



## High Income Strategy



### Investor Profile

- Long-term cash flow focused investor
- Comfortable with price volatility to achieve cash flow goal
- Core asset allocation strategy already in place
- 5-10 year horizon with no investment principal needs

### Investment Objective

The strategy seeks high current income and long-term capital appreciation. The strategy has a secondary objective to mitigate significant downside volatility. Over a complete market cycle<sup>1</sup> the strategy will pursue returns from traditional fixed income asset classes as well as non-traditional<sup>3</sup> asset classes. Asset class exposure will vary by market opportunity and the outcomes of our research.

### Investment Strategy

Our core fixed income research process incorporates five value-added steps: Duration and yield curve management, capital allocation, vehicle selection, security selection and risk management.

The Entasis High Income strategy is designed to leverage our core research process to identify a broad set of income-producing investments, including non-traditional asset classes, with the potential for capital appreciation. By targeting multiple source of income we believe we can generate high levels of income and proactively manage downside volatility.

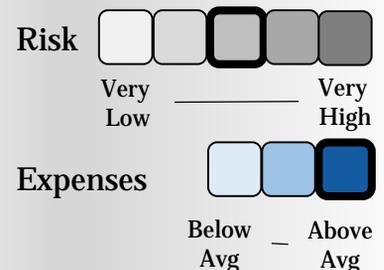
#### Capital Allocation

The broad investment universe for the strategy requires a thorough capital allocation process that takes into consideration a number of long-term variables. On an annual basis, we forecast returns, volatility and correlations for each sector of the global opportunity set. We use our forecasts to generate an efficient frontier of portfolios that help us derive a strategic long-term allocation target for each sector of our global opportunity set.

We emphasize sectors that we believe have the greatest combination of relative value and upside potential. Our determination of relative value is based on a proprietary process we have developed to measure the credit quality of each sector of the fixed income market.

Our quality determinations are based on fundamental factors that increase or decrease a borrower's ability to repay its debts. Upside potential is estimated by comparing the credit spreads of each sector to their long-term historic levels and to each other on a risk-adjusted

### Entasis Risk & Expense Ratings<sup>2</sup>



### Benchmark

- 75% / 25% blend of high-yield corporate to aggregate bond
- E.g. BoAML High Yield Master II Index and Barclays Aggregate Bond Index



## Investment Strategy Continued

basis. The combination of our relative value analysis and upside analysis helps us identify the sectors of the market with improving fundamentals that are inexpensive. Generally, we will overweight sectors relative to their strategic long-term allocation targets that possess the greatest combination of those traits. We will underweight sectors where the reverse is true.

Our capital allocation targets are paired with our duration and yield curve, vehicle selection, investment selection and risk management processes to establish, maintain and monitor the portfolio.

### Vehicle Selection

Across our fixed income strategies we use a mix of individual securities, mutual funds and exchange traded funds (ETFs). Due to the goals of the High Income strategy, the vast majority of investments will be in actively-managed products. Individual bonds and ETFs will be used to gain targeted duration, quality or sector exposures. Up to 20% of the portfolio may be in investments that have limited short-term liquidity such as quarterly purchase and redemption periods.

### Investment Selection

The investment selection process for the strategy includes our firmwide manager selection process and individual bond selection processes. In summary, our manager research process emphasizes teams with long investment horizons and low turnover ratios that we believe have the ability to achieve risk-adjusted, above-benchmark performance over a complete market cycle. Our bond selection process begins with an analysis of issuer liquidity. We then isolate securities that have experienced price dislocation relative to their sector, risk profile and rating. The goal is to identify issues with transitory versus structural problems based, in part, on our assessment of company management.

### Duration and Yield Curve Management

We utilize proprietary models to determine fair value for interest rates (using the 10-year Treasury as a benchmark) and the stage of the economic cycle and its trend. It is our goal to dollar cost average our interest rate risk throughout the cycle by taking less risk at the beginning of the cycle and ultimately become longer duration at the end of an economic expansion. We do not attempt to forecast interest rate movements. Our yield curve strategy follows a similar path.

### Risk Management

The two primary types of risk that are measured and managed are volatility of returns (standard deviation) and downside risk (drawdown). These risks are carefully monitored and actively managed through scenario analyses. We attempt to mitigate these risks through diversification across the yield curve, sectors, issuers, credit quality, currencies and investment managers.

## Investment Team



**Mike Peters, CFA**  
Chief Investment Officer –  
Fixed Income, Strategy Lead



**Charles (CJ) Batchelor, CFA**  
Chief Investment Officer –  
Equity



**Bob Batchelor, CFA**  
Chief Executive Officer

## Management Fee<sup>4</sup>

**0.50%\***

\*Entasis' fee for investment management does not include underlying product fees or platform fees. Our fee transparency sheet provides an estimate of the total client fee for this strategy. Actual client total fees will vary.



## Important Notes

<sup>1</sup>Entasis defines a complete market cycle as an extended timeframe that incorporates positive and negative periods of economic and security markets activity.

<sup>2</sup>The Entasis Risk Rating is designed to provide investors with a general understanding of the comparative risk profile of each of the Entasis strategies. It is not meant to provide a comparison of Entasis strategies to those at other firms. Generally speaking, the lighter grey strategies are designed to more highly emphasize capital preservation while the dark grey strategies are designed to emphasize value creation. The Entasis Expense Rating is also designed to provide a comparative expense profile of each of the Entasis strategies. It is not meant to provide a means of comparing Entasis fees to other firms. Generally speaking, the lighter blue strategies tend to use a higher passively managed allocation creating lower overall fees while the darker blue strategies tend to use a greater percentage of actively managed portfolios.

<sup>3</sup>Non-traditional asset classes include corporate high yield, bank loans, global debt (U.S. and foreign currency denominated), emerging market debt (U.S. and foreign currency denominated), insurance-linked securities and catastrophe bonds, master limited partnerships (MLPs), closed-end funds, preferred equity, convertible bonds and unconstrained bond funds and global macro funds.

<sup>4</sup>Entasis' fee for investment management will be charged as a percentage of "household" assets under management. For the purposes of the fee calculation, "household" assets mean investment accounts managed for a client and client's spouse, partner, minor children and/or disabled adult children. Fees for households with assets over \$5M will be negotiated individually.

A yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt.

### Investment Risks

The strategy is subject to asset allocation risk and the risks of the underlying funds and ETFs in which it invests. Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. International investing presents specific risks, such as currency fluctuations, differences in financial accounting standards as well as potential political and economic instability. These risks are magnified in emerging and frontier markets. Fixed income investments entail interest rate risk (as interest rates rise bond prices usually fall), the risk of issuer default, issuer credit risk and inflation risk. Lower-quality bonds can be more volatile and have greater risk of default than higher-quality bonds.

The **BoAML High Yield Master II Index** is a broad based index consisting of all U.S. dollar-denominated high-yield bonds with a minimum outstanding of \$100 million and maturing over one year. The **Barclays Aggregate Bond Index** tracks the performance of intermediate-term government bonds, investment grade corporate debt securities and mortgage-backed securities with at least one year to final maturity.

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