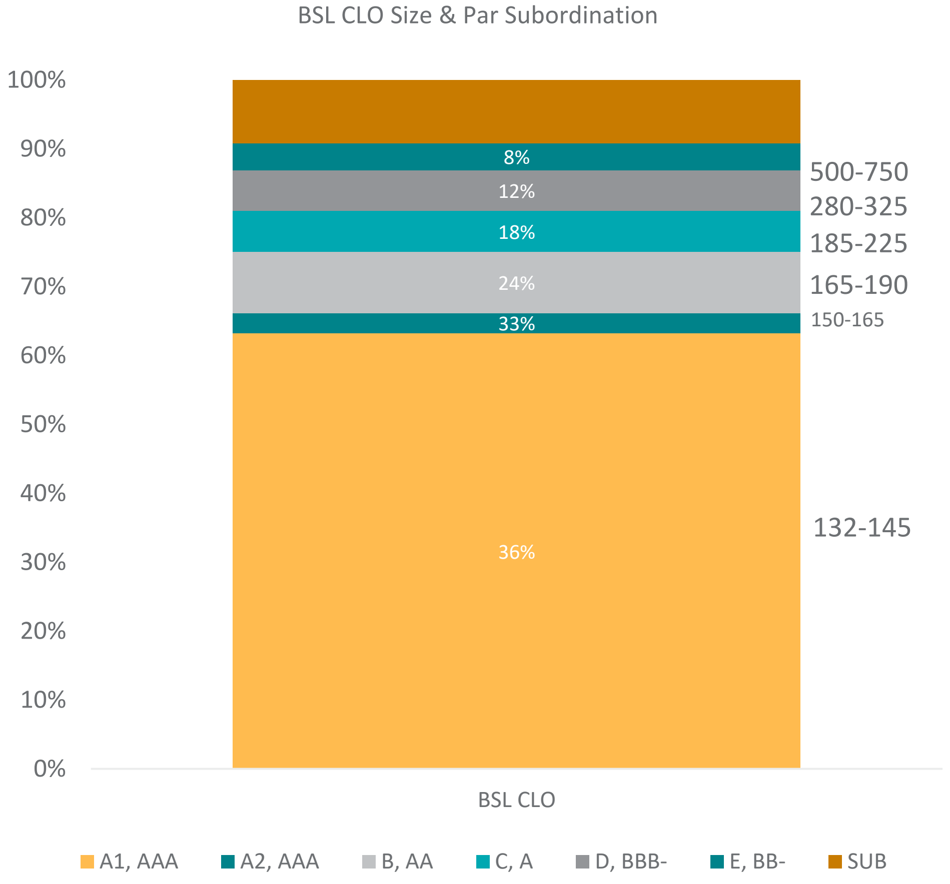
Managing CLOs in a Volatile World

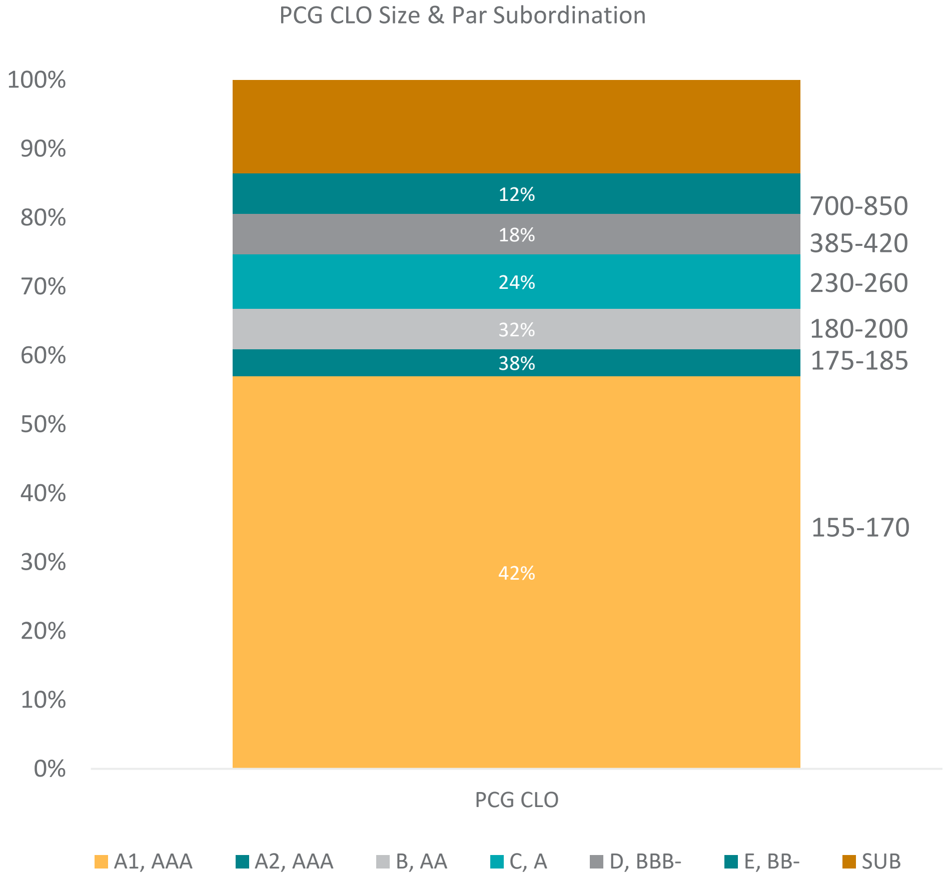
Moderator:
Andrew Berlin, VP, Director of Policy Research, LSTA

Speakers:
Harpreet S. Anand, Portfolio Manager, Partner, Oak Hill Advisors
Corey S. Geis, CFA, Portfolio Manager, Head of Trading & Capital Markets, Investcorp Credit U.S.
Ian Gilbertson, CLO Portfolio Manager, Trader, Invesco
Daniel Hayward, Partner, Portfolio Manager of U.S. Liquid Credit, Ares Management Corporation
Gunther Stein, Head & Chief Investment Officer of U.S. Performing Credit, Sound Point Capital
Stephanie Walsh, Partner, Head of U.S. CLOs, Bain Capital

Tuesday, November 19, 2024

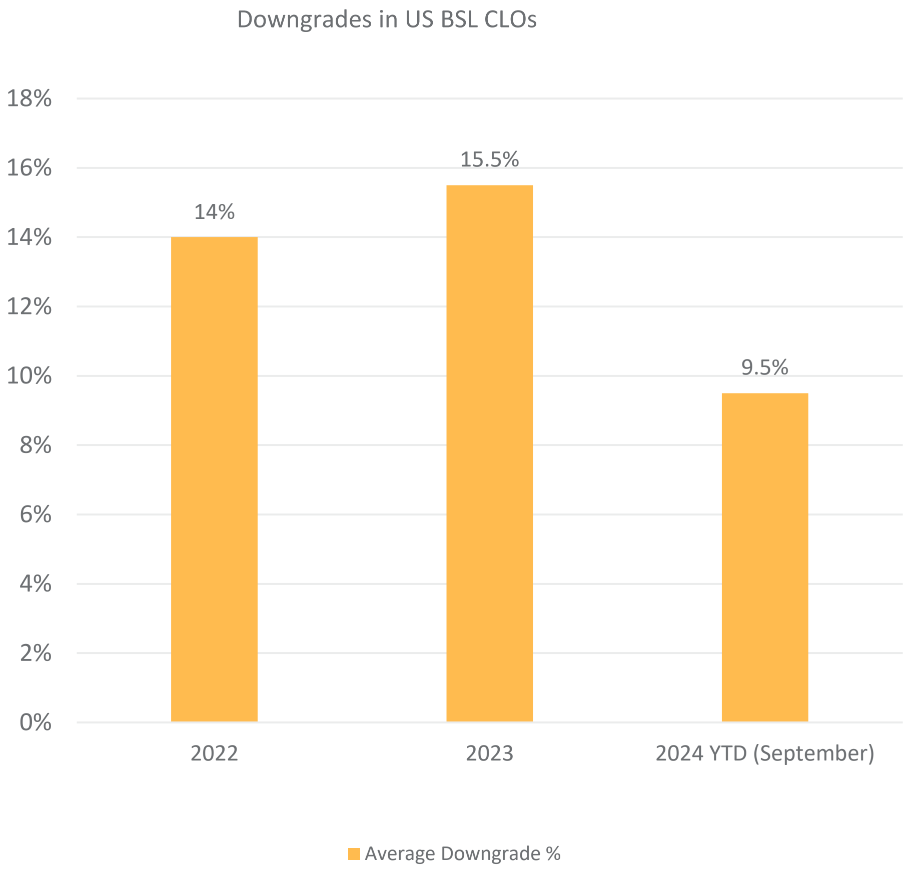
Broadly Syndicated Loan vs. Private Credit CLO Structures

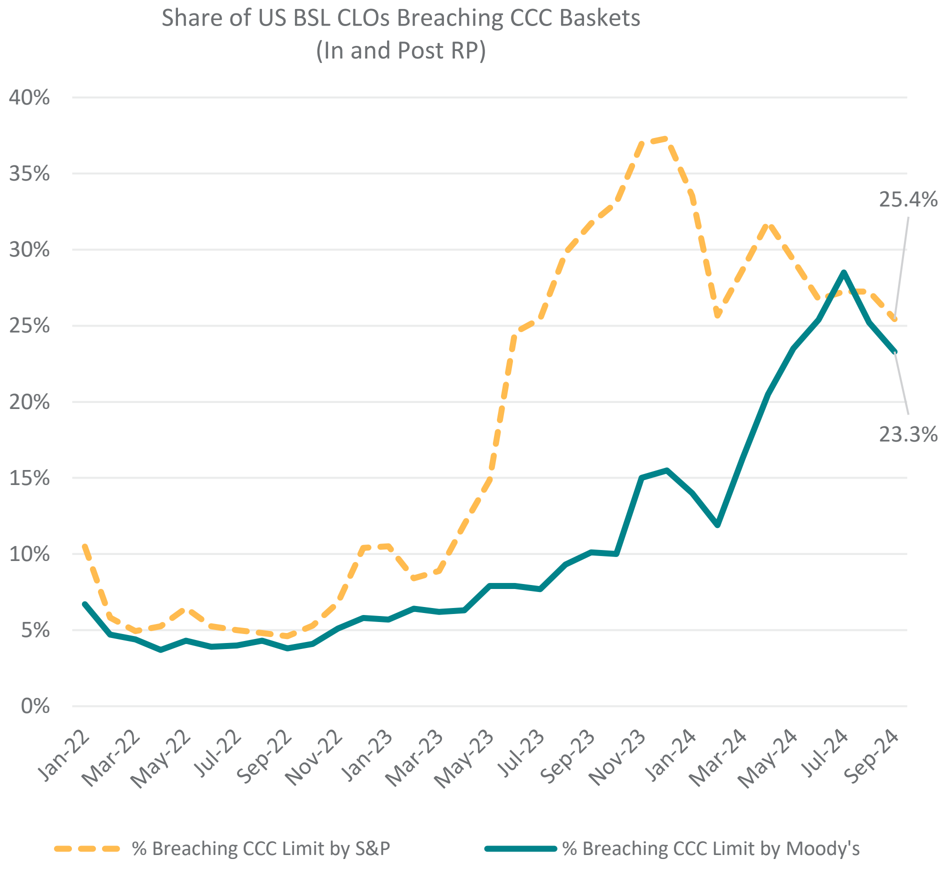




Data as of October 30, 2024. PCG = Private Credit Group.

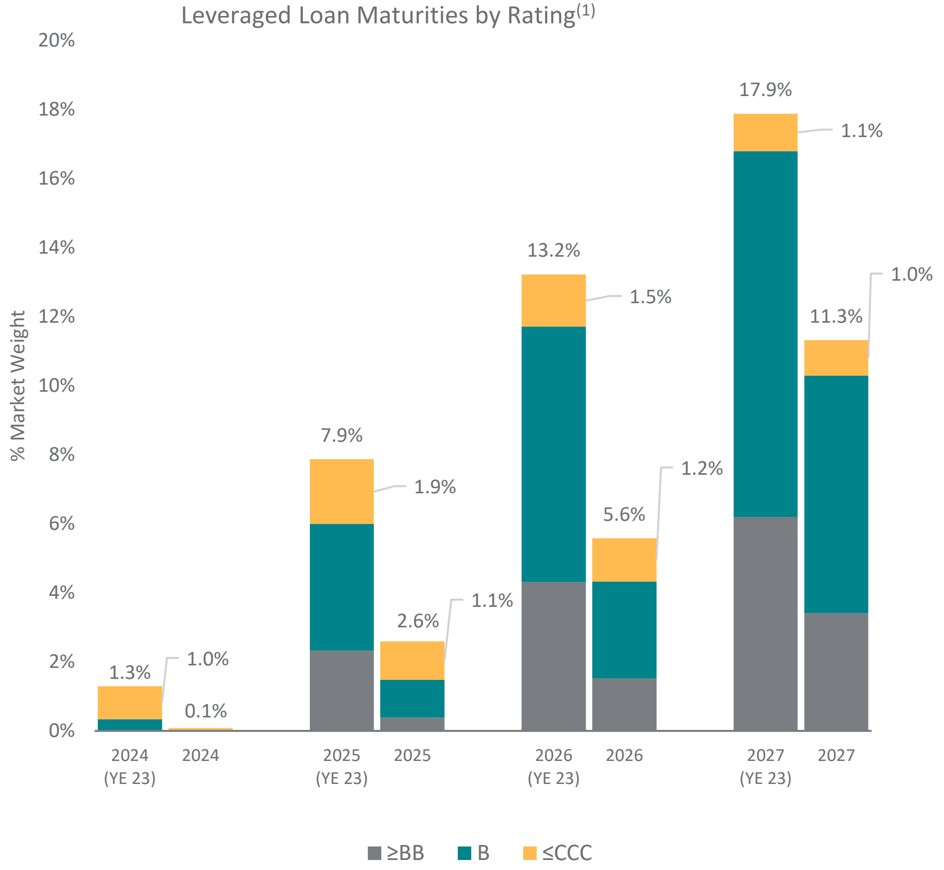
How Are Managers Navigating CCC Bucket Breaches Caused by Loan Downgrades?

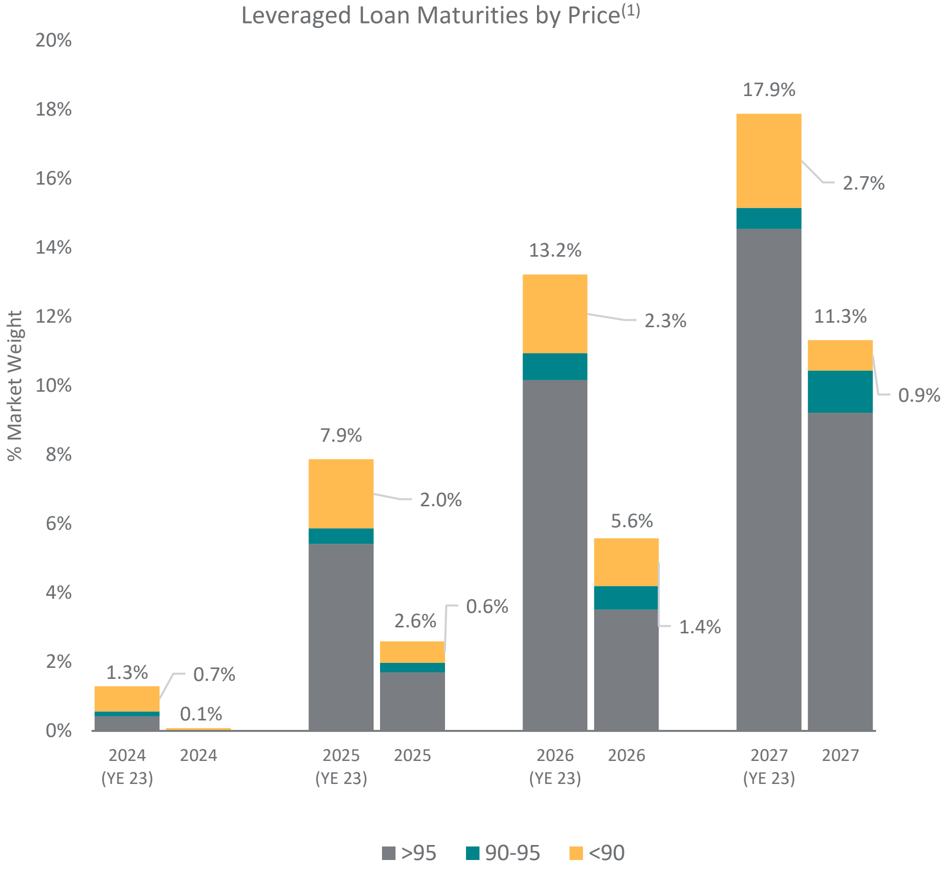




Leveraged Loan Maturity Schedule

Share of Market by Rating and Price



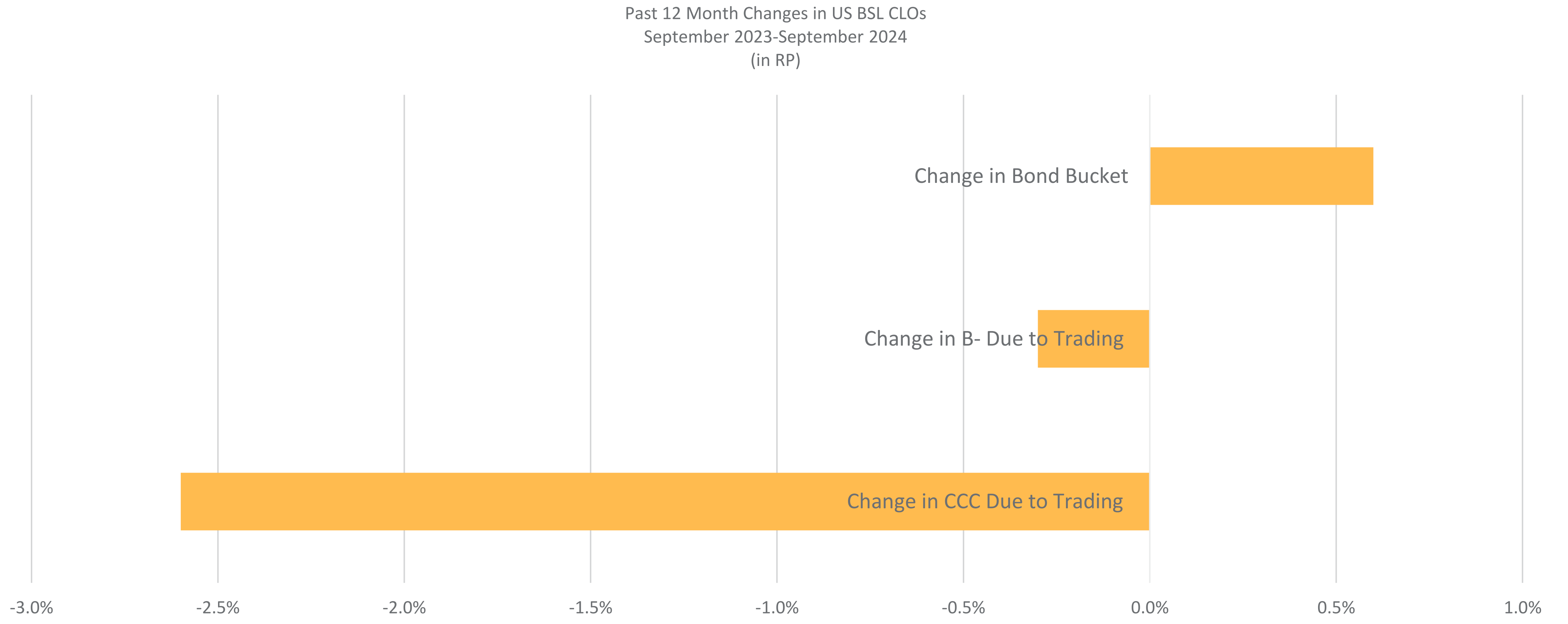


Past results are not necessarily indicative of future performance. Opinions and estimates offered herein constitute the judgment of OHA as of the date this document is provided to you (unless otherwise noted) and are subject to change as are statements about market trends.

[1] As of September 30, 2024. Includes loans maturing between 2024 and 2027. BB includes all assets in the index rated BB or higher. Excludes NR, as applicable.

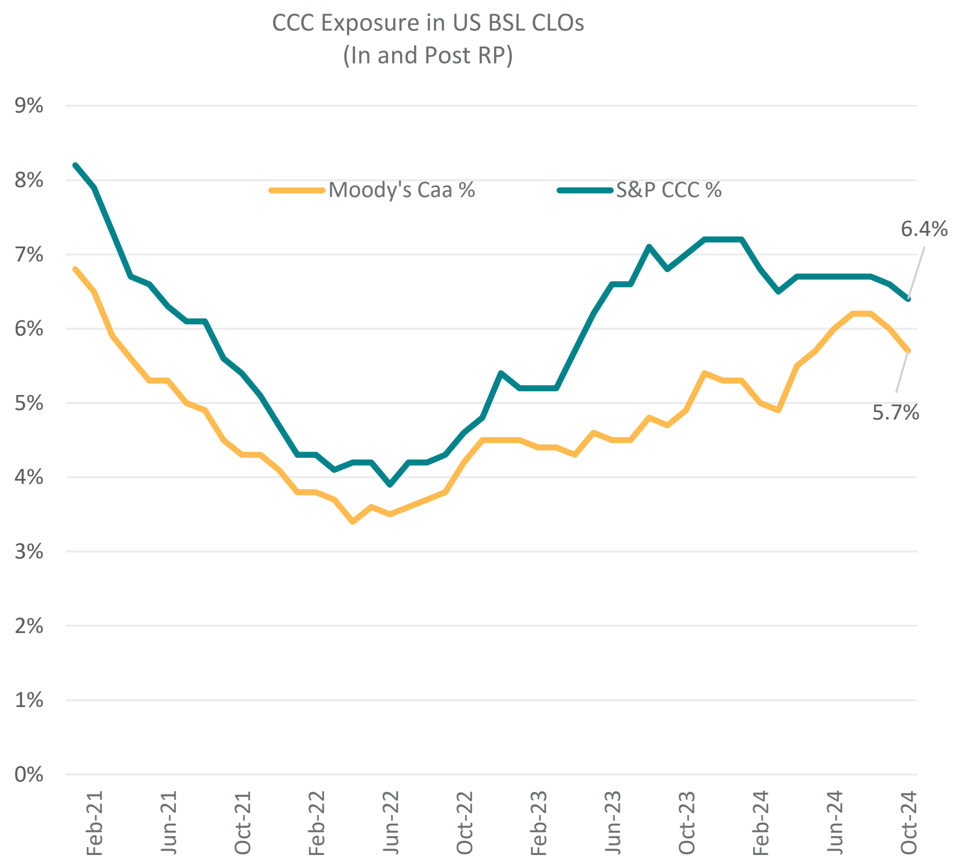
Source: Credit Suisse, Oak Hill Advisors

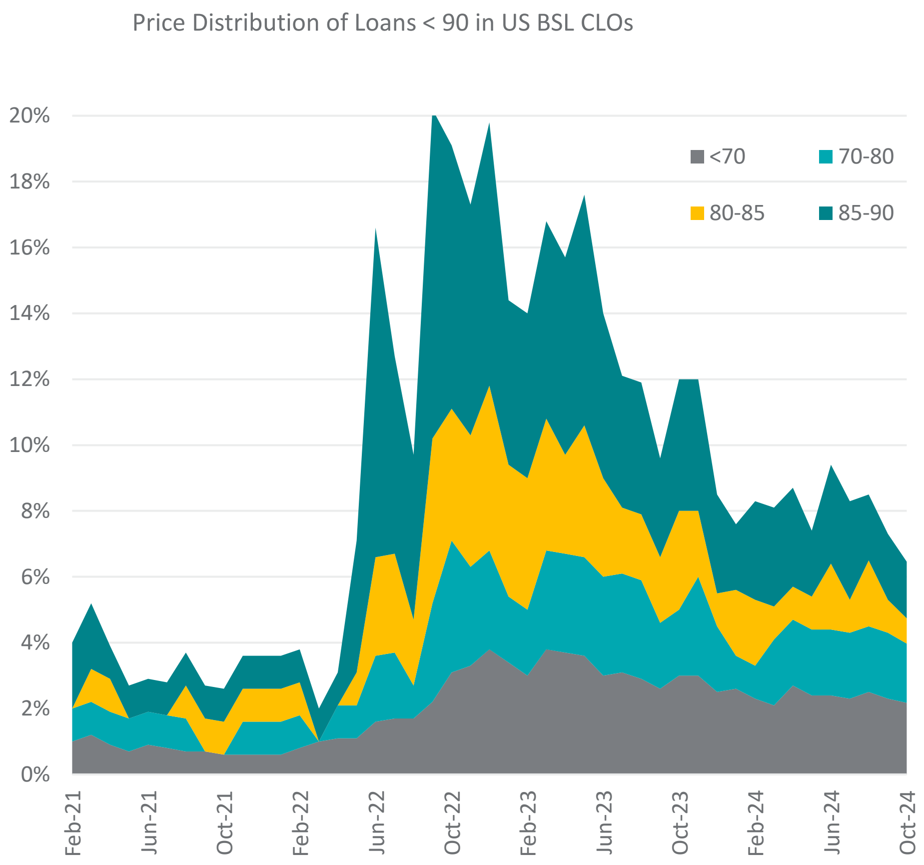
What Have Managers Done to Position Themselves for Resets?



Source: BofA Global Research

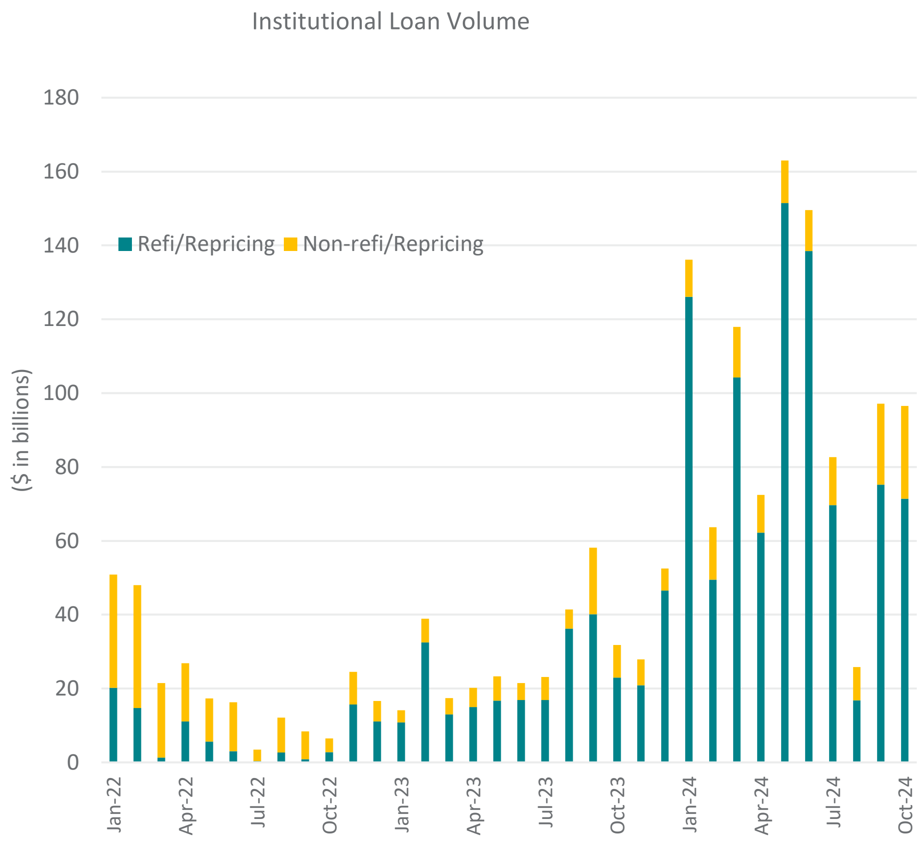
Is Tail Risk in US BSL CLOs Decreasing?

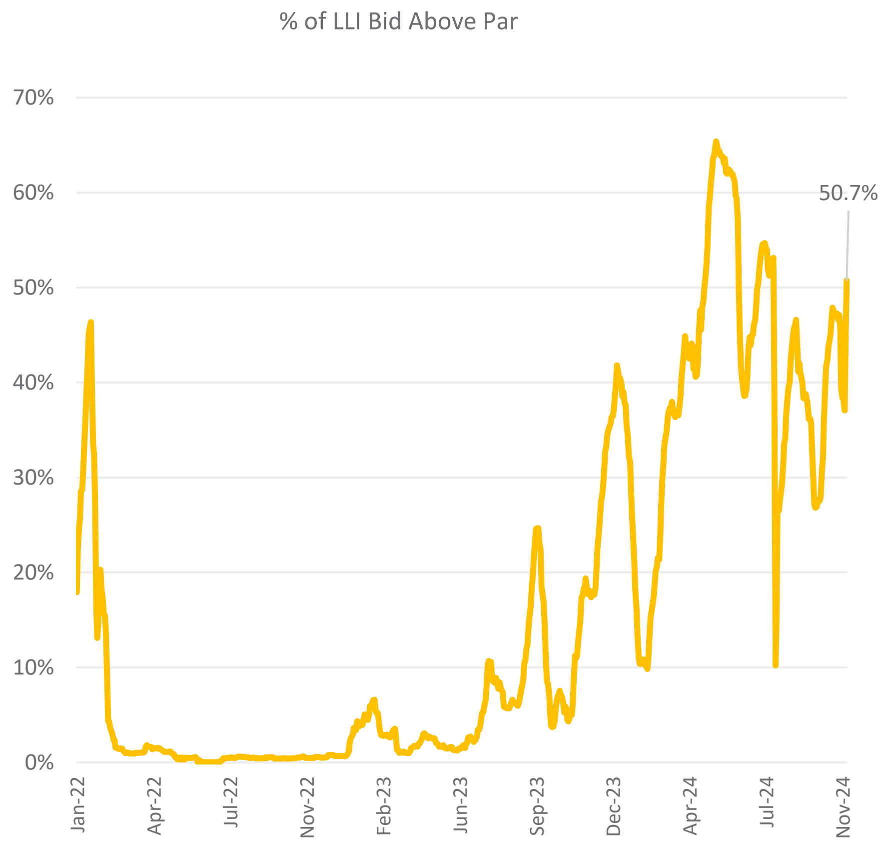




Source: BofA Global Research, Intex, Markit, Bloomberg

The Post-Reinvestment Period Dilemma: Refinancings and Par-Plus Loans





Source: J.P. Morgan Research, PitchBook|LCD

Q&A

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Endnotes

BAIN CAPITAL CREDIT RISK FACTORS

The following considerations, which summarize some, but not all, of the risks of investing in a particular Bain Capital Credit fund or strategy (the "Fund") should be carefully evaluated before making an investment in the Fund. The information set forth under "Risk Factors" in the Fund's Confidential Private Placement Memorandum must be reviewed in its entirety prior to investing in the Fund. An investment in the Fund will involve significant risks, including the loss of the entire investment. The interests in the Fund will be illiquid, as there is no secondary market for interests in the Fund and none is expected to develop.

General Market and Credit Risks of Debt Securities. Debt portfolios are subject to credit and interest rate risk. "Credit risk" refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk.

Limited Amortization Requirements. From time to time, the Fund will invest in debt that will typically have limited mandatory amortization and interim repayment requirements. A low level of amortization of any debt, over the life of the investment, will increase the risk that a portfolio company will not be able to repay or refinance the debt held by the Fund when it comes due at its final stated maturity.

High Yield Debt. From time to time, the Fund will invest in high yield debt, a substantial portion of which is rated below investment-grade by one or more nationally recognized statistical rating organizations or are unrated but, in the adviser's opinion, of comparable credit quality to obligations rated below investment-grade, and have greater credit and liquidity risk than more highly rated debt obligations. High yield debt is generally unsecured and is often subordinate to other obligations of the obligor.

Financially Troubled Companies. From time to time, the Fund invests in the obligations of companies that are financially troubled and that are either engaged in a reorganization or expect to file for bankruptcy. Investments in financially troubled companies involve significantly greater risk than investments in non-troubled companies, and the repayment of obligations of financially troubled companies is subject to significant uncertainties.

Bank Loans. The investments of the Fund at times include interests in loans originated by banks and other financial institutions. The loans invested in by the Fund may include term loans and revolving loans, may pay interest at a fixed or floating rate and may be senior or subordinated.

Priority of Repayment for Certain Investments. The characterization of the Fund's investments as senior debt or senior secured debt does not mean that such debt will necessarily be repaid in priority to all other obligations of the businesses in which the Fund invests. Furthermore, debt and other liabilities incurred by non-guarantor subsidiaries of the borrowers of senior secured loans made by the Fund are often structurally senior to the debt held by the Fund. In the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, the debt and other liabilities of such subsidiaries will generally be repaid in full before any distribution can be made to an obligor of the senior secured loans held by the Fund.

Risks of Secured Loans. Fund have in the past and may in the future invest in secured loans that are over-collateralized at the time of the investment, but such secured loans nonetheless may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance.

Distressed Investments. The Fund is also generally authorized to invest in the securities and obligations of distressed and bankrupt issuers, including debt obligations that are in covenant or payment default. Such investments generally are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid, if at all, only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments and the amount of any recovery is typically affected by the relative seniority of the Fund's investment in the capital structure of the issuer. In addition, distressed investments are more likely to be challenged as fraudulent conveyances and amounts paid on those investments will be subject to avoidance as a preference under certain circumstances.

Structured Products. The adviser has in the past and will in the future cause the Fund to invest in structured products, including assets typically referred to as "CLO debt" and "CLO equity." These investments will typically consist of equity or subordinated debt securities issued by a private investment fund that invests, on a leveraged basis, in the bank loan, high yield debt or other asset groups. The Fund's investments in structured products will be subject to a number of risks, including risks related to the fact that the structured products will be leveraged. Utilization of leverage is a speculative investment technique and will generally magnify the opportunities for gain and risk of loss borne by an investor in the equity or subordinated debt securities issued by a structured product.

Mezzanine Debt. The mezzanine investments in which the Fund intends to invest are typically contractually or structurally subordinate to senior indebtedness of the applicable company, or effectively subordinated as a result of being unsecured debt and therefore subject to the prior repayment of secured indebtedness to the extent of the value of the assets pledged as security. In some cases, the subordinated debt held by the Fund will be subject to the prior repayment of different classes of senior debt that is "layered" ahead of the debt held by the Fund. In the event of financial difficulty on the part of a portfolio company, such class or classes of senior indebtedness ranking prior to the debt held by the Fund, and interest thereon and related expenses, must first be repaid in full before any recovery will be had on the Fund's mezzanine or other subordinated investment. Subordinated investments are characterized by greater credit risks than those associated with the senior or senior secured obligations of the same issuer.

Investments in Direct Lending. The Fund may make investments in the debt of companies directly. Direct lending by the Fund may be riskier than other more established asset classes. Such investments are often negotiated directly with the company itself, with a private equity sponsor, or with another third party, as applicable. As a result, these investments are not broadly syndicated to a large, diverse group of lenders by a financial institution in the manner of bank loans, high yield bonds, or other similar assets in which the Fund invests. The Fund may be the only lenders or part of a small, concentrated group of lenders invested in this part of the company's capital structure. These investments are generally highly illiquid. There is a risk the Fund may not be able to sell or otherwise dispose of these assets or that any such disposition may be on terms that are not favorable to the Fund.