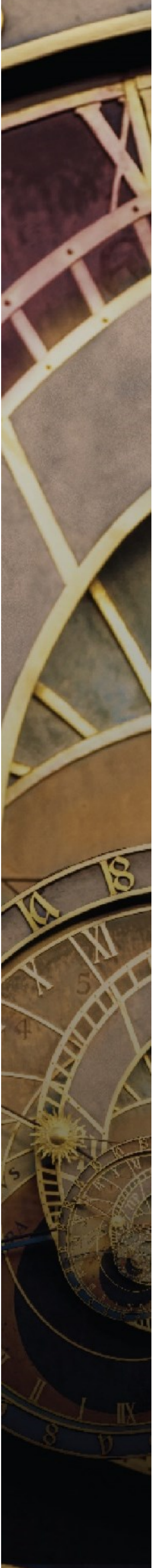


INVESTMENT NOTE: JULY 2023

Yield Curve Inversion + Yields + Price = Opportunity in Leveraged Debt Markets

SHENKMAN
Discipline Drives Performance ®

Mark R. Shenkman
Founder & President

Justin W. Slatky
Chief Investment Officer

Bob Kricheff
Global Strategist and Head of Multi-Asset Credit

For more information, please contact:

Richard A. Keri, CPA
SVP, Global Head of Business Development & Investor Relations
(212) 867 – 9090

InvestorRelations@shenkmancapital.com

Summary

- A yield curve inversion is often considered predictive of a recession, but it has been inverted for a long time and … no recession.

- The U.S. Treasury yield curve has been inverted since July 2022, with the spread at about -99bps between the yield on the 2 and 10 year Treasury bonds. This inversion is one of the longest and more extreme cases in history (Exhibit 1).

- We offer some reasons why we believe this inversion may be less economically predictive than in the past: Fed transparency, extreme FOMC actions, and anchoring bias. If this inversion is less predictive, perhaps the probability of a recession should be much lower, which could lead to tighter spreads in credit and continued healthy levels of capital markets new issue activity.

- Much of this new issuance is being used for refinancing. In these credit markets, debt retirements typically occur before maturity. If one used a high yield indexe's characterists and combined an early retirement, with the recent deep average price discount and the shortest average maturity in history, it would theoretically lead to returns that would be above the stated yield-to-maturity , assuming no defaults, of course.

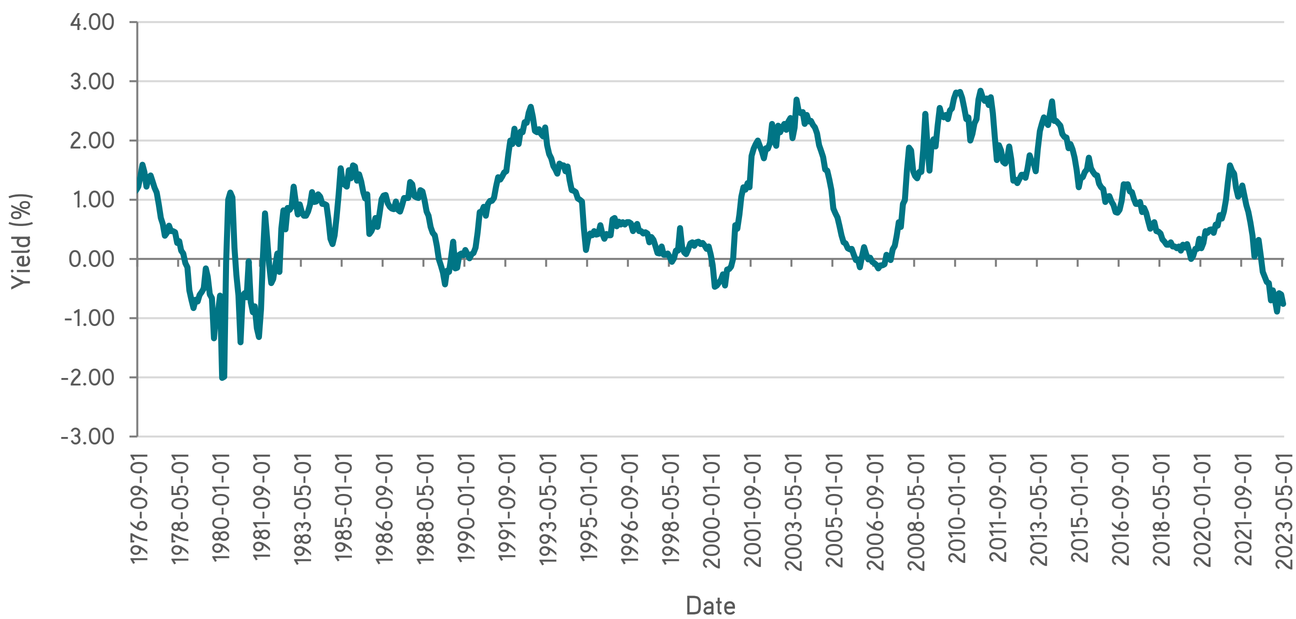
- Even though the U.S. Treasury curve is inverted, "credit risk premia" should still increase over time as predictability/certainty of credit quality decreases.

- This inverted yield curve also impacts how fixed income investments trade and can distort relative value between different dated instruments, different coupon structures, and yields and spreads, making credit and scenario analysis potentially more valuable under the current market conditions.

Inversion and Why it May Mean Less

Research has shown that, in many cases, an inverted yield curve is a precursor to a recession.[1] This current inversion is a reason often cited in predictions of an impending recession. However, it is worth noting that the number of recessions and inversions is a fairly small sample size, and there have been periods where, in our opinion, it has not always been a great guide for investors looking to maximize returns.

Exhibit 1: 2-10 Year Yield Curve



10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity, Percent, Monthly, Not Seasonally Adjusted. Source: Federal Reserve Economic Data. Past performance is not a guarantee of future results. For illustrative purposes only. Any trends depicted or described above may not continue.

While this inversion is the longest since the early 1980s, and fairly extreme, we have not seen a study that implies a longer or more extreme inversion increases the likelihood of recession (not saying it doesn't exist, we just haven't found one).

However, perhaps this inversion is not driven by the expectation of a recession, but rather the situation is being driven by a "crowded trade" that is assuming rates decline but not necessarily due to a recession. If one believes this theory, this inversion does not have as much predictive power as in the past.

Below are three reasons that we believe may be causing this inversion:

1. The Fed is more transparent than in the past. The "dot plot" (FOMC members anonymous outlook for rates) was not introduced until 2012. This is the first extended yield curve inversion since the dot plot has existed.[2] While the dot plot can change, and is not always a correct picture of the future, it

[1] https://www.chicagofed.org/publications/chicago-fed-letter/2018/404 ; https://www.newyorkfed.org/research/capital_markets/ycfaq#/

[2] The yield curve inverted very briefly in 2019, not sure if this caused the COVID related 2020 recession, and for three days in April 2022.

is a "roadmap" on rates supplied by the Fed that shows expected rate cuts in 2024 or 2025. Therefore, this could be less of a prediction of a recession by rate traders and just a very large trade that is just following information supplied by the FOMC not available during most other inversions.

2. In 2022, the Fed undertook the most extreme tightening in such a short period since about 1980 (rise/run). Investors may simply not believe it is sustainable because it was so extreme. Some investors may view this Fed move as more of an orchestrated shock to the system than a long-term policy and therefore assume rates will come down with or without a recession.

3. Anchoring bias is potentially also driving this inversion. From about 2009-2021, the U.S. went through an incredible period of low inflation and very low rates. With such an extended period of low inflation and interest rates, we believe some people could view that period as the norm and anything else as an aberration.

The Yield Curve and Recession

A simplified explanation for why the yield curve predicts a recession is that higher, short-dated interest rates lead to a recession, which in turn force the Fed to lower rates. This can be driven by policy decision and/or extreme economic factors. Said a couple of different ways:

- Investors favor near-term investments versus longer term.
- Investors are favoring preservation of capital.

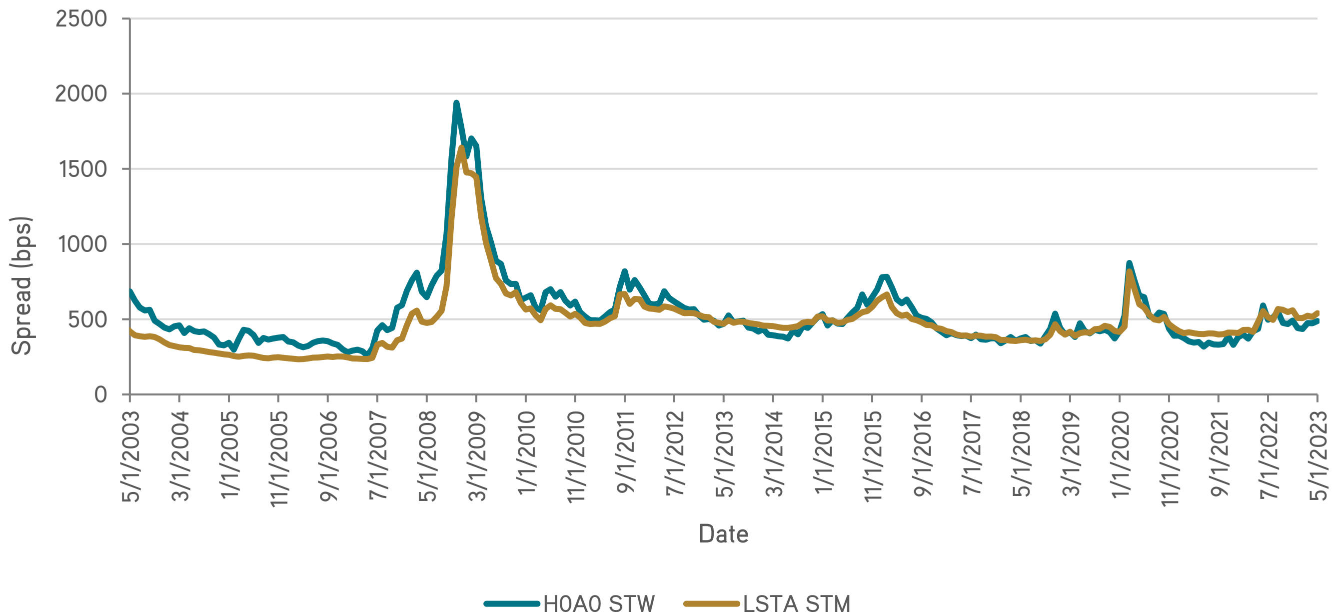
However, perhaps the yield curve is inverted because the Fed is showing investors their expectations so clearly to lower rates.

The U.S. GDP has been growing over the last few quarters, employment measures have remained very healthy, and capital markets have been active in supplying corporations liquidity. Therefore, with all of these relatively healthy signals in place, we believe there are a few main items that people are pointing to as likely recession signals. These include high inflation, last year's exceptional rate hike cycle, and the inverted yield curve. If the yield curve is less predictive in this cycle, then perhaps the probability of a recession should be lower. This could help rationalize why spreads are not at the levels seen during other periods of extensive market stress. However, there are other reasons that may help rationalize why spreads are not comparable to a recessionary period, such as the higher than average portion of higher rated bonds, and the high level of recent average yields and low level of prices in the market place.

Spreads Now and Then

Over the last 20 years, during times of extreme financial stress, such as recessions or the COVID shutdown, spreads have been wider than the current period in the leveraged debt markets. These periods include the Great Financial Crisis, the Euro crisis in 2011, the Commodity sell off of 2015 (primarily impacting high yield bonds) and the COVID crisis. **Exhibit 2** uses spreads on the high yield bond market as a proxy for leveraged finance market spreads. We do not see the current period exhibiting the same extreme stress as in these other periods, and particularly in the high yield bond market, find very different characteristics than in these other cycles (e.g. higher percentage of BBs, less commodity exposure).

Exhibit 2: High Yield and Leveraged Loan Spreads



Source: ICE Data Indices (ICE BofA U.S. High Yield Index), Morningstar LSTA (Morningstar® LSTA US Leveraged Loan Index). Spreads are versus equivalently dated treasuries. Past performance is not a guarantee of future results. For illustrative purposes only. Any trends depicted or described above may not continue.

As pointed out above, we believe many of the economic conditions are currently fairly sound. Maturity walls, which can often cause financial stress, are fairly low this year. Thus far, in 2023, new issuance has been increasing, with a majority of these proceeds going to refinancings/maturity extensions.

The default rate for high yield bonds, while off historical lows in 2022, remains well below 10 and 21 year historical averages.

Yields are well above historical averages, and prices are below historical averages in the high yield bond and the loan markets. We believe the combination of all these factors is creating a potential opportunity in these markets.

Why the Current Combination of Price and Yield is Attractive Regardless of Spread

The average price in the high yield bond market is 87.52 and on the loan market is 92.89, with yields-to-maturity of approximately 8.9% and 10.8%.[3] Below, we use the high yield bond market average statistics to show how the yield changes if a bond is retired one year before maturity at par, given this discounted price (**Exhibit 3**).

[3] Using the ICE US High Yield Bond Index (H0A0) & Morningstar LSTA Leveraged Loan Index.

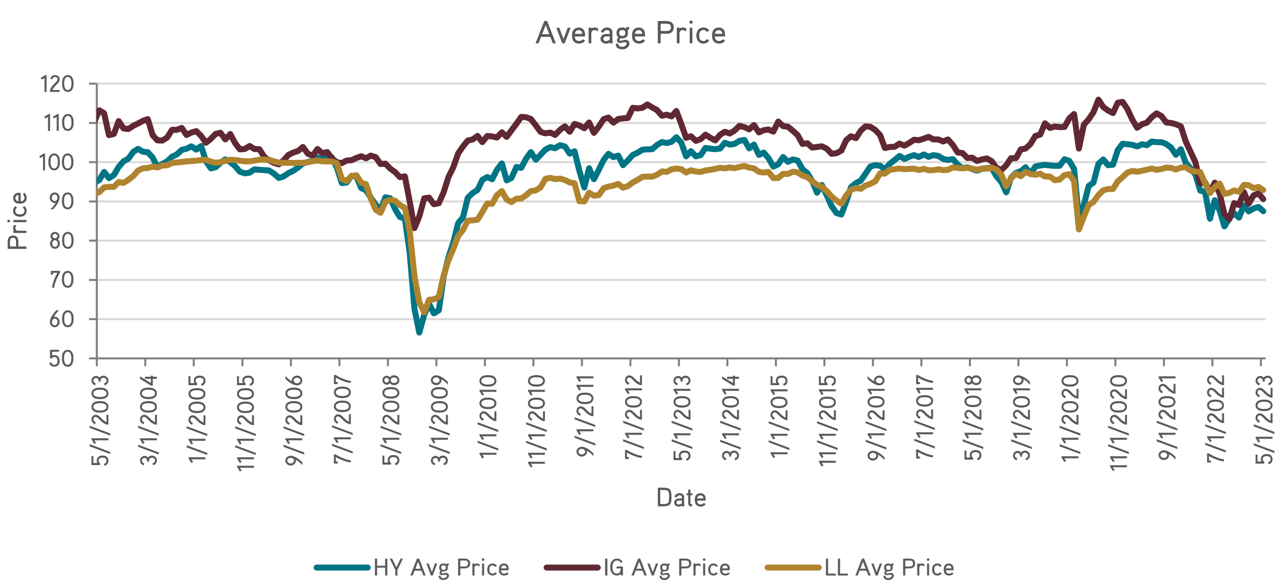
Most high yield bonds (and loans) do not mature; we estimate about 90% of them get taken out at least one year early, enabling the monetization of discount to occur early.[4] This is primarily due to prudent balance sheet management in which companies do not want their debt to become "current debt" on their balance sheet, which could taint investors' view of the survivability of the company. Moreover, management often wants flexibility and do not want to be beholden to the capital markets at the last minute.

If an investment is trading at such a steep discount, and the bond comes out one year early, using the average statistics of the index, it would result in a return above the stated yield-to-worst. This yield, of course, doesn't factor in defaults.

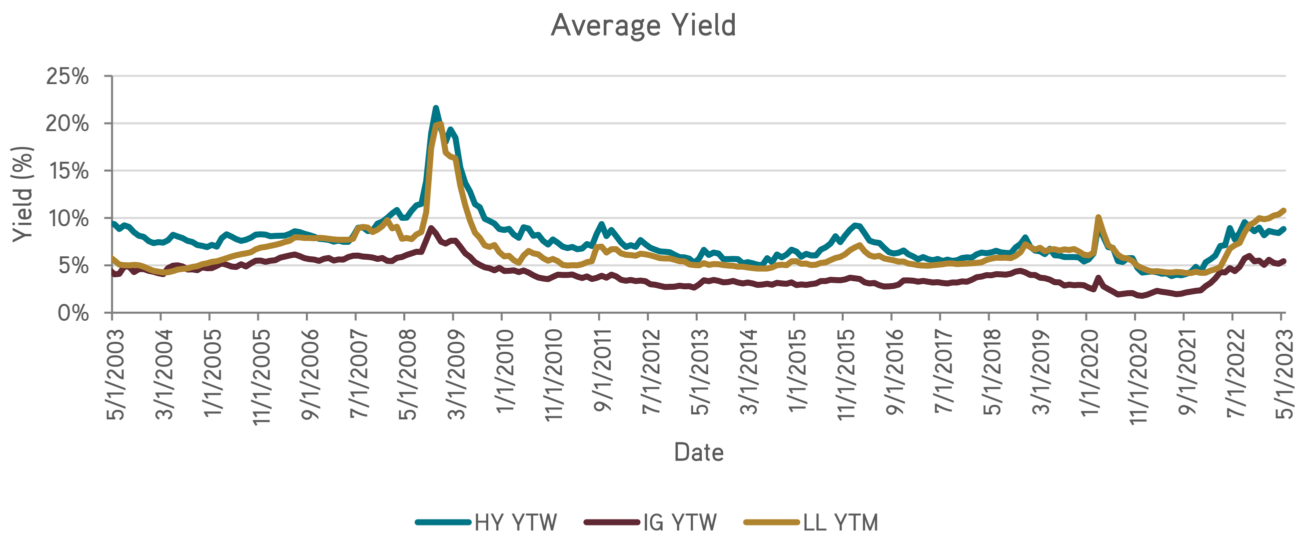
This is particularly pronounced right now because the high yield market has close to the shortest average maturity in its history. Thus, using the "one-year before maturity" scenario, this very steep discount in price versus historical averages would get accreted over a much shorter time period than in the past.

Credit analysis and understanding of corporate management styles can also give investors a stronger sense of the likelihood of an early refinancing.

Exhibit 3: Average Price and Average Yield History



[4] As of 1/31/2022. Source: SCM, ICE BofA Index (H0A0), Bloomberg. Statement derived from weighted index data on a rolling 12-month period starting 8/31/2011 through 1/31/2022.



Source: ICE Data Indices (Using the ICE BofA U.S. High Yield Index (H0A0) and ICE BofA U.S. Corporate Index (C0A0)), Morningstar LSTA (Using the Morningstar® LSTA US Leveraged Loan Index). YTW = Yield to Worst, YTM = Yield to Maturity. Past performance is not a guarantee of future results. For illustrative purposes only. Any trends depicted or described above may not continue.

One could run a similar analysis on the investment grade market [5], however, it is worth noting that this market tends to have more "bullet" maturities than the callable structures in the leveraged debt markets, which we believe makes a bond less likely to come out early. However, in IG, the impact on the return of a bond (with the average statistics of the common IG Index) coming out one year before maturity would not be as great as in high yield. This is because, using the average statistics for the broadly followed IG Index, the market has a much longer average maturity at about 10 years. The yield differential between IG and high yield debt is more than 300 bps in these examples.

Relative Value and The Yield Curve

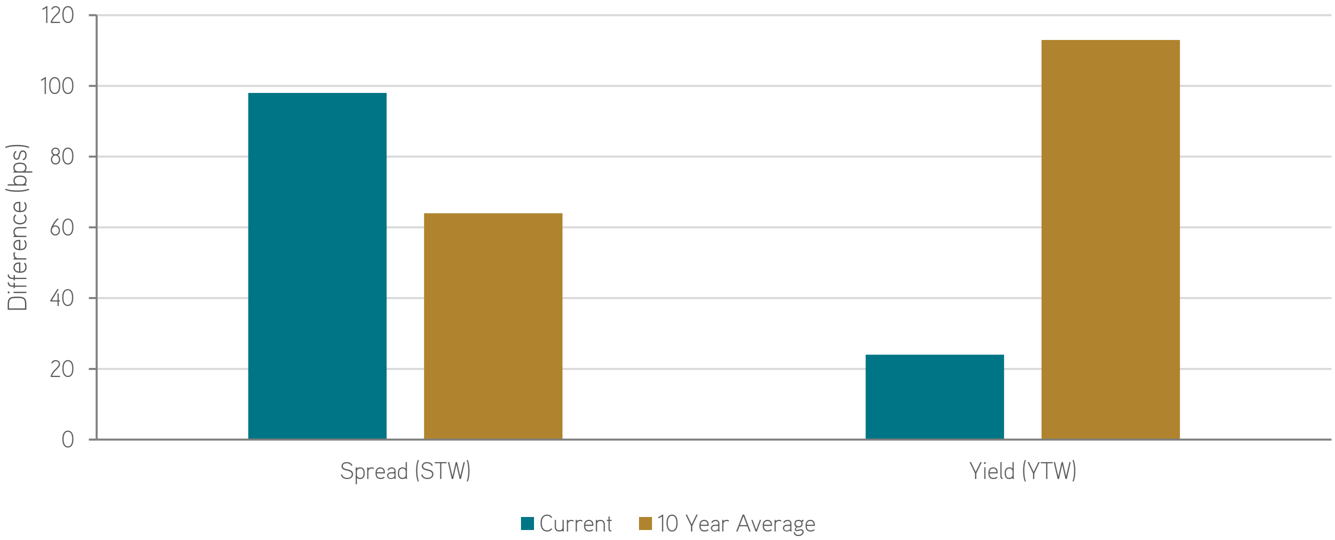
The inverted yield curve is creating other relative value anomalies that can potentially enhance the benefits of credit selection and of scenario analysis, especially if an investor can be flexible across security types.

The U.S. Treasury yield curve is theoretically risk-free. Credit yield curves are not risk free. As one looks at longer term maturities in credit, the risk (and reward) should be higher, regardless of rate policy.

An inverted yield curve can distort relationships between yields and spreads because the yield on the Treasury curve is so steep at the short-end. Theoretically, credit risk and volatility are lower for shorter dated issues. The relationship between a broad based high yield bond index and a short duration index now versus historical average is shown in **Exhibit 4.** It shows that there is much less of a differential in yield to move to short duration currently versus historical averages. By this methodology, short duration looks relatively attractive on a historical basis, but the opposite is true by spread, where short duration looks somewhat rich.

[5] Using the ICE BofA Corporate Bond Index (C0A0) as a proxy

Exhibit 4: BB-B High Yield (H0A4) vs BB-B Short Duration (H42C): Yield and Spread Differences



As of 5/31/2023. Source: ICE Data Indices. STW = Spread to Worst, YTW = Yield to Worst. Past performance is not a guarantee of future results. For illustrative purposes only. Any trends depicted or described above may not continue.

A strongly inverted yield curve alters the relationships between fixed and floating rate instruments, as floating rate debt uses the short-end of the curve as its base-rate. This is one of the reasons that the average coupon on the leveraged loan market rose above that on the bond market for the first time in history in late 2022.[6]

Yields on floating rate debt are often run using the forward curve on short rates. If the yield curve is distorted by a crowded trade, these "quoted" yields can be over-or-under stated relative to what the eventual IRR on the investment. Therefore this analysis needs to be factored into relative value.

Conclusion

The inverted yield curve may not be as predictive of a recession as in the past. This could imply the probability of a recession is lower. We believe this potentially lowered probability of a recession is one of several reasons that make the current market conditions relatively more attractive in the leveraged debt markets.

If the probability of a recession becomes lower, it is likely that new issuance will continue to occur at a healthy pace. An active new issue market will lead to more refinancings, year to date through May about 65% of new issuance has been used for refinancing.[8] With the market on average trading at a discount assuming there is not a default, an early refinancing could create a return above the stated yield, as the accretion of the discount occurs faster. With credit research and scenario analysis, returns in selected parts of the market could exceed the stated yield-to-worst, which may not be reflected in market spreads.

[6] JP Morgan.

DISCLAIMERS

The Shenkman Group of Companies (the "Shenkman Group") consists of Shenkman Capital Management, Inc., and its affiliates and subsidiaries, including, without limitation, Shenkman Capital Management Ltd, Romark Credit Advisors LP, and Romark CLO Advisors LLC.

Shenkman Capital Management, Inc. ("Shenkman" or "Shenkman Capital") is registered as an investment adviser with the U.S. Securities and Exchange Commission (the "SEC"). Romark Credit Advisors LP is also registered as an investment adviser with the SEC and Romark CLO Advisors LLC is registered as a relying adviser of Romark Credit Advisors LP (together, "Romark"). Shenkman Capital Management Ltd is a wholly-owned subsidiary of Shenkman Capital Management, Inc. and is authorized and regulated by the U.K. Financial Conduct Authority. Such registrations do not imply any specific skill or training.

The views and opinions expressed herein are those solely of Shenkman Capital as of the date of this email and are subject to change at any time due to market, economic or other conditions. Such views and opinions are for informational purposes only. Furthermore, none of the information contained herein constitutes a recommendation by any of the Shenkman Group's officers, directors, employees or affiliates that any particular security, portfolio of securities, transaction, or investment strategy is suitable for any specific person

Unless otherwise stated, all information and characteristics presented herein are based on the Shenkman Group's internal records and valuation. The information and opinions expressed herein are provided for informational purposes only. The information is not intended to be, and should not be construed as, impartial investment advice, an offering of investment advisory services or an offer to sell or a solicitation to buy any securities in any jurisdiction, including without limitation any interest of an investment fund or vehicle managed by the Shenkman Group. Any offer to sell or any solicitation to buy securities of an investment fund or vehicle managed by the Shenkman Group will be made only by means of the Prospectus or Offering Memorandum relating to that fund or vehicle. The information is expressly qualified in its entirety by reference to any such Prospectus or Offering Memorandum. The information provided herein is not intended to be, and should not be, considered as a substitute for reviewing such documents carefully. To the extent of any inconsistency or discrepancy between any such Prospectus or Offering Memorandum and this presentation, the Prospectus or Offering Memorandum shall control. All interests in securities of any fund or vehicle shall not be offered or sold in any jurisdiction in which such an offer, solicitation or sale would be unlawful or would require registration or disclosure until the requirements of the laws, rules and regulations of such jurisdiction have been satisfied. It is the responsibility of every person reading this material to satisfy oneself as to the full observance of any laws of any relevant jurisdiction applicable to such person, including obtaining any governmental or other consent which may be required or observing any other formality which needs to be observed in such jurisdiction.

Certain information contained in this Report constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", "target", "project", "estimate", "intend", "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual policies, procedures and processes of Shenkman and the performance of any investment funds may differ materially from those reflected or contemplated in such forward-looking statements and no undue reliance should be placed on these forward-looking statements, nor should the inclusion of these statements be regarded as the Shenkman representation that any investment funds will achieve any strategy, objectives or other plans. Unless otherwise indicated, the information contained in this Presentation is current as of the date indicated on its cover. Such information is believed to be reliable and has been obtained from sources believed to be reliable, but no representation or warranty is made, expressed or implied, with respect to the fairness, correctness, accuracy, reasonableness or completeness of the information and opinions. Additionally, there is no obligation to update, modify or amend this Presentation or to otherwise notify a reader in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

These materials do not undertake to explain all of the risks associated with any investment strategy referred to herein. No person or entity should invest in any strategy referred to herein unless satisfied that it (or its investment representative) has asked for and received all information that would enable it (or them) to evaluate the merits and risks thereof. The performance of any investments discussed in this document is not necessarily indicative of future performance, and you should not assume that investments in the future will be profitable or will equal the performance of past portfolio investments. PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR INVESTMENT PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL INVESTING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL INVESTMENT RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL INVESTING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR INVESTMENT PROGRAM IN SPITE OF INVESTMENT LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL INVESTMENT RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC INVESTMENT PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL INVESTMENT RESULTS.

Unless otherwise stated, all performance information is based on the Shenkman Group's internal records and valuation and reflects gross performance. Gross performance results include reinvestment of interest and other income, but are before the deduction of all fees and expenses, which vary depending on size and type of account and are described in Shenkman and/or Romark's Form ADV, Part 2A. You should consider the effect that advisory fees and any other expenses that may be incurred in connection with the account (e.g., operating and investment related expenses) would have on performance results. A copy of Shenkman's Form ADV, Part 2A, and/or Romark's Form ADV, Part 2A is available upon request. For example, an account with gross performance of 5% per year would have a cumulative return over a 3-year period of 15.76%. If that account had an advisory fee of: (i) 0.80% per year, the account would have a 3-year cumulative performance net of advisory fees of 13.01% (4.16% per year); (ii) 0.65% per year, the account would have a 3-year cumulative performance net of advisory fees of 13.52% (4.32% per year); or (iii) 0.50% per year, the account would have a 3-year cumulative performance net of advisory fees of 14.03% (4.48% per year). The actual performance and characteristics of another portfolio, account or investment may vary significantly from the performance and other information provided.

Unless otherwise stated, any exposure, issuer, security, or similar classification (each a "Classification") was determined by the Shenkman Group by assigning such Classification as the Shenkman Group deemed appropriate. The assignment of any Classification may have been determined with the benefit of hindsight. The determination of any Classification may have changed over time and is subject to change in the future at the sole discretion of the Shenkman Group. The Shenkman Group has no obligation to provide notice of any change to any Classification.

Third-party information contained in this presentation was obtained from sources that the Shenkman Group considers to be reliable; however, no representation is made as to, and no responsibility, warranty or liability is accepted for, the accuracy, adequacy completeness, timeliness or availability of such information, including ratings. The Shenkman Group is not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. THE SHENKMAN GROUP DOES NOT GIVE ANY EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. THE SHENKMAN GROUP SHALL NOT BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, EXEMPLARY, COMPENSATORY, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES, COSTS, EXPENSES, LEGAL FEES, OR LOSSES (INCLUDING LOST INCOME OR PROFITS AND OPPORTUNITY COSTS OR LOSSES CAUSED BY NEGLIGENCE) IN CONNECTION WITH ANY USE OF SUCH THIRD-PARTY CONTENT.

Any information in these materials from ICE Data Indices, LLC ("ICE BofA") was used with permission. ICE BofA PERMITS USE OF THE ICE BofA INDICES AND RELATED DATA ON AN "AS IS" BASIS, MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE ICE BofA INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THE USE OF THE FOREGOING, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND THE SHENKMAN GROUP, OR ANY OF ITS PRODUCTS OR SERVICES.

References to indices are for information purposes only. The Shenkman Group believes that any indices discussed herein are broad market indices and are indicative of the type of investments that the Shenkman Group may purchase, but may contain different securities than those held in the Shenkman Group portfolios managed pursuant to the strategies described herein. The indices have not been selected to represent an appropriate benchmark. The strategies referred to herein are not designed to mimic the investments on which any index is based. The indices are unmanaged and not available for direct investment and do not reflect deductions for fees or expenses. Portfolios managed by the Shenkman Group do not trade in all (or possibly any) of the securities or loans represented in such indices, and a portfolio may employ leverage, hedging, and other investment strategies that may not be incorporated in these indices.

The ICE BofA U.S. High Yield Index (H0A0) has an inception date of August 31, 1986 and tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

The ICE BofA 0-2 Year Duration BB-B U.S. HY Constrained Index (H42C) is a subset of the HUC4 that consists of all securities that have a duration-to-worst of 2 years or less. The ICE BofA U.S. High Yield, BB/B Rated, Constrained Index (HUC4) has an inception date of December 31, 1996, and is a subset of the ICE BofA U.S. High Yield Index (H0A0) that consists of all securities rated BB1 through B3, based on an average of Moody's, S&P and Fitch, but caps issuer exposure at 2%. The ICE BofA U.S. High Yield Index (H0A0) has an inception date of August 31, 1986 and tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

The ICE BofA U.S. Corporate Index (C0A0) has an inception date of December 31, 1972, and tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market.

The Morningstar® LSTA US Leveraged Loan Index is a market-value weighted index designed to measure the performance of the US leveraged loan market

Shenkman Capital does not provide tax or legal advice. This material is not intended to replace the advice of a qualified tax advisor, accountant, or attorney. All decisions regarding the tax or legal implications of any investment should be made in consultation with your independent tax or legal advisor.

The data, information, and opinions contained herein are current and/or accurate as of the date stated or the date of this presentation, whichever is later; Shenkman Capital is under no obligation to update any data, information, or opinions contained herein.