

# CARADOR INCOME FUND PLC

*Interim  
Management  
Statement*

*15 November 2013*

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## Carador Income Fund Plc

("Carador" or the "Company")

15 November 2013

### INTERIM MANAGEMENT STATEMENT<sup>1</sup>

The following interim management statement relates to the period from 1 July 2013 to 15 November 2013 and has been prepared solely to provide information to meet the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007.

### INVESTMENT OBJECTIVE

The Company's investment objective is to produce attractive and stable returns with low volatility compared to equity markets by investing in a diversified portfolio of Senior Notes of Collateralised Loan Obligations ("CLOs"<sup>2</sup>), collateralised by senior secured bank loans and Equity and Mezzanine tranches of CLOs.

The Company seeks to achieve its investment objective through investment in cashflow CLO transactions, managed by portfolio managers with proven track records. It seeks to achieve diversification across asset class, manager and maturity profile.

### U.S. DOLLAR SHARE NAV AND PERFORMANCE 1 JULY 2013 TO 30 SEPTEMBER 2013

As at 15 November 2013, the Company only had one share class outstanding, the U.S. Dollar Share Class. The performance of the Company by both Share Price and NAV up to the end of September, when the latest NAV was available, is set out below:

U.S. Dollar Shares	1-Jul-13	30-Sep-13	Dividends Paid	Total Return
Share Price <sup>3</sup>	\$1.0100	\$0.9788	\$0.0340	0.28%
NAV per Share	\$0.9940	\$0.9636	\$0.0340	0.36%
Prem / (Disc)	1.61%	1.58%	-	-

One dividend was paid during the reporting period, a dividend for the second quarter of 2013, of \$0.0340 per U.S. Dollar Share on 31 July 2013, see page 4 for details.

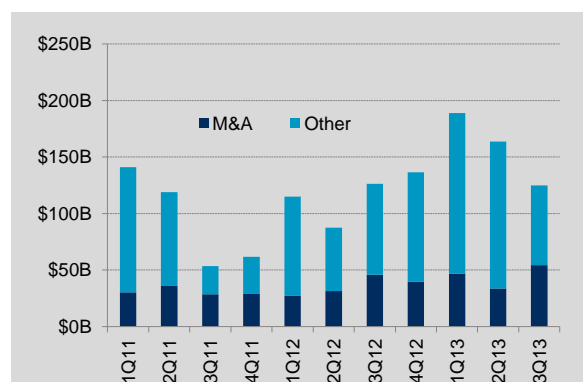
## INVESTMENT MANAGER'S REPORT

### U.S. Loan Market Overview

U.S. primary institutional loan market volumes declined in the third quarter to \$100.8 billion from \$116.9 billion during the prior three months. Notwithstanding the third quarter decline, the loan market YTD total volumes are 45% ahead of 2012 YTD volumes at \$478 billion, the highest recorded volume for the first nine months.

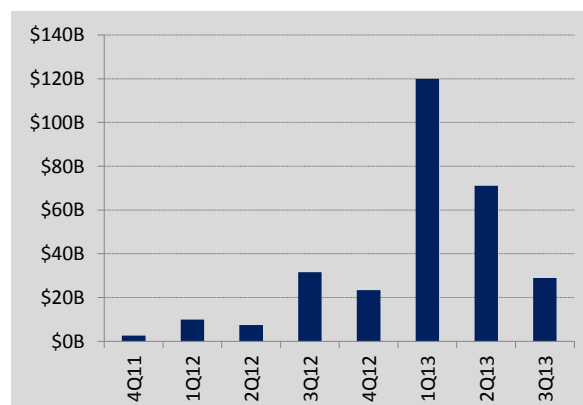
The supply in the third quarter had a greater percentage component of M&A driven deals, representing genuine new deal flow. The chart below illustrates the source of the U.S. loan market supply, broken down by M&A and other drivers.

### U.S. Leverage Loan Quarterly Volumes by Supply Source<sup>4</sup>



The benefit of the significant uplift in M&A activity and the supply of new loans has been the decline in the volume of loan refinancing and repricing driven loan supply. As the chart below illustrates, the \$120 billion of repricing activity of Q1 has dropped to \$30 billion in Q3.

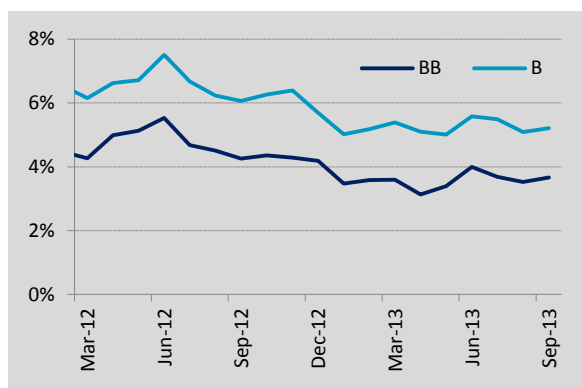
### U.S. Loan Repricing Activity<sup>4</sup>



This welcome increase in loan supply and the consequent decrease in loan refinancing activity helped stabilize loan spreads in the third quarter.

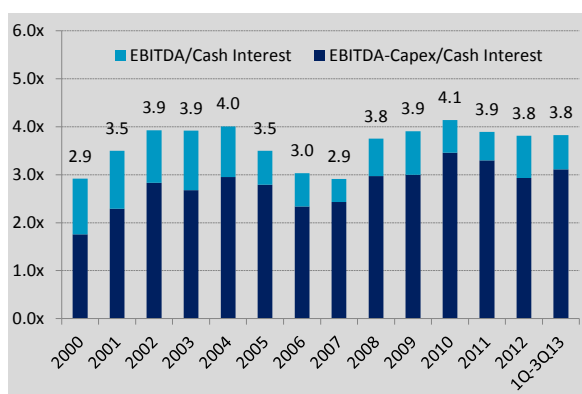
NOTE: PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE RESULTS AND THERE CAN BE NO ASSURANCE THAT CARADOR WILL ACHIEVE COMPARABLE RESULTS.

## U.S. Leverage Loan Clearing Yields<sup>4</sup>



Credit metrics in the U.S. have remained largely stable with total EBITDA/Cash Interest at 3.8x since the start of 2012.

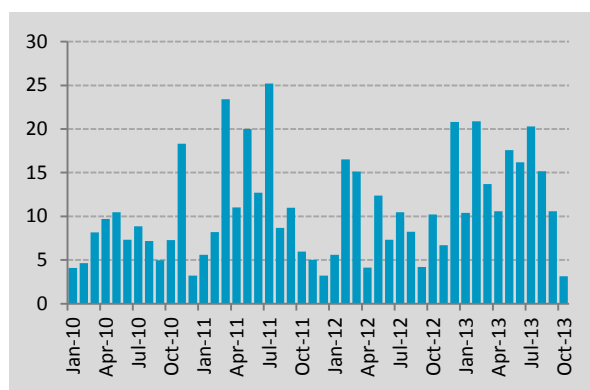
## Average Cashflow Multiples of U.S. Leveraged Loans<sup>4</sup>



## European Loan Market Overview

European leveraged loan issuance has picked up significantly during 2013 to reach \$138 billion YTD up from the \$94 billion over the same period in 2012. However, a significant amount of the volume is driven by refinancing, 71%, with new M&A driven supply at just 22%.

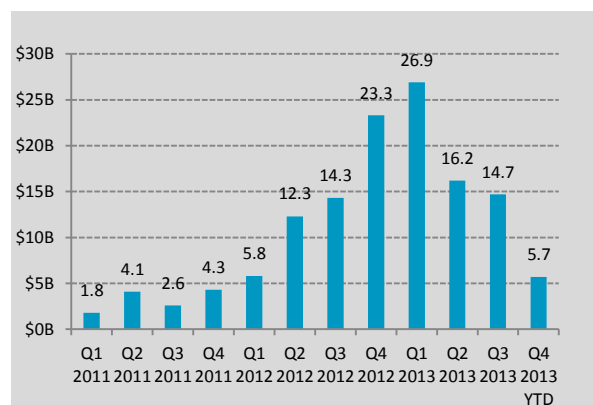
## Monthly European Leveraged Loan Issuance Jan 2010 to Oct 2013<sup>5</sup>



## U.S. CLO Market Overview

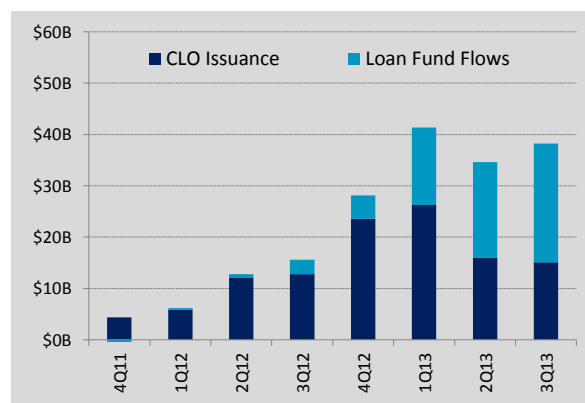
Primary U.S. CLO issuance has declined from a high of \$26.9 billion in Q1 to \$14.7 billion in Q3. However at \$63.5 billion of issuance YTD primary volumes have already surpassed the full year 2012 volumes of \$55.7 billion.

## Quarterly U.S. CLO Issuance<sup>4</sup>



Despite the slowdown in CLO issuance demand for senior secured loans has remained robust with Q3 inflows to both CLOs and other loan funds only \$3.1 billion below those of Q1. As the chart below illustrates, the quarterly inflows to loan funds have exceeded those to CLOs for the last two quarters.

## U.S. CLO and Loan Fund Inflows<sup>4</sup>



## European CLO Market Overview

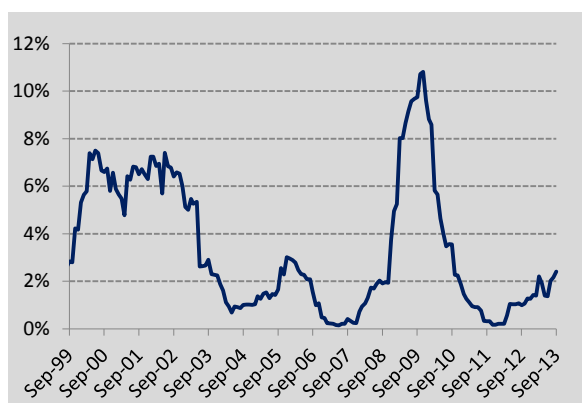
Following a slow start, CLO primary issuance has returned to Europe with €4.5 billion of issuance YTD across thirteen deals with a projected full year 2013 volume of €5 to €6 billion. Benefitting from what we believe are stronger underlying loan portfolios and a more attractive risk return profile, we expect the pipeline of European deals to continue to grow. However, given the risk retention requirements introduced by article 122a of the European Capital Requirements Directive, we believe the volumes will

remain muted and significantly below the pre-crisis, 2006 and 2007, volumes of in excess of €40 billion.

## Default Rates

In the third quarter of 2013, the S&P/LSTA Index loan defaults totalled \$5.5 billion, up from \$401 million in the second quarter and just over the first quarter's post-2009 high of \$5.1 billion. As a result, the lagging-12-month loan default rate increased to a three-year high of 2.41% by principal amount as at 30 September, from 1.37% in June. By number of loans, the rate increased to 1.78%, from 1.49%.

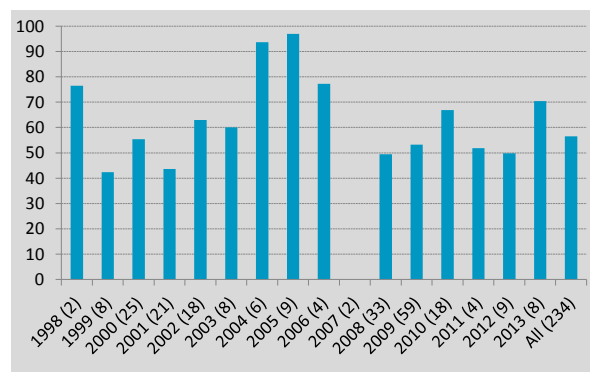
## S&P/LSTA Lagging 12 Month Default Rate By Principal Amount<sup>4</sup>



Looking forward at where default rates may move in the future, we believe the S&P loan manager consensus forecast of 2.26% by the end of September 2014 provides a reasonable estimate. It is however important to exclude TXU which is currently the largest loan issuer in the S&P/LSTA Index. If TXU defaults by year-end, as most market participants expect, it will push the default rate up by 3.73% to 5.92%, on a pro forma basis, for September. We do not believe the default of TXU will have a material impact on Carador as CLO over-collateralization tests already reflect the credit at current market pricing/expected recovery rate.

We believe the U.S. secondary loan market prices provide a good indicator of where defaults may come from in the future. The following chart looks at the weighted average bid price at the time of default (by the year of default) for U.S. loans. The average price across all 234 defaults is approximately 57% and over the years since the financial crisis it has remained between 50% and 70%. Indeed, in general, where there has been a significant number of defaults (see numbers in brackets), from 2000 to 2002 and 2008 to 2010, prices have been depressed at the time of default.

## U.S. Leverage Loan Weighted Average Bid Price at Time of Default – Year of Default<sup>4</sup>



In this context, we have set out below the price distribution of the pre-financial crisis look through Carador loan portfolio compared to the comparable market subset of the entire U.S. CLO market. The data illustrates that: firstly, the Carador look through portfolio has less than 5% exposure to loans below a price of 90% of par (approximately 7% below the broader market); secondly, the Carador portfolio is tightly concentrated around loan par value with less exposure to lower priced assets at all price band levels below par; and thirdly, the portfolio has less exposure to assets priced above 101. This is also a positive as loans trading above 101 are more susceptible to refinancing at lower spreads.

## Carador Look Through Loan Prices on Pre Financial Crisis CLOs vs. U.S. Market<sup>6</sup>

Look Through Loan Prices	All U.S. Pre-Crisis CLOs (2006-2008)	All Carador Pre-Crisis CLOs	Percentage Difference
<90	5.0%	4.7%	6.9%
>=90 to <95	1.7%	1.5%	13.1%
>=95 to <100	27.9%	27.6%	1.1%
>=100 to <101	61.0%	64.6%	-6.0%
>=101	4.0%	3.4%	15.1%

## Carador Portfolio

The Carador Portfolio continues to perform well and generate strong cashflow for investors. Following the U.S. loan market repricing activity in Q1 and the consequent fall in CLO Income Note valuations we believe we will now see more stability in Income Note valuations. It is however important to note that Income Note valuations do come down post reinvestment period as they trend towards their liquidation value or NAV. Therefore we do expect to continue to see Income Note valuations step down after each distribution until they reach NAV, albeit

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each step down is accompanied by an equivalent cashflow distributions.

Following the EGM on 26 June we have been selectively investing in post financial crisis CLOs in both the primary and secondary market. Most recently we committed to the Income Notes of a new CLO managed by Ares Capital Management. On a risk adjusted basis we believe the investment should deliver Carador an IRR of 13.5% on a hold to maturity basis with some possible upside from an earlier call or refinance.

## **Outlook**

In an announcement by the Company on 8 October, the Board indicated that the Company may introduce a liquidity facility to take advantage of current investment opportunities. We have been discussing a potential facility with a lender and expect to finalise an agreement shortly. We believe a small facility of up to 10% of NAV will provide us with more operational flexibility to deploy capital in both the primary and secondary market pending either asset sales or new capital raises. In particular, such a facility will ensure we can continue to run the portfolio with a low cash balance whilst still being able to take advantage of the market on an opportunistic basis.

## **DIVIDENDS**

On 11 July the Board declared a dividend of \$0.0340 per U.S. Dollar Share in respect of the period from 1 April 2013 to 30 June 2013. The dividend was paid on 31 July 2013 to shareholders on the register as at the close of business on 26 July 2013.

On 8 October the Board declared a dividend of \$0.0340 per U.S. Dollar Share in respect of the period from 1 July 2013 to 30 September 2013. The dividend was paid on 31 October 2013 to shareholders on the register as at the close of business on 25 October 2013.

On 8 October, the Board also provided a target for 2014 annual dividends of approximately \$0.100 per U.S. Dollar Share to be distributed evenly in four quarterly payments.

## **MATERIAL EVENTS**

There were no material events during the reporting period.

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1 Information on past performance, where given, is not necessarily a guide to future performance. There can be no assurance that the Company will achieve results comparable to these or any fund, or that the Company will be able to implement its Investment Objective. Unless otherwise provided for herein, all defined terms shall have the same meaning set forth in the Prospectus of the Company.

2 CLOs are debt securities backed by a diverse portfolio of loan assets. The CLO uses the cashflows from this portfolio of assets to back the issuance of multiple classes of rated debt securities which, together with the Equity Notes, are used to fund the purchase of the underlying loans.

3 Bloomberg as at relevant month end.

4 LCD Quarterly Review, September 2013

5 Thomson Reuters LPC, November 2013

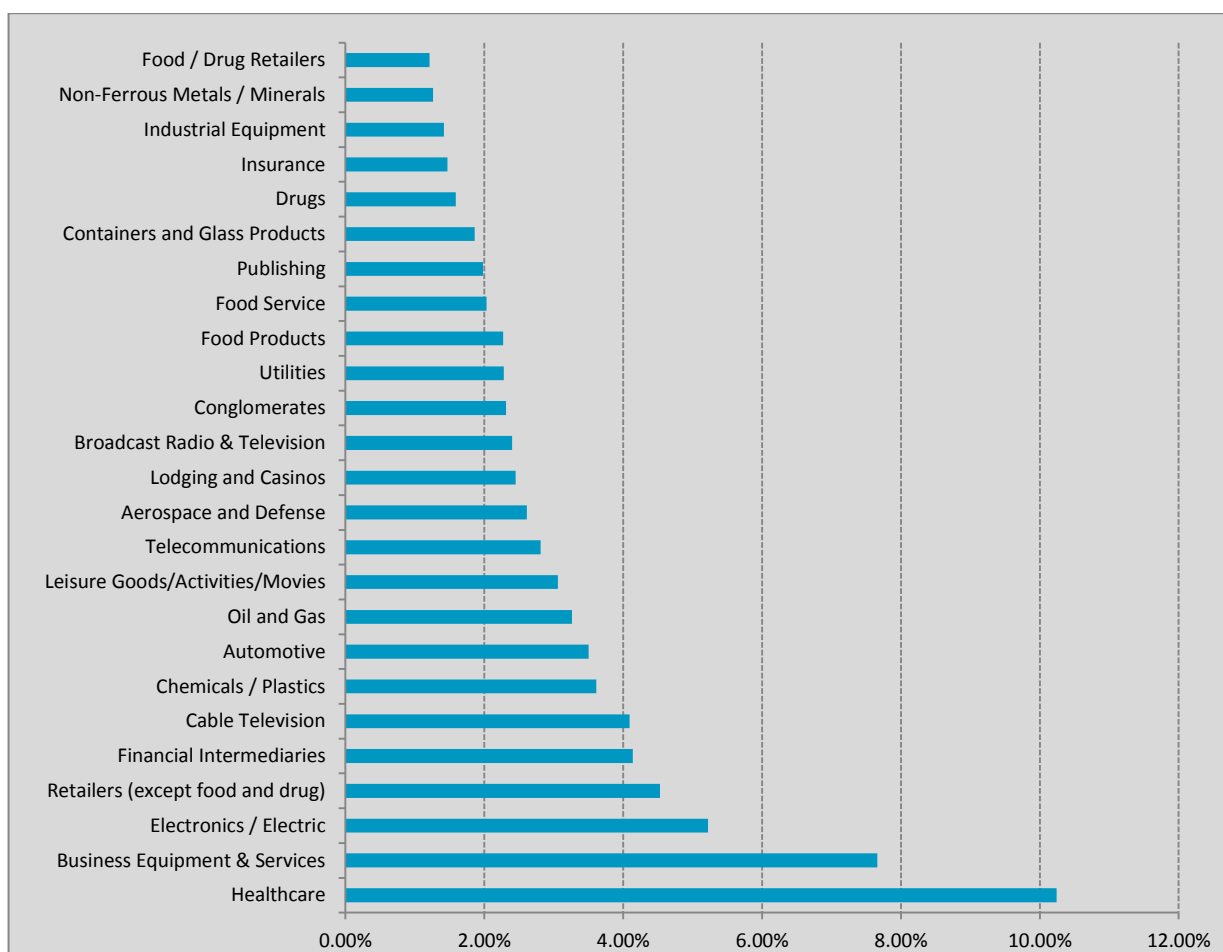
6 Thomson Reuters LPC

# CARADOR PORTFOLIO DATA AS AT 30 SEPTEMBER, 2013

## Carador Top 10 Look-Through Exposures (NAV as at 30 September, 2013)\*

	Issuer	Rating	Sector	%
1	HCA	Ba3/BB	Healthcare	1.09%
2	First Data	B1/B+	Financial Intermediaries	1.02%
3	Aramark	B1/BB-	Food Service	1.00%
4	RPI Finance Trust (Royalty Pharma)	Baa2/BBB-	Financial Intermediaries	0.82%
5	Huntsman International	Ba1/BB+	Chemicals / Plastics	0.81%
6	Chrysler Group	Ba1/BB	Automotive	0.77%
7	Delta Airlines	Ba1/BB	Air Transport	0.75%
8	Mediacom	Ba3/BB-	Cable Television	0.72%
9	Sungard Data Systems	Ba3/BB	Financial Intermediaries	0.72%
10	Valeant Pharmaceuticals	Ba1/BB	Drugs	0.71%

## Carador Top 25 Look-Through Industries (NAV as at 30 September, 2013)\*



\* Based on notional tranche weighted exposure to par portfolios of CLO investments. Source: Intex, trustee reports and Bloomberg

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## CARADOR PORTFOLIO DATA AS AT 30 SEPTEMBER, 2013

Investment <sup>(*)</sup>	Manager	Original Rating	% NAV
1 ACASC 2013-1X F	American Capital Leveraged Finance	B1/B	0.88%
2 ACASC 2013-2X E	American Capital Leveraged Finance	B1/B	1.15%
3 AMMC 2006-7X E	American Money Management Corp	Ba2/BB	0.85%
4 AMMC 2006-7A SUB	American Money Management Corp	NR/NR	0.41%
5 AMMC 2012-11X E	American Money Management Corp	Ba2/BB	2.18%
6 Apidos 2011-8A D	Apidos Capital Management	Ba2/BB	1.09%
7 Apidos 2006-4 E	Apidos Capital Management	Ba2/BB	0.71%
8 Ares 2007-11A E	Ares Capital Management	Ba1/BB+	0.95%
9 Ares 2007-12X E	Ares Capital Management	Ba2/BB	3.30%
10 Ares 2007-3 RA E	Ares Capital Management	Ba2/BB	1.19%
11 Callidus V-X D	GSO / Blackstone Debt Funds Management LLC	Ba2/BB	0.35%
12 Callidus V-X INC	GSO / Blackstone Debt Funds Management LLC	NR/NR	1.58%
13 Callidus VI-X D	GSO / Blackstone Debt Funds Management LLC	Ba2/BB	1.90%
14 Callidus VI-A INC	GSO / Blackstone Debt Funds Management LLC	NR/NR	2.61%
15 Callidus VII-A INC	GSO / Blackstone Debt Funds Management LLC	NR/NR	1.88%
16 Carlyle Azure CLO INCOME	The Carlyle Group	NR/NR	0.70%
17 Carlyle Azure CLO B1L	The Carlyle Group	Baa2/BBB	0.58%
18 Carlyle Daytona CLO B2L	The Carlyle Group	Ba2/BB	2.11%
19 Carlyle Daytona CLO INCOME	The Carlyle Group	NR/NR	1.02%
20 CLRLK 2006-1A D	Babson Capital	Ba2/BB	1.07%
21 COLPK 2008-1A SUB	GSO / Blackstone Debt Funds Management LLC	NR/NR	4.36%
22 CTRPK 2011-1A SUB	GSO / Blackstone Debt Funds Management LLC	NR/NR	0.53%
23 Denali Capital CLO VI PREF	DC Funding Partners LLC	NR/NR	0.11%
24 Eaton Vance CDO VIII SUBORD	Eaton Vance	NR/NR	1.77%
25 FAIRW 2006-1A B2L	PIMCO	Ba2/BB	1.24%
26 FLAT 2012-1X D	New York Life	Ba2/BB	2.12%
27 Franklin CLO VI E	Franklin Advisers	Ba2/BB	0.93%
28 FTHIL 2007-1A E	The Carlyle Group	Ba2/BB	0.74%
29 FTHIL 2007-1A SUB	The Carlyle Group	NR/NR	1.91%
30 Galaxy 2006-7 SUB	Pinebridge Investments	NR/NR	0.18%
31 Galaxy 2012-14X E	Pinebridge Investments	Ba2/BB	0.32%
32 Gale Force 2 CLO EQUITY	GSO / Blackstone Debt Funds Management LLC	NR/NR	1.23%
33 Gale Force 2 CLO E	GSO / Blackstone Debt Funds Management LLC	Ba2/BB	0.37%
34 Gale Force 3 CLO D	GSO / Blackstone Debt Funds Management LLC	Baa2/BBB	1.07%
35 Gale Force 3 CLO E	GSO / Blackstone Debt Funds Management LLC	Ba2/BB	0.71%
36 Gale Force 3 CLO PREF	GSO / Blackstone Debt Funds Management LLC	NR/NR	1.46%
37 Gale Force 4 CLO E	GSO / Blackstone Debt Funds Management LLC	Ba2/BB	2.45%
38 Gale Force 4 CLO INCOME	GSO / Blackstone Debt Funds Management LLC	NR/NR	3.50%
39 GRAM 2012-1X D	GSO / Blackstone Debt Funds Management LLC	Ba2/BB	0.55%
40 ING Investment Management II Pref	ING Investment Management	NR/NR	2.77%
41 ING Investment Management II C	ING Investment Management	A2/A	0.54%
42 ING Investment Management II D	ING Investment Management	Baa2/BBB	2.66%
43 ING Investment Management IV D	ING Investment Management	Ba2/BB	0.32%
44 ING Investment Management V SUBORD	ING Investment Management	NR/NR	1.74%
45 ING Investment Management 2011-1 D	ING Investment Management	Ba2/BB	0.62%
46 ING Investment Management 2012-1X E	ING Investment Management	B1/B	1.69%
47 Inwood Park CDO SUBORD	GSO / Blackstone Debt Funds Management LLC	NR/NR	3.29%
48 Inwood Park CDO 2006-1 A E	GSO / Blackstone Debt Funds Management LLC	Ba2/BB	2.82%
49 Inwood Park CDO 2006-1 A D	GSO / Blackstone Debt Funds Management LLC	Baa2/BBB	0.71%
50 Marea 2012-1X E	Invesco Senior Secured Management	Ba2/BB	1.89%
51 MRNPK 2012-1X D	GSO / Blackstone Debt Funds Management LLC	Ba2/BB	0.83%
52 Mountain View CLO II PREF	Seix Advisors	NR/NR	0.14%
53 Mountain View CLO II E	Seix Advisors	Ba2/BB	1.41%
54 NACLO 2006-1 A E	Fortis Investment Management	Ba2/BB	1.69%
55 NYLIM Flatiron CDO 2006-1 SUBORD	New York Life	NR/NR	0.23%
56 Octagon Investment Partners XI Pref	Octagon Credit Investors	NR/NR	2.27%
57 OCT14 2012-1X E	Octagon Credit Investors	B1/B	0.91%
58 OHAPA 2007-1A SUB	Oak Hill Advisors	NR/NR	1.46%
59 Prospect Park CDO SUBORD	GSO / Blackstone Debt Funds Management LLC	NR/NR	1.62%
60 Rampart CLO 2007-1A SUBORD	Stone Tower Debt Advisors	NR/NR	1.53%
61 RSIDE 2011-3X SNR	GSO / Blackstone Debt Funds Management LLC	Ba2/BB	1.76%
62 Saturn 2007-1 D	Pinebridge Investments	Ba2/BB	0.72%
63 Sheridan Square 2013-1A INC	GSO / Blackstone Debt Funds Management LLC	NR/NR	2.18%
64 Sheridan Square 2013-1A F	GSO / Blackstone Debt Funds Management LLC	B1/B	2.02%
65 Silverado CLO 2006-1 SUBORD	Wells Capital Management	NR/NR	0.73%
66 Stone Tower CLO 2006-4X D	Stone Tower Debt Advisors	Ba2/BB	0.38%
67 Stone Tower CLO 2006-5X SUBORD	Stone Tower Debt Advisors	NR/NR	0.28%
68 Stone Tower CLO 2007-6A SUBORD	Stone Tower Debt Advisors	NR/NR	1.77%
69 Stone Tower CLO 2007-7X SUBORD	Stone Tower Debt Advisors	NR/NR	1.10%
70 Symphony CLO IV E	Symphony AM	Ba2/BB	0.28%
71 TRBPK 2008-1A SUB	GSO / Blackstone Debt Funds Management LLC	NR/NR	3.03%
72 Venture VII CDO INCOME	MIX Asset Management	NR/NR	0.43%
73 VITES 2006-1A B1L	TCW Advisors	Baa3/BBB-	1.09%
74 Westbrook CLO E	Shenkman Capital Management	Ba2/BB	0.53%
Cash			0.44%

(\*) Investment in Gale Force 3 Combination Note split into individual components

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**Any reference herein to future returns or distributions is a target and not a forecast and there can be no guarantee or assurance that it will be achieved. The actual principal and income in any particular case will be determined by the cash flows received.**

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Although the portfolio reflected in this document (the "Portfolio") is consistent with the investment strategy of Carador, there is no guarantee that the portfolio acquired will be identical to the make-up of the Portfolio. Moreover, the future investments to be made by Carador may differ substantially from the investments included in the Portfolio. Therefore, the Portfolio parameters, industry concentration, rating concentration, spread distribution and other factors related to the Portfolio could all be materially different than those of the future portfolio acquired by Carador.

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