A High Yield Market hit by volatility — observations and thoughts

December marked the first time in seven years that the U.S. Federal Reserve raised its short term interest rates. Treasury rates ended the quarter higher by 40 basis points (bps) in five year and 23 bps in the ten year. The move up in risk free rates, in combination with higher credit spreads in the lower quality end of high yield, led to negative returns across fixed income asset classes. The high yield story remains one of two markets: distress in the energy, metals/mining and other commodity linked sectors, versus a more stable core. This is reflected in current credit spreads and the rising pace of defaults concentrated in Energy and other commodities.

Market Overview

The Broad High Yield Index \(^1\) returned -2.17% in Q4 2015 with 33 bps of spread widening, while the Higher Quality sub-index \(^2\) returned -1.13% with 3 bps of spread tightening. Quality continues to outperform, with BB rated (-0.11%) beating B rated (-2.40%) and CCC or worse (-8.48%). Energy was again the worst performing sector, down -12.8%, with Steel Producers close behind down -11.6% and Metals/Mining down -9.0%. The All Loan Index was down -2.10% in Q4 2015, while the BB/B rated sub-index returned -1.79%.

Over the full year 2015, Broad High Yield was down -4.64%, while the Quality sub-index was down -2.79%. The All Loan Index \(^3\) was down -0.69%, while US Investment Grade Corporates \(^4\) were down -0.63%. What is striking is how much more poorly the passive high yield ETFs performed versus the benchmarks, which we attribute to fast money investors using ETFs for shorting or hedging purposes, and to other tactical investors relying on ETFs as a source of liquidity to take short term positions in an otherwise liquidity constrained asset class.

The fourth quarter is typically a slow period for new issuance, and given the volatility we were not surprised to see a marked slowdown in high yield supply with $35 billion coming to market in Q4 2015 versus $52 billion in Q4 2014 and $61 billion in Q4 2013.

High Yield Team

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MA (Queen’s University)
BA Economics (University of Western Ontario)
20 years of investment experience

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Portfolio Manager
MBA (York University Schulich School of Business)
BA - Economics (Beijing University)
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14 years of investment experience

Bobby Missar, CFA
Credit Analyst
B. Commerce (Ryerson University)
6 years of investment experience
Notwithstanding, the $216 billion in US high yield bond issuance remains relatively high when looking back over the past decade, marked by a peak annual supply of $280 billion in 2012. On the loan side, there was a more marked slowdown with $34 billion coming to market in Q4 2015, versus $39 billion in Q4 2014 and $75 billion in Q4 2013. Similar to bonds, the annual pace of loan issuance compares fairly well to the past decade at $215 billion in 2015 versus $320 billion last year, and versus the high water mark of $390 billion in 2013.

Fund flows were volatile in high yield bond ETFs and mutual funds over the quarter. While the trend turned negative through December, $1.1 billion came into high yield bonds over the fourth quarter. On a year to date basis, $1.6 billion came into high yield bonds. On the loan side, floating rate funds and ETFs continued to see outflows with -$7.0 billion over the fourth quarter, and -$15.4 billion over the year. Solid CLO demand limited the impact of outflows on the loan asset class, but the volume of CLO activity is expected to slow in 2016 due to higher funding rates and regulatory changes related to risk retention rules.

Defaults remain low, but are diverging between the distressed Energy and commodity driven sectors on the high end, and the remainder of high yield still exhibiting below average default rates that are expected to continue given the limited need for near term refinancing, loose covenants and still relatively robust underlying corporate profits. The BAML trailing twelve month speculative grade issuer weighted default rate for U.S. high yield bonds rose from 2.57% in September to 3.38% in December. The default rate for Energy rose to 12.28% from 8.33%. The loan default rate rose to 1.19% from 0.77% in September, with the overall lower levels on loans indicative of the lower percentage made up of Energy.

### Money Performance Update

As expected through this period of volatility, all 3 of Monegy’s Quality, Broad and Loan strategies are outperforming their respective benchmarks on both a quarterly and a full year basis.

#### Quality High Yield

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</thead>
<tbody>
<tr>
<td>Monegy Quality HY (gross)</td>
<td>7.26%</td>
<td>4.27%</td>
<td>16.17%</td>
<td>8.23%</td>
<td>17.01%</td>
<td>11.38%</td>
<td>3.06%</td>
<td>8.36%</td>
<td>3.95%</td>
<td>15.20%</td>
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<td>BAML US BB/B Constrained</td>
<td>6.52%</td>
<td>5.91%</td>
<td>5.43%</td>
<td>1.10%</td>
<td>22.90%</td>
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<td>8.16%</td>
<td>4.74%</td>
<td>7.14%</td>
<td>-8.88%</td>
<td>1.46%</td>
<td>-0.31%</td>
<td>-0.93%</td>
<td>0.07%</td>
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<td>Monegy Quality HY (net)</td>
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<td>3.75%</td>
<td>9.62%</td>
<td>7.69%</td>
<td>16.42%</td>
<td>10.82%</td>
<td>2.57%</td>
<td>7.62%</td>
<td>3.43%</td>
<td>-15.63%</td>
<td>31.68%</td>
<td>12.10%</td>
<td>6.01%</td>
<td>12.16%</td>
<td>5.74%</td>
<td>0.88%</td>
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<tr>
<td>Over/Under Performance</td>
<td>0.40%</td>
<td>7.66%</td>
<td>4.19%</td>
<td>6.59%</td>
<td>-4.40%</td>
<td>0.88%</td>
<td>-0.82%</td>
<td>-1.45%</td>
<td>0.34%</td>
<td>7.68%</td>
<td>-14.38%</td>
<td>-2.16%</td>
<td>0.81%</td>
<td>-3.42%</td>
<td>-0.57%</td>
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#### Broad High Yield

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<tbody>
<tr>
<td>Monegy Broad HY (gross)</td>
<td>6.40%</td>
<td>6.23%</td>
<td>13.41%</td>
<td>7.78%</td>
<td>0.96%</td>
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<tr>
<td>BAML US HY Constrained</td>
<td>6.20%</td>
<td>4.37%</td>
<td>15.50%</td>
<td>7.41%</td>
<td>2.51%</td>
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<tr>
<td>Over/Under Performance</td>
<td>0.21%</td>
<td>-2.14%</td>
<td>0.33%</td>
<td>-1.55%</td>
<td>2.18%</td>
</tr>
<tr>
<td>Monegy Broad HY (net)</td>
<td>5.87%</td>
<td>5.70%</td>
<td>12.85%</td>
<td>7.24%</td>
<td>0.45%</td>
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<tr>
<td>Over/Under Performance</td>
<td>-0.32%</td>
<td>-2.70%</td>
<td>-0.17%</td>
<td>-2.06%</td>
<td>1.69%</td>
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#### Loans

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<tbody>
<tr>
<td>Monegy Loan Composite (gross)</td>
<td>5.51%</td>
<td>6.96%</td>
<td>13.37%</td>
<td>5.92%</td>
<td>8.40%</td>
<td>4.67%</td>
<td>5.55%</td>
<td>6.74%</td>
<td>2.81%</td>
<td>18.66%</td>
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<tr>
<td>Over/Under Performance</td>
<td>1.89%</td>
<td>3.76%</td>
<td>-1.30%</td>
<td>-0.09%</td>
<td>-2.56%</td>
<td>0.23%</td>
<td>0.53%</td>
<td>-0.17%</td>
<td>0.85%</td>
<td>9.89%</td>
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<tr>
<td>Monegy Loan Composite (net)</td>
<td>4.33%</td>
<td>8.44%</td>
<td>0.89%</td>
<td>2.41%</td>
<td>5.87%</td>
<td>4.15%</td>
<td>5.07%</td>
<td>6.21%</td>
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<tr>
<td>Over/Under Performance</td>
<td>1.21%</td>
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<td>-1.80%</td>
<td>-0.60%</td>
<td>-3.09%</td>
<td>0.70%</td>
<td>0.01%</td>
<td>-0.70%</td>
<td>0.34%</td>
<td>0.67%</td>
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Source: Monegy®, BofA Merrill Lynch, S&P/LSTA. Notes: As of December 31, 2015. Loans Composite are preliminary returns. This is supplemental information. Time periods of greater than one year are annualized. Monegy Quality HY is measured against the BofA ML BB/B US High Yield Constrained Index. Monegy Broad High Yield is measured against the BofA ML US High Yield Constrained Index. Monegy Loan is measured here against the S&P/LSTA BB/B Loan Index, but is benchmarked to the S&P/LSTA BB Loan Index from January 2012 – April 2014, and the S&P/LSTA BB/B customized loan index from May 2014. Past performance is not indicative of future results. Please see GIPS® compliance presentations in the Appendix.
Quality High Yield Strategy

Over our 16 year track record, Monegy’s Quality High Yield Strategy has returned 7.26% per annum ("p.a.") (gross of fees), representing 0.94% p.a. of excess returns compared to its benchmark. This outperformance was achieved with only 65% of the broad market’s volatility and 74% of the higher quality benchmark’s volatility.

In the fourth quarter of 2015, our Quality High Yield Strategy returned -0.82% (gross of fees), outperforming its benchmark by 31 bps. Outperformance was driven primarily by the underweight to Energy, name selection in Chemicals and an underweight in Steel Producers and Metals/Mining. Additional contributors reflected positioning in Consumer Products and Homebuilders.

The yield in our Monegy Quality High Yield Bond Strategy tightened in by 35 bps ending the quarter at 6.38%. Option adjusted spread tightened in 68 bps to 463 bps, primarily reflecting the sale of some higher risk paper over the quarter. The strategy remains well diversified with an average issuer exposure of 0.37% and the top ten holdings representing 10% of market value.

The underlying credit quality of the Monegy Quality High Yield Bond Strategy remains solid, with an average default probability estimate (by issuer) below 1%. Monegy’s realized default experience since inception continues to be extremely low at 0.1% p.a. through Q4 2015, well below BAML’s average of 4.6% p.a. for the same history.

Broad High Yield Strategy

Monegy’s Broad High Yield Strategy is now in its 6th year and in that time has returned 6.40% (gross), besting its benchmark by 0.20% p.a. without the benefit of a full credit cycle, and with only 90% of the volatility.

In the fourth quarter of 2015 our Broad High Yield Strategy returned -1.36%, outperforming its benchmark by 80 bps. Similar to performance for our Quality High Yield Bond Strategy, top contributors to outperformance were the underweight in Energy, and name selection in Chemicals. Additional outperformance was driven by name selection in Broadcasting, and overweights in Homebuilders and Telecom.

For the Broad High Yield Bond Strategy, the yield tightened in by 55 bps to 7.09%, and credit spreads tightened in 72 bps to 484 bps, primarily reflecting the sale of some higher risk paper over the quarter. The portfolio remains highly diversified with an average issuer exposure of 0.39%, and 11% of market value attributed to the top ten holdings. The underlying credit quality of the Broad Strategy remains solid, with an average default probability estimate (by issuer) of just over 1%.

High Yield Loan Strategy

In the fourth quarter of 2015 the Monegy High Yield Loan Strategy returned -0.73% (gross), beating the BB/B benchmark by 1.06%. Top contributors reflected an underweight and better name selection in Energy, positioning in Telecom, name selection in Broadcasting and Building Materials, and an underweight to Utilities.

The yield on the High Yield Loan Strategy widened by 26 bps, with no change in average credit spread. The portfolio has 36% concentration in the top 10 names, given the requirement for higher average trade sizes in loans.

The underlying credit quality of the High Yield Loan Strategy is high, albeit with an average default probability estimate (by issuer) of 1.6% that is slightly higher than for our bond strategies due to a generally higher position in the capital structure that justifies more risk per issuer.
**2016 Outlook**

We believe 2016 is going to be the transition year for U.S. monetary policy, and will uncover how dependent financial markets have been on the aggressive use of traditional open market operations, as well as on the use of quantitative easing in large size. The impetus to drive investors into higher-yielding higher-risk investments will be rolled back, and any excesses will begin to be exposed.

With yields approaching 9%, high yield is offering attractive relative value. However, investors would be wise to be cautious at this point in the credit cycle. Leverage levels across high yield have increased: in commodity linked sectors because of high debt and a steep decline in earnings, and in the remainder of high yield because companies have continued to take advantage of lower cost financing for capital expenditures, share repurchases or acquisitions. While we believe we are in the latter half of the credit cycle, and fundamentals and technicals have weakened marginally, in absolute terms the core of U.S. high yield continues to exhibit sound fundamentals, and even within the distressed issuers there are opportunities for material upside based on current prices. Defaults are unlikely to spike next year outside of commodities, due to little short-term need for refinancing, loose covenants and generally solid corporate profits. That is not to say there will not be volatility. Prices will remain sensitive to the direction of commodity prices, the pace of rising rates, and the net balance of fund flows.

It is in these volatile markets with rising future default risk where we expect our quality focused strategy to outperform. Avoiding default risk and negative price action should contribute significantly to our long run track record of index outperformance with lower volatility and downside protection. Expect the dispersion in performance across asset managers to increase.

We expect the broad high yield bond market to return 3-5% for 2016, and loans 3-4%; slightly below current yields on average. It is important to highlight that within this baseline forecast we are assuming considerable dispersion around the average. Expect performance to be bifurcated with higher defaults in distressed commodity-linked sectors on the one side, versus relative stability on the non-commodity remainder. We also expect active managers to continue to outperform passive index strategies that exhibit higher weightings to the distressed commodity linked sectors, as well as due to ETFs being used by fast money investors for shorting or hedging purposes during periods of acute volatility.

**Credit Risk**

Energy and commodity-based sectors remain front and center in framing our outlook for 2016. Material changes in these key sectors could drive divergent outcomes on either the upside or downside. While recognizing these “fat tail” events, our base case presumes no quick fix to the fundamental supply/demand imbalance in energy, metals/mining and chemicals, and thus we expect commodity prices to remain near current low levels. This view is further supported by the likelihood that while the U.S. continues to exhibit moderate positive economic growth, the slowdown in demand from Chinese industrial expansion, imbalances in Europe, and weakness in other emerging markets such as Russia and Brazil, will keep pressure on global aggregate demand.

Outside of commodity driven sectors, we expect yield-like returns, but with the potential for a modest widening of credit spreads as a function of a weaker technical backdrop, or as a function of pricing-in higher expected risk free rates.

**Interest Rates**

The forward curve is pricing in 50 bps more in fives, and 25 bps in tens, with the shorter end implying 3-4 moves of 25 bps by the US Federal Reserve. This flattening of the curve is typical in periods of tightening monetary policy, and we believe that this implied activity is consistent with what has been communicated by the Fed: rising rates but at a slow pace, and with continued market support through the reinvestment of existing Treasury and Mortgage-Backed holdings. We believe there is room for high yield spreads to absorb much of the rate move given recent spread widening that is at least partially a function of expectations for higher forward rates.
Supply and Demand

The vast majority of high yield issuers have repeatedly termed out their existing maturities at low rates, leaving a limited amount of forced refinancing through 2017/2018. Higher interest rates (both credit spreads and risk free rates) suggest opportunistic refinancing activity will be less than in recent years. Therefore, we expect the supply of new issuance to be lower than that over the past few years of heavy issuance, and what supply does come will be highly sensitive to the pace of demand for high yield.

We have seen volatility in retail and fast money fund flows into and out of high yield bonds, with significant inflows when spreads have widened out significantly, and waning demand as those spreads have tightened in on average. These trends are likely to continue to drive marginal demand through 2016, with the latest outflows suggesting fast money has moved out.

On the floating rate loan side, the trend of outflows has been consistent with expectations for a delay in rising interest rates, and while we expect to see increased demand for floating rate in 2016, material changes to Collateralized Loan Obligation (CLO) formation—in the form of higher capital retention rules—will likely offset increasing retail flows. Additionally, any large disruption to loan demand could force some loan refinancing to move into the high yield market, which would weigh negatively on the overall supply/demand dynamic in bonds.

Default Rates

Again here it is important to distinguish that within our average default rate expectation of 3.5% - 4%, the distressed commodity sectors will exhibit a higher default rate in the 10-15% range, while the rest of high yield should continue to track at lower than average default rates of 2.5-3% due to: little forced refinancing over the next several years, low absolute interest rates and fewer restrictive covenants in both bonds and loans.

Risks to Our Outlook

The biggest risk to our outlook involves tail outcomes for the energy sector, either higher than expected defaults and further fundamental imbalance leading to deteriorating prices, or an unexpected snap-back that leads to significant spread tightening across the commodity driven landscape.

There are going to be distortionary effects on benchmark indices due to defaulters falling out, and formerly investment grade companies getting downgraded into high yield. As such, changes in the underlying index characteristics may be inconsistent with total returns. For example a high rate of defaults for high yielding distressed issuers would result in both negative returns and a tightening of the index credit spreads as those high yields are removed from the averages. These distortionary effects may prove greater than we expect.

While the changes in CLO risk retention rules are currently finding acceptance, 2016 will be a year of adjustment. Any material decline in the overall size of the loan market could introduce a negative technical into both the loan market and the high yield bond market.

Below the market’s surface there is a deeper underlying fear that has been labelled “illiquidity”, but which can be understood more simply as an excess of supply over demand whenever sellers have come to market in force. Whether because of regulatory changes that limit investor capital committed to high yield trading, or reduced dealer inventory levels for proprietary trading and market making, the impression and worry among tactical high yield investors is that if a great rotation emerges, there won’t be enough buyers at current prices to absorb heavy volumes of selling activity. A large technical imbalance would lead to weaker performance, but as a long term strategic investor, we see this as a potential opportunity to buy low.

Money Strategy

We continue to adhere to our rigorous investment process that highlights disciplined bottom up security selection, ongoing monitoring and the balancing of risk and return. We remain highly diversified in our portfolios with no material overexposure to individual issuers (typically 1% maximum).
The core of our Quality portfolio is in BB/B rated credit, with limited exposure to CCC or worse rated issuers, noting that we rely on internal risk scoring over rating agency ratings in our actual portfolio construction. We remain highly selective in individual issuers with a bias toward quality issuers that can sustain current leverage at higher interest rates, and in industries with supportive fundamentals.

We have reduced exposure to the more speculative exploration and production sub-sector within energy, and are avoiding the most distressed issuers with the highest probability of default at current price levels. Similarly within Metals/Mining, we remain highly selective in where we retain positions, focusing on companies with the most cost effective operations, or with the attractive recovery values relative to current prices. While we remain defensive, we are seeing opportunities to take bigger positions in some higher risk names at current levels that exhibit limited downside with attractive upside.

We remain slightly short duration, primarily as a function of a lower concentration of the longest dated maturities. Where allowed by existing clients, we are taking additional credit exposure through floating rate loans, which further insulates portfolios from rising interest rates.

We are highly attuned to the risk of illiquidity in high yield, especially for mutual fund vehicles that may experience higher levels of short term inflows/outflows. We have developed internal liquidity rating metrics and believe that the majority of our bond holdings are in liquid or highly liquid securities.

It is in these volatile markets with rising default risk where we expect our quality focused strategy to outperform, and avoiding default risk should contribute significantly to our long run track record of index outperformance with lower volatility and downside protection.
Disclosures

MONEGY®
MONEGY QUALITY HIGH YIELD BOND COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

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<tr>
<td>Gross annual returns (%)</td>
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<td>6.27</td>
<td>12.72</td>
<td>6.54</td>
<td>12.66</td>
<td>32.34</td>
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<td>3.95</td>
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<td>Net annual returns (%)</td>
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<td>10.35</td>
<td>10.38</td>
<td>8.91</td>
<td>4.10</td>
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<td>3-year index deviation</td>
<td>4.25</td>
<td>5.79</td>
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<td>Composite dispersion (%)</td>
<td>0.17</td>
<td>0.18</td>
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<td>0.22</td>
<td>0.19</td>
<td>0.34</td>
<td>1.02</td>
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<td>Composite assets ($M)</td>
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<td>2,351.8</td>
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<td>1,861.0</td>
<td>1,619.6</td>
<td>1,745.3</td>
<td>828.2</td>
<td>980.7</td>
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<td>9</td>
<td>8</td>
<td>7</td>
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<td>5</td>
<td>6</td>
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<tr>
<td>Total strategy assets ($M)^1</td>
<td>2,001</td>
<td>2,352</td>
<td>2,049</td>
<td>1,876</td>
<td>1,620</td>
<td>1,745</td>
<td>828</td>
<td>980.7</td>
<td>1,041.1</td>
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<td>Total firm assets ($M)</td>
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<td>1,417</td>
<td>1,509</td>
<td>1,561</td>
</tr>
</tbody>
</table>

^1 Strategy Assets are shown as supplemental information. Strategy accounts include composite and non-composite accounts that have the same investment mandate. Non-composite accounts are excluded from the composite due to size, specific client guidelines, or other strategy limitations.

Monegy® claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Monegy® has been independently verified for the periods October 1, 1999 through March 31, 2013. A copy of the verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The U.S. dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding the policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. Actual investment advisory fees incurred by clients may vary.

Net of fee performance was calculated using the highest management fee as described in the firm’s fee schedule shown below.

First $50 Million: 0.50%
Next $50 Million: 0.45%
Thereafter: 0.40%

Monegy® is a member of BMO Financial Group™ Trademark of Bank of Montreal and a trade name used by the Bank of Montreal and BMO Harris N.A. in Canada and the U.S.

Monegy, Inc. is a registered investment advisor with the SEC, and wholly owned subsidiary of BMO Asset Management Corp. Prior to June 1, 2012 Monegy, Inc. was known as HIM Monegy, Inc. Prior to 2003 the firm was known as BMO Monegy. Monegy® is a registered trademark used by Monegy, Inc.

The Monegy Quality High Yield Bond Composite contains fully discretionary highly diversified portfolios of high yield bonds focusing primarily on the BB/B segment of the U.S. market with an objective of maximizing the total return, both interest income and gains for a given risk appetite. For comparison purposes, the composite is measured against the Merrill Lynch, U.S. High Yield, BB/B Constrained Index. In presentations shown from January 1, 2004 through December 31, 2004, the Merrill Lynch, U.S. High Yield, BB/B Rated Index was presented as the benchmark for this composite. In presentations shown prior to January 1, 2004, the Bear Stearns BB/B Index was presented as the benchmark for this composite. The indices were changed to be more representative of the composite strategy. Effective January 1, 2005, Monegy® changed its pricing sources to conform to systems used by its parent. This change resulted in a one-time gain of 0.42% in 2005. As of December 31, 2010, 9% of composite assets are comprised of one account that uses currency hedging to remove the effect of currency. The minimum account size for this composite is $5 million. The composite was created October 1, 1999. Prior to July 1, 2010, the composite was called the High Yield Bond Segregated Composite. Prior to December 31, 2011, the composite was named the Quality High Yield Bond Composite.
The firm maintains a complete list and description of composites, which is available upon request. A significant external cash flow will be identified by the firm as a cash flow that affects performance of the account so that it is not representative of the underlying investment philosophy. Beginning September 1, 2010, when an account experiences a significant external cash flow greater than 20% of portfolio beginning assets, it is assumed that such a cash flow temporarily causes a loss of discretion, and the account will be excluded from the composite for the full month the cash flow occurred. The account will be re-included in the composite the month after the cash flow occurred. Additional information regarding the treatment of significant cash flows is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Settlement date valuation was used to calculate performance prior to January 1, 2004. Past performance is not indicative of future results.

BondEdge provides fixed income portfolio analytics to institutional investors to manage risks and understand the performance of diversified fixed income portfolios.

Prior to 2008 carve-outs were included in this composite and performance reflected total segment returns. The accounts from which carve-outs were taken did not hold a cash balance. The percentage of carve-outs for the individual years is as follows: 2007: 2%, 2006: 2%, and 2005: 11%. Purchases are funded by the client upon purchase and proceeds from sold assets are returned to the client upon the close of the sale.

The BofA ML BB-B U.S. High Yield Constrained Index is a benchmark index for high yield corporate bonds which excludes lower-rated securities and caps exposure to any one issuer at 2% and is administered by Merrill Lynch. The BofA ML U.S. High Yield Constrained Index is an index which tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market and caps exposure to any one issuer at 2% and is administered by Merrill Lynch.

The BofA Merrill Lynch US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody’s, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $100 million. In addition, qualifying securities must have risk exposure to countries that are members of the FX-G10, Western Europe or territories of the US and Western Europe. The FX-G10 includes all Euro members, the US, Japan, the UK, Canada, Australia, New Zealand, Switzerland, Norway and Sweden. Original issue zero coupon bonds, 144a securities (both with and without registration rights), and pay-in-kind securities (including toggle notes) are included in the index. Callable perpetual securities are included provided they are at least one year from the first call date. Fixed-tofloating rate securities are included provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities ("cocos") are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which have no specified trigger, are included. Other hybrid capital securities, such as those legacy issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the index. Securities issued or marketed primarily to retail investors, equity-linked securities, securities in legal default, hybrid securitized corporates, eurodollar bonds (USD securities not issued in the US domestic market), taxable and tax-exempt US municipal securities and DRD-eligible securities are excluded from the index. Investments cannot be made in an index.

The above strategy characteristics are for a representative account and shown for illustrative purposes only. Each account is managed individually. Accordingly, account characteristics may vary. Portfolio composition is subject to change. Past performance does not guarantee future results.

<table>
<thead>
<tr>
<th>Calendar year ended</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross annual returns (%)</td>
<td>0.96</td>
<td>7.78</td>
<td>13.41</td>
<td>6.23</td>
<td>10.00</td>
</tr>
<tr>
<td>Net annual returns (%)</td>
<td>0.45</td>
<td>7.24</td>
<td>12.85</td>
<td>5.70</td>
<td>9.73</td>
</tr>
<tr>
<td>3-year composite deviation</td>
<td>4.04</td>
<td>5.58</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>BofA ML US High Yield Master II Constrained Index (%)</td>
<td>2.51</td>
<td>7.41</td>
<td>15.55</td>
<td>4.37</td>
<td>9.89</td>
</tr>
<tr>
<td>3-year index deviation</td>
<td>4.44</td>
<td>6.43</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Composite dispersion (%)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Composite assets ($M)</td>
<td>94.1</td>
<td>110.4</td>
<td>63.9</td>
<td>54.5</td>
<td>51.2</td>
</tr>
<tr>
<td>Number of accounts in composite</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total strategy assets ($M)²</td>
<td>94</td>
<td>110</td>
<td>64</td>
<td>55</td>
<td>51</td>
</tr>
<tr>
<td>Total firm assets ($M)²</td>
<td>2,213</td>
<td>2,599</td>
<td>2,186</td>
<td>1,931</td>
<td>1,671</td>
</tr>
</tbody>
</table>

¹ Results shown for the year 2010 represent partial period performance from July 1, 2010 through December 31, 2010.

² Strategy Assets are shown as supplemental information. Strategy assets include composite and non-composite accounts that have the same investment mandate. Non-composite accounts are excluded from the composite due to size, specific client guidelines, or other strategy limitations.
The **Monegy Broad High Yield Bond Composite** contains fully discretionary highly diversified portfolios of high yield bonds focusing primarily on the U.S. market with an objective of maximizing the total return, both interest income and gains for a given risk appetite. For comparison purposes, the composite is measured against the Merrill Lynch, U.S. High Yield, Master II Constrained Index. The minimum account size for this composite is $20 million. The composite was created July 1, 2010. Prior to December 31, 2011, the composite was named the Broad High Yield Composite.

The **BoFA Merrill Lynch US High Yield Constrained Index** contains all securities in The BoFA Merrill Lynch US High Yield Index but caps issuer exposure at 2%. Investments cannot be made in an index.

The above strategy characteristics are for a representative account and shown for illustrative purposes only. Each account is managed individually. Accordingly, account characteristics may vary. Portfolio composition is subject to change. **Past performance does not guarantee future results.**

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**MONEY® MONEGY HIGH YIELD LOAN COMPOSITE ANNUAL DISCLOSURE PRESENTATION**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross annual returns (%)</strong></td>
<td>1.78</td>
<td>5.20</td>
<td>10.76</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>-18.68</td>
<td>2.81</td>
<td>6.74</td>
<td>5.59</td>
</tr>
<tr>
<td><strong>Net annual returns (%)</strong></td>
<td>1.12</td>
<td>4.51</td>
<td>10.04</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>-19.90</td>
<td>2.30</td>
<td>6.21</td>
<td>5.07</td>
</tr>
<tr>
<td><strong>3-year composite deviation</strong></td>
<td>2.39</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>8.43</td>
<td>2.28</td>
<td>0.53</td>
<td>0.62</td>
</tr>
<tr>
<td><strong>S&amp;P/LSTA BB/B Loan Index (%)</strong></td>
<td>1.09</td>
<td>3.85</td>
<td>7.12</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>-24.24</td>
<td>2.35</td>
<td>6.19</td>
<td>4.69</td>
</tr>
<tr>
<td><strong>3-year index deviation</strong></td>
<td>1.66</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>9.56</td>
<td>2.64</td>
<td>0.65</td>
<td>0.69</td>
</tr>
<tr>
<td><strong>Composite dispersion (%)</strong></td>
<td>0.05</td>
<td>0.01</td>
<td>0.49</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Composite assets ($M)</strong></td>
<td>107.6</td>
<td>104.2</td>
<td>52.1</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>22</td>
<td>371</td>
<td>393</td>
<td>293</td>
</tr>
<tr>
<td><strong>Number of accounts in composite</strong></td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total strategy assets ($M)</strong></td>
<td>107</td>
<td>104</td>
<td>52</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>22</td>
<td>371</td>
<td>393</td>
<td>293</td>
</tr>
<tr>
<td><strong>Total firm assets ($M)</strong></td>
<td>2,213</td>
<td>2,599</td>
<td>2,186</td>
<td>1,931</td>
<td>1,671</td>
<td>1,750</td>
<td>854</td>
<td>1,417</td>
<td>1,509</td>
<td>1,561</td>
</tr>
</tbody>
</table>

1. Benchmark from 01/01/2012 forward is S&P/LSTA BB Loan Index. Prior to January 1, 2012 the benchmark was the S&P BB Leverage Loan Index. Prior to January 1, 2005, the benchmark was the BAS High Yield Loan Index.

2. Strategy Assets are shown as supplemental information. Strategy assets include composite and non-composite accounts that have the same investment mandate. Non-composite accounts are excluded from the composite due to size, specific client guidelines, or other strategy limitations.

The **Monegy High Yield Loan Composite** contains fully discretionary portfolios of leveraged loans, focusing primarily on non-investment grade rated companies in the U.S. market with an objective of maximizing the total return, both interest income and gains for a given risk appetite. Currency Forwards or Swaps may be used for hedging purposes. For comparison purposes, the composite will be benchmarked to the S&P/LSTA BB Loan Index. Prior to January 1, 2012 the composite was measured against the S&P BB Leverage Loan Index. Prior to January 1, 2005, the benchmark was the BAS High Yield Loan Index. The indices were changed to be more representative of the composite strategy. The minimum account size for this composite is $5 million. The Composite was created January 1, 2000 and had performance until December 31, 2008 when the composite was closed due to no more client accounts investing in the strategy. The composite was re-opened January 1, 2012. Prior to January 1, 2012 the composite had been called the High Yield Loan Segregated Composite.

**S&P/LSTA BB Loan Index** is an index of floating rate term loans rated BB by S&P. BAS High Yield Loan Index is an index of floating rate term loans. Investments cannot be made in an index.

The above strategy characteristics are for a representative account and shown for illustrative purposes only. Each account is managed individually. Accordingly, account characteristics may vary. Portfolio composition is subject to change. **Past performance does not guarantee future results.**

**ADDITIONAL DISCLOSURES**

**Downside Protection** - We believe that high yield bonds provide downside protection as, relative to riskier asset classes such as equities, they may limit the potential loss that results from a default or decline in security market value. Past performance is not indicative of future results.

Indexes have no identifiable objectives, are not managed funds and cannot be purchased. They do not provide an indicator of how individual investments performed in the past or how they will perform in the future. Performance of indexes does not reflect the deduction of any fees and charges, and past performance of indexes does not guarantee future performance of any investment.

**Index Definitions:**

**BoFA Merrill Lynch US High Yield Index (H0A0)** An index which tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

**BoFA Merrill Lynch US High Yield Constrained Index (HUC0)** is identical to the H0A0 other than it caps exposure to any one issuer at 2%.

**BoFA Merrill Lynch BB-B US High Yield Constrained Index (HUC4)** A subset of the BoFA Merrill Lynch US High Index that excludes bonds rated less than B-/B3 and caps exposure to any one issuer at 2%.

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**Money® BMO Global Asset Management**
Note: for 2012, BofA Merrill Lynch has changed the country inclusion rules of several of its US and Global indices, essentially reducing emerging market issuers and adding 2 European countries. Please refer to BofA Merrill Lynch for index rules.

S&P/LSTA All Loan Index: An index tracking all high yield term loans in the S&P/LSTA Universe.

S&P/LSTA BB Loan Index: A subset of the All Loan Index that tracks higher quality term loans rated BB.

About BMO Financial Group

Bank of Montreal uses a unified branding approach that links all of the organization’s member companies. Bank of Montreal, together with its subsidiaries, is known as BMO Financial Group™. BMO Financial Group is a Trademark of Bank of Montreal and a trade name used by the Bank of Montreal and Harris N.A. in Canada and the US.

Subject to change.

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Investment products are: NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

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1 BAML U.S. High Yield Bond Index (H0A0)
2 BAML BB-B US High Yield Constrained Index (HUC4)
3 S&P/LSTA All Loan Index
4 BAML US Corporate Index (C0A0)