



Lord Abbett Special Situations Income Fund

Third Quarter 2023 Performance Commentary

PERFORMANCE REVIEW

Over the third quarter of 2023, the Lord Abbett Special Situations Income Fund (the “Fund”) returned +3.12%, reflecting performance at the net asset value (NAV) of Class I shares with all distributions reinvested. Performance was positive for the quarter and the Fund benefited from several leveraged loan and high yield bond holdings, particularly within the Capital Goods, Consumer Cyclical, and Energy sectors. However, select leveraged loan holdings detracted from performance, particularly within the Leisure sector.

STRATEGY OVERVIEW

The objective of the Fund is to earn excess return while providing downside protection over a market cycle. The Fund accomplishes these goals largely by investing in mispriced debt of complicated or dislocated situations. These “special situations” are often misunderstood by the market or shunned by investors, creating excess return opportunities. The Fund’s second objective is to prioritize a margin of safety by seeking investments with safety features that allow recovery of capital in downside scenarios. This includes targeting investments that are secured by collateral and contain strong covenant packages, as well as have assets that are supported by cash flows, whose value is sufficient to cover the value of Fund’s capital at risk. This capital preservation perspective is backed by deep fundamental analysis of the underlying business, strength of credit documentation, collateral value, and cash flows under various scenarios where the outcomes are probability weighted based on market driven inputs, as well as stress tested with downside scenarios as determined by the portfolio management and research teams. With this framework the Fund seeks to take advantage of a divergence between the market’s perception of credit risk, and thus pricing of that risk, and our views developed through our research and portfolio management process. This divergence is often brought about by complex capital structures, sector dislocation, financial stress, corporate events, market volatility, and liquidity mismatches. We believe the Fund is well positioned to capture these mispricing opportunities, because of its flexibility to allocate its capital among a broad range of asset classes and industry sectors. The Fund is able to hold these positions due primarily to its Interval structure which provides flexibility when managing liquidity. While the Fund will invest primarily in high yield bonds and leveraged loans, it may also utilize other fixed income instruments and derivative instruments where the investment team sees fit.

FUND RECAP AND POSITIONING

During the third quarter there was meaningful volatility in Treasuries and Credit Spreads; the two-year treasury increased by 17 bps and the ten-year treasury by 78 bps, with the ten-year reaching its highest level since 2007, and credit spreads ended generally flat quarter-over-quarter. Sentiment had been mostly positive entering the period, with expectations of a soft landing supported by easing inflation, a tight labor market, resilient consumer behavior, and positive corporate earnings. These factors led to meaningful compression in high yield bond spreads which moved closer to the year-to-date tight levels. However, challenges emerged as the quarter progressed and the US Federal Reserve increased rates by 25 basis points during their July meeting. Simultaneously, there were growing concerns about the US economy’s potential ability to achieve a soft landing and there was meaningful steepening of the yield curve with renewed concerns about the effects of higher interest rates.

With that backdrop we have continued to remain constructive on specific industries and credits that have been dislocated by investor worries due to higher interest rates. Notably, we deployed capital into investments that in our view were short-





term alpha driving ideas with limited beta-sensitivity and attractive total returns. On the contrary, we sold investments that had reached their price target and added to new and existing investments that were mispriced, as well as positions where the probability of a near term positive catalyst or revaluation were the lowest.

We continued to invest in event driven, idiosyncratic, and stressed situations and we remained focused on adding investments that had strong safety features such as being secured, while still offering an enhanced yield. Several themes that we focused on in the quarter included aerospace and defense where we think there is a secular tailwind to a shortage of jet engines, industrials that are perceived to be down in quality where we have a differentiated view, and leisure and gaming that is benefitting from the consumer continuing to spend. For example, **CentroMotion** (avg portfolio weight 1.70%) is a reminder of our conviction in the industrials space due to the fact that this was taken out at par earlier in the year back in June. Fortunately, early in the quarter, we were able to add back to this same name through the acquisition financing via a new secured Term Loan. We continue to see these themes play out in existing positions like **Doncasters Ltd.** (avg portfolio weight 3.25%) and **Duravant** (avg portfolio weight 3.21%), both of which are in the industrials sector. Doncasters is a manufacturer of aerospace products with a focus on precision components and assemblies for various industrial subcategories. Similarly, Duravant is a manufacturer of engineered equipment with a focus on food processing, packaging machinery, and material handling.

During the quarter we repositioned the Funds energy industry exposure. With higher oil and gas prices, and spread compression in the sector, we took profits from several of the Fund's positions in Energy taking the total exposure to roughly half of its high from one year ago. While we remain constructive in the Energy space given the overall fundamental improvement in the last several years, we focused on reducing broader commodity-linked risk exposure within our allocations in favor of more idiosyncratic company risk. Several of the more prominent positions we reduced in the portfolio include **Crescent Energy Co.** (avg portfolio weight 0.74%), a US independent energy company engaged in the acquisition, development and operation of oil and natural gas properties, as well as **California Resources Corporation** (avg portfolio weight 0.14%), an independent energy and carbon management company committed to energy transition.

By trimming our energy exposure, and with additional capital from investor inflows, we were able to build new positions that align with the themes that we have been focused on throughout the middle of the calendar year in names like **Park-Ohio Holdings Corp.** (avg portfolio weight 1.99%), **Carrols Restaurant Group Inc.** (avg portfolio weight 0.65%), and **WaterBridge Resources** (avg portfolio weight 1.99%). Park-Ohio Holdings Corp. provides supply chain management outsourcing services, capital equipment, and manufactured components in the US and internationally. Carrols Restaurant Group, Inc., through its subsidiaries, operates as a restaurant company in the United States that focuses on Burger King and Popeyes franchises and was founded in 1960. Waterbridge Resources LLC is focused on developing, acquiring and operating flowback and produced water infrastructure for oil and gas producers.

In the later part of the third quarter, we became increasingly concerned about the macro backdrop, particularly the rise in the long end of the treasury curve. We exited positions that were close to their price targets and positions where the probability of a near term positive catalyst were the lowest. We also trimmed the funds overall exposure to building products and building product distributors. While we are still bullish on these credits, given the move in rates and our overall goal of reducing risk in the portfolio, we felt it was prudent to reduce this more interest rate sensitive theme.

This quarter also highlighted several positions in the portfolio that were called. This was a result of merger & acquisition activity, as well as several refinancing opportunities. Ultimately, these calls reduced several positions in the portfolio that resulted in positive returns and reflected a realization of our thesis for identifying investments with potential for catalyst-driven appreciation. **Ulterra** (avg portfolio weight 2.38%) is a worldwide drilling technology company that produces high performance drill bits and was acquired by Patterson-UTI; the Term Loan was called on closing of the transaction during the quarter. It was announced that **Earthstone Energy** (avg portfolio weight 0.24%) would be acquired by Permian





Resources Corporation in an all-stock transaction; the fund exited the position when the Notes traded up on the news. Horseshoe Baltimore Casino, a gaming property managed by **Caesars** (avg portfolio weight 2.52%), was acquired and the Term Loan was called.

With the funds overall positive performance for the quarter, there were holdings that faced pressure such as **Full House Resorts, Inc** (avg portfolio weight 3.50%), which owns, develops, and operates casinos and related entertainment facilities in the United States. The company's performance at its newly owned location in Chicago was below expectations, resulting in investors selling first and asking questions later. We believe that the operational challenges have solutions and financial performance will improve.

OUTLOOK

While rate volatility increases the tail risks in the markets, we remain constructive on select areas of credit as future economic data points away from a deep recession, providing a good backdrop for risk assets that the Fund seeks to own. However, we continue to monitor for signs of rising credit stress given the volatility that has been persistent over the previous several quarters. We view this higher rate environment as creating a higher cost of credit for borrowers leading to a persistent opportunity set for the strategy.

We expect to see stressed environments that provide mispricing of securities which can be a durable opportunity for our strategy and continue to emphasize downside protection in the Fund where underlying enterprise or collateral value is not sacrificed when seeking out excess spread. Additionally, our deep sector expertise and experience in stressed and distressed environments should allow us to identify idiosyncratic ideas and credit stories within dislocated sectors.

PERFORMANCE AS OF 09/30/2023

	3Q23	YTD	1 YR	Since Inception*
Special Situations Income Fund Class I	3.12%	11.51%	11.58%	3.36%

Gross Expense Ratio: 1.73%

Net Expense Ratio: 0.25%

*Fund Performance Incepted on September 13th, 2021

Performance data quoted reflect past performance and are no guarantee of future results. Current performance may be higher or lower than the performance quoted. The investment return and principal value of an investment in the Fund will fluctuate so that shares, on any given day or when redeemed, may be worth more or less than their original cost. You can obtain performance data current to the most recent month end by calling Lord Abbett at (888) 522-2388 or referring to our website at lordabbett.com.

The net expense ratio takes into account contractual fee waivers/expense reimbursements that currently are scheduled to remain in place through 04/30/2024. For periods when fees and expenses were waived and/or reimbursed, the Fund benefited by not bearing such expenses. Without such fee waivers/reimbursements, performance would have been lower.

The Fund is structured as an unlisted closed-end interval fund. Limited liquidity is provided to shareholders only through the Fund's quarterly offers to repurchase between 5% and 25% of its outstanding shares at net asset value, subject to applicable law and approval of the Board of Trustees. The Fund





currently expects to offer to repurchase 5% of outstanding shares per quarter. There is no secondary market for the Fund's shares and none is expected to develop. There is no guarantee that an investor will be able to tender all or any of their requested Fund shares in a periodic repurchase offer. Investors should consider shares of the Fund to be an illiquid investment.

Although the Fund may impose a repurchase fee of up to 2.00% on shares accepted for repurchase by the Fund that have been held for less than one year, the Fund does not currently intend to impose such a fee. Please refer to the Fund's prospectus for additional information.

The Fund's ability to be fully invested and achieve its investment objective may be affected by the need to fund repurchase obligations. In addition, the fees and costs associated with investing in an interval fund may be significantly greater than those of other fund structures.

New Fund Risk: The Fund is newly organized. There can be no assurance that the Fund will reach or maintain a sufficient asset size to effectively implement its investment strategy.

A Note about Risk: The Fund is subject to the general risks associated with investing in debt securities, including market, credit, liquidity, and interest rate risk. The Fund may invest in high-yield, lower-rated securities, sometimes called junk bonds. These securities carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. The Fund may invest in debt securities of stressed and distressed issuers as well as in defaulted securities and debtor-in-possession financings. Distressed and defaulted instruments generally present the same risks as investment in below investment grade instruments. However, in most cases, these risks are of a greater magnitude because of the uncertainties of investing in an issuer undergoing financial distress. The Fund may invest in foreign or emerging market securities, which may be adversely affected by economic, political, or regulatory factors and subject to currency volatility and greater liquidity risk. The Fund may invest in derivatives, which are subject to greater liquidity, leverage, and counterparty risk. These factors can affect Fund performance.

Because of the risks associated with the Fund's ability to invest in high yield securities, loans and related instruments and mortgage-related and other asset-backed instruments, foreign (including emerging market) securities (and related exposure to foreign currencies), and the Fund's ability to use leverage, an investment in the Fund should be considered speculative and involving a high degree of risk, including the risk of a substantial loss of investment.

The Fund's portfolio is actively managed and is subject to change.

Basis points (bps) refers to a common unit of measure of interest rates and other percentages. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

The credit quality of the debt securities in a portfolio are assigned by a nationally recognized statistical rating organization (NRSRO), such as Standard & Poor's, Moody's, or Fitch, as an indication of an issuer's creditworthiness. Ratings range from 'AAA' (highest) to 'D' (lowest). Securities rated 'BBB' or above are considered investment grade. Credit ratings 'BB' and below are lower-rated securities (junk bonds). High-yielding, non-investment-grade loans and bonds (junk bonds) involve higher risks than investment-grade securities. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities.

The views and information discussed in this commentary are as of March 31, 2023, are subject to change, and may not reflect the views of the firm as a whole. The views expressed in market commentaries are at a specific point in time, are opinions only, and should not be relied upon as a forecast, research, or investment advice regarding a particular investment or the markets in general. Information discussed should not be considered a recommendation to purchase or sell securities.

The information provided is not directed at any investor or category of investors and is provided solely as general information about Lord Abbett's products and services and to otherwise provide general investment education. None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity. If you are an individual retirement investor, contact your financial advisor or other fiduciary about whether any given investment idea, strategy, product or service may be appropriate for your circumstances.

Investors should carefully consider the investment objectives, risks, charges, and expenses of the Lord Abbett Funds. This and other important information is contained in the fund's summary prospectus and/or prospectus. To obtain a prospectus or summary prospectus on any Lord Abbett mutual fund, contact your investment professional, Lord Abbett Distributor LLC at (888) 522-2388 or visit us at lordabbett.com. Read the prospectus carefully before you invest.





LORD ABBETT®

NOT FDIC INSURED-NO BANK GUARANTEE-MAY LOSE VALUE

This material has been prepared exclusively for use by analysts, institutional investors and their consultants, registered investment advisors, broker-dealers, and sponsors of plans with a minimum of 100 participants. It is not intended for, and should not be used with, small plan sponsors, plan participants, or the public in written or oral form or for any other purpose.

