

Securitization

October 2025

United States of America National Credit Union Administration Structured Note Collateralization: Baron Bond NCUA DAFI™ Strategy (Revision 3)

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Foreward

The Institutional Insurance & Fixed Income Group (IIFG) provides comprehensive analysis on topics and strategies used with institutional insurance, fixed income and alternative investment programs. For this installment, **KPMG Cambodia Ltd.** collaborates with **Baron Point Capital Management Ltd.** on securitization techniques, applied to structured bonds and their positive application, utilizing an Aa1 High Investment-Grade Notes collateralization with share certificates (CDs) insured by the **National Credit Union Administration (NCUA)** for principal protection of a secured bond offering. The NCUA is an American government-backed insurer of credit unions.

This white paper is a result of a successful securitization effort, **GBCB Series I Pcl., Baron Bond NCUA DAFI™ Strategy**, listed on the Cambodia Securities Exchange (CSX). Therefore, some sections in this white paper are **informed by our core focus on emerging markets in Southeast Asia (Indochina)** and the GBCB placement. However, the **Baron Bond NCUA DAFI™ is applicable in any jurisdiction where there is a need for Aa1 principal protection, bespoke maturity asset-liability matches at scale, in a note with a High Investment-Grade principal guarantee priced to compete with high yield bonds.**

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01 Executive Summary

The Baron Bond NCUA Series introduces a transformative fixed-income solution for institutional investors by delivering **High Investment-Grade principal protection with the potential for high yield returns**. While the Baron Bond structure's genesis is emerging markets, where there are constraints given limited liquidity, scarce high-quality assets, and a lack of long-dated investment options, the **National Credit Union Administration (NCUA)** Baron Bond NCUA Series can be implemented in any jurisdiction. With an expected explicit Aa1/AA+ Moody's/S&P global rating for its share certificate (CD) collateralization, this securitization offers superior credit quality, predictable cash flows, high yield, and global tradability.

Backed by the NCUA, U.S. federally insured, Aa1/AA+ rated zero-coupon like securities, Baron Bond NCUA guarantees **100% principal protection** at maturity, addressing return *of* capital concerns. The programme's **bankruptcy-remote** Segregated Portfolio (SP) isolates cash flows from several economic risks. Offering flexible 5–30-year maturities, aligning with long-term liability schedules, and an **effective total coupon priced [50 to 151] basis points better than ICE BofA Single-B US High Yield Index Effective Yield, in a collateralization rated 12-notches better in quality**, the maturity coupon is paid as a bullet at maturity and an annual coupon for yearly cashflows. Baron Bond NCUA delivers the potential for high yield returns without compromising the safety of the high investment-grade annual coupon and principal guarantee.

The regulator for credit unions in the U.S. is the **National Credit Union Administration (NCUA)**, which is a separate and distinct regulator from that of commercial banks. The NCUA is an independent federal agency that charters, supervises, and insures federal credit unions throughout the U.S.. NCUA also oversees the **National Credit Union Share Insurance Fund (NCUSIF)**, which protects member deposits in credit unions. Therefore, the activities of credit unions are considered far more conservative than the Global Banks' complex balance sheet exposure. **Institutional**

investors tend to already find themselves heavily exposed to Global Bank paper. A Baron Bond NCUA asset allocation results in diversification away from Global Bank exposure.

Baron Bond NCUA offers the debt capital marketplace an alternative to Global Bank paper, because the NCUA CD collateralization is superior and possesses an Aa1 federal insured piece of paper. At the same time, the effective yield of the bonds offers the potential for high yield rates of return.

Appointing an Administrator (Bondholder Representative) pursuant to the issuing jurisdiction's regulatory framework for the SP, combined with the potential for a global listing on Euroclear and Clearstream, Baron Bond NCUA bridges local and international markets. Its inaugural US\$500 million shelf-registered issuance, scalable to over US\$1 billion, **leverages Baron Point's proven expertise, evidenced by prior landmark A3-rated structured notes in Indochina under similar circumstances.**

Key features for Baron Bonds include:

- **High Investment-Grade Quality:** Expected Aa1/AA+ explicit global rating affords exposure to a High Investment-Grade CD collateralization, enabling robust asset-liability matching at scale with a high investment-grade guarantee.
- **Principal Protection:** Return *of* capital concerns are addressed as the collateralization is guaranteed by NCUA U.S. federally insured, Aa1/AA+ rated, zero-coupon CDs.
- **High Yield: DAFI™ Strategy** linkage boosts return, offering superior credit quality combined with a high yield maturity coupon return paid as a bullet at maturity.
- **Liquidity Potential:** Marginability and repo capabilities at the U.S. Federal Reserve Discount Window, the securities can also be listed to promote liquidity in major financial centres, addressing secondary market limitations.
- **Regulatory Alignment:** Compliance with local regulations, with involvement of reputable firms like **KPMG, EY, Northern Trust, Moody's/S&P**, and other top-tier global

banks and services providers, enhance transparency and reliability.

Principal Protection via NCUA, in a U.S. federally insured CD collateralization

The Baron Bond NCUA ensures 100% principal protection through NCUA, U.S. federally insured, Aa1/AA+ rated zero-coupon share certificates (CDs) issued by well-capitalized credit unions. These CDs are backed by the **National Credit Union Share Insurance Fund (NCUSIF)**, which carries the full faith and credit of the U.S. government, achieving an Aa1/AA+ rating. Purchased at a discount, the CDs accrue and mature at face value on the maturity date, guaranteeing capital repayment. A 1-year coupon defeasance, held in a ring-fenced account, can be made available annually, secured by the NCUA credit for the annual cashflow portion of the coupon, enhancing payment stability. Whereas the principal protection and the ring-fenced maturity coupon are paid as a bullet, at maturity, providing high yield return potential.

This structure, combined with a bankruptcy-remote SP, mitigates issuer concentration and systemic risks, making the Baron Bond NCUA a secure choice for **institutional investors seeking to diversify away from concentrated Global Bank paper portfolio exposure.**

The Baron Bond NCUA Series empowers institutional investors to meet regulatory requirements, match long-dated liabilities, and optimize portfolios with a high-quality, globally recognized asset.

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02 Introduction and Market Context

Overview of Structured Notes

Structured notes are hybrid financial instruments that combine elements of traditional fixed-income securities, such as notes and bonds, with derivative components to offer tailored risk-return profiles and additional maturity and liquidity options along the yield curve. **Unlike conventional bonds, which typically provide fixed interest payments and principal repayment tied to a company's operational cash flows and business cycle risk, structured notes link returns to the performance of underlying assets, such as senior debt obligations from a global bank or in this white paper's case, NCUA, U.S. federally insured, Aa1/AA+ rated zero-coupon CDs ("High Investment-Grade") incorporated to provide principal repayment in the form of a capital guarantee at maturity, and equity, bond, and/or commodity strategies as linkage for coupon enhancement.** This flexibility makes structured notes appealing to institutional investors seeking customized solutions that balance safety, the potential for liquidity in secondary markets, and possible enhanced returns, while also **allowing the structured note to be tailored to specific maturities or credit profiles, with a depth of market that may be completely lacking in the corporate or government note and bond market at any given point in time.**

Structured notes have gained prominence globally in the institutional markets due to their ability to address diverse investment, credit, liquidity, and maturity objectives. As of 2023, the global market for structured notes reached approximately **US\$7 trillion** in outstanding value, reflecting their growing role within the financial landscape. **Structured notes can offer exposure to High Investment-Grade principal protection and liquidity pools with tailored long-dated maturities to help a life insurance company deploy more annuities and life insurance products by supporting the exact asset-liability match the insurance company desires in its liability-driven strategy.** Additionally, they can do the same for a pension plan needing to match its retirement

liability profile against long-dated note or bond maturities, or a bank, looking to lengthen its maturities to match long-dated financial products, such as mortgages, or for excess liquidity at the bank, to capture higher yields with less risk.

Although Baron Point's expertise in structuring such products has been generally focused on emerging markets, as evidenced by their successful work in Southeast Asia, with work achieved at the Central Bank of Thailand (BOT) and a **landmark** structured note issuance (explicitly rated A3 by Moody's), Baron Bond NCUA's to be discussed in this white paper with NCUA U.S. federally insured paper works particularly well in both developed markets as well as the emerging markets.

Baron Bond NCUAs are expected to be explicitly rated Aa1/AA+ Moody's/S&P for their CD collateralization, and this bespoke structure aligns with the needs of institutional investors, particularly life insurance companies, pension plans, and banks, which require long-term, High Investment-Grade maturities to match against their long-term liabilities. Baron Bond NCUA includes a high yield feature called DAFI™, which targets to boost the effective yield through an effective total coupon priced [50 to 151] basis points better than ICE BofA Single-B US High Yield Index Effective Yield, in a collateralization that is 12-notches better in quality.

By combining a fixed coupon paid at maturity with principal protection and high yield, this High Investment-Grade fixed-income asset, with potential liquidity through marginability and in the secondary markets, improves on the typical default risk of many countries' local bonds.

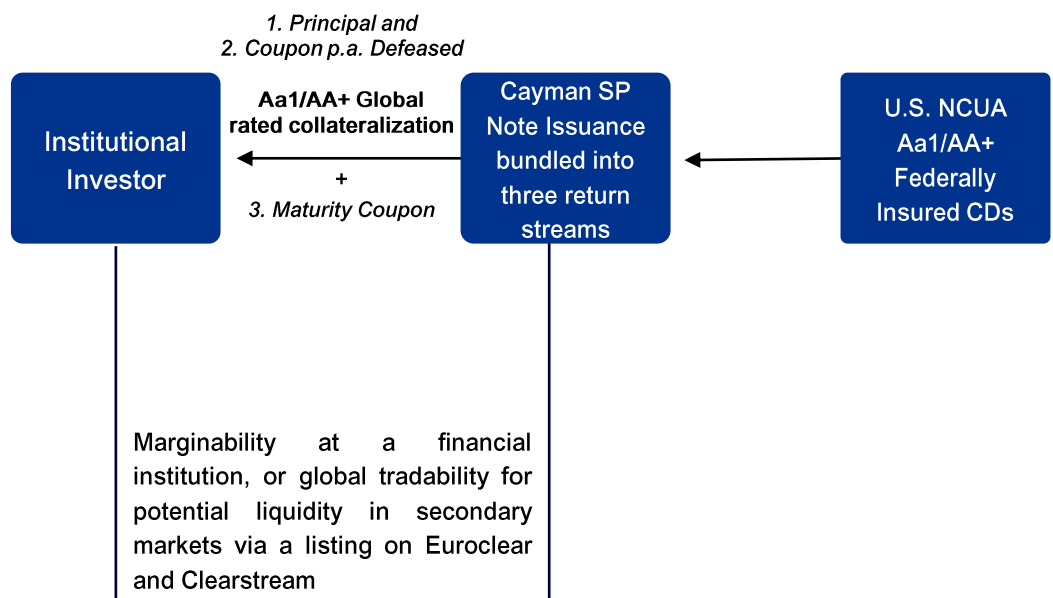
Repack Logic: The Mechanics of the Baron Bond NCUA Series

The concept of “**repackaging**” or, as Wall Street calls them, “**repacks,**” lies at the heart of the Baron Bond NCUA Series' structure. Repackaged securities (Repacks) involve an issuer, typically a Segregated Portfolio (SP), acquiring a financial asset (e.g., a high investment-grade bill of exchange, certificate of deposit, note, or bond) and issuing a new security backed by that

asset (the “Issuance” or “Notes”). This process enhances the original asset’s appeal by restructuring its terms, improving credit quality, adding protective features, and it also can be structured to offer high yield. The Baron Bond NCUA Issuance is available for liquidity at the U.S. Federal Reserve Discount Window, is marginable at participating financial institutions, or can be listed on Euroclear and Clearstream based on the underlying high-grade collateralization, NCUA, U.S. federally insured, Aa1/AA+ rated zero-coupon CDs (“NCUA Aa1 U.S. Federally Insured CD collateralization”). This collateralization guarantees the principal and annual coupon, and a maturity coupon, paid as a bullet at maturity, provides the potential for the high yield through a Global Bank **bundled security**.

To summarize, the Issuance passes through the cash flows from the NCUA Aa1 U.S. Federally Insured CD collateralization promise to pay, while adding the high yield maturity coupon.

Figure 1: Repack transaction flow



Source: Indicative Structuring Provided by Baron Point Financial LLC For Illustrative Purposes, only. Any References to Terms & Conditions, And Any Third Parties Are Not a Representation of Any Party’s Ability or Willingness to Transact.

The repack logic offers several advantages:

First, it leverages the creditworthiness of an NCUA Aa1 U.S. Federally Insured CD collateralization, whose guarantee ensures

investors recover their principal at maturity with an annual cashflow in the form of a coupon. This mirrors Baron Point's earlier approach in structured note issuances in Indochina, where bills of exchange from medium High Investment-Grade credit-rated banks with a custodian (rated A3 by Moody's at the time) backed the explicitly rated note issuances.

Second, repackaging allows for customization, enabling the issuer to tailor Baron Bond's terms (e.g., 10-year tenor, with principal paid at maturity as a bullet) to meet the matching needs of institutional investors.

Third, the SP structure isolates risk, ensuring that the bond's cash flows are insulated from the issuer's financial health, a critical feature for **bankruptcy remoteness**.

Fourth, the effective high yield, in the case of the Baron Bond NCUA DAFI™ Strategy, is priced [50 to 151] basis points better than ICE BofA Single-B US High Yield Index Effective Yield, in a collateralization 12-notches better in quality, with the maturity dependant on the maturity match the institutional investor specifically desires.

Moody's methodology for rating Repacks, as applied to the Indochina structured note issued by Baron Point SPs, which emphasized the credit quality of the underlying collateralized Bill of Exchange (rated A3 by Moody's in a prior **landmark** issuance) and structural safeguards like **ring-fencing** and **bankruptcy remoteness**. By applying similar principles, the Baron Bond NCUA structured note offering expects to achieve an explicit Aa1/AA+ global rating (Moody's/S&P) in its collateralization, thereby signalling **high investment-grade quality**.

Importance of Principal Protection via NCUA, U.S. federally insured CD collateralization

High Investment-Grade principal protection is a critical feature for Baron Bond NCUA. Additionally, the long-dated tenors of the Baron Bond NCUA DAFI™ Strategy align with global trends in liability-driven investing, where institutions seek long-duration assets to match future long-term obligations. This is especially the case in

emerging markets, where long-term investment maturities may be scarce, and credit quality is not that high. The Baron Bond NCUA DAFI™ Strategy provides a potential competitive edge.

The Baron Bond NCUA DAFI™ Strategy ensures 100% principal protection through NCUA, U.S. federally insured, Aa1/AA+ rated zero-coupon Certificates of Deposit (CDs) issued by well-capitalized credit unions. These CDs are backed by the U.S. National Credit Union Share Insurance Fund, achieving an Aa1/AA+ rating. Purchased at a discount, the CDs accrue to 100% and mature at face value, guaranteeing capital repayment. A 1-year coupon defeasance, held in a ring-fenced account, secures a portion of the coupon, enhancing payment stability against local market volatility. This structure, combined with a bankruptcy-remote SP, **mitigates issuer concentration and systemic risks**, making the Global Depository Note (GDN) issued in the Baron Bond NCUA DAFI™ Strategy a secure choice for risk-averse institutional investors. Moreover, its effective yield on the coupon is structured and priced to compete with the Single-B U.S. High Yield market.

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03 Repack Mechanics and Emerging Markets

Overview of Repackaging in Institutional Structures

Repackaging is a foundational technique in structured finance, enabling the transformation of standardized financial instruments into tailored securities that meet the nuanced demands of institutional portfolios. **Structured notes allow for the consolidation of high-quality assets into bankruptcy-remote investment vehicles that isolate credit exposure, ensure structural transparency, and align with regulatory capital requirements.**

Repackaged fixed-income structures are designed to deliver long-duration stability, principal protection, and, in the case of Baron Bond NCUA DAFI™ Strategy, a High Investment-Grade credit quality with maturities and cash flows tailored to the bespoke liability-driven needs of institutional investors.

These instruments are not intended to pursue speculative returns; instead, they prioritize return *of* capital in a Aa1/A2 collateralization, bespoke maturity scheduling, cash flow predictability during the life of the security and at maturity, high yield. Baron Bond NCUA DAFI™ Strategy are an effective risk segmentation with transparency, core requirements for life insurance companies, pension plans, and bank treasury departments (“Noteholder” or “Noteholders”) managing longer-term liabilities under a regulatory capital regime.

Baron Bond NCUA: An alternative to Global Bank Paper Exposure

The regulator for credit unions in the United States is the National Credit Union Administration (NCUA). The NCUA is an independent federal agency that charters, supervises, and insures federal credit unions. NCUA also oversees the U.S. National Credit Union Share Insurance Fund (NCUSIF), which protects member deposits in credit unions. Therefore, the activities of credit unions are

considered far more conservative than the Global Banks' complex balance sheet exposure. **A Baron Bond NCUA asset allocation results in diversification for institutional investors, who tend to already find themselves heavily exposed to Global Bank paper.** Baron Bond NCUA afford the debt capital marketplace an alternative to Global Bank paper, and the NCUA Aa1 U.S. Federally Insured CD collateralization is a superior credit quality with less systematic risk when compared to Global Bank issued paper.

Structuring the Baron Bond NCUA Series

The Baron Bond NCUA Series leverages repackaged securities (Repacks) to create high-credit quality, high yield, and potentially liquid investment vehicles designed for the institutional marketplace. A Repack transaction utilizes a Segregated Portfolio (SP), with the Note series listed globally on Euroclear and Clearstream (Deutsche Börse). The Issuance repackages financial assets in the form of NCUA Aa1 U.S. Federally Insured CD collateralization and then re-issues a new security financially engineered for superior credit quality, tailored to a bespoke maturity, in a structure designed to be tradable in the major global financial centres of the world. The Baron Bond NCUA DAFI™ Strategy programme repackages principal protection from a NCUA Aa1 U.S. Federally Insured CD collateralization, subsequently packing it as a structured note that offers an annual coupon and a maturity coupon paid as a bullet at maturity through an effective total coupon priced [50 to 151] basis points better than ICE BofA Single-B US High Yield Index Effective Yield, in a collateralization 12-notches better in quality for the 100% principal protection guaranteed by the underlying collateralized NCUA, U.S. federally insured, Aa1/AA+ rated zero-coupon CDs (Please see Figure 1, Page 4, in the prior section).

The **bundled note** aligns with the priorities of institutional investors who benefit from explicit High Investment-Grade rated securities and CD collateralization being placed on the books, at maturity schedules that complement the institutional investors' liability schedule, in an issuance that strives to ensure stability in

compliance within global regulatory frameworks, while promoting a structure that is designed to be tradable in the global markets.

Step-by-Step Breakdown of the Repack Transaction

Baron Point orchestrates the Repack through a series of deliberate, transparent steps, prioritizing high-credit quality and a structure that promotes liquidity while ensuring structural integrity. The process integrates cash flows from the CD collateralization with mechanisms to enhance market accessibility, all the while maintaining a High Investment-Grade credit profile with the potential for high yield.

Key steps involved are:

1. SP Formation and Asset Acquisition

Baron Point establishes an SP, fully compliant under the local and global authorities. The SP acquires principal protection in the form of a NCUA CD security collateralization, U.S. federally insured Aa1/AA+ rated zero-coupons, which guarantee 100% principal repayment at maturity. This allocation serves as the foundation for the collateralization, leveraging the National Credit Union Share Insurance Fund's (NCUSIF) full faith and credit of the U.S. government to secure the Issuance's principal guarantee and the annual coupon.

2. Integration of Credit Enhancement Mechanisms

The SP series incorporates credit enhancement features, including the principal guarantee from the NCUA Aa1 U.S. Federally Insured CD collateralization and the SP's **ring-fenced structure**, to achieve an explicit Aa1/AA+ global High Investment-Grade rating. These mechanisms ensure that the Note maintains high-credit quality, providing a risk-based security enhancement on the investors' balance sheet and with the regulator. This results in a secure investment option for risk-averse institutional investors looking to match assets and liabilities and grow their book of financial products, policyholders, and plan participants.

3. Issuance of the Structured Note

The SP shelf-registers a targeted amount of underlying CD collateralization issued to it by the NCUA. The structured note issuance features a maturity range of 5 to 30 years with an effective total coupon priced [50 to 151] basis points better than ICE BofA Single-B U.S. High Yield Index Effective Yield, in a collateralization 12-notches better in quality, a portion of which is paid as an annual coupon with the maturity coupon paid at maturity as a bullet along with the full principal protection repaid at maturity, as discussed earlier.

4. Bankruptcy-remoteness

The Repack mechanism enhances credit stability through the SP's bankruptcy-remote structure, isolating cash flows from the SP's financial condition and ensuring uninterrupted payments at maturity to investors. **The bankruptcy-remote structure is therefore ring-fenced, ensuring that credit risks reside solely with the underlying asset and not the structuring entity.** Backed by the principal guarantee of the NCUA U.S. federally insured Aa1/AA+ rated zero-coupon CD collateralization, this framework delivers high-creditworthiness and scale with the potential for liquidity at the U.S. Federal Discount Window, manageability at a bank, or the potential for a secondary market. As a high-quality issuance on demand at scale, Baron Bond NCUA establishes a programme as the standard for long-dated maturity offerings for institutional investors.

5. Post funding, the Issuance is U.S. Federal Reserve Admissible

The security is admissible at the U.S. Federal Reserve Discount Window, a form of deep liquidity for the Note, or it can be margined at a bank.

Figure 2: Risk segmentation and mitigation

Layer	Exposure	Risk Mitigation
Underlying Asset	Credit & maturity risk	High Investment-Grade CD collateralization; NCUA, U.S. federally insured, Aa1/AA+ rated zero-coupon CDs in-line with maturities that match the liabilities of the institutional investor
SP	Issuer risk	Legally ring-fenced; governed under a global regulatory framework
The Notes	Liquidity	Admissible at the U.S. Federal Reserve Discount Window, as a form of deep liquidity, as well as marginable at a bank
Maturity Coupon Strategy Overlay (synthetic only)	Market risk exposure	Volatility capped; principal and base annual coupon cashflows guaranteed by High Investment-Grade CD collateralization

Source: Indicative Structuring Provided by Baron Point Financial LLC For Illustrative Purposes, only. Any References to Terms & Conditions, And Any Third Parties Are Not a Representation of Any Parties' Ability or Willingness to Transact.

6. Liquidity and Cash Flow Distribution

The Notes are admissible at the U.S. Federal Reserve Discount Window, a form of deep liquidity throughout the Note's tenor, and can be margined at a bank.

Cash flows from the CD collateralization are channelled through the Issuance and credited to the investor as coupon payments are paid annually, and for the maturity coupon and principal as a bullet at maturity, ensuring reliability and the consistency needed to fund annual costs, and a long-term liability. At maturity, the custodian also repays the principal, which the Issuance passes through to Noteholders, reinforcing capital preservation.

7. Risk Isolation

The Issuance isolates the transaction from any SP balance sheet risks, ensuring that cash flows are paid at maturity and remain unaffected by external financial conditions. The risk segmentation and mitigation techniques discussed above align with the asset-liability matching needs of life insurance firms, pension plans, banks, and asset managers, which often seek capital-efficient structures to meet their financial product, policyholder, or plan sponsor obligations while reducing exposure to issuer-specific risks for high yield or principal guarantees.

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Focus Box: Summarizing the Strategic Benefits of Baron Bonds

The Repack mechanics of the Baron Bond NCUA Series are tailored to meet the specific needs of life insurance companies, pension plans, banks, and asset managers emphasizing:

1. High Investment-Grade Quality CD collateralization.

High-grade global credit quality promotes stability and liability matching against long-dated financial products, policyholder and/or retirement plan obligations. There may also be a balance sheet benefit under risk-based capital requirements given the Noteholder is using a High Investment-Grade CD collateralization as the asset to match its liability.

2. Bespoke Maturity Issuances On-Demand.

The maturities issued in the Baron Bond NCUA are based on specific institutional investor needs to match specific long-dated maturity schedules. In the case of a life insurance company or pension plan, they benefit from the flexible tailoring in the 5 to 30-year maturity range. This tenor lock-in is customized to align with the specific liability maturity schedules needed, on-demand.

For banks, the same applies. The Baron Bond NCUA can be structured to address long-dated financial products, such as mortgages, as well as excess shorter-term liquidity, where banks are often constrained by a lack of quality loans to be made, while operating in a high-growth economy where their deposits are growing fast.

3. High Yield.

Priced at [50 to 151] basis points better than ICE BofA Single-B US High Yield Index Effective Yield, in a collateralization 12-notches better in quality in this securitization effort, the yield on the Baron Bond NCUA

DAFI™ Strategy investment is priced to be attractive, providing predictable cash flows, with maturities that match liability payouts, enabling proactive liability-driven investment portfolio management for the specific maturity needs of institutional investors.

Moreover, Noteholders' returns can be further enhanced through repurchase agreements (Repos) programs, post-listing, which can grow returns on the Baron Bond NCUA DAFI™ Strategy investment even further.

4. U.S. Federal Reserve Liquidity.

Baron Bond NCUA are admissible at the U.S. Federal Reserve Discount Window for liquid, are marginable at a bank.

Structural Safeguards and Credit Rating Rationale

Baron Point embeds robust structural safeguards to ensure the programme's High Investment-Grade credit CD collateralization. It aligns with the methodologies of leading rating agencies such as Moody's, S&P, and Fitch for repackaged securities. The SP's bankruptcy-remote structure isolates cash flows from the SP or Baron Point's financial condition, ensuring cash flow payments at maturity to investors, a critical consideration for risk-averse institutions. The principal guarantee from the NCUA CD collateralization, U.S. federally insured Aa1/AA+ rated zero-coupons underpin the expected High Investment-Grade global rating, reflecting the high-credit quality of the underlying CD collateralization.

Rating agency methodologies emphasize the creditworthiness of the CD collateralization provider and structural protections such as ring-fencing and bankruptcy remoteness. These criteria are satisfied through the SP structure, supporting the Note's High Investment-Grade status. The Notes seek to deliver the credit stability and scale that institutions desire for their long-dated maturity matching.

Alignment with Global Standards and Local Dynamics

Baron Bond NCUA adhere to global financial standards, and are admissible as a CD collateralization used at the U.S. Federal Reserve Discount Window. Baron Bond NCUA address the lack of long-dated High Investment-Grade CD collateralization maturities at scale, with a best-of-breed high yield fixed-income security under the regulatory authorities. Better credit quality on balance sheets of the institutional investor, global liquidity, and, in the case of insurance companies, banks, pension plans, and asset managers, more long-dated financial products, policyholders and plan participants are covered by a superior quality CD collateralization for asset-liability matching.

04 Credit Rating Logic

Overview of Credit Rating Importance in Structured Finance

Credit ratings anchor institutional investment decisions by delivering a standardized measure of credit risk for regulatory compliance and balance sheet management. In the context of structured finance, ratings are particularly critical, as they evaluate the creditworthiness of new instruments like the Baron Bond NCUA Series' Issuance, which combines principal protection with high yield features. For institutional investors such as life insurance companies, pension plans, banks, and asset managers, credit ratings are a key determinant of an asset's eligibility to match long-term liabilities while meeting stringent regulatory capital requirements. A *global* high-credit rating signals stability, reduces perceived risk, and enhances marketability for investors prioritizing capital preservation.

Baron Bond NCUA: Expecting an Explicit Aa1/AA+ Global Rating for its Collateralization

The Baron Bond NCUA Series' issuance is expected to achieve an Aa1/AA+ explicit Moody's/S&P global High Investment-Grade rating on its CD collateralization portfolio, a significant achievement reflecting its robust structural safeguards and high-quality CD collateralization. This expected explicit global rating, assigned directly to the Issuance's CD collateralization portfolio rather than implied, emerges from a direct evaluation of the Issuance's structure and risk mitigation. The Baron Bond NCUA employs U.S. federally insured, Aa1/AA+ rated zero-coupon CDs, backed by the National Credit Union Share Insurance Fund (NCUSIF) and the full faith and credit of the U.S. government (as validated by Moody's Pre-Sale Report 2024, available on request to support the evaluation of the Issuance). A bankruptcy-remote Segregated Portfolio (SP) isolates the Issuance from local sovereign risks, delivering High Investment-Grade quality that surpasses emerging market constraints.

The expected explicit global High Investment-Grade rating on the CD collateralization underscores the programme's ability to deliver high credit quality, far exceeding the limitations of local markets, which are often constrained by lower sovereign ratings. By achieving this expected explicit global rating, the Baron Bond NCUA CD collateralization offers institutional investors access to a superior, globally recognized, high-quality fixed-income asset structured to compete with the high yield market's pricing.

Explicit vs. Implied Ratings: Piercing the Sovereign Ceiling

A key differentiator of the Baron Bond NCUA Series is its CD collateralization portfolio's expected explicit High Investment-Grade global rating. Moody's, S&P, and/or Fitch assign this global High Investment-Grade rating directly to the Issuance's CD collateralization portfolio, after rigorously evaluating its structure, the NCUA U.S. federally insured Aa1/AA+ rated zero-coupon CDs, and the risk mitigation mechanisms employed by Baron Bond NCUA. In contrast, implied ratings rely on the perception of an issuer's probability of default and a guarantor's potential intervention, lacking the rigor of direct assessment.

In markets with constrained sovereign ratings, the NCUA Baron Bond's expected Aa1/AA+ explicit global rating, backed by the NCUSIF and the SP structure, can cause it to surpass local ceilings and single-issuer risks, positioning it as a High Investment-Grade debt exposure on the balance sheet, delivering high yield. The ability to pierce sovereign ceilings is a critical advantage in lower-rated sovereign markets, as well as emerging markets, where the lack of High Investment-Grade options and available maturities along the yield curve often limits institutional portfolios' ability to grow. Local securities may rely on implied ratings subject to sovereign risk or unreliable third-party guarantees, which have proven vulnerable during stressed conditions with delayed or withheld payouts (e.g., see the case of Lehman Brothers and the 2008 Financial Crisis in America). The expected explicit global rating of the Baron Bond NCUA issuance's CD collateralization, supported by NCUA, U.S. federally insured

CDs, ensures greater reliability and investor confidence, positioning it as a superior alternative for risk-averse institutions seeking to grow their financial product, insurance or retirement plan sponsor books.

Local vs. Global Ratings

For institutional investors navigating nascent emerging debt capital markets, the distinction between local and global credit ratings is pivotal when assessing fixed-income securities like the Baron Bond NCUA Series. **Local rating scales, such as AAA(local) from domestic agencies, evaluate credit quality within constrained financial ecosystems, while *global* ratings from Moody's, S&P, and Fitch provide a universally recognized benchmark of credit risk, applicable in global markets where local ratings are often not admissible.**

Limitations of Local Ratings

Local ratings assess creditworthiness relative to domestic markets but are inherently capped by the region's sovereign rating, reflecting elevated economic and political risks that limit the credit quality of locally rated government and corporate bonds. Domestic rating agencies often employ less rigorous methodologies, lacking the transparency and depth of global counterparts, and local ratings are rarely recognized outside their jurisdictions. The absence of an active secondary market further hampers liquidity, rendering locally rated securities illiquid and less appealing for institutions seeking tradable assets in global debt capital markets or to meet regulatory capital requirements.

Strengths of Global Ratings

Global ratings from Moody's, S&P, and Fitch are grounded in robust, transparent methodologies that evaluate credit risk across global markets and asset classes. These agencies assess securities like Baron Bond NCUA by analyzing collateral quality (e.g., NCUA, U.S. federally insured, Aa1/AA+ rated zero-coupon CDs), structural safeguards, and risk mitigation mechanisms, such as the bankruptcy-remote SP. **Global ratings can pierce sovereign ceilings, enabling Baron Bond NCUA to achieve an expected**

Aa1/AA+ explicit global rating that surpasses local constraints.

This global credibility enhances marketability, supports liquidity in major money centre banks and at the U.S. Federal Reserve Discount Window, and aligns with the stringent mandates of risk-averse institutional investors.

In emerging debt capital markets, where High Investment-Grade, long-dated, and liquid securities are scarce, the **Baron Bond NCUA Series redefines High Investment-Grade fixed-income investing. By leveraging global ratings to deliver a sovereign-agnostic, high-quality asset, Baron Bond NCUA empowers institutional investors to better meet regulatory capital requirements, match long-dated liabilities, and optimize portfolios with unparalleled liability-driven flexibility, establishing new benchmarks for credit and yields.**

Figure 3: Baron Bond NCUA's Global Rating Advantage over Local Alternatives

Aspect	Local Ratings (AAA(Local))	Global Ratings (Moody's/S&P)	Baron Bond NCUA Advantage
Global Credibility	Capped by a speculative-grade sovereign rating, AAA(local) lacks global confidence, limiting market access.	Universally and globally recognized, piercing sovereign ceilings with rigorous assessments.	Delivers unmatched High Investment-Grade Aa1/AA+ global rating via NCUA, U.S. federally insured, Aa1/AA+ rated CDs, promoting trust and confidence in emerging markets and global tradability.
Liquidity	Illiquid, with virtually no secondary market, hindering portfolio liquidity.	Promotes transparency and liquidity in global financial hubs via the U.S. Federal Reserve Discount Window.	Admissible at the U.S. Federal Reserve Discount Window promoting liquidity options for institutional investors.

Risk Mitigation	Exposed to local economic cycles and sovereign risks.	Isolates investments from local risks with sovereign-agnostic structures.	Sovereign-agnostic SP and NCUA, U.S. federally insured CDs ensure stable cash flows and full principal protection for return <u>of</u> capital.
Rigorous Methodology	Simplified, lacking depth for complex structures, reducing reliability.	Sophisticated models and stress-tests validate credit quality.	Moody's/S&P validates robust credit quality via principal guarantees and 1-year coupon defeasance for 10-year+ Baron Bond NCUA.
Superior Credit Quality	Speculative-grade status at the sovereign limits liability matching and regulatory capital requirement options.	Delivers High Investment-Grade stability for institutional mandates.	Expected High Investment-Grade Aa1/AA+ rating enables insurers and pension plans to match long-dated liabilities with high-quality assets.
Regulatory Alignment	Local debt capital market options complicate global viability and standards.	Meets global and local standards, enhancing trust.	Compliance with global regulatory frameworks ensures alignment with international standards.
Yield and Safety	Risky, low relative yield at the speculative default exposure range for credit investments.	Balances higher yields with High Investment-Grade principal protection and coupon guarantees.	For 10-year tenor, effective coupon priced [50 to 151] basis points better than ICE BofA Single-B U.S. High Yield Index Effective Yield, with a 100% High Investment-Grade guarantee, surpassing local yield and credit options.

Source: *Baron Point Financial LLC*

Structural Safeguards Supporting the High Investment-Grade Rating

The expected Aa1/AA+ explicit global rating of the Baron Bond NCUA CD collateralization underpins a series of structural safeguards designed to ensure credit stability and alignment with the methodologies of leading rating agencies like Moody's, S&P, and Fitch. These safeguards focus on isolating risk, enhancing credit quality, and ensuring predictable cash flows at maturity, which are essential for institutional investors managing long-term liabilities.

- 1. NCUA Aa1 U.S. Federally Insured CD collateralization'**
Principal Guarantee: The issuance is backed by principal-protection provided through CD collateralization that is U.S. federally insured, and rated Aa1/AA+, issued by well-capitalized credit unions and backed by the NCUSIF and the full faith and credit of the U.S. government. This guarantee ensures 100% principal repayment at maturity, mitigating credit and maturity risk. The CD collateralization's Aa1/AA+ global rating forms the foundation of the Issuance's credit quality, directly contributing to its High Investment-Grade status.
- 2. Bankruptcy-Remote SP Structure:** The SP, which facilitates the Repack transaction, is structured to be bankruptcy-remote, isolating cash flows from Baron Point's financial condition or other external risks. This ring-fenced structure ensures that the Issuance's cash flows, comprising annual coupons paid, as well as the maturity coupon and principal paid as a bullet at maturity and principal repayment, are unaffected by the SP's or Baron Point's financial health, a critical feature for maintaining credit stability.
- 3. Credit Enhancement Mechanisms:** The issuance incorporates additional credit enhancement features, such as a 1-year coupon defeasance for 10-year+ maturities, held in a ring-fenced account and secured by collateralized NCUA U.S. federally insured CDs. This defeasance reduces risk, ensuring a portion of the coupon is backed by a high-quality CD

collateralization, enhancing the overall credit profile of the Issuance.

4. **Regulatory Compliance and Market Accessibility:** The Issuance complies with global regulatory standards, providing comfort to investors and aligning with local and international regulatory frameworks. Additionally, liquidity is derived from the fact that the Baron Bond NCUA are admissible at the U.S. Federal Reserve Discount Window. These factors, considered by rating agencies, enhance the Issuance's creditworthiness.
5. **Moody's, S&P, and Fitch** methodologies for rating repackaged securities emphasize the credit quality of the underlying CD collateralization and the robustness of structural protections. The Baron Bond NCUA issuance satisfies these criteria through its U.S. federally insured, Aa1/AA+ rated zero-coupon CDs, SP ring-fencing, and credit enhancement features, ensuring a High Investment-Grade global rating that reflects high quality credit and reliability.

Alignment with Fitch and Moody's Methodologies

Fitch and Moody's evaluate Equity-Linked Notes (ELNs) and repackaged securities (Repacks), focusing on single- and multi-name ELNs (Fitch) and single-tranche Repacks (Moody's). Both agencies assess credit risk through quantitative and qualitative factors, where repayment hinges on underlying asset performance. The Baron Bond NCUA structure was developed to align with these methodologies, as detailed below.

Figure 4: Alignment with Fitch and Moody's Ratings

Assessment	Fitch Ratings	Moody's Ratings	Baron Bond NCUA Alignment
Asset-Level Risk	Weakest-link principle based on lowest-rated risk-presenting entity (RPE) (e.g., Issuer Default Rating)	Expected loss via asset/guarantor rating; weighted average expected loss cap rate (WAEL) at 3 notches above weakest	High-rated CD collateralization (Aa1/AA+ global rating) avoid rating caps and ensures high baseline rating
Swap Counterparty Risk	Swap counterparty treated as RPE; rating capped if not de-linked	Assumes unwind if unhedged; loss = liquidation proceeds + adjusted termination	No swap dependency; principal guaranteed by NCUA, U.S. federally insured CDs
Credit Default Swap (CDS) Overlays	CDS counterparties are RPEs; default triggers termination, caps rating	CDS-related losses assessed; termination payment may cap rating unless subordinated	No CDS used; cash-only structure avoids synthetic risks
Country Ceilings	Rating capped at issuance currency's Country Ceiling unless Forex mitigants apply	Forex risk adjusted in loss severity; no hard ceiling	Forex risks avoided through USD structure; global rating not capped by local sovereign ceilings
Other Structural Risks	One-notch downgrade if restructuring = credit event	Declines to rate if prepayment/termination risks not clearly defined	Clean bullet maturity, no optionality, no early prepayment exposure
Sovereign Linkage	Sovereign risk via RPE; up to 2-notch uplift if mitigated	Indirectly reflected in asset/counterparty rating; uplift possible if mitigants	Bankruptcy-remote SP + for non-US markets, offshore NCUA, U.S. federally insured CDs ensures sovereign-agnostic structure and full global rating separation

Source: Fitch Ratings, Moody's Ratings, and Baron Point Financial LLC

- **Fitch's Approach:** Fitch assigns ELN ratings using the weakest-link principle, focusing on the lowest-rated risk-presenting entity (RPE), such as the CD collateralization in Baron Bond NCUA. Fitch applies the RPE's Issuer Default Rating (IDR) but may use derivative or deposit ratings if more reflective of risk. The NCUA Baron Bond's Aa1/AA+ globally rated CD collateralization ensures a high baseline global rating, mitigating weaker-link risks.
- **Moody's Approach:** Moody's determines expected loss for repack assets like the NCUA Baron Bond's CD collateralization, using the NCUA, U.S. federally insured CDs' Aa1/AA+ global rating in cash structures without swaps. For exchangeable securities, Moody's caps ratings at three notches above the lowest-rated reference class. The NCUA Baron Bond's single high-quality CD collateralization avoids such caps, aligning with Moody's Idealized Expected Loss table.

Swap Counterparty Risk

- **Fitch's Approach:** Fitch treats swap counterparties as RPEs unless de-linked per its Counterparty Rating Criteria. A counterparty's default triggers early termination, potentially capping the rating. Baron Bond NCUA avoids this risk by not relying on swaps, focusing on NCUA, U.S. federally insured CDs for principal repayment.
- **Moody's Approach:** Moody's calculates expected loss from a counterparty default, assuming an unwind if unhedged, analyzing liquidation proceeds adjusted for currency fluctuations and termination payments. NCUA Baron Bond's structure minimizes swap dependency, aligning with Moody's low-loss expectations.

CDS Overlays

- **Fitch's Approach:** Fitch identifies Credit Default Swap (CDS) counterparties as RPEs in synthetic ELNs, where a default triggers termination and caps ratings unless de-linked. Baron Bond NCUA are a cash structure, avoiding CDS

overlays, ensuring the global rating reflects the NCUA, U.S. federally insured CDs' credit quality.

- **Moody's Approach:** Moody's observes that synthetic repack losses stem from defaults in underlying assets or CDS counterparties, with termination payments potentially capping ratings. Baron Bond NCUA's cash structure avoids these risks, supporting its expected Aa1/AA+ explicit global rating.

Country Ceilings

- **Fitch's Approach:** Fitch caps ELN ratings at the Country Ceiling of the issuance currency unless Forex mitigants apply. Baron Bond NCUA prevents this by structuring in USD, leveraging NCUA, U.S. federally insured, Aa1/AA+ rated CDs from a stable jurisdiction (U.S.), ensuring the global rating reflects the CD collateralization's credit quality, free from local ceilings.
- **Moody's Approach:** Moody's adjusts loss severity for currency mismatch in swap scenarios, with no hard ceiling. Baron Bond NCUA mitigate this by issuing in USD and using NCUA, U.S. federally insured CDs, with the SP's structure insulating cash flows from local volatility, supporting the Aa1/AA+ rating.

Methodology for Sovereign Linkage

- **Fitch's Approach:** Fitch links sovereign risk to ELN ratings through the RPE's rating, allowing a two-notch uplift if mitigated, but caps ratings at Country Ceilings unless Forex mitigants apply. Baron Bond NCUA transcend this by using NCUA, U.S. federally insured, Aa1/AA+ rated CDs as the RPE, with the SP's bankruptcy-remote structure and USD denomination eliminating sovereign risk, ensuring the Aa1/AA+ rating reflects global standing.

Moody's Approach: Moody's incorporates sovereign risk through asset or counterparty ratings, permitting uplift if mitigants exist. Baron Bond NCUA anchor with CD collateralization, U.S. federally

insured from a stable jurisdiction, with the SP and global listings ensuring transferability, achieving the Aa1/AA+ rating that pierces local ceilings.

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05 Structuring with Mode 1 or Mode 2 Structures

Defining Mode 1 and Mode 2 Structures

The Baron Bond NCUA Series employs one of two distinct structures, Mode 1 and Mode 2, to deliver a principal-protected, Investment-Grade asset with high yield for institutional investors. Mode 1 ensures capital preservation and a coupon through a high-rated global bank note, while Mode 2 utilizes collateralized NCUA, U.S. federally insured, Aa1/AA+ rated zero-coupon CDs, backed by the National Credit Union Share Insurance Fund (NCUSIF) and the full faith and credit of the U.S. government, and a ring-fenced maturity coupon strategy issued by a Global Bank for the high yield, balancing safety of principal protection with high yield optimization.

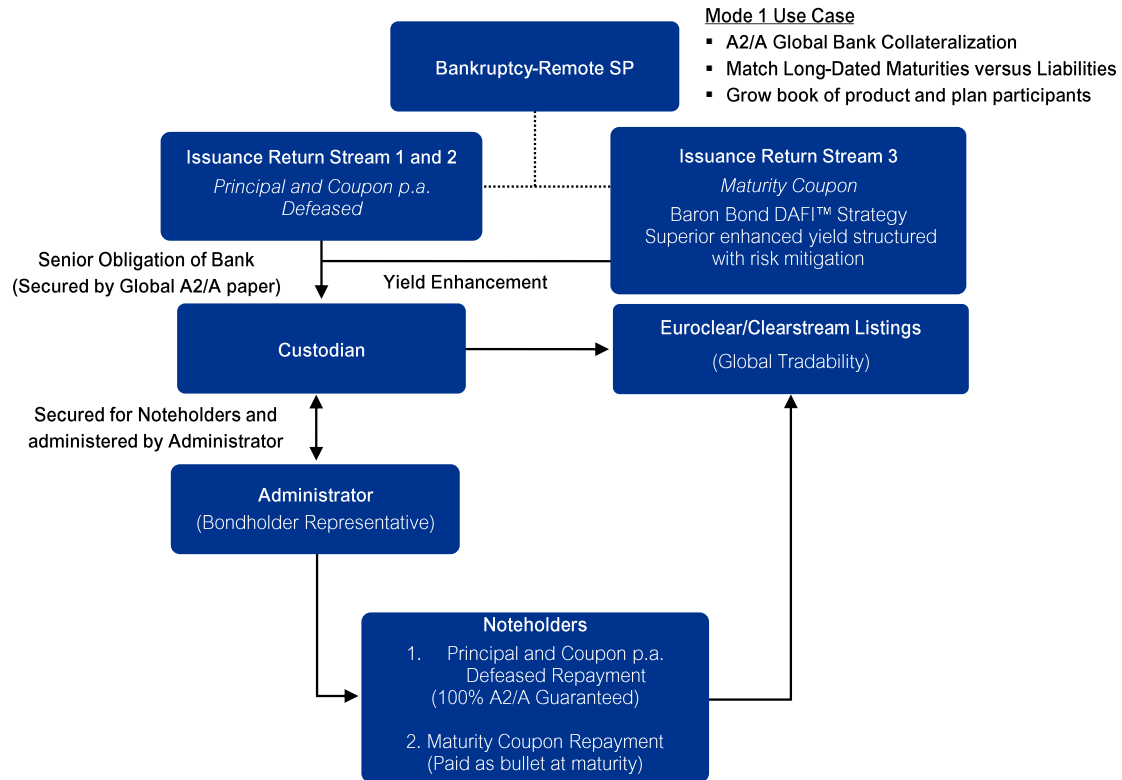
Both modes anchor the Baron Bond NCUA DAFI™ Strategy, relying on a principal-protected product from a top global bank's senior debt obligation or an NCUA U.S. federally insured Aa1/AA+ rated zero-coupon CD tenor-linked collateralization.

Both collateralizations guarantee 100% principal repayment at maturity, mitigating credit, maturity, and annual coupon risks.

The CD collateralization portfolio is held at an Aa2/AA+ custodian for the benefit of Noteholders in the Issuance. It generates stable cash flows at maturity to fund the principal protection and, for maturities of 10 years or longer, a 1-year coupon defeasance paid as a bullet at maturity, held in a ring-fenced account. **This structure ensures predictable cash flows and capital preservation, addressing the core needs of risk-averse institutions like life insurance companies, banks, and pension plans, who prioritize stability, dependable cash flows, and return *of* capital at maturity.**

Mode 1 Structure: Principal Protection and High Yield via Global Bank Note

Figure 5: Mode 1 Global Bank Structure

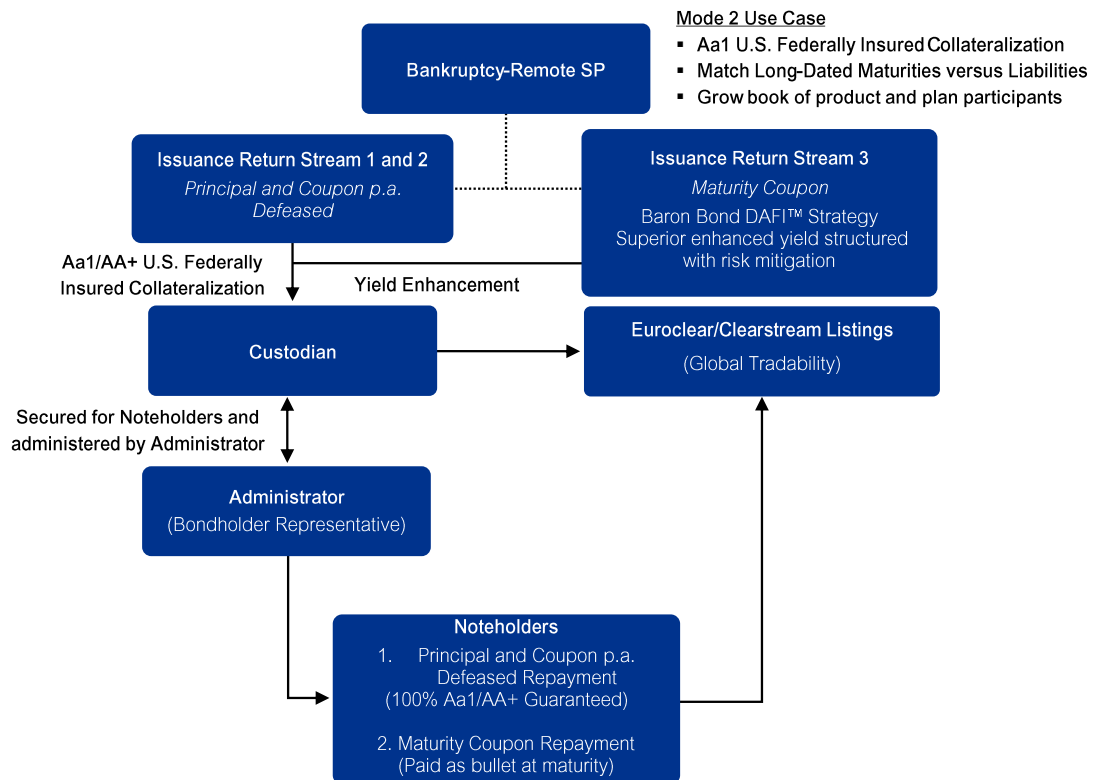


Source: Indicative structuring provided by Baron Point Financial LLC for illustrative purposes only. Any references to terms and conditions, and any third parties are not a representation of any parties' ability or willingness to transact.

Mode 1 anchors the programme with a senior debt obligation from a global bank rated Aa1/AA+ (by Moody's/Fitch), or better. This note guarantees 100% principal repayment at maturity, mitigating credit and maturity risks. Secured at a custodian for Noteholders, it ensures stable cash flows and, for maturities of 10 years or longer, a 1-year coupon defeasance paid as a bullet at maturity. **This structure delivers capital preservation, critical for risk-averse institutions, while achieving an expected Aa1/AA+ explicit global credit rating for its CD collateralization, piercing local sovereign ceilings.**

Mode 2 Structure: Principal Protection and High Yield via U.S. Federally Insured Paper and a Global Bank Security for the Maturity Coupon

Figure 6: Mode 2 NCUA Structure



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Mode 2 enhances returns using U.S. federally insured Aa1/AA+ rated zero-coupon CD collateralization, secured at the Aa2/AA+ custodian, linked in a risk-mitigated structure with Global Bank security tied to the DAFI™ Strategy. This delivers an effective total coupon priced [50 to 151] basis points better than ICE BofA Single-B US High Yield Index Effective Yield, paid as a bullet at maturity for 10-year+ issuances, with 1-year coupon defeasance ensuring stability. **Mode 2 delivers capital preservation, critical for risk-averse institutions, while achieving an expected explicit Aa1/AA+ global credit rating for its CD collateralization portfolio, piercing local sovereign ceilings.**

Strategic Benefits of Mode 1 and Mode 2

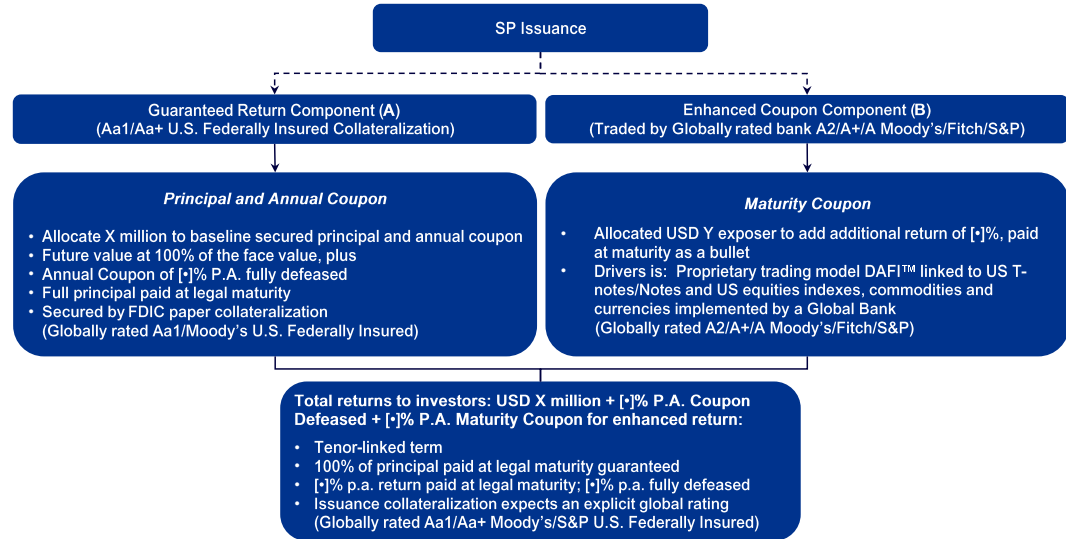
The options of Mode 1 or Mode 2 structures deliver tailored solutions for institutional investors. Mode 1 leverages an unsecured note from a global bank rated Aa1/AA+ by Moody's/Fitch, underpinned by a bankruptcy-remote SP, to insulate the Issuance from local sovereign constraints, delivering a sovereign-agnostic structure with exceptional credit stability. The Issuance is tied to the DAFI™ Strategy, achieving an effective total coupon priced [50 to 151] basis points better than ICE BofA Single-B US High Yield Index Effective Yield, addressing the need for superior yields while preserving High Investment-Grade safety.

Mode 2 employs U.S. federally insured Aa1/AA+ rated zero-coupon CD collateralization, secured at a Aa2/AA+ custodian, alongside a security implemented by a Global Bank and tied to the DAFI™ Strategy, achieving the enhanced coupon priced [50 to 151] basis points better than ICE BofA Single-B US High Yield Index Effective Yield. This addresses the needs of institutions for reliable High Investment-Grade rated return **of** capital, competitive high yields, and bespoke tenor-linked maturities.

The Baron Bond NCUA DAFI™ Strategy, with its dual-mode options, stands as a flagship High Investment-Grade debt capital markets security, redefining high Investment-Grade fixed-income investing.

Overview of Mode 2 NCUA Repack Capital Allocation

Figure 7: Mode 2 NCUA Repack Capital Allocation



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06 Conclusions and Key Takeaways

Baron Bond NCUA is applicable in any jurisdiction where there is a need for Aa1 principal protection, bespoke tenor-linked maturities for asset-liability matching at scale, in a note priced to compete with the high yield market. Baron Bond NCUA delivers a High Investment-Grade, principal-protected structured note with attractive yields, addressing the critical needs of institutional investors.

With an expected Aa1/AA+ Moody's/S&P explicit global rating for its CD collateralization, the Baron Bond NCUA DAFI™ Strategy transcends market limitations, offering a sovereign-agnostic, high-quality asset that empowers life insurance companies, pension plans, banks, and asset managers to achieve regulatory compliance, match long-term liabilities, and enhance portfolio performance with high yields. By leveraging global debt capital market standards and Baron Point's proven Wall Street structuring expertise, the Baron Bond NCUA Series sets a new benchmark.

Key Takeaways

- **Unmatched Credit Quality:** The expected Aa1/AA+ Moody's/S&P explicit High Investment-Grade global rating, backed by U.S. federally insured Aa1/AA+ rated zero-coupon CD collateralization, pierces local speculative-grade sovereign ceilings in many markets, far surpassing AAA(local) ratings. This enables insurers to grow policy writing, banks to underwrite more mortgages, and pension plans to secure more retiree obligations with a stable, High Investment-Grade asset.
- **Principal Protection and Risk Mitigation:** A bankruptcy-remote SP and U.S. federally insured Aa1/AA+ rated zero-coupon CD collateralization ensures 100% principal repayment and stable cash flows, insulating investors from local economic cycles.
- **Enhanced Returns:** The DAFI™ Strategy linkage delivers an effective total coupon priced [50 to 151] basis points better

than ICE BofA Single-B US High Yield Index Effective Yield, in a collateralization 12-notches better in quality, paid as a bullet at maturity, offering matching or better yields compared to far riskier high yield bonds.

- **Liquidity and Tradability:** Admissible via the U.S. Federal Reserve Discount Window enhances liquidity, enabling institutional investors to optimize liquidity via margin, repurchase agreements, and potentially via global tradability, allowing portfolio adjustments dynamically.
- **Regulatory and Structural Integrity:** Aligned with global regulatory frameworks, the involvement of reputable firms and alignment with Moody's/S&P methodologies enhance transparency and investor confidence, critical for risk-averse institutions.
- **Tailored for Institutional Needs:** Flexible 5–30-year maturities align with long-dated liability schedules, supporting liability-driven investment strategies for insurers and pension plans, and offering banks a high-quality asset to capture yield in high-growth economies.

Strategic Implications

The Baron Bond NCUA Series fills a critical gap, globally, where its high quality CD collateralization combines with high yield. Its sovereign-agnostic design, robust structural safeguards, and global market integration position it as a leading fixed income solution with high yield.

Institutional investors are encouraged to implement the Baron Bond NCUA DAFI™ Strategy to strengthen and diversify balance sheet exposure, meet regulatory mandates, and unlock growth opportunities. **General insurers can match long-term policy liabilities, pension plans can secure retiree payouts, and banks can optimize excess liquidity and issue more long dated financial products with a tradable, high-quality asset. Backed by Baron Point's track record and global-standard structuring, the Baron Bond NCUA establishes a new paradigm for High Investment-Grade fixed-income investing, with High Yield.**

07 Disclosure Appendix

Disclosure Appendix

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