Short Duration High Yield: A Potential Solution to Enhance Returns While Retaining Liquidity

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Many of our institutional investors are increasingly focused on strengthening their liquidity profiles amid an uncertain environment. At the same time, they remain focused on enhancing returns while staying mindful of risks and volatility. In our experience, the Short Duration High Yield ("SD High Yield") segment of the market can effectively align with these objectives.

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Potential Benefits of Short Duration High Yield[1]:

- **Enhanced Yield:** Offers higher income potential than most traditional fixed income.
- **Low Volatility Profile:** Historically low standard deviation relative to other high yield strategies.
- **Attractive Risk-Adjusted Returns:** Strong Sharpe ratio and consistent performance over time.
- **Limited Drawdowns:** Minimal frequency and magnitude of negative return periods.
- **Liquidity:** Suitable for short, intermediate, and long-term allocations with flexible access to capital.
- **Diversification Tool:** Complements both core fixed income and operating liquidity pools.
- **Capital Preservation Orientation:** Emphasis on higher-quality, shorter-duration bonds can help reduce downside risk.

We define the universe of Short Duration High Yield ("SD High Yield") as the higher credit quality and shorter duration segment of the broader high yield bond market. More than simply shortening the tenor and duration of a broad high yield exposure, the strategy typically focuses on higher credit quality (BBs and Bs) and de-emphasizes the lowest rated issues (CCCs), which we believe is appropriate for investors seeking to mitigate downside volatility and capital losses while increasing yields relative to other fixed income alternatives. For the purpose of this analysis, we utilize the ICE BofA 0-2 Year Duration BB-B U.S. High Yield Constrained Index (H42C) to highlight SD High Yield's historical performance and characteristics (the "SD High Yield Index"). We believe the historical return and risk characteristics of the strategy are compelling for investors. Over the past 16 years through August 31, 2026, the SD High Yield Index has delivered an average annual return of 4.7% with a Sharpe ratio of 1.13—strong compensation for its relatively low volatility, as measured by a 2.9% standard deviation (See **Exhibit 1**). Notably, the SD High Yield Index has experienced only one negative calendar year since 2010, posting a modest decline of 1.7% in 2022. Moreover, out of 200 rolling one-year return periods, it produced positive results more than 94% of the time.[2]

Please reach out to InvestorRelations@ShenkmanCapital.com for the full letter.

[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 period of 1/1/2010 through 8/31/2026. Past performance is not indicative of future results
[2] Returns for each rolling one-year period over 1/1/2010-8/31/2026. Past performance is not indicative of future results

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The Sharpe ratio is calculated by dividing the annualized excess returns of an index over the risk-free return by its annualized standard deviation. Standard deviation is a measure of dispersion of the Index's performance from its average; Standard deviation is calculated as the square root of variance. The risk-free return is the theoretical rate of return of an investment with zero risk. The risk-free rate represents the interest an investor would expect from a risk-free investment over a specified period of time. For the purposes of this calculation, the 3-month U.S. Treasury is used as a proxy for risk-free returns.

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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.

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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.

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