

MARKET COMMENTARY | April 11, 2025

In the wake of the U.S. Presidential Administration's recent announcements of reciprocal trade tariffs, XA Investments LLC ("XAI") and Octagon Credit Investors, LLC ("Octagon") have seen large gyrations in equity and credit markets subsequent to the initial announcement through April 11, 2025.

In the current market environment, we believe that investors may benefit from complementing private credit investments with collateralized loan obligation (CLO) debt (tranche) exposure. This can work particularly well when CLO debt tranches, which differ from private credit since CLO debt tranches are mark-to-market securities, can be purchased at discounts to their par value, thereby potentially providing higher current yields and potential for total return.

As of April 11, 2025, spreads for BB CLO tranches have widened to 5.75%-7.50% over Secured Overnight Finance Rate (SOFR). As a result, CLO BB securities are currently yielding above 10% on a gross basis. Notably, CLO BB tranches issued in February 2025, when spreads were tight and coupons lower, have traded below their par value in the low- to mid-90s in early April.¹ Despite recent CLO debt tranche issuances at or near their par in February 2025, the recently issued tranches have lately traded down in order to reflect current market yields that have resulted from the tariff-driven market volatility.

It is our opinion that this dynamic can allow for potentially accretive "pull-to-par"² opportunities, which can accelerate total returns. CLO BB tranches may benefit from the same dynamic, given that CLO BB tranche spreads are calculated similar to a yield-to-maturity.³ If "pull-to-par" occurs before a CLO BB tranche's 5-year mark, there exists the possibility to produce accelerated returns well beyond the stated yields.

Octagon XAI CLO Income Fund provides investors with immediate exposure to a portfolio of BB-rated CLO debt tranches and it is our view that—barring a significant economic downturn—current CLO BB prices present relatively attractive and opportunistic entry points.

Source: Octagon Credit Investors

¹ Par value for credit securities is typically 100, which represents a value of \$1,000. A credit security purchased at a price of 90 would mean that the security was purchased for \$900.

² A dynamic that occurs when a credit security trades closer to par as it approaches its maturity.

³ CLO debt tranche yield to maturity calculations have an assumed accretion to par over an average life for newly issued CLOs (approximately 5 years).

Past performance is no guarantee of future results.

GLOSSARY OF TERMS

Coupon: The annual interest rate paid on a credit security, expressed as a percentage of the face value and paid from issue date until maturity.

Mark-to-market: Refers to the process of valuing investments based on current market price.

Par Value: The nominal value of an investments. This is the value investors will receive from a credit security upon its maturity. Par for credit securities is typically \$1,000 and is represented by a par value of 100.

SOFR: The Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

Tranche: Related securities that are portions of a deal or structured financing, but have different risks, return potential and/or maturities.

Yield Spread: The difference in yield between two different credit securities.

RISK CONSIDERATIONS

Investing involves risk, including the possible loss of your entire investment. There is no guarantee the Fund's investment objective will be achieved. Investing in interval funds may be speculative, involve a high degree of risk, and provide limited liquidity. The Octagon XAI CLO Income Fund (the "Fund") does not currently intend to list its shares for trading on any national securities exchange and does not expect any secondary trading market in the shares to develop. The shares are, therefore, not readily marketable. Even though the Fund will make quarterly repurchase offers to repurchase a portion of the shares to try to provide limited liquidity to shareholders, there is no guarantee that an investor will be able to sell all the shares the investor desires to sell in the repurchase offer. You should consider the shares to be illiquid. The Fund is new with limited operating history. The Fund invests at least 80% of its assets in CLO debt and CLO equity, which often involve risks that are different from or more acute than risks associated with other types of credit instruments. CLOs are a type of structured credit instrument. Credit ratings are provided by Nationally Recognized Statistical Rating Organizations (NRSROs). Below investment grade securities (that is, securities below Baa3- or below BBB- by an NRSRO) are not perceived to be as strong financially as those with higher credit ratings. Holders of structured credit instruments bear risks of the underlying investments, index or reference obligation as well as risks associated with the issuer of the instrument, which is often a special purpose vehicle, and may also be subject to counterparty risk. The Fund invests primarily in below investment grade credit instruments, which are commonly referred to as "high yield" securities or "junk" bonds. The Fund's shares are not guaranteed or endorsed by any bank or other insured depository institution and are not federally insured by the Federal Deposit Insurance Corporation.

Past performance does not guarantee future results. There is no assurance that the investment process will consistently lead to successful investing. The investment objective of the Fund is to provide high income and total return. There can be no assurance that the Fund will achieve its investment objective, and you could lose some or all of your investment. An investment in this Fund presents a number of risks and is not suitable for all investors.

Investors should carefully review the prospectus and consider potential risks before investing. These and other risk considerations are described in more detail in the Fund's prospectus and SAI, each of which can be found on the SEC's website at www.sec.gov or the Fund's web page at xainvestments.com/OCTIX.

The views and opinions herein are as of the date of publication and are subject to change without notice. There is no obligation to update the information contained herein. The views or opinions herein do not necessarily reflect the views of XAI, Octagon, the Fund or their affiliates. The information provided is for informational purposes only and should not be considered investment advice or a recommendation to buy or sell any particular security, strategy or investment product. The information provided contains forward-looking statements. Investors should not place undue reliance on forward-looking statements. Actual results could differ materially from those referenced in forward-looking statements for many reasons. Forward-looking statements are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying any forward-looking statements will not materialize or will vary significantly from actual results. Variations of assumptions and results may be material.

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