LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

# *Investment Committee Agenda*

| | |
|---|---|
| **SPECIAL MEETING**<br><br>**TUESDAY, JANUARY 21, 2020**<br><br>**TIME: 9:00 A.M.**<br><br>**MEETING LOCATION:**<br><br>LACERS Ken Spiker Boardroom<br>202 West First Street, Suite 500<br>Los Angeles, CA 90012-4401 | Chair: Sung Won Sohn<br><br>Committee Members: Elizabeth Lee, Nilza R. Serrano<br><br>Manager-Secretary: Lita Payne<br><br>Executive Assistant: Ani Ghoukassian<br><br>Legal Counselor: City Attorney's Office Public Pensions General Counsel Division |
| Live Committee Meetings can be heard at: (213) 621-CITY (Metro), (818) 904-9450 (Valley), (310) 471-CITY (Westside), and (310) 547-CITY (San Pedro Area). | Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing Sign Language Interpreters, five or more business days' notice is strongly recommended. For additional information, please contact: Board of Administration Office at (213) 473-7169. |

I. PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION

II. FINALIST FIRMS OF THE HIGH YIELD FIXED INCOME AND HYBRID HIGH YIELD FIXED INCOME/BANK LOAN INVESTMENT MANAGER SEARCH AND POSSIBLE COMMITTEE ACTION

III. OTHER BUSINESS

IV. NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, February 11, 2020, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

V. ADJOURNMENT

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

# Board of Administration Agenda

| | |
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V. ADJOURNMENT

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**REPORT TO INVESTMENT COMMITTEE** **MEETING: JANUARY 21, 2020**
**From: Lita Payne, Executive Officer** Lita Payne **ITEM: II**

SUBJECT: **FINALIST FIRMS OF THE HIGH YIELD FIXED INCOME AND HYBRID HIGH YIELD FIXED INCOME/BANK LOAN INVESTMENT MANAGER SEARCH AND POSSIBLE COMMITTEE ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

## Recommendation

That the Committee:

1) Interview the following firms as finalists for the High Yield Fixed Income (high yield strategy) and Hybrid High Yield Fixed Income/U.S. Floating Rate Bank Loan (hybrid strategy) Mandate Search:

| | |
|---|---|
| High Yield Strategy Finalists: | Aegon USA Investment Management, LLC (incumbent manager)<br>Loomis, Sayles & Company, L.P.<br>Morgan Stanley Investment Management |
| Hybrid Strategy Finalists: | DDJ Capital Management, LLC<br>KKR Credit |

2) Recommend to the Board one finalist from each strategy for contract award

## Executive Summary

The Board-approved request for proposal (RFP) for high yield strategy and hybrid strategy managers opened on February 19, 2019, and closed on March 22, 2019. A combined 44 proposals were received (32 for the high yield strategy and 12 for the hybrid strategy), representing 37 firms; 31 proposals met the minimum qualifications (MQs) required to participate in the search. None of the three emerging investment manager proposals met the MQs. Three firms progressed as semi-finalists for the high yield strategy and two firms progressed as semi-finalists for the hybrid strategy. Further due diligence, including on-site visits, was conducted on the five semi-finalists, and staff recommends all five firms as finalists. Staff also recommends that the Committee select one finalist for the high yield strategy and one finalist for the hybrid strategy for Board consideration and possible contract award. LACERS' general fund consultant, NEPC, LLC, (NEPC) concurs with staff's recommendation.

## Discussion

*Background*

The Board approved an RFP process to evaluate the current marketplace for high yield strategy and hybrid strategy managers on October 23, 2018. Based upon the asset allocation targets approved by the Board on April 10, 2019, and LACERS' total fund assets at the time of RFP approval, approximately $470 million (2.66% of total fund assets) will be allocated to this mandate with an equal split between the high yield and hybrid strategies. The funding for these strategies will be derived principally from the high yield fixed income assets currently managed by Aegon USA Asset Management, LLC and a reduction to the core fixed income allocation.

The search opened on February 19, 2019, and closed on March 22, 2019. The RFP was published on LACERS' website and NEPC's website. The search was advertised in the Pensions & Investments and Emerging Manager Monthly publications. The RFP was also advertised online through the following organizations: Association of Asian American Investment Managers, National Association of Investment Companies, and New America Alliance. Further, the RFP was emailed to all contacts within the LACERS Investment RFP/RFI Notification System database.

*Search Results*

A combined 44 proposals were received from 37 firms, including three emerging investment managers. Upon review of the proposals, 30 of 32 met the MQs for the high yield strategy; six of 12 met the MQs for the hybrid strategy. None of the emerging investment manager proposals met the MQs.

On August 13, 2019, the Committee reviewed NEPC's candidate evaluation report and concurred with the staff recommendation to advance the following five firms as semi-finalists in the search:

1) High Yield Strategy: Aegon USA Investment Management, LLC (incumbent manager)[1]
   Loomis, Sayles & Company, L.P.
   Morgan Stanley Investment Management

2) Hybrid Strategy: DDJ Capital Management, LLC
   KKR Credit

*Additional Due Diligence Activities*

On-site meetings were conducted with the five semi-finalists to obtain a better understanding of potential investment and organizational risks. Staff and NEPC interviewed various professionals on topics that included, but were not limited to, overall business strategy and growth, organization and reporting structure, staffing and compensation, investment philosophy and strategy, trading, risk management, compliance and controls, and technology. Staff also conducted reference checks and conferred with NEPC's manager research team.

[1]Manages approximately $394 million for LACERS in a high yield fixed income strategy.

Based upon these due diligence activities, staff recommends all five firms as the proposed finalists for interview by the Committee. These firms exhibit organizational stability, strong management teams, well-articulated investment strategies consistent with LACERS objectives, well-defined risk management and compliance practices, and track records of adding value. Staff also received positive feedback from references for these firms.

Staff also recommends that the Committee select one finalist for the high yield strategy and one finalist for the hybrid strategy for Board consideration and possible contract award upon conclusion of the interviews. The approximate $470 million (2.66% of total fund assets) allocated to this mandate will be equally split between the high yield and hybrid strategy managers.

NEPC concurs with staff's recommendation.

**Strategic Plan Impact Statement**

The RFP for high yield strategy and hybrid strategy managers assists the fund in optimizing long-term risk adjusted investment returns (Goal IV). Implementing a competitive bidding process by issuing an RFP upholds good governance practices, which affirm transparency, accountability, and fiduciary duty (Goal V).

Prepared By: Robert King, Investment Officer I, Investment Division

RJ/BF/WL/RK:sg

Attachments:
1. Finalist Information Matrix and Performance Returns
2. Presentation by Aegon USA Investment Management, LLC
3. Presentation by Loomis, Sayles & Company, L.P.
4. Presentation by Morgan Stanley Investment Management
5. Presentation by DDJ Capital Management, LLC
6. Presentation by KKR Credit

# IC Meeting: 01/21/20
# Item II
# Attachment 1

## FINALISTS OF THE HIGH YIELD/BANK LOAN CREDIT INVESTMENT MANAGER SEARCH
## FINALIST INFORMATION MATRIX

| | | | | | |
|---|---|---|---|---|---|
| Fund Strategy | High Yield | High Yield | High Yield | Hybrid High Yield and Bank Loan | Hybrid High Yield and Bank Loan |
| Firm Name | **Aegon USA Investment Management, LLC** | **Loomis, Sayles & Company, L.P.** | **Morgan Stanley Investment Management** | **DDJ Capital Management, LLC** | **KKR Credit** |
| Main Office | Cedar Rapids, IA | Boston, MA | New York, NY | Waltham, MA | San Francisco, CA |
| Year Founded | 1989 | 1926 | 1975 | 1996 | 2004 |
| Ownership Structure | Wholly-owned subsidiary of Aegon N.V. which is publicly traded. | Wholly-owned subsidiary of Natixis S.A., which is publicly traded. | Wholly-own subsidiary of Morgan Stanley, which is publicly traded. | 100% Employee Owned | Wholly-owned subsidiary of KKR & Co., Inc, which is publicly traded. |
| Emerging Manager | No | No | No | No | No |
| Firm Assets ($ millions) | $99,416 | $278,159 | $497,285 | $8,201 | Not provided |
| Product Assets ($ millions) | $7,725 | $4,084 | $1,376 | $6,381 | $2,136 |
| Number of Firm's Employees | 321 | 675 | 1,654 | 55 | 1,301 |
| Number of Employees Product | 5 | 37 | 35 | 52 | 174 |
| Team | Three portfolio managers supported by Deputy CIO and 39 person research team. | 4 PMs supported by 57 credit and research analysts | Lead PM supported by 1 PM/Trader, 20 person global credit research team | Two co-portfolio managers supported by 8 research analysts | 1 lead PM supported by 1 PM, head of credit trading and 19 research associates and traders |
| Key Team Member | Jim Schaeffer, Deputy CIO and Co-Head of Public Fixed Income; Ben Miller, Co-head of High Yield; Kevin Bakker, Co-Head of High Yield; Derek Thoms, PM. | Elaine Stokes, PM; Matthew Eagan, PM; Todd Vandam, PM; Tom Stolberg, PM. | Richard Lindquist, Lead PM; Jack Cimarosa, PM | Benjamin Santonelli, PM; John Sherman, PM | Christopher Sheldon, PM; John Reed, Head of Credit Trading; Jeremiah Lane, PM. |
| Strategy Description | The firm's high yield strategy incorporates a credit-intensive process with a relative value-oriented and opportunistic total return management style. The investment universe is primarily focused on US high yield bonds, but may include opportunistic allocations to investment grade bonds, bank loans and emerging market bonds. | The strategy is benchmark aware and seeks to provide a diversified, actively managed exposure to the US High Yield credit market which emphasizes a disciplined portfolio construction and risk assessment process, leveraging the insights of Loomis Sayles' credit research and high yield sector team. The strategy outperforms through issue and sector selection. | The firm employs an active, value-oriented fixed income style that utilizes a bottom-up, credit-intensive research approach to identify relative value opportunities. They focus on the middle market high yield issuers, which they define as companies with less than US$1 billion of total bonds outstanding. | Value-oriented, active bias toward small-to-mid cap issues. Seeks to exploit inefficiencies in the high yield credit markets by adhering to a disciplined, bottom-up, fundamentally oriented investment process with a strict adherence to downside protection. The strategy has the flexibility to invest in both bonds (target range generally 50 – 95% of portfolio market value) and bank loans (allowable range typically 5 – 50% of portfolio market value). Target bank loans in the up to $250mm EBITA range. | The product employs a high conviction strategy focused on a concentrated number of investments in high-quality, diversified enterprises in industries in which KKR credit and KKR have deep knowledge. For each credit they incorporate the business drivers, regulatory risks and the capital structure. They aim to gain differentiated insight by utilizing KKR's deep understanding of industries and relationships. The investment universe for the product includes leveraged loans (including first and second lien) and high yield bonds (secured and unsecured). |
| Typical Number of Issuers | 125 - 175 | 100 - 200 | 200 - 250 | 70 - 90 | 100 - 155 |
| Portfolio Turnover | 30% - 50% Annually | 50% - 100% Annually | 27% during 2018 | 60 - 80% Annually | 40% - 60% Annually |
| Investment Vehicle | Separate Account | Separate Account | Separate Account | Separate Account | Separate Account |
| Proposed Effective Fees | 39 bps | 45 bps | 32 bps | 50 bps | 75 bps |
| PRI Signatory/Year Signed | Yes / 2011 | Yes / 2015 | Yes / 2013 | Yes / 2016 | Yes / 2009 |

Source: NEPC Semi-Finalists Presentation August 13, 2019

**FINALISTS OF THE HIGH YIELD/BANK LOAN CREDIT INVESTMENT MANAGER SEARCH**
**Annualized Returns and Risk as of September 30, 2019**
**Gross of Fees**

| Firm Name | Inception Date | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | Since Inception | 10 Year Information Ratio | 10 Year Tracking Error |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| **High Yield Fixed Income** | | | | | | | | | |
| Aegon USA Investment Management, LLC | 01/2002 | 6.80 | 6.36 | 5.80 | 6.36 | 8.65 | 9.21 | 0.81 | 0.90 |
| Loomis, Sayles & Company, L.P. | 10/2009 | 4.71 | 5.69 | 5.62 | 6.40 | 8.23 | 8.23 | 0.39 | 2.85 |
| Morgan Stanley Investment Management | 03/2012 | 5.86 | 7.01 | 5.79 | 7.60 | --- | 8.30 | 1.64* | 1.24* |
| *Index: Bloomberg Barclays U.S. Corporate High Yield 2% Cap* | *01/1993* | *6.35* | *6.07* | *5.38* | *5.89* | *7.92* | --- | --- | --- |
| | | | | | | | | | |
| **Hybrid High Yield and U.S. Floating Rate Bank Loans** | | | | | | | | | |
| DDJ Capital Management, LLC | 04/1998 | -0.43 | 6.65 | 5.55 | 6.61 | 8.97 | 8.05 | 1.56 | 3.15 |
| KKR Credit | 05/2008 | 2.43 | 7.81 | 7.15 | 8.94 | 11.47 | 11.83 | 0.37 | 0.84 |
| *Index: LACERS Custom Blend*** | *01/1993* | *10.68* | *5.20* | *4.65* | *5.07* | *6.61* | --- | --- | --- |

*Note: Morgan Stanley Invesment Management information ratio and tracking error are since inception in March 2012.

**50% Bloomberg Barclays U.S. Corporate High Yield 2% Cap / 50% Credit Suissee Leveraged Loan

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**FINALISTS OF THE HIGH YIELD/BANK LOAN CREDIT INVESTMENT MANAGER SEARCH**
**Calendar Year Returns and Risk as of September 30, 2019**
**Gross of Fees**

| Firm Name | Inception Date | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | |
| **High Yield Fixed Income** | | | | | | | | | | | | | |
| Aegon USA Investment Management, LLC | 01/2002 | 4.22 | -22.89 | 58.47 | 15.48 | 5.39 | 18.51 | 7.32 | 4.71 | -3.33 | 15.53 | 7.98 | -2.00 |
| Loomis, Sayles & Company, L.P. | 10/2009 | --- | --- | --- | 15.90 | 3.63 | 16.86 | 9.04 | 3.37 | -1.78 | 16.29 | 8.03 | -2.92 |
| Morgan Stanley Investment Management | 03/2012 | --- | --- | --- | --- | --- | --- | 14.05 | 1.87 | -0.79 | 16.26 | 8.53 | -1.78 |
| *Index: Bloomberg Barclays U.S. Corporate High Yield 2% Cap* | *01/1993* | *2.26* | *-25.88* | *58.76* | *14.94* | *4.96* | *15.78* | *7.44* | *2.46* | *-4.43* | *17.13* | *7.50* | *-2.08* |
| | | | | | | | | | | | | | |
| **Hybrid High Yield and U.S. Floating Rate Bank Loans** | | | | | | | | | | | | | |
| DDJ Capital Management, LLC | 04/1998 | 3.77 | -29.22 | 58.52 | 19.30 | 3.57 | 17.61 | 10.16 | 3.66 | -3.81 | 17.55 | 12.13 | 0.88 |
| KKR Credit | 05/2008 | --- | --- | 80.45 | 22.67 | 5.11 | 19.53 | 17.36 | 1.48 | -0.66 | 22.14 | 10.66 | 3.24 |
| *Index: LACERS Custom Blend** | *01/1993* | *2.08* | *-27.19* | *51.73* | *12.46* | *3.41* | *12.58* | *6.81* | *2.26* | *-2.41* | *13.45* | *5.85* | *-0.48* |

*50% Bloomberg Barclays U.S. Corporate High Yield 2% Cap / 50% Credit Suisse Leveraged Loan

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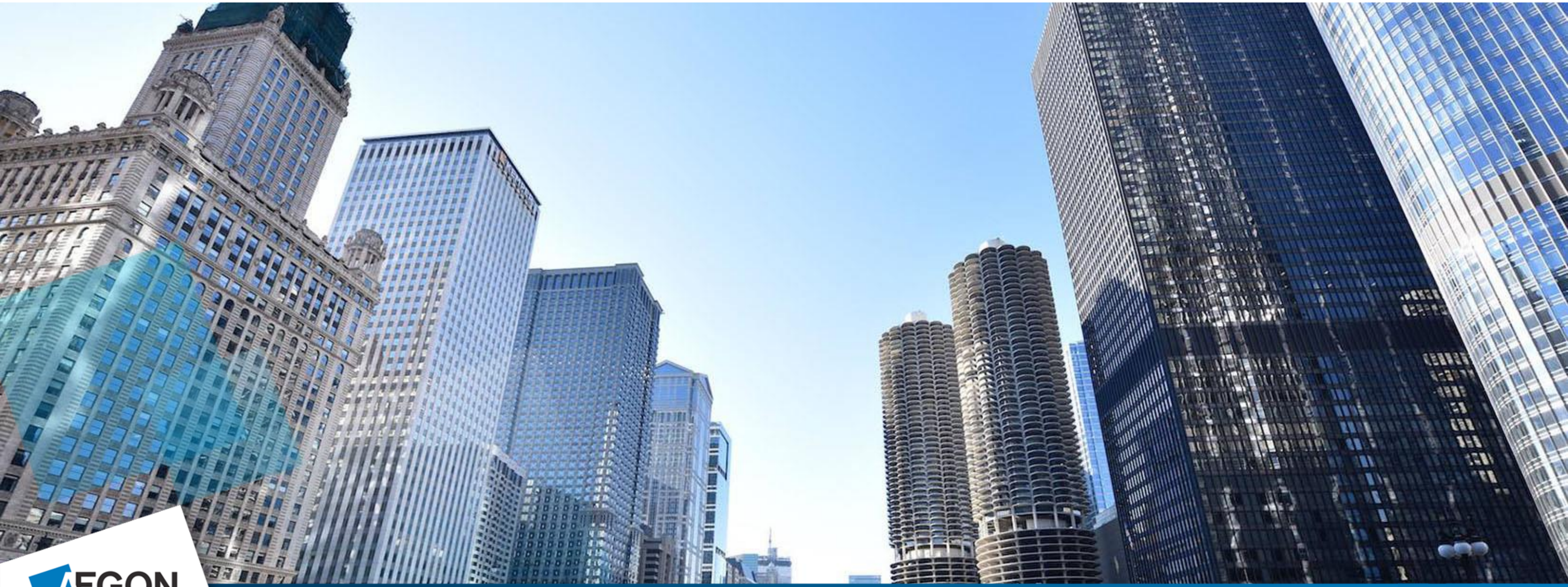
# High Yield Fixed Income



Aegon Asset Management

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# Aegon Asset Management: Global investment platforms

As of June 30, 2019

**Global client base**

- Institutional, intermediary and wholesale markets
- Serving clients in Europe, the Americas and Asia

**Global investment platform**

- Active management
- Separate accounts, commingled funds and client-specific solutions
- Expertise in fixed income, equities, real assets, alternatives and multi-asset

**A responsible investor**

- UN-supported PRI signatory since 2011

**Deeply resourced**

- Approximately 1,200 employees
- Approximately 260 investment professionals

**Assets under management/advisement**

- $386 billion


Baltimore, Cedar Rapids, Chicago, Irvine, New York, Rio de Janeiro, San Francisco

Budapest, Edinburgh, Frankfurt, Groningen, London, Madrid, Paris, The Hague

Hong Kong, Tokyo, Shanghai

**Aegon Asset Management brands & strategic partnerships***

*Aegon Asset Management is the global investment management brand of the Aegon Group N.V. and is comprised of wholly owned affiliates Aegon USA Investment Management, LLC (Aegon Asset Management US), Aegon USA Realty Advisors, LLC (Aegon Real Assets US), Kames Capital plc (Kames Capital), Aegon Asset Management Asia Ltd, Aegon Asset Management Central and Eastern Europe, Aegon Asset Management Pan-Europe BV, Aegon Asset Management Spain, Aegon Industrial Fund Management Co., Ltd, and Aegon Investment Management BV (of which certain business is conducted under the brand name TKP Investments). Through Aegon Group N.V., Aegon Asset Management also has a 25% ownership interest in La Banque Postale Asset Management SA, a 49% interest in Aegon Industrial Fund Management Company (AIFMC), a 50% interest in Mongeral Aegon Investimentos, and a 70% interest in Pelargos Capital BV and Saemor Capital BV. Aegon Asset Management US, Aegon Real Assets US, and Kames Capital are SEC registered investment advisers. Assets under management/advisement for Aegon Asset Management includes the advisory services performed by all companies listed above except Mongeral Aegon Investimentos.

# Cultivating and Retaining Talent

People are our most valuable asset

## Strong culture sets the foundation

- Building and maintaining our corporate culture is a thoughtful act, embraced and discussed by leaders on a regular basis
- The firm values strong governance, a strong risk management culture, consistent and competitive performance, full transparency and clear accountability to its clients and one another
- This deliberately cultivated culture fosters a sense of shared purpose and community amongst the team

## Targeted recruiting initiatives

- Strive to attract new colleagues from a wide variety of experiences and backgrounds which will enrich and strengthen us through the inclusion of different perspectives
- Networking, relationship building and sponsoring of university and professional asset management associations
- Direct sourcing of candidates with key skill sets
- Action plans and sourcing strategies with focus on diversity

## Ongoing development and career paths

- Strong talent management and succession planning programs to develop and prepare future leaders
- CFA and CPA programs provide employees with paid time off to study for exams, paid expenses while taking exams, and bonuses paid to the employee upon passing
- In-house classes offered for key career development areas
- Tuition reimbursement programs

## Robust compensation and benefits programs

- Compensation reviewed annually for all employees
- Incentives tied to company and individual performance
- Competitive benefits program, including 401(k) and pension

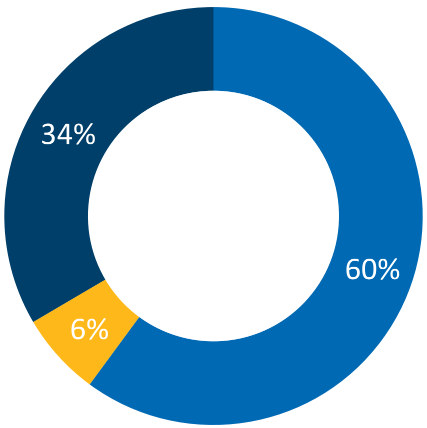
## Inclusion and diversity values

- Aim to create an environment where everyone is comfortable to be their authentic self at work
- Unconscious bias program for all employees, employee resource groups, and speakers
- New role created in 2020 with focus on leading I&D efforts across the organization to strengthen these initiatives

# Aegon Asset Management

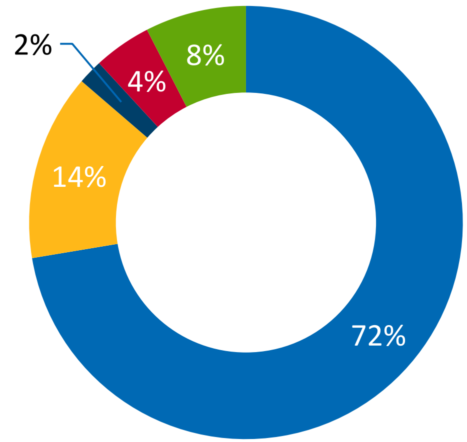
Assets under management/advisement (AuM) = $386 billion as of June 30, 2019

## AuM By client



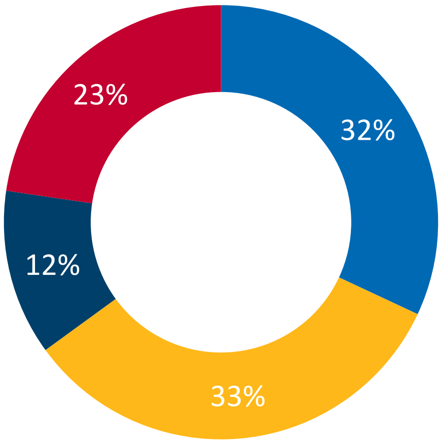

- Institutional and Affiliate ($232bn)
- Wholesale and Retail ($25bn)
- General Account ($129bn)

## AuM By asset class




- Fixed Income ($279bn)
- Equity ($54bn)
- Real Estate ($7bn)
- Mortgage Loans ($17bn)
- Other ($29bn)

## AuM By region




- US ($123bn)
- Continental Europe ($127bn)
- UK ($48bn)
- Strategic Partnerships ($88bn)

Numbers may not add due to rounding. Assets under management for Aegon Asset Management group companies includes the advisory services performed by various affiliates or their investment advisory business units and joint ventures. Aegon Asset Management is comprised of the following global entities: Aegon AM US, Aegon Real Assets, Kames Capital plc, Aegon Asset Management Asia Ltd, Aegon Asset Management Central and Eastern Europe, Aegon Asset Management Pan-Europe BV, Aegon Asset Management Spain, Aegon Industrial Fund Management Co. Ltd, Aegon Investment Management BV (of which certain business is conducted under the brand name TKP Investments), La Banque Postale Asset Management SA, Pelargos Capital BV and Saemor Capital BV.

# Aegon Asset Management US

Delivering fixed income solutions that span the credit spectrum

## Investment team

- 87 investment professionals with an average of 18 years' industry experience
- Culture of collaboration and risk management

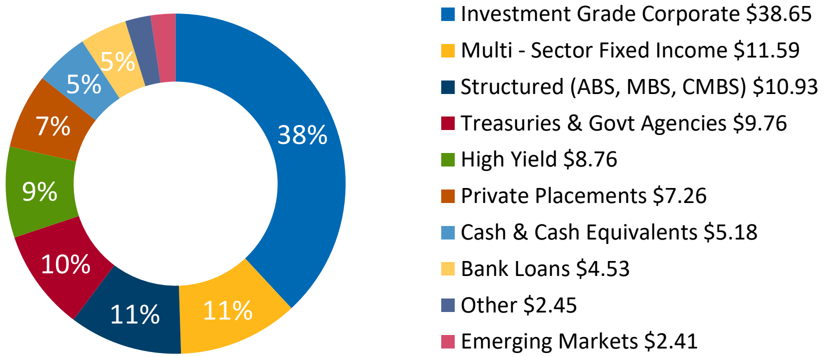
## Process

- Bottom-up, fundamental research informed by top-down analysis
- Credit research team with global sector/industry expertise across credit quality
- Dedicated distressed debt, bank loan, structured finance and emerging markets debt research teams

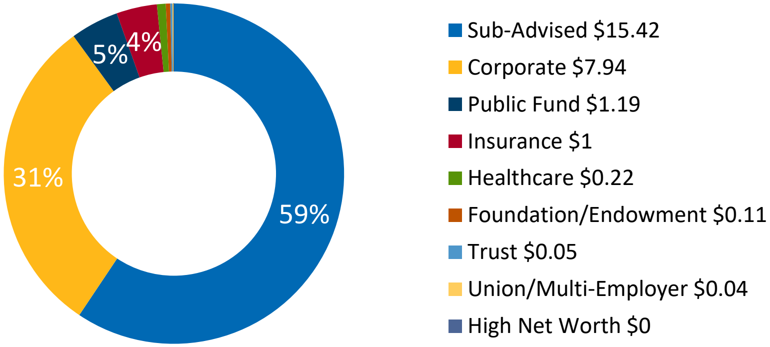
## Capabilities

- Active fixed income strategies across the credit spectrum
- Multi-sector, leveraged finance and customized fixed income solutions

## $101.5 billion AuM by investment strategy




## $26.0 billion non-general account AuM by client type




As of September 30, 2019. Years' experience is as of January 1, 2019 and reflects years attained in the current year.

Numbers may not add due to rounding. Certain derivative instruments may involve certain costs and risks such as liquidity, interest rate, market and credit. Investing in derivatives could result in significant losses. Other may contain derivatives, equities, hedge funds and credit opportunities strategies. Includes discretionary and non-discretionary accounts. Non-general account excludes Aegon N.V. insurance company general account assets; includes other assets managed on behalf of affiliates. Refer to appendix for important disclosures regarding the global research platform.

# High Yield Representative Clients

Iowa Public Employees' Retirement System

Government of Guam Retirement Fund

Blue Cross Blue Shield of Michigan

Blue Cross and Blue Shield of Florida

Nordea Investment Management

Mediolanum International Funds Limited

As of December 31, 2019. The representative client list above is being provided at the direct request of LACERS. It is unknown if these clients approve of Aegon Asset Management US or the services provided.

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# Investment solutions

| | US strategies | | Global and EM strategies | Customized Investment Solutions |
|---|---|---|---|---|
| **Fixed Income** | Core Aggregate<br>Core Plus<br>Sustainable Fixed Income<br>Intermediate Credit<br>Long Credit<br>Investment Grade<br>Short Duration<br>Stable Income<br>Structured Finance | High Yield<br>Short Duration High Yield<br>High Yield Select<br>High Yield & Bank Loans<br>High Yield ESG<br>Bank Loans<br>Credit Opportunities<br>Market Neutral Income | Global Investment Grade<br>Global High Yield<br>Strategic Global Bond<br>Global Absolute Return Bond<br>Emerging Markets Debt Global Diversified<br>Emerging Markets Debt Blended<br>Global High Yield | Cash Flow-Driven Investing<br>Liability-Driven Investing<br>Cash/Liquidity Management |
| **Equities** | | | Global Equity Income<br>Global Sustainable Equity<br>Global Equity Market Neutral | |
| **Multi-Asset** | | | Diversified Growth<br>Diversified Income | |
| **Real Assets** | Agricultural Mortgage Loans<br>Commercial Mortgage Loans<br>Natural Resources Private Equity<br>RE Private Equity (Workforce Housing & Opportunity Zones)<br>Tax Credits Equity | | | |

**Managed by:**
- Aegon Asset Management US
- Aegon Real Assets US
- Kames Capital

As of September 30, 2019

IC Meeting: 01/21/20
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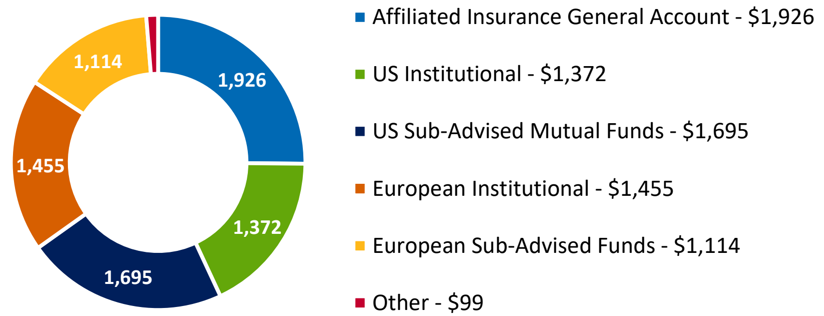
# Investing in high yield since the late 1980s

Long history, diverse client base

| Key milestones | |
|---|---|
| **1980s** | **Late ‘80s**<br>Started investing in high yield |
| **1990s** | **1997**<br>High Yield Fixed Income Composite |
| **2010s** | **2014**<br>High Yield & Bank Loan Opportunities Composite<br><br>**2015**<br>Global High Yield (USD) Composite<br><br>**2017**<br>Short Duration High Yield Composite<br>High Yield Select Composite<br><br>**2019**<br>High Yield ESG |

| High yield strategies AuM ($ millions) | |
|---|---|
| High Yield Fixed Income composite | 7,661.4 |
| Other US high yield strategies | 553.8 |
| Global high yield strategies | 548.3 |
| **Total** | **8,763.5** |

High Yield Fixed Income Composite = $7,661 million
By client type and region




As of September 30, 2019.

# High Yield Fixed Income strategy overview

## Overview
The strategy invests across the high yield credit quality spectrum

## Investment objective
Outperform the benchmark over a full credit cycle

## Performance target
100 basis points gross of fees over a full market cycle

## Benchmark
Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index

## Inception date
June 1, 1997

## Assets under management
$7,661 million

## Opportunity set

| Role | Security Type | Strategy Weighting [1] |
|---|---|---|
| **Primary** | US high yield | 80-100% |
| **Opportunistic** | US investment grade | 0-10% |
| | Bank loans | 0-10% |
| | Emerging market debt | 0-10% |

## Available vehicles

| Vehicle[2] | Minimum investment |
|---|---|
| Separate account | $50 million |
| Collective investment trust | $1 million |
| Private fund | $1 million |
| Sub-advised mutual fund | $1 million |

As of September 30, 2019.
[1]General range of weighting under normal market conditions. As with any investment strategy, there is potential for profit as well as the possibility of loss. There is no assurance that the stated investment objectives of the High Yield Fixed Income Composite will be achieved. [2]Not all investment vehicles are available to all investors. The collective investment trust (CIT) is sponsored and maintained by Massachusetts Fidelity Trust Company (MFTC), which serves as the trustee of the CIT. The CIT is only available for investment by certain qualified tax-exempt employee benefit plans as explained in more detail in the CIT's trust documents.

# Competitive distinctions: time-tested high yield platform

Research-intensive approach to navigating business cycles in an effort to generate consistent risk-adjusted results

## Bottom-up research framework generates high-conviction ideas

Research team structure helps prepare us for more difficult market environments

Credit analysts cover the full quality spectrum, providing seamless coverage during ratings transitions

Distressed research analysts help mitigate lower-quality risk and identify opportunities

## Business cycle-based approach seeks to capitalize on market inefficiencies

Pursues alpha opportunities throughout business cycles and around inflection points

Research-intensive process leads to high-conviction ideas and opportunities to generate alpha

Seeks to capitalize on inefficiencies in crossover credit and lower-quality bonds

## Disciplined process, consistent results

Multiple alpha sources: security selection in all environments, rating and sector allocations as opportunities arise

Focus on capturing upside while mitigating downside risk

Consistent top-quartile Information Ratios[1]

Refer to appendix for important disclosures regarding the global research platform. As of September 30, 2019. As with any investment strategy, there is potential for profit as well as the possibility of loss. There is no assurance that the stated investment objectives of the High Yield Fixed Income Composite will be achieved. The High Yield Fixed Income Composite's benchmark is the Bloomberg Barclays US Corporate High Yield Index. [1]Based on trailing 1,3,5 and 10 year IR peer rankings for the High Yield Fixed Income composite relative to the eVestment US High Yield Fixed Income Universe through September 30, 2019.

# Experienced team, deep resources

## High yield portfolio management team

**Jim Schaeffer**
*Deputy CIO / Co-Head of Fixed Income*
24 years of industry experience
Leveraged finance oversight

**Kevin Bakker, CFA**
*Co-Head of High Yield*
16 years of industry experience
Day-to-day portfolio management

**Ben Miller, CFA**
*Co-Head of High Yield*
26 years of industry experience
Day-to-day portfolio management

**Derek Thoms**
*High Yield Portfolio Manager*
11 years of industry experience
Day-to-day portfolio management

## **Primary research resources** – 24 analysts averaging 16 years of industry experience

**Credit Research**
19 professionals
Average 17 years of experience

**Distressed Research**
5 professionals
Average 12 years of experience

## **Additional resources** – 23 investment professionals averaging 19 years of industry experience

**Bank Loans Team**
5 professionals
Average 20 years of experience

**Investment Grade Team**
5 professionals
Average 19 years of experience

**Emerging Markets Team**
8 professionals
Average 17 years of experience

**Macro Strategy**
4 professionals
Average 22 years of experience

As of September 30, 2019. Years of experience reflects industry experience attained in current year. Refer to appendix for important disclosures.

# High Yield

Investment philosophy

## We believe…

## Therefore, we…

| We believe… | Therefore, we… |
|---|---|
| **Security selection is the primary driver of return** | > Have developed a broad research platform with dedicated credit and distressed teams<br>> Integrate ESG factors into the fundamental research process to manage risk and identify opportunities |
| **Unexpected changes in business cycles create the biggest market dislocations** | > Are top-down aware, consider the house macro view and develop thematic views on credit markets<br>> Oscillate risk, rotate sectors and manage around inflection points |
| **Broad diversification mitigates risks associated with individual credits** | > Effectively manage liquidity and risk profile of the asset class<br>> Diversify portfolio across number of issues, industries and credit quality |

Refer to appendix for important disclosures regarding the research platform.

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**Item II**
**Attachment 2**

# Investment framework

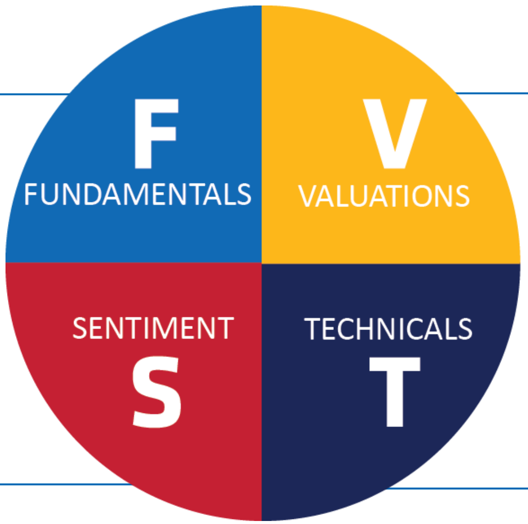
Consistent, repeatable, multi-faceted view on asset class drivers

**Rigorous FUNDAMENTAL Research**

- Integrated team of credit specialists
- Forward-looking fundamental credit evaluation

**Structured study of SENTIMENT for behavioral errors**

- Markets are inefficient
- Sentiment factors viewed in a contrary fashion




**Competing VALUATION techniques**

- Assess absolute and relative value at industry, collateral and security levels

**Understand price information in TECHNICALS**

- Prices hold information
- Flows can anticipate fundamentals, often imprecisely
- Consider changes in supply and demand

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# Consistent, repeatable investment process

High Yield

## Idea generation and screening

Investment universe screening and surveillance

Market flows/new issues and idiosyncratic ideas

**Idea generation:** ~1,800 companies
Research analysts
Portfolio managers

## Fundamental security research

Fundamental analysis and due diligence

Quantitative and qualitative factors, including ESG integration

**Security research:** ~500 companies
Credit analysts
Distressed analysts

## Top-down macro analysis

Macro themes and house view

Credit themes and sector positioning

**Macro themes:**
Macro strategists
Portfolio managers

## Portfolio construction

Diversification and risk exposures

Opportunistically adjust risk levels

**Portfolio construction:** ~150 companies
Portfolio managers

**High Yield Portfolio**

## Ongoing monitoring and risk management

# Research-intensive approach to navigating market inefficiencies

The structure of our research team helps prepare us for more difficult market environments

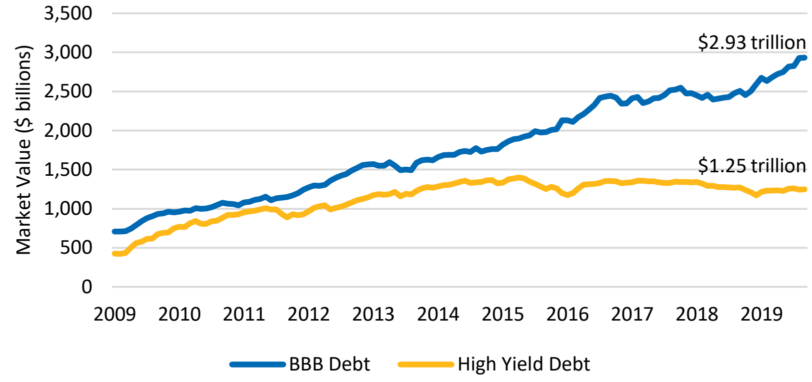
## Credit research analysts help navigate crossover credit

- Focus on deep fundamental analysis
- Industry experts follow industries across domiciles and credit-quality spectrum, including crossover credits
- Proprietary credit analysis framework with relative value overlay
- Provide proactive recommendations on relative value, absolute return and capital preservation
- Incorporates proprietary ESG analysis

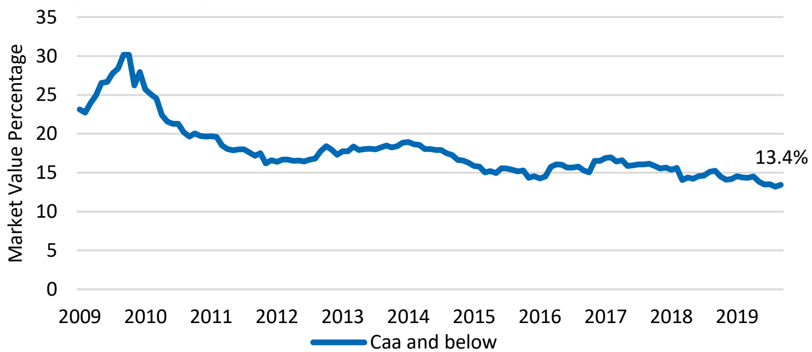
## Distressed research team helps mitigate lower-quality risk and identify opportunities

- Broad contribution across high yield platform when there is a disruption in the issuer's business
- Conduct in-depth downside and recovery analysis
- Contribute to opportunistic investing ideas

BBB debt surges while high yield debt remains relatively flat
January 2009 – September 2019




Within high yield, debt rated Caa and below has declined
January 2009 – September 2019




Source: As of September 30, 2019. Bloomberg Barclays. Includes monthly market values for the indices. BBB debt is based on the BBB portion of the Bloomberg Barclays Corporate Index. High Yield is based on the Bloomberg Barclays US Corporate High Yield Index. Caa and lower reflects the lower-quality portion of the Bloomberg Barclays US Corporate High Yield Index.

# Top-down global house view

Top-down considerations derived from a disciplined global macro, rates and asset class framework


## Global and regional meetings

- Broad, diverse membership
- Senior members have decision authority
- Macro inputs from portfolio managers, strategists, and rates specialists in US, UK and Europe

## Develop global house view monthly

- For economy, interest rates and asset classes
- Tactical and strategic outlooks
- May guide duration, yield curve and sector allocation decisions

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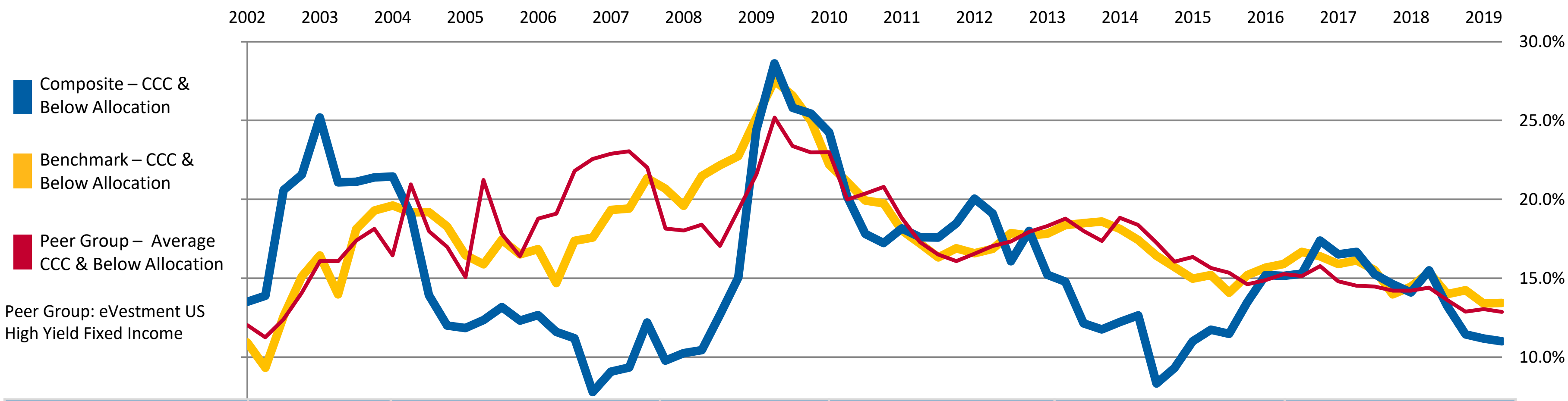
# Process in action - business cycle approach

CCC & Below Allocation from January 2002 – September 30, 2019
High Yield Fixed Income Composite vs. Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index



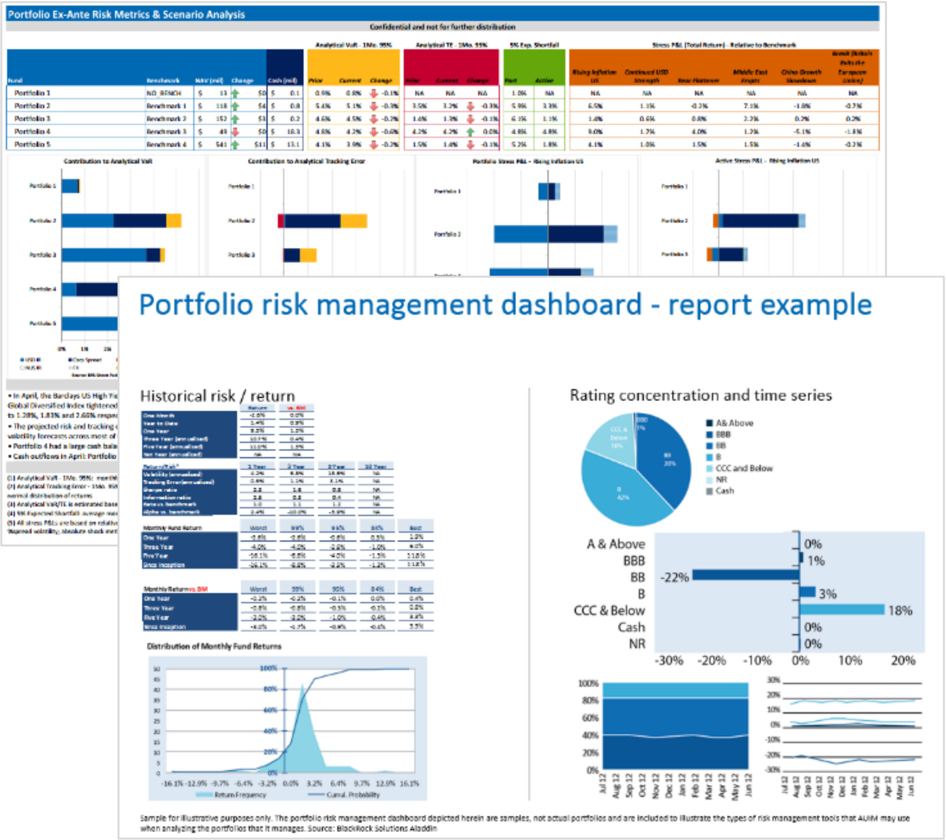

| | 2002 - 2003 | 2004 - 2007 | 2008 - 2009 | 2010 -2012 | 2013 - 2016 | 2017 – Q3 2019 |
|---|---|---|---|---|---|---|
| **CCC and below positioning vs. benchmark** | **Overweight** | **Underweight** | **Underweight** | **Neutral / Overweight** | **Underweight** | **Neutral** |
| | Increased risk ahead of market rebound | Tight dispersion, underweight risk | Increased risk ahead of market rebound | Focus on credit/ sector selection in volatile markets | Defensively positioned due to commodity concerns | Focus on security selection in low return environment |
| **Excess return (gross / net)** | 325 / 297 bps | 105 / 78 bps | 206 / 179 bps | 120 / 74 bps | 49 / -4 bps | 31 / -22 bps |
| **Excess return rank (gross)** | 13 | 25 | 8 | 11 | 27 | 39 |
| **# of observations** | 155 | 163 | 180 | 196 | 211 | 178 |
| **Upside capture** | **118** | 98 | 95 | **108** | 97 | **103** |
| **Downside capture** | 104 | **74** | **89** | 103 | **88** | 99 |

Source: eVestment, Bloomberg Barclays Capital Indices, POINT. ©2019 Barclays Capital Inc. Used with permission, 9/30/2019. **Past performance is not indicative of future results.** Please refer to the GIPS compliant presentation and other disclosures at the end of this material for additional important information. Ranking is based on gross returns and is not indicative of future performance. The chart represents the corresponding percentile of excess performance within the peer group which consists of all eVestment subscribers managing a similar strategy as determined by eVestment. Ranking may not be representative of any one client's experience because the rating reflects the performance of a composite. The eVestment universe is an appropriate comparison because the universe is comprised of similar strategies. The inception date of the High Yield Fixed Income Composite is June 1,1997. The firm claims GIPS compliance since 2022. As a result, this slide includes composite data since 2002.

# Portfolio risk management

## Assess, monitor and report

- Facilitate independent risk/return measurement and analysis using BlackRock® Aladdin® system
  - Standard historical risk/return metrics
  - Positioning and risk exposure versus benchmark
  - Portfolio ex-ante risk metrics/analyses
  - Stress testing and scenario analysis
    - In-house macro economic based scenarios
    - Historical stress scenarios
  - Portfolio construction/what if analysis
- Regular risk meeting with the portfolio management team
- Monthly reporting to the Investment Management Risk and Control Committee




For illustrative purposes only.

# Portfolio construction

Bottom-up security selection is typically the largest driver of returns, followed by industry/sector allocations

**Bottom-up research**

**House view**

## High Yield Portfolio

**Number of positions**
- 250 – 350 issues
- 125 – 175 issuers

**Position sizes (at MV)**
- Core: 75 – 100 bps
- High conviction: 125 – 300 bps

**Credit quality**
- Diversified
- No higher- or lower-quality bias

**Industry exposure**
- Diversified
- Maximum: 20% per industry

**Credit themes**

**Risk management**

Portfolio characteristics represented above are for illustrative purposes only and represent the strategy's typical investment guidelines. The firm manages portfolios to clients' specific investment guidelines.

# Characteristics

## High Yield Fixed Income Composite as of September 30, 2019

**Sector Allocation (%)**

| | Portfolio | Benchmark |
|---|---|---|
| **Financials** | **12.30** | **9.91** |
| Banking | 7.44 | 2.61 |
| Brokerage | 0.00 | 0.35 |
| Finance Companies | 2.47 | 2.51 |
| Insurance | 1.14 | 1.99 |
| Other Financial Institutions | 0.00 | 0.99 |
| REITS | 1.25 | 1.47 |
| | | |
| **Industrials** | **83.32** | **87.65** |
| Basic Industry | 5.76 | 6.16 |
| Capital Goods | 9.91 | 9.71 |
| Communications | 16.90 | 21.18 |
| Consumer Cyclicals | 18.21 | 16.21 |
| Consumer Non Cyclicals | 10.53 | 13.34 |
| Energy | 12.52 | 11.77 |
| Other Industrials | 0.00 | 1.33 |
| Technology | 5.81 | 6.49 |
| Transportation | 3.68 | 1.46 |
| | | |
| **Utilities** | **1.88** | **2.44** |
| Electric Utilities | 1.88 | 2.44 |
| Other Utilities | 0.00 | 0.00 |
| | | |
| **Other** | **0.00** | **0.00** |
| | | |
| **Cash** | **2.49** | **0.00** |

**Quality Allocation (%)**

| | Portfolio | Benchmark |
|---|---|---|
| BBB & Above | 5.68 | 0.00 |
| BB | 41.75 | 47.87 |
| B | 39.08 | 38.69 |
| CCC & Below | 9.89 | 13.37 |
| NR | 1.11 | 0.07 |
| Cash | 2.49 | 0.00 |

**Characteristics**

| | Portfolio | Benchmark |
|---|---|---|
| Number of Issuers | 189 | 980 |
| Average Quality | B+ | B+ |
| Yield to Worst | 5.53% | 5.66% |
| Average Life | 4.52 | 4.04 |
| Effective Duration | 2.82 | 3.12 |

**Top Ten Holdings (%)**

| Issuer | Portfolio |
|---|---|
| Charter Communications Inc | 2.47 |
| Altice SA | 2.27 |
| Softbank Group Corp | 2.05 |
| Ally Financial Inc | 1.87 |
| Liberty Global PLC | 1.85 |
| HCA Healthcare Inc | 1.82 |
| MGM Resorts International | 1.53 |
| Tenet Healthcare Corp | 1.23 |
| American Airlines Group Inc | 1.22 |
| Viking Holdings Ltd | 1.21 |

The benchmark is the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index.

Please refer to the GIPS compliant presentation and other disclosures at the end of this material for additional important information. Credit ratings for the portfolio reflect the Bloomberg Barclays credit quality methodology which is the middle rating of the three agencies, if only rated by two agencies it uses the lower rating and if only rated by one entity it uses that rating. NR includes securities that are not rated by S&P, Moody's or Fitch and may contain bonds, equities and/or bank loans. Average Quality excludes cash and securities that are not rated. Credit ratings for the benchmark reflect the benchmark rating. The above information represents the top 10 largest long positions in the representative account based on the aggregate dollar value. The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the representative account, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. All information is provided for informational purposes only and should not be deemed as a recommendation to buy the securities mentioned. Top 10 holdings excludes cash and cash equivalent positions.

# High yield outlook and positioning

As of September 30, 2019

## Fundamentals

- Global growth slowing against backdrop of geopolitical uncertainty, particularly tariff escalation with China and Brexit.
- Expect stable fundamentals for high yield issuers; defaults have increased modestly from historically low levels.
- Accommodative central bank policy around the globe remains supportive for broader risk assets.

## Technicals & Valuations

- Uptick in new issuance has surpassed 2018 totals year to date, yet remains below historical averages; anticipate similar trend over balance of year as corporates take advantage of low-rate environment.
- Positive fund flows year to date supported market momentum.
- Rally to start the year has brought spreads near/inside long-term averages; we believe high yield is priced at fair value.

## Positioning

### Ratings

- Overweight B-rated securities and modestly underweight lower quality.
- Underweight BB-rated credits given lower spreads/tight valuations.
- Anticipate idiosyncratic credit risks to drive returns.

### Sectors/industries

- Overweight financials.
- Overweight consumer cyclicals via housing-related credits, gaming, leisure and lodging.
- Underweight consumer non-cyclicals via healthcare.
- Underweight technology.
- Finding opportunities in specific credits within energy.

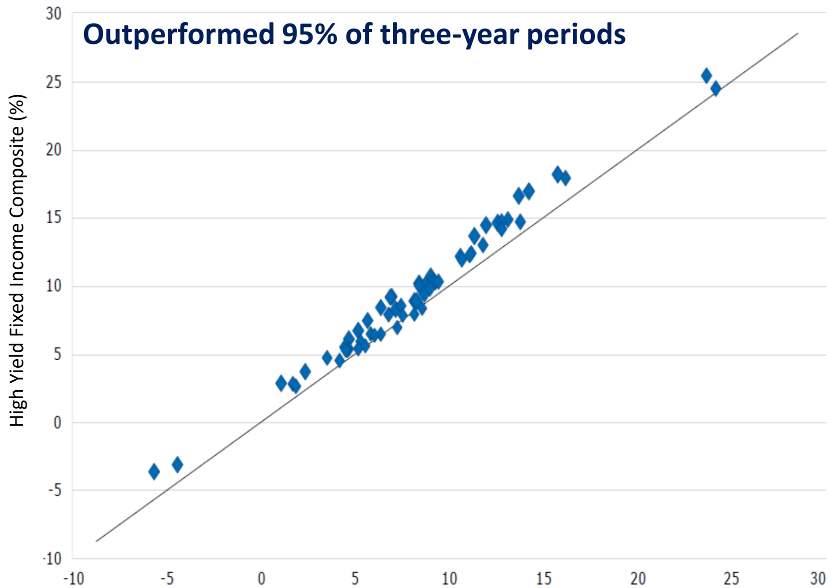
### Regions

- Preference for US credits, followed by Europe and emerging markets.

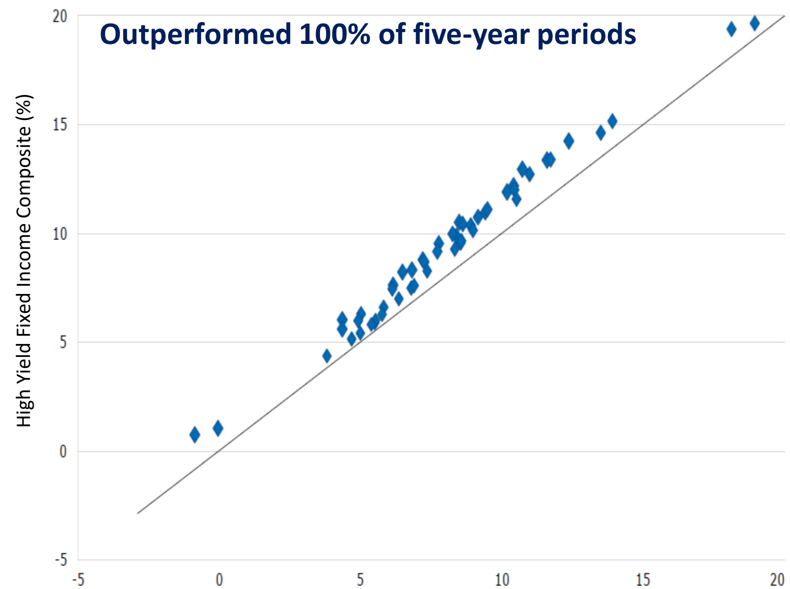
# Consistency throughout market cycles

High Yield Fixed Income Composite as of September 30, 2019

Rolling three-year quarterly returns (gross, annualized)
Since inception[1]




Rolling five-year quarterly returns (gross, annualized)
Since inception[1]



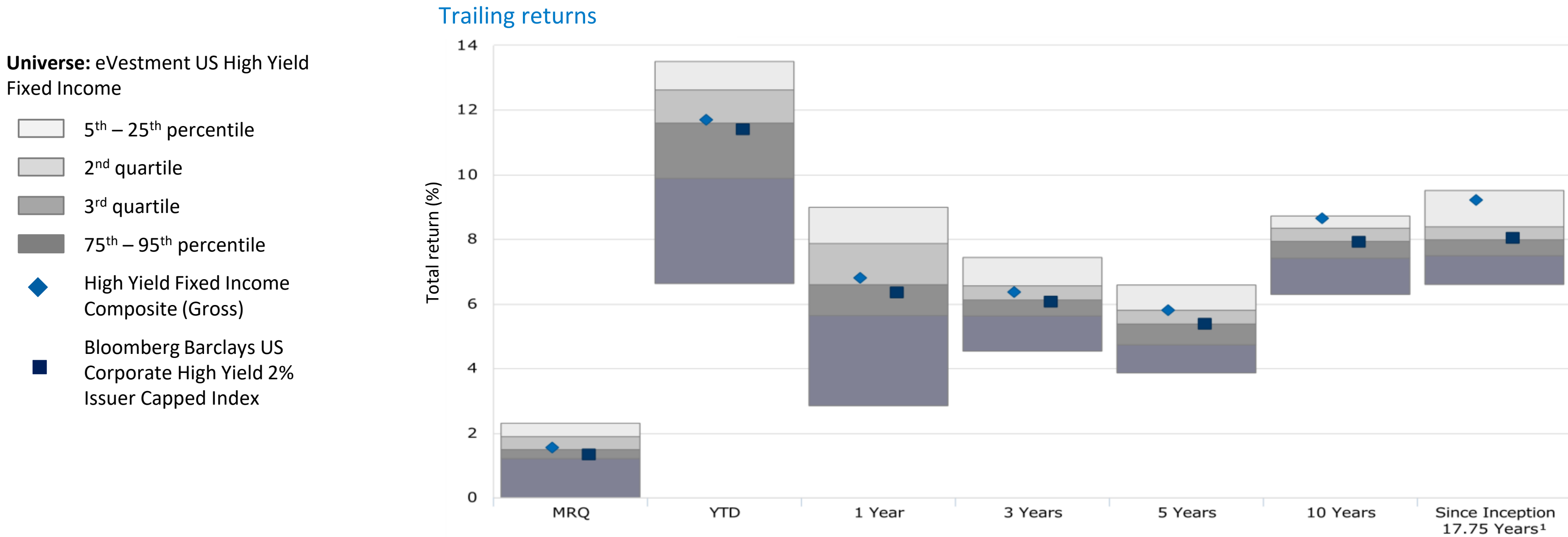

◆ High Yield Fixed Income Composite (Gross)

▬ Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index

**Past performance is not indicative of future results**. Please refer to the GIPS compliant presentation and other disclosures at the end of this material for additional important information.
Returns for periods longer than 12 months have been annualized.
[1]The inception date of High Yield Fixed Income Composite is June 1, 1997. The firm claims GIPS compliance since 2002. As a result, this slide includes composite data since 2002.

# Long-term performance

## High Yield Fixed Income Composite as of September 30, 2019



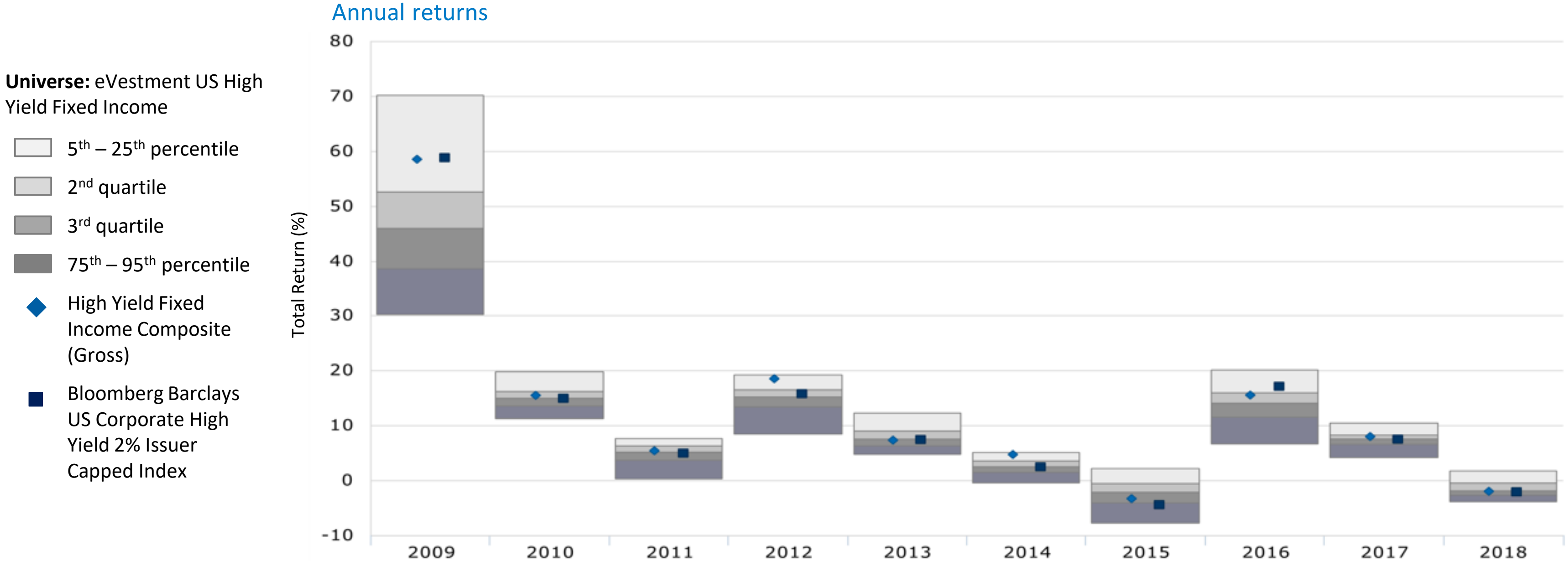

### Composite performance

| | MRQ | % Rank | YTD | % Rank | 1 Year | % Rank | 3 Years | % Rank | 5 Years | % Rank | 10 Years | % Rank | SI[1] | % Rank |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High Yield Fixed Income (Gross) | 1.55 | 46 | 11.70 | 45 | 6.80 | 44 | 6.36 | 36 | 5.80 | 24 | 8.65 | 8 | 9.21 | 8 |
| High Yield Fixed Income (Net) | 1.42 | - | 11.29 | - | 6.27 | - | 5.84 | - | 5.28 | - | 8.14 | - | 8.81 | - |
| Bloomberg Barclays US Corporate High Yield 2% Issuer Capped | 1.33 | 62 | 11.41 | 58 | 6.35 | 56 | 6.07 | 54 | 5.38 | 49 | 7.92 | 51 | 8.04 | 43 |
| # of Observations (gross returns universe) | 192 | | 192 | | 192 | | 182 | | 172 | | 121 | | 77 | |

**Past performance is not indicative of future results.** Please refer to the GIPS compliant presentation and other disclosures at the end of this material for additional important information. Returns for periods longer than 12 months have been annualized. The performance and index information represented was compiled using eVestment Alliance, a source believed to be reliable. However, the firm cannot guarantee the accuracy of the returns and therefore shall not be held liable for inaccurate information obtained from eVestment Alliance. Each slice of the bar chart in the graph represents the corresponding percentile of performance within the gross returns peer group, which consists of all eVestment subscribers managing a similar strategy as determined by eVestment. The slices represent the performance of the top 5% to 25%, 25% to 50%, 50% to 75%, and 75% to 95% of managers in the peer group. Ranking may not be representative of any one client's experience because the ranking reflects the performance of a composite. The eVestment universe is an appropriate comparison because the universe comprises similar strategies. [1]The inception date of High Yield Fixed Income Composite is June 1, 1997. The firm claims GIPS compliance since 2002. As a result, this slide includes composite data since 2002.

# High Yield Fixed Income Composite

## Historical annual returns




Composite Performance

| | 2009 | % Rank | 2010 | % Rank | 2011 | % Rank | 2012 | % Rank | 2013 | % Rank | 2014 | % Rank | 2015 | % Rank | 2016 | % Rank | 2017 | % Rank | 2018 | % Rank |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High Yield Fixed Income (Gross) | 58.47 | 15 | 15.48 | 37 | 5.39 | 45 | 18.51 | 7 | 7.32 | 54 | 4.71 | 9 | -3.33 | 65 | 15.53 | 29 | 7.98 | 33 | -2.00 | 52 |
| High Yield Fixed Income (Net) | 58.09 | | 15.19 | | 4.87 | | 17.92 | | 6.79 | | 4.19 | | -3.82 | | 14.96 | | 7.44 | | -2.49 | |
| Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index | 58.76 | 13 | 14.94 | 49 | 4.96 | 53 | 15.78 | 38 | 7.44 | 51 | 2.46 | 50 | -4.43 | 78 | 17.13 | 15 | 7.50 | 50 | -2.08 | 56 |
| # of Observations (gross returns universe) | 213 | | 228 | | 243 | | 252 | | 258 | | 265 | | 270 | | 263 | | 252 | | 222 | |

**Past performance is not indicative of future results.** Please refer to the GIPS compliant presentation and other disclosures at the end of this material for additional important information. Returns greater than 12 months have been annualized. The performance and index information presented was compiled using eVestment Alliance, a source believed to be reliable. However, the firm cannot guarantee the accuracy of the returns and therefore shall not be held liable for inaccurate information obtained from eVestment Alliance. Each slice of the bar chart in the graph represents the corresponding percentile of performance within the gross returns peer group, which consists of all eVestment subscribers managing a similar strategy as determined by eVestment. The slices represent the performance of the top 5% to 25%, 25% to 50%, 50% to 75%, and 75% to 95% of managers in the peer group. Ranking may not be representative of any one client's experience because the ranking reflects the performance of a composite. The eVestment universe is an appropriate comparison because the universe comprises similar strategies.

# Risk-adjusted returns

High Yield Fixed Income Composite as of September 30, 2019

**Asymmetric return profile**

| High Yield Fixed Income Composite vs Bloomberg Barclays US Corporate 2% Issuer Capped Index | 3 Year | 5 Year | 10 Year | Since Inception (1/2002)* |
|---|---|---|---|---|
| Upside Capture Ratio | 102.99 | 97.98 | 103.49 | 102.69 |
| Downside Capture Ratio | 98.71 | 88.44 | 94.73 | 90.78 |

**Strong risk-adjusted returns** (eVestment High Yield Fixed Income universe)

| High Yield Fixed Income Composite vs Bloomberg Barclays US Corporate 2% Issuer Capped Index | 3 Year | 5 Year | 10 Year | Since Inception (1/2002)* |
|---|---|---|---|---|
| Information Ratio | 0.60 | 0.49 | 0.81 | 0.79 |
| *Rank* | *26* | *14* | *4* | *2* |
| *Number of observations* | *189* | *177* | *123* | *78* |

**Past performance is not indicative of future results.** Please refer to the GIPS compliant presentation and other disclosures at the end of this material for additional important information. Returns for periods longer than 12 months have been annualized. The composite performance and index information represented was compiled using eVestment Alliance, a source believed to be reliable. However, the firm cannot guarantee the accuracy of the returns and therefore shall not be held liable for inaccurate information obtained from eVestment Alliance. The information consists of all eVestment subscribers managing a similar strategy as determined by eVestment. Ranking is based on net returns and is not indicative of future performance. Ranking may not be representative of any one client's experience because the ranking reflects the performance of a composite. The eVestment universe is appropriate comparison because the universe comprises similar strategies.
*The inception date of High Yield Fixed Income Composite is June 1, 1997. The firm claims GIPS compliance since 2002. As a result, this slide includes composite data since 2002.

# Information ratio

High Yield Fixed Income Composite as of September 30, 2019

**Universe:** eVestment US High Yield Fixed Income

5th – 25th percentile

2nd quartile

3rd quartile

75th – 95th percentile

High Yield Fixed Income Composite (Gross)

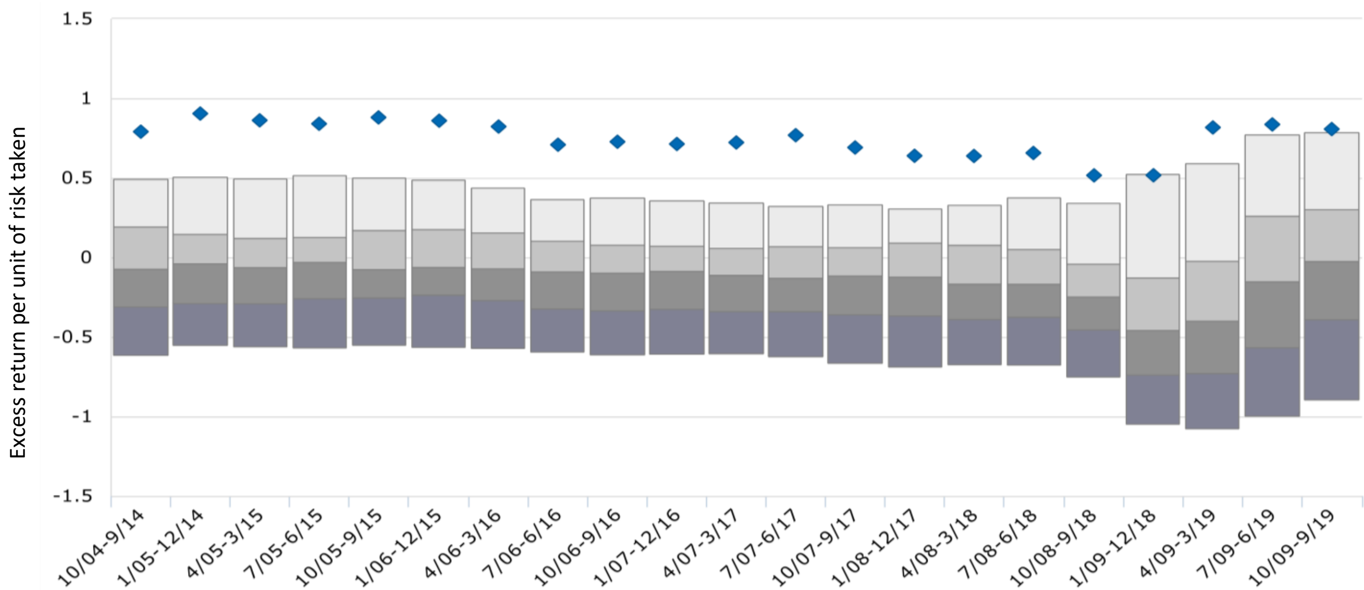
**Benchmark:** Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index

**Number of observations:** 147-157

## Consistent historical outperformance on a risk-adjusted basis

Rolling quarterly ten-year information ratio since inception*

Based on gross returns




**Past performance is not indicative of future results.** Please refer to the GIPS compliant presentation and other disclosures at the end of this material for additional important information. Returns greater than 12 months have been annualized. The performance and index information represented was compiled using eVestment Alliance, a source believed to be reliable. However, the firm cannot guarantee the accuracy of the returns and therefore shall not be held liable for inaccurate information obtained from eVestment Alliance. Each segment of the bar chart in the graph represents the corresponding percentile of performance within the peer group, which consists of all eVestment subscribers managing a similar strategy as determined by eVestment and varies depending upon the quarter. The segments represent the performance of the top 5% to 25%, 25% to 50%, 50% to 75%, and 75% to 95% of managers in the peer group. Ranking is based on gross returns and is not indicative of future performance. Ranking may not be representative of any one client's experience because the ranking reflects the performance of a composite. The eVestment universe is an appropriate comparison because the universe comprises similar strategies. *The inception date of High Yield Fixed Income Composite is June 1, 1997. The firm claims GIPS compliance since 2002. As a result, this slide includes composite data since 2002.

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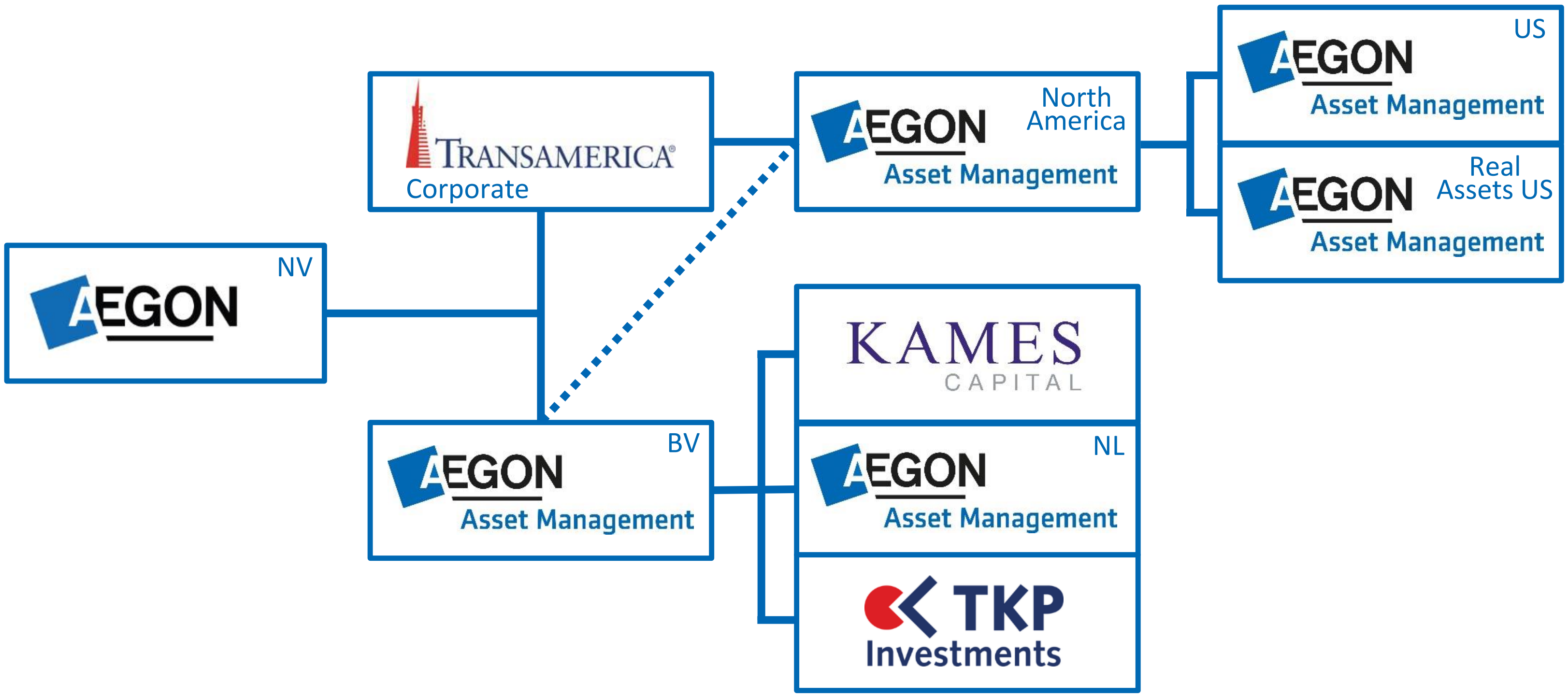
# Summary

- Time-tested high yield approach
- Managed by a seasoned, cohesive portfolio management team
- Supported by a differentiated research platform
- Relies on a disciplined, transparent and repeatable process
- Focused on providing various sources of alpha throughout business cycles and around inflection points

# Appendix

# Aegon Asset Management Legal Structure



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# Fixed income organization

| Summary of fixed income professionals by country | |
|---|---|
| US | 87 |
| UK | 23 |
| Netherlands | 33 |

**Global CIO Fixed Income**
Kirk Buese

| | | |
|---|---|---|
| Global Head of Leveraged Finance | Jim Schaeffer | US, UK & NL based |
| Head of US Inv. Grade, Structured & Multi-Sector | Doug Weih | US-based |
| Global Head of Credit Research | Jennifer Moore | US, UK & NL based |
| Head of UK Fixed Income | Adrian Hull | UK-based |
| Head of NL Fixed Income | Hendrik Tuch | NL-based |
| Head of Alternative Fixed Income | Frank Meijer | NL-based |
| Head of Client Investment Solutions & Insurance AM | Jeff Whitehead | US-based |

Note: All positions subject to internal governance and regulatory approvals. Effective February 1, 2020

# Portfolio management team biographies

## High Yield

**Kevin Bakker, CFA,** is co-head of high yield and a portfolio manager responsible for US and global high yield trading and portfolio management. Prior to his current role, Kevin was a public fixed income research analyst covering high yield and investment grade corporate securities. Prior to joining the firm, Kevin was employed by Archer Daniels Midland in various roles within their commodities trading division. He has 16 years of industry experience and has been with the firm since 2003. Kevin received his BA from Loras College and his MBA from the University of Iowa. He is a CFA® charterholder.

**Ben Miller, CFA,** is co-head of high yield and a portfolio manager responsible for US and global high yield trading and portfolio management. Prior to his current role, Ben held various investment responsibilities ranging from private placement analyst to public fixed income research analyst. He has 26 years of industry experience and has been with the firm and its affiliates since 1993. Ben received his BA from the University of Northern Iowa and his MBA from the University of Iowa. He is a CFA® charterholder.

**Jim Schaeffer** is deputy chief investment officer responsible for shaping the strategic long-term direction for the investment team. Additionally, Jim serves as co-head of public fixed income and as a portfolio manager for the US and Global High Yield, Bank Loans, Credit Opportunities and Core Plus strategies and provides managerial oversight over the Emerging Markets portfolio management team. He is also responsible for stressed and special situation securities, and all restructuring and bankruptcy situations for the firm. Jim is a member of the firm's Executive Committee. In addition, he is a member of the Aegon Asset Management steering committee that sets global macro and asset allocation strategies (global house views) and has responsibility for implementation of those views in the US. Prior to his current role, Jim served as a vice president at PPM America's Distressed Debt and Workout Group. He also worked in corporate banking and investment banking positions at Wachovia Corporation, Bank of America Securities and Donaldson, Lufkin & Jenrette in Chicago. He has 24 years of industry experience and has been with the firm since 2004. Jim received his BS in finance from Miami (Ohio) University and his MBA from the Wharton School of Business at the University of Pennsylvania. Jim maintains his Series 3 and 30 registrations with the National Futures Association.

**Derek Thoms** is a portfolio manager responsible for US and global high yield trading and portfolio management. Prior to his current role, Derek held a number of management and leadership positions with ESP International and the University of Northern Iowa and traded commodities for Archer Daniels Midland Company. He has 11 years of industry experience and has been with the firm since 2013. Derek received his BA in economics from the University of Northern Iowa.

Years of experience reflects the number of years attained in the current year.

# Investment communication framework

Portfolio managers and analysts openly collaborate via informal interactions and scheduled meetings

| Frequency | Topic | Participants | Agenda |
|---|---|---|---|
| Daily | **Ongoing, informal communication** | • Portfolio managers<br>• Research analysts<br>• Macro strategists | • Share economic, political, sector or industry news<br>• Discuss new issues and secondary market opportunities<br>• Identify developing credit or country risks |
| | **Market update** | • Portfolio managers<br>• Research analysts<br>• Macro strategists | • Review current market conditions<br>• Identify opportunities and risks |
| Weekly | **Portfolio review** | • Portfolio management teams | • Assess relative value and review investment ideas<br>• Establish trading priorities<br>• Review risk positioning and historical performance |
| Monthly | **Global house view committee** | • Macro strategists<br>• Portfolio managers<br>• Research team leaders | • Analyze fundamental, technical, sentiment and valuation data<br>• Establish the global house view for the macro economy, interest rates and relative value |
| | **Lower-quality holdings review** | • Leveraged finance portfolio managers<br>• Distressed research analysts | • Review lower-quality holdings<br>• Identify risk profile changes<br>• Evaluate investment ideas and mitigate risks<br>• Establish distressed research priorities |
| | **Portfolio risk & performance review** | • Portfolio managers<br>• Risk analysts | • Quantify, deconstruct and evaluate risk exposures<br>• Understand risks taken relative to the benchmark<br>• Review stress-test results and scenario analyses<br>• Analyze performance attribution and socialize lessons learned |
| Quarterly | **Investment department meeting** | • Portfolio managers<br>• Research team leaders | • Discuss broad market themes and key risks<br>• Generate investment ideas and relative value<br>• Establish strategic themes and portfolio positioning |
| | **Research sector discussion** | • Portfolio managers<br>• Research analysts | • Sector-specific discussions on emerging risks and opportunities<br>• In-depth review of sector and industry themes |

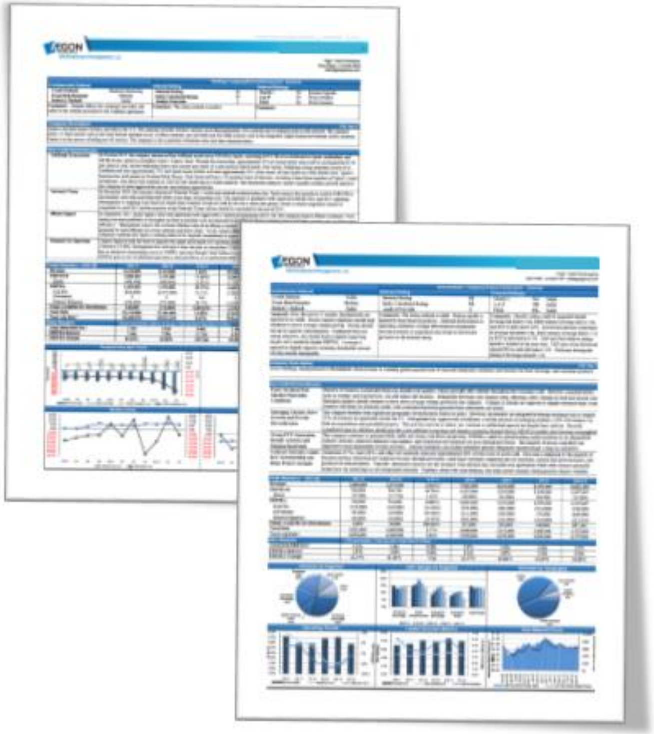
The list of meetings above is not comprehensive of all interactions between portfolio managers and research analysts. This is representative of the framework used for most of the firm's strategies. Select strategies may follow a slightly different meeting schedule as warranted.

# Bottom-up, fundamental credit research

Proprietary fundamental research generated by dedicated analysts

## Traditional credit research overview

- Primary focus is deep fundamental analysis
- Industry experts
  - Follow specific industries across domiciles and credit-quality spectrum, including crossover credits
- Proprietary credit analysis framework with relative value overlay
- Provide proactive recommendations:
  - relative value
  - absolute return
  - capital preservation
- Research is a career path
- Environmental, Social and Governance (ESG) analysis directly incorporated into the research process



Refer to appendix for important disclosures regarding the global research platform.

# Addition of differentiated research approach

Distressed research team

## Use of distressed research analysts

Broad contribution across a significant percentage of our high yield portfolios

**When**

- There is disruption in the business of an issuer—e.g., earnings miss or business strategy change

**What**

- In-depth downside and recovery analysis to enhance risk management capabilities
- Aspire to “not turn one mistake into two”
- Contribute opportunistic investing ideas

**How**

- Apply bankruptcy and restructuring expertise

# Fixed income performance

## Leveraged finance strategies

First quartile | Second quartile | Below median

Trailing returns (% annualized, net of fees)

| As of September 30, 2019 | Inception* | QTD | % Rank | YTD | % Rank | 1 Year | % Rank | 3 Year | % Rank | 5 Year | % Rank | 10 Year | % Rank | Since Inception[1] | % Rank |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bank Loans** | 1/1/2014 | **0.89** | **57** | **6.49** | **47** | **3.48** | **18** | **4.18** | **40** | **4.30** | **9** | **---** | **---** | **4.04** | **16** |
| Credit Suisse Leveraged Loan | | 0.92 | 52 | 6.39 | 49 | 3.11 | 35 | 4.68 | 15 | 4.11 | 26 | --- | --- | 4.00 | 18 |
| *US Floating-Rate Bank Loan FI Universe (net) observations* | | *62* | | *62* | | *62* | | *58* | | *57* | | *---* | | *56* | |
| **Bank Loans Constrained[1]** | 1/1/2000 | **0.97** | **49** | **6.69** | **39** | **3.29** | **31** | **4.08** | **54** | **4.17** | **18** | **5.15** | **34** | **5.07** | **1** |
| Benchmark[2] | | 0.92 | - | 6.39 | - | 3.11 | | 4.48 | - | 4.24 | - | 4.96 | - | 4.31 | - |
| Credit Suisse Leveraged Loan | | 0.92 | 52 | 6.39 | 49 | 3.11 | 35 | 4.68 | 15 | 4.11 | 26 | 5.38 | 22 | 4.82 | 24 |
| *US Floating-Rate Bank Loan FI Universe (net) observations* | | *62* | | *62* | | *62* | | *58* | | *57* | | *33* | | *8* | |
| **Credit Opportunities - Long Only** | 4/1/2005 | **-0.60** | **97** | **1.57** | **99** | **-5.20** | **100** | **4.50** | **89** | **3.82** | **87** | **10.03** | **1** | **8.87** | **1** |
| Bloomberg Barclays US Corporate High Yield Caa | | -1.76 | 99 | 5.57 | 96 | -4.22 | 100 | 5.47 | 60 | 4.46 | 64 | 8.24 | 10 | 6.80 | 52 |
| *US High Yield Fixed Income Universe (net) observations* | | *143* | | *143* | | *143* | | *137* | | *128* | | *88* | | *70* | |
| **Credit Opportunities - Long Biased** | 5/1/2013 | **-0.59** | **97** | **-1.84** | **100** | **-8.06** | **100** | **2.76** | **100** | **2.74** | **99** | **---** | **---** | **3.32** | **97** |
| Benchmark[2] | | -2.61 | 100 | 2.83 | 98 | -3.62 | 100 | 4.28 | 93 | 3.76 | 89 | --- | --- | 4.77 | 43 |
| 50/50 Barclays US HY Caa & CS Event Driven Distressed HF | | -2.61 | - | 2.83 | - | -3.62 | | 4.28 | - | 2.67 | --- | --- | --- | 3.82 | - |
| *US High Yield Fixed Income Universe (net) observations* | | *143* | | *143* | | *143* | | *137* | | *128* | | *---* | | *113* | |
| **High Yield Fixed Income[1]** | 6/1/1997 | **1.42** | **43** | **11.29** | **44** | **6.27** | **41** | **5.84** | **36** | **5.28** | **27** | **8.14** | **12** | **8.81** | **9** |
| Bloomberg Barclays US Corporate High Yield 2% | | 1.33 | 49 | 11.41 | 42 | 6.35 | 38 | 6.07 | 29 | 5.38 | 23 | 7.92 | 20 | 8.04 | 27 |
| *US High Yield Fixed Income Universe (net) observations* | | *143* | | *143* | | *143* | | *137* | | *128* | | *88* | | *56* | |
| **Short Duration High Yield** | 1/1/2017 | **1.07** | **68** | **7.00** | **55** | **4.88** | **55** | **---** | **---** | **---** | **---** | **---** | **---** | **4.99** | **25** |
| ICE BofAML HY US Corp Cash Pay BB-B 1-5 Year Constrained | | 1.20 | 37 | 8.76 | 21 | 5.91 | 25 | --- | --- | --- | --- | --- | --- | 5.34 | 17 |
| *US High Yield FI - Short Duration Universe (net) observations* | | *23* | | *23* | | *23* | | *---* | | *---* | | *---* | | *21* | |
| **High Yield Select** | 10/1/2017 | **1.08** | **70** | **10.56** | **59** | **5.02** | **69** | **---** | **---** | **---** | **---** | **---** | **---** | **4.61** | **39** |
| Bloomberg Barclays US Corporate High Yield | | 1.33 | 49 | 11.41 | 42 | 6.36 | 38 | --- | --- | --- | --- | --- | --- | 4.69 | 33 |
| *US High Yield Fixed Income Universe (net) observations* | | *143* | | *143* | | *143* | | *---* | | *---* | | *---* | | *141* | |
| **High Yield & Bank Loan Opportunities** | 10/1/2014 | **0.90** | **78** | **8.51** | **81** | **4.13** | **81** | **5.14** | **73** | 4.85 | 49 | --- | --- | **4.85** | **49** |
| 50% Bloomberg Barclays US High Yield 2% Issuer Capped Index, 50% Credit Suisse Leveraged Loan Index | | 1.13 | 66 | 8.88 | 79 | 4.74 | 74 | 5.56 | 56 | 4.94 | 49 | --- | --- | 4.94 | 46 |
| *US High Yield Fixed Income Universe (net) observations* | | *143* | | *143* | | *143* | | *137* | | *---* | | *---* | | *128* | |

**Past performance is not indicative of future results**. Returns for periods longer than 12 months have been annualized. The US dollar is the currency used to express performance. Returns are presented net of management fees and performance-based fees and include the reinvestment of all income. The performance and index information presented was compiled using eVestment Alliance, a source believed to be reliable. However, the firm cannot guarantee the accuracy of the returns and therefore shall not be held liable for inaccurate information obtained from eVestment Alliance. Ranking is based on net returns. Ranking may not be representative of any one client's experience because the ranking reflects the performance of a composite. The eVestment universe is an appropriate comparison because the universe comprises similar strategies. [1]The firm claims GIPS compliance since 2002; strategies with inception dates prior to this date reflect performance since 2002 for the since inception period. [2]The composite's primary benchmark changed over time. The returns above reflect multiple benchmarks during the composite's history. Refer to the composite and benchmark descriptions, and other disclosures at the end of this material, for additional information.

# Fixed income performance

**IC Meeting: 01/21/20**
**Item II**
**Attachment 2**

## Multi-sector fixed income and emerging market debt strategies

Trailing returns (% annualized, net of fees)

First quartile | Second quartile | Below median

| As of September 30, 2019 | Inception | QTD | % Rank | YTD | % Rank | 1 Year | % Rank | 3 Years | % Rank | 5 Years | % Rank | 10 Years | % Rank | Since Inception[1] | % Rank |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Core Aggregate Fixed Income** | 10/1/2008 | **2.31** | **45** | **8.96** | **40** | **10.10** | **54** | **3.27** | **30** | **3.53** | **40** | **4.92** | **11** | **5.88** | **6** |
| Bloomberg Barclays US Aggregate | | 2.27 | 55 | 8.52 | 70 | 10.30 | 44 | 2.92 | 64 | 3.38 | 60 | 3.75 | 73 | 4.35 | 78 |
| *US Core Fixed Income Universe (net) observations* | | *142* | | *142* | | *141* | | *138* | | *133* | | *119* | | *117* | |
| **Core Plus Fixed Income** | 10/1/2008 | **2.01** | **79** | **9.26** | **44** | **8.60** | **90** | **4.40** | **6** | **4.03** | **18** | **6.20** | **2** | **6.81** | **9** |
| Bloomberg Barclays US Aggregate | | 2.27 | 45 | 8.52 | 81 | 10.30 | 38 | 2.92 | 88 | 3.38 | 75 | 3.75 | 99 | 4.35 | 98 |
| *US Core Plus Fixed Income Universe (net) observations* | | *95* | | *95* | | *94* | | *89* | | *86* | | *78* | | *73* | |
| **Short Duration** | 1/1/2006 | **0.98** | **9** | **4.87** | **8** | **5.21** | **24** | **3.01** | **4** | **2.67** | **3** | **3.64** | **1** | **4.24** | **1** |
| ICE BofAML 1-3 Year US Corporate & Government | | 0.70 | 70 | 3.44 | 70 | 4.65 | 47 | 1.84 | 72 | 1.60 | 74 | 1.56 | 78 | 2.52 | 74 |
| *US Short Duration Fixed Income Universe (net) observations* | | *144* | | *143* | | *142* | | *137* | | *132* | | *111* | | *97* | |
| **Structured Finance** | 1/1/2004 | **1.64** | **25** | **6.98** | **14** | **8.42** | **19** | **4.64** | **26** | **4.47** | **22** | **6.60** | **28** | **4.44** | **32** |
| Bloomberg Barclays US Securitized | | 1.40 | 48 | 5.77 | 46 | 7.93 | 33 | 2.38 | 64 | 2.84 | 63 | 3.33 | 76 | 4.05 | 71 |
| *US Securitized Fixed Income (net) observations* | | *60* | | *60* | | *59* | | *59* | | *55* | | *44* | | *23* | |
| **Investment Grade Credit Fixed** | 1/1/2003 | **3.64** | **1** | **14.74** | **3** | **14.25** | **1** | **4.94** | **19** | **5.31** | **6** | **6.27** | **27** | **6.02** | **41** |
| Bloomberg Barclays US Corporate Inv. Grade | | 3.05 | 35 | 13.20 | 41 | 13.00 | 29 | 4.50 | 43 | 4.72 | 48 | 5.56 | 76 | 5.42 | 94 |
| *US Corporate Fixed Income Universe (net) observations* | | *59* | | *58* | | *57* | | *55* | | *52* | | *39* | | *18* | |
| **Long Credit** | 4/1/2017 | **5.47** | **70** | **21.99** | **57** | **19.34** | **85** | --- | --- | --- | --- | --- | --- | **9.26** | **73** |
| Bloomberg Barclays US Long Credit | | 5.61 | 45 | 21.92 | 60 | 19.91 | 66 | --- | --- | --- | --- | --- | --- | 9.50 | 33 |
| *US Long Duration - Credit Fixed Income (net) observations* | | *34* | | *34* | | *34* | | --- | | --- | | --- | | *34* | |
| **Long US Treasury Strips** | 4/1/2017 | **11.87** | **1** | **28.32** | **1** | **34.15** | **1** | --- | --- | --- | --- | --- | --- | **13.52** | **1** |
| Bloomberg Barclays US Treasury Strips 20+ yr Index | | 11.99 | 1 | **28.43** | 1 | **34.30** | 1 | --- | --- | --- | --- | --- | --- | **13.62** | 1 |
| *US Long Duration Fixed Income (net) observations* | | *85* | | *85* | | *84* | | --- | | --- | | --- | | *82* | |
| **Emerging Markets Debt Global Diversified** | 4/1/2006 | **0.73** | **41** | **12.51** | **25** | **9.95** | **51** | **3.84** | **64** | **5.20** | **24** | **7.02** | **10** | **7.41** | **13** |
| JPM EMBI Global Diversified | | 1.50 | 11 | 12.99 | 17 | 11.57 | 9 | 4.61 | 35 | 5.74 | 7 | 6.88 | 20 | 7.04 | 19 |
| *Global EM FI Hard Currency Universe (net) observations* | | *37* | | *37* | | *36* | | *35* | | *30* | | *21* | | *16* | |
| **Emerging Markets Blended** | 11/1/2016 | **0.23** | **25** | **10.50** | **25** | **9.45** | **36** | --- | --- | --- | --- | --- | --- | **3.81** | **62** |
| Blended Index | | 0.98 | 7 | 11.14 | 16 | 11.02 | 12 | --- | --- | --- | --- | --- | --- | 4.81 | 26 |
| *Global EM FI Blended Currency Universe (net) observations* | | *44* | | *44* | | *43* | | --- | | --- | | --- | | *38* | |

**Past performance is not indicative of future results.** Returns for periods longer than 12 months have been annualized. The US dollar is the currency used to express performance. Returns are presented net of management fees and performance-based fees and include the reinvestment of all income. The performance and index information presented was compiled using eVestment Alliance, a source believed to be reliable. However, the firm cannot guarantee the accuracy of the returns and therefore shall not be held liable for inaccurate information obtained from eVestment Alliance. Ranking is based on net returns. Ranking may not be representative of any one client's experience because the ranking reflects the performance of a composite. The eVestment universe is an appropriate comparison because the universe comprises similar strategies. For the following composites, results shown represent performance attained while the manager was affiliated with a prior firm during the time period shown: Core Aggregate Fixed Income, October 1, 2008 to March 31, 2011; Core Plus Fixed Income, October 1, 2008 to March 21, 2011; Short Duration, January 1, 2006 to March 21, 2011. For Core Aggregate and Core Plus, results shown for the year 2008 represent partial period performance. Ported performance should not be interpreted as the actual historical performance of Aegon AM US. Refer to the composite and benchmark descriptions, and other disclosures at the end of this material, for additional information

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# High Yield Fixed Income Composite Disclosures

| | Composite Assets | | | Annual Performance Results | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year End | Total Firm Assets (Millions) | USD (Millions) | Number of Accounts | Composite Gross of Fees % | Composite Net of Fees % | Benchmark % | Secondary Benchmark % | Composite Dispersion | Composite 3-Yr St Dev % | Benchmark 3-Yr St Dev % | Secondary Benchmark 3-Yr St Dev % |
| 2018 | 95,821.8 | 7,150.4 | 20 | -2.00 | -2.49 | -2.08 | -2.08 | 0.29 | 4.33 | 4.59 | 4.59 |
| 2017 | 104,638.3 | 7,647.3 | 18 | 7.98 | 7.44 | 7.50 | 7.50 | 0.16 | 5.22 | 5.56 | 5.57 |
| 2016 | 112,472.2 | 7,266.9 | 21 | 15.53 | 14.96 | 17.13 | 17.13 | 0.72 | 5.53 | 5.99 | 6.00 |
| 2015 | 122,404.8 | 5,576.5 | 19 | -3.33 | -3.82 | -4.43 | -4.47 | 0.36 | 5.01 | 5.25 | 5.26 |
| 2014 | 140,807.5 | 5,958.0 | 15 | 4.71 | 4.19 | 2.46 | 2.45 | 0.27 | 4.61 | 4.50 | 4.50 |
| 2013 | 112,892.8 | 4,713.3 | 15 | 7.32 | 6.79 | 7.44 | 7.44 | 0.25 | 6.92 | 6.42 | 6.41 |
| 2012 | 113,911.2 | 3,232.1 | 10 | 18.51 | 17.92 | 15.78 | 15.81 | N/A | 7.63 | 7.07 | 7.08 |
| 2011 | 108,995.6 | 2,667.9 | Five or Fewer | 5.39 | 4.87 | 4.96 | 4.98 | N/A | 11.10 | 11.00 | 11.09 |
| 2010 | 104,934.2 | 3,139.4 | Five or Fewer | 15.48 | 15.19 | 14.94 | 15.12 | N/A | 15.46 | 16.76 | 17.03 |
| 2009 | 100,573.3 | 3,411.2 | Five or Fewer | 58.47 | 58.09 | 58.76 | 58.21 | N/A | 15.18 | 16.66 | 16.93 |

**Past performance is not indicative of future results.** N/A – Information is not statistically meaningful due to an insufficient number of portfolios in the composite or is not presented because 36 monthly returns are not available. For years shown above, the Total Firm Assets and Composite Assets are reflective of market value and composite returns are reflective of exposure. Exposure reflects the actual days in a month that a security is held in the composite and the beginning market value is weighted accordingly. The annual composite dispersion presented is an equal-weighted standard deviation calculated for the accounts in the composite the entire year.

**High Yield Fixed Income Composite** includes all unconstrained institutional discretionary portfolios. The majority of the composite consists of high yield corporate securities, defined as those securities rated below investment grade. The composite may also contain other investments such as, but not limited to, US Treasury and agency issues, non-agency issued asset backed securities, investment grade corporate debt, sovereign debt and leveraged loans. Additionally, interest rate and credit-related swaps, futures, options and foreign exchange related transactions may be used to manage the risk profile of the strategy. The composite primarily consists of US dollar high yield corporate debt issued by US corporations and to a lesser extent by North American, European or other corporate entities. Treasuries and US agency debt are issued by the US government or its affiliates. Other sovereign debt is issued by foreign governments. Asset backed debt is generally issued by securitization vehicles. Derivatives may be executed either on an exchange-traded or OTC basis, either of which entail credit risks to the clearing house or the direct counterparty. The principal objective is to outperform the benchmark over a full credit cycle. The strategy employed to achieve the goal combines a credit intensive, fundamentally driven process with a relative value oriented and opportunistic total return management style. The total return methodology balances the generation of interest income with the potential for capital appreciation. The risk profile of high yield is somewhat distinctive in the fixed income universe as the asset class generally does not display a high correlation to US government debt, even negative at times, and only moderate correlation to investment grade corporates and equities. High yield bonds have more credit risk, and therefore have higher default risk, than US government and investment grade corporate debt. High yield is generally less liquid than other US government and corporate fixed income alternatives which may result in periods of higher volatility and lower price transparency. The composite is not restricted from using interest rate or credit-related swaps, futures, options or foreign currency transactions, etc., the use of which may be implemented for risk taking or hedging strategies. However, this composite historically has not held a material amount of positions in such transactions.

For comparison purposes, this composite is measured against a benchmark which is the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index (the "Index"). This Index is appropriate for comparison purposes because the Index is representative of the types of investments included in this composite. The volatility of the Index may be materially different from the individual performance attained by any specific investor. In addition, client holdings may differ significantly from the securities that comprise the Index. An investor cannot invest directly in an index. Beginning May 2010, and presented as additional information, this presentation reflects a secondary index, the Bloomberg Barclays US Corporate High Yield Index. Both indices comprise predominantly US high yield corporate bonds. Effective January 1, 2012, there is no minimum for composite inclusion. Prior to January 1, 2012, the minimum account size for this composite was $10 million. AUIM typically requires a minimum balance of $50 million for opening new client accounts. Client accounts that are below the minimum balance may incur a minimum annual fee of $250,000. The minimum account size is applied at the portfolio level, not the segment level. Therefore, segments of the portfolio may be smaller than the minimum account size limit.

Aegon USA Investment Management, LLC ("AUIM"), a wholly owned indirect subsidiary of Aegon N.V., is a US-based investment adviser registered with the Securities and Exchange Commission ("SEC") and part of Aegon Asset Management, the global investment management brand of Aegon Group. AUIM operates under the brand name Aegon Asset Management US ("Aegon AM US") and is a limited liability company formed on June 1, 2001 and began managing assets on December 1, 2001. The firm definition was revised January 1, 2018 to better reflect AUIM's brand name and relationship within the global Aegon Asset Management organization. The firm maintains a complete list and description of composites, which is available upon request.

Aegon AM US claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Aegon AM US has been independently verified for the periods January 1, 2002, through December 31, 2018. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The High Yield Fixed Income Composite has been examined for the periods January 1, 2012 through December 31, 2018. The verification and examination reports are available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The US dollar is the currency used to express performance. Returns are presented gross and net of management and performance-based fees and include the reinvestment of income. Effective January 1, 2011, the annual fee utilized to calculate monthly net-of-fee performance for this composite is 0.50%, which represents the highest fee in the investment management fee schedule. Prior to January 1, 2011, net-of-fee performance was calculated using the highest standard management fee of 0.25%. Effective January 1, 2017, the annual investment management fee schedule for this composite is 0.40% - 0.50% based on assets under management. Prior to January 1, 2017, the annual investment management fee schedule for this composite was 0.37% - 0.50%. Prior to April 1, 2011, the annual investment management fee schedule was 0.42% - 0.50%. Actual investment advisory fees incurred by clients may vary depending on, among other things, the applicable fee schedule and portfolio size. No other fees are deducted in addition to the advisory fee and direct trading expenses. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

As of December 31, 2008, 100 percent of the composite consisted of security level carve-outs from larger portfolios. As of December 31, 2009, 81 percent of the composite consisted of security level carve-outs. Cash was allocated to the composite as a targeted percentage to the composite exposures consistently each month for the security level carve-outs portion and actual cash was used for the separate account portion of the composite return. As of December 31, 2010, 71 percent of the composite consisted of security level carve-outs. Effective January 1, 2010, actual cash is used in the return calculation for the composite. The High Yield Fixed Income Composite's inception date was June 1, 1997. The creation date for this composite was January 1, 2007.

As of 6/30/2019

# Composite and benchmark descriptions

The **Bank Loans** composite includes institutional fully discretionary portfolios primarily invested in senior secured bank loans containing collateral and covenants as well as other protections that may provide more stability than other noninvestment grade alternatives. The strategy seeks to outperform the benchmark on a risk-adjusted basis over a full credit cycle. Risks associated with this strategy include, but are not limited to: credit, liquidity, and capital markets risk. Prior to September 1, 2017 the composite name was Floating Rate Loans. Prior to March 1, 2017, the composite name was Leveraged Loans Unconstrained. For comparison purposes the composite is measured against the Credit Suisse Leveraged Loan Index. The Index loan facilities must be fully funded US dollar denominated leveraged term loans and rated '5B' or lower; the highest Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+.

The **Bank Loans CLO** composite includes institutional fully discretionary portfolios invested in primarily senior secured bank loans containing collateral and covenants as well as other protections that may provide more stability than other noninvestment grade alternatives. The strategy seeks to outperform the benchmark on a risk-adjusted basis over a full credit cycle. The constraints of the strategy may include limits on name and industry concentration; S&P and Moody's weighted average ratings; S&P recovery ratings; weighted average maturity and interest coverage; and overcollateralization tests. Risks associated with this strategy include, but are not limited to: credit, liquidity, and capital markets risk. Effective January 1, 2017, the composite was redefined to include only constrained assets; excluding floating rate assets in sub-advised portfolios. This change was made to eliminate confusion between two firm Leveraged Loans composites. Prior to September 1, 2017 the composite name was Leveraged Loans Constrained. Prior to January 1, 2017 the composite name was Leveraged Loans. Effective January 1, 2017, the composite was redefined to include only constrained assets; excluding the floating rate assets in sub-advised portfolios. This change was made to reduce confusion between the two AUIM Leveraged Loans composites. Prior to October 1, 2019 the composite name was Bank Loans Constrained. For comparison purposes, effective January 1, 2017, the composite is measured against the Credit Suisse Leveraged Loan Index. The index was changed to better reflect the strategy being implemented. This index is designed to mirror the investable universe of the US dollar denominated leveraged loans market. Only fully funded term loans are included and must be rated 5B or lower. The tenor must be at least one year and the Issuers must be domiciled in developed countries (issuers from developing countries are excluded). From January 1, 2005 to December 31, 2016, the benchmark was the S&P/LSTA Leveraged Loan Index (Blend BB index = 60% and B index = 40%). For years 2000 through 2004 the benchmark was the ICE BofAML Leveraged Loans Index. The index was revised in 2005 because Bank of America terminated their Leveraged Loan Index.

The **Credit Opportunities - Long** Only composite includes institutional fully discretionary portfolios invested in US stressed and distressed corporate bonds, bank loans (including DIP financing and leveraged loans) and equities; primarily issued by US corporations. The strategy is a fundamental, value-driven investment approach for stressed, distressed, and defaulted securities. The strategy relies on credit and scenario analysis to identify situations or events that the market is not accurately pricing. The strategy's investment objective is to achieve competitive risk-adjusted returns over full credit and business cycles. The primary focus is on two specific investment strategies, undervalued credit investments on both an absolute and relative value basis and, event driven situations such as bankruptcy, asset sales, litigation, refinancing, operational and financial restructuring and securities exchanges. Stressed and distressed bonds, which have not defaulted, carry increased levels of credit and default risk, are less liquid than government and IG bonds and can be less liquid than higher-rated high yield bonds. Also, these bonds typically have much more significant volatility in price movements for negative news on the credit. For comparison purposes, the composite is measured against the Caa component of the Bloomberg Barclays U.S. Corporate High Yield index (the "Index"). However, the strategy has flexibility to move up and down the ratings spectrum and across asset classes and as such, there is not an index that perfectly mirrors the investment universe nor investment strategy. The firm typically assesses performance for the strategy on a total return basis and does not have a formal excess return target. However, the team monitors performance relative to lower-quality high yield bonds (Caa) and distressed assets, such as those included in the primary and secondary benchmarks, for informational purposes. The Caa component of the Index is comprised of predominantly US High Yield Corporate Bonds. Beginning August 1, 2010, presented as additional information this presentation reflects a secondary index which is the Credit Suisse Event Driven Distressed Hedge Fund Index that measures the aggregate performance of event driven funds that focus on distressed situations.

As of September 30, 2019

# Composite and benchmark descriptions

The **Credit Opportunities - Long Biased** composite includes institutional discretionary portfolios invested in stressed and distressed corporate bonds, bank loans (including DIP financing and leveraged loans) and equities with portfolio mandates that allow for the use of derivatives, hedging, and shorting. The composite is a fundamental, value-driven investment approach for stressed, distressed, and defaulted securities, primarily issued by US corporations. The composite applies credit and scenario analysis to identify opportunities that the market is not accurately pricing. The composite's investment objective is to achieve competitive risk-adjusted returns over full credit and business cycles. The primary focus is on two specific investment strategies: undervalued or overvalued investments on both an absolute and relative value basis and event driven situations (including bankruptcies, asset sales, litigation, refinancing, operational and financial restructurings and securities exchanges). In addition, the composite may invest in index products, equity ETFs or options and credit default swaps ("CDS"), and may short sell individual assets to hedge established asset positions. The composite can also short sell individual assets and use CDS for speculative positions; targeting up to 30% of the total asset value in the composite. Stressed and distressed securities carry increased levels of credit and default risk, are less liquid than government and IG bonds and can be less liquid than higher-rated high yield bonds. Also, these securities typically have much more volatility in price movements due to positive or negative news in the market or on the underlying investment. For comparison purposes, effective October 1, 2016, the composite is measured against a benchmark which is a 50/50 split customized blend of the Caa component of the Bloomberg Barclays U.S. Corporate High Yield index and the Credit Suisse Event Driven Distressed Hedge Fund Index. However, the strategy has flexibility to move up and down the ratings spectrum and across asset classes and as such, there is not an index that perfectly mirrors the investment universe nor investment strategy. The firm typically assesses performance for the strategy on a total return basis and does not have a formal excess return target. However, the team monitors performance relative to lower-quality high yield bonds (Caa) and distressed assets, such as those included in the primary benchmark, for informational purposes. The Caa component of the Index is comprised of predominantly US high yield corporate bonds and the CS Event Driven Distressed index is a subset of the Credit Suisse Hedge Fund index that measures the aggregate performance of event driven funds that focus on distressed situations. These funds typically invest across the capital structure of companies subject to financial or operational distress or bankruptcy proceedings. Such securities often trade at discounts to intrinsic value due to difficulties in assessing their proper value, lack of research coverage, or an inability of traditional investors to continue holding them. Benchmarks are reviewed and calculated monthly, and rebalanced as deemed appropriate. Prior to October 1, 2016, the primary benchmark was the Caa component of the Bloomberg Barclays US Corporate High Yield index. Prior to September 1, 2014, the primary benchmark was the Dow Jones Credit Suisse Event Driven Distressed Hedge Fund Index. The benchmark was changed to better reflect the strategy being implemented.

The **High Yield Fixed Income** composite includes unconstrained institutional fully discretionary portfolios. The majority of the composite consists of high yield corporate securities, defined as those securities rated below investment grade. The composite may also contain other investments such as, but not limited to, US Treasury and agency issues, non-agency issued asset backed securities, investment grade corporate debt, sovereign debt and leveraged loans. Additionally, interest rate and credit-related swaps, futures, options and foreign exchange related transactions may be used to manage the risk profile of the strategy. The composite primarily consists of US dollar high yield corporate debt issued by US corporations and to a lesser extent by North American, European or other corporate entities. Treasuries and US agency debt are issued by the US government or its affiliates. Other sovereign debt is issued by foreign governments. Asset backed debt is generally issued by securitization vehicles. Derivatives may be executed either on an exchange-traded or OTC basis, either of which entail credit risks to the clearing house or the direct counterparty. The principal objective is to outperform the benchmark over a full credit cycle. The strategy employed to achieve the goal combines a credit intensive, fundamentally driven process with a relative value oriented and opportunistic total return management style. The total return methodology balances the generation of interest income with the potential for capital appreciation. The risk profile of high yield is somewhat distinctive in the fixed income universe as the asset class generally does not display a high correlation to US government debt, even negative at times, and only moderate correlation to investment grade corporates and equities. High yield bonds have more credit risk, and therefore have higher default risk, than US government and investment grade corporate debt. High yield is generally less liquid than other US government and corporate fixed income alternatives which may result in periods of higher volatility and lower price transparency. The composite is not restricted from using interest rate or credit-related swaps, futures, options or foreign currency transactions, etc., the use of which may be implemented for risk taking or hedging strategies. However, this composite historically has not held a material amount of positions in such transactions. For comparison purposes, the composite is measured against the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index (the "Index"). Beginning May 2010, and presented as additional information, this presentation reflects a secondary index, the Bloomberg Barclays US Corporate High Yield Index. Both indices comprise predominantly US high yield corporate bonds.

As of September 30, 2019

# Composite and benchmark descriptions

The **Short Duration High Yield Fixed Income** composite includes short duration HY institutional discretionary portfolios. The majority of the composite consists of high yield corporate securities, defined as those securities rated below investment grade. The composite may also contain of other investments such as, but not limited to, US Treasury and agency issues, non-agency issued asset backed securities, investment grade corporate debt, sovereign debt and leveraged loans. Additionally, interest rate and credit-related swaps, futures, options and foreign exchange related transactions may be used to manage the risk profile of the strategy. The composite primarily consists of US dollar high yield corporate debt issued by US corporations and to a lesser extent by North American, European or other corporate entities. Treasuries and US agency debt are issued by the US government or its affiliates. Other sovereign debt is issued by foreign governments. Asset backed debt is generally issued by securitization vehicles. Derivatives may be executed either on an exchange-traded or OTC basis, either of which entail credit risks to the clearing house or the direct counterparty. The principal objective is to outperform the benchmark over a full credit cycle. The strategy employed to achieve the goal combines a credit intensive, fundamentally driven process with a relative value oriented and opportunistic total return management style. The total return methodology balances the generation of interest income with the potential for capital appreciation. The risk profile of high yield is somewhat distinctive in the fixed income universe as the asset class generally does not display a high correlation to US government debt, even negative at times, and only moderate correlation to investment grade corporates and equities. High yield bonds have more credit risk, and therefore have higher default risk, than US government and investment grade corporate debt. High yield is generally less liquid than other US government and corporate fixed income alternatives which may result in periods of higher volatility and lower price transparency. The composite is not restricted from using interest rate or credit-related swaps, futures, options or foreign currency transactions, etc., the use of which may be implemented for risk taking or hedging strategies. However, this composite historically has not held a material amount of positions in such transactions. For comparison purposes, the composite is measured against the ICE Bank of America Merrill Lynch High Yield U.S. Corporate Cash Pay BB-B 1-5 Year Constrained Index which is comprised of predominantly US dollar-denominated below investment grade corporate debt (BB1 through B3) with a maturity less than five years.

The **High Yield Select** composite includes discretionary portfolios invested primarily in U.S. dollar high yield corporate securities, defined as those securities rated below investment grade. The composite includes U.S. stressed and distressed corporate bonds, bank loans (including DIP financing and leveraged loans) and equities; primarily issued by U.S. corporations and to a lesser extent by North American, European or other corporate entities. The composite may also consist of other investments such as, but not limited to, U.S. Treasury and agency issues, non-agency issued asset backed securities, investment grade corporate debt, sovereign debt and leveraged loans. The strategy builds upon our traditional core high yield strategy, but pursues enhanced alpha via a concentrated high yield portfolio consisting of high-conviction, idiosyncratic ideas. The principal objective is to outperform the benchmark over a full credit cycle. The concentrated, higher conviction style typically produces greater tracking error relative to the benchmark and higher turnover. The strategy employed to achieve the goal combines a credit intensive, fundamentally driven process with a relative value oriented and opportunistic total return management style. The total return methodology balances the generation of interest income with the potential for capital appreciation. High yield bonds have more credit risk, and therefore have higher default risk, than U.S. government and investment grade corporate debt. High yield is generally less liquid than other U.S. government and corporate fixed income alternatives which may result in periods of higher volatility and lower price transparency. For comparison purposes, the composite is measured against the Bloomberg Barclays U.S. Corporate High Yield Index which is comprised of predominantly US high yield fixed-rate corporate bonds.

The **High Yield & Bank Loan Opportunities** composite includes unconstrained institutional discretionary portfolios which primarily invest in a combination of high yield corporate securities (defined as those securities rated below investment grade) and bank loans. The strategy holds core positions in BB – B rated debt, and will tactically invest in debt rated below B, stressed debt and distressed debt in situations where, in the firm's view, the return opportunity exceeds the risk of downside loss. At least 50% of the composite will be in High Yield Bonds & Bank Loans. The composite may also include opportunistic allocations to investment grade corporate bonds (US and non-US), emerging market debt, distressed debt and structured securities including ABS, CMBS, RMBS (agency and non-agency, CLO). The strategy objective is to outperform the benchmark over a full credit cycle by generating competitive risk-adjusted total returns through a combination of top-down macroeconomic analysis and bottom-up credit research. The firm utilizes a total return investment philosophy when allocating capital. High yield bonds and bank loans have more credit risk, and therefore higher risks than US government and investment grade corporate debt. Bank loans are often less liquid than other types of debt instruments and general market and financial conditions may affect the prepayment of bank loans and such prepayments cannot be predicted with accuracy. Investments in high yield bonds may be subject to greater volatility than fixed income alternatives, including loss of principal and interest, as a result of the higher likelihood of default. Value of these securities may also decline when interest rates increase. During opportunistic time periods, there may be increased levels of IG, EM and Structured securities which may include greater credit, interest rate, liquidity, default, market, and prepayment risks. Investing in foreign-denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, economic and political risks, which may be enhanced in emerging markets. Mortgage and Asset-backed Securities may be sensitive to changes in interest rates, subject to early repayment risk, and while generally supported by some sort of government, government agency, or private guarantor, there is no assurance that the guarantor will meet its obligations. For comparison purposes, effective January 1, 2018, the composite is measured against a blend of 50% Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index and 50% Credit Suisse Leveraged Loan index. The Barclays U.S. Corporate High Yield 2% Issuer Capped Index is comprised of predominantly U.S. High Yield Corporate Bonds. The Credit Suisse Leveraged Loan Index includes loan facilities that must be fully funded U.S. dollar denominated leveraged term loans and rated '5B' or lower; the highest Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. Benchmarks are reviewed and calculated monthly, and rebalanced as deemed appropriate. From September 1, 2017 to December 31, 2017, the benchmark was a blend of 70% Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index and 30% Credit Suisse Leveraged Loan index. Prior to September 1, 2017, the Benchmark was a blend of 70% Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index and 30% S&P/LSTA Leveraged Loan Index.

As of September 30, 2019

# Composite and benchmark descriptions

The **Core Aggregate Fixed Income** composite includes institutional discretionary portfolios. The portfolios are invested in US government, foreign government, and agency securities, domestic and foreign corporate bonds (US dollar exposure), and may include MBS and ABS securities. The strategy seeks to achieve returns above the stated benchmark. The strategy aims to deliver total return over an entire cycle primarily through the allocation of assets amongst the various asset sectors (Corporates, MBS, CMBS, ABS, and Governments), with less emphasis in obtaining alpha from duration. An equal amount of effort is afforded to bottom up analysis in picking specific securities. Credit carries increased levels of credit risk and possibly default risk, and at times are less liquid than government securities. MBS securities carry unique risks related to early repayment. All securities within the portfolio are generally to be US dollar denominated. For comparison purposes the composite is measured against the Bloomberg Barclays US Aggregate Index, which is comprised of predominantly US government bonds, corporate bonds, and securitized assets. The period from October 1, 2008 to March 31, 2011, the Portfolio Manager was affiliated with a prior firm. Aegon USA Investment Management, LLC acquired the assets and portfolio manager from Transamerica Investment Management, LLC. The performance record during this time is linked and has met the GIPS portability requirements. Such performance should not be interpreted as the actual historical performance of AUIM, LLC. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm.

The **Core Plus Fixed Income** composite includes institutional discretionary fixed income portfolios. The portfolios are invested in a broad range of fixed income securities including investment-grade corporate bonds, foreign government and US government and agency bonds and notes, agency mortgage-backed and asset backed securities including collateralized mortgage obligations, high-yield domestic and foreign corporate debt obligations, convertible securities, and may include some equity securities where opportunities exist for income and total return. Portfolios are generally invested in securities maturing in 0 to 30 years. The strategy seeks to provide an attractive long-term total return through a combination of current income and capital appreciation by investing in a portfolio of income producing-securities and to consistently outperform the stated benchmark over full credit cycles while generating less than commensurate risk. As a core-plus strategy, these accounts invest in assets which offer more yield and return opportunities as well as risk than more traditional core fixed income mandates. Primary risks of this strategy include duration, market movements, mortgage-related securities, and credit with some risk related to equity positions, convertible securities, and foreign currency. The strategy can and does own foreign currency denominated securities where it believes there are opportunities for currency appreciation versus the US dollar and/or there are attractive yield opportunities relative to other investment possibilities. The strategy can and does use derivatives as a hedging tool to manage risks. For comparison purposes the composite is measured against the Bloomberg Barclays US Aggregate Index which is comprised of predominantly US government bonds, corporate bonds, and securitized assets. As additional information, the composite may reflect a secondary benchmark of the Bloomberg Barclays US Government/Credit Index. Prior to January 1, 2009, the Barclays Capital Government/Credit Index was the primary benchmark. The retroactive change was made because the Aggregate Bond Index more accurately reflects the strategy of the composite. The period from October 1, 2008 to March 21, 2011, the Portfolio Manager was affiliated with a prior firm. Aegon USA Investment Management, LLC acquired the assets and portfolio manager from Transamerica Investment Management, LLC. The performance record during this time is linked and has met the GIPS portability requirements. Such performance should not be interpreted as the actual historical performance of AUIM, LLC. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm.

The **Short Duration** composite includes institutional discretionary bond portfolios. The portfolios are invested in a broad range of fixed income securities including corporate debt securities of US issuers; debt securities of foreign issuers that are denominated in US dollars, including foreign corporate issuers and foreign governments; obligations issued or guaranteed by the US government, its agencies and instrumentalities; asset-backed securities and mortgage-backed securities, including commercial mortgage-backed securities; and bank loans. The Portfolios can also be invested in a modest allocation to interest rate futures and interest rate swaps, strictly for duration and interest rate risk management purposes. Portfolios are generally invested in securities with duration from 0 to 5 years, with at least 80% of the portfolio invested in securities with duration from 0 to 3 years. The portfolio weighted average duration will typically range from 1 to 2.5 years and the weighted average credit quality will typically toggle between BBB+ and A-. The strategy seeks to provide capital preservation and current income by investing in a portfolio of relatively short maturity fixed income securities and to consistently outperform the stated benchmark over a full market cycle (typically 3-5 years). Risks associated with this strategy include reinvestment, interest rate, liquidity, credit and basis risk. For comparison purposes the composite is measured against the ICE Bank of America Merrill Lynch US Corporate & Government 1-3 Years Index ("the Index"). The Index is a subset of the ICE BofA Merrill Lynch U.S. Corporate & Government index which tracks the performance of U.S. dollar denominated investment grade debt publicly issued in the US domestic market, including US Treasury, US agency, foreign government, supranational and corporate securities and is comprised of predominantly securities with a remaining term to final maturity less than 3 years. The period between January 1, 2006 to March 21, 2011, the Portfolio Manager was affiliated with a prior firm. During this time the Portfolio Manager was the only individual responsible for selecting the securities to buy and sell. Aegon USA Investment Management, LLC (AUIM, LLC) acquired the assets and portfolio manager from Transamerica Investment Management, LLC. Such performance should not be interpreted as the actual historical performance of AUIM, LLC. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm.

As of September 30, 2019

# Composite and benchmark descriptions

The **Structured Finance** composite includes institutional fully discretionary portfolios invested in both public and private, including 144A, US fixed and floating rate asset-backed securities (ABS), commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS) issued primarily by domestic commercial lenders and securities firms, government agencies (Fannie Mae, Freddie Mac, and Ginnie Mae), and US (or US Sub) banks and securities dealers. The strategy attempts to (1) provide investment diversification within the portfolio of assets, (2) match the weighted average life of the asset to the desired need of the portfolio, (3) achieve a total return in excess of the stated benchmark, and (4) provide current income by selecting superior assets and sector selection for a given level of risk. Primary risks associated with this strategy include credit, liquidity, market, interest-rate, prepayment or call, and extension risk. The composite was redefined 1/1/2015 to include private ABS assets due to industry and market evolution. Adding private ABS assets is better reflective of the composite strategy. Effective January 1, 2015, the composite was redefined to include private ABS assets due to industry and market evolution. Adding private ABS assets is better reflective of the composite strategy. For comparison purposes the composite is measured against the Bloomberg Barclays US Securitized Index which is comprised of predominantly MBS Agency securities, but also includes ABS, CMBS and covered securities.

The **Investment Grade Credit Fixed** composite includes all institutional fully discretionary portfolios invested in fixed rate investment grade corporate fixed income securities issued by domestic and foreign corporate issuers and may include U.S. government and agency securities. The strategy seeks to achieve total returns in excess of the stated benchmark. Investment grade corporate bonds possess credit risk, possibly default risk, interest rate risk, and are generally less liquid than government bonds. The composite is not restricted from using currency swaps or credit default swaps; the use of which may be implemented for risk taking or hedging purposes. However, historically this composite has not consisted of a material amount of positions in such transactions. For comparison purposes, this composite is measured against a benchmark which is the Bloomberg Barclays US Corporate Investment Grade Index (‘the Index’). Presented as additional information, this presentation also reflects a secondary benchmark which is the fixed portion of an internally customized IG benchmark. Benchmarks are reviewed and calculated monthly, and rebalanced as deemed appropriate. In presentations shown prior to September 1, 2013, the Bloomberg Barclays US Credit Index was presented as a secondary benchmark and was changed retroactively to better reflect the strategy of the composite. Effective September 1, 2011, the primary benchmark was the Bloomberg Barclays Corporate Index and the secondary benchmark was the Bloomberg Barclays US Credit Index. The primary benchmark was changed retroactively to provide a more market appropriate benchmark. The Bloomberg Barclays Corporate Index is a subset of the broader Credit Index and is comprised of predominantly both corporate and non-corporate sectors. It is appropriate for comparison purposes because the Index is representative of the type of investments included in this composite. Derivatives use is not material. Currency Swaps are very rare and Credit Default Swaps occur occasionally.

The **Long Credit composite** includes all long credit institutional discretionary portfolios invested primarily in a diversified mix of fixed income investment grade debt securities. The strategy seeks total return, consisting of income and capital appreciation from these securities which typically include corporate bonds, mortgage-related securities, asset backed securities, US government and agency securities, sovereign or agencies in both developed and emerging foreign markets, supranational entities, debt obligations issued by state, provincial, county, or city governments or other municipalities. The composite may invest in leveraged loans and US dollar-denominated debt securities of foreign issuers. Under normal circumstances, the composite shall maintain an overall dollar-weighted average effective duration that is within 10% of the duration of the Bloomberg Barclays Long Credit Index. The composite may also invest in capital securities, which are hybrid securities that combine the characteristics of bonds and preferred stocks, to take advantage of the mispricing of subordinated debt within the marketplace. However, this composite has not consisted of a material amount of positions in such transactions. The composite may purchase securities on a when-issued, delayed delivery or forward commitment basis and may engage in active and frequent trading of portfolio securities in seeking to achieve its investment objective. Under adverse or unstable market, economic or political conditions, the composite may take temporary defensive positions in cash and short-term debt securities without limit. Risks associated with this strategy include active trading, convertible securities, counterparty, credit, currency and currency hedging, derivatives, distressed or default securities, emerging markets, extension, foreign securities, high yield debt, inflation protected securities, interest rate, legal and regulatory, liquidity, and loans. For comparison purposes the composite is measured against the Bloomberg Barclays US Long Credit Index which is comprised of predominantly publicly issued US corporate and specified foreign and USD debentures, and secured notes that meet the specified maturity, liquidity, and quality requirements.

As of September 30, 2019

# Disclosures

**Past performance is not indicative of future results.** The net of fees performance is time weighted and includes the reinvestment of dividends, interest, and other earnings, and is calculated net of fees and expenses. The gross of fees performance figures do not reflect the deduction of investment advisory fees (for Aegon AM US as described in the firm's ADV, Part 2), commissions and other expenses. The client's return will be reduced by the advisory fees and any other expenses it may incur in the management of its investment advisory account. You cannot invest directly in an index, which also does not take into account trading commissions and costs. This example should not be considered to represent actual investment advisory fees or performance from the past or for the future, which may be higher or lower than those shown. In addition, the actual investment advisory fees incurred by the client will vary according to the asset classes in the account and the size of the account. An individual client's actual returns may differ from the results shown for reasons such as the timing of investments and withdrawals. All periods longer than one year are annualized, unless otherwise indicated.

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Strategies described herein are supported in part by investment models and/or other analytical tools. These models or tools inform but do not dictate investment recommendations. There is no assurance that these models or tools will work as intended, produce accurate results, or be free from defects, all of which could impact investment performance. Models or tools may be discontinued or modified for any reason and without notice.

Credit ratings for the portfolio reflect the Bloomberg Barclays credit quality methodology which is the middle rating of the three agencies, if only rated by two agencies it uses the lower rating and if only rated by one entity it uses that rating. Average Quality excludes cash and securities that are not rated. The credit quality of a security or group of securities does not ensure the stability or safety of the overall portfolio. NR includes securities that are not rated by S&P®, Moody's®, or Fitch and may contain bonds, equities and/or bank loans. Credit ratings for the benchmark reflect the benchmark rating.

Aegon AM US and Aegon Investment Management B.V. (AIM) share a global investment research platform. Certain personnel employed by AIM provide investment research and recommendations regarding foreign corporate and sovereign debt issuers. These AIM personnel, with respect to their global research activities, are considered Aegon AM US access persons and subject to certain policies, monitoring, and supervision of the firm.

Certain derivative instruments may involve certain costs and risks such as liquidity, interest rate, market, and credit. Investing in derivatives could result in significant losses. Derivatives often involve a high degree of financial risk because a relatively small movement in the price of the underlying security or benchmark may result in a disproportionately large movement in the price of the derivative and are not suitable for all investors. No representation regarding the suitability of these instruments and strategies for a particular investor is made.

Diversification does not ensure a profit nor guarantee against loss.

This document contains "forward-looking statements" which are based on the firm's beliefs, as well as on a number of assumptions concerning future events, based on information currently available. These statements involve certain risks, uncertainties and assumptions which are difficult to predict. Consequently, such statements cannot be guarantees of future performance, and actual outcomes and returns may differ materially from statements set forth herein.

# Disclosures

Some of the information shown reflects a representative account from the composite and is indicated as such. These accounts were selected utilizing the firm's representative account selection policy which takes into consideration various factors including, but not limited to, cash flow volatility, client-specific constraints, track record length, tracking error, holdings, vehicle/client type and its percentage of the overall composite. This information is provided for illustrative purposes only and no guarantee is being made that the structure or actual account holdings of any account will be the same or similar results will be achieved.

Investments in high yield bonds may be subject to greater volatility than fixed income alternatives, including loss of principal and interest, as a result of the higher likelihood of default. Value of these securities may also decline when interest rates increase.

These materials are intended for use by sophisticated parties. While we have a financial interest in the sale of our products and services because we earn revenue once we are hired, we do not receive a fee or other compensation directly for the provision of investment advice (as opposed to other services) in connection with any such sale. We are presenting these materials to an independent fiduciary that is acting on behalf of a retirement plan in connection with the decision to hire the firm as an investment manager, and is capable of evaluating the investment risks associated with that decision.

Aegon AM US and other companies in the Aegon Group utilize Aegon Asset Management as a brand name to market their asset management products and services. Aegon AM US, Aegon Real Assets US and Kames Capital plc are US investment advisers registered with the Securities and Exchange Commission (SEC) and are part of Aegon Asset Management, the global investment management brand of the Aegon Group. Aegon AM US is also registered as a Commodity Trading Advisor (CTA) with the Commodity Futures Trading Commission (CFTC) and is a member of the National Futures Association (NFA). In addition, Kames Capital plc is authorized and regulated in the United Kingdom by the Financial Conduct Authority.

Aegon Real Assets US does not currently claim compliance with GIPS.

Aegon AM US is an affiliated solicitor and acts on behalf of Kames Capital plc with respect to the promotion of its strategies to US based Institutional Investors.

The information presented is for illustrative purposes only. Individual accounts may vary based on restrictions, substitutions, cash flows, and other factors. The mention of specific securities illustrates application of the firm's investment approach only and is not to be considered a recommendation by the firm. Specific securities identified and described do not represent all securities purchased or sold for the portfolio, and it should not be assumed that investment in these securities were or will be profitable, or that investment recommendations or decisions that the firm makes in the future will be profitable. Portfolio holdings are subject to change daily. There can be no assurance that securities purchased remain in the portfolio or that securities sold have not been repurchased. There is no guarantee these investments or portfolio strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest over the long-term, especially during periods of increased market volatility.  Results for certain charts and graphs are included for illustrative purposes only and should not be relied upon to assist or inform the making of any investment decisions.

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Ad Trax: 2900004.1
Exp Date: 2/10/2020

IC Meeting: 01/21/20
Item II
Attachment 3


# LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM (LACERS)

PRESENTED BY:
Todd Vandam, CFA
Vice President, Portfolio Manager

Chad Gross
Vice President, Institutional Services

LOOMIS | SAYLES

January 21, 2020

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# contents

# our mission

## OUR MISSION – YOUR SUCCESS

Our mission is to be a world-class investment management firm that delivers superior risk-adjusted performance and desired solutions to our clients.

To meet our mission, we foster:

- **Performance-driven investors** who seek to identify exceptional opportunities through active management
- **Small, focused teams** that offer the optimum balance between discussion and decision-making
- **A goal of comprehensive best-in-class research** conducted as the critical centerpiece to investment identification and assessment
- **A collegial culture** that encourages open, informed debate
- **An entrepreneurial spirit** that advances the firm's goals by encouraging our colleagues to develop themselves and their ideas
- **Continual improvement of our performance, processes and people**

# talent recruitment and retention

## COMMITTED TO HIRING AND RETAINING THE BRIGHTEST AND MOST EXPERIENCED INVESTMENT PROFESSIONALS

### Recruitment

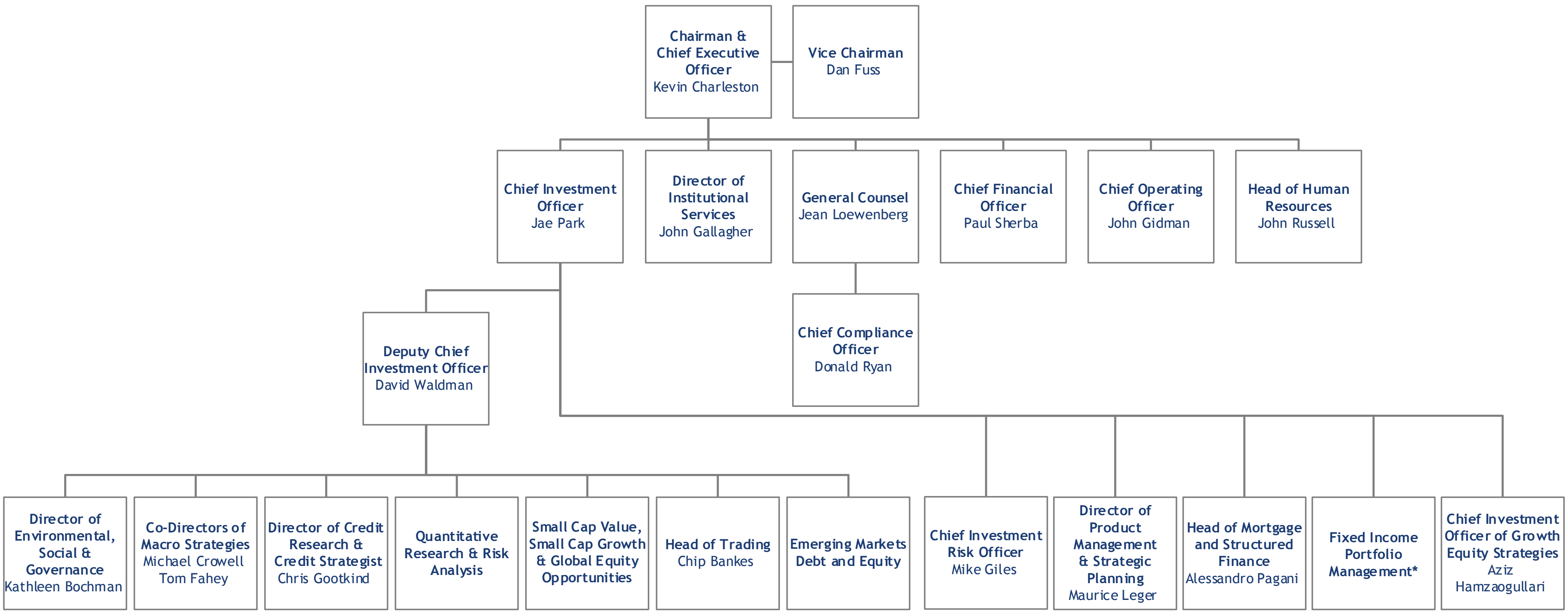
- Investment professionals of all levels are attracted to our firm because of our long-standing reputation, research philosophy, and entrepreneurial, collegial and balanced work environment.
- Candidates are carefully screened until we find an ideal match for an open position given its seniority level, responsibilities and the dynamics of the team. The key qualifications for all investment professionals include:
  - Educational achievement
  - CFA designation or progress toward this designation
  - Propensity for intense assessment and inquisitiveness
  - Resourcefulness
  - Passion for investing with the capacity and determination to deliver superior performance
  - Ability to add to and draw from the firm's overall collegial environment

### Retention

- Support employees' desires to grow professionally and continue learning by providing them the opportunity to enhance competencies in their current positions and expand their educational background, including tuition and CFA reimbursement
- To ensure that we provide competitive compensation, we participate in a study by a consultant that rates compensation offered by investment management firms. Survey results confirm that our compensation structure is currently on par with the industry.

# firm overview

## LOOMIS SAYLES ORGANIZATIONAL STRUCTURE




*8/2019*

**Excluding Emerging Markets, which reports to the Deputy Chief Investment Officer*

LOOMIS | SAYLES®

# loomis sayles at a glance



Serving clients **with integrity** and a **global perspective** since **1926**

BOSTON • CHICAGO • DETROIT • LONDON • SAN FRANCISCO • SINGAPORE

## AUM by client base


- US institutional
- Non-US institutional
- US retail
- Non-US retail

## Investment expertise across asset classes

Fixed income: **$220.6 B**

Equity: **$65.4 B**


- Investment Grade Corporates
- Equities
- Developed Country Treasurys
- Mortgage & Structured Finance
- High Yield Corporates
- Emerging Market Debt
- Municipals
- Bank Loans
- Other
- Government Related
- Convertible Bonds

*As of 9/30/2019. Due to rounding, pie chart total may not equal 100%.*
*Other includes cash & equivalents and derivatives.*
*Total AUM includes the assets of both Loomis, Sayles & Co., LP, and Loomis Sayles Trust Company, LLC. ($25.8 billion for the Loomis Sayles Trust Company).*
*Loomis Sayles Trust Company is a wholly owned subsidiary of Loomis, Sayles & Company, L.P.*

# firm overview



## REPRESENTATIVE PUBLIC FUND CLIENTS

- Alameda County Retirement Association Fund B, CA
- Arkansas Teacher Retirement System, AR
- Bay County Employees Ret System, MI
- BROS Reversionary Trust, DC
- City of Ann Arbor Employees' Retirement System, MI
- City of Annapolis Police and Fire Retirement Plan, MD
- City of Battle Creek Policemen & Firemen Pension Trust, MI
- City of Berkley Public Safety Retirement System, MI
- City of Cincinnati Retirement System, OH
- City of Ferndale Employees Retirement System, MI
- City of Inkster Police and Fire Retirement System, MI
- City of Livonia Employees Retirement System, MI
- City of Mount Clemens Employees Ret Sys, MI
- City of Pontiac MI Police and Fire Retiree Pre-Funded Health
- Commission de la Caisse Commune, QC
- DeKalb County Employee Retirement System, GA
- Fairfax County Educational Employees' Retirement, VA
- Fort Lauderdale General Employees Retirement System, FL
- Georgia Firefighters Pension Fund, GA
- Georgia Interlocal Risk Management Agency, GA
- High Yield PRIT, MA
- Industrial Commission of Arizona, AZ
- Jacksonville Police and Fire Pension Fund, FL
- Los Angeles City Employees Retirement System, CA
- Louisiana State Employees Retirement System
- Municipal Police Employees' Retirement System, LA
- MWRA Retirement System, MA
- North Dakota State Investment Board
- Oakland County Employees' Retirement System, MI
- Oakland County VEBA Trust, MI
- Ohio Bureau of Workers' Compensation, OH
- Ohio Police and Fire Pension Fund, OH
- Ohio Tuition Trust Authority, OH
- Parochial Employees Retirement of Louisiana, LA
- Pension Reserves Investment Trust, MA
- Rhode Island Employees Retirement Systems Pooled Trust, RI
- School Employees Retirement System of Ohio, OH
- State of Utah, School and Institutional Trust Funds, UT
- State Street, A/C 2381021
- Teachers Retirement System of Oklahoma, OK
- The City of Providence Employees Retirement System, RI
- The Health Plan of the Upper Ohio Valley, Inc., OH
- University of Houston System, TX
- Ventura County Employees' Retirement, CA
- Ville de Montrealm QC
- Washington Metro Area Transit Authority Police Retirement, DC

*Slide updated as of 1/02/2020.*
*Confidential relationships prohibit the listing of certain clients. The foregoing list includes those clients of Loomis Sayles who have given us permission to use their names in marketing materials. It is not known whether the clients listed approve or disapprove of Loomis Sayles or its advisory services.*

**IC Meeting: 01/21/20**
**Item II**
**Attachment 3**

# foundation for alpha

| CREDIT RESEARCH | EQUITY | MACRO | MORTGAGE & STRUCTURED FINANCE | QUANTITATIVE RESEARCH & RISK ANALYSIS |
|---|---|---|---|---|
| *Alpha generation through differentiated insights* | *Driving alpha through independent thinking* | *Guiding light to signal and inform* | *Opportunities outside traditional asset classes* | *Bringing together the art and science of investing* |
| Providing insight and differentiated perspectives across the credit classes, risk spectrum, and capital structure | Active long-term strategies built on differentiated non-consensus insight | Analyzing the global credit cycle to derive insights on relative value and deliver investment recommendations | Uncovering hidden alpha in complex structured markets | Generating signals that can identify risk patterns and opportunities |

| TRADING | ESG | INVESTMENT RISK OVERSIGHT | TECHNOLOGY | BUSINESS INFRASTRUCTURE |
|---|---|---|---|---|
| *Beyond trade execution* | *Integrate and engage* | *Ensuring investment teams are meeting client needs & expectations* | *Translating data into insight* | *Allowing investors to remain focused on alpha generation* |
| +50 trading professionals integrated within all investment processes every step of the way | Training and tools for investment teams to assess material ESG factors | A common foundation underlying all strategies:<br>• Sound philosophy<br>• Rigorous, repeatable process<br>• Proprietary research<br>• Disciplined portfolio construction<br>• Integrated risk management | Tapping the power of our proprietary In2! technology platform, integrating more than 5 billion data points each day | Legal, compliance, distribution, marketing, relationship management, & client services |

IC Meeting: 01/21/20
Item II
Attachment 3

# alpha engines

## FIXED INCOME

| ALPHA STRATEGIES | BANK LOANS | DISCIPLINED ALPHA | EMERGING MARKET DEBT | FULL DISCRETION | GLOBAL | MORTGAGE & STRUCTURED FINANCE | MUNICIPAL | RELATIVE RETURN |
|---|---|---|---|---|---|---|---|---|
| Credit Asset<br>World Credit Asset<br>Multi-Asset Income<br>Inflation Protected (TIPS)<br>Risk Premia Strategies | Senior Loans<br>Senior Floating Rate and Fixed Income<br>Credit Opportunities<br>CLOs | Core<br>Intermediate<br>Corporate<br>Long Corporate<br>Long Gov't Corp<br>Long Credit<br>Global Disciplined Alpha** | Corporate<br>Local Currency<br>Short Duration<br>Asia Credit | Multisector<br>Core Plus Full Discretion<br>High Yield Full Discretion<br>Global High Yield<br>US High Yield<br>High Yield Conservative<br>Strategic Alpha | Global Bond<br>Global Credit<br>Global Debt Unconstrained<br>Global Disciplined Alpha** | Agency MBS<br>Investment Grade Securitized<br>Securitized Credit (ERISA)<br>High Yield Securitized<br>Private Debt and Equity | Short<br>Intermediate<br>Medium<br>Crossover** | Short Duration<br>Inter. Duration<br>Core<br>Core Plus<br>IG Corporate<br>IG Inter. Corp<br>Long Corporate<br>Long Credit<br>Long Gov't/Credit<br>Custom LDI |
| $8.0 B* | $6.8 B | $14.5 B | $2.8 B | $67.0 B | $30.9 B | $8.6 B* | $7.5 B | $85.9 B |

## EQUITY

| GROWTH EQUITY STRATEGIES | GLOBAL EMERGING MARKETS EQUITY | GLOBAL EQUITY OPPORTUNITIES | SMALL CAP GROWTH | SMALL CAP VALUE |
|---|---|---|---|---|
| All Cap Growth<br>Global Growth<br>Large Cap Growth<br>Long/Short Equity | Global Emerging Markets Equity<br>Global Emerging Markets Equity Long/Short | Global Allocation<br>Global Equity Opportunities | Small Cap Growth<br>Small/Mid Cap Growth | Small Cap Value<br>Small/Mid Cap Core |
| $54.0 B | $25 M*** | $4.2 B | $4.4 B | $2.8 B |

*As of 9/30/2019.*
**Includes accounts that may also be counted as part of other strategies **Co-managed investment strategy ***Assets represent seed money from our parent company*

# fixed income

## RESEARCH COVERAGE SPANS THE GLOBE

We cover…

- 106 countries
  - 31 developed markets
  - 75 emerging markets*
- 1851 corporate credits and 396 unique bank loans (includes 144a and other non-index eligible issuers)
- All major securitized sectors, including commercial and residential real estate, asset backed securities and CLOs
- Industry coverage conducted on a global basis, across quality spectrum and includes:
  - 98% of investment grade issuers in the Bloomberg Barclays Corporate Index
  - 89% of investment grade issuers in the Bloomberg Barclays Global Aggregate Corporate Index
  - 689 high yield issuers

*As of 12/31/2018. *Emerging market countries include any country determined by Loomis Sayles to have an emerging market economy, taking into account a number of factors, which may include whether the country has a low-to-middle-income economy according to the International Bank for Reconstruction and Development (the World Bank), the country's foreign currency debt rating, its location and neighboring countries, its political and economic stability and the development of its financial and capital markets. These countries include those located in Latin America, Asia, Africa, the former Soviet Union, the Middle East and the developing countries of Europe, primarily Eastern Europe. A complete list of emerging market countries, as defined by Loomis Sayles, is available upon request.*

*Coverage percentages above are based on market value of issuers covered. Covered includes all issues with Loomis Sayles research coverage.*

# credit research

## LOOMIS SAYLES RESEARCH RECOMMENDATION ("LRR") PROCESS

### FUNDAMENTAL ANALYSIS

- **IDENTIFY** industry drivers and establish an industry outlook
- **ASSESS** management's strategy
- **REVIEW** ESG-related risks & opportunities
- **BUILD** financial models to forecast earnings potential & cash flow
- **EVALUATE** performance potential
- **SYNTHESIZE** and distill into a credit opinion

+

### RELATIVE VALUE ASSESSMENT

- **DETERMINE** relative value
- **ASSESS** risk level
- **IDENTIFY** attractive opportunities in the capital structure

=

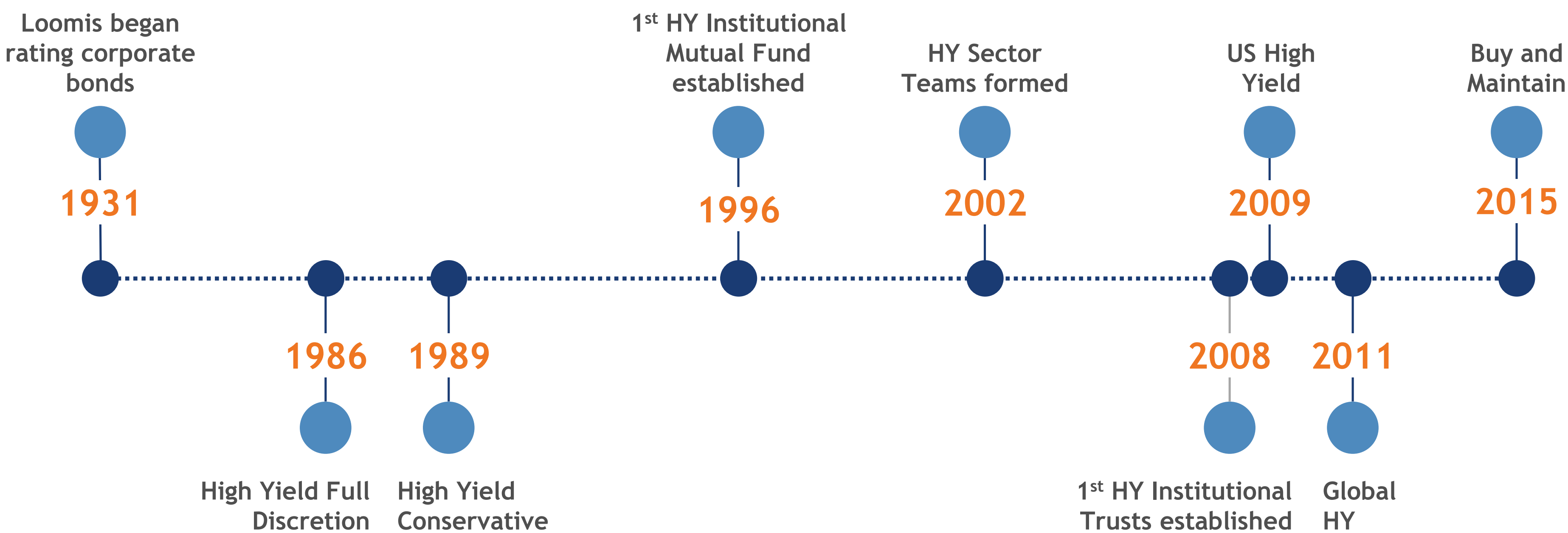
### RECOMMENDATION

| | |
|---|---|
| LRR 1 | BUY/OVERWEIGHT |
| LRR 2 | HOLD/MARKETWEIGHT |
| LRR 3 | SOURCE/UNDERWEIGHT |
| LRR 4 | AVOID/SHORT/SELL |

# loomis sayles high yield

## EXPERIENCED TEAM SUPPORTED BY DEEP GLOBAL FUNDAMENTAL RESEARCH

- Bond-picking, value-driven culture
- Credit research a cornerstone, where analyst is a career position
- Sector Team structure leverages deep organizational resources
- Capabilities to support global institutional investors
- Client-driven and custom portfolio construction
- Offering both opportunistic and benchmark aware strategies



# sector outlook

## HIGH YIELD CORPORATE CREDIT

- A combination of spread compression and reduced US Treasury base rates contributed to double-digit gains in the high yield corporate credit sector in 2019. However, unlike many years with similar returns, lower-quality, CCC-rated credits meaningfully lagged their higher-quality counterparts. At this point in the extended credit cycle, investors appear wary about the performance of lower-quality credits.
- In our view, two competing forces are likely to drive high yield returns going forward. On one hand, corporate leverage remains elevated and the high yield risk premiums are well below where they should be for this point in the credit cycle. On the other hand, demand for US high yield securities remains intact. Globally, accommodative central-bank policies have contributed to a glut of negative-yielding assets. Ultimately, we believe investors will continue to favor higher-quality credits in 2020 and we anticipate modest positive returns for the high yield market.
- Factors contributing to this outlook include our forecast for nominal GDP to remain positive, low-single-digit corporate profit growth and relatively steady interest rates in the U.S. Net new issuance should remain below average and provide a positive technical tailwind to the market. That said, we expect a slight increase in the high yield market's default rate relative to historical averages. We continue to monitor fallen angels migrating from investment grade to high yield. We believe this space could provide an attractive source of return potential once the credit cycle turns.
- Major risks to our outlook include the potential for deteriorating profits, intensifying trade disputes with Europe, a hawkish change in US Federal Reserve policy and uncertainty surrounding the upcoming US election.

*As of 01/06/2020*
*Any opinions or forecasts contained herein reflect the subjective judgments and assumptions of the Loomis Sayles Full Discretion Team only, and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. Investment recommendations may be inconsistent with these opinions. There is no assurance that developments will transpire as forecasted and actual results will be different. This information is subject to change at any time without notice.*

# strategy overview

## PRODUCT OBJECTIVE, PHILOSOPHY AND STRATEGY

### Objective

- Seeks to maximize total return through research driven security selection while managing downside risk through careful portfolio construction

### Philosophy

- We believe we can isolate value through intensive fundamental credit research
- We believe we can exploit opportunities through alteration of portfolio positioning based on disciplined process consisting of our macro outlook, credit cycle theory, and examination of market technicals
- We believe an integrated risk management framework is critical to portfolio construction and alpha generation

**Strategy Inception:** July 1, 2009

**Benchmark:** Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index

### Product Universe

**Benchmark Universe**
- US High Yield

**Asset Class Substitute**
- "Busted" convertibles
- Investment grade crossover

**Opportunistic Sectors**
- Emerging Markets
- Equity Sensitive Convertibles
- Bank Loans

*There is no guarantee that any investment objective will be realized, or that the strategy will be able to generate any positive or excess return.*
*Diversification does not ensure a profit or guarantee against a loss.*
*Past performance is no guarantee of future results.*

# investment process

## HIGHLY EXPERIENCED, SEASONED TEAM

| PRODUCT TEAM | MATTHEW EAGAN<br>Portfolio Manager | ELAINE STOKES<br>Portfolio Manager | TOM STOLBERG<br>Portfolio Manager | TODD VANDAM<br>Portfolio Manager | |
|---|---|---|---|---|---|
| Yrs of industry experience: | 29 | 32 | 25 | 25 | |
| Yrs with firm: | 22 | 31 | 11 | 25 | |
| | SCOTT DARCI<br>Equity and Derivatives Strategist | JOHN DEVOY<br>Senior Credit Strategist | BRIAN HESS<br>Global Strategist | VISHAL PATEL<br>Emerging Market Corporate Strategist | PETER SHEEHAN<br>Convertibles and Special Situations Strategist |
| Yrs of industry experience: | 13 | 20 | 16 | 17 | 12 |
| Yrs with firm: | 11 | 4 | 5 | 4 | 7 |
| | KEN JOHNSON<br>Product Manager | FRED SWEENEY<br>Product Manager | | | |
| Yrs of industry experience: | 28 | 32 | | | |
| Yrs with firm: | 19 | 24 | | | |

| KEY SUPPORT | Investment Analysts | Portfolio Specialists |
|---|---|---|
| | K. Doyle, C. Romanelli, B. Hazelton, S. Xiao | A. Falzarano, B. Kan-Crawford |

| SECTOR TEAMS | | | | | |
|---|---|---|---|---|---|
| Global Asset Allocation | Developed Non-US Markets | US Yield Curve | | | |
| Emerging Markets | High Yield / Bank Loans | Convertibles | Mortgage & Structured Finance | Inv Grade / Global Credit | US Government |

| FIRM RESOURCES | | | |
|---|---|---|---|
| Macro Strategies | Credit Research | Quantitative Research & Risk Analysis | Fixed Income Trading |
| Sovereign Research | Mortgage & Structured Finance | Convertibles & Special Situations | Equity Research |

*As of 12/31/2019.*

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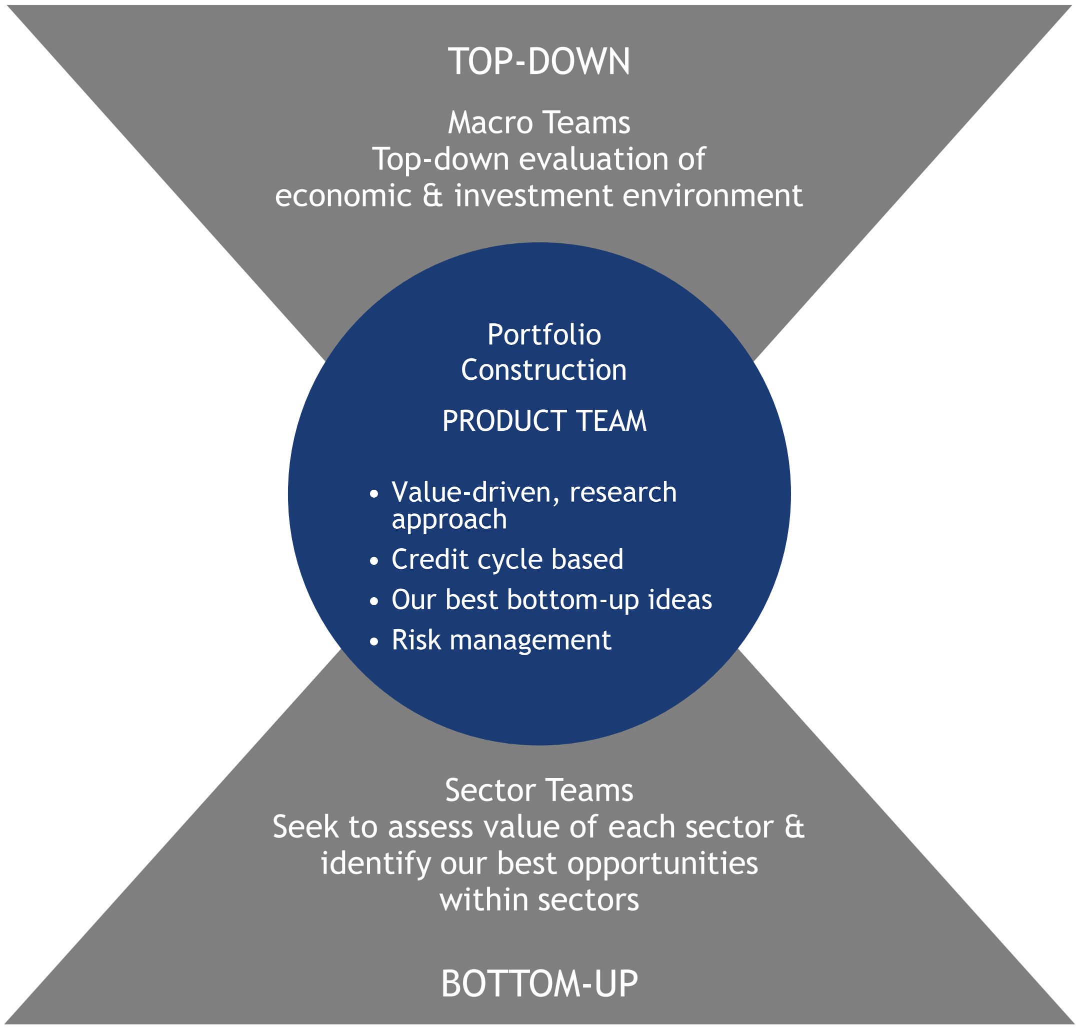
# investment process

## US HIGH YIELD



# investment process

## US HIGH YIELD

| | | |
|---|---|---|
| BETA | Identify key macro themes | • Credit Cycle Outlook – GAAT |
| | Assess top-down risk / return opportunities | • Industry Rankings<br>• Quality Bias<br>• Duration<br>• Opportunistic Sectors |
| ALPHA | Identify our best bottom-up ideas | • Credit Research<br>• Valuation<br>• Trading/Technicals |
| RISK MANAGEMENT | Risk management | • Adjust Beta<br>• Derivatives |

*Commodity interest and derivative trading involves substantial risk of loss.*

# investment process

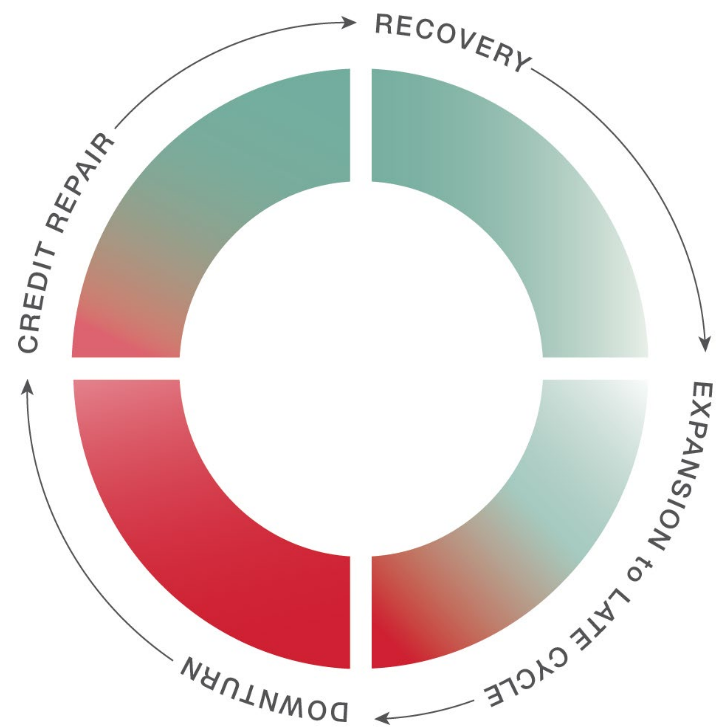
## CREDIT CYCLE THEORY: CROSS ASSET MACRO PERFORMANCE

RETURN MAXIMIZATION

LIQUIDITY

- Debt contraction
- Easy monetary policy
- Growth is rebounding
- High liquidity
- Improving risk appetite

- Profit > Debt growth
- Monetary policy is about neutral
- Growth near trend
- Diminishing liquidity
- Improving risk appetite




- Profit contraction
- Central bank is cutting rates
- Recession
- Liquidity and risk appetites are low

- Debt > Profit growth
- Monetary policy is tight
- Tight economic slack
- Fading risk appetite
- Liquidity tightening

CAPITAL PRESERVATION

RISK APPETITE

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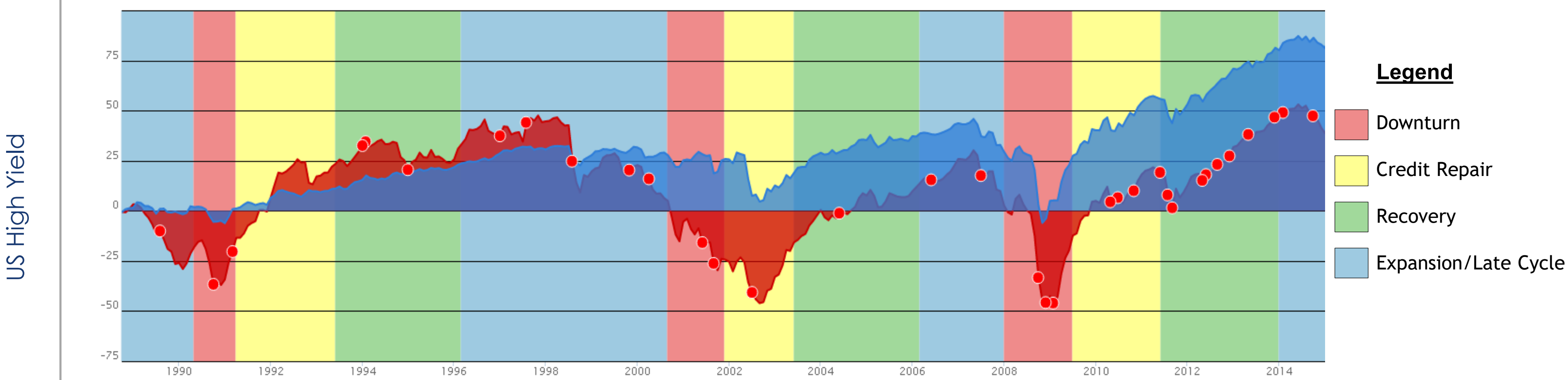
# investment process

## INVESTIGATING HISTORY FROM A "REGIME" PERSPECTIVE

Identifying the most appropriate environments for lower quality bonds

**Excess Return of BB's (Blue) vs. CCC's (Red) Through the Credit Cycle**




**ANNUALIZED TOTAL RETURN (%)**

| | Downturn | Credit Repair | Recovery | Expansion / Late Cycle |
|---|---|---|---|---|
| **BB** | 2.74 | 4.87 | 2.86 | 2.31 |
| **B** | 0.27 | 5.37 | 3.10 | 1.92 |
| **CCC** | -1.66 | 7.48 | 3.41 | 0.85 |

From October 1, 1988 - December 2015

*Data Source: Bloomberg Barclays*

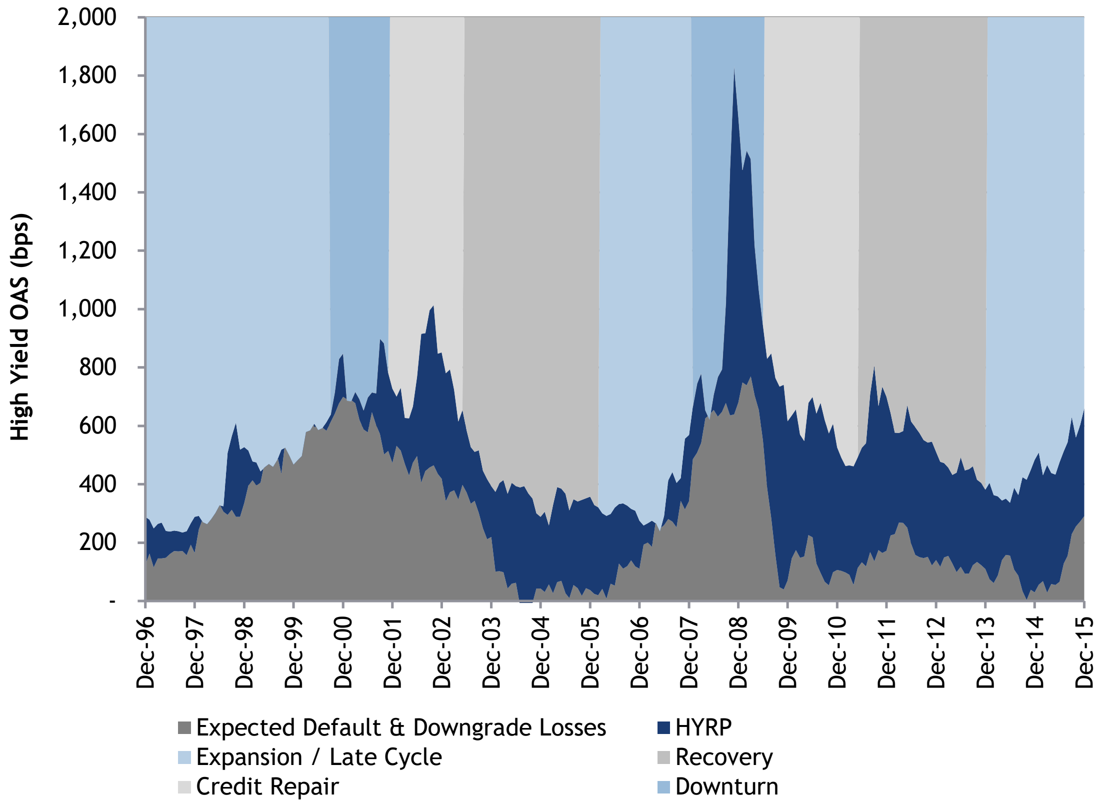
***Charts are illustrative for presentation purposes only as a sampling of risk management tool output.*** *Some or all of this information on these charts may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio.*

US High Yield

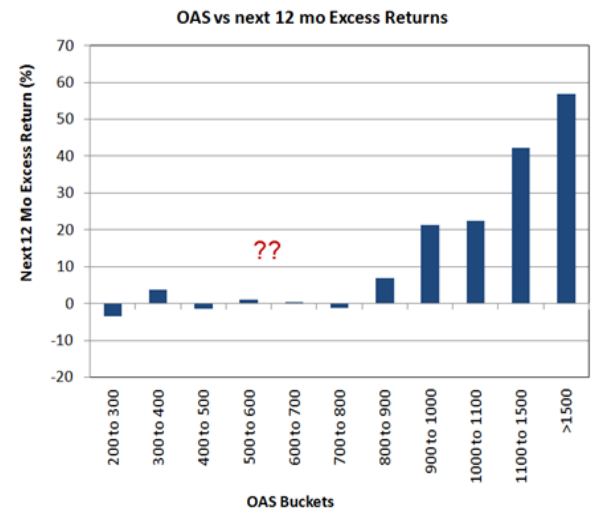
# investment process

## HIGH YIELD RISK PREMIUM

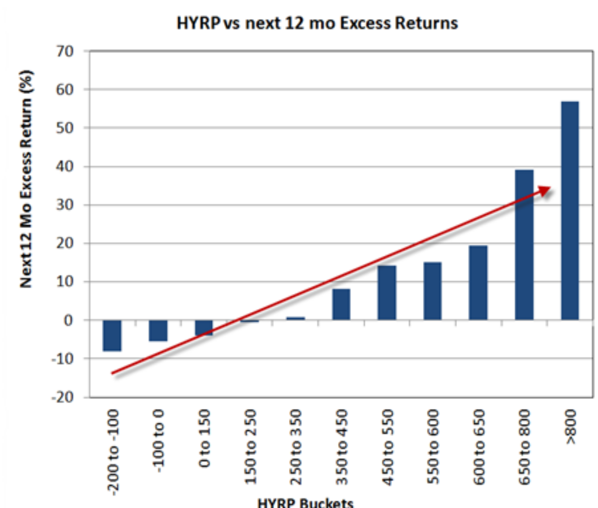
Risk premium = OAS – Expected Downgrade Loss




OAS as a relative value signal has empirically poor signaling qualities, except at extreme high levels




HYRP, however, has a uniform relationship with future outcomes at all levels




*Data Source: Bloomberg Barclays*

*December 96' is the earliest date available for the High Yield Index.* ***Charts are illustrative for presentation purposes only as a sampling of risk management tool output.*** *Some or all of this information on these charts may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio.*

***Past performance is no guarantee of future results.***

# investment process

## OUR BEST BOTTOM-UP IDEAS

Portfolio Managers gain insight into individual credits using the broader Loomis Sayles research effort:

| CREDIT RESEARCH | SECTOR TEAM | TRADING | QUANTITATIVE RESEARCH RISK ANALYSIS (QRRA) |
|---|---|---|---|
| • Cash flows<br>• Debt levels<br>• Management analysis<br>• Liquidity analysis<br>• Business outlook | • Value of sector<br>• Subsector/industry preference<br>• Preferred securities | • Liquidity<br>• Issuer rating/volatility<br>• Specific bond volatility<br>• Technicals | • Fair value<br>• Industry analysis<br>• Portfolio construction<br>• Risk awareness |

Each credit is viewed based on the following framework:

| LS ISSUER RATING | VOLATILITY BY ISSUER | VALUATION BY ISSUER | LIQUIDITY BY ISSUER | ESG |
|---|---|---|---|---|
| **Higher:** bbb<br>bb<br>b<br>**Lower:** ccc | Core<br>Opportunistic<br>Speculative | 1 Outperform<br>2 Market Perform<br>3 Underperform<br>4 Major Underperform | 4 Very liquid<br>3<br>2<br>1 Less liquid | Utilizing MSCI & Bloomberg<br>ESG ratings |

# investment process

## EXPERTISE ACROSS MARKET SEGMENTS

Research, trading, and portfolio management combine to provide deeper insight

### Seek to forecast the next year's return potential for the high yield market

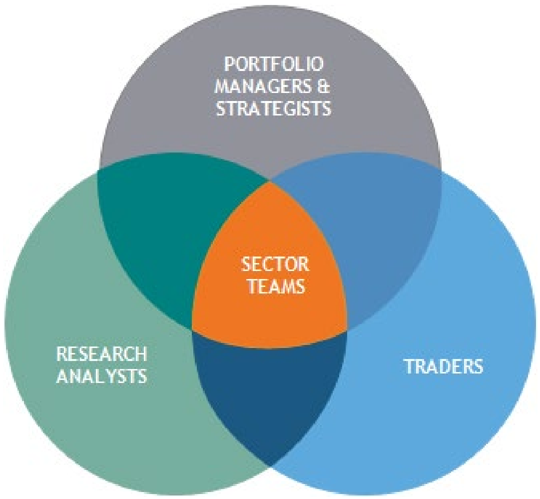
- Our Base/Bull/Bear case scenarios (incorporating Macro inputs)
- Expectations differentiated by credit quality
- Establish default rate and loss expectations

### Industry outlook

- Where is the industry in the credit cycle?
  - Identify potential return drivers and establish outlook for each industry
- Assess relative value

### Issuer review

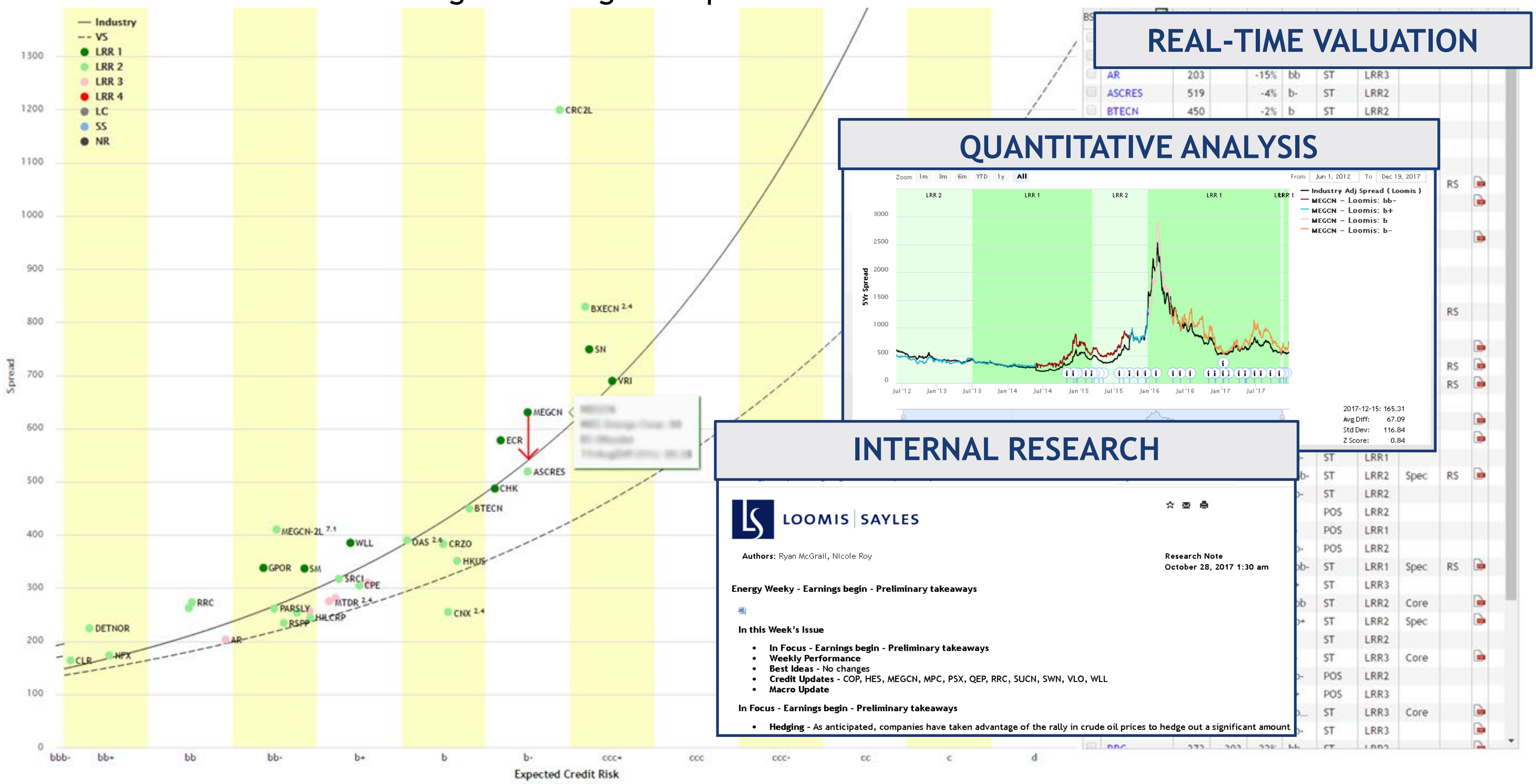
- What is the business worth?
  - Comprehensive fundamental analysis and valuation models
- Issuer Ratings
  - Assign Loomis Research Rating (LRR)
  - Anticipate rating agency changes
- Identify our most attractive opportunities in the capital structure



# investment process

## TOOLS FOR IDEA GENERATION – URV

Unified relative value screening that integrates quantitative valuation with internal fundamental research




*As of 12/8/2017*
*Data Source: Loomis Sayles*
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# risk management

## PROCESS OF RISK MANAGEMENT

| | |
|---|---|
| MEASURE | • Contribution to risk of each security's beta relative to an Index (or other instrument) on a short and long term basis. Total portfolio risk is decomposed into contributing factors of spread, term structure and currency. |
| CALCULATE | • Approximations of total portfolio beta relative to key risk factors are calculated. For example, the portfolio's beta to the high yield market is used as a proxy for measuring sensitivity to credit risk. |
| VALIDATE | • Scenario analysis and stress tests are conducted in an attempt to validate the measured systemic risk level in the portfolio. |
| MANAGE | • Systemic risk factors may be adjusted by modifying sector allocations or by using derivatives instruments, depending upon market conditions. |

*Commodity interest and derivative trading involves substantial risk of loss.*

# risk management

## OBJECTIVE OF RISK MANAGEMENT

Analyze downside risks in seeking to achieve absolute returns in both up and down markets

Seek to manage these risks through use of derivatives and/or cash instruments

### Types of risk measurements

**Nominal**

- Sector and industry exposure
- Interest rate exposure (duration)
- Exposure by quality rating
- Exposure to individual issuers

**Volatility/risk-based**

- Credit spread risk analysis
- Interest rate curve analysis
- Volatility/correlation analysis
- Historical simulation/covariance analysis
- Scenario testing and stress testing

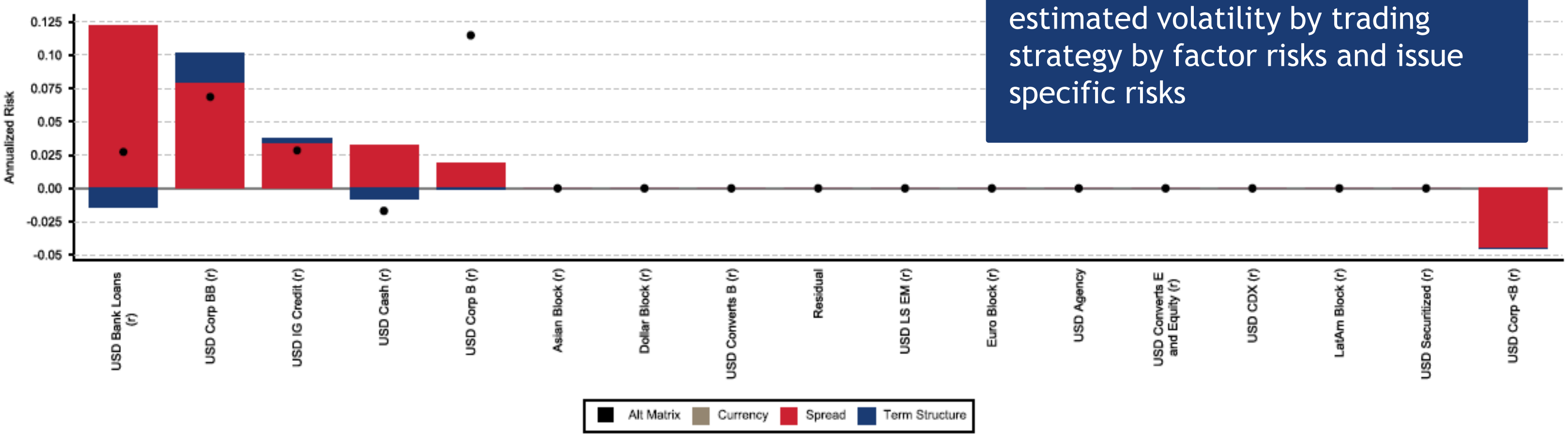
*Commodity interest and derivative trading involves substantial risk of loss.*

# risk management

## ALLOCATION, PORTFOLIO CONSTRUCTION, & OPTIMIZATION

**Scenario analysis** examines hypothetical impacts to today's portfolio using past known market events

| | | | | IG (r) | USD LS EM (r) | USD Converts E and Equity (r) | USD Cash (r) | Residual | USD Corp B (r) | USD Corp <B (r) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 6 | 0.12 | (0.02) | 0.49 | - | (0.56) | (0.83) |
| | | | | 5) | (0.13) | - | (0.68) | - | 0.60 | 0.90 |
| | | | | 5) | (0.03) | (0.04) | (0.10) | - | (0.10) | 0.25 |
| Asian Crisis (7/97 - 3/98) | (0.38) | (0.23) | 0.14 | - | - | 0.04 | (0.31) | - | (0.02) | 0.01 |
| LTCM (8/98 - 10/98 | 0.31 | 0.37 | 0.70 | 0.13 | 0.12 | (0.01) | 0.32 | - | (0.51) | (0.81) |
| Sept 11 (9/01) | 0.19 | 0.45 | (0.22) | 0.13 | 0.04 | - | 0.35 | - | (0.37) | (0.18) |
| WorldCom (4/02 - 7/02) | 0.05 | 0.13 | 0.67 | 0.12 | (0.03) | (0.04) | 0.18 | - | (0.42) | (0.56) |
| WCom Recov. (11/02 - 4/03) | (0.40) | (0.33) | (0.53) | (0.05) | 0.08 | (0.01) | (0.52) | - | 0.17 | 0.78 |
| 03 Rapid Selloff (7/03) | (0.39) | - | (0.84) | (0.07) | - | 0.01 | (0.01) | - | 0.05 | 0.46 |
| 04 Fed Hike (6/04 - 12/04) | (0.54) | (0.47) | (0.24) | (0.06) | 0.05 | 0.01 | (0.38) | - | 0.23 | 0.33 |
| Leverage (12/06 - 5/07) | (0.74) | (0.23) | (0.77) | (0.08) | (0.04) | 0.02 | (0.20) | - | 0.21 | 0.35 |
| Subprime (7/07 - 8/07) | 0.03 | 0.03 | 0.26 | 0.04 | - | 0.01 | 0.19 | - | (0.24) | (0.26) |
| Equity Selloff (11/07 - 2/08) | 0.15 | (0.08) | 0.90 | 0.08 | - | (0.01) | 0.27 | - | (0.58) | (0.42) |
| Black Swan (9/08 - 11/08) | | | | | | | | | | |
| Euro Sovereign Concerns (5/10) | | | | | | | | | | |
| US Debt Ceiling / EU Periphery (7/11 - 9/11) | | | | | | | | | | |
| Fed Taper Talk (5/13 - 6/13) | | | | | | | | | | |




**Contribution to risk** measures estimated volatility by trading strategy by factor risks and issue specific risks

*Charts are illustrative for presentation purposes only as a sampling of risk management tool output. Some or all of this information on these charts may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio. Scenario analysis has inherent limitations and should not be viewed as predictive of future events. It relies on opinions, assumptions and mathematical models, which can turn out to be incomplete or inaccurate. Actual results will be different.*

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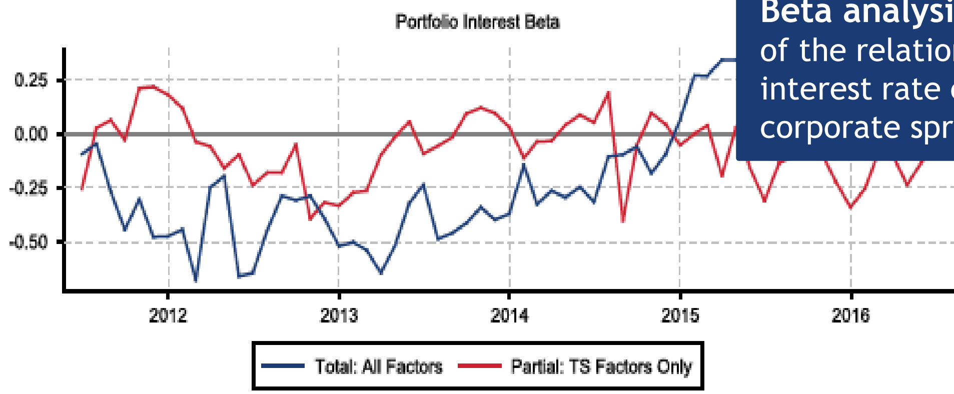
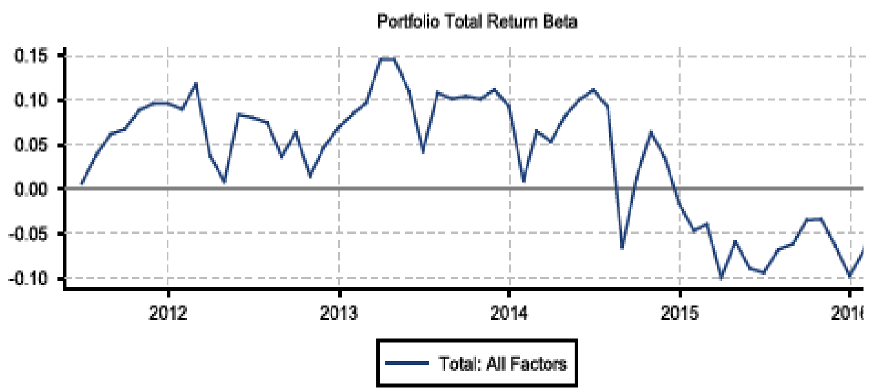
# risk management

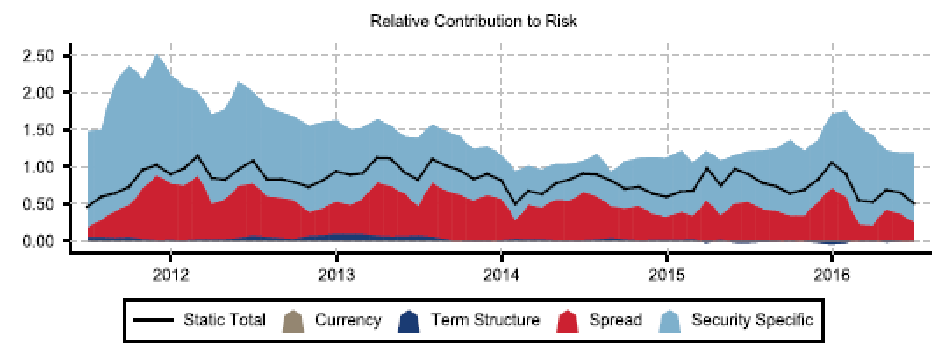
## RISK MANAGEMENT TOOLS

**Beta analysis** measures the strength of the relationship of the portfolio to interest rate changes or high yield corporate spread




**Historical volatility** view of total contribution to risk over time

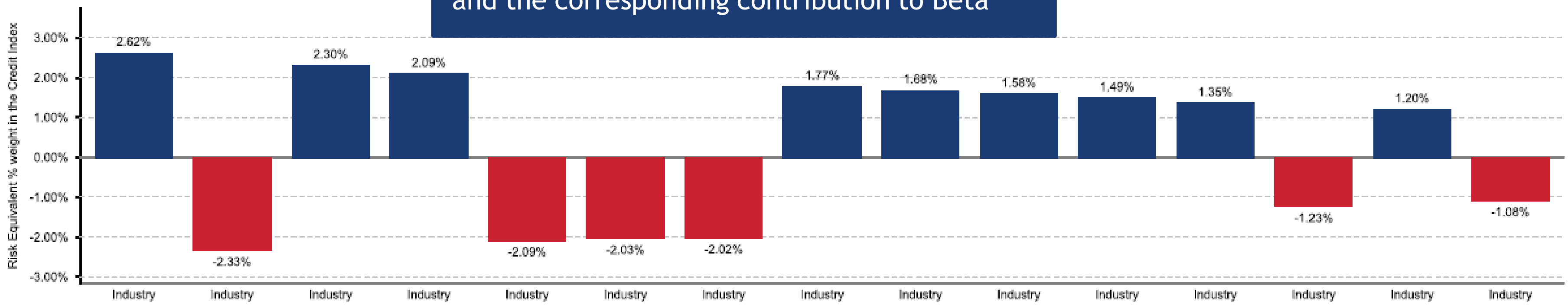


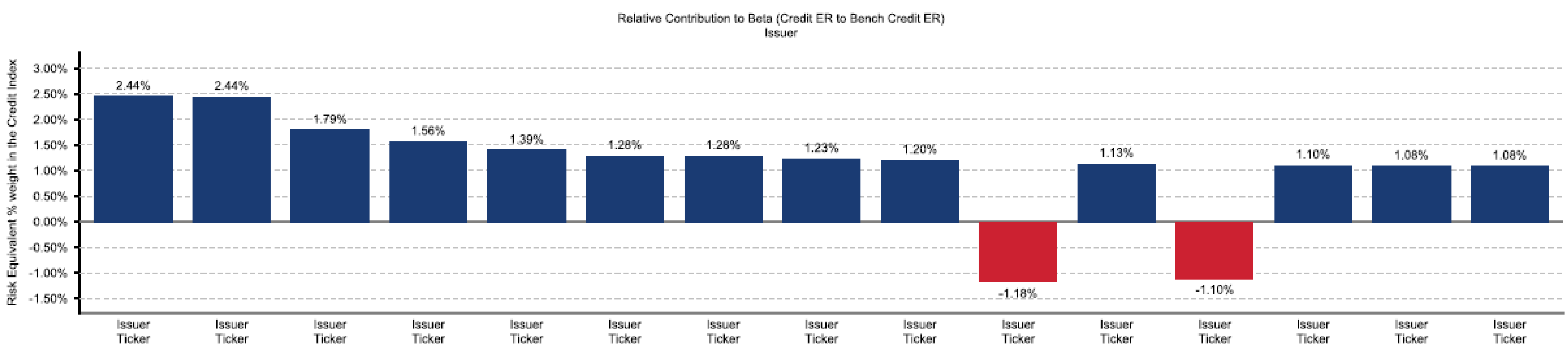

*Charts are illustrative for presentation purposes only as a sampling of risk management tool output. Some or all of this information on these charts may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio.*

# risk management

## RISK MANAGEMENT TOOLS (CONT.)

**Specific contribution to risk** highlights particular sector and individual position trades and the corresponding contribution to Beta



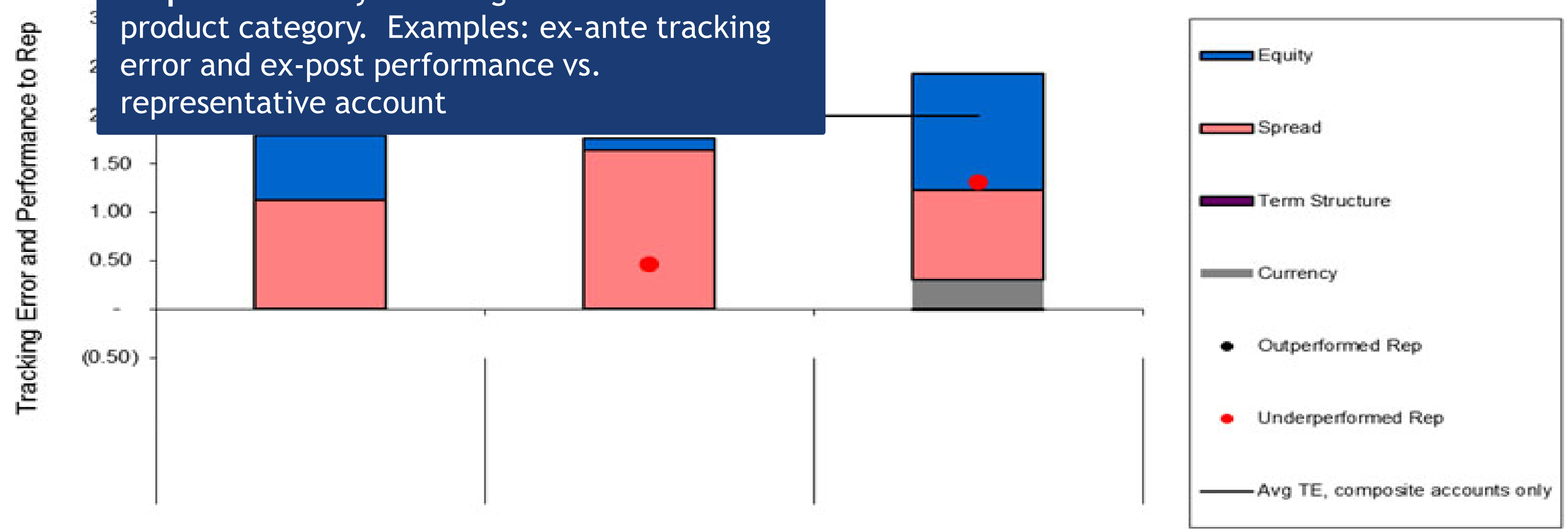




*Charts are illustrative for presentation purposes only as a sampling of risk management tool output. Some or all of this information on these charts may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio.*

# risk management

## RISK MANAGEMENT TOOLS (CONT.)

**Dispersion** analysis among accounts within product category. Examples: ex-ante tracking error and ex-post performance vs. representative account




***Charts are illustrative for presentation purposes only as a sampling of risk management tool output.*** *Some or all of this information on these charts may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio.*

# characteristics

## COMPOSITE AS OF 9/30/2019

| | Composite | Benchmark |
|---|---|---|
| Average Yield (%) | 5.76 | 5.69 |
| Average Duration (years) | 2.94 | 3.00 |
| Average Maturity (years) | 3.85 | 3.93 |
| Average OAS * (bps) | 373 | 377 |
| Average Coupon (%) | 6.37 | 6.38 |
| Current Yield (%) | 6.12 | 6.42 |
| Average Quality | B1 | B2 |

| Quality | Composite % | Benchmark % |
|---|---|---|
| BAA | 5.42 | 0.31 |
| BA | 41.63 | 47.40 |
| B | 35.87 | 38.66 |
| CAA | 11.92 | 12.51 |
| CA | 0.25 | 0.60 |
| C | - | 0.37 |
| Other/Not Rated | - | 0.15 |
| Cash & Equivalents | 4.91 | - |

| Sector Distribution | Composite % | Benchmark % |
|---|---|---|
| Cash/Equivalents | 4.91 | 0.00 |
| Investment Grade Credit | 5.42 | 0.44 |
| High Yield Credit | 83.21 | 98.87 |
| Bank Loans | 3.19 | 0.00 |
| Emerging Market Credit | 2.89 | 0.69 |
| Convertibles | 0.37 | 0.00 |

*Data Source: Loomis, Sayles & Company and index data provider. Benchmark is Bloomberg Barclays US Corporate High Yield - 2% Issuer Capped Index.*
** OAS is option adjusted spread.*
*Credit Quality reflects the highest credit rating assigned to individual holdings of the Composite among Moody's, S&P or Fitch; ratings are subject to change. Within the credit quality allocation, any cash and cash equivalents are assigned to an individual quality rating based on the long-term currency issuer/debt rating of the sovereign country.*
*Due to active management, characteristics will evolve over time. Both duration and maturity for equity securities are deemed to be zero.*
***Please see the Disclosure Statement at the end of this presentation for a complete description of the Loomis Sayles U.S. High Yield Composite.***
*Returns may increase or decrease as a result of currency fluctuations.*
***Past performance is no guarantee of future results.***

# characteristics

## COUNTRY EXPOSURE AS OF 9/30/2019

| Country of Risk | Composite Weight % | Benchmark Weight % |
|---|---|---|
| Developed | 97.11 | 99.34 |
| Americas | 85.14 | 90.07 |
| United States | 80.54 | 85.75 |
| Canada | 4.12 | 4.13 |
| Cayman Islands | 0.48 | 0.13 |
| Other ** | - | 0.06 |
| Europe | 10.60 | 8.86 |
| United Kingdom | 2.35 | 2.30 |
| Netherlands | 2.26 | 0.82 |
| Luxembourg | 2.22 | 1.87 |
| Italy | 1.72 | 0.88 |
| Belgium | 0.91 | 0.11 |
| Germany | 0.57 | 0.51 |
| Spain | 0.39 | 0.25 |
| Norway | 0.17 | 0.16 |
| Other ** | - | 1.96 |
| Oceania | 1.37 | 0.38 |
| Australia | 1.37 | 0.35 |
| Other ** | - | 0.03 |
| Other | - | 0.03 |
| Other ** | - | 0.03 |

| Country of Risk | Composite Weight % | Benchmark Weight % |
|---|---|---|
| Emerging Markets * | 2.89 | 0.66 |
| Africa | 1.02 | - |
| Zambia | 1.02 | - |
| Americas | 0.36 | 0.07 |
| Colombia | 0.36 | - |
| Other ** | - | 0.07 |
| Asia | - | 0.58 |
| Other ** | - | 0.58 |
| Middle East | 1.51 | - |
| United Arab Emirates | 1.09 | - |
| Israel | 0.42 | - |
| Total | 100.00 | 100.00 |

*Data Source: Loomis, Sayles & Company and index data provider. Benchmark is Bloomberg Barclays US Corporate High Yield - 2% Issuer Capped Index.*
** Emerging markets includes countries with middle or low income economies, as designed by the World Bank, also taking into consideration capital market liquidity and accessibility.*
*** Other includes countries or currencies held in the benchmark but not currently in the Composite. This will include both emerging and developed countries.*
*Due to active management, country allocation will evolve over time. Due to rounding, totals may not equal 100%.*
***Please see the Disclosure Statement at the end of this presentation for a complete description of the Loomis Sayles U.S. High Yield Composite.***

# portfolio review

## COMPOSITE INDUSTRY WEIGHTS AS OF 9/30/2019

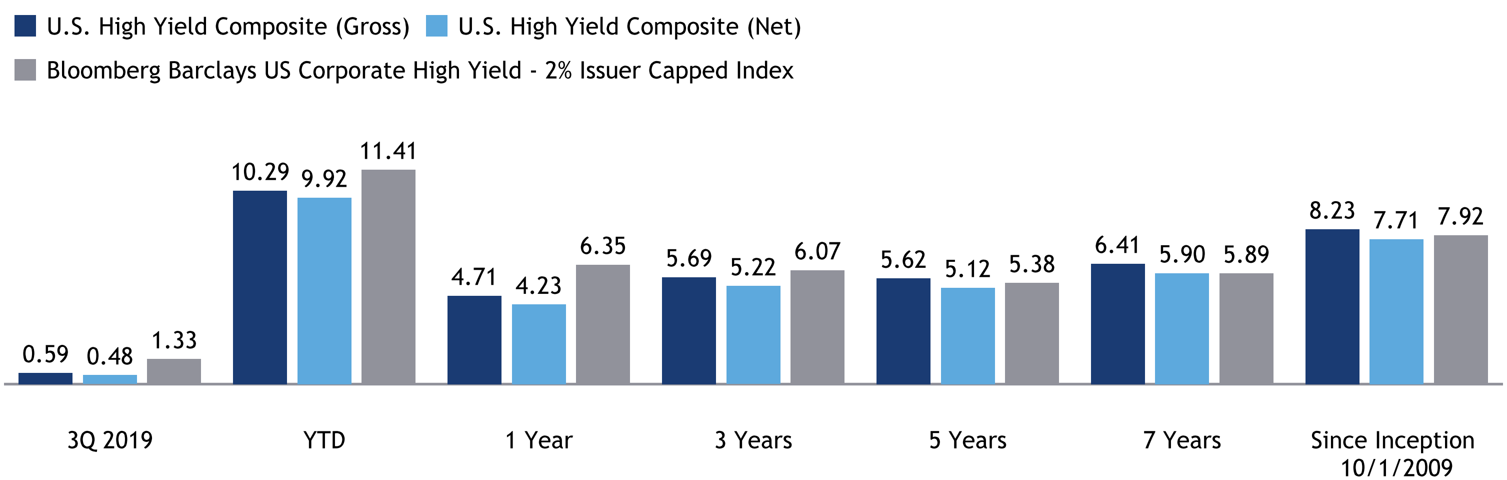
| | Composite | Benchmark |
|---|---|---|
| Cash | 4.91 | 0.00 |
| Financial Institutions | 11.73 | 9.92 |
| Banking | 2.49 | 2.66 |
| Brokerage Asset Managers Exchanges | 0.00 | 0.39 |
| Finance Companies | 2.86 | 2.57 |
| Financial Other | 1.55 | 0.96 |
| Insurance | 2.83 | 2.01 |
| P&C | 2.08 | 0.83 |
| Health Insurance | 0.76 | 0.94 |
| Life | 0.00 | 0.24 |
| Reits | 2.01 | 1.34 |
| Retail Reits | 1.14 | 0.22 |
| Other Reits | 0.86 | 0.61 |
| Office Reits | 0.00 | 0.05 |
| Healthcare Reits | 0.00 | 0.46 |
| Industrial | 79.28 | 87.64 |
| Basic Industry | 5.53 | 6.14 |
| Metals And Mining | 4.32 | 3.41 |
| Paper | 0.00 | 0.48 |
| Chemicals | 1.21 | 2.24 |
| Capital Goods | 8.50 | 9.70 |
| Building Materials | 2.88 | 1.55 |
| Diversified Manufacturing | 1.84 | 1.18 |
| Construction Machinery | 1.28 | 1.12 |
| Environmental | 0.00 | 0.50 |
| Aerospace/Defense | 1.26 | 2.23 |
| Packaging | 1.23 | 3.12 |
| Communications | 20.74 | 20.85 |
| Cable Satellite | 9.38 | 7.68 |
| Wireless | 4.76 | 4.46 |
| Media Entertainment | 4.49 | 5.04 |
| Wirelines | 2.11 | 3.67 |

| | Composite | Benchmark |
|---|---|---|
| Consumer Cyclical | 11.99 | 15.68 |
| Restaurants | 2.30 | 1.14 |
| Retailers | 2.38 | 2.47 |
| Lodging | 0.78 | 0.88 |
| Automotive | 1.46 | 2.07 |
| Gaming | 2.52 | 3.33 |
| Leisure | 0.00 | 0.96 |
| Consumer Cyclical Services | 1.57 | 2.53 |
| Home Construction | 0.98 | 2.31 |
| Consumer Non Cyclical | 11.48 | 13.58 |
| Food And Beverage | 3.23 | 2.54 |
| Tobacco | 0.00 | 0.15 |
| Pharmaceuticals | 2.23 | 2.41 |
| Supermarkets | 0.25 | 0.50 |
| Healthcare | 5.76 | 6.48 |
| Consumer Products | 0.00 | 1.50 |
| Energy | 12.88 | 12.45 |
| Refining | 1.42 | 0.46 |
| Oil Field Services | 3.14 | 2.41 |
| Midstream | 4.82 | 4.19 |
| Independent | 3.50 | 5.39 |
| Industrial Other | 0.72 | 1.29 |
| Technology | 7.35 | 6.53 |
| Transportation | 0.08 | 1.43 |
| Railroads | 0.00 | 0.07 |
| Airlines | 0.00 | 0.34 |
| Transportation Services | 0.08 | 1.02 |
| Utility | 4.08 | 2.43 |
| Electric | 4.08 | 2.43 |
| Total | 100.00 | 100.00 |

*Data Source: Loomis, Sayles & Company and index data provider. Benchmark is Bloomberg Barclays US Corporate High Yield - 2% Issuer Capped Index.*
*Due to active management, characteristics will evolve over time. Due to rounding, totals may not equal 100%.*
***Please see the Disclosure Statement at the end of this presentation for a complete description of the Loomis Sayles U.S. High Yield Composite.***

# investment performance

## TRAILING RETURNS AS OF 9/30/2019 - COMPOSITE (%)

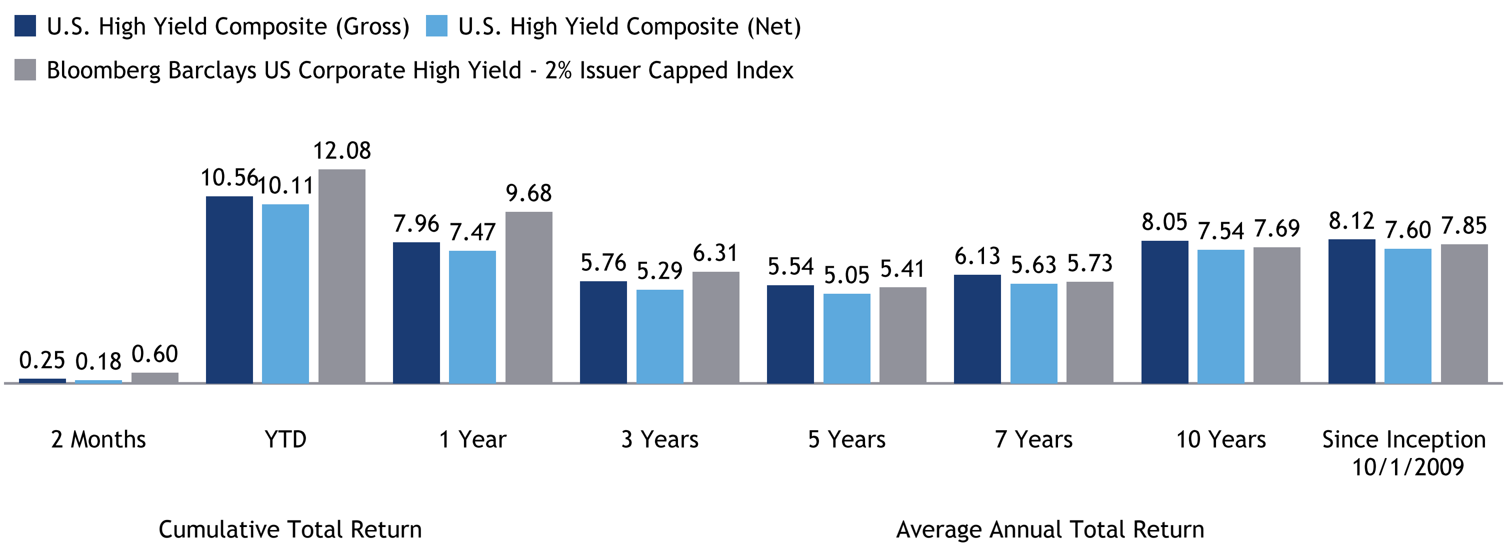



| | 3Q 2019 | YTD | 1 Year | 3 Years | 5 Years | 7 Years | Since Inception 10/1/2009 |
|---|---|---|---|---|---|---|---|
| Excess Return (Gross) | -0.74 | -1.12 | -1.65 | -0.37 | +0.24 | +0.52 | +0.31 |

*Data Source: Loomis, Sayles & Company and index data provider. Benchmark is Bloomberg Barclays US Corporate High Yield - 2% Issuer Capped Index.*
***Gross returns are net of trading costs. Net returns are gross returns less effective management fees. Returns for multi-year periods are annualized.***
***Please see the Disclosure Statement at the end of this presentation for a complete description of the Loomis Sayles U.S. High Yield Composite.***
*Returns may increase or decrease as a result of currency fluctuations.*
***Past performance is no guarantee of future results.***

# investment performance

## TRAILING RETURNS AS OF 11/30/2019 - COMPOSITE (%)




| | 2 Months | YTD | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | Since Inception 10/1/2009 |
|---|---|---|---|---|---|---|---|---|
| Excess Return (Gross) | -0.35 | -1.51 | -1.72 | -0.55 | +0.13 | +0.41 | +0.37 | +0.27 |

*Data Source: Loomis, Sayles & Company and index data provider. Benchmark is Bloomberg Barclays US Corporate High Yield - 2% Issuer Capped Index.*
**Gross returns are net of trading costs. Net returns are gross returns less effective management fees. Returns for multi-year periods are annualized. Please see the Disclosure Statement at the end of this presentation for a complete description of the Loomis Sayles U.S. High Yield Composite.**
*Returns may increase or decrease as a result of currency fluctuations.*
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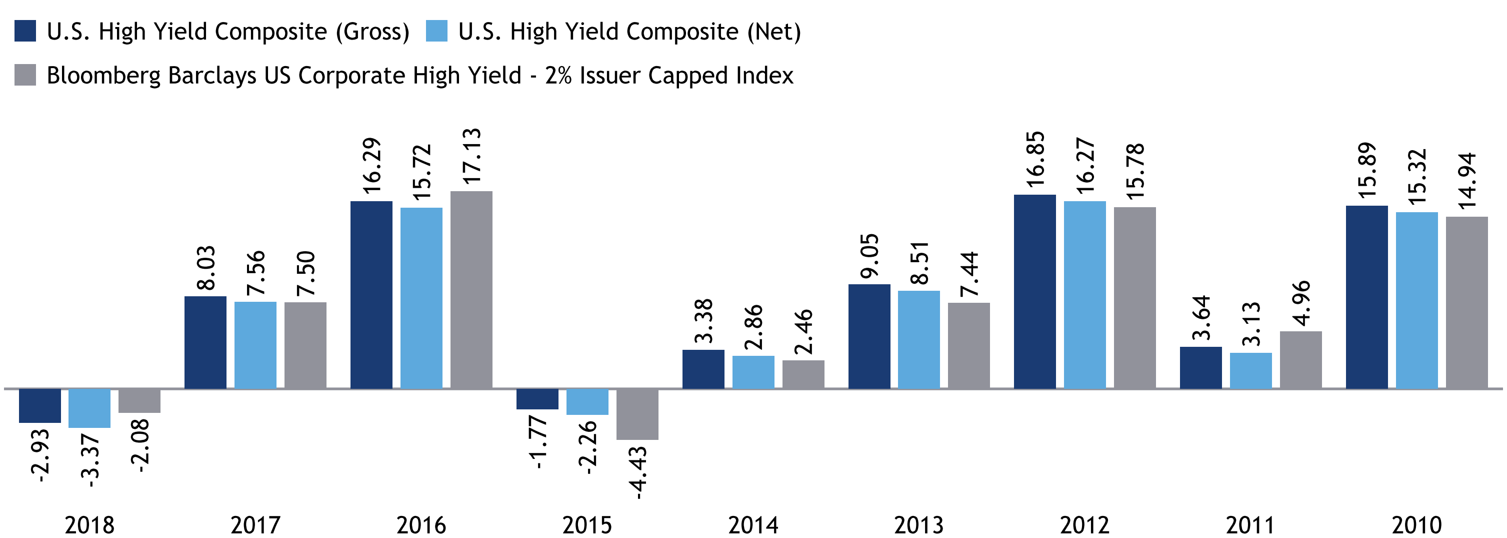
# investment performance



## CALENDAR YEAR RETURNS - COMPOSITE (%)




| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|---|
| Excess Return (Gross) | -0.84 | +0.52 | -0.84 | +2.66 | +0.92 | +1.61 | +1.07 | -1.32 | +0.96 |

*Data Source: Loomis, Sayles & Company and index data provider. Benchmark is Bloomberg Barclays US Corporate High Yield - 2% Issuer Capped Index.*
***Gross returns are net of trading costs. Net returns are gross returns less effective management fees.***
***Please see the Disclosure Statement at the end of this presentation for a complete description of the Loomis Sayles U.S. High Yield Composite.***
*Returns may increase or decrease as a result of currency fluctuations.*
***Past performance is no guarantee of future results.***

US High Yield Representative Account

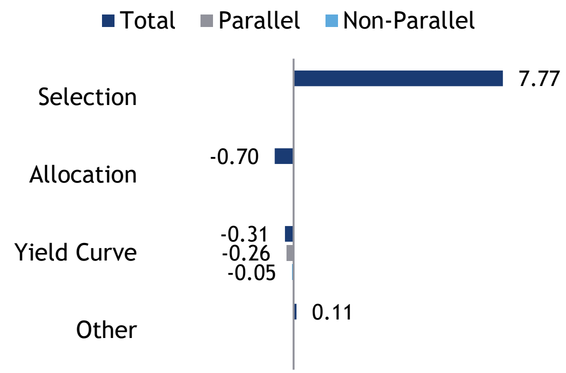
# attribution analysis

## 10/1/2009 TO 9/30/2019 (%)

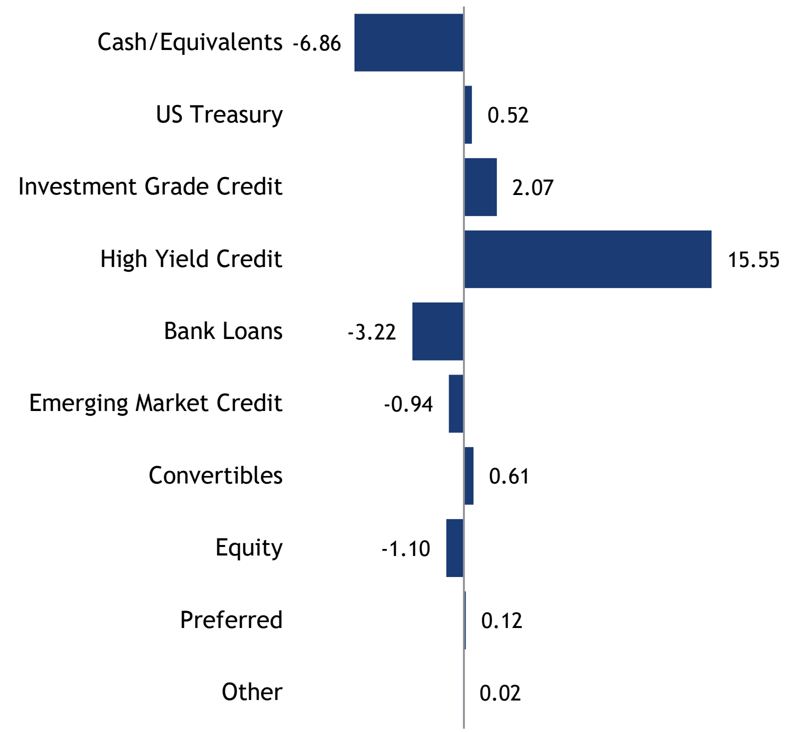
**CUMULATIVE RETURNS (gross of fees)**

| | Total Return |
|---|---|
| Rep Account Return | 121.17 |
| Benchmark Return | 114.28 |
| Excess Return | 6.89 |

**EXCESS RETURN ATTRIBUTION**




**EXCESS RETURN ATTRIBUTION BY SECTOR**




*Source: Loomis Sayles performance attribution system. Based on cumulative returns over 10 year period.*
*The benchmark is the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index. Representative account total returns are based on gross performance. Gross performance is gross of fees and expenses and net of trading costs. If management fees were included, returns would be lower.*
*Figures on bar charts may not add up to total excess return as they exclude impact of trading, pricing differences, and yield curve.*
*Attribution analysis is shown for a representative account as supplemental information. Due to system limitations, it is difficult to analyze this data on a composite basis. This representative account is shown to illustrate aspects of the Loomis Sayles US High Yield investment strategy. Due to guideline restrictions and other factors, there is some dispersion between the returns of this account and other accounts managed in the US High Yield investment style.*
***The Disclosure Statement provided at the end of this presentation displays performance, including dispersion, for the Loomis Sayles US High Yield Composite.***
***Past performance is no guarantee of future results.***

# investment performance

## TRAILING PERFORMANCE ANALYSIS AS OF 9/30/2019 (%)

| | | 1 Year | 3 Years | 5 Years | 7 Years |
|---|---|---|---|---|---|
| **U.S. High Yield** | Excess Return (Gross) (%) | -1.65 | -0.37 | 0.24 | 0.52 |
| | Information Ratio (Gross) | -0.60 | -0.56 | 0.27 | 0.62 |
| | Tracking Error (Gross) (%) | 0.22 | 0.64 | 0.79 | 0.78 |
| | Up-Market Capture (%) | 88.11 | 96.27 | 98.00 | 102.97 |
| | Down-Market Capture (%) | 103.45 | 102.36 | 92.81 | 94.70 |
| | Standard Deviation (%) | 1.83 | 4.10 | 5.11 | 4.94 |
| | Sharpe Ratio (Gross) | 0.12 | 1.00 | 0.91 | 1.14 |
| **Bloomberg Barclays US Corporate High Yield - 2% Issuer Capped Index** | Standard Deviation (%) | 1.85 | 4.09 | 5.34 | 5.05 |
| | Sharpe Ratio (Gross) | 0.18 | 1.09 | 0.83 | 1.02 |



*Data Source: Loomis, Sayles & Company and index data provider. Benchmark is Bloomberg Barclays US Corporate High Yield - 2% Issuer Capped Index.*
***Gross returns are net of trading costs. Net returns are gross returns less effective management fees. Returns for multi-year periods are annualized.***
***Please see the Disclosure Statement at the end of this presentation for a complete description of the Loomis Sayles U.S. High Yield Composite.***
*Returns may increase or decrease as a result of currency fluctuations.*
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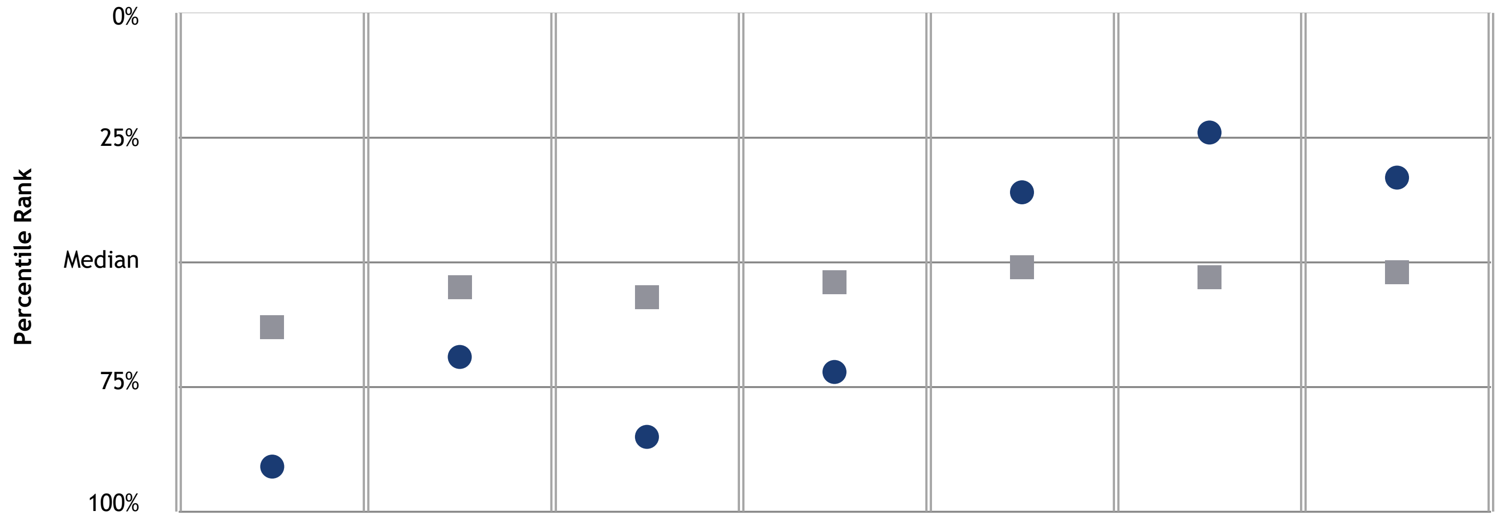
# investment performance - supplemental



## US HIGH YIELD COMPOSITE AS OF 9/30/2019

### Trailing Returns (Gross) & Rankings vs Index




| | Q3 2019 | YTD | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years |
|---|---|---|---|---|---|---|---|
| US High Yield | 0.59 | 10.29 | 4.71 | 5.69 | 5.62 | 6.40 | 8.23 |
| **% Ranking** | **91st** | **69th** | **85th** | **72nd** | **36th** | **24th** | **33rd** |
| Bloomberg Barclays US High Yield 2% Capped Index | 1.33 | 11.41 | 6.35 | 6.07 | 5.38 | 5.89 | 7.92 |
| **% Ranking** | **63rd** | **55th** | **57th** | **54th** | **51st** | **53rd** | **52nd** |
| **Median** | **1.53** | **11.53** | **6.60** | **6.11** | **5.40** | **5.96** | **7.94** |
| **Observations** | **225** | **225** | **225** | **213** | **198** | **175** | **137** |

*Source: eASE Analytics System; eVestment Alliance is the ranking agency. Universe: eA US High Yield Fixed Income. This material is provided as supplemental to a full product presentation book. Annualized performance is calculated as the geometric mean of the product's returns with respect to one year. Returns are gross of management fees and net of trading costs. Median is the middle value for the observations as of the end of each period shown. Although we believe it is reliable, we cannot guarantee the accuracy of data from a third party source. This information cannot be copied or redistributed in any form.*

***Past performance is no guarantee of future results.***

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# ESG at loomis sayles

## OUR RESEARCH AND ACTIVE INVESTMENT MANAGEMENT CULTURE INHERENTLY EMBED ESG FACTORS

Our ultimate goal is superior, long-term risk adjusted performance

- Assessment of material ESG elements is an intrinsic part of our long-term fundamental, proprietary research
- Support the investment teams with ESG of research tools and training
- Prioritization of the recruitment, development, and retention of exceptional talent
- Ongoing commitment to the local communities in which we live and work

## RECENT INITIATIVES

**2012**
- Established ESG Committee

**2013**
- Signed UK Stewardship Code

**2014**

**2015**
- Signed UN PRI
- Launched Undergraduate Women's Investment Network (UWIN)

**2016**
- Created proprietary ESG tracking database
- Established Women@Work employee resource group

**2017**
- Established Green Council
- Established Community Investment Group
- Incorporated ESG into Chief Investment Risk Officer portfolio reviews

**2018**
- Established MOSAIC, a multicultural employee resource group
- Appointed Director of ESG
- Signed up to the LGPS Investment Code of Transparency
- Created ESG Center, a data dashboard for investment teams

**2019**
- Initiated Fixed Income Best Practices Project
- Hired consultant to assist with green bond project

**2020**
- Hired consultant to assist with TCFD reporting

*As of 12/31/2019.*

# our approach

## PRACTICAL, AUTHENTIC AND ASPIRATIONAL

| LOOMIS SAYLES "THE FIRM" | ESG WITHIN OUR INVESTMENT PROCESS | ESG RELATED REQUESTS |
|---|---|---|
| Governance | Integration | Clients |
| Fiduciary Duty | Infrastructure | Prospects |
| ESG Values | Engagement | Collaboration |

# loomis sayles ESG structure

## STRATEGIC DECISION TO EMBED ESG THROUGHOUT THE ORGANIZATION

### ESG ADVISORY BOARD

Includes senior management and portfolio managers

### ESG COMMITTEE

Director of ESG
General Counsel
Assistant General Counsel
Associate Director, Credit Research
Associate Director, Macro Strategies

RFP Manager
Senior Product Marketing Analyst
Portfolio Compliance Manager
Strategic Product Analyst

- Best Practices Subcommittee
- PRI Subcommittee
- Marketing Subcommittee
- Technology Subcommittee
- Climate Change Subcommittee

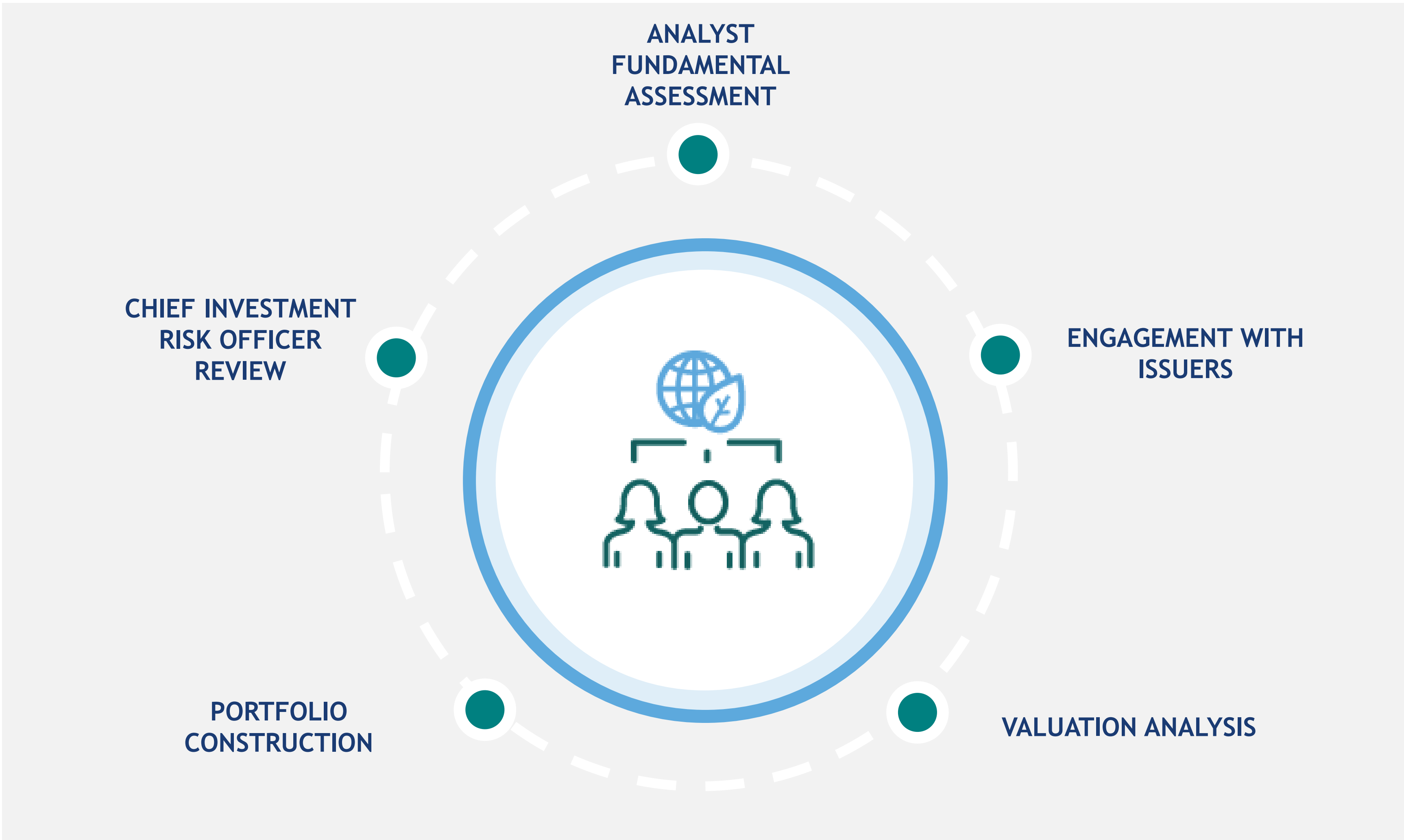
### ESG WORK DRAWS ON CONTRIBUTIONS FROM ACROSS THE FIRM

- Research
- Portfolio Management
- Institutional Services
- Compliance
- Risk
- Legal
- Technology
- Marketing
- Operations
- Trading
- Finance
- Human Resources

IC Meeting: 01/21/20
Item II
Attachment 3

# ESG integration

## AT LOOMIS SAYLES ESG CAN BE INTEGRATED WITHIN ALL STEPS OF AN INVESTMENT PROCESS



# ESG research

## LOOMIS SAYLES INTEGRATES ESG INTO FUNDAMENTAL RESEARCH ACROSS ALL ASSET CLASSES

We recognizes the important role that environmental, social and governance (ESG) issues play in the global economy, financial markets and society at large.

- We inherently consider ESG issues as part of our investment analysis and recommendations.
- Our analysts strive to develop a thorough understanding of an issuer's track record, governance, management strength and strategy, its use of, and impact on, human and natural resources, as well as regulatory and political risks.
- We draw on discussions with company management teams and sovereign officials regarding ESG issues, as well as subscribing to and utilizing third party ESG Research.
- Analysts develop independent views of material factors impacting fundamentals in their valuation assessments of equity, credit, sovereign, municipal, and securitized assets.

# APPENDIX

# diversity, equity and inclusion (DEI)

## OUR MISSION

We recognize that delivering **excellent performance** depends on **diversity**—of people and perspectives.

Loomis Sayles strives to attract, nurture and retain a dynamic staff that is talented and diverse. Our employees are the vital bridge between our workplace and the marketplace and the principal reason we are able to deliver a high level of investment management services to our clients.

## OUR VISION

- Be an employer of choice for top talent, regardless of background
- Create an environment that welcomes the full breadth of diversity
- Encourage employees to share their unique experiences, perspectives and ideas to inform our firm's worldwide view

# DEI committee members



**JOHN RUSSELL**
HR, Senior Counsel,
Board of Directors
22 yrs at the firm

**DEBBIE LEWIS**
Manager,
Human Resources
16 yrs at the firm

**JEAN LOEWENBERG**
General Counsel,
Board of Directors
16 yrs at the firm

**KATHLEEN BOCHMAN**
Director, ESG
13 yrs at the firm

**MARI SHIMOKAWA**
Deputy Chief
Compliance Officer
17 yrs at the firm

**MEG CLOUGH**
Director, Community
Investments
21 yrs at the firm

**RAYON WARD**
Senior Equity Analyst, Growth
Equity Strategies team
9 yrs at the firm

**RENE LE-FEVRE**
Trader,
Fixed Income
20 yrs at the firm

**SHEPHALI SARDINHA**
Director, Strategic
Marketing
9 yrs at the firm

**STEVE CHITTENDEN**
Director, Investment
Operations
18 yrs at the firm

# strategic importance of DEI

## FIRM

- Training and Talent Development
- Work-Life
- Recruitment

## MARKETPLACE

- Supplier Diversity
- Memberships & Partnerships

## COMMUNITY

- Non-Profit Corporate Giving
- Community Partnerships & Volunteerism

# current initiatives

## FIRM

### Training & Talent Development

- The Partnership – Fellows and Associates
- Linkage – Women in Leadership Program (WIL)
- Women Unlimited
- IBIS Consulting – Firm-wide unconscious bias training
- Internal mentoring programs
- Employee Resource Groups – W@W, MOSAIC

### Work-Life

- Flexible Work Arrangements (FWA)
- Tuition reimbursement
- Bright Horizons back-up daycare onsite
- Bright Horizons college prep advising
- Adoption assistance program
- Paternity and maternity paid leave

### Recruitment

- Undergraduate Women's Investment Network (UWIN)
- Undergraduate Summer Internship Development Program (USID) – a no-nepotism program welcoming 100% first-generation college and/or underrepresented students into the investment industry
- CFA Experimental Partner Project – assessment of candidate slates and recruitment best practices underway

# current initiatives

## MARKETPLACE

### Supplier diversity spending

- **+$1M** spent on women-owned businesses
- **+$1M** spent on minority-owned businesses
- Member, Greater New England Minority Supplier Development Counsel

### Partnership & Memberships

- Member, Boston College Center for Work & Family
- Participant, CFA Experimental Partnership Program – Recruitment & Communication
- Member, Boston College Center for Corporate Citizenship
- Participant, Girls Who Invest
- Member, Corporate Volunteer Council of Greater Boston
- Member, Black MBA Association
- Member, Executive Council of The Partnership – professional development for people of color

# current initiatives

## COMMUNITY

### Our Nonprofit Partners

- Each year Loomis Sayles sets aside a **$1M** of its income to fund philanthropic giving targeted at improving the education and health of the neediest children and families in our community. We support the following organizations:

AGASSIZ VILLAGE summer camp
BOSTON CHILDREN'S CHORUS
BOSTON MEDICAL CENTER — EXCEPTIONAL CARE. WITHOUT EXCEPTION.
BOYS & GIRLS CLUBS OF BOSTON
MOTHER CAROLINE ACADEMY AND EDUCATION CENTER
10,000 Degrees — Creating college graduates who change the world
The Elizabeth Seton Foundation
STRONG WOMEN STRONG GIRLS
SUMMER SEARCH
PROJECT HOPE BOSTON
inner-city scholarship fund — A Child. A Chance. A Future.
JULIE'S Family Learning Program

> We work with our nonprofit partners throughout the neediest areas of Greater Boston to empower families in the vital areas of housing, healthcare & education.

**MEG CLOUGH**
Director,
Community Investments

# current initiatives

## COMMUNITY

### Volunteer Engagement

- Taking a hands-on approach to helping our community
- Employees allotted 16 hours of paid volunteer time off per calendar year
  - Individual volunteering driven by the employee
  - Loomis Sayles-sponsored volunteering organized by Community Investments & the Volunteer Council
  - 367 volunteer hours in 2018

# where do we want to go?

- Increase candidate pools for underrepresented groups
- Training and development
- Expand Employee Resource Group offerings
- Increase diversity in leadership positions
- Expand and diversify mentoring programs

**ATTRACT**
Increase diversity within candidate pools year over year

**DEVELOP**
Increase diversity across all levels of organization

**RETAIN**
Foster inclusive culture that engages all employees

# biographies

## Todd P. Vandam, CFA

Todd Vandam is a vice president of Loomis, Sayles & Company and co-portfolio manager of the Loomis Sayles Strategic Alpha and High Income funds as well as several US high yield and global high yield institutional strategies. He also heads up the firm's high yield sector team. Todd began his career at Loomis Sayles in 1994 on the high yield trading desk. He was later promoted to high yield credit strategist for the full discretion team and held that position until 2016. Prior to joining Loomis Sayles, Todd completed the US Army Airborne and US Army Ranger Schools. He was a Field Artillery Officer in the US Army, most recently working as a Fire Support Officer stationed in Panama. Todd is a member of CFA Society Boston. He earned a BA in business and economics from Brown University.

## Chad Gross

Chad Gross is a vice president of Loomis, Sayles & Company and a member of the firm's institutional services group. He is responsible for new business development and strategic product positioning in west coast public funds, endowments and foundations. Chad joined Loomis Sayles in 2013 from Manulife Asset Management, where he was a managing director for their institutional sales group, covering public funds, corporations, endowments & foundations and sub-advised relationships. Previously, he a vice president of institutional sales at Janus Capital Group, first for mid-market public funds, then for east coast public funds, and finally for the western US. Upon receipt of his BBA in marketing from Texas Tech University, Chad served as a Captain and Aviation Officer in the US Army. He was awarded a Bronze Star Medal and Air Medal for superior service in combat while on tour in Iraq.

# sector teams

**MICHAEL GILES**
Chief Investment Risk Officer

**JAE PARK**
Chief Investment Officer

**DAVID WALDMAN**
Deputy Chief Investment Officer

**CHIP BANKES**
Head of Trading

**ALESSANDRO PAGANI**
Head of Mortgage & Structured Finance

**CHRIS GOOTKIND**
Director of Credit Research

**TOM FAHEY & MICHAEL CROWELL**
Directors of Macro Strategies

**MICHAEL CROWELL**
Director of Quantitative Research & Risk Analysis

**RICH CRABLE**
Associate Director of Convertibles & Special Situations

**EXPERTISE OF INDIVIDUAL**

- Portfolio Manager/Strategist
- Research
- Trading

## Global Asset Allocation
M. Crowell, M. Eagan, T. Fahey, M. Gladchun, A. Pagani, J. Park, R. Raczkowski, C. Rowe, S. Service, R. Skaggs, E. Sternberg

## Inv. Grade Corporate
P. Agrawal, N. Burke, C. Embree, B. Hazelton, B. Kennedy, J. McIntosh, M. McDade, R. Raczkowski, L. Royer, S. Service, D. Simmons, B. Stevens, K. Wagner

## Global Credit
J. DeVoy, S. Katsaros, C. Kenny, R. MacKay, V. Miles, H. Ridill, L. Schweitzer, S. Service, R. Wilkin

## Mortgage & Structured Finance
I. Anderson, D. Chaney, K. Fecteau, S. LaPlante, S. L'Heureux, M. Meyer, A. Pagani, C. Rowe, B. Sankaran, J. Thomas

## US Government
M. Gladchun, J. Hyll, P. Palfrey, L. Schweitzer

## US Yield Curve
C. Burelle, T. Fahey, M. Gladchun, B. Hess, B. Horrigan, J. Hyll, P. Palfrey, D. Rolley, L. Schweitzer

## Emerging Markets
B. Aumond, T. Chow, E. Colleran, P. Frick, G. Hadjian, S. Hoppe, J. Mueller, N. Oulidi, D. Rolley, A. Saw, E. Sternberg, D. Sunnerberg, C. Tay, M. Welch

## High Yield
J. Bell, M. Crowell, J. DeVoy, M. Eagan, E. Stokes, T. Stolberg, T. Vandam, B. Wright, R. Yackel

## Convertibles
R. Crable, C. Murphy, M. Ravanesi, J. Slankas, P. Sheehan, O. Tatar, T. Zimmer

## Developed Markets/ Non-US Sovereign
T. Fahey, D. Rolley, L. Schweitzer, S. Service, D. Sunnerberg, C. Tay, S. Walton, M. Winkelman

## Bank Loans
J. Bell, M. Klawitter, R. Leitzes, C. Maniatis, B. Wright, H. Young

## Municipals
L. Royer, D. Simmons, S. Timen

## Commodities
A. DiCenso, K. Kearns, S. Lele, M. Murphy, H. Sundaresh

## Equity
B. Bakshi, C. Burelle, M. Ravanesi, E. Riley, R. Skaggs, J. Slankas, J. Slavik

*As of 9/30/2019.*

LOOMIS | SAYLES®

# additional notes

## KEY INVESTMENT RISKS

**Credit Risk**
The risk that the issuer or borrower will fail to make timely payments of interest and/or principal. This risk is heightened for lower rated or higher yielding fixed income securities and lower rated borrowers.

**Issuer Risk**
The risk that the value of securities may decline due to a number of reasons relating to the issuer or the borrower or their industries or sectors. This risk is heightened for lower rated fixed income securities or borrowers.

**Liquidity Risk**
The risk that the strategy may be unable to find a buyer for its investments when it seeks to sell them, which is heightened for high yield, mortgage-backed and asset-backed securities.

**Interest Rate Risk**
The risk that the value of a debt obligation falls as interest rates rise.

**Non-U.S. Securities Risk**
The risk that the value of non-U.S. investments will fall as a result of political, social, economic or currency factors or other issues relating to non-U.S. investing generally. Among other things, nationalization, expropriation or confiscatory taxation, currency blockage, political changes or diplomatic developments can negatively impact the value of investments. Non-U.S. securities markets may be relatively small or underdeveloped, and non-U.S. companies may not be subject to the same degree of regulation or reporting requirements as comparable U.S. companies. This risk is heightened for underdeveloped or emerging markets, which may be more likely to experience political or economic stability than larger, more established countries. Settlement issues may occur.

**Currency Risk**
The risk that the value of investments will fall as a result of changes in exchange rates, particularly for global portfolios.

**Derivatives Risk (for portfolios that utilize derivatives)**
The risk that the value of the Strategy's derivatives instruments will fall because of changes in the value of the underlying reference instrument, pricing difficulties or lack of correlation with the underlying investment.

**Leverage Risk (for portfolios that utilize leverage)**
The risk of increased loss in value or volatility due to the use of leverage, or obtaining investment exposure greater than the value of an account.

**Counterparty Risk**
The risk that the counterparty to a swap or other derivatives contract will default on its obligations.

**Prepayment Risk**
The risk that debt securities, particularly mortgage-related securities, may be prepaid, resulting in reinvestment of proceeds in securities with lower yields. An investment may also incur a loss when there is a prepayment of securities purchased at a premium. Prepayments are likely to be greater during periods of declining interest rates.

**Extension Risk**
The risk that an unexpected rise in interest rates will extend the life of a mortgage or asset-backed security beyond the expected prepayment time, typically reducing the security's value.

**Equity Risk**
The risk that the value of stock may decline for issuer-related or other reasons.

**Non-Diversified Strategies**
Non-diversified strategies tend to be more volatile than diversified strategies and the market as a whole.

**Municipal Securities Risk**
The risk that municipal markets may be volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities.

# composite disclosure statement



## AS OF 12/31/2018

### Firm

Loomis, Sayles & Company, L.P. ("Loomis Sayles") is an autonomous investment advisory firm registered under the Investment Advisers Act of 1940. Registration does not imply a certain level of skill or training.

### Selection Criteria for the US High Yield Composite ("Composite")

The Composite includes all discretionary separate accounts with market values greater than $5 million managed by Loomis Sayles with investment guidelines that allow for a diversified, actively managed exposure to the US High Yield credit market which emphasizes a disciplined portfolio construction and risk assessment process in fixed income and related investments of any maturity and credit quality, including lower-rated fixed income investments, derivatives, and bonds with equity like features. The Composite was created in 2010.

Loomis Sayles claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Loomis Sayles has been independently verified for the periods January 1, 1999 through December 31, 2018. The verification reports are available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Loomis Sayles adopted a significant cash flow policy since Composite inception where portfolios are removed from the Composite when net monthly cash flow exceeds 30% of the portfolio's beginning market value.

Some of the accounts in this Composite may from time to time employ the use of interest rate futures, swaps and forward contracts primarily for the purpose of managing interest rate and yield curve exposure. In order to achieve their investment objective, some of the accounts in this Composite may use credit derivatives, such as credit default swaps, to manage the specific credit risks of certain issuers, and to segments of the broader credit market.

### Benchmark

The benchmark for the Composite is the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped ("Index"). The Index is the 2% Issuer Cap component of the U.S. Corporate High Yield index. The Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The investment portfolio underlying the Index is different from the investment portfolios of the accounts included in the Composite. The Index is used for comparative purposes only, is not intended to parallel the risk or investment style of the accounts in the Composite, and does not reflect the impact of fees and trading costs. The source of all data regarding the Index is Bloomberg Barclays.

### Calculation Methodology

Gross of fee account returns are time-weighted rates of return, net of commissions and transaction costs. Net of fee account returns are the gross returns less the effective management fee for the measurement period. The effective fee for an account is derived by using beginning of measurement period assets and the standard fee schedule for the Composite to calculate an annual fee amount. The fee amount is divided by the assets for an annual effective fee. The monthly effective fee is based on 1/12 of the annual effective fee.

All performance results are expressed in US dollars. Performance results include the reinvestment of dividends and other earnings on holdings in the Composite and Index. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Loomis Sayles's advisory fees are presented below and may also be found in Part II of Form ADV.

### Annual Rates Applied to Assets Under Management

0.50% on the first $100 million, 0.45% on the next $100 million, 0.40% on the value over $200 million.

Minimum account size: $50 million; Minimum annual fee: $250,000

# composite disclosure statement

## AS OF 12/31/2018

### US High Yield Composite

| Period | Composite Gross Return (%) | Composite Net Return (%) | Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index (%) | Composite 3-Yr St Dev* (%) | Benchmark 3-Yr St Dev* (%) | Number of Portfolios in Composite End of Period | Internal Dispersion of Returns** (%) | Composite Total Assets End of Period (USD M) | Total Firm Assets End of Period (USD M) |
|---|---|---|---|---|---|---|---|---|---|
| 2018 | -2.93 | -3.37 | -2.08 | 4.47 | 4.59 | ≤ 5 | N/M | 595 | 249,718 |
| 2017 | 8.03 | 7.56 | 7.50 | 5.22 | 5.56 | 8 | N/M | 2,575 | 268,086 |
| 2016 | 16.29 | 15.72 | 17.13 | 5.65 | 5.99 | ≤ 5 | N/M | 1,594 | 240,193 |
| 2015 | -1.77 | -2.26 | -4.43 | 5.29 | 5.25 | ≤ 5 | N/M | 915 | 229,126 |
| 2014 | 3.38 | 2.86 | 2.46 | 4.58 | 4.50 | ≤ 5 | N/M | 953 | 230,229 |
| 2013 | 9.05 | 8.51 | 7.44 | 6.71 | 6.42 | ≤ 5 | N/M | 209 | 199,777 |
| 2012 | 16.85 | 16.27 | 15.78 | 7.46 | 7.07 | ≤ 5 | N/M | 144 | 186,115 |
| 2011 | 3.64 | 3.13 | 4.96 | N/A | N/A | ≤ 5 | N/M | 119 | 162,606 |
| 2010 | 15.89 | 15.32 | 14.94 | N/A | N/A | ≤ 5 | N/M | 140 | 151,550 |
| 2009*** | 5.55 | 5.42 | 6.18 | N/A | N/A | ≤ 5 | N/M | 143 | 142,308 |

**The three-year annualized standard deviation measures the variability of the gross composite returns and the benchmark returns over the preceding 36 month period.*

***The internal dispersion of returns presented reflects the annual equal weighted standard deviation and is calculated as the average dispersion from the mean return of all accounts included in the Composite for the entire year.*

****Since Composite inception on October 1, 2009.*

*N/A - There are fewer than 36 months since the Composite inception.*

*N/M - Measures of internal dispersion with five or fewer accounts for the entire period are not considered meaningful.*

*The firm's list of composite descriptions is available upon request.*

***Past performance is no guarantee of future results.***

IC Meeting: 01/21/20
Item II
Attachment 4

Morgan Stanley

INVESTMENT MANAGEMENT

# LACERS

## Finalist Presentation for High Yield Fixed Income Mandate Search | January 21, 2020

# Table of Contents

IC Meeting: 01/21/20
Item II
Attachment 4

Morgan Stanley

INVESTMENT MANAGEMENT

SECTION 1

# Overview of Firm, AUM, Growth Opportunities & Value Proposition

# MSIM Organizational Overview

- Active management across all investment teams, with an exclusive focus on alpha generation, a scarce commodity in today's market dominated by large passive investors
- Entrepreneurial investment teams create their own processes and operate autonomously

**DANIEL SIMKOWITZ**
Head of Investment Management

**TED ELIOPOULOS**
Vice Chairman and Head of Strategic Partnerships

**JACQUES CHAPPUIS**
Head of Global Sales and Marketing

**JOHN HAGARTY**
Chief Operating Officer

**ANCHAL PACHNANDA**
**ANTON KUZMANOV**
Co-Heads of Strategy

**Investment Capabilities**

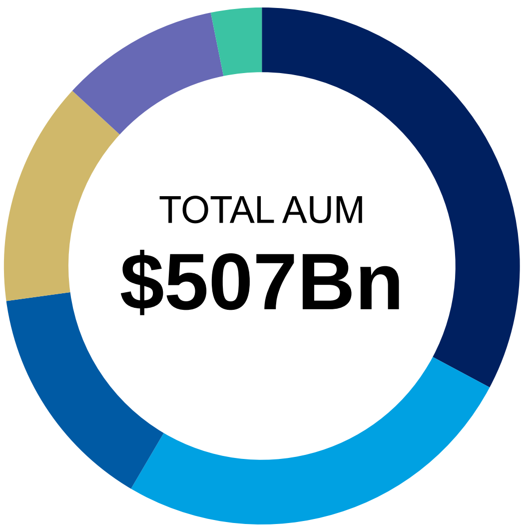
| Active Fundamental Equity | Global Fixed Income | Global Liquidity | Solutions & Multi-Asset | Real Assets | Private Credit & Equity |
|---|---|---|---|---|---|

**Shared Operational Resources**

| FINANCE | RISK | HUMAN RESOURCES | LEGAL AND COMPLIANCE | OPERATIONS | TECHNOLOGY |
|---|---|---|---|---|---|

Data as of September 30, 2019.

# Investment Solutions Across Public and Private Markets




## $126Bn
### ACTIVE FUNDAMENTAL EQUITY

- International Equity
- Counterpoint Global
- Global Emerging Markets
- European Equity

## $74Bn
### GLOBAL FIXED INCOME

- U.S. Fixed Income
- Global Fixed Income
- Emerging Markets Debt
- European Fixed Income

## $173Bn
### GLOBAL LIQUIDITY

- Money Markets
- Ultra-Short Income

## $71Bn
### SOLUTIONS & MULTI-ASSET

- Portfolio Solutions
- Global Multi-Asset
- Hedge Fund Solutions
- Managed Futures
- Applied Equity Advisors
- Secured Private Credit

## $48Bn
### REAL ASSETS

- Global Listed Real Assets
- Private Real Estate Investing
- Private Real Estate Credit
- Private Infrastructure

## $16Bn
### PRIVATE CREDIT & EQUITY

- U.S. Private Equity
- Asia Private Equity
- U.S. Growth Private Equity
- U.S. Energy Private Equity
- Private Opportunistic Investing
- U.S. Private Credit
- AIP Private Markets

AUM figures within each business line may not sum to total AUM due to rounding. Data as of September 30, 2019.
Fund of Fund assets represent assets under management and assets under supervision.
Direct private investing assets represents the basis on which the firm earns management fees, not the market value of the assets owned.

**IC Meeting: 01/21/20**
**Item II**
**Attachment 4**

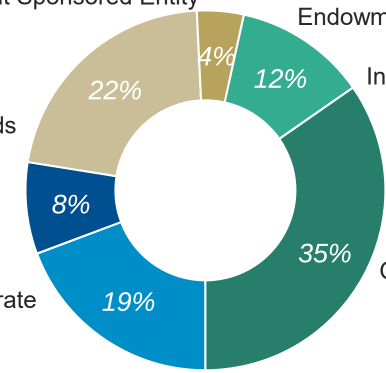


# MSIM Representative Clients

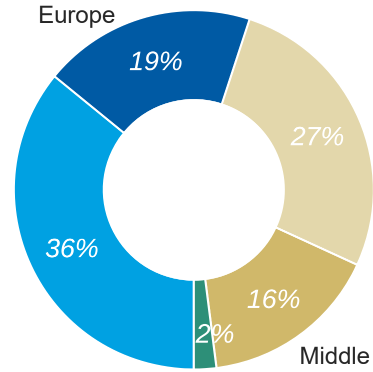
### Why Clients Invest With Us?

- Competitive performance
- Tested investment processes and team stability across entire platform
- Flexibility to deliver a wide range of investment and advisory solutions
- Expertise to act as an investment advisor through identifying and addressing clients most pressing issues in a changing environment
- Our culture and compensation structures strongly align our interests with those of our clients

### Clients by Type




### Clients by Region




Percentages may not total to 100% due to rounding.

1. Morgan Stanley Investment Management is the asset management business of Morgan Stanley. Assets are managed by teams representing different Investment Management legal entities; portfolio management teams are primarily located in New York, Philadelphia, London, Amsterdam, Hong Kong, Singapore, Tokyo and Mumbai offices. Figures represent Investment Management's Separate Account assets under management / supervision as of September 30, 2019.
2. Segmentation is by asset amount and includes separate accounts only; figures are based on dollars invested by investors.

# Morgan Stanley Investment Management

## Our Value Proposition

### High Conviction Active Management

- We maintain a relentless focus on generating alpha across public and private markets

### Extensive Global Capabilities

- We harness the full resources of Morgan Stanley to deliver innovative solutions and an unmatched suite of value-added services to our clients

### Talent and Commitment

- We foster an inclusive culture that rewards excellence, encourages creativity and enables our professionals to build fulfilling long-term careers

### Custom Solutions

- Expertise in addressing the unique and evolving needs of investors around the world

# Tapping Our Intellectual Capital, Content and Resources

## Access to the Entire Firm and its Resources

### INVESTMENTS

#### 01 Customized Investment Solutions

- Customized solutions across entire investment spectrum, integrating public and private investments
- Total Strategic Asset Allocation
- Tactical Asset Allocation portfolio implementation and alpha generation
- Access to high active share strategies focused on delivering alpha

#### 02 Exclusive Access to Innovative, New Products

- Ability to seed new products
- Unique co-investment opportunities
- Product development partnerships
- Global footprint that provides access and insight into local markets and niche opportunities

### CONTENT

#### 03 Research & Investment Insights

- Proprietary research and analytical tools from Investment Management and across the Firm
- Customized research projects
- Strategic Partner “Summits”
- Monthly calls with Portfolio Managers to review the global investment outlook
- Events and conferences

#### 04 Client Training & Knowledge Transfer

- MSIM Client Training Program – seven-week program (New York)
- MSIM Institute – one-week program (London)
- Sharing of best practices in due diligence, trading, compliance, performance reporting, and risk management
- Access to broader Morgan Stanley network, including MS Senior Leadership

# Investment Management Strategy: Executing on the Next 50%

## MSIM Revenue Growth Opportunity

- **Industry CAGR: ~1-2% [(1)]**

**2016 [(2)]**
**Revenue**

**LTM 2019 [(2)]**
**~50%**
**Growth**

**Next ~5 Years**
**~50%**
**Growth Opportunity**

1. Source: Oliver Wyman Analysis within 2018 co-authored BluePaper by Oliver Wyman and Morgan Stanley Research: “Searching for Growth in an Age of Disruption” (Oliver Wyman Analysis)
2. Revenue growth represents growth from the full year 2016 compared to the last twelve months (LTM) as of September 30, 2019; is a non-GAAP financial measure that the Firm considers useful for analysts, investors and other stakeholders to assess operating performance

# MSIM Fixed Income: Positioned for Growth

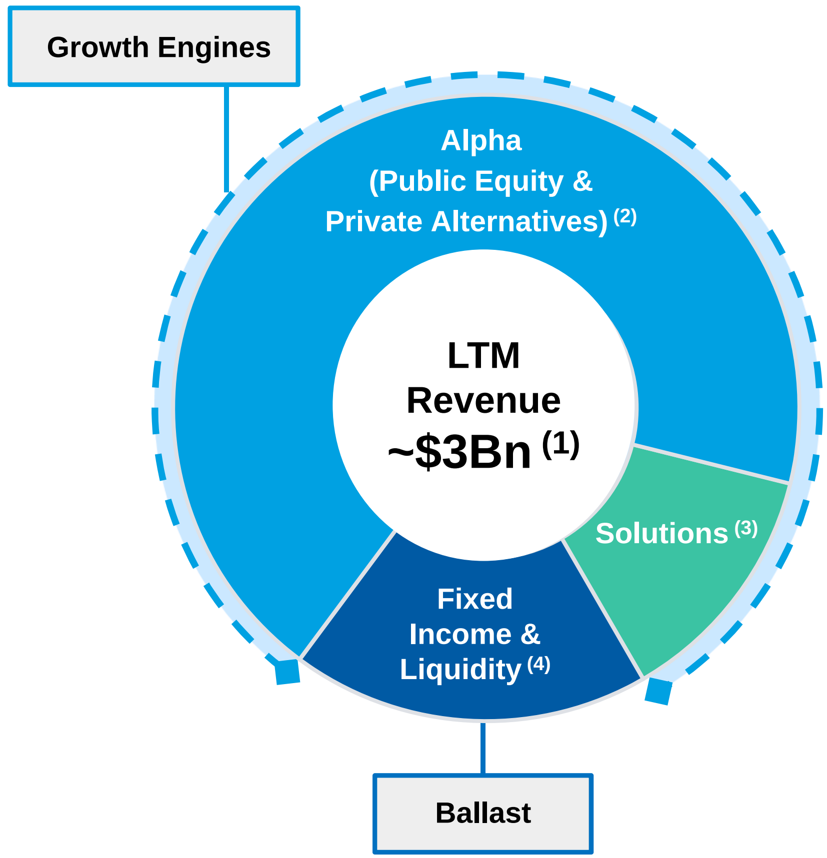
MSIM has become an increasingly important part of MS & Co:

1. MSIM's stable fee based business with an annuity-like revenue stream balances the more transactional parts of the firm (ISG)
2. MSIM uses very little balance sheet, resulting in high ROE accretion
3. MSIM has a scalable platform with significant operating leverage

Within MSIM, the FI & Liquidity business has a significant opportunity to grow:

1. FI acts as a ballast for the other investment teams that operate in more volatile markets
2. FI is a scalable business and at $88Bn, has significant room to grow without the need to add incremental costs
3. Senior Management has recognized this and has invested in leadership, technology and new product launches to help achieve this growth

**Data as of September 30, 2019**




1. LTM of revenues as of September 30, 2019; LTM is a non-GAAP financial measure that the Firm considers useful for analysts, investors and other stakeholders to assess operating performance.
2. "Alpha" includes public equity strategies reported under the "Equity" category and real assets, private equity and credit strategies reported under the "Alternative/Other" category as of September 30, 2019 in Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (3Q Form 10-Q)
3. "Solutions" includes multi-asset portfolio strategies and fund of funds reported under the "Alternative/Other" category as of September 30, 2019 in Morgan Stanley's 3Q Form 10-Q
4. "Fixed Income & Liquidity" includes strategies reported under the "Fixed income" and "Liquidity" categories as of September 30, 2019 in Morgan Stanley's 3Q Form 10-Q

# MSIM Fixed Income: Areas of Growth

## As of September 30, 2019

| | PORTFOLIO MANAGERS | INCEPTION YEAR | VEHICLES[2] | TOTAL STRATEGY ASSETS ($MM) | % AUM GROWTH SINCE 9/30/2017 | BENCHMARK |
|---|---|---|---|---|---|---|
| Core Plus Fixed Income | Neil Stone<br>Matthew Dunning<br>Joseph Mehlman<br>Gregory A. Finck<br>Jim Caron | 1977 | MF, SA | 2,244.9 | +161% | Bloomberg Barclays U.S. Aggregate Index |
| Global Fixed Income Opportunities | Michael Kushma<br>Christian Roth<br>Jim Caron<br>Richard Ford | 2011 | MF, SICAV, SA | 6,145.5 | +130% | Bloomberg Barclays Global Aggregate Index |
| U.S. High Yield | Richard Lindquist<br>Jack Cimarosa | 2012 | MF, SICAV, SA | 1,391.7 | +98% | Bloomberg Barclays U.S. Aggregate Index |
| Emerging Markets Corporate Debt | Warren Mar<br>Eric Baurmeister<br>Sahil Tandon | 2010 | SICAV, SA | 2,963.5 | +96% | J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified |
| Global Aggregate Fixed Income | Michael Kushma<br>Christian Roth<br>Jim Caron<br>Richard Ford | 1989 | SICAV, SA | 11,280.3 | +77% | Bloomberg Barclays Global Aggregate Index |

1. Strategy assets are not inclusive of client mandates invested in the strategy, as well as assets managed on behalf of other MSIM products (primarily global/regional and asset allocation co-managed strategies)
2. Team members may change without notice from time to time. Strategies are managed by members of the portfolio management team, which consists of portfolio managers, analysts and traders. For a list of current members of the team jointly and primarily responsible for the day-to-day implementation of the overall strategy, please refer to the Form ADV Part 2.
3. Vehicle types are abbreviated as “MF” for U.S. 40 ACT mutual fund, “SICAV” for SICAV mutual funds and “SA” for separate account. The information herein is provided for informational purposes only to illustrate the various products managed by the  management team. There are important differences in how the strategy is carried out in each of the investment vehicles.

# Developing & Retaining Top Talent

The diversity of our people and our ability to recruit the best and the brightest are among Morgan Stanley's greatest strengths. We do our best as an organization when we use industry-leading strategies to recruit top talent to help drive our business results. To recognize our employees' value to the firm and to create an environment in which our people can thrive and develop, we:

- *Offer competitive, specialized compensation and benefit programs to help us attract quality professionals.*
- *Provide support and mentoring for development through various informal and formal means.*
- *Provide opportunities for growth, creativity, intellectual challenge and stimulation. These opportunities exist both inside the workplace and at a community level.*

As our high quality investment professionals gain in experience, they have the opportunity to progress within the organization. We encourage employees to pursue their interests and realize their professional potentials by posting opportunities on an internal job bank and providing a culture that promotes internal mobility.

In addition, investment professionals are encouraged to continue their education, by pursuing their M.B.A. and CFA designations, or by participating in one of the many internal courses and talent initiatives the firm offers

- *Business Challenge*
- *Emerging Leaders Program*
- *Women's Leadership Circles*
- *Invest in Yourself Series*
- *Invest in MSIM Series*

Finally, our long term incentive compensation program requires portfolio managers to allocate a significant portion of their deferred compensation into the funds they manage.

Morgan Stanley

SECTION 2

# MSIM High Yield Strategy & Performance

Morgan Stanley | INVESTMENT MANAGEMENT

# High Yield Philosophy

## Conduct Fundamental Research to Identify Opportunities in the Middle Market

- Middle market high yield, which we define as issuers with $150 million to $1 billion of total bonds outstanding, has offered a yield advantage of 100 – 150[1] bps over larger high yield issuers, because they are often overlooked by:
  - **Buy Side:** Big asset managers tend to exclude these credits from focus lists because they are unable to buy enough of them to satisfy their portfolio allocation requirements
  - **Sell Side:** Large dealers, who get paid based on trading volume and underwriting, tend to focus less on these credits because they come to market much less frequently and trade less then bigger issues
  - **Credit Agencies:** Rating agencies tend to rate the bonds lower and revise their ratings less often because of the infrequent issuance which may lead to stale ratings and credit profiles
- A diligent investment manager can use fundamental research to identify these opportunities and benefit from the additional yield they can provide.
- We aim to outperform the index by 100 – 150 bps, gross of fees over a full market cycle

| | MIDDLE MARKET HIGH YIELD ($150 MILLION – $1 BILLION)[1] | TRADITIONAL HIGH YIELD (>$1 BILLION)[2] |
|---|---|---|
| % OF HIGH YIELD MARKET BY ISSUER[1] | 64% | 36% |
| % OF HIGH YIELD MARKET BY PAR AMOUNT[1] | 24% | 76% |
| STRUCTURE | Often secured: Senior secured, 2nd lien; unsecured | Majority unsecured; subordinated |
| ISSUANCE SIZE | <$500 million | > $500 million |
| MATURITIES | Typically 5 – 7 years ; (often refinanced within 2 – 3) | Typically 8 – 10 years |
| LENDING TERMS / CONDITIONS | Negotiable, frequently with covenants favorable to lenders | Standard, typically issuer friendly |
| CORPORATE ACCESS | Easy and frequent access to senior management | Access to equity focused IR personnel |
| CAPITAL STRUCTURE | Simple & easy to analyze; typically a single tranche of bank debt and one or two tranches of bonds | Large & complex with intricate webs of entities and foreign subsidiaries |

This index performance information is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results.**
[1]Source: Bloomberg Barclays U.S. Corporate High Yield Index. Data as of December 31, 2019

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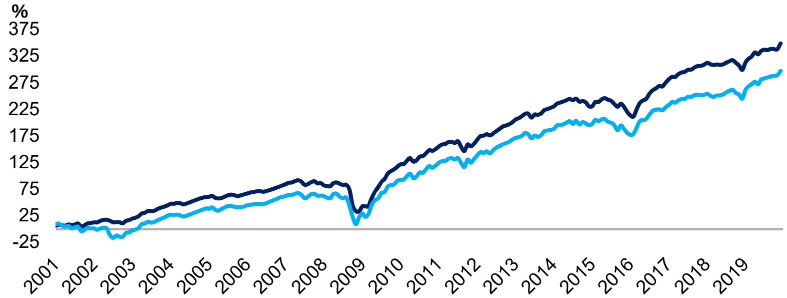
# Middle Market High Yield Has Historically Provided an Edge

## Historically Attractive Relative to Larger Issuers

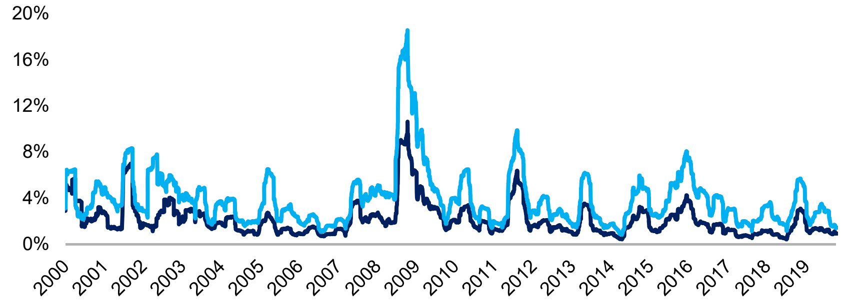
### These Credits Have Historically Generated Superior Returns Over Larger Issuers…

Cumulative Returns [1]




### …While Exhibiting Lower Price Volatility

Price Volatility



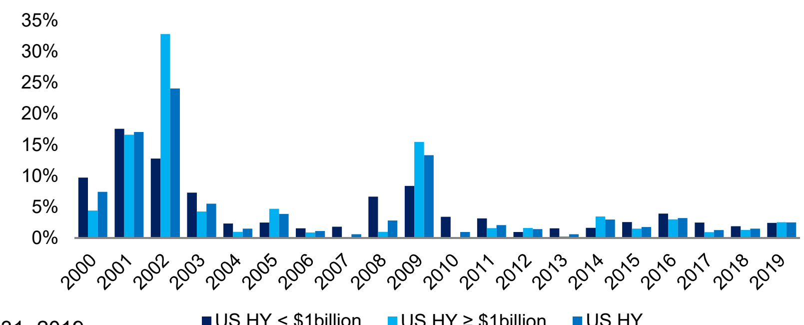

### They Have Historically Demonstrated Lower Beta…

Based on Monthly Returns for the Period Dec 31, 2000 – December 31, 2019

| BETA | U.S. HY | U.S. HY < 1N | U.S. HY ≥ $1BN |
|---|---|---|---|
| 3y (Trailing) | 1.00 | 0.86 | 1.04 |
| 5y (Trailing) | 1.00 | 0.89 | 1.03 |
| 10y (Trailing) | 1.00 | 0.86 | 1.06 |
| 12/31/2000 – 12/31/2019 | 1.00 | 0.81 | 1.13 |

### …and Have Exhibited Similar Default Rates

High-Yield Annual Default Rate (%) Based on Par Amount




Source: JPMorgan, Barclays, Morgan Stanley Investment Management, Data as of December 31, 2019
Before 2001, the total number of unique large-market tickers to the total number of unique tickers in the index was very low. Due to sample size, we chose to start at December 31, 2000. Cumulative returns shown are compounded. Price volatility shown is annualized rolling 3 month daily price volatility. Beta is a measure of the relative volatility of a security or portfolio to the market's upward or downward movements. A beta greater than 1.0 identifies an issue or fund that will move more than the market, while a beta less than 1.0 identifies an issue or fund that will move less than the market. The beta of the market is always equal to 1. Calculation: Covariance of the portfolio returns with the market returns divided by the variance of the market returns. Default rate is calculated as the total par amount of high yield securities whose issuers have missed or delayed disbursement of interest and/or principal, and/ or filed for bankruptcy divided by the total par amount outstanding of the Bloomberg Barclays U.S. High Yield Index. **Past performance is not indicative of future results.** Provided for informational purposes only and is not intended to predict or represent the performance of any Morgan Stanley investment or strategy.

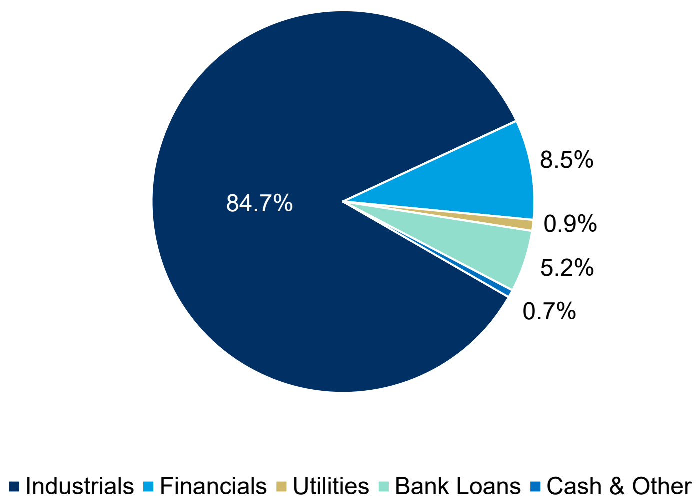
# U.S. High Yield Representative Account

## Portfolio Characteristics – As of December 31, 2019

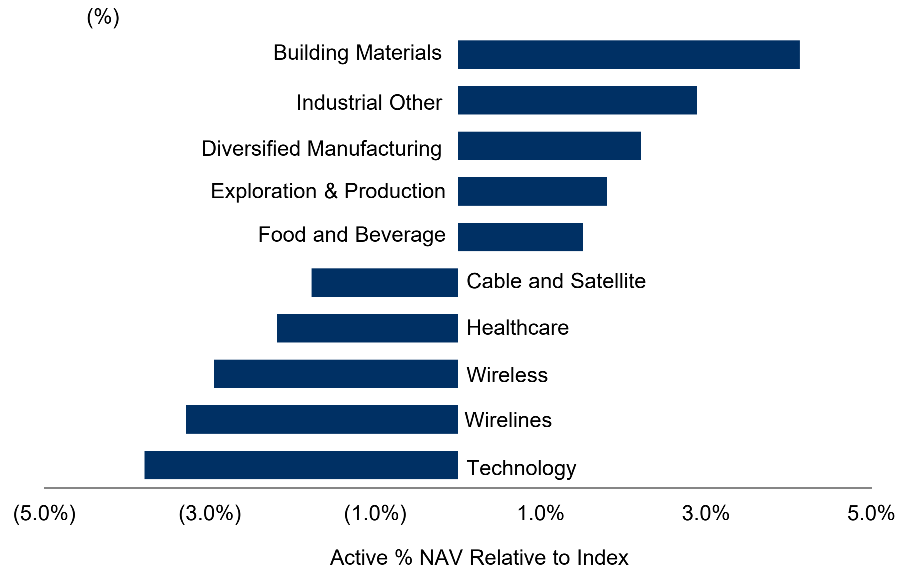
| | EFFECTIVE DURATION (YEARS) | SPREAD DURATION (YEARS) | YIELD-TO-WORST (%) |
|---|---|---|---|
| U.S. High Yield Representative Account | 2.66 | 2.78 | 6.38 |
| Bloomberg Barclays U.S. Corporate High Yield Index | 3.08 | 3.12 | 5.16 |
| Relative | -0.42 | -0.34 | 1.22 |

| | MARKET VALUE % |
|---|---|
| Non US Government | 0.36 |
| High Yield Corporates | 93.26 |
| NR Corporates | 0.50 |
| Bank Loans | 5.22 |
| Equity | 0.18 |
| Cash | 0.47 |

### Sector as % NAV




### Largest Overweights / Underweights



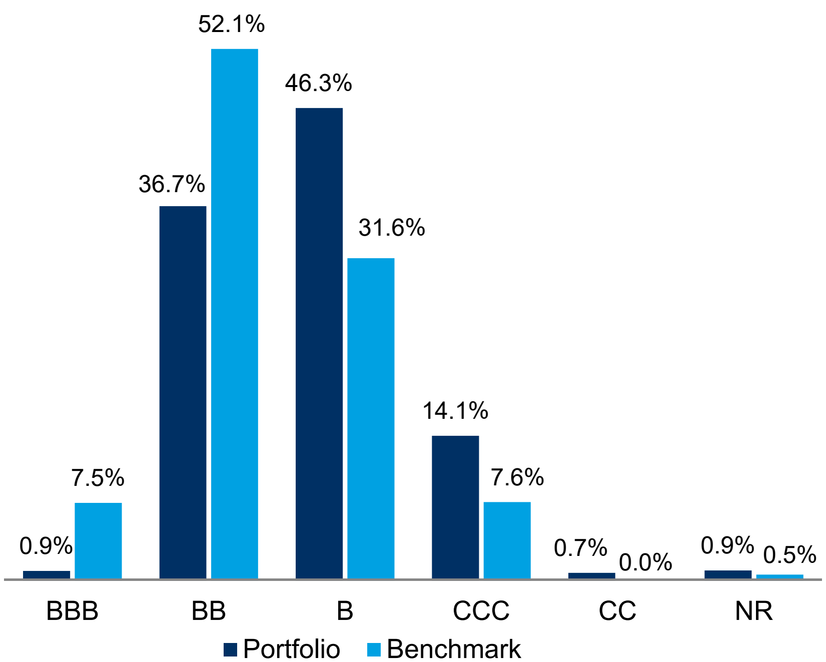

Source: Morgan Stanley Investment Management
**Past performance is no guarantee of future results.** Provided for informational purposes only, is subject to change, and should not be deemed as a recommendation to buy or sell the securities in the sectors shown. Each portfolio may differ due to specific investment restrictions and guidelines. Thus, individual results may vary. The rep account is compared to its benchmark, the Bloomberg Barclays U.S. Corporate High Yield Index. See Important Disclosures for information on representative accounts.
The information shown herein represents supplemental information, which supplements the U.S High Yield Commingled Composite presented within this presentation.

# U.S. High Yield Representative Account

## Credit Quality – As of December 31, 2019

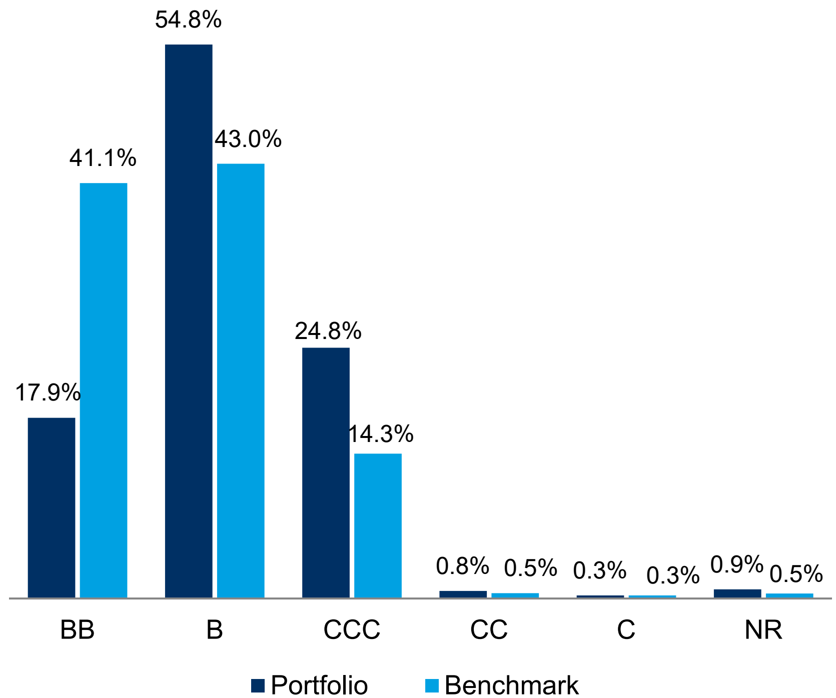
### Ratings by Highest of Moody's, S&P, and Fitch

Weight (%)




### Ratings by Lowest of Moody's, S&P, and Fitch

Weight (%)




Data may not add up to 100% due to rounding and exclusion of cash and derivative products. All information is provided for informational purposes only, is subject to change and should not be construed as a recommendation to purchase or sell any security. Each portfolio may differ due to specific investment restrictions and guidelines. Thus, individual results may vary. Security ratings disclosed above, refers to the rating given by a Nationally Recognized Statistical Rating Organization ("NRSRO") such as Standard & Poor's Ratings Group ("S&P"), Moody's Investors Services, Inc. ("Moody's") or Fitch Ratings ("Fitch") and is the rating firms' subjective opinion concerning the ability and willingness of an issuer to meet its financial obligations in full and on time. Ratings apply only to the underlying holdings of the portfolio and do not remove the Fund's market risk. If two or more NRSROs have assigned a rating, the highest rating is used. Ratings other than S&P ratings are converted into their equivalent S&P rating.

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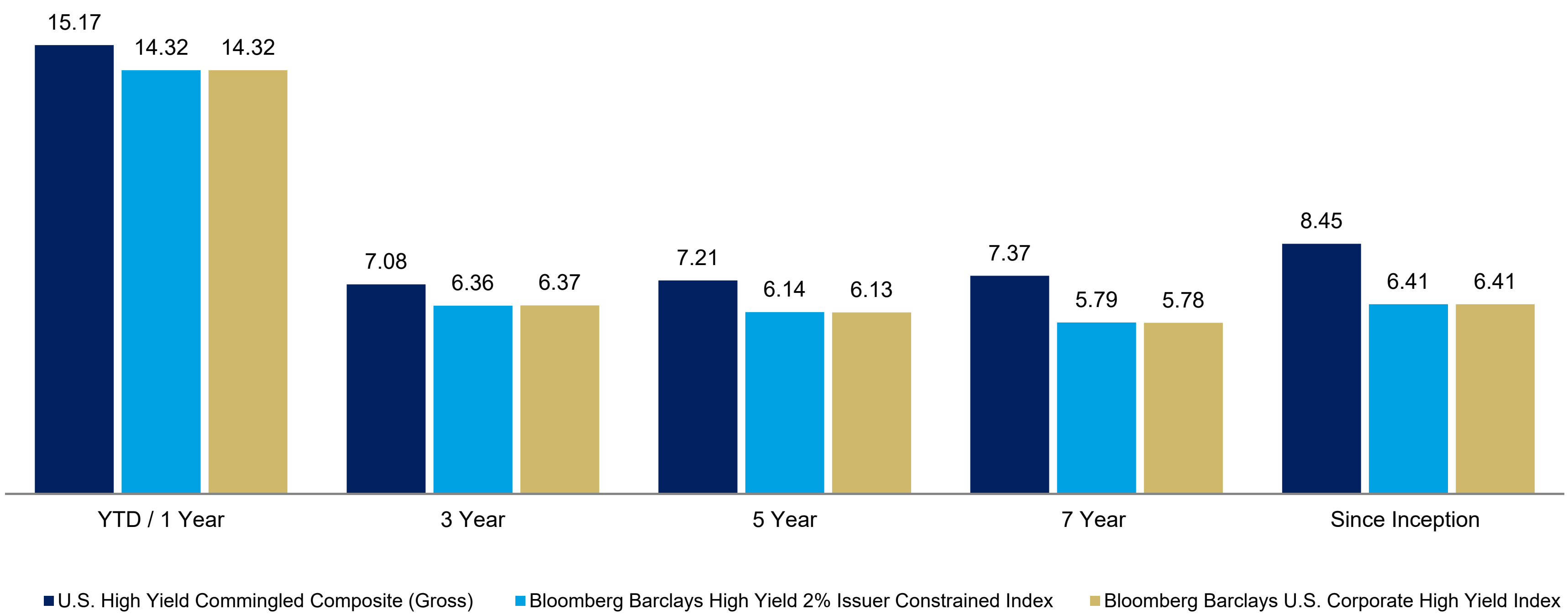
# U.S. High Yield Commingled Composite

## Presented in USD

### Performance Returns as of December 31, 2019

The Inception Date of the U.S. High Yield Commingled Composite is February 29, 2012

Percent (%)




Source: Morgan Stanley Investment Management

**Past performance should not be construed as a guarantee of future performance.** Performance returns reflect the average annual rates of return. Periods less than 1 year are not annualized. The composite results shown are GROSS of investment advisory/management fees, which include performance fees if applicable, are quoted in USD and include the reinvestment of dividends and income. Any performance fees are accounted for and deducted when earned. Performance returns are compared to those of the Bloomberg Barclays U.S. Corporate High Yield Index & the Bloomberg Barclays U.S. High Yield 2% Issuer Constrained, which are unmanaged indices and are considered to be a relevant comparison to the portfolio. Each portfolio may differ due to specific investment restrictions an guidelines. Individual results will vary.

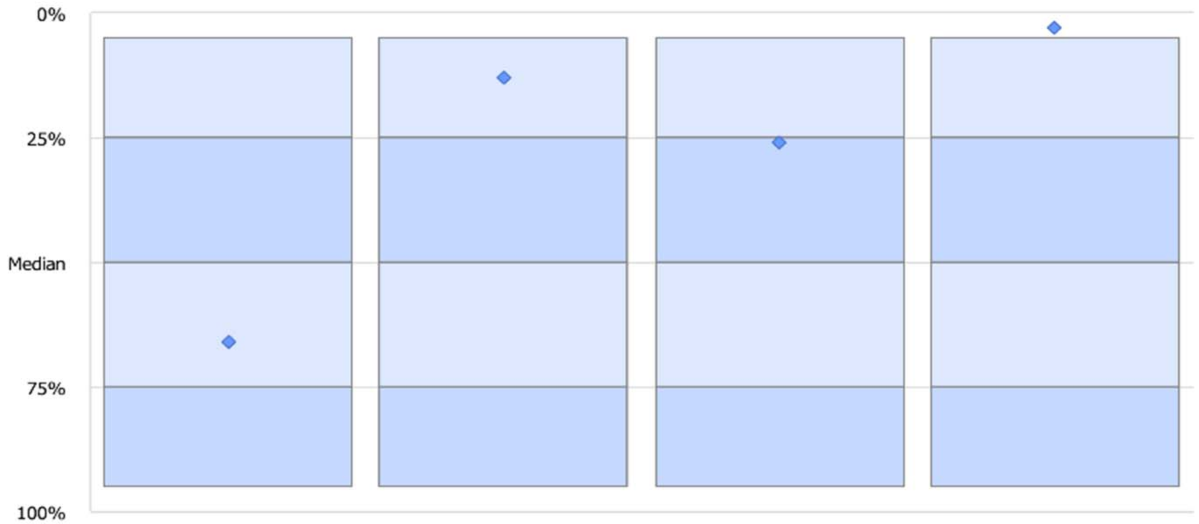
The information shown herein represents supplemental information, which supplements the U.S High Yield Commingled Composite presented within this presentation.

# MSIM US High Yield Competitive Performance Comparison

## eVestment US High Yield Fixed Income Universe

**Data as of September 30, 2019**

Performance Ranking
1, 3, 5, & 7 Years
Returns as of: September 30, 2019




| | 1 Year | Rk | 3 Years | Rk | 5 Years | Rk | 7 Years | Rk |
|---|---|---|---|---|---|---|---|---|
| 5th percentile | 9.02 | | 7.56 | | 6.80 | | 7.16 | |
| 25th percentile | 7.78 | | 6.59 | | 5.80 | | 6.35 | |
| Median | 6.45 | | 6.10 | | 5.32 | | 5.91 | |
| 75th percentile | 5.34 | | 5.54 | | 4.66 | | 5.37 | |
| 95th percentile | 2.44 | | 4.34 | | 3.73 | | 3.95 | |
| # of Observations | 264 | | 251 | | 233 | | 204 | |
| Morgan Stanley Investment Management | 5.86 | 66 | 7.01 | 13 | 5.79 | 26 | 7.60 | 3 |

Data as of September 30, 2019; Source: eVestment

# MSIFT High Yield – Performance Attribution

## As of December 31, 2019

- Positioning in Capital Goods contributed positively to performance driven mainly from an overweight to Building Materials and Diversified Manufacturing.
- Within Consumer Non Cyclicals, an underweight to Healthcare and security selection within Pharmaceuticals detracted from performance
- A broad underweight to Financials and Communications also detracted from returns as did security selection within Technology sector
- This was largely offset by positioning within Energy, specifically an underweight to Oil Field Services and an overweight to E&P, which contributed positively to performance
- Within the Consumer Cyclical sector, an overweight to Gaming & Retailers was additive as was positioning in the Industrial Other sector.
- An off index allocation to bank loans detracted from returns as leveraged loan performance have lagged high yield (8.64% vs 14.32%).
- From a duration perspective, the fund is slightly short the index as a result of our middle market focus. This detracted from returns.
- From a ratings perspective, an underweight to BBs detracted from returns as higher quality bonds have outperformed YTD. This was offset by security selection within B and CCC rated credits

| RELATIVE PERFORMANCE | YTD |
|---|---|
| Portfolio | 1,463 |
| Index | 1,432 |
| **Relative** | **31** |

| MACRO DECISIONS | YTD |
|---|---|
| Total Macro Decisions | -15 |
| Total Sector Attribution | 39 |
| Residual | 7 |
| **Total Attribution** | **31** |

| MACRO DECISIONS | YTD |
|---|---|
| Interest Rates/Duration | -15 |
| FX | 0 |
| **Total Macro Decisions** | **-15** |

| SECTOR ATTRIBUTION | YTD |
|---|---|
| **Non US Government** | **4** |
| **Investment Grade Corporates** | **0** |
| **High Yield Corporates** | **20** |
| **Industrial** | **50** |
| Basic Industry | 27 |
| Capital Goods | 72 |
| Communications | -88 |
| Consumer Cyclical | 35 |
| Consumer Non-Cyclical | -5 |
| Energy | 64 |
| Technology | -82 |
| Transportation | 4 |
| Industrial Other | 23 |
| **Utility** | **-15** |
| Electric | -15 |
| **Financial Institutions** | **-14** |
| Banking | -29 |
| Brokerage | 10 |
| Finance Companies | -18 |
| Insurance | 4 |
| REITs | 16 |
| Financial Other | 3 |
| **NR Corporates** | **17** |
| **Bank Loans** | **-5** |
| **Cash** | **2** |
| **Total Sector Attribution** | **39** |

1.The comparison index is the Bloomberg Barclays U.S. High Yield 2% Issuer Constrained

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SECTION 3

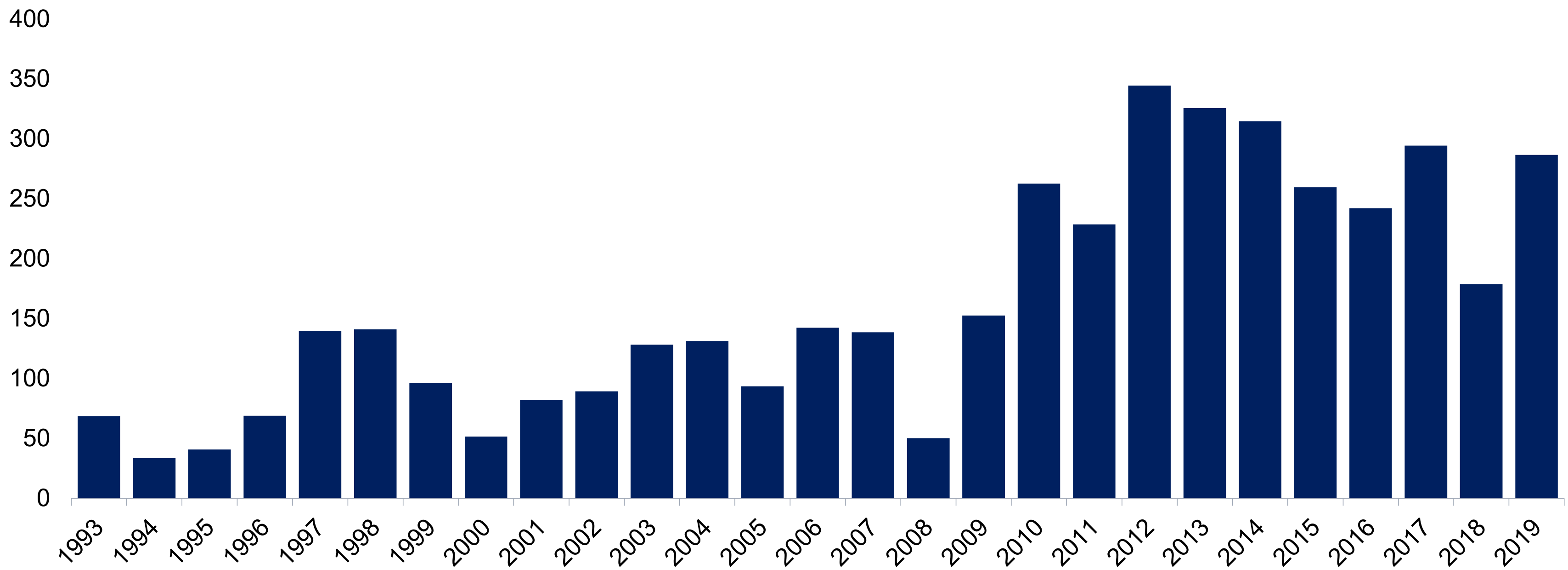
# Industry Trends & Expectations

# Gross U.S. High Yield New Issuance is Up 52% Y-o-Y in 2019

### U.S. High Yield Bond Issuance

Data as of December 31, 2019

Issuance ($Bn)



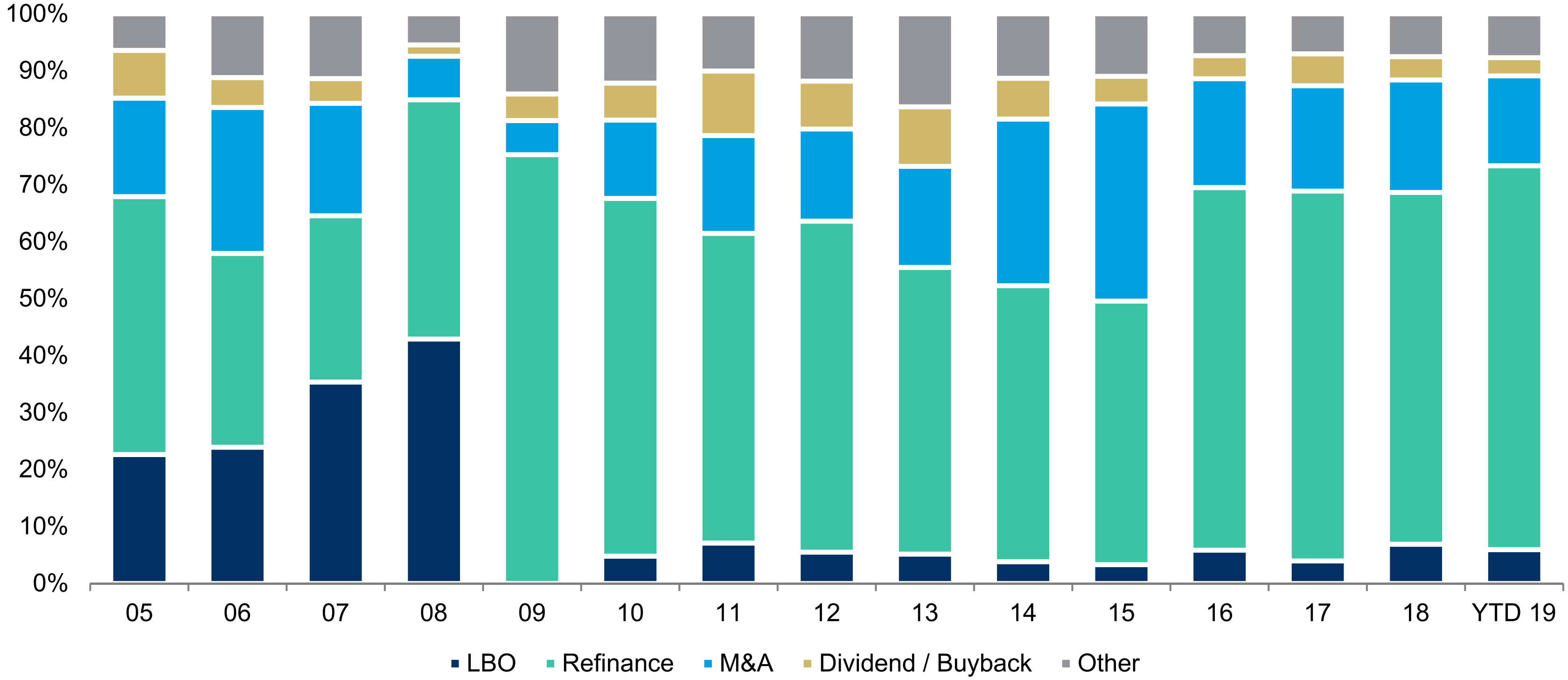

Source: Wells Fargo
For illustrative purposes only.

# Refinancing Has Dominated New Issues

**USD High Yield Issuance: Use of Proceeds**

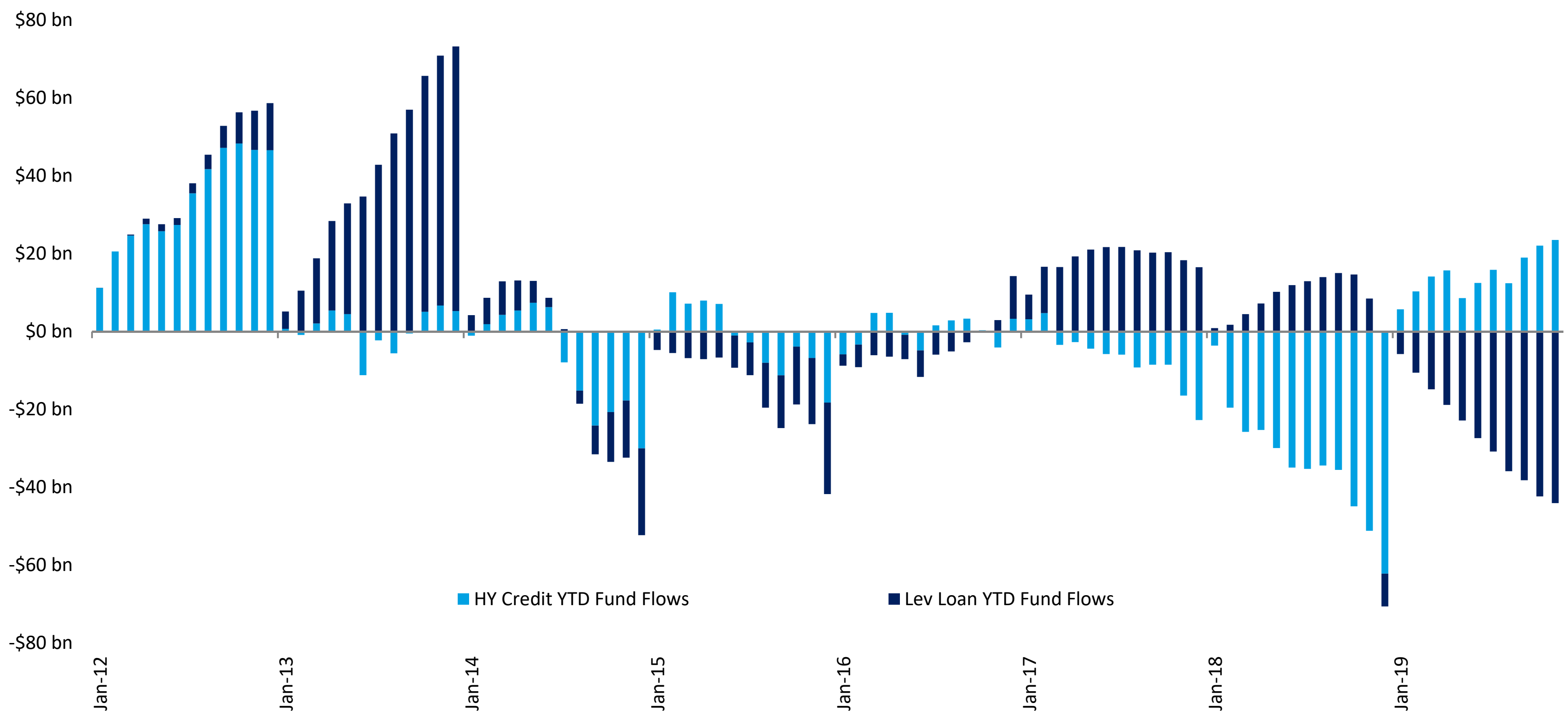
Data as of December 19, 2019

($bn)




Source: Morgan Stanley Research, S&P LCD
For illustrative purposes only.

# High Yield New Issuance Has Been Absorbed Well by the Market




Source: Wells Fargo Securities, EPFR Global

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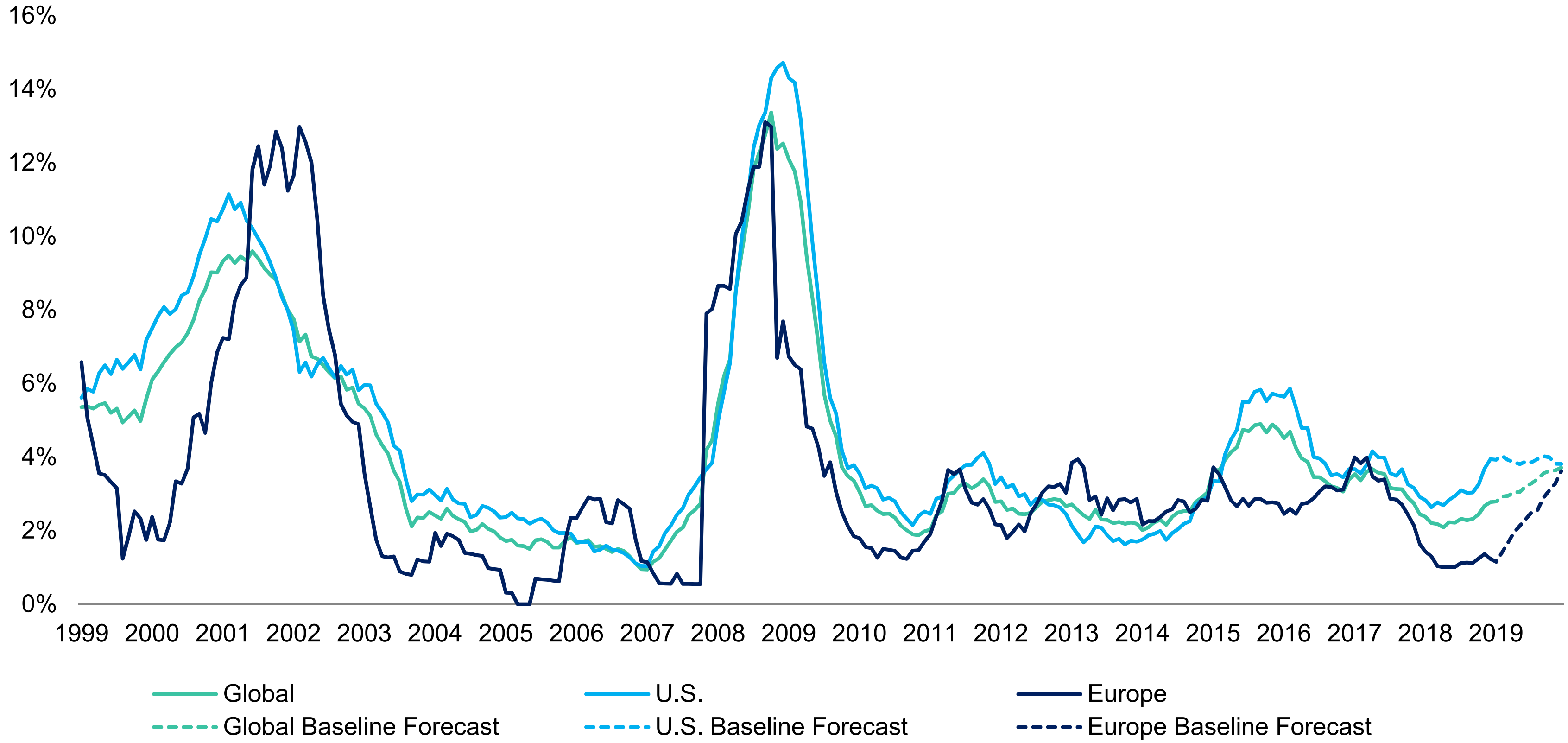
# Default Rates Expected to Remain Low in the U.S.

### Trailing 12-Month Default Rates and Baseline Forecasts

Data as of November 30, 2019




Source: Moody's, Morgan Stanley Investment Management

**Past performance is not indicative of future results.** Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.

# Defaults Have Historically Been Concentrated in a Few Problem Sectors

## Historical High Yield Default Experience by Sector

Data of October 31, 2019

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Automotive** | 0% | 0% | 0% | 6% | 1% | 1% | 2% | **7%** | 1% | 2% | 0% | **12%** | **41%** | **18%** | 2% | **14%** | 0% | 0% | 0% | 8% | 1% | 0% | 1% | 0% | 4% | 0% |
| **Broadcasting** | 3% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 1% | 0% | 0% | 6% | 0% | 1% | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 5% | **41%** | 1% |
| **Cable and Satellite** | 5% | 7% | 1% | 0% | **11%** | **13%** | 2% | 6% | **17%** | 6% | **24%** | 0% | 0% | 0% | 0% | **13%** | 13% | 0% | 3% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| **Chemicals** | 0% | 0% | 0% | 0% | 0% | 0% | 2% | 3% | 0% | 6% | 1% | 0% | 0% | 0% | 2% | 2% | 0% | 0% | 0% | 2% | **8%** | 0% | 0% | 0% | 0% | 7% |
| **Consumer Products** | 3% | 10% | 0% | 5% | 6% | 10% | 8% | 4% | 1% | 5% | 5% | 5% | 6% | 0% | 1% | 2% | 0% | 0% | 7% | 0% | 0% | 3% | 0% | 0% | 6% | 1% |
| **Diversified Media** | 0% | 0% | **19%** | 0% | 3% | 0% | 1% | 0% | 1% | 0% | 0% | 0% | 0% | **23%** | **23%** | 13% | **22%** | 0% | 2% | **34%** | 0% | 1% | 0% | 2% | 4% | 8% |
| **Energy** | 0% | 3% | 2% | 0% | 5% | **20%** | 0% | 1% | 3% | 0% | 3% | 0% | 0% | 0% | 6% | 2% | 0% | 16% | **11%** | **19%** | 3% | **45%** | **71%** | **27%** | **12%** | **41%** |
| **Financial** | 0% | **20%** | 0% | **7%** | **15%** | 2% | 5% | **17%** | **6%** | 5% | 0% | 2% | **22%** | 0% | 9% | **26%** | **19%** | 2% | **20%** | 2% | 0% | 0% | 1% | 3% | 3% | 0% |
| **Food and Beverages** | 0% | 4% | 12% | 45% | 1% | 8% | 9% | 3% | 0% | 7% | 9% | 0% | 2% | 4% | 6% | 1% | 2% | 4% | 3% | 0% | 0% | 0% | 0% | 0% | 0% | 1% |
| **Gaming Lodging and Leisure** | 6% | 10% | 6% | 3% | 5% | 7% | **10%** | 2% | 0% | 1% | **21%** | 0% | 2% | **16%** | **21%** | 6% | 6% | 1% | 1% | 8% | **37%** | 1% | 1% | 0% | 0% | 0% |
| **Healthcare** | 0% | 1% | 0% | 2% | 3% | **12%** | 5% | 1% | 0% | **15%** | 0% | 2% | 0% | 16% | 0% | 0% | 13% | 0% | 2% | **18%** | 0% | 0% | 1% | 11% | 0% | 3% |
| **Housing** | **11%** | 10% | 0% | 4% | 0% | 1% | 2% | 1% | 1% | 0% | 0% | 0% | 2% | 5% | **14%** | 3% | 3% | 2% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| **Industrials** | 4% | 4% | 1% | 3% | 0% | 5% | 5% | 4% | 3% | 4% | 7% | 2% | 2% | 0% | 2% | 1% | 2% | 0% | 6% | 0% | 0% | 1% | 2% | 2% | 1% | 0% |
| **Metals and Mining** | 0% | 0% | 0% | 0% | 9% | 2% | 7% | 5% | 3% | 5% | **10%** | 2% | 0% | 0% | 0% | 2% | 3% | 0% | 2% | 0% | 3% | **42%** | **13%** | 2% | 1% | **9%** |
| **Paper and Packaging** | 0% | 0% | 10% | 0% | 4% | 0% | 3% | 1% | 2% | 0% | 7% | 3% | **13%** | 8% | 3% | 9% | 0% | **22%** | 0% | 0% | 0% | 0% | **4%** | 1% | 2% | 0% |
| **Retail** | **30%** | **15%** | 5% | **14%** | **29%** | 6% | **11%** | 1% | 5% | 1% | 2% | 4% | 0% | 10% | 6% | 0% | **17%** | 2% | 2% | 0% | 0% | 1% | 0% | 9% | **18%** | **10%** |
| **Services** | 2% | 0% | **12%** | 5% | 1% | 7% | 3% | 2% | 3% | 2% | 0% | 0% | 3% | 0% | 0% | 1% | 3% | 1% | 0% | 0% | 3% | **6%** | 2% | 0% | 0% | 7% |
| **Technology** | 0% | 4% | 0% | 2% | 0% | 1% | 3% | 3% | 1% | 2% | 0% | 0% | 0% | 0% | 0% | 5% | 0% | 0% | 0% | 9% | 1% | 0% | 1% | **16%** | 0% | 2% |
| **Telecommunications** | 0% | 0% | 10% | 0% | 7% | 2% | **20%** | **37%** | **46%** | **13%** | 2% | 0% | 0% | 0% | 3% | 1% | 0% | 0% | 3% | 0% | 0% | 0% | 0% | 2% | 0% | 5% |
| **Transportation** | 7% | **11%** | 8% | 0% | 1% | 4% | 3% | 2% | 4% | 4% | 9% | **22%** | 0% | 0% | 2% | 0% | 0% | **24%** | 4% | 0% | 0% | 0% | 0% | 3% | 0% | 0% |
| **Utility** | **28%** | 0% | **13%** | 4% | 0% | 0% | 1% | 0% | 0% | **22%** | 0% | **46%** | 0% | 0% | 0% | 0% | 0% | **24%** | **35%** | 0% | **44%** | 0% | 3% | **15%** | 7% | 2% |
| **Top 3 Sectors:** | **70%** | **46%** | **44%** | **66%** | **54%** | **45%** | **40%** | **61%** | **69%** | **49%** | **55%** | **80%** | **76%** | **57%** | **58%** | **53%** | **57%** | **71%** | **65%** | **70%** | **89%** | **93%** | **89%** | **58%** | **72%** | **61%** |

Source: Moody's, JPMorgan
Subject to change daily. Provided for informational purposes only and should not be deemed as a recommendation to buy or sell securities in the sectors shown above.

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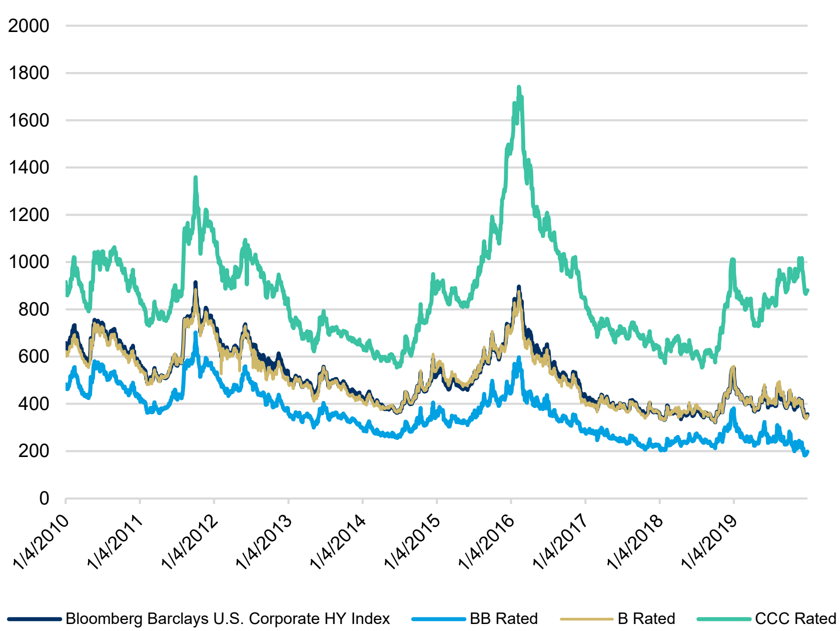
# Dispersion Between Ratings Has Increased

**Bloomberg Barclays U.S. High Yield Spreads by Ratings**

Data of December 31, 2019

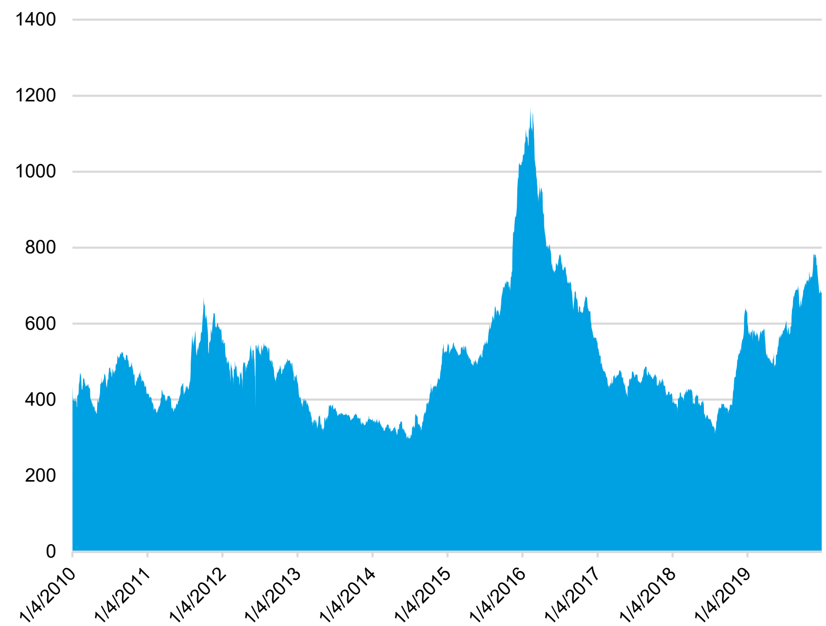
Spreads (bps)




**Spread Differential Between BBs and CCCs is at Multi Year High**

Data of December 31, 2019

Spreads (bps)




We believe there are two drivers to this large dispersion:

1. The dovish pivot by the fed in 2019 and bid for interest rate sensitive paper
2. Investors have been concerned about being "late cycle"

Source: Bloomberg Barclays and Morgan Stanley Investment Management

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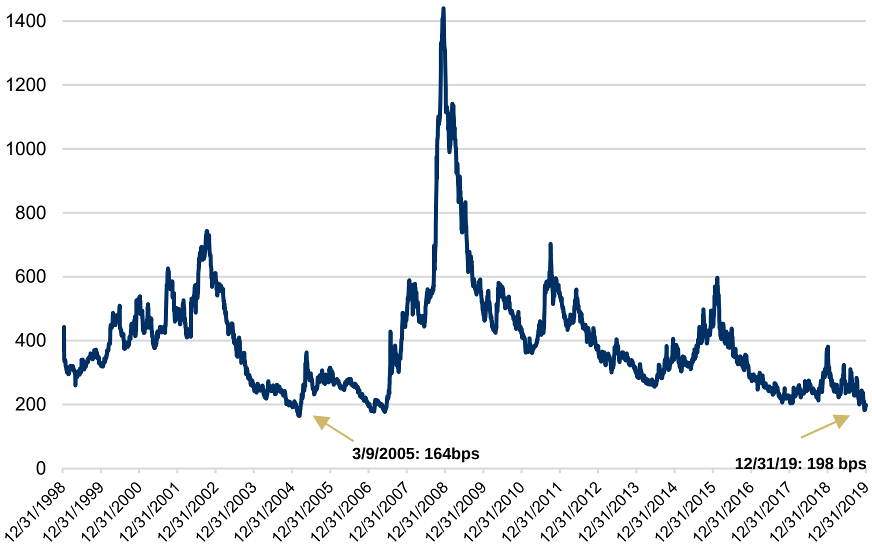
# We Believe Lower Quality Credit is Set up to Outperform in 2020

**BBs Spreads are Stretched and at Post Crisis Lows**

Data of December 31, 2019

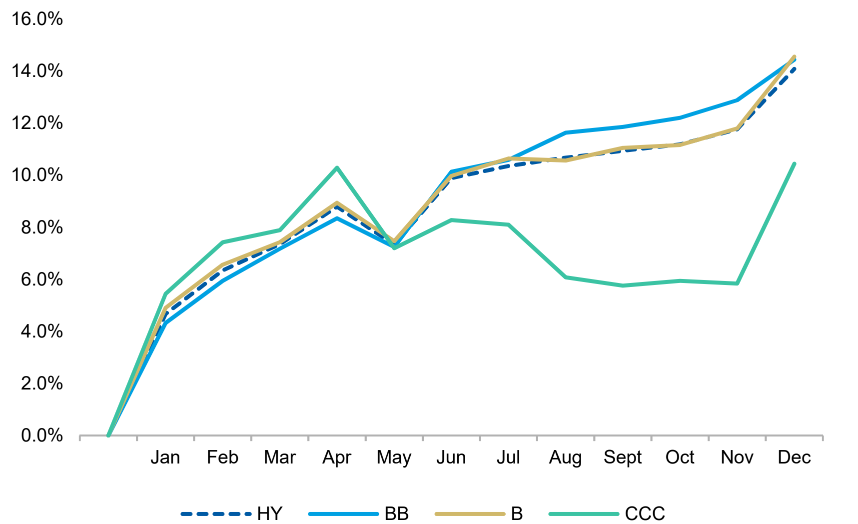
Spreads (bps)




**CCCs underperformed BBs by 599bps in 2019, Despite Late Bounce**

Data of December 31, 2019

Spreads (bps)




- Yields for BBs are at a record low of 3.56%, which is the lowest since the Bloomberg Barclays Index records began and spreads are at post crisis lows.
- We do not believe BBs have much more room to tighten, particularly with the Fed on the sidelines in 2020.
- CCCs have shown signs of recovery and were up 4.99% in December 2019 alone
- Given this think lower quality credit is set up well to outperform in 2020. But security selection will be key…

Source: Bloomberg Barclays, Morgan Stanley Investment Management.

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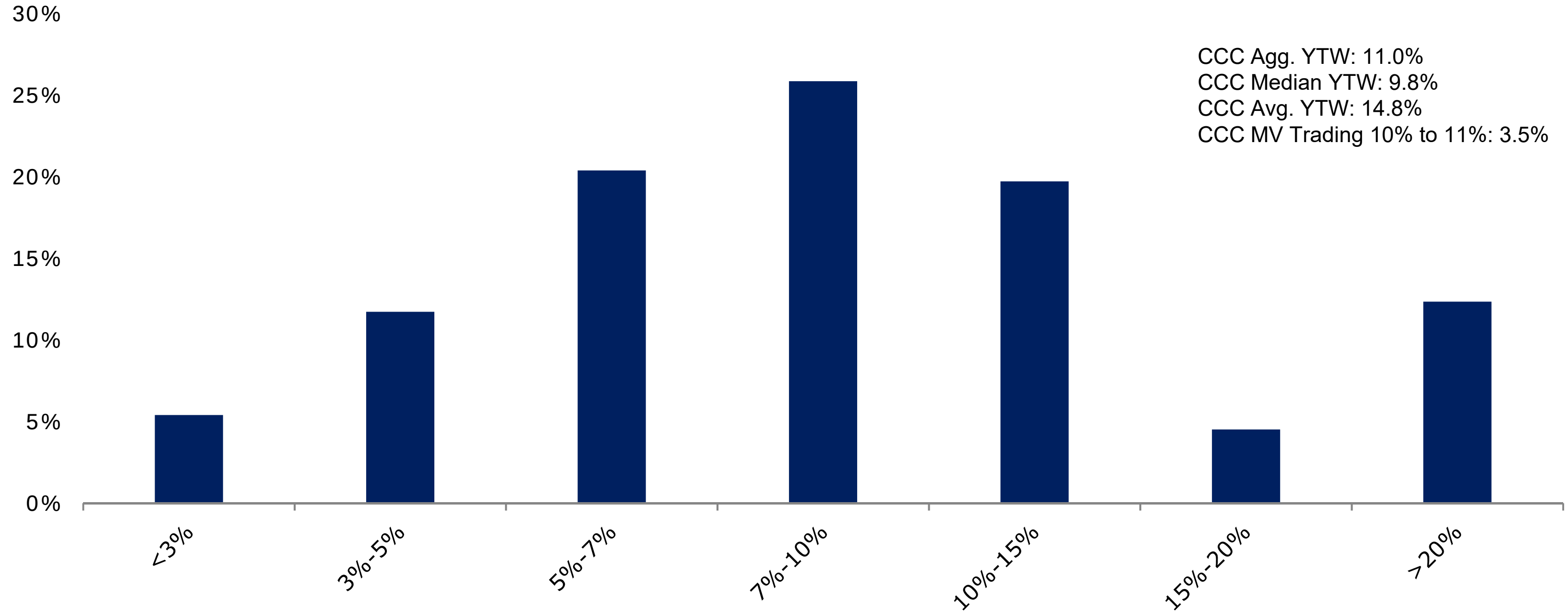
# CCCs Remain Highly Bifurcated

## Active Management is Key in Lower Quality Credit

**CCC Yield Distribution**




Source: Morgan Stanley Investment Management, Wells Fargo Securities, Bloomberg Index Services

# 2020 Expectations

- The Fed on hold for the foreseeable future
- Good economic growth for the U.S. economy (1.5% - 2.5%)
- Default rates below long term averages
- Robust new issue market with refinancing existing debt the primary use of proceeds
- B and CCC spreads continue to tighten relative to BBs
- Continued positive net cash inflows into the high yield asset class from yield seeking investors

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INVESTMENT MANAGEMENT

SECTION 4

# Risk Management

# Risk Management Philosophy & Process

## Three Lines of Defense

| Portfolio Managers & Front Office<br>1st Line of Defense | Risk / Control Functions<br>2nd Line of Defense | Internal Audit<br>3rd Line of Defense |
|---|---|---|
| • Promote a strong risk culture and sustainable risk-return thinking<br>• Promote a "culture of compliance," adhering to investment guidelines, limits and managing risk exposure<br>• Ongoing monitoring of positions and inherent risks | • Independent risk oversight unit monitoring across all risk types<br>• Combination of watchdog and trusted advisor<br>• Understand how the business makes money and actively challenge initiatives where appropriate<br>• Top talent with business experience engaging with front office as equals | • Independent oversight function with enforcement ability<br>• Good understanding of capital markets, the business and risk management<br>• Challenge the front office and control / support functions<br>• Ability to link business and risk with process and IT know-how |

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# Investment Risk Management

## Key Risk Areas of Focus

- Monitoring market developments and headlines and assessing impact on the portfolios and communicating the results to management and PM teams
- Daily Risk analysis using volatility based measures of risk including tracking error and VaR
- Stress testing of the portfolios using macroeconomic, historical and topical stress testing scenarios
- Monitoring and escalation of institutional clients' risk limits
- Risk analysis for new portfolios, strategies and instrument types
- Supporting Client Service and RFP teams for risk reporting needs
- Act as experts for Aladdin Risk models

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APPENDIX

# Biographies, Composite & Important Disclosures

# Biographies

**Richard Lindquist, *CFA***
*Managing Director*
Richard is Co-Head of Leveraged Credit and Global Head of High Yield at Morgan Stanley Investment Management. He joined the firm in 2011 and has 37 years of investment experience. Prior to joining Morgan Stanley, Richard was a managing director and co-head of U.S. High Yield at Guggenheim Partners responsible for portfolio management, asset gathering, client service and overseeing all high yield trading. Previously, he was a managing director and head of the U.S. and Global High Yield Fixed Income team responsible for managing the firm’s high yield assets for pension funds, mutual funds and insurance companies, as well as globally marketing the strategy and servicing existing high yield clients at both HSBC Halbis Partners (HSBC Global Asset Management) and Credit Suisse Asset Management. Richard received a B.S. in finance from Boston College and an M.B.A. in finance from the University of Chicago. He holds the Chartered Financial Analyst designation.

**Jack Cimarosa**
*Executive Director*
Jack is a high yield portfolio manager and trader on the Global Fixed Income team. He joined Morgan Stanley in 2012 and has 14 years of investment experience. Prior to joining the firm, Jack was a trader at Guggenheim Partners focused on leveraged debt. Previously, he worked in high yield at Maple Stone Capital Advisors and The Airlie Group. He began his career at UBS, where he worked on a sales desk focusing on non-dollar rates and currencies. Jack received a B.A. in media studies from New School University.

**Rodrigo Soto**
*Executive Director*
Rodrigo is a member of the North American Institutional Sales team at Morgan Stanley Investment Management. He joined Morgan Stanley in 2018 and has 20 years of industry experience. He is based in Seattle, Washington focusing on the institutional marketplace in the Western U.S. and Canadian territories. Prior to joining the firm, Rodrigo was a Director of Business Development at Eaton Vance Management. Before joining Eaton Vance Management in 2011, Rodrigo was Head of Institutional Sales for the Western U.S. at State Street Global Advisors (SSGA), responsible for sales, marketing and distribution of SSGA's passive, enhanced and active strategies. Previously, he was Vice President and West Coast Business Development Officer at Standish Mellon Asset Management. Rodrigo began his career at State Street Bank & Trust. He earned a B.A. in economics from Boston College, and holds his Series 7 and 63 registrations.

**Kathryne Downs**
*Vice President*
Kathryne is a portfolio specialist on the Global Fixed Income team. She joined Morgan Stanley in 2012 and has eight years of industry experience. Prior to her current role, Kathryne was a member of the Distribution team, focusing on relationship management for sub-advisory prospects and clients. Kathryne received a B.A. from Middlebury College. She holds her Series 7 and Series 63 registrations.

# U.S. High Yield Commingled Composite

## Presented in USD Terms

| YEAR | GROSS COMPOSITE RETURN (%) | NET COMPOSITE RETURN (%) | INDEX RETURN (%) | COMPOSITE 3-YR EX-POST STANDARD DEVIATION (%) | INDEX 3-YR EX-POST STANDARD DEVIATION (%) | NUMBER OF ACCOUNTS | COMPOSITE MARKET VALUE (M) | PERCENT OF FIRM ASSETS | FIRM ASSETS (B) | INTERNAL DISPERSION (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| 01 Mar 12 - 31 Dec 12 | 14.81 | 14.10 | 9.79 | N/A | N/A | 1 | 11 | 0.0 | 280.1 | N/A |
| 2013 | 14.05 | 13.19 | 7.44 | N/A | N/A | 1 | 14 | 0.0 | 310.1 | N/A |
| 2014 | 1.87 | 0.96 | 2.45 | N/A | N/A | 1 | 53 | 0.0 | 332.3 | N/A |
| 2015 | (0.79) | (1.83) | (4.47) | 5.30 | 5.34 | 2 | 82 | 0.0 | 334.3 | N/A |
| 2016 | 16.26 | 15.29 | 17.13 | 5.72 | 6.09 | 2 | 136 | 0.0 | 337.5 | N/A |
| 2017 | 8.53 | 7.78 | 7.50 | 5.15 | 5.65 | 3 | 365 | 0.1 | 394.6 | N/A |
| 2018 | (1.78) | (2.42) | (2.08) | 4.53 | 4.66 | 4 | 475 | 0.1 | 369.0 | N/A |

**Morgan Stanley Investment Management ("MSIM") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. MSIM has been independently verified for the periods January 1, 1994 through December 31, 2017. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.**

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Prior to January 1, 2002, the Firm was defined as an investment management firm consisting of investment advisory operations within various legal entities. As of January 1, 2002, the Firm definition was expanded to include all investment advisory operations within MSIM excluding wrap fee programs. From January 1, 2007 to May 31, 2010, the Firm definition included wrap fee programs, which were sold May 31, 2010. Due to an acquisition of assets from Morgan Stanley Smith Barney LLC ("MSSB") business on October 1, 2015, the Firm definition was expanded to include wrap fee programs. The Fundamental Equity Advisors wrap fee program was transferred to another firm in October 2018.

The U.S. High Yield Commingled Composite was created on March 3, 2012 and has an inception date of February 29, 2012. This composite is designed to include all separately managed accounts and pooled vehicles managed on a fully discretionary basis according to the U.S. High Yield strategy. The U.S. High Yield strategy seeks total return by investing predominately (80% or more) in high yield securities which are fixed income securities rated below Baa3 by Moody's Investor Services, Inc or below BBB- by Standard & Poor's Rating Group. The strategy may invest in bank loans, distressed and defaulted securities, mezzanine investments, preferred securities, equity securities, convertible securities and certain non-publicly traded "restricted" securities. Up to 15% of assets may be invested in illiquid securities, which may be difficult for the Portfolio to sell at a reasonable price. The strategy may also invest in investment grade fixed income securities, including U.S. and foreign government securities, corporate bonds and collateralized bond obligations. Derivative instruments such as futures, options, swaps and foreign currency forward exchange contracts may be used for hedging purposes, risk management, portfolio management or to earn income. Using derivatives involve specific risks, including those related to counterparty, liquidity, valuation, correlation, and market risks. The investment process applies a combination of quantitative and qualitative filters to identify securities that meet the team's investment criteria in terms of competitive position, franchise value and management quality. A complete list and description of all composites is available upon request.

# U.S. High Yield Commingled Composite

## Presented in USD Terms

**Performance data quoted represents past performance, which is no guarantee of future results.** Each portfolio may differ due to specific investment restrictions and guidelines. Any double digit return cannot be sustained and investors should be aware that these returns were primarily achieved during favourable market conditions. Returns are reported in USD. The composite can include portfolios with different currencies which have been converted to the reported currency. The internal dispersion of annual returns is measured by the standard deviation of asset-weighted portfolio gross of fees returns included in the composite for the full year. The internal dispersion is not applicable ("N/A") for any period if fewer than 6 accounts are in the composite for the full year. The three-year annualized ex-post standard deviation measures the variability of the gross composite and benchmark returns over the preceding 36-month period. The three-year ex-post standard deviation is not applicable ("N/A") for any period if 36 monthly returns for the composite are not available. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

The Bloomberg Barclays US Corporate High Yield Index is used as a benchmark. This index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. The index is unmanaged and does not include any expenses, fees or sales charges, which would lower performance. The benchmark is used for comparative purposes only. It is not possible to invest directly in an index.

Gross performance is net of all transaction costs. Net performance is net of all transaction costs, actual investment management/advisory fees which include performance fees if applicable and applicable administrative expenses. Any performance fees are accounted for and deducted when earned. Performance returns include the reinvestment of dividends and income. The standard investment advisory fee schedule as at December 31, 2018 is as follows: 0.50% per annum on the first $50 million of assets; 0.40% per annum on the next $50 million of assets; 0.30% per annum on assets in excess of $100 million.

MSIM is performing a review of our GIPS policies and procedures. If any material restatements are identified, they will be promptly communicated to the recipient of this communication.

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# Definitions

**The Bloomberg Barclays U.S. Corporate High Yield Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

**Alpha** is the excess return or value added (positive or negative) of the fund's return relative to the return of the index.

**Beta** is a measure of the relative volatility of a fund to the market's upward or downward movements. A beta greater than 1.0 identifies an issue or fund that will move more than the market, while a beta less than 1.0 identifies an issue or fund that will move less than the market. The Beta of the Market is always equal to 1.

**Bloomberg** stands for 'Bloomberg Global Identifier (BBGID)'.This is a unique 12 digit alphanumerical code designed to enable the identification of securities, such as the Morgan Stanley Investment Funds sub-funds at share class level, on a Bloomberg Terminal. The Bloomberg Terminal, a system provided by Bloomberg L.P., enables analysts to access and analyse real-time financial market data. Each Bloomberg code starts with the same BBG prefix, followed by nine further characters that we list here in this guide for each share class of each fund.

**Cash & Equivalents** are defined as the value of assets that can be converted into cash immediately. These include commercial paper, open FX transactions, Treasury bills and other short-term instruments. Such instruments are considered cash equivalents because they are deemed liquid and not subject to significant risk of changes in values. Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. **Duration** is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

**NAV** is the Net Asset Value per share of the Fund (NAV), which represents the value of the assets of a fund less its liabilities.

**Sharpe Ratio** is a risk-adjusted measure calculated as the ratio of excess return to standard deviation. The Sharpe ratio determines reward per unit of risk. The higher the Sharpe ratio, the better the historical risk-adjusted performance. Tracking error is the standard deviation of the difference between the returns of an investment and its benchmark.

**Volatility** (Standard deviation) measures how widely individual performance returns, within a performance series, are dispersed from the average or mean value.

**Yield to Worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The yield to worst is calculated by making worst-case scenario assumptions on the issue by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer.

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**A separately managed account may not be suitable for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing.**

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# Important Information

Risk management implies an effort to monitor risk, but should not be confused with and does not imply low risk.

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**Item II**
**Attachment 5**

January 21, 2020

# Finalist Presentation for Los Angeles City Employees' Retirement System

## DDJ Capital Management, LLC

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## DAVID BREAZZANO *President, Chief Investment Officer, Portfolio Manager*

Mr. Breazzano is a co-founder of DDJ and has more than 39 years of experience in high yield, distressed, and special situations investing. At DDJ, he oversees all aspects of the firm and chairs the Management Operating, Remuneration, and Investment Review Committees. In addition, Mr. Breazzano serves as co-portfolio manager of DDJ's U.S. Opportunistic High Yield and Upper Tier U.S. High Yield strategies. Prior to forming DDJ, from 1990 to 1996, he was a vice president and portfolio manager in the High-Income Group at Fidelity Investments, where he had investment management responsibility for over $4 billion in high yield and distressed assets. Specifically, he was a portfolio manager of the Fidelity Capital & Income Fund, which was one of the largest high yield funds in existence at that time. In addition, Mr. Breazzano co-managed the distressed investing operation at Fidelity.

## BENJAMIN SANTONELLI *Portfolio Manager*

Mr. Santonelli joined DDJ in 2004 and has more than 15 years of experience in sourcing, analyzing, and managing investments across a variety of industries. Mr. Santonelli serves as co-portfolio manager of DDJ's U.S. Opportunistic High Yield strategy, portfolio manager of DDJ's Total Return Credit strategy, and assistant portfolio manager of DDJ's Bank Loan strategy. He is also a member of the Investment Review Committee. Mr. Santonelli serves as a member of the board of directors of a portfolio company. Mr. Santonelli received his BA from Amherst College.

## JOHN (JACK) O'CONNOR *Senior Vice President, Head of Business Development & Client Service*

Mr. O'Connor joined DDJ in 2013 and has more than 25 years of industry experience. As the head of business development and client service, Mr. O'Connor provides strategic direction to the team responsible for developing and maintaining all client and consultant relationships. He is also a member of both the Management Operating and Remuneration Committees.

Prior to joining DDJ, Mr. O'Connor served for three years as a managing director and head of North American distribution for Morgan Stanley Investment Management, where his team covered intermediaries, registered investment advisers, bank trusts, traditional institutional sales and consultant relations. Prior to that, he was an executive vice president at Pioneer Investments and earlier, a senior vice president at MFS Investment Management. Mr. O'Connor is a former officer in the United States Marine Corps and received his BA from Denison University and he holds his Series 7, 24 and 63 registrations.

“The DDJ investment philosophy is based upon the belief that by performing exhaustive fundamental and legal/structural analysis of each investment opportunity, we can construct a *concentrated, value-oriented credit portfolio* that can generate compelling risk-adjusted returns over a complete credit cycle.”

- DAVID BREAZZANO
PRESIDENT, CIO, PORTFOLIO MANAGER

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23 YEARS IN OPERATION

$7.8 BILLION IN AUM

54 EMPLOYEES

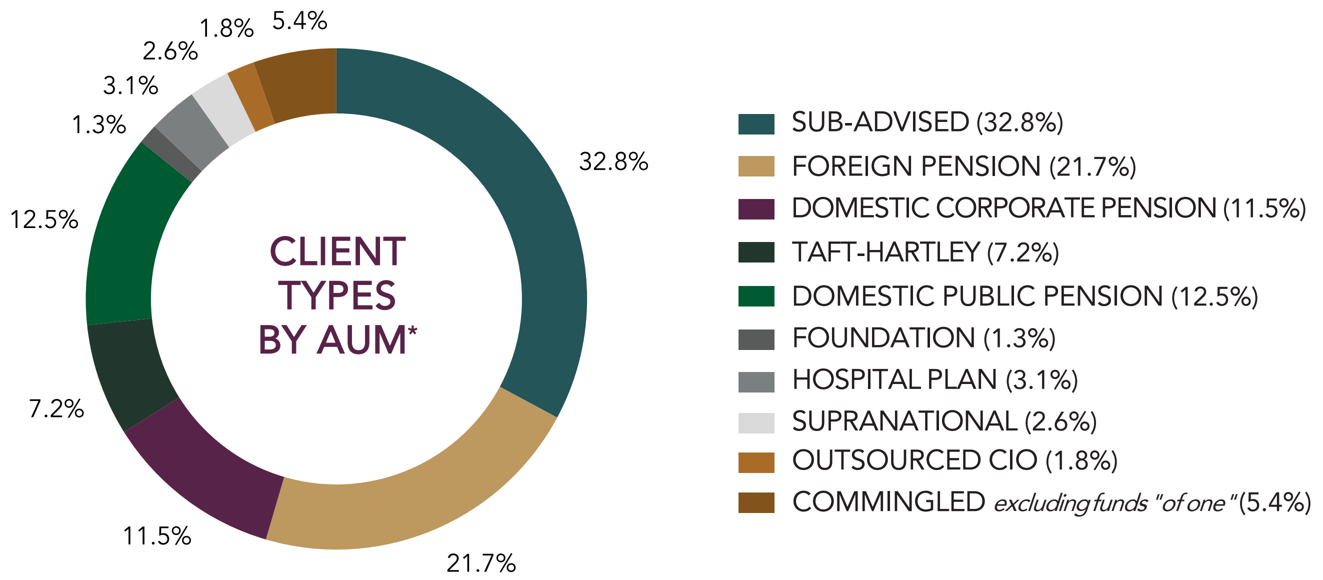
20 EMPLOYEE OWNERS

17 INVESTMENT TEAM MEMBERS

2 IN-HOUSE ATTORNEYS

# DDJ Capital Management is a privately-held investment manager for institutional clients with a sole focus on the high yield debt market.

*A diverse and stable client base includes corporate and public DB plans, DC plans, Taft-Hartley plans, sub-advisory and foundations.*




* Does not include assets managed in legacy accounts, which are presently in wind-down.

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## Investment Leadership Team

**David Breazzano** | President & CIO*
CO-PM OF OPPORTUNISTIC HIGH YIELD,
CO-PM OF UPPER TIER U.S. HIGH YIELD
*39 years industry experience*
*23 years at DDJ*

**Benjamin Santonelli** | Portfolio Manager*
CO-PM OF OPPORTUNISTIC HIGH YIELD,
PM OF TOTAL RETURN CREDIT
*15 years industry experience*
*15 years at DDJ*

**John Sherman** | Portfolio Manager*
CO-PM OF OPPORTUNISTIC HIGH YIELD,
ASSISTANT PM OF TOTAL RETURN CREDIT
*15 years industry experience*
*13 years at DDJ*

**Roman Rjanikov** | Portfolio Manager*
CO-PM OF UPPER TIER U.S. HIGH YIELD,
DIRECTOR OF RESEARCH
*16 years industry experience*
*12 years at DDJ*

## Additional Key Investment Personnel

**Elizabeth Duggan** | Assoc. General Counsel*
DEDICATED TRANSACTIONAL ATTORNEY
*18 years industry experience*
*13 years at DDJ*

**Jason Rizzo** | Head Trader
OVERSEES ALL TRADING ACTIVITIES
*22 years industry experience*
*15 years at DDJ*

7 Research Analysts
2 In-House Attorneys
2 Traders

- *Collaborative 17-member team; key professional average 20 years industry experience*
- *Two in-house attorneys provide valuable legal perspective and analysis*
- *Investment Review Committee provides a regular forum for evaluation and review*

* Investment Review Committee personnel
Additional information regarding industry coverage & responsibilities for the investment team can be found in the Appendix.

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# Singular Focus on Long-Only Credit Strategies

## Investment Strategies

| | U.S. Opportunistic High Yield | Upper Tier U.S. High Yield |
|---|---|---|
| **AUM** | $6.0 billion | $1.1 billion |
| **Inception Date** | March 31, 1998 | October 31, 2012 |
| **Investment Objective** | High current income/principal protection: outperform broad-market high yield index over credit cycle | High current income/principal protection with an ESG focus: outperform BB/B high yield index over credit cycle |
| **Primary Investments** | B & CCC-rated bonds, syndicated loans, some direct loans; "middle-market" focus[1] | BB & B-rated bonds |
| **Investment Vehicles** | Separate account, commingled group trust, mutual fund | Separate account |

## Customizable Client Solutions *$591 million*

Including: Concentrated High Yield; Total Return Credit; and Blended High Yield

[1] Middle market companies are defined by DDJ as companies with normalized EBITDA between $75mm and $250mm.

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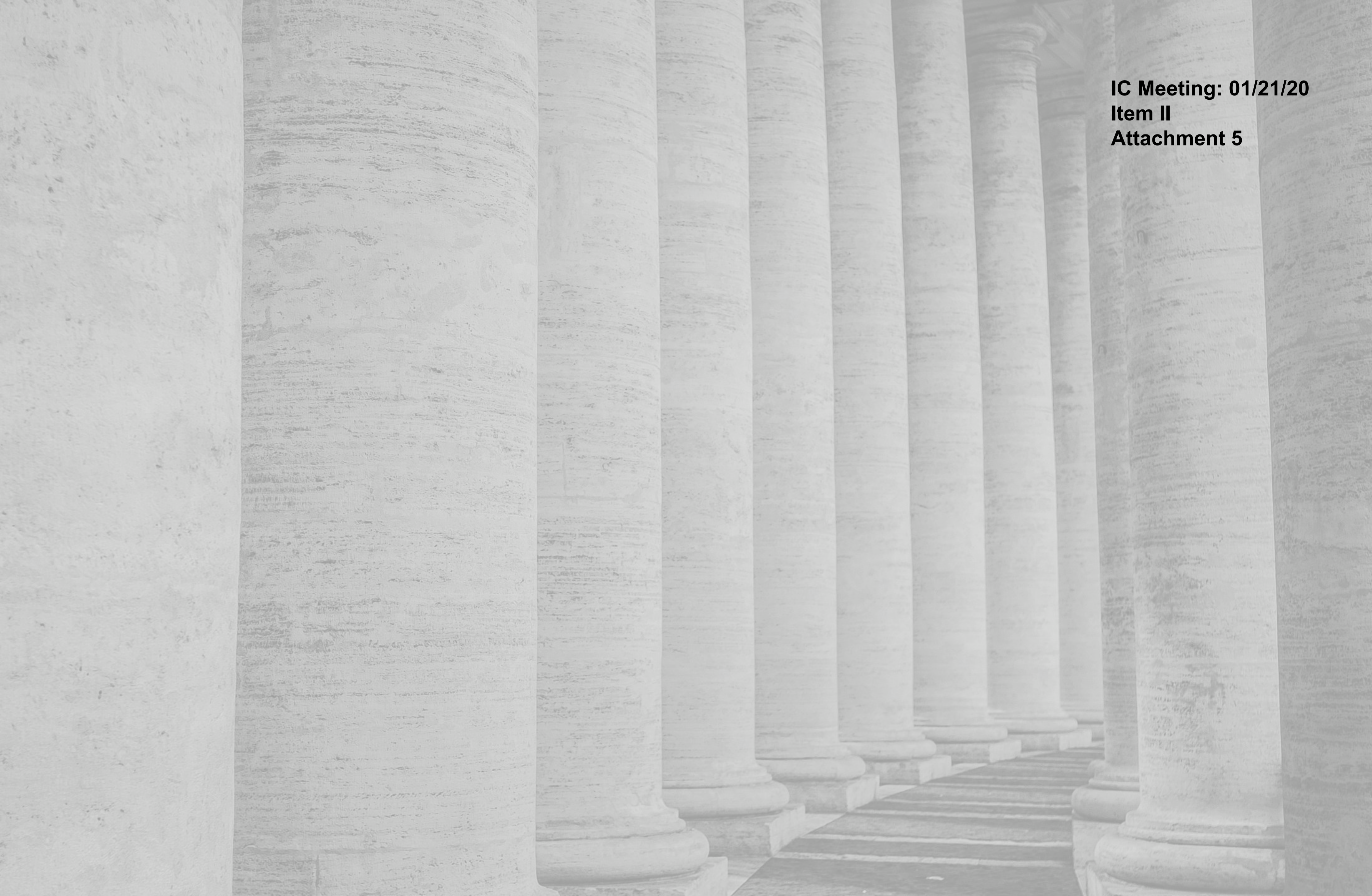

# DDJ U.S. Opportunistic High Yield Strategy

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# DDJ U.S. Opportunistic High Yield Strategy Overview

## Market Inefficiencies

**Middle Market (EBITDA $75mm–$250mm)**

- Smaller issue size reduces the buyer base and results in liquidity premium
- Rating agencies' view of smaller companies as inherently more risky leads to mis-ratings

**Lower Tier (B rated and below)**

- Guidelines restricting or prohibiting CCC-rated holdings results in lower tier being "under-researched" relative to higher quality tiers

## Strategy

- Construct a portfolio with a yield premium relative to the benchmark of 200-400 bps
- Overweight high-confidence positions with 70 to 90 total issuers
- Maintain flexibility to invest across the capital structure – bank loans and bonds
- Focus on downside protection through exhaustive fundamental and legal due diligence
- Limited exposure to stressed or distressed securities
- Historically low correlation of excess returns to largest institutional high yield managers
- No duration or quality limits; duration typically falls well below benchmark due to structural allocation to bank loans

## OBJECTIVE

Outperform a broad-based U.S. high yield index over a full credit cycle by 200 bps on a gross basis while experiencing realized credit losses at or below market level

## BENCHMARK*

ICE BofA U.S. Non-Financial High Yield Index

**Custom benchmarks available*

## PHILOSOPHY

DDJ believes the middle market and lower tier (B/CCC-rated) components of the high yield market are its most inefficient segments. Through rigorous due diligence with a strong emphasis on margin of safety, DDJ believes that it can construct concentrated portfolios that can outperform broad high yield indices over a full credit cycle.

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# Process Overview


### LEVERAGED CREDIT UNIVERSE
2,000+ issuers of high yield bonds, syndicated loans and private debt

### SOURCING
Secondary debt securities
Select primary issues
Originate other investment opportunities

### FIRST PASS
Classify investment thesis
Sound initial risk-versus-reward
Strong downside protection

### DEEP DIVE
Validate investment thesis
Due diligence and competitive analysis
Strong loan-to-value and legal protections
ESG factors evaluated

### PORTFOLIO CONSTRUCTION
Disciplined accumulation
Overweight high-confidence positions
Long-term investment mentality

### ACTIVE MONITORING
Regularly challenge thesis
Adjust position weightings
Proactive credit management

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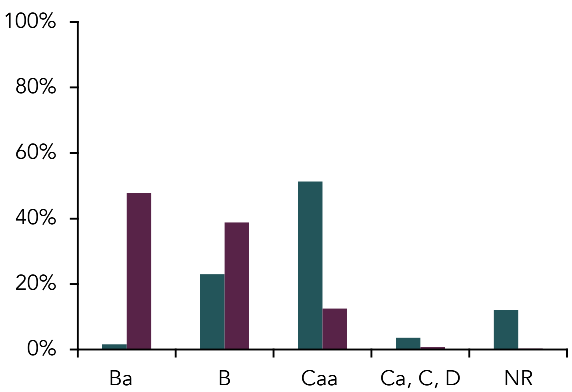
AS OF 12/31/19

# DDJ U.S. Opportunistic High Yield

| Performance | 1 Year | 3 Year* | 5 Year* | 7 Year* | 10 Year* | Since Inception+ |
|---|---|---|---|---|---|---|
| DDJ U.S. OHY Composite (Gross)[1] | 6.18% | 6.30% | 6.31% | 6.47% | 8.46% | 8.10% |
| 50% BBBC HY 2% Issuer Cap/50% Credit Suisse Lev. Loan[2] | 11.22% | 5.43% | 5.35% | 5.11% | 6.38% | 5.73% |
| Bloomberg Barclays U.S. HY 2% Issuer Cap Index | 14.32% | 6.36% | 6.14% | 5.79% | 7.55% | 6.65% |
| Credit Suisse Leveraged Loan Index | 8.17% | 4.48% | 4.54% | 4.41% | 5.18% | 4.73% |

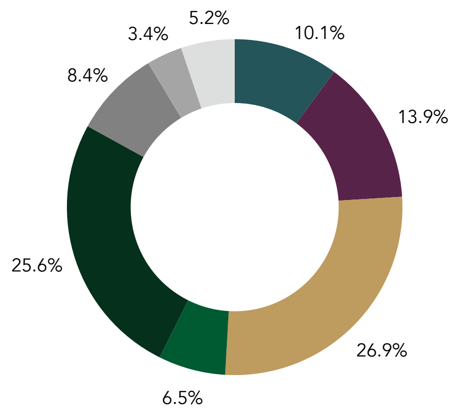
**Annualized returns + Incepted on 3/31/1998*

## Credit Quality Allocation




DDJ U.S. OPPORTUNISTIC HY REPRESENTATIVE ACCOUNT
BLOOMBERG BARCLAYS U.S. HIGH YIELD – 2% ISSUER CAP INDEX

## Rep. Account by Debt Type




- TERM LOANS - 1ST LIEN (10.1%)
- SECURED NOTES - 1ST LIEN (13.9%)
- TERM LOANS - 2ND LIEN (26.9%)
- SECURED NOTES - 2ND LIEN (6.5%)
- SENIOR UNSECURED NOTES (25.6%)
- HOLDCO/SUBORDINATED DEBT (8.4%)
- EQUITY (3.4%)
- CASH & OTHER (5.2%)

| Portfolio Characteristics | Rep. Account[3] | BBBC HY 2% Cap |
|---|---|---|
| Number of issuers | 79 | 890 |
| Top 10 issuers | 27.6% | 12.7% |
| Top 25 issuers | 53.5% | 23.3% |
| Average rating[4] | Caa1 | B1 |
| Average coupon | 8.67% | 6.29% |
| Avg. blended yield[5] | 10.77% | 5.38% |
| Average price | $95.07 | $102.61 |
| Adj. effective duration[6] | 1.54 | 3.27 |

| Portfolio Guidelines[7] | |
|---|---|
| Bonds | 50-95% |
| Bank debt | 5-50% |
| Maximum in one issuer | 5% |
| Maximum in one industry | 25% |
| Target annual turnover | 50-70% |
| Target loan-to-value (LTV) | 20-70% |

The endnotes contain important information that should be read concurrently with this slide. The performance returns for the DDJ U.S. Opportunistic High Yield Composite set forth above are gross of all fees except for trading expenses, deal-related legal expenses and withholding taxes, and are provided as supplemental information and complement a full disclosure presentation included in the Appendix (which includes net returns). Past performance is no guarantee of future results.

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## Top 10 Issuers *by size of 12/31/19*

| | % NAV Weight |
|---|---|
| Specialty Steel | 4.1% |
| One Call Medical | 4.1% |
| Asurion | 3.4% |
| Truck Hero | 2.5% |
| Real Alloy | 2.4% |
| Internet Brands (WebMD) | 2.3% |
| Baffinland Iron Mines | 2.2% |
| GTT Communications | 2.2% |
| Auction.com | 2.2% |
| MHS Holdings | 2.1% |
| Total | 27.6% |

## Top 5 by Issuer *YTD as of 12/31/19*

| | Avg. Weight | Contrib. to Return |
|---|---|---|
| Material Sciences | 1.64% | 0.81% |
| One Call Medical | 3.98% | 0.42% |
| MEG Energy | 2.73% | 0.41% |
| Surgery Center Holdings | 1.75% | 0.41% |
| Baffinland Iron Mines | 2.04% | 0.37% |
| Total | 12.13% | 2.43% |

## Bottom 5 by Issuer *YTD as of 12/31/19*

| | Avg. Weight | Contrib. to Return |
|---|---|---|
| Foresight Energy | 1.25% | -1.92% |
| Utex Industries | 1.99% | -0.54% |
| Envision Healthcare | 1.92% | -0.52% |
| High Ridge Brands | 0.21% | -0.46% |
| Optimas OE Solutions | 1.59% | -0.42% |
| Total | 6.96% | -3.87% |

## Industry Groups *as of 12/31/19*

| | Rep. Account | BBBC HY 2% Cap | Difference |
|---|---|---|---|
| Banking | 0.0% | 2.0% | -2.0% |
| Basic Industry | 15.0% | 5.9% | 9.1% |
| Brokers/Asset Mgrs/Exchanges | 1.4% | 0.4% | 1.0% |
| Capital Goods | 15.6% | 9.8% | 5.7% |
| Communications | 12.5% | 20.9% | -8.4% |
| Consumer Cyclical | 13.1% | 16.3% | -3.1% |
| Consumer Non-Cyclical | 23.7% | 13.8% | 9.9% |
| Electric | 0.0% | 2.6% | -2.6% |
| Energy | 4.5% | 11.8% | -7.3% |
| Finance Companies | 0.0% | 2.5% | -2.5% |
| Insurance | 3.0% | 2.3% | 0.6% |
| Natural Gas | 0.0% | 0.0% | 0.0% |
| Other Financial | 0.0% | 1.1% | -1.1% |
| Other Industrial | 2.4% | 1.2% | 1.3% |
| Other Utility | 0.0% | 0.0% | 0.0% |
| REITS | 0.0% | 1.4% | -1.4% |
| Technology | 3.7% | 6.6% | -3.0% |
| Transportation | 0.0% | 1.4% | -1.4% |
| Cash & Other | 5.2% | 0.0% | 5.2% |

Returns set forth for the representative account above are presented gross of all fees except for trading expenses, deal-related legal expenses and withholding taxes. Returns are calculated using daily time weighted rates of return and cash flows are recognized at the beginning of the day. **Past performance is no guarantee of future returns.** In order to obtain the calculation methodology with respect to the Contribution to Return set forth above, or a list showing a contribution of each holding in the representative account to the overall account's performance during this period, please contact *investorrelations@ddjcap.com*. The holdings identified above do not represent all of the securities purchased, sold or recommended for the representative account or for DDJ's clients pursuing the opportunistic high yield strategy during this period. **The endnotes contain important information that should be read concurrently with this slide.**

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## Price *as of 12/31/19*

| | Rep. Account | BBBC HY 2% Cap | Difference |
|---|---|---|---|
| <70 | 5.3% | 2.2% | 3.0% |
| 70-85 | 7.4% | 1.7% | 5.7% |
| 85-95 | 16.5% | 5.9% | 10.7% |
| 95-100 | 30.3% | 7.1% | 23.2% |
| 100-105 | 22.8% | 43.6% | -20.8% |
| 105-110 | 7.7% | 29.5% | -21.8% |
| >110 | 1.3% | 10.0% | -8.6% |
| Equity | 3.4% | 0.0% | 3.4% |
| Cash & Other | 5.2% | 0.0% | 5.2% |
| **Total** | **100.0%** | **100.0%** | |

## Blended Yield *as of 12/31/19*

| | Rep. Account | BBBC HY 2% Cap | Difference |
|---|---|---|---|
| 0-3% | 2.3% | 14.8% | -12.6% |
| 3-6% | 8.2% | 63.1% | -54.9% |
| 6-9% | 28.6% | 13.1% | 15.5% |
| 9-12% | 32.1% | 4.5% | 27.6% |
| 12-15% | 8.3% | 1.6% | 6.7% |
| 15-18% | 4.2% | 0.9% | 3.3% |
| 18%+ | 7.7% | 2.0% | 5.7% |
| Equity | 3.4% | 0.0% | 3.4% |
| Cash & Other | 5.2% | 0.0% | 5.2% |
| **Total** | **100.0%** | **100.0%** | |

## Issue Size *as of 12/31/19*

| | Rep. Account | BBBC HY 2% Cap | Difference |
|---|---|---|---|
| <$200mm | 13.6% | 1.0% | 12.6% |
| $200-400mm | 31.2% | 15.6% | 15.6% |
| $400-600mm | 19.2% | 20.7% | -1.5% |
| $600mm-$1bn | 13.1% | 28.8% | -15.7% |
| $1-2bn | 8.1% | 26.2% | -18.0% |
| $2-5bn | 6.1% | 7.3% | -1.2% |
| >$5bn | 0.0% | 0.5% | -0.5% |
| Equity | 3.4% | 0.0% | 3.4% |
| Cash & Other | 5.2% | 0.0% | 5.2% |
| **Total** | **100.0%** | **100.0%** | |

## Adjusted Effective Duration *as of 12/31/19*

| | Rep. Account | BBBC HY 2% Cap | Difference |
|---|---|---|---|
| 0-1 yr | 47.8% | 15.5% | 32.3% |
| 1-2 yrs | 7.6% | 14.7% | -7.0% |
| 2-3 yrs | 9.6% | 19.2% | -9.7% |
| 3-4 yrs | 17.8% | 17.1% | 0.7% |
| 4-5 yrs | 8.5% | 15.9% | -7.4% |
| 5-6 yrs | 0.1% | 8.4% | -8.4% |
| >6 yrs | 0.0% | 9.1% | -9.1% |
| Equity | 3.4% | 0.0% | 3.4% |
| Cash & Other | 5.2% | 0.0% | 5.2% |
| **Total** | **100.0%** | **100.0%** | |

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| **Performance** *(as of 9/30/2019)* | 1 Year | 3 Year* | 5 Year* | 7 Year* | 10 Year* |
|---|---|---|---|---|---|
| DDJ U.S. Opportunistic High Yield Composite (Gross) [1] | -0.43% | 6.65% | 5.55% | 6.61% | 8.97% |
| **Percentile Rank** | 99 | 22 | 37 | 15 | 5 |
| Total # of Products in Universe | 264 | 251 | 233 | 204 | 165 |

**Annualized returns*

Source: eVestment

The "Percentile Rank" is based on gross returns and represents the percentile peer ranking for the Opportunistic Composite as of September 30, 2019, relative to the eVestment U.S. High Yield Fixed Income Universe within the eVestment Global Database. Such database comprises actively-managed U.S. fixed income products that primarily invest in high yield debt across multiple sectors. eVestment provides institutional investment data, analytics, and market intelligence to asset managers, institutional investors and consultants. In addition, peer rankings were gathered by DDJ on January 9, 2020; as of such date, DDJ believes that approximately 99.6% of the products (263 out of 264 total active products) that comprise such universe have reported their performance in the eVestment Global Database through September 30, 2019. This information has been provided as of such date due to less than 50% of the universe being reported as of December 31, 2019. As a result, the rankings provided are subject to change.

**The endnotes contain important information that should be read concurrently with this slide.** The performance returns for the DDJ U.S. Opportunistic High Yield Composite set forth above are gross of all fees except for trading expenses, deal-related legal expenses and withholding taxes, and are provided as supplemental information and complement a full disclosure presentation included in the Appendix (which includes net returns). **Past performance is no guarantee of future results.**

# ANNUAL RETURNS *U.S. Opportunistic High Yield*

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| Year Ended December 31 | Opportunistic High Yield Composite *(gross)* | 50% BBBC HY 2% Issuer Cap/50% Credit Suisse Lev. Loan Index | Bloomberg Barclays U.S. HY 2% Issuer Cap Index | Credit Suisse Leveraged Loan Index |
|---|---|---|---|---|
| 2019 | 6.18% | 11.22% | 14.32% | 8.17% |
| 2018 | 0.88% | -0.48% | -2.08% | 1.14% |
| 2017 | 12.13% | 5.87% | 7.50% | 4.25% |
| 2016 | 17.53% | 13.47% | 17.13% | 9.88% |
| 2015 | -3.82% | -2.40% | -4.43% | -0.38% |
| 2014 | 3.68% | 2.27% | 2.46% | 2.06% |
| 2013 | 10.16% | 6.81% | 7.44% | 6.15% |
| 2012 | 17.61% | 12.57% | 15.78% | 9.43% |
| 2011 | 3.57% | 3.42% | 4.96% | 1.82% |
| 2010 | 19.30% | 12.45% | 14.94% | 9.98% |
| 2009 | 58.52% | 51.73% | 58.76% | 44.86% |
| 2008 | -29.22% | -27.20% | -25.88% | -28.75% |
| 2007 | 3.77% | 2.08% | 2.26% | 1.88% |
| 2006 | 12.15% | 9.04% | 10.76% | 7.33% |
| 2005 | 5.79% | 4.24% | 2.76% | 5.69% |
| 2004 | 13.59% | 8.36% | 11.14% | 5.60% |
| 2003 | 39.51% | 19.63% | 28.78% | 11.01% |
| 2002 | 10.10% | 0.51% | -0.24% | 1.12% |
| 2001 | 7.17% | 4.19% | 5.46% | 2.65% |
| 2000 | -7.59% | -0.52% | -5.79% | 4.94% |
| 1999 | 4.68% | 3.55% | 2.39% | 4.69% |
| 1998* | -3.43% | 0.98% | -1.45% | 3.34% |

*Partial year, the DDJ U.S. Opportunistic High Yield Composite was incepted on March 31, 1998.

The endnotes contain important information that should be read concurrently with this slide. The performance returns for the DDJ U.S. Opportunistic High Yield Composite set forth above are gross of all fees except for trading expenses, deal-related legal expenses and withholding taxes, and are provided as supplemental information and complement a full disclosure presentation included in the Appendix (which includes net returns). Past performance is no guarantee of future results.

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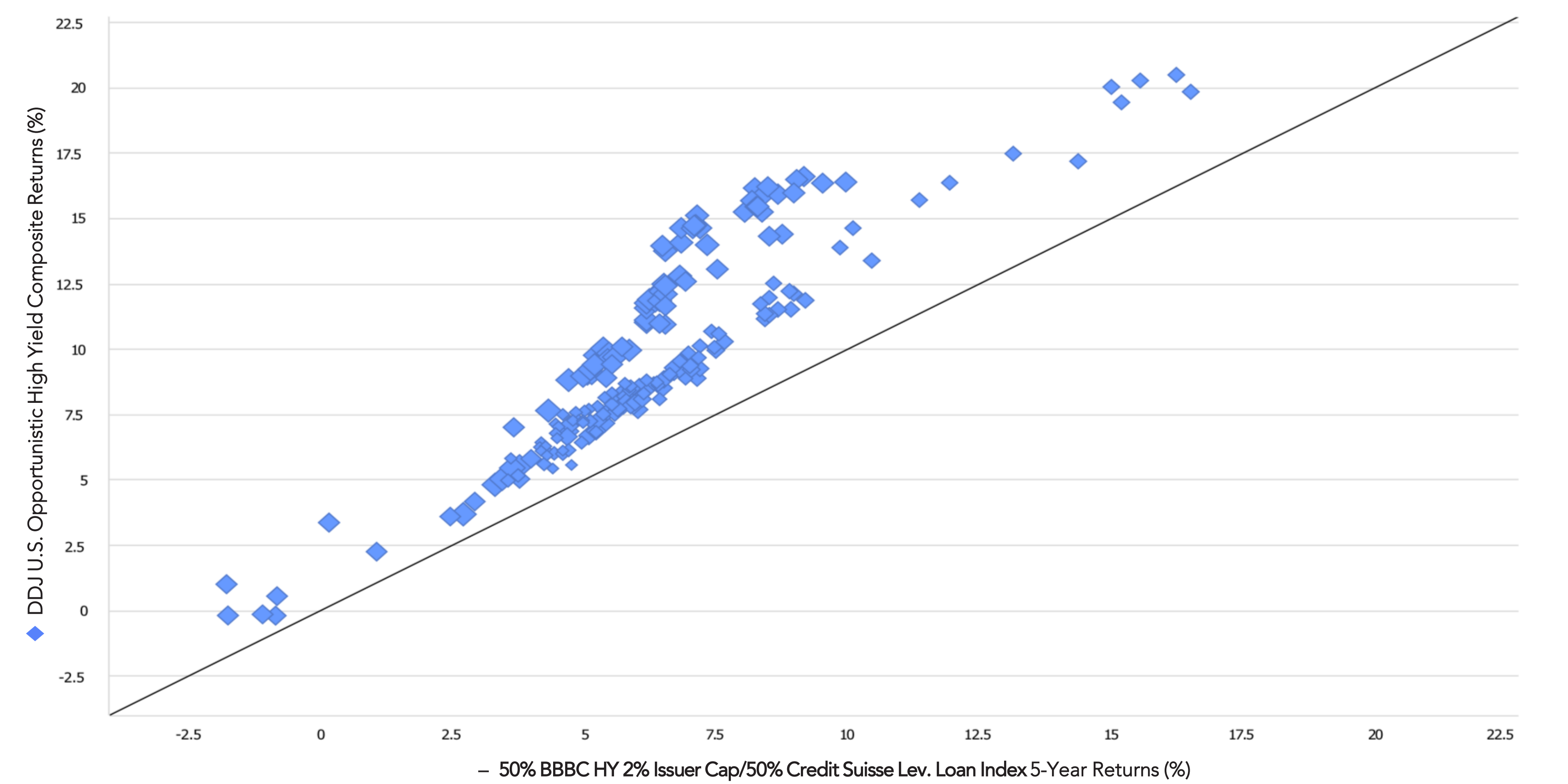
# DDJ U.S. Opportunistic High Yield Composite

*Rolling 5-Year Relative Performance: Since Inception through September 30, 2019*






EVESTMENT

Source: eVestment

The above scatter-chart represents the 5-year annualized (gross) return of the DDJ U.S. Opportunistic High Yield Composite (the "Composite") relative to the same return for the 50% Bloomberg Barclays U.S. High Yield 2% Issuer Cap Index/50% Credit Suisse Leveraged Loan Index beginning April 1, 1998, rolled monthly through September 30, 2019. Datapoints above/below the line reflect periods when the Composite out/under-performed the index. **The endnotes contain important information that should be read concurrently with this slide.** The performance returns for the DDJ U.S. Opportunistic High Yield Composite set forth above are gross of all fees except for trading expenses, deal-related legal expenses and withholding taxes, and are provided as supplemental information and complement a full disclosure presentation included in the Appendix (which includes net returns). **Past performance is no guarantee of future results.**

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## 5 Years Ending September 30, 2019

**Benchmark Used:** Bloomberg Barclays U.S. Corporate HY 2% Issuer Cap

| Firm | Product | # of Issues | Returns | Excess Returns | Standard Deviation | Tracking Error | Sharpe Ratio | Correlation Coefficient | Correlation Matrix: Excess Return with DDJ |
|---|---|---|---|---|---|---|---|---|---|
| DDJ Capital Management, LLC | DDJ U.S. Opportunistic High Yield | 92 | 5.55 | 0.17 | 4.75 | 2.98 | 0.97 | 0.83 | 1.00 |
| Aegon USA Investment Management, LLC | Aegon High Yield Fixed Income | 416 | 5.80 | 0.42 | 5.10 | 0.85 | 0.95 | 0.99 | 0.08 |
| Loomis, Sayles & Company, L.P. | US High Yield | 227 | 5.62 | 0.24 | 5.11 | 0.79 | 0.91 | 0.99 | 0.19 |
| Loomis, Sayles & Company, L.P. | High Yield Full Discretion | 252 | 4.49 | -0.89 | 6.01 | 1.31 | 0.59 | 0.98 | 0.14 |
| Morgan Stanley Investment Management | U.S. High Yield | 289 | 5.79 | 0.41 | 5.13 | 1.64 | 0.94 | 0.95 | 0.55 |
| Blended Portfolio | Opportunistic HY/Aegon | | 5.69 | 0.31 | 4.69 | 1.58 | 1.01 | 0.96 | 0.96 |
| Blended Portfolio | Opportunistic HY/Loomis US HY | | 5.60 | 0.22 | 4.71 | 1.61 | 0.99 | 0.96 | 0.97 |
| Blended Portfolio | Opportunistic HY/Loomis HY Full Disc. | | 5.03 | -0.35 | 5.19 | 1.71 | 0.79 | 0.95 | 0.92 |
| Blended Portfolio | Opportunistic HY/Morgan Stanley | | 5.68 | 0.30 | 4.78 | 2.06 | 0.99 | 0.92 | 0.94 |

Source: eVestment.

**The endnotes contain important information that should be read concurrently with this slide.**

The third party investment managers set forth above represent managers who DDJ believes to be the asset managers presenting as finalists in the LACERS High Yield Fixed Income Mandate Search based on public record.

Although the data gathered from eVestment is believed to be reliable, DDJ cannot guarantee the accuracy and/or comprehensiveness of the information set forth above with respect to the third party managers. Furthermore, eVestment makes no claims to DDJ with regard to accuracy on the part of this information.

The returns shown above are based on monthly gross of fee returns obtained by eVestment unless otherwise indicated. In addition, the returns assume monthly rebalancing in each of the blended portfolio scenarios set forth above. Excess returns are the returns of each composite/strategy set forth above as compared with the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index for the five year period ending September 30, 2019. This information has been provided as of such date due to the lack of reporting for the above managers as of December 31, 2019. The returns of the DDJ U.S. Opportunistic High Yield Strategy are those of the DDJ U.S. Opportunistic High Yield Composite. With respect to the DDJ U.S. Opportunistic High Yield Composite in particular, gross returns are presented gross of all fees except for trading expenses, deal-related legal expenses and withholding taxes, and are provided as supplemental information and complement a full disclosure presentation included in the Appendix (which includes net returns). **Past performance is no guarantee of future results.**

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# Performance Attribution Summary

- Contributors
  - The significant coupon/yield advantage of the representative account relative to the index had a positive impact on relative performance
  - The representative account's underweight to the Energy sector and overweight to the Consumer Non-Cyclical and Capital Goods sectors benefited relative returns
- Detractors
  - The representative account's underweight high yield bonds across the Ba-rated spectrum and overweight across the Caa-rated spectrum
  - The duration effect was negative as the representative account's structural allocation to bank loans drove an underweight duration relative to the benchmark, which detracted from performance given the significant decline in interest rates during the year.
  - Security selection in the Basic Industry, Capital Goods, Communications, Consumer Non-Cyclical, and Technology sectors negatively impacted relative returns
  - The representative account's overweight to lower-rated bank loans detracted from performance as higher-rated bank loans significantly outperformed their lower-rated peers during the year

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DDJ U.S. Opportunistic High Yield Representative Account vs. Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index (YTD as of 12/31/2019)

| | Portfolio | | | Benchmark | | | Fixed Income Performance Attribution | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Port. Avg. Eff. Duration | Port. Average Weight | Port. Total Return | Bench. Avg. Eff. Duration | Bench. Avg. Weight | Bench. Total Return | Asset Class Allocation Effect | Duration Effect | Income Effect | Group Allocation Effect | Selection Effect | Total Effect |
| Equity | -- | 3.96 | 10.22 | -- | -- | -- | -0.09 | -- | -- | -- | -0.00 | -0.09 |
| Fixed Income | 1.91 | 93.88 | 6.01 | 3.28 | 100.00 | 14.32 | -- | -1.06 | 3.36 | -5.78 | -4.40 | -7.88 |
| A2 | -- | -- | -- | -- | 0.00 | -- | -- | 0.00 | 0.00 | -0.00 | 0.00 | 0.00 |
| BAA2 | -- | -- | -- | 2.36 | 0.02 | 2.02 | -- | -0.00 | 0.00 | -0.00 | 0.00 | -0.00 |
| BAA3 | -- | -- | -- | 3.26 | 0.20 | 10.11 | -- | -0.00 | 0.00 | -0.02 | -0.00 | -0.02 |
| BA1 | -- | -- | -- | 4.44 | 14.25 | 16.42 | -- | -0.13 | 0.17 | -0.32 | -0.00 | -0.28 |
| BA2 | 4.04 | 0.11 | 1.17 | 3.31 | 13.44 | 14.26 | -- | -0.00 | 0.13 | -0.11 | 0.01 | 0.03 |
| BA3 | 2.68 | 0.46 | -25.13 | 3.30 | 18.85 | 15.69 | -- | -0.00 | 0.16 | -0.40 | -0.40 | -0.63 |
| B1 | 2.48 | 1.46 | 11.80 | 2.90 | 11.31 | 15.45 | -- | 0.05 | 0.09 | -0.19 | 0.17 | 0.12 |
| B2 | 1.30 | 9.93 | 10.70 | 3.08 | 14.01 | 13.10 | -- | -0.16 | 0.31 | 0.03 | -0.42 | -0.25 |
| B3 | 1.95 | 12.85 | 14.67 | 2.89 | 14.01 | 16.75 | -- | -0.06 | 0.22 | -0.01 | -0.38 | -0.23 |
| CAA1 | 2.46 | 17.99 | -1.38 | 2.84 | 6.73 | 10.80 | -- | -0.07 | 0.50 | -0.63 | -2.66 | -2.87 |
| CAA2 | 1.85 | 42.68 | 9.48 | 3.23 | 5.09 | 8.54 | -- | -0.55 | 1.60 | -3.31 | 0.57 | -1.69 |
| CAA3 | 0.29 | 4.77 | -7.23 | 2.73 | 1.01 | 11.70 | -- | -0.15 | 0.19 | -0.20 | -1.16 | -1.32 |
| CA | 2.77 | 3.47 | -5.53 | 2.66 | 0.63 | 13.01 | -- | 0.03 | 0.16 | -0.72 | -0.05 | -0.57 |
| C | 0.15 | 0.09 | NM | 1.78 | 0.12 | -82.10 | -- | -0.00 | -0.16 | -0.02 | -0.01 | -0.20 |
| D | -- | 0.00 | NM | 0.17 | 0.04 | -99.99 | -- | 0.00 | -0.00 | 0.09 | -0.08 | 0.01 |
| NR | 0.03 | 0.07 | 0.22 | 2.28 | 0.30 | 5.05 | -- | 0.00 | 0.00 | 0.01 | -0.00 | 0.02 |
| [Cash] | -- | 2.16 | 1.32 | -- | -- | -- | -0.37 | -- | -- | -- | 0.00 | -0.37 |
| **Total** | **1.91** | **100.00** | **5.98** | **3.28** | **100.00** | **14.32** | **-0.46** | **-1.06** | **3.36** | **-5.78** | **-4.40** | **-8.34** |

| | Portfolio | | | Benchmark | | | Fixed Income Performance Attribution | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Port. Avg. Eff. Duration | Port. Average Weight | Port. Total Return | Bench. Avg. Eff. Duration | Bench. Avg. Weight | Bench. Total Return | Asset Class Allocation Effect | Duration Effect | Income Effect | Group Allocation Effect | Selection Effect | Total Effect |
| Equity | -- | 3.96 | 10.22 | -- | -- | -- | -0.09 | -- | 0.00 | -0.00 | -0.00 | -0.09 |
| Fixed Income | 1.91 | 93.88 | 6.01 | 3.28 | 100.00 | 14.32 | -- | -1.06 | 3.36 | 0.46 | -10.65 | -7.88 |
| Banking | -- | -- | -- | 5.68 | 2.25 | 21.35 | -- | -0.05 | 0.02 | -0.12 | -0.00 | -0.15 |
| Basic Industry | 1.86 | 11.93 | -5.19 | 3.56 | 6.20 | 13.24 | -- | -0.16 | 0.44 | -0.08 | -2.58 | -2.38 |
| Brokers | 4.02 | 0.93 | 19.72 | 2.85 | 0.43 | 15.92 | -- | 0.01 | 0.01 | 0.01 | 0.02 | 0.05 |
| Capital Goods | 2.61 | 14.57 | 9.60 | 3.01 | 9.40 | 15.70 | -- | -0.05 | 0.45 | 0.11 | -1.29 | -0.78 |
| Communications | 2.28 | 12.63 | 7.68 | 3.25 | 20.40 | 15.15 | -- | -0.07 | 0.41 | -0.04 | -1.35 | -1.05 |
| Consumer Cyclical | 1.08 | 13.14 | 12.65 | 3.39 | 15.42 | 16.70 | -- | -0.25 | 0.51 | -0.05 | -0.77 | -0.56 |
| Consumer Non-Cyclical | 1.99 | 23.93 | 7.91 | 3.02 | 13.42 | 15.77 | -- | -0.23 | 1.06 | 0.16 | -2.82 | -1.83 |
| Electric | -- | -- | -- | 3.11 | 2.43 | 14.93 | -- | 0.00 | 0.01 | -0.03 | -0.00 | -0.01 |
| Energy | 1.99 | 6.20 | 1.10 | 3.69 | 13.15 | 5.42 | -- | -0.14 | 0.05 | 0.59 | -0.27 | 0.24 |
| Finance Companies | -- | -- | -- | 3.25 | 2.96 | 19.87 | -- | -0.00 | 0.00 | -0.15 | -0.00 | -0.15 |
| Insurance | 3.15 | 3.61 | 19.05 | 3.41 | 1.99 | 17.50 | -- | -0.02 | 0.05 | 0.08 | -0.01 | 0.10 |
| Other Financial | -- | -- | -- | 1.73 | 1.00 | 11.59 | -- | 0.02 | -0.00 | 0.01 | -0.00 | 0.02 |
| Other Industrial | 0.44 | 1.63 | 12.06 | 3.09 | 1.38 | 14.81 | -- | -0.03 | 0.05 | -0.00 | -0.06 | -0.04 |
| Other Utility | -- | -- | -- | 3.75 | 0.03 | 18.62 | -- | -0.00 | -0.00 | -0.00 | -0.00 | -0.00 |
| REITS | -- | -- | -- | 3.28 | 1.09 | 12.82 | -- | -0.00 | 0.01 | 0.00 | -0.00 | 0.01 |
| Technology | 0.07 | 5.32 | -9.57 | 2.74 | 7.05 | 14.93 | -- | -0.09 | 0.29 | -0.01 | -1.52 | -1.34 |
| Transportation | -- | -- | -- | 2.31 | 1.40 | 15.26 | -- | 0.02 | -0.01 | -0.02 | -0.00 | -0.01 |
| [Cash] | -- | 2.16 | 1.32 | -- | -- | -- | -0.37 | -- | -- | -- | 0.00 | -0.37 |
| **Total** | **1.91** | **100.00** | **5.98** | **3.28** | **100.00** | **14.32** | **-0.46** | **-1.06** | **3.36** | **0.46** | **-10.65** | **-8.34** |

The endnotes contain important information that should be read concurrently with this slide.
All effects provided are cumulative over the periods presented. The attribution presented is based on gross-of-fees returns of the DDJ U.S. Opportunistic High Yield Representative Account. Returns are gross of all fees except for trading expenses, deal-related legal expenses and withholding taxes. Equity includes common stock and warrants received in conjunction with a new issue or with an exchange or reorganization where applicable. Past performance is no guarantee of future results.

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# Risk Management

*Maintaining sufficient downside protection is the key principle to DDJ's risk management philosophy. To assess downside protection, DDJ endeavors to undertake* ***a careful evaluation of principal risk factors: credit, legal, and liquidity.*** *DDJ believes that understanding these risks is a crucial element of due diligence with respect to each investment opportunity.*

## CREDIT RISK

- Primary portfolio manager concern is on individual security level
- Credit risk is continuously managed by the investment team, through constant news monitoring, operating performance updates, and communication with management teams
- Each DDJ analyst typically covers 2-4 sectors and on average between 20-30 investments, allowing significant resources for researching/ monitoring credit risk
- ESG factors are evaluated for each investment

## LEGAL/STRUCTURAL RISK

- Strength of legal/contractual protections associated with a given tranche of an issuer's debt securities is an important risk
- Legal analysis is a key component of DDJ's diligence and risk management philosophy: our in-house attorneys work directly with our research analysts to assess the risks that may exist in bond indentures or loan documents, creating a distinctive analytical perspective for assessing downside risk

## LIQUIDITY RISK

- The risk of decreased trading or increased aversion in the marketplace is considered a critical factor in determining the relative value of an investment
- To mitigate liquidity risk, DDJ generally requires both stronger credit characteristics and a higher return profile for an illiquid investment compared with a more liquid one
- DDJ has many longstanding relationships with broker/dealers, allowing continuous market assessment for the demand of a particular illiquid investment and providing liquidity depending on the circumstances

# DDJ's ESG Implementation

DDJ has the capabilities to implement ESG analysis in a manner consistent with our clients' view:

## INVESTMENT RESEARCH AND PORTFOLIO MANAGEMENT PROCESS INTEGRATION

- Natural fit with DDJ's bottom-up fundamental research process
- ESG factors evaluated for each investment
- ESG engagement with issuer, where applicable

## ALL MATERIAL ISSUERS ARE ASSIGNED A FORMAL ESG RATING

- Utilize third party (MSCI) ratings when available
- DDJ analyst ratings used for companies not rated by MSCI
- Issuer ESG scoring is conducted on an industry relative, not absolute, basis

## ON-GOING ESG PROCESS IMPROVEMENT

- ESG internal working group monitors ESG implementation and developments
- Annual scoring and assessment performed by the United Nations-supported PRI
- 2019 DDJ UNPRI Score: Fixed Income = A; Strategy & Governance = A[1]

[1]The following information is available upon request: The PRI Assessment Methodology (used for Scoring), DDJ's 2019 Assessment Report, and DDJ's 2019 Transparency Report.

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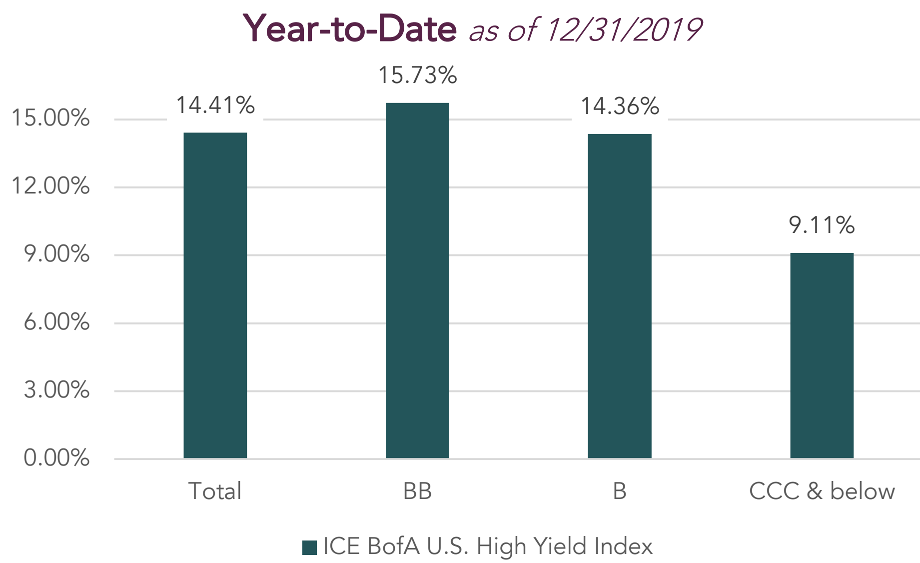
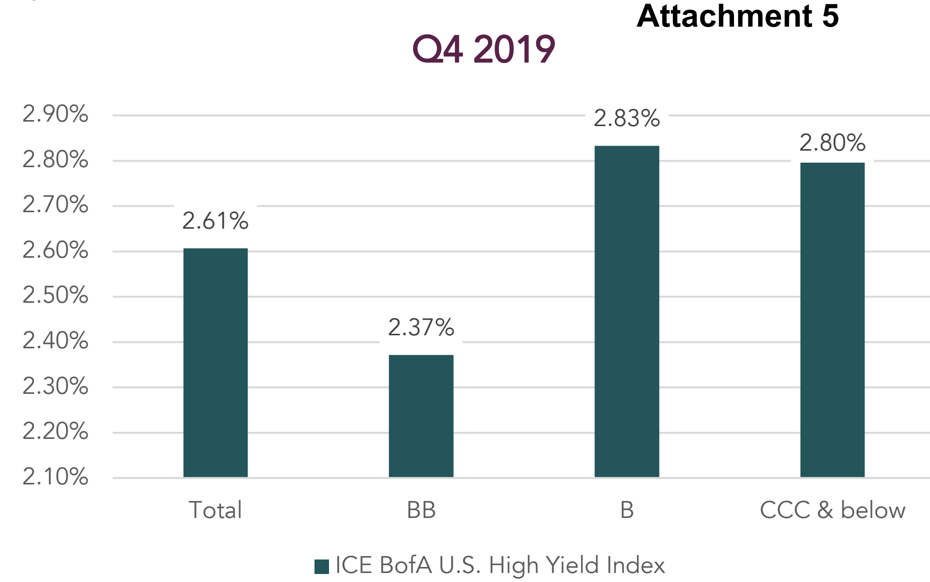
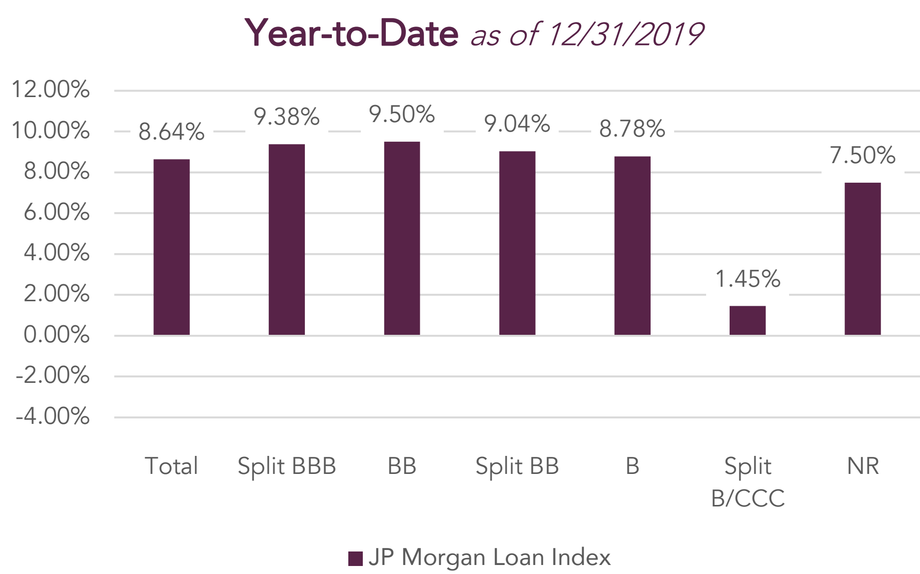
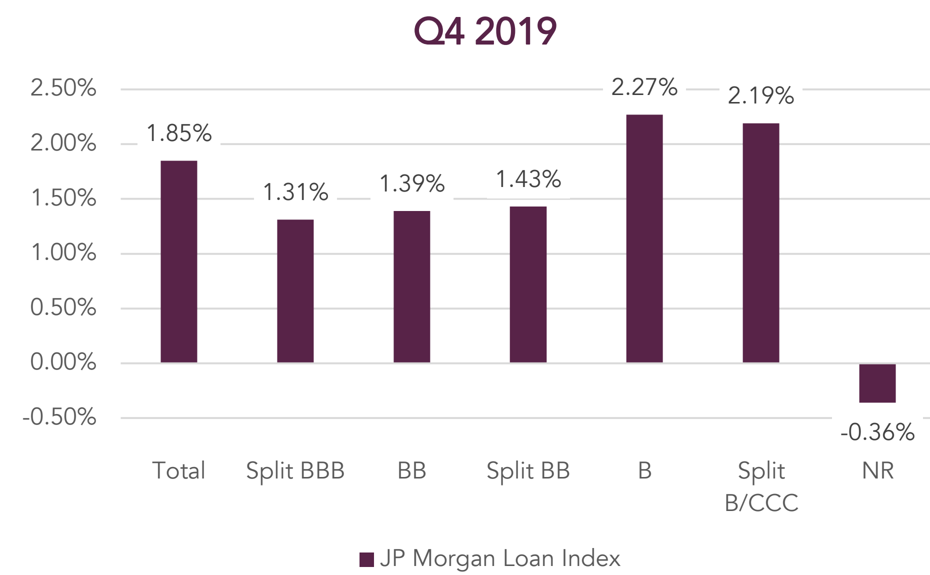
## High Yield Bond Index Performance by Credit Quality




## Leveraged Loan Index Performance by Credit Quality




Past performance is no guarantee of future results.

The ICE BofA Merrill Lynch U.S. High Yield Index is a broad, unmanaged high yield index. The ICE BofA Merrill Lynch U.S. High Yield Index data referenced herein is the property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/or its Third Party Suppliers and has been licensed for use by DDJ. ICE Data and its Third Party Suppliers accept no liability in connection with its use. Please contact DDJ for a full copy of the disclaimer. The J.P. Morgan Leveraged Loan Index is designed to mirror the investable universe of USD institutional leveraged loans, including U.S. and international borrowers. Neither of these indices bears fees and expenses or reflects the Opportunistic Composite's specific investment restrictions and guidelines. An investor can not directly invest in such indices; investment results will differ from those of these indices. The benchmark data is used for comparative purposes only.

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# Market Outlook

- **Negative interest rates globally provided a technical tailwind to the higher-quality segments of the high yield market in 2019, which now look less attractive on a relative basis to their lower-rated peers.**
  - BB-bond spreads are near all-time lows while CCC-rated bond spreads are ~1,000 basis points.
  - We expect spread compression in 2020 between higher-and lower-rated credits in the high yield market.
- **Recession risk for 2020 has declined given recent positive news flow around U.S./China trade negotiations.**
  - The U.S. economy's relative strength is also a positive for the U.S. centric businesses that dominate the high yield market; however, uncertainty associated with trade negotiations will likely lead to bouts of volatility.
- **We expect continued accommodative monetary policy; however, the likelihood of monetary policy mishaps is an ever present risk.**
- **Our positioning is driven by:**
  - Our bottom-up fundamental due diligence process, which is focused on assessing a business' ability to generate durable free cash flow as well as its underlying enterprise value.
  - The inefficiencies created by investors' long-standing avoidance of credits in the lower-rated segments of the high yield market.

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DDJ believes that its singular focus on the high yield market, together with its customized client service and communication, are key components to its successful long-term client retention rate.

We are proud to be stewards of our clients' assets and their beneficiaries.

Achmea Investment Management

City of Boston Retirement System

Caterpillar, Inc

FedEx Corporation

Houston Municipal Employees Pension System

Illinois Student Assistance Commission

J.C. Penney

MN

Principal Financial

Clients listed were chosen as generally representative of the types of clients that comprise DDJ Capital Management's institutional client base and that have given DDJ permission to disclose their name. Such clients were not chosen based on performance-based criteria. The identification of the clients listed above does not constitute an endorsement or recommendation of DDJ's products or services by such client.

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# Firm-level Risk Controls

## COMPLIANCE AND ENTERPRISE

- **Commitment to compliance** up and down the entire DDJ organization
- **Registration** with the SEC as an investment adviser since 1997
- Experienced **General Counsel and Chief Compliance Officer**
  - Develops, monitors and tests compliance with firm policies and procedures, including robust Code of Ethics, client allocation guidelines, and insider trading procedures
  - Prepares annual compliance report pursuant to Investment Advisers Act requirements
- Clear **segregation of duties** between all departments within the firm
- **Established, long-standing relationships** with well-recognized external service providers (e.g., independent auditors, outside counsel) facilitate strong compliance environment

## OPERATIONAL

- **Back office operations** overseen by Chief Financial Officer
  - Reconciliation of client account activity with custodial banks
  - Established processes designed to minimize settlement delays
  - Robust valuation policies and procedures, including quarterly Fair Value Committee meetings
- Rigorous **Counterparty Risk Controls**
  - Documented broker approval process
  - Active relationships maintained with a diverse group of financial institutions
- **Automated compliance module** with pre- and post-trade functionality programmed into trade order management system
- **Disaster recovery plan**, providing adequate redundancy, tested by CTO and firm personnel annually
- Unqualified **SSAE No.18 SOC 1 Type II report** addressing firm wide internal controls obtained annually

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# Investment Team

| | Industry Coverage / Responsibilities | Prior Investment Experience | Education |
|---|---|---|---|
| **DAVID BREAZZANO**<br>PRESIDENT | *Chief Investment Officer; Oversees strategies firm-wide; Co-PM on Opportunistic HY Strategy; Co-PM on Upper Tier U.S HY Strategy* | Fidelity Investments<br>T. Rowe Price | Cornell University, MBA<br>Union College, BA |
| **BENJAMIN SANTONELLI**<br>PORTFOLIO MANAGER | *Co-PM on Opportunistic HY Strategy; PM on Total Return Credit Strategy; Assistant PM on Bank Loan Strategy* | | Amherst College, BA |
| **JOHN SHERMAN**<br>PORTFOLIO MANAGER | *Co-PM on Opportunistic HY Strategy; PM on Bank Loan Strategy; Assistant PM on Total Return Credit Strategy* | Thoma Cressey Equity Partners<br>Citigroup Investment Banking Division | University of Notre Dame, BBA |
| **ROMAN RJANIKOV**<br>PORTFOLIO MANAGER | *Co-PM on Upper Tier U.S. HY Strategy; Director of Research* | MFS Investment Management<br>Fidelity International | Harvard Business School, MBA<br>Plekhanov Russian University of Economics, MSc |
| **MICHAEL WEISSENBURGER**<br>MANAGING DIRECTOR | *Head of Origination* | Wells Fargo Capital Finance<br>Sonus Networks, Inc. | Northeastern University, MBA<br>University of Connecticut, BA |
| **SAMEER BHALLA**<br>SENIOR RESEARCH ANALYST | *Energy, Chemicals, Industrials* | Liberty Mutual Group<br>Investor's Bank and Trust | Boston College, MSF<br>Boston University Questrom School of Business, BS |
| **MICHAEL GRAHAM, CFA**<br>SENIOR RESEARCH ANALYST | *Healthcare* | Macquarie Capital | Middlebury College, BA<br>CFA Designation |
| **ERIC HOFF, CFA**<br>SENIOR RESEARCH ANALYST | *Metals & Mining, Autos, Aerospace & Defense, Consumer & Retail* | Newstar Cpaital<br>(f/k/a Feingold O'Keeffe Capital) | Boston University Questrom School of Business, BS<br>CFA Designation |

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| | Industry Coverage / Responsibilities | Prior Investment Experience | Education |
|---|---|---|---|
| **NED HOLE, CFA**<br>SENIOR RESEARCH ANALYST | *Telecommunications, Cable, Satellite* | Putnam Investments<br>BlackRock Financial | Williams College, BA<br>CFA Designation |
| **MARK WEGNER**<br>SENIOR RESEARCH ANALYST | *Building Materials, Paper & Packaging, Services* | Silver Point Capital, L.P.<br>Rothschild Inc. | The Johns Hopkins University, BA |
| **DOUGLAS WOODEN**<br>SENIOR RESEARCH ANALYST | *Media, Utilities, Gaming & Leisure* | Fort Warren Capital<br>Putnam Investments | University of Pennsylvania, BA |
| **VICTORIA MOORE**<br>RESEARCH ANALYST | *Support on various industries* | Cambridge Associates | Yale University, BA |
| **JASON RIZZO**<br>HEAD TRADER | *High yield bonds, bank loans, and equity* | Grantham, Mayo, Van Oterloo & Co. LLC<br>Colonial Management Associates | State University of New York, BS |
| **CHRIS KAMINSKI, CFA**<br>TRADER | *High yield bonds, bank loans, and equity* | Bank of New York Mellon | Boston University, BA<br>CFA Designation |
| **TIMOTHY DILLON**<br>PORTFOLIO ANALYST | *Portfolio Analytics* | Brown Brother Harriman & Co. | Middlebury College, BA<br>Bentley University, MBA |
| **JOSHUA MCCARTHY**<br>GENERAL COUNSEL & CHIEF COMPLIANCE OFFICER | *Product structuring compliance and general transactional* | Testa, Hurwitz & Thibeault, LLP | Duke University School of Law, JD<br>Duke University, AB |
| **BETH DUGGAN**<br>ASSOCIATE GENERAL COUNSEL | *Loans, reorganizations, and general transactional* | Goodwin Procter, LLP<br>Pillsbury Winthrop, LLP | Northwestern University School of Law, JD<br>Cornell University, BA |

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# Biographies

## DAVID BREAZZANO *President, Chief Investment Officer, Portfolio Manager*

Mr. Breazzano is a co-founder of DDJ and has more than 39 years of experience in high yield, distressed, and special situations investing. At DDJ, he oversees all aspects of the firm and chairs the Management Operating, Remuneration, and Investment Review Committees. In addition, Mr. Breazzano serves as co-portfolio manager of DDJ's U.S. Opportunistic High Yield and Upper Tier U.S. High Yield strategies. Prior to forming DDJ, from 1990 to 1996, he was a vice president and portfolio manager in the High-Income Group at Fidelity Investments, where he had investment management responsibility for over $4 billion in high yield and distressed assets. Specifically, he was a portfolio manager of the Fidelity Capital & Income Fund, which was one of the largest high yield funds in existence at that time. In addition, Mr. Breazzano co-managed the distressed investing operation at Fidelity. Prior to joining Fidelity in 1990, Mr. Breazzano was a vice president and portfolio manager at T. Rowe Price Associates. Before joining T. Rowe Price in 1985, he was a high yield analyst and vice president at First Investors Asset Management, which had over $1 billion in high yield assets under management. Mr. Breazzano began his professional career at New York Life as an investment analyst. Mr. Breazzano is the author of the chapter entitled "Distressed Investing" in *Leveraged Financial Markets: A Comprehensive Guide to High-Yield Bonds, Loans, and Other Instruments* and co-author of the chapter entitled "Trading in the Distressed Market" in *Investing in Bankruptcies and Turnarounds*. Mr. Breazzano serves as a member of the board of directors for the Children's Trust Fund following his appointment by Massachusetts Governor Charlie Baker in 2016. He received his MBA from the Johnson School at Cornell University where he currently is a member of the university's board of trustees. Mr. Breazzano graduated *cum laude* with a BA from Union College, where he also currently sits on its board of trustees.

## BENJAMIN SANTONELLI *Portfolio Manager*

Mr. Santonelli joined DDJ in 2004 and has more than 15 years of experience in sourcing, analyzing, and managing investments across a variety of industries. Mr. Santonelli serves as co-portfolio manager of DDJ's U.S. Opportunistic High Yield strategy, portfolio manager of DDJ's Total Return Credit strategy, and assistant portfolio manager of DDJ's Bank Loan strategy. He is also a member of the Investment Review Committee. Mr. Santonelli serves as a member of the board of directors of a portfolio company. Mr. Santonelli received his BA from Amherst College.

## JOHN SHERMAN *Portfolio Manager*

Mr. Sherman joined DDJ in 2007 and has more than 15 years of corporate finance and investment experience. Mr. Sherman serves as co-portfolio manager of DDJ's U.S. Opportunistic High Yield strategy, portfolio manager of DDJ's Bank Loan strategy, and assistant portfolio manager of DDJ's Total Return Credit strategy. He is also a member of the Investment Review Committee. Mr. Sherman serves as a member of the board of directors of a portfolio company. Prior to joining DDJ, Mr. Sherman was an associate in the Healthcare Group at Thoma Cressey Equity Partners, focusing on private equity investments in middle-market companies. While at Thoma Cressey Equity Partners, Mr. Sherman participated in the due diligence of new standalone investments and tack-on acquisitions for existing portfolio companies. Prior to joining Thoma Cressey Equity Partners, Mr. Sherman was in the Investment Banking Division of Citigroup where he was an analyst in the Global Healthcare Group. While at Citigroup, he participated in the execution of initial public offerings, private placements, mergers and acquisitions, recapitalizations, and other corporate finance transactions. Mr. Sherman graduated *magna cum laude* with a BBA from the University of Notre Dame.

## ROMAN RJANIKOV *Portfolio Manager, Director of Research*

Mr. Rjanikov joined DDJ in 2007 and has more than 16 years of experience in sourcing, analyzing, and managing investments across a variety of industries. Mr. Rjanikov serves as the co-portfolio manager of DDJ's Upper Tier U.S. High Yield strategy as well as the Director of Research. He is also a member of the Investment Review Committee. Prior to joining DDJ, Mr. Rjanikov was an Equity Research Analyst at MFS Investment Management since 2003. While at MFS, Mr. Rjanikov covered a variety of industries with a focus on equities of public US companies. From 1995 to 2001, Mr. Rjanikov was a Senior Financial Analyst at Hewlett-Packard Company in the US, Switzerland and Russia. Mr. Rjanikov earned his MBA (with Distinction) from Harvard Business School and M. Sc. from Plekhanov Russian University of Economics.

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## MICHAEL WEISSENBURGER *Head of Origination, Managing Director*

Mr. Weissenburger joined DDJ in 2015 and has more than 30 years of industry experience, including 14 years of experience in sourcing, analyzing, and direct lending across a variety of industries. As the Head of Origination, Mr. Weissenburger is primarily responsible for building relationships across several financing channels, including investment banks, commercial lenders, private equity firms, Business Development Companies (BDCs), restructuring advisors/consultants and other non-traditional lenders. Prior to joining DDJ, Mr. Weissenburger served for 10 years as Director of Direct Loan Origination at Wells Fargo Capital Finance, where he originated new transactions by effectively sourcing, reviewing, and establishing relationships from Maine to Pennsylvania as well as in Eastern Canada. Prior to his experience at Wells Fargo, he held financial positions at Sonus Networks, Inc., Cognos, Inc. (since acquired by IBM Corporation) and Converge, Inc. Mr. Weissenburger received his MBA from Northeastern University and his BA at the University of Connecticut

## JASON RIZZO *Head Trader*

Mr. Rizzo joined DDJ in 2004 and has more than 22 years of industry experience. Mr. Rizzo is responsible for the execution of trades in all securities in which DDJ invests including high yield bonds, bank debt, distressed bonds, convertible bonds, and equities as well as general oversight of the trading function. Prior to joining DDJ, Mr. Rizzo served in a trading support role at Grantham, Mayo, Van Otterloo & Co. LLC from 2000 to 2004. From 1999 to 2000, Mr. Rizzo was a pricing analyst with Colonial Management Associates and from 1997 to 1999 he worked at State Street Bank and Trust in the mutual fund accounting area. Mr. Rizzo received his BS from the State University of New York.

## JOSHUA McCARTHY *General Counsel & Chief Compliance Officer*

Mr. McCarthy joined the DDJ legal department in 2003 and has over 19 years of experience in the legal profession. As General Counsel, Mr. McCarthy is responsible for overseeing DDJ's legal affairs and providing counsel related to the firm's investment management activities. In addition, in his role as Chief Compliance Officer, Mr. McCarthy administers DDJ's compliance program, including the firm's annual compliance review conducted pursuant to the requirements of the Investment Advisers Act of 1940. He is also a member of the Management Operating, Remuneration, and Fair Value Committees. Prior to joining DDJ, Mr. McCarthy worked as an associate in the business practice group at Testa, Hurwitz & Thibeault, LLP, where he represented various publicly and privately held companies as well as venture capital partnerships. Mr. McCarthy received his JD from Duke University School of Law, *magna cum laude*, and his AB from Duke University, *magna cum laude*. Mr. McCarthy is a member of the bar of the Commonwealth of Massachusetts.

## ELIZABETH DUGGAN *Associate General Counsel*

Ms. Duggan joined the DDJ legal department in 2006 and has over 18 years of experience structuring and negotiating corporate and finance transactions. She focuses the majority of her work on primary issuances of loans and private placements, mergers and acquisitions, reorganizations and intercreditor issues. She is also a member of the Investment Review Committee. Prior to joining DDJ, she was a senior associate in the Leveraged Finance Group at Goodwin Procter, LLP and an associate in the Corporate, Securities, and Finance Group of Pillsbury Winthrop, LLP, in New York. Ms. Duggan has significant experience representing institutions on various domestic and cross-border financing transactions. Ms. Duggan received her JD from Northwestern University School of Law and her BA from Cornell University. She is a member of the bars of the Commonwealth of Massachusetts and the State of New York.

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## DAVID LEVINE, CFA *Director, Portfolio Specialist*

Mr. Levine joined DDJ in 2008 and has more than 19 years of experience in the investment management industry. Mr. Levine works with the members of the business development and client service team to effectively communicate DDJ's investment philosophy and strategies with clients, consultants and prospects. Before joining the business development and client service team in 2013, he served as performance manager for DDJ's analytics team where he was responsible for performance measurement, portfolio analytics, attribution, and GIPS compliance for the firm. Earlier in his career, he worked at Blackrock, Inc. and State Street Corporation. Mr. Levine received his MS in Finance from Bentley University and his BS from Framingham State University. Mr. Levine is a CFA charterholder.

## ANDREW ROSS, CFA *Director, Portfolio Specialist*

Mr. Ross joined DDJ in 2016 and has more than 18 years of experience in the investment management industry. Mr. Ross works with members of the business development and client service team to effectively communicate DDJ's investment philosophy and strategies with clients, consultants and prospects. Prior to joining DDJ, he served as a fixed income product management analyst at Wellington Management Company, where he acted as a proxy for portfolio managers in communicating to clients, consultants, and prospects on investment strategies, positioning, and market outlook. Prior to that, Mr. Ross worked as an equity research associate at MFS Investment Management, where he built and maintained company models using bottom-up fundamental analysis to forecast various metrics. Mr. Ross graduated *cum laude* with a BS in Finance from the University of Massachusetts and is a CFA charterholder.

## JOHN RUSSELL, CPA *Chief Financial Officer*

Mr. Russell joined DDJ in 1997. Mr. Russell is responsible for all day-to-day financial reporting, accounting, tax-related and back office accounting functions as well as oversight of DDJ's human resource function. He is also a member of the Management Operating, Remuneration, Fair Value, and Business Process Review Committees. Prior to joining DDJ, Mr. Russell worked as an audit manager in the Investment Management Group at Ernst & Young, LLP, and prior to that, as a senior and staff auditor. Mr. Russell earned his MS (accounting)/MBA from Northeastern University and his AB from Brown University. Mr. Russell is a certified public accountant and member of the Massachusetts Society of CPAs and the Private Equity CFO Association (Boston Chapter).

## JOHN (JACK) O'CONNOR *Senior Vice President, Head of Business Development & Client Service*

Mr. O'Connor joined DDJ in 2013 and has more than 25 years of industry experience. As the head of business development and client service, Mr. O'Connor provides strategic direction to the team responsible for developing and maintaining all client and consultant relationships. He is also a member of both the Management Operating and Remuneration Committees. Prior to joining DDJ, Mr. O'Connor served for three years as a managing director and head of North American distribution for Morgan Stanley Investment Management, where his team covered intermediaries, registered investment advisers, bank trusts, traditional institutional sales and consultant relations. Prior to that, he was an executive vice president at Pioneer Investments and earlier, a senior vice president at MFS Investment Management. Mr. O'Connor is a former officer in the United States Marine Corps and received his BA from Denison University and he holds his Series 7, 24 and 63 registrations.

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# DDJ Client Service Team

**Jack O'Connor**
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# Standard Fee Schedule: Opportunistic High Yield

| Separate Account[1] | |
|---|---|
| First $100 million | 55 bps |
| Next $100 million | 50 bps |
| Above $200 million | 45 bps |

| Commingled Fund[2] | |
|---|---|
| First $200 million | 55 bps |
| Next $200 million | 50 bps |
| Above $400 million | 45 bps |

1. Performance-based fee schedules may be available for separate accounts on a case-by-case basis. Management and performance-based fees vary according to the specific mandate of the account, investment performance, and assets under management. The minimum investment for a separate account is $50 million.
2. The breakpoints for this fee schedule are based on the total assets of the commingled fund, rather than an individual investor's capital account balance. The minimum investment for a commingled fund is $5 million.

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## U.S. Opportunistic High Yield

1. The DDJ U.S. Opportunistic High Yield Composite (the "Opportunistic Composite") includes portfolios that follow the investment restrictions and guidelines described in the Appendix. The Opportunistic Composite represents the greatest percentage of DDJ opportunistic high yield assets under management. Its restrictions and guidelines provide investment flexibility to the extent described in the Appendix. Specific investment restrictions and guidelines may vary based upon client requirements. The Opportunistic Composite was incepted on March 31, 1998. Accordingly, the gross returns of the Opportunistic Composite since inception as well as the returns for the indices are calculated beginning as of such date. Returns are calculated using daily time-weighted rates of return, and cash flows are recognized at the beginning of the day. Gross returns also do not reflect the deduction of the investment advisory fee charged by DDJ Capital Management; such expense, as well as other expenses the portfolio may incur, will reduce the gross return set forth on these slides. The investment advisory fees charged to the portfolio are set forth in each client's investment management agreement. Returns presented for periods greater than one year are annualized returns. Net returns are available in the Appendix.
2. DDJ has provided the 50% BBBC HY 2% Issuer Cap/50% Credit Suisse Lev. Loan benchmark at the request of the prospective client. The Bloomberg Barclays U.S. High Yield- 2% Issuer Cap Index is a broad, unmanaged high yield index. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith. The Credit Suisse Leveraged Loan Index is constructed to reflect the investible universe of U.S.-dollar denominated leveraged loans. None of these indices bears fees and expenses or reflects the Opportunistic Composite's specific investment restrictions and guidelines. An investor can not directly invest in such indices, and therefore the index returns are comparable to Opportunistic Composite returns calculated on a fully gross, and not net, basis; investment results will differ from those of these indices. The benchmark data is used for comparative purposes only.
3. The DDJ U.S. Opportunistic High Yield representative account is an account within the Opportunistic Composite that DDJ has deemed the most representative of the DDJ-managed accounts pursuing the Opportunistic Composite investment strategy. The Opportunistic Composite statistics provided are based on a representative account and are included as supplemental information and complement a full disclosure presentation, which has been provided.
4. The average rating characteristic is determined internally by DDJ pursuant to a consistent methodology. It is not an S&P credit rating or a rating issued from a ratings agency, and is not a credit opinion.
5. With respect to the representative account, blended yield is a blend of (i) for securities trading at or above par, yield to worst for bonds, and yield to three year take out for loans, and (ii) for bonds and loans trading at a discount, yield to maturity. With respect to the benchmark, yield is shown as yield to worst.
6. With respect to the representative account, the adjusted effective duration statistic provided is calculated by taking a weighted average of (i) modified duration to next reset date for all floating rate instruments, and (ii) effective duration for all fixed coupon instruments. With respect to the benchmark, duration is shown as effective duration.
7. The targeted weighting ranges and position sizes relative to portfolio NAV are based on current investment opportunities and may be subject to change based on market conditions. The actual percentage devoted to these asset classes of a given portfolio may be higher or lower depending on market and other conditions, including specific client guidelines; furthermore, such percentages do not reflect restructured equity and/or other investments that may be held within such high yield portfolios. Loan-to-Value (LTV) is defined as the market value of the reference class of debt in which a portfolio has invested at time of purchase, divided by the intrinsic value of the issuer (as determined by DDJ in its reasonable discretion).

**IC Meeting: 01/21/20**
**Item II**
**Attachment 5**

## DDJ Capital Management, LLC
## Schedule of Investment Performance - DDJ U.S. Opportunistic High Yield Composite
March 31, 1998 to December 31, 2019

| Year Ended 12/31 | Total Gross Return (%) | Total Net Return (%) | Benchmark Return (%) | Number of Portfolios | Composite Assets at End of Period ($ millions) | Percentage of Firm Assets (%) | Composite Dispersion (%) | Composite 3 Yr. Annualized Standard Deviation (%) | Benchmark 3 Yr. Annualized Standard Deviation(%) |
|---|---|---|---|---|---|---|---|---|---|
| 2019 | 6.18% | 5.73% | 13.98% | 24 | 6,041 | 77% | 0.64% | 4.31% | 4.23% |
| 2018 | 0.88% | 0.40% | -2.20% | 25 | 6,345 | 77% | 1.75% | 4.16% | 4.85% |
| 2017** | 12.13% | 11.56% | 7.30% | 18 | 5,643 | 72% | 0.54% | 4.92% | 5.93% |
| 2016 | 17.53% | 16.96% | 18.33% | 21 | 5,584 | 74% | 1.40% | 4.96% | 6.35% |
| 2015 | -3.82% | -4.28% | -5.43% | 21 | 5,091 | 69% | 0.88% | 4.04% | 5.46% |
| 2014 | 3.68% | 3.12% | 2.09% | 15 | 4,091 | 51% | 1.84% | 3.10% | 4.51% |
| 2013 | 10.16% | 9.55% | 7.23% | 15 | 3,456 | 48% | 1.01% | 4.54% | 6.50% |
| 2012 | 17.61% | 16.92% | 15.58% | 13 | 2,475 | 49% | 1.51% | 5.27% | 7.13% |
| 2011 | 3.57% | 3.04% | 4.38% | 14 | 2,459 | 67% | 1.50% | 8.37% | 11.15% |
| 2010 | 19.30% | 18.63% | 15.19% | 10 | 2,455 | 62% | 2.86% | 14.34% | 17.16% |
| 2009 | 58.52% | 57.51% | 57.51% | 11 | 2,657 | 78% | 3.32% | 14.19% | 17.02% |
| 2008 | -29.22% | -29.51% | -26.39% | 8 | 1,231 | 53% | 1.64% | 11.13% | 13.50% |
| 2007 | 3.77% | 3.27% | 2.19% | 7 | 1,517 | 54% | na | 3.72% | 4.55% |
| 2006 | 12.15% | 11.52% | 11.77% | 5 | 1,450 | 51% | na | 3.85% | 3.86% |
| 2005 | 5.79% | 5.32% | 2.74% | 3 | 1,425 | 54% | na | 5.89% | 5.47% |
| 2004 | 13.59% | 12.18% | 10.87% | 2 | 1,158 | 52% | na | 7.44% | 8.48% |
| 2003 | 39.51% | 34.18% | 28.15% | 2 | 914 | 55% | na | 8.82% | 10.63% |
| 2002 | 10.10% | 9.23% | -1.89% | 1 | 468 | 40% | na | 8.65% | 10.30% |
| 2001 | 7.17% | 6.55% | 4.48% | 1 | 397 | 34% | na | 7.40% | 7.93% |
| 2000 | -7.59% | -8.17% | -5.12% | 1 | 355 | 31% | na | na | na |
| 1999 | 4.68% | 4.04% | 2.51% | 1 | 363 | 33% | na | na | na |
| 1998* | -3.43% | -3.89% | -0.02% | 1 | 347 | 33% | na | na | na |

**Partial year, inception 3/31/98*

*DDJ Capital Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. DDJ Capital Management, LLC has been independently verified for the periods March 1, 1996 to December 31, 2018.*

*Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The DDJ U.S. Opportunistic High Yield Composite has been examined for the periods January 1, 2005 to December 31, 2018. The verification and performance examination reports are available upon request.*

*The "benchmark" data provided above is that of the ICE BofA U.S. Non-Financial High Yield Index which is presently the benchmark for the DDJ U.S. Opportunistic High Yield Composite.*

**IC Meeting: 01/21/20**
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## OPPORTUNISTIC HIGH YIELD COMPOSITE DISCLOSURES

*DDJ Capital Management, LLC ("the Firm", "DDJ") is an investment adviser, registered with the Securities and Exchange Commission, which specializes in high yield securities and special situations investing.*

*The DDJ U.S. Opportunistic High Yield Composite ("the Composite") was created in August 2007; valuations and returns are expressed in U.S. dollars. The U.S. Opportunistic High Yield strategy seeks to generate capital appreciation and income by investing in high yield securities or higher rated securities that offer yields similar to those available in the high yield market. The strategy focuses on investments in high yield bonds and has a bias toward lower tier securities. High yield portfolios not denominated in U.S. dollars, where currency hedging is a significant component of the strategy, are excluded from the Composite. Derivatives may be used for hedging purposes only; however, certain credit derivatives may be used in limited circumstances subject to client guidelines. Portfolios within the Composite will be permitted to invest in lower-rated debt securities, equity securities, bank debt, small issues and direct private investments, but allocations to these security types will vary. Portfolios within the Composite will invest at least 25% of assets in bank loans and will invest in illiquid securities. Effective June 1, 2016, the Composite has a new portfolio management team, which comprises a co-portfolio manager who co-founded the Firm and has been involved with the Composite strategy since its inception as well as two other co-portfolio managers who are long-tenured investment professionals of the Firm. In November 2017, a lower threshold for bank loan assets was added to the composite definition. The change was made to more clearly distinguish the differences between DDJ's various strategies.*

*Gross returns do not reflect the deduction of investment management fees, but are net of trading expenses, deal-related legal expenses and foreign withholding tax. Net returns reflect the application of actual management and, if applicable, performance-based fees to gross returns. Composite dispersion is the equal-weighted standard deviation of annual returns of all accounts included in the Composite for the entire year. Composite dispersion is not calculated for composites which contain five accounts or fewer for the entire year. Three year annualized standard deviation figures marked "na" for the Composite and the benchmark have been omitted as a result of not having the required 36 months of historical return data. A complete list of the firm's composite descriptions and policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.*

*Subjective or unobservable inputs may be required to value certain portfolio investments and those valuations could be significant to the overall portfolio valuation.*

*The benchmark, the ICE BofA U.S. Non-Financial High Yield Index, is used for comparative purposes only. Like the investments of the benchmark, the Composite consists primarily of bonds and notes rated BB or lower (commonly referred to as "high yield"). However, the benchmark is an unmanaged index and does not include any private (non-144A) obligations, convertible bonds, preferred and common equity, and certain other securities and obligations, and excludes financials. Investments made by DDJ on behalf of the portfolios managed according to the strategy may differ from those of the benchmark and may not have the same investment strategy. Accordingly, investment results for the Composite will differ from those of the benchmark. For periods prior to January 1, 2013, the Composite is measured against the ICE BofA High Yield Index. Historically, the Composite strategy has had very limited exposure to Financials, and accordingly the benchmark was changed to the ICE BofA U.S. Non-Financial High Yield Index, prospectively on January 1, 2013, to provide a more representative comparison to the strategy.*

*The standard management fee schedule is as follows (per annum):*

| Separate Account | |
|---|---|
| First $100 million | 55 bps |
| Next $100 million | 50 bps |
| Above $200 million | 45 bps |

| Commingled Fund | |
|---|---|
| First $200 million | 55 bps |
| Next $200 million | 50 bps |
| Above $400 million | 45 bps |

*Performance-based fee schedules are available for separate accounts. Management and performance-based fees may vary according to the specific mandate of the account, investment performance, and assets under management.*

*The index data referenced herein is the property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/or its Third Party Suppliers and has been licensed for use by DDJ. ICE Data and its Third Party Suppliers accept no liability in connection with its use. Please contact DDJ for a full copy of the applicable disclaimer.*

***Past performance is not an indication of future results.***

***Following a review of the Composite membership during the fourth quarter of 2017, DDJ removed four portfolios from the Composite, comprising approximately 10% of Composite AUM. Reasons for this removal include changes in client investment guidelines (and associated) constraints) as well as the overall evolution of the DDJ U.S. opportunistic high yield strategy and of the high yield market. Accordingly, DDJ migrated such portfolios to separate composites more appropriate for their respective investment strategies.*

INVESTMENT MANAGER

**DDJ Capital Management**

Stony Brook Office Park
130 Turner Street
Building 3, Suite 600
Waltham, MA 02453
www.ddjcap.com

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# KKR Credit

## Global Credit Opportunities

January 2020

*Prepared at the Request of Los Angeles City Employees' Retirement System (LACERS)*

KKR Kohlberg Kravis Roberts

# Important Information

*KKR Credit conducts its business through KKR Credit Advisors (US) LLC, an SEC-registered investment adviser, KKR Credit Advisors (Ireland), authorized and regulated by the Central Bank of Ireland Unlimited Company, and KKR Credit Advisors (EMEA) LLP which is authorized and regulated by the Financial Conduct Authority in the United Kingdom.*

*This presentation shall not constitute an offer to sell, the solicitation of any offer to buy, or the marketing of, interests ("Interests") in any KKR Fund (each a "Fund"), which may only be made at the time a qualified offeree receives a Confidential Private Placement Memorandum describing the offering and related subscription agreement. These securities shall not be offered, sold or marketed in any jurisdiction in which such offer, sale or, marketing would be unlawful until the requirements of the laws of such jurisdiction have been satisfied.*

*The Fund does not qualify as alternative investment funds ("AIFs") under the AIFMD. KKR Credit does not intend to engage in any marketing in any member state of the European Union or European Economic Area or to register under any national private placement regime of such member states as contemplated in Article 42 AIFMD. As such, investors will not receive the protections afforded to investors in AIFs managed by registered EU AIFMs or non-EU AIFMs marketing AIFs to EU investors under the AIFMD and/or member state laws, rules and regulations implementing the AIFMD.*

*The information in this presentation is only as current as the date indicated, and may be superseded by subsequent market events or for other reasons. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. This presentation should not be viewed as a current or past recommendation or a solicitation of an offer to buy, sell or market any securities or to adopt any investment strategy.*

***Past performance is no guarantee of future results.***

*Any indices referred to in this presentation are used for purposes of comparison to the performance of certain capital markets. The market index returns assume that on the day a portfolio investment is made, a hypothetical investment in a matching amount is made in the given index. For each date on which either a portion or all of the portfolio investment is sold, a hypothetical index multiple (factor) is calculated by comparing the change in index value between the two dates. The cost of the investment sold (or portion of cost sold) is multiplied by this factor, resulting in a hypothetical index value. The return is calculated using these dates of investment and hypothetical value(s) generated. The return figures for each index do not reflect the deduction of any taxes, expenses, transaction costs or advisory fees. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with investing in a Fund. It is not possible to invest directly in an unmanaged index. The performance of the indices represents unmanaged, passive buy-and-hold strategies, investment characteristics and risk/return profiles that differ materially from those of the Fund, and an investment in the Fund is not comparable to an investment in such index or in the securities that comprise the index. Further, the indices referred to herein are not used or selected by KKR Credit as an appropriate benchmark to compare relative to the performance of the Fund's strategy, but rather they are included herein solely because they are well-known and widely-recognized indices that embody investments with materially less risk than an investment in a Fund.*

*The "S&P LSTA" is a daily tradable index for the U.S. loan market that seeks to mirror the market-weighted performance of the largest institutional loans that meet the inclusion criteria and that have marks from the LSTA/LPC mark-to-market service. The inclusion criteria consist of the following: i) syndicated term loan instruments consisting of term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans; ii) secured; iii) U.S. dollar denominated; iv) minimum term of one year at inception; and v) minimum initial spread of LIBOR plus 1.25%. For more information on the S&P LSTA, please visit http://www.lsta.org/MarketDataContent.aspx?id=4636. Unless otherwise indicated, all S&P LSTA performance data is as of the date provided.*

*The S&P 500 is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*The BAML HY Master II is an index for high yield corporate bonds. It is designed to measure the broad high yield market, including lower-rated securities.*

*The JP Morgan EMBI Global Index is an unmanaged index that tracks total returns for dollar-denominated Brady Bonds, Eurobonds, traded loans and local market debt instruments issues by sovereign and quasi-sovereign entities of emerging markets countries.*

# Important Information

*The Barclays Aggregate is an index that measures the performance of the U.S. investment grade bond market. The index covers a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States - including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.*

*Investments of the Fund may be illiquid, making, at times, fair market valuation impossible or impracticable. As a result, valuation of the Fund may be volatile, reducing the utility of comparison to any index whose underlying securities are priced according to market value, such as the S&P LSTA. Investors should be aware that the Fund may incur losses both when major indices are rising and when they are falling.*

*The information in this presentation may contain projections or other forward-looking statements regarding future events, targets or expectations regarding the Fund described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this presentation, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.*

*References to “KKR Capstone” or “Capstone” are to all or any of Capstone Consulting LLC, Capstone Europe Partners LLP, Capstone Europe (International) Partners LLP, KKR Capstone Asia Limited, and their affiliates, which are owned and controlled by their senior management. KKR Capstone is not a subsidiary or affiliate of KKR. KKR Capstone operates under several consulting agreements with KKR and uses the “KKR” name under license from KKR. References to operating executives, operating experts, or operating consultants are to employees of KKR Capstone and not to employees of KKR. In this presentation, the impact of initiatives, in which KKR Capstone has been involved, is based on KKR Capstone’s internal analysis and information provided by the applicable portfolio company. Impacts of such initiatives are estimates that have not been verified by a third party and are not based on any established standards or protocols. They may also reflect the influence of external factors, such as macroeconomic or industry trends, that are unrelated to the initiative presented.*

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*In the United States and Canada, this presentation is being distributed by KKR Capital Markets LLC (“KCM”), a broker-dealer registered with the U.S. Securities and Exchange Commission (“SEC”) and a member of FINRA and SIPC.*

*In the United Kingdom and Europe this presentation is being distributed by KKR Capital Markets Limited which is authorized and regulated by the Financial Conduct Authority. This presentation is only being distributed to (A) persons who are outside of the United Kingdom or (B) persons who are (i) investment professionals falling within both Article 14 of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2005 (the “CIS Promotion Order”) and Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Financial Promotions Order”), (ii) high net worth companies and other persons falling within both Article 22 of the CIS Promotion Order and Article 49 of the Financial Promotion Order, (iii) other persons who fall within an exemption both in the CIS Promotion Order and of the Financial Promotion Order or (iv) other persons to whom both an invitation or inducement to engage in investment activity (within the meaning of section 21 Financial Services and Markets Act 2000 (“FSMA”)) participate in a collective investment scheme (within the meaning of the FSMA) and an invitation or inducement to of section 238 FSMA) can lawfully be communicated. The persons specified in (B)(i), (ii), (iii) and (iv) above are collectively referred to as “Relevant Persons”. Any person in the United Kingdom who is not a Relevant Person should not act or rely on this presentation or any of its contents.*

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*General discussions contained within this presentation regarding the market or market conditions represent the view of either the source cited or KKR. Nothing contained herein is intended to predict the performance of any investment. There can be no assurance that actual outcomes will match the assumptions or that actual returns will match any expected returns. The information contained herein is as of September 30, 2019, unless otherwise indicated, is subject to change, and KKR assumes no obligation to update the information herein.*

*Participation of KKR Capital Markets and KKR Capstone personnel in the public markets investment process is subject to applicable law and inside information barrier policies and procedures, which may limit the involvement of such personnel in certain circumstances and KKR Credit’s ability to leverage such integration with KKR. Discussions with senior advisors and employees of the Firm’s managed portfolio companies are also subject to the inside information barrier policies and procedures, which may restrict or limit discussions and/or collaborations with KKR Credit.*

# Important Information

*Potential loss of investment – No guarantee or representation is made that the investment program used by KKR Credit will be successful. The Fund represent speculative investments and involve a high degree of risk. An investment in any Fund should be discretionary capital set aside strictly for speculative purposes. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment in a Fund. An investment in a Fund is not suitable for all investors. An investor could lose or a substantial portion of his/her/its investment. Only qualified eligible investors may invest in the Fund. Because of the nature of the trading activities, the results of a Fund's operations may be volatile from month to month and from period to period. Accordingly, investors should understand that past performance is not indicative of future results. Funds typically represent that their returns have a low correlation to the major market indices. Investors should be aware that the Fund may incur losses both when major indices are rising and falling.*

*Use of leverage – Funds may invest in forward contracts, options, swaps and over-the-counter derivative instruments, among others. Like other traded investments, trading in these securities may result in losses in excess of the amount invested.*

*Regulatory risk – No Fund will be registered under the Investment Company Act of 1940. As a result, investors will not receive the protections of the Investment Company Act afforded to investors in registered investment companies (i.e. "mutual funds"). The Fund's offering documents are not reviewed or approved by federal or state regulators and its privately placed interests are not federally or state registered. In addition, a Fund may engage in trading on non- U. S. exchanges and markets. These markets and exchanges may exercise less regulatory oversight and supervision over transactions and participants in transactions.*

*Valuations – The net asset value of a Fund may be determined by its administrator in consultation with its manager or advisor, or based on information from the manager(s) of the underlying funds. Certain portfolio assets may be illiquid and without a readily ascertainable market value and accuracy of valuations of other managers may be difficult to verify. Since the value assigned to portfolio securities affects a manager's or advisor's compensation, the manager's or advisor's involvement in the valuation process creates a potential conflict of interest. The value assigned to such securities may differ substantially from the value the Fund is able to realize. Instances of mispriced portfolios, due to fraud or negligence, have occurred in the industry.*

*Fees and expenses – A Fund may be subject to substantial charges for management, advisory and brokerage fees. It may be necessary for those pools that are subject to these charges to make substantial trading profits to avoid depletion or exhaustion of their assets. Please refer to the relevant Confidential Placement Memorandum for a more complete description of risks and a comprehensive description of each expense to be charged to the Fund.*

*Limited operating history – A Fund may have little or no operating history or performance and may use performance which may not reflect actual trading of the Fund and should be reviewed carefully. Investors should not place undue reliance on hypothetical, pro forma or predecessor performance. The Fund's actual performance may differ substantially and may be volatile.*

*Reliance on key persons – The Fund's manager or advisor has total trading authority over the Fund and may be subject to various conflicts of interest. The death, disability or departure of the manager or advisor may have a material effect on a Fund.*

*Concentration – A Fund may use a single advisor or employ a single strategy, which could mean a lack of diversification and higher risk.*

*Counterparty and bankruptcy risk – Although KKR Credit will attempt to limit its transactions to counterparties which are established, well-capitalized and creditworthy, a Fund will be subject to the risk of the inability of counterparties to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes, which could subject a Fund to substantial losses.*

*Limited liquidity – Your ability to redeem Interests will be limited and subject to certain restrictions and conditions under the Limited Partner Agreement of a Fund. No secondary public market for the sale of the Interests exists, nor is one likely to develop. In addition, your Interests will not be freely transferable.*

*Tax risks – Investors in private equity funds such as the Fund are subject to pass-through tax treatment of their investment. Since profits generally will be reinvested in the Fund rather than distributed to investors, investors may incur tax liabilities during a year in which they have not received a distribution of any cash from the Fund. In addition, it is likely that the general partner will not be able to prepare its tax returns in time for investors to file their returns without requesting an extension of time to file.*

*Volatile markets – Market prices are difficult to predict and are influenced by many factors, including: changes in interest rates, weather conditions, government intervention and changes in national and international political and economic events. Please refer to the Fund's Confidential Private Placement Memorandum for a more comprehensive description of volatility factors.*

*The above summary is not a complete list of the risks, tax considerations and other important disclosures involved in investing in Funds and is subject to the more complete disclosures in the relevant Confidential Private Placement Memorandum and related subscription agreement, which must be reviewed carefully prior to making an investment.*

# Global Credit Opportunities Strategy ("OCS") Summary

**KKR's Flagship Strategy in Traded Credit**

- The Global Credit Opportunities Strategy: A conviction-based strategy investing in a portfolio primarily consisting of high yield bonds, bank loans, and structured credit
- Designed to be flexible and attempt to take advantage of credit market dislocations, and benefits from a broad mandate to invest in concentrated positions that provide an attractive risk / return profile
- The Opportunistic Credit Strategy was started 12 years ago and the Global Credit Opportunities Fund was started in January 2015 and is ~$2.1bn in size as of December 31, 2019
- First quartile performance amongst peers over the last 3, 5, 7 and 10 years(2)

**Experienced Team**

- The same PM team has managed the Fund since its inception
- Idea generation comes from across the KKR platform

**Supportive Market Conditions**

- Macroeconomic and political uncertainty has contributed to market dislocations
- Dislocations will likely continue, resulting in heightened volatility and incremental buying opportunities
- We believe that being nimble, having conviction and dynamically allocating across asset classes by identifying the strongest relative value opportunities can generate alpha in periods of heightened volatility

**$2.8bn**
Strategy Size(1)

**12 Year**
Track Record

**11.8%**
Gross return since inception(1)

**1st**
Quartile Performance(2)

**Past performance is no guarantee of future results.** Please see Important Information for a discussion of the limitations of related performance.

KKR

1. As of December 31, 2019. Performance and AUM information based on Estimates.
2. Source: eVestment Alliance - performance reflects performance vs. peers based on data ending September 30, 2019. Collection and analysis of comparison data is based on the universe of managers as self-defined by each manager on a 3,5,7 and 10 year basis. Based on performance of the respective strategies.

# KKR – A Leading Asset Management Platform

KKR

**Founded 1976**

| ~$208bn | ~$19bn | 460+ |
|---|---|---|
| Assets Under Management | Internal Balance Sheet(1) | Investment Professionals |

**Private Equity & Real Assets**
*~335 investment professionals*
($114bn AUM)

**KKR Credit**
*~125 investment professionals*
($70bn AUM)

**Capital Markets**
*55+ capital markets professionals*
*(~$367bn in Refinancings)(2)*

**Strategic Partnerships**
($24bn AUM)

| KKR Capstone *(~70 people)* | Global Macro and Asset Allocation *(~15 people)* | Stakeholder Management *(5+ people)* | KKR Global Institute *(3 people)* | Client and Partner Group *(~90 people)* |
|---|---|---|---|---|

**KKR's $19bn Balance Sheet invests alongside third-parties in our funds and deals**

Note: AUM, Balance Sheet amount and headcount as of September 30, 2019. Please refer to "Important Information" for additional detail on the calculation of AUM and for further information on KKR's inside information barrier policies and procedures, which may limit the involvement of personnel in certain investment processes and discussions. KKR Capstone is not a subsidiary or affiliate of KKR. Please see Important Information at the beginning of this presentation for additional disclosure regarding KKR Capstone.

(1) Represents gross assets.
(2) Represents KCM refinancings for KKR portfolio companies since 2009.

# KKR Credit – $70.3 billion Leading Credit Platform

**Assets Under Management**

## $39.0bn

### Leveraged Credit

- *Leveraged Loans*
- *High Yield Bonds*
- *Opportunistic Credit*
- *CLOs*
- *Revolving Credit*

## $23.7bn

### Private Credit

- *Direct Lending*
- *Asset-Based Finance*
- *Subordinated Debt*

## $7.5bn

### Special Situations

- *Deep Value*
- *Distressed*
- *Capital Solutions*

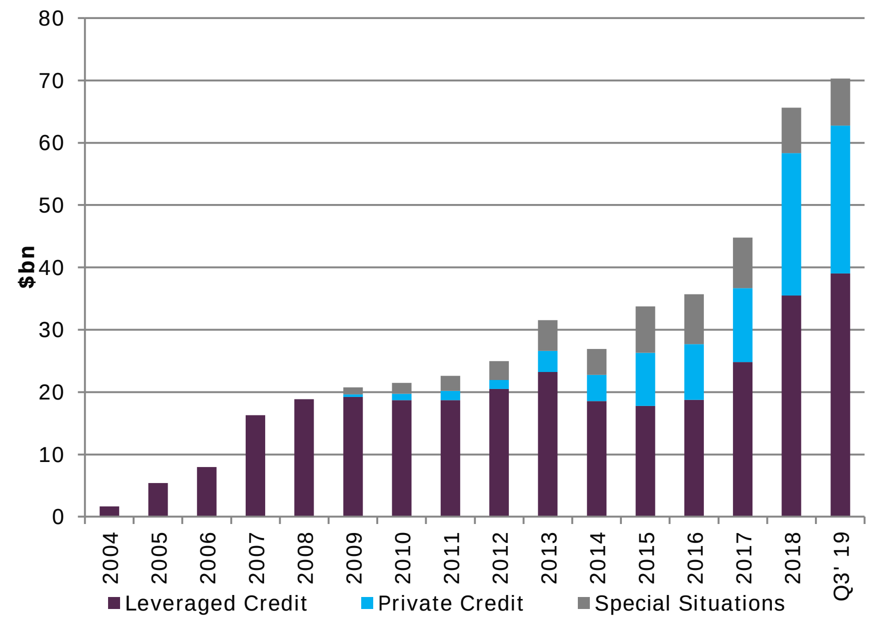
### Attributes

~125 dedicated investment professionals across 9 cities in 8 countries

~1,050 issuers on the KKR Credit platform

KKR balance sheet and employees have committed ~$2.4bn to our credit strategies(1)

### KKR Credit AUM Growth ($bn)




KKR

Note: All information as of September 30, 2019 unless otherwise noted. Please refer to "Important Information" for additional detail on the calculation of AUM.
(1) Includes legacy investments in KKR Financial Holdings LLC, a specialty finance vehicles listed on the New York Stock Exchange and various collateralized loan obligation vehicles.

# KKR Leveraged Credit Platform Overview

## A leading global platform investing in US and European Leveraged Credit

### Investment Strategies
- Leveraged Loans
- High Yield Bonds
- Opportunistic Credit
- CLOs
- Revolving Credit

### Fund Types
- Commingled Funds
- Private Funds
- Separate Accounts
- ’40 Act Vehicles

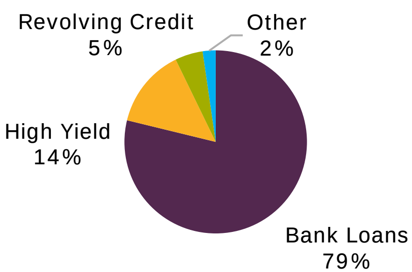
**2004**
Inception of the KKR Credit Platform

**$39.0bn**
Assets Under Management[(1)]

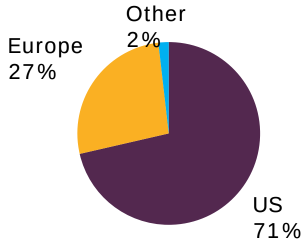
**~40**
Dedicated Leveraged Credit Investment Professionals[(2)]

### AUM Profile ~$39.0bn

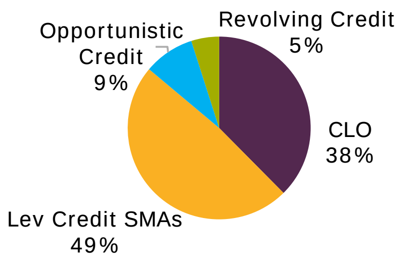
#### Assets



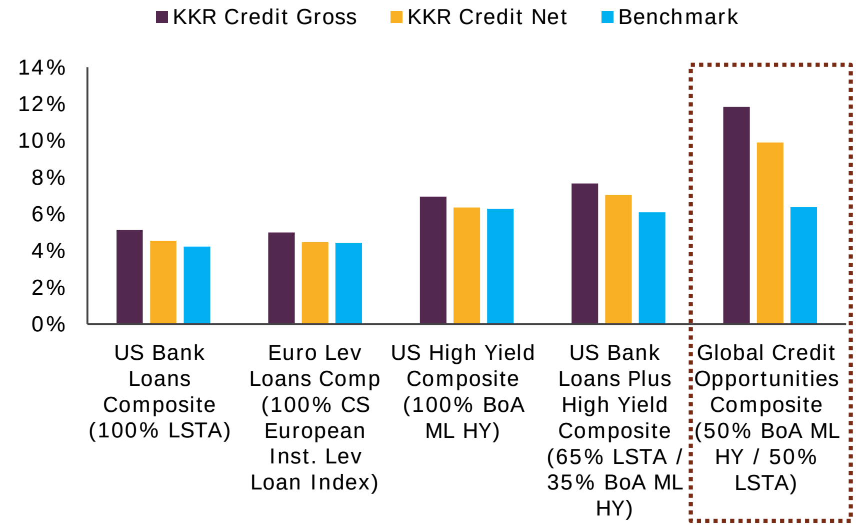

#### Geography




#### Strategy




### Performance vs. Benchmark by Strategy[(3)] Inception-to-Date Annualized




| Inception | April 2011 | Sept 2009 | April 2011 | July 2008 | May 2008 |
|---|---|---|---|---|---|
| Peer Quartile[(4)] | 1st | - | 1st | 1st | 1st |

Note: All information as of September 30, 2019 unless otherwise noted. Please refer to “Important Information” for additional detail on the calculation of AUM. Participation of KKR Private Equity, KKR Capital Markets, and KKR Capstone personnel in the public markets investment process is subject to applicable law and inside information barrier policies and procedures, which may limit the involvement of such personnel in certain circumstances and KKR Credit’s ability to leverage such integration with KKR.

(1) Includes legacy investments in KKR Financial Holdings LLC, a specialty finance vehicles listed on the New York Stock Exchange and various collateralized loan obligation vehicles.

(2) Includes Leveraged Credit Trading Team Members

(3) Note: See Endnotes for important information relating to the information presented herein. Past performance is not indicative of future results and there can be no assurance that comparable results will be achieved in respect of such strategies going forward or that investors in any KKR Credit fund, vehicle or account will receive a return of capital.

(4) Source: eVestment Alliance - performance reflects performance vs. peers over a 84 month period, based on data ending September 30, 2019. Collection and analysis of comparison data is based on the universe of managers as self-defined by each manager. Based on performance of the respective strategies .

# Leveraged Credit Investment Team

## Today, there are approximately 40* dedicated members of the Leveraged Credit Investment Team in San Francisco and Dublin

### Leveraged Credit – Senior Leadership

| | | | | |
|---|---|---|---|---|
| **Chris Sheldon**<br>Member & Head of Leveraged Credit<br>15 years at KKR/21 years experience<br>(San Francisco) | **Jeremiah Lane**<br>Member, PM & Co-Head of Research<br>14 years at KKR/18 years experience<br>(San Francisco) | **John Reed**<br>Member & Head of Credit Trading<br>11 years at KKR/22 years experience<br>(San Francisco) | **Terry Ing**<br>MD & Co-Head of Research<br>1 year at KKR/19 years experience<br>(San Francisco) | **Eddie O'Neill**<br>Member & Head of European Credit<br>17 years at KKR[(1)]/24 years experience<br>(Dublin) |

### US Leveraged Credit Industry Analysts

- 2 Managing Directors
- 4 Directors
- 9 Principals
- 5 Associates & Analysts

### European Leveraged Credit Team

- 1 Managing Director
- 2 Directors
- 3 Principals
- 4 Associates & Analysts

### Additional Key Resources

| | | | | |
|---|---|---|---|---|
| **Special Situations**<br>*~30 Investment Professionals* | **Private Credit**<br>*~60 Investment Professionals* | **Credit Trading Team**<br>*5 Investment Professionals* | **Credit Strategies Team**<br>*12 Professionals* | **Portfolio Monitoring Unit**<br>*10 Professionals* |
| **Global Macro & Asset Allocation**<br>*15 Professionals* | **KKR Global Institute & Global Public Affairs**<br>*~15 Professionals* | **Private Equity**<br>*~200 Industry Experts*<br>**Real Estate Team**<br>*~85 Professionals* | **KKR Capstone**<br>*70+ Professionals* | **Portfolio Construction & Risk Analysis**<br>*5 Professionals* |

* Inclusive of the KKR Credit Trading Team.
Note: Please refer to "Important Information" at the beginning of this presentation for further information on KKR's inside information barrier policies and procedures, which may limit the involvement of personnel in certain investment processes and discussions.

# KKR Competitive Advantages

- KKR Global Network
- 1,000+ issuers across KKR Credit platform[1]
- Direct Relationships with Fortune 500 Companies

- Regimented ICs and weekly meetings instills discipline
- Defined process helps KKR analyze complexity

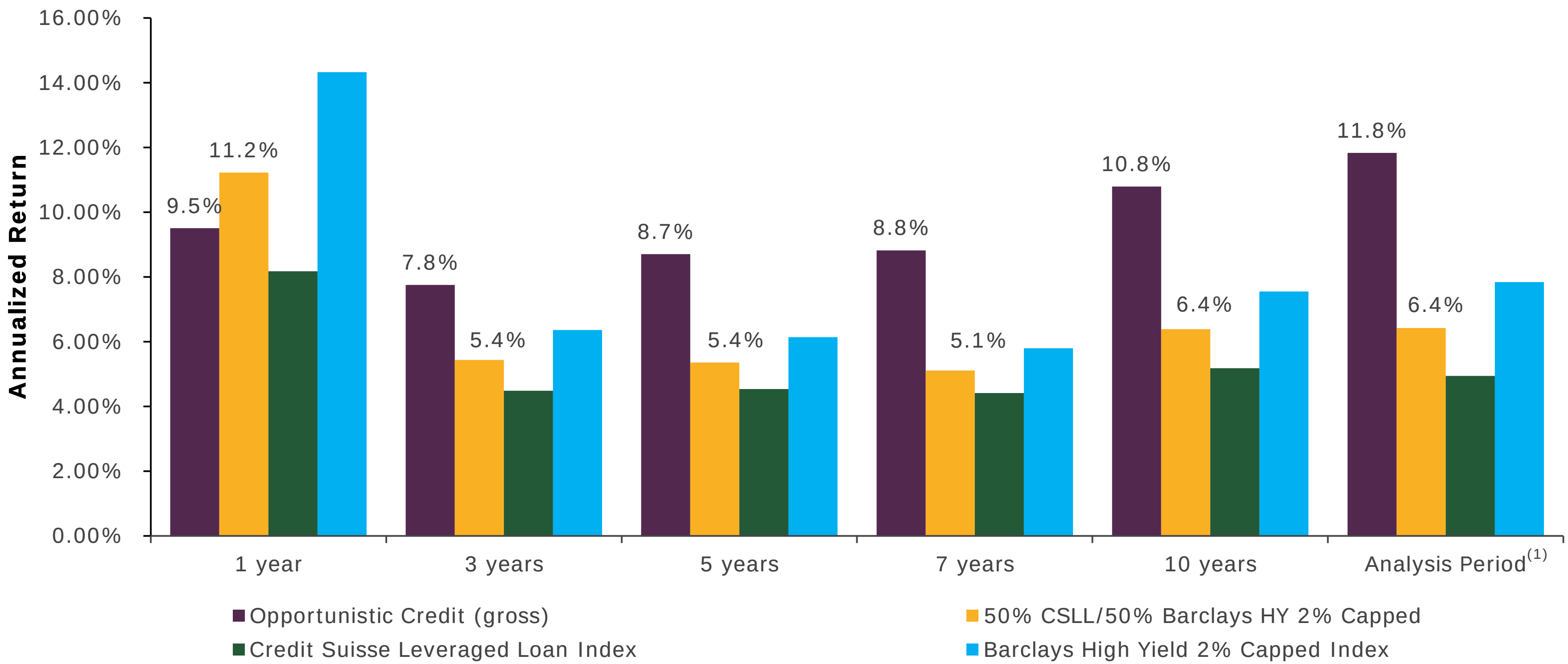

- Seek strong risk adjusted returns across capital structure
- "One-Firm" approach attempts to capture best ideas and helps assess relative value

- Senior team working together over 10 years

Note: KKR Credit may use some or all of the techniques described herein. Please refer to "Important Information" for additional detail on the calculation of AUM. Participation of KKR Private Equity, KKR Capital Markets, and KKR Capstone personnel in the public markets investment process is subject to applicable law and inside information barrier policies and procedures, which may limit the involvement of such personnel in certain circumstances and KKR Credit's ability to leverage such integration with KKR.
(1) As of December 31, 2019.

# OCS Performance: Strong Alpha Generation

## OCS Performance vs Other Fixed Income Indices




## OCS Sharpe Ratios

| 1 year | 3 years | 5 years | 7 years | 10 years | Analysis Period[1] |
|---|---|---|---|---|---|
| 1.76 | 1.82 | 1.37 | 1.53 | 1.61 | 1.15 |

KKR

Note: 1 Year, 3 Year, 5 Year, 7 Year, 10 Year and Inception to Date performance shown as of December 31, 2019, Based on Estimates.
(1) Since Inception of the Opportunistic Credit Composite (May 2008)
Please see Endnotes for important disclosures. Past Performance is no guarantee of future results.
Source: Barclays, Credit Suisse, Bloomberg and KKR Credit Analysis as of December 31, 2019

# Focus on Downside Protection

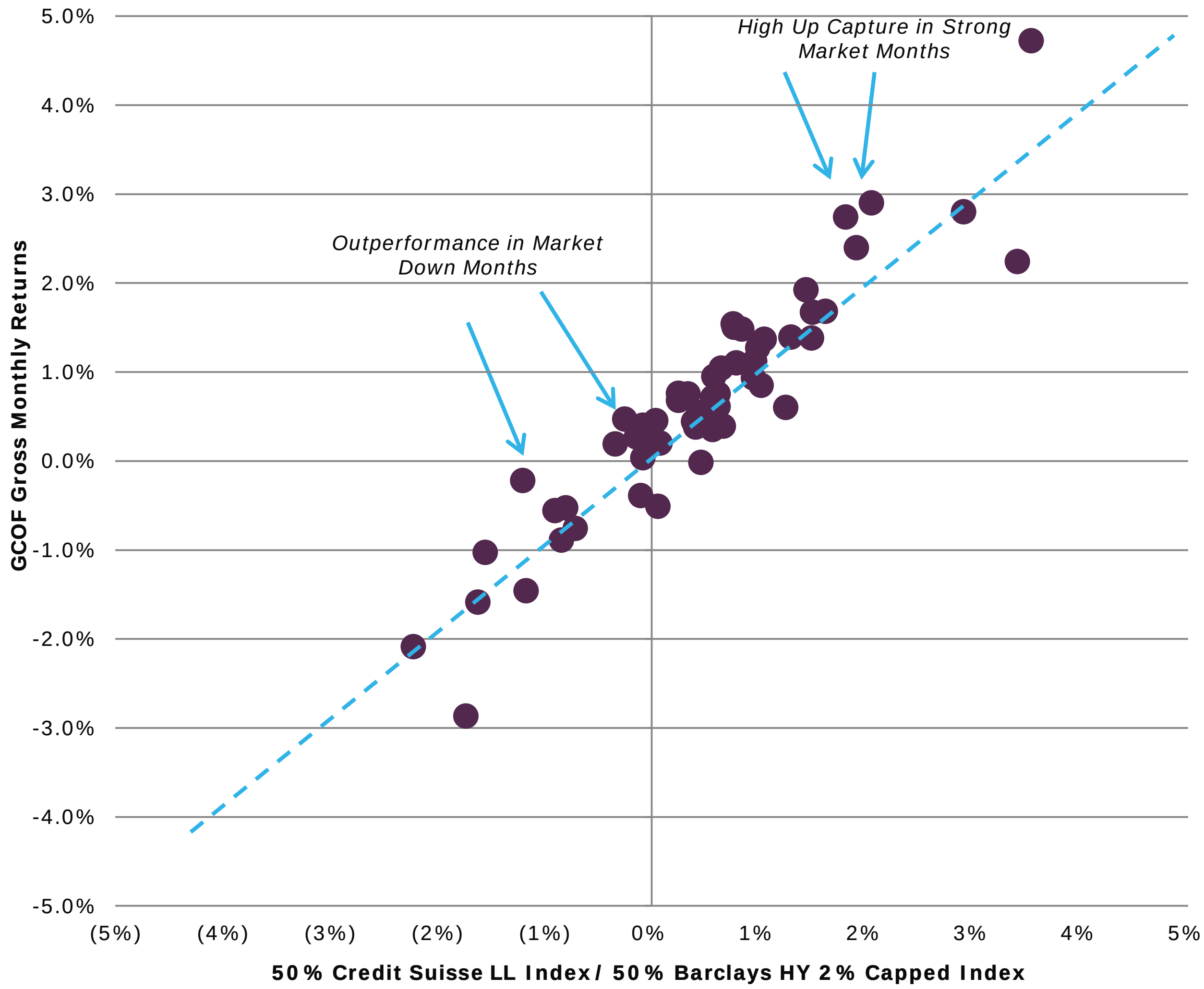
# 118%

## Up Capture since Inception[1]

# 74%

## Down Capture since Inception[1]

**Monthly Returns versus 50% Credit Suisse LL / 50% Barclays HY 2% Capped**



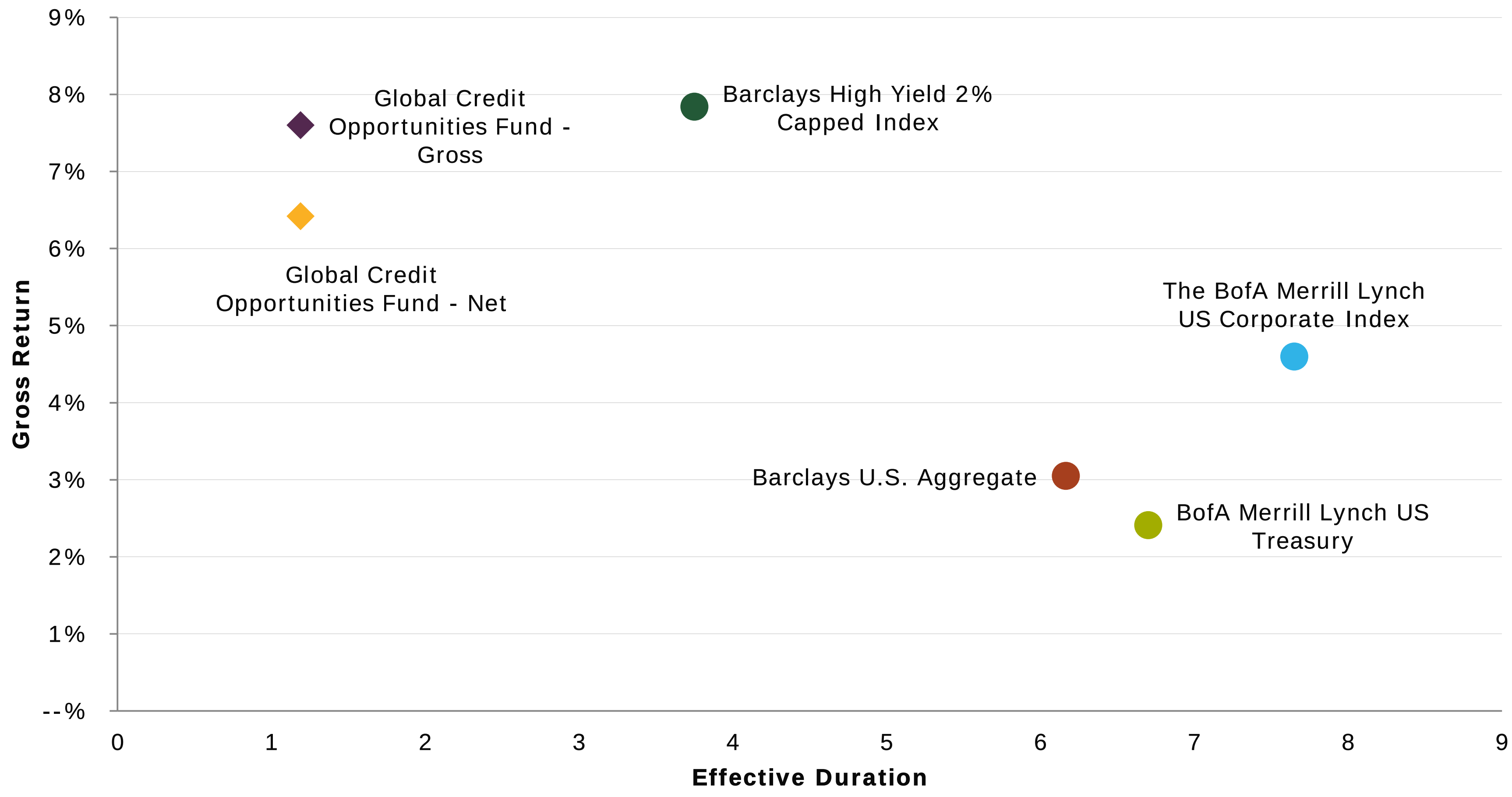



Source: Credit Suisse, Barclays, KKR Credit Analysis as of December 31, 2019, based on Estimates. The Global Credit Opportunities Funds returns are since inception.
1) Since inception of the KKR Global Credit Opportunities Fund (January 2015)

# Strong Return Profile Despite Lower Duration

## Strong performance from Strategy despite lower duration risk – highlighting strong asset selection and dynamic asset allocation

### Historical Performance vs Other Sub-Investment Grade Fixed Income Indices Since Inception




Past performance is no guarantee of future results. Please see Important Information for a discussion of the limitations of related performance.
Source: JPM, BAML, KKR Credit Analysis as of December 31, 2019. The Opportunistic Credit returns are based on the Opportunistic Credit Composite since inception, using estimates for December 2019.

# Opportunistic Credit Strategy Performance Attribution

## Performance vs. Benchmark[1]

| | OCS Cumulative Return | LACERS Benchmark Cumulative Return[2] | Outperformance v. LACERS Benchmark | KKR Benchmark Cumulative Return[1] | Outperformance v. KKR Benchmark | Allocation Effect (%) v. KKR BM | Security Selection Effect (%) v. KKR BM | Key Contributors v. KKR Benchmark |
|---|---|---|---|---|---|---|---|---|
| **3 years** | 24.8% | 17.2% | 7.6% | 16.8% | 8.0% | 10% | 90% | Healthcare, Energy, Capital Goods, Tech |
| **5 years** | 49.9% | 29.8% | 20.1% | 29.4% | 20.5% | 20% | 80% | Healthcare, Tech, Retail, Leisure |
| **10 years** | 178.1% | 85.5% | 92.6% | 83.4% | 94.7% | 14% | 86% | Basic Industry, Tech, Media, Healthcare |
| **Since Inception (3)** | 265.6% | 106.7% | 158.9% | 107.4% | 158.2% | 33% | 67% | Consumer, Tech, Media, Basic Industry |

Note: 3 Year, 5 Year, 10 Year and Inception to Date performance shown as of December 31, 2019, Based on Estimates.
(1) KKR Benchmark is the 50% BAML US HY Index & 50% LSTA US LL Index
(2) LACERS Benchmark is the 50% Credit Suisse LL Index & 50% Barclays HY 2% Capped Index
(3) Since Inception of the Opportunistic Credit Composite (May 2008)
Please see Endnotes for important disclosures. Past Performance is no guarantee of future results.
Source: Barclays, Credit Suisse, LSTA, BAML and KKR Credit Analysis as of December 31, 2019

# Q3 2019 Opportunistic Credit Peer Comparison

## eVestment Database Peer Comparison

| | 2019 | 3 Year | 5 Year | 7 Year | 10 Year |
|---|---|---|---|---|---|
| **KKR Opportunistic Credit Composite Return** | **9.50*** | **7.80** | **7.14** | **8.94** | **11.46** |
| eVestment High Yield Peer Percentile Ranking | - | 3% | 2% | 1% | 1% |
| High Yield Manager - Median Return | - | 6.08 | 5.29 | 5.87 | 7.88 |
| Bank Loan Manager - Median Return | - | 4.61 | 4.30 | 4.52 | 5.65 |
| *Common Opportunistic Credit Peer Universe* | | | | | |
| **KKR Opportunistic Credit Composite Return** | **9.50*** | **7.80** | **7.14** | **8.94** | ***11.46*** |
| Manager 1 | - | 5.90 | 4.29 | 4.86 | 6.58 |
| Manager 2 | - | 6.36 | 6.34 | --- | --- |
| Manager 3 | - | 7.45 | 6.46 | 8.41 | 9.77 |
| Manager 4 | - | 5.57 | 4.69 | 5.77 | 8.08 |
| Manager 5 | - | 6.65 | 5.55 | 6.61 | 8.97 |
| Manager 6 | - | 5.72 | 5.37 | --- | --- |
| Manager 7 | - | 5.89 | 4.93 | --- | --- |
| Manager 8 | - | 5.77 | 5.16 | 6.08 | --- |
| Manager 9 | - | 8.94 | 5.97 | 8.35 | --- |
| Manager 10 | - | 7.22 | 4.05 | 5.18 | 7.42 |
| Manager 11 | - | 6.22 | 5.81 | 6.79 | 8.52 |
| Manager 12 | - | 6.92 | 5.68 | 6.66 | --- |
| Manager 13 | - | 4.20 | 2.65 | --- | --- |
| Manager 14 | - | 4.61 | --- | --- | --- |

KKR

* Peer group comparisons as of September 30, 2019. KKR 2019 number is an estimate as managers have not reported to eVestment for Q4 2019. Past performance is no guarantee of future results. Portfolio characteristics subject to change. eVestment collects information directly from investment management firms and other sources believed to be reliable. eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and are not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on our systems and other important considerations such as fees may be applicable. Not for general distribution.

# Strategy Construction

- **KKR Global Credit Opportunities Strategy is agnostic to asset type and diversified across themes, geography, industries and issuers**
  - **Opportunistic Allocations:** Strategy designed to be flexible and attempt to take advantage of credit market dislocations, and benefits from a broad mandate to invest in concentrated positions that provide an attractive risk / return profile
  - **Liquidity Considerations:** We expect the majority of the assets in Strategy to be more liquid in nature, usually with a secondary bid available; a smaller portion of Strategy will be in more illiquid securities
  - **Leveraging the KKR Credit Platform:** Through holding positions that the team has diligenced and owns, the Strategy seeks to benefit from the scale provided by the broader KKR Platform and from the active management of investments

**Opportunistic Credit Strategy: Portfolio Characteristics**

| | Target |
|---|---|
| **Total Issuers** | 60 – 80 core |
| **Cash Allocation Range** | 0% – 30% |
| **Effective Duration Range** | 1 – 5 years |
| **Average Core Position Size**[1] | 1.5% - 4.0% |
| **U.S. / Non-U.S. Issuer Geography** | Global |

1) Typical maximum size position is ~5% of the portfolio.

Note: Target allocations are subject to change. There is no assurance that the target characteristics will be achieved, and actual characteristics may be significantly different than that shown here. The Fund has no investment restrictions. Please refer to "Important Information" on pages 2-4 for further information on KKR's inside information barrier policies and procedures, which may limit the involvement of personnel in certain investment processes and discussions. Participation of KKR Private Equity, KKR Capital Markets, and KKR Capstone personnel in the public markets investment process is subject to applicable law and inside information barrier policies and procedures, which may limit the involvement of such personnel in certain circumstances and KKR Credit's ability to leverage such integration with KKR.

# Investment Themes

**The Opportunistic Credit Strategy seeks to deploy capital across investment themes that take advantage of credit market dislocations, spanning asset types and liquidity profiles**

| Themes | Expected Weighting | Description | Representative Opportunistic Credit Fund Trades |
|---|---|---|---|
| Dislocation / Relative Value | Heavily-Weighted | • Higher-yielding investments resulting from market dislocation<br>- Capital markets, asset class and credit dislocation | APPLIED, DJO, Rinker Materials, VERTIV |
| Event Driven | Heavily-Weighted | • Positions in securities with near term catalysts that are expected to appreciate in price<br>- Refinancings, M&A and ratings upgrades | FleetPride Truck & Trailer Parts, vivint., savers Shop. Reuse. Reimagine. |
| Proprietary Sourcing | Medium-Weighted | • Trades that leverage broader firm relationships with sponsors and Wall Street<br>- Reverse inquiry, secondary opportunities and/or larger block trades, first look/anchor opportunities | Grocery Outlet bargain market, Talbots, USI, P2 |
| Stressed Credits | Medium-Weighted | • Investments in companies under financial strain that may have a restructuring need and/or out of favor industries that may be under market pressure | NINE WEST, SEQUA, jcpenney, Distribution International |
| Structured Products | Lower-Weighted | • Structured products investments may include capital relief trades, structured transactions with a corporate credit feel and/or tranches of CLOs or other securitizations | Closed-End Funds, AYTDS 2006-1, UNITED |
| Illiquidity Premium | Lower-Weighted | • Investment opportunities that offer a market premium, either in contractual rate or structure<br>- Misunderstood businesses or industries, smaller, less liquid trades | Bay Club, SIRVA |

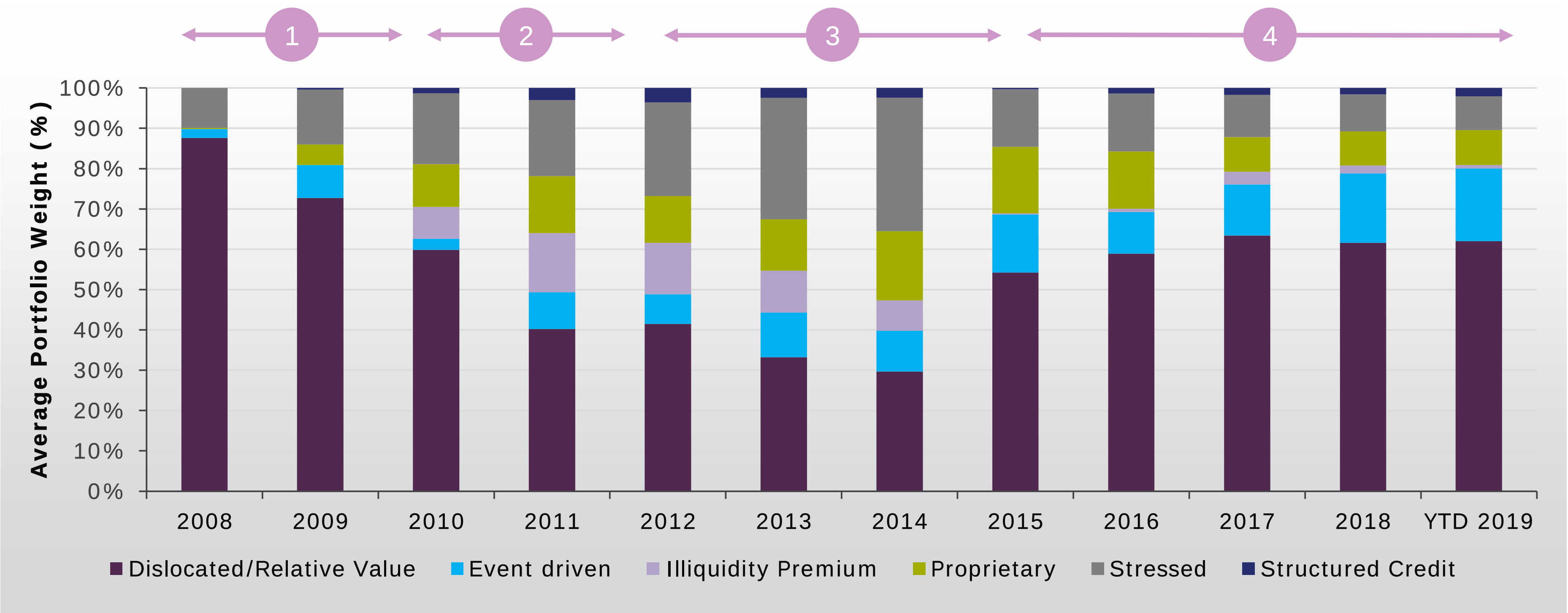
**Legend:** ● **Heavily-Weighted Strategies** ▨ **Medium-Weighted Strategies** ▨ **Lower-Weighted Strategies**



Note: For illustrative purposes only. Investments by the Fund are not limited to the types listed above. The specific investments identified reflect certain investment strategies and are not representative of all of the investments purchased, sold, or recommended for the Fund, and it should not be assumed that investments in the companies identified was or will be profitable. There is no guarantee that the Fund will hold any or all of the securities identified. The specific portfolio companies identified are not representative of all of the securities purchased, sold or recommended for advisory clients, and it should not be assumed that the investment in the companies identified was or will be profitable.

# Dynamic and Repeatable Allocation Process

## Portfolio Allocation by Trade Type since Inception




1. **Post-Lehman:** Focus on dislocated credits and relative value. Limited liquidity across the credit spectrum and no event driven or proprietary trade allocation given lack of deal flow
2. **Market Recovery:** Increased exposure to stressed credits into the recovery. Increased illiquidity premium trades as spreads begin to compress and QE takes hold. Increased event driven and proprietary trades as deal activity increases
3. **Market Normalization and Expansion:** Increased exposure to stressed credits as cyclical sectors rebound from trough earnings. Rapid expansion in deal activity increases opportunities in event driven and proprietary trading
4. **Volatility and Spread Dispersion:** As QE tapers off and spreads disperse, there is increased focus on relative value (dislocated trades). Less focus on illiquid trades given volatility and ability pivot to names that sell-off due to idiosyncratic risk factors


Source: KKR Credit Analysis as of September 30, 2019. Reflects allocation of the Opportunistic Credit Strategy; allocation of the Fund may differ.

# KKR Credit Investment Philosophy

**KKR Credit utilizes a fundamental investment approach and leverages proprietary resources to seek out long-term capital appreciation and attractive risk-adjusted returns**

### Proprietary Sourcing

- “Single-platform sourcing”
- Long-standing relationships with a wide network of issuers
- Valued client to Investment Banks with a network of PE sponsors, banks and trading desks
- Direct corporate sourcing effort leveraging all of KKR relationships
- Experienced, dedicated sourcing professionals
- Ability to leverage the full KKR Business Platform and its network, including the Senior Advisor network and KKR Capstone

### Capital Preservation

- Steward investors’ capital as if it were our own
- Recognize that credit investing comes with limited upside (par) and asymmetric downside risk
- Require detailed, proprietary research for any credit considered for portfolio inclusion
- Re-underwrite portfolio on a quarterly basis, resulting in extremely low default statistics

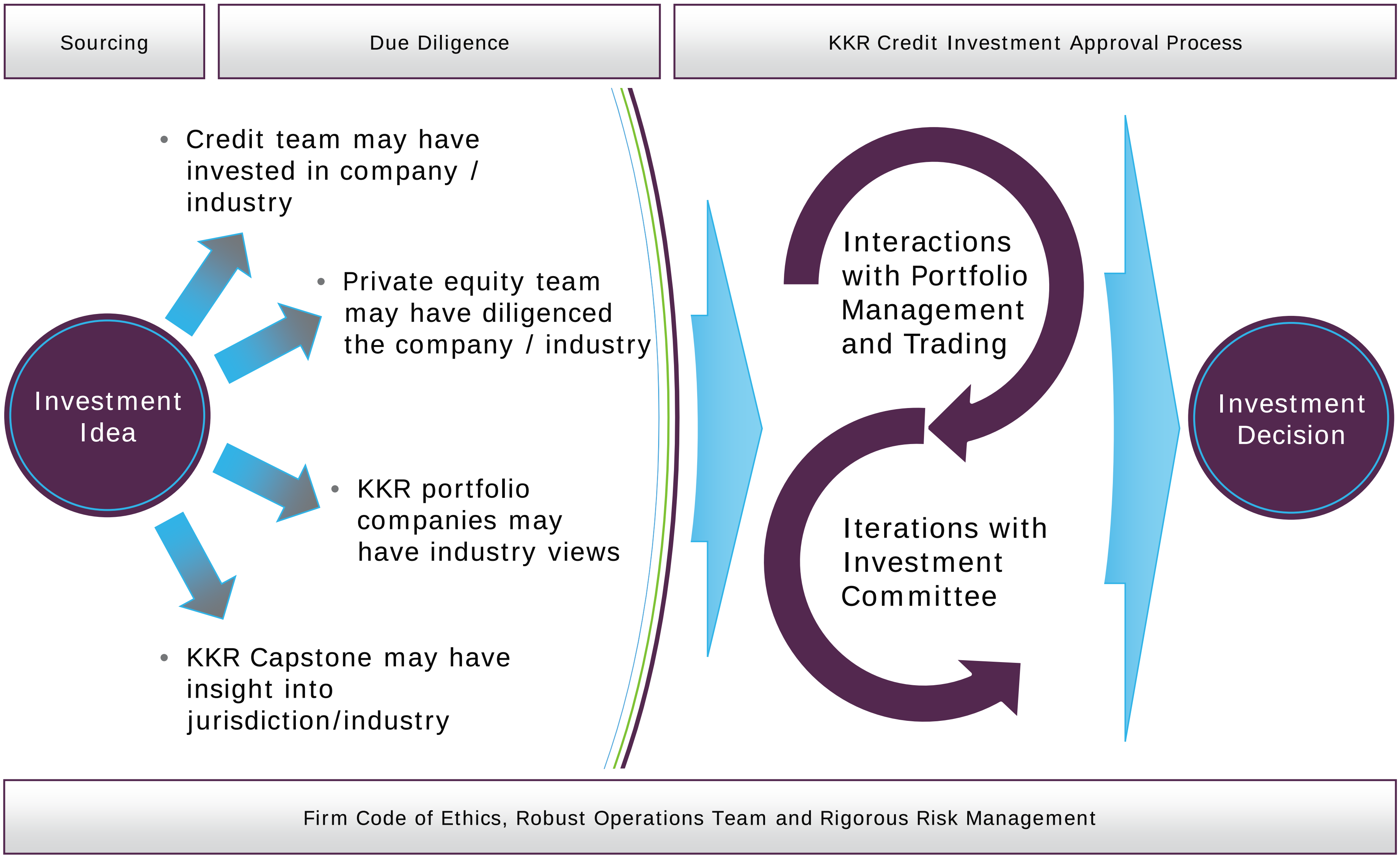
### Active Portfolio Management

- Investment decisions are predicated on a clear thesis
- Deep due diligence and a distinguished competitive advantage required before credit investing
- Re-evaluate and re-underwrite each credit in the quarterly Portfolio Management Committee meetings
- Ongoing re-evaluation of portfolio structure and risk measures
- Continuous portfolio optimization



Note: Portfolio managers may use some or all of the techniques described above or herein. Please refer to "Important Information" at the beginning of this presentation for further information on KKR's inside information barrier policies and procedures, which may limit the involvement of personnel in certain investment processes and discussions. KKR Capstone is not an affiliate or subsidiary of KKR. Please see Important Information at the beginning of this presentation for additional disclosure regarding KKR Capstone.

# Global Leveraged Credit Investment Process






Note: KKR may use some or all of the techniques described herein. Please refer to "Important Information" at the beginning of this presentation for further information on KKR's inside information barrier policies and procedures, which may limit the involvement of personnel in certain investment processes and discussions and additional disclosure regarding KKR Capstone. KKR Capstone is not an affiliate or subsidiary of KKR.

# Global Leveraged Credit Investment Process (Continued)

## We seek to differentiate ourselves with our ability to execute a rigorous portfolio management process to source, diligence and monitor investments at varying levels of complexities

### Highly Disciplined Daily, Weekly, Monthly and Quarterly Process

- **Daily Morning Meeting:** Daily interactions among analysts, portfolio managers and traders to discuss market themes, industry trends, company news and new investment ideas
  - Macro economic updates from our Global Macro & Asset Allocation ("GMAA") team on Friday
- **Weekly Prioritization Meeting:** Co-heads of US Credit Research will guide the industry analysts through what they should focus on that particular week on individual basis (i.e. existing investment, new issuance, secondary investment)
- **Multiple Weekly IC Meetings / Office Hours:** All new investments will go through IC; an IC memo consists of 10-15 pages with proprietary financial model with base/upside/downside cases, due diligence review and other industry research materials. Open forum office hours may consist of screening new investments or ad-hoc IC meetings
- **Monthly General Credit Meeting:** Global credit discussion on overall performance and market trends across all credit strategies
- **Quarterly PMC Process:** PMC meetings to re-visit each credit in-depth and conduct a deep-dive review of each investment from a fresh perspective

KKR

Note: Portfolio managers may use some or all of the techniques described above or herein. Please refer to "Important Information" at the beginning of this presentation for further information on KKR's inside information barrier policies and procedures, which may limit the involvement of personnel in certain investment processes and discussions.

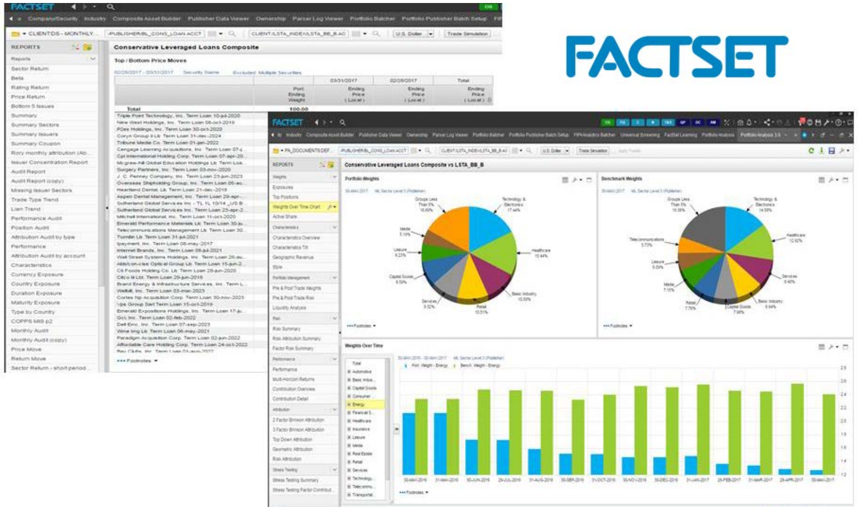
# Illustrative Investment Committee Memo Checklist

| Checklist Item |
|---|
| **Industry Dynamics** |
| Industry is not experiencing rapid growth based on unlikely continued demand characteristics |
| Industry is stable in number of competitors |
| Industry has relatively high barriers to entry |
| Industry is not in incremental capital raising-cycle |
| Industry does not face legal/governmental/regulatory problems |
| **Company Dynamics** |
| Company is stable and is not facing any integration issues |
| Company is not engaged in a roll-up strategy |
| Company is not undertaking any systems integration projects |
| Company is growing in-line with industry rates |
| Company does not overly rely on one product |
| Company enjoys a “top-3” standing in its market niche |
| Company does not have customer concentrations |
| Company has geographic diversity |
| Company does not have significant currency or commodity risk |
| Company can easily change suppliers |
| Have the Company's pension and other contingent liabilities been appropriately considered |
| Company doesn't face any disruption threats |
| **Company Due Diligence** |
| Management has operated business for an extended time & has operated a leveraged firm |
| Management has a positive reputation for expertise and judgment |
| Management has a reputation for ethical behavior and fairness to all constituencies |
| When management/family selling business, they will remain engaged, both financially and operationally |
| Company is not unduly controlled by investment banks, hedge funds or management consultants |
| Customer due diligence was positive |
| Competitor comments were positive |
| Supplier remarks were positive |
| Key customer/supplier dynamics will remain intact following the transaction |
| **ESG Diligence** |
| Environmental - Company has a low carbon footprint and is not a risk to the environment (e.g. spill risk, environmental damage, emissions, greenhouse gas intensity, etc.) |
| Environmental - Company has a business that is improving the environment (e.g. solar, recycling, LED installation, etc.) or is making a strong effort to limit impacts to environment |
| Social - Company does not have safety issues, product issues, labor issues, employment issues (e.g. large potential layoffs) or puts its customers at risk (e.g. sugary foods, opioids, tobacco) |
| Social - Company is proactively diversifying its management team and board and is improving other areas in the social category |
| Governance - Company's compensation policy is conservative and aligned with debt holders |
| Governance - Company's board has a positive reputation and has demonstrated good judgement that is aligned with debt holders |

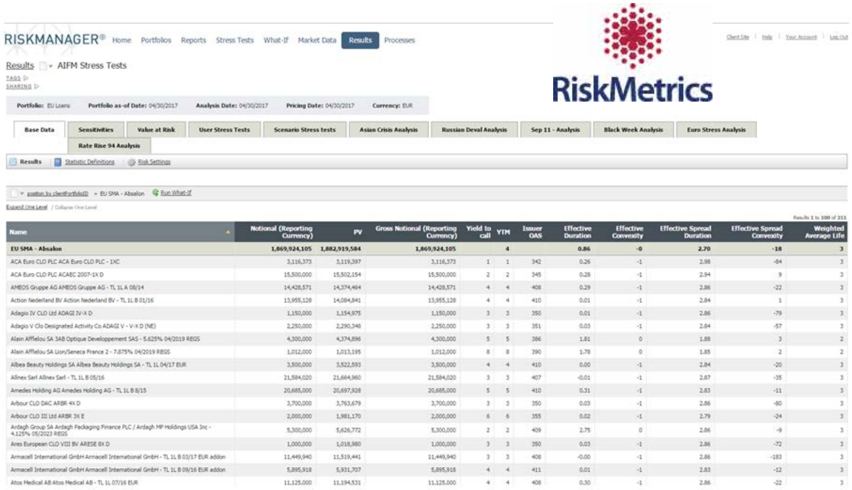
| Checklist Item |
|---|
| **ESG Diligence Continued** |
| Governance - Company has high quality of cash flows, minimal EBITDA adjustments, minimal accounting restatements, high accounting standards and no recent auditor changes |
| Governance - Company has a stable management team with limited turnover |
| Governance - Company is not highly acquisitive and does not have a history of failed M&A |
| Governance - Company's level of litigation and regulatory issues are low |
| Governance - Company does not have suspect related party activities |
| Governance - Company does not have a complex organizational structure with a large number of subsidiaries |
| Governance - Company does not have a large emerging market business |
| Governance - If the company is public, the company has a low amount of SEC comments |
| **Deal Structure / Dynamics** |
| Proposed investment does not involve a dividend recap |
| Term loans are not covenant-lite |
| We have meaningful knowledge of other members of the lender group |
| Covenant breach unlikely |
| If new equity being contributed w/ this transactions, greater than 75% of the equity is being provided by the financial sponsors |
| **Sponsor Due Diligence** |
| If this is an equity-sponsored deal be prepared to discuss sponsor track record in a distressed environment |
| Sponsor has successful track record with companies in this industry |
| Partner at sponsor has experience in this industry |
| **KKR / KAM Comments** |
| KKR is comfortable with the industry |
| KKR is familiar/positive on company |
| KAM is comfortable with the industry |
| KAM is familiar with the company |
| KAM knows the dealer well |

# Portfolio Monitoring and Risk Philosophy

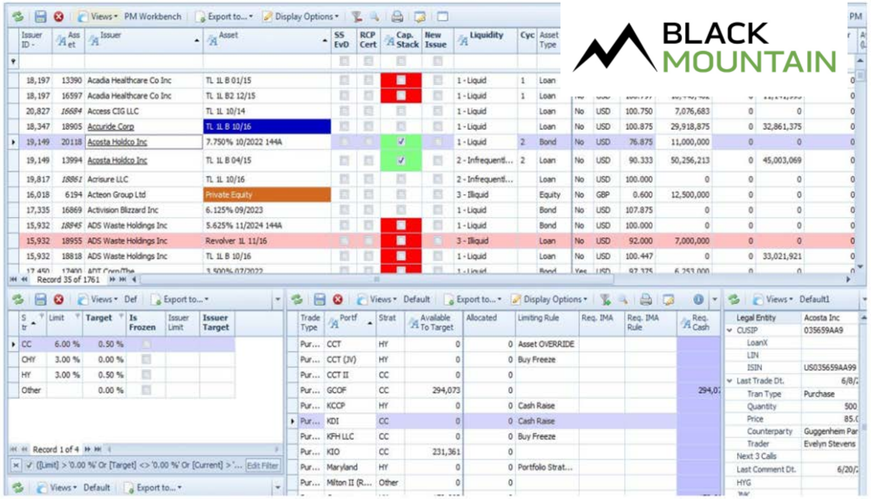
- ➢ **Decompose and Analyze Portfolio Performance**
- ➢ **Quantitatively Screen Investments**



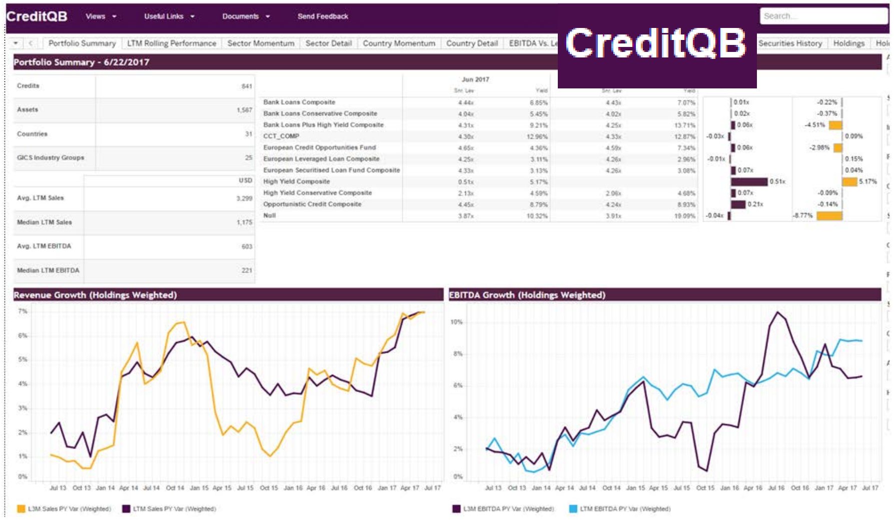

- ➢ **Simulate Stress Scenarios and Calculate Credit Analytics**




- ➢ **Front Office Order Management, Trading and Compliance**




- ➢ **Visualize Portfolio and Security Fundamental Data**



# Savers, Inc.

## Company Overview

- Savers, Inc. ("Savers" or the "Company"), is the largest for-profit thrift retailer in North America and the only for-profit thrift store chain with a national footprint in the US and Canada
- The Company was founded in 1954 and has ~20,000 employees and 300+ stores
- Savers sources donated goods from and on behalf of their charity partners and resells the used clothes, accessories, and household products for women, men, and children

## Situation & Transaction Overview

- KKR first invested in Savers in March 2010 when the business was owned by Freeman Spogli, then participated in the 2012 financing backing the Leonard Green/TPG buyout, and witnessed the resilience of the business model over time
- Following severe FX headwinds, a couple ill-fated acquisitions, weaker recycling pricing and negative market sentiment towards the retail industry more broadly, the Company's First Lien Term Loan traded down over the course of 2015
- KKR maintained its conviction in the underlying business and its differentiated retail concept. In late 2015, KKR substantially scaled its position and eventually became the largest lender to the Company
- In May 2017, KKR proactively approached existing sponsors LGP and TPG to discuss refinancing alternatives ahead of the Company's 2019 maturities
- A multitude of structures were contemplated from late 2017 to early 2019 before arriving at a private credit solution led by KKR. In March 2019, proceeds from a new $60 million revolver, $540 million first lien term loan, $50 million second lien term loan, along with $165 million new equity refinanced existing first lien debt and effectuated an out-of-court restructuring whereby existing unsecured notes were fully equitized

## Summary of Terms

***Transaction Overview***

- Borrowers / Company: Savers, Inc.
- Industry: Retail
- Geography (Headquarters): Bellevue, Washington
- LTM EBITDA 9/30/2018 ($ millions): $109.3 million
- 9/30/2018 Leverage (First Lien / Total): 6.0x / 8.7x

***Facility Overview***

- $671 million First Lien Term Loan

## Investment Highlights

- KKR's investment is predicated on an innovative business model that efficiently sources, processes, sells and recycles used goods; the Company's counter-cyclical nature throughout past economic cycles and strong geographic diversification with healthy store portfolio
- Through leveraging both the existing investment and the strength of its sponsor relationships, KKR started a dialogue about potential refinancing alternatives early on, which led to KCM being engaged by the Company in late 2017 to lead a refinancing with the existing agent, then signing exclusivity with the Company in July 2018 to act as the lead investor and sole arranger of an alternative privately-placed loan financing, which ultimately resulted in KKR's investment of 50% of the $540 million first lien term loan in its Private Credit pools of capital

## KKR Advantage

- Strong collaboration across the firm uniquely positioned KKR to tackle a complex refinancing
- Remained nimble and creative, offering unique financing solutions to the Company with every iteration over a multi-year process
- Catalyzed attractive returns for Leveraged Credit accounts in the syndicated term loan and created opportunity for Private Credit accounts to invest in a solid credit story



Note: For illustrative purposes only. The specific investments identified are not representative of all of the investments purchased, sold, or recommended for the opportunistic credit strategy, and it should not be assumed that the investments in the companies identified was or will be profitable. There is no guarantee that the opportunistic credit strategy will hold any or all of the securities identified. Please refer to "Important Information" on pages 2-4 for further information on KKR's inside information barrier policies and procedures, which may limit the involvement of personnel in certain investment processes and discussions. Past performance is no guarantee of future results. Downside protections are no guarantee against losses.

# Proprietary Sourcing: Grocery Outlet

## Company Overview

- Grocery Outlet is a third-generation family run business, recognized as the nation's largest extreme-value food retailer
- Founded in 1946, Grocery Outlet currently operates over 300 stores in California, Idaho, Nevada, Oregon, Washington and Pennsylvania
- The stores are typically 15k-20k sq ft and carry ~4,800 SKUs across groceries, frozen foods, deli selections, refrigerated goods, produce, fresh meat (selected stores), seasonal products, housewares, toys, health & beauty, gifts, and beer & wine
- The business model is differentiated by its opportunistic sourcing (~55% of purchases), whereby product that has a shortened shelf life or is deemed excess/unsold/discontinued is purchased from branded CPG companies at a steep discount. Significant savings are then passed on to customers

## Situation & Transaction Overview

- Grocery Outlet was acquired by Berkshire Partners in October 2009 for ~$431mm. KKR Credit led the first lien term loan financing backing the transaction.
- Under Berkshire Partners' ownership from 2009 – 2014, the company and management team developed a track record of executing on its store growth plan (~135 stores to 200+ stores) while realizing above average same store sales growth
- In October 2014, the company came to market to raise financing for Hellman & Friedman's $1.15bn acquisition from Berkshire. The proposed structure consisted of an undrawn $75mm revolver, $450mm first lien term loan, $200mm second lien term loan, and $500mm/~45% equity from the combination of new sponsor equity and a rollover of management's existing equity into the new entity. Our conviction around the model and management team led to sizeable investments in both the first lien and second lien term loans at issuance.
- In October 2018, the company completed a dividend recap and we maintained meaningful exposure to both the first lien and second lien term loans

## Summary of Terms

***Transaction Overview***

- Borrowers / Company: Grocery Outlet
- Industry: Food & Staples Retailing
- Geography (Headquarters): Emeryville, CA
- LTM 9/30/2018 EBITDA: $148.9 million
- 9/30/2018 PF Leverage (First Lien / Total): 4.7x / 5.7x

***Facility Overview***

- $725 million First Lien Term Loan due 2025
- $150 million Second Lien Term Loan due 2026

## Investment Highlights

- Given the extreme value and discounted nature of its offering, Grocery Outlet has proven to be highly recession resilient with its best years coming in 2008 and 2009 when it delivered same store sales growth of 12.3% and 14.7%, respectively.
- Grocery Outlet has continued to achieve rapid store growth following the H&F buyout, with the store base growing to 309 as of 9/30/2018
- Since KKR's initial investment in Grocery Outlet in 2009, backing the Berkshire Partners LBO, monitoring the business over time allowed us to build deep knowledge of the business and conviction around both the resilience and scalability of the concept.

## KKR Edge

- KKR has exposure to ~20 corporations in the Food & Staples Retailing segment, and has a strong grasp of the broader industry
- KKR's ongoing monitoring and re-underwriting of Grocery Outlet is validated through steady quarter over quarter growth and positive performance

# Using the Whole Firm: Brake Bros.

## KKR Traded Credit Team

Sector experts examine competitive industry dynamics and company fundamentals

## KKR Private Equity

KKR are owners of US Foodservice (a similar business, although not a direct competitor). This gave us insight into ability to change prices, input costs and other industry issues

## KKR Private Credit

KKR also lends debt to other private equity owners. As a result we have a relationship with a previous owner of Brakes Bros and spoke to them about their views on the company and management

## KKR Global Macro

Our Global Macro & Asset Allocation team performed a study on UK macroeconomic implications on the investment

## Background and Opportunity

- Brake Bros is a specialist supplier of frozen and chilled foods and operates in the UK, Sweden and France
- The company supplies restaurants, pubs, companies and hospitals and was bought by Bain in 2007 and issued traded debt
- During the market downturn of 2009 -2011, the company's loan price in the market reduced and potential return increased

## KKR's Deep Dive Investment Process

## Result

- We purchased the company's loans at a discount price offering a high cash coupon and double-digit returns
- This was our largest position over 2014 and 2015

## Industry Experts

KKR had access to the previous CEO of US Foodservice for his views on the market

## KKR Capstone

The KKR Capstone (operational consultants) team included members who previously worked at McKinsey and who prepared a report on the frozen/chilled food supply market

## KKR Special Situations

Our restructuring experts reviewed the investment and analyzed potential downside risk (e.g. if there was a default, what a restructuring process would look like)

## KKR Capital Markets

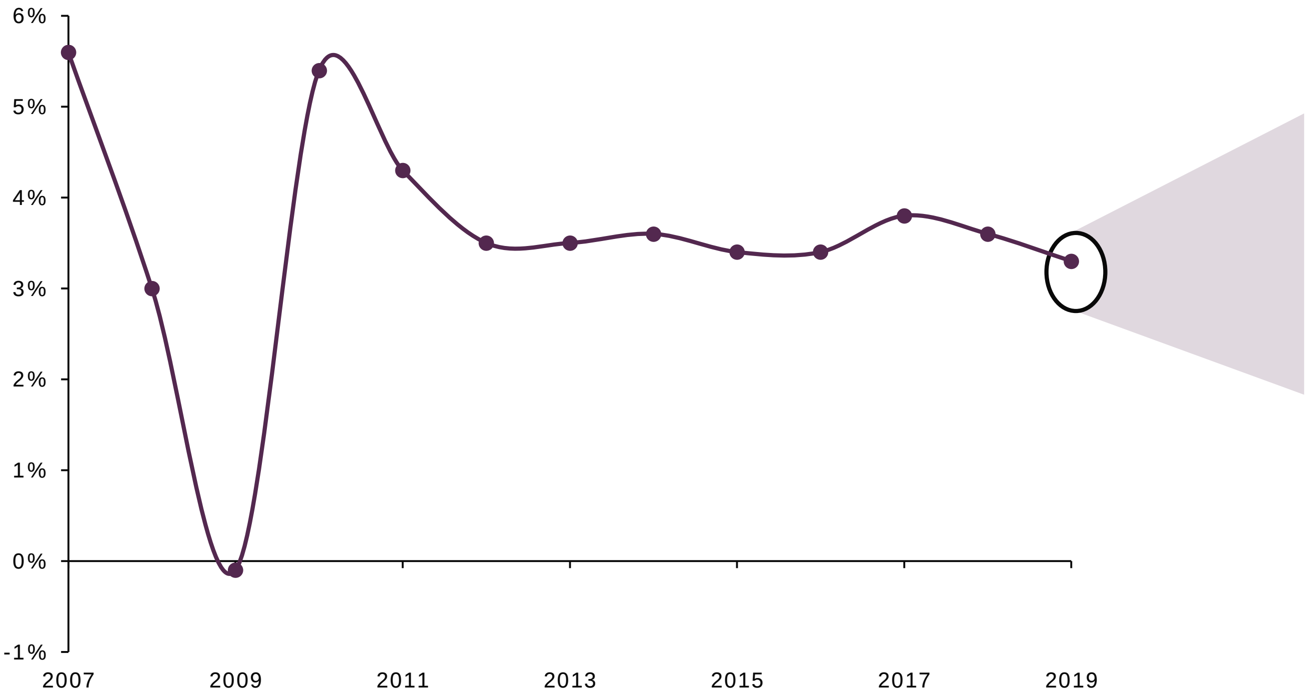
KKR's co-Head of Capital Markets previously led the syndication of Brakes Bros' debt. We knew who the owners of the debt were.

# Market Dynamics & Opportunity

KKR

# While Company Fundamentals Are Holding Up...

***...We Are Beginning To See Deceleration In Global Growth***

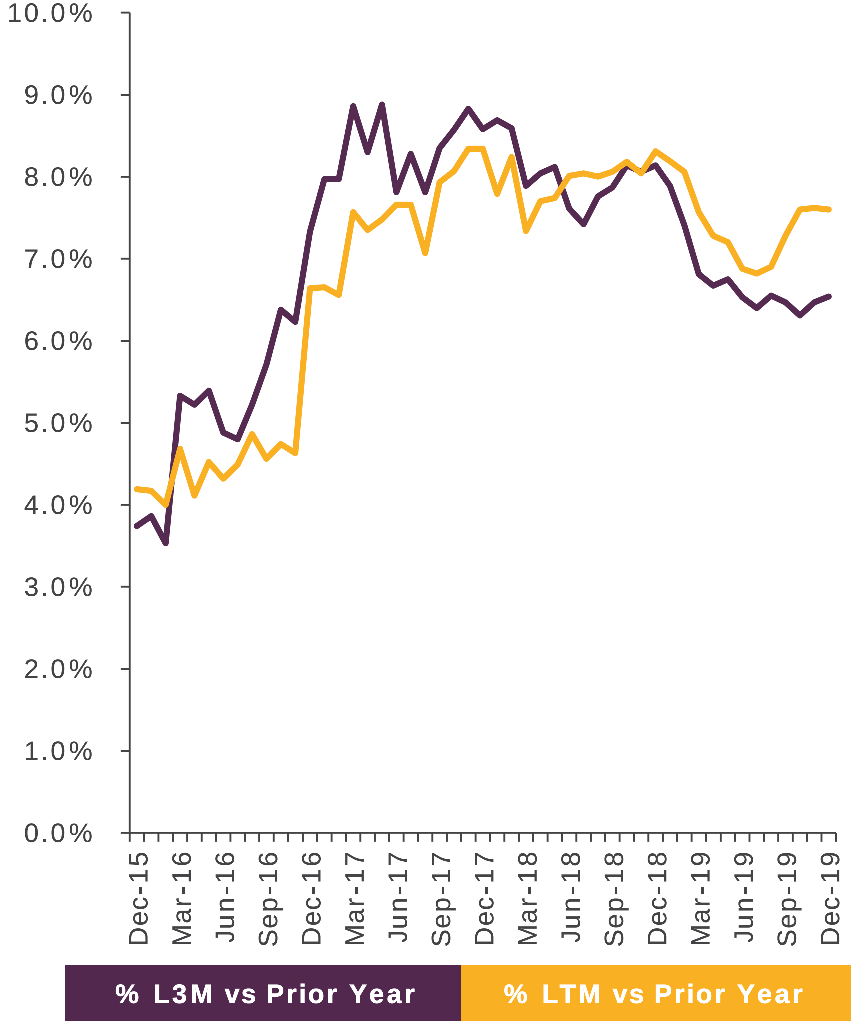



IMF Lowers 2019 Forecast For Global Growth From 3.7% To **3.2%**

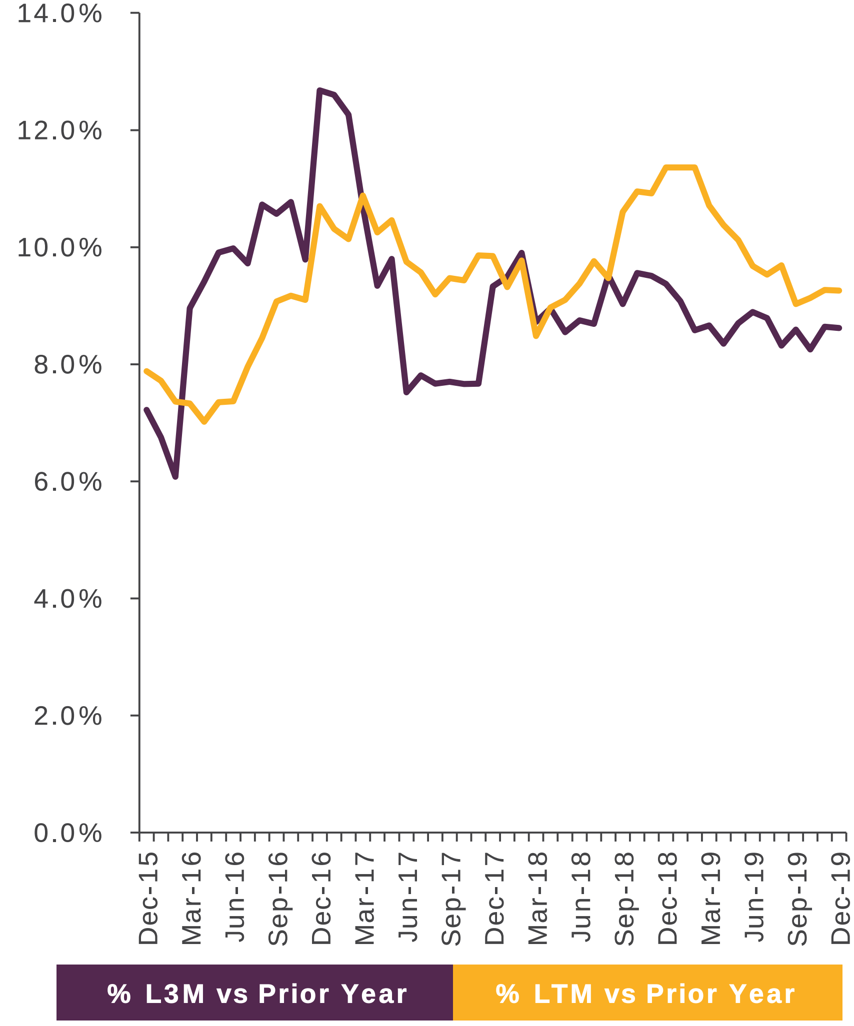
Source: IMF, WEO Update July 2019.

# We Even See It In Our Portfolios

**Revenue Growth (KKR Global Leveraged Credit)**



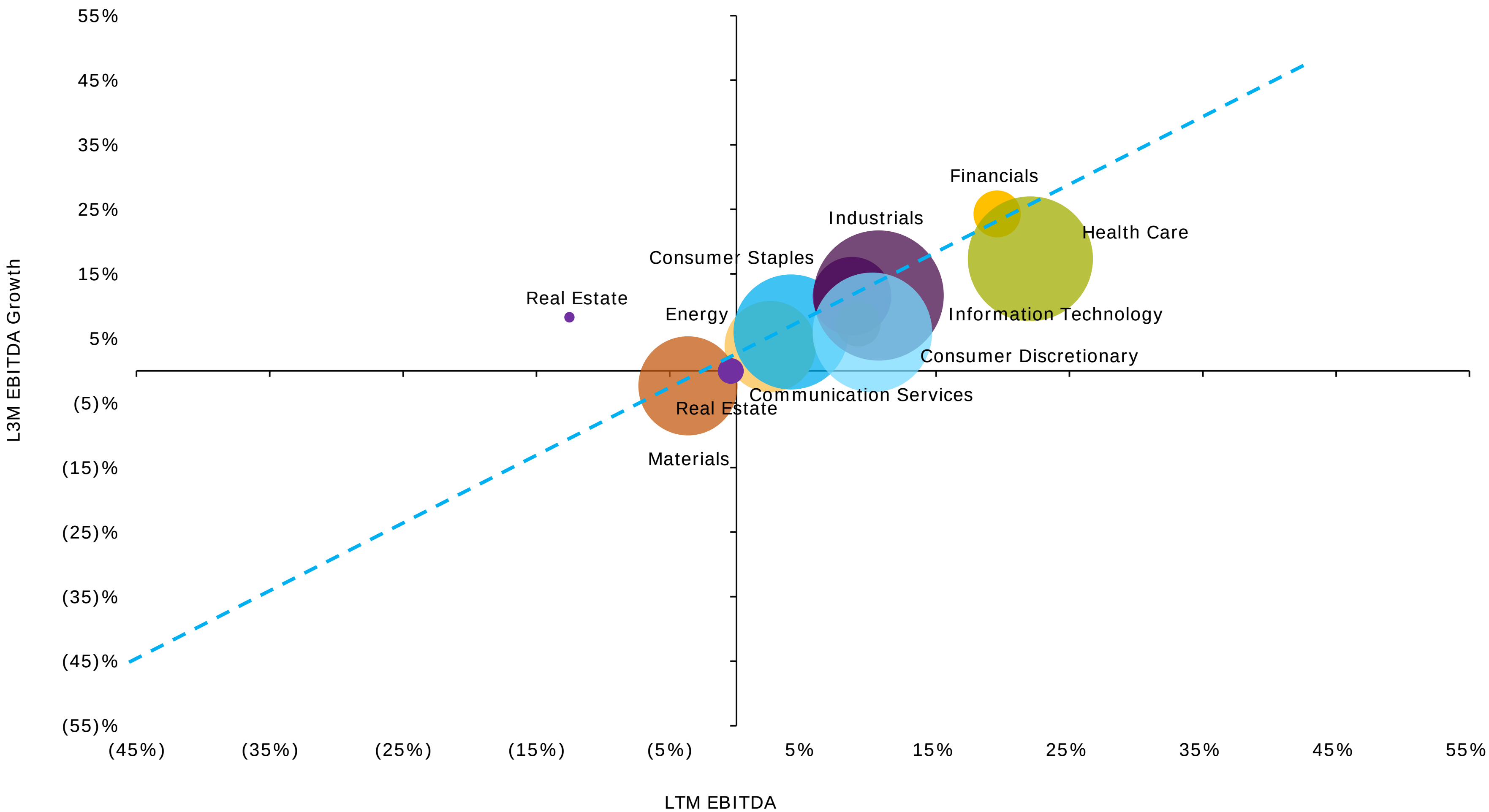

**EBITDA Growth (KKR Global Leveraged Credit)**




Source: KKR Credit Analysis as of December 31, 2019.

# Consistent With What We Are Seeing At The Broader Sector Level

## Sector Momentum

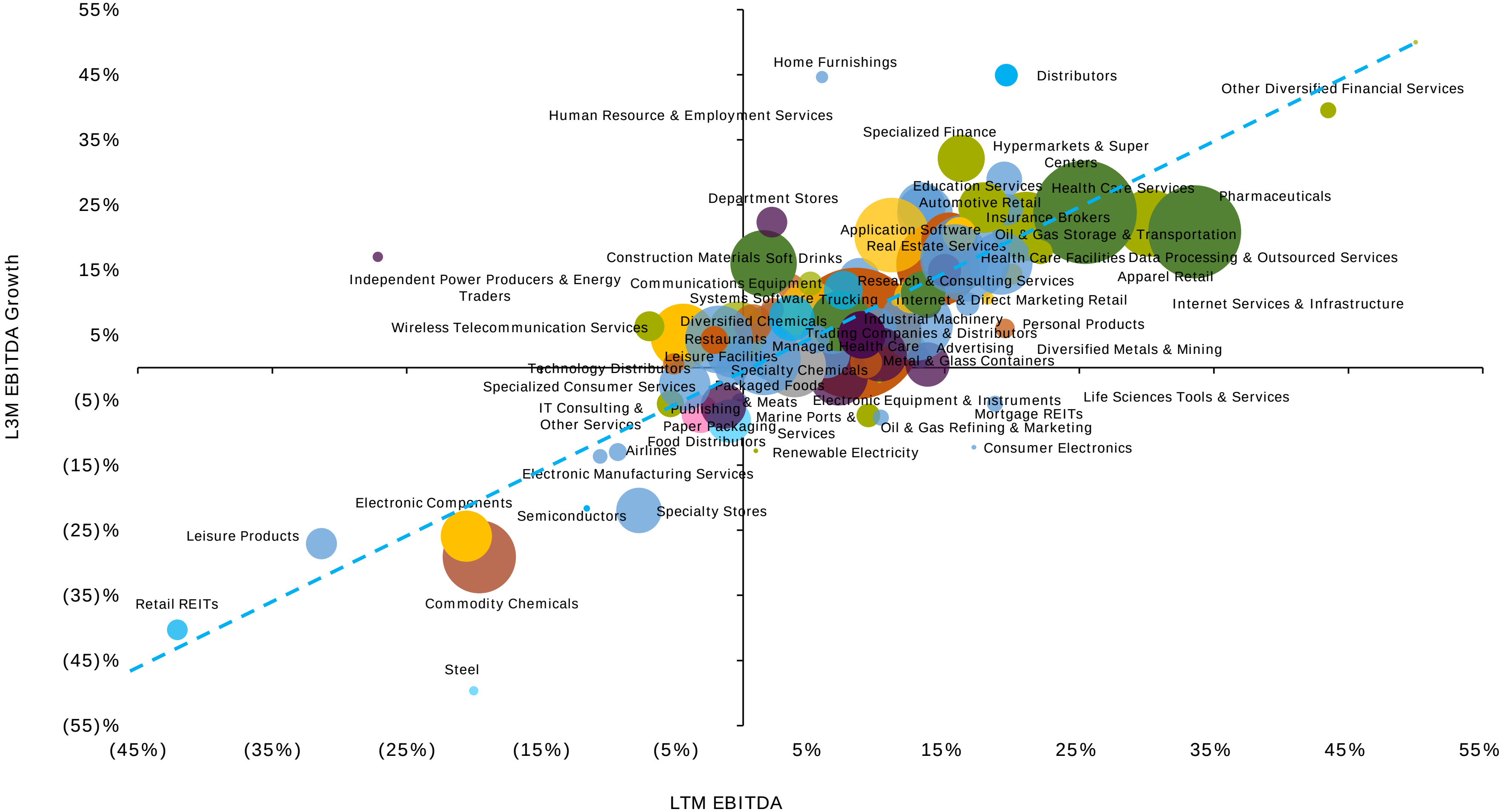





Source: KKR Credit Analysis as of December 31, 2019.

# More Dispersion As You Dig Deeper

## Sub-Industry Momentum

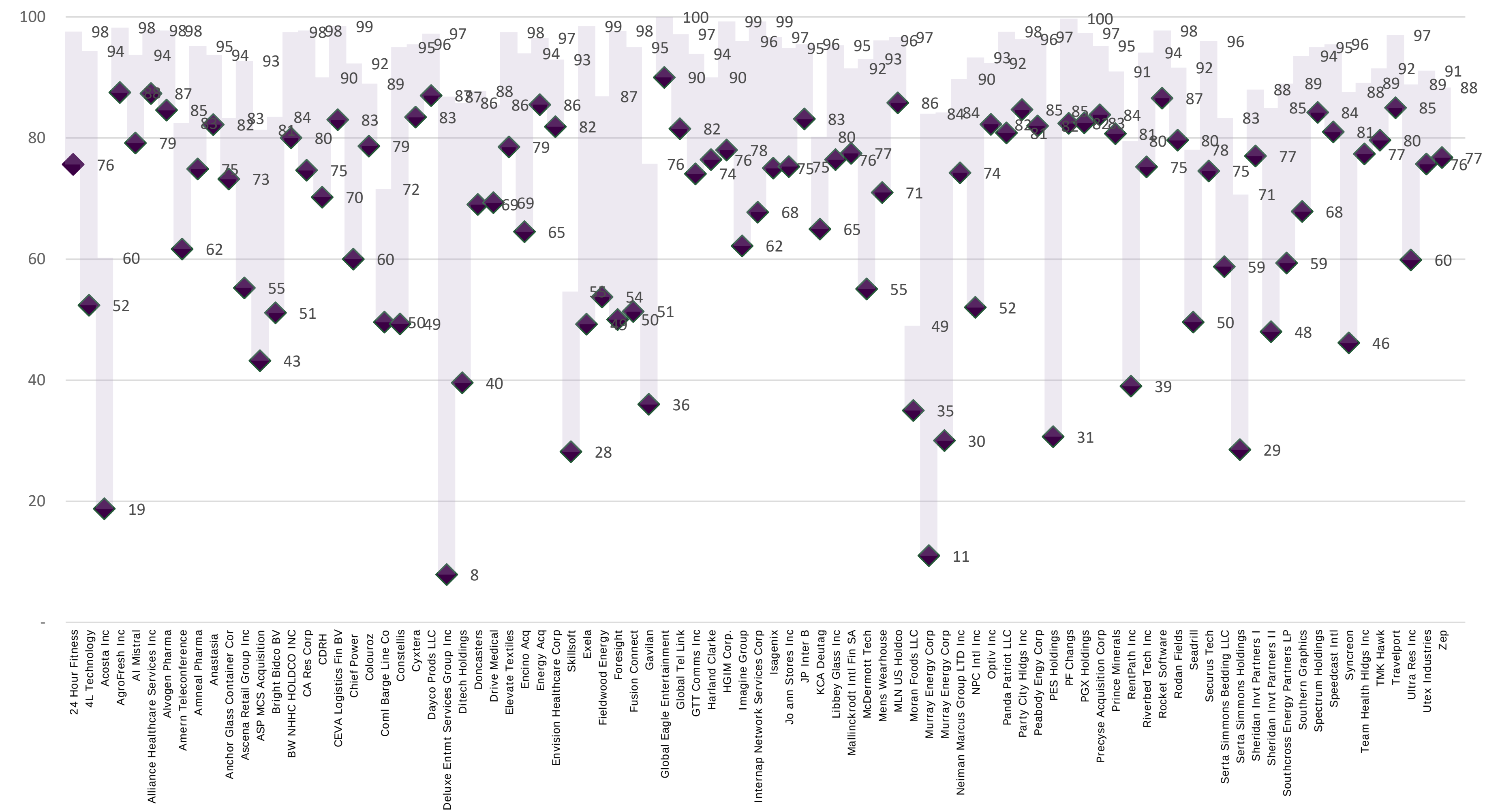



KKR

Source: KKR Credit Analysis as of December 31, 2019.

# Loan Names with The Largest Mark to Market Moves

## Loans (>$350mm size) with ≥ 10 Point Price Decline (2019 YTD)

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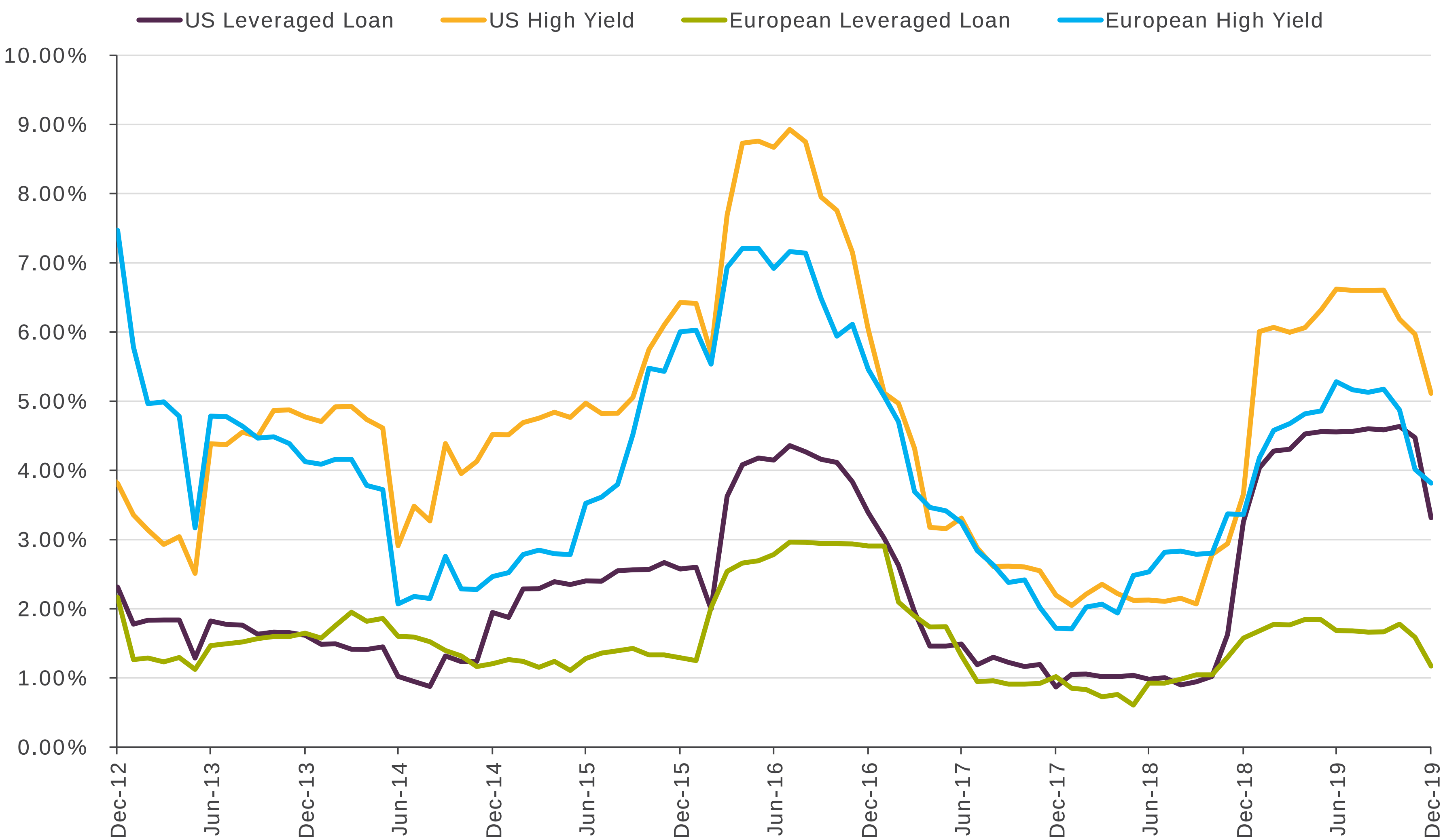
Source: Nomura, KKR Credit Analysis as of November 11, 2019

# Volatility is the New Norm…But That Has Not Lasted Long

Monthly Standard Deviation (12-Month Moving Windows)

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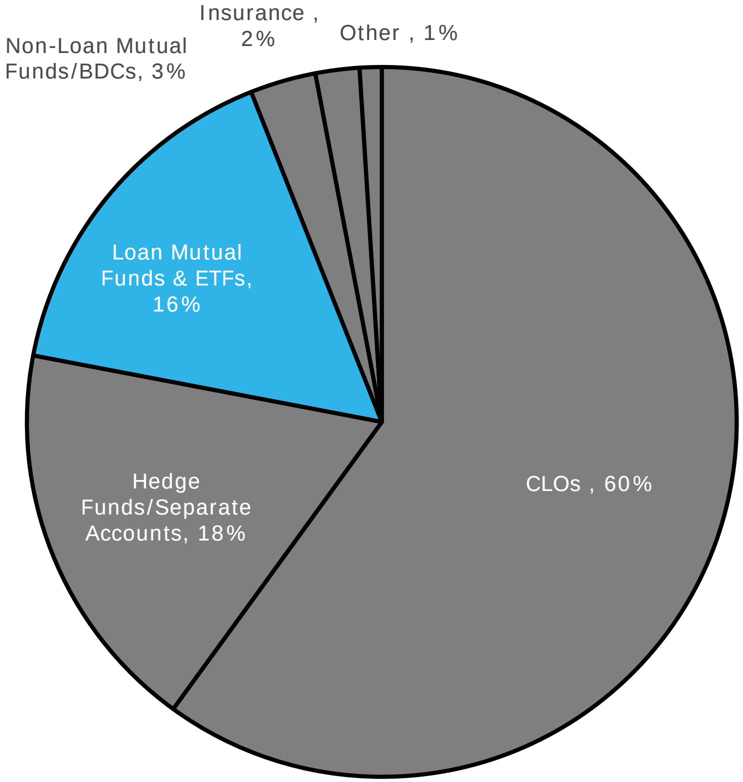
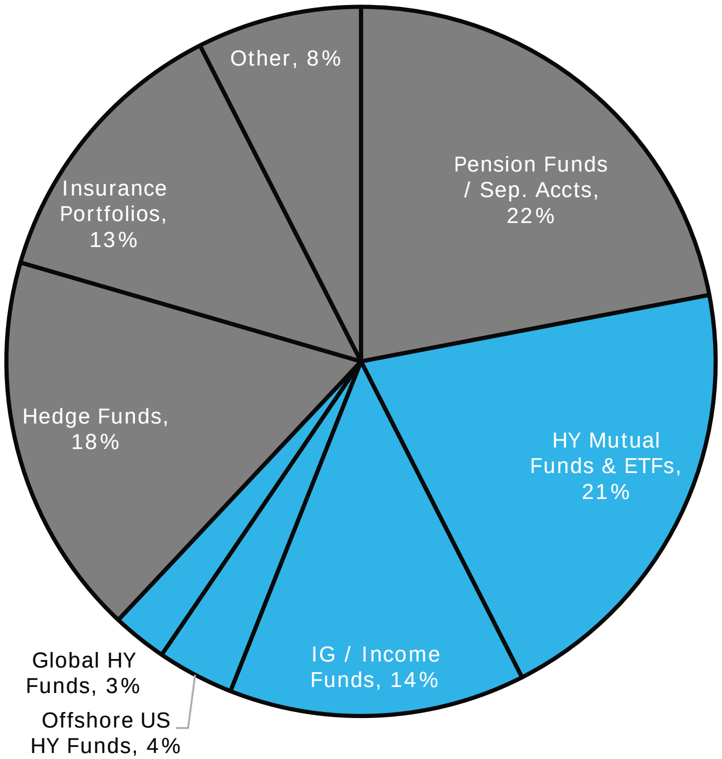
Source: Credit Suisse, S&P, BAML as of December 31, 2019.

# Why Volatility…? Increasing Assets & Liabilities Mismatch

## Buyer Base Breakdown (Loans)(1)(2)



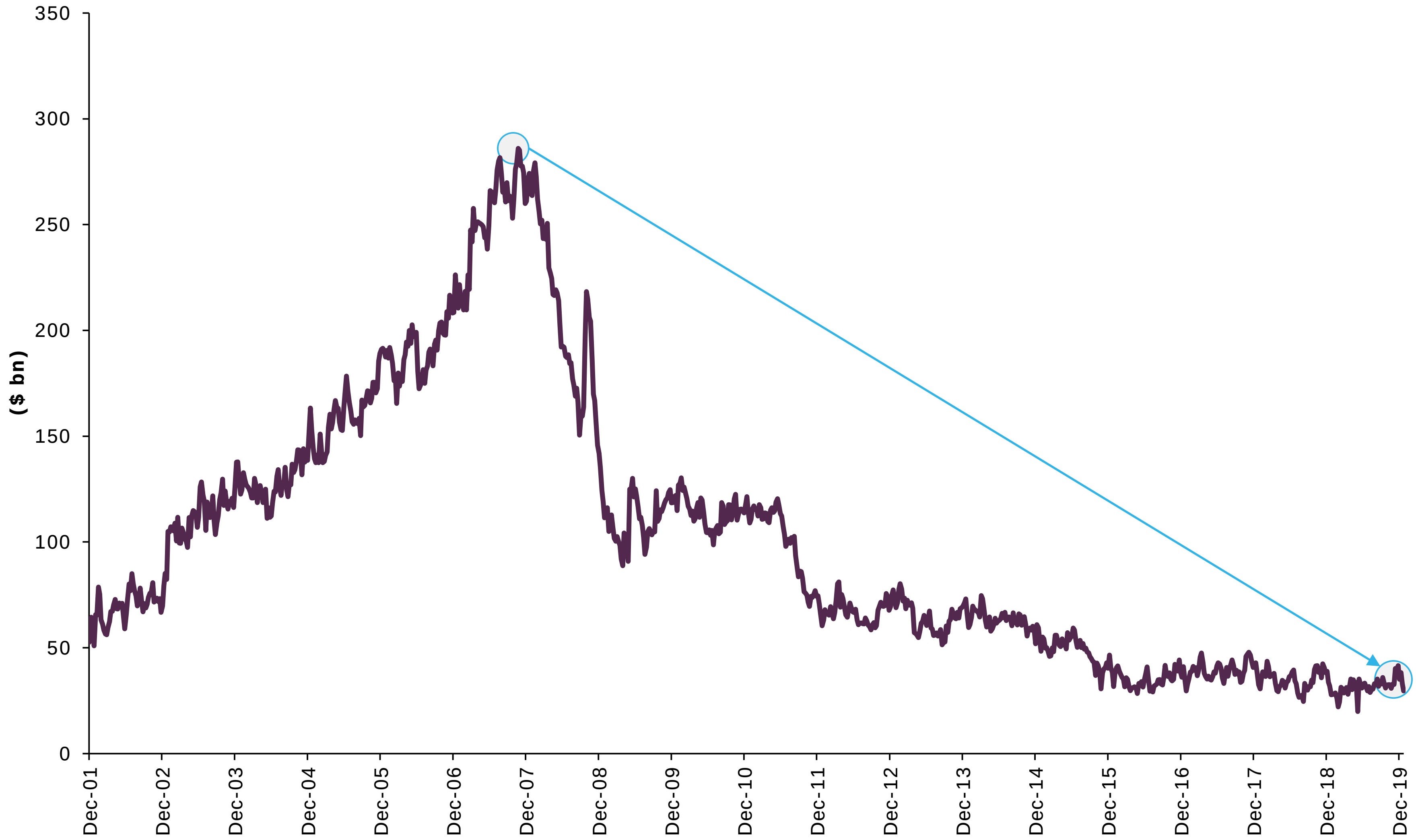

## Buyer Base Breakdown (Bonds)(1)




1) Credit Suisse as of December 31, 2018.
2) BDCs are not daily liquidity but Non-Loan Mutual Funds are.

# Banks Committing Less Capital to Leverage Finance

## Primary Dealer Securities Inventory

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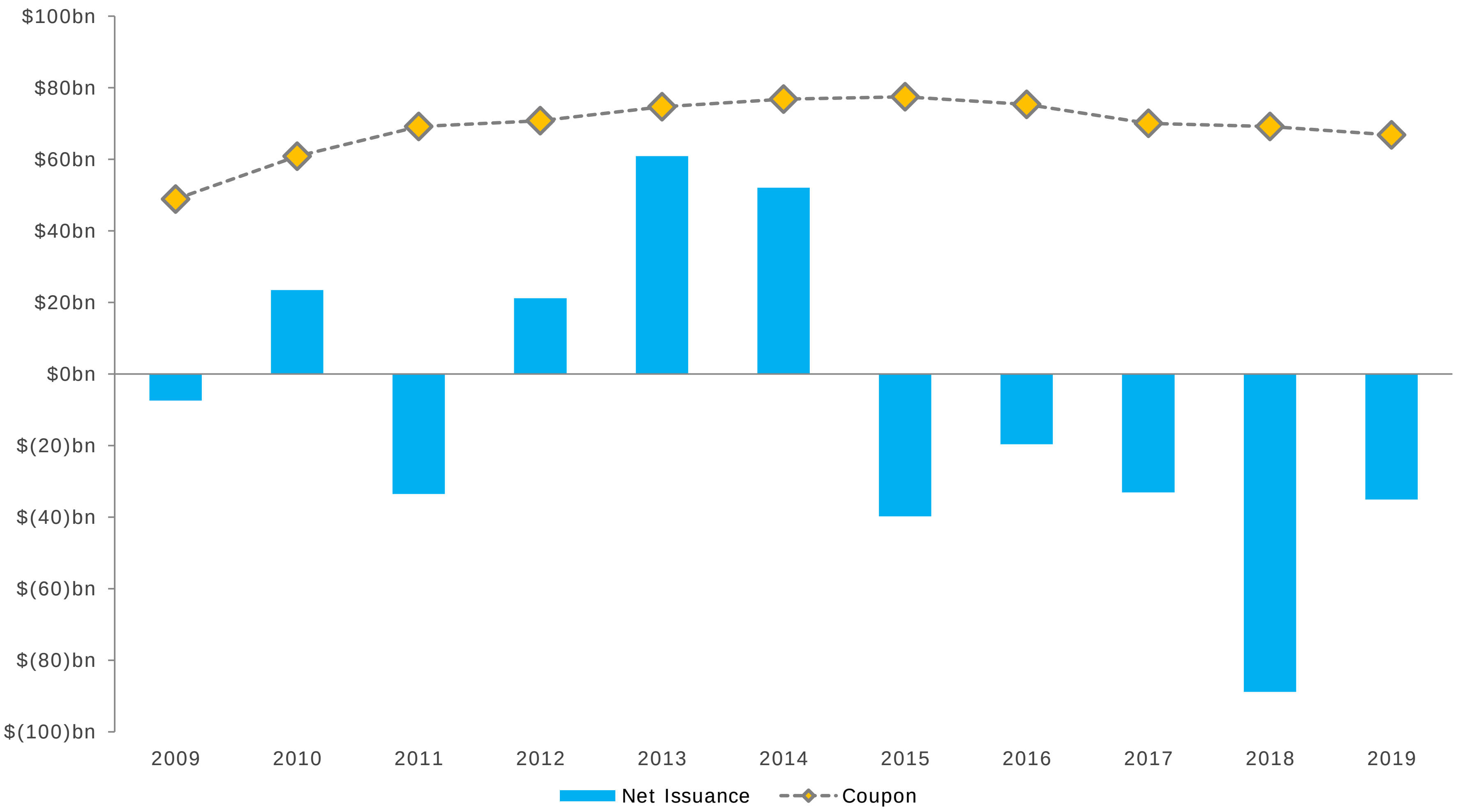
Source: Haver Economics as of December 31, 2019

# Lack of Spread Assets

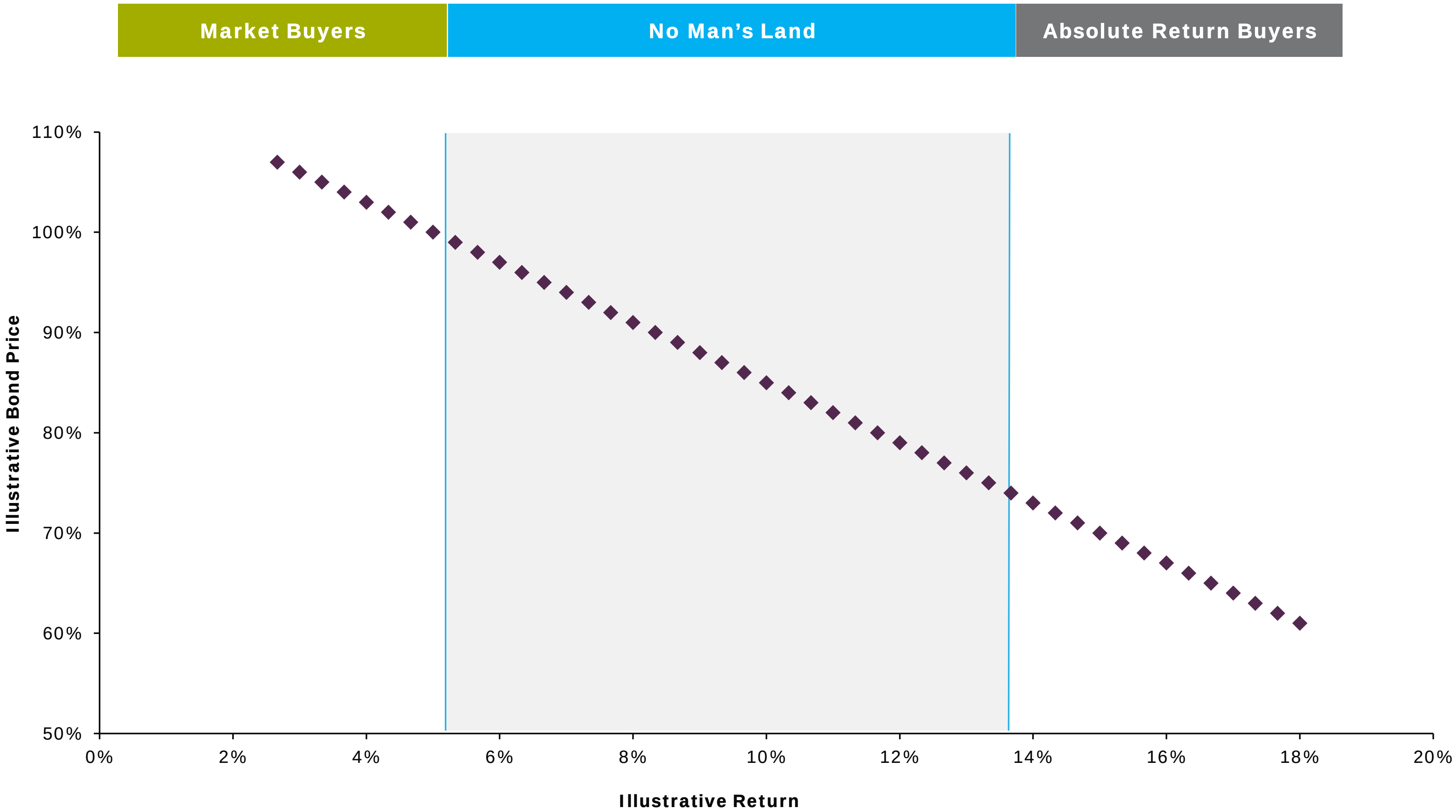
## Annual US High Yield Net Issuance Versus Coupon Generation




Source: KKR Credit Analysis, BAML as of December 31, 2019

# The Opportunity

**Value in 'No Man's Land' by Providing Liquidity Where Others May Not Go**




Note: For illustrative purposes only.

# Q&A

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# Conclusion and Summary

**KKR would be honored to be selected and have the opportunity to manage a hybrid credit portfolio on behalf of the members of the Los Angeles City Employees' Retirement System (LACERS)**

1. Investing opportunistically is in the DNA of the organization
2. Our investment philosophy and process are grounded in capital preservation and downside protection
3. KKR's integrated, one firm approach, which leverages the resources of a 1,200 plus person team, is a key competitive advantage
4. We have built our business on constructing customized solutions that address the needs of our clients

# Appendix I: Key Strategy Characteristics

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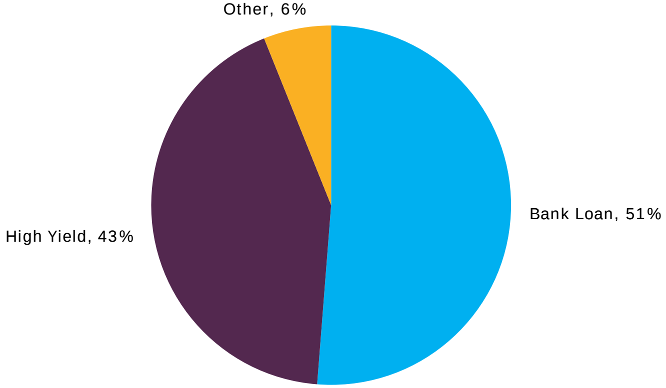
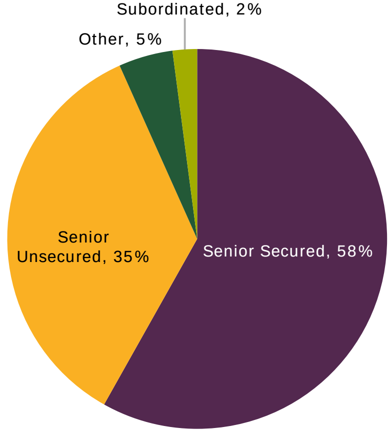
# Portfolio Characteristics

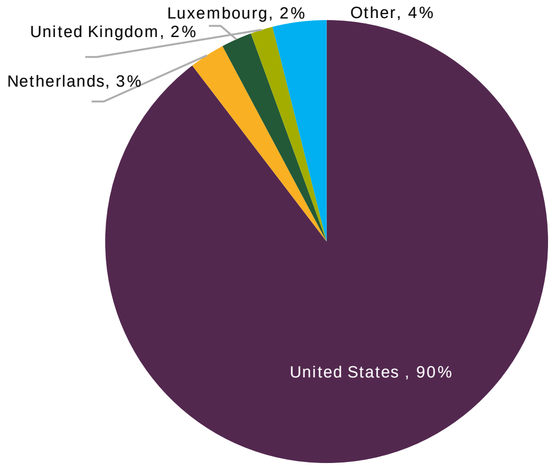
## Asset Class Diversification



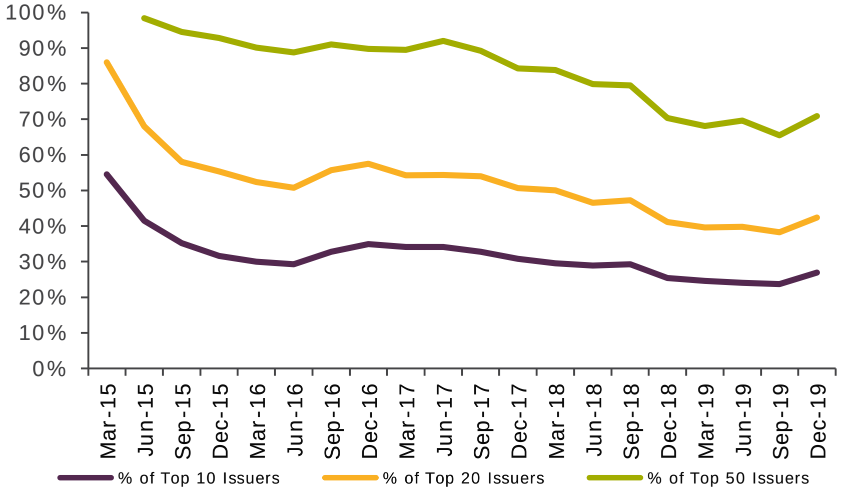

## Capital Structure Diversification




## Geographic Diversification




## Position Concentration

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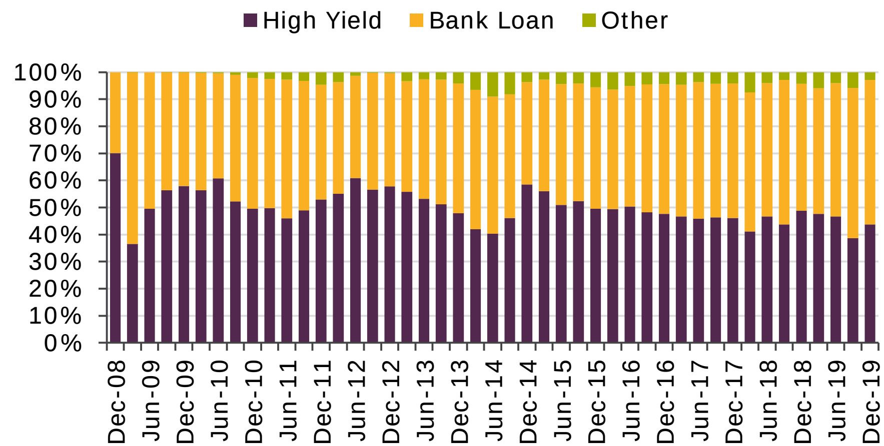
1) All data is based on the assets held in the opportunistic credit composite representative account as of December 31, 2019.
Note: The account presented was selected by the firm as a representative account that was deemed to best represent this management style. Each client account is individually managed; actual holdings will vary for each client and there is not guarantee that a particular client's account or the Fund will have the same characteristics as described above.

# Opportunistic Credit Composite Dynamic Risk Allocation

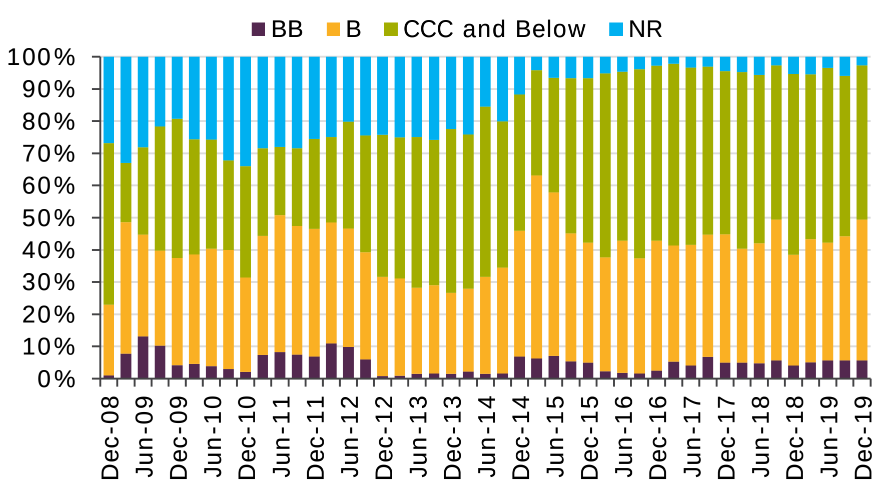
## Performance Metrics – Supplemental Information

| | 1 Year | 3 Years | 5 Years | ITD |
|---|---|---|---|---|
| KKR Credit Standard Deviation | 4.1% | 3.4% | 5.6% | 9.8% |
| Index Standard Deviation | 4.0% | 3.3% | 4.0% | 8.3% |
| KKR Credit Sharpe | 1.76 | 1.8 | 1.4 | 1.2 |
| Index Sharpe | 2.3 | 1.1 | 1.1 | 0.7 |
| Information Ratio | (1.0) | 1.5 | 1.3 | 1.2 |
| Tracking Error | 2.0% | 1.7% | 2.6% | 4.4% |
| Alpha | (1.0%) | 2.7% | 2.1% | 4.9% |
| Beta | 0.9 | 0.9 | 1.3 | 1.1 |
| $R^2$ | 76.1% | 76.9% | 82.9% | 79.7% |

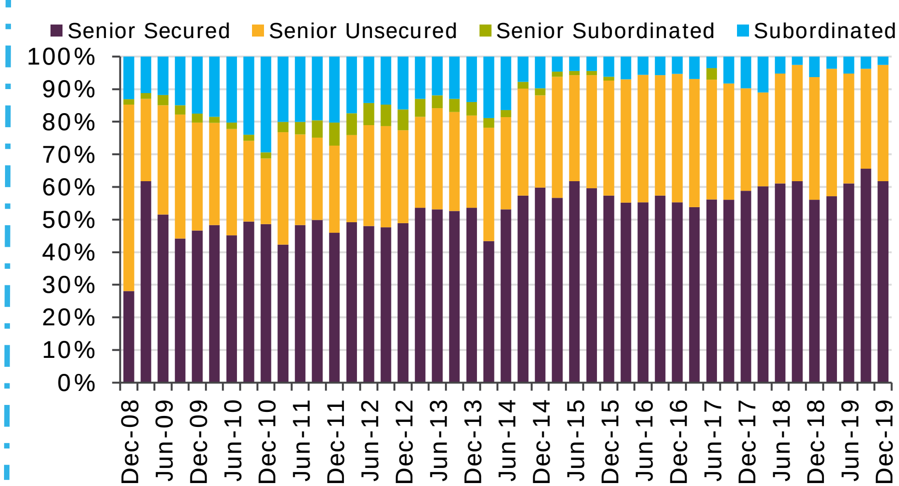
## Asset Class Composition[3]




## Ratings Composition[3]




## Seniority Composition[3]

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Note: Past performance is no guarantee of future results. Please see Important Information for a discussion of the limitations of related performance.
1) Data is for the opportunistic credit composite, as of December 31, 2019, based on estimates for December 2019.
2) Benchmark is 50% S&P LSTA / 50% BAML HY Master II Index.
3) All data is based on the bank loan and high yield assets in the opportunistic credit composite as of December 31, 2019.

# Appendix II: Presenter Biographies

# KKR Presenters

| Presenters | | Biographies |
|---|---|---|
|  | **Head Portfolio Manger:** Chris Sheldon | **Chris Sheldon** (San Francisco) joined KKR in 2004 and is a Member of KKR. Mr. Sheldon serves as the Head of Leveraged Credit. Mr. Sheldon is a portfolio manager for KKR's leveraged credit and private credit funds and portfolios and a member of the US Leveraged Credit Investment Committee, Global Private Credit Investment Committee and KKR Credit Portfolio Management Committee. Prior to joining KKR, Mr. Sheldon was a vice president and senior investment analyst with Wells Fargo's high yield securities group. Previously, Mr. Sheldon worked at Young & Rubicam Advertising and SFM Media Corporation in their media-planning departments. Mr. Sheldon holds a B.A. from Denison University. Mr. Sheldon serves as a member of the board of directors of SquashDrive, a member of the National Urban Squash and Education Association. Mr. Sheldon also serves as a member of the board of directors of the LSTA. |
|  | **Director, Senior Analyst:** Jenn Lee | **Jenn Lee** (San Francisco) joined KKR in 2015 and is a Director of KKR, focusing on leveraged credit funds and portfolios. Prior to joining KKR, Ms. Lee worked as a credit analyst at CapeView Capital (formerly Trafalgar Asset Managers) and as a special situations group analyst for Houlihan Lokey. She holds a Bachelors of Science in Economics with Concentrations in Finance and Accounting from Wharton School, University of Pennsylvania. |
|  | **Relationship Manger:** Andrew Clerico | **Andrew Clerico** (New York) joined KKR in 2017 and is a relationship manager within the Client and Partner Group. Prior to joining KKR, he was a vice president within the marketing team at Brigade Capital Management from 2013 to 2017. Before joining Brigade Capital, Mr. Clerico was a senior analyst at Aksia LLC, where he advised institutional investors on allocations to alternative strategies. Mr. Clerico holds a B.A., magna cum laude, in English from Tulane University |

| Firm Address (SF) |
|---|
| **KKR Credit Advisors US (LLC)**<br>555 California Street<br>50th Floor<br>San Francisco, California 94104<br>+1(415)315-3620 |

# Endnotes: GIPS Performance

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# Endnotes

*These endnotes are an integral part of this presentation. The data and information presented are for informational purposes only. By accepting this material, you agree that you will not distribute or provide this information to any other person*

*KKR Credit conducts its business through KKR Credit Advisors (US) LLC, an SEC-registered investment adviser, KKR Credit Advisors (Ireland), authorized and regulated by the Central Bank of Ireland, and KKR Credit Advisors (UK) LLP which is authorized and registered by the Financial Conduct Authority in the United Kingdom. KKR Credit provides investment management and advisory services to separate accounts and pooled investment vehicles. KKR Credit Advisors (US) LLC is divided into two divisions: the Marketable Securities Division and the Alternative Investments Division. The Marketable Securities Division provides investment management services that follow a fixed-income and/or equity strategy generally investing in instruments with a readily determinable market value. The Alternative Investments Division provides investment management services that generally invest in instruments with a not readily determinable market value or vehicles that may sell securities or other assets short or enter into similar transactions (other than for the purpose of hedging). For compliance with the Global Investment Performance Standards (GIPS®) the Firm is defined and held out to the public as the Marketable Securities Division of KKR Credit Advisors (US) LLC. The Alternative Investments Division does not claim GIPS compliance. In January 2014, the Firm was redefined to exclude blended portfolios that hold over 30% of their assets in investments managed by the Alternative Investments Division, as it was determined that such portfolios are not representative of the Marketable Securities Division's investment management process. In 2014, KKR Credit Advisors (Ireland) was acquired by KKR and became a part of KKR Credit. The Marketable Securities Division of KKR Credit (the "Firm") claims compliance with Global Investment Performance Standards (GIPS). To receive a compliant presentation and/or the firm's list of composite descriptions, please contact Kevin McMahon at +353 1 4793 116.*

*References to "assets under management" or "AUM" represent the assets managed by KKR or its strategic partners as to which KKR is entitled to receive a fee or carried interest (either currently or upon deployment of capital) and general partner capital. As of December 31, 2015, AUM reflects the inclusion of KKR's pro rata portion of AUM managed by other asset managers in which KKR holds a minority interest and capital commitments for which KKR is eligible to receive fees or carried interest upon deployment of capital. Such forms of AUM have been excluded from AUM in prior periods, and exclusion of such amounts from AUM as of December 31, 2015 would have resulted in AUM of $99.1 billion. KKR's calculation of AUM may differ from the calculations of other asset managers and, as a result, KKR's measurements of its AUM may not be comparable to similar measures presented by other asset managers. KKR's definition of AUM is not based on the definitions of AUM that may be set forth in agreements governing the investment funds, vehicles or accounts that it manages and is not calculated pursuant to any regulatory definitions.*

*Calculation of Gross and Net Returns. The performance shown is for the stated time period only; due to market volatility, each account's performance may be different. Returns are time-weighted and geometrically linked and unless otherwise stated, gross performance results are net of commissions and other direct expenses, but before management fees, custody charges, withholding taxes, and other indirect expenses. Net performance results are net of management fees, commissions, and other direct expenses, but before custody charges, withholding taxes, and other indirect expenses. All returns include the reinvestment of dividends. Differences in account size, timing of transactions and market conditions prevailing at the time of investment may lead to different results. Differences in the methodology used to calculate performance may also lead to different performance results than those shown. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in a broad-based securities index. Past performance is no guarantee of future results.*

*Standard deviation of return measures the average deviations of a return series from its mean, and is often used as a measure of risk. Alpha is a measure of a portfolio's return in excess of the market return, after both have been adjusted for risk. Beta is a measure of the systematic, non-diversifiable risk of an investment. The beta coefficient represents market sensitivity, relative to a given market index and time period. R-squared is used as a measure of how reliable, predictable, and valid the alpha and beta are. Tracking Error is the standard deviation of the excess return over the benchmark. Information Ratio is the quotient of the annualized excess return of the strategy and the annualized standard deviation of excess return. Sharpe Ratio quotient of the annualized excess return of the strategy over the cash equivalent and the annualized standard deviation of the strategy return*

*No assumption should be made that any investor will have an investment experience similar to that of any previous or existing investor or that any investor will achieve returns comparable to those shown. Further, individual investments presented herein may not be included in any future strategy sponsored by KKR Credit. High short-term returns for any period may be and likely were attributable to favorable market conditions during that period, which may not be repeated. Differences in fund size, timing of transactions and market conditions prevailing at the time of investment may lead to different results. Differences in the methodology used to calculate performance might also lead to different performance results than those shown. KKR Credit believes, however, that the performance shown is reasonably representative of its management style and is sufficiently relevant for consideration.*

# Composite Detail and Performance Footnotes
# Bank Loans Composite



| Time Period | No. of Accounts | Gross Total Return | Net Total Return | Benchmark Total Return | Gross Composite 3 Yr St Dev | Benchmark 3 Yr St Dev | % of Non-Fee-Paying Assets | Mkt. Value (USD Million) | Composite as a % of Firm Assets |
|---|---|---|---|---|---|---|---|---|---|
| 4/1/11 – 12/31/11 | Five or Fewer | 0.1% | -0.3% | -0.9% | -- | -- | 30.5% | $137 | 2.4% |
| 2012 | Five or Fewer | 9.7% | 9.1% | 9.7% | -- | -- | 100.0% | $46 | 0.6% |
| 2013 | 6 | 7.8% | 7.1% | 5.3% | -- | -- | 2.4% | $2,052 | 15.1% |
| 2014 | Five or Fewer | 2.5% | 1.9% | 1.6% | 2.3% | 2.1% | 0% | $2,188 | 14.6% |
| 2015 | Five or Fewer | 1.0% | 0.5% | -0.7% | 2.1% | 2.1% | 0% | $2,157 | 14.3% |
| 2016 | Five or Fewer | 11.2% | 10.6% | 10.2% | 2.8% | 2.9% | 0% | $1,138 | 6.2% |
| 2017 | Five or Fewer | 5.1% | 4.6% | 4.1% | 2.6% | 2.7% | 0% | $1,289 | 5.6% |
| 2018 | Five or Fewer | 1.1% | 0.6% | 0.4% | 2.9% | 2.9% | 0% | $758 | 4.6% |

1. KKR Credit conducts its business through KKR Credit Advisors (US) LLC, an SEC-registered investment adviser, and its wholly-owned subsidiaries, as well as KKR Credit Advisors (Ireland) Unlimited Company, which is authorized and regulated by the Central Bank of Ireland, and KKR Credit Advisors (EMEA) LLP, which is authorized and regulated by the Financial Conduct Authority (FCA). KKR Credit is divided into two divisions: the Marketable Securities Division and the Alternative Investments Division. The Marketable Securities Division provides investment management services that follow a fixed-income and/or equity strategy generally investing in instruments with a readily determinable market value. The Alternative Investments Division provides investment management services that generally invest in instruments with a not readily determinable market value or vehicles that may sell securities or other assets short or enter into similar transactions (other than for the purpose of hedging). For compliance with the Global Investment Performance Standards (GIPS®) the Firm is defined and held out to the public as the Marketable Securities Division of KKR Credit. The Alternative Investments Division does not claim GIPS compliance. In January 2014, the Firm was redefined to exclude blended portfolios that hold over 30% of their assets in investments managed by the Alternative Investments Division, as it was determined that such portfolios are not representative of the Marketable Securities Division's investment management process. In 2014, Avoca Capital Holdings was acquired by KKR and became a part of KKR Credit. In January 2018, the Firm was redefined to exclude collateralized loan obligations (CLOs).
2. The Marketable Securities Division of KKR Credit (the "Firm") claims compliance with Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. The Firm (formerly referred to as the Marketable Securities Division of KKR Asset Management LLC) has been independently verified for the periods beginning August 2004 through December 2018 by Deloitte & Touche LLP. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
3. The Bank Loan Composite ("Composite") consists of all discretionary portfolios which primarily invest in bank loans investing across the credit spectrum. Portfolios may invest in thinly-traded and/or relatively illiquid securities. The composite creation date is April 2011.
4. Derivatives are used in the management of this Composite. Derivative investments may be used for, but not limited to, indirect hedging purposes, including foreign exchange forward contracts. The Composite may invest in below investment grade or unrated debt instruments, which are generally subject to more credit risk and a greater risk of loss of principal and interest than higher rated debt instruments.
5. The benchmark is the S&P/LSTA Leveraged Loan Index. The S&P/LSTA Leveraged Loan Index comprises all loans that meet the inclusion criteria and that have marks from the LSTA/LPC mark-to-market service. The inclusion criteria consist of the following: i) syndicated term loan instruments consisting of term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans; ii) secured; iii) U.S. dollar denominated; iv) minimum term of one year at inception; and v) minimum initial spread of LIBOR plus 1.25%.
6. There are differences, some significant, between the Composite and the benchmark. For instance, securities included in the Composite may have a greater degree of risk and volatility than those securities contained in the benchmark.
7. Internal dispersion is not presented as it is not statistically meaningful for years in which five or fewer portfolios were included in the Composite for the full year.
8. All returns are expressed in U.S. dollars.
9. Effective January 2016, portfolios are removed from the composite that have a significant external cash flow greater than 15%. Additional information regarding the treatment of significant cash flows is available upon request.
10. Gross performance results are net of trading expenses, but before management fees, custody charges, and withholding taxes. Net performance results are net of model management fees and are net of performance fees, if any, but before custody charges and withholding taxes. All returns include the reinvestment of income and dividends. Returns for periods less than one year are not annualized. Net returns reflect the deduction of the highest applicable management fee appropriate for this mandate, without the benefit of breakpoints ("Model Net Fee"). Where applicable, the Model Net Fee has been adjusted over time to reflect changes in the underlying portfolio fee schedules. Actual investment advisory fees incurred by clients may vary.
11. The U.S. institutional fee schedule is: 0.45% on assets less than $200 million, 0.40% on assets greater than $200 million, 0.37% on next $200 million; 0.35% on remaining assets.
12. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
13. A complete list of composite descriptions is available upon request.
14. Past performance is no guarantee of future results. High short-term returns for any period may be and likely were attributable to favorable market conditions during that period, which may not be repeated.

# Composite Detail and Performance Footnotes
# Bank Loans Conservative Composite



| Time Period | No. of Accounts | Gross Total Return | Net Total Return | Benchmark Total Return | Gross Composite 3 Yr St Dev | Benchmark 3 Yr St Dev | % of Non-Fee-Paying Assets | Mkt. Value (USD Million) | Composite as a % of Firm Assets |
|---|---|---|---|---|---|---|---|---|---|
| 4/1/11 – 12/31/11 | Five or Fewer | 0.9% | 0.5% | 0.2% | -- | -- | 0% | $262 | 4.6% |
| 2012 | Five or Fewer | 9.0% | 8.4% | 8.7% | -- | -- | 0% | $700 | 9.6% |
| 2013 | Five or Fewer | 5.5% | 4.8% | 5.0% | -- | -- | 0% | $831 | 6.1% |
| 2014 | Five or Fewer | 2.6% | 2.0% | 1.5% | 1.8% | 2.0% | 0% | $958 | 6.4% |
| 2015 | Five or Fewer | 2.3% | 1.8% | 0.6% | 1.6% | 2.0% | 0% | $694 | 4.6% |
| 2016 | Five or Fewer | 8.6% | 8.0% | 9.2% | 2.3% | 2.7% | 0% | $1,149 | 6.2% |
| 2017 | Five or Fewer | 3.6% | 3.1% | 3.9% | 2.3% | 2.5% | 0% | $1,212 | 5.3% |
| 2018 | Five or Fewer | 0.5% | 0.0% | 0.4% | 2.6% | 2.8% | 0% | $874 | 5.3% |

1. KKR Credit conducts its business through KKR Credit Advisors (US) LLC, an SEC-registered investment adviser, and its wholly-owned subsidiaries, as well as KKR Credit Advisors (Ireland) Unlimited Company, which is authorized and regulated by the Central Bank of Ireland, and KKR Credit Advisors (EMEA) LLP, which is authorized and regulated by the Financial Conduct Authority (FCA). KKR Credit provides investment management and advisory services to separate accounts and pooled investment vehicles. KKR Credit is divided into two divisions: the Marketable Securities Division and the Alternative Investments Division. The Marketable Securities Division provides investment management services that follow a fixed-income and/or equity strategy generally investing in instruments with a readily determinable market value. The Alternative Investments Division provides investment management services that generally invest in instruments with a not readily determinable market value or vehicles that may sell securities or other assets short or enter into similar transactions (other than for the purpose of hedging). For compliance with the Global Investment Performance Standards (GIPS®) the Firm is defined and held out to the public as the Marketable Securities Division of KKR Credit. The Alternative Investments Division does not claim GIPS compliance. In January 2014, the Firm was redefined to exclude blended portfolios that hold over 30% of their assets in investments managed by the Alternative Investments Division, as it was determined that such portfolios are not representative of the Marketable Securities Division's investment management process. In 2014, Avoca Capital Holdings was acquired by KKR and became a part of KKR Credit. In January 2018, the Firm was redefined to exclude collateralized loan obligations (CLOs).
2. The Marketable Securities Division of KKR Credit (the "Firm") claims compliance with Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. The Firm (formerly referred to as the Marketable Securities Division of KKR Asset Management LLC) has been independently verified for the periods beginning August 2004 through December 2018 by Deloitte & Touche LLP. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
3. The Bank Loan Conservative Composite ("Composite") consists of all discretionary portfolios which primarily invest in bank loans rated B-/B3 or higher. Portfolios may invest in below investment grade or unrated debt instruments, which are generally subject to more credit risk and a greater risk of loss of principal and interest than higher rated debt instruments. Portfolios may invest in thinly-traded and/or relatively illiquid securities. The composite creation date is October 2011.
4. The benchmark is the S&P/LSTA BB/B Leveraged Loan Index. The S&P/LSTA BB/B Leveraged Loan Index comprises all loans that meet the inclusion criteria and that have marks from the LSTA/LPC mark-to-market service. The inclusion criteria consist of the following: i) syndicated term loan instruments consisting of term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans; ii) secured; iii) U.S. dollar denominated; iv) minimum term of one year at inception; v) minimum initial spread of LIBOR plus 1.25%; vii) Rated between BB+ and B- by S&P.
5. There are differences, some significant, between the Composite and the benchmark. For instance, securities included in the Composite may have a greater degree of risk and volatility than those securities contained in the benchmark.
6. Internal dispersion is not presented as it is not statistically meaningful for years in which five or fewer portfolios were included in the Composite for the full year.
7. All returns are expressed in U.S. dollars.
8. Gross performance results are net of trading expenses, but before management fees, custody charges, and withholding taxes. Net performance results are net of model management fees and are net of performance fees, if any, but before custody charges and withholding taxes. All returns include the reinvestment of income and dividends. Returns for periods less than one year are not annualized. Net returns reflect the deduction of the highest applicable management fee appropriate for this mandate, without the benefit of breakpoints ("Model Net Fee"). Where applicable, the Model Net Fee has been adjusted over time to reflect changes in the underlying portfolio fee schedules. Actual investment advisory fees incurred by clients may vary.
9. The U.S. institutional fee schedule is: 0.40% on first $200 million, 0.37% on next $200 million, and 0.35% on remaining assets.
10. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
11. A complete list of composite descriptions is available upon request.
12. Past performance is no guarantee of future results. High short-term returns for any period may be and likely were attributable to favorable market conditions during that period, which may not be repeated.

# Composite Detail and Performance Footnotes
# High Yield Composite

| Time Period | No. of Accounts | Gross Total Return | Net Total Return | Benchmark Total Return | Gross Composite 3 Yr St Dev | Benchmark 3 Yr St Dev | % of Non-Fee-Paying Assets | Mkt. Value (USD Million) | Composite as a % of Firm Assets |
|---|---|---|---|---|---|---|---|---|---|
| 4/1/11 – 12/31/11 | Five or Fewer | 3.2% | 2.8% | 0.5% | -- | -- | 64.3% | $164 | 2.8% |
| 2012 | Five or Fewer | 13.3% | 12.7% | 15.6% | -- | -- | 0% | $104 | 1.4% |
| 2013 | Five or Fewer | 9.6% | 9.0% | 7.4% | -- | -- | 0% | $1,278 | 9.4% |
| 2014 | Five or Fewer | 2.4% | 1.8% | 2.5% | 4.0% | 4.5% | 0% | $1,099 | 7.4% |
| 2015 | Five or Fewer | -0.9% | -1.5% | -4.6% | 4.4% | 5.4% | 0% | $877 | 5.8% |
| 2016 | Five or Fewer | 12.1% | 11.5% | 17.5% | 4.5% | 6.1% | 0% | $294 | 1.6% |
| 2017 | Five or Fewer | 8.8% | 8.2% | 7.5% | 4.0% | 5.7% | 0% | $320 | 1.4% |
| 2018 | Five or Fewer | 0.1% | -0.5% | -2.3% | 3.3% | 4.7% | 0% | $431 | 2.6% |

1. KKR Credit conducts its business through KKR Credit Advisors (US) LLC, an SEC-registered investment adviser, and its wholly-owned subsidiaries, as well as KKR Credit Advisors (Ireland) Unlimited Company, which is authorized and regulated by the Central Bank of Ireland, and KKR Credit Advisors (EMEA) LLP, which is authorized and regulated by the Financial Conduct Authority (FCA). KKR Credit provides investment management and advisory services to separate accounts and pooled investment vehicles. KKR Credit is divided into two divisions: the Marketable Securities Division and the Alternative Investments Division. The Marketable Securities Division provides investment management services that follow a fixed-income and/or equity strategy generally investing in instruments with a readily determinable market value. The Alternative Investments Division provides investment management services that generally invest in instruments with a not readily determinable market value or vehicles that may sell securities or other assets short or enter into similar transactions (other than for the purpose of hedging). For compliance with the Global Investment Performance Standards (GIPS®) the Firm is defined and held out to the public as the Marketable Securities Division of KKR Credit. The Alternative Investments Division does not claim GIPS compliance. In January 2014, the Firm was redefined to exclude blended portfolios that hold over 30% of their assets in investments managed by the Alternative Investments Division, as it was determined that such portfolios are not representative of the Marketable Securities Division's investment management process. In 2014, Avoca Capital Holdings was acquired by KKR and became a part of KKR Credit. In January 2018, the Firm was redefined to exclude collateralized loan obligations (CLOs).
2. The Marketable Securities Division of KKR Credit (the "Firm") claims compliance with Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. The Firm (formerly referred to as the Marketable Securities Division of KKR Asset Management LLC) has been independently verified for the periods beginning August 2004 through December 2018 by Deloitte & Touche LLP. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
3. The High Yield Composite ("Composite") consists of all discretionary portfolios which primarily invest in high yield securities investing across the credit spectrum. Portfolios may invest in thinly-traded and/or relatively illiquid securities. The composite creation date is April 2011.
4. Derivatives are used in the management of this Composite. Derivative investments may be used for, but not limited to, indirect hedging purposes, including foreign exchange forward contracts. The Composite typically invests in below investment grade or unrated debt instruments, which are generally subject to more credit risk and a greater risk of loss of principal and interest than higher rated debt instruments.
5. The benchmark is the Bank of America/Merrill Lynch U.S. High Yield Master II ("BofA ML HY Master II") Index. The BofA ML HY Master II Index is a market-value weighted index of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. "Yankee" bonds (debt of foreign issuers issued in the U.S. domestic market) are included in the BofA ML HY Master II Index provided that the issuer is domiciled in a country having investment grade foreign currency long-term debt rating. Qualifying bonds must have maturities of one year or more, a fixed coupon schedule and minimum outstanding of US$100 million. In addition, issues having a credit rating lower than BBB3, but not in default are also included.
6. There are differences, some significant, between the Composite and the benchmark. For instance, securities included in the Composite may have a greater degree of risk and volatility than those securities contained in the benchmark.
7. Internal dispersion is not presented as it is not statistically meaningful for years in which five or fewer portfolios were included in the Composite for the full year.
8. All returns are expressed in U.S. dollars.
9. Gross performance results are net of trading expenses, but before management fees, custody charges, and withholding taxes. Net performance results are net of model management fees and are net of performance fees, if any, but before custody charges and withholding taxes. All returns include the reinvestment of income and dividends. Returns for periods less than one year are not annualized. Net returns reflect the deduction of the highest applicable management fee appropriate for this mandate, without the benefit of breakpoints ("Model Net Fee"). Where applicable, the Model Net Fee has been adjusted over time to reflect changes in the underlying portfolio fee schedules. Actual investment advisory fees incurred by clients may vary.
10. The U.S. institutional fee schedule is: 0.45% on assets less than $200 million, 0.40% on assets greater than $200 million, 0.37% on next $200 million; 0.35% on remaining assets.
11. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
12. A complete list of composite descriptions is available upon request.
13. Past performance is no guarantee of future results. High short-term returns for any period may be and likely were attributable to favorable market conditions during that period, which may not be repeated.

# Composite Detail and Performance Footnotes
# Bank Loans Plus High Yield Composite



| Time Period | No. of Accounts | Gross Total Return | Net Total Return | Benchmark Total Return | Gross Composite 3 Yr St Dev | Benchmark 3 Yr St Dev | % of Non-Fee-Paying Assets | Mkt. Value (USD Million) | Composite as a % of Firm Assets |
|---|---|---|---|---|---|---|---|---|---|
| 7/1/08 – 12/31/08 | Five or Fewer | -19.2% | -19.5% | -27.2% | -- | -- | 0% | $1,950 | 59.1% |
| 2009 | Five or Fewer | 44.9% | 43.9% | 53.7% | -- | -- | 0% | $2,969 | 48.3% |
| 2010 | Five or Fewer | 13.9% | 13.0% | 11.9% | -- | -- | 0% | $2,734 | 44.7% |
| 2011 | Five or Fewer | 4.9% | 4.3% | 2.6% | 7.8% | 9.1% | 0% | $2,260 | 39.3% |
| 2012 | Five or Fewer | 13.9% | 13.3% | 11.7% | 4.8% | 5.2% | 0% | $2,734 | 37.6% |
| 2013 | Five or Fewer | 9.0% | 8.4% | 6.0% | 4.1% | 4.5% | 0% | $3,343 | 24.6% |
| 2014 | Five or Fewer | 2.9% | 2.3% | 1.9% | 2.6% | 2.8% | 0% | $3,401 | 22.8% |
| 2015 | Five or Fewer | 0.2% | -0.3% | -2.1% | 2.5% | 3.1% | 0% | $2,718 | 18.0% |
| 2016 | Five or Fewer | 10.4% | 9.8% | 12.7% | 2.9% | 3.9% | 0% | $1,208 | 6.6% |
| 2017 | Five or Fewer | 6.7% | 6.2% | 5.3% | 2.7% | 3.6% | 0% | $1,063 | 4.6% |
| 2018 | Five or Fewer | 0.9% | 0.4% | -0.5% | 2.6% | 3.4% | 0% | $1,098 | 6.7% |

1. KKR Credit conducts its business through KKR Credit Advisors (US) LLC, an SEC-registered investment adviser, and its wholly-owned subsidiaries, as well as KKR Credit Advisors (Ireland) Unlimited Company, which is authorized and regulated by the Central Bank of Ireland, and KKR Credit Advisors (EMEA) LLP, which is authorized and regulated by the Financial Conduct Authority (FCA). KKR Credit provides investment management and advisory services to separate accounts and pooled investment vehicles. KKR Credit is divided into two divisions: the Marketable Securities Division and the Alternative Investments Division. The Marketable Securities Division provides investment management services that follow a fixed-income and/or equity strategy generally investing in instruments with a readily determinable market value. The Alternative Investments Division provides investment management services that generally invest in instruments with a not readily determinable market value or vehicles that may sell securities or other assets short or enter into similar transactions (other than for the purpose of hedging). For compliance with the Global Investment Performance Standards (GIPS®) the Firm is defined and held out to the public as the Marketable Securities Division of KKR Credit. The Alternative Investments Division does not claim GIPS compliance. In January 2014, the Firm was redefined to exclude blended portfolios that hold over 30% of their assets in investments managed by the Alternative Investments Division, as it was determined that such portfolios are not representative of the Marketable Securities Division's investment management process. In 2014, Avoca Capital Holdings was acquired by KKR and became a part of KKR Credit. In January 2018, the Firm was redefined to exclude collateralized loan obligations (CLOs).
2. The Marketable Securities Division of KKR Credit (the "Firm") claims compliance with Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. The Firm (formerly referred to as the Marketable Securities Division of KKR Asset Management LLC) has been independently verified for the periods beginning August 2004 through December 2018 by Deloitte & Touche LLP. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
3. The Bank Loans Plus High Yield Composite ("Composite") consists of all discretionary portfolios which principally invest in bank loans and high yield securities, investing across the credit spectrum, and may include modest exposure to stressed and distressed credits as well as mezzanine and middle market loans. Derivative investments may be used for, but not limited to, indirect hedging purposes, including foreign exchange forward contracts. Portfolios may invest in thinly-traded and/or relatively illiquid securities. The composite creation date is July 2008.
4. The Composite may invest in below investment grade or unrated debt instruments, which are generally subject to more credit risk and a greater risk of loss of principal and interest than higher rated debt instruments. This Composite contains investments valued using subjective unobservable inputs. At times, the fair value of such investments has exceeded 20% of the total Composite value.
5. The benchmark is 65% S&P/LSTA Leveraged Loan Index and 35% Bank of America/Merrill Lynch U.S. High Yield Master II Index ("BofA ML HY Master II Index"), rebalanced monthly. The S&P/LSTA Leveraged Loan Index comprises all loans that meet the inclusion criteria and that have marks from the LSTA/LPC mark-to-market service. The inclusion criteria consist of the following: i) syndicated term loan instruments consisting of term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans; ii) secured; iii) U.S. dollar denominated; iv) minimum term of one year at inception; and v) minimum initial spread of LIBOR plus 1.25%. The BofA ML HY Master II Index is a market-value weighted index of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. "Yankee" bonds (debt of foreign issuers issued in the U.S. domestic market) are included in the BofA ML HY Master II Index provided that the issuer is domiciled in a country having investment grade foreign currency long-term debt rating. Qualifying bonds must have maturities of one year or more, a fixed coupon schedule and minimum outstanding of US$100 million. In addition, issues having a credit rating lower than BBB3, but not in default are also included. Both of these indexes were used as individual benchmarks until the Composite benchmark was adopted in 4Q2010.
6. There are differences, some significant, between the Composite and the benchmark. For instance, securities included in the Composite may have a greater degree of risk and volatility than those securities contained in the benchmark.
7. Internal dispersion is not presented as it is not statistically meaningful for years in which five or fewer portfolios were included in the Composite for the full year.
8. All returns are expressed in U.S. dollars.
9. Gross performance results are net of trading expenses, but before management fees, custody charges, and withholding taxes. Net performance results are net of model management fees and are net of performance fees, if any, but before custody charges and withholding taxes. All returns include the reinvestment of income and dividends. Returns for periods less than one year are not annualized. Net returns reflect the deduction of the highest applicable management fee appropriate for this mandate, without the benefit of breakpoints ("Model Net Fee"). Where applicable, the Model Net Fee has been adjusted over time to reflect changes in the underlying portfolio fee schedules. Actual investment advisory fees incurred by clients may vary.
10. The U.S. institutional fee schedule is: 0.45% on assets less than $200 million, 0.40% on assets greater than $200 million, 0.37% on next $200 million; 0.35% on remaining assets.
11. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
12. A complete list of composite descriptions is available upon request.
13. Past performance is no guarantee of future results. High short-term returns for any period may be and likely were attributable to favorable market conditions during that period, which may not be repeated.

# Composite Detail and Performance Footnotes High Yield Conservative Composite



| Time Period | No. of Accounts | Gross Total Return | Net Total Return | Benchmark Total Return | Gross Composite 3 Yr St Dev | Benchmark 3 Yr St Dev | % of Non-Fee-Paying Assets | Mkt. Value (USD Million) | Composite as a % of Firm Assets |
|---|---|---|---|---|---|---|---|---|---|
| 4/1/11 – 12/31/11 | Five or Fewer | 4.3% | 3.9% | 1.7% | -- | -- | 0% | $164 | 2.9% |
| 2012 | Five or Fewer | 12.8% | 12.2% | 14.6% | -- | -- | 0% | $239 | 3.3% |
| 2013 | Five or Fewer | 5.8% | 5.2% | 6.3% | -- | -- | 0% | $253 | 1.9% |
| 2014 | Five or Fewer | 5.2% | 4.6% | 3.5% | 4.3% | 4.3% | 0% | $257 | 1.7% |
| 2015 | Five or Fewer | 0.3% | -0.2% | -2.8% | 4.4% | 5.1% | 0% | $183 | 1.2% |
| 2016 | Five or Fewer | 8.9% | 8.3% | 14.7% | 4.1% | 5.5% | 0% | $1,419 | 7.7% |
| 2017 | Five or Fewer | 6.5% | 6.0% | 7.0% | 3.5% | 5.0% | 0% | $1,468 | 6.4% |
| 2018 | Five or Fewer | -0.9% | -1.4% | -2.0% | 3.0% | 4.1% | 0% | $1,756 | 10.7% |

1. KKR Credit conducts its business through KKR Credit Advisors (US) LLC, an SEC-registered investment adviser, and its wholly-owned subsidiaries, as well as KKR Credit Advisors (Ireland) Unlimited Company, which is authorized and regulated by the Central Bank of Ireland, and KKR Credit Advisors (EMEA) LLP, which is authorized and regulated by the Financial Conduct Authority (FCA). KKR Credit provides investment management and advisory services to separate accounts and pooled investment vehicles. KKR Credit is divided into two divisions: the Marketable Securities Division and the Alternative Investments Division. The Marketable Securities Division provides investment management services that follow a fixed-income and/or equity strategy generally investing in instruments with a readily determinable market value. The Alternative Investments Division provides investment management services that generally invest in instruments with a not readily determinable market value or vehicles that may sell securities or other assets short or enter into similar transactions (other than for the purpose of hedging). For compliance with the Global Investment Performance Standards (GIPS®) the Firm is defined and held out to the public as the Marketable Securities Division of KKR Credit. The Alternative Investments Division does not claim GIPS compliance. In January 2014, the Firm was redefined to exclude blended portfolios that hold over 30% of their assets in investments managed by the Alternative Investments Division, as it was determined that such portfolios are not representative of the Marketable Securities Division's investment management process. In 2014, Avoca Capital Holdings was acquired by KKR and became a part of KKR Credit. In January 2018, the Firm was redefined to exclude collateralized loan obligations (CLOs).
2. The Marketable Securities Division of KKR Credit (the "Firm") claims compliance with Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. The Firm (formerly referred to as the Marketable Securities Division of KKR Asset Management LLC) has been independently verified for the periods beginning August 2004 through December 2018 by Deloitte & Touche LLP. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
3. The High Yield Conservative Composite ("Composite") consists of all discretionary portfolios which primarily invest in high yield securities rated B-/B3 or higher. Portfolios may invest in thinly-traded and/or relatively illiquid securities. The composite creation date is April 2011.
4. The Composite typically invests in below investment grade or unrated debt instruments, which are generally subject to more credit risk and a greater risk of loss of principal and interest than higher rated debt instruments.
5. The benchmark is the Bank of America/Merrill Lynch ("BofA ML") U.S. High Yield BB-B Rated Constrained Index. The BB-B Rated Constrained Index contains all securities in the BofA ML HY Master II Index rated BB1 to B3 based on an average of Moody's, S&P and Fitch, but caps issuer exposure to 2%. The BofA ML HY Master II Index is a market-value weighted index of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. "Yankee" bonds (debt of foreign issuers issued in the U.S. domestic market) are included in the BofA ML HY Master II Index provided that the issuer is domiciled in a country having investment grade foreign currency long-term debt rating. Qualifying bonds must have maturities of one year or more, a fixed coupon schedule and minimum outstanding of US$100 million. In addition, issues having a credit rating lower than BBB3, but not in default are also included.
6. There are differences, some significant, between the Composite and the benchmark. For instance, securities included in the Composite may have a greater degree of risk and volatility than those securities contained in the benchmark.
7. Internal dispersion is not presented as it is not statistically meaningful for years in which five or fewer portfolios were included in the Composite for the full year.
8. All returns are expressed in U.S. dollars.
9. Gross performance results are net of trading expenses, but before management fees, custody charges, and withholding taxes. Net performance results are net of model management fees and are net of performance fees, if any, but before custody charges and withholding taxes. All returns include the reinvestment of income and dividends. Returns for periods less than one year are not annualized. Net returns reflect the deduction of the highest applicable management fee appropriate for this mandate, without the benefit of breakpoints ("Model Net Fee"). Where applicable, the Model Net Fee has been adjusted over time to reflect changes in the underlying portfolio fee schedules. Actual investment advisory fees incurred by clients may vary.
10. The U.S. institutional fee schedule is: 0.40% on first $200 million, 0.37% on next $200 million; and 0.35% on remaining assets.
11. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
12. A complete list of composite descriptions is available upon request.
13. Past performance is no guarantee of future results. High short-term returns for any period may be and likely were attributable to favorable market conditions during that period, which may not be repeated.

# Composite Detail and Performance Footnotes
# Opportunistic Credit Composite

**IC Meeting: 01/21/20**
**Item II**
**Attachment 6**

| Time Period | No. of Accounts | Gross Total Return | Net Total Return | Benchmark Total Return | Gross Composite 3 Yr St Dev | Benchmark 3 Yr St Dev | % of Non-Fee-Paying Assets | Mkt. Value (USD Million) | Composite as a % of Firm Assets |
|---|---|---|---|---|---|---|---|---|---|
| 5/1/08 – 12/31/08 | Five or Fewer | -26.7% | -27.4% | -27.2% | -- | -- | 100% | $399 | 12.1% |
| 2009 | Five or Fewer | 80.5% | 77.9% | 54.6% | -- | -- | 100% | $686 | 11.2% |
| 2010 | Five or Fewer | 22.7% | 20.9% | 12.7% | -- | -- | 100% | $824 | 13.5% |
| 2011 | Five or Fewer | 5.1% | 3.5% | 3.0% | 13.1% | 9.4% | 100% | $866 | 15.1% |
| 2012 | Five or Fewer | 19.5% | 15.2% | 12.6% | 8.4% | 5.5% | 100% | $1,036 | 14.2% |
| 2013 | Five or Fewer | 17.3% | 14.2% | 6.4% | 6.2% | 4.8% | 100% | $1,033 | 7.6% |
| 2014 | Five or Fewer | 1.5% | 0.6% | 2.1% | 4.4% | 3.1% | 79% | $1,308 | 8.8% |
| 2015 | Five or Fewer | -0.7% | -1.5% | -2.7% | 5.4% | 3.5% | 0% | $339 | 2.3% |
| 2016 | Five or Fewer | 22.1% | 18.7% | 13.8% | 7.0% | 4.3% | 0% | $907 | 4.9% |
| 2017 | Five or Fewer | 10.6% | 9.3% | 5.8% | 6.5% | 4.1% | 0% | $1,304 | 5.7% |
| 2018 | Five or Fewer | 3.2% | 1.8% | -0.9% | 5.6% | 3.7% | 0% | $2,063 | 12.6% |

1. KKR Credit conducts its business through KKR Credit Advisors (US) LLC, an SEC-registered investment adviser, and its wholly-owned subsidiaries, as well as KKR Credit Advisors (Ireland) Unlimited Company, which is authorized and regulated by the Central Bank of Ireland, and KKR Credit Advisors (EMEA) LLP, which is authorized and regulated by the Financial Conduct Authority (FCA). KKR Credit provides investment management and advisory services to separate accounts and pooled investment vehicles. KKR Credit is divided into two divisions: the Marketable Securities Division and the Alternative Investments Division. The Marketable Securities Division provides investment management services that follow a fixed-income and/or equity strategy generally investing in instruments with a readily determinable market value. The Alternative Investments Division provides investment management services that generally invest in instruments with a not readily determinable market value or vehicles that may sell securities or other assets short or enter into similar transactions (other than for the purpose of hedging). For compliance with the Global Investment Performance Standards (GIPS®) the Firm is defined and held out to the public as the Marketable Securities Division of KKR Credit. The Alternative Investments Division does not claim GIPS compliance. In January 2014, the Firm was redefined to exclude blended portfolios that hold over 30% of their assets in investments managed by the Alternative Investments Division, as it was determined that such portfolios are not representative of the Marketable Securities Division's investment management process. In 2014, Avoca Capital Holdings was acquired by KKR and became a part of KKR Credit. In January 2018, the Firm was redefined to exclude collateralized loan obligations (CLOs).
2. The Marketable Securities Division of KKR Credit (the "Firm") claims compliance with Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. The Firm (formerly referred to as the Marketable Securities Division of KKR Asset Management LLC) has been independently verified for the periods beginning August 2004 through December 2018 by Deloitte & Touche LLP. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
3. The Opportunistic Credit Composite ("Composite") consists of all discretionary portfolios which primarily invest in high yield securities and corporate loans with no preset allocation. Portfolios may invest in thinly-traded and/or relatively illiquid securities. Beginning January 2015, the composite was redefined to require accounts to allocate less than 10% of portfolio assets to alternative and/or illiquid investment strategies. The composite creation date is May 2008.
4. Derivatives are used in the management of this Composite. Derivative investments may be used, but not limited to, as a financing strategy, including total rate of return swaps, or for indirect hedging purposes, including foreign exchange forward contracts. Beginning January 2012, certain accounts in the Composite utilize leverage to enhance investment returns. The use and extent of use are both dictated by client specific objectives, though the maximum permissible amount of leverage for those accounts that allow leverage is currently capped at 33%. The Composite may invest in below investment grade or unrated debt instruments, which are generally subject to more credit risk and a greater risk of loss of principal and interest than higher rated debt instruments. This Composite contains investments valued using subjective unobservable inputs. At times, the fair value of such investments has exceeded 20% of the total Composite value.
5. The Composite is measured against a blended benchmark, rebalanced monthly, comprised of 50% Bank of America/Merrill Lynch ("BofAML") U.S. High Yield Master II Index and 50% S&P/LSTA Leveraged Loan Index. Prior to August 2017, the Composite was measured solely against the BofA ML U.S. High Yield Master II Index. The benchmark was changed to more closely reflect the strategy's typical asset allocation and the change was applied retroactively for all time periods. The BofA ML HY Master II Index is a market-value weighted index of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. "Yankee" bonds (debt of foreign issuers issued in the U.S. domestic market) are included in the BofA ML HY Master II Index provided that the issuer is domiciled in a country having investment grade foreign currency long-term debt rating. Qualifying bonds must have maturities of one year or more, a fixed coupon schedule and minimum outstanding of US$100 million. In addition, issues having a credit rating lower than BBB3, but not in default are also included. The S&P/LSTA Leveraged Loan Index comprises all loans that meet the inclusion criteria and that have marks from the LSTA/LPC mark-to-market service. The inclusion criteria consist of the following: i) syndicated term loan instruments consisting of term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans; ii) secured; iii) U.S. dollar denominated; iv) minimum term of one year at inception; and v) minimum initial spread of LIBOR plus 1.25%.
6. There are differences, some significant, between the Composite and the benchmark. For instance, securities included in the Composite may have a greater degree of risk and volatility than those securities contained in the benchmark.
7. Internal dispersion is not presented as it is not statistically meaningful for years in which five or fewer portfolios were included in the Composite for the full year.
8. All returns are expressed in U.S. dollars.
9. Gross performance results are net of trading expenses, but before management fees, custody charges, and withholding taxes. Net performance results are net of management fees and performance fees, if any, but before custody charges and withholding taxes. All returns include the reinvestment of income and dividends. From 2017 forward, net returns are calculated based on actual fees. Prior to 2017, net returns reflect the deduction of the highest applicable management fee appropriate for this mandate, without the benefit of breakpoints ("Model Net Fee"). Where applicable, the Model Net Fee has been adjusted over time to reflect changes in the underlying portfolio fee schedules. Actual investment advisory fees incurred by clients may vary.
10. Fee schedule (Option 1): 0.90% on assets less than $50 million, 0.80% on assets between $50-100 million, 0.70% on assets greater than $100 million. Fee schedule (Option 2): base fee of 0.55% on assets less than $50 million, 0.45% on assets between $50-100 million, 0.35% on assets greater than $100 million, plus incentive fee of 15% over a hurdle rate of 50% BofAML U.S. High Yield Master II Index and 50% S&P/LSTA Leveraged Loan Index.
11. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
12. A complete list of composite descriptions is available upon request.
13. Past performance is no guarantee of future results. High short-term returns for any period may be and likely were attributable to favorable market conditions during that period, which may not be repeated.

# Composite Detail and Performance Footnotes European Leveraged Loan Composite

**IC Meeting: 01/21/20**
**Item II**
**Attachment 6**

| Time Period | No. of Accounts | Gross Total Return | Net Total Return | Benchmark Total Return | Gross Composite 3 Yr St Dev | Benchmark 3 Yr St Dev | % of Non-Fee-Paying Assets | Mkt. Value (€ Million) | Composite as a % of Firm Assets* |
|---|---|---|---|---|---|---|---|---|---|
| 1 Sept – 31 Dec 2009 | Five or Fewer | 5.3% | 5.1% | 3.5% | -- | -- | 0% | 102 | n/a |
| 2010 | Five or Fewer | 5.5% | 5.0% | 5.0% | -- | -- | 0% | 229 | n/a |
| 2011 | Five or Fewer | 0.3% | -0.2% | 1.0% | -- | -- | 0% | 323 | n/a |
| 2012 | Five or Fewer | 11.5% | 11.0% | 8.6% | 4.1% | 3.6% | 0% | 463 | n/a |
| 2013 | Five or Fewer | 7.0% | 6.4% | 6.7% | 3.4% | 3.0% | 0% | 1,438 | n/a |
| 2014 | Five or Fewer | 3.9% | 3.4% | 2.6% | 1.8% | 1.5% | 0% | 1,389 | 11.2% |
| 2015 | Five or Fewer | 4.0% | 3.5% | 4.0% | 1.3% | 1.4% | 0% | 1,531 | 11.0% |
| 2016 | Five or Fewer | 5.6% | 5.0% | 5.6% | 1.6% | 1.7% | 0% | 2,275 | 13.0% |
| 2017 | Five or Fewer | 2.9% | 2.4% | 3.1% | 1.6% | 1.6% | 0% | 2,736 | 14.3% |
| 2018 | Five or Fewer | 0.8% | 0.3% | 0.5% | 1.8% | 1.9% | 0% | 2,324 | 16.3% |

* - Composite assets prior to July 2014 were not managed by KKR Credit and are not included in firm assets; therefore, the composite assets as a percentage of firm assets is not applicable.

1. KKR Credit conducts its business through KKR Credit Advisors (US) LLC, an SEC-registered investment adviser, and its wholly-owned subsidiaries, as well as KKR Credit Advisors (Ireland) Unlimited Company, which is authorized and regulated by the Central Bank of Ireland, and KKR Credit Advisors (EMEA) LLP, which is authorized and regulated by the Financial Conduct Authority (FCA). KKR Credit provides investment management and advisory services to separate accounts and pooled investment vehicles. KKR Credit is divided into two divisions: the Marketable Securities Division and the Alternative Investments Division. The Marketable Securities Division provides investment management services that follow a fixed-income and/or equity strategy generally investing in instruments with a readily determinable market value. The Alternative Investments Division provides investment management services that generally invest in instruments with a not readily determinable market value or vehicles that may sell securities or other assets short or enter into similar transactions (other than for the purpose of hedging). For compliance with the Global Investment Performance Standards (GIPS®) the Firm is defined and held out to the public as the Marketable Securities Division of KKR Credit. The Alternative Investments Division does not claim GIPS compliance. In January 2014, the Firm was redefined to exclude blended portfolios that hold over 30% of their assets in investments managed by the Alternative Investments Division, as it was determined that such portfolios are not representative of the Marketable Securities Division's investment management process. In 2014, Avoca Capital Holdings was acquired by KKR and became a part of KKR Credit. In January 2018, the Firm was redefined to exclude collateralized loan obligations (CLOs).
2. The Marketable Securities Division of KKR Credit (the "Firm") claims compliance with Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. The Firm (formerly referred to as the Marketable Securities Division of KKR Asset Management LLC) has been independently verified for the periods beginning August 2004 through December 2018 by Deloitte & Touche LLP. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
3. The European Leveraged Loan Composite ("Composite") consists of all discretionary funds which invest on behalf of our clients in leveraged debt used to fund predominantly European leveraged buyouts. Each fund within the Composite is managed by the same portfolio managers and investment team. At the prior firm, the Composite was referred to as Avoca High Quality Senior Loan Fund Composite. The composite creation date is August 2009.
4. The Composite invests in leveraged debt instruments, but does not directly employ the use of leverage or derivatives. Foreign exchange rates are sourced daily from Bloomberg. The Composite may invest in below investment grade or unrated debt instruments, which are generally subject to more credit risk and a greater risk of loss of principal and interest than higher rated debt instruments.
5. The benchmark for the Composite is the Credit Suisse (CS) Institutional Western European Leveraged Loan Index, a sub-index of the CS Western European Leveraged Loan Index, which is designed to mirror the investable universe of the Institutional Western European leveraged loan market.
6. There are differences, some significant, between the Composite and the benchmark. For instance, securities included in the Composite may have a greater degree of risk and volatility than those securities contained in the benchmark.
7. Internal dispersion is not presented as it is not statistically meaningful for years in which five or fewer portfolios were included in the Composite for the full year.
8. All returns are expressed in Euro.
9. All returns include the reinvestment of income and dividends. Gross performance results are net of trading expenses, but before management fees, custody charges, and withholding taxes. Net performance results are net of model management fees but before custody charges, and withholding taxes.
10. The standard management fee for this strategy is 0.50%. Net returns presented reflect the gross returns less the 0.50% management fee ("Model Net Fee"), deducted using monthly accruals. Actual investment advisory fees incurred by clients may vary.
11. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
12. A complete list of composite descriptions is available upon request.
13. Past performance is no guarantee of future results. High short-term returns for any period may be and likely were attributable to favorable market conditions during that period, which may not be repeated.
14. Performance prior to 1 July 2014 represents a track record established at a prior firm. Results presented should not be interpreted as the actual historical performance of KKR Credit. KKR Credit has adhered to the performance record portability requirements outlined in the GIPS standards with regard to the presentation of this performance track record. Composite assets prior to July 2014 were not managed by KKR Credit and are not included in firm assets; therefore, the composite assets as a percentage firm assets is not applicable.

# Composite Detail and Performance Footnotes European Opportunistic Credit Composite

IC Meeting: 01/21/20
Item II
Attachment 6

| Time Period | No. of Accounts | Gross Total Return | Net Total Return | Benchmark Total Return | Gross Composite 3 Yr St Dev | Benchmark 3 Yr St Dev | % of Non-Fee-Paying Assets | Mkt. Value (€ Million) | Composite as a % of Firm Assets* |
|---|---|---|---|---|---|---|---|---|---|
| 1 Sept – 31 Dec 2007 | Five or Fewer | -0.3% | -0.6% | -0.7% | -- | -- | 0.0% | 135 | n/a |
| 2008 | Five or Fewer | -88.5% | -88.6% | -29.9% | -- | -- | 0.0% | 129 | n/a |
| 2009 | Five or Fewer | 547.0% | 542.8% | 43.4% | -- | -- | 0.0% | 192 | n/a |
| 2010 | Five or Fewer | 18.1% | 17.2% | 9.9% | 70.9% | 13.6% | 0.0% | 231 | n/a |
| 2011 | Five or Fewer | -6.5% | -7.2% | 0.7% | 49.5% | 7.0% | 0.0% | 246 | n/a |
| 2012 | Five or Fewer | 28.2% | 27.3% | 9.8% | 10.3% | 4.2% | 0.0% | 289 | n/a |
| 2013 | Five or Fewer | 19.1% | 18.3% | 8.2% | 9.0% | 3.6% | 0.0% | 324 | n/a |
| 2014 | Five or Fewer | 11.4% | 10.6% | 4.4% | 4.0% | 2.0% | 0.0% | 197 | 1.6% |
| 2015 | Five or Fewer | 6.1% | 5.2% | 2.0% | 3.6% | 2.0% | 0.0% | 260 | 1.9% |
| 2016 | Five or Fewer | 12.8% | 11.0% | 3.2% | 4.6% | 2.5% | 0.0% | 291 | 1.7% |
| 2017 | Five or Fewer | 5.6% | 4.7% | 3.7% | 4.5% | 2.4% | 0.0% | 377 | 2.0% |
| 2018 | Five or Fewer | 0.4% | -0.4% | 1.3% | 4.7% | 2.3% | 0.0% | 264 | 1.8% |

* - Composite assets prior to July 2014 were not managed by KKR Credit and are not included in firm assets; therefore, the composite assets as a percentage of firm assets is not applicable.

1. KKR Credit conducts its business through KKR Credit Advisors (US) LLC, an SEC-registered investment adviser, and its wholly-owned subsidiaries, as well as KKR Credit Advisors (Ireland) Unlimited Company, which is authorized and regulated by the Central Bank of Ireland, and KKR Credit Advisors (EMEA) LLP, which is authorized and regulated by the Financial Conduct Authority (FCA). KKR Credit provides investment management and advisory services to separate accounts and pooled investment vehicles. KKR Credit is divided into two divisions: the Marketable Securities Division and the Alternative Investments Division. The Marketable Securities Division provides investment management services that follow a fixed-income and/or equity strategy generally investing in instruments with a readily determinable market value. The Alternative Investments Division provides investment management services that generally invest in instruments with a not readily determinable market value or vehicles that may sell securities or other assets short or enter into similar transactions (other than for the purpose of hedging). For compliance with the Global Investment Performance Standards (GIPS®) the Firm is defined and held out to the public as the Marketable Securities Division of KKR Credit. The Alternative Investments Division does not claim GIPS compliance. In January 2014, the Firm was redefined to exclude blended portfolios that hold over 30% of their assets in investments managed by the Alternative Investments Division, as it was determined that such portfolios are not representative of the Marketable Securities Division's investment management process. In 2014, Avoca Capital Holdings was acquired by KKR and became a part of KKR Credit. In January 2018, the Firm was redefined to exclude collateralized loan obligations (CLOs).
2. The Marketable Securities Division of KKR Credit (the "Firm") claims compliance with Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. The Firm (formerly referred to as the Marketable Securities Division of KKR Asset Management LLC) has been independently verified for the periods beginning August 2004 through December 2018 by Deloitte & Touche LLP. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
3. The European Opportunistic Credit Composite ("Composite") consists of all discretionary funds that invest in leveraged debt used to predominantly fund European leveraged buyouts, high yield bonds, and structured credit. Each fund within the Composite is managed by the same portfolio managers and investment team. At the prior firm, the Composite was referred to as Avoca Credit Opportunities Composite. Composite creation date is September 2007.
4. Leverage is applied on the funds in the Composite via the use of a multi-currency revolver (0-5x NAV). Composite results presented reflect the impact of leverage, which was material in certain periods. The Composite does not employ the use of derivatives. Foreign exchange rates are sourced daily from Bloomberg. The Composite may invest in below investment grade or unrated debt instruments, which are generally subject to more credit risk and a greater risk of loss of principal and interest than higher rated debt instruments.
5. The benchmark for the Composite is the S&P European Leveraged Loan Index (ELLI)All Loans. The index attempts to track as many loans with institutional tranches in the market as possible. The market-value-return component of the index is based upon secondary market pricing received from Mark-It Partners. Facilities are eligible for inclusion in the index if they are Senior Secured institutional term loans with a minimum initial spread of 1.25% and a term of one year. They are retired from the index when there is no bid posted for the facility for at least 12 successive weeks, or when the loan is prepaid. All loans held by the index are hedged to Euro. Returns are reported before tax.
6. There are differences, some significant, between the Composite and the benchmark. For instance, securities included in the Composite may have a greater degree of risk and volatility than those securities contained in the benchmark.
7. Internal dispersion is not presented as it is not statistically meaningful for years in which five or fewer portfolios were included in the Composite for the full year.
8. All returns are expressed in Euro.
9. All returns include the reinvestment of income and dividends. Gross performance results are net of trading expenses, but before management fees, custody charges, and withholding taxes. Net performance results are net of model management fees but before custody charges, and withholding taxes. Net returns have been further reduced by performance fees when applicable.
10. The standard management fees for this strategy are currently a 0.85% base management fee with a 12.5% incentive fee, subject to a 5% IRR hurdle. Management fees and incentive fees charged during historical time periods may have varied. Net returns presented reflect the gross returns less the management fee and the performance fee, when applicable, deducted using monthly accruals. Actual investment advisory fees incurred by clients may vary.
11. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
12. A complete list of composite descriptions is available upon request.
13. Past performance is no guarantee of future results. High short-term returns for any period may be and likely were attributable to favorable market conditions during that period, which may not be repeated.
14. Performance prior to 1 July 2014 represents a track record established at a prior firm. Results presented should not be interpreted as the actual historical performance of KKR Credit. KKR Credit has adhered to the performance record portability requirements outlined in the GIPS standards with regard to the presentation of this performance track record.