Wellesley Asset Management Commentary | Q2 2022

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The second quarter of 2022 was very much a repeat of the first quarter with equities and fixed-income assets plummeting. Equity and fixed-income markets are off to one of their worst starts in history, as investors grapple with inflation running at 40-year highs, and seemingly accelerating monthly. The Federal Reserve and various global central banks have embarked on a policy of ever tighter monetary policy, communicating that higher interest rate and a reduced balance sheet are a near certainty to combat inflation and forward inflationary expectations.

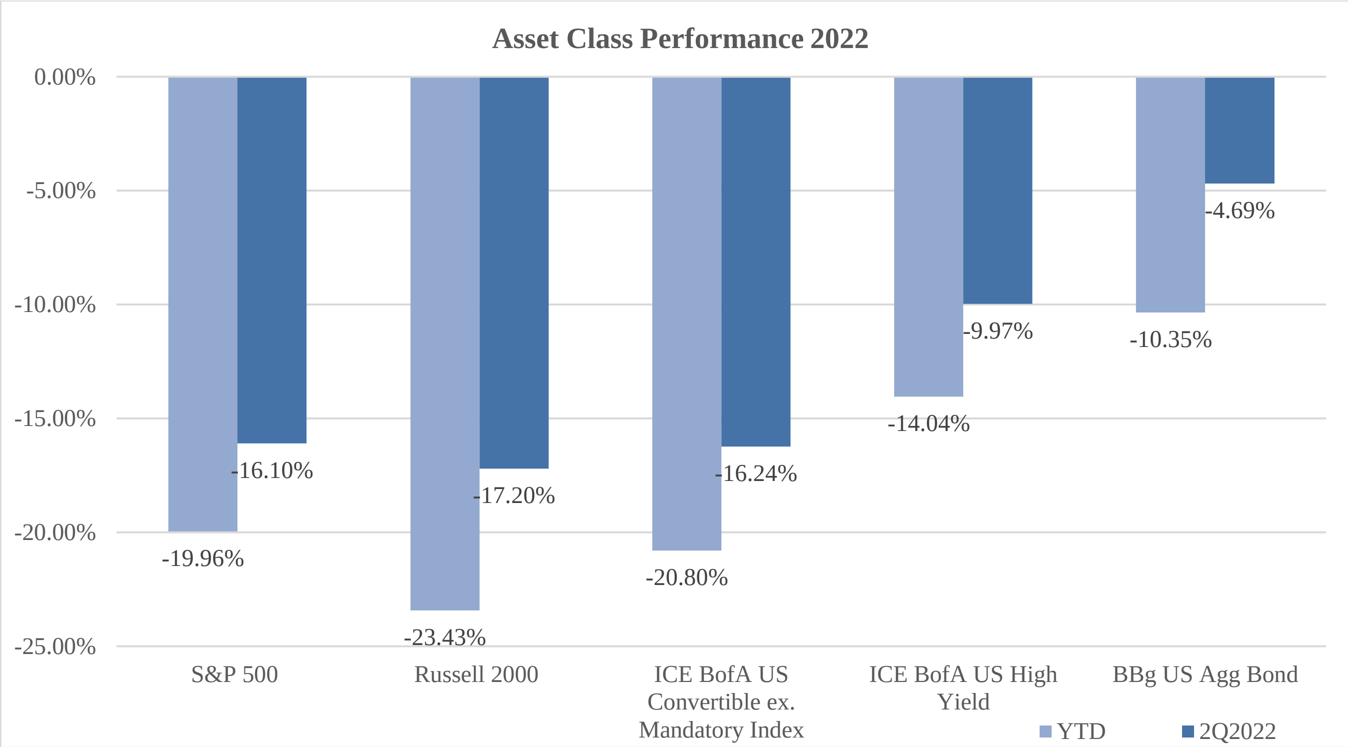
Total Return Comparison (%, through 6/30/2022):

	YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception 12/27/2007*
Miller Convertible Bond Fund (MCIFX)	-10.93%	-8.94%	4.69%	4.43%	6.52%	5.93%
Bloomberg U.S. Aggregate Bond	-10.35%	-10.29%	-0.93%	0.88%	1.54%	3.03%
ICE BofA All Yield Convertibles Index (VYLD)	-16.26%	-18.17%	0.95%	2.77%	3.99%	4.21%

**Returns are annualized. The performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. 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. Total operating expenses for the class I-shares is 0.97%. Please review the Fund's prospectus for more information regarding the Fund's fees and expenses including other share classes. For performance information current to the most recent month-end, please call toll-free 877-441-4434.*

Recently, an inverted U.S. Treasury yield curve with 2-year U.S Treasuries yielding more than 10-year U.S. Treasuries has sparked thoughts of an impending recession. The ongoing conflict in Ukraine and its ancillary impact on commodity prices, sporadic COVID induced China lockdowns and their disruptive impact on the manufacturing supply chain, and a secular labor and housing market shortage in the United States, have likewise weighed on most asset classes. Recently, an extremely strong U.S. dollar will certainly be a hurdle for large U.S. multinational corporations and could result in downward revisions to earnings estimates.

The chart on the following page illustrates how challenging the first half of 2022 has been for a variety of asset classes given the long list of headwinds described above:



Inflation remains front and center, running extremely hot with the Consumer Price Index (CPI) increasing 9.1% in June, 2022 from a year ago, **the highest increase in 40 years.** Unfortunately, it is expected to continue to accelerate in the coming months. The price of oil has jumped 106.7% over the past year, while shelter costs, which comprise one-third of the CPI, increasing at the fastest pace in 31 years. Although nominal wages continue to rise, real wages when accounting for inflation have fallen about 3% over the past 12 months. High levels of inflation continue to push the American worker especially those of modest means deeper into debt and put them in the unwelcome position of being far worse off than 12 months ago.

Inflation is a hidden tax especially on the middle and lower class and although it has been extremely well-contained over the past 40 years, its insipient rise will become the core focus of politicians in Washington and the Federal Reserve. Unfortunately, inflation is becoming more entrenched in consumer's psyche as the University of Michigan's Survey of Consumers expect inflation to rise at a 5.3% annualized rate as of the end of June. This increase in expectations fueled a 0.75-point increase in the Federal Funds rate by the Federal Reserve at their recent June open market committee meeting. In fact, many expect the Federal Reserve to continue to increase short term rates over the course of 2022 to battle inflation, with the expectation that the Federal Funds rate will end 2022 at 3.40%. Some economists predict the Federal Reserve will increase the Fed Funds rate by an unprecedented 100 basis points at its July 2022 Federal Open Market Committee (FOMC) meeting.

These expected increases in short term interest rates have caused the U.S Treasury yield curve to become inverted or flat and have led many market participants to forecast a recession in 2022 or 2023. In fact, the Federal Reserve itself continues to ratchet down growth expectations now projecting only a 1.7% gain in U.S. Gross Domestic Product ("GDP") for 2022. The Federal Reserve Bank of Atlanta via its GDP Now forecast predicts 2Q 2022 GDP growth to be negative 1.2%. Regrettably, an inverted yield curve tends to be a fairly reliable predictor of recessions, albeit at various lag times. So, while on the one hand attempting to quell inflation and inflationary expectations, the Federal Reserve has the daunting task of engineering a" soft landing" for the U.S. economy so as not to tip it into recession. Thoughts of stagflation and memories of the 1970's are now at the forefront of many investors' minds.

Another relatively reliable predictor of recessions, high yield spreads, similarly continue to increase. High yield spreads measure the cost of non-investment grade companies cost of capital. As recession fears percolate, the cost of high yield debt increases which raises the likelihood of default for high yield corporations. High yield spreads are the highest that they have been since the 2020 pandemic.

Much like the traditional 60/40 equity/fixed portfolio, convertible bonds given their mix of equity and debt have not been immune to lower equity and bond prices throughout the year. Wider credit spreads are a headwind for convertible bonds, given a high preponderance of high yield issuers in the convertible bond market. Fortunately, convertible bonds tend to be far shorter duration debt (i.e., have decreased sensitivity to interest rates) than more traditional high yield and investment grade fixed income securities and as such can likely better weather increases in interest rates and wider credit spreads. **In many ways, owning convertible bonds may be akin to owning the best fixed-income house in a lousy fixed-income neighborhood. Importantly, constructing a portfolio of shorter duration convertible bonds that provide a balanced mix between equity and debt is critical in terms of taking advantage of convertible bond's decreased interest rate sensitivity and potential for preservation of capital.**

The silver lining of the equity and bond sell-off of 2022 is that many convertible bonds, which only a year ago were extremely equity sensitive are now far more balanced between their equity and debt sensitivities. **In fact, a wide swath of the convertible bond market now trades below par (the price at which the convertible bond was issued and matures).** Assuming creditworthiness of the issuing corporation, owning convertible bonds trading below par is appealing as the convertible bond gets "pulled to par" as its maturity date approaches. Convertible bonds which are pulled to par may provide positive yields while at the same time retain various levels of equity sensitivity.

The new issue convertible bond market was tremendously slow during the second quarter and for most of this year as higher interest rates and lower equity prices dramatically increased the cost of capital for potential convertible issuers. Following gangbuster years of issuance in 2020 and 2021, 2022 is off to a much slower pace. Due to turbulent equity and debt markets, that trend will likely continue for the foreseeable future. Fortunately, the pool of potential investments remains rather large given robust issuance during the previous two years. One possible benefit of the lack of convertible new issuance would be a supply-demand imbalance helping to fuel the appreciation of some outstanding convertible issues.

Much of Wellesley's recent outperformance has been driven by a focus on relatively shorter duration convertible bonds, companies with current earnings, and those that are considered value as opposed to growth oriented. Although the convertible universe is littered with growth companies, Wellesley has made a concerted effort to construct portfolios with ample value and commodity-oriented positions. Wellesley's effort in synthetic convertible bonds has greatly helped in that regard given the ability to specifically add commodity and value-oriented positions to a portfolio.

Unfortunately, there is no crystal ball foretelling future financial conditions or markets. **But, after 40+ years of modest and non-existent inflation, putting the inflation genie back in the bottle will likely be a challenging and longer-term effort, much like from 1973-1982. The Federal Reserve's history of effectively managing inflation is suspect.** With inflation likely to be persistent and growth expected to slow, the U.S. economy may be in for a period of modest stagflation. Given that scenario, individual security selection will be important in achieving investment success. The time for active management can be paramount to investors' success in these types of markets; simply owning the highest weighted securities in a passively managed index will not yield the desired results for advisors and their clients. **The Wellesley philosophy of actively constructing and tactically managing balanced convertible bond portfolios issued by higher quality companies and owning securities with modest interest rate risk may provide some degree of stability. Being flexible and adapting to the ever-changing financial landscape can prove to be a valuable asset, as we look toward the balance of 2022.**

Important Risk Information

Past performance is not a guarantee of future results.

Investments in convertible securities subject the Fund to the risks associated with both fixed-income securities, including credit risk and interest risk, and common stocks. A portion of the Fund's convertible securities may be rated below investment grade. Exchangeable and synthetic convertible securities may be more volatile and less liquid than traditional convertible securities. In general, stock and other equity security values fluctuate, and sometimes widely fluctuate, in response to activities specific to the company as well as general market, economic and political conditions. Lower rated fixed-income securities are subject to greater risk of loss of income and principal than higher-rated securities. The prices of lower rated bonds are likely to be more sensitive to adverse economic changes or individual corporate developments. All fixed-income securities are subject to two types of risk: credit risk and interest rate risk. When the general level of interest rates goes up, the prices of most fixed-income securities go down. When the general level of interest rates goes down, the prices of most fixed income securities go up.

Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

A market capitalization-weighted index often used to represent investment grade bonds being traded in United States. The index includes Treasuries, government agency bonds, mortgage-backed bonds, corporate bonds and a small amount of foreign bonds traded in U.S.

BofA All Yield Alternatives US Convertibles Index (VYLD) is a subset of the BofA US Convertible Index and includes convertible securities with a delta less than 0.4. Delta is the measure of the change in a convertible bond's price given a change in the underlying stock.

The S&P 500 is an unmanaged composite of 500 large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks.

The Bloomberg U.S. Aggregate Bond Index is a market capitalization-weighted index often used to represent investment grade bonds being traded in United States. The index includes Treasuries, government agency bonds, mortgage-backed bonds, corporate bond sand a small amount of foreign bonds traded in U.S.

The NASDAQ Composite Total Return is the first electronic stock market listing over 5000 companies. The Nasdaq stock market comprises two separate markets, namely the Nasdaq National Market, which trades large, active securities and the Nasdaq Small cap Market that trades emerging growth companies.

The Russell 2000 Index includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The index measures the performance of the small-cap segment of the U.S. equity universe and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The ICE BofA All US Convertibles ex Mandatory Index represents all U.S. convertibles, excluding mandatory convertibles, small issues and bankruptcies.

The ICE BofA US High Yield Index tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market. To qualify for inclusion in the index, securities must have a below investment grade rating (based on an average of Moody's, S&P, and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P, and Fitch foreign currency long term sovereign debt ratings). Each security must have greater than 1 year of remaining maturity, a fixed coupon schedule, and a minimum amount outstanding of $100 million. Original issue zero coupon bonds, "global" securities (debt issued simultaneously in the eurobond and US domestic bond markets), 144a securities and pay-in-kind securities, including toggle notes, qualify for inclusion in the Index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. DRD-eligible and defaulted securities are excluded from the Index.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Miller Convertible Bond Fund. This and other important information about the Fund are contained in the prospectus, which can be obtained by calling 781-416-4000. The prospectus should be read carefully before investing. The Miller Convertible Bond Fund is distributed by Northern Lights Distributors, LLC, member FINRA/SIPC. Wellesley Asset Management, Inc. and Northern Lights Distributors, LLC are not affiliated entities.

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