



SUMMARY



Adam B. Kertzner
Portfolio Manager
and Senior Partner

OHA believes credit markets are highly interconnected and experience and capabilities in one asset class informs investing across others

Attractive investment opportunities exist across the credit spectrum in direct lending, junior capital solutions, liquid credit, structured credit, special situations and asset based lending

OHA believes managers that can best assess relative value across credit assets may outperform, delivering attractive risk-adjusted returns with varying levels of liquidity

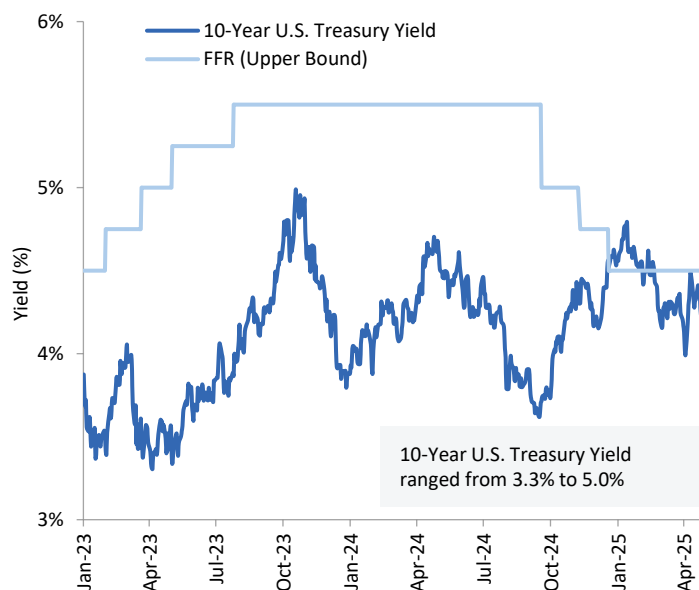
Macro Overview

Volatility, Versatility

Financial markets have started 2025 with significant volatility and echoes of historical dislocations. Positive momentum, predicated on a theme of U.S. exceptionalism, faded as investors digested the Trump administration's unfolding policy agenda. The announcement of historic broad-based tariffs by the U.S. heightened risks of a stagflation or recession scenario jolting global markets. Shown in Figure 1, the volatility in the U.S. 10-Year Treasury yield reflects the market's growing uncertainty.

With this backdrop, the outlook for credit investing is highly constructive. The prospect of episodic or more sustained market disruption has expanded both investment risks and opportunities. Ongoing crosscurrents should drive continued dispersion across geographies, industries, companies and asset classes. OHA believes this dynamic lends itself to our versatile, all-weather investment approach predicated on rigorous bottom-up due diligence and a focus on downside protection across the spectrum of credit strategies.

Fig. 1: Historical Interest Rate Environment¹



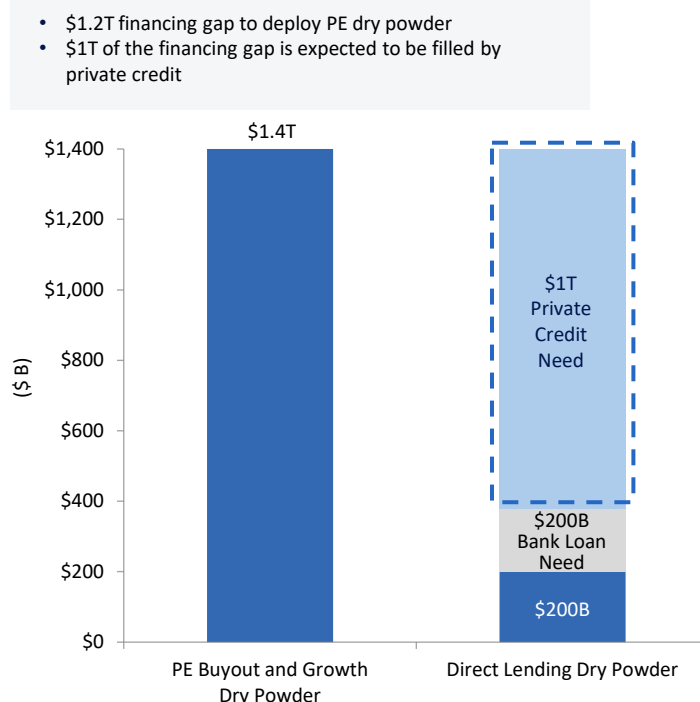
Direct Lending

Oversaturated or Underpenetrated?

Direct lending has evolved into the preferred source of financing for complex situations including M&A processes or times of market dislocation. Accelerated by the Global Financial Crisis, companies increasingly seek the advantages of private solutions for greater customization, accelerated execution, confidentiality and benefits of fewer lenders. Borrowers have historically financed themselves in the private markets at a premium of 150 - 300 bps compared to syndicated markets, to compensate lenders for their value-added solutions.

As additional capital flows into the growing direct lending market, OHA analyzes the supply / demand dynamics of potential future deal flow. As shown in Figure 2, there is \$1.4 T of private equity dry powder earmarked for buyout and growth investments. Private credit financed 85% of LBOs since 2022, and these acquisitions are typically structured with 50% debt financing.⁽³⁾ With \$200 B in current direct lending dry powder, OHA sees a \$1.2 T financing gap which will be primarily filled by private credit, resulting in a \$1 T current need for additional private credit capital.

Fig. 2: Supply and Demand: Private Debt Financing Needs²

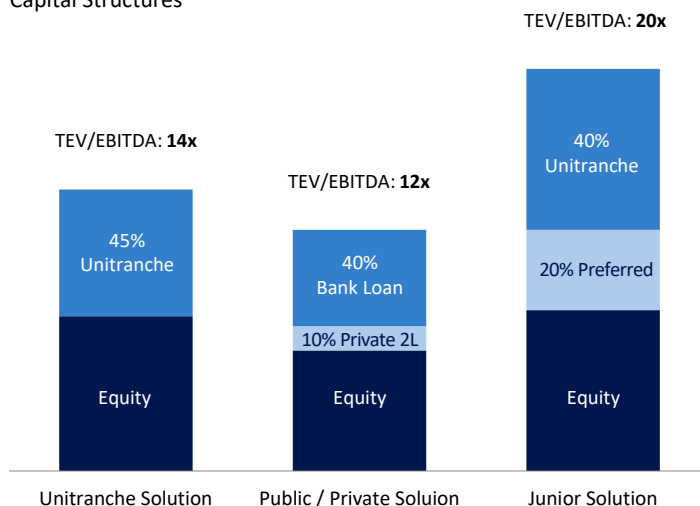


Junior Capital Solutions

Offering Borrowers Enhanced Flexibility

Private credit's flexibility is particularly compelling in dynamic market environments like 2025. Figure 3 illustrates potential private lending solutions across borrowers with different valuation profiles. We believe the current environment may meaningfully expand private lending from private unitranches, the predominant solution for the past few years, to junior capital solutions such as second lien, subordinated debt and preferred equity. These solutions offer quality businesses with unsustainable capital structures the ability to refinance or access liquidity. Relative value insights across the capital structure and between public and private markets are particularly valuable in pricing and structuring these bespoke structures while offering investors higher yields and all-in potential returns.

Fig. 3: Illustrative Private Lending Solutions Across Capital Structures⁴

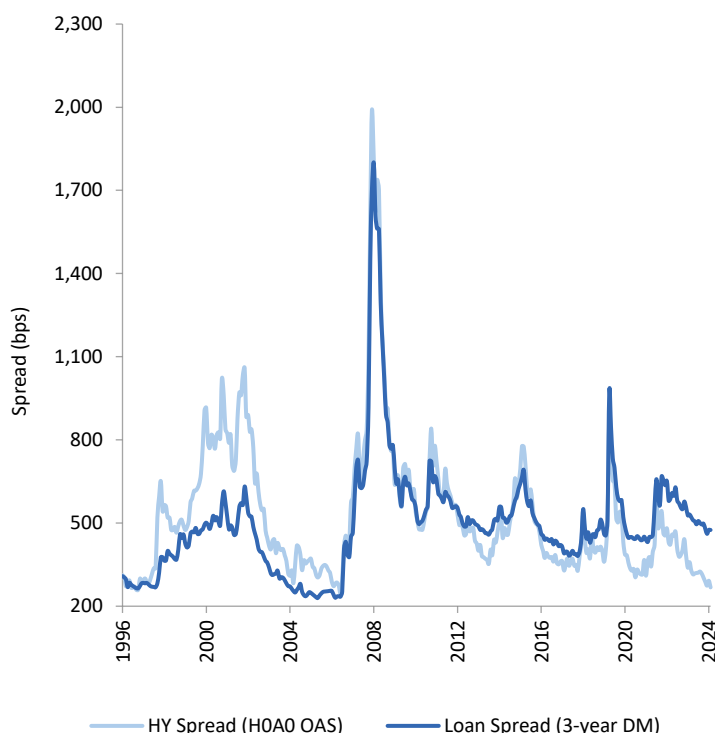


Liquid Credit: U.S. High Yield Bonds and Leveraged Loans

Spread Tightening: The New Normal?

Spreads across the liquid credit universe tightened meaningfully in 2024. As shown in Figure 4 to the right, the average spread of the ICE BofA U.S. High Yield index narrowed to 292 basis points (bps) by year end, just 46 bps wide of pre-GFC levels. Recent spread tightening can be attributed, in part, to an improvement in average credit quality of the high yield index. In December 2024, BBs comprised approximately 52% of the index, compared with 34% following the GFC.⁽⁶⁾ The shift to higher quality credit is accompanied by downward trending default rates, supporting a dynamic of tighter risk premiums among high yield bonds. Meanwhile, leveraged loans (BSLs) have tightened 53 bps underpinned by record levels of repricing and refinancing activity during the same timeframe.⁽⁷⁾ However, unlike high yield, BSL spreads remain well above their historical tight due to lower average credit quality and modestly higher default rates. As dispersion is likely to persist and spreads across liquid credit remain tighter than historical averages, OHA believes the current market environment is conducive to alpha-generation via idiosyncratic credit selection and active asset allocation.

Fig. 4: Historical Spread Distribution⁵ (2008-2025)

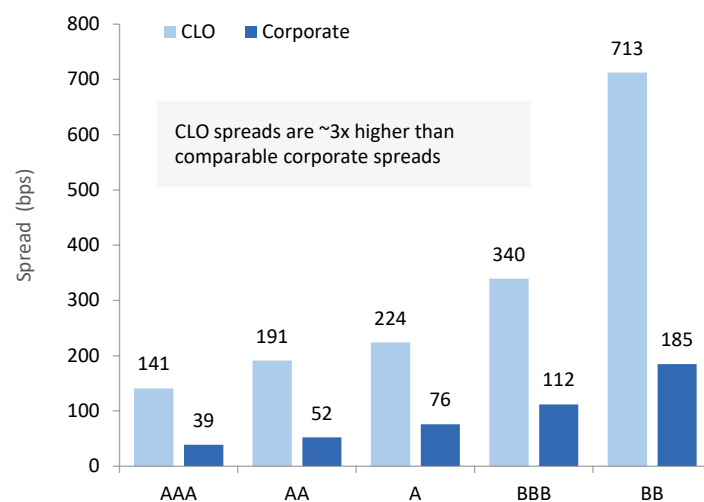


Structured Credit: U.S. CLOs

Spread Premium vs. Corporate Debt

Recent spread tightening has compressed potential returns for investors across credit asset classes. However, collateralized loan obligation (CLO) debt tranches offer an attractive spread premium relative to comparably rated corporate debt, shown in Figure 5. CLO spreads are approximately 3x higher than their comparably rated corporate spread counterpart. This spread premium is driven by the complexity of CLOs and lower liquidity of CLO debt compared to corporate debt. The CLO debt asset class was historically reserved for institutions, but as fund structures and product offerings have evolved, individuals are able to increasingly access this asset class. OHA believes this spread premium is likely to persist in the future as the CLO investor base expands.

Fig. 5: CLO Spread Premium vs. Corporate Debt⁸ By Credit Rating



Special Situations

Liability Management Defines New Normal

Out-of-court liability management exercises (“LMEs”) increased in 2024 as higher interest rates weighed on capital structures and raised concerns about the impending maturity wall for debt issued during the ultra-low rate post-COVID period. As shown in Figure 6 below, LMEs have accounted for nearly half of all U.S. default volumes since 2022, defining a new normal for restructurings. More specifically, distressed exchange activity accounted for 68% of total U.S. default volumes in 2024, the largest percentage on record.⁽¹⁰⁾ Looking ahead in 2025, increased inflation, tariff, recession and geopolitical risks portend increased volatility and pressures on corporate balance sheets that should drive stressed and distressed opportunities, including LMEs. OHA believes LME activity will continue to comprise the bulk of default activity in 2025, continuing this trend. These idiosyncratic situations present a unique opportunity set for managers with work-out capabilities and experience with documentation.

Fig. 6: LME Volume as a Percentage of Total U.S. Default Activity⁹

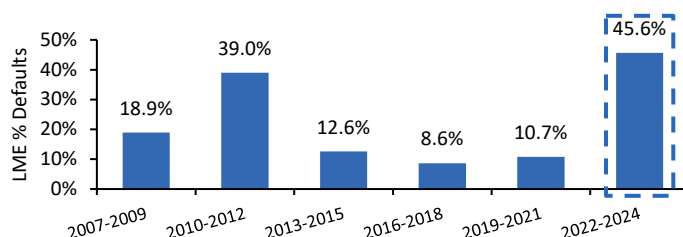
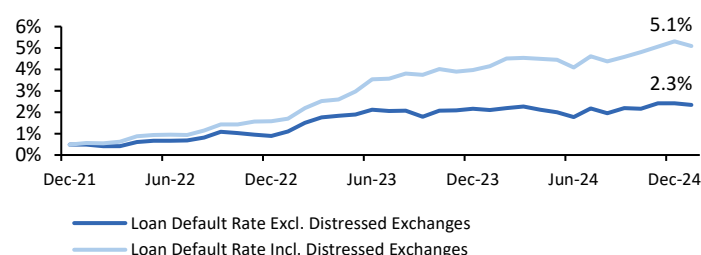


Fig. 7: Leverage Loan Default Rates (Issuer Count)¹⁰



Asset Based Lending

Seeking Attractive Full-Life Returns

Infrastructure is one of the largest opportunities in asset based lending spanning thematic areas across power, water, transportation and telecom. Required investment across these sectors is driving significant financing opportunities across the capital structure. OHA expects infrastructure debt to offer the ability to earn differentiated yields with downside protection. Controlling largely for credit quality, as shown in Figure 7, high yield infrastructure debt offers higher potential recovery rates leading to unlevered loss-adjusted returns comparable to senior direct lending. OHA believes the essential nature of infrastructure assets makes infrastructure debt a defensive asset class. These features often include government backing, stable, contractual and inflation-linked cash flows and monopoly-like characteristics limiting the threat of new entrants.

Fig. 8: Illustrative Full-Life Return¹¹ (Default Loss-Adjusted)

	Direct Lending	Infrastructure Debt (BB-B rated)
Gross Yield	10.5%-11.5%	10%-11%
Annual Default Rate	2.0%	2.0%
Recovery Rate	55%	70%
Default Loss	0.9%	0.6%
Loss-Adjusted Yield	9.5%-10.5%	9%-10%

Appendix and Endnotes

1. As of April 30, 2025. Past performance is not indicative of future results. Source: Bloomberg.
2. Source: Preqin, Goldman Sachs Global Investment Research as of September 30, 2024. Direct Lending AUM excludes dry powder. Totals may not add due to rounding.
3. Source: PitchBook LCD as of December 31, 2024. Based on private credit transactions covered by LCD News.
4. Reflects OHA's views of the private credit market as of March 31, 2025. Oak Hill Advisors, L.P. is providing you with a confidential model which is proprietary and should not be replicated and/or redistributed. The model portrays unitranche margin but is for illustrative and discussion purposes only. Reflects OHA analysis based on market pricing data. Analysis calculates the implied unitranche spread premium using as inputs for syndicated first lien and second lien margins. Assumes unitranche margin of 500 bps and same OID across all tranches. Assumes 5x first lien leverage (77% of total debt) and another 1.5x second lien leverage (23% of total debt). While the model has been prepared by OHA on the basis of estimates and assumptions about the market believed to be reasonable, it does not warrant its accuracy or make any representations that it is fit for your purposes. The estimates, assumptions and hypothetical figures shown in the model are inherently subject to economic, market and other uncertainties and should not be relied upon as facts. The results presented in the model would differ if different estimates and assumptions had been used. While OHA believes the model is reasonably illustrative of the calculations presented, it is inherently limited in scope and does not purport to illustrate every part or nuance of such calculations, nor does it reflect all possible scenarios that may occur. This is not intended to be a prediction of performance. Actual results will be different than those reflected in the model. Additional information is available upon request.
5. As of March 31, 2025. Past performance is not indicative of future results. Source: ICE BofA Indices. S&P UBS Leveraged Loan Index.
6. As of March 31, 2025. Past performance is not indicative of future results. Source: BofA. BB-rated high yield represents the ICE BofA BB U.S. High Yield Index.
7. As of December 31, 2024. Past performance is not indicative of future results. Source: S&P UBS Leveraged Loan Index.
8. As of March 24, 2025. Source: J.P. Morgan Research and BofA Research. CLO spreads (duration-weighted discount margin) shown for the J.P. Morgan CLOIE Index. Corporate spreads shown for the ICE BofA Indices.
 1. CLO spreads represented by:
 - 1) J.P. Morgan CLOIE AAA Duration-weighted Discount Margin (to-Worst)
 - 2) J.P. Morgan CLOIE AA Duration-weighted Discount Margin (to-Worst)
 - 3) J.P. Morgan CLOIE A Duration-weighted Discount Margin (to-Worst)
 - 4) J.P. Morgan CLOIE BBB Duration-weighted Discount Margin (to-Worst)
 - 5) J.P. Morgan CLOIE BB Duration-weighted Discount Margin (to-Worst)
 2. Corporate spreads represented by:
 - 1) ICE BofA AAA US Corporate Index Govt OAS
 - 2) ICE BofA AA US Corporate Index Govt OAS
 - 3) ICE BofA Single-A US Corporate Index Govt OAS
 - 4) ICE BofA BBB US Corporate Index Govt OAS
 - 5) ICE BofA BB US High Yield Index Govt OAS
9. Source: J.P. Morgan U.S. High Yield and Leveraged Loan Default Update as of December 2024.
10. Source: J.P. Morgan. Leveraged loan default rates by issuer count as of January 31, 2025.
11. Source: As of December 31, 2024. Yield estimates are based on OHA analysis for infrastructure debt and direct lending. Recovery rates based on Moody's and Cliffwater estimates. Default loss calculated as default rate * (1-recovery rate). For illustrative purposes only.

Index Definitions

The S&P 500 Index measures the performance of the large-cap segment of the U.S. market. Considered to be a proxy of the U.S. equity market, the index is composed of 500 constituent companies.

The ICE BofA U.S. High Yield Index tracks the performance of USD denominated below investment grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of \$100 million. The Credit Suisse Leveraged Loan Index is designed to mirror the investable universe of the USD denominated leveraged loan market. Loans must fit be rated "5B" or lower. That is, the highest Moody's/S&P ratings are Baa1/BB+ or Ba1/BBB+. If unrated, the initial spread level must be a minimum spread of base rate plus 125 basis points or higher. 2) Only fully-funded term loan facilities are included. 3) The tenor must be at least one year. 4) Issuers must be domiciled in developed countries; issuers from developing countries are excluded.

The Morningstar LSTA US Leveraged Loan Index is a market-value weighted index designed to measure the performance of the US leveraged loan market. Loans must be senior secured, USD denominated, have an initial term of one year, a minimum spread of base rate plus 125 basis points, minimum initial issue size of \$50 MM and syndicated in the U.S.

The ICE BofA Euro High Yield Index racks the performance of Euro denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P, and Fitch). Qualifying securities must have at least one year remaining term to maturity, a fixed coupon schedule and a minimum amount outstanding of Euro 100 million. Original issue zero coupon bonds, "global" securities (debt issued simultaneously in the eurobond and euro domestic markets), 144a securities and pay-in-kind securities, including toggle notes, qualify for inclusion in the Index.

The S&P European Leveraged Loan Index is a market value-weighted index designed to measure the performance of the European institutional leveraged loan market. Loans must be senior secured, minimum initial term of one year, minimum initial spread of base rate plus 125 basis points and tracked by LCD. An investor cannot invest directly in an index.



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