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Is Private Credit Going To Save Us All?

From concept to implementation

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Liquidity Concerns Have Recently Dominated the Headlines ...

Market Liquidity Drought Raises Alarm Bells Inside Fed

- Reuters , April 23, 2015

CEOs Are Worried About Bond Liquidity. Should You Be?

- InvestmentNews, April 14, 2015

Why Liquidity-Starved Markets Fear the Worst

- Wall Street Journal, May 20, 2015

Fed Looking at Bond Liquidity, Some Evidence Less Resilient than in Past: Brainard

- CNBC, July 1, 2015

The Liquidity Timebomb—Monetary Policies Have Created a Dangerous Paradox

—The Guardian, June 1, 2015

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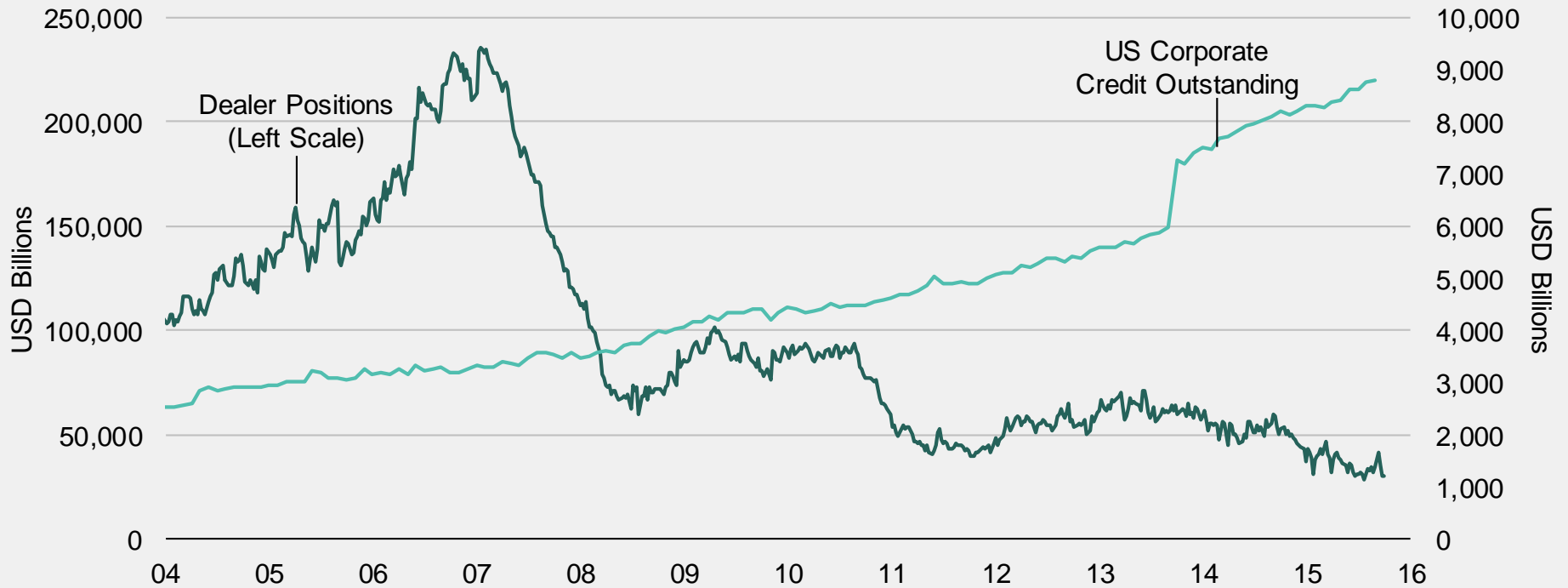
Source: CNBC, The Guardian, InvestmentNews, Reuters, and The Wall Street Journal



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And Rightly So...

Growth of Market vs. Dealer Balance Sheets



As of December 2015

Historical analysis is not necessarily predictive of future results. Historical information is provided for illustrative purposes only and is subject to change.

Source: TRACE



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Things Are Unlikely To Improve ...

Dealer Balance Sheet Reductions, 2010-2015 (% change)

Product	2010-2015	Next 3 – 4 years *
Repo	down ~ 50%	down ~ 10%
Prime	up ~ 20%	flat
Bonds, FX, commodities	down ~ 25%	down ~ 10%
Structured, securitized	down ~ 20%	down ~ 10%
Listed, flow, cleared products	down ~ 50%	down ~ 50%
Issuance and advisory	~ flat	down ~ 5%
Total	-25% to 30%	-5% to -10%

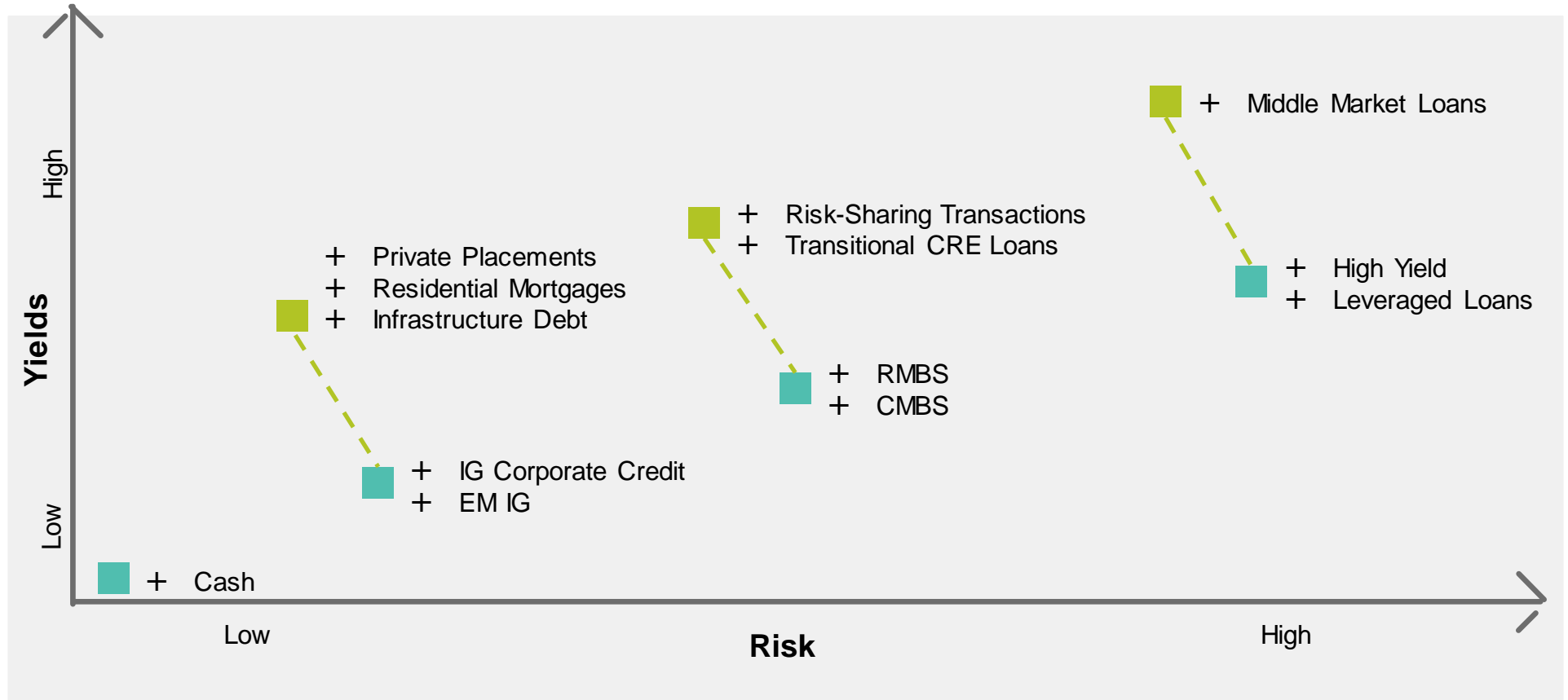
As of March, 2016

* Source: Estimates by Oliver Wyman



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... Might As Well Being Paid For Illiquidity!



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CRE is Commercial Real Estate; RMBS is Residential Mortgage Backed Securities; CMBS is Commercial Mortgage Backed Securities

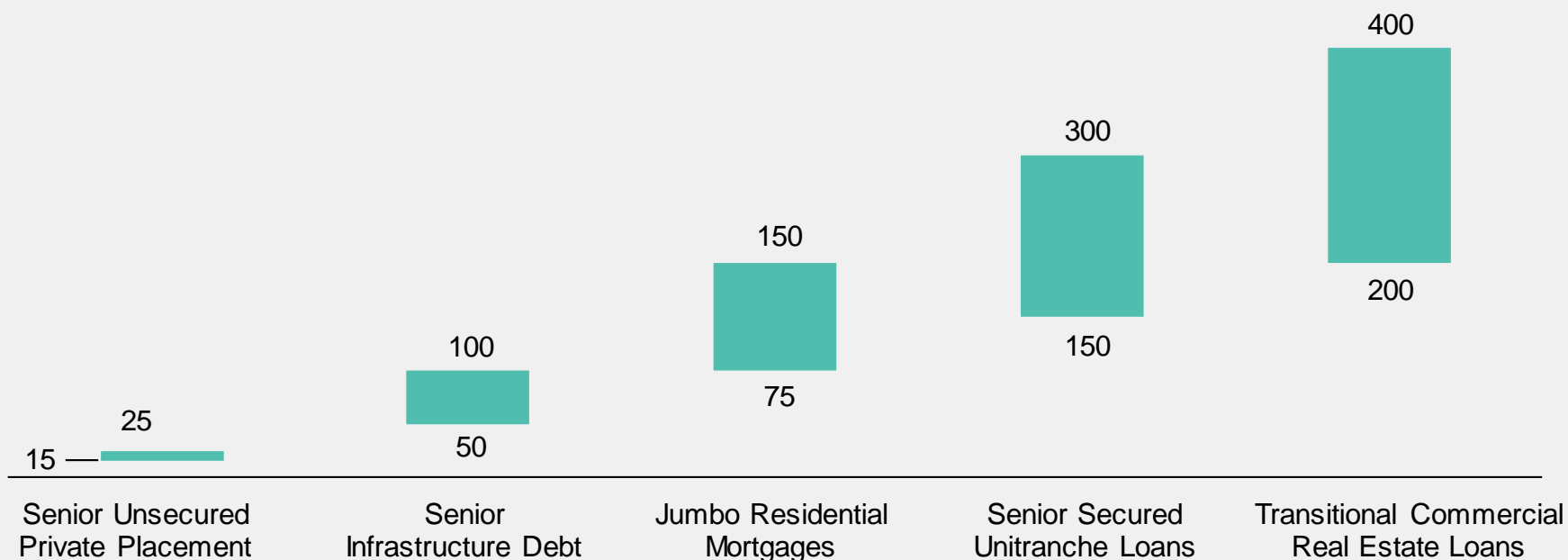
Source: AB Estimates



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Persistent Illiquidity Premium Historically Available in Private Credit

Range of Indicative Illiquidity Premiums (Basis Points)



As of June 30, 2016

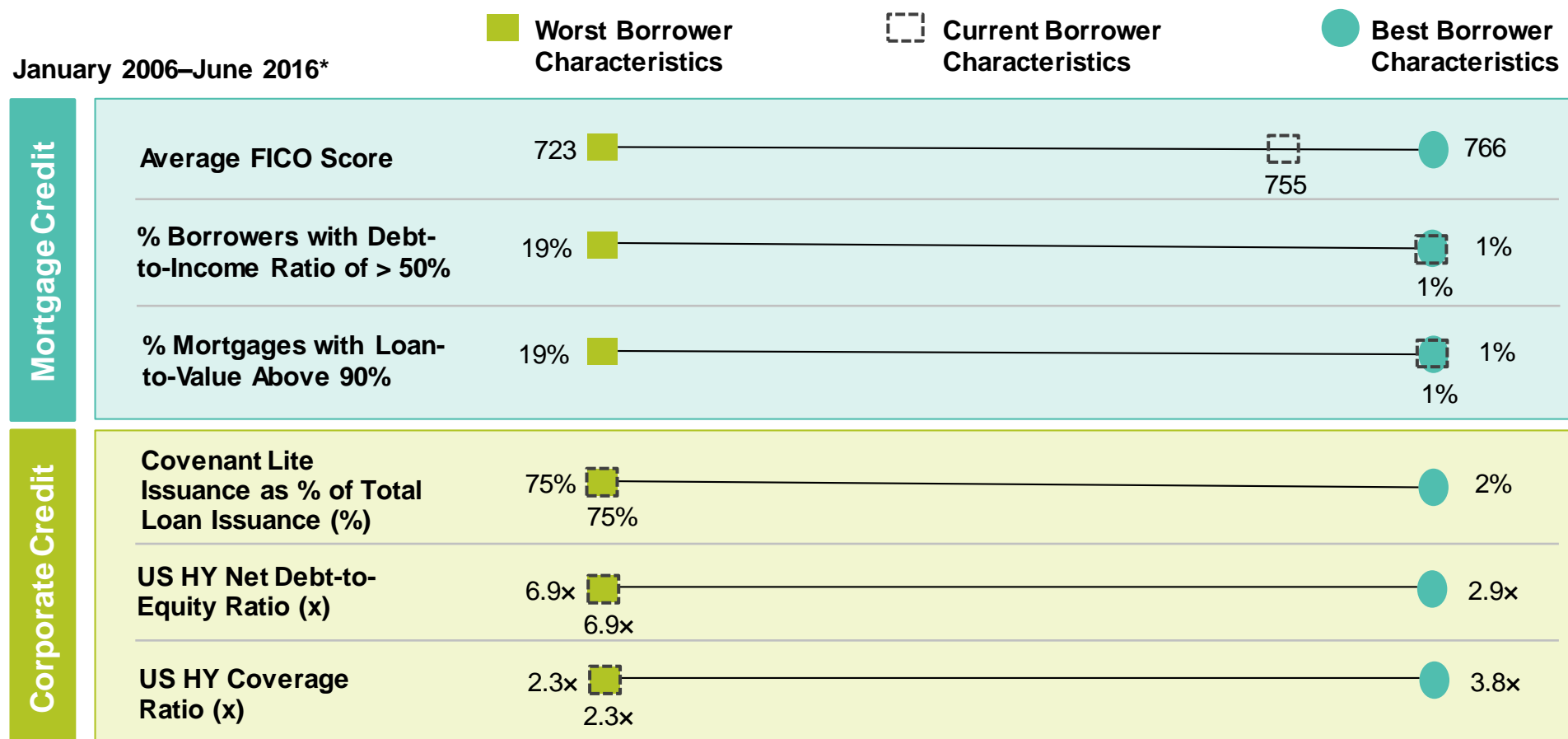
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Source: AB



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Credit Cycle Diversification Benefit



*% Mortgages with Loan-to-Value Above 90%, Average FICO score, and % Borrowers with Debt-to-Income Ratio of > 50% as of December 31, 2015. Mortgage credit data reflect Freddie Mac cohorts from 2006 to 2015 for loans with original loans-to-value of 60%–80% and exclude loans with mortgage insurance. Covenant Lite Issuance data are last twelve months and are as of June 30, 2016. US HY Debt-to-Equity Ratio and US HY Coverage Ratio are last twelve months and are as of March 31, 2016. Source: Bank of America Merrill Lynch, Freddie Mac and AB



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Direct Origination Offers Potential Downside Protection

Reduced Default Probability

- + Discriminating investment selection process
- + In-depth credit analysis and due diligence
- + Strong documentation and covenants

Reduced Loss in Event of Default

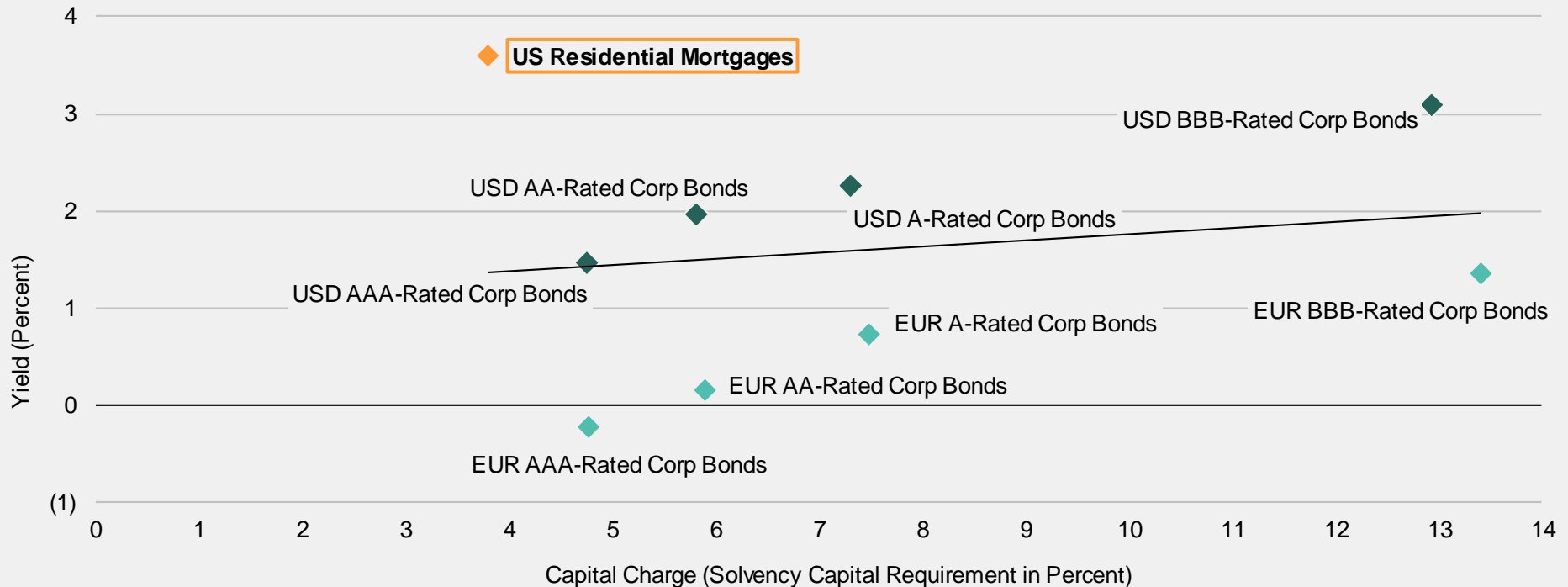
- + Ongoing monitoring
- + Access to company management
- + “Seat at the table” to drive workouts
- + “Club” lender groups

As of June 30, 2016. Information is provided for illustrative purposes only and is subject to change.
Source: AB

Solvency II An Advocate For Private Credit?

Illiquidity premium + potential downside protection = attractive return adjusted for cost of capital

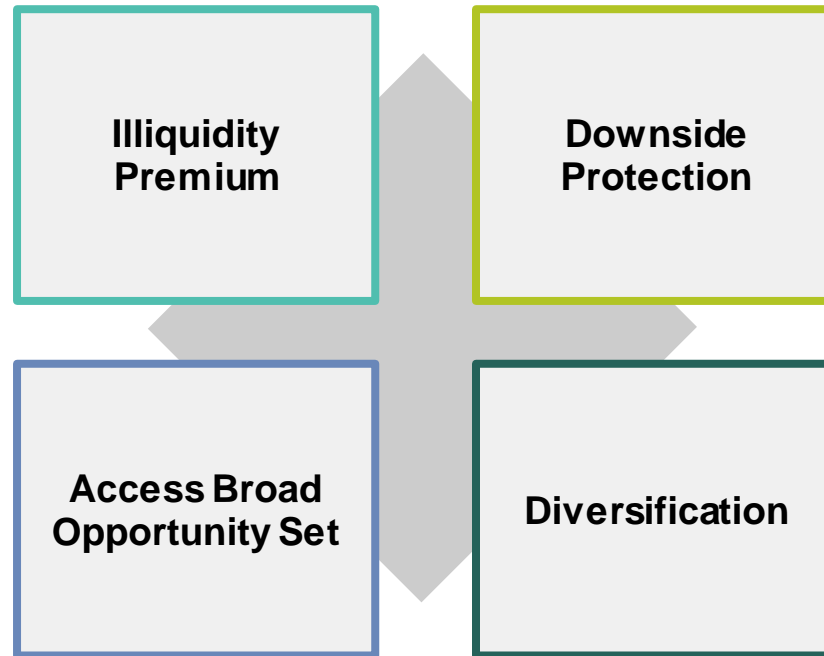
+ Yield and Capital Charge Relative to Investment Grade Corporate Credit



Residential Mortgage and Corporate Bond yields as of June 30, 2016. **There are no assurances that investment objectives will be achieved.** Please see A Word About Risk in the Appendix. Mortgage rate used in premium analysis is the US Home Mortgage 30 Year Jumbo National Average Index (ILMJNAV) minus 40bps, the Strategy's estimated loan-level expense (shown on the slide entitled "AB US Prime Mortgage Strategy: Indicative Gross to Net Yield Analysis"). Source: Barclays (Corporate Bond data), Bloomberg (Mortgage data) and AB

To Recap: Why Invest In Private Credit?

Attractive Potential Characteristics



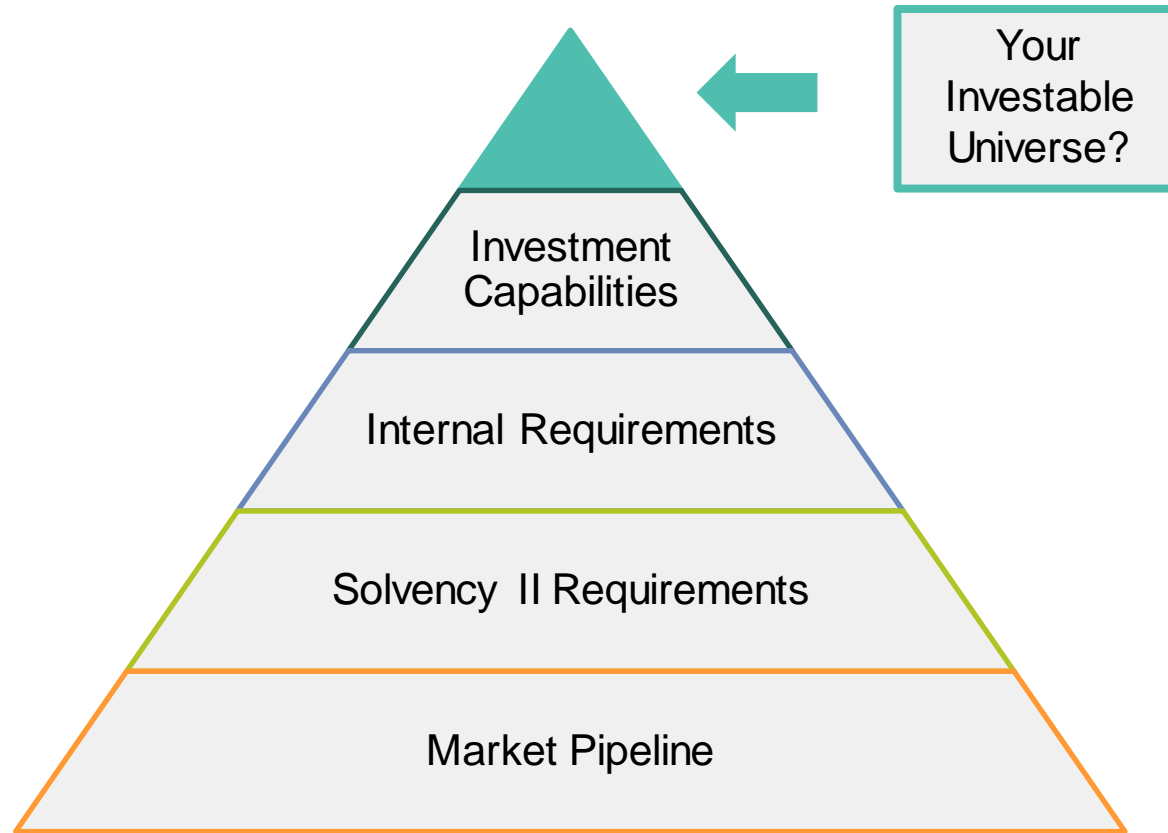
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From Concept To Concrete Implementation

Identifying the opportunity set



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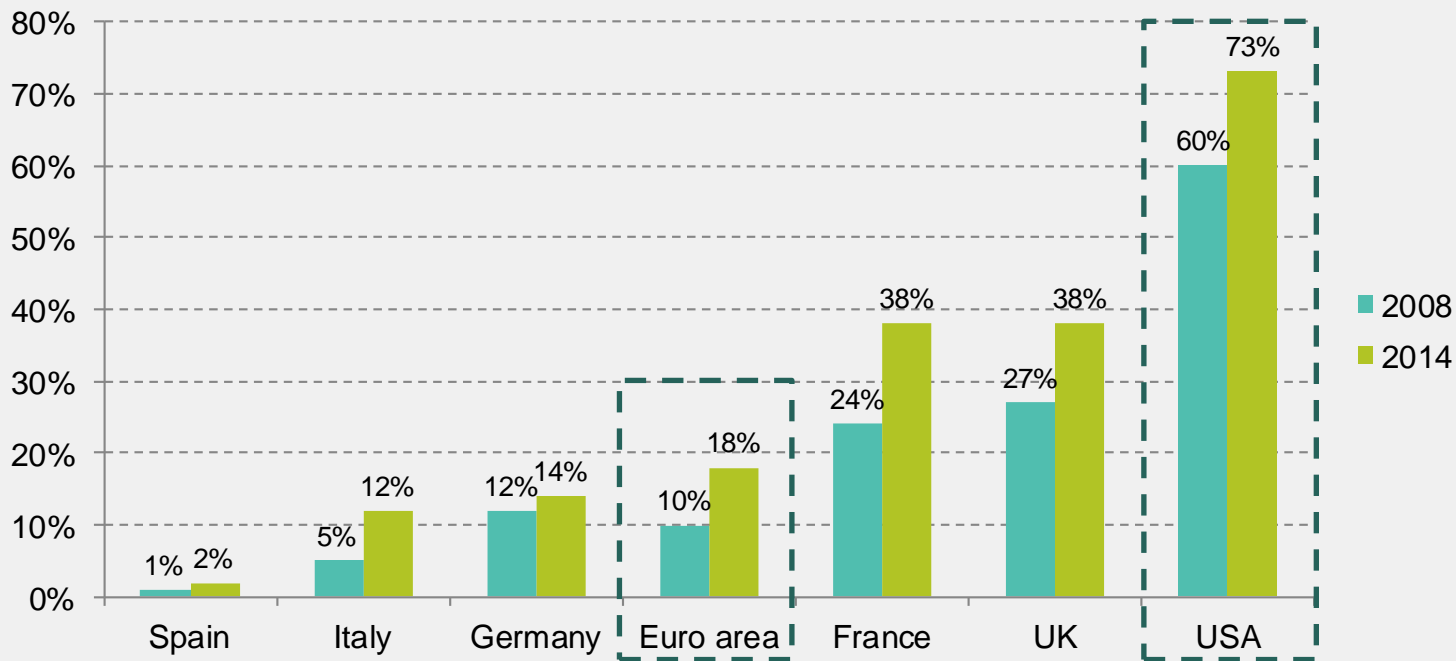


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How Quickly Banks' Market Share Is Reducing?

Banks Still Provide Majority of Financing in Europe

Disintermediation Rate* for Non-Financial Corporates (%)



Historical Information is provided for illustrative purposes only.

* Disintermediation rate characterized by the proportion of bonds and related securities in Non-Financial Corporate debt

As of December 31, 2014

Source: Banque de France.

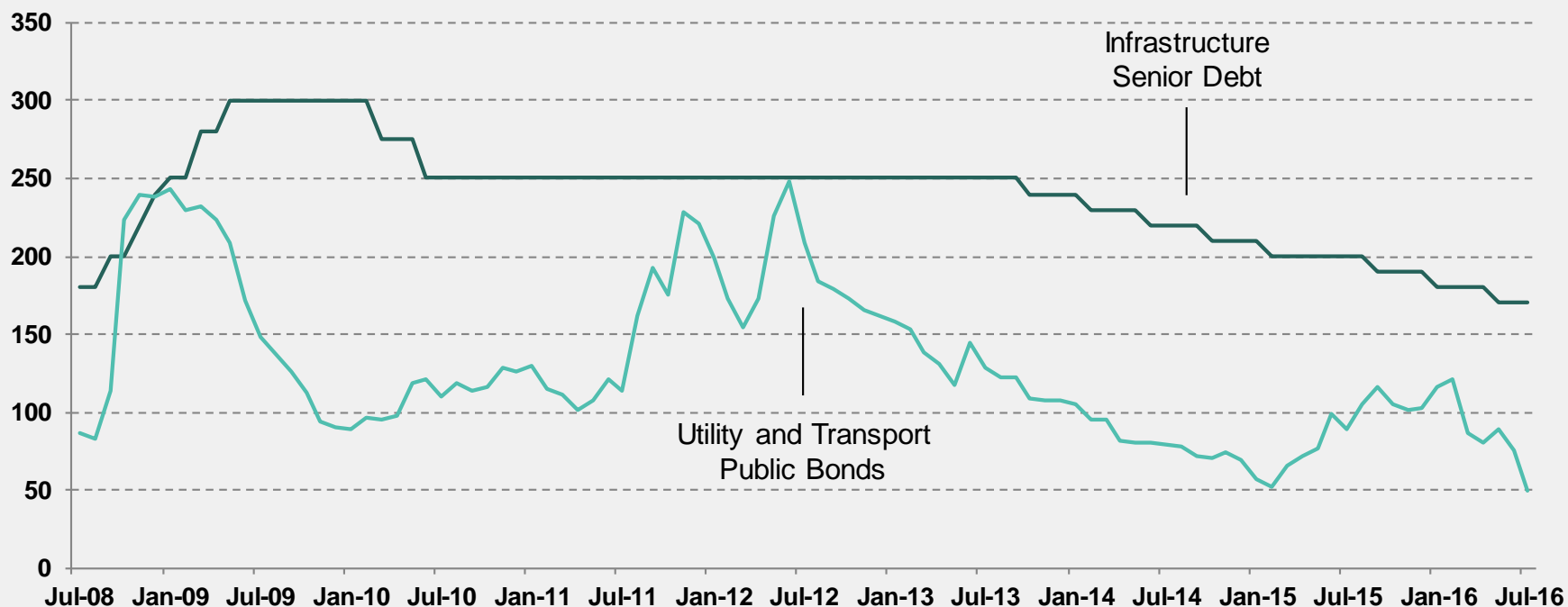


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Popular Asset Classes Are Getting Crowded Quickly

Supply / demand imbalance impacting yields

Spreads over swap (bps): Infrastructure Senior Debt vs. Utility and Transport Public Bonds*



As of 31 July 2016

Source: AB Estimates, Barclays

* Custom Index of EUR and GBP Utility and Transport bonds with 7-10 years duration (average rating BBB)

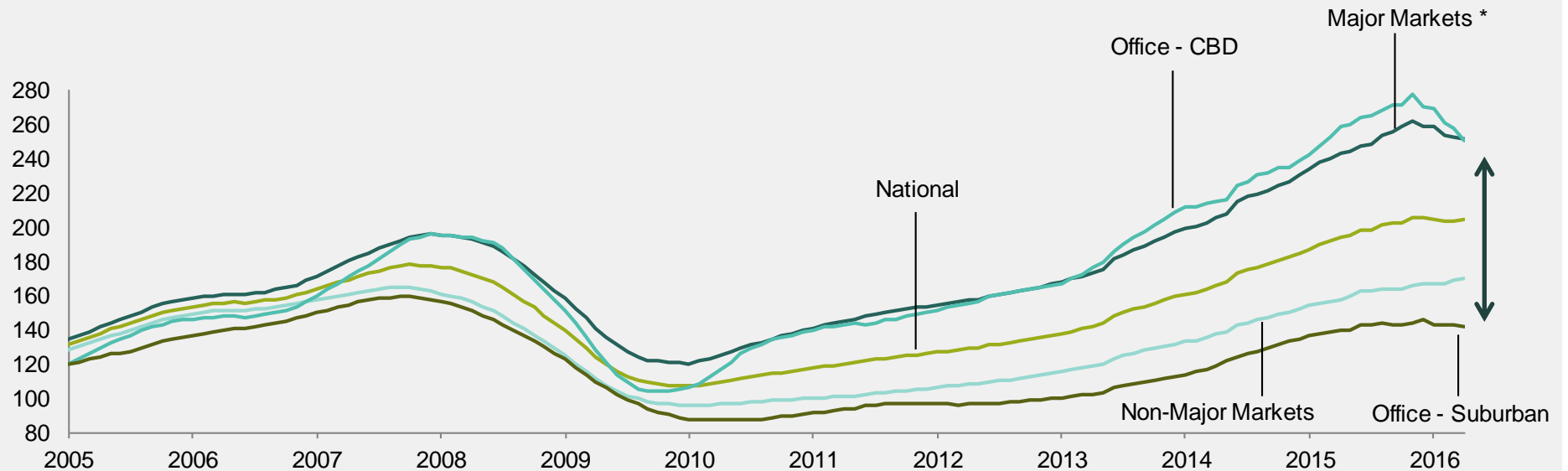


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Exploring Less Crowded Asset Classes

Example: US Commercial Real Estate Lending

Dichotomy in US Commercial Property Prices



- + “Flight to safety” created bifurcated recovery between asset quality, market and product types
- + Transitional and non core-assets and markets still below previous peak levels
- + Traditional lenders (banks, US insurance companies and CMBS lenders) are primarily targeting stabilized assets to meet regulations and rating agency requirements

As of April 2016. For illustrative purposes only.

*Major markets include New York metropolitan area, San Francisco metropolitan area, Washington, DC metropolitan area, Chicago, Boston and Los Angeles metropolitan area

Source: Moody's/Real Capital Analytics Commercial Property Price Indices™ (“CPPI”)



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Solvency II Analysis

Example: US Commercial Real Estate Lending

	Transitional CRE Loan	Stabilized Asset CRE Loan	USD Corporate Bond
Spreads over swaps (bps)	450	200	150
Duration (years)	3	7	3.5
Rating	NR / (BBB)	A	BBB
LTV / Seniority	First lien / LTV 65%	First lien / LTV 80%	Senior unsecured
Solvency II SCR*	9.0%	8.4%	8.75%
Cost of Capital @ 6% (bps)	54	50.4	52.5
Excess Return** (bps)	396	149.6	97.5

+ Attractive excess return vs. public instruments with similar credit quality and maturity

+ Note: collateralization by the underlying properties could provide further reduction in capital requirement

As of 31 July 2016. For illustrative purposes only.

Source: AB Estimates, Bank of America Merrill Lynch USD Corporates BBB-rated 3-5 years Index, EIOPA

* Solvency II Solvency Capital Requirement based on standard formula and not allowing for diversification benefit

** Excess returns are before management fees, expenses and any realized loss that an investor may incur as a result of a credit event. Excess returns are computed as the spreads over swaps minus the product of the SCR multiplied by the cost of capital



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The Myth Of The Long-Term Investor

Does the market pipeline correspond to your (capital) budget?

European Economic Infrastructure Debt: Opportunities Heat Map

Solvency II capital requirements by maturity and credit quality

Duration (years)	Credit Quality Step						
	0	1	2	3	4	5&6	UR
1	0.9%	1.1%	1.4%	2.5%	4.5%	7.5%	3.0%
2	1.8%	2.2%	2.8%	5.0%	9.0%	15.0%	6.0%
3	2.7%	3.3%	4.2%	7.5%	13.5%	22.5%	9.0%
4	3.6%	4.4%	5.6%	10.0%	18.0%	30.0%	12.0%
5	4.5%	5.5%	7.0%	12.5%	22.5%	37.5%	15.0%
6	5.0%	6.1%	7.7%	14.0%	25.0%	41.7%	16.7%
7	5.5%	6.7%	8.4%	15.5%	27.5%	45.9%	18.4%
8	6.0%	7.3%	9.1%	17.0%	30.0%	50.1%	20.1%
9	6.5%	7.9%	9.8%	18.5%	32.5%	54.3%	21.8%
10	7.0%	8.4%	10.5%	20.0%	35.0%	58.5%	23.5%
11	7.5%	8.9%	11.0%	21.0%	36.8%	59.0%	24.7%
12	8.0%	9.4%	11.5%	22.0%	38.6%	59.5%	25.9%
13	8.5%	9.9%	12.0%	23.0%	40.4%	60.0%	27.1%
14	9.0%	10.4%	12.5%	24.0%	42.2%	60.5%	28.3%
15	9.5%	10.9%	13.0%	25.0%	44.0%	61.0%	29.5%
16	10.0%	11.4%	13.5%	26.0%	44.5%	61.5%	30.7%
17	10.5%	11.9%	14.0%	27.0%	45.0%	62.0%	31.9%
18	11.0%	12.4%	14.5%	28.0%	45.5%	62.5%	33.1%
19	11.5%	12.9%	15.0%	29.0%	46.0%	63.0%	34.3%
20	12.0%	13.4%	15.5%	30.0%	46.5%	63.5%	35.5%

Deal Pipeline
HIGH
MEDIUM
LOW

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Source: AB Estimates, EIOPA



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Enabling Private Credit

Building up flexibility and capabilities to move the needle

- + Any flexibility around the internal requirements?
 - + Internal model vs. standard formula
 - + Public rating vs. internal rating
 - + Fund format vs. direct investment
 - + Floating rate vs. fixed rate
 - + Local currency vs. FX hedging

- + Building investment capabilities for the long-term game
 - + Strategic allocation vs. opportunistic allocation
 - + Asset management: in-house vs. outsourcing
 - + Risk Management, legal & tax,

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The Private Credit Investment Opportunity

Potential to Expand the investment universe

- + The business case for Private Credit seems compelling
- + Opportunities exist for a broader investment universe and avoiding crowded spaces
- + Build capabilities to assess opportunities quickly
- + We have some ideas, let us help you!



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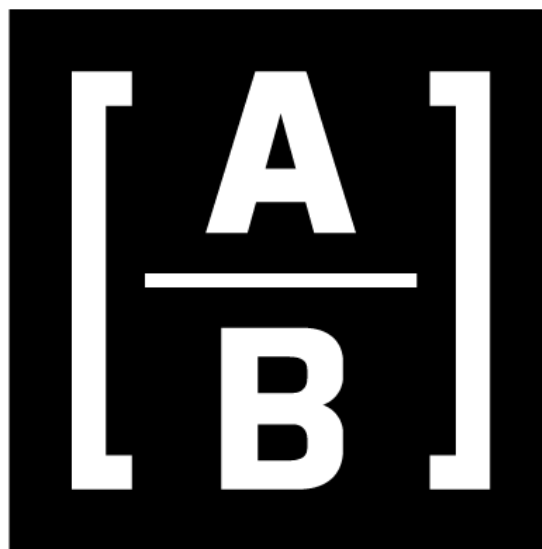
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