



High Yield Strategy

January 2019

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
- 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: \$1.4 billion
 - Clients include: Public Pension Funds, Insurance Companies, sub-advisory relationships domestically and abroad
- 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



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.

SiM's Unique Investment Approach

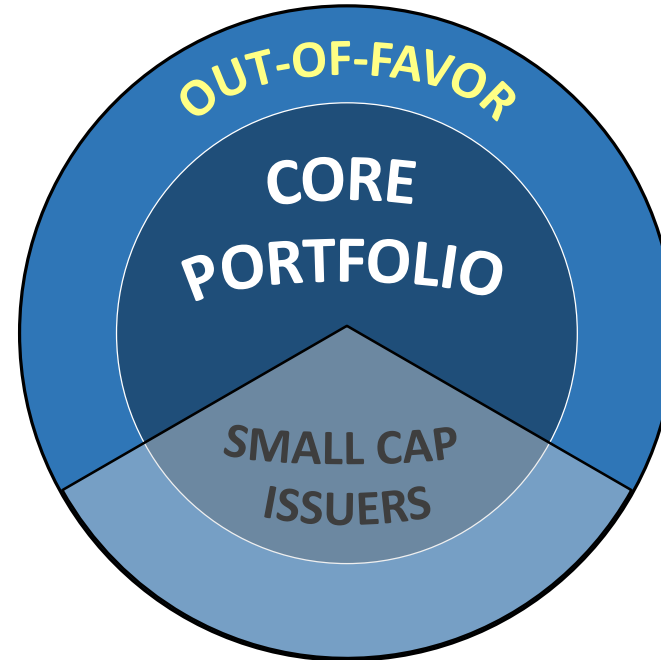
A distinctive approach to High Yield investing

Principle One:
Identify long term trends
and themes

Principle Two:
Focus on the right Industries

Principle Three:
Analyze as a CFO/Owner

The Portfolio



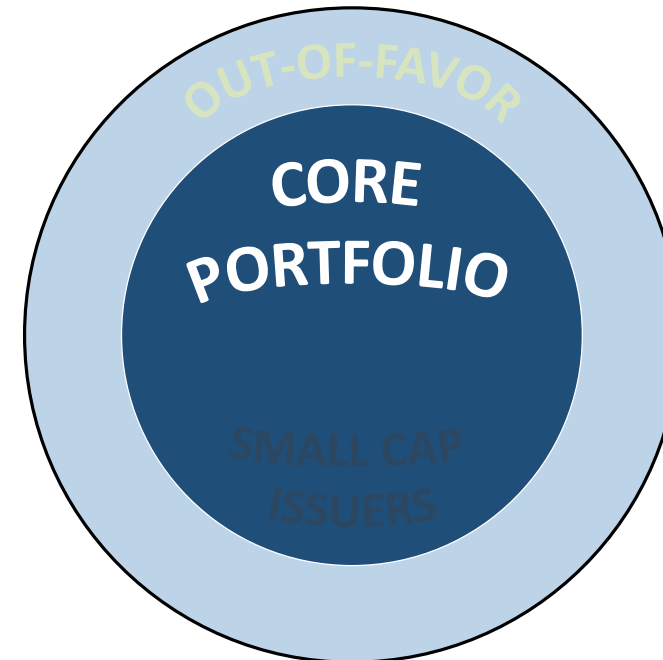
The Core Portfolio

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.

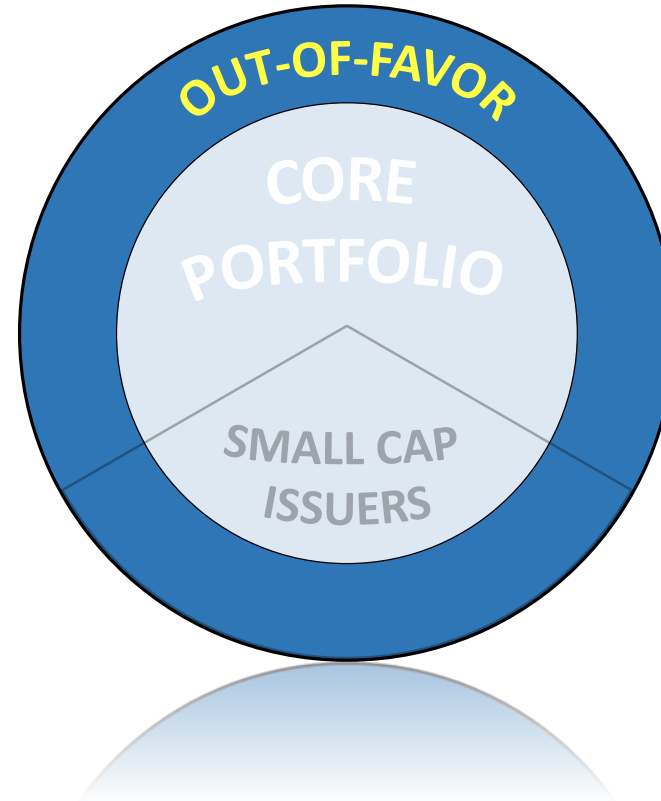
Invests in out-of-favor sectors that have long-term viability and only suffer from temporary dislocations.

- 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 | <i>Shipping</i> |

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

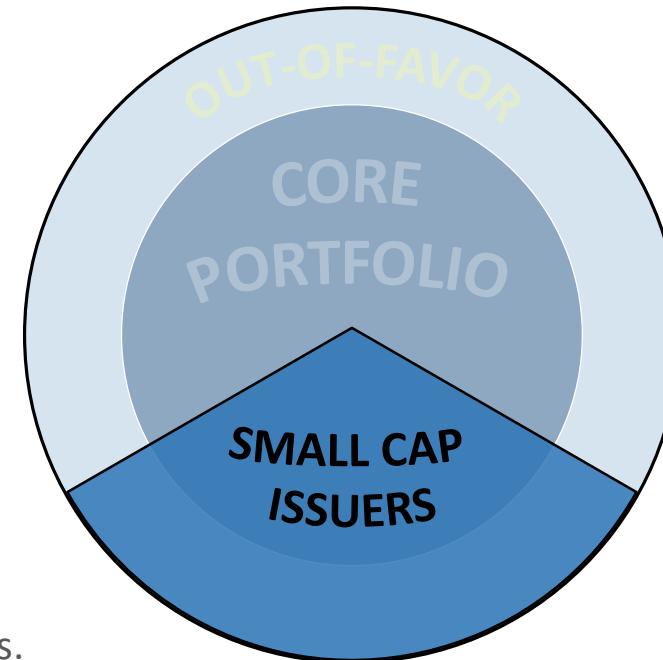
- Small Cap single-B issuers in the index offer higher OAS than Large Caps with same rating.

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.



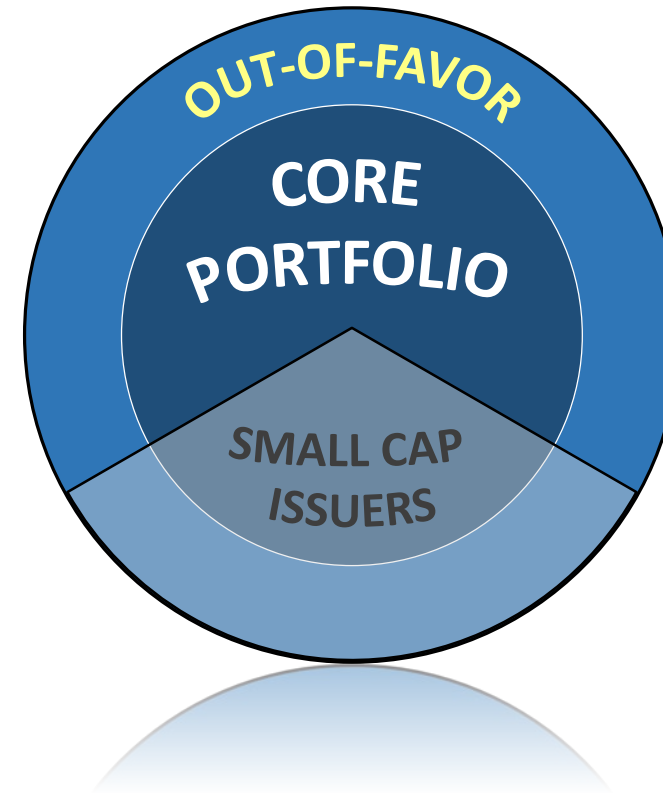
The Resulting Portfolio

Our distinctive approach to High Yield investing

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

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

The Portfolio

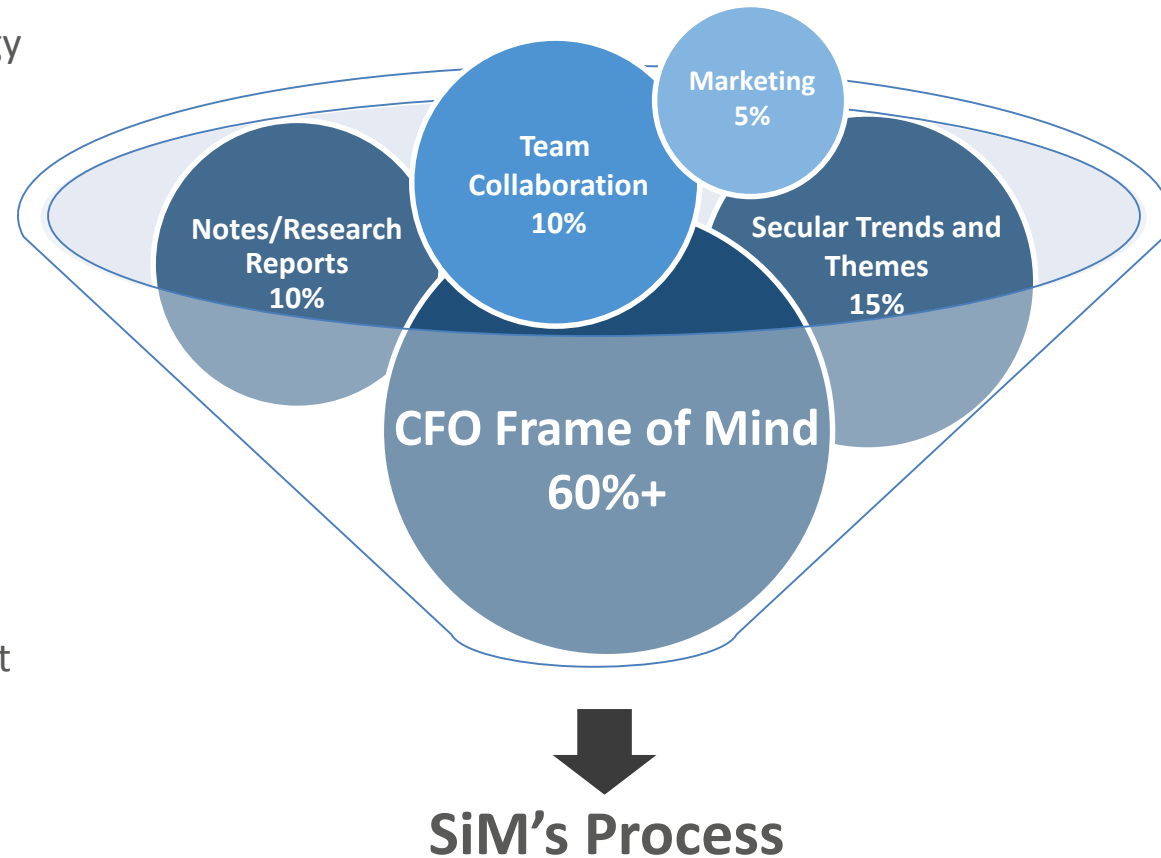


SiM's Unique Process

A distinctive approach to High Yield investing

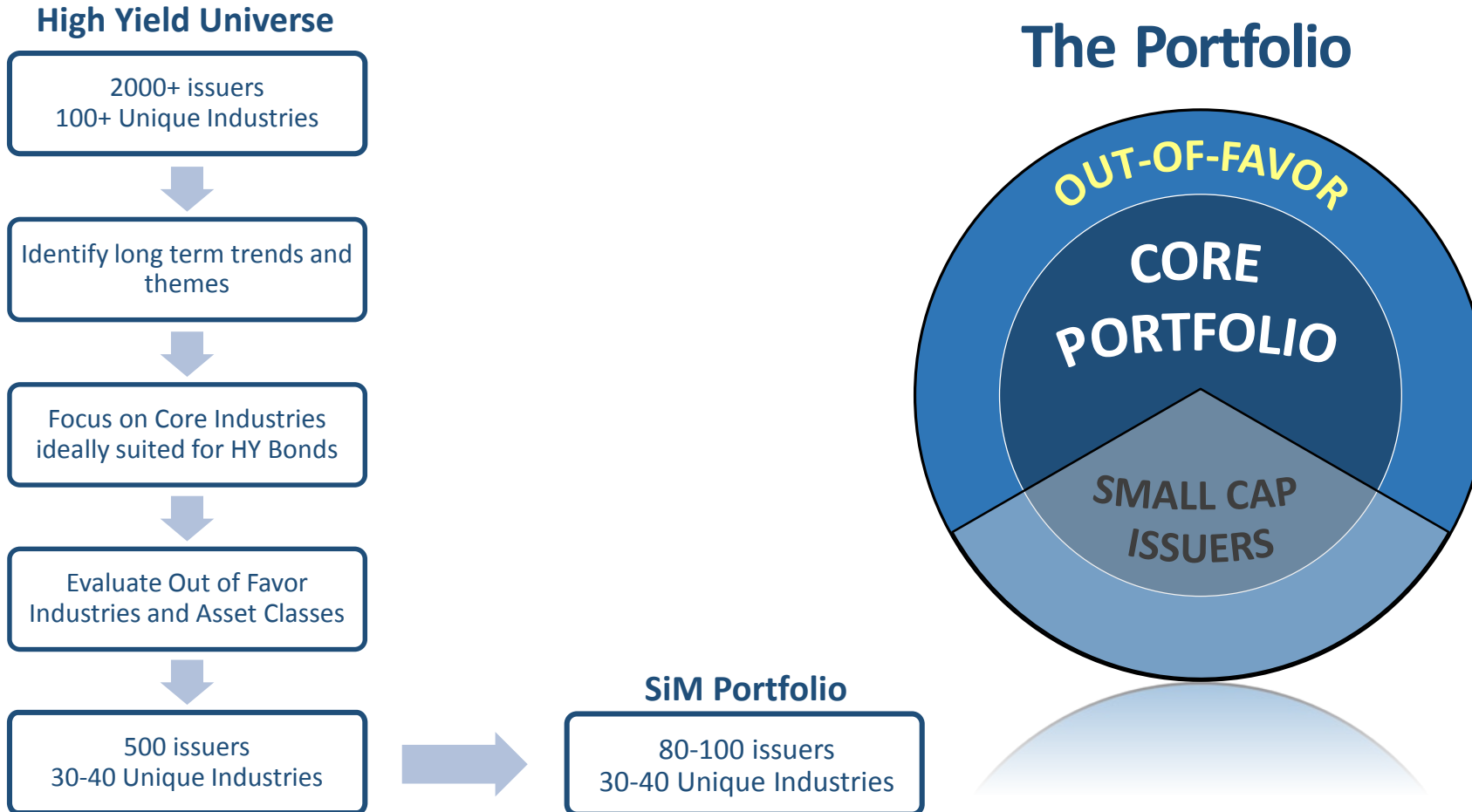
How SiM team spends their time

- 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

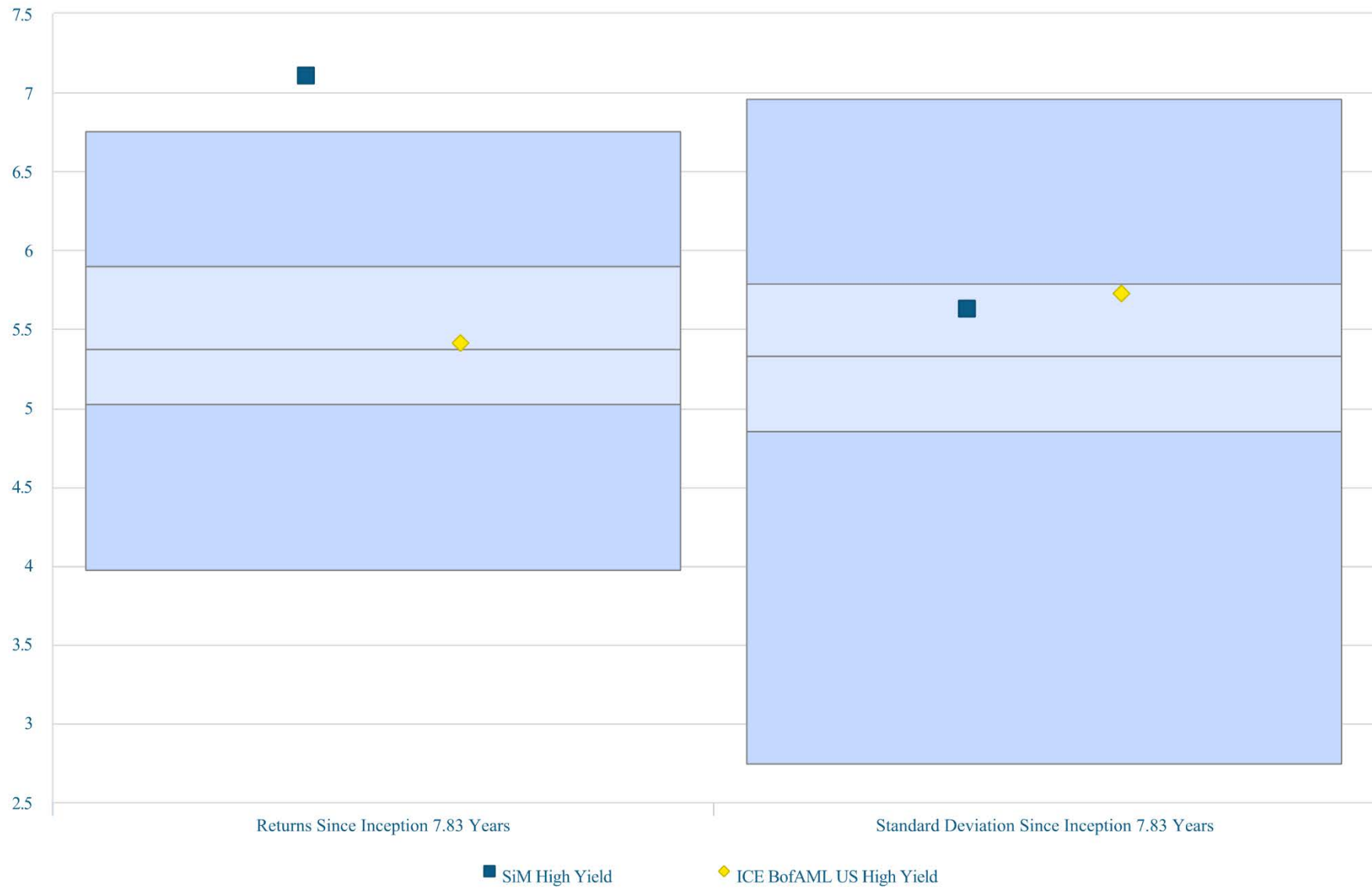
A distinctive approach to High Yield investing



Portfolio Performance

(Graphic data derived from eVestment)

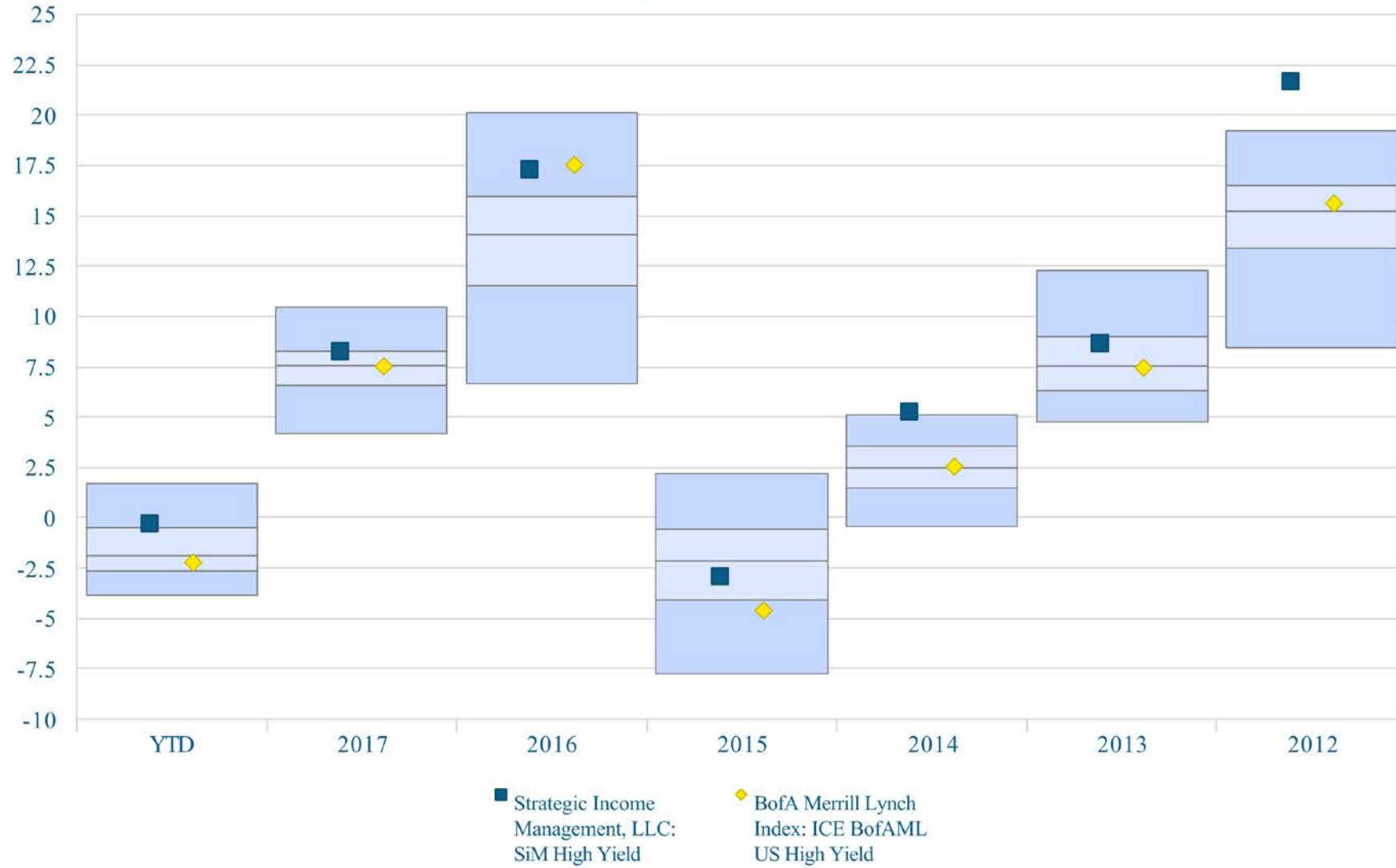
Since Inception 7.83 Years 3/2011 - 12/2018



Universe: eVestment US High Yield Fixed Income

Results displayed in USD.

Returns per calendar year
Inception date Feb 2011



Universe: eVestment US High Yield Fixed Income

Results displayed in USD.

Since Inception 7.83 Years 3/2011 - 12/2018



Universe: eVestment US High Yield Fixed Income

Results displayed in USD.

Strategic Income Management (SiM)

Portfolio Characteristics

SiM Default Rate

12/31/2018

| Year | SiM Default (%) | US HY Default (%) | SiM Recovery Rate (%) | US HY Recovery Rate (%) |
|-------------|-----------------|-------------------|-----------------------|-------------------------|
| 2018 | 0.00% | 1.81% | NA | 45.47% |
| 2017 | 0.00% | 1.30% | NA | 52.55% |
| 2016 | 0.00% | 3.57% | NA | 31.10% |
| 2015 | 1.04% | 1.80% | 80.00% | 25.19% |
| 2014 | 0.00% | 2.90% | NA | 48.05% |
| 2013 | 1.34% | 0.70% | 14.00% | 52.74% |
| 2012 | 0.00% | 1.30% | NA | 53.23% |
| 2011* | 0.00% | 1.70% | NA | 48.56% |
| Avg. | 0.30% | 1.89% | 42.8% | 53.8% |

Index data utilizes Moody's statistics

*Since Inception

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 8 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

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. Level III CFA Candidate.

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. Level II CFA Candidate.

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