Market Outlook | December 2024

Private Credit Insights: The Year Ahead

All we want for Christmas is a great 2025 for alts. Looking at the factors in play, we may just get it—more (and bigger) deals, attractive spreads, and a little "Trump bump" here and there.

Chris Lyons, CFA
Head of Private Fixed Income & Alternatives

Macro themes for 2025

- **Deal flow:** With banks coming back to the table, lower government regulation, and nearly $1 trillion in private equity dry powder, next year is likely to see much stronger deal flow than 2024.
- **Spreads:** Razor-thin spreads in the public market continue to drive allocations into private markets, but there are also likely to be client shifts among asset managers as the big private credit consolidation begins.
- **Policy:** The incoming Trump administration could offer strong potential catalysts for some alts verticals, especially energy and infrastructure, and it's at worst benign for the rest.
- **Risks:** Some of Trump's policy proposals (deportation, tariffs) could have inflationary consequences if implemented in their current form—which may then have a knock-on effect on Fed rate policy.

Market takeaways

- **IG private credit:** Continued strong investor inflows and new non-bank originators will likely spur more (and larger) deal flow volume in 2025…but consolidation pressure may hit weaker asset managers. We're bullish on ABF, energy infrastructure, and floating-rate deals.
- **Middle market credit:** Private equity's dry powder mountain will drive M&A—but seek out collateral and covenants, as balance sheets remain strained. We're bullish on power, data centers, U.S. manufacturing and structured future flows.
- **Renewable energy infrastructure debt:** With election rhetoric over, Trump and his new energy czar are quietly making room at the table for renewables—and deal flow remains vibrant. We remain bullish on solar and combined solar+storage.
- **Mortgage derivatives:** Returning demand for agency MBS in 2025 will potentially drive higher valuations and mortgage derivative issuance, but high-coupon new issues are likely to be volatile; we see better value and less risk in more seasoned securities.
- **Commercial mortgage lending:** Volumes are rising as lenders move to lock in high rates before we're too deep into the cutting cycle. We're big fans of industrial and retail in high-growth secondary markets, as well as selected distressed sectors—but not office.

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The view from the top: A merry little alts-mas

Strong macro fundamentals and interesting market-specific factors are setting us up for a banner 2025.

Tis the season when everything is supposed to slow down as the old year draws to a close…and yet these last few weeks have been some of our busiest all year. I'm not complaining! Too busy is a good problem to have. But with the election behind us, we've already seen a fund first close and some big allocation moves, and surprisingly little "let's pick this up again after the holidays."

This bodes well for 2025, which we're entering with strong macro fundamentals: lower rates, a solid economy, good corporate earnings, and a staunchly pro-business incoming administration. As long as the president-elect's tariff policies are implemented in a way that mitigates their inflationary potential, macro momentum should remain positive.

Beyond the macro atmosphere, market-specific factors are also likely to make 2025 a great one for our investment teams: near-record private equity dry powder and several new non-bank originators promoting deal flow and M&A, plenty of buyers as thin public corporate bond spreads push yield-seeking investors into the private markets, and banks returning as both lenders and buyers.

And that's just the big stuff. I've rounded up our teams for an in-depth look at how the new year and new administration are likely to treat each of our focus areas—and what sectors and investments they're most excited about. Let's lead off with our investment grade private credit team, fresh from their win as *Insurance Investor's* private markets manager of the year.[1]

Investment grade private credit: The big get bigger

Justin Stach
Head of Private Credit

Virginia O'Kelley
SVP, Private Credit

Supersized deals are here to stay…

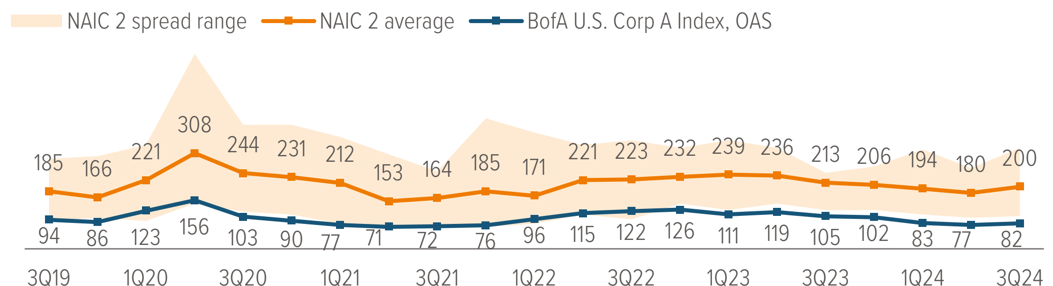
Look for the investment grade private credit market to expand in 2025, with larger deals and new investors—but also to get smaller as clients consolidate assets with top managers.

The emergence of large non-bank originators is driving up both the volume and size of deals. This year alone, we've participated in a dozen transactions over $1 billion—and, given strong appetite from existing investors and the continued influx of new money from yield-seeking pension funds, we expect deal supersizing to accelerate in 2025.

Simply put, investment grade private credit spreads remain attractively wide, while public corporate IG bond spreads remain wafer thin (Exhibit 1). With more large public corporates tapping the private market for infrastructure and project finance joint ventures, sponsors see they can get BigCorp's IG public bond an 80 basis point spread, or a project finance or ABF private placement secured on a long-term contract with BigCorp at a 200 basis point spread, and they're either allocating more out of publics into privates or hustling to set up their private portfolios.

Exhibit 1: IG private credit spreads have stayed wide as IG corporate bond spreads have narrowed

Public vs. private IG spread to Treasuries (basis points)



As of 09/30/24. Source: BofA.

[1] As of 12/05/24. Source: Insurance Investor. Voya IM was named Private Markets Manager of the Year ($50+ billion in insurance AUM) and Real Estate Manager of the Year. Please see disclaimers for award methodology.

...but some managers might not be.

Even as we expect more and bigger deals in 2025, we also foresee further asset manager consolidation. It has become a crowded market over the past few years, and it's reaching the point where some managers—both new and old—will have to admit they don't have critical mass.

In terms of specific deal types, asset-based finance (ABF) has been around 10% of our book for the past couple decades, but we expect that to grow in 2025. ABF is an attractive area for clients seeking yield, with spreads currently running 225-275 bp over Treasuries (higher than infrastructure and corporate placements)—not because of added credit risk, but because of its structural complexity.[2] We're also seeing more demand for floating-rate and shorter-dated paper going into 2025.

Love: ABF, floating rate, energy infrastructure

Like: Corporates, industrial REITs

Leave: Banks/fintech, university housing

The incoming administration's fossil-fuel-friendly, light-regulation policies are likely to benefit deal flow to our large infrastructure team, which has a strong track record of pipeline, transmission, thermal power and natural gas terminal investments. There is a promising range of infrastructure projects that have not launched under Biden due to struggles with permits. Keep in mind, too, that this is a global asset class (around 40% of placements are to non-U.S. companies or projects), so diversification is available for clients who want it.[3]

Middle market: M&A in the driver's seat

Gaurav Ahuja
Enhanced Middle Market Credit Team Lead

Avi Tolani
Enhanced Middle Market Credit Team Lead

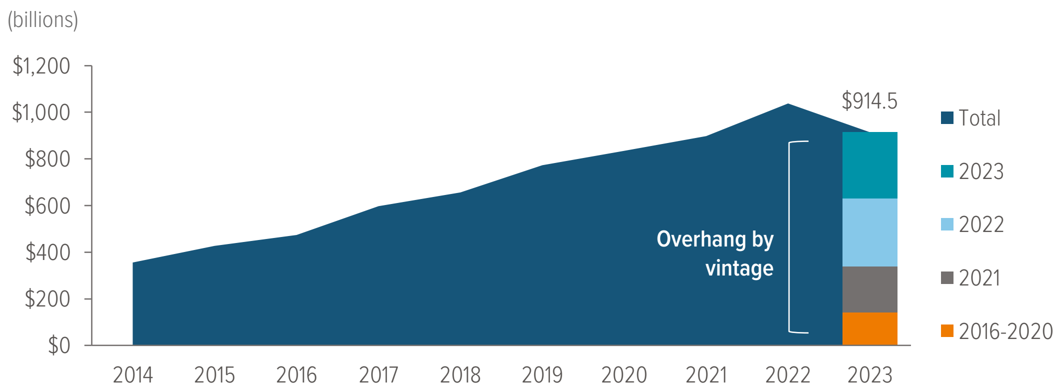
Private equity dry powder, low corporate taxes and light regulation are likely to spur an M&A boom, but stay careful—high rates continue to strain balance sheets.

The middle market is sailing into 2025 on several positive currents. Moderating inflation, a looser labor market and easing monetary policy all support business growth. Election uncertainty is behind us, and the Trump administration has indicated it plans to keep corporate taxes low and regulation light. On top of that, the private equity and private credit markets have near-record amounts of dry powder to spend (Exhibit 2).

After a slow 2024 for M&A, could these catalysts spur more activity? A larger supply of quality deals should ease the cyclically tight credit spreads that characterized most of the past year. Despite this tightening, we have not seen a deterioration in credit terms, documentation or underwriting standards, which bodes well for 2025 vintage deals.

Exhibit 2: Almost $1 trillion in PE dry powder is likely to fuel M&A activity in 2025

(billions)



As of 10/08/24 Source: PitchBook.

[2] As of 12/11/24. ABF spreads are Voya IM estimates.

[3] International placements were 43% of the agented placement market in the first three quarters of 2024, according to BofA, up slightly from 42% in 2023.

PE dry powder and M&A will stimulate deal flow…

But the middle market isn't out of the woods yet. Even with a few Fed cuts, rates will remain high enough to stress weaker balance sheets, creating winners and losers. This is also likely to create performance dispersion in favor of experienced and disciplined managers.

It also represents an opportunity for restructuring and workout specialists like Voya's enhanced middle market credit (EMMC) team to selectively invest in distress situations as alpha-generating opportunities. The growth of private credit has been rapid over the past few years and many newer fund managers have not experienced a full credit cycle yet—leading them to be more likely to try to bail out of loans rather than do the work to restructure them.

…but beware weak balance sheets and cov-lite deals.

For the most part, our EMMC team continues to focus on highly collateralized lending in the verticals it knows best: energy, infrastructure, manufacturing and industrials. We prefer to take our yield premiums based on structural complexity rather than additional credit risk, which is a practice that has served us and our clients well over the past 11 years.

Love: Power, data centers, U.S. manufacturing, structured future flows

Like: Industrials, business services, energy, transportation, automotive, aeronautical, food & beverage

Leave: Technology, health care roll-ups

Investors with capabilities in private markets may consider moving some allocations from public below-IG bonds into EMMC to take advantage of the attractive return potential (the strategy has consistently beaten public B/BB benchmarks) and meticulous investing style, as demonstrated by its zero-credit-loss record.

Renewable energy infrastructure debt: Rhetoric vs. realpolitik

Thomas Emmons
Co-Head, Direct Infrastructure

Ed Levin
Co-Head, Direct Infrastructure

Despite noise on the campaign trail, Trump's energy czars are already making room at the table for renewables, and deal flow remains vibrant.

Our renewable energy infrastructure debt (REID) team expects no interruption in deal flow during Trump's second term, especially given the noticeable thaw in the administration's post-election statements around renewable generation—and the composition and priorities of its proposed department heads.

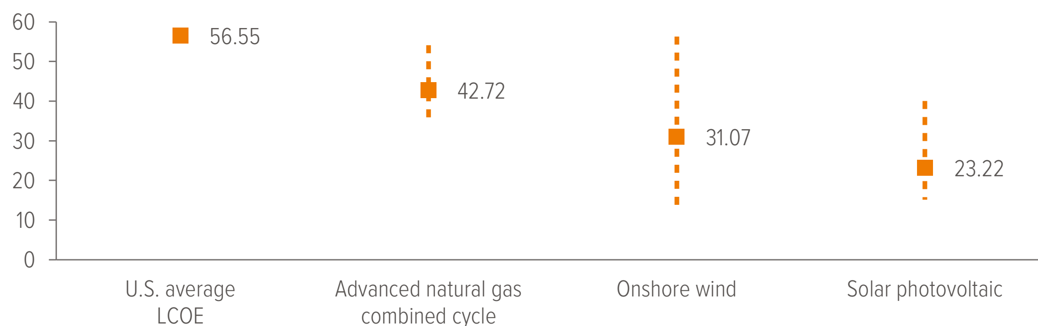
Trump has nominated Chris Wright to lead the Department of Energy, Doug Burgum as secretary of the interior, and Lee Zeldin as administrator of the EPA. Wright is based in Colorado and Montana, which get 36% and 50% of their electricity, respectively, from renewables. Burgum and Zeldin's home states of North Dakota and New York aren't far behind, with 34% and 26%. These picks, as well as the formation of a National Energy Council chaired by Burgum, show where the administration's energy priorities are likely to lie in the next four years—and where powerful interests are already quietly guiding policymakers away from election rhetoric.

During the November 15 announcement of the National Energy Council, Trump stated that its remit was to "expand ALL forms of energy production to grow our Economy and create good-paying jobs." He also emphasized the need to dramatically increase baseload power capacity to lower electricity costs, avoid brownouts and "WIN the battle for AI superiority."

There's a noticeable thaw in post-election statements about renewables...

Exhibit 3: Solar is one of the cheapest forms of generation

Estimated levelized cost of electricity (LCOE) for new resources entering service in 2028 ($/MWh)



As of 03/16/24. Source: Energy Information Administration. Figures are in 2022 dollars; labelled dot represents simple average while dashed line represents cost range across the 26 U.S. electricity markets.

Renewables are among the cheapest ways to generate electricity (Exhibit 3). Also, unlike combined cycle plants, their input costs are not affected by inflationary pressures on petroleum prices, which are a risk of Trump's proposed Canada and Mexico tariffs.[4]

We suspect the incoming administration's new focus on expanding all forms of electricity generation is due to a combination of Burgum's own self-interest, tech industry lobbying, and Southern Republicans whose constituencies have benefited from the IRA and its clean energy job creation.

...and a potential ally in Trump's "energy czar."

Burgum may end up being energy transition's biggest advocate in the Trump administration—as well as its most competent energy bureaucrat. He made his money in tech (selling to Microsoft in 2001), and his home state of North Dakota, which he helped grow into a data center hotspot as governor, is projected to have almost a third of its total power demand coming from data centers by 2030. Unsurprisingly, Burgum stated to reporters on the eve of his selection that the U.S. needs to boost electricity production to meet increased demand from data centers and artificial intelligence.

Another positive for REID deal flow is deregulation, which seems to be Trump's first priority: "This Council will oversee the path to U.S. ENERGY DOMINANCE by cutting red tape, enhancing private sector investments across all sectors of the Economy, and by focusing on INNOVATION over longstanding, but totally unnecessary, regulation," he posted to his social media platform on November 15.

The headlines will likely focus on rolling back EPA emissions regulations and removing obstacles to the permitting of new thermal power plants, LNG terminals and pipelines. The quieter story is faster environmental, transmission and interconnection permitting, which directly benefits the renewable generation projects making up 95% of the lengthy U.S. interconnection queue. Implementing this deregulation will likely be an all-consuming task, especially given that Zeldin is unfamiliar with the EPA's bureaucracy and the industries it regulates—and Wright has never participated in government before.

Projects have already been in development for several years by the time they become targets for REID. They have typically secured interconnection, permits, site control, power purchase agreements with an offtaker (such as a local utility), and begun negotiating construction agreements.

[4] According to the EIA, the U.S. produced around 22 million barrels per day (bpd) in 2023 but imported 8.5 million bpd—52% of which came from Canada and 11% from Mexico. At the present time, the administration plans no exemptions for petroleum in the proposed blanket 25% import tariffs. We note that any inflationary energy price pressure from Canada tariffs would strike hardest in the upper Midwest, which is Wright and Burgum's backyard.

The renewable generation pipeline remains strong under Trump.

Coincidentally, this stage—about two years before operational commencement—is also around the time these projects show up on the "planned" section of the EIA's monthly electric generator inventory report. This means we have highly granular visibility into the renewable capacity projected to come online during 2025 and 2026, and somewhat reduced visibility into 2027 and 2028.

These figures indicate that renewable generation growth under Trump's second term looks almost as good as under his first term, which saw a 59% jump over the previous administration (Exhibit 4).

It's also worth noting that some of the biggest beneficiaries of this upcoming generation capacity are—again—Republican heartlands. Texas has almost 15 GW of renewable generation and storage coming online in 2025, the most of any state. Arizona (the battleground where Trump won by his biggest margin) has nearly 4 GW—the third largest of any state.[5] Indiana is fourth with 1.6 GW. Ultimately, we are in an era of unprecedented electricity demand growth, and renewable generation and storage projects make compelling economic sense to both developers and offtakers. We believe energy transition projects will continue to see vibrant growth under the Trump administration, just as they have under every previous administration since the dawn of U.S. renewables in 2003.

Love: Solar, solar+storage

Like: Onshore wind, standalone storage

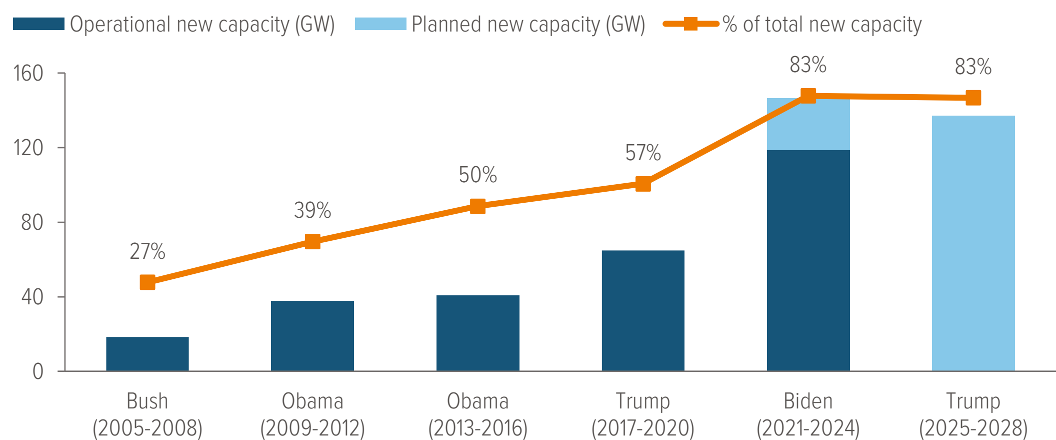
Leave: Offshore wind

While we remain opportunistic, we currently see the most appeal in solar and combined solar/storage projects. Solar remains one of the lowest-cost forms of energy and, when paired with energy storage, is highly marketable to offtakers.

We have less conviction in the prospects for offshore wind under the new administration. Offshore wind was previously stymied by Trump, and we expect that segment of the market to be equally challenged over the next four years.

Exhibit 4: New renewable generation capacity planned so far under Trump nearly equals Biden's

New solar, wind and battery storage (GW)



As of 11/22/24. Source: Energy Information Administration.

[5] This is despite Arizona's Republican-dominated energy regulatory board moving to repeal its renewable portfolio standard of 15% by 2025, which ... the state had already comfortably exceeded by August this year (according to EIA data). 2025's incoming 4 GW represents an almost 50% increase on its existing renewable net summer capacity of 8.3 GW. There's political rhetoric and there's economics, and between the two, economics tends to win. Source for 2025 generation adds: EIA, Preliminary Electric Generator Inventory, 11/22/24 release.

Jake Lowery
Senior Portfolio Manager, Mortgage Derivatives

Mortgage-related assets: The banks are back in town

Valuations are likely to rise as banks return to being net buyers of agency mortgage-backed securities, but so may volatility. Investors don't need to chase unnecessary risk, however—there are attractive potential returns available in more predictable parts of the market.

For the past two years, agency mortgage-backed securities (MBS) have been hit by the double whammy of a slow Fed selloff and banks stepping back from the market in expectation of higher capital requirements. Holdings of agency MBS by FDIC-insured financial institutions peaked in late 2021 at $3.6 trillion and bottomed in the third quarter of 2023 at just under $2.9 trillion. They've more or less stayed flat since.[6]

Banks' return to the CMO market may spur higher valuations and increased issuance...

The retreat of banks—usually a pillar of the agency MBS and collateralized mortgage obligation (CMO) markets—helped cause wider spreads and cheap valuations, both in agency MBS and securities derived from them: CMOs and mortgage derivatives.

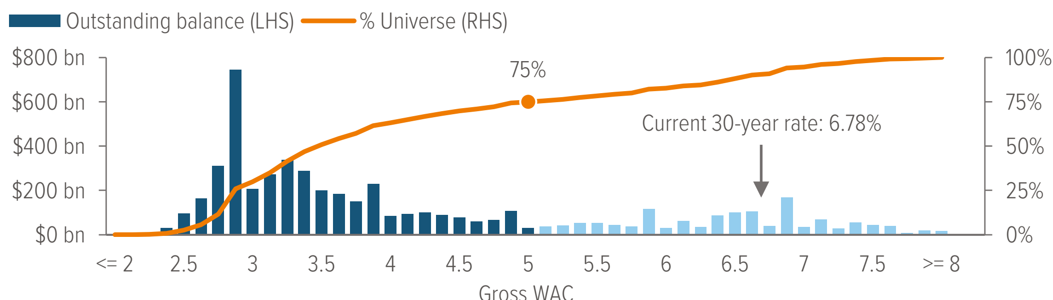
Banks' return as net buyers to the agency MBS and CMO markets should accelerate under Trump due to the likelihood of low regulation and postponed or canceled Basel III endgame requirements. These net capital inflows may increase valuations across the board in mortgage-related assets, which offers potential for gains.

It may also change the opportunities available in the future. Because banks tend to be the most active buyers of CMOs, 2025 may see significant new issuance in the CMO and mortgage derivative markets. These markets are paired; a mortgage derivative is essentially concentrated prepayment risk that is sliced off an agency MBS and sold separately in order to turn the agency MBS into a lower-risk CMO.[7] At present, these mortgage derivatives mainly take the shape of interest-only (IO) and inverse interest-only (IIO) securities.[8]

As mortgage rates trend downwards and refinance opportunities are created for recent homebuyers, there is also the potential for more prepayment volatility in specific parts of the market. In late 2023, 85% of outstanding Fannie Mae mortgage principal was at coupons of 5% or less, and this lack of attractive refinancing options created very slow, flat prepayment speeds across the sector. That number has since fallen to 75% as new homebuyers have taken out higher-coupon mortgages (Exhibit 5).[9]

Exhibit 5: Prepayment speeds will remain volatile for the 25% of agency MBS with coupons above 5%

Outstanding FNMA mortgage principal by weighted average coupon



As of 11/21/24. Source: FNMA.

[6] As of 11/20/24. Source: Federal Reserve H.8 reports. Banks generally prefer to hold liquid, publicly tradeable debt securities with negligible credit risk rather than retain their private mortgage loans on their balance sheet, so they sell their mortgages to the GSEs and buy back agency MBS or the even safer CMOs derived from them.

[7] For more about this process, please see our Guide to Mortgage-Related Assets.

[8] An IO, or interest-only security, is a stream of interest income split off from pools of agency mortgage-backed securities. Because it contains no principal, however, an IO has no par value—it is priced at the estimated net present value of its cash flows, with prepayment speeds essentially acting as a discount rate.

[9] As of 11/21/24. Source: FNMA.

…but mind the volatility of recent mortgage derivatives.

Volatility isn't inherently bad—in fact, a primary driver of alpha for our team is when prepayment speeds come in different than the forecasts from out-of-the-box (and mostly backward-looking) prepayment models. But there's no reason for buyers to chase risk in things like recent IOs made from Ginnie Mae multi-pools—which are consistently prepaying higher than expected as borrowers jump on refinance opportunities. There are plenty of more predictable IOs that offer attractive potential returns with lower prepayment risk, as they're based on low-coupon, older mortgages.

Mortgage derivatives can help enhance yield in fixed income portfolios.

Mortgage servicing rights (MSRs), which can be thought of as the private-credit version of mortgage derivatives (with accompanying spread premium but surprisingly high liquidity), are starting to cool off after a couple of years of great deals. There is still the occasional deal to be had, but with most mortgage servicers on a much more solid financial footing than in 2020-2022, the market has trended back towards fuller valuations.

Of all the groups under Voya's alts umbrella, the mortgage-related assets team functions the most like a hedge fund trading desk—because most of the assets we invest in are both public and liquid. We're highly price sensitive, and our strength is digging for gold in an inefficient market by doing our own deep, fundamental prepayment analysis on the mortgages underlying these securities.

Love: Agency MBS, low-coupon seasoned IOs

Like: MSRs

Leave: High-coupon recent IOs

There are a couple reasons why this matters. The first is that agency MBS has a hefty 26% weighting in the Agg, so shifting some allocations from agency MBS to a mortgage derivatives strategy can potentially help fixed income investors outperform both the agency MBS section of the Agg and the overall benchmark.[10]

The second is the asset class's history of low correlations to other fixed income assets and resilience to all but the most sudden and severe macro shocks. In other words, mortgage derivatives are an evergreen allocation that has the potential to enhance portfolio yield throughout the credit cycle.

Commercial mortgage lending: Volume up

Greg Michaud
Head of Real Estate

Lending volume is climbing as investors seek to lock in high rates, with the retail and industrial sectors offering the most appeal. Meanwhile, the interesting distressed opportunity isn't offices—it's apartments.

Commercial mortgage lending (CML) is ending 2024 on a much more positive note than it began. Transaction volumes improved meaningfully over 2023's meager levels. Stabilizing cap rates have helped the investment sales market, which in turn has helped the lending market. And Trump's anti-regulation stance and disinterest in 1031 exchange reform are incrementally positive, though they won't drive markets.

A core attraction for CML right now is that, in a fixed income market fighting for yield on NAIC-1/investment grade assets, CMLs' high fixed-rate mortgages, yield maintenance/exit fees and expensive refi process mean that savvy investors can potentially lock in higher rates for several years, even as the Fed gets deeper into its cutting cycle.

[10] Agency MBS weighting in the Bloomberg U.S. Aggregate Bond Index as of 10/31/24. Source: Bloomberg.

Banks, GSEs and insurers all returned to the CML market in 3Q24.

Banks began to return to the origination market in 3Q24, helped in part by expectations for the Fed's October rate cut. Their withdrawal from CML lending after 2Q23's bank failures seems to have bottomed in 1Q24, and 3Q numbers saw a 69% YoY rise in origination volume.[11] Yet last quarter's figure is still less than half banks' 3Q22 origination level— meaning that significant opportunities remain for non-bank lenders to step in.

And non-bank lenders are becoming more active in the market. The government-sponsored agencies (primarily Fannie Mae and Freddie Mac) saw a 28% YoY rise in multi-family deal volume and a giant 80% rise against 1Q24. Life insurance companies, which made a pronounced shift in their real estate portfolios out of CMBS and into CML in 2023, continued their net inflows, up 31% YoY and 302% versus 1Q.[12] On a more anecdotal basis, 2024 was a noticeably strong year for pension funds entering the CML space, and we expect to see that accelerate in 2025.

Office remains a sector to underweight…

We have always been underweight office compared with our peer group. New investors (and those burned by legacy funds who went big into primary-market office) often labor under the misconception that office is the dominant form of commercial real estate—and thus, when office is bad, CML must be bad.

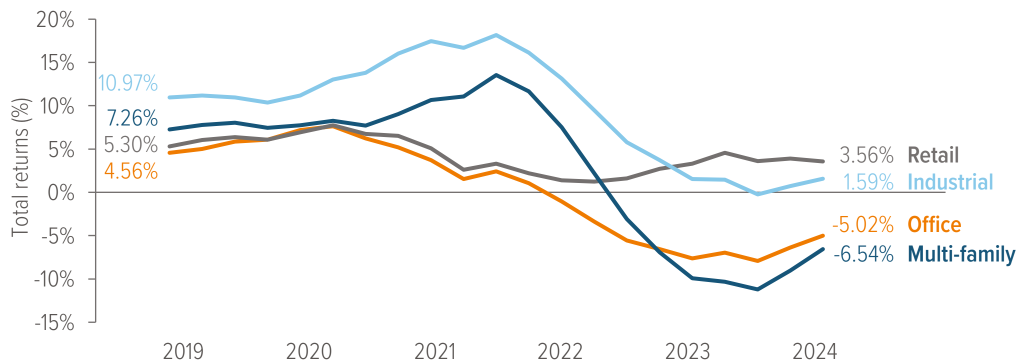
But office makes up only $740 billion (16%) of the $4.7 trillion in U.S. commercial mortgage debt outstanding—and there is a world of difference between the prospects for an aging landmark building in New York City versus a smaller-floor-plate suburban office.[13] The latter is seeing leasing growth in many markets, and where it isn't, residential conversion is often a viable option. Meanwhile, other sectors of the CML market are vibrant.

Within our CML team's specialty of high-growth secondary markets, retail and industrial continue to look good, with low vacancies and consistently attractive returns (Exhibit 6). Retail vacancies are at their lowest in 20 years, thanks to a combination of strong U.S. consumer spending and a meager retail construction pipeline.

Meanwhile, industrial has benefited from strong U.S. manufacturing growth, slowing new development, and the increasingly common take-up of older industrial properties for use as last-mile distribution centers. The sector had a minor wobble over the past year due to overbuild in some areas, but that capacity is being digested.

Exhibit 6: When property owners make money, lenders make money

Retail and industrial properties have shown consistently decent returns



As of 08/15/24. Source: Brookings; CoStar. Total return estimates nominal rate of return on unleveraged property investments.

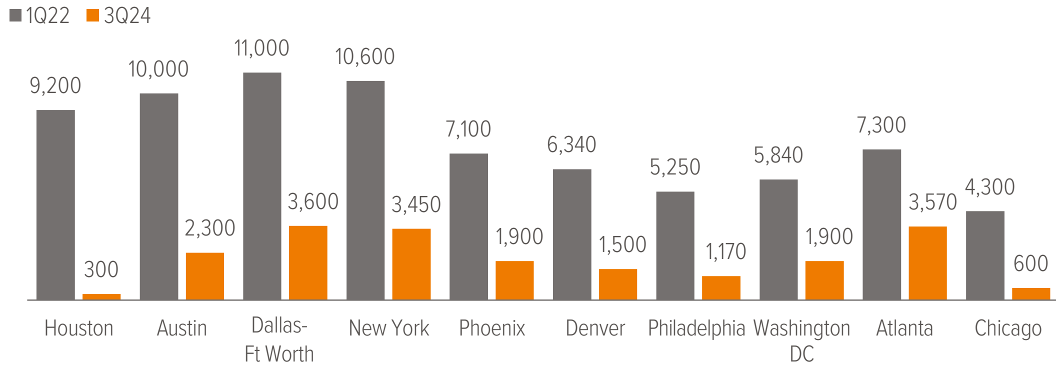
[11] As of 11/15/24. Source: Mortgage Bankers Association.

[12] Transaction volume figures as of 11/15/24, Mortgage Bankers Association. The NAIC reports that primarily private-label CMBS allocations among U.S. insurers fell 3.1% to an average of 28.6% of CRE portfolios in 2023. Meanwhile, CML exposure rose 3% to an average of 64.8% of CRE portfolios.

[13] As of 09/11/24. Source: MPA, Mortgage Bankers Association.

Exhibit 7: A pullback in multi-family starts is positive for vacancy rates

After the pandemic's cheap-money building boom, developers are scaling back



As of 12/03/24. Source: CoStar.

...while retail and industrial look good.

Multi-family has been suffering from a glut of new supply, with vacancy rates and costs rising while rents have stayed flat. Thankfully, many markets have seen significant drop-offs in new starts in the latter half of this year, setting them up for an improved 2025 (Exhibit 7). We remain selective in this space, however.

In terms of special situations, we also don't see distressed office as particularly compelling. Tenants are still figuring out where they want office space and how much they really need. But you know what's reliably needed everywhere? Places to live.

Multi-family offers some interesting rescue capital opportunities.

We see more potential in 2025 in preferred equity/rescue capital for apartment buildings than we do in rescue capital for office. This is driven by the aforementioned pullback in new multi-family starts, as well as by Fannie and Freddie's new selectivity and return to the multi-family market.

Love: Retail, industrial

Like: Multi-family, especially class B workforce housing

Leave: Office

Examples of opportunities include apartment buildings that have operational issues—say the building emptied its tenants to do renovations, then the renovations took too long and cost too much—or whose owners were caught off guard by rents flatlining while interest rates and expenses rocketed higher. These apartment buildings have bridge loans expiring, and they can't meet Fannie and Freddie's tighter lending criteria.

We can step in to fix their capital structure for an attractive interest rate plus an equity kicker, stabilizing the building until it can be taken out by Fannie or Freddie—which the owner wants to make happen, because GSE loans are much cheaper.

Conclusion

On behalf of the Voya Private Fixed Income & Alternatives team, we wish you a restful holiday break and a prosperous 2025. As always, please don't hesitate to reach out with any questions.

A note about risk

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. All security transactions involve substantial risk of loss.

Private credit: Foreign investing does pose special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. As interest rates rise, bond prices may fall, reducing the value of the share price. Debt securities with longer durations tend to be more sensitive to interest rate changes. High yield securities, or “junk bonds”, are rated lower than investment-grade bonds because there is a greater possibility that the issuer may be unable to make interest and principal payments on those securities. Other risks of private credit include but are not limited to: credit risks; other investment companies’ risks; price volatility risks; inability to sell securities risks; and securities lending risks.

Mortgage derivatives: Mortgage derivative strategies often involve investment in derivatives and/or illiquid securities, and may employ a variety of investment techniques such as leverage, and will concentrate primarily in mortgage sectors, each of which involves special investment and risk considerations.

Commercial mortgage lending: Investments in commercial mortgages involve significant risks, which include certain consequences as a result of, among other factors, borrower defaults, fluctuations in interest rates, declines in real estate values, declines in local rental or occupancy rates, changing conditions in the mortgage market and other exogenous economic variables. All security transactions involve substantial risk of loss. The strategy will invest in illiquid securities and derivatives and may employ a variety of investment techniques such as using leverage, and will concentrate primarily in commercial mortgage sectors, each of which involves special investment and risk considerations.

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