



HOULIHAN LOKEY

ALTERNATIVE ASSET UPDATE

MARKET PULSE | April 15, 2020

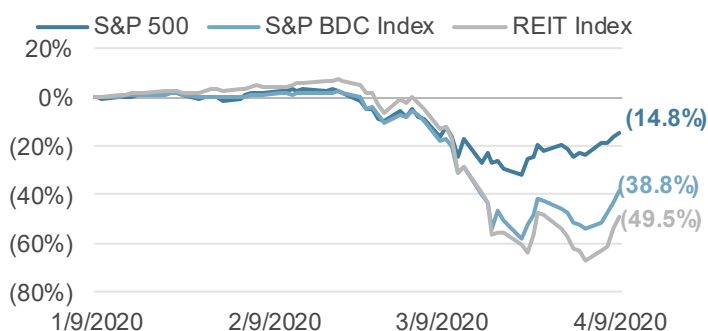


Alternative Asset Update: April 15, 2020

Observations

- Phase 1: Shock! Like when someone first saw the iceberg while on the Titanic.
- Phase 2: Triage. What is bleeding? What is bruised? What appears healthy, for now?
- Phase 3 (Current): Information collection, assessment, begin implementation and execution. Develop feedback loops to collect information and reassess accordingly.

Public Market Statistics



Issues, Developments, and Observations

REITs	<ul style="list-style-type: none"> ■ Mortgage REITs use of short-term repo funding exposed by margin calls in bond portfolios. ■ Short term: liquidity and funding solutions are immediate and acute. ■ Medium term: credit impairment on loan portfolios, both modelled and actual, is unpredictable.
BDCs	<ul style="list-style-type: none"> ■ Credit impact expected to be taken over multiple quarters (May/August reporting cycle). ■ Rights offerings have been launched by Bain and Golub to raise capital and liquidity. ■ Most seeking to raise debt and/or equity capital to bolster liquidity, defend investments, and raise AUM for new opportunities.
Liquidity	<ul style="list-style-type: none"> ■ Sponsor-backed companies have heavily drawn on any financing lines to improve liquidity. ■ GPs and LPs are considering liquidity position and financing tools—capital call lines, fund-level financing, preferred equity sales—with activity rising over the next 60–90 days. ■ Investors of all sizes focusing on collecting near term payments for rent/mortgage, interest, etc.
Redemptions	<ul style="list-style-type: none"> ■ Institutional investors are comfortable with asset allocation and liquidity profiles, for now. ■ However, smaller institutions and HNW investors may have greater liquidity needs, so we expect gating issues to develop for funds with monthly and quarterly redemption windows.
Valuations (Private Equity/Private Debt)	<ul style="list-style-type: none"> ■ Private equity portfolio marks may not move much in Q1 as financials will reflect a limited period of the new business reality, while Q2 will be more representative of current conditions. ■ For private debt, there will be limited financial information to adjust Q1 valuations, but some market participants expect “baseline” discount rates to widen by 100–200 basis points. ■ Larger markdowns are expected by many market participants in Q2.
Secondaries/GP-Led Transactions	<ul style="list-style-type: none"> ■ GP-led transactions (e.g., continuation funds) are largely on hold, with a few exceptions. While we expect to see a considerable drop in transaction volume in 2020, volume should pick up in 2H20. ■ Many secondary private equity firms are looking to deploy more capital through preferred equity structures due to uncertainties and challenges pricing individual positions.
Fund Financing/NAV Loans and Capital Calls	<ul style="list-style-type: none"> ■ Fund-level financing (preferred equity or senior debt)/NAV loan providers are actively putting capital to work, albeit at higher rates and lower LTVs. ■ Financing to GPs available to (i) continue to fund underlying portfolio companies and (ii) buyback LP interests at a discount from LPs looking to alleviate capital calls or general liquidity needs. ■ NAV loans available directly to portfolio companies with fund guarantee.

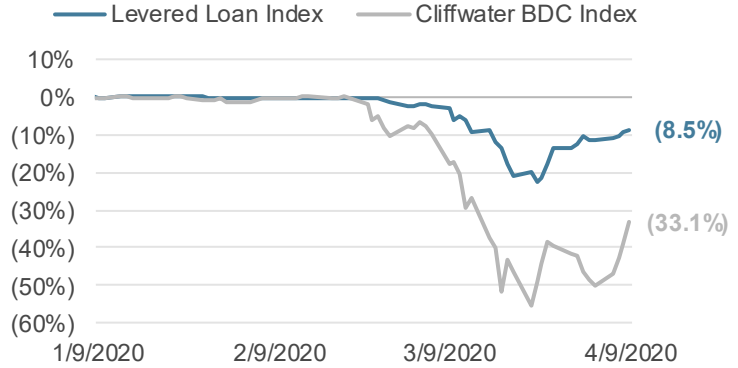
Alternative Asset Update: April 15, 2020

Observations and Questions

Public Market Statistics

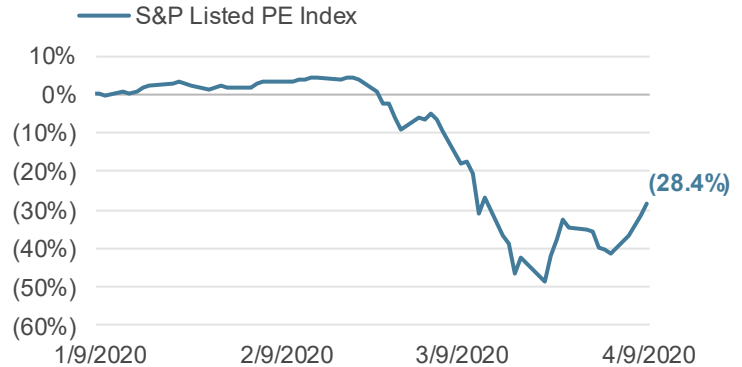
Credit and Lending

- Portfolio companies are drawing on all available credit lines to ride out the storm; default timing unclear.
- Revenue changes will be multiples of risk modeling scenarios (who modelled -90%).
- When you owe the banks \$100, they own you; when you owe the banks \$1 trillion, collectively, who owns whom?
- What unexpected behavior and results happen when the system is overwhelmed?



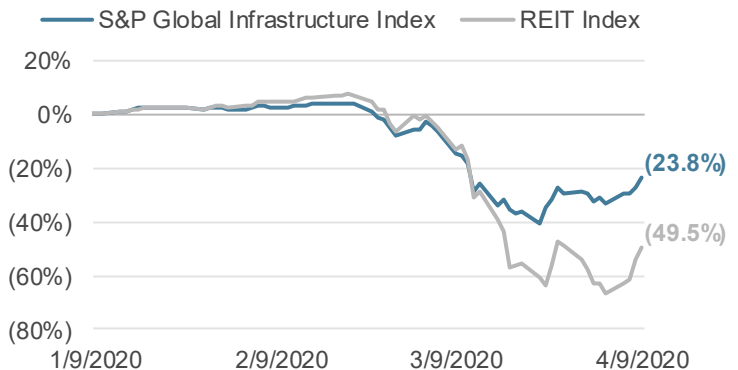
Private Equity

- More than \$1 trillion of dry powder available.
- What issues and cracks may develop:
 - Lack of bank financing?
 - LPs with liquidity problems?
 - Capital call lines cancelled?
 - Duration extension of portfolio
- Solution-focused tools expand:
 - Fund-level financing to defend investments
 - Co-investments, secondaries, etc.



REITs and Infrastructure

- Mortgage REITs use of short-term funding has exposed:
 - margin calls,
 - forbearance requests, and
 - recapitalizations or restructurings
- Difficulty securitizing will further pressure liquidity and funding needs.
- Infrastructure assets should ride out the storm well, with disruptions linked to drops in usage/volume fees and tolls.



Alternative Asset Update: April 15, 2020

(\$ in millions)

Firm Name	Ticker	Market Cap	NAV	Price to NAV	Dividend Yield
<i>Credit Lending</i>					
Aberdeen Income Credit Strategies	NYSE: ACP	\$136	NA	NA	18.5%
Eagle Point CLO Equity Fund	NYSE: ECCB	236	303	0.78	8.9%
GP Investments	BDL: GPINA	401	365	1.10	NA
Hercules Capital	NYSE:HTGC	1,003	1,133	0.89	15.6%
Horizon Technology Finance	NASDAQ: HRZN	148	184	0.80	13.6%
Oxford Lane Capital Corp	NASDAQGS: OXLC	355	392	0.90	27.0%
Oxford Square Capital Corp	NASDAQGS: OXSQ	137	248	0.55	28.7%
VPC Specialty Lending	LSE: VSL	143	300	0.48	17.1%
High		\$1,003	\$1,133	1.10x	28.7%
Mean		320	418	0.79	18.5%
Median		192	303	0.80	17.1%
Low		136	184	0.48	8.9%

<i>Infrastructure</i>					
Atlas Corporation	NYSE: ATCO	\$1,739	\$3,233	0.54x	7.1%
Brookfield Infrastructure Partners	NYSE: BIP	11,992	5,066	2.37	5.3%
First Trust Energy Infrastructure	NYSE: FIF	177	NA	NA	13.1%
Foresight Group	LSE: FTSV	24	40	0.61	7.5%
GCP Infrastructure Investments	LSE: GCP	1,063	980	1.08	6.3%
High		\$11,992	\$5,066	2.37x	13.1%
Mean		2,999	2,330	1.15	7.8%
Median		1,063	2,106	0.85	7.1%
Low		24	40	0.54	5.3%

<i>Private Equity Fund of Funds</i>					
Apax Global Alpha Limited	LSE: APAX	\$688	1,099	0.63x	6.8%
BMO Private Equity Trust	LSE: BPET	293	289	1.01	4.0%
Castle Private Equity	SWX: CPEN	113	157	0.72	26.6%
Harbourvest Global Private Equity	LSE: HVPE	1,067	2,060	0.52	NA
ICG Enterprise Trust PLC	LSE: ICGT	473	811	0.58	3.2%
JPEL Private Equity Limited	LSE:JPEL	160	271	0.59	NA
NB Private Equity Partners Limited	ENXTAM:NBPE	596	900	0.66	4.5%
Pantheon International Plc	LSE: PIN	1,095	1,514	0.72	NA
Private Equity Holding	SWX: PEHN	130	223	0.58	4.0%
SL Private Equity	LSE:SLPE	454	710	0.64	4.5%
High		\$1,095	\$2,060	1.01x	26.6%
Mean		507	\$803	0.67x	7.7%
Median		463	\$761	0.63x	4.5%
Low		113	\$157	0.52x	3.2%

High		\$11,992	\$5,066	2.37x	28.7%
Mean		984	966	0.80	11.7%
Median		355	392	0.66	7.5%
Low		24	40	0.48	3.2%

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(\$ in millions)

Firm Name	Ticker	Market Cap	Book Value	Price to Book Value	Dividend Yield
Residential Mortgage REITs					
AGNC Investment (Agency)	NASDAQ: AGNC	\$6,605	\$10,109	0.65x	11.8%
ARMOUR Residential (Agency)	NYSE: ARR	536	1,437	0.37	22.4%
New Residential Investment (Non-Agency)	NYSE: NRZ	2,389	6,734	0.35	3.5%
New York Mortgage Trust (Non-Agency)	NASDAQ: NYMT	846	2,205	0.38	0.0%
Redwood Trust (Non-Agency)	NASDAQ: RWT	443	1,827	0.24	33.1%
Residential Mortgage REIT Average		\$2,164	\$4,462	0.40x	14.2%
Hybrid Mortgage REITs (Agency and Non-Agency)					
Annaly Capital Management	NYSE: NLY	\$8,683	\$13,810	0.63x	16.5%
Chimera Investment	NYSE: CIM	1,440	3,953	0.36	26.0%
MFA Financial	NYSE: MFA	897	3,384	0.27	0.0%
PennyMac Mortgage Investment Trust	NYSE: PMT	1,062	2,151	0.49	9.5%
Two Harbors Investment	NYSE: TWO	1,343	3,993	0.34	4.1%
Hybrid Mortgage REIT Average		\$2,685	\$5,458	0.42x	11.2%
Commercial Mortgage REITs					
Apollo Commercial Real Estate	NYSE: ARI	\$1,428	\$2,630	0.54x	19.8%
Arbor Realty Trust	NYSE: ABR	869	1,095	0.79	15.4%
Blackstone Mortgage Trust	NYSE: BXMT	3,009	3,763	0.80	11.2%
Granite Point Mortgage Trust Inc	NYSE: GPMT	310	1,019	0.30	0.0%
KKR Real Estate Finance Trust	NYSE: KREF	940	1,122	0.84	10.5%
Starwood Property Trust	NYSE: STWD	3,885	4,700	0.83	14.0%
TPG RE Finance Trust Inc	NYSE:TRTX	501	1,504	0.33	0.0%
Commercial Mortgage REIT Average		\$1,563	\$2,262	0.63x	10.1%
High		\$8,683	\$13,810	0.84x	33.1%
Mean		2,070	3,849	0.50	11.6%
Median		1,062	2,630	0.38	11.2%
Low		310	1,019	0.24	0.0%
BDCs					
Ares Capital Corporation	NASDAQ: ARCC	\$5,569	\$7,467	0.75x	12.2%
Apollo Investment Corporation	NASDAQ: AINV	638	1,216	0.52	18.8%
BlackRock TCP Capital Corp.	NASDAQ: TCPC	414	776	0.53	20.1%
FS KKR Capital Corp.	NYSE: FSK	1,792	3,866	0.46	21.1%
Goldman Sachs BDC, Inc.	NYSE: GSBD	534	676	0.79	13.6%
Golub Capital BDC, Inc.	NASDAQ: GBDC	1,658	2,229	0.74	11.7%
Hercules Capital, Inc.	NYSE: HTGC	1,003	1,133	0.89	15.6%
New Mountain Finance Corporation	NYSE: NMFC	709	1,283	0.55	18.6%
Oaktree Specialty Lending Corporation	NASDAQ: OCSL	536	931	0.58	10.0%
Owl Rock Capital Corporation	NYSE: ORCC	5,328	5,977	0.89	11.0%
PennantPark Floating Rate Capital Ltd.	NASDAQ: PFLT	253	502	0.50	17.5%
PennantPark Investment Corporation	NASDAQ: PNNT	228	589	0.39	21.2%
Prospect Capital Corporation	NASDAQ: PSEC	1,674	3,184	0.53	15.8%
TCG BDC, Inc.	NASDAQ: CGBD	353	956	0.37	28.2%
TPG Specialty Lending, Inc.	NYSE: TSLX	1,057	1,119	0.94	11.4%
High		\$5,569	\$7,467	0.94x	28.2%
Mean		1,450	2,127	0.63	16.4%
Median		709	1,133	0.55	15.8%
Low		228	502	0.37	10.0%

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Manager- and Fund-Related Services and Solutions

Manager-Related (GP)

Mergers and Acquisitions

GP Equity Stakes

Manager Resolutions

Investment Management Agreements

GP Advisory

GP Other Financing

Fund Advisory Services and Solutions

Continuation Vehicles/Fund Recapitalizations

Fund-Level Financing

Asset Sales/LP Sales/Fund Tender

Forbearance Negotiations

Permanent Capital

Fund Placements

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Asset Management— U.K.



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