

High Yield | Commentary

Market overview

High yield bonds and loans had another positive month in September in the midst of record-setting levels for the S&P 500 and the Dow Jones Industrial Average. The Bloomberg US Corporate High Yield Index rose +1.62%, while the Credit Suisse Leveraged Loan Index increased +0.73%. Year to date, the indices are up 8.00% and 6.61%, respectively.

The Federal Funds target rate decreased 50bps, the first move lower since March 2020. Treasury rates fell with 5-year and 10-year Treasuries down 14bps and 12bps, respectively.

The Bloomberg US Corporate High Yield Index option-adjusted spread fell once again, down 10bps to 295bps. The Credit Suisse Leveraged Loan Index's 3-year discount margin was basically unchanged, up 3bps since last month to 498bps.

Default activity moderated in September. The leveraged loan market experienced three defaults totaling \$1.4B. There were also six distressed transactions, \$647M in bonds and \$2.1B in loans. This total of \$4.1B in defaults and distressed transactions compares to 2024's monthly average of \$6.2B.

Including distressed exchanges, the par-weighted default rates for US high yield bonds decreased by 10bps to 1.64%, while leveraged loans increased by 10bps 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% over the last twelve months 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 +1.62%.

- **CCCs outperformed:** BB-rated bonds returned 1.06%, B-rated bonds returned 1.18% and CCC-rated bonds returned +4.29%.
- **Industry performances were mostly positive:** Cable/Satellite (+5.51%) and Wirelines (+4.53%) were top performers for the third month in a row, while Independent (-0.58%) was the worst along with other areas of Energy which continued to lag.
- **Issue size performance was mixed:** Large issue sizes (\$1B+) were up +1.94%, mid-size issues (\$500M-\$1B) were up +1.36% and small issue bonds (\$200-\$500M) were up +1.60%.

Loan market overview

The Credit Suisse Leveraged Loan Index returned +0.73%.

- **CCC loans outperformed:** BB-rated loans returned +0.47%, B-rated loans returned +0.65% and CCC-rated loans returned +1.79%.
- **Industries were positive:** Media/Telecommunications was the best performing sector for the third month in a row, returning +1.44% and Food and Drug was the worst performing sector at 0.02%.
- **Small issue loans outperformed:** Small issue size loans (less than \$500M) rose +0.97%, mid-size issues (\$500M-\$1B) rose +0.66% and large issue sizes (\$1B+) returned +0.73%.

Performance review

The strategy underperformed relative to the benchmark in September, with duration, industry allocation and credit selection all contributing.

Falling Treasury rates once again contributed to underperformance during the month. Similar to last month, the strategy's shorter duration in the face of falling rates was responsible for approximately a quarter of the month's underperformance.

Industry allocation was also a drag in September and resulted in about half of the month's underperformance. Specifically, while the benchmark returned 1.62% in September, the Communications sector returned 4.26%, and the strategy's large underweight in Communications hurt its relative performance.

The final quarter or so of the underperformance is reflective of a handful of underperforming names including one Technology credit and a couple others within the Transportation and Energy sectors. While these credits have hurt short-term performance, we continue to hold (and add to the positions opportunistically) with expectations of price recovery over time.

Rating and issue size, meanwhile, were not major drivers of performance this month.

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 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.

In the water midstream space, we own multiple credits that are benefiting from the growing need for water management solutions in unconventional oil and gas production. As water-to-oil ratios in key basins like the Southern Delaware average as high as 5:1, these companies provide critical and cost-effective water offtake services. Their business models are underpinned by long-term contracts (averaging 8-14 years) with blue-chip customers and present strong free cash flow relative to debt.

Furthermore, not only are these businesses more cost effective, but they are also more environmentally friendly, significantly reducing emissions that would have been produced by trucking, the alternative solution to water offtake.

Offshore drilling is another attractive area of the Energy sector given the high utilization in the jack-up rig market. Credits in this area can provide competitive advantages and boost operational efficiency, which in turn has resulted in strong EBITDA margins. With lower leverage, strong free cash flow and the rig fleets as collateral (at conservative loan-to-value ratios) we feel the spread on these investments is worthwhile given the attributes helping to mitigate risk.

Overall, Energy is one area of the market where we believe pockets of opportunity exist, particularly if exposure to commodity risk can be mitigated.

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc. © 2024. All rights reserved. Mesirow High Yield (“MHY”) is a division of Mesirow Financial Investment Management, Inc., (“MFIM”) an SEC-registered investment advisor. This communication is for institutional use only and may contain privileged and/or confidential information. It is intended solely for the use of the addressee. If this information was received in error, you are strictly prohibited from disclosing, copying, distributing or using any of this information and are requested to contact the sender immediately and destroy the material in its entirety, whether electronic or hardcopy. Nothing contained herein constitutes an offer to sell or a solicitation of an offer to buy an interest in any Mesirow Financial investment vehicle. The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions expressed are subject to change without notice. It should not be assumed that any recommendations incorporated herein will be profitable or will equal past performance. 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 Part 2 of Form ADV of MHY. Yields are subject to market fluctuations. Mesirow Financial Investment Management, Inc. and its affiliated companies and/or individuals may, from time to time, own, have long or short positions in, or options on, or act as a market maker in, any securities discussed herein and may also perform financial advisory or investment banking services for those companies. Mesirow Financial does not provide legal or tax advice. Securities offered by Mesirow Financial, Inc. member FINRA, SIPC. Additional information is available upon request.

Australia: The information contained herein is intended for Wholesale Clients only and is for informational purposes only. This document is not a prospectus or product disclosure statement under the Corporations Act 2001 (Cth) (Corporations Act) and does not constitute a recommendation to acquire, an invitation to apply for, an offer to apply for or buy, an offer to arrange the issue or sale of, or an offer for issue or sale of, any securities or investment service in Australia, except as set out below. The strategy has not authorised nor taken any action to prepare or lodge with the Australian Securities & Investments Commission an Australian law compliant prospectus or product disclosure statement. Accordingly, this strategy and document may not be issued or distributed in Australia other than by way of or pursuant to an offer or invitation that does not need disclosure to investors under Part 6D.2 or Part 7.9 of the Corporations Act, whether by reason of the investor being a ‘wholesale client’ (as defined in section 761G of the Corporations Act and applicable regulations) or otherwise. This document does not constitute or involve a recommendation to acquire, an offer or invitation for issue or sale, an offer or invitation to arrange the issue or sale, or an issue or sale, of any strategy or investment service to a ‘retail client’ (as defined in section 761G of the Corporations Act and applicable regulations) in Australia.

Belgium, Finland, Norway, Sweden: This information does not constitute investment advice or an offer to invest or to provide discretionary investment management services. The strategies discussed in this document include significant risk, including the risk of loss of an investor’s entire capital. This document is only being provided to Professional Investors (as that term is used in the Alternative Investment Fund Managers Directive (Directive (2011/61/EU)) in the European Union. No regulatory entity within the EU or elsewhere has approved this strategy or reviewed this document. It is being distributed based on Mesirow Financial’s passport from its home jurisdiction in the United Kingdom.

EU (Post Brexit): The information contained herein is intended for Professional Clients as the term is defined by MiFID II and is for informational purposes only. Recipients that are classified under MiFID II as retail clients must opt up to Professional Clients before receiving any services from Mesirow.

Switzerland: The information contained herein is intended for Professional Clients as the term is defined by MiFID II and is for informational purposes only. Recipients that are classified under MiFID II as retail clients must opt up to Professional Clients before receiving any services from Mesirow. Services are only offered to Regulated Qualified Investors, as defined in Article 10 of the Swiss Collective Investment Scheme Act. There can be no guarantee investment advice will be profitable or meet its investment objectives.

United Kingdom: In the United Kingdom, this communication is directed only at persons who fall within the definition of a “professional client” as defined in COBS 3.5 of the “FCA handbook”.

About Mesirow

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our culture. To learn more, visit mesirow.com and follow us on [LinkedIn](#).

Contact us

UNITED STATES INVESTORS

portfoliospecialist@mesirow.com | 312.595.7300

UNITED KINGDOM AND EUROPEAN INVESTORS

Katie Renouf

katie.renouf@mesirow.com | 011.44.207.851.1702

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.

Mesirow Financial Investment Management, Inc. and its affiliated companies and/or individuals may, from time to time, own, have long or short positions in, or options on, or be a market maker in, any securities discussed herein and may also perform financial advisory or investment banking services for those companies.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.