ARISTOTLE PACIFIC CAPITAL

CLO Monthly Monitor
May 2023

• May returns were positive across the capital stack, with strong coupon returns offsetting modest spread widening.

Loan Market Review

• The CS Leveraged Loan Index returned -0.09% in May. Loans outperformed fixed-rate investment grade and high yield corporate bonds, driven by interest rates that steadily climbed higher throughout the month.

• The weighted average price of the index declined $0.82 in May to $92.10, hitting the lowest price level since news of the regional bank crisis broke in mid-March. Year to date, prices have fluctuated between a low of 91.90 where it started the year and a high of $94, putting the final reading for May much closer to the lower end of that range.

• Leveraged loan issuance was just $12.0bn in May, bringing year-to-date issuance to $87.1bn. Loans have not seen meaningful net supply this year, with loan repayments surpassing issuance, which is down 43% compared to the first five months of last year.

• Outside of weaker supply, leveraged loans have also benefitted from steady demand in the form of CLO origination in 2023. While CLO issuance slowed to $5.1 billion in April, CLO origination picked up again in May with $10.6bn in new issuance. Retail investors continued to withdraw from the leveraged loan asset class with $3.9bn in outflows, however total measurable demand from these two sources were at their highest levels since February.

• Sector performance was split evenly between positive and negative returning industries. May performance was led by Food and Drugs (0.79%), Gaming/Leisure (0.72%) and Energy (0.54%), while Media/Telecom (-0.87%), Consumer Durable (-0.61%) and Retail (-0.38%) underperformed.

• Credit quality returns favored BB-rated loans over single B-rated loans for the first time this year, with BB-rated and Single B-rated loans returning 0.13% and -0.26%, respectively. CCC-rated loans were the highest returning creditquality at 0.25%, driven by its high coupon returns. Distressed loans by rating (CC, C, Default) returned -2.21% for the month, extending their streak of negative returns.

• There were three defaults during May affecting $1.7bn in outstanding loans. Activity included Venator Materials (VNTR), Monitronics (SCTY), and Rodan + Fields (RODFIE). As a result, the year-to-date default volume reached $22.8 billion, increasing the trailing 12-month issuer-weighted default rate to 1.90%.

CLO Market Review

• CLO tranches had positive total returns in May. JP Morgan estimated returns for May were 0.48% (AAA), 0.43% (AA), 0.66% (A), 0.65% (BBB), 0.04% (BB), and 1.44% (B).

• CLO issuance picked back up in May, with $10.6bn issued, following the slower pace of origination that immediately followed the regional banking crisis in March. While debt-ceiling concerns dampened primary market issuance for loans, nearly one-third of CLO issuance occurred during the last week of the month.

• With the private credit loan market expanding, so has the issuance of middle market CLOs, increasingly referred to as private credit CLOs. Private credit CLOs, which have historically ranged from 10-15% of total CLO issuance, have grown to 22% of issuance in 2023.

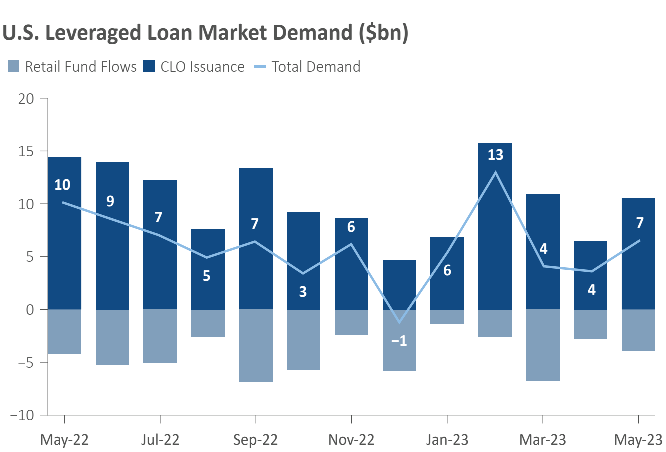
• New issue CLO AAA spreads moved lower for select collateral managers, with some reaching into the 170s (bps above SOFR) for larger issuers. Dispersion across collateral managers based on the number of CLOs issued remains prevalent, as AAA new issue spreads in May ranged from 170s to 230s based on their size and experience, with private credit CLOs printing as high as 260bps. CLO new issuance this year has come from 114 deals by 76 managers (Source: LCD).

• With CLO origination still facing a challenging equity arbitrage, as well as existing CLOs exiting their reinvestment period growing from 25% - 40% by year-end, leveraged loans could face a pullback in CLO-related demand (Source: Citi Research). However, given the often self-correcting relationship between loans and CLOs, lower priced loans could fuel additional CLO origination in the form of Print and Sprint deals.

• Aggregate BB-rated tranche performance was essentially flat in May. This was driven by a bifurcation in demand between CLO's with high and low amounts of structural coverage. BB-rated CLOs with lower MVOCs have seen bid depth weaken.

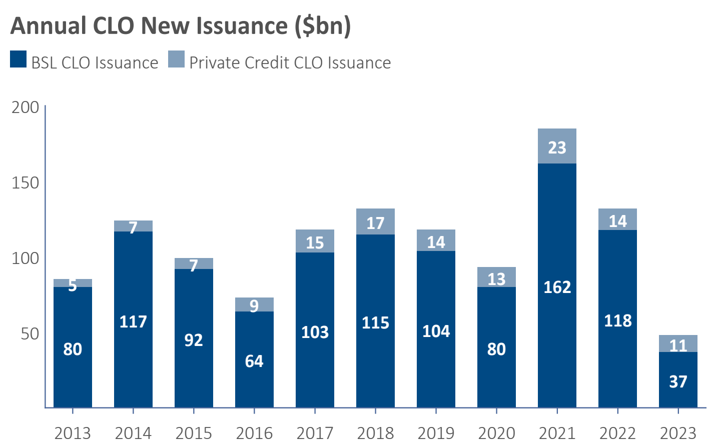
Charts of the Month

1. Total measureable demand picked up in May after the banking crisis in March had slowed down CLO origination and accelerated retail outflows



Source: Pitchbook/LCD Research as of May 31, 2023

2. The increase in private credit loan issuance has fueled an increased share of private credit CLOs, which represent 22% of new CLOs this year



Source: LCD Research, Citi Research, as of of May 31, 2023

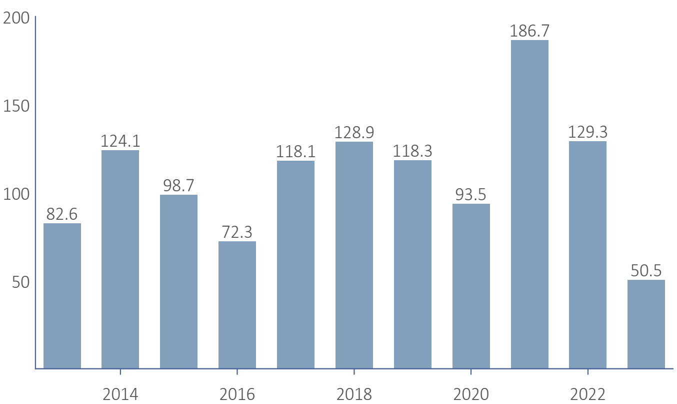
CLO MONTHLY MONITOR
MAY 2023

Market Data	May-23 Return (%)	1-Year Return (%)	Yield (%)	Yield Change (%)	DM (BPS)	Price ($)
JP Morgan CLO Indices						
AAA-Rated	0.48	3.00	6.1	0.3	180	98.4
AA-Rated	0.43	3.79	6.5	0.3	244	97.0
A-Rated	0.66	4.72	7.2	0.2	322	95.6
BBB-Rated	0.65	4.32	9.3	0.3	526	91.6
BB-Rated	0.04	5.98	14.4	0.6	1,022	84.7
B-Rated	1.44	6.35	20.3	0.5	1,592	68.3
Credit Suisse Leveraged Loan Index						
BB-Rated	0.13	7.47	7.63	-0.08	358	97.91
B-Rated	-0.26	5.82	10.43	-0.24	643	93.58
CCC-Rated	0.25	-2.65	18.74	-0.61	1,482	77.79
Distressed (CC, C, and Default)	-2.21	-42.86	24.99	-8.84	2,116	27.28

Source: JP Morgan, Credit Suisse, as of May 31, 2023

Technicals

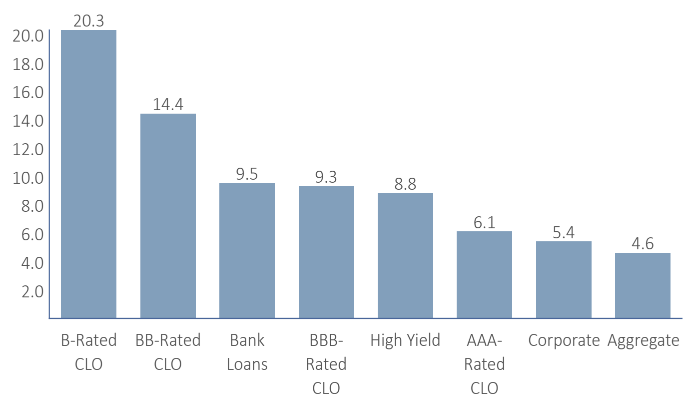
Annual CLO New Issuance ($bn)



Source: Pitchbook/LCD Research as of of May 31, 2023

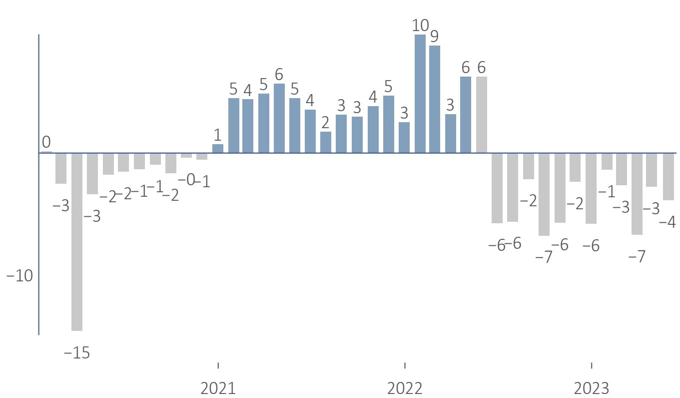
Valuations

Yields on Various Asset Classes (%)



Source: JP Morgan, Credit Suisse, Barclays, as of of May 31, 2023

Monthly Bank Loan Fund Flows ($bn)



Source: Pitchbook/LCD Research, as of of May 31, 2023

CS Leveraged Loan Index

Source: Credit Suisse, as of May 31, 2023

ABOUT ARISTOTLE PACIFIC CAPITAL

Aristotle Pacific Capital LLC specializes in institutional fixed income management with a focus on corporate credit. As of March 31, 2023 the firm managed $21bn across bank loan, high yield, corporate, and CLO strategies.

IMPORTANT NOTES AND DISCLOSURES

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