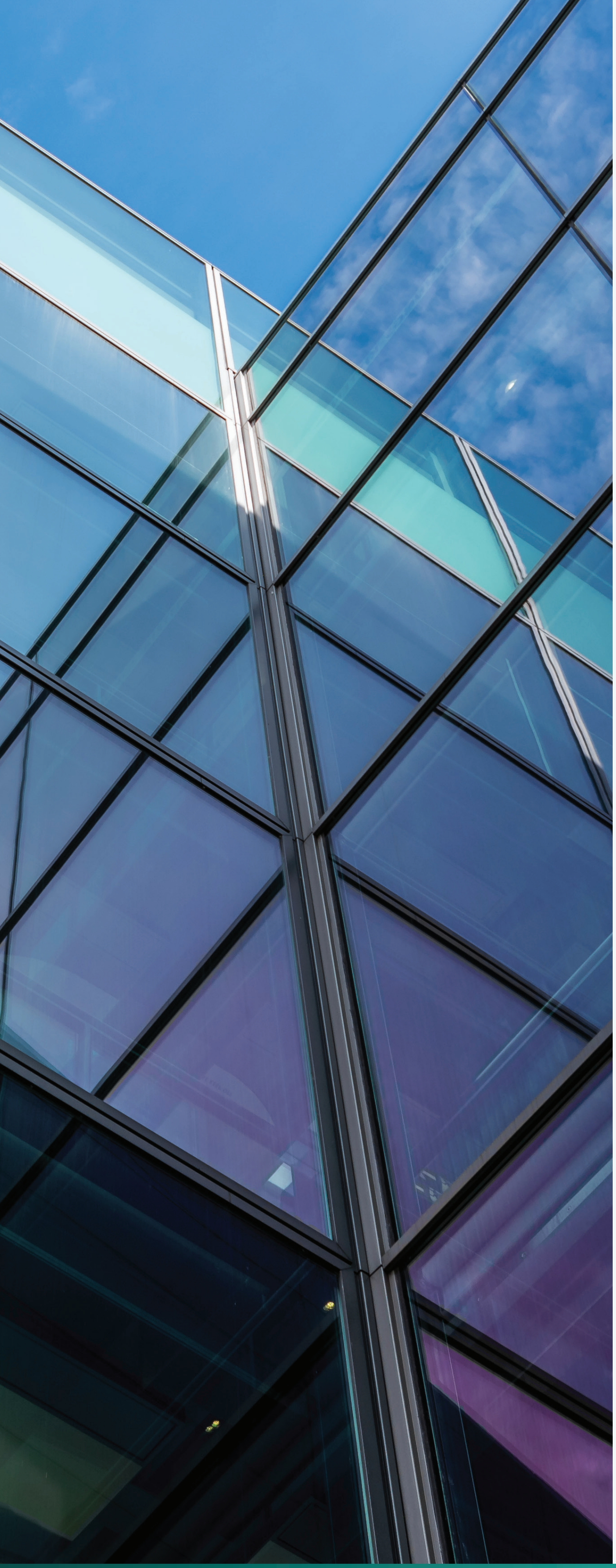


FIXED INCOME | March 31, 2025

Short Duration

Q1 2025 Portfolio Actions & Outlook

Contents

MetLife Investment Management

Q1 2025 Sector Takeaways

Investment Grade Credit

- Despite the spread widening seen over the first quarter, sector valuations remained less than compelling at quarter end given corporate bond spreads levels holding below longer-term U.S. corporate bond indices' spread averages in the leadup to the Trump administration's April 2nd tariff policy announcement
- Though issuer credit fundamentals have been strong, our positioning reflected an up-in-quality bias based on valuations and concerns that heightened macro uncertainty and potential headwinds to economic growth were not adequately priced into spreads
- We favor the Banking and Finance/Aircraft Leasing subsectors as well as short-dated, less cyclically exposed subsectors like Insurance, Communications, Consumer Non-cyclicals, and Electric Utilities

Treasuries / Agencies

- Uncertainty surrounding the Administration's policies are exacerbating risks to market sentiment, liquidity and valuations and pose challenges for the Fed lowering the funds rate in line with market expectations as higher inflation risk grows
- Recessionary concerns have increased as a growth slowdown in 2025 is expected with consumer and business confidence declining
- We continue to position our portfolios for a steeper yield curve with a neutral to slightly long duration bias

ABS

- High volumes of ABS issuance continue but lag 2024's first quarter pace. Although not at last year's record levels, there are still many deals coming to the primary market, giving us the chance to be selective when adding risk
- We maintain our preference for liquid, defensive tranches as they historically have fared better in times of increased volatility
- We expect further deterioration in collateral performance as consumers come under more stress, but we are comfortable with the risk associated with our top of the stack, AAA-rated issuers

CMBS

- CMBS spreads widened, and commercial real estate prices increased over the quarter, supporting our belief that the CMBS market will face headwinds for the foreseeable future and that collateral metrics will continue to deteriorate
- SASB deals continued to dominate non-agency new issue supply providing an opportunity to be increasingly selective among issues we participate in
- We avoided adding agency CMBS and instead opportunistically added conduit tranches as spread levels reset higher and are more compelling on the conduit side

RMBS

- Mortgages posted mixed excess returns in the first quarter as selling due to quarter-end rebalancing pressured valuations
- The Trump administration's possible housing market policy changes increased volatility as investors continue to speculate of the probability of privatization of Fannie Mae and Freddie Mac
- We find non-agency spreads attractive versus other sectors but are cautious on adding deals with significant exposure to investor properties due to early signs of possible worsening credit performance

Municipals

- Wider credit spreads coupled with increased new issue supply led to negative excess returns as the ICE BofA 1-5 Year U.S. Taxable Municipal Securities Index OAS widened 10 basis points to end the quarter at 43 basis points
- We expect the overall effect on credit quality from the tariffs to be largely manageable
- We are seeing signs of improvement in the not-for-profit healthcare sector and favor regional and larger systems in high-population growth areas

Investment Grade Credit

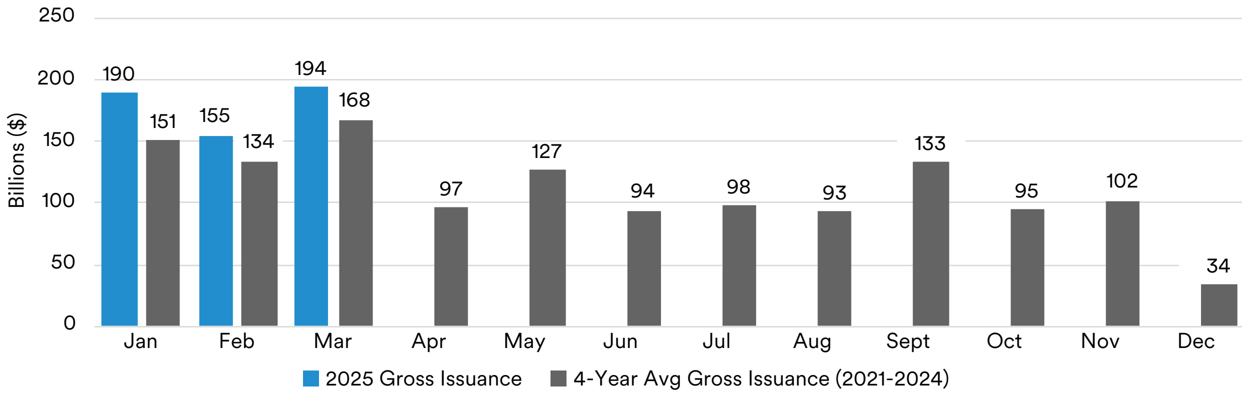
Recap: The first quarter started off with an optimistic tone on the expectation that a pro-business incoming Trump administration would look to carry out an agenda characterized by a lighter regulatory touch, lower taxes and other policies geared toward sustaining solid economic growth in the U.S. January saw a strong new issue corporate bond calendar readily absorbed by investors who pushed credit spreads a bit tighter. We also saw selected California-based utility issuers come under pressure and their sector spreads move wider due to the impact of the Los Angeles-area wildfires and fears of there being liability assigned to certain operators, which could deplete the state's wildfire fund backstop. Post-inauguration announcements of policy shifts and tariffs targeting trading partners Canada, Mexico and China set to kick in at the beginning of February failed to dent the market, but investors started to take notice of the new administration's on-again, off-again tariff announcements and other policy moves, which caused market volatility to rise and weighed on equities and Treasury yields as concerns over the sustainability of future U.S. economic growth grew. Nonetheless, investor demand for front-end investment grade credit remained unwavering mainly due to the attractiveness of all-in yields with February ending with spreads drifting only a few basis points wider despite other risk markets beginning to show strains. The volatility of credit spreads escalated in March, primarily driven by the administration's intensifying trade rhetoric and declared tariffs on U.S. goods imports yet to be implemented, which the market had come into the year believing was a tool to gain leverage for negotiations rather than the beginning of a broadening trade war risking an economic shock or outright recession. Soft economic data readings also began to show clear signs of uncertainty and apprehension among consumers and businesses and sowed worries they could morph into weaker hard data measures, which left front-end credit spreads at quarter end at the widest levels since last July.

Fourth-quarter earnings reports that printed throughout the first quarter showed evidence of further improved corporate health supported by strengthened credit metrics in terms of balance sheet cash, debt leverage and interest coverage. Fourth-quarter year-over-year earnings growth was a buoyant 17.8% for the S&P 500 Index's constituents, the highest since fourth-quarter 2021, according to FactSet.

While the corporate bond market exhibited a clear pickup in volatility in the first quarter reflective of the heightened uncertainty around macro issues and the U.S.'s newly aggressive trade policy stance, it merely represented the calm before the storm. Uncharacteristically in our turning to events that occurred in the current quarter in our commentary, we saw President Trump's April 2nd Liberation Day tariff announcement of massive new tariff rates on U.S. goods imports directed at effectively all of the U.S.'s trading partners trigger a global sell-off in risk markets, including a drastic widening in credit spreads. Investors struggled to understand the rationale behind the convoluted tariff formula and how these so-called reciprocal tariffs were arrived at, as official explanations defending their levels and the motivations behind them kept shifting. As markets grappled with a total reordering of global trade, extreme levels of interest rate and equity market volatility ensued coupled with a steep global equity sell-off, which likely prompted the Trump administration to back off and announce a 90-day pause and rollback in addition to possible exceptions on April 9th, which hastened an immediate furious risk-on market rally.

High Grade Bond Issuance

(as of March 31, 2025)



Source: J.P. Morgan

Portfolio Actions: Coming into the year, we held to our view that corporate credit spreads failed to offer meaningful spread tightening potential in maintaining caution with regard to raising our sector weighting significantly or adding spread risk at prevailing valuations. Despite resilient U.S. economic growth powered by a healthy consumer, strong corporate earnings and robust credit metrics in addition to all-in yields on front-end corporate bonds being much higher than the median range over the past 5-10 years, spread valuations remaining not too far above historic tights prevented us from dialing up our credit sector risk profile.

In the Cash Plus strategy we held our sector weighting relatively steady by swapping out of a short-maturity U.S. utility's bonds into their new issue three-year floating-rate bonds, purchased a new issue floating-rate bond brought to market by a large U.S. hospital chain, and made a handful of secondary purchases of roughly one-year duration bonds issued by an aircraft lessor, international hotel company and two Yankee banks. In our Enhanced Cash strategy portfolios, we also held our weighting relatively steady in buying the U.S. utility's new issue three-year floating-rate bonds, the U.S. aforementioned hospital chain's new issue floater and several secondary purchases of favored BBB industrial names' bonds in the 1.5-year duration area, and participating in a two-year new issue brought to market by a large 'A'-rated U.S. candy, snack and pet food company to fund an acquisition. These additions were funded by selling a few short-dated corporates and selling some tighter trading financial sector holdings. In our 1-3 year strategy portfolios, we increased our Credit weighting slightly over the quarter through new issue three-year/non-call two-year purchases of a Yankee bank and U.S. money center bank, the aforementioned U.S. utility's new issue three-year floating-rate bonds, and a technology issuer's new issue three-year floater. To fund those purchases, we sold a few one-year duration holdings including that of a U.S. utility before the California wildfires pushed sector spreads wider. We also completed a mid-quarter swap extension out of a shorter-dated position into a roughly two-year duration bond in the same U.S. money center bank as well as bought the candymaker's two-year new issue. In the 1-5 year strategy portfolios, we maintained our Credit weighting over the quarter with the trading highlights being a swap extension out of a shorter-dated U.S. custodian bank position into a AA-rated U.S. integrated oil major's new issue two-year bond and in certain portfolios selling a U.S. managed healthcare insurer's two-year bonds given that the issuer may experience increasing fundamental headwinds, growing liability risks, potential ratings pressure and spread widening.

Outlook: In the wake of the slight increase in credit spreads over the first quarter, the first such widening since last year's second quarter, we saw spreads as still biased to widen further given a backdrop characterized by elevated macro and policy uncertainty, especially around what was the forthcoming tariff announcement on April 2nd, which held the potential to produce a more pronounced slowdown in economic growth than what the market had been anticipating. Quarter-end spread levels left risk/reward skewed a bit unfavorably as the market did not price in anything more than a small impact from some of the major mainly trade-related policy shifts being carried out. While U.S. consumer balance sheets are in decent shape and corporate credit fundamentals remain strong, companies' ability to plan and invest for the future has become cloudier, especially with consumer and business sentiment indicators falling to multiyear lows. Consequently, we closed out the quarter holding on to our long-held preference for more up-in-quality, lower-beta subsectors and issuers within the investment grade credit universe, resisting the urge to lift our IG Corps sector weighting and spread duration positioning as we await a better entry point to do so at wider spread levels.

President Trump's post quarter-end April 2nd Liberation Day ceremony and reciprocal tariff announcement seemed to signal the administration's desire to ratchet up a clear trade war in the view of many. The tit-for-tat tariff retaliation and escalation by many countries in short order threatened to drive the global economy into a sharp downturn and risked a recession or worse. As we write this commentary, the administration's seeming partial retreat, however long it lasts, may have helped markets regain their footing, at least temporarily, although we cannot help but think some lasting damage may have been done in terms of the trust investors put in U.S. policy and markets. The upward pressure on Treasury yields through this period, uncharacteristic in times of stress when Treasuries typically serve as a safe haven, is one sign that may indicate such a loss of faith.

Looking ahead, corporate bond spreads may remain somewhat captive to the latest headlines and yet-to-be fully resolved policy shifts on the trade front over the near term as investors digest what has transpired over the past several weeks and months and what it means for the future. Credit spreads gapped substantially wider after "Liberation Day" as markets began to show signs of extreme stress that we have witnessed in other turbulent times like March 2020's pandemic-driven market freeze or March 2023's Credit Suisse/Silicon Valley Bank near-collapse/forced sale and failure. We will see where valuations shake out in the U.S. corporate bond sector over the medium term as markets stabilize and we stand ready to capitalize on opportunities, however fleeting, to put money to work at more attractive spreads than we observed at quarter end. In particular, the recent widening in BBB spreads across some of what we consider less cyclically exposed subsectors and issuers may represent one such opportunity. In the short run, we anticipate lifting our investment grade credit sector weightings and spread duration in deliberate fashion closer toward historic norms, especially in our longer 1-3 and 1-5 year strategies, in the event the very recent widening in spreads, which have been extremely volatile, holds to a meaningful degree unless the economic picture darkens or our macro views argue for more restraint.

ICE BofA 1-5 Year U.S. Corporate Index OAS

(as of March 31, 2025)

Source: ICE Data Services

Performance: Across all strategies in the first quarter vs. Treasury benchmark indices, the investment grade credit sector contributed positively to relative performance. Security selection helped drive positive excess returns from the sector despite credit spreads moving wider. Credit spreads bounced around slightly in January and February before tacking wider in March with our benchmark front-end credit index, the ICE BofA 1-5 Year U.S. Corporate Index, widening 8 basis points in terms of its OAS over the quarter to end March at 72 basis points. The index's quarterly total return and excess return were +1.98% and +0.01%, respectively. Strongly performing investment grade credit subsectors that drove positive excess returns across our strategies included Banking, Insurance, Automotive, Health Care, and Electric Utilities.

Treasuries / Agencies

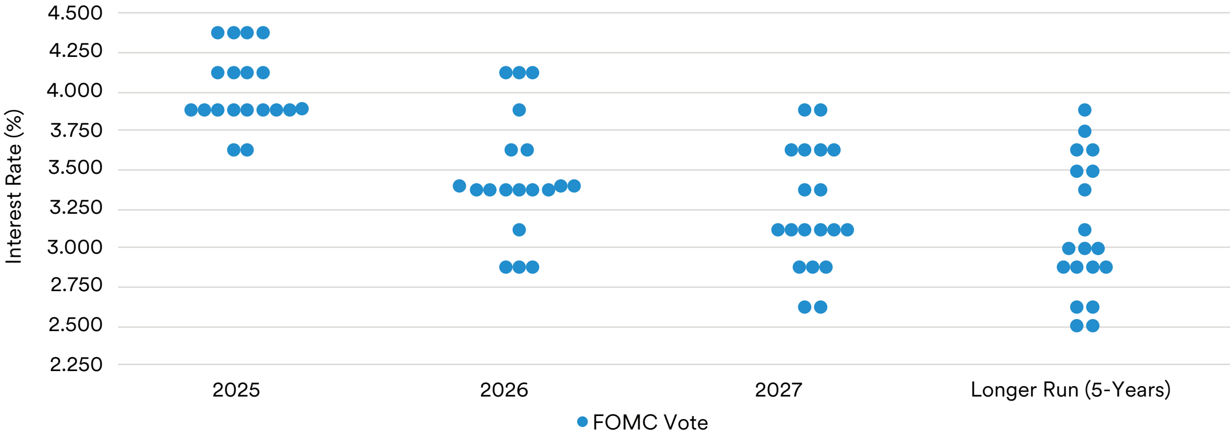
Recap: In the first quarter, U.S. Treasury yields experienced a significant move lower supported by weakness in risk assets. As broadly expected, the Federal Reserve left interest rates unchanged in a range of 4.25% to 4.50% at both their January and March FOMC meetings. A major development came in the downward revisions to their growth forecasts and shifts higher to inflation and unemployment projections. With the Fed stating, "uncertainty around the economic outlook has increased," we see the Fed as being caught between mounting concerns that the economy is slowing and inflation remaining stubbornly elevated as President Trump's ambitious policy agenda starts to take shape. The median estimate of the Fed's 19 policymakers is for real GDP growth of 1.7% this year. That is down from a forecast of 2.1% in December's Summary of Economic Projections. The 2026 and 2027 forecasts were also revised lower. The unemployment rate forecasts were bumped up slightly to 4.4% this year from 4.3% in December. For inflation, policymakers now see both headline and core prices increasing at a faster rate than they did previously. The Fed is also slowing its pace of balance-sheet runoff starting April 1st by cutting the monthly cap on redemption of Treasury securities to $5 billion from $25 billion while the mortgage-backed securities cap will hold steady at the current $35 billion limit.

…We see the Fed as being caught between mounting concerns that the economy is slowing and inflation remaining stubbornly elevated…

The Fed's "dot plot" of rate projections shows the median member expected to lower the Federal Funds rate by 50 basis points in 2025, implying just two quarter-point cuts this year, the same as they forecasted in December but there has been a large shift in the group's forecast dispersion. The projections shifted to a significantly more hawkish stance compared with December's forecasts. Nine policymakers penciled in two cuts, compared to 10 in December; eight officials now see one or no cuts, compared with four in December, two Fed members saw three cuts and none anticipated more than that compared with five estimating three or more cuts in December. During his press conference, Chair Powell acknowledged that tariffs were already impacting the economy and had been factored into economic forecasts, noting "all forecasters have tariff inflation" and "I am not aware of an exception." It was also a surprise that he decided to bring back the infamous "transitory" word when describing the base case for tariffs to impact inflation while dismissing notions that long-term inflation expectations were rising and added that the Fed does not want to "get ahead" of surveys showing lower consumer sentiment readings.

Fed Dot Plot

(as of of March 19, 2025)

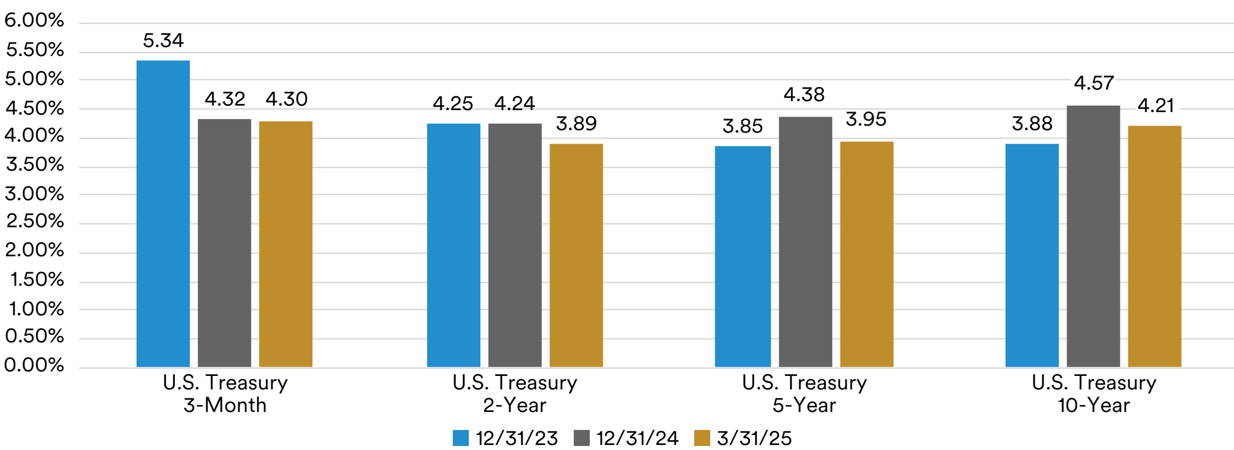


Source: FOMC

In the front end of the maturity spectrum where we operate, short Treasury bill yields were somewhat mixed over the first quarter. One-month bill yields were three basis points higher while three-month and six-month bill yields declined by 2 and 5 basis points, respectively. Further out the curve, yields moved distinctly lower as we saw the two-year Treasury move 36 basis points lower, ending the quarter at 3.87%. The five-year Treasury yield dropped 40 basis points and closed the quarter at 3.95%, while the ten-year Treasury decreased by 36 basis points to finish the quarter at 4.21%. The spread between the 10-year Treasury and the 2-year Treasury marginally held steady at +33 basis points over the quarter.

U.S. Treasury Yields

(as of March 31, 2025)



Source: Bloomberg

Treasury Inflation-Protected Securities (TIPS) breakeven spreads increased during the quarter. Five-year TIPS breakeven spreads moved higher to 263 basis points from 239 basis points at the start of the quarter while the ten-year TIPS breakevens moved up to 237 basis points from 234 basis points over the same period. The five-year real yield decreased from 198 basis points at the beginning of the quarter to 131 basis points at the end of the quarter. The ten-year real yield also declined from 223 basis points to 184 basis points over the quarter.

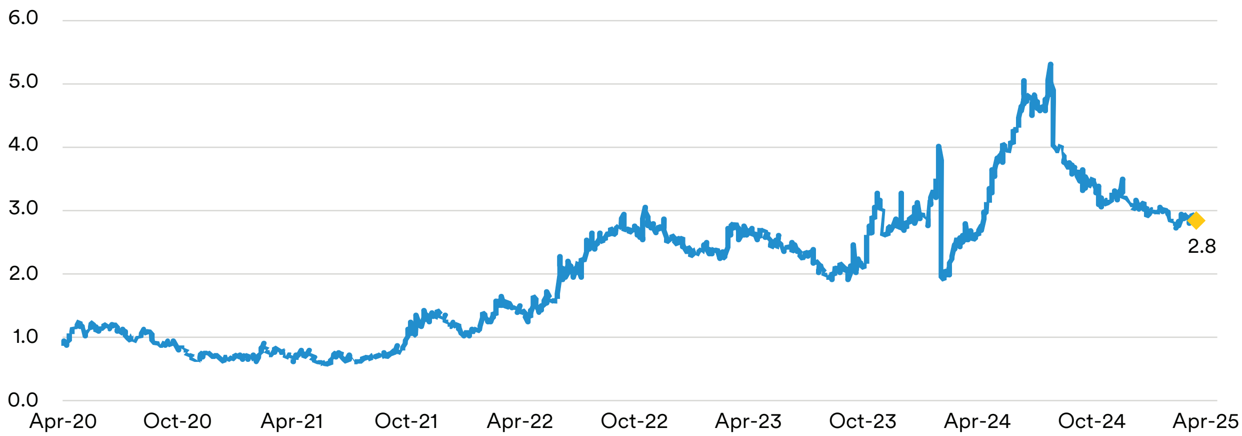
Front-end Government-Sponsored Enterprise (GSE) agency spreads marginally widened over the first quarter as the OAS of the ICE BofA 1-5 Year U.S. Bullet (fixed maturity) Agency Index ended the quarter at 5 basis points, 3 basis points wider from the start of the quarter. Conversely, in the SSA (Sovereigns, Supranationals & Agencies) subsector, U.S. dollar-denominated fixed-maturity security spreads were 2 basis points tighter and finished the quarter on average at 30 basis points over comparable-maturity Treasuries. Agency callable spreads widened relative to Treasuries as short-dated and short-expiry volatility in the upper left portion of the volatility surface pushed higher over the quarter. Two- and three-year maturity “Bermudan” callables, which feature quarterly calls with lockout periods of three months, saw their spread over Treasuries widen from 39 and 57 basis points at the start of the quarter to 47 and 68 basis points at the end of the quarter, respectively.

Portfolio Actions: During the first quarter, across all our strategies, we continued to maintain a higher allocation to Treasuries relative to our historic norms. In our longer 1-3 and 1-5-year strategies we liquidated our remaining five-year TIPS positions in January and hedged the duration of the sales with duration-matched nominals when five-year breakeven spreads were 253 basis points. We also executed extension trades across our strategies to add duration during the quarter to maintain a slightly long bias vs. benchmark indices. We participated in a Middle Eastern sovereign new issue in our longer 1-3 and 1-5-year strategies to marginally increase the agency sector weights. In addition, we liquidated all our positions in accounts that held any of the three Washington, D.C.-based Supranationals over concerns about the current administration’s stance on multilateral financial commitments. While these institutions remain critical to global and regional development finance, recent political signals suggest a potential shift in U.S. support, which could impact their funding stability and strategic priorities.

Outlook: Following Liberation Day, financial markets have experienced heightened volatility across all asset classes as investors work to assess the evolving impact of new tariff measures. The most immediate and measurable consequence is likely to be an uptick in inflation, which may weigh on real incomes and, in turn, dampen consumer spending. These dynamics, combined with tighter financial conditions, are increasing the probability of rising unemployment and slowing growth, factors that could shift the economy closer to recession territory. We believe there is a credible risk of stagflation emerging, a scenario where inflation remains elevated while growth slows, posing a complex challenge for the Fed. While the Fed’s consensus forecast calls for two quarter-point rate cuts this year, at the time of writing this commentary, markets are pricing in as many as four cuts, indicating that expectations of a more aggressive policy response have risen.

U.S. Treasury Liquidity Index

(as of March 31, 2025)



Source: Bloomberg

We are also monitoring signs of stress within the Treasury market, including sharp intraday swings in yields and potential liquidity strains. One area of concern is the growing risk of a disorderly unwind in basis trades, a strategy used by hedge funds to capitalize on price differences between Treasury bonds and futures. An abrupt unwinding could drive yields sharply higher and create broader dislocations in fixed income markets. This situation raises an important question: how much market dysfunction would prompt the Fed to intervene? The most recent example of such intervention was during the 2023 regional banking crisis, when the Fed launched the Bank Term Funding Program to restore confidence and ensure liquidity. Should price discovery in the Treasury market break down, we believe market pressure for the Fed to step in would increase, potentially through emergency purchases to restore orderly market function.

From a portfolio positioning standpoint, we are closely watching technical support levels for two-year Treasuries in the 4.05–4.10% range and five-year Treasuries above 4.20% as opportunities to add duration tactically. Additionally, current trade policy dynamics could support wider breakevens in the TIPS market, and we are evaluating opportunities to express that view. We also expect spreads for GSEs and SSAs to remain range-bound, though SSAs may face slight widening pressure amid expectations of increased issuance and trade-related uncertainty. We are actively navigating this volatile landscape and are managing risks while seeking to unearth opportunities across all portfolios.

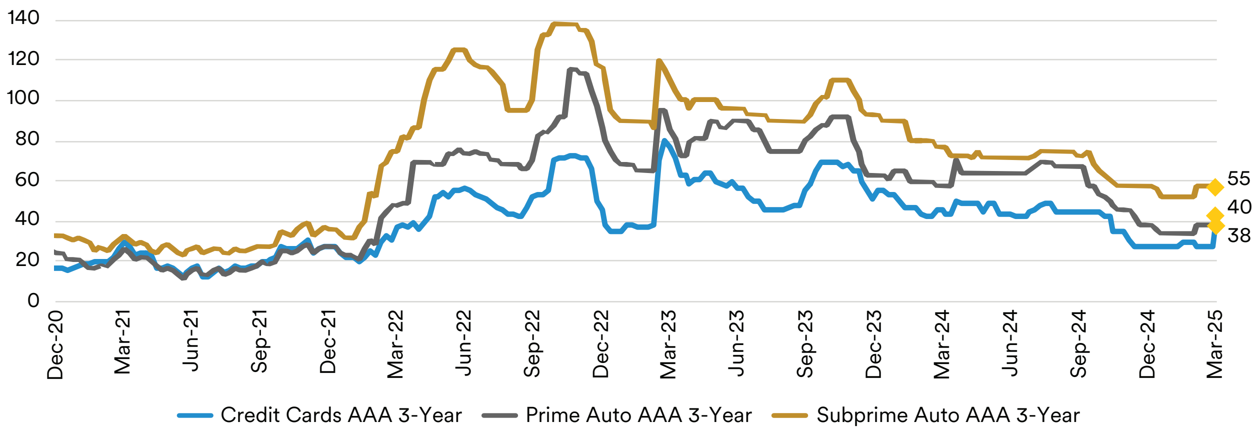
Performance: During the first quarter, falling interest rates created a favorable backdrop as our modest overweight to duration, along with strategic curve positioning, contributed positively to excess returns across all strategies. Performance within the agency sector was broadly neutral, with the exception of our 1-5 year strategy, which saw a slight positive contribution.

ABS

Recap: March brought a tumultuous end to the first quarter of 2025, with short tenor ABS spreads widening out and ending the quarter mixed. Benchmark three-year AAA-rated credit card and prime auto tranches ended the quarter at spreads of 38 and 40 basis points over Treasuries, 10 and 2 points wider, respectively. Following along, three-year AAA floating rate private student loans ended the quarter 79 basis points over Treasuries, 4 basis points wider. In contrast, three-year AAA fixed rate subprime auto tranches ended at 55 basis points over Treasuries, 3 basis points tighter. There was over $88 billion of ABS issuance for the first quarter of the year, slightly lagging last year's first quarter issuance of $89 billion with over $49 billion coming from the auto sector. This was followed by over $16 billion of issuance in the Other ABS subsector, a "catch-all" category which includes deals collateralized by cell phone payment plans, timeshare loans, mortgage servicer advances, insurance premiums, aircraft leases, etc. Of the quarter's total issuance, 60% was issued under Rule 144A and 7% represented floating-rate activity. In comparison, last year's first quarter saw 62% of issuance of 144A's and 9% floaters.

Short Tenor AAA ABS Spreads

(as of March 31, 2025)

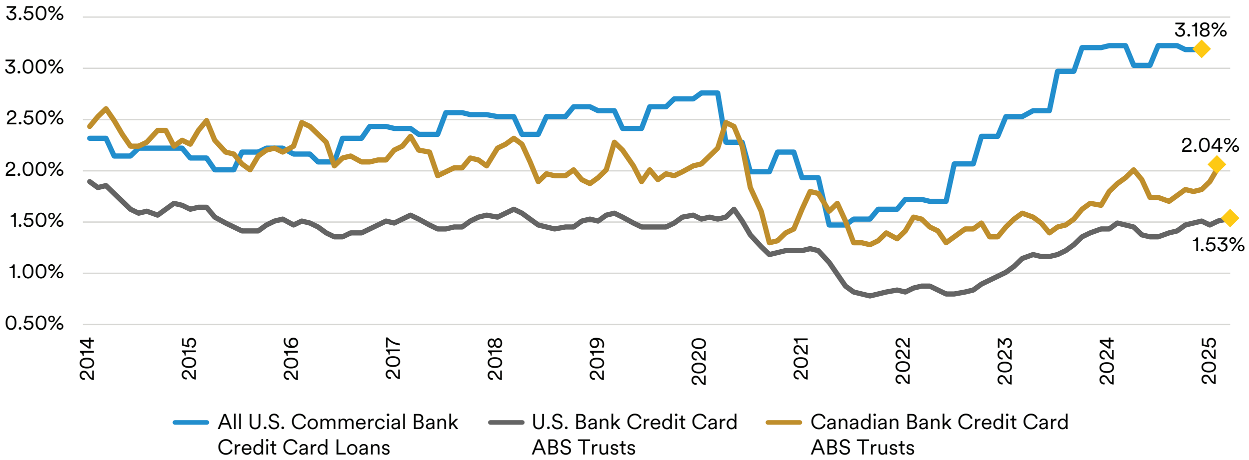


Source: Bloomberg, MIM

Credit card trust performance metrics showed signs of slight deterioration over the first quarter. Data from the JP Morgan credit card performance indices reflecting the March remittance reporting period showed charge-offs on bank credit card master trusts rising 18 basis points over the quarter. The increase in 60+-day delinquencies was 2 basis points. However, as we have noted in previous commentaries, we do not anticipate a material impact on our credit card holdings due to their robust levels of credit enhancement as charge-offs and delinquencies remain well below historical norms. In addition, we believe that securitized ABS bank credit card trusts are likely to continue to perform better than broader credit card portfolios due to their more seasoned accounts.

Credit Card Delinquencies

(as of March 31, 2025)

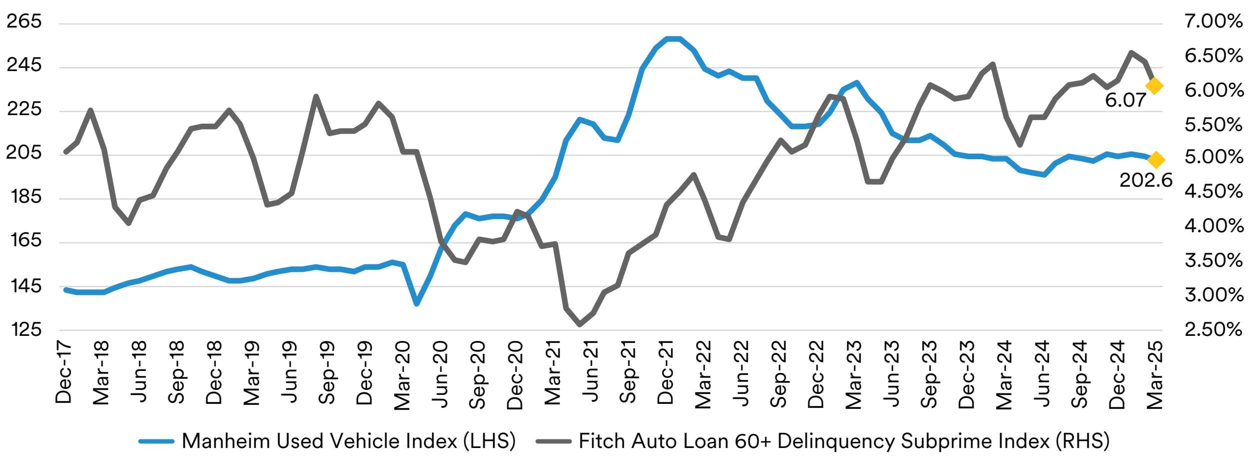


Source: Bloomberg, J.P. Morgan

New-vehicle sales in March increased by 10.7% compared to last year, and volume soared 29.9% from a weaker February. Consumer interest picked up in the final week of the month, as tariff announcements led many shoppers to buy now rather than wait, fearing higher prices in the future. The March sales pace, or seasonally adjusted annual rate (SAAR), came in at 17.8 million, up 2.1 million from last year's pace and higher than the 16.0 million level in February. The March new-vehicle SAAR was at the highest level in the past four years. The Index of Consumer Sentiment showed a decline at the start of 2025, falling by 0.1% in January, 1.7% in February, and 3.9% in March 2025. Combined sales into large rental, commercial, and government fleets were up 2.3% year over year. Sales into large rental fleets were up 13.1% year over year, while sales into commercial fleets were down 9.0%, and sales into government fleets were down 15.2%.

Manheim Used Vehicle Index & Fitch Auto Loan 60+ Delinquency Subprime Index

(as of March 31, 2025)



Source: Bloomberg

The most recent Fed Senior Loan Officer Opinion Survey, reflecting sentiment as of January, showed banks generally tightening lending standards for credit card loans while keeping standards mostly unchanged for auto and other consumer loans. Banks also reported that demand weakened for credit card and other consumer loans and remained basically unchanged for auto loans.

Portfolio Actions: Over the course of the quarter, we decreased our ABS weights across most strategies, with the exception being our 1-5 year strategy. With our ABS exposure above our historical averages, our first quarter activity varied across our portfolios. In our 1-5 year strategy we continued using paydowns and sales to opportunistically add liquid, defensive tranches. We still favor adding to our credit card holdings in order to bolster the liquidity profile of the portfolios. In contrast, in our other strategies, we chose to reinvest the majority of the cash from paydowns and sales into other spread sectors, reducing our relatively high ABS weighting. Our purchases occurred in both the new issue and secondary markets. Continuing what we have been doing for the last couple of quarters, we purchased front-pay "CP" tranches of various auto and equipment deals in our shorter strategies (these tranches stand at the top of the payment waterfall and carry short-term commercial paper ratings equivalent to AAA since they are structured to receive the first principal payments). We participated in multiple primary new deals across a variety of ABS sectors. For example, we purchased a new issue 1.5-year AA+ rated prime auto deal that priced at 85 basis points over Treasuries.

Outlook: As tariff-related volatility creates an environment of extreme uncertainty, we maintained our previous outlook as we expect weakening economic conditions and thew Fed to begin easing. Accordingly, we anticipate deterioration in ABS credit metrics so continue to prefer liquid, defensive tranches, and more resilient subsectors of the market. As in the prior quarters, ABS spreads remain relatively attractive compared to other spread sectors, but we remain mindful of our current ABS exposure within the portfolios and are unlikely to materially increase our weightings. Instead, we are likely to use sales of existing ABS holdings to fund new purchases. We reiterate our preference for prime borrowers over subprime. While we still believe that in an economic deterioration leveraged loans will suffer heightened downgrades, we are open to adding CLOs at an opportunistic level given the ample levels of credit enhancement and structural protections for the AAA attachment point where we tend to invest.

On the topic of tariffs, we expect that our ABS auto holdings will evidence the greatest impact. Tariffs on Canada and Mexico, and on aluminum and steel have the potential to increase the cost of new vehicles. GM and Ford appear to be the American original equipment manufacturers (OEMs) that are most vulnerable to tariffs and while they are expected to absorb some of the higher costs, some portions of the cost increase will be passed along to consumers via higher vehicle prices which is bound to further stretch consumer affordability. Higher new vehicle prices are expected to support used vehicle prices. Overall, we anticipate lower auto ABS issuance volumes as new vehicle sales numbers decline due to rising prices and supply constraints. However, the impact on ABS auto trust deal performance is likely to be mixed. We expect improving collateral recoveries, bolstered by higher used car values, to offset the impact of a worsening economy and rising default rates.

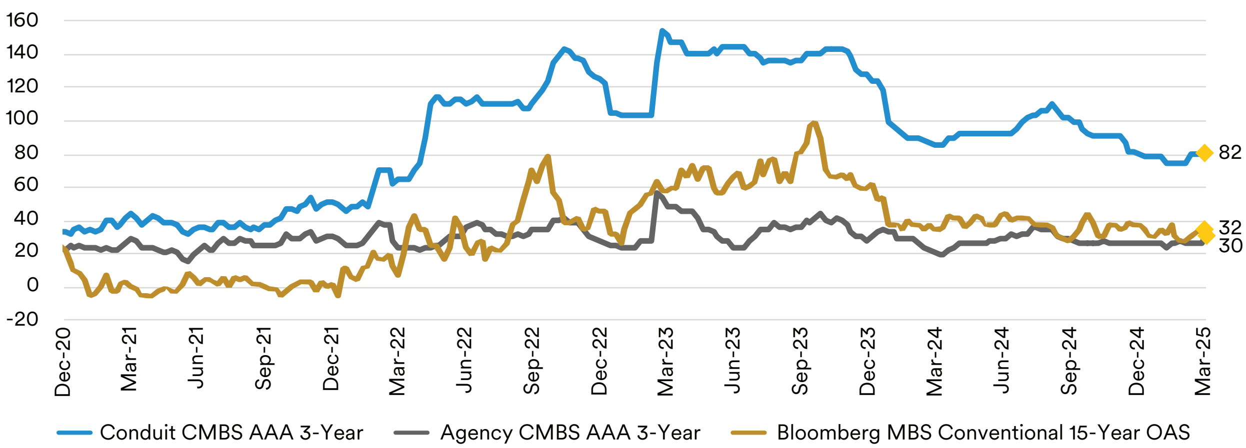
Performance: ABS had mixed performance with our holdings across the 1-3 year strategy outperforming while underperforming in other strategies. The majority of the outperformance in the 1-3 year strategy came from device payment deals, a subsector we like since cellphones have become a vital part of consumers' everyday lives. The underperformance in our other strategies was not caused by a particular subsector but by broader weakness across all ABS.

CMBS

Recap: The CMBS sector started the year with issuance of more than $70 billion in the first quarter, close to double 2024's year-to-date issuance. Private label CMBS issued $44.7 billion, a 130% increase compared to last year. Freddie Mac K-bonds saw the largest amount of issuance in agencies with $9.4 billion of new deals coming to market in the quarter. In non-agencies, the single asset, single borrower (SASB) subsector saw the largest volume with $26.5 billion of new issuance. Short-tenor CMBS spreads generally widened across the board. At the end of the quarter, spreads on three-year, AAA-rated conduit tranches stood at 82 basis points over Treasuries, unchanged from the beginning of the year. Spreads on five-year, AAA-rated conduit tranches were 89 basis points over Treasuries, 4 basis points wider for the quarter. Three-year Freddie Mac "K-bond" agency CMBS tranches ended the quarter at a spread of 30 basis points over Treasuries, 4 basis points wider. Three-year, AAA-rated, floating-rate single asset, single borrower (SASB) tranches ended the quarter at a spread of 128 basis points over SOFR, 6 basis points wider.

Short Tenor AAA CMBS Spreads

(as of December 26, 2024)

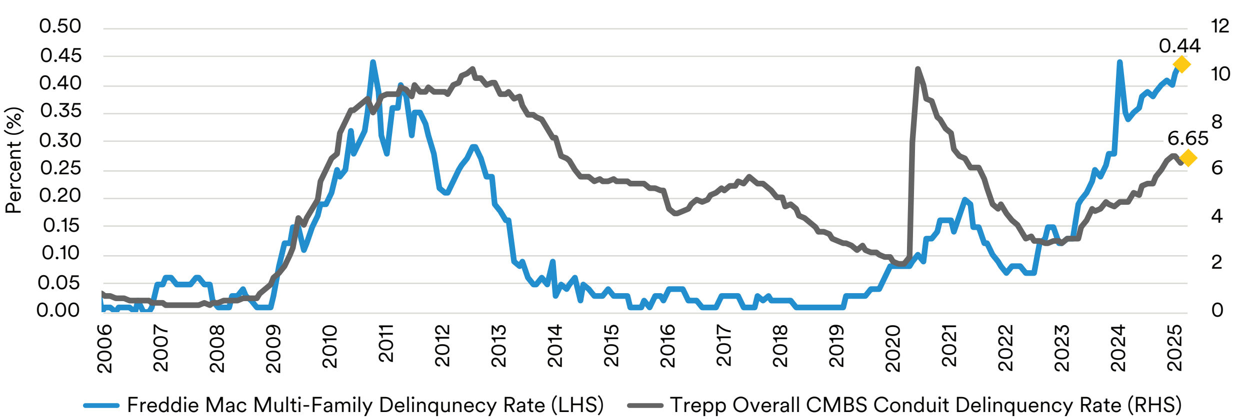


Source: Bloomberg, MIM

Continuing to track higher over the quarter, CMBS delinquencies (as measured by the Trepp 30+-day delinquency rate) rose 8 basis points to 6.65%. Prior to this month, the delinquency rate had fallen for two consecutive months, but it is now back up near its four-year high. One driver of the increase was the multifamily sector, which was up 98 basis points in March to 5.44%. The office sector continues to experience some relief, with delinquencies down 125 basis points from their recent high of 11.01% seen three months ago. The retail and lodging sectors also saw quarterly increases of 39 basis points and 105 basis points, respectively, in delinquencies. The percentage of loans that are seriously delinquent (60+ days delinquent, in foreclosure, REO, or non-performing balloons) is now 6.32%, only 1 basis point higher than December's level.

CMBS Delinquencies

(as of March 31, 2025)



Source: Trepp, Bloomberg

Commercial property prices continued to climb and are now 1.5% higher than they were this time last year. The March release of the RCA CPPI National All-Property Composite Index showed prices rose 1.4% for the quarter. Except for the office sector, all sectors saw increases in prices over the last three months. Apartment prices climbed 0.8% from the beginning of the year. Retail and industrial sectors increased 2.7% and 1.0% this quarter, respectively. Central business district (“CBD”) offices have shown signs of stabilization despite continuing to post the steepest annual price declines of any sector, with prices down 3.3% year over year through February. Suburban office properties fared better, recording a more modest 0.7% annual decline. Both sectors have improved markedly compared to December 2023, when CBD and suburban office prices were falling by more than 30% and 10%, respectively.

The most recent Fed Senior Loan Officer Opinion Survey, reflecting sentiment as of the fourth quarter, showed that banks reported tighter standards for all commercial real estate (CRE) loan categories. Large banks reported that demand varied and while they had stronger demand for loans secured by nonfarm nonresidential and multifamily properties, demand was basically unchanged for construction and land development loans. Other banks reported that lending standards were basically unchanged for all types of CRE loans. Our interpretation is that the difference in pressure that local and regional banks are facing from their exposure to commercial real estate loans relative to larger banks caused them to tighten lending standards earlier in the cycle. Historically, the tightening of lending standards typically precedes periods of rising delinquencies and charge-offs for CRE loans.

Portfolio Actions: During the quarter we increased our CMBS exposure in all strategies except our 1-5 year strategy. We continued to favor short-tenor investments in both agency, more stable conduit ASB, and SASB tranches. We used both the outright sale of agency CMBS tranches and the reinvestment of CMBS paydowns into other spread products to accomplish the reduction in our 1-5 year strategy. In our view, spreads for securities further out the maturity spectrum remain relatively unappealing compared to other spread product. We participated in one primary deal this quarter. We purchased the two-year AA-rated tranche of a floating-rate SASB data center deal at SOFR+195 basis points.

Outlook: With CMBS spreads generally widening across the board in the first quarter, we expect to continue to maintain our current portfolio weighting and only add additional exposure if an appealing opportunity appears. We continue to believe that the CMBS market will face headwinds for the foreseeable future and expect continued worsening collateral metrics. Although a sustained move lower in interest rates should help refinancing on the margin, we are not anticipating any dramatic improvement for troubled office properties. We are also closely monitoring increasing delinquency rates for multi-family properties in some markets.

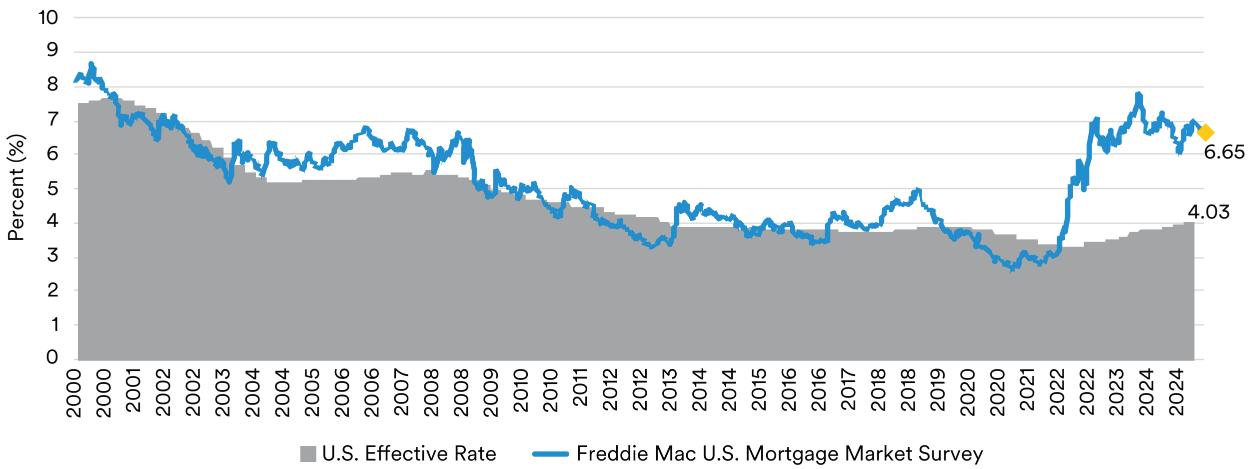
We expect the impact of tariffs to have a more muted impact on CMBS than the more consumer-focused ABS and RMBS sectors. Nonetheless, a deteriorating economy and market volatility are not positive for CMBS performance and create headwinds for borrowers seeking to refinance their properties. We continue to monitor the situation with the view that tariff uncertainty further supports our bias towards a defensive posture in CMBS.

Performance: CMBS was a top performing sector across strategies this quarter after adjusting for duration and yield curve positioning. Our fixed-rate AAA-rated conduit holdings and AAA and AA-floating-rate SASB tranches accounted for most of the outperformance. Our agency holding returns, although more muted than non-agency, were also positive contributors, mostly led by Freddie Mac “K-bonds.”

RMBS

Recap: Residential mortgage-backed securities modestly underperformed as March came to a close. Last year, November saw the highest returns for mortgages all year with the Bloomberg mortgage index posting a 0.56% monthly excess return, but the tide turned in December and mortgages ended the year with a monthly excess return of -0.17%. The downtrend spilled over into the first quarter this year with the index ending the quarter 10 basis points lower at -0.27%. Overall, generic 30-year collateral ended the quarter at a spread of 127 basis points over 10-year Treasuries (1 basis point tighter) while 15-year collateral ended the quarter at a spread of 78 basis points over five-year Treasuries (7 basis points wider). Gross issuance of agency MBS increased to $78.6bn in March from $75.3 billion in February. Non-agency RMBS issuance was $39 billion so far this year, with the greatest contributor being HELOC's with $14.5 billion of new deals pricing. Non-agency spreads widened over the quarter with prime front cashflows ending the quarter at 170 basis points over Treasuries, 10 basis points wider.

Outstanding Mortgage Average Rate vs. Current Rate
(as of March 31, 2025)



Source: Bloomberg

The Fed's mortgage portfolio ended the quarter at $2.18 trillion following paydowns of $15.9 billion in March, $14.2 billion in February, and $14.3 billion in January. April's prepayment report showed 30-year Fannie Mae mortgages paying at 6.6 CPR in March, 31% higher than the previous month. This was faster than estimates with the last few collection days of the month showing the greatest acceleration in speeds. 15-year mortgages prepaid at 7.1 CPR, 17% higher than the previous month. We expect prepayments to drift lower over the next few months as the market adjusts to higher mortgage rates and elevated tariff-related volatility.

Privatization of the government sponsored enterprises (GSE) continues to be a topic of market speculation. Although not a primary focus of the new administration, the issue of the privatization of Fannie Mae and Freddie Mac was brought up during President Trump's first term. To recap, in response to the Global Financial Crisis, the U.S. Treasury placed Fannie Mae and Freddie Mac into conservatorship in September 2008. This action was intended to stabilize the mortgage market and restore confidence in the GSEs. There is a draft bill that calls for the U.S. Treasury to relinquish its senior preferred equity stake in the GSEs, exercise its warrants on the common stock, sell off that equity and then release the GSEs from conservatorship within two years. Fitch currently rates GSE debt AA+, the same credit rating as the US government due to the implicit government guarantee of the GSEs. Fitch noted that "ending GSE conservatorship would have a direct negative rating effect on GSEs, which in turn would have an adverse impact on a substantial number of affordable housing debt ratings that have direct linkages to Fannie Mae and Freddie Mac, based on guarantees provided by these GSEs." In our view, privatization of the GSEs is unlikely in the near term as the incoming administration is likely to prioritize other matters such as immigration reform and tariff policy.

Portfolio Actions: We increased our RMBS exposure across all strategies this quarter. We opportunistically added exposure to several non-agency prime, closed end second-lien deals. Collateralized by full documentation, owner-occupied loans to high FICO borrowers, these deals offer attractive spreads and benefit from the positive credit fundamentals supporting the residential housing market.

…Maximizing portfolio liquidity is paramount for the near term and the superior liquidity profile of agency RMBS tranches outweighs the spread advantage found in non-agencies.

Outlook: Going forward, we expect to modestly increase our RMBS allocation across our strategies. Of course, the increase would be dependent upon mortgages trading to an attractive OAS threshold relative to other spread products. We are predisposed to favor increasing our exposure to agency specified pools as we believe that maximizing portfolio liquidity is paramount for the near term and the superior liquidity profile of agency tranches outweighs the spread advantage found in non-agencies. However, we may selectively increase our exposure to non-agency second-lien deals and single-family rental (SFR) tranches if spreads becoming compelling. We maintain our preference for deals collateralized by full documentation loans to high FICO borrowers at modest LTV ratios. We are likely to continue to avoid non-agency deals with significant exposure to investor properties due to early signs of possible worsening credit performance in that subsector.

We expect prepayments to slow in the near term given tariff-related rate volatility. While a deteriorating economy is a negative headwind for residential real estate performance, we believe our portfolio holdings of senior non-agency tranches are well-protected and do not anticipate any credit concerns. That said, we remain mindful of spread volatility and challenged liquidity in non-agency tranches.

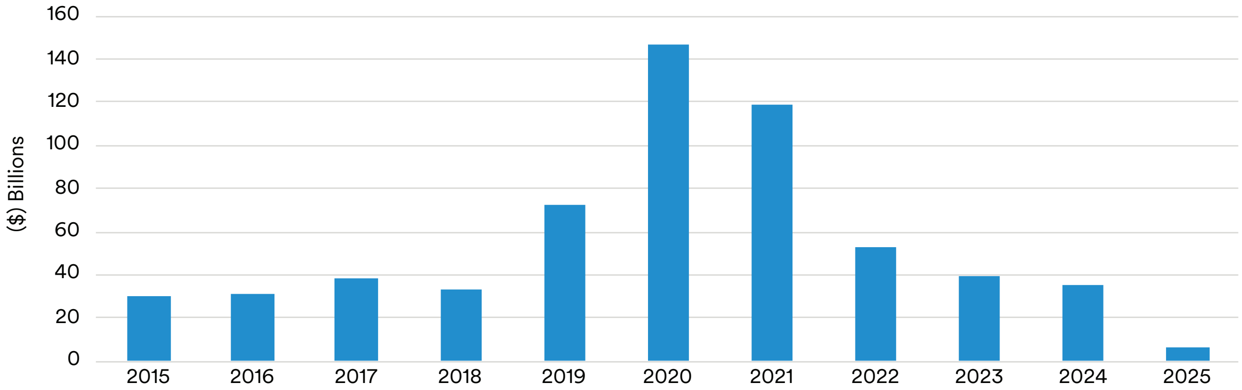
Performance: Our RMBS tranches contributed positive excess performance to the portfolios over the quarter after adjusting for their duration and yield curve positioning. Specialized pools had positive performance across all strategies while non-agencies generally posted negative performance driven by wider benchmark spreads.

Municipal

Recap: Total municipal new issue supply was $119 billion in the first quarter and as a component of total supply, taxable municipal issuance was $6.9 billion, 17% higher on a year-over-year basis for the quarter. Increased new issue supply coupled with wider credit spreads in the front part of the municipal market yield curve resulted in negative excess returns for the sector. For the quarter, the ICE BofA 1-5 Year U.S. Taxable Municipal Securities Index had a total return of 1.77%, with its OAS widening 10 basis points to end the quarter at 43 basis points, compared to the ICE BofA 1-5 Year U.S. Treasury Index's total return of 2.00%.

Taxable Municipal Issuance

(as of March 31, 2025)



Source: Bank of America

The ratio of upgrades to downgrades by Standard & Poor's (S&P) has shifted to below 1 for the three-month period ending February 2025, with a ratio of 0.9 to 1. Despite this overall downturn, there were several notable rating upgrades across various sectors during the first quarter. For example, the State of Oklahoma received an upgrade from S&P to AA+ from AA. The upgrade was based on the state's strong financial performance, strategic use of increased revenues for one-time expenses and contributions to its pension fund. In the airport sector, S&P upgraded the San Francisco City & County Airport Commission to AA-from A, while Moody's revised their outlook to 'positive.' The upgrade was attributed to a recovery in traffic, rebound in financial performance and recent changes to airline agreements that improved both coverage and liquidity. In the healthcare sector, Moody's upgraded Baylor Scott & White Holdings to Aa2 from Aa3, citing the organization's consistently strong financial results, effective leadership, and favorable demographic trends. One notable downgrade was S&P lowering the ratings on the Los Angeles Department of Water and Power's power system revenue bonds by two notches, to A from AA-, and downgrading its water system bonds to AA- from AA+. S&P also placed both systems on CreditWatch Negative. The downgrade reflected the growing frequency and severity of wildfires in their service area, as well as potential exposure to litigation and liability claims.

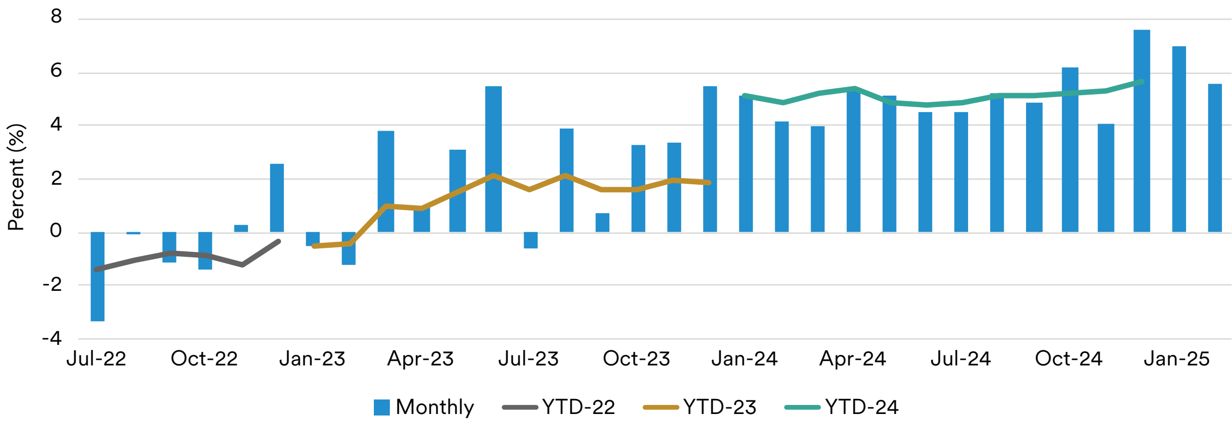
We continue to monitor pension funding levels, as they can significantly impact state budgets as lower funding levels may place additional strain on balance sheets. One key indicator we track is Milliman's Public Pension Funding Index, which aggregates data from the 100 largest U.S. public pension plans. The index showed positive momentum over the first three quarters of 2024. While it experienced fluctuations in the fourth quarter, it ended the year higher than the 78.2% reported at the close of 2023. Specifically, the index increased to 82.0% by the end of September, before dipping to 80.0% at yearend due to mixed investment returns. Momentum shifted in early 2025, with asset growth contributing to an increase in the index, which rose to 81.1% by the end of February 2025. Despite this improvement, the index remains well below its peak of 85.5%, reached at the end of 2021.

Portfolio Actions: Our allocation to taxable municipals increased in our Cash Plus and 1-3 year strategies, decreased in our 1-5 year strategy, and was maintained in our Enhanced Cash strategy over the first quarter. On the new issue front, we added to exposure in the Airport, Housing, and State and Local Obligation sectors. In the secondary market, we were active in adding to high-quality issuers in the Airport, Healthcare, Higher Education, Port, and State Obligation sectors. Regarding our selling activity, our strategy continues to focus on reducing exposure of our shortest duration bonds to capitalize on more attractive opportunities within the taxable municipal or other spread sectors where we invest.

Outlook: In light of the Trump administration's tariff announcements, we are evaluating the potential impact on various municipal subsectors. We expect the overall effect on credit quality from the tariffs to be largely manageable, though ports are likely to be one of the most affected sectors. While uncertainty remains regarding the full implications, the announced tariff rates are significant enough to affect port operations and volumes. Port operating structures play a key role in determining exposure to tariff impacts. Landlord ports, which generate revenue primarily through rents from shippers, are more exposed in the medium term with larger landlord ports including the Port Authority of NY/NJ, Oakland, and Miami. Despite potential widening spreads for port names, we have reviewed and remain comfortable with our select holdings as our issuers maintain solid credit metrics. Municipally owned/operated ports, which are generally pass-through entities required to charge fees that cover all costs, including debt service, are less likely to face significant long-term financial strain. For example, the Port Authority of NY/NJ, with consolidated debt secured by a variety of assets including airports, tunnels, and seaports, sees seaport revenues accounting for just over 7% of total net revenues. Their debt service coverage (DSC) was nearly 4x in 2023 and 2024. The Port of Oakland derives 45% of its revenue from maritime operations. Despite an 11% drop in TEUs (total volume of cargo handled by ports in terms of the number of standard 20-foot containers) from 2018 highs, the port has maintained stable revenue growth by adjusting rates. Its DSC was 3x in FY 2024, and a common Debt Service Reserve fund supports all senior-lien bonds. The Port of Miami, where only 30% of revenues come from cargo, had a DSC of nearly 3x in 2023. Overall, while we expect potential credit spread widening in some weaker names, we do not foresee a material, negative impact for issuers with strong financial and operational foundations. In addition, we are closely monitoring the healthcare sector for the potential impact of tariffs, which could affect not-for-profit (NFP) healthcare organizations. Tariffs on imported medical supplies, pharmaceuticals and equipment could drive up costs, pressuring operating margins for hospitals and healthcare systems. These increased expenses could lead to supply chain disruptions, higher operational costs, and potential reductions in service offerings. Regional and larger NFP healthcare systems, particularly in high-population growth areas, are better equipped to handle these challenges, given their generally stronger liquidity and financial positions, diverse revenue streams, updated technology, and strategic initiatives. Systems with high market share in growing regions have returned to pre-pandemic operating cash flow margins and are investing capital to expand their businesses. Key focus areas include partnering with doctor groups to drive patient flow, expanding ambulatory sites to bring care closer to patients, enhancing patient portals for easier access and appointment scheduling, and leveraging AI technology to automate patient reporting and improve clinical outcomes. The below graph illustrates hospital operating margins, collected from more than 1,300 hospitals and compiled by Kaufmann Hall. The data shows that the median year-to-date 2024 operating margin for hospitals was 5.7%, with operating margins remaining relatively stable since April 2024.

Hospital Operating Margin Index

(as of March 31, 2025)



Source: Kaufman, Hall & Associates, LLC
Note: Calendar YTD. Figures are medians. Reflects any changes to historical data by the source

Despite post-pandemic operational improvements for the healthcare sector, we remain somewhat cautious given balance sheets are still weaker than pre-pandemic. However, we are seeing some signs of improvement as many hospitals are experiencing strong revenue growth driven by increased patient volumes and favorable payor rate negotiations, while expense control efforts are beginning to take effect.

We are maintaining a defensive stance while prioritizing liquidity by focusing on issuers and sectors with solid or improving credit fundamentals. While we maintain a positive outlook on municipal credit overall, we recognize the potential for budgetary challenges driven by shifting economic and political dynamics. As a result, we favor issuers with strong financial and operational flexibility, diverse economies and growing populations, coupled with a proven ability to align budgets with revenue and expenditure forecasts. We remain particularly cautious toward state and local governments facing lagging outsized pension liabilities and other high fixed costs. Given macroeconomic volatility, a shifting political landscape, and mixed economic data, we view spreads on taxable municipals to be relatively tight compared to other spread sectors in which we invest. Therefore, we will remain patient in terms of increasing our exposure to the sector, focusing on opportunities to add positions during select periods of spread widening.

Performance: Our taxable municipal holdings generated positive performance in our 1-5 year strategy and were neutral in our shorter-duration strategies in the first quarter. On an excess return basis, positive excess returns were generated by Airport, Highway, Not-for-Profit, and Local Tax-backed issues.

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