

# CREDIT OUTLOOK

**Michael Milken 00:04**

Good morning. It's May 6, 2025, and we are lucky that we have five of the leading experts in the world on credit on one panel. I am so excited to see what I can learn in the next hour about credit from this group. Why is this so important today? There are many reasons. Number one, when interest rates were substantially lower in '21 you could not meet your actual assumption by buying high-grade corporate debt. Many people's actual assumption range generally from five to 7 percent and when the 10 year treasury hit 80 basis points, you weren't going to get that in credit. Today, interest rates are a level, that for many of the world's largest pension funds, sovereign wealth funds, insurance companies, they can meet their actual assumption by buying high-grade debt, corporate debt, structure debt, non investment grade debt portfolios. So we've seen tremendous increases in the desire for sovereign wealth funds, insurance companies, endowments, pension funds, foundations and large family offices to increase their investments in credit. So we're in an opportunity today in the market, and I think our panelists are going to really give us a chance to think about that, and we're going to start with Christian on his views today on markets as we begin this panel. And part of our effort here is to give you a feeling of how these firms look at it, how they're structured, how are they making their decisions, how PIMCO is addressing it. So the environment for private credit has fundamentally shifted in the past two years, since the regional bank crisis. What is the origin of that shift, and what are the key opportunities and pitfalls as you assess the private credit landscape?

**Christian Stracke 02:16**

Thanks. Thanks, Mike. And that's right, I mean, credit is going through a real moment right now where returns are very interesting across, really, across the liquidity spectrum, private and public. But a lot of what's driving this change, especially in the private markets, is what's happening with banks. And so the way that we think about it, and I think in some of the slides we talk about it, that there's a fundamental retrenchment of banks going on right now that is different from how it was over the last many years. There's a change right now happening that's since what happened in 2023, the collapse of the regional banks. So what we've seen is that it's not just regulation. The story for a long time was regulation and tightening of regulation, and that is still at play. But what happened in 2023 was not regulation. It wasn't a lack of capital. It wasn't credit problems and balance sheets. It was interest rate volatility, and that interest rate volatility drove an extension of the duration of assets on bank balance sheets, and it drove a decline in the duration of liabilities on bank balance sheets. And so you have this asset liability mismatch that is chronic in banks. And so banks have really taken a look at that and said, How can I work with this? How can I work in a higher interest rate world, a more volatile interest rate world that optimizes the balance sheet? And so you hear this buzzword of balance sheet velocity, and what that means is a move from originate to hold on

balance sheet, to originate to distribute, hold some on balance sheet, but look for partners outside of the banks. And that is the opportunity for asset managers, and ultimately the opportunity for investors all over the world. And if we go back on that side, that we that we just had, what we see is that in 2022, before the collapse of the regional banks, you had very high growth in bank lending. And what's happened in 2023 and '24 is that bank lending has collapsed, that bank lending as a share of GDP, is declining, and you see outright declines in nominal terms in regional banks. But, interestingly, what's happening while this is happening is that banks, while they're not really willing to hold a lot of their residential mortgages on balance sheet, their consumer loans on balance sheet, their equipment loans on balance sheet, aviation, infrastructure debt on balance sheet, they are willing to lend against those loans. And so the one area that's been growing at banks is loan on loans, nav lines, subscription, facilities, things like that. That is a huge growth area for banks, and it's a huge opportunity for asset managers and ultimately investors, as this move of credit out of the banking system into a much more balanced, much more hybrid world of banks, asset managers and other non bank lenders.

#### **Michael Milken 05:03**

So just to underscore that point, Christian, I feel we had two banks that had significant franchises, Silicon Valley Bank, and if you wanted to have a location for your bank in the last 30 years, you couldn't have picked a better location. And Republic Bank that appealed to the wealth, and both of them are no longer independent institutions today, due to the same things that Christian has pointed out here, mismatch between floating rate short-term liabilities and making mortgage loans or mortgage backed loans, investments or governments and an intermediate market. And so this is this unique opportunity that you're giving us to look at. James, you spent more than 20 years investing in emerging market credits, run a global private credit platform for Goldman Sachs—how do you think about the relative value of private credit across the world today?

#### **James Reynolds 06:08**

Thanks Mike for having us this morning. You know when we started, interestingly, back in 1996 in private credit, we actually started both in London and in the US at the same time. And for us, it was really important to address those markets and be diversified from day one. And I think diversification, whether it's diversification of strategies, diversification of sectors, but also diversification of geographies, is something that, you know, we've certainly been focusing on for the last almost 30 years. If you actually step back, since 1996—where have we invested? Where are the assets in which or the borrowers in which we invest? It's been about half of them in the US, and the other half outside of the US. If I look at today, our asset seats, again, pretty much half, half. You can't ignore the US market. I mean, it's the largest market in private credit, in direct lending, very sophisticated capital market, lot of activity, even when MNA slows down. But it's also a very competitive market. It's a market that is somewhat driven on dark landing side by the flows of the BDCs. It's a market where the capital structures can be a little bit stretched. And you know, we, historically, we've actually have delivered slightly higher yields, including in today's environment outside of the US and in Europe in particular. And if I look at what's going on in Europe right now, I would say it's a less competitive market. It's a market where the barriers to compete, I would say are probably a little bit higher. You get paid for additional complexity, the way that you can do deals or originate deals in Northern Europe, Southern Europe, UK, are very different—and, by the way, having a team in London gives you no right to win outside of that geography. The other thing that we found over the last 25 years is that if you stick to one market, the risk of a stroke of pen decision that can affect an entire sector is real. Take health care, for instance,

and we've seen some of the consequences in specific markets, whilst, in particular, when you focus on larger companies that may be more diversified across a number of geographies, I think the risk of a stroke of pen at the same time, across all these markets, is fairly rare. And so whilst I would say Europe, maybe the equity story, maybe the growth story, and hence, the valuation or the exit may not be as clear as it might be for the US markets, I would say, from a credit standpoint, certainly in our kind of last three decades, we found very good value in Europe. And then, lastly, I would say, we're certainly after our attention towards Asia. Asia has been a good market for us, historically, for the last almost 15 years, now that we've been present, I would say India, we like the market there, again, not many players do what we do in that market. We think Japan is certainly waking up to some really interesting transactions on the corporate sides. And then, you know, we're starting to see actually activity in Southeast Asia, and also very busy in Australia. So I would step back, and I would say diversification is key here, as you build a portfolio of different strategies, different sectors, but also different regions.

#### **Michael Milken 09:53**

Well, thank you very much. I'd like to just pull up on slide 35 for a moment, just to kind of set the importance of this panel. And this is something I had written more than 60 years ago when you looked at credit, but it's credit that counts. And I want to stress that we have five of the major credit managers these firms here, and there is real importance in economies of scale, data, information. Number two, as we saw, the financial crisis, had its birth in the idea that every loan to real estate was investment grade and, Drew, your firm has taken advantage of that idea that they're not for decades. Credit research is more important than ratings yes for your CLOs and other things important, but ultimately, the security is going to trade on its credit. Sovereign debt has been historically [inaudible] but the one I really want to stress to you is that debt values underpin all capital markets, and the ability to move through different parts of the capital structure is important, and so these debt markets are going to set what all markets eventually all equity markets set in. So we are lucky today that Purnima has decided that she is going to come back for two or three years in a row. So we want to welcome you back. I am so lucky you allowed me to be your moderator again. But let's start. Policy uncertainty remains at the forefront of credit markets, but spreads have retraced nearly all their whitening following Liberation Day. And I think one thing we can count on with this administration is volatility and uncertainty. How are you managing your portfolios in this environment? And do you believe the recent rally is sustainable?

#### **Purnima Puri 12:01**

Thanks for having me two or three years in a row. So HPS has a very large private credit business and liquid credit business, and I think there's a couple themes that are consistent across the different asset classes. So one is when we're looking at the market and tariffs and trade and inflation and then growth and the impact on growth in the consumer and our various portfolios. We, as I'm sure everyone else on this panel has as well, has done a lot of stress testing, backwards looking, but we're kind of focused on what we're doing on a forward-looking basis. I'd say one is that we don't, we don't think that the spread retrenchment is sustainable, actually. Spreads are, you know, in high yield are 350 basis over 500 basis points on the loan market and that's reasonably tight, all things considered. We are focused on, I would say, three things across all these portfolios, and when we look forward in terms of investing. The first is quality of businesses. We've sort of spent a lot of time trying to find ways to de-risk our portfolios. But more importantly, as we look forward, you know, higher quality businesses that either have liquidity options, so that could be public equities, it could be delayed draw facilities, it could be revolving credit facilities,

but have liquidity to whether volatility is really important, given the state of banks we referenced earlier. So that's number one on quality. Number two is where we can and when I say that, the vast majority of our business is private credit. So there's a lot of places where we can structure and try to make sure we have some ability to protect our investment if things go a little bit pear-shaped, that's been super important to our business. And then three, we've spent a lot of time focused on the US and Europe, and historically, have had a little bit of a bias towards the US. We do think Europe is starting to look significantly more interesting, and that's a market we're spending time on.

**Michael Milken 13:53**

Great, thank you. So, Drew, if I had a complicated situation I needed a loan, Fortress might not be the first, but Fortress might be the company that ends up making that loan. What is interesting in the current investing environment and what is driving that for Fortress today?

**Drew McKnight 14:18**

Sure, and thanks again for having me. It's always a little intimidating speaking on credit with Mike, because we're all talking about private credit, and Mike essentially invented what we all do. So it's exciting. What I think we're probably most active in right now is in the asset-based credit space. Some of the panelists have talked about what's happened in the bank markets and how commercial banks have pulled back from lending, which has left a void. Just in the past 18 months, we've done a little over \$5 billion in asset based credit or consumer finance with companies like Sofi. Some might ask, you know, how are you comfortable with the consumer? What happens when we have a recession? And you're able to stress test these portfolios in fairly draconian environments, like 2x 3x global financial crisis-type scenarios, and the portfolios still hold up because they're very highly structured. The interest rates they pay, plus the financing you can get on top of it makes the cash-on-cash return quite high, so it de-risks, and then ultimately, the duration actually shortens meaningfully if you do have credit events. So, that's probably where we're most active right now. I think as we look at the opportunity set, I agree with Purnima, the world's changing. I think where you've seen some things since Liberation Day, really pull back and slow down, just because there's not decisions being made. And then lastly, I think private equity secondaries, private equity solutions, capital structure, capital solutions—I do think there was a lot of private equity capital that was hoping for a magical year of exits and IPOs and LBOs, I don't think that's the case. And so I think providing flexible capital for private equity funds and LPS that have private equity funds, I think, is going to be a big opportunity set now and likely for the foreseeable future.

**Michael Milken 16:15**

Drew, talk a little bit about for a moment, the process at Fortress of making a decision. So you have many parts, excuse me, and many skills. How do you make a decision? How many people are involved in making a decision as to what investment you're going to make?

**Drew McKnight 16:35**

It's a good question. We've tried to, despite having, you know, 300+ investment people around the world, we've tried to keep our organization really flat and very transparent. So, if you look at this flywheel here, the decision-making process sits in the middle. We try to have our economics aligned across all those different businesses, so that if you're in one business, but you're a partner in the fund, you're not competing for capital to invest in your asset class. You're really trying to make sure the fund is allocated into the best opportunities within that and so while we have a fairly centralized team or centralized decision-making process, it's spread across a lot of different businesses, so that hopefully we're taking the best of what's out there across all these different asset classes, some of which are liquid, some of which are illiquid, you know, some of which are which are totally, totally idiosyncratic, like legal assets or intellectual property. And then hopefully the actual portfolio construction ends up being the most offensive but attractive portfolio.

**Michael Milken 17:39**

Thank you, Drew. And I want to stress to everyone. If you are interested in the slides, you can contact the Milken Institute and get these slide decks. Many people have spent a lot of time trying to create slides to give you insight. And no one more than GoldenTree, as Lee knows he has a high bar to come. I'm always excited to see, out of the 10,000 slides, which one GoldenTree has created every year. Now Lee has to share slides periodically with Steve, who runs the firm. I don't know how internally decide who gets what slide, but—

**Lee Kruter 18:20**

It's a knife fight.

**Michael Milken 18:21**

It's a knife fight. So you invest in a wide universe of credit instruments, given the involving macro landscape, where are you currently seeing best value? And one of the things that excites me, when I think of an interesting place to invest, you've got a derivative of that senior and a similar yield. So where are you taking us today?

**Lee Kruter 18:45**

Well, first off, the pressure is real on the slides, so don't doubt that. But so—when we think about the world, it's always starting about relative to expectations, a Purnima hit on this a little bit. So when you look at where we were at the beginning of the year, and I think consensus at the beginning of the year was that the US, by far, was the place to be. We started the year with real GDP consensus for the US for this year about two and a half percent as of last week, that's now just about 90 basis points. And probably, when we think about economists, we always go with the hot hand. And probably the economist at Goldman Sachs are the ones we follow the most right now, and alone, their odds of recession have gone from 25 percent to 40 percent. So as Purnima was highlighting, you know,

in that type of environment we've seen just and we laid out here, you know, spreads across the major, you know, sub-investment grade and US investment grade markets spreads have barely moved from that sort of pre-Liberation Day or April 1 period, and now you have high yield spreads, which are basically in the 75th percentile, meaning they were more expensive than they've been just 25 percent of the time. So, as Steve would say, our CIO, typically fear tends to bring on more sellers than it does buyers, and really something has to give in the context of the current environment. So what we tried to do during that period of volatility called the last 30 days, is to try to isolate some opportunities that you know really were giving you the types of value that you get in the recessionary type environment, but without, without those risks. So if we go to the next page, just a bit of a highlight, and you know, certainly you know, Christian was highlighting, you know, as banks have been lending, particularly on the sub-line capital call lines, certainly they hit their own risk limits, and they indeed sell those assets, or at least a portion of those assets. So we're able to optimize and get a sub-line capital call risk transfer facility during that sort of depths of the period, in that first week of April. And that's something that we think has yields north of 10 percent can withstand peak defaults, or peak defaults that you typically would see during a financial crisis of no more than three times, and with returns in the in the mid-teens. And the other area that we really tried to focus on was, you know, when you saw the market last month, I think the—probably the term people would use was that it was a relatively orderly sell off on the credit side. The one area where we did see an excess amount of supply coming off, particularly from banks, was on the mortgage side. So we focused really on that non-QM or non agency mortgages. Going back to that slide 21 again, and this is where you could see in that W part of the market with can withstand defaults 2+ times more than what you would see during the financial crisis. And those spreads which, relative to high yields in that 75th percentile, spreads on the mortgage side, are definitely in the 30th percentile right now. So it's an area, what was one of the markets where you could definitely see an opportunity to get spreads that were really, you know, pointing to a recession type of area without that type of structure.

#### **Michael Milken 21:44**

Thank you. Now, I think one of the things you've brought up is the risk-adjusted rates of return. So how are you projecting risk? Are you looking historically at extreme cases like the financial crisis? How are you estimating risk-adjusted rates or return, Lee?

#### **Lee Kruter 22:05**

So when—it depends on the asset class. So for an asset class, like when we talk about CLOs, or we talk about CRTs, or even mortgages, where I think is—you were telling us before, Michael—nobody really had a math or you were one of the few that had a math degree back when you started. A lot of these are you're dealing with either thousands of mortgages or thousands of underlying loans. So, with those, it's really an analysis of how would these react in different environments, particularly the financial crisis-type environment. Specifically with CLOs—and we discussed this on panels previously—where in this environment, either default rates are going to change or recovery rates are going to change. We try to adjust for how the market has been changing over the course that last decade or so. And then specifically on the corporate side, as others have said, it's really that forward-looking analysis where, you know, I come in every day and I think about, you know, would I still want to own this credit today, or what I still want to own this name today, and you have to really react to, you know, current information. And I think, you know, one of your slides which I saw was talking about, you know, politics, where you know, even if you don't want to see politics, politics is dealing with you. So, you know, we're all in an environment today with

our companies, and really trying to be blank canvas of what do we want to see today, and how are companies going to react to this?

**Michael Milken 23:25**

I think you mentioned math, and we do have a math major, at least one—Purnima, on this panel—and yes, one of the things we've seen is how unsophisticated investors were essentially and analyzing rate of return. And I stress that, Lee, with how you're estimating risk 50-60 years ago and how they look at it today. So Purnima, I'd like to go to you. Many of the investors—we have approximately 650 to 700 of what we call our global capital global conference group here of sovereign wealth funds, insurance companies, pension funds, endowment foundations and large family offices. Many of them have different actual assumptions. Some might be as little as 4 percent today to meet what their requirements. Others might still be above seven if I'm coming to visit HPS, how do you handle the difference in the demands of those different clients that are coming to you?

**Purnima Puri 24:42**

So I think when we look at our business as a whole, what we tried to create from the get go—which was 2007 early, 2008—was an ability to solve problems for investors. And, to your point, on, sort of, rates of return, I would say a couple things. The first is that we can traffic across the, I would say, various risk boxes and various duration boxes, and achieve a set of different return assumptions. So what do I mean by that? So at one end of the spectrum, on the private side, everyone talks about private investment grade now, there's a whole host of versions of private investment grade. I think of it as sort of three large boxes, which is infrastructure being one, so data centers, energy transition etc, financing solutions being two, fund finance, GP, NAV financing, etc, and then all other things asset-based, which are ways to securitize cash flows. So lease streams, Xerox machines, aircraft leases, consumer loans, real estate loans, etc. And in that world of private investment grade, there's a good yield pickup of call it 150-250 basis points, depending on where you want to sit. That is one place where returns are lower. Why are they lower? Because excess spread is lower. Why is excess spread lower? Because historically, default rates have been lower, and therefore recovery spread was a function of defaults and recoveries. That is a risk box that one could traffic in for a lower return investor. On our direct lending side, similarly, that's where the yield premium starts to increase. And we do stress test those, those assumptions dramatically. I think there's one big difference, though, than what was historically the logic behind spread premiums, which were default rates and recovery rates, and that is that now the whole world of liability management transactions can allow for people not to default. So, and recoveries, I think, are the more relevant focus point than the default right now, because the recoveries can actually, we've all seen this, can be close to zero. So—zero times anything is very bad. It requires more excess spread as you sort of move around the risk curve. So the direct lending side of the house, our Strategic Investment Partners, that's where we're starting to see incremental premium yield across our private spectrum. And then in the liquid world, the truth is, base rates are our friend. And base rates, whether you have a view on rates being cut, zero times that some people say and four times, other people say six times, others through next year. It kind of, it's kind of less of a relevant data point in that, in the liquid space, if you believe Fed funds is north of 3 percent and if you believe that the tenure is probably somewhere in the four and a half percent range, you're finally able to earn what pension funds need to earn, which is 7-8 percent and you don't actually don't actually need to go far out on the risk spectrum to achieve that goal for investors. So I think there's a whole host of places to play.

**Michael Milken 27:49**

I think for the audience today, we've introduced a very important point you've made, and it's not necessarily the default rates, it's the recovery rates. So we're trying to estimate, and we've had companies go bankrupt, like Texaco, and you got a premium for the equity, you got a premium for the debt, etc. So what are those recovery rates? And you're projecting they might not be what we think they're going to be. Christian, I'd like to go to you. There was a major announcement a month or so ago, a few weeks ago, that relates to Latin America. So we've had an election in Argentina brought in a new president with new views. His idol is Gary Becker, and last year, when he spoke here at the Global Conference, I gave him the baseball card that we prepared for Gary. He was involved with the Milken Institute for decades, and he told me had a large picture of Gary Becker in his living room, a different leadership, different direction in Argentina, and the announcement a few weeks ago with the IMF committing 15 billion or so to Argentina will allow them once again, to maybe have a convertible currency, and the commit the Comments, very favorable comments from the US Secretary of the Treasury. And so it was our view that if he is successful in Argentina, it could change Latin America. Is Latin America emerging, in your opinion, as a more strategic and investable region to invest in? What you see as the most compelling opportunities today, whether by country, sector, investment strategy?

**Christian Stracke 29:46**

Yeah, well, first, Mike, I made, I think that Javier Milei is a great example of your point the Pericles slide about the dominance of politics—and by the way, I want to thank you. I think this is the first credit panel I've ever been on that references Pericles. So that's fun.

**Michael Milken 30:05**

We have some more surprises for you.

**Christian Stracke 30:10**

But no Latin America—it's very interesting how Latin America has outperformed a lot of areas this year relative to its traditional beta, in part because of politics. And if you look at the tariffs announced on Latin America in Liberation Day, mysteriously or magically or what, for whatever reason, Latin America came out with a basically a 10 percent tariff rate. And Mexico is even less than that because of USMCA exemptions there. And so Latin America, very clearly, is a favored area under the Trump administration. Maybe that's because of Milei, maybe that's because of the constructive relationship with President Sheinbaum in Mexico. Maybe that's because of broader geopolitical reasons. But for one reason or another, Latin America has stood out as an area that should outperform in a world of trade war where the US is keeping an interest in Latin America. And so what we've seen is that the opportunities are very interesting in Latin America, this year. The capital markets have been wide open to Latin America this year, across sovereign, quasi-sovereign, corporate issuance. And what we've also seen is that there's been very fundamental changes in local markets. So it's not that Latin America is dependent the way that it

used to be, on external financing. There's much deeper local capital markets where really interesting returns are available to global investors, where you can operate in those markets, they're much more liquid than they used to be, much more diversified than they used to be. You asked Mike about where we see the real opportunities, like we'd say the local market opportunities are particularly interesting, but also in what we call semi-liquids, and that's an emerging opportunity set in emerging markets as a whole, but particularly in Latin America. This would be something a bespoke transaction, a little bit like some of the private IG transactions that Purnima mentioned, but bespoke transactions that have something to do with a liquid issuer, sovereign, quasi-sovereign, corporate issuer, but bespoke private transaction there. PIMCO has deployed about 4 billion in Latin America alone in these semi-liquids, and just in the last year, this is really an emerging opportunity set within emerging markets. So, yes, the simple answer is yes. Latin America strategic area of investment across sovereign corporate, but particularly in these sort of new areas. Local markets are not new, but they have emerged as much more interesting, and then these semi-liquid opportunities.

**Michael Milken 32:44**

Thank you. James, private credit has had a good run over the last 15 years. The amount of funds from this group and of our GCMAC group, going into private credit has increased dramatically in the last decade. What do you see it going forward? If we look back 15 years, the results have been fantastic. Do you see dispersion? Do you see changes? What should an individual and this audience, or someone's thinking of giving one of the five of you money to manage in private credit. How do you see the future versus the past?

**James Reynolds 33:27**

Look, I think we're very excited about the outlook for private credits. I would say a number of reasons. Number one in non-IG, I think this has become a very large asset class, and it's only getting bigger and for the reason that you know this creates solutions that, frankly, the public markets cannot access right, the ability to provide certainty, the ability to provide creative, flexible solutions that cater to the needs of these borrowers, that match, really, some of the requirements of the borrowers—in any weather, by the way. Whether, you know, we're talking about a volatile environment or COVID environment, or even during the GFC, these borrowers need access to capital. And so I think the ability to provide solutions is something that is going to continue. You have very large platforms today that effectively allow for even larger transactions to happen. And so I think we're excited about where non IG is, whether it's direct lending or even junior capital. If I look at the next five years. Mike, I think one of the biggest theme in non-IG, junior capital, private credit is around hybrid, right? You have a massive inventory of private equity-owned businesses, trillions of value that has been held for, on average, about six to seven years. It's getting very difficult for the owners of these businesses to effectively access whether it's the IPO market or provide liquidity and capital back to their investors. In the next few years, they'll have also to deal with maturities. We estimate that is about 2 trillion of dollars of debt that is maturing in the next four to five years. And so for these borrowers, they can either raise equity capital—that's expensive, that may not be at the valuation that, frankly, is that exciting today for the owners of these businesses. And so they look at debt capital. You can do cash paying debt senior but most likely, those capital structures are a bit too levered and would probably not welcome having even more cash paid debt. And so effectively, these companies are going to look for junior capital. And so we're very excited about this particular area. We think that's very, very large, by the way. It's not just sponsor on assets, but also sponsorless assets. So that's on the one hand, and by the way, you know, that's with the backdrop

of interest rates, which remain elevated, although we believe that they'll likely come down over time, but that creates really exciting kind of yield environment. And then I think there's a there's a great pivot happening as we speak. Some of the panelists have mentioned it, yesterday as well. And that pivot is, is going on in kind of the real world economy, which is investment grades, financing, you know, energy transition, financing, digitalization of the economies. And I think we're seeing more and more insurance companies in particular, being attracted to that space because it provides for the same reason that I mentioned earlier, on the non-IG side, in IG provides a premium to what else you can extract otherwise in a public market. So I think from where we are today, we're very excited about the outlook, the growth I think you're going to see, by the way, consolidation within the industry. I think the larger platforms are just getting larger. They're getting access to these bigger opportunities. And by the way, we talked about recovery—I think the alpha, by the way, in what we do, is linked to origination and the ability to say no and effectively avoiding the losses, that's what this is about. And for that, you need to have a very large origination funnel. And I think you know, eventually these larger platforms will prevail here in that kind of private credit world.

**Lee Kruter 37:39**

But I think Mike, though, one of the bigger themes, which we all hit on, is there's not really a public market and a private market anymore. I mean, when you look at GoldenTree, 70 percent of what we've done on the private credit side are companies that either have public equity or broadly syndicated debt attached to it as well. So too. You know, Christian was talking about with a lot of the EM private—you know, they also have a lot of broadly syndicated debt attached to it as well. So, it's really just being able to be flexible, moving between everything. And, you know, really, whether it's from the issuer level or from the LP the client level, it's, you know, having that broad playbook and trying to figure out the best way to get the risk-adjusted returns. And, to James point, if we go to slide 23, it is a theme, you know, we talked about as well so too, because you have, you know, two times as many P sort of entities that have held these businesses for more than five years. The average time that S1 filings have been sitting on there is four times longer than what's typically normal. So there's going to be this huge period here where, with a lack of access to, you know, whether it's an IPO market, an M&A market, it will provide a lot of these opportunities to either businesses that have broadly syndicated debt or businesses that are private, that could be VC-backed businesses. So there's just a lot of opportunities in this, in this world to kind of go after just credit broadly.

**Drew McKnight 38:52**

One thing that I would add, I agree with James in terms of the ability to differentiate. The one thing that I do think private credit hasn't necessarily been tested, is through a real default cycle. If you go to slide seven, if you think about when private credit—is that, yeah—if you think about when private credit, really as a distinct asset class came about post-global financial crisis, outside of a really quick blip in 2016 that we really haven't had defaults COVID was a very brief period. The one thing that I would stress for all LPS that are investing in private credit is to really think about whether teams are set up. And I think the people on this on this stage, do have the depth of teams to handle a cycle. It's important to obviously say no and have an origination team that has a really wide funnel and is looking at a lot, but if we do go through a credit cycle and with these tariffs, there are going to be some companies and some industries that are affected that weren't necessarily predictable, that are going to have to go through restructurings. If you think about how many analysts can cover a performance. Credit portfolio,

right? An analyst where has, if you have a performing credit portfolio, you can cover 20 or 30 names at a time because they're performing as expected. You're not having to spend a lot of time if one of those names goes into any sort of restructuring or workout, you go from having one or two calls a quarter to having two or three calls a week with the restructuring team and really going through a very laborious process. And so I do think making sure you're investing with teams that have the infrastructure if you are worried about the potential for us to have a cycle, because there are—I do think there are some private credit teams out there that are very lean, and they can originate, but can they actually service a portfolio if we do go through any type of cycle.

**Michael Milken 40:44**

Drew, I think you made a very interesting point. I want to come back to you also, Lee, on your point. It's one thing to make 100 mortgages. It's another thing to have 10 default and have to foreclose on and I think one of the transactions you were involved with, Drew, was buying the mortgages, I think, from Capital One on 28 office buildings a year or two ago. And not everyone can handle a portfolio where you might have to foreclose on every asset. Talk to us about how you—how did that turn out? How did you staff that transaction?

**Drew McKnight 41:22**

Yeah, Mike's memory is pretty good. It was, it was 28 loans, 26 properties, because there was some liens in there. But we bought a portfolio of office loans from Capital One in the summer of '23 so we obviously, we're not calling a bottom in the office market in the summer of '23 but we were able to buy it at what we thought was the right price. We got seller financing from Capital One to finance our purchase. The purchase price was in the high 60s, but we were allocating a different purchase price for 28 different loans. And some of the loans were allocated 85 cents, and some of the loans were allocated, I think, as low as 30 cents. And, like Mike said, it then becomes hand-to-hand combat on every single one of those loans. Working through the process, working with the borrowers constructively. We've actually resolved, I think, six of them to date, with some of which we've resolved at par, some of which we resolved at deep discount to par. You know, one of the things, and one of the hopes that we have with some of the deregulation that this administration is talking about in the banking system is it'll allow more of these transactions to happen. Because I think by freeing up this capital on banks, and then by, you know, these credits, getting to people like us that can then work through the assets, it actually frees up capital and creative destruction that I think the US bankruptcy process and the US restructuring process is actually very quite good.

**Michael Milken 42:51**

How many of those 26 properties went in? Did you foreclose on?

**Drew McKnight 42:58**

We haven't foreclosed on any yet. We've restructured, you know, done discount payouts on a handful of them, but we haven't actually foreclosed on any yet.

**Michael Milken 43:09**

So I want to pick up a theme that Lee has teed off a second ago here, and that is the tremendous amount of structure that's out there in the investment business, and we kicked it off with private equity. So we're talking trillions of dollars that used to be able to turn over their portfolios three or four years, maybe five years. And so what is the structure—since they want to raise more capital—what is the structure going to be so they can return something to their investors to invest in the new fund? It's not necessarily that the seller doesn't know that the asset is worth more, but their utility curves. It's better if it's off their books. So having a large bank foreclose on a lot of real estate loans might not be overall positive for the image of the bank whereas an investor has that flexibility. You have a new entry into the market here, and that is data centers. Trillion dollars going to be spent on data centers. And I'd like to talk to the panel about how you see that opportunity. The largest people in data centers are going to be double A, triple A, single A+ credits, but they've elected not necessary to put more debt on the balance sheet, but to do data centers. Let's quickly go through the panel left to right. Are you looking at investing in data centers in the US and around the world today? And if so, are you dealing what kind of credit underlines that data center?

**Christian Stracke 44:58**

So for us, very much so. In the US and in Europe. In the US, mostly debt. In the US, mostly private IG transactions to help some of these IG companies keep this debt off of the balance sheet. Very interesting, very interesting pickup to the liquid credit. But you have a look through guarantees from these double A, single a, triple A borrowers. In Europe we're actively investing in construction and development of data centers in tier two markets, which is really one of the most interesting development markets in the world right now, because it's underinvested, it's difficult to invest in the hyperscalers. The big tech companies don't want to do it themselves, because it is very complicated to get the land to permit the land to get the power to pull it all together. And so that's where there are some returns to the complexity of the opportunity. So there we're very excited about that.

**Michael Milken 45:52**

So, for the panelists, not only are we talking a trillion dollars in data centers, but we're talking the power to power the data centers. And yes, Microsoft bought its own nuclear plant to deal with that. James, what about you?

**James Reynolds 46:08**

Pretty much the same. I would say in the US, it takes the form of private IG, we're looking at emerging markets where the yields are a bit more interesting. We're looking as well in Europe, by the way, portfolios of data center we're looking at how to power the data center around energy transition, and so looking at some kind of a renewable play, as well as service providers for the data center industry. And that can take many forms, but I would say here it's most likely to be in kind of the direct lending or junior capital land. I would say what's really

important again here is kind of back to origination, is having, frankly, working hand in glove with our investment bankers who are covering a lot of these corporates and getting access to these situations before anybody else.

**Michael Milken 47:02**

Purnima?

**Purnima Puri 47:03**

Yeah, I'll be quick, because it's a little repetitive. I would say one thing different on the liquid side, there's also power plants being built in data center alleys. Those companies are looking for financing in the liquid markets. There are contracted cash flows against their off takers. That's been an opportunity that's existed on the liquid side, and then on the private side, I would, sort of echo what, what you're hearing, which is predominantly, not all of it, but primarily on the senior secured lending side, just to support energy transition as a whole.

**Drew McKnight 47:37**

We've done a few Net Lease transactions with hyperscalers. But probably the more interesting thing we did was related to the power theme. We actually bought 30 mobile gas turbines last year. It was a company that had previously been public called APR energy. They were bought by another public company, and the management team left, and they'd really mismanaged these assets. And these 30 turbines were sitting unleased, unused, on their balance sheet. We teamed up with the previous management team, bought the turbines. We closed on December 31, of '24, so we just closed, I think, knock on wood, will have 25 of them leased, the first 10 released to XAI. And we're also then using the power, we actually bought some acreage, added a very attractive price, where we teamed up with a municipality in Texas, where I think we're now partnering with them, where we have the power, they have the land, and we're going to partner with hyperscalers. But we're pretty enthusiastic about that as sort of our, our core way of playing in space.

**Michael Milken 48:40**

Lee?

**Lee Kruter 48:40**

You know, we've actually just been a little bit more cautious generally, because the technology has been shifting so much. So I think where you can have, you know, off take contracts that are backed by IG borrowers, that's been an interesting area, certainly on the power side. But you know, we've looked at certain things on the real estate side, where it's construction into the data center space, and what we've always found is the people that are looking to take the data are way more sophisticated than we are from a technology perspective, and you have to deliver

things to the specific ounce of actual power that they need. So that's always been a place that we've been a little bit more cautious about generally, given the technological change that there's been.

**Michael Milken 49:18**

So let's take a look outside the US. How is GoldenTree looking at the world outside the US today, Lee?

**Lee Kruter 49:26**

Yeah—I started out a little bit before about just what relative expectations have been. And when you look at the start of the year, I think the view was that the US was the place to be, and that's where capital was going to flow. And obviously that was probably the move that's shifted differently. So when we look at Europe right now, and we look at what's changed over the course of the year, first off, you've had lower energy prices, and by far, Europe is the biggest beneficiary from lower energy prices, broadly. Two and I say some of our LPS in Germany think that the Germans might not actually ever spend the money, but, you know, the Germans are talking about spending more money now than they did during the pandemic. And on a relative basis too, you know, if you do have good shift from, you know, goods that were coming into the US going into Europe right now that is broadly deflationary. So in a world where potentially of stagflation here in the US, the Fed is a little bit on the sidelines, the ECB is much better place to be reducing rates in the short term as well, so too. So over the course of the first quarter, really, in January, we had a focus about trying to find opportunities in Europe, particularly intra-European type of opportunities. And we show a little here. And certainly you've been able to get premiums to relative to what you've seen in the US, which, on a relative basis, much stronger backdrop for forward growth here in the short term. And if even you could see, depending what happens here in the US, it's hard to even believe, maybe slightly better growth in Europe than you have in the US in the next six to nine months as well so too.

**Michael Milken 50:56**

So Lee, we started talking about private credit. How is you seeing the IPO market creating opportunities relating to private credit, or these solutions for sponsors today?

**Lee Kruter 51:11**

Yes, so the biggest thing, and I think there's two pieces to it, one, as we talked about before, there's the just lack of ability to IPO and trying to find opportunities to crystallize value. And if we go to slide 24 we can show, over the last six months, some of the things we've done, whether it's been on the second lien side or even on the first lien side, the ability to return multiples of original investments for companies on their equity, but also doing it at a level where we're in the call 20 to 40 percent loan to value area, getting six to 700 over, which we think is extremely attractive. And then the second thing we've seen also is either bridges to IPOs or bridges to sales of business. So it's a company maybe, you know, wants to be sold in six months or three months. In the case of Recorded Future here, which was a business owned, by inside partners, they ended up selling the business six months after we did

this transaction to MasterCard for about 40 percent even more than what we thought the business was worth. So having these bridges—

**Michael Milken 52:10**

You were really upset getting the MasterCard credit, right?

**Lee Kruter 52:14**

Well, I was really upset to have our debt taken out. You know, that's I would love to hold the debt, but unfortunately, was taken out. So there's lots of different options. And I think, you know, there is a certain—you know, as we discussed, just a demand and a need to return capital here in the short term, which, you know, there's really a focus on. And this isn't only just on the corporate side. We're seeing it on the real estate side as well so too. You know, there's a lot of owners of real estate assets that have been locked in them for years want to unlock that capital. So it's really broad across a lot of different areas, not just in the corporate world specifically.

**Michael Milken 52:46**

So when we think about private credit today, essentially the '50s, '60s, early '70s was really private credit insurance companies making loans. And I remember a visit in 1975 from insurance consortium telling me we were hurting them by doing public debt, and the reason we were hurting them was the ratings were below what they rated them internally for best. So everything was investment grade, and then they went public and they were double B or single B, and can we please stop doing public offerings? So—but that didn't happen. And so the market today is far more efficient. And I remember it took us two months to sell a public bond for a private company con disco in 1978-79, and so Lee, your point that they moved together, I think, is a very important point. I want to stress to the audience, the enormous opportunity in credit, and then go to our panel again, that has been mentioned here. Private equity has trillions of dollars invested. They are generally very sophisticated in financial structures, and they are looking for solutions. If they can't sell the companies or take them public for more liquidity, that's a market that could create trillions of dollars of opportunity and credit power, and as we discussed, data centers, trillions of dollars, and the opportunity for you here not to go out and buy Apple debt at 40 basis points off US governments or Microsoft, etc, but potentially, if it's structured correctly, to get a significant spread through things where they are the guarantee or they're the lesser of those securities. And third, the policies of this government that you're hearing a little bit about Europe here on the panel here, and the interest in Europe are sending a message that maybe you have to stand on your own two feet, and with Germany now maybe going to have expenditures and expansion different than in the past, and what are these opportunities that are flowing and then changes in places like the government of Argentina with a whole different view on this area. So I'd like to conclude here by having the panelists all invest all over the world, give us a view here of the dramatic changes they've seen and how it might play out on their international investing in this in the next year or two. Let's go down line, Chris?

**Christian Stracke 55:31**

Yeah, sure, I'd say two major and really radical transformations that we've seen in recent years. One is, and Mike, you mentioned it. I mean, there's the liquidity in credit markets. I mean, you mentioned that, once upon a time, it took two months to trade a public corporate bond. Today, with the rise of the all-to-all platforms in liquid credit, you can sell those bonds in two seconds. The liquidity in IG credit is unlike anything we've seen in our careers, and facilitated by technology, facilitated moving outside of the banking system into these technology platforms. So that's a radical change, which has really facilitated the liquidity in this market. There are really interesting illiquidity premiums in private IG as well. But I think it's important to recognize just how strong liquidity is in credit markets. Now, the other thing is that rise of asset-based finance, but particularly in the global spectrum. And so what we've seen in the last couple of years is a move from asset-based finance, which was really a US phenomenon, now very much a European phenomenon, as European banks, as European governments realize that they need more diversified credit sources, looking at areas outside of banks, asset managers, non bank lenders, etc, to provide that asset-based finance. So that is a fundamental transformation that's happening right now. We've deployed at PIMCO several billion in Europe in in asset based finance over the last couple of years, and we think that there's a lot more growth to come in the years ahead.

**Michael Milken 57:05**

Thank you. James?

**James Reynolds 57:07**

Me, you know, it's—private credit is becoming mainstream. You know, it started a few decades ago on the non-IG side. It's happening as we speak on the IG side. It's exciting, and it's getting global, getting mainstream. The other thing that we have not spoken about, which will further accelerate the growth of private credit, is wealth management and kind of these vehicles that gives, you know, retail access to the opportunity, which is something that is a bit newer. Really happened in the last, call it, five years and it is only getting bigger.

**Michael Milken 57:40**

Purnima?

**Purnima Puri 57:40**

Yeah, I just want to frame a couple things. The first is that, you know, the non investment grade corporate credit market is 12 percent of about a \$13 trillion market. The private IG market is about 3 percent of a \$26 trillion ABF market. So it is very, very small. People worry about the size of these markets. These are really small in the context of a 13 and \$26 trillion market. The second thing I'd like to say is that the private credit market, people focused a lot on whether it's gotten too big, too fast, all the things—actually it's grown at the same rate as private equity and

is about, you know, a sixth of the size. So I think, I think those metrics are important to frame what that opportunity set is and then with regard to the look forward—you know, what's happened is that this market really came into existence in scale after Basel three, when the banks had to retrench. What's happening today is very different in that you've got a massive amount of infrastructure funding needs that are happening, and the US government has a massive deficit, and there needs to be another party in town to help to fund that development. And I think putting it in that framework will help understand why that share shift is taking place. Thank you. Drew?

**Drew McKnight 58:52**

echo what I think virtually all the panels have said. We actually announced last night that my co CEO, Josh pack, who right now is in Dallas, is moving to London in August. So Europe. We have a big team in Europe, both London, Madrid, Rome, and I think we do see the opportunity the next three to four years as very large. One of the things that was probably most encouraging for me yesterday was some meetings I had, Mike, that actually came about post a trip you and I took in Riyadh in December. I think we will invest in asset-based credit structures in the Gulf region and in Saudi most likely this year, which will be some of the first transactions done. I think if you look at the construct of that the capital markets there, they're evolving the construct of the rule of law and the ability for debtor, creditor enforcement, and so we're pretty optimistic about some of the partnerships that we're working on there around ultimately providing credit in a space that, when you talk about growth, it's immense, because it's really hard to get to finance an auto loan, it's really hard to do a lot of things in this consumer credit world that I think. As you think about vision 2030, and some of the initiatives that the kingdom's taking, I think are really aligned with their initiatives.

**Michael Milken 1:00:08**

Lee, you want to bring us home?

**Lee Kruter 1:00:09**

I totally forgot the question, but I'll try to answer it anyway. I mean, I think really what you see from currencies is going to move things a lot. I mean, you could have been a European pension fund and bought the NASDAQ on a hedge for the last 10 years, and looked like a genius. And that probably is going to change at this point in time. So shifting capital around, and you know, obviously banks are huge in Europe right now with doing corporate credit, so you could see more shift there to the private side, or even to public markets as well, so too. So watching what happens with currencies and how that impacts investor decisions is going to be really important.

**Michael Milken 1:00:42**

I think we have made a very important point there. We sometimes not think about the risk of interest rates obviously. Republic Bank and Silicon Bank wish they had at least one person on their board worrying about volatility of interest rates. Two, we don't necessarily think about currencies, but we've had some pretty dramatic

moves in the last three to four months, Lee, that you've brought up, also commodities. So there's many other markets here. I want to just summarize a couple points that were made on this panel, just to emphasize them. One, there's a lot of discussion in the markets about AI, who's going to be a leader in the AI, who's doing what in AI, what we haven't really given enough thought about over the last 50 years is the knowledge of financial technology, capital structures, what is the right instrument, what is a zero coupon preferred with warrants? What is the structure? And that knowledge has existed primarily in the United States, but is now through these firms and others spreading throughout the world which will create new opportunities. Two, today you can buy annuities at 5-6 percent tax free compounding tax free, versus buying a high grade corporate bond, and you have to pay tax depending on what state you're on of 30-50 percent. So the ability to sell billions and trillions, I should say, of annuities that are growing, and some firms have become over 200-300 billion, in annuities today, finds its way into portfolios that need investment grade credits that Christian started with, and so the growth and the liquidity that you've referred to in private or public investment grade credits is being fueled by demand for trillions of dollars of investment grade credits as people sell annuities throughout the world that compound tax free. So we're seeing dramatic changes in credit markets, and we're fortunate that these investors and these five firms have enough knowledge to deal with it. So thank you for joining us today.

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