



Panel #3 – Credit At The Crossroads: From Munis To Bank Debt In A Shifting Rate Cycle

Wednesday, November 19, 2025

TONY MALTESE: Good afternoon, everyone. Hope you all enjoyed your lunch break, and welcome to the first panel of this afternoon's session, the title is "Credit at the Crossroads: From Munis to Bank Debt in a Shifting Rate Cycle". Let me just take care of some of the introductions. One comment about the title of the panel, credit and rates, and this morning I was looking at some news items and Ed Yardeni made a comment in his morning brief that this current environment is the most widely anticipated recession of all time, so that's Yardeni, some truth to that in terms of everyone's concerns. Another somewhat well-known individual, he's already been talked about but I'll mention him anyway, Jamie Dimon and his famous cockroach comment. I'll try and spin it optimistically, I think he's talking about my first apartment in Brooklyn back in the 1980s. I'm hoping he is. With that said, my name is Tony Maltese, I'm a retired investor, formerly with Neuberger Berman, where I was in charge of closed-end funds, and before that I was a sell-side analyst at Merrill, Lehman, and Smith Barney. Today we are privileged to be joined by three panelists who will more than undoubtedly cover the credit and the rate cycle issues for us. We have the far end, Dana Staggs, president of ArrowMark, Kevin Parks, PM at Angel Oak Capital, and Miguel Laranjeiro from Aberdeen Investments, so thank you for joining us. If you each could introduce yourselves and provide a brief description of you, your firm, the types of strategies that you are in charge of, and in particular, the closed-end fund that you're managing that is under that strategy. Miguel?

MIGUEL LARANJEIRO: Sure. Miguel Laranjeiro representing Aberdeen Investments, global asset manager over \$500 billion in assets across 25 global locations. My group is responsible

for overseeing the municipal products suite, which encompasses SMAs, ETFs, open-ended funds, as well as closed-end funds. In particular, in the closed-end fund vehicle, we offer a long-duration product that benefits from leverage in certain environments, looking to deliver high tax-equivalent income to generally high-net-worth investors.

TONY MALTESE: Thank you. Kevin?

KEVIN PARKS: Kevin Parks, I work for Angel Oak Capital. Angel Oak is approximately a \$20 billion asset manager headquartered in Atlanta. We have an office in New York, and actually the firm just sold the majority stake to Brookfield Asset Management. I'm a member of the Financials Team, and we focus primarily on financials but specifically on community and regional banks. The product that explains why I'm here, we have a closed-end fund, the Angel Oak Financial Strategies Income Term Trust, ticker FINS, which again invests primarily in community and regional banks, sub-debt, mostly higher in the capital structure. The team is three PMs, one analyst, again, mostly based in Atlanta but we have an office here in New York.

DANA STAGGS: Good afternoon, everyone. My name is Dana Staggs, I'm president of ArrowMark Financial Corporation. It's a closed-end fund that trades on the NASDAQ under the ticker BANX, it's managed by ArrowMark Partners, I've been with ArrowMark Partners about eight years, a little over eight years. Before I was with ArrowMark Partners I was at firms like Deutsche Bank, Barclays, and Goldman Sachs. ArrowMark Partners is an asset manager based out of Denver Colorado, we manage about \$19 billion total assets, about \$11 billion of that is in credit and fixed-income-like investments. Our closed-end fund BANX actually invests in something called a regulatory capital relief security, I know that's a mouthful. It's an alternative investment product, but I think most of the investors think of it as akin to a fixed-income-like product. It provides and generates regular way income, and so what we'll be talking through the course of this is how that applies and how people like yourselves may get access to what is traditionally an investment product that's offered to institutional investors, how retail investors can get exposure to that through our closed-end fund. Today institutionally ArrowMark Partners manages \$5 billion of regulatory capital relief securities as an investment manager, of which ArrowMark Financial Corporation, the closed-end fund is \$200 million of that \$5 billion in this regulatory capital relief security investment product that we do.

TONY MALTESE: Thank you. So the title of the panel, rates, credit, each of these gentlemen have a little bit of a different market exposure based on the strategy and the market space that they're in, but I think we're going to be able to both drill down on those differences and how they outlook from each of them, may dovetail with the title of the panel. I guess to start off, what are your thoughts about Fed activity, both for the remainder, the short remainder of 2025, as well as 2026? Miguel?

MIGUEL LARANJEIRO: Yeah, so for the municipal market, we're encouraged, particularly running the long duration part of our product suite, by the more accommodative approach recently taken by the Fed. We think that encourages what has been an underperforming part of the market, long-duration bonds has started to turn around in the last three months. We've seen a lot of inflows, particularly in long-duration. So that's supported what has been record setting pace of issuance, so more supportive environment in terms of technicals for the municipal asset class, and we think the current environment offers really attractive yields for tax-exempt paper on a relative basis. So for investment grade paper, you can clip 5.5-6% on a taxable equivalent basis for long-duration municipal bond, and we think that compares relatively attractive for the asset class relative to corporates where you sell them confined to 5% bonds. We've seen a ton of inflows in October, October, most inflows into the space since 2021, I think investors are starting to take notice of the relative value in the municipal market, and that portends the returns for 2026, and a more accommodative Fed path should be supportive to that end.

TONY MALTESE: Thank you.

KEVIN PARKS: Since we invest in banks, obviously we're mindful of what the Fed's doing and what absolute rates look like, but for us I think we're more watchful of the yield curve. From 2022 to 2024, for almost exactly two years, banks were dealing with an inverted yield curve, everyone was, but banks were suffering through an inverted yield curve, not only that but in 2023 there was a liquidity crisis in the system featuring three of the largest failures in US bank history, so felt like 2024 was a time to finally take a breath now that the yield curve was finally working in the banks' favor. They started to have a couple quarters of consecutive growth in margins, credit was kind of stabilizing, so I think any relief from the Fed helps both sides of the balance sheet really, especially since banks really were in a rush to hoard liquidity in 2023, they had to pay up for that, so they kind of sacrificed near-term earnings

power for staying alive basically. So incrementally, I'd say in general banks probably prefer, again, they're not indifferent to rates but they would just prefer the yield curve to be positive, so now with expectations set fairly low, we're seeing some strong growth in margins, in earnings, and then in the new issue market for the products that we invest in, subordinated debt. Banks had a record year issuing sub-debt in 2020 when rates were very low, '21, '22, softened a little bit, '23 it basically shut down because the bank failures, '24 still kind of a hangover from that, but 2025, since these securities are 10-maturity, five-year no call, fixed to float issuances, a lot of them, many of them are flipping to variable rates which are increasingly punitive, so there's been a lot of call activity which we're grateful for and good to have liquidity on our end to put to work at fairly attractive spreads and risk-adjusted returns.

TONY MALTESE: Thank you.

DANA STAGGS: So I think the question is, are they going to lower the rates in December by 25 basis points? And if you would have asked me, say two months ago, if you would have looked at the interest rate forward market, it would have been a near certainty that there's going to be a rate cut in December. Well, as of yesterday, there's less than a 50% chance that we're looking at a rate cut in December, and the forwards market is talking about maybe 85 basis points for all of 2026. This is a very consistent theme that I think we've seen over the last year, year and a half, which is the expectations of the future rate cuts have not come in to what the reality is of what is happening. It's primarily driven by sticky inflation, and I think the Fed is really facing a hard time right now where they're finding that inflation is very sticky and they're also fighting to try to maximize employment, optimize employment. It's a difficult thing, but what I do know is there's a lot of uncertainty and volatility in trying to figure out what's happening with rates. We have a regulatory capital relief security that is a floating-rate product, it's indexed to something called SOFR, which is very heavily correlated to the Fed Funds Rate, so Fed Funds Rate goes down by 25 basis points, our investment product will reduce in investment income. That being said, we've been doing this investment product since 2010, and if you think about 2010 to 2025, a good chunk of that, especially over the last decade, has been in a near-zero interest rate environment, and yet during that time period our investment product has yielded double-digit returns on average, and so we feel like despite where rates may go, our investors will generate very strong investment

income. What is a regulatory capital relief security? I've talked about that. It is what I would describe as a value-add product. From your perspective, think of it as income generating, it's also got very stable pricing, you can see that reflected in our NAV, since we've taken over the closed-end fund since 2020, our NAV has been relatively stable. And then on top of that, it's a very uncorrelated asset with a lot of other asset classes. It's an alternative investment, so if you're interested in doing private equity, if you're interested in doing private debt, you may also find this is interesting, because this is a little bit more of an undeveloped product relative to those that have been around for 50-60, who knows how many years? That being said, this product we've been doing since 2010, we've done this for 15 years, we've invested \$10 billion in the space. What it is, is it's a bespoke customized solution that we provide to the largest banks in the world, so think of these as globally systemic important banks or too-big-to-fail banks. What we help them do is, as regulatory requirements by their regulators, that could be the FDIC for example, it could be the ECB in Europe or the Bank of England, as those regulations have increased over the years, there's been pressure on the largest banks in the world on their loan books, on how many loans they can provide to their highest credit quality borrowers. So if you think of a Boeing or Pepsi Cola, their ability to provide loans to those kind of corporations, their balance sheet capacity has been constrained, and especially in the investment grade space, so the higher credit quality, it's been constrained. So what our product does is allow them to relieve some of that pressure, it's not necessarily to generate an interest rate arbitrage, but instead it's revenue enhancing. Because if you do not have a loan to Boeing, as a J.P. Morgan, you're not going to win the investment banking business, you're not going to get the corporate credit card program, and so this product relieves some of that, allows them to increase their book of business, maintain the customer relationships. And as a result, it allows them to cross-sell higher margin products into those clients, and as a result of this being a very bespoke customized structured solution for these banks, as a result of it providing what I would say is value-add, they reward our investors with risk-adjusted premiums, and I think our track record can speak for that.

TONY MALTESE: Thank you, Dana. So you both have done a great job talking about the overview, the initial response to the rate question, each of you to certain degrees have different markets that you have to oversee or be up on. Can you drill down now a little bit

further in terms of what you have to be looking at, what's attractive, what's not, given the way you're anticipating rates to possibly move? Miguel?

MIGUEL LARANJEIRO: Yeah, so for our products, we've been finding value in a barbell approach, mitigating some potential volatility in the Fed trajectory by going further out on the curve, eight years out and out, and pairing that with short durations, so two years and in. Contrary to the corporate market and treasuries, the municipal market curve is still inverted, so we don't find a lot of value between the two and seven-year part of the curve, we think from a total return perspective, you will get the best roll-down on the long end of the curve, and pairing that with short coupon-clipping opportunities, we think mitigates a little bit of the volatility associated with a potential volatile rate path coming in 2026. Where we're seeing opportunities in terms of credit, we do like high yield, distressed and default rates have been relatively sanguine, tax collections across municipalities are up 10%, actually inflation increases tax collections from a sales tax and income tax perspective, rainy day funds in terms of fund balances across all municipalities are pretty stable and they're paying down pension payments by and large, although there are a few exceptions. I think there are opportunities given record setting issuance in 2025, we expect record setting issuance in 2026, so for an active investor, you can kind of pick your spot of relative value. For an active investor, I think it's a dream market being able to pick your relative value across sectors and being able to benefit at these elevated tax-equivalent yields that you seldom see in the market.

TONY MALTESE: Thank you. Kevin?

KEVIN PARKS: So investing in a sector that's regulated and has capital ratio requirements is a blessing and a curse for us. I would say the good thing is these banks, whether they're public or private, they are required to report quarterly call reports, if they're public obviously there's SEC filings, so we're happy with the transparency. And even following some of the issues that banks have had over the years, 2023 liquidity crisis, recent concerns about CRE, the cockroach comments, typically banks will respond, good banks will respond by increasing their transparency, drilling down on their loan portfolios to show, "Hey, here's what we've got." So we like that, and that's the sector that we've followed for years. Another thing that benefits in the regulatory camp is that the security that we've investing in, again let's focus on banks sub-debt because that's about what 80% of our closed-end fund invests

in, not only is it generally short duration because banks are heavily incentivized to call just for rate reasons when they flip to float, but these securities begin, although they're 10-year maturity, they begin to lose tier 2 capital treatment after year five by 20% from year five to year 10. So whether or not banks are, from an asset liability management perspective, motivated to redeem these securities, from a capital ratio perspective they very much are, so we're actually having a hard time keeping up with the redemptions on the calls, security redemptions on one side and deploying that liquidity on the other side. Because many of these banks do have fairly strong capital ratios, so oftentimes they'll consider whether or not to come to market with a new issue, hopefully that picks up, the new issue market has already kind of started to boom, and I think that lower rates has helped that, and spreads remain pretty attractive in our space. And these are investment grade securities too, so we like what we see out there, both in terms of the economics of the issue but also the sector itself is well capitalized, very liquid, and just now starting to earn some benefit from a positively sloping yield curve.

TONY MALTESE: Thank you, Kevin. Dana?

DANA STAGGS: So the question on credit, well, let me just say ArrowMark Partners has historically, and we take pride in the fact that we're focused on capital preservation. I think one of the benefits that we have out of the regulatory capital relief investment is it's a non-commoditized product, and like I said, we get a risk-adjusted return premium for that. It allows for any kind of impairments or issues that may arise from the credit markets, that being said, we go through what I think is a very rigorous product to vet these. And so the regulatory capital relief security, it performs based on how well a loan portfolio at say, a J.P. Morgan performs. So what J.P. Morgan does is they have a loan portfolio, and they transfer some of that risk from that loan portfolio to us while maintaining the customer relationship, and so the loan portfolio performance, again, it's dollar-weighted average BBB-, which would be investment grade, or BB+ which is at the highest end of non-investment grade, so these are high-quality loans, but also we approach this with the bottoms-up and a top-down approach. So maybe I'll start with the top-down, top-down these portfolios are highly diversified, so on the lowest end think of these as maybe 150 separate loans within the portfolio, so 150 to several thousand actual loan and issuers and borrowers that J.P. Morgan has that they're doing a risk transfer to us. So they're highly diversified, they're highly

diversified by geography, they're highly diversified by sector, and then by actual borrower at J.P. Morgan. What happens is we will run actuarial analysis on that loan performance, and we hammer these scenarios really hard to ensure that at the end of the day our investors are getting top outcomes through these scenarios. Simultaneously, before we enter into one of these regulatory capital relief transactions, before we make that investment, we also do a bottoms-up analysis. So in many of these situations we had the actual loan books by name and we can actually apply the credit analysis that we have the firm, as of the last quarter we had 11 sector-specific investment analysts, credit analysts, who would look at these loans and decide what they thought these loans were on a credit quality basis. And as we're entering into the structuring of these loans with these banks, these globally systemic important banks or too-big-to-fail banks, as we're entering into the discussions and trying to structure these, we're actually able to say, "We would like to minimize our exposure to, say the CRE space, so let's bring that down." "We don't want any exposure to China, so let's zero that out." "We would like to, the following list of names, we feel like these are at-risk credit, so we would like to remove that," and we get into a negotiation with them to produce better outcomes for our investors. So it's a negotiated process and we're able to apply what I think is the power of an institution that's managing \$11 billion of capital, that has 11 credit specific analysts that can go through these name by names. On top of that, we get monthly reporting on how well these portfolios are, and so if you're thinking about a single investment having anywhere between 150 to over a thousand names, and I've got 50 of those securities, imagine what kind of intelligence it provides us in understanding where cracks in the credit market may happen, what sectors are feeling vulnerable, what geographies are feeling vulnerable. And what that does is helps educate us on how we want to deploy capital in the future, so the next regulatory capital relief security, what sectors do we want to minimize? What companies should we actually consider removing from the reference loan portfolio? We're able to use that analysis to help us produce better outcomes, and it's a very iterative analysis.

TONY MALTESE: Thank you. Keying off of your comment about being cognizant of region, geography, Miguel and Kevin, can you give us some thoughts about how for each of your products you are looking at regional allocation, where you need to be mindful of scaling back or over-allocating?

MIGUEL LARANJEIRO: Yeah, so for municipals, that is definitely a clear characteristic that we look at, we look at migration patterns, we look at socioeconomic profiles within certain communities. One example, a clear example, is Chicago has been plagued by out-migration patterns, it's put a lot of pressure on the homeowners to subsidize a pension obligation that is getting elevated and very difficult for the city to navigate given a lower tax base, putting a lot of pressure on their school system, that's just an example of how we look socioeconomically at investment opportunities. That's where we start, because everything really trickles down from population demographics and relative wealth levels of that area. Chicago and Illinois is an area, as an example, that we're staying away from. We do see some relative value in New York, as an example, there's been a lot of headlines around New York, that's widened spreads considerably. Our position is New York has, especially New York City, has really relatively strong institutional controls in regards to debt management and in regards to liquidity management, whether or not they can raise taxes unilaterally, and spreads have widened since June as the new candidate was more likely to be voted in than not, so we think that's a relatively attractive opportunity, especially for short-end investors. So those are types of local data that we look at, similarly in higher education, there's a lot of headline risk around higher education that widens spreads particularly around April. Harvard as an example, widened considerably for AAA credit, their endowment balance is considerably high even given lack of funding from the federal government, so we think it's a good time, at that point we thought it was a good time to invest in the credit from a relative value perspective given their fund balance, their demand on enrollments, and the continued support that they have from their own endowment fund.

TONY MALTESE: One follow-up, another high-profile H, healthcare. Some thoughts, comments on how you're looking at that?

MIGUEL LARANJEIRO: Yeah, so obviously the headlines on ACA regulation and potential abandoning of subsidies would be a headwind for healthcare as a whole, there's some states that are more exposed to that than others, that plays into our thought process and investment thesis. There's other states that are not as reliant on Medicare and thus should not be as impacted from a cash-flow perspective. If we compare this environment to Covid, hospitals were able to navigate that environment pretty well considering the staffing costs and operational expenditures that they had to deal with. Staffing costs have come under

control since then, relatively stable, reimbursement rates have ticked up, so that is helpful to healthcare credit overall. But again we're focused on bottom-up analysis from a name to name point of view, and I think these types of headlines create a good environment for stock pickers in our asset class. As headline risks come to fruition, we see spreads widening in the sector, it tends to turn into a throw a baby out with the bathwater type of environment, and those are pockets of relative value that an active investor who is focused on credit can take advantage of.

TONY MALTESE: Great, thank you. Kevin, regions?

KEVIN PARKS: Yeah, we do kind of have some regional or state exposure parameters that we invest by at a fund and a group level. I would say for us, again, investing in the banking sector, while we're mindful of region and state exposure, I'd say what's more important to us is the bottom-up analysis, because saying, "Oh, we don't like California banks," is sort of painting with too broad a brush, what matters more to us is the business lines of these banks. Is it a good opportunity to invest in? I don't know, a New York bank is very different if it's in New York City and heavily exposed to rent regulated multi-family versus a bank in Upstate New York that has just a good core cheap deposit franchise. I would say as a whole, we're more interested in what does this bank do? How does this bank make money? That said, we obviously are sometimes at the whim of market sentiment. I mentioned 2023, there was a banking crisis and three of the largest bank failures in US history happened, two of them were in Northern California, another one was here in New York, but they had a fair amount of venture capital and crypto exposure and just a large amount of uninsured deposits. So investing in a cyclical industry can mean that you need to be a little bit open minded about what you like because, especially the banks where their liquidity can be fleeting, we like to be mindful of what a bank does to make money but also what it does to protect the deposits, protect the franchise, and ultimately protect our capital as creditors.

TONY MALTESE: All right, thank you. Dana, any follow-up? Region, thoughts?

DANA STAGGS: You know, on a regional basis, I think we kind of benefit from the fact that we're highly diversified, so we do on the margins tick down exposure in certain markets, like for example, we are very much averse to doing stuff in China and in Hong Kong and so on, so we want to bring that exposure down. But what I will say is, separate from region, I think what is interesting is where we are in the rate cycle, to tag onto an earlier question you had,

where rates have rapidly increased, we've seen some stress in what I would say is in the non-investment grade world of credit. It's still very manageable and still a sector that's not one that I would say we're super concerned about, but one that we had our eyes on, we've seen the tick ups in that. That being said, if interest rates do have a downward trend, I think that will provide some pressure relief for a lot of those businesses in that sector. Because what was a situation where they were sitting on near-zero percent interest rates a few years ago, their interest rates may have orders of magnitude increased, and that does apply pressure on companies that are highly levered. As a result, we saw a little bit of uptick in the default rates, and now if the rates go down you'll see a little bit of pressure relief.

TONY MALTESE: All right, thank you. Since this is a closed-end fund conference, I guess a few questions about the closed-end fund structure. How do you see the structure helping the way you're positioning your strategy, the benefits of the structure? And also a question about leverage, if you're using it, thoughts of leverage in terms of a rate change, what you might be utilizing, where you might look to change things, again, if that can be disclosed? But I guess first, the structure overall, how does it benefit the strategy that you're looking to implement? Miguel?

MIGUEL LARANJEIRO: Yeah, so leverage I would say has been a headwind probably for all of 2024, some of 2025, but we've seen leverage costs come down significantly in closed-end funds within the muni landscape, and that's led to a narrowing in the discount. We think a more accommodative path potentially in 2026 could continue bringing down costs of leverage, which could portend better total returns going into the new year. Long duration has struggled, part of that has been the pausing of the Fed trajectory, some of that has been to do with tax legislation and investors keeping money on the sidelines. As I noted earlier, October was probably the strongest inflow that we've seen since 2021, we think if that continues that it could continue to exacerbate total returns and encourage better long duration total returns, and especially if you're utilizing leverage to magnify that. We're seeing a lot more leverage creation in the market in the last couple of months, as the spread between long-duration products and leverage costs widens, we're seeing market participants, including ourselves, start to take advantage of cheaper leverage costs and look to magnify total returns.

TONY MALTESE: Thank you. Kevin?

KEVIN PARKS: I'm going to touch on the closed-end fund structure part of the question. So one of the things that we like about the closed-end fund relative to some of our other strategies that we manage, again if I focus on the community and regional banks sub-debt is we can be a little more flexible with our universe. Obviously we're still focused on investment grade credits, but investing in a closed-end fund versus a daily liquid mutual fund, an ETF, or even some of our mandates that are insurance companies that are highly sensitive to ratings, and ratings from S&Ps and Moodys of the world, we can again focus more on credit picking and relative value. Looking at banks that might be smaller, the issuances might be smaller, the rating might not always be from S&P and Moody's, it'll be investment grade, but we can kind of increase our allocation in this strategy relative to some others just because of the nature, permanent capital nature of our closed-end fund. I would say on the leverage, it's cost benefit analysis as always. One thing that we were grateful for was in 2021 we went out and issued some debt, which good timing from a rate perspective, obviously that'll be refinancing soon, it won't be as fun, but that was again good timing both from a liability management standpoint but also the ability to get some attractive spreads. At that point we were probably buying more of the secondary market just because the new issue market was closed down at that point. So I think again all of those, those factors just sort of speak to the benefit of a closed-end fund, and I think just as the portfolio managers, it makes our jobs a little more interesting because we don't just have to say no, because that wouldn't fit for this insurance company mandate or this ETF because of illiquidity. Of course we're mindful of liquidity, but with a closed-end fund we can be a little bit more open minded.

TONY MALTESE: Good, thank you. Just in the midst of you all three going through that answer, as it relates to leverage, if you could just also say, are you actively managing the amount that you have outstanding? Are you managing the duration of the leverage? I guess for munis it's got to be equity leverage or TOGS, whereas for the other funds you can mix debt and equity to what you see as the most optimal form of leverage. But just add that to the other question, if you can fill that in as well?

DANA STAGGS: So from our perspective, our leverage facility is a floating-rate facility, and so we do have duration asset matching between assets and liabilities. So as our investment products improve in interesting income from a rising interest rate environment, our interest expenses increase, and then the opposite happens in reverse. And then speaking earlier to

the closed-end fund question, for us, because this is a very bespoke alternative investment product that's done with these too-big-to-fail banks, it's not something that you can just go out there and buy off of a *Bloomberg*. You can't have three guys that are working with a trader or for Goldman to buy off their desk. It's very important to be in a closed-end fund structure, because if you're in a structure where you're subject to daily redemptions, this is just not as liquid of a product as what you would see in a very liquid high-yield type of fund. As a result, this is something that's much more suitable to a closed-end fund structure than you would see in any kind of open-ended fund. So as a result, I don't think this could be offered through anything that's a permanent capital fund or a near-permanent capital fund, capital that has to be locked up for a certain period of time.

TONY MALTESE: Thank you. Dana, just to go back to you, you mentioned your exposure in terms of foreign markets, can you talk a little bit about what type of hedging you need to do from a currency standpoint?

DANA STAGGS: Yeah, so historically we've done rolling forwards on our hedges, so let's just say for example we do a \$10 million investment into a European-based regulatory capital relief investment, we've hedged on 30-day rolling forwards, that exposure, so that we're effectively immune. If foreign exchange rates go against us, then the hedges would offset that, if they go in our favor, then we would have an offset for that. Today we have probably, I would say, 40% give or take, or as of Q2 we had about 40% give or take of European-based denominated type of hedging, and we have that option of doing that hedging program and continuing that. What we're finding right now, where the interest rate environments are, if you look at for example where SOFR is today, where Euribor is, where SONIA, SOFR is a US-based rate, the SONIA rate is for the Bank of England or for the UK, and then Euribor is the European floating rate, which we're finding is Euribor is kind of around 2%, and there's not a lot of conversion around bringing that in. The SONIA rate is kind of around 4%, and I'm thinking it's going to stick for a while, at least that seems like that's going to be the chatter. And then when you talk about SOFR, everybody understands what's going on with the Federal Reserve rate and where that's heading. So as a result, foreign currencies are very much tied to the differences in those rates, so if you notice that there's an interest rate difference and they're changing, what you'll find is the currencies move one way or the other.

And for the time being, we're thinking right now we've positioned our portfolio so that we feel like where these interest rates are moving, we're probably in still a very optimal position.

TONY MALTESE: Great, thank you. I guess I wasn't paying attention to the time and we were supposed to leave 10 minutes for questions. I should tell shorter jokes, especially if they don't go over that well. But please, are there any questions from the audience for all three of our panelists? Yes, sir?

AUDIENCE QUESTION: In the muni space, several years ago when short rates spiked up dramatically, a lot of closed-end muni funds had to cut their dividend because they were paying more to borrow than the portfolio was earning, and I believe a lot of that money is indexed to the SIFMA rate, is that correct?

MIGUEL LARANJEIRO: That's correct. Yeah, most of the leverage is tied to floating-rate SIFMA.

AUDIENCE QUESTION: And how low would that rate have to drop before the spread would widen and we might even see some of the dividends being boosted because of the drop in the cost of leverage?

MIGUEL LARANJEIRO: I think what's happened across the industry is dividends have been boosted in anticipation of a rate-cutting environment forthcoming. We saw a lot of our counterparties boost dividends into 2024 anticipating the more accommodative Fed path in 2025, some of that dividend and distribution policy wound up being return of capital given a pause in the rate path. I think as we do get shorter lower leverage rates, you can fully earn the dividend that you've boosted, but some of the industry has already started to narrow that down or ratchet that down. You can't really pay return of capital forever as short-term rates remain elevated, so that's been obviously volatile to their discount rates. Those that were paying excess return of capital now are ratcheting down their distribution policy, and we've seen them widen back out in terms of their discount rates. Our position is fully earning the dividend, that's been our position really since I've been part of the portfolio management team, and that should portend stability headed into 2026, even if the rate trajectory is not as accommodative as the investment market is thinking.

AUDIENCE QUESTION: Then if it drops [inaudible 0:45:21] 50 basis points, would that be [inaudible 0:45:24] your payout?

MIGUEL LARANJEIRO: With respect to our particular fund, yes, but it depends what your distribution policy has been. If you're at 8-9% levels currently, it would probably take more

than that. If you're earning what you're paying out, then yes, you do have room for upside given a 25 or 50 basis point move in SIFMA.

TONY MALTESE: Any other questions? Okay, well thank you, thank you for your time. Gentlemen, thank you for your great comments, appreciate it.

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