Debt Markets Portfolio Simulation

Portfolio Analysis & Rebalancing Method

When we first put this portfolio together, our objective was clear: build a fixed income portfolio that could deliver high returns in a volatile environment while balancing risk and income. Now that a few months have passed and markets have gone through ups and downs, we took the time to step back, assess how our strategy has performed so far, and make thoughtful adjustments based on what we've seen.

As of May 10th, 2025, our portfolio shows a cumulative return of -0.80% since inception, while the FTSE World High-Yield Index rose by +1.52%. While we did experience some periods of drawdown, mostly due to spread widening and rate volatility, the portfolio has generally recovered well. In fact, our top-performing bond, the DISH 7.75% 07/01/26, returned +2.617%, which not only helped offset other weaker performers but also validated our decision to keep exposure to this name despite short-term volatility (Previous delivery return of -7.27%).

On the positive side, other few bonds did their job well. We also saw gains from BLBIT 9.00%, United Rentals 4.875%, and even Goldman Sachs 3.75%, which together helped limit some of the downside.

However, the overall performance was weighed down by a few underperforming positions, especially in the longer end of the curve. UST 4.625% 02/15/55 posted a significant drawdown of –4.94%, and UST 4.750% 02/15/45 lost –3.43%, confirming our concerns about duration exposure in an uncertain rate environment. Similarly, Jefferies 6.25% and Cisco 5.90% also posted negative returns, both over –2%, despite offering investment-grade credit quality.

We didn't change the instruments in our portfolio, but we shifted weight between them based on performance, risk exposure, and income generation. The goal was to stay true to our original strategy, while aligning it better with current market dynamics.

Some bonds, like UST 4.625% 02/15/55 and UST 4.750% 02/15/45, added too much duration without providing enough return. Although we're not exiting these positions, we reduced their weights to lower our portfolio's overall sensitivity to interest rate fluctuations.

Meanwhile, bonds like DISH 7.75%, United Rentals, and BLBIT 9.00% have shown resilience and consistent performance. We increased our exposure to these positions within the portfolio, aiming to strengthen income generation and take advantage of favourable carry.

We also slightly reduced our weight in Jefferies and Cisco, not because we've lost conviction, but because these positions have underperformed and we preferred to reallocate some capital toward higher yielding, more stable credits.

Following the rebalancing, our portfolio is leaner, more responsive, and more in line with market conditions. It still consists of 10 fixed income positions, all actively managed.

Key portfolio metrics:

- Average coupon: 5.641

- Yield to maturity: 6.809
- OAS (Option-Adjusted Spread): 252.527
- Effective duration: 5.472

From a sector perspective, we're still well diversified across financials sector, technology sector, industrials sector and sovereigns' bonds.

Accuracy of Previous Capital Market Expectations

In our April 13th Capital Market Expectations, we made three core projections: (1) that interest rates would remain elevated with continued volatility; (2) that credit spreads faced renewed widening pressure; and (3) that in this macro environment, it would be essential to reduce duration risk, enhance income generation, and optimize credit allocation. These views were largely validated by market developments from mid-April through early May.

Despite temporary market optimism around a potential Federal Reserve pivot, macroeconomic conditions remained anchored in persistent inflation and measured central bank communication. The Fed offered no clear indication of near-term rate cuts, and April's CPI data reflected stickier-than-expected core inflation. As a result, rate cut expectations were pushed further out on the curve, and long-end Treasury yields climbed sharply, confirming our anticipation of continued interest rate volatility. Notably, the 30-year U.S. Treasury yield rose above 4.7% in late April, reinforcing our concern over excessive duration exposure. This was directly reflected in our portfolio, where the 2045 and 2055 Treasuries posted –3.43% and –4.94% returns, respectively. Although we did not fully divest these holdings, we proactively reduced their weight in response to the evolving rate environment and to lower the portfolio's overall duration sensitivity.

Credit markets also evolved in alignment with our prior outlook. Spreads widened modestly across both high-yield and investment-grade segments, driven by geopolitical uncertainty, growing U.S. fiscal concerns, and speculation around China's reported $57 billion reduction in U.S. Treasury holdings. These dynamics underscored the risk of renewed volatility in credit assets, which we had flagged. Our emphasis on maintaining exposure to selective high-yield positions with favorable carry—such as DISH 7.75%—proved sound. Despite experiencing a –7.27% drawdown in the prior period, this bond rebounded sharply with a +2.617% return, supporting our decision to hold through volatility based on fundamental conviction.

In addition, resilient performance from bonds such as BLBIT 9.00%, United Rentals 4.875%, and Goldman Sachs 3.75% contributed meaningfully to income generation and portfolio stability. These positions demonstrated the value of combining high-coupon exposure with strong credit fundamentals in navigating a challenging market.

Overall, the accuracy of our April capital market expectations was evident not only in the macro trends but also in the way our portfolio responded. Our tactical shifts—reducing long-duration exposure, reinforcing resilient credits, and reallocating toward stronger carry—enabled the portfolio to remain flexible and defensive, despite a modest decline in total return. The rebalancing conducted in May was not a departure from strategy, but a necessary refinement to align with new information while remaining anchored in our original investment thesis.

Capital Market Expectations

In response to the persistently elevated interest rates during the past months on the back of tariff escalation, however, in the latest rounds of negotiations between the world's two largest economies, the US and China have struck a deal to bring down the tariff rates. The US has set the total tariff rates for China at 30%, and China has set the tariff rates for the US at 10%. The trade deals have been gaining momentum, taking into account the global goods trade deficit for the US with China at $1.2 trillion. Considering the trade deal negotiations with China and other countries gaining ground, the volatility in the bond markets is expected to reduce gradually.

Given our expectations of interest rate volatility to reduce, we made strategic rebalancing decisions to better position the portfolio for the evolving fixed-income landscape. Our adjustments aimed to reduce duration risk, enhance income generation, and realign exposures in line with credit fundamentals and sector outlooks.

Specifically, we slightly decreased our allocation to Jefferies (reduced by 1.08%), and Cisco (reduced by 0.49%), longer-duration US Treasuries, trimming the 45- and 55-month bonds by 1.37% and 0.34%, respectively. We have proactively reduced their weight in response to the evolving rate environment and to lower the portfolio's overall duration sensitivity.

To compensate for reduced exposure and to capitalize on current spread levels, we increased our allocation to non-investment grade corporate bonds to increase the returns. Notably, we raised our positions in Dish DBS Corp (+2.13%), United Rentals (+1.57%) and Cloud Software Group Inc (+0.84%). These issuers, though, have lower credit profiles, offer an attractive price point, helping generate better alpha and improvement in the volatility. We believe this shift strengthens the portfolio's carry profile while maintaining a prudent credit risk posture.

These adjustments were guided by our capital market expectations, which correctly anticipated a challenging Q2 2025 marked by elevated yields, widening credit spreads, and heightened volatility. While the overall portfolio return declined by –0.80% (compared to a negative return of 2.06% during Q1 2025), our repositioning efforts reflect a forward-looking strategy designed to preserve capital, enhance risk-adjusted returns, and remain agile in the face of macroeconomic uncertainty.

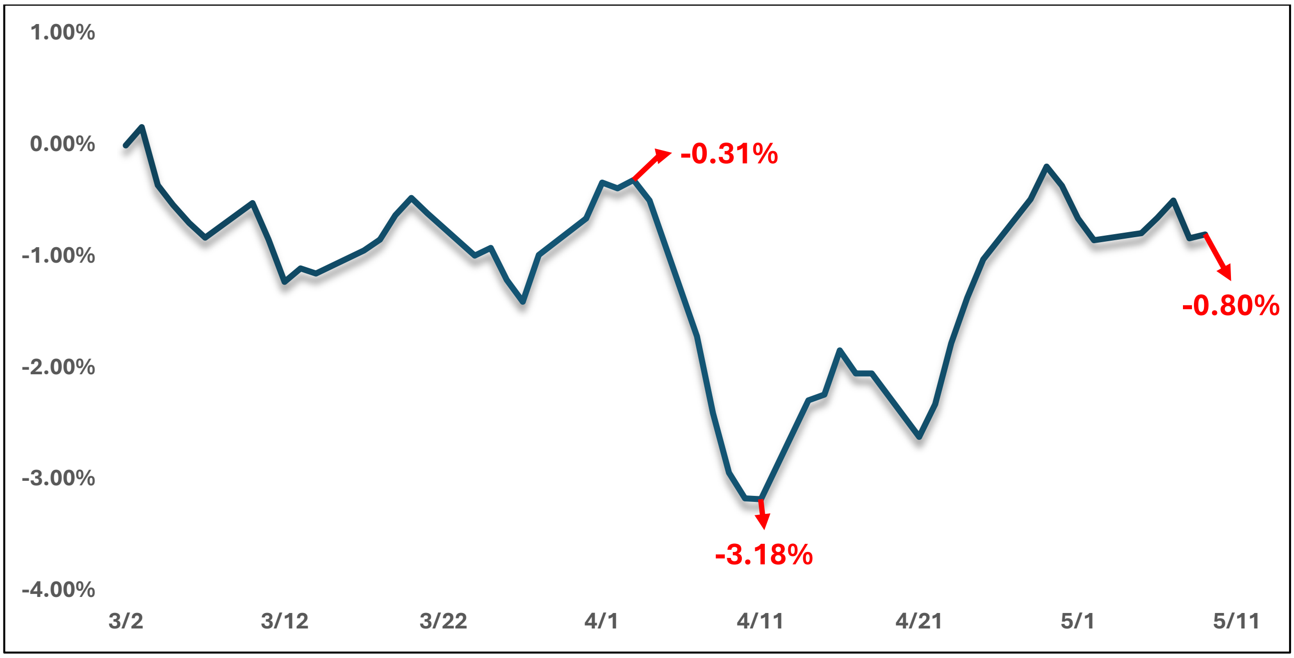
We believe the portfolio is now better positioned to weather continued rate volatility while taking advantage of selective credit opportunities. Going forward, we will continue to monitor macro indicators and sector-specific developments, making dynamic adjustments that align with our evolving outlook.

From the overall macroeconomic perspective, the Federal Reserve's meeting on monetary policy guided for a maximum employment and inflation rate of 2%. The reduction in tariffs will provide more room for the Federal Reserve to cut rates, considering the Fed's stance was that

higher tariffs could lead to higher inflationary scenarios. However, since the GDP during Q1 2025 declined by 0.3% compared to a growth of 2.4% in Q4 2024, we believe the Federal Reserve could cut the interest rates further to boost the consumption in the economy.
The other important metric that has been observed is the average increase in the initial jobless claims (people seeking unemployment benefits) to 227,000 in the week ending May 03, 2025, from 226,000 in April 2025. A continued rise in jobless claims signals stress in the economy, which we will keep monitoring regularly to get an overview of the economy.
Currently, Moody's is the only credit rating agency that has given a AAA rating to the sovereign. However, in its latest report, it has highlighted the rising fiscal deficit, which could be a huge burden to service the debt. These factors could lead to a negative effect on the US Treasury bonds, eventually leading to rising yields.
A closer look at the credit default swaps (CDS) indicates that in the previous year, the CDS spreads have been widening. As of May 09, 2025, the CDS spread is at 55.32, compared to 42.07 on May 09, 2024. A higher spread is indicative of riskiness in the debt of the country. **Appendix 5 displays the chart of CDS spread.**

Appendixes

Appendix 1: Portfolio Perfomance



Appendix 2:

Before Rebalacing

Issuer	Issue Name	Rating	Weight	Market Value (thousands)	Return	Price
GOLDMAN SACHS GROUP INC	GS 3.750 02/25/26 '25 MTN Sr Note	A2	12.30%	24,389	0.96%	100.42
JEFFERIES FINANCIAL GROUP INC	JEF 6.250 01/15/36 Sr Deb	Baa2	12.08%	23,941	-2.70%	101.47
ORACLE CORP	ORCL 4.800 08/03/28 '28 Sr Note	Baa2	11.98%	23,748	0.75%	102.04
CISCO SYSTEMS INC	CSCO 5.900 02/15/39 Sr Note	A1	9.99%	19,797	-2.04%	106.29
UNITED STATES TREASURY	UST 4.625 02/15/35 ReOpened	Aaa	9.77%	19,366	-0.54%	103.10
UNITED RENTALS (NORTH AMERICA) INC	URI 4.875 01/15/28 '25 Sr Note	Ba2	9.43%	18,684	1.07%	100.33
DISH DBS CORP	DISH 7.750 07/01/26 Sr Note	Caa3	9.09%	18,025	2.62%	92.57
UNITED STATES TREASURY	UST 4.750 02/15/45 ReOpened	Aaa	8.87%	17,578	-3.44%	99.69
CLOUD SOFTWARE GROUP INC	BLBIT 9.000 09/30/29 '25 Nt	Caa2	8.66%	17,169	1.27%	102.68
UNITED STATES TREASURY	UST 4.625 02/15/55 ReOpened	Aaa	7.84%	15,540	-4.94%	97.63

Characteristics	Portfolio
Coupon	5.560
Yield to Maturity	6.501
Option Adjusted Yield	6.459
Option Adjusted Spread	219.270
Z Spread	223.186
Average Life (yrs) to Maturity	8.737
Modified Duration to Maturity	6.005
Modified Duration to Worst	5.871
Effective Duration	5.849
Convexity to Maturity	0.777
Convexity to Worst	0.767
Option Adjusted Convexity	0.589

Appendix 3:

After Rebalancing

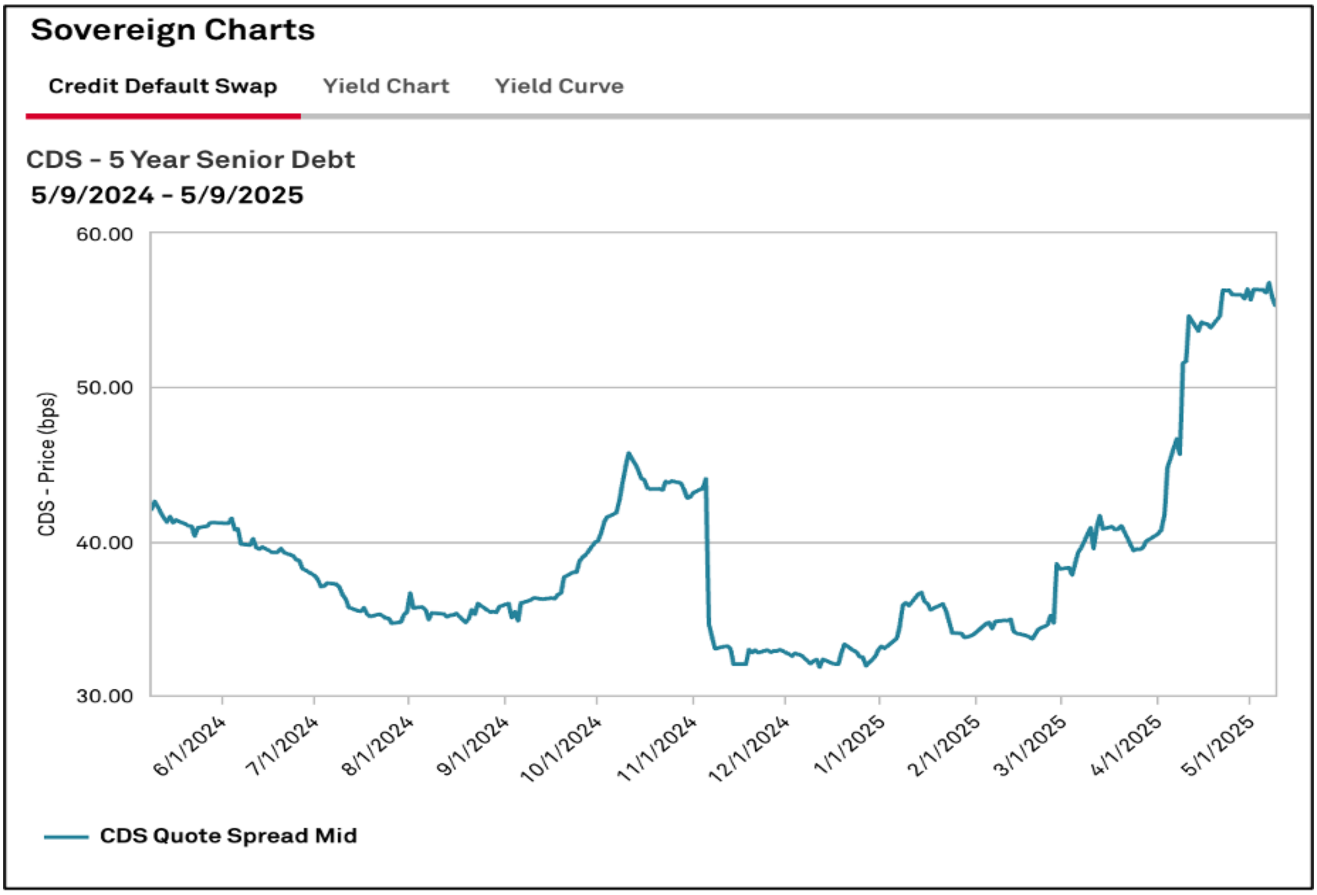
Issuer	Issue Name	Rating	Weight	Market Value (thousands)	Return	Price
GOLDMAN SACHS GROUP INC	GS 3.750 02/25/26 '25 MTN Sr Note	A2	12.30%	24,287	0.96%	100.42
JEFFERIES FINANCIAL GROUP INC	JEF 6.250 01/15/36 Sr Deb	Baa2	11.00%	21,490	-2.70%	101.47
ORACLE CORP	ORCL 4.800 08/03/28 '28 Sr Note	Baa2	11.98%	23,273	0.75%	102.04
CISCO SYSTEMS INC	CSCO 5.900 02/15/39 Sr Note	A1	9.50%	17,718	-2.04%	106.29
UNITED STATES TREASURY	UST 4.625 02/15/35 ReOpened	Aaa	8.50%	16,343	-0.54%	103.10
UNITED RENTALS (NORTH AMERICA) INC	URI 4.875 01/15/28 '25 Sr Note	Ba2	11.00%	21,733	1.07%	100.33
DISH DBS CORP	DISH 7.750 07/01/26 Sr Note	Caa3	11.22%	24,023	2.62%	92.57
UNITED STATES TREASURY	UST 4.750 02/15/45 ReOpened	Aaa	7.50%	14,913	-3.44%	99.69
CLOUD SOFTWARE GROUP INC	BLBIT 9.000 09/30/29 '25 Nt	Caa2	9.50%	18,342	1.27%	102.68
UNITED STATES TREASURY	UST 4.625 02/15/55 ReOpened	Aaa	7.50%	15,229	-4.94%	97.63

Characteristics	Portfolio
Coupon	5.641
Yield to Maturity	6.809
Option Adjusted Yield	6.764
Option Adjusted Spread	252.527
Z Spread	256.833
Average Life (yrs) to Maturity	8.147
Modified Duration to Maturity	5.645
Modified Duration to Worst	5.499
Effective Duration	5.472
Convexity to Maturity	0.716
Convexity to Worst	0.706
Option Adjusted Convexity	0.508

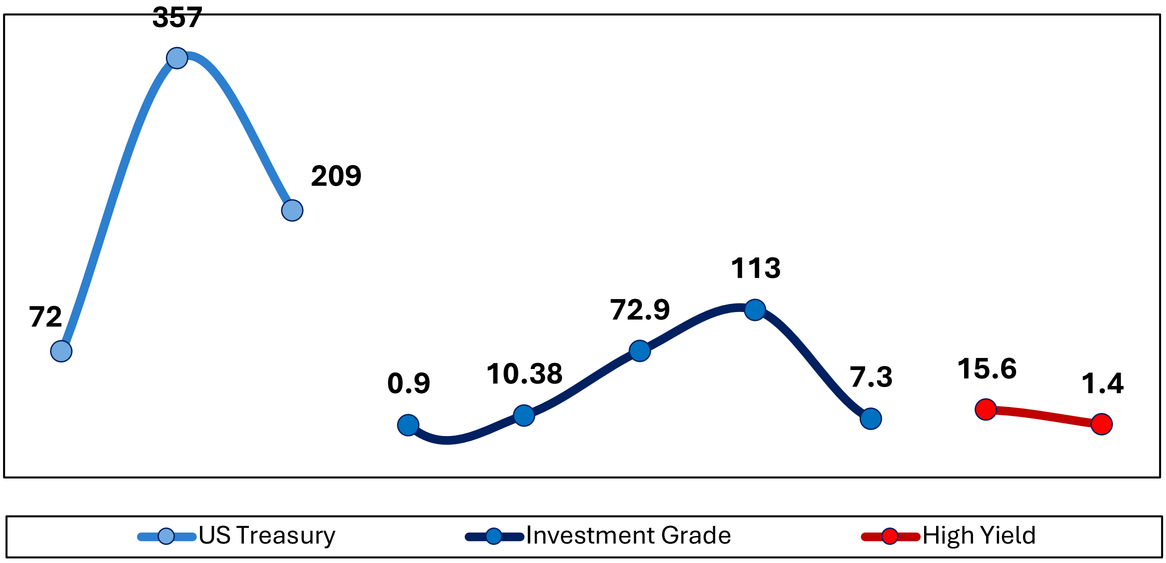
Appendix 4: Portfolio Summary

Issue Name	Allocation						Characteristics			
	Maturity Date	Price - Close	Accrued Interest per Share	Coupon	Market Value (thousands)	Portfolio Weight	Convexity to Worst	Effective Duration	Yield to Maturity	Average Life (yrs) to Maturity
Group 9 - 2025		**100.576**	**1.467**	**5.64%**	**197,352**	**100%**	**0.706**	**5.472**	**6.809**	**8.147**
GS 3.750 02/25/26 '25 MTN Sr Note	Feb-26	100.418	0.802	3.75%	24,287	12.3%	0.010	0.702	4.245	0.786
UST 4.625 02/15/35 ReOpened	Feb-35	103.103	1.099	4.63%	16,343	8.5%	0.722	7.734	4.372	9.762
UST 4.625 02/15/55 ReOpened	Feb-55	97.630	1.099	4.63%	15,229	7.5%	3.599	15.650	4.847	29.762
UST 4.750 02/15/45 ReOpened	Feb-45	99.695	1.128	4.75%	14,913	7.5%	2.105	12.527	4.865	19.762
ORCL 4.800 08/03/28 '28 Sr Note	Aug-28	102.042	1.320	4.80%	23,273	12.0%	0.099	2.882	4.555	3.142
JEF 6.250 01/15/36 Sr Deb	Jan-36	101.471	2.031	6.25%	21,490	11.0%	0.732	7.543	6.322	10.675
DISH 7.750 07/01/26 Sr Note	Jul-26	92.570	2.820	7.75%	24,023	11.2%	0.015	0.987	18.098	1.136
CSCO 5.900 02/15/39 Sr Note	Feb-39	106.289	1.426	5.90%	17,718	9.5%	1.136	9.339	5.394	13.758
URI 4.875 01/15/28 '25 Sr Note	Jan-28	100.334	1.584	4.88%	21,733	11.0%	0.074	1.925	5.380	2.675
BLBIT 9.000 09/30/29 '25 Nt	Sep-29	102.675	1.050	9.00%	18,342	9.5%	0.056	2.420	8.543	2.383

Appendix 5: Credit Default Swap Chart



Appendix 6: Convexity to Maturity by bond



Appendix 7: Individual Bond Modified Duration