

# Off to a Great Start



The Penn Mutual AM 1847 Income Fund (PMEFX) is off to a great start. We sat down with the portfolio management team to discuss several contributing factors.

## As the track record progresses, can you provide us with key highlights on PMEFX?

Our team-based approach and collaborative culture allowed us to focus on conducting our bottom-up screening and research process well in advance of the Fund's launch. This enabled us to build a significant list of investable candidates and a backlog of companies that exhibited the qualities we value — solid returns on capital, strong balance sheets, defendable competitive positions and quality management teams. Given the sharp stock and high-yield bond market rallies from the market bottom in March until the launch, we felt it was best to take our time to become fully invested through the end of 2020. This worked out well as the market experienced a couple of dips in mid-September and late October. We took advantage of these opportunities and cash declined from roughly 25% at the end of the third quarter to 3% by year-end. As we entered 2021, we had exactly the portfolio we wanted — one that we believed would give the Fund and its shareholders the best balance of upside potential while attempting to limit downside risk.

## Performance has been strong on both an absolute and relative basis. What has contributed to this outperformance?

Several factors have contributed to PMEFX's outperformance since its inception and solid start in 2021. Ultimately, the Fund's individual security selection has been the biggest factor. We intend to have balance across sectors and industries, so the Fund does not rely on concentration and/or sector bets to add value.

- The Fund is also diverse from a market-cap perspective, as it held a roughly equal position of approximately 33% in large-, mid- and small-cap companies, respectively. This broad allocation of companies helped as small- and mid-caps, in particular, were strong in the first quarter of 2021 relative to traditional dividend-paying large-caps.
- Specifically, 11 of the common stock holdings in PMEFX posted a total return exceeding 30% this quarter. Rocky Brands (RCKY) led the way with a 93% gain.
- On the fixed-income side, two key factors led to significant outperformance. First, the Fund maintained a portfolio duration that was merely a fraction of most bond benchmarks. At roughly three years, PMEFX's short duration shielded the Fund from a dramatic increase in interest rates. This increase in rates led investment-grade and long-term Treasury indexes to their worst losses in many years. Second, investments in convertible bonds trading under par or \$100 led the Fund's bond portfolio to a positive absolute return and a strong relative gain.

It is our intention to allow the Fund's bottom-up security selection process to steer us away from the overvalued segments of the market and toward the underpriced, undervalued segments of our opportunity set. Diligence and discipline when executing this process should allow for a positive balance of risk-adjusted returns on both an absolute and relative basis over the long term.

## With the reopening of the economy, what is your outlook for 2021 and how are you positioning the Fund?

As the past eight months have proven, being an income investor today can pose significant challenges. Securing sustainable income without exposing shareholders to negative returns will require patience, a flexible and nimble asset allocation, and a willingness to move away from the crowd. This will be especially true as we move ahead in an economy that should post solid growth in the coming year. Higher growth could lead to higher levels of inflation, which would be good for stocks but not as good for bonds. The market has already priced in significant future growth, so even a modest stumble could lead to market volatility. From a corporate earnings standpoint, these positive expectations have led to relatively high stock valuations and especially tight credit spreads for investment-grade and high-yield bonds. How companies respond to higher input costs, higher interest rates and potentially higher taxes will be critical to determining how much further the stock and credit markets can go from here. PMEFX's positioning reflects the potential for growth in its positions in both common stock and convertible bonds. We have also balanced this positioning with a continued short duration and a cash position that is moving up as higher-priced individual securities are trimmed/sold. This cushion should give us the flexibility to take advantage of any future volatility experienced in our investable universe. We greatly value being balanced from a risk standpoint and hope to continue executing our investment process for the benefit of our shareholders.

## TICKER

PMEFX

## FUND INCEPTION DATE

7/31/20

## MINIMUM INVESTMENT

\$3,000

## TOTAL FUND OPERATING EXPENSE

0.65% NET\*

1.55% GROSS

## PORTFOLIO MANAGERS

**George J. Cipolloni III, CFA**  
Portfolio Manager

**Scott Ellis, CFA**  
Portfolio Manager

**Mark J. Saylor, CFA**  
Portfolio Manager

**Greg Zappin, CFA**  
Portfolio Manager

## AVAILABLE PLATFORMS

Schwab  
Pershing

\*Fee waivers are contractual and in effect until May 31, 2022.

## Fund Performance (as of 3/31/21)

	3 MONTHS	YEAR-TO-DATE	SINCE INCEPTION 7/31/20
Penn Mutual AM 1847 Income Fund – Gross	8.61%	8.61%	16.05%
Penn Mutual AM 1847 Income Fund – Net	8.45%	8.45%	15.46%
Morningstar Moderately Conservative Target Risk Total Return USD Index	0.31%	0.31%	8.13%
Bloomberg Barclays US Corporate Inv. Grade Index	-4.65%	-4.65%	-3.37%
Bloomberg Barclays US HY 2% Issuer Capped Index	0.86%	0.86%	7.27%
Russell 3000 Value Index	11.89%	11.89%	33.14%
Peer Ranking*	2	2	10

Performance data shown represents past performance and is not a guarantee of future results. Investment performance and principal value will fluctuate, so when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end performance, please call 877-PMA-MLLC (877-762-6552).

### About PMAM

With over \$31 billion in assets under management as of March 31, 2021, Penn Mutual Asset Management ("PMAM") is an institutional asset management firm located just outside of Philadelphia, PA that has been offering investment solutions and client-focused services since 1989.

For more information on the Fund or to subscribe to our market insights blog, please visit [www.pennmutualam.com](http://www.pennmutualam.com).

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**Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For the full prospectus, which contains this and other information about the Fund, please visit [www.pennmutualam.com](http://www.pennmutualam.com). Investors should read the prospectus carefully before investing.**

The Fund is distributed by SEI Investments Distribution Co. (SIDCO) at 1 Freedom Valley Drive, Oaks, PA 19456, which is not affiliated with Penn Mutual Asset Management. Investing involves risk, including possible loss of principal. The Fund's other investment risks include, but are not limited to, interest rate, inflation, credit and default risk associated with fixed income securities. In addition, high yield bonds have a higher risk of default or other adverse credit events. Other risks include, but are not limited to, equity risk, preferred stock risk, allocation risk, conflicts of interest risk, counterparty credit risk, foreign investments risk, high portfolio turnover risk, liquidity risk and volatility risk. There is no guarantee the Fund will achieve its stated objective.

Morningstar Moderately Conservative Target Risk Total Return USD Index - The Morningstar Target Risk Index family is designed to meet the needs of investors who would like to maintain a target level of equity exposure through a portfolio diversified across equities, bonds and inflation-hedged instruments. The Morningstar Moderately Conservative Target Risk Index seeks approximately 40% exposure to global equity markets.

Bloomberg Barclays U.S. Corporate Investment Grade Index - An index that measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility, and financial issuers.

Bloomberg Barclays U.S. High Yield 2% Issuer Capped Index - An issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index-wide on a pro-rata basis.

Russell 3000 Value Index - An index that measures the performance of the broad value segment of the US equity value universe. It includes those Russell 3000® companies with lower price-to-book ratios and lower forecasted growth values.

\*For the Penn Mutual AM 1847 Income Fund, the competitive investment universe and representative peer group as represented by Morningstar is the Allocation – 30% to 50% Equity category. Funds in this group seek to provide both income and capital appreciation by investing in multiple asset classes, including stocks, bonds and cash. These portfolios are dominated by domestic holdings and have equity exposures between 30% and 50%.