



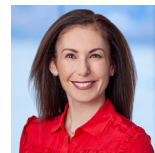
The Investment Conversation: Public and Private Credit Markets Converge



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In this podcast, Lord Abbett portfolio managers Vincent Lu and Kearney Posner discuss how public and private credit markets are evolving into a broader toolkit of solutions for borrowers and investors.

KEY TAKEAWAYS

- The relationship between public and private credit is shifting. Borrowers are looking across markets for solutions with the right mix of speed, flexibility, scale, and certainty, while lenders can use insights from both public and private markets to make more informed credit decisions.
- An integrated credit platform can offer a potential edge. Having both public and private credit teams can help to provide broader market insight, stronger sponsor and borrower relationships, and a more complete view of risk and opportunity across the credit spectrum.
- Manager selectivity remains critical. As markets converge, underwriting discipline, sector selection, covenant protection, liquidity, and platform insights may play a more important role in identifying opportunities and managing risk.

ANDY D'SOUZA: Welcome back to the Investment Conversation. I'm Andy D'Souza, Partner and Chief Marketing Officer here at Lord Abbett. Today we're discussing a hot topic in the news, the convergence of the public and private credit markets. And I can't think of two better guests to join us than our very own Vince Lu and Kearney Posner, both Partners at the firm and Portfolio Managers. Vince, welcome to the show.

VINCENT LU: Nice to be here, Andy.

D'SOUZA: And Kearney, welcome as well.

KEARNEY POSNER: Andy, a pleasure.

D'SOUZA: Great to have you. All right, let's get right into it. So, headlines out there on the convergence of public and private credit markets. We've seen all three markets, we should say all three asset classes within leveraged credit grow over the last 10-15 years. Private credit is probably the most notable, in 2010 it was around \$300 billion in size. Today it's about \$1.8 trillion on par with the size of the bank loan, the broadly syndicated bank loan market, the [broadly syndicated loan] BSL market, and also the high yield market itself. So that can be a first question for you, Kearney. Why have these markets grown so much in the last 10-15 years?

POSNER: I think you highlighted that they have evolved and grown. So, we've seen the high yield market double. We've seen the broadly syndicated loan market triple. And I think we're now at quintuple or more on the private credit side. I think that's driven by a couple of factors.

I think 1) given low yields and then very volatile and higher yields, there is a demand for floating rate paper. We've certainly seen a lot of investors look to hedge their portfolios with floating rate paper in this interest-rate environment. I think 2) we've had one of the largest and longest expansions in our history, ten plus years since the GFC [Global Financial Crisis]. And there is a demand for yield, and so a demand for leverage credit in particular. And then I think the third big factor as I look at it is really the growing complexity of our markets. And how do we best serve the various demands? And so, all of these offer slightly different solutions to solve borrowers' problems. And I think those have all contributed to growth across all three markets, certainly private credit being the largest, Vince.

D'SOUZA: Thank you for that, Kearney. But why, Vince, in your mind is the private credit market or direct lending corporate credit, why has that grown the fastest recently?



LU: So, there have been a number of factors. If you look at it from the investor perspective, what you'll see is that the asset class, if you can afford the illiquidity associated with "buy and hold" paper, that you can generate around 150- to 200-basis-point incremental yield relative to the liquid markets. And that's because these securities are generally illiquid. And there's not much trading activity. That's attracted a lot of capital into the marketplace as sophisticated investors have understood the benefit of being able to create a core holding around that. And so that's created enough capacity to be able to serve both traditional middle market companies, which is really where private credit started and now into the larger end of the market as more and more capital has come in.

From a borrower perspective, there are a number of [potential] advantages that offset the incremental cost. One is speed and certainty of financing, going directly to your lenders and knowing in advance what pricing and structure for your deal could look like. Number two, you have increased confidentiality. You have the ability to tailor the financing solution directly to your needs. And then you also have a good working relationship with your lenders over time as they stay with you during the life of the loan.

D'SOUZA: And I guess if you're a CFO [Chief Financial Officer] at a company, and you're looking at one of these three markets for funding, whether it's the high yield market, the broadly syndicated bank loan market, or it's the private credit market, why would I as a CFO choose one or the other or maybe multiple options here? Any thoughts on that, I guess?

POSNER: Sure. I think you start with: What are you trying to solve for? Are you trying to solve for the best execution? Are you trying to solve for flexibility in terms of features for your credit? Do you have a view on rates, whether it's fixed or floating? All of these are incredibly important factors. Also, what's the nature of your company? Do you generate a lot of free cash flow? That tends to value pre-payability, which tends to come in floating rate versus fixed rate where you might have a lot of up-front expenses. So, all of these are incredibly important as CFOs think about what is the best tool to optimize. And really, we're presenting a suite of tools for them to reach those goals.

LU: I think Kearney's covered all the important points. I'd add on one additional point on top of that which is really tied more towards a private credit solution. And one of the things we find when we talk to CFOs is what they really value is the ability to pre-commit to additional capital in size over multiple years to be able to pursue whatever strategic initiatives they may have.

That could be unidentified future acquisitions. It could be large up-front spending that you're required to do in order to secure new and important customers. And from my experience in sitting in a number of different board meetings where these things are being debated, that the strategic importance of those types of initiatives and having the certainty and knowing that you have the capital to support them is oftentimes more important than the cost itself. And so, we find that the most strategic CFOs out there look at the whole range of options that are out there, a lot of the factors that Kearney has mentioned, but the ability to pre-commit additional capital is also a very important consideration.

D'SOUZA: Got it. And I'm a CFO then, when I'm looking at the different options, the factors, does it lead us towards certain industries? Because the convergence of the overall markets is one thing. Does that mean that there are certain industries typically that would actually look to the [broadly syndicated loan] BSL, high yield, and/or private credit market? Are there some overlapping industries here?

POSNER: Yeah, I think one of the big ones that's certainly been in the headlines recently has been software. Because of the historical multiples, there's a lot more flexibility to put on leverage, because the free cash flow profile is very robust. And so, when CFOs think about debt pre-payment and their capital structure, the ability to pre-pay debt at par versus 103 or 105 call premiums is very valuable to them.

Also, a lot of these companies are private. So, what the BSL and what the private credit markets offer is a little bit more privacy in terms of their financials for competitive information. So that's incredibly valuable for these issuers as well. So, I would say software is certainly a big one. Similar profiles, I would say are also health care and services where you tend to see more capital-intensive industries go to the high yield market because there's less free cash flow up front. And pre-payability is not as valuable.

LU: And I would just add on. I think Kearney and I think very similarly in terms of our investment philosophy as a lender where your upside is really captive par, maybe a small premium on top of that. We really like focusing on defensive industries, areas where you don't have a lot of cyclical exposure, health care, as Kearney has mentioned.

For us on the private credit side, we do a lot in waste management. I know Kearney likes that sector as well. Software, we've been very underweight too on the private credit side. Although much of the private credit market has been very focused on that segment. And the reason that we've been cautious around that is as a buy-and-hold lender over a three-to-five-year period, it's really difficult to predict where technology is going to be. And if you can't do that, and you do get it wrong, your recoveries on types of loans could be very low. And that can be in a capital preservation strategy a very difficult sector to lend behind.

D'SOUZA: Can I just dig in a little more there? You mentioned as a buy-and-hold lender. So, there are a lot of similarities between two markets and the borrowers that you're evaluating continuously in the marketplace. When it comes to, let's take software for example, how do you look at the underwriting of a software loan? And how do you think about those when you're lending to a company? Vince, to your point about three to five years, how do you think about lending to a company in general, basic terms?

LU: In terms of the software lending activities that we do, we really look at eight different criteria that outline the parameters around which we want to lend to a software company. What we're looking for is staying power of those companies through the cycle over a three-to-five-year period. So, we're looking for mission-critical status. We're looking for a market leader. There's a whole bunch of different considerations that go into the evaluation of a software



loan. What becomes difficult for us is that if you do get one of them wrong, and you have a competitor that leapfrogs you in terms of technology, it can really be a severe impact on the overall business. And that's led us for the most part to stay away. But in the right situations we will do software deals.

POSNER: Yeah. So maybe just to build upon that. It's been said similarly we are more defensively postured in that space versus the index and some of our peers. We started moving probably a year and a half ago to more of an underweight position as the threat of AI increased.

What we think about and what I think is different in our market than, say, yours [Vince] is we can be more tactical. We can be more nimble in terms of views. So, we don't necessarily need to have a five-year view. We can have a view that this credit is able to free cash flow. They're pretty defensive. They have proprietary data, network effects, and a lot of the key variables we look for as we assess them. And they can re-finance their debt in the next one to two years. And so, we're able because we have more liquidity to be a bit more tactical in the space while still remaining very up in [high yield credit] quality and defensively postured.

D'SOUZA: Vince, you mentioned the buy-and-hold viewpoint. So, I guess when we're thinking about underwriting the different borrowers, and it's typically in software maybe, yours just sounds like it's more of underwrite to maturity. Whereas Kearney's is maybe a little bit different in the BSL space. Can you just talk about that for me?

LU: Sure. So, for us, a typical maturity on a loan is anywhere between five to seven years. And as a buy-and-hold investor, without having the ability to trade out of our securities, we have to take a view on where the industry and where the borrower is going to be over a five-year period. And because of areas like software, where it is very difficult to predict where technology is going, it becomes a very difficult industry to underwrite over that type of timeframe. And as a result, we've been very underweight software in our own portfolio. There have been a few situations where we think we've found borrowers with very, very good staying power through cycles that we'll invest in. But in general, it's a very difficult industry to invest behind.

POSNER: Yeah, it's not dissimilar from what we've seen in other industries. So, it was telecom back in 2002, energy back in 2015, retail in the late teens where there was some secular change. And what you typically see here is that it's not all at once. It tends to have waves to it. You have the early losers. Then you have Amazon continuing to encroach. And some can adapt, like a Best Buy, and some can't, like a Circuit City. And so, I think this will play out over the next five to seven years.

But as we think about certain catalysts, I would say the ones that we're thinking about are really around the next [refinance] refi. So where do we think about the leverage point and what the market will accept as the risk profile for these names going forward, for some of these shorter-dated maturities? And then we think about a lot of these annual renewals. And so, the next renewal cycle will probably be towards the beginning of next year. And what does

that look like? Are we going to see the churn that market is really fearing? Or as I suspect, a lot of these are much more entrenched. It'll be a much slower melting ice cube. And so, as we think about catalysts, those are the key ones that we are really honing in on.

D'SOUZA: And when you say "next refi," you're referring to the headlines, when I put a finer point on it, when I hear, to your point about cycles. I read this in the press every five to ten years. There's a giant maturity wall coming. Look out. There's always a maturity wall. We never actually have slammed into it, it feels like. Is this time different? Or how do you think about the maturity wall?

POSNER: Oh, I think it's a question I get asked almost every meeting about the maturity wall. We haven't had an issue with maturity walls yet. And what I do find is that the market tends to correct itself. It tends to find the clearing price. And so, as you mentioned, we do have a software maturity wall. We've got about \$20 billion coming due in 2027. Now, keep in mind we're looking at a \$1.5 trillion-dollar market. So that's around 1% of the market, which isn't too meaningful. It does get slightly larger. We're looking at \$60 billion, \$70 billion in the following two years. And so, as I think about those catalysts, really addressing one of those '27s and seeing how the market prices that, how the market structures it will be a clearing event in my mind for how we think about valuations for these software companies to come.

D'SOUZA: And when I guess maybe taking a step back a little bit here and thinking about just the interplay. Having the two, three, I should say, asset classes under one roof here at Lord Abbett, what do you take away from each other's markets when you're looking at underwriting or even a loan in the marketplace? Are there signals that you can see from looking at one another's marketplaces? And what can you share about that collaboration?

POSNER: Yeah, from my perspective, the addition of Vince and his team has been incredibly additive, perhaps lesser from the signaling perspective, but really from the sponsor access that we're getting for our company. So, I think it's important to keep in mind that roughly 70% of our loans are private. So, they tend to be sponsor-backed. So having a relationship with the sponsor to get management access, to get better allocations on well-liked deals is incredibly important. That has been very meaningful and material for us.

LU: And for us, being part of a platform that has both public and private credit capabilities is a real big benefit. And I'll go through a couple reasons why that's the case. But maybe I'll just start by saying we look to the public markets for signals, as you had mentioned, Andy. But it's really important for us to recognize that the market can move a lot for a variety of different reasons, including both technical and fundamental factors. And what we try to do is separate that signal from the noise. On the technical side, that's the type of stuff we try to ignore. Inflows and outflows in and out of high yield funds and loan funds can move the market along. We try to ignore some of those technical factors. And what we really try to do is spend our time looking at the fundamental factors that we can capture from the public markets. Information from earnings reports, from investor calls where there may be forward-looking information on where an industry is going, or just general



news and developments that can help us better understand particular industries. All of that information is captured by Kearney's team on the public side through nine industry chats. It's something that our private team subscribes to. It gives us real-time access to shared data and insights across a broader platform, which is a very big benefit for us as we go through our investment underwriting process on any particular deal.

D'SOUZA: So then if I shift again from the perspective inside the walls of Lord Abbett back to the CFO at a company. Now I'm seeing public markets and private markets where I can look for financing. I have the optionality now to do that. So, I guess is it more of a competition or a cooperation? How do you think about that environment?

POSNER: I think it's evolving. So, I think there is a period of time where we saw a lot of growth in private credit. There were extended periods of volatility whether it's the [Global Financial Crisis] GFC or COVID-19 or even the 2022 inflation, Ukraine war, where private credit really rose and ascended. And then I also think there was a period of time where most people were one or the other. So, it was a zero-sum game. I think what I've seen evolve too is now it's a suite of capabilities. The banks aren't just doing broadly syndicated, they're also partnering on the private credit side. It's become much more complementary. In fact, we both participated in that deal a couple years ago. There was an insurance broker. There was a private credit component. And there was a broadly syndicated component in the same loan. And I thought that was interesting.

And we kind of talked about what that added from the issuer's perspective of having access to multiple different venues. They have a private credit as well as the broadly syndicated which provides both an avenue for going further into the public markets, potentially [initial public offering] IPOing down the road and/or having access to the private markets if there's another period of volatility and they need to issue [debt] to acquire another company or the like. So, I find it very interesting that it's really become a suite. There's less direct competition, less of a zero-sum game. But we still compete on some of this.

LU: Yeah. I would add on top of that. Before I joined Lord Abbett, I worked for the asset management division of a large investment bank. And just to give you a perspective, I felt like I had an inside look on how a bank looks at corporate relationships. And what you would be interested to know is they look at the lifetime value of those relationships, all the different services that they could sell to that borrower over time, debt and equity financings, [mergers and acquisitions] M&A effects, cash management, hopefully not restructuring services if they get it wrong. But it is how the bank thinks about it. And so, the banks who are underwriting a lot of these and arranging a lot of these financings, they really don't want to lose that corporate relationship. And so, one of the things I've found is that they're trying to position themselves to make sure that they don't lose that debt financing mandate. Because if they do, they lose pole position on all the other financings. And so that level tends to create a little bit more competition. If you have a private credit lender who has put very aggressive terms on the table, you might have the underwriter come back to the table and say, "I'm

going to push leverage a little higher." "I'm going to tighten the pricing, loosen up documentation." It's part of the reason why we think that part of the market has good balance, but is very competitive, part of the reason why we like to participate more in the core middle market where we think that the waters are safer and calmer.

D'SOUZA: And you mentioned loosening up of documentation. I hear that as the evolution of covenants over time maybe. How have they evolved? How are they evolving now?

LU: So, we do spend a lot of time looking at covenants in the core middle market and below. You generally will get financial maintenance covenants in the right situation, which when you actually look back at the history of recoveries, Standard & Poor's puts out some interesting data that shows if you do have a financial maintenance covenant to protect you, that recoveries are [roughly, historically] 20 points higher. And that's because you can get to the table earlier, work together with the borrower to come up with a solution, maybe try to bring in junior capital. But for us, covenant protection is important. No question about it. Kearney's absolutely right. At the upper end of the private credit market you tend not to have those covenants. The good CFOs out there will play one market off against each other. And if you're a private credit lender, the most likely thing you're going to hear from that CFO is, "I can do a covenant-like deal potentially in the broadly-syndicated loan or high yield market. Why would I ever agree to a covenant in a private credit deal?"

POSNER: Yeah. And I would say that's actually more of the norm now. They're dual tracking, "What can I get in private credit? What can I get on the public side?" And doing the cost benefit analysis, like, there's a cost to getting ratings. There's a cost to kind of going through the agencies and whatnot. And so sometimes even though it's a higher cost, they prefer the flexibility for not much more in terms of coupons.

D'SOUZA: So, you mentioned, for the optionality, there are some industries that are more in common with both of the asset classes, some in health care, software, some of the defensive sectors out there as well. What about, you mentioned, the core middle market? It was a term you used, Vincent. Maybe you can just help us define that a little more, how you see the core middle market. And then do either one of these markets service different [borrowers]? The size of the market or the [earnings before interest, taxes, depreciation, and amortization] EBITDA, for example, how does that play into the convergence here? Is it convergence at the upper end, the lower end, the middle? How does that work?

LU: Sure. So, the way that we define the core middle market, as you had mentioned Andy, is based on EBITDA or cash flow of the business's annual cash flow. And we define that anywhere from \$25 to \$100 million or so. Those are a bit arbitrary numbers. I think others out there use slightly different numbers. In that part of the market when you extrapolate it, generally speaking those companies don't have access to the public markets. And the reason for that is that the public markets like to have minimum issue sizes to be able to actively trade in and out of bank loans or high yield securities. And if you're too small, that really doesn't appeal to that segment of the market. And so, with that kind of



delineation where we see most of the convergence is really at that upper end of the market, \$100 million and above where you have borrowers tapping both the public and the private markets.

POSNER: Yeah. As a large issuer, if you're looking at a \$300 million deal, you might not be able to get enough allocation for that to be worth the time and energy versus, say, looking at a several billion-dollar deal. So, we tend to focus on \$500 million and above because you've got a diversity, and you have liquidity that we really seek in general.

D'SOUZA: Another more specific example that I think I've heard you both talk about was you're seeing signals, and from each other's markets you may be getting relationship advantages by being able to offer firms multi or dual tracking of debt. The other one though is sometimes maybe Vince in your role sometimes you actually may employ the use of a straight BSL loan in your portfolio. And you can then I think lean in and tap into Kearney's team and expertise for that. Is that right?

LU: That's absolutely right. And [we believe] it's a big benefit for us relative to our middle market competitors who might not have that same platform. So, we will occasionally invest in broadly syndicated loans for opportunistic reasons. And to be able to go to Kearney and her team who cover 1,200 broadly syndicated loans (I think it's a number like that, it's a gigantic number) to tell us where are the compelling names and the risk/reward type of profile we're looking for is a big [potential] advantage. And it's certainly something we couldn't do on our own. And it's been very beneficial for us.

D'SOUZA: Kearney, the market in BSL certainly is a large market as Vince just mentioned. Has the quality of the market changed over time?

POSNER: I would say the constituency of it has changed. So, we used to have a lot more overlap with the high yield market. So probably a decade ago there was 60% to 65% overlap of issuers. That has come down. We're closer to 40% overlap. A lot more private issuers come to our market and only to our market. And as a result, what we're seeing is a shift in the ratings profile from where it was, say, a decade ago. We're probably solid single B [credit rating] where there was a little heavier mix towards double B [credit rating] in prior years. And this goes to the nature of the sponsor backed and the [leveraged buyout] LBO versus public company that you see much more public companies on the high yield side.

So, it does present opportunities for us. It also presents risk. Higher rates are both a good and a bad thing. Higher rates mean you get more interest income. Higher rates can pressure higher levered companies more. But it does present us overall I think with an interesting and attractive diversity of opportunity set by having the growth that we've seen, the issuer development we've seen, and the shifting mix that we've been seeing as well.

D'SOUZA: So, we're talking today a lot about the convergence of public and private, more specifically between the broadly syndicated loan market and the private credit direct lending market, but as you point out, it's also overlapping in the space here, the Venn diagram with the high yield market as well. If we're talking about, though, the

asset classes that you're each responsible for here at Lord Abbett, what's sort of one misconception? I mean, I'll start with you, Vince. What's one misconception about your asset class you want to set the record straight on here today?

LU: So, I would say, thank you for asking that question. There are a lot of misconceptions out there.

D'SOUZA: Just give me one.

LU: I will try to stick with one. I would say that the biggest narrative that may be out there that is just not true is that investors who are investing in the private credit asset class could be potentially facing large losses, given some of the activity that's been going on in the software markets and with the redemption pressure in some of the private wealth channels with capital coming out. And all you need to do is go back and look at the data, and you can see senior secured loans generate somewhere between 70% to 75% recoveries, because you're at the top of the capital. You're both senior and secured. And that even if you apply, you know, a peak default rate that you saw through the Global Financial Crisis, you could still [potentially] generate a mid-single-digit return.

So, no question about it, [we believe] there's going to be greater dispersion of performance amongst managers, particularly those that may be more heavily weighted into software. But in general, the asset class with a good manager behind it has been very stable with [potentially] very good downside mitigation associated with it.

D'SOUZA: And so, I guess this next question will be the last question for each of you. I think I might know the answer, but maybe not. Let's see. If we think about the two asset classes that you're responsible for again, so broadly syndicated loans versus direct lending private credit, if I'm an investor now. So, we talked about the viewpoint from Lord Abbett's perspective running the actual portfolios and lending out the capital. We've talked about the borrower's perspective and the whole convergence play. Now, if I'm the investor investing in the asset classes, is there room for both in the portfolio? Is one better than the other? Which one's your favorite?

LU: So maybe I'll start. I would say there's room for both. I'm not going to answer which one's your favorite.

D'SOUZA: Fair enough.

LU: But if you can afford a little bit of illiquidity, we think there is room for private credit. It's demonstrated in the past incremental returns relative to the public markets. But at the same time, you know, the public markets are a very good market as well. And so, with the right manager in the asset class, you can [potentially] do very, very well.

POSNER: Yeah. I would echo that. I'm also not going to reveal my favorite, but I would say there is a bit more of a strategic versus a tactical element perhaps to think about. I think there's a place for both in the portfolio. I think you can take advantage of certain dislocations in the market more easily. So, it really depends on your timeline and your risk appetite.



LU: And I would also maybe just add on to that, Kearney, one of the benefits that I feel we have in terms of an integrated platform with both public and private, it's a big theme that you've talked about, Andy, of the convergence of the two markets, we already work pretty closely together. It's going to be even more so going forward as these markets just come together.

D'SOUZA: Vince, Kearney, thank you for your time today. I really appreciate it.

POSNER: It was a pleasure. Enjoyed the conversation.

LU: Same here.

D'SOUZA: Thank you for listening to *The Investment Conversation*. Find more episodes wherever you get your podcasts, or at LordAbbett.com. And follow us on LinkedIn, Instagram, and YouTube for more perspectives from across the firm.



GLOSSARY OF TERMS USED IN THIS BROADCAST

A **basis point** is one one-hundredth of a percentage point (0.01%).

Broadly syndicated loans (BSL) are floating-rate loans made to corporate borrowers with generally greater than \$50 million in EBITDA and in most cases, at least \$100 million. They are senior in the capital structure and have a first claim on the assets of the borrower.

Buy-and-hold lender is a lender that intends to hold a loan through maturity, making long-term underwriting discipline especially important.

A **call premium** is the extra amount a borrower must pay to repay or “call” debt before its maturity date. For example, if a loan or bond has a call price of 103, that usually means the borrower must repay investors at 103% of par.

Capital Expenditures (CapEx) refers to the funds that a company uses to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. These expenditures are considered investments in the company’s future operations and growth.

Capital structure refers to the mix (or layers) of debt and equity that a company uses to finance its operations.

A **clearing price** is the price where buyers and sellers can agree to complete a transaction. In credit markets, it often means the price, yield, spread, or terms that are attractive enough for investors to provide financing and acceptable enough for borrowers to raise capital.

A **covenant** is a restriction or condition in a loan agreement that limits the actions of the borrower or requires certain financial performance.

Direct lending is a form of private credit where non-bank lenders provide loans directly to companies, typically outside the traditional banking system and public markets.

A **dislocation** in credit markets is a period when credit prices, yields, or spreads move sharply away from what fundamentals may justify.

EBITDA (earnings before interest, taxes, depreciation, and amortization) is a measure of a company’s operating earnings, calculated by taking net income and adding back interest, taxes, depreciation, and amortization.

Floating-rate securities are debt instruments whose interest payments adjust periodically, typically based on a short-term benchmark rate.

Free cash flow (FCF) is the amount of cash a company generates after covering operating expenses and capital expenditures (CapEx) needed to maintain or expand its asset base. It represents the cash available for discretionary uses.

Global Financial Crisis (GFC) refers to the severe worldwide financial and economic downturn that occurred in 2008–2009, triggered by the collapse of housing and credit markets and widespread stress in the banking system.

A **high yield bond** is a bond issued by companies with lower credit ratings (below investment grade), offering higher interest payments to compensate for higher risk.

Initial public offering (IPO) is when a private company sells shares to the public for the first time and becomes publicly traded.

Issuance refers to the process by which an entity—such as the U.S. government, a municipality, or a corporation—raises capital by selling debt securities (bonds) to investors. When investors buy these bonds, they are effectively lending money to the issuer in exchange for periodic interest payments (coupon payments) and repayment of principal at maturity.

Levered lending refers to the practice of providing loans to borrowers—

typically businesses—that already have high levels of debt or lower credit ratings, making them riskier than traditional borrowers. Because of this elevated risk, these loans generally carry higher interest rates and often include stricter terms or covenants.

Leveraged credit refers to below-investment-grade debt issued by more highly leveraged companies, including high yield bonds and leveraged loans.

Liquidity refers to how easily an investment can be sold quickly for cash without significantly affecting its price. Illiquidity refers to investments that cannot be easily or quickly sold without potentially impacting their price.

Loan recovery refers to the amount of money a lender is able to recover after a borrower defaults on a loan, typically through collateral, restructuring, or liquidation.

A **maturity wall** refers to a large concentration of debt coming due within a relatively short period of time, creating a “wall” of refinancing or repayment needs for borrowers.

Mergers and acquisitions (M&A) refer to transactions where companies combine, buy, sell, or restructure businesses.

Network effects occur when the value of a product or service increases as more users participate in the network.

Par value is the face value of a bond—the amount the issuer agrees to repay the investor at maturity. Par value is 100, generally.

Premium refers to a bond trading at a price above its par (face) value. A call premium is the amount above a bond’s par value that an issuer pays to redeem (call) the bond before its maturity date.

Private credit refers to lending that occurs outside traditional banking systems and public markets, where non-bank lenders provide loans directly to businesses.

Public credit markets (also called public debt markets) are markets where governments, municipalities, and corporations issue debt securities, such as bonds or syndicated bank loans, to raise capital from investors. Investors who buy these securities are effectively lending money to the issuer in exchange for periodic interest payments and repayment of principal at maturity. These markets are typically liquid, widely traded, and highly regulated.

A **sponsor-backed leveraged loan** is a loan made to a company that is owned or supported by a financial sponsor—typically a private equity firm—and structured for a borrower with higher leverage or below-investment-grade credit quality.

Spread is the percentage difference in current yields of various classes of fixed-income securities versus Treasury bonds or another benchmark bond measure. A bond spread is often expressed as a difference in percentage points or basis points (which equal one-one hundredth of a percentage point). The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst uses the Treasury securities yield for the risk-free rate.

A **tactical investment approach** involves making short- to medium-term adjustments to a portfolio based on market conditions or perceived opportunities, rather than maintaining a fixed long-term allocation.

Technical factors refer to market-driven forces—such as supply and demand, investor flows, positioning, and price trends—that influence asset prices in the short to medium term. Fundamental factors refer to company or issuer-specific financial and economic characteristics—such as earnings, cash flow, leverage, and business quality—that drive long-term value.



Underwriting is the process of evaluating whether a borrower or investment is a good risk before providing financing. In credit investing, underwriting usually means analyzing things like the borrower's cash flow, debt levels, business model, industry outlook, collateral, covenants, and ability to repay.

Yield is the income returned on an investment, such as the interest earned from holding a bond or other security. It is typically expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

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References to private credit market size are based on data from Pitchbook and Prequin as of March 31, 2025.

References to Standard & Poor's data on financial maintenance covenants as of December 31, 2025.

Mentions of specific companies are for reference purposes only and are not meant to describe the investment merits of, or potential or actual portfolio changes related to, securities of those companies. References to recovery rates based on data from S&P Global as of September 17, 2025.

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