

AAM/HIMCO Short Duration Fund Commentary



ASDAX • ASDCX • ASDIX

Fourth Quarter 2023

The following commentary is from HIMCO, the sub-advisor to the Fund and the “we” throughout the commentary. Please note that this discussion provides a very detailed review of the market and an analysis of the strategies utilized by Fund. Some of this analysis may be difficult for the average investor to fully understand. It is presented here for those who may have an interest in such a discussion and as always, we encourage investors to discuss questions with a financial professional.

MARKET SUMMARY

Despite the projections from the Federal Reserve (Fed), in the release of the September dot plot, that there may be another hike in interest rates in the fourth quarter, it now appears possible that the final hike in this monetary cycle was at their July 26th meeting.¹ Indeed, in the release of the December dot plot the Fed appeared to signal the end of the tightening of monetary policy with no further projections for hikes in 2023 coupled with 75 basis points of easing by the end of 2024 and a terminal rate of 2.50%.² This apparent dovish pivot during the fourth quarter caught the market off guard resulting in a material move lower in interest rates across the curve.³ There was also a move lower in credit spreads which finished the year at the lower end of the 12-month range and significantly tighter from the higher levels witnessed during the banking volatility back in March.⁴ At the press conference, following the Fed’s December meeting, there appeared to be little push back from Chair Powell that the Fed had now reached a sufficiently restrictive level of rates leading the market to price in more easing by the end of 2024 than had been projected by the Fed.⁵ While economic data looked somewhat mixed over the course of the quarter, the market seemed to focus on what continued to be a softening in the level of inflation. Although still above the Fed’s target of 2%, it remained that inflationary pressures were indeed continuing to subside.⁶ This seemed to raise the confidence level that not only was it more plausible that the Fed may be able to engineer a soft landing but that the risk of recession was also possibly diminishing.

While there were indicators of continued resilience in the economic outlook, there were also several risks in our opinion, that remained ever present. Although the headline employment data appeared

positive, there were underlying indicators of some potential growing weakness which could ultimately impact consumer confidence.⁷ The ongoing inversion of the yield curve suggested that the full economic impact of 525 basis points of policy tightening by the Fed had still not been fully realized.⁸ Geopolitical risks were also ever present with concerns of a broader Middle East conflict because of the war between Israel and Hamas, the ongoing war in Ukraine and continued tensions between the U.S. and China. Shipping routes through the Red Sea have been disrupted due to the risk of terror attacks, while the transit of the Panama Canal also remains challenging. This could result in meaningful supply chain disruptions and potentially higher prices rekindling inflationary pressures all of which were, and are, being closely monitored.

PORTFOLIO POSITIONING / PERFORMANCE

During the fourth quarter of 2023, the AAM/HIMCO Short Duration Fund (the “Fund”) Class A returned 1.96% and -0.57% including applicable sales charges, Class C returned 1.67% and Class I returned 2.03%. The Fund’s benchmark, the Bloomberg 1-3 Yr U.S. Government/Credit Index, returned 2.69% for the fourth quarter.⁹

Over the course of the fourth quarter, we slightly lowered the exposure of the portfolio to U.S. Treasuries due to the drop in interest rates. The tightening in credit spreads also led us to moderately reduce the exposure to investment grade corporates as well as bank loans and high yield. While the fundamental economic backdrop remained favorable, it was valuations that led us to maintain what we considered to be a more prudent and relatively cautious approach. We rotated the allocation within the securitized sub-sectors where we

Standardized Performance as of 12/31/23 (%)

Class	Quarter	YTD	1-Year	3-Year	5-Year	Since Inception 6/30/14	Expense Ratios* (net / gross)
Class A - ASDAX	1.96	5.98	5.98	1.49	2.23	1.94	0.85 / 0.85
With sales charge*	-0.57	3.32	3.32	0.64	1.72	1.67	
Class C - ASDCX**	1.67	5.08	5.08	0.69	1.44	1.18	1.60 / 1.60
Class I - ASDIX	2.03	6.24	6.24	1.71	2.48	2.20	0.60 / 0.60
Bloomberg 1-3 Year US Govt/Credit^	2.69	4.61	4.61	0.09	1.51	1.28	

*Sales charge for Class A: 2.50%, maximum deferred sales charge 1.00%. **Class C shares are subject to a contingent deferred sales charge of 1.00% when redeemed within 12 months of purchase. Performance returns would be lower if this charge was reflected.

^Bloomberg 1-3 Year US Government/Credit Index is the 1-3 year component of the US Government/Credit Index, which includes US Treasury notes, agencies, and publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. An investor cannot invest directly in an index. Indices do not include cash.

The performance data quoted represents past performance and is not a guarantee of 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 information quoted. To obtain performance information current to the most recent month-end, please call 1-888-966-9661. *The Fund’s advisor has contractually agreed to waive certain fees/expenses until October 31, 2033 and may recoup previously waived expenses that it assumed during the previous three-year period.

Advisors Asset Management is an SEC-registered investment advisor and member FINRA/SIPC. SEC registration does not imply a certain level of skill or training; nor does it imply that the SEC has sponsored, recommended or otherwise approved of AAM.

Returns for periods longer than one year are annualized. Redemption fee if redeemed within 30 days of purchase: 1.00%. The total annual fund operating expenses and net operating expenses do not correlate to the ratio of expenses to average net assets appearing in the financial highlights table, which reflects only the operating expenses of the Fund and does not include acquired fund fees and expenses.

continue to view valuations as attractive relative to investment grade corporates from a risk/return perspective. Given the geo-political backdrop we also avoided direct exposure to the emerging market sector. Finally, we increased the cash position of the Fund, which we will look to deploy in the beginning of 2024. We do anticipate an increase in supply as we begin the New Year with some potential for further volatility that could result in some retracement of the recent drop in interest rates or some moderate spread widening. We would likely view this as an opportunity to add further to the credit sectors.

The reduction in investment grade corporates was primarily in industrials and financials. Within the financial sub-sector, we continued to have no holdings in subordinated bank securities at quarter end, as we continue to evaluate regulatory proposals put forth due to the financial stress experienced by the market this past March. We anticipate that there could be an increase in supply within some segments of the financial sector to meet what are likely to be tighter regulatory standards. Within the securitized sectors we continue to closely monitor underlying surveillance reports for any signs of weakness which also serves to help inform our macro-economic view. While showing some early signs of improvement, the refinancing backdrop in certain sub-sectors, particularly office, remains arguably challenging.

The duration, and weighted average life, of the portfolio was lower over the course of the quarter reflecting the increase in the cash position. The overall quality of the portfolio was unchanged.

The Fund underperformed the benchmark for the fourth quarter with the shorter duration position being the largest detractor to performance due to the material drop in interest rates. Offsetting some of that underperformance was the sector allocation particularly the out of benchmark allocations to collateralized loan obligations, asset backed securities and bank loans. The overweight to investment grade corporates was also additive though this was largely offset by the allocation to commercial mortgage-backed securities which underperformed. Security selection within investment grade corporates was also a detractor to performance.

OUTLOOK

As we look toward 2024, the economic and market outlook remains relatively uncertain with several factors to consider. We anticipate that following the arguably surprising resilience of the economy in 2023,

there is potential for a period of below trend growth in 2024. We also anticipate that inflation could continue to move closer to the Fed's target over time with a lower probability of recession despite what could be a weaker employment backdrop. It remains to be seen what impact the recent material fall in interest rates and tighter spreads has been though it has arguably resulted in a meaningful easing in financial conditions. Whether or not this leads the Fed to remain on hold for longer than the market is currently pricing remains to be seen though we anticipate that we could see the Fed pivot to an easing bias as soon as the middle of the year. The continued inversion of the yield curve and underlying signs of weakness in the employment data do give us pause as we continue to monitor for indicators of any broader impact particularly as it relates to the consumer. What does appear more likely in our opinion, is the Fed's commitment to return inflation to their target of 2% with the debate continuing as to how soon they may be able to pivot to that easing bias. We believe this continues to leave the risk of policy error for one to consider as they balance the dual mandate of stable prices and full employment, in addition to engineering a soft landing for the economy. As such, the release of economic data should remain critical in informing both the need and extent of policy accommodation.

The U.S. Congress will potentially need to reach some level of bipartisan agreement to avoid a government shutdown as we begin the new year. It should also be noted that there are not just general elections in the U.S. to contend with in 2024 but also across many geographies. These will bear monitoring for any material shift in macroeconomic policy which could have a material impact on financial markets not least the outcome for the U.S. presidency. As mentioned earlier, there are several global geopolitical concerns which show little sign of abating. Each of these could have a further impact on supply chain management, global growth and renewed inflationary pressures which we are monitoring closely.

We remain cautious as we begin 2024 considering valuations to be stretched in some areas relative to the potential headwinds on the horizon. Our top-down macro view coupled with bottom-up security selection remain key tenets in determining portfolio positioning. While cautious, we will continue to seek to take advantage of investment opportunities across asset classes which may include adding to the interest rate duration of the portfolio. The current cash position coupled with incoming cash flows, due to the laddering of maturities, could aid repositioning in an efficient manner.

For information the **AAM/HIMCO Short Duration Fund**, please contact a financial professional or visit aamlive.com.

Past performance is not a guarantee of future results. See disclosures for additional important information.

1. <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtab120230920.pdf>
2. <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtab120231213.pdf>
3. U.S. Treasury (www.treasury.gov), As of December 31, 2023
4. Barclays Live, As of December 31, 2023
5. <https://www.federalreserve.gov/newsevents/pressreleases/monetary20231213a.htm>
6. Bureau of Economic Analysis, www.bea.gov, As of December 31, 2023
7. Bureau of Labor Statistics, www.bls.gov, As of December 31, 2023
8. Federal Reserve (www.federalreserve.gov), As of December 31, 2023
9. The index is the 1-3 year component of the U.S. Government/Credit Index, which includes U.S. Treasury notes, agencies, and publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. An investor cannot invest directly in an index. Indices do not include cash. The AAM/HIMCO Short Duration Fund utilizes a multi-sector strategy that employs the use of substantially more fixed income sectors than are included in the index.

The forecasts, opinions and estimates expressed in this report constitute Hartford Investment Management Company's (HIMCO) judgment as of December 31, 2023 and are subject to change without notice based on market, economic and other conditions. No reliance should be placed on any such forecasts or opinions when making an investment decision. The

assumptions underlying these forecasts concern future events over which we have no control. The assumptions may turn out to be materially different from actual experience. There can be no guarantee that any target or forecast will be realized. Past performance is no guarantee of future results. The information provided does not constitute investment advice and is not an offering of or a solicitation to buy or sell any security, product, service or fund, including the fund being advertised. Any such offer may be made only by the fund's prospectus.

You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund before investing. The Fund's prospectus and summary prospectus contain this and other information about the Fund, and should be read carefully before investing. Visit www.aamlive.com to obtain a current copy of the prospectus and summary prospectus or call 888.966.9661.

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

Investment Risks: All investments involve risk, including the possible loss of principal. A significant percentage of the Fund's assets may be below investment-grade securities ("high-yield securities" or "junk bonds"), which are rated lower because there is a greater possibility that the issuer may be unable to make its interest and principal payments, and involve risks beyond those inherent in solely higher rated investments. The Fund invests in bank loans, which carry credit risks of nonpayment of principal or interest and risks of bankruptcy, insolvency, illiquidity, prepayment, interest rate, recovery and valuation. The Fund may invest in derivatives, such as options, futures and swaps, which carry different (and possibly greater) risks than direct investments in issuers, and are very dependent upon the sub-advisor's judgment. In addition, investments in derivative instruments are subject to the risk that the counterparty in a transaction will be unable to honor its financial obligation to the Fund. The Fund is subject to credit risk (the risk that the issuing company may not be able to pay interest and principal when due), interest rate risk (the risk that your investment may go down in value when interest rates rise), and risk of loss (the risk that you could lose money on your investment). The Fund may invest in foreign securities, which can be riskier than investments in US securities (risks may include illiquidity risks, and risks from substantially lower trading volume on foreign markets). The Fund is subject to liquidity risk because its investments may trade less frequently or are not readily marketable; this may adversely affect the Fund's value or prevent the Fund from being able to meet cash obligations or take other investment opportunities. The Fund invests in mortgage-backed, commercial mortgage-backed and asset-backed securities, which are subject to higher interest rate, extension and prepayment risk; the value of these investments may be reduced or become worthless if they are "subordinated" and receive interest or income payments only after other interests in the same mortgage or asset pool are satisfied. Active trading may increase the Fund's transaction costs, affect performance, and increase your taxable distributions.

Changing Fixed Income Market Conditions. Following the financial crisis that began in 2007, the US government and the Board of Governors of the Federal Reserve System (the "Federal Reserve"), as well as certain foreign governments and central banks, took steps to support financial markets, including by keeping interest rates at historically low levels and by purchasing large quantities of securities issued or guaranteed by the US government, its agencies or instrumentalities on the open market ("Quantitative Easing"). Similar steps were taken again in 2020 in an effort to support the economy during the coronavirus pandemic. This and other government interventions may not work as intended, particularly if the efforts are perceived by investors as being unlikely to achieve the desired results. In addition, when the Federal Reserve determines to "taper" or reduce Quantitative Easing and/or raise the federal funds rate, there is a risk that interest rates across the US financial system will rise. Such policy changes may expose fixed-income and related markets to heightened volatility and may reduce liquidity for certain Fund investments, which could cause the value of the Fund's investments and share price to decline. If the Funds invest in derivatives tied to fixed income markets they may be more substantially exposed to these risks than a fund that does not invest in derivatives.

Market Conditions: Events in certain sectors historically have resulted, and may in the future result, in an unusually high degree of volatility in the financial markets, both domestic and foreign. These events have included, but are not limited to: bankruptcies, corporate restructurings, and other events related to the sub-prime mortgage crisis in 2008; governmental efforts to limit short selling and high frequency trading; measures to address US federal and state budget deficits; social, political, and economic instability in Europe; economic stimulus by the Japanese central bank; steep declines in oil prices; dramatic changes in currency exchange rates; China's economic slowdown; and circumstances such as pandemics or epidemics in one or more countries or regions. Interconnected global economies and financial markets increase the possibility that conditions in one country or region might adversely impact issuers in a different country or region. Such events may cause significant declines in the values and liquidity of many securities and other instruments. It is impossible to predict whether such conditions will recur. Because such situations may be widespread, it may be difficult to identify both risks and opportunities using past models of the interplay of market forces, or to predict the duration of such events.

Definitions: A **basis point** is 0.01 percent of 1 percent. **Bond credit spreads** refer to the difference in yield between a US Treasury bond and another debt security of the same maturity but different credit quality. Credit spreads are often used as a barometer of economic health; widening is viewed as "bad" and narrowing is viewed as "good". **Bond ratings** are grades given to bonds that indicate their credit quality as determined by a private independent rating services which evaluates a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters: AAA, AA, A, and BBB are investment grade ratings; BB, B, CCC/CC/C and D are below-investment grade ratings. US Government or agency securities are generally considered to be of the highest quality. In limited situations when the rating agency has not issued a formal rating, the rating agency will classify the security as nonrated. The **Consumer Price Index (CPI)** is released by the Bureau of Labor Statistics as a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. **Weighted average life** is the average time to receipt of unpaid principal of each security weighted by its respective contribution to the total market value of the fund, including principal and accrued interest. A **yield curve** is a graph in which the yield of fixed-interest securities with equal credit quality is plotted against the length of time to maturity from shortest to longest.

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