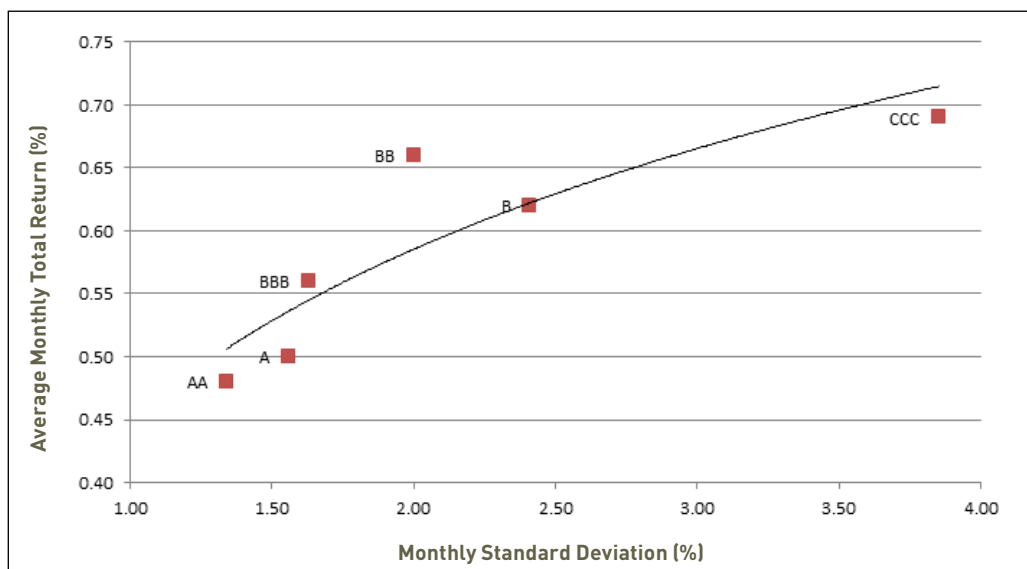


High Quality Junk Bonds – An Oxymoron or Opportunity?

When high-yield markets are performing well and outsized returns have been achieved within lower rating categories, investors are often lulled into continuing to take on more risk. Since 2009, the accommodative policies of global central banks, low rates of inflation, and a relatively benign default rate environment steered investors to “reach for yield” within their bond allocation, perhaps taking on more susceptibility to high-yield market volatility. While the timing of market volatility may be difficult to project, it is readily apparent that such disadvantageous periods have occurred often and that investors are prone to forget the lesson that such volatility provides time and time again. As the graph below illustrates, acceptance of high-yield market volatility is not just a “necessary evil” associated with targeting the return opportunity that is available within the high-yield market. At various times in history, shifts in risk appetite and the accompanying sudden change in valuations throughout the high-yield market cause a differentiation of returns across rating categories, and the favoring of higher rated securities within the high-yield asset class. A focus on BB-rated credits has historically provided investors with a risk/return profile that sits in a differentiated position relative to other rated segments of the corporate bond market while exhibiting significantly less volatility than the rest of the high-yield market.

Corporate Bond Performance
1/1/93-12/31/16



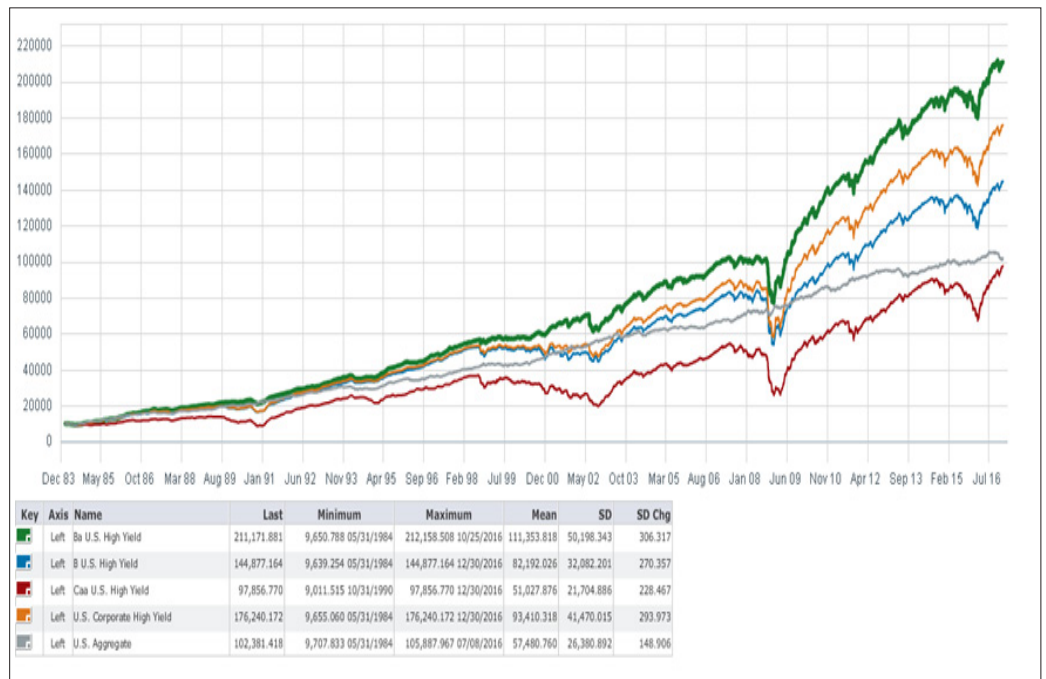
Source: BofA Merrill Lynch. Past performance does not guarantee future results.

High Quality Junk Bonds – An Oxymoron or Opportunity?

Certainly during periods of extremely hospitable credit environments, lower rated or lower quality credits would be anticipated to outperform the higher rated, less volatile BB-rated issues within the high-yield market, as seen during 2016. However, an investor needs the skill to actively sell the more speculative securities to avoid underlying default risk and rely on correctly timing their trade activity, as well as the suspect benevolence of increasingly absent high-yield market makers to consistently outperform over time.

For those that realize the inherent challenges of skillfully trading the high-yield asset class, or even those that prefer to emphasize long term returns more-so than worry about the volatility of their bond portfolio, preference for BB's can still be found by examining the total return data by credit rating over the last 33 years. The below graph illustrates that higher quality issues, as represented by Barclays Ba Corporate Credit Index, have provided a compelling total return advantage relative to lower rated segments of the high-yield market, as well as the overall fixed income market, as represented by the Barclays U.S. Aggregate Bond Index.

Barclays Index Performance – High Yield Comparison
Growth of 10,000 (1/1/84 – 12/31/16)



Source: Barclays Capital, Barclays Live – Time Series Plotter. Past performance does not guarantee future results.

Denver Investments' High Yield investment philosophy is supported by the historical data set, which suggests quality-oriented high-yield investments offer a superior risk/return profile. Denver Investments' approach entails intensive credit analysis by which the team evaluates yield versus risk through business cycles, and the logical result is a larger weighting of higher-rated, high-yield issues (as represented by BB-rated issuers) offering a competitive yield with more limited downside price volatility compared to traditional high-yield investment options.

Over the last few years, the high-yield market has experienced only a few distinct but limited periods of weakness, and an overall positive return profile dominated by the market rally throughout the majority of 2016. Denver Investments' High Yield performance, within the relatively hospitable credit environment of the last seven years, has met the team's expectations through exhibiting a comparable relative return versus peers with more limited volatility, as illustrated below.

Return & Volatility Measures 7 Years Ended 12/31/2016	Annualized Return	Standard Deviation	Sharpe Ratio	Sortino Ratio
Denver Investments High Yield Fixed Income	8.20% (gross) 7.72% (net)	4.66%	1.74	3.63
eVestment High Yield Fixed Income Universe Median	7.88%	6.05%	1.32	2.36

Past performance does not guarantee future results.

Most importantly, the team believes that a high quality, high-yield investment strategy works over the long term for investors who want comparative yield from a high-yield product, but who are more sensitive to volatility and are more focused on capital preservation.

Looking forward, the team remains optimistic regarding the long-term risk/return outlook for the higher-quality segment of the high yield market where the product is focused.

High Quality Junk Bonds – An Oxymoron or Opportunity?

The information contained herein is for informational purposes only without regard to any particular users investment objectives, risk tolerances or financial situation and does not constitute investment advice, nor should it be considered a solicitation or offering to investors residing outside the United States. The investment process used by Denver Investments may not achieve the desired results.

Standard Deviation: A statistical measure of the historical volatility. It is calculated as the square root of the variance.

Sharpe Ratio: A measure of risk-adjusted excess return and is calculated by subtracting the risk-free rate from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns.

Sortino Ratio: This statistic is very similar to the Sharpe Ratio except that it is concerned only with downside volatility (unfavorable) versus total volatility (both favorable, upside volatility and unfavorable, downward volatility). This statistic is computed by subtracting the return of the risk-free index (typically 91-day T-bill or other cash index) from the return of the manager to determine the risk-adjusted excess return. This excess return is then divided by the downside risk of the manager. A manager taking on risk, as opposed to investing in cash, is expected to generate higher returns and Sortino measures how well the manager “spends” that risk, while not penalizing them for upside volatility (outperformance). The higher the Sortino Ratio, the better; a Sortino Ratio of 1 is better than a ratio of 0.5 – higher excess return and/or lower downside risk.

All indices are unmanaged and investors cannot invest directly in an index. Barclays is the source and owner of the Barclays Index data. Net of fees returns are calculated net of management fees and transaction costs and gross of custodian fees. As of 1/1/08, net returns were calculated by deducting the maximum applicable advisory fee for this strategy. Prior to this date, net of fees returns were calculated using actual annual client fees, pro-rated on a quarterly basis.