Quarterly Credit Update

Full Discretion Team Views – 3rd Quarter 2022

KEY VIEWS

- The Credit Cycle has been clinging to 'Late Cycle' with the probability of a 'Downturn' moving higher due to tightening financial conditions. US Credit risk premiums currently appear attractive with low expected credit losses, but catalysts for near term spread tightening appear unlikely given a fast moving Fed intent on reigning in inflation. With that said, risk premiums increasingly appear to offer cushion for the losses that we would expect in the event of a 'Downturn'.
- Corporate health has been coming down from market highs, yet appears relatively stable compared to past market cycles demonstrated, in our opinion, by leverage and high interest coverage ratios. We believe the loan market continues to be an area to watch given overall quality deterioration and waning demand as shown by recent outflows.
- US dollar prices in Investment Grade (IG) and High Yield (HY) are near post-Great Financial Crisis (GFC) lows driven largely, in our view, by the increase in Treasury base rates. While meaningful broad based spread widening due to significant market stress has yet to materialize, spread dispersion in both markets has generally been increasing creating opportunities to add discount bonds at what we believe are potentially attractive levels.

CREDIT CYCLE/RISK PREMIUMS

Credit Cycle Has Remained 'Late-Cycle'

The Credit Cycle is clinging to 'Late-Cycle' with elevated odds of a 'Downturn' given stubbornly high inflation. Q2 earnings generally appeared solid, but we expect downward pressure on upcoming earnings and further deterioration could sound the alarm on the potential for a recession.

As of 9/30/22. Chart shown for illustrative purposes only. Some or all of the information on this chart may be dated, and, therefore, should not be the basis to purchase or sell any securities.

High Yield Risk Premiums Appear Favorable, But Tightening Financial Conditions Remain an Obstacle

Risk Premiums have continued to be positive, above historical median, and attractive relative to history primarily driven by our low forecasted losses.

However, a fast moving Fed intent on bringing inflation back to 2% has remained a headwind to the potential for meaningful spread tightening with recession risks having increased over the next 12-18 months.

Source: Loomis Sayles, as of 9/30/22.

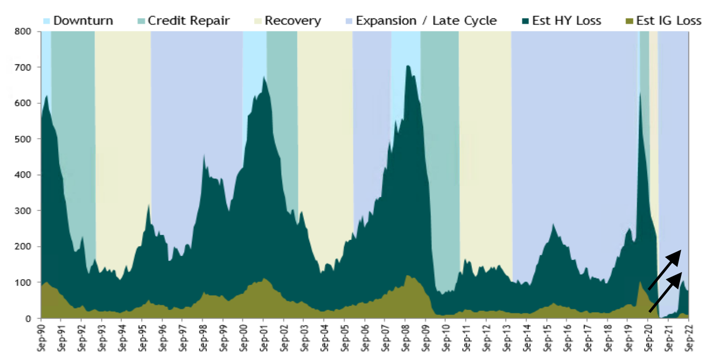
Past Performance is no guarantee of future results.

Charts shown are illustrative for presentation purposes only as a sampling of risk management tool output. *Some or all of this information on these charts may be dated, and, therefore, should not be used as a basis to purchase or sell any securities. The information is not intended to represent any actual portfolio.* †

Steady Rise in Defaults Expected, Still Below Historical Averages

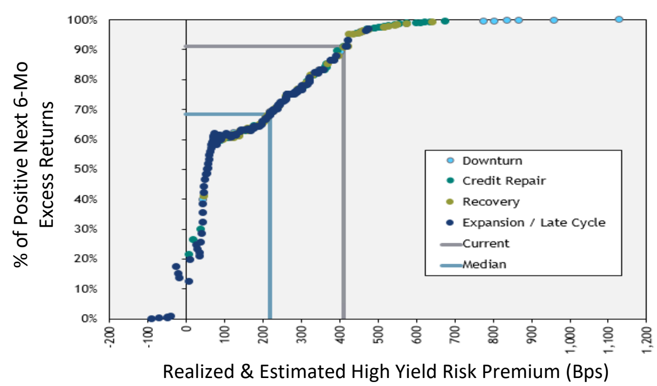
We believe corporate health has remained strong, but has been trending downward. Defaults and losses should continue to remain low, while slowly increasing to more normal levels associated with a 'Late-Cycle' environment. If we do enter a recession, we expect peak losses to remain below past 'Downturn' episodes.

Estimated IG and HY Losses



Source: Loomis Sayles. As of 9/30/22. Any opinions contained herein reflect the current subjective judgements and assumptions of the Full Discretion Team only, and do not necessarily reflect the views of Loomis, Sayles & Co. This information is subject to change without notice.

HY Risk Premium & Probability of Positive Excess Return Potential Over Next 6 Months †

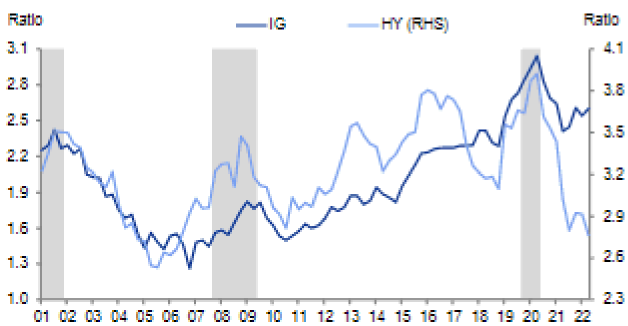


TECHNICALS/FUNDAMENTALS

Fundamentals Have Remained Strong

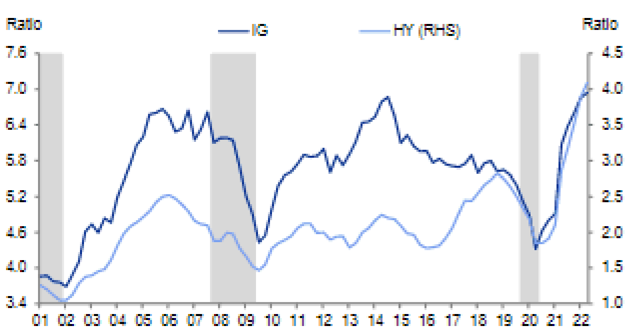
HY leverage is near the lows last seen since the 2000s, while IG leverage has remained elevated due to increased BBB issuance post-GFC. We expect to see credit deterioration in both IG and HY as rates rise and interest coverage comes down, but less so relative to prior cycles.

Net Debt to EBITDA for Median IG and HY Rated Company in North America



Source: Goldman Sachs, Data as of 8/31/2022

Interest Coverage for Median IG and HY Rated Company in North America

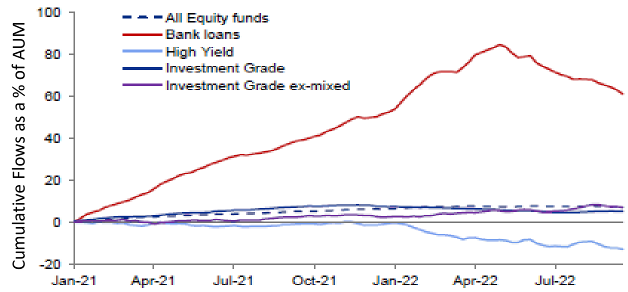


Source: Goldman Sachs, Data as of 8/31/2022

Flows Have Reversed for Bank Loans

Throughout 2021, we believe the attractiveness of floating rate paper resulted in strong flows into the loan market. However, higher UST yields in 2022 coupled with potential cracks in lower quality loans, in our opinion, has caused demand has wane.

USD Cumulative Flows As a % of AUM

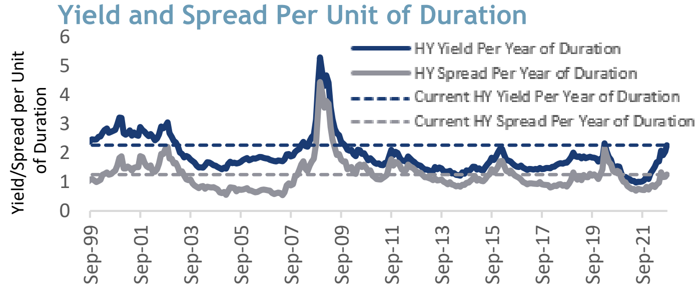


Source: Goldman Sachs, Data as of 8/31/2022

Interest Rate Risk May Be Mitigated By Higher Yields

IG and HY yields are near post GFC-highs driven by base rates, while index durations have come down given lower dollar prices and higher coupon issuance, creating a favorable yield-per-unit of duration profile in both markets.

Yield and Spread Per Unit of Duration



Source: Loomis Sayles, Bloomberg, Data as of 9/30/22

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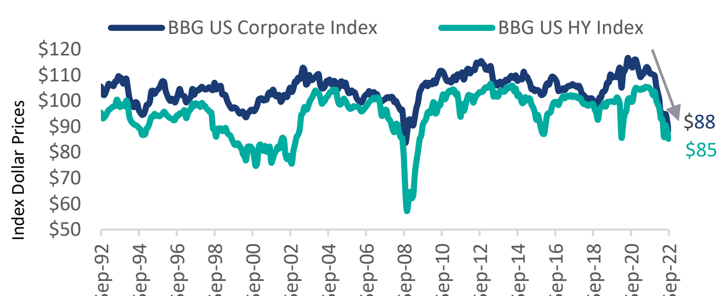
SECURITY SELECTION

Dollar Prices Have Moved Lower, Led by Higher Base Rates

Dollar prices in HY and IG are now near post-GFC lows, largely driven in our view by higher interest rates, not substantially wider spreads.

While broad spread movement has not been the major story related to lower dollar prices as compared to other periods of market stress, spread dispersion has increased across the market creating opportunities to add discount bonds and convexity (i.e. call protection) into the portfolio in attractive issuers.

Index Dollar Prices for HY and IG Indexes



Source: Bloomberg, Data as of 9/30/2022.

Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

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Past market experience is no guarantee of future results.

DISCLOSURE

RISK PREMIUM DISCLOSURE

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Unless otherwise specified, all analysis covers the period from 6/30/1996 to 9/30/2022

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Past performance is no guarantee of future results.

There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.

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Markets are extremely fluid and change frequently.