

# QUALITY HIGH YIELD FIXED INCOME

**FACT SHEET** | December 31, 2018

## WHY CONSIDER THIS STRATEGY

For investors seeking income and high yield exposure that emphasizes capital preservation and low volatility.

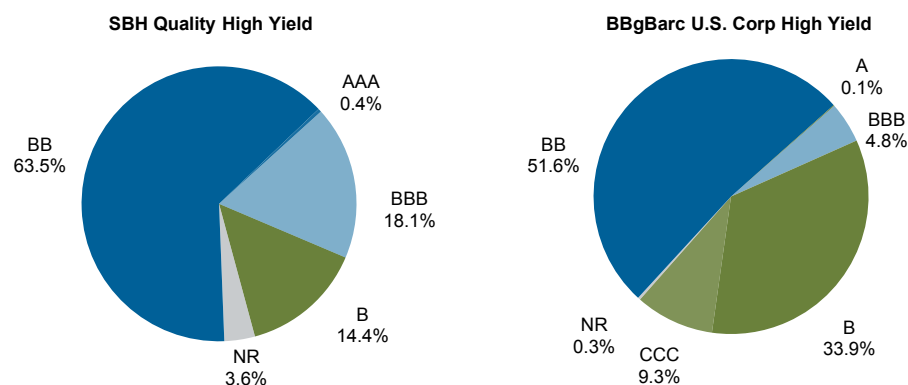
## KEY FEATURES

- Focus on high-quality high yield investments, which generally leads to an emphasis on BB rated bonds.
- Take advantage of inefficiencies created by small issue sizes and rating agency classifications.
- Bottom up bond selection and quality focus create a portfolio that may differ significantly from peers and the benchmark.

## INVESTMENT PHILOSOPHY

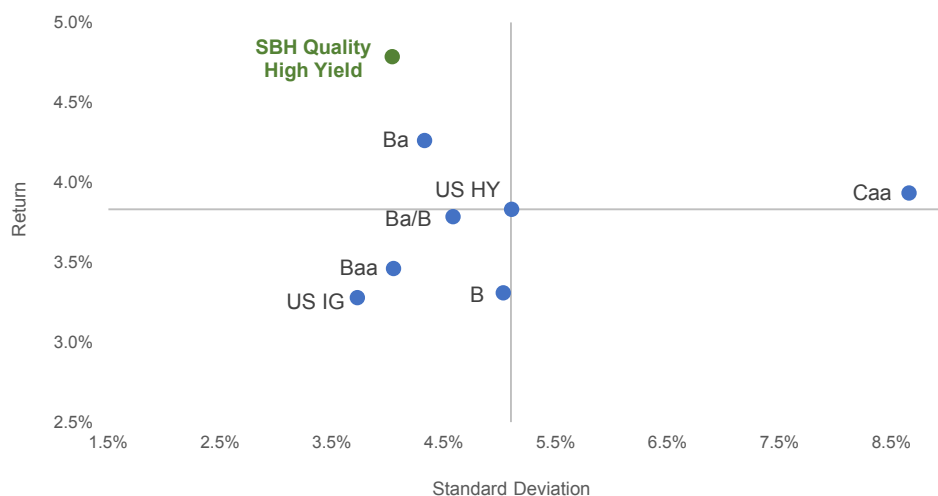
- We seek to take advantage of inefficiencies in the fixed income market by identifying high-quality, overlooked issues.
- We focus on fundamental analysis and disciplined risk controls rather than market timing.
- Our consistent process seeks to perform well in all periods with an emphasis on capital preservation.

## Quality Comparison vs. High Yield Index<sup>1,2,3</sup>



## Risk Return Profile vs. Bloomberg Barclays Indices<sup>1,4</sup>

5 Years Ended 12/31/18



Based on monthly returns from 12/31/13 – 12/31/18. Returns are gross of fees. Past performance does not guarantee future results

## Portfolio Characteristics<sup>1,3,5</sup>

	SBH Quality High Yield	BBgBarc U.S. Corp High Yield Ba	BBgBarc U.S. Corp High Yield
Total Strategy Assets (\$ mil)	\$62.3	—	—
Number of Holdings (Peer Group Average*)	68 (355)	835	1,938
Effective Duration	4.3 years	4.5 years	4.2 years
Average Maturity	6.1 years	6.3 years	5.8 years
Yield-to-Worst	6.2%	6.2%	7.9%
Average Coupon	5.8%	5.6%	6.3%
Average Credit Quality	BB	BB	B+
Turnover (3 year average)	21%	—	—
Standard Deviation (3 year)	3.66%	3.66%	4.66%

\*Morningstar US OE High Yield Category

<sup>1</sup>Information presented is for a representative portfolio which is an account in the composite that we believe most closely reflects current portfolio management style for the strategy. Performance is not a consideration in the selection of the representative portfolio. The information of the representative portfolio shown may differ from that of the composite and of the other accounts in the composite. Information on this page is considered supplemental information to the Performance Disclosure. Weights may not sum to 100% due to rounding.

<sup>2</sup>The rating information reflects the Standard & Poor's equivalent rating category for the highest credit-quality rating assigned by either Standard & Poor's or Moody's ratings.

<sup>3</sup>Source for Index Data: CMS BondEdge.

<sup>4</sup>Source: Bloomberg Barclays.

<sup>5</sup>Standard Deviation statistic based on monthly data. Three years. Source: eVestment Alliance.

<sup>6</sup>Data is based on firm's Quality High Yield Fixed Income composite. Past performance does not guarantee future results and future performance may be lower or higher than the performance presented. See Performance Disclosure for additional performance information.

## Quality Detail<sup>1,2,3</sup>

% of portfolio	SBH Quality High Yield	BBgBarc U.S. Corp High Yield Ba	BBgBarc U.S. Corp High Yield
AAA (Cash)	0.4	0.0	0.1
A	0.0	0.1	0.0
BBB	18.1	10.2	4.8
BB	63.5	89.5	51.6
B	14.4	0.0	33.9
CCC	0.0	0.0	9.4
NR	3.6	0.1	0.4

## Duration Distribution<sup>1,3</sup>

% of securities	SBH Quality High Yield	BBgBarc U.S. Corp High Yield Ba	BBgBarc U.S. Corp High Yield
0 - 1 year	3.2	1.3	2.2
1 - 3 years	22.7	23.6	26.1
3 - 4 years	20.3	18.9	20.7
4 - 6 years	37.5	36.3	39.1
6 - 8 years	8.9	13.7	8.3
8+ years	7.3	6.2	3.5

## Sector Allocation<sup>1,3</sup>

	SBH Quality High Yield	BBgBarc U.S. Corp High Yield Ba	BBgBarc U.S. Corp High Yield
Basic Industry	8.2	7.6	6.9
Capital Goods	11.5	7.2	8.4
Communications	14.8	16.8	20.0
Consumer Cyclical	24.8	19.2	18.8
Consumer Non-Cyclical	9.9	10.6	12.3
Energy	12.8	12.0	13.5
Technology	4.9	7.5	5.1
Transportation	0.0	0.8	1.3
Other Industrial	2.3	0.7	1.0
Finance	6.9	13.8	10.3
Utility	0.0	3.8	2.7
Securitized Products	3.6	0.0	0.0
Cash	0.4	0.0	0.0

## Top Ten Corporate Credit Exposure<sup>3,4</sup>

SBH Quality High Yield		BBgBarc U.S. Corp High Yield Ba		BBgBarc U.S. Corp High Yield	
Kinder Morgan Inc.	2.8	HCA Inc.	4.6	HCA Inc.	2.1
PotlatchDeltic Corp.	2.8	Charter Communications Inc.	3.4	Sprint Corp.	2.0
Range Resources Corp.	2.7	T-Mobile USA Inc.	2.1	Charter Communications Inc.	1.6
Iron Mountain Inc.	2.7	Ally Financial Inc.	1.7	Cablevision Systems Corp.	1.3
Diamondback Energy Inc.	2.6	Navient Corp.	1.7	Bausch Health Cos Inc.	1.2
MGM Growth Properties Operating Partnership LP	2.5	Freeport-McMoRan Inc.	1.6	Tenet Healthcare Corp.	1.2
AmeriGas Partners LP	2.4	United Rentals Inc.	1.4	T-Mobile USA Inc.	1.0
Teleflex Inc.	2.4	Netflix Inc.	1.4	CenturyLink Inc.	0.9
Lamar Media Corp.	2.3	Dell Inc.	1.4	Intel Corp.	0.9
T-Mobile USA Inc.	2.3	MGM Resorts International	1.2	DISH Network Corp.	0.8
<b>Total</b> (% of portfolio)	<b>25.4%</b>	<b>Total</b> (% of portfolio)	<b>20.5%</b>	<b>Total</b> (% of portfolio)	<b>13.0%</b>

## Performance<sup>3,6</sup>

Periods Ended 12/31/18 (%)	QTD	YTD	Annualized Returns			
			1 Year	3 Years	5 Years	10 Years
SBH Quality High Yield (gross)	-2.43	-1.05	-1.05	6.31	4.79	9.99
SBH Quality High Yield (net)	-2.54	-1.50	-1.50	5.83	4.32	9.51
BBgBarc U.S. Corporate High Yield Ba	-2.91	-2.41	-2.41	5.70	4.26	10.24
BBgBarc U.S. Corporate High Yield Ba/B	-3.60	-1.86	-1.86	6.20	3.78	10.01
BBgBarc U.S. Corporate High Yield	-4.53	-2.08	-2.08	7.23	3.83	11.12
<b>Calendar Year (%)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
SBH Quality High Yield (gross)	-1.05	6.84	13.64	-0.69	5.89	5.20
SBH Quality High Yield (net)	-1.50	6.36	13.13	-1.13	5.42	4.73
BBgBarc U.S. Corporate High Yield Ba	-2.41	7.32	12.78	-1.00	5.37	5.05
BBgBarc U.S. Corporate High Yield Ba/B	-1.86	6.92	14.14	-2.79	3.43	6.23
BBgBarc U.S. Corporate High Yield	-2.08	7.50	17.13	-4.47	2.45	7.44

Segall Bryant & Hamill acquired Denver Investment Advisors LLC on 4/30/2018. Performance results before this date reflect returns generated by the portfolio managers at Denver Investment Advisors LLC.

### Market Overview

The fourth quarter of 2018 saw a dramatic shift in market sentiment as investors sought to reduce risk across asset classes. The Russell 3000® Index, a broad measure of the U.S. equity market, returned -14.31% for the quarter. In addition, oil prices, as represented by oil pricing benchmark West Texas Intermediate (WTI), were down a staggering 38%. The U.S. high yield market was not immune to the sentiment shift, with the Bloomberg Barclays U.S. Corporate High Yield Index returning -4.53% for the quarter. This was the first time since the fourth quarter of 2015 that high yield has underperformed investment grade. The different quality segments within high yield also reflected investors' more risk-averse stance, with higher quality outperforming lower quality during the quarter. The Bloomberg Barclays U.S. Corporate High Yield Caa Index, which was the standout performer during the first nine months of 2018, returned -9.28%, while the higher-quality segment of the high yield market, the Bloomberg Barclays U.S. Corporate High Yield Ba Index, returned -2.91%.

The weakness was widespread as no sector within high yield posted a positive return during for the fourth quarter. The most notable laggard was the high yield Energy sector, which posted a return of -10.04%, perhaps unsurprising given the sharp downward move in oil prices. The most notable outperformer was the Utilities sector, which posted a -1.41% return. The demand and supply picture for the asset class was also indicative of a volatile quarter. Outflows from high yield mutual funds and exchange-traded funds (ETFs) continued during each month of the quarter, and new issue volume remained muted as many corporate borrowers kept to the sidelines. The low level of new issuance was particularly noteworthy, as the high yield market did not price a single new bond deal during the month of December. In the history of the U.S. high yield market, the only other time this has occurred was in November 2008, during the Global Financial Crisis. Despite the market volatility, the high yield default rate remained well below the long-term average and ended the year at 1.85%. This is notable because it was the first time the default rate has been less than 2% since mid-2015, prior to the high yield selloff prompted by a collapse of oil prices.

### Portfolio Performance

For the fourth quarter of 2018, the Segall Bryant & Hamill Quality High Yield portfolio performed in line with the -2.91% return recorded by its benchmark, the Bloomberg Barclays U.S. Corporate High Yield Ba Index. Our focus on quality led the portfolio to outperform the overall high yield market, as represented by the Bloomberg Barclays U.S. Corporate High Yield index, which returned -4.53%. The portfolio's performance was primarily driven by its increased allocation to investment grade bonds, which outperformed the high yield benchmark. The main detractor from the portfolio's performance compared to the benchmark was its exposure to single-B rated bonds.

### Outlook and Positioning

Volatility was elevated during the last quarter of 2018. Daily credit spread moves of greater than or equal to 10 basis points (bps) occurred 23% of the time during the fourth quarter, compared to only 6% of the time during the first nine months of 2018. We expect that volatility could remain high throughout 2019. We also started to see weakness in the floating-rate bank loan market, a market we continue to watch closely given the increased leverage and looser covenants in this economic cycle compared to prior cycles.<sup>1</sup> At the end of the quarter, the option-adjusted spread on the market stood at +526 bps, which is close to the long-run average and +210 bps wider than where it ended the third quarter. We view these wider spreads as more appropriate given the volatility backdrop, but remain positioned defensively. We are prepared to take advantage of dislocations as they occur, and if the situation warrants.

We position the portfolio with a longer-term investment orientation and an emphasis on higher-quality high yield bonds. Our goal is to provide stable income with a focus on greater capital preservation and lower volatility than our high yield peers. Our process entails intensive credit analysis by which we evaluate yield versus risk through business cycles. This process helps narrow down the universe and aids us in constructing the portfolio with issuers who meet our quality standards. Most importantly, we believe this strategy is suitable over the long term for investors who want comparative yield from a high yield portfolio, but who are also more sensitive to volatility and more focused on capital preservation.

<sup>1</sup>For more details on our thoughts on that market, please see the piece we published during the quarter, "Floating-Rate Bank Loans: Understanding Embedded Risks in the 'Other' High Yield Market."

## Performance Disclosure: Quality High Yield Fixed Income Composite

Year	— Composite Assets—			Composite Gross of Fees Annual Return (%)	Composite Net of Fees Annual Return (%)	BBgBarc U.S. Corp High Yield Ba Index (%)	Composite 3 Year Standard Deviation (%)	Index 3 Year Standard Deviation (%)	Composite Dispersion (%)	Total Firm Assets (Incl. Model Portfolios)* (\$Bil)	Total Firm Assets (\$Bil)
	Dollars (\$ millions)	% of Firm Assets	Composite Accounts								
2017	79	1.1	1	6.84	6.36	7.32	4.49	4.57	-	7.284	6.995
2016	75	1.1	1	13.64	13.13	12.78	4.86	5.16	-	7.476	7.169
2015	58	1.0	1	-0.69	-1.13	-1.00	4.37	5.05	-	7.606	7.382
2014	65	1.0	1	5.89	5.42	5.37	3.58	4.41	-	9.596	9.373
2013	66	1.0	1	5.20	4.73	5.05	4.25	5.45	-	10.009	9.794
2012	81	1.0	1	11.41	10.94	14.59	4.61	5.95	-	9.565	9.343
2011	90	1.0	1	9.04	8.57	6.86	8.39	8.45	-	9.389	9.101
2010	67	1.0	1	13.66	13.20	14.55	-	-	-	8.989	8.711
2009	74	1.0	1	41.25	40.66	46.08	-	-	-	8.038	7.837
2008	66	1.0	1	-29.38	-29.72	-17.53	-	-	-	7.008	6.867

\*Number includes a portion of assets where Segall Bryant & Hamill does not have discretionary trading authority. This information is supplemental to fully compliant presentation.

- 1) Segall Bryant & Hamill is a Registered Investment Adviser, established in 1994. SBH provides fee-based management of fixed income and equity portfolios for institutional clients and high net worth individuals. Denver Investment Advisors LLC (aka Denver Investments) was acquired by Segall Bryant & Hamill on April 30, 2018. Prior to this date, performance results were achieved through the legacy firm, Denver Investments.
- 2) The Quality High Yield composite was created in October 2000 (style inception was 10/1/2000). All returns are computed using a time-weighted total rate of return. The composite is defined to include all fee-paying, discretionary accounts that are managed according to the Quality High Yield Fixed Income strategy. The composite includes all actively managed fixed income accounts that are managed to the Bloomberg Barclays U.S. Corporate High Yield Ba Index and invest in high-income producing securities, primarily corporate bonds, concentrated in below-investment grade securities with maturities less than 30 years. The Bloomberg Barclays U.S. Corporate High Yield Ba Index is an unmanaged index that measures the performance of intermediate (1 to 10 year) U.S. high yield issues. It includes fixed-rate, noninvestment grade debt issues rated Ba1 or lower by Moody's, rated BB+ or lower by S&P, rated below investment grade by Fitch Investor's Service or if unrated previously, held a high yield rating or have been associated with a high yield issuer, and must trade accordingly. Index returns are not covered by the report of the independent verifiers. The name of the composite was changed from High Yield Fixed Income to Quality High Yield Fixed Income on 4/30/2018.
- 3) Gross of fee returns are calculated gross of management and custodial fees, and net of transaction costs. Net of fee returns are calculated net of management fees and transaction costs, and gross of custodian fees. As of 1/1/15, net of fee returns were calculated by deducting the maximum applicable advisory fee in effect, pro-rated on a monthly basis. From 1/1/08 to 12/31/14, net of fee returns were calculated by deducting the maximum applicable advisory fee in effect, pro-rated on a quarterly basis. Prior to this date, net of fees returns were calculated using actual annual client fees, pro-rated on a quarterly basis.
- 4) The dispersion of annual returns is measured by the standard deviation across unweighted portfolio gross returns represented within the composite for the full year. Dispersion is not shown for years in which only one account is present for the entire year.
- 5) Valuations and returns are computed and stated in U.S. dollars. Performance is calculated net of withholding taxes on foreign dividends and interest. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Total returns for accounts are presented using the accrual basis of accounting for all fixed income and equity investments and on a cash basis for all cash equivalents.
- 6) Segall Bryant & Hamill claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Segall Bryant & Hamill has been independently verified for the periods 1/1/84 – 12/31/16. Verification assesses whether the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Quality High Yield Fixed Income composite has been examined for the periods 12/31/03 – 12/31/16. The verification and performance examination reports are available upon request. A complete list and description of all firm composites is available upon request.
- 7) Prior to Segall Bryant & Hamill's acquisition of Denver Investment Advisors LLC, Denver Investments was verified from the period 1/1/84 through 12/31/16. The Quality High Yield Fixed Income composite has been examined for the periods 12/31/03 – 12/31/16.
- 8) The maximum fee rate is 0.45%. Please reference Segall Bryant & Hamill's ADV for full fee schedule.
- 9) Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- 10) Past performance does not guarantee future results and future performance may be lower or higher than the performance presented.

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