

MARKET COMMENTARY | July 15, 2025

Closing out the second quarter of 2025, investors globally continued to navigate persistent market volatility stemming from the conflict between Iran and Israel, U.S. tariffs, and persistent inflation above the U.S. Federal Reserve's 2.0% target inflation rate. The July jobs report was predominantly positive with 147,000 jobs added and unemployment declining after remaining steady the previous month. However, real gross domestic product (GDP) decreased at an annual rate of 0.5% in the first quarter of 2025, compared to a 2.4% increase in fourth quarter of 2024. Equity markets have largely shrugged off the threat of escalated conflict in the Middle East, with major US indices recently posting record highs.

In the credit markets, volatility carried over into the second quarter of 2025—particularly in April, only to quickly subside, creating fleeting yet attractive buying opportunities in both the loan and collateralized loan obligation (CLO) tranche markets. As the second quarter of 2025 came to a close, CLO liability spreads remained tight to the Secured Overnight Financing Rate (SOFR), reflecting strong investor demand.

The CLO primary market showed strength relative to early 2024, with meaningful issuance across new deals, resets, and refinancings. Refinancing and reset volumes rose by 28.2% and 46.6%, respectively, year-over-year as of June 30, 2025, as managers took advantage of tighter CLO spreads to extend deal life or improve structural efficiency.

CLO equity performance has been mixed thus far in 2025; while some seasoned deals that were able to reset or refinance delivered modest positive total returns, the asset class overall posted negative year-to-date returns through June 30, 2025. CLO equity's underperformance has been primarily driven by yield spread compression, as well as the impact of some credit losses.

The pace of new loan issuance has been relatively subdued thus far in 2025; with a 1.25% year-over-year increase in primary loan volume, year-to-date new issuance is effectively flat.¹ More than 70% of the loan market is currently trading above par², reflecting an active repricing environment amid persistent demand and improving credit fundamentals.

Octagon XAI CLO Income Fund provides investors with immediate exposure to a portfolio of BB-rated CLO debt tranches and it is our view that—barring a significant economic downturn—current CLO BB prices present relatively attractive and opportunistic entry points.

Source: Octagon Credit Investors; XA Investments

¹ Deutsche Bank CLO Research Weekly, June 30, 2025.

² Par value for credit securities is typically 100, which represents a value of \$1,000.

Past performance is no guarantee of future results.

GLOSSARY OF TERMS

CLO Liability Spread: The difference between the interest rate paid on a CLO's debt tranches (its liabilities) and a benchmark interest rate, typically SOFR.

CLO Primary Market: The primary market is where newly-issued CLO tranches are first offered and sold to investors by the CLO issuer.

Par Value: The nominal value of an investment. This is the value investors will receive from a credit security upon its maturity. Par for credit securities is typically \$1,000 and is represented by a par value of 100.

SOFR: The Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

Tranche: Related securities that are portions of a deal or structured financing, but have different risks, return potential and/or maturities.

Yield Spread: The difference in yield between two different credit securities.

RISK CONSIDERATIONS

Investing involves risk, including the possible loss of your entire investment. There is no guarantee the Fund's investment objective will be achieved. Investing in interval funds may be speculative, involve a high degree of risk, and provide limited liquidity. The Octagon XAI CLO Income Fund (the "Fund") does not currently intend to list its shares for trading on any national securities exchange and does not expect any secondary trading market in the shares to develop. The shares are, therefore, not readily marketable. Even though the Fund will make quarterly repurchase offers to repurchase a portion of the shares to try to provide limited liquidity to shareholders, there is no guarantee that an investor will be able to sell all the shares the investor desires to sell in the repurchase offer. You should consider the shares to be illiquid. The Fund is new with limited operating history. The Fund invests at least 80% of its assets in CLO debt and CLO equity, which often involve risks that are different from or more acute than risks associated with other types of credit instruments. CLOs are a type of structured credit instrument. Credit ratings are provided by Nationally Recognized Statistical Rating Organizations (NRSROs). Below investment grade securities (that is, securities below Baa3- or below BBB- by an NRSRO) are not perceived to be as strong financially as those with higher credit ratings. Holders of structured credit instruments bear risks of the underlying investments, index or reference obligation as well as risks associated with the issuer of the instrument, which is often a special purpose vehicle, and may also be subject to counterparty risk. The Fund invests primarily in below investment grade credit instruments, which are commonly referred to as "high yield" securities or "junk" bonds. The Fund's shares are not guaranteed or endorsed by any bank or other insured depository institution and are not federally insured by the Federal Deposit Insurance Corporation.

Past performance does not guarantee future results. There is no assurance that the investment process will consistently lead to successful investing. The investment objective of the Fund is to provide high income and total return. There can be no assurance that the Fund will achieve its investment objective, and you could lose some or all of your investment. An investment in this Fund presents a number of risks and is not suitable for all investors.

Investors should carefully review the prospectus and consider potential risks before investing. These and other risk considerations are described in more detail in the Fund's prospectus and SAI, each of which can be found on the SEC's website at www.sec.gov or the Fund's web page at xainvestments.com/OCTIX.

The views and opinions herein are as of the date of publication and are subject to change without notice. There is no obligation to update the information contained herein. The views or opinions herein do not necessarily reflect the views of XAI, Octagon, the Fund or their affiliates. The information provided is for informational purposes only and should not be considered investment advice or a recommendation to buy or sell any particular security, strategy or investment product. The information provided contains forward-looking statements. Investors should not place undue reliance on forward-looking statements. Actual results could differ materially from those referenced in forward-looking statements for many reasons. Forward-looking statements are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying any forward-looking statements will not materialize or will vary significantly from actual results. Variations of assumptions and results may be material.

Distributed by Parallel Distributors LLC, which is not affiliated with the Fund, Adviser or Sub-Adviser.

OCT85