

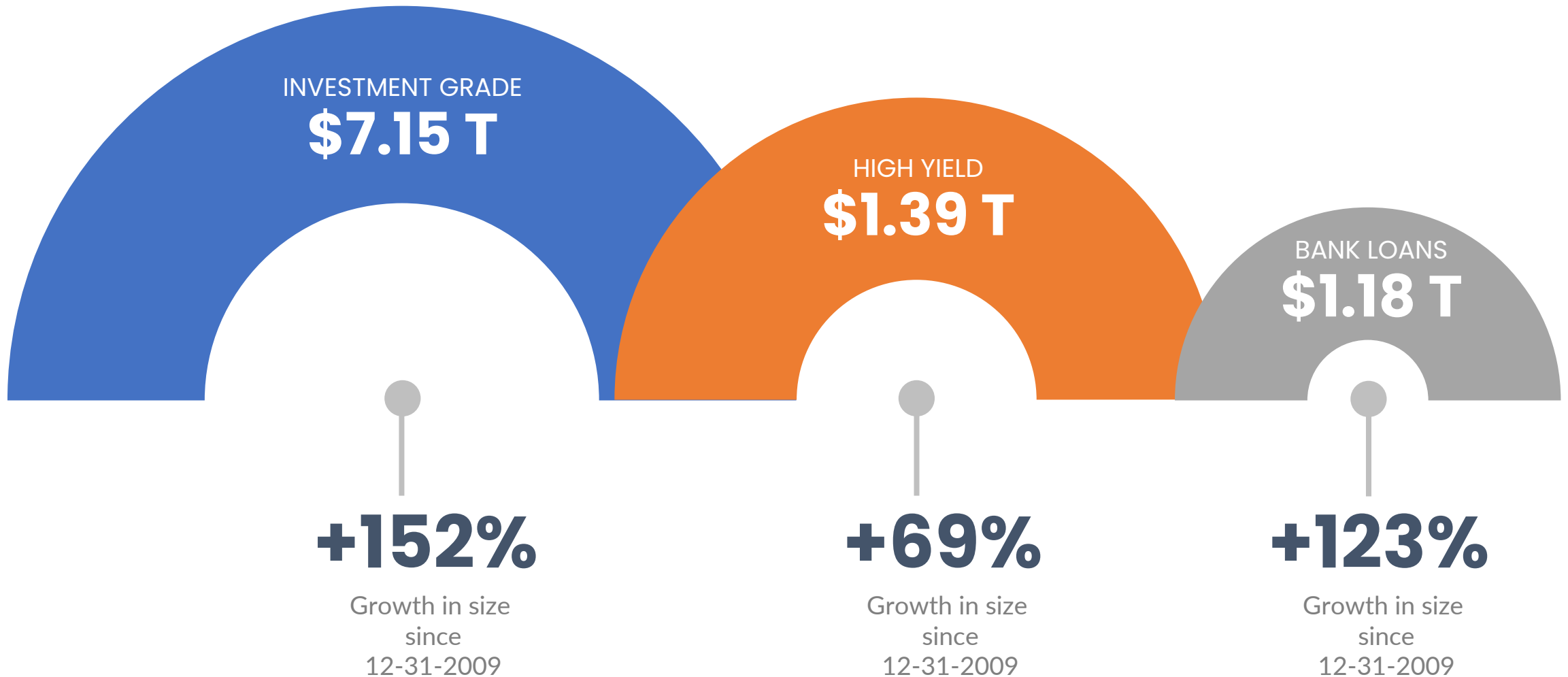


# High Yield Investments Consulting Services

Lehmann Livian Fridson Advisors | August 2020

# US CORPORATE DEBT MARKET

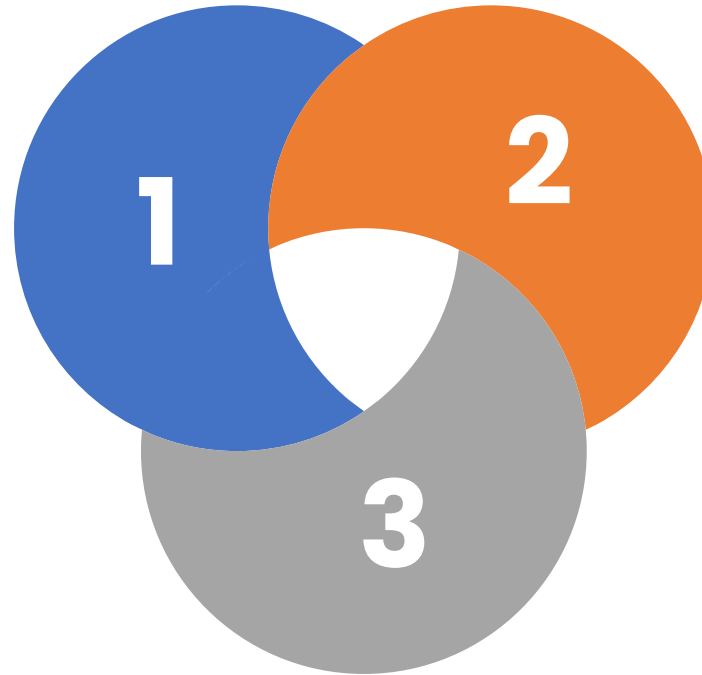
Outstanding amount in \$ Trillions, as of July 2020  
(Sources: ICE Indices, LLC; S&P/LSTA Index)



# OUR VALUE PROPOSITION

## DEEP KNOWLEDGE OF HIGHLY SPECIALIZED MARKET

Martin Fridson, CFA is considered the “Dean of High Yield.” He is one of the most knowledgeable and recognized professionals in this space.



## INNOVATIVE APPROACH TO RESEARCH INVESTMENT VEHICLES

Our novel methodology helps you uncover the best vehicles to take advantage of credit opportunities. Our focus is on liquid and traded vehicles (open-end, closed-end and exchange traded funds).

## IMPROVE YOUR ALLOCATION DECISIONS WITH OUR PROPRIETARY SYSTEM TO TRACK THE CREDIT CYCLE

Access to our proprietary methods to track the credit cycle helps you maximize your long-term fixed income returns.



# TEAM BIOGRAPHIES

## MARTIN FRIDSON, CFA

Chief Investment Officer  
Lehmann Livian Fridson Advisors

Martin Fridson is “perhaps the most well-known figure in the high yield world,” according to *Investment Dealers’ Digest*. At brokerage firms including Salomon Brothers, Morgan Stanley, and Merrill Lynch, he became known for his innovative work in credit analysis and investment strategy. For nine consecutive years he was ranked number one in high yield strategy in the Institutional Investor All America Research Survey. In 1989 Fridson wrote one of the earliest books on the high yield bond market, *High Yield Bonds: Identifying Value and Assessing Risk of Speculative Grade Securities*, and a quarter-century later edited *High Yield, Future Tense: Cracking the Code of Speculative Debt*. Fridson received his B.A. cum laude in history from Harvard College and his M.B.A. from Harvard Business School. He has served as president of the Fixed Income Analysts Society, governor of the CFA Institute, director of the New York Society of Security Analysts, and consultant to the Federal Reserve Board of Governors.

The Financial Management Association International named Fridson the Financial Executive of the Year in 2002. In 2000, he became the youngest person inducted up to that time in the Fixed Income Analysts Society Hall of Fame. A study based on 16 core journals ranked Fridson among the ten most widely published authors in finance in the period 1990-2001. In 2013 Fridson served as Special Assistant to the Director for Deferred Compensation, Office of Management and the Budget, The City of New York. The CFA Society New York, presented Fridson with its Ben Graham Award in 2017. In 2000, *The Green Magazine* called Fridson’s *Financial Statement Analysis* “one of the most useful investment books ever.” The *Boston Globe* said his 2006 book, *Unwarranted Intrusions: The Case Against Government Intervention in the Marketplace*, should be short-listed for best business book of the decade.

Fridson’s weekly high yield market analysis is published by S&P Global Markets/LCD. In addition, his commentary on economics and financial markets can be found forbes.com. He is also publisher of the *Income Securities Investor* newsletter. Fridson’s financial and economic writings have appeared in *Barron’s*, the *Financial Times*, and the *Wall Street Journal*.

## MICHAEL LIVIAN, CFA

Chief Executive Officer  
Lehmann Livian Fridson Advisors

Michael Livian is founder and CEO of Livian & Co. and CEO and co-founder of Lehman Livian Fridson Advisors. He has over 25 years of experience in the financial services industry. He was the Chairman of the Executive Committee and Head of Asset Management at Safdie Investment Services Corp. (subsidiary of the Swiss private bank, Banque Safdie) and a board member of other asset management firms. Prior to these positions Livian was a Managing Director at Speed Ventures, a primary pan-European private equity/VC firm. He also worked as an Associate Director for Bear Stearns & Co. in New York and in Italy with a special focus on fixed income and credit derivatives. Livian holds a summa cum-laude MSc degree in Economics from the University of Milan. He published several academic articles and books on quantitative finance, fixed income and equity valuation. He is a CFA charterholder, a member of the CFA Society of New York (CFANY) and the previous co-chairperson of the Private Wealth Management Committee at CFANY. Livian lives in New York with his wife and three children.

## SAGAR SHAH, CFA

Portfolio Manager  
Livian & Co.

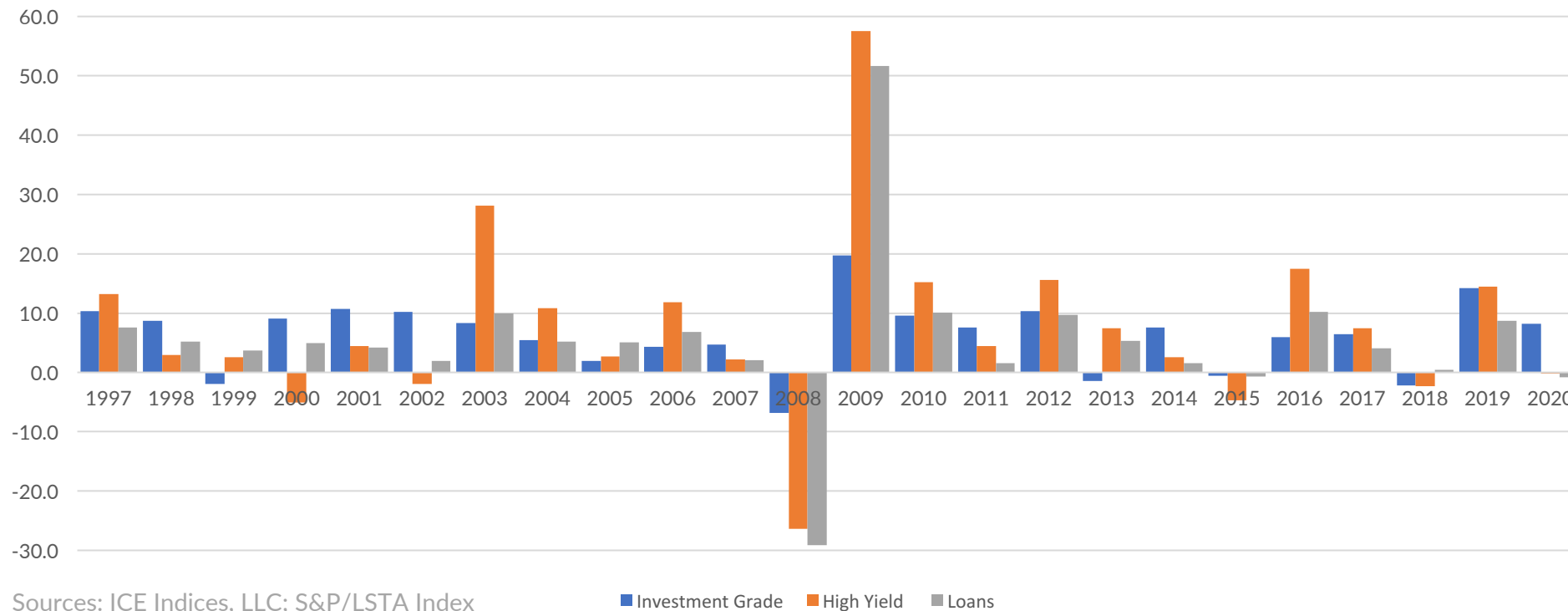
Sagar Shah joined LLFA’s affiliated company Livian & Co. in September of 2017 as the Portfolio Manager of the firm’s proprietary equity strategy. He is responsible for equity valuation, due diligence, and fundamental analysis. Shah has over four years of experience working for US Bank and Express Scripts. His experience encompasses a wide spectrum ranging from traditional corporate banking within US Bank’s Treasury group to pharmaceutical pricing and healthcare analytics at Express Scripts. He earned a B.S. in Biology along with a minor in Chemistry from The College of New Jersey and holds an MBA in Finance from Rutgers University. Shah is a CFA Charterholder and a member of the CFA Society of New York.

“For nine consecutive years, Martin Fridson was ranked #1 in *High Yield strategy* in the Institutional Investor All America Research Survey”

# CREDIT IS HIGHLY CYCLICAL

## Annual Performance of Investment Grade, High Yield, and Loans (%)

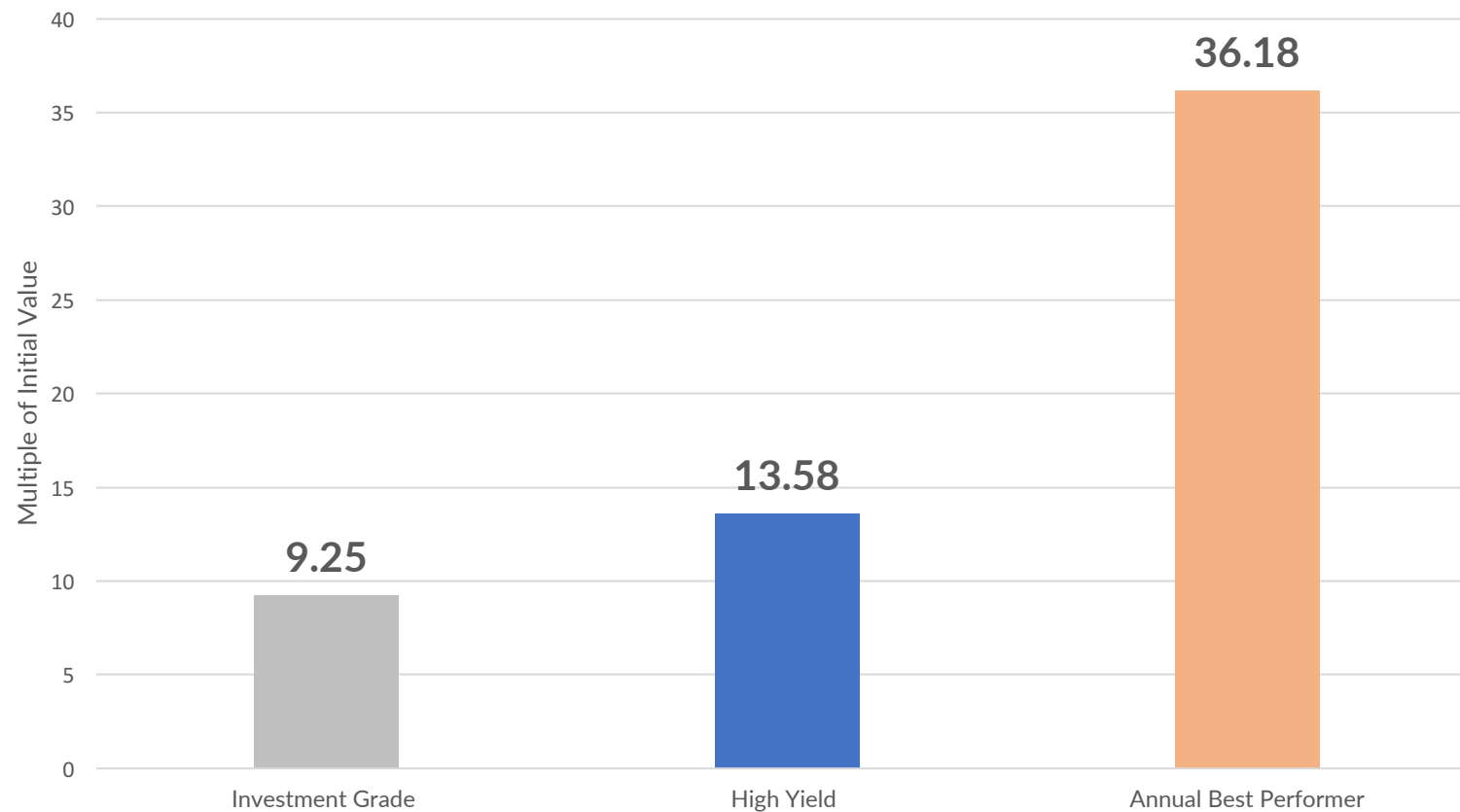
1997-2020



Sources: ICE Indices, LLC; S&P/LSTA Index

# UNDERSTANDING CREDIT CYCLES CAN MAKE A BIG DIFFERENCE

Growth of \$1 with Reinvestment: 1987–2019



Sources: ICE Indices, LLC; S&P/LSTA Index

# TRACKING KEY CYCLE METRICS

## OUR INPUTS FOR HIGH YIELD ALLOCATION DECISIONS

Current Data as of July 31, 2020

01

Point-in-Cycle Indicators	Current	Previous	Expansion Median
Default Rate (%)	8.4	7.3	3.3
Distress Ratio (%)	14.3	17.6	8.3
New Issue Access ≤ B- (Count)*	7	6	3.8
New Issue Spread ≤ B- (bps)*	628	664	624.0
Recovery Rate (%)	27.0	22.2	43.6
Upgrade/Downgrade Ratio (x)**	0.53	0.09	0.7

02

Valuation Indicators	Current	Previous	Expansion Median
Capacity Utilization (%)	64.8	64.8	77.0
Tighten minus Ease Credit (% pts.)**	71.3	41.6	-7.3
Five-Year Treasury Yield %	0.29	0.31	1.6
VIX %	30.43	27.51	15.90
High Yield Seasoned Spread (bps)	644	654	472.0

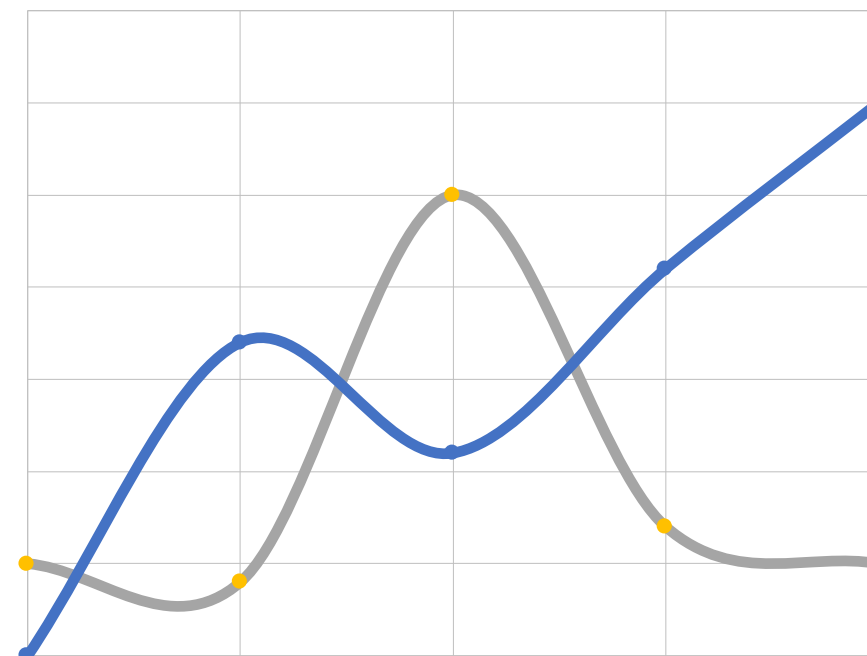
Red = Worsening Conditions/Rich Valuation Indication

bp = basis point = 1/100 pct.pt.

\*Expansion Period = 2005-2019 excluding Great Recession \*\*Quarterly series

Sources: Bloomberg; Chicago Board Options Exchange; Federal Reserve Board of Governors; ICE Indices, LLC; Moody's Investors Service; Standard & Poor's

## WE ARE IN THE "STRESSED" PHASE OF THE CREDIT CYCLE



# SELECTION OF INVESTMENT VEHICLES

## PROPRIETARY DATABASE OF HIGH YIELD FUNDS

246 US registered closed-end, open end and exchange traded funds.

## FUND EVALUATION

Evaluation of management team, return consistency, expense ratios, portfolio construction process and positioning.

01

02

03

04

## SCREENING USING THE OMEGA RATIO

Historical performance evaluated using the Omega ratio (more comprehensive than Sharpe and Sortino ratios).

## CREDIT CONSIDERATIONS

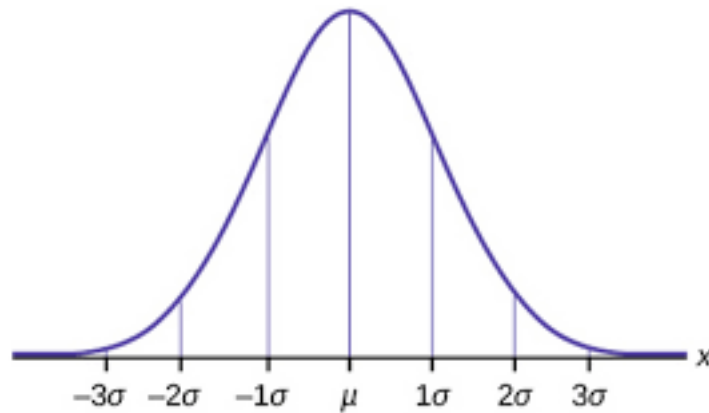
Look-through credit portfolio, review of defensiveness or aggressiveness of portfolio, bonds versus loans.

**“TOP 5” LIST**



# OMEGA RATIO

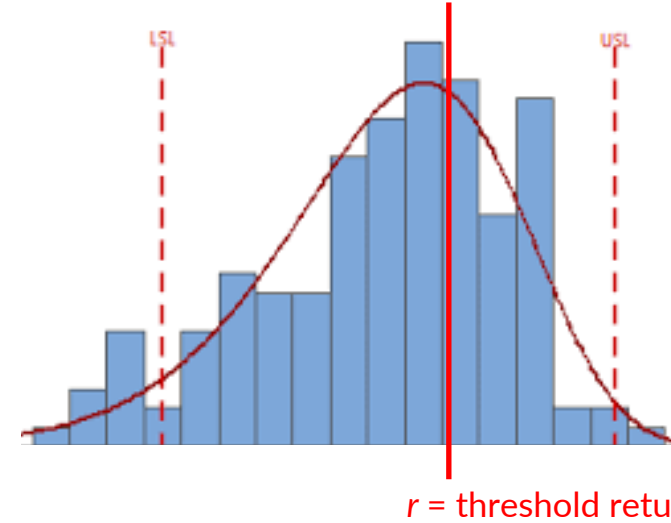
## THE THEORY OF RETURN DISTRIBUTIONS



$$\text{SHARPE RATIO} = \frac{(\mu - \text{risk free rate})}{\sigma}$$

- Evaluate performance only based return and volatility

## THE REALITY OF RETURNS



$$\text{OMEGA RATIO}^* = \Omega(r) \triangleq \frac{\int_r^{\infty} (1 - F(x)) dx}{\int_{-\infty}^r F(x) dx}.$$

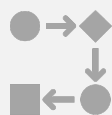
- Performance evaluation takes in account return, volatility, skewness and kurtosis

\* Keating and Shadwick, 2002

# CONCLUSIONS



**High Yield** asset class is a great wealth compounder over the years



**High Yield is very cyclical:** the ability to correctly navigate the cycle between investment grade and high yield can significantly enhance your returns.



**LLFA's credit cycle dashboard:** our proprietary metrics help you identify where we are in the cycle.



**LLFA fund database and research:** novel approach, using the Omega ratio and our deep expertise in credit.