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1WS Capital Advisors

Credit Outlook

January

2024

Backdrop:

- *2022 was a year when many asset-liability mismatches and inflexible investment pools were finally exposed, as Central Banks introduced a historically intense paradigm shift from their low-rate policy approach - which had dominated for over a decade - in an effort to reduce elevated levels of global inflation. As a result, we began to see overdue secular changes.*
- *2023 can be characterized in several ways as a surprising result following dramatic economic shifts. Economic growth remained stronger than expected: COVID-era stimulus continued to support consumer spending, the labor market remained tight, and inflation declined more than expectations.*
- *2024, we expect, will be the year during which the weaker credits and capital structures originated during the decade of near-zero interest rates will be exposed. Growth will be slower, by design. The consumer has been resilient, thus far, but the cohort can now be described more accurately as the "haves" and "have-nots". Even as we start 2024 with the risk of significantly higher interest rates having been seemingly mitigated, the debt service of some borrowers will prove increasingly unmanageable. Consequently, and, rationally assuming that interest rates have found a new normalized range for the foreseeable future, inferior assets, borrowers, and structures will become increasingly exposed. Tail risk assets will, we believe, underperform.*

Current OWS Investment Approach:

- *2023 ended similarly to 2021 in that many corporate and equity risk assets seemed priced to perfection, touching new valuation highs. However, the answers to when, how, and where we go from here remain unclear. We anticipate developments over the first half of 2024, in the form of a more traditional (albeit rare over the past 15yrs) credit cycle repricing, should bring back some of the improved clarity we thought might begin to show last year. As a result, we are positioned for continued market volatility over the short- to intermediate-term.*
- *Most structured credit sectors have remained cheap, in our opinion, on a historical basis and relative to corporate credit since the Fed cycle began. In our view, investment-grade and high-yield corporate credit markets, recently near all-time highs or tights, are not pricing in much of the risk that has been priced into most securitized, asset-backed credit markets. Therefore, we believe that the embedded positive credit convexity within structured credit sets up for a dynamic investment opportunity - and, perhaps, multi-year realization of attractive risk-adjusted returns.*
- *As the credit cycle continues to evolve, we will gain improved fundamental clarity. In the meantime, we continue to seek to mitigate directional risk via relative pricing dislocations, robust credit enhancement, and by avoiding the fundamental uncertainty currently associated with longer-dated credits. We will add directional spread duration, and/or more leveraged structural exposures as/if warranted.*
- *Pricing assets based on recent pro-forma historical data will not work going forward - and it is not just about interest rates. With improved asset pricing and steeper credit curves, we will be able to maneuver dynamically across markets.*
  - *Taking advantage of recent ongoing secular changes (i.e., real money), we have been able to overweight high-quality cash/CUSIP opportunities, without taking significant fundamental credit risk given the risk premium relative to high-yield-equivalent risk.*
  - *With increasing frequency, we believe, we will have improved pricing power across such important factors as structural features, borrower characteristics, asset seasoning, and originator quality. We believe, this will ultimately result in an expanded opportunity set to add more idiosyncratic exposure in the New Year.*

December 31st, 2023

The 1WS Credit Income Fund (the "Fund") is a closed-end interval fund launched in March 2019. As of December 31st, 2023, the Fund has gross assets under management of approximately $266 million (approximately $206 million net assets). The Fund is a non-diversified, closed-end investment management company with an investment objective seeking attractive risk-adjusted total returns through generating income and capital appreciation by investing primarily in a wide array of predominantly structured credit and securitized debt instruments.

Overview

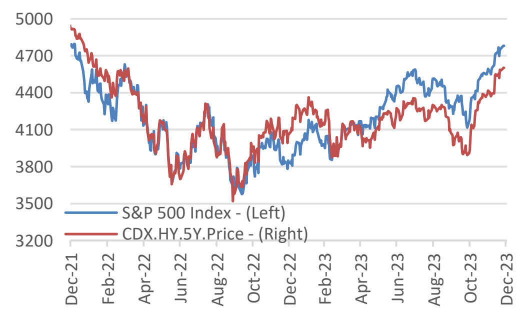
Entering 2024, we believe that many sectors within structured credit are historically attractive when compared with historical corporate credit benchmarks. Fundamental uncertainty remains elevated in many consumer and commercial real estate sectors, which we believe has led to elevated risk premia. This creates attractive investment opportunities for those with differentiated underwriting capabilities. Given the strong rally in corporate spreads and equity indices, we believe that current pricing reflects a benign fundamental outlook with little compensation for future uncertainty. While the recent decline in interest rates and collapse in credit and equity volatility have eased financial conditions and supported gains in credit and equity valuations, prospects for a macroeconomic backdrop consistent with current valuation seems speculative at best, in our opinion. This could give rise to increasing volatility and risk premia across some sectors as markets digest incoming growth and inflation data over the coming months.

Capital markets closed out 2023 with a sharp rally in risk assets as the Federal Reserve pivoted from their "higher for longer" policy stance to acknowledging the likelihood of rate cuts in 2024. Capital markets immediately began pricing in earlier and more aggressive easing in 2024. Equity valuations and corporate credit rallied strongly into year-end, all but reversing the declines realized in 2022 (Exhibit 1). Equities finished the year (Nov & Dec) with one of their best two-month gains in years, with the S&P 500 (including dividends) rallying over 14% and setting a new record high, as inflation fears abated and interest rates declined dramatically. The Bloomberg U.S. Aggregate fixed-income index rose more than 8.5% during the final two months, the best two-month rally dating back prior to 1990. High-yield (HY) corporate credit spreads narrowed -154 bps year-over-year.

Exhibit 1:

Credit and Equity Prices Rallied Into Year-End

S&P 500 and Synthetic High-Yield Corp CDX ($)



Sources: Bloomberg Finance L.P., OWS

Net Return Performance as of 12/31/23*	MTD	YTD	ITD (3/4/19)
1WS Credit Income Fund (OWSCX) Class I shares	1.27%	12.32%	37.86%
1WS Credit Income Fund (OWSAX) Class A-2 shares	1.18%	11.60%	33.43%
Bloomberg Barclays U.S. Aggregate Bond Index[1]	3.83%	5.53%	4.80%
ICE BofAML U.S. High Yield Index[2]	3.67%	13.44%	21.13%

Source: Bloomberg, Finance L.P., Bank of America, OWS

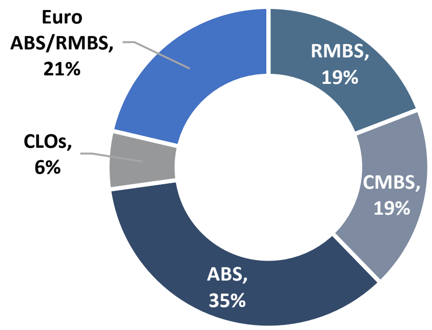
Past performance is not indicative of future returns.

* *OWSCX returns are presented net of all fees and expenses, benchmark returns are gross. Please see pp. 17-20 for important risk disclosures and definitions.*
OWSAX returns prior to May 2021 reflect the performance of Class I shares, adjusted to reflect the distribution and shareholder servicing fees applicable to Class A2 shares. Class A2 shares are subject to an upfront sales load of up to 3%, which is not reflected in the returns shown above and, if applied, would lower such returns. Management Fee: under the Advisory Agreement will be calculated at an annual rate of 1.50% of the daily gross assets of the Fund. "Gross Assets" means the total assets of the Fund prior to deducting liabilities. Derivatives will be valued at market value for purposes of determining "Gross Assets" in the calculation of management fees. Because the Management Fee is based on the Fund's daily gross assets, the Fund's use of leverage, if any, will increase the Management Fee paid to the Adviser. For the initial year of the Fund, the Adviser voluntarily agreed to reduce the Management Fee to .75%. For the one-year period beginning on March 1, 2019, and continuing through the present, the Adviser has voluntarily agreed to reduce the Management Fee to 1.25% of the Fund's daily gross assets. The Adviser's board is under no obligation to continue the fee waiver but may continue to do so.

[1,2] *Please refer to the risk disclosures and definitions on pp. 17-20 for a description of the benchmark indices chosen and the risks associated with comparing 1WS Credit Income Fund returns to those of an index. Investors cannot invest directly in an index.*

Performance data quoted represents past performance, which is not a guarantee of future results. *Current performance may be lower or higher than the performance quoted. The principal value and investment return of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. You can obtain performance data current to the most recent month end by calling (833) 834-4923 or visiting www.1wscapital.com. Investors cannot invest directly in an index. All performance shown assumes reinvestment of dividends and capital gains distribution in percent value. Dividends are not guaranteed and will constitute a return of capital if dividend distributions exceed current-year earnings. Please refer to the Fund's most recent Section 19(a) notice for an estimate of the composition of the Fund's most recent distribution, available at www.1WSCapital.com.*

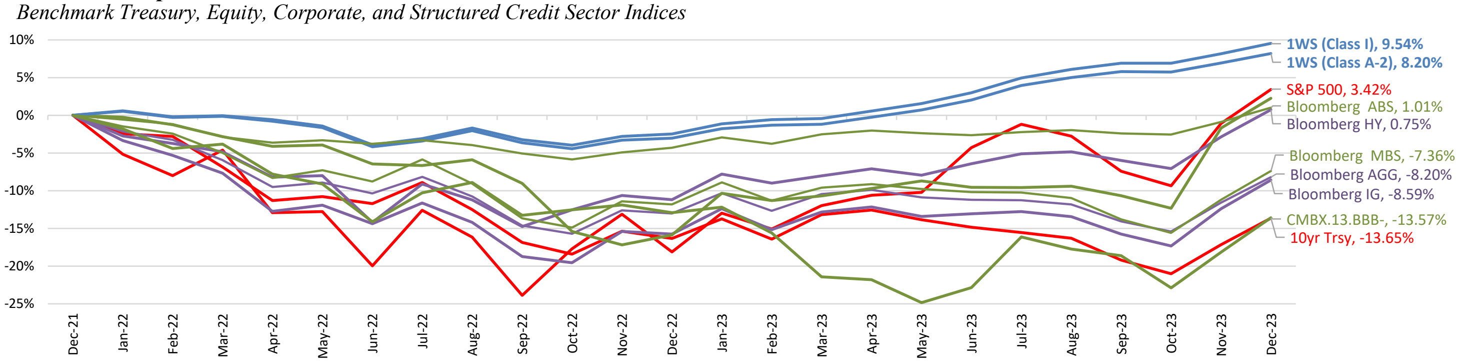
Portfolio Composition[1] and Net Return Attribution[2]



Asset Type	Net Return[2] Attribution MTD	Net Return[2] Attribution YTD
Asset-Backed Securities (ABS)	0.51%	2.88%
Collateralized Loan Obligations (CLOs)	0.14%	1.17%
Commercial Mortgage-Backed Securities (CMBS)	0.13%	0.54%
European ABS & RMBS	0.55%	3.44%
Residential Mortgage-Backed Securities (RMBS)	0.39%	2.14%
Other	0.00%	1.11%
Interest Rate Hedges	-0.45%	1.04%
Total	**1.27%**	**12.32%**

[1] The Portfolio composition as of 12/31/23 differs from the portfolio composition for any point prior to such date and is subject to change at any time.
[2] Net performance data reflects the deduction of all fees and expenses. Net return attribution represents portfolio PnL by sector divided by the Fund's average net asset value for the period reduced by operating expenses and management fees allocated to the sectors based on the market value of the portfolio for the period. See pages 17-20 for important risk disclosures and definitions.

Exhibit 2:
Two-Year Capital Market Return Performance
Benchmark Treasury, Equity, Corporate, and Structured Credit Sector Indices



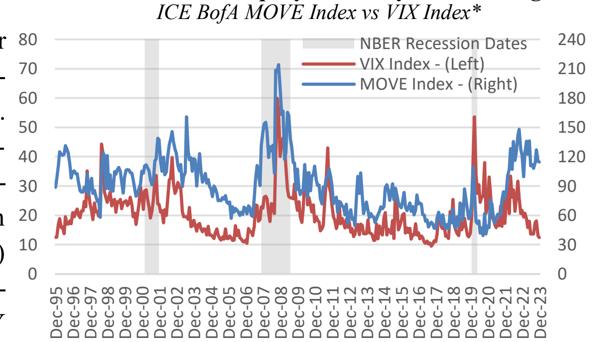
Sources: Bloomberg Finance L.P., J.P. Morgan, OWS
OWS returns are net of fees and expenses, benchmark index returns are gross.

Past performance is not indicative of future returns. See important disclaimers on pages 17 - 20. It is not possible to invest in an index.

Despite the strong rally in corporate credit and equities in 2023, the two-year cumulative returns - since the start of the Fed tightening cycle in early 2022 - have been more subdued for benchmark fixed-income and equity sectors. Equity returns, as measured by the S&P 500, have only recently turned positive, including the reinvestment of dividends (Exhibit 2). Benchmark fixed-income sectors, while recovering from the 2023 high in yields, remain down sharply across two years. For instance, the Bloomberg U.S. Aggregate (AGG) bond index, one of the most popular fixed-income benchmarks, is down -8.20% over the two-year period. Among fixed-income benchmarks, the HY index has outperformed, given excess credit spread and shorter interest rate duration relative to investment-grade (IG) benchmarks.

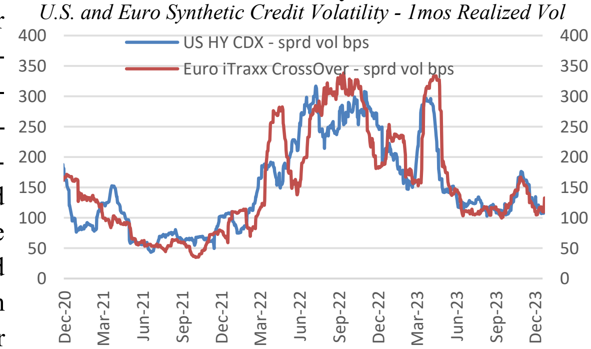
While recent (Q4 2023) investor sentiment and market pricing seem to have shifted toward an expectation for a soft landing for the U.S. economy, rather than a recession, we believe that this may not be enough to prevent a weakening fundamental environment given higher rates and existing growth prospects. Risks to the current sentiment may result in the re-emergence of volatility, particularly equity and corporate credit volatility, in the New Year. Interest rate volatility, as measured by the ICE BofA Move index, has remained elevated, slowly trending lower, while equity volatility, as measured by the VIX index, has returned to historic lows (Exhibit 3). Similarly, implied and realized volatility of corporate credit spreads have declined significantly from recent highs (Exhibit 4). This is not to say that we believe a soft landing for

Exhibit 3:
Interest Rate & Equity Volatility Have Diverged
*ICE BofA MOVE Index vs VIX Index**



Sources: Bank of America, Chicago Board Options Exchange, Bloomberg Finance L.P., National Bureau of Economic Research (NBER), OWS
*The MOVE Index is a yield curve weighted index of implied volatility on 1-month Treasury options. The VIX Index is a market estimate of the expected volatility of the S&P 500.

Exhibit 4:
Credit Sector Volatility Has Declined
U.S. and Euro Synthetic Credit Volatility - 1mos Realized Vol

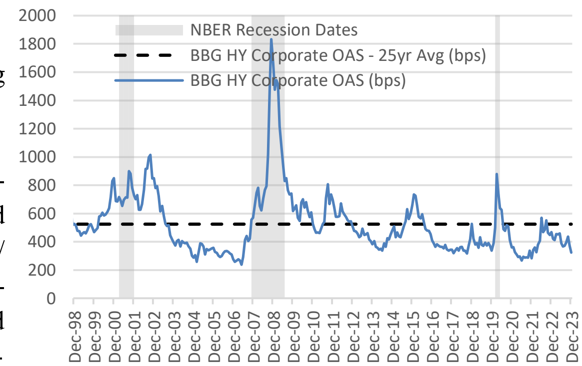


Sources: Markit, Bloomberg Finance L.P., OWS the U.S. economy is unlikely; rather, we simply believe that the market is already pricing (front-loaded) much of the best-case scenario for some sectors and, in our opinion, is largely discounting any future risks to that outlook. For instance, after tightening -154 bps in 2023, HY corporate credit spreads are currently 40% below their 25-year average and do not appear to be discounting meaningful future default risk in the HY corporate sector (Exhibit 5).

Exhibit 5:

Corp Credit Spreads Are Not Pricing Significant Risk

Bloomberg (BBG) High-Yield (HY) OAS



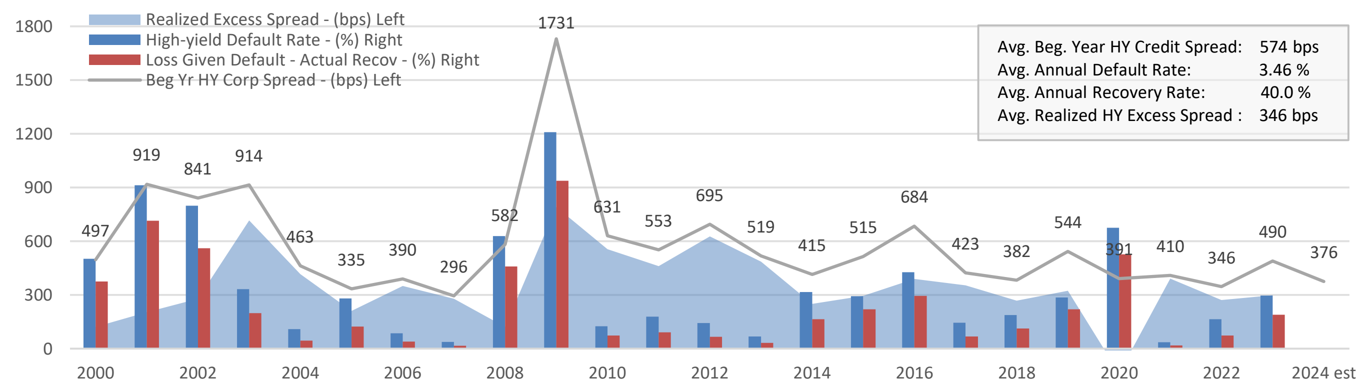
Sources: Bloomberg Finance L.P., OWS

Using a simplified methodology, we can estimate what current spreads are implying for next year's default rate by taking into account the current spread and subtracting a median historical excess spread to extrapolate the implied default/loss 12-months forward. Excess spread can be thought of as the credit risk premium, or the premium that investors require to be paid above future expected default/losses. Our estimate of an appropriate excess spread equates to the historical monthly median of the difference between actual spreads and 12-month forward default/losses over the past 30 years (J.P. Morgan data). In Exhibit 6, we highlight the annual realized HY excess spread for each calendar year since 2000, given the beginning year HY spread, the actual 12-month default rate, and default/losses in light of actual realized recoveries over the period. For 2024, the HY default rate would need to come in at a benign 0.5% in order for an investor in a portfolio of HY bonds (equivalent to the J.P. Morgan HY index) to realize the historical average excess spread (346 bps), assuming an average (40%) recovery rate on defaults, and the current beginning year HY spread of 376 bps.

Exhibit 6:

Historical Annual (Calendar Year) Realized HY Excess Spread

Beginning Year HY Spread, Annual Defaults, Realized Losses, and Excess Spread



Sources: J.P. Morgan, OWS

In Exhibit 7, we highlight recent 2024 HY default estimates from a number of rating agencies and investment banks. Given these default estimates, a beginning HY spread of 376 bps and an assumed average (40%) recovery rate on defaults, the average estimated excess spread for 2024 is meaningfully below the historical average (111 bps vs. 346 bps). Even for the most conservative 2024 default estimate in our sample (2.76% - J.P. Morgan), the 2024 excess spread estimate is 136 bps below the historical average.

Exhibit 7:

2024 Corporate Default Estimates

Excess Spread Given Beginning Spread and Default Loss Estimates

2024 Annual HY Default Expectations		HY Excess Spread Analysis: 2024 Loss Est.. Given Default Exp. @ 40% Recovery	2024 Excess Spread Given Default Exp. & Beg. OAS (bps)	Implied Beg. OAS to Achieve Historical Avg. Excess Spread (bps)
Current OAS			**376**	
Moody's	4.70%	2.82%	94	628
S&P	5.00%	3.00%	76	646
Fitch	5.25%	3.15%	61	661
J.P. Morgan	2.76%	1.66%	210	512
Deutsche Bank	5.90%	3.54%	22	700
Morgan Stanley	3.80%	2.28%	148	574
Goldman Sachs	3.50%	2.10%	166	556
Current Avg	4.42%	2.65%	111	611
Historical Avg	3.46%	2.36%	346	574

Sources: J.P. Morgan, Moody's, S&P Global, Fitch, Deutsche Bank, Morgan Stanley, Goldman Sachs, OWS

Modest economic growth at best, and elevated interest rates relative to the past decade, will likely continue to chip away at credit fundamentals. Easy credit conditions and historically low interest rates resulted in many poorly underwritten and priced exposures, in our opinion. Many of these will continue to be susceptible to diminishing debt-servicing capacity and less liquid access to new capital sources, particularly those with near-term debt refinancing requirements, and among lower quality borrowers. While a decline in future funding costs will reduce potential risk, the level and pace of future rate declines remains uncertain.

While HY corporate credit rallied strongly in 2023, fundamentals have continued to deteriorate. Since the start of the Fed tightening cycle, year-on-year growth in revenues and earnings before interest, taxes, and depreciation, and amortization (EBITDA) have declined sharply, according to J.P. Morgan, while interest expense has been on the rise (Exhibit 8). Since bottoming in Q2 2022, annual interest expense has increased for five straight quarters, most recently rising +16.3% relative to year-ago levels. While acknowledging these are backward looking data, we do believe that interest expense will continue to rise, pressuring margins, for corporates needing to refinance debt originated prior to the current rate cycle. While a significant amount of corporate debt has been termed out, the share of relatively short-dated debt (i.e., those scheduled to mature over the next two to three years) remains at or near multi-year highs (Exhibit 9). In addition, according to a recent study by Moody's, distressed companies (or those rated Caa and lower) account for 19% of the 2024-2025 maturities. This is up from 16% due to mature within two years from last year's study. In addition to higher interest expense, we believe that many of these companies will face tighter financial conditions and more difficulty refinancing at current leverage ratios.

We believe that much of the late 2023 rally in risk assets can be attributed to the pivot by the Federal Reserve in their outlook for future monetary policy and the subsequent rally in interest rates. However, there remains considerable uncertainty with respect to the future path and timing of policy rate changes as well as future economic growth, in our opinion. With the release of its updated dot plots in December, the Fed now expects the target Fed Funds rate to decline by 75 bps in 2024 - a reflection of recent progress in reducing inflation. Nevertheless, markets are currently pricing a much larger decline - currently, more than 150 bps, as derived from Fed funds futures contracts (Exhibit 10).

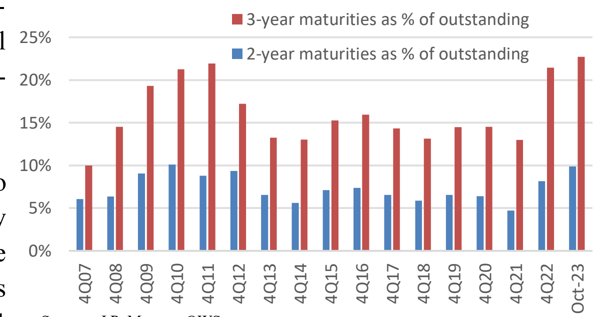
Will inflation continue to fall, giving the Fed greater flexibility to reduce rates further, more in line with current market pricing? Will the Fed be willing to cut policy rates further if the economy continues to grow, albeit slower, given risks of re-igniting inflation? If the Fed does reduce rates more aggressively, is this a reflection of a more severe deterioration in the economic outlook and thus increasing default risk? Will current market pricing need to adjust higher to reflect a higher-for-longer policy outlook? Each of these and other possible outcomes have alternative implications for interest rates, credit fundamentals, and the economy generally, which we believe will likely result in higher volatility in the coming year. This is particularly true, in our opinion, in corporate credit and equity sectors where risk premia and volatility are currently priced at or near historic lows.

Across many securitized credit sectors, we can underwrite to weaker expected fundamentals, generally, due to the effects of past rate increases, higher costs associated with past inflation, a depletion of excess savings, and a general slowing of the economy, in direct contrast to broader corporate and equity markets that seem to be pricing in a much more favorable economic backdrop . While we are very much aware that relative fundamental performance within and across securitized credit sectors varies considerably, the disconnect across markets cannot be sustained, in our opinion. Within the consumer sector, aggregate fundamentals have been supported by excess savings built up during the pandemic, a still-strong labor market, and large gains in consumer wealth

Exhibit 8:
Corporate Credit Fundamentals Have Been Deteriorating
Annual Revenue, EBITDA, and Interest Expense Growth

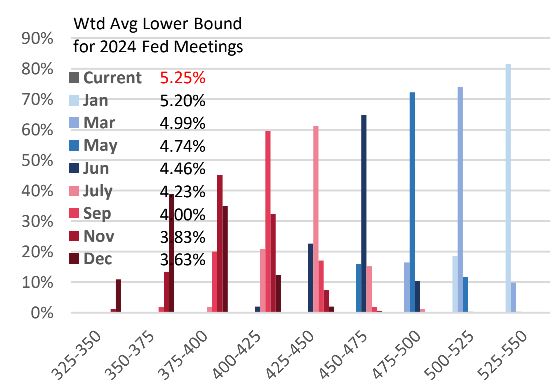
Sources: J.P. Morgan, OWS

Exhibit 9:
High-Yield Bond and Loan Maturity Schedule
As A Percentage of Current Outstanding



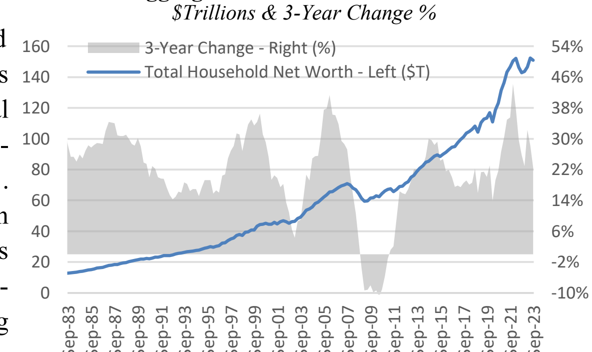
Sources: J.P. Morgan, OWS

Exhibit 10:
Fed Rate Hike Expectations - *(as of Dec 29th, 2023)*
Market is Currently Pricing More Than 150bps of Rate Cuts by Year-End 2024



Sources: CME FedWatch Tool
FOMC meeting probabilities are determined from the corresponding CME Group Fed Funds futures contracts

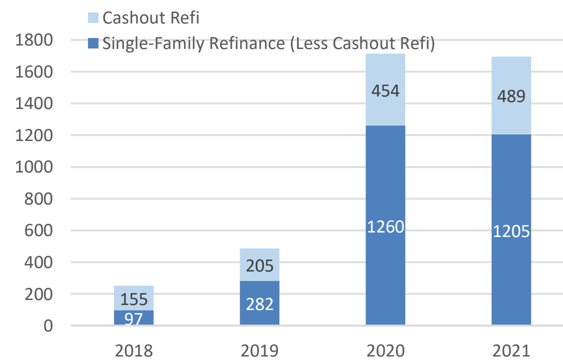
Exhibit 11:
Aggregate U.S. Household Wealth
$Trillions & 3-Year Change %



Sources: Federal Reserve, Bloomberg Finance L.P., OWS as a result of home equity gains and stock-market participation. In the three years prior to the start of the recent Fed tightening cycle, household wealth had grown by more than 44%, the highest 3-year accumulation of wealth in more than 4 decades (Exhibit 11).

In addition to large excess savings accrued during the pandemic period due to generous federal stimulus payments, and a slowdown in discretionary spending, near-zero interest rates allowed homeowners to refinance mortgages in large numbers and at ultra-low rates (Exhibit 12), while the student-loan moratorium deferred interest payments for tens of millions of borrowers. According to Liberty Street Economics, referencing data from the New York Fed's Consumer Credit Panel, about 14 million households refinanced their mortgages during the seven-quarter period between 2Q 2020 and 4Q 2021. For rate refinancers (less than 5% equity extraction) homeowners were able to reduce their mortgage bill by ~$30 billion per year, with cumulative savings of about $120 billion as of Q2 2023. In addition, homeowners withdrew large amounts of home equity (~ $430 bln) during this period, in the form of cash-out refinancing. In total, approximately $550 billion of additional funds were available for consumption due to mortgage refinancing over this period. In addition, Federal student loan payments totaled about ~$70 billion per year prior to the student loan moratorium, implying as much as an additional ~$260 billion was available for other consumer spending as of Q2 2023, according to Liberty Street Economics.

Exhibit 12:
Ultra-Low Interest Rates Allowed Homeowners to Refinance at Record Numbers - *$Blns*



Sources: Federal Housing Finance Agency, Freddie Mac, Fannie Mae, Federal Reserve Bank of New York, Bloomberg Finance L.P., OWS

These tailwinds have helped drive steady levels of consumer spending and, in our opinion, help explain why the economy has been able to defy expectations and remain so resilient in the face of high inflation and rapidly rising interest rates. However, we believe that headwinds are building for some consumers as excess savings have been drawn down, mortgage refinancing has all but been shut off, and the resumption of student loan payments has recently begun. In particular, we believe that younger, lower-income borrowers with higher concentrations of non-mortgage consumer debt (including student loan debt) are most vulnerable. Given the role of the consumer in the overall U.S. economy, this is a macro headwind that is not priced consistently across different markets.

As 2024 begins, we remain encouraged by the investment opportunities we currently see within structured credit. Fundamental uncertainty remains elevated in many consumer and commercial real estate sectors, which we believe has led to elevated risk premia and creates attractive risk-adjusted return opportunities for those with differentiated underwriting capabilities. Alternatively, given the strong recovery of corporate credit spreads, we believe that corporate risk premia reflect a benign fundamental outlook with little excess return potential (or risk premia) as compensation for future uncertainty. As a result, we believe that the embedded risk premia available in many structured credit assets are currently attractive outright. On a relative basis, however, many sectors seem, in our view, historically wide relative to benchmark corporate credit alternatives.

Because we invest across a variety of credit sectors, capital structures, and risk profiles, one of our approaches to identifying relative value is to normalize risk across sectors, into HY CDX equivalents, or any other proxy for market implied risk-adjusted returns. With a focus on underwriting asset price volatility (in addition to borrower fundamentals and differentiated structural characteristics), we believe we gain insight into identifying the most attractive risk-adjusted return opportunities across sectors, and up and down the capital structure. Employing these types of relative value perspectives has been a core tenet in refining our security selection and portfolio risk construction, which we believe enhances our ability to generate attractive cross-cycle risk-adjusted returns.

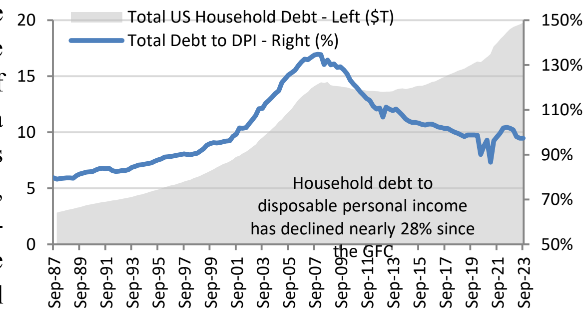
2024 Investment Strategy and Outlook

As stated, we currently see significant dispersion and inconsistencies across markets, sectors, and capital structures in terms of future fundamental expectations. Despite the Fed signaling an end to the current rate hiking cycle and growing consensus that rates will begin to decline in 2024, we believe that slowing economic growth and higher interest rates, relative to the past decade, will continue to chip away at credit fundamentals of the most vulnerable borrowers, assets, and structures. While we are not forecasting a systemic deterioration in credit fundamentals across sectors, we do believe increasing idiosyncratic risks will come to be viewed as a more consistent late-cycle performance trend, resulting in headwinds for credit over the longer term. As a result, we see the potential for increasing uncertainty and spread widening in the coming year.

We believe the best way to optimize our current portfolio positioning is to leverage our fundamental credit underwriting. Fundamental uncertainty, particularly across structured credit sectors, translates into attractive current risk premia and increasing fundamental opportunities, in our opinion. Because of the many nuanced structural characteristics within and across structured credit, we believe it is the ideal sector in which to identify and leverage differentiated fundamental views. Structured credit is not a generic market. The risk profile of seemingly similar securities can vary dramatically. The challenge, we believe, is having the credit expertise and underwriting skills to differentiate between risks and opportunities. While current fundamentals may be solid, we feel that underwriting to a range of future economic outcomes and understanding the assets future performance in those scenarios is critical to evaluating security-specific risks and identifying the most attractive opportunities.

Consumer Outlook - The strength of the U.S. consumer continues to be at the forefront of economic and consumer fundamental debate. From a macroeconomic perspective, it is of particular importance as personal consumption expenditures (PCE) account for almost 70% of U.S. GDP. Colloquially, as goes the consumer, so goes the economy. In our opinion, many observers attribute the continued strength of consumer spending in 2023 as a primary reason the economy was able to defy expectations and remain so resilient in the face of high inflation and rapidly rising interest rates. It will likely continue to play a pivotal role in the ongoing debate between a soft landing versus recession as we continue to transition through the current economic cycle. More granularly, the ongoing strength of the U.S. consumer is of specific importance to investors in assets supported by consumer fundamentals. In this respect, we believe there is increasing dispersion across consumer cohorts, which we believe will have significant implications for individual consumer asset performance.

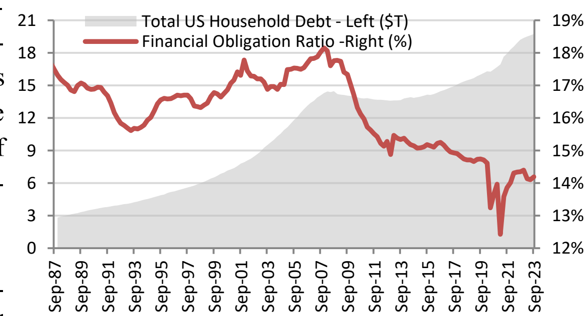
Exhibit 13:
Total Consumer Debt to Disposable Personal Income
Aggregate Consumer Debt Remains Constrained



Sources: Federal Reserve, Bloomberg Finance L.P., OWS

While on a nominal basis total consumer debt is at an all-time high, total debt to disposable personal income (DPI) remains relatively low (Exhibit 13). Absent the sharp decline during COVID, when DPI spiked as a result of the generous government stimulus, debt to DPI remains at multi-decade lows. It is currently below levels leading into COVID, and is nearly 28% below those levels seen prior to the global financial crisis. More recently, since June of 2022, it has declined as wage increases (DPI + 9.8%) have outpaced the increase in total debt (+4.46%).

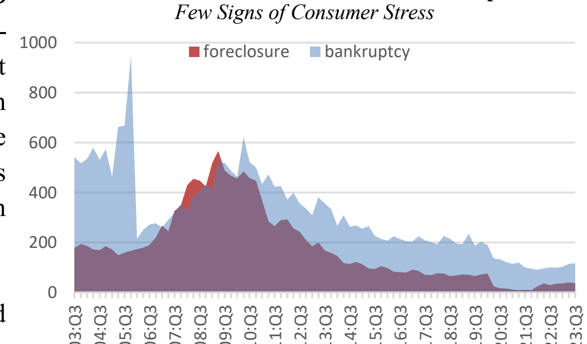
Exhibit 14:
Total Consumer Debt and Coverage Ratio
Disposable Personal Income (DPI) is Outpacing Debt Service



Sources: Federal Reserve, Bloomberg Finance L.P., OWS

A similar, but perhaps more important, consumer metric is the household financial obligation ratio. This measures households' ability to service debts and includes rent payments, auto lease payments, homeowners insurance and property tax payments. Again, stripping out the period directly following COVID when DPI was artificially inflated, the financial obligation ratio is at multi-decade lows and meaningfully below levels prior to the GFC. In addition, it has continued to decline following COVID despite higher debt and the spike in inflation (Exhibit 14). Debt service has benefited from the fact that a large share of total consumer debt is mortgage debt (~70%), much of which is locked in at low fixed rates and has not been impacted by the recent rise in interest rates.

Exhibit 15:
New Consumer Foreclosures and Bankruptcies
Few Signs of Consumer Stress



Sources: New York Fed Consumer Credit Panel/Equifax, OWS

Similarly, signs of consumer stress are not showing up in new foreclosure and bankruptcy filings (Exhibit 15). While they have bounced off of their absolute

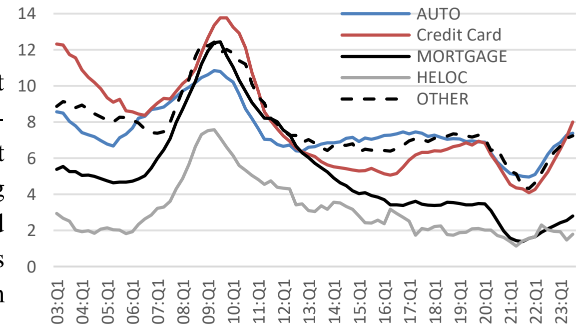
COVID lows, they remain below pre-COVID levels and significantly below GFC-era highs. This may, in part, be attributable to the significant build-up of home equity wealth over the past decade.

While consumer balance sheets appear healthy, in aggregate, things are not perfect. This can be seen in rising new delinquencies across a number of consumer sectors (Exhibit 16). There is meaningful dispersion in actual credit performance within the consumer sector. Consumers have now been drawing down excess savings accrued during the pandemic for a couple of years, and this is particularly true for the lowest-income cohorts. In our opinion, this drawdown of excess savings will shift from a tail-wind to a head-wind for both economic growth and fundamental consumer performance going forward.

Exhibit 16:

Flow Into Early Delinquency (30+) by Loan Type

(Percent Delinquent)



Sources: New York Fed Consumer Credit Panel/Equifax, OWS

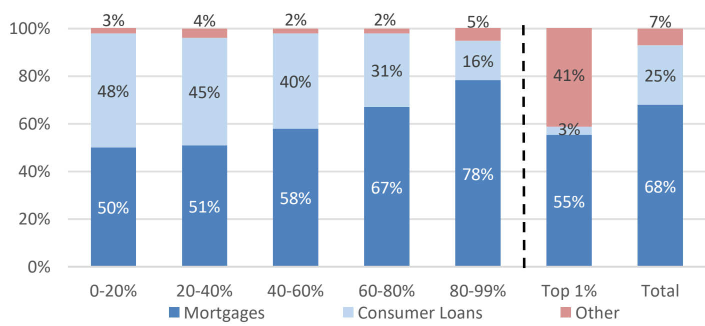
In addition, while the majority of consumer debt (mortgage debt) is locked in at lower fixed rates, lower income groups have a higher share of consumer loans, often variable rate loans like credit cards. For instance, nearly 50% of total debt among the two lowest income quintiles is non-mortgage consumer debt, compared to just ~27% for the top two income quintiles (Exhibit 17). We believe this is one of the reasons that subprime borrowers are seeing much more stress from higher interest rates. A larger share of debt among the lowest income borrowers is floating-rate that has been affected by recent increases in interest rates.

A similar dynamic can be seen with younger borrowers versus older borrowers. More than 75% of total consumer debt for borrowers over the age of 40 is mortgage debt, the majority of which is fixed-rate and locked in at low, below market rates (Exhibit 18). In contrast, for the youngest cohort, those between the age of 18 and 30, more than 50% of total debt is comprised of consumer loans (credit card, auto loans, and personal loans), ~27% of which are student loans, that have been in a payment moratorium for the past 3-1/2 years.

Exhibit 17:

Consumer Debt by Income Cohort

Percentage of Total Debt

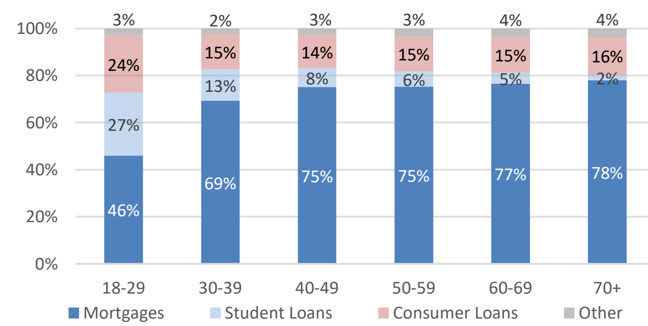


Sources: Morgan Stanley, Federal Reserve, OWS

Exhibit 18:

Consumer Debt by Type and Age Cohort

Percentage of Total Debt



Sources: New York Fed Consumer Credit Panel/Equifax, OWS

We have already begun to see an increase in delinquencies across some consumer loan segments, in particular auto loans, personal loans, and credit cards. Consistent with the demographic data described above, credit card and auto delinquencies show that for younger borrowers, delinquency rates are rising faster, nearing or surpassing their pre-pandemic rates, while for older borrowers, rates are rising but are still below pre-pandemic levels (Exhibits 19 & 20). With the resumption of student loan payments having begun last month, financial stresses on some consumer borrowers will likely only increase.

Exhibit 19:

Transition into Serious Delinquency (90+) by Age

Auto Loans (Percent Delinquent)

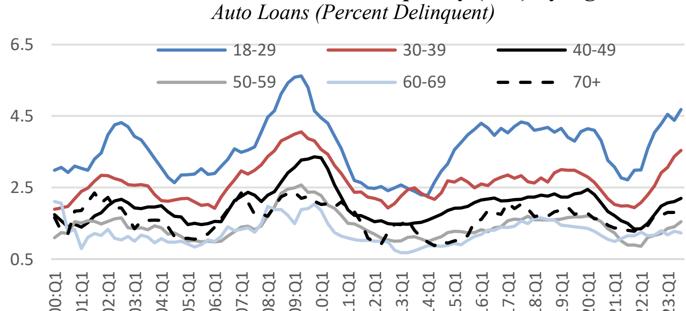
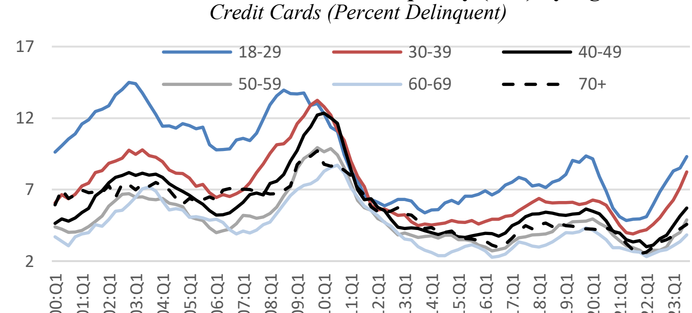


Exhibit 20:

Transition into Serious Delinquency (90+) by Age

Credit Cards (Percent Delinquent)



Sources for both charts: New York Fed Consumer Credit Panel/Equifax, OWS

At a macro level, perhaps the largest drivers of aggregate consumer performance are strong economic and labor market conditions. At a more micro level, the fundamental performance of individual borrowers and the credit performance of specific collateral pools is influenced by such factors as age, income, FICO, total debt, type and distribution of debt, etc. Alternative originators can influence fundamental performance by targeting specific borrower characteristics. Alternative vintages can vary due to relative competition among originators, which can influence underwriting standards across time and across originators. Origination year can affect the value of the underlying collateral. The very nature of many asset-backed securitizations is that cash flows are derived from borrower payments on loans “secured” by real assets. If the underlying assets increase in value, asset coverage for the securitization increases and investors’ risk of loss declines. Increasing asset values reduce the likelihood of borrower default and increase recovery values in the event of default. As a result, the value and performance of seasoned, securitized assets is influenced by past appreciation/depreciation of the underlying assets since origination.

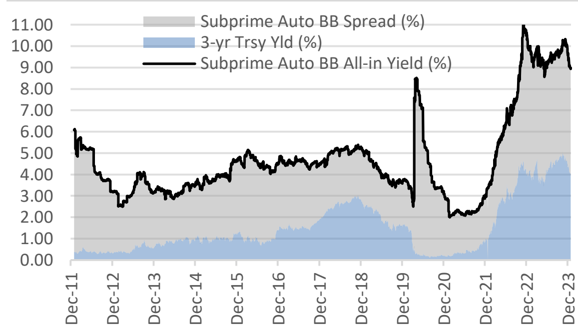
True for all structured credit asset types, in addition to accounting for the many nuanced collateral characteristics of underlying borrowers and assets, we believe that, it is equally important to account for the unique structural characteristics provided by individual securitizations. These can vary considerably across individual deals/collateral types and they vary across time as collateral pools season and deal structures amortize. These changing risk profiles can be an important catalyst to leveraging embedded credit convexity and optimizing risk-adjusted return performance. As a result, deal level underwriting is critical to quantifying embedded risks and identifying the most attractive risk-adjusted opportunities. This is particularly true when evaluating fulcrum and lower-rated tranches with greater sensitivity to changing fundamentals and deal structures.

Structured ABS and Other Idiosyncratic Opportunities - In 2023, benchmark ABS spreads rebounded from their recent wides; however, they continue to trade at levels significantly higher than those that prevailed prior to the current Fed hiking cycle and significantly above comparable unsecured credit. For instance, in the subprime auto sector, benchmark BB-rated tranches are currently trading to an all-in yield near 9% - more than double the average yield over the decade prior to the current Fed cycle (Jan 2012 - Dec 2021) (Exhibit 21a). More importantly, spreads remain wide on an absolute basis and are near historic wides to unsecured corporate credit on a relative basis. The current spread pick-up for BB-rated subprime over BB-rated corporates is 257 bps compared to the average spread differential of –76 bps that prevailed during the decade leading up to the current Fed cycle (Exhibit 21b). In addition, credit curves also remain historically steep and can, as deals deleverage, provide significant credit spread roll-down and upside excess return potential relative to base spread and yield alone (Exhibit 21c).

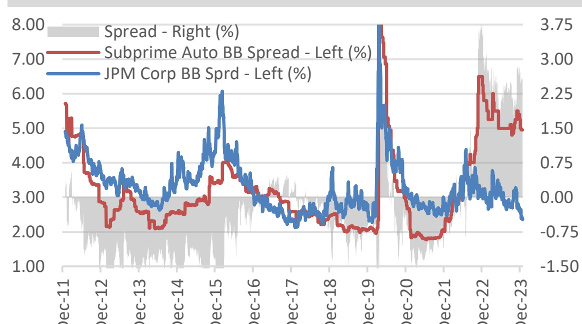
While we believe consumer fundamentals have remained generally strong, we acknowledge the deterioration in asset quality and underwritten credit for some originations from the late 2021 and early 2022 vintages. In particular, certain deals relating to 2021/2022 vintage subprime auto and unsecured marketplace term loan sub-sectors saw meaningful fundamental underperformance relative to expectations. In the case of these particular deals, we believe it was largely the result of several originators lowering underwriting standards during the pandemic in order to gain market share, while we believe rating agencies were slow to recognize changes in collateral characteristics and make adjustments to structural credit enhancement. This led to the downgrade of several mezzanine bonds off of the underperforming deals. On a positive note, we believe originators were relatively quick to tighten lending standards, and rating agencies have made adjustments to credit enhancement. As a result we have seen improvement in newer 2023 vintage security underwriting metrics. Away from these particular vintage cohorts, we believe the level of fundamental performance deterioration has largely been in line with expectations.

Exhibit 21:
Consumer ABS - Subprime Auto

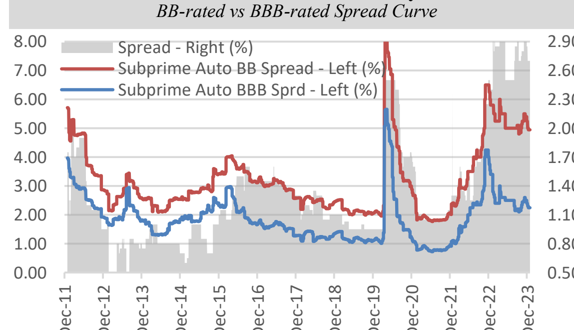
21a: All-in Yield Remains Near High



21b: Near Absolute Wides vs Unsecured Corporate Credit
BB-Rated Subprime Auto vs BB-Rated Unsecured Corporate



21c: Credit Curve Is Historically Wide
BB-rated vs BBB-rated Spread Curve

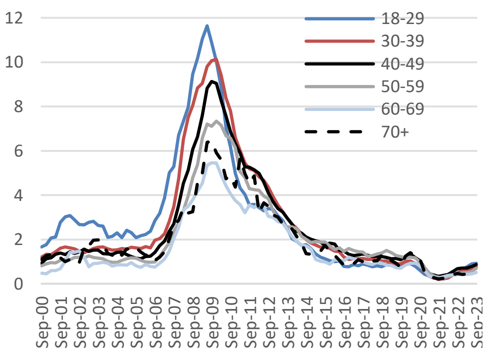


Sources for all 3 Charts: J.P. Morgan, OWS

From our perspective, elevated uncertainty has increased dispersion among investors' outlook with respect to appropriate fundamental assumptions and pricing across sectors, issuers, and vintages. When there is greater fundamental uncertainty, we generally believe there is greater opportunity. The ability to underwrite credit risk at the security level and stress test assumptions to adverse fundamental outcomes is increasingly important. Whether it be credit tiering across loan types/issuer/vintages, or fundamental expectations for diverse collateral pools, we believe consensus is in short supply. We believe this gives us greater opportunity to capitalize on having differentiated fundamental expectations.

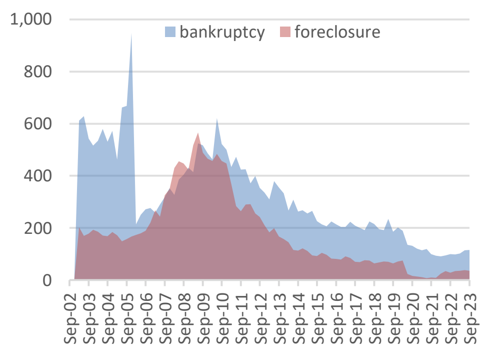
We continue to be active across consumer sectors and rely on our underwriting to identify the best risk-adjusted opportunities. We continue to add exposures to well-structured deals backed by collateral from quality originators/sponsors. We have generally been biased higher in the capital structure; however, we do not shy away from distressed situations if we believe the embedded risk is appropriately priced. We have generally felt that this cycle would play out in several stages, with the first phase being the overall widening of risk premium, and later stages resulting in more distressed sellers should fundamentals continue to deteriorate and/or rating downgrades pick-up leading to forced sales. For now it seems as if markets are discounting further deterioration.

Exhibit 22:
Mtg. Transition into Serious Delinq. (90+)
By Age (Percent Delinquent)



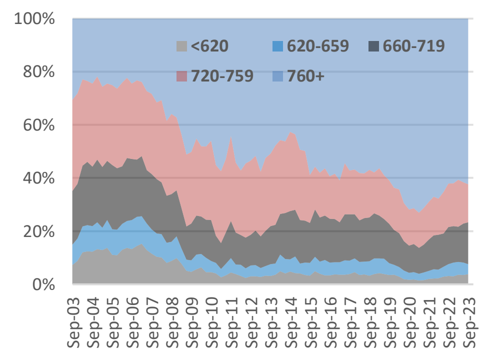
Sources: New York Fed Consumer Credit Panel/Equifax, OWS

Exhibit 23:
New Cons. Foreclosures and Bankruptcies
Thousands



Sources: New York Fed Consumer Credit Panel/Equifax, OWS

Exhibit 24:
Mtg Lending is Predominantly to High FICO
Share of Total Mortgage Originations by FICO

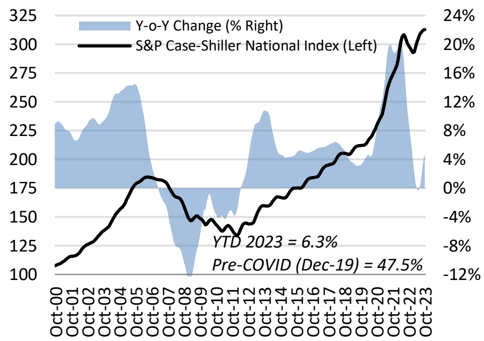


Sources: New York Fed Consumer Credit Panel/Equifax, OWS

Residential Mortgage Credit - While consumer delinquencies are increasing across some loan types and borrower cohorts, this is generally not the case within the mortgage sector. The transition rate into seriously delinquent (90+ days), remains near historic lows (Exhibit 22). While they have risen from their absolute COVID lows, in aggregate, they remain -38% below pre-COVID levels. Only for the youngest borrower cohort (18-29 year olds) have we seen delinquencies rise back to pre-COVID levels, and even for this cohort they are only higher by +2.2%. Similarly, the number of consumers filing for new bankruptcy or in foreclosure reflects a similar, benign trend, roughly half of pre-COVID levels, which were already at historic lows for the data set (Exhibit 23). For one, mortgage lending standards have tightened significantly following the global financial crisis. Many attribute the proliferation of subprime mortgages leading up to the GFC as a primary contributor to the GFC; underwriting standards were loose and mortgage debt rose rapidly. Then, new mortgages originations were nearly evenly split between borrowers within the highest and lowest two credit buckets, at roughly ~25% each (Exhibit 24). Today, roughly ~62% of new mortgages are made to the highest-quality credit borrowers while the lowest two credit buckets account for less than 8%. Demand for housing has been strong, but essentially only the highest-credit-quality borrowers are qualifying for loans.

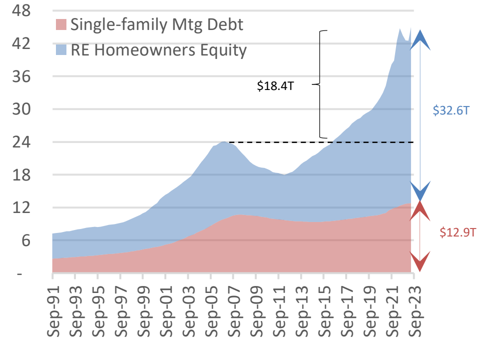
Of course, as we highlighted in the consumer credit section earlier, aggregate consumer fundamentals are much stronger today than they were prior to the GFC and yet this has not precluded an increase in delinquencies and defaults for some consumer loan sectors and some borrower cohorts. Rather, we believe the rapid rise in home prices is the primary reason for the current low level of mortgage delinquencies and defaults. Home prices have been rising since the end of the GFC and they spiked at the onset of the COVID pandemic (Exhibit 25). Since year-end 2019, home prices have risen more than 47%. This has led to significant home equity gains for existing homeowners and provides options for homeowners who find themselves not being able to make their payments. It may not be a desired option, however, if a borrower's home is worth more than they owe on their mortgage: they can sell the home and pay off the mortgage rather than facing foreclosure.

Exhibit 25:
US National Home Prices
Home Prices Continue to Increase



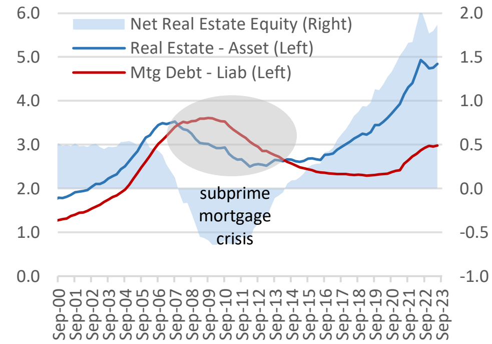
Sources: S&P/Case-Shiller, Bloomberg Finance L.P., OWS

Exhibit 26:
Consumer Real Estate Equity - *($T)*
Aggregate Net Home Equity



Sources: Federal Reserve, OWS

Exhibit 27:
Consumer Real Estate Equity - *($T)*
Net Home Equity for Bottom 50% (Wealth)



Sources: Federal Reserve, OWS

In aggregate, homeowners currently have more than $32.6 trillion worth of home equity, more than 2.5x the amount of outstanding mortgage debt (Exhibit 26). Of course this does not speak to the distribution of home equity; not all borrowers are flushed with home equity gains. This is particularly true for newly originated mortgages where there has not been significant home price appreciation. In Exhibit 27, we highlight the scenario leading up to the spike in mortgage delinquencies during the subprime mortgage crisis/GFC. We limit our analysis to the bottom 50% (wealth) of mortgage borrowers. Delinquencies, bankruptcies, and foreclosures all spiked as home prices declined and many borrowers found themselves owing more money on their mortgage than their home was worth (i.e., negative home equity), which is in stark contrast to where we stand today.

Supply-demand imbalances continue to drive home price appreciation, as household formations outpace homes available for sale. According to J.P. Morgan, there is a gap of 3.6 million between household formations and housing completions (which rises to 6.4 million when only considering single-family housing completions). Existing homeowners' current mortgages predominantly enjoy the benefit of low fixed interest rates, which not only enhances the credit profile of existing borrowers, but also contributes to limiting housing supply by dissuading existing borrowers from moving and needing to finance a new mortgage at prevailing market rates. Tight supply will continue to support prices, in our opinion, and existing mortgage borrowers are not being squeezed by rising debt-service burden from increasing interest rates, which is overall positive for residential credit fundamentals.

While overall consumer and residential credit fundamentals remain strong, there remains concern about the distribution of risk, especially among those with lower-quality debt metrics and recently originated loans, in our opinion. As in all sectors, we are a security underwriter and feel that underwriting to future potential adverse economic scenarios is critical to evaluating security-specific risks and identifying the best risk-adjusted return opportunities. There is meaningful dispersion in borrower credit performance when breaking out the underlying credit profiles into cohorts. Delinquency rates can vary meaningfully depending on the credit quality of underlying borrowers. Those with lower FICO scores (Exhibit 28), higher debt-to-income (DTI) levels

Exhibit 28:
Delinquency Rates Vary by FICO Cohorts

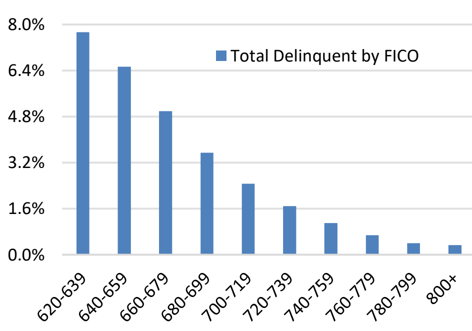


Exhibit 29:
…. As Well as Debt-to-Income Levels

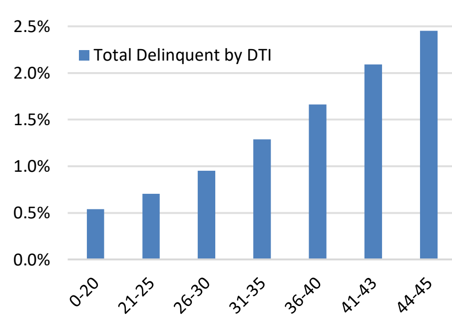
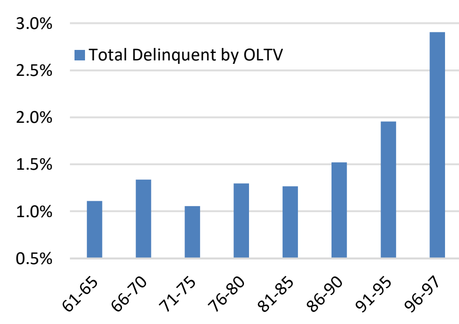


Exhibit 30:
… And Original Loan-to-Value



Sources for all 3 charts: Freddie Mac, OWS
*OLTV is original loan-to-value
*DTI is debt-to-income

(Exhibit 29), and loans with higher original loan-to-value (OLTV) ratios (Exhibit 30) generally exhibit higher delinquency rates, emphasizing the need to thoroughly underwrite individual securities when evaluating investment opportunities.

We continue to favor more seasoned residential credit exposures, as the latest vintages are showing signs of weaker underlying credit fundamentals. As we highlighted going into 2023, we expected weakness to be concentrated in recent originations and remained cautious of these vintages. As we expected, current loan-to-value ratios (Exhibit 31a) and debt-to-income levels (Exhibit 31b) of 2023 vintages are at record highs.

We actively engage in the legacy residential mortgage sector, focusing on securities for which we anticipate higher and more rapid cash flow recoveries compared to prevailing market expectations. Despite a significant portion of seasoned RMBS experiencing substantial home price appreciation (HPA), leading to a reduction in embedded credit risk, the majority of securitizations have faced write-downs due to previous losses and forbearance modifications. In instances of forbearance modifications, the recovery of cash flows becomes possible upon the eventual payoff of the underlying mortgage. A swifter and more substantial recovery of cash flows can significantly influence the actual return of these discounted bonds.

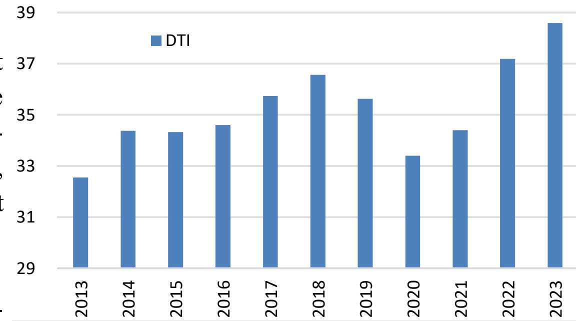
We also remain active in the CRT sector following the significant disruption in 2022. The sector has exhibited robust performance in 2023 due to the rebound in home prices, sustained strong fundamentals, and restricted supply. Our preference has generally leaned toward more seasoned securities positioned lower in the capital structure, having benefited from accumulated home price appreciation (HPA), while incorporating less seasoned exposures positioned higher in the capital structure.

Commercial Real Estate and CMBS - Commercial mortgage backed securities (CMBS) rallied from their absolute wides into year-end; however, they continue to trade at levels significantly wider than those that prevailed prior to the start of the Fed rate hiking cycle. Relative to unsecured corporate credit, benchmark CMBS spreads are currently trading nearer their absolute wides (Exhibit 32). We recognize that fundamental uncertainty has increased within sectors of CRE, but we believe risk premia have widened considerably across the sector as a whole. As the result of growing fundamental uncertainty and rising risk premia, we believe there are increasingly attractive risk-adjusted investment opportunities across the sector for investors with the appropriate underwriting experience.

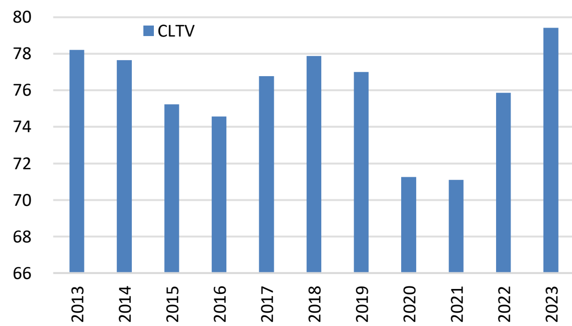
The commercial real estate sector continues to face broad-based fundamental uncertainty given lower valuations across most sectors as higher interest rates impact cap rates, higher costs associated with debt service and operating expenses, and more conservative underwriting. In addition, we have seen a broad-based decline in property prices over the past several years (Exhibit 33) with significant regional and property specific variation. Sponsors are struggling with an impending maturity wall of existing loans (Exhibits 34 & 35) with many facing the prospect of needing substantial new capital in addition to incurring elevated borrowing rates in order to secure a refinancing or ex-

Exhibit 31:
Recent Vintages Are Showing Signs of Deterioration

31a: Debt-to-Income
by Vintage

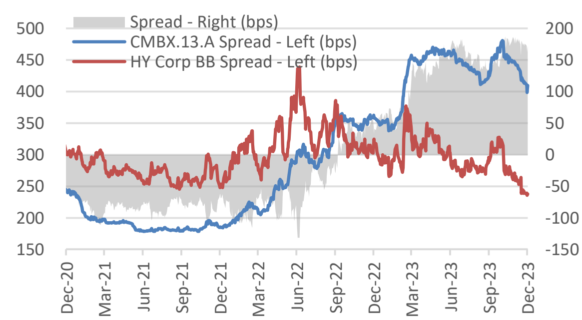


31b: Current Loan-to-Value
by Vintage



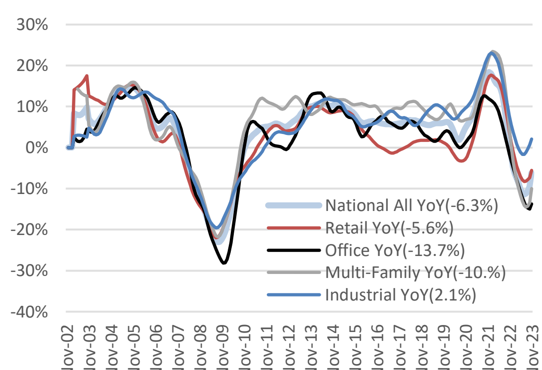
Sources for both charts: Freddie Mac, OWS
*DTI is debt-to-income
*CLTV is current loan-to-value

Exhibit 32:
CMBS Spreads are Near Wides vs Unsecured Corporate
IG A-Rated CMBX vs BB-Rated Unsecured Corporate



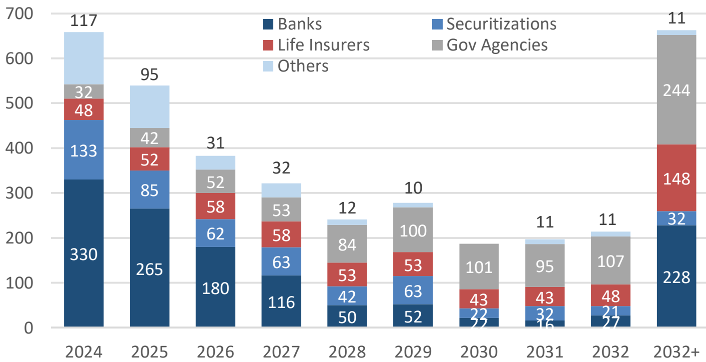
Sources: J.P. Morgan, OWS

Exhibit 33:
CRE Property Prices Have Declined
Year-Over-Year Change (by Property Type)



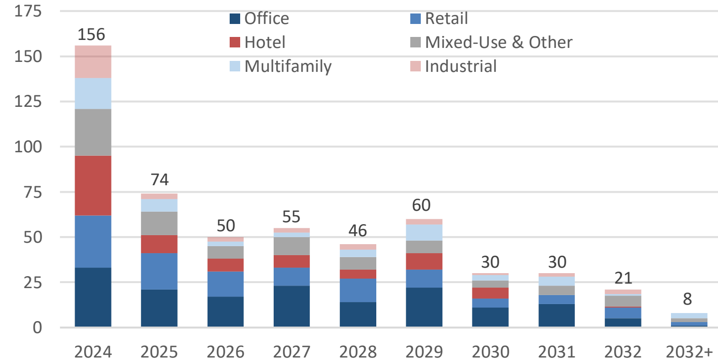
Sources: Real Capital Analytics, Bloomberg Finance L.P., OWS

Exhibit 34:
Loan Maturities by Debt Holders
$Billions



Sources: Mortgage Bankers Associations, OWS

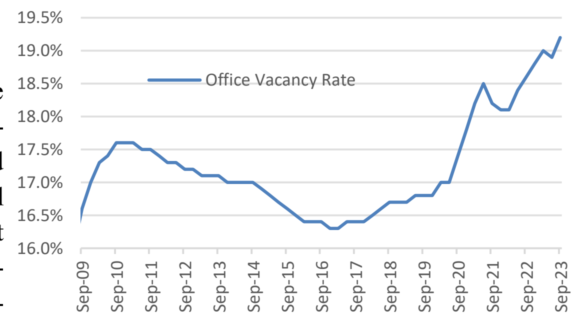
Exhibit 35:
CMBS Maturities by Sector
$Billions



Sources: Trepp, OWS

tension on impending maturities. While all property types are facing fundamental challenges, the office sector continues to stand out as most challenged as the sector struggles with record-high vacancies (Exhibit 36).

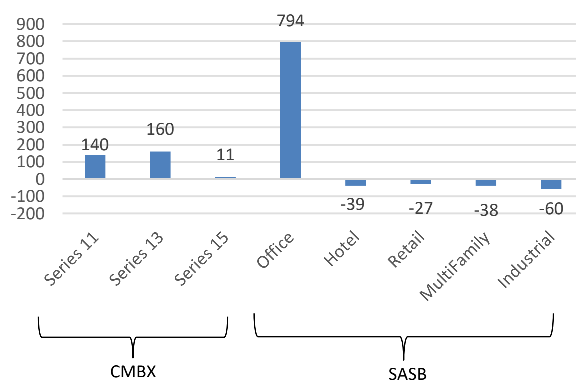
Exhibit 36:
Office Vacancy Rates Continue to Trend Higher



Sources: Bloomberg Finance L.P., OWS

We continue to find evaluating office rent rolls (renewal expectancy) to be one of the most intricate challenges in today's real estate investment landscape. Anticipating rent resets, often leading to lower net effective rents due to extended free rent periods and base year expense resets, poses complexities. The capital needed for tenant improvements and overall property enhancements for tenant attraction and retention is substantial. Highly leveraged properties face increasing challenges as they struggle to secure the necessary capital to compete, sustain, and potentially grow their cash flows. Successful investment in the current office market requires a deep understanding of lease economics across markets, the nuances of each unique physical asset, and an awareness of the incentives and capacity of the incumbent equity and debt. Similar dynamics are also observed, to a lesser extent, in the retail and hospitality and multifamily sectors.

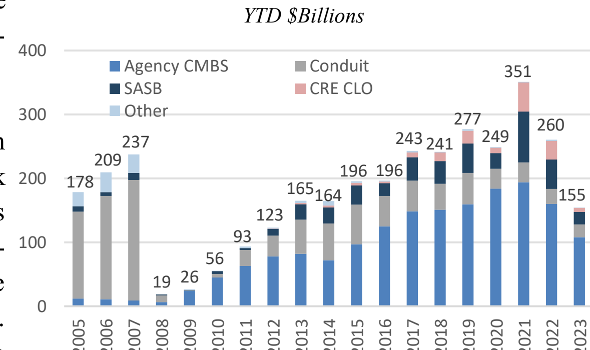
Exhibit 37:
Repricing Has Been Concentrated in Office
2023 CMBS Spread Change - BBB-Rated (by Property Type)



Sources: J.P. Morgan, Bloomberg Finance L.P., OWS

Against the backdrop of increasing fundamental uncertainty, there was heightened spread volatility across the sector in 2023. There was significant spread-widening throughout the year for securities backed by office properties, as evident in the single-asset single-borrower (SASB) sector, along with pooled conduit structures, given their mixed property exposure. Conversely, other property types - while experiencing significant spread volatility throughout the year - generally finished the year modestly tighter (Exhibit 37). Given increased uncertainty regarding property level valuations, primary CRE transaction volumes declined significantly, and as a result, CMBS issuance was the lowest seen in more than a decade (Exhibit 38). As transaction activity (both voluntary and involuntary) begins to increase and valuations become more transparent, we anticipate financing demand, particularly for opportunistic participants, to increase over the course of 2024.

Exhibit 38:
CMBS Issuance at Lowest Level in Over A Decade
YTD $Billions



Sources: J.P. Morgan, OWS

It is crucial to acknowledge that real estate is characterized by diversity, with substantial variations in regional and property-level economics, and outlook among different assets. In addition, the quantity of leverage in capital structures varies, influencing the protection potentially needed for equity sponsors' investments. In recent years, the impact of low interest rates has been evident in the real estate landscape, fostering the adoption of aggressive financing structures. This has involved a growing reliance on mezzanine debt and preferred equity to minimize equity contributions in acquisitions and to facilitate cash-outs, enabling sponsors to significantly diminish their exposure of equity at risk.

It is worth noting that our focus lies in commercial real estate debt (rather than equity), which helps to provide significant credit enhancement and to mitigate risks associated with a first-order reduction in commercial real estate property values. Our strategy for commercial real estate investments revolves around acting as individual property underwriters, emphasizing disciplined loan structures. Consequently, we have strategically minimized our exposure to pooled CMBS conduit structures for an extended period. Our approach involves careful asset selection based on property type, specific property characteristics, geography, and sponsor strength, along with updated underwriting metrics - all of which are pivotal in our underwriting and investment processes.

We continue to observe increased selling-off of CMBS across the capital structure by money managers looking to decrease aggregate exposure to the sector. This trend has been particularly evident in heightened selling of securities higher in the capital structure, mainly investment-grade exposures, allowing for a reduction in aggregate exposure while postponing losses in lower-rated, more fundamentally challenged, exposures. Consequently, we have expanded our investment-grade CMBS exposure, anticipating outsized total returns over time. Remember as a CMBS investor we have the ability to invest across the entire capital structure and while we may view some assets or portfolios as challenged, we can position ourselves in senior tranches we feel are loss remote “money good” even in the most extreme outcomes. Alternatively, as the cycle evolves, we would expect increasing opportunities to arise down the capital structure as holders capitulate given rating downgrades and fundamental uncertainty. We believe that current market conditions present attractive opportunities for risk-adjusted returns, especially for investors strategically positioned to deploy capital and proficient at underwriting property-specific collateral exposures and structures.

Non-Dollar ABS & RMBS- The non-dollar ABS and RMBS market remains one of the more active sectors across our portfolios, and we believe we continue to find attractive opportunities outright and relative to comparable sectors within the U.S. Economic conditions are differentiated across countries, and we expect this to continue. For instance, many believe Germany is currently in recession, while Spanish GDP growth remains positive. While Germany continues to struggle to replace cheap Russian natural gas, Spain has benefited from its role as a large liquefied natural gas importer. The U.K. economy continues to struggle with the lingering consequences of Brexit and less integration with the rest of Europe.

Analogous to the U.S., escalating uncertainty surrounding consumer fundamentals and heightened dispersion across originators, issuers, and vintages underscore the importance of rigorous underwriting to distinguish between collateral pools and deal structures. Precise security selection with careful consideration to distressed underwriting assumptions are vital for identifying value and mitigating heightened risks. Lower in the capital structure, we exercise great selectivity in our investments, stressing fundamental assumptions to GFC-era default levels. Having said this, we do not believe we are seeing a broad-based deterioration in collateral performance to date. In our opinion, the increase in delinquencies and defaults that we are seeing are more country-collateral- and originator-specific.

Despite challenges, we believe that many existing and forthcoming investment opportunities continue to rank among the most attractive we have encountered in a decade and look attractive relative to comparable securities in the U.S. Like in the U.S., spreads on securitized assets have not rebounded to the degree corporates have and, as such, remain cheap relative to corporates on a historical basis.

In addition to the more generic consumer ABS and RMBS sectors within which we are active, we have participated in a number of more thematic/esoteric investment opportunities we have participated in throughout 2023. For instance, we purchased a number of securities off of several RPL/NPL deals. After extensive collateral and structural analysis, we felt we were being well compensated for our understanding of these more complex deal/collateral structures and for taking on some illiquidity risk. We purchased a number of tranches, as high as single A-rated in the capital structure, given what we believed were significant discounts to generic collateral pools. Similarly, we purchased an investment-grade, large mezzanine bond off of a pool of Irish reverse mortgages. Again, we felt we were able to acquire this exposure at a large discount in the market, given our ability to underwrite the more complex collateral/structural characteristics and the associated illiquidity.

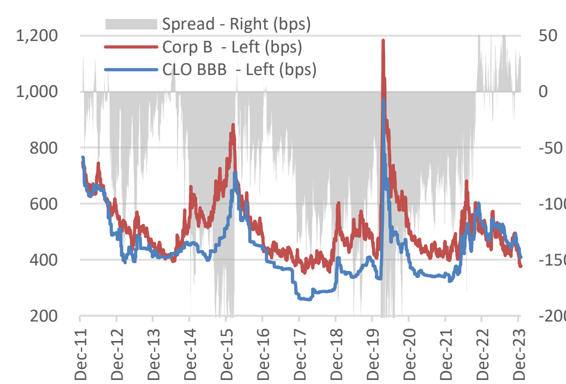
Separately, we targeted a number of legacy (pre-GFC) RMBS securities, and believe we were able to accumulate an attractive position in these securities. We believe we were able to purchase the securities at advantageous levels versus unseasoned newer-vintage securitizations. In addition to being very seasoned, with low LTV collateral, what we feel makes these securities more attractive are large, non-amortizing reserve funds within each securitization. The reserve funds did not amortize down with the deal structure because of cumulative loss triggers which were hit early in the deal's life. We were able to purchase these securities at similar spread levels as post-GFC deals, assuming full extension. However, these discount securities offer significant upside return potential, should the deals get called at the optional 10% clean-up call date. For the third-party rights holder, these large reserve funds effectively lower the strike price of the loan pool, and we believe there exists a high probability of these deals being called resulting in significant upside return potential on our discount exposures.

In the past, we have discussed a strategy of purchasing residual positions (with call rights) off of seasoned RMBS deals in the U.K., both single family pools as well as buy-to-let (BTL). In addition to the value of the residuals outright, the call rights give us the option to call the securitization and to buy the underlying collateral on the optional redemption date. We believe these residuals are undervalued, since many investors assign little value to the call option. We, however, feel the call option is a cheap way of acquiring the underlying collateral at attractive levels. In 2023 we called a number of deals which we have added to other collateral pools we hold in existing financing facilities. In addition, we were able to acquire a number of other residuals from originators at what we believe were attractive prices. The loans backing these deals have experienced significant HPA since origination, which should provide us with good downside protection. The call dates of these deals also line up with other residuals we own, which should allow us to have critical mass for a re-securitization.

We are also seeing an uptick in bank demand for asset sales and other forms of capital relief for banks. We recently participated in a private synthetic mezzanine credit-linked note against a pool of prime Danish auto loans by a major global bank. The bank was looking to transfer a portion of the credit risk of these loans to third-party investors to achieve capital relief. We were able to acquire what we believe was an attractively priced mezzanine exposure (1.75% attach, 11.00% detach) to a large, diversified pool of prime loans. The bank retained the senior and first-loss exposure to the loans.

Collateralized Loan Obligations (CLOs) - Leveraged loans performed well throughout 2023, with the Morningstar/LSTA Leveraged Loan Index returning 13.29% on the year, compared with a duration-adjusted return of 8.52% for the Bloomberg U.S. High Yield (HY) Index. Within the CLO sector, spreads generally tightened along with the underlying collateral and in line with the performance of corporate credit generally in 2023. However, CLOs historically continue to trade cheap when compared with unsecured corporate bonds. For instance, benchmark investment-grade BBB-rated CLOs remain approximately 100 bps wide of where they traded in relation to single-B-rated unsecured corporate bonds during the decade preceding the current Fed cycle (Exhibit 39).

Exhibit 39:
Near Absolute Wides Relative to Corp Bonds
Investment-Grade BBB-Rated CLOs vs B-Rated Unsecured Corp



Sources: J.P. Morgan, OWS

While we believe attractive nominal spreads and all-in yields will continue to provide technical support for the sector generally, we believe other sectors within structured credit offer greater value on a risk-adjusted basis. As a result, we continue to be cautious with respect to our aggregate exposure to the sector overall. In general, we believe that the market is discounting potential fundamental risks within the corporate sector despite still-high interest rates and an uncertain economic outlook. As we stated previously, we believe corporate credit markets are pricing in much of the best scenario given the benefits of potential Fed rate cuts in 2024 and with CLO spreads nearer historic lows, the risks are skewed to the downside, in our opinion.

Investing in the Fund may be considered speculative and involves a high degree of risk, including the risk of possible substantial loss of your investment.

Prior to investing, Investors should carefully consider the investment objectives, risks, charges and expenses of the 1WS Credit Income Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling (833) 834-4923 or visiting [www.1wscapital.com.](http://www.1wscapital.com) The prospectus should be read carefully before investing.

1WS Credit Income Fund is distributed by ALPS Distributors, Inc. ALPS Distributors, Inc. is not affiliated with 1WS Capital Advisors, LLC or One William Street Capital Management, L.P.

Net performance data are pre-tax, fund-level, net of operating expenses, management fees, and any applicable shareholder servicing and distribution fees charged to investors. ITD Net return is a linked monthly return. Actual returns experienced by an investor may vary due to these factors, among others.

RISK DISCLOSURES

Past performance is not a guarantee of future results. *There is no assurance that the Fund will meet its investment objective.*

Limited liquidity is provided to shareholders only through the Fund's quarterly repurchase offers for no less than 5% of the Fund's shares outstanding at net asset value. There is no guarantee that shareholders will be able to sell all of the shares they desire to sell in a quarterly repurchase offer. The Fund is suitable only for investors who can bear the risks associated with the limited liquidity of the Fund and should be viewed as a long-term investment. The Fund's investments may be negatively affected by the broad investment environment in the real estate market, the debt market and/or the equity securities market. The value of the Fund's investments will increase or decrease based on changes in the prices of the investments it holds. This will cause the value of the Fund's shares to increase or decrease. The Fund is "non-diversified" under the Investment Company Act of 1940 and, thus, changes in the financial condition or market value of a single issuer may cause a greater fluctuation in the Fund's net asset value than in a "diversified" fund. Diversification does not eliminate the risk of experiencing investment losses. The Fund is not intended to be a complete investment program. The Fund expects most of its investments to be in securities that are rated below investment grade or would be rated below investment grade if they were rated. Below investment grade instruments or "junk securities" are particularly susceptible to economic downturns compared to higher rated investments. While the Fund may employ hedging techniques to seek to minimize interest rate risk, there can be no assurance that it will engage in such techniques at any given time or that such techniques would be successful. As such, the Fund is subject to interest rate risk and may decline in value as interest rates rise. The Fund may use leverage to achieve its investment objective, which involves risks, including the increased likelihood of net asset value volatility and the increased risk that fluctuations in interest rates on borrowings will reduce the return to investors. In addition to the normal risks associated with investing, investing in international and emerging markets involves risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles or from social, economic or political instability in other nations. The Fund may employ hedging techniques to seek to minimize foreign currency risk. There can be no assurance that it will engage in such techniques at any given time or that such techniques would be successful. The Fund may invest in derivatives, which, depending on market conditions and the type of derivative, are more volatile than other investments and could magnify the Fund's gains or losses. An investment in shares should be considered only by investors who can assess and bear the illiquidity and other risks associated with such an investment.

Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. Mortgage-backed and asset-backed securities are affected by interest rates, financial health of issuers/originators, creditworthiness of entities providing credit enhancements and the value of underlying assets. Fixed-income securities present issuer default risk. Prepayment and extension risk exists because a loan, bond or other investment may be called, prepaid or redeemed before maturity and similar yielding investments may not be available for purchase. Structured finance securities may present risks similar to those of the other types of debt obligations in which the Fund may invest and, in fact, such risks may be of greater significance in the case of structured finance securities. Investing in structured finance securities may be affected by a variety of factors, including priority in the capital structure of the issuer thereof, the availability of any credit enhancement, and the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, among others. Market or other (e.g., interest rate) environments may adversely affect the liquidity of Fund investments, negatively impacting their price. Generally, the less liquid the market at the time the Fund sells a holding, the greater the risk of loss or decline of value to the Fund. See the Fund's prospectus for information on these and other risks.

There can be no assurance that the Fund will achieve its investment objective. Many of the Fund's investments may be considered speculative and subject to increased risk. Neither One William Street Capital Management, LP nor 1WS Capital Advisors, LLC has managed a 1940-Act registered product prior to managing the fund. Investing in the Fund involves risks, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. The ability of the Fund to achieve its investment objective depends, in part, on the ability of the Adviser to allocate effectively the assets of the Fund among the various securities and investments in which the Fund invests. There can be no assurance that the actual allocations or investment selections will be effective in achieving the Fund's investment objective or delivering positive returns.

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice, so actual outcomes and results may differ significantly from the views expressed. These views are subject to change at any time based upon economic, market or other conditions and the portfolio manager disclaims any responsibility to update such views. The views expressed in this report reflect the current views of the portfolio manager as of September 30th, 2023.

There are limitations when comparing the 1WS Credit Income Fund to indices. Many open-end funds which track these indices offer daily liquidity, while closed-end interval funds offer liquidity on a periodic basis. Deteriorating general market conditions will reduce the value of stock securities. When interest rates rise, the value of bond securities tends to fall. Investing in lower-rated securities involves special risks in addition to the risks *associated with investments in investment grade securities, including a high degree of credit risk. Lower-rated securities may be regarded as predominately speculative with respect to the issuer's continuing ability to meet principal and interest payments. Analysis of the creditworthiness of issuers/ issues of lower-rated securities may be more complex than for issuers/issues of higher quality debt securities. There is a risk that issuers will not make payments, resulting in losses to the Fund. In addition, the credit quality of securities may be lowered if an issuer's financial condition changes. Assets and securities contained within indices are different than the assets and securities contained in the 1WS Credit Income Fund and will therefore have different risk and reward profiles. An investment cannot be made in an index, which is unmanaged and has returns that do not reflect any trading, management or other costs. Please see definitions for a description of the investment indexes selected.*

DEFINITIONS

Aaa Corporate: *The Bloomberg Aaa Corporate Index measures the Aaa-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.*
Aa Corporate: *The Bloomberg Aa Corporate Index measures the Aa-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.*
A Corporate: *The Bloomberg A Corporate Index measures the A-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.*
ABS: *Asset-Backed Securities are instruments secured by financial, physical, and/or intangible assets (e.g., receivables or pools of receivables), and investments in any assets/instruments underlying the foregoing structured/secured obligations.*
Baa Corporate: *The Bloomberg Baa Corporate Index measures the Baa-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.*
Ba U.S. High Yield: *The Bloomberg Ba US High Yield Index measures the USD-denominated, Ba-rated, fixed-rate high-yield corporate bond market. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.*
B U.S. High Yield: *The Bloomberg B US High Yield Index measures the USD-denominated, B-rated, fixed-rate high-yield corporate bond market. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.*
Basis Points (bps): *A basis point is a common unit of measurement for interest rates and credit spreads and is equal to one hundredth of one percent.*
Bond Rating Scale:

Moody's	Standard & Poor's	Fitch	
Aaa	AAA	AAA	Investment Grade
Aa1	AA+	AA+	
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-Investment Grade
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	
B2	B	B	
B3	B-	B-	
Caa	CCC	CCC	
Ca	CC	CC	
C	C	C	

A bond rating is a letter-based scoring scheme used to judge the quality and creditworthiness of a bond. The three largest private independent rating services are Moody's, Standard & Poor's and Fitch Ratings Inc. The letter-based grading scale for each of these rating agencies is highlighted to the left. The higher a bond's rating, the higher its credit quality. Bonds rated BBB or higher are considered investment grade. Bonds rated BB and below are considered non-investment grade.

Buy-to-Let (BTL): *Buy-to-let mortgages are for landlords who want to buy property to rent it out.*
Caa U.S. High Yield: *The Bloomberg Caa US High Yield Index measures the USD-denominated, Caa-rated, fixed-rate high-yield corporate bond market. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.*
Capitalization Rate: *The capitalization rate (also known as cap rate) is used in the world of commercial real estate to indicate the rate of return that is expected to be generated on a real estate investment property.*
CLO: *Collateralized Loan Obligations are instruments that represent debt and equity tranches of collateralized loan obligations and collateralized debt obligations.*
CMBS: *Commercial Mortgage-Backed Securities are fixed income instruments that are secured by mortgage loans on commercial real property.*
CMBX: *CMBX indices are synthetic tradable indices referencing a basket of 25 commercial mortgage-backed securities (CMBS).*
CDX.IG: *The Markit CDX North America Investment-Grade Index is composed of 125 equally weighted credit default swaps on investment-grade entities.*
CDX.HY: *The Markit CDX North America High-Yield Index is composed of 125 equally weighted credit default swaps on investment-grade entities.*
Convexity: *Convexity is a measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields.*
Credit Enhancement: *Credit enhancement is a risk-reduction technique that provides protection, in the form of financial support, to cover losses under stressed scenarios.*

Credit Risk Transfer (CRT) Securities: *CRT securities effectively transfer a portion of the risk associated with credit losses within pools of residential mortgage loans to investors.*

Debt Service Ratio: *The household debt service ratio (DSR) is the ratio of total required household debt payments to total disposable income.*

Duration-Adjusted: *Duration-adjusted or excess return is a measure of pure credit performance for fixed-rate bonds by adjusting for movements in benchmark interest rates.*

Euro Auto Mezzanine (A-rated): *European Auto Mezzanine A-rated is representative of an A-rated mezzanine tranche of a Non-Dollar Asset-Backed Securities Index, specifically auto loans or leases.*

FICO: *The Fico Score is used by lenders to help make accurate, reliable, and fast credit risk decisions across the customer lifecycle.*

Financial Obligation Ratio: *The financial obligation ratio is the ratio of required household debt payments to total disposable income and includes rent payments on tenant-occupied property, auto lease payments, homeowners' insurance, and property tax payments*

Floating-Rate Loans: *A floating rate loan has an interest rate which changes periodically based on an underlying index plus a spread.*

Forbearance: *The temporary suspension of loan repayments due to demonstrated financial hardship on the part of the borrower.*

ICE BofA MOVE Index: *This is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options. It is the weighted average of volatilities on the CT2, CT5, CT10, and CT30. (weighted average of 1m2y, 1m5y, 1m10y and 1m30y Treasury implied vols with weights 0.2/0.2/0.4/0.2, respectively).*

ICE BofAML US High Yield Master II TR Index: *The index tracks the performance of US dollar denominated below investment grade rated corporate debt publically issued in the US domestic market. Investors cannot invest directly in an index.*

Interest Rate Hedges: *Interest rate hedges include a variety of different products to help protect against interest rate risk. In principle, interest rate hedging products provide greater certainty over future loan repayments.*

iTraxx Crossover: *The Markit iTraxx Crossover index comprises the 75 most liquid sub-investment grade entities. The European iTraxx indices trade 3, 5, 7 and 10-year maturities, and a new series is determined on the basis of liquidity every six months.*

iTraxx Main: *The Markit European iTraxx indices trade 3, 5, 7 and 10-year maturities, and a new series is determined on the basis of liquidity every six months. The benchmark iTraxx Europe index comprises 125 equally-weighted European names.*

Loan-to-Value (LTV) *Loan-to-value is a measure of the size of a loan relative to the value of an asset.*

Mezzanine Tranche: *A mezzanine tranche within a securitization lies in the middle of the capital structure, below the senior tranche and above the junior tranche (typically an unrated equity tranche).*

Non-Dollar ABS: *Non-Dollar Asset-Backed Securities are instruments secured by financial, physical, and/or intangible assets (e.g., receivables or pools of receivables), and investments in any assets/instruments underlying the foregoing structured/secured obligations outside of the U.S. Non-Dollar Asset-Backed Securities are denominated in currencies other than the U.S. Dollar.*

Non-Dollar RMBS: *Non-Dollar Residential Mortgage-Backed Securities are securities that may be secured by interests in a single residential mortgage loan or a pool of mortgage loans secured by residential property outside of the U.S. Non-Dollar Residential Mortgage-Backed Securities are denominated in currencies other than the U.S. Dollar.*

Non-Performing Loans (NPL): *Mortgage loans that are subject to late repayment (i.e., 90 days have passed without the borrower paying the agreed instalments) or are unlikely to be repaid by the borrower*

Non Qualified Mortgages (Non-QM): *A non-qualified mortgage — or non-QM — is a home loan that is not required to meet agency-standard documentation requirements as outlined by the Consumer Financial Protection Bureau (CFPB).*

Real Capital Analytics (RCA) Property Price Index: *The RCA Property Price Indices are transaction based indices that measure property prices at a national level.*

Re-performing Loans (RPL): *Mortgage loans that were once delinquent but has since returned to performing status.*

RMBS: *Residential Mortgage-Backed Securities are securities that may be secured by interests in a single residential mortgage loan or a pool of mortgage loans secured by residential property.*

Risk-Adjusted: *A risk-adjusted return is a calculation of the profit or potential profit from an investment that takes into account the degree of risk that must be accepted in order to achieve it. The risk is measured in comparison to that of a risk-free investment, usually U.S. Treasuries.*

Risk Premia: *Risk Premia is the investment return an asset is expected to yield in excess of the risk-free rate of return.*

SASB: *Single Asset Single Borrower (SASB) CMBS transactions involve the securitization of a single loan (SA) or collateralized by a group of assets all owned by the same borrower (SB).*

S&P CoreLogic Case-Shiller U.S. National Home Price Index: *The index tracks the value of single-family housing within the United States.*

Subprime Auto ABS: *Auto asset-backed securities (auto ABS) are structured finance securities that are collateralized by auto loans or leases, specifically subprime (poor credit standing) borrowers.*

Tranche: *Tranches are segments created from a pool of assets - usually debt instruments such as bonds or mortgages - that are divvied up by risk, time to maturity, or other characteristics in order to be marketable to different investors.*

U.K. Gilt: *A gilt is a U.K. Government liability in sterling, issued by HM Treasury and listed on the London Stock Exchange.*

Unsecured Corporate Credit (Ba U.S. High Yield): *The Bloomberg Ba US High Yield Index measures the USD-denominated, Ba-rated, fixed-rate high-yield corporate bond market. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.*

Indices and Corporate Credit Benchmarks Referenced in Exhibit 2:

- ***Bloomberg U.S. Agg Asset-Backed Securities Index (BB US Agg ABS Index):*** *The index measures the USD-denominated, aggregate, asset-backed securities*
- ***Bloomberg U.S. Agg Index (BB US Agg Index):*** *The Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency)*
- ***Bloomberg U.S. Investment-Grade Credit Index (BB US IG Index):*** *The index measures the investment-grade, fixed-rate, taxable corporate. bond market*
- ***Bloomberg U.S. High-Yield Credit Index (BB US HY Index):*** *The index measures the USD-denominated, high-yield, fixed-rate corporate bond market*
- ***Bloomberg U.S. Mortgage-Backed Securities Index (BB US MBS Index):*** *The index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage*
- ***Bloomberg U.S. Treasury Bellwethers 10 Year Total Return Index:*** *index measures the USD-denominated, 10-year U.S. Treasury*
- ***CMBX.13.BBB– Index****: The index is a synthetic tradable index representative of the BBB-–Rated 13th vintage of S&P Global's CMBX Indices referencing a basket of 25 commercial mortgage-backed securities (CMBS)*
- ***S&P 500 w/dividends:*** *The S&P 500 index includes 500 leading companies and captures approximately 80% coverage of available market capitalization*

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