Monthly Spotlight

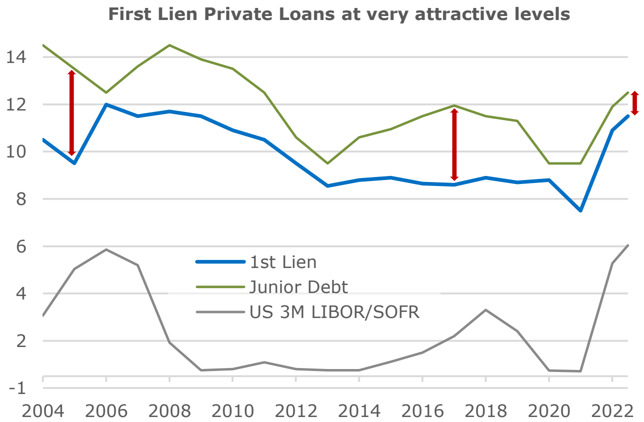
First Lien Private Loans at most attractive levels since 2008

Yields on first lien private loans have reached their highest levels since 2008 during the Great Financial Crisis and remain attractive relative to broader private loan market as well. For illustration, first lien yields on one of Alpinum's representative portfolio in USD are now exceeding 11% p.a. (or ~7.5% hedged in CHF).

Rising risk free rates have undoubtedly been the major driver of yield increases on first lien loans as well as on the broader loan market.

Relative attractiveness of first lien stems predominantly from their downside protection of capital invested, compared to junior debt for example. In case of default, first lien loans have historically exhibited materially higher recovery rates than junior debt.

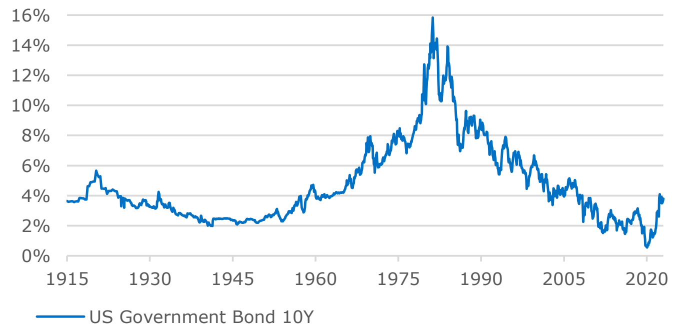
With yield premium between junior and first lien loans compressed significantly, compared to historical levels, an investor in first lien portfolio is giving up only a relatively small extra yield potential in exchange for obtaining a significantly higher downside protection ahead of an uncertain



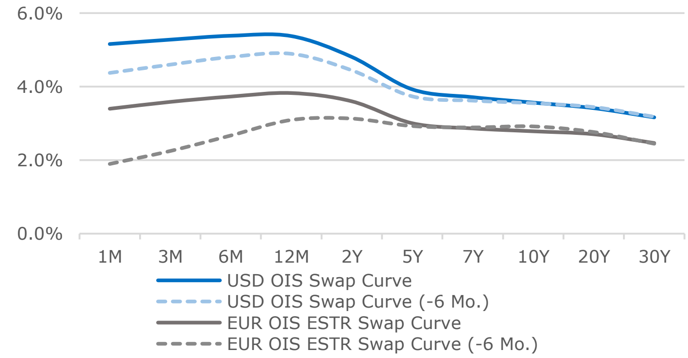
Source: Alpinum Investment Management, Representative Direct Lending Portfolio

Rates Perspective

1) Historical US Treasury Yield: 10-year US government bond yield reached its 100-year low in 2020.

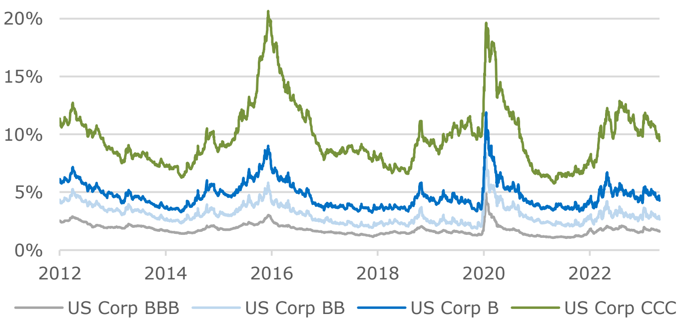


2) Interest Swap Curve: The USD and EUR curve further inverted as shorter tenors continued to increase.



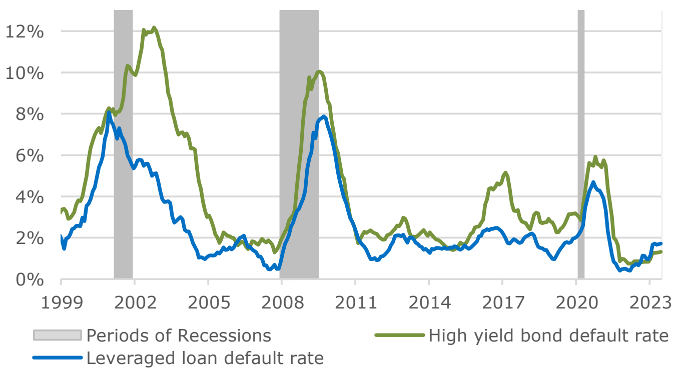
Corporate Perspective

3) US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.

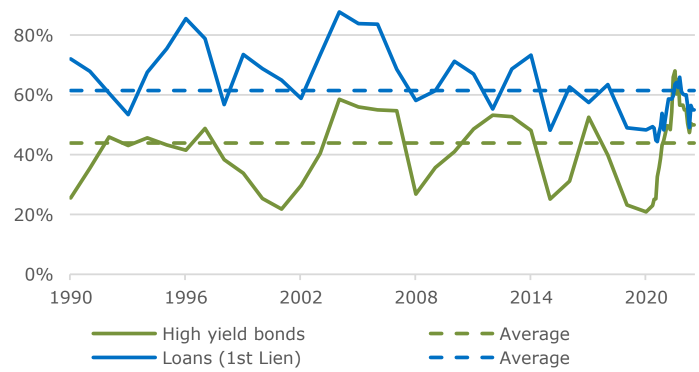


4) EU vs US: Credit spreads (OAS) between the US and EU have narrowed since the start of 2023.

5) Default Rates: HY bond default rates are structurally higher (Ø4.2%) vs. loans (Ø2.6%).



6) Recovery Rates: Recovery rates of leveraged loans are higher (Ø61%) vs. high yield bonds (Ø44%) due to lower severity.



OAS spread change overview across major credit asset classes - as of month end

US corporates by rating (bps)

	curr	Δ month
AAA	51	-3
AA	71	-5
A	110	-8
BBB	161	-14
BB	264	-31
B	428	-52
CCC	943	-126

Global high yield (bps)

	curr	Δ month
US HY	405	-49
EU HY	446	-15
Asia HY	848	-147
EM HY	485	-50

CDS spreads (bps)

	curr	Δ month
CDX IG - US	66	-9
iTraxx IG - EU	74	-7
CDX HY - US	430	-45
iTraxx XO - EU	400	-25

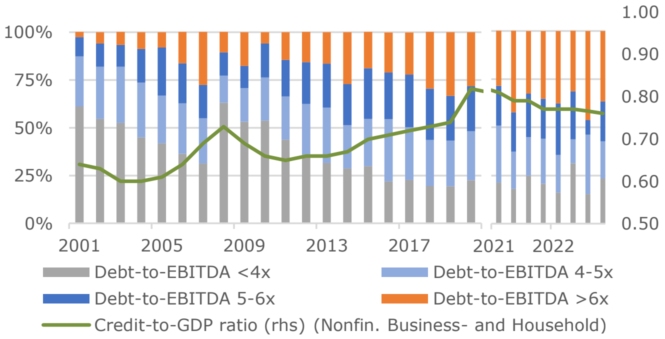
Loans and CLOs (yld, bps)

	curr	Δ month
US Loan	956	-41
CLO AAA	622	+19
CLO BBB	901	-10
CLO BB	1405	+1

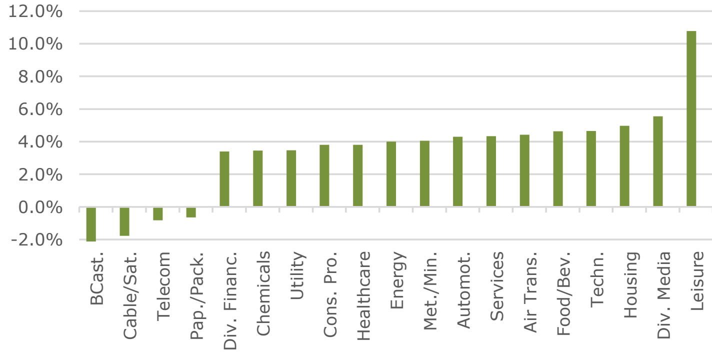
spread tightening (positive price action)

spread widening (negative price action)

7) US Leverage: Debt-to-EBITDA ratio of US companies remained stable at elevated levels.

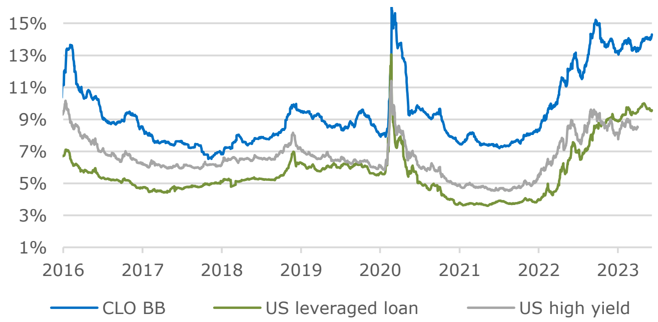


8) YTD Sector High-Yield Returns: Positive YTD results across most of the sectors, with leisure outperforming significantly.

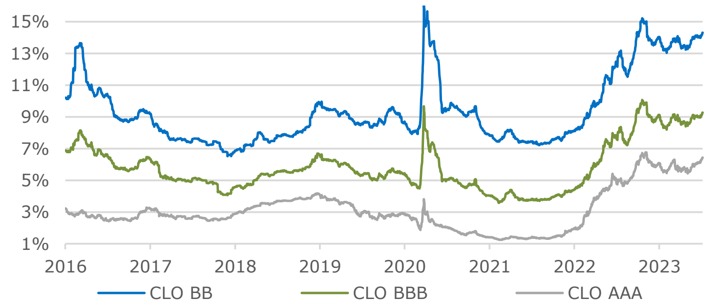


Alternative Perspective

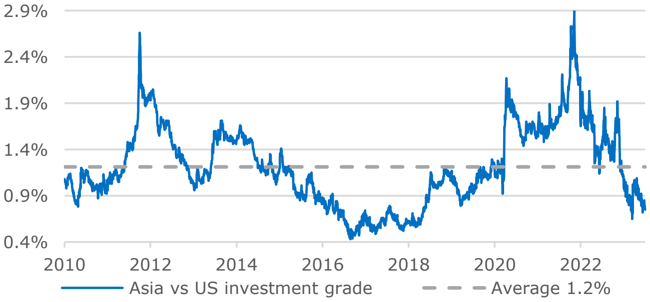
9) Loans vs. CLO vs. HY: CLO BB yields are wider vs Loans and HY bonds.



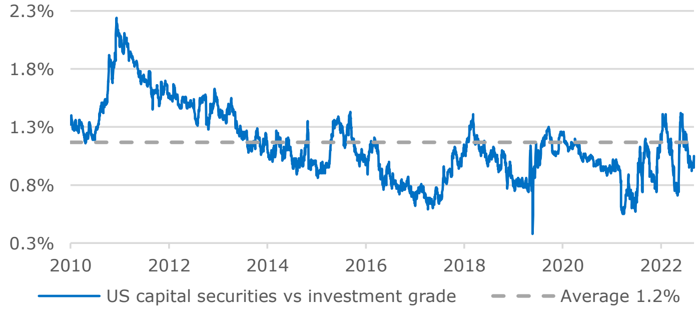
10) CLO Yields: CLOs offer an attractive yield premium over bonds and loans.



11) Asia vs. US: Asian IG spreads have tightened thanks to gradual post-COVID recovery and US inflation easing.



12) Capital vs IG.: Capital Securities structurally earn a premium vs. US IG bonds. Capital Securities are dominated by the financial sector.



Education Corner

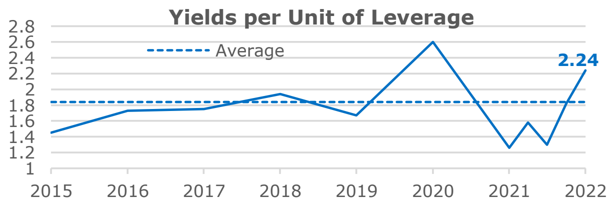
Private Loans: Yield per Unit of Leverage the highest in 10 years.

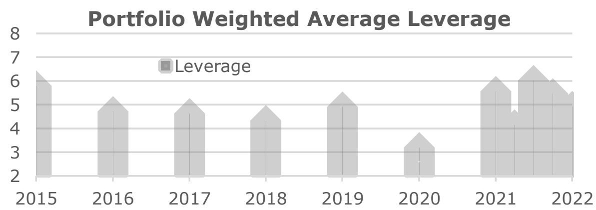
Yield per unit of leverage measures what yield can an investor achieve per unit of portfolio's weighted average leverage (yield divided by leverage). The metric allows for comparison of portfolios consisting of companies with higher leverage (causing higher weighted average leverage) with potentially more conservative portfolios, which focus on lending to less leveraged companies.

As a useful comparison tool, it reveals, if yield pickups are generated by adding risk (in form of lending to more leveraged companies) or via other channels, such as increasing risk free rates and widening of credit spreads.

A representative example from Alpinum's portfolio shows yield per unit of leverage at 2.24%, the highest in more than 10 years ex-COVID. At the same time, leverage has been declining from its peak of over 6x in mid-2022 to just over 5x in Q1 2023. Such trend is in line with rising rates and reflects de-risking of the portfolio, by reinvesting into defensive, lower leveraged, loans.

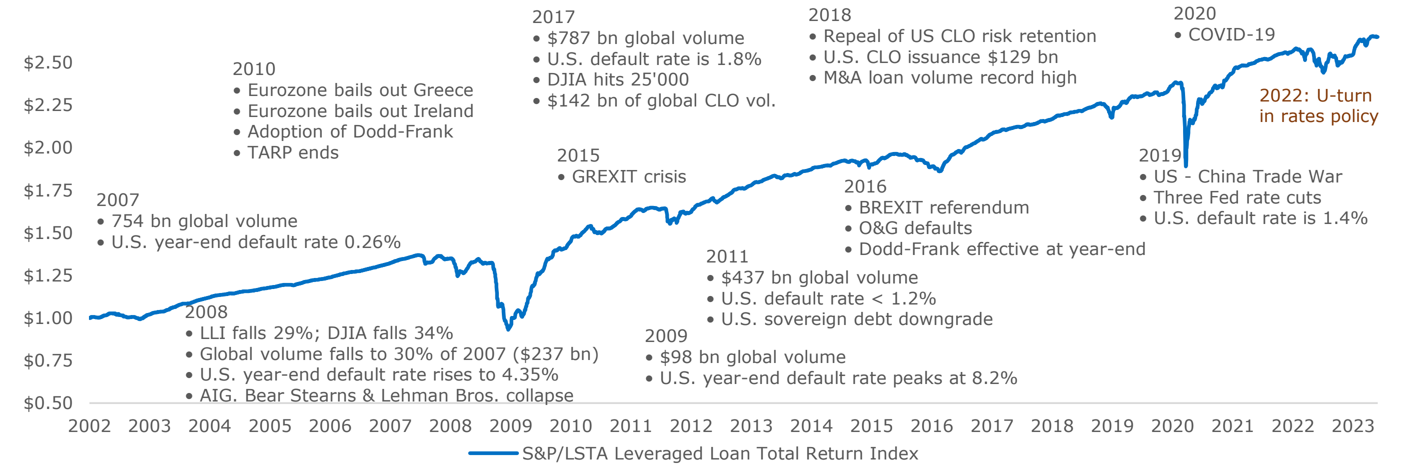
Investors should be mindful of pitfalls of such metric: Different industries require different optimal leverage structures and portfolio weighted average can mask outliers with high values. Understanding the manager's approach and constant monitoring of their strategy is thus ever more important.





Source: Alpinum Investment Management, Representative Direct Lending

US Loan Index Total Return - Attractive Long Term Yield Generation



List of Abbreviations

Capital Securities (Or preferred securities): Are fixed income securities combining features of bonds and preferred stocks.

CDS: Credit default swaps transfer credit event risk to another party in exchange of a perdiodically paid premium. CDX index covers the US IG-, iTraxx the EU IG- and iTraxx crossover (XO) the EU HY market.

CLOs: Collateralized loan obligations are structured finance securities collateralized predominantly by a large pool of different loans.

Default Rate: Number of defaulted corporate issuers of leveraged loans and high yield bonds.

Loans: Are syndicated, public tradable loans. Synonyms are «syndicated loans», «loans», «leveraged loans» and «bank loans».

OAS: Option-adjusted spread is the yield difference of an interest paying security to the risk free rate considering embedded options.

TIPS: Treasury Inflation-Protected Securities are US government linked to the US CPI Urban Non-Seasonally Adjusted.

Up-/ downgrades: Rating actions of Moody's and S&P of up-or downgrades of US high yield bond issuers denominated in USD.

Up-/ downgrade ratio: Number of upgrades of total rating actions.

Recovery Rates: Bond issuer-weighted recovery rates express the principal and accrued interest on defaulted debt that can be recovered in percentage of face value. Example:

Expected loss rate if US HY defaults were 10%: 10% ./. Estimated average recovery rate of ~30% = -7%; Example for Loans:

Expected loss rate if US Loan defaults were 10%: 10% ./. Estimated average recovery rate of ~65% = -3.5%;

Data and Price Sources

Alpinum Investment Management	Federal Reserve Bank of St. Louis	Palmer Square indices
Bank of America Merrill Lynch indices	Markit CDS indices	Preqin
Bloomberg	Moody's Investors Service	S&P
The Federal Reserve	J.P. Morgan	Federal Housing Finance Agency
US Census Bureau		

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