

January 10th, 2017

High Yield Quarterly Commentary

Environment

The fourth quarter was another solid quarter for high yield, capping off a very strong 2016. Part of this was a rebound from 2015, while another part was that credit conditions remained strong in 2016. The U.S. economy strengthened, Fed interest rate policy remained benign and commodity markets rebounded. High Yield market fundamentals have remained solid and are improving. Strong price appreciation moved valuations higher and the average yield in the high yield market now sits at 6.4%. However, despite the price appreciation, the high yield market continues to look relatively attractive.

Performance

The Steinberg High Yield Fund (Series-F, after all fees) had a total return of **+1.6%** in the fourth quarter, resulting in a year-to-date 2016 total return of **+16.4%**. The Fund improved across the board with some slightly better performance in commodity related investments, although we remained underweight commodities. Reflecting some very good investment selection and a steady approach, the Steinberg High Yield Fund outperformed and had top quartile performance in 2016. We have continued to maintain a fairly conservative high yield investment strategy of balancing credit risk, duration and returns.

Portfolio Highlights

We were again fairly active in the fourth quarter. We added to existing positions in Alliance Grain Traders (food), AK Steel (metals and mining), Avis Budget (services), Cott Beverage (food and beverage), Genon Energy (utilities), Kindred Healthcare (healthcare), Mattamy Group (home building), and SiriusXM (media). Our Noranda Operating Trust (metals and mining) bonds matured and our Toys R Us (retail) bonds were called.

Despite the trading activity, our cash balance remained relatively flat at 4% of the portfolio during the quarter. Our U.S. dollar exposure was down, ending the fourth quarter at 69% of the portfolio. To reduce currency risk, we continue to hedge almost all the U.S. dollar exposure. We are currently invested in a total of 21 different industry sub-sectors, enjoying significant industry-sector diversification. We continue to look for opportunities to take advantage of an improving high yield market.

Outlook

The high yield market continues to look relatively attractive versus government bonds and other fixed income options. Valuations should continue to be supported by improving economic conditions and solid high yield fundamentals. High yield continues to remain in a perfect world where economic growth is strong enough to support low default rates, but not so strong that it results in rapid interest rate increases. High yield should benefit if interest rates move higher at a thoughtful and well measured pace. Even with some lower yields, high yield investors continue to remain fairly well compensated for the risks. As always, we are committed to the disciplined investment approach and long-term perspective that defines Lorne Steinberg Wealth Management.

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