



2012 High Yield Fixed Income Outlook

Investing in a De-Levered Corporate Market in a Slow Growth Environment

Economic and High Yield Market Expectations



Economic and High Yield Market Expectations

Economy

- Moderate GDP growth
- Continued low interest rates and inflation remain in check
- Corporate and consumer confidence in the U.S. strengthen
- Capital expenditure and employment improve, but unemployment remains elevated



Economic and High Yield Market Expectations

High Yield Market

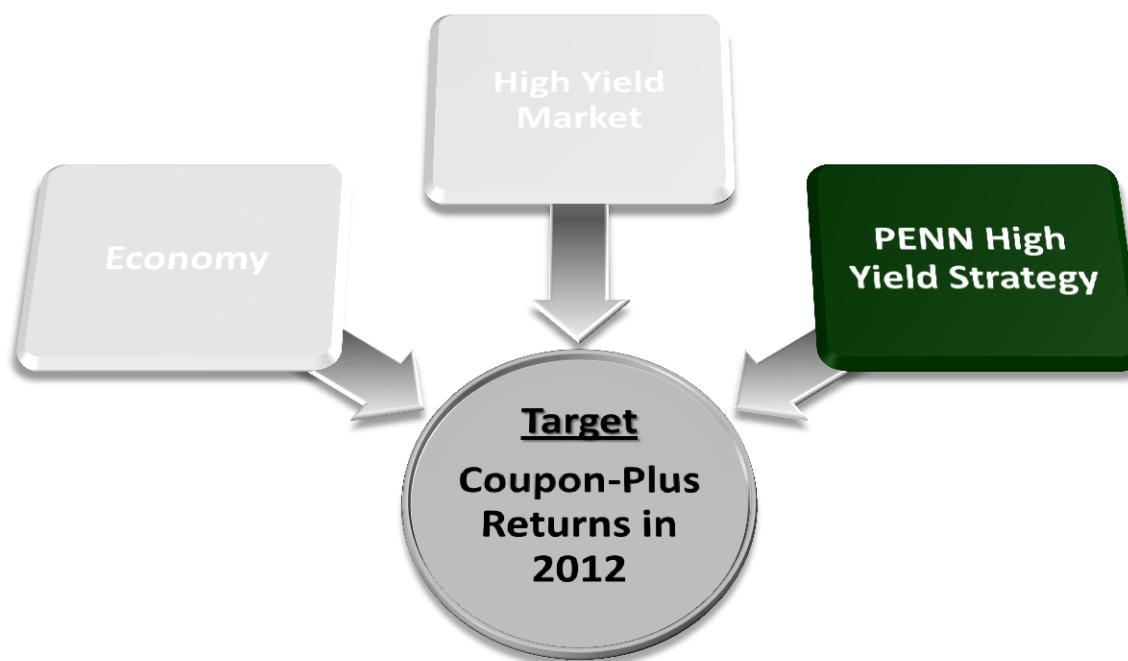
- Negative real interest rates and strong credit fundamentals fuel continued demand
- Default rate rises from all-time low base, but remains below long term average
- PENN's default forecast is 2-3%
- Upside catalyst from M&A as large, cash-rich companies spur growth through acquisitions
- Wildcards remain the European sovereign debt crisis, the U.S. political cycle and a hard landing in China
- Security selection will drive returns in 2012 as it did in 2011



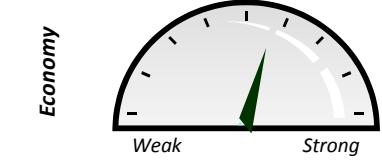
Economic and High Yield Market Expectations

PENN High Yield Strategy

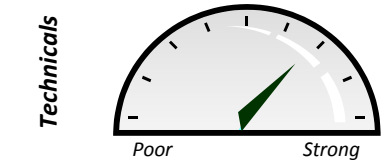
- Focus on middle and upper-tier quality
- Maintain shorter duration bias
- Maintain liquid positions to ensure timely exits
- Event Driven: avoid LBO landmines and identify candidates for equity issuance
- Overweight allocations to Technology, Energy, Financials, Consumer and Transports given growth expectations and decreased odds of a double-dip
 - Though remaining overweight, PENN has taken profits from Financials and Transports



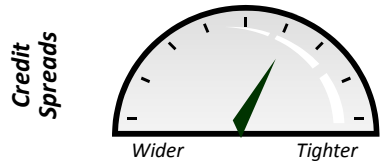
High Yield Market Drivers



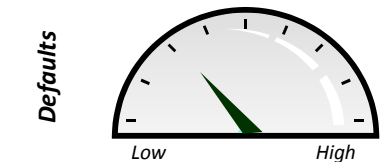
- A slowly growing economy and lower corporate leverage bode well for the high yield market



- Inflows should continue given the need for yield and demand for equity market surrogates
- Large, investment grade companies will deploy cash to buy smaller, high yield companies to spur growth



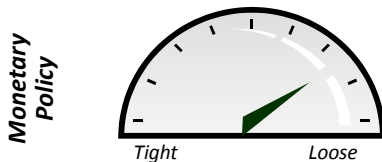
- Strong U.S. corporate fundamentals and below average default rates support tighter spreads



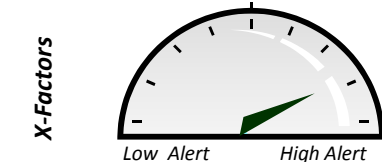
- Defaults are expected to rise, but remain below long term averages
- The next major obstacles are the maturity wall of 2014-2015 and lower quality LBO debt



- Equity issuance from high yield companies will be opportunistic with continued equity market volatility



- The Fed will remain accommodative which supports continued improvement of corporate balance sheets
- Foreign Central Banks are also in an easing mode, which may spur interest in USD-denominated financial assets

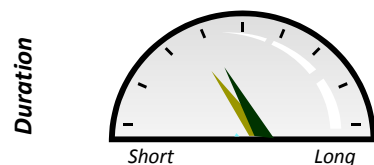


- Contagion from the European sovereign debt crisis; the U.S. Presidential election; uncertainty over the imposition of mandatory spending cuts and potential tax increases; potential for periphery defaults; unrest in the Middle East

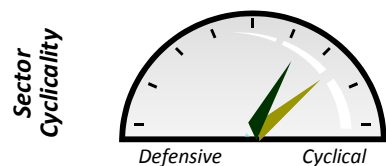
PENN's High Yield Portfolio Tools



- Portfolio additions will generally have a higher quality bias given relative valuation of CCC paper
- Credit specific distressed/special situations considered
- Remain selective on LBO paper and avoid issues without change-of-control covenants



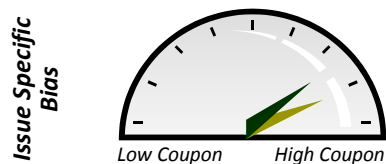
- Maintaining a shorter duration with a bias towards the less volatile intermediate segment of the credit curve (3 - 7 years to maturity)
- Avoid paper with > 10 years to maturity unless purchased at significant discount to par
- Supply of short duration paper shrinking due to refinancing



- Bias remains towards higher quality ways to play a modest economic recovery in the U.S.
- Overweight allocations to Technology, Energy, Financials, Consumer and Transports given growth expectations and decreased odds of a double-dip
- Though remaining overweight, PENN has taken profits from Financials and Transports



- Focus will be on deeply busted convertibles and non equity-sensitive volatility
- Select opportunities in our favorite stocks/companies
- Opens up the range of relative value and total return opportunities within a credit



- Identify higher coupon paper that is likely to be refinanced or tendered
- Target bonds with strong covenant protection against shareholder-friendly activity such as dividends and share repurchases

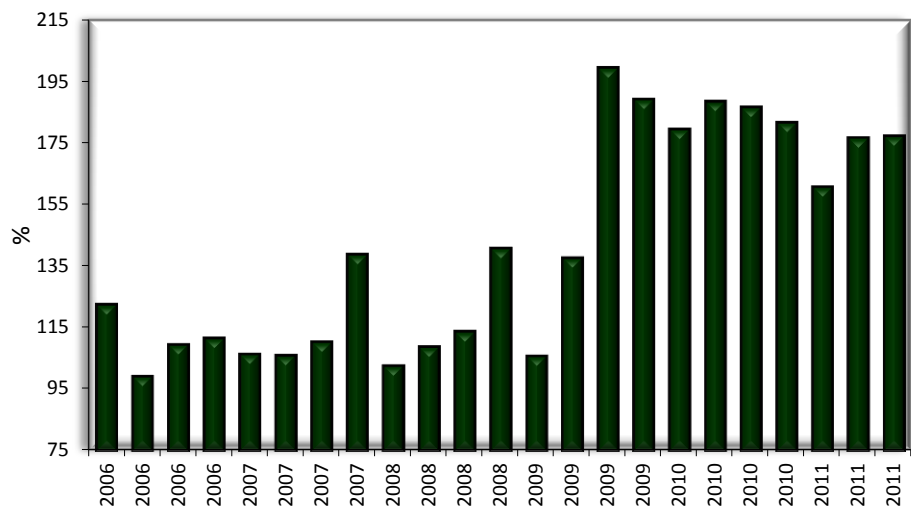


Improved High Yield Market Fundamentals

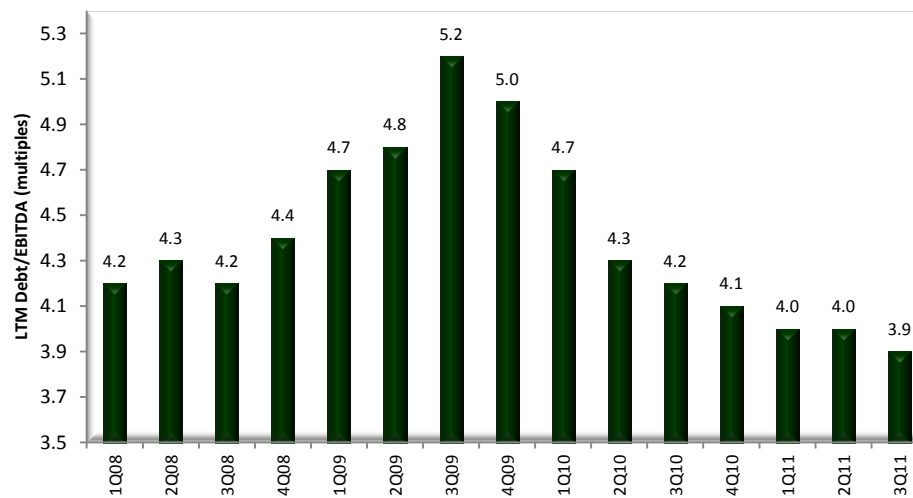
- **Corporate balance sheets are strong**

- Corporations have become more conservative with their debt
- Strong cash flow
- Significant leverage reduction and longer maturities as a result of the '09 - '11 refinancing boom

Cash as a Percentage of Short Term Debt

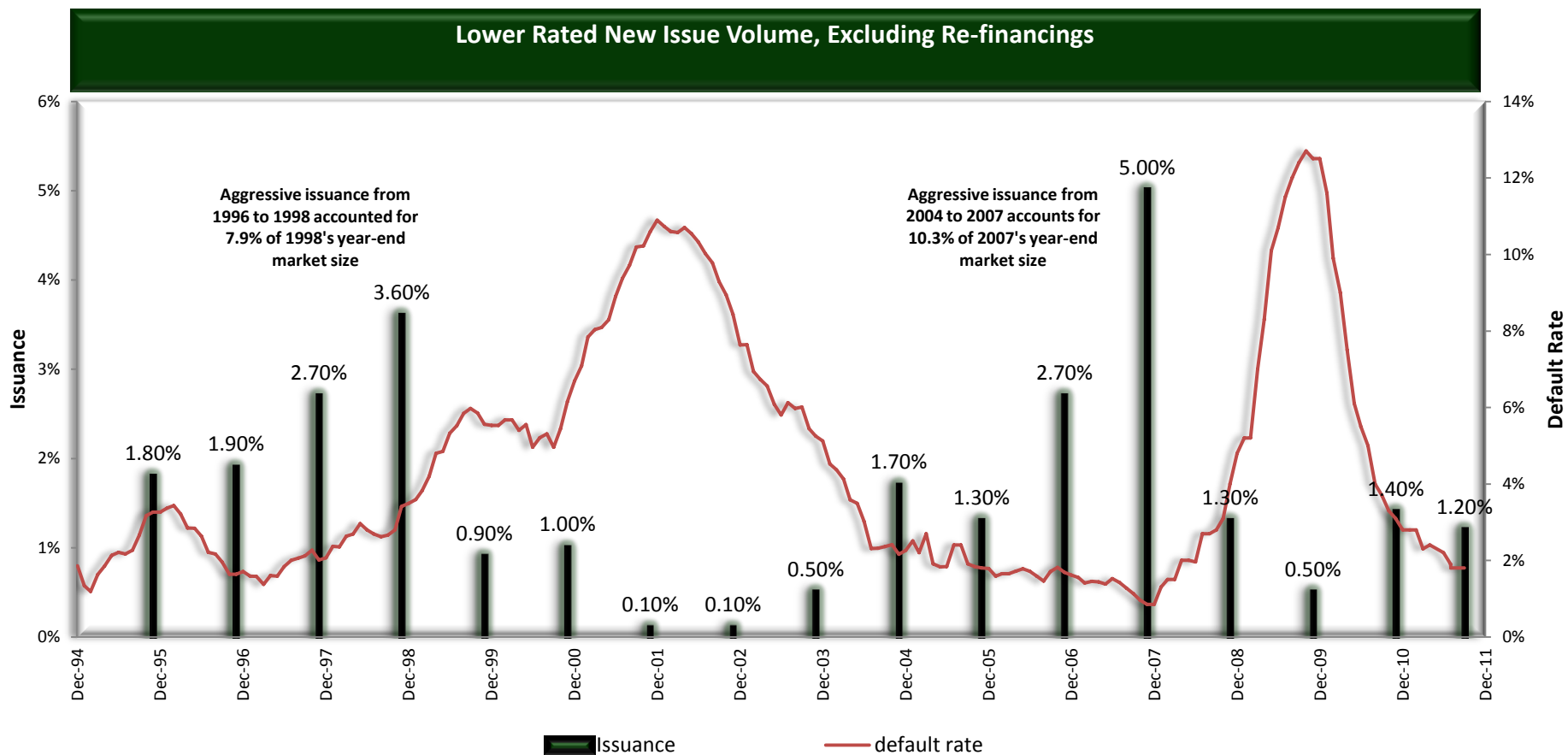


Leverage continues to decline and is 1.3x off its recent peak



Issuance Trends Aid the Healing Process

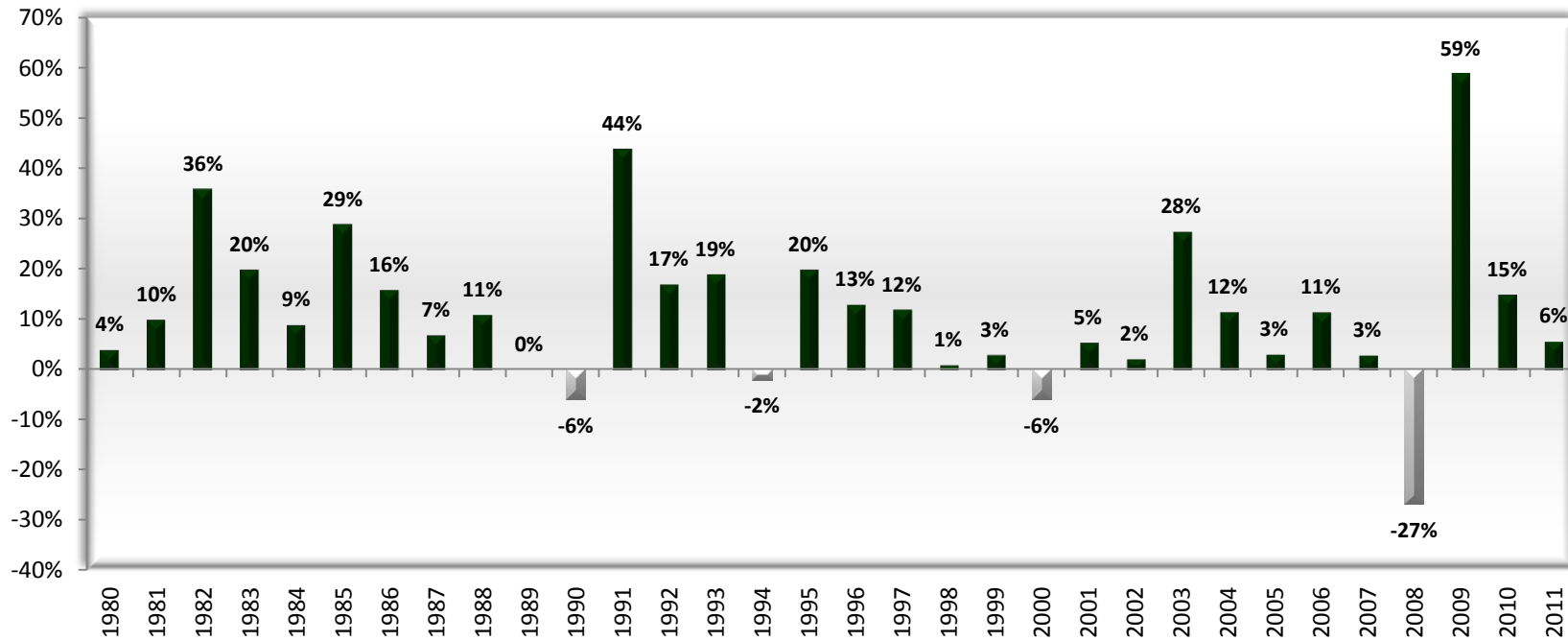
- Record New Issuance...but this is not 2006-07
 - Low quality non-refinance issuance has been minimal, suggesting continued low defaults



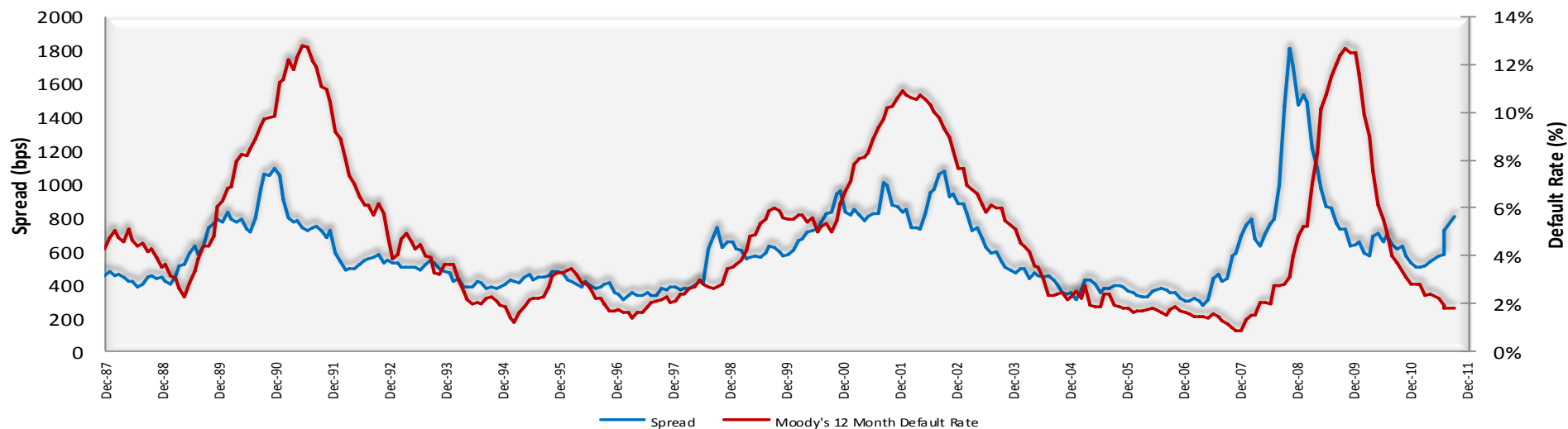
Source: JP Morgan
 Graph as of December 31, 2011
 Lower rated new issuance includes bonds rated Split-B or lower

Historical High Yield Fixed Income Performance

Only 4 Down Years for High Yield Returns Since 1980



PENN High Yield Fixed Income: Annual Returns



	Defensive HY Fixed Income	BofA ML BB/B Non-Distressed Index	Opportunistic HY Fixed Income	BofA ML US High Yield Constrained Index
1994	0.94	---	0.91	---
1995	19.47	---	24.97	---
1996	15.04	---	18.83	---
1997	13.80	13.21	20.17	12.91
1998	2.92	4.04	-1.86	2.94
1999	1.46	2.98	16.21	2.43
2000	-0.46	-1.16	-10.98	-5.19
2001	9.40	9.00	-7.08	4.48
2002	6.70	1.56	2.07	-0.53
2003	24.85	20.18	42.04	27.97
2004	11.83	9.89	14.99	10.87
2005	4.98	3.40	7.15	2.78
2006	9.65	10.56	12.56	10.76
2007	2.60	2.83	1.81	2.53
2008	-19.78	-18.86	-27.10	-26.11
2009	37.01	30.22	56.65	58.10
2010	15.91	13.93	18.93	15.07
2011	5.53	5.72	2.38	4.37

Spread Source: CS First Boston High Yield Index Spread to Worst vs. 10yr. U.S. Treasury Bond

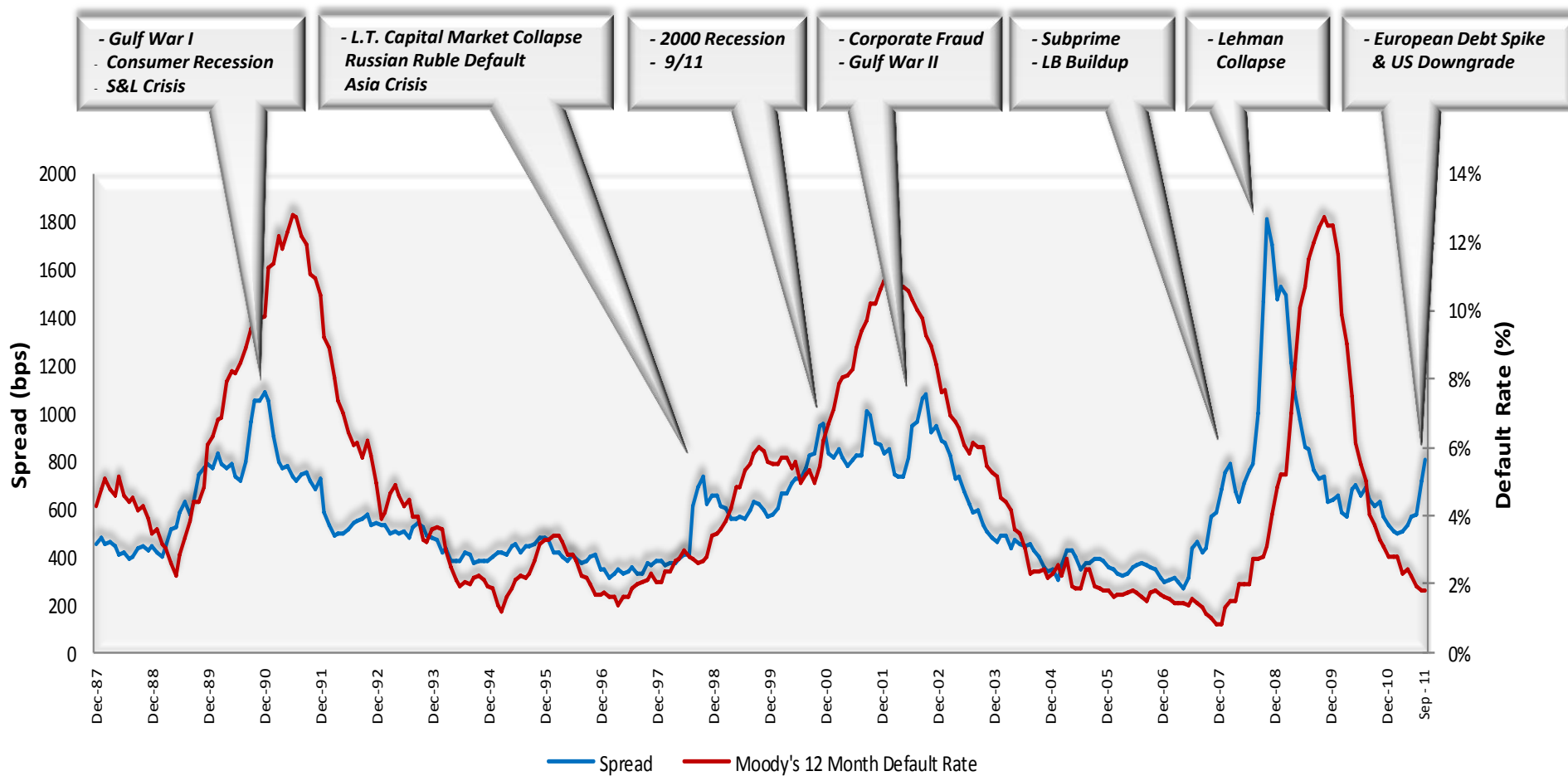
Default Source: Moody's 12 month Trailing Default Rate: Percent of Issuers Basis

The performance results presented above are prior to the deduction of actual investment advisory fees ("gross of fees") which includes reinvestment of income. All returns are calculated net of transaction costs and gross of custodial fees and taxes on dividends and interest. The information contained herein reflects gross 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 PCM. Client returns will be reduced by the actual advisory fees and any other expenses incurred in the management of the account. (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%). PENN Capital Management's investment advisory fees are described in 2A of its Form ADV.

High Yield Correlation Analysis

1985 - December 2010							
	US HY Cash Pay	Mortgage Master	US Treasury Current (10 Yr)	3 Month US Treasury Bill	US Corporate Master	S&P 500	Russell 2000
US HY Cash Pay	1.00						
Mortgage Master	0.20	1.00					
US Treasury Current (10 Yr)	0.03	0.83	1.00				
3 Month US Treasury Bill	-0.05	0.29	0.20	1.00			
US Corporate Master	0.54	0.78	0.77	0.14	1.00		
S&P 500	0.57	0.13	0.03	0.06	0.30	1.00	
Russell 2000	0.59	0.00	-0.09	-0.05	0.19	0.82	1.00
1989 - December 2010							
	US HY Cash Pay	Mortgage Master	US Treasury Current (10 Yr)	3 Month US Treasury Bill	US Corporate Master	S&P 500	Russell 2000
US HY Cash Pay	1.00						
Mortgage Master	0.15	1.00					
US Treasury Current (10 Yr)	-0.03	0.83	1.00				
3 Month US Treasury Bill	-0.10	0.25	0.15	1.00			
US Corporate Master	0.54	0.73	0.72	0.07	1.00		
S&P 500	0.57	0.12	-0.03	0.07	0.31	1.00	
Russell 2000	0.60	-0.02	-0.13	-0.05	0.20	0.80	1.00
1998 - December 2010							
	US HY Cash Pay	Mortgage Master	US Treasury Current (10 Yr)	3 Month US Treasury Bill	US Corporate Master	S&P 500	Russell 2000
US HY Cash Pay	1.00						
Mortgage Master	0.02	1.00					
US Treasury Current (10 Yr)	-0.17	0.81	1.00				
3 Month US Treasury Bill	-0.20	0.13	0.10	1.00			
US Corporate Master	0.56	0.64	0.60	-0.07	1.00		
S&P 500	0.60	-0.15	-0.28	-0.03	0.20	1.00	
Russell 2000	0.62	-0.18	-0.28	-0.10	0.18	0.82	1.00

Historical Events Drive High Yield Spread Peaks



Spread Source: Credit Suisse High Yield Index Spread to Worst vs. 10yr. U.S. Treasury Bond

Default Source: Moody's 12 month Trailing Default Rate: Percent of Issuers Basis

Defensive High Yield Fixed Income Performance Disclosure

	<i>Defensive High Yield Fixed Income Gross of Fees Return</i>	<i>Defensive High Yield Fixed Income Net of Fees Return</i>	<i>BofA Merrill Lynch High Yield BB-B Rated Non-Distressed 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>
YTD 3Q 2011	1.02	0.62	0.05	41	\$1,594.30	N/A	\$4,460.98	35.74%
2010	15.91	15.31	13.93	37	\$1,662.67	0.26	\$4,421.67	37.60%
2009	37.01	36.25	30.22	35	\$1,435.21	1.40	\$3,430.39	41.84%
2008	-19.78	-20.31	-18.86	28	\$470.76	1.33	\$2,026.44	23.23%
2007	2.60	1.97	2.83	29	\$575.60	0.11	\$2,680.95	21.47%
2006	9.65	8.93	10.56	30	\$468.32	0.39	\$2,099.31	22.31%
2005	4.98	3.98	3.40	17	\$191.72	0.18	\$1,344.39	14.26%
2004	11.83	10.78	9.89	13	\$102.59	1.13	\$737.20	13.92%
2003	24.85	23.63	20.18	6	\$36.00	1.64	\$506.44	7.11%
2002	6.70	5.83	1.56	Five or fewer	\$17.15	0.13	\$338.73	5.06%
2001	9.40	8.50	9.00	Five or fewer	\$21.89	0.34	\$563.11	3.89%

Firm Information: PENN Capital Management Company, Inc. is a Pennsylvania based investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. PENN is a 100% employee owned subchapter-S corporation. The firm specializes in managing equity and fixed income portfolios for institutional and high net worth clients. PENN's fully integrated process allows for strong crossover ideas between fixed income and equity, enabling PENN's investment team to become experts in analyzing a company's entire capital structure. PENN's Institutional Services is defined for GIPS® purposes to include all separately managed accounts with the exclusion of wrap relationships. This is due to wrap relationships being considered separate from public perceptions. The firm's fee schedule varies based upon the investment style. Standard fee schedule for all separate Defensive High Yield Fixed Income accounts are as follows: first \$10 million - 0.75% of assets under management, next \$40 million - 0.60%, and above \$50 million - 0.50%.

Composite Characteristics: The Composite is defined to include separately managed accounts with assets of over \$5,000,000. Effective June 30, 2010, PENN changed the threshold from \$1 million to \$5 million. As a result, 2 accounts were removed. These accounts solely invest in cash paying fixed income securities of U.S. based companies, with Single-B yield/spread characteristics. The Defensive High Yield Fixed Income strategy seeks to preserve investors' principal, while providing a high level of current income. Effective December 31, 2005, PENN changed the name of the composite from the Core High Yield Fixed Income Composite to the Defensive High Yield Fixed Income Composite. The Defensive High Yield Fixed Income Composite was created on October 31, 1987. Effective January 1, 2010, accounts which have a significant cash flow (20% or more on the transaction date) will be removed from their respective composite immediately. The account will be reevaluated monthly and if eligible, will enter their appropriate composite the next calendar quarter's opening. To receive a complete list and description of PENN Capital Management's composites, information regarding the treatment of significant cash flows, and/or a presentation that adheres to the GIPS® standards, contact Christian M. Noyes, Senior Managing Partner, Director of Marketing & Client Services, 215-302-1501, e-mail cnoyes@penncapital.com or write PENN Capital Management, Navy Yard Corporate Center, Three Crescent Drive, Suite 400, Philadelphia, PA 19112. The Composite is comprised of all separately managed accounts that have been managed by PENN for one full calendar quarter. As of September 30, 2011, the Composite consists of 41 accounts totaling \$1,594.30 million, which represents 35.74% of the firm's total assets and 85.29% of style assets, excluding wrap accounts.

Calculation Methodology: The Defensive High Yield Fixed Income Composite is shown as total returns, which assumes reinvestment of dividends, capital gains, as well as no reductions for taxes, presented before the actual deduction of investment advisory fees, are calculated in U.S. dollars, and are computed on a dollar-weighted-rate-of-return-basis. No portfolios using leverage are included in this composite. 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. (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. Policies for valuing portfolios, calculating performance, and preparing complaint 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: PENN Capital Management's investment advisory fees are described in Part 2A of its Form ADV. PENN Capital Management Company, Inc. claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. PENN Capital Management Company, Inc. has been independently verified for the periods January 1, 1994 through September 30, 2011. 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 High Yield Fixed Income Composite has been examined for the periods January 1, 1994 through September 30, 2011. The verification and performance examination reports are available upon request. The BofA Merrill Lynch BB-B Rated Non-Distressed Index is a subset of The BofA Merrill Lynch US High Yield Index including all securities rated BB1 through B3, inclusive, with an option-adjusted spread less than 1,000 basis points. The BofA Merrill Lynch BB-B Rated Non-Distressed Index is provided to represent the investment environment existing during the time periods shown. In December 2009, PENN determined that the BofA Merrill Lynch BB-B Rated Non-Distressed Index provided a more accurate depiction of the Defensive High Yield Fixed Income portfolio, than that of the previous index. The reason for the change was that the index is more consistent with the risk and credit quality profile for the strategy. The benchmark was changed retroactively from the BofA Merrill Lynch High Yield Cash Pay Constrained Index to the BofA Merrill Lynch BB-B Rated Non-Distressed Index. The Index's constituents are capitalization-weighted based on their current amount outstanding. Cash flows from bond payments that are received during the month are retained in the index until the end of the month and then are removed as part of the rebalancing. Cash does not earn any reinvestment income while it is held in the Index. The Index is rebalanced on the last calendar day of the month, based on information available up to and including the third business day before the last business day of the month. 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.

Opportunistic High Yield Fixed Income Performance Disclosure

	<i>Opportunistic High Yield Fixed Income Gross of Fees Return</i>	<i>Opportunistic High Yield Fixed Income Net of Fees Return</i>	<i>BofA Merrill Lynch High Yield Constrained 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>
YTD 3Q 2011	-1.45	-1.85	-1.71	20	\$795.10	N/A	\$4,460.98	17.82%
2010	18.93	18.27	15.07	19	\$829.36	0.67	\$4,421.67	18.76%
2009	56.65	55.83	58.10	17	\$735.94	2.68	\$3,430.39	21.45%
2008	-27.10	-27.44	-26.11	13	\$345.48	0.71	\$2,026.44	17.05%
2007	1.81	1.41	2.53	13	\$390.81	0.30	\$2,680.95	14.58%
2006	12.56	11.97	10.76	8	\$234.23	0.15	\$2,099.31	11.16%
2005	7.15	6.59	2.78	Five or fewer	\$182.39	0.04	\$1,344.39	13.57%
2004	14.99	14.25	10.87	Five or fewer	\$177.18	0.47	\$737.20	24.03%
2003	42.04	41.12	27.97	Five or fewer	\$196.00	0.59	\$506.44	38.70%
2002	2.07	1.70	-0.53	13	\$176.07	0.31	\$338.73	51.98%
2001	-7.08	-7.50	4.48	17	\$218.53	0.76	\$563.11	38.81%

Firm Information: PENN Capital Management Company, Inc. is a Pennsylvania based investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. PENN is a 100% employee owned subchapter-S corporation. The firm specializes in managing equity and fixed income portfolios for institutional and high net worth clients. PENN fully integrated process allows for strong crossover of ideas between fixed income and equity, enabling PENN's investment team to become experts in analyzing a company's entire capital structure. PENN's Institutional Services is defined for GIPS® purposes to include all separately managed accounts with the exclusion of wrap relationships. This is due to wrap relationships being considered separate from public perceptions. The firm's fee schedule varies based upon the style the account is invested in. Standard fee schedule for all separate Opportunistic High Yield Fixed Income accounts are as follows: first \$10 million - 0.85% of assets under management, next \$40 million - 0.70%, and above \$50 million - 0.55%.

Composite Characteristics: The Composite is defined to include separately managed accounts with assets over \$5,000,000.00. Effective June 30, 2010, PENN changed the threshold from \$1 million to \$5 million. As a result, 1 account was removed. These accounts seek total returns by investing in a mix of cash-paying securities and "opportunistic" securities, such as distressed debt. The accounts in this style have a credit rating of Single-B to Triple-C. Effective December 31, 2005, PENN changed the name of the composite from the Core Opportunistic High Yield Fixed Income Composite to the Opportunistic High Yield Fixed Income Composite. The Opportunistic High Yield Fixed Income Composite was created on December 31, 1989. Effective January 1, 2010, accounts which have a significant cash flow (20% or more on the transaction date) will be removed from their respective composite immediately. The account will be reevaluated monthly and if eligible, will enter their appropriate composite the next calendar quarter's opening. To receive a complete list and description of PENN Capital Management's composites, information regarding the treatment of significant cash flows, and/or a presentation that adheres to the GIPS® standards, contact Christian M. Noyes, Senior Managing Partner, Director of Marketing & Client Services, 215-302-1501, e-mail cnoyes@penncapital.com or write PENN Capital Management, Navy Yard Corporate Center, Three Crescent Drive, Suite 400, Philadelphia, PA 19112. The Composite is comprised of all separately managed accounts and have been managed by PENN for one full calendar quarter. In 1990, 1991 and a portion of 1993, the Opportunistic High Yield Fixed Income Composite consisted of one non-fee paying account, the Managing Director of PENN Capital Management Company, Inc. As of September 30, 2011, the Composite consists of 20 accounts totaling \$795.10 million, which represents 17.82% of the firm's total assets and 93.56% of style assets, excluding wrap accounts.

Calculation Methodology: The Opportunistic High Yield Fixed Income Composite is shown as total returns, which assumes reinvestment of dividends, capital gains, as well as no reductions for taxes, presented before the deduction of actual investment advisory fees, are calculated in U.S. dollars, and are computed on a dollar-weighted-rate-of-return-basis. For the purposes of this composite, performance returns for the leveraged accounts have been calculated on an all-cash 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. (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. Policies for valuing portfolios, calculating performance, and preparing complaint 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: PENN Capital Management's investment advisory fees are described in Part 2A of its Form ADV. PENN Capital Management Company, Inc. claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. PENN Capital Management has been independently verified for the periods January 1, 1994 through September 30, 2011. 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 Opportunistic High Yield Fixed Income Composite has been examined for the periods since January 1, 1994 through September 30, 2011. The verification and performance examination reports are available upon request. The BofA Merrill Lynch High Yield Constrained Index (formerly known as the BofA Merrill Lynch High Yield Master II Constrained Index) is an unmanaged portfolio constructed to mirror the public high yield debt market. This index includes US dollar publicly issued corporate bonds and includes PIKS and deferred interest bonds that are not yet accruing a coupon. Bonds rated in default, or that are not rated are excluded from the index. The BofA Merrill Lynch High Yield Constrained Index is provided to represent the investment environment existing during the time periods shown. In 2003, the benchmark was changed from the Credit Suisse First Boston High Yield Index, as it does not include portions of the universe that PENN invests in. In February 2006, the benchmark was changed retroactively from the BofA Merrill Lynch High Yield Master II Index to the BofA Merrill Lynch High Yield Constrained Index. The Opportunistic High Yield Fixed Income strategy typically has a maximum issuer weighting of 3% and the securities within the BofA Merrill Lynch High Yield Constrained Index typically have a maximum issuer weighting of 2%. For comparison purposes, the index is a fully invested index, which includes reinvestment of income, and its performance has been linked in the same manner as the Opportunistic High Yield Fixed Income Composite. 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. The indices used for comparison do not reflect the deduction of any transaction costs, management fees, or any other costs.