

# Defensive High Yield Fixed Income

(Period Ending December 31, 2011)

## Strategy:

- Preservation of capital and high current income
- Focus on single-B and above credit quality
- Emphasis on senior debt in the capital structure
- Identify relative value and upgrade candidates

## Investment Culture:

- Complete capital structure analysis®
- Fully integrated credit & equity research process
- Independent, intensive research & proprietary database
- Over 1,000 company management meetings a year
- Compensation tied to performance

## Portfolio Facts:

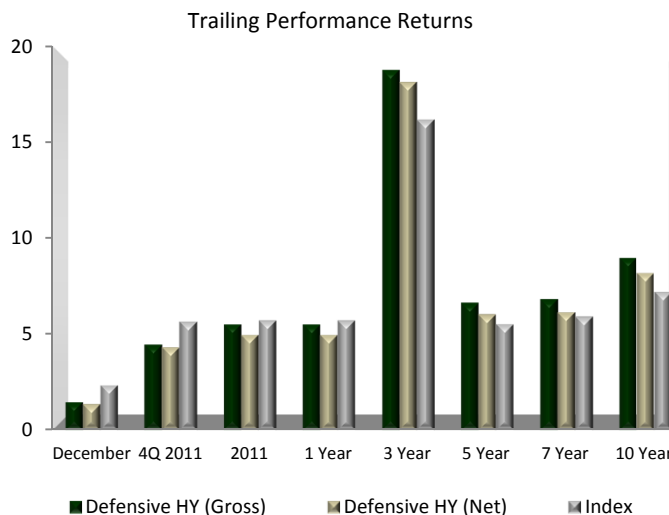
- Strategy inception date: 10/31/1987
- Index: BofA ML BB/B Rated Non-Distressed Index
- Style assets: \$2.01 billion

## Portfolio Characteristics:

	Defensive HY	Index	HY Market*	
Number of Companies	<b>130</b>	681	971	
Average Coupon (%)	<b>8.6</b>	7.8	8.2	
Current Yield (%)	<b>8.3</b>	7.7	8.4	
Yield to Worst (%)	<b>8.2</b>	6.7	8.3	
Average Maturity (yrs)	<b>5.9</b>	7.1	6.8	
Average Duration (yrs)	<b>3.4</b>	4.2	4.0	
S&P/Moody's Rating (wtd. Avg.)	<b>B/B2</b>	BB3	B1	
Credit Quality (%)	PRR	S&P/Moody's	Index	HY Market*
Double-B & Higher	56.0%	<b>38.7%</b>	55.8%	44.6%
Single-B	44.0%	<b>61.3%</b>	44.2%	39.9%
Triple-C & Lower	0.0%	<b>0.0%</b>	0.0%	15.5%

\* Broad Market Proxy: BofA Merrill Lynch High US Yield Constrained Index  
 - Double-B & Higher credit quality rating for PENN Defensive HY includes cash & cash equivalents  
 PENN's credit quality breakdown is calculated using the split-rated credit quality of the S&P and Moody's rating agency  
 PRR = PENN's proprietary internal ranking otherwise known as the PENN Risk Rating

## Performance:



	Defensive HY (Gross)	Defensive HY (Net)	Index
December	1.47	1.36	2.35
4Q 2011	4.46	4.32	5.66
2011	5.53	4.97	5.72
1 Year	5.53	4.97	5.72
3 Year	18.78	18.15	16.19
5 Year	6.64	6.03	5.53
7 Year	6.83	6.14	5.92
10 Year	8.99	8.20	7.21

	Defensive HY (Gross)	Defensive HY (Net)	Index
1994	0.94	0.16	-
1995	19.47	18.57	-
1996	15.04	14.23	-
1997	13.80	12.92	13.21
1998	2.92	2.10	4.04
1999	1.46	0.56	2.98
2000	-0.46	-1.31	-1.16
2001	9.40	8.50	9.00
2002	6.70	5.83	1.56
2003	24.85	23.63	20.18
2004	11.83	10.78	9.89
2005	4.98	3.98	3.40
2006	9.65	8.93	10.56
2007	2.60	1.97	2.83
2008	-19.78	-20.31	-18.86
2009	37.01	36.25	30.22
2010	15.91	15.31	13.93
2011	5.53	4.97	5.72

Defensive HY (Gross): Composite Gross & Defensive HY Net: Composite Net  
 Index: BofA ML BB/B Non-Distressed Index  
 Performance is annualized for multi-year periods

**Top 10 Holdings:**

PAETEC Holding Corp.
Aircastle Ltd.
Helix Energy Solutions Group Inc.
Alcatel-Lucent
Calpine Construction Finance Co. L.P.
Revlon Consumer Products Corp.
FelCor Lodging L.P
Wells Fargo & Co.
Earthlink Inc.
Hercules Offshore LLC

Holdings are considered supplemental information. Please refer to the fully compliant presentation which is available upon request.

**History:**

- Founded in 1987
- 100% employee owned
- Strong operational infrastructure
- All portfolio managers are owners
- 57 total employees; 16 partners

**Assets:**

<b>Firm Assets:</b>	<b>\$5.7 billion</b>
• Equity:	\$2.6 billion
• High Yield Fixed Income	\$3.0 billion
• Alternatives	\$0.1 billion

**Disclosures:**

**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 sub-chapter-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, 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 December 31, 2011, the Composite consists of 38 accounts totaling \$1,650.65 million, which represents 34.17% of the firm's total assets and 82.10% 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 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:** 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®). 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.

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