

Definition and Characteristics

The U.S. High Yield Bond category is defined as corporate bonds rated BB or below by an established credit rating agency, which is often categorized as non-investment grade. The most popular benchmarks for the category are the Bloomberg Barclays U.S. Corporate High Yield Bond Index and the Bank of America Merrill Lynch (BofAML) High Yield Master II Index. The BofAML High Yield Master II Index focuses on US domestic corporate issues while the Bloomberg Barclays U.S. Corporate High Yield Index will contain US dollar bonds of non-US issuers, except those in emerging economies. Both focus on fixed-rate bonds and include pay-in-kind and zero-coupon issues.

Role within a Portfolio

The High Yield Bond category can play an important role in a diversified fixed income portfolio. High Yield bonds offer larger coupons compared to U.S. Treasury, Agency and investment grade corporate bonds with the added potential for price appreciation in the event of an improvement in the economy, or performance of the issuing company. Because the high yield sector generally has a low correlation to other sectors of the fixed income market, along with less sensitivity to interest rate risk, an allocation to high yield bonds may provide portfolio diversification benefits. In addition, high yield bond investments have historically offered similar returns to equity markets, but with lower volatility.

Benchmark and Peer Group

This U.S. High Yield Bond search report will use the following benchmark and peer group:

Index – BofAML US HY Master II Index: The index is a market value-weighted index which covers the U.S. Corporate non-investment grade fixed-rate debt market and contains over 1,200 issues. The index is composed of U.S. dollar-denominated corporate debt in Industrial, Utility, and Finance sectors with a minimum \$100 million par amount outstanding and a maturity greater than one year.

Morningstar Category – High Yield Bond: High Yield bond portfolios invest primarily in U.S. corporate bonds with ratings below BBB. Issues typically have durations between 3.0 and 7.0 years. These securities are less sensitive to interest rates, and therefore less volatile, than securities that have longer durations.

Investment Option Comparison

	Loomis Sayles Instl High Income	Lord Abbett High Yield I	MainStay MackKay High Yield Corp Bd I	PGIM High Yield Z
Firm Information				
Year Founded	1/1/1926	1/1/1929	1/1/1938	1/1/1984
US Headquarters Location	Boston, MA	Jersey City, NJ	New York, NY	Newark, NJ
Number of Major Global Offices	3	3	3	5
Year Began Managing Ext. Funds	1/1/1926	1/1/1929	1/1/1969	1/1/1984
Firm AUM (\$ M)	257,582	157,708	98,000	676,275
Ownership Type	Subsidiary	Independent	Subsidiary	Subsidiary
Largest Owner (Name)	Natixis Global Asset Management	Douglas B. Sieg	New York Life	Prudential Financial
Employee Ownership (%)	0	100	0	0
Qualify as Emerging Manager?	No	No	No	No

Team Information				
Decision Making Structure	PM-Led	PM-Led	PM-Led	PM-Led
Number of Decision Makers	3	1	1	1
Names of Decision Makers	D. Fuss, E. Stokes, M. Eagan	S. Rocco	Andrew Susser	Robert Cignarella
Date Began Managing Strategy	1989, 2000, 2000	2010	2014	2014
Date Began with Firm	1976, 1988, 1997	2004	2006	2014
Number of Products Managed by Team	8	3	4	3
Number of Investment Analysts	23	22	9	97
Investment Analyst Team Structure	Sector/Industry Specialists	Sector/Industry Specialists	Sector/Industry Specialists	Sector/Industry Specialists

Loomis Sayles Instl High Income	Lord Abbett High Yield I	MainStay MackKay High Yield Corp Bd I	PGIM High Yield Z
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Strategy Information

Inception Date	1/1/1989	12/24/1998	7/1/1991	3/1/2002
Open/Closed	Open	Open	Open	Open
Primary Benchmark	Barclays US Corporate High-Yield	ICE BofAML U.S. High Yield Constrained	BofA Merrill Lynch US High Yield	BBgBarc US High Yield Index
Secondary Benchmark	N/A	N/A	Credit Suisse High Yield	N/A
Peer Universe	High Yield	High Yield	High Yield	High Yield
Outperformance Estimate (%)	1.25 - 2 (Gross)	0.8-1	N/A	2
Tracking Error Estimate (%)	N/A	0.85 -2.8	N/A	2.5
Strategy AUM (\$ M)	11,126	8,178	21,000	11,818
Strategy AUM as % Firm Assets	4	5	22	2
Investment Approach - Primary	Bottom-up	Combination	Bottom-up	Combination
Investment Approach - Secondary	Fundamental	Fundamental	Fundamental	Fundamental

Portfolio Construction Information

Broad Style Category	High Yield	High Yield	High Yield	High Yield
Style Bias	Relative Value	Relative Value	Relative Value	Relative Value
Duration Constraint Type	Relative	Neutral	Relative	N/A
Duration Constraint (%)	+/- 5 years	+/- 0.1 year	10	N/A
Sector Constraint Type	Absolute	Absolute	Absolute	Absolute
Sector Constraints (%)	Varies by sector	0-25	15	Min. HY: 80%; industry max: 10%
Typical Sector/s Overweight	Varies	N/A	N/A	N/A
Typical Sector/s Underweight	Varies	N/A	N/A	N/A
Typical Number of Holdings	200-400	670-740	350-550	500-700
Average Full Position Size (%)	1	0.75-1.25	<1	0.16
Maximum Position Size (%)	5	5	4	BB: 2.5; B: 1.75; CCC: 1.25
Annual Typical Asset Turnover (%)	20-40	93-108	25-45	40
Annual Typical Name Turnover (%)	20-40	N/A	N/A	N/A
Max <BBB Credit (%)	N/A	100	N/A	N/A
Maximum Foreign Exposure (%)	40	20	greater of 2x the Index weight or 25%	10
Maximum Cash Allocation (%)	5	5	20	5
Derivatives Used?	Yes	Yes	No	Yes

All data represents AndCo's view and may differ from the manager's interpretation.

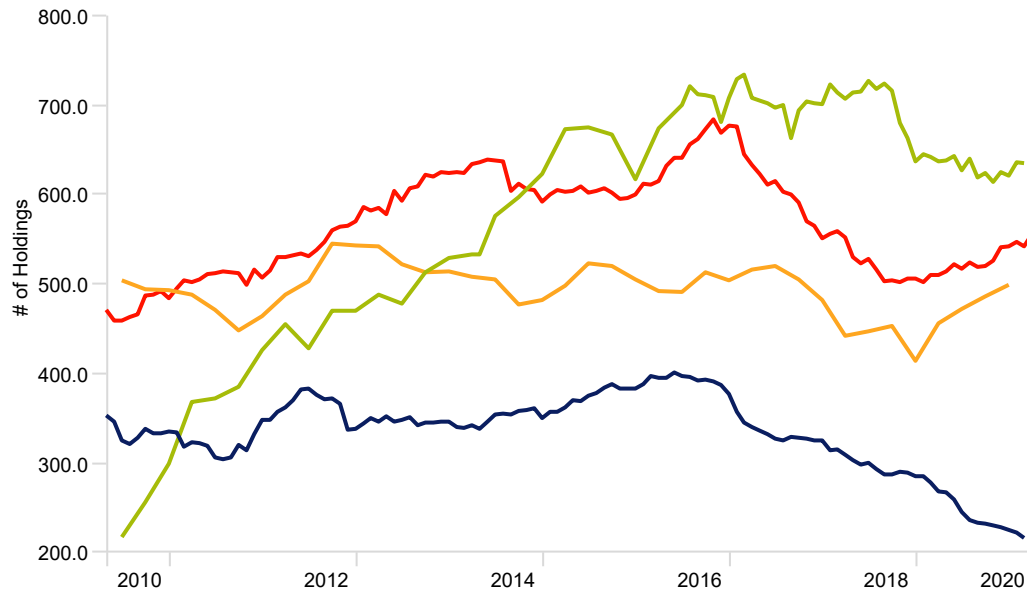


	Loomis Sayles Instl High Income	Lord Abbett High Yield I	MainStay MacKay High Yield Corp Bd I	PGIM High Yield Z
COMPOSITION				
# of Holdings	216	635	499	556
% Asset in Top 10 Holdings	28.54	7.81	7.58	9.48
Asset Alloc Cash %	6.40	0.11	4.81	11.42
Asset Alloc Equity %	13.27	3.06	1.88	0.32
Asset Alloc Bond %	72.28	93.89	92.06	87.73
Asset Alloc Other %	8.05	2.95	1.25	0.52
STATISTICS				
Average Eff Duration	2.75	4.59	2.55	3.84
Average Eff Maturity	3.77	6.77	5.13	
Average Coupon	5.69	6.18	6.26	6.57
Yield to Maturity	6.84	7.11	5.56	10.68
Average Credit Quality	BB	B	B	B
SECTOR ALLOCATION				
Government %	19.03	0.25	0.00	0.00
Government Related %	0.07	0.67	0.00	0.14
Municipal Taxable %	0.00	0.00	0.00	0.00
Municipal Tax-Exempt %	0.00	0.00	0.00	0.00
Bank Loan %	0.01	7.20	2.25	6.88
Corporate Bond %	52.29	84.74	89.60	73.96
Agency Mortgage-Backed %	0.00	0.00	0.00	0.00
Non-Ag. Res. Mortgage-Backed %	0.00	0.00	0.00	0.00
Commercial Mortgage-Backed %	0.00	0.27	0.00	0.00
Asset-Backed %	0.88	0.54	0.00	6.36
Cash & Equivalents %	6.40	0.11	4.64	11.42

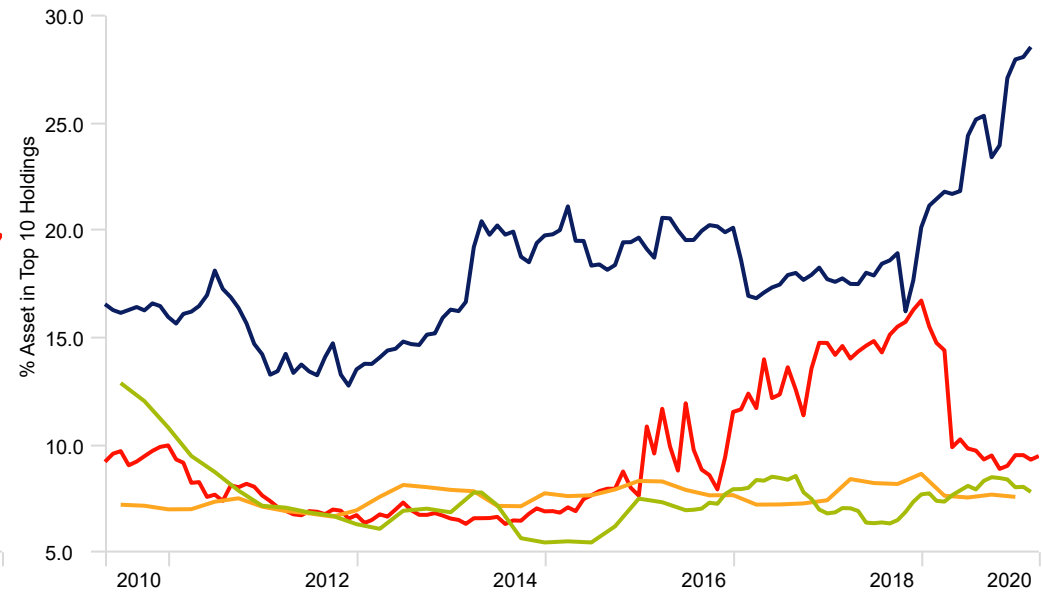
As of 3/31/2020

	Loomis Sayles Instl High Income	Lord Abbett High Yield I	MainStay MacKay High Yield Corp Bd I	PGIM High Yield Z
MATURITY DISTRIBUTION				
Maturity 1-3 Yr %	13.17	3.53	13.00	8.19
Maturity 3-5 Yr %	17.26	18.79	22.68	20.14
Maturity 5-7 Yr %	12.71	39.40	34.60	29.47
Maturity 7-10 Yr %	10.13	26.35	19.51	24.22
Maturity 10-15 Yr %	7.92	2.73	2.51	2.64
Maturity 15-20 Yr %	7.83	0.90	0.00	1.50
Maturity 20-30 Yr %	3.44	2.87	0.01	1.33
Maturity 30+ Yr %	0.09	0.24	0.00	0.00
QUALITY DISTRIBUTION				
Credit Qual AAA %	15.79	0.00	0.00	15.78
Credit Qual AA %	0.00	0.00	0.00	0.00
Credit Qual A %	3.48	0.23	0.15	0.00
Credit Qual BBB %	7.40	3.31	7.48	3.24
Credit Qual BB %	30.14	38.64	50.55	32.07
Credit Qual B %	20.13	39.14	29.52	34.52
Credit Qual Below B %	6.85	16.25	12.30	13.40
Credit Qual Not Rated %	16.22	2.44	0.00	1.00

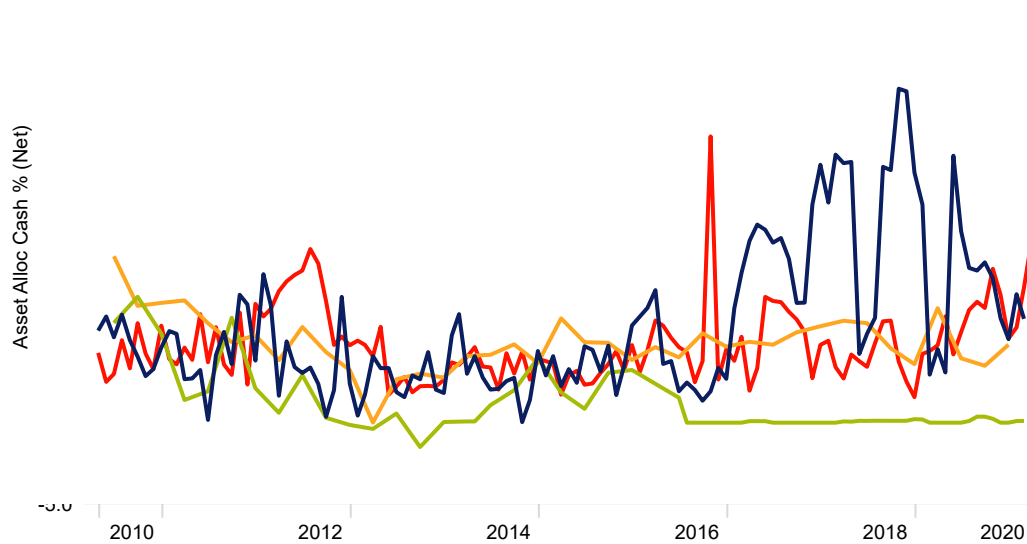
Historical Number of Holdings



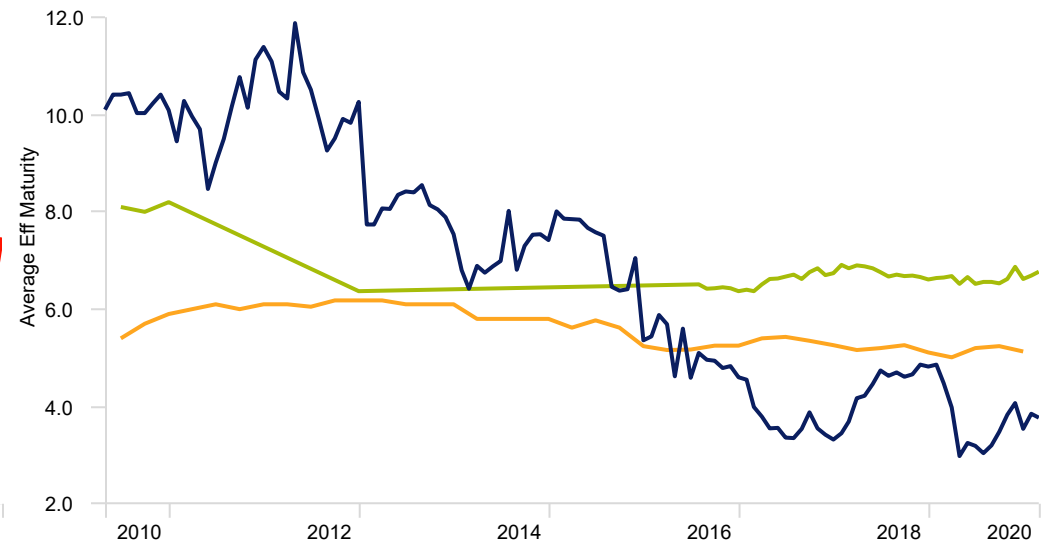
Historical Percentage of Assets in Top 10 Holdings



Historical Cash Allocation



Historical Effective Maturity



— Loomis Sayles Instl High Income

— Lord Abbett High Yield I

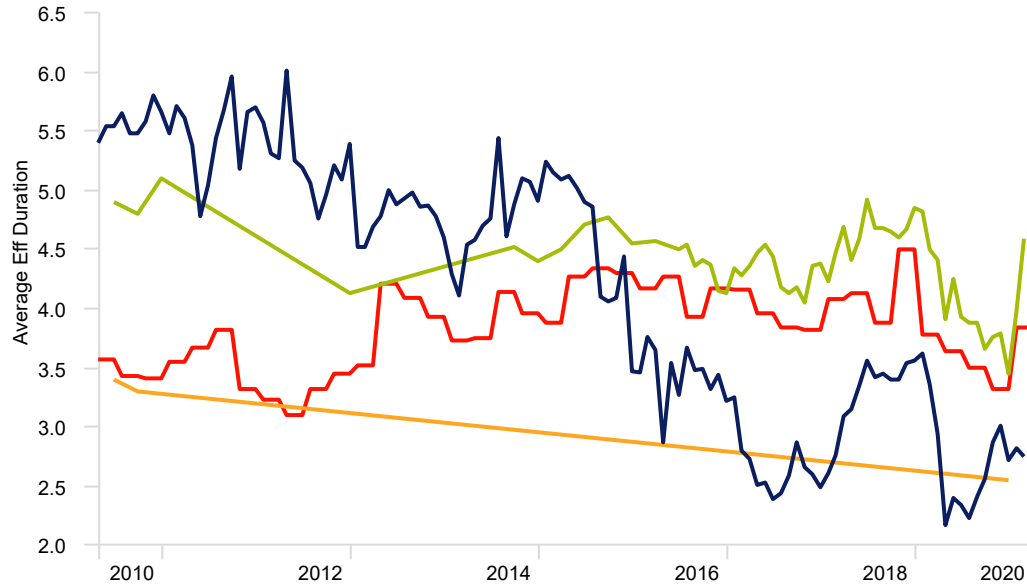
— MainStay MacKay High Yield Corp Bd I

— PGIM High Yield Z

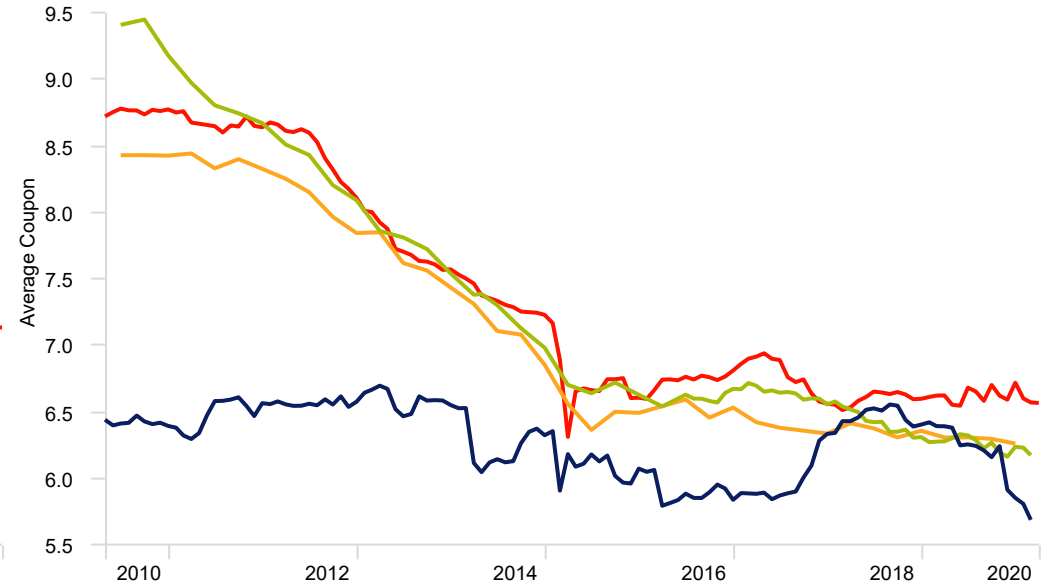
— ICE BofA US High Yield TR USD



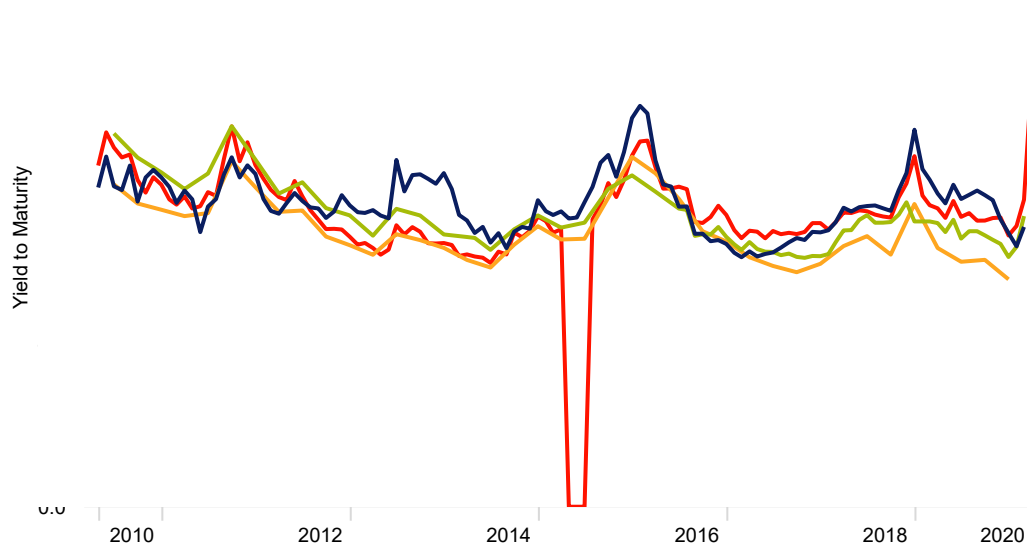
Historical Average Effective Duration



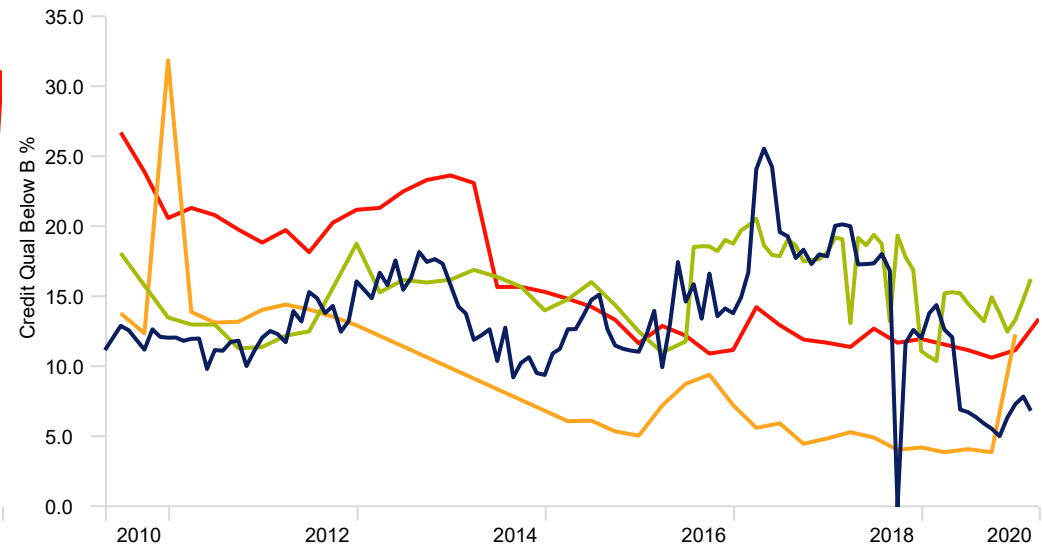
Historical Average Coupon



Historical Yield to Maturity



Historical Highly Speculative Exposure



— Loomis Sayles Instl High Income
 — PGIM High Yield Z

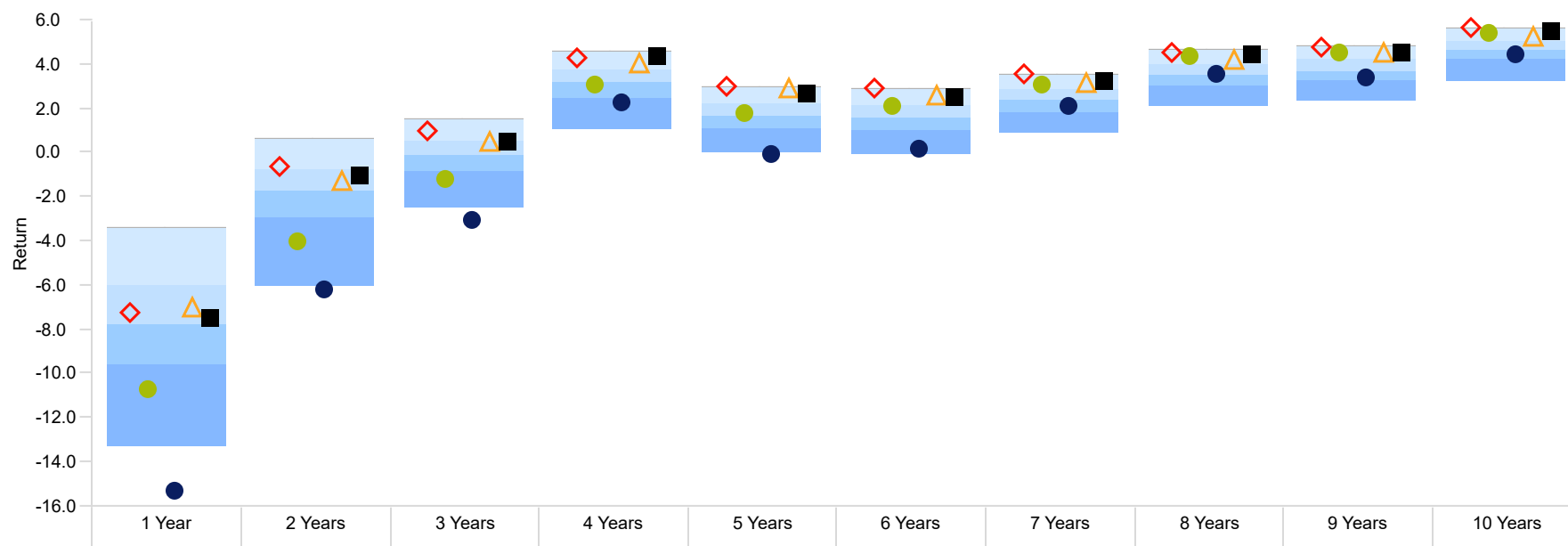
— Lord Abbett High Yield I

— MainStay MacKay High Yield Corp Bd I



Quantitative Review

Peer Group (5-95%): Open End Funds - U.S. - High Yield Bond



	1 Year	Rank	2 Years	Rank	3 Years	Rank	4 Years	Rank	5 Years	Rank	6 Years	Rank	7 Years	Rank	8 Years	Rank	9 Years	Rank	10 Years	Rank
Loomis Sayles Instl High Income	-15.32	98	-6.17	95	-3.06	96	2.26	81	-0.04	95	0.20	93	2.11	63	3.59	46	3.44	64	4.46	60
Lord Abbett High Yield I	-10.68	83	-3.96	85	-1.19	81	3.07	54	1.80	44	2.15	26	3.07	17	4.36	12	4.56	9	5.40	9
MainStay MacKay High Yield Corp Bd I	-6.96	38	-1.24	35	0.55	24	4.06	15	2.95	6	2.65	9	3.21	11	4.22	17	4.52	10	5.27	16
PGIM High Yield Z	-7.20	42	-0.59	22	0.98	13	4.28	9	3.03	5	2.91	5	3.56	3	4.56	7	4.78	5	5.66	5
ICE BofA US High Yield TR USD	-7.45	45	-0.98	31	0.55	24	4.41	7	2.67	11	2.57	10	3.26	9	4.44	10	4.57	9	5.50	8

● Loomis Sayles Instl High Income

● Lord Abbett High Yield I

△ MainStay MacKay High Yield Corp Bd I

◇ PGIM High Yield Z

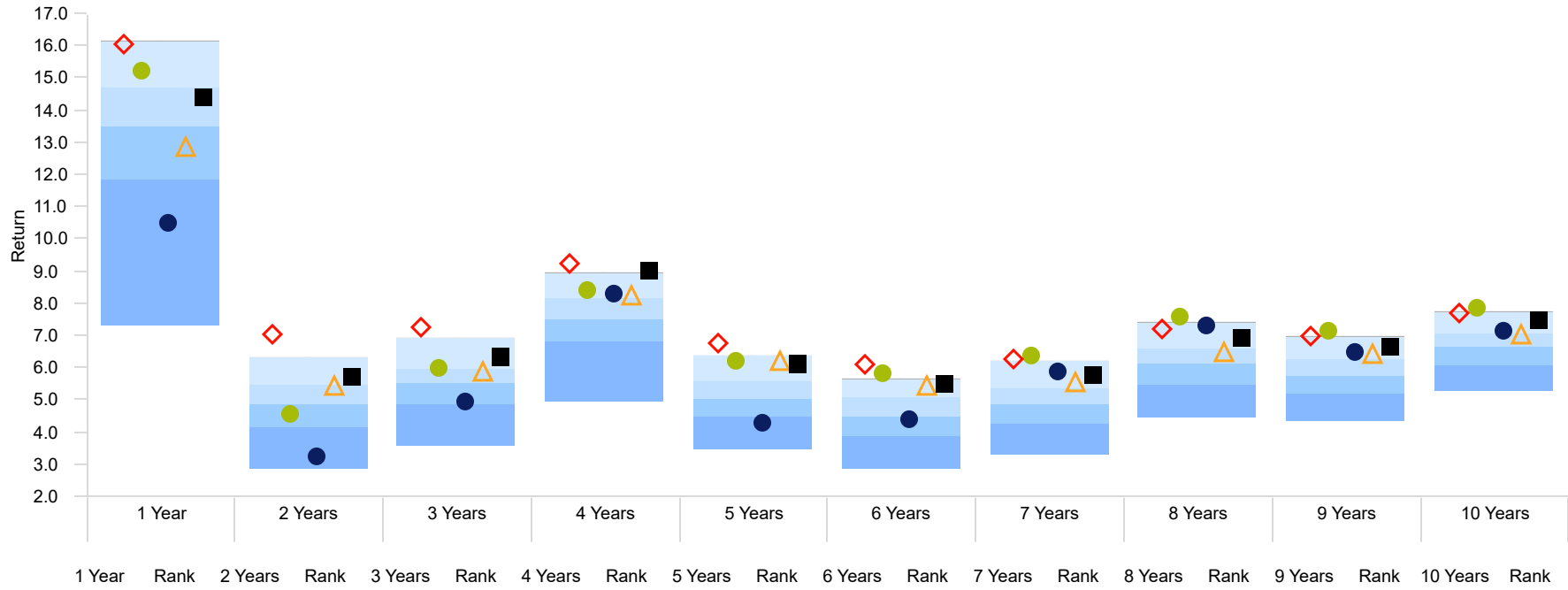
■ ICE BofA US High Yield TR USD

Returns Net of Fees.

Performance data shown prior to fund's inception date represents extended performance of an older share class of the same strategy.



Peer Group (5-95%): Open End Funds - U.S. - High Yield Bond



● Loomis Sayles Instl High Income

● Lord Abbett High Yield I

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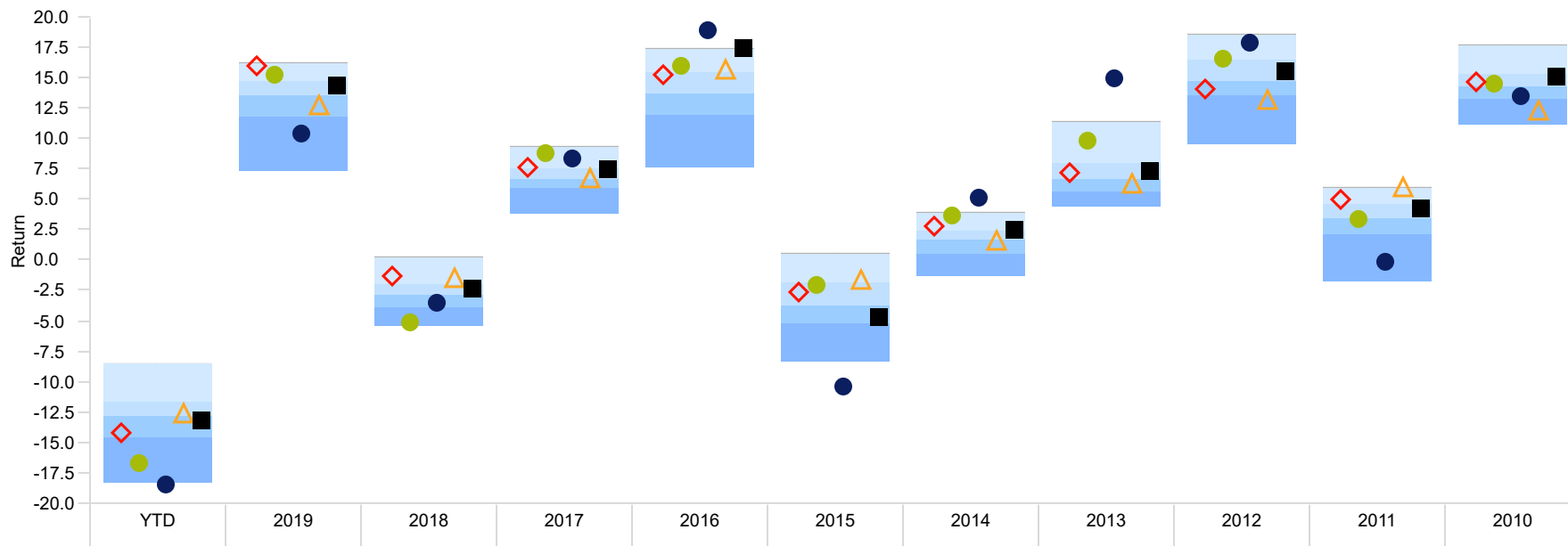
■ ICE BofA US High Yield TR USD

Returns Net of Fees.

Performance data shown prior to fund's inception date represents extended performance of an older share class of the same strategy.



Peer Group (5-95%): Open End Funds - U.S. - High Yield Bond



	YTD	Rank	2019	Rank	2018	Rank	2017	Rank	2016	Rank	2015	Rank	2014	Rank	2013	Rank	2012	Rank	2011	Rank	2010	Rank
Loomis Sayles Instl High Income	-18.43	95	10.53	83	-3.52	67	8.40	11	18.95	3	-10.27	97	5.17	1	15.07	1	17.98	10	-0.08	92	13.60	66
Lord Abbett High Yield I	-16.67	91	15.25	15	-5.06	91	8.85	8	16.04	16	-2.02	27	3.68	8	9.90	11	16.69	22	3.38	51	14.53	43
MainStay MacKay High Yield Corp Bd I	-12.56	42	12.85	62	-1.46	18	6.79	47	15.78	21	-1.60	20	1.72	48	6.35	58	13.27	81	6.03	5	12.45	87
PGIM High Yield Z	-14.17	66	16.08	6	-1.29	16	7.76	21	15.30	27	-2.59	36	2.84	19	7.23	36	14.16	65	5.07	16	14.72	38
ICE BofA US High Yield TR USD	-13.12	52	14.41	31	-2.26	31	7.48	27	17.49	5	-4.64	65	2.50	25	7.42	33	15.58	36	4.38	28	15.19	28

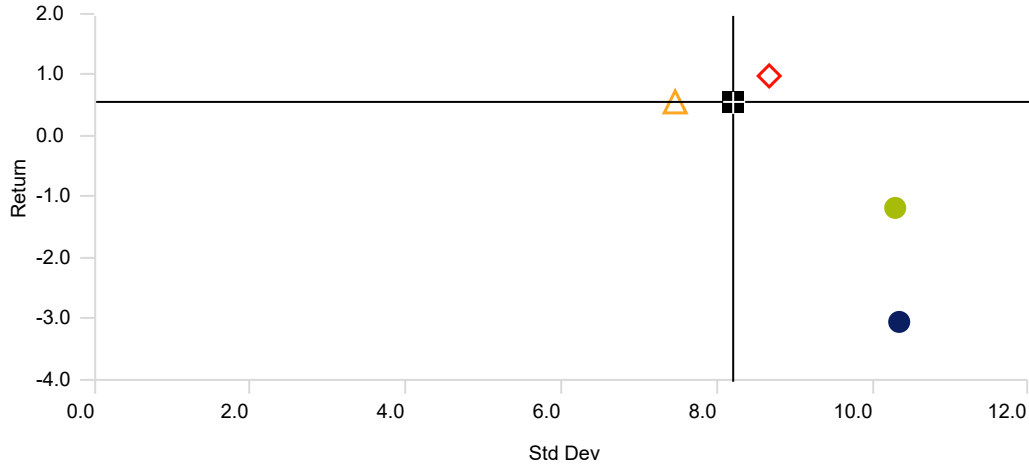
- Loomis Sayles Instl High Income
- Lord Abbett High Yield I
- ▲ MainStay MacKay High Yield Corp Bd I
- ◆ PGIM High Yield Z
- ICE BofA US High Yield TR USD



Risk-Reward: 3-Year

Time Period: 4/1/2017 to 3/31/2020

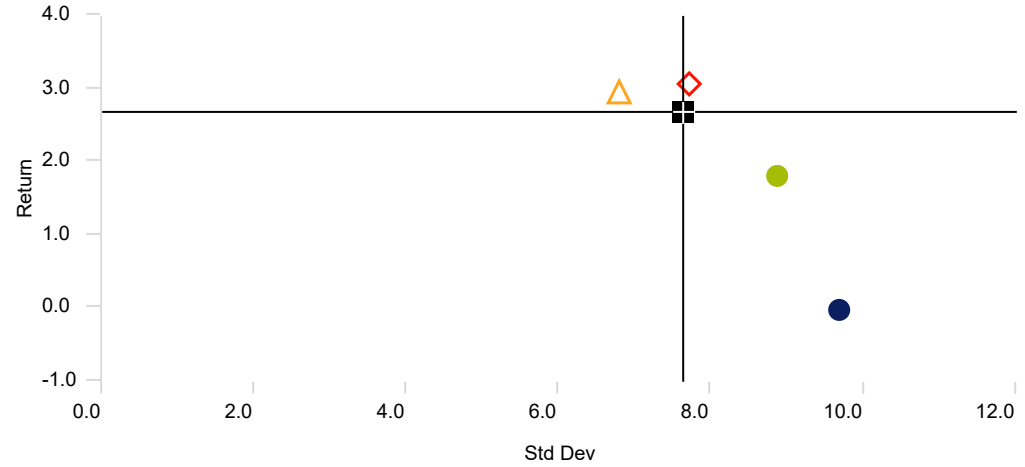
Calculation Benchmark: ICE BofA US High Yield TR USD



Risk-Reward: 5-Year

Time Period: 4/1/2015 to 3/31/2020

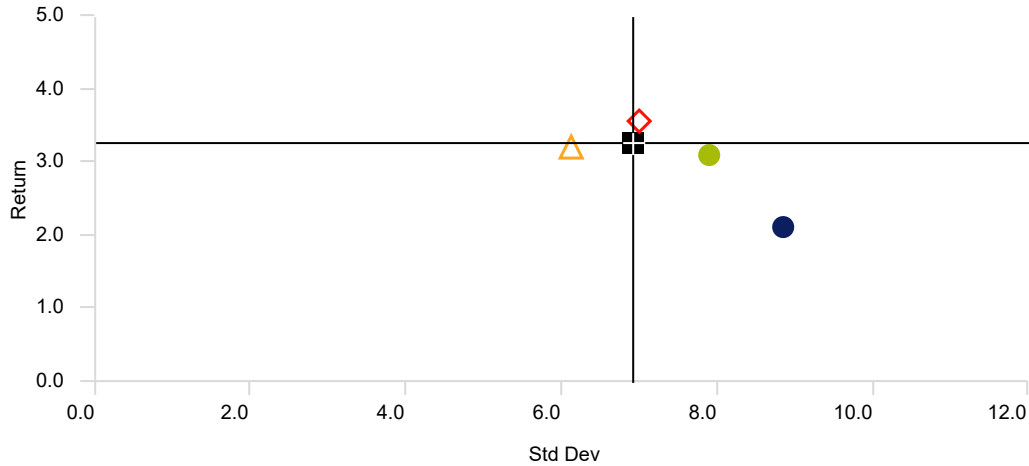
Calculation Benchmark: ICE BofA US High Yield TR USD



Risk-Reward: 7-Year

Time Period: 4/1/2013 to 3/31/2020

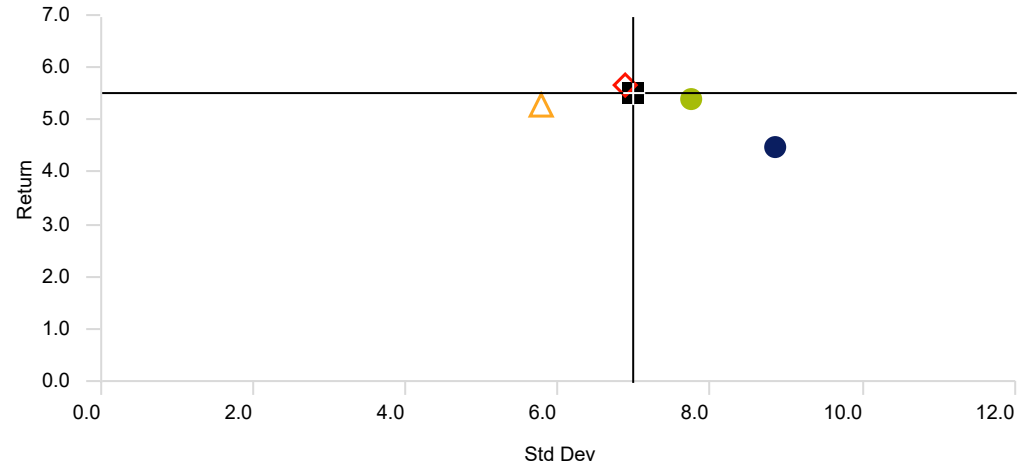
Calculation Benchmark: ICE BofA US High Yield TR USD



Risk-Reward: 10-Year

Time Period: 4/1/2010 to 3/31/2020

Calculation Benchmark: ICE BofA US High Yield TR USD



● Loomis Sayles Instl High Income

● Lord Abbett High Yield I

△ MainStay MacKay High Yield Corp Bd I

◇ PGIM High Yield Z

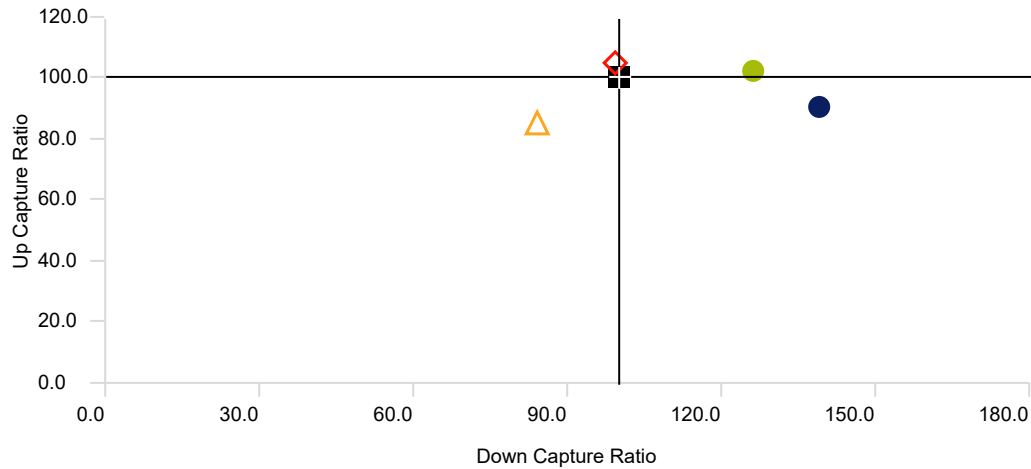
■ ICE BofA US High Yield TR USD



Up and Down Market Capture: 3-Year

Time Period: 4/1/2017 to 3/31/2020

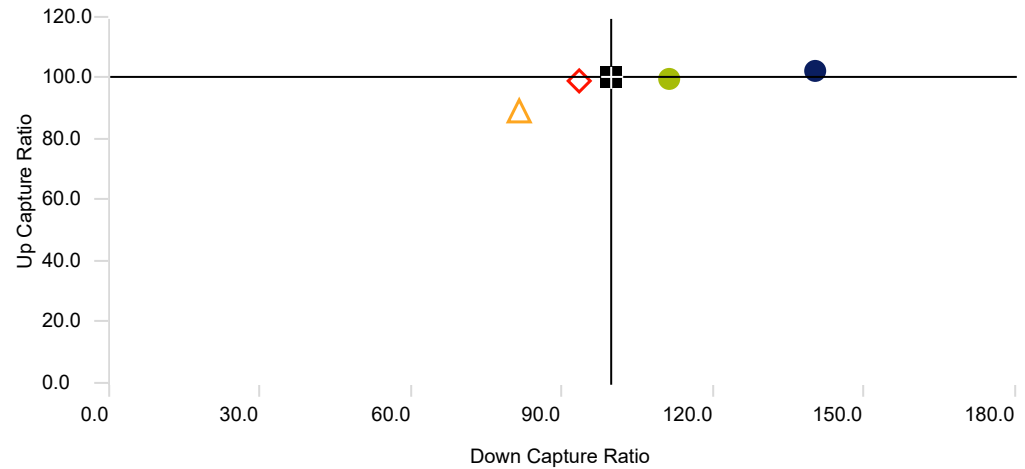
Calculation Benchmark: ICE BofA US High Yield TR USD



Up and Down Market Capture: 5-Year

Time Period: 4/1/2015 to 3/31/2020

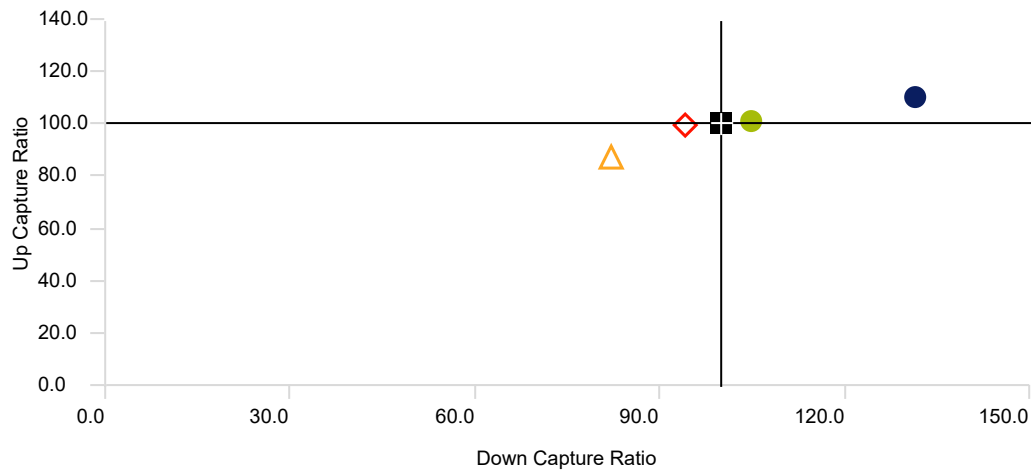
Calculation Benchmark: ICE BofA US High Yield TR USD



Up and Down Market Capture: 7-Year

Time Period: 4/1/2013 to 3/31/2020

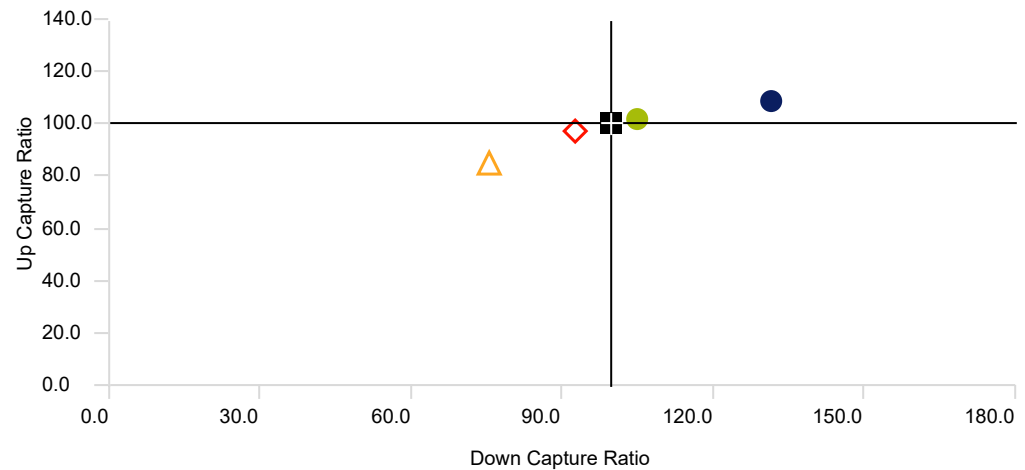
Calculation Benchmark: ICE BofA US High Yield TR USD



Up and Down Market Capture: 10-Year

Time Period: 4/1/2010 to 3/31/2020

Calculation Benchmark: ICE BofA US High Yield TR USD



● Loomis Sayles Instl High Income

● Lord Abbett High Yield I

△ MainStay MacKay High Yield Corp Bd I

◇ PGIM High Yield Z

■ ICE BofA US High Yield TR USD



MPT Statistics: 3-Year

Time Period: 4/1/2017 to 3/31/2020 Calculation Benchmark: ICE BofA US High Yield TR USD

	Loomis Sayles Instl High Income	Lord Abbett High Yield I	MainStay MacKay High Yield Corp Bd I	PGIM High Yield Z	ICE BofA US High Yield TR USD
Return	-3.06	-1.19	0.55	0.98	0.55
Excess Return	-3.61	-1.74	0.00	0.43	0.00
Std Dev	10.35	10.29	7.47	8.67	8.22
Beta	1.24	1.25	0.90	1.05	1.00
Tracking Error	2.76	2.34	1.20	0.91	0.00
Sharpe Ratio	-0.47	-0.29	-0.16	-0.09	-0.15
Alpha	-3.24	-1.32	-0.14	0.51	0.00
Information Ratio	-1.31	-0.74	0.00	0.47	
Batting Average	33.33	44.44	52.78	63.89	100.00
Up Capture Ratio	90.32	102.41	85.25	104.90	100.00
Down Capture Ratio	138.96	126.03	84.32	99.46	100.00

MPT Statistics: 5-Year

Time Period: 4/1/2015 to 3/31/2020 Calculation Benchmark: ICE BofA US High Yield TR USD

	Loomis Sayles Instl High Income	Lord Abbett High Yield I	MainStay MacKay High Yield Corp Bd I	PGIM High Yield Z	ICE BofA US High Yield TR USD
Return	-0.04	1.80	2.95	3.03	2.67
Excess Return	-2.71	-0.87	0.28	0.36	0.00
Std Dev	9.70	8.87	6.80	7.74	7.64
Beta	1.24	1.14	0.88	1.00	1.00
Tracking Error	2.76	1.97	1.33	1.00	0.00
Sharpe Ratio	-0.12	0.07	0.26	0.24	0.20
Alpha	-2.92	-0.99	0.42	0.36	0.00
Information Ratio	-0.98	-0.44	0.21	0.36	
Batting Average	35.00	48.33	55.00	60.00	100.00
Up Capture Ratio	102.39	99.53	89.19	98.91	100.00
Down Capture Ratio	140.22	111.22	81.64	93.61	100.00

MPT Statistics: 7-Year

Time Period: 4/1/2013 to 3/31/2020 Calculation Benchmark: ICE BofA US High Yield TR USD

	Loomis Sayles Instl High Income	Lord Abbett High Yield I	MainStay MacKay High Yield Corp Bd I	PGIM High Yield Z	ICE BofA US High Yield TR USD
Return	2.11	3.07	3.21	3.56	3.26
Excess Return	-1.15	-0.19	-0.06	0.30	0.00
Std Dev	8.85	7.89	6.12	7.00	6.92
Beta	1.24	1.12	0.88	1.00	1.00
Tracking Error	2.84	1.75	1.23	0.89	0.00
Sharpe Ratio	0.14	0.28	0.39	0.39	0.35
Alpha	-1.58	-0.41	0.22	0.29	0.00
Information Ratio	-0.40	-0.11	-0.05	0.34	
Batting Average	42.86	51.19	51.19	57.14	100.00
Up Capture Ratio	109.82	101.30	87.29	99.10	100.00
Down Capture Ratio	131.37	104.67	82.08	94.25	100.00

MPT Statistics: 10-Year

Time Period: 4/1/2010 to 3/31/2020 Calculation Benchmark: ICE BofA US High Yield TR USD

	Loomis Sayles Instl High Income	Lord Abbett High Yield I	MainStay MacKay High Yield Corp Bd I	PGIM High Yield Z	ICE BofA US High Yield TR USD
Return	4.46	5.40	5.27	5.66	5.50
Excess Return	-1.04	-0.10	-0.23	0.16	0.00
Std Dev	8.86	7.76	5.80	6.88	6.98
Beta	1.21	1.09	0.82	0.98	1.00
Tracking Error	3.00	1.61	1.65	0.90	0.00
Sharpe Ratio	0.43	0.62	0.80	0.73	0.70
Alpha	-1.91	-0.49	0.62	0.26	0.00
Information Ratio	-0.35	-0.06	-0.14	0.18	
Batting Average	45.00	53.33	45.83	53.33	100.00
Up Capture Ratio	108.87	101.87	84.90	97.35	100.00
Down Capture Ratio	131.73	104.86	75.76	92.75	100.00

Investment Option Narratives

Firm Overview

Loomis Sayles & Company, was founded in 1926 and is a wholly-owned subsidiary of Natixis Global Asset Management, L.P., the US-based subsidiary of Natixis which is based in Paris, France. Headquartered in Boston, Massachusetts, Loomis Sayles maintains offices in San Francisco, Detroit, London and Singapore and employs more than 675 professionals. The firm manages in excess of \$260 billion in AUM across a variety of equity, fixed income and multi-asset strategies.

Team Overview

The Full Discretion (FD) team is responsible for management of the High Yield Full Discretion strategy. The members are Daniel J. Fuss, Matthew J. Eagan and Elaine Stokes. The aforementioned portfolio managers have been with Loomis for an average of nearly 40 years. Fuss and Stokes have worked on the product since its inception in 1989. In total, they manage over \$60 billion across several Loomis products.

Strategy Overview

Loomis believes inefficiencies exist in the high yield market and that a process based on in-depth, fundamental research can, over a full credit cycle, lead to returns in excess of the market. As a result, the FD team will consistently allocate to non-benchmark sectors such as convertibles, non-U.S. dollar, sovereign, and preferred securities. The cornerstone of Loomis' investment process is the fundamental, bottom-up research conducted by their 30+ member Credit and 5+ member Sovereign Research teams. Between the two groups, research coverage extends to over 1,000 corporate issuers and 80+ countries. Each analyst is assigned coverage of all names, regardless of location or credit quality, within an industry. Loomis' fundamental research culminates in an internal credit rating that is independent of the rating agencies. Loomis believes their ratings are more forward looking than the standard Moody's, S&P, and Fitch because their opinions include a trend for the company as well as a rating.

The investment process consists of three main components: Macro, Portfolio Construction and Risk Management. Loomis' top-down views are developed through a collaborative process of several groups within the Loomis organization. The Macro Strategies group meets regularly with Loomis' chief economist and other investment professionals to discuss economic, geo-political, and market news. In a similar fashion, the Sovereign group meets and is charged with evaluating similar macro questions. Each group presents their thoughts at a monthly Global Asset Allocation meeting where macro and market outlooks are debated. In the end, the macro process is designed to provide a framework and outlook to be used by Loomis' sector and product teams....

Expectations

The Loomis High Yield Full Discretion portfolio will likely produce the strongest returns during strong and flat credit markets. These markets allow the fundamental, relative value process to add value via their security selection. The team's use of non-benchmark securities may lead to outperformance during periods when U.S. high yield market de-couples from the strategy's out of benchmark holdings.

Periods of economic weakness and stress in the financial markets will generally produce the greatest headwinds for the High Yield Full Discretion strategy. The poor liquidity resulting from fear and market technicals may not fully reflect the value of Loomis' holdings.

Points to Consider

The strategy's large AUM base, combined with off-benchmark exposures, may be subject to periods where liquidity can be challenged.

Dan Fuss is over 80 years old. While the strategy is in able hands with Stokes and Eagan, when Fuss retires, inevitably a certain percentage of current investors will terminate their relationship with this strategy. This could create selling pressure for the bonds in the portfolio, which would negatively impact remaining shareholders. While Fuss' retirement does not appear imminent, this is something clients and prospects should be mindful of.

Recommendation Summary

The High Yield Full Discretion strategy is an unconstrained high yield product that will opportunistically invest in non-benchmark securities such as convertibles, non-USD bonds and preferred securities. The strategy is a full-compliment approach, meaning it will most likely fail to preserve capital in flight to quality environments as it maintains significant spread duration over Treasuries. The strategy will correlate highly to equities and may not act as a strong diversifier to a client portfolio that is overweight to the equity asset class.

We believe a key differentiator for the strategy is the long-tenured and experienced team led by Dan Fuss. Additionally, the supporting credit research group at Loomis is deep and talented, with extensive credit and sovereign research capabilities. Their broad coverage and expertise allows them to delve into non-traditional asset classes such as convertibles and non-U.S. dollar securities. We believe the strategy is suitable for those clients seeking high potential returns with the ability to withstand higher relative degrees of volatility and the willingness to commit long-term.

Firm Overview

Founded in 1929, Lord Abbett is based in Jersey City, New Jersey with additional office locations in Dublin and London. Since its inception, the firm has amassed almost \$158 billion in AUM across various equity and fixed income strategies. The fixed income segment of the business makes up the majority of the total AUM at about \$117 billion. Ownership is limited to current and former employees.

Team Overview

The team is led by Director of Fixed Income Steve Rocco who co-manages both the Core and Opportunistic products with fellow PM Chris Gizzo. Rocco and Gizzo are long tenured and experienced with 17 and 10 years of experience, respectively. Additionally, the two senior PMs are supported by Kewjin Yuoh and Andrew O'Brien, along with a deep and talented pool of credit research analysts. The credit research team is led by Gregory Parker. As the Director of Global Credit Research, Parker, along with his 27 years of industry experience, is responsible for the firm's 21 other credit research analysts. Each analyst should be considered an industry specialist because each analyst is responsible for their assigned industries across investment grade and high yield issues and bank loans.

Strategy Overview

The team takes a blended approach to portfolio construction. Beginning with the top-down, the team evaluates macroeconomic and capital market conditions. This viewpoint forms the basis for the high yield bond market's outlook along with sectors and relative value viewpoints. During the formation of the top-down viewpoint, formal strategy meetings including both equity and fixed income teams are held to discuss and debate key issues. Importantly, the resulting top-down view guides credit quality distribution, industry positioning, and the strategy's overall risk profile. The team asserts the importance of getting the top-down call right as a critical component of the investment process as well as the ability to perform well in both up and down markets. For our part, TRG believes the incorporation of the top-down process is a distinguishing characteristic amongst its peers. Meanwhile, the goals of the fundamental research are stated as follows: a) an understanding of the metrics of the industry; b) the state of the balance sheet; c) the quality of assets on the balance sheet; d) the quality and trustworthiness of management teams and their insightfulness in responding to changes in their industry; and e) financing needs relative to the liquidity of the investment market. Research analysts are divided by sectors and typically cover more than one industry. Analysts cover the full capital structure of the issuer and utilize a variety of sources in compiling the needed fundamental information to include; SEC filings and annual reports, frequent management meetings and onsite visits. Additionally, meetings with suppliers, customers and competitors are made with the intent to not only better understand the company being researched but is valuable in deepening the analyst's understanding of the industry and potential macro trends within. Finally, the team utilizes a proprietary spread model to assess relative valuations based on ratings and maturity and comparing them to market pricing, which results in a rich/cheap metric. Risk management is handled by the firm's proprietary quantitative risk reporting tool which helps to ensure t...

Expectations

During periods of stable or improving market conditions, the Core strategy should be expected to lag more aggressive peers who allocate more generously to lower quality issuers. Generally, the strategy will remain biased towards BB and B rated bonds, which carry lower coupons compared to CCC or lower rated bonds. Additionally, the Core strategy will most likely not benefit as much during periods of credit spread tightening as market conditions improve. Conversely, the Opportunistic strategy should be expected to benefit during these periods given its expanded opportunity.

Given the team's approach to capital preservation, we would expect the Core strategy to add value relative to the benchmark by remaining biased towards higher quality credits. While the Opportunistic strategy has the ability to tactically rotate up in the credit spectrum, investors should expect higher degrees of volatility given the off-benchmark exposures and allocation to CCC and below rated securities.

Points to Consider

The firm has seen volatility in the leadership of some of its other teams, particularly on the equity side. Although, the high yield team has shown more stability on this front. Rocco and Gizzo have held their current roles since 2010 and 2008, respectively. Additionally, Rocco, Yuoh and O'Brien are all partners in the firm. Importantly, on the credit research side, both Parker and Scura are also named partners at Lord Abbett.

While the team employs many qualified and experienced professionals, we believe that Steve Rocco's status as the final decision maker opens the door for a certain amount of key man risk. Furthermore, his status as the firm's Director of Fixed Income only bolsters this concern. Consequently, if Rocco were to cease managing either of the firm's high yield products, for any reason, we would re-evaluate our current recommendation. During our conversation, though, Rocco expressed no intention of leaving his current roles into the foreseeable future.

Recommendation Summary

We recommend both the Lord Abbett High Yield Core and High Yield Opportunistic strategies for client use. The team, which is led by Director of Fixed Income and PM Steve Rocco, manages both strategies in a combination top-down and bottom-up approach. The key differentiator for the strategies is the investment process which is designed to participate in up markets while limiting drawdowns during dislocations. The approach utilizes Lord Abbett's proprietary risk management system which measures and monitors a number of metrics, such as interest rate and credit exposures, while limiting industry and issuer concentration within the portfolios. A secondary goal of the system is its ability to add value through relative value determinations. Importantly, we believe the investment team is well-resourced and commands the skills necessary to continue meeting client expectations into the future. In addition to our confidence in the team's leadership and process, we believe that the Core strategy is suitable for clients who desire a broad exposure to fixed income markets to include high yield bonds while still being managed in a benchmark-aware approach.

For clients seeking a higher risk, higher reward option, the Opportunistic strategy employs more off-benchmark exposures, at times taking material exposures to equity and bank loans securities. Rocco and the team attempt to do this without assuming excessive risk. Said differently, although the Opportunistic strategy takes on more risk than the Core strategy, the team is still concerned with providing a measure of downside protection in the Opportunistic strategy. The two strategies are offered in several vehicles types with the Core product offering separate account and commingled options and the Opportunistic strategy being delivered in either separate account or mutual fund form. Additionally, fees are competitive for all vehicles offered. Given these things, we feel that both the Core and Opportunistic strategies can serve as either standalone exposures in the space, or ...

Firm Overview

MacKay Shields was founded in 1938 as an economic consulting firm and became a registered investment advisor in 1969. The firm was purchased by New York Life Investment Management (NYLIM) in 1984, and continues to operate as a separate firm within NYLIM's portfolio of asset management companies which include: MainStay Investments, Madison Capital Partners and GoldPoint Partners. In 2004, MacKay Shields purchased Pareto Partners in an effort to boost their capability in high yield and municipal bonds.

Today, MacKay Shields manages in excess of \$98 billion in AUM. The firm is headquartered in New York and employs more than 200 employees with more than fifty dedicated investment professionals. In addition to New York, the firm has offices in Princeton, NJ and London.

Team Overview

MacKay's High Yield team is composed of roughly 15 investment professionals. Head of High Yield and Lead Portfolio Manager Andrew Susser is the final decision-maker on the product. He is supported by eight industry analysts who are charged with conducting bottom-up fundamental analysis. Susser and the industry analysts are highly experienced with more than 215 years investment experience. The senior investors are supported by two generalists, two experienced traders, a trade assistant and a Client PM. Importantly, the team also has access to MacKay's broader research base.

Strategy Overview

MacKay's investment philosophy is rooted in the belief that the return profile of bonds is asymmetric with limited upside while retaining the potential to suffer significant losses. As such, the team employs a rigorous, fundamentally driven investment process designed to avoid deteriorating credits while ensuring investors are properly compensated for the risk taken. The key feature of this process is the disciplined, bottom-up, value-oriented approach that is designed to identify those companies they believe have a margin-of-safety through sufficient asset coverage.

Credit selection is a multi-step process and begins with the full universe of high yield issuers. Those credits that trade with spreads less than 200 basis points over U.S. Treasury bonds are eliminated from consideration. Next, the team conducts a margin-of-safety analysis and considers only those companies with asset coverage of 1.5x and who exhibit strong free cash flows. Next, the team subjectively considers issuers based on their strategic importance within their respective industries and whose management is aligned with investors' interests. Finally, the list is narrowed further with the team seeking to identify those credits that possess a catalyst for positive total return such credit improvement or positive events. Once the list of potential credits has been identified, each is placed into one of four risk groups: Group 1 – highest quality, Group 2 – seasoned issuers, Group 3 – risk credits and Group 4 – special situations. For each group, the analysts adjust their minimum spread requirements to reflect assumptions for long-term default rates. The required minimum spread for a Group 1 is 200 basis points (bps), Group 2 (300 bps), Group 3 (500 bps) and Group 4 requiring significant discount to asset value. This final, risk management, step in portfolio construction is vital to the team's discipline and downside protection. The process is not overly complex but extensive and repeatable.

Expectations

During periods of stable or improving market conditions, the strategy should be expected to lag more aggressive peers who allocate more generously to lower quality issuers. Given the strategy's bias towards BB and B rated bonds, it will naturally have a lower coupon and not benefit as much should spreads narrow as market conditions improve.

The strategy has historically struggled on absolute basis during periods of increased market volatility marked by credit spread widening. Although, compared to its benchmark, it has been able to add value in terms of downside capital preservation during these adverse periods. These is a key aspect to its value proposition.

Points to Consider

MacKay Shields is wholly-owned subsidiary of New York Life Investment Management (NYLIM). While the relationship is long-standing and MacKay is managed as a standalone boutique, we are cognizant of the fact that ownership of asset managers by insurance companies often leads to issues with regard to the retention of top talent due to the differences in compensation structures and organizational philosophy. That being said, the team at MacKay is comfortable with the current management arrangement and has given no indication of any dissatisfaction with the management arrangement.

The team has experienced turnover in recent years with the departure of Matt Philo, Head of High Yield, in 2014. Philo left to start the high yield business for First State Investors. Susser, who has been with MacKay since 2006, was elevated to lead the team. The team has largely remained intact and stable with no other meaningful departures in recent years.

Recommendation Summary

MacKay's simplified but disciplined approach to security selection stands out in the high yield space. The team's approach begins with the belief that investing in high yield bonds provides limited upside, but comes with the potential for significant losses. The process is designed to ensure investors are paid for the amount of risk taken. Importantly, the team classifies each security considered into one of four risk groups based on the issuers asset coverage capabilities and default potential. Using both metrics in combination, the team sets their own requirements for each risk group's return objectives and avoids those securities that fall short. The framework is robust and repeatable and has historically resulted in strong risk-adjusted returns while providing downside protection.

Another critical advantage is the seasoned and experienced investment team. MacKay's High Yield team is led by Head of High Yield Andrew Susser, who has more than 30 years of high yield experience. Susser is directly supported by eight industry analysts who average more than 20 years of experience with many having served at MacKay for more than 10 years. This level of experience and longevity distinguishes the team from many of their peers in the space. As a result, we believe the combination of the robust investment process, in conjunction with the seasoned team, presents a compelling opportunity for clients considering an exposure to high yield bonds. Furthermore, given the conservative approach with an emphasis in avoiding drawdowns, we believe the strategy is reasonable for clients in need of a standalone option. The strategy is offered in a variety of vehicles including commingled pooled and mutual funds with low minimum investments and reasonable fees.



Firm Overview

Prudential Fixed Income (PFI) is a subsidiary of Prudential Financial, Inc., a publicly traded company (PRU) that traces its roots back to 1875. Prudential Global Investment Management (PGIM) is a registered investment advisor and the largest within PFI. Headquartered in New Jersey, with offices globally, PGIM Fixed Income manages a variety of fixed income mandates with asset under management in excess of \$650 billion, of which nearly \$250 billion are institutional in nature.

Team Overview

The High Yield strategy is headed by Cignarella who maintains final decision-making authority. Within the team, Cignarella is supported by four Sector PMs; Brian Clapp, Ryan Kelly, Robert Spano and Daniel Thorogood along with two dedicated traders. The five PMs combined investment experience is in excess of 110-years. While the management team may be condensed, they work closely with the Global Leveraged Finance Credit Research team. This team is 40+ analysts strong and includes a dedicated U.S. High yield team. In addition, the 50+ members of the risk management and quantitative research team creates and maintains models and analytics used by the PM's as part of the investment and risk management processes.

Strategy Overview

PGIM's philosophy is rooted in the belief that by integrating research and risk management processes, they can achieve consistent excess risk-adjusted returns with high information ratios. To achieve this, the team incorporates both top-down and bottom-up approaches in the portfolio construction process while seeking to limit the strategy's aggregate tracking error to 250 basis points. The team seeks to generate 200 basis points of excess return compared to the Bloomberg Barclays U.S. High Yield Index by focusing on security selection (75%) with support from industry allocation and spread curve positioning (combined 25%). Interest rate risk is low with the team emphasizing neutrality in comparison to the strategy's benchmark.

The investment process is highly disciplined and follows PGIM's six principals of risk-management: 1) disciplined risk budgets, 3) measurement and analysis of daily risk, 3) formal portfolio risk review, 4) daily credit monitoring, 5) compliance oversight, and 6) comprehensive internal controls. Portfolio construction begins with PGIM's senior investment team providing an assessment of macro themes and setting the firm's viewpoints on the market. The output is leveraged by the team to establish the strategy's risk budget which is divided between systematic and "tail" risks. Utilizing a variety of proprietary models, industry specialists conduct research with the goal of producing fundamental values for the issues in the spaces they cover. From there research works with the Sector PM's to identify the best relative value opportunities. Finally, Individual security selection and positioning size are determined by the team's PMs. The resulting portfolio will unsurprisingly be dominated by high yields bonds, making up 85%-95% of the portfolio at any given time. The remaining assets will reside in small allocations to cash and sectors such as Bank Loans and EMD, among others. Idiosyncratic credit risk is primarily controlled through diversification but also by restricting exposures to issuers based on ratings: +/- 2....

Expectations

During periods of stable to improving market conditions, the strategy should be expected to add value primarily through sector and security allocation. The investment process is designed to identify opportunities to increase the overall risk profile of the strategy within the framework which should lead to relative outperformance.

Conversely, the strategy may see poor absolute performance during periods marked by slowing economic growth or severe risk-off events where credit spreads widen significantly. Although, on a relative basis, the risk management process is designed to limit drawdowns while adding value above the benchmark.

Points to Consider

The investment team has been relatively stable in recent years. However, in early 2016, Co-Head of Global Leveraged Finance Paul Appleby retired. While this is a noteworthy departure, it will not impact the management of the High Yield product. Additionally, we are not concerned about team turnover; key personnel tend to stay at PGIM for long periods of time. However, while we do not believe that Cignarella is considering retirement, in the event of his departure we would re-evaluate our recommendation.

The current stated objective of the PGIM High Yield Strategy is +200 bps over Bloomberg Barclays U.S. High Yield Index. Though not finalized, the team has expressed that the current objective will be reduced in the near future, to a more reasonable goal. While we are wary of changing objectives, we would rather see a firm adjust goals and stick to their knitting rather than vice versa.

PGIM is a subsidiary of Prudential Financial, a large multi-national insurance firm. Publicly traded insurance firms inherently face a number of regulatory and profitability issues in addition to market pressures. Although the parent company is well-resourced and has a large AUM base, there is a level of headline risk associated wi...

Recommendation Summary

We believe PGIM's High Yield strategy offers clients a unique and differentiated option within the space. The primary differentiator is PGIM's risk management process which is designed to guide the allocation of risk across portfolio and with the goal of limiting potential drawdowns. The process imposes thresholds on sectors, issuers, industries and other risk factors and acts as a guardrail for the strategy by limiting tracking error. The approach is time-tested, robust and repeatable. As such, we believe that the strategy is appropriate for clients considering a dedicated exposure to the high yield credit space but desire a strategy that can provide downside protection during periods of spread widening. The strategy's combination top-down and bottom-up approaches, in addition to the risk framework, are designed to provide investors with consistent excess returns over a variety of market conditions. The strategy is offered in a variety of vehicles with competitive fees.

Alpha - A measure of the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by beta.

Batting Average – A measure of a manager's ability to consistently beat the market. It is calculated by dividing the number of months in which the manager beat or matched an index by the total number of months in the period.

Best Quarter- This is the highest quarterly (3 month) return of the investment since its inception.

Beta - A measure of the sensitivity of a portfolio to the movements in the market. It is a measure of the portfolio's systematic risk.

Down Period Percent - Number of months below 0 divided by the total number of months.

Downmarket Capture Ratio - The ratio of average portfolio performance over the designated benchmark during periods of negative returns. A lower value indicates better product performance.

Downside Std Dev - This measures only deviations below a specified benchmark.

Excess Return- This is a measure of an investment's return in excess of a benchmark.

Information Ratio - This calculates the value-added contribution of the manager and is derived by dividing the excess rate of return of the portfolio by the tracking error. The higher the Information Ratio, the more the manager has added value to the portfolio.

Longest Down-Streak Return - Return for the longest series of negative monthly returns.

Longest Down-Streak # of Periods - Longest series of negative monthly returns.

Longest Up-Streak Return - Return for the longest series of positive monthly returns.

Longest Up-Streak - Longest series of positive monthly returns.

Kurtosis - Kurtosis indicates the peakedness of a distribution. For normal distribution, Kurtosis is 3.

Max Drawdown - The peak to trough decline during a specific record period of an investment or fund. It is usually quoted as the percentage between the peak to the trough.

Max Drawdown # of Periods - This is the number of months that encompasses the max drawdown for an investment.

R-Squared - The percentage of a portfolio's performance that can be explained by the behavior of the appropriate benchmark. A high R-Squared means the portfolio's performance has historically moved in the same direction as the appropriate benchmark.

Return - Compounded rate of return for the period.

Sharpe Ratio - Represents the excess rate of return over the risk free return divided by the standard deviation of the excess return. The result is an absolute rate of return per unit of risk. A higher value demonstrates better historical risk-adjusted performance.

Skewness - Skewness reflects the degree of asymmetry of a distribution. If the distribution has a longer left tail, the function has negative skewness. Otherwise, it has positive skewness. A normal distribution

is symmetric with skewness 0.

Sortino Ratio - The Sortino Ratio is similar to Sharpe Ratio except it uses downside risk (Downside Deviation) in the denominator. It was developed in early 1980's by Frank Sortino. Since upside variability is not necessarily a bad thing, Sortino ratio is sometimes more preferable than Sharpe ratio.

Standard Deviation - A statistical measure of the range of a portfolio's performance. It represents the variability of returns around the average return over a specified time period.

Tracking Error - This is a measure of the standard deviation of a portfolio's excess returns versus its designated market benchmark.

Treynor Ratio - Similar to Sharpe Ratio, Treynor Ratio is a measurement of efficiency utilizing the relationship between annualized risk-adjusted return and risk. Unlike Sharpe Ratio, Treynor Ratio utilizes "market" risk (beta) instead of total risk (standard deviation). Good performance efficiency is measured by a high ratio.

Up period Percent - Number of months above 0 divided by the total number of months.

Upmarket Capture Ratio - The ratio of average portfolio performance over the designated benchmark during periods of positive returns. A higher value indicates better product performance.

Worst Quarter - This is the lowest quarterly (3 month) return of the investment since its inception.

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