

# Short Duration High Yield Fixed Income

(Period Ending December 31, 2011)

## Strategy:

- Capitalize on short duration paper likely to be re-financed/retired
- Includes corporate fixed-rate bonds and floating-rate bank loans
- Fill void created by total-return funds selling their lowest yielding securities
- Detailed covenant review, including change of control
- Tactical allocations to:
  - investment grade securities
  - convertible securities
  - potential calls, tenders and take-outs

## Investment Culture:

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

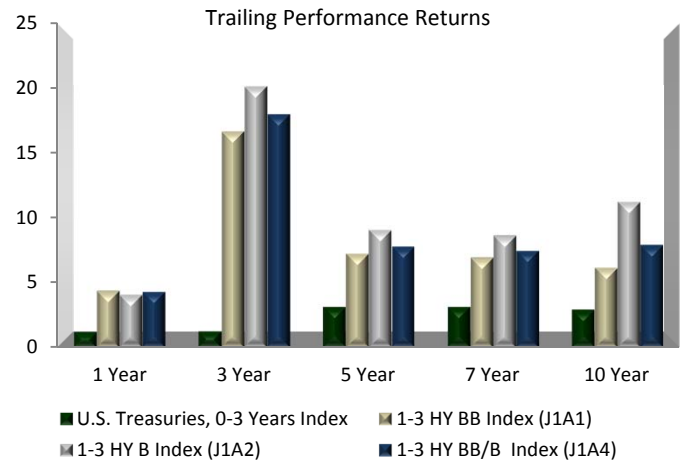
## Portfolio Facts:

- Inception date: 3/31/2011
- Index: BofA ML U.S. Treasuries, 0-3 Years Index
- Style assets: \$3.86 million

## Characteristics:

	Short Duration HY	Index
Number of Companies	34	N/A
Yield to Worst (%)	4.5	0.2
Yield to Maturity (%)	4.7	0.2
Average Duration (yrs)	1.5	1.4
Average Maturity (yrs)	1.9	1.5
S&P/Moody's Rating (wtd. avg.)	BB-/B1	AAA
Top 5 Sectors (%)		
Financial Services	31.5	
Telecommunications	25.2	
Leisure & Entertainment	8.5	
Non-Food & Drug Retail	6.9	
Hotels	6.6	
Credit Quality (%)		
Investment Grade	20.9	100.0
Double-B	41.2	0.0
Single-B	33.0	0.0
Cash/Cash Equivalents	4.9	0.0

## Market Proxy:



Trailing Performance as of 12/31/2011	U.S. Treasuries, 0-3 Years Index	1-3 HY BB Index (J1A1)	1-3 HY B Index (J1A2)	1-3 HY BB/B Index (J1A4)
1 Year	1.17	4.36	4.04	4.29
3 Year	1.23	16.62	20.08	17.94
5 Year	3.11	7.21	9.05	7.76
7 Year	3.12	6.90	8.60	7.44
10 Year	2.89	6.13	11.20	7.87

### BofA Merrill Lynch 1-3 Year BB US Cash Pay High Yield Index (J1A1)

The BofA Merrill Lynch 1-3 Year BB US Cash Pay High Yield Index is a subset of The BofA Merrill Lynch US Cash Pay High Yield Index including all securities with a remaining term to final maturity less than 3 years and rated BB1 through BB3, inclusive.

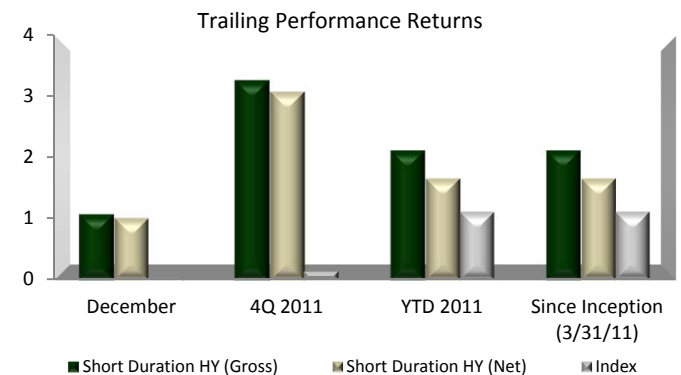
### The BofA Merrill Lynch 1-3 Year B Cash Pay High Yield Index (J1A2)

The BofA Merrill Lynch 1-3 Year B Cash Pay High Yield Index is a subset of The BofA Merrill Lynch US Cash Pay High Yield Index including all securities with a remaining term to final maturity less than 3 years and rated B1 through B3, inclusive.

### The BofA Merrill Lynch 1-3 Year BB/B Cash Pay High Yield Index (J1A4)

The BofA Merrill Lynch 1-3 Year BB/B Cash Pay High Yield Index is a subset of The BofA Merrill Lynch US Cash Pay High Yield Index including all securities with a remaining term to final maturity less than 3 years and rated BB1 through B3, inclusive.

## Performance:



	Short Duration HY (Gross)	Short Duration HY (Net)	Index
December	1.08	1.02	0.04
4Q 2011	3.26	3.07	0.15
YTD 2011	2.12	1.66	1.12
Since Inception (3/31/11)	2.12	1.66	1.12

Short Duration HY (Gross): Composite Gross & Short Duration HY (Net): Composite Net

Short Duration HY: Strategy Model Account

Index: BofA ML U.S. Treasuries, 0-3 Years Index

\*Since Composite Inception: 3/31/11

Performance is annualized for multi-year periods

**Top 10 Holdings:**

Ally Financial Inc.
Royal Caribbean Cruises
Ford Motor Credit
Frontier Communications
American Axle & Manufacturing Inc.
Nextel Communications
Int'l Lease Finance
MGM Mirage Inc.
Amsouth Bank
HSN Inc.

Holdings are considered supplemental information and a full list 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 advisor registered with the Securities and Exchange Commission under the Investment Advisors 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 Short Duration High Yield accounts are as follows: first \$10 million - 0.55% of assets under management and above \$10 million – 0.45%.

**Composite Characteristics:** The Composite is defined to include separately managed accounts with assets of over \$1,000,000. These accounts solely invest in cash paying fixed income securities of U.S. based companies, with a maximum maturity of 3 years and minimum bond credit rating of Split-B Rated. The Short Duration High Yield strategy seeks to preserve investors' capital while managing duration and generating current income. The Short Duration High Yield Composite was created on April 1, 2011. 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 less than 5 accounts totaling \$3.86 million, which represents 0.08% of the firm's total assets and 100.00% of style assets, excluding wrap accounts.

**Calculation Methodology:** The Short Duration High Yield 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. 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®). The BofA Merrill Lynch 0-3 US Year Treasury Index is an unmanaged index that tracks the performance of the direct sovereign debt of the U.S. Government having a maturity of less than three years. The BofA Merrill Lynch 0-3 US Year Treasury Index is provided to represent the investment environment existing during the time periods shown. 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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