

High Yield | Commentary

Market overview

High yield bonds and loans posted a strong quarter amid record-setting levels for the S&P 500 and the Dow Jones Industrial Average. The Bloomberg US Corporate High Yield Index rose +5.28%, while the Credit Suisse Leveraged Loan Index increased +2.08%. Year to date, the indices are up 8.00% and 6.61%, respectively.

The Federal Funds target rate decreased 50bps in September, the first move lower since March 2020. For the quarter, Treasury rates fell with 5-year and 10-year Treasuries down 82bps and 62bps, respectively.

The Bloomberg US Corporate High Yield Index option-adjusted spread fell slightly, down 14bps to 295bps. The Credit Suisse Leveraged Loan Index's 3-Year discount margin likewise fell 10bps since last quarter to 498bps.

Default/distressed exchange volume totaled \$19.0B in 3Q, including the second highest distressed exchange volume on record (\$13.5B). Including distressed exchanges, the par-weighted default rates for US high yield bonds decreased to 1.64%, while leveraged loans increased to 3.70%. These rates compare to 25-year averages of 3.4% for high yield bonds and 3.0% for leveraged loans. Notably, loan-only issuers had a higher default rate of 3.8% compared to bond-only (1.9%) and bond-and-loan (2.4%) issuers (JP Morgan).

High yield market overview

The Bloomberg US Corporate High Yield Index increased +5.28%.

- **CCCs outperformed significantly:** BB-rated bonds returned 4.34%, B-rated bonds returned 4.48% and CCC-rated bonds returned +10.15%.

- **Industry performances were mostly positive:** Wirelines (+16.86%) and Cable/Satellite (+11.47%) were top performers for the quarter, while Independent (+2.03%) and Oil Field Services (+2.08%) were the worst.
- **Issue size performance was mixed:** Small issue bonds (\$200-\$500M) were up +5.26%, mid-size issues (\$500M-\$1B) were up +4.79% and large issue sizes (\$1B+) were up +5.94%.

Loan market overview

The Credit Suisse Leveraged Loan Index returned +2.08%.

- **Rating performance was mixed:** BB-rated loans returned +1.96%, B-rated loans returned +2.09% and CCC-rated loans returned +1.93%.
- **Industries were positive:** Media/Telecommunications was the best performing sector for the quarter returning +4.39% and Transportation was the worst performing sector at 0.29%.
- **Issue size performance was mixed:** Small issue size loans (less than \$500M) rose +2.55%, mid-size issues (\$500M-\$1B) rose +1.81% and large issue sizes (\$1B+) returned +2.11%.

Performance review

The strategy underperformed in the third quarter, with duration, industry allocation and credit selection all components of the underperformance.

Declining Treasury rates were a driver of underperformance over the quarter. The 5-year Treasury fell 82bps during the period which had a negative impact on relative returns, given the strategy's shorter duration. This equated to approximately 25% of the lag during the quarter.

Industry allocation was an additional drag, which also accounted for approximately 25% of the underperformance. Specifically, while the benchmark returned 5.28% in the quarter, its Communications component returned 10.99%, and the strategy's underweight in Communications hurt its relative performance. Despite that recent outperformance, we remain negative on the two sub-sectors that were largely behind the strong 3Q numbers: Wirelines and Cable Satellite.

Meanwhile, our overweight of Energy meant we had an outsized allocation to the weakest area of the market in 3Q (2.76% return for the benchmark's Energy sector vs 5.28% return for the benchmark overall).

However, about half of the month's underperformance was due to lagging individual names in the strategy, many of which we believe are likely to rebound. Two examples are a distressed Technology sector name we believe has now reached its low, and a Transportation sector company we believe has traded down solely due to technical reasons.

Finally, rating and issue size were not significant drivers of performance over the quarter. Our CCC-rated names did not rally as aggressively as the rest of the market; however, the most significant CCC-rated outperformers over the quarter were Communications names. Therefore, our underweight exposure to Communications also meant that the return of our CCC-rated holdings was more subdued.

Outlook and positioning

We continue to maintain an overweight position in Energy as we have consistently been able to find strong relative values in the sector. Two areas of value have been in offshore drilling and the water solutions businesses within the energy midstream area, where we have been able to source high-yielding companies that maintain strong market positions, provide essential services and have favorable industry dynamics.

By comparison, we are maintaining our underweights to the Communications, Healthcare and Retail sectors, all of which present structural risks that have resulted in above-market defaults in recent years. For example, while Communications recently outperformed in 3Q (10.99% return compared to the Bloomberg US Corporate High Yield Index's 5.28% return) the sector faced significant challenges earlier in the year and will likely continue to do so. In 1Q and 2Q, large defaults by Altice and Lumen Technologies severely impacted the sector's performance, resulting in Communications underperforming

the index by over 600 basis points during this period, down -3.67% compared to a +2.58% return for the index.

In terms of the economy, GDP and employment numbers have continued to show positive trends and we appear to have finally achieved a "soft landing". However, we remain cautious of trends showing weaker consumer spending, increasing consumer debt and rising delinquencies, and we do believe there is an elevated risk of recession in 2025.

Corporate fundamentals meanwhile remain strong, and the last twelve-month high yield default rate continues to decrease, both of which support today's tight spread levels. We believe default rates (or at least expectations) would need to meaningfully increase to spur significant spread widening, a scenario that we do not currently foresee given the economic strength in most of corporate America.

The one area that could improve spreads in the near term could be supply. We are cautiously optimistic that the Fed's recent rate cuts may help generate additional deal activity which could create more investment opportunities. This would be a welcome reprieve from an inactive summer. Fortunately, September has already shown improvement, with non-refi related high yield and leveraged loan issuance increasing to a 1-year and 2.5-year high (JP Morgan).

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GIPS REPORT - HIGH YIELD COMPOSITE

Gross and Net of Fees Total Returns from January 1, 2014 – September 30, 2024

Year	Year end						Annual performance results				3-year annualized dispersion	
	No. of portfolios	Composite Asset at end of period (\$MM)	MHY Assets at end of period (\$MM)	Total Firm Assets (\$MM)	Non paying fee (%)	Carve out (%)	MFIM (gross) Composite (%)	MFIM (net) Composite (%)	Bloomberg US Corp. High Yield Index (%)	Composite Dispersion ⁽¹⁾ (%)	MFIM (gross) Composite ⁽²⁾ (%)	Bloomberg US Corp. High Yield Index ⁽²⁾ (%)
2014	8	593	797	-	1	0	3.14	2.68	2.45	0.7	4.01	4.50
2015	8	617	757	-	1	0	-1.02	-1.45	-4.47	0.7	4.26	5.26
2016	7	742	841	-	0	0	15.18	14.67	17.13	n/a	4.57	6.00
2017	5 or fewer	512	526	4,772	0	0	8.90	8.45	7.50	n/a	4.24	5.65
2018	5 or fewer	859	873	4,137	0	0	-1.02	-1.37	-2.08	n/a	3.76	4.59
2019	5 or fewer	1,124	1,199	3,895	0	0	13.02	12.58	14.32	n/a	3.74	4.02
2020	5 or fewer	1,338	1,407	6,706	0	0	9.00	8.55	7.11	n/a	12.23	9.24
2021	5 or fewer	1,301	1,421	6,168	0	0	12.12	11.67	5.28	n/a	12.08	9.00
2022	5 or fewer	717	898	3,616	0	0	-10.38	-10.76	-11.19	n/a	12.70	10.97
2023	5 or fewer	1,089	1,457	3,963	0	0	15.65	15.15	13.44	n/a	5.86	8.24
Current Performance Results												
2024	5 or fewer	1,402	2,615	5,203	0	0	8.15	7.80	8.00	n/a	5.76	8.40

Past performance is not necessarily indicative of future results.

Mesirow Financial Investment Management Institutional – Fixed Income claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Mesirow Financial Investment Management Institutional – Fixed Income has been independently verified for the periods 01.01.1996 through 12.31.2023. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The High Yield Composite has had a performance examination for the periods from 03.01.1999 to 12.31.2023. The verification and performance examination reports are available upon request.

Creation date is 03.01.1999. * Performance and Composite inception are 03.01.1999.

Benchmark returns are not covered by the report of independent verifiers.

All returns are calculated and presented in US dollars.

Mesirow Financial Investment Management, Inc. ("MFIM") is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. For purposes of claiming GIPS compliance, as of 01.01.2010, the firm is defined as Mesirow Financial Investment Management - Fixed Income divisions. The Mesirow Financial Investment Management - Fixed Income groups specialize in managing portfolios for institutional clients adhering to an investment process geared towards institutional investors. The historical performance presented prior to the creation of the Mesirow Financial Investment Management - Fixed Income groups was managed by MFIM or its predecessor firms prior to 01.01.2005. MFIM provides investment management services to separately managed accounts, limited partnerships, public mutual funds/Registered Investment Companies (RICs) and Collective Investment Trusts (CITs).

The Mesirow Financial Investment Management - Fixed Income business unit includes the Mesirow Financial Investment Management - Strategic Fixed Income (formerly Core Fixed Income) group and the Mesirow Financial Investment Management - High Yield Fixed Income group and manages portfolios primarily for institutional investors adhering to an investment process incorporating fundamental analysis of security valuation factors and drivers. The composites within this business unit vary primarily by duration and the type of originator of the security.

Effective 10.23.2017, MFIM Fixed Income completed the lift-out of the High Yield team from a former and unaffiliated registered Investment Advisor.

Effective 05.29.2020, MFIM Fixed Income completed the lift out of the Analytic Fixed Income Team from a former and unaffiliated registered Investment Advisor, Chicago Equity Partners (CEP) which its team, became an integral part of MFIM Fixed Institutional Fixed Income. On 05.29.2020, MFIM acquired the asset management rights for a portion of the managed portfolios from an independent investment advisory firm and retained all the principals and employees related to such portfolios. Effective 11.30.2022, the MFIM Fixed Income - Analytic Fixed Income business discontinued operations. Accounts either transferred to the

Strategic Fixed Income business unit or terminated its relationship with Mesirow.

The list of composite descriptions, the Firm's list of pooled fund descriptions for limited distribution pooled funds and the Firm's list of broad distribution pooled funds is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The Performance presented from 03.01.1999 to 4.30.2010 was generated while the Portfolio Managers were affiliated with a prior firm. Prior to 05.01.2010, the track record was reviewed for conformance with the portability requirements of GIPS standards. The predecessor firm was also verified, and the composite underwent a performance examination from inception in 03.01.1999 to 12.31.2009 by Ashland Partners & Company LLP. The High Yield Composite had been examined for the period of 05.01.2010 – 06.30.2016 while at Pacific Income Advisers (PIA). PIA had been verified for the period of 01.01.1994 – 06.30.2016.

The High Yield Composite consists of portfolios whose major concentration is in high yield bonds, both public and private. Equity-linked securities purchased in conjunction with debt securities, and equity securities obtained in exchange offers or insolvency proceedings, as well as leveraged corporate loans, and ETFs (in certain circumstances when onboarding a new account) may also be included. The portfolios are considered to be substantially fully invested, with minor cash holdings, at such time as the portfolio consists of at least 85% high yield bonds. This High Yield Composite definition was amended as of October 2019 to more fully reflect the intended strategy. On 01.01.2009, a substantially large equity position (comprising several securities) became non-discretionary and was transferred from the High Yield Composite portfolio when the client restricted the portfolio manager from selling the positions due to tax consequences.

Prior to 11.01.2010, the High Yield Composite was named the U.S. High Yield Composite. It is not for use with the general public and may not be redistributed. Please reference the last page of this presentation for important additional information.

Beginning 05.01.2010, composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of 20% of portfolio assets or greater. Additional information regarding the treatment of significant cash flows is available upon request.

Prior to 01.01.2010, carve-outs reflect the capping of cash to 8% of Net Asset Value on an account which represents the personal holdings of one of the portfolio managers in order to align such cash amount to the level typical of an institutional account.

Calculation of Risk Measures: Annual / 3 Years Dispersion

(1) N/A = Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. Composite dispersion presented is the equal-weighted standard deviation of the gross annual returns of portfolios in the composite for the entire year.

(2) N/A = The 3-year Ex-post standard deviation isn't presented since there aren't 36 monthly returns available prior to this period. 1999 is a partial period from March 1 through December 31. The three-year annualized Ex-post standard deviation measures the

GIPS Report – High Yield Composite

variability of the composite gross returns, and the benchmark returns over the preceding 36-month period. It is not required to be presented for annual periods prior to 2011, or when a full three years of composite performance is not yet available.

Performance / Net of Fee Disclosure

Performance information that is provided gross of fees does not reflect the deduction of advisory fees. Client returns will be reduced by such fees and other expenses that may be incurred in the management of the account. Advisory fees are described in Form ADV Part 2 of MHY. As of 10.01.2013, net of fee performance was calculated using actual management fees. Prior to 10.01.2013, net of fee performance was calculated using the highest annual management fee applied to the gross results on a monthly basis. For the period 04.01.2011 through 09.30.2013, the highest management fee was 0.65%. Prior to 03.31.2011, the highest management fee was 0.50%. Actual investment advisory fees incurred by clients may vary. The management fee schedule is as follows:

High Yield Strategy (described in MHY's Form ADV, Part 2)

- 0.60% on the first \$25 million
- 0.55% on the next \$25 million
- 0.50% on the next \$50 million
- 0.45% on the balance.

High Yield CIT

- 0.40% on all assets – Founder Class (First \$100 million) [Closed]*
- 0.55% on all assets – Class A (under \$25 million)**
- 0.48% on all assets – Class L (\$25 million and above)**

*The Founders share class was closed to new investors 01.21.2022 after reaching \$100 million in assets under management.

**Class A Units are available to Participating Plans investing less than \$25 million and Class L Units are available to Participating Plans investing \$25 million or more.

An actual fee charged to an individual portfolio may vary by size and type of portfolio. Fees are collected quarterly, which produces a compounding effect on the total rate of return net of management fees. As an example, the effect of investment management fees on the total value of a client's portfolio assuming (a) \$1,000,000 investment, (b) portfolio return of 8% a year, and (c) 0.60% annual investment advisory fee would reduce the portfolio's value by \$6,292 in the first year, by \$36,614 over five years and \$89,411 over 10 years. Actual investment advisory fees incurred by clients will vary.

Benchmark Definition

The primary benchmark was formerly the Credit Suisse High Yield Index. The benchmark was changed to the Barclays U.S. Corporate High Yield Index on 05.01.2010, since the Portfolio Management Team believes it is more commonly recognized as the industry standard index for the high yield asset class. The index was renamed the Bloomberg Barclays U.S. Corporate High Yield Index, following Bloomberg's acquisition of Barclays Risk Analytics and Index Solutions (BRAIS) in August of 2016. The Bloomberg Barclays fixed income benchmark indices have since been rebranded as the "Bloomberg Indices" as of 08.24.2021, further updating the benchmark name to the Bloomberg U.S Corporate High Yield Index. The Bloomberg 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 Bloomberg EM country definition, are excluded.

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