SECOND QUARTER 2026

PRODUCT COMMENTARY

Core Aggregate Composite

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Merganser Capital Management is a best-in-class boutique fixed income manager with a fundamentals-based investment approach. Formed in 1985, Merganser is an SEC registered investment advisor focused on the needs of institutional clients.

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MARKET OVERVIEW

Continued conflict in the Middle East, volatile energy prices, and resilient labor markets stoked inflation concerns during the second quarter, causing investors to reset expectations for Federal Reserve (Fed) policy. The Fed left its target rate unchanged at 3.50% - 3.75% at both its April and June meetings. Kevin Warsh presided over his first FOMC meeting as Fed Chair in June, ultimately signaling significantly more hawkish stance than investors anticipated and reducing the amount of forward guidance provided by the Fed. US Treasury (UST) yields, particularly at the front of the curve rose, with the 2-year, 10-year and 30-year UST yields increasing by 38, 15 and 4 basis points (bps) during the quarter, respectively. The UST yield curve flattened as measured by both the 2's vs. 10's and 10's vs. 30's curves. Futures markets began the quarter predicting effectively no changes to the Fed Funds target rate for the remainder of the year. By the end of the quarter, this shifted to markets predicting between one and two interest rate hikes in the second half of 2026. For many Investment Grade (IG) fixed income strategies, the negative price impact from increasing UST yields was more than offset by spread tightening and positive carry. The Bloomberg US Aggregate Index returned 0.67% for the quarter, bringing the trailing 12-month return as of 6/30/2026 to 3.78%. Despite the uncertain macro backdrop, sentiment was risk-on among IG spread sectors during the quarter, with most subsectors outperforming like-duration USTs (according to the Bloomberg US Aggregate index). IG corporate credit spreads tightened by 15 bps, ending the quarter near historic tights, and the sector outperformed USTs by 117 bps. Utilities, financials, and industrials outperformed by 137, 125 and 108 bps respectively. Spreads tightened by 11 and 7 bps in April and May, respectively and widened by 2 bps in June. The modest widening in June came amid record setting issuance for the month of $203 billion. Several of the largest technology companies issued massive deals during the quarter to fund AI-related capex. Among

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securitized sectors, CMBS was the top performer, outpacing like-duration USTs by 37 bps. Non-Agency and Agency CMBS outperformed by 55 and 20 bps, respectively. ABS outperformed by 36 bps and remittance reports for consumer receivables continued to reflect differentiation between prime and subprime borrowers. Agency RMBS outperformed by 30 bps. Conventional 30-year paper significantly outperformed Conventional 15-year paper, which was hampered by interest rate volatility at the front-end of the curve.

POSITIONING CHANGES

During the first quarter, our major focus in Core Aggregate portfolios was sector rotation, particularly adjusting our relative positioning in Agency RMBS amid rapidly shifting valuations. During the second quarter, our focus shifted to security selection, specifically monetizing richly valued positions in the tight spread environment, which increased our allocations to USTs by 2%. Our allocation to corporate credit stayed flat at 23%. A dramatic increase in supply from M&A, hyperscaler capex, and emerging AI disruption risks had pushed spreads wider for many industrial sub sectors. The risks in the sector were better reflected in spread in 1Q26 but have tightened since; we are actively selling bonds added at new issue to monetize the move tighter. Domestic utilities are relatively insulated from geopolitical impacts and commodity volatility/inflation through rate-base adjustments. Highly visible cash flows at investor-owned utilities are also more reliable through various economic scenarios. However, spreads remain tight despite heightened capital expenditures and supply overhangs spread remain tight; we are actively looking to sell bonds trading at rich valuations. Banking and Insurance spreads are attractive compared to other corporate sectors. We remain constructive on the "too big to fail" banks, though we expect credit spread volatility to persist, particularly for Yankee and regional banks. Our allocation to ABS stayed flat at 14%. Primary market spreads in traditional ABS segments offer a modest spread concession compared to secondary market opportunities. While collateral performance has shown some deterioration, deals remain well enhanced. Many esoteric ABS subsectors continue to appear overvalued and are likely to experience greater spread volatility. We are opportunistically adding to high quality, liquid ABS subsectors. Our allocation to Non-Agency CMBS stayed flat at 9%. Non-Agency supply remains focused in 5-year deals, driving an inverted curve given strong demand for long duration. We favor SASB for sponsor and collateral quality but note the spread pick vs. conduit at the top of the stack has declined. We are avoiding office while favoring

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other SASB sectors for targeted credit exposures, generally limited to the top of the stack. Troubled office and retail deals are likely to tarnish SASB's historically strong track record, and while losses are growing, this serves to reduce uncertainty moving forward. Spreads in generic multifamily Agency CMBS have moved tighter along with Agency RMBS. Limited supply has been met with increased demand. We will opportunistically add in the sector when we see attractive relative value, however we are currently seeing better opportunities in other sectors. Our allocation to Agency RMBS stayed flat at 20%. Adjusted for model changes, 30-year spreads have compressed back to the tight levels reached in the aftermath of the GSEs' January announcement of a $200 billion purchase program. Even at these richer valuations, market performance remains benign, as spreads continue to trade within a narrow range amid decreased volatility at the long end of the curve. Our overall duration positioning was unchanged at neutral vs. the benchmark.

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OUTLOOK

U.S. growth remains resilient, supported by solid consumer spending and strong business investment, particularly in technology and capex. Labor market conditions remain broadly stable, with solid payroll gains, steady unemployment and elevated job openings, though signs of moderation, including higher claims and softer sentiment, are emerging. The expansion remains increasingly K-shaped. However, tighter financial conditions are expected to gradually weigh on activity. Overall, the outlook is for moderate U.S. growth, with potential upside from business investment and downside risk from policy and elevated interest rates. The Fed faces a higher bar for rate cuts with greater sensitivity to labor and inflation surprises. Changes in communication policy could add to volatility on the front end of the

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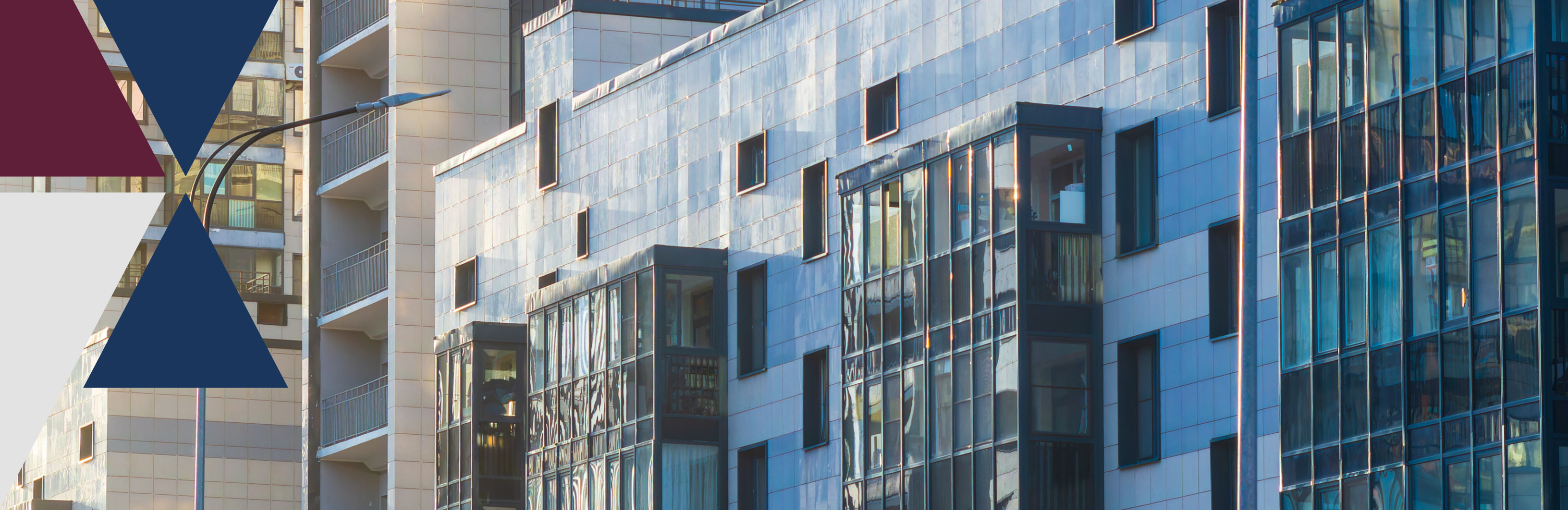

curve. The long end of the yield curve has traded within a wide range (70 basis points) since the beginning of the easing cycle. Treasury yields have stabilized near recent highs (with the 10-year UST yield hovering around 4.5%). Curve dynamics remain volatile, shifting between steepening and flattening depending on macro developments. Overall, rates are likely to remain anchored at higher levels, with stronger labor data, reduced growth concerns and elevated treasury supply somewhat offset by lower inflation if the peace talks with Iran are sustained. Inflation remains above target, with Core PCE tracking near ~3.4% and expected to remain elevated through year-end. Services inflation and wage pressures remain firm, supported by still-resilient labor market conditions. The recent easing in energy prices has provided some near-term relief; however, inflation is expected to moderate only gradually, with risk of renewed persistence if energy or wage pressures re-emerge.

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