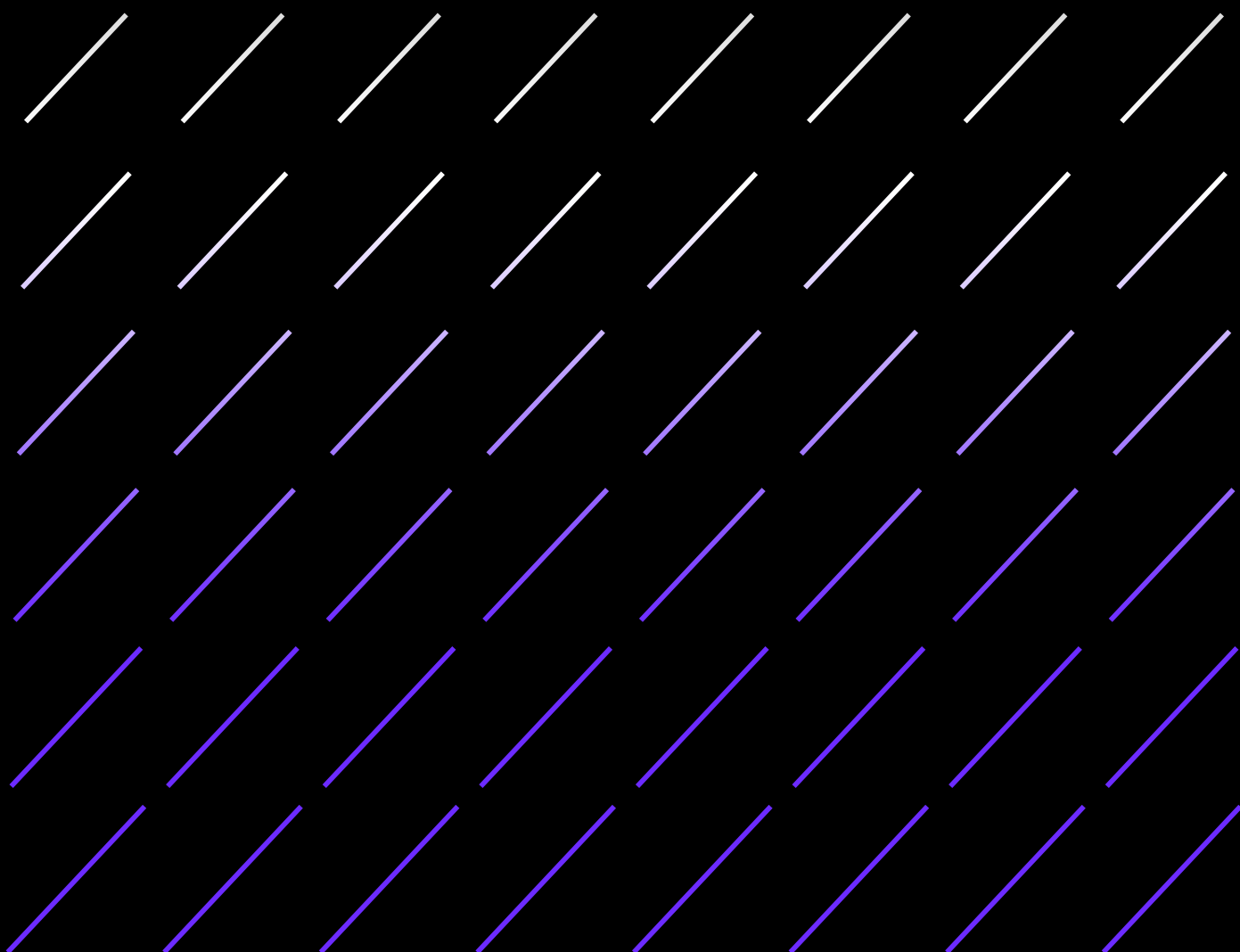


HFM US Performance Awards 2025

Winner's Interview Vibrant Capital Partners



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Kashyap Arora, Co-Chief Investment Officer and Managing Director of Vibrant Capital Partners, and Jeremy Hyatt, Co-Portfolio Manager, Managing Director & Head of Trading discuss their team's win at With Intelligence's US Performance Awards, where the firm's Vibrant Opportunity Fund was named best performer in the Relative Value Credit (up to \$500m) category, for the second consecutive year.

With Intelligence (WI): What does the recognition behind your recent HFM Performance Award win mean for the Vibrant Capital Partners team?

Kashyap Arora (KA): We are proud to receive this recognition from With Intelligence for the second consecutive year, which serves as validation of our investment approach, our team, and technology. Since inception, our success has been driven by our deep structured credit expertise and access, rigorous approach to portfolio construction and risk management, and commitment to creating long-term value for our investors. We are pleased to have these defining characteristics as well as the tireless efforts and dedication of the entire Vibrant team recognized by With Intelligence.

WI: Given current macro conditions, where do you see the most significant risks and opportunities in the CLO market over the next 12-18 months?

KA: Currently, HY corporates in the US are performing well, as evidenced by growing revenue and EBITDA margins, declining leverage, improving interest coverage and high cash-to-debt ratio. Technicals in the loan market have also been supportive with strong demand for floating rate assets and limited supply. While the broadly syndicated loan market size has not grown substantially since the end of 2021 due to lack of M&A/LBO activity and private credit taking market share from BSL, in aggregate, private credit has helped take away lower-rated credits

from the BSL loan market. Further, we have seen ~12% cumulative defaults over the last 3 years, which has also eradicated some of the weaker credits from the BSL market. Overall, while the loan market size hasn't increased since 2021, the underlying composition of the market is currently much healthier than it was in 2021.

The environment we are expecting over the next year can be characterized as having solid fundamentals for HY issuers and a modest default rate, with increased volatility in loan prices. We believe that this environment is conducive for CLO equity. Fundamentals and technicals in the BSL loan market have also been supportive over the past few years, and we expect that trend to continue.

The default rate within the leverage loan market will likely be rangebound in the 3% to 5% range. We expect these defaults to be contained and stemming from a) companies and business models getting disintermediated due to AI, b) weakening consumer fundamentals and slowdown in sectors driven by discretionary consumer spending, and c) supply-chain/tariff related concerns.

Additionally, we expect to see increased volatility in loan prices as we enter a lowering rate cycle. We are currently seeing an uptick in M&A activity and increased supply from LBO issuance, which may also lead to pockets of price volatility for loans, despite being a favorable development for the long run.

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WI: Are you seeing any evolving regulatory or liquidity trends that could meaningfully influence CLO issuance volumes or pricing dynamics going forward?

KA: One topical development in the CLO market has been the rapid growth of CLO ETFs. CLO ETF capital flows have the potential to meaningfully impact technicals in the CLO market, although we have not seen such an instance yet.

In the most recent episode of volatility in April, outflows from CLO ETFs were not significant and the supply was absorbed by the market in a very orderly manner. We expect the CLO ETF market size to continue to grow given the strong demand for floating-rate asset classes.

WI: How are you thinking about credit selection and sector tilts within CLO portfolios in this environment? Are there any industries you are actively avoiding or leaning into?

Jeremy Hyatt: Credit selection and underwriting are more important than ever as we continue to advance into the extra innings of the current credit cycle. The overarching theme when it comes to placing credits into CLO portfolios is to avoid highly cyclical credits with over-levered balance sheets. There are certain types of funds, appropriate prices, and moments in a cycle where it does make sense to invest in these types of credits. However, placing these credits into a

10x levered CLO vehicle impedes managers' ability to mitigate the downside risk in CLOs and preserve par.

In the current environment, it is tough to say that any industry is immune from macro risks, including navigating volatility around rapidly unfolding AI developments. With that said, there is a cohort of higher-quality credits that we believe is poised to perform going forward. While these loans may offer lower spreads (often paired with higher ratings), they provide a stable foundation for CLO portfolios, allowing managers to be nimbler in the future when there is an uptick in loan market volatility. We have been selectively adding to this cohort of BSL issuers.

Additionally, we have been selectively increasing exposure to our high-conviction core positions, which have continued to demonstrate strong free cash flow generation and resilient business models. We prefer this approach versus buying the broad market, as there are an increasing number of idiosyncratic situations developing on a weekly basis.

A few industries we are currently reducing our exposure to or have been underweighting for years include chemicals, given over-levered balance sheets and supply-demand imbalances, as well as legal and business services, given certain risks our AI re-underwriting analysis has identified.



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Kashyap Arora

Managing Director & Co-Chief
Investment Officer,
Vibrant Capital Partners

Mr. Arora is the Co-Chief Investment Officer and Managing Director of Vibrant Capital Partners. In this role, he oversees all investment-related activities with a focus on managing Vibrant's structured credit and special situations strategies. He is also involved in the build-out of the firm's new investment products and strategic business initiatives. Mr. Arora has been an active participant in the CLO market, investing across the capital structure. He led the workout of a large strategic portfolio of CLO equities during the Global Financial Crisis and has invested over \$10bn in the asset class over the last 17 years. Mr. Arora has been with Vibrant Capital Partners since the early stages of the company. He received an M.S. in Mathematics and Finance from Courant School of Mathematics at New York University and a B.Tech in Electrical Engineering from the Indian Institute of Technology, Madras, India.



Jeremy Hyatt

Co-Portfolio Manager, Managing
Director & Head of Trading,
Vibrant Capital Partners

Mr. Hyatt is a Managing Director and Co-Portfolio Manager for the Syndicated Credit Investment team. He also heads loan trading. Mr. Hyatt has been with Vibrant Capital Partners since 2013 with experience working across credit analysis, trading, capital markets, and CLO portfolio construction functions. He has about two decades of experience in financial services, the majority of which are in corporate credit analysis-specific roles. Prior to Vibrant Capital, he worked at Deutsche Bank and Lehman Brothers primarily focusing on performing due diligence and credit analysis on new and existing transactions in addition to providing governance and accountability around the lending processes across each bank's investment banking platforms. He received a B.S. (magna cum laude) in Finance from Quinnipiac University.

Congratulations to all of this year's winners!

The 2025 full winners list can be found [here](#).

