

Performance Summary

Overview of the Market

<u>Asset Class Returns</u>		<u>Bond Rating Returns</u>		<u>ICE BAML High Yield Index</u>		
<u>Asset Class</u>	<u>Q1 2026 Performance</u>	<u>Rating</u>	<u>Q1 2026 Performance</u>	<u>Statistic</u>	<u>03/31/2026</u>	<u>Quarter over Quarter Change</u>
5 Year Treasuries	-0.01%	BB	-0.38%	Yield to Worst	7.38%	+82 bps
3-5 Year Investment Grade	-0.10%	B	-0.38%	Option Adjusted Spread	328	+49 bps
Leveraged Loans	-0.45%	CCC and below	-2.21%	2-year Treasury	3.81%	+33 bps
High Yield Bonds	-0.55%			10-Year Treasury	4.32 %	+14 bps
S&P 500	-4.35%			High Yield Default Rate	2.07%	+19 bps

The ICE BofA US High Yield Index ended the quarter with a yield-to-worst of 7.38% and an OAS of 328 bps, increases of 82 bps and 49 bps, respectively. The yields on the 2-year and 10-year Treasuries yields increased 33 bps and 14 bps over the period, ending at 3.81% and 4.32%, respectively. New issue activity decreased quarter over quarter, with \$21bln of new bonds priced. For reference, the average volume in 2025 was \$27.7bln. The trailing 12-month par-weighted High Yield default rate, including distressed exchanges, increased 19 bps and ended the month at 2.07%. High Yield funds had a third consecutive month of outflows, with -\$6.3bln in March and a Q1 2026 total of -\$7.9bln. For reference, Q1 2025 saw total inflows of \$7.6bln.

Performance rankings of asset classes during the quarter were: 5-Year Treasuries -0.01%, 3-5 Year Investment Grade -0.10%, Leveraged Loans -0.45%, High Yield Bonds -0.55%, and S&P 500 Index -4.35%.

Returns by rating within High Yield Bonds were: Double-B rated bonds -0.38%, Single-B rated bonds -0.38%, and CCC & below-rated bonds -2.21%.

In the ICE BofA US High Yield Index the sectors with the best total returns were: Energy 2.69%, Telecommunications 0.32%, and Utility -0.77%. The worst performing sectors were: Technology & Electronics -2.44%, Financial Services -2.26%, and Services -1.57%.

Portfolio Commentary

On a net basis, the portfolio returned 0.58% during the quarter, outperforming the ICE BofA U.S. High Yield Index and Morningstar peers by >1% and. From an attribution standpoint, both sector allocation and issuer selection contributed almost evenly.

Sector Allocation

Sector allocation contribution was driven primarily by overweight positions in Energy and Healthcare.

- Energy: Energy was the top-performing sector during the quarter as oil prices rose following the escalation of the Iran conflict. Even before the conflict, Energy had been the best-performing sector in January and February, supported by strong industry fundamentals.
- Healthcare: An overweight to Healthcare also contributed to performance, as the fund is primarily exposed to lower-volatility, higher-rated subsectors such as Health Facilities, Services, and Medical Products.

Issuer Selection

Issuer selection was primarily driven by Energy.

- Energy: Shearwater and Borr Drilling were notable contributors. Shearwater bonds rallied after the company reported strong Q4 earnings. Sentiment toward the seismic industry also improved as E&Ps began showing early signs of increased exploration activity and a renewed focus on reserve replacement. Borr Drilling bonds rose on better contract visibility, a larger backlog, and signs that 2026 rig utilization is improving.

Private Credit & Software

Recent negative press in private credit funds and the use of redemption limits has reinforced a structural concern we have recognized for some time: private credit vehicles offer periodic liquidity, while the underlying loans are long-dated and difficult to sell. Without a deep and reliable secondary market like those in High Yield bonds and Leveraged Loans, a wave of redemptions could exceed what funds can reasonably accommodate, resulting in gate provisions or asset sales at unfavorable prices.

From a fundamental perspective, we continue to see signs of deterioration. We have previously highlighted weaker leverage and interest coverage metrics reported by BDCs, along with the multi-year rise in PIK payments. Together, these trends suggest increasing borrower stress and a growing reliance on non-cash solutions to meet obligations.

Another risk we are monitoring is technology disruption, particularly AI-driven software obsolescence. Private credit has a higher concentration in software borrowers, approximately 21%, compared with about 14% for Leveraged Loans and 5% for High Yield, according to J.P. Morgan. This could amplify performance dispersion if business models or competitive moats erode more quickly than lenders anticipated.

We do not expect stress in private credit to spill over meaningfully into the High Yield or Leveraged Loan markets. High Yield bonds and Leveraged Loans are broadly syndicated and actively traded in deep secondary markets, providing price discovery, transparency, and liquidity for investors.

Iran Conflict

The market is currently treating disruption in the Strait of Hormuz as a severe but ultimately manageable supply shock. That framing may be incomplete.

This is not just a supply disruption, it is a multi-actor strategic conflict, with each participant pursuing a different objective.

At the center of this is a simple reality: roughly 20% of global oil flows transit the Strait. When that flow is impaired, the system initially adjusts through inventories and strategic reserves. If the disruption persists, however, the adjustment mechanism shifts from supply buffers to demand destruction. That is when energy prices can move nonlinearly, with second-order effects that begin to impact global growth and credit fundamentals.

In periods of elevated uncertainty, framing the range of outcomes is more useful than predicting a single path. We see four plausible scenarios: prolonged disruption, de-escalation, forced reopening, or a systemic shock. The least likely, but most consequential, is a systemic shock where energy prices move materially higher and begin to impair global growth.

Our view is that inventories and strategic reserves can likely absorb disruption through late April or mid-May. Beyond that, the market would need to rebalance through demand, implying materially higher energy prices.

Positioning

We categorize portfolio holdings into three groups: Core, Out-of-Favor, and Deep Out-of-Favor.

Core holdings consist of low capital-intensive, highly predictable, non-cyclical businesses that consistently generate positive free cash flow and can comfortably support elevated leverage. Out-of-Favor and Deep Out-of-Favor investments reflect opportunities created by market dislocations, with the latter representing higher-risk, higher-potential-return positions typically purchased at distressed valuations.

There was not significant movement between these categories during the quarter, as the portfolio continues to tilt toward Core investments. We believe the incremental risk in higher-beta opportunities is not currently matched by sufficient additional return. The portfolio ended the quarter at 66% Core, 26% Out-of-Favor, and 8% Deep Out-of-Favor. We believe the portfolio is well positioned to navigate current market concerns, with minimal software exposure and increased exposure to defense-related businesses and offshore energy service companies.