



# GoldenTree Asset Management

Presentation to SBCERA



October 8, 2019



# Table of Contents

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	Page #
Firm Overview	3
SBCERA & GoldenTree Relationship Overview	9
Credit Market Themes & Outlook	13
SBCERA Portfolio Update	22
Appendix	29

## Notes

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*Transactions of the type described herein may involve a high degree of risk, and the value of such instruments may be highly volatile. Such risks may include, without limitation, risk of adverse or unanticipated market developments, risk of counterparty or issuer default and risk of illiquidity. To that end, Investors may lose their entire investment. This brief statement does not disclose all the risks and other significant aspects of the transactions of the type described herein, and investors should ensure that they fully understand the terms of any fund investment, including the relevant risk factors and any legal, tax and accounting considerations applicable to them, prior to investing.*



## Firm Overview

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## Firm Overview

### People

- Founded in 2000
- 100% employee owned with 26 partners
- 50% of partners internally promoted
- 50 investment professionals with on average 17 years experience
- Physical presence in Europe for over 10 years

### Process

- Conservative, value oriented, total return philosophy
- Proprietary research on over 1,000 issuers
- Disciplined capital base
- Rigorous relative value approach using proprietary technology
- Sophisticated, dynamic approach to risk management

### Infrastructure

- Significant investment in infrastructure comprising over 130 employees
- Ability to execute dedicated, customized SMAs or Fund of One
- Global Business Development Team providing valuable insight



# Assets Under Management

GoldenTree is one of the largest independently owned global credit asset managers with assets under management of approximately \$31 billion

## Alternative Strategies

### Master Funds

Loans, Bonds, Distressed,  
Structured Products, Equities, Hedging

### Distressed Funds

Distressed

### Credit Opportunities Fund

Loans, Bonds, Hedging

### Structured Products Funds

Structured Products

## Master Fund Strategy

- The Master Fund strategy **is flexible across asset classes** capturing the best value across instruments
- The Master Fund Strategy has the **largest partner participation** illustrating our conviction and alignment with investors
- Master Fund has **delivered annualized net returns to investors of 9-10%** since inception with volatility of **less than 4% over the last 7 years**

## Long Only Strategies

### Multi-Sector

Loans, Bonds, Structured Products

### Value Fund

Bonds & Loans

### Structured Products

Structured Products

### Emerging Markets

Sovereign, Quasi-Sovereign, Corporate

### European Value

Bonds & Loans

### Bank Loans & CLO Vehicles

Loans

## Distressed Strategy

- GoldenTree captures Distressed opportunities **across regions and industries**, using both control-style and more trading oriented approaches
- GoldenTree is **disciplined in the sizing of our Distressed Strategy** to ensure we can source mid cap and large cap opportunities
- GoldenTree has **delivered average IRRs on realized distressed investments of +24%** since its inception<sup>1</sup>

As of September 1, 2019. Includes assets managed by GoldenTree Loan Management, LP, an affiliated US based registered investment adviser. 1. Realized Distressed investments in the Master Fund as of June 30, 2019. **Past performance is not indicative of future performance.**



# Experience of Team

GoldenTree has one of the most experienced investment and management teams in the marketplace

## Executive Committee

Steven Tananbaum	32 years
Steven Shapiro	27 years
Lee Kruter	19 years
Pierre de Chillaz	15 years
Joseph Naggar	25 years
Ted Lodge	36 years
Kathy Sutherland	23 years
Christopher Hayward	27 years

**Average 26 years**

## Investment Team

Industry Specialists	14 years
Restructuring & Turnaround	20 years
Structured Products	17 years
Emerging Markets	16 years
Capital Markets	19 years
Trading & Risk Management	17 years

**Average 17 years**

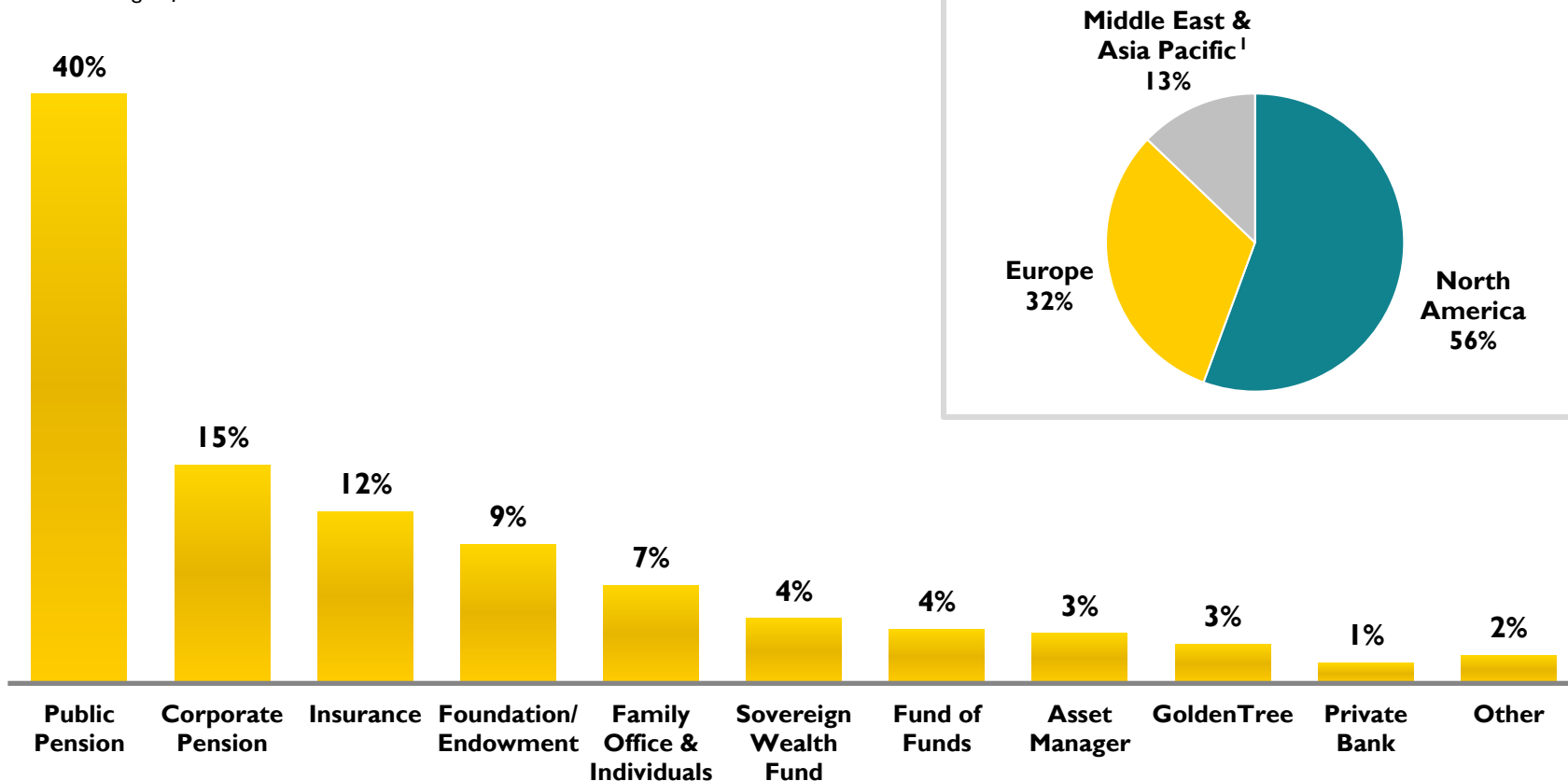


# GoldenTree Investor Base

GoldenTree maintains strong, strategic relationships with institutional investors globally

## Investor Type Breakdown

As a Percentage of Firm AUM



Figures are estimated as of June 30, 2019. The above investor AUM breakdown excludes CLO vehicles assets under management.

1. Middle East and Asia Pacific also includes investor capital from South America



# GoldenTree's Mission Statement

## Mission Statement

### **PERSISTENT** Outperformance<sup>1</sup>

GoldenTree aims to deliver **Persistent Outperformance** across **Market Cycles** and **Credit Sectors** while maintaining a **High Margin of Safety**

### **ENSURE** Compensation for Risk

We seek to ensure we are **compensated** for risks based on our **Fundamental Value Analysis** and our **Assessment of the Liquidity and Volatility Profile** of an investment

### **PRESERVE** Capital

Through market cycles, we construct portfolios and actively **Manage Portfolio Risk** with a focus on **Capital Preservation**

### **DISCIPLINED** Capital Raise

Our offerings are sized based on our **Target Return Objectives**. We actively **Manage our Capital Base** to achieve our target returns

*1. Past performance is not indicative of future results. The potential for profit is accompanied by the possibility of loss*





# **SBCERA & GoldenTree Relationship Overview**

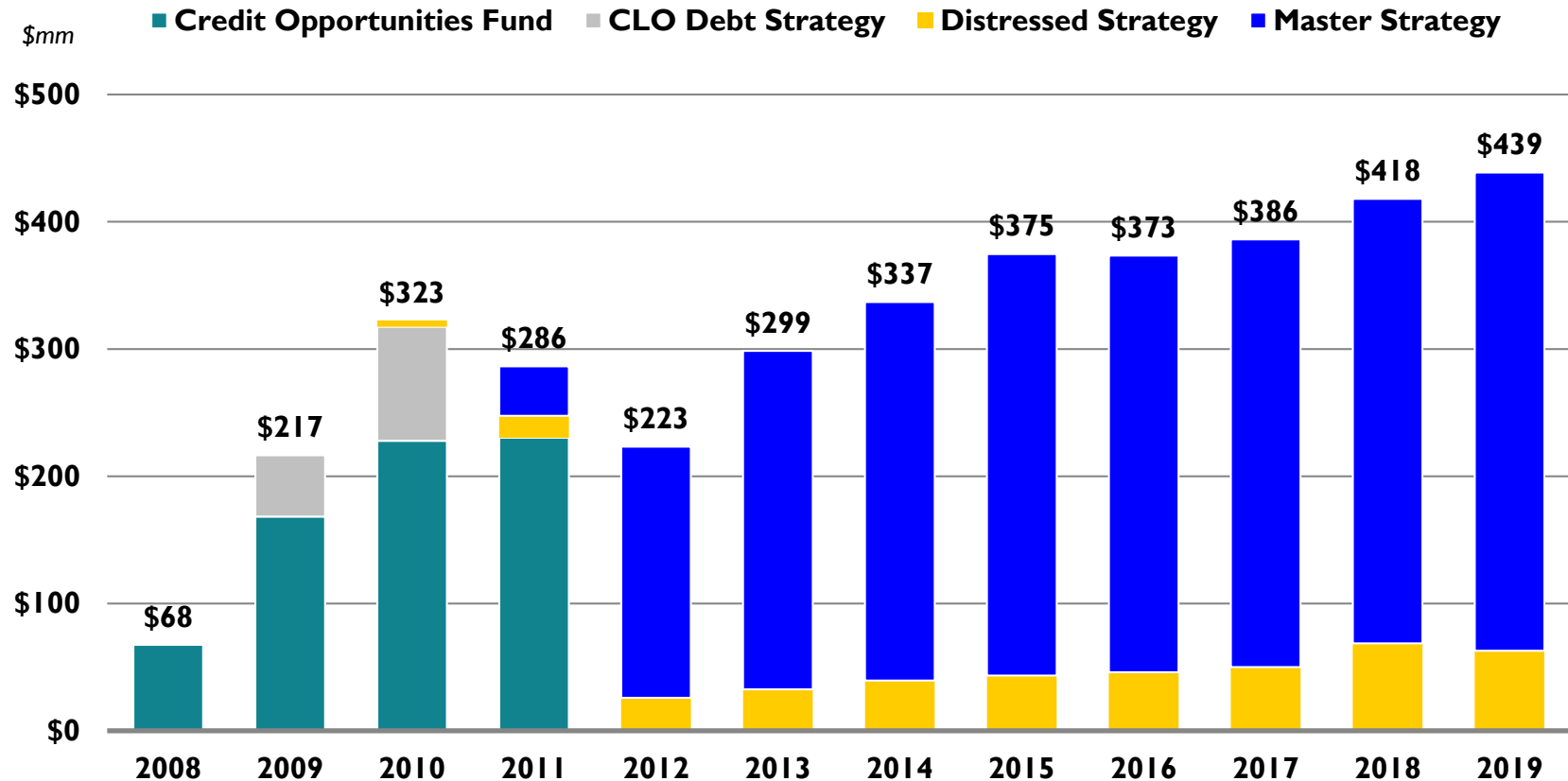
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# History of Partnership

GoldenTree has a long history with SBCERA across an array of products and strategies

## Summary of SBCERA Exposure



Estimated exposures as of August 31, 2019.



# SBCERA SMA Performance

GoldenTree aims to deliver returns in the top of its peer group

## SBCERA SMA (Master & Distressed Strategy) Performance<sup>1</sup>

	Net Returns (%)					
	2019 YTD	Annualized Since Inception	Relative Performance	Cumulative Since Inception	Volatility <sup>2</sup>	Sharpe Ratio <sup>2</sup>
<b>SBCERA SMA</b>	<b>8.03</b>	<b>9.74</b>		<b>106.42</b>	<b>3.73</b>	<b>2.41</b>
<b>HFRI Relative Value Fixed Income Corporate Index<sup>2</sup></b>	7.39	5.24	+451 bps	48.52	3.28	1.40
<b>SP / LSTA Leveraged Loan Index</b>	6.82	4.80	+495 bps	44.09	2.69	1.53
<b>Merrill Lynch HY II Index</b>	11.89	7.19	+256 bps	71.75	5.13	1.27
<b>Russell 2000 Index</b>	18.63	11.84	-209 bps	139.14	15.22	0.68

Information as of September 16, 2019 unless otherwise noted.

1. SBCERA's portfolio was launched in December 2011.

2. HFRI Relative Value Fixed Income Corporate Index as of August 31, 2019. Volatility and Sharpe Ratio as of August 31, 2019.

**Past performance is not indicative of future returns.** Future performance results may be materially lower. Performance of investments in securities held in the above noted funds may be volatile and as a result an investment in such securities is speculative and involves a high degree of risk. The net return includes all components of net income, including investment management fees, incentive fees and special allocations. Not an offer to sell or a solicitation of any offer to buy shares or interests in a fund. Please refer to important notes regarding the referenced benchmarks in the Appendix. Further data is available upon request. Neither benchmarks by itself, is an exact representation of SBCERA's portfolio. SBCERA utilizes a multi-strategy style that invests in a variety of securities and products.



# SBCERA Performance

## GoldenTree aims to deliver returns in the top of its peer group

### Performance Overview

#### Credit Opportunities Fund

- **Invested Capital:** \$129mm
- **Realized Capital:** \$266mm
- **Annualized Net Return:** 25.9%

#### CLO Debt SMA

- **Committed Capital:** \$90mm
- **ITD Net IRR:** 15.4%
- **TVPI:** 1.2x

#### Distressed Fund I

- **Committed Capital:** \$25mm
- **ITD Net IRR:** 12.0%
- **TVPI:** 2.0x

**Past performance is not indicative of future returns.** Future performance results may be materially lower. Performance of investments in securities held in the above noted funds may be volatile and as a result an investment in such securities is speculative and involves a high degree of risk. The net return includes all components of net income, including investment management fees, incentive fees and special allocations. Not an offer to sell or a solicitation of any offer to buy shares or interests in a fund.



## Credit Market Themes & Outlook

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# Comparative Attractiveness of Asset Classes

## Market Barometer Across Asset Classes

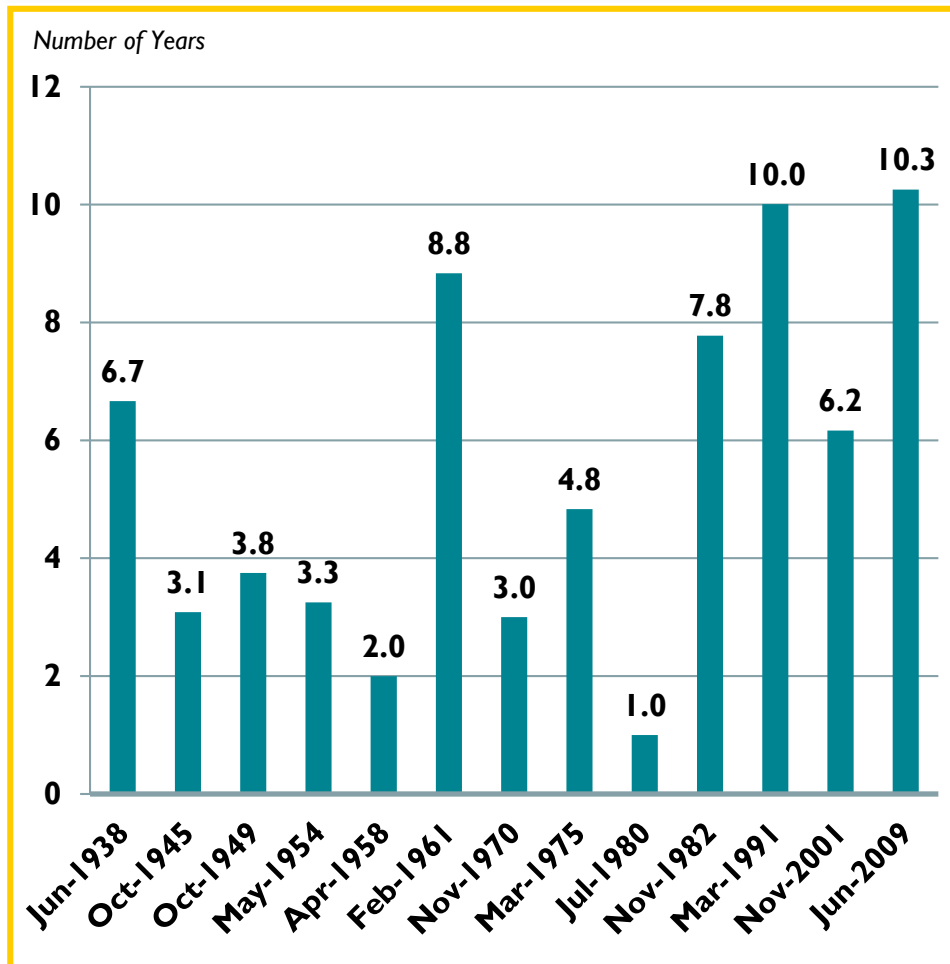
	US Equities FWD P/E	Europe Equities FWD P/E	EM Equities FWD P/E	US High Yield Spreads	US High Grade Spreads
<b>Peak 2018</b>	<b>18.5</b>	<b>15.1</b>	<b>13.2</b>	<b>305</b>	<b>108</b>
<b>Percentile</b>	<b>86%</b>	<b>91%</b>	<b>60%</b>	<b>89%</b>	<b>90%</b>
<b>December 24, 2018</b>	<b>13.6</b>	<b>12.0</b>	<b>10.4</b>	<b>533</b>	<b>177</b>
<b>Percentile</b>	<b>32%</b>	<b>34%</b>	<b>20%</b>	<b>34%</b>	<b>38%</b>
<b>August 31, 2019</b>	<b>16.8</b>	<b>13.7</b>	<b>11.7</b>	<b>422</b>	<b>155</b>
<b>Percentile</b>	<b>75%</b>	<b>67%</b>	<b>42%</b>	<b>53%</b>	<b>56%</b>
<b>Start Date</b>	<b>1985</b>	<b>2006</b>	<b>1988</b>	<b>1987</b>	<b>2000</b>

As of August 31, 2019. Source: Bloomberg, Datastream, JPMAM. US Equities FWD P/E based on S&P 500 Index; Europe Equities FWD P/E based on STOXX EUROPE 600 Index; EM Equities FWD P/E based on MSCI Emerging Markets Index; US High Yield Spreads based on Bloomberg Barclays High Yield Index; US High Grade Spreads based on JP Morgan US Liquid Investment Grade Index (JULI).



# Longest US Expansion

## Number of Years for US Economic Expansions<sup>1</sup>



Expansion Period	Length in Years	GDP Growth
Nov 1982 to July 1990	7.7	38.3%
Mar 1991 to Mar 2001	10.0	42.6%
Nov 2001 to Dec 2007	6.2	18.0%
Jun 2009 to Aug 2019	10.3	25.7%

As of August 31, 2019. Source: Deutsche Bank research report April 2018: "Seeds of a H1 Default Cycle Now Sown?"; Bloomberg GDP Growth as of June 2019

1. Based on expansionary period of GDP growth from previous trough to peak



# Dispersion in Credit Markets

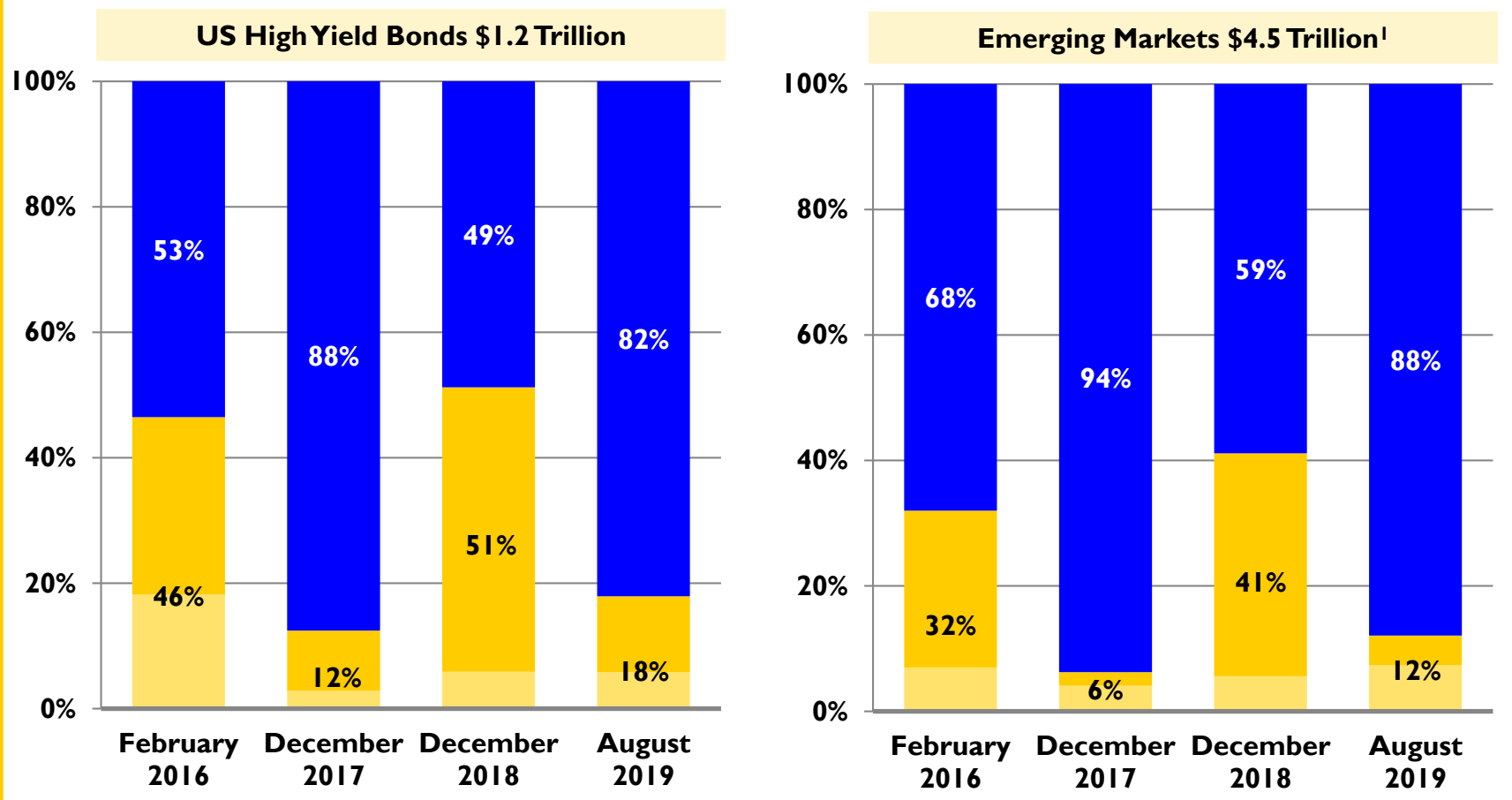
## Price Distribution

% of Face Value of Index

**Below \$95**

**Above \$95**

\$75 to \$95 Below \$75



As of August 31, 2019. Source: Merrill Lynch High Yield Index and JPM EMBI Global Diversified Index with spreads of 413 bps and 353 bps, respectively.

1. Size of the Emerging Markets based on total debt across external sovereign, local sovereign, external corporate and out of index local and external debt.





# Return Profile in High Yield

There is upside and downside potential in high yield with current yields of 5.6%, spread levels of 413 bps and average price of \$99

Spread Environment	241 bps (Spread on Jun 1, 2007)	300 bps	887 bps (Spread on Feb 11, 2016)	1200 bps
Change in Yield	-172 bps	-113 bps	+474 bps	+787 bps
Capital Gain (Yield x Duration of 3.5)	+595 bps	+391 bps	-1640 bps	-2723 bps
Credit Loss <sup>1</sup> (4% DR / 30% Rec)	-280 bps	-280 bps	-280 bps	-280 bps
Total Return	8.7%	6.7%	-13.6%	-24.4%

As of August 31, 2019. Calculations based on the ML High Yield Index and assumes a target spread date for August 31, 2020, over a one year period.

1. Default Rate on High Yield bonds based on the average annual default rate since 1980; Source: Moody's Historical Speculative Grade annual default rate



# Changing Loan Risk Profile

Given less 1<sup>st</sup> lien subordination and increased tranche width of 1<sup>st</sup> lien loans, we anticipate recovery rates could be less than 60%

## Potential for Lower 1<sup>st</sup> Lien Recoveries

	~20 Years Ago	10 Years Ago	Today	
	2000 – 2004	2005 – 2010	2018	
1 <sup>st</sup> Lien Tranche Width	60%	67%	80%	↑
1 <sup>st</sup> Lien Subordination <sup>I</sup>	40%	33%	20%	↓
Cov-Lite Issuance	<1%	20%	80+%	↑
Potential Loan Recovery Rate	80%	70%	<60%	↓

Source: GoldenTree Estimates

I. Based on Debt Below 1<sup>st</sup> Lien Loans as % of Total Debt



# Implications for CLOs

Severity of loss in loan asset class will impact CLO valuations

## Impact on CLO Valuations

Default Rate Assumptions		Y1 / Y2 / Y3 / Y4		2% / 7% / 4% / 3%	
Potential Loan Recovery Rate		70%	→	50%	
Current Rating		Rating Under Adjusted Recovery		Spread Change	Price Change
AAA	→	AA		+55 bps	-2%
AA	→	A		+55 bps	-3%
A	→	BBB		+65 bps	-4%
BBB	→	BB		+280 bps	-20%
BB	→	B		+230 bps	-18%
B	→	NR		+700 bps	-56%

### Factors Not Captured in Analysis:

- Reinvestment Spreads
- Improved Covenants
- Recycling Speeds
- Spread Differentials



# Divergence Across Markets

Dislocations in relationships between debt and equity markets have created opportunities

## Debt and Equity Performance Over Last 12 Months

	Company	Last 12 Months		Debt/EV
		Debt	Equity	
Healthcare	Owens & Minor 3 <sup>7</sup> / <sub>8</sub> 2021	+1%	-69%	0.88
Media	Clear Channel Outdoor 6 <sup>1</sup> / <sub>2</sub> 2022	+6%	-43%	0.88
	R. Donnelley 6 <sup>1</sup> / <sub>2</sub> 2023	+7%	-50%	1.02
Retail	JC Penney 5 <sup>7</sup> / <sub>8</sub> 2023	0%	-58%	0.99
Technology	CommScope 6 2025	-8%	-66%	0.80
Telecom	Frontier Communications 11 2025	-21%	-85%	1.01
AVERAGE		-2%	-62%	0.93

As of August 31, 2019; Source: Bloomberg

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# Opportunity Set across Broad Universe

## Corporate Debt

- Prefer strong B / BB issuers
- Growing distressed opportunity in North America

## Emerging Markets<sup>1</sup>

- Quasi-sovereigns
- Regional debt
- Idiosyncratic corporates

## Structured Products

- Opportunistic situations
- Seasoned consumer credit

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1. Emerging markets are less developed markets and can have additional risks. Please refer to the Fund's Offering Memorandum for a description of such risks.



## SBCERA Portfolio Update

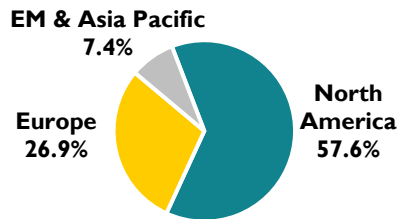
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# SBCERA Investment Strategy

Exhibit A: Page 23

## Regional Breakdown

As a Percentage of NAV (ex hedges)



## Portfolio Characteristics

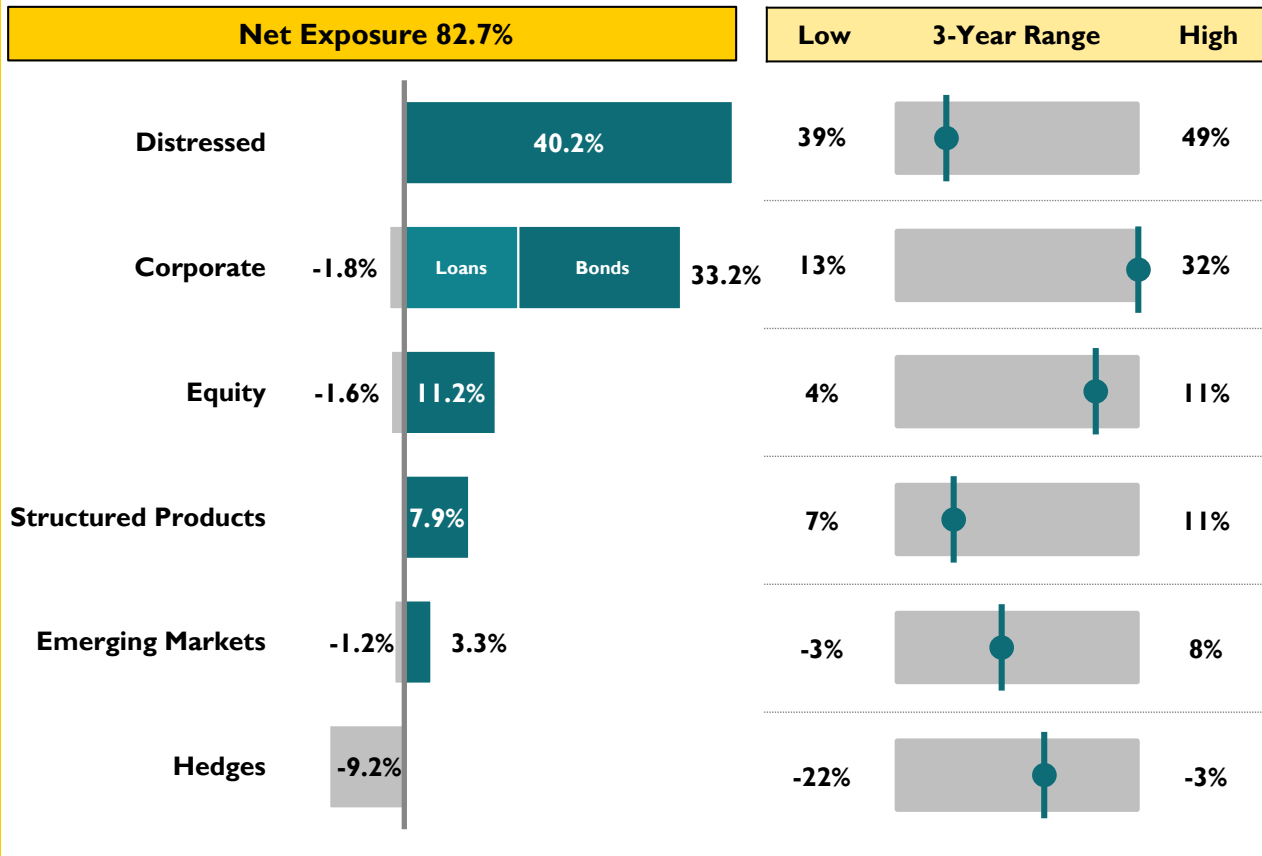
Price	\$82.5
Current Yield on Assets	9.8%
Number of Issuers	111

## Exposure

Long Exposure	101%
Short Exposure	-18%

## Asset Class Exposure Breakdown

As a Percentage of NAV



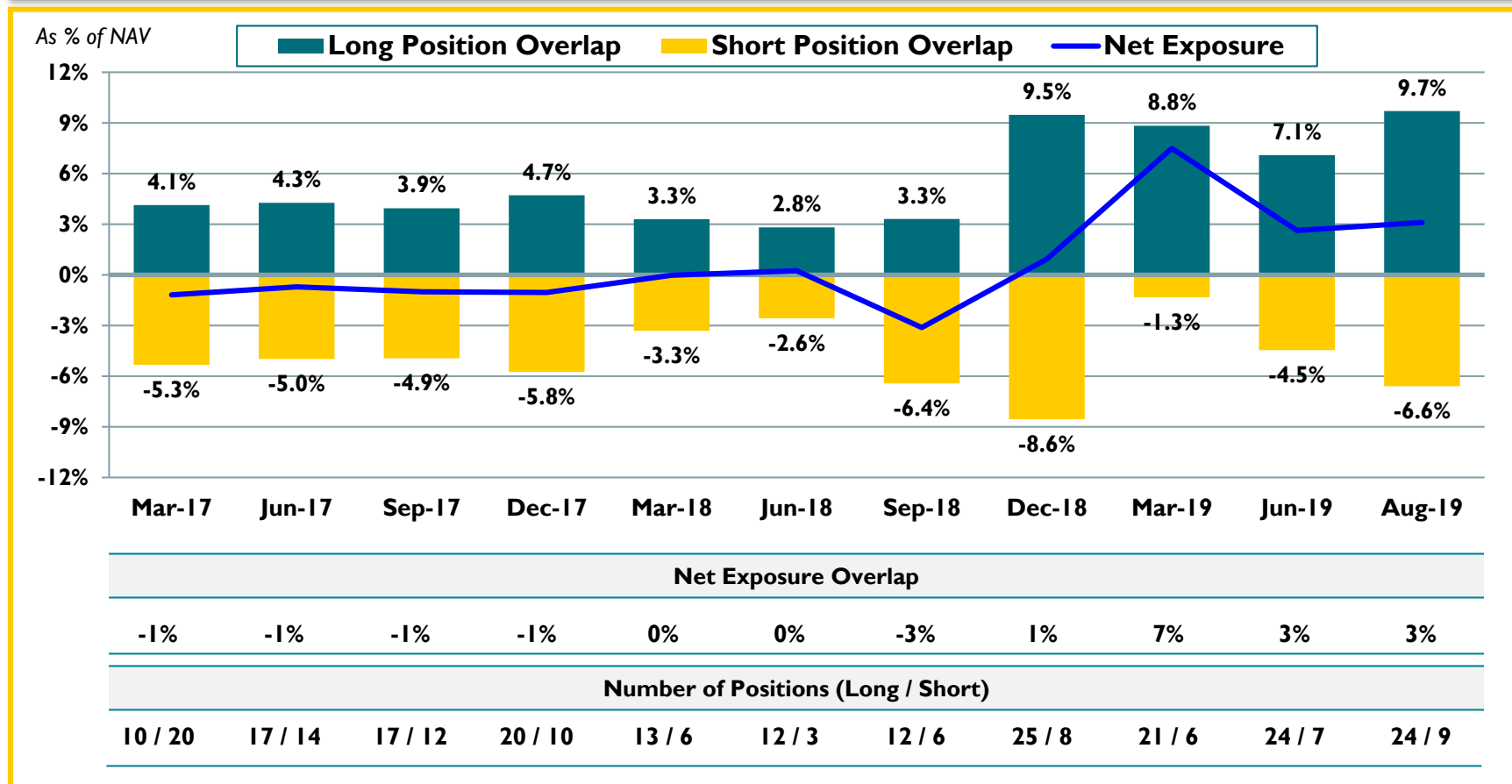
As of August 31, 2019. Results reported herein are preliminary and unaudited, and are subject to change. Final results will differ from the above noted preliminary number. The percentage weightings stated herein are not guidelines or absolute limitations, but merely informational showing the portfolio breakdown as of a specified date. The only investment limitations and restrictions are those described in SBCERA's Investment Management Agreement. The weightings and allocations referenced here are subject to change at the sole discretion of GoldenTree. Not an offer to sell or a solicitation of any offer to buy shares or interests in a fund.



# Low High Yield Index Exposure

SBCERA's Master portfolio has consistently had a low exposure overlap with the high yield index

## SBCERA Overlap with ML US HY Index



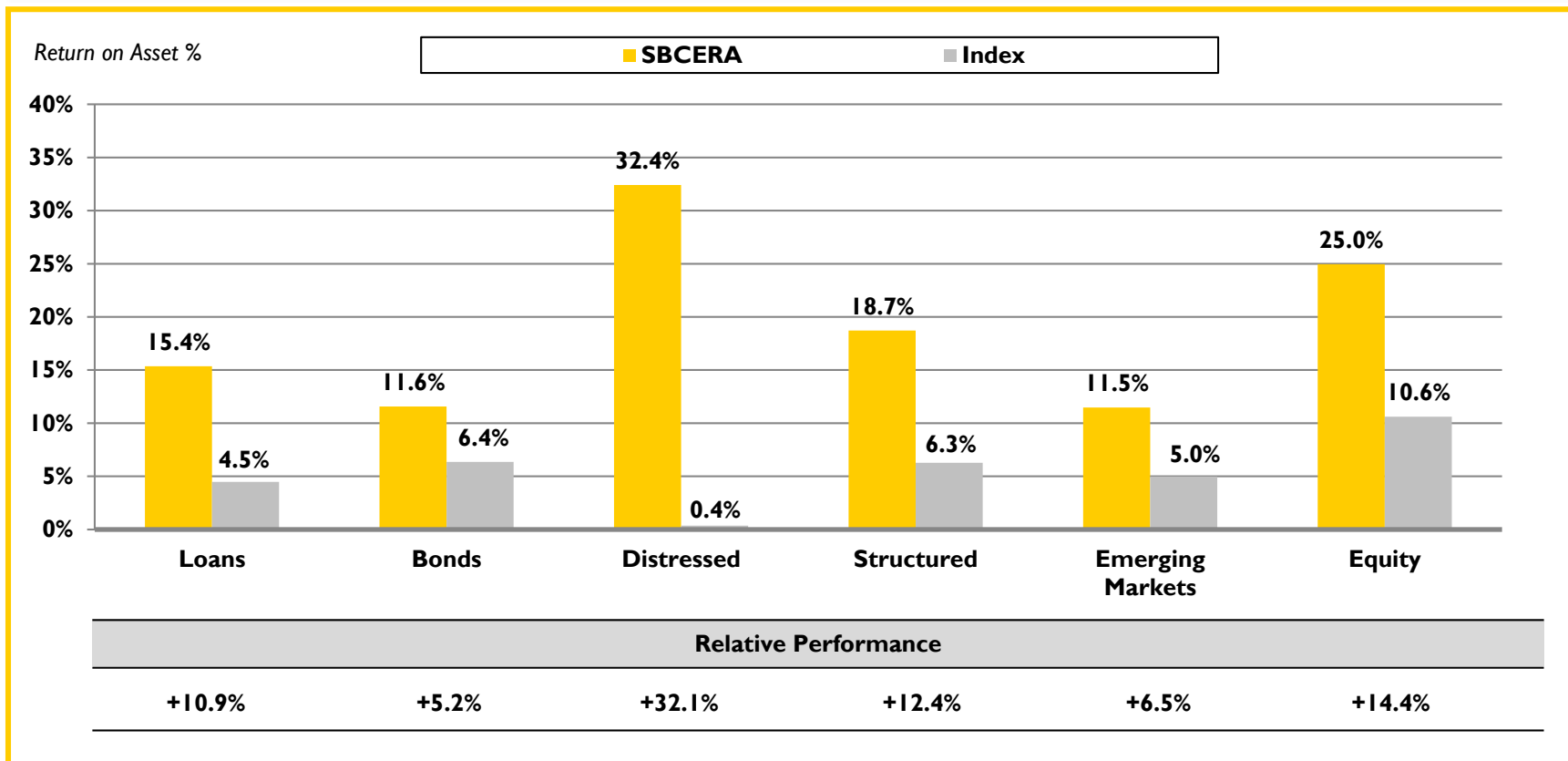
All of the information above is as of August 31, 2019. Index overlap based on the BofA Merrill Lynch High Yield index. The percentage weightings stated herein are not guidelines or absolute limitations, but merely informational showing the portfolio breakdown as of a specified date. The only investment limitations and restrictions are those described in SBCERA's Investment Management Agreement. The weightings and allocations referenced here are subject to change at the sole discretion of GoldenTree.





# SBCERA Master Asset Class Performance

## Since Inception Annualized Return on Assets



Return on Assets are annualized since SBCERA's inception in December 2011. Annualized returns are as of August 31, 2019. Please note Bond and Equity ROA represent Long Bond and Long Equity exposures.

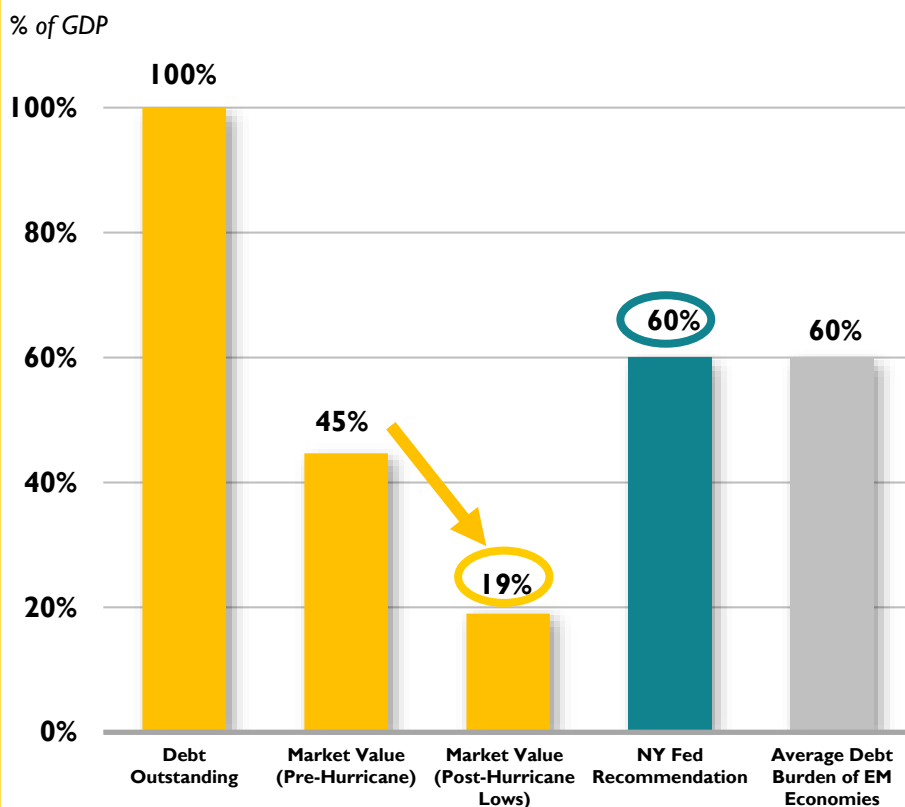
1. Index performance is represented by S&P LSTA Leveraged Loan Index for Loans, Merrill Lynch High Yield Master II Index for Bonds, Merrill Lynch Distressed Index for Distressed, Morgan Stanley CLO A and a blended JPM Pre-Crisis and Post-Crisis CLO A Index for Structured Products and Russell 2000 for Equity. Past performance is not indicative of future results. Return on Asset (ROA) calculation has been prepared for all bank loans, long bonds, distressed, structured products and long equity in SBCERA's Portfolio. ROA is calculated by dividing the profit/loss by the average daily market value over each quarter of the respective lien category. FX gain/loss is excluded from this analysis. Calculations are geometrically linked over time. All returns are expressed in USD. Please note SBCERA's Fund invests in many asset classes and security types. The return information presented herein is for just one subset of the overall portfolio. The return for the entire portfolio is different from the returns noted above.



# Puerto Rico Opportunity

GoldenTree has identified attractive opportunities in Puerto Rico's debt complex. GoldenTree's active approach to management has delivered an attractive IRR on its Puerto Rico investments

## Margin of Safety



## Multiple Catalysts to Drive Returns

Following Hurricane Maria, there were a number of catalysts that GoldenTree believed could drive attractive returns. All of them have materialized in some form.

### 1. Relief Funding would be significant

The Puerto Rico Fiscal Plan projects that approximately \$81 billion in disaster relief funding will be granted in total. The majority of these funds have already been granted and will be distributed over time. The relief and disaster funding amounts to over 100% of annual GNP.

### 2. Puerto Rico would experience an economic recovery

Sales & Use Tax ("SUT") collections continue to perform well. Fiscal 2019 YTD SUT collections are 120% of FY 2018 YTD SUT collection for the same period.

### 3. The population would be resilient

In 2018, the economic recovery experienced by Puerto Rico has been much more robust than the markets anticipated. Unemployment is at a 50 year low and estimated outmigration since the hurricane is ~70k, meaningfully below the ~250k that the market anticipated.

### 4. Milestones would be achieved in the debt restructuring

In February 2019, the Court confirmed the COFINA Plan of Adjustment and the Plan went effective, allowing bondholders to exchange their bonds for newly issued bonds and cash.

Source: Bloomberg; New York Federal Reserve Bank; GoldenTree Research and Estimates 1. Excludes public corporate debt 2. Represents Market Value of Puerto Rico's Fiscal Plan debt as of 11/15/2017 3. Source: The Federal Reserve Bank of New York publication "An Update on the COMPETITIVENESS of PUERTO RICO'S ECONOMY"; as of July 31, 2014.

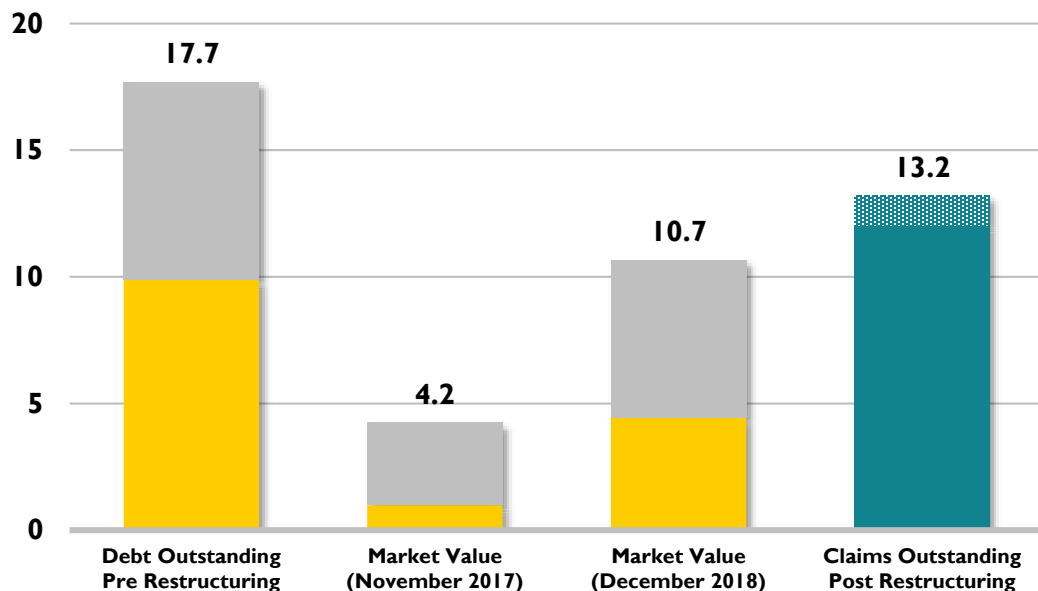


# COFINA Opportunity

COFINA is a well-collateralized, solvent entity secured with an attractive lien to the Sales and Use Tax (“SUT”) of Puerto Rico

## COFINA Opportunity

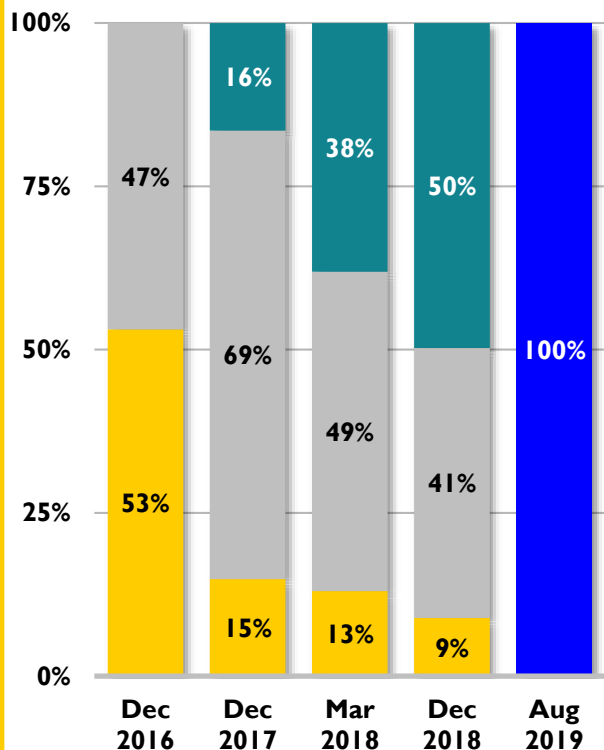
\$ Billions



Senior Price	40	79	95
Sub Price	10	48	51

## Active Management of COFINA

% of Total COFINA Assets



As of August 2019. This is not a promise of future performance. No guarantee or assurance can be given regarding the actual performance of the investment or the Fund, other than it is likely to differ from the performance shown herein.



# Hexion Specialty Chemicals

Hexion Specialty Chemicals is a leading global chemical company that creates specialty products for a diverse set of end-markets

## Investment Opportunity

- Hexion is an intermediate chemical company with two main divisions: epoxy and phenolic products and forest resins
- GoldenTree knows the issuer well and has traded the debt actively over the last two years. Investor outflows from the HY market in Q4 2018 and volatility in commodity-related issuers caused Hexion's bond prices to drop materially, creating an attractive entry point to establish a position
- The Fund established a position in the senior secured bonds with a yield of ~18%, high asset coverage and at prices that implied the company's value at a material discount to peers
- While the company was delivering solid operating performance - Hexion grew EBITDA by over 25% in 2018 – the company was 10x levered and needed to restructure its balance sheet to position itself for long-term growth and sustainability
- Hexion voluntarily filed for bankruptcy in April 2019. GoldenTree played a lead role in the company's restructuring and facilitated a restructuring support agreement with over 95% of the company's creditors. The agreement provided secured bondholders with 60% recovery in cash and 73% of the company's reorganized equity
- This is a classic example of a good company with a bad balance sheet. The restructuring reduced the company's leverage from 10x to 3.5x and provide important new capital to strengthen the company's financial position and accelerate future growth
- With a healthy balance sheet, new growth capital and management with a successful track record of executing, we believe the Fund's position in Hexion has attractive upside

*The investment example noted within the presentation has been included for informational purposes only. No assurance can be given that similar opportunities will arise or that the performance of these investments will be typical or representative of any or all future investments associated with GoldenTree. Accordingly, it should not be assumed that investments made in the future will be profitable or will equal the performance of the investments referenced within this presentation. The above analysis is based on GoldenTree's internal assumptions based in part on the current market environment. Accordingly, there can be no guarantee as to the results or accuracy of the information noted above. Assumptions and projections are necessarily speculative in nature, and it can be expected that some or all of the underlying assumptions will not materialize or will vary significantly from actual results, and such variations may be material. If you are not the intended recipient, please notify the sender immediately and destroy the contents. Any unauthorized copying or distribution of this material is strictly prohibited.*



## Appendix

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### **Joseph Naggar**

*Partner, Head of Structured Products & Chair of Risk Committee*

Joseph Naggar is a Partner and Head of Structured Products at GoldenTree Asset Management. In addition, Mr. Naggar is a Portfolio Manager at GoldenTree Loan Management. Mr. Naggar is a member of GoldenTree Asset Management's Executive Committee and chairs the firm's Risk Committee. GoldenTree expanded its investing efforts in Structured Products in 2007 with the hiring of Mr. Naggar, who has been instrumental in building the firm's structured products investment team. Under Mr. Naggar's direction, GoldenTree built highly sophisticated, proprietary systems to analyze opportunities in structured products, which integrate the firm's proprietary knowledge of single name credits into the analysis of structured products investments. Prior to joining GoldenTree, Mr. Naggar was a Managing Director at Morgan Stanley in its Global Fixed Income Division and Global Principal Credit Group. Mr. Naggar is a member of The MIT Sloan School Americas Executive Board supporting engagement in North and Latin America. He also serves on the advisory board of the MIT Center for Finance and Policy. He holds an M.B.A from the MIT Sloan School of Business with a concentration in Financial Engineering and a B.S. from the Pennsylvania State University in Mechanical Engineering through the University Scholars program.



### **Kathy Sutherland**

*Partner & Head of Business Development and Strategy*

Kathy Sutherland is a Partner and Head of Business Development and Strategy at GoldenTree Asset Management. In addition, Ms. Sutherland is a member of GoldenTree's Executive Committee. Ms. Sutherland oversees the firm's global Business Development effort located in New York, London and Singapore. Prior to joining GoldenTree, Ms. Sutherland was a Managing Director at JP Morgan where she was responsible for Fund and Structured Product Distribution across the Americas, Europe, the Middle East, and Asia from 2005 to 2008. During that period, JPMorgan became recognized as a leading Fund and Structured Product franchise, advising many of the most important asset managers and investors globally. In her 12 years at JP Morgan, Ms. Sutherland held several management positions across Portfolio Management, Structured Credit and High Yield including Senior US CLO Structurer, Co-Head of European Secondary Loan Trading, Head of High Yield Credit Derivatives Marketing, and Global Head of Structured Syndicate. Ms. Sutherland graduated from the University of Virginia with a B.A. in Chemistry and specialization in Biochemistry.



# Legal Disclosures

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AUM figures represent total capital committed and include assets managed by GoldenTree Loan Management, LP, an affiliated US based registered investment adviser. With respect to CLO vehicles, total assets include the effects of leverage and all available capital to invest.

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- Lack of liquidity in that there is generally no secondary market for an investor's interests in a non-registered private fund.
- Volatility of returns.
- Restrictions on transferring an investor's interest in the fund.
- Absence of information regarding pricing and valuations.
- Delays in tax reporting.
- Less regulation and higher fees than mutual funds.

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