

SIZING UP

★★★ SECTORS ★★★

POST-ELECTION

Investors have been inundated since the US election with opinions on the macro implications from a new Trump administration.¹ Pundits may be approaching the dilemma from the wrong end, given a host of uncertainties – many administration positions have yet to be filled (or approved by the Senate); inauguration day is still weeks away; history shows there is a difference between campaign promises and actual policies; the need to use budget reconciliation to pass Congressional bills; etc.

Here at PPM, we take a bottom-up approach to investing. Instead of making big macro calls amid uncertainty, we can analyze potential outcomes, their scope and how they may impact a sector, name or individual bond. This research can be added to additional fundamental analysis to make informed investment decisions for our clients.

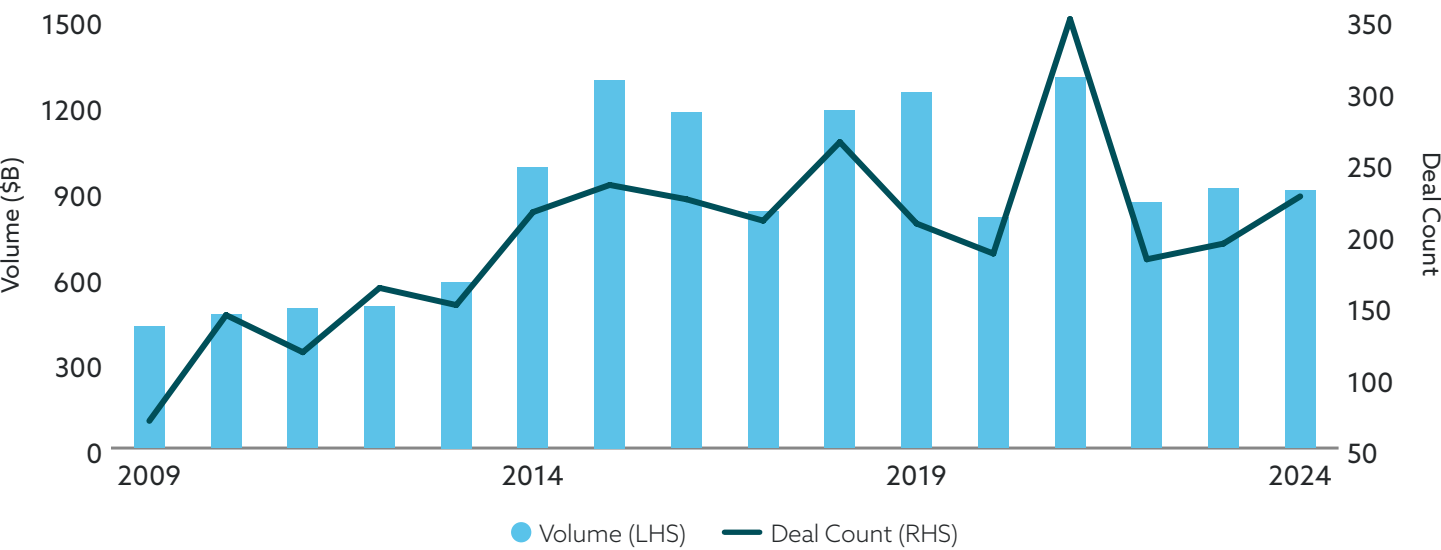
With a Republican as president and the party controlling both chambers of Congress, there could be significant effects on sectors. Along with our bottom-up approach, we expect announcements from the President or his appointments to have the most impact on a sector-by-sector basis. Potential drivers are domestic policy, including regulations, taxes and trade/tariffs, and foreign policy/defense, as well as their possible market effects such as interest rates movements. The tables below cover PPM views by sector.

(1) As of 12 December 2024. Unless otherwise stated, the information presented has been prepared from market observations and other sources believed in good faith to be reliable. Information and opinions expressed by PPM are current as of the date indicated and are subject to change without notice. Past performance is no guarantee of future results. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.

BANKS

Possible Implications of Trump Administration – Banks		
Sub-Sector	Relevant Policies	Potential Investment Impacts
European Banks	Trade/Tariffs, Foreign Policy/ Defense	<ul style="list-style-type: none">> Trade tensions/tariffs could weigh on corporate loan growth and push policy rates lower, weakening profitability; we see Germany as the most impacted, with service-oriented economies faring better; banks that benefit from cross-border activity could see headwinds in several product areas
		<ul style="list-style-type: none">> Further Basel III Endgame concessions in the US could weaken European bank competitive positioning
US Banks	Regulatory, Domestic Policy, Interest Rates	<ul style="list-style-type: none">> Basel III Endgame has already been delayed and watered down, and we may see even lower capital requirements for big banks
		<ul style="list-style-type: none">> We would expect a new director at the Consumer Finance Protection Bureau and less onerous regulation for credit card providers; we would also expect to see changes at the SEC, FDIC and Office of the Comptroller of the Currency> We expect a rebound in investment banking activity, especially on IPOs and M&A advisory; however, higher activity may result in higher bond issuance> M&A activity could pick up among Category III and IV banks, given scale needs to compete with bigger banks and the fact that regional banks are looking to expand into different markets and grow core deposit bases> We expect to see a pick-up in corporate capital spending, which should bode well for regional banks; loan/deposit ratios are near all-time lows, meaning banks have adequate capacity to lend if demand rebounds> Higher interest rates could put additional pressure on CRE credit and unrealized losses for regional banks; however, we view a repeat of 2023 as unlikely since the market would need a liquidity crunch of similar scale

M&A ENVIRONMENT MAY BE MORE FAVORABLE²



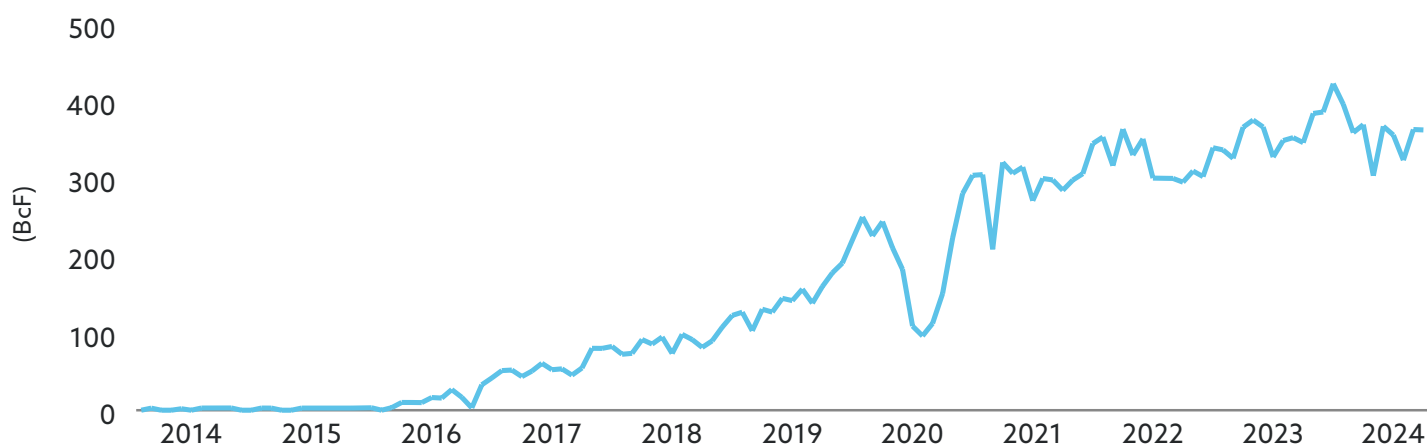
(2) Bloomberg. As of 3 December 2024. Data for North American M&A. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.

ENERGY

Possible Implications of Trump Administration – Energy

Sub-Sector	Relevant Policies	Potential Investment Impacts
Exploration & Production, Oil Field Services	Regulatory	<ul style="list-style-type: none"> > Domestic oil and gas likely to benefit as regulatory pressure eases on permitting, leasing of federal lands, emissions, etc. > We expect actual domestic activity to remain steady, guided more by economics; in fact, there could be downside to activity on lower oil prices
Integrated	Regulatory	<ul style="list-style-type: none"> > May benefit from lower regulatory pressures in upstream and downstream businesses, but offset by lower economic support for clean energy initiatives
Midstream	Regulatory	<ul style="list-style-type: none"> > We expect the liquefied natural gas (LNG) export license halt to be lifted – a positive for future LNG operators and gas pipeline operators, especially those servicing the Gulf Coast > Regulatory pressure on building new infrastructure should ease
Refining	Regulatory	<ul style="list-style-type: none"> > We expect declining regulatory costs and slowing EV adoption, but likely to be limited to the domestic market while competition continues internationally > Negatively, should see lower economic support for renewable diesel that has been a big driver for investment grade refiners
Utilities/Power	Taxes, Interest Rates, Regulatory	<ul style="list-style-type: none"> > Inflation Reduction Act (IRA) tax benefits for existing projects likely to continue; we view it as unlikely that future IRA tax benefits are at risk via legislative repeal, given a significant amount benefit Republican-leaning states > However, higher interest rates could impact funding and growth > We see more risks in hydrogen, offshore wind and less in onshore wind, solar > Our near-term views are neutral nuclear, positive natural gas and positive coal due to potential easing of recent regulations

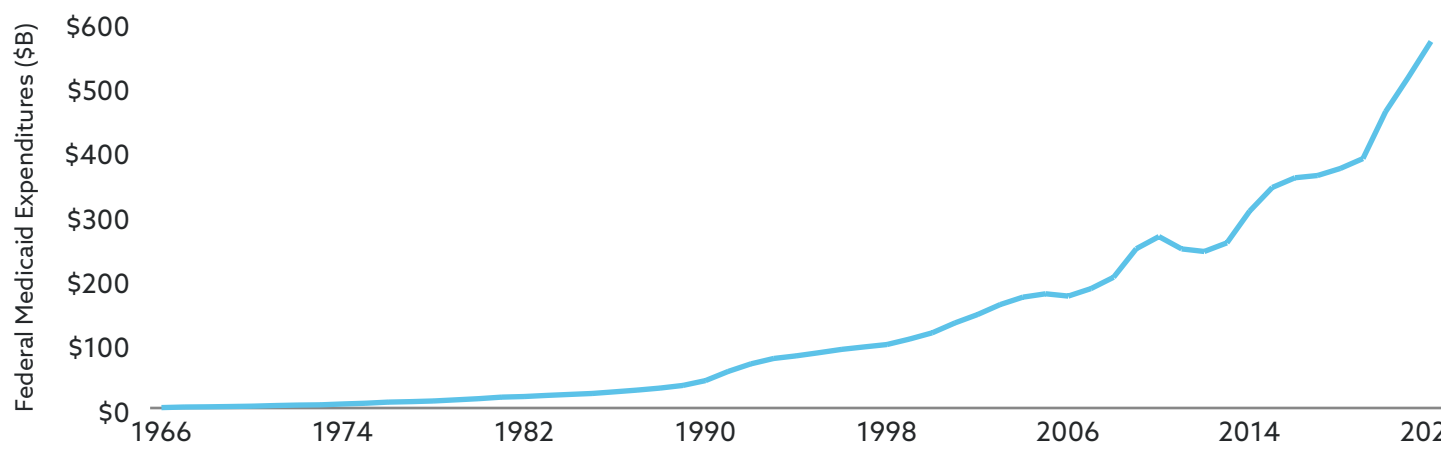
US LNG EXPORTS COULD RESUME GROWING³



(3) US Energy Information Administration. As generated on 3 December 2024. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.

Possible Implications of Trump Administration – Healthcare		
Sub-Sector	Relevant Policies	Potential Investment Impacts
Hospitals	Taxes, Domestic Policy	> We believe enhanced subsidies from the Affordable Care Act will most likely expire at the end of 2025; while negative for hospitals, the ultimate impact depends on how many subsidies fall off and where current enrollees go for coverage if exchanges are no longer affordable (currently about mid-single digits of hospital admissions are from exchanges)
		> Trump has been more supportive of Medicare Advantage (MA) – positive for hospitals as better MA rates may flow through to providers and help with the pressure they are feeling from increased denials
		> Trump may look to cut Medicaid spending, particularly cutting back on matching in states that have expanded Medicaid; negative for hospitals, particularly those more dependent on Medicaid
Managed Care	Domestic Policy, Taxes	> We believe block grants/work requirements or cuts in supplemental payments are less likely (many Republican states have adopted these)
		> Trump and Republicans have generally been favorable toward the MA program, which could benefit future rate updates
Managed Care	Domestic Policy, Taxes	> Negatively, enhanced subsidies enjoyed by Managed Care exchanges are set to expire at the end of 2025 and are unlikely to be extended; further, Republicans are seen as less favorable toward Medicaid enrollment/funding
		> Trump and Republicans have generally been favorable toward the MA program, which could benefit future rate updates
Pharmaceuticals	Domestic Policy	> We believe any potential impacts to drug pricing will be relatively benign; could see the return of Most Favored Nation pricing or an effort to use such prices as benchmarks when instituting IRA provisions around negotiating drug pricing

TRUMP MAY LOOK TO CUT MEDICAID SPENDING⁴



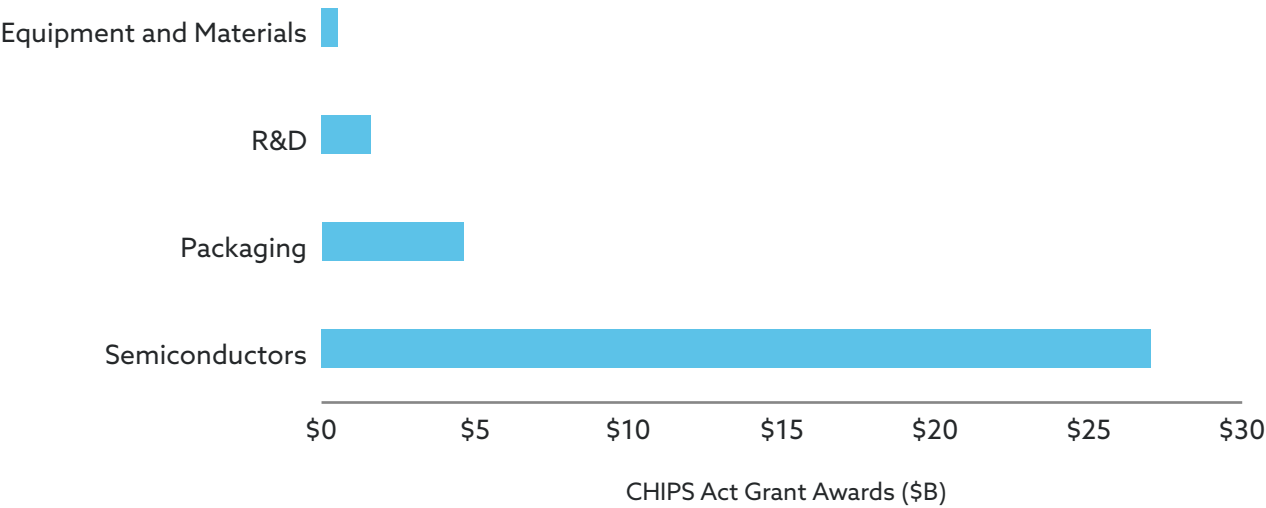
(4) Center for Medicare & Medicaid Services, National Health Expenditure Data. As generated on 19 November 2024. Annual data through 2022, the latest available. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.

Possible Implications of Trump Administration – Industrial

Sub-Sector	Relevant Policies	Potential Investment Impacts
Aerospace / Defense	Domestic Policy, Foreign Policy/ Defense, Trade/ Tariffs	<ul style="list-style-type: none"> > Overall stronger defense spending expected, similar to previous Trump term > Expect less support for Ukraine and potential for increased NATO spending; maintained or greater support for Israel > Risk China could retaliate against tariffs via US commercial aircraft providers
Airlines	Domestic Policy, Regulatory	<ul style="list-style-type: none"> > Could benefit from oil prices (jet fuel costs) staying lower-for-longer and from reduced regulatory scrutiny (M&A, loyalty programs)
Automotive	Regulatory, Domestic Policy, Trade/Tariffs	<ul style="list-style-type: none"> > Legacy US manufacturers may benefit from the scale back of environmental regulations; some drag expected from lower incentives for EV products > Most EV manufacturers likely hurt by slower regulatory incentives (from IRA) > EV-oriented auto suppliers could be hurt by potential tariffs of imported raw materials and parts; suppliers exposed to internal combustion engines helped > Auto dealers may benefit from tax deductibility on loans if enacted; highly dependent on how it is implemented
Building & Construction	Trade/Tariffs, Domestic Policy, Interest Rates	<ul style="list-style-type: none"> > Tariffs and immigration issues could increase input costs for builders and higher expected rates could lower home demand, requiring discounts and incentives to maintain volumes
Diversified Capital Goods & Machinery	Domestic Policy, Trade/Tariffs	<ul style="list-style-type: none"> > Expect continued support for reshoring and infrastructure spend; would benefit US-exposed automation, construction, electrical/utility > Tariffs could raise costs of imported products from China; we saw greater in-region production during previous Trump term, so companies likely are more prepared > Some nearshoring has shifted production from China to Mexico, which could be a target for tariffs
Metals/Mining	Trade/Tariffs, Domestic Policy	<ul style="list-style-type: none"> > Industrial/Base Metals: Tariffs should negatively impact demand in the near term from China/rest of world, but China likely to counteract with stimulus measures, especially supporting copper pricing > Gold: Higher yields, stronger dollar, risk-on equity environment is bearish for gold in the near-term; inflation positive longer term > Steel: Trade policy (tariff enforcement) protects domestic pricing and the Republican sweep implies easier path for infrastructure spending
Retail / Consumer Products	Trade/Tariffs	<ul style="list-style-type: none"> > While tariffs on Chinese goods would be negative, we expect the magnitude to be company-specific – more durable consumer products are manufactured overseas vs. more home/personal care products manufactured domestically > Sourcing has shifted away from China since previous Trump administration, so overall more prepared, but impact depends on sourcing mix
Transportation	Trade/Tariffs, Domestic Policy	<ul style="list-style-type: none"> > Tariffs should negatively impact imports and, therefore, intermodal volumes, particularly on the West Coast > A potential offset would be a more favorable legislative approach to the sunset of coal power; while declining, coal still compromises a significant portion of rail volumes

Possible Implications of Trump Administration – TMT		
Sub-Sector	Relevant Policies	Potential Investment Impacts
Media	Regulatory	> M&A activity is already heating up in Media, and a reduced regulatory burden may ease approvals
Semiconductors	Trade/Tariffs, Domestic Policy, Regulatory	> Higher tariffs would impact hardware names, particularly non-US operators > Possible changes in CHIPS Act funding or reduction in government spending on semiconductor-related technology would be negative > However, an easing in the regulatory environment could support M&A
Software	Regulatory, Taxes	> Largest risk is antitrust and potential for breakups among larger firms with dominant market positions, as Trump has been critical and views “Big Tech” as political opponents (in some cases); accordingly, we expect higher levels of antitrust scrutiny among large-cap software and internet names > Conversely, a looser regulatory environment would be more favorable for M&A and could result in a more competitive landscape, especially where leadership/large shareholders are allies of the new administration > Any success in further lowering the corporate tax rate would be credit-positive for highly profitable mega/large-cap names
Telecom & Cable	Taxes, Regulatory, Interest Rates	> Capital-intensive industries could benefit from a lower corporate tax regime and the likelihood of continued bonus depreciation > Reduced regulation should promote M&A > Higher rates could be a marginal negative for names needing consistent balance sheet growth

COULD REPUBLICANS STOP DISBURSEMENT OF CHIPS ACT FUNDS?⁵



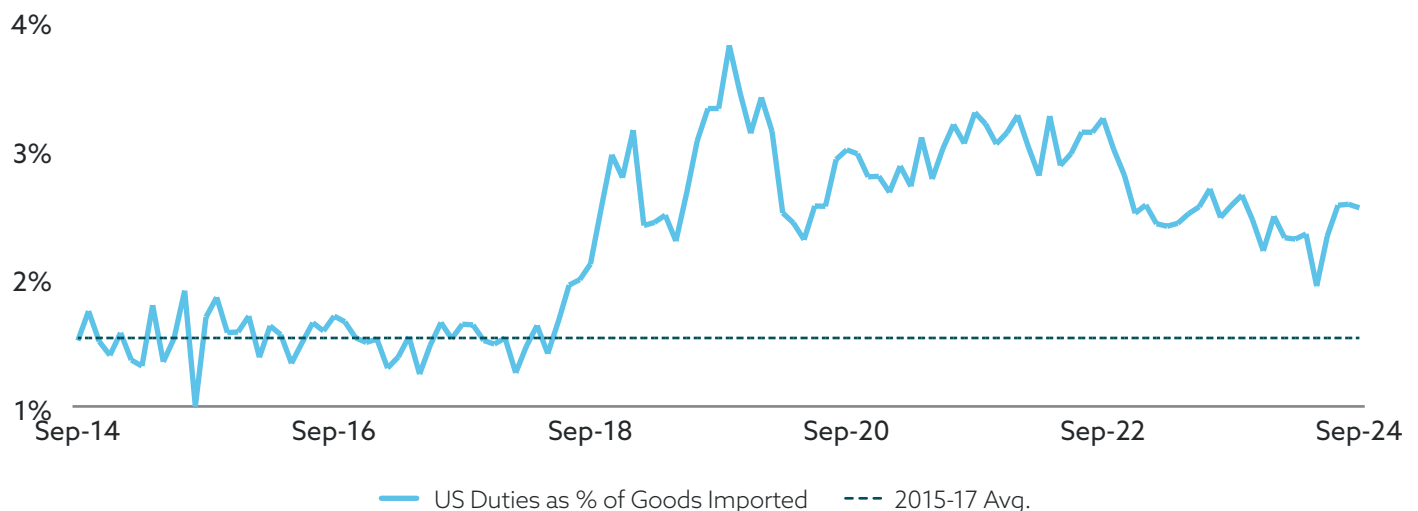
(5) Semiconductor Industry Association. As generated on 19 November 2024. Grant awards summed by PPM by category. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.

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Possible Implications of Trump Administration – Emerging Markets

Region/Country	Relevant Policies	Potential Investment Impacts
China	Trade/Tariffs	<ul style="list-style-type: none"> > We expect a material increase in tariffs on China; while the administration may be open to negotiate, in our opinion Trump cares the most about the trade deficit and there is little China can offer; 60% tariffs seem unlikely given the impact on US consumption, but the average tariff could double (currently around 13%) > Impacts will depend on whether China can circumvent tariffs via intermediate trading partners (we believe likely) and the new administration intervenes to keep the US dollar from appreciating (possible, but not our base case)
Mexico	Trade/Tariffs	<ul style="list-style-type: none"> > We see the main threats as higher tariffs and the scheduled renegotiation of the United States-Mexico-Canada Agreement (USMCA) in 2026 > We expect Trump to threaten Mexico with tariffs and put wording in the 2026 USMCA that aims to reduce the US trade deficit; however, we believe actual tariffs imposed will be limited by the assistance of immigration, as well as the dampening effect of currency depreciation; that said, this will be a challenging period for US/Mexico relations
Middle East	Foreign Policy/Defense	<ul style="list-style-type: none"> > Israel/Hamas/Hezbollah: Near-term de-escalation with Hezbollah is likely as a result of the ceasefire, though this is very unlikely to result in a lasting peace; we believe it will be tempting for Israel's right-wing government to take advantage of continued Iranian weakness, especially given the Republican sweep in the US, with further strikes on key Iranian assets more likely than not > Ukraine: A Trump presidency may mean the prospect of further US support fades away; a faster end to the war depends in part on whether Europe can take a more unified approach on defending Ukraine, which is not our base case; a Russia/Ukraine deal may reduce the geopolitical risk premium priced into Eastern European credits since 2022

US TARIFFS, ALREADY HISTORICALLY HIGH, COULD RISE FURTHER⁶



(6) FactSet. Monthly data through September 2024, the latest available. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.

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Our mission is to be seen by clients and their advisors as a consistently reliable partner to help them achieve their long-term value goals.

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