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RIDGEWORTH INSIGHTS: INVESTMENT GRADE FIXED INCOME

SEIX INVESTMENT ADVISORS LLC®

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RIDGEWORTH FUNDS

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RidgeWorth Seix U.S. Government Securities Ultra-Short Bond
RidgeWorth Seix U.S. Mortgage
RidgeWorth Seix Ultra-Short Bond

EXECUTIVE SUMMARY

- The Federal Reserve Board (Fed) left the federal funds rate unchanged, as expected, but three governors dissented, voting for an increase. Expectations of a December hike ended the quarter at about 50/50.
- In the most notable move by central banks in the quarter, the Bank of Japan (BOJ) set a target of 0% for the 10-year yield in an effort to boost bank profitability. Quantitative and Qualitative Easing (QQE) with yield curve control is the name of this latest monetary policy twist.
- Despite ultra-accommodative policies by the BOJ, the Yen has continued to strengthen (+15.7% year-to-date as of September 30), suggesting that investors believe monetary policy has run its course and that additional easing is unlikely.
- A constitutional reform referendum in Italy, to be held on December 4, could revive anxieties about the Eurozone unraveling. Polls suggest the outcome is too close to call.

In the third quarter, financial markets once again took their cue from central banks, but signs emerged that markets and policymakers are beginning to question the efficacy of the unconventional monetary policy that has dominated global capital markets since the financial crisis.

The quarter began with markets reacting to central bank pledges to provide any liquidity necessary in the aftermath of the historic June 23 Brexit vote. Investors piled into risk assets, driving both stocks and credit markets higher. The Bloomberg Barclays U.S. Aggregate Bond Index finished the third quarter up 0.46%, bringing the year-to-date total return to 5.80%. Exhibit 1 illustrates the total return of select risk asset proxies.

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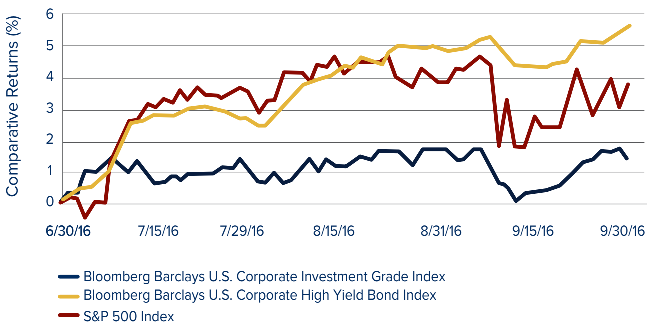
The Bloomberg Barclays U.S. Treasury Index fell 0.28%. The short end of the yield curve underperformed the long end, and as a result the yield curved flattened slightly. The yield on the 10-year Treasury rose from 1.47% to 1.60%, after hitting an all-time low of 1.36% on July 8 (Source: Bloomberg). While this benchmark yield was expected to trade between 1.5% and 2.0%, we anticipated that any breakout was likely to be lower, not higher.

Exhibit 1: Stocks and Spread Assets Surge Post Brexit Vote (6/30/16 – 9/30/16)



Sources: Bloomberg, as of 9/30/16. Date pulled: 10/10/16.

ARE DOUBTS EMERGING ABOUT ZIRP AND NIRP?

Despite stronger labor market conditions, the Fed opted to leave the federal funds target unchanged, as markets anticipated. But the September decision was not without some dissent. For the first time since 2011, three of 10 Federal Open Market Committee (FOMC) voters dissented with the FOMC decision, with all three favoring an increase. This is only the fifth time in the last 30 years this has occurred. It is worth noting that three FOMC officials had no increase in the target rate in 2016 according to the Fed's "dot plot" (a quarterly projection where FOMC members outline how they see the target rate evolving over time). A still unchanged fed funds target rate stands in marked contrast to expectations at the beginning of the year, when the median prediction by the FOMC was for four rate hikes by year-end.

If the Fed is going to tighten this year, it is most likely to occur in December, and as of late September, fed fund futures were giving that scenario roughly a 50/50 chance. Odds of a hike may decline, however, in light of risks on the horizon, including growing weakness in Europe's banking sector and a political referendum in Italy that could revive fears of a Eurozone collapse.

The most noteworthy move in monetary policy came in Japan, where the central bank announced that it would set a yield target of 0% for the 10-year Japanese government bond (JGB). Yields on JGBs have fallen into negative territory, in part due to the BOJ's negative interest rate policy (NIRP), and the yield on the 10-year note has been negative since March 2016. The new policy is designed to address the unintended consequence of NIRP: weakened bank profitability.

We do not anticipate, however, that NIRP, begun in January 2016, will achieve the desired effect of stronger economic growth and higher inflation. Negative interest rates are deflationary rather than inflationary, in our opinion, by virtue of the fact that they take income out of the economy thereby forcing people to save more, and as a result, they end up being counterproductive to both growth and inflation.

We are not alone in our skepticism about ultra-accommodative monetary policies. Despite shifting to a NIRP, the Yen has continued to appreciate. Exhibit 2 below illustrates the Yen's gains in 2016. Speculative positioning in the Yen also shifted to a net long in 2016, contrary to the net short positioning that persisted for the better part of 2014 and 2015.

Exhibit 2: The Yen Continues to Appreciate Despite NIRP (12/31/15 – 9/30/16)

Sources: Bloomberg, as of 9/30/16. Date pulled: 10/10/16.

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FIRST BREXIT, NOW ITA-LEAVE?

Negative rates remain in place at the European Central Bank (ECB), while the quantitative easing program is set to end in March 2017. Additional action by the ECB could certainly be forthcoming should either of the two primary risks previously noted—weakening European banks and the Italian reform referendum—materialize.

Of the two, the latter appears to be the more significant threat. The proposed reform would strengthen the Prime Minister and weaken the Senate. The growing anti-euro Five-Star Movement opposes the referendum, and polling data indicates the contest is a close call. But in reality, these tight poll numbers could signal a win for the anti-euro vote, if Britain's experience is any indication. There, Brexit polling data failed to correctly gauge a fervent Euroskeptic sentiment, surprising pollsters and markets alike.

If the anti-euro vote wins the December 4 referendum, further calling the Eurozone's future into question, central banks are again likely to respond. A "No" vote could provide the Fed with a "new risk" and therefore a reason to postpone the expected December rate increase.

In Asia, China is also a vulnerability for the global economy. China's financial system is overleveraged, and now its economy is undergoing a secular slowdown. It appears, however, that markets remain sanguine that the government has ample resources to backstop the financial system. Another round of market stress will surely test the certitude of that belief.

OUTLOOK

Global economic growth is likely to remain sluggish, and near-term gross domestic product (GDP) outlooks have largely been revised downward. In September the Organisation for Economic Co-operation and Development lowered its prior 2016 global growth forecast, published last June. The group now expects 2016 global GDP to expand by 2.9%, down from 3.0%, and expects 2017 GDP to rise by 3.2%, down from 3.3%. The World Trade Organization is less optimistic, estimating global growth for 2016 to be 2.2%. The latter would qualify as a global recession, which we alluded to at the beginning of the year as a better than 50/50 proposition.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of U.S. bonds, which includes reinvestment of any earnings and is widely used to measure the overall performance of the U.S. bond market.

Bloomberg Barclays U.S. Corporate Investment Grade Index is a widely recognized index that tracks the performance of investment grade corporate bond funds.

Bloomberg Barclays U.S. Corporate High Yield Bond Index is an unmanaged market value-weighted index that covers the universe of fixed rate, non-investment grade debt.

Bloomberg Barclays U.S. Treasury Index includes public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Investors cannot invest directly in an index.

Gross Domestic Product (GDP) refers to the market value of all final goods and services produced within a country in a given period. GDP per capita is often considered an indicator of a country's standard of living.

Negative Interest Rate Policy (NIRP) is an unconventional monetary policy tool whereby nominal target interest rates are set with a negative value, below the theoretical lower bound of zero percent.

Yield Curve is a curve that shows the relationship between yields and maturity dates for a set of similar bonds, usually Treasuries, at any given point in time.

Investment Risks:

Bonds offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher-quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a fund's fixed income securities will decrease in value if interest rates rise and vice versa. Mortgage-backed investments involve risk of loss due to prepayments and, like any bond, due to default. Because of the sensitivity of mortgage-related securities to changes in interest rates, a fund's performance may be more volatile than if it did not hold these securities. U.S. Government guarantees apply only to the underlying securities of a fund's portfolio and not a fund's shares.

The views expressed herein are as of the quarter-end specified. This information is general in nature, provided as general guidance on the subject covered, and is not intended to be authoritative. It is subject to change without notice as market conditions change, and is not intended to predict the performance of any individual security, market sector, or RidgeWorth Fund. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decision.

Before investing, investors should carefully read the prospectus or summary prospectus and consider the fund's investment objectives, risks, charges and expenses. Please call 888.784.3863 or visit ridgeworth.com to obtain a prospectus or summary prospectus, which contains this and other information about the funds.

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ABOUT RIDGEWORTH INVESTMENTS

RidgeWorth Investments—a global investment management firm headquartered in Atlanta, Georgia, with approximately $40.1 billion in assets under management as of September 30, 2016—offers investors access to a select group of boutique investment managers and subadvisers. RidgeWorth wholly owns three boutiques: Ceredex Value Advisors LLC, Seix Investment Advisors LLC and Silvant Capital Management LLC, and holds a minority ownership in Zevenbergen Capital Investments LLC. WCM Investment Management and Capital Innovations, LLC serve as subadvisers to the RidgeWorth Funds. Through these six investment managers, RidgeWorth offers a wide variety of fixed income and equity disciplines, providing investment management services to a growing client base that includes institutional, individual and high net worth investors.

For more information about RidgeWorth, its boutiques and its subadvisers, visit **ridgeworth.com**.

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ABOUT SEIX INVESTMENT ADVISORS LLC

Seix Investment Advisors, one of RidgeWorth's investment management boutiques, has exclusively focused on managing fixed income assets since 1992. Seix seeks to generate competitive absolute and relative risk-adjusted returns over the full market cycle through a bottom-up focused, top-down aware process. Seix employs multi-dimensional approaches based on strict portfolio construction methodology, sell disciplines and trading strategies with prudent risk management as a cornerstone.

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