

Accessing Collateralized Loan Obligations (“CLOs”)

March 2, 2021

Before We Begin

- Registrants will receive a link to the replay and slide deck following the webinar.
- Please see handouts for additional resources or our website at xainvestments.com under the Knowledge Bank tab.
- You can submit questions at any time during the presentation.

The screenshot displays a webinar interface. On the left, a slide titled "Accessing Collateralized Loan Obligations ('CLOs')" is shown, dated March 2, 2021, with the XA Investments logo. The slide content includes a large stylized 'X' and a disclaimer at the bottom: "This presentation has been prepared by XA Investments LLC ('XA') in conjunction with Octagon Credit Investors, LLC ('Octagon') solely for information purposes and is not an offer to sell or the solicitation of an offer to buy an interest in any security. XA is affiliated with XMS Capital Partners, LLC, a FINRA member and SIPC member. NOT FDIC INSURED NO BANK GUARANTEE MAY LOSE VALUE". On the right, a control panel is visible, featuring an "Audio" section with "Sound Check" and options for "Computer audio", "Phone call", and "No audio". Below this, it indicates "MUTED" and shows the selected microphone as "Internal Microphone (Conexant Smar...". A "Questions" section is also present, with a red arrow pointing to a question box containing the text: "Performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than the performance data quoted." Below the question box is a text input field labeled "Enter questions here" with another red arrow pointing to it, and a "Send" button. At the bottom of the control panel, it shows "Talking: XA Investments", "Collateralized Loan Obligations (CLO) Debt...", "Webinar ID: 558-380-139", and a "GoToWebinar" logo.

Click arrow to open question box

Enter questions in this box

Risk Disclosures

This presentation is intended to be educational in nature and is not for the purpose of recommending a particular investment. The investments discussed may or may not be suitable for the audience of this presentation. Neither XAI nor Octagon is acting as an adviser to the audience members, and audience members should consult their own investment adviser prior to making investment decisions.

Senior Loan Risk: Investments in senior loans are generally below investment grade credit quality and subject to greater risks than investment grade corporate obligations. The prices of these investments may be volatile and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions. While such loans are generally intended to be secured by collateral, losses could result from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance.

CLO Risk: CLOs often involve risks that are different from or more acute than risks associated with other types of credit instruments, including: (1) the possibility that distributions from collateral assets will not be adequate to make interest or other payments; (2) the quality of the collateral may decline in value or default; (3) investments in CLO junior debt tranches and CLO subordinated notes will likely be subordinate in right of payment to other senior classes of CLO debt; and (4) the complex structure of a particular security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results. CLOs may be difficult to value and often constitute illiquid investments. In addition, there can be no assurance that a liquid market will exist in any CLO. CLOs can be subject to significant losses if they are concentrated in a limited number of industries or borrowers. Moreover, the value of CLOs may decrease if ratings agencies lower their original rating of a CLO, and the complex structure of the security may produce unexpected investment results. During periods of economic uncertainty and recession, the CLO holding assets may not meet its criteria for investments. CLOs are also generally directed by a collateral manager and depend on the financial and managerial expertise of the collateral manager's investment professionals.

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Risk Disclosures (continued)

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CLO Subordinated Notes Risk: Investments in the “residual” or “equity” tranche are junior in priority of payment and are subject to certain payment restrictions. In addition, CLO subordinated notes generally do not benefit from any creditors’ rights or ability to exercise remedies under the indenture governing the notes. The subordinated notes are not guaranteed by another party. Subordinated notes are subject to greater risk than the senior notes issued by the CLO. CLOs are typically highly levered, utilizing up to approximately 10 times leverage, and therefore subordinated notes are subject to a higher risk of total loss. Principal payments on subordinated notes may not be made unless all amounts owed to secured notes are paid in full. Also, if a CLO does not meet the asset coverage tests or the interest coverage test set forth in the indenture governing the notes issued by the CLO, cash would be diverted from the subordinated notes to first pay the secured notes in amounts sufficient to cause such tests to be satisfied.

Limited Partnership Risk: Limited Partnership interests are subject to restrictions on transferability and resale and may not be transferred or resold, except as permitted under the Securities Act of 1933, as amended, and applicable state securities laws. Investors should be aware that they may be required to bear the financial risks of a limited partnership investment for an indefinite period of time. An investment in a limited partnership involves a high degree of risks, including complete loss of principal, adverse and complex tax situations, or the inability to dispose of or otherwise realize upon its portfolio of investments in a profitable manner.

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Today's Speakers



John Dudzik
Managing Director
Octagon Credit Investors

Mr. Dudzik joined Octagon in 2011 and serves as a Managing Director of Business and Product Development, and a Client Portfolio Manager. Together with Octagon's senior officers, he is responsible for developing new products and developing and managing Octagon's investor relationships. He possesses over 30 years of broad institutional asset management and wealth management experience.

Prior to joining Octagon, Mr. Dudzik was an Executive Director at FrontPoint Partners where he focused on direct lending and MBS strategies. Prior to joining FrontPoint, Mr. Dudzik was a Principal and Head of Capital Development for Colchis Capital Management. From 2001-2006, Mr. Dudzik was a Managing Director for Deutsche Bank Private Wealth Management where he served as a Board Member for Deutsche Bank Securities, Head of Deutsche Bank Alex Brown Private Client Services, Head of Sales Management for Private Wealth Management and Head of Middle Market Equities.

He received a B.S. in Finance from the Carroll School of Management at Boston College. Mr. Dudzik holds FINRA Series 7 & 63 Registrations.



Robert Chenoweth
Vice President
XA Investments LLC

Robert Chenoweth is Vice President of Internal Sales at XA Investments and is responsible for supporting distribution efforts across a variety of wealth management channels.

Prior to XAI, Robert was Vice President and product specialist for Neuberger Berman's non-investment grade credit team, interacting with departments within the firm as well as clients. Over the course of Robert's 15 year career within the industry, he has developed broad knowledge of various asset classes and fund structures.

Robert earned the Certified Investment Management Analyst (CIMA) designation from the Wharton School of Business and received a BA in Spanish and General Business from Texas Christian University.

Agenda: Accessing CLOs Webinar

- Why invest in CLOs – Highlights from Part 1, “Introduction to CLOs”
- CLOs – Historically an institutional asset class
- Accessing CLOs
 - Private funds and limited partnerships
 - Open end mutual funds and ETFs
 - Listed CEFs and interval funds
- Q & A – John Dudzik and Kimberly Flynn
- What’s next: Webinar Part 3 – “CLO Market Outlook” – April 6th

XA Investments

FOCUS ON CEFS AND INTERVAL FUNDS

- Access to strategies and managers that historically have been available only to large institutional and ultra high net worth investors
- Custom product designs appeal to financial advisors and end investors

EXPERIENCED CEF DESIGN AND PRODUCT STRUCTURING TEAM

- Senior leaders have held management roles at notable asset management firms and average over 20 years of experience in financial services
- Proven track record in product design and development with a unique combination of in-depth alternatives and registered fund experience

SALES AND DISTRIBUTION

- Dedicated team with strong sales and marketing execution capabilities
- Emphasis on advisor education and serving as a valuable industry resource
- Expertise in alternatives, less liquid and sustainable investments

PARTNERSHIP MODEL

- XAI partners with established investment managers
 - Demand driven decision making allows us to launch timely new products
-

Note: XA Investments LLC is the Registered Fund Division of XMS Capital Partners, LLC ("XMS"). XMS, established in 2006, is a global, independent financial services firm providing mergers and acquisitions, capital raising and cooperate advisory services to clients. XMS has over 30 professionals on its team and offices in Chicago, Boston and London.

Octagon Credit Overview



CREDIT EXPERTS

- Since 1994 — exclusive focus is below investment grade credit. \$26.3bn¹ in AUM as of 1/31/2021

DISCIPLINED PROCESS

- Seasoned investment process rooted in fundamental credit and relative value analysis

PEOPLE

- Cohesive, experienced, cycle-tested investment team

PERFORMANCE

- Attractive, risk-adjusted returns over 25+ year track record

INSTITUTIONAL FOCUSED

- A leading institutional credit investor managing private funds and a registered fund

Note: 1. Octagon AUM as of January 31, 2021 is inclusive of one feeable account that is expected to be converted into cash flow CLO. There is no guarantee that such account shall be converted into a cash flow CLO or any other such account.

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Why Invest in CLO Debt & Equity

- Levered way to buy senior loans that offers credit enhancements and certain structural protections
- Actively managed and potentially diversified portfolio
- Potential for increased income from the excess spread between the cash flow and expenses for equity holders

CLOs Invest in Senior Loans

Attractive yield potential

Opportunity for incremental yield pick-up relative to similarly rated corporate bonds and other structured securities.

Senior Position in the Capital Structure

Senior loans are typically secured and their senior positioning in the capital structure offers protection relative to bonds.

Portfolio diversification

Low correlations to investment grade corporate credit and equities and negative correlation to U.S. Treasury Bonds.

Floating rate

Coupons typically float with LIBOR,* which benefits investors in periods of rising short term interest rates

Low historical defaults

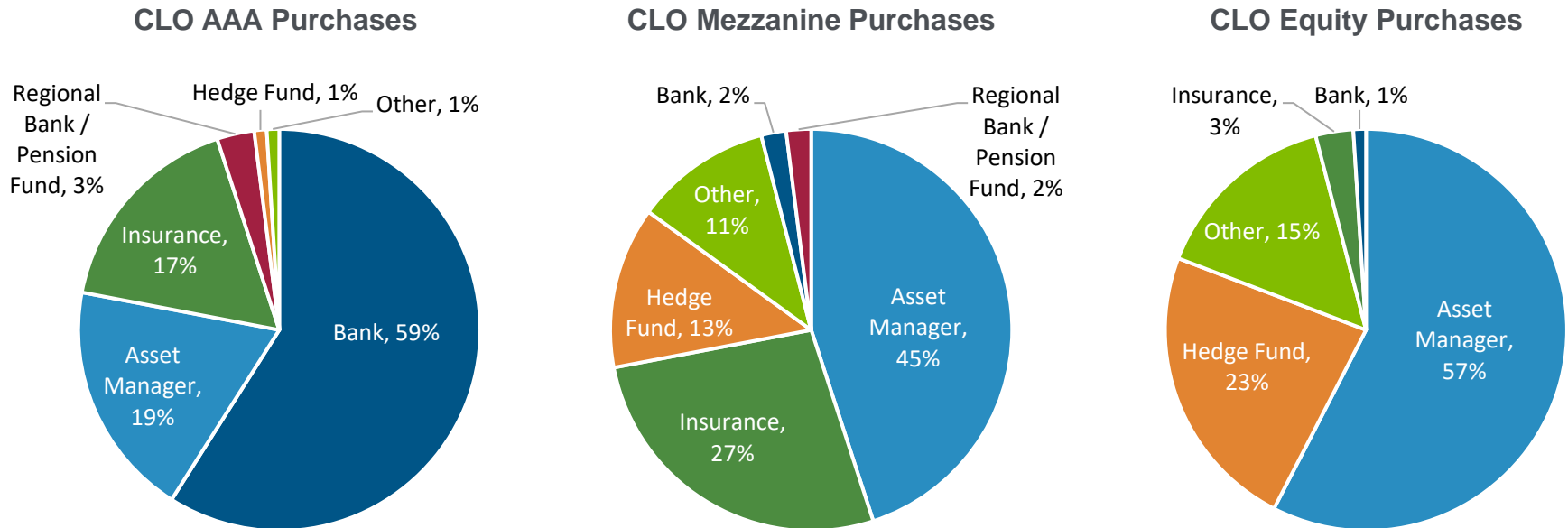
CLO tranches have demonstrated low historical default rates.

*once the LIBOR exceeds any stated floor

CLO Investors

- **Historically, access was limited to institutions and UHNW individuals**
 - Large purchase minimums
 - Qualified Purchasers / Accredited Investors (via private funds) - must meet suitability and eligibility requirements
 - Limited fund liquidity terms – buy and hold investments
- **Today, registered funds make CLOs accessible to a larger investment audience**

Investor Base by CLO Security¹



1. Source: Deutsche Bank Research. Represents U.S. CLO investor base as of November 2018.

Why are CLOs Hard to Access?

Why has it been difficult to invest in CLOs?

- CLOs are restricted to “sophisticated Investors” only. QIBs only
- CLOs may be subject to a limited trading market and are often restricted securities under Rule 144A of the Securities Act of 1933

What options do individual investors have?

- Open-end mutual funds cannot exceed 15% exposure to illiquid assets
- BDCs: CLO investments may not exceed 30%
- CEFs: No restrictions on illiquid investments
- ETFs: Typically invest in the highest-rated and most liquid CLO debt tranches (AAA, AA)

What are some potential benefits of investing in less liquid investments like CLOs?

- CLOs offer an illiquidity yield premium to comparably rated more liquid assets
- Potential excess return in exchange for less liquidity is capitalized on by alternative investment managers in their pursuit for higher returns

CLO Access via: Private Funds and LPs



Private Funds & Limited Partnerships

PRIVATE FUNDS & LPs

- Qualified Purchasers / Accredited Investors
- K-1
- High minimums
- Performance fees typical
- Limited liquidity
- Allows for illiquid strategies
- CLO debt and CLO equity investments unconstrained by liquidity

CLO Access via: Mutual Funds and ETFs

Private Funds & Limited Partnerships

PRIVATE FUNDS & LPS

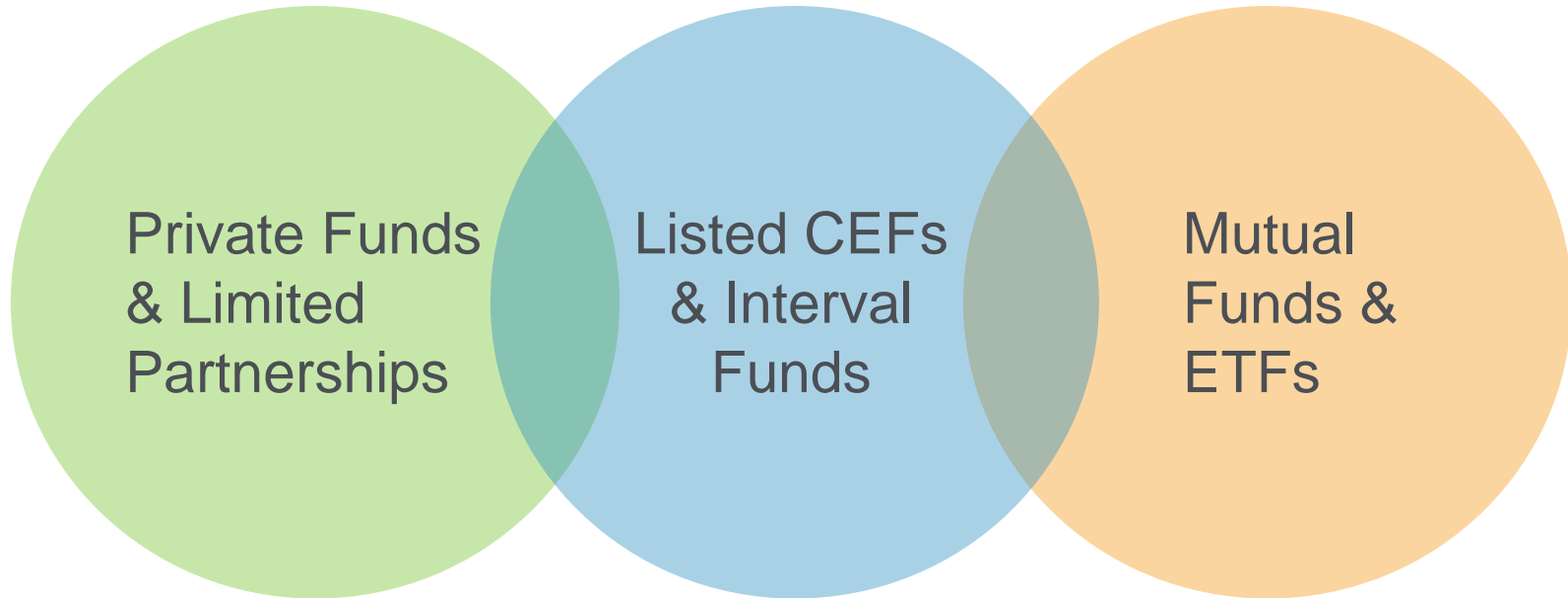
- Qualified Purchasers / Accredited Investors
- K-1
- High minimums
- Performance fees typical
- Limited liquidity
- Allows for illiquid strategies
- CLO debt and CLO equity investments unconstrained by liquidity

Mutual Funds & ETFs

MUTUAL FUNDS & ETFs

- No Investor Qualification: subject to suitability
- 1099
- Low minimums
- No performance fees
- Daily liquidity at NAV
- CLO investments limited to CLO debt and most to the highest-rated CLO debt (AAA, AA)

CLO Access via: Listed CEFs & Interval Funds



PRIVATE FUNDS & LPs

- Qualified Purchasers / Accredited Investors
- K-1
- High minimums
- Performance fees typical
- Limited liquidity
- Allows for illiquid strategies
- CLO debt and CLO equity investments unconstrained by liquidity

LISTED CEFs & INTERVAL FUNDS

- Typically All Investors
- 1099
- Low minimums
- Income incentive fees are common
- If listed, intraday liquidity, subject to volume.
- Allows for illiquid strategies
- CLO debt and CLO equity investments unconstrained by liquidity
- Ability to use leverage

MUTUAL FUNDS & ETFs

- No Investor Qualification: subject to suitability
- 1099
- Low minimums
- No performance fees
- Daily liquidity at NAV
- CLO investments limited to CLO debt and most to the highest-rated CLO debt (AAA, AA)

CEF Structure: Preserves Manager Flexibility and Expands the Investor Audience

	Limited Partnership	Mutual Fund	Closed-End Fund
Investor qualification	Accredited or Qualified Purchasers	All Investors	Typically All Investors
Investment minimums	High	Low	Low
Illiquid assets	Up to 100% illiquid assets	Max 15% illiquid assets	Up to 100% illiquid assets
Tax form	K-1	1099	1099
Tax treatment	Flow-through entity; taxed on gross income/loss	Taxed on net returns	Taxed on net returns
Investment form	Subscription documents	Electronic ticketing	Electronic ticketing (with some exceptions)
Performance fees	Common	None	Depends on structure
Liquidity	Varies; typically monthly or quarterly subject to certain lock-up terms	Daily redemptions	Daily liquidity on exchange (periodic liquidity for interval/tender CEFs)
Income	Varies; subject to general partner discretion	Uncommon	Typically Monthly distributions

Sources: XAI, ICI, CEF Association

Webinar Questions?

Please use the Questions dropdown indicated below to submit your questions

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Click arrow to open question box

Enter questions in this box

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Collateralized Loan Obligations – Webinar Series

CLO Market Outlook - Webinar #3

April 6, 2021 at 10:00 AM – 11:00 AM CST

Join Gretchen Lam, Senior Portfolio Manager at Octagon Credit Investors, and Robert Chenoweth, Vice President at XA Investments, as they provide a current update on the CLO Debt & Equity marketplace.

Octagon will discuss:

- CLO market trends
- Flows into CLOs and senior loans
- Outlook for the CLO market in 2021

Contact Our Team with Questions



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Appendix

Structure Matters

Alternatives and CEFs are a good match

The Key Differences Between Mutual Funds and CEFs

	Mutual Fund	Closed-End Fund
Asset Classes	All traditional and a limited range of alternatives	All traditional and a broad range of alternatives
Dollars Invested	Not fully invested due to daily flows and a required minimum cash reserve to meet redemptions	Listed CEFs are fully invested thereby eliminating any cash drag ³
Ability to Invest in Less Liquid or Illiquid Investments	Limited to 15% or less	Up to 100% illiquid investments permitted
Leverage	Limited to derivative forms of leverage	Leverage limited to 33% borrowings or a maximum 50% preferred
Impact of Fund Inflows	Potential for performance dilution ¹	Listed CEFs do not have daily inflows. No performance dilution ³
Impact of Fund Outflows	Under normal market circumstances, outflows may result in performance dilution. During times of crisis, rapid outflows transform portfolio managers into forced sellers. Potential for negative tax consequences, total return drag due to increased trading costs and investment opportunity cost ²	Listed CEFs do not have daily flows. Listed CEFs are “closed” and in the event of a crisis are not forced sellers as a result of redemptions. However, a levered CEF may be subject to contractual borrowing covenants that may force the CEF to sell investments to meet certain covenants. A crisis may present buying opportunities for the CEF manager. ³

Sources: XAI, SEC, ICI

Notes:

1. Jason T. Greene & Charles W. Hodges. “The Dilution Impact of daily fund flows on open-end mutual funds,” Journal of Economics, Volume 65, Issue 1, pages 131-158. July 2002.
2. Lawrence Jones. “From Difficult to Disaster: Redemptions Impact on Funds, Know the cash-flow pressure your fund manager is under.” Morningstar. February 2008.
3. Non-listed CEFs may have periodic inflows and may provide liquidity on a monthly or quarterly basis and therefore may have a cash drag, may experience performance dilution and may not be able to protect their portfolios. Listed CEF’s may issue new shares at a premium to net asset value, which can create a cash drag in certain circumstances.