1WS Credit Income Fund

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2nd Quarter Review & Outlook

June
2024

Our internal thoughts regarding the current and future investment environment are summarized in the following pages. Market expectations for future Fed activity appear to remain the dominant driver of Treasury yields, and we believe this is likely to continue for the remainder of the year. Q2 2024 was largely a continuation of the market themes and macro backdrop of the previous two quarters. It would appear as if the market's baseline expectation is for inflation to continue it's slow decent towards the Fed's target. While the pace of decline may have postponed the path of future rate cut expectations, confidence that the rate hiking cycle has peaked and that the economy continues to be supported by a resilient consumer (and strong labor market) has continued to advance market valuations. Interest rate volatility, while off of recent highs, remains elevated, while equity volatility remains near record lows (Exhibit 2).

As corporate credit spreads have broadly narrowed, the incremental risk premia for moving lower in credit has declined to decade lows in many cases. For instance, based on corporate credit indices, the premium for moving from the lowest rated investment grade corporates (BBB) to the highest rated non-investment grade (BB) corporates has compressed to just 26 bps currently. That is the lowest spread pick-up for moving from investment grade to non-investment grade within the corporate sector in more than a decade, and nearly 100 bps less than the 10-year average (Exhibit 3).

In contrast, credit spreads within many structured credit sectors remain well off their tights on a historical basis, and wide relative to unsecured corporate credit alternatives. For instance, within the consumer ABS sector, benchmark (BB) rated subprime auto spreads are currently trading ~ +5bps over the high-yield corporate index (Exhibit 4), which is ~ +175 bps more than the 10-year average. While off of their wides, we believe this continues to represent some of the more compelling relative value opportunities within the credit market. In addition, credit curves within many sectors of structured credit remain relatively steep.

Structured credit securities are not homogeneous, even within narrowly defined subsectors of the market. We believe that complexity and fundamental uncertainty results in higher risk premia and increasing opportunities for investors with the requisite underwriting capabilities to identify the most compelling opportunities. The fundamental performance of seemingly similar securities can vary dramatically based on differences in underlying vintage, collateral characteristics, loan originator, and deal structure. In an environment with a high level of dispersion, security level underwriting is obviously critical to identifying embedded risks and selecting the most attractive risk-adjusted return opportunities.

In addition, we believe that having an informed perspective across public and private markets is increasingly valuable in identifying the best relative risk-adjusted return opportunities. Participation across sectors, spanning both public and private markets, may identify proprietary investment opportunities and inform value across transaction types.

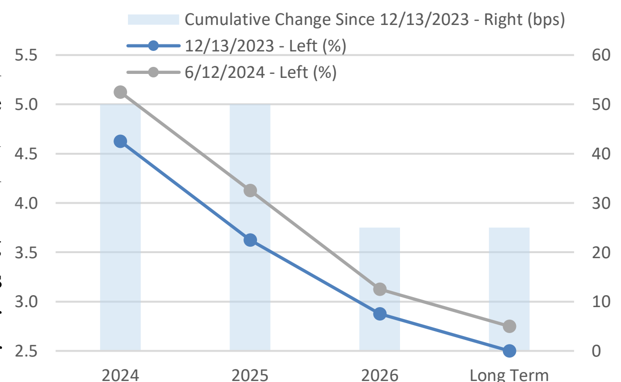
June 30th, 2024

The 1WS Credit Income Fund (the "Fund") is a closed-end interval fund launched in March 2019. As of June 30th, 2024, the Fund has gross assets under management of approximately $375 million (approximately $328 million net assets). The Fund is a non-diversified, closed-end investment management company with an investment objective seeking attractive risk-adjusted total returns through generating income and capital appreciation by investing primarily in a wide array of predominantly structured credit and securitized debt instruments.

Overview

The market's expectations for future Fed activity appears to remain the dominant driver of Treasury yields and, we believe, are likely to remain so for the remainder of the year. At the end of last year, market participants had fully embraced the belief that the Fed had slayed the inflation dragon and that the Fed hiking cycle had peaked and the path forward would be easing in 2024. This was reinforced by the dovish tone of Fed Chair Powell at the December 2023 FOMC meeting, along with revised dot plots, which indicated the Fed's base line forecast for 2024 was for three 25bps rate cuts. However, a series of surprising inflation and labor market reports during 1Q24 appears to have re-ignited the "higher for longer" mantra and markets have repriced rate cut expectations to be slower to start and perhaps fewer to be realized. The Fed, in it's most recent updated outlook, revised higher their expectations for growth and inflation while reducing their expectation for future rate cuts in their forward dot plots (Exhibit 1).

Exhibit 1:
Fed Has Reduced Future Rate Cuts Expectations
Median FOMC DOT Pots



Sources: Bloomberg Finance L.P., OWS

In our opinion, the second quarter was largely a continuation of the market themes and macro backdrop in play during Q1. It would appear as if the market's baseline expectation is for inflation to continue it's slow decent towards the Fed's target, and while the pace of decline may have postponed the path of future rate cut expectations, confidence that the rate hiking cycle has peaked and the economy continues to be supported by a resilient consumer and strong labor market has continued to support equities and credit market valuations. Interest rate volatility, while off of recent highs, remains elevated, while equity volatility remains near record lows (Exhibit 2).

Net Return Performance as of 06/30/24*	MTD	YTD	1 YR	3 YR (Ann.)	5 YR (Ann.)	ITD (3/4/19)
1WS Credit Income Fund (OWSCX) Class I shares	0.77%	6.15%	12.89%	6.42%	7.27%	46.34%
1WS Credit Income Fund (OWSAX) Class A-2 shares	0.68%	5.83%	12.24%	5.77%	6.56%	41.21%
Bloomberg Barclays U.S. Aggregate Bond Index[1]	0.95%	-0.71%	2.63%	-3.02%	-0.23%	4.05%
ICE BofAML U.S. High Yield Index[2]	0.93%	2.85%	10.41%	1.63%	3.72%	24.28%

Source: Bloomberg, Finance L.P., Bank of America, OWS

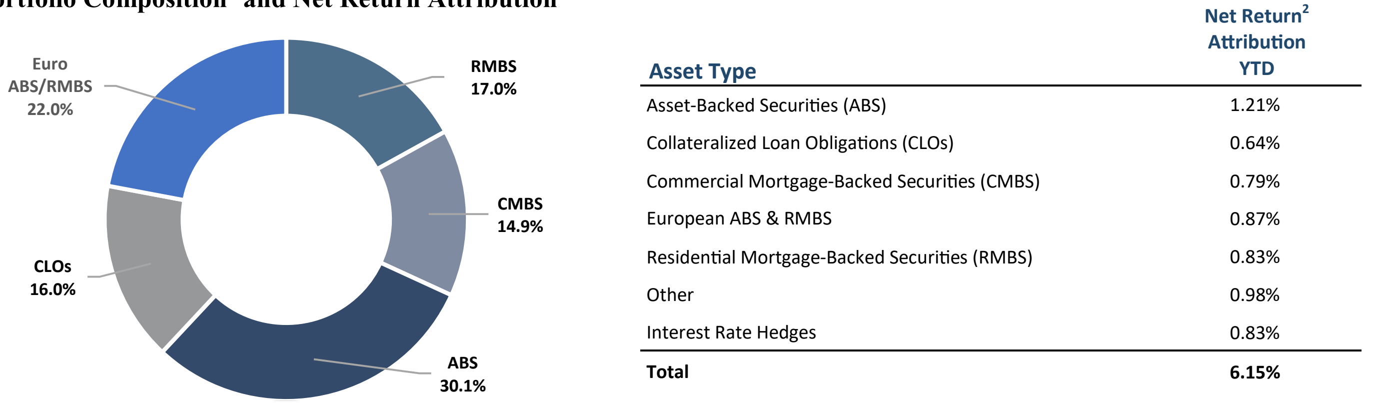
Past performance is not indicative of future returns.

* *OWSCX returns are presented net of all fees and expenses, benchmark returns are gross. Please see pp. 10-12 for important risk disclosures and definitions.*
OWSAX returns prior to May 2021 reflect the performance of Class I shares, adjusted to reflect the distribution and shareholder servicing fees applicable to Class A2 shares. Class A2 shares are subject to an upfront sales load of up to 3%, which is not reflected in the returns shown above and, if applied, would lower such returns. Management Fee: under the Advisory Agreement will be calculated at an annual rate of 1.50% of the daily gross assets of the Fund. "Gross Assets" means the total assets of the Fund prior to deducting liabilities. Derivatives will be valued at market value for purposes of determining "Gross Assets" in the calculation of management fees. Because the Management Fee is based on the Fund's daily gross assets, the Fund's use of leverage, if any, will increase the Management Fee paid to the Adviser. For the initial year of the Fund, the Adviser voluntarily agreed to reduce the Management Fee to .75%. For the one-year period beginning on March 1, 2019, and continuing through the present, the Adviser has voluntarily agreed to reduce the Management Fee to 1.25% of the Fund's daily gross assets. The Adviser's board is under no obligation to continue the fee waiver but may continue to do so.

[1,2] *Please refer to the risk disclosures and definitions on pp. 10-12 for a description of the benchmark indices chosen and the risks associated with comparing 1WS Credit Income Fund returns to those of an index. Investors cannot invest directly in an index.*

Performance data quoted represents past performance, which is not a guarantee of future results. *Current performance may be lower or higher than the performance quoted. The principal value and investment return of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. You can obtain performance data current to the most recent month end by calling (833) 834-4923 or visiting www.1wscapital.com. Investors cannot invest directly in an index. All performance shown assumes reinvestment of dividends and capital gains distribution in percent value. Dividends are not guaranteed and will constitute a return of capital if dividend distributions exceed current-year earnings. Please refer to the Fund's most recent Section 19(a) notice for an estimate of the composition of the Fund's most recent distribution, available at www.1WSCapital.com.*

Portfolio Composition[1] and Net Return Attribution[2]

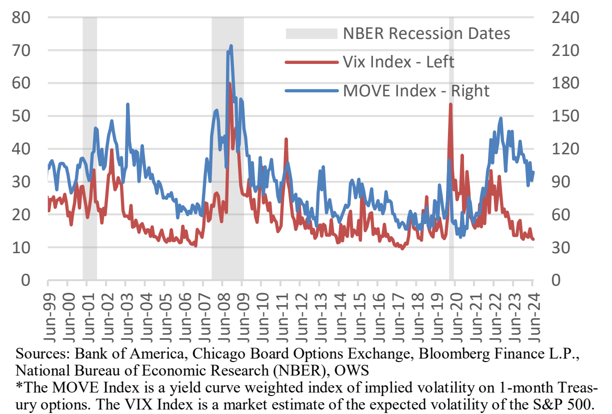


Asset Type	Net Return[2] Attribution YTD
Asset-Backed Securities (ABS)	1.21%
Collateralized Loan Obligations (CLOs)	0.64%
Commercial Mortgage-Backed Securities (CMBS)	0.79%
European ABS & RMBS	0.87%
Residential Mortgage-Backed Securities (RMBS)	0.83%
Other	0.98%
Interest Rate Hedges	0.83%
Total	**6.15%**

[1] The Portfolio composition as of 6/30/24 differs from the portfolio composition for any point prior to such date and is subject to change at any time.
[2] Net performance data reflects the deduction of all fees and expenses. Net return attribution represents portfolio PnL by sector divided by the Fund's average net asset value for the period reduced by operating expenses and management fees allocated to the sectors based on the market value of the portfolio for the period. See pages 10-12 for important risk disclosures and definitions.

While many sectors within structured credit have benefitted from the risk-on sentiment which has led to a narrowing of credit spreads generally, we believe many sectors continue to offer attractive risk premia compared to historical levels on an outright basis and relative to corporate credit alternatives. As corporate credit spreads have narrowed, the risk premia for moving lower in credit has declined to decade lows, in many cases. For instance, the premium for moving from the lowest rated investment grade corporates (BBB) to the highest rated non-investment grade (BB) corporates has compressed to just 26 bps currently, according to JPMorgan corporate credit indices. That is the lowest spread pick-up for moving from investment grade to non-investment grade within the corporate sector in more than a decade and nearly 100 bps less than the 10-year average (Exhibit 3).

Exhibit 2:
Interest Rate & Equity Volatility Have Diverged
*ICE BofA MOVE Index vs VIX Index**

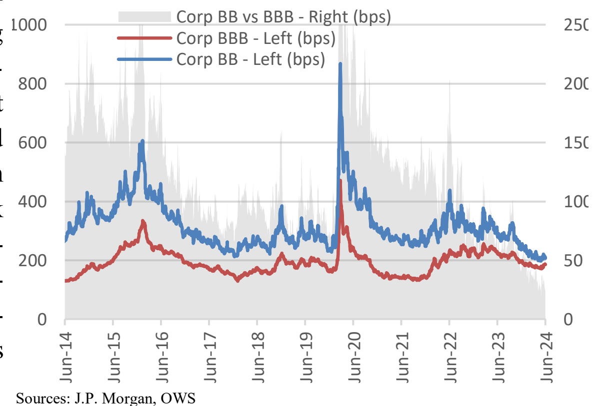


Sources: Bank of America, Chicago Board Options Exchange, Bloomberg Finance L.P., National Bureau of Economic Research (NBER), OWS
*The MOVE Index is a yield curve weighted index of implied volatility on 1-month Treasury options. The VIX Index is a market estimate of the expected volatility of the S&P 500.

In comparison, credit spreads within many structured credit sectors remain well off their lows, on a historical basis, and wide relative to unsecured corporate credit alternatives. For instance, within the consumer ABS sector, benchmark (BB) rated subprime auto spreads are currently trading ~ +5bps over the JPMorgan high-yield corporate index (Exhibit 4), which is ~ +175 bps more than the 10-year average. In addition, unlike unsecured corporates where the risk premia for moving down in credit is at or near 10-year lows, credit curves within many sectors of structured credit remain relatively steep. Again, looking at benchmark subprime auto spreads within the consumer ABS sector, the premium for moving from investment grade BBB-rated tranches to BB-rated tranches is currently ~ +195 bps, ~ +100 bps wider than levels prior to the recent Fed tightening cycle and +50 bps relative to their 10-year average (Exhibit 5).

In our opinion, a steep credit curve can be particularly attractive for assets within structured credit due to the deleveraging risk profile of many structured credit assets over time. It is possible to significantly enhance holding period return beyond simply carry (spread and/or yield) alone, by identifying securities who's risk profile will improve over time. Structured credit securities, in particular, exhibit many nuanced collateral characteristics and structural features that define the allocation of cash flows within a given securitization. Oftentimes these nuanced characteristics result in the risk profile of structured credit securities evolving markedly over time. Amortizing cash flows, the prioritization of principle payments within a securitization, excess interest and overcollateralization, as well as deal specific performance triggers, can all have an effect on a securities' risk profile and how its risk changes over time. In fact, we believe it is these nuanced characteristics

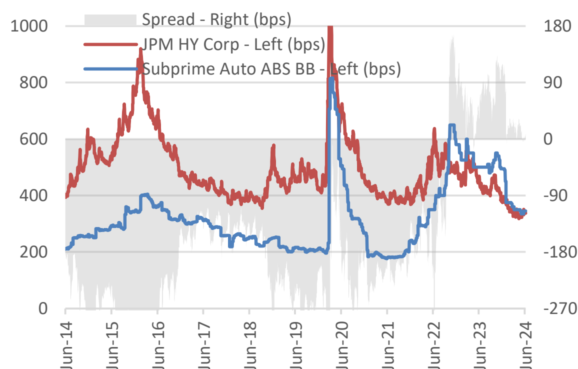
Exhibit 3:
Corporate Credit Spreads Near Historic Lows
Spread Compression at Decade Lows



Sources: J.P. Morgan, OWS

that create unique risk-adjusted return characteristics in structured securities relative to traditional fixed-rate, non-amortizing bonds, like sovereign or corporate bonds.

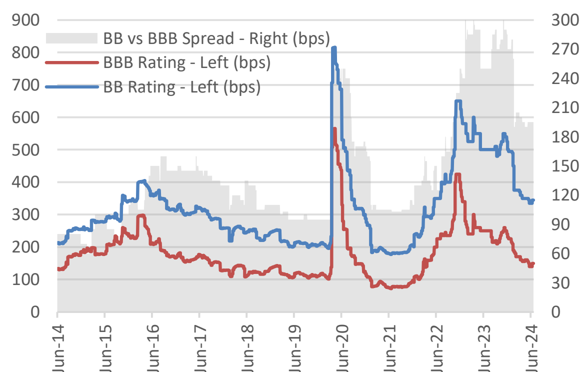
Exhibit 4:
Consumer ABS Remain Attractive
Benchmark Subprime Auto vs Unsecured HY Corporates



Sources: J.P. Morgan, OWS

The challenge is to identify investment profiles that will improve in credit quality/risk profile, over your investment horizon, as a result of specific collateral and/or structural characteristics. In doing so, you can potentially enhance your realized return as a result of credit spread roll-down. When credit spreads are wide, the potential for credit spread roll-down is high. In our subprime auto example above, the current benchmark spread difference between BBB-rated securities and BB-rated securities is +195 bps. For a relatively short duration (~ 2.5 to 3.0-yr spread duration) security, lets say, capturing 195 bps of credit spread roll-down would add an additional ~ 5.0% to 6.0% to your realized return, which is a significant enhancement to yield alone and uncorrelated with general movements in credit spreads*.

Exhibit 5:
Credit Spreads Have Not Compressed to Lows
Consumer ABS - Benchmark Subprime Auto



Sources: J.P. Morgan, OWS

Despite relatively strong performance in the first half of the year, we remain encouraged by the investment opportunities we continue to see across structured credit markets. While growing optimism for an economic soft landing has, in our opinion, contributed to spread compression across credit markets generally, there remains significant dispersion and uncertainty within and across alternative credit sectors. This is particularly true within both the consumer and commercial real estate sectors, in our opinion. The strength of aggregate consumer spending is often cited as a contributor to the ongoing strength of the U.S. economy, and yet there is meaningful dispersion in fundamental consumer credit performance, across vintage, age, income, and credit tier cohorts. Similarly, while challenges facing office properties garner the majority of headlines within the commercial real estate (CRE) sector, the impact of higher interest rates, rising operating costs, and tighter lending standards are stressing debt service coverage ratios and presenting challenges for the sector overall.

In our opinion, this fundamental uncertainty has resulted in a sustained, elevated risk premia within our sectors and increasing opportunities for investors with the requisite underwriting capabilities. Structured credit securities are not homogeneous, even within narrowly defined subsectors of the market. The fundamental performance of seemingly similar securities can vary dramatically based on differences in underlying collateral characteristics, loan originator, and deal structure. This is why security level underwriting is so critical to identifying embedded risks and selecting the most attractive risk-adjusted return opportunities. Our investment approach is grounded in bottoms up fundamental credit underwriting in an attempt to assure adequate asset coverage and principal preservation under a range of potentially adverse future economic outcomes. Because we invest across a range of credit sectors, security types, capital structures, and risk profiles, we believe that underwriting asset price volatility, in addition to fundamental credit, is critical in identifying the most attractive risk-adjusted return opportunities. By normalizing for risk, we can compare alternative investment opportunities in the context of expected return per unit of risk. We believe this provides greater visibility into both security selection as well as portfolio risk construction.

While we are encouraged by the investment opportunities we continue to see across structured credit markets, we are mindful of the more macro risk factors that could result in increasing volatility across credit and equity markets. While not forecasting a systemic deterioration in credit fundamentals, we do believe that there remain meaningful risks to the current economic, inflation, and interest rate outlook. The U.S. presidential election, later in the year, is also likely to add uncertainty to the macro backdrop. With market risk premia across many credit and equity sectors on the lower end of historical ranges, we are not look-

*Target returns are forward looking and based upon certain assumptions which are subject to change continually and without notice. There is no guarantee that the return targets will be achieved. For the avoidance of doubt, this security is not an investment of any fund managed by the Flagship Hedge Fund or OWS Credit Opportunity Fund.

ing to increase aggregate portfolio risk exposure but rather believe that the current environment is best suited for specialized credit underwriters with a focus on security selection, risk management and where available, idiosyncratic return drivers.

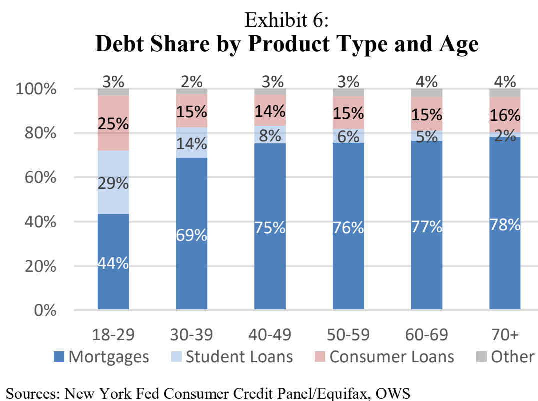
Second Quarter Review

The second quarter was largely a continuation of the market themes and macro backdrop in play during Q1, in our opinion. In our view, confidence that the rate hiking cycle has peaked and the economy continues to be supported by a resilient consumer and strong labor market has continued to support equity and credit market valuations. Interest rate volatility, while off of recent highs, remains elevated, while equity volatility remains near record lows. Structured credit has benefitted from the positive risk-on sentiment, which has led to a narrowing of risk premia across credit and equity markets generally.

While benchmark structured credit spreads have generally tightened during the second quarter, we believe that they continue to lag the tightening seen within corporate credit sectors. Consumer-backed sectors including RMBS, ABS, and our European book were among our best performing investment strategies during Q2.

Consumer ABS - While the economy remains relatively robust, in our opinion, many economists are beginning to revise lower their growth forecasts for the remainder of the year after a surprisingly fast pace in 2023 (3.1% 4Q/4Q). After moderating to a 1.5% rate in Q1, JPMorgan expects U.S. growth to continue to slow to around a 1% average growth rate in 2H24. Consumer spending seems to be moderating from the post-pandemic tailwinds, which supported last year's strength, and we are beginning to see softness in labor market indicators with a gradual rise in the unemployment rate so far in 2024. While these may support optimism for some future rate relief from the Fed, we believe diligent fundamental credit underwriting is essential in assessing risks from potentially deteriorating economic scenarios.

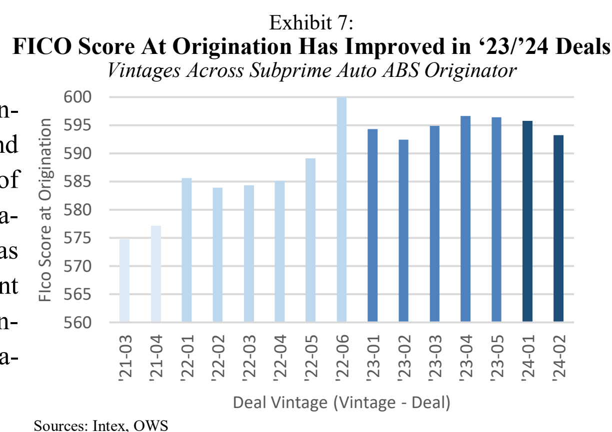
Exhibit 6:
Debt Share by Product Type and Age



Sources: New York Fed Consumer Credit Panel/Equifax, OWS

While aggregate consumer fundamentals remain relatively strong, in our opinion, there remains meaningful dispersion amongst cohorts. Our view is that many consumers have exhausted their excess savings accrued during the pandemic - especially among the lowest income cohorts. Subprime borrowers tend to be the most exposed in these scenarios and have an increased likelihood of finding themselves extended. Similarly, younger borrowers, who are considerably more exposed to floating-rate consumer loans, are not as well positioned as some of the older cohorts to weather a deteriorating economic environment (Exhibit 6). Factors such as FICO score, age cohort, income level, whether underlying consumer debt is fixed or floating-rate, are key underwriting considerations, in our opinion.

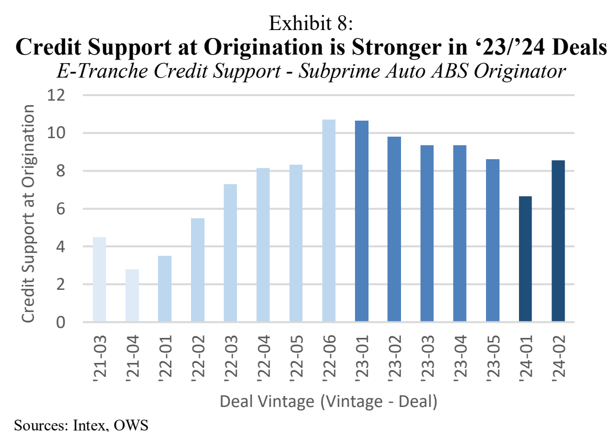
Exhibit 7:
FICO Score At Origination Has Improved in '23/'24 Deals
Vintages Across Subprime Auto ABS Originator



Sources: Intex, OWS

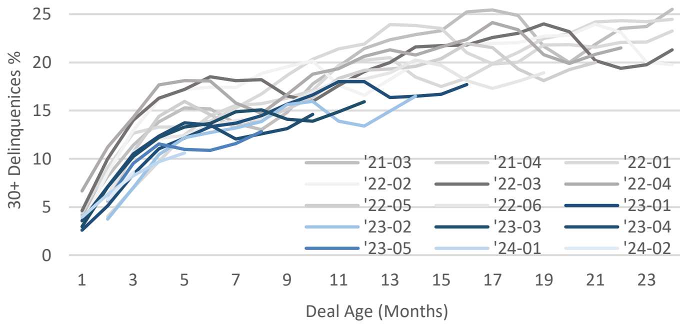
On a positive note, we have seen an improvement in underlying collateral characteristics and structural credit support found on the 2023 & 2024 ABS vintages. When comparing underlying collateral characteristics, structural credit support, and fundamental performance of a large subprime auto ABS issuer, and how their deals have evolved from 2021 to 2024, these trends become more evident. FICO scores at origination of the '23/'24 deals have been increasing, on average, relative to those originated during '21/'22 when lending standards were more lenient (Exhibit 7). In addition, credit support of the newer vintage securitizations has generally been greater (Exhibit 8). While there are additional factors influencing overall performance of particular deals, we believe these trends have been positive for investor demand and support the fundamental performance of more recent vintages. We believe this is reflected in improving collateral performance of the '23/'24 vintages relative to

Exhibit 8:
Credit Support at Origination is Stronger in '23/'24 Deals
E-Tranche Credit Support - Subprime Auto ABS Originator



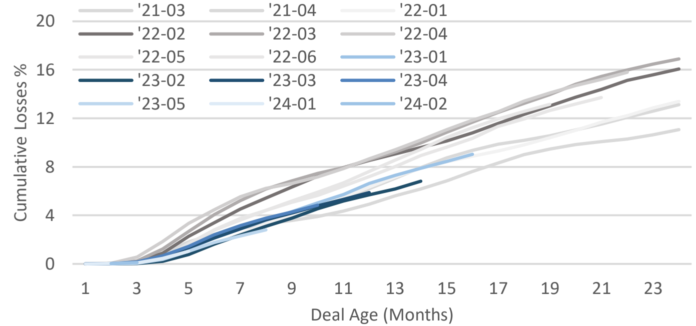
Sources: Intex, OWS

Exhibit 9:
30+ DQs Are Lower Than '23/'24 Deals...
Vintages Across Subprime Auto ABS Originator



Sources: Intex, OWS

Exhibit 10:
...As Well As Lower Cumulative Losses
Vintages Across Subprime Auto ABS Originator



Sources: Intex, OWS

earlier vintages.

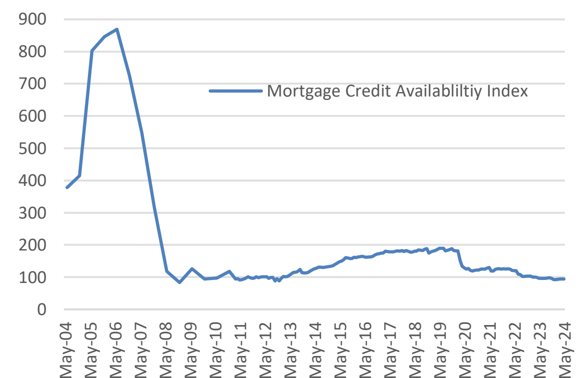
Adjusting for age, the '23/'24 vintages (blue lines) are realizing lower delinquency rates (Exhibit 9) and lower cumulative losses (Exhibit 10).

As we highlighted earlier, consumer ABS was among the top performing asset sectors across our portfolios during Q2. After lagging the performance of subprime autos in Q1, the unsecured consumer sector led other consumer ABS sectors in Q2. We remain quite active within the consumer ABS sector and believe valuations remain attractive outright and relative to other credit sectors. Credit metrics on ABS pools have improved and despite record issuance volumes, liquidity remains high with strong investor demand. While credit spreads have narrowed from their wides, credit curves remain steep, on a historical basis, which can, as deals season and de-leverage, provide significant credit spread roll-down and upside excess return potential relative to spread and yield alone. We believe this is an attractive return characteristic of many consumer ABS structures, which, as a result of high excess spread, can build credit enhancement and de-leverage rapidly.

During the quarter, we identified multiple opportunities among ABS issuers that aren't as active in the market and thus offered a meaningful spread concession to more frequent benchmark issuers. After rigorous underwriting, we believe we were able to acquire a number securities with often times better credit fundamentals, in our opinion, at risk premia in excess of what we believe to be an appropriate liquidity premium for less frequent issuers.

Residential Credit - While lower than in Q1 2024, RMBS remained among the best performing asset sectors across our portfolios during the second quarter. We believe that the sector continues to be supported by strong fundamentals (low delinquencies) and strong technicals (low supply). From a fundamental perspective, seasoned RMBS continues to be supported by historical home price appreciation (HPA), which has resulted in growing home equity for existing homeowners and also reduces the likelihood of default. Despite historically low affordability, home prices have continued to increase due to limited supply and still strong demand. While we expect that HPA will likely moderate going forward, fundamentals of newer originations are supported by strong underlying borrower characteristics. Mortgage credit availability remains historically tight (Exhibit 11) while the distribution of borrowers who are qualifying for mortgages is highly skewed to those with the highest quality credit. This trend has been in place since the global financial crisis (GFC), however, it remains the case. According to New York Fed Consumer Credit Panel sourcing Equifax's data, after easing modestly following the tightening seen during COVID, there has again been a considerable rise in the distribution of mortgage originations amongst the highest credit quality (760+) FICO borrowers, from approximately 60% of mortgage originations in Q1 2023 to roughly 70% (Exhibit 12).

Exhibit 11:
Mortgage Credit Availability Remains Near Absolute Tights
MBA Mortgage Credit Availability Index



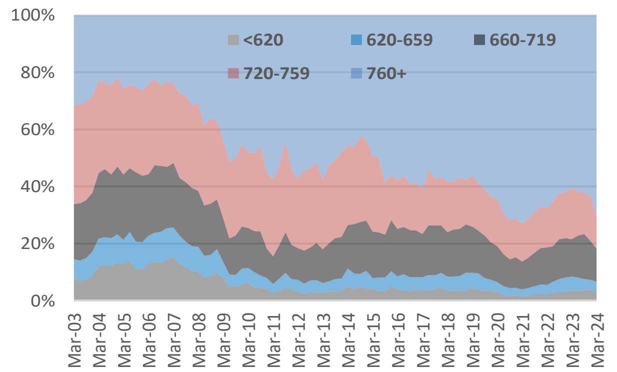
Sources: Mortgage Bankers Association, Bloomberg Finance L.P., OWS

Given the supportive fundamental backdrop, residential credit continues to perform well, with transitions into serious delinquency for residential mortgages remaining near historical lows (Exhibit 13). With the exception of the youngest age cohort (19-29

year olds) 90+ day delinquency rates remain below pre-COVID levels. Furthermore, quarterly transition rates do not indicate a worsening credit backdrop. The transition rate from 30-60 days late to current continues to trend higher, while the transition rate to 90+ days late remains low (Exhibit 14).

We remain active in the mortgage credit sector, investing primarily in agency credit risk transfer (CRT) securities and, to a lesser extent, seasoned legacy mortgages when appealing opportunities arise. In our view, agency CRT securities have been among the top-performing sectors within structured credit over the past year due to strong fundamentals supporting mortgage credit and generally limited supply. Within the CRT sectors, we are constructive on high weighted average coupon (WAC) mezzanine bonds, which we believe have attractive roll-down potential.

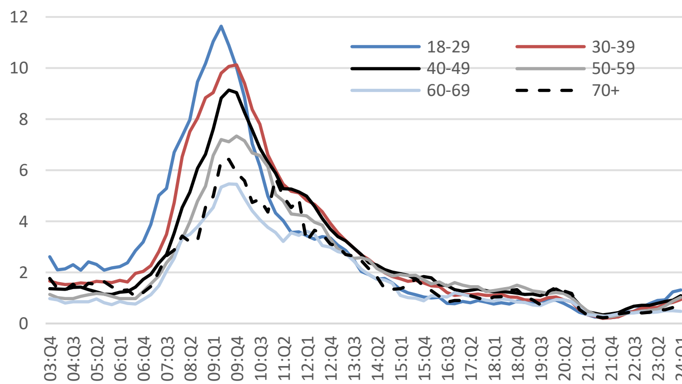
Exhibit 12:
Mortgage Origination Continues to Grow Within The Strongest FICO Credit Buckets



Sources: New York Fed Consumer Credit Panel/Equifax, OWS

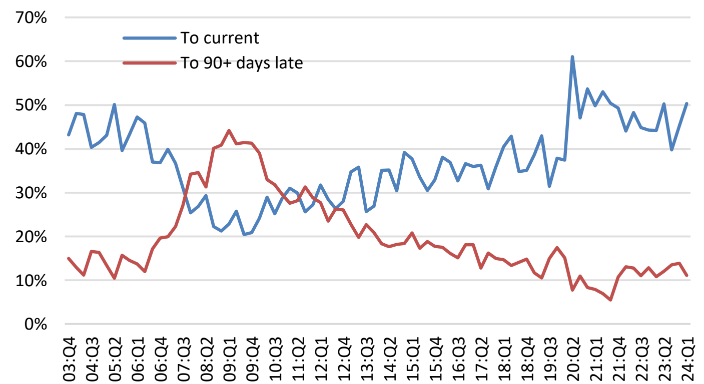
As we spoke to in the *First Quarter Commentary* (available upon request), we have recently been active in residential transitional loans (RTLs) securities. We find RTLs to be attractively priced relative to other opportunities within the RMBS sector. As a relatively new product, and only having had its first agency-rated securitization this year, RTLs offer attractive discounts to comparable securities in other sectors, in our opinion. Among the attractive features we like are their relatively short duration, as well as strong fundamental, and low default rates historically. We believe as more issuers come to market with rated transactions, the current liquidity premium demanded in the sector will compress.

Exhibit 13:
Transition into Serious Delinquency (90+) for Mortgages by Age
(Percentage %)



Sources: New York Fed Consumer Credit Panel/Equifax, OWS

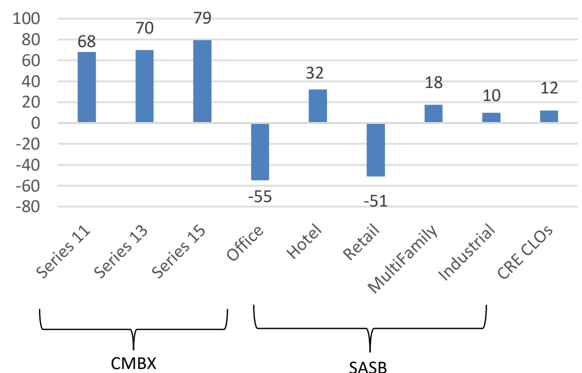
Exhibit 14:
Quarterly Transition Rates for 30-60 Day Late Mortgage Accounts
(Percentage %)



Sources: New York Fed Consumer Credit Panel/Equifax, OWS

Commercial Real Estate Debt - In a reversal of the general spread tightening trend seen within CMBS during Q1, spreads were mixed in Q2, although generally wider. Fears concerning commercial real estate (CRE) deterioration, especially office real estate, continue to dominate headlines and drive CRE performance. Spreads on mixed pool conduit deals, as represented by synthetic CMBX, were generally wider over the quarter while within the single asset, single borrower (SASB) sector, benchmark spreads were mixed by property type. In the most distressed office and retail property types, lower mezzanine tranches generally tightened (Exhibit 15). However, within the office sector in particular, higher rated investment grade tranches widened appreciably on both extension and tail credit concerns (Exhibit 16).

Exhibit 15:
BBB CMBS Have Generally Widened - Q2 2024
CMBS Spread Change - BBB-Rated (by Type)

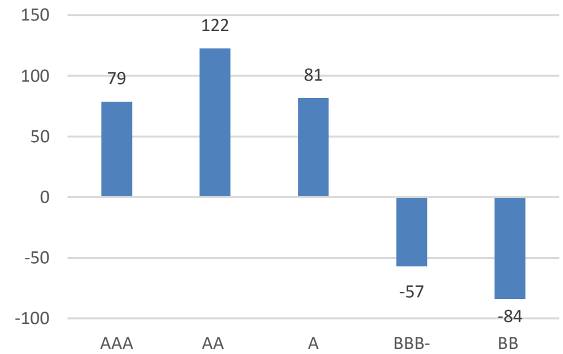


Sources: J.P. Morgan, OWS

In May, for the first time since the global financial crisis (GFC), investors in the highest rated (AAA-rated at origination) tranche of a CMBS securitization realized principal losses according to Barclays Plc. The AAA tranche from a SASB securitization backed by a single office property in midtown Manhattan realized more than a 25% principal loss after the property was sold at a steep

discount to its original loan amount. The loss highlights how deeply distressed certain pockets of the CRE market have become. We believe that bonds tied to older office buildings with concentrated tenant exposure are particularly vulnerable. This led to a considerable repricing of investment grade office-backed SASB, as can be seen in the J.P. Morgan SASB Office Index (Exhibit 16).

Exhibit 16:
IG Tranches Adjust Risk Premia As AAA-Rated SASB Deal Takes Principal Losses
J.P. Morgan SASB Office Index - Q2 2024 Spread Change

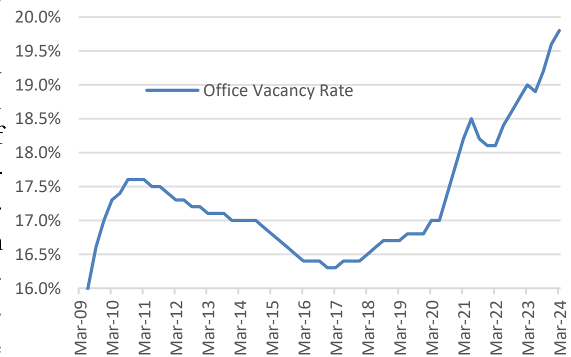


Sources: J.P. Morgan, OWS

It is worth noting that the market had been anticipating a large principal write down on this loan since the original sponsor stepped away "turned the keys back" from the property in 2022. In our opinion, the market was pricing an even greater loss expectation than what occurred - yet ultimately in light of its occurrence investor angst surrounding office CRE in general is now being repriced in what has historically been considered the safest tranches.

While we recognize the inherent risk within the CRE sector, we believe opportunities are arising within both the public and private markets. There is considerable dispersion within the CRE market. Even within the office sector, performance among different properties can vary considerably. For example, while office vacancy rates in aggregate remain at all time highs (Exhibit 17), just 10% of buildings account for 60% of all vacant office space, while 40% of all office buildings have no vacant space at all, according to JLL. We believe that this "winners and losers" market makes asset selection critical, including access to capital to fund tenant rollovers and interest coverage in the current rate environment.

Exhibit 17:
Office Vacancy Rates Continue to Trend Higher



Sources: Bloomberg Finance L.P., OWS

Within CMBS, our investment selection remains skewed towards investment grade exposures, where we believe risk premia is now priced more attractively. We continue to favor SASB versus conduit exposure, where we can approach asset selection much more prudently by focusing on the underlying individual property type, cash flow fundamentals, geography, and sponsor strength - all of which we believe are pivotal in our underwriting and investment processes - rather than buying conduit CRE risk, which can be backed by multiple properties of various property types, locations, and characteristics. We're interested in properties at the right basis, that are showing continuous fundamental improvement (NOI growth, strong leasing traction) and where sponsors have the commitment and capacity to continue to operate and invest in the property. We have been adding exposure to our strongest performers where we've seen continued improvement in cash flow fundamentals. We remain cautious of non-investment grade risk, in highly leveraged assets, as rates remain elevated and underwriting cash flows remain challenged in the current environment. We expect to see continued opportunities arise as rating agencies adjust outlooks and more properties come to maturity, which we believe may lead to more ratings downgrades, further repricing, and in some instances, forced liquidations. For now we remain cautious and selective, preferring to invest in and build out our surveillance technologies as we await more attractive stressed situations.

Non-Dollar ABS - Like their U.S. equivalents, our non-dollar ABS/RMBS strategy realized strong Q2 performance as limited volatility and an improving macro backdrop, in our opinion, has re-enforced the risk-on sentiment, resulting in improving market liquidity and strong investor demand. Spreads have continued to firm across the capital structure in both the ABS and RMBS sectors. As spreads have firmed, the weighted average cost of funding has improved in the securitization markets, increasing the attractiveness of securitizations as a source of funding for issuers. While new issue supply began the year rather slow, it picked up meaningfully as we transitioned through the second quarter with May representing the largest monthly volume of European ABS issuance in the post-COVID period.

We remain active across the non-dollar ABS and RMBS sectors. Despite the strong performance to start 2024, we continue to find what we believe are attractive investment opportunities outright and relative to comparable securities in the U.S. Within the RMBS sector we have been most active in buy-to-let collateral in both secondary and new issue markets. We were also able to add to our positions of seasoned legacy (pre-GFC) securities. In addition to their low current LTVs, what we find attractive

about these investment profiles are large non-amortizing reserve funds, which we feel increases the likelihood of the deals being called on their optional redemption date, adding excess return potential to these discount securities.

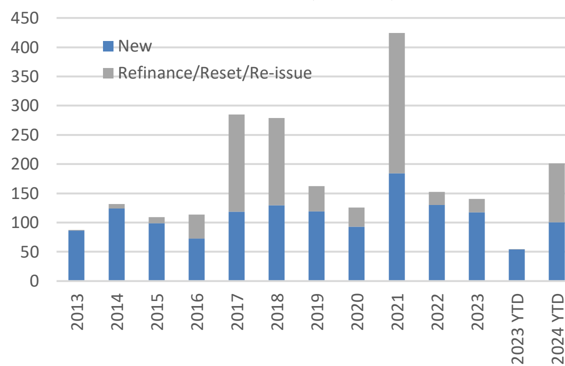
Within the non-dollar ABS sector, we have been most active in the unsecured consumer sector and, to a lessor degree, within autos. Like in the U.S., uncertainty around ongoing consumer fundamentals and dispersion across collateral types, originators, vintages, and geographies underscores the importance of thorough underwriting at the security level. We do not believe we are seeing any broad-based deterioration in fundamental performance across the European ABS sector and the increase in delinquencies and defaults that we are seeing are more country, collateral, and originator specific.

Collateralized Loan Obligations (CLOs) - YTD gross CLO issuance has been robust, with roughly half attributable to Refinancing/Resets as spreads have tightened (Exhibit 18) on continued strong investor demand. JPMorgan has recently revised higher their full year new issue supply forecast to roughly $145bn, only below the record new issuance in 2021. New issuance will likely be challenged by collateral constraints as JPMorgan is also forecasting only $145bn of net new leveraged loan supply.

While we have been actively trading across our CLO strategy, we remain vigilant about our overall corporate/CLO exposure, given current market pricing that is seemingly overlooking what we believe are growing fundamental risks tied to rising interest rates and lingering economic uncertainty. While corporate default rates, including leveraged loans, have remained at or near historical averages, we believe there is growing fundamental risk from higher interest expenses, particularly in a higher for longer interest rate environment. The distribution of lower rated credits within the leveraged loan universe is at all time highs (Exhibit 19) and JPMorgan recently revised higher their loan default forecast from 3.25% to 3.75% for the full year 2024.

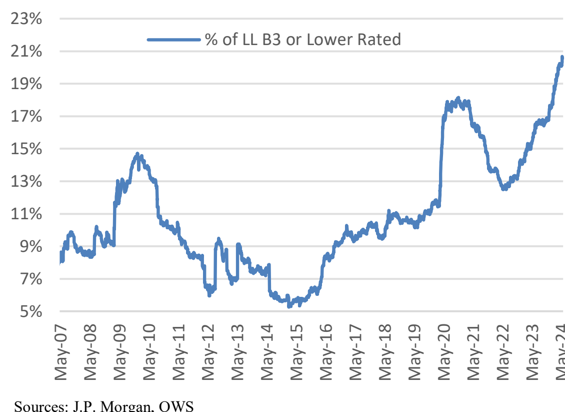
Despite CLOs offering attractive nominal spreads and yields, after accounting for growing fundamental uncertainty and underwriting potential future price volatility, we continue to overweight other opportunities we see within structured credit that we believe offer higher risk-adjusted return potential. Having said that, our CLO strategy has continued to perform well in Q2, on both a nominal and risk-adjusted basis.

Exhibit 18:
Refi/Reset Activity Has Been Elevated in 2024
CLO Issuance ($Billions)



Sources: J.P. Morgan, OWS

Exhibit 19:
Leveraged Loans B- or Lower at All-Time Highs



Sources: J.P. Morgan, OWS

Investing in the Fund may be considered speculative and involves a high degree of risk, including the risk of possible substantial loss of your investment.

Prior to investing, Investors should carefully consider the investment objectives, risks, charges and expenses of the 1WS Credit Income Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling (833) 834-4923 or visiting www.1wscapital.com. The prospectus should be read carefully before investing.

1WS Credit Income Fund is distributed by ALPS Distributors, Inc. ALPS Distributors, Inc. is not affiliated with 1WS Capital Advisors, LLC or One William Street Capital Management, L.P.

Net performance data are pre-tax, fund-level, net of operating expenses, management fees, and any applicable shareholder servicing and distribution fees charged to investors. ITD Net return is a linked monthly return. Actual returns experienced by an investor may vary due to these factors, among others.

RISK DISCLOSURES

Past performance is not a guarantee of future results. *There is no assurance that the Fund will meet its investment objective.*

Limited liquidity is provided to shareholders only through the Fund's quarterly repurchase offers for no less than 5% of the Fund's shares outstanding at net asset value. There is no guarantee that shareholders will be able to sell all of the shares they desire to sell in a quarterly repurchase offer. The Fund is suitable only for investors who can bear the risks associated with the limited liquidity of the Fund and should be viewed as a long-term investment. The Fund's investments may be negatively affected by the broad investment environment in the real estate market, the debt market and/or the equity securities market. The value of the Fund's investments will increase or decrease based on changes in the prices of the investments it holds. This will cause the value of the Fund's shares to increase or decrease. The Fund is "non-diversified" under the Investment Company Act of 1940 and, thus, changes in the financial condition or market value of a single issuer may cause a greater fluctuation in the Fund's net asset value than in a "diversified" fund. Diversification does not eliminate the risk of experiencing investment losses. The Fund is not intended to be a complete investment program. The Fund expects most of its investments to be in securities that are rated below investment grade or would be rated below investment grade if they were rated. Below investment grade instruments or "junk securities" are particularly susceptible to economic downturns compared to higher rated investments. While the Fund may employ hedging techniques to seek to minimize interest rate risk, there can be no assurance that it will engage in such techniques at any given time or that such techniques would be successful. As such, the Fund is subject to interest rate risk and may decline in value as interest rates rise. The Fund may use leverage to achieve its investment objective, which involves risks, including the increased likelihood of net asset value volatility and the increased risk that fluctuations in interest rates on borrowings will reduce the return to investors. In addition to the normal risks associated with investing, investing in international and emerging markets involves risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles or from social, economic or political instability in other nations. The Fund may employ hedging techniques to seek to minimize foreign currency risk. There can be no assurance that it will engage in such techniques at any given time or that such techniques would be successful. The Fund may invest in derivatives, which, depending on market conditions and the type of derivative, are more volatile than other investments and could magnify the Fund's gains or losses. An investment in shares should be considered only by investors who can assess and bear the illiquidity and other risks associated with such an investment.

Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. Mortgage-backed and asset-backed securities are affected by interest rates, financial health of issuers/originators, creditworthiness of entities providing credit enhancements and the value of underlying assets. Fixed-income securities present issuer default risk. Prepayment and extension risk exists because a loan, bond or other investment may be called, prepaid or redeemed before maturity and similar yielding investments may not be available for purchase. Structured finance securities may present risks similar to those of the other types of debt obligations in which the Fund may invest and, in fact, such risks may be of greater significance in the case of structured finance securities. Investing in structured finance securities may be affected by a variety of factors, including priority in the capital structure of the issuer thereof, the availability of any credit enhancement, and the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, among others. Market or other (e.g., interest rate) environments may adversely affect the liquidity of Fund investments, negatively impacting their price. Generally, the less liquid the market at the time the Fund sells a holding, the greater the risk of loss or decline of value to the Fund. See the Fund's prospectus for information on these and other risks.

There can be no assurance that the Fund will achieve its investment objective. Many of the Fund's investments may be considered speculative and subject to increased risk. Neither One William Street Capital Management, LP nor 1WS Capital Advisors, LLC has managed a 1940-Act registered product prior to managing the fund. Investing in the Fund involves risks, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. The ability of the Fund to achieve its investment objective depends, in part, on the ability of the Adviser to allocate effectively the assets of the Fund among the various securities and investments in which the Fund invests. There can be no assurance that the actual allocations or investment selections will be effective in achieving the Fund's investment objective or delivering positive returns.

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice, so actual outcomes and results may differ significantly from the views expressed. These views are subject to change at any time based upon economic, market or other conditions and the portfolio manager disclaims any responsibility to update such views. The views expressed in this report reflect the current views of the portfolio manager as of September 30th, 2023.

There are limitations when comparing the 1WS Credit Income Fund to indices. Many open-end funds which track these indices offer daily liquidity, while closed-end interval funds offer liquidity on a periodic basis. Deteriorating general market conditions will reduce the value of stock securities. When interest rates rise, the value of bond securities tends to fall. Investing in lower-rated securities involves special risks in addition to the risks

associated with investments in investment grade securities, including a high degree of credit risk. Lower-rated securities may be regarded as predominately speculative with respect to the issuer's continuing ability to meet principal and interest payments. Analysis of the creditworthiness of issuers/issues of lower-rated securities may be more complex than for issuers/issues of higher quality debt securities. There is a risk that issuers will not make payments, resulting in losses to the Fund. In addition, the credit quality of securities may be lowered if an issuer's financial condition changes. Assets and securities contained within indices are different than the assets and securities contained in the 1WS Credit Income Fund and will therefore have different risk and reward profiles. An investment cannot be made in an index, which is unmanaged and has returns that do not reflect any trading, management or other costs. Please see definitions for a description of the investment indexes selected.

DEFINITIONS

Aaa Corporate: *The Bloomberg Aaa Corporate Index measures the Aaa-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.*
Aa Corporate: *The Bloomberg Aa Corporate Index measures the Aa-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.*
A Corporate: *The Bloomberg A Corporate Index measures the A-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.*
ABS: *Asset-Backed Securities are instruments secured by financial, physical, and/or intangible assets (e.g., receivables or pools of receivables), and investments in any assets/instruments underlying the foregoing structured/secured obligations.*
Baa Corporate: *The Bloomberg Baa Corporate Index measures the Baa-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.*
Ba U.S. High Yield: *The Bloomberg Ba US High Yield Index measures the USD-denominated, Ba-rated, fixed-rate high-yield corporate bond market. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.*
B U.S. High Yield: *The Bloomberg B US High Yield Index measures the USD-denominated, B-rated, fixed-rate high-yield corporate bond market. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.*
Basis Points (bps): *A basis point is a common unit of measurement for interest rates and credit spreads and is equal to one hundredth of one percent.*
Bond Rating Scale:

Moody's	Standard & Poor's	Fitch	
Aaa	AAA	AAA	Investment Grade
Aa1	AA+	AA+	
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-Investment Grade
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	
B2	B	B	
B3	B-	B-	
Caa	CCC	CCC	
Ca	CC	CC	
C	C	C	

A bond rating is a letter-based scoring scheme used to judge the quality and creditworthiness of a bond. The three largest private independent rating services are Moody's, Standard & Poor's and Fitch Ratings Inc. The letter-based grading scale for each of these rating agencies is highlighted to the left. The higher a bond's rating, the higher its credit quality. Bonds rated BBB or higher are considered investment grade. Bonds rated BB and below are considered non-investment grade.

Buy-to-Let (BTL): *Buy-to-let mortgages are for landlords who want to buy property to rent it out.*
Caa U.S. High Yield: *The Bloomberg Caa US High Yield Index measures the USD-denominated, Caa-rated, fixed-rate high-yield corporate bond market. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.*
Capitalization Rate: *The capitalization rate (also known as cap rate) is used in the world of commercial real estate to indicate the rate of return that is expected to be generated on a real estate investment property.*
CLO: *Collateralized Loan Obligations are instruments that represent debt and equity tranches of collateralized loan obligations and collateralized debt obligations.*
CMBS: *Commercial Mortgage-Backed Securities are fixed income instruments that are secured by mortgage loans on commercial real property.*
CMBX: *CMBX indices are synthetic tradable indices referencing a basket of 25 commercial mortgage-backed securities (CMBS).*
Convexity: *Convexity is a measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields.*
Credit Enhancement: *Credit enhancement is a risk-reduction technique that provides protection, in the form of financial support, to cover losses under stressed scenarios.*
Credit Risk Transfer (CRT) Securities: *CRT securities effectively transfer a portion of the risk associated with credit losses within pools of residential mortgage loans to investors.*
Debt Service Ratio: *The household debt service ratio (DSR) is the ratio of total required household debt payments to total disposable income.*

Duration-Adjusted: *Duration-adjusted or excess return is a measure of pure credit performance for fixed-rate bonds by adjusting for movements in benchmark interest rates.*

Euro Auto Mezzanine (A-rated): *European Auto Mezzanine A-rated is representative of an A-rated mezzanine tranche of a Non-Dollar Asset-Backed Securities Index, specifically auto loans or leases.*

FICO: *The Fico Score is used by lenders to help make accurate, reliable, and fast credit risk decisions across the customer lifecycle.*

Financial Obligation Ratio: *The financial obligation ratio is the ratio of required household debt payments to total disposable income and includes rent payments on tenant-occupied property, auto lease payments, homeowners' insurance, and property tax payments*

Floating-Rate Loans: *A floating rate loan has an interest rate which changes periodically based on an underlying index plus a spread.*

Forbearance: *The temporary suspension of loan repayments due to demonstrated financial hardship on the part of the borrower.*

ICE BofA MOVE Index: *This is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options. It is the weighted average of volatilities on the CT2, CT5, CT10, and CT30. (weighted average of 1m2y, 1m5y, 1m10y and 1m30y Treasury implied vols with weights 0.2/0.2/0.4/0.2, respectively).*

ICE BofAML US High Yield Master II TR Index: *The index tracks the performance of US dollar denominated below investment grade rated corporate debt publically issued in the US domestic market. Investors cannot invest directly in an index.*

Interest Rate Hedges: *Interest rate hedges include a variety of different products to help protect against interest rate risk. In principle, interest rate hedging products provide greater certainty over future loan repayments.*

Loan-to-Value (LTV): *Loan-to-value is a measure of the size of a loan relative to the value of an asset.*

Mezzanine Tranche: *A mezzanine tranche within a securitization lies in the middle of the capital structure, below the senior tranche and above the junior tranche (typically an unrated equity tranche).*

Non-Dollar ABS: *Non-Dollar Asset-Backed Securities are instruments secured by financial, physical, and/or intangible assets (e.g., receivables or pools of receivables), and investments in any assets/instruments underlying the foregoing structured/secured obligations outside of the U.S. Non-Dollar Asset-Backed Securities are denominated in currencies other than the U.S. Dollar.*

Non-Dollar RMBS: *Non-Dollar Residential Mortgage-Backed Securities are securities that may be secured by interests in a single residential mortgage loan or a pool of mortgage loans secured by residential property outside of the U.S. Non-Dollar Residential Mortgage-Backed Securities are denominated in currencies other than the U.S. Dollar.*

Non-Performing Loans (NPL): *Mortgage loans that are subject to late repayment (i.e., 90 days have passed without the borrower paying the agreed instalments) or are unlikely to be repaid by the borrower*

Non Qualified Mortgages (Non-QM): *A non-qualified mortgage — or non-QM — is a home loan that is not required to meet agency-standard documentation requirements as outlined by the Consumer Financial Protection Bureau (CFPB).*

Real Capital Analytics (RCA) Property Price Index: *The RCA Property Price Indices are transaction based indices that measure property prices at a national level.*

Re-performing Loans (RPL): *Mortgage loans that were once delinquent but has since returned to performing status.*

Residential Transitional Loans (RTL): *Mortgage loans, specifically real estate investment loans, that are usually short duration financing for investors pursuing construction, renovation, and other rehabilitation projects on a property.*

RMBS: *Residential Mortgage-Backed Securities are securities that may be secured by interests in a single residential mortgage loan or a pool of mortgage loans secured by residential property.*

Risk-Adjusted: *A risk-adjusted return is a calculation of the profit or potential profit from an investment that takes into account the degree of risk that must be accepted in order to achieve it. The risk is measured in comparison to that of a risk-free investment, usually U.S. Treasuries.*

Risk Premia: *Risk Premia is the investment return an asset is expected to yield in excess of the risk-free rate of return.*

SASB: *Single Asset Single Borrower (SASB) CMBS transactions involve the securitization of a single loan (SA) or collateralized by a group of assets all owned by the same borrower (SB).*

S&P CoreLogic Case-Shiller U.S. National Home Price Index: *The index tracks the value of single-family housing within the United States.*

Subprime Auto ABS: *Auto asset-backed securities (auto ABS) are structured finance securities that are collateralized by auto loans or leases, specifically subprime (poor credit standing) borrowers.*

Tranche: *Tranches are segments created from a pool of assets - usually debt instruments such as bonds or mortgages - that are divvied up by risk, time to maturity, or other characteristics in order to be marketable to different investors.*