Current Credit Market Perspectives

Wyoming State Treasurer's Annual Investment Conference

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ANGELO GORDON

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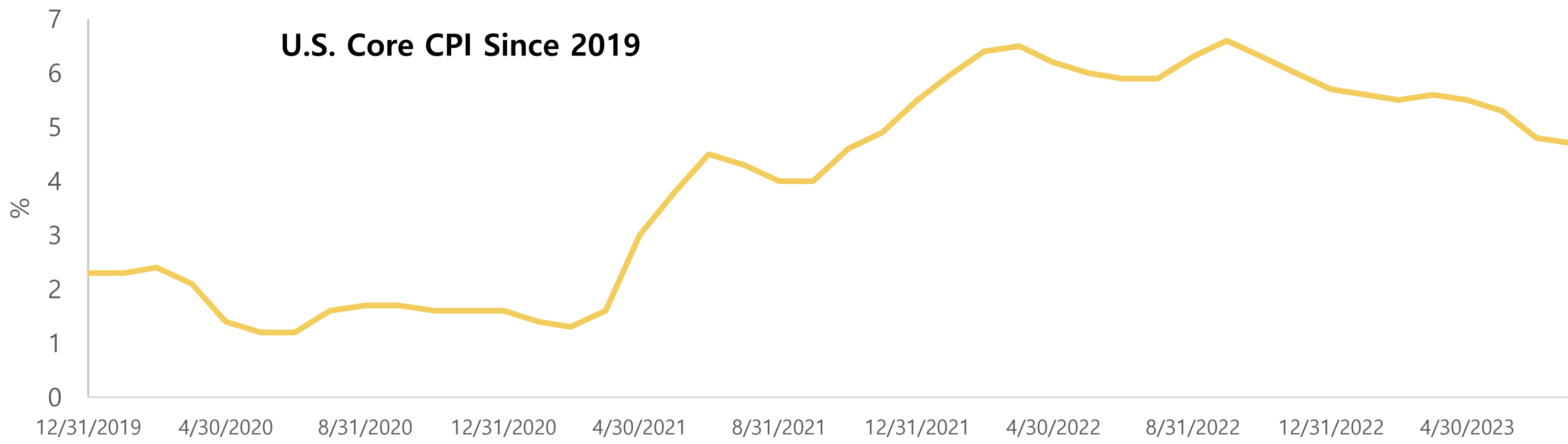
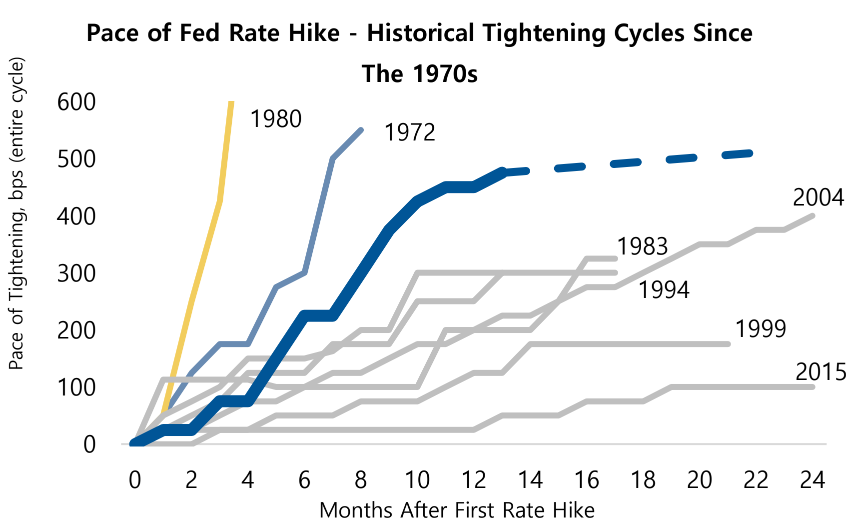
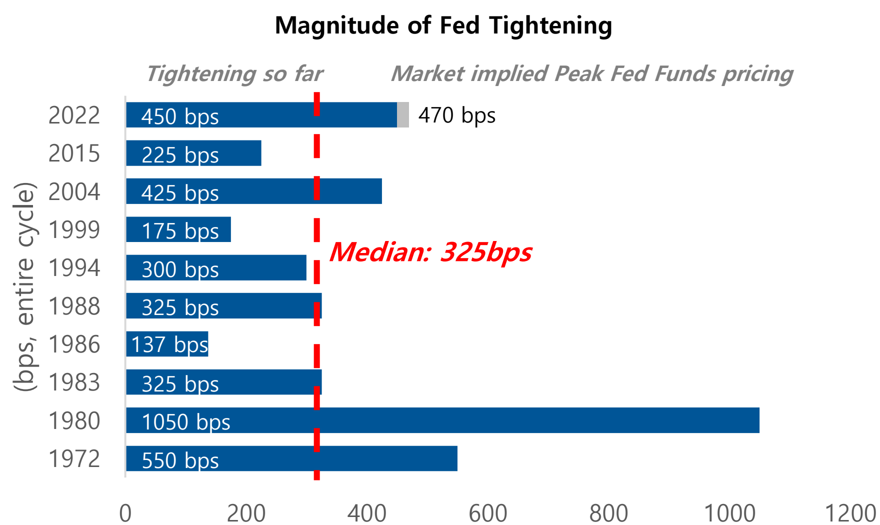
Historic Rate Move a Result of Sticky Inflation





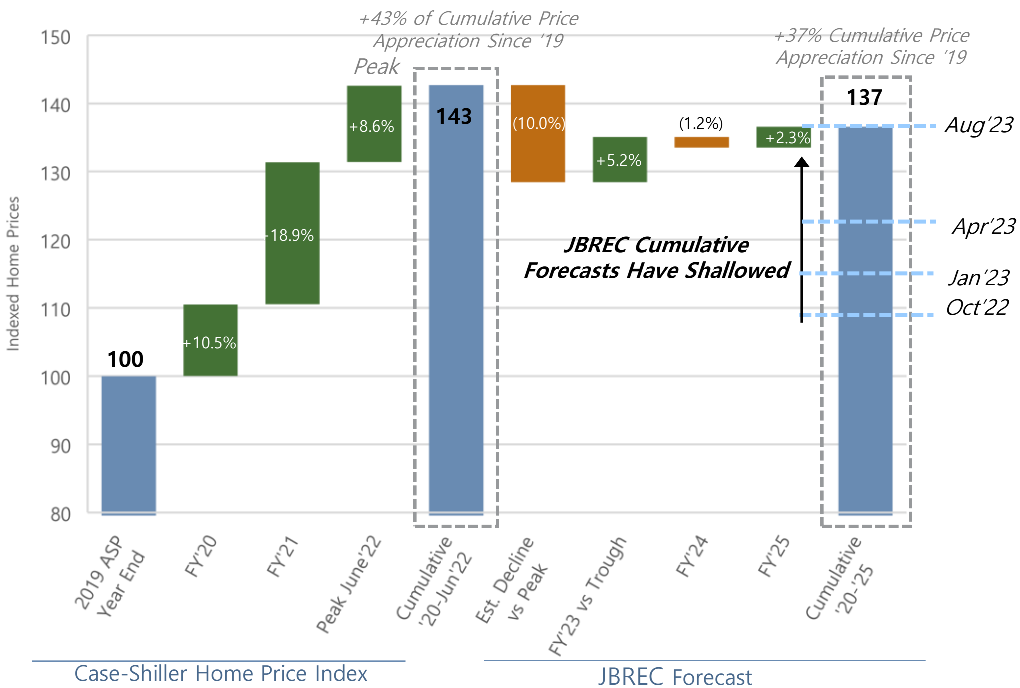


Source: Bloomberg. Data as of 3/31/2023.

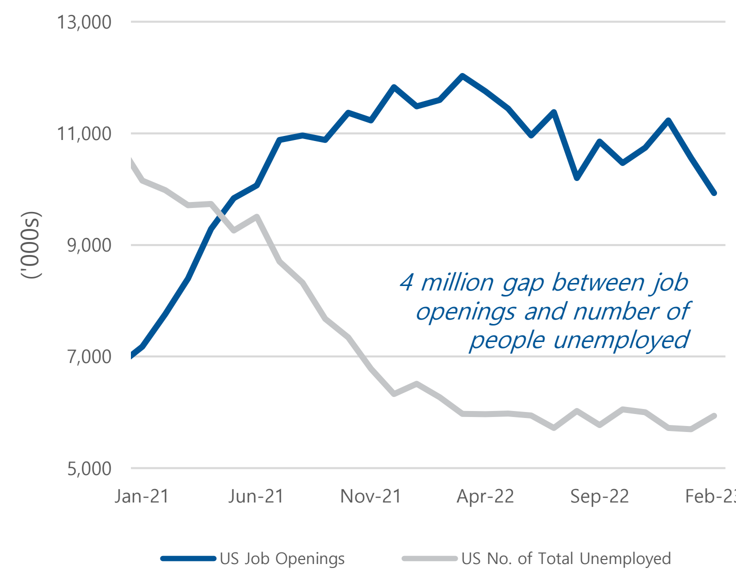
Inflationary Pressures are Widespread and Structural

- From 2020 to peak levels in June 2022, home prices increased 43% versus 2019 year-end prices[1]
- Assuming John Burns home price forecast moving forward through YE'25, cumulative prices increase 37% vs 2019 year-end prices [1]

Home Prices Remain Stubbornly High



US Job Openings vs. Unemployment Level[2]



UPS Workers Approve $30 Billion Labor Contract Lifting Wages

- About 86% of employees voted yes, a Teamsters record at UPS

Hollywood Strike Enters Month Four With No End In Sight

The longest Hollywood strike in history lasted 22 weeks. This one might break the record.

UAW Demands Would Add $80 Billion to US Carmaker Labor Costs

- Internal calculations see labor costs rising to $150 an hour

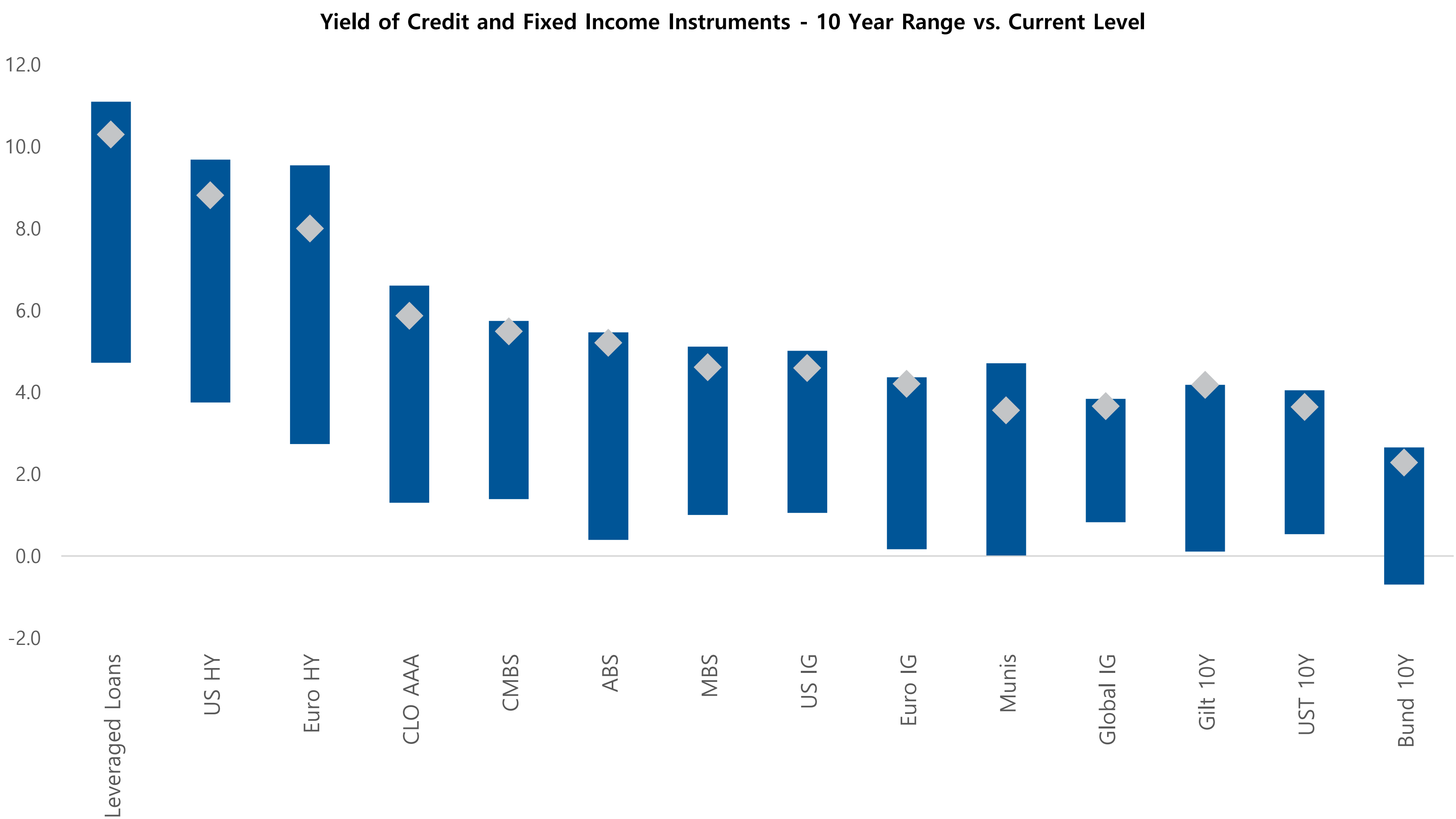
American Air Pilots Approve Record Contract With Higher Pay

"The well-documented chronic housing supply shortage has kept inventory levels very low, which has continued to propel customers to stretch their finances for needed housing, as incentives and price reductions combined to spark sales activity…The core elements of the supply shortage will not resolve in the near term as the almost 15-year production deficit will take years to resolve."

-- Stuart Miller, Chairman and Co-CEO, Lennar Corporation (June 15, 2023)

Note: Represents views and opinions of AG and does not represent a warranty or guarantee that any given outcome is likely to occur.
(1) Source: CoreLogic for Case-Shiller. JBREC home value index forecast as of 8/17/23.
(2) Source: Federal Reserve, Goldman Sachs Investment Research

Credit Market Backdrop: Attractive Compensation to Invest in Credit



Source: Bloomberg. As of 5/31/2023.

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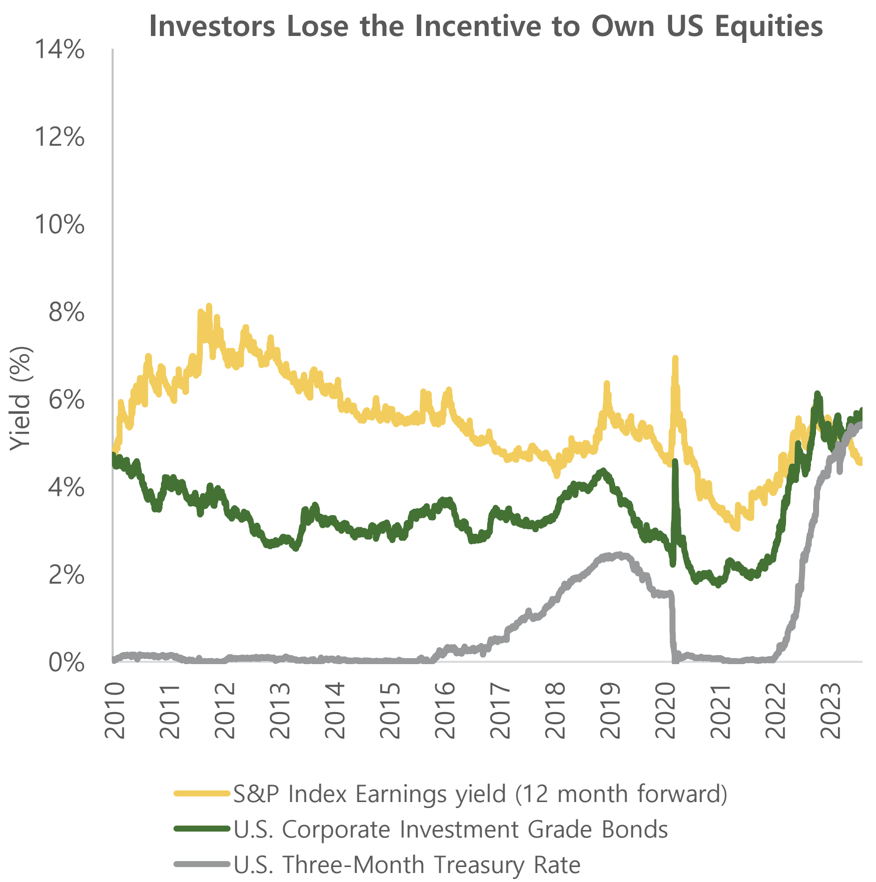
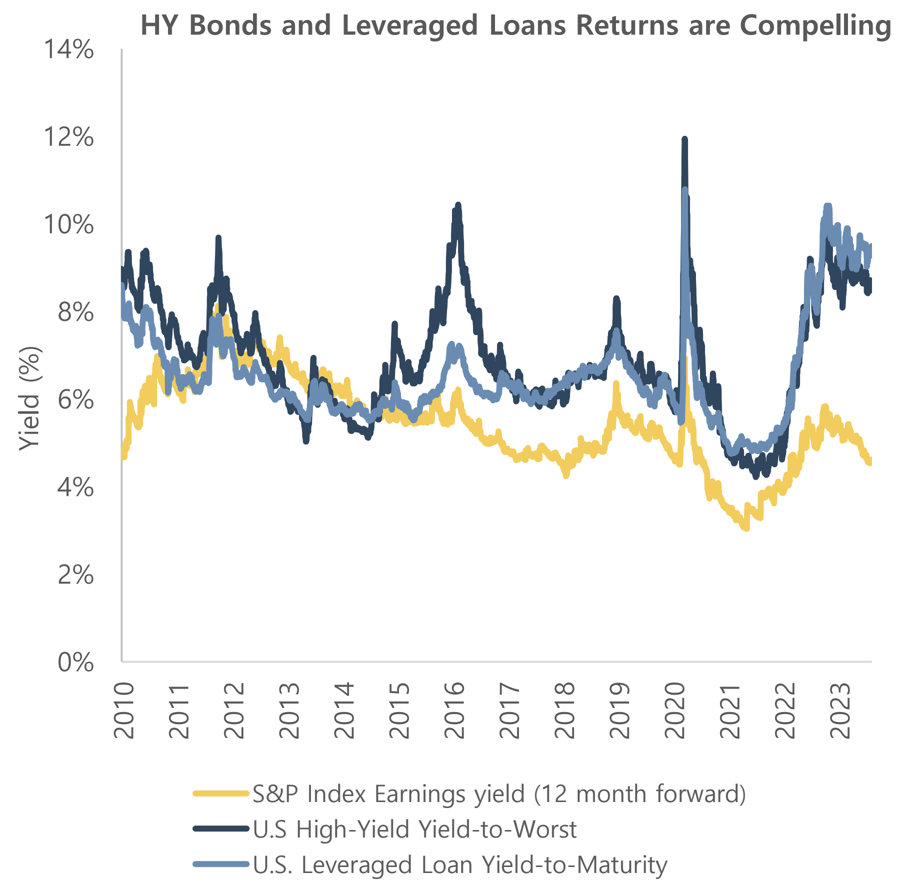
Credit and Equity Yields – The Revenge of Fixed Income





Source: Bloomberg, J.P. Morgan and Financial Times

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Impact of Higher WACC on Valuation

- A software LBO was completed in early 2022 at an implied enterprise value of $24 billion. Using a reasonable perpetuity growth-rate ("PGR") assumption of 2%, we calculated the **implied weighted average cost of capital ("WACC") required to justify the valuation, was approximately 9.4%.** A
- The transaction was financed with $15 billion of debt, $2.5 billion of preferred equity, and $6.5 billion of common equity. The debt was firmly committed to by a broad syndicate of banks at the signing of the deal.
- Based on the implied WACC of 9.4%, if you assume the sponsor required a minimum return on the preferred and common equity of 15%, then the sponsor needed to raise debt at a rate of 6.8% (or lower).
- The rate environment changed dramatically, and the deal was "hung." The company ended up with a financing "at the caps," which were materially better than where a "market" deal would have priced. Adjusting WACC for the higher cost of financing at the issue caps (versus sponsor expectations), but leaving the cost of equity unchanged, **the implied enterprise value decreases to $21.7 billion, which is a $2.3 billion or ~35% loss to the common equity.** B
- The debt was eventually syndicated at an effective cost of 11.0%. Assuming the return on equity remains unchanged, WACC increases to 11.8%, which produces an enterprise value of ~$18.2B, **implying a near total impairment of the common equity.** C

	Actuals		AG Base Case						Trend to Steady-State			
	FY'20	FY'21	FY'22E	FY'23E	FY'24E	FY'25E	FY'26E	FY'27E	FY'28E	FY'29E		TV
($ millions)												
Total Revenue	4,162	4,374	4,544	4,731	4,925	5,122	5,327	5,540	5,706	5,849	5,966	
% YoY	3%	5%	4%	4%	4%	4.0%	4.0%	4.0%	3.0%	2.5%	2.0%	
Adjusted EBITDA	1,433	1,375	1,719	1,917	1,999	2,049	2,131	2,216	2,283	2,340	2,386	
% Margin	34%	31%	38%	41%	41%	40%	40%	40%	40%	40%	40%	
UFCF	1,182	929	1,199	1,719	1,845	1,849	1,931	2,016	2,083	2,140	2,186	
Terminal Value - Perpetual Growth Method												30,016
Discounted Cash Flows - Perpetual Growth Method			1,146	1,501	1,473	1,349	1,287	1,228	1,159	1,088	1,016	12,751
PV of Discounted Cash Flows - Perpetual Growth Method			24,000									

A

DCF Assumptions	
Start Date	12/31/21
PGR	2.0%
WACC	9.4%

Calculated Required Cost of Debt	
WACC	9.4%
Cost of Equity	15.0%
Equity and Preferred as % of Capital	37.5%
Required Cost of Debt (After Tax)	6.1%
Assumed Tax Benefit	10.0%
Req'd Cost of Debt (Pre Tax)	**6.8%**

Simple Capitalization ($ in Billions)	
Debt	15.0
Preferred Equity	2.5
Common Equity	6.5
Total Capitalization	**24.0**

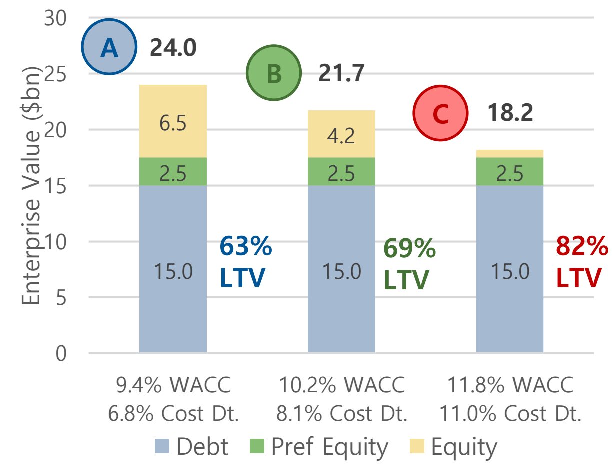
B

Actual Financing - at Issue Caps		
	% of Dt	
Senior Cost of Debt	74.4%	7.8%
Junior Cost of Debt	25.6%	9.0%
Effective Cost of Debt (at Caps)	**100.0%**	**8.1%**
Debt as % of Capitalization		62.5%
Assumed Tax Benefit on Interest		10.0%
Cost of Equity		15.0%
Equity as % of Capitalization		37.5%
WACC (at Debt Issuance Caps)		**10.2%**

C

Actual Financing - at Issued Yields		
	% of Dt	
Senior Cost of Debt	74.4%	10.0%
Junior Cost of Debt	25.6%	14.0%
Effective Cost of Debt	**100.0%**	**11.0%**
Debt as % of Capitalization		62.5%
Assumed Tax Benefit on Interest		10.0%
Cost of Equity		15.0%
Equity as % of Capitalization		37.5%
WACC (at Issued Yields)		**11.8%**

Enterprise Value at Various WACC's



In order to earn a 15% return on equity at the transaction price, investors need the company to be worth $30 billion.

Instead, investors can earn a 14% return on the junior debt while only needing the company to be worth $15 billion.

Source: AG Analysis

Episodic Micro-Cycles and Volatility

Periodic, Recurring Micro Cycles Post-Global Financial Crisis[1]

(1) Source: J.P. Morgan high yield spread data daily as of the indicated date range.

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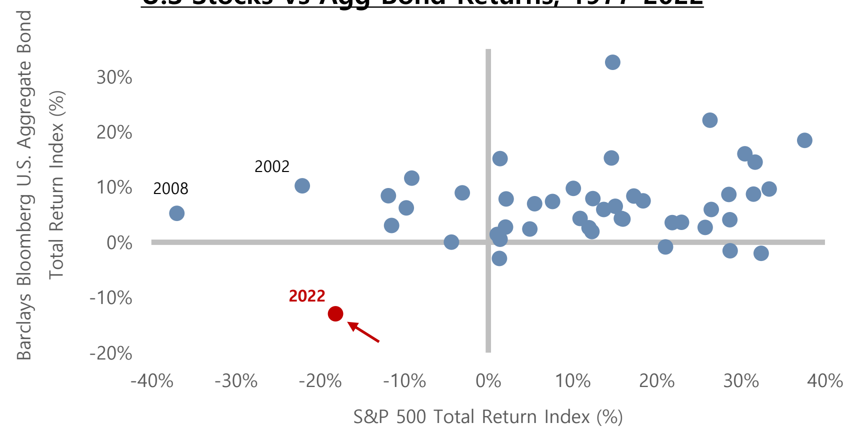
Market Summary

Full-Year 2022 & YTD 2023[1]		
Returns	**December 31, 2022**	**August 15, 2023**
S&P 500	-18.1%	+16.8%
NASDAQ	-32.5%	+30.9%
U.S. High Yield Total Return	-11.2%	+6.3%
Europe High Yield Total Return	-9.7%	+6.2%
U.S. Investment Grade Total Return	-15.4%	+1.8%
U.S. 30 Year Treasury Total Return	-20.2%	-3.0%
Spreads & Yields		
U.S. High Yield Spread-to-Worst	511 bps *+135 bps YTD*	414 bps *-97 bps YTD*
Europe High Yield Spread-to-Worst	547 bps *+169 bps YTD*	487 bps *-60 bps YTD*
U.S. High Yield Yield-to-Worst	9.23% *+452 bps YTD*	8.68% *-55 bps YTD*
Technicals		
U.S. High Yield Fund Flows	-$47.0 billion *Largest annual outflow on record*	-$9.3 billion *Net outflows in four of the first seven months*
U.S. High Yield New Issuance	$107 billion *-78% year-over-year*	$102 billion *Volume outpacing '22, but below historical average*

U.S Stocks vs Agg Bond Returns, 1977-2022[2]



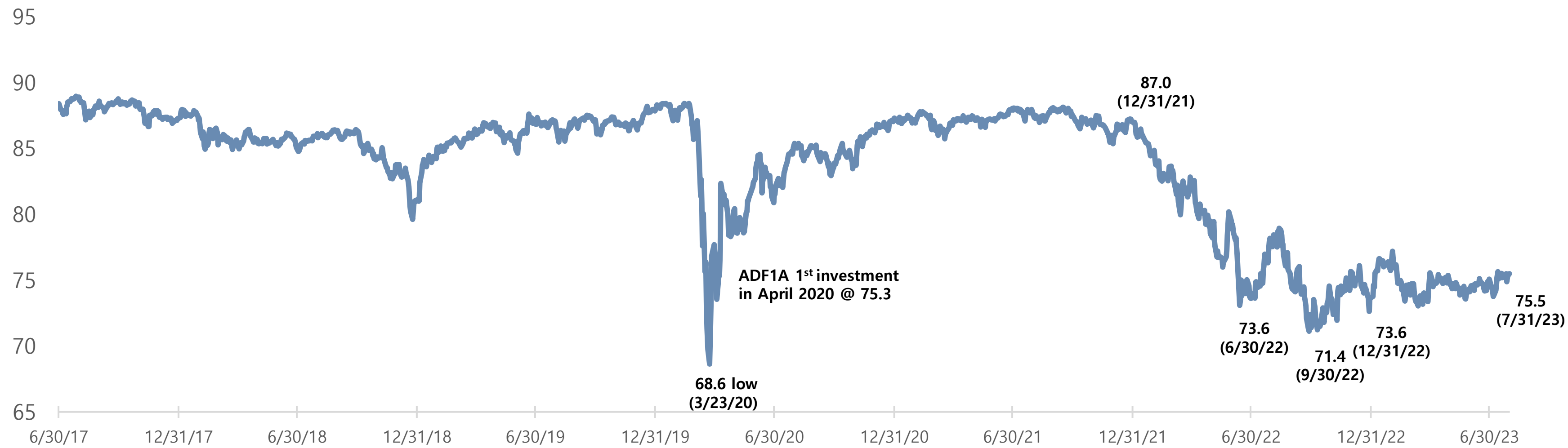
Annual U.S High Yield Returns, 1984 thru 2023[2]

< -15%	-15% -10%	-10% -2.5%	-2.5% - 2.5%	2.5%-10%	10%-15%	15%-20%	20% +
				1984			
				1987			
			1989	2001			
			1994	2005		1986	
			1998	2011	1988	1992	
			1999	2013	1996	1993	
			2002	2017	1997	1995	1985
		1990	2007	2020	2004	2010	1991
		2000	2014	2021	2006	2012	2003
2008	**2022**	2015	2018	**YTD 2023**	2019	2016	2009

(1) Source: Bloomberg Barclays for U.S. high yield return, J.P. Morgan for other data. (2) Source: Bloomberg (3) Source: Bloomberg Barclays U.S. High Yield Total Return Index.

U.S. High Yield Market Statistics

HYG Price History[1]



HYG Price Trading History[2]

Price Level	# of Trading Days	% of Trading Days
< 85	1105	26.9%
< 75	315	7.5%
< 70	55	1.3%

7/31/23 trading price of 75.5 = 9th percentile

2022 Bond Price Declines[3]

Price Change	# of CUSIPs	% of Total
-10pts	1412	76%
-15pts	923	50%
-20pts	494	27%
-25pts	280	15%
-30pts	181	10%
# of Price <80	380	20%

(1) Sources: HYG daily pricing chart data from Bloomberg. (2) HYG price trading history data based 4,105 trading days through 7/31/2023. (3) Table statistics based on Bloomberg Barclays High Yield Index underlying data and as of 12/31/2022.

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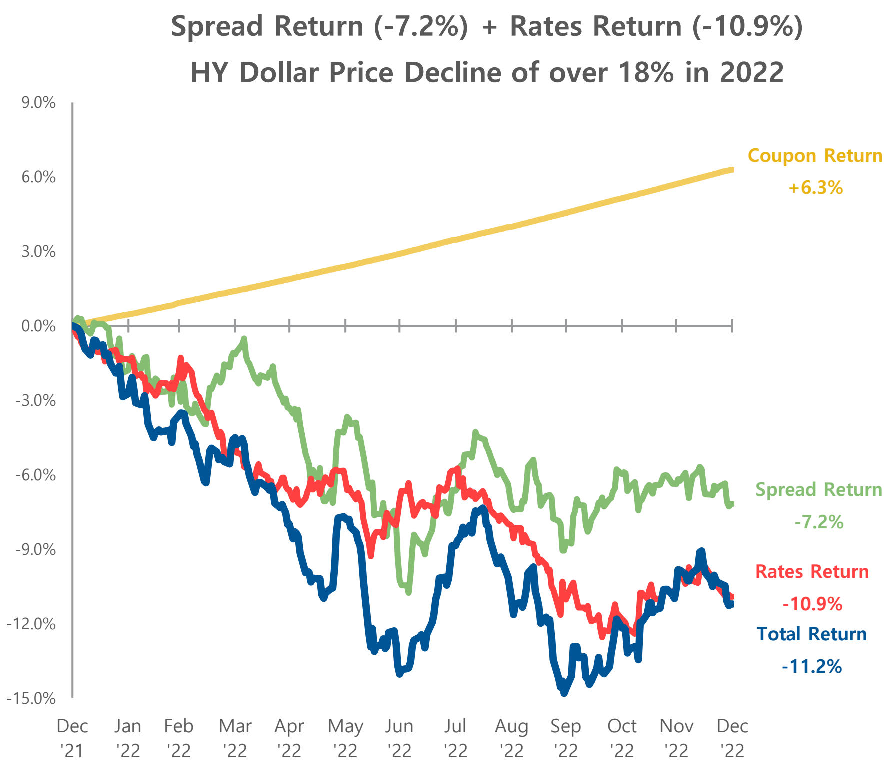
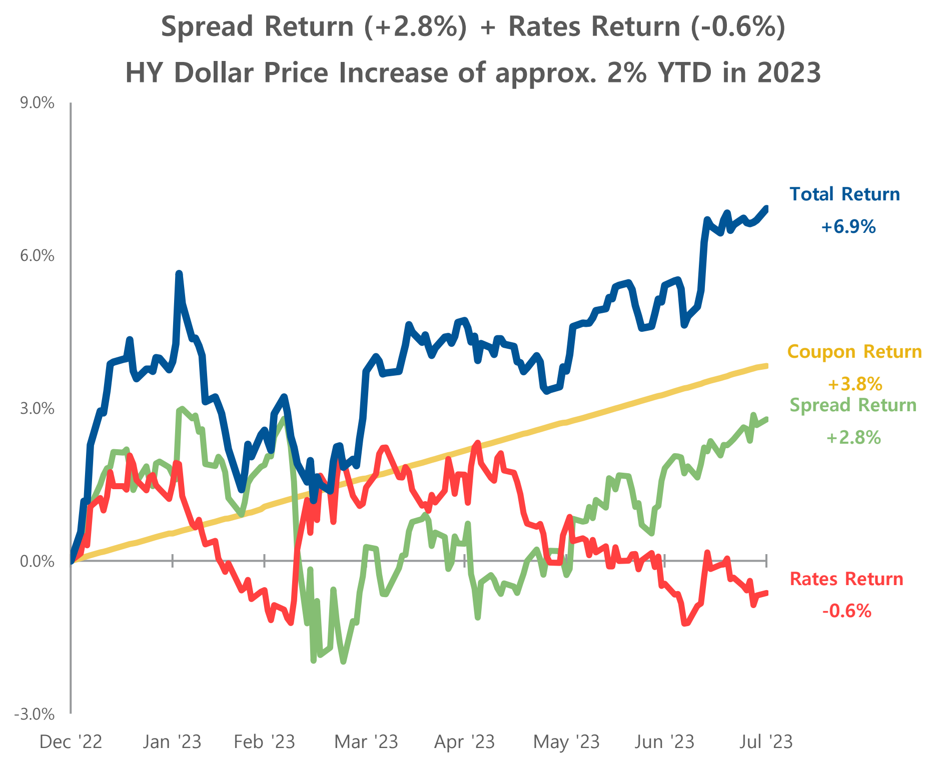
Components of U.S. High Yield Return in 2022 and 2023

High Yield Bond Prices Remain Dislocated





Source: Bloomberg Barclays U.S. High Yield Total Return Index, Bank of America, Angelo Gordon. Data as of 7/31/2023.

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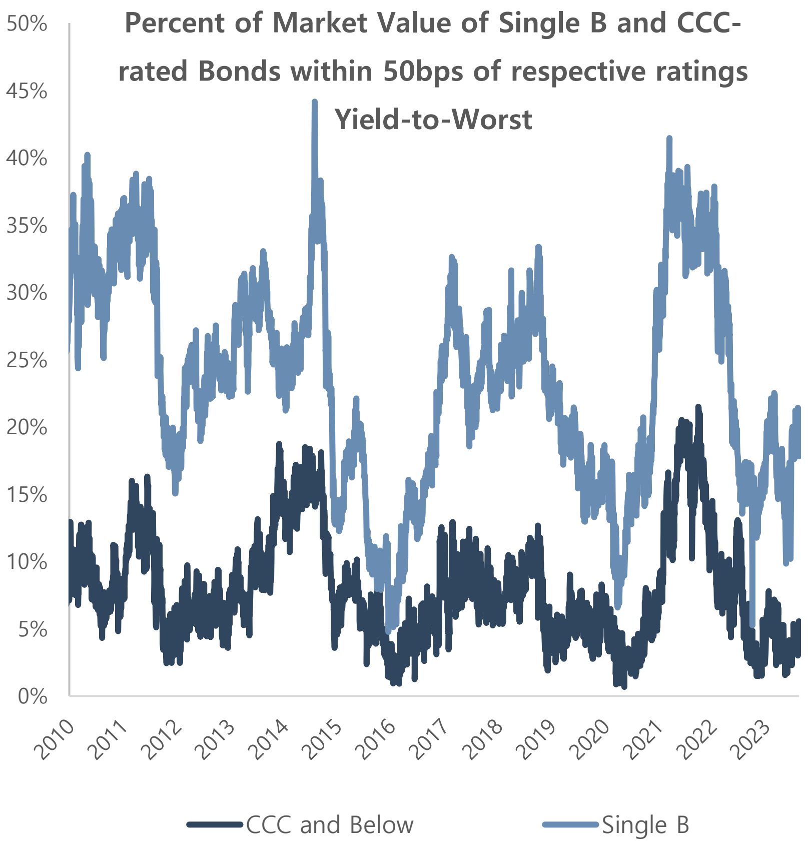
U.S. High-Yield CCC – BB Spread Basis[1]

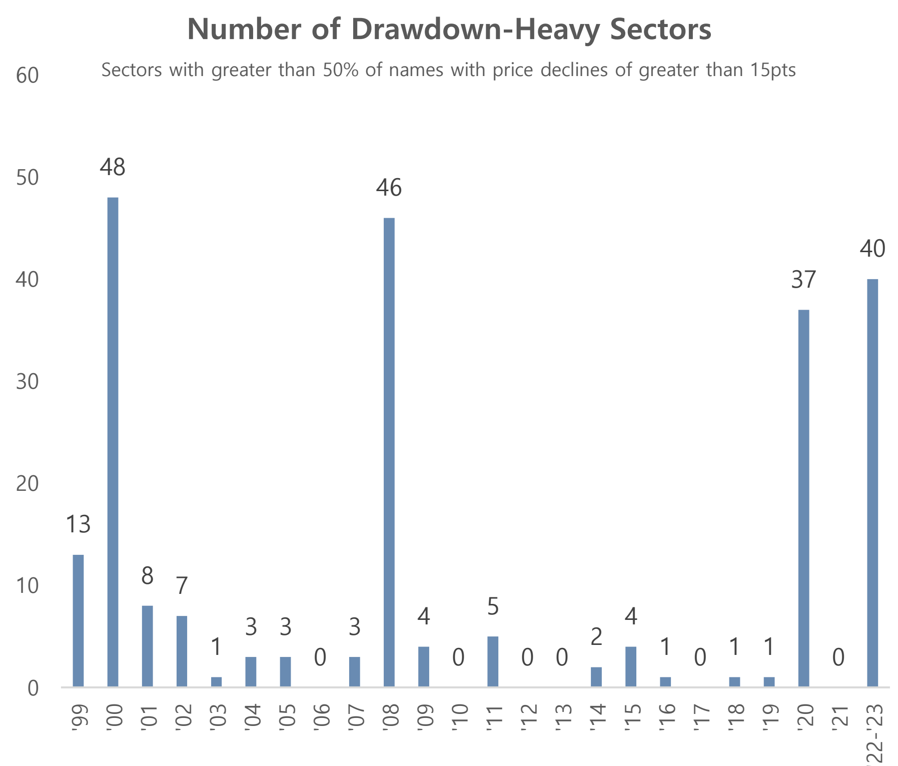
Dispersion Remains Elevated – This is a Credit-Picker's Market

(1) Source: J.P. Morgan Domestic High Yield Spread to Worst Index, data 1/1/2013 through 6/30/2023. Spread basis represented in basis points based on the differential between the J.P. Morgan Domestic High Yield CCC Spread to Worst Index (JPDFCCC) and the J.P. Morgan Domestic High Yield BB Spread to Worst Index (JPDFBB). Percentiles based on data over the indicated time period.

Dispersion within the High-Yield Market

Dispersion intra–cohort and across sectors has increased





Source: Bloomberg, Barclays Research

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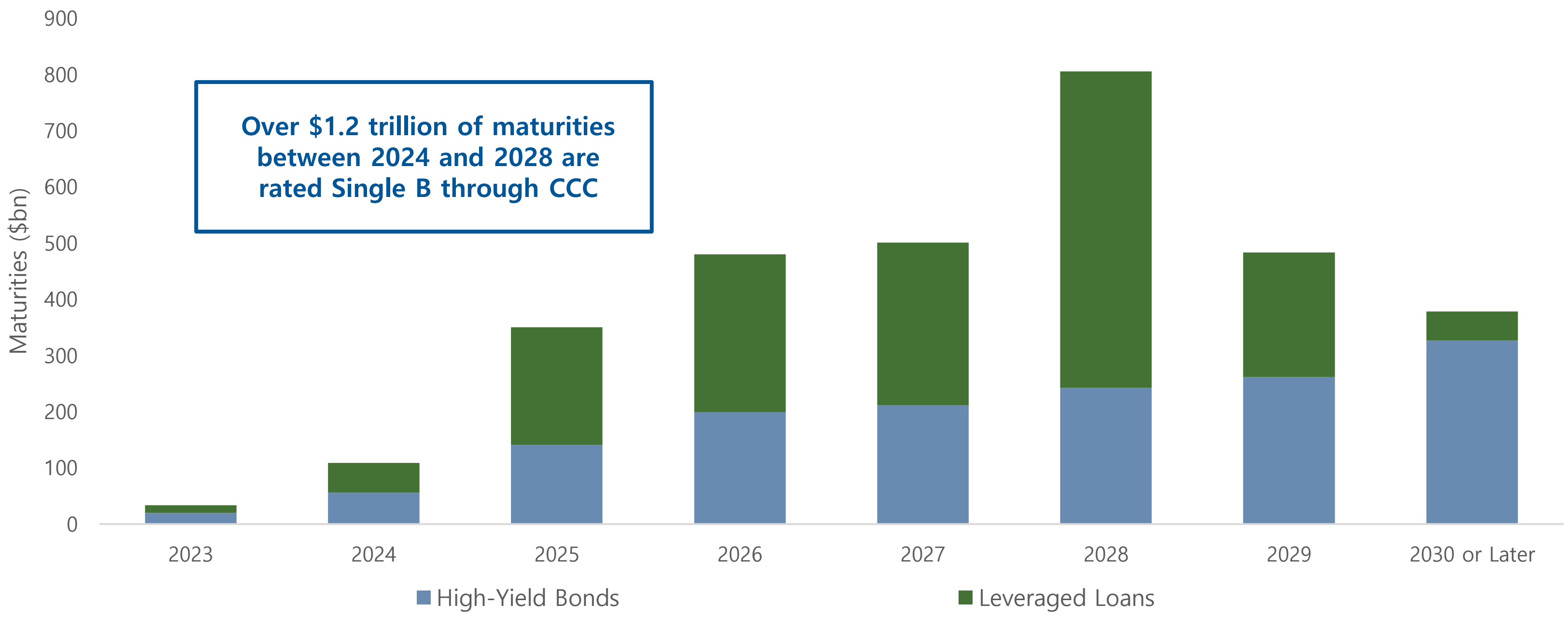
Upcoming Maturity Wall Will Ultimately Determine Winners/Losers

- **More than $2.2 trillion of High-Yield Bonds and Leveraged Loans have upcoming maturities in the next 5 years**
- **Over 55% of those upcoming maturities are rated Single B through CCC**
- **In addition, over 55% of these upcoming maturities (based on number) have tranche sizes between $300 million and $1 billion**



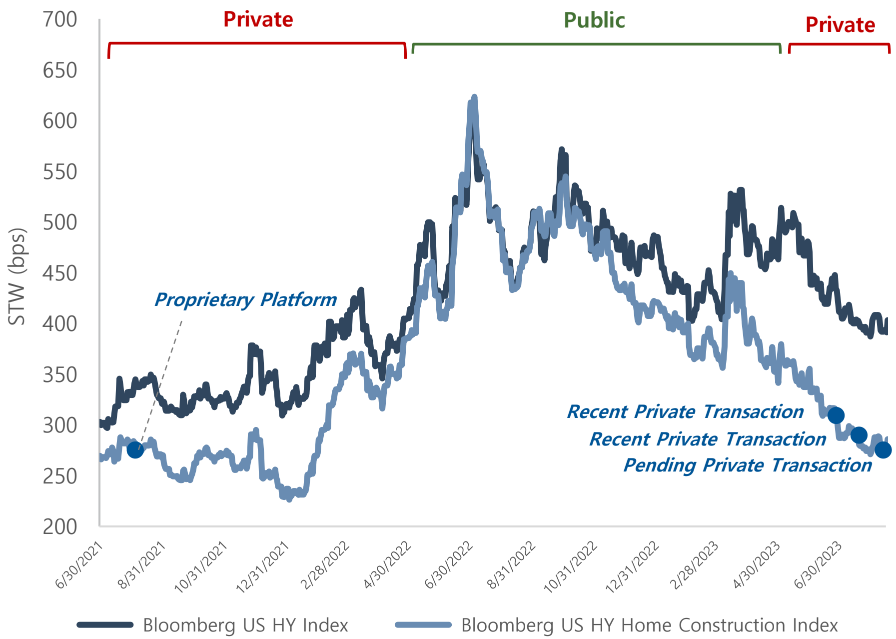
There have been no CCC unsecured LBO financings/refinancings in the public market since Q2'22

Source: J.P. Morgan and Goldman Sachs

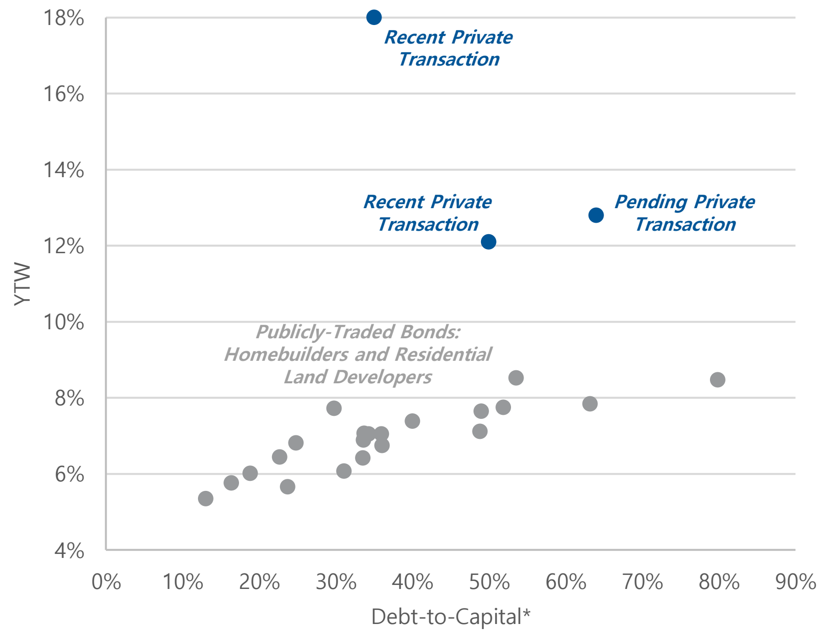
Residential Housing Sector

Opportunity sets shift between public and private markets, depending on normalized or dislocated market environments, with private transactions, often generating the potential for a premium

Opportunity Set is Fluid



Risk/Reward Now Favors Privates



*Debt-to-Capital represents total funded debt divided by total debt plus stockholders' equity and is used as an indicator of overall leverage employed in operations. Loan-to-Value may be used instead of Debt-to-Capital as the most appropriate indicator of overall leverage.

Source: Data from J.P. Morgan and Bloomberg.
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Recent Privately-Structured Financing Transactions

	Recent Transaction #1	Recent Transaction #2	Recent Transaction #3	Recent Transaction #4	Pending Transaction #1	Pending Transaction #2	Pending Transaction #3
Investment Date	March 2023	April 2023	July 2023	August 2023	Pending[1]	Pending[1]	Pending[1]
Description	Global supplier of engineered nonwoven materials	Platform of aesthetic, plastic surgery and dermatology practices	Residential homebuilder	Financing for an acquisition of land parcels in northern California	European manufacturer of advanced magnetic materials	Global manufacturer of commodity and specialty chemicals	Residential Homebuilder
Industry	Paper & Packaging	Health Care Facilities	Homebuilding	Homebuilding & Land Development	Industrials	Chemicals	Homebuilding
Usage	Refinancing	Growth	Refinancing	Acquisition	Acquisition	Refinancing	Refinancing
Security	First-Lien Term Loan	First-Lien Term Loan	Unsecured Senior Bond	First-Lien Term Loan	First-Lien Term Loan	First-Lien Term Loan	Junior Note
Coupon	11.25% *(fixed)*	11.0% *(fixed)*	11.0% *(fixed)*	16.75% *(Prime + 825bps, 625 bps floor)*	11.8% *(EURIBOR + 800bps, 300 bps floor)*	13.3% *(SOFR + 850bps, 300 bps floor)*	11.75% *(fixed)*
Price/Discount	98	95	97	Par	95.75	97	97.25
Estimated Loan-to-Value	~35%	~30%, plus parent guarantee	~50%	~35%	~25%	~40%	~65%
Facility Size	€250mm	$125mm	$250mm	$360mm	€165mm	>$1,000mm	$500mm

* Note: Certain statements contained herein reflect the subjective views and opinion of AG which may not be able to be independently verified and are subject to change. Data estimated, information may not be accurate and is subject to change without notice. Certain figures rounded. There can be no assurance that Angelo Gordon will be able to source suitable investment opportunities, and further, these transactions may not be representative of transactions that may be available in the future, to any fund or account. The ultimate events, future results or actual performance of investments may differ materially from those reflected here. There can be no assurance that the investment objective of these investments will be achieved or any fund will be successful or that losses can be avoided. Past performance is no guarantee of future results. The terms presented are illustrative purposes only and purely hypothetical. Terms presented do not represent any existing or planned account managed by Angelo Gordon.
(1) Transactions pending, and terms subject to change; there is no assurance that any pending transaction will be completed, or if so, on the terms as currently presented.

The Simple Math…

We continue to believe the credit market offers a greater potential for returns, particularly on a risk adjusted basis, regardless of what an investor may believe is the most likely economic outcome in the coming years

	8/15/2023 S&P Price	Assumed Forward Annual Return	Time Period		Implied S&P Price	
	4,438	15%	4 years	=	7,762	
Actual P/E Multiple	20.2x				20.2x	**Assumed P/E Multiple**
Current EPS	220.03	→	+75%	→	384.83	**Implied EPS**

Source: Bloomberg
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Biography

Ryan Mollett joined Angelo Gordon in 2019 as the Global Head of Distressed & Corporate Special Situations and is a member of the firm's Partnership Advisory Board. He is the Portfolio Manager of AG Credit Solutions Fund, CSF Annex Dislocation Funds, Corporate Credit Opportunities Fund, Essential Housing Fund, and related accounts, and oversees the Angelo Gordon teams in the U.S. and Europe focused on distressed debt and special situations opportunities. Prior to joining Angelo Gordon, Ryan was a Senior Managing Director at Blackstone and a senior investment professional and investment committee member of GSO Capital Partners' Global Distressed Investment Team, including as a Joint Portfolio Manager of GSO's Capital Solutions Funds, Credit Alpha Funds and the Special Situations Funds, as well as GSO Community Development Capital Group LP. Prior to joining Blackstone in 2011, Ryan was a Director at BlackRock where he was a Portfolio Manager and Senior Research Analyst. Before that, he was a trader at First New York Securities, and a consultant with Gemini Realty Advisors. Ryan received a B.A. in History from Princeton University where he was Captain of the 2001 National Championship Lacrosse Team and received 1st Team All-American and Academic All-American honors. He received his MBA in Finance and Investment Management from Yale University and currently sits on the Board of the Yale School of Management International Center for Finance. He also serves on the Board of the Boys' Latin School of Maryland and is a member of the Athletic Advisory Council at Greenwich Country Day School.

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