



## Market Commentary

### Recommended Investment:

#### Fair Oaks Income Ltd

Listed on the London Stock Exchange (FAIR.L) and trading in US Dollars, this investment trust aims to generate attractive, risk-adjusted returns, principally through income distributions. This makes it attractive to income-seekers, particularly given that its current yield is 13%.

The fund is managed by Fair Oaks Capital Ltd, an independent asset management and advisory firm, with offices in London and New York, managing approximately US\$2.4bn. Their senior investment team has an average of over 20 years' corporate credit and securitisation experience dedicated to sourcing, analysing, negotiating, selecting and monitoring corporate credit investments.

It obtains this jaw-dropping yield by investing in portfolios of CLOs (collateralised loan obligations) which consist primarily of US and European floating-rate senior secured bank loans. The floating rate nature of the loans make it an ideal investment to protect against future inflation. The company has an unlimited life but on or before 12 June 2024 an extraordinary general meeting will be proposed to consider a continuation resolution.

The portfolio is highly diversified by underlying issuer with >1,000 companies and the top 10 representing just 5.8% of the portfolio. Underlying loans are also diversified by sector with the largest being Healthcare & Pharmaceuticals (12%), Business Services (9%), High Tech (9%), Telecommunications (7%) and Banking (7%). The underlying loans are primarily non-investment grade (97% are rated between BBB- and B-). However, the default rate since inception of 0.22% is low in absolute terms as well as compared with to the annualised default rate in the US loan market of 1.5%. 91% of the portfolio is in the US, with 99% denominated in US Dollars.

The fund has a strong performance record - rising 37% over the last 3 years, achieving its target return of 12-14% per annum.

Having generally traded on a premium to NAV since launch, the fund's shares have of late de-rated and are now trading at a small discount. Combined with the 13% yield, we view this as an excellent entry point for investors. **Buy.**