



YORKTOWN FUNDS

Multi-Sector Bond Overview

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Macro Update

Fear returned to equity and government debt markets in September. After a quiet beginning to the month, volatility picked up and we experienced several major selloffs. There is consensus among investors that the current risk outlook has sharpened. However, at the same time, investors are unsure as to whether the Federal Reserve truly agrees with these sentiments.

The central bank delivered a hawkish message at its September meeting. They pulled forward their dot plot, showing that policymaker expectations for future interest rates have become more aggressive. Additionally, Chair Powell stated that tapering of the Fed's monthly asset purchases will be appropriate soon. Most believe that November is the target for the initiation of the taper, and the Fed suggested that it could be a rapid wind down, totaling perhaps just 6-7 months in process.

While there's certainly some encouragement to be taken from the Fed's outlook, markets have seemed a bit concerned by it, given a bevy of impending macro risks. Among these includes the sobering realization that global supply chain issues are clearly worsening. In fact, business and trade associations have reported that they are preparing for even more impactful disruptions. Simultaneously there now exists the understanding that the inflation we're experiencing is not a traditional type of inflation to be countered with programmatic Fed rate hikes. Meanwhile, the congressional debt ceiling fight is underway. Economists and large banks have stressed the substantial risks of an impasse, and investors will be keyed into watching this drama unfold. Furthermore, debt and energy issues in China have spooked global markets. Chinese property company Evergrande, the world's largest developer, missed an interest payment, leading to domino effect fears across China and the globe. As of now, the Chinese government appears willing to allow for the company's demise while monitoring for systemic threats and ensuring that it completes its existing real estate projects. In summary, many believe that current risks should lead to a more cautious Fed, creating investor unease over the Fed's most optimistic outlook.

September was the worst month for stocks since the infamous March of 2020. Domestically, the S&P (-4.7%), Dow (-4.2%), and NASDAQ (-5.3%) were all substantially lower and the most prominent equity volatility index (VIX) rose to a 7-month high. The major European large cap indices (EUROSTOXX 50, DAX, CAC) were off between 2% and 4%, while Asia fared better. The Nikkei actually advanced 4.8% and the Shanghai Composite was better by 0.6%. On the other hand, Hong Kong's Hang Seng was down 5%. The MSCI Emerging Markets Index declined 4.2%.

U.S. Treasuries sold off with the UST 10Y 18 basis points (bps) higher in yield and the 2s-10s curve bear steepening by 11 bps. UST 30Y was 11 bps higher but the 5s30s curve actually bear flattened due to a large 19 bp move in the 5 year Treasury. Rates were somewhat volatile in the second half of September and the MOVE Index reflected this with a choppy (although not unusually so) path intra-month. Month over month, the index actually deviated very little from its recent monthly closing levels, finishing up from 60 to 61.

Corporate credit spreads did not change much with the primary U.S. indices remaining comfortably within recent ranges. IG (84 bps) was better by 3 bps and High Yield (HY) (289 bps) widened just 1 bp. HY energy (377 bps) tightened 35 bps as the price of oil increased nearly 10%. Looking at credit by rating, the investment grade AAA through BBB indices each tightened 2-3 bps. Within high yield, BBs and Bs were unchanged, while C's widened 4 bps.

High quality spread products were essentially unchanged for the month. The agency mortgage-backed security (MBS) basis and the benchmark 10Y agency debt index each tightened by a single basis point. Meanwhile, the AAA auto asset-backed security (ABS) index was wider by 1 bp and sits right in the middle of its year-to-date range. Within alternatives, gold was off 3.3% to end lower at \$1,755 per ounce. Generic crude oil, as mentioned previously, was up 9.5% to end September at \$75 per barrel. Bitcoin declined by 7.6% to \$43,436.

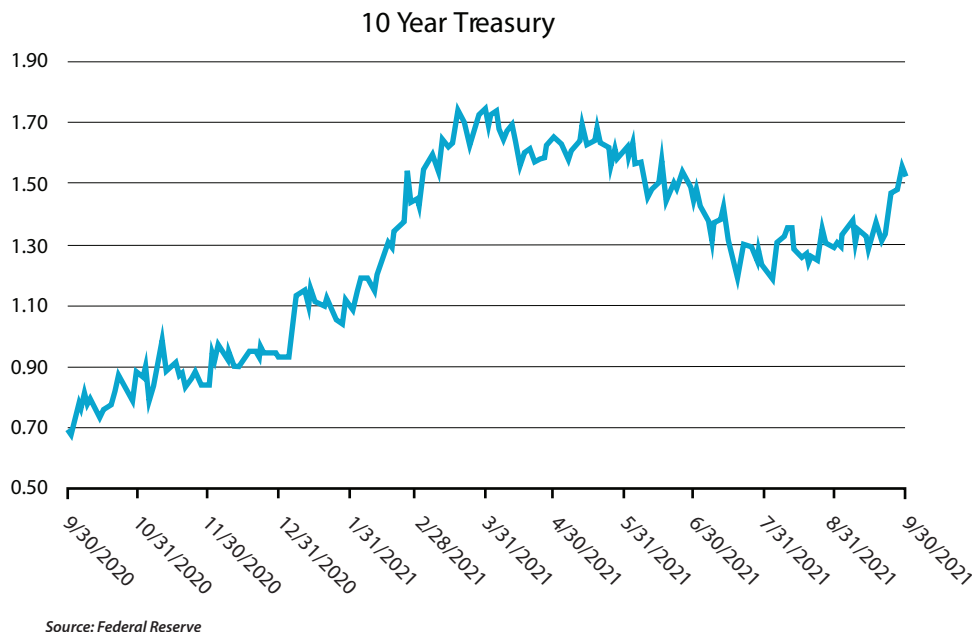
Yorktown Funds Fixed Income Focus – Searching for Value

"If you treat people right, they will treat you right—ninety percent of the time."

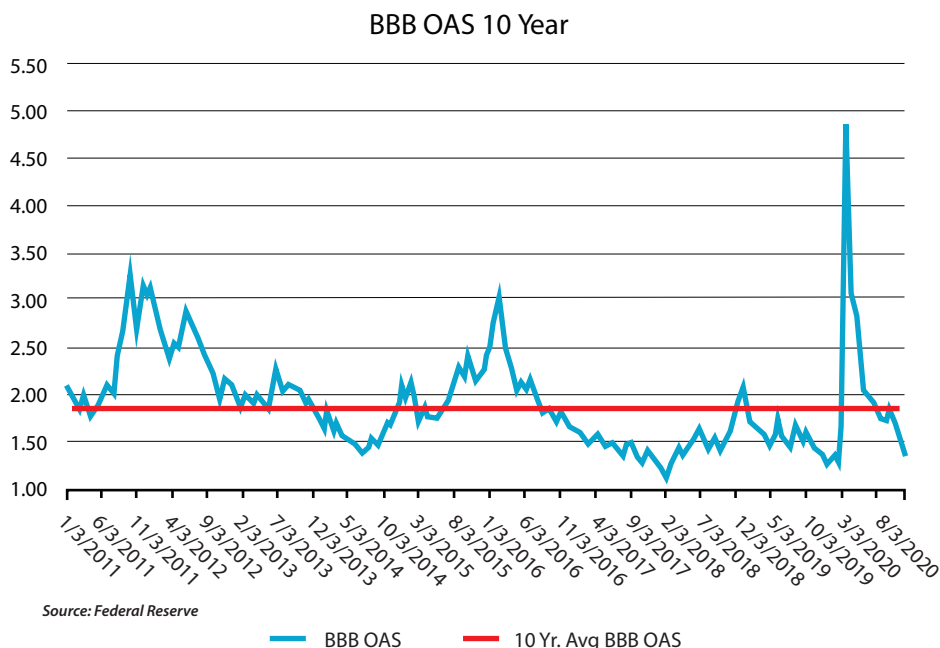
- Franklin D. Roosevelt

I grew up in the middle of the fast-food explosion. When I was younger, a trip to McDonald's was exotic, something new and exciting. At home, for a kid, it would substitute for a high-class dining experience. When we traveled on long family vacation trips across the seemingly endless highways, seeing a billboard advertising the golden arches was a sign that you would soon be near civilization again. Somewhere along the lines that romantic version of those restaurants changed. By the time I had children of my own, it represented a "we're in a hurry and no time to stop for real food" kind of moment. A small but important step above the melted granola bar at the bottom of someone's backpack. And yet, that would be selling it short, because even if you easily dismiss it at certain moments, in others, there is value in there; in certain desperate moments, far more value than I seem to be expressing here. Indeed, at the right time, it can seem to be an oasis for a car full of hungry travelers, jubilant that they will be able to beat back the light headiness of low blood sugar from not eating properly that day. Of course, your appreciation for all of this can fade quickly to anger if you go through the drive-through and find out several miles down the road that they indeed forgot your McNuggets. But that only happens like 10% of the time.

September started off like most of the past few months; tight credit spreads, abundant primary issuance and low rates to accommodate. But somewhere around the end of the month, September seemed to not get the memo and went off-script. Talk of the Fed taper gained more and more headlines, and soon the 10-year seemed to be inching up 3 – 5 bps every day.



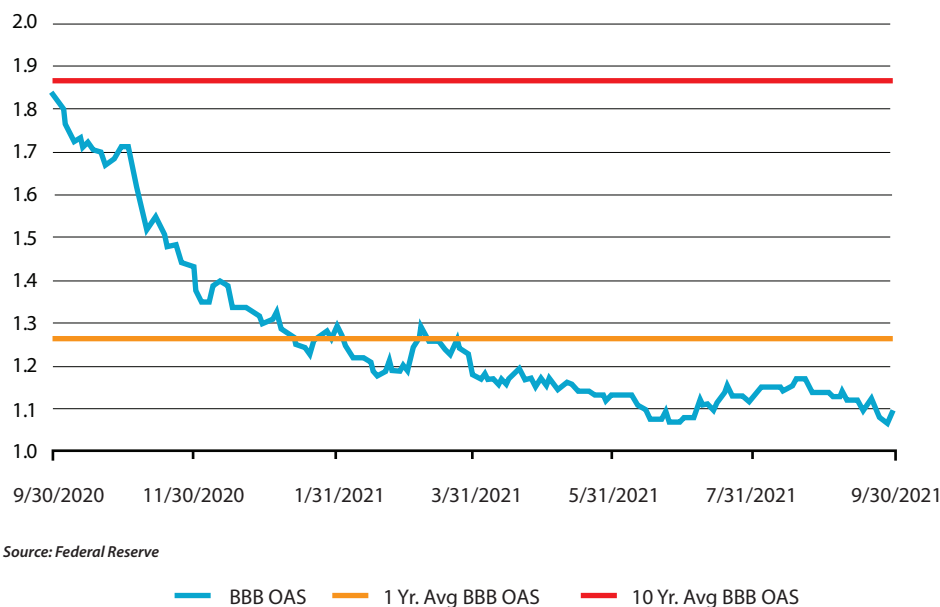
Often times, the harshness of moves like this are mitigated by corresponding credit spread tightening. And certainly, what we have seen is just that over time. When looking at BBB option-adjusted spread (OAS), one can see the spike right around the pandemic in investment grade (IG) credit spreads, then once the Fed broke out their disaster playbook, they started to slowly grind back in.



This is even more noticeable when we look at BBB OAS over the last year. As we have mentioned over the past few months, we are in a friendly credit environment, but spreads were compressed even tighter as investors were digging for yield, and willing to take less and less in the form of spreads (taking more credit risk to get paid less), simply to reach some sort of yield targets that made sense to them. While that might've made sense from a "target" standpoint, it certainly started to seem less straightforward when compared to

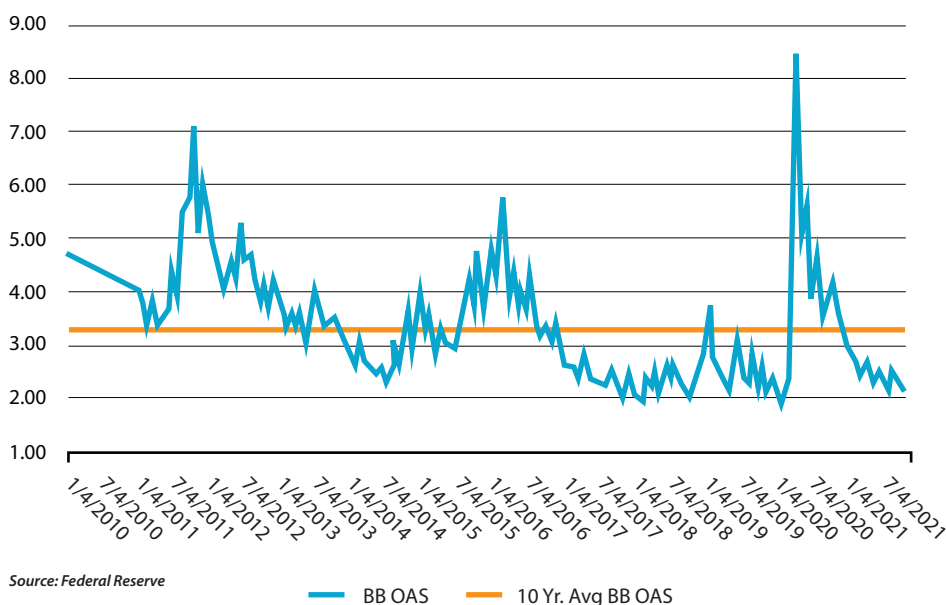
previous levels of measured risk, or how much someone was willing to accept to get paid for that type of risk in the past. Over the past year, as seen below, the market was willing to take far less. At the end of September 2021, the BBB OAS was reported at 110 bps, some 76 bps less than the 10-year average BBB OAS and even 16 bps less than even the one year average BBB OAS.

BBB OAS: 1 Year

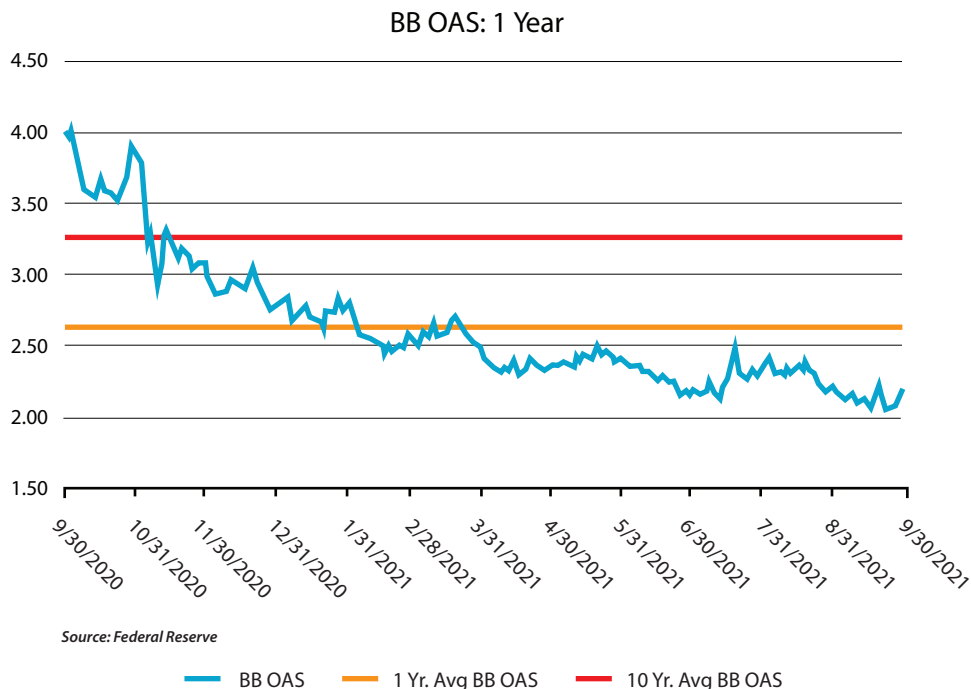


For BB credit an initial blush at the 10-year movement of OAS would seem to exhibit similar tendencies, with the spike, similar to the BBB OAS, occurring around the pandemic, and then gradually grinding in over time.

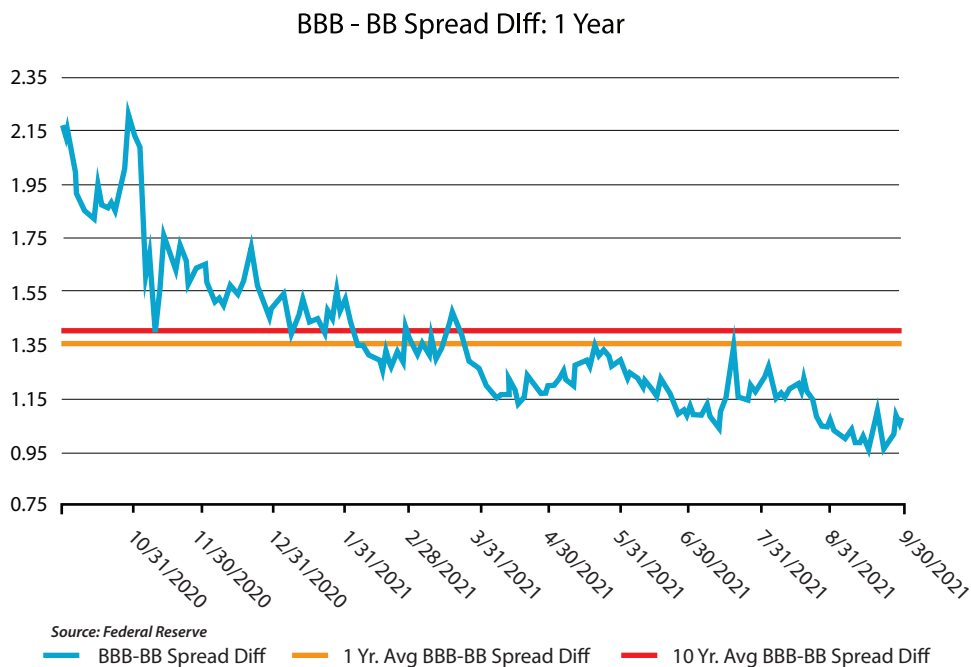
BB OAS: 10 Year



It's a similar look when glancing at the 1-year BB OAS. At the end of September 2021, the BB OAS was reported as 218 bps, which is 45 bps tighter than the 1-year average BB OAS and an impressive 109 bps tighter than the 10-year average BB OAS.

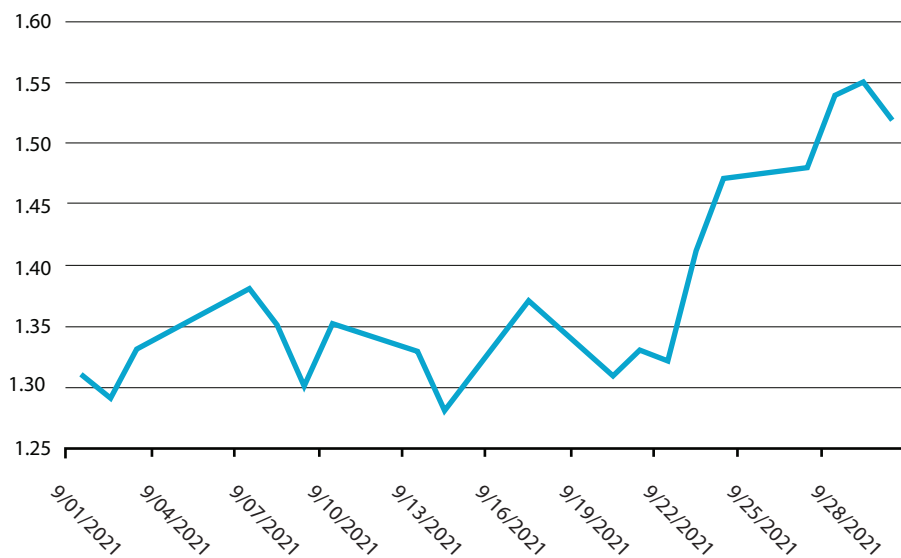


When we compare the spread difference between IG and HY, or BBB OAS versus that of BB OAS over the past year, it would seem what we are seeing is what we would expect; they seem to be moving somewhat in tandem. Both are tightening separately, such that when we compare the two, while it may not be a synchronized step by step move, at least visually it would seem to make sense. As of the end of September 2021, the difference between BBB OAS and BB OAS was reported to be 108 bps, which is significantly tighter, some 28 bps versus the 1-year average OAS difference and 32 bps versus the 10-year average OAS difference.



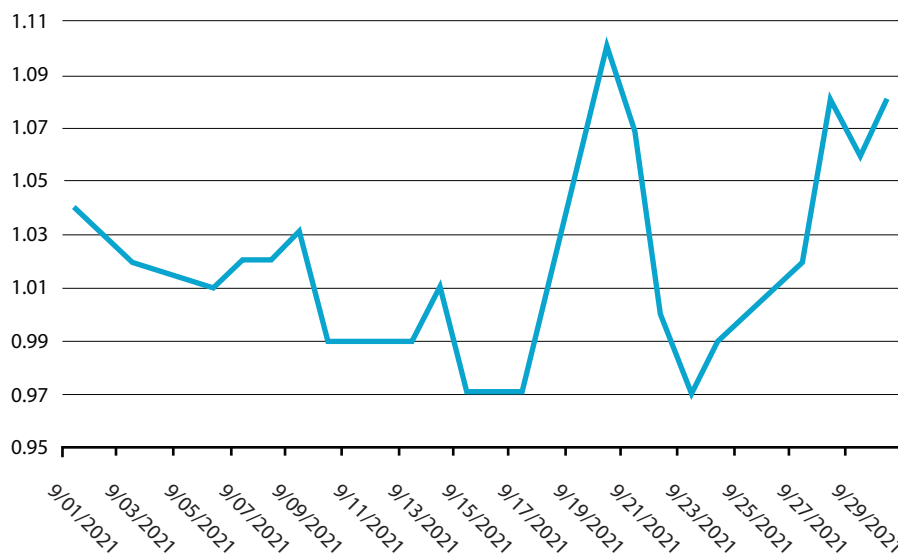
However, that would mean stopping short and not taking into consideration that the environment, the fabric of what has been occurring, is starting to shift ever so slightly with those noisy taper headlines. And so, we look a little closer just at what has been happening over the last month, and if we zoom in just a little bit more to the last week of September, we see some noteworthy movement. The last week of September, we have seen the 10-year treasury move quite a bit. On September 23, 2021, the 10-year was reported to be 1.41%. By September 30, 2021, the 10-year was reported to be 1.52%. For credit spreads, a similar thing occurred. The difference between BBB OAS and BB OAS gaped wider, moving from 97 bps on September 23, 2021 to 108 bps on September 30, 2021.

10 Year Treasury



Source: Federal Reserve

BBB - BB Spread Diff: Sept. 2021



Source: Federal Reserve

To be certain, one month of data isn't necessarily a trend, but we're sensing we are beginning to see one slowly emerge. The gapping of credit spreads between high yield and investment grade shouldn't necessarily come as a shock. We have felt for some time that credit spreads were too tight and certainly the credit spread compression we have been witnessing in high yield well beyond what historical data would show doesn't make much sense. At some point, a reversion to the mean was bound to happen so the idea that it is happening as rates rise should not necessarily be surprising. Certainly, the compression in high yield credit spreads was influenced a great deal simply by the low rate environment and some widening should have been expected as rates rose. That is, investors who typically invest in investment grade, and specifically camp out in the lowest area of investment grade, BBB, could be enticed to simply move a little bit down in the credit ladder, to the top of high yield, the BB area, to pick up spread. And over time as more and more did so, the increased demand would drive the credit spreads in. However, now that we are seeing some upward rate movement, demand would start to recede as those same investors started to step away from BBs and moved back toward their preferred BBB perch.

We find value in all sorts of places. Sometimes we covet a particular bond or issuer for different reasons. Sometimes perhaps we simply like the liquidity of the name, another we might like some structural benefits that we envision can help us perform during certain interest rate moments, and others we might be interested in the diversification benefits. In all those instances, it is a matter of defining the particular value the investment represents. In the example above, based on the OAS and rate impacts, we see more value potentially being buried in high grade. As rates rise, we would expect more and more exodus from the high yield, specifically the BB, space, and pushing into the part of the credit curve, where most investment grade credit reside, BBB. For even if credit spreads do widen out, the reversion of the mean for BBB toward the 1-year average OAS is right around 15 bps, but for BBs it is 45 bps. As such, we would expect that strong credit should capture some over-performance in the near term.

Investment grade and BBBs haven't been as enticing during this low rate environment and maybe not as appreciated as they should've been. But on days where we might witness some more rate movement and a widening of credit spreads in the high yield area, the investment grade space seems to present more value than most would willingly give it, representing solid value. Sometimes one only needs to take a deep breath and to refocus on the smaller details to appreciate something we take for granted on an almost daily basis. Like a simple billboard with some golden arches.

Multi-Sector Bond

September started off slow, but as expected picked up steam as the month wore on. Rates were once again a focal point with the month starting off relatively benignly but marched slowly higher as the days went by before dramatically increasing the last week of the month. The 10-year treasury note in fact moved from 1.31% yield on the 20th of the month before moving as high as 1.54% a week later. This dramatic move caused some disruption to the new issue market, as issuers postponed deals, depending on the rate movement that morning, and some were even heard to scrap those debt deals altogether. Credit spreads also began to widen, and while the moves weren't necessarily as dramatic, the combination of both rates and credit spreads moving wider put a damper on secondary trading on those days. With the Fed getting ready to taper, and concerns on the debt ceiling looming, there is enough angst in the market to cause a few bumps in the fixed income space. One would expect as more clarity of the Fed's plans is gained, and the

gamesmanship of political parties quiets some, we will see a less volatile market emerge.

The primary market was expected to resume its torrid pace once the vacation season of August finished, but as mentioned above the rate movement dampened issuers' enthusiasm to race to the market. Rates remain historically low but the movement witnessed at the end of September paused the new issue market enough that it was noticeable in comparison to the previous months' activity. Secondary trading was ample and as such, liquidity in the marketplace remained strong, indicative that there was still plenty of capital waiting to be deployed. The only thing seemingly holding back the secondary trading was simply a lack of product availability due to less new issuance and thus less need for holders to swap out legacy holdings for new issue. There was also an unwillingness for current holders of bonds to sell into a market sure to crystallize a loss. Credit remains a positive, with low defaults expected over the near-term. However, as we mentioned previously, credit spreads were at historic tight, grinding in on a daily basis, and were bound to widen at some point. That happened toward the end of the month, and we would expect perhaps a little bit more widening in certain names in sectors as we move closer to the holidays. This wasn't necessarily due to credit deteriorating but simply responding to those spreads being irrationally tight even in this benign credit environment.

Solid value is found in Agency MBS. Recently we have considered the area more of a neutral sector, but over the past month we have moved it to one where we are attracted to its liquidity profiles and potential over-performance. The credit is obviously strong, but the rate movement does mean that a special attention to the underlying characteristics and structure must be a focus to fully capture the upside value inherent in the right pools. Issuance has slowed and we have seen more deals in sectors we don't prefer, but we still find value in structured credit. The credit environment and amortizing structural features of the bonds are attributes we feel will continue to provide value and out-performance. As mentioned, issuance has slowed, but some of that may be due to the upcoming ABS conference, which is due to take place in early October. Similar to previous months we find value mostly in auto ABS, container and solar, with on occasion the right student loan deal. There has been more and more issuance of esoteric-type ABS debt of late. Those deals have become more attractive due to wider spreads than other more tried and true sectors, but we tend to avoid those deals given an unproven investor base and liquidity, as well as limited historical data to help determine credit and performance of those deal types. Value in corporates remains more of an issuer-by-issuer analysis. Currently there typically is more value in new issuers or those who have been sporadic issuers in the past, as investors appreciate new names in the market, allowing them another avenue for investment away from names they are already heavily overweight to. Hybrids and preferreds sold off toward the end of the month, and with that movement, we once again were able to identify some value in the space. We like the credit of the bank issuers in that space overall, and with the spread widening feel compensation is appropriate at current levels.

Commercial real estate is still a neutral sector for us, but continues to move in the right direction. There is still fallout to be seen especially in retail properties and pads, but we see some positive traction in office space as more and more banks and businesses embrace the movement to have workers return to the office, and in leisure, where we see the Delta variant infections slowing and some uptick in travel resuming. REITs and BDCs continue to be avoided. Both have seen issuers within those sectors come to market with new deals, but we continue to see those deals print wider than other comparable deals in other sectors, confirming our view of those sectors from a performance standpoint. Furthermore,

our feelings on the underlying credit, despite the environment being healthy in terms of credit, have not shifted as the business fundamentals and structural characteristics of those issuers remains in our view aggressive, leaving little room for over-performance.

The rate movement over the past month, and the Fed committing to tapering as soon as next month, we continue to rely on keeping as neutral to rates as possible. Short callable paper, floating rate notes and amortizing structures are some of the tools we rely on for that purpose. Duration continues to be at a similar level to that of the past months, as we maintain it at a targeted level. Shorter is better in this case overall; however, we are opportunistic buyers of longer paper when those situations are available, especially with solid credits in sectors such as utilities and life insurance. We continue to utilize shorter maturities in the 0.5 to 3 years with more credit sensitive issuers, but look to maintain a targeted maturity range for the majority of high yield credits in the 5 to 10 year range. Longer maturities tend to be concentrated in higher credit quality issuers in preferred sectors.

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Definition of Terms

Basis Points (bps) - refers 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.

Curvature - A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

Mortgage-Backed Security (MBS) - A mortgage-backed security is an investment similar to a bond that is made up of a bundle of home loans bought from the banks that issued them.

Collateralized Loan Obligation (CLO) - A collateralized loan obligation is a single security backed by a pool of debt.

Commercial Real Estate Loan (CRE) - A mortgage secured by a lien on commercial property as opposed to residential property.

CRE CLO - The underlying assets of a CRE CLO are short-term floating rate loans collateralized by transitional properties.

Asset-Backed Security (ABS) - An asset-backed security is an investment security—a bond or note—which is collateralized by a pool of assets, such as loans, leases, credit card debt, royalties, or receivables.

Option-Adjusted Spread (OAS) - The measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option.

Enhanced Equipment Trust Certificate (EETC) - One form of equipment trust certificate that is issued and managed through special purpose vehicles known as pass-through trusts. These special purpose vehicles (SPEs) allow borrowers to aggregate multiple equipment purchases into one debt security

Real Estate Investment Trust (REIT) - A company that owns, operates, or finances income-generating real estate. Modeled after mutual funds, REITs pool the capital of numerous investors.

London InterBank Offered Rate (LIBOR) - a benchmark interest rate at which major global banks lend to one another in the international interbank market for short-term loans.

Secured Overnight Financing Rate (SOFR) - a benchmark interest rate for dollar-denominated derivatives and loans that is replacing the London interbank offered rate (LIBOR).

Delta - the ratio that compares the change in the price of an asset, usually marketable securities, to the corresponding change in the price of its derivative.

Commercial Mortgage-Backed Security (CMBS) - fixed-income investment products that are backed by mortgages on commercial properties rather than residential real estate.

Floating-Rate Note (FRN) - a bond with a variable interest rate that allows investors to benefit from rising interest rates.

Consumer Price Index (CPI) - a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

Net Asset Value (NAV) - represents the net value of an entity and is calculated as the total value of the entity's assets minus the total value of its liabilities.

Definition of Terms

Duration Risk - the name economists give to the risk associated with the sensitivity of a bond's price to a one percent change in interest rates.

Federal Open Market Committee (FOMC) - the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy specifically by directing open market operations (OMO).

United States Treasury (UST) - the national treasury of the federal government of the United States where it serves as an executive department. The Treasury manages all of the money coming into the government and paid out by it.

High Yield (HY) - high-yield bonds (also called junk bonds) are bonds that pay higher interest rates because they have lower credit ratings than investment-grade bonds. High-yield bonds are more likely to default, so they must pay a higher yield than investment-grade bonds to compensate investors.

Investment Grade (IG) - an investment grade is a rating that signifies that a municipal or corporate bond presents a relatively low risk of default.

Exchange Traded Fund (ETF) - an exchange traded fund (ETF) is a type of security that tracks an index, sector, commodity, or other asset, but which can be purchased or sold on a stock exchange the same as a regular stock.

Federal Family Education Loan Program (FFELP) - a program that worked with private lenders to provide education loans guaranteed by the federal government.

Business Development Program (BDC) - an organization that invests in small- and medium-sized companies as well as distressed companies.

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Per the most current prospectus, (1) Fund total operating expense ratios are: Class A, 0.88%; Class L, 1.53%; Institutional Class, 0.88% until at least May 31, 2022. (2) In addition, the Adviser has entered into contractual expense limitation agreement with the Trust so that the Fund's ratio of total annual operating expenses are limited to 0.84% for Class A shares and Institutional Class shares and 1.49% for Class L Shares until at least May 31, 2022.

Fixed income investments are affected by a number of risks, including fluctuation in interest rates, credit risk, and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall.

Past performance is no guarantee of 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 their original cost. There is no guarantee that this, or any, investing strategy will succeed. Diversification does not ensure a profit or guarantee against loss.

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