

SEPTEMBER 2023

## Monthly Commentary - Active Income Portfolios

---

### Active Income

#### Performance Commentary

- Current Distribution Yield (as of 9/30/2023): 5.58%.
- The Wilshire Active Income Portfolio (the “Portfolio”) outperformed the Bloomberg U.S. Aggregate Bond Index by 0.94% in September, driven by the strategy’s overweight to short duration, high yield, securitized credit, and short duration high yield.<sup>1</sup>
- Manager selection was positive for all of the funds with the exception of the Mainstay Mackay U.S. Infrastructure Bond Fund and the PGIM High Yield Bond Fund.
- Allocations to funds with less interest rate sensitivity than the benchmark such as the Mainstay Mackay Short Duration High Yield Fund and the Voya Securitized Credit Fund helped the relative performance as rates rose during the month.
- High quality fixed income markets generally performed poorly across the board in September, driven by higher interest rates.
- Investment-grade corporates (as measured by the Bloomberg U.S. Corporate Bond Index) returned -2.67% during the month. The index spread widened by 0.03% during the month driven by financials and industrials.
- The high yield market, as measured by the Bloomberg U.S. High Yield Index, returned -1.18% during the month. Spreads widened by 0.22% in September driven by increased new issuance (\$23.5 billion new bonds - the highest volume since January 2022). High yield fund flows resulted in an outflow of \$2.5 billion during the month. BB-rated debt underperformed the broader market due to its higher interest rate sensitivity.
- Higher energy costs contributed to an increase in headline CPI inflation (3.7% YoY).
- The Federal Reserve kept the federal funds rate unchanged in September.
- The U.S. Treasury market returned -2.21% in September.
- The 2-year/10-year portion of the curve ended the month inverted by 0.48%, down from 0.76% the previous month.
- The 10-year U.S. Treasury yield rose during September, ending the month at 4.57% after ending August at 4.11%.

#### Portfolio Rationale

The portfolio management team did not make any changes during the month.

---

<sup>1</sup> Performance is net of fees.

# Active Tax Free Income

## Performance Commentary

- Current Distribution Yield (as of 9/30/2023) 5.09%.
- The Active Tax Free Income Portfolio (the “Portfolio”) outperformed its blended benchmark (90% Bloomberg Municipal Bond Index and 10% Bloomberg Muni High Yield Index) by 0.01% in September, returning -2.97%.<sup>2</sup>
- Allocations to intermediate-term funds (Nuveen Intermediate Duration Municipal Bond Fund and Western Intermediate Term Bond Fund) and cash (Dreyfus Tax Exempt Cash Management Fund) detracted from the relative performance.
- Allocations to High Yield Municipal Debt (Lord Abbett High Income Municipal Bond Fund and Mainstay Mackay High Yield Municipal Bond Fund) detracted from performance due to having higher interest-rate sensitivity than the custom benchmark.
- September saw modest fund outflows bringing year-to-date fund outflows to \$12.0 billion.
- Tax-exempt supply rose 8% year-over-year in the third quarter, although it is still down 4% year-to-date relative to last year’s pace.
- AAA municipal rates rose materially across the curve during the month. The two-year portion of the curve rose by 0.49% and the 10-year portion of the curve rose by 0.57% in September.
- The Bloomberg Muni High Yield Index underperformed the Bloomberg Municipal Bond Index by 0.47% in September.
- AA-rated debt was the best performing municipal credit quality during September, returning -2.83%.
- Long-duration municipal debt (Bloomberg Municipal Bond Index, Long 22 Years+) underperformed short duration municipal debt (Bloomberg Municipal Bond Index, 1-5 Years) by 3.61 % during the month.
- General obligation bonds performed in line with revenue bonds during September.
- The 10-year U.S. Treasury yield rose during September, ending the month at 4.57% after ending August at 4.11%.

## Portfolio Rationale

The portfolio management team did not make any changes during the month.

---

<sup>2</sup> Performance is net of fees.

## Index Definitions

### Bloomberg High Yield Municipal Index

The Bloomberg High Yield Municipal Index includes bonds with a par value of at least \$3 million and must be issued as part of a transaction of at least \$20 million. The maximum rating for inclusion is Ba1/BB+/BB+ using the middle rating.

### Bloomberg Municipal Bond Index

The Bloomberg Municipal Bond Index is a broad-based, total-return index. The bonds are all investment-grade, tax-exempt, and fixed-rate securities with long-term maturities (greater than 2 years). They are selected from issues larger than \$50 million. Bloomberg Municipal Bond Index, Long 22 Years+ (those bonds issued with maturities greater than 22 years) and Bloomberg Municipal Bond Index, 1-5 Years (securities with maturities greater than 1 year and less than 5 years). General obligation bonds and revenue bonds are subsectors of the Bloomberg Municipal Bond Index and do not represent separate indices.

### Bloomberg U.S. Aggregate Bond Index

The Bloomberg U.S. Aggregate Bond Index is an index comprised of approximately 6000 publicly traded bonds including U.S. Government, mortgage-backed, corporate, and Yankee bonds with an average maturity of approximately 10 years.

### Bloomberg U.S. Corporate Bond Index

The Bloomberg U.S. Corporate Bond Index: This index is the Corporate component of the U.S. Credit index. It includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

### Bloomberg U.S. High Yield Index

The Bloomberg U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

## Important Information

Wilshire® is a global financial services firm providing diverse services to various types of investors and intermediaries. Wilshire's products, services, investment approach and advice may differ between clients and all of Wilshire's products and services may not be available to all clients. For more information regarding Wilshire's services, please see Wilshire's ADV Part 2 available at [www.wilshire.com/adv](http://www.wilshire.com/adv).

Distribution Yield is an indication of the current dividends and interest vs. the current market value of the holdings. The Distribution Yield represents the current amount of income that is being generated from the portfolio without liquidating the principal or capital gains of the Portfolio. However, the Distribution Yield will fluctuate daily and current or past performance is not indicative of future results. The Distribution Yield is calculated before the application of Wilshire's Strategist fee, or any platform fees, advisory fees or other applicable fees. There are certain limitations in calculating model performance or yield as the model results may not completely represent the actual trading of securities in client accounts. Furthermore, due to these limitations, Distribution Yield may not be an exact representation of dividends received in a client's account.

This material represents the current opinion of Wilshire and is subject to change without notice. Wilshire assumes no duty to update any such opinions. Wilshire believes that the information obtained from third party sources contained herein is reliable, but has not undertaken to verify such information. Wilshire gives no representations or warranties as to the accuracy of such information, and accepts no responsibility or liability (including for indirect, consequential or incidental damages) for any error, omission or inaccuracy in such information and for results obtained from its use.

This material is intended for informational purposes only and should not be construed as legal, accounting, tax, investment, or other professional advice; nor is it a recommendation or solicitation to purchase or sell any security or to adopt any specific investment strategy. This material contains proprietary information of Wilshire. It may not be disclosed, reproduced, or otherwise distributed, in whole or in part, to any other person or entity without prior written permission from Wilshire.

This material may include estimates, projections, assumptions and other "forward-looking statements." Forward-looking statements represent Wilshire's current beliefs and opinions in respect of potential future events. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual events, performance and financial results to differ materially from any projections. Forward-looking statements speak only as of the date on which they are made and are subject to change without notice. Wilshire undertakes no obligation to update or revise any forward-looking statements.

The information from third parties contained herein has been obtained from sources believed to be reliable. Wilshire gives no representations or warranties as to the accuracy of such information, and accepts no responsibility or liability (including for indirect, consequential or incidental damages) for any error, omission or inaccuracy in such information and for results obtained from its use.

Wilshire Advisors LLC (Wilshire) is an investment advisor registered with the SEC. Wilshire® is a registered service mark. All other trade names, trademarks, and/or service marks are the property of their respective holders.

Copyright © 2023 Wilshire Advisors LLC. All rights reserved.

MM-451607 E1123

## More information

For more information on our managed portfolios, please contact us directly:

T +1 855 626 8281

[managedportfolios@wilshire.com](mailto:managedportfolios@wilshire.com)

**Wilshire**

1299 Ocean Avenue, Suite 600, Santa Monica, CA 90401

[wilshire.com](http://wilshire.com)