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A Breadth of Opportunity in Private Credit

By Aksia LLC, Featured Author

A Breadth of Opportunity **in Private Credit**

In our post, "Private Credit: More than Just Direct Lending," we introduced an important concept: the private credit asset class is virtually as diverse as the global economy. In this piece, we build on this theme, describing in greater detail the investments and the originators found in the other five sectors of Aksia's private credit "map." We also describe some transaction types that the Calamos Aksia Alternative Credit and Income Fund (CAPIX) may target across various parts of the private credit market.

Direct Lending	+ Distressed Debt and Special Situations	+ Specialty Finance	+ Real Estate Credit	+ Real Assets Credit	+ Mezzanine
US direct lending European direct lending Emerging markets direct lending	Credit opportunities Corporate distressed Opportunistic structured credit Real estate distressed Nonperforming Loan (NPL) Capital solutions/rescue finance "Special situations" loans	Consumer and SME lending Factoring and receivables Regulatory capital relief Royalties Venture lending Insurance-linked credit Litigation finance Stretch Asset-Based Lending (ABL) Net Asset Value (NAV) loans Structured secondaries	US corporate real estate (CRE lending: core transitional, bridge lending) European CRE lending Emerging markets CRE lending CRE structured credit Residential mortgages	Infrastructure lending Energy credit Trade finance Metals and mining finance Agricultural credit Transportation	US mezzanine European mezzanine Structured equity Payment-in-Kind (PIK) Holdco

The private credit asset class is virtually as diverse as the global economy.

Three Important Observations

1

The sheer diversity of investments found in private credit beyond direct lending provides tremendous potential in our opinion. We believe investors are best served by strategies that can diversify across private credit, rather than by those that rely just on direct lending's corporate credit risk to generate returns.

2

There's a level of specialization and operating expertise to be found across the sectors. Private credit is more than just negotiating loans with private equity sponsors. It includes strategies found outside of typical corporate lending, in areas such as law, engineering, and industry. We believe operating experience is at the core of private credit's contribution to investor portfolios. Specialized originators should be able to mine niches more insulated from broader market gyrations in order to structure bespoke loans.

3

The specialized nature of private credit investing and the ability to diversify across different sectors means that investors can build allocations that are more "all weather," potentially generating yield while taking advantage of different market cycles. CAPIX aims to construct a broadly diversified portfolio of private credit investments to do just that.

	Direct Lending	Distressed Debt and Special Situations	Specialty Finance	Real Estate Credit	Real Assets Credit	Mezzanine
Yield Driven	High	Moderate	High	High	High	High
Capital Gain Driven	Low	High	Low	Low	Low	Moderate
Inflation Protection	High	Moderate	High	High	High	Low

I. Distressed Debt and Special Situations

Moving from left to right on the table above, after Direct Lending, we begin with Distressed Debt and Special Situations. This sector can be thought of as a catch-all for (mainly) corporate debt investments that:

- > Arise during periods of rising defaults and include distressed restructurings;
- > Occur opportunistically during dislocations in the public markets (i.e., “opportunistic credit”); or
- > Are privately negotiated credit instruments filling a financing gap left empty by other lenders (i.e., “capital solutions”).

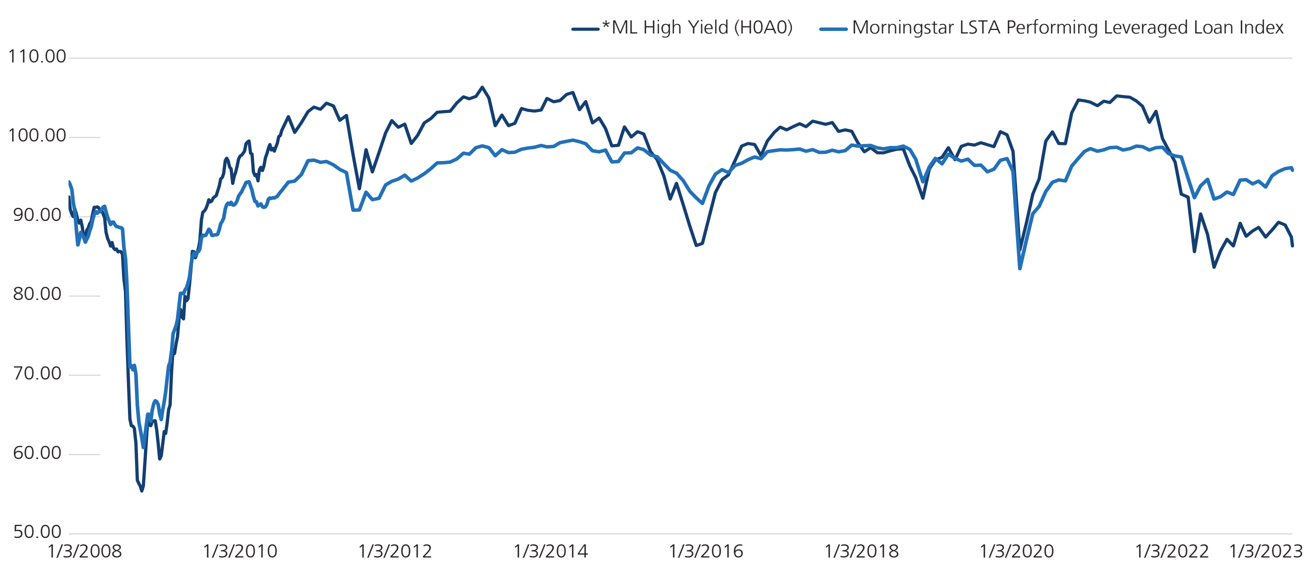
CAPIX strives to underweight deeply distressed investments and investments that might become involved in prolonged restructuring or bankruptcy processes.
These types of investments can be attractive, but they can be long lived, may require debt-for-equity conversions, or may be vulnerable to infighting among new and existing lenders.

Instead, CAPIX aims to target investments in generally sound borrowers in our view that may be encountering temporary stress but are not headed for restructuring or bankruptcy, sometimes referred to as "**opportunistic credit**." This can also include "**capital solutions”** or "**special situations**" structured to solve financing gaps for borrowers. These investments typically feature senior credit risk, current yields, scheduled maturities, and predictable repayment schedules—each a key tenet of CAPIX.

Finally, CAPIX may also selectively consider rescue financings to distressed borrowers, which can provide fresh senior debt to underperforming borrowers, and debtor-in-possession (DIP) financings, which are recognized as super-senior obligations in US bankruptcy courts. These investments tend to have a current yield, stated maturity, and senior priority with historically more predictable outcomes than other distressed strategies and thus have risk profiles that are more suitable to CAPIX.

Opportunistic Credit. Opportunistic credit investments can take advantage of dislocations in the public loan, bond, and structured finance markets. Some examples of recent public market dislocations occurred in late 2015 and early 2016, late 2018, and

Average Bid Prices for High Yield Bonds and Leveraged Loans



Past performance is no guarantee of future results. Data as of 9/30/23. Source: LCD. The **ICE BofA Merrill Lynch US High Yield Index (H0A0)** tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. The **Morningstar LSTA US Leveraged Loan Index** is designed to deliver comprehensive, precise coverage of the US leveraged loan market.

March 2020. In these instances, we saw markets sell off and then recover, creating investment opportunities for credit originators with flexible mandates and the acumen to capitalize upon them. Market dislocations can happen for many reasons, and we believe recent examples sprang from combinations of factors, including monetary tightening by the Federal Reserve, disruptions in adjacent capital markets, shifts in economic trends, unforeseen global events, and, of course, the COVID-19 outbreak.

Dislocations may create opportunities just about anywhere, such as in the loan and corporate high yield bond markets (discussed below) as well as in the collateralized loan obligation (CLO), residential mortgage-backed security (RMBS), commercial mortgage-back security (CMBS). agency, and other related markets. Many credit securities trade down for fundamental reasons, but we believe that technical forces such as mutual fund redemptions can result in motivated selling from holders such as CLOs, loan mutual funds, and regional banks seeking liquidity. This can result in an environment where the "baby is thrown out with the bathwater."

When this happens, opportunistic credit originators may be able to purchase performing investments at a discount, which can translate into an elevated yield and potential capital gains as those securities get closer to maturity.

Special Situations and Capital Solutions. These investments include privately negotiated credit investments that fill a gap that neither traditional banks, private lenders, nor the capital markets tend to finance, and possibly offer a less-dilutive alternative to equity. For example, suppose one partner wants to buy out another partner to get 100% control of a medium-sized company. The company's local bank will probably not want to finance a share repurchase no matter how much it likes its client; this is just not what local banks do. Furthermore, the company is probably too small to tap into the bond or syndicated loan markets. Private equity could help, but that would probably entail relinquishing control, which may not appeal to the remaining owner-operator. A well-crafted capital solution may include a junior loan or some preferred equity with a current pay coupon and some equity participation rights that the company may then use to purchase and retire the exiting partner's shares. The remaining partner acquires control of the business, and the other receives a payment and moves on to greener pastures.

> Special situations lenders can generate returns through up-front fees, interest, equity, back-ended "success" fees

Special situations lenders can generate returns through up-front fees, interest, equity, back-ended "success" fees, and prepayment penalties. Because this sector is often viewed as less dilutive equity, it may charge some interest that is paid-in-kind (PIK) – that is, periodically added to the principal balance, compounded, and repaid at maturity.

We believe the best special situations lenders need sizable staff with networks nurtured over decades, consisting of business brokers, attorneys, accountants, local bankers, and intermediaries who can provide valuable deal referrals. Moreover, crafting a solution to a complex financing problem often requires creativity and sensitivity to a borrower's needs without losing sight of the end goal: generating attractive risk-adjusted returns.

CAPIX may seek special situations investments that have predominantly credit-like attributes.

II. Specialty Finance

Specialty finance includes an array of credit investments that can be considered either esoteric (i.e., not corporate, real estate, or real assets) or specialized corporate lending. Common investments include entertainment or pharmaceutical royalties along with granular collateral pools such as consumer receivables and regulatory capital transactions. Other examples may include specialized corporate loans that target healthcare providers, lending to technology/software companies, or asset management firms (e.g., NAV loans), among others.

Specialty finance transactions often include debt to finance these esoteric investments as well as the actual investments themselves.

The breadth of this private credit sector and its degree of specialization means that investable strategies are often small and more difficult to access. In addition, specialty financing can require expertise spanning the range of private investing: origination, evaluation, execution, and exit. For example, pharmaceutical and music royalty originators illustrate the niche expertise that can be found in some areas of specialty finance. In our experience, finding a small pharmaceutical company with an exciting new treatment is best accomplished by seasoned industry veterans. Evaluating that treatment's future earnings potential is probably best left to scientists and not solely to financial analysts. Similarly, we do not think that anyone can approach an iconic rock star about purchasing her music rights. She will likely want to sell her catalog to someone who can drive royalty income without degrading her legacy by placing her songs in questionable media outlets, bad movies, unwatchable television series, and laughable commercials.

In our experience, the best specialty finance originators tend to be well staffed with veterans of their respective industries, such as lawyers, scientists, engineers, and executives.

Specialty finance transactions often include debt to finance these esoteric investments as well as the actual investments themselves. In the case of debt financing, investment terms should resemble typical corporate debt, with coupons, security interests, maturity, etc. Overall, we believe that the specialty finance sector should provide fertile ground for CAPIX given the broad range of underlying "sub-strategies" (i.e., the small font in the strategy map above), collateral types, and lending situations, along with potential for attractive and less correlated return profiles.

III. Real Estate Credit

Real estate credit is what it sounds like: investing in debt backed by real estate. This sector is broad and includes commercial, residential (multi and single family), and industrial properties. Investable real estate credit encompasses many levels and forms of debt, from bridge loans to the most senior tranches and down to mezzanine debt. Both performing and distressed loans are fair game, as well. Furthermore, real estate credit continues to evolve. For example, some home builders have started to partner with private capital providers who can finance their purchases ahead of development, instead of using their own funds as they did in the past.

Real estate credit is what it sounds like: investing in debt backed by real estate.

We believe real estate credit is the broadest and most global sector within private credit. We also believe the best real estate credit originators can identify mispriced investments in both transparent, liquid public markets (e.g., CMBS, RMBS, government agency debt, etc.) and in opaque, local, and illiquid markets. To effectively invest across this spectrum, real estate credit originators should be experts in local markets and know how to develop and manage properties. While we believe office properties are expected to face considerable challenges in the coming years, other property types could offer attractive debt investments because regional banks and other incumbent lenders face challenges and constraints on new lending. CAPIX can target the gaps left as some traditional lenders pull back from the real estate lending markets.

IV. Real Assets Credit

Real assets credit refers to debt that finances physical assets other than real estate. We categorize most physical assets that are not traditional real estate as real assets. In this sector, there are airplane and ship leases, as well as loans secured by mineral rights, energy infrastructure assets, trade finance collateral, agricultural assets, etc. We believe that this sector will grow as the global economy evolves. For example, in recent years, this sector has expanded to include cell towers, data centers, solar panels, and windmills.

As seen in other private credit sectors, quality real assets credit originators tend to be specialists in acquiring, evaluating, and managing their assets. For example, aircraft originators can resemble large scale publicly-traded lessors. They typically have networks for finding new or used aircraft, engineers that can assess airplanes, and remarketing staff that put planes on lease. When dealing with aircraft original equipment manufacturer (OEM) to buy new planes, they should have a track record of purchasing, marketing, and maintenance that inspires trust. We believe the same can be said for lenders and lessors in shipping, other transportation assets, cell towers, etc. In our experience, real asset originators often come from industry and have technical backgrounds.

Real assets credit refers to debt that finances physical assets other than real estate. We categorize most physical assets that are not traditional real estate as real assets.

CAPIX will generally underweight the real asset sector as these transactions tend to be opportunistic, bespoke, and sometimes feature structural subordination and/or non-cash payment interests, two features incompatible with our broader strategy. That said, we believe that loans underpinned by real assets collateral featuring attributes that provide downside mitigation to a portfolio, along with reduced overall market correlation, could make attractive targets for CAPIX.

V. Mezzanine

Mezzanine usually refers to junior corporate debt investments that are subordinated to senior debt. Common investment structures may include floating-rate second-lien debt, fixed rate mezzanine tranches or structured debt, and preferred equity transactions (collectively referred to as "mezzanine" despite the structural differences). Once a common component of leveraged buyouts, junior capital investments have gradually been crowded out by unitranche direct lending. However, we have recently seen a renaissance in this sector as senior lenders' risk appetites sometimes shrink and private equity owners balk at over-equitizing new acquisitions. In our experience, mezzanine is one of the few private credit sectors that offers equity upside.

Negotiating and structuring mezzanine debt is complicated. We believe subordination elevates the importance of company selection because the senior lenders will have a priority claim on the borrower's assets in distress. At the same time, there is an art to negotiating credit remedies with the senior lenders that potentially affords some risk management.

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Furthermore, mezzanine lenders may also negotiate with equity owners to obtain warrants or purchase a minority stake.

Although junior and often unsecured, we believe mezzanine investments can play a role in a private credit portfolio. Mezzanine investments tend to offer higher coupons than senior debt, equity participation, and contractual terms that can help shield lenders. CAPIX has the flexibility to include mezzanine in its portfolio asset allocation but will usually underweight this sector given the heightened risk profile and propensity for non-cash coupons. Nevertheless, at certain times, junior capital can play an important role when borrowers require additional financing options.

Conclusion

Private credit's breadth can offer investors a wide range of sectors and strategies, expanding beyond the limits of direct lending. Rather than constructing a portfolio overly concentrated in just one sector, the CAPIX team aims to build a diversified portfolio of investments, allowing CAPIX investors to access a balanced, institutional quality portfolio that seeks to generate meaningful yield.

To learn more about the opportunity of the global private credit asset class, please reach out to your Calamos Investment Consultants at 866-363-9219 or email at investmentprofessionals@calamos.com.

Before investing, carefully consider the fund's investment objectives, risks, charges and expenses. Please see the prospectus containing this and other information which can be obtained by calling 1-866-363-9219. Read it carefully before investing.

Shares Not Listed; No Market for Shares

The Fund has been organized as a closed-end management investment company. Closed-end funds differ from open-end management investment companies (commonly known as mutual funds) because investors in a closed-end fund do not have the right to redeem their shares on a daily basis. Unlike most closed-end funds, which typically list their shares on a securities exchange, the Fund does not currently intend to list the shares for trading on any securities exchange, and the Fund does not expect any secondary market to develop for the shares in the foreseeable future. Therefore, an investment in the Fund, unlike an investment in a typical closed-end fund, is not a liquid investment.

Interval Fund. The Fund is designed primarily for long-term investors and not as a trading vehicle. The Fund is an "interval fund" (defined below) pursuant to which it, subject to applicable law, will conduct quarterly repurchase offers for between 5% and 25% of the Fund's outstanding shares at net asset value ("NAV"). Under normal market conditions, the Fund currently intends to offer to repurchase 5% of its outstanding shares at NAV on a quarterly basis. In connection with any given repurchase offer, it is possible that a repurchase offer may be oversubscribed, with the result that Fund shareholders ("Shareholders") may only be able to have a portion of their shares repurchased. The Fund does not currently intend to list its shares for trading on any national securities exchange. The shares are, therefore, not readily marketable. Even though the Fund will make quarterly repurchase offers to repurchase a portion of the shares to try to provide liquidity to Shareholders, you should consider the shares to have limited liquidity.

The Board of Trustees (the "Board") will establish the deadline by which the Fund must receive repurchase requests in response to a repurchase offer. Quarterly repurchases will occur in the months of March, June, September, and December. Quarterly repurchase offers shall commence no later than two calendar quarters after the Fund's initial effective date. Written notification of each quarterly repurchase offer (the "Repurchase Offer Notice") will be sent to Shareholders at least 21 calendar days before the repurchase request deadline (i.e., the date by which Shareholders can tender their shares in response to a repurchase offer) (the "Repurchase Request Deadline"); however, the Fund will seek to provide such Repurchase Offer Notice earlier but no more than 42 calendar days before the Repurchase Request Deadline. The NAV will be calculated on the Repurchase Pricing Date, which will be no later than the 14th calendar day (or the next business day if the 14th calendar day is not a business day) after the Repurchase Request Deadline (the "Repurchase Pricing Date"). The Fund will distribute payment to Shareholders within seven calendar days after the Repurchase Pricing Date.

Investors should carefully consider the risk factors described above, before deciding on whether to make an investment in the Fund. The risks set out above are not the only risks the Fund faces. Additional risks and uncertainties not currently known to the Fund or that the Fund currently deems to be immaterial also may materially adversely affect the Fund's business, financial condition and/or operating results. If any of the following events occur, the Fund's business, financial condition and results of operations could be materially adversely affected. In such case, the NAV of the Fund's shares could decline, and investors may lose all or part of their investment.

General Economic Conditions and Recent Events. Difficult global credit market conditions have adversely affected the market values of equity, fixed-income, hard assets, and other securities and these circumstances may continue or even deteriorate further. The short- and longer-term impact of these events is uncertain, but could have a material effect on general economic conditions, consumer and business confidence and market liquidity. Investments made by the Fund are expected to be sensitive to the performance of the overall economy.

Direct Lending. The Fund will invest in directly originated senior secured loans, including unitranche loans, of performing middle market companies. The value of the Fund's assets is volatile and may fluctuate due to a variety of factors that are inherently difficult to predict and are outside the control of the Advisor and Sub-Advisors, including prevailing credit spreads, general economic conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular industry, changes in interest rates, or the financial condition of the obligors of the Fund's assets.

Direct Origination. A significant portion of the Fund's investments may be originated. The results of the Fund's operations depend on several factors, including the availability of opportunities for the origination or acquisition of target investments, the level and volatility of interest rates, the availability of adequate short and long-term financing, conditions in the financial markets and economic conditions. Further, the Fund's inability to raise capital and the risk of portfolio company defaults may materially and adversely affect the Fund's investment originations, business, liquidity, financial condition, results of operations and its ability to make distributions to its Shareholders.

Loans. Loan interests generally are subject to restrictions on transfer, and the Fund may be unable to sell loan interests at a time when it may otherwise be desirable to do so or may be able to sell them only at prices that are less than what the Fund regards as their fair market value. Accordingly, loan interests may at times be illiquid. Loan interests may be difficult to value and may have extended settlement periods, which expose the Fund to the risk that the receipt of principal and interest payments may be delayed until the loan interest settles.

Secured Debt. Secured debt holds the most senior position in the capital structure of a borrower. Secured debt in most circumstances is fully collateralized by assets of the borrower. However, there is a risk that the collateral securing the Fund's loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise, and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the borrower to raise additional capital. Also, substantial increases in interest rates may cause an increase in loan defaults as borrowers may lack resources to meet higher debt service requirements.

High Yield, Low-Rated or Unrated Securities. Debt securities (including bonds) and preferred stock in which the Fund invests may or may not be rated by credit rating agencies. The values of lower-rated securities (including unrated securities of comparable quality) fluctuate more than those of higher-rated securities because investors generally believe that there are greater risks associated with them. The inability (or perceived inability) of issuers to make timely payment of interest and principal would likely make the values of the securities more volatile and could limit the purchaser's ability to sell the securities at prices approximating the values it had placed on the securities. In general, the market for lower-rated or unrated securities is smaller and less active than that for higher-rated securities, which can adversely affect the ability to sell these securities at favorable prices. In addition, the market prices of lower-rated securities are likely to be more volatile because: (i) an economic downturn or increased interest rates may have a more significant effect on the yield, price and potential for default; (ii) past legislation has limited (and future legislation may further limit) investment by certain institutions in lower-rated securities or the tax deductibility of the interest by the issuer, which may adversely affect the value of the securities; and (iii) it may be difficult to obtain information about financially or operationally troubled issuers. The Fund will not necessarily dispose of a security when its rating is reduced below its rating at the time of purchase.

Unsecured Loans. The Fund may make unsecured loans to borrowers, meaning that such loans will not benefit from any interest in collateral of such borrowers. Liens on such a borrower's collateral, if any, will secure the borrower's obligations under its outstanding secured debt and may secure certain future debt that is permitted to be incurred by the borrower under its secured loan agreements. The holders of obligations secured by such liens will generally control the liquidation of, and be entitled to receive proceeds from, any realization of such collateral to repay their obligations in full before the Fund. In addition, the value of such collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of such collateral would be sufficient to satisfy the Fund's unsecured loan obligations after payment in full of all secured loan obligations. If such proceeds were not sufficient to repay the outstanding secured loan obligations, then the Fund's unsecured claims generally would rank equally with the unpaid portion of such secured creditors' claims against the borrower's remaining assets, if any.

Calamos Financial Services, Distributor | 2020 Calamos Court | Naperville, IL 60563-2787 | 866-363-9219 | www.calamos.com
caminfo@calamos.com

Calamos Financial Services LLC
2020 Calamos Court | Naperville, IL 60563-2787
866.363.9219 | www.calamos.com | caminfo@calamos.com

822211 1023