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SECOR Asset Management

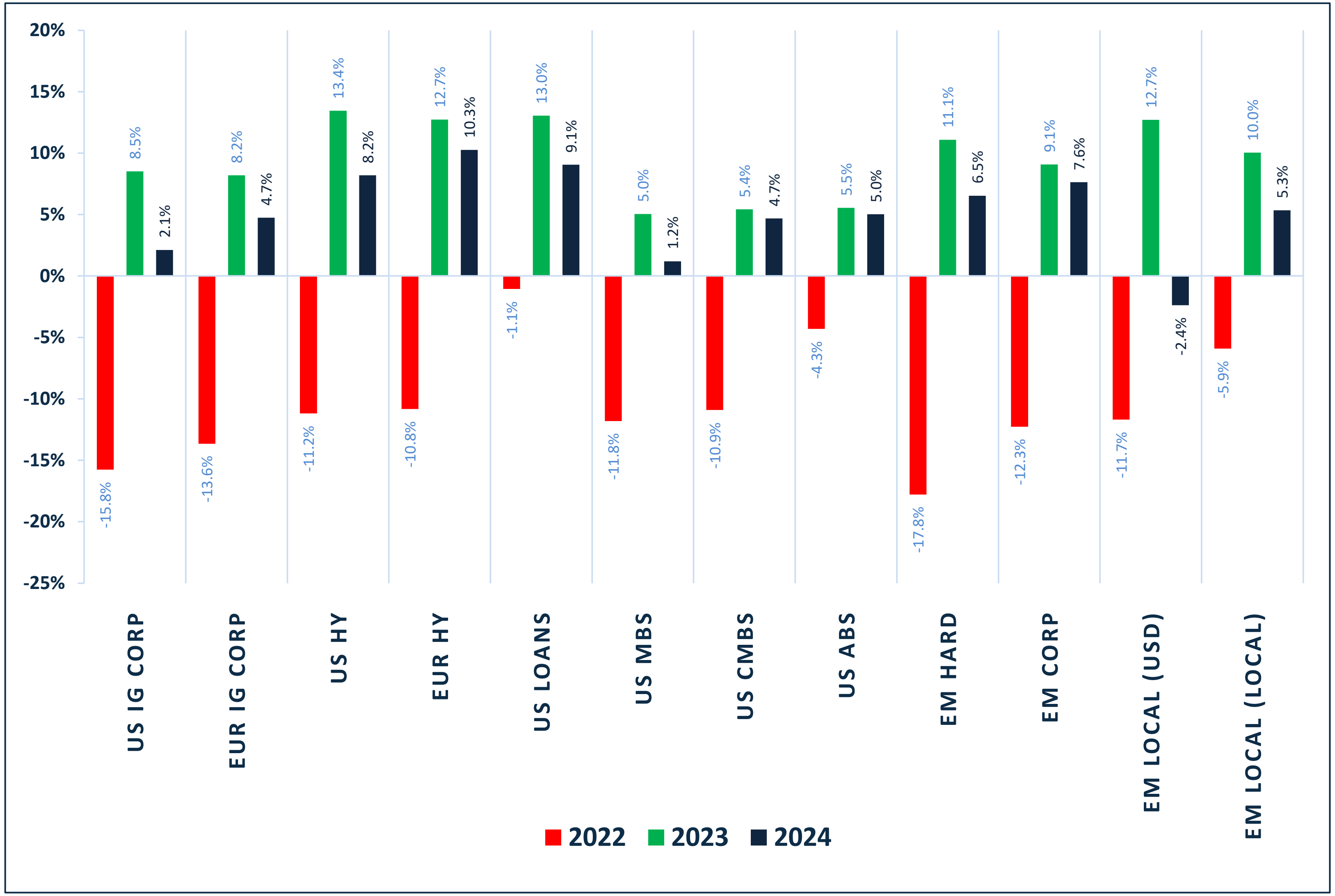
Q1 2025 Credit Markets Outlook

29 January 2025

Performance

Fixed Income Market Performance 2024

	2022	2023	2024
EUR HY	-10.8%	12.7%	10.3%
US Loans	-1.1%	13.0%	9.1%
US HY	-11.2%	13.4%	8.2%
EM Corp	-12.3%	9.1%	7.6%
EM Hard	-17.8%	11.1%	6.5%
EM Local (Local)	-5.9%	10.0%	5.3%
US ABS	-4.3%	5.5%	5.0%
Eur IG Corp	-13.6%	8.2%	4.7%
US CMBS	-10.9%	5.4%	4.7%
US IG Corp	-15.8%	8.5%	2.1%
US MBS	-11.8%	5.0%	1.2%
EM Local (USD)	-11.7%	12.7%	-2.4%



Sources: FTSE, BarCap, Credit Suisse and JP Morgan. As of Dec 2024.

Low Quality Credit Outperformance in 2024

Credit Asset Class Returns by Quality Rating						
		2020	2021	2022	2023	2024
US Corp	Corporates	9.9%	-1.0%	-15.8%	8.5%	2.1%
	AAA	12.3%	-2.3%	-20.3%	6.9%	-2.3%
	AA	9.0%	-1.5%	-17.3%	7.0%	0.2%
	A	10.1%	-1.9%	-15.1%	7.7%	1.6%
	BBB	9.9%	-0.2%	-15.9%	9.5%	3.0%
US HY	High Yield	7.1%	5.3%	-11.2%	13.4%	8.2%
	BB	10.2%	4.6%	-10.8%	11.6%	6.3%
	B	4.6%	4.8%	-10.3%	13.8%	7.4%
	CCC	2.3%	8.6%	-16.3%	19.8%	15.1%
EMD Hard	EMD Hard	5.3%	-1.8%	-17.8%	11.1%	6.5%
	EMD Hard IG	8.9%	-1.9%	-19.8%	7.1%	0.3%
	EMD Hard HY	0.8%	-1.4%	-15.7%	15.4%	13.0%
EMD Corp	EMD Corp	7.1%	0.9%	-12.3%	9.1%	7.6%
	EMD Corp IG	7.4%	0.1%	-14.2%	7.6%	4.9%
	EMD Corp HY	6.6%	2.1%	-9.8%	11.2%	11.7%
EM Local	EMD Local (USD)	2.7%	-8.7%	-11.7%	12.7%	-2.4%
	EMD Local (Local)	8.4%	-2.9%	-5.9%	10.0%	5.3%

Sources: FTSE, BarCap, Credit Suisse and JP Morgan. As of Dec 2024.

US Leveraged Finance Sector Performance

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US High Yield				
	2022	2023	2024	Current Wgt
Total Market	-10.6%	13.6%	7.9%	100.0%
Healthcare	-14.1%	12.4%	9.5%	8.3%
Chemicals	-11.4%	11.2%	9.4%	3.0%
Metals/Minerals	-6.3%	10.4%	9.3%	3.2%
Financials	-10.7%	16.0%	9.2%	10.2%
Manufacturing	-10.1%	15.9%	9.2%	3.7%
Food And Drug	-12.9%	14.3%	8.5%	1.0%
Retail	-14.4%	15.4%	8.5%	4.6%
Consumer Products	-13.2%	13.9%	8.0%	2.6%
Media/Telecom	-14.6%	13.3%	7.9%	13.0%
Transportation	-10.6%	15.5%	7.8%	2.6%
Energy	-3.9%	12.4%	7.7%	11.4%
Info Technology	-13.3%	17.2%	7.6%	6.7%
Aerospace	-6.1%	8.5%	7.6%	2.9%
Housing	-12.7%	16.4%	7.5%	5.8%
Forest Prod/Containers	-7.2%	12.0%	7.3%	3.1%
Food/Tobacco	-9.1%	12.0%	7.0%	2.7%
Gaming/Leisure	-7.6%	14.4%	6.7%	6.8%
Services	-9.5%	12.5%	6.0%	5.1%
Utilities	-8.6%	12.0%	6.0%	3.2%

EUR High Yield				
	2022	2023	2024	Current Wgt
Total Market	-10.8%	12.7%	13.2%	100.0%
Housing	-16.8%	5.5%	21.9%	4.9%
Aerospace	-6.3%	10.2%	18.8%	1.8%
Energy	-9.3%	14.9%	17.5%	3.3%
Chemicals	-13.9%	14.1%	15.9%	4.5%
Food/Tobacco	-13.4%	18.4%	15.4%	2.8%
Retail	-10.5%	13.9%	15.3%	7.0%
Gaming/Leisure	-6.7%	18.6%	15.2%	6.1%
Food And Drug	-15.3%	23.3%	14.8%	1.0%
Financials	-13.3%	14.0%	14.8%	12.0%
Healthcare	-10.0%	10.9%	14.0%	7.2%
Metals/Minerals	-11.6%	9.3%	12.8%	1.7%
Services	-10.0%	14.5%	12.7%	8.7%
Media/Telecom	-11.4%	12.0%	11.6%	14.3%
Consumer Products	-11.0%	14.8%	11.1%	4.4%
Forest Prod/Containers	-8.9%	10.0%	10.8%	4.3%
Manufacturing	-6.8%	13.4%	10.5%	4.8%
Transportation	-8.9%	11.7%	9.8%	5.1%
Utilities	-8.5%	9.1%	8.2%	3.6%
Info Technology	-6.5%	7.4%	-2.0%	2.6%

- European HY outperformed US HY in 2024
- EUR market posted double digit returns; US only single digit returns across sectors
- Dispersion of returns rising last 4 years in EUR HY market but falling in US market – pointing to greater alpha generating opportunities in Europe?

Source: Credit Suisse. As of Dec 2024.

W. Europe Leveraged Finance Sector Performance

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US Leveraged Loans				
	2022	2023	2024	Current Wgt
Total Market	-1.1%	13.0%	9.1%	100.0%
Retail	-1.6%	10.9%	10.9%	3.1%
Chemicals	0.1%	12.2%	10.8%	4.4%
Utility	4.8%	11.9%	10.8%	3.1%
Consumer Durables	-7.1%	13.5%	10.8%	1.4%
Healthcare	-3.9%	12.6%	10.7%	10.1%
Energy	6.3%	13.0%	10.2%	2.4%
Media/Telecom	-1.9%	10.7%	9.9%	9.8%
Financials	1.2%	13.8%	9.8%	11.1%
Manufacturing	-0.6%	13.4%	9.7%	4.2%
Metals/Minerals	-2.2%	12.9%	9.7%	0.4%
Consumer Non-Durables	-1.7%	13.6%	9.7%	1.7%
Forest Prod/Containers	1.1%	13.6%	9.6%	2.2%
Gaming/Leisure	-2.6%	14.0%	9.6%	4.7%
Food And Drug	4.0%	12.1%	9.6%	0.1%
Service	0.5%	13.1%	8.6%	13.3%
Housing	-1.1%	15.0%	8.2%	3.6%
Aerospace	3.5%	12.5%	7.7%	2.7%
Info Technology	-3.2%	14.4%	7.5%	14.9%
Transportation	0.1%	13.9%	6.1%	4.0%
Food/Tobacco	0.9%	12.6%	5.4%	3.1%

- Unlike the US and EUR HY Bond markets, where there was an even balance between the number of industries outperforming the overall market versus those that didn’t.
- In 2024, in the US loan market, 70% of industries outperformed the market returns.
- The US Loan market has displayed a similar decline in dispersion across industry returns as the US HY Bond market over the last few years.

Sources of Data: Credit Suisse. As of Dec 2024.

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2024 Emerging Market HC Price Returns of Restructured Bonds

Old bonds	Estimated recovery level in pts	Δ from the start of the year in pts	Δ from the date of default/ moratorium announcement in pts	Price return from the date of default/moratorium announcement %
Zambia				
ZAMBIN 5.375 22	70.9	15.3	26.3	59%
ZAMBIN 8.5 24	79.9	18.0	35.2	79%
ZAMBIN 8.97 27	80.3	18.8	36.1	82%
Ukraine				
UKRAIN 7.75 24	38.8	8.6	14.8	62%
UKRAIN 7.75 25	38.1	8.9	18.6	95%
UKRAIN 8.994 26	37.8	8.0	19.0	102%
UKRAIN 7.75 26	35.6	7.9	16.9	90%
UKRAIN 7.75 27	34.9	7.7	16.9	94%
UKRAIN 6.75 28 €	31.8	8.1	14.8	87%
UKRAIN 7.75 28	33.3	6.2	15.3	85%
UKRAIN 7.75 29	33.3	6.4	15.5	87%
UKRAIN 9.75 30	34.3	5.8	16.8	96%
UKRAIN 6.876 31	32.1	9.1	14.3	81%
UKRAIN 4.375 32 €	30.7	10.5	14.7	92%
UKRAIN 7.375 34	32.7	9.5	15.4	89%
UKRAIN 7.253 35	32.6	9.4	15.4	89%
Ghana				
GHANA 0 25	55.2	17.2	24.2	78%
GHANA 8.125 26	59.6	14.1	20.6	53%
GHANA 6.375 27	57.5	13.6	23.5	69%
GHANA 7.875 27	58.2	14.2	23.2	66%
GHANA 7.75 29	58.0	15.3	25.5	78%
GHANA 7.625 29	57.3	14.6	24.3	74%
GHANA 10.75 30	72.3	9.8	5.8	9%
GHANA 8.125 32	58.5	15.0	26.5	83%
GHANA 8.625 34	58.7	16.0	27.7	89%
GHANA 7.875 35	59.0	15.6	28.0	90%
GHANA 8.875 42	58.4	16.0	27.2	87%
GHANA 8.627 49	57.6	15.3	26.6	86%
GHANA 8.95 51	59.2	16.6	29.2	97%
GHANA 8.75 61	59.3	16.7	29.8	101%

Zambia: Pricing date: 11 June 2024 and default date: 14 October 2020
Ukraine: Pricing date: 30 August 2024 and Moratorium announcement date: 20 July 2022
Ghana: Pricing date: 9 October 2024 and default date: 19 December 2022
Source: J.P. Morgan.

Source: JP Morgan Sovereign Special Situations: Valuing the Recovery 2024-10-18

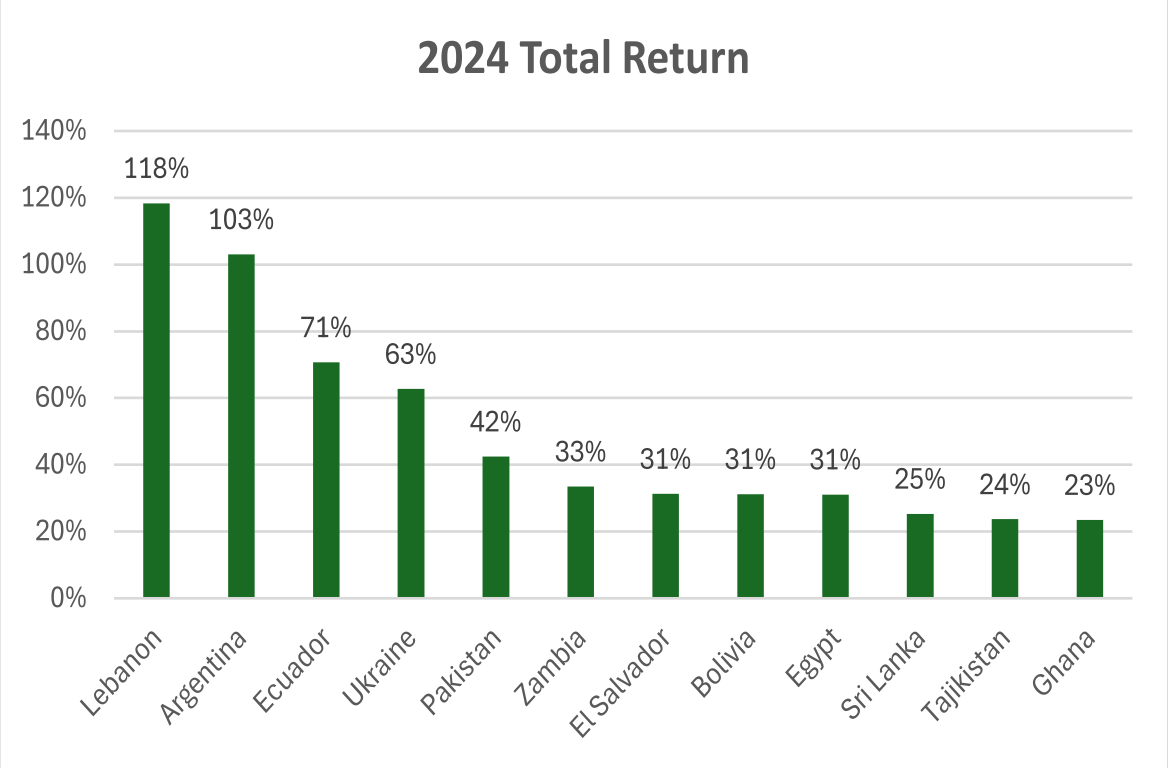
Zambia: Defaulted in 2020 on $18.6bn of debt; exchanged into A & B bonds with varying terms and amortization profiles

Ukraine: Two-year moratorium on bond payments post Russian invasion in Feb 2022; wrote off 1/3 value of $20 bn of debt, resumption of payments to bondholders

Ghana: Defaulted in 2022. Discounted option involved haircut of 37% on $13 bn of USD bonds but with yields of 10%.

EMD Hard Currency Returns in 2024

- Below are the top 12 highest performing countries in the EMBI GD Index in 2024.
  - These HY countries contributed total returns of 4.7% (weighted by 12/31/23 index weights) versus Index return of total index return of 6.5% and represented 9.3% of the index.



Of note: Ghana and Zambia restructures were two of the first few nations to be negotiated under the **Common Framework** – an attempt by the market to standardize the restructuring process, instrument types that are used with the aim of accelerating outcomes of EM sovereign debt restructures.

A special topic for later this year.

JP Morgan EMBI Monitor and Sovereign Special Situations 2024-10-18

Valuations

Spread Changes

	Dec '23	Dec '24	YTD Δ
US IG Corp	***98***	***80***	**(19)**
AAA	*37*	*33*	*(4)*
AA	*47*	*44*	*(3)*
A	*84*	*68*	*(16)*
BBB	*121*	*97*	*(24)*
Eur IG Corp	**137**	**102**	**(36)**
AAA	*69*	*63*	*(6)*
AA	*91*	*70*	*(21)*
A	*119*	*92*	*(27)*
BBB	*160*	*115*	*(45)*
US HY	**323**	**287**	**(35)**
BB	*201*	*179*	*(22)*
B	*317*	*278*	*(39)*
CCC	*751*	*550*	*(201)*
EUR HY	**436**	**366**	**(71)**
US Loans	**528**	**475**	**(53)**
US MBS	**46**	**43**	**(3)**
US CMBS	**126**	**81**	**(45)**
US ABS	**68**	**43**	**(25)**
EM HC Sov	**383**	**325**	**(58)**
IG	*116*	*119*	*3*
HY	*701*	*559*	*(142)*
EM HC Corp	**281**	**206**	**(75)**
IG	*154*	*113*	*(41)*
HY	*510*	*375*	*(135)*

Sources: BarCap, JP Morgan and Credit Suisse. As of Dec 2024.

Yields as of YE 2024 – still attractive

Yields as of YE 2024								
	2024	2023	2022	2021	2020	2019	2018	2017
US HY	7.38%	7.65%	9.09%	4.61%	4.59%	5.81%	8.31%	5.99%
US Loans	8.79%	9.01%	10.76%	5.26%	5.10%	6.27%	8.09%	6.33%
Eur HY	6.44%	6.97%	8.27%	3.42%	3.79%	3.81%	6.05%	3.67%
EM HC Sov	7.86%	7.84%	8.55%	5.27%	4.53%	4.91%	6.86%	5.26%
EM HC Corp	6.56%	6.81%	7.28%	4.11%	3.42%	4.51%	6.14%	4.53%
EM Local	6.39%	6.19%	6.86%	5.72%	4.22%	5.22%	6.46%	6.14%
US IG Corp	5.33%	5.06%	5.42%	2.33%	1.74%	2.84%	4.20%	3.25%
Eur IG Corp	3.18%	3.56%	4.32%	0.52%	0.24%	0.51%	1.30%	0.75%
US MBS	5.27%	4.68%	4.71%	1.98%	1.25%	2.54%	3.39%	2.91%
US CMBS	5.19%	5.27%	5.30%	1.88%	1.28%	2.48%	3.44%	2.87%
US ABS	4.73%	4.96%	5.14%	1.13%	0.45%	2.05%	3.06%	2.26%

Corporate Yield Percentile Ranks as of YE 2024								
	US IG Corp	Eur IG	US HY	Eur HY	US Loans	EMD HC	EM Corp	EMD Local
Current Yields	5.3%	3.2%	7.4%	6.4%	8.8%	7.9%	6.6%	6.4%
Last 20 Years	74.4%	52.3%	49.3%	47.2%	77.4%	84.9%	74.4%	38.9%
Last 15 Years	91.6%	67.5%	64.8%	62.5%	84.3%	86.0%	83.7%	50.8%
Last 10 Years	87.3%	76.4%	63.8%	70.5%	76.4%	78.9%	78.1%	60.5%

Sources: BarCap, Credit Suisse, JP Morgan

Spreads as of YE 2024

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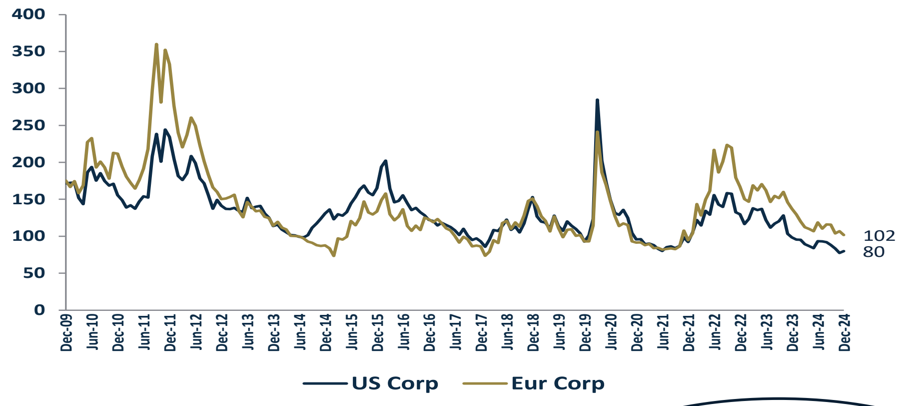
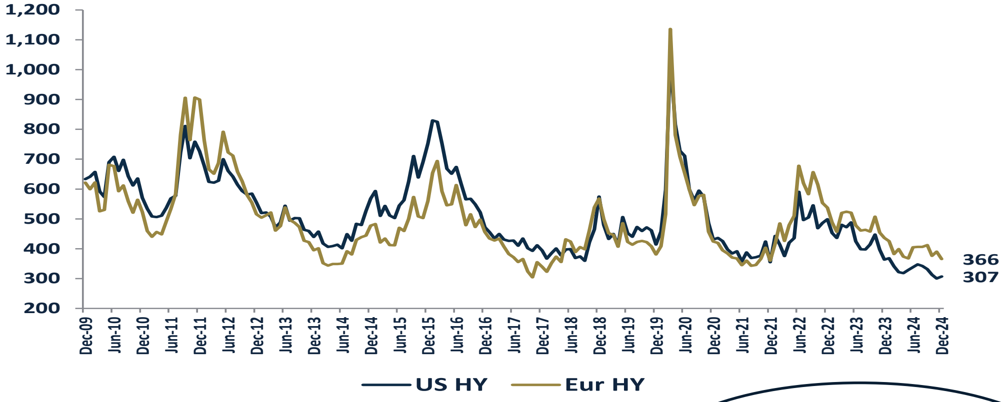
IG Corporate Spreads



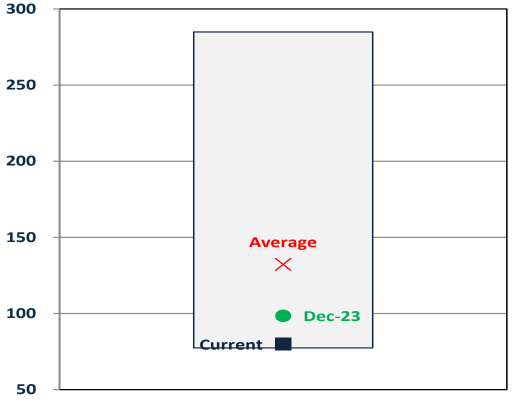
HY Corporate Spreads



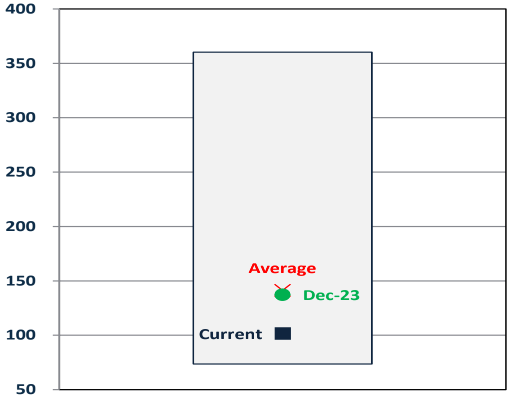
	Current	YTD Δ	YE '23	Post-GFC Avg	% Rank Last 10 Yrs	% Rank Last 15 Yrs
US Corp	80	(19)	98	132	1%	1%
Eur Corp	102	(36)	137	141	28%	23%

	Current	YTD Δ	YE '23	Post-GFC Avg	% Rank Last 10 Yrs	% Rank Last 15 Yrs
US HY	307	(57)	363	508	1.0%	1.0%
Eur HY	366	(71)	436	495	11.0%	10.0%

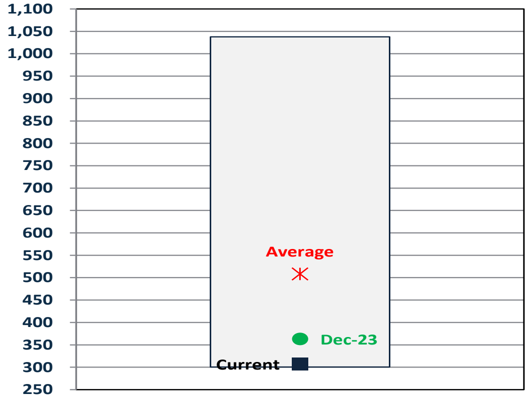
U.S. IG Corporates
Dec 2009 To Date



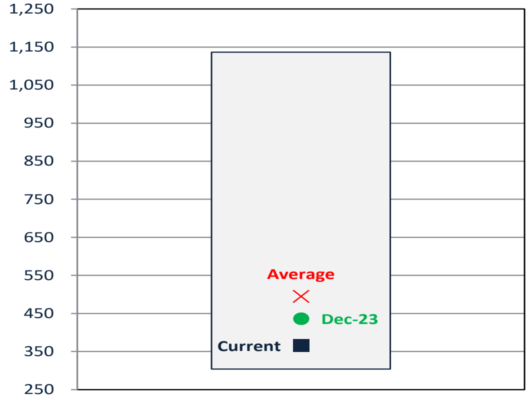
Eur IG Corporates
Dec 2009 To Date



US HY Corporates
Dec 2009 To Date



EUR HY Corporates
Dec 2009 To Date



Sources: BarCap, Credit Suisse, JP Morgan

Case for Overweighting European Over US Corporates?

- Quality and industry composition differences aside, relative pricing in the European HY market relative to the US may argue for an overweight to European HY vis-à-vis US HY

	US IG Corp	Eur IG Corp	Difference	US HY Corp	Eur HY Corp	Difference
OAS at YE24	80	102		307	366	
Duration at YE24	7.0	4.5		3.3	2.7	
Spread Per Duration Yr	11	23	11	94	136	42
Average Since Dec '09			12			10

- On the other hand, if actual tariffs imposed are more modest or slower-paced than expected, there could be a case for potential further compression in European IG and HY Corporate spreads relative to the US.

Sources: BarCap, Credit Suisse, JP Morgan

Spreads as of YE 2024

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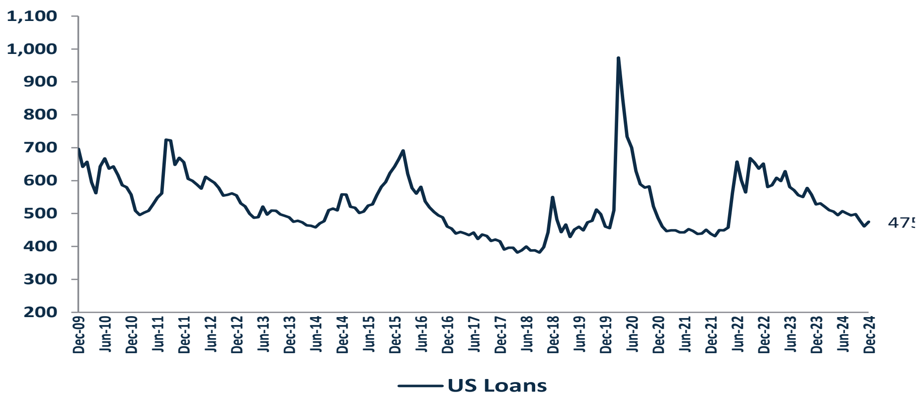
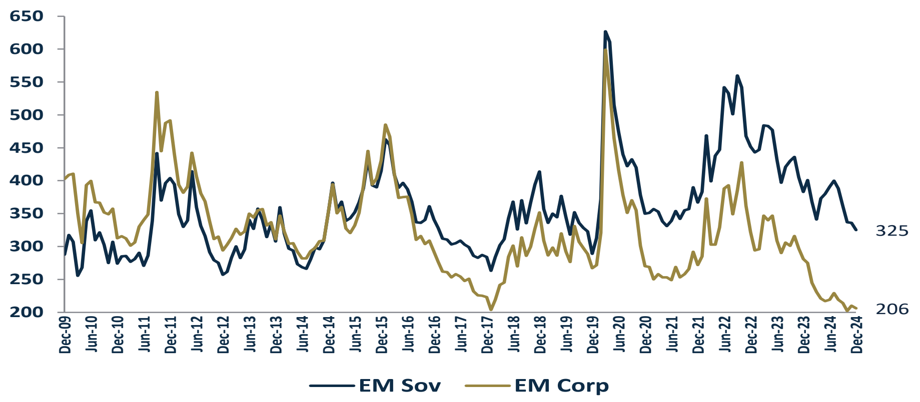
US Leveraged Loan Spreads



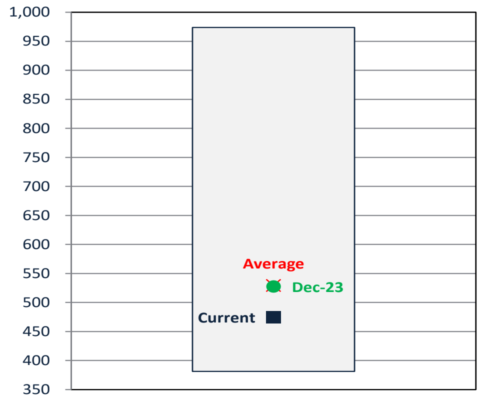
EMD Hard Currency Spreads



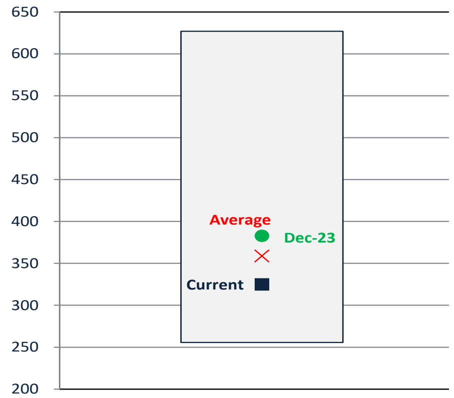
	Current	YTD Δ	YE '23	Post-GFC Avg	% Rank Last 10 Yrs	% Rank Last
US Loans	475	(53)	528	529	42.0%	31.0%

	Current	YTD Δ	YE '23	Post-GFC Avg	% Rank Last 10 Yrs	% Rank Last 15 Yrs
EM Sov	325	(58)	383	359	16.0%	32.0%
EM Corp	206	(75)	281	324	2.0%	1.0%

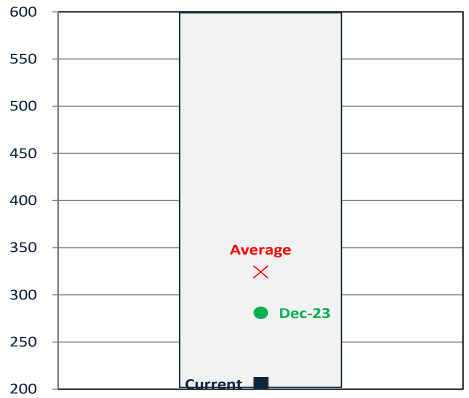
US Loans
Dec 2009 To Date



EM HC Sovereigns
Dec 2009 To Date



EM HC Corporates
Dec 2009 To Date

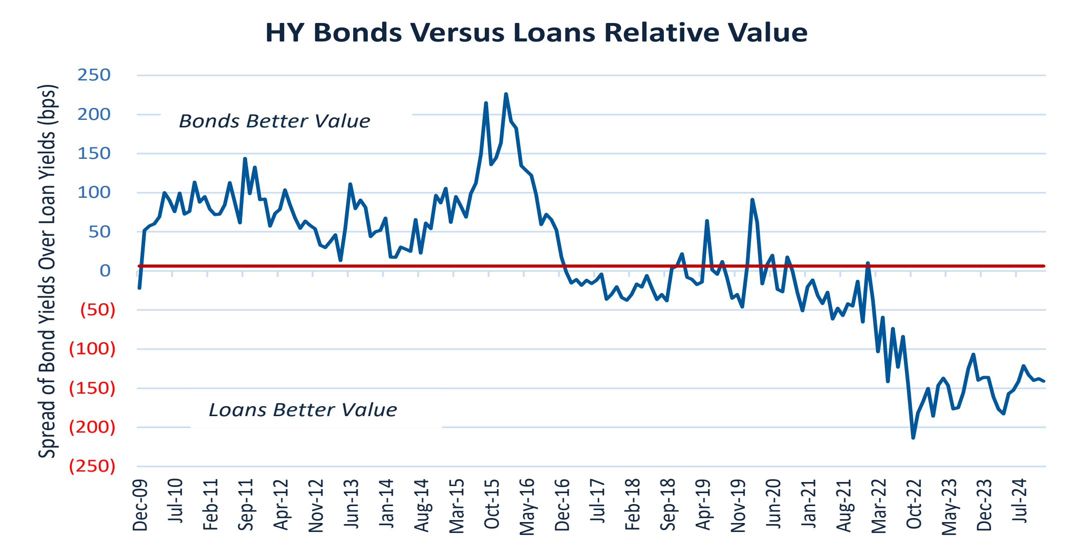


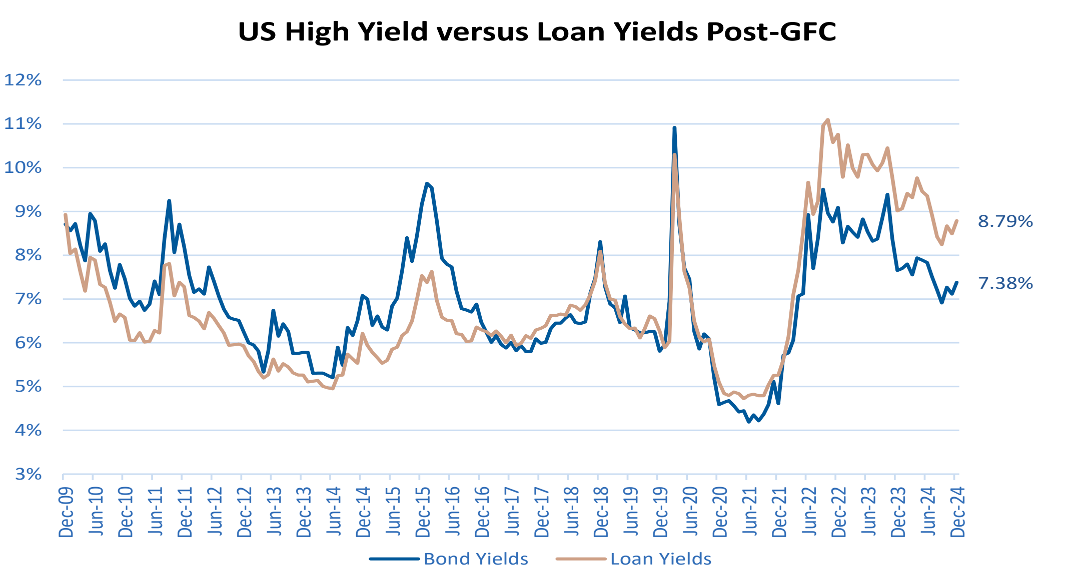
Sources: BarCap, Credit Suisse and JP Morgan

Bonds vs Loans

High Yield Bond versus Leveraged Loans

as of YE 2024





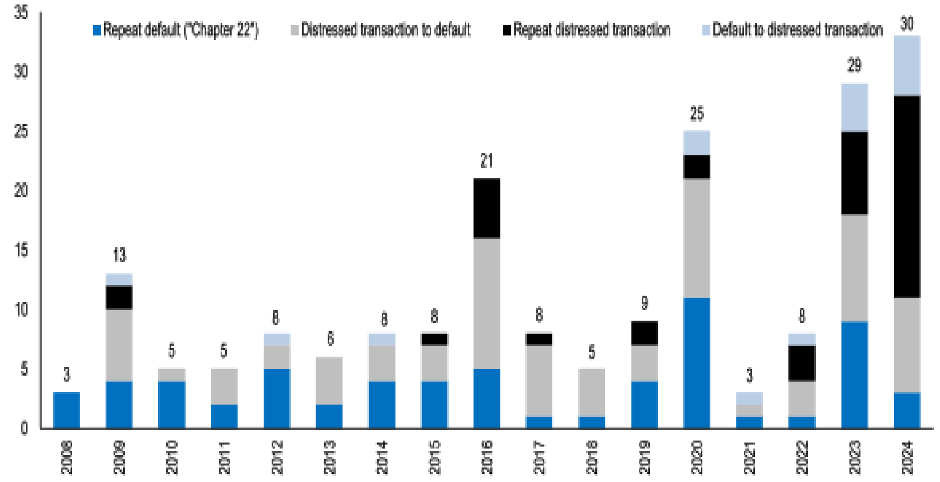
Source: Credit Suisse HY and Loan Indices

Current Spread	(141)
Post-GFC Avg	6
Post-GFC Min	(214)
Post-GFC Max	226
Post-GFC STDEV	92
Z-Score	(1.61)

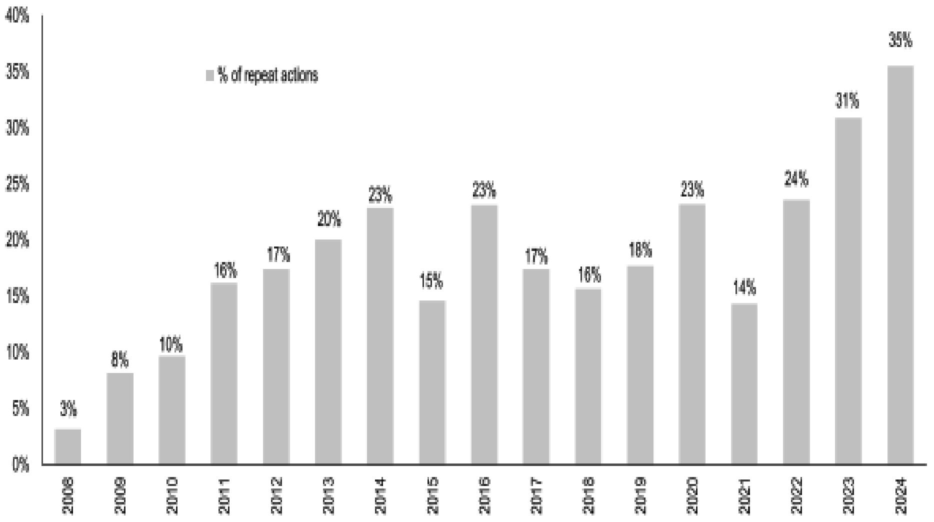
Update on Efficacy of LMEs

- Studies have shown that this may be a **precursor for more pain to come**.
  - Do LMEs Work? Per BofA, *"For many issuers in the bottom decile an LME is just a rest stop, not the final destination."*
  - According to their research, 40% of them end up re-defaulting within three years by missing a payment or ultimately filing for Chapter 11.
- Based on a sample of 21 LMEs transacted between 2019-2021, where enough time has passed to render a judgment:
  - 9 issuers re-defaulted within the subsequent 3 years by missing a payment or filing for bankruptcy
  - Implying a 43% re-default rate, with average time to re-default of 1.5 years
  - These metrics are in line with longer term, more dated and less pristine) data.
- Recent statistics are published by JP Morgan on a monthly basis (see charts as of Dec '24)
  - Figures in the charts below are in line with statistics Since 2008, 37% of distressed transactions had to return to the market with another distressed transaction or default.

Thirty-three of the 93 default/distressed transactions in 2024 were repeat offenders



More than 30% of the default/distressed transactions over the past two years were repeat offenders

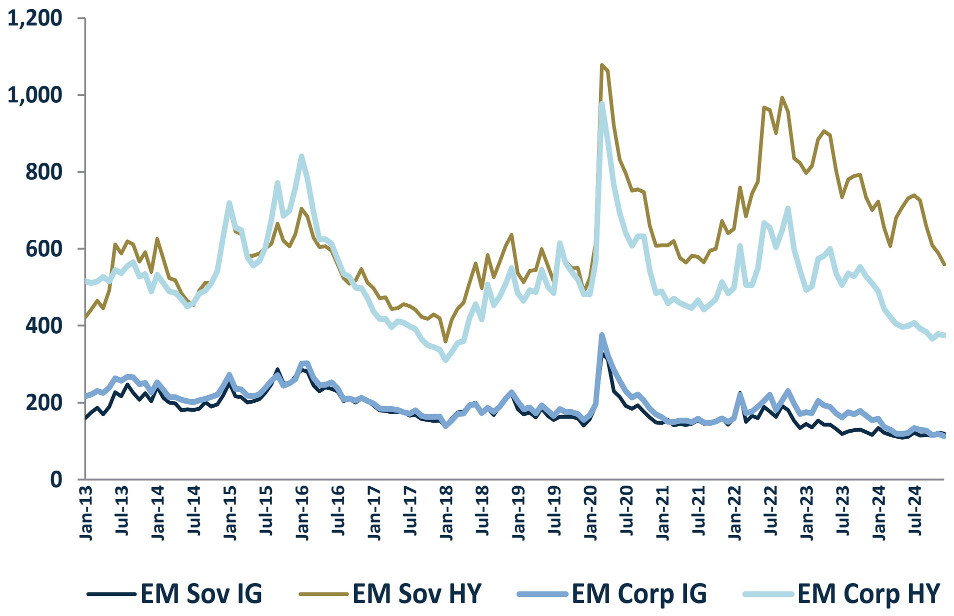


Sources: BofA High Yield Strategy 2024-05-17 Do LME's Work?; Charts are from JPM Default Monitor 2025-01-01

EM Hard Sovereign Currency Valuations

- JPM believes there may be some idiosyncratic further rallying in some HC HY sovereigns as shown in the chart on the left, e.g., potential further upside for Ecuador, Ukraine, Ghana, Pakistan, Egypt and Argentina, representing 9.5% of the index, all with recent positive policy or IMF-related news or recently completed restructurings.
- As major restructurings were completed last year, expect managers to continue looking for these situations to earn their alpha

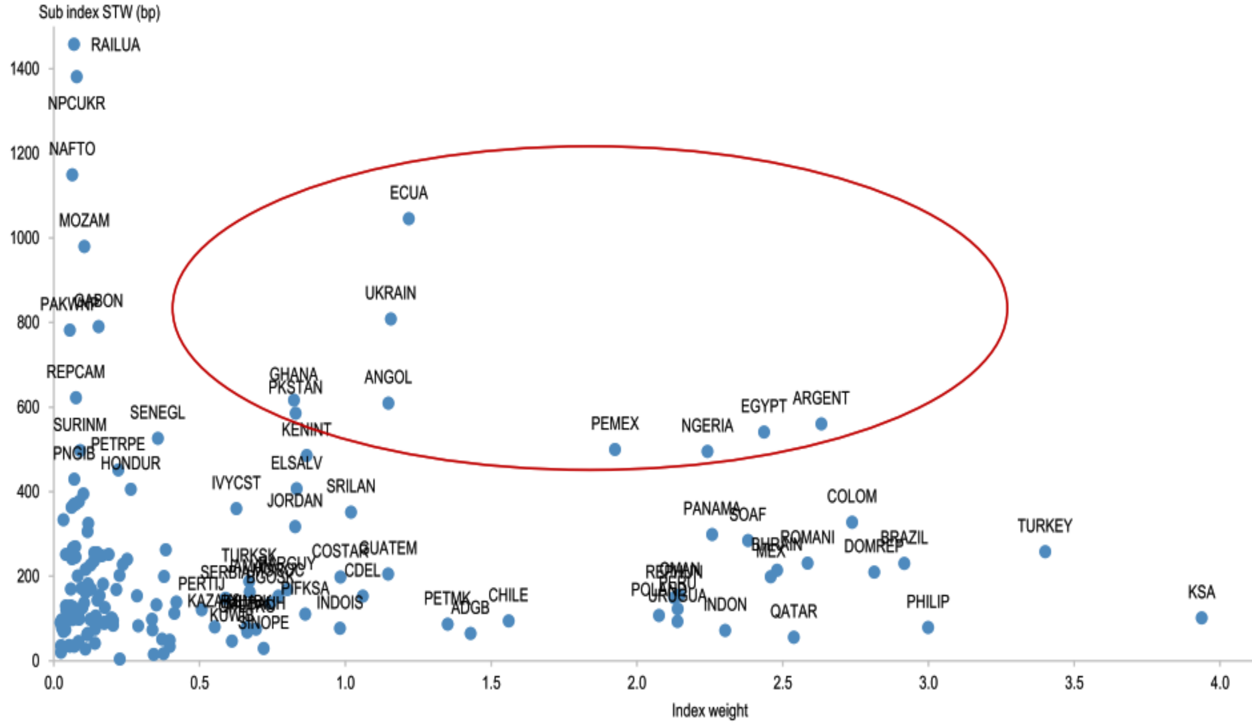
EMD Hard Currency Spreads by Quality



	Current	YTD Δ	YE '23	Post-GFC Avg	% Rank Last 10 Yrs	% Rank Last 15 Yrs
EM Sov IG	119	3	116	180	8.0%	6.0%
EM Sov HY	559	(142)	701	622	29.0%	34.0%
EM Corp IG	113	(41)	154	197	0.0%	0.0%
EM Corp HY	375	(135)	510	524	8.0%	6.0%

Figure 13: Still some juice and solid idiosyncratic stories among weighty EMBIGD subindices

Y-axis: EMBIGD sub index STW (bp); X-axis: EMBIGD sub index index weight



Sources: JPM EMBI-GD Index; JPM EM Outlook 2025-01-13

Views on Private Credit

- We believe that special situations investments remain attractive. Other private credit strategies away from corporate cash flow lending, e.g. asset-based lending strategies (in corporate receivables, consumer loans, hard assets, NAV lending, esoteric assets such as royalty streams) have become more popular and can be used to diversify borrower base and liquidity in an investor's private credit portfolio. These are strategies that have contractual cash flows that provide consistent income flows back to investors Thus they also de-risk investor exposures more quickly as capital is returned.

- We are especially cautious with respect to alternative lenders pursuing larger cap companies to displace traditional bond and loan market financing with "bespoke capital solutions", potentially at lower returns and weaker covenants.

- Many alternative lenders continue to offer their strategies via drawdown funds and generally maintain buy and hold strategies. Thus, liquidity when it is required won't be there unless the secondary market for private credit continues to grow. Otherwise, investors will need to seek off-market, bespoke, sales of private credit exposures. Currently we anticipate significant discounts for funds that are well past fund terms or with less well-known credit managers and lowest discounts only for top tier credit managers (e.g. Blackstone, Angelo Gordon, Ares, HPS etc.)

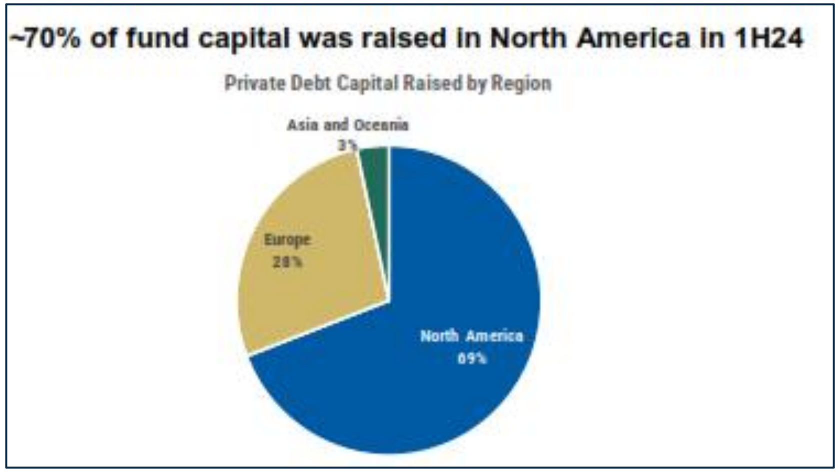
- In recent years, we have seen alternative lenders looking to offer evergreen vehicles, that allow investors to "turn off the spigot", allowing investors' pro rata share of loan portfolios to be set aside and run off as the underlying loans mature and, in this way, provide liquidity over several years.

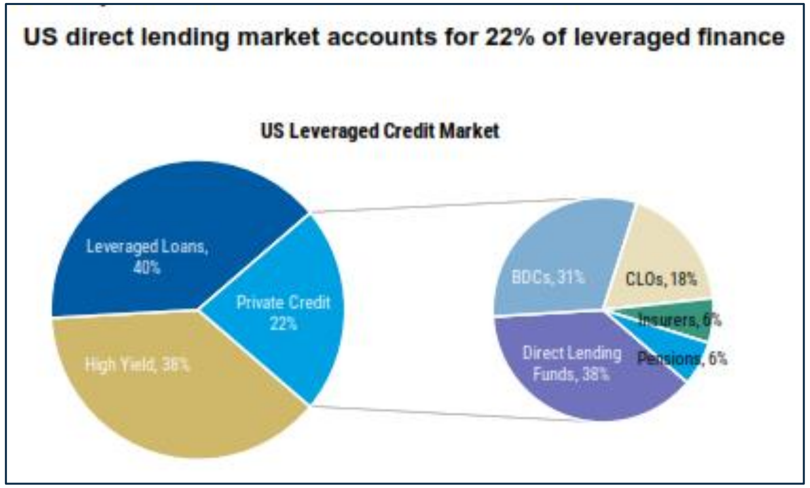
Views on Private Credit (Continued)

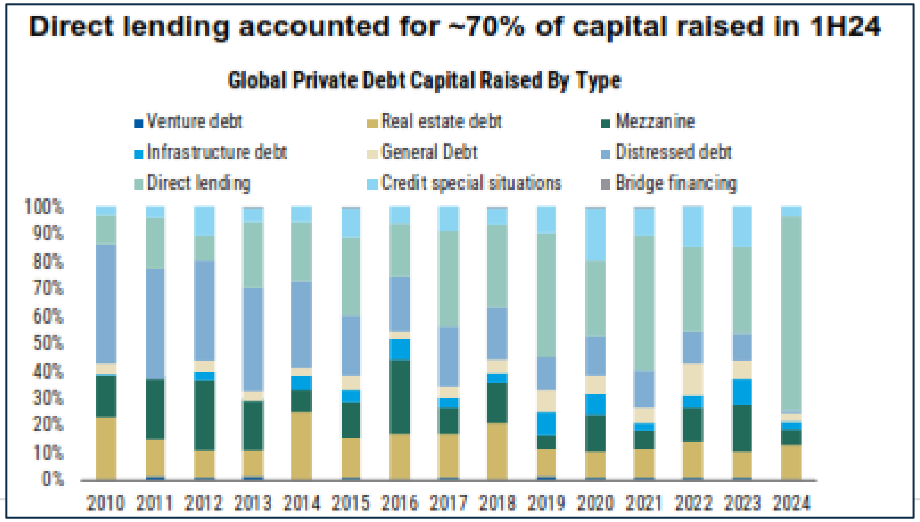
- To provide some liquidity in an overall private credit allocation, we have often crossed over the wall to liquid credit hedge funds or invested in private credit drawdown funds with the ability to invest heavily and temporarily during major dislocations in the liquid credit markets (such as in March 2020) while they continue to diligence the longer-term opportunities.
- More recently, as many private credit (and other alternative) funds saw business plan completions disrupted through COVID and reduced/non-existent capital access curtailed their ability to exit from investments, many alternative credit funds are providing liquidity in the form of NAV lending, GP and LP led recapitalizations (often in the form of preferred equity stakes). This provides exits for existing LPs but also may be a potentially lucrative opportunity for investors looking for entry into transparent, more seasoned private credit portfolios.

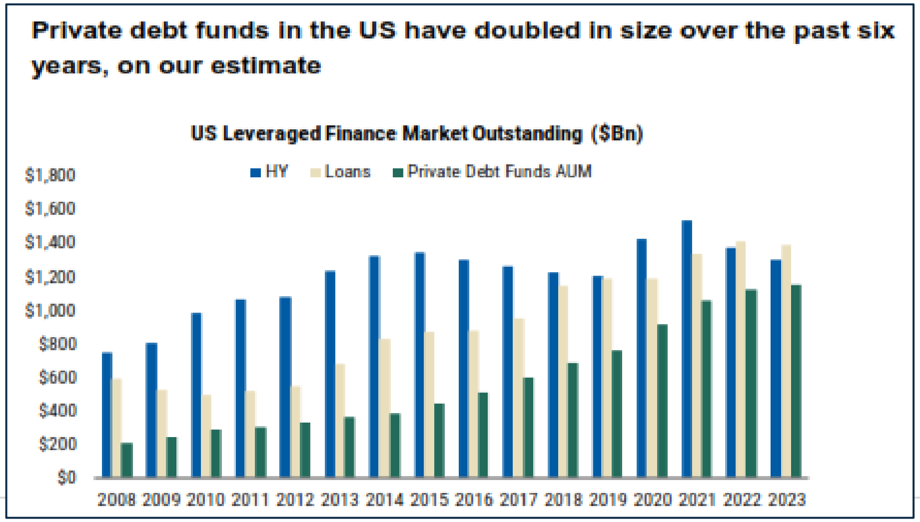
Private Credit Landscape 3Q24

MS estimates the size of the Global Private Credit market to be $1.7tn, exceeding the US HY Bond and Loan markets, each at about $1.4tn in size. This figure includes dry powder as well as deployed capital, and breadth goes beyond Direct lending to include other strategies, such as the newest buzz word “asset-based finance strategies” (with deployed capital estimated at $300bn).









Public / Private Credit Market Dynamics 3Q24

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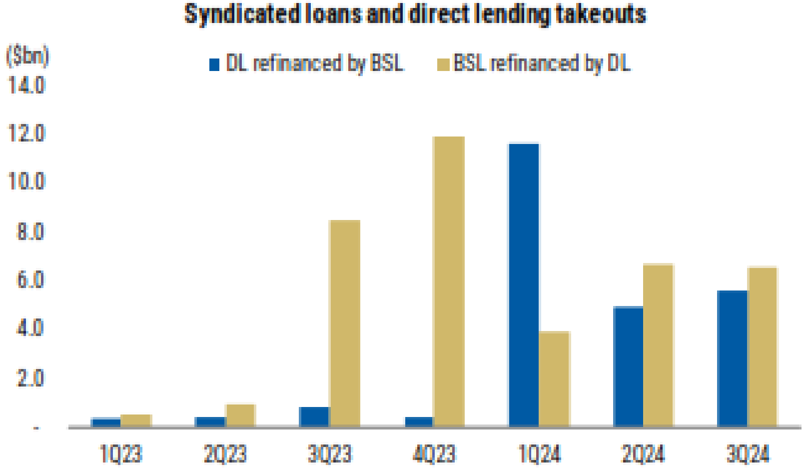
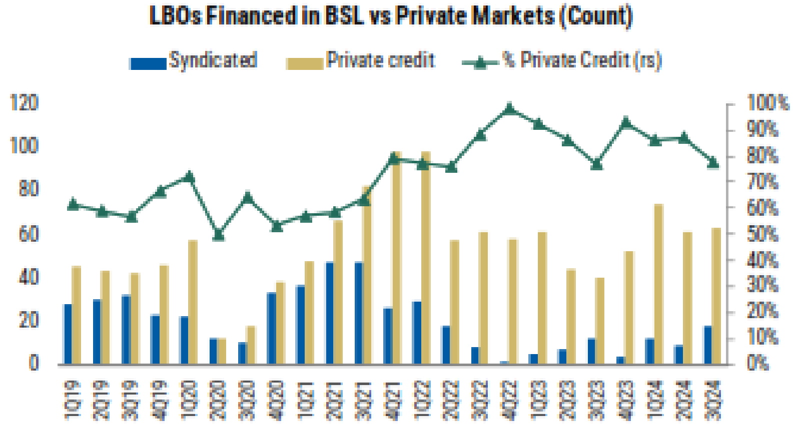
Refinancing activity has been more two-way in 2024



LBO financing accelerated by more in the public market, as the share financed by private credit declined in 3Q24



Top of Mind: As Private Credit continues to grow how much market share has it taken from the BSL market and is it permanent?

- MS describes this as a "Give and Take" dynamic
  - When capital market conditions improve, borrowers have been lured back to the public market to lower their costs of funding
  - On the other hand, lower quality issuers or with complex capital structures have opted to tap the private credit market for execution certainty and flexibility
  - In 3Q24, as LBO activity accelerated, public markets re-gained market share they lost to direct lending in 2022-2023.
  - As a result, spreads on newly originated direct loans compressed, according to the MS report, to 90 bps above single B BSL spreads, compared to 140 bps in 1Q24.
  - MS also indicated that covenant packages in direct lending has shifted in favor of borrowers

Intense competition continued to squeeze the new origination spread of direct lending loans

Source: MS Private Credit Tracker 3Q 2024 – Give and Take

OUTLOOK

Factors Driving Our Fixed Income / Private Credit Outlooks

Sources of data: JPM Credit Fundamentals Reports for IG, HY and Loans as of 3Q24

- **Interest Rates – Less Dovish, More Hawkish Fed**
  - Uncertainty remains as to pace and breadth of negative impacts of Trump tariffs/immigration policies as well as positive impacts of deregulation and tax cuts.
    - Higher volatility in the interest rate markets and market sentiment
      - Volatility leads to opportunistic chances to add risk during periodic dislocations in pricing
    - The longer that base rates stay high or potentially go higher, the higher the probability that default rates will rise from the most highly leveraged issues

- **Fundamentals – Still Relatively Resilient, but Concerns About the Loan Market**
  - *IG Corporates*
    - Positive Revenue & EBITDA growth last 3 quarters of ~2% vs ~-1.3% for FY23
    - Interest Expense growth last 3 quarters moderated to ~6.7%, down from ~18% for FY23.
    - Profit Margins have been stable between 30% and 31% over last 2 years
    - Coverage as of 3Q24 at 9.3x, near 2020 levels but well below the high in 2Q22 of 14.5x
  - *HY Corporates*
    - Positive Revenue & EBITDA growth last 3 quarters of ~2.1%, well above ~0.6% for FY23
    - Interest expense growth last 3 quarters down to ~3.7% vs ~13.2% for FY23
    - Profit Margins as of 3Q24 lower at ~15.2% versus ~16.1% at YE23
    - Coverage as of 3Q24 down < ½ turn at 4.66 y/y, marginally higher than 4.48x coverage at YE19
  - *Loans*
    - Revenue last 3 quarters ~3.3% modestly higher than ~3% for FY23,
    - Interest expense growth last 3 quarters ~3.3% v ~12.8% for FY23
    - Profit Margins as of 3Q24 15.6%, about flat to 15.8% at YE23
    - Coverage Ratios as of 3Q24 just under 3x but down by over 1 turn since YE19's 4.2x

Factors Driving Our Fixed Income / Private Credit Outlooks (Cont'd)

- **Fundamentals (Continued)**
  - *Emerging Market Debt*
    - Fundamentals are relatively resilient
    - Quality of the universe should continue to improve; momentum in upgrades is positive
    - No major defaults in EMD expected this year
    - Remaining defaults yet to be resolved (i.e., Lebanon, Ethiopia and Venezuela)
    - Global trends toward onshoring or other changes in supply chain dynamics may negatively affect certain EM economies.
    - EM Central banks began hiking, then easing before the Fed; could be restrained by US rates staying higher for longer, from further easing to further stimulate their economies

- **Valuations & Relative Value – Spreads Tighter for Longer?**
  - Improving underlying quality of the Credit universes argue for stickier tighter spreads
  - A number of high-profile EM countries re-gained access to capital markets this year
  - Spread changes likely to be asymmetrical going forward
    - Further compression is possible but maybe not at the same magnitude as the last 2 years
  - Spreads as percentage of all-in-yields are at historic lows, and thus 2025 returns will be attributable more to changes in base rates rather than spreads.
    - On a positive note, if the global economy does go into downturn, high base rates provide more cushion to offset significant widening of spreads as base rates fall.
  - Distressed parts of the US HY Bond and Loan universes have come down from 6.6% and 7.1% at YE23 to 4.3% and 4.9%, respectively
    - B bonds sectors pricing at distressed levels concentrated in Cable/Satellite and Healthcare
    - Loans, concentrated in Technology, Healthcare and Services

Factors Driving Our Fixed Income / Private Credit Outlooks (Cont'd)

- **Capital Markets – Re-Opening & Financing Options Expanding For Borrowers**
  - October 2024 Senior Loan Officer Survey indicating that fewer banks are tightening lending standards as compared to survey results in 2023.
  - Several lower-rated sovereigns were able to re-access the capital markets in 2024
  - Private Credit continues to grow and offer an expanded set of financing options for the needs of small to large companies
    - Private Credit has moved into the larger cap competing with the both the IG & BSL markets
    - Bank retrenching allowed Private Credit to enter into a marketing flurry for traditionally bank-led asset-based financing strategies that are collateralized by contractual cash flows from hard or financial assets.

- **Market Technicals – Stronger for HY, EMD and PC, Uncertain for EMD**
  - Issuance to grow in across the global fixed income markets, much for refinancing; this new issuance likely to be absorbed by continued investor demand for more attractive all-in yields.
    - Foreign buyer sponsorship will also be robust.
    - Robust demand not just due to high yields – higher periodic coupon payments support demand due to payments needing to be redeployed into the credit markets.
  - Recent positive inflows into IG/HY funds expected to continue due to persistent investor interest in credit products.
  - EMD outflows, on the other hand, remain a primary concern, although outflows have been moderating since the $90bn of outflows seen in 2022
    - As of 17 Jan, outflows from EM funds were $2.9billion, if these outflows remain at this pace through yearend, outflows may be as high or higher than last year's outflow of $30bn

Catalysts That May Change Our Outlook and Why?

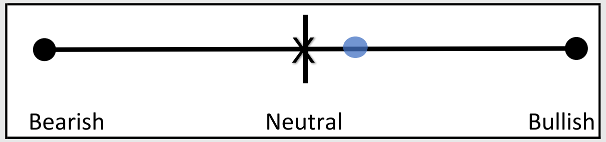
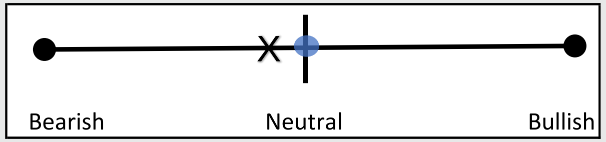
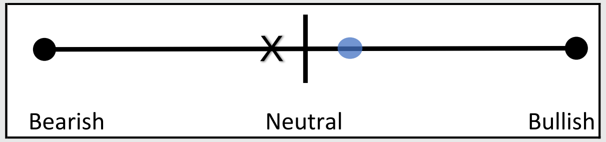
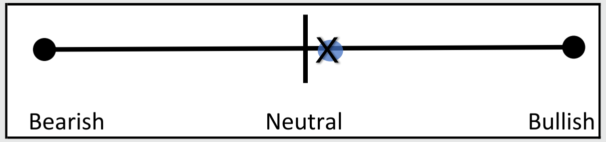
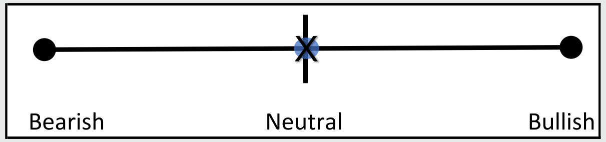
- Inflation suddenly spikes again either due to Trump tariff and immigration policies or geopolitical tensions rising precipitously to negatively impact global supply chains or supply shocks in commodities.

- Trade relations break down entirely, leading to a trade war (or another inconceivable type of war) with China, or worse yet, the adversary becomes a **bloc of chaos** (as a keynote speaker in recent conference termed it) – made up of China, Russia, Iraq and North Korea.

OUTLOOK Summary

Source: Ares

Leveraged Finance – Summary UPDATE

Factors	Comments	Historical Range
Valuations	• Spread changes asymmetric: stronger economy, higher base rates may rise, but spreads may compress more modestly • Spreads as % of all-in-yields at historic lows; weaker economy means more cushion for falling base rates to offset wider spreads	
Fundamentals	• Despite deterioration in some credit metrics, revenue and profitability still positive, HY issuers have termed out/refinanced debt and can ride out higher for longer • Excess Distressed Exchanges in recent years, primarily in Loans, may lead to higher near-term loan default rates. Many companies having done multiple DEs ultimately end up in bankruptcy courts • Fundamentals in Loans deteriorated a bit faster than HY; with rates higher for longer, may see more loan distress as these issuers run out of runway to cure cap structures	
Technicals	• Headwind from a huge wall of maturities reduced; companies focused on deleveraging and refinancing, pushed wall past 2027. • Flows into HY/Loans expected to remain positive as all-in-yields remain attractive at 7-9% nominal yields	
Macro Impact	• Potential slowdown in global economy but not outright recession is still positive for HY/Loan issuers as presumably further rate cuts can improve profit margins and credit metrics. On the other side, many issuers have already rationalized cap structures for higher for longer interest rates in a macro environment.	
● Current Quarter X Last Quarter	9 – 12 Month View	

EMD – Summary - UPDATE

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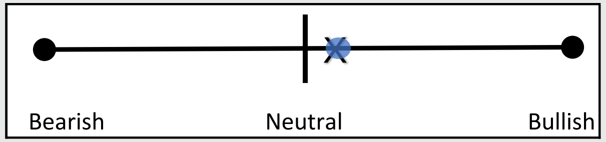
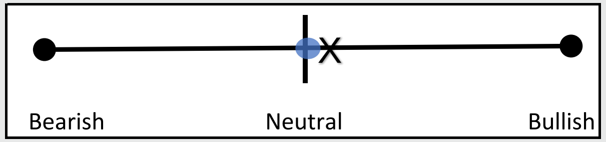
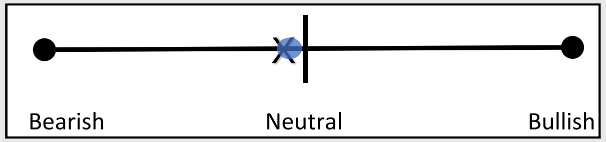
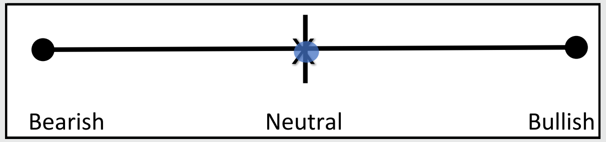
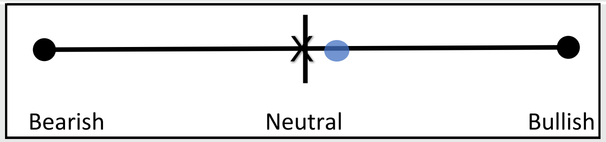
Factors	Comments	Historical Range
Valuations	• Spreads remain tight for EM Corporates & IG Sovereigns; still room for compression in EM HY Sovereigns • Nominal all-in-yields nearly 50 bps higher than US HY, adjusted for duration may be reasonable, but offsetting argument is that fundamentals and quality of the EMD universe is better than HY/Loans.	
Fundamentals	• EM growth overall expected to remain solid, uncertainty as to impact from US tariffs, changing supply chains dynamics casts a shadow • Near-term expect more stimulative policies coming out of China • Supply chain rationalization/diversification may benefit countries outside of China, e.g. Vietnam, Malaysia, but these are also likely to be touched by Trump tariff policies, along with Mexico • Major EM defaults not expected for 2025; only 3 default situations left to be resolved: Lebanon, Ethiopia and Venezuela, Lebanon may be first.	
Technicals	• Fund flows still negative YTD. 2024 EM outflows totaled $30 bn, YTD 2025 about $2.2bn; and even more importantly, investors still considered to be underinvested in EMD. • USD strength is a headwind for EMD FX. • Several countries completed debt restructurings or implemented policy reforms that supported extended access to IMF funding. 2025 expected to be less eventful in terms of credit events	
Macro Impact	• Global growth remains strong and EM inflation declining. • 2024 was a year of elevated election; 2025 expected to be less eventful though geopolitical tensions remain across several EM countries • Trump policies are worrisome, but also hard not to expect retaliation that moderates actual tariffs levied along with protracted negotiations	
● Current Quarter X Last Quarter	9 – 12 Month View	

Private Credit – Summary UPDATE

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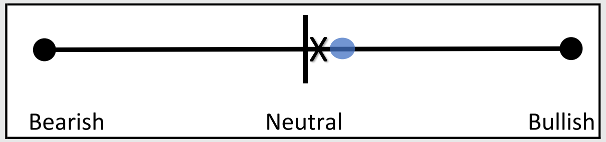
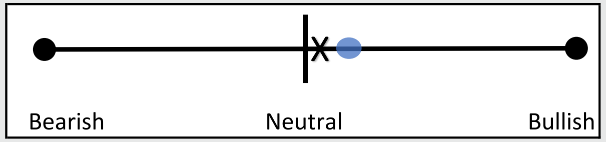
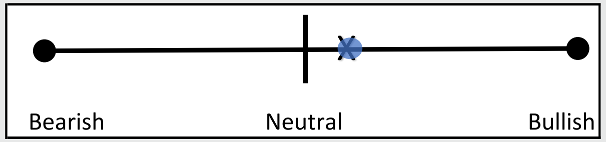
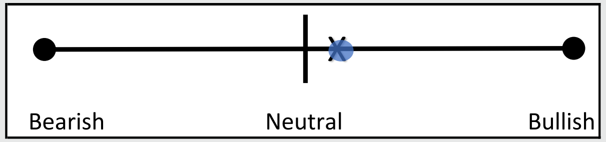
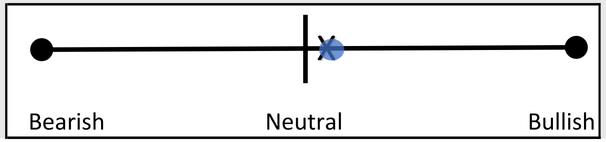
Factors	Comments	Historical Range
Valuations	• As higher interest rates have taken effect across financial markets, PC valuations have fallen but forward-looking returns have repriced higher along with lower LTVs. • Particularly in real estate, debt with less leverage continues to price extremely attractive to equity returns. Voluminous set of commercial RE distressed opportunities has yet to appear	
Fundamentals	• Credit metrics have deteriorated slowly in the credit markets but remain robust. Higher rates for longer leading to more distressed situations is a positive for private credit lending/special situations. • Private credit is now well accepted as an asset class of alternative lenders that provide more flexible, bespoke options for companies in dire need of financing. • Legacy portfolios may have challenges, new underwritings include new lender protections to minimize creditor-on-creditor violence	
Technicals	• Bank retrenchment that has been a headwind to refinancing in traditional debt markets remains a tailwind to private credit, although this may change in the deregulatory Trump environment. • Large cap borrowers may continue to diversify funding sources away from public IG, HY and syndicated Loan markets for flexibility, creative solutions and certainty of closure in the PC markets.	
Macro Impact	• Deregulation in the US is supportive of increased M&A, and, in turn, increased need for the sponsor-led private DL market. • Expect next few years to be very good vintages in PC given today's higher yielding entry points or much lower basis than pre-2022.	
● Current Quarter X Last Quarter	9 – 12 Month View	

Relative Value Recommendations

- **Neutral on Duration**, but continue to position for further curve steepening, would argue for playing an overweight to belly of the curve.
- **Maintain Up-in-Quality Bias** as high for longer may lead to further deterioration in credit metrics in lower credit asset classes
- **Prefer US Credit over European Credit,** based on greater weakness in European economies and larger size of the US market; however, would temper that view against higher quality in the European credit market, potential for more spread compression in Europe and greater return dispersion (potential alpha generation)
- **Prefer EM Sovereigns over IG/HY Corporates**, a number of defaulted credits completed restructurings in the last few years; technical headwinds appear to be subsiding as EM Fund outflows though still negative YTD but moderated immensely since 2022.
- **Prefer High Yield Over Loans**, despite yield spread of Loans over Bonds continues to point to cheaper loans:
  - High LME activity in the loan space over the last few years have potentially higher probability of leading into future hard defaults as creditors run out of options, especially if rates do not fall from here
  - LME (Distressed Exchanges) by Loan Issuers represented over 50% of total Default/DE activity in 2024.
  - HY default rates ex DE were much lower than Loan default rates since the Fed started hiking: 0.38% vs 1.52%, respectively; including DE, the default rates were 1.47% and 4.49%, respectively
  - Risk of an inflation-driven rates sell-off would have more deleterious impact on loans (floating rate debt) over bonds (fixed rate debt)
  - Serta Uptier appeal won by Apollo et al, concluded the txn wasn’t an open market purchase that exempted a 2016 provision in the docs that said all lenders must share pro rata on recoveries
- **Continue to add to Private Credit allocations**, the next few vintage years may be particularly lucrative but be wary of the plethora of new shops that opened in the last five years that may be dealing with distressed legacy portfolios today.

Appendix – Credit Metrics

3Q24 IG Credit Metrics -- Revenues

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Revenue growth has turned positive again

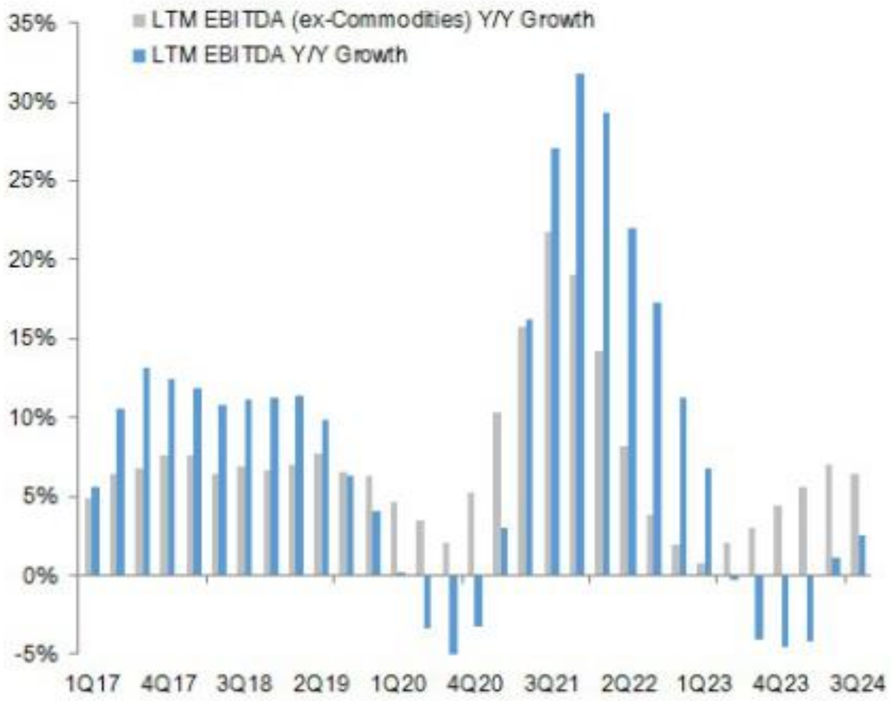
- Revenue grew 1.9% y/y and 0.5% q/q
- Revenue growth y/y had been declining since 2Q22, but that pivoted beginning in 2Q24
- Improvement in revenue growth was led by Healthcare and Technology
- 11 out of 18 sectors posted positive y/y growth

	3Q24	q/q chg	q/q % chg	y/y chg	y/y % chg
Healthcare/HMOs	1,926.4	48.6	2.6%	170.2	9.7%
Technology	2,087.6	49.7	2.4%	167.1	8.7%
Diversified Media	356.7	7.6	2.2%	28.3	8.6%
Automotive	465.3	15.8	3.5%	25.5	5.8%
Pharma/Medical Products	860.7	23.7	2.8%	13.7	1.6%
Cable/TV	177.9	2.2	1.2%	2.5	1.4%
Food/Drug Retail	212.0	(0.4)	-0.2%	3.0	1.4%
Non-Food Retail	1,246.2	(16.3)	-1.3%	14.2	1.2%
Telecoms - Domestic	368.5	(0.2)	0.0%	2.7	0.7%
Capital Goods	695.8	(13.5)	-1.9%	4.5	0.6%
Consumer Products	337.3	(0.2)	0.0%	2.0	0.6%
Metals/Mining	515.4	0.8	0.2%	(3.7)	-0.7%
Food/Beverages	694.6	(1.7)	-0.2%	(13.2)	-1.9%
Transportation	286.1	1.5	0.5%	(6.8)	-2.3%
Utilities	362.9	2.4	0.7%	(11.2)	-3.0%
Chemicals	165.5	(0.1)	-0.1%	(8.0)	-4.6%
Energy	2,179.0	(32.8)	-1.5%	(125.9)	-5.5%
Telecoms - Yankees	272.3	(16.9)	-5.9%	(18.4)	-6.3%
Overall	13,210.2	70.1	0.5%	246.4	1.9%
Overall ex-comm	10,350.3	102.3	1.0%	384.1	3.9%

Source: JP Morgan HG Credit Fundamentals

3Q24 IG Credit Metrics -- EBITDA

- EBITDA grew 2.5% y/y after the negative trend reversed in 2Q24, which was preceded by 4 quarters of negative growth, primarily driven by commodities
- By ratings, BBBs declined 2% y/y



	3Q24	q/q chg	q/q % chg	y/y chg	y/y % chg
Diversified Media	116.0	4.8	4.3%	22.1	23.6%
Technology	667.8	19.0	2.9%	101.5	17.9%
Consumer Products	73.7	0.3	0.4%	5.8	8.6%
Non-Food Retail	98.9	(0.8)	-0.8%	5.8	6.2%
Utilities	147.6	1.9	1.3%	6.0	4.2%
Food/Beverages	142.8	1.3	0.9%	4.8	3.5%
Telecoms - Domestic	144.6	(1.0)	-0.7%	2.9	2.0%
Automotive	49.2	1.0	2.1%	0.9	1.8%
Transportation	73.9	2.1	2.9%	0.7	1.0%
Food/Drug Retail	28.9	(0.4)	-1.5%	0.2	0.8%
Cable/TV	59.0	(0.0)	0.0%	0.2	0.3%
Pharma/Medical Products	295.4	12.5	4.4%	(0.4)	-0.1%
Metals/Mining	110.9	0.1	0.1%	(1.8)	-1.6%
Capital Goods	107.1	(6.4)	-5.7%	(2.8)	-2.6%
Healthcare/HMOs	97.8	(3.0)	-3.0%	(4.4)	-4.3%
Chemicals	27.1	0.1	0.2%	(1.7)	-5.9%
Telecoms - Yankees	93.8	(10.7)	-10.3%	(10.0)	-9.6%
Energy	497.1	(12.1)	-2.4%	(61.1)	-11.0%
Overall	2,831.5	8.6	0.3%	68.6	2.5%
Overall ex-comm	2,196.4	20.5	0.9%	133.3	6.5%

Source: JP Morgan HG Credit Fundamentals

3Q24 IG Credit Metrics – EBITDA Margins

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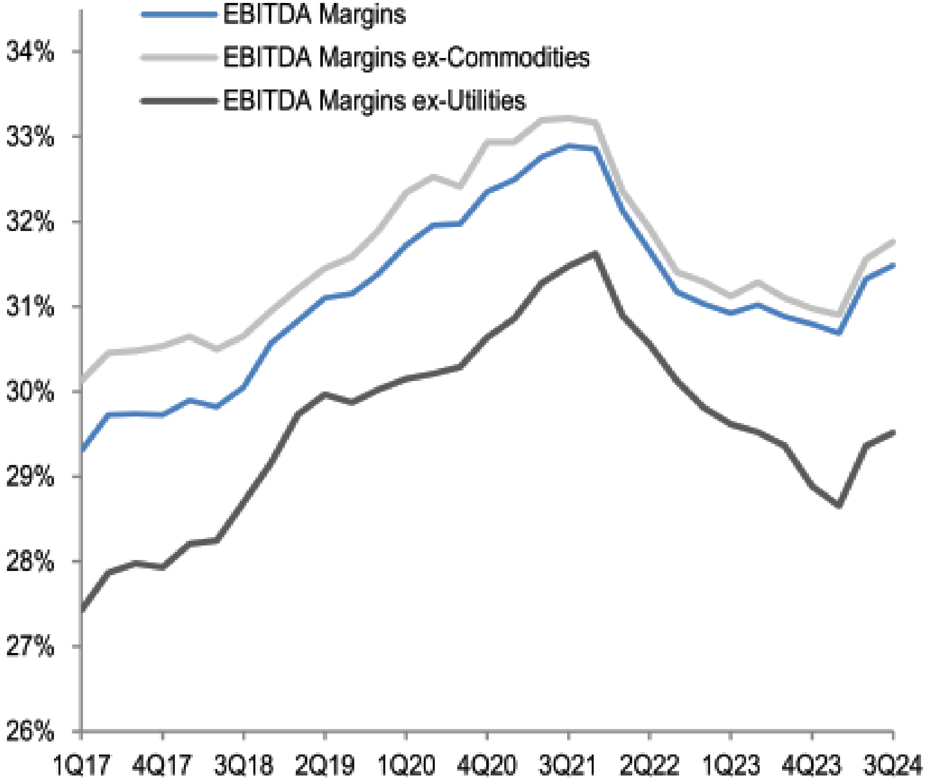
- EBITDA Margins had been falling since the high in 4Q21 but have improved to 31.5% as of 3Q24
- More than half of the sectors had positive margin growth y/y

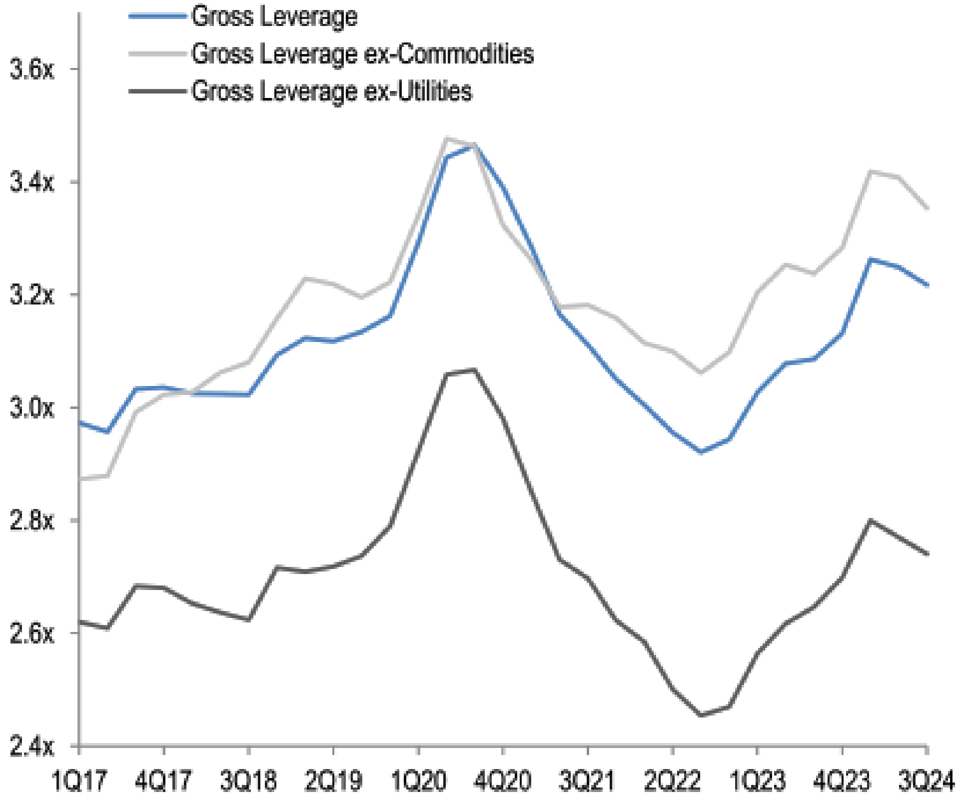


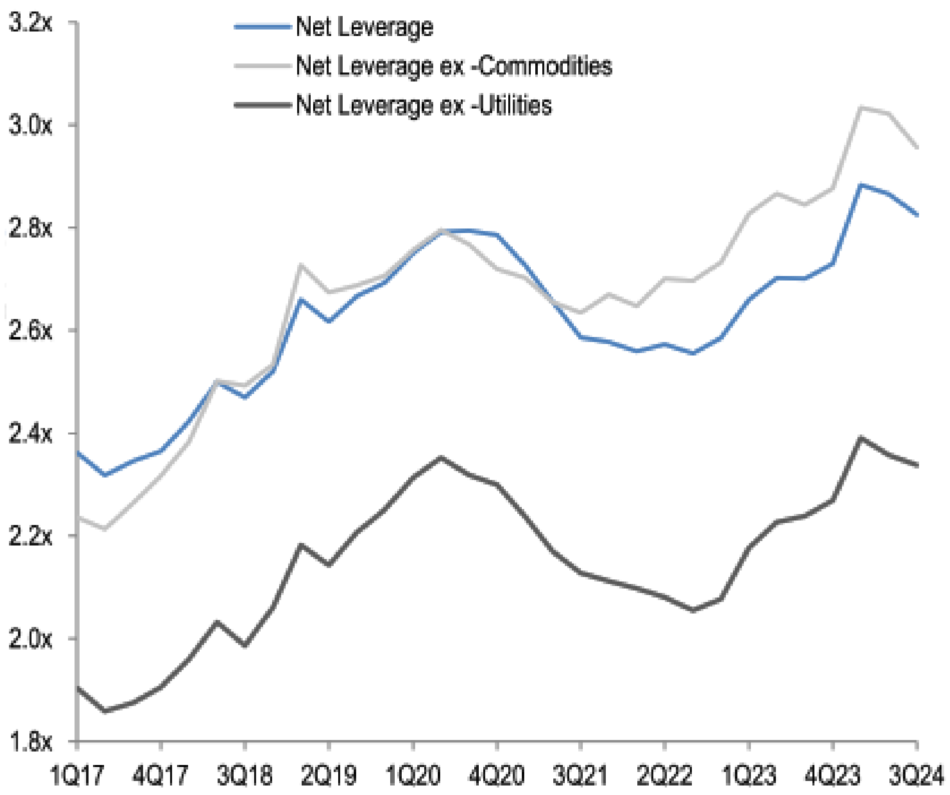
	3Q24	q/q chg	y/y chg
Utilities	41.1%	0.1%	2.9%
Diversified Media	24.2%	0.0%	1.5%
Consumer Products	22.2%	0.1%	1.4%
Food/Beverages	33.6%	0.3%	1.3%
Technology	35.7%	0.0%	1.1%
Transportation	48.1%	0.6%	0.8%
Metals/Mining	31.0%	-0.1%	0.6%
Non-Food Retail	13.7%	0.1%	0.4%
Energy	31.9%	0.1%	0.4%
Chemicals	17.4%	0.1%	0.2%
Telecoms - Domestic	39.9%	-0.3%	0.0%
Capital Goods	19.3%	-0.5%	-0.1%
Food/Drug Retail	29.6%	-0.6%	-0.3%
Cable/TV	33.2%	-0.4%	-0.3%
Automotive	10.1%	-0.2%	-0.7%
Healthcare/HMOs	7.4%	-0.3%	-0.8%
Telecoms - Yankees	32.7%	-1.2%	-0.9%
Pharma/Medical Products	36.5%	1.0%	-2.0%
Overall	31.5%	0.2%	0.6%
Overall ex-comm	31.8%	0.2%	0.7%

Source: JP Morgan HG Credit Fundamentals

3Q24 IG Credit Metrics – Leverage

- Gross Leverage and Net Leverage rose only by 0.1x y/y
- Gross Leverage at the end of 3Q24 was 3.2x and Net Leverage 2.8x





Source: JP Morgan HG Credit Fundamentals

3Q24 IG Credit Metrics – Interest Coverage

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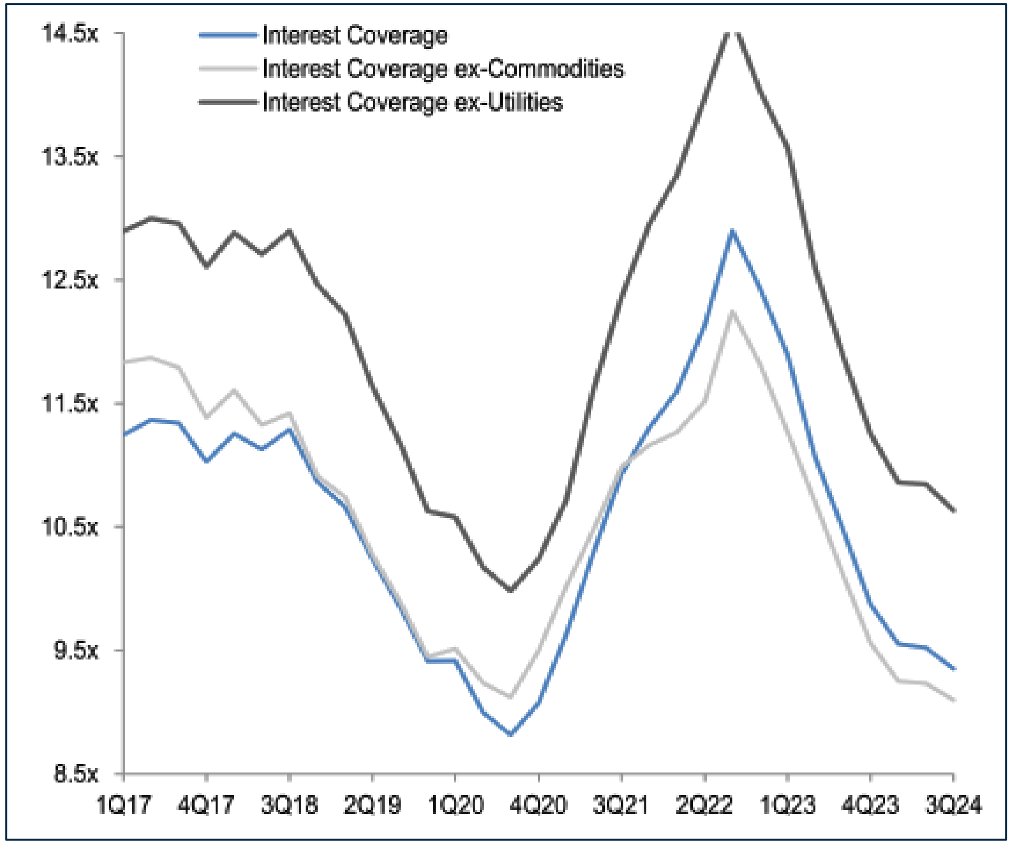
- Interest Coverage at 9.3x has fallen significantly from the high reached in 2Q22 of 14.5x; it is also just below YE2019 ratio of 9.4x
- Decline in Coverage is attributable to rising interest expense
- A handful of sectors actually saw improvements in their ratios y/y



	3Q24	q/q chg	y/y chg
Automotive	17.2	0.8	1.4
Technology	19.5	0.3	0.3
Food/Beverages	9.7	0.2	0.3
Consumer Products	12.1	0.0	0.3
Food/Drug Retail	11.0	-0.1	0.2
Non-Food Retail	10.8	-0.5	-0.1
Cable/TV	7.5	0.0	-0.1
Transportation	8.3	0.2	-0.4
Utilities	4.0	-0.2	-0.6
Chemicals	8.4	0.1	-0.7
Telecoms - Domestic	7.1	-0.2	-0.9
Healthcare/HMOs	7.6	-0.6	-1.6
Pharma/Medical Products	10.9	-0.3	-1.6
Capital Goods	13.2	0.2	-1.7
Telecoms - Yankees	9.0	0.7	-1.9
Pharma/Medical Products	11.8	0.1	-2.8
Metals/Mining	16.9	-0.4	-6.8
Diversified Media	29.6	-1.7	-11.0
Overall	9.3	-0.2	-1.1
Overall ex-comm	9.1	-0.1	-1.0

Source: JP Morgan HG Credit Fundamentals

3Q24 High Yield Credit Fundamentals

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3Q24 High-yield credit metric highlights

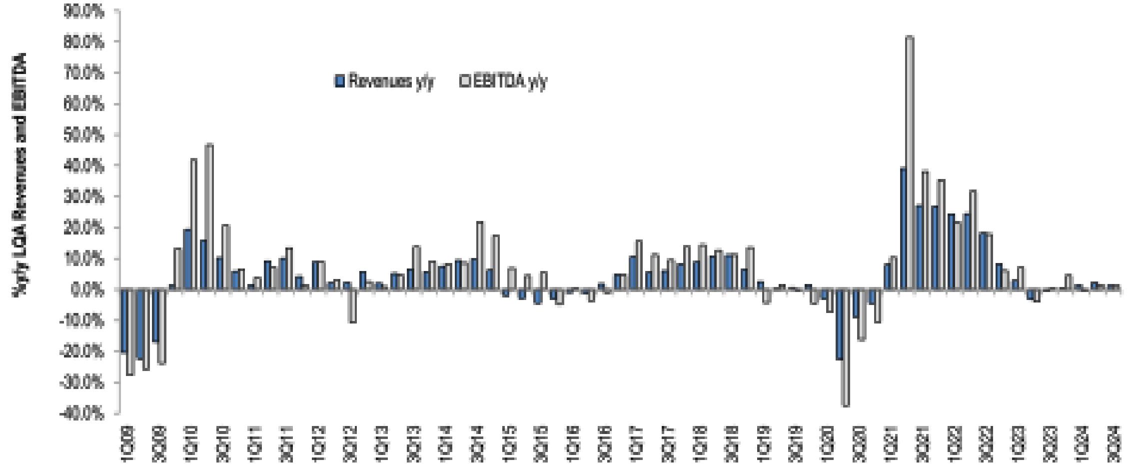
Quarterly 3Q24	Q/Q	Y/Y	LTM as of 3Q24	Q/Q	Y/Y
Revenue	0.0%	1.2%	Revenue	0.3%	1.2%
EBITDA	3.0%	1.2%	EBITDA	0.2%	0.6%
Capex	-6.9%	-10.9%	Capex	-2.8%	-2.7%
Interest expense	3.5%	7.8%	Interest expense	1.9%	7.0%
Total debt	0.2%	0.0%	Cash & equivalents	11.0%	6.7%

LTM	3Q24	2Q24	3Q23	Q/Q	Y/Y
Leverage (Debt/EBITDA)	4.05x	3.98x	3.96x	0.06x	0.09x
Net Leverage ((Debt-Cash)/EBITDA)	3.51x	3.50x	3.44x	0.02x	0.07x
EBITDA Margin	15.2%	15.3%	16.0%	-0.1%	-0.8%
Coverage (EBITDA/Net Int Exp)	4.66x	4.89x	5.03x	-0.23x	-0.38x
EBITDA-Capex/Net Int Exp	2.80x	2.89x	2.92x	-0.10x	-0.12x

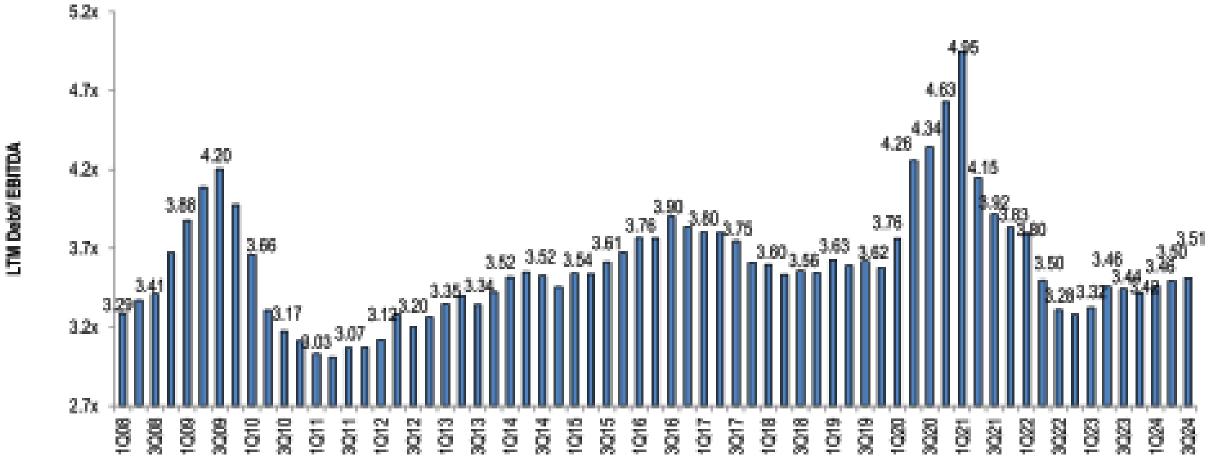
Source: JP Morgan High Yield Credit Fundamentals

3Q24 High Yield Credit Metrics

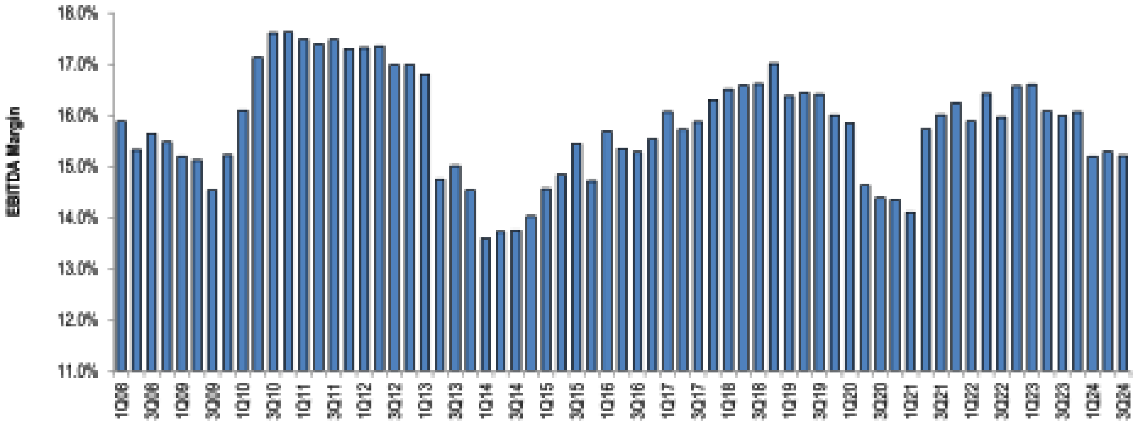
Top and bottom-line figures for HY companies remained moderate for a sixth consecutive quarter



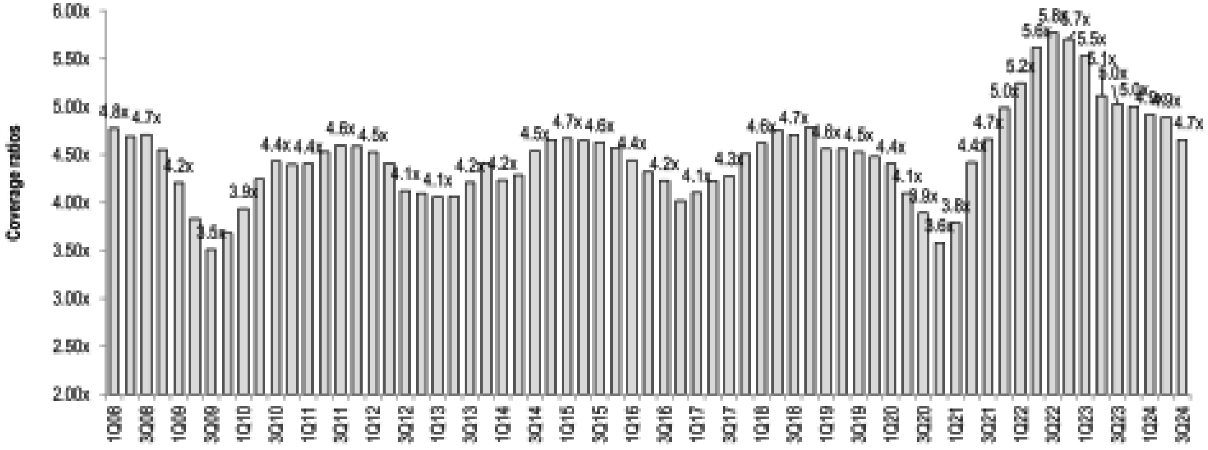
Net Leverage is now at a 10-quarter high in 3Q



Profit margins ticked marginally lower, remaining at 3-year lows



Coverage ratio for HY companies decreased for an eighth consecutive quarter to an 13-quarter low



Source: JPM High Yield Credit Fundamentals

Coverage Ratio Buckets

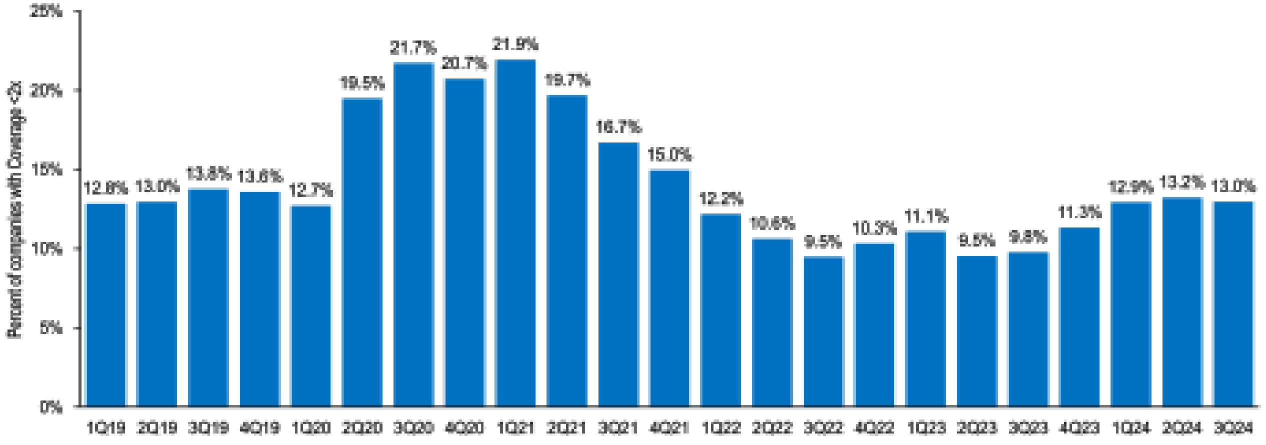
- 4.8% of HY companies have Coverage Ratio <1x, up from historical low of 3.5% as of 2Q24
- 8.2% of HY companies have Coverage Ratios between 1x and 2x, down from last quarter's 9.7%, high since 2Q20.
- Combined <2x Coverage percentage at 13% is below the 6-year high of 21.9% in 1Q21.
- 48.6% of issuers had Coverage ratios >= 5x, down for an 8th consecutive quarter from the peak of 61% as of 3Q22, and low the lowest level over the last 13 quarters.

Percent of companies by coverage buckets

Coverage buckets	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
< 1x	4.3%	4.6%	4.3%	5.0%	4.7%	9.3%	13.3%	12.7%	13.7%	10.3%	10.9%
1x to <2x	8.6%	8.4%	9.5%	8.6%	8.0%	10.1%	8.4%	8.0%	8.3%	9.4%	5.8%
2x to <3x	14.4%	14.1%	14.7%	13.4%	14.5%	15.1%	17.0%	14.9%	13.6%	8.6%	11.1%
3x to <4x	14.2%	15.4%	15.1%	17.6%	19.5%	17.5%	12.6%	13.9%	12.3%	12.4%	11.1%
4x to <5x	15.0%	13.0%	14.5%	15.8%	14.5%	12.1%	13.7%	13.1%	12.7%	12.4%	11.4%
5x to <6x	13.4%	13.7%	12.0%	11.6%	11.3%	11.3%	11.0%	10.8%	7.9%	9.9%	9.8%
>= 6x	30.2%	30.9%	29.8%	28.1%	27.5%	24.5%	24.0%	26.5%	31.3%	36.9%	40.0%
Coverage <2x	**12.8%**	**13.0%**	**13.8%**	**13.6%**	**12.7%**	**19.5%**	**21.7%**	**20.7%**	**21.9%**	**19.7%**	**16.7%**
Coverage b/w 2x & 5x	43.6%	42.5%	44.4%	46.7%	48.6%	44.7%	43.2%	42.0%	38.6%	33.5%	33.6%
Coverage >=5x	**43.6%**	**44.6%**	**41.9%**	**39.7%**	**38.7%**	**35.8%**	**35.0%**	**37.3%**	**39.2%**	**46.8%**	**49.7%**

Coverage buckets	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
< 1x	9.0%	7.6%	6.5%	6.3%	6.4%	6.8%	5.3%	4.8%	4.5%	4.2%	3.5%	4.8%
1x to <2x	6.0%	4.6%	4.1%	3.2%	3.9%	4.3%	4.3%	5.0%	6.8%	8.8%	9.7%	8.2%
2x to <3x	8.8%	10.0%	8.9%	8.7%	8.4%	9.3%	11.0%	11.6%	9.1%	10.0%	11.2%	10.8%
3x to <4x	11.4%	9.0%	9.3%	10.2%	10.9%	10.7%	13.0%	12.7%	13.2%	11.9%	14.3%	16.4%
4x to <5x	11.8%	10.7%	10.1%	10.4%	11.1%	11.7%	11.2%	12.3%	13.6%	15.0%	11.4%	11.2%
5x to <6x	9.5%	10.7%	10.8%	10.0%	10.7%	12.2%	11.6%	10.6%	10.7%	9.2%	11.0%	9.3%
>= 6x	43.6%	47.4%	50.3%	51.1%	48.6%	45.0%	43.8%	43.0%	42.2%	41.0%	39.0%	39.3%
Coverage <2x	**15.0%**	**12.2%**	**10.6%**	**9.5%**	**10.3%**	**11.1%**	**9.5%**	**9.8%**	**11.3%**	**12.9%**	**13.2%**	**13.0%**
Coverage b/w 2x & 5x	32.0%	29.7%	28.3%	29.4%	30.4%	31.7%	35.1%	36.6%	35.8%	36.9%	36.8%	38.4%
Coverage >=5x	**53.1%**	**58.1%**	**61.1%**	**61.2%**	**59.3%**	**57.3%**	**55.4%**	**53.6%**	**52.9%**	**50.2%**	**50.0%**	**48.6%**

The percentage of companies with coverage of 2x or lower remains low has stabilized around 13%



Source: JP Morgan High Yield Credit Fundamentals.

3Q24 Leveraged Loan Credit Fundamentals

Quarterly 3Q24	Q/Q	Y/Y	LTM as of 3Q24	Q/Q	Y/Y
Revenue	0.4%	1.8%	Revenue	0.5%	2.2%
EBITDA	2.2%	2.6%	EBITDA	0.7%	0.9%
Capex	-6.9%	-4.4%	Capex	-1.1%	-3.5%
Interest expense	3.8%	8.2%	Interest expense	2.0%	10.9%
Total Debt	0.6%	1.1%	Cash & Equivalents	11.9%	5.9%

LTM	3Q24	2Q24	3Q23	Q/Q	Y/Y
Leverage (Debt/EBITDA)	4.99x	5.00x	4.89x	-0.01x	0.10x
Net Leverage ((Debt-Cash)/EBITDA)	4.48x	4.55x	4.41x	-0.07x	0.07x
EBITDA Margin	15.6%	15.9%	15.9%	-0.3%	-0.3%
Coverage (EBITDA/Net Int Exp)	2.86x	2.90x	3.16x	-0.03x	-0.30x
EBITDA-Capex/Net Int Exp	1.98x	2.00x	2.16x	-0.02x	-0.19x

Source: JP Morgan Leveraged Loan Credit Fundamentals

3Q24 Leveraged Loan Credit Metrics

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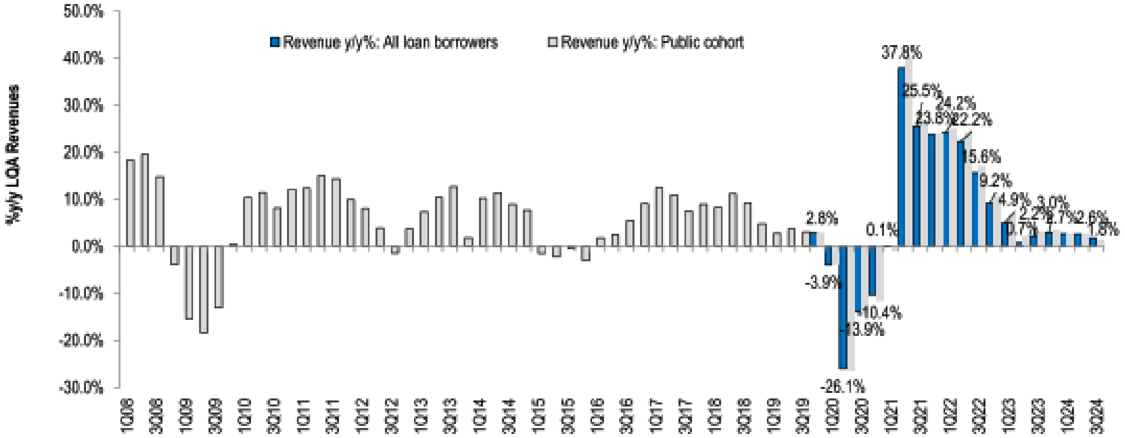
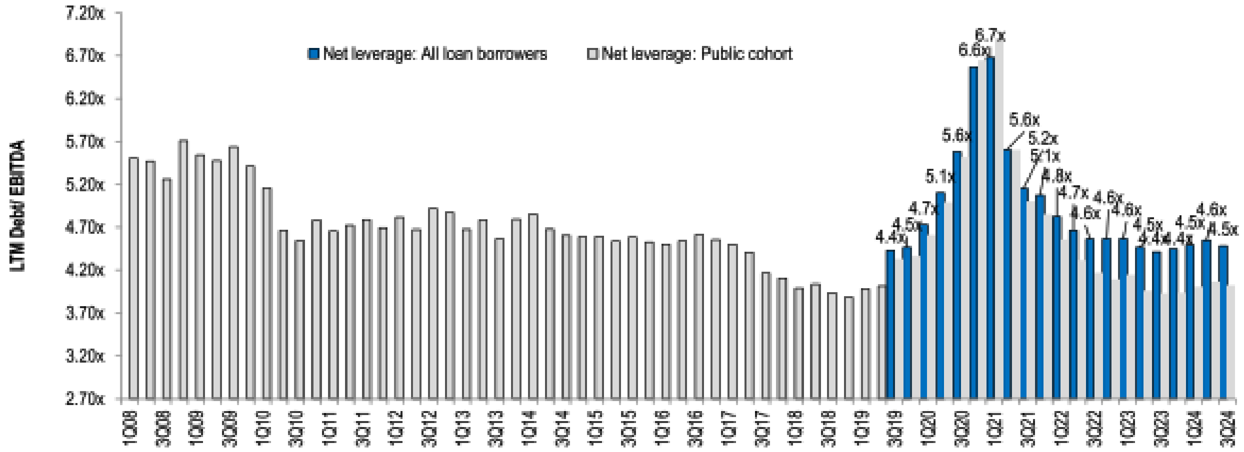
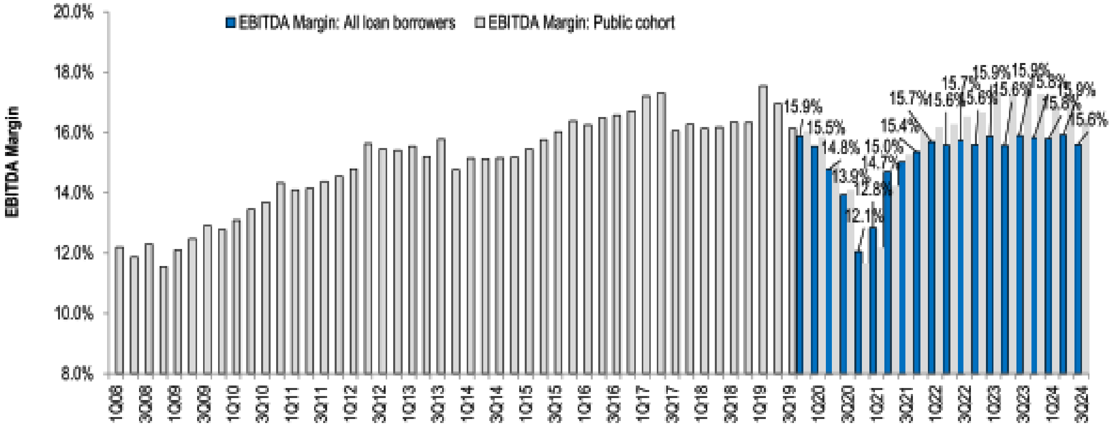
Revenue growth y/y has been positive over the past 15 quarters, although 3Q's expansion was the third lowest pace over that stretch



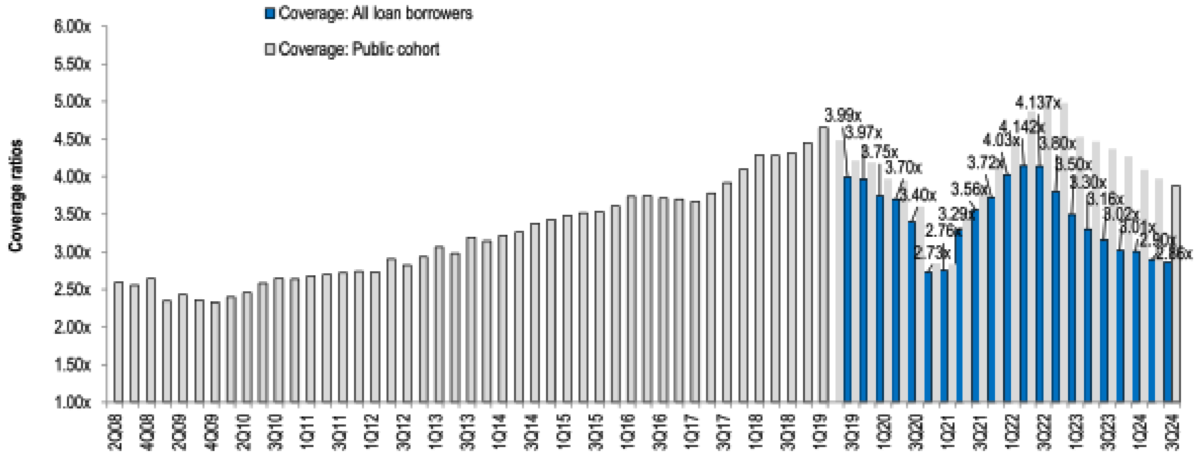
Net Leverage ticked lower during the quarter, down from a six-quarter high



While declining in 3Q, profitability has remained resilient over the last several quarters



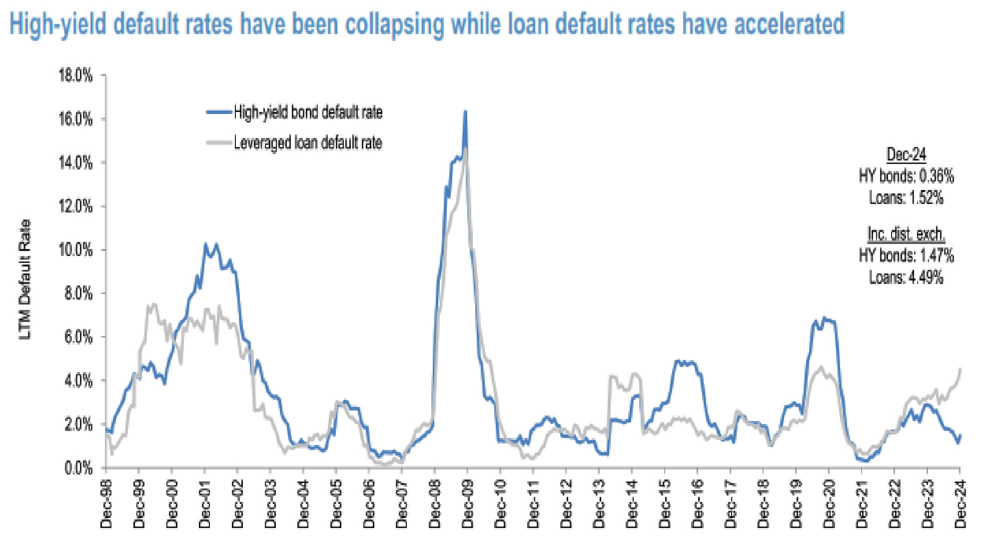
Coverage ratios decline to a 3.5-year low, but are stabilizing as interest expense increases decelerate

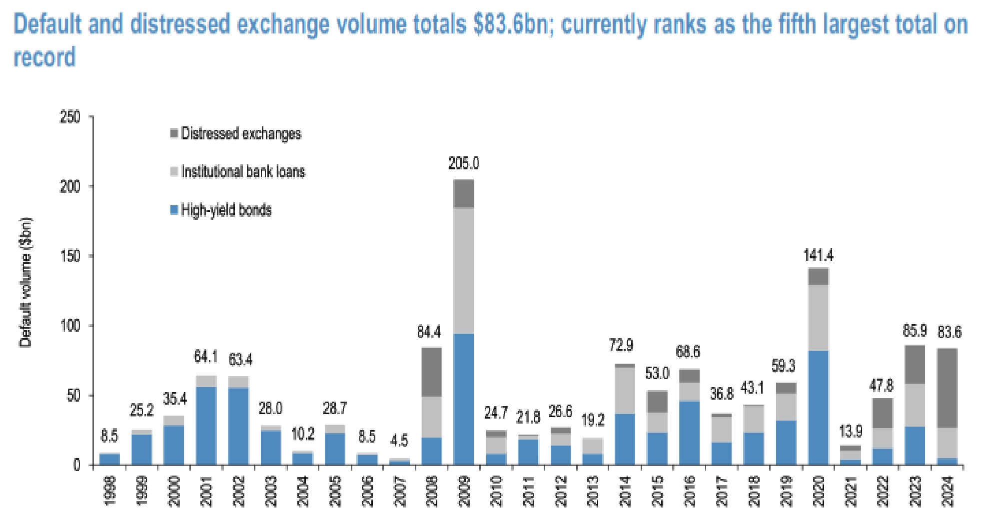


Source: JPM Leveraged Loan Credit Fundamentals

Appendix – Default, Distressed & Ratings

2024 US Default Activity

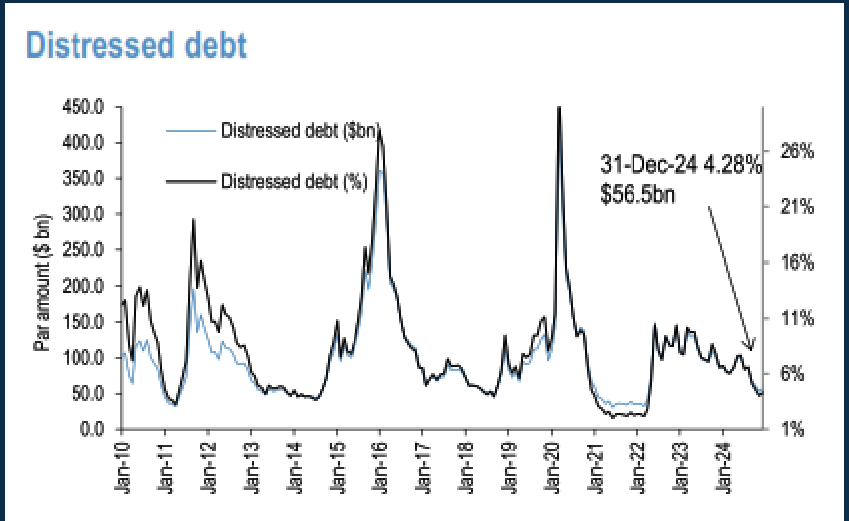




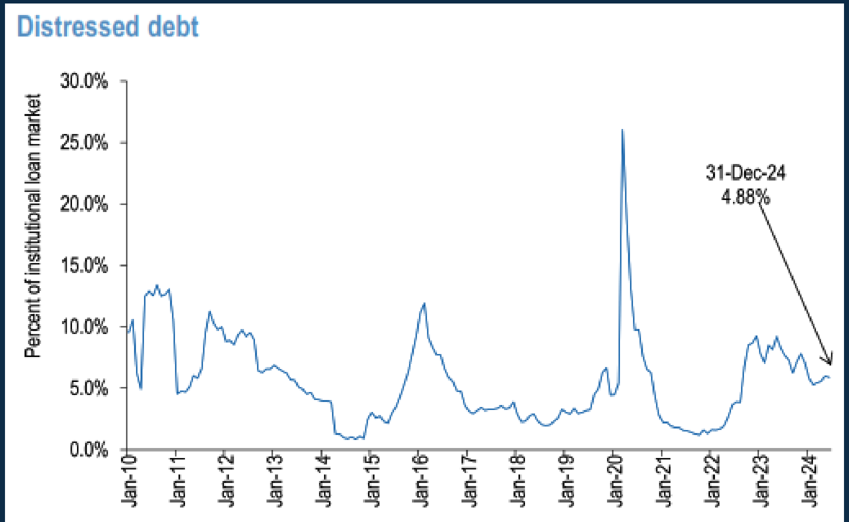
Source: JPM Default Monitor

- **LTM Par-Weighted Default Rates**
  - For HY Bonds fell from 2.84% at YE 23 to 1.47%
  - For Loans continued to rise from 3.15% at YE23 to 4.49%, the post-COVID high
  - 25-year averages were 3.4% and 3%, respectively
  - Expectations are for defaults to moderate in 2025 due to a still resilient economy, strong corporate fundamentals and a reduced maturity wall
  - Gap between default rates of bonds versus loans will remain historically high, YE24 gap of 302 bps is a high since 2000
- **Default/Distressed Exchange Volume – $83.6B in 2024**
  - 37 companies defaulted totaling $26.5B (Bonds, $4.7B and Loans ($21.8B)
  - 48 companies completed distressed exchanges totaling a **record high** of $57.1B (Bonds, $14.4B and Loans, $42.7B)
  - Distressed exchange volume represented 68% of total default/DE activity in 2024
  - Biggest contributors to Default/DE volume were Healthcare (22%); Technology (13%), Services (9%) and Retail (7%)
- JPM forecasts default rates
  - In 2025 to be 1.25% (bond) and 2.75% (loans)
  - In 2026 to be 2.00% (bonds) and 2.50% (loans)

Distressed Debt (High Yield Bonds)



Distressed Debt (Loans)



Source: JP Morgan Default Monitor

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Distressed HY Bond Universe YE24

- HY Bond Distressed (trading at spread >1000 bps) has fallen since YE23 from 6.6% ($84.9B) to **4.3%** ($56.5B) of the HY Bond universe
- Majority is concentrated in Cable & Satellite (24.7%), Healthcare (17.8%), Broadcasting (12%), Retail (7.7%) and Technology (6.5%)

Distressed Leveraged Loan Universe YE24

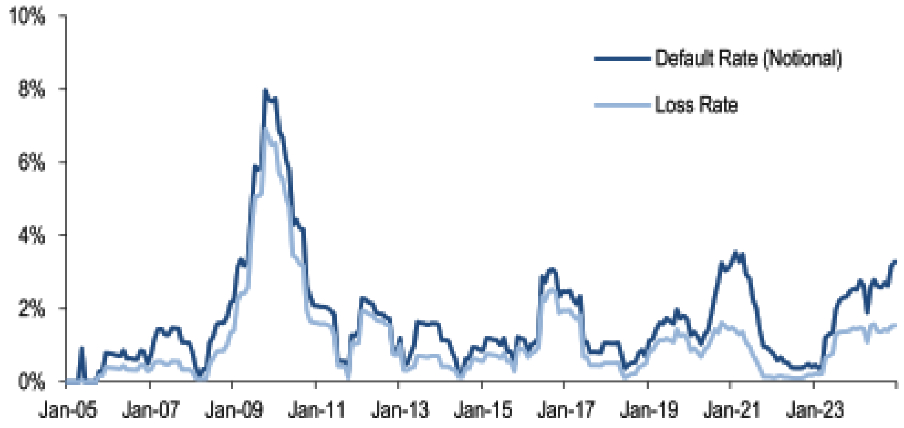
- Loan Distressed (trading at <=$80) has also fallen since YE23 from 7.1% ($102B) to **4.9%** ($70.9B) of the Loan universe
- Majority is concentrated in Technology (33%), Healthcare (13.1%), Services (12.8%) and Food/Beverages (7.3%)

Combined Distressed Bond/Loan volume of $127B, now represents 4.6% of the combined leveraged finance market, a 31-month low.

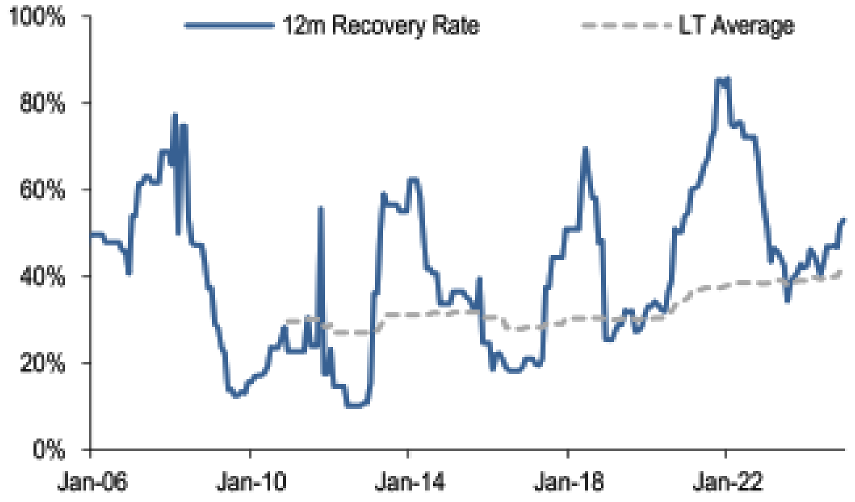
European High Yield Default, Recovery and Distressed 2024

European HY Bond Default rate rose to 3.3% as of YE 2024, up 75 bps vs. 2023

- 14 issuers, combined notional of €13.5bn
- Held steady at 2.5% for most of the year, but restructuring activity picked up in the final months and set to climb further in 2025.
- Three sectors suffered double digit default rates in 2024: Financial Services, Real Estate and Technology
- JPM forecasts 5% default rate for 2025, but may depend on outcome of 2 large cap issuers SFRFP and THAMES – this is a level not seen since the GFC
- Adjusted for improving recovery rates, Loss Rates appear to be stabilizing – 1.54% as of YE 2024, only 7 bps greater than YE 2023.



HY Bond Recovery rates rose to 53% in 2024, up from 42% in 2023.



- High Yield Distressed Ratio (Prices at <80) have fallen to 4.9% at YE 2024, the lowest level since April 2022.
  - JPM adds may be understated as many THAMES bonds are trading inside 1000 bps spread, and thus technically not categorized as distressed.
  - JPM expects distressed bonds that will go into restructure in 2025 likely to stay elevated as it was in 2024 at 36%

Source: JP Morgan High Yield Talking Points 2025-01-08

Where is Distressed Concentrated in High Yield Bonds?

Distressed debt by industry

as of December 31, 2024

	50% of par and below			70% of par and below			1000bps and above		
	($bn)	% of total	Industry	($bn)	% of total	Industry	($bn)	% of total	Industry
Automotive	-	-	-	-	-	-	0.43	0.8%	1.0%
Broadcasting	0.65	12.9%	1.9%	4.75	10.6%	14.1%	6.80	12.0%	20.2%
Cable/Satellite	0.22	4.4%	0.2%	10.46	23.4%	11.3%	13.96	24.7%	15.0%
Chemicals	-	-	-	1.17	2.6%	3.2%	2.81	5.0%	7.7%
Consumer Products	-	-	-	0.63	1.4%	2.2%	0.63	1.1%	2.2%
Diversified Media	0.01	0.3%	0.1%	0.03	0.1%	0.2%	0.85	1.5%	5.9%
Energy	-	-	-	0.30	0.7%	0.2%	0.54	1.0%	0.4%
Financial	0.11	2.3%	0.1%	2.70	6.0%	2.0%	1.17	2.1%	0.9%
Food/Beverages	0.50	9.9%	1.0%	1.50	3.4%	2.9%	1.50	2.7%	2.9%
Gaming/Lodging/Leisure	-	-	-	-	-	-	0.55	1.0%	0.5%
Healthcare	-	-	-	6.08	13.6%	5.2%	10.04	17.8%	8.5%
Housing	-	-	-	0.55	1.2%	1.1%	0.56	1.0%	1.1%
Industrials	0.52	10.4%	0.8%	0.60	1.3%	0.9%	1.10	1.9%	1.6%
Metals/Mining	-	-	-	0.45	1.0%	1.6%	-	-	-
Paper/Packaging	-	-	-	2.07	4.6%	5.0%	1.81	3.2%	4.3%
Retail	1.14	22.8%	2.4%	5.53	12.3%	11.6%	4.36	7.7%	9.1%
Services	0.13	2.7%	0.2%	2.16	4.8%	2.5%	2.98	5.3%	3.5%
Technology	1.73	34.4%	2.0%	3.63	8.1%	4.1%	3.66	6.5%	4.2%
Telecommunications	-	-	-	2.14	4.8%	5.9%	1.99	3.5%	5.5%
Transportation	-	-	-	-	-	-	-	-	-
Utility	-	-	-	-	-	-	0.80	1.4%	2.1%
Total	**5.03**			**44.74**			**56.52**		

Source: JP Morgan Default Monitor 2025-01-01

Where is Distressed Concentrated in U.S. Loans?

Distressed debt by industry

as of December 31, 2024

	Trading below $60		Trading below $80		
	($bn)	% of total	($bn)	% of total	% of industry
Automotive	-	-	0.46	0.7%	1.3%
Broadcasting	0.31	1.0%	1.59	2.2%	8.6%
Cable/Satellite	1.32	4.4%	1.32	1.9%	4.7%
Chemicals	0.18	0.6%	3.19	4.5%	7.4%
Consumer Products	0.49	1.6%	1.61	2.3%	4.2%
Diversified Media	-	-	0.14	0.2%	0.3%
Energy	0.64	2.1%	0.64	0.9%	1.7%
Financial	0.23	0.8%	0.52	0.7%	0.4%
Food/Beverages	2.41	8.0%	5.20	7.3%	10.3%
Gaming/Lodging/Leisure	0.41	1.4%	1.61	2.3%	2.4%
Healthcare	2.67	8.8%	9.28	13.1%	5.1%
Housing	-	-	0.35	0.5%	0.6%
Industrials	0.93	3.1%	3.80	5.3%	4.0%
Metals/Mining	-	-	-	-	-
Paper/Packaging	0.43	1.4%	1.84	2.6%	3.5%
Retail	1.10	3.6%	2.96	4.2%	8.3%
Services	2.13	7.0%	9.08	12.8%	5.3%
Technology	14.46	47.9%	23.40	33.0%	9.2%
Telecommunications	1.36	4.5%	2.54	3.6%	8.2%
Transportation	1.14	3.8%	1.39	2.0%	4.0%
Utility	-	-	-	-	-
Total	**30.21**		**70.94**		

Sources: JP Morgan Default Monitor 2025-01-01

Largest Defaults in 2024

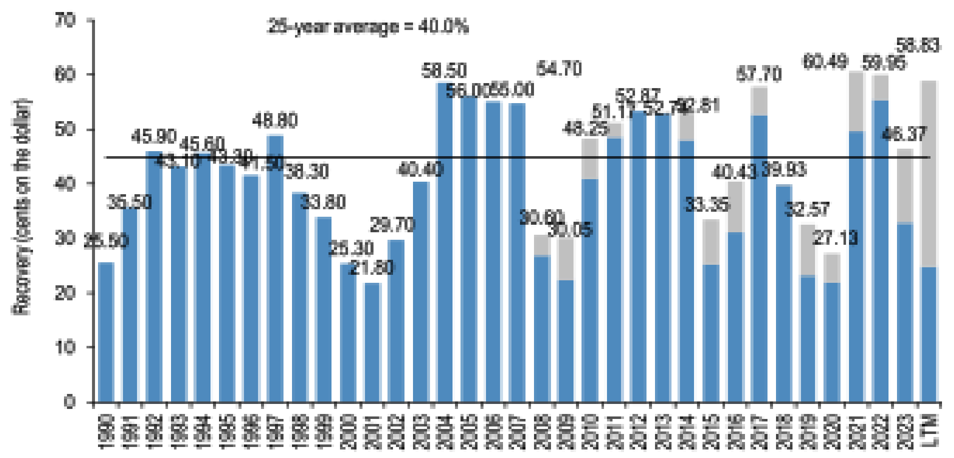
Largest 20 defaults in 2024

Date	Company	Bonds ($mn)	Loans ($mn)	Total ($mn)	Industry	Action
18-Dec-24	**iHeart Communications**	**2,565.5**	**2,258.7**	**4,824.1**	**Broadcasting**	**Distressed exch.**
14-May-24	Air Medical Group (Global Medical Response)	580.3	3,757.4	4,337.7	Healthcare	Distressed exch.
16-Aug-24	McAfee Enterprise (Magenta Buyer)	-	4,246.5	4,246.5	Transportation	Distressed exch.
16-Aug-24	Brightspeed (Connect Holding II)	1,865.0	1,970.0	3,835.0	Telecommunications	Distressed exch.
9-Dec-24	**Veritas**	**1,750.0**	**1,639.7**	**3,389.7**	**Technology**	**Distressed exch.**
22-Feb-24	Radiology Partners	1,425.6	1,631.7	3,057.3	Healthcare	Distressed exch.
11-Jul-24	Wheel Pros	365.0	2,393.5	2,758.5	Automotive	Filed Chapter 11
5-Feb-24	GoTo Group (LogMeIn)	529.6	2,182.5	2,712.1	Technology	Distressed exch.
22-Nov-24	Hearthside Food Solutions	350.0	2,202.5	2,552.5	Food and Beverages	Filed Chapter 11
22-Aug-24	United Site Services	307.0	1,744.0	2,051.0	Services	Distressed exch.
2-Oct-24	Unifrax Investment (Alkegen)	901.0	1,100.6	2,001.6	Industrials	Distressed exch.
12-Mar-24	Rackspace Technology Group	331.4	1,590.0	1,921.4	Technology	Distressed exch.
15-May-24	Eyecare Partners	-	1,914.9	1,914.9	Healthcare	Distressed exch.
16-Dec-24	**FinThrive Software Intermediate Holdings Inc**	**-**	**1,800.2**	**1,800.2**	**Healthcare**	**Distressed exch.**
21-Nov-24	Lasership	-	1,788.8	1,788.8	Services	Distressed exch.
19-Dec-24	**Springs Window Fashions (SWF Holdings)**	**187.5**	**1,584.4**	**1,771.9**	**Consumer Products**	**Distressed exch.**
20-Sep-24	Polar US Borrower (SI Group)	266.6	1,325.3	1,591.9	Chemicals	Distressed exch.
4-Apr-24	ConvergeOne Holdings	-	1,335.9	1,335.9	Technology	Filed Chapter 11
17-May-24	Astra Acquisition (Anthology)	-	1,271.8	1,271.8	Technology	Distressed exch.
13-Mar-24	New Insight Holdings (Dynata)	-	1,170.8	1,170.8	Services	Filed Chapter 11
	Total	**11,424.5**	**38,909.1**	**50,333.6**		
	As a percent of total activity	**60%**	**60%**	**60%**		

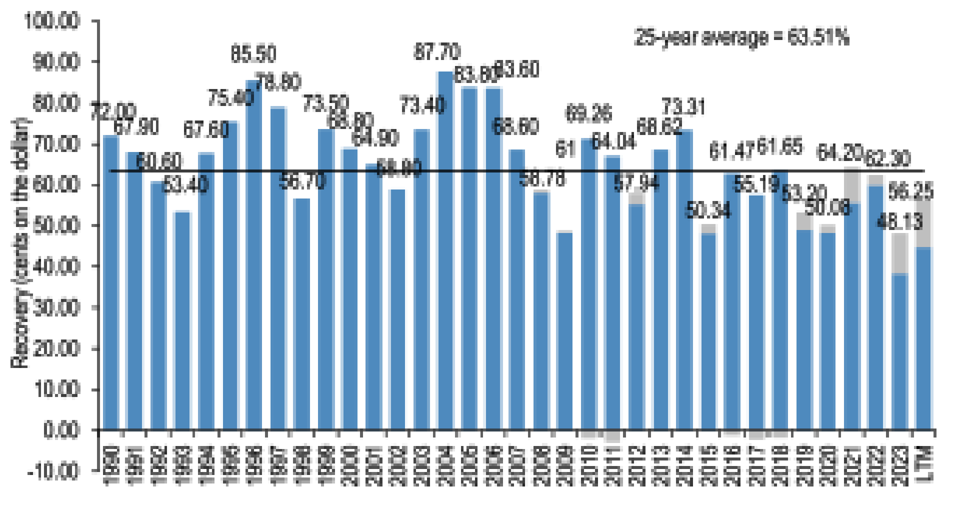
Source: JP Morgan Default Monitor 2025-01-01

2024 LTM Recovery Rates

Bond issuer-weighted recovery rates

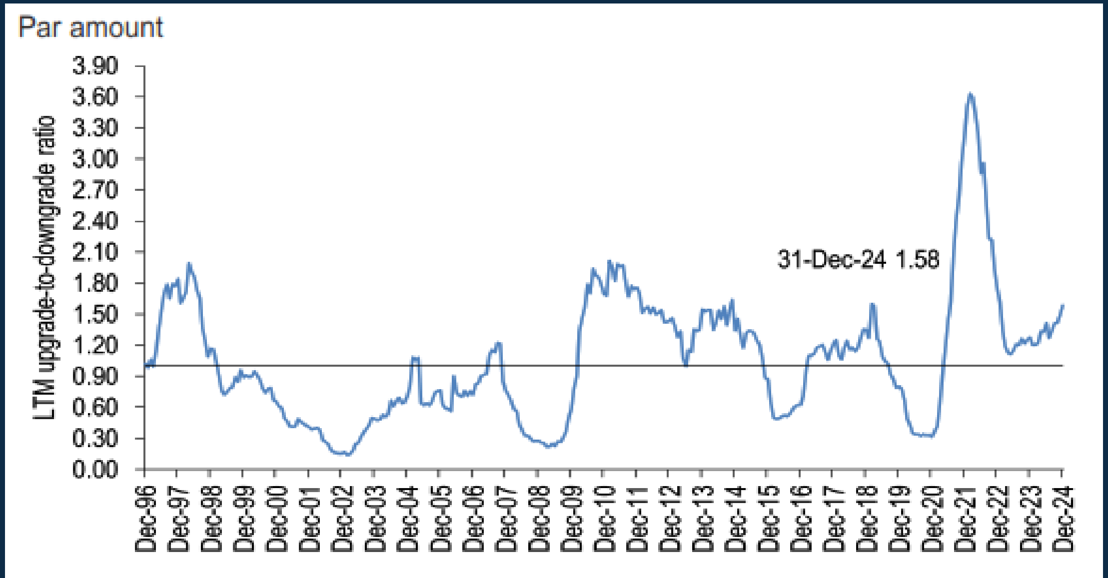


Loan issuer-weighted recovery rates



Source: JP Morgan Default Monitor 2025-01-01

HY Bond Upgrade/Downgrade Ratios



Loan Upgrade/Downgrade Ratios

Source: JP Morgan Default Monitor

High Yield Bonds

- 2024 number of upgrades (307) outpaced downgrades (252); by volume upgrades ($517B) also outpaced downgrades ($327B)
- LTM upgrade/downgrade ratio by issuer was 1.2:1 and by volume 1.6:1
  - Compare to 2023 of 267 downgrades versus 266 downgrades, but by volume upgrades ($486B) outpaced downgrades ($381B)
- 2024 saw 19 rising stars ($39B) and 7 fallen angels ($9B), resulting in a net market contraction of $30B)

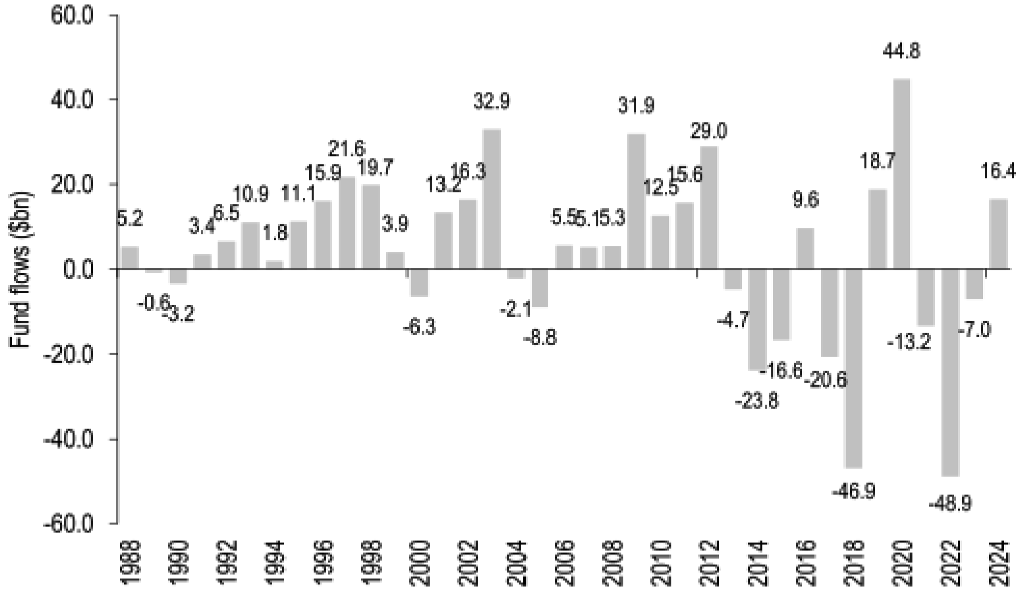
Leveraged Loans

- Loan ratings actions remained negative in 2024 with 356 downgrades ($377B) outpacing 212 upgrades ($267B)
- LTM upgrade/downgrade ratio by issuer was 0.6:1, by volume 0.71:1

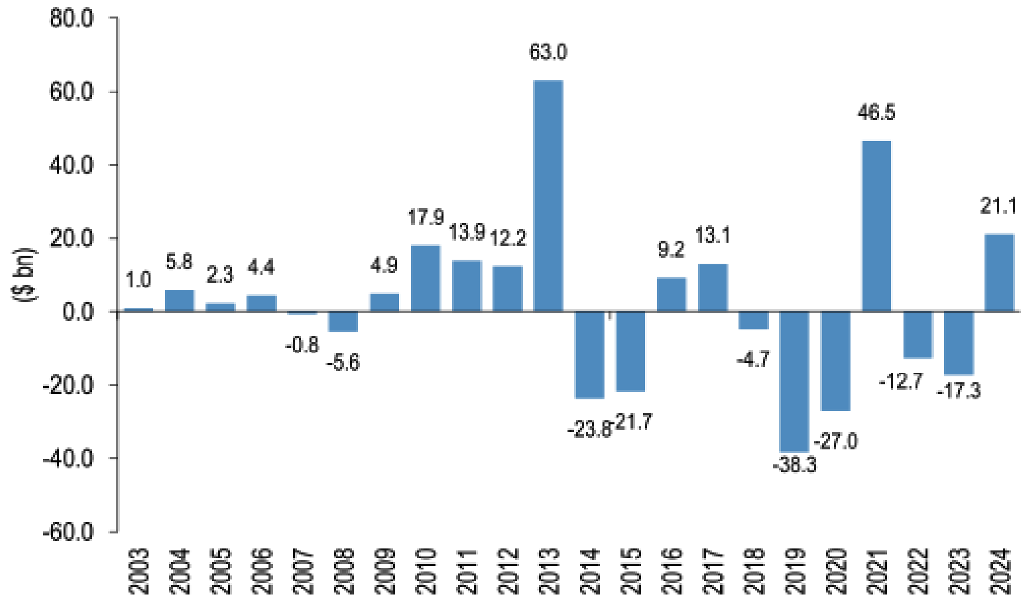
Appendix – Technicals

2024 Leveraged Finance Fund Flows

High yield mutual funds flows



Leveraged loan mutual funds flows

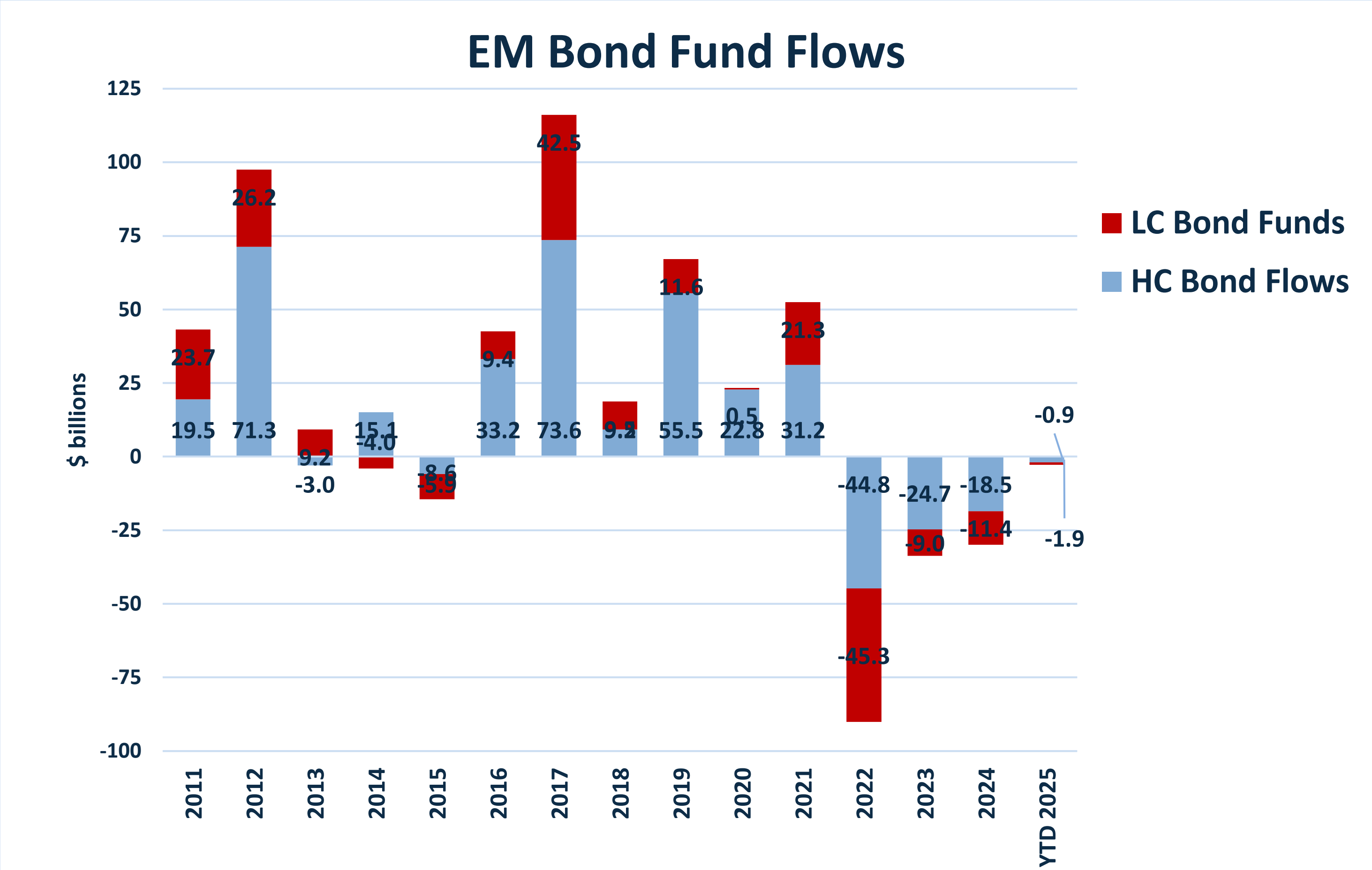


- **HY Fund Flows**
  - In 2024, pivoting from negative technicals in the prior 3 years, High Yield funds saw $16.4bn of inflows.
  - Notable were two outflow months last year, one in April and again in December when base rates rose in conjunction with more “hawkish” views of fewer rate cuts than anticipated.
- **Loan Fund Flows**
  - In 2024, pivoting from the negative technicals in the prior 2 years, Loan funds saw better inflows versus the bond market at $21.1 bn of inflows.
  - For the most part loan funds have been experiencing inflows since late 2023 and saw two-month reversal in Aug/Sep 2024.

Source: JP Morgan High Yield Bond and Leveraged Loan Market Monitor 2025-01-03

2024 EM Bond Flows

- EM Funds have seen outflows since 2022, but that has moderated in the last two years.
- In 2024, EM Funds saw outflows of $18.5bn out of Hard Currency and $11.4bn out of Local Currency strategies
- YTD (as of 24 Jan 2025) flows have been very modest (total outflows of $2.8bn)



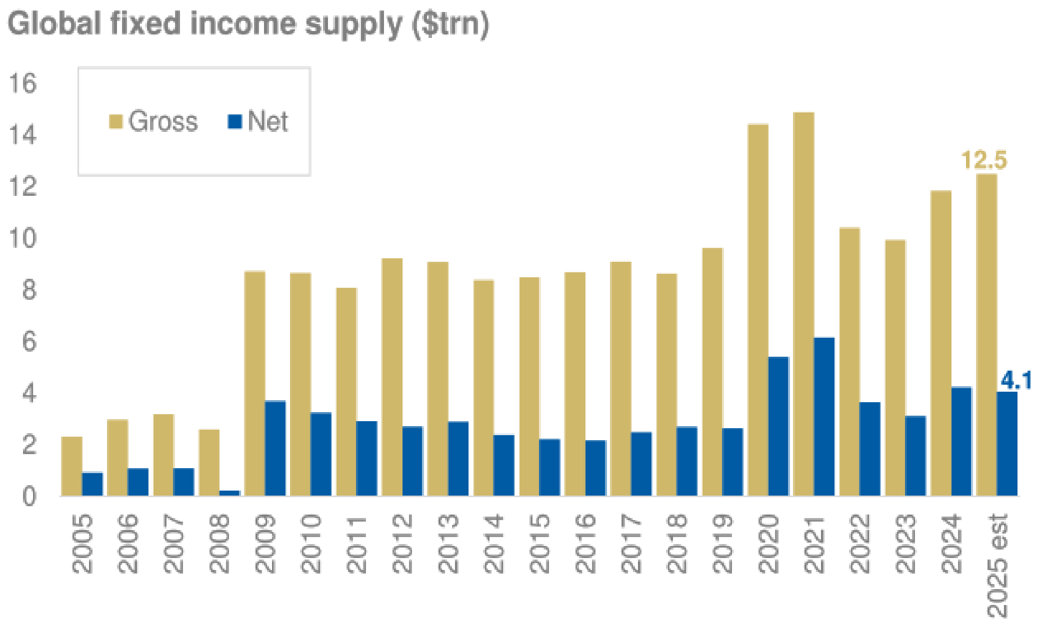
Source: JPM EM Flows Weekly.

Global Fixed Income Supply Forecast

- Morgan Stanley predicts that *"net issuance could be lower than expected, even as refinancing a large maturity wall and debt funding for M&A activity drive supply higher this year.*
  - This statement is a pushback on the current narrative in the market that significant fixed income supply in 2025 could push yields higher, especially in the context of US Treasuries and a larger fiscal deficit that will require additional funding, more issuance and more term premium.

- Rationale behind MS' forecast:
  - Uptick in M&A leads to higher corporate bond supply, but better investor sentiment will drive further demand for spread product
  - Demand for spread is already demonstrated in still strong inflows remains into fixed income products
  - Fixed income yields also remain attractive to buyers
  - Deregulation may also spur demand from banks for fixed income products

MS estimates $12.5 trillion of 2025 gross supply, up 5% vs last year; $4.1 tn in net supply.
Over 50% will come from G7 Govts.



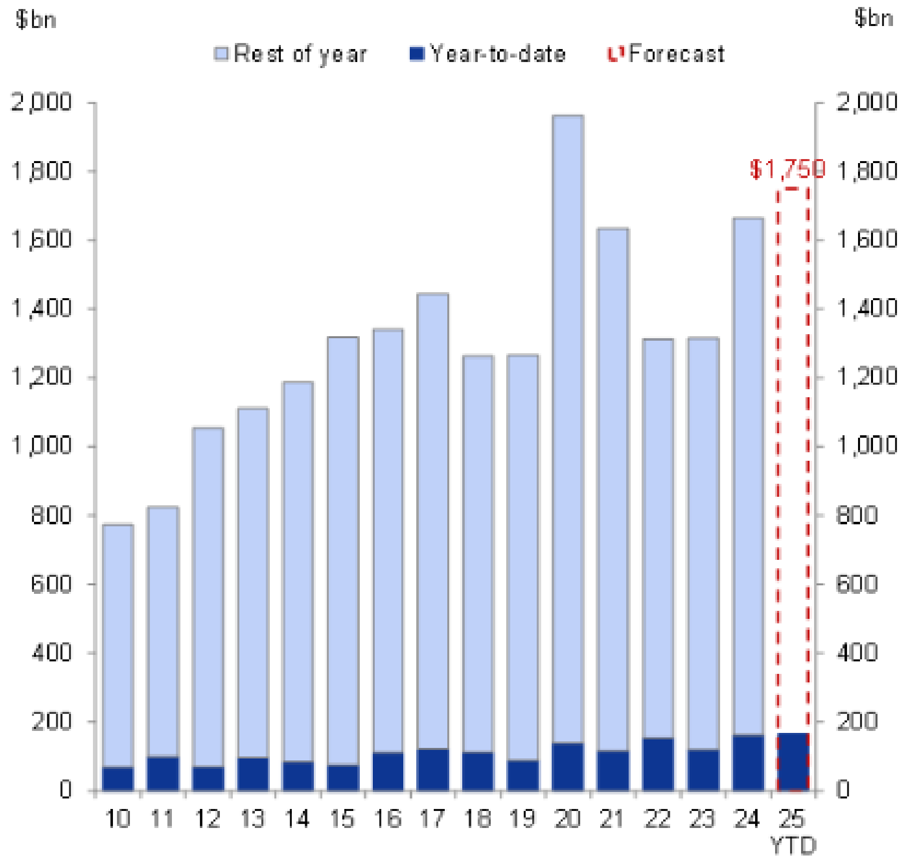
Source: MS Cross-Asset Flows and Allocations – 2025 Global Fixed Income Supply Outlook

US IG Bond Issuance Forecast

- GS predicts IG Supply issuance to outpace last year's figures
  - Expected total gross USD IG supply of $1.75 tn, up % from last year's total of $1.66 tn.
- Reasons cited:
  - Environment for MA deals has improved significantly over the last several years, given the potential deregulatory focus and the resilient economy
  - GS forecasts above trend real US GDP growth of 2.6% versus consensus of 2.1%
  - Approximately $1.9 tn in IG bonds will mature over the next two years, which adds to new issuance for refinancing purposes
  - Risk appetite for IG bonds remains high, as evidenced by low new issue concessions, historically low spreads, strong mutual fund flows and an expected record year for foreign demand.

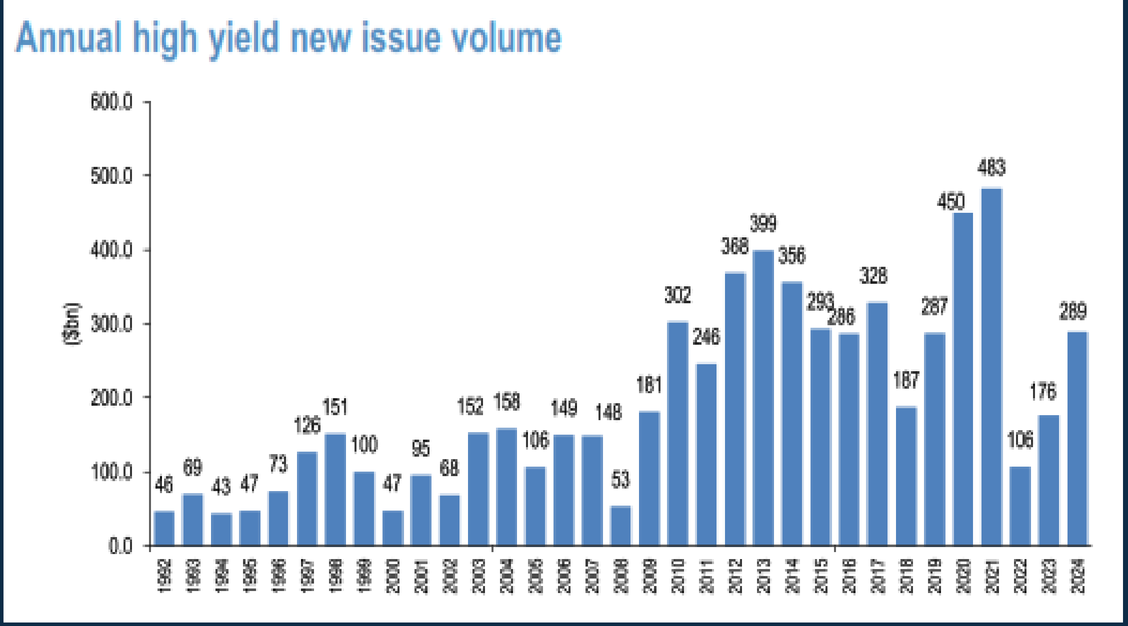
Exhibit 76: USD IG gross issuance

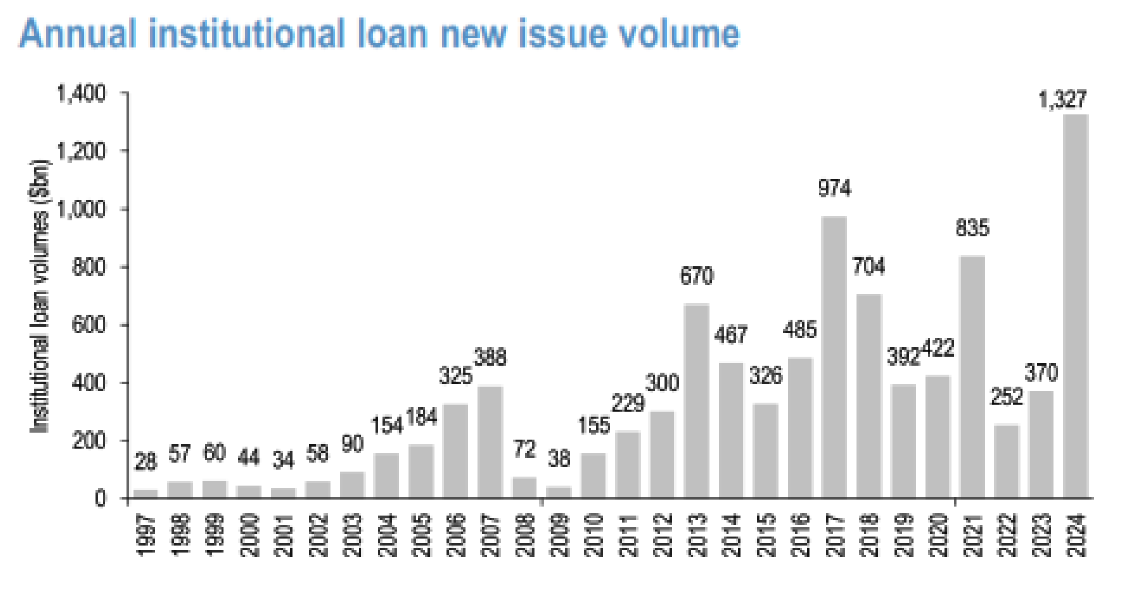
Historical investment grade issuance: Same period year-to-date vs. rest of the year



Source: GS Global Credit Trader, 2025-01-23

YTD New Issue Activity





Source: JP Morgan High Yield Bond and Leveraged Loan Market Monitor

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High Yield Bonds

- 2024 HY gross new issuance totaled $288.8B
  - Refinancing represented 75.5% of total gross volume, significantly > 2023’s 57.8%
  - Acquisitions financing 12.9%, significantly < 2023’s 37.4%
  - General corporate financing 7%
  - Dividend financing 4.3%
- A large portion of new issuance came from: Financials 15.4%, Energy 15.3%, Industrials 8.1%, Technology 7.3% and Gaming & Lodging 7.3%

Leveraged Loans

- YTD Loan gross new issuance totaled $1,327B, significantly > than 2023’s $370.1B
  - **Repricing 57.3%, up from last year’s 19.2%**
  - Refinancing 29.9%, much < 2023’s 58.7%
  - Acquisition financing 8.1%
  - Dividend financing 2.8%
  - General corporate financing 1.1%
- A large portion of new issuance came from: Tech 16.4%, Services 13.2%, Financials 11.9% and Healthcare 10.1%

European Non-Financial HY Issuance

Table 1: European Currency Non-Financial High Yield Issuance History, €bn

	Issuance	Redemptions	Net Issuance	Coupon	Net Minus Coupon
2012	37.4	15.6	**21.7**	11.5	10.3
2013	75.7	26.7	**49.0**	13.8	35.2
2014	83.7	49.7	**34.1**	15.3	18.8
2015	75.9	51.1	**24.9**	16.4	8.5
2016	59.5	60.6	**-1.2**	16.3	-17.4
2017	101.2	84.7	**16.5**	15.9	0.6
2018	65.2	50.3	**15.0**	14.1	0.9
2019	87.0	70.4	**16.6**	13.9	2.7
2020	103.3	46.3	**57.1**	14.1	42.9
2021	149.9	66.0	**83.9**	15.6	68.2
2022	31.8	34.3	**-2.5**	17.7	-20.2
2023	57.5	55.9	**1.6**	18.3	-16.7
2024	118.6	97.4	**21.2**	18.0	3.1

Table 2: European Currency Non-Financial High Yield Bond Issuance History

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Issuance (€bn)	75.7	84.1	75.9	59.5	101.2	65.2	89.0	103.3	149.9	31.8	57.5	118.6
Number of Bonds	216	220	176	145	233	163	184	206	307	72	128	242
Average Bond Size (€mm)	350	382	431	410	434	400	484	502	488	442	449	490
3-5 Years	7%	4%	8%	7%	6%	11%	10%	8%	8%	20%	14%	7%
5-7 Years	47%	42%	26%	34%	40%	44%	48%	57%	51%	59%	66%	70%
7-10 Years	42%	46%	51%	52%	45%	40%	36%	30%	37%	17%	19%	20%
10+ Years	3%	8%	15%	7%	10%	5%	5%	4%	3%	4%	0%	1%
Senior Secured	37%	42%	37%	38%	42%	46%	44%	39%	44%	59%	50%	58%
Senior Unsecured	53%	48%	53%	57%	56%	49%	45%	46%	44%	27%	33%	28%
Corporate Hybrid	9%	10%	10%	5%	2%	6%	10%	15%	12%	13%	17%	14%
% Floating	7%	10%	5%	9%	12%	13%	10%	5%	8%	18%	15%	21%
% BB	45%	40%	49%	58%	55%	46%	65%	60%	53%	49%	56%	51%
% B	44%	51%	38%	34%	35%	50%	29%	32%	39%	46%	38%	47%
% CCC	7%	5%	6%	2%	7%	3%	4%	2%	5%	3%	0%	1%
% NR	3%	3%	4%	1%	3%	1%	2%	3%	3%	2%	6%	2%

Source: JP Morgan European High Yield Q4 and FY24 Review 2025-01-06

EMD Issuance

- First week of 2025 saw a record issuance of $33bn in EM sovereigns, primarily from IG issuers
- JPM as of 2025-01-15 forecast gross new issuance in EM sovereigns of 169 bn, down slightly from 2024's 183.6 bn.

EM sovereign gross and net issuance since 2021($bn)

US$bn	2021	2022	2023	2024	2025	2025F
Gross issuance (b + c)	**182.5**	**97.0**	**133.8**	**183.6**	**33.0**	**169.0**
New issuance	162.5	93.0	125.9	178.0	33.0	169.0
Taps	20.1	4.0	8.0	5.6	0.0	5.6
Estimated cash flows (e + f)	**111.7**	**110.8**	**101.2**	**132.8**	**24.9**	**155.4**
Amortizations	57.0	55.4	43.7	70.6	16.0	91.3
Coupons	54.7	55.4	57.4	62.1	9.0	64.2
Buybacks	2.9	13.1	9.3	9.3	0.3	0.3
Net issuance (a - e - g)	**122.6**	**28.6**	**80.8**	**103.7**	**16.8**	**77.4**
Net financing (h - f)	67.9	-26.8	23.3	41.6	7.8	13.3

Source: Morgan Stanley EM Sovereign Credit Monitor 2024-01-09

Large Magnitude of Periodic Coupon Payments Needing to be Redeployed into FI market -- Another Driver of Robust FI Demand

Summary of GS Views:

- Source of strength in demand technicals comes from embedded dry powder in credit portfolios
- As coupon levels continue to move higher, the amount of reinvested capital into credit markets will also further grow.
- Below charts show annual coupon payments on USD and EUR corporate bond portfolios with remaining time to maturity of at least one year, including non-index eligible bonds.
  - USD IG/HY bonds generate coupon payments of $463bn in 2024
  - EUR IG/HY bonds generate coupon payments of €95 bn
- In terms of absorption of new issuance, if entirety of payments are reinvested into the respective bond markets:
  - 77% of the forecast $600bn of net issuance expected in the US bond markets would be absorbed
  - 63% of the forecast €151bn of net issuance expected in the EUR bond markets would be absorbed

Exhibit 7: USD bond portfolios will generate total coupon payments of $463 billion in 2024

Estimated annual coupon payments on USD IG and HY corporate bond portfolios

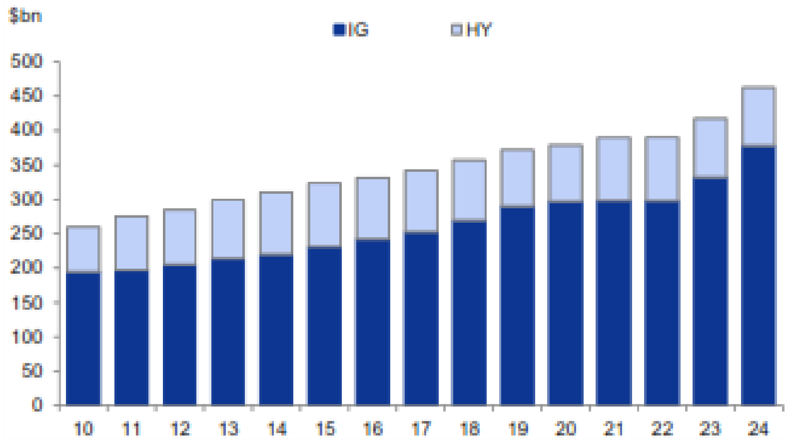
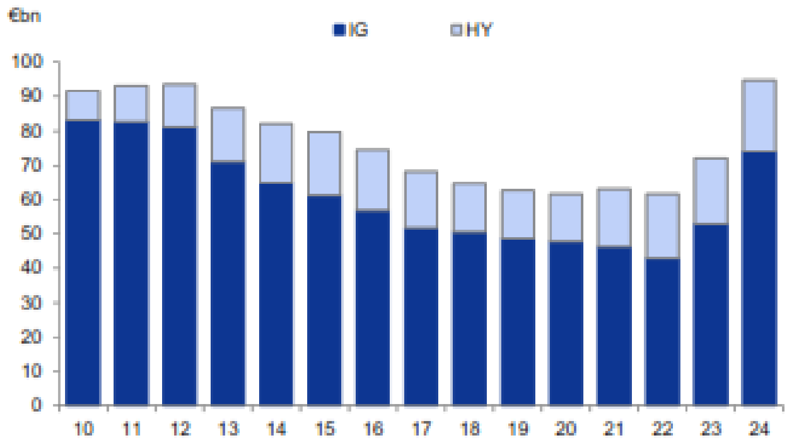


Exhibit 8: EUR bond portfolios will generate total coupon payments of €95 billion in 2024

Estimated annual coupon payments on EUR IG and HY corporate bond portfolios



Source: GS Global Credit Trader – 2024-03-21

Maturity Walls in Leveraged Finance

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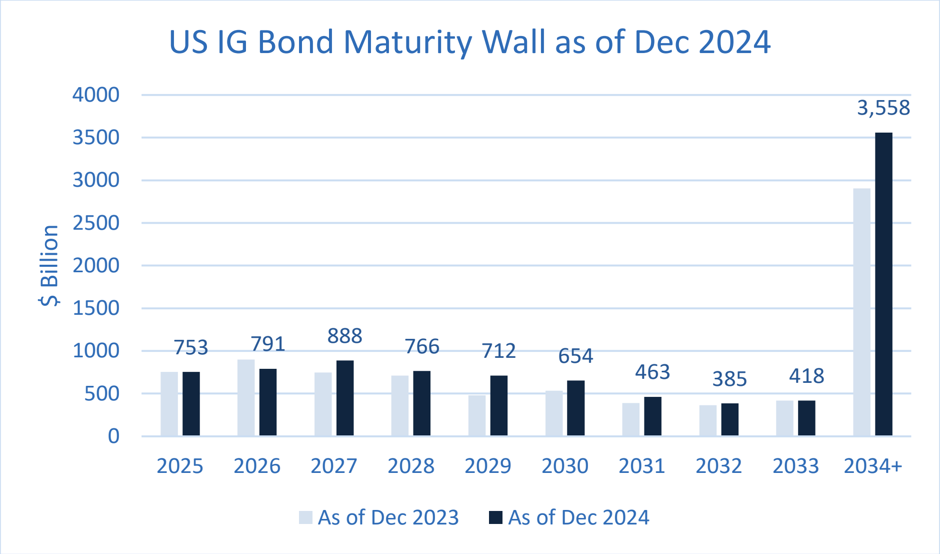
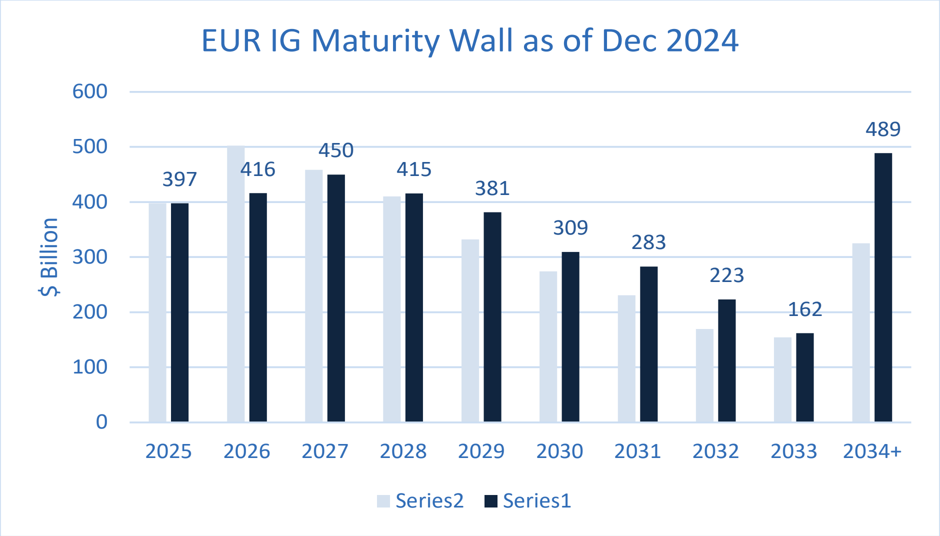
Investment Grade Bond Maturity Walls

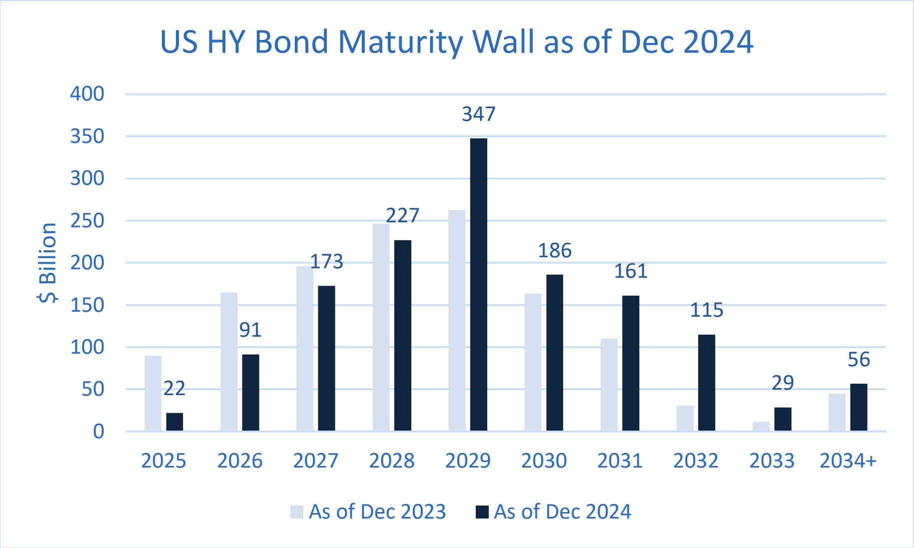


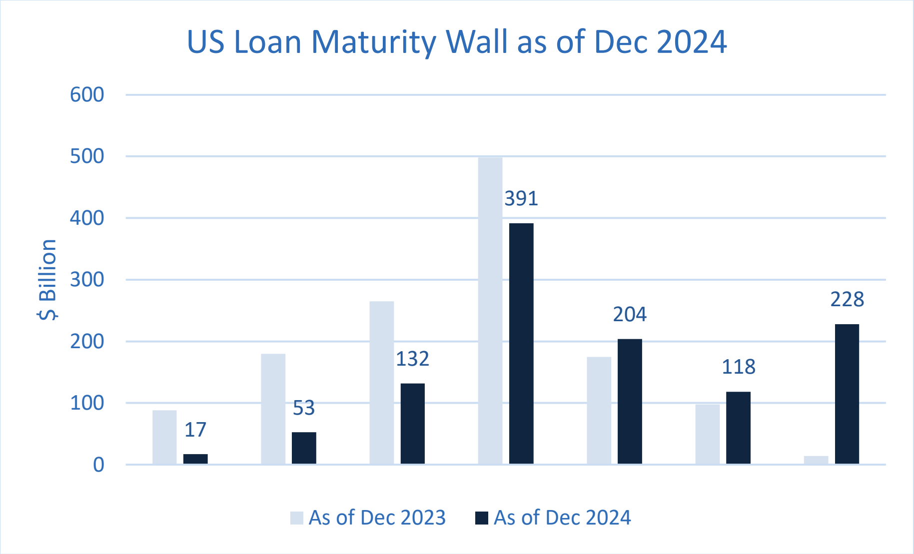


- 26% of maturities over the next decade will come due over the next 3 years in US IG bonds
  - $750-$900 bn in ’25, ‘26, ‘27
- In the European IG Bond market 36% becomes due over the next 3 years, saw more improvement in the maturity wall YoY in Europe vs the US
  - $400-$450 bn in ‘25, ’26, ‘27

Sources: BofA High Yield Credit Strategy Chartbook. As of Jan 2025.

US Leveraged Finance Maturity Walls

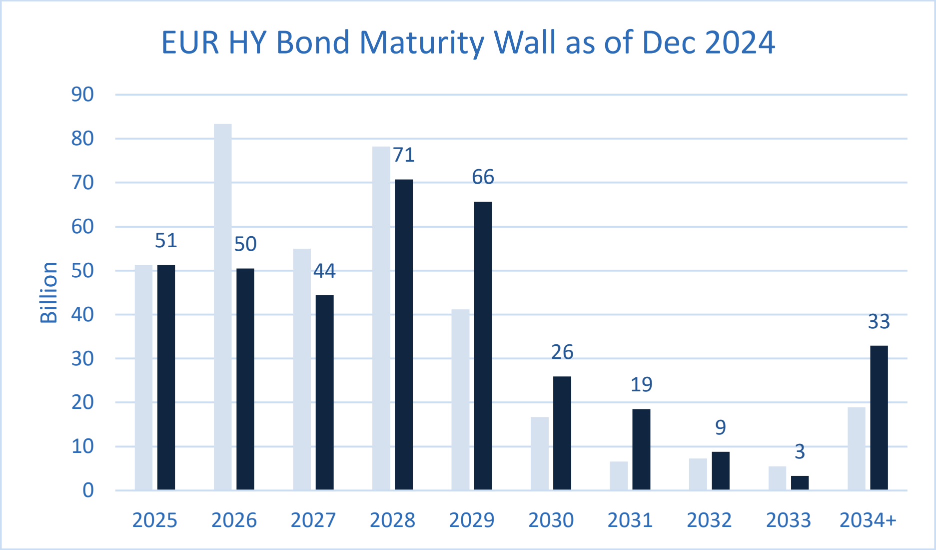


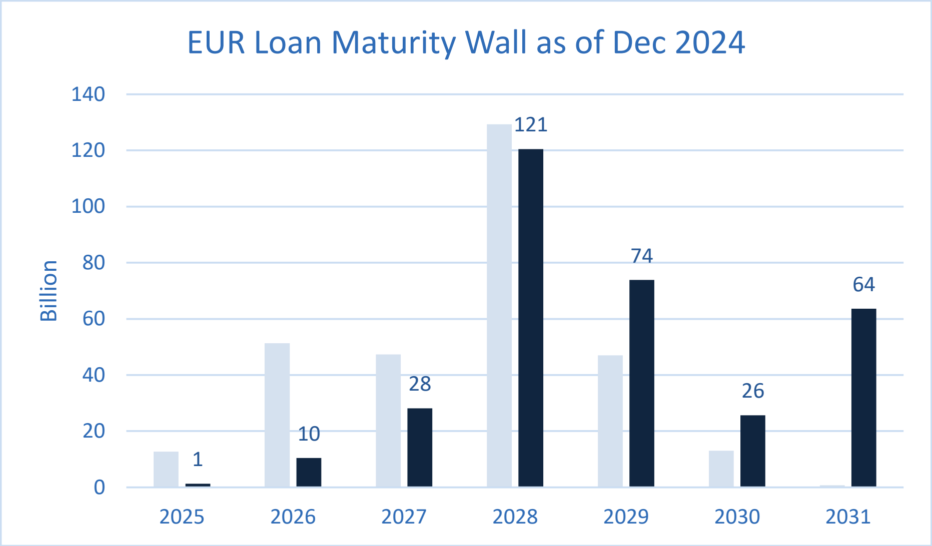


- Maturity walls profile has improved since YE 2023, with maturities pushed forward into 2029 and beyond
- $286 billion of HY bonds are due to mature from 2025-2027, representing 20% of total maturities over the next 10+ years
- $201 billion of Loans are due to mature 2025-2027, representing 18% of total maturities over the next 7 years

Sources: BofA High Yield Credit Strategy Chartbook. As of Jan 2025.

EUR Leveraged Finance Maturity Walls



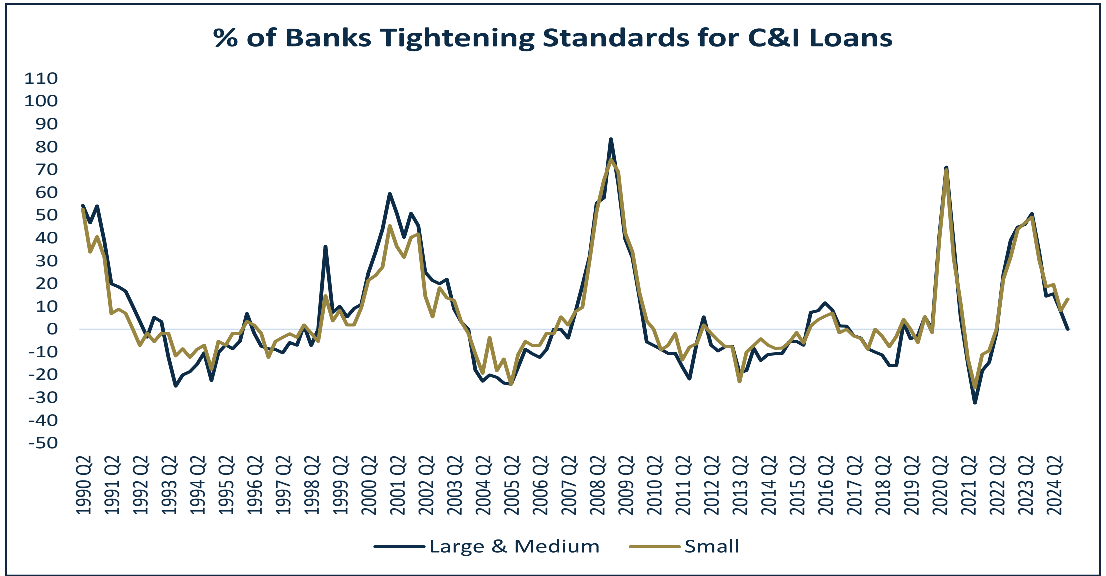


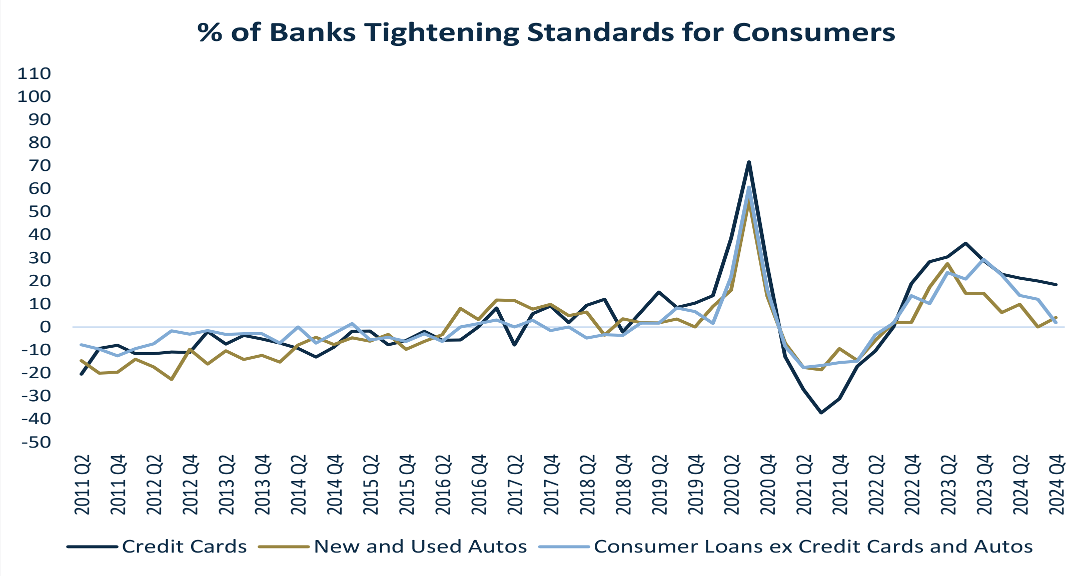
- EUR HY Bond Maturity Wall profile is more front-ended relative to the US market, but it has improved YoY, where nearer term maturities appear to have been dealt with.
- 146 billion of European HY bonds are due to mature from 2025-2027, representing 12% of total maturities over the next 10+ years
- $40 billion of EUR Loans are due to mature from 2025-2027, representing 12% of total maturities over the next 7 years

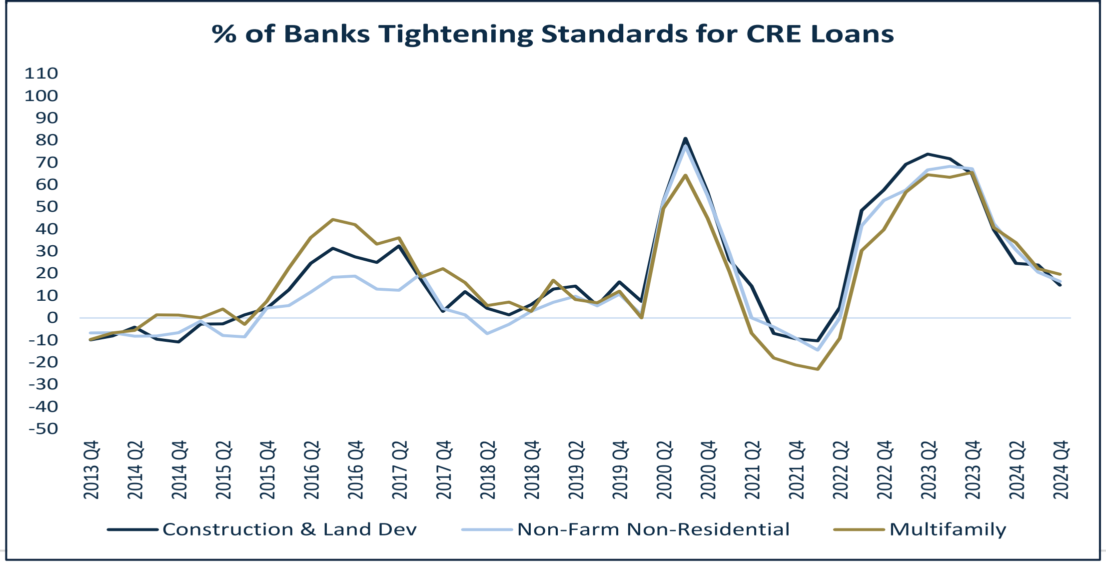
Sources: BofA High Yield Credit Strategy Chartbook, As of Jan 2025.

Appendix – Capital Markets Conditions

U.S. Banks Lending Standards October 2024 Survey







- Banks reported unchanged lending standards for commercial and industrial (C&I) loans to large and middle-market firms but tighter standards for loans to small firms.
- Banks reported weaker demand for C&I and CRE loans
- Banks reported tighter lending standards for credit cards but basically unchanged standards for auto and other consumer loans.
- Banks reported they were more likely to approve credit card loans to prime or super-prime borrowers, less for near-prime or sub-prime compared to earlier in 2024

Source: Fed October 2024 Senior Loan Officer Opinion Survey on Bank Lending Practices

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Appendix – Market Composition

U.S. Leveraged Finance Market Size

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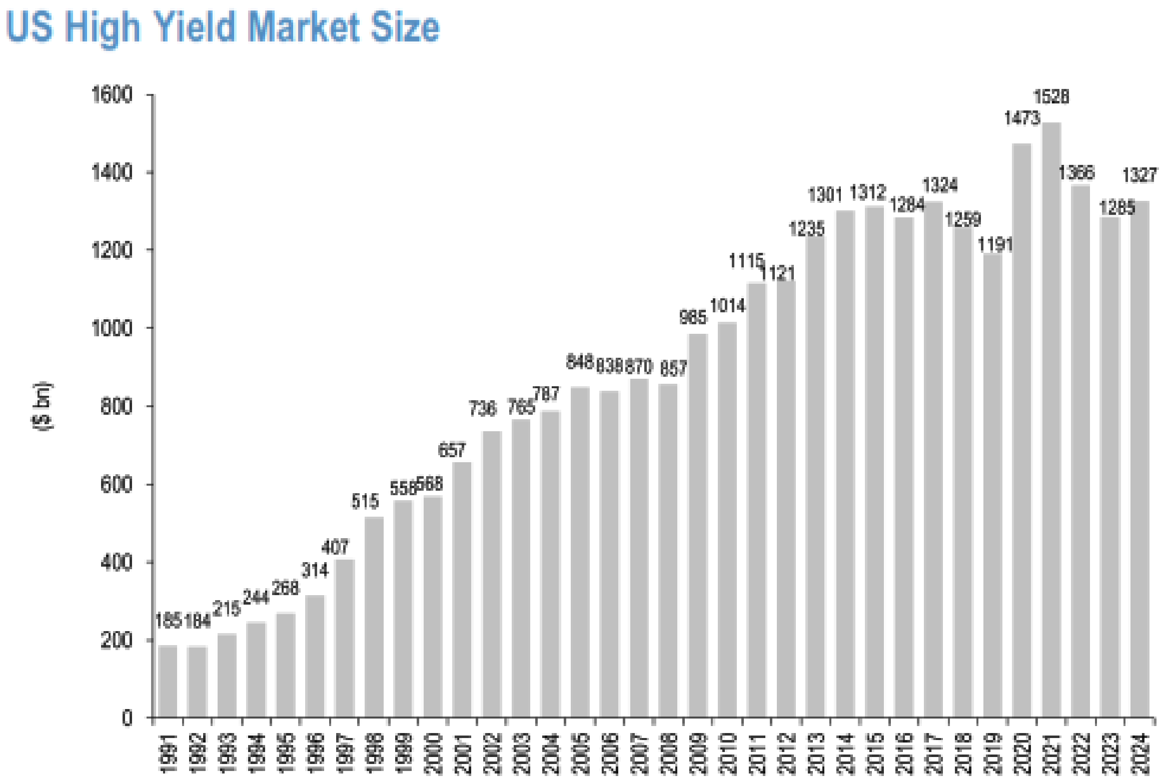

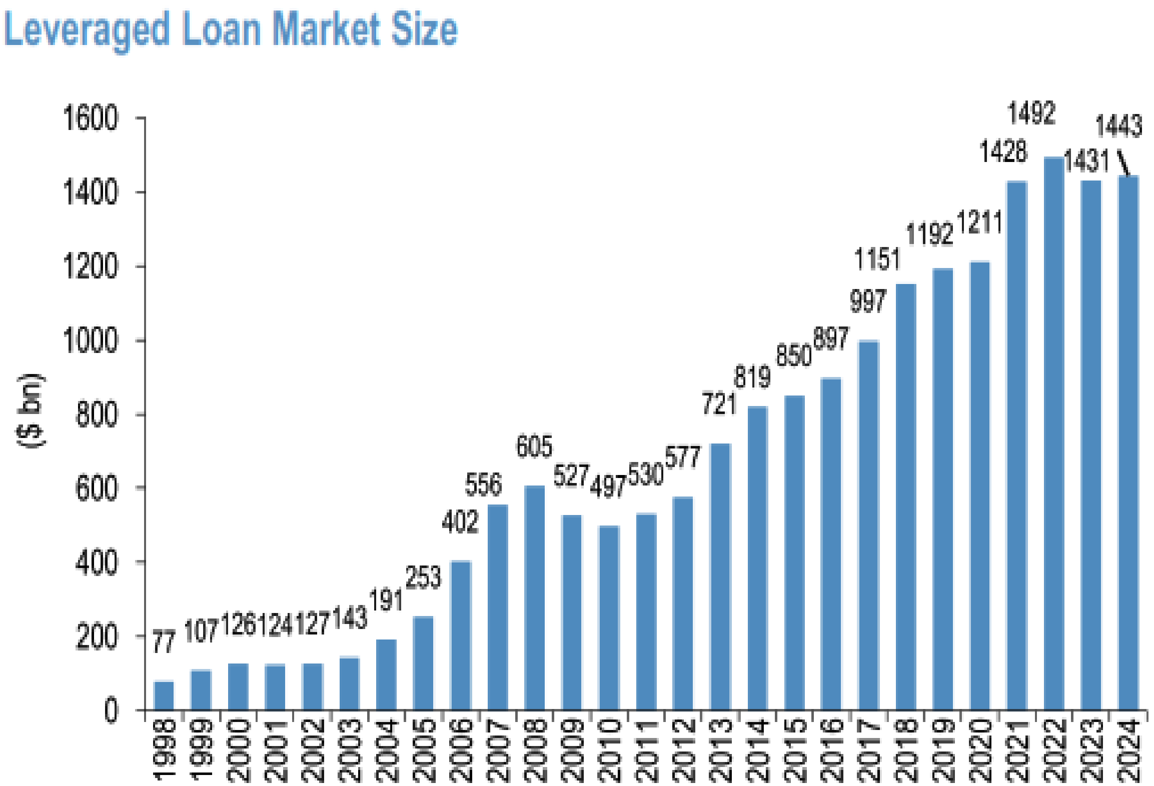

- High Yield market size grew in 2024 to 1.33 tn
- Loan market size grew modestly to 1.44 tn

Source: JP Morgan High Yield and Leveraged Loan Market Monitor. As of Dec 2024.

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Disclaimer

Considerations and risks related to asset classes:

Equity investments involve a high degree of risk. Equity securities may decline in value due to factors affecting securities markets generally, and equity securities generally have greater price volatility than debt securities/investments. Equity securities of certain jurisdictions may experience more rapid and extreme changes in value and may be affected by uncertainties such as international political developments, currency fluctuations and other developments in the laws and regulations of countries in which an investment may be made. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Debt investments (such as, but not limited to, investment grade, high yield, emerging market debt, asset backed securities and insurance linked securities) involves special considerations and certain risks, including risk of default and price volatility, and such securities are regarded as being predominantly speculative as to the issuer's ability to make payments of principal and interest.

LDI and equity overlay strategies may invest and trade in many different market strategies and instruments (including securities, non-securities and derivatives) and may employ different investment, hedging, leverage and arbitrage methodologies, so the risks of those would be material to understanding the risks and benefits of the portfolio. Counterparty and ISDA arrangements may pose potential risk. Furthermore, derivative strategies may be exposed to the risk of market disruptions, volatility, and governmental interventions.

Illiquid investments (such as, but not limited to, private credit, private equity and infrastructure):

General/Loss of capital. Investment involves a high degree of risk. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Limited liquidity. Investments in private markets may result in restricted liquidity since withdrawal rights are limited and interests are not freely transferable or redeemable. There is unlikely to be a secondary market for private market investments interests.

Volatility. Investment techniques used may include the use of leverage and derivative instruments such as futures, options and short sales, which could amplify the possibilities for both profits and losses and may increase volatility.

Hedge Fund investing is speculative and involves significant risk including the risk of losing some or all of the invested capital. Hedge fund strategies may participate in the buying and selling of equity and debt securities, private investments funds, non-readily realisable investments, illiquid investments suspension of trading, concentrated investments, developed and emerging market investments. Hedge fund strategies may be exposed to risks stemming from usage of leverage, derivatives, futures, options, over-the-counter derivative transactions. Counterparty and ISDA arrangements may pose potential risk. Furthermore, hedge fund strategies may be exposed to the risk of market disruptions, volatility and governmental interventions.

Modelling Assumptions:

Forward looking return, volatility, and correlation assumptions have been derived by SECOR, and are based on a combination of: a) the historic performance of each asset class based on what we consider to be appropriate indices or suitable proxies, and over a period that we consider to be appropriate in light of prevailing market conditions (typically 10 years); and b) our judgement in relation to how historic performance, and its various components, may differ in the future. This may include, for example, ad-hoc adjustments to reflect our view that markets are over or under valued.

The resulting assumptions are assumed to be appropriate for asset and liability projections over the medium to long term i.e. 10 to 20 years or longer, and are net of all ongoing management costs and fees.

Expected returns for an asset class are generally built up from and include an allowance for our projected return on cash, inflation, spreads, risk premiums, liquidity premiums, potential losses, valuation adjustments, alpha for active management, management fees, other ongoing costs, and any other factors that we may consider are appropriate for the asset class and/or prevailing market conditions. Expected returns generally do not allow for SECOR advisor or fiduciary management fees, or any transition or rebalancing costs between asset classes or an existing portfolio.

A material risk factor is that the projected returns modelled are underpinned by historic market returns combined with SECOR's assumptions on future market returns, meaning that the projected net returns used for modelling portfolios may not be realised within expected timeframes.

Further details are available on request.