Opportunities Today and Looking Forward Across Private Credit

30 November 2023

Raman Rajagopal
Senior Client Portfolio Manager

Invesco Private Credit

Invesco's Private Credit platform is one of the largest private-side senior loan managers in the world with $40+ billion in AUM

Invesco Private Credit Platform

Direct Lending

Direct lending to middle-market companies

Broadly Syndicated Loans

Large syndicated corporate loans and CLOs, in both the U.S. & Europe

Distressed Credit & Special Situations

Opportunistic investments in **stressed & distressed credit**

$40+ billion

Assets Under Management

30+ years

History of Managing Senior Loans

100+

Dedicated Employees Across 4 Offices

200+

PE Firms with Investments Financed by Our Credit Funds

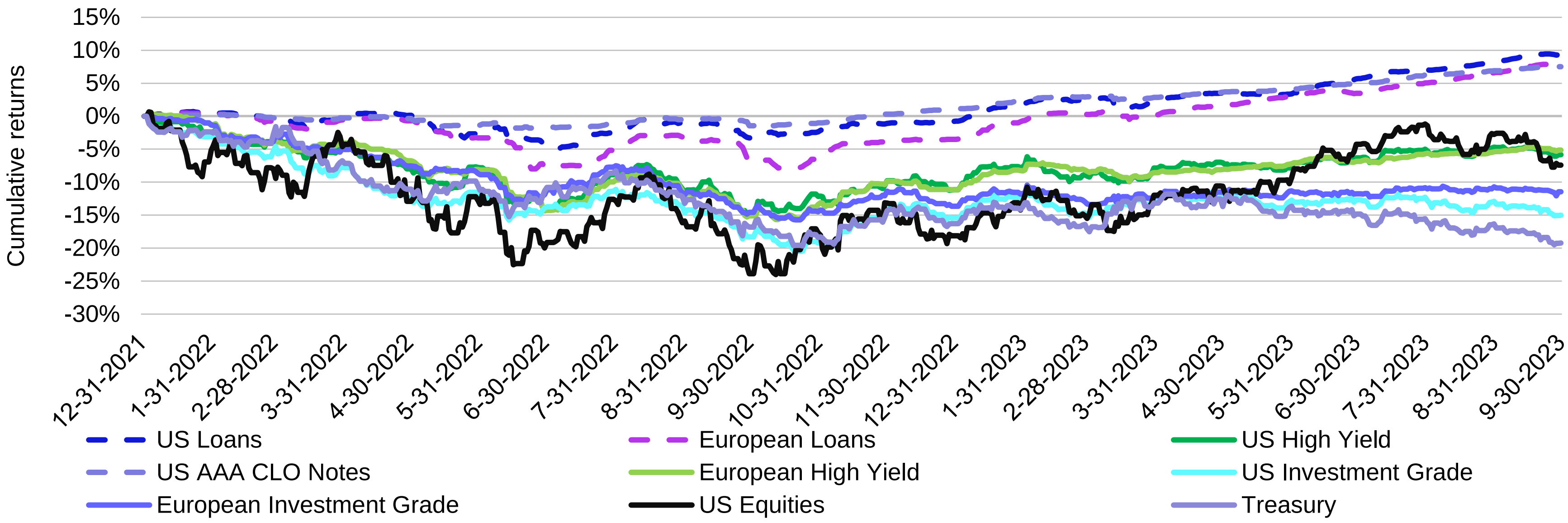
2,000+

Unique Companies in Proprietary Credit Library

Source: Invesco as of September 30, 2023. $40+ billion indicates assets under management across Invesco's Private Credit Platform.

Asset class resiliency
Steady loan returns stood in stark contrast to other risk assets

Past performance does not predict future returns.

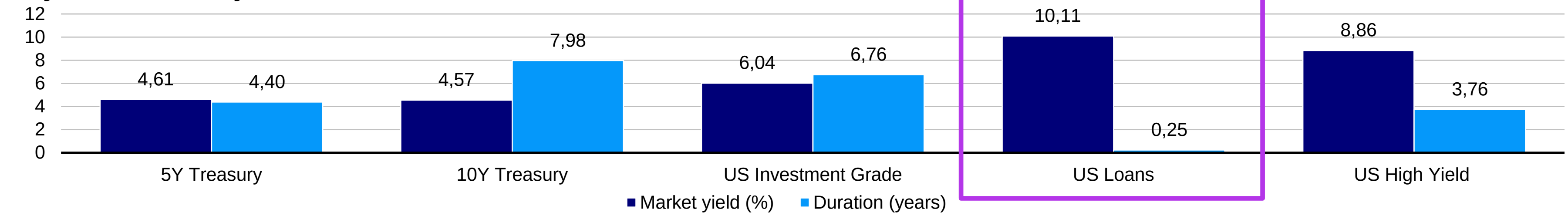


Sources: Pitchbook LCD; Bank of America Merrill Lynch; Bloomberg as of September 30, 2023. The Morningstar LSTA US Leveraged Loan Index represents US Loans, the Morningstar European Leveraged Loan Index represents European Loans, CLO AAA Notes represented by J.P. Morgan CLO AAA Index, the ICE BofA US High Yield Index represents US High Yield, the ICE BofA US Corporate Index represents US Investment Grade, the ICE BofA Current 10-Year US Treasury Index-TR represents Treasury, US Equities represented by the S&P 500, the Bloomberg Euro Aggregate Corporate Total Return Index represents European Investment Grade, and the Bloomberg Pan-European High Yield Total Return Index represents European High Yield. All US-based indices are hedged to USD. All Euro-based indices are hedged to EUR. An investment cannot be made directly in an index.

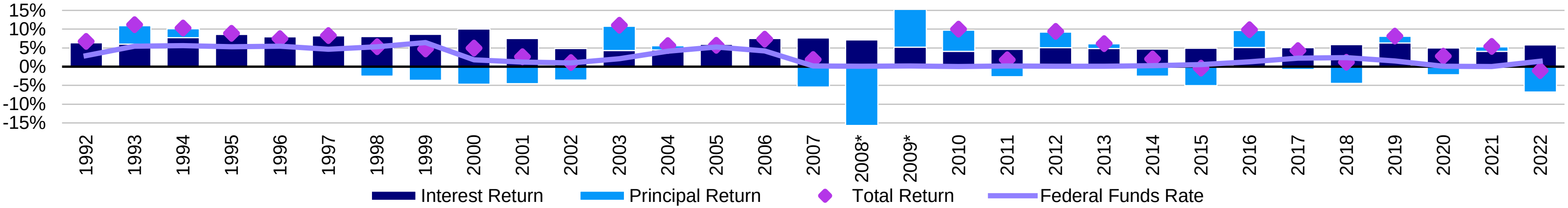
US senior secured loans have offered one of the best yields in fixed income

Past performance does not predict future returns.

US yield/duration dynamic[1]



Three years of negative returns over the past 31[2]

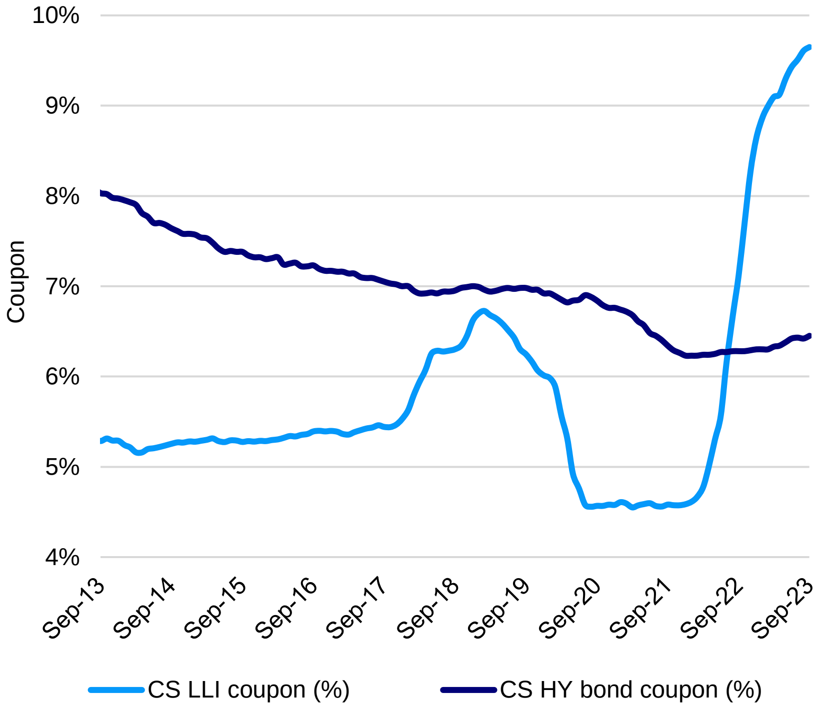


Source: [1]Bloomberg L.P., JP Morgan, and Credit Suisse as of September 30, 2023. The Bloomberg U.S. IG index represents Investment Grade, the JPM US HY index represents US High Yield, and CS LLI represents US Loans. Loan Yields represented yield to 3 year. [2]Credit Suisse Leveraged Loan Index data through December 31, 2022, updated annually. *Denotes returns in excess of the axis. 2008 returns were –28.75%, 2009 returns were 44.87%.

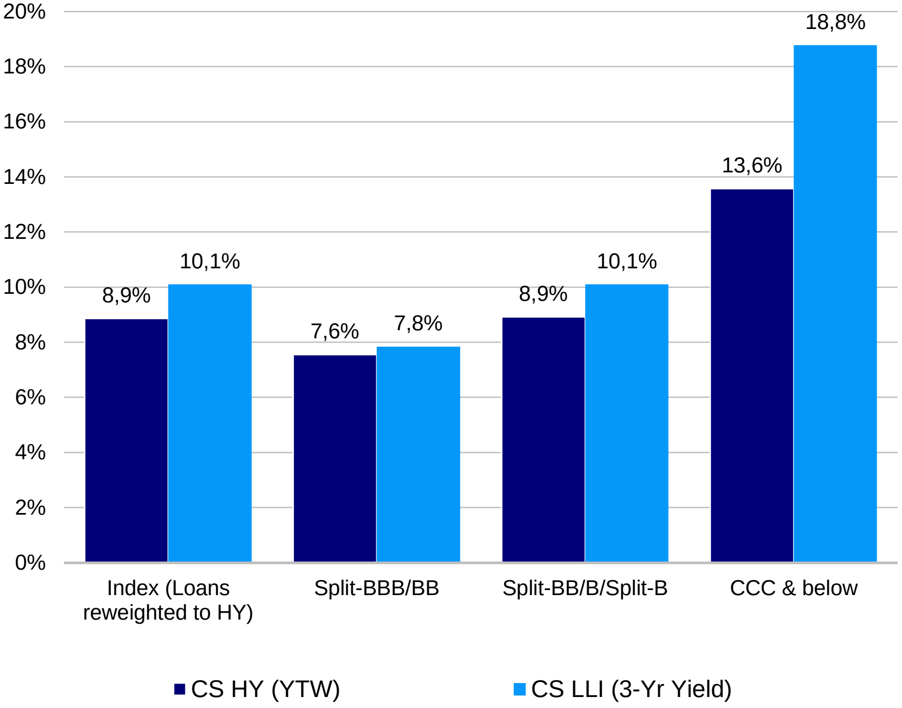
Invesco

Loans have offered higher yields than high-yield bonds, despite being senior and secured

Loan coupons are around 300 bps higher than high-yield bonds



Loans still out-yield HY bonds on a ratings adjusted basis



Sources: Credit Suisse Leveraged Loan Index & Credit Suisse High Yield Index as of September 30, 2023.

Fundamentals remain resilient with leverage declining, but higher interest rates have dampened interest coverage ratios

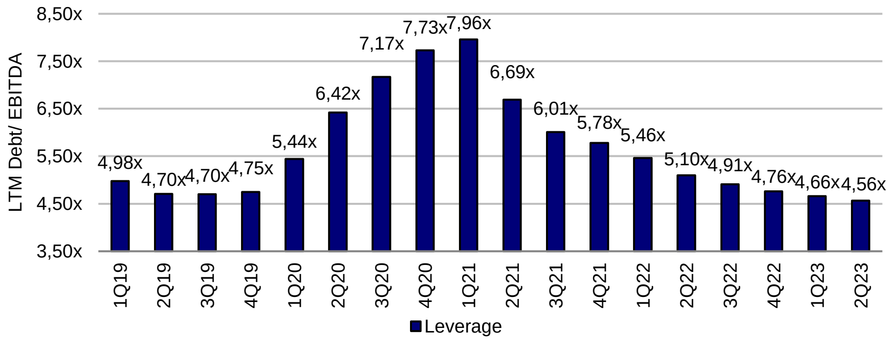
Market observations

- There is bifurcation occurring across the loan market with high-quality issuers improving financial positions; concurrent trend of increase in low quality issuance with weaker fundamentals.
- Rising interest rates and higher inflation have put increasing pressure on all borrowers, softening demand for credit risk assets with margin compression increasing risk of default.
- Lower quality issuers may experience refinancing challenges in coming years – 49% high yield & bank loan borrowers with 2026 maturities are split-B credit rating or below.[3]

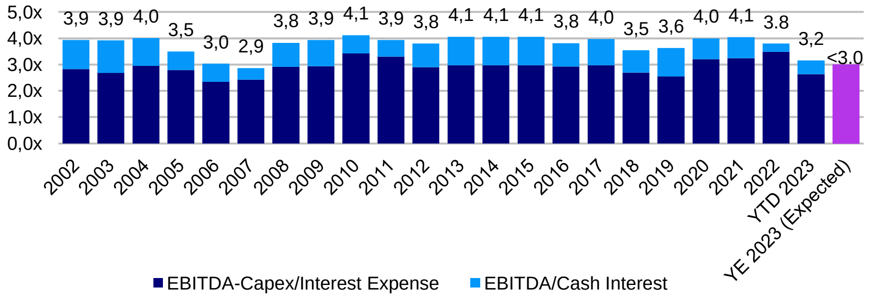
Invesco's approach

- **Broadly Syndicated Loans:** Reducing overall exposure to more challenged, lower rated companies; emphasizing higher-return alpha opportunities in high-conviction (and often) mis-rated companies.
- **Direct Lending:** Focusing on defensive companies (recession resistant / non-discretionary) with trusted sponsors in conservative positions (first lien, low loan-to-value, strong creditor protections).
- **Distressed Credit & Special Situations:** Focusing on companies with strong demand requiring minimal operational turnarounds, reducing execution risk; global mandate focused on inefficient, less trafficked markets; opportunity to meet / exceed high-end of return targets.

Borrower leverage across the loans market[1]



Interest coverage across the loan market[2]



Sources: [1]JPMorgan as of June 30, 2023. Data always with a quarter lag. [2]Pitchbook LCD. Interest coverage ratios of leveraged loans. Data through June 30, 2023, updated quarterly. [3]JPM research, as of February 15, 2023.

Direct Lending Yields have Increased Significantly

January 2022

Return Components and Ranges	Sample Deal Return Underwriting
OID: 98-98.5	70 bps
Spread: 575-700 bps	600 bps
Base Rate: 100 bps (Floor)	100 bps
	770 bps

~500 bp increase

in core middle market lending underwritten return

November 2023

Return Components and Ranges	Sample Deal Return Underwriting
OID: 97-97.5	100 bps
Spread: 575-700 bps	625 bps
CSA: 10-20 bps	10 bps
Base Rate: 540 bps	540 bps
	1275 bps

Source: Invesco as of November 30, 2023; as observed and executed upon by Invesco Direct Lending team. 'CSA' represents credit spread adjustment. 'OID' represents original issue discount. For illustrative purposes only; past performance is not a guarantee of future results.

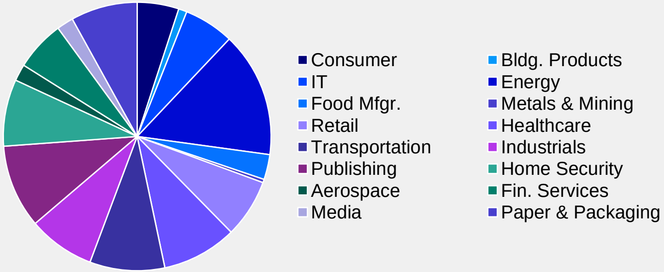
Small Capitalization/Middle Market Distressed Opportunity Set
Allows for Evergreen Deployment and Industry Diversification Potential

Small Capitalization/Middle Market Distressed

Persistent opportunity set regardless of market cycle as smaller companies routinely experience challenges

- Evergreen deployment
- Diversified industry set
- Inefficient market
  - Opaque opportunities
  - Limited participants, mostly boutiques
  - Opportunity to exploit inefficiencies by platforms with sourcing, diligence and execution advantages

Diversified Small Capitalization/Middle Market Distressed Opportunity[1]

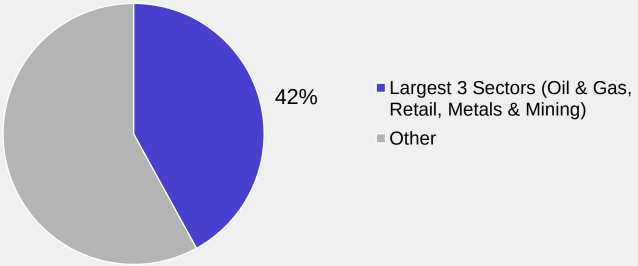


Large Capitalization Distressed

Large companies typically require an **economic cycle change** or **thematic sector shift** to **create distress**

- Cyclical deployment
- Heavy sector / industry concentration
- Efficient market
  - Widely disseminated and discoverable information
  - Numerous market participants; deal competition
  - Price efficiency challenges return opportunity

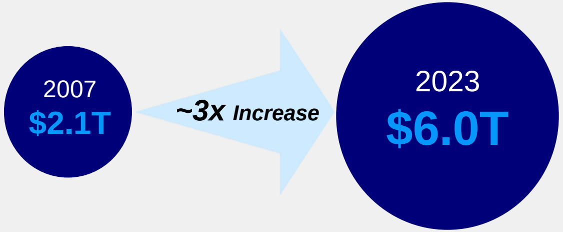
Sector Concentration of Defaults from 2015 to Present[2]



Source: [1]Invesco Credit Partners invested capital (including SMAs) as of December 31, 2022. [2]S&P Leveraged Commentary & Data as of December 31, 2022.

Large and Expanding Opportunity Set in Small Capitalization/Middle Market Distressed

Growth of Leveraged Loan, HY Bond and Direct Lending Market[1]

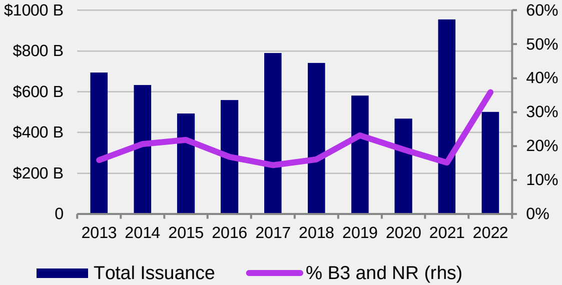


Percentage of Leveraged Loans and HY Bonds Maturing by 2026[2]

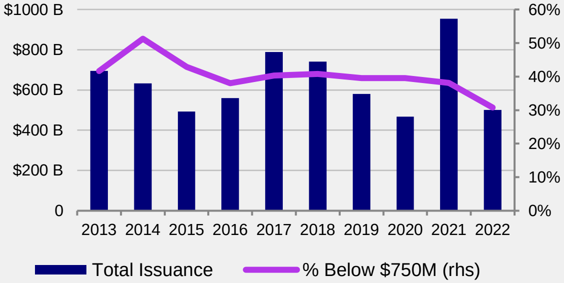
49% split-B and below

41% issues <$500M

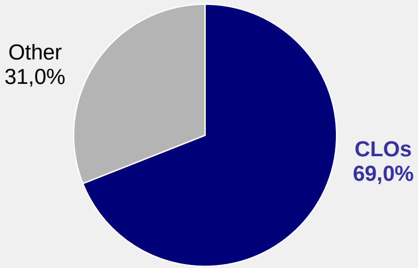
Loans B3-Rated or Unrated as Percentage of Total Issuance[3]



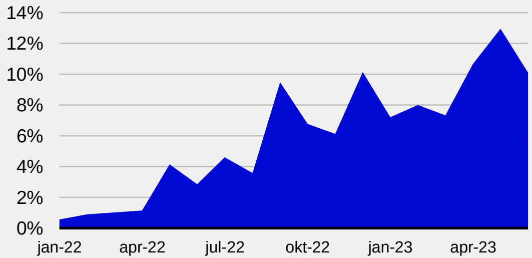
Loans Sized under $750M as Percentage of Total Issuance[3]



Prevalence of CLOs with Leveraged Loan Market[3]



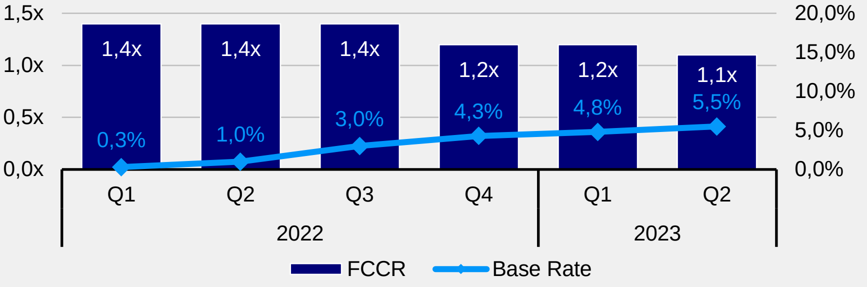
Distressed Sales by CLOs as a Percentage of all Sales by CLOs[4]



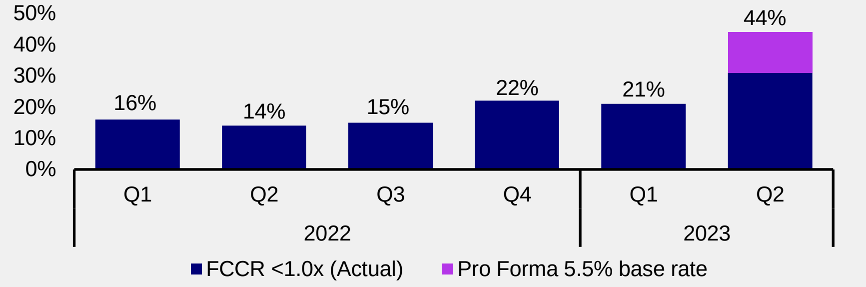
As of June 30, 2023. Sources: 1) Credit Suisse and KRB DLD research. 2) JPM research, as of February 15, 2023. Split-B rated refers to possessing a B-/B/B+ rating or equivalent from one NRSRO, and a below B- rating or equivalent from another NRSRO. 3) S&P LCD. 4) Citi research.

Over Leveraged Balance Sheets Driving Distress in Small Capitalization Credits*

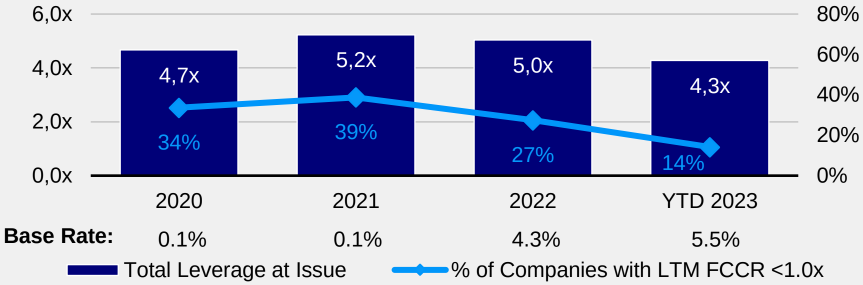
Fixed Charge Coverage Ratios[1] Eroding



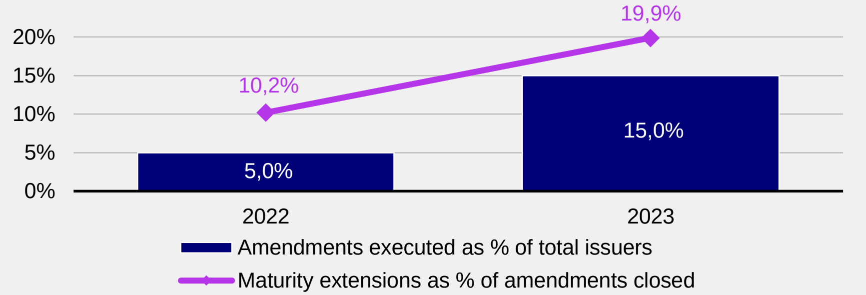
Nearly Half of Small Capitalization Issuers have a FCCR < 1.0x



Companies in Earlier Private Equity Vintages are More Vulnerable



Sponsors Proactively Focused on Capital Solutions

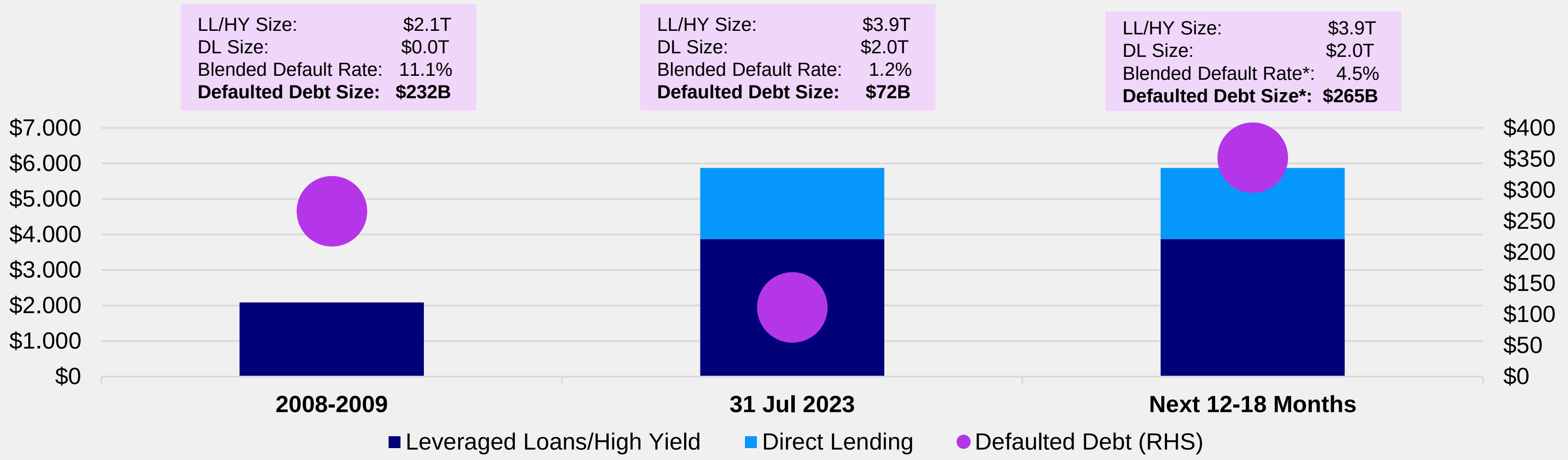


* Source: Lincoln International VOG Proprietary Private Market Database as of June 30, 2023; median company size (LTM EBITDA) : $45.1mm.
[1] Fixed Charge Coverage Ratio ("FCCR") = (LTM EBITDA – Taxes – Capex) / (LTM Interest Expense + Amortization).

Large and Expanding Opportunity Set in Distressed

- Leveraged credit markets are now ~3x larger versus Global Financial Crisis (“GFC”)
- GFC-like default rates not required for exponential growth in opportunity set
- A 4.5% default rate over next 12-18 months would result in defaulted debt of ~$265B or 1.1x GFC levels

Market Size in Billions



As of June 30, 2023. LL refers to leveraged loans; HY to High Yield Bonds. Sources: JP Morgan, Credit Suisse and KRB DLD research. *Based on Invesco Private Credit’s outlook.

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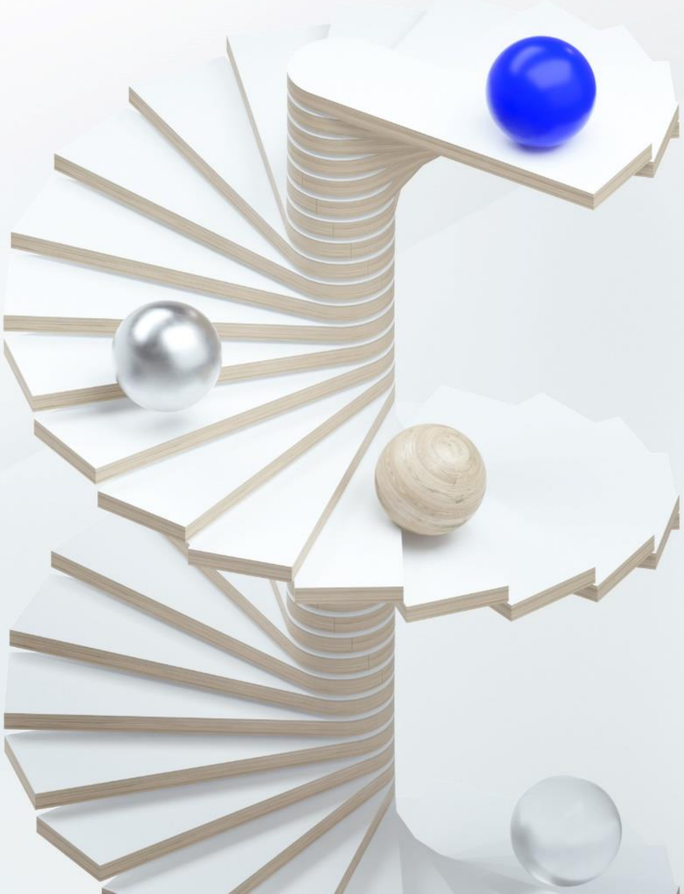
Appendix



Invesco Private Credit Biographies

Raman Rajagopal
Senior Client Portfolio Manager

Raman is a Senior Client Portfolio Manager for Invesco’s global private credit group. He is responsible for the ongoing product development, structuring, and marketing of investment strategies for senior loans and alternative credit products.

Mr. Rajagopal joined Invesco in 2016. At Invesco, he has held roles focusing on private markets asset classes as well as in corporate strategy. Prior to joining the firm, he was a management consultant with Accenture, where he concentrated on wealth and asset management companies. Prior to Accenture, he worked in asset management roles with Oppenheimer & Co. and Morgan Stanley. He began his career as a corporate attorney with Paul Hastings LLP, where he focused on mergers and acquisitions.

Mr. Rajagopal earned a BS degree with university honors from Carnegie Mellon University and a JD from the University of Southern California Law School.

About Risk

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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