

# **Request for Proposal**

## **US High Yield Bonds**

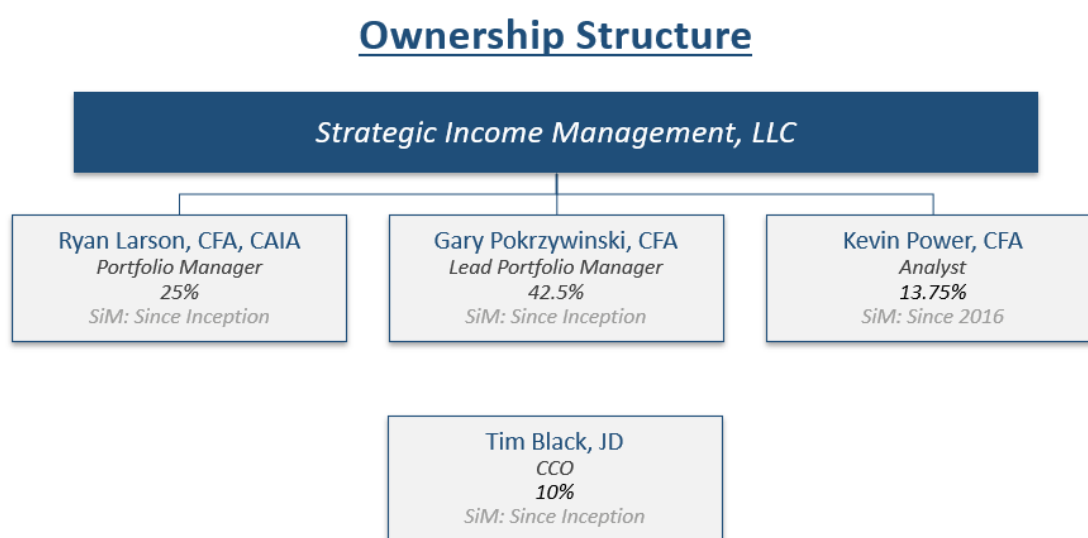
SECTION I – Qualitative questionnaire (Word document)

## SECTION I – Company, Team & Process

### 1. Parent and Investment Management Company (IMC)

1.1 Please describe the corporate history for the IMC (or/and its parent company). **Founded in 2010, Strategic Income Management, LLC (SiM) is an independent and 100% employee-owned company dedicated to the goal of providing superior high yield investment management for institutional clients. The Firm's investment professionals have over 40 years of Fixed Income experience, beginning with Gary Pokrzywinski's tenure at WM Advisors/Edge Asset Management (Edge), and now continuing at SiM. At Edge, Gary Pokrzywinski successfully managed over \$2.5 billion in high yield. This same strategy is now offered at SiM where current AUM is \$2.91 billion. All investment team members hold the Chartered Financial Analyst (CFA) designation.**

1.2 Please describe, using a diagram, the current ownership structure, such that the IMC integration can be understood.



- 100% employee owned (8.75% owned by retired co-founder Brian Placzek)
- Ownership sold to key employees

1.3 If another company owns the IMC, what percentage of the parent company's revenue does your firm contribute? Please indicate how the percentage of revenue has changed over the life of the arrangement. **We are 100% employee owned.**

1.4 Are you aware of any current (or potential) changes to your organisational structure or ownership? **No.**

1.5 What regulatory bodies define the IMC's external reporting and auditing requirements? **We are registered with the SEC.**

- 1.6 Has the IMC changed auditors in the past five years? If so, please explain why. **We are not currently audited.**
- 1.7 Did the IMC impose any staff reductions in the past three years? **No.** Please comment on reductions within the firm and in the Investment Management teams specifically.
- 1.8 Please give details of any lawsuits or fines over the last 3 years for the IMC or its parent company and its impact on the firms' profit. **None**
- 1.9 Please describe which areas the IMC expects to allocate development resources to in the coming 5 years and why. **Depending on growth in client base and/or AUM our resources will be primarily allocated to staff increases. We are also constantly looking at potential additional products complementary to our high yield focus.**
- 1.10 Please list all asset classes managed by your firm and provide the latest assets under management for each.
- 1) **US High Yield – \$2.75 billion**
  - 2) **US High Yield B/BB/ constrained - \$160 million**

## **2. Experience**

- 2.1 Briefly explain your experience in managing High Yield Bonds, and in particular US High Yield bonds. **Gary Pokrzywinski has managed dedicated US High Yield with the same strategy for 20 years, beginning in 1998 with the Principal High Yield Fund, and continuing at SiM. Ryan Larson, Co-Lead PM, has been with SiM since inception and been part of the investment team for 14 years.**
- 2.2 Please list all High Yield Bonds strategies currently and previously managed. Please specify their date of creation (and termination if applicable).
- US High Yield – March, 2011**
- US High Yield B/BB constrained – December, 2018**
- 2.3 Please indicate the latest Assets under Management (AuM) for each strategy currently managed.
- US High Yield - \$2.75 billion**  
**US High Yield B/BB/ constrained - \$160 million**

## **3. Product Proposed**

- 3.1 Please indicate clearly the vehicle that you are proposing for this investment (segregated mandate, fund-of-one, pooled fund). **Segregated Account.**
- 3.2 If you are proposing a pooled fund, indicate in particular its domicile, legal structure, custodian, base currency and the share class proposed (currency, redemption etc.). **N/A**

- 3.3 If you are proposing a pooled fund, please attach to your submission the latest fund presentation, monthly factsheet and the prospectus of the fund. **N/A**
- 3.4 If you are proposing a pooled fund, does it meet all the investment constraints described in the "Introduction" tab of the excel questionnaire? If not, please explain the differences. **N/A**
- 3.5 If you are proposing a segregated account, please confirm that you are willing to manage the mandate as described in the Introduction tab of the excel questionnaire. Please include here any comment on the investment constraints or minimum requirements. **We confirm.**
- 3.6 What benchmark do you suggest for the proposed strategy? Briefly explain why. ICE BAML US High Yield Master II. **We have used this benchmark since inception as it most closely represents our investable universe.**
- 3.7 What are your return and risk objectives on an annualised basis over rolling 3-year periods for the proposed product? **200bps/yr over the benchmark.**
- 3.8 Is the return target described in the previous question net or gross of fees? **Gross.**
- 3.9 Please describe your investment style and discuss the typical sources of alpha of your strategy. How do you typically expect to achieve your excess return target? How will this have to be adapted for the mandate under consideration?

**Our investment philosophy/process is our competitive edge. Our team leaders have worked together for 14 years and Gary Pokrzywinski, Co-Lead PM has managed high yield portfolios for more than 20 years. During that time, a period that spans three business cycles, the team's philosophy has taken advantage of numerous opportunities in out-of-favor sectors and non-traditional high yield instruments.**

**Allocation between industries vs. the index and individual security selection have both contributed equally to the strategy's alpha generation. Our fundamental tenets of: buying better businesses in core industries that win over a complete economic cycle, and then supplementing those positions with out of favor industries, geographies and or asset classes that have a catalyst for change and value realization, is what has enabled our relative outperformance.**

**SiM exploits market anomalies and inefficiencies by investing in out-of-favor industries and non-traditional high yield. The market has continually offered up such opportunities over the years: Asia, Telecom, "busted" convertible bonds, Merchant Energy, Gaming, REITs, South America, Airlines, Banks, Auto Retail and Western Europe, to name a few. It is in the nature of the market and the herd mentality of investors to create these opportunities. The key is to have the discipline to wait for them and the analytical skills and the long-term foresight to take advantage of them when they appear.**

**Toward the end of the business cycle, when the market is chasing every bit of extra yield, there are no out-of-favor industries or sectors. With no opportunities in the market SiM's strategy pulls the portfolio back into its core positions, which are based upon longer-term trends and tend to be less cyclical. Thus, SiM is well positioned when an overbought market has a correction and new out-of-favor industries and sectors emerge from the ruins.**

**Additionally, the portfolio has a significant investment in companies with total public debt less than \$1 billion. These companies generally fly under the radar of the market as a whole. Large fund managers generally ignore them since they cannot buy enough size to have any impact for their portfolios. Applying fundamental research SiM can realize excess returns from these smaller issuers.**

- 3.10 Please describe and comment on the portfolio proposed for this mandate (asset classes, weights, instruments used, investment thesis etc.). Describe the active positions or bets that are expected to contribute to excess return, explaining the rationale underlying each active position. **The mandate calls for the exact same strategy as currently managed by our team. A publicly available example of the portfolio that will be proposed for the mandate can be found at <https://www.americanbeaconfunds.com/Holdings.aspx>.**

- 3.11 Please explain your soft and hard closing policy for the proposed strategy. We do not have a formal policy for closing the strategy. **The global high yield market is expanding every year and therefore availability of names that fit our strategy grows as well.**
- 3.12 At what level of assets would you consider closing the strategy? Please explain. **The global high yield market is expanding every year and therefore availability of names that fit our strategy grows as well. We currently estimate the capacity of our strategy at \$6 billion.**

#### 4. Investment Resources & Research

- 4.1 Please provide the name(s) and location(s) of the relationship manager(s) that will be dedicated to the client. **All of our PMs and CEO/CCO are available to the client at any time. Our CEO will be the client point of contact.**
- 4.2 Please describe with an organisation chart the current organisational structures of the IMC, including the team(s) that would be responsible for the proposed mandate. **See # 1.2, above.**
- 4.3 Please describe the creation and evolution of the proposed team. When and by whom was the team founded? Please list all the portfolio managers who have been responsible for the proposed strategy since its inception (please include dates of tenure for each). **Co-Lead PMs have been with the Firm and managing the high yield strategy since inception (2010). Prior to founding SiM, Gary Pokrzywinski worked at Edge Asset Management (now the Principal Group) where he managed the Principal High Yield Fund beginning in 1998, using the same philosophy and strategy now employed at SiM.**
- 4.4 Please list all team members who are involved in the management of the proposed strategy (portfolio managers, analysts and traders) using the table below. **Please also include short biographies of key decision makers including their academic and professional backgrounds.**

##### Portfolio Managers

Name	CFA (Y/N)	Other degree or professional qualification	Job Title/Function	Location (Country / City)	Country/ sector coverage	% of time devoted to strategy	Years in firm	Years in industry	Key decision-maker (Yes/No)
Gary Pokrzywinski,	Y	BA	Co-Lead Portfolio Manager	Seattle, USA	Varies	100%	Since Inception	30+	Yes
Ryan Larson	Y	BA	Co-Lead Portfolio Manager	Seattle, USA	Varies	100%	Since Inception	15+	Yes
Kevin Power	Y	BA	Analyst	Seattle, USA	Varies	100%	Since 2016	8	Yes

##### Traders

Name	CFA (Y/N)	Other degree or professional qualification	Job Title/Function	Location (Country / City)	Country/ sector coverage	% of time devoted to strategy	Years in firm	Years in industry	Key decision-maker (Yes/No)
Greg Holmes	Y	BA	Trader	Seattle, USA	Varies	100%	Since 2022	14	No

**Gary J. Pokrzywinski, CFA**  
**Strategic Income Management, LLC**  
**Co-Lead Portfolio Manager**

Gary J. Pokrzywinski is the Lead High Yield portfolio manager for Strategic Income Management, LLC. He has more than 30 years of experience in the fixed-income financial markets. He managed the Principal High Yield Mutual Fund from its inception in April 1998 to May 2009. Before co-founding SiM in 2010, he was the CIO and a High Yield portfolio manager for Edge Asset Management (and its predecessor), an affiliate of Principal Financial Group. He worked for Edge and its predecessor from 1992 to 2009. Prior, Mr. Pokrzywinski was an investment officer and portfolio manager for Firststar Investment Services Co. He received a bachelor's degree in Finance and Management Information Systems from the University of Wisconsin-Milwaukee. Mr. Pokrzywinski is a CFA® charterholder and is a member of the CFA® Society of Seattle.

**Ryan Larson, CFA**  
**Strategic Income Management, LLC**  
**Co-Portfolio Manager**

Mr. Larson is a Portfolio Manager for the SiM High Yield Team. Mr. Larson is responsible for portfolio management, investment research and analytics. He has 12 years of experience in investments. Prior to SiM, Mr. Larson was a research analyst at Caelum Capital, a Los Angeles based equity long-short hedge fund, from 2009 to 2010. Mr. Larson earned the right to use the Chartered Financial Analyst designation in 2012 and is a member of the CFA Society of Seattle. Mr. Larson is also a member of the Chartered Alternative Investment Analyst Association (CAIA). Mr. Larson graduated with honors from Brown University with a bachelor's degree in Commerce, Organizations and Entrepreneurship.

**Kevin Power, CFA**  
**Strategic Income Management, LLC**  
**Portfolio Manager**

Mr. Power is a Portfolio Manager for the SiM High Yield Team. He supports the High Yield Team in credit research and analysis. Mr. Power earned the right to use the Chartered Financial Analyst designation in 2019 and is a member of the CFA Society of Seattle. Mr. Power graduated with honors in Economics from the University of Washington in 2006.

- 4.5 Please list and briefly describe the strategies managed directly by this team. For each strategy, indicate the number of funds or accounts managed. **Our team manages only US High Yield (four accounts), and US High Yield B/BB constrained (two accounts).**
- 4.6 Please list the people having joined and left the team over the past 5 years using the following tables and comment if necessary. This list should include all senior managers, as well as fund managers, analysts/researchers and traders from the team(s) involved in this strategy:

**JOINERS**

Date	Name	Function (Fund management, analysts/researchers, traders)	Job Title / Responsibilities	Location (Country/ City)	Country/ sector coverage	% of time devoted to strategy	Key decision-maker (Yes/No)
01/2022	Greg Holmes	Trader	Trader	Seattle, US	Varies	100	No

**LEAVERS**

Date	Name	Function (Fund management, analysts/researchers, traders)	Job Title / Responsibilities	Location (Country/ City)	Country / sector coverage	% of time devoted to strategy	Reason for leaving	Replaced by (name / title)	Key decision-maker (Yes/No)
12/2022	Brian Placzek	Research	Portfolio Manager	Seattle, US	Varies	100	Retirement		Yes

- 4.7 Is any portion of remuneration of the team members tied to the performance of the products that they manage? If yes, please describe. **All of our Portfolio Managers hold ownership stakes in the firm and receive competitive market rate salaries alongside ownership profits. The profitability of our firm is significantly tied to investment performance, ensuring that our compensation structure aligns our interests with those of our clients. Additionally, junior members of our investment team are rewarded with a combination of base salary and performance-based bonuses.**
- 4.8 Is any portion of remuneration of the team members deferred over time? **No.** If yes, please describe.
- 4.9 Do team members participate in the ownership of the IMC via stock holdings or stock options? Please explain. **We are 100% employee owned and all team members are equity owners, with the exception of the trader.**
- 4.10 Do team members invest their own money in the proposed strategy? **Yes, team members have, and are, invested in our strategy through our '40 Act mutual Fund. If yes, in what proportion?** Please explain. **Amounts vary, but for those that are currently invested 10%+**
- 4.11 Please describe any other programs in place that contribute to retain and motivate team members. For each of those programs, indicate when they have been introduced. **None.**
- 4.12 Please discuss any possible retirement of key individuals and any succession plan that is in place. **There are no retirement plans of key individuals currently.**

## **5. Investment Process**

*Please describe in this section your standard investment process, of which the track record presented in the excel questionnaire should be representative.*

- 5.1 **Please describe in a maximum of 500 words your investment process (idea generation/research, security/sector selection, portfolio construction/sizing of positions)?**

**All of our investment team members source investment ideas. We conduct in-depth research on potential new ideas. Financial models are created where appropriate. Our research is guided by our strategy which leads us to focus on (1) industries supported by long-term secular trends; (2) out-of-favor industries that are viable and on a discernable path of rebalancing; and (3) non-traditional high yield securities that have fallen out of out-of-favor with their traditional buyers. The market has continually offered up such opportunities over the years: the Asian Crisis, the Telecom and Technology Bubbles, the overbuilding in Merchant Energy, cycles in Las Vegas Gaming, sell-offs in REITs, currency crises in South America, the restructuring of the Airline industry, the Banking Crisis, the near collapse of Detroit auto manufacturing, the European Crisis—just to name some of the opportunities we captured.**

**Once we have identified an industry that interests us, that industry/sector will be assigned to a member of the team to analyse the industry in depth and the potential issuers in that industry. Then, after discussion among team members, a subset of the companies will be analysed in detail to determine if there is a worthwhile investment candidate. This process can take up to a month for complex industries that the team is not already familiar with (such as Energy), and as short as a few days if they have recent experience with the industry or it is a more simple industry.**

We evaluate the volatility of earnings in an industry over a business cycle, and the ability of a company within that industry to generate cash to reinvest and sustain its business. Within an industry we evaluate the competitive environment and barriers to entry that might support margins. The team evaluates management's competence, words vs. deeds and bondholder friendliness. Balance sheet liquidity and shareholder support can be an important buffer against volatile cash flows. The strength or weakness of all these factor into what leverage a company can support and an evaluation of the market yield relative to risk. Generally, this process leads to the better businesses in the better industries.

If the team is comfortable with an industry and the sustainability of the company's cash flows, then we will assess how deep we can go into the company's capital structure for a higher return. However, we do tend to shy away from junior securities when capital structures have a disproportionate amount of secured/senior debt relative to the junior debt. Detailed financial modeling will be done for companies when adequate models are not available, especially within industries that are deeply out-of-favor. Gary Pokrzywinski, our Lead PM makes all final investment decisions.

Weightings are determined by our evaluation of the credit's risk/reward. An average position in the portfolio is around 1.5% to 2.0%. A large weighting is generally around 3.0%. We have a target percent for each position in the portfolio and monitor these on a daily basis.

5.2 Please describe the investment constraints. Do you apply any limits to the following parameters? If so, please specify the limits:

- Minimum/maximum number of positions – **N/A**
- Minimum/maximum number of issuers – **N/A, but generally between 80-100**
- Minimum/maximum weightings at an individual industry level – **Max 25% no min**
- Minimum/maximum weightings at an individual issuer level – **5% max no min**
- Minimum/maximum weightings at an individual security level – **max 10% of an issuer**
- Minimum/maximum weightings per level of rating – **N/A**
- Maximum holding of a bond in % of total face value – **10%**
- Maximum % of cash in portfolio – **20% max, generally 3% or less**
- Maximum % off-benchmark – **N/A**
- Minimum/maximum duration – **We don't actively manage duration but try to remain neutral +/- 10% to the duration of the benchmark.**

5.3 Please describe the types of derivatives that you use within the proposed strategy. When are they used and for what purpose? **Currently we utilize currency futures to hedge our foreign denominated bonds back into US dollars. In the past, sparingly, we have sold single-name credit default swaps (CDS) when bonds were unavailable in a name we liked. These are unleveraged positions, that is, we set aside Treasuries or Agencies equivalent to the position.**

5.4 Please describe your foreign exchange hedging policy. Do you try to add value from active currency management? **We hedge our non-USD positions. Currency management is for hedging purposes only.**



5.5 Do you or did you use financial leverage as part of your strategy? **We do not use leverage.** If so:

- How often?
- For which purpose?
- To which extent? Indicate here any soft or hard limit

5.6 Please describe your sell discipline. In which circumstances will you sell part or all of a position prior to maturity? **SiM's sell discipline is facilitated by their strategy. This gives the team much more focus and flexibility in maximizing relative value throughout the business cycle. While our team's experience has taught patience and discipline, they will sell a position if their original investment thesis has been proven incorrect or if they find a better relative value. The strategy turnover historically has been low at 30-50%.**

5.7 Has your investment approach changed over the last 5 years? If yes, in which way and why?

**Our high yield philosophy and strategy has not changed for 20 years.**

## 6. Track Record

6.1 Please explain why you chose the presented track record. To what extent is it representative of your strategy and your ability to manage the proposed mandate? **The track record presented represents our high yield strategy, which has not changed in 20 years. Our strategy is perfectly aligned with the proposed mandate.**

6.2 If you have presented a GIPS composite, please provide as attachments to your submission the latest GIPS performance report for the composite. **Attached.**

6.3 Please list all GIPS composites of your firm in this asset class, indicating for each composite its date of creation and the current asset size. Briefly explain the differences with the track record presented.

- 1) **US High Yield – March, 2011, \$2.75 billion**
- 2) **US High Yield B/BB/ constrained - \$160 million**

6.4 Please comment on your performance track record using the table below. Describe for each calendar year the positions or bets that were the largest contributors and detractors to excess return:

Year	Track record performance (% Net)	Benchmark performance (%)	Comment on largest contributors/detractors
2010	N/A	N/A	
2011	-0.43%	.77%	Top Performers: Total Access, Quality Distribution, Aramark Holdings Corp.  Bottom Performers: Continental Financial Trust, China Med Technologies, Alliance Healthcare
2012	20.64%	15.58%	Top Performers: National Bank of Greece, OTE PLC., Continental Pfd .  Bottom Performers: Interactive Network Inc., Pescanova SA, Exopack Holding Corp
2013	7.74%	7.42%	Top Performers: Continental Pfd, Omega Healthcare, Ono Finance  Bottom Performers: Pescanova, Homex, Getty Images
2014	4.25%	2.50%	Top Performers: ADS Tactical, Cirsa Funding Luxembourg, Emma Delta Finance

			Bottom Performers: Mirant Americas, Saratoga Resources, Pescanova SA
<b>2015</b>	-3.74%	-4.64%	Top Performers: Northern Blizzard Res, ADS Tactical, MEG Energy Corp.  Bottom Performers: Cloud Peak Energy, MEM Prod Part Corp., Alpha Bank A.E.
<b>2016</b>	16.30%	17.49%	Top Performers: Constellation Brands, California Resource Corp., Techniplas LLC  Bottom Performers: Energen Corp, Kissner Group Holdings, Continental Resources
<b>2017</b>	7.32%	7.48%	Top Performers: Kindred Healthcare, VRG Linhas., Men's Wearhouse  Bottom Performers: Cona Resources, Carlson Travel, Granite Oil
<b>2018</b>	-1.14%	-2.26%	Top Performers: MEG Energy, Carlson Travel, JBS USA  Bottom Performers: Sanchez Energy, Simmons Foods, Pioneer Energy Services
<b>2019</b>	12.37%	14.41%	Top Performers: GoGo, Scorpio Tankers, DHT Holdings  Bottom Performers: Pioneer Energy Services, Nova Austral, California Resources
<b>2020</b>	6.52%	6.17%	Top Performers: Canadian Energy Services, Cenovus Energy, MEG Energy  Bottom Performers: Diamond Sport, Scorpio Tankers, Pioneer Energy Services
<b>2021</b>	8.81%	5.36%	Top Performers: Athabasca, Baytex Energy, Navios Maritime  Bottom Performers: Canadian Energy Services, Treehouse Foods, Plains All American
<b>2022</b>	-6.95%	-11.22%	Top Performers: Scorpio Tankers, Horizon Therapeutics, Plains All American  Bottom Performers: Strathcona Resources, QVC Inc., Carnival Cruise Lines
<b>2023</b>	12.55%	13.46%	Top Performers: Strathcona Resources, QVC Inc, Vista Outdoor  Bottom Performers: Nova Austral, Samhall Norden, Euronav Luxembourg
<b>2024</b>	9.94	8.20%	Top Performers: Heimstaden, Upstart, Samhall Norden  Bottom Performers: Shelf Drilling, Ciena Corp, Charles River

\*Performance history and comments reference the American Beacon SiM High Yield Opportunities Fund. Benchmark performance is the ICE BofA US high Yield Index

## 7. Details of Responsibilities

Lastly, please complete the details below, which summarises the responsibilities of the persons who collectively completed this questionnaire. Thank you.

Name: Tim Black  
Responsibility: COO/CCO  
Tel: 206-915-3254  
Email: tblack@sim-llc.com