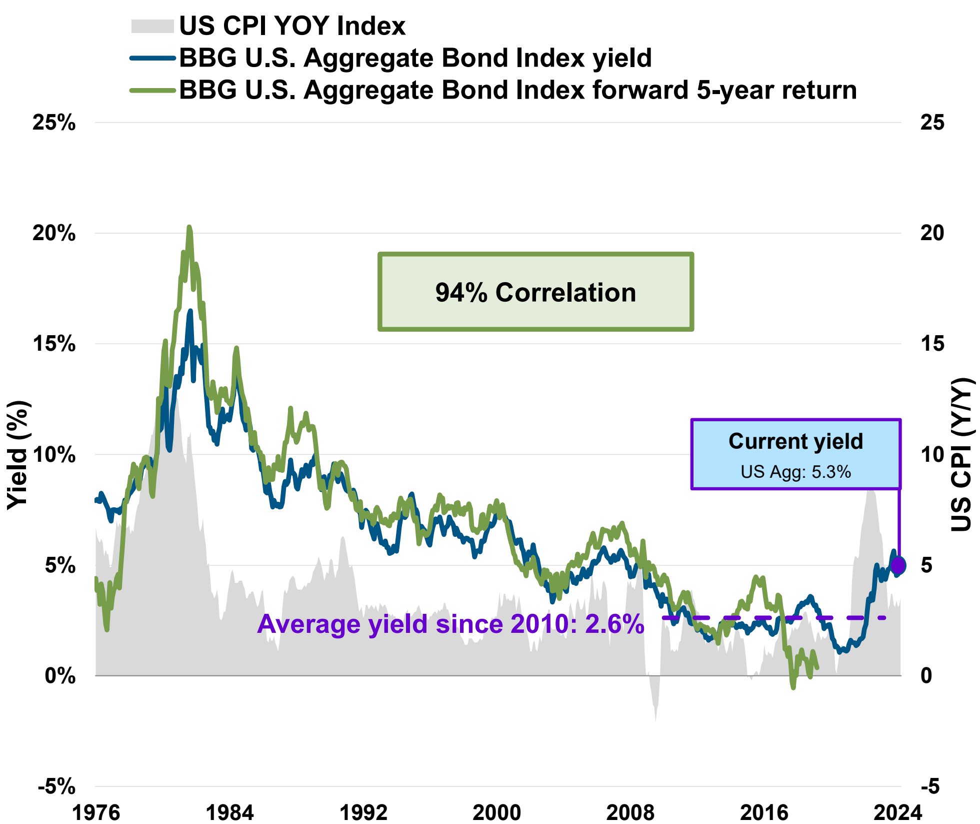
Common Sense from Uncommon Investors

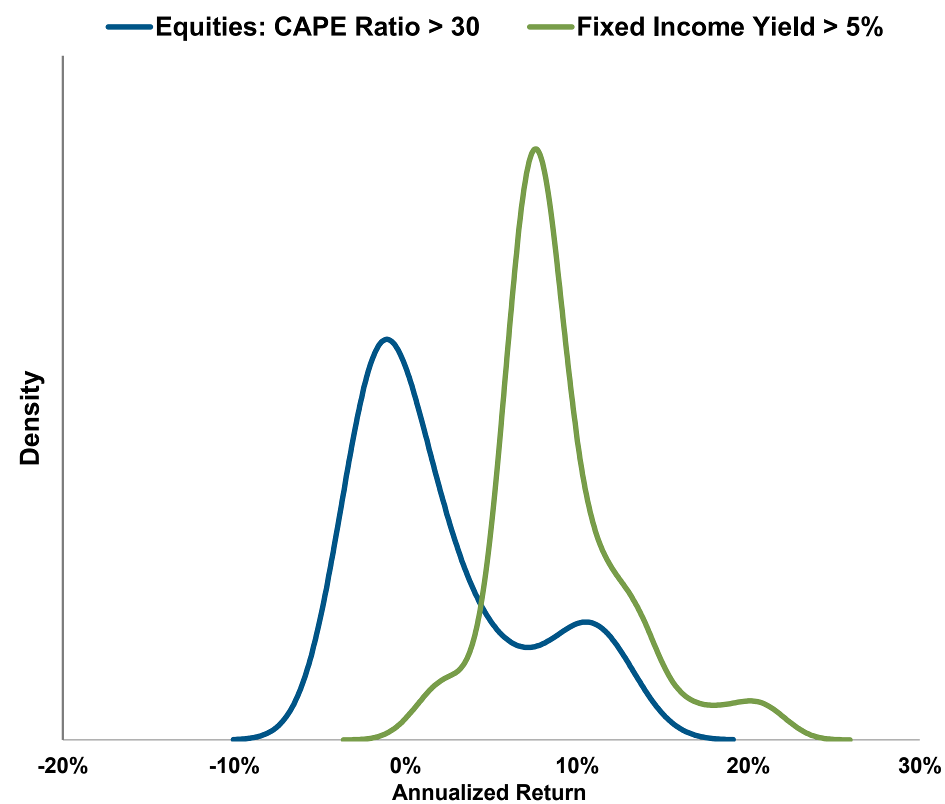
May 7th, 2024

Starting Fixed Income Yields are Highly Correlated with 5 Year Forward Return

Yield vs. 5-year forward return



Historical Distribution of 5-Year Forward Returns

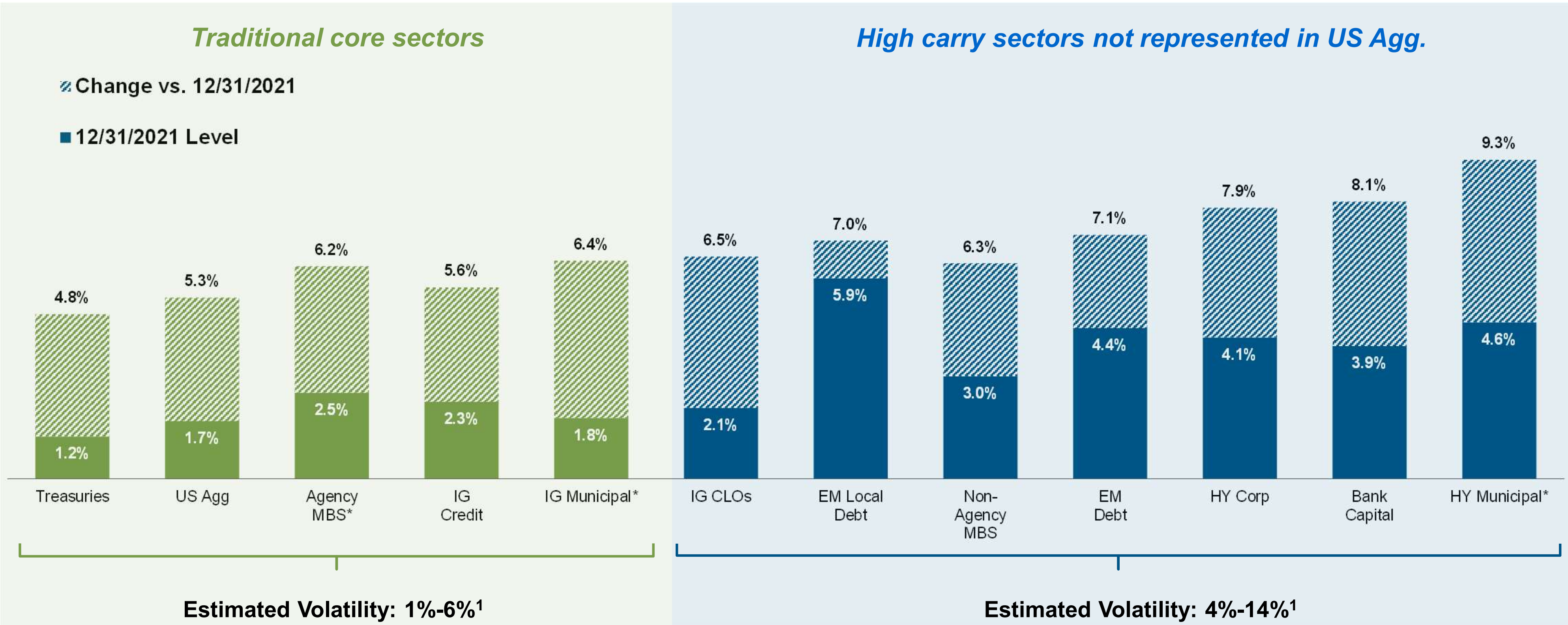


As of 29 April 2024. RHS as of 31 March 2024. SOURCE: PIMCO, Bloomberg. **For illustrative purposes only. Past performance is not a guarantee nor a reliable indicator of future performance.** Chart is provided for illustrative purposes only and is not indicative of the past or future performance of any 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)



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 agency yields are used.

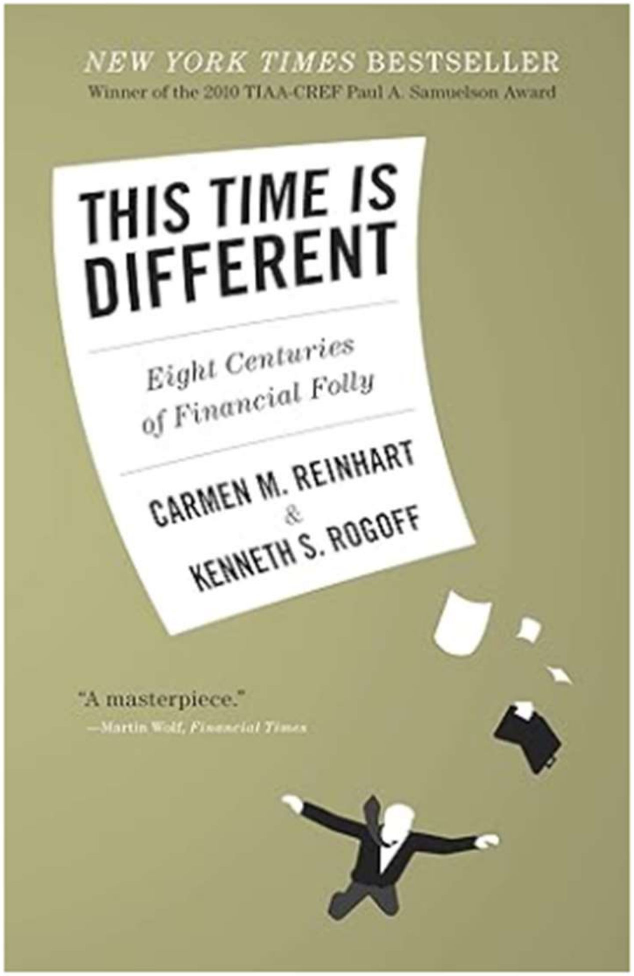
[1]See Appendix for additional information regarding volatility estimates.

Treasuries: Bloomberg US Treasury Index, US Agg.: Bloomberg US Aggregate Index, Agency MBS: 30Y FNCL Par Coupon Index, IG Credit: Bloomberg US Credit Index, IG Municipal: Bloomberg Municipal Bond Index, IG CLOs: JPMorgan CLOIE IG Index, EM Local Debt: JPMorgan GBI-EM Global Diversified Index, Non-Agency MBS: Non-Agency RMBS Model as of latest available data: 31 December 2023, EM Debt: JPMorgan EMBI Global Index, HY Corp: Bloomberg US High Yield Index, Bank Capital: Bloomberg European Banks Contingent Convertible Tier 1 Index, Bank Loans: JPMorgan Leveraged Loan Index, HY Municipal: Bloomberg High Yield Municipal Bond Index.

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

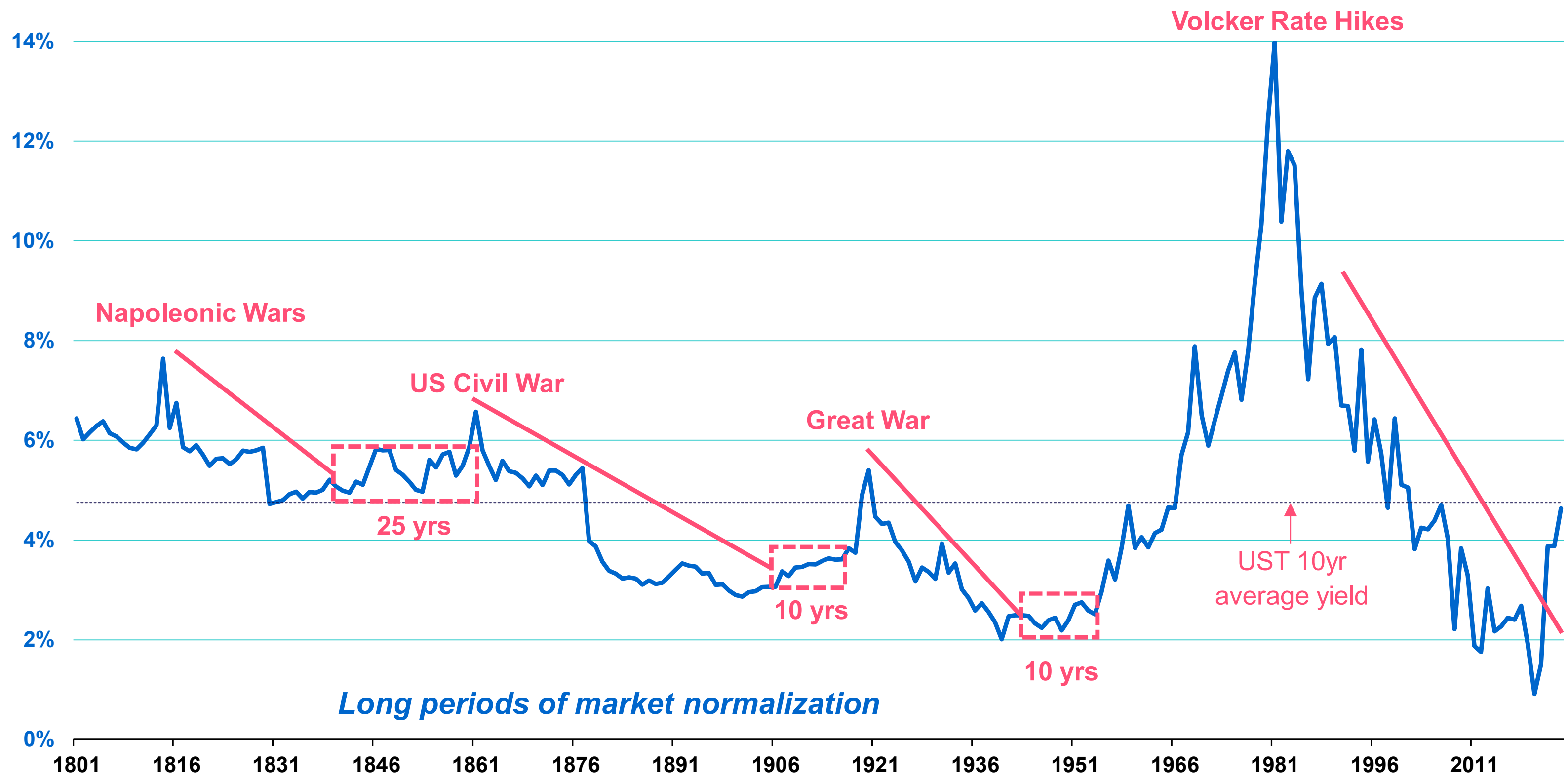
This Time is Different

Eight Centuries of Financial Folly



Bull Markets in Bonds Tend to be Followed by Long Periods of Normalization

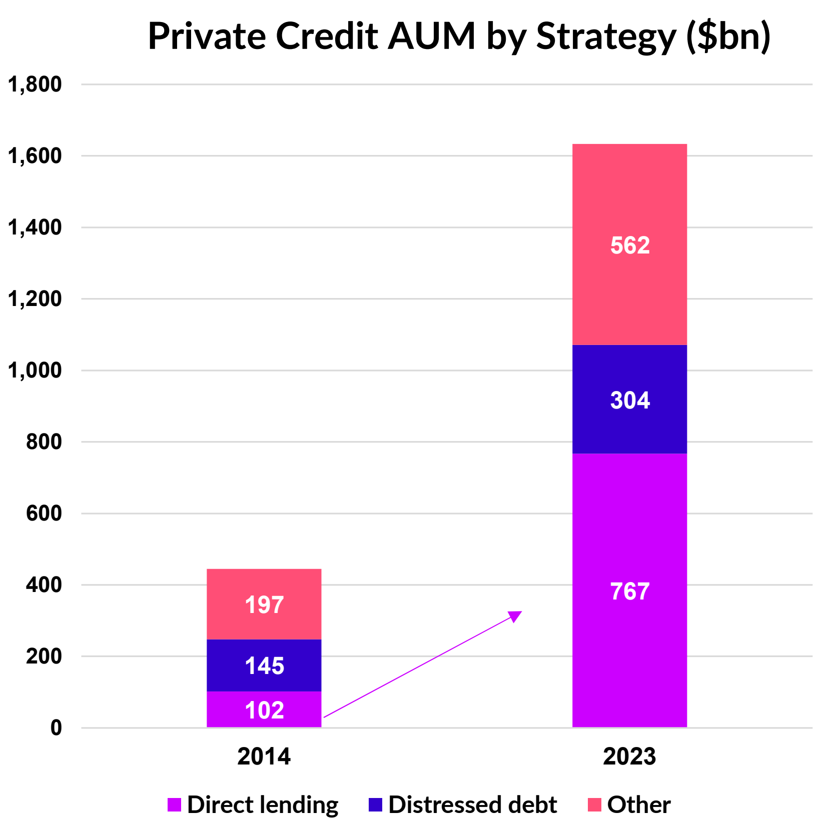
10 Year US Treasury Yield Since 1800

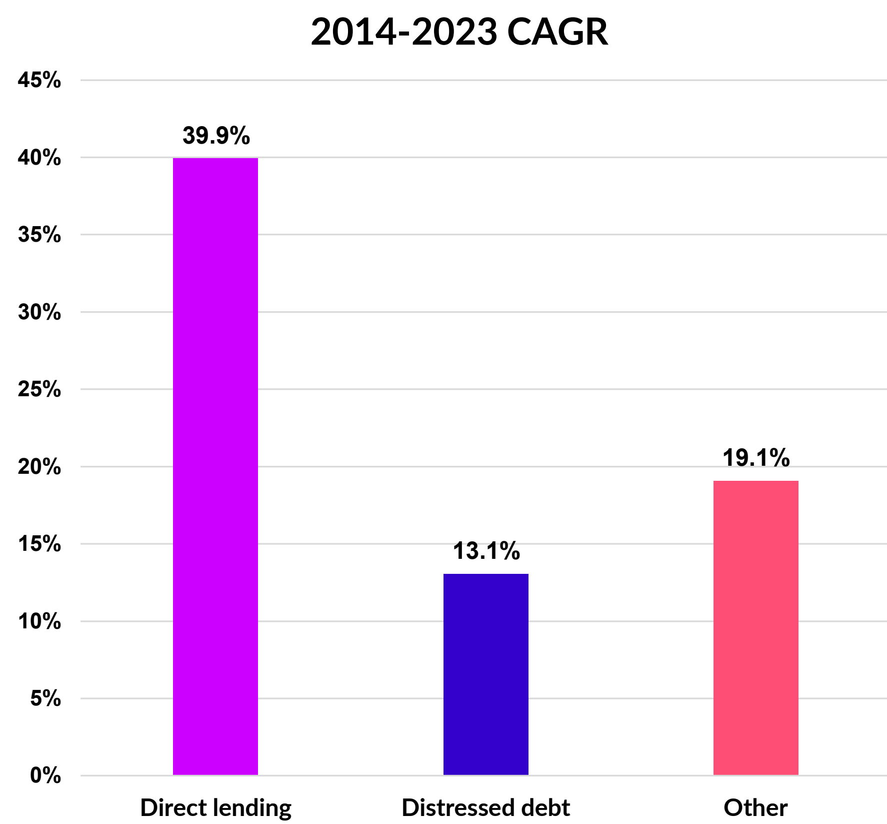


Source: Guggenheim Investments, Bloomberg, Robert Shiller. Data as of 05/01/2024.
Note: Please See Disclosures and Legal Notice at End of Document.

Direct Lending Has Grown Disproportionally Faster

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

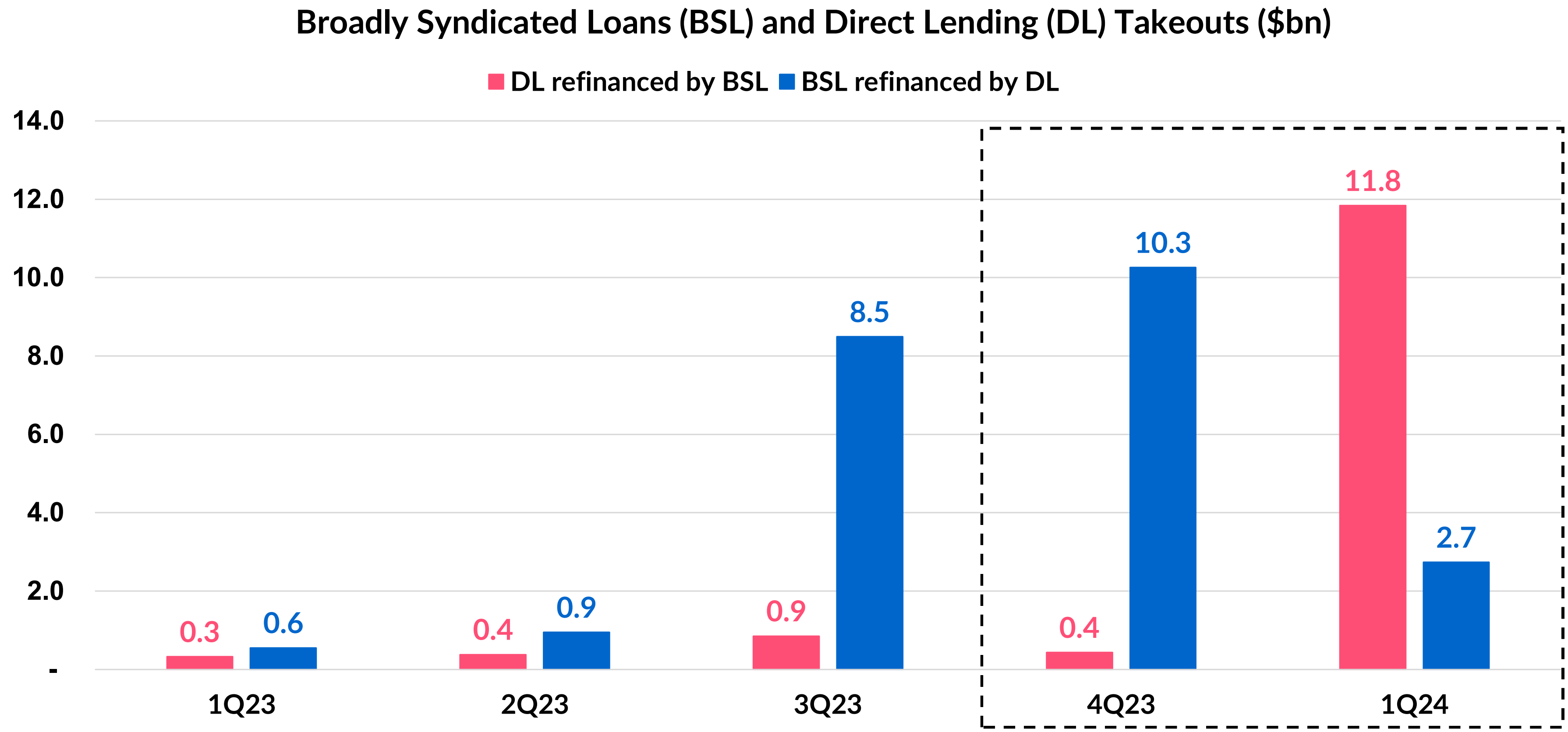




Source: Preqin

Borrowers Utilize Banks and Direct Lenders Interchangeably

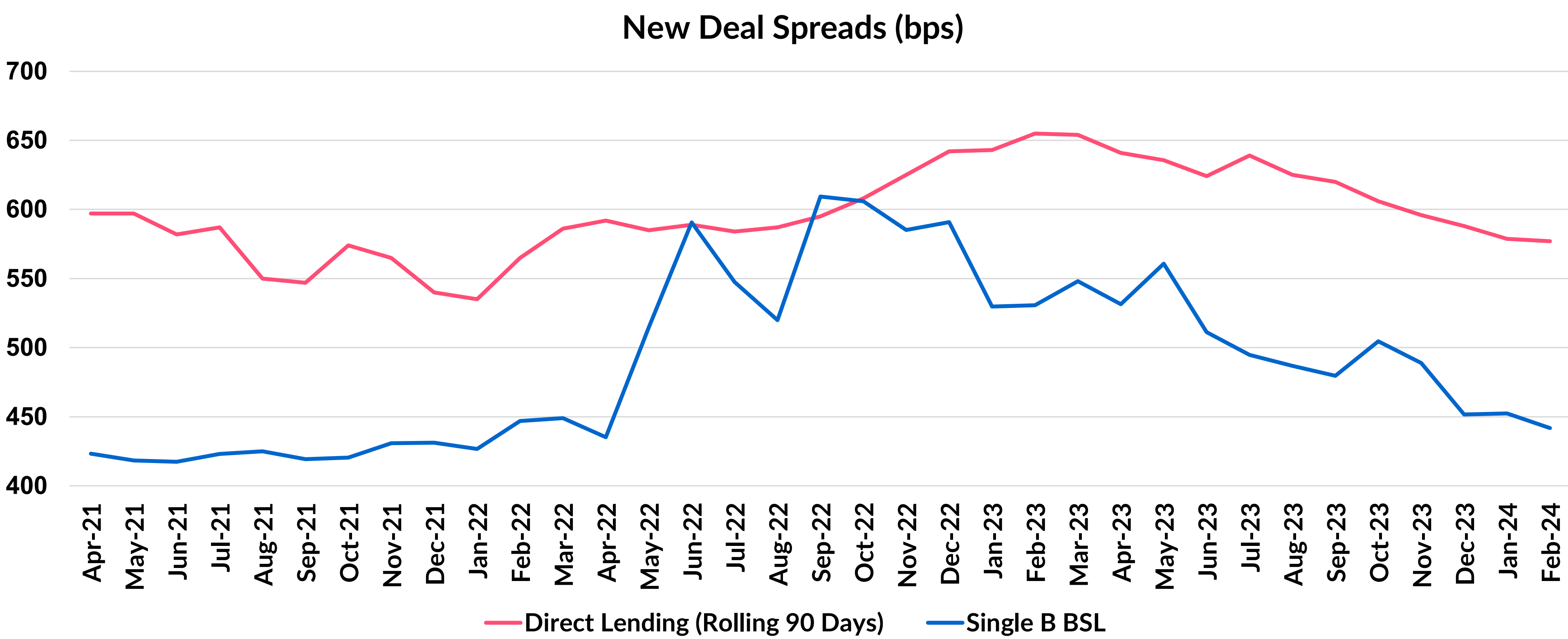
Borrowers care about pricing, terms and execution– they are **indifferent on the lender**



Source: Pitchbook LCD

Sometimes Public is Cheaper, and Sometimes Private is Cheaper

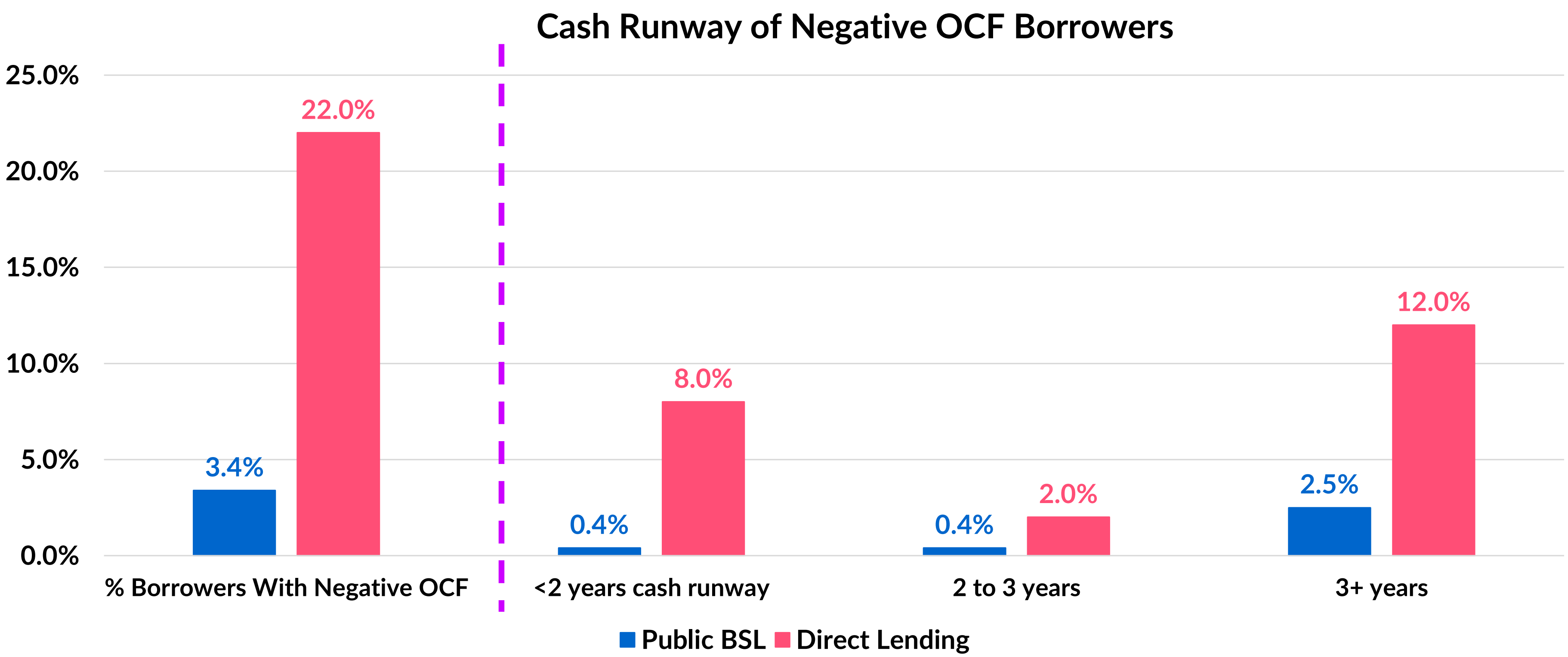
There are periods where direct lending is competitive in pricing



Source: Morgan Stanley

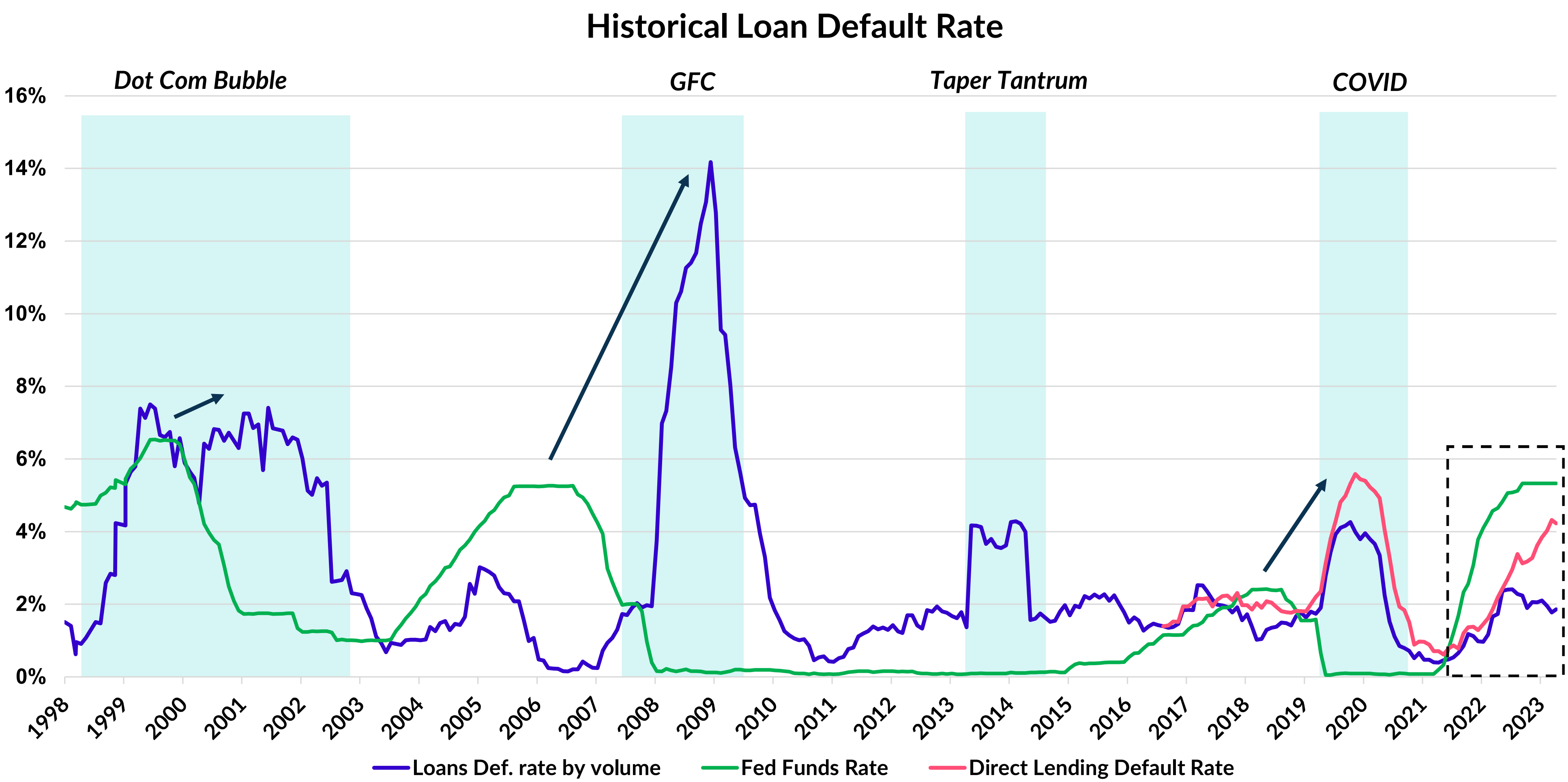
However, There Could Be Trouble Ahead

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



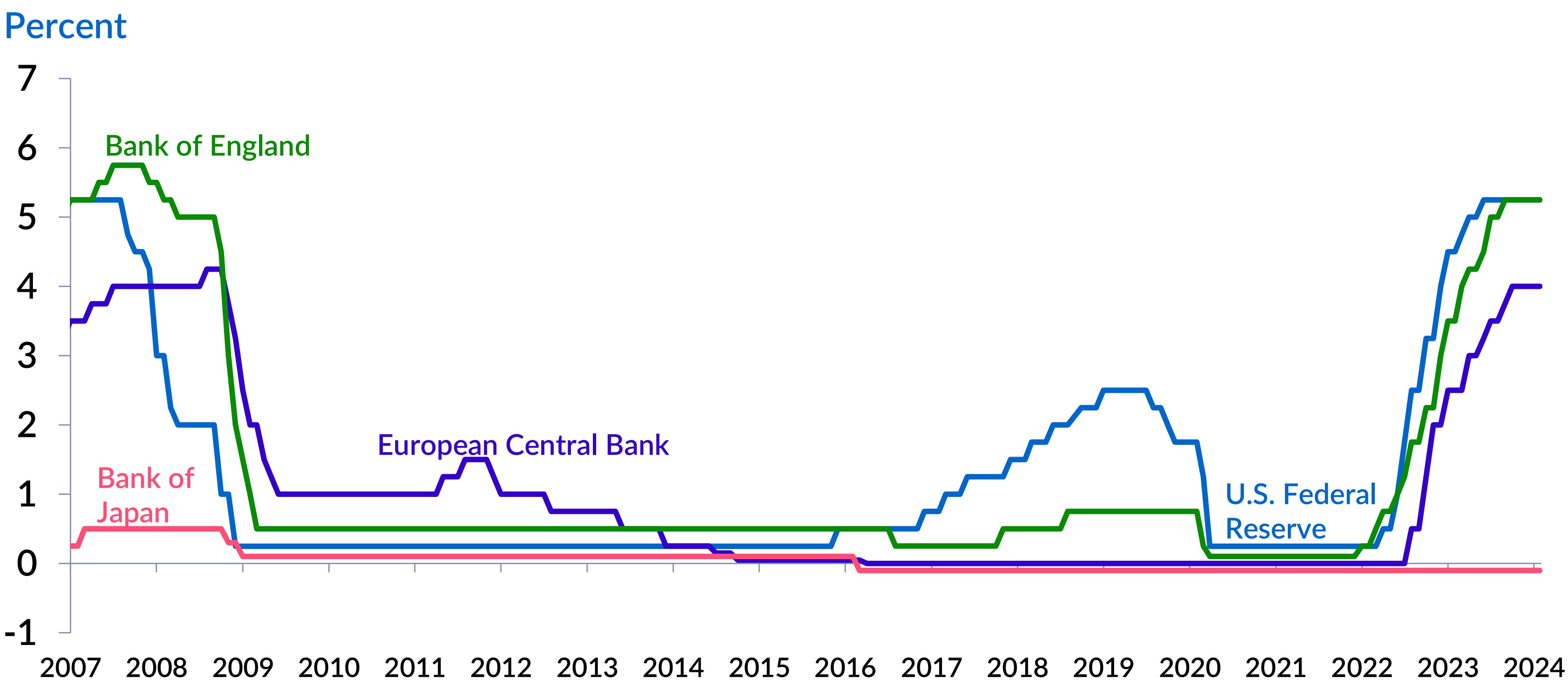
Source: BofA

Looking to the BSL Default History as a Reference



Source: JPM, FRED

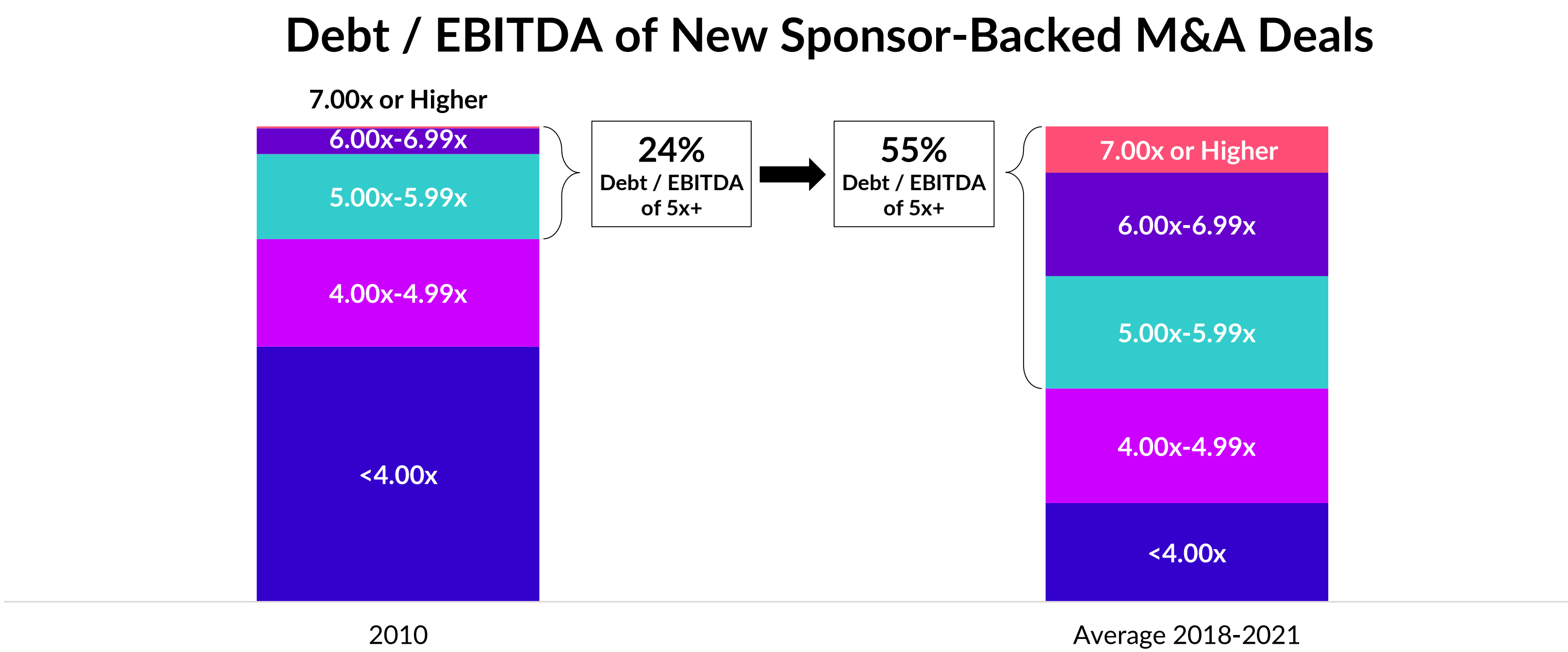
Central Bank Target Interest Rates



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



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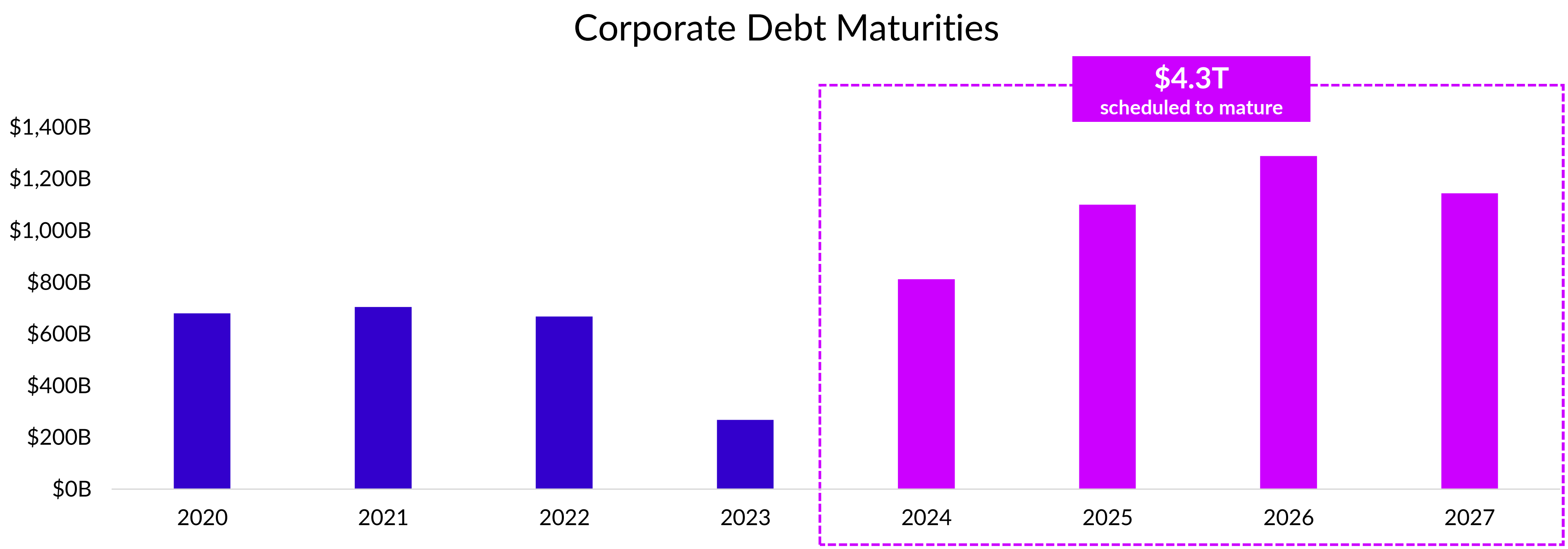
Source: LCD Research, UBS Global Research.

Four Over-Leveraged Balance Sheets
#1: Corporations

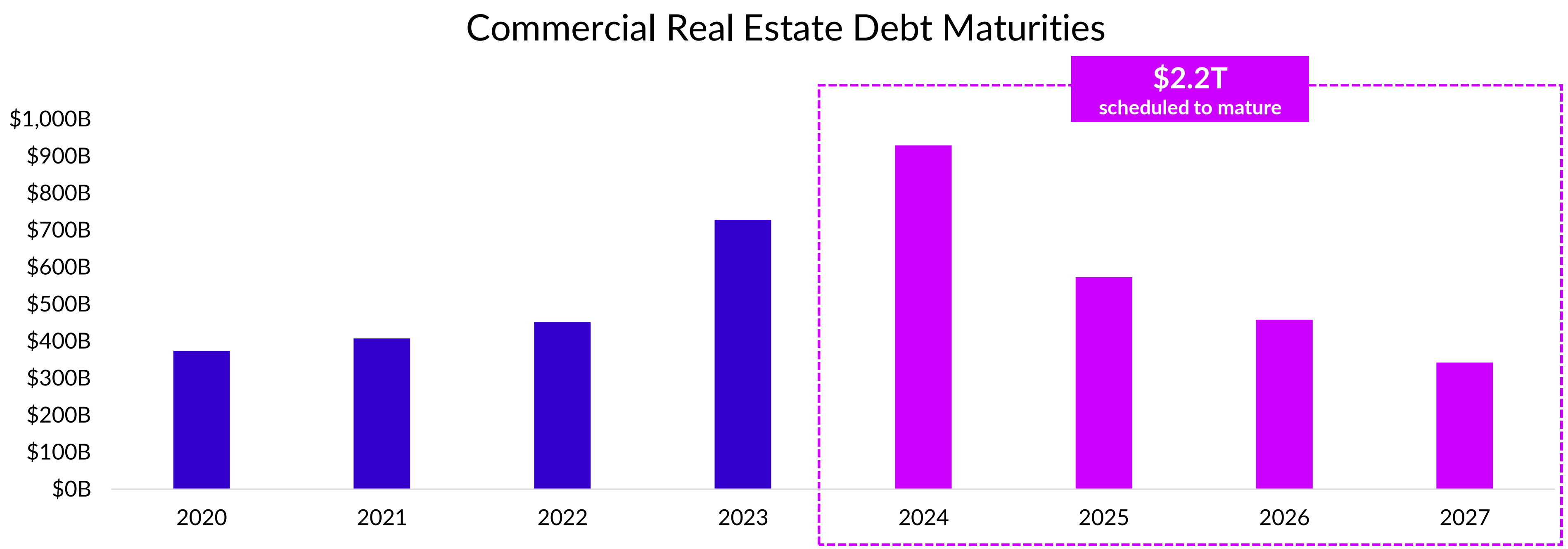
Borrowers are facing unprecedented debt levels and impending maturities



Source: S&P Global.

Four Over-Leveraged Balance Sheets
#2: Real Estate

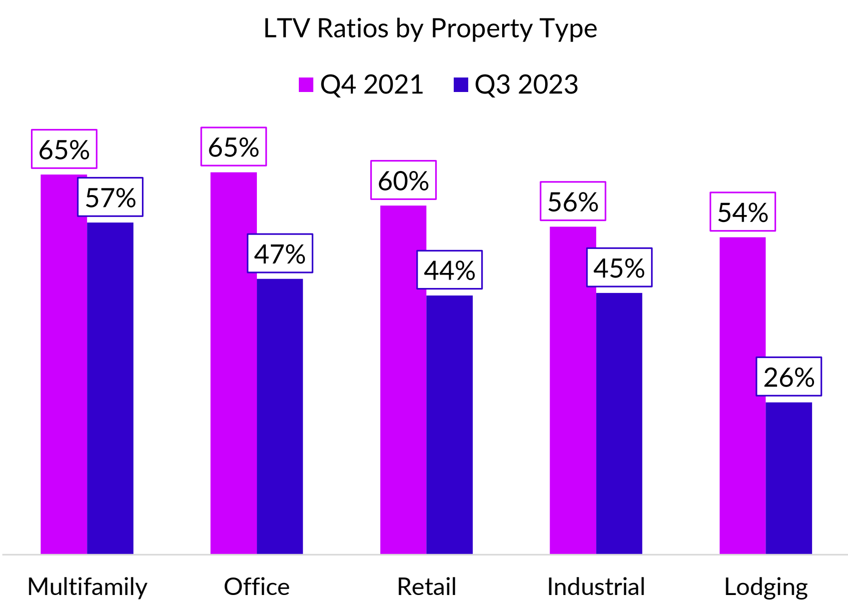
CRE debt markets also face impending maturities while traditional lenders are pulling back

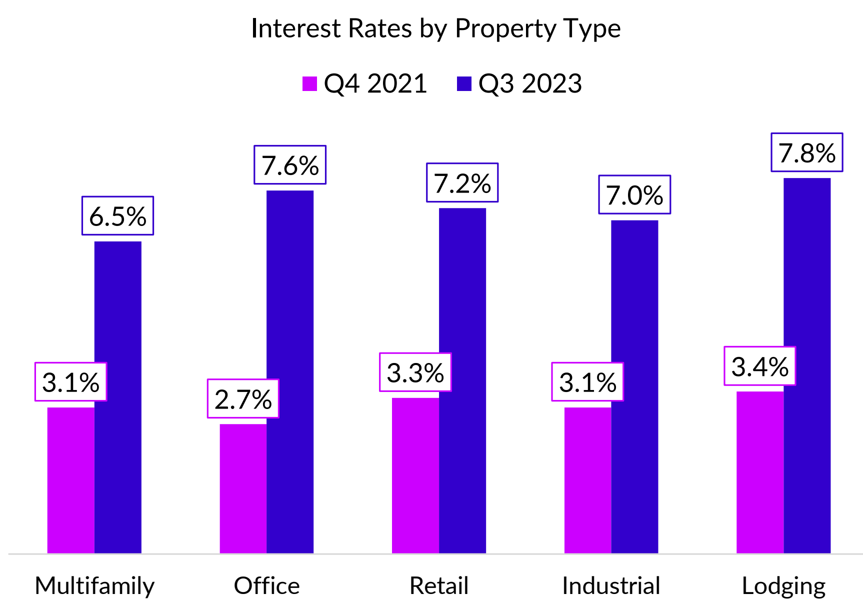


Source: Trepp, Newmark.

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





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Source: Trepp. Analysis incorporates CRE data from large and mid-sized commercial banks.

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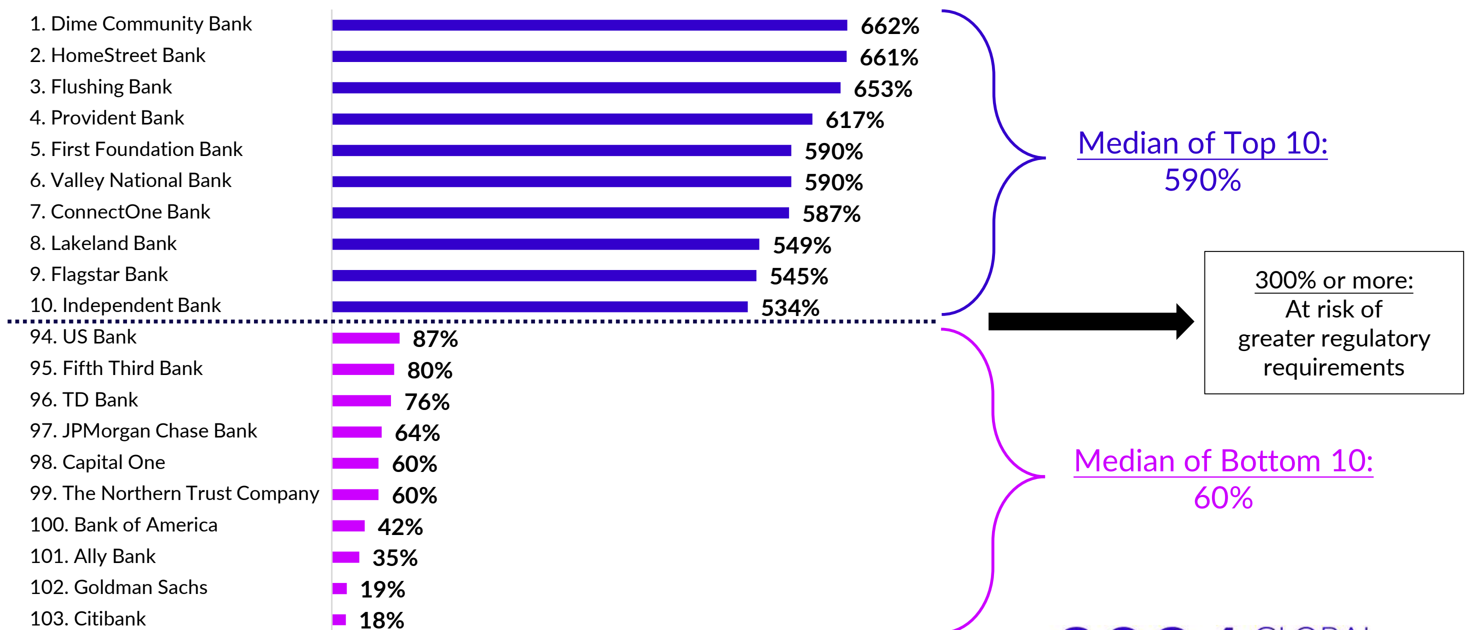
Four Over-Leveraged Balance Sheets
#3: Commercial Banks

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



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Source: Morgan Stanley Research.

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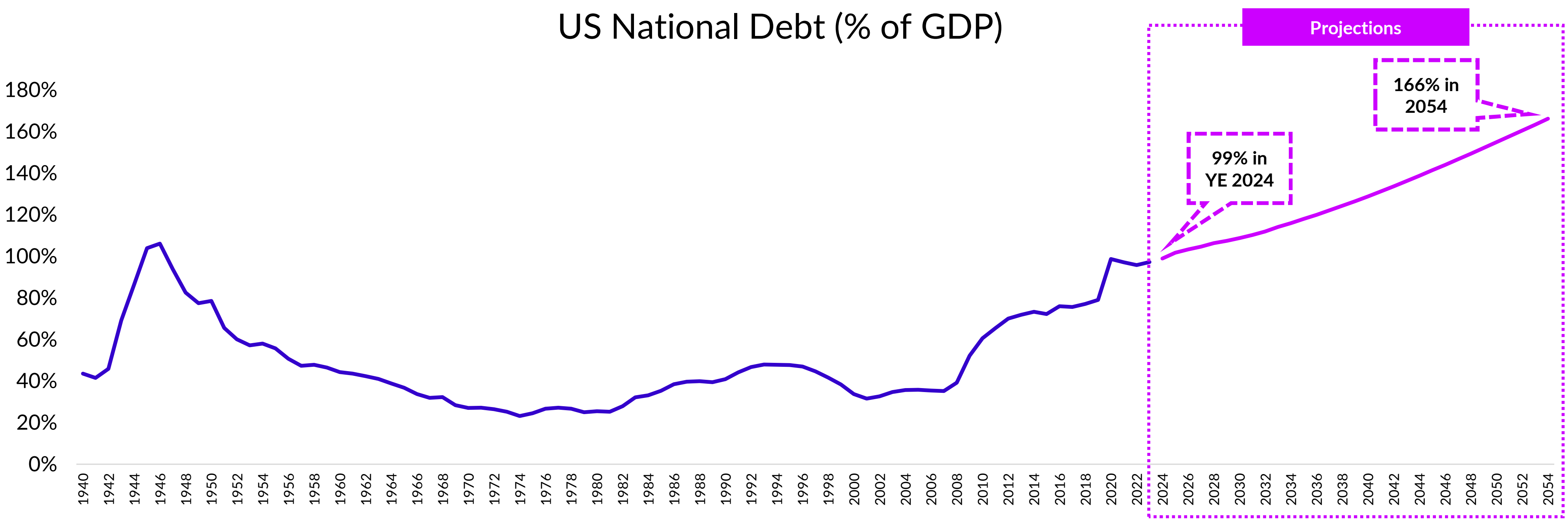
Four Over-Leveraged Balance Sheets
#4: US Government

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



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Source: Federal Reserve Bank of St. Louis, Congressional Budget Office.

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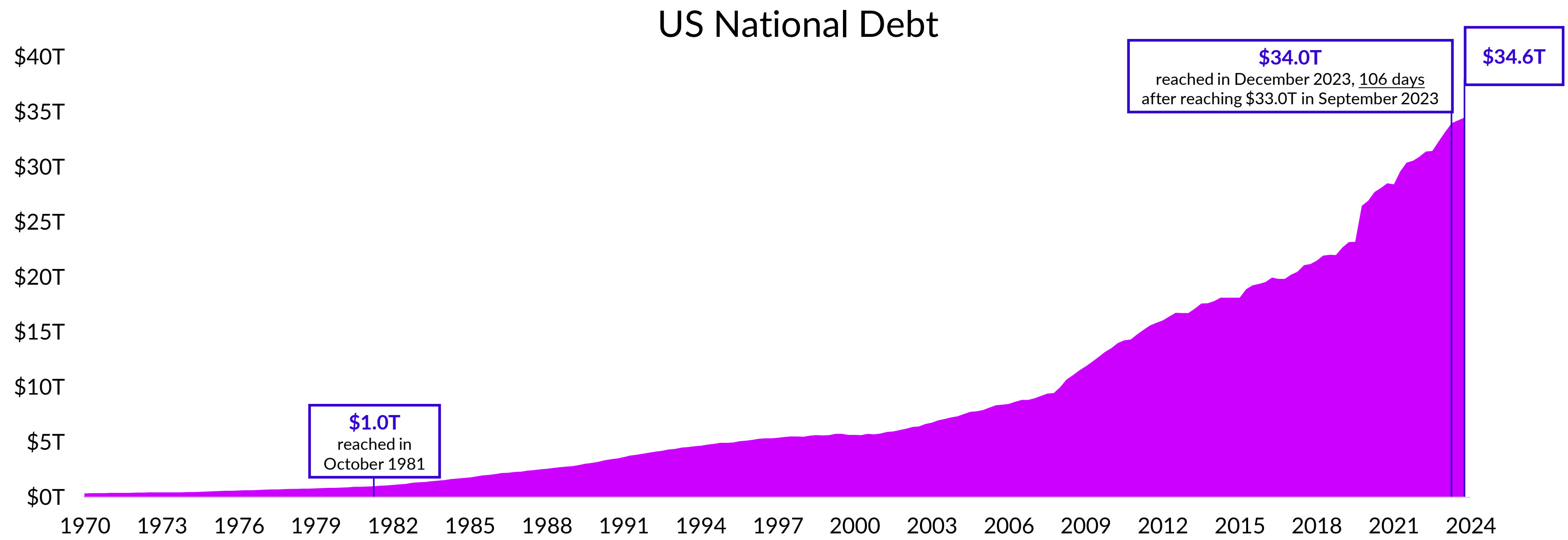
Four Over-Leveraged Balance Sheets
#4: US Government

Government debt is accruing at an alarming pace, reaching ~$34.6T in April 2024



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Source: Federal Reserve Bank of St. Louis. US National Debt shown as Gross US Federal Debt.

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!

CLUBCORP

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

Substantial Equity Value

$1.5 bn of Sponsor Equity Value

~$900mm EBITDA and $5bn+ Revenue

2025 Maturity

Improved Credit Profile

	Before ($bn)	After ($bn)
1st Lien Debt	4.8	4.5
2nd Lien Debt	0.6	-
Total Net Debt	**5.4**	**4.5**
Preferred Equity (Converted from 2nd Lien)	-	0.6
Preferred Equity (Contributed from Sponsor)	-	0.3

A Win-Win Solution

Sponsor

- Three Year Maturity Extension
- $100mm Annual Cash Interest Savings

Creditors

$300mm of sponsor equity contributed

125bps coupon increase and 1pt OID

Ratings Upgrade and Tighter Covenants

Cooperation Agreements: An LME Antidote to Proactively Protect Creditors

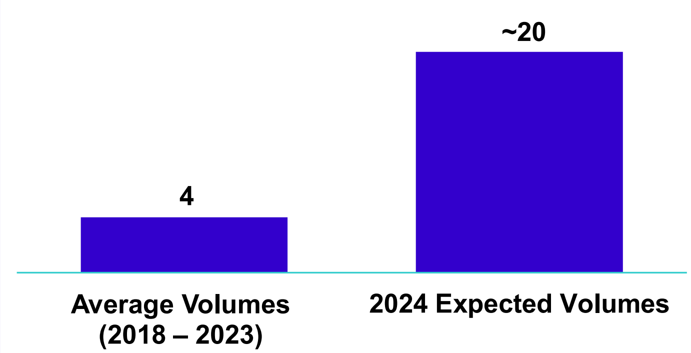
Cooperation agreements protect creditors from aggressive liability management transactions and drive alternative solutions

Benefits

Blocks coercive transaction and ensures fair treatment

Creates negotiating power for proactive solution

Volume of Cooperation Agreements



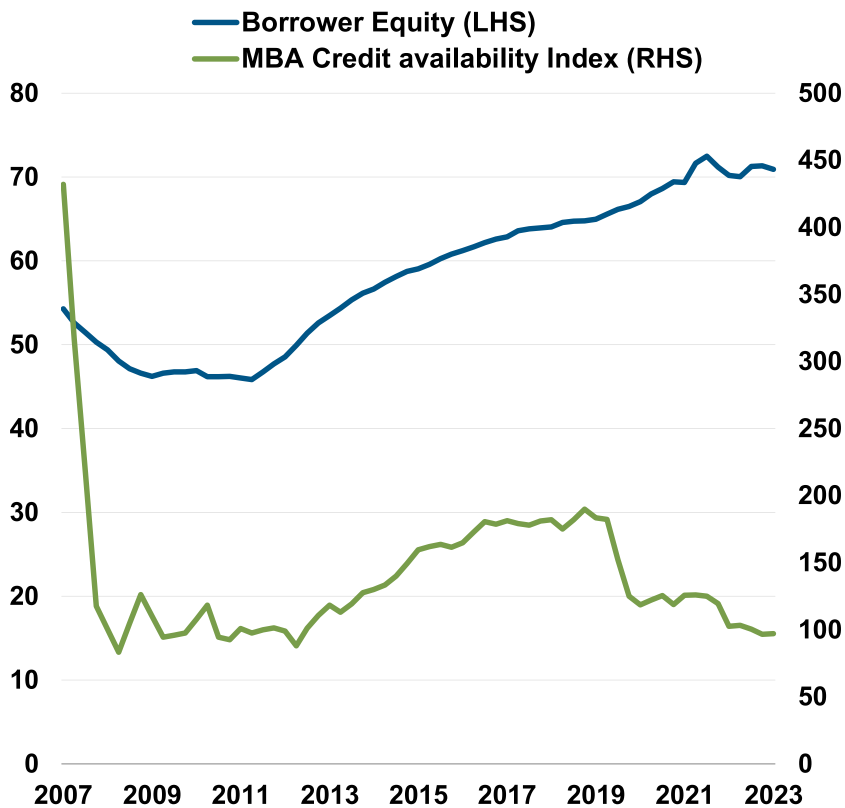
Cooperation Agreements

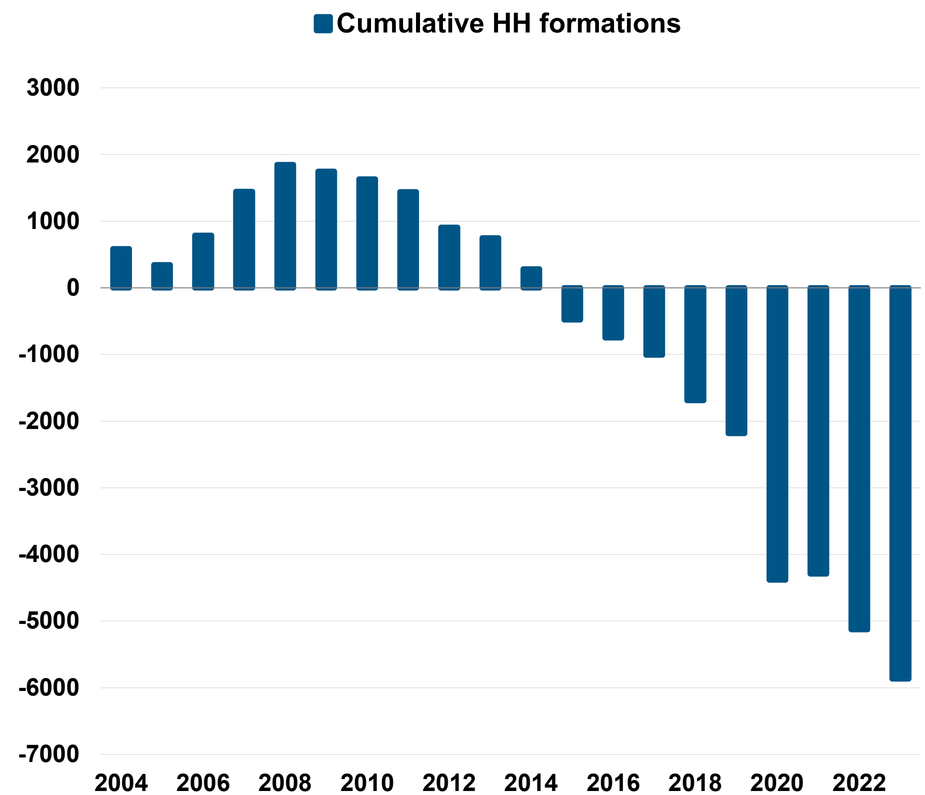
Sector	Example	Action
Software	TRAVELPORT	Blocked Transaction
Auto	CARVANA	Blocked Transaction
Industrials	CooperStandard	Proactive Solution
Consumer	HEARTHSIDE FOOD SOLUTIONS	Proactive Solution

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

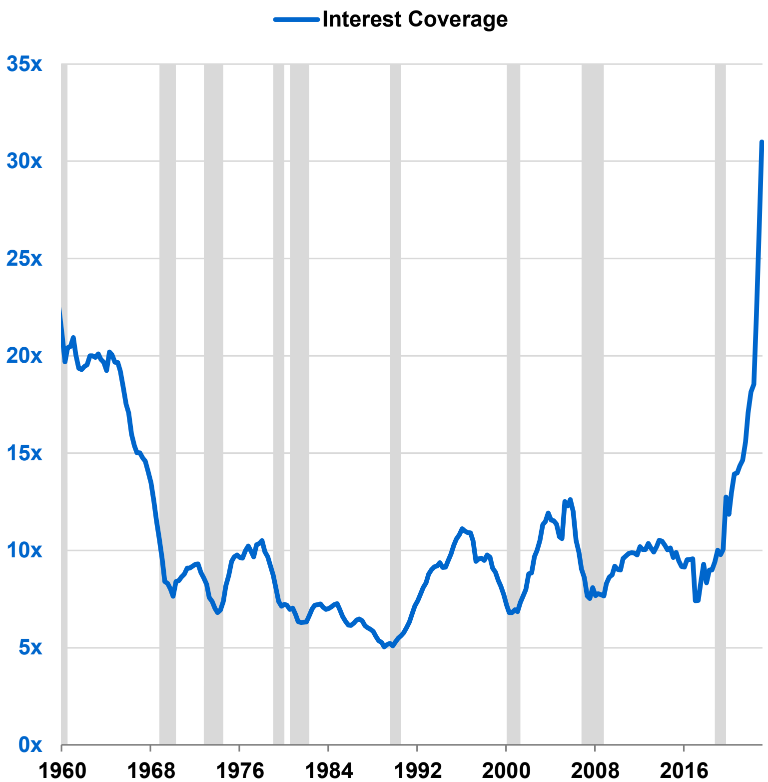
- The Federal Reserve estimates that there will be a 16% increase in aggregate capital requirements across the banking system.
- In addition, recent commentary by the Fed suggests that banks will need to further increase their total loss-absorbing capacity, leading to increased funding costs.
- New rules 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

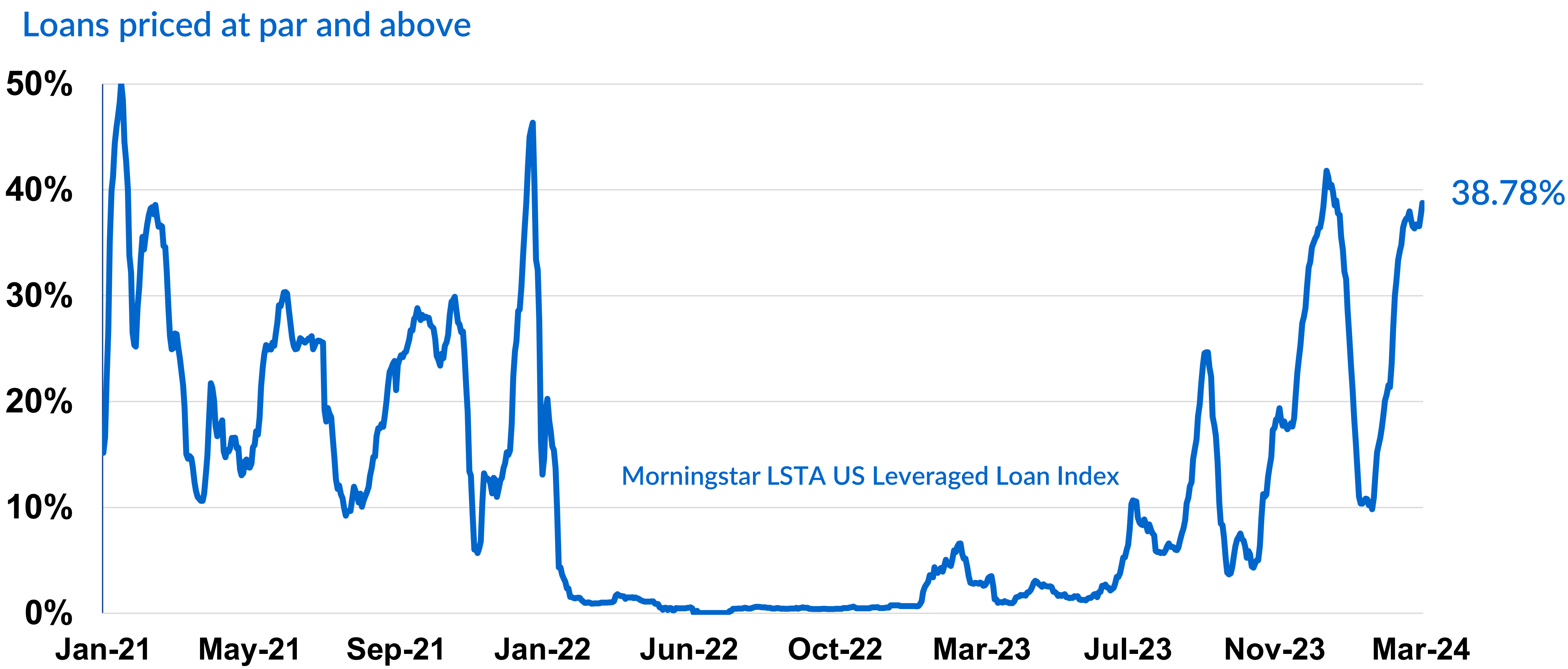
Nonfinancial Corporate Leverage Near 2015 Levels

Highest Interest Coverage Ratio since the 1950s



Source: Guggenheim Investments, Haver Analytics. Data as of 12/31/2023. End of expansion referes to the quarter preceding NBER dated start of prior recessions since 1973. Shaded areas represent periods of recession.
Note: Please See Disclosures and Legal Notice at End of Document.

U.S. Leveraged Loans Prices



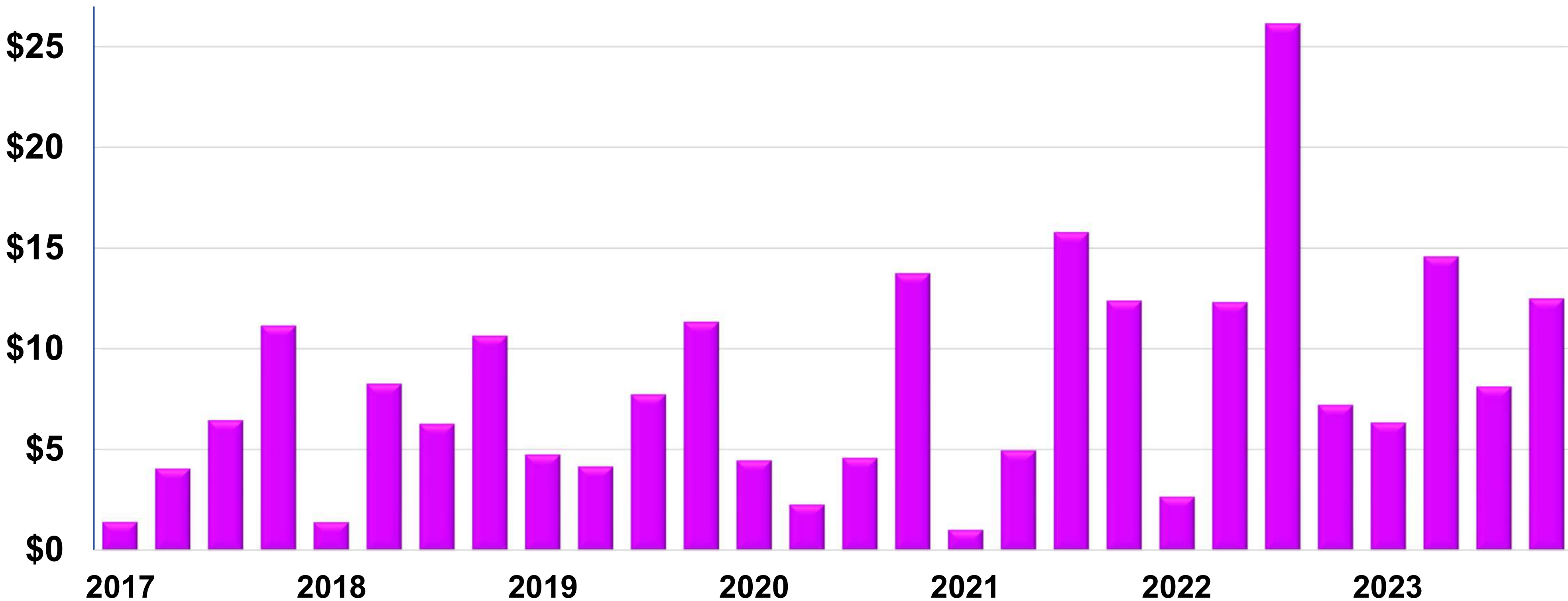
Source: Pitchbook LCD (4/28/2024)

Aggregate S&P 500 Pension Fund Status

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

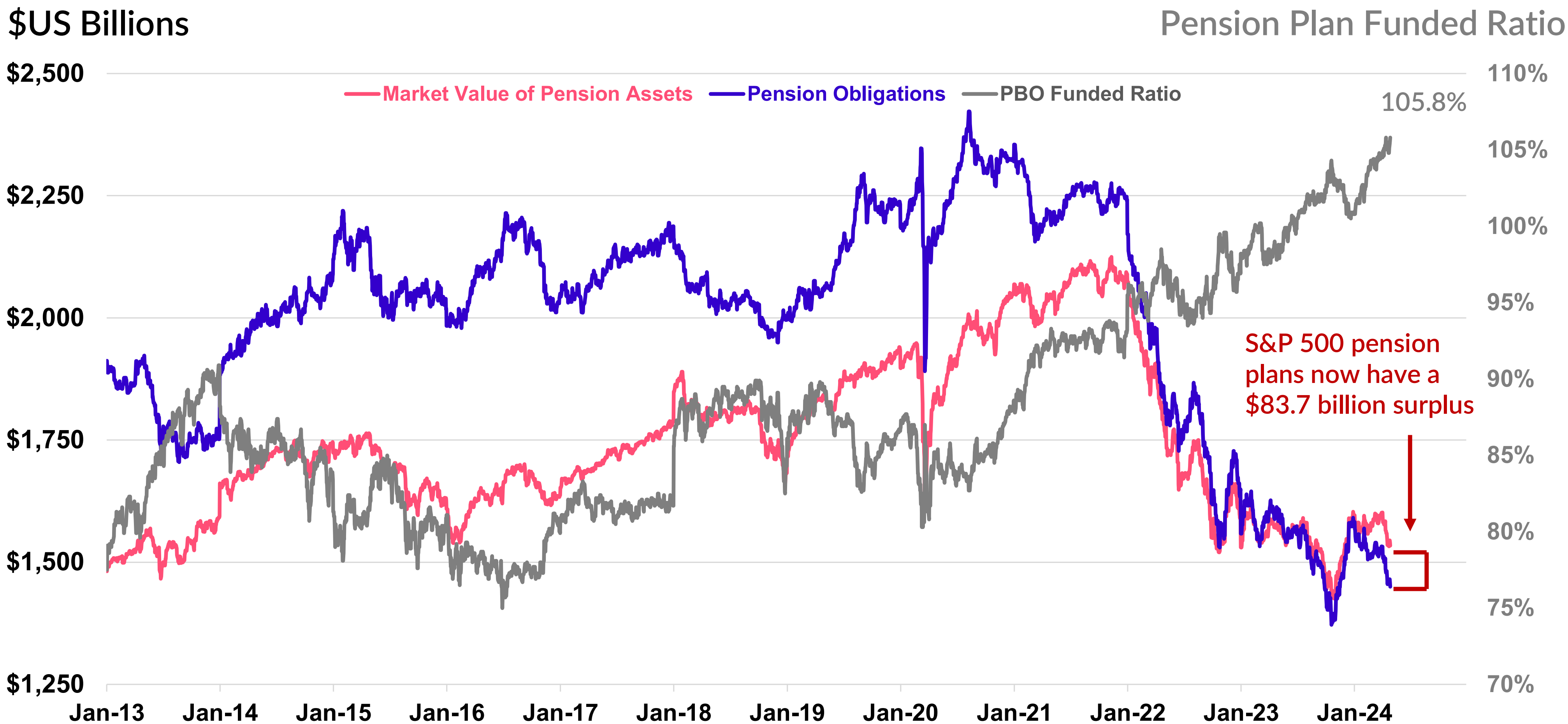
Pension Risk Transfers

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)

S&P 500 Pension Fund Status



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)