

# QUALITY HIGH YIELD FIXED INCOME

FACT SHEET | June 30, 2019

## WHY CONSIDER THIS STRATEGY

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

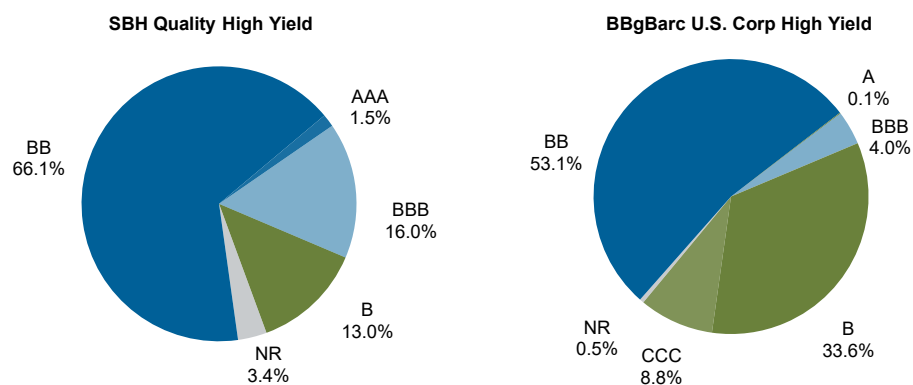
## KEY FEATURES

- 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

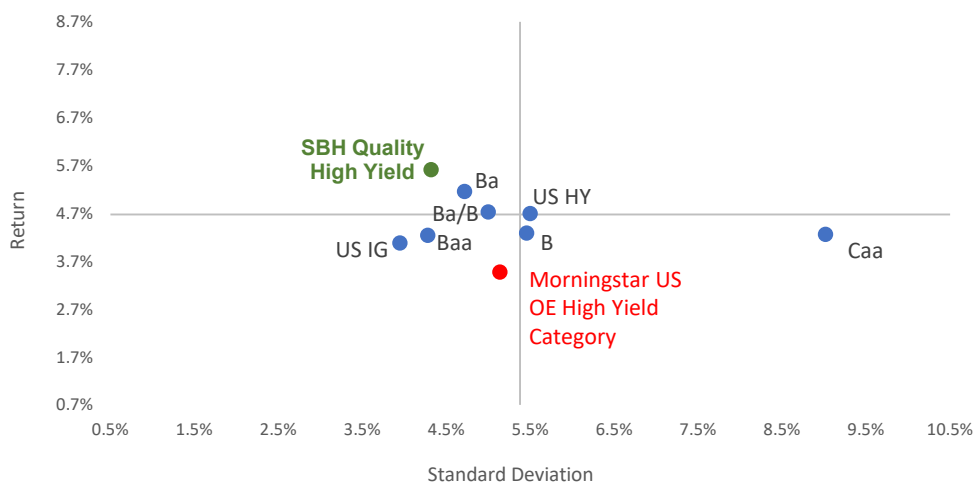
- We seek to take advantage of inefficiencies in the fixed income market by identifying high-quality, overlooked issues.
- We focus on fundamental analysis and disciplined risk controls rather than market timing.
- Our consistent process seeks to perform well in all periods with an emphasis on capital 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 6/30/19



Based on monthly returns from 7/1/14 – 6/30/19. 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)	\$65.0	—	—
Number of Holdings (Peer Group Average*)	65 (351)	839	1,906
Effective Duration	3.14 years	3.65 years	3.35 years
Average Maturity	5.44 years	6.20 years	5.78 years
Yield-to-Worst	4.42%	4.41%	5.90%
Average Coupon	5.41%	5.59%	6.34%
Average Credit Quality	Ba2	Ba3	B2
Turnover (3 year average)	31%	—	—
Standard Deviation (3 year)	3.30%	3.95%	4.37%

\*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)	1.5	0.0	0.0
A	0.0	0.1	0.1
BBB	16.0	8.4	4.0
BB	66.1	91.3	53.1
B	13.0	0.0	33.6
CCC	0.0	0.0	8.8
NR	3.4	0.1	0.5

## 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	24.2	14.3	14.8
1 - 3 years	22.5	30.2	29.6
3 - 4 years	15.7	14.0	18.9
4 - 6 years	29.8	27.5	28.3
6 - 8 years	2.0	8.6	5.2
8+ years	5.7	5.4	3.2

## 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	5.2	6.5	5.9
Capital Goods	11.2	7.5	9.0
Communications	16.7	17.8	20.1
Consumer Cyclical	22.9	18.3	18.6
Consumer Non-Cyclical	10.8	8.7	11.9
Energy	14.1	11.4	12.7
Technology	6.6	6.8	5.5
Transportation	0.0	1.1	1.5
Other Industrial	0.2	0.9	1.2
Finance	5.8	16.8	11.1
Utility	1.6	4.3	2.5
Securitized Products	3.4	0.0	0.0
Cash	1.5	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/DE	3.2	Charter Communications Inc	3.6	Sprint Corp	1.9
Range Resources Corp	2.9	HCA Healthcare Inc	2.4	Charter Communications Inc	1.7
Diamondback Energy Inc	2.8	T-Mobile US Inc	2.0	Cablevision Systems Corp	1.3
Iron Mountain Inc	2.7	Springleaf Finance Corp	1.6	Tenet Healthcare Corp	1.2
MGM Growth Properties	2.7	Sirius XM Holdings Inc	1.6	Bausch Health Cos Inc	1.2
AmeriGas Partners LP	2.7	Netflix Inc	1.6	HCA Healthcare Inc	1.1
Teleflex Inc	2.5	Ally Financial Inc	1.5	T-Mobile US Inc	0.9
Medical Properties Trust Inc	2.5	Freeport-McMoRan Inc	1.5	Community Health Systems Inc	0.9
Speedway Motorsports Inc	2.4	United Rentals Inc	1.5	LYXOR Telecommunications	0.9
Lamar Advertising Co	2.4	Navient Corp	1.4	CenturyLink Inc	0.8
<b>Total</b> (% of portfolio)	<b>26.8%</b>	<b>Total</b> (% of portfolio)	<b>18.7%</b>	<b>Total</b> (% of portfolio)	<b>11.9%</b>

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

Periods Ended 6/30/19 (%)	QTD	YTD	Annualized Returns			
			1 Year	3 Years	5 Years	10 Years
SBH Quality High Yield (gross)	2.65	9.09	8.66	6.56	5.62	8.83
SBH Quality High Yield (net)	2.62	8.96	8.27	6.11	5.16	8.36
BBgBarc U.S. Corporate High Yield Ba	3.08	10.51	9.79	6.65	5.16	8.85
BBgBarc U.S. Corporate High Yield Ba/B	2.89	10.31	8.79	7.11	4.73	8.61
BBgBarc U.S. Corporate High Yield	2.50	9.94	7.48	7.52	4.70	9.24
Calendar Year (%)	2018	2017	2016	2015	2014	2013
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 high yield market, based on the Bloomberg Barclays U.S. Corporate High Yield Index, returned 2.50% in the second quarter and was up 9.94% year to date, its strongest first half performance since 2009. Market technicals remained strong and investor flows into the market were positive. In fact, flows into high yield mutual funds were positive for five out of the first six months of the year and high yield new issue volumes were up 10% year to date versus last year. While fundamentals within the high yield market remain relatively strong, we note that some metrics have started to show signs of weakening: issuer balance sheet improvement has stalled out and overall leverage metrics have risen quarter-over-quarter using first quarter financial results. The high yield default rate also rose during the quarter from its multi-year low of 0.98% in March to 2.05% in June.

### **Strategy Performance**

The Segall Bryant & Hamill Quality High Yield strategy returned 2.7%\* for the second quarter compared to the 3.1% return of its benchmark, the Bloomberg Barclays U.S. Corporate High Yield Ba Index. The primary drivers of underperformance were the strategy's overweight to the Energy sector, which returned 1.78%, and an underweight to the Financials sector, which returned 3.97%. A positive contributor to relative performance during the quarter was the overweight to Baa-rated securities, which returned 4.86% as measured by the Bloomberg Barclay's U.S. Corporate Baa Index.

### **Outlook and Positioning**

At the end of the second quarter, the option-adjusted spread on the market stood at +377 basis points, 14 basis points tighter compared to the start of the quarter. Current spreads (i.e., valuations) have continued their slow march tighter while credit risk has been on the rise. The compensation for the increased risk or spread pickup for going down in credit quality from low investment grade bonds into high yield is near historical lows. Against this backdrop, we continue to be defensively positioned. We believe the market is pricing in too much good news while the potential for increased future volatility is not being adequately considered.

We position the strategy 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 through which we evaluate yield versus risk through the business cycles. This process helps narrow down the universe and aids us in constructing the strategy with issuers that 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.

*\*Preliminary return.*

## 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								
2018	56	<1.0	1	-1.05	-1.50	-2.41	3.65	3.66	-	18.627	18.401
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

\*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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