

# Impax Core Bond Fund

Quarterly Commentary  
All data as of 12/31/2023

## Performance

- The Impax Core Bond Fund underperformed its benchmark during the fourth quarter.

## Market review

- Despite the bumpy start to the final quarter of 2023, due to rising geopolitical risk, risk assets finished 2023 on a strong note thanks in large part to the US Federal Reserve. The investment grade market underperformed high yield by 25 bps while still posting an impressive +6.82% return. The Fed met twice during the quarter and kept the Fed Funds target rate steady at 5.25–5.50%. Their moves were widely expected, and the generally dovish statements coupled with an improving inflation outlook as well as resilient economic data led to a strong market rally. In December, the Fed also updated their “Dot plot”<sup>1</sup> which suggested Fed

Governors are predicting three cuts in 2024. Futures markets already bullish on cuts became even more so. At the beginning of Q4, three cuts were being priced in with the first starting in July. By the end of December, however, futures were implying six cuts in 2024 with the first starting as early as March. Although it wasn’t the smoothest glide path, interest rate volatility trended downward during the period suggesting investors were coalescing around the idea of a more stable interest rate environment going forward.

- Over the quarter, 2- and 10-year US Treasury yields fell by 80 and 69 bps, respectively, leading to a somewhat steeper yield curve. The 30-year segment of the curve also fell by 67 bps. US Corporate spreads tightened 22 bps ending the period +99 bps over treasuries with a yield to worst of 5.06%.

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Performance	as of 12/31/2023							
	1m	Qtr	YTD	1y	3y	5y	10y	Incep <sup>2</sup>
Investor Class	3.53	6.45	5.36	5.36	-3.45	0.73	–	0.97
Institutional Class	3.67	6.52	5.62	5.62	-3.21	0.98	–	1.22
Bloomberg US Aggregate Index <sup>3</sup>	3.83	6.82	5.53	5.53	-3.31	1.10	–	1.44
Lipper Core Bond Funds Index <sup>4</sup>	3.83	6.88	6.24	6.24	-3.12	1.55	–	1.73

Performance data quoted represent past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For most recent month-end performance information, visit [www.impaxam.com](http://www.impaxam.com).

Figures include reinvested dividends, capital gains distributions, and changes in principal value.

2 The inception date for the Impax Core Bond Fund Institutional Class and Investor Class is December 16, 2016.

As of the 5/1/23 prospectus, total annual Core Bond Fund operating expenses, gross of any fee waivers or reimbursements (excluding Acquired Fund fees and expenses), for Investor Class and Institutional Class shares are 0.71% and 0.46%, respectively.

## Market review, continued

- All investment grade sectors posted both positive total and excess returns over the quarter, with the corporate sector leading the rally. Longer-dated corporates outperformed and posted a +14.01% total return for the period vs. +5.86% for the intermediate segment as investors' appetite for yield and duration continued unabated. Among structured products, agency mortgage-backed securities outperformed as spreads compressed by 18 bps over the period on the back of the rally in rates.
- Despite the market rally during the quarter, investment grade taxable bonds experienced \$19.5bn in outflows, mostly due to significant mutual fund outflows experienced during a volatile October. While mutual funds flows were negative, flows into ETFs were strong during the market rallies in November and December.

## Contributors

- The underweight allocation to treasuries in favor of overweight allocations to corporates contributed over the period. Security selection among US Treasuries, ABS and CMBS bolstered returns. Among corporates, security selection within the consumer cyclical, communications and technology sectors all contributed. Given the risk-on rally, the Fund's off-benchmark allocation to high yield credits performed well.

## Detractors

- The overweight allocation to ABS and government-related securities as well as an off-benchmark allocation to non-agency MBS detracted. Security selection among government-related securities, agency MBS as well as within the financial institutions, consumer cyclical, and utility sectors also hindered performance.

## Outlook

- Although risk assets have performed well, we are cautious about adding more risk to the portfolio and will only do so selectively. The market is pricing in more aggressive cuts than the US Federal Reserve is forecasting which may introduce volatility if their expectations don't materialize. Corporate spreads have recently narrowed sharply and are fairly balanced given the risks to the economy. However, they are on the richer side and through most economists' projections for 2024, which warrants some trimming of our corporate exposure. We will look for swap opportunities within credit in addition to trimming selective names where the risk-reward does not justify holding them. Corporate labelled bond issuance has been weak, but new opportunities are presenting themselves in the private placement market. Although ABS presents good relative value, we are mindful of credit risks given the less liquid nature of the asset class and the speed at which spreads widen relative to corporates during sell offs.

## Fund overview

An investment-grade bond strategy focused on the opportunities and risks arising from the transition to a more sustainable economy.

### Portfolio management team

Anthony Trzcinka, CFA, Portfolio Manager

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## Portfolio characteristics as of 12/31/2023

### Effective duration<sup>f</sup>

Fund	Benchmark
6.12%	6.20%

### Years to maturity<sup>~</sup>

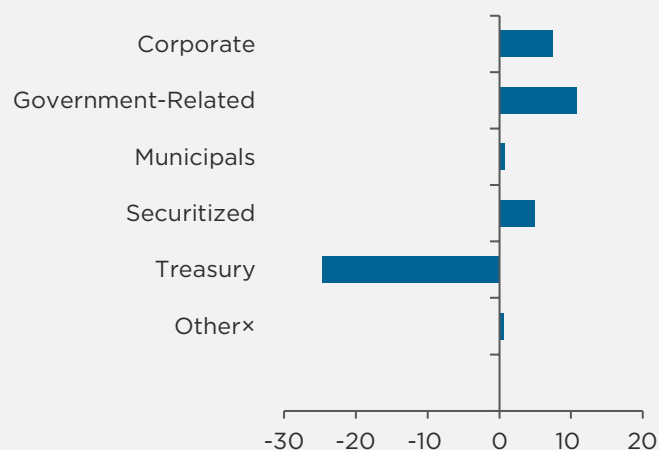
Fund	Benchmark
14.20	12.95

### 30-Day SEC yield<sup>o</sup>

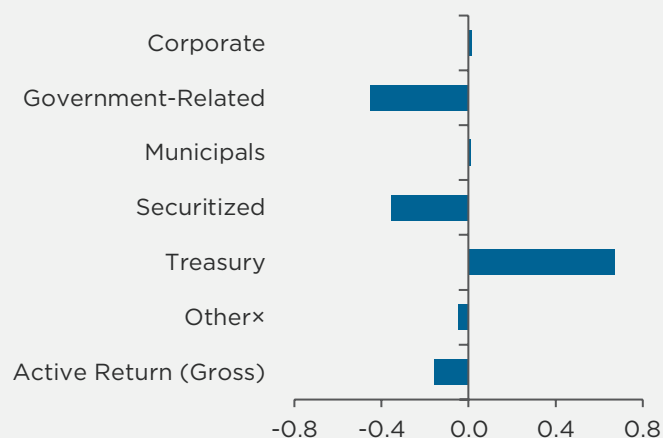
Investor	Institutional
3.73%	3.98%

## Performance attribution 9/30/2023 - 12/31/2023

### Sector: Average active weights (%)



### Total relative contribution (%)



<sup>x</sup> Other: ETFs (for short-term cash mgmt. purposes) and Cash & Equivalents.

Past performance is no guarantee of future results. Short-term performance may not be indicative of long-term results.

## Definitions

- <sup>f</sup> Effective duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.
- <sup>~</sup> Years to maturity (weighted average) is the number of years until the bond matures and/or expires.
- <sup>o</sup> 30-Day SEC yield: An annualized yield based on the most recent 30-day period.

## Top 10 holdings as of 12/31/2023

United States Treasury Note, 4.75% 11/15/43 5.8%, United States Treasury Note, 4.75% 11/15/43 3.7%, United States Treasury Note, 4.875% 10/31/28 2.9%, United States Treasury Note, 4.5% 07/15/26 2.0%, United States Treasury Note, 3.75% 06/30/30 1.1%, International Bank For Reconstruction & Development, 1.625%, 1/15/25 0.9%, Kfz, 4.125% 07/15/33 0.7%, European Investment Bank, 3.25%, 1/29/24 0.7%, Kfz Bankengruppe, 2.625%, 2/28/24 0.6% and Ginnie Mae II Pool 3.00% 6/20/53 0.5%. Holdings are subject to change.

## Disclosures

- 1 A dot plot visually groups the number of data points in a data set based on the value of each point. The Fed's dot plot signals its expectations of future interest rate changes, where each member of the Fed is represented by a single, anonymous dot.
- 3 The Bloomberg US Aggregate Bond Index is a broad base index, maintained by Bloomberg L.P. often used to represent investment grade bonds being traded in the United States.
- 4 Lipper Core Bond Index tracks the results of the 30 largest mutual funds in the Lipper Core Bond Index Funds Average. The Lipper Core Bond Index Funds Average is a total return performance average of mutual funds tracked by Lipper, Inc. that invest at least 85% in domestic investment-grade debt issues (rated in the top four grades) with any remaining investment in non-benchmark sectors such as high-yield, global and emerging market debt. These funds maintain dollar-weighted average maturities of five to ten years.

One cannot invest directly in an index.

**RISK:** Yield and share price will vary with changes in interest rates and market conditions. Investors should note that if interest rates rise significantly from current levels, bond fund total returns will decline and may even turn negative in the short term. Mortgage related securities tend to become more sensitive to interest rate changes as interest rates rise, increasing their volatility. There is also a chance that some of the fund's holdings may have their credit rating downgraded or may default. The Fund is actively managed. The investment techniques and decisions of the investment adviser and the Fund's portfolio manager(s), including the investment adviser's assessment of a company's ESG (Environmental, Social and Governance) profile when selecting investments for the Fund, may not produce the desired results and may adversely impact the Fund's performance, including relative to other Funds that do not consider ESG factors or come to different conclusions regarding such factors.

Environmental, social, and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

The statements and opinions expressed are those of the author as of the date of this report. All information is historical and not indicative of future results and subject to change. This information is not a recommendation to buy or sell any security. Past performance does not guarantee future results. An investment in Impax Funds involves risk, including loss of principal.



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