



High Yield Strategy

October 2020

Strategic Income Management (SiM)

Value Driven, Income Focused

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Section One:

Organizational Overview

Strategic Income Management (SiM)

Value Driven, Income Focused

Same Team and Philosophy Since 1998 to Achieve Top Decile Performance

- Management team has worked together for 27 years
- **Same team & strategy for 20 years** managing dedicated high yield portfolios, long term continuity secured by addition of PM Ryan Larson
- Team previously managed high yield portfolio for 11 years at Principal achieving top decile performance across 3-, 5-, and 10-year periods, as ranked by Morningstar
- Total firm AUM: \$1.3 billion
 - Clients include: Public Pension Funds, Insurance Companies, sub-advisor for US '40 Act registered Mutual Fund and UCITs Fund.
- Focused on one strategy applied across all portfolios
- Based in Seattle, Washington

Organization

An experienced team with a long history

SiM founded in 2010
100% employee owned



Section Two

Investment Philosophy

What makes SiM US High Yield unique?

A distinctive approach to High Yield investing

Typical US High Yield Manager:

- Usually closet indexers—invested in hundreds of names across all industries with only minor tweaks in exposure
- Top 20 investment companies hold 46% of the U.S. high-yield market. Forced by their size to invest in largest issuers. Conducive to herd mentality.

The SiM Approach:

- Small team of generalists where PMs are analysts first and all are committed to the entire portfolio, not just a sector.
- A Core Portfolio overweight in industries generally less cyclical and better suited to leverage.
- Opportunistic investments in Out-of-Favor industries and non-traditional high-yield—areas with dislocations, but with long-term viability and attractive risk/reward.
- AUM small enough to invest in small issuers and capture favorable yield premium.
- Strategy built on long-term trends and high conviction leads to lower turnover and more focus—70 to 100 issuers in the portfolio.

The Resulting Portfolio

Our distinctive approach to High Yield investing

The result is a portfolio and investment strategy that seeks to:

Core

- Capture the support of long-term trends.
- Overweight “right” industries, underweight those ill suited to high leverage
- Invest in businesses with competitive advantage, adequate cash flows and capex, and appropriate capital structure

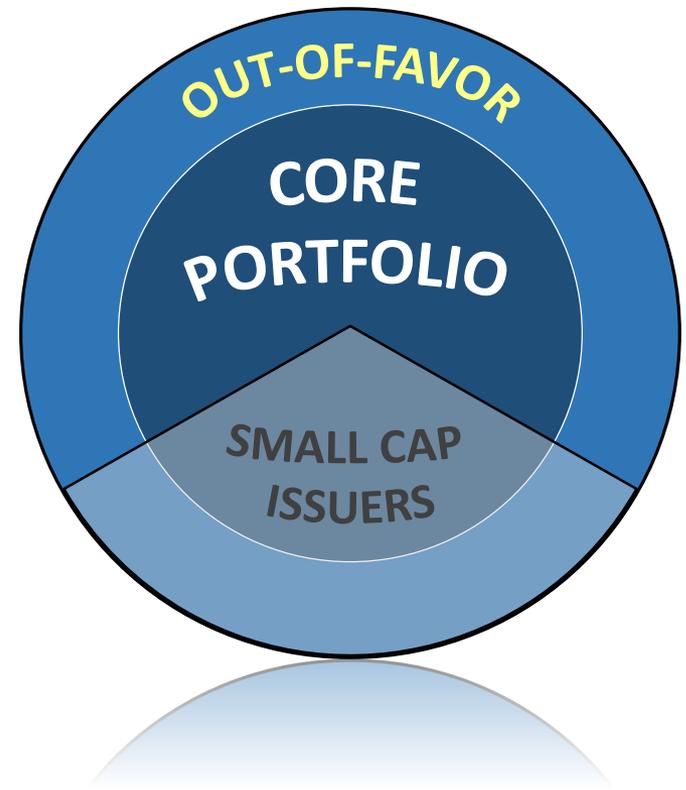
Out of Favor

- Add alpha investing in out-of-favor industries that are viable on pathway to rebalancing
- Add alpha investing in non-traditional high yield--sectors forsaken by their traditional buyers and offering yields competitive to High Yield

Small Cap

- Exploit the favorable risk premia to be found in small issuers

The Portfolio



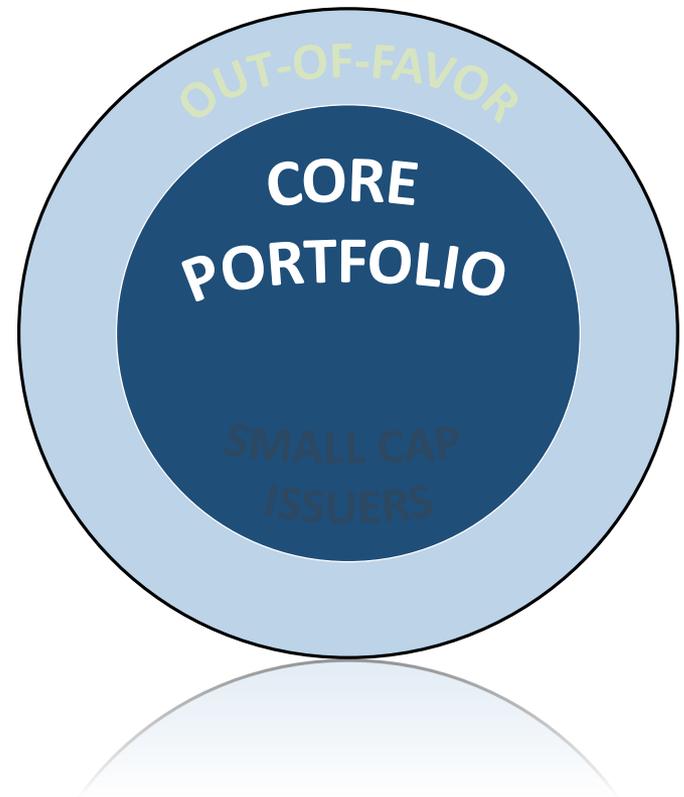
The Core Portfolio

Building Our High Yield Portfolio

Our three principles - Identifying long-term trends, focusing on the “right industry,” and performing a “CFO-level analysis” – are applied to create the **Core** of the portfolio.

The Core results in a portfolio that:

- Tends to be less cyclical
- Provides better downside protection
- Provides more alpha over the long run



Out-of-Favor Sectors

Supplementing the core of the portfolio

Same Principles applied to Core are applied in Out-of-Favor Sectors:

➤ Invest in sectors supported by long term trends.

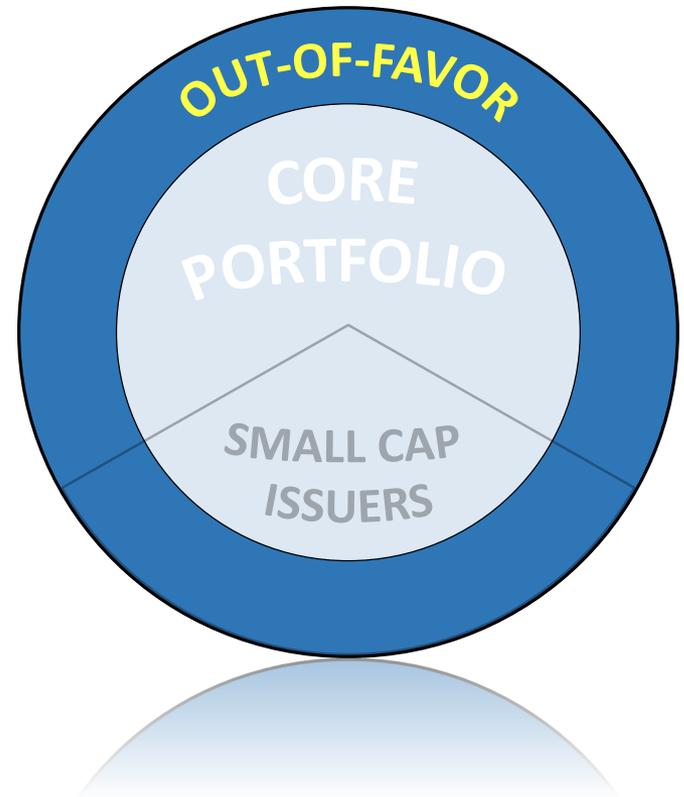
Invests in out-of-favor sectors that have long-term viability and only suffer from temporary dislocations.

➤ Invest in the right industries.

There should be a clear pathway to a rebalancing of the industry, usually through a removal of excess supply.

➤ Analyze as a CFO to ascertain that the company can endure.

Rebalancing of industry can take years. Company should have the cashflow, balance sheet, product and management to endure.



Out-of-Favor Sectors

Supplementing the core of the portfolio

Market continually offers Out-of-Favor opportunities

Through three business cycles over the past 18 years, the SiM has repeatedly exploited out-of-favor opportunities.

1998	Asian Crisis
2000	Tech Bubble
2002	Telecom Bubble
2004	Healthcare
2008	Auto
2008	Financial Crisis
2011	European Financial Crisis
2012	Airlines
2013	Farm Economy
2015	Oil collapse
2018	Shipping
2020	Leisure

SiM often has little or no exposure to some of the more cyclical sectors, but when they fall deeply out-of-favor SiM may take an overweight position.

Once a sector recovers, SiM may exit and not return for years. *(One argument against a pool of specialized analysts.)*

Investing in Small Cap Issuers (total bonds outstanding <\$500 million)

Rounding out the portfolio

Advantages of Investing in Small Cap Issuers

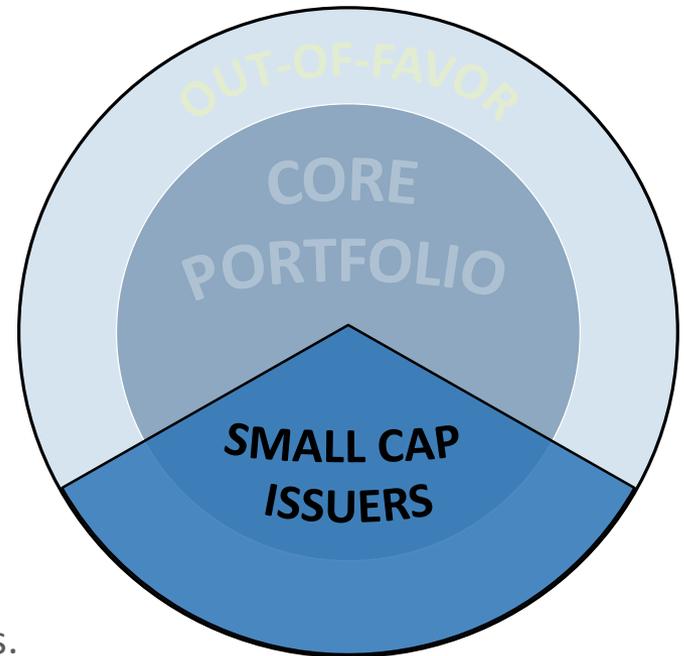
- Small Cap single-B issuers in the index offer higher OAS than Large Caps with same rating.

Nature of Small Cap

- Comprise more than third of issuers in the Index.
- Large AUM investors ignore—cannot take position large enough to make a significant contribution.
- Rating agencies penalize companies just for being small.

Liquidity

- 96% of SiM Small Cap classified as moderate to highly liquid by a third party. Liquidate position in <7 days.
- 70% of SiM Small Cap has publicly traded equity.
- Team has managed liquidity with small cap for 18 years.
- More focused portfolio of 80+ issuers enables SiM trader to be more in touch with buyers/sellers than large funds juggling hundreds of names.

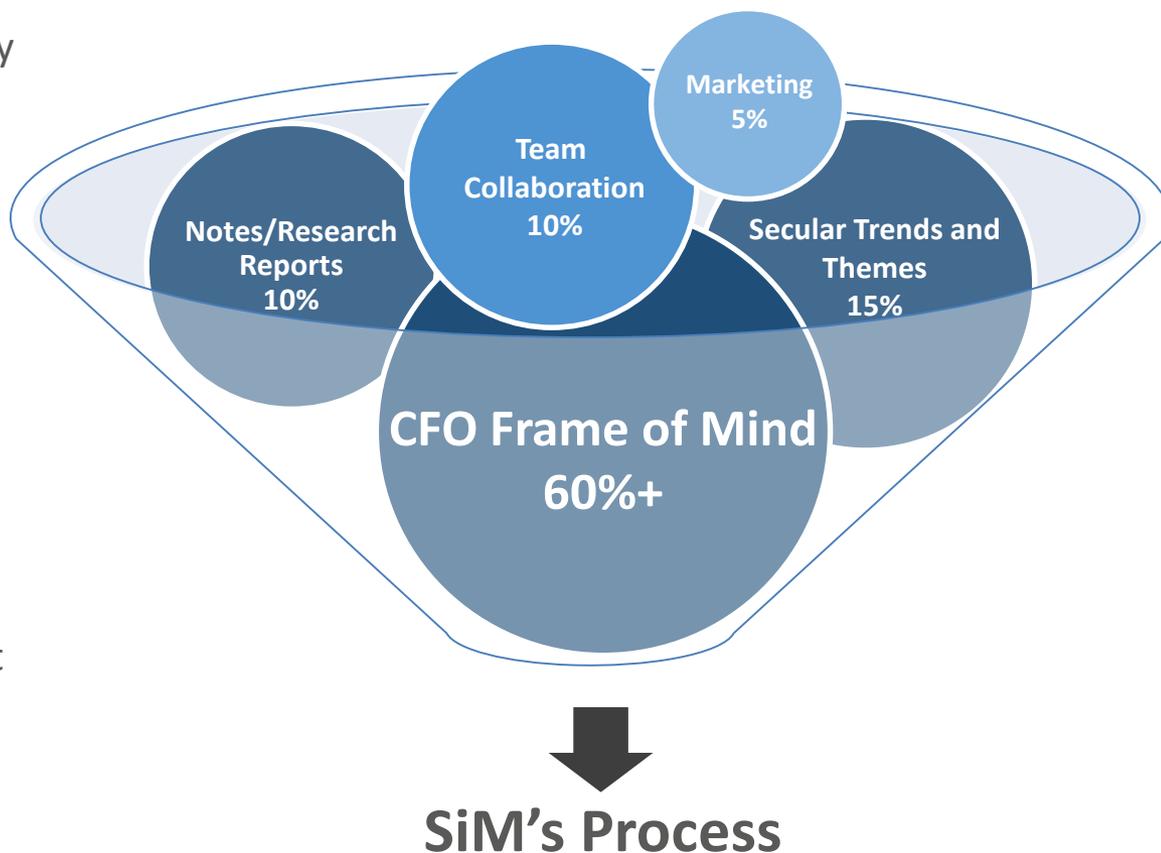


SiM's Unique Process

A distinctive approach to High Yield investing

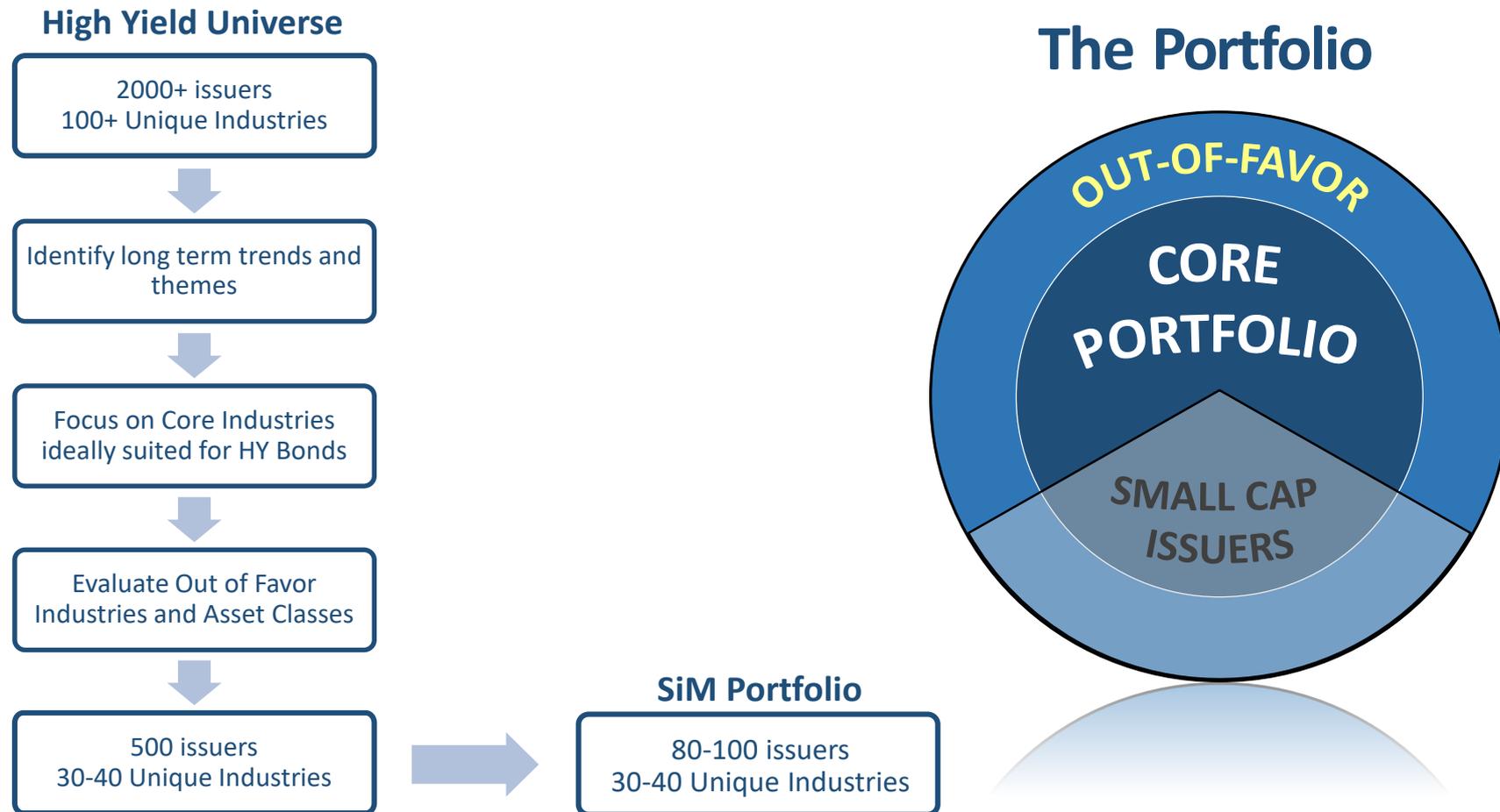
How SiM team spends their time

- Process is a product of SiM strategy
 - ✓ Secular themes
 - ✓ Industry first
 - ✓ CFO Frame of Mind
- Small team allows for
 - ✓ Effective communication
 - ✓ No jockeying
- Corporate partnerships allow the SiM team to focus on Research not Marketing



SiM's Unique Process

A distinctive approach to High Yield investing



Section Three:

Portfolio Characteristics

Strategic Income Management (SiM)

Portfolio Characteristics

SiM Portfolio Characteristics

10/23/2020

Characteristics Summary		
	SiM	HY Index*
Price	94.8	100.4
Yield To Worst	8.6%	5.4%
Option Adjusted Spread	802	466
Coupon	6.3%	6.0%
Rating	B+	B+
Current Yield	6.6%	6.0%
Yield To Maturity	8.9%	5.8%
Effective Duration	3.5	3.6

*ICE BAML HY Index

Strategic Income Management (SiM)

Value Driven, Income Focused

Changes since COVID-19

Additions

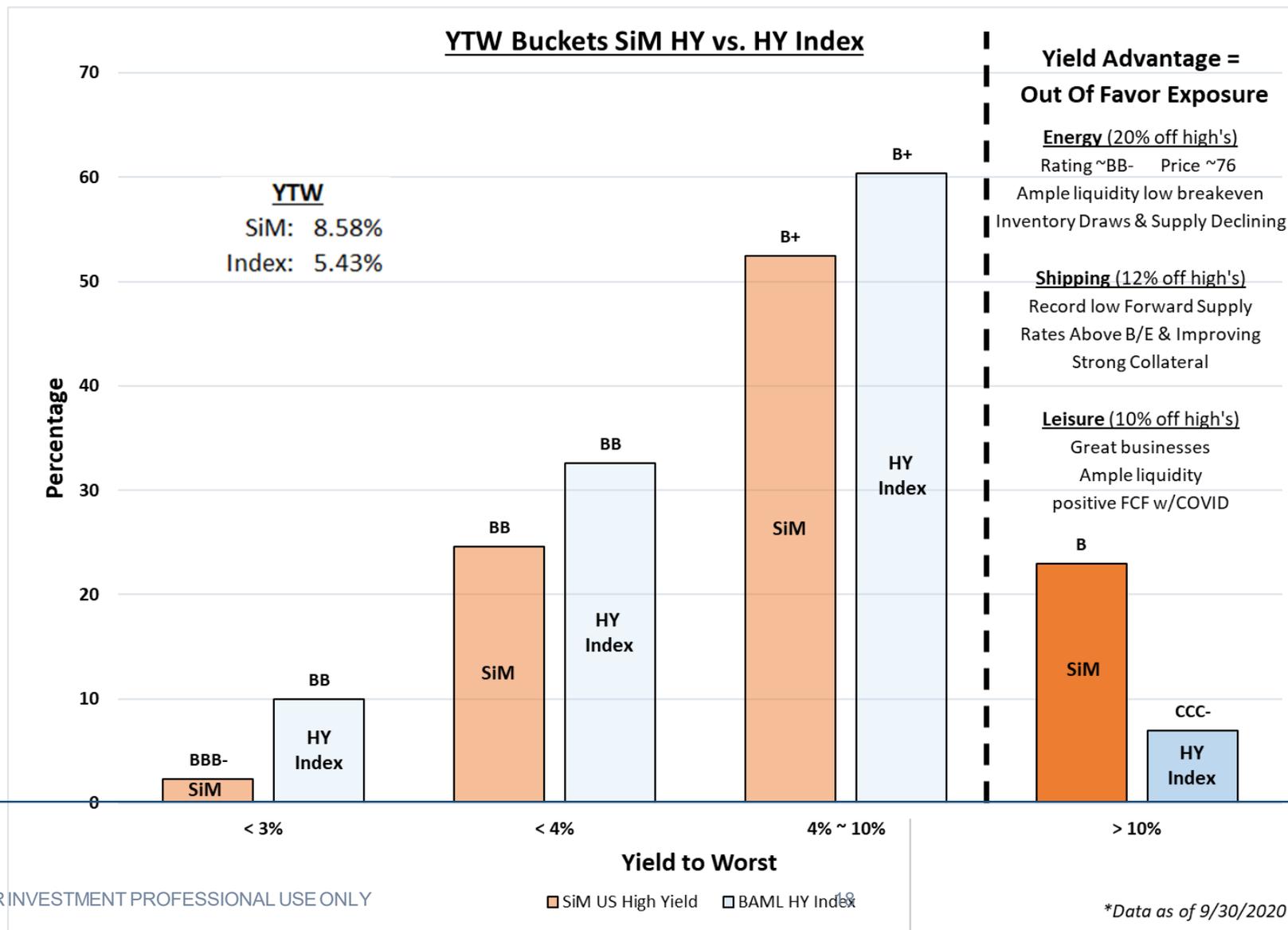
- Leisure/Consumer Discretionary +6.75%
 - Theme Parks (1%)
 - Restaurants (0.5%)
 - Auto Retail (1.25%)
 - Online Retail (1%)
 - Theaters (1.5%)
 - Vacation Time Share (1%)
 - Airline Supplier (0.5%)
- Busted Convertibles +5.5%
 - Technology (1.75%)
 - Consumer Discretionary (3%)
 - Other (0.75%)
- Energy +8.5%
 - High Quality BB-Rated E&P (8.5%)

Sample Companies

Winnebago
Marriot Vacations
Square
Six Flags
Boyd Gaming
Chefs' Warehouse
Twitter
Etsy
Cinemark
Brinker (Chili's)
QVC
Cenovus Energy
Canadian Natural Resources
Penske Auto Group

Strategic Income Management (SiM)

Portfolio Characteristics



Biographies

Gary J. Pokrzywinski, CFA

Mr. Pokrzywinski is the Lead High Yield Portfolio Manager for SiM. He has 30+ years of experience in the fixed income financial markets. He currently manages the Morningstar 5-star*, American Beacon SiM High Yield Opportunities mutual fund, and prior to founding SiM managed the Morningstar 5-star**, Principal High Yield mutual fund from its inception in April 1998 to May 2009. Prior to SiM, He was the CIO and a High Yield Portfolio Manager for Edge Asset Management (and its predecessor), an affiliate of Principal Financial Group. He worked for Edge and its predecessor from 1992 to 2009. Prior, Mr. Pokrzywinski was an investment officer/portfolio manager for Firststar Investment Services Co. He received a bachelor's degree in finance and management information systems from the University of Wisconsin - Milwaukee. Mr. Pokrzywinski earned the right to use the Chartered Financial Analyst designation in 1989 and is a member of the CFA Society of Seattle.

Brian L. Placzek, CFA

Mr. Placzek is the High Yield Portfolio Manager for SiM. He has 30+ years of experience in investment management and financial analysis, and currently manages the Morningstar 5-star*, American Beacon SiM High Yield Opportunities mutual fund. Prior to SiM, Mr. Placzek was Head of Fixed Income/Research at Edge Asset Management, an affiliate of Principal Global Investors. At Edge he worked with Mr. Pokrzywinski on the Principal High Yield Mutual Fund from its inception in 1998 until the Mr. Pokrzywinski's departure in 2009. Mr. Placzek worked at Edge (and its predecessor) from 1990 to 2010. Prior to Edge he had been at Washington Mutual Bank, where he worked as an investment grade and high yield bond analyst/trader. Mr. Placzek earned the right to use the Chartered Financial Analyst designation in 1994, is a member of the CFA Society of Seattle and received a bachelor's degree in liberal arts from Seattle University.

Ryan C. Larson, CFA, CAIA

Mr. Larson is a Portfolio Manager for the SiM High Yield Team. Mr. Larson is responsible for portfolio management, investment research and analytics. He has 12 years of experience in investments. Prior to SiM, Mr. Larson was a research analyst at Caelum Capital, a Los Angeles based equity long-short hedge fund, from 2009 to 2010. Before Caelum Capital, Mr. Larson worked under the direction of a Managing Director at Wells Fargo in Seattle, Washington from 2008 to 2009. Mr. Larson earned the right to use the Chartered Financial Analyst designation in 2012 and is a member of the CFA Society of Seattle. Mr. Larson is also a member of the Chartered Alternative Investment Analyst Association (CAIA). Mr. Larson graduated with honors from Brown University with a bachelor's degree in Commerce, Organizations and Entrepreneurship.

**Data provided by Morningstar. SHOIX (institutional class) **CPHYX (load waived) 5-star ranking from 11/05 to 5/09. CPHYX 4- or 5-star rating from 4/03 to 5/09. Past performance is no guarantee of future results.*

Biographies (cont.)

Tim Black, JD

Mr. Black is the Chief Executive Officer and Chief Compliance Officer for SiM and is responsible for day to day operations and SEC compliance matters. Mr. Black has 16+ years of experience in regulatory and compliance matters in various roles in the investment industry. He is a former partner of Integra Ventures, a federally licensed Small Business Investment Company (SBIC), where Mr. Black was responsible for regulatory compliance and oversight management for the firm. Mr. Black is an attorney whose prior practice focused on corporate and securities matters, including issues relating to investment advisers and broker dealers. Mr. Black holds a BA from Colorado College and a JD, with honors, from Seattle University.

Kevin Power CFA

Mr. Power is a high yield analyst and trader for SiM. Prior to joining SiM in 2016, Mr. Power worked as a business loan officer at Business Impact NW, a non-profit Community Development Financial Institution, where he underwrote and serviced business loans. Prior to Business Impact NW, from 2006-2015, Mr. Power worked at Bank of America, in various roles, but most recently as a Banking Center Manager. Mr. Power holds a B.S. in Economics from the University of Washington.

Phil Burton

Mr. Burton is an operations associate for SiM and is responsible for monitoring day-to-day high yield portfolio operations, reporting and compliance. Prior to joining SiM in 2017, Mr. Burton was a loan servicing assistant at Washington Federal Loan Servicing Seattle. Mr. Burton has a BA in Economics from Western Washington University.

Appendix Exhibit 1

1 Performance reflects the unannualized performance from March 1, 2011 to December 31, 2011

2 Composite inception date March 1, 2011, annualized returns

3 Reflects number of accounts in composite at end of period. One account was removed for the months of March, 2017 and September, 2017 due to a Significant Cash inflow and outflow, respectively, in those months. That account comprises approximately 7% of total Composite assets. The returns for the removed account are included in all periods, with the exception of the two months it was removed.

4 For periods with less than 36 months of composite performance, no 3-year standard deviation measurement is available.

5 Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. During the periods presented with multiple accounts, one account represented approximately 85-95% of the aggregate composite assets. This large account is an open end mutual fund, and as such, may experience more frequent, and more significant, cash flows than other non-open end mutual fund accounts in the composite.

Strategic Income Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Strategic Income Management, LLC has not been independently verified.

Strategic Income Management, LLC is an independent SEC registered investment adviser. The firm maintains a list of composite descriptions, which is available upon request.

Appendix Exhibit 1 (Continued)

Composite Strategy and Fee Disclosures:

The Strategic Income Management High Yield Composite (the “High Yield Composite”) contains all discretionary fee paying accounts that invest, under normal circumstances, at least 80% of their net assets in non-investment grade securities and/or financial instruments that provide exposure to noninvestment grade securities. Non-investment-grade securities are securities rated at or below Ba or BB by Moody’s, S&P or Fitch or, if unrated, determined by Strategic Income Management, LLC to be of comparable quality. The non-investment grade securities in which accounts in the High Yield Composite may invest include: corporate bonds, convertible securities, preferred stock, bank and senior loans, securities of foreign issuers, emerging market debt and Rule 144A securities. Some accounts in the High Yield Composite utilize currency futures to hedge non U.S. dollar currency exposure for securities denominated in non U.S. dollars. Some accounts may also utilize credit default swaps (CDS) on a limited basis. Neither currency futures nor CDS are major components of the High Yield strategy or of accounts in the High Yield Composite. Portfolios in the High Yield Composite may contain international securities. There are no known material differences in exchange rates or valuation sources among the portfolios in the High Yield Composite. Specific investment guidelines may differ between accounts in the High Yield Composite, and therefore not all accounts in the High Yield Composite will hold the same securities or the same weightings in the same securities.

For comparison purposes the High Yield Composite is measured against the BofA Merrill Lynch US High Yield Master II Index (the “Benchmark”). The High Yield Composite was created November 1, 2012. The inception date of the High Yield Composite is March 1, 2011. Returns are presented gross and net of management fees and include the reinvestment of all income. Net performance was calculated using the actual sub advisory management fees applicable to those accounts included in the High Yield Composite, applied monthly. Actual sub advisory management fees for the accounts in the High Yield Composite vary depending upon account size and other factors, and currently range between 0.50% to 0.30% on amounts over \$1 billion. The standard investment advisory fee applicable to non-mutual fund accounts in the High Yield Composite is 0.75%. Actual investment advisory fees incurred by clients may vary and returns will be reduced by investment advisory fees actually incurred. Further information regarding investment advisory fees is described in Part 2a of the firm’s Form ADV.

The U.S. Dollar is the currency used to express performance. The minimum account size for the High Yield Composite is \$25 million.

Appendix Exhibit 1 (Continued)

Benchmark Disclosures:

The BofA Merrill Lynch US High Yield Master II Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch). The country of risk of qualifying issuers must be an FX-G10 member, a Western European nation, or a territory of the US or a Western European nation. The FX-G10 includes all Euro members, the US, Japan, the UK, Canada, Australia, New Zealand, Switzerland, Norway and Sweden. In addition, qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of \$100 million. Original issue zero coupon bonds, 144a securities, both with and without registration rights, and pay-in-kind securities, including toggle notes, qualify for inclusion. 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. Eurodollar bonds (USD bonds not issued in the US domestic market), taxable and tax exempt US municipal, warrant-bearing, DRD-eligible and defaulted securities are excluded from the Index.

Regulatory Disclosures:

Performance shown represents total returns that include income, realized and unrealized gains and losses. Gross returns shown do not reflect the deduction of investment advisory fees. Investment returns will be reduced by investment advisory fees and other expenses incurred during portfolio management. Past performance is not indicative of future results.

Appendix Exhibit 1 (Continued)

Methodology Disclosures:

Gross performance is presented net of transaction costs. Net of fee performance was calculated using actual fees applied monthly. High Yield Composite performance is presented net of foreign withholding taxes on dividends, interest income, and capital gains. Withholding taxes may vary according to the investor's domicile. High Yield Composite returns represent investors domiciled primarily in the United States. For non-US domiciled portfolios, performance is calculated without including the effects of currency share class hedging. Non-US domiciled investors investing in a share class that is hedged back to their local currency may have returns different than the composite returns.

Strategic Income Management has defined a Significant Cash Flow as 15% of a portfolio's value at the time of the cash flow. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Variance Disclosures:

The composite dispersion presented is an asset-weighted standard deviation calculated using accounts in the High Yield Composite the entire year. During the periods presented with multiple accounts, one account represented approximately 85-95% of the aggregate composite assets. This large account is an open end mutual fund, and as such, may experience more frequent, and more significant, cash flows than other non-open end mutual fund accounts in the composite.

The 3-Year Standard Deviation represents the annualized standard deviation of actual High Yield Composite and Benchmark returns, using the rolling 36-months ended each year-end. The 3-Year Standard Deviation of the High Yield Composite and the Benchmark returns are not presented for some periods because the High Yield Composite strategy had less than three years of history for those periods.