INTEROFFICE MEMORANDUM

TO: KARI JOHNSON, O'BRIEN STALEY PARTNERS
FROM: JOHN MCCARTHY
SUBJECT: TWENTY GOOD QUESTIONS
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CC:

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1. **You worked for a global company (Cargill), and then help launch a start-up money manager. If you could go back to the early days of the firm, what do you know now that you wish you knew back then?**

Seek a culture where you can bring all of you. I recall during my undergrad, sitting with my English advisor in his office as he encouraged me to seek a career in journalism. I had declared two majors: accounting and English writing. Across from the English building was the business building. Two very different worlds between these two buildings. I accepted an accounting role at Cargill in the financial services team focusing on credit, thinking I was sacrificing the creative possibilities of a writing career.

Within three years, I threw my hat in the ring for an analyst role. Before doing so, I sat down with my spouse and we talked about the career "jump ball" which was about to ensue. We knew we'd have to prioritize my career. At the time, we thought we were sacrificing opportunity for one over the other.

Fast forward to the global financial crisis. My role at Cargill changed from investing to global portfolio management. I was out of a "deal doing" seat, working hard to navigate the ship. Not being connected to "P&L" concerned me. Emerging from the crisis, I sought a return to a "deal doing" seat which led me to join O'Brien-Staley Partners (OSP), co-founded by my mentor at Cargill/CarVal, Jerry O'Brien.

The first day I walked in, the core culture and credit skills were evidenced by behavior and discipline of the deal process. Transparency and accountability, paramount. We have a phrase, "we invest in what we want, where we want and with whom we want". At OSP, I could bring all of me. From undergrad and until this career change, I thought of major choices as sacrifices, but I gave up nothing. I've never sacrificed creativity. I use it every day to find solutions. My spouse didn't sacrifice his career. He supported our family. Whatever "seat" I sit in, I bring my best to achieve superior risk-adjusted returns and create long-term franchise value for the firm.

2. **You bid for "unloved loans". What makes a loan a potential candidate?**

Credit cycles drive our opportunity set and potential deals are screened to ensure they meet our investment "bull's-eye", given market conditions. It is just as important to define what a candidate is as well as define what a candidate is not. Examples of candidates include loans under modification or forbearance, loans paying past maturity, bankruptcy claims & DIP loans, credits with material covenant defaults. Unloved credits such as these are labor intensive and resolved credit-by-credit, but OSP's principals have over 25 years of experience sourcing, underwriting and managing these types of situations.

3. **Sometimes you bid for one loan, and sometimes you bid for a portfolio of loans. Different approaches?**

Unloved C&I (Commercial & Industrial) loans are not homogenous by size, credit performance or geography. OSP has proprietary underwriting tools and underwrites credit-by-credit. After completing asset level underwriting, we will test upside and downside scenarios for an asset if a bid is for one loan and as a portfolio if we bid for a portfolio of loans.

4. **What are some common traits of good credit pickers?**

Credit pickers do not have perfect information to analyze a loan. Sellers do not disclose to underlying borrowers their intent to sell and therefore, buyers do not talk to borrowers in advance of a sale. Borrowers learn of a sale when servicing is legally transferred from seller to buyer. As a result, good credit pickers are curious. We seek information not only from loan files but also augment with other sources to connect the dots and create a view of a credit's potential outcome. Along these lines, good credit pickers are transparent and articulate what is known and not known to formulate an opinion regarding base case value and upside/downside return scenarios. Good credit pickers understand "the balance sheet", intrinsic value of collateral and formulate views of borrower going-concern based on underlying borrower's cash flows and loan performance track record. We sometimes refer to, "how is this movie going to end" and with the team's experience, we formulate a view and price.

5. **You have hired and trained many credit analysts. When hiring, any traits you tend to seek?**

When hiring credit analysts we seek detail-oriented individuals with prior experience in credit. We do not hire "cohorts" or run formal training programs so experience is key. Credit analysts need to be comfortable working with imperfect information and savvy with data and Microsoft Excel to complete analysis. They need to be comfortable asking questions and communicating unknowns. We also seek long-term "franchise" builders and those with the skill set to be both articulate in the boardroom and with institutional investors.

6. How do you choose leaders, generally or in functional areas, at your firm?

We choose leaders both generally and in functional areas. Recruiting is "every day" at OSP. At a high level, it starts with the firm's brand and the personal brands of the team. We have formal MBA recruiting to seek summer interns with the potential to join as associates. Our goal is to develop these individuals into our future leaders. We also stay connected with our business community and broader private credit network to fill functional areas of expertise as needed. If there is a need to fill a functional role, we usually already have an idea of who the best candidates would be.

7. Other than bid price, any other factors loan sellers consider?

Loan sellers consider multiple factors in addition to bid price. Sellers want to make sure buyers are experienced with managing assets. They care "who" they sell to. Sometimes a seller simply has "deal fatigue" with credits that are difficult and time consuming to manage. A special assets department may have FTE constraints and elect to move the loans of its balance sheet. A bank seller may have reserves on its loans and therefore, when it sells, can book earnings even if selling at a discount to par. On the flip side, regulatory pressure to clean up "unloved" credits can cause a bank to sell loans. In other cases, sellers may discontinue unprofitable business lines or choose to sell unprofitable loan relationships.

8. Do you tend to have a due diligence check list, or is each asset case-by case?

We have developed robust underwriting tools, including a due diligence checklist, to inventory what we know and what we don't know about each underlying asset. We then aim to fill in the gaps for each asset through additional diligence and asking the seller to provide more details.

9. When you acquire a loan, do you often contact the borrower to potentially change some of the terms of the loan?

After we acquire a loan, we contact the borrower but not with the intent to change the terms of the loan. Our expectation is the borrower will fulfill its contractual obligations. If the borrower does not, we seek information from the borrower to evidence why they are unable to meet contractual terms. Sometimes borrowers have a credit crisis and it is in these instances where we come up with a payment plan; however, in other cases, some borrowers are opportunistic about fulfilling credit obligations and others simply try to take advantage of a situation. With our team's experience, we can quickly identify the difference between a borrower in a credit crisis, a credit opportunist or worse.

10. Any risks you generally seek and other risks you generally avoid?

Our team practices sound risk management. We have robust processes, procedures and a culture of risk management. Culture is step one in avoiding risks including the motto of "no un-articulated risks" across the entire organization. We manage risk by not rushing to invest but by weighing the opportunity set given the credit cycle and adjust our bull's-eye, accordingly. OSP manages risk by not putting pressure on its team to invest. We place considerable value in knowing it is okay to turn down a deal or passing on certain assets in a portfolio. For example, from a credit perspective we will steer clear of higher yielding unsecured loans with binary outcomes, otherwise known as "elevator shaft risk". We elect methodically what to put into the broader portfolio. More broadly speaking, we accept and experience idiosyncratic risk but attempt to avoid systemic risk. Finally, although our team has global loan experience we chose to focus on the United States and avoid global market risks and complexities. The rule of law and culture of debt repayment across the globe varies and global markets introduce many operational headaches and complexities we have chosen not to bear.

11. For a portfolio of loans, how do you think of stratification as a whole?

OSP reviews stratifications of portfolios to identify concentrations, to determine risk mitigants and to customize due diligence. Examples include performance status, collateral type and geographic concentrations. This data, in combination with testing cash flow sensitivities, formulates bid strategy.

12. What is one of the strangest loans you have seen? (Did you bid for it or pass?)

We bid a C&I loan relationship as part of a portfolio that was secured by a recycling yard, personal residence, vacation property and the strangest loan, I have seen, literally seen, a loan secured by an industrial land parcel in Georgia storing a few hundred porta potties, also our collateral. It was quite the site inspection. I still have the pictures on my phone. Could probably "flush" those pics as the relationship paid off in full and returned over a 100% gross asset IRR. This relationship is a good example of a credit opportunist. The bank continually extended the maturity date and restructured the loan, not wanting to touch a recycling company. In addition, prior to purchasing the loan, the principal invested in a defunct real estate development investment and filed personal bankruptcy, causing headaches for the bank.

13. As a credit manager, how do you build "Impact Portfolios"?

As an institutional asset manager in credit, the key for impact at OSP was to frame a question: Where do good returns come from? For OSP, they come from expertise and focus and where others face a constraint. Our expertise is credit, so we formulated a fixed-income investment strategy that yields both a benefit to society and market rate returns to investors. Our focus is on channels that drive economic development in low-and moderate-income areas, green energy and affordable housing where traditional capital is constrained.

14. How do you measure "Impact"?

We do not invest in what we can't measure. Primary impact metrics and benchmarks are established using data and working closely with our impact investing Special Advisor who has over 30 years of experience in the non-profit sector. The primary metric for each channel is measured against established benchmarks per $10 million invested. We measure job creation for economic development, square feet retrofitted for green energy and housing units for affordable housing.

15. Are investors becoming more interested in "Impact" investing?

Yes, investors are becoming more interested in impact investing. Published data supports growth in the market. The Global Impact Investing Network estimated $1.2 trillion in assets under management (AUM) as of 12/31/2021, a 63% increase since 2019.

16. One recent comment, "Banks used to be moving and storage, now banks are most moving, not storage", meaning banks originate loans, but like to sell them. Do you see this as mostly true?

Yes, I see this as mostly true. When I started in this business, there were close to 11,000 commercial banks in the United States. According to the FDIC, of those 11,000, banks with assets greater than $10 billion had a 36% share of industry assets. As of 12/31/2022, there were 4,135 commercial banks and of those, banks with assets greater than $10 billion had an 86% share of industry assets. The banks all provide similar services, no matter the size but larger banks tend to rely more heavily on revenue streams not associated with interest income on loan originations while the smaller banks focus more on community and small business lending. Holding loan assets on balance sheet preserves critical relationships for smaller banks.

17. Any typical reasons banks will occasionally exit whole areas and seek to sell loans in that area?

Typical reasons why banks will exit whole areas can vary. In the current cycle, some banks are selling business units to raise capital. In other cases, profitability of a unit can be a factor, such as Wells Fargo reducing and realigning its home-lending business. We've had cycles of banks exiting geographic areas, such as the period when the United States closed multiple military bases in the early 90s. M&A activity can also drive loan sales as banks seek to reposition their portfolios and service offerings.

18. Any regulatory changes in recent years that have helped or hurt your business?

After the global financial crisis, the Dodd-Frank Wall Street and Consumer Protection Act of 2020 was implemented increasing regulatory capital requirements and made changes in the regulation of derivatives, credit ratings, corporate governance, executive compensation and securitization. While the act stabilized the banks, it is costly to implement for the smaller banks. As a result, there is debate about its impact on the economy. These costs and economic impacts can help drive business opportunity as smaller banks merge and subsequently selloff assets.

Most agree that going forward, topics from the last two years such as high inflation, the pandemic, crypto assets, cyber/IT risks are top of mind and could spur new regulation. Moreover, several observations have been made by former regulators and the press that what the system needs is oversight, not increased regulation. They theorize there was a "work-from-home" factor in the recent failures, both at the banks and also with the FDIC. Onsite examinations were down as a result of the pandemic and are now on the uptick. The FDIC staff, working remotely, became less nimble and trained to respond. In addition, bank boards, like the Silicon Valley Board, have not been meeting "in the room" but virtually, diluting the effectiveness of its oversight. In a contrarian sense, this ineffectiveness drives opportunity our way.

19. Any general techniques you like to help continually educate your investors on your business?

Our team conducts an in-person quarterly portfolio review and holds an all-hands meeting every quarter, including risk management, where we discuss every investment no matter the size. From there, we complete the NAV process and report to investors. Reporting includes a letter and key portfolio return metrics and stratifications. Moreover, we hold in-person investor meetings on a 1.5-year cycle to provide organization updates, fund level performance review and portfolio stratification, deal level reviews and overview of future opportunities.

20. As investors have become more experienced in private credit investments, any new educational challenges?

We appreciate that investors are more experienced in private credit investments. We don't think of investor experience as driving new educational challenges. OSP has a transparent culture and appreciates dialogue with and questions from its investor base.

Questions we seem to field frequently revolve around drivers of opportunity and how long they will last. The longevity of my career beginning at a private company founded in 1865 provides unique perspective regarding "how long opportunities will last". We adjust our investment "bull's eye" based on credit cycles while others may move in and out of the strategy when cycles change. No matter the cycle, OSP sticks to its core credit and fundamental investing discipline, risk management and governance DNA. In addition, we remain focused and calm during periods of market volatility.

The Hundred Foot Journey, a novel adapted for the screen in 2014, speaks to changing with times that renews one's core essence but does not abandon it. Change for the sake of change without an anchor leads one astray. Sticking to our core in combination with the longevity of our team's experience makes us unique. Our principals have over 25 years of experience sourcing, underwriting and managing private credit investments and have invested through credit cycles including the RTC crisis in the early 90s and the shocks of global events from the 1994 Mexican peso crisis, the 1997 Asian financial crisis, the 1998 Russia debt default to the Global Financial crisis and beyond. So, I guess you can say that even when things change, as a team, "we've seen this movie before" and are equipped to predict the ending.