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Credit Selection a Key for Conservative Fixed-Income Investment

At Ascent, our approach to investment selection grows out of our primary focus on preservation of principal. We utilize in-depth credit research to build portfolios that seek to offer high credit quality while limiting exposure to sector and market risk. Because bonds are not an efficient trading vehicle, we select issues that we believe will perform well throughout the entire holding period, not just for the short-term.

In selecting individual issues for portfolios at Ascent, we:

- Perform fundamental analysis on every security prior to buying.
- Limit our municipal holdings to high quality issuers, typically rated 'A' or higher.
- Limit taxable holdings to investment-grade issuers.
- Do not buy solely based on ratings. Ratings can get stale and tend to adjust after the fact to credit changes. While we review rating agency evaluations, we form our own credit opinion on each issue.
- Do not buy solely based on bond insurance or other enhancement programs. We always look through credit enhancement to evaluate the underlying issuer. We only buy issues we believe have strong stand-alone credit quality, with the enhancement adding an extra layer of security.
- Understand the security structure of each issue. There can be significant differences in investor security position among different bond issues from the same issuer and that carry identical ratings. We evaluate each issue to seek to avoid structures that can create credit problems or may be subject to changes in market acceptance.
- Look for relative value among comparable credits. We will always seek to select the best credit quality for a given yield or the highest yield for a given credit rating.

Our credit analysis incorporates both rating agency research and our own fundamental analysis of each individual issuer. Our analytical process includes:

- Reviewing current rating agency ratings, outlooks and published research. We contact rating agency analysts as necessary to deepen our understanding of the issuer's ratings.
- Reviewing the original offering documents to ensure a thorough understanding of the structure of the bond issue, including the specific pledges securing the bonds and other structural features that can enhance (or weaken) bondholder safety.
- Reviewing current financial filings. This review ensures that the issuer is in compliance with its continuing disclosure obligations and allows us to establish our own opinion of its financial performance and credit characteristics.

Once we have positioned bonds in a portfolio, we conduct ongoing surveillance on all our holdings. We do not depend solely on the rating agencies for credit monitoring. Rather, our process includes:

- Reviewing daily rating agency feeds for alerts on rating and outlook changes.
- Reviewing third party research coverage on corporate bond issuers for credit developments.
- Updating fundamental credit analysis at least annually on all municipal bond holdings.
- Conducting more frequent reviews (quarterly or semi-annually) of lower-rated credits or high profile issuers (frequent issuers or large aggregate holdings).
- Updating a weekly surveillance watch list for municipals and corporates.
- Preemptively selling bonds as appropriate when we see signs of credit or market risk, whether or not there have been any rating agency actions or changes in market trading levels.

By utilizing our credit-first approach, we are generally able to identify potentially troubled credits before they experience significant rating or market deterioration. Our approach aims to allow investors to largely avoid the uncertainty, and resulting market volatility, associated with distressed credit situations like Detroit; Jefferson County, AL; San Bernardino, CA; and Puerto Rico. While no portfolio will be immune to all potential credit events, careful selection and ongoing monitoring can eliminate much of the credit risk in portfolios.



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