

Press Release

Credit Market Update: An Attractive Risk-Reward Environment for Credit Selection

David Allen, Managing Partner and Chief Investment Officer, AlbaCore Capital Group

London 5 June 2023 – The current market conditions of higher nominal yields and wider credit spreads suggest that credit may continue to offer compelling risk-reward relative to other asset classes, especially equities.

Monetary tightening and higher financing costs have the potential to strain business activity and capital structures. However, as banks simultaneously become more wary of underwriting risk it creates an attractive environment for credit selection, particularly for funds that can provide capital dynamically and at scale.

We are aware of the challenges in interest coverage that our portfolio companies may face in these markets and strive to find mutually beneficial solutions for both our portfolios and the companies we invest in. The trade-off between coupon and price presents an attractive opportunity, whether through par issued or discounted secondaries, depending on the cash generation capabilities of the businesses.

We remain primarily focused on prioritising seniority, security, and the strength of fundamentals as we seek to maximize protection in potential downside scenarios.

Higher Rates Can Cut Both Ways

Rising interest rates may present a challenging operating landscape for some companies, especially those with high debt levels or dependence on consumer spending and international trade. Businesses that leveraged inexpensive financing for growth in the previous decade are now grappling with their debt burden.

In the current environment, it is imperative for businesses to make vital decisions regarding their capital structures to navigate the upcoming quarters successfully. The team at AlbaCore is dedicated to proactively addressing debt maturities and have successfully supported businesses by negotiating competitive and flexible capital solutions that align with the operating environment.

During this period, the importance of fundamental credit underwriting has never been greater. Our primary concerns in this process are deep analysis of downside scenarios, conducting stress tests, ensuring sufficient interest coverage, and maintaining stringent documentation.

This approach is consistent with AlbaCore's values of mindful stewardship of investor capital and building long-term, mutually beneficial relationships with the companies and sponsors that we partner with.

The Trade-Off Between Dollar-Price and Coupon

Currently, the European credit market offers appealing yield options that can be accessed through two distinct approaches. We see opportunities in both segments.

1: High coupon, high price: We believe certain credits warrant the premium of a higher price. Businesses with strong fundamentals, proven cost management abilities, and a track record of excellence justify the additional cost to access the higher coupon.

2: Low coupon, low price: This offers advantages such as reduced interest burden, increased convexity, and enhanced downside protection.

Overall, we believe that European private credit, in particular, appears compelling at the moment. The European economy has beaten expectations as consumer expenditures have held up alongside strong employment figures, a scenario that has driven lower default expectations than are projected in the US¹ market.

David Allen is the Managing Partner and Chief Investment Officer at AlbaCore Capital Group.



Mr. Allen has over 30 years of financial services and investment experience, with a focus on the High Yield and Leveraged Finance Markets.

Prior to founding AlbaCore Capital Group, Mr. Allen managed Canada Pension Plan Investment Board's European Principal Credit Fund and was a member of the Investment Committee. Mr. Allen was also a Partner, Investment Committee member and Senior Portfolio Manager at GoldenTree Asset

Management, where he established and ran the firm's European presence. Mr. Allen spent a decade with Morgan Stanley in New York and Hong Kong, working across M&A and investment banking before specializing as a High Yield media analyst.

Mr. Allen graduated from the University of California, Berkeley, where he earned a Bachelor of Arts in Economics and was an all-conference rower.

About AlbaCore Capital Group

AlbaCore Capital Group is one of Europe's leading specialist credit investors, and manages US \$10.0 billion (as of 30 April 2023) in AUM across liquid strategies, CLOs, structured products, dislocation funds and private credit. The senior investment team have been investing together for over a decade. Founded in 2016, AlbaCore has invested over ~US\$25 billion² for global pension funds, sovereign wealth funds, consultants, insurance companies, family offices and endowments.

For more information, visit www.AlbaCoreCapitalGroup.com

¹ Source: Moody's April 2023 Monthly Default Report.

² Invested capital is the sum of all 'buy' trades for all AlbaCore mandates since inception to 30 April 2023 and includes recycled capital and co-investment.