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Investment Grade Blue Owl Credit Income Corp – 3yr at 6%ytm +

By Kyle Lambert

The recent widening in the AU yield curve is providing investors an opportunity to obtain high quality investment grade issues at appealing outright yields (returns) and a second opportunity to add primary issues from preceding months at or very near their issue price.

One issue of note is the Blue Owl 6.50% 3year (Baa3 M/BBB- Fitch) issue which launched and priced in late October. IAM see value in this issue from a credit quality v return standpoint but also from a relative value viewpoint.

About the issuer

Blue Owl Credit Income Corporation (OCIC) is a perpetually non-traded business development company (BDC), headquartered in Maryland USA and formed on 22 April 2020. The company was formed under the Investment Company Act of 1940, and for Federal purposes is a regulated investment company under the Internal Revenue Code of 1986. As a result, they provide full documentation like other publicly listed BDCs including 10K and 10Q, as well as an 8K which provides line by line information on loans, sectors and other granular data.

As a tax exempt BDC, OCIC is required to pay out 90% of retained earnings to shareholders. OCIC Seeks to generate current income through a diverse, high-quality portfolio of predominantly senior secured, directly originated floating rate loans to U.S. middle and upper middle-market companies. OCIC investments are diversified across non-cyclical, recession resistant sectors, which are less sensitive to changes in demand.

OCIC is externally managed by Owl Rock Capital Advisors LLC, an indirect subsidiary of Blue Owl Capital Inc (NYSE: OWL) which is rated BBB+/BBB rated from Fitch and S&P respectively. OWL was formed through the merger between GP Strategic Capital and Dyal Capital. OCIC is also part of Owl Rock, a division of Blue Owl focused on direct lending.

Total Assets under management for OCIC is ~USD25B, second only to Blackstone's Private Credit Fund BCRED with USD51.7B in assets. The next major competitor is HPS Corporate

Lending HLEND with ~USD8.1B. OCIC's ~25B investment loan portfolio is defensive with the following features:

- Predominantly (92%) senior secured, and 88% are 1st Lien. 2nd Lien loans are typically larger companies that OCICI already have deep relationships with and often have a 1st Lien loan also in place.
- High diversification across borrowers with loans to over 350 companies as of August 2024. The average position size is 1-2% of the total portfolio.
- High diversification across industries, with loans spread over 31 industries. Management applies ESG overlays in the screening process, resulting in zero exposure to energy, cyclical companies, auto, tobacco, coal or firearm sectors, and limited exposure to companies that face the end consumer.

New Issuer Arbitrage - Why was the primary issue priced wide of comparable issues?

Blue Owl Income Corp, until last month, was an unknown name in the Australian debt market despite having a mature debt program in the US. As we see with many first-time issuers, the lack of familiarity with AU domestic accounts drives spreads wider than would normally be expected from a repeat issuer of the same credit quality (rating band). There are two key reasons why the recent Blue Owl issue was priced significantly wider than its US comparable issues and domestic corporate comp's:

1. Investors demand a New Issuer Concession to step outside the familiar AU domiciled issuers and into a new unknown first time issuer in AUD.
2. Blue Owl stated their intention to build an AUD debt curve, meaning they signaled that they intend to continue issuing into the AU market. Given this isn't a "one-off" issue, ensuring supporters of this inaugural raise had/have a good experience is key to their success in diversifying their predominantly USD program into AUD.

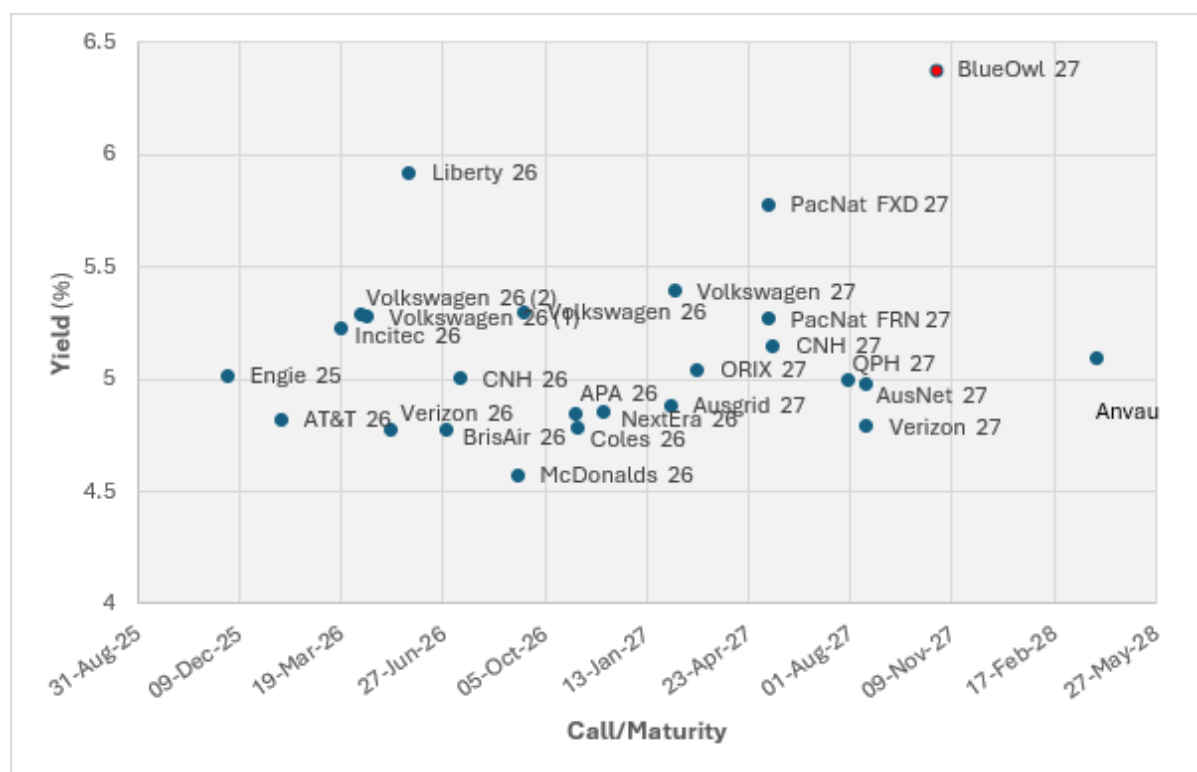
History shows us that the first or inaugural issue comes with the largest discount, and as the issuer becomes known and builds a defined issuance program, spreads tend to compress (normalise) to what we would expect to see from an issuer of this credit quality.

Blue Owl USD Relative Value

Issuer Name	Currency	ISIN	Cpn	Maturity	Yld to Mty	ASW (bps)
Blue Owl Credit Income Corp	AUD	AU3CB0314730	6.5	23/10/2027	6.375	235
Blue Owl Credit Income Corp	USD	US69120VAF85	4.7	8/02/2027	5.751	175
Blue Owl Credit Income Corp	USD	US69120VAP67	7.75	16/09/2027	5.910	204
Blue Owl Credit Income Corp	USD	US69120VAM37	3.125	23/09/2026	5.655	161

*Offer side prices across USD/AUD BO 2-3yr maturities.

A\$ Corporate Curve Relative Value (BBB bucket and 2-3yr Maturities)



*Source: Bloomberg

Recent Trading Update

By Patricia Gracis - Senior Credit Analyst at IAM

Blue Owl Capital Group LLC Q3 results provide some read through to Blue Owl Credit Income Corp (OCIC), who recently issued their inaugural 3y AUD bond in the Australian domestic market.

Overall, the Credit investment platform continues to perform well, with over 665 deals closed across its 7 BDC's (including OCIC) and seeing ongoing growth in Assets under management, to 128.4B (25B is OCIC) and 7.9B new equity capital entering the fund. Blue Owl's fee growth has continued to grow strongly up around 26%, stemming from the solid performance in the BDC's they manage and acquisitions.

To view supporting documents such as IAM Credit Opinion, Term sheet, and Information Memorandum, please contact your IAM Relationship Manager.

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