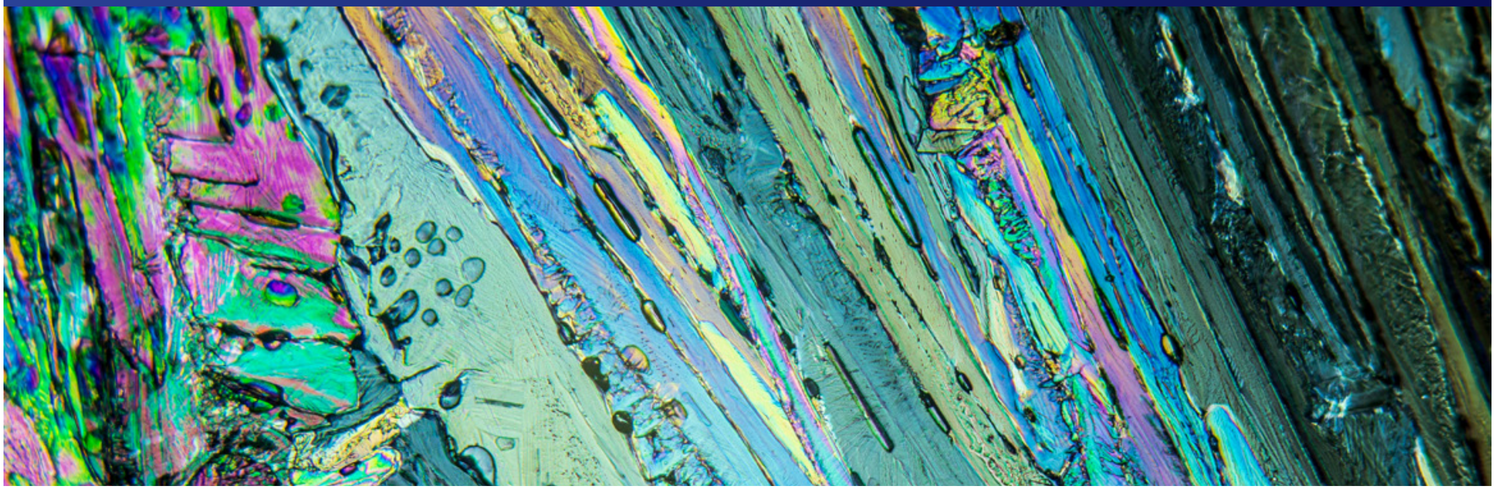

# Creative Solutions to Old Problems

**In August 2022, First Eagle completed the acquisition of Napier Park Global Capital, a leading alternative credit manager active in a diverse range of global markets through credit vehicles, US and European collateralized loan obligations, and real assets. Managing Principal Jim O'Brien and Managing Principal and Chief Investment Officer Jon Dorfman share their initial experiences operating as part of First Eagle and their thoughts on alternative credit markets in 2023.**

## Q:

**How has your brief tenure at First Eagle gone so far?**

### Jim:

It's been less than six months, but I would say that the experience has been an extraordinarily positive one for me and our colleagues at Napier Park. Admittedly, that was pretty much expected; once we began meeting with the senior team at First Eagle, it became clear that Napier Park and First Eagle have a very similar investment-driven culture, dedication to client outcomes and commitment to nurturing our employees. From a day-to-day perspective, little has changed for the Napier Park team and our clients. Jon and I continue to run the firm, and we operate autonomously under our own brand, maintaining our investment approach, business focus and client service.

### Jon:

The reason that we engaged with First Eagle is that we felt Napier Park had gotten to a point in our company lifecycle when we needed to start investing in our client-facing infrastructure—including product development and management, client outreach and investor relations—if we wanted to execute our long-term business strategy. As we continue to move forward and markets become more interesting, we will need to expand from a market perspective as well. The transaction gave us the bandwidth to make investments over the next few years and to concentrate on how to best grow the business in a way that also enhances the solutions First Eagle offers to clients.

**Jim:**

The transaction also has been very positively received by our client base. There has been a lot of consolidation in the alternative credit space, and the fact that we participated in that consolidation did not come as a big surprise to most clients—they understood our need to invest in client infrastructure and expand our market breadth. Generally speaking, clients have appreciated our thoughtful approach to unlocking access to resources by partnering with a company like First Eagle. I'm sure that being part of a larger platform, with access to a bigger balance sheet and the stability all of that implies, was a source of comfort to some clients in the challenging environment of 2022.

> The First Eagle transaction gave us the bandwidth to make investments over next few years and to concentrate on how to best grow the business.

## Q:

**Speaking of challenging environments, what was your experience in the credit markets in 2022?**

**Jim:**

We came into 2022 expecting higher volatility and greater dispersion in the credit markets as fundamentals and technicals became more idiosyncratic. While we were right about direction, we underestimated the magnitude of the correction that lay ahead. Though the credit market was broadly lower during the year, higher-quality, shorter-duration assets delivered relative outperformance in the rising-rate environment.[1]

We invest in a broad range of floating-rate assets, which carry less interest rate risk than fixed-rate assets. They do have spread-duration risk, however, and 2022's meaningful rate moves drove much of the repricing across global credit markets. Liquidity has been another challenge, as the violent and quick move in rates during the year has resulted in significant bid/offer widening.

A bright spot in the shift to higher base rates and wider credit spreads is that it allows managers to construct portfolios with the potential for much higher yields than were available a year ago without taking on additional credit risk. Yield as a meaningful contributor to total return is a benefit we haven't had in a very long time, and it has the potential to initiate an asset allocation cycle across our markets and products.

## Q:

**Tell us about the Real Assets strategy. Are you seeing demand in the current environment?**

**Jon:**

Given inflation pressures and the continued search for sources of uncorrelated yield, the number of conversations we had about the Real Assets platform escalated meaningfully in 2022. These assets tend to be long-lived, income generative, essential-use equipment with a focus on preserving residual value. Our platform provides diversified exposure to hard-to access operational and developmental assets across three primary areas: railcars, aircraft and renewable energy. Meanwhile, the operators of these assets, who continue to provide the intensive day-to-day servicing, receive long-dated, non-dilutive, partnering capital to support their core businesses.

In contrast with many financial assets, hard assets historically have been more resilient during difficult macroeconomic periods, a trend that persisted amid the challenges of 2022. There are numerous reasons real assets continue to appear attractive in today's economic and market environments. Based on equipment value and its potential to generate future income through operational usage, the price of real assets historically has been uncorrelated to financial markets and resilient to short-term volatility while also demonstrating a positive

1. Source: FactSet; data as of December 30, 2022.

sensitivity to rising interest and inflation rates. Further, the negotiated nature of these investments allows us to structure agreements specifically with capital preservation in mind. Finally, our recent focus on renewable energy assets may help support decarbonization and sustainability efforts.

## Q:

**You both have a long history of investing in alternative credit. What have previous bouts of market volatility taught you?**

### Jim:

As we refined our investment process over time, we've learned that periods of market volatility and uncertainty historically have been supportive of active management, and the dispersion among assets that often results allows our highly experienced credit research team to shine.

> During periods of market strife, our Credit Dislocation platform focuses on credits that have lost value but continue to perform.

We've found that in our areas of investment, active management tends to be the exception rather than the rule; most managers tend to focus on upfront portfolio construction, and then it's "set it and forget it" unless credit issues arise or liquidity is needed. At Napier Park, we tend to be very active. We continually look to optimize our exposures, moving risk profiles around in an effort to take advantage of opportunities as they emerge, facilitated by our institutional-grade infrastructure, creativity and decades of specialized expertise among our investment professionals. While Jon and I each have nearly 40 years behind us, you'll find very seasoned professionals across the organization; our senior management team averages 33 years of experience in the industry and 16 years working together.

### Jon:

While our flagship Opportunistic Credit strategy is intended to be an evergreen, all-weather portfolio over credit cycles, we also maintain a Credit Dislocation strategy that seeks to maximize absolute returns by taking advantage of periods of credit dislocation. The strategy operates on a contingent capital basis; that is, committed capital is deployed only when we believe the opportunity exists to build a portfolio that has the potential to generate our target return. When such circumstances emerge, we can act as a liquidity provider to stressed sellers.

For the Credit Dislocation strategy, we target non-investment grade performing assets; we're buying mezzanine tranches and equity/first-loss tranches in things like collateralized loan obligations, asset-backed securities, mortgage-backed securities, privately arranged consumer and mortgage loans, commercial receivables and leasing. These tranches typically are the lowest rated within the securitization or are unrated, and offer the highest expected yield.

In our view, a performing asset that has lost value in a challenging market—if of good quality—is well positioned to continue generating positive cash flow for its owner even if its price remains depressed. The eventual return of market liquidity should act as a catalyst for price improvement in such credits while also driving spreads broadly tighter, encouraging new issuance and promoting the resumption of optimal market functionality.

### Jim:

The onset of Covid-19 is a good example of such a scenario. Asset prices fell sharply in March 2020 as the pandemic took hold, providing ample opportunities to acquire assets at steep discounts. Once the Fed stepped in, market conditions normalized and the prices of many once-troubled assets began to do the same. In these types of recoveries, it's been our experience that higher-quality, shorter-duration assets often are the first to rebound while others lag; a nimble manager potentially can add value by taking profits from early-to-recover assets and directing the proceeds toward those yet to pick up a bid.

## Q:

**What are you expecting for alternative credit markets in 2023?**

### Jim:

We believe the corporate earnings environment will be weaker in 2023, and marked by idiosyncratic risk-related events rather than a broad increase in defaults across companies and markets. Both corporations and consumers alike did an impressive job of managing their balance sheets and terming out liabilities, as evinced by the record-setting levels of refinancing activity in late 2020 and 2021. This should help mitigate the impacts of a slowdown in economic activity. We anticipate the first-order effects of economic slack will be seen in rating downgrades and then eventually through a higher but historically modest level of defaults, centered on corporates with weaker capital structures and operating in more cyclical industries. The continued strength of the US dollar may cause additional stress to corporations that generate meaningful revenue streams outside the US, which is not uncommon among investment grade issuers.

We believe the corporate earnings environment will be weaker in 2023 and marked by idiosyncratic risk-related events rather than a broad increase in defaults across companies and markets.

### Jon:

The level of uncertainty is somewhat unsettling. There's too much exogenous risk, both geopolitical and economic. We have the war in Ukraine and signs of unrest among the Chinese population. Winter energy prices may push Europe closer to recession as financial conditions tighten, and the UK appears even further along that path. Questions still linger about the stability of global supply chains. The risk of policy error is quite high, in our view, given the extraordinary circumstances in which central bankers and politicians are operating.

All of these factors are causing us to maintain a more reserved investing posture right now. That said, while I have no definitive prediction for our markets over the next six months, I'm comfortable investing with a two-year view in good credits at current price and yield levels. This is not to say the situation won't get worse before it gets better—we may find ourselves investing more capital six or nine months from now, at even cheaper prices. But it all comes down to the quality of our credit work.

**About the Authors**

# Jon Dorfman

## Managing Principal and Chief Investment Officer of Napier Park

Jon Dorfman is managing principal and chief investment officer of Napier Park, a First Eagle Investments Company. Jon became part of First Eagle in 2022 upon the firm's acquisition of Napier Park Global Capital, a leading global alternative credit platform. Jon was previously co-CEO and CIO of Citi Capital Advisors, which he joined in 2007 when Citigroup acquired Carlton Hill Global Capital, the specialized asset management firm he co-founded in 2005. Previously, Jon spent 20 years in Morgan Stanley's fixed income division in the US, Tokyo and London, holding numerous senior management positions including co-head of the global investment grade credit group and head of global credit derivative and asset swap trading group. An industry innovator, Jon served as an International Swaps and Derivatives Association committee member responsible for the first standardized credit default swap contract. Jon earned a BSE, magna cum laude, from the Wharton School of Business at the University of Pennsylvania.

# Jim O'Brien

## Managing Principal of Napier Park

Jim O'Brien is managing principal of Napier Park, a First Eagle Investments Company. Jim became part of First Eagle in 2022 upon the firm's acquisition of Napier Park Global Capital, a leading global alternative credit platform. Jim was previously co-CEO of Citi Capital Advisors, which he joined in 2007 when Citigroup acquired Carlton Hill Global Capital, the specialized asset management firm he co-founded in 2005. Previously, Jim spent 19 years in Morgan Stanley's fixed income division in the US and London, holding numerous senior management positions including co-head of the global corporate credit and global investment grade credit groups, and head of the global cash corporate trading, global credit research and European corporate bond and ABS trading groups. Earlier, Jim worked on Morgan Stanley's US international sales and product management team. He began his career in the unit investment trust division of Merrill Lynch. Jim earned a BS in finance from Seton Hall University. He has been honored with service and humanitarian awards from StreetWise Partners, Team Walker, Inner City Education Foundation and Seton Hall University

The opinions expressed are not necessarily those of the firm. **These materials are provided for informational purposes only.** These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Any statistics contained herein have been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. The views expressed herein may change at any time subsequent to the date of issue hereof. The information provided is not to be construed as a recommendation to buy, hold or sell, or the solicitation or an offer to buy or sell any fund or security.

**Past performance is not indicative of future results.**

**Risk Disclosures**

All investments involve the risk of loss of principal.

Diversification does not guarantee investment returns and does not eliminate the risk of loss.

While some information used in this document has been obtained from various published and unpublished sources considered to be reliable, neither First Eagle Investments nor Napier Park guarantees its accuracy or completeness. First Eagle Investments and Napier Park do not accept any liability for any direct or consequential losses arising from its use. This information is confidential and may not be duplicated without the consent of First Eagle Investments and Napier Park. Any recipient of this presentation may use it only for the intended purpose. All expressions of opinion are as of the date herein and subject to change without notice, are not intended to be a guarantee of future events, and may differ from the views of other businesses of First Eagle Investments and/or Napier Park.

This material and the information contained herein is provided for informational purposes only, does not constitute and is not intended to constitute an offer of securities, and accordingly should not be construed as such. Any strategies or other products or services referenced in this material may not be licensed in all jurisdictions and unless otherwise indicated, no regulator or government authority has reviewed this document or the merits of the products and services referenced herein. This material and the information contained herein has been made available in accordance with the restrictions and/or limitations implemented by any applicable laws and regulations. This material is directed at and intended for institutional investors (as such term is defined in any applicable jurisdiction). This material is provided on a confidential basis for informational purposes only and may not be reproduced in any form. This material is for general information only and is not intended as investment advice or any other specific recommendation as to any particular course of action or inaction. The information in this material does not take into account the specific investment objectives, financial situation, tax situation or particular needs of the recipient. Before acting on any information in this material, prospective investors should inform themselves of and observe all applicable laws, rules and regulations of any relevant jurisdictions and obtain independent advice if required. This material is for the use of the named addressee only and should not be given, forwarded or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

The information in this document may be based, at the sole and absolute discretion of First Eagle Investments and Napier Park, upon the subjective views of First Eagle Investments, Napier Park or third party sources subjectively selected by First Eagle Investments and/or Napier Park. While First Eagle Investments and/or Napier Park may believe that such third party sources are reliable, no assurances can be made in this regard. Therefore, this information is supplied on an "AS IS" basis, and NO WARRANTY IS MADE AS TO ITS ACCURACY, COMPLETENESS, NON-INFRINGEMENT OF THIRD PARTY RIGHTS, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. Returns and valuations of unrealized investments are inherently uncertain and should not be relied upon as a basis for transfer or related investment decisions. Neither this document nor any part of this document may be modified, manipulated, reproduced, or distributed without the prior written authorization of First Eagle Investments and Napier Park. Any modification, manipulation, reproduction, or distribution of any of the contents of this document may constitute a violation of securities laws and/or other laws. The investment managers, any affiliate of the foregoing, and any personnel, principals, or agents of any of the foregoing shall not be liable for any errors (to the fullest extent permitted by law in the absence of willful misconduct) in the production or contents of this estimate.

Alternative investments can be speculative and are not suitable for all investors. Investing in alternative investments is only intended for experienced and sophisticated investors who are willing and able to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Certain of these risks include:

- Loss of all or a substantial portion of the investment;
- Lack of liquidity in that there may be no secondary market or interest in the strategy and none is expected to develop;
- Volatility of returns;
- Interest rate risk;
- Restrictions on transferring interests in a private investment strategy;
- Potential lack of diversification and resulting higher risk due to concentration within one of more sectors, industries, countries or regions;
- Absence of information regarding valuations and pricing;
- Complex tax structures and delays in tax reporting;
- Less regulation and higher fees than mutual funds;
- Use of leverage, which magnifies the potential for gain or loss on amounts invested and is generally considered a speculative investment technique and increases the risks associated with investing in the strategy;
- Carried interest, which may cause the strategy to make more speculative, higher risk investments that would be the case in absence of such arrangements; and
- Below-investment-grade loans, which may default and adversely affect returns.

FEF Distributors, LLC (Member SIPC) distributes certain First Eagle products; it does not provide services to investors. As such, when FEF Distributors, LLC presents a strategy or product to an investor, FEF Distributors, LLC does not determine whether the investment is in the best interests of, or is suitable for, the investor. Investors should exercise their own judgment and/or consult with a financial professional prior to investing in any First Eagle strategy or product.

First Eagle Investments is the brand name for First Eagle Investment Management, LLC and its subsidiary investment advisers. First Eagle Alternative Credit and Napier Park are brand names for the two subsidiary investment advisers engaged in the alternative credit business.



M-TL-NPD-CRESOL-P-L