# Performance Trust Total Return Bond Fund

Q4

**COMMENTARY** | 12.31.2023 | CLASS I: PTIAX CLASS A: PTAOX CLASS C: PTCOX

## Performance

**PTIAX returned 6.72% for the fourth quarter of 2023**, while the Bloomberg US Aggregate Bond Index (the "Index") returned 6.82%, and the Morningstar Intermediate Core-Plus Bond Category (the "category") returned 6.77%.

We have shared previously that PTIAX will typically underperform the benchmark in an aggressive rates-down environment over a short period of time. This is because PTIAX balances interest rate offense and defense, whereas the benchmark holds a significant overweight in interest rate sensitive sectors. In all other environments, we believe PTIAX has the potential to outperform both its peers and the benchmark over time.

As interest rates rose and spreads tightened meaningfully throughout 2023, our methodology recommended increasing interest rate risk and decreasing credit risk. As a result, PTIAX's exposure to interest rate offense increased and PTIAX competed with both the Index and the Category in Q4, an environment we have historically tended to underperform. We are very pleased with the outcome, especially considering we believe we took less interest rate risk in doing so.

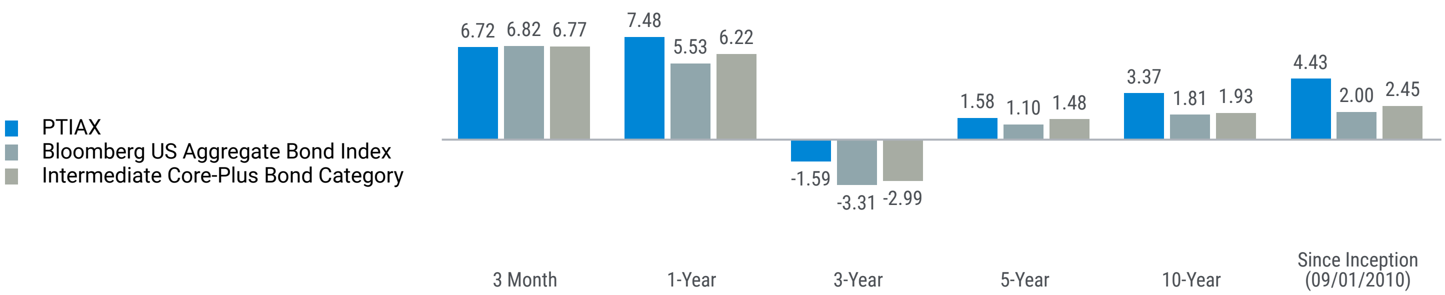
All sectors provided a positive total return for the Fund in Q4. The strongest contributors to Fund performance were our Interest Rate Offense sectors, namely US Treasuries, Investment-Grade Corporates, Taxable Municipals, and Tax-Exempt Municipals. These bonds have historically provided great returns in falling rate environments and provided better returns than the Index during the quarter.

Our Interest Rate Defense sectors contributed to minor underperformance relative to the benchmark. ABS, CLOs, CMBS, and Non-Agency RMBS all detracted from relative performance despite providing good absolute returns during the quarter.

### A History of Outperformance

**Total Returns (%)**

As of December 31, 2023




## Portfolio Strategy and Positioning

The start of Q4 2023 proved to be a continuation of market volatility experienced throughout the year. In early October, the selloff in bond markets prolonged as markets pondered the potential outcomes of "higher for longer" Fed speak, rising budget deficits, and still elevated inflation.

However, midway through October, improvement in economic data and a dovish tilt in the Fed's commentary

*Performance data quoted represents past performance which does not guarantee future results. The 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 original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained at www.ptam.com or by calling (866) 792-9606. Returns over one year are annualized. The expense ratio is 0.76.*

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shifted market sentiment. Fed officials also said the surge higher in long-term Treasury yields could act as a natural tightening of financial conditions, potentially reducing the need for further rate hikes. In their December meeting, the Fed's dot plot showed forecasts of rate cuts in 2024. While the Fed made no formal policy changes in its November or December meetings, the market cheered the Fed's dovish tone as the perceived end of the most aggressive tightening cycle in four decades, unleashing a rally across global markets. Rates fell dramatically across the curve. Additionally, Investment Grade and High Yield Corporate credit spreads tightened significantly, reaching levels tighter than long-term averages and last seen in early 2022.

The yield curve still retains an inverted shape, and therefore PTIAX is still employing its barbell strategy. As a result, sales from the portfolio during Q4 targeted the "belly" of the curve while purchases targeted the short and long end of the curve.

We continued to add ABS during the quarter. ABS securities price off the 1- to 2-year part of the curve, carry historically high all-in yields, and have recently been our top choice for the front end of our "barbell" strategy. We also added to our position in the 20-year Treasury. The 20-year spot on the Treasury curve is our preferred spot for longer-dated exposure as part of the barbell strategy. 20-year Treasuries offer higher yields as well as the potential for yield curve roll, which can both positively impact total returns.

As our sales targeted the "belly" of the curve, we reduced exposure to Taxable Municipals and Investment-Grade Corporates that spread off the 10-year part of the curve and Non-Agency CMBS that price off the 5-year part of the curve.

## Sector Allocations

| Interest Rate Defense Sectors | 9.30.2023 | 12.31.2023 |
|---|---|---|
| Non-Agency RMBS | 7.53% | 6.40% |
| Agency CMBS | 7.08% | 6.50% |
| Non-Agency CMBS (IO, P&I except for AAA) | 11.56% | 10.99% |
| CLOs | 6.20% | 5.83% |
| Corporates (BBB & Below) | 13.99% | 14.27% |
| Cash | 1.10% | 1.70% |
| ABS | 10.82% | 11.01% |
| Other (Any sector that is 3% or less) | - | - |
| Interest Rate Offense Sectors | | |
| Tax-Exempt Municipal | 3.44% | 3.36% |
| Taxable Municipal | 17.91% | 16.81% |
| Non-Agency CMBS (P&I AAA) | 5.74% | 4.58% |
| Corporates (AAA-A) | 4.69% | 4.48% |
| Treasurys | 9.61% | 13.91% |
| Other (Any sector that is 3% or less) | 0.32% | 0.15% |

The categories above summarize how PTAM believes these sectors currently function within the Fund. Allocations are subject to change at anytime. There can be no guarantee that any strategy, risk management or diversification will be successful. All investing involves risk, including potential loss of principal.

## Portfolio Outlook

Rates fell dramatically during the quarter and credit spreads tightened significantly. Investment Grade and High Yield Corporate spreads are now tighter than long-term average levels. When credit spreads are this tight, investors are not being compensated as much for taking on credit risk. As a result, we believe it is more opportune to add interest rate risk in today's environment than credit risk.

Additionally, the yield curve is still inverted, with the short end of the curve yielding more than the long end of the curve. It has now been inverted for 537 days, the longest inversion in history. We will continue to target efficient exposure to both the short end and long end of the curve through our barbell strategy, unless the yield curve reverts back to an upward slope or opportunities are presented elsewhere.

Despite the rally experienced by bond markets in November and December, we still believe there is great opportunity in bond markets. Yields on bonds are still near the highest all-in yields seen since June 2009 and are still above average levels witnessed since 2000. Moreover, we feel excited about the opportunity presented by PTIAX. Some of the more non-traditional sectors we own (such as highly rated CMBS) still have historically high all-in yields and have not experienced the exaggerated spread tightening seen in Investment Grade and High Yield Corporates to end 2023. We believe the go-forward opportunity in PTIAX presents great momentum for another year of strong performance, on an absolute basis as well as relative to the Index and Category.

## Glossary

**Bloomberg U.S. Aggregate Bond Index** represents securities that are taxable and USD denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. It is not possible to invest in an index. **Basis points (BPS)** refer to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument. The relationship between percentage changes and basis points can be summarized as follows: 1% change = 100 basis points and 0.01% = 1 basis point. Basis points are typically expressed in the abbreviations "bp," "bps," or "bips." **Yield curve** is a line that plots yields, or interest rates, of bonds that have equal credit quality but differing maturity dates. The slope of the yield curve can predict future interest rate changes and economic activity.

The credit quality of the securities in a portfolio is assigned by a nationally recognized statistical rating organization (NRSRO) such as Standard & Poor's, Moody's, or Fitch, as an indication of an issuer's creditworthiness. Ratings range from 'AAA' (highest) to 'D' (lowest). Bonds rated 'BBB' or above are considered investment grade. Credit ratings 'BB' and below are lower-rated securities. High yielding, non-investment-grade bonds involve higher risks than investment-grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities.

## Investment Considerations

Mutual fund investing involves risk; principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in asset-backed and mortgage- backed securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund may invest in Real Estate Investment Trusts which involve additional risks such as declines in the value of real estate and increased susceptibility to adverse economic or regulatory developments. Derivatives involve investment exposure that may exceed the original cost and a small investment in derivatives could have a large potential impact on the performance of the Fund. Options and swap positions held in the Fund may be illiquid and the Fund manager may have difficulty closing out a position. The Fund may also invest in equities, including common and preferred stock, as a non-principal investment strategy and exchange-traded funds ("ETFs"). ETFs are subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a discount to its net asset value, an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact the Fund's ability to sell its shares.

Diversification does not assure a profit nor protect against loss in a declining market.

While PTIAX (Class I) is no-load, management fees and other expenses still apply. Please refer to the prospectus for further details.

***The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The summary and statutory prospectuses contain this and other important information about the investment company, and may be obtained by calling 1.877.738.9095. Read carefully before investing.***

PT Asset Management, LLC ("PTAM") is the advisor to the PTAM Funds, which are distributed by Foreside Fund Services, LLC ("Foreside"). PTAM and Foreside are not affiliated.



ptam PT Asset Management, LLC

500 West Madison Street, Suite 470, Chicago, IL 60661 | 866.792.9606 | ptam.com