TCW

Principles-Based Bond Definition and Capital Efficient Investment Capabilities

August 2026

1 Principles-Based Bond Definition: TCW's Approach and Examples

Executive Summary

What's PBBD? What to watch out for?

- PBBD is a categorization exercise for debt securities
  - PBBD applies to debt securities (Pass: Schedule D / Fail: Schedule BA)
  - PBBD does not apply to mortgage loans (Schedule B)
- Big impact on accounting schedules
- Moderate impact on capital requirements, for now

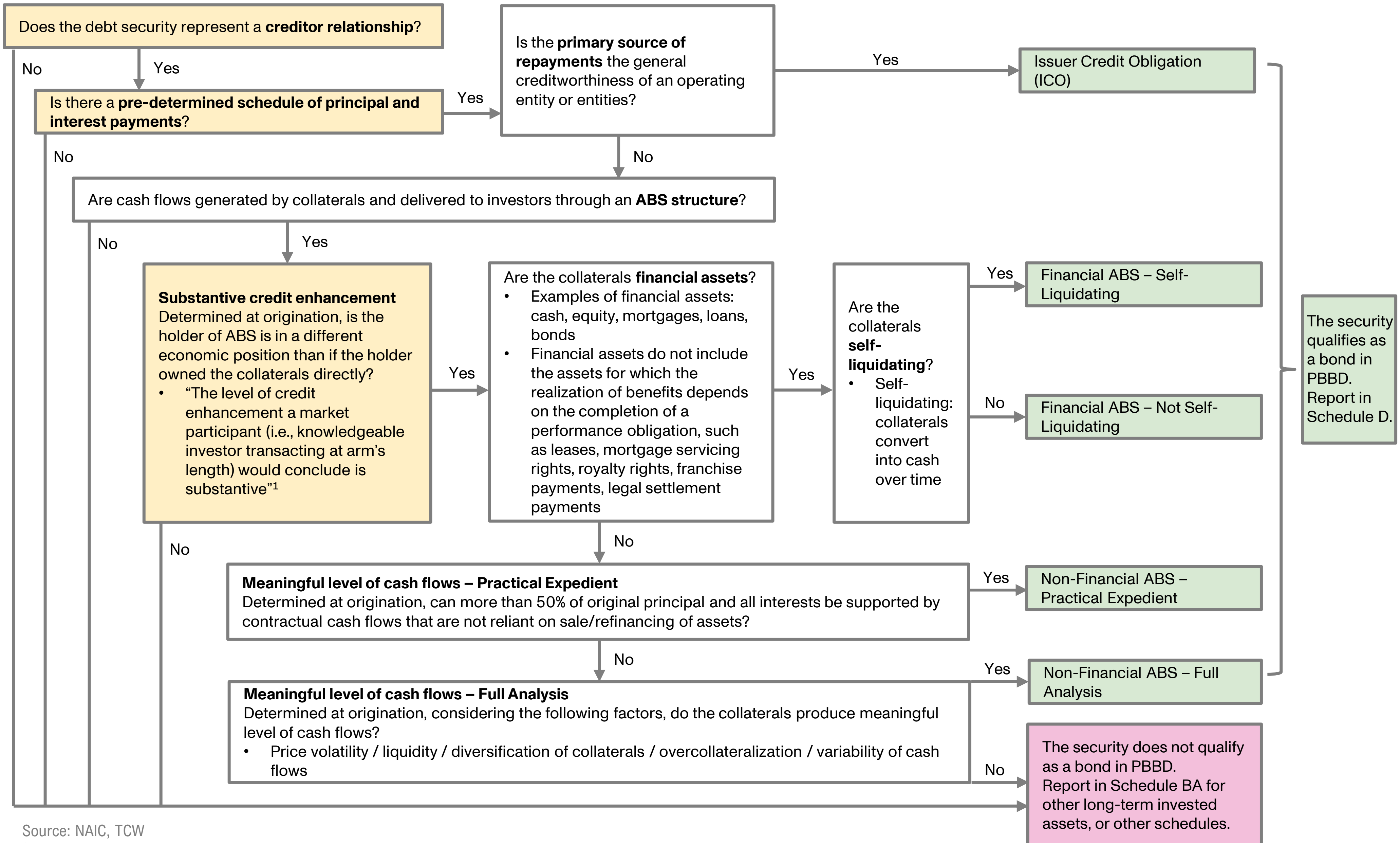
TCW's approach: our PBBD flow chart

- The key is investor's perspective on credit enhancement
- Close collaboration between investment and insurance teams
- TCW provides PBBD analysis and reporting to support clients
- TCW supports clients to challenge accounting vendors

Examples

- What assets pass the PBBD test?
- What assets fail the PBBD test? Do all CFOs with equity risk fail the PBBD test?

TCW's PBBD Flow Chart



Source: NAIC, TCW

[1]NAIC: Statement of Statutory Accounting Principles No. 26 Bonds. https://content.naic.org/sites/default/files/inline-files/SSAP%20No.pdf

What Assets Pass the PBBD Test: Schedule D Line Items

Issuer Credit Obligation (ICO)
Schedule D, Part 1, Section 1

- **US Government Obligations**
- **Non-US Sovereign Jurisdiction Securities**
  - Both USD and Non-USD
- **Municipal Bonds**
- **Project Finance Bonds Issued by Operating Entities**
  - Non-municipal securities
  - Finances a single asset or operation
  - Examples
    - Toll roads
    - Power generation facilities
- **Corporate Bonds**
  - Include optionally convertible bonds
- **Mandatory Convertible Bonds**
- **Bank Loans**
- **Single Entity Backed Obligations**
  - Determined at origination, the underlying operating entity provides all cash flows to satisfy all interest and ≥ 95% of principal
  - Examples
    - Equipment trust certificates
    - Enhanced equipment trust certificates
    - Single-tenant lease-backed securities
    - Funding agreement backed notes
- **SVO-Identified Bond ETFs**
- **Bonds Issued by 40-Act Registered Closed-End Funds and Business Development Corporations**
- **Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans**
- **Certificates of Deposit**

Asset-Backed Securities (ABS)
Schedule D, Part 1, Section 2

- **Financial ABS – Self-Liquidating**
  - The underlying collateral has contractual principal and interest that results with a conversion into cash over time
  - Examples: Debt tranches of
    - RMBS
    - CMBS
    - CLO
    - SASB
- **Financial ABS – Not Self-Liquidating**
  - Examples: Debt tranches of
    - Equity-backed securities
    - Certain collateralized fund obligations (CFOs)
- **Non-Financial ABS**
  - Collaterals should generate meaningful cash flows
    - Practical expedient
    - Full analysis
  - Examples: Debt tranches of
    - Lease-backed securitizations
    - Whole business securitizations
    - Legal settlement securitizations

Source: NAIC, TCW

What Assets Fail the PBBD Test: Examples

No Creditor Relationship

- Collateral notes/CFOs whose cash flows are linked to underlying equity performance
- Hybrid notes where issuer can cancel interest non-cumulatively without default

No Credit Enhancements

- CLO equity
- Auto residual
- Uni-tranche SASB without other credit enhancements

Source: NAIC, TCW

Analyzing CFOs

Key question: Has the underlying equity risks been sufficiently redistributed through the capital structure?

- Number and diversification of the underlying equity interests
- Characteristics of the underlying equity interests (vintage, asset-types, etc.)
- Liquidity facilities
- Overcollateralization
- Waiting period for distributions/paydowns to begin
- Capitalization of interest
- Covenants (e.g., loan-to-value trigger provisions)
- Reliance on ongoing sponsor commitments

Source: NAIC, TCW

PBBD Has Moderate Impact on Capital Requirements, For Now

Schedule D vs. Schedule BA

Schedule D: Bonds

NAIC Designation	Rating	Life Pre-Tax RBC
Exempt Obligations	-	0.00%
Bonds NAIC 1.A	AAA	0.16%
Bonds NAIC 1.B	AA+	0.27%
Bonds NAIC 1.C	AA	0.42%
Bonds NAIC 1.D	AA-	0.52%
Bonds NAIC 1.E	A+	0.66%
Bonds NAIC 1.F	A	0.82%
Bonds NAIC 1.G	A-	1.02%
Bonds NAIC 2.A	BBB+	1.26%
Bonds NAIC 2.B	BBB	1.52%
Bonds NAIC 2.C	BBB-	2.17%
Bonds NAIC 3.A	BB+	3.15%
Bonds NAIC 3.B	BB	4.54%
Bonds NAIC 3.C	BB-	6.02%
Bonds NAIC 4.A	B+	7.39%
Bonds NAIC 4.B	B	9.54%
Bonds NAIC 4.C	B-	12.43%
Bonds NAIC 5.A	CCC+	16.94%
Bonds NAIC 5.B	CCC	23.80%
Bonds NAIC 5.C	CCC-	30.00%
Bonds NAIC 6	CC/C/D	30.00%

Schedule BA: Other Long-Term Assets

NAIC Designation	Rating	Life Pre-Tax RBC
Exempt Obligations	-	0.00%
Bonds NAIC 1	AAA to A-	0.39%
Bonds NAIC 2	BBB+ to BBB-	1.26%
Bonds NAIC 3	BB+ to BB-	4.46%
Bonds NAIC 4	B+ to B-	9.70%
Bonds NAIC 5	CCC+ to CCC-	22.31%
Bonds NAIC 6	CC/C/D	30.00%
Schedule BA Collateral Loans	-	6.80%
Residual Tranches or Interests	-	45.00%
Other Schedule BA Assets	-	30.00%

Source: NAIC, TCW

2 Appendix: Non-Financial ABS Case Study

Case Study: ALLO 2025-1A C

(1 of 3)

Non-Financial ABS

- Assets: Fiber to the Premises (FTTP) infrastructures including optic cables, conduit, and splicing closures
- Primary cash flow source: recurring service revenues

Credit Enhancements

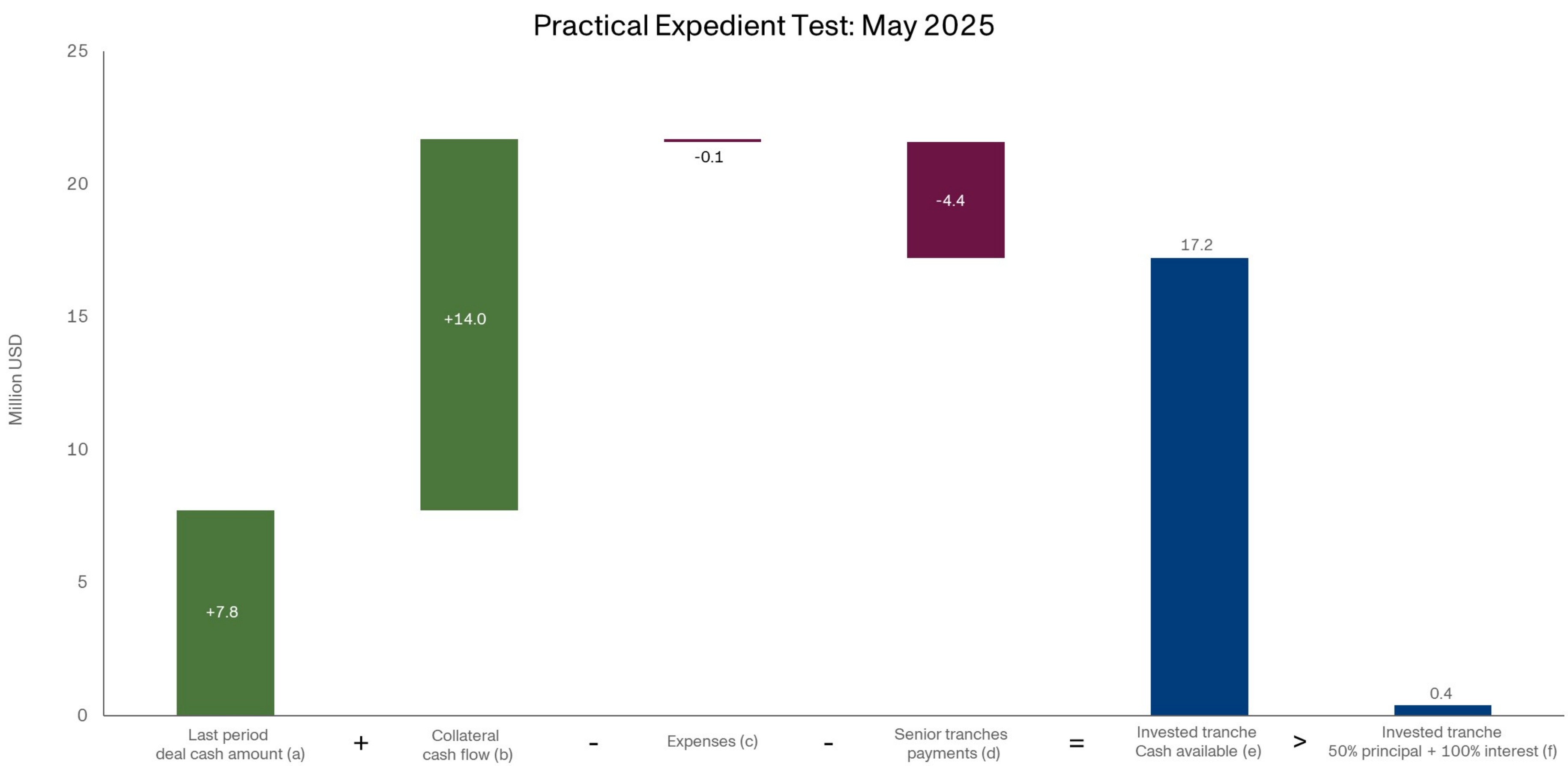
- Cash trap reserve
- Liquidity reserve
- Operating expense reserve

Practical Expedient Test

- Cash flow projection as of origination
- Cash amount available > 50% principal + 100% interest

Case Study: ALLO 2025-1A C

(2 of 3)



Source: TCW, Bloomberg, Intex. Cash flow projection is as of April 4, 2025.

Case Study: ALLO 2025-1A C

Reporting Sample

Primary Identifier	01983KAS3
Security Name	ALLO 2025-1A C
Issue Date	4/4/2025
Estimated Date of Repayment	4/20/2030
Non-Financial ABS Practical Expedient Test	Pass

		Invested tranche cash flows						Deal collaterals cash flows	Deal expenses	Payments for all tranches	Payments for senior tranche(s)	Running cash amount in deal	Running cash amount available for invested tranche	Invested tranche: 50% principal + 100% interest	Does the excess cash flows pass the Practical Expedient test?
Calculation Notation		A	B										C	D = 50% x A + 100% x B	Is C >= D?
Period	Date	Principal	Interest	Cashflow	Balance	Principal Writedown	Interest Shortfall								
Total		59,900,000	24,475,140	84,375,140	3,653,900,000	0	0								
0	4/4/2025	0	0	0	59,900,000	0	0	0	0	0	0	0	0	0	Pass
1	4/20/2025	0	215,640	215,640	59,900,000	0	0	13,945,552	97,306	6,095,061	4,064,801	7,753,185	9,783,445	215,640	Pass
2	5/20/2025	0	404,325	404,325	59,900,000	0	0	13,945,552	96,056	6,579,559	4,360,614	15,023,122	17,242,067	404,325	Pass
3	6/20/2025	0	404,325	404,325	59,900,000	0	0	13,945,552	97,306	6,592,735	4,373,790	22,278,633	24,497,578	404,325	Pass
4	7/20/2025	0	404,325	404,325	59,900,000	0	0	13,945,552	96,056	6,579,556	4,360,611	29,548,572	31,767,517	404,325	Pass
5	8/20/2025	0	404,325	404,325	59,900,000	0	0	13,945,552	97,306	6,592,734	4,373,789	36,804,084	39,023,029	404,325	Pass
6	9/20/2025	0	404,325	404,325	59,900,000	0	0	13,945,552	97,306	6,944,520	4,373,792	43,707,811	46,278,538	404,325	Pass
7	10/20/2025	0	404,325	404,325	59,900,000	0	0	13,945,552	96,056	7,538,674	4,360,611	50,018,632	53,196,695	404,325	Pass
8	11/20/2025	0	404,325	404,325	59,900,000	0	0	13,945,552	97,306	7,535,394	4,373,792	56,331,483	59,493,085	404,325	Pass
9	12/20/2025	0	404,325	404,325	59,900,000	0	0	13,945,552	96,056	7,538,665	4,360,613	62,642,314	65,820,367	404,325	Pass
10	1/20/2026	0	404,325	404,325	59,900,000	0	0	13,945,552	99,206	7,522,109	4,373,791	68,966,550	72,114,868	404,325	Pass
11	2/20/2026	0	404,325	404,325	59,900,000	0	0	13,945,552	99,206	7,533,512	4,373,791	75,279,384	78,439,105	404,325	Pass
12	3/20/2026	0	404,325	404,325	59,900,000	0	0	13,945,552	95,456	7,543,265	4,334,254	81,586,214	84,795,226	404,325	Pass
13	4/20/2026	0	404,325	404,325	59,900,000	0	0	13,945,552	99,206	7,533,509	4,373,790	87,899,051	91,058,770	404,325	Pass
14	5/20/2026	0	404,325	404,325	59,900,000	0	0	13,945,552	97,956	7,536,765	4,360,610	94,209,881	97,386,036	404,325	Pass
15	6/20/2026	0	404,325	404,325	59,900,000	0	0	13,945,552	60,456	7,572,238	5,353,293	100,522,739	102,741,684	404,325	Pass
16	7/20/2026	0	404,325	404,325	59,900,000	0	0	13,945,552	60,431	7,613,171	5,394,226	106,794,688	109,013,633	404,325	Pass
17	8/20/2026	0	404,325	404,325	59,900,000	0	0	13,945,552	60,405	7,613,606	5,394,661	113,066,228	115,285,173	404,325	Pass
18	9/20/2026	0	404,325	404,325	59,900,000	0	0	13,945,552	60,379	7,613,361	5,394,416	119,338,038	121,556,983	404,325	Pass
19	10/20/2026	0	404,325	404,325	59,900,000	0	0	13,945,552	60,353	7,615,706	5,396,761	125,607,531	127,826,476	404,325	Pass
20	11/20/2026	0	404,325	404,325	59,900,000	0	0	13,945,552	60,327	7,614,580	5,395,635	131,878,176	134,097,121	404,325	Pass
21	12/20/2026	0	404,325	404,325	59,900,000	0	0	13,945,552	60,300	7,616,353	5,397,408	138,147,073	140,366,018	404,325	Pass
22	1/20/2027	0	404,325	404,325	59,900,000	0	0	13,945,552	60,273	7,615,213	5,396,268	144,417,138	146,636,083	404,325	Pass
23	2/20/2027	0	404,325	404,325	59,900,000	0	0	13,945,552	60,247	7,615,038	5,396,093	150,687,404	152,906,349	404,325	Pass
24	3/20/2027	0	404,325	404,325	59,900,000	0	0	13,945,552	60,220	7,621,314	5,402,369	156,951,422	159,170,367	404,325	Pass
25	4/20/2027	0	404,325	404,325	59,900,000	0	0	13,945,552	60,892	7,612,318	5,393,373	163,223,764	165,442,709	404,325	Pass
26	5/20/2027	0	404,325	404,325	59,900,000	0	0	13,945,552	60,864	7,617,171	5,398,226	169,491,281	171,710,226	404,325	Pass
27	6/20/2027	0	404,325	404,325	59,900,000	0	0	13,945,552	60,836	7,616,095	5,397,150	175,759,900	177,978,845	404,325	Pass
28	7/20/2027	0	404,325	404,325	59,900,000	0	0	13,945,552	60,809	7,617,984	5,399,039	182,026,659	184,245,604	404,325	Pass
29	8/20/2027	0	404,325	404,325	59,900,000	0	0	13,945,552	60,780	7,616,789	5,397,844	188,294,642	190,513,587	404,325	Pass
30	9/20/2027	0	404,325	404,325	59,900,000	0	0	13,945,552	60,752	7,616,639	5,397,694	194,562,802	196,781,747	404,325	Pass
31	10/20/2027	0	404,325	404,325	59,900,000	0	0	13,945,552	60,724	7,619,003	5,400,058	200,828,626	203,047,571	404,325	Pass
32	11/20/2027	0	404,325	404,325	59,900,000	0	0	13,945,552	60,695	7,617,785	5,398,840	207,095,697	209,314,642	404,325	Pass

Source: TCW, Bloomberg, Intex. Cash flow projection is as of April 4, 2025.

Important Disclosure

INVESTMENT RISKS
All investing involves risk including the potential loss of principal. Market volatility may significantly impact the value of your investments. Recent tariff announcements may add to this volatility, creating additional economic uncertainty and potentially affecting the value of certain investments. Tariffs can impact various sectors differently, leading to changes in market dynamics and investment performance.

Fixed Income – Fixed Income investments entail interest rate risk, the risk of issuer default, issuer credit risk, and price volatility risk. Strategies investing in bonds can lose their value as interest rates rise and an investor can lose principal. Mortgage-backed and other asset-backed securities often involve risks that are different from or more acute than risks associated with other types of debt instruments. MBS related to floating rate loans may exhibit greater price volatility than a fixed rate obligation of similar credit quality. With respect to non-agency MBS, there are no direct or indirect government or agency guarantees of payments in pools created by non-governmental issuers. Non-agency MBS are also not subject to the same underwriting requirements for the underlying mortgages that are applicable to those mortgage-related securities that have a government or government-sponsored entity guarantee. The strategy's investments denominated in foreign currencies will decline in value if the foreign currency declines in value relative to the U.S. dollar. The securities markets of emerging market countries can be extremely volatile. Securities prices and returns will fluctuate with market conditions, currencies and the economic and political climates where the investments are made.

NOTICE TO PROSPECTIVE INVESTORS WHO INVEST THROUGH INTERMEDIARIES
Certain unaffiliated intermediaries, including, but not limited to, registered investment advisers, broker-dealers, banks and consultants (each, a "Firm"), may offer/recommend private funds or strategies sponsored by The TCW Group, Inc. and its affiliates ("TCW" and together with the private funds and strategies, the "TCW Accounts") to Firm clients. The Firm does not receive any compensation from TCW if a client invests in the TCW Account. However, the client may pay the Firm a fee (e.g., advisory fee, consultancy fee, due diligence fee, etc.) and indirectly pays TCW a management fee through the investment in the TCW Account. As a result of this arrangement, a conflict of interest may exist in that the Firm may have an incentive to endorse and make positive statements about TCW. The Firm, its clients or personnel may be or have been invested in vehicles managed, advised or sponsored by TCW, and the Firm, its clients or personnel or affiliates potentially may invest in such vehicles in the future.

NOTICE TO PROSPECTIVE INVESTORS WHO INVEST THROUGH A WRAP FEE OR OTHER PLATFORM
Certain unaffiliated firms that sponsor a wrap fee program or other platform (each, a "Sponsor") may include private funds or strategies offered by The TCW Group, Inc. and its affiliates ("TCW" and together with the private funds and strategies, the "TCW Accounts"). The Sponsor charges TCW an administrative or service fee to make a TCW Account accessible to the Sponsor's clients through the program or platform. The Sponsor may also pay the management fee charged by the TCW Account on behalf of the Sponsor's clients. As a result of these arrangements, a conflict of interest exists in that the Sponsor may have an incentive to endorse or recommend a particular TCW Account to its clients rather than other products accessible on the program or platform. The Sponsor, its clients or personnel may be or have been invested in vehicles managed, advised or offered by TCW, and the Sponsor, its clients or personnel or affiliates potentially may invest in such vehicles in the future.

GENERAL DISCLOSURE
This material is for general information purposes only and does not constitute an offer to sell, or a solicitation of an offer to buy, any security. Any issuers or securities noted in this document are provided as illustrations or examples only, for the limited purpose of analyzing general market or economic conditions and may not form the basis for an investment decision, nor are they intended to serve as investment advice. Any such issuers or securities are under periodic review by the portfolio management group and are subject to change without notice. TCW makes no representation as to whether any security or issuer mentioned in this document is now in any TCW portfolio. TCW, its officers, directors, employees, or clients may have positions in securities or investments mentioned in this publication, which are subject to change without notice. Any information and statistical data contained herein derived from third party sources are believed to be reliable, but TCW does not represent that they are accurate, and they should not be relied on as such or be the basis for an investment decision. All information is as of the date of this presentation unless otherwise indicated.

An investment in the strategy described herein has risks, including the risk of losing some or all of the invested capital. An investor should carefully consider the risks and suitability of an investment strategy based on their own investment objectives and financial position. There is no assurance that the investment objectives and/or trends will come to pass or be maintained. The information contained herein may include preliminary information and/or "forward-looking statements." Due to numerous factors, actual events may differ substantially from those presented herein. TCW assumes no duty to update any forward-looking statements or opinions in this document. This material comprises the assets under management of The TCW Group, Inc. and its subsidiaries, including TCW Investment Management Company LLC, TCW Asset Management Company LLC, and Metropolitan West Asset Management, LLC. Any opinions expressed herein are current only as of the time made and are subject to change without notice. The investment processes described herein are illustrative only and are subject to change. Past performance is no guarantee of future results.