment grade corporate, U.S. Treasury and government agency securities with remaining maturities of 1 to 3 years.

4 The **ICE BofAML Investment Grade US Convertible 5% Constrained Index (VX5C) Index** is a market capitalization-weighted index of domestic corporate convertible securities. Bonds and preferred stocks must be convertible only to common stock, ADRs or cash equivalent and have a market value of at least $50 million. Composed of Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher. All positions are capped at 5% of market value.

5 The **ICE BofAML All Investment Grade US Convertibles (VXA1) Index** is a market capitalization-weighted index of domestic corporate convertible securities. Bonds and preferred stocks must be convertible only to common stock, ADR's or cash equivalent and have a market value of at least $50 million. Composed of Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher.

6 **Standard deviation** measures historical volatility. Higher standard deviation implies greater volatility.

7 **Sharpe ratio** measures risk-adjusted performance by dividing the portfolio's excess returns (returns above a "risk-free" rate such as a Treasury bill) by the standard deviation of those returns. The higher the ratio, the better the portfolio's return per unit of risk.

8 **Delta** is used to measure equity sensitivity. Deltas can range from 0.0 to 1.0, and ultimately represent the relationship between a convertible and a stock's behavior. The higher the delta, the more equity-like the behavior. The lower the delta, the more debt-like the behavior. Specifically, delta measures how a percentage change in stock price impacts the corresponding expected percentage change in convertible price. A convertible with a delta of 0.60, for example, will capture 60% of a 1% move in the underlying common stock.

An investor should consider the fund's investment objectives, risks, charges and expenses carefully before investing or sending money. This and other important information about the investment company can be found in the fund's prospectus, or, if available, the summary prospectus. To obtain a copy, visit *www.vcm.com*. Read the prospectus carefully before investing.

The Fund may invest in below-investment-grade securities, sometimes known as "junk bonds." These securities generally offer higher yields than investment-grade securities but carry a higher risk of default and may be considered speculative. Investors should be able to assume the risks of investing in below-investment-grade securities.

The return of principal in bond funds is not guaranteed. 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 have the same interest rate, inflation, reinvestment, credit and prepayment risks associated with the underlying bonds in the portfolio.

Political and economic risks, along with other factors, could adversely affect the Fund's investments in U.S.-traded foreign companies, ADRs and GDRs.

The Funds are distributed by Victory Capital Services, Inc. ("VCS"), member FINRA. Victory Capital Management Inc., an affiliate of VCS, is the investment advisor to the Funds and receives a fee from the Funds for its services.

V18.036 // 1Q 2020 INCR In Brief IB

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