



High Yield Portfolios

Strategic Income Management (SiM)

Value Driven, Income Focused

SiM: Utilizing the Same High Yield Team and Philosophy Since 1998 to Achieve Top Decile Performance

- 100% employee-owned boutique founded in 2010, focused exclusively on US High Yield
- Concentrated, experienced team has successfully employed the same strategy together for 17 years
- Team managed high yield portfolio for 11 years at previous firm, growing assets to over \$2.4 billion and achieving top decile performance across 3-, 5-, and 10-year periods
- Currently manages over \$1 billion, with top decile performance over 3- and 5- year periods
- Sub-advisor to the **American Beacon SiM High Yield Opportunities Fund**, rated 5-stars by Morningstar over the most recent 3-and 5-year periods
- Based in Seattle, Washington

Our Unique Investment Philosophy

“The wind at your back”

SiM's Principles of Investing:

- Capture long-term trends that put “the wind at the back” of the investments
- Invest in the “right” industries – avoid those inappropriate for High Yield
- Analyze companies as if CFO/sole owner

These principles lead to a core portfolio of companies that has historically been less cyclical, provided better downside protection, and better alpha over the long run.

We then apply these same principles to supplement the core with:

- Industries out-of-favor due to intermediate dislocations
- Non-traditional HY out-of-favor with their natural buyers
- Small cap issuers that offer attractive risk premia

Our Unique Investment Philosophy

“The wind at your back”

Philosophy

- SiM believes that active management based on a long term investment horizon is will put “the wind at your back” and outperform the markets over time.
- Our investment philosophy is based on the premise that a core portfolio, built around these long-term trends and within the appropriate industries will outperform on average and provide stability and downside protection.
- Additional alpha is added by investing in: out-of-favor industries, non-traditional high-yield instruments, and “small cap” bond issuers.

Investment Style

- Our strategy places emphasis on maximizing current income first; Capital appreciation comes second.
- Although benchmark aware, the portfolio may be totally absent in sectors we feel are inappropriate to high yield.
- The portfolio is well-diversified, but concentrated in 70 to 100 names, with a focus on credit and long-term trends.
- Seek to be relatively neutral to the duration and the quality of the benchmark while being fully invested within liquidity needs.

Organization

An experienced team with a long history



Section Two:

Strategy Overview

What makes SiM US High Yield unique?

A distinctive approach to High Yield investing

Traditional US High Yield Approach:

- A pool of specialized analysts compete to get representation of their names in the portfolio, rather than focus on the overall good of the portfolio
- Herd mentality: If things blow up, you cannot be blamed for doing what everyone else is doing
- Hundreds of names in a portfolio that forces them into being an index fund, merely making minor adjustments to industry weightings
- Short term focus with an industry average turnover of 100%

The SiM US High Yield Approach:

- **Consistency** – The management team has been together for 24 years, managing HY together for 17, and invests with the whole portfolio in mind
- **A willingness to zero-weight** industry sectors, allowing the team to focus its resources and the portfolio on those industries best suited to High Yield
- **A strategy that seeks to exploit long-term opportunities** in out-of-favor industries or non-traditional HY sectors
- **AUM** - small enough to capitalize on the favorable risk premia found in small issuers
- **Lower turnover** — 30 to 50% — to exploit long-term trends and facilitate a more focused management approach
- **A concentrated portfolio of 70 to 100 names** - well-diversified and easily managed

SiM's Unique Investment Approach

A distinctive approach to High Yield investing

Out of Favor Industries & Non-Traditional High Yield
Opportunistic – Companies better able to survive
an extended restructuring in the sector

Principle One:
Identify long term trends
and themes

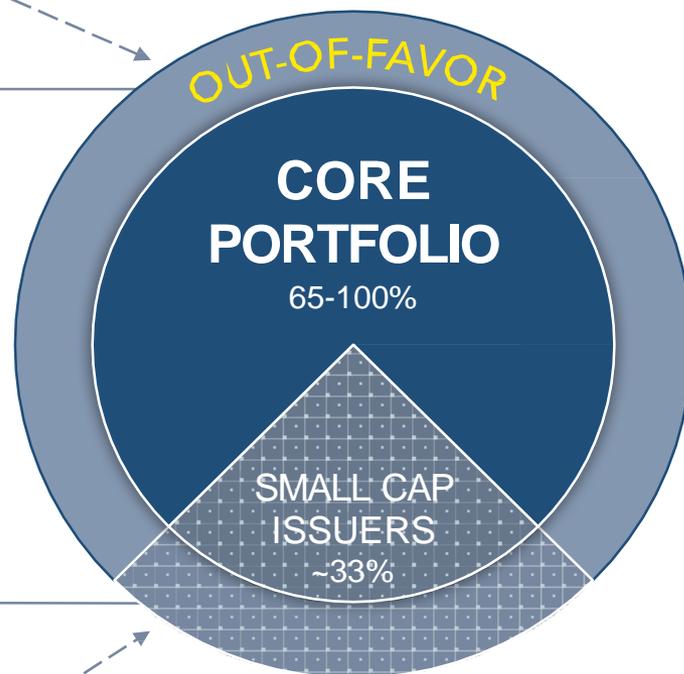
Principle Two:
Focus on the right industries

Principle Three:
Analyze as a CFO/owner

Once long term trends & industries are targeted, Our team performs a comprehensive, company-level analysis to determine quality and construct the core portfolio. We then opportunistically add Out-of-Favor and Small Cap Issuers.

Small Cap Issuers:
Outstanding bonds <\$500m;
Favorable risk premia - Better companies
ignored by large investors

The Portfolio



Out-of-Favor-
Max 35% of Portfolio

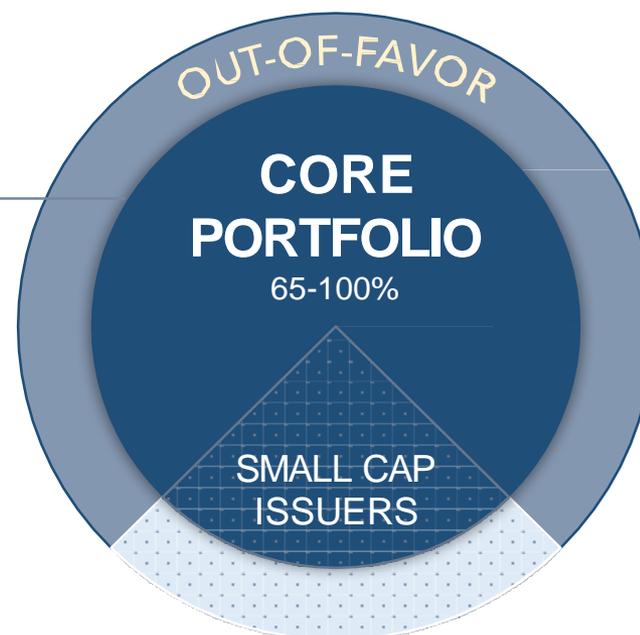
The Core Portfolio

Building Our High Yield Portfolio

Our three core principles - Identifying long-term trends, focusing on the "right industry," and performing a "CFO-level analysis" – are applied to create the **core** of the portfolio.

This results in a portfolio that:

- Tends to be less cyclical
- Provides better downside protection
- Provides more alpha over the long run



Our Three Core Principles

Building the Core of the Portfolio

Principle One: Identify Long-Term Trends

Long-term trends create headwinds or tailwinds for companies.

SiM always keeps this in mind when looking at companies and industries, and seeks to invest in those industries supported by long-term trends.

Examples:

- **Demographics** – Aging populations are a strong demand driver or demand destroyer in most developed markets
- **Regulatory trends** – Create or restrict opportunities within industries
- **Globalization** – A growing middle class in emerging markets creates new demands in global markets
- **Technological developments** - Can both create and destroy demand
- **Fiscal and monetary policies** – Policies have implications across industries, economies, and markets

Our Three Core Principles

Building the Core of the Portfolio

Principle Two: Focus on the Right Industries

Getting the industry right can be 70% of making a good investment.

The “right industry” is ideally:

- Supported by long-term trends
- Is not cyclical nor capital intensive
- Has a healthy industry balance in demand and supply

We focus on understanding the drivers of supply and demand within an industry before investing by:

- Exploiting industry research available from the Street, Rating Agencies, or Trade Journals.
- Or, if industry research from these sources is insufficient, develops own research/models. Example: Energy

Many managers start by looking for “good companies”. However, regardless of how good a company's ratios and margins may be, if the industry is in decline the company will be pulled down with it.

Although capital intensive/cyclical industries are generally ill-suited to high yield, many managers feel compelled to invest in them because the industry is in the Index. SiM has often had zero-weighting in a number of industries over the years.

Our Three Core Principles

Building the Core of the Portfolio

Principle Three: Analyze Companies as the CFO/Owner

Company level analysis should be performed with the same approach and level of detail a sole owner would provide.

If we are comfortable with the industry, we analyze their companies from the perspective of a CFO, focusing on:

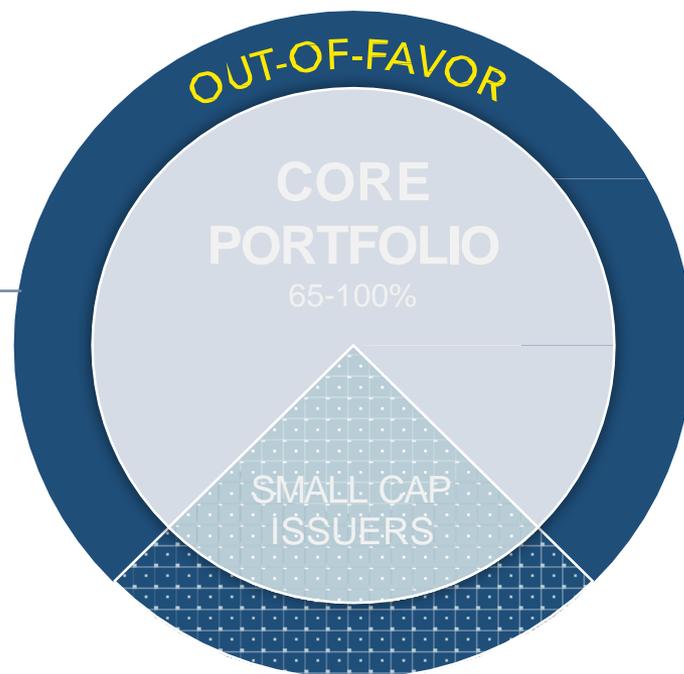
- Competitive advantage
- Sustainable cash flow
- Appropriate leverage for the industry
- Capital expenditures sufficient to sustain/grow the business
- An adequate return

Out-of-Favor Sectors

Supplementing the core of the portfolio

SiM's Principles of Investing in Out-of-Favor Sectors:

- *Invest in sectors supported by long term trends and with a pathway to restructuring.*
 - Usually this restructuring is through removal of excess capacity.
- *Invest with a long-term investment horizon.*
 - Restructuring/rebalancing may take two or more years.
- *Invest in companies with the product, management, cash flow, and strong balance sheets.*
 - Companies should be strong enough to survive through extended periods that may be required for the sector to regain “health”.



Out-of-Favor-
Max 35% of Portfolio

Out-of-Favor Sectors

Supplementing the core of the portfolio

Advantages of Investing in Out-of-Favor Sectors:

- Even cyclical/capital-intensive industries can have very favorable risk/reward ratios when they fall out of favor.
- Non-traditional high yield securities (convertible bonds, emerging markets, REITs, etc.) have smaller discrete pools of buyers that periodically abandon them.
 - When these sectors lose their natural buyers, their yields can offer extraordinary value at rates in line with High Yield bonds.
- Non-traditional high yield securities have a lower correlation to traditional high yield, potentially reducing overall risk in the portfolio.
- Towards the end of the business cycle, as investors chase yields and drive down spreads, there is very little that is out-of-favor.
 - At that time the strategy is generally forced back into the core portfolio. The less cyclical core is better suited to weather downturns that tend to occur at this time of the cycle.

Out-of-Favor Sectors

Supplementing the core of the portfolio

Examples of past investments in Out-of-Favor sectors

Throughout cycles over the past 18 years, the SiM team has consistently exploited out-of-favor opportunities.

Out-of-Favor Industries/Sectors in High Yield Bonds

Telecom Bubble – 2000

Auto Retailers – 2008

European Financial Crisis – 2011

Airlines - 2012

Energy – 2015/2016

Out-of-Favor Non-Traditional HY Securities

Asian Crisis – EM corporate bonds – 1998

Tech Bubble – “Busted” HY convertible bonds – 2000

Brazilian Crisis – Sovereign Local Debt – 2003

REIT in Healthcare- REITs – 2004

Financial Crisis - Bank Hybrid Preferreds - 2008

Historically, up to a third of the portfolio has been invested in out-of-favor sectors.

Investing in Small Cap Issuers

Rounding out the portfolio

Advantages of Investing in Small Cap Issuers

(w/ total bonds outstanding <\$500m)

- In the BAML High Yield Index small cap single-Bs offer an OAS significantly higher than Large Cap single-B category. This was true even during the low point of High Yield spreads in 2014.

Nature of Small Cap

- A third of the approximately 1,000+ issuers in the BAML High Yield Index have total bonds outstanding in the range of \$200 to \$500 million
- 50% of Small Cap Issuers in single-B range
- Institutional investors tend to ignore small cap – they cannot take a large enough position to make a significant contribution



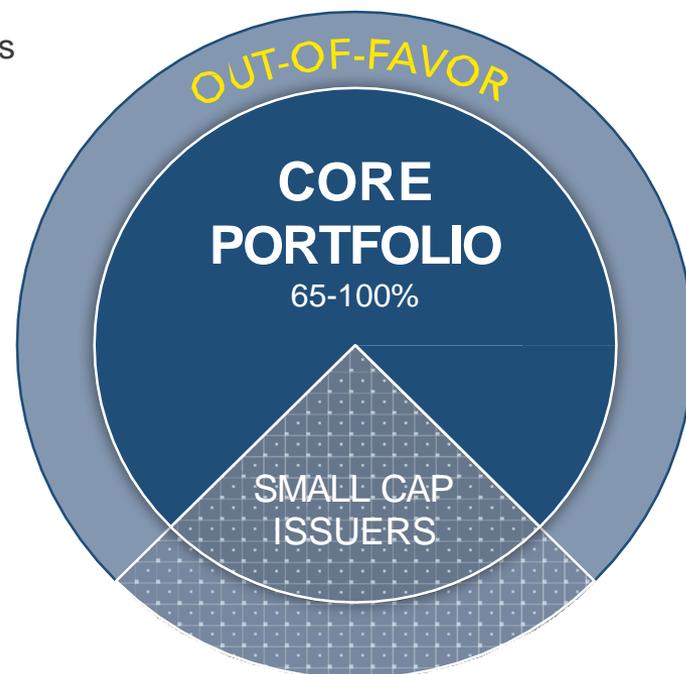
Around a third of the portfolio—across both Core and Out-of-Favor names—is generally invested in Small Cap to capture the favorable spread

The Resulting Portfolio

Our distinctive approach to High Yield investing

The result is a portfolio and investment strategy that seeks to:

- Exploit long term trends that put the wind at the back of industries
- Invest in the “right” industries: those best suited to high yield
- Understand drivers and factors of supply and demand
- Zero-weight inappropriate industries
- Find sustainable businesses with a competitive advantage, sufficient cash flow and capital expenditure, and appropriate capital structure
- Build a less cyclical portfolio and attain outperformance in the long run
- Find better companies in Out-of-Favor Industries
- Invest in Non-Traditional High Yield
- Find better companies and exploit the higher risk premia in small cap issuers



Out-of-Favor –
Max 35% of Portfolio

Risk Management

Portfolio Management

- Portfolio management team in the industry for 30 years, in charge of dedicated High Yield since 1998 and managed risk through multiple business cycles to achieve top decile performance
- Dedicated trader and systems to monitor daily trading, price movement, and company news
- Monitoring of credits and liquidity facilitated by the smaller number of names (70 - 110) in the portfolio
- Attribution analysis run monthly and as needed to analyze portfolio risk and beta

Operations Compliance

- CEO/CCO oversees compliance and adherence to code of ethics
- Portfolio monitored and reconciled daily
- Pre- and post-trade compliance systems to ensure investments within client guidelines
- American Beacon provides additional layer of oversight
- SEC completed an examination of SiM in August 2016

SiM US High Yield

Portfolio Construction

Portfolio Construction

Targeted Universe:	Full High Yield universe, Senior Loans and other non-traditional investments such as REITs, preferreds, convertible bonds, and EM debt.
High Yield Bonds:	Minimum of 80%
Liquidity:	No more than 10% of an issue.
Sector Allocation:	At minimum invested in 15 industries; maximum 25% in one industry. Some industries in the Index may have zero-weightings in the portfolio.
Diversification:	Limit of 5% in one issuer, but practice has generally been around 3% or less
Duration:	+/- 15% of the Index duration
Foreign Currency Exposure:	Unhedged exposure to non-USD limited to 5%
Cash:	Minimize cash to levels sufficient for liquidity. No tactical allocation to cash.

Biographies

Gary J. Pokrzywinski, CFA

Mr. Pokrzywinski is the Lead High Yield Portfolio Manager for SiM. He has 28+ years of experience in the fixed income financial markets. He currently manages the Morningstar 5-star*, American Beacon SiM High Yield Opportunities mutual fund, and prior to founding SiM managed the Morningstar 5-star**, Principal High Yield mutual fund from its inception in April 1998 to May 2009. Prior to SiM, He was the CIO and a High Yield Portfolio Manager for Edge Asset Management (and its predecessor), an affiliate of Principal Financial Group. He worked for Edge and its predecessor from 1992 to 2009. Prior, Mr. Pokrzywinski was an investment officer/portfolio manager for Firststar Investment Services Co. He received a bachelor's degree in finance and management information systems from the University of Wisconsin - Milwaukee. Mr. Pokrzywinski earned the right to use the Chartered Financial Analyst designation in 1989 and is a member of the CFA Society of Seattle.

Brian L. Placzek, CFA

Mr. Placzek is the High Yield Portfolio Manager for SiM. He has 29+ years of experience in investment management and financial analysis, and currently manages the Morningstar 5-star*, American Beacon SiM High Yield Opportunities mutual fund. Prior to SiM, Mr. Placzek was Head of Fixed Income/Research at Edge Asset Management, an affiliate of Principal Global Investors. At Edge he worked with Mr. Pokrzywinski on the Principal High Yield Mutual Fund from its inception in 1998 until the Mr. Pokrzywinski's departure in 2009. Mr. Placzek worked at Edge (and its predecessor) from 1990 to 2010. Prior to Edge he had been at Washington Mutual Bank, where he worked as an investment grade and high yield bond analyst/trader. Mr. Placzek earned the right to use the Chartered Financial Analyst designation in 1994, is a member of the CFA Society of Seattle and received a bachelor's degree in liberal arts from Seattle University.

Ryan C. Larson, CFA

Mr. Larson is a Senior Investment analyst for the SiM High Yield Team. Mr. Larson is responsible investment research and analytics. He has 8 years of experience in investments. Prior to SiM, Mr. Larson was a research analyst at Caelum Capital, a Los Angeles based equity long-short hedge fund, from 2009 to 2010. Before Caelum Capital, Mr. Larson worked under the direction of a Managing Director at Wells Fargo in Seattle, Washington from 2008 to 2009. Mr. Larson earned the right to use the Chartered Financial Analyst designation in 2012 and is a member of the CFA Society of Seattle. Mr. Larson is also a member of the Chartered Alternative Investment Analyst Association (CAIA). Mr. Larson graduated with honors from Brown University with a bachelor's degree in Commerce, Organizations and Entrepreneurship.

*Data provided by Morningstar. SHOIX (institutional class) **CPHYX (load waived) 5-star ranking from 11/05 to 5/09. CPHYX 4- or 5-star rating from 4/03 to 5/09. Past performance is no guarantee of future results.

Biographies (cont.)

Jeston S. LaCroix

Mr. LaCroix is a high yield trader and analyst for the SiM High Yield Team. Mr. LaCroix is responsible for trading and reporting analytics. Prior to joining SiM in 2014, Mr. LaCroix was a fixed income trader at National Penn Investors Trust Co., a Pennsylvania based trust company. Prior to National Penn, from 2011 to 2013, Mr. LaCroix was with Munder Capital Management in Birmingham, Michigan in multiple capacities, most recently as a fixed income trader/analyst where he was responsible for trading investment grade and high yield corporate bonds for all of the firm's fixed income strategies. Mr. LaCroix has a B.A. in political science from the University of Michigan and an MBA from Wayne State University. Mr. LaCroix is a Level III CFA candidate.

Tim Black, JD

Mr. Black is the Chief Executive Officer and Chief Compliance Officer for SiM and is responsible for day to day operations and SEC compliance matters. Mr. Black has 16+ years of experience in regulatory and compliance matters in various roles in the investment industry. He is a former partner of Integra Ventures, a federally licensed Small Business Investment Company (SBIC), where Mr. Black was responsible for regulatory compliance and oversight management for the firm. Mr. Black is an attorney whose prior practice focused on corporate and securities matters, including issues relating to investment advisers and broker dealers. Mr. Black holds a BA from Colorado College and a JD, with honors, from Seattle University.

Julia H. Landa

Mrs. Landa is an operations specialist for SiM and is responsible for monitoring day-to-day high yield portfolio operations, reporting and compliance. Prior to joining SiM in 2015, Mrs. Landa was an energy risk control and credit analyst at Puget Sound Energy Inc., a Bellevue based utility company. Prior to PSE, Mrs. Landa was for five years with Union Bank of Israel, the sixth largest Israeli bank, where she was an economist in the Controls and Risk Management Department, responsible for monitoring derivatives market risks and trading activity, as well as the bank's proprietary asset reporting and SOX compliance. Mrs. Landa has a B.A. in Economics from Tel Aviv University and an M.A. in Business Economics from Bar-Ilan University, Israel.

Kevin Power

Mr. Power is Reporting and Analytics Associate for SiM and is responsible for high yield portfolio reconciliation and reporting. Prior to joining SiM in 2016, Mr. Power worked as a business loan officer at Business Impact NW, a non-profit Community Development Financial Institution, where he underwrote and serviced business loans. Prior to Business Impact NW, from 2006-2015, Mr. Power worked at Bank of America, in various roles, but most recently as a Banking Center Manager. Mr. Power holds a B.S. in Economics from the University of Washington.