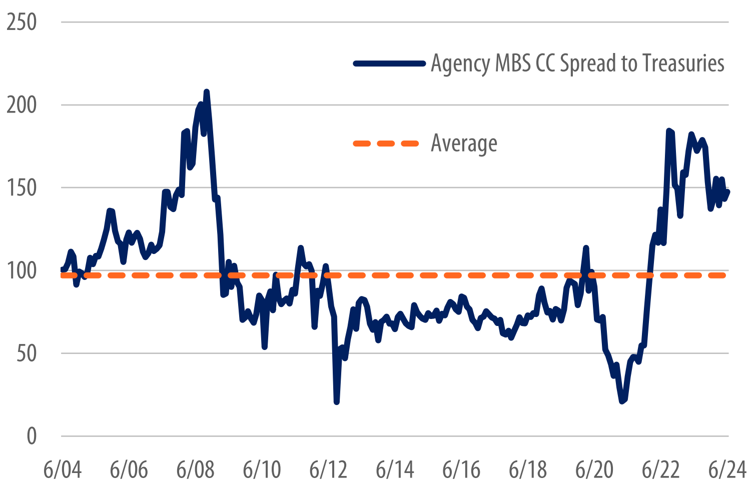
An Asset Class That Is Attractively Priced And Historically Resilient In Recessions

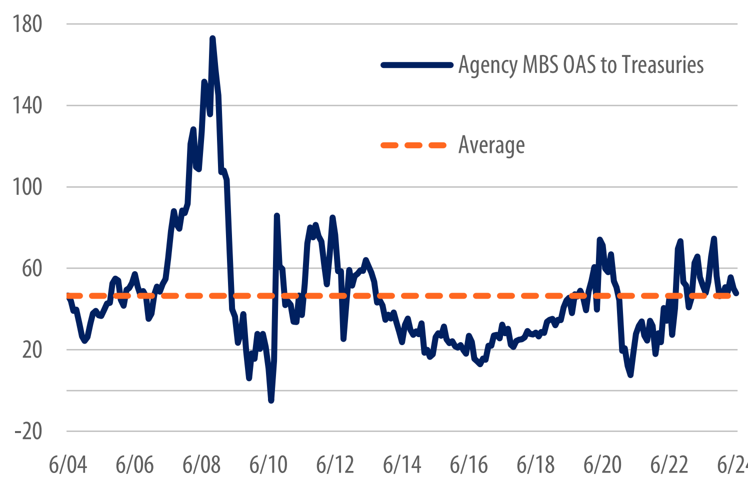
Agency mortgage-backed securities (MBS) may provide a compelling opportunity given its historical resilience during recessions, primarily due to the Government/Agency credit wrap and attractive current valuations relative to history. This Primer highlights the attributes within the asset class and helps educate readers on what can be a complex, but integral fixed income addition to a diversified portfolio.

Spreads to US Treasuries Are Above Averages Dating Back to 2004

30 Yr Agency MBS Current (Par) Coupon (CC) Spread to Treasuries (bps)



Agency MBS Option-Adjusted Spread (OAS) to Treasuries (bps)

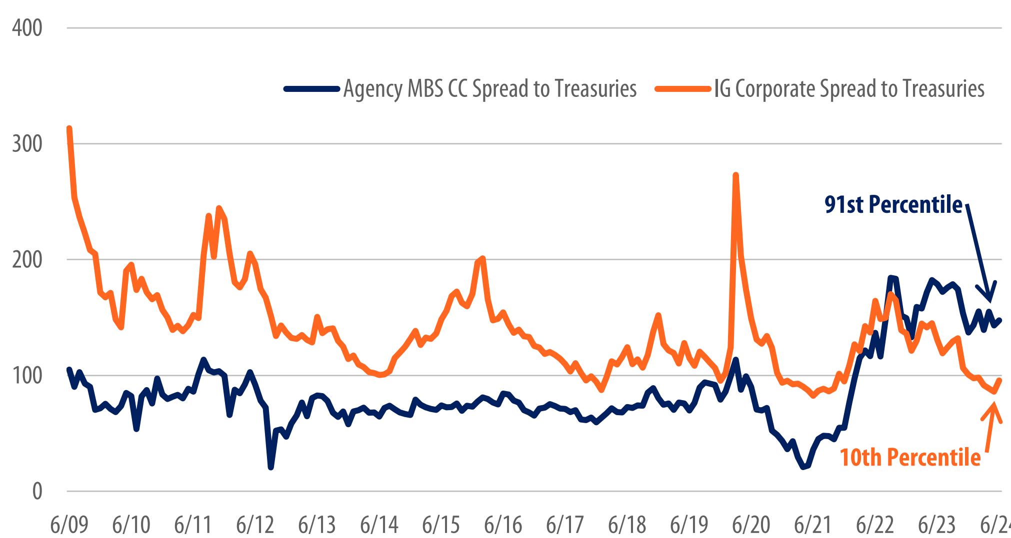


Data for above charts from 6/30/04 through 6/30/24.

Recently, Current Coupon Agency MBS offer greater spread to Treasuries than Investment Grade Corporates

Current Coupon MBS, or newly issued mortgage backed securities with par coupons, often exhibit the most vulnerability to changes in interest rates as such borrowers are most sensitive from a prepayment standpoint. Today, investors are well compensated for this risk as those spreads to Treasuries are in the 91st percentile dating back to the end of the Great Financial Crisis.

Agency MBS CC vs. Investment Grade (IG) Corporate Spread to Treasuries (bps)



Data from 6/30/09 through 6/30/24. Source for charts: Bloomberg.

Agency MBS represented by the Bloomberg US Mortgage Backed Securities Index. Treasuries represented by 10 Yr US Treasuries.

IG Corporate represented by the Bloomberg US Corporate Bond Index. Treasuries represented by 10 Yr US Treasuries.

Past performance is not a guarantee of future results. Index data is for illustrative purposes only and not indicative of any investment.

Bloomberg US Mortgage Backed Securities Index - 20 Year Correlations to:

Bloomberg US Aggregate Bond Index	0.92
Bloomberg US Treasury Index	0.83
Bloomberg High Yield Corporate Bond Index	0.23
S&P 500® Index	0.18

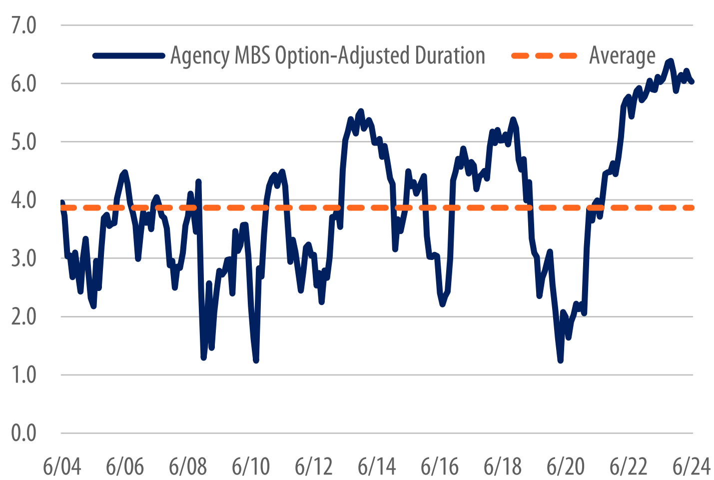
Source: Morningstar Direct. Data from 7/1/04 - 6/30/24.

Need For Active Management

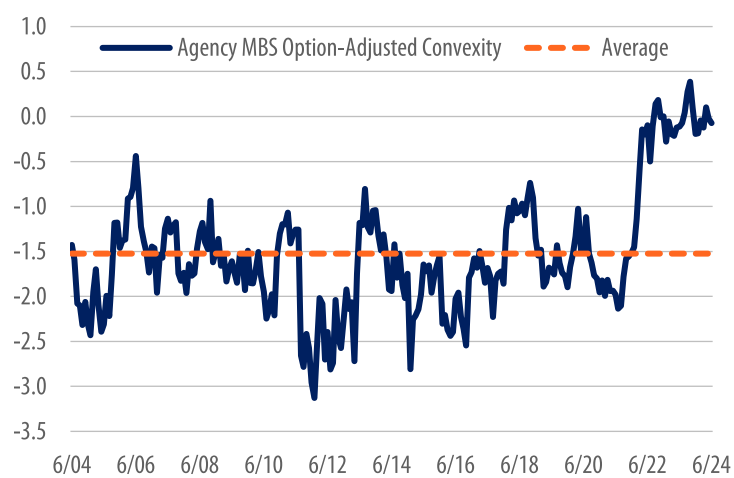
Agency MBS have often provided investors a value-added addition to a diversified portfolio. However, there are numerous risks involved in such dynamic products. Like many other fixed income asset classes, we believe that utilizing active management when it comes to Agency MBS is crucial. Mortgage indexes are typically made up of only mortgage pass-through securities that can inherently involve a high number of risks. Through active management, we believe the ability to own out-of-index, agency MBS allows portfolio managers the tools needed to better manage and mitigate such risks and potentially improve risk-adjusted returns.

Recently Agency MBS Durations Have Extended And Convexity Risk Has Lessened

Agency MBS Option-Adjusted Duration (years)



Agency MBS Option-Adjusted Convexity (years)



Source: Bloomberg. Data from 6/30/04 through 6/30/24. Agency MBS represented by the Bloomberg US Mortgage Backed Securities Index.

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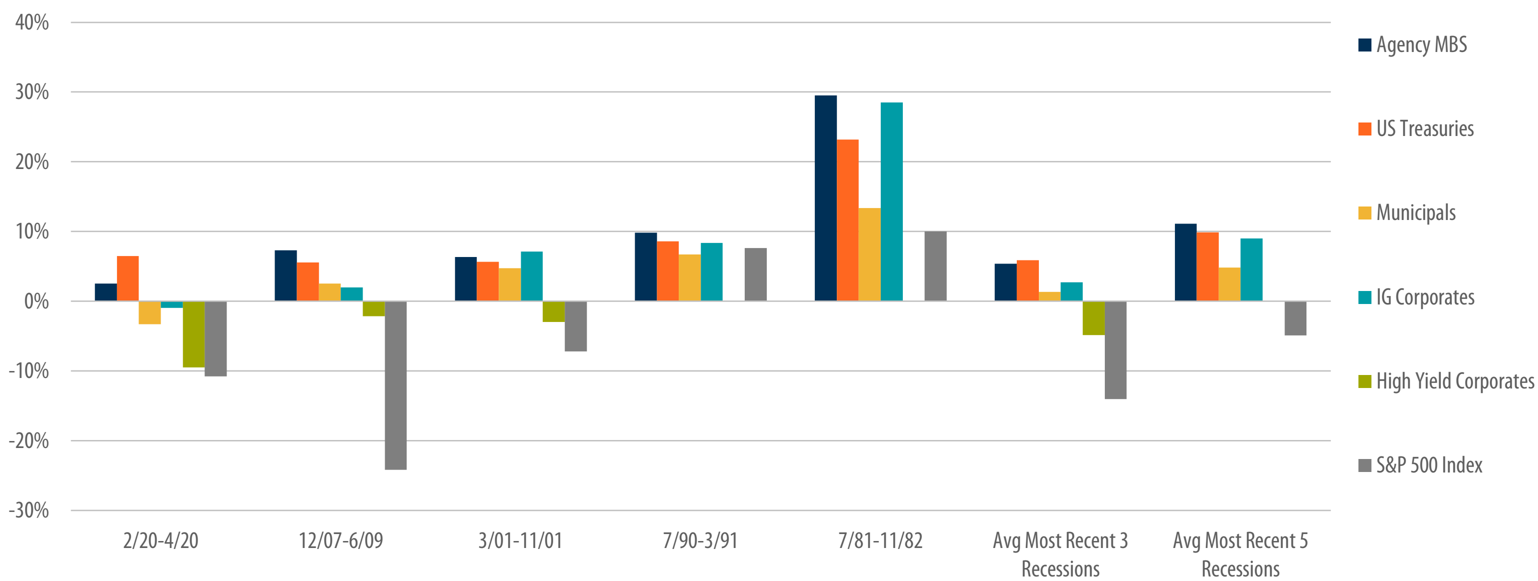
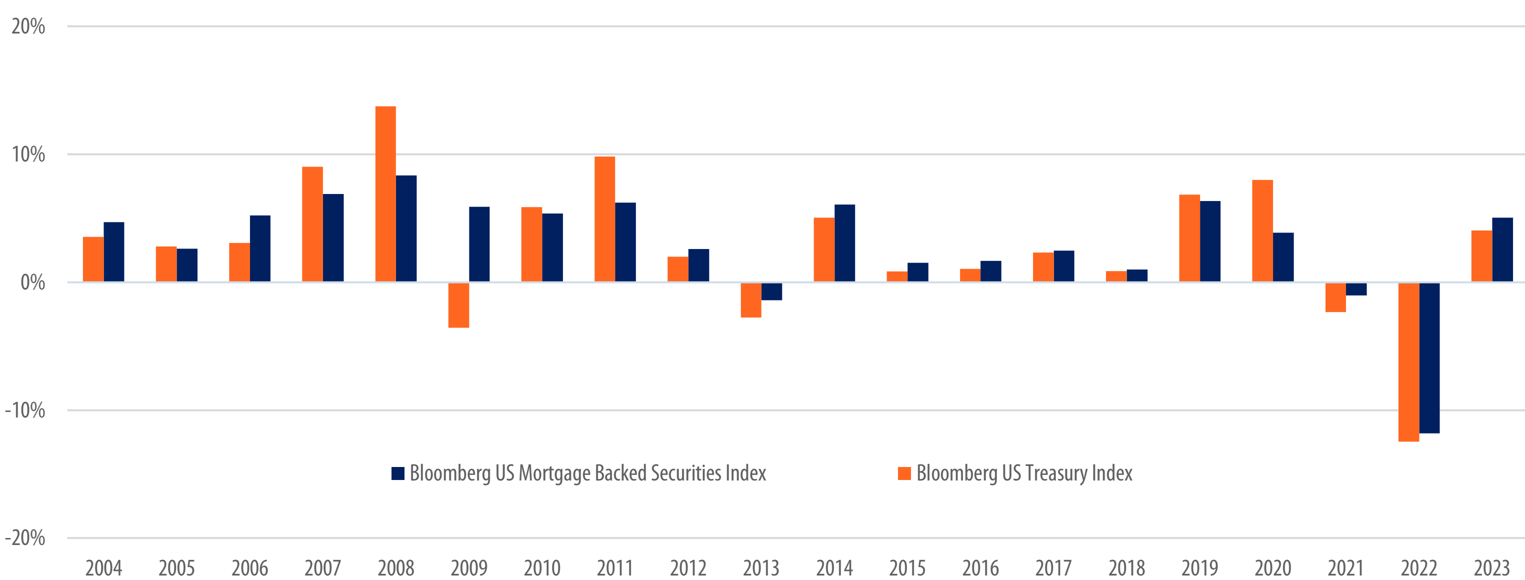
US TREASURIES AND AGENCY MBS HAVE SHOWN RESILIENCE DURING PERIODS OF RECESSIONS

Historical Asset Class Total Returns through NBER Recessions



Source: Morningstar Direct, NBER (National Bureau of Economic Research). Data as of 6/30/24. NBER defines a period of recession as a significant decline in economic activity that is spread across the economy and lasts more than a few months. **Agency MBS** - Bloomberg US Mortgage Backed Securities Index; **US Treasuries** - Bloomberg US Treasury Index; **Municipals** - Bloomberg Municipal Bond Index; **IG Corporates** - Bloomberg US Corporate Bond Index; **High Yield Corporates** - Bloomberg High Yield Corporate Bond Index. The asset classes shown here offer different characteristics in terms of income, tax treatment, capital appreciation and risk. High yield corporate bonds are excluded from the chart for years prior to 1998, when the index was created.

HISTORICAL ANNUAL TOTAL RETURNS OF AGENCY MBS VS. US TREASURIES SINCE 2003



Source: Bloomberg.

Past performance is not a guarantee of future results. For illustrative purposes and not indicative of any investment. Indexes do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

Agency MBS - Attractive Diversification for an Asset Allocation Strategy

Agency MBS offer investors an array of potential benefits relative to other fixed income assets. From robust liquidity and historically low correlations to equities, to historically strong risk-adjusted and lower volatility relative to other markets, we believe Agency MBS is a compelling asset class for investors to consider in a diverse portfolio.

What are Agency Mortgage-Backed Securities?

Mortgage-backed securities are mortgages of similar characteristics that are pooled together and packaged (i.e. "securitized") to be sold to investors. Agency MBS are issued and backed by government-sponsored entities (GSEs) Fannie Mae and Freddie Mac or guaranteed by U.S. government-backed Ginnie Mae. When a private entity such as a bank issues MBS, they are referred to as non-agency MBS. These bonds are not guaranteed by the U.S. government or a GSE and contain credit risk not present in Agency MBS.

TYPES OF AGENCY MBS

To-Be-Announced (TBA)

The TBA market serves as an over-the-counter (OTC) futures market for Agency MBS that helps facilitate financing and delivery of MBS pass-through securities, similar to Treasury futures.

Specified Pools

Specified pools are MBS that have individual CUSIPs and specific collateral characteristics. Certain specified pools can have favorable attributes such as low loan balance or higher loan-to-value type borrowers or be found in favorable geographic locations.

Collateralized Mortgage Obligation (CMO)

Structured from Agency MBS pools, CMOs are bonds with specific rules and priorities as to principal and interest repayment. Each CMO, referred to as a "tranche," has its own CUSIP and is a means for investors to get more defined cash flows for their particular needs.

Agency CMBS

Each Agency (Fannie Mae, Freddie Mac and Ginnie Mae) issue securities backed by commercial multi-family properties. These bonds hold the same collateral backing as residential properties issued by the agencies.

Key Risks Inherent to Agency Mortgage-Backed Securities

Prepayment Risk: At the basis of the U.S. mortgage market is the ability for a borrower to prepay their mortgage at any time. This callability, while a great benefit to the borrower, can work against an Agency MBS investor if not managed properly. **Convexity:** The prepayment option in mortgages, or the callability of a bond, tends to return more principal when interest rates fall and less when interest rates rise. This can cause an Agency MBS to decrease in value more when rates sell off than increase when rates rally, this is known as "negative" convexity. **Volatility:** Due to a borrower's options for prepayment, Agency MBS are subject to changes in volatility. An increase in volatility can negatively affect Agency MBS performance, but if managed correctly, can also provide market opportunities. **Spreads:** As with any non-government security, Agency MBS yield spreads can increase or decrease depending on varying market factors. As spreads increase, bond prices will tend to decrease and as spreads decrease, bond prices will tend to increase. **Credit:** While Fannie Mae, Freddie Mac and Ginnie Mae mortgage-backed securities assume little to no credit risk, Non-Agency issued mortgage products can carry credit default risk for investors.

Diversification does not guarantee a profit nor protect against loss.

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