The Long and Short of It: Why Short Duration High Yield Merits a Core Role

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Looking Beyond the Label[1]:

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By virtue of its name, short duration high yield (SD High Yield) may naturally be evaluated alongside cash, Treasury bills, and other short-duration fixed income strategies when constructing tactical allocations. However, we believe this framing understates the broader role the asset class can play as a strategic allocation within a diversified portfolio.

Historically, SD High Yield has delivered long-term absolute and risk-adjusted returns that have compared favorably not only to other short-duration strategies, but also to many traditional core fixed income allocations. Since 2010, the asset class has generated higher returns than the Bloomberg U.S. Aggregate Bond Index while exhibiting lower volatility. Historical results have shown that SD High Yield is not merely a defensive allocation or liquidity management tool, but also a durable source of income and total return across market cycles.

Looking Beyond the Label (1/2010 – 6/2026)	Cumulative Return	Annualized Return	Standard Deviation	Sharpe Ratio
Short Duration High Yield (H42C)	**113.6%**	**4.7%**	**2.90**	**1.11**
ICE BofA U.S. Treasury 0-3 Years (G1QA)	28.4%	1.5%	1.01	0.05
ICE BofA U.S. Corporate 1-3 Year (C1A0)	54.5%	2.7%	1.78	0.67
Bloomberg U.S. Aggregate Index	53.4%	2.6%	4.30	0.27
ICE BofA U.S. Corporate Index (C0A0)	92.2%	4.0%	5.80	0.44
ICE BofA High Yield Index (H0A0)	177.7%	6.4%	6.93	0.71

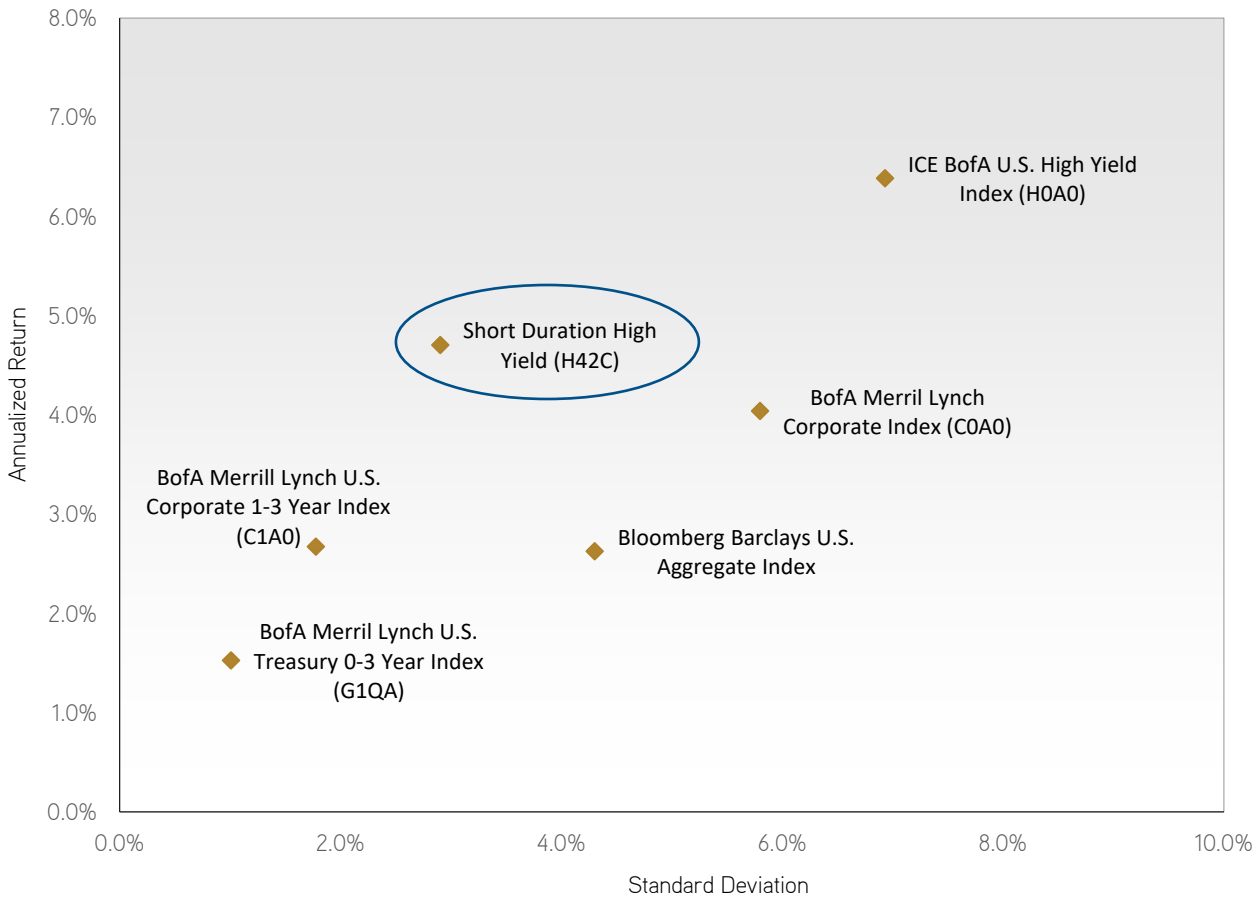
[2]

This distinction is particularly relevant in today's environment, where interest-rate volatility remains elevated, credit spreads are near historically tight levels, and there is an increased focus on maximizing return potential relative to the risks assumed. By combining elevated income potential, limited interest-rate sensitivity, attractive risk-adjusted return potential, and historically favorable downside characteristics, SD High Yield offers a differentiated source of fixed income return. We believe that the historical evidence suggests that its role can extend beyond the traditional short-duration bucket, warranting consideration as a core long-term holding or complement to a traditional core fixed income portfolio.

[1] Using ICE BofA 0-2 Year Duration BB-B U.S. High Yield Constrained Index (H42C) to represent SD High Yield. Statistics measured using a time of 1/1/2010 through 6/30/2026.

[2] ICE BofA U.S. High Yield Index (H0A0), The ICE BofA 0-3 Year US Treasury Index (G1QA), The ICE BofA 1-3 U.S. Corporate Index (C1A0), The ICE BofA U.S. Corporate Index (C0A0), The ICE BofA 0-2 Year Duration BB-B U.S. HY Constrained Index, and Bloomberg Capital U.S. Aggregate Bond Index (LBUSTRUU). Past performance is not indicative of future returns.

Risk/Return of Short Duration High Income vs Market Indexes (1/2010 - 6/2026)



[3]

THE CASE FOR SHORT DURATION HIGH YIELD

We understand that the challenge with traditional core fixed income is not only its lower level of income, but also the amount of duration, spread risk and overall volatility required to generate it. As a result, portfolio outcomes may become increasingly sensitive to changes in interest rates, spread volatility, and broader macroeconomic conditions.

In evaluating fixed income allocations, return potential should be considered alongside the amount of risk required to achieve it. The sections that follow examine several characteristics that have historically differentiated SD High Yield from both traditional core fixed income and other short-duration alternatives.

Attractive Income with Reduced Duration Risk

SD High Yield's appeal begins with its potential to generate attractive income while maintaining a relatively shorter duration profile. SD High Yield may enable investors to access attractive income while reducing exposure to many of the uncertainties associated with longer-duration fixed income assets. By focusing primarily on BB and B-rated issuers with shorter maturities, the strategy seeks to capture much of the income and return opportunity available within the high yield market while limiting rate sensitivity and mitigating the impact of rate-driven volatility on portfolio returns.

[3] ICE BofA U.S. High Yield Index (H0A0), The ICE BofA 0-3 Year US Treasury Index (G1QA), The ICE BofA 1-3 U.S. Corporate Index (C1A0), The ICE BofA U.S. Corporate Index (C0A0), The ICE BofA 0-2 Year Duration BB-B U.S. HY Constrained Index, and Bloomberg Capital U.S. Aggregate Bond Index (LBUSTRUU). Past performance is not indicative of future returns.

Yield vs Duration (6/30/2026)	Yield-to-Worst	Duration-to-Worst	Duration Coverage
Short Duration High Yield (H42C)	5.8%	1.11	5.21
ICE BofA U.S. Treasury 0-3 Years (G1QA)	4.1%	1.41	2.91
ICE BofA U.S. Corporate 1-3 Year (C1A0)	4.6%	1.86	2.49
Bloomberg U.S. Aggregate Index	4.7%	5.97	0.79
ICE BofA U.S. Corporate Index (C0A0)	5.2%	6.47	0.80
ICE BofA High Yield Index (H0A0)	7.1%	3.12	2.29

4

This combination has historically provided investors with a more efficient balance between income generation and duration exposure than many traditional fixed income sectors. For investors seeking attractive income driven returns without assuming substantial duration risk, SD High Yield offers a differentiated approach within the broader fixed income landscape.

Compelling Risk-Adjusted Returns and Downside Resilience

Strong long-term performance is not solely a function of return generation, but also of the path taken to achieve those returns. Asset classes that can deliver attractive returns while limiting volatility and drawdowns have historically offered a more stable path of return and stronger long-term compounding outcomes.

Historically, SD High Yield has delivered compelling risk-adjusted performance, generating higher long-term returns with lower volatility than many traditional fixed income sectors. As a result, the asset class has produced Sharpe ratios that compare favorably with both traditional core bond benchmarks and the broader high yield market.

Downside Characteristics (1/2010 – 6/2026)	Max Drawdown	Recovery Time (Months)	Negative Return 1yr Rolling Periods	Sortino Ratio
Short Duration High Yield (H42C)	7.47	8	11	1.54
ICE BofA U.S. Treasury 0-3 Years (G1QA)	3.48	13	17	0.07
ICE BofA U.S. Corporate 1-3 Year (C1A0)	6.13	14	15	0.99
Bloomberg U.S. Aggregate Index	17.18	*Not Recovered*	50	0.38
ICE BofA U.S. Corporate Index (C0A0)	20.11	36	36	0.64
ICE BofA High Yield Index (H0A0)	14.62	15	29	1.04

5

Importantly, SD High Yield has historically captured a substantial portion of the return potential available in the high yield market while experiencing materially lower volatility, shallower drawdowns and faster recoveries. The asset class has also generated positive returns across the majority of rolling one-year periods, highlighting the resilience of its income-driven return profile, and its potential to serve as a durable contributor to portfolio returns.

[4 & 5] ICE BofA U.S. High Yield Index (H0A0), The ICE BofA 0-3 Year US Treasury Index (G1QA), The ICE BofA 1-3 U.S. Corporate Index (C1A0), The ICE BofA U.S. Corporate Index (C0A0), The ICE BofA 0-2 Year Duration BB-B U.S. HY Constrained Index, and Bloomberg Capital U.S. Aggregate Bond Index (LBUSTRUU). Past performance is not indicative of future returns.

A key contributor to these historical characteristics is the shorter maturity profile. As bonds approach maturity or an expected redemption, pull-to-par and takeout dynamics can help anchor valuations and reduce price volatility for solid credits. This structural feature generally seeks to lower sensitivity to both interest-rate movements and spread widening relative to longer-duration fixed income assets, while helping to mitigate the impact of broader market dislocations.

These favorable downside characteristics are also reflected in SD High Yield's historically strong Sortino ratio, a measure of return earned per unit of downside risk. Relative to many traditional fixed income sectors, SD High Yield has generated more return for each unit of downside volatility incurred, reinforcing its ability to combine attractive income generation with capital preservation.

The result is a differentiated combination of attractive carry, lower volatility, and improved downside characteristics relative to many fixed income sectors, contributing to a more stable path of return than many longer-duration and higher-beta fixed income alternatives.

Diversification Beyond Traditional Core Bonds

SD High Yield provides a differentiated source of return within a broader fixed income portfolio.

Traditional core bond strategies tend to be more heavily influenced by changes in interest rates and broad credit spread movements. SD High Yield, by contrast, has exhibited relatively low correlation to U.S. Treasuries and other duration-sensitive fixed income sectors while maintaining exposure to the return potential available within the high yield market.

Correlation Matrix (1/2010 – 6/2026)	Short Duration High Yield (H42C)	ICE BofA U.S. Treasury 0-3 Years (G1QA)	ICE BofA U.S. Corporate 1-3 Year (C1A0)	Bloomberg U.S. Aggregate Index	ICE BofA U.S. Corporate Index (C0A0)	ICE BofA High Yield Index (H0A0)
Short Duration High Yield (H42C)	1.00	0.05	0.73	0.36	0.67	0.94
ICE BofA U.S. Treasury 0-3 Years (G1QA)	0.05	1.00	0.56	0.72	0.50	0.13
ICE BofA U.S. Corporate 1-3 Year (C1A0)	0.73	0.56	1.00	0.71	0.86	0.72
Bloomberg U.S. Aggregate Index	0.36	0.72	0.71	1.00	0.89	0.43
ICE BofA U.S. Corporate Index (C0A0)	0.67	0.50	0.86	0.89	1.00	0.70
ICE BofA High Yield Index (H0A0)	0.94	0.13	0.72	0.43	0.70	1.00

[5]

Unlike many traditional core bond sectors, where changes in Treasury yields can be a dominant driver of short- and intermediate-term performance, SD High Yield's shorter maturity profile allows a greater portion of return to be realized through income generation and the underlying pull to maturity/redemption. As a result, SD High Yield has maintained enhanced yields while exhibiting remarkably low correlation to Treasury returns, creating a return stream that differs from many traditional core fixed income allocations.

We believe that these historical relationships suggest that SD High Yield can potentially enhance portfolio construction by reducing dependence on any single macroeconomic outcome, particularly those tied to interest rates. For investors

[5] ICE BofA U.S. High Yield Index (H0A0), The ICE BofA 0-3 Year US Treasury Index (G1QA), The ICE BofA 1-3 U.S. Corporate Index (C1A0), The ICE BofA U.S. Corporate Index (C0A0), The ICE BofA 0-2 Year Duration BB-B U.S. HY Constrained Index, and Bloomberg Capital U.S. Aggregate Bond Index (LBUSTRUU). Past performance is not indicative of future returns.

seeking greater diversification within their fixed income allocation, SD High Yield can serve as a differentiated source of income and total return while reducing reliance on traditional duration-driven return streams. Historically, these characteristics have contributed to a return profile that has demonstrated resilience across a variety of market environments, including periods of rising rates, falling rates, and elevated volatility.

Structural Alpha Beyond the Coupon: Yield-to-Likely™

The return potential of SD High Yield extends beyond stated yield-to-worst (YTW).

A distinguishing characteristic of the short end of the high yield market is the prevalence of callable bonds and issuer-specific corporate actions. Market convention generally evaluates these securities using YTW, which assumes the redemption scenario that produces the lowest yield for investors. While useful as a conservative measure, YTW can often differ from the outcome that is ultimately most likely to occur.

We believe that Yield-to-Likely™ provides a more informative estimate of potential return than YTW or yield-to-maturity (YTM) alone. This proprietary metric incorporates our assessment of the redemption outcome most likely to occur, informed by detailed analysis of issuer incentives, capital structure dynamics, refinancing alternatives, and broader corporate objectives. Because most issuers do not make redemption decisions based solely on refinancing economics, actual outcomes frequently diverge from market assumptions.

This dynamic can potentially benefit both discounted and premium-priced securities. Bonds purchased below par may generate enhanced returns if redeemed earlier than anticipated, while premium bonds may benefit when issuers delay expected refinancings, allowing investors to continue earning attractive coupon income for longer periods. As a result, realized returns can differ materially from traditional YTW or YTM assumptions when issuer behavior diverges from market expectations.

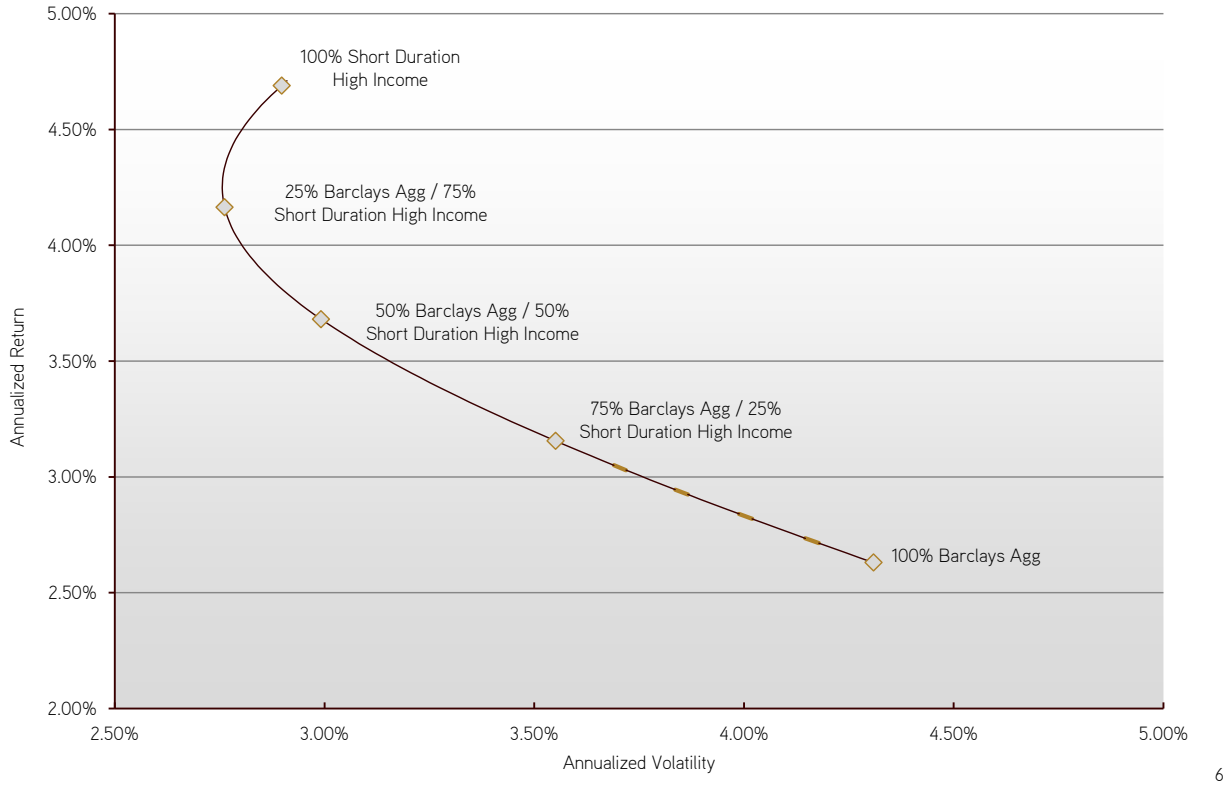
These characteristics create a differentiated opportunity set for active managers. At Shenkman Capital, our proprietary Yield-to-Likely™ framework combines rigorous fundamental research, detailed capital structure analysis, and a deep understanding of issuer incentives and likely redemption outcomes to identify securities where market pricing may not appear to fully reflect the redemption outcome we believe is most likely to occur.

As a result, we believe that active security selection and Yield-to-Likely™ may help identify potential sources of alpha beyond YTW, carry, and spread compression, creating opportunities that may be overlooked by passive or benchmark-oriented approaches.

Portfolio Construction: A Broader Role for SD High Yield

The illustrative efficient frontier below highlights the potential portfolio construction benefits of combining SD High Yield with traditional core fixed income using the Bloomberg U.S. Aggregate Bond Index. Historically, blended allocations improved risk-adjusted returns by increasing return potential, while in many cases, reducing overall portfolio volatility. These results suggest that SD High Yield may offer diversification benefits in addition to its income and return characteristics.

Efficient Frontier: Bloomberg U.S. Agg and Short Duration High Yield (1/2010 – 6/2026)



6

Depending on an investor's objectives, SD High Yield may serve as a complement to traditional core fixed income, a component of a Core Plus strategy, or a strategic long-term allocation.

Strategic Allocation, Not a Tactical Trade

The characteristics discussed throughout this paper point to a broader conclusion: SD High Yield should not be viewed merely as a short-term yield enhancement strategy.

It is a combination of:

- High recurring income
- Limited duration risk
- Attractive risk-adjusted returns
- Improved downside characteristics
- Issuer-specific alpha opportunities
- Continuous reinvestment flexibility

creating a return profile that is well-suited to long-term portfolio construction rather than short-term tactical positioning.

Ultimately, the long-term appeal of SD High Yield is less dependent on forecasting interest rates or credit spreads and more dependent on recurring income generation, the natural pull of bonds toward maturity or redemption, and the

[6] ICE BofA 0-2 Year Duration BB-B U.S. High Yield Constrained Index (H42C), and Bloomberg Capital U.S. Aggregate Bond Index (LBUSTRUU). Past performance is not indicative of future returns.

compounding benefits of reinvesting capital over time. While active management may create additional opportunities through security selection and Yield-to-Likely™ analysis, these characteristics have historically provided investors with a differentiated and durable approach to long-term fixed income investing.

Conclusion

Short duration high yield represents a differentiated segment of the fixed income market. By combining attractive income generation, limited duration exposure, and historically favorable downside characteristics, SD High Yield has delivered long-term returns and risk-adjusted performance that compare favorably with many traditional core fixed income sectors.

We believe that a defining characteristic of the asset class is the ability to participate in the return potential available in high yield credit while maintaining lower sensitivity to interest-rate movements than many traditional core fixed income allocations. At the same time, the shorter maturity profile of the underlying securities allows a greater portion of return to be realized through recurring income and the natural pull of bonds toward maturity or redemption, helping to reduce volatility and support a more stable path of return over time. In addition, active management may provide opportunities to enhance returns through security selection and the identification of Yield-to-Likely™ opportunities where market expectations differ from the redemption outcomes most likely to occur.

For investors seeking a durable source of income, total return potential, and downside resilience, SD High Yield merits consideration beyond the confines of a traditional short-duration allocation. Rather than serving solely as a defensive allocation or liquidity management tool, SD High Yield has historically demonstrated the characteristics of a strategic fixed income allocation that's capable of playing a meaningful role within long-term portfolio construction.

Appendix

Current Valuations and Historical Performance and Risk Metrics (6/30/2026)	Short Duration High Income (H42C)	ICE BofA U.S. Treasury 0-3 Years (G1QA)	ICE BofA U.S. Corporate 1-3 Year (C1A0)	Bloomberg U.S. Aggregate Index	ICE BofA U.S. Corporate Index (C0A0)	ICE BofA High Yield Index (H0A0)
Yield-to-Worst	5.77%	3.93%	4.64%	4.73%	5.20%	7.15%
Duration-to-Worst	1.11	1.42	1.86	5.97	6.47	3.12
Spread-to-Worst	151	0	46	26	76	275
Duration Coverage (Yield/DTW)	5.2	2.8	2.5	0.8	0.8	2.3
Reference Period: 1/1/2010 - 6/30/2026						
Annualized Returns	4.71%	1.53%	2.67%	2.63%	4.04%	6.39%
Standard Deviation	2.90	1.01	1.78	4.30	5.80	6.93
Sharpe Ratio - Common	1.11	0.05	0.67	0.27	0.44	0.71
Sortino Ratio	1.54	0.07	0.99	0.38	0.64	1.04
Max Drawdown	(7.47)	(3.48)	(6.13)	(17.18)	(20.11)	(14.62)
Max Drawdown Date	Jan 2020 - Mar 2020	Jul 2021 - Oct 2022	Aug 2021 - Oct 2022	Jul 2020 - Oct 2022	Jul 2021 - Oct 2022	Dec 2021 - Sep 2022
Average Drawdown	(1.11)	(0.23)	(0.62)	(2.15)	(2.54)	(2.86)
Max Drawdown Length (Months)	2	15	14	27	15	9
Max Drawdown Recovery Length (Months)	8	13	14	*Not Recovered*	36	15
# of Negative Rolling 1YR Periods	11	17	15	50	36	29

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The Bloomberg Capital U.S. Aggregate Bond Index was created in 1973 (LBUSTRUU) and covers the USD-denominated, investment grade, fixed rate, taxable bond market of SEC-registered securities, and includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed rate and hybrid ARM passthroughs), ABS and CMBS sectors. It is a component of the Bloomberg Capital U.S. Universal Index in its entirety.

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 ICE BofA 1-3 U.S. Corporate Index (C1A0) has an inception date of December 31, 1975, and is a subset of the ICE BofA U.S. Corporate Index (C0A0), including all securities with a remaining term to final maturity of less than 3 years. 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 ICE BofA 0-3 Year US Treasury Index (G1QA) has an inception date of December 31, 1992 and tracks the performance of US dollar denominated sovereign debt publicly issued by the US government in its domestic market with maturities less than three years.

FTSE US Treasury Bill Indexes measure return equivalents of yield averages. The instruments are not marked to market. For example, the US Six-Month Treasury Bill Index is an average of the last six six-month Treasury bill month-end rates. Similarly, the US One-Month and Three-Month Treasury Bill Indexes consist of the last one one-month and three three-month Treasury bill month-end rates, respectively.

The ICE BofA 1-Year US Treasury Note Index (GC03) has an inception date of May 31, 1991 and is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding two-year Treasury note that matures closest to, but not beyond, one year from the rebalancing date. In order to qualify for inclusion, securities must be auctioned on or before the third business day before the last business day of the month and settle before the following calendar month end.

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