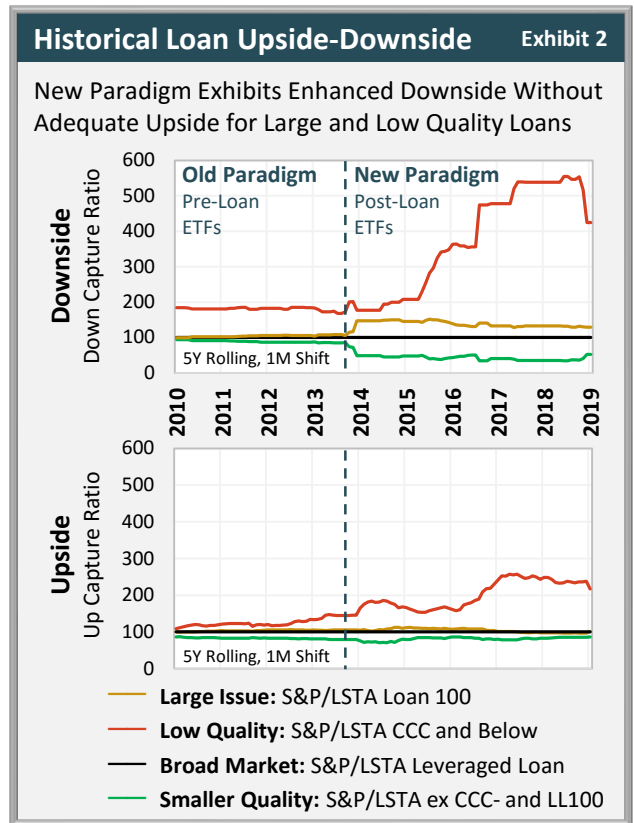
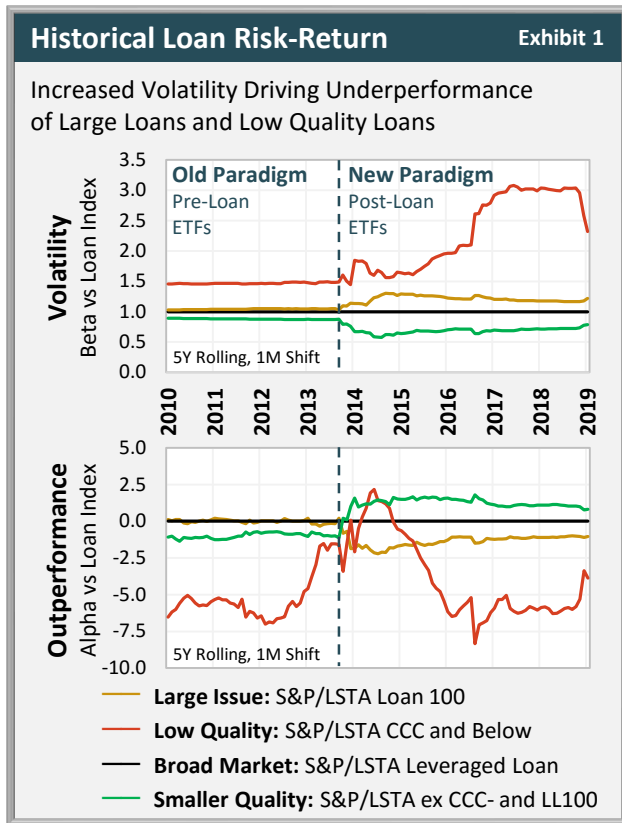


The New Loan Paradigm: Avoid Large and Low Quality Loans

Historically, the largest loans provided quality, liquidity, and respectable risk-return to investors. Alternatively, low quality loans increased yield and risk. Investor risk matched reward. Since the inception of loan ETFs, this no longer holds true. Large and low quality loans have consistently underperformed. Smaller, active managers can avoid them and improve risk-return, yet few do.



The Tail Wags the Dog

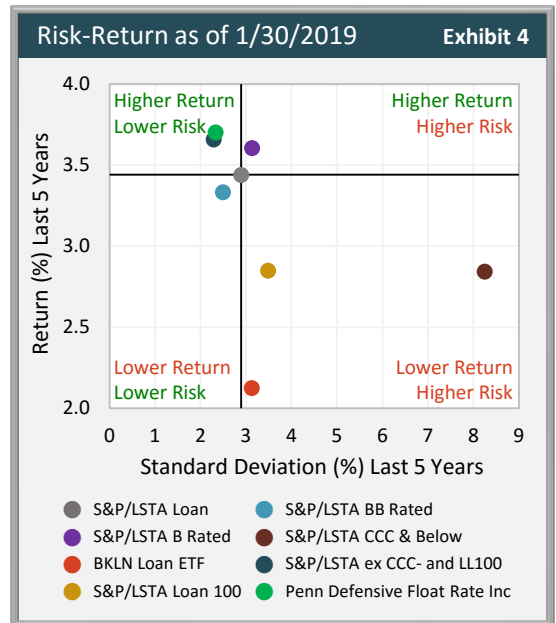
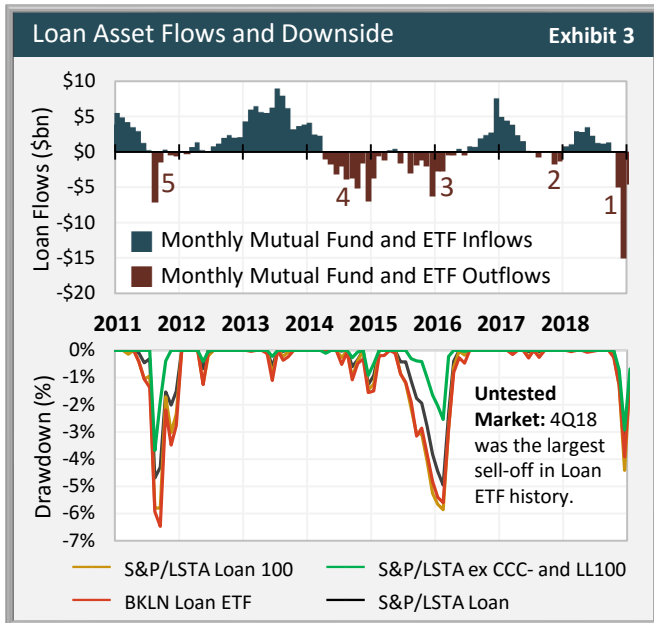
ETFs hold 1% of the current loan market. However, they disproportionately affect the volatility and downside of the loans they target. This is due to passive, indiscriminate buying and selling activity. Unlike equity, there is not always a buyer/seller readily available in the loan market. Forced selling

into a bearish and relatively illiquid market enhances downside, while forced buying results in overpaying. Loan ETFs attempt to reduce this risk by exclusively targeting the largest, most liquid loans. The ETFs proxy the S&P/LSTA Loan 100 or Markit iBoxx Liquid Loan Indexes, which represent roughly a third of the loan market and underperform as a result (Exhibit 1).

Lessons from Recent Sell-Offs

A look at the last 5 loan sell-offs shows the largest loans deliver a greater downside than the broad market (Exhibit 3). Given their greater risk, one might expect *higher* yield and return potential. However, large loans yield *less* than the broad market, because

they are perceived as less risky due to their size and liquidity. Most investors are not adequately compensated for the risks they are taking. Exposure to smaller but still liquid, quality loans has resulted in an optimal risk-return within the Penn Capital Defensive Floating Rate Income strategy (Exhibit 4).



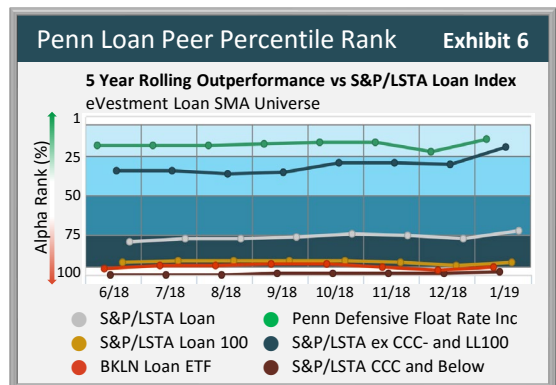
Conclusion: Invest in Small Quality Loans

Penn Capital believes avoiding exposure to both large and low quality loans is key to achieve optimal risk-return in the current market. However, most managers are unwilling or unable to do so. The potential for enhanced yield entices many managers into low quality loans, while the need for larger

positions and liquidity forces large loan managers into larger loans. Their alternative is capacity constraint (turning away business), which they just won't do. We believe large loan strategies and ETFs will continue to struggle. An active and capacity constrained manager, focused on smaller quality loans, may consistently achieve greater performance (Exhibits 5 and 6).

Penn Loan 4Q18 Sell-Off Analysis Exhibit 5

4Q18 Loan Stats (%)	Penn Def Floating Rate Inc	S&P/LSTA ex CCC- and LL100	S&P/LSTA Loan	S&P/LSTA Loan 100	S&P/LSTA CCC & Below
10/2018 Return	-0.12	-0.03	-0.03	-0.20	-0.65
11/2018 Return	-0.59	-0.72	-0.90	-1.10	-2.03
12/2018 Return	-2.22	-2.22	-2.54	-3.16	-3.58
Total Return	-2.91	-2.95	-3.45	-4.41	-6.15
Excess Return	0.54	0.50	-	-0.96	-2.70
Down Cap Ratio	84.20	85.51	100.00	128.15	179.76



For institutional use only. Not for distribution or use with the general public. As of Jan. 31, 2019, Inception: 6/30/2013, Source: eVestment, Universe: eVestment US Floating-Rate Bank Loan Fixed Income. Risk Disclosure: Defensive Floating Rate Income Strategy is subject to the following risks, among others: ETF risk, which is the risk that the strategy is subject to the same risks as the underlying securities in which the ETF invests as well as entails higher expenses than if invested into the underlying ETF directly; foreign securities and ADRs, which involve certain risks such as currency volatility, political and social instability and reduced market liquidity. Investments in REITs may be more susceptible to adverse developments affecting a single project or market segment than more broadly diversified investments. As interest rates rise the value of bond prices will decline. Credit risk refers to the loss in the value of a security based on a default in the payment of principle and/or interest of the security. High-yield bonds have a higher risk of default or other adverse credit events. Bank loans may have similar risks to below investment grade fixed income securities. In the event of the insolvency of an agent bank, a loan could be subject to settlement risk as well as the risk of interruptions in the day to day administration of the loan. Investing in the stock market involves gains and losses and may not be suitable for all investors. Different types of investments and/or investment strategies involve varying levels of risk, including loss of principal, and there can be no assurance that any specific investment or investment strategy will be suitable or profitable for a client's or prospective client's portfolio. Past performance is no guarantee of future results. Investing in the stock market involves gains and losses and may not be suitable for all investors. Potential for profit is accompanied by the possibility of loss. Sharpe ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk. Standard deviation is a measure of the dispersion of a set of data from its mean. Alpha gauges the performance of an investment against a market index or benchmark which is considered to represent the market's movement as a whole. The excess return of an investment relative to the return of a benchmark index is the investment's alpha. Unless otherwise indicated, any opinions or market observations made are strictly our own. The material presented herein is for informational purposes only and are not meant to provide investment advice and should not be considered a recommendation to buy or sell securities or employ any investment strategy by Penn Capital. You should not assume that any discussion or information provided here serves as the receipt of, or as a substitute for, personalized investment advice from Penn Capital or any other investment professional. The S&P/LSTA Leveraged Loan Index is a market value-weighted index designed to measure the performance of the US leveraged loan market. The S&P/LSTA Leveraged BB/B Loan is comprised of loans whose rating is BB+, BB, BB-, B+, B or B- in the S&P/LSTA Leveraged Loan Index. Standard & Poor's Rating Services is used to determine membership within this sub-index. The Invesco Senior Loan ETF (BKLN) is based on the S&P/LSTA U.S. Leveraged Loan 100 Index. BKLN will normally invest at least 80% of its total assets in the component securities that comprise the Index. BKLN is rebalanced and reconstituted bi-annually, in June and December. The S&P/LSTA Leveraged CCC and Below Index is comprised of loans whose rating is CCC, CC, C, and D in the S&P/LSTA Leveraged Loan Index. The iBoxx USD Liquid Leveraged Loan index comprises approximately 100 of the most liquid, tradable leveraged loans.

	<i>Defensive Floating Rate Income Gross of Fees Return</i>	<i>Defensive Floating Rate Income Net of Fees Return</i>	<i>Credit Suisse Institutional Leveraged Loan Index</i>	<i>3 Year Standard Deviation Defensive Floating Rate Income Composite</i>	<i>3 Year Standard Deviation Credit Suisse Institutional Leveraged Loan Index</i>	<i>Number of Accounts in Composite</i>	<i>Composite Size (Millions)</i>	<i>Annual Standard Deviation</i>	<i>Firm Assets Under Management (Millions)</i>	<i>Percentage of Firm's Assets</i>
2018	0.91	0.59	1.02	2.00	2.19	5 or fewer	\$119.81	N/A	\$2,499.82	4.79%
2017	4.48	4.21	4.29	1.43	1.72	5 or fewer	\$114.79	N/A	\$3,772.83	3.04%
2016	6.87	6.44	7.65	1.98	1.91	5 or fewer	\$341.09	N/A	\$4,980.63	6.85%
2015	3.04	2.81	2.60	N/A	N/A	5 or fewer	\$299.52	N/A	\$5,661.47	5.29%
2014	1.04	0.81	2.17	N/A	N/A	5 or fewer	\$103.40	N/A	\$7,143.46	1.45%
2013	3.78	3.67	3.33	N/A	N/A	5 or fewer	\$54.82	N/A	\$6,751.27	0.81%

Firm Information: Penn Capital Management Company, Inc. ("Penn Capital") is a Pennsylvania based investment advisor registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. Penn Capital is a 100% employee owned sub-chapter-S corporation. Penn Capital specializes in managing equity and fixed income portfolios for institutional and high net worth clients. Penn Capital's fully integrated process allows for strong crossover ideas between fixed income and equity, enabling Penn Capital's investment team to become experts in Complete Capital Structure Analysis® of a company. Penn Capital claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Penn Capital has been independently verified for the periods January 1, 1994 through December 31, 2017. 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. The Defensive Floating Rate Income Composite has been examined for the periods July 1, 2013 through December 31, 2017. The verification and performance examination reports are available upon request by email to clientservice@penncapital.com. Penn Capital's fee schedule varies based upon the investment style. As disclosed in Penn Capital's Form ADV, Part 2A, the stated fee schedule for all separate Defensive Floating Rate Income accounts is 0.50% of assets under management. **Composite Characteristics:** The Defensive Floating Rate Income Composite is defined to include separate accounts with assets over \$5,000,000. These accounts invest in a variety of non-investment grade bank loans, primarily those with short to intermediate term maturities. The portfolios will consist of Double-B and Single-B rated issuers with a preference for senior debt in a corporation's capital structure. The Senior Floating Rate Loan strategy seeks to preserve capital and generate high levels of income from US dollar denominated loans made by syndicate banks to corporations. Effective July 1, 2014, Penn Capital changed the name of the composite from the Institutional Leveraged Loan Composite to the Senior Floating Rate Loans Composite. Effective December 1, 2017, Penn Capital changed the name of the composite from the Senior Floating Rate Loans Composite to the Defensive Floating Rate Income Composite. The Defensive Floating Rate Income Composite was created on March 31, 2013. The Defensive Floating Rate Income Composite is comprised of all separate accounts that have been managed by Penn Capital for one full calendar quarter. Accounts which have a significant cash flow (20% or more on the transaction date) will not be removed from the composite. **Calculation Methodology:** The Defensive Floating Rate Income Composite is shown as total returns, which assumes reinvestment of dividends and capital gains, with no reductions for taxes, presented before the deduction of actual investment advisory fees, are calculated in U.S. dollars, and computed on a dollar-weighted-rate-of-return-basis. Performance results have been presented both prior to the deduction of investment advisory fees ("gross of fees") and after the deduction of actual investment advisory fees ("net of fees). For example, an account with a compounded annual total return of 10% would have increased by 159% over ten years. Assuming an annual advisory fee of 1.0%, this increase would be 137%. Internal dispersion is calculated using the asset-weighted standard deviation of all portfolios that were included in the composite for the entire year. For annual periods with less than six accounts, dispersion is not displayed as it is not statistically meaningful. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. All returns are calculated net of transaction costs and gross of custodial fees and taxes on dividends and interest. **Other Disclosures:** To receive a complete list and description of Penn Capital's composites and/or presentations that adhere to the GIPS® standards, contact Client Service by e-mail at clientservice@penncapital.com or write to Client Service at Penn Capital, Navy Yard Corporate Center, 1200 Intrepid Avenue, Suite 400, Philadelphia, PA 19112. The Credit Suisse Institutional Leveraged Loan Index (the "Index") is a subset of the Credit Suisse Leveraged Loan Index designed to more closely reflect the investment criteria of institutional investors by sampling a lower volatility component of the US-denominated leveraged loan market. The Index is formed by excluding the following facilities from the Credit Suisse Leveraged Loan Index: facility types TL and TLa, facilities priced 90 or lower at the beginning of each measurement period and facilities rated CC, C or Default. The Index assumes coupons are paid quarterly on quarterly anniversary dates counting forward from the effective date. The coupon rate is the stated spread of the facility plus the 3-month Libor rate three months prior to the coupon payment date; or, if the facility has a Libor floor, the stated spread plus the larger of either the 3-month Libor rate three months prior to the coupon payment date or the Libor floor. Thus, Libor and the resulting coupon are reset on each coupon payment date for the following coupon payment. The Index inception is January 1992. Index returns are not covered by the report of independent verifiers. The information contained herein reflects historical performance; no assurances can be given and no inferences should be drawn with respect to any future results that may be achieved by clients of Penn Capital.