Regulatory Capital Relief Investment Primer

As of September 30, 2023

What are regulatory capital relief transactions?

The term "regulatory capital relief" can be applied to a variety of transactions used by banks to optimize capital levels, reduce balance sheet concentrations, manage lending capacity, and respond to regulatory and/or accounting changes. In the past, the term was used to describe transactions ranging from the outright sale of non-performing loan portfolios to securities referencing pools of performing loans held on bank balance sheets.

ArrowMark focuses on regulatory capital relief (aka significant risk transfer or credit risk sharing) transactions referencing pools of performing collateral and, as a result, comments throughout the remainder of the document are specific to this opportunity set. Securities backed by revolving lines of credit and term loans to large corporate borrowers represent the bulk of current and historical issuance. Collateral can also include term loans to small and medium enterprises, trade finance, and consumer exposures, among others.

What are typical attributes of regulatory capital relief transactions?

- **High quality collateral**: Underlying collateral typically ranges from AA to B- credit quality with overall investment grade/near investment grade (BBB to BB weighted average) credit quality at the time of issuance. New issue securities do not contain any non-performing assets.

- **Diversified exposure**: Individual transaction collateral pools are generally diversified across geographies, sectors, and individual borrowers. Transactions are subject to guidelines that enforce collateral diversification over the life of the security.

- **Investor and issuer alignment**: Underlying loans and revolvers are part of an issuer's core lending portfolio, where the bank has significant experience in origination and risk management. Moreover, through the structure of the regulatory capital relief transaction, the issuing bank is required to retain meaningful exposure to the underlying collateral pool. The structure creates alignment with investors and incentivizes the bank to maintain disciplined underwriting processes and standards.

- **Floating-rate income**: Coupons are comprised of a base rate and a contractual credit spread. For the avoidance of doubt, the coupon is paid at all times on the outstanding principal amount and is not subject to discretionary suspensions.

Why do banks issue regulatory capital relief securities?

Regulatory capital relief transactions have become a core balance sheet management tool due to their ability to enhance returns on equity, decrease balance sheet risk and concentrations, and help banks quickly adapt to regulatory and/or accounting changes.

1) **Improves capital efficiency** of balance sheet exposures
   - Allows the bank to maintain core lending activities that are often prerequisites to gaining investment and commercial banking business
   - Enhances bank profitability by optimizing balance sheet exposures

2) **Scalability and customization**
   - Traditional risk management tools like loan participations and credit default swaps are often not available or feasible

3) **Enables banks to avoid raising capital** through equity and junior debt offerings
   - Potentially expensive for the bank and dilutive to existing shareholders

4) **Reduces need to decrease/sell assets** which:
   - Is not consistent with the general goal of supporting growth of lending portfolios
   - May jeopardize relationships with strategically important clients of the bank
   - Impractical, at times, due to complications associated with selling or securitizing certain assets
   - May force the bank to potentially realize losses as outright asset sales typically occur at discounted valuations

Why should an investor consider an allocation to regulatory capital relief?

The asset class offers asymmetric risk/return profiles through a unique combination of potential double-digit

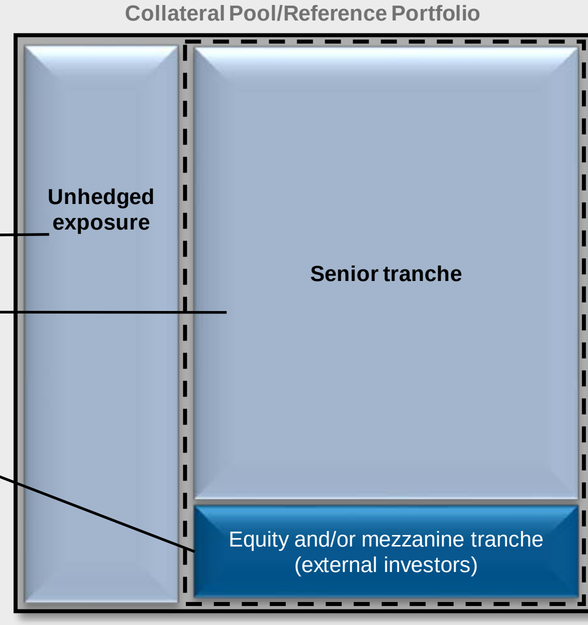
Structural Alignment

Transaction structures create alignment between banks and investors. Exposure to the underlying loans and revolving lines of credit remains part of a bank's core lending portfolio.

Points of alignment:

1. Bank holds unhedged exposure outside of the regulatory capital relief structure
2. Bank retains the senior tranche of the regulatory capital relief security
3. Bank retains the equity tranche for mezzanine-only tranche issuances

Denotes the regulatory capital relief security



yields, diversified high quality collateral, and alignment with issuing banks. Structural and collateral characteristics contribute to historical resilience of regulatory capital relief securities during periods of macroeconomic and market stress.

Security Return Profile

- Potential low-to-mid double-digit unlevered, gross yields driven by coupon income, which is linked to the fundamental performance of underlying collateral pools
- Transactions' floating-rate coupons, which are comprised of a base rate plus a contractual spread, are not subject to potential discretionary suspension
- Historical resilience during periods of stress due to structural and collateral attributes

Security Risk Profile

- **Credit**: Diversified underlying exposures with limits on borrower, sector, and geographic concentration. Collateral is all performing with weighted average investment grade or near investment grade (BBB to BB) credit quality at the time of security issuance.
- **Interest rate:** Floating-rate coupons mitigate the impact of interest rate changes on security prices and potentially allow investors to benefit from any increase in interest rates.
- **Currency:** All collateral within a regulatory capital relief security is denominated in a common currency or hedged to a common currency by the issuer.
- **Liquidity**: Securities are intended to be held to maturity, which is generally three to five years for new issue securities. The development of a secondary market provides the ability to opportunistically manage exposures, if necessary.
- **Counterparty:** Regulatory capital relief securities are not bank capital instruments and they are not subject to explicit write-down provisions linked to bank capital buffers. In addition, principal may benefit from downgrade triggers, country-specific regulations, being held by a third-party, or from

Distinct Security Characteristics

Credit Quality	▪ BBB to BB weighted average ▪ Individual exposures range from AA to B- at issuance
Coupon	▪ Floating rate ▪ Base rate plus a contractual spread ▪ Paid/distributed quarterly
Duration	▪ 0.25 years
Expected Maturity	▪ 3 to 5 years for new issues
Issuer	▪ Established global financial institutions in the U.K., Europe, Canada, U.S., and Asia

investment in highly-rated government securities.

The risk and return profile of the asset class supports consideration of dedicated exposure to the asset class throughout market environments.

Why is now potentially an advantageous time to invest in regulatory capital relief securities?

In an environment characterized by rising rates, elevated levels of volatility, and muted return expectations for traditional asset classes, we believe regulatory capital relief offers a highly attractive, income-driven return profile. Security coupons have increased over the last 12-18 months given the rise in base interest rates and increase in new issue spreads. In addition, floating-rate coupons offer investors the potential to benefit from future increases in interest rates.

Over the intermediate- to long-term, the following market dynamics offer a favorable backdrop to investors and support our view that the opportunity will persist:

- **Increasing new issue supply**:
    - The issuer base continues to grow as banks and regulators across the U.K., Europe, Canada, U.S., and Asia become increasingly comfortable with transaction structures and the various benefits to balance sheet management efforts.
    - Recent and anticipated regulatory changes, including Basel IV, are driving expansion of collateral types that make economic sense for banks to include in transactions.
    - Banks are placing an even greater focus on capital management due to a variety of factors, including increased loan loss provisions, interest rate-driven mark-to-market declines of banks' significant fixed income holdings, and increased capital buffers imposed by regulators, among others.
- **Secondary market development**: Standardization of security structures and documentation as well as the presence of investors that do not have the intention/ability to hold securities to maturity are driving growth of secondary market volumes. Investments sourced from the secondary market provide the opportunity to generate returns from price appreciation, in addition to security income, as well as add seasoned exposure to newer portfolios.
- **Barriers to entry of new investors**: Pricing is a critical aspect of issuing any regulatory capital relief transaction; however, banks also place significant emphasis on certainty of execution within a targeted timeframe and confidentiality of lending portfolio information. Combined with security characteristics and the overall size of the market, issuing bank considerations have moderated growth of the investor base, despite the asset class's attractive risk/return profile.

  The factors limiting investor base expansion include:
    - Issuers are highly sensitive to sharing balance

Compelling Risk/Return Profile

	Weighted Average Yield To Maturity	Weighted Average Coupon	Weighted Average Credit Quality	Weighted Average Duration (Years)
ArrowMark Global Opportunity Fund IV	**17.23%**	**16.93%**	**BB+**	**0.24**
Bloomberg High Yield	8.88%	5.98%	BB-/B+	3.52
Bloomberg Aggregate	5.39%	2.99%	AA+/AA	6.15
Morningstar Leveraged Loan	9.49%	n/a	n/a	n/a

As of 9/30/2023. ***Past performance is no guarantee of future results.*** *Performance may vary by vehicle. Fund characteristics have been determined using a variety of modeling techniques. Small changes in model assumptions, such as changes in interest rates, repayment speeds, credit quality, recovery rates, and market liquidity, may lead to significant changes in model outputs. Characteristics are calculated based on net exposures. Source: Bloomberg, Morningstar, ArrowMark.*

sheet/lending portfolio information with competitors, their affiliates, and other firms that may use the data for alternative purposes and/or attempt to pick-off bank clients.

- Securities typically do not have credit ratings, which limits investments from insurance companies.

- Issuing banks typically do not want ERISA investors directly holding their securities. As a result, ERISA investors must work with fund managers, who limit ERISA capital to 25% or less to avoid becoming a plan asset vehicle.

- The diligence process requires the ability to underwrite a variety of collateral types, analyze the underwriting processes and track record of the issuer, and customize the security structure all within the context of financial industry regulations that vary across geographies.

- While growing, annual issuance peaked at $14-$16bn in 2022.[1] Given the somewhat limited size of the opportunity set, managers overseeing large pools of capital have a difficult time justifying the resources required to be successful investing in the asset class. Non-standard collateral pools and customized

Low Correlation to Commonly-Held Traditional and Alternative Asset Classes

	ArrowMark Global Opportunity Fund	ArrowMark Global Opportunity Fund II	ArrowMark Global Opportunity Fund III	ArrowMark Global Opportunity Fund IV
ArrowMark Global Opportunity Fund	**1.00**			
ArrowMark Global Opportunity Fund II		**1.00**		
ArrowMark Global Opportunity Fund III			**1.00**	
ArrowMark Global Opportunity Fund IV				**1.00**
Bloomberg High Yield	0.07	0.64	0.69	0.33
Morningstar Leveraged Loan	0.12	0.69	0.76	0.56
Markit iTraxx Crossover	0.20	0.60	0.66	0.31
Bloomberg Aggregate	0.05	0.12	0.13	0.45
Bloomberg Global Aggregate (unhedged)	(0.12)	0.22	0.24	0.42
JPM Emerging Markets Bond	0.01	0.61	0.65	0.52
S&P 500	0.08	0.41	0.49	0.41
Russell 2000	0.14	0.48	0.59	0.30
MSCI ACWI ex U.S.	0.01	0.46	0.54	0.44
MSCI Europe	0.15	0.48	0.54	0.40
MSCI Emerging Markets	(0.07)	0.42	0.52	0.46
HFRI Fund Weighted Composite	0.01	0.63	0.71	0.38
Bloomberg Commodity	(0.01)	0.42	0.42	0.00
FTSE EPRA / NAREIT Developed REIT	0.19	0.58	0.63	0.48

As of 9/30/2023. ***Past performance is no guarantee of future results.*** *Correlations are net of fee and are based on investments in ArrowMark's Global Opportunity funds. "Global Opportunity Fund" represents net performance of the ArrowMark Global Opportunity Fund, L.P. vehicle from 12/10/2014 (inception) through 2/28/2020. "Global Opportunity Fund II" represents net performance of the ArrowMark Global Opportunity Fund II, L.P. (A) vehicle since inception (12/1/2016). "Global Opportunity Fund III" represents net performance of the ArrowMark Global Opportunity Fund III, L.P. (A) vehicle since inception (11/19/2019). "Global Opportunity Fund IV" represents net performance of the ArrowMark Global Opportunity Fund IV, L.P. (A) vehicle since inception (11/1/2021). Performance may vary by vehicle. Source: ArrowMark, Bloomberg, FTSE, HFRI, JPMorgan, MSCI, Markit, Russell, S&P, Morningstar.*

security structures further contribute to difficulties associated with scaling exposure to the asset class.

The absolute and relative attractiveness of the asset class does not diminish the need for investors to partner with a skilled investment manager. Issuer and security selection are paramount and, combined with active monitoring of collateral pools, can lead to material differences in investment outcomes.

How does regulatory capital relief fit within a diversified portfolio?

Investors approach regulatory capital relief with varying perspectives, similar to other private credit strategies. For investors that don't have an explicit allocation to private credit, some will allocate from traditional fixed income or credit to capture higher income-driven returns and lower portfolio duration while sacrificing liquidity. Others position exposure with private capital strategies but recognize that the required return hurdle differs from private equity due to the shorter maturity profile and quarterly coupon income. Regardless of where exposure to the asset class is positioned, investors highlight the key benefits of high current income and low correlation to their portfolio construction efforts.

Who is ArrowMark Partners? What is the firm's experience investing in regulatory capital relief?

ArrowMark is a 100% employee-owned asset management firm based in Denver, Colorado. Started in 2007, the founding partners previously worked together for over a decade and collectively oversaw in excess of $40bn across multi-asset class portfolios. Today, the firm is comprised of 101 individuals, including 47 investment professionals, and oversees $21.4bn[2] in

ArrowMark is One of the Largest and Longest Tenured Investors in the Asset Class With Over $7.1bn of Investments in 96 Distinct Transactions Since 2010

Sourcing	**Primary Market** 99 investments $6,119mm		**Secondary Market** 89 investments $996mm	
Structuring	**Bilateral** 18 investments $2,014mm	**Club** 42 investments $2,200mm	**Syndicated** 39 investments $1,905mm	
Underlying Collateral	**Large Corporate** 54 transactions $4,751mm	**Small/Medium Enterprise** 27 transactions $1,698mm	**Trade Finance** 3 transactions $102mm	**Other** 12 transactions $565mm
Execution	**Investment Timing**		**Use of Financing**	

alternative credit, capacity-constrained equity, and commercial real estate strategies as well as through the management of broadly syndicated and middle-market collateralized loan obligations ("CLOs"). The culture of the firm is defined by a commitment to in-depth fundamental research and high level of collaboration, with an emphasis on the evaluation of downside risk.

After initially investing in regulatory capital relief through funds with exposure diversified across credit market segments, we launched our first dedicated regulatory capital relief fund, Global Opportunity Fund, in December 2014. Today, the firm is fundraising for its fifth dedicated commingled fund, Global Opportunity Fund V ("Fund V"). In aggregate, the firm received over $3bn of aggregate investor commitments to previously-offered regulatory capital relief-dedicated investment vehicles.

The firm's historical investments in the asset class include bilateral, club, and syndicated transactions in addition to secondary market purchases. Underlying collateral includes large corporate revolving lines of credit and term loans, loans to small and medium enterprises, trade finance, and consumer exposures, among others. Sourcing efforts draw on relationships formed over decades in the investment industry, the firm's successful participation in the original Term Asset-Backed Securities Loan Facility ("TALF") program, and from the team's consistent participation in the regulatory capital relief market over the last 13 years.

Since inception of the strategy, investors benefited from the firm's opportunistic sourcing (from both the primary and secondary markets), structuring (bilateral, club, and syndicated transactions), and fundamental research efforts. Investments have generated high levels of current income while collateral pools experienced minimal realized losses (on average 3bps per annum at the collateral level, taking into account credit enhancement features of each security, versus an average underwriting expectation of 6bps per annum).

How can investors partner with ArrowMark to invest in regulatory capital relief securities?

We held the first close for Global Opportunity Fund V on September 1, 2023. Similar to the prior funds, Fund V is positioned to capitalize on growth in primary market issuance and secondary market opportunities. The flexibility to pursue a range of opportunities should facilitate efficient capital deployment with the goal of getting investors fully called/invested within 12 months of their commitment date. Capital will be called on a first-committed, first-invested basis with early commitments fully drawn before capital is called from investors in later closes. Global Opportunity Fund V will be structured to create alignment with investors through a GP commitment / employee investments and an innovative zero management fee option, similar to the prior funds.

Unlike prior commingled funds, Fund V will offer investors an evergreen option, with ongoing recycling of capital, and optional recycling of income.

While Fund V will represent what we believe are the best available opportunities across diversified regulatory capital relief securities, funds of one can be customized based on individual investor objectives.

IMPORTANT INFORMATION

All data as of September 30, 2023.
[1]Based on ArrowMark's estimate of market activity.
[2]ArrowMark AUM includes commercial real estate ("CRE") assets originated and/or currently managed by ArrowMark or its affiliate.
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The partnerships described herein are speculative investments that involve significant risks, and there can be no assurance that the fund will achieve its objectives or that the partnership and its investors will not incur substantial or total losses. In considering an investment in the partnership, prospective investors should consult their independent legal, tax, financial and other advisors, and should be aware of certain risk factors. Prospective investors are directed to read the more detailed discussions of risks and conflicts set forth in the Memorandum.
Past performance of the principals of the General Partner, the Investment Manager or any other collective investment vehicles or arrangements managed by such persons is no guarantee of the future performance of the partnership or any such party. The investments described herein are noted for illustration purposes only and are included to illustrate the way in which the partnership would invest in certain securities. The returns modeled on sample investments are not representation that other investments made by ArrowMark have similar return profiles. It should not be assumed that this example or future investments will be profitable. If any assumptions used do not prove to be true, results may vary substantially.
ArrowMark Global Opportunity Fund V ("Fund V") Investment Risks: An investment in the partnership is speculative and involves a substantial degree of risk. Any person subscribing for an investment must be able to bear the risks associated with the partnership, which include the following: i) The partnership may be leveraged and engage in other speculative investment practices that may increase the risk of investment loss; ii) Past investment results produced by the principals of the General Partner, the Investment Manager or any other collective investment vehicles or arrangements managed by such persons is no guarantee of the future performance of the partnership or any such party; iii) An investor could lose all or a substantial amount of his or her investment in the partnership; iv) The partnership is not required to provide periodic pricing or valuation information to investors with respect to its individual investments; v) Because of the complex nature of the partnership's investments, the distribution of tax information to investors may be subject to delays; vi) An investment in the partnership is highly illiquid, subject to substantial restrictions on transferring ownership restrictions, and there is no secondary market for the interests in the partnership and none is expected to develop; vii) The partnership's fees and expenses may offset the partnership's trading profits; viii) The partnership is not subject to the same regulatory oversight as more conventional investment vehicles, such as mutual funds, and involves risks not associated with more conventional investments; and ix) The partnership has not commenced operations and, therefore, has no operating history upon which to evaluate its performance.
Please review the "Certain Risk Factors" and "Potential Conflicts of Interest" sections in the partnership's Memorandum for a more complete description of the risks and conflicts of interest associated with investing in the partnership.
Weighted average credit quality and credit quality distribution are based on the credit quality of the underlying securities within the fund. In some cases, the fund is able to base this calculation on the credit rating assigned by an independent, national recognized statistical rating organization (an "NRSRO"; such as Moody's, S&P, etc.) In other cases, a credit rating for the individual asset held by the fund is not available. In these cases, the fund attempts to make a best-effort approximation of the credit quality of the asset by using the credit ratings or other credit quality metrics of the underlying collateral pool constituents or a comparable asset as a proxy. Such investments, however, may perform differently and have different risk characteristics than a direct investment in the underlying collateral pool constituents or comparable asset. It is important to note that the fund's weighted average credit quality and credit quality distribution, as reported in this document, are good-faith estimates by the fund. Further clarification of this characteristic can always be discussed and clarified by the fund.
Bloomberg U.S. Corporate High Yield Index ("Bloomberg High Yield") represents the U.S. dollar denominated, non-investment grade, fixed-rate, taxable corporate bond market. Bloomberg U.S. Aggregate Bond Index ("Bloomberg Aggregate") covers the U.S. dollar-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, government agency, corporate, plus mortgage- and asset-backed sectors. Morningstar® LSTA® Leveraged Loan 100 Index ("Morningstar Leveraged Loan") is designed to reflect the performance of the largest facilities in the leveraged loan market. The data provided by Morningstar utilizes a calculation methodology that may differ from the methodology utilized by the fund.
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