November 2023 Live Event-AICA Fall Roundtable CEF Track Panel #1; “Managing Credit Risk in the Current Environment”

Wednesday, November 15, 2023

Amy Charles, Managing Director for Raymond James, moderates the first panel of the AICA November 15th, 2023 live event; “Managing Credit Risk in the Current Environment”. Read the transcript below to hear the discussion among Ms. Charles and panelists George Westervelt, Head of Global High Yield and Head of US High Yield Research with abrdn, Gretchen Lam, CFA, Senior Portfolio Manager with Octagon, Kristopher Pritchett, Managing Director and Portfolio Manager with Ares, and Scott Caraher, Head of Senior Loans with Nuveen.

Amy Charles George Westervelt Gretchen Lam Kristopher Pritchett. Scott Caraher

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Amy Charles: Good morning, I’m Amy Charles from Raymond James. I’m the director of closed-end fund research and today is my 28th anniversary at Raymond James, so I was 14 when I started. But I’m going to let our panelists introduce themselves, give a quick 30-60 second bio and we’ll start from there.

George Westervelt: Thanks, Amy. I’m George Westervelt, I run Global High Yield at abrdn, where we have over three billion in high-yield assets under management across a broad range of strategies. One of those funds is ACP, Abrdn Income Credit Strategies, a $500 million closed-end fund.

Gretchen Lam: Good morning, my name is Gretchen Lam, I'm a senior portfolio manager at Octagon credit investors. Octagon is a $35 billion manager of loans, high yield, and CLO tranches. We also act as a sub-advisor for closed-end fund called XFLT, for which I act as the portfolio manager.

Kristopher Pritchett: Good morning, I'm Kristopher Pritchett, I'm a managing director at Ares Management. At Ares we manage $395 billion across five different product groups; credit, real estate, secondaries, real assets, and strategic initiatives. In the credit group we manage $269 billion, which is where our fund ARDC sits, which focuses on loans, high yields, and CLO tranches.

Scott Caraher: Good morning everybody. My name is Scott Caraher, I'm head of senior loans at Nuveen, I've been with the firm 21 years now. Responsible for all of our public mutual funds as well as institutional funds that we run for investors globally, as well as responsible for managing, we have about a half a billion dollar multi-strat credit fund.

Amy Charles: Great, I'm to ask some questions. Feel free to join in, we're only as exciting as you guys make it. And I know it's early, so hopefully everyone has had their coffee. I'm going to try to just spread the questions out but everyone, we're looking for your opinion on everything. We'll start with you, George, if you want to give us your outlook for the economy. I know that's top on everybody's list.

George Westervelt: Sure. I get the easy one, thank you.

Amy Charles: Softball.

George Westervelt: Well, look, I think it's a very interesting time to be an investor, not only in fixed income but all asset classes right now. Macro has obviously driven markets over the past couple years and we think that will continue to do so as we go forward, and investors are really looking for clues on the direction of the economy, right? That's the million dollar question right now.

The way we think about it is there's these two walls of worry, and then in between you have a window of optimism. That first wall of worry was inflation, we went through that last year, remember we were talking about is inflation transitory? Turns out it wasn't, it steadily rose throughout the year, and what that did was it forced the hand of central banks to embark on a historic level of rate hikes. And we saw that across the globe, the result of that was rising government bond yields, and the result of that was any duration-linked assets were punished. We saw some horrific returns in high-quality fixed income last year as a result of rising rates, but that's behind us at this point and now we're firmly in this window of optimism.

What defines a window of optimism? It's an inflation coming down precipitously. Inflation typically has a symmetry to it where it comes down as fast as it goes up, and that's what we're seeing here, and we're also seeing an economy that is good enough. So inflation coming down, economy's good enough, and that has really supported and facilitated this soft-landing narrative that has embraced markets this year and you're seeing risk assets do very well in that. So

equities, S&P 500's up 17%, high yield is up 8%, these are good returns in the face of rising rates.

That being said, we don't feel like that window will stay open forever and the next wall of worry will be the story next year, and that wall of worry is growth. We all know that monetary policy acts with long and variable lags, so far we have not seen evidence but we're starting to see that play through right now. Really it's been the consumer that supported the economy, a very, very resilient consumer, but we are starting to see some cracks there. We're seeing excess savings depleted, we're seeing auto loan delinquencies spiking, we're seeing credit card delinquencies spiking.

These are indicative of a consumer that is starting to feel pressure, so for fixed-income investors, what that means is that, look, we think we're likely to see a recession in 2024. We think that peak rates are behind us, we think that that headwind of duration is now going to become a tailwind, and that's a good place to be for the asset class. We're also starting with incredibly high all-in yields, 9% for high yield, so you have that cushion on the way down that can offset some of that spread widening if we do enter a recession.

Amy Charles: Great. Anybody else have input? Very thorough. All right, let's move on. Gretchen, among the assets in your strategy, where are you seeing the best risk-return?

Gretchen Lam: Sure, so XFLT invests across loans, high yield, CLO, junior mezz, primarily the BB rated tranche, as well as equity. Over the last six to nine months or so we have really favored CLO BB-rated tranches, and the reason for this is they offer in the current market both very high current yields in the range of 12-13%, as well as these are assets that can be purchased at a discount, and so there's additional pull-to-par potential that we expect over time, which in most cases leads us to an expected total return somewhere in the mid-teens. And this is very attractive for an asset that, notwithstanding the very high yields, benefits from real structural subordination, which we do think will adequately protect investors in an environment where defaults are increasing and we expect them continue to increase in 2024.

So we really like CLO junior mezz for all of those reasons, but also selectively CLO equity, which of course is the first-loss position in the CLO structure but does offer relatively high, quite high actually, distributions. Cash-on-cash distributions for CLOs that are high in quality where the managers have done a good job of avoiding defaults, avoiding losses, and the structural cushions are such that we have a high degree of confidence that the distribution stream, the CLO distributions will continue without being shut off. That can also be a very, I would say selectively, an interesting place to allocate. In the secondary market we're seeing yields in the high teens right now.

Amy Charles: Great, I would imagine discounts on discounts are nice too with the closed-end funds. So, plug for closed-ends, discounts on discounts. Kris, do you want to go ahead and put your two cents in for Ares as well?

Kristopher Pritchett: Yeah, I can kind of echo what Gretchen said there on CLO tranches, we see a lot of value there. Gretchen mentioned BB equity, we also found this year BBB. When we

look at the market, volatility gives you opportunity, and we've seen BBBs move around a lot. If we think about the secondary points, in terms of points they've gone from low of the year, call it 92 for a high-quality manager, high-quality portfolio, good cushions, good structure, that bond was traded up when the markets heightened up into about 97.

So that means you've got five points of price appreciation there, maybe six. You've got a coupon there that is somewhere between SOFR+ 300 and 400. So you've got current income close to 10%, with five points potentially of upside in that tranche, we think that was really nice this year. You had to react to what the market gave you and position based on the volatility that you saw in where things were trading, but there were opportunities this year really to add value there.

And then generally we like BBs, we like equity. Agree with Gretchen, equities, hard this year and you need to be selective. You need to have a look through on the underlying, you need to understand what risk you're buying, you need to understand the structures, because the key point on equity is that near-term cash flow. That cash on cash that comes in, which can be 20-30% if you're looking at pieces in the secondary market really protects you from price volatility, and also risk. You defuse your position a lot earlier, you burn down your investment, really from a risk standpoint, CLO equity can be really, really strong.

And the way that we use it in ARDC, we have the ability to go into high yield, to go into loans, what we do is we say we want to avoid single-name risk in those risky names. So we want to take the risk in the CLOs to get the yield, we get the yield in the portfolio from the CLOs that we feel is better risk than stretching on credit, because we can be in a high-quality bond portfolio, a high-quality loan portfolio with the CLOs just adding that extra bit of yield just to help the performance of the fund.

Distribution rate at the moment is about 12.5%, our income covers that nicely, so the CLOs really boost that. And it allows us to touch on where we started with, where are we going to go with bonds and whatnot? Bonds have kind of struggled with the rising rates, a lot of them are at discounts now, so now we can add in discounts on the bond side, we don't need to stretch for yield there because we can get it from the CLOs. So that's how we use the CLOs in our portfolio to really help the management, help the positioning, and at the moment CLOs offer good relative value.

Amy Charles: Great. I would imagine Nuveen has a few positions that they're trying to weigh with that risk-reward. Scott, do you want to tell us what Nuveen's outlook is or where they're going with their portfolios?

Scott Caraher: Sure. So a couple things, first of all, you're really trying to balance high yield versus loans from duration and current income, and so as we're, I would say slowly, possibly moving from a regime of higher for longer, what the Fed has said, to eventually rates coming down, duration becoming more in place, we're really trying to balance loans versus high yield in our funds where we can really toggle between the two.

But what I will tell you is we all felt great yesterday watching risk assets rip and inflation coming down, but let's be very, very clear, for two years almost every single person in the market has

gotten it wrong. If you rewind the tape, the Fed at this point in the year was going to have already cut rates by a hundred basis points, right? Dead wrong. Where are we at? We're still low to mid-three's inflation. The Fed has said time and time and time again, they are not going to move until they see 2%. And by the way, when equities do what they did yesterday, it gives the Fed more cover to keep rates higher for longer.

What did Jamie Dimon say last night? He told everybody, "Don't look at today." He thinks rates potentially are going to seven. Look at Ken Griffin yesterday, he said almost the same thing, everybody is drinking this Kool-Aid, it's not there yet. And so for us, what we're really focused on is that balance of trying to leg into duration a little bit where we can, we have funds that can toggle between loans and high yield, you obviously want to be legging in so that you don't necessarily miss the trade, you're never going to bottom ticket.

But at the same time, on the loan side, being able to clip yields of close to 10% while the entire world has gotten Fed policy wrong for two years, we're pretty comfortable hanging out and recognizing that, again we're not going to call the bottom where you start to want to make some shifts, but at the same time, it's incredibly important to think about as your positioned and constructing your portfolios in the loan market.

The loan market is really bifurcated, there's so many crappy deals that have gotten done at the top of the market, at peak valuations with crappy credit agreements, you have to be very, very careful as to what you're buying on the loan side. We think really being positioned with a significant underweight in the loan market to lower quality, while at the same time starting to leg into some better quality high yield to add in duration is the right way for the opportunity for portfolio construction.

And then what's going to happen, and we're really excited about it, I've told investors I think the next three years is going to be one of the most exciting times in the loan market because again a lot of these deals that should never have gotten done with those credit agreements at that leverage level. Some decent companies, a lot of bad companies, but some decent companies with really crappy balance sheets, I can't wait, and we've started to buy those names in the 70s and 80s, right? Find the names that are going to make it through and start to invest in those, and we've started to do that.

Because the one benefit of inflation rolling over and feeling like we're probably not going much higher with where rates are, you can start to have companies in the loan market where a lot of the inflation and rates are flipping from a structural headwind to a tailwind, wo lots of crosscurrents between those markets. We were all-in on loans over the last two years, and now it's really trying to get more balanced between the two.

Amy Charles: Okay, great. George, do you have anything to add before we move on?

George Westervelt: Sure, just from high-yield perspective, I would echo a lot of what the fellow panelists have said as far as paying attention to quality. The names that we're looking for in our portfolio, now it is an income generation focused portfolio so we typically lean into higher yielding names, but there's a bandwidth for everything and we have taken down our CCC

exposure. We have taken our leverage down a bit too, saving some dry powder for a rainy day when valuations are a bit better, and really it's about doing the credit work at this point, you have to avoid defaults. The defaults are going to come, you have to avoid them, so I would say that picking the winners is important but avoiding the losers is probably more important at this point.

Amy Charles: Great, and I think that that's where we're going to move on. I know from where I sit, we get a lot of questions on default rates, recovery rates, how bad the recession's going to be. I think everyone's expecting a recession or we've even gotten questions, "Are we already in it, and by the time they announce it we're coming out of it?" Right? I don't know who wants to jump on this one, but as far as where you believe where we're going to default rates, where we're at historicals. Kris, if you want to start, I want to make sure everybody gets a chance to talk here.

Kristopher Pritchett: Yeah, so when we think about defaults and defaults this year, we kind of go back to the beginning of the year, a lot of anxiety in the market. The rate environment we expect to go into was a bit of an unknown, how are companies going to deal with this? A lot of CFOs haven't lived through this, a lot of companies haven't gone through this, if you think about the loan market in particular. And so when we were canvasing the market, talking to people, there were some concerns about where we're going to go and how defaults are going to be impacted this year, and how are CCCs and whatnot going to flow through the market?

That's despite when you run the numbers, all of the companies we looked at when we ran our numbers, if rates go up to, at the time it was a 4-5%, generally felt that interest coverage was fine, generally felt performance should be fine. Despite the fact that the quantitatives are telling people you should be okay here, a lot of people were very anxious. And then if we just walk through the year, we saw rates increasing, we saw companies generally going along okay, performance-wise in the credit space was good, or better than expectation.

And we got to the summer and we started to talk to more people, get a sense of it and it felt like people are like, "Oh, we've got through this, we can exist in this high-rate environment as loan issuers. Cost people can manage that and actually have companies, they can go through and perform well here," which has been great to see. Yes, defaults have come, defaults have gone up in both high yield and loans, but if I think about the companies that have defaulted, a lot of them were known as risky credits, were known as having bad cap stacks, having a bad business model, so there weren't many surprises. And also, a lot of the defaults, the rising rate environment didn't help them but wasn't necessarily the main catalyst to cause them to default. So generally when we were thinking about building our portfolios and investing in CLO tranches, we were able to avoid those losses. And then if I think about CLOs, CLOs are also impacted by the raising CCCs and whatnot.

Yes, they've gone up, but not as much as you would have expected given the tone of the market earlier this year. So when I think about where we are from a CLO standpoint and structures today, the cushions, the structure all looks good, the portfolios, a lot of managers took the opportunity to clean up. It's been a good year for managers to trade loans. As loans come down below par, it's a lot easier for people to manage risk and move names around, so we saw quality go up in the portfolios, looking a lot stronger now than before.

Defaults did go up, but still compared to historical highs, they're still in line with what you'd expect, so not massively concerned there. And as we look forward, yes, defaults are likely to increase, but I don't think to the level that we're really going to see pain, either on the underlying different asset classes in high yield loans or in the CLO structures.

Amy Charles: Great. Anybody?

Gretchen Lam: Sure. I totally agree, I think the theme for 2023, if I had to boil it down to one sentence would be, "Not as bad as everyone expected back in January." If you had read some of the macro or the credit market research out there or read the headlines back in late last year or early 2023, you would have expected that defaults in the loan and high-yield markets will be 9-10%, and that the year's going to be a dumpster fire and we're all going to lose a ton of money. And here we sit year to date, CCC-rated loans have returned twice as much as BB-rated loans. Risk has rallied, the default rate in the loan market sits at, the true default rate is 1.3% LTM.

That's remarkable, even if you include some of the distressed exchanges that occurred that are effectively defaults but not technically defaults. That number, at least according to J.P. Morgan, year to date is 3% in the loan market, that's the long-term historical average for the market. In high yield, that number is 2.6%, a little bit lower. So does it feel great? No, but it's certainly not as bad as I think most people would have expected at this time a year ago.

What is pretty darn bad I will say, unfortunately, is the recovery rate that we are seeing year to date. So in the loan market the calculated recovery rate, which there's a little bit of nuance there but we'll go with it, is 40% according to J.P. Morgan, that compares to a long-term historical average in the loan market of about 70 cents on the dollar. So that is concerning, I wouldn't say that we can therefore say the new loan recovery rate is 40% forever, these are countercyclical, recovery rates tend to be lower when defaults move up, and there's a number of reasons which I won't bore you with today, why that number is lower today than perhaps it has been in previous cycles. But suffice it to say, recoveries are lower and some of that, perhaps much of that is due to permanent changes in the loan market.

Worth noting, in high yield the all-in recovery rate is 33%, but if you strip out senior secured bonds and just look at senior unsecured bonds, the recovery rate year to date is three, that's according to J.P. Morgan. So this isn't something that we're seeing that's a trend just in the loan market, also occurring in the high-yield market as well, and definitely something that we are very focused on certainly as investors in the loan market as well as investors in the CLO loan tranche market as it has very real implications. But I think as we think about defaults and recoveries and the outlook, certainly the experience in 2023 has been much lower defaults than feared but recoveries low and likely to continue to be low in 2024.

Scott Caraher: The one thing I'd add, and Gretchen is absolutely right, first of all the fear mongering, the fear mongering in the press, I've watched it for 20 years, is really outrageous and has really done a significant disservice to both the retail as well as institutional investors, so that needs to be discounted a little bit. To Gretchen's point, she's absolutely right about structurally recovery rates are lower right now.

What we did, we had an investor question a couple weeks ago on that very point, and if you drill down into the numbers though, it's not across the board, that 40%. What we found was very interesting, and this comes back to what I've been telling investors, is that there's going to be a lot of dispersion over the next, call it one to three years. And if you drill down into the default numbers, if you find larger cap companies that have subordination in their capital structure, those recovery rates are actually no different than they've been historically. So if you look at names that have second-lien loans or bonds in their portfolio or in the cap structures and are larger companies, the average recovery is anywhere from 65 to 75 cents on the dollar.

So it goes back to really picking credit, avoiding the loan-only, highly levered where five years ago that loan-only cap structure would have had a second lien or a bond, and now because of what's happened over the last, call it five years, where you've just had more first-lien debt. So if you can find those names, if you can pick those credits, your recovery rates are going to be higher than the average. Even though, again Gretchen's absolutely right, across the board recovery rates are going to be lower but there's going to be a lot more dispersion, which goes to the credit picking nature of where we are today in the loan market and where we are going to be looking forward over the next three to five years.

Amy Charles: George?

George Westervelt: Yeah, I think the dynamic of increased secured lending being pertinent this year is something we've definitely seen in the high-yield market, we're at an all-time high for the amount of secured deals that have been done. It's good because companies can come to the market and lock in a lower cost of capital, so why wouldn't they do that when all-in yields are high? Where it's not good is that they're kind of using their dry powder now, which they typically want to reserve for a more stressed time, and then you can cram down the unsecureds, which is what the rest of the panel's talking about, and if doesn't work you have very little recovery on the unsecureds.

As far as the overall high-yield market though, we feel like it's in a pretty good place. Leverage is near 10-year lows, interest coverage is at near all-time highs, companies have done a lot of balance sheet repair over recent years. We also had the kind of mini default cycles of 2016 with energy, in 2020 with the consumer where you purged the market of the lowest quality companies, so there's not a ton of deeply distressed, troubled companies right now. Now sure there's going to be defaults, there's obviously some names that are at risk, but we think that in the next default cycle, even with a recession, that it remains relatively muted versus historical default cycles.

Amy Charles: Great. I wish I was sitting out there so that I could feverishly take notes for my team back home.

Who has questions for our panel? Anyone? I know you guys aren't asleep because I can see your eyes.

All right, well then I'm going to go over a couple that my team put together, and I think we touched on it with the recovery rates. How does it compare to the dreaded 2008-2009? Because

this time in 2008 was like shooting fish in a barrel for closed-end fund research analysts, everything I picked was perfect. So where are we compared to that? And recovery rates, you just gave me a couple extra wrinkles on that with how low they are, because I haven't seen that. So go ahead, I don't care who wants to start, free for all. All right, go ahead, George.

George Westervelt: Sure, I can kick it off. Comparing where we are now to 2008 I think is probably not applicable just yet. We're not seeing the excess [inaudible] that we saw in 2008 in not only the financial system but in our corporates or in the economy overall. This seems more like a regular recession, which we don't foresee as being especially deep. Even if it is deeper in the economy, that's not our base case, again for the reasons we outlaid, I just don't see it being a draconian default cycle in the credit markets. In 2008, I'm trying to remember the default rate, I think it got up to 14-15%, I would think that if we are correct and we enter a recession, we're probably in the 6-7%.

Amy Charles: When Gretchen was talking about the doomsday. All the people are saying this time last year, I think they were thinking 2008-2009. That's retail. Trust me, retail is thinking 2008-2009 when you hear recession. All right, thank you.

Gretchen Lam: Yeah, and I would just say while it remains to be seen whether we dip into a recession, our companies on average are seeing real growth. They're seeing real topline growth. Now some of that, you might say that's just inflation and that's true, but that's still an increase in their revenues. They're still passing along increases in prices, and they're sticking. Their volumes may be down, and that's certainly a dynamic and a concern that we are watching very closely for 2024. But if we're looking at year to date 2023 or if we're looking backwards, we are invested directly in over 500 companies and we track their performance quarterly.

We don't have all of the numbers for 9/30 yet, but if you look at 6/30, what those aggregate numbers suggest is that revenue was up I believe 6% and EBITDA up 8%, which means companies are growing both topline and profit, and their margins are actually increasing. If you drill down, what that tells us is that price increases have been passed along and companies are actually starting to see a little bit of relief on the cost side. Much of that, energy and supply chain, transportation and logistics related. But 2023 at least, the performance suggests that companies are able to balance the higher costs and pass that along.

I think the question for 2024 is, does that continue? Do customers, whether it's consumers or commercial business customers, do they say, "No more. I used to buy 10 widgets and now I'm only buying five," does that really impact topline and profitability? I think that's really the question for 2024, but we are not in 2008.

Amy Charles: That's what I wanted to hear.

Gretchen Lam: Yeah.

Amy Charles: All right. Anybody have questions? Yep, go ahead?

Audience Question: Just curious, what do you guys think is the catalyst [inaudible]? Is it equity market breaking, is the unemployment rate going up? We saw last printed, it went up by half a percentage point. [inaudible] trends, but essentially do equities need to [inaudible]?

Scott Caraher: So yeah, you're going to need to see one of two things. You're going to need to see the unemployment rate really start to tick up, that will scare the Fed, or you're going to need to see a significant selloff in equities. The Fed only cares about inflation coming down. If they get really scared, then yes, they potentially would pivot.

But again, everybody's gotten it wrong for two years, they are focused on inflation, and so until something really scares them they are not going to pivot. And so inflation hitting two, unemployment really ticking up, or the stock market really selling off, those are the three things that are going to allow them to pivot.

Audience Question: When you say inflation hitting two, are you talking about hitting two or sustaining two?

Scott Caraher: It's a great question, we talked about this yesterday with our macro strategist. He thinks that if inflation would get to the mid-twos and stay there for, call it two quarters, the Fed would have enough cover to marginally decrease rates. But again, if you look at what Jamie Dimon or Ken Griffin said, yesterday right after that data he said they're going to lose a lot of credibility if they try to cut too soon, because then all of a sudden maybe the inflation genie is not back in the bottle.

And so again, if you go back to what they've said for two years, they are going to wait as long as possible, and the higher the equity markets stay for longer, it gives them a lot of cover to keep rates higher for longer.

Amy Charles: Anyone else? I thought I saw a hand over here. No? Oh, go ahead.

Audience Question: Hi, this is for Gretchen or Kris. If you think about the loss experience for leading CLOs, do you think that the ratings are conservative? And if BB is the way it has to be, do you think leverage goes up in the structure over time? Meaning the rating agencies saying, yeah, we'll keep the BBs and we'll let you [go up in leverage]?

Gretchen Lam: Yeah, I didn't pay him to ask this question for the record, but it is, I think it's an excellent question and one that we speak to investors a fair bit about. If you look at the default experience of the BB-rated tranche in CLOs, it is a third of the default experience in high yield and loans for similarly rated assets. Despite that, the rating agencies have held firm with levels of subordination that they've consistently required, so I would love to tell you that the rating agencies see the light and say, "Oh my goodness, this is not a BB, it's a BBB or a single A, and therefore we can add more or reduce the subordination," but that's just not the case.

That fact makes it a great asset for income-oriented funds, because here you have an asset that compares fantastically well relative to other below investment-grade credit assets, and yet in the market today it is yielding 250 basis points higher than the loan market, which on average is

rated lower, and probably 350-400 basis points higher than the high-yield market. So I wish I could tell you that the rating agencies have changed their tune but the model is the model and that's kind of where we are, but certainly at the experiences over the last 25 years from a default perspective is it's really like no other credit asset.

Kristopher Pritchett: Yeah, and just to add to that, if you think about if you're investing in the BB tranche of a CLO, a lot of those investors are deep credit investors, they have deep credit teams. It's a credit investment, it's not like up the stack it's a little bit more you're buying the rating. When you're buying the BB you really need to understand that portfolio, and therefore the investor base pushes back on the attachment point because they feel that they need that attachment point to compensate them for potential risks in the portfolio.

It's less rating agency-driven. Yes, the rating agency put their guardrails around it, but the investor base also is sophisticated and understands that and says, "No, you can't issue with a lower attach, because I need that attach for liquidity purposes, for structural subordination, to make sure the investment is a good investment." So that's something that also is the other guardrail when I think about that BB attachment point.

When I look at defaults, default performance historically has been great for CLO BBs. I would say looking forward, if we do go through a deeper cycle, that's going to spike up, and so you really need to be careful when you're investing in CLO tranches and have the team to understand the credit, to understand the structure combined, and how's that going to impact the performance? Because some of the deals that are out there today do have lower levels of subordination, they've gone through various cycles, they've gone through credit stress, managers have done what we do, burn par, which is essentially sell at a loss and that subordination has come down. So at the moment, great opportunity, but you really need to be selective and thoughtful when you're investing in the space.

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