## *CAPITAL INTRODUCTIONS SUMMARY FUND PROFILE*

*- PLEASE SEE IMPORTANT DISCLAIMER BELOW -*

JOHKIM CAPITAL PARTNERS

**Johkim Capital Partners Onshore/Offshore LP**
**Johkim Capital Partners Management LLC**

## *KEY FACTS & FIGURES*

| | | | |
|---|---|---|---|
| Portfolio Manager(s): | Jatin Kakkar | Firm AUM (as of date): | USD $180m (03/2019) |
| High Level Strategy: | Corporate Credit – Long Bias | Fund AUM (as of date): | |
| Sub Strategy: | High yield/distressed | Firm Inception Date: | 05/2017 |
| Geographic Focus: | US | Fund Launch Date: | 10/2017 |

Last Updated: 3/23/2019

## *FIRM BACKGROUND*

Johkim Capital Partners is an opportunistic credit fund founded by Jatin Kakkar in May 2017. The firm uses a time-tested and hard-to-replicate approach that targets structural inefficiencies in the US high yield and distressed credit markets. Johkim is 100% employee owned. Primary investment instruments are:

- Leveraged loans
- High yield bonds
- Investment grade bonds
- Fallen Angel bonds
- Convertibles
- Common equity issued by companies with high yield debt and/or with a high dividend yield

The firm manages the Johkim Capital Partners Onshore LP and Johkim Capital Partners Offshore Ltd and does not have any other strategies or products.

## *INVESTMENT STRATEGY AND PROCESS*

Johkim's investment objective is to invest primarily in publicly traded U.S. dollar denominated high yielding corporate leveraged loans, bonds and other securities issued by companies with ratings below investment grade. The goal is to earn long-term compounded returns consistent with U.S. equity markets with significantly lower annualized volatility. Johkim's principals view themselves as "hard catalyst equity investors." They like the returns generated by US equities but dislike the equity volatility and especially the weak legal rights embedded in the equity instrument. They believe that high yield debt presents an attractive risk reward to earn equity like return with hard catalysts such as fixed interest payment dates, maturity date, amortizations, mandatory paydowns, covenants and collateral that can be controlled in a downside case.

Johkim intends to achieve the Fund's investment objective by having a countercyclical, long-biased strategy that is based on (a) a top-down analysis of the U.S. corporate credit market, segmented into two distinct investment phases and (b) a bottom up credit underwriting methodology that is disciplined and repeatable.

***Top Down Analysis***

**"Preservation-Plus" Phase Strategy**: This strategy will be employed when the spread level of the BofA Merrill Lynch U.S. High Yield Master II Index is on the tighter end of its historical range (i.e. 500 basis points or lower). The strategy will remain in place until spreads have moved to the wider end of its historical range (i.e. 800 basis points or higher). During this period many investors have been aggressively chasing higher yields, investing in riskier companies and employing leverage. Johkim will instead focus on relatively safer names (i.e. BB rated) in the high yield universe with low duration, while selectively adding a few high conviction, higher yielding idiosyncratic investments to the Fund's portfolio.

**“Risk-On” Phase Strategy**: This strategy will be employed when the spread level of the BofA Merrill Lynch U.S. High Yield Master II Index is on the wider end of its historical range (i.e. 800 basis points or higher). The strategy will remain in place until the spread level has moved to the tighter end of its historical range (i.e. 500 basis points or lower). During this time period, many investors may be shunning risk and the research conducted by Johkim indicates that high yielding loans, bonds and securities issued by riskier companies (i.e. CCC rated) are attractively priced. Johkim will mainly focus on these riskier companies during the Risk-On Phase.

In both phases, Johkim will be monitoring Fallen Angel bonds and adding them to the portfolio if appropriate. Fallen Angels are bonds that were issued with an investment-grade rating but have since been moved to high-yield status due to the issuer’s weakening financial condition. The duration and spread of the portfolio are expected to be higher during the *“Risk-On”* vs. *“Preservation-Plus”* phase.

Johkim also plans to short debt securities, equities, ETFs, CDX deemed to be overpriced. The Fund’s gross and net exposure will vary based on which phase Johkim believes it is. Both gross and net exposure are expected to be higher in the *“Risk-On”* phase. Overall, gross exposure will range between 1.0x-2.25x and net long exposure will range between 0.5x-1.5x. Johkim does not employ leverage during the *“Preservation-Plus”* phase and may use up to 50% in the “*Risk-On*” phase.

***Bottom Up Credit Underwriting***

While the top-down analysis will inform the composition of the portfolio, a bottom up credit underwriting process will be utilized to identify specific loans, bonds and securities that have the potential to outperform the BofA Merrill Lynch U.S. High Yield Master II Index. Johkim uses a disciplined and repeatable credit underwriting methodology (KreditZen) for identifying loans, bonds and securities that are mispriced. KreditZen is a standardized 5-part framework comprised of 450+ plus tiered checklists, templates and questions that must be answered commensurate with position size. The level of diligence is expected to increase as the position size increases.

## *INFRASTRUCTURE AND RISK MANAGEMENT*

**Infrastructure**

Johkim has a full-time Director of Operations (Kim Karstetter) who also serves as the Chief Compliance Officer, aided by Constellation Advisors and outside compliance counsel. Zykra (Dallas-based IT consultant) provides IT support.

**Risk management**

The portfolio will generally maintain between 30-40 long positions and 5-10 short positions at any one time. Johkim believes this to be the “sweet spot” for the strategy as it allows each investment to add meaningful returns without dominating the performance stream. In terms of portfolio limits:

- On the long side, single issuer will not exceed 10% of NAV at cost value.
- On the short side, single issuer will not exceed 5% of NAV at cost value.
- Single industry sectors will not exceed 30% of NAV at cost value.
- Equity exposure will be limited to 30% of NAV.

Risk management is fundamental to how Johkim invests capital and is managed at the portfolio and position level. Based on top-down analysis of the U.S. corporate credit cycle for high yield issuers in the U.S., Johkim has identified mispricing patterns through the corporate credit cycle. Johkim intends to capitalize on this mispricing by employing a countercyclical long-biased strategy to generate superior risk-adjusted returns. Johkim will employ two distinct risk management strategies that will drive the top down portfolio makeup and will use the spread level of the BofA Merrill Lynch U.S. High Yield Master II Index as an indicative gauge to decide which strategy to employ.

Across both phases, risk is managed along the following dimensions on a real-time basis:

- **KreditZen** – going through our checklist of 450+ helps Johkim identify very specific company and security related red flags. KreditZen analysis is performed on every investment.
- **Spread** – look at spread to maturity, spread to worst and effective spread to most likely call date, and compare this to the overall HY Index spread and HY Sub-Index spread for BB, B and CCC. In the "Preservation-Plus" Phase the portfolio's spread is expected to be in line with the HY Index. In the "Risk-On" Phase the portfolio's spread is expected to be higher than the HY Index.
- **Duration** – look at duration to maturity, duration to worst and effective duration to most likely call date, and compare this overall HY Index duration and HY Sub-Index duration for BB, B and CCC. In the *"Preservation-Plus"* Phase the portfolio's duration is expected to be lower than the HY Index and in the *"Risk-On"* Phase the portfolio's duration is expected to be higher than the HY Index.
- **Liquidity** – we will primarily invest in issue sizes of more than $200m at time of investment and prefer to invest in issue sizes of $300m and up. This is key to managing risk around exiting positions in an orderly fashion, especially when overall HY spreads are at 800+ and the portfolio is transitioning from *"Preservation-Plus"* to "*Risk-On*".
- **Interest Rate sensitivity** – actively treasury hedge fixed rate bonds by going long or short Treasuries and/or investment grade bonds.
- **Commodity sensitivity** – identify the primary commodities driving EBITDA and calculate the impact of movement in underlying commodity prices on individual securities. We then look at our cumulative commodity exposure and limit this to less than 10% of our portfolio.
- **FX sensitivity** – identify the primary currencies driving EBITDA and calculate the impact of movement in underlying currency prices. We then look at our cumulative currency exposure and limit our non-US currency exposure to less than 10% of our portfolio
- **Beta/dv100** – we calculate the dv100 (widening and tightening) and dv300 (widening and tightening) for each security. This is not based on historical performance but rather on Johkim view of the forward looking dv100 and dv300 based on the latest developments at the issuer company.
- **Concentration** – maximum single issuer exposure is 10% and maximum single sector exposure is 30%

## *PRINCIPALS' BIOGRAPHIES*

**Jatin Kakkar, Managing Partner and Chief Investment Officer**

Jatin Kakkar founded Johkim Capital Partners and is responsible for managing all aspects of the Firm's investments and directing overall strategy. Prior to founding Johkim, Mr. Kakkar was a Senior Portfolio Manager at Q Investments from 2008-2016, a multi-billion dollar hedge fund that focuses on high yield corporate credit investing. During his tenure there, Mr. Kakkar managed the Investment Group that was responsible for credit investing – including sourcing, diligence and executing corporate credit investments across multiple sectors. Mr. Kakkar also led their involvement in multiple distressed investments that culminated in successful public listing on the NYSE and Nasdaq. Prior to Q Investments, Mr. Kakkar was an Associate Principal at McKinsey & Company. Mr. Kakkar received his MBA with distinction from Harvard Business School. He holds a BS in Industrial Engineering, Summa Cum Laude, from Texas A&M University. Mr. Kakkar currently serves on the advisory board for the Finance Department at Texas A&M University and is the Chairman of the board of directors at Texas Exchange Bank.

**Amar Vallurupalli, Partner**

Amar Vallurupalli is responsible for sourcing, diligence and investment recommendations at Johkim Capital Partners. Prior to Johkim, Mr. Vallurupalli was a Principal at Valo Group from 2010-2017, a long-short fundamental value hedge fund investing in credit and equity. He was responsible for portfolio management and realized profitable investments in high yield, distressed debt, and public equities. Prior to Valo Group, Mr. Vallurupalli was a Senior Portfolio Analyst at WhiteHorse Capital, a multi-billion dollar credit fund that invests in the leveraged loan market. He managed a credit portfolio of over $250 million focused on relative value. Mr. Vallurupalli began his career in the Leveraged Finance Group at Bear, Stearns & Co. He holds a BS in Finance and International Business, Cum Laude, from the Stern School of Business at NYU.

## *OTHER INFORMATION*

| Terms | | Miscellaneous | |
|---|---|---|---|
| Minimum Investment: | $5,000,000 | Prime Broker(s): | Credit Suisse, Wells Fargo |
| Management Fee: | 1.50% falling to 1.25% | Fund Administrator: | US Bancorp Fund Services |
| Performance Fee: | 17.5% over 5% hurdle | Auditor(s): | KPMG |
| High Water Mark: | Yes | Legal Counsel: | Winstead PC |
| Subscriptions (frequency / notice): | Monthly | Valuation Currency: | USD |
| Redemptions (frequency / notice): | 25% per quarter with 90 days notice | Domicile: | Delaware (onshore); Cayman Island (offshore) |
| Lock-up / Penalty: | 1 year (hard) then 1 year (3% soft) | Listed: | No |
| | | Regulated: | No |

| Contact Information | |
|---|---|
| Name: | Jatin Kakkar |
| Role: | Managing Partner and Chief Investment Officer |
| Address: | 5956 Sherry Lane, Dallas, TX 75225 |
| Main Phone: | (214) 453-2664 |
| Other/Mobile: | (214) 346-3460 |
| E-Mail: | ir@johkim.com; jatin_kakkar@johkim.com |
| Fax: | (469) 778-7414 |

## *ENDNOTES*

**High Yield Bonds:** Bonds that are below investment grade (those rated BB+ or below).

**Leveraged Loans:** Loans with a rating of BB+ or lower. A leveraged loan is structured, arranged and administered by at least one commercial or investment bank. These institutions are called arrangers and subsequently may sell the loan, in a process known as syndication, to other banks or investors.

**Spread:** Yield spread which has to be added to the Treasury rate to discount a security's payments to match its market price, using a dynamic pricing model that accounts for embedded options (e.g. callable bond which give borrower's right to refinance the debt at a lower interest rate). These securities must therefore pay higher yields than non-callable debt.

**HY Index:** ICE BofA Merrill Lynch US High Yield Master II Index value, which tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market. To qualify for inclusion in the index, securities must have a below investment grade rating (based on an average of Moody's, S&P, and Fitch)

**HY BB Index:** Subset of the ICE BofA Merrill Lynch US High Yield Master II Index tracking the performance of US dollar denominated bonds with a rating of BB.

**HY B Index:** Subset of the ICE BofA Merrill Lynch US High Yield Master II Index tracking the performance of US dollar denominated bonds with a rating of B.

**HY CCC or Below Index:** Subset of the ICE BofA Merrill Lynch US High Yield Master II Index tracking the performance of US dollar denominated bonds with a rating of CCC or below.

**Fallen Angel:** Bond that was issued with an investment-grade rating but has since been reduced to high-yield status due to the weakening financial condition of the issuer.

**Annualized Volatility:** Volatility calculated in annualized terms by multiplying daily standard deviation by the square root of 252 or multiplying monthly standard deviation by the square root of 12.

**Duration**: Measures the sensitivity of a bond to interest rate change from move in risk free rate or credit risk.

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