May 7th, 2024

Common Sense from Uncommon Investors
Starting Fixed Income Yields are Highly Correlated with 5 Year Forward Return

**Yield vs. 5-year forward return**

- US CPI YOY Index
- BBG U.S. Aggregate Bond Index yield
- BBG U.S. Aggregate Bond Index forward 5-year return

**94% Correlation**

**Average yield since 2010: 2.6%**

**Historical Distribution of 5-Year Forward Returns**

- Equities: CAPE Ratio > 30
- Fixed Income Yield > 5%

As of 29 April 2024. RHS as of 31 March 2024. SOURCE: PIMCO, Bloomberg. For illustrative purposes only. Past performance is not a guarantee nor a reliable indicator of future performance. Chart is provided for illustrative purposes only and is not indicative of the past or future performance of any PIMCO product. Yield and return are for the Bloomberg U.S. Aggregate Bond Index. It is not possible to invest directly in an unmanaged index. RHS chart uses data back to January 1973. Fixed Income refers to the Bloomberg U.S. Aggregate Index. CAPE refers to cyclically adjusted price-to-earnings ratio for the S&P 500. There can be no guarantee that the trends mentioned above will continue. Statements concerning financial market trends are based on current market conditions, which will fluctuate. Refer to Appendix for additional correlation, index, outlook, and risk information.
Market Yields: Even More Attractive with Expanded Opportunity Set

Yield* across various fixed income sectors (unlevered)

<table>
<thead>
<tr>
<th></th>
<th>12/31/2021 Level</th>
<th>Change vs. 12/31/2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasuries</td>
<td>1.2%</td>
<td>4.8%</td>
</tr>
<tr>
<td>US Agg</td>
<td>1.7%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Agency MBS*</td>
<td>2.5%</td>
<td>6.2%</td>
</tr>
<tr>
<td>IG Credit</td>
<td>2.3%</td>
<td>5.6%</td>
</tr>
<tr>
<td>IG Municipal*</td>
<td>1.8%</td>
<td>6.4%</td>
</tr>
<tr>
<td>IG CLOs</td>
<td>2.1%</td>
<td>6.5%</td>
</tr>
<tr>
<td>EM Local Debt</td>
<td>3.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Non-Agency MBS</td>
<td>4.4%</td>
<td>6.3%</td>
</tr>
<tr>
<td>EM Debt</td>
<td>4.1%</td>
<td>7.1%</td>
</tr>
<tr>
<td>HY Corp</td>
<td>3.9%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Bank Capital</td>
<td>8.1%</td>
<td>8.1%</td>
</tr>
<tr>
<td>HY Municipal*</td>
<td>4.6%</td>
<td>9.3%</td>
</tr>
</tbody>
</table>

**Traditional core sectors**

**High carry sectors not represented in US Agg.**

Estimated Volatility: 1%-6%

Estimated Volatility: 4%-14%

As of 29 April 2024. SOURCE: PIMCO, Bloomberg, JPMorgan. For illustrative purposes only. Figure is not indicative of the past or future results of any PIMCO product or strategy. There is no assurance that the stated results will be achieved.

*Yields are expressed as Yield to Worst. For municipals, taxable equivalent yields assume a 40.8% top marginal federal tax rate (37% + 3.8%). For agency mortgage-backed securities, par coupon yields are used.

See Appendix for additional information regarding volatility estimates.

Refer to Appendix for additional hypothetical illustration, index, investment strategy, Yield to Worst, and risk information.
This Time is Different

Eight Centuries of Financial Folly
Bull Markets in Bonds Tend to be Followed by Long Periods of Normalization

10 Year US Treasury Yield Since 1800

Source: Guggenheim Investments, Bloomberg, Robert Shiller. Data as of 05/01/2024.
Note: Please See Disclosures and Legal Notice at End of Document.
Direct Lending Has Grown Disproportionally Faster

Direct lending now makes up nearly half of the private credit universe, up from just ~23% in 2014

Private Credit AUM by Strategy ($bn)

2014-2023 CAGR

Source: Preqin
Borrowers Utilize Banks and Direct Lenders Interchangeably

Borrowers care about pricing, terms and execution— they are indifferent on the lender

Broadly Syndicated Loans (BSL) and Direct Lending (DL) Takeouts ($bn)

Source: Pitchbook LCD
Sometimes Public is Cheaper, and Sometimes Private is Cheaper

There are periods where direct lending is competitive in pricing

New Deal Spreads (bps)

Source: Morgan Stanley
However, There Could Be Trouble Ahead

22% of direct lending borrowers are generating negative operating cash flow, with ~8% having a cash runway of two years or less.

Cash Runway of Negative OCF Borrowers

- 22.0% have a cash runway of <2 years
- 8.0% have a cash runway of 2 to 3 years
- 2.5% have a cash runway of 3+ years

Source: BofA
Looking to the BSL Default History as a Reference

![Historical Loan Default Rate Graph]

- **Dot Com Bubble**
- **GFC**
- **Taper Tantrum**
- **COVID**

Source: JPM, FRED
Central Bank Target Interest Rates

Bank of England

Bank of Japan

European Central Bank

U.S. Federal Reserve

Source: Thompson Reuters, FRED, CapIQ (5/4/2024)
Four Over-Leveraged Balance Sheets

#1: Corporations

More than half of PE portfolio companies have been levered 5x or more

Debt / EBITDA of New Sponsor-Backed M&A Deals

Source: LCD Research, UBS Global Research.
Four Over-Leveraged Balance Sheets

#1: Corporations

Borrowers are facing unprecedented debt levels and impending maturities

Corporate Debt Maturities

Source: S&P Global.
Four Over-Leveraged Balance Sheets

#2: Real Estate

CRE debt markets also face impending maturities while traditional lenders are pulling back

Source: Trepp, Newmark.
Four Over-Leveraged Balance Sheets

#2: Real Estate

On average, LTVs for new CRE loans issued by banks have fallen by ~16 percentage points while effective interest rates have risen by more than 2x since 2021

LTV Ratios by Property Type

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Q4 2021</th>
<th>Q3 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multifamily</td>
<td>65%</td>
<td>57%</td>
</tr>
<tr>
<td>Office</td>
<td>65%</td>
<td>47%</td>
</tr>
<tr>
<td>Retail</td>
<td>60%</td>
<td>44%</td>
</tr>
<tr>
<td>Industrial</td>
<td>56%</td>
<td>45%</td>
</tr>
<tr>
<td>Lodging</td>
<td>54%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Interest Rates by Property Type

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<tr>
<th>Property Type</th>
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</table>

Source: Trepp. Analysis incorporates CRE data from large and mid-sized commercial banks.
Four Over-Leveraged Balance Sheets

#3: Commercial Banks

Banks are laden with massive amounts of CRE debt, with some holding CRE loans that amount to over 600% of regulatory capital.

CRE Loans as a Percentage of Common Equity Tier 1 Capital

1. Dime Community Bank: 662%
2. HomeStreet Bank: 661%
3. Flushing Bank: 653%
4. Provident Bank: 617%
5. First Foundation Bank: 590%
6. Valley National Bank: 590%
7. ConnectOne Bank: 587%
8. Lakeland Bank: 549%
9. Flagstar Bank: 545%
10. Independent Bank: 534%

Median of Top 10: 590%
Median of Bottom 10: 60%

300% or more: At risk of greater regulatory requirements

Source: Morgan Stanley Research.
Four Over-Leveraged Balance Sheets
#4: US Government

US national debt as a percentage of GDP has reached the highest level since 1946

Source: Federal Reserve Bank of St. Louis, Congressional Budget Office.
Four Over-Leveraged Balance Sheets
#4: US Government

Government debt is accruing at an alarming pace, reaching ~$34.6T in April 2024.
Balance Sheet Management Takes Many Forms

Fully-levered companies can use a range of liability management tools to drive solutions that can create investment opportunities.

Examples of Liability Management Activity

1. Amend & Extend with Enhanced Terms
2. Exchange via Uptiering & Drop Down
3. Sponsor Equity Injection

Liability Management Activity in 2024 is pacing 5x 2022 levels.
Club Corp: A Win-Win!

Provides balance sheet management solution for sponsor while enhancing risk adjusted return profile of investment

Factors Driving Amend & Extend for Club Corp

- Fully-levered but strong underlying trends and outlook
- Sponsor seeking to ultimately IPO the business
- Need to address near-term maturity

Win-Win Solution for Sponsor and Creditors

- Two-Year Maturity Extension
- Pro Forma Cash Interest Savings
- 3.5 point OID
- 225bps coupon increase and debt paydown
- Credit enhancements that restrict future LME
Global Medical Response

Amend and extend solution alongside significant sponsor equity created attractive investment opportunity

<table>
<thead>
<tr>
<th>Substantial Equity Value</th>
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<tbody>
<tr>
<td>$1.5 bn of Sponsor Equity Value</td>
</tr>
<tr>
<td>~$900mm EBITDA and $5bn+ Revenue</td>
</tr>
<tr>
<td>2025 Maturity</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Improved Credit Profile</th>
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<tbody>
<tr>
<td>Before ($bn)</td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
<td>1st Lien Debt</td>
</tr>
<tr>
<td>2nd Lien Debt</td>
</tr>
<tr>
<td>Total Net Debt</td>
</tr>
<tr>
<td>Preferred Equity (Converted from 2nd Lien)</td>
</tr>
<tr>
<td>Preferred Equity (Contributed from Sponsor)</td>
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<table>
<thead>
<tr>
<th>A Win-Win Solution</th>
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</thead>
<tbody>
<tr>
<td>Sponsor</td>
</tr>
<tr>
<td>▪ Three Year Maturity Extension</td>
</tr>
<tr>
<td>▪ $100mm Annual Cash Interest Savings</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Creditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>$300mm of sponsor equity contributed</td>
</tr>
<tr>
<td>125bps coupon increase and 1pt OID</td>
</tr>
<tr>
<td>Ratings Upgrade and Tighter Covenants</td>
</tr>
</tbody>
</table>
**Cooperation Agreements: An LME Antidote to Proactively Protect Creditors**

Cooperation agreements protect creditors from aggressive liability management transactions and drive alternative solutions.

### Benefits
- Blocks coercive transaction and ensures fair treatment
- Creates negotiating power for proactive solution

### Volume of Cooperation Agreements

<table>
<thead>
<tr>
<th>Sector</th>
<th>Example</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software</td>
<td>TRAVELPORT</td>
<td>Blocked Transaction</td>
</tr>
<tr>
<td>Auto</td>
<td>CARVANA</td>
<td>Blocked Transaction</td>
</tr>
<tr>
<td>Industrials</td>
<td>CooperStandard</td>
<td>Proactive Solution</td>
</tr>
<tr>
<td>Consumer</td>
<td>HEARThSIDE</td>
<td>Proactive Solution</td>
</tr>
</tbody>
</table>

**Average Volumes (2018 – 2023)**: 4

**2024 Expected Volumes**: ~20

As of April 24, 2024. Cooperation agreement volume reflects significant agreements for larger issuers as tracked by GoldenTree. 2024 expected based on pro forma of YTD volume.
This Cycle is Different. US Housing: Declining Leverage, Limited Credit Availability, Strong Long-Term Fundamentals

Higher home equity balances and lower supply supportive of housing market

Left chart as of 31 December 2023. Cumulative Housing formations as of 31 December 2023.
Refer to Appendix for additional outlook and risk information.
The Impact of New Capital Reserve Requirements

• The Federal Reserve estimates that there will be a 16% increase in aggregate capital requirements across the banking system.

• In addition, recent commentary by the Fed suggests that banks will need to further increase their total loss-absorbing capacity, leading to increased funding costs.

• New rules requiring recognition of unrealized losses of available-for-sale securities will temper risk-taking and dent returns in investment portfolios.

• Risk management capabilities will need to be upgraded, especially for regional banks, causing staffing levels and costs to rise.

• Banks will have to ensure their risk data is comprehensive and accurate. Small data issues threaten to meaningfully impact capital, given the greater reliance on standardized capital approaches.

• These forces will create material headwinds to profitability for many banks. Further consolidation among regional lenders seems likely.

Source: Boston Consulting Group (8/9/2023)
Overall Corporate Leverage and Interest Coverage Data Are Solid

Nonfinancial Corporate Leverage Near 2015 Levels

Highest Interest Coverage Ratio since the 1950s


Note: Please See Disclosures and Legal Notice at End of Document.
U.S. Leveraged Loans Prices

Loans priced at par and above

Source: Pitchbook LCD (4/28/2024)

Morningstar LSTA US Leveraged Loan Index

38.78%
Aggregate S&P 500 Pension Fund Status

Pension Plan Funded Ratio (%)

Source: AON Pension Risk Tracker (4/26/2024)
Pension Risk Transfers

U.S. Quarterly Pension Group Annuity Sales, $US Billions

Note: Pension risk transfer apply to defined-benefit providers. Figures do not include defined-contribution plans. Source: Life Insurance Marketing and Research Association (LIMRA) (4/26/2024)
Note: Figures measure the aggregate pension fund status for all S&P 500 constituents that offer defined-benefit pension plans. PBO stands for projected benefit obligation.

Sources: AON Pension Risk Tracker (4/26/2024)

S&P 500 pension plans now have a $83.7 billion surplus.