The Insight: Conversations – Walking into the Unknown with Howard Marks, David Rosenberg, and Aman Kumar

Anna

Hello and welcome to the *Insight by Oaktree Capital*. I'm Anna Szymanski, and today I'll be having conversations with three Oaktree thought leaders, including co-chairman, Howard Marks. We'll discuss topics from Oaktree's recently published quarterly letter *Roundup*. We'll consider what a normal credit market is, what a recession in 2024 might mean for liquid credit, and what opportunities we're seeing in life sciences today. So for my first discussion, my guest needs no introduction. Howard, thanks so much for joining me.

Howard

It's a pleasure to be here with you, Anna.

Anna

In your short piece in the latest *Roundup*, you ask investors to consider what's normal and specifically in relation to financial markets and interest rates. Can you explain why you think it's so important for investors to question what people perceive as normal?

Howard

You have to be working in this business more than 43 years, before 1980 to have ever seen anything other than declining interest rates and ultra-low interest rates. So it's only natural to conclude that declining and ultra-low interest rates are normal. But maybe they're not. You have to understand history and understand where the current period fits into history and understand how it's different from normal, and what it is that shaped those differences. And only if you look into these things can you make a great decision with regard to the actions to take. Now, it gets hard because how many people were working more than 43 years ago and still are. And how many of those still have their faculties and can remember the '70s and so forth.

I came up with something a couple of weeks ago that I hope will help get this across, but Einstein said that the definition of insanity is doing the same thing over and over and expecting a different result. I think another version of insanity is doing something in a new environment and expecting the same result. So if the environment is fundamentally changed, and if in the coming years we will not have interest rates which are, A, consistently declining, and B, as low as they were in the '09 to '21 period, when the fed funds rate averaged to half a percent, then maybe other things will work better than the things that worked in that period. I think this is significant.

Anna

Why do you think it's so challenging for investors and people in general to reset their idea of normal?

Howard

Well, if you made money doing one thing over the last 43 years, it's kind of hard to say, "You know what? That's out the window." And that organization that I put together, I got to get rid of those people because I need a new skillset. Everything I ever told you is no longer true to the clients. This is complicated by our human nature, if that's the right term. But I've been making reference to a book *Mistakes Were Made, But Not by Me* by Carol Tavris.

It's about cognitive dissonance and self-delusion. And you have a position, you've had it for a while, you're convinced it's right, it has worked. And now you get some information coming in which says, "No, you have to change your position."

Our brain is very good at getting rid of that information, but if there are real changes, we have to respond to them. And the great economist, Paul Samuelson once said, “When events change, I change my mind. What do you do?” And I think in investing, there’s nothing that’s permanent. You can’t say, always, never can, can’t, will, has to. You have to be open to possibilities as things change. I mean, I’ve seen a lot of changes in my life, and if I stuck with what I believed in 1969, I’d be in big trouble today.

Anna

We’re recording this in December of 2023 and you’ve written four memos this year. They are *Lessons from Silicon Valley Bank*, *Taking the Temperature*, *Fewer Losers or More Winners?*, and *Further Thoughts On Sea Change*. Looking over that year of memo writing, does anything jump out at you?

Howard

Well, I mean, it’s kind of a microcosm because you’ve got short-term market type events. Silicon Valley, I thought it was important to respond to that mainly to, A, understand the nature and risks of the banking industry, but B, to make the case that it was not systemic and did not presage a lot of contagion.

Fewer Losers or More Winners was at the opposite end of the spectrum is what I would consider a philosophy piece. There was no advice in there that would make anybody any money in the next year, but I think that in investing, it’s extremely important to be thoughtful about what you do. How do you intend to reach success? How do you define success? What are the things you’re going to have to do to reach it? You can’t be a superior investor without having either fewer losers than the average or more winners than the average or both. Which one will you favor? Which one is more realistic for you? So I thought that was kind of foundational.

Taking the Temperature was a look back at history. Also foundational, but explaining that on the one hand, our investment philosophy says we don’t do macro forecast. On the other hand, I did it five times in that period and I explained how. On the third hand, all absolute rules have to go out the window sometimes. But the point is we did it on rare occasion. If you wait for the fat pitch till the market is crazy high or crazy low, you might be able to make contact with the ball and they worked. But I think it was really important to show people that it really did come from taking the temperature of the market and not from subject matter expertise with regard to, for example, subprime mortgages that I hadn’t heard of. So I hope there was a good span of memos and that people enjoyed them. I think that’s reflective of the last 34 years.

Anna

I guess *Further Thoughts on Sea Change* just touching on obviously what you wrote at the end of the last year.

Howard

Yes. Well, and that’s an illustration of the fact that if you don’t stop thinking, maybe you’ll get some new ideas. So if you look at the memos over time, there’s Dare to Be Great I, Dare to Be Great II. There’s Risk, Risk Revisited, and Risk Revisited Again and so forth. Nancy always says that all the memos are the same, but the truth is that there are only so many things to say. And my philosophy, I haven’t ever counted it, but it probably has 10 or 15 key components. I can’t make up new ones and I can’t stop revisiting the old ones because I do think that they’re key. I’ll try to keep doing the same thing.

Anna

As I said, we’re recording this at the end of 2023, looking forward to 2024. What are some of the things you think investors should be monitoring as we move into the new year?

Howard

Well, following on from my last answer, I don’t think today’s a fat pitch. The market is not crazy high and it’s not crazy low. It seems a little high, not enough to make you take action. It’s really important to notice that if I were to tell you, “Okay, Anna, stock market is 10% overvalued.” And you were to agree. That’s not synonymous with going down tomorrow.

And it doesn't mean you should sell because from 10% overvalued is pretty close to fair value. And from 10% overvalued, stocks can go up, go sideways, go down. Anything can happen. Now, the fact that it's 10% overvalued means that there's a slightly greater tendency than usual for it to go down rather than up. But the point is not enough to take action on. I feel the same way about the economy.

First of all, anybody who thinks they know what the arc of the economy in the near-term future is going to be is nutty because we're all confused. And anybody who's not confused, doesn't understand what's going on. I didn't make that up. Somebody once said that. But it's not clear that the economy is going to boom. It's not clear that it's going to crater. So I don't think there's anything we have to do about the macro.

Now, special mention to the Fed. Will the Fed have another rate increase? Will it pause? Will it start cutting rates in '24? When? How often? These things are really hard to say. The answer is different from three months ago, when people thought they had the right answer three months ago, it turned out it wasn't the right answer. What makes them think today's answer is the right answer.

So what the point is, we're in that middle zone, what I call the zone of reasonableness. The market is not too high or too low. The outlook for the economy is not convincingly positive or negative. Nothing smart to do today in those regards, except that given the change in interest rates and where they are, and what the outlook is, and I think that when we do this two years from now, victory against inflation will have been declared and the fed funds rate will probably be about three and a half, maybe three.

But that I believe is going to be the norm for the coming years. And so you'll have some stability. But you won't have continuous declines. And that's important. That shapes the question of what strategies will do best. The other thing to note is still you can potentially get equity type returns from credit with less risk in better companies than used to be the borrowers with less leveraged companies than used to be the borrowers.

And these returns, whether they're approaching 10 for liquid credit or above 10 for private credit, these are fully competitive with equities more than most people need, and they can be earned with greater safety than with equities. So I continue to think that the opportunity is compelling.

Anna

Before we end, do you have any other final thoughts?

Howard

This has been another year like the last 54. You start the year, sometimes you think you know what's going to happen. Sometimes you know you don't know what's going to happen. And usually it turns out that the time when you were wrong was when you thought you knew what was going to happen. We never really know what's going to happen. The great Peter Bernstein once said, essentially, we walk every day into the unknown, and it's much more profitable to acknowledge that we walk into the unknown than to have a very definite opinion of what's going to happen that heavily and take the chance of being wrong.

So we will enter '24 knowing that we don't know what the future holds, but paying great attention to our individual investments. And that's what we've done to date and we think it's the way to success.

Anna

Well, on that note, thank you so much for joining me.

Howard

It's always a pleasure. Thank you, Anna.

Anna

For our next conversation, we'll be discussing liquid credit markets, where we are today and where we might be going in the future. For this discussion, I'm thrilled to be joined by David Rosenberg, co-portfolio manager of Oaktree's global credit, U.S. high yield bond, and global high yield bond strategies. David, thanks so much for joining me.

David

Thanks for having me.

Anna

In the liquid credit piece that appears in the recent *Roundup*, you and your co-authors argue that, if we do finally enter into a recession, below investment-grade credit may not behave the same as it has in previous dislocation. So just to begin, can you explain what you mean by this?

David

Yeah. So if you think about recession and what that means, usually, recession is a surprise. Something really bad happens. There's either excess going on in a sector or maybe a commodity price moves in an unexpected direction, something that catches everybody flatfooted, and everyone has to react and handle it. And often, frankly, a lot of the defaults are driven by the fact that people were planning to go and refinance, and now the recession surprises everyone and shuts the market down, and now they can't, and they have to restructure.

What I think is going to be different this go around is the fact that this recession, by no means, is any form of a surprise. A strategist told me the other day this is the most predicted recession in history. So everybody's talking about this potential recession, which means, by the way, that people are preparing for it. So if you think about portfolio managers like myself, I've been stress testing our portfolios for well over a year, saying, "Hey, if a recession hits, what do we think is going to happen? How are these credits going to make it through?" which means the odds of a panic selling from the investment community is much, much lower than you typically see because people are prepared.

But it also means CEOs and CFOs have been stress testing their companies. So it's more common, when you talk to them about earnings and guidance, you hear things about reducing advertising spend, cutting back on capex, redeploying that money into the balance sheet to shore up liquidity to pay off near-term maturities. This is not behavior that usually results in really bad things. And so I think that the market is somewhat uniquely positioned to weather through the potential storm much better this go around than we've seen in previous recessions.

Anna

And also, in 2020, we had the pandemic, which was obviously a surprise, and there was a little bit of a spike in default rates in both high yield bonds and leveraged loans. Do you think that might also impact what we see now?

David

I think it's really important. So what I tell people all the time is that you don't usually have a cleansing event before a recession. Usually, the recession is the cleansing event, but we had COVID. And so when COVID hit, in a high yield market, you had around a 6% default rate. In the loan market, you had around a 4% default rate. All these companies, if COVID hadn't happened, would've stumbled along until the next recession and then they would've defaulted.

And so you've had this pull forward of defaults, which I think really does impact the way the market reacts to this event because, frankly, when people think recession, most people are thinking you're going to have at least one year of double-digit defaults, if not two years back to back of double-digit defaults. And I actually did go check in all previous recessions that that is true. You have at least one year of double-digit defaults, and that creates concern and fear and creates the way that things behave, but it's very different to have 10% default rate in 2024, for example, versus having 5% in 2024 and 5% in 2020. That changes the way the market reacts to all of this. So I think that the smoothing of the default impact is going to be a very big driver of how things behave this go around.

Anna

And what about recovery rates? How might they be different in this cycle?

David

Well, that's very important, and I think that one will be to the negative, which is, when you think about recovery, I think, for bonds, recovery rates will likely be very similar as they've been historically. And so for history, for us, we recall around 50 cents on the dollar, for the market, maybe a little bit lower on recoveries, but the story, which I think is going to be unique this go around, is going to be in the broadly syndicated loan market. And the loan market recoveries have generally been very good, call it north of 60 cents on the dollar, because you have a first lien, and that first lien is supposed to matter when it comes to recovery.

But the other thing that you have is, in the old version, you think about leveraged buyouts, which is generally where the riskiest deals come in the markets, and your typical leveraged buyout years past would be you'd have some loans, below those loans, you'd have some bonds, below the bonds, you'd have some equity and you'd take the company private. And the recovery from the loans in those scenarios was buffered by the fact that the loan did not see a dollar of loss until the bond below it was totally wiped out. So you had this cushion.

Now, what we've seen is this shift to what we call loan-only capital structures. We're very clever in how we name things. And so loan-only capital structures, basically, the private equity sponsor is looking at the loan market, when the loan market moved to covenant-lite, which is another big driver of recoveries we'll talk about in a second. When the loan market moved to covenant-lite, private equity sponsors looked and said, "Well, if I can finance my leverage buyout with just loans and I have no call protection of my loans, that gives me all this optionality if I want to refinance my capital structure and pay myself a dividend, sell the company early," whatever it may be. And that's valuable. Optionality always occurs to the value of the equity.

And so you started to see more and more leveraged buyouts financed with only loans. And I had this conversation with Howard Marks the other day where I said, "Well, what does it mean when you have a first lien and a structure where the whole structure is first lien?" And he laughed and said, "Yeah, you're senior, but senior to what? Because if you're senior to the equity, what does that really mean?" And I think that's what the market's going to have to realize this go around, is that when you have a loan-only capital structure, the recovery should be no different than the bond in the previous years when there was a bond below you because there's nothing to cushion you.

The other reality is, with covenant-lite, back when you used to have covenants, you had the ability to pull the rug out early. If things were going wrong, the lenders were able to stop the music and say, "I'm hoarding all this cash. You can no longer pay coupons to your bond holders or dividends to your equity holders because I'm hoarding all this cash for my recovery." And that was a very powerful tool to improve recoveries for loans. With covenant-lite, you can't do that. The lenders have to sit on their hands until, eventually, the company has a maturity or runs out of cash. And when that happens, that means that, as all that time is playing out, more money is being paid out in coupons to bond holders, if there is bond holders, or potentially leaking to equity holders, and that dilutes your recovery. So the combination of those two, I think you're going to see a much lower recovery rate in the defaults that you do see in the loan market this go round.

Anna

So you've touched on a few really important trends. Another trend that we've obviously seen over the last decade has just been the dramatic growth in credit markets overall. What impact do you think this increase in scale could have on the opportunity set that credit investors see if there is a recession?

David

Yeah, I think it has a big impact and I think opportunity set is the right way to put it, Anna, which is I'm a performing credit guy, and so I go around the world talking to people about performing credit, and I get the question all the time, "How can you talk about performing credit when you also have this other side of Oaktree that's all excited about distressed credit?"

And the answer, quite frankly, is the market is so much bigger that we can all look at it from different angles, but yet be very happy, which is, I'm very happy to look at a potential recession where you can say, hey, the default rate, it's around 2% today, and could it go to 4% for bonds and maybe 5% for loans? Somewhere in that zip code seems reasonable, but the 30-year average default rate for bonds is 4%. So that's nothing dramatic. As we said, it's not the 10%.

So for me, I've got 96% of the market that I think is going to perform and there's a lot for me to do. For a distressed investor, that 4% is a small sliver of a much larger pie. So there's plenty for them to look and do and there's a target-rich environment for them, as well. And so as the market grows, it allows us all to be a lot more thoughtful about how we want to deploy our capital. There's a lot more to pick from.

Anna

So let's switch topics now a little bit. We're recording this in early December and we recently saw a pretty meaningful rally in a number of asset classes, especially high yield bonds. What would you say has been the primary cause of this and how durable do you think this rally might be?

David

Yeah. I'm always a pessimist when it comes to, or cynic, I like to say professional pessimist, but people call me cynic when it comes to these kinds of things, but there has been a dramatic rally. And I think a lot is two things driving this rally. One is this concept of a no landing, as everybody's been talking about. It's funny, early in my career, soft landing I always thought meant no recession. Now, soft landing means benign recession, so they've made up no landing. They have no recession. So the market always has to have its terms. And so that no landing camp is getting louder and louder that this might be the first time ever that the Fed in the US, for example, is fighting inflation to this degree without pushing the economy into recession.

And I suppose there's a first time for everything, but I'm not a believer that this is going to be that case, but as the market thinks about that possibility, risk assets rally, as everyone's looking for risk and ways to benefit from the fact that this may play out. The other part of the rally, I think, is driven by this narrative of a pivot. Everyone's waiting for rates to go back down. It's funny, I think, over the last year, the most common question I've gotten from investors is, "When's the Fed going to pivot?" Talk about fundamentals, you talk about markets, all people want to talk about is ... That's all well and good, but when's the Fed going to pivot? And I joke and tell people, "The Fed doesn't know when the Fed's going to pivot, so how am I supposed to know?"

But what I've really come around to tell people is, "Look, I can't tell you when the Fed's going to pivot, I can't tell you how the Fed's going to pivot, but I can tell you why." And I find it fascinating that the market has lost sight of why because the Fed doesn't pivot to prop up the stock market. As much as everybody wants that to be the mandate, it's not actually the mandate of the Fed. The Fed's supposed to prop up the economy and those aren't always the same thing. And so I tell people is the Fed will pivot when something bad happens, when there's a crisis.

We have a global pandemic and the world is shutting down, they will aggressively pivot in order to keep things operating and keep the economy from shutting down, which means, if you think about this narrative that's driving the rally in the market, the narrative is simply this. We're going to have a recession, but it's going to be benign, nothing really serious to worry about as we talked about defaults pick up, but not to any really scary levels. And in spite of this benign recession, we're going to see interest rates go down 100 basis points before halfway through the year 2024.

And I understand why everyone wants that to be true. It would be amazing. Benign recession, 100 basis points drop in rates, all risk assets would rally, debt would trade up, equities would trade up. We can all high five and talk about how smart we are and count all the money that we've made. It just doesn't make any sense because, if we do truly go through what is a benign recession, there is no reason for interest rates to go down 100 basis points. Everything's fine. The recession was benign. And conversely, if you have 100 basis points drop in rates before we get to the summer of '24, then there was no soft landing. Something really bad happened.

And so I think that's the part that the market is seizing on, is the market's gone through this schizophrenia of the pivot's going to happen, the pivot's not going to happen. It is squarely back in the camp of the pivot is going to happen. And that is a big driver of the rally, but to me, part of what may make this rally sputter out or even go the other way is the reality that the Fed may very well not pivot. What I remind people is the goal of the Fed isn't to touch 2% inflation, claim victory, and then bring rates back down, which, by the way, is inflationary. The goal of the Fed was to stay at 2% inflation, which may require them to keep rates where they are for a little while. And if that happens, it's going to change the calculus of what risk people are willing to take. And I think that's what the market's going to need to absorb in '24.

Anna

So as we look to '24, outside of interest rates, what's another risk or trend that you're monitoring closely?

David

I monitor the consumer a lot. I think, if you look at really what's been driving so much of the strength in the economy, is the consumer's ability and willingness to just keep grinding ahead and spending money. And it's really been quite fascinating to me how resilient the consumer has been in its ability to spend money. And so that's the one thing I watch the most.

My concern is, in reality, if you think about inflation and the need to fight inflation, you effectively need people to stop spending money. People keep spending money on higher and higher priced goods, you're going to have more inflation. And so you have central banks that want people to stop spending money. And as that focus continues and the consumer continues to fall under pressure, there is some risk, and we're seeing some cracks in the veneer already that may hint to the fact that we're getting to the end of this spending cycle.

And if that's true, then you have to start to think about sectors that are very consumer-dependent, discretionary-spending-dependent, specialty retail sectors, luxury goods sectors, automotive, things where discretionary spending is the key. And I think that, if we find ourselves in a period where that spending just cannot maintain its pace, then those sectors are going to weaken, and that's something we watch very closely.

Anna

So to end, do you have any final thoughts about what we've seen in 2023 or what we might see in 2024?

David

The biggest theme, I think, of this year and the thing that I think people are going to look back on a year or so from now and talk about how amazing it was, and I'll steal the theme from Howard's *Sea Change* memo, but really, you have the ability to buy debt with an equity-like prospective return. And I think we're going to look back at the end of '24 and talk about how amazing that was, that you could buy debt with an equity-like return, and the opportunity investors have going into '24 when you have a potential recession because, when you think about it, at Oaktree, we always say, "Look, there's no great bargain if you're going to make more money by taking more risk." Anybody can do that. You want to get more return and more risks, there's really nothing exciting about that. The art of this business is to manage the risk down. That's where the value add comes, in my opinion.

And what we have right now, which is so unique, is the market is handing investors this opportunity to say, "I can sell my equities and go buy debt, which is bringing my risk meaningfully down, but actually preserve the same expected return." I think that's, to me, one of the more exciting trades I've seen in my career. In the investment world, we call this a no-brainer, this trade. The ability to bring your risk down without having to meaningfully impact your expected return is very valuable and something that's really, really exciting.

Anna

For our final conversation, we are going to be zeroing in on one specific area, life sciences lending. For this discussion, I'm very happy to be joined by Aman Kumar, co-portfolio manager of Oaktree's life sciences lending platform. Aman, thanks so much for joining me.

Aman

Thanks for having me, Anna.

Anna

So to begin our discussion, I want to talk a little bit about the life sciences public equity market. Can you discuss some of the significant shifts we've been seeing here over the last few years?

Aman

Yes, it's certainly been dramatic, and I don't think it's an exaggeration to say that in the last four years we've witnessed some of the most severe volatility actually in the history of the life sciences industry. Company valuations soared during the pandemic. This is due to both elevated patient demand as well as breakthrough medical technologies like mRNA vaccines, which were disseminated both widely and quickly. What's interesting though is at the S&P Biotechnology Index, also known as the XBI, hit its all time peak in February of 2021, but since then, biotech valuations have declined quite sharply. To put this into context, the XBI Index through the end of September 2023, they're still almost 60% below that February 21 peak having declined double digits for each of the last two years.

Anna

What has been behind this weakness?

Aman

I think there are four main reasons behind the volatility. Firstly, we've seen a reversal of some of the COVID pandemic era spending trends. Secondly, we've had some changes in the regulatory environment, particularly by the FDA and the U.S. Thirdly, we saw a collapse of the SPAC market, which had provided an alternative source of capital and an avenue to a public listing for some earlier stage companies. And most recently, there's been a direct and indirect impact from rising interest rates. In particular, we've seen generalist investors pull back from investing in companies with limited free cash flow generation, but ongoing R&D needs.

Anna

This public market weakness that you're describing, how has it impacted the opportunity sent for life sciences direct lenders?

Aman

It's led to a significant increase in non-dilutive financing opportunities. For example, at Oaktree, we've been a top three lender in life sciences over the last four to five years, and we've seen an increase of approximately 50% in the pipeline for direct lending opportunities in the last just 18 or so months. I think one of the reasons for this is that the life sciences sector has always been a capital-intensive industry with companies continuously investing in clinical trials to bring new products to market or investing in outright capex.

Historically, this financing came almost exclusively from the equity markets via follow-on rounds or IPOs. However, for these fast-growing companies, the cost of equity is very high. And over the past 10 to 11 years, you've started to see a select group of knowledgeable lenders who can provide non-dilutive financing to these companies instead. And whilst that non-dilutive financing space has been growing at a double-digit CAGR in its own right, the recent equity market volatility has actually pushed more companies to look for other solutions, given that the IPO markets have either been shut and follow-on rounds have actually been very difficult. It's interesting, even large companies today that were once 5 billion or 10 billion in market size may be down 50% in share price today. So we've been seeing more management teams and boards looking at these alternative direct lending options.

Anna

As I think everyone knows in recent years, we've definitely seen a slowdown in M&A activity in many areas. And I'm curious with everything you're describing here, what have we seen with M&A activity in biotech over the last year in 2023? And what do you expect to see in 2024?

Aman

We've started to see a pick-up in M&A actually by strategics and life sciences-focused private equity firms in specific sub-sectors. And I believe there are two key drivers for this. One is low valuations and the second is substantial dry powder on the sidelines. In terms of what we expect to see in 2024, given valuations remain low. For example, there are still over 200 companies with negative enterprise values. And importantly, given the length of time this volatility has actually been going on for now, I do expect continued M&A and more opportunity for private debt financing as a lot of these companies seek to extend their forward liquidity runway.

Anna

And what would you say are the types of life sciences companies that are most attractive to sponsors or large pharmaceutical companies right now?

Aman

So currently we're seeing a lot of interest in the oncology space and the CNS space. CNS being central nervous system. For example, companies bringing products that would treat migraine, dementia, schizophrenia to market. For sponsors, we're seeing more platform plays whereby they will look for an initial core asset platform and can then bolt on additional complementary products over time. For strategics, it is a little bit different, it seems they are more backfilling their pipelines and product offerings.

Interestingly, about 70% of all new FDA approvals in the U.S. are actually now from small to mid-sized companies as opposed to large pharma or device companies. And given these larger companies typically have very strong balance sheets, I would say it's an attractive time for them to buy some new assets as opposed to always developing in-house, which has a very long lead time.

Anna

That makes sense. We've been talking a little bit about opportunities. So let's switch briefly to risks. What would you say are some of the biggest risks for private investors in biotech today?

Aman

There are three main risks that we deal with, and these are in no particular order, regulation, reimbursement, and competition. To manage these risks, I think you need to do two things really well. The first would be very careful structuring of the credit agreement with bespoke covenants for each company as this allows us to step in early, should the company deviate from its management-based plan, and allows us to work with the management team to effectuate the remedial action plan if needed.

And then the second important element to mitigate risk is careful selection of companies and assets to lend against in the first place. For example, we eliminate a lot of regulatory risks by only focusing on companies that are post regulatory approval. So that means with commercial assets already on the market. Similarly, one of the key pillars of the Oaktree life sciences platform is to focus on innovative need to have or life-saving products, which often have limited competition during the tenor of our loan, but are also less impacted by changes in regulation or reimbursements.

Anna

As we come to the end of this conversation, just anything else, any final thoughts that you have about what we've seen in this area in 2023 and what you expect to see in 2024?

Aman

I think that the current opportunity is both vast and growing. We have a number of secular tailwinds within life sciences supporting this growth, including aging population, increased healthcare spending in most western countries, and breakthrough technologies. This is not commoditized lending. We don't compete with banks in this space. And given the structuring and science complexities involved in each deal, we can generate better pricing and covenant protections. So overall, given that life sciences spending isn't really correlated with what's happening in the wider economy, I expect the next few years to be very busy and attractive from a lending perspective, regardless of whether there's a soft or hard landing in the economy.

Anna

Well, Aman, that was super interesting and thank you so much for joining me.

Aman

My pleasure. Thank you.