# Nationwide Amundi Strategic Income Fund

## Quarterly Commentary

Nationwide®
is on your side

Mutual funds

Commentary

Q3 2018

Asset class: Taxable Bond
Objective: Seeks to provide a high level of current income

Morningstar category: Multisector Bond
Class A: NWXEX
Class C: NWXFX
Inst Svc: NWXHX
Class R6: NWXGX

### Portfolio management

Amundi Pioneer Asset Management, Inc.

**Jonathan M. Duensing, CFA**
Portfolio Manager
Fund tenure since 2015

**Kenneth J. Monaghan**
Portfolio Manager
Fund tenure since 2015

## Executive summary

- *The Fund outperformed the Bloomberg Barclays US Aggregate Index for the quarter by 194 basis points.*
- *Overweights to Securitized Credit, Bank Loans, and yield curve positioning were notable contributors over the quarter.*
- *The portfolio has decreased allocations to loans in favor of high yield and IG corporate credit and increased exposure to Euro HY as spreads have widened out over the quarter.*

### NATIONWIDE'S MARKET REVIEW

Equity markets rallied for the second consecutive quarter, with the S&P 500® Index delivering a positive return in 21 of the last 23 quarters. Following volatility in the first quarter of the year on fears of inflation, interest rates, geopolitical stress and trade disagreements, investors have refocused on the strong fundamental backdrop. The economy is strong, with GDP growth of 3.2% forecast for the third quarter, following 4.2% in the second quarter. Consumer, small business and executive confidence remains near record levels, and appears to be driving improved consumer and capital spending. Corporate profits provide strong support for equity market returns, with growth for the S&P 500 expected at 21% and the S&P Small Cap 600 could grow 35%. Corporate share repurchases are contributing to earnings and generating demand for shares, with buyback authorizations likely to top $1 trillion this year. Each month of the quarter had positive performance, with the S&P 500 returning 11% for the year.

During the third quarter, the S&P, Dow Jones Industrial Average and NASDAQ Composite Index returned +7.7%, +9.0% and +7.4% respectively. For the S&P 500, it was the best performance since 2013. Growth stocks outperformed value, and large-caps outperformed small. Leading sectors for the quarter included health care, industrials and technology, while materials, energy and real estate lagged. During the quarter, the Federal Open Market Committee (FOMC) raised their Federal Funds target rate by 0.25% (third hike this year), with an expectation for one additional hike for 2018. The Fed's "dot plot" points to three additional hikes for 2019, bringing the range to between 3.00% and 3.25%, though the futures market is suggesting a more gradual pace. Interest rates rose for the fifth-straight quarter, with the 10-year yield closing near a seven-year high of 3.05%. The yield curve flattened, with the spread between the 10-year and 2-year Treasury yields falling to 0.25%. Despite the rising rates, tightening credit spreads allowed the Bloomberg Barclays U.S. Aggregate Bond Index to deliver a slight positive return. While positive, international equity markets lagged on concerns over global growth and trade tensions, with the MSCI EAFE® Index returning +1.4% and the MSCI Emerging Markets® Index returning -1.0%.

## CONTRIBUTORS

| Security name | Period return | Portfolio impact |
|---|---|---|
| STACR 17-DNA3B1 | +5.74% | +10 bps |
| JPMBB 13-C17 D | +7.41% | +8 bps |
| CAS 17-C07 1B1 | +4.52% | +7 bps |
| STACR 17-DNA2B1 | +4.27% | +7 bps |
| STACR 17-HQA1B1 | +6.09% | +6 bps |

| Country/Sector | Period return | Portfolio impact |
|---|---|---|
| Residential Credit | +2.66% | +55 bps |
| Loans | +2.30% | +33 bps |
| EMD/Sovereign | +3.99% | +28 bps |

Source: Amundi Pioneer Asset Management, Inc., 09/30/18.

The results shown represent past performance; past performance does not guarantee future results. Current performance may be lower or higher than the past performance shown.

## DETRACTORS

| Security name | Period return | Portfolio impact |
|---|---|---|
| JCP 8.625% 3/2025 | -18.19% | -5 bps |
| BUENOS 5.375% 1/2023 (EUR) | -5.24% | -2 bps |
| WFT 9.875% 3/2025 | -1.48% | -1 bps |
| CFWCN 8.500% 6/2026 | -4.07% | -1 bps |
| GARSRL 5.125% 10/2026 (EUR) | -1.71% | -1 bps |

| Country/Sector | Period return | Portfolio impact |
|---|---|---|
| Agency MBS | -0.29% | -0 bps |

Source: Amundi Pioneer Asset Management, Inc., 09/30/18.

The results shown represent past performance; past performance does not guarantee future results. Current performance may be lower or higher than the past performance shown.

## BUYS AND SELLS

| Security Name | Initial Buy Date | Rationale for Purchase |
|---|---|---|
| CONN 18-A C | 8/9/2018 | Attractively priced new issue consumer ABS |
| MUFG FRN 7/2023 | 7/17/2018 | Attractively priced floating rate corporate bond |
| SOCGEN 7.375% Perp | 9/27/2018 | Attractively priced AT1 capital security |
| OMIR 18-1A M1 | 7/19/2018 | Attractively priced MI CRT new issue security |
| SWM 6.875% 10/2026 | 9/14/2018 | Attractively priced new issue corporate bond |

| Security Name | Sell Date | Rationale for Sale |
|---|---|---|
| MUFG FRN 7/2023 | 7/24/2018 | Reduce given relative valuation and performance |
| CAS 17-C02 2B1 | 7/3/2018 | Reduce given relative valuation |
| BLULNE 9.250% 3/2024 | 9/13/2018 | Reduce given absolute valuation relative to call price |
| BAYNGR 3.875 12/2023 | 8/7/2018 | Reduce given valuation and heightened legal risks |
| CNC 5.375% 6/2026 | 7/18/2018 | Reduce given relative valuation versus insurance sector comparables |

## PORTFOLIO POSITIONING

The Fund's positioning reflects a long bias in securitized credit and a neutral bias in corporate credit exposure. During the third quarter, we modestly decreased the portfolio's exposure to Leveraged Loans in favor of higher exposures to Investment Grade and High Yield corporate bonds. We added High Yield exposure through new positions in EUR denominated High Yield issues given our relative value preference when compared to the USD market. Though relative valuations between Leveraged Loans and High Yield bonds have compressed, we remain comfortable with overall Leveraged Loan exposure. Overall corporate credit "beta" positioning decreased during the quarter. Given the strong sell-off in emerging markets debt (EMD) markets, we monetized gains in short positions and moved to a modest net long position bias in EMD. Within the securitized credit allocation, we increased the portfolio's residential mortgage credit and sub-prime auto ABS exposures. The portfolio contained approximately 5% of market value in non-USD exposure, which was 1% higher than in the prior quarter. All non-USD market exposure was hedged back into USD. Interest rate exposure, or duration risk, was measured at approximately 1.3 years.

## MARKET ENVIRONMENT

US and Global fixed income markets bobbed and weaved during the third quarter as investors particularly focused on solid US economic data, a determined Federal Reserve, emerging market concerns (Argentina & Turkey) and Italian government budgetary headlines. In the end, US Treasury yields traded higher and US credit market spreads narrowed across the board (investment grade (IG), high yield (HY), Loans and Securitized). US Treasury rates increased 20-25 basis points across the curve. It's notable that nearly 90% of the increase in yields was due to higher real yields. This suggests that the market was primarily pricing in a higher rate of real economic growth. Domestic equity investors looked elsewhere for their buy/sell signals and focused on recent corporate earnings strength (Q2 earnings up ~25% for S&P 500), a potential US-Mexico trade accord, and a more dovish read on U.S. central bank "Fedspeak". All told, domestic equity markets performed surprisingly well during the quarter amidst a backdrop of global fixed income market volatility and higher US Treasury yields.

The Federal Reserve raised the target range for the policy rate another 25 basis points to 2.00%-2.25% at its September 26th meeting. During the post-meeting press conference, Fed Chairman Powell reiterated the case for a gradualist approach to policy normalization by pursuing a steady intermediate-term interest rate path that considers the risks of either unnecessarily slowing domestic economic growth or over-stimulating the economy. The Federal Reserve will focus on economic data in determining the pace and number of additional rate hikes and inflation data will be particularly important. We expect another 0.25% increase at the December meeting. Market pricing reflects only two and one-quarter more rate hikes after that. It is likely that the Federal Reserve increases the Fund rate more than is implied by current market pricing unless economic data are surprisingly weak in coming quarters.

Summarizing third quarter 2018 major market activity: US equites surged (S&P 500 +7.7%, RTY +3.6%), USD corporate credit spreads narrowed (IG -17 basis points, HY -43 basis points), U.S. Treasury yields shifter higher and the yield curve flattened (2-year: +29 basis points, 10-year: +20 basis points, 30-year: +20 basis points), commodities sold-off (Commodity Research Bureau (CRB) Index -2.6% and oil -1.2%), implied equity volatility declined (VIX from 16.1 to 12.1) and the US dollar was modestly stronger (DXY +0.7%). In general, the market environment was positive for the Fund's broad positioning themes and exposures.

## OUTLOOK

Our intermediate-term macro forecast remains on track. Solid domestic and global economic growth should continue to support credit market fundamentals (cash flow generation), as well as business and consumer spending and confidence. We highlight that the NFIB's monthly U.S. Small Business Optimism survey touched a record high (since 1974) in September and U.S. consumer confidence readings remain at historically elevated levels. Domestic equity and credit market valuations reflect largely reflect the optimism. The Federal Reserve will continue to normalize monetary policy with an eye on employment, inflation, and financial conditions. We are monitoring the US interest rate markets for an opportunity to adjust portfolio duration higher. Regarding the USD corporate credit markets, Investment Grade spreads reside in the middle of the forty-basis point range (85-124 basis points) they have traded in so far in 2018. Supply/demand imbalances have played a role in spread volatility so far this year and we expect market technical to be supportive into Q4 2018. Meanwhile, USD High Yield spreads, at ~325 basis points, rest at a cycle tight dating back to 2007. USD High Yield spreads have been supported by low issuer defaults, solid domestic economic growth and waning HY bond issuance. While USD corporate spreads are generally compressed, we currently see better "value" in the IG markets but expect to opportunistically add to HY exposure as new issuance activity builds during the fourth quarter. Our positive view on the securitized credit sector is unchanged and reflected in current portfolio positioning. Valuations remain attractive relative to corporate bond markets and our fundamental (consumer and housing) outlook remains in place. Overall, we continue to advocate an active investment management approach focused on security selection and sector allocation as the best way to navigate a relatively range-bound market environment.

# Nationwide Amundi Strategic Income Fund Quarterly Commentary

**Q3** 2018
AS OF 09/30/18

## Average annual total returns (%)

| Share class | QTD | YTD | 1-year | 3-year | 5-year | Since inception |
|---|---|---|---|---|---|---|
| Class A (without sales charge) | 1.80 | 2.18 | 5.10 | – | – | 7.66 |
| Class A **(with 2.25% max sales charge)** | -0.50 | -0.12 | 2.73 | – | – | 6.82 |
| Class C | 1.59 | 1.59 | 4.30 | – | – | 6.86 |
| Institutional Service Class | 1.96 | 2.41 | 5.41 | – | – | 7.96 |
| Class R6 | 1.86 | 2.39 | 5.39 | – | – | 7.97 |
| BBgBarc US Agg Bond Index | 0.02 | -1.60 | -1.22 | 1.31 | 2.16 | – |
| Multisector Bond Category | 0.89 | -0.10 | 0.59 | 4.05 | 3.15 | – |

Performance returns assume the reinvestment of all distributions. Returns for periods less than one year are not annualized. Total returns reflect a contractual expense limitation for direct annual Fund expenses for all classes for certain periods since inception, without which returns would have been lower.

| Share class | Expense ratios | | Inception date |
|---|---|---|---|
| | Gross (%) | Net (%) | |
| Class A | 1.77 | 1.17 | 11/02/2015 |
| Class C | 2.52 | 1.92 | 11/02/2015 |
| Institutional Service Class | 1.52 | 0.92 | 11/02/2015 |
| Class R6 | 1.27 | 0.67 | 11/02/2015 |

The expense ratios are as shown in the most recent prospectus. Expenses include underlying fund expenses. The difference between gross and net operating expenses reflects contractual fee waivers in place through 06/30/2019. Please see the Fund's prospectus for more details.

## Top Holdings

| | % of portfolio |
|---|---|
| Freddie Mac Structured Ag Cred Risk | 1.8 |
| Freddie Mac Structured Ag Cred Risk | 1.7 |
| FANNIE MAE CONNECTICUT AVENUE SECURITIES 2017-C07 | 1.7 |
| FANNIE MAE CONNECTICUT AVENUE SECURITIES 2017-C06 | 1.7 |
| WESTLAKE AUTOMOBILE RECEIVABLES TRUST 2018-1 | 1.6 |

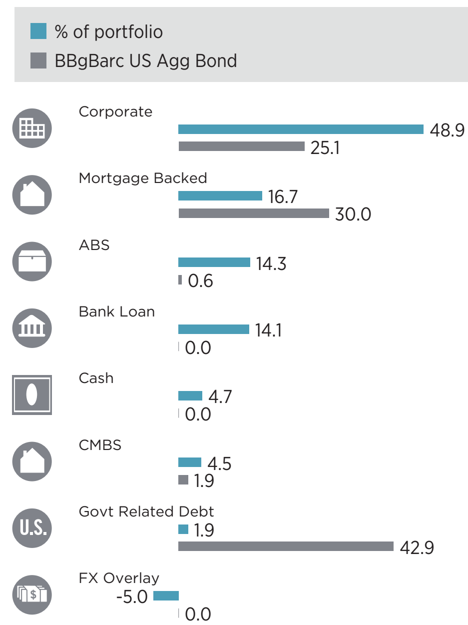
Holdings are provided for informational purposes and should not be deemed as a recommendation to buy or sell the securities.

## Portfolio characteristics

| | |
|---|---|
| Total Net Assets (all classes) | $117.2M |
| Total Number of holdings | 205 |
| Turnover | 199% |

Portfolio characteristics are based on Institutional Service Class shares.
*Rolling 36 months

## Top Sectors




The results shown represent past performance; past performance does not guarantee future results. Current performance may be lower or higher than the past performance shown. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. To obtain the most recent month-end performance, go to nationwide.com/mutualfunds or call 800-848-0920.

Class A - max front end sales charge of 2.25%, 0.25% 12b-1 fee (investment size may reduce or eliminate front-end sales charge). Class C - 1.00% Contingent Deferred Sales Charge, 1.00% 12b-1 fee. Class R6 shares - no sales charge, no 12b-1 fee. Institutional Class shares -no sales charge, no 12b-1 fee.

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution • Not insured by any federal government agency • May lose value

## Important Disclosures

This material is not a recommendation to buy, sell, hold, or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Investors should work with their financial professional to discuss their specific situation.

**Investors should carefully consider a fund's investment objectives, risks, fees, charges and expenses before investing any money. To obtain this and other information on Nationwide Funds, please call 1-800-848-0920 to request a summary prospectus and/or a prospectus, or download a summary prospectus and/or a prospectus at nationwide.com/mutual-funds-prospectuses.jsp. Please read it carefully before investing.**

**DEFINITIONS**: **Average annual total returns** are the annual compounded returns that would have produced the cumulative total return if fund performance had been constant during the given period. **P/E ratio** is the price of a stock divided by trailing 12-month earnings per share. **Sharpe ratio** measures excess return per unit of risk (standard deviation). A higher Sharpe ratio suggests better risk-adjusted performance. **Standard deviation** measures performance fluctuation, may not be indicative of future risk and is not a predictor of returns. **Alpha** represents the excess returns of a fund relative to its benchmark. A positive alpha is the added value an active manager has contributed over the benchmark returns. **Beta** measures volatility in relation to the fund's benchmark. A beta of less than 1.0 indicates lower volatility, while a beta of more than 1.0 indicates higher volatility relative to the benchmark. **R-Squared** measures the percentage of a fund's movements that can be explained by movements in a benchmark. **Turnover** measures how frequently investments are bought and sold within a fund during a 12 month period. The portfolio turnover rate is as of the fund's fiscal year end and is usually expressed as a percentage of the total value of a fund.

**Principal Risks**: Investing in mutual funds involves risk, including the possible loss of principal. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. There is no assurance that the investment objective of any fund will be achieved. The Fund is subject to the risks of investing in fixed-income securities, including high-yield bonds (which are more volatile). The Fund may invest in corporate loans (which have speculative characteristics and are high risk). The Fund also is subject to the risks of investing in foreign securities (currency fluctuations, political risks, differences in accounting and limited availability of information, all of which are magnified in emerging markets). The Fund may concentrate on specific sectors or countries, subjecting it to greater volatility than that of other mutual funds. The Fund may invest in more-aggressive investments such as derivatives (many of which create investment leverage and illiquidity, and are highly volatile). The Fund may invest in sovereign debt (a governmental entity may delay or refuse to pay interest or repay principal). Please refer to the most recent prospectus for more detailed information.

**Market Indexes**: Market index performance is provided by a third-party source Nationwide Funds Group deems to be reliable. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses have been reflected. Individuals cannot invest directly in an index. **The S&P SmallCap 600® Index:** measures the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. **NASDAQ Composite Index:** a market capitalization-weighted index that measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market. **S&P 500® Index:** An unmanaged, market capitalization-weighted index of 500 stocks of leading large-cap U.S. companies in leading industries; gives a broad look at the U.S. equities market and those companies' stock price performance. **Bloomberg Barclays US Aggregate Bond Index:** An unmanaged, market value-weighted index of U.S. dollar-denominated, investment-grade, fixed-rate, taxable debt issues, which includes Treasuries, government-related and corporate securities, mortgage -backed securities (agency fixed-rate and hybrid adjustable -rate mortgage pass-throughs), asset-backed securities and commercial mortgage-backed securities (agency and non-agency). **MSCI EAFE Index:** An unmanaged, free float-adjusted, market capitalization-weighted index that is designed to measure the performance of large-cap and mid-cap stocks in developed markets as determined by MSCI; excludes the United States and Canada. **MSCI Emerging Markets Index:** An unmanaged, free float-adjusted, market capitalization-weighted index that is designed to measure the performance of large-cap and mid-cap stocks in emerging-country markets as determined by MSCI.

**Russell 2000 Index:** An unmanaged index that measures the performance of the small-cap segment of the U.S. equity universe. **The Commodity Research Bureau (CRB) Index:** acts as a representative indicator of today's global commodity markets. It measures the aggregated price direction of various commodity sectors. The index comprises a basket of 19 commodities, with 39% allocated to energy contracts, 41% to agriculture, 7% to precious metals and 13% to industrial metals.The CRB is designed to isolate and reveal the directional movement of prices in overall commodity trades.
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