EDISON

Marble Point Loan Financing

Company outlook

Cash flow still strong

Investment trusts

Marble Point Loan Financing (MPLF) is a closed-end fund that invests in leveraged loans mostly by buying the equity tranches in collateralised loan obligations (CLOs) managed by Marble Point Credit Management (Marble Point). The experienced credit investment team employs a conservative, disciplined approach. Unlike most of its peers, MPLF marks its portfolio to market, which resulted in considerable NAV volatility during the pandemic. NAV halved during Q120 but subsequently rose by nearly 50%. However, although loan defaults have risen in its underlying portfolio, cash flow generation has remained strong. After suspending its dividend in April 2020, reinstated it in August and the shares now offer a yield of 15.1%.

Six months ending	Share price (%)	NAV (%)	S&P Lev Loan (%)	Credit Suisse HY Value (%)	S&P 500 (%)
30/04/19	(15.7)	(6.7)	1.9	10.3	11.7
31/10/19	(1.3)	(2.8)	0.7	6.3	4.7
30/04/20	(41.0)	(43.8)	(7.2)	(23.8)	(3.4)
31/10/20	27.7	37.9	9.5	17.5	13.3

Source: Refinitiv. Note: All % on a total return basis in US dollars.

The market opportunity

It has been a rollercoaster year for the CLO markets, as with many risk assets. The heightened fears regarding defaults led to much market turmoil in March and April. US government and Fed action subsequently bolstered the CLO and leveraged loans market. CLO issuance is picking up due to strong investor demand but conditioned by the supply of new loans remaining relatively low. Leveraged loan defaults remain a concern; S&P estimated defaults at 4.6% for the sector (3.9% in MPLF's portfolio) and is projecting 8% by July 2021. About 17–18% of CLOs have made zero distributions to equity in Q2 and Q320, but so far no cash has had to be diverted away from MPLF's equity tranches to support payments to the senior debt tranches. As a result, the estimated cash disbursement as a percentage of MPLF's equity portfolio value in H120 was 41.0% (28% in FY19) and the second half is on track to being even better. However, the market is currently focusing more on the NAV and less on current cash generation due to continued pandemic uncertainty.

Why consider investing in MPLF?

- NAV volatility is relatively high compared to peers due to the marking to market, although MPLF's underlying portfolio has been doing well and generating solid cash flow. October quarterly equity tranche disbursements were a record high.
- Marble Point has a conservative, disciplined approach to investment in leveraged loans, acting with strong conviction and backed by detailed analysis.
- Its shares are trading with a well-covered, significant current yield (15.1%).

Valuation

The stock is trading at a 9% discount to the last published NAV (31 October 2020). We think the company may be penalised for its marking to market approach (its peers usually prefer marking to model), paradoxically because it actually provides greater transparency. If the CLOs and asset prices continue to recover, this should be reflected in the shares, with cash flow fundamentals better priced in.

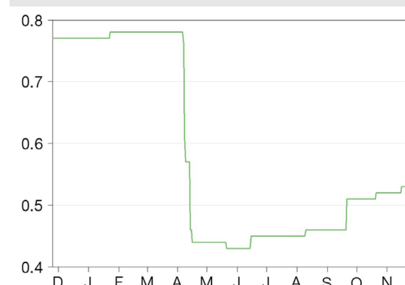
23 November 2020

Price	**US$0.53**
Market cap	**US$107m**
NAV	**US$118m**
	US$1.32/£
NAV per share*	US$0.58
Discount to NAV*	9%

*NAV as of 16 November.

Shares in issue	202.7m
Annualised current yield	15.1%
Code	MPLF
Primary exchange	LSE Specialist Fund Segment
AIC sector	Sector Specialist: Debt

Share price performance



%	1m	3m	12m
Abs	3.8	14.7	(31.5)
Rel (local)	(4.0)	7.3	(23.3)
52-week high/low		US$0.78	US$0.43

Gearing

Gross*	26.9%
Net*	17.7%

*As at 30 June 2020. Excluding MPLF Funding debt.

Next events

NAV update	December 2020

Analyst

Pedro Fonseca +44 (0)20 3077 5700

investmenttrusts@edisongroup.com

Edison profile page

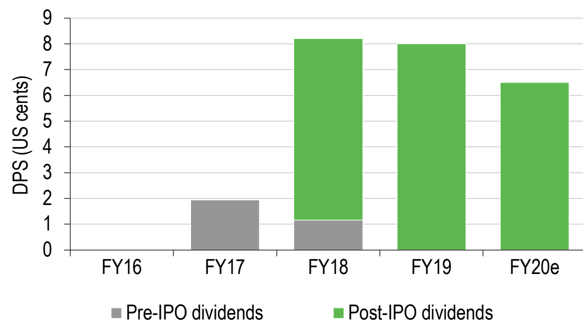
Marble Point Loan Financing is a research client of Edison Investment Research Limited

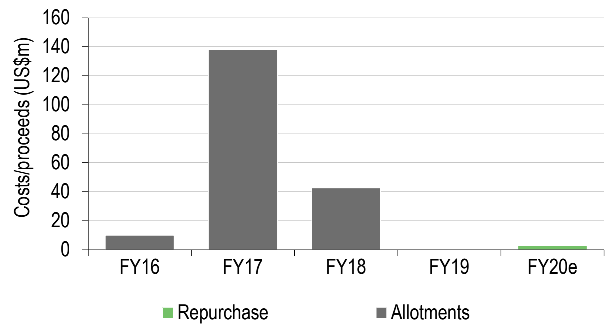
Exhibit 1: Company at a glance

Investment objective and fund background	Recent developments
Marble Point Loan Financing's (MPLF) investment objective is to generate stable current income and to grow net asset value by earning a return on equity in excess of the amount distributed as dividends, through exposure to a diversified portfolio of US dollar denominated, broadly syndicated, floating rate senior secured corporate loans. MPLF has no official benchmark but performance is compared with US leveraged loan and high-yield bond indices.	■ 16 November 2020: October NAV: +4.5% 1m, +15.2% 3m, -17.9% ytd ■ 30 October 2020: Repurchased 3m shares at approximate cost of $1.5m. ■ 8 October 2020: US$0.02 per share Q320 dividend announced. ■ 28 September 2020: H120 results: NAV TR -31.8% vs CSLII -12.5%. Adjusted net investment income +$0.9m (1.1% return on NAV). ■ 25 August 2020: Share buyback authorised up to 14.99% of shares. ■ 23 July 2020: Dividend reinstated at US$0.02 per share.

Forthcoming		Capital structure		Fund details	
AGM	December 2020	Ongoing charges	1.75%	Group	Marble Point Credit Management
Final results	March 2021	Net gearing	17.7% (30 June 2020)	CEO & CIO	Tom Shandell
Year end	31 December	Annual mgmt fee	0.4%	Address	1st & 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey GY1 1EW
Dividend paid	April, July, October, January	Performance fee	None		
Launch date	13 February 2018	Company life	Indefinite (subject to vote)	Phone	+44 (0)20 7259 1500
Continuation vote	2022 AGM	Senior unsecured debt	US$29.5m principal due 2025	Website	www.mplflimited.com

Dividend policy and history (financial years)	Share allotment and repurchase history (financial years)
Dividends are paid quarterly, with an initial targeted dividend yield of 8% pa, based on the IPO price of US$1.00. The inaugural dividend was in 2017. Pre-IPO dividends are adjusted for the IPO share conversion ratio. The quarterly dividend increased from $0.02 to in $0.025 in Q120. Dividends were suspended in April 2020 due to the pandemic crisis then resumed in July 2020 at $0.02 per quarter.	In February 2018, MPLF raised US$42.5m in gross proceeds in its IPO, through issuing 42.5m shares at US$1.00. The directors have authority to allot unlimited further ordinary shares. There are no statutory pre-emption rights. MPLF purchased 3m shares (cost $1.5m) in October 2020 as treasury stock.





Shareholder base (as at 31 October 2020)

- Freestone Capital Mgmt (18.8%)
- Morgan Stanley (14.2%)
- FCA US Retirement Fund (13.8%)
- Starstone (11.0%)
- Eagle Point (7.3%)
- Standard Life Aberdeen (6.7%)
- SCS Capital Mgmt (5.5%)
- Fitzwilliam Insurance (5.5%)
- Other (17.2%)

Portfolio exposure by industry (as at 31 October 2020)

- Healthcare & pharma (11.4%)
- Banking, finance, ins & RE (10.0%)
- High tech industries (9.8%)
- Media: broadcasting & subscr (7.8%)
- Services: business (6.2%)
- Chemicals, plastics & rubber (6.8%)
- Retail (5.0%)
- Capital equipment (5.3%)
- Construction & building (4.6%)
- Energy: Oil & Gas (4.1%)
- Other (29.0%)

Investment portfolio profile (as at 31 October 2020)

Company	Industry	Portfolio weight %	
		31 October 2020	31 October 2019
Marble Point CLO equity	Equity tranches of Marble Point CLOs	79.4	76.6
Marble Point CLO debt	Debt tranches of Marble Point CLOs	10.6	9.1
NAV of Funding Subsidiary	Fully owned subsidiary used to build investments	3.1	2.9
Marble Point CLO fee participations	Participation in fees	3.3	11.4
Marble PointLAF Equity	Loan accumulation facility, loans to convert to CLOs	3.5	0
Total		**100.0**	**100.0**

Source: Marble Point Loan Financing, Edison Investment Research, Bloomberg, Morningstar, Refinitiv

Fund profile: Leveraged loan specialist

MPLF is a closed-ended investment company that started operations in 2016 and was listed on the London Stock Exchange (Specialist Fund Segment) on 13 February 2018. MPLF targets an annualised total return in the low-to-mid teens over the long term, including an initial quarterly dividend of 2.0% of the US$1.00 per share issue price (increasing to 2.5% per quarter in the second year following initial admission).

MPLF seeks to achieve its objective by investing in a diversified portfolio of US dollar-denominated, broadly syndicated floating rate senior secured corporate loans. Direct and indirect exposure to loans is primarily gained via MPLF's wholly owned subsidiary MPLF Funding, together with investments in loan accumulation facilities (LAFs) and the equity and junior debt tranches of CLOs that are all managed by Marble Point Credit Management (Marble Point) and its affiliates. As well as managing a number of CLO and LAF investment vehicles, Marble Point serves as investment manager for MPLF and MPLF Funding.

Marble Point is an SEC-registered specialist asset manager that focuses exclusively on leveraged loans, with c US$5.3bn in assets under management at 30 June 2020. Marble Point was formed in 2016 by Tom Shandell, who has over 30 years' credit market experience, in partnership with Eagle Point Credit Management (Eagle Point), one of the world's largest CLO equity investors, with US$2.4bn in assets under management as at end-December 2018. Led by Tom Shandell and Corey Geis, Marble Point's investment team includes seven industry-specialist credit analysts, with more than 17 years' average credit market experience across the team.

Recent fund developments

Dividend suspended and resumed

The COVID-19 pandemic had a sizeable impact on the CLO market. Leveraged loan prices dropped sharply during March and April because of expectations of higher risk of defaults and markets in general being uncertain about the COVID-19 trajectory.

About 80% of MPLF's investments are in the CLO equity tranches. The equity tranche effectively owns and receives what is left over after the debt tranches (usually a senior tranche and a mezzanine) get paid. It is a riskier position, but with higher returns. While falling leveraged loan prices do not necessarily mean there will be less cash streaming down the CLO structure and into the equity tranche, they do tend to reflect higher levels of default, which can impact the cash flows. MPLF suspended its quarterly dividend in April. The aim was to preserve cash in the midst of the turmoil from market disruption and pandemic uncertainty. This came after MPLF had increased its quarterly dividend from $0.02 to $0.025 per share, which was paid in January 2020.

Since this decision two key things have happened: asset prices and business levels have recovered, though still not back to normal prices; and MPLF's cash flow has been relatively resilient. Although defaults rates are up in the loan pools, Marble Point (the manager of the CLOs) has not had to divert cash away from its equity tranche to support the debt tranche payments.

Therefore, MPLF elected in August 2020 to once again start paying quarterly dividends at $0.02 per share.

Marble Point CLO tests fine so far…

The fact that no cash being diverted from equity payments in MPLF is important and worth expanding on. CLO structures mandate that several tests have to be carried out to help protect the upper debt tranches of the CLO. Since these debt tranches provide most of a CLO's financing, it

makes sense to have protection elements in them in order to attract debt financing at good prices and for equity holders to enjoy a good spread.

There are several tests and covenants that CLOs must pass. Those that typically affect distribution to the equity tranches are: (1) interest diversion; (2) overcollateralization (OC); and (3) interest coverage tests. There are other tests such as the minimum weighted average spread (WAS) and a maximum weighted average ratings test, which affect the choice of loans in which CLOs can reinvest from loan sales and repayments.

In the interest diversion test, the adequacy of the collateral (the pool of leveraged loans) is measured to see if they can support the upper tranches' payments. If not, then up to 50% of net interest can be diverted to reinvest in additional loans and therefore affects the equity tranche.

The OC test has a similar objective and measures the collateral as a percentage of liabilities (the debt tranches). CLOs are typically created with more assets than liabilities (hence the equity funding) and the term 'overcollateralization' is used to express this. If the par value of the loan pool (the assets) falls below an overcollateralization trigger point, then cash will be diverted to the senior debt for interest payments and (if needed) pay down some of the senior debt until this ratio passes this test again. The overcollateralization test is done by tranche. Exhibit 5 in the 'Current portfolio positioning' section details the junior OC cushions of MPLF's various invested CLOs. We estimate an average cushion of about 3%. The effective yield on the CLO equity tranches was 6.4% in 31 October 2020. The rise in defaults could reduce both of these figures.

The interest coverage test looks at the cash flows from the collateral against the scheduled interest payments to the debt tranches. If this test fails, then interest payments as well as principal payments are diverted to the senior tranches from the lower debt tranches which rank higher than equity.

MPLF CLOs passed the most junior OC tests at the April, July and October 2020 payment dates. As a result, no CLO to failed to make an equity payment. The dividend was suspended in April out of caution, but was reinstated in Q320.

…although defaults are up in line with the sector

The default rate in the loan pools has risen with the crisis. The underlying loans in the MPLF CLOs are typically to companies below investment grade and are referred to as 'leveraged loans'. However, these leveraged loans are almost always both senior and secured. Furthermore, the pool of loans is very diversified by sector. Nevertheless, the pandemic inevitably led to a rise in problem loans in MPLF as well as in the industry as a whole. The S&P Leveraged Loan Index's 12-month lagging default rate was 3.23% in June 2020 and the same figure for MPLF was 3.46% at 30 June 2020. In September 2020 the index figure had risen to 4.6%, the highest since 2010, and MPLF was 3.92%.

Defaults a key concern…

Clearly, if the economy and pandemic become sufficiently worse, this could have an impact on cash flows as well as asset prices. S&P Global Ratings, in its 2 November 2020 report, expected a loan default ratio of 8% by June 2021 in the sector, within a range of 2.5–9.5%. The peak default rate during the crisis in 2009 was 10.8%, according to the LCD/S&P.

The recovery rate in senior secured loans was 80% between 1988 and 2018 according to Moody's. At an 80% recovery rate, a 10.8% default rate would imply a 2.16% actual loss. We think that recovery rates could be lower in this current crisis, because loan covenants have become a bit less strict in recent years.

…but CLOs are not the CDOs of past

Defaults in the upper tranches in CLOs are extraordinarily rare. This remained true even during financial crisis of 2008/09. The diversified nature of the loan books, the loan seniority and the CLO overcollateralization all contribute to this. Out of over 3,000 AAA rated CLO tranches, between 1994 and 2019 none have defaulted and only one of about 2,000 AA rated tranches defaulted before COVID-19. This compared to the $325bn investors lost in AAA rated mortgage collateralised debt obligation (CDO) tranches issued before the 2008/09 crisis according to a study by Cordell, Feldberg and Sass (2019). The mortgage backed CDO were created with several problems, including the assumed default rates in the key underlying collateral asset class, the sub-prime mortgage loans. Another key issue was that these CDOs were buying junior tranches of mortgage backed CDOs and credit default swaps linked to other CDOs. Therefore, they were effectively amplifying risk by being CDOs with leveraged CDO exposure as their core asset.

We also note that CLOs issued after the financial crash of 2008/09 (these are often referred to as CLO 2.0) tend to be more cautious in their design. They usually have shorter reinvestment periods and lower levels of leverage.

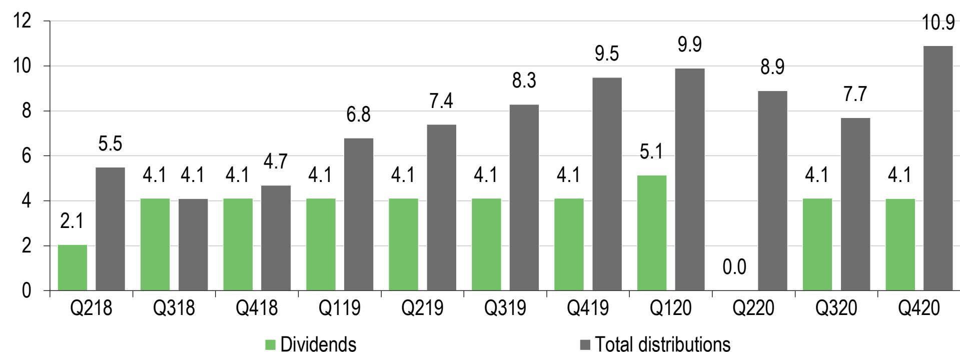
While the CLOs' higher tranches have been getting paid during the crisis, the higher default rates do affect the cash flow and mean there is less remaining cash available for distribution to the equity tranches. However, even during the peak 2009–10 default period, payments to CLO equity tranches were not entirely shut off.

MPLF H120 report showed a resilient cash performance

MPLF received $17.9m in cash disbursement from its investments in its CLO equity and debt tranches during H120. In addition, it received $0.9m from CLO fee participations and $1.4m from the Funding Subsidiary (this is interest on the loans being warehoused). This totals $20.2m in cash, compared with $5.1m in dividends (Q220 dividend was suspended) and $2m in expenses.

This good cash flow continued into Q320 and clearly encouraged management to make a new CLO investment in August as well as reinstate the dividend.

Exhibit 2: MPLF quarterly distributions received and dividends paid ($m)



Source: Marble Point Loan Financing

Libor mismatch and floor

We note that MPLF CLOs' (as was the case with most of its peers) cash flow was affected in H120 by an unfavourable timing mismatch in Libor rates. This was corrected in Q320 and was reflected in MPLF's strong cash inflow in Q420, as shown in Exhibit 2. The disbursements to the equity tranche were a record $10.9m, compared to $7.7m the previous quarter and $9.5m a year ago.

The mismatch in Q220 was created because CLOs sets the Libor rates on a quarterly basis on the debt that they pay; the average cost in September for the CLOs was Libor + 1.86%. However, on

the asset side, the loans are also floating rate and indexed to Libor but have varying dates of resets. Since many reset on a monthly basis, the repricing on the assets side was earlier than the liabilities from the CLO point of view. Ultimately, the Libor rates associated with Marble Point's CLO liabilities were reset to lower levels, consistent with the Libor earned on its loan investments.

Furthermore, some companies switched from monthly payment to quarterly payments to preserve cash and this also had an impact on cash flows in H120.

The Libor mismatch was offset in H120 by the lack of Libor floors in CLOs (including those in MPLF). This means that the CLOs are able to fully benefit from the record low CLO interest rates on their funding. However, many of the syndicated loans that make up the pools of loans on the asset side do have Libor floors (usually 0.50% to 1.00%) so there is a net positive impact on the WAS that CLOs enjoy and that cascades down to the equity tranche. Since interest rates are expected to remain low for some time, this particular boost to the interest spread should remain in place for some time.

CLO equity valuation: Cash underappreciated

The value of the CLO equity tranche typically reflects the drop in the value of the pool of loans in the CLO. The CLO net asset value (NAV) is a key variable used by the market to value the CLO equity stakes, but it is not the only one. However, in a bear market with heightened fear about loan prices and with a lower probability of a CLO being reset (the CLO being called in and then reissued at current market spreads with extended maturity and reinvestment period), the market focuses on NAV, rather taking into account other factors such as cash flow yield.

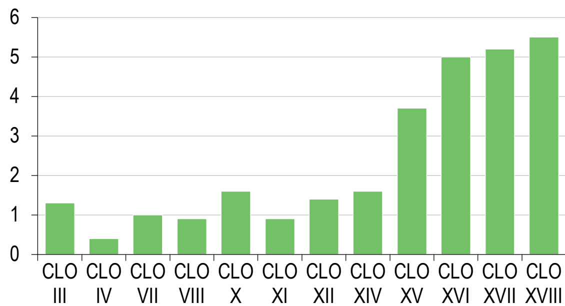
This reflects the valuation of some of MPLF CLOs, which is based on market prices/quotes. The cash disbursement yields on the fair value (FV) in MPLF's CLOs are quite high because while the cash flow has remained strong, the FV was adjusted down as leverages loan prices fell and junior OC cushions shrank. For example, the FV of MPLF's equity stake in MP CLO III is $6.7m, yet its last quarterly cash payment was $0.9m and its notional amount is $33.3m. However, its junior OC cushion is only 0.4%. CLO VIII FV is another case in point. It has an FV of $5.5m with a last quarterly payment of $0.9m and a notional value of $22m. But it has been marked down due to a OC cushion of 0.6%.

The conservative views regarding asset quality and fears about future repayment may sometimes be well founded during an economic crisis, but also can lead to a disconnect between valuation of these equity tranches and their cash generation (the latter always driven by actual credit issues).

The NAV halved from $0.76 per share in February 2020 pre-COVID-19 to $0.39 in April. It has since rebounded by 49% to $0.58 in October 2020, but still significantly below February. At the same time, the current cash yield (based on cash disbursement), as calculated by management, on the CLO equity portfolio rose to 41.0% in H120 from 28.4% in FY19. The record disbursement of $10.9m in October is also more than 40% annualised, although it was bolstered by the Libor mismatch correction.

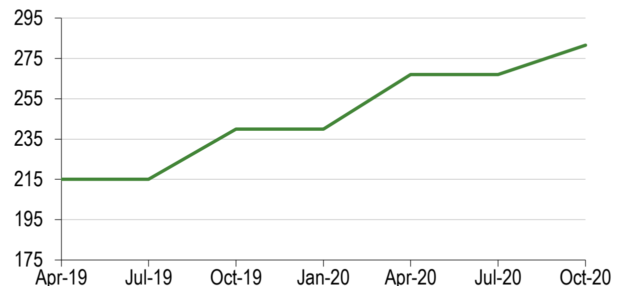
Exhibit 4 shows the increasing notional value of MPLF CLO equity tranches. This is due to reinvesting its retained cash flow (after dividend payments). The notional amount of the CLOs has grown by 20% to $281.4m (Exhibit 3 gives the breakdown by CLO) this year, showing good 'excess' cash generation despite the difficult conditions.

Exhibit 3: MPLF CLOs' junior OC cushions (%)*



Source: Marble Point Loan Financing. Note: *At October 2020

Exhibit 4: MPLF CLO equity total notional value ($m)



Source: Marble Point Loan Financing

Share buyback authorised in August

MPLF's board announced a share buyback programme on 25 August 2020. This has been done to increase share liquidity, which remains low. The authorisation is for 14.99% of its shares, renewed annually. MPLF bought 3m shares (1.5% of capital) during October 2020 at a price of $0.50 per share, equivalent to a 14% discount to NAV and a total approximate cost of $1.5m.

New CLO investments in 2020

MPLF has made two CLO equity tranches investments this year: one in February just before COVID-19 hit the markets (Marble Point CLO XVII, $20.0m invested) and the other in August 2020 with the improved market conditions (Marble Point CLO XVIII, $15.1m). These two investments represent 22% of the total group portfolio. Both CLOs are managed by their parent company (Marble Point) as is the case with the other CLOs. As of October 2020, the effective yields on the equity tranches are respectively 14.0% and 14.6% and the junior OC cushions are 5.3% and 5.5%.

The CLO market

Default risk and downgrades

At the beginning of 2020 in leveraged loan prices were rising as demand for loans as stronger than new loan issues in a trend that carried over from 2019. The demand was driven to a great extent by the CLO market, which is estimated at about 65% of the leveraged loans market by S&P/LCD. This changed with COVID-19 in February.

Loan prices started to fall as the market started to price in higher default risk and the pandemic uncertainty affected investor appetite. The situation was compounded by the company and sector downgrades by the ratings agencies. At the end of 2019, 8% of the S&P/LSTA Leverage Loan Index was rated CCC+ or lower. This was 14% by Q320.

CLO managers are normally not automatically forced sellers of the underlying loans even if they are downgraded. However, downgraded loans can interfere with their ability to distribute income to equity tranches by potentially breaching limits regarding ratings exposures. As such, some CLOs were left holding too many lower rated bonds (CCC+ or worse) after the downgrades, and the managers had to sell some of these bonds to allow them to make cash distributions to equity tranches. This further increases the selling pressure in an already fragile market.

The CLO market has also not been helped by the continued exit of retail investors. This has been happening since September 2018 as a lower interest rate environment has made CLOs less attractive to some of these investors. Retail investors were 17% of the market at the beginning of

2018 and were only 8.5% in H120 according to S&P/LCD research. In August there was a further outflow of $1.5bn according to JP Morgan.

As a result of the crisis, the S&P/LSTA index fell by 13% between 21 February and the end of March. The average bid price of loans fell from 96.7% to 82.9%.

Policy actions have helped CLO markets recover

In May, the US government and the US Fed Reserve provided much help, both in terms of lowering interest rates and providing liquidity, but also providing support stimulus as well as a 'safety net' for people and businesses. The market reacted positively and the S&P/LSTA index rose by almost 10% between 31 March and 30 June, while the average bid increased from 82.9% to 89.9%.

CLO market activity also rebounded, but volumes in H120 still ended lower than in H119 ($65bn vs $35bn, according to S&P/LCD research). But the trend is clearly upwards; CLO issuance in September 2020 was 26 deals for $11.5bn. This is the busiest month since 2019.

There have been some changes in the new issues with shorter reinvestment periods (three years now standard as opposed to four to five) and initially with less leverage, although as the market recovery continues newer CLO issues' leverage is now closer to pre-COVID-19 levels.

The Fitch Report on US CLOs on 15 October 2020 reported that CLOs are building up OC cushions due to improving WAS and fewer ratings agency downgrades. The aforementioned Libor floor has helped the effective WAS improve in the average portfolio from 3.5% to 3.7% between June and September.

The manager's view: Market improving, cash good

Although there has been a recovery in the risk asset market values and it is 'difficult to predict the full impact of the COVID-19 pandemic on loan and CLO markets', the investment manager believes that there is still a 'dislocation in credit markets' and this creates attractive investment opportunities. MPLF has good liquidity ($4.2m in H120) and no significant liabilities to pay in the near future.

The investment manager notes that no Marble Point managed CLO (which form the totality of CLOs that MPLF has invested in, although its mandate allows it to purchase other CLOs) has been required to divert cash from the equity tranches due failing a junior overcollateralization test in April, July and October 2020 payment dates. The manager notes that 'by comparison, in Q2 2020 and Q3 2020 approximately 17% and 18%, respectively, of US CLOs made zero equity distribution, according to Bank of America CLO Research.'

In the loan market, the investment manager expects demand to continue to exceed the loan supply with issue of new loans remaining relatively low although rising. As such, CLO managers and ramping warehouses looking for loans will continue to put upward pressure on secondary prices. On the other hand, it also expects the favourable CLO funding environment to continue with interest rates to remain low and investor demand for CLO liabilities to remain robust.

Although the investment manager believes that defaults will increase, it expects 'the loan market to continue to grind higher offering attractive opportunities for investment.'

The CLO market is improving with better leverage and modelled returns and this has encouraged MPLF to make its first post-COVID-19 tranche investments. The investment manager 'was able to take advantage of these dynamics' and invested in the Marble Point CLO XVIII in August 2020. They invested $5m in leveraged loans during October with the intention of converting into a new CLO in 'early 2021'.

The investment manager believes 'the CLO market appears primed for continued strong issuance with improving liability levels.' The manager also notes that loan issuance continues to be relatively low and this puts pressure on loan prices as companies build the pool of loans to form CLO securitisations. On one hand, higher loan prices are good news for the asset prices of existing CLOs; on the other hand, they affect the spread on new CLOs and make it more challenging to create them.

Asset allocation

Please note that we describe the asset allocation process, including loan selection and credit approval, in more detail in our initiation note Disciplined leveraged loan investment specialist, 1 March 2019, pages 6–8.

Marble Point has a conservative, differentiated approach to credit investment with four key elements it its philosophy: 1) **margin of safety** (first lien investments, moderate loan-to-value ratios), 2) **relative value**, 3) **active trading** and 4) **active source of investments**. The focus on relative value leads directly to an active trading style targeting building par value, mitigating losses and avoiding stale positions. Shandell and Geis have deep, longstanding relationships with major banks and dealers. With private equity firms playing increasingly significant roles in the loan allocation process, active relationships are maintained with deal sponsors to understand and communicate how Marble Point can support their needs.

In its loan selection, MPLF also looks at various factors besides loan-to-value ratio (LTV), such as track records, cash flows (low capex and working capital preferred), profitability and competitive position strength. It also looks for catalyst triggers from credit improvement (accelerated earnings/cash flow, asset sales, and operational restructuring/cost reduction) or total return and price appreciation (M&A, equity issuance, debt refinancing, operational/financial restructuring). Other considerations include security liquidity and credit documentation such as EBITDA addbacks, limitations on debt (including incremental and other allowances), mandatory repayment terms and limitations on restricted payments.

MPLF's portfolio essentially is comprised of: 1) its Marble Point CLO equity and debt securities investments, 2) its subsidiary MPLF Funding (which invests in loans directly) and 3) its Marble Point LAFs. MPLF invests in Marble Point CLOs directly, but it also has indirect exposure through holding minority stakes in Marble Point's CLO manager subsidiaries, which maintain risk retention interests in each CLO they manage, generally to the extent required by law or regulation. The Marble Point CLO manager typically either refinances/resets an existing Marble Point CLOs or issues a new one.

MPLF may also buy Marble Point CLO securities on the secondary market, and has the flexibility to invest in other related CLO investments that can include those managed by third parties or investments in other CLO collateral managers.

Current portfolio positioning

Marble Point CLO equity investments now account for 79% of MPLF's portfolio value as of 30 October. This is down from 83% from September 2020 because Marble Point LAF equity investments now account for 3.5% of the portfolio. These are leveraged loans that will likely be used to create future CLOs. At the end of September there were no loans being warehoused in the Marble Point LAF, following the completion of the last securitisation (Marble Point CLO XVIII) in August. These leveraged loans being warehoused in the LAF will likely be used to create a new CLO in the future. There are now 12 CLO equity tranches, with an average effective yield of 6.4%. We note that there has been a decline in effective yield in the portfolio from 12.1% in our last report in August 2019 due to the pandemic crisis and lower interest rates.

MPLF's investments in CLO debt tranches account for 10.3% of the portfolio value and are currently yielding only 2.2% due to the prevailing low Libor rates. MPLF Funding subsidiary and fee participants account for 3.3% and 3.1%, respectively, of the investment portfolio.

Exhibit 5: MPLF investment portfolio as at 30 September 2020

US$m As at September 2020	CLO size	Total equity notional	Notional owned by MPLF	Fair value	Last cash payment	Investment portfolio weight (%)	Effective yield (%)	Junior OC cushion (%)	Non-call date	Reinvest. period end date
MP CLO III	384.2	55.1	33.3	6.7	0.9	4.7	3	1.3	20-Oct-19	20-Oct-22
MP CLO IV	380.8	48.4	2.1	0.2	0.0	0.2	0	0.4	25-Jul-19	14-Jul-21
MP CLO VII	518.5	45.5	23.7	4.7	1.0	3.3	0	1.0	12-Sep-19	18-Oct-20
MP CLO VIII	459.0	50.0	22.0	4.8	0.9	3.4	0	0.9	11-Nov-18	28-Oct-19
Marble Point CLO X	483.9	50.0	38.5	13.9	1.4	9.8	1.8	1.6	15-Apr-20	17-Oct-22
Marble Point CLO XI	479.3	48.5	24.7	8.1	0.8	5.7	2.6	0.9	18-Jan-20	18-Jan-23
Marble Point CLO XII	481.6	48.7	24.7	10.6	1.2	7.5	8.7	1.4	22-May-20	16-Jul-23
Marble Point CLO XIV	386.3	38.0	29.6	9.5	0.9	6.7	1.5	1.6	31-Dec-20	20-Jan-24
Marble Point CLO XV	395.1	36.5	19.6	10.0	0.7	7.0	10.8	3.7	06-Jun-21	23-Jul-24
Marble Point CLO XVI	476.1	43.8	23.8	13.8	1.0	9.7	13.2	5.0	19-Oct-21	19-Oct-24
Marble Point CLO XVII	401.1	40.0	22.6	15.3	1.5	10.8	14	5.2	24-Mar-22	20-Apr-25
Marble Point CLO XVIII	501.0	44.5	17.0	15.1	N/A	10.7	14.6	5.5	04-Sep-21	15-Oct-23
Total Marble Point CLO Equity				**112.8**	**10.3**	**79.4**	**6.4**			
Total Marble Point CLO Debt				**15.1**	**0.1**	**10.6**	**2.1**			
Marble Point CLO Fee Participations				4.4	0.5	3.1	20.9			
NAV of Funding Subsidiary				4.7	N/A	3.3	N/A			
Marble Point LAF Equity				5.0	N/A	3.5	N/A			
Total Investment Portfolio				**142.0**	**10.9**	**100.0**				
Other Assets				9.2						
Total Assets				**151.1**						

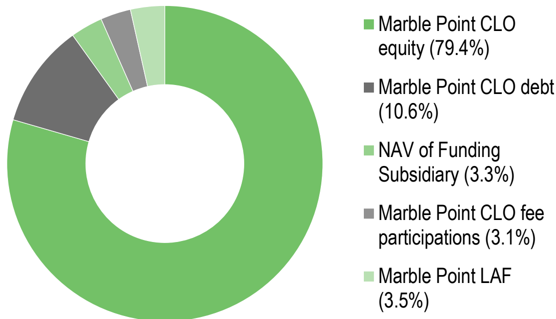
Source: Marble Point Loan Financing, Edison Investment Research. Note: OC: over collateralisation.

Exhibit 6 shows the breakdown of MPLF's portfolio by investment category and the underlying loan exposure by industry at end-September 2020. The portfolio's underlying industry exposure is similar to what it was in January with the same degree of diversification, with the top 10 industries representing 71.0% of the portfolio (71.6% at end-October 2019). There has not been any significant shift in industry exposure, although we note a small decline in healthcare & pharma (from 12.7% to 10.6%, still the biggest sector exposure) and an increase in finance and real estate from 8.6% to 10.3% and appearance of oil and gas in the top 10 industry exposure (4.1%).

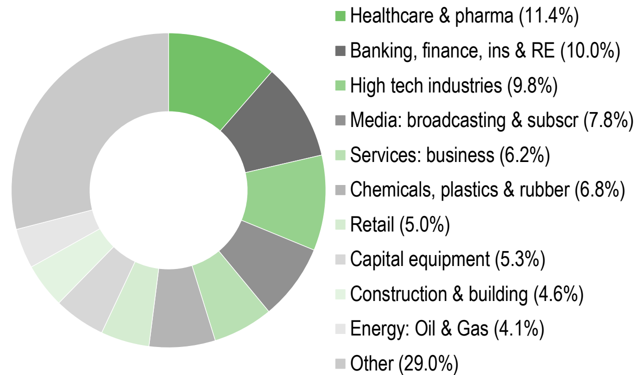
The average effective spread is 3.84% (a little above the industry average of 3.7%) and up from 3.67% in April 2020. The exposure to defaulted borrowers was 0.96% was an improvement from the previous month (1.2%), but higher than 0.29% a year ago and 0.4% in April 2020. Maturities and reinvestment periods have declined in line to 4.6 years (4.9 years in October 2019) and 2.9 years (3.3 years), respectively. Caa3 or lower rated loans are 0.7% of the portfolio compared is the same as 0.7% a year ago and was lower than 1.5% in September. The shorter maturities reflect aging of the portfolio and we also note the last CLOs in August 2020 had a shorter reinvestment period due to the market conditions.

Exhibit 6: MPLF portfolio analysis by investment category and underlying industry exposure

Portfolio analysis by investment category at 31 October 2020



Underlying loan portfolio analysis by industry at 31 October 2020



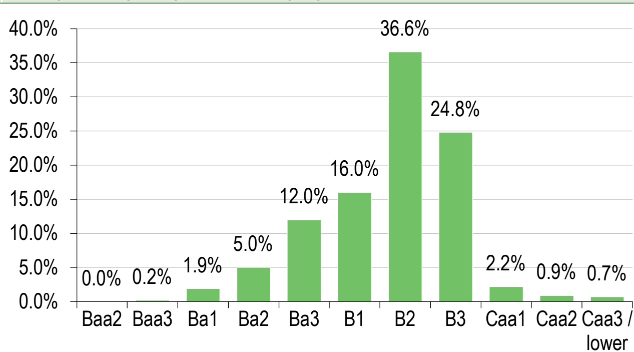
Source: Marble Point Loan Financing, Edison Investment Research

Exhibit 7: MPLF's underlying loan portfolio summary and rating analysis

Summary of underlying loan portfolio characteristics

	31-Oct-20	30-Apr-20	31-Oct-19
Unique underlying borrowers	270	274	286
Largest individual borrower exposure	1.3%	1.2%	1.1%
Average borrower exposure	0.37%	0.37%	0.35%
Exposure to first lien loans	98.18%	97.53%	97.65%
Exposure to defaulted borrowers	0.96%	0.45%	0.29%
Average market value of collateral	94.74%	86.66%	94.82%
Average market value of CSLLI	92.87%	85.69%	
Average stated spread	3.54%	3.51%	3.54%
Average effective spread	3.84%	3.67%	
Weighted average cost of debt	L+1.86%	L+1.82%	
Average stated spread of CSLLI	3.56%	3.49%	
Weighted average loan maturity	4.6 years	4.8 years	4.9 years
Weighted remaining reinvest. period	2.9 years	3.4 years	3.4 years

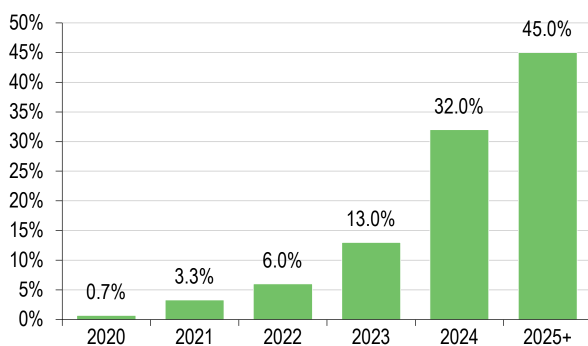
Moody's rating analysis of underlying loan portfolio at 31 October 2020



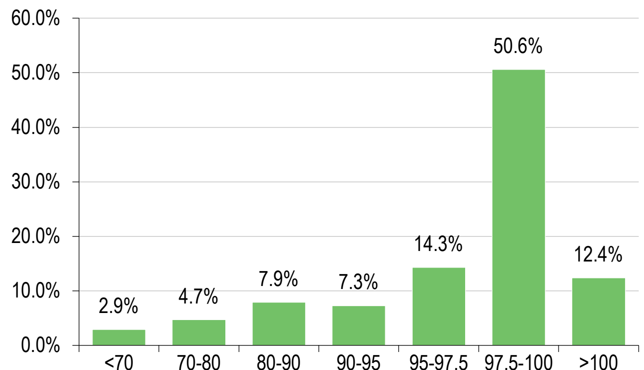
Source: Marble Point Loan Financing, Edison Investment Research

Exhibit 8: Maturity and price analysis of MPLF's underlying loan portfolio

Maturity distribution of underlying loan portfolio at 31 October 2020



Price distribution of underlying loan portfolio at 31 October 2020



Source: Marble Point Loan Financing, Edison Investment Research

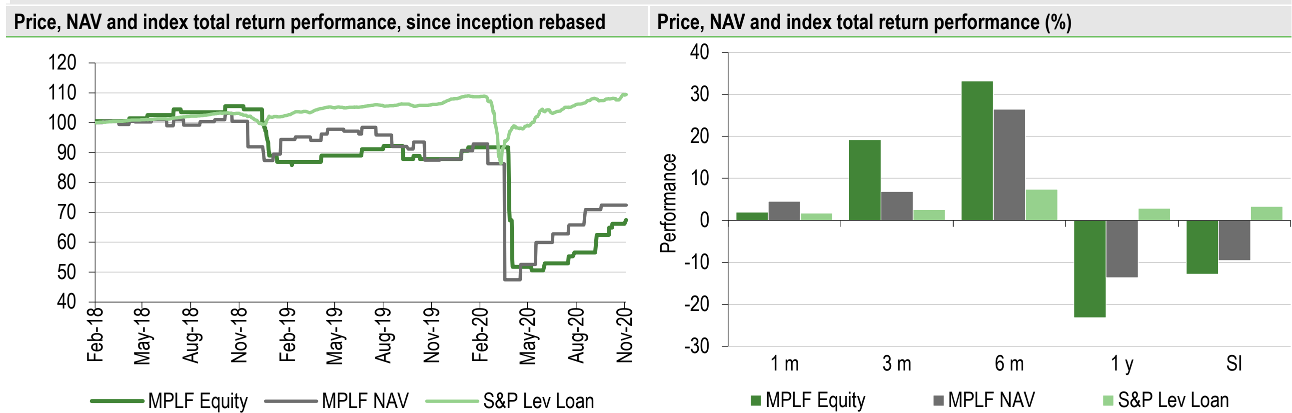
Performance

MPLF's NAV total performance has been affected by its conservative policy of marking to market as opposed to the mark-to-model approach (based on expected cash flow and not trading prices) more commonly used by its peers. This desire to be more transparent also inevitably results in greater NAV volatility. This was evident before COVID-19, but has been accentuated as a result of the pandemic. MPLF's NAV fell as prices dropped in March and April, but now is recovering faster.

As we have pointed out in previous notes, although the valuation methodology does make MPLF seem more volatile than peers, its CLO portfolio cash flow and assets have not been worse. This is so whether we look at spreads, loan defaults or cash distribution. MPLF has not diverted cash from its equity tranches and has reinstated its dividend. This compares with the fact that 17–18% of US CLOs have had no cash distribution to equity in Q220 and Q320.

The NAV halved from $0.76 per share in February 2020 pre-COVID-19 to $0.39 in April. The NAV per share at 30 June of $0.52 was already up from the $0.39 trough in May. MPLF's NAV per share has since further increased to $0.58 by October 2020.

Exhibit 9: Investment company performance to 30 October 2020 in US dollar terms



Source: Refinitiv, Edison Investment Research. Note: Since inception (SI) date is 13 February 2018.

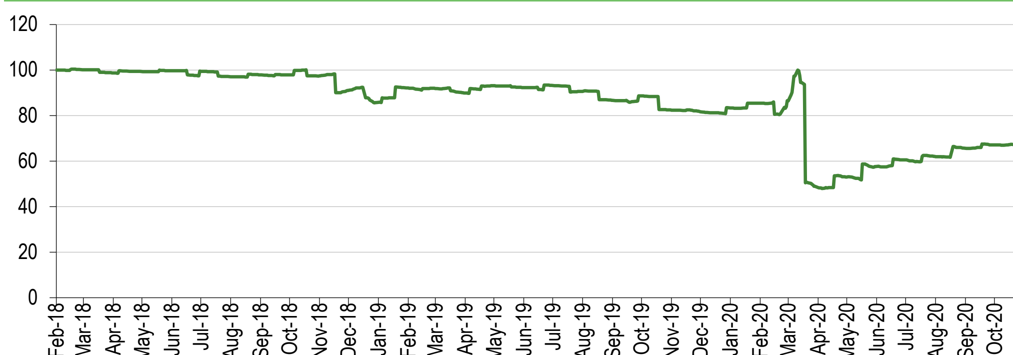
Exhibit 10: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Since inceptions
Price relative to S&P Leveraged Loan Index	5.7	16.8	16.6	(25.9)	(37.6)
NAV relative to S&P Leveraged Loan Index	(0.2)	7.7	25.9	(18.5)	(32.7)
Price relative to Credit Suisse HY Value Index	7.1	16.8	8.7	(16.2)	(30.8)
NAV relative to Credit Suisse HY Value Index	1.1	7.7	17.4	(7.7)	(25.2)
Price relative to S&P 500	8.8	19.1	12.7	(31.3)	(48.3)
NAV relative to S&P 500	2.7	9.8	21.7	(24.4)	(44.2)

Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2020. Inception date is 13 February 2018. Geometric calculation.

Exhibit 10 shows MPLF's performance relative to a range of credit and equity indices over one, three and six months, one year and since its inception in February 2018. MPLF's share price and NAV total returns lagged the selected indices over the last year and since inception, but have outperformed in the last six months. MPLF's NAV performance relative to the S&P Leveraged Loan Index is shown in Exhibit 11.

Exhibit 11: NAV TR performance relative to S&P Leveraged Loan Index since inception



Source: Refinitiv, Edison Investment Research. Note: Inception date is 13 February 2018.

Discount: 9% discount to NAV

MPLF's shares are now trading at a historically above-average 9% discount to NAV. The large spike that occurred during the crisis was due to large market-driven NAV writedowns to which subsequently the share price adjusted. The NAV in April 2020 was marked down 45% from the previous month.

MPLF has no strict discount control policy, but shares may be repurchased if they trade at a three-month average discount wider than 5%, measured at each month end. Repurchases will only be made at prices below the prevailing NAV per share, when the directors believe such purchases will be value accretive. MPLF has been purchasing shares during Q320 and was authorised to buy back 14.99% of its shares. The decision was driven by the desire to increase share liquidity.

Exhibit 12: Share price premium/(discount) to NAV since inception (%)

Source: Refinitiv, Edison Investment Research

Capital structure and fees

There is a single class of shares (with 205.7m in issue) and directors have renewable authority to purchase up to 14.99% of outstanding shares. There are no rules preventing directors from issuing additional shares on a non-pre-emptive basis at any time, but no shares have been allotted or repurchased since the IPO. The fund has repurchased 3m (average price $0.50) of its shares during October 2020 and is currently keeping them as treasury stock.

MPLF is permitted to borrow up to 20% of NAV. This limit excludes non-recourse financing obtained by MPLF Funding or any other entity in which MPLF is invested. At the end of H120, MPLF's debt to NAV was 26.9% (compared to 17.7% at FY18) but its net debt to NAV was only 17.7% (10% in FY19). Debt primarily consists of $28.6m in 7.5% senior unsecured notes due in 2025.

MPLF started a $12.5m revolving credit facility with City National Bank (CNB) in November 2019. This aims to provide MPLF with flexible capital and has a maturity date of November 2021. The cost is three-month Libor +3.25% plus a 0.25% for the unused portion of the facility. There is a maximum LTV of 10% of total MPLF investments. The current balance is zero, but the company borrowed and repaid $4m from this facility during H120 when investing in Marble Point CLO XVII in February 2020 and before collecting CLO payments in April 2020.

During Q320, MPLF Funding terminated its $200m revolving credit facility (which was non-recourse to MPLF) with Sumitomo Mitsui Trust Bank, which was due to mature on 16 September 2021. MPLF Funding repaid $101m in principal payments.

A continuation vote will be proposed at MPLF's first AGM following the fourth anniversary of its IPO unless MPLF has raised $400m or more in capital. If the continuation resolution is not passed, the

directors are required to put forward proposals for reconstruction or reorganisation of the company for shareholder approval within six months of the vote.

Management and incentive fees

MPLF's investments are only subject to one layer of management fees, and the manager sees MPLF's overall fee structure as one of the most investor friendly among its peers.

As a rule, Marble Point receives 0.4% per annum as MPLF's investment manager. However, assets managed by Marble Point are excluded and so far all of MPLF's CLO equity investments have been Marble Point-managed assets and it is expected that they will continue to comprise the majority in the future. MPLF Funding pays Marble Point a 0.4% fee. However, MPLF's CLO debt investments, fee participation interests and Marble Point LAF are also not subject to fees.

CLOs in which MPLF is invested generally each pay management and incentive fees, which in certain cases are greater than 0.40%. MPLF indirectly bears these fees on a pro rata basis as they are deducted from the net returns of the CLOs. However, MPLF does not bear CLO management fees in excess of 0.40% per annum or CLO incentive fees in excess of 20% over a 12% hurdle. Where fees are higher, MPLF receives a fee participation interest or rebate, except where the CLO interest has been acquired in the secondary market.

Marble Point is also entitled to be reimbursed by MPLF for reasonable costs and expenses.

MPLF's total annual operating expenses in the first six months of 2020 were an annualised 175bp. This excludes fees paid on underlying investments, where MPLF receives returns net of fees.

Peer group comparison

Exhibit 13 shows a comparison of MPLF with a selected peer group of funds from the AIC Sector Specialist: Debt and AIC Sector Specialist: Financials sectors that have significant holdings in CLO securities or similar investments. As MPLF was only listed in February 2019, we show performance over six months, one year and since MPLF's inception to allow comparison to be made, while also showing longer time periods for the peers, to give greater context to the short-term performance data.

MPLF's NAV total return is the highest in the peer group over the last six months and but is below its peers (ranking sixth out of seventh) over the last year and since its inception due to the aforementioned conservative marking to market policy. This contrasts with the more widely used 'mark-to-model' valuations, which are based on expected underlying cash flows and not adjusted for trading price fluctuations. The wider discounts of some of the peers reflect this difference in portfolio pricing.

MPLF's ongoing charge (1.75bp) is above the average of the peer group but reflects its relatively recent launch and the NAV downward adjustment. MPLF's dividend yield is the highest of its peer group at 15.4%.

Exhibit 13: Selected CLO investment peer group as at 12 November 2020* in sterling terms

% unless stated	Market cap (£m)	NAV TR 6 month	NAV TR 1 year	NAV TR SI**	NAV TR 3 year	NAV TR 5 year	Premium/ (discount)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Marble Point Loan Financing	**79.5**	**43.9**	**(16.3)**	**(11.3)**			**(8.8)**	**1.75**	**No**	**118**	**15.1**
Blackstone/GSO Loan Financing	270.4	1.2	6.8	(6.8)	8.3	48.7	(13.4)	0.36	No	100	9.4
Chenavari Toro Income Fund	142.4	19.1	4.7	(3.7)	8.6	54.2	(26.6)	1.39	Yes	100	14.2
EJF Investments	70.6	5.8	12.2	(8.5)	27.2		(30.4)	2.20	Yes	100	9.3
Fair Oaks Income 2017	187.0	38.3	(19.7)	(20.9)	(19.5)	28.4	(3.4)	0.22	Yes	100	15.9
TwentyFour Income	531.4	23.6	13.5	8.7	16.7	37.1	(8.0)	0.96	No	100	6.1
Volta Finance	136.2	24.5	(5.2)	(8.5)	(4.2)	60.3	(31.1)	2.18	Yes	116	10.3
Weighted average		21.1	3.4	(3.0)	7.5	42.7	(13.9)	**1.00**		**102**	**10.0**
Rank in peer group (out of 7)	6	1	6	6			3	5	4 / 7	6	1

Source: Morningstar, Edison Investment Research. Note: *Performance to end-October 2020. **MPLF's inception (SI) date is 13 February 2018. ***Edison estimate. TR = total return in sterling terms. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

General disclaimer and copyright

This report has been commissioned by Marble Point Loan Financing and prepared and issued by Edison, in consideration of a fee payable by Marble Point Loan Financing. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for 'wholesale clients' within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are 'wholesale clients' for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a 'personalised service' and, to the extent that it contains any financial advice, is intended only as a 'class service' provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the 'FPO') (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the 'publishers' exclusion' from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.