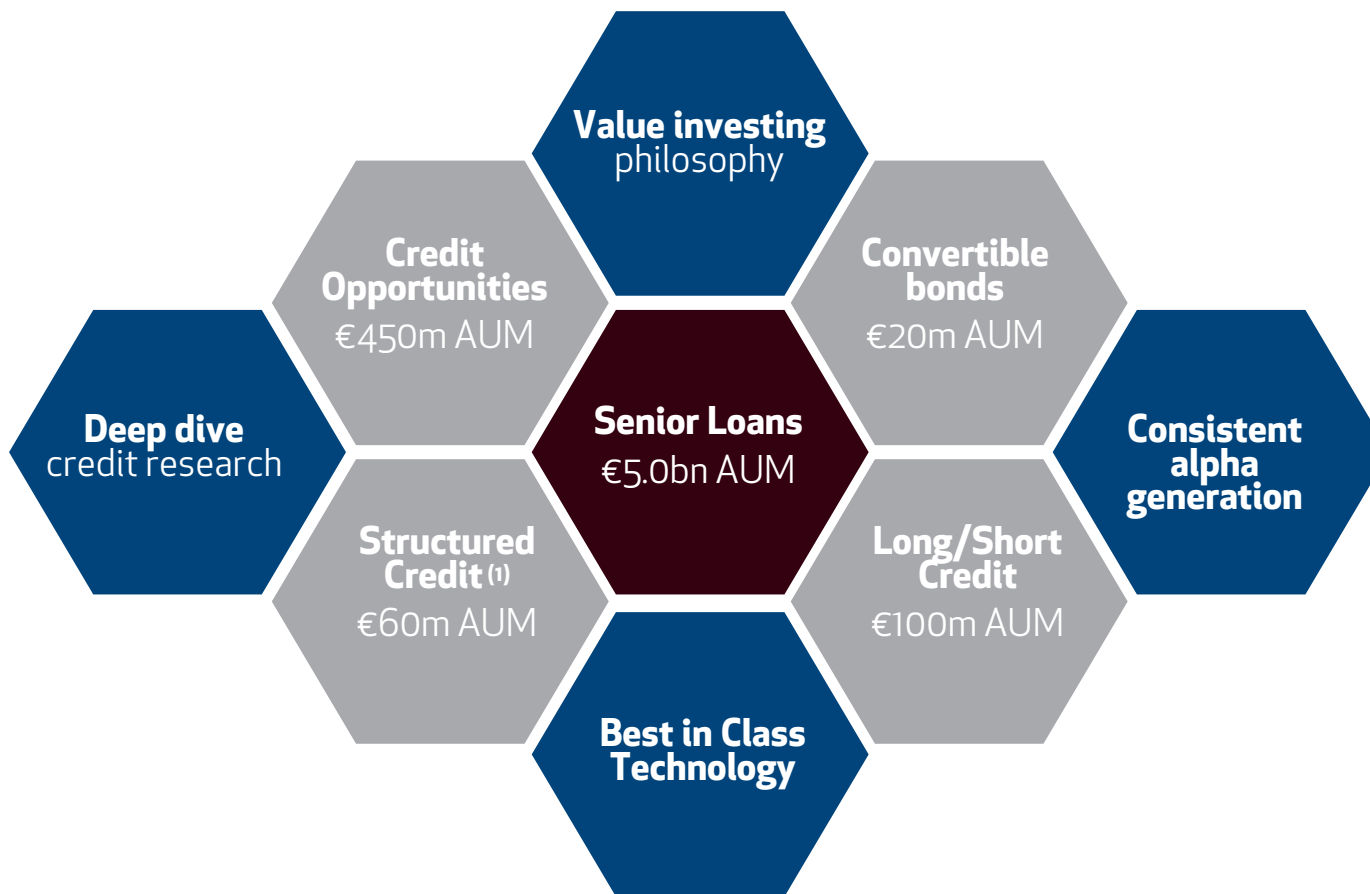




 avoca capital



12

Year track record

€5.6bn

Total AUM

60

Employees

180+

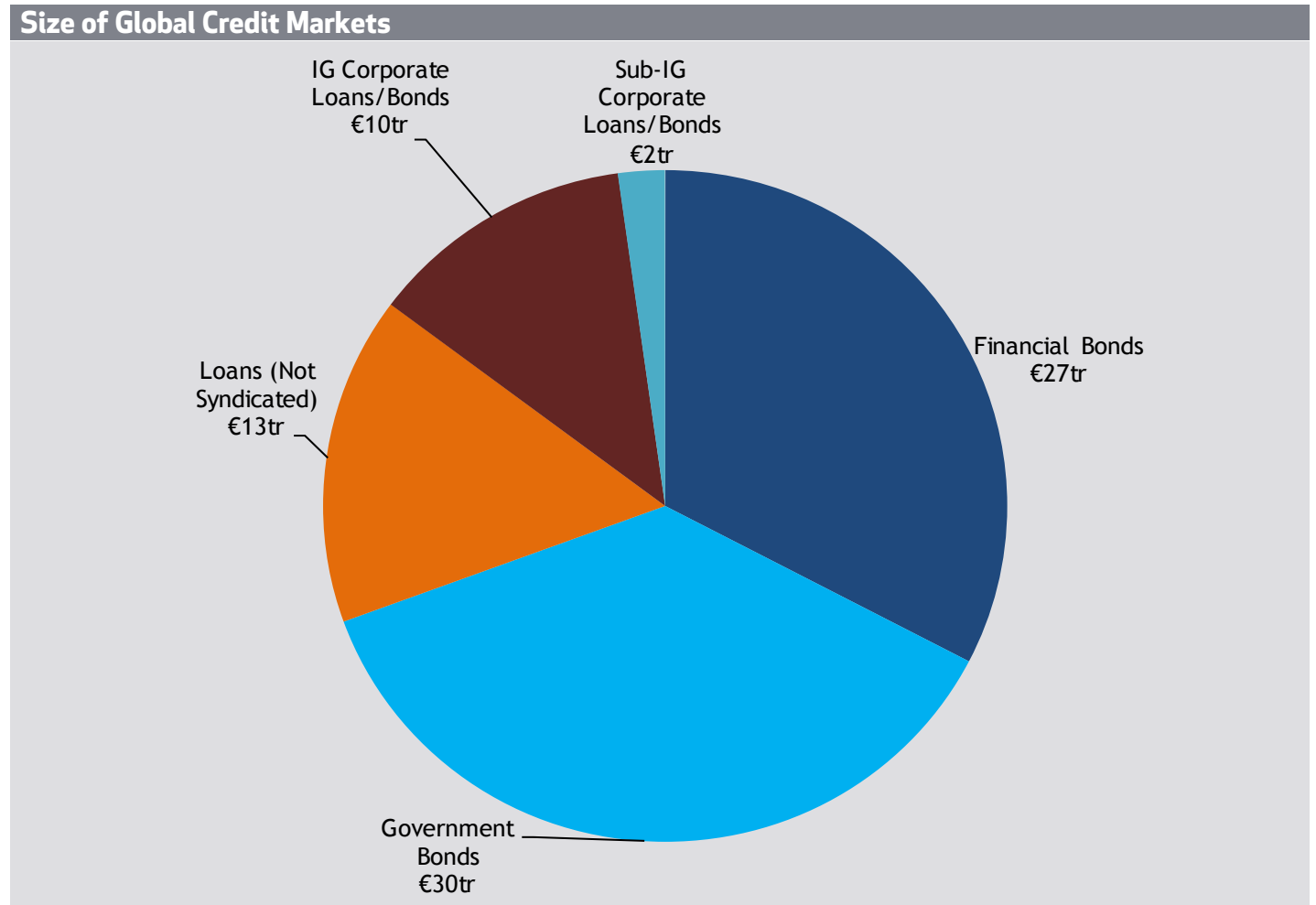
Institutional Investors

100%

Employee Owned

(1) Embedded within Avoca Funds

€81tr in outstanding debt globally

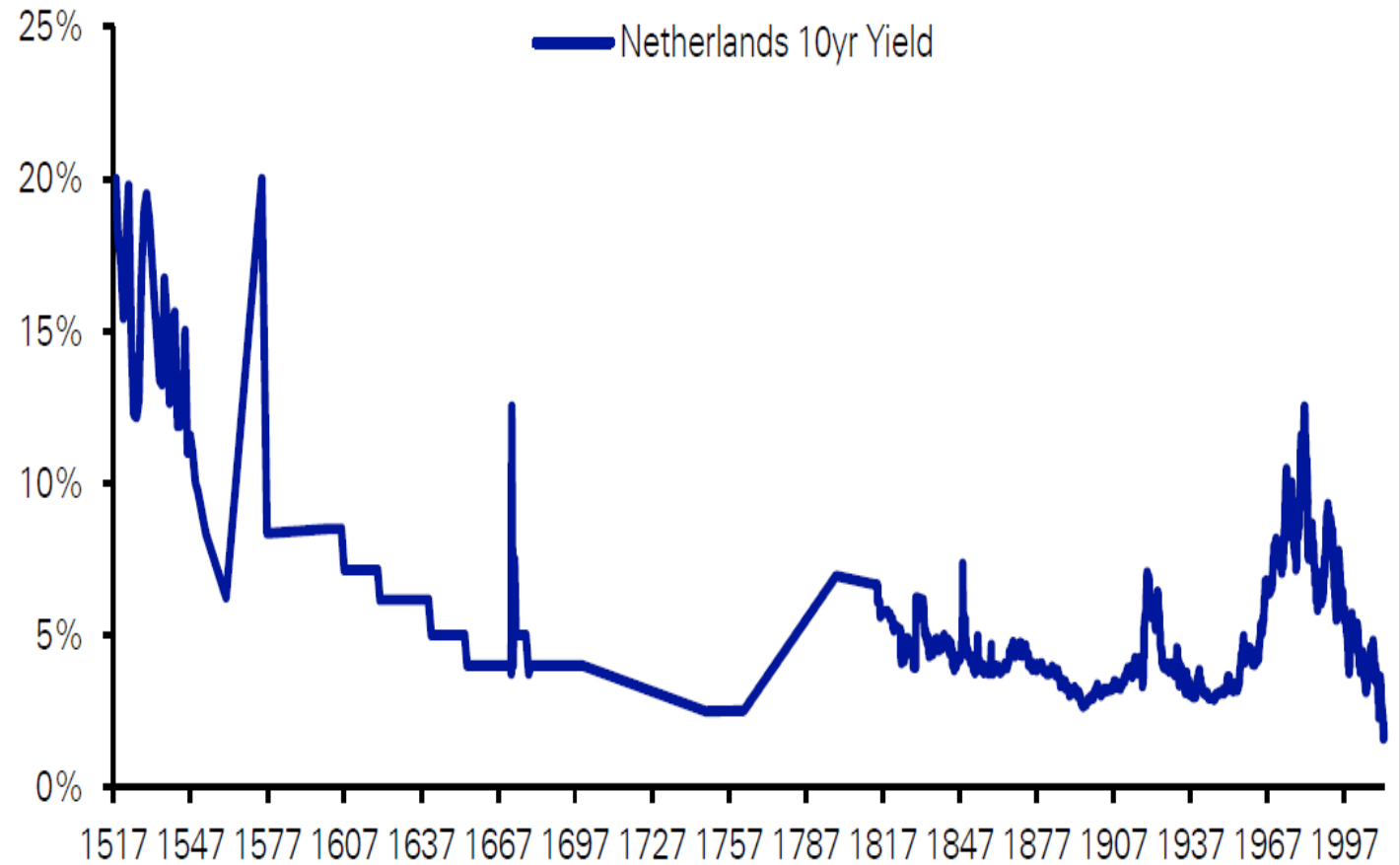


Source: BIS, Haver Economics, BNP Paribas, Fed, ECB, OECD, Credit Suisse, Avoca estimates. The analysis excludes loans to financial institutions

DUTCH BOND YIELDS

500 year low government bond yields

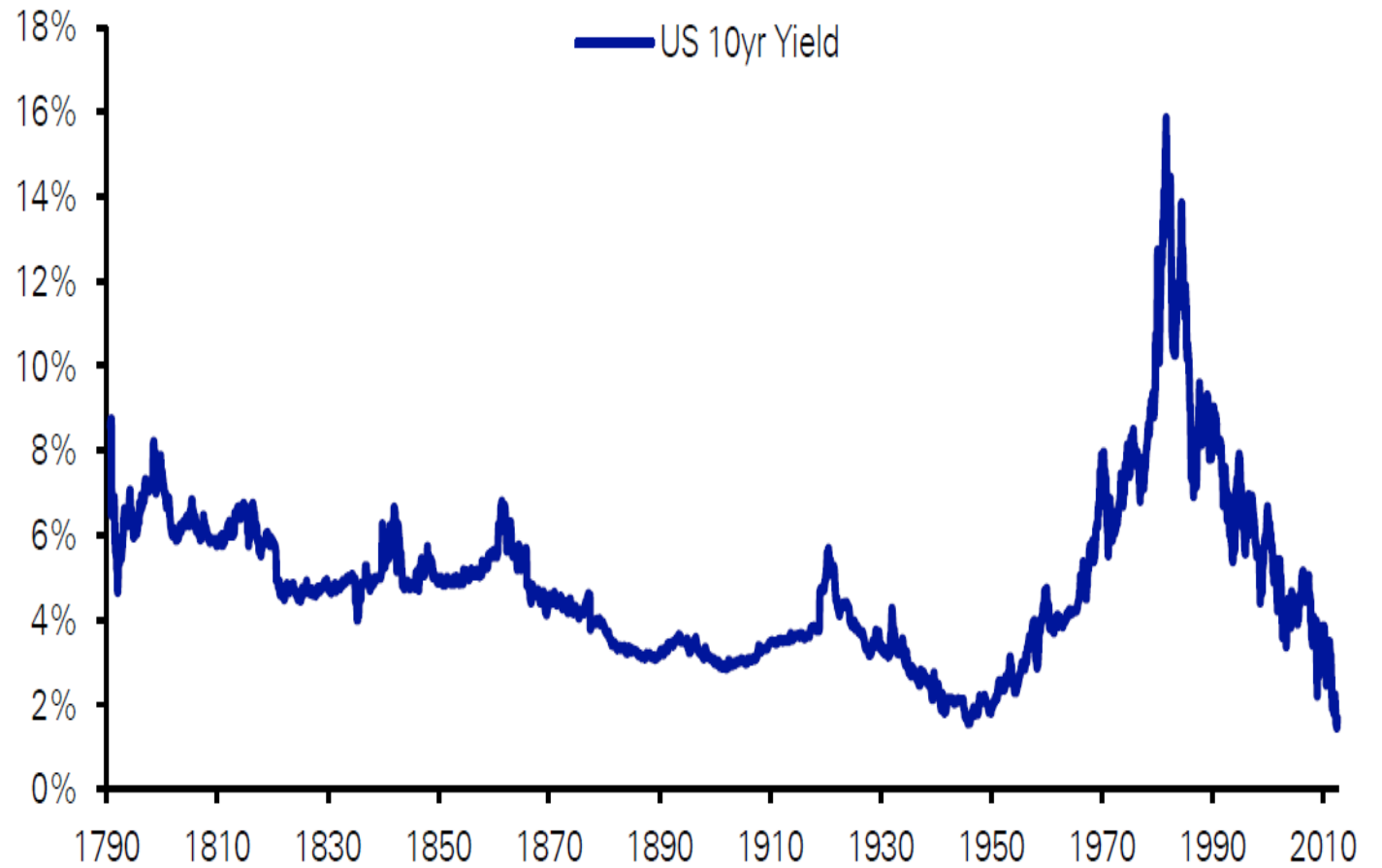
Netherlands 10 Yr Govt Yields Since 1517



Source: Deutsche Bank

US YIELDS

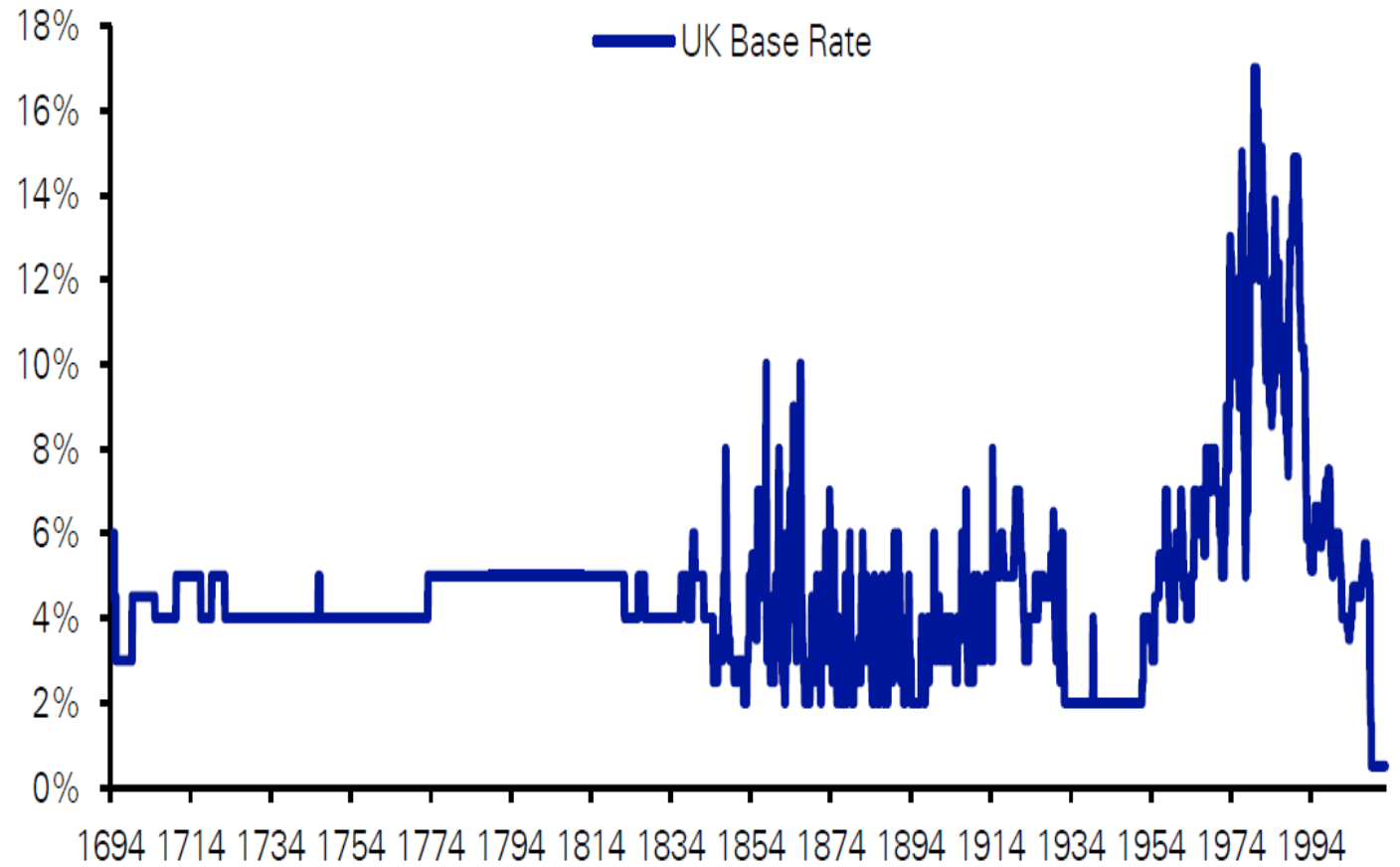
US 10 Yr Govt Yields Since 1790



Source: Deutsche Bank

BANK OF ENGLAND BASE RATE

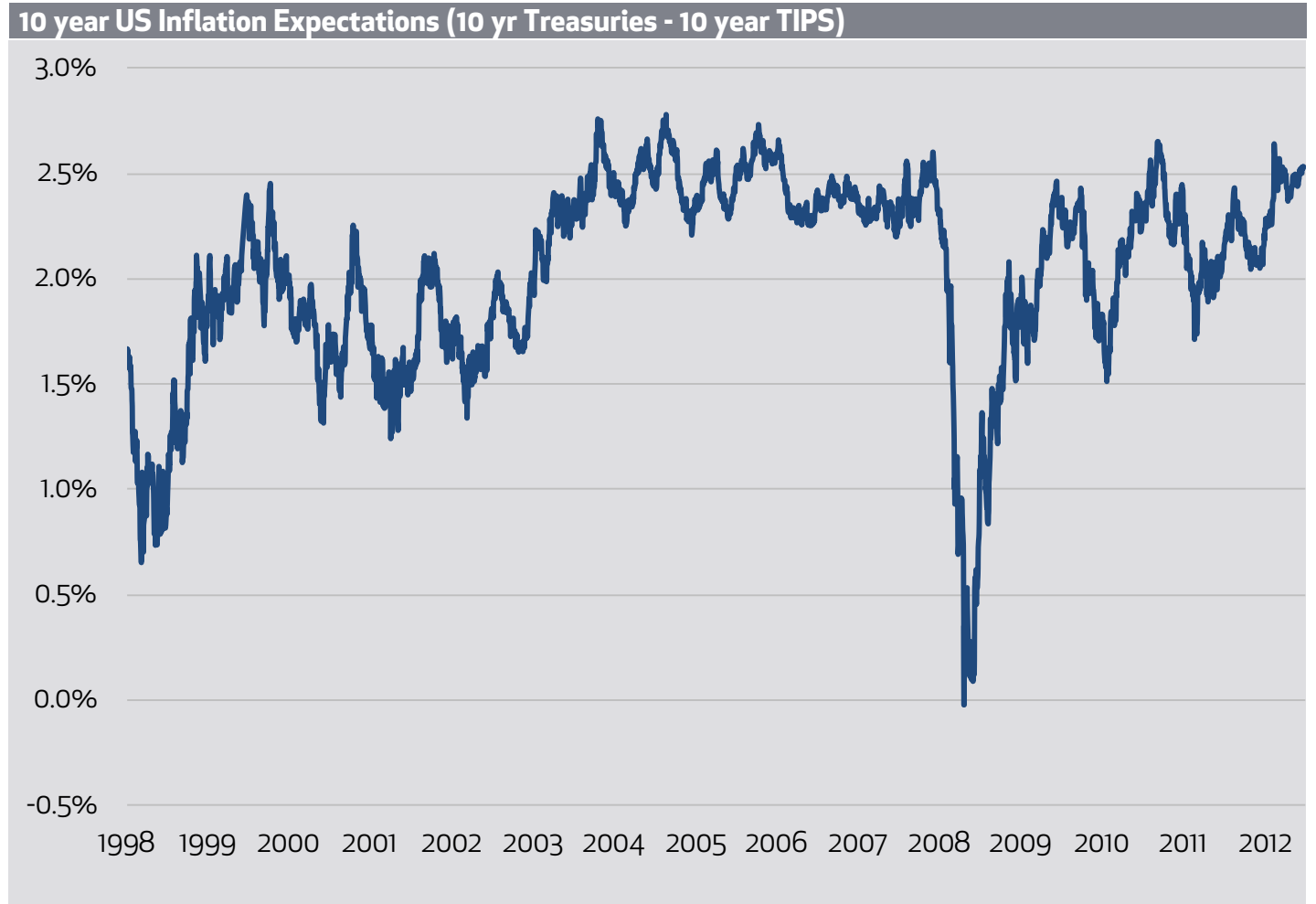
UK Base Rate since 1694



Source: Deutsche Bank

INFLATION EXPECTATIONS

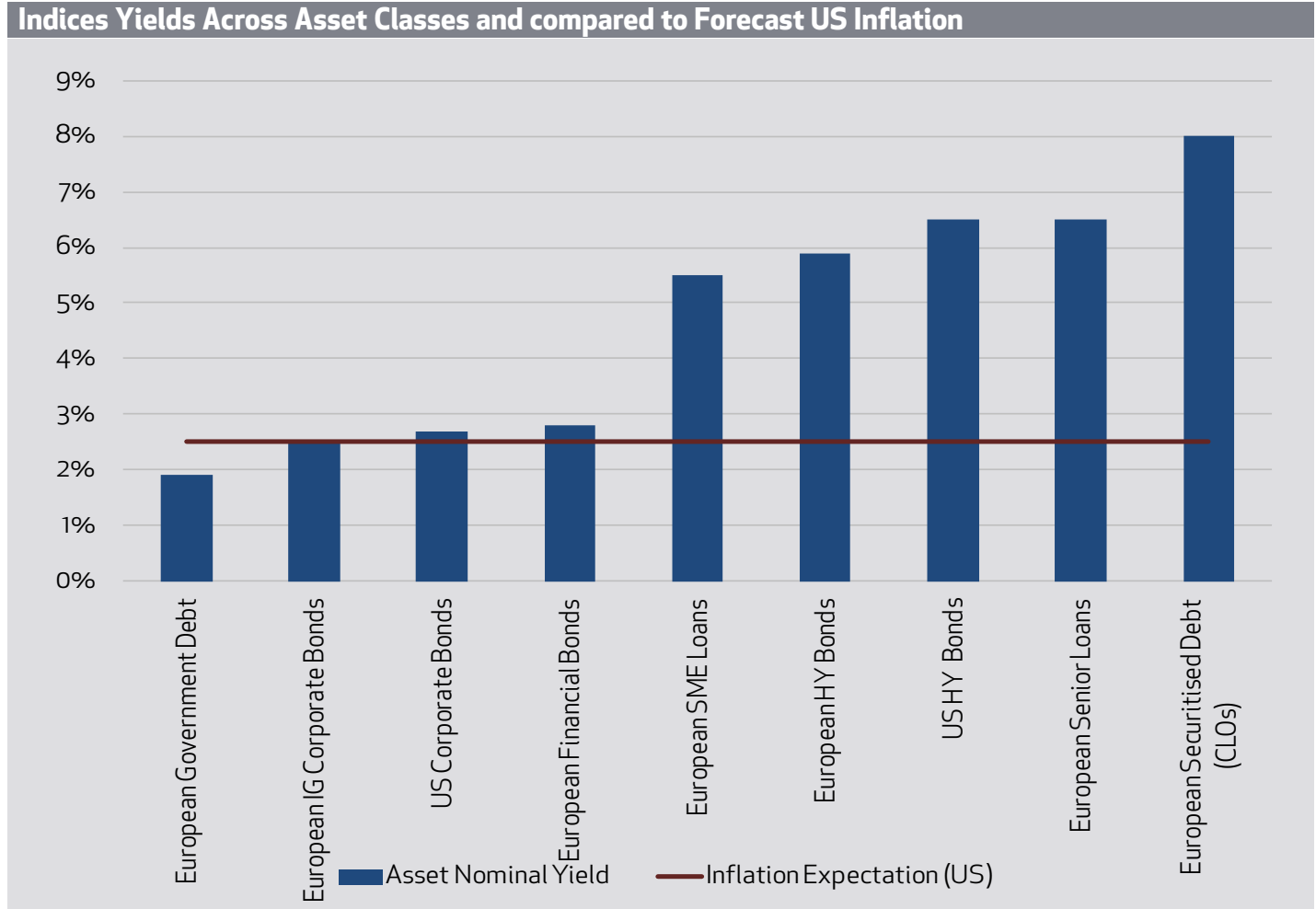
2.0-2.5% expected inflation



Source: Bloomberg

CURRENT NOMINAL YIELDS ON OFFER

Risk of negative real returns



Source: Barclays, Credit Suisse, Bloomberg, Avoca

Aim: Preserve and grow purchasing power of capital

How: Evaluate **Risk** and **Return:**

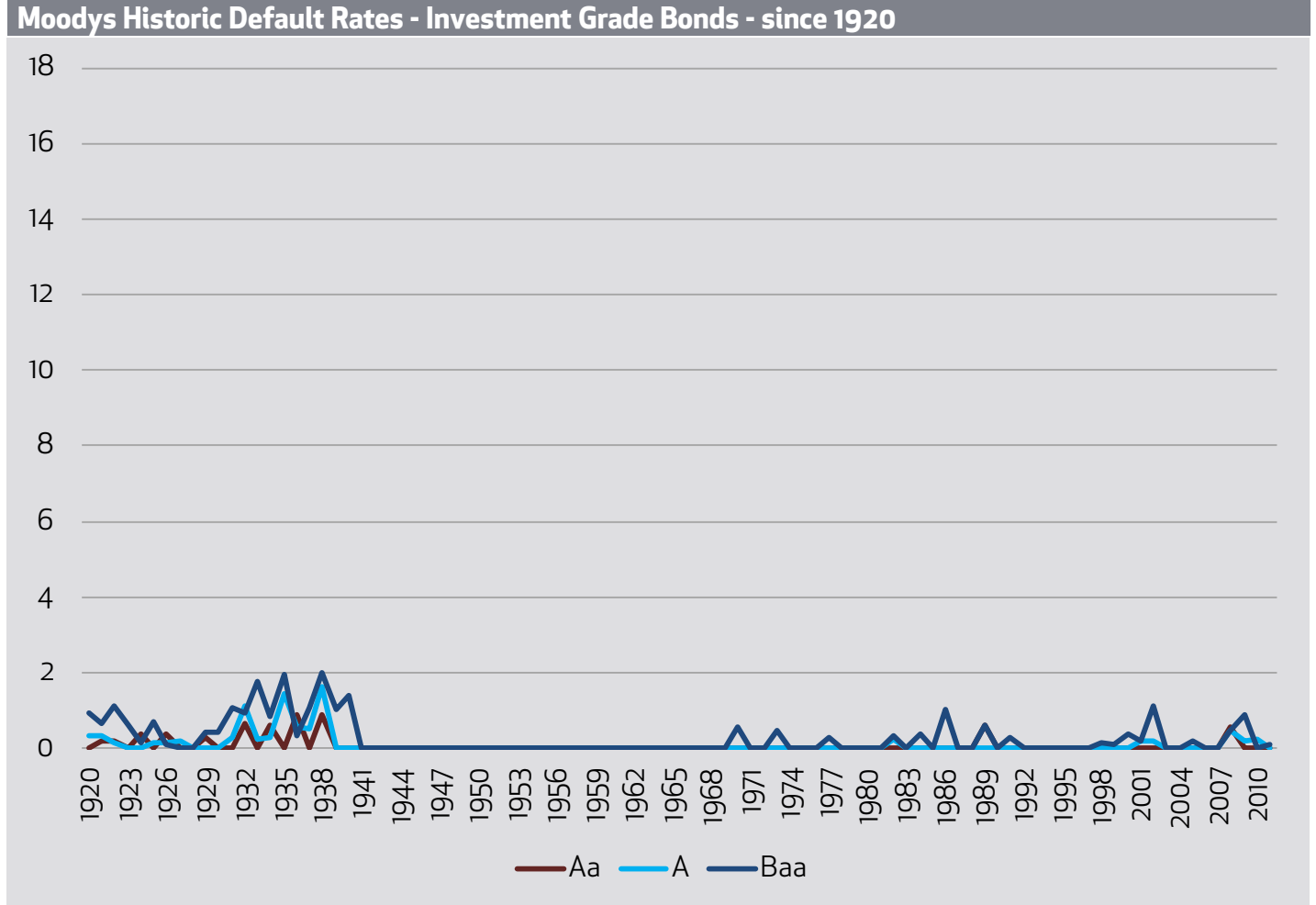
- **Return:** Evaluate in real terms
- **Risk:** Evaluate based on:
 1. Intrinsic risk
 2. Price risk
 3. Inflation risk

INVESTMENT GRADE BONDS - INTRINSIC RISK

Average annual default rate of 0.14% across Aa, A and Baa bonds

Average recovery rate on default = 40%

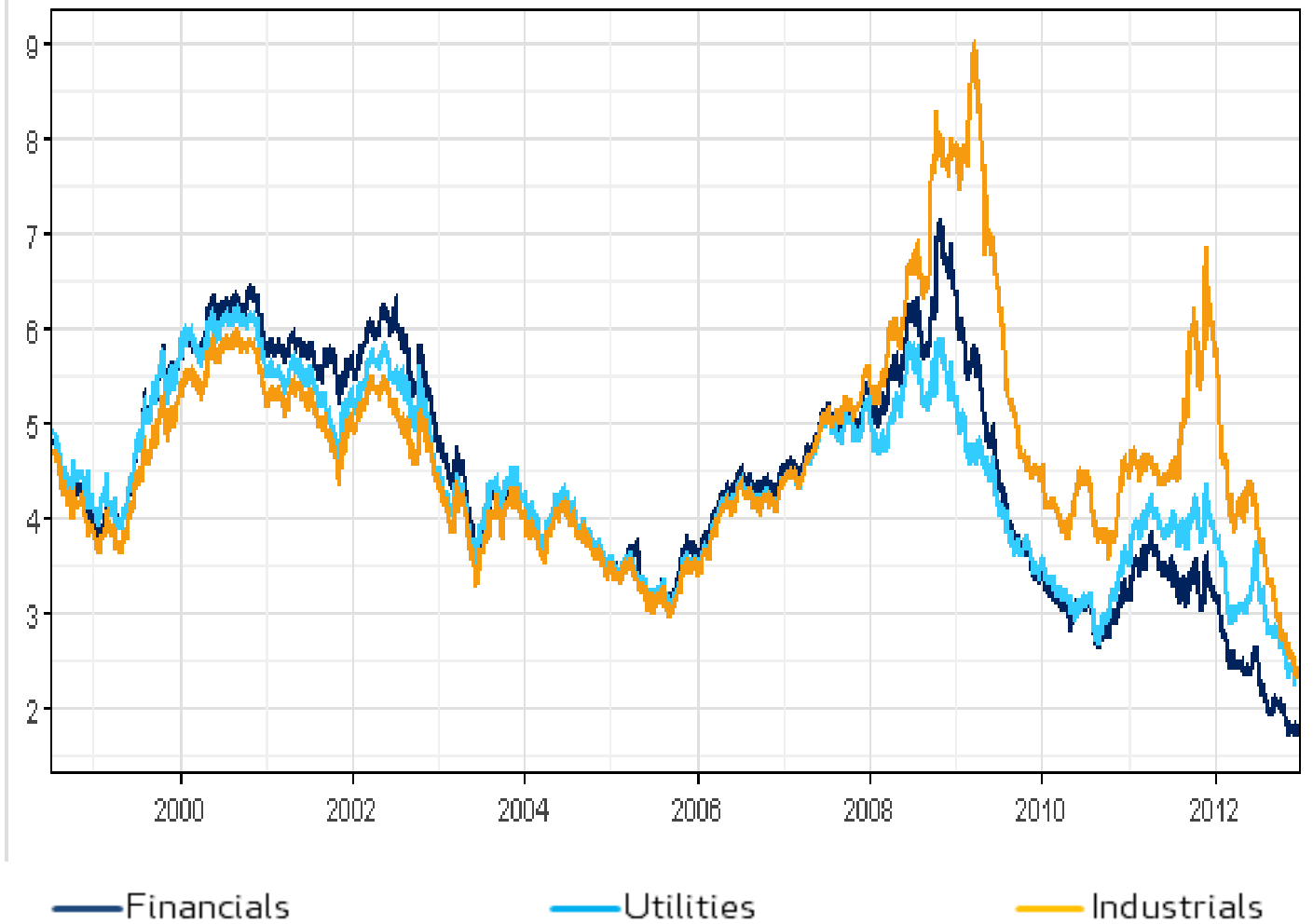
Average annual loss rate = 0.1%



Source: Moodys

Record low nominal yields

Barclays Investment Grade Bond Indices - Yield To Worst Since 1999



Source: Barclays

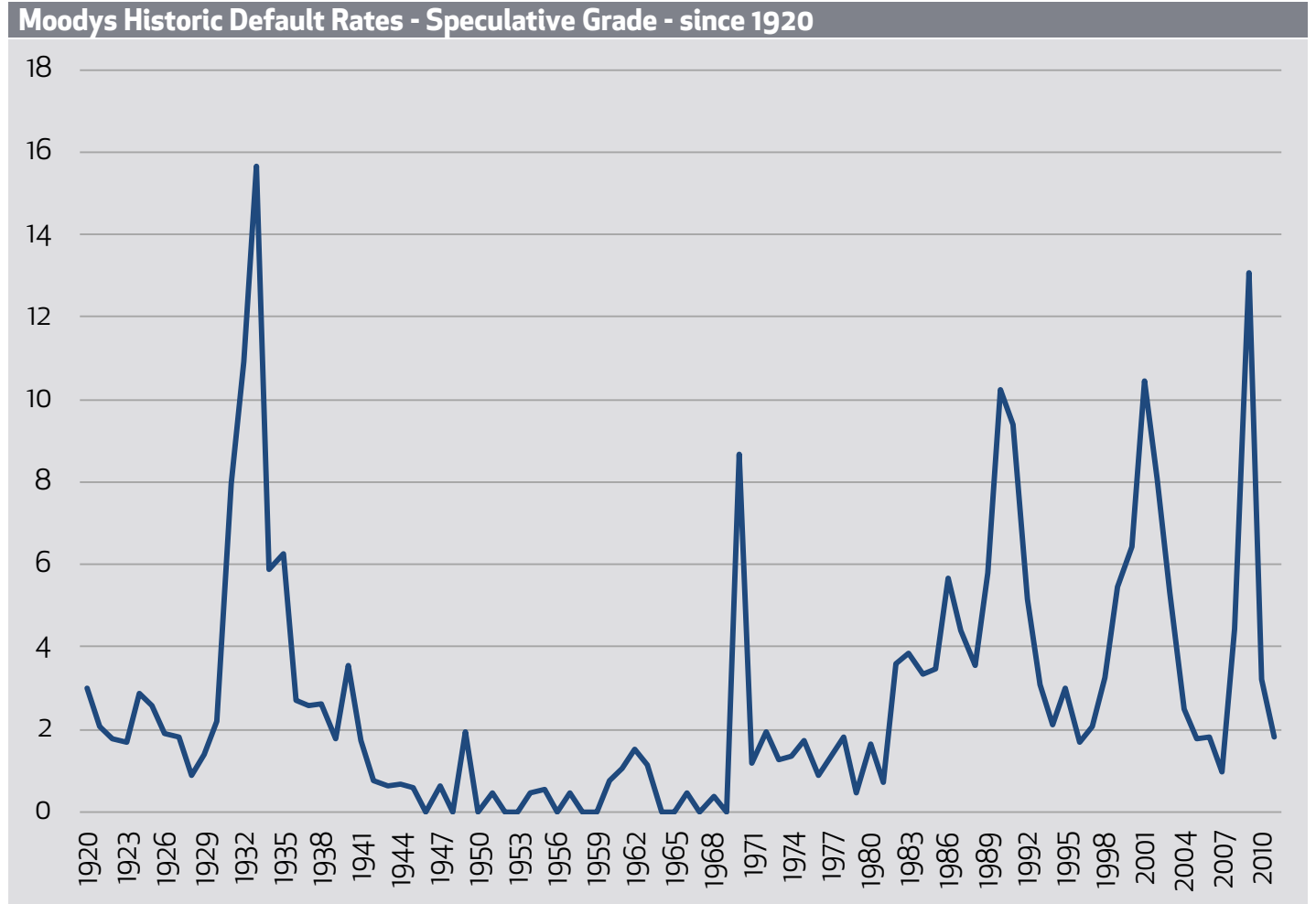
HY BONDS - INTRINSIC RISK

Average annual default rate of 2.8% across speculative grade bonds

Average recovery rate on default = 40%

Average annual loss rate = 1.7%

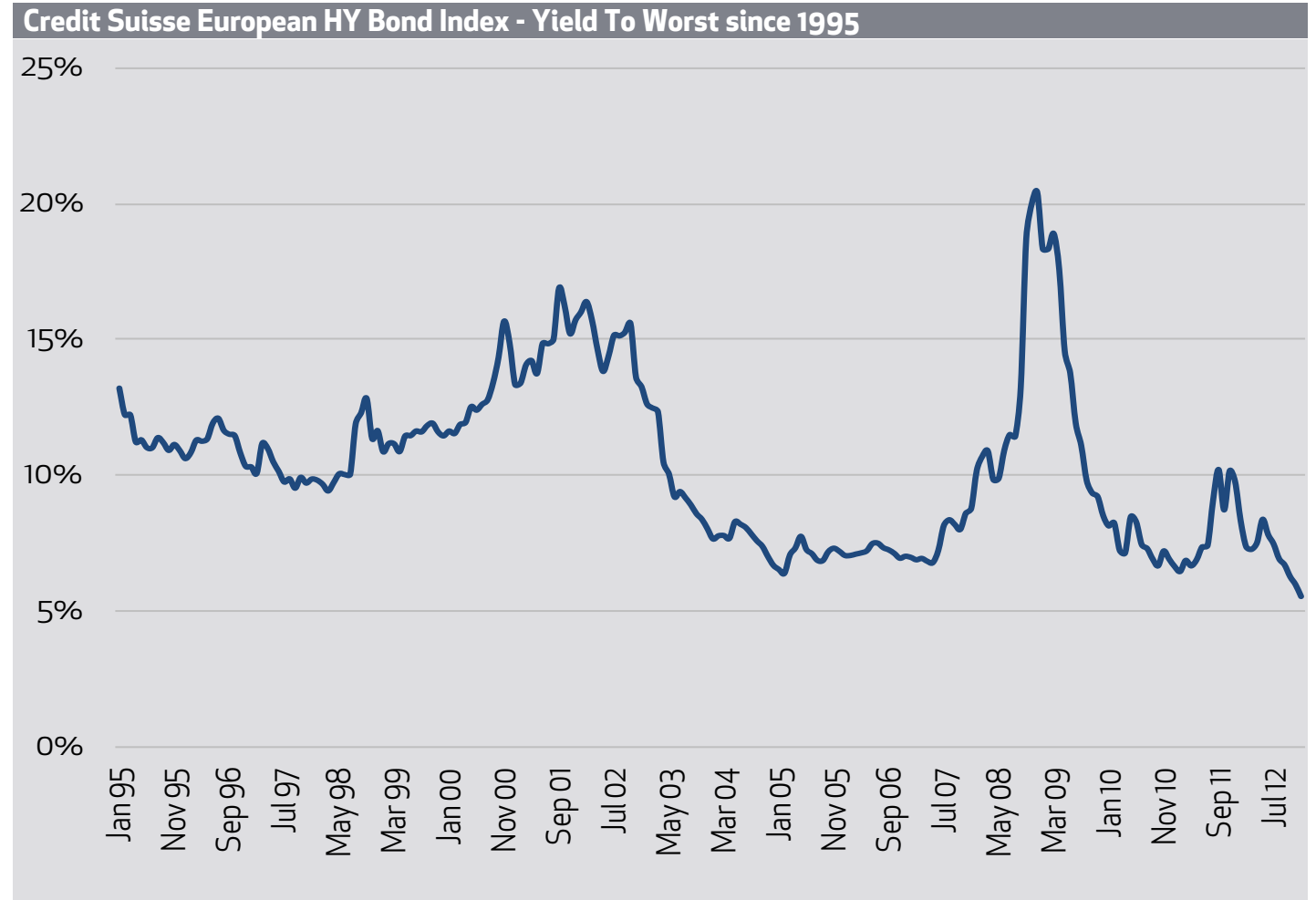
Last 10 years = average annual loss = 2.7%



Source: Moodys

HY BONDS - PRICE RISK

Record low nominal yields



Source: Credit Suisse

Asset Class	Intrinsic Risk	Price Risk	Inflation Risk	Overall
Investment Grade Bonds	Low	High	High	High
High Yield Bonds	High	High	High	High

First lien charge over cashflows and assets

Typically used to finance private-equity backed LBOs

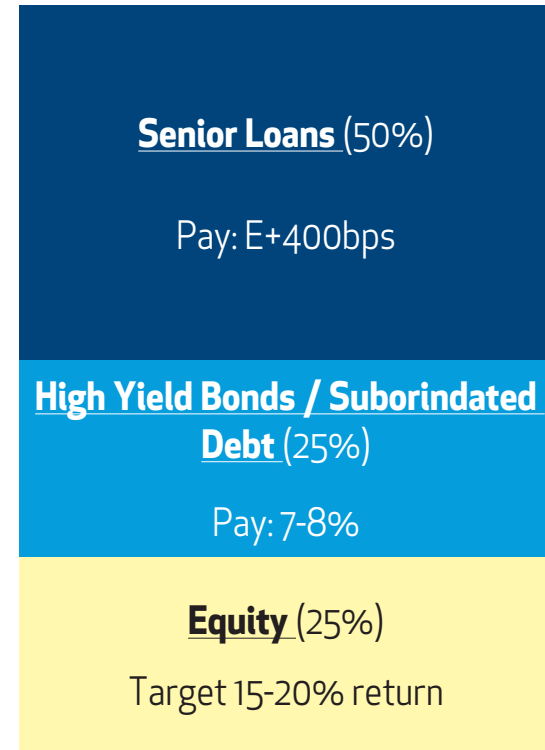
Assets

- Assets
- Cash
- Accounts Receivable
- Property
- Plant
- Equipment
- Intangibles

Pledged to



Capital Structure



Risk

Senior



First Loss

EUROPEAN SENIOR LOAN EXAMPLE

KKR

Equity sponsor

€14bn

Enterprise Value

3,100

Retail Outlets

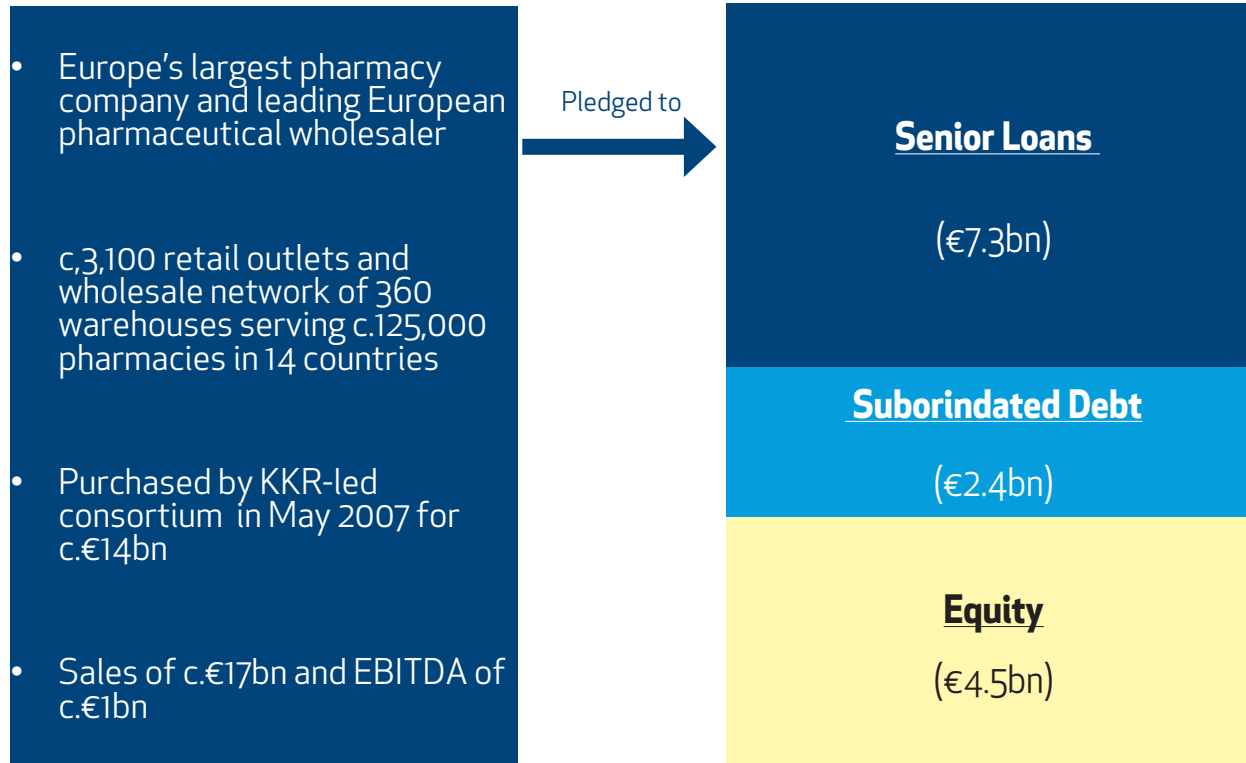
€17bn

Revenues

Company



Original Capital Structure



KEY FEATURES

Senior

Asset	Senior Position	Security	Inflation Protection	Private Information
Senior Secured Floating Rate Loans	✓	✓	✓	✓

Secured

Equity	✗	✗	✓	✗
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Inflation protection

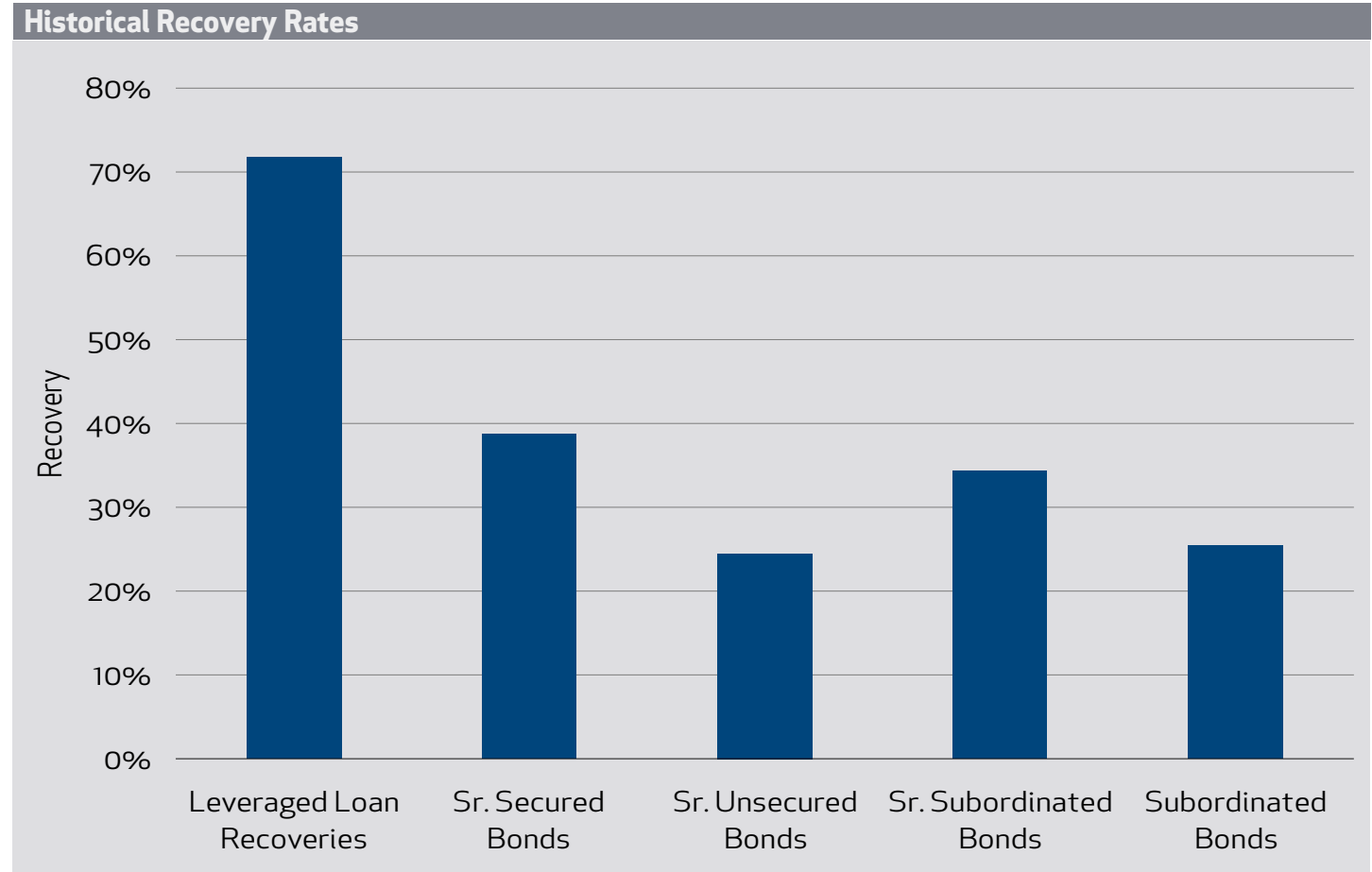
High Yield Bond	✗	✗	✗	✗
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Private information

Investment Grade Bonds	✓	✗	✗	✗
Sovereign Debt	✓	✗	✗	✗

Senior secured loan recoveries during the crisis averaged c.70%, in line with historical rates

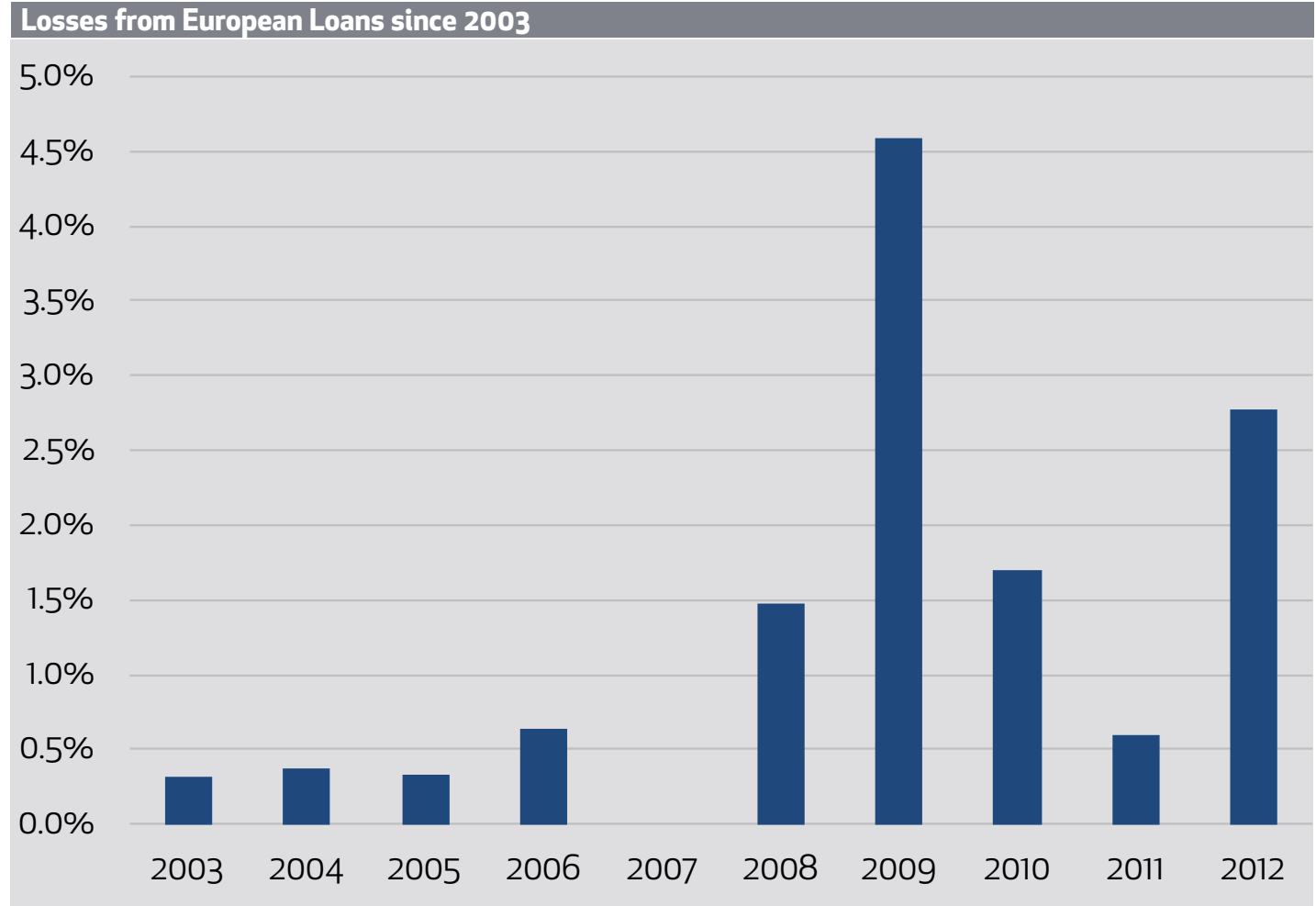
This compares to 25-40% for senior bonds



Source: Moodys

INTRINSIC RISK - LOSSES FROM DEFAULTS HISTORICALLY

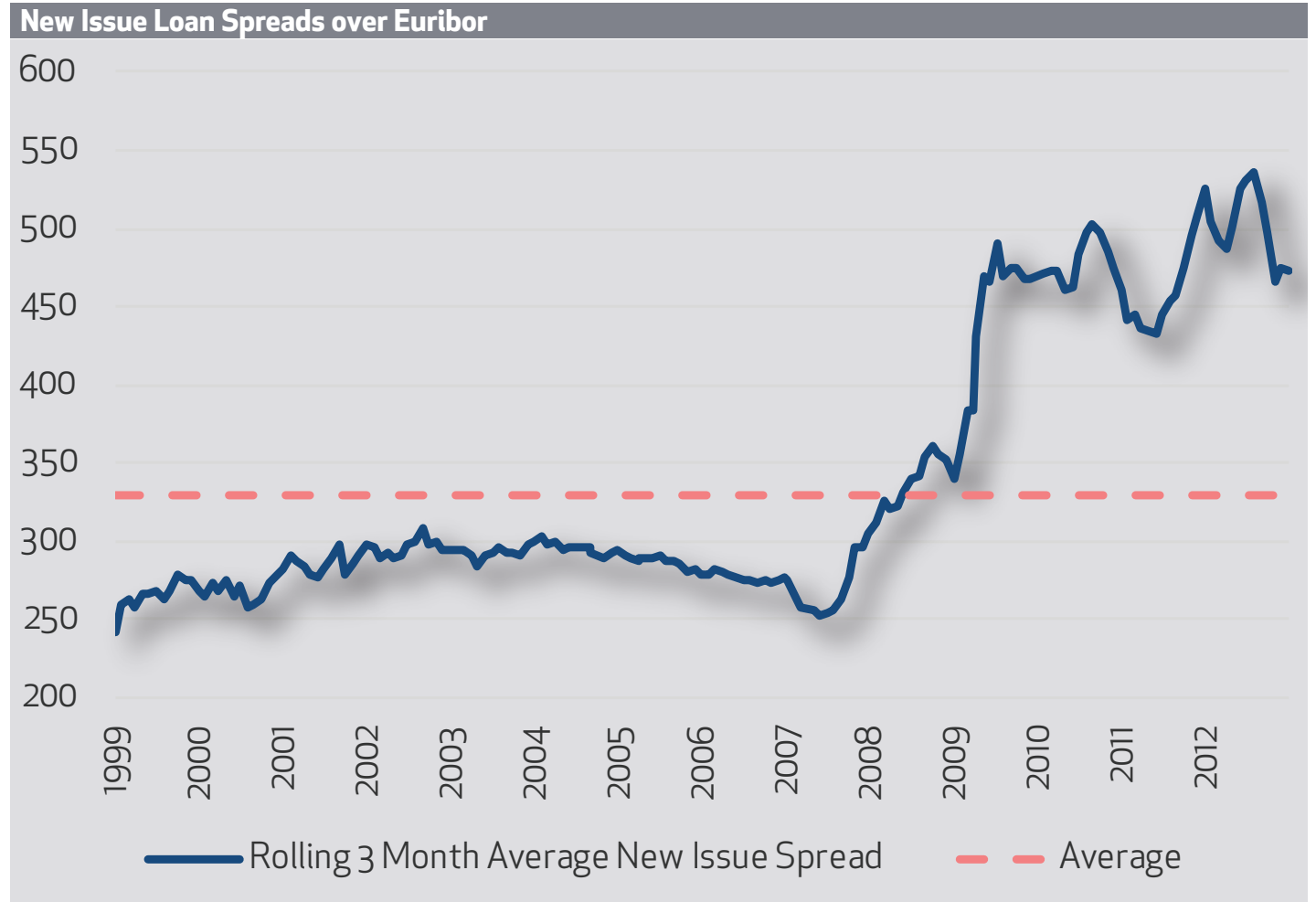
Average loss through the cycle was 1.28%



Source: Credit Suisse

PRICE RISK - NEW ISSUE SPREADS

Unlike fixed income, spreads have not contracted to pre-crisis levels

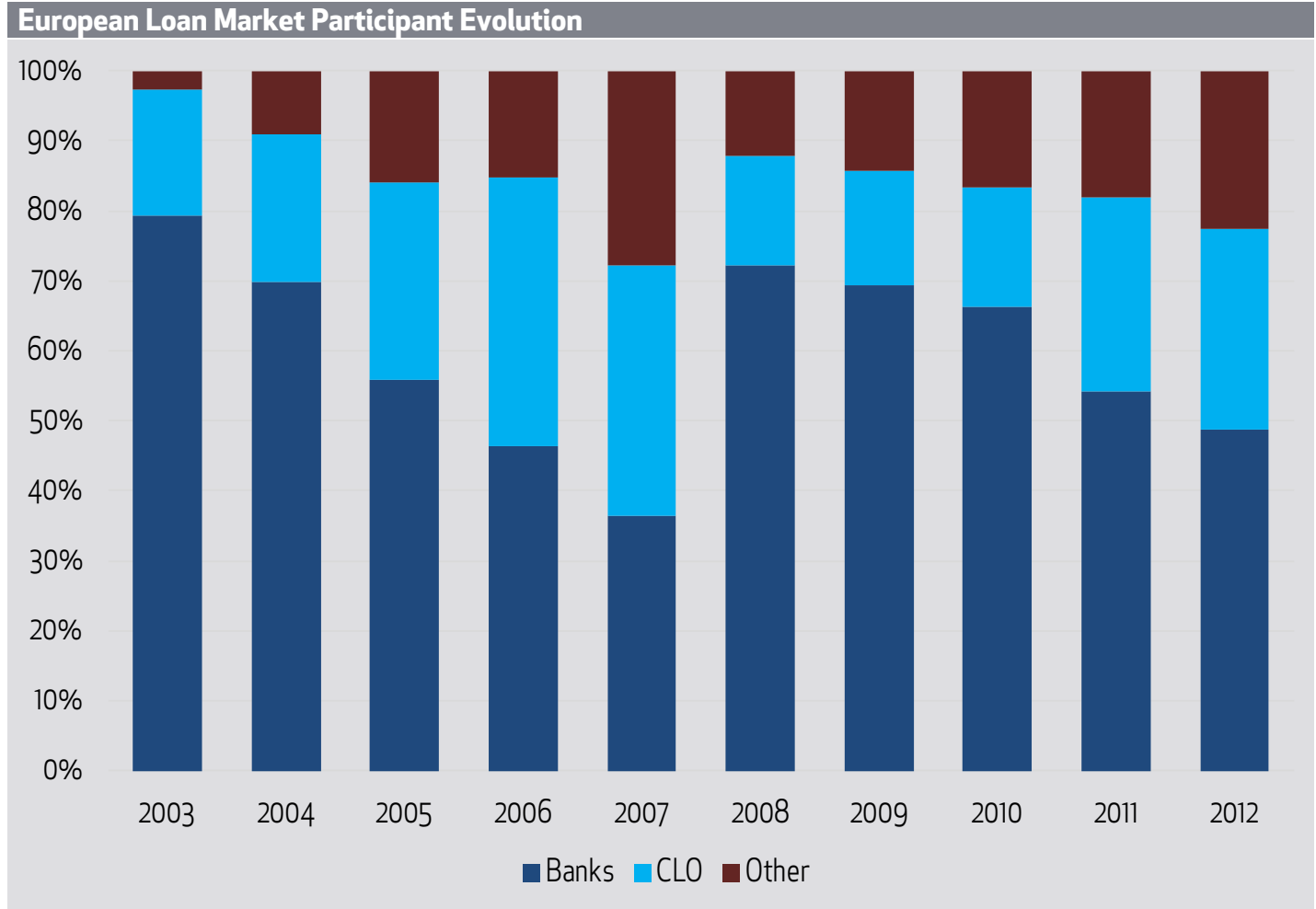


Source: S&PLCD

LOAN MARKET - PARTICIPANTS

Bank dominated market historically

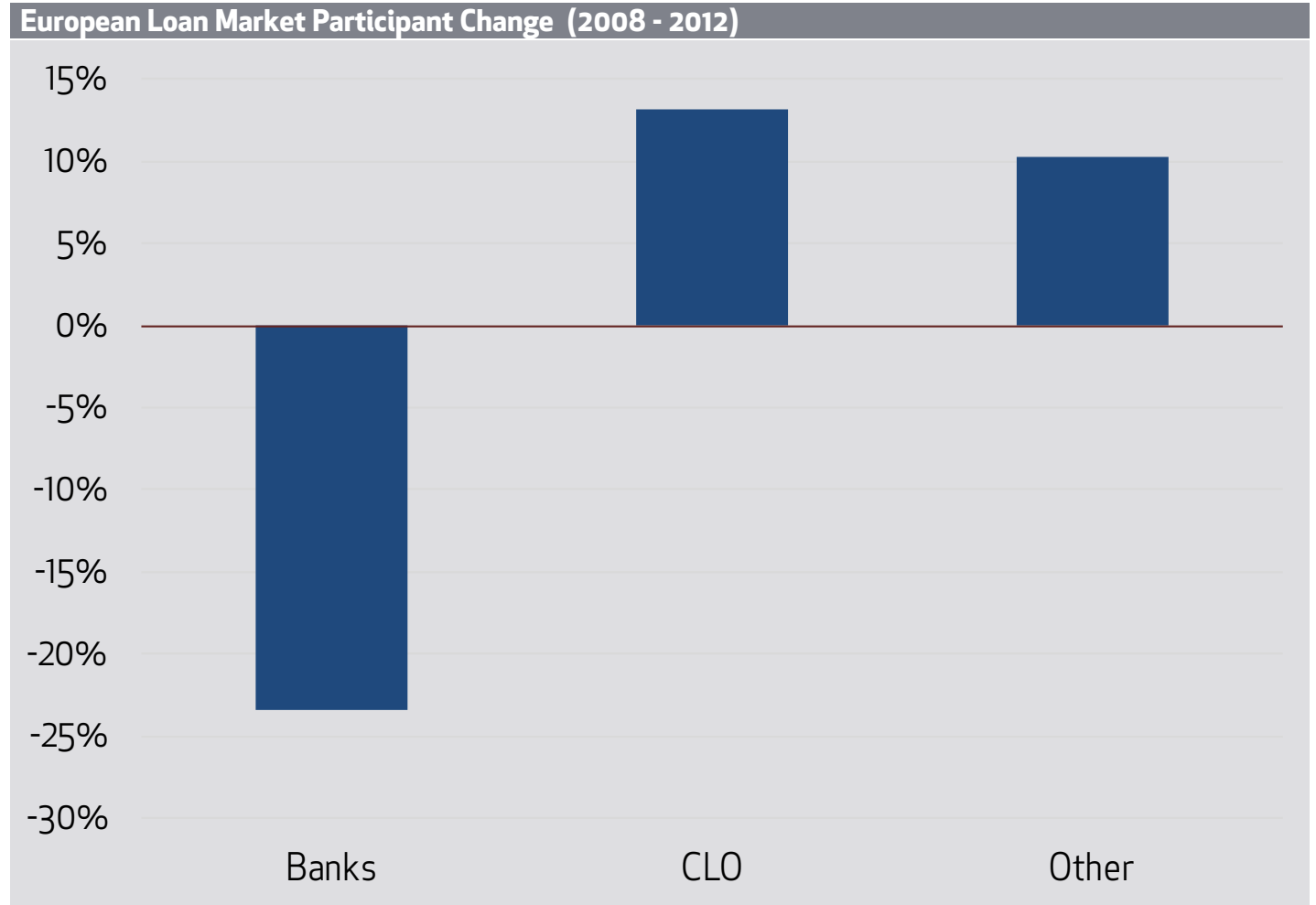
CLO and other investors increasing participation as banks withdraw



Source: S&PLCD

LOAN MARKET PARTICIPANT - CHANGE SINCE 2008

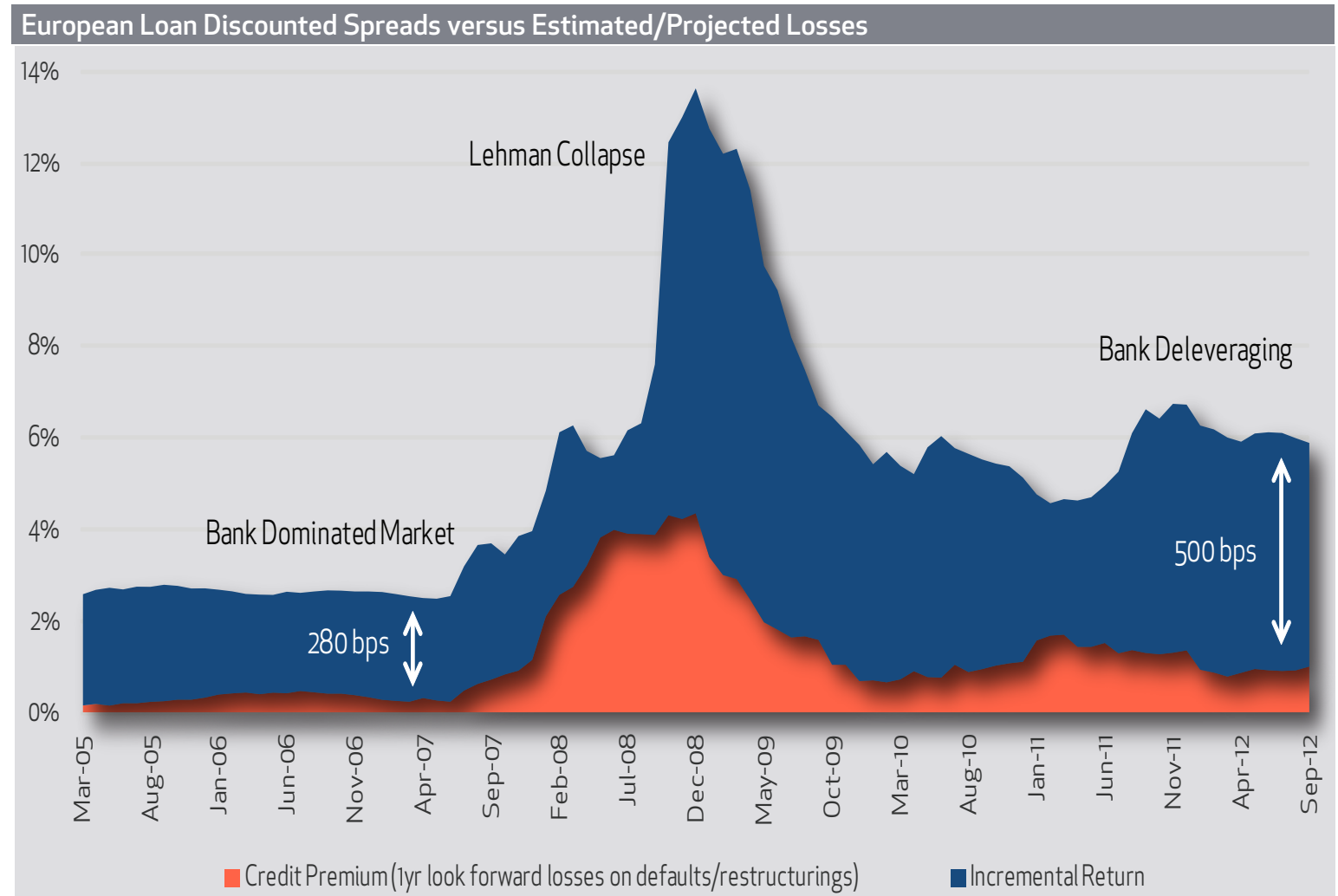
Significant withdrawal by banks



Source: S&PLCD

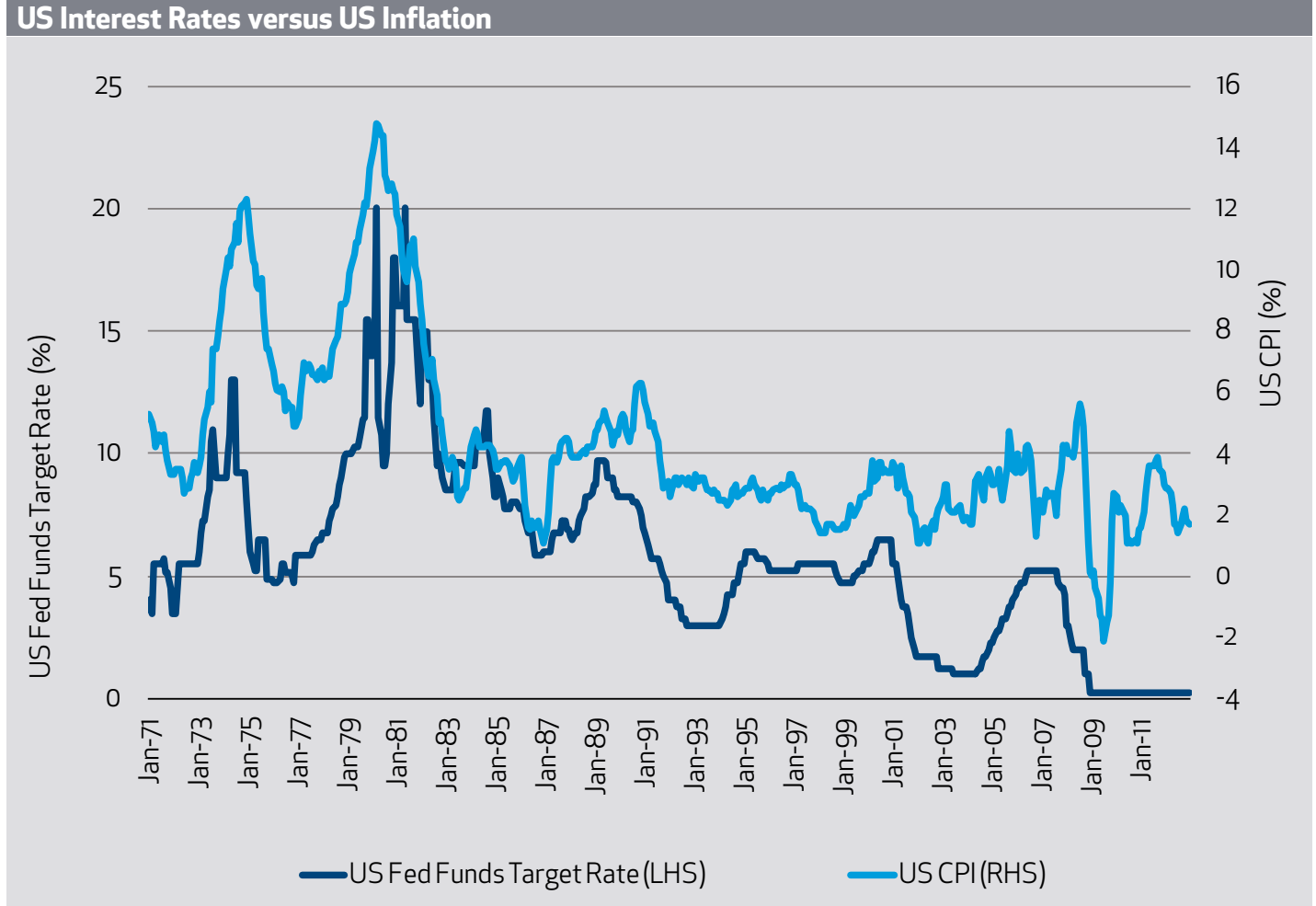
EUROPEAN LOAN DISCOUNT SPREADS OVER LOSSES

The retreat of banks from the European senior loan market (and the lack of new CLOs) has caused risk adjusted premiums to increase by c.220bps

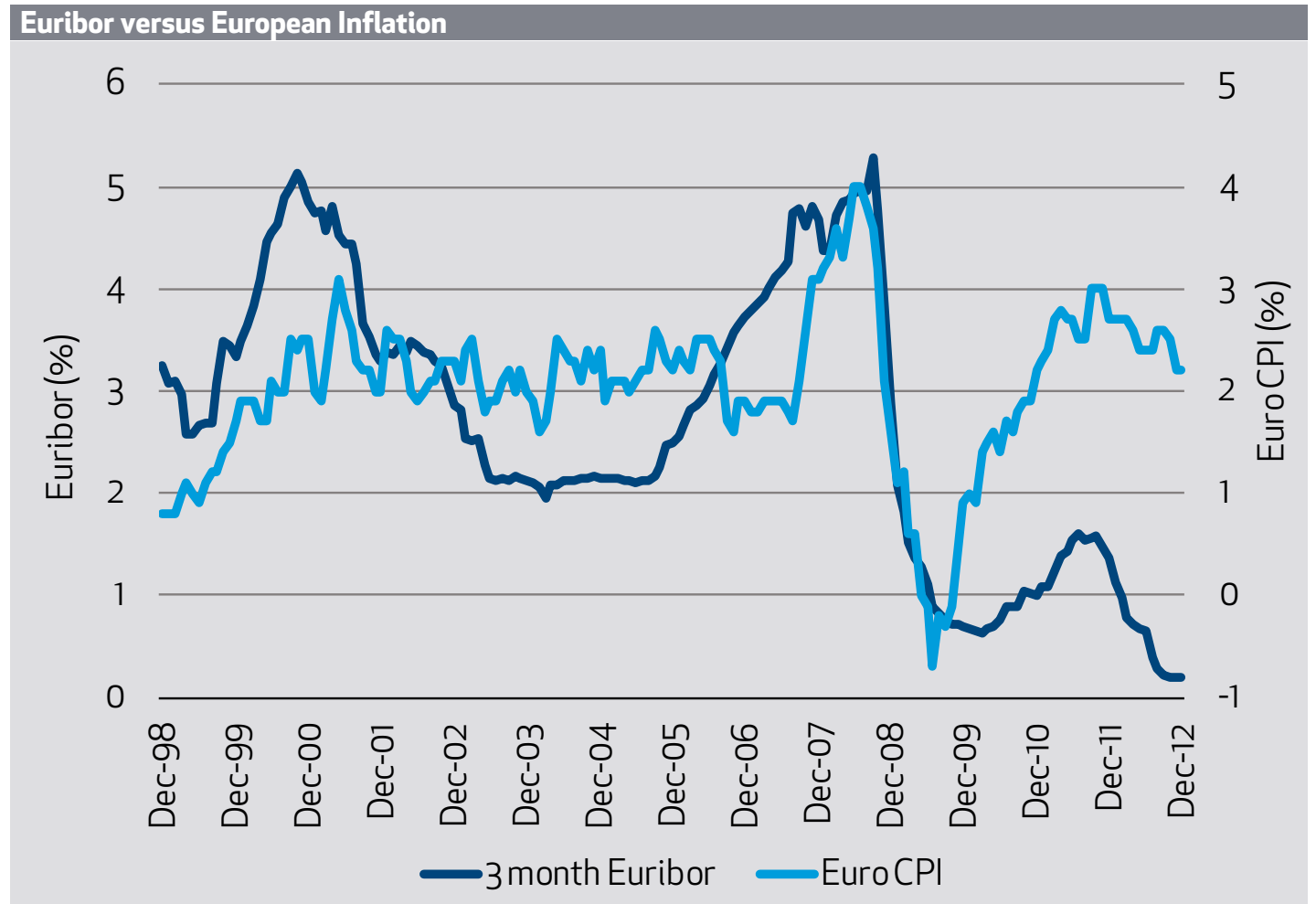


Source: S&P LCD, Credit Suisse, Avoca estimates

US Interest Rates have historically been a good proxy for inflation



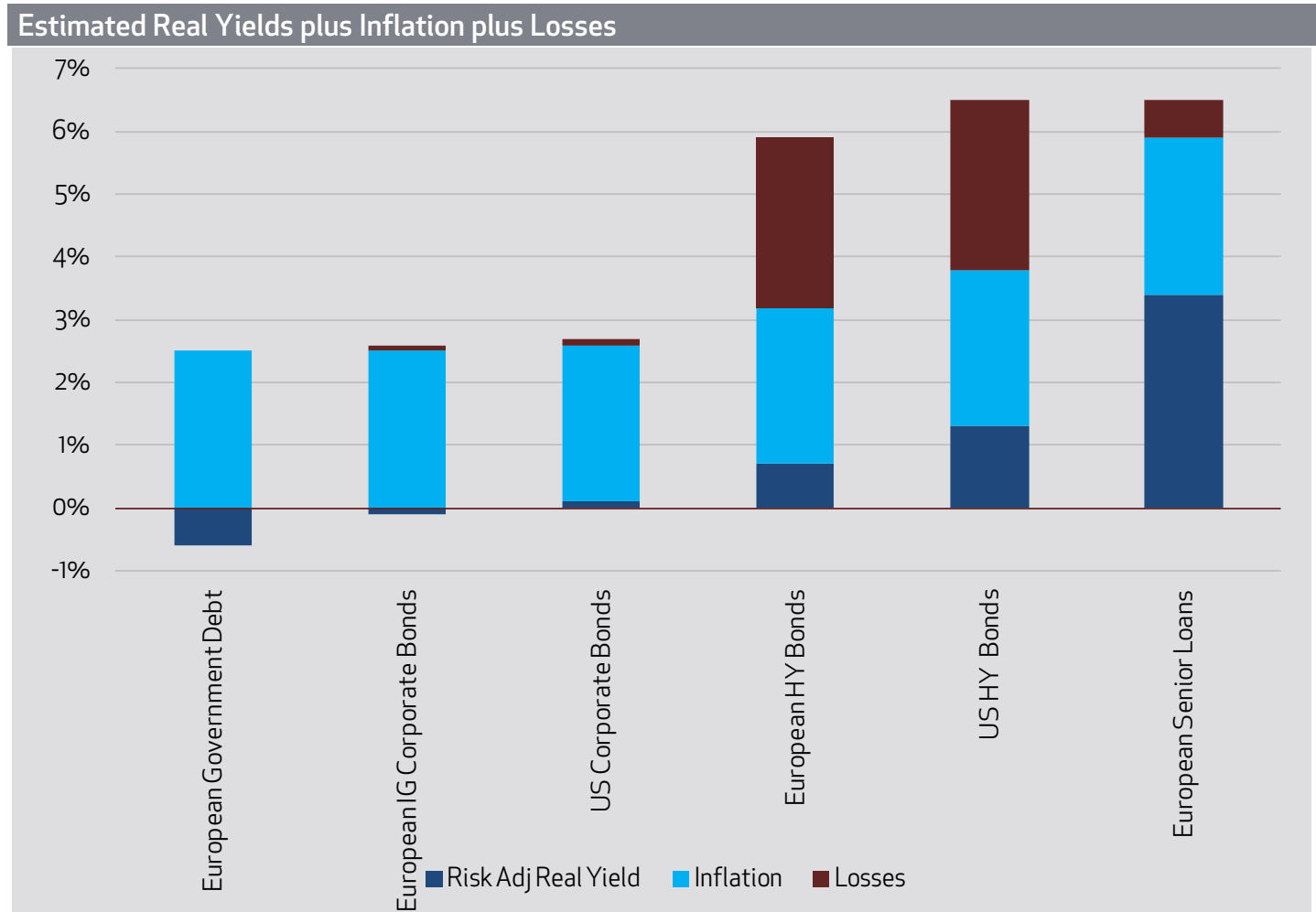
INFLATION RISK - FLOATING RATE RETURNS



Source: Bloomberg

COMPARISON OF REAL YIELD LEVELS

Risk of low or negative risk adjusted real returns in fixed income



Source: Barclays, Credit Suisse, Bloomberg, Moodys

Asset Class	Intrinsic Risk	Price Risk	Inflation Risk	Overall
European Senior Secured Loans	Low	Low	Low	Low
Investment Grade Bonds	Low	High	High	High
High Yield Bonds	High	High	High	High

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