



Strategic Income
Management

Value Driven, Income Focused

High Yield Strategy

December 2024

FOR INVESTMENT PROFESSIONAL USE ONLY

Strategic Income Management (SiM)

Simple, Common Sense & Repeatable

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Section One:

Organizational Overview

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History of Team

Strategic Income Management was incorporated August 2010 in Seattle, WA.

Same strategy for 24 years

Since 2011, the American Beacon* fund has achieved top decile performance across 3, 5, and 10-year periods as ranked by Morningstar

Gary Pokrzywinski Institutionalized Philosophy & Strategy

- Co-Lead Portfolio Manager Ryan Larson (14 years under SiM strategy)
- Portfolio Manager Kevin Power (9 years under SiM strategy)

100% employee-owned boutique

* Data provided by Morningstar. SHOIX (Institutional Class) **CPHYX (Load-Waived) 5-star ranking from 11/05-5/09. CPHYX 4- or 5-star rating from 4/03-5/09. Past performance is no guarantee of future results.

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Firm & Product Overview

Total firm AUM: ~\$3 Billion

- AB Mutual Fund AUM: ~\$2 Billion
- Separately Managed Accounts AUM: ~\$600mm
- UCITs AUM: ~\$400mm

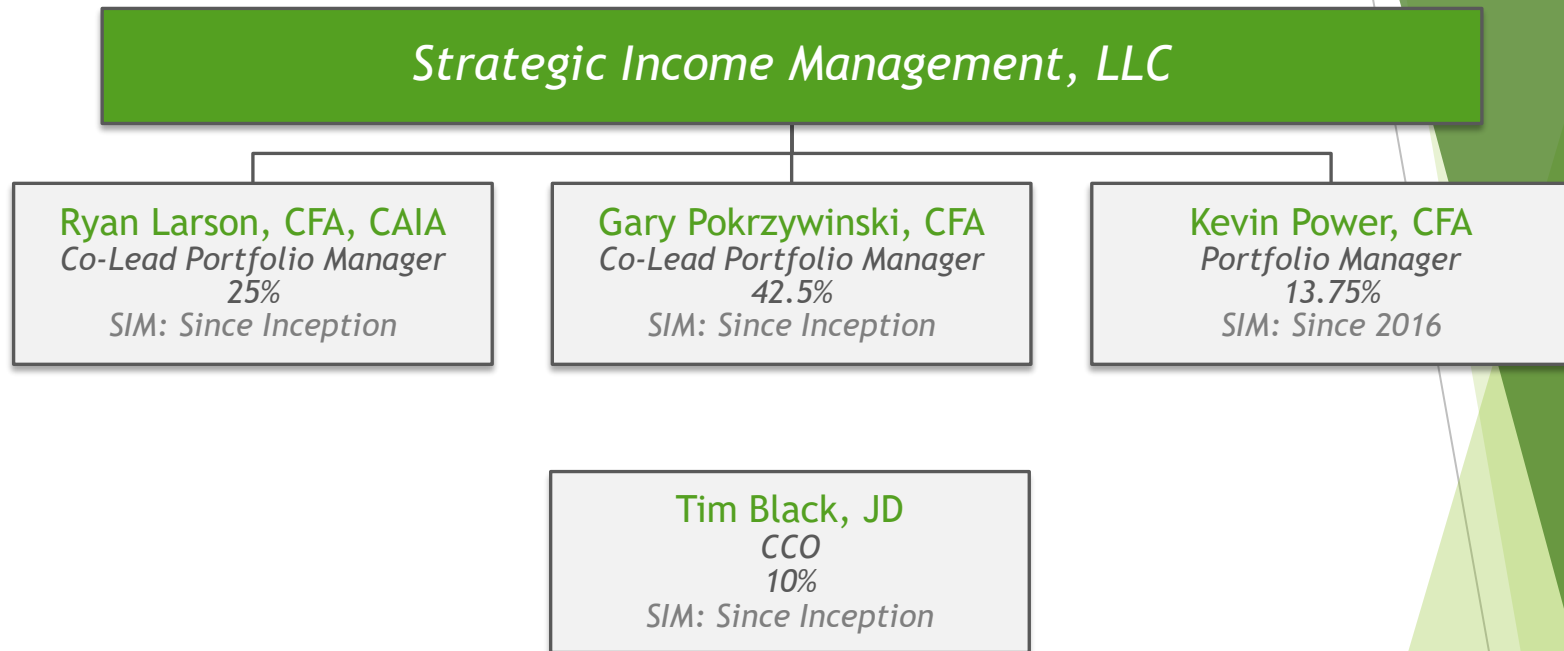
Client types: Public Pension Funds, Insurance Companies, sub-advisor for US '40 Act registered Mutual Fund and UCITs Fund

AUM Growth: ~\$1 Billion year over year

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Experienced Team, Boutique Firm, 100% Employee Owned

Ownership Structure



100% employee owned (8.75% owned by retired co-founder Brian Placzek)
Ownership sold to key employees

Section Two:

Investment Philosophy

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Differentiated Active Managers

Benchmark Agnostic

Typical US High Yield Manager

- I. Industry exposure +/- 2% vs. Index
- II. Low Conviction, ~500 Issuers
- III. Siloed & Disconnected Teams lacking philosophical cohesion
- IV. Portfolio Managers focused on Marketing and guessing what the economy will do

The SiM Approach

- I. Agnostic Industry exposure vs. Index
- II. High Conviction, 80-110 names
- III. Small Nimble Team focused on implementing the same strategy
- IV. Portfolio Managers are analysts first and focused on performance

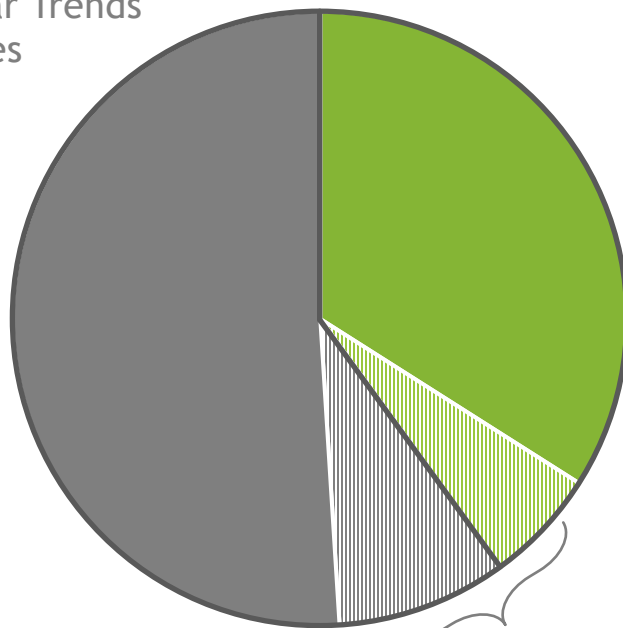
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3 x 3

Core =  60%

- I. Long-term Secular Trends
- II. Suitable Industries
- III. Good Businesses



Out of Favor =  40%

- I. Viable Industry
- II. Catalyst for Change
- III. Long Runway

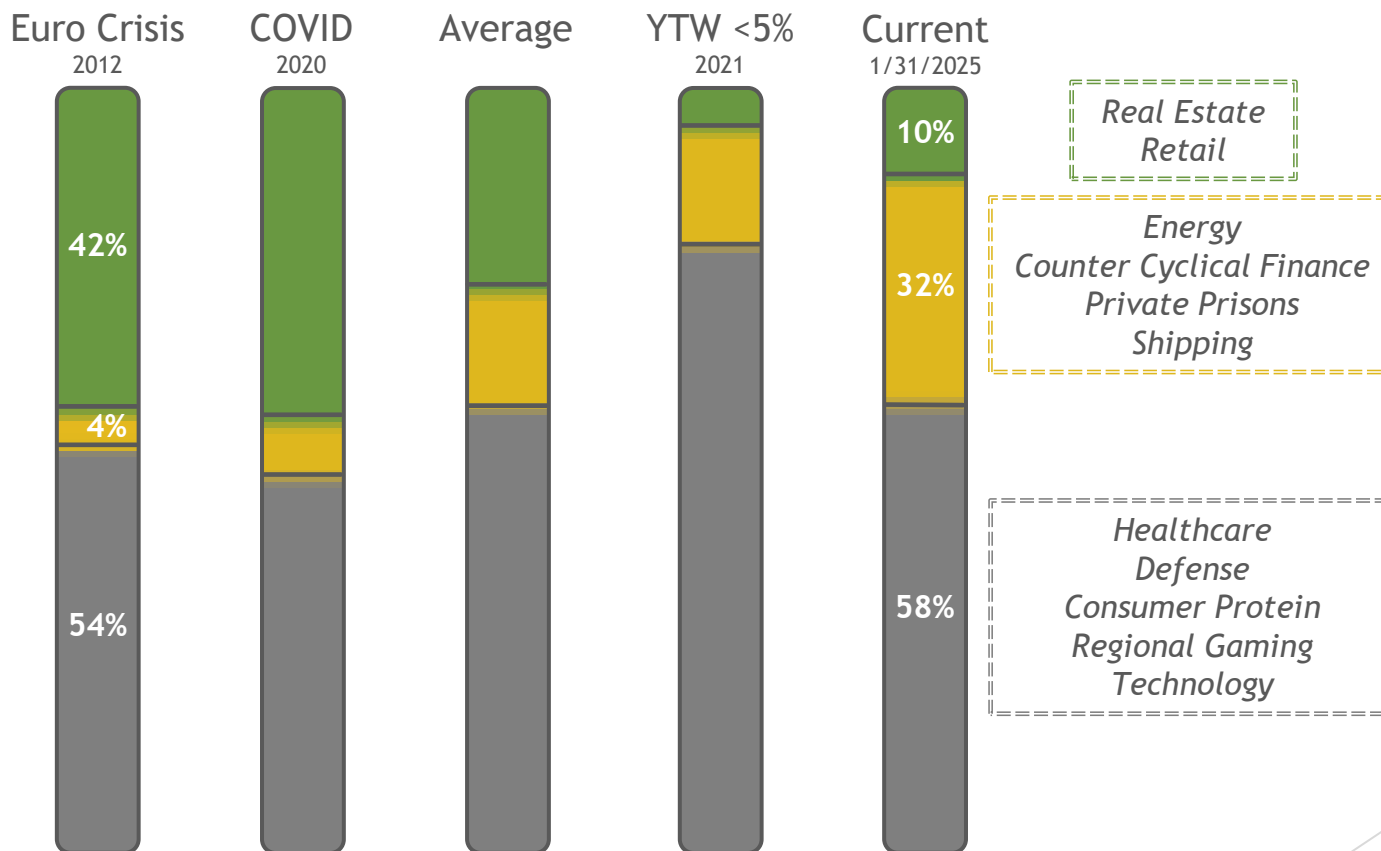
Small Cap = 

- I. Yield Advantage
- II. Rating Agency
- III. Neglected by larger peers

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Deep Out of Favor, Out of Favor, Core Range



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Historical Out of Favor Areas

Year	Market Dislocation	Industry/Country	Exposure (%)
1998	Asian Crisis	Thailand/Indonesia/South Korea	10%
2000	Tech Bubble	Semiconductors/Software	25%
2002	Telecom Bubble	Telecom/Wireless/Broadband/Cable	20%
2008	GFC	Auto/Financial Services/Retail	20%
2011	Euro Crisis	Western Europe	20%
2012	Airline Consolidation	Airlines	10%
2015	Saudi Price Wars	Oily E&P Companies (Non-Shale)	20%
2018	IMO 2020	Shipping (VLCCs/Product Tankers/Bulk)	10%
2020	COVID	Leisure/Energy/Technology	30%
2023	US FED Rate Shock	Real Estate/Retail	15%

The specific investments identified and described are not representative of all of the investments purchased, sold, or recommended for the strategy. It should not be assumed that any investment identified has or will be profitable. There can be no guarantee that similar investment opportunities will be available in the future or that SiM will be able to exploit similar investment opportunities should they arise.

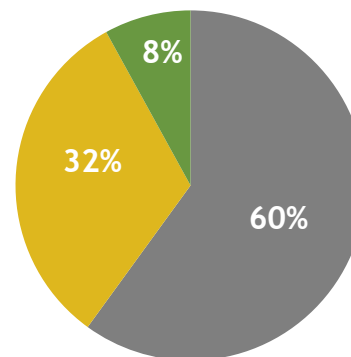
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Portfolio Characteristics

Characteristics Summary		
12/31/2024	SiM	Index
Price	97.0	97.7
Yield To Worst	7.5%	6.9%
Option Adjusted Spread	283	225
Coupon	6.7%	6.3%
Rating	B+	BB-
Current Yield	6.8%	6.5%
Yield To Maturity	7.6%	7.0%
Effective Duration	3.1	3.1

SiM Strategy Allocation



■ Core ■ Out of Favor ■ Deep Out of Favor

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Changes During 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

Etsy

Cinemark

Brinker (Chili's)

QVC

Cenovus Energy

Canadian Natural Resources

Penske Auto Group

The specific investments identified and described are not representative of all of the investments purchased, sold, or recommended for the strategy. It should not be assumed that any investment identified has or will be profitable. There can be no guarantee that similar investment opportunities will be available in the future or that SiM will be able to exploit similar investment opportunities should they arise.

Section Three:

High Yield Market Characteristics

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The High Yield Market

What Companies Issue HY Debt?

~75% of High Yield Companies are public

Growth Capital Needs

~20% of High Yield



Non-cyclical Industries

~60% of High Yield



Fallen Angels

~20% of High Yield



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The High Yield Market

Why Structural Position in High Yield?

Ideal Diversifier with low correlations to other asset classes

High Sharpe Ratio with high absolute returns comparable to equity

Historically short periods to recovery from drawdowns

Down years historically been both rare and shallow

Natural Catalyst for value realization in Maturity Date

Within High Yield the US should structurally be the majority of exposure

US is the deepest, most mature market with the broadest diversity in industry exposure and geographic exposure

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The High Yield Market

High Yield is an Ideal Diversifier

25-yrs ended November 30, 2023	5-yr Trsy	10-yr Trsy	JPM JULI	JPM HY Bd Idx	S&P 500	Russell 2000	JPM EMBI
10-yr Trsy	0.93						
Investment-grade bonds	0.59	0.65					
JPM HY Bond Index	-0.10	-0.07	0.57				
S&P 500	-0.21	-0.18	0.33	0.68			
Russell 2000	-0.26	-0.24	0.27	0.68	0.84		
JPM EMBI- Global Composite	-	-	-	-	-	-	-
Leveraged loans	-0.32	-0.31	0.33	0.79	0.52	0.54	-

Source: J.P. Morgan; S&P/ IHS Markit; Bloomberg Finance L.P.

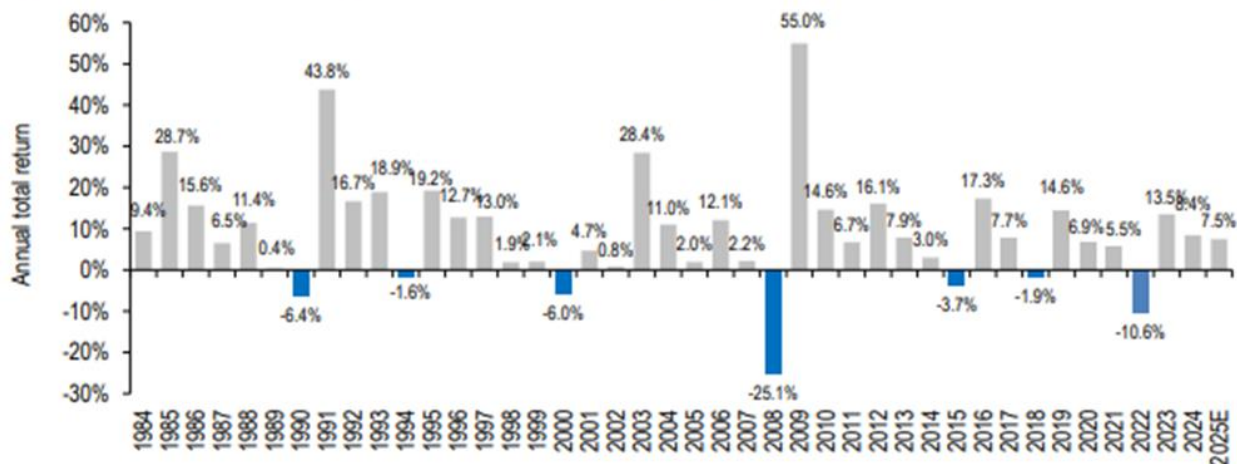
Historically lower correlations during market downturns

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The High Yield Market

High-Yield has Fewer Drawdowns Vs. Equity

Figure 63: We are forecasting a 2025 total return for high-yield bonds of 7.5%



Source: J.P. Morgan.

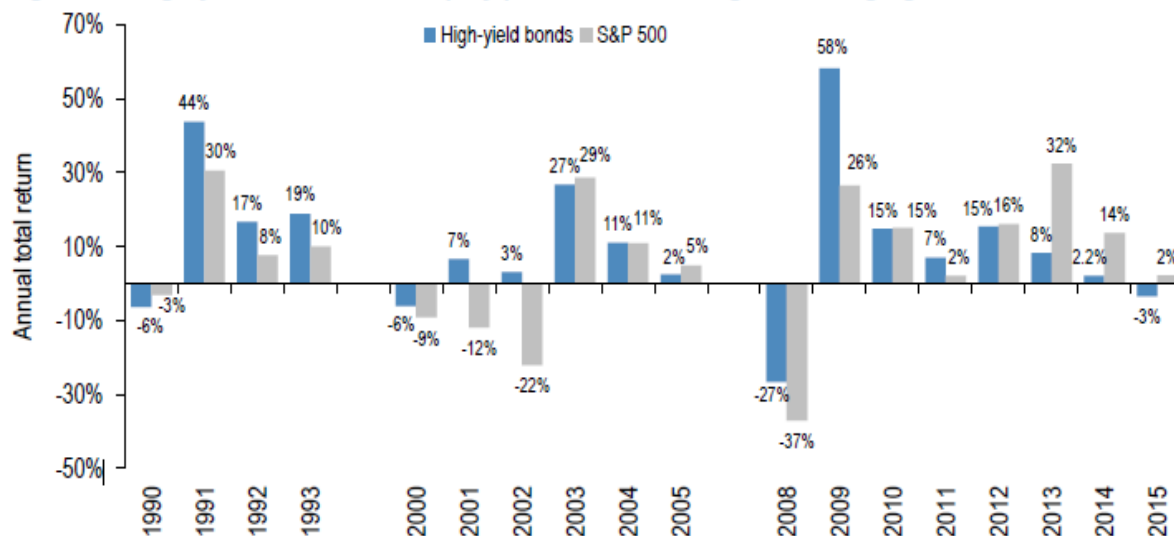
	<u>High Yield Bonds</u>	<u>S&P 500</u>
Down Years	7	9
Annual loss of 10% or greater	1	4
Recovery time - Tech Bubble	~1yr	~4yrs
Recovery Time – GFC	~1yr	~4yrs
Largest Drawdown	-35%	-51%

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The High Yield Market

High-Yield has Recovered Quicker vs. Equities

Figure 11: High-yield bond versus equity performance during and emerging from recessions



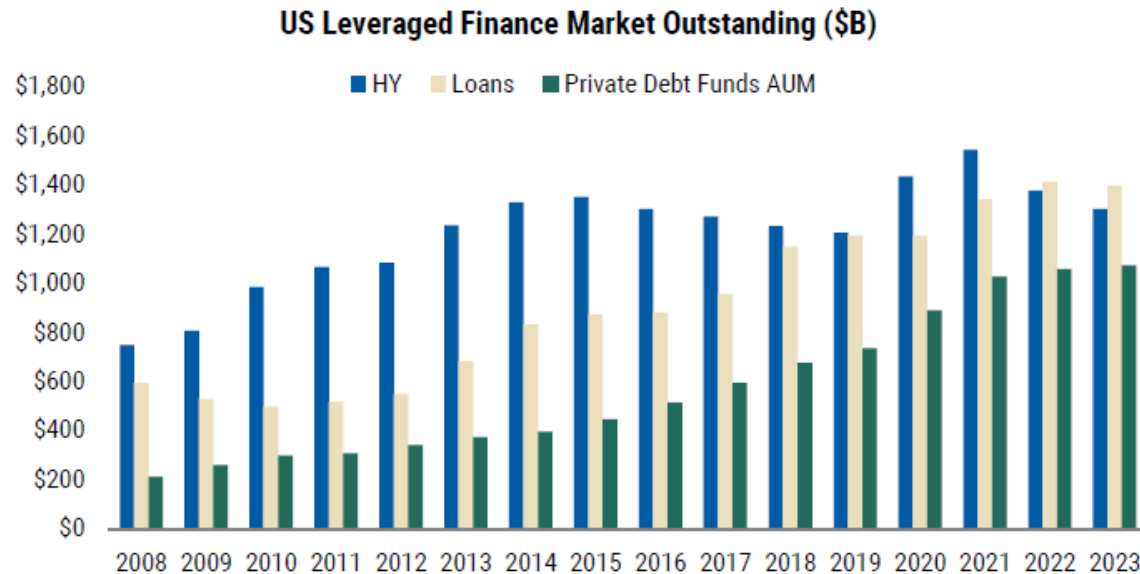
Source: J.P. Morgan.

High-Yield bonds have outperformed equities during down years, while exhibiting equal or greater performance in the years leading out of a recession.

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Leveraged Land

Leveraged Credit Market



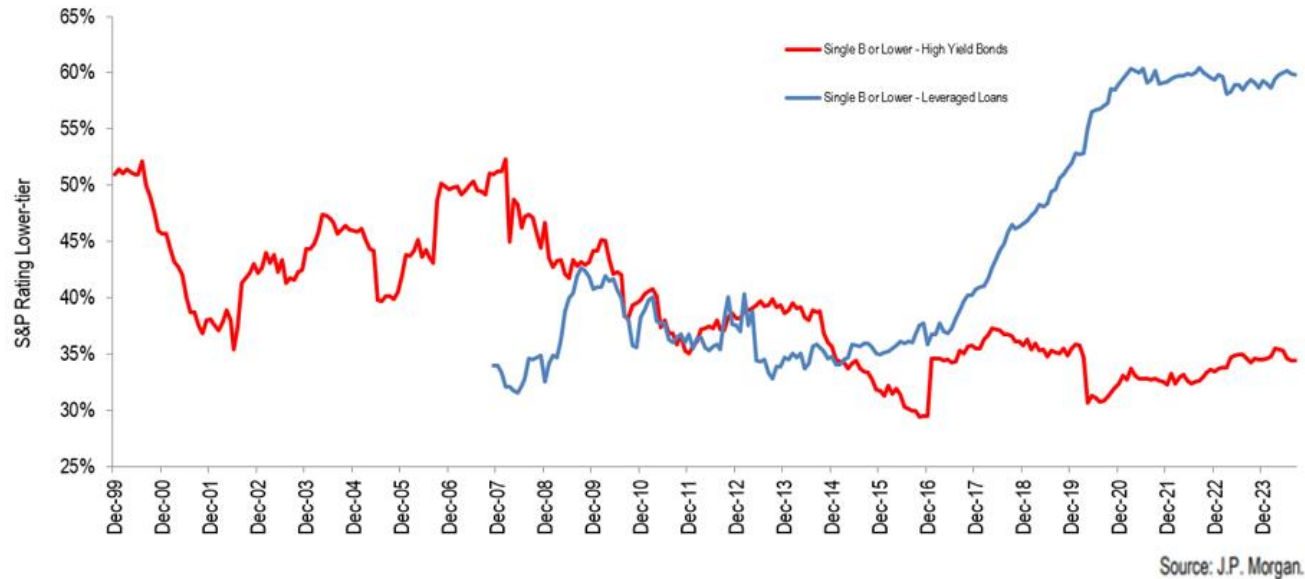
Source: ICE, Pitchbook, Morgan Stanley Research estimates; Note: Private debt data as of 3/31/2023

Since 2008, Private Credit and Leveraged Loans AUM have grown substantially more than High Yield

Strategic Income Management (SiM)

Leveraged Land

B or Lower Rated Debt in the High Yield Market Vs. the Leveraged Loan Market

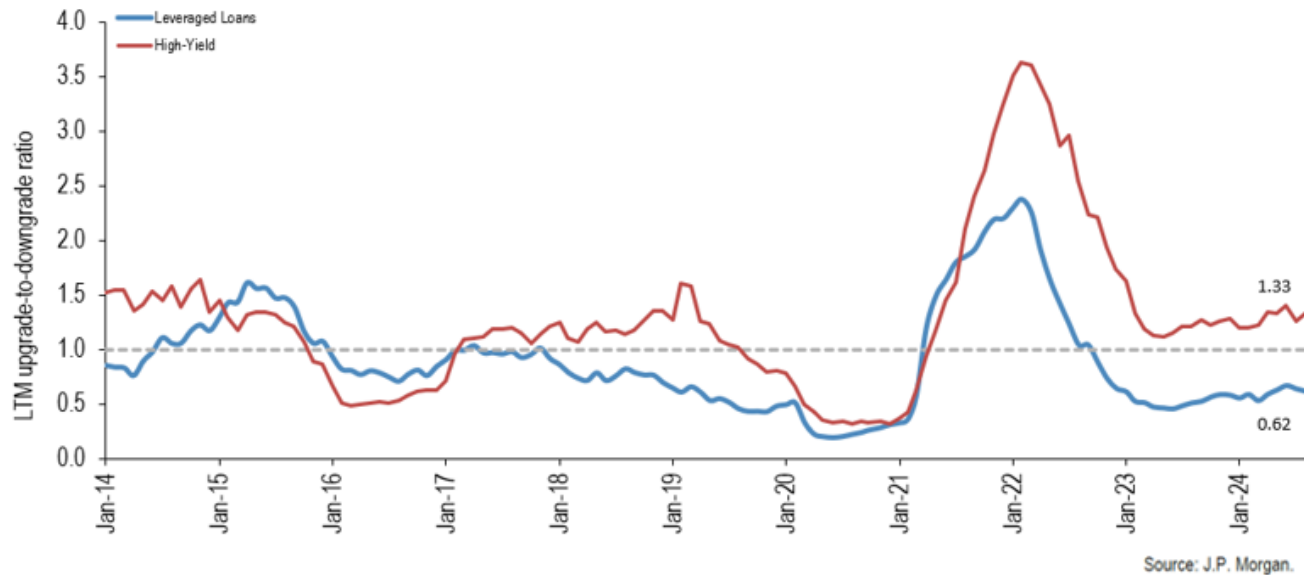


High-Yield Bonds have Structurally Improved on a relative basis

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Leveraged Land

High-Yield Bonds vs. Leveraged Loans LTM Upgrade-to-downgrade ratio



Strategic Income Management (SiM)

Leveraged Land

High-Yield Bonds are structurally stronger than Leveraged Loans and Private Credit

High Yield credit metric highlights

LTM	2Q24
Leverage (Debt/EBITDA)	3.98x
Net Leverage ((Debt-Cash)/EBITDA)	3.50x
EBITDA Margin	15.3%
Coverage (EBITDA/Net Int Exp)	4.89x
EBITDA-Capex/Net Int Exp	2.89x

Source: J.P. Morgan; S&P Capital IQ

Leveraged Loan credit metric highlights

LTM	2Q24
Leverage (Debt/EBITDA)	5.00x
Net Leverage ((Debt-Cash)/EBITDA)	4.55x
EBITDA Margin	15.9%
Coverage (EBITDA/Net Int Exp)	2.90x
EBITDA-Capex/Net Int Exp	2.00x

Source: J.P. Morgan; S&P Capital IQ

	High Yield	Leverage Loans	Ares Capital (largest publicly traded BDC)
Net Leverage ((Debt-Cash)/EBITDA)	3.5x	4.6x	5.7x
Coverage (EBITDA/Net Int Exp)	4.9x	2.9x	1.6x

Source: Ares Capital ARCC Q2-24 Earnings Presentation

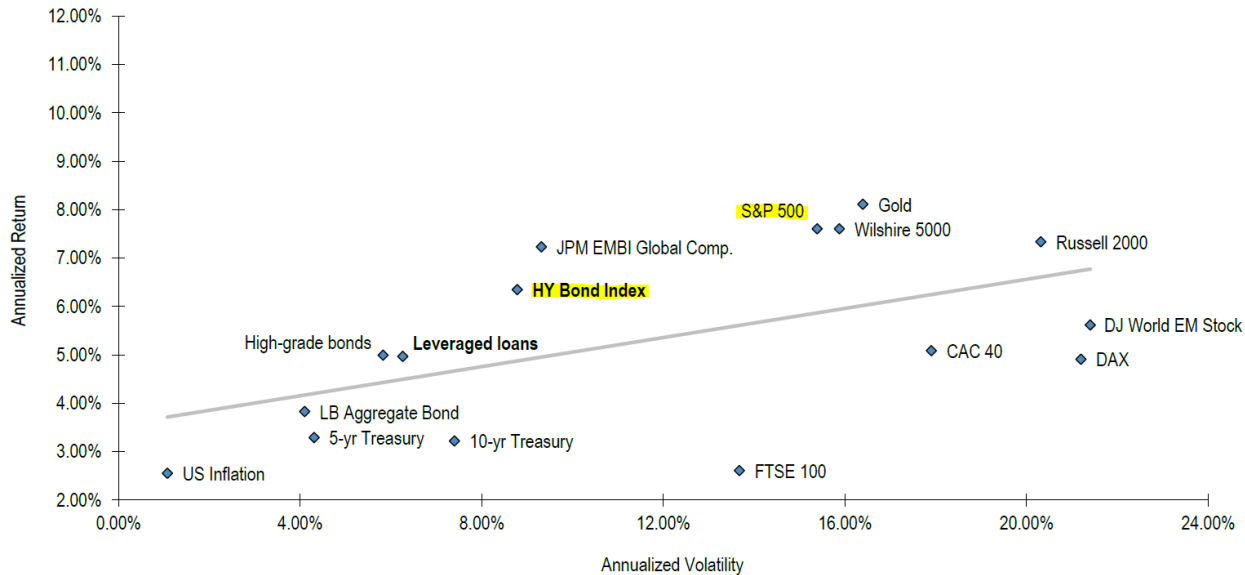
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High Yield Vs. Equity

High Yield remains excellent substitute for Equity

Statistics over past 25 years as of November 2023

Twenty-five-years ended November 30, 2023



Source: J.P. Morgan; S&P/IHS Markit; Bloomberg Finance L.P.

Strategic Income Management (SiM)

High Yield Vs. Equity

High Yield remains excellent substitute for Equity

Statistics over past 25 years as of November 2023

	Average annual returns					Average annual volatility				
	1 year	5 year	10 year	15 year	25 year	1 year	5 year	10 year	15 year	25 year
Fixed Income										
5-year Treasury	0.73%	0.52%	0.63%	1.69%	3.29%	5.42%	4.63%	3.87%	3.89%	4.31%
10-year Treasury	-2.12%	-0.21%	0.73%	1.74%	3.22%	8.91%	8.19%	6.94%	7.33%	7.40%
JPMorgan MBS Index	0.57%	-0.10%	1.00%	2.04%	na	8.02%	5.76%	4.35%	3.82%	na
LB Aggregate Bond Index	1.18%	0.71%	1.37%	2.87%	3.83%	7.69%	5.97%	4.62%	4.34%	4.10%
JPMorgan JULI High-Grade Index	4.07%	2.11%	2.68%	5.25%	4.99%	9.01%	8.36%	6.36%	6.24%	5.83%
Leveraged loans	12.02%	5.18%	4.63%	7.59%	4.97%	2.97%	7.18%	5.30%	6.14%	6.26%
JPMorgan HY Bond Index	8.90%	4.35%	4.58%	9.64%	6.34%	6.77%	9.54%	7.55%	8.30%	8.78%
Equity										
S&P 500	13.81%	12.50%	11.79%	13.69%	7.60%	16.35%	19.04%	15.16%	15.35%	15.39%
Russell 2000	-4.11%	3.41%	5.43%	10.37%	7.33%	22.37%	24.36%	19.92%	20.32%	20.32%

25-year returns that are similar to equity but roughly half the volatility

Strategic Income Management (SiM)

High Yield Vs. Equity

High Yield remains excellent substitute for Equity

Statistics over past 25 years as of November 2023

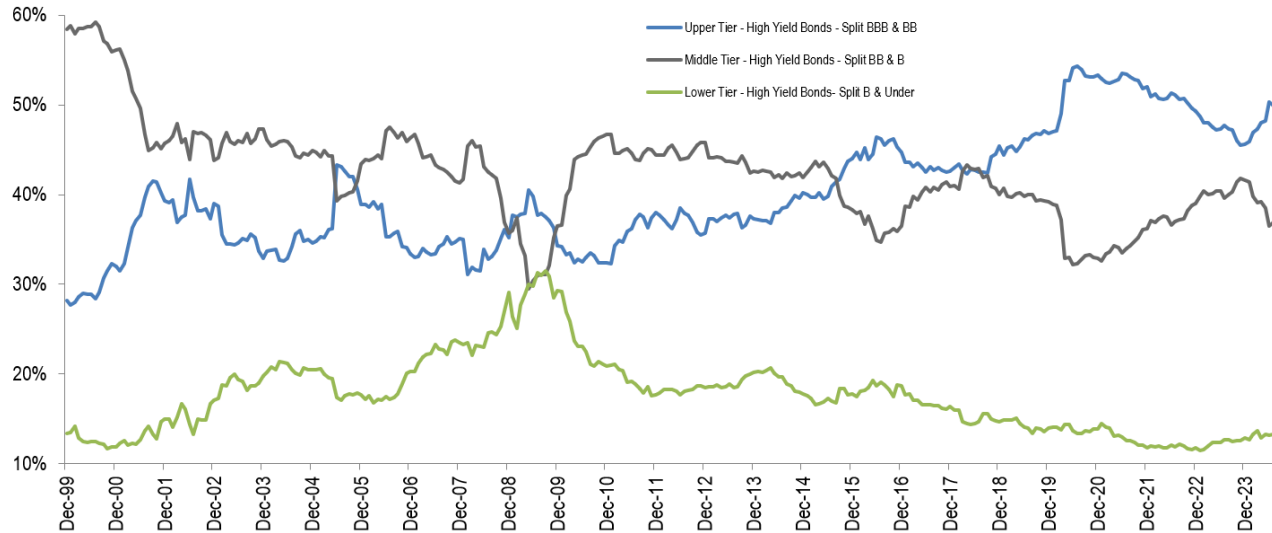


The S&P 500 is currently not offering any equity risk premium over the 10-year US Treasury

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High Yield Currently Fundamental Strong

High-Yield Bonds are very strong structural



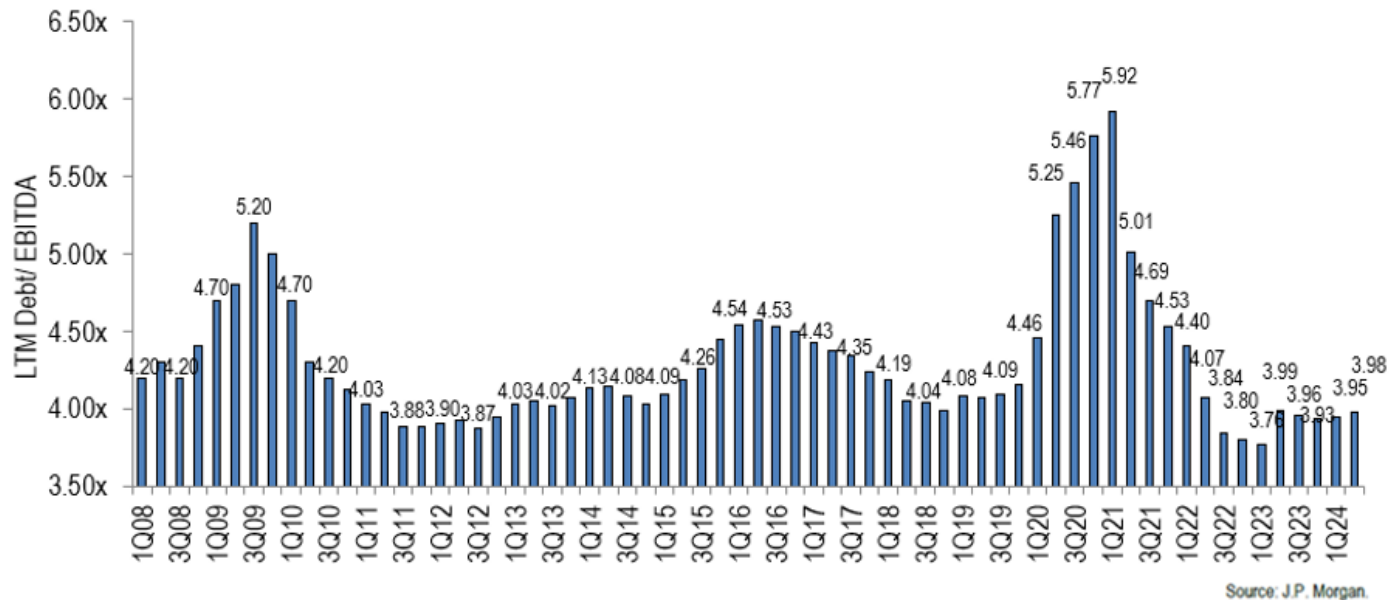
~ 55% of High Yield bonds are rated BB or higher and ~ 12% are CCC or lower

Source: J.P. Morgan.

Strategic Income Management (SiM)

High Yield Currently Fundamental Strong

High-Yield Bonds are very strong structural

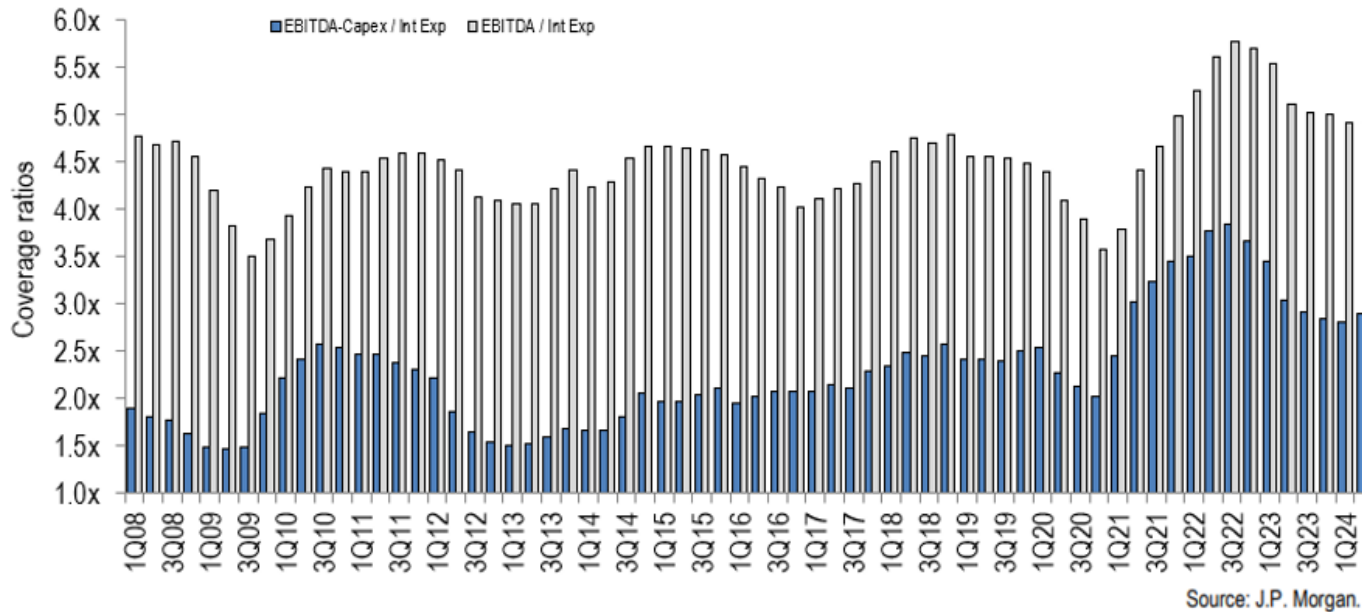


Low leverage of under 4x relative to historical leverage

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High Yield Currently Fundamental Strong

High-Yield Bonds are very strong structural

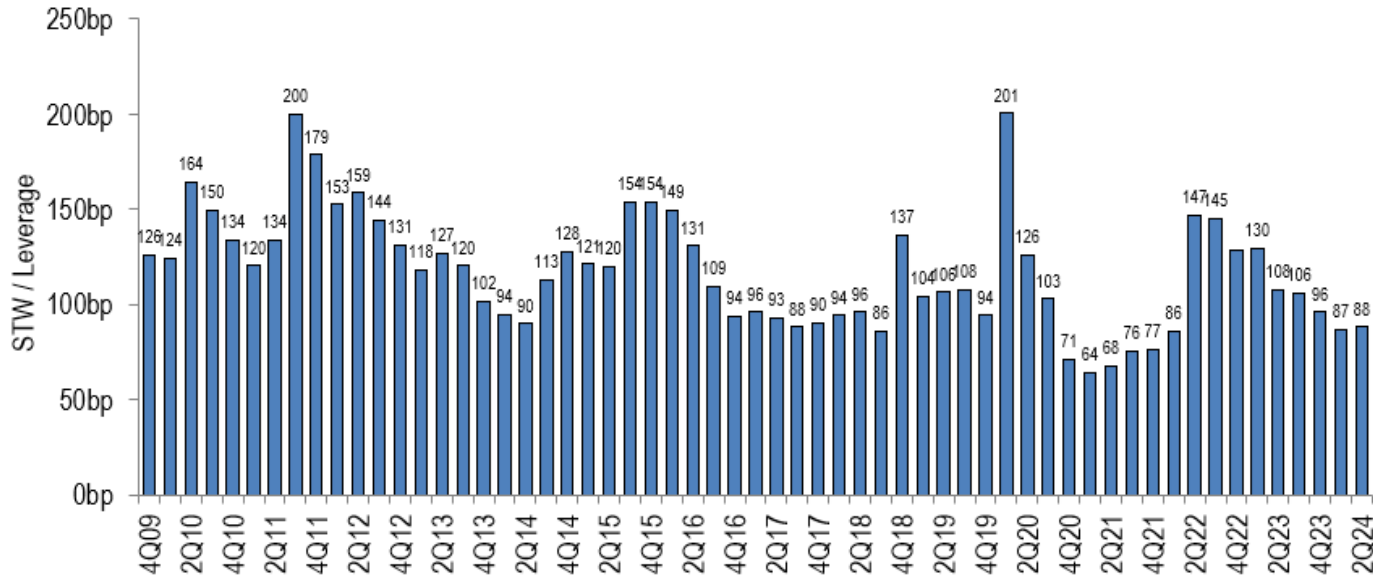


Interest Coverage and Fixed Charge Coverage >5x and >2.5x respectively, high relative to historical coverage

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High Yield Currently Fundamental Strong

High-Yield Bonds are very strong structural

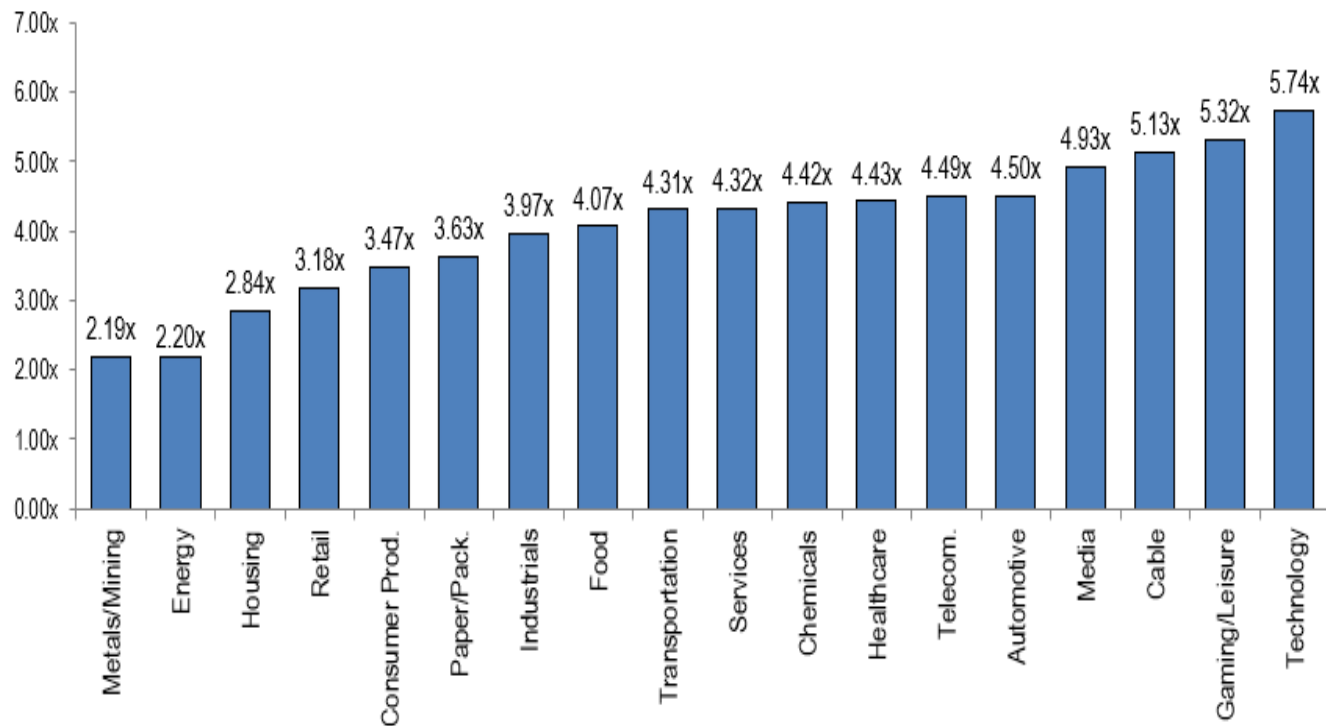


High Yield spread per turn of leverage, not overly expensive relative to historical spread per turn of leverage

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High Yield Currently Fundamental Strong

Leverage Especially Low in Most Cyclical Industries

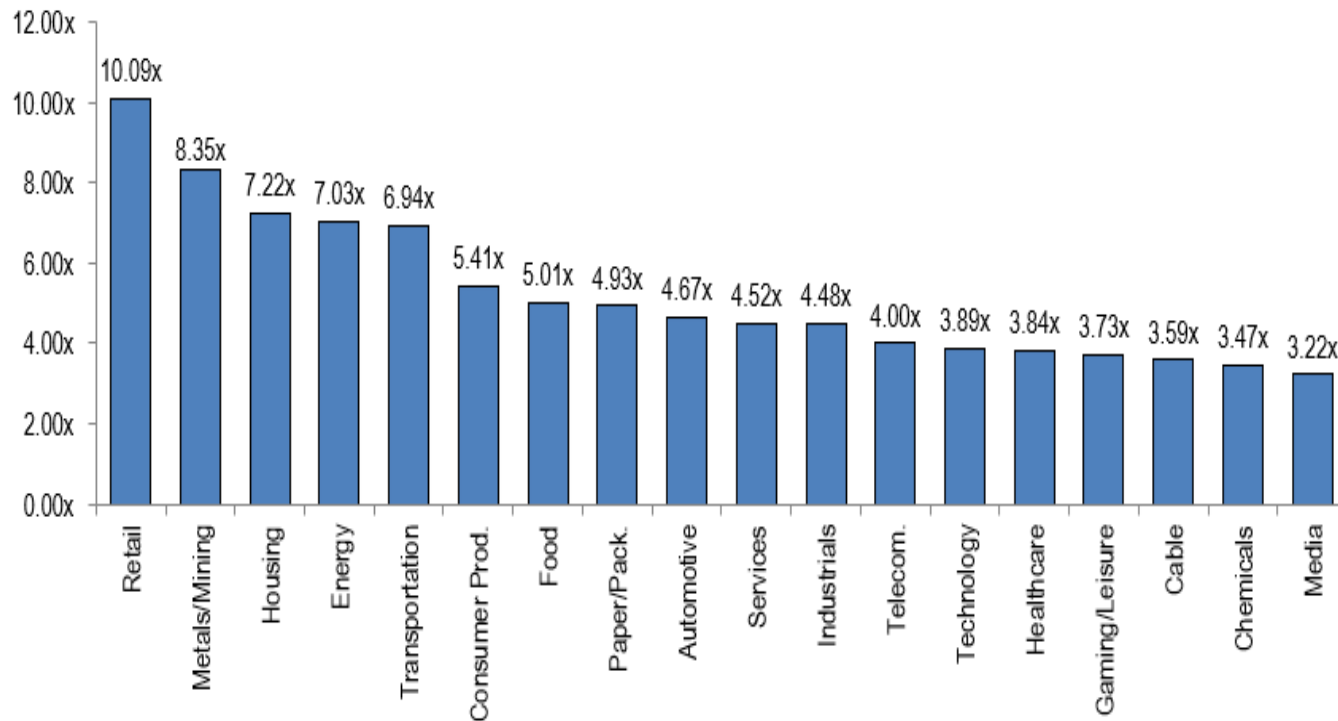


Leverage has improved substantially in Energy & Metals/Mining in the past 10 years

Strategic Income Management (SiM)

High Yield Currently Fundamental Strong

Interest Coverage Especially High in Most Cyclical Industries

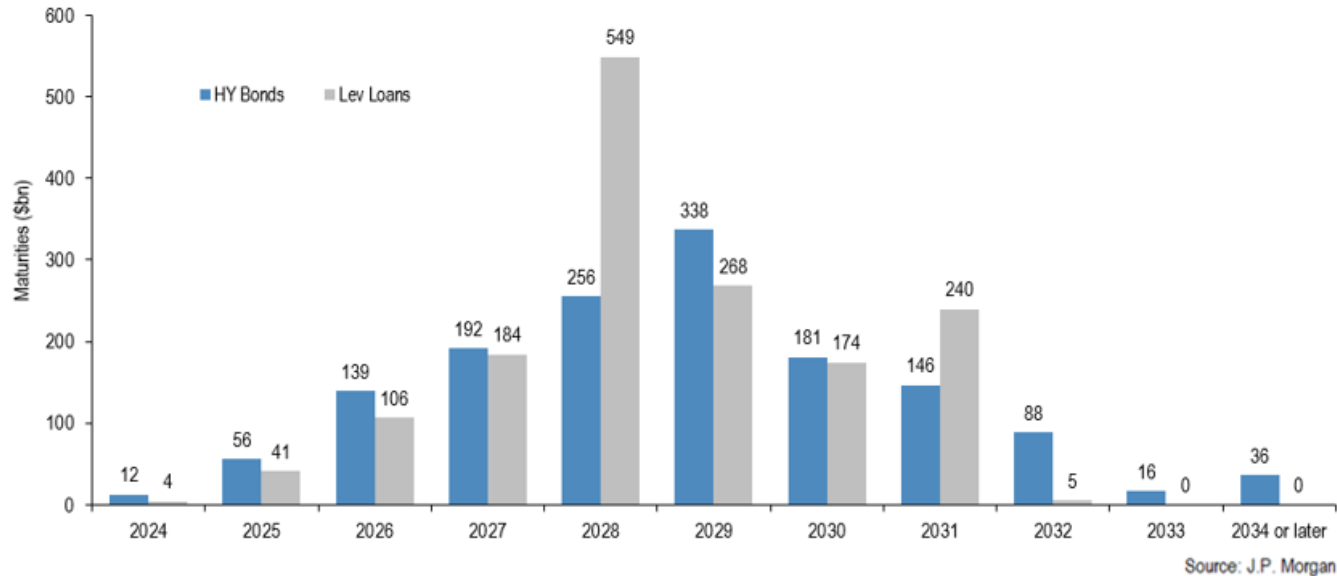


Interest Coverage has improved substantially in Energy, Metals/Mining & Retail in the past 10 years

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High Yield Currently Fundamental Strong

On an Absolute Basis the Maturity Wall is not Substantial

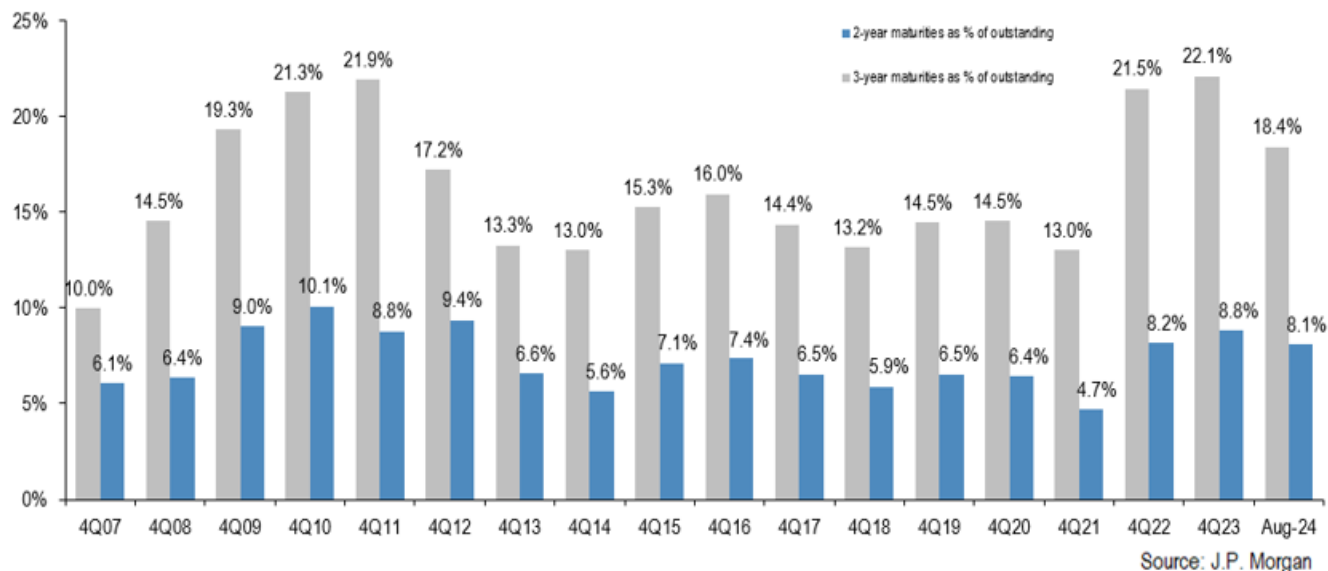


Only ~18% of the High Yield issues are due in the next 3 years

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High Yield Currently Fundamental Strong

On a Relative Basis the Near-Term Maturity Wall has Increased

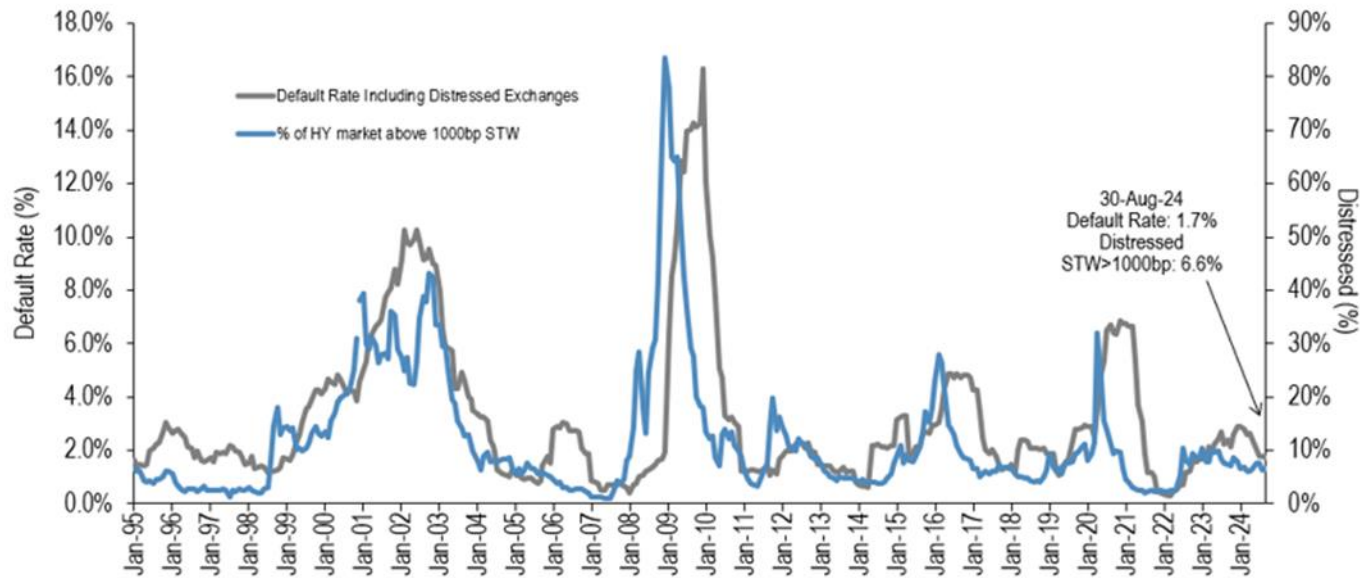


Only ~18% of the High Yield issues are due in the next 3 years, this is however on the high side given relative historical data

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High Yield Currently Fundamental Strong

High-Yield Bonds Historical Defaults & Recoveries



Source: J.P. Morgan.

Default Rates have averaged ~3.2% annually over the last 25 years
Recovery for HY bonds has averaged ~40% over the last 25 years
Typical Annual Impairment over past 25 years = ~1.9%

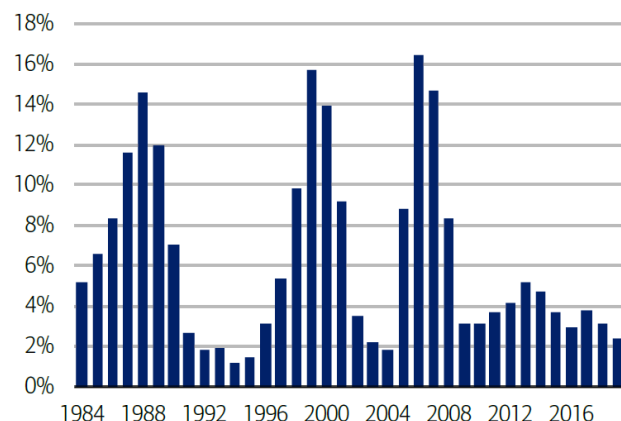
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High Yield Currently Fundamental Strong

High-Yield Bonds Historical Default Credit Cycles

Figure 1: Cumulative next-3yr corporate default rate

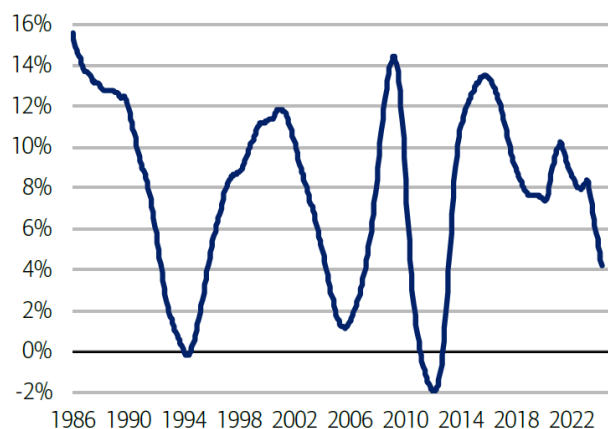
Aggregate across IG, HY, loans



Source: BofA Global Research, Moody's

Figure 2: Cumulative last-3yr corporate debt growth

Aggregate across IG, HY, loans, private debt



Defaults in High Yield could peak at ½ the rate of previous cycle peaks

- I. Two recent default waves since the GFC have cleansed the market
 - i. Oil Price War (2015-2016)
 - ii. COVID (2019-2020)
- II. Lower debt growth in US corporate credit since GFC
- III. Executive Suites are still very cautious, a bi-product of going through COVID

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Biographies

Gary J. Pokrzywinski, CFA

Mr. Pokrzywinski is Co-Lead Portfolio Manager for the SiM High Yield Team. He has 30+ years of investment experience and shares portfolio management responsibilities with Ryan Larson. Prior to founding SiM in August of 2010, Gary acted as CIO and Portfolio Manager on a number of fixed income portfolios, including a dedicated high yield mutual fund, for Edge Asset Management, an affiliate of Principal Financial Group. He worked for Edge and its predecessor from 1992 to 2009. During his tenure at Edge Gary managed the Morningstar 5-star** Principal High Yield mutual fund from its inception in April 1998 to his departure in May of 2009. 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.

Ryan C. Larson, CFA, CAIA

Mr. Larson is Co-Lead Portfolio Manager for the SiM High Yield Team. Mr. Larson shares responsibilities for portfolio management with Gary Pokrzywinski and leads investment research and analytics at SiM. Ryan has 15 years of Investment experience and has been with SiM since the founding of the firm in August of 2010. 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 also earned the right to use the Chartered Alternative Investment Analyst Association (CAIA) designation in 2012. Mr. Larson graduated with honors in Commerce, Organization and Entrepreneurship from Brown University in 2008.

Kevin Power, CFA

Mr. Power is a Portfolio Manager for the SiM High Yield Team. He supports the High Yield Team in credit research and analysis. Mr. Power earned the right to use the Chartered Financial Analyst designation in 2019 and is a member of the CFA Society of Seattle. Mr. Power graduated with honors in Economics from the University of Washington in 2006.

*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.

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Biographies

Tim Black, JD

Mr. Black is the Chief Operating Officer and Chief Compliance Officer for SiM and is responsible for day to day operations and SEC compliance matters. Mr. Black has 20+ 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.

Roger Landes

Mr. Landes is a Compliance Officer here at SiM. Mr. Landes has a 20+ year history in the Investment Advisory Industry. Prior to joining the firm in 2023, Mr. Landes was an Associate Director of Compliance at SLC Management, a Boston based Registered Investment Advisor where he was responsible for compliance oversight and testing. Prior to SLC Management, Mr. Landes was Chief Compliance Officer for Prime Advisors, Inc. a locally based Fixed Income Advisor. Mr. Landes was responsible for all aspects of the compliance program. Roger attended Washington State University where he studied Business and Economics.

Greg Holmes, CFA

Mr. Holmes is a high yield trader for SiM. Prior to joining SiM in 2022, Mr. Holmes was a wealth manager for Heritage Bank where he provided investment management and financial planning for individuals and businesses. Mr. Holmes holds a BA in Finance from Washington State University.

Lauren Reese, MBA

Ms. Reese is an Operations and Reporting Associate for SiM and is responsible for day-to-day high yield portfolio operations and reporting. Prior to joining SiM in 2023, Ms. Reese received her MBA from Oregon State University studying Corporate Finance.

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Appendix Exhibit

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