Panelists discuss fixed income opportunities to open the 2021 AICA Interval Fund Boot Camp & Manager Spotlight.

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Muhammad Gazi from Bain Capital Credit, Andrew Fox from Lord, Abbett and Co., Julianne Woodson from Blackrock, and Kevin Petrovcik from Invesco were panelists at the AICA Interval Fund Boot Camp & Manager Spotlight held on March 31, 2021. The moderator of the panel was Michael Hawn of UMB Fund Services. Read the transcript from the discussion below to hear the insight from the panelists.

Michael Hawn Muhammad Gazi Andrew Fox Julianne Woodson Kevin Petrovcik

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Interval Fund Boot Camp & Manager Spotlight - AICA (aicalliance.org)

Michael Hawn: Hello everyone, this is Michael Hawn with UMB Fund Services. And today I am pleased to present Panel #1, with a focus on fixed-income and credit. And today we have our four guests, we welcome them and we have about 30 minutes to dive into some great topics and then there will be a 10 minute Q&A session. We would like this to be as conversational as possible so we encourage interaction between the panelists. And I will ask each panelist for a quick bio of their fund and who they are, and then ask a question. So I will go ahead and get right to it with Muhammad.

Muhammad joins us from Griffin, one of the oldest funds out there in the space. So Muhammad, hi and if you could just give us a quick overview of yourself and your fund, and then I'm going to ask you a couple questions.

Muhammad Gazi: Sounds good, Michael. I hope everyone can hear me okay. Great, thanks Michael. Thanks for having me here today. Just to give you a quick background about myself, I'm a product specialist and investment committee member of the Griffin Institutional Access Credit Fund, actively managed by Bain Capital Credit. Our focus for today's conversation is going to be on the credit interval fund, which is a newer fund than our real estate fund which has been around for 5+ years. This fund is managed by Bain Capital Credit, as you may know is one of the largest privately held private investors in the world. The manage about $105 billion in assets across private equity, private credit, ventures, real estate, and life sciences. The Griffin Institutional Credit Access Credit Fund was designed to give access to the entire credit platform of Bain Capital Credit, which is about $40 billion in AUM. Prior to this fund there was no way to really access the credit arm of Bain Capital Credit. So this is a unique opportunity for non-institutional investors to invest alongside some of the nation's largest institutional investors and really get access to sub-investment grade credit exposure.

Michael Hawn: Thank you, Muhammad. My first question for you would be why did you choose an interval fund and not an ETF or an open-ended mutual fund?

Muhammad Gazi: Sure. So as I alluded to, at Bain we don't have an mutual funds or any ETFs. This is the first time we can really get access to the platform which is sub-investment grade platform for Bain Capital Credit. One of the primary reasons for selecting an interval fund over an ETF or mutual fund is to really match the underlying risk profile of the assets that we invest in with the liquidity profile of the fund structure. So what we're doing is sub-investment grade, so think of it as high-yield bonds, levered loans, private and middle market direct lending, substructure credit in terms of CLOs in distress. So even on the most liquid side of our spectrum would be a high-yield bond which takes about T+3 days to sell, bank loans can take anywhere from T+7 to T+21 days to sell, and private credit could take even longer depending on the risk profile of the investment that you're making.

With the interval fund structure, what it allows you to is to kind of match that liquidity of the underlying asset. Rather than having an ETF which kind of trades at T+1 on a T+3 settlement, or just being predominantly of bank loans, the mismatch is difficult. So to align the risk profile is one of the reasons we decided to do an interval fund. Secondly, what the interval fund really does is to really capture illiquidity premium with a liquidity premium that's out there. Both in terms of complexity, both in terms of capital structuring, and both in terms of really taking risk when you're being paid to take risk. Like we alluded to earlier in the conversation in the first discussion, is that when you look at volatility in the market like we saw back in March of 2020, when you have a daily liquid fund you end up being forced to sell credits or companies that you really didn't want to. And you get hit by redemptions, forced redemptions lead you to sell. You have a list of securities that you want to sell, but as redemptions keep on coming in as volatility keeps on going on, you end up selling stuff that you really don't want. You end up selling stuff at discounted valuation.

With an interval fund structure, rather than being demanding liquidity, you become a provider of liquidity. You can really pick your spots, you can really select the credits that you want. You think of a name or a credit that you like, but you didn't like the pricing or you didn't like the yield on it. Now with the volatility that's been created in the market, you can really pick your spot, you can really pick your industry, you can really pick your credit, and really add value over long term for the investor. So I think that's where the interval structure works for Bain, and the interval structure works in a sub-investment grade market where liquidity tends to be patchy and where you need to look at long-term horizon for capturing returns and earn a stable income for your clients.

Michael Hawn: In a low yielding environment, Muhammad, where are you seeing the opportunities today?

Muhammad Gazi: Great, sure. So as I said, we specialize in sub-investment grade across the entire liquid and private spectrum. So if you were to look at where investors can go for yield today, the most general concepts that most people look at Barclays Agg or they look at investment grade corporate market for yield. If you were just to take a scan of the market today, you'll see about $15 trillion of assets creating a negative or sub-zero percent yield. Why would someone want to buy a German 10-year bond at a negative [inaudible at 0:06:28]. The answer is quite simple, it's price appreciation. So the income part is not there, it's the price appreciation that most of these investments are being bought by.

So when you look at a stable enhanced income for clients, we think right now if you were just a traditional fixed-income investor where you're getting about 1.5-2% yield for about four, four and half years of duration, while if you were to rewind the clock back about a decade ago you were getting 4.5% of yield for four and a half years duration exposure. I think investors today are taking a lot more duration risk, unintended risk to their portfolio for a lot less yield. So one and a half to ten yield for about six years of duration, simple math will tell you that a 50 basis points increase in rates would kind of wipe that income and total return off for you. So we think what we are seeing today is we're seeing a lot of opportunities across both the liquid and private credit markets.

I always like to remind investors that you should think of credit as an insurance policy, a bit like a contract. When it's the best time to write these policies is right after a natural disaster, or in terms of credit, right after a lot of dispersion and volatility in the market. This is where the spreads are the widest. This is where you get paid to take more risk. This is where you get paid in terms of premium and illiquidity. So if you were to, yes, we have seen the markets have rallied. We have seen that private markets have come in from the highs that we saw in 2020. But even today if you were to look across the high-yield credit spectrum, you're still finding some great opportunities. Spreads are still wider than the two and the five year lows that we have seen over the last three to five years. There's still room for spread compression plus an opportunity to take about 5-6% in yield. And in addition this is even more pronounced in the private credit markets. Today you're seeing private credits yielding about 7-8%, so 150 to 200 basis points higher than they were yielding back in early 2020 before the pandemic hit, or even higher than 2019. There's a lot of illiquidity premium to be captured in the private markets, in the middle market direct lending markets that we specialize in and that we can add that exposure to clients.

And one other point I'll bring in is even though we generally look at the yield for the index or we just look at the yield for a particular asset class, having the relative value exposure rates and invest across the high yielding spectrum works in this environment because there's a lot of dispersion in the market today. If you were to just kind of take let's say the bank loan [inaudible at 0:09:16] bank loan exposure, you'll see there's 50% of the credits are still trading 150 basis points wider from where the index is trading. That tells me there's a lot of active management alpha to be added. That tells you that having the right industry selection, having the right securities selection will work in this environment and that's where we think the opportunity set is today.

Michael Hawn: Thanks Muhammad. Andrew, why don't you tell us about yourself and your fund, and I'll ask you a couple questions.

Andrew Fox: Thanks Michael, and thanks everyone for taking a little time of this. So I'm Andy Fox, I'm an investment strategist at Lord, Abbett and Co. We're a private partnership based in Jersey City, New Jersey, managing about $240 billion in assets currently, of which $190 is fixed-income, both taxable and tax-free. So we're going to talk a little bit about our Credit Opportunity strategy today. Just kind of setting the backdrop and maybe spring boarding off some of the things that Muhammad said. I think investors really need to understand how much the world has changed over the last 15 years, and a big part of that really has been the regulatory environment. So when you kind of key in on some of the things Muhammad said, negative yield on sovereigns, and then you go and say, "Let's add a little bit of risk, maybe we'll look at something domestic like the Barclay's Agg." Then you find that there's just no pick-up at all in terms of yield. It's very much a duration product, interest rate sensitivity, very little credit. So you go next step, all right, let's leg into some credit. Go look at high yield.

The high yield index yield, if you look at the bonds within the index, about 60% of them, maybe a little bit north of that now, are yielding under 4%. So it's kind of like, where's the yield? And what's really changed is you've got this bifurcation in liquidity. So on the one hand you think about the 15 too big to fail guys, the systemically important folks, they can't use their balance sheets the way that they used to. Right before the crisis, the Financial Crisis in 2008, you saw their assets at about $5 trillion, now it's about $3.5 trillion. So they've really, really pared back on the sell side. On the other hand a lot of the money went to people like us. Lord Abbett had a certainly good decade. ETFs rose as well. And those are structures that in particular really prize liquidity. Muhammad touched a little bit on T3 trading, that's the good side of things, you can get that done in a mutual fund. You start messing with things that have a little bit longer settle or a little bit less liquidity, they're hard to hold.

So going back to high yield index for a second, if you were just to look at equalizing everything, just high yield bonds, all the same credit quality, looking at like BB for example. Largest quartile in terms of issue size versus smallest quartile, there's a persistent pick-up just for going smaller. It's not explained by credit, we've normalized for credit. Not explained by asset class, it's just high-yield bonds. It's just the fact that it's smaller. So the idea for us was, like the story I'm basically telling you, it's the private credit story. The idea being, hey look, you can get out of the

daily redemption type stuff, get into something that's locked in for a little while. But now it's let's lock it down for five to seven years. So you either have T3 settlement or five to seven years.

Our view was there's a white space in between those two within the public markets kind of focusing on some of the smaller more misunderstood type stories, and that's really where we've decided to play with this strategy. So we do a lot of things. We do high-yield, we do investment grade, we do loans, we do structured, CMBS, ABS, sovereign and so forth, EM. Really kind of runs the gamut, even did a little bit of converts. But the idea here is that liquidity has a value, as Muhammad touched on, and like any other risk factor it prices differently across markets and through time. The same way credit does, the same way term does. So the idea here is if you take a multi-sector approach, which is something we've been doing since 1971, you can take advantage of those mispricing's as you go through time.

Michael Hawn: Andrew, do you use leverage in your fund? And what is your current focus would you say?

Andrew Fox: Yeah, sure. So we don't use leverage. We can use leverage. The reason that we don't, we're a little bit different than some of the other strategies in the marketplace. We are not trying to just monetize illiquidity. In other words, we don't want to build a factor type strategy, go out and buy 1,000 line items, lay a quarter turn on it and pick up the yield. That's a fine strategy, there's nothing wrong with it at all, but this is just more of an alpha approach. So we have 70-90 ideas in the portfolio, that works out to 100-120 line items. We might own a couple things a few different ways, and I can give you some examples of that. But the idea being that we want these to be idiosyncratic credit ideas. That hopefully if they play out, we do our credit work over time, are going to be a little bit less correlated than the broader credit markets. And the thinking was if you lay leverage on it, if that's your strategy you are really kind of introducing potentially a very macro type of a story into the overall mix. And the yield to worst in the portfolio is around eight right now, so we kind of feel like, hey, we're in a decent spot in terms of what we're able to offer clients.

In terms of what we are interested in right now, and this is kind of like the story of 2020 going into 2021, that was the thing that's different versus private credit. Private credit, who they came to the party with is who they left with. And in the fullness of time that might have been fine, but there probably some good opportunities in the interim to do some trading. So currently we have somewhat of a reopening focus, and again these are idiosyncratic ideas so we're not being super thematic, but you kind of look at it and see that there are those sorts of ideas. And what we're really focused on is what we would call discarded optionality. So in other words, kind of finding good solid credits that are going to pay us our interest, they're going to pay us our principal, be able to roll over the debt. They've got attractive yield to worst, good IRRs, but there's something that we've identified that we think may allow us, rather than kind of collecting that yield over let's say a three-year term, we could pull that forward into the current period.

So some examples of that would have been like regional gaming. We had some positions, some small regional gaming names, specifically with Native American casinos, sovereign nations, they don't have to shut down even if the state tells them they've got to shut down. They've done a very nice job in terms of social distancing and so forth, making sure that they can remain

operating. But at the same time as you're starting to see vaccination, you're starting to get a bit of a pull-forward that they are in a Covid in an environment three months, six months, 12 months, they're survivors, they'll be okay. They're not doing great but they can service their deck. If you do get somewhat of a reopening, doors are open back up fully, they can pull some of that forward. So we've seen some of that there. I don't want to filibuster here, just giving you a sense of what we're doing, maybe we can save some of the specifics for Q&A.

Michael Hawn: Perfect, thanks. Julianne, can I ask you about yourself and your fund? And then I'll ask you a couple questions

Julianne Woodson: Yeah, absolutely. Sole woman on this panel, I'm happy to take 30 seconds and spend some time on my background. I'm a managing director and a product strategist at BlackRock within our global credit business. I have been with BlackRock for about 13 years and worked on products spanning the risk-return and liquidity spectrum, everything ranging from daily liquidity mutual funds on the fixed-income side, now credit, to fully private funds across a range of different strategies. Everything from private credit to more nichey strategies like aviation. And now in that middle area, interval funds.

As we look at our global credit business at BlackRock, it's about $140 billion, and that's going to be across your traditional credit asset classes, kind of the single strategy building blocks that Andrew and Muhammad have both talked about; high-yield, bank loans, CLOs. We actually do third-party CLO liability management as well and we have our own CLO origination business at BlackRock. Some of you may know that, others may not. We also do multi-strat credit. Andrew talked about a multi-sector approach to managing credit portfolios, we have that as well. And then we've got a private credit arm.

And as we look at our interval fund, the Credit Strategies Fund or CREDX as we affectionately refer to it as, that's the only interval fund on our platform. And we hate, hate, hate saying something is a best of, "It's the best of opportunity set", because that implies that there's a worst of somewhere. But as we look at CREDX, what it's really doing is incorporating ideas and investment opportunities from all of those different pockets of our business, really spanning the liquidity spectrum and spanning global credit markets. And all of that is in-house for us with teams and track records dating back 20-30 years in some cases. So this is sort of the one place where all of those different ideas are coming together.

Michael Hawn: How did you navigate 2020, Julianne?

Julianne Woodson: Yeah, so very good question, 2020 was a wild year. And I'd say while it was unexpected, I think it's where you saw the range of what we can do. Backing up for a second, the way that we think about our strategy is really to anchor the portfolio in private credit and then build 60% of the portfolio around that in allocating to liquid credit markets. So you're kind of combining the best of both worlds, tapping into the illiquidity premium that exists in private markets and the way that we think about private markets kind of out outyielding or out earning the liquids based to the tune of 3%. Tapping into that, and then supplementing by really going where the opportunities go on the liquid side.

I'd say as we thought about navigating last year, through the first quarter we were actually ramping our private credit allocation. We were probably running at 10-15% in private assets, and all of a sudden end of February comes, March hits, Covid hits, private markets freeze, things dry up and you had a tremendous amount of dislocation and volatility on the liquid side. The market fell out of bed, and even asset classes that were deemed liquid like the IG market, became massively illiquid. I'd say Muhammad actually talked about picking spots and wanting to make sure you pick your spots where you're going to deploy capital, and through the second quarter we did just that. So we actually put 25% of our portfolio in the U.S. investment-grade space. Now that is not a yieldy asset class, that is not contributing to a higher yield over time, but what it did was it buffered the portfolio against that short-term fall and dislocation. We captured something like a 20-30% return on that allocation, and by I want to say July, our strategy was back in the black and we had recouped our drawdown.

So we were able to tactically move really quickly on the liquid side of the portfolio, reposition in the part of the market where you did have Fed support, you had a ton of macro support, and that really positioned us well and set us up for the second half of the year, where I'd say we focused on opportunities outside the U.S., which is I think a really big differentiator for our strategy versus others, as well as deploying capital to the private opportunities set through the end of the third quarter into the fourth quarter and today. So as we look at how the complexion of our portfolio changed over time, I think you saw us use our max flexibility. I think you saw us tap into a range of opportunities, domestically and abroad, and really flex that private credit part of the portfolio which is now north of 30%, kind of creeping toward our 40% target.

Michael Hawn: Thanks Julianne. Kevin, please tell us about yourself and your fund, and I have a couple questions for you as well.

Kevin Petrovcik: Yeah. Well, I have to be introduced last because in the introduction John said that our fund was the first interval fund, so that's a quid pro quo, right? Anyway, my name's Kevin Petrovcik, I'm on the bank loan team at Invesco. We manage roughly $35 billion of senior secured bank loans globally and a variety of different products, and the interval fund is just one of the products that we manage the senior secured loan space in. We manage both U.S. and European senior loans, CLOs, ETF products, open-ended mutual funds, the gamut, institutional accounts and the like. I've been with Invesco now for 22 years and in the same job, exclusively focused on the senior secured loan asset class. So we had about $700 million when I joined about 22 years ago, we now have about $34 billion and we're part of the $1.3 trillion Invesco organization.

Michael Hawn: I'm going to ask you for your crystal ball, and could you tell us where you see product evolution in the credit space? And where are the opportunities for investors, where are we heading?

Kevin Petrovcik: That's a good question, and I think that there was a lot of product innovation that's happening out there. And actually one of the things that we pride ourselves is on innovation. So if you think about how even the interval funds, think about the formation of the interval fund back in the late 80s, it really was because the asset class was illiquid. So back then senior secured bank loans, we didn't have daily marked to market pricing, there really was very

little liquidity. The asset class has done extremely well over that period of time and it's grown, it's exponentially grown and developed into new asset class. I think the big difference between the interval fund concept back in 1989 for senior secured bank loans was more related to the liquidity of the asset class. Today it's more about the opportunity set. And like all the other panelists talked about, the opportunity set to take advantage in an interval fund structure.

The question specifically about what is the opportunity? And I see this opportunity and I'm very passionate about this opportunity, it really is ESG. We're seeing it in Europe, we're seeing it in Asia, we're not seeing it as much in U.S., we're definitely not seeing it in the retail space in the U.S. But really the fact that what we've done at Invesco, we have over 750 different private ratings for the issuers that we're covering in the marketplace from an environmental, social, and governance impact perspective. And I think that that's really going to drive some of the new product innovations that we're going to see over in the 2021-2022 timeframe.

Michael Hawn: Very good Kevin, thank you. I'm going to ask Muhammad one more question and then we're going to proceed to Q&A. Muhammad, should investors be worried about duration and inflation risk when allocating to fixed-income?

Muhammad Gazi: Sure. Michael, again this is a great question. Just to give you a context of what we do in this portfolio, we as some of the others on the panel mentioned, we are not in the market of taking active duration or inflation bets on this portfolio. Our focus is predominantly underwriting corporate cashflows. So picking industries, picking companies that we like, and lending money to those assets. Because we have a pull to par concept, we get both price appreciation as well as coupon in this market environment. So when you generally think about what's happening in the market today and what people are really worried about, which is a very topical question these days is that inflation is rising or those expectations of inflation rising. This could be a head fake, we don't know that. As well as rates are trending higher.

So in those market environments, how should investors worry about or think about their asset allocation? Do they really want to stick with the traditional power of their bucket or really think about different ways where they can get risk adjusted return and counter-end inflation effect? So when we think inflation or rates are going to be moving higher, we tend to focus more on the floating rate part of our bucket. Like Kevin mentioned, have the floating rate bank loans. So on a relative value basis we tend back that asset class. Similarly private credit tends to be more of a floating rate nature as well. So those asset classes tend to do better when inflations are rising or rates are increasing. And this question keeps on coming up again in terms of where the rates are going to be heading, what's your outlook on rates?

I think the Fed, which is in the business of managing rates, have gotten in wrong more often than right. The last 10 recessions in the U.S., almost more than 6% of those recessions were caused by a Fed hiking or a Fed mistake on rates. So I think from our perspective, yes, you should be worried about rates. You should look at rates from a macro perspective. But what you should be really looking at, if you really want to get an inflation adjusted return, you should be really looking at the higher yielding asset class, looking in alternative assets such as private credit, such as CLOs and structure credit. And really looking to capture that risk-adjusted return over a long

period of time. And really pushing yourself from a rising rate environment or a rate environment where you might see inflation tick higher.

Michael Hawn: Great, I think those were excellent overviews from all of you and really shows off your expertise. I want to open up to the audience Q&A, so I welcome seeing any questions come across my screen. I hope I can see them, if I'm doing this right. We will go ahead and wait for the Q&A, as everyone is probably working out their text. I want to ask, while we wait for the first question here, let me go back to Andrew. Andrew, tell us about your crystal ball and what are you planning for? New opportunities or stay the course?

Andrew Fox: Good question, and a broad question. So we're looking for new opportunities. You've got two things that are really animating the market right now. Number one is the pandemic, right? And the improvement there. And again, not the idea that this is over in three months, six months, 12 months, but the trajectory is good with some bumps and bruises. So market loves that. The other thing though that the market is focused on is a little bit more mixed, which Muhammad just addressed somewhat with inflation, which is the latest stimulus. Now the very much good thing about the stimulus is it is directed once again to the consumer, it is directed very much to the lower-end consumer, it is directed very much to the lower-end consumer in a very front loaded way. So a lot of the aid will be getting out very, very quickly.

And by some calculations, that aid will look somewhere in the neighborhood, once you roll in all the checks, credits, and so forth, a 20% pop in their income. Which is a pretty big number. So the consumer's already in pretty good shape to begin with. We think this puts them in even better shape. So that's an area that we are looking at right now. We are looking at consumer loans. We're looking at, within the ABS space, kind of down the stack autos. Things of that nature. The other side of that though of course is the inflation question, and the Fed has made pretty clear that they're not all that concerned with seeing us above trend. We've got the FAIT calculation now for figuring out when it's time to actually raise rates. We do think it's possible to see the yield curve back up a little bit here, so spreads going to be very important in terms of your total return. But again, it's going to be with a backdrop of an overall improving economic environment specifically geared towards the consumer. So that's really where a fair amount of our focus has been.

Michael Hawn: Thanks for that perspective. Back to credit, I'm going to back to Julianne, I've got a question. Where are the opportunities moving today in the credit markets, Julianne?

Julianne Woodson: Sure, so I think it's in keeping with a lot of what everyone else has talked about. I'm not going to beat a horse to death by any means. But Andrew mentioned the lack of yield in fixed-income markets, and I think the stat is something like two thirds of global fixed-income is yielding less than a percent and a half. And picking on high yield, Andrew mentioned close to 60% of the market trading at less than a 4% yield. If you actually look a year ago today, the same percentage of the market was trading at greater than a 6% yield. So we've seen such compression over the last year and it really feels like people don't know where to go. We have been looking at opportunities and deploying capital to the truly private markets. And when we talk about private credit, we're really talking about you are judge, jury, and executioner. You are literally doing private equity style due diligence, assuming we're going to take the keys one day.

And I say that somewhat jokingly but we are literally the underwriter, we are sourcing these opportunities, we are going out building relationships with companies in the middle market space, and structuring loans. And for us, those loans are generally at a significant premium to what we would see on the liquid or the syndicated or traded market side. So that's I'd say the part of the portfolio that we're really focused on building out. Worth noting that everything that we do on the private side in our strategy is in keeping with our broader direct lending mandate. So much like in a BDC, you're co-investing with private funds. That's what we're doing here. So an investor in CREDX is getting the same access to the same direct lending opportunities that they would get if they were a dedicated direct-lending investor. That's pretty cool. You're getting access to the same sourcing channel, the same underwriting, the same portfolio and risk management. It's just simply a matter of the wrapper and the vehicle, which I know John talked about in his introductory comments.

But that's the part of the portfolio that's grown. It's now north of 30%, as I mentioned earlier, we're creeping toward 40%. And I do want to clarify one thing because on the private side there's this notion or this concept that what you're buying into is a portfolio of loans from six, nine, 12 months ago, or even longer ago. Eighty percent of our private exposure was deployed post-Covid, and so you got the benefit of better pricing on the private side post-Covid, stronger deals, and structures, and covenants. We obviously really like covenants. We're not in the business of making cov-light private loans, and I do think that's important. But we're seeing a lot of companies come to the table looking for capital for a range of purposes. Growth, whether it's re-fi, growth, M&A, you name it, and that's an area that we are super excited about and very focused on.

Michael Hawn: Thanks Julianne. This question is for Muhammad or Andrew. How should investors think about the intersection of growth and credit investors in the private and less liquid smaller size arena versus the outlook for alpha from active management?

Andrew Fox: Muhammad, you want to take the first crack?

Muhammad Gazi: Sure. I think this goes back to the debate, which is active or being passive. Obviously what we do, and I think what most of the funds on this panel do, is to really look for that relative value opportunity set across the entire spectrum. We're not focused on just public or private, we're basically focused on looking for where the right value is. If it makes sense to have value in the public side of the market you might tilt your portfolio towards public. And if it makes sense to lock up your capital and catch up the extra spread on private side of the business, you want to do that. Julianne mentioned that the first step after Covid was to think of what the Fed was doing. Increase your allocation to maybe higher grade or higher quality credit, which were the first to rally right after that. And slowly and steadily start going down the credit or the liquidity spectrum where you could see that opportunity.

Certainly pre-Covid versus post-Covid, you've seen a lot of changes in how deals are being done in the private credit markets. Especially when it comes to covenants. Especially when it comes to the OID discount that you get. And especially in terms of coupon that you're able to pick up [inaudible at 0:35:57] return. As of pre-Covid, when we were looking at investing in private

credit, we didn't think it was a very attractive opportunity to be locking up capital at that stage. We were longer in the credit cycle, we didn't expect a pandemic but we did expect some sort of volatility to come back into the market given where the spreads were trading, you were getting about 100 basis points back then. Now in a post-Covid, you see same companies that are coming back to the market. They're looking to raise capital, they're looking to grow their businesses, they're looking for capital where you can underwrite them with better covenants. And like Julianne mentioned, really do the credit underwriting work where if something was to go wrong, you can really take the keys and really run that business.

At Bain Capital Credit, we have a private equity arm, so we get a lot of information coming through the private equity arm, from the real estate arm, from the venture arm. So we can make a very informed decision on what multiples do we lend on, which industries are there to outperform, and we spoke about the regional gaming, there's some of the exposure that we had in our portfolio as well. Looking at healthcare and software, med-tech are some of the exposures that we have liked post-Covid, where you have those recurring revenue models. And then just really sitting down with your investors and making that determination where you want to move and in which direction, and where to take that total return plus get the income in this environment.

I think it's a great time to be in credit markets in general, not necessarily just the liquid part but also the semi-liquid part of the portfolios which you can think about structured credits. There's opportunities in CLOs, there's opportunity in real estate if you wanted to kind of think of it that way. Which makes a lot of sense in a well-diversified portfolio, especially if you look at correlations for bank loans or a high yield, or other parts of the credit market, to rates, they tend to really provide a buffer in diversification benefits in today's market.

Michael Hawn: Thanks. Andrew, your quick two minutes?

Andrew Fox: Yeah, sure. So again for investors, it's an interesting push pull watching over the last, call it decade and a half, some of the things I talked about earlier in terms of the regulatory environment. It's also had an impact on the way that Wall Street is basically structured. So when Julianne's talking about private credit and Muhammad's talking about private credit, in a sense they get a shot at what you could have called, I guess, an open field. Parts of the sell side, the analysts aren't there anymore so you kind of take these deals down, you do them on the private side. So that was like the tide coming in and that really accelerated after 2008. Over the last couple years and the last 18 months in particular, the tide kind of goes the other way. You're starting to see some leakage from the private credits now trying to go, and having some success going back to the public markets. So they'll go get a syndicated loan done if they can get it done. So there is this kind of interaction between the two that is very interesting.

What we're really talking about here though is alpha products, and that's the idea. Rather than having a beta exposure story where you look at an index and you go and you say, I want to have representation to risk factors in the index. And maybe I want to lay on this new factor that I'm going to put on there, something like illiquidity or less liquidity, pick up that premium. That's all very interesting, but for our product and probably for all the panelists, nobody's calling this the Lord Abbett Credit Illiquidity Fund, the idea is it's the Credit Opportunities Fund. So you're

trying to find the best credit stories, 70-90 of them across all the markets that you're looking at. Sometimes those are going to be really esoteric, off the run. Are they private? No, but it's got a CUSIP and maybe three holders, so it might as well be private.

On the other hand, you have something like in a Covid environment where you're buying AA assets, AAA equipment lease deals, legit AAA at 800 over swaps, 1,100 DM on Toyota and things like that. This is where you want to be if you're looking for an opportunity to drive alpha. There's a lot of beta product out there, if you want to be looking at alpha this is an interesting place to be looking at the interaction.

Muhammad Gazi: Michael, I'll add one more thing, just 10 seconds. Like Andrew just mentioned, the bank re-entrenchment story was something that started happening in 2007-2008, where there was a void left for private credit funds to step. There's still a void left. I think the question I also want us to address is if you're going to see more competitions from the banks going forward. I think there's going to be some competition, but given how the private credit markets have evolved and the size of the market today, and some of the restrictions that are still out there from Dodd–Frank and other, it's going to be increasingly difficult for banks to keep on making those loans and holding them onto their balance sheet. So the private credit funds have stepped in and provided that void for capital. I think that opportunity set is still in its infancy and there's still a lot of room for us, all managers to grow and be a part of that of that in our asset allocation.

Michael Hawn: Sounds good. We have a lot of questions but we're going to wrap up here. We do have a few minutes and the question's for Kevin. You mentioned the growth of ESG. When looking at a credit, do any of you take this into account? I guess it's for all of the panel.

Kevin Petrovcik: Yeah, well I'll start by talking about ESG and credit. One of the things that we've done is we've actually launched our first ESG bank loan fund, a retail mutual fund. We've actually rebranding Invesco Floating Rate Fund to an ESG fund. But this is actually going back for many years, so we started incorporating ESG into our credit analysis back in 2013. And it was really like, hey, are there any ESG risks associated with this company when we're doing our credit analysis? And it was more of a check the box. And then our investors started demanding more and more and more quantitative stuff. And it's really hard in this market because we're all talking about the private credit markets, we can't rely on MSCI, we can't rely on Sustainalytics, we can't get public data coming into our screens to look at, for our portfolio managers to look at. So we had to develop this ourselves.

So we actually, when we talk about credit rating, our analysts are responsible for really coming up with three key metrics. One is, what's the probability of companies defaulting? So that's credit. What's the recovery in the event of default? That's credit. But also our ESG rating. And our ESG rating is actually 16 different factors that we scale one to five, and it's based on detailed interviews and interactions with management teams to talk about environmental, social, and governance issues. So it's a really interesting analysis that we're doing. Our credit analysts, let me just tell you, they hate me. Why do they hate me? Because this is a lot more work. But I think they're going to become better credit professionals because they're actually looking at these companies with a different lens, which I think is going to be even more important in the future.

John Cole Scott: All right, I'm just going to step in, we're really out of time. I'd love to give Julianne maybe a last word. And then let's give people a little bit of bathroom, coffee, and maybe a mingling break.

Julianne Woodson: Sure. On the ESG front I'd say that we're very much at the forefront of that. I think anyone who is following along has probably seen how active BlackRock has been and vocal with respect to ESG. And what I would say is that we had a goal of incorporating in ESG across all of our actively managed portfolios last year. On the credit side we were well ahead of that, ahead of the curve there. And I'd say on the loan side, on the syndicated loan side in particular, our lead PM, Carly Wilson, has actually been engaging with the LSTA pretty actively on pushing forward and pushing companies to release information via an ESG questionnaire. And we take the contents of that questionnaire and we translate it much like Kevin talked about, with our credit research analysts and our broader team, into what that means for an ESG score. And so we're in the business of taking in data and using that data to enhance our analysis and enhance client outcomes. That's one way that we're doing it.

And to Kevin's point, on the private side you don't have that same luxury. A lot of this reporting is not public. So what do we do? We obviously engage directly with companies, we have a proprietary scoring system. Every time a deal comes through IC, there is an ESG component we're assessing through the lens of E, S, and G individually with different materiality factors. And kind of self-scoring so that we know where our portfolio is, we know where our underlying credit stands from that perspective, that's incredibly important. And I would just come back to the benefits of the overall strategy and how we're thinking about the opportunity set. We've talked a lot about on this panel, opportunities in liquid markets, opportunities in private markets. It doesn't have to be one or the other, and I think that that's really key for investors. You want a strategy that's got the flexibility to do all of these different things and has demonstrated capability of doing all of these. That's why we've built ourselves to be this blended hybrid, kind of going where the opportunities that go. You've seen that range over the last year.

John Cole Scott: Thanks so much. We're going to give people a full five break. We're going to end this session. Thank you all so much for participating, great first panel.

Michael Hawn: Thanks everyone.

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