Bain Capital Credit, LP
200 Clarendon St.
Boston, MA 02116

T: 617 516 2000
F: 617 516 2010

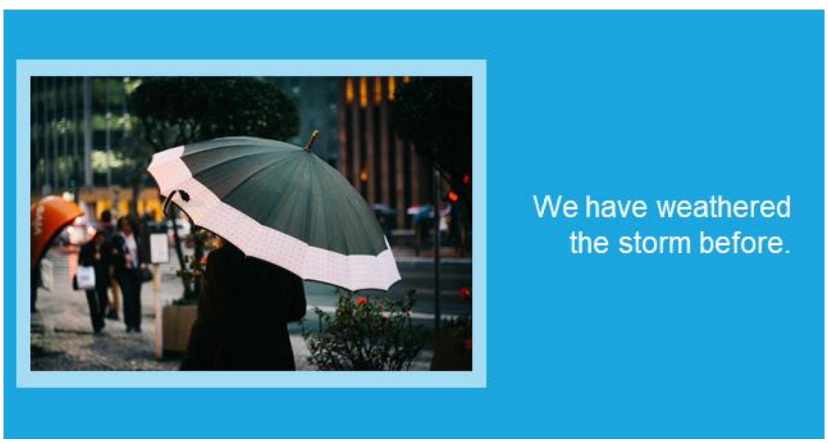
Q1 2021

The dizzying start to 2021 has made it more challenging to write a letter in which I hope to offer broader commentary on our strategy and outlook. Between the insurrection at the U.S. Capitol, the Democrats' historic Senate win in Georgia, Biden's inauguration and the second impeachment of Donald J. Trump – all set against the backdrop of a global pandemic – this letter, like 2021, has seen many iterations in a short period of time. While I started drafting this letter in early January to augment the fund level reporting you have already received, it is only making its way to you now that enough time has passed to process the fits and starts characterizing the start of 2021 and the challenges of 2020.

I'm also cognizant that at this time last year, I rewrote an early draft of this letter when news of an outbreak of a mysterious virus in Wuhan, China surfaced. Little did anyone know at the time that a year later, this virus would have taken an unthinkable toll on human life across the globe and been met with wildly different responses country-by-country, all while wreaking havoc on the global economy. In last year's letter, we gave some details on our monitoring of the situation and the contingencies we were beginning to consider. I find myself a year later even more cognizant of the extent of the unknowns we face.

While all of the events of 2021 have shocked people around the world, they have seemed to have little effect on our markets. What did get the market's attention was a little known stock called GameStop. For the better part of 2020, this company with thin profit margins and a negative return on equity had a market capitalization near $300M. By the end of January, it still had no earnings but its market cap had grown to over $22B. The severe price action in GameStop captured the imagination of the broader public in a way we have not seen since the internet bubble of the late 1990s. GameStop is not, however, just another Pets.com. GameStop broke through because it is a metaphor for concerns about the fairness of markets, income inequality and broader social unrest. Ultimately, GameStop provided yet another wake-up call that these are issues we can no longer ignore.

These disparate events remind us of our core responsibilities as managers – focus on long-term value, lead by example and incorporate the responsibilities of market leaders to set a tone of fairness and social responsibility in our actions.



Despite rampant volatility, funds across our platform generally performed better than we anticipated at the onset of the pandemic. Within our Liquid funds, our bank loan accounts and CLOs performed particularly well. Defaults remained low and our portfolio managers pivoted from protecting capital during the eye of the storm earlier in the year to slowly adding risk back as the re-opening picture emerged. In our multi-asset credit funds, we rotated into bonds barbelled with less liquid securities and structured credit. While this sacrificed a marginal amount of short-term return, we believe we have assembled a strong mix of assets in these funds that should produce attractive returns over the next two to three years.

Our Private Credit business provided the biggest positive surprise during the year. With approximately 200 loans to middle market companies in the US, Europe and Australia going into April, we were concerned about the pandemic's short- and long-term impact. How much capital would these companies need? We believed we had a solid portfolio, safer and more senior than most, where nearly 90% of our senior loans had covenants. While the second quarter was marked by borrowers drawing over 80% of their revolving credit facilities, up from 50% in 2008, as I write this all have returned to "normal" pre-March levels.[1] Revolver requests were processed seamlessly and the borrowers have largely repaid them. More importantly, of the ~200 senior and junior private investments outstanding, only 28 of them needed amendments of any kind and only two of them underwent a restructuring due to COVID-19.[2] The low default rate and ample liquidity of our borrowers demonstrated the benefits of private lending during market dislocations. Individually structured loans, generally with a single lender or a small group of like-minded lenders, withstood the downdraft because they had capital structures built for the long run with loans held by steady hands.

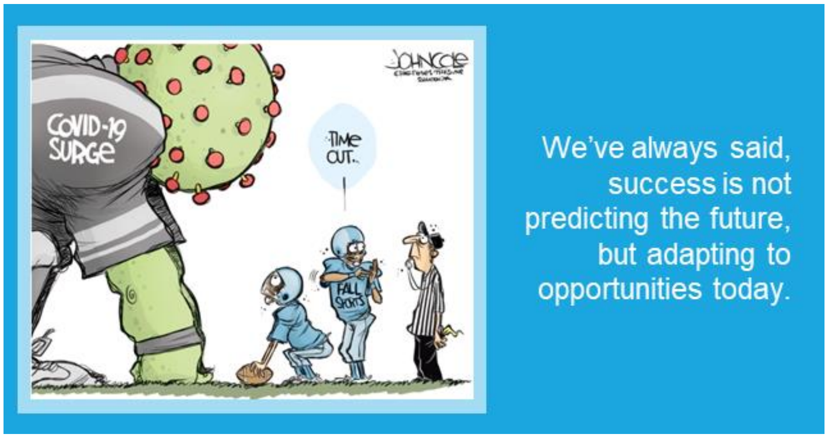
Our Distressed and Special Situations business saw its busiest year ever. Having completed the first close of Distressed & Special Situations 2019, our new global special situations fund, and with plenty of capacity in our two regional funds, Special Situations Asia and Special Situations Europe, we had ample capital to pursue the plethora of opportunities that presented themselves across the globe. For the year, we deployed and committed $2.5B across $1.5B private opportunities and another $1B in public markets.[3] Our most notable and visible investment involved the restructuring of Australia's second largest airline, Virgin Australia, with our Global Private Equity team. Dozens of professionals across our firm played a role in this complex transaction, starting with a local Australian team augmented by internal experts in aerospace, aircraft lending, loyalty programs and leadership development. In many ways, this investment demonstrated our differentiated scale and ability to marshal considerable resources against a highly complex transaction, a feat that few others could have managed.

While Virgin was our largest investment, it accounted for only 6% of the capital deployed and committed. Surprisingly, the economic crisis presented fewer traditional distressed opportunities than we would have predicted. As discussed earlier, capital structures in industries outside the eye of the storm generally held up. We found three overriding themes:

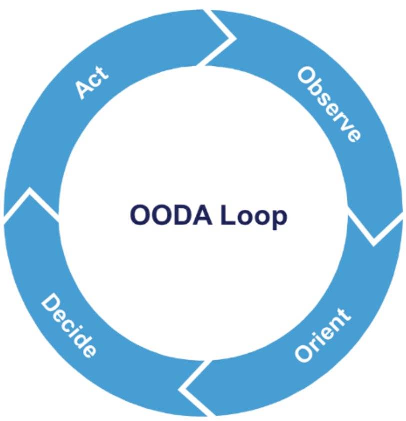
1) Eye of the storm industries, even in the absence of full restructurings, needed capital.
2) European banks, particularly in Southern Europe, were early in selling marginal assets.
3) Bespoke capital solutions, ranging from minority interests to rescue financings to individual asset purchases, presented themselves in unprecedented numbers.

Beyond traditional restructurings like Virgin Australia and Pizza Express in Europe, we bought NPLs in Cyprus and Romania, backstopped a rights offering for a travel agency in Australia, purchased distressed real estate in New York and London, completed a sale/lease back on two 787 aircraft and provided growth capital to a technology center in China, just to name a few. Our footprint of over 20 offices around the globe enabled a robust deal funnel and the capacity to evaluate the wide array of potential investments we unearthed.

[1] Data as of December 31, 2020. Refers to utilization across all Bain Capital Credit direct lending funds.
[2] Data as of December 31, 2020. Amendments exclude technical amendments. Refers to investments across all Bain Capital Credit private credit investments.
[3] Dollars deployed from March 11, 2020 through December 31, 2020. Refers to investments and commitments across Bain Capital Distressed and Special Situations 2019, Bain Capital Special Situations Asia and Bain Capital Special Situations Europe platforms.



Before going into our outlook I wanted to highlight a decision-making framework we use to evaluate complex and fast changing situations. It was created by a US Air Force fighter pilot turned military strategist as he was explaining how to win an aerial dogfight. It is now taught in business schools and used by strategists in the business and political worlds. Called the OODA ("Observe, Orient, Decide, Act") Loop, it emphasizes the perpetual nature of good analysis and decision-making.



Observe: The first thing one must do to evaluate any complicated situation is to take a moment and observe. Whether that's a pilot observing her surroundings, a professional athlete observing the opposing team, or investment professionals observing unforeseen changes in markets, the first critical step is observation. Our firm was in observation mode during the early part of 2020. We collectively leveraged the insights from all our business units and 20+ offices across the globe. We continuously monitored the spread of the virus, as well as ran specific company and macroeconomic analyses of potential impacts.

Orient: After recognizing the far-reaching impacts the virus would have, we leveraged Bain Capital's full platform of nine businesses across four continents, insights into hundreds of portfolio companies across numerous industries, trading desks and vertical experts to analyze mitigants. We also pulled together two cross-platform working groups – a COVID-19 evaluation team led by our Life Sciences business and a macro team comprised of business unit and geographic leaders from across the firm. The insights developed by individual businesses and the cross-platform activities were captured and shared across the firm via our proprietary technology-enabled database known as the Bain Capital Collaboration Hub.

Decide: The decisional challenge facing all of our businesses was whether to go on offense, defense or maintain a neutral posture. Often, we had to do some of each. By May, we had participated in over 100,000 Zoom meetings across the firm and several hundred investment committee meetings to refine our strategy and approach.

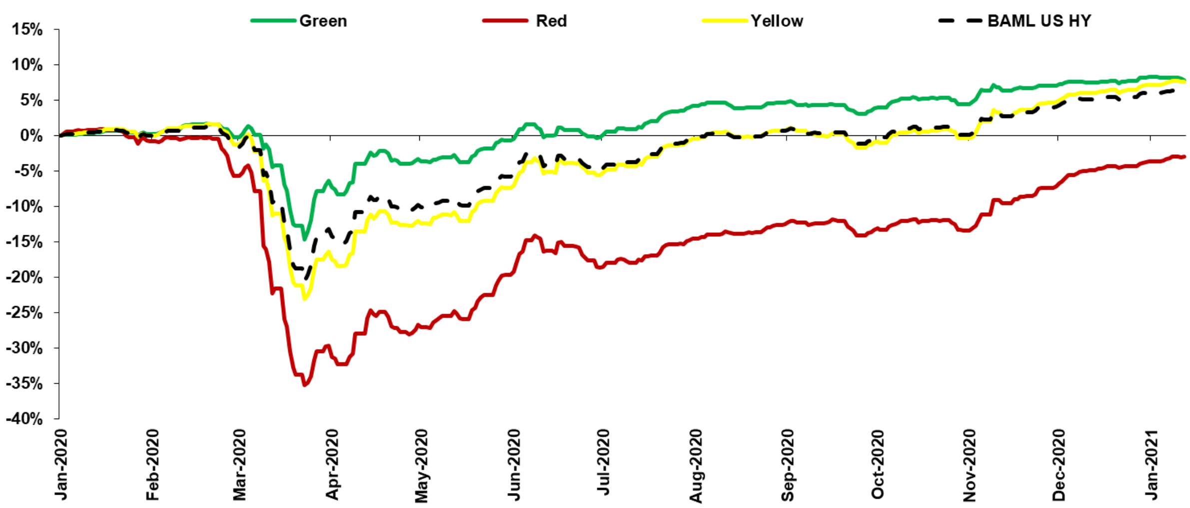
Act: Decisions without actions are merely observations. Once we determined a framework for evaluating both COVID impacts and the financial stability of companies across the firm, we invested over $5B in 99 new deals across private markets businesses. We deployed and committed over $2.5B dollars in distressed and special situations investments, made over $1.4B of private loans, amended 28 credit documents, priced five new CLOs and traded over $5B of securities in our liquid accounts.[4]

[4] Past performance is not indicative of future results. Actual results may vary. Data is for full year 2020 unless otherwise noted. Distressed and Special Situations dollars invested from March 11, 2020 through December 31, 2020. Private Credit amendment data is January 1, 2020 through December 31, 2020.

Utilizing this approach, we had one of the most productive years in the history of the firm and believe we are positioned for further success for years to come. But it is important to recognize the OODA Loop is called a loop for a reason. You do not follow it just once. We went through the process and the cycle many times during the year and are evaluating new realities as we look forward to recovery and reopening. While we are optimistic that the world will mostly be better by this time next year, we are still studying the enduring impacts on companies, industries, consumer psyche and individual households as a result of the events of the last year.

The following chart is a good example of how we cycled through the OODA Loop. It outlines bond returns rated by potential COVID impacts and was a key framework we began using early in the market dislocation. The green line shows performance of highly rated companies with relatively low COVID impacts, such as cable and software. The yellow line shows performance of moderately impacted companies and industries, such as financials and industrials. Finally, the red line shows the returns of the companies in the eye of the storm – airlines, travel, retail, gaming and others in difficult financial shape to start.

High-Yield Bonds – Cumulative Returns[5]

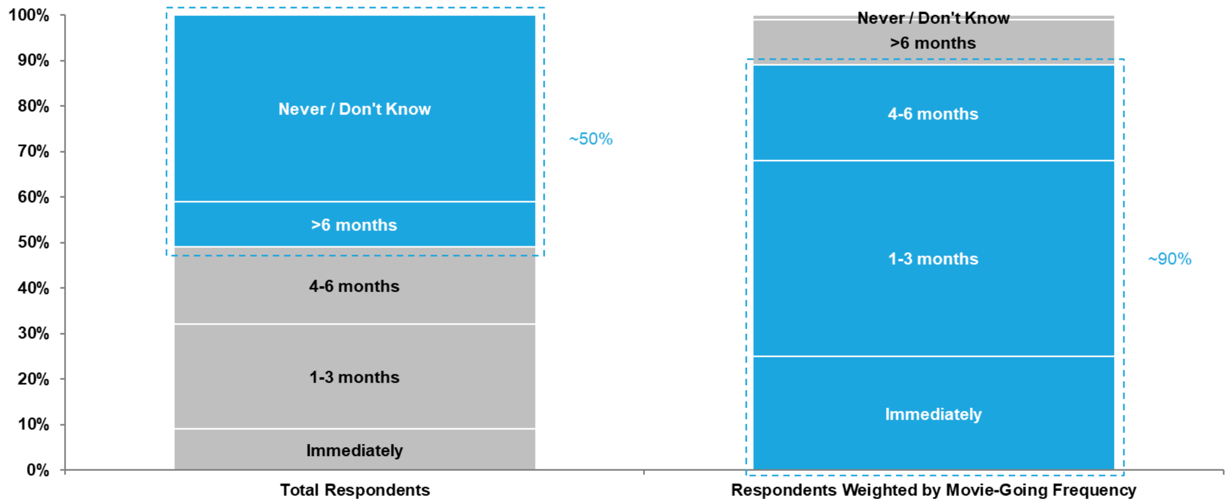


Not surprisingly, the greens were less impacted and recovered first, followed by the yellows. Today, with confidence in the vaccine, there is almost no difference between the green and the yellow lines. However, it is important to note that the red line consistently lagged throughout the year and only recently has begun to regress to tighter spreads relative to the yellow and green lines. That said, these companies still have produced negative returns for the last year and have significant upside should a true recovery and reopening occur during the next six months.

Quantifying the permanent impacts on companies in the red line is where we are spending most of our time. We fear too many people view recovery as binary – things will either be shut down or everything will reopen and be back to the way it was. We have deployed significant analytical resources to understand the shape of that rebound. One such analysis we conducted is a survey of movie theater patrons summarized in the following chart.

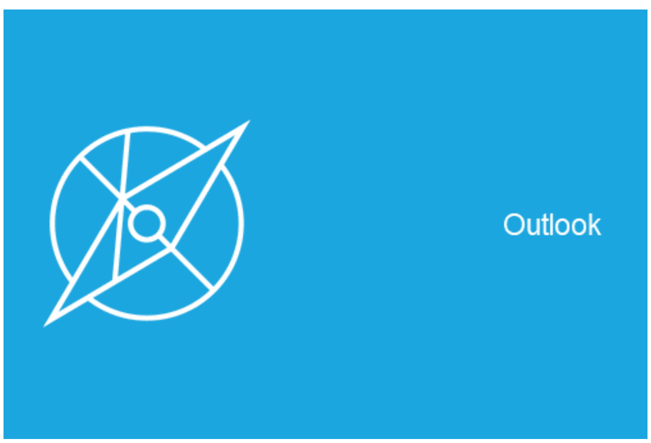
[5] Data as of January 12, 2021. Source: BAML and Bain Capital Credit analysis. Green = low COVID exposure score. Yellow = medium exposure score. Red = high exposure score.

We asked: Assuming movie theaters re-open with strict safety and social distancing measures, how long will it take you to return?[6]



Measured by individual, 50% of people say that they will not go back to movies for six months or more after a vaccine is developed. But when weighted by dollars spent on movies and one's propensity to go to the movies before the pandemic, the data suggests that about 90% of people will return within six months. On the one hand that's good news – we see a base level of support for this bellwether industry. On the other hand, 90% recovery across a wide swath of consumer businesses will not be good news for the economy or those businesses. To illustrate this, if New York City comes back only to 90% of where it was prior to the pandemic, that will be problematic for its economy.

Of course, the details behind modeling the recovery are far more nuanced than this single analysis, but it does highlight some important considerations. There certainly will be pent-up demand which will level off into a new normal. Some businesses will successfully reinvent themselves. That said, we are concerned it is far too early to project when we fully get out of the woods or expect the vaccine to fix all consumer problems. We will continue to observe, orient, decide and act as more data presents itself.



Looking ahead, there are several important questions we must face: What does a post-COVID economy look like? How much permanent damage has been done to the hardest hit industries and Main Street businesses? Is there a new role for government in providing a stronger safety net as well as new guardrails in some markets and industries? And, perhaps the biggest question, does the social contract that forms the backbone of our economy and open markets need rethinking in light of growing income inequality, uneven impacts of the pandemic, and long ignored barriers to mobility?

Before we dive into the specifics, it is important to return to the GameStop story with which we started, expanding our lens to include Reddit, Robinhood and the general “gamification” of markets. At its core, a group of individual investors came together to buy shares in a mall-based retailer. They used an investment

[6] Source: Bain Capital Credit Movie Theater Survey, May 2020 through Dynata Research (sample size = 1,600).

platform built for small investors and designed to democratize investing. Like subprime mortgages, the original idea was a good one. Just as increased home ownership is a virtuous goal, so is extending stock ownership to small investors. Ownership of assets, whether a home or a stock, is one of the best ways to accumulate long-term wealth. When this admirable goal of democratizing asset ownership transforms into speculation, or worse, gaming or gambling, trouble ensues. With GameStop, some investors hopped on board to create a short squeeze, while others saw it as a game complete with its own lingo like "stonks," "diamond hands" and "tendies." The broader issue was small investors wanting to send a message about a market they felt was rigged in favor of big investors. The saddest part of the end result was a stock that raced up hundreds of points and then unceremoniously dropped, costing small investors billions.

These recent events remind us of the fragility of the markets and the need for a greater focus on how we can and will recover from the past 12 months. There are not a lot of instructive parallels we can examine to paint a picture of what the next five to ten years will look like. We have meticulously analyzed prior recessions. We have examined recoveries from previous pandemics. The closest is the Spanish flu outbreak of 1918 and 1919. The world was less global and the economy was much simpler, but nonetheless the impacts were quite severe. Many reference the "Roaring 20s" during which the economy grew by over 40% and assume our recovery will look similar.[7] This grossly oversimplifies a more complex reality. There was a big bounce back in 1920 as the economy reopened and World War I ended, but that was quickly followed by a recession. Too many people came back from the war looking for jobs and once the pent-up demand from the pandemic passed, the economy was not able to deliver more consistent growth. We also know how the story of the 20s ended.

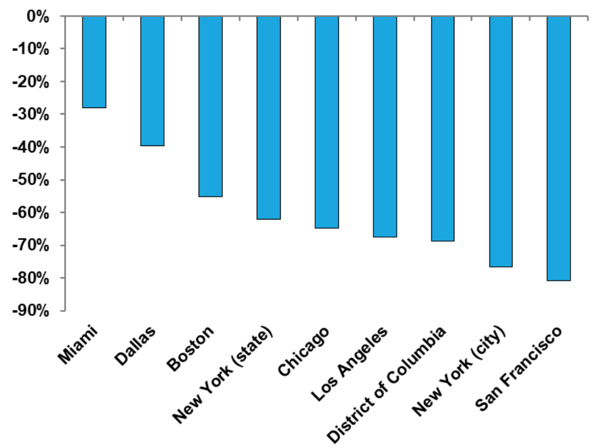
Today, we believe the consensus is correct that there will be significant bounce back once the vaccine is widely distributed. What we have yet to fully understand is how our lives and the way we operate our businesses will permanently change. If Zoom replaces two or three business trips a year, conferences increasingly become virtual and restaurants permanently need to de-densify, the sustainability of industries that employ millions of people will come into question. Furthermore, drawing parallels from the adoption of Zoom, remote learning, telemedicine and other technology-enabled changes to our lifestyles over the last year, one might draw a new long-term view of the adoption of electric vehicles, driverless cars, robots and other advanced technologies. We do not believe that the world is suddenly going to turn into a version of *The Jetsons*, but we do recognize underestimating change will be perilous to investors. That is why we are building our own models industry by industry, incorporating demand views coupled with the most difficult technique needed for successful investing in rapidly changing markets – imagination.

Questions of permanent damage done to the economy are critical to answer. The answers are most dependent on an effective and functioning series of government policies coming out of Washington and other world capitals. The movie theater analysis I described earlier can be replicated for independent restaurants, concerts, airlines, hotels and perhaps even some forms of educational institutions. Government policy is going to play a key role in determining how quickly and sustainably the economy recovers as well as how inflation affects the macro outlook. While there are obvious concerns about inflation creeping into (and possibly overwhelming) the system because of the large stimulus as well as massive debt issuance, we are more concerned about whether the government's efforts provide adequate stimulus. While we have reservations about the rising debt levels in the United States, we are more concerned about the possibility of a permanent "stall" mode where the recovery never quite gets the momentum it needs to sustain and retrench to previous highs. The K-shaped impacts of the last year certainly add to the degree of difficulty, because as the chart below shows, there is wide variance as to the impact by industry and the even wider variation on the level of recovery. This results in demographic, geographic and industry-specific dispersion.

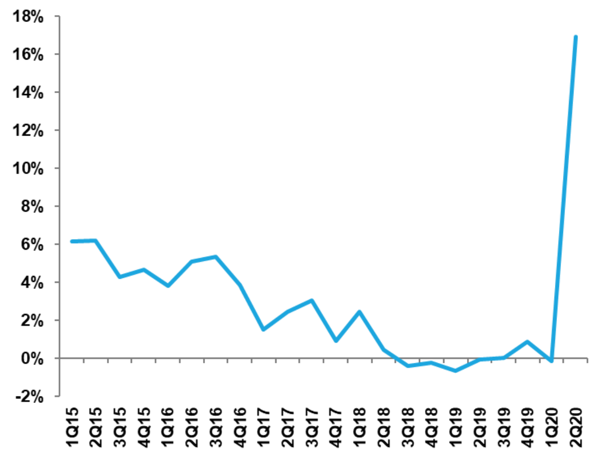
---

[7] Source: California State University Northridge. "Modern Economy 1919-1930."

Year-over-Year Change in Seated Dinners[8]



US Pizza Chain Same Store Sales Growth[9]



Despite the disparate performance observed across industries, in the market today the spread between CCCs and Bs (a simple measure of how steep the credit curve is, or how much investors are compensated for moving out the risk spectrum) is about as low as it's ever been (1st percentile).[10] Importantly, this is a measure in aggregate, not a reflection of each individual security or company in the market. Nonetheless, this shows a remarkable complacency few of us would have imagined possible 11 months ago.

Taken as a whole, we should be willing to risk overshooting rather than undershooting growth targets. With ten million unemployed, six million working part time in search of full-time work and four million who have dropped out of the workforce entirely, there is much to be done.[11] Government intervention in the form of stimulus checks, infrastructure investing and aid to cities and states will all be part of the solution. Historically, minimum wage increases have had a stimulative effect and target those most in need. Certainly, the sum of stimulative actions and the release of pent-up demand upon successful reopening will result in higher input costs and prices for various segments of the economy (as we are already observing in lumber prices, for example), however the K-shaped recovery we noted above is just as relevant in the conversation of inflation and the ultimate path of the broader economy. With rates at historic lows, we believe the Fed has plenty of levers to tap the brakes if needed. We are in an environment of conflicting undercurrents, despite the broad positive fundamental and technical factors in play. Once again, we are looking at this through the lenses of a generation for whom inflation has been a myth from years ago. We will be vigilant in assessing and reassessing inflation as the data present themselves.

Finally, coming off a year of unprecedented social unrest, we have seen several important warning signals that many feel the system is not working for them. I recently had the opportunity to discuss many of these issues, as well as the state of the markets, with Scarlet Fu on *Bloomberg*. The conversation we had is similar to conversations many of us are having about the state of the world and our role in how we build a better future for our children and grandchildren. This is what drives many of us in this work and why we must do more to get this right. If you'd like to view the interview, please click on this link.

President Biden told the country and the world in his brief but poignant remarks at the COVID memorial on the eve of his inauguration, "To heal, we must remember." If there is a lesson from 2020, that is it. We must remember the racial oppression that resulted in the awakening of a new civil rights movement. We must remember how interconnected the world is, as demonstrated by a global pandemic that touched every corner of the world. We must remember what happened when democracy was challenged and taken for

[8] Data as of October 27, 2020. Shows YoY change from September 30, 2019 to October 27, 2020. Source: Open Table.
[9] Data as of June 30, 2020. Source: Bain Capital Credit analysis and Cleveland Research. Graph shows the same store growth rate averaged across Domino's (US franchises), Pizza Hut (US branches) and Papa John's (North America franchises).
[10] Data as of February 2020. Source: Bain Capital Credit analysis.
[11] Source: Bureau of Labor Statistics as of January 2021.

granted. In remembering, we will heal and we will have a more just society, fairer economy and more reliable markets.

Sincerely,

Jonathan Lavine

Co-Managing Partner, Bain Capital, LP

CIO & Founder, Bain Capital Credit, LP

Please consider the following:

In this material Bain Capital Credit, LP, Bain Capital Credit (Australia), Pty. Ltd., Bain Capital Credit, Ltd., Bain Capital Investments (Europe) Limited, Bain Capital Investments (Ireland) Limited, Bain Capital Credit CLO Advisors, LP, Bain Capital Credit U.S. CLO Manager, LLC, Bain Capital Credit (Asia) Limited, and BCSF Advisors, LP are collectively referred to as "Bain Capital Credit", which are credit affiliates of Bain Capital, LP. Bain Capital Credit, LP, Bain Capital Credit CLO Advisors, LP, Bain Capital Credit U.S. CLO Manager, LLC, and BCSF Advisors, LP are investment advisers registered with the U.S. Securities and Exchange Commission (the "Commission"). Registration with the Commission does not constitute an endorsement by the Commission nor does it imply a certain level of skill or training. Bain Capital Credit (Australia), Pty. Ltd. is regulated by the Australian Securities and Investments Commission ("ASIC"). Bain Capital Credit, Ltd. and Bain Capital Investments (Europe) Limited are authorized and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom. Bain Capital Investments (Ireland) Limited is authorized by the Central Bank of Ireland. Bain Capital Credit (Asia) Limited and Bain Capital Private Equity (Asia) Limited are regulated by the Securities and Futures Commission in Hong Kong and are licensed to carry on Type 1 regulated activities under the Securities and Futures Ordinance. No securities commission or regulatory authority in the United States or in any other country has in any way passed upon the merits of an investment in a Bain Capital Credit investment vehicle or the accuracy or adequacy of the information or material contained herein or otherwise.

This written material provides a general introduction to Bain Capital Credit and its business and is intended for your sole use. It should not be relied upon as the basis for making any investment decision, entering into any transaction or for any other purpose.

Bain Capital Credit, its subsidiaries and affiliates and its and their respective employees, officers and agents make no representations as to the completeness and accuracy of any information contained within this written material. Information contained in this material is for informational purposes only and should not be construed as an offer or solicitation of any security or investment product, nor should it be interpreted to contain a recommendation for the sale or purchase of any security or investment product and is considered incomplete without the accompanying oral presentation and commentary.

Bain Capital Credit and its affiliates act for the funds and investment vehicles which they manage or advise (the "Vehicles") and will not be acting for anyone else. In particular, Bain Capital Credit will not advise potential investors on subscriptions in any Vehicle or co-investments and will not arrange transactions on behalf of anyone other than the Vehicles or provide advice on the merits of such transactions. No representative of Bain Capital Credit has the authority to represent otherwise. Bain Capital Credit is not responsible for providing you with the protections afforded to its clients and you are strongly advised to take your own legal, investment and tax advice from suitably qualified advisers.

An investment in the Vehicles is speculative and involves a high degree of risk, which may not be suitable for all investors. The Vehicles may often engage in leveraging and other speculative investment practices that may increase the risk of investment loss and the investments may be highly illiquid. The Vehicles are not required to provide periodic pricing or valuation information to investors. Investing in the Vehicles may involve complex tax structures, and there may be delays in distributing important tax information. Private funds are not subject to the same regulatory requirements as mutual funds, and private fund advisers and sponsors often charge high fees. An investment in the Vehicles involves a number of significant risks and other important factors relating to investments in limited partnerships generally, and relating to the structure and investment objectives of a given Vehicle in particular. Investors should consider risks associated with the following: illiquidity and restrictions on transfer; tax considerations; valuation risks, and impact of fees on returns. The foregoing list of risk factors does not purport to be a complete enumeration of the risks involved in an investment in the Vehicles. Prospective investors should reference the offering documents and consult with their own legal, tax and financial advisors before deciding to invest in the Vehicles. Refer to a particular Vehicle's offering documents for additional details, risk factors and other important considerations, including registration requirements for certain jurisdictions.

This material contains proprietary and confidential information and analysis and may not be distributed or duplicated without the express written consent of Bain Capital Credit or its affiliates. Distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation, or which would subject Bain Capital Credit or its affiliates to any registration requirement within such jurisdiction or country, is prohibited. By accepting this presentation, the recipient agrees to keep it confidential and return it promptly upon request.

The opinions and information contained in this material are provided for informational purposes only and represent the current good-faith views of the contributor at the time of preparation. These views are subject to change without notice of any kind. Contact your Bain Capital Credit representative for further information.

Like all investments, an investment in the Vehicles involves the risk of loss. Investment products such as the Vehicles are designed only for sophisticated investors who are able to sustain the loss of their investment. Accordingly, such investment products are not suitable for all investors.

Certain information contained herein are not purely historical in nature, but are "forward-looking statements," which can be identified by the use of terms such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe" (or negatives thereof) or other variations thereof. These statements are based on certain assumptions and are intended to illustrate hypothetical results under those assumptions (not all of which are specified herein). Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking statements. As a result, investors should not rely on such forward-looking statements.

Certain information contained in this presentation has been obtained from published and non-published sources and/or prepared by third-parties and in certain cases has not been updated through the date hereof. Such information has not been independently verified by Bain Capital Credit, and Bain Capital Credit does not assume responsibility for the accuracy of such information (or updating the presentation based on facts learned following its issuance). All information contained herein is subject to revision and the information set forth herein does not purport to be complete.

This material has been provided to you solely for your information and may not be copied, reproduced, further distributed to any other person or published, in whole or in part for any purpose without the express written consent of Bain Capital or affiliates. Any other person receiving this material should not rely upon its content.