SHENKMAN

WHY MAC?

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The dramatic market movements seen around the COVID-19 pandemic highlight the necessity to offer investment strategies that are both resilient and structurally flexible. This report illustrates several examples of how and why multi-asset credit ("MAC") strategies can deliver these objectives for investors.

The universe of fixed income MAC strategies is very diverse and can be designed to meet a broad array of investment solutions. If constructed properly, MAC products offer a diverse set of investment solutions that can produce a consistent income, reduce volatility, while also offering considerable upside in principal appreciation. When combined, these characteristics can offer enhanced risk-adjusted return profiles as compared to traditional stand-alone fixed income products.

In a MAC product, the opportunity set can be large and varied enough to express a broad number of views through investment themes. The flexible nature of a MAC structure can allow for strategic and tactical rotations that can create a resilient strategy in various types of drawdown scenarios as well as upside potential in positive investment environments.

To be successful, we believe it is critical that the manager be highly experienced and fully embedded in the nuances of the markets in which they choose to invest.

There is frequent discussion of how to build and allocate within MAC strategies. The design, structure, and allocation process are vital to long term success. However, we find that too often investment selection is overshadowed by the discussion of asset allocation and rotation. In practice, investment selection in each asset class is just as critical to performance as asset allocation and provides significant differentiation in a MAC strategy's performance. This source of alpha generation should not be ignored.

KEY CHARACTERISTICS FOR A MAC MANAGER

1. The ability to execute active allocations versus static allocations. This can allow a MAC manager to make meaningful shifts in investment themes by exploiting the different factors present in each asset class. These "tilts" cannot be achieved successfully with static allocations and can provide the opportunity to outperform in various market conditions.

2. A manager with a deep understanding of the dynamics of each market in which investments are made. Markets change rapidly, so an investment team needs to be "in the flow" and be careful to only deploy capital where they believe they have a discernable edge and experience.

3. A manager with a disciplined and repeatable process for credit selection and an equally strong monitoring and sell discipline process. A MAC manager should utilize credit selection to exploit cross-asset opportunities when appropriate. A well-structured MAC strategy should capture more than market beta from each asset class and defend well in drawdowns.

4. A manager that can holistically balance and incorporate all of the above characteristics actively and thoughtfully. This means not just picking allocations but also understanding what characteristics the combined portfolio will produce.

We believe successfully combining these attributes can help managers design a strategy that offers both resiliency and flexibility to perform well under varied and changing market conditions. This strategy can make MAC a tangible credit solution to outperform within the credit markets throughout a full cycle.

SELECTED INVESTMENT FACTORS

In theory and in practice, diversification principals have been viewed as a cornerstone of prudent and defensive investment strategies for decades. The opportunity set of a MAC strategy offers an investor an ample amount of diverse investment factors for a portfolio manager to maneuver through market changes whether driven by changing interest rates, shifts in risk tolerance, or any number of other economic trends.

A MAC manager can use the various attributes of the credit markets to build strategies with a mix of factors that can optimize a strategy between the stability of interest income and opportunities for principal appreciation. These investment factors are used in an active, tactical asset allocation to express timely investment themes. This strategy requires an understanding of the manager's overall targets for the portfolio characteristics when all the elements are combined. Below we will review a few of the dominant factors that we believe can drive a MAC strategy's performance.

Capital Structure Factors

Various corporate debt investments rank differently in priority of payments. Positioning with the capital structure becomes most important when a default or restructuring occurs; however, even for credits where the risk of a default is incredibly remote, this seniority hierarchy impacts how the investments trade in different environments. More senior securities often perform better during periods of greater risk aversion. As a "risk-off" bias increases in the market, there will typically be a widening of yield spreads between more senior and more junior layers of debt. A MAC strategy can align the portfolio in with meaningfully different seniority "tilts" for a "risk-on" and "risk-off" environments. This can be accomplished through credit selection within each asset sleeve as well as through allocation between the asset sleeves.

Different asset classes tend to be dominated by different seniority rankings. Corporate loans usually are structured as senior secured debt, while corporate bonds typically are senior unsecured debt, and convertibles are often subordinated. These seniority biases can all be factors in how the asset classes trade in different risk environments.

The portfolio manager must go deeper than just a bias by asset class. Within each asset class, credit analysis and selection is critical as seniority is never as simple as it seems. Sometimes debt instruments with a similar "ranking" are issued by different legal entities, all owned by the same company, but with different quality assets. There may also be features in the investment instruments such as "springing" or "fall-away" securities. Hence, individual investment selection is critical as well. Even in periods of economic booms, there will be companies that are experiencing increased risks and senior tranches of debt could outperform within the capital structure.

Industry Factors

One of the attractive aspects of active corporate investing is the ability to diversify and rotate thematically across many industries. In an age of rapid technological disruption, the fortunes of industries are changing more quickly, and the value of having an investment universe that offers the ability to rotate across a plethora of disparate and changing industries has increased. A MAC strategy offers a large number of ways to express investment themes across different industries.

The overlap of industries and issuers across the various credit markets has declined meaningfully over time. This trend has expanded the ability of MAC strategies to express thematic views. Different types of issuers have tapped different types of credit markets for financing; hence, this factor has created very different profiles in each segment of the credit markets. Decisions about industry exposures can be one of the most important performance factors in the performance of a credit portfolio and a greater opportunity set creates greater opportunities of success. The tables below highlight some of the differences in industry exposure across various asset classes in the credit markets.

TOP 5 GICS SECTORS
Index data as of 7/31/2020*

Cross-Over	Leveraged Loans	BB-B High Yield	Convertibles
Financials (17.6%)	Industrials (20.9%)	Consumer Disc. (16.9%)	Info Technology (34.2%)
Energy (11.6%)	Consumer Disc. (17.0%)	Communications (16.6%)	Health Care (18.5%)
Communications (11.5%)	Info Technology (16.2%)	Energy (13.1%)	Consumer Disc. (14.8%)
Industrials (11.4%)	Communications (12.0%)	Industrials (11.9%)	Financials (9.3%)
Health Care (10.8%)	Health Care (11.7%)	Health Care (9.3%)	Communications (8.0%)

TOP 5 GICS SECTORS
Index data as of 7/31/2015*

Cross-Over	Leveraged Loans	BB-B High Yield	Convertibles**
Financials (17.0%)	Consumer Disc. (22.7%)	Communications (19.0%)	Info Technology (32.4%)
Energy (16.9%)	Industrials (18.8%)	Energy (13.9%)	Health Care (19.6%)
Communications (16.1%)	Communications (12.8%)	Consumer Disc. (12.3%)	Financials (16.2%)
Consumer Staples (8.0%)	Health Care (10.9%)	Industrials (11.1%)	Consumer Disc. (6.7%)
Materials (7.9%)	Info Technology (9.4%)	Financials (10.0%)	Industrials (6.4%)

* Index referenced as follows: Cross-Over = C0A4, Leveraged Loans = S & P LSTA LLI, BB-B High Yield = H0A4, Convertibles = VXA0
**VXA0 data previously available only as of year-end. Data as of 12/31/2015
Source: ICE BAML, Refinitiv, S&P Leveraged Loan Index

Technical Factors

Technical factors can include supply-demand dynamics, changes to the constituents in an asset class, the types of investors involved in an asset class, as well as exogenous, macro, and fiscal political factors that can drive fund flows. These aspects can impact how asset classes trade in the short-term or how they are valued in the longer term. Understanding these dynamics can give a manager insight into changes in liquidity and transaction costs, and can help to time entry and exit points.

It is essential to be involved in the markets every day to be able to identify transitions in market technicals. Each market can have idiosyncratic and highly nuanced drivers. For example, understanding the trends in CLO formation can be critical to the supply-demand relationship in the leveraged loan market. It is not just supply and demand; these asset classes are going through constant structural changes as credits exit and enter the markets. For example, we estimate that due to new issuance, fallen angels, and defaults, about 25% of the high yield bonds outstanding were new entrants to the high yield market indexes in just the first six months of 2020. These rapid changes shifted the market's average credit ratings, industry weightings, duration and seniority. This level of dynamism makes it necessary for a MAC manager to employ a team of people engaged in these markets full-time in order to avoid missteps and maximize results.

Interest Rate Factors

The credit markets give an investor ample opportunity to defend principal and improve income streams in rising rate environments and to reap principal gains in periods of declines. The floating rate coupon structures of corporate loans and Collateralized Loan Obligation (CLOs) can both protect principal and allow for coupon resets. Additionally, high yield bonds tend to have much shorter duration than many other segments of the debt markets. For example, over the last five years the high yield bond market has averaged an effective duration that is 3.2 years shorter than the BBB rated cross-over market. Within the high yield market, one can also design a short-duration strategy, and an increase in this strategy within a high yield bond sleeve can materially shorten a MAC strategy's duration. Historical evidence shows that high quality short duration bonds can outperform many other fixed income asset classes during periods of rising rates. When rising rates are being driven by a fast-growing economy and a rising stock market, coupling an increased exposure to loans and short duration with greater exposure to convertible bonds can further enhance performance. In a period of declining interest rates, a MAC strategy can materially increase interest rate sensitivity by increasing bond exposure versus loans and shifting weightings to "cross-over" bonds which can materially extend duration.

PERFORMANCE DURING PERIODS OF RISING RATES

	11/01/2010 02/10/2011	05/30/2013 12/29/2015	06/30/2016 10/31/2018
2 Year Treasury Yield	0.49	0.80	2.29
Investment Grade (C0A0)	-2.58%	5.39%	1.21%
Lvgd Loans (S&P LSTA LLI)	4.05%	3.12%	14.14%
High Yield Bonds (H0A0)	3.47%	0.43%	16.49%
Short Duration (H42C)	1.99%	7.03%	9.99%
Convertibles (TR US ALL CAP)	7.24%	14.60%	18.95%
S&P 500	12.25%	32.55%	35.31%

Source: ICE Data Indices, Refinitiv, S&P LSTA. Past performance is not a guarantee of future results.

PERFORMANCE DURING PERIODS OF DECLINING RATES

	11/30/2018 09/30/2019	12/31/2015 07/15/2016	04/01/2011 08/19/2011
2 Year Treasury Yield	(1.16)	(0.38)	(0.61)
Investment Grade (C0A0)	14.63%	8.25%	5.71%
Lvgd Loans (S&P LSTA LLI)	4.07%	5.49%	-4.43%
High Yield Bonds (H0A0)	9.06%	12.19%	-2.23%
Short Duration (H42C)	5.02%	4.33%	-0.27%
Convertibles (TR US ALL CAP)	7.28%	1.27%	-7.34%
S&P 500	9.67%	7.04%	-15.01%

Source: ICE Data Indices, Refinitiv, S&P LSTA. Past performance is not a guarantee of future results.

Credit Selection Factors

There is no question that active allocation has the potential to capture significant alpha and provide diversified characteristics; however, such investment decisions can be undermined if it they are not coupled with successful bottom-up credit selection. This process involves not just selecting the right credits but also involves the selection of the right investments within each credit (e.g. bonds, loans, and/or convertibles).

Credit selection involves understanding the risk/reward of various investments and requires a structured, repeatable, disciplined forward looking process. It also must include a vigilant monitoring and sell discipline component. Stable or rallying markets can breed complacency. Some people may think "credit picking doesn't matter anymore." This may drive some MAC managers to focus just on asset allocation and be satisfied with market beta for each asset class. However, credit selection should always matter. De-coupling from each market's beta can be vital to upside performance and critical to preservation of capital in drawdowns.

Corporate non-convertible debt investments tend to have an asymmetrical risk/reward, given that upside is limited by call prices and maturities. Therefore, to create resilient fixed income portfolios, choosing the correct credits and avoiding principal impairment can be a major performance differentiator. In a MAC structure, a manager can enhance performance not just by making sure that the portfolio gets the best combination of credits, but that the credits are invested in the best way, meaning the best mix of different bonds or loans within the capital structure. Credit selection can do more than just add resiliency; it can often add significant upside to a strategy. Further, utilizing convertibles in a MAC strategy can add more symmetry to a fixed income risk/reward profile, because a convertible bond's embedded equity call options give these investments more upside price potential when properly selected.

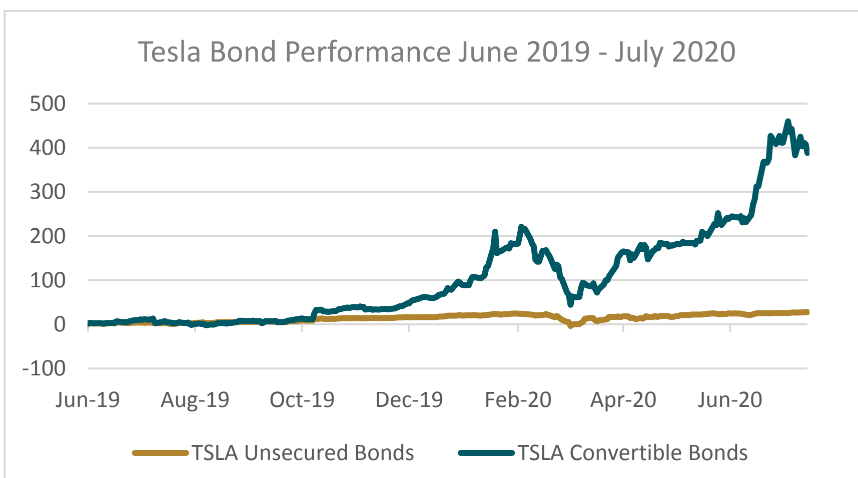
Optimal investment selection has a multitude of aspects. Bonds, loans, and convertibles each have different risk and return profiles, but even similar debt instruments from the same issuer may have nuanced structural differences that will cause them to perform differently from each other. For example, a single class of bonds may have different calls, coupons, covenants and convertible terms. This lack of homogeneity increases the potential for investment value to be mispriced and increases the importance of credit and investment selection.

SELECTION EXAMPLES

Intra-Capital Cross Asset Selection - Tesla:

Many credits only have debt outstanding in one asset class, but in some cases issuers have debt outstanding in several asset classes. This can create opportunities to express investment themes on an intra-capital basis across asset classes. The recent performance of the Tesla non-convertible and convertible bonds is a good example of the potential for enhancing performance by positioning in different asset classes within the same credit.

The company has been a disrupter in the automotive industry, seeking to sell a line of all electric cars with a unique, direct-to-consumer, sales model. From a credit perspective, we viewed the company as having reasonable liquidity and asset protection based on the value of its technology. We had concerns over its ability to generate operational cash flow, which we considered as a more binary outcome, but with the potential for material upside in equity valuation if successful.

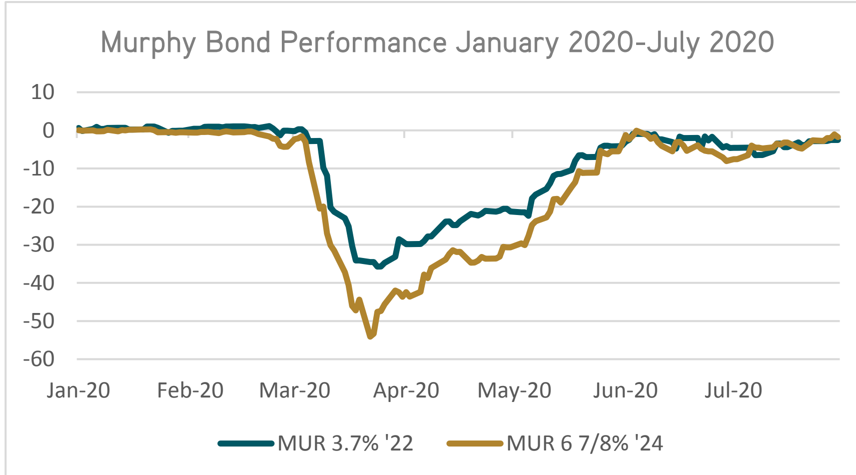


Data shown in chart is through July 2020. TSLA Unsecured Bonds represents 5.3% '25. TSLA Convertible Bonds represents 2% '24. Security selection prices are scaled from zero. Source: ICE Data Indices, S&P LSTA. Past performance is not a guarantee of future results

The convertible bonds had a shorter maturity than the straight bonds, with similar downside credit protection and more upside given the imbedded call option, as long as the stock valuation improved before maturity. In a highly volatile, large-cap credit such as Tesla, with asymmetry skewed toward the upside in the convertible bonds, a MAC strategy could benefit through holding a large convertible to non-convertible ratio in the bonds. Alternatively, a MAC manager could simply rotate from the non-convertible bonds to the convertibles as the credit story evolves.

Intra-Capital Selection in the Same Asset Class - Murphy Oil:

The recent performance of the bonds of Murphy Oil highlight how two bonds in the same credit that have the same ranking (both senior unsecured) can perform differently because of nuances in the bonds' terms. This case highlights the benefit of careful investment selection within the same asset class within the same credit. The exhibit below shows the difference in performance during 2020 in two bonds issued by a "Fallen Angel" credit, Murphy Oil. The 3.7% Notes outperformed the 6.875% Notes during this period. The shorter duration of the 3.7% Notes is probably one driver of the difference, but we also believe the less obvious differential is a nuance in the covenants of the 3.7% notes. Specifically, in the 3.7% notes, the coupon increases by +25 bps upon each credit ratings downgrade below investment grade, until it reaches B1. This feature is not in the 6.875% bonds.

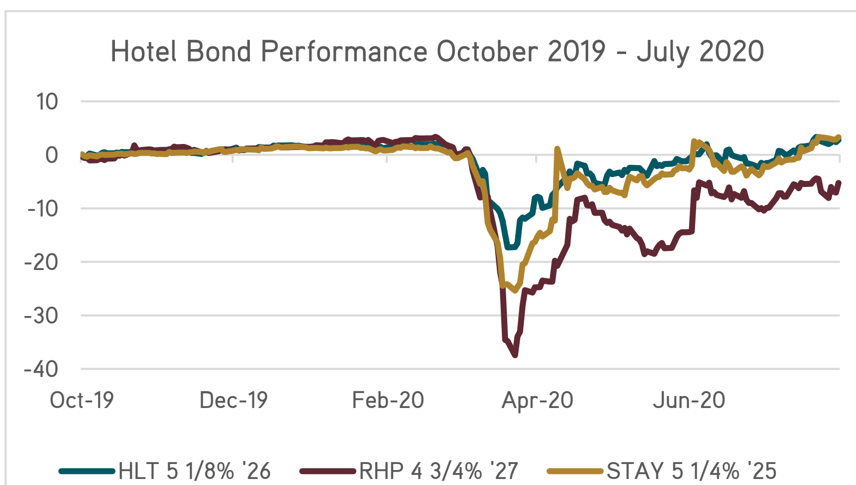


Data shown in chart is through July 2020.
Security Selection prices are scaled from zero.
Source: ICE Data Indices, S&P LSTA. Past performance is not a guarantee of future results.

Two of the major agencies downgraded the company in late March 2020, during a period of record ratings downgrades, and the coupon was bumped up. We believe this increase in coupon caused performance differentiation. A greater weighting in the 3.7% bonds could have aided relative performance.

Intra-Industry Issuer Selection - Hotel Industry:

This example highlights that it is not just the decision about industry weightings but credit selection within an industry that can lead to differentiated performance within MAC strategies. The chart below shows the performance of the bonds of three relatively good quality below investment grade hospitality companies for several months prior to the COVID-19 sell-off and through the early market recovery. Prior to March, all three issuers were trading in consistent relative value relationship for a period of time. However, in the March sell-off and the rapid recovery in April and May, the market differentiated between the bonds with Hilton Corp. outperforming. We believe this was due to a stronger balance sheet and more diverse asset base. Meanwhile, Ryman Hospitality materially lagged. Ryman's business is more resort and convention based and not as diverse, and we believe it had a weaker balance sheet and less liquidity. ESH focuses on the



Data shown in chart are for the Hilton Domestic Operating Company Inc., Ryman Hospitality Properties, and ESH Hospitality Inc. Bonds through July 2020 and represent Senior Unsecured bonds.
Source: ICE Data Indices, S&P LSTA. Past performance is not a guarantee of future results.

extended stay segment and is well capitalized and rebounded nicely as well, but the market still differentiated this strategy and balance sheet strength from that of Hilton. Credit selection more than just sector selection created a major differentiation in performance within this sector during this volatile period.

CONVERTIBLE BONDS IN A MAC STRATEGY

Convertible bonds are structurally different than traditional fixed and floating rate debt and can add significant diversity to the drivers of return in a MAC strategy. Over any extended time period, the vast majority of the return for non-convertible bonds and loans has come from interest income, while over time the majority of the return in the convertible market is derived from principal gains. In non-convertible debt, the principal gains are constrained by maturities and call options. While most convertible bonds have callability features, they also have embedded equity options, and the underlying equites of these convertible bonds do not have upside constraints. However, even with this upside optionality, the issuer of the convertible still owes the bondholder par at maturity, adding a downside floor for the convertible – if credits are selected properly.

Convertibles tend to have lower coupons than non-convertible debt and often rank junior in seniority. For these reasons, they can be more volatile than other fixed income credit asset classes. We believe a credit-centric approach in convertibles can help manage this volatility and fits best within a MAC strategy. In this approach, credit analysis establishes a "bond floor" as an implied lower bound on the bonds and the investment decision is based on risk versus reward analysis anchored around credit analysis. A portfolio of convertibles can be structured to manage the average "investment premium" over the bond floor and the level of sensitivity to changes in the underlying equity prices depending on views of value and volatility.

While there are significant differences in the company and industry make up between the traditional bond and loan markets (See Top 5 GICS Sector Table on page 3), the make-up of the convertible market differs from both of those asset classes. The equity conversion feature tends to attract issuers to the convertible market that have expectations of above average growth trajectories. In the current markets this tends to attract significant issuance from technology hardware, software, internet, and bio-tech companies. These types of companies are generally not large participants in the traditional credit markets. The addition of convertible bonds in a MAC strategy can also add a meaningful equity component to returns. It also rebalances the typical asymmetry of returns that a portfolio of just non-convertible debt offers – thus improving the risk/return profile of the portfolio.

GLOBAL INVESTING IN A MAC STRATEGY

A MAC strategy can meaningfully increase and diversify its investment opportunity set by investing globally. This includes investing in companies that are based around the globe as well as debt that is issued in non-US dollar currencies. The most common currency of issuance other than US dollars is in Euros, but there are opportunities in other currencies too, such as Canadian dollar and Swiss franc.

The global credit markets tend to have different industry concentrations and different issuers than the US markets which can present more opportunities for industry rotations. There are also many credits that issue debt in multiple currencies and these issues occasionally present cross-currency arbitrage opportunities.

Additionally, there have been many periods where the business cycle has varied greatly in different geographies, so a MAC strategy could shift exposures to regions with the best prospects for economic growth. There are also periods where interest rate regimes have differed dramatically in various regions of the globe which the strategy can exploit. A MAC strategy that can invest globally can take advantage of these variations to enhance returns.

When investing globally the focus still needs to be on credit and we favor using currency hedging when investing in multiple currencies. We also believe strongly that any international investments must meet the same standards on credit quality and transparency that you would expect in a domestic investment. When investing in multiple jurisdictions it is important to understand the regional nuances of corporate and bankruptcy law as well. Finally, while we would not recommend limiting investments only to G-10 countries, we favor investing in G-10 currencies as we believe the costs to hedge are lower and there is less currency volatility than in other currencies.

CHARACTERISTICS OF US$ AND EUROPEAN CURRENCY HIGH YIELD MARKET

As of 8/31/2020	US HYBONDS	EUROPEAN CCY HY BONDS
Average Coupon	6.06	3.84
Average Eff Duration	3.77	3.69
Average YTM	6.42	4.68
Average Credit Rating	B1	BB3
Largest Industries	Consumer Disc. Communications Energy	Banking Communications Automotive

Source: ICE Data Indices H0A0 & HP00 Indexes

CLOs IN A MAC STRATEGY

Investments in Collateralized loan obligations (CLOs) are secured. The security is typically not a direct obligation of a single company but rather a basket of financial assets primarily composed of senior secured loans. These loans represent a diverse group of companies and industries and support the CLO's underlying asset value. CLOs, if analyzed and used properly, can be a valuable tool to use in a MAC strategy. It is a leveraged floating rate investment on the loan market and offers various levels of collateral protection from AAA-rated to BB-rated tranches. There is also the opportunity to invest in the equity tranches. The tranches of CLOs often have a yield significantly above those of similarly rated debt issues; this situation can be particularly true in the BBB and BB rated tiers of the market. We believe this is due to a combination of differences in liquidity and complexity in the CLO market versus the traditional loan market. These securities can be utilized in several ways within a MAC strategy, such as to enhance yields in the floating rate portion of the portfolio or to take advantage of periodic price dislocations because of the less liquid nature of the market. Selection can be critical in the CLO market. An understanding of the legal structures, the quality of managers, stress analysis, as well as the credit quality of the underlying collateral all must be factored into models to determine the best way to build a position in these securities when the market presents an opportunity.

OPPORTUNISTIC INVESTING

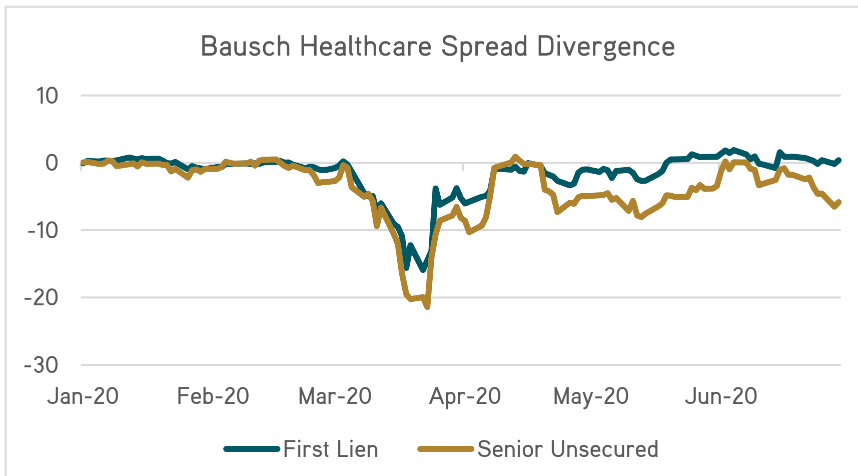
Given the event-driven nature of the below investment grade market, a manager should be able to seize situations opportunistically in a MAC strategy. Critical market themes shift rapidly, whether they are due changes in the economic climate, taper-tantrums, sovereign debt and energy crises, COVID-19, or tweets about trade agreements with China. Within a MAC strategy, it is important not just to understand the potential short-term and intermediate impacts of these trends, but to also be able to react rapidly and tactically to exploit breaking news, dislocations, industry disruptions, and unique non-mainstream credit opportunities.

The benefits of an opportunistic strategy are powerful when balanced with more income generation and capital preservation-oriented investment sleeves in a MAC strategy. To work best within a MAC strategy, the opportunistic strategy should be managed in an intensely research-driven style. While having this opportunistic approach as a dedicated strategy sleeve within a MAC strategy can add some volatility to the overall MAC strategy, there are aspects of an opportunistic strategy that can actually reduce a MAC strategy's volatility in drawdowns.

One of the benefits of an opportunistic strategy within a MAC portfolio can be the ability to short securities. The vast majority of MAC strategies are "long." The ability to short on a hedged, or unhedged basis, within an opportunistic strategy can be one of the most powerful tools to control volatility and capture alpha versus the broad market during periods of drawdowns. The ability to use an intra-capital hedge can be particularly valuable when risk aversion is increasing in the market.

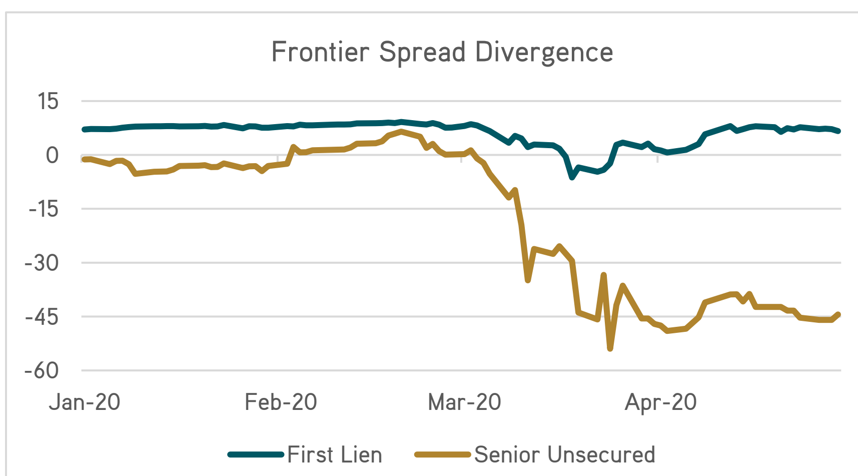
Intra-capital long-short positions can often be expressed by being long a senior tranche of debt and short a more subordinated tranche in anticipation of spreads widening as investors require more yield to take risk. These opportunities can present themselves in relatively high-quality credits where the market is not properly differentiating for seniority and in credits that are experiencing stress.

In the first example, we examine Bausch Healthcare as an example of a quality credit. The chart shows how the spread between the secured and unsecured bonds in the Bausch Healthcare structure were trading very tight to each other as 2020 started. During 2020 this very minimal differential widened during a time of market stress. This was not driven by credit-specific developments but tightening during a general "risk-on" period in the market. The bonds subsequently widened out considerably during March 2020 as the market shifted to a "risk-off" stance.



Data shown in chart is for the Bausch Health Companies Bond through June 2020. First Lien data represents BHCCN 5 3/4% '27. Senior Unsecured data represents BHCCN 5% '28 Source: ICE Data Indices, S&P LSTA. Past performance is not a guarantee of future results

This second example is one of a distressed credit, Frontier Corp. The relationship between second lien and unsecured debt also widened during early 2020. In this case, however, it was not just the market but the credit fundamentals that had been deteriorating for some time, and it was becoming increasingly clear that the company would have to file bankruptcy. The company defaulted in April.



Data shown in chart is for the Frontier Communications Bond through April 2020. First Lien data represents FTR 8% '27. Senior Unsecured data represents FTR 6 7/8% '25. Source: ICE Data Indices, S&P LSTA. Past performance is not a guarantee of future results

The opportunistic sleeve of a MAC strategy should be able to act rapidly and in a surgical fashion. An opportunistic strategy can be designed to focus on the higher return/risk segments where principal gains generally account for a higher percentage of the return than in more traditional bond or loan strategies. However, the strategy still should build its positions based on the strength of bottom up credit work. We believe that an opportunistic sleeve brings unique characteristics to a MAC strategy.

MAC MANAGEMENT

An investor in a MAC strategy should derive the benefits of exposure to diverse credit markets, with each asset allocation being well-constructed and the MAC management team adding advantageous tilts and rotations among the sleeves to maximize performance. This means having an asset allocation process that incorporates macro information, an understanding of the changes driving each asset class, the firm's stylistic approaches to each asset class, and the ability to successfully utilize the insights from analysts on corporate operational trends. The management team must position the overall strategy to have the best combination of characteristics, such as duration, income, industry exposure, and risk, in order to outperform in the current environment.

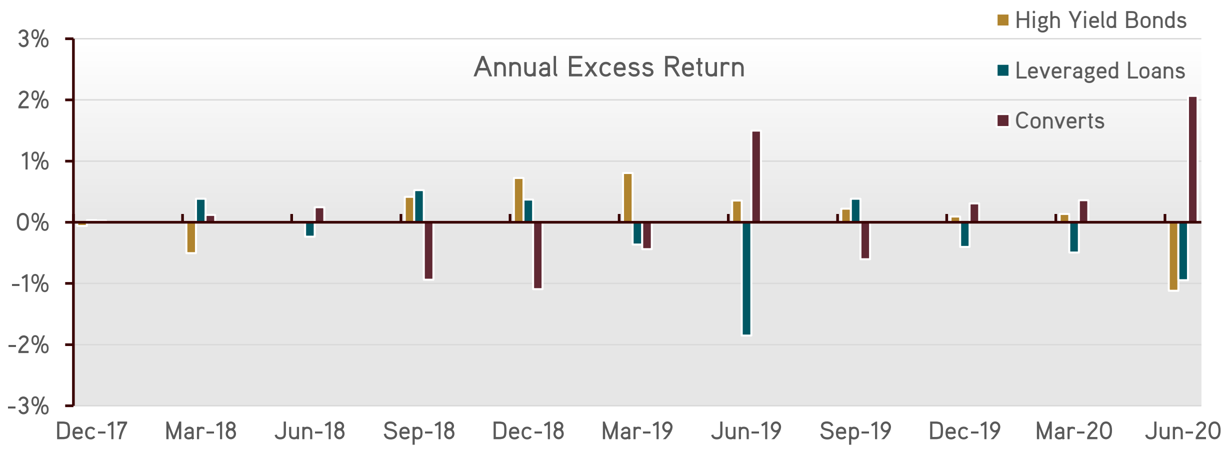
While a multitude of elements drive portfolio returns, the hierarchy of each element's impact on performance changes depending on the environment. However, one factor should not dominate all environments. In some cycles, the top of the hierarchy may be industry exposure, or it might be "risk-on" buying. In another period, it might be interest rate sensitivity. The divergent features of the various segments of the credit markets can be utilized to benefit the strategy in any number of these environments. Below is simplified summary table of some of these hierarchy shifts we believe were appropriate in the past five years.

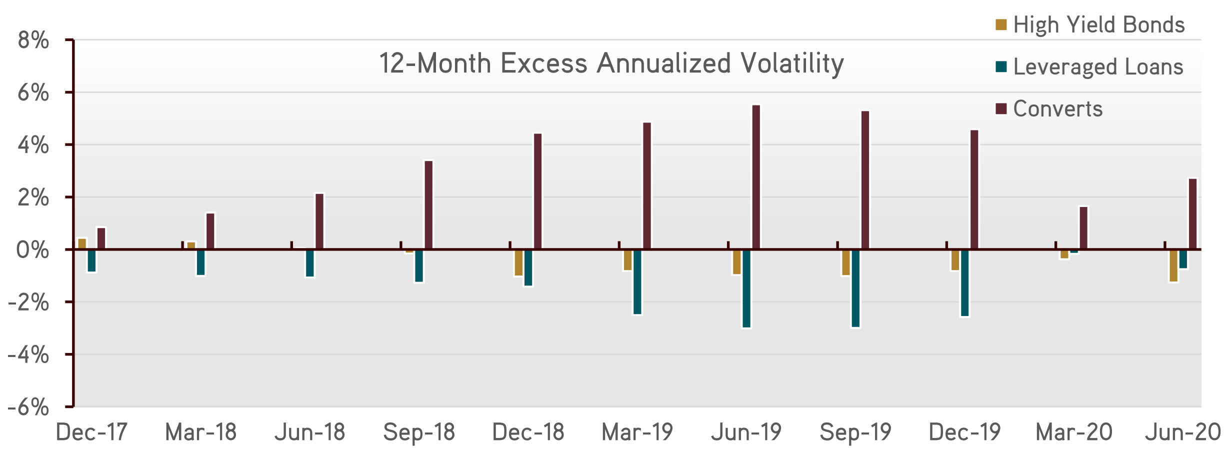
Hierarchy Shifts Over The Last 5 Years						
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Top Thematic Factor	*Industry Allocation (Avoid Commodities)*	*Industry Allocation (Increase Commodities)*	*Risk-on*	*Interest Rates (Rising)*	*Risk-on*	*Industry Allocation (COVID)*
Secondary Thematic Factor	*Credit Quality*	*Fallen Angel Rebound*	*Growth Sectors*	*Technical Flows*	*Interest Rate (Decline)*	*Cross-over Dislocation*
Asset Allocation	*Reduce High Yield*	*Increase High Yield, Cross-over & Opportunistic*	*Increase Convertible Exposure*	*Increase Bank Loans & CLOs*	*Increase High Yield & Convertibles*	*Increase Convertibles & Opportunistic*

While the underlying obligors in a MAC strategy are all corporations, the variety of industry concentrations and structures in each asset class can cause significant variations in the contribution from each asset class through various cycles as different investment themes dominate during each period. The charts below show an index in which we even weight benchmarks for various MAC asset sleeves, such as cross-over, high yield bonds, convertible, opportunistic, and loans. The top chart on the following page shows the annual contribution to return from each asset class by year, and the bottom chart shows the contribution to volatility by asset class. The charts

demonstrate how in different periods various asset classes within a MAC strategy can drive performance and volatility, and that proper allocation tilts can make a difference in performance.
The allocation must also incorporate the firm's own styles in the decision process. If the approach to the high yield market is an aggressive style that tends to overweight CCC-like credits, the manager would want to blend it with a different level of exposure to opportunistic and convertible assets than if the high yield strategy focused on the better quality BB-B style, which historically has lower principal losses and volatility.

A multi-asset strategy in credit takes a significant commitment of investment in systems and human capital. The areas in which the manager will invest must be defined, and the firm must have experience with an "edge" in these fields. We do not believe "go anywhere" works but that go "where you know" does. These markets constantly change and evolve, and deep understanding can be critical for returns. We do not believe you can do this consistently if the manager is just a tourist in these markets.





High Yield Bonds = ICE BofA U.S. HY Index (H0A0), Leveraged Loans = S&P Leveraged Loan Index, Convertibles = TR US ALL Cap Focus
Source: ICE Data Indices, Refinitiv, S&P LSTA

We also believe that an organization needs to be structured with open communication and cooperation. Multi-asset managers should do a better job in understanding the changing landscape and allocating strategically based on the information they obtain from individual analysts and portfolio managers. The structure of research is important, too. A MAC strategy should benefit from analysts structured to focus on industry specialization. They can examine the entire capital structure of a credit, which we believe is much more valuable than analysts assigned to an asset class.

A MAC investment team should have a multi-layer approach to managing the strategy, a broad view of macro factors impacting the capital markets, an understanding of the drivers influencing each asset class, an understanding the stylistic approach being taken, and a disciplined repeatable research-driven process that gets the best investments into each asset sleeve. All of this knowledge must be monitored to obtain the best holistic characteristics in the strategy to drive performance for the strategy under varying environments.

CONCLUSIONS

Traditional bonds and loans tend to have an asymmetrical reward-risk risk profile, as the upside in principal is constrained by call prices and maturities. This results in interest income accounting for the majority of return. A MAC strategy can shift this symmetry of returns by balancing the consistent income stream with opportunistic and convertible investments. Convertibles, in particular, are unique in their ability to produce significant principal gains because of the unconstrained potential upside of equities. Therefore, we believe a well-managed MAC strategy can generate a better risk/reward profile than stand-alone credit strategies. We believe these factors can be combined and create both resiliency and flexibility to perform well in varied and changing market conditions. An allocation to a MAC strategy represents a tangible solution outperforming within the credit markets.