

# Bank loan strategy

## INVESTMENT PHILOSOPHY

We believe the high yield and bank loan markets have historically offered substantial income to over-compensate for default risk as well as offer the potential to produce capital gains when issuers have improved their credit quality. Knowing defaults have been largely concentrated by industry, we defensively seek to underweight those industries where we can identify negative secular trends. A key to potentially generating consistent investment returns is through the “value” driven company-specific analysis, designed to capture excess returns from companies that demonstrate they can generate free cash flow throughout an economic cycle. These companies generally experience lower-than-index default losses, while producing an attractive yield.

## INVESTMENT PROCESS

Our Investment process starts with a focus on industries we believe have sufficiently low cash flow volatility to service debt regardless of the next macro trend. We typically exclude approximately one third of industries, because they fail this first screen. We seek above average yielding opportunities within an industry that we deem favorably positioned to generate cash flow. These opportunities tend to be relatively small, privately owned issuers, not closely followed by our larger competitors or in brokerage research. The three senior members of our portfolio management team have discretion to optimize exposure in the industries in which they specialize, following a set of common investment themes. We seek to capture alpha over the complete credit cycle. We rarely engage in large-scale sector rotation, and our turnover is consistently low. We monitor each credit’s sensitivity to a small number of macro variables; e.g. consumer spending, credit availability, commodity prices. We sell when we believe a secular change is occurring that overturns our investment thesis.

## ASSET ALLOCATION

With regard to asset selection within a capital structure, Mesirow’s high yield and bank loan strategies are complementary in that they are both credit-driven and essentially cover the same set of companies – they differ primarily in the seniority of the debt claim in which an investment is made. We decide whether to buy secured, senior unsecured, or subordinated debt based on relative spreads, call provisions and the potential for capital gains, seniority, an estimate of recovery value in the event of default, a subjective evaluation of the management of the issuer, and a judgment of the likely behavior of a financial sponsor in the event the company is private. Over long periods of time, we find both bank loans and high yield bonds have the potential to generate significant alpha vis-a-vis other fixed income instruments. Additionally, the loan strategy has historically been executed using leverage to augment returns.

## PORTFOLIO MANAGERS

Our professionals average more than 20 years of industry experience and are committed to providing customized service to our clients.

### **Robert E. Sydow**

Chief Investment Officer  
Investment Experience: 32 Years

### **Kevin S. Buckle, CFA**

Senior Managing Director  
Investment Experience: 30 Years

### **James Lisko**

Managing Director  
Investment Experience: 27 Years

## KEY ADVANTAGES

- Portfolio management team with significant experience working together in high yield and bank loan space
- Emphasis on small issue investments allowing for increased yield potential and less competitive coverage
- High conviction manager that places proprietary industry research over index weightings

### ANNUALIZED PERFORMANCE<sup>1</sup>

	MHY Bank Loan Composite (gross) %	MHY Bank Loan Composite (net) %	Credit Suisse Leveraged Loan Index %
4th Quarter 2020	3.48	3.35	3.64
1 year	4.40	3.84	2.78
3 year	3.72	3.12	3.98
5 year	6.05	5.14	5.19
10 year	5.51	4.51	4.47
Since inception [Inception: 08/2007]	5.67	4.76	4.42

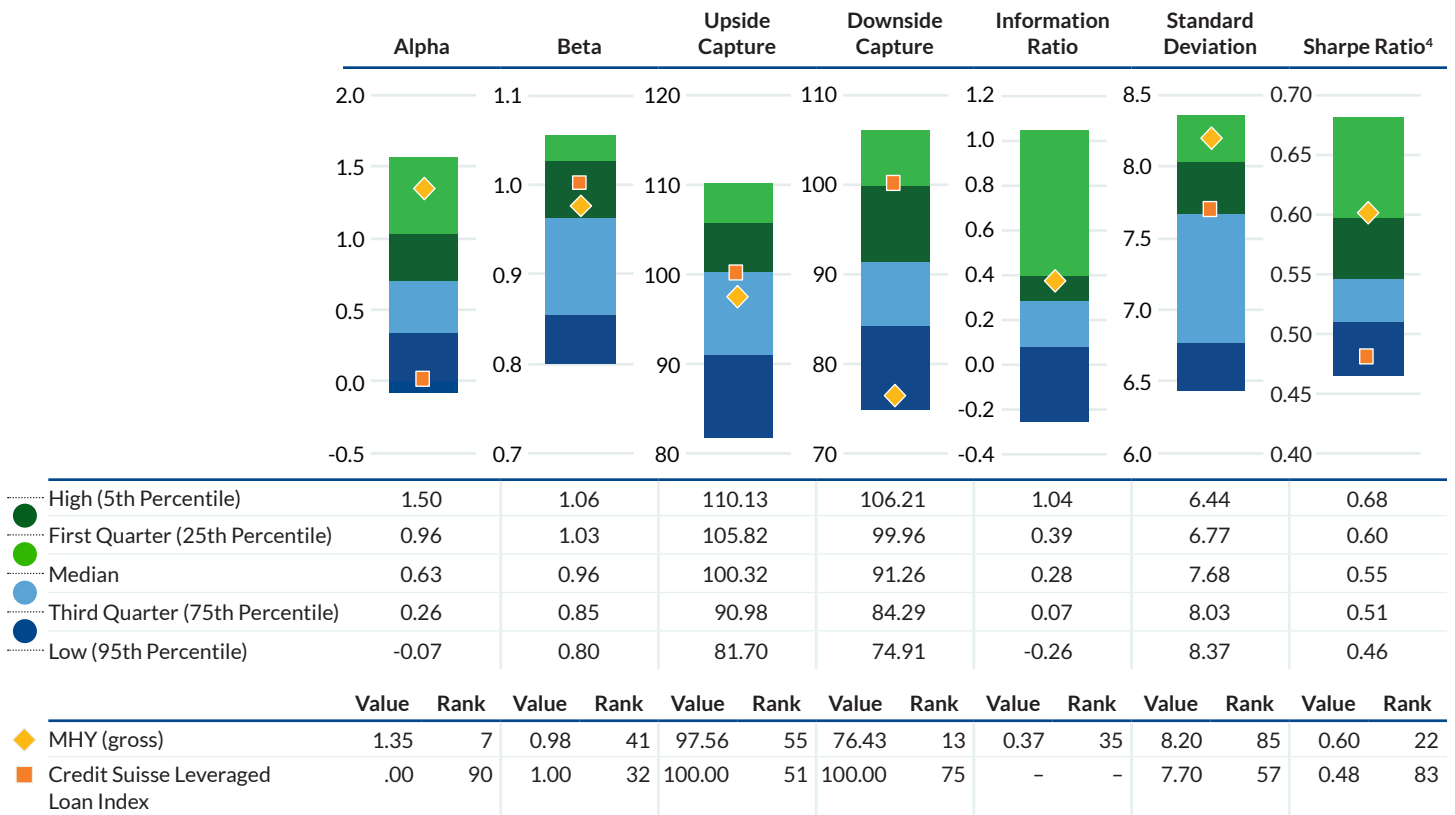
The above information is supplemental. Please see GIPS Report and complete performance information, including benchmark descriptions, contained on the following pages.

### CHARACTERISTICS<sup>2</sup>

	MHY Bank Loan Composite	Credit Suisse Leveraged Loan Index
Coupon (%)	5.1	4.1
Weighted Average Maturity (Years)	4.7	4.6
Discount Margin (bps)	596	460
Yield to Maturity (%)	6.0	4.8
Average Credit Quality	B2	B2
Number of Holdings	55	1,678

Source: MHY, Credit Suisse, Bloomberg. Past performance is not necessarily indicative of future results. The above information is supplemental. Please see complete performance information contained on the following pages. Characteristics calculations exclude cash.

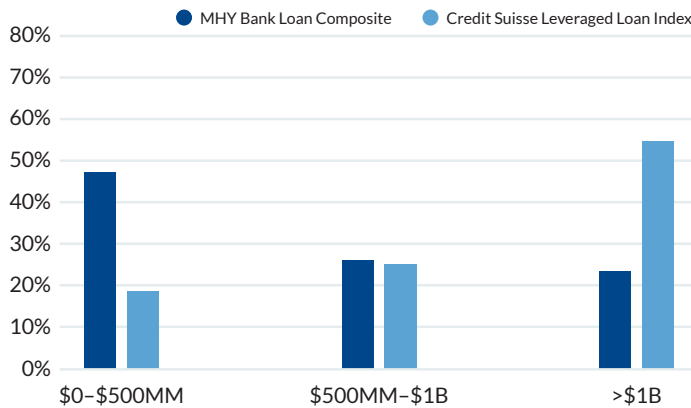
### RISK METRICS – SINCE INCEPTION RANKINGS BY QUARTILE (AS OF DECEMBER 31, 2020)<sup>3</sup>



Source: eVestment Alliance, U.S. Floating-Rate Loan Fixed Income universe.

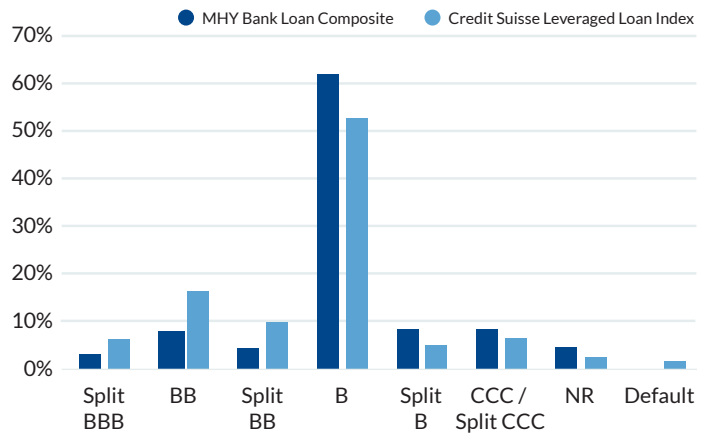
1. Periods less than 1 year are not annualized. | 2. The portfolio characteristics shown above relate to the MHY Bank Loan Composite. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Percentages shown may not total 100% due to rounding and/or incidental allocation to cash. The Credit Suisse Leverage Loan Index characteristics and allocations may vary slightly from the index values due to MHY utilizing a different pricing source (Bloomberg). Summary characteristics exclude all holdings with OAS spreads that exceed 2500bps. These holdings are excluded to more realistically represent expected yields. | 3. Source: eVestment Alliance, U.S. Floating-Rate Loan Fixed Income universe. Defined as US debt strategies that invest in company-issued loans that typically pay a floating rate of interest and generate returns based on the interest payments from the issuers. Common product names/terminology associated with these products include "bank loans," "senior loans," "syndicated loans," "floating-rate loans," and "adjustable-rate loans" (includes over 32+ universe participants who voluntarily report performance. 32 participants have track records long enough to be included in the since inception analysis above). Returns herein are provided on a gross returns basis due to the fact that eVestment collects returns from managers on a gross basis and MHY intends this slide to show an equivalent comparison to other managers. However, the returns herein are not indicative of the actual client returns which will be materially reduced by fees and other expenses. The performance statistics presented are based on the Mesirov Financial Bank Loan Composite against the U.S. Floating-Rate Loan Fixed Income universe. Composite returns are since inception (8/2/07 to 12/31/20), gross of management fees, include the reinvestment of all income and are considered supplemental. Please find the GIPS Reports with important additional information, including net and benchmark descriptions, at the end of this presentation. | 4. The risk free rate of return used in calculating the Sharpe Ratio is the FTSE 3-Month U.S. Treasury Bill.

### ISSUE SIZE



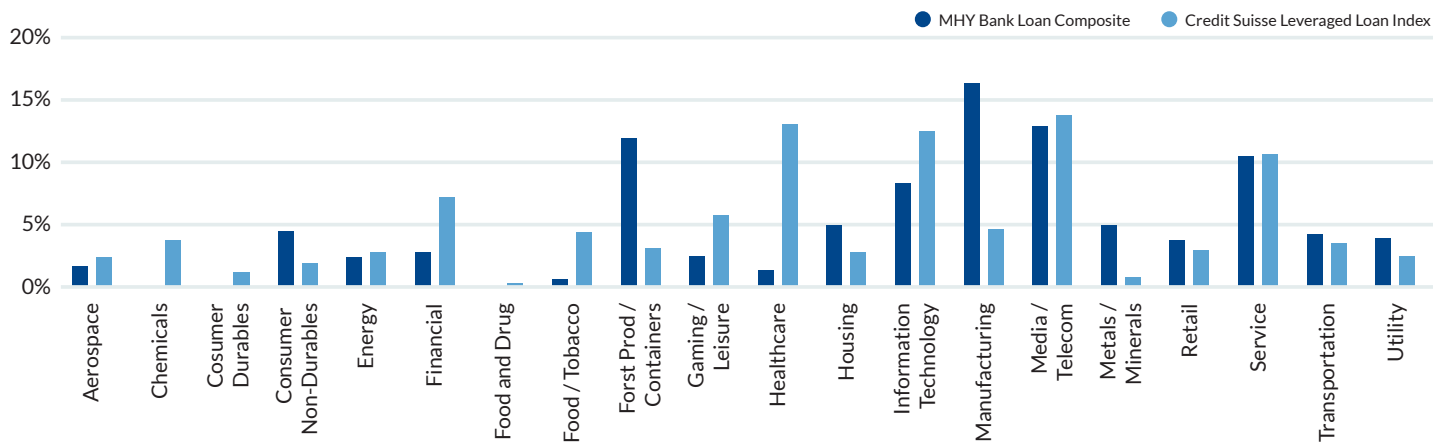
Source: MHY, Credit Suisse, Bloomberg

### QUALITY DISTRIBUTION



Source: MHY, Credit Suisse, Bloomberg

### INDUSTRY WEIGHTING



Source: MHY, Credit Suisse, Bloomberg

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### 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](https://mesirow.com) and follow us on [LinkedIn](https://www.linkedin.com/company/mesirow).

To learn more about how Mesirow can help you, please contact **Robert Sydow** at 310.376.5274 or [robert.sydow@mesirow.com](mailto:robert.sydow@mesirow.com).

## GIPS REPORT - MFIM FIXED INCOME BANK LOAN COMPOSITE

Year	Composite assets						Annual Performance Results						
	Firm Assets	MFHY Assets (millions)	Bank Loan USD (millions)	Number of accounts	Non-paying fees (%)	Carve out (%)	Composite gross (%)	Composite net - actual (%)	Composite net - modelled (%)	Credit Suisse Leveraged Loan Index (%)	Composite dispersion (%) <sup>1</sup>	Composite 3-yr ex-post STD (%) <sup>2</sup>	Index 3-yr ex-post STD (%) <sup>2</sup>
2007 <sup>3</sup>		297	285	1	0	0	0.76	0.66	0.55	1.71	n/a	n/a	n/a
2008		207	190	1	0	0	-27.49	-28.10	-27.86	-28.75	n/a	n/a	n/a
2009		270	266	1	0	0	48.38	47.45	47.66	44.87	n/a	n/a	n/a
2010		295	288	1	0	0	13.04	12.44	12.48	9.97	n/a	13.06	12.92
2011		310	285	1	0	0	4.15	3.62	3.64	1.82	n/a	6.87	7.52
2012		334	296	1	0	0	10.17	9.45	9.63	9.43	n/a	3.41	4.07
2013		817	301	1	0	0	6.46	5.04	5.93	6.15	n/a	3.18	3.51
2014		797	205	1	0	0	3.26	1.91	2.74	2.06	n/a	3.66	1.92
2015		757	141	1	0	0	1.04	-0.31	0.53	-0.38	n/a	3.67	2.07
2016		841	101	1	0	0	9.01	7.69	8.47	9.88	n/a	4.09	2.78
2017	4,772	526	14	1	0	0	10.30	8.83	9.72	4.25	n/a	3.99	2.63
2018	4,137	873	14	1	0	0	3.30	2.69	n/a	1.14	n/a	3.64	2.79
2019	3,895	1,199	13	1	0	0	3.47	2.86	n/a	8.17	n/a	3.89	2.66

## Current Performance Results – PRELIMINARY

2020 YTD 12.31.20	6,706	1,407	68	1	0	0	4.40	3.84	n/a	2.78	n/a	9.64	8.75
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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 from inception through 12/31/18. 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 Bank Loan composite has been examined for the periods from 8/02/07 – 12/31/18. The verification and performance examination reports are available upon request.

Mesirow Financial Investment Management, Inc. ("MFIM") is an investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. The "Entity" is defined as Mesirow Financial Investment Management Equities and Fixed Income, which is comprised of the GIPS-compliant units of MFIM which 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 division was managed by MFIM or its predecessor firms prior to 01/01/05. For purposes of claiming GIPS compliance, as of 01/01/10, the "Firm" is further defined as the Fixed Income business unit, which manages portfolios primarily for institutional investors adhering to an investment process, incorporating fundamental analysis of security valuation factors and drivers. Effective October 23, 2017 MFIM Fixed Income completed the lift out of the High Yield Team, now Mesirow Financial High Yield ("MFHY"), from a former and unaffiliated registered Investment Advisor, Pacific Income Advisers which its team, along with the Bank Loan Composite became an integral part of MFIM Fixed Income. The Performance presented from August 2, 2007 through September 30, 2017 was generated while the Portfolio Managers were affiliated with a prior firm. The current Portfolio Management Team consists of the original members, less one, and they are the only individuals responsible for selecting the securities to buy and sell.

The Bank Loan Composite consists of portfolios whose major concentration is in syndicated leveraged loans issued by corporate borrowers, which includes both first and second lien loans as well as equity securities obtained in exchange offers or insolvency proceedings. The portfolios are constrained to be substantially fully invested with minor cash holdings. The primary benchmark is the Credit Suisse Leveraged Loan Index. The Credit Suisse Leveraged Loan Index is designed to mirror the investable universe of the U.S. dollar denominated leveraged loan market. Investors cannot invest directly in an index.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Prior to 10/1/17, the Composite consisted of a single portfolio which constituted the collateral of a structured vehicle called a Collateralized Loan Obligation ("CLO"). Actual net of fee performance prior to 10/1/2017 was calculated using management fees of 0.50% per year, and a variable quarterly incentive fee as is customary in CLO's. After 10/1/2017, net performance is calculated by applying a model management fee of 0.60% as the composite is comprised entirely of internally funded, non-fee paying assets as of 12/31/17. The "Modelled Fee" is included here as additional information and reflects a 0.50% annual management fee up prior to 10/1/2017 and 0.60% annual management fee thereafter. The Modelled Fee is not shown after 2017 as the model was intended to reflect the impact of the fixed fee structure if it had existed historically.

Actual investment advisory fees incurred by clients may vary. The management fee schedule is as follows: 0.60% on the first \$25 million, 0.55% on the next \$25 million, 0.50% on the next \$50 million and 0.45% thereafter.

A complete list of composites is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

1. N/A = Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
2. Standard deviation is calculated using gross of fee returns. Monthly standard deviations are annualized by multiplying by the square root of twelve. N/A = The 3 year Ex-post standard deviation isn't presented since there aren't 36 monthly returns available prior to this period. 2007 is a partial period from August 2 through December 31.
3. 2007 is a partial year, August to December. Data for this year are not annualized.