

# Priority Income Fund

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member FINRA/SIPC

THE INFORMATION REGARDING PRIOR PERFORMANCE IN THIS PRESENTATION SHOULD NOT BE CONSIDERED AS INDICATIVE OF HOW PRIORITY INCOME FUND WILL PERFORM.

PREFERRED CAPITAL SECURITIES, LLC (MEMBERFINRA/SIPC) IS THE DEALER MANAGER FOR PRIORITY INCOME FUND.

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Priority Income Fund's investment objective is to generate current income and, as a secondary objective, long-term capital appreciation.

An investment in Priority Income Fund is speculative and involves a high degree of risk, including the risk of a substantial loss of investment. You should carefully consider the information set forth in the "Risk Factors" section of the Prospectus for a discussion of material risk factors relevant to an investment in the Priority Income Fund, including the risk of leverage. Additional risk factors to be considered include but are not limited to the following:

- ▲ The Fund seeks to achieve its objective by investing at least 80% of its total assets in senior secured loans made to companies whose debt is rated below investment grade. Senior Secured Debt involves a greater risk of default and higher price volatility than investment grade debt.
- ▲ The Fund will invest in equity and junior tranches of collateralized loan obligations ("CLOs"), which may be riskier than a direct investment in the underlying companies.
- ▲ CLOs will typically have no significant assets other than their underlying Senior Secured Loans.
- ▲ The Fund's investment strategy involves investments in securities issued by foreign entities, which will expose investors to risks not typically associated with investing in U.S. securities.
- ▲ The Fund may invest a substantial percentage of its portfolio in securities that are considered illiquid, which may prevent the advisor from readily disposing of securities at favorable prices.
- ▲ Priority Income Fund is not obligated to complete a liquidity event by a specified date; therefore, it will be difficult or impossible for an investor to sell his or her shares, which are not listed on a securities exchange.

# PROSPECT CAPITAL

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## PRIORITY INCOME FUND PORTFOLIO MANAGERS

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### **GRIER ELIASEK, President and Chief Operating Officer**

Grier Eliasek is President, Chief Operating Officer and a Director of Prospect Capital Corporation, Chairman and Chief Executive Officer of Priority Income Fund, Inc. and a Managing Director of Prospect Capital Management and Prospect Administration. Grier has served on the boards of directors of public and private companies.

Prior to joining Prospect, Grier was a consultant with Bain & Company from 1995 to 1998.

Grier graduated with Highest Distinction from the University of Virginia with a BS in Chemical Engineering, where he was a Jefferson Scholar and a Rodman Scholar, and from Harvard Business School.



### **COLIN MCGINNIS, CFA, Principal**

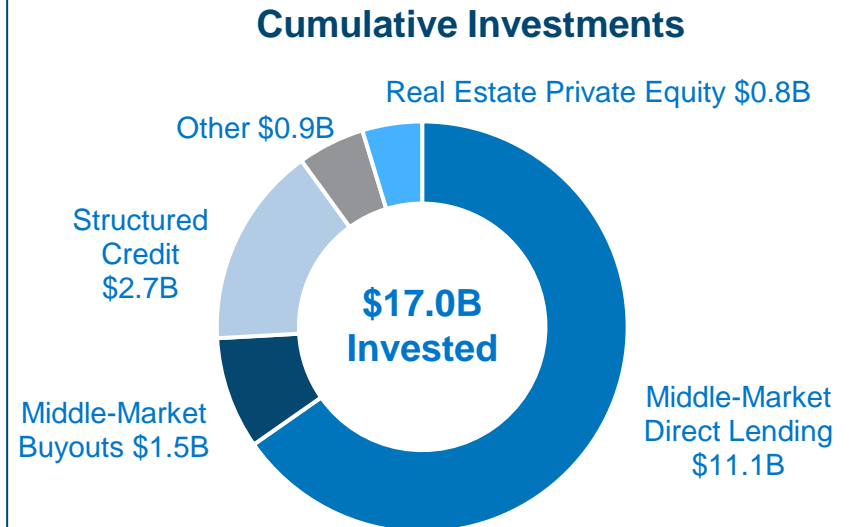
Colin McGinnis is a Principal and has been in the finance industry since 2005. He is responsible for originating, executing and managing investments in a variety of industries, including the firm's investments in CLOs.

Prior to joining Prospect, from 2011 to 2012, Colin worked as an associate at Credit Suisse, where he originated and executed leveraged finance, IPO and M&A transactions. From 2005 to 2009, he worked as a credit analyst and associate at Barclays Capital, where he underwrote, invested in and restructured CDO and CLO and leveraged finance transactions.

Colin received his BS, magna cum laude and his MBA with honors from the Wharton School of the University of Pennsylvania. He also holds the CFA designation.

## PROSPECT CAPITAL MANAGEMENT – WHO WE ARE

- \$6.0B Private Debt & Equity Manager Founded 1988
- \$17.0B Invested Since 2004
- 100+ Professionals
- 20 Years Same Management Team
- \$2.7B Invested in 253 CLO Investments
  - 14.8% IRR Across 58 Realized Investments
  - 97% of Realized Investments Have Positive IRR



## \$6.0B Prospect AUM

STRUCTURED  
CREDIT

\$1.4B

MIDDLE-MARKET  
DIRECT LENDING

\$2.8B

MIDDLE-MARKET  
BUYOUTS

\$1.0B

REAL ESTATE  
PRIVATE EQUITY

\$0.8B

OTHER

\$0.1B

# PRIORITY INCOME FUND

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## PRIORITY INCOME FUND HIGHLIGHTS

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**~10.0%**

Dividend Fully Covered  
Historically By NII<sup>(1)</sup>

**Over \$600M**

Of Assets

**\$2.7B**

Invested In CLOs By  
Prospect Capital Management

**2.19%**

LTM Default Date vs.  
Market Default Rate of 3.83%<sup>(2)</sup>

**139**

Investments and Exposure To  
Approximately 2,400 Senior  
Secured Loans

**7 Year**

History Paying ~10%  
Annualized Dividend

(1) Approximately  
(2) S&P Capital IQ



## PRIORITY: A DIFFERENTIATED INVESTMENT OPPORTUNITY

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- ✓ **Special investor access** to best-in-class management teams and an attractive alternative asset class traditionally reserved for institutional investors
- ✓ **Market leading** \$600M+ fund with a 7+ year track record consistently outperforming both peers (13.3% annual returns vs. 4.7% for peers) and the loan market, with less negative volatility
- ✓ **Top tier asset manager** with \$2.7B invested in the asset class over a decade. 165 investments and 14.2% gross IRR for Priority
- ✓ **Consistent cash income** to investors at a current 10.0% dividend yield, over 125% covered by net investment income on a TTM basis and over 950bp higher than 5-year treasuries
- ✓ **Highly diversified** portfolio of 139 investments with exposure to over 2,400 underlying loans to over 1,000 prominent U.S. companies across all industries
- ✓ **Focus on capital preservation** with 99% first lien mix, \$250M+ EBITDA companies, and average LTM default rate 43% lower than market default rate

## ACCESS TO BEST-IN-CLASS MANAGEMENT TEAMS

- Over 150 fixed income managers have issued CLO since the financial crisis
- Priority Income Fund has selected to partner with only approximately 20 of them

### Top 30 CLO Management Teams (Ranked by CLO AUM)

Rank	Manager
1	Blackstone / GSO Capital Partners
2	Credit Suisse Asset Management
3	PGIM
4	Carlyle Group
5	Ares Management
6	Apollo Global Management
7	Golub Capital
8	CIFC Asset Management
9	Octagon Credit Investors
10	KKR
11	CVC Credit Partners
12	First Eagle
13	Sound Point Capital Management
14	MJX Asset Management
15	Voya Alternative Asset Management

Rank	Manager
16	Barings
17	Anchorage Capital
18	BlackRock
19	Sculptor
20	Bain Capital Credit
21	Assured Investment Management
22	Investcorp Credit Management
23	Neuberger Berman
24	Alcentra
25	Oak Hill Advisors
26	CBAM
27	Intermediate Capital Group
28	Onex Credit Partners
29	Palmer Square Capital Management
30	Fortress Investment Group

# **SENIOR SECURED LOANS AND HOW TO INVEST IN THE MARKET**

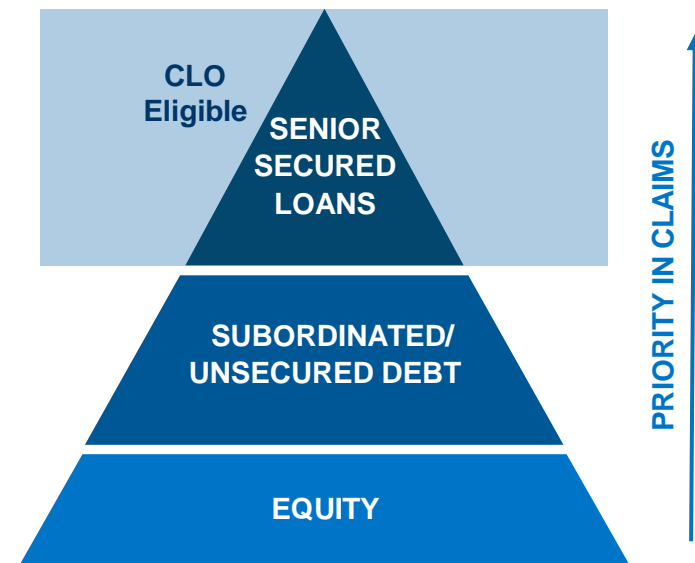
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## BENEFITS OF SENIOR SECURED LOANS

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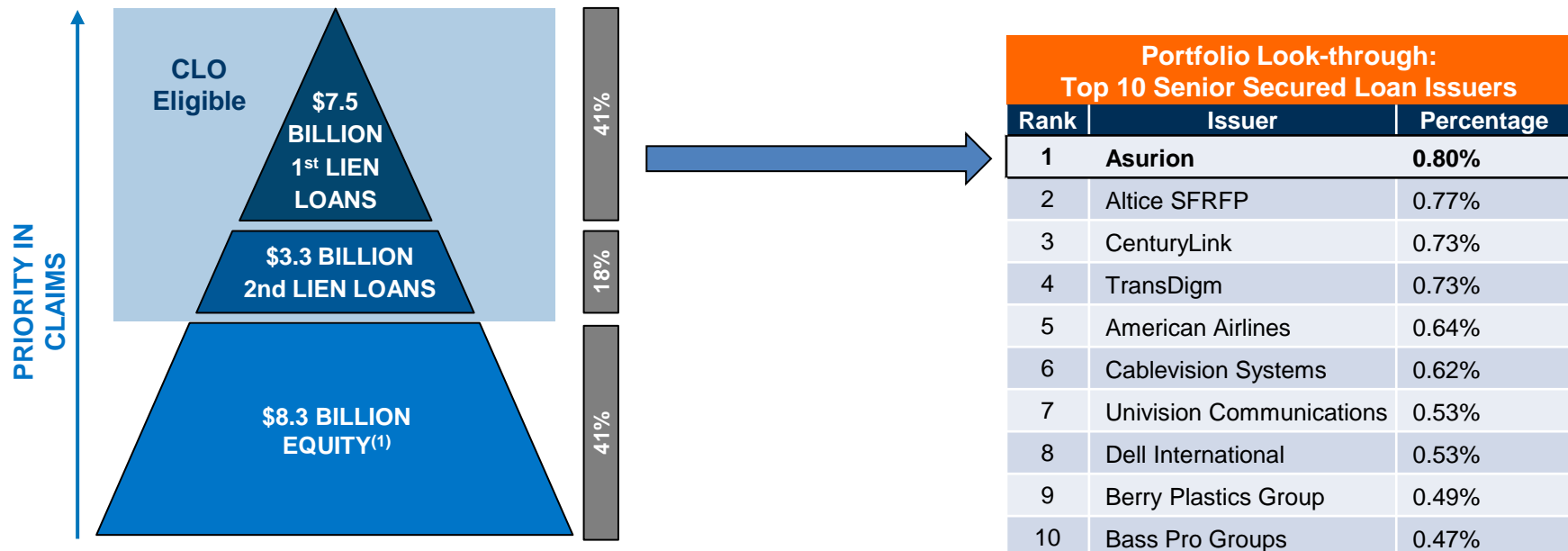
Features of Senior Secured Loans:

- **PRIORITY**
  - Highest priority in the capital structure
  - Senior to unsecured and subordinated debt, preferred stock, and common stock
- **SECURED** – First lien on borrower’s assets
- **YIELD** – Floating rates and Libor Floors
- **LARGE BORROWERS**
  - Average loan size of \$1.0+ billion
  - EBITDA of \$100+ million
  - Rated by Moody’s and S&P



## CASE STUDY – ASURION, LLC

- With 305 million customers in 23 countries, Asurion is a leading provider of device insurance, warranty & support services for cell phones, consumer electronics & home appliances
- The company is owned by a consortium of investors including the following private equity firms: Madison Dearborn, Berkshire Partners, Providence Equity Partners, and Welsh, Carson, Anderson & Stowe
- The company has issued \$7.5 billion in 1<sup>st</sup> lien loans and \$3.3 billion in 2<sup>nd</sup> lien loans
- Asurion is Priority’s largest individual loan exposure at 0.80%

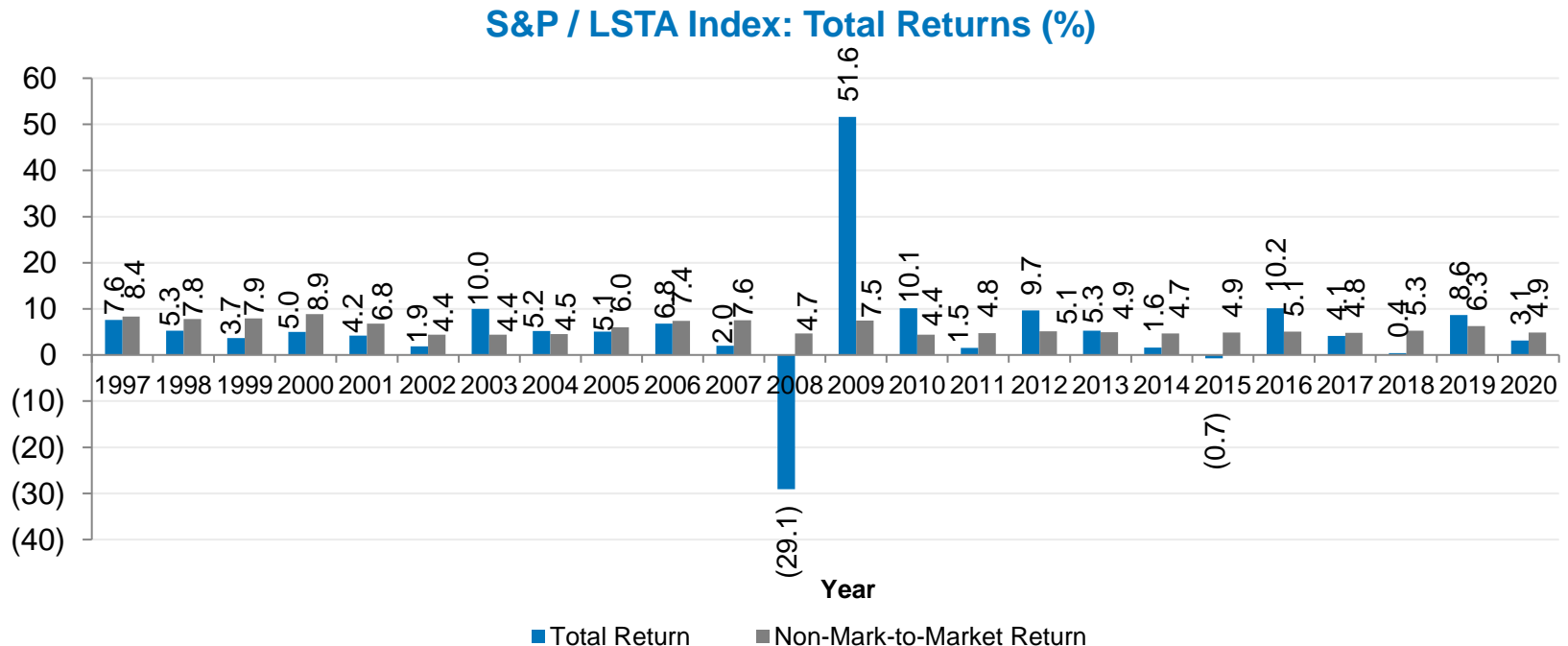


Data in this presentation is as of December 31, 2020 unless otherwise noted. Sources include S&P Global Market Intelligence and Prospect Capital Management L.P. (“Prospect”) estimates. Numbers may not add up to precise totals due to rounding.

(1) Equity is implied based on an estimated 8.0x enterprise value / EBITDA multiple.

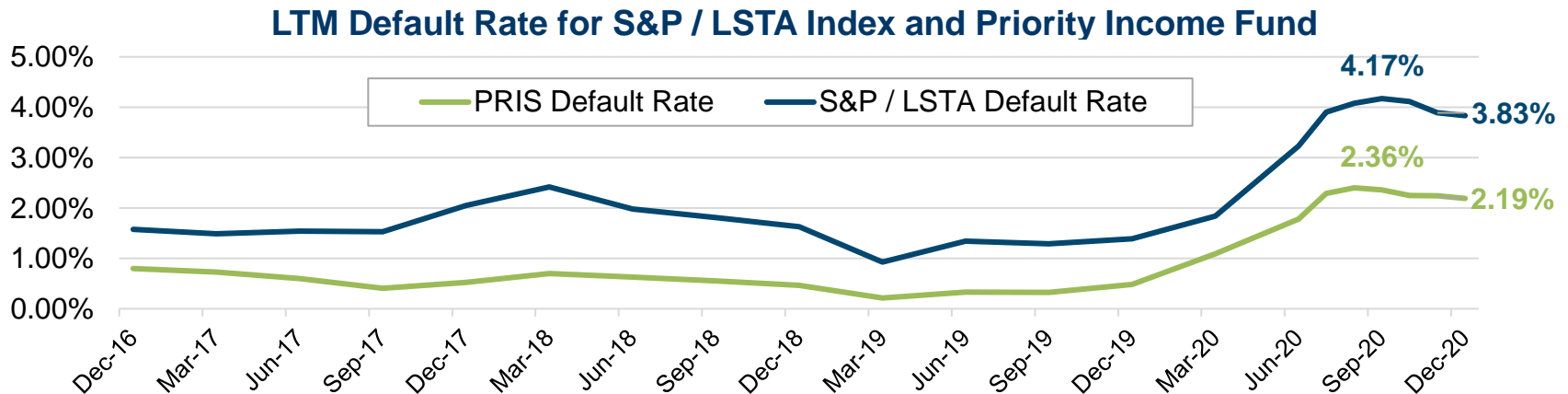
## CONSISTENT RETURNS

- Senior secured loans only had 2 years of negative returns since 1997
- 2-year return of 7.5% from 2008 – 2009 despite significant capital markets dislocation
- Dislocations offer management team opportunity to purchase discounted loans, benefiting CLO equity



## SENIOR SECURED LOAN DEFAULTS

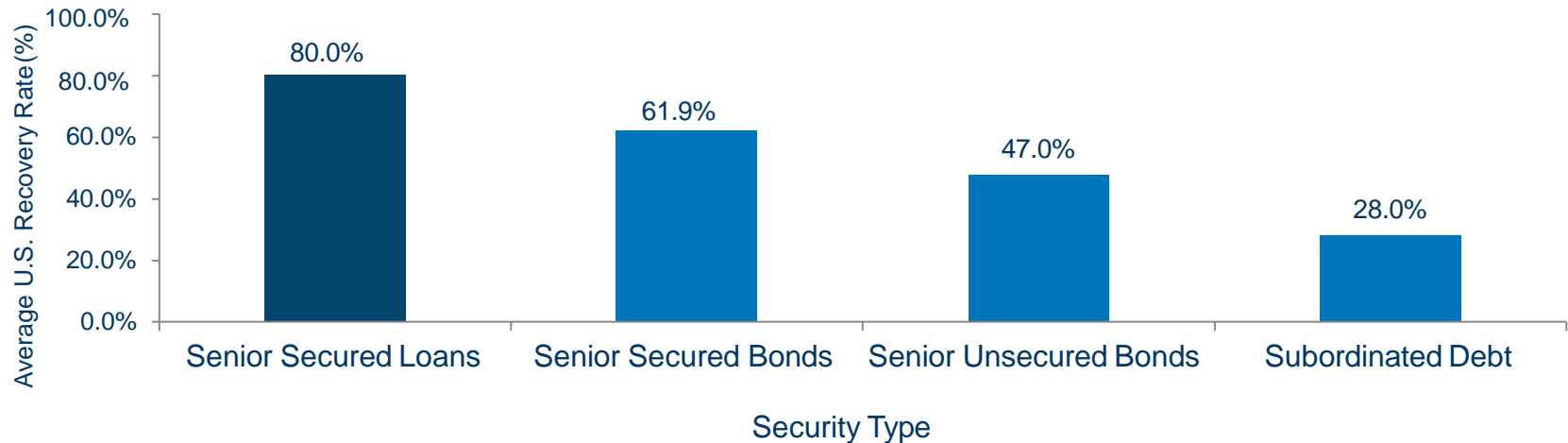
- Defaults have increased due to COVID-19 and are now above the 2.28% market average since 2003. However, Priority Income Fund's margin of outperformance against the overall market continues to grow
  - The market default rate increased from 1.84% at March 31<sup>st</sup> to 4.17% in September 30, however, we have had three consecutive monthly declines in default rates to 3.83% as of December 2020
  - Defaults have been concentrated in Oil & Gas, Retail, and Entertainment & Leisure
  - The default rate in Priority Income Fund is 2.19%
- Prospect's base case underwriting default rate is 2.0% per annum
- CLOs can withstand 6% - 8% annual default rate for the life of the CLO (6+ years and cumulative default rate of 40%+) before experiencing a negative IRR



## HIGH HISTORICAL RECOVERY RATES

- Senior secured loans have experienced significantly higher recovery rates than other fixed income asset classes
- Collateral protection through a first lien on assets of the borrower
- Significant subordinated capital (subordinated debt and equity)
- Restrictive negative covenants improve lender protection and provide a mechanism for repricing risk

AVERAGE U.S. CORPORATE DEBT RECOVERY RATES 1987 - 2019





## CLO INVESTMENT RATIONALE

DESCRIPTION	<ul style="list-style-type: none"> <li>Diversified pools of <b>rated senior secured loans to large companies</b></li> </ul>
WELL DIVERSIFIED	<ul style="list-style-type: none"> <li><b>200+</b> senior secured loans, with limits on exposure to any single company or industry</li> </ul>
FIRST LIEN	<ul style="list-style-type: none"> <li>Assets (unlike high yield bonds) have a <b>first lien</b> creditor claim on borrowers</li> </ul>
NOT REAL ESTATE	<ul style="list-style-type: none"> <li>Unlike CDOs, typically <b>no exposure</b> to real estate, mortgages, consumer debt, or other concentrated strategies that had losses during the credit crisis</li> </ul>
LARGE SIZE	<ul style="list-style-type: none"> <li><b>\$754B<sup>(1)</sup></b> market with a multi-decade history</li> <li>Borrowers typically have <b>at least ~\$100M</b> in EBITDA (not middle market)</li> </ul>
STABLE INVESTMENT GRADE DEBT FINANCING	<ul style="list-style-type: none"> <li>Stable matched debt financing (~70% AAA and average AA credit rating)</li> <li>Typically 10 – 13 year term</li> <li>No mark-to-market triggers</li> <li>Can typically be refinanced after a non-call period (typically 2 to 3 years)</li> </ul>
NON-RECOURSE DEBT FINANCING	<ul style="list-style-type: none"> <li><b>No margin calls</b> or recourse to equity investors</li> </ul>

(1) Nomura CLO Research

## CLO INVESTMENT RATIONALE

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DETAILED TRANSPARENCY	<ul style="list-style-type: none"><li>• Monthly third-party trustee reports with copious amounts of information</li></ul>
CONTRACTUAL OVERSIGHT	<ul style="list-style-type: none"><li>• Serviced by management teams under tight contractual constraints</li></ul>
MARKET IMPORTANCE	<ul style="list-style-type: none"><li>• CLO's account for <b>72%</b> of the <b>\$1.2T</b> senior secured loan market<sup>(1)</sup></li></ul>
CONSISTENT RETURNS	<ul style="list-style-type: none"><li>• <b>98.1%</b> of CLOs redeemed since 2000 (over 1,200) have a positive equity return<sup>(2)</sup></li></ul>
RECESSION RESILIENCE	<ul style="list-style-type: none"><li>• In <b>2009</b> (the nadir of the last recession), CLOs generated an <b>8%</b> current cash yield<sup>(3)</sup></li></ul>

(1) Source: S&P LCD Leveraged Lending Review 4Q 2020

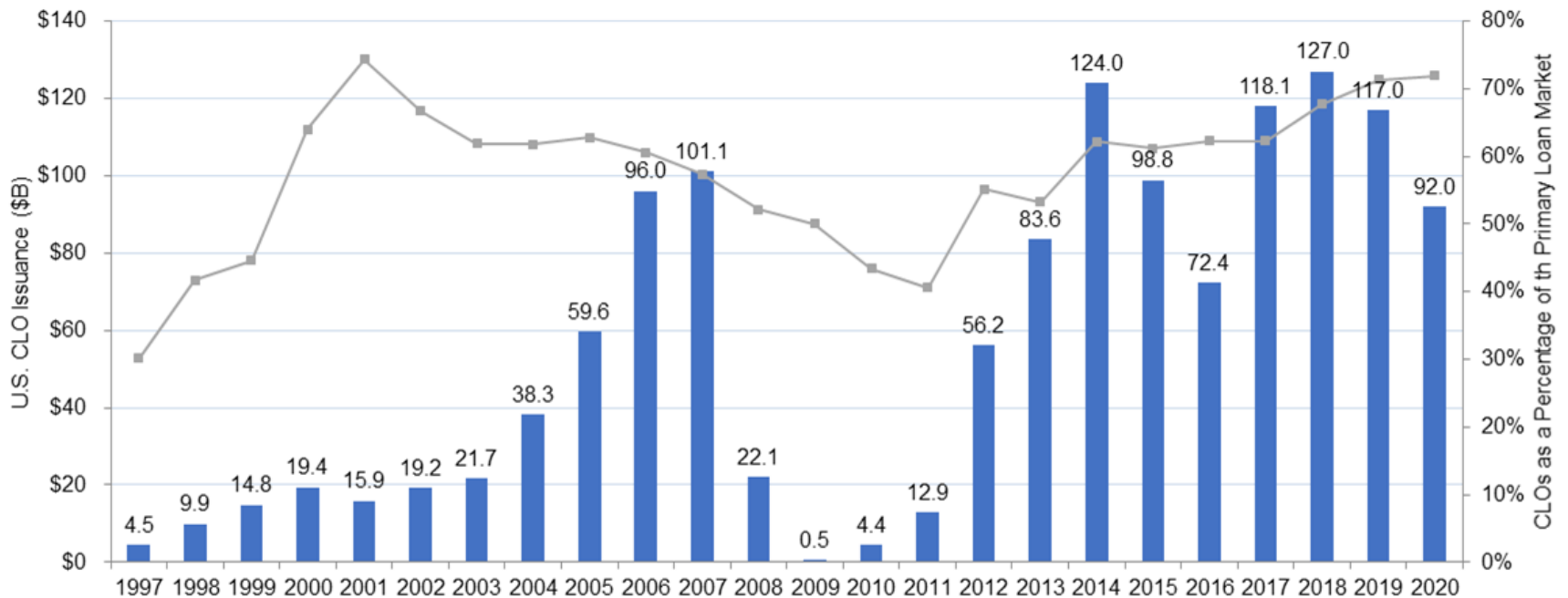
(2) Wells Fargo Structured Products Research, Intex, and data provided by mgmt. teams.

(3) Citigroup Global Markets Research

## LARGE AND CRITICAL MARKET

- U.S. CLO market totals \$754B outstanding<sup>(1)</sup>
- Senior secured loan market is \$1.2T in size<sup>(2)</sup>
  - CLOs account for 72% of the primary loan market (over 50% since 1997)<sup>(2)</sup>

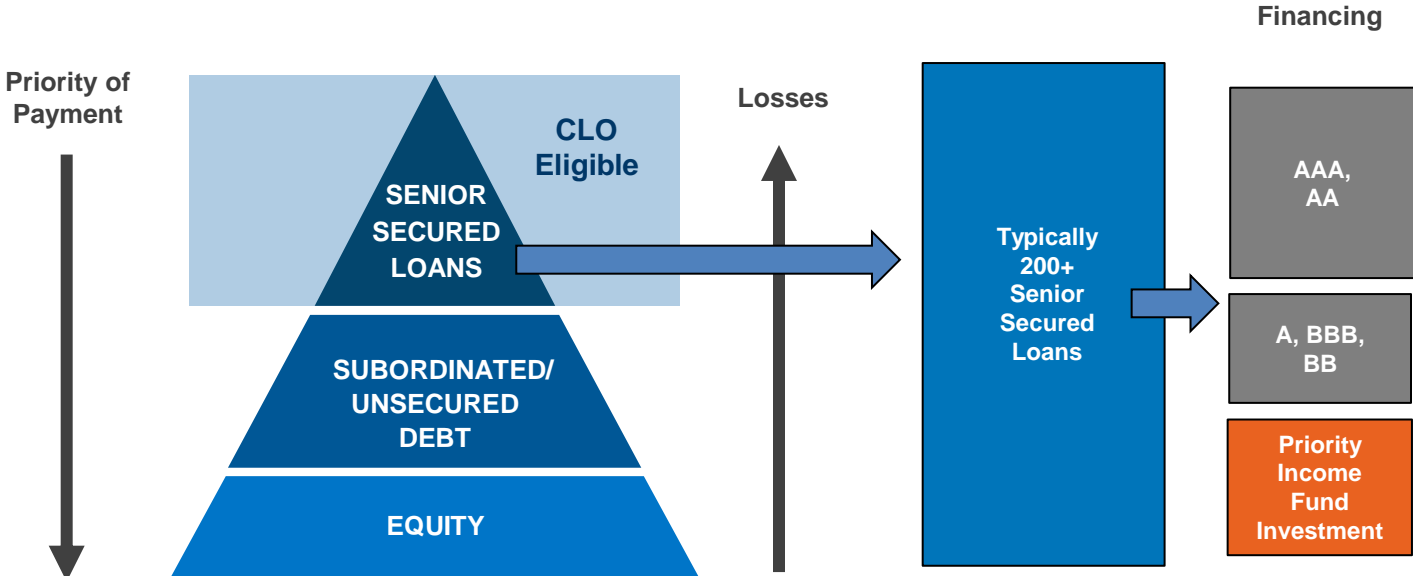
U.S. CLO ISSUANCE (\$B) & CLOs AS A PERCENTAGE OF THE PRIMARY LOAN MARKET <sup>(1)(2)</sup>



(1) Nomura CLO Research.

(2) S&P LCD Leveraged Lending Review 4Q 2020.

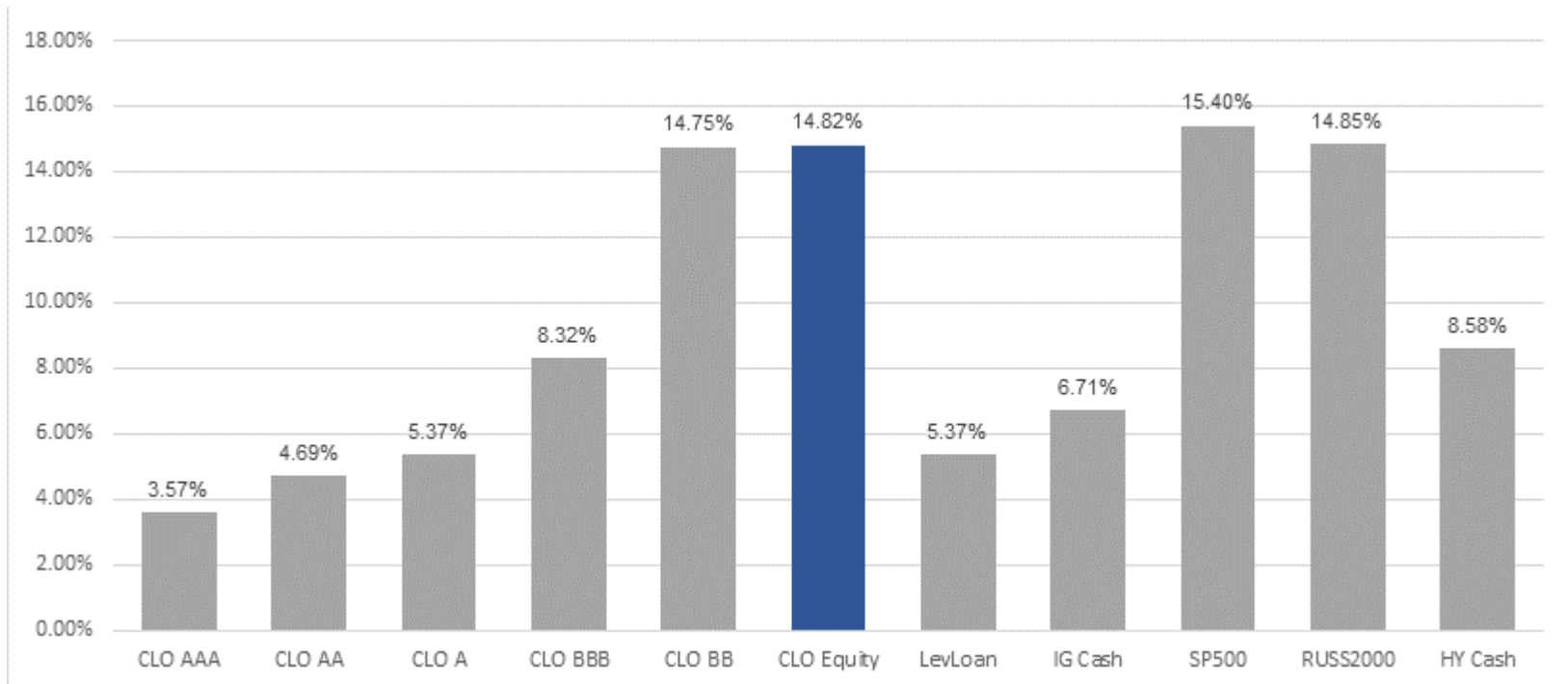
# INCOME GENERATION THROUGH A CLO



## MARKET PERFORMANCE

- CLOs have produced 14.82% average annual returns over the past 5-years.
  - 5.37% for Leveraged Loans | 6.1% for IG Cash Bonds | 8.58% for High Yield Cash Bonds

U.S. CLO EQUITY 5-YEAR AVG. RETURNS VERSUS OTHER ASSET CLASSES<sup>1</sup>



(1) Citigroup Global Markets Research; 2021 US CLO Outlook: Carry on with the CLO Trade.

# FUND OVERVIEW AND OFFERING

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## PRIORITY INCOME FUND STATISTICS AS OF 12/31/20

### Annualized Distribution Rate<sup>1</sup>

R Shares:

**9.97%**<sup>2</sup>

I Shares:

**10.69%**<sup>2</sup>

*Cumulative Distributions Per Share:* **\$10.12896** (since inception)

*Distribution Frequency:* **Monthly**

*Consecutive Months of Distributions:* **83** (since inception)

*Special Distribution Frequency:* **Quarterly**

*Total Assets:* **\$606 million**

*Underlying Loans in Portfolio<sup>2</sup>:* **2,430**

*Aggregate Balance of Underlying Loans<sup>2</sup>:* **\$63.6 billion**

*Default Rate of Underlying Loans<sup>2</sup>:* **2.19%**

*3 Share Classes:*

**Class R:** 6% selling commission, 0.75% dealer manager fee (6.75% load, no trail)

**Class RIA:** 0% selling commission, 0.75% dealer manager fee (0.75% load, no trail)

**Class I:** 0% selling commission, 0% dealer manager fee (no load, no trail)

<sup>1</sup> Distributions are not guaranteed. There is no assurance that distributions will be made or that any particular rate of distribution will be maintained. Distributions shown here include all regular and special distributions for the past two quarters. The annualized distribution rate is based on the current offering price of a share class, and is calculated by annualizing the sum of the original base dividend per share of \$1.25 per year divided by the offering price of the share class as of the date of publication.

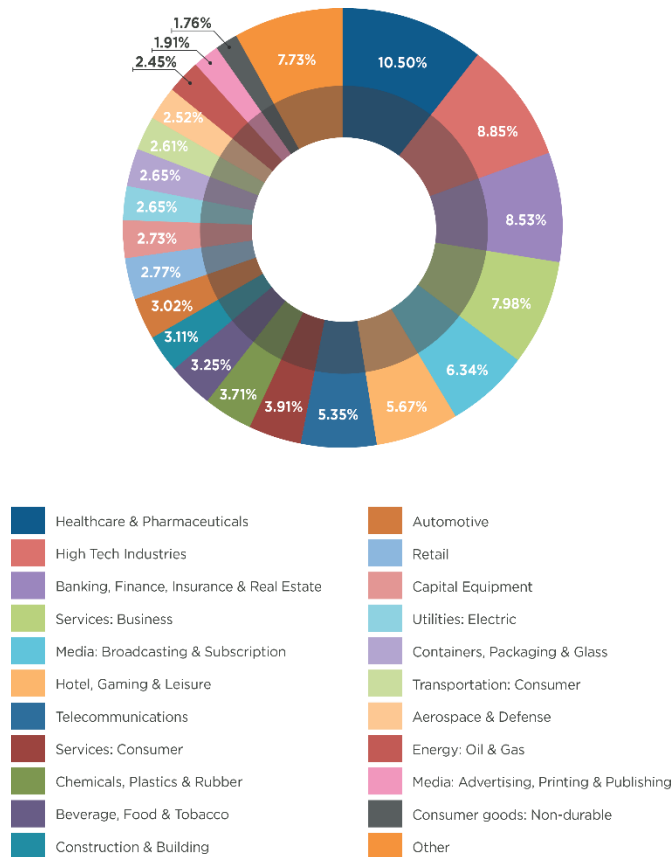
<sup>2</sup> As of 12/31/20

<sup>3</sup> Current Reinvestment Price: Stockholders' reinvested distributions will purchase shares at a price equal to 95% of the net offering price that shares are sold in the offering at the closing immediately following the distribution payment date.

<sup>4</sup> Data is estimated and based on information compiled from Intex Solutions upon portfolio close at end of quarter and are subject to change.

# PORTFOLIO ALLOCATION AS OF 12/31/20

## Industry Allocation – Top 20 Industries by Exposure



## Portfolio Look-through: Top 10 Senior Secured Loan Issuers by Exposure

Rank	Issuer	Industry	Percentage
1	Asurion	Banking, Finance, Insurance & Real Estate	0.80%
2	Altice SFRFP	Telecommunications	0.77%
3	CenturyLink	Telecommunications	0.73%
4	TransDigm	Aerospace and Defense	0.73%
5	American Airlines	Transportation: Consumer	0.64%
6	Cablevision Systems	Media: Broadcasting & Subscription	0.62%
7	Univision Communications	Media: Broadcasting & Subscription	0.53%
8	Dell Technologies	High Tech Industries	0.53%
9	Berry Plastic Group	Containers, Packaging & Glass	0.49%
10	Bass Pro Group	Retail	0.47%

All data as of December 31, 2020. Portfolio holdings are subject to change.



## PRIORITY INCOME FUND HIGHLIGHTS

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**~10.0%**

Dividend Fully Covered  
Historically By NII<sup>(1)</sup>

**Over \$600M**

Of Assets

**\$2.7B**

Invested In CLOs By  
Prospect Capital Management

**2.19%**

LTM Default Date vs.  
Market Default Rate of 3.83%<sup>(2)</sup>

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Investments and Exposure To  
Approximately 2,400 Senior  
Secured Loans

**7 Year**

History Paying ~10%  
Annualized Dividend

(1) Approximately  
(2) S&P Capital IQ

## PRIORITY INCOME FUND OFFERING OVERVIEW

Offering Terms Overview	
Offering	Closed-end fund, 18-month follow-on offering
Liquidity	Quarterly tender offers capped by the proceeds of the dividend reinvestment program
3 share options	Class R: 6% selling commission, 0.75% dealer manager fee (6.75% load, no trail) Class RIA: 0% selling commission, 0.75% dealer manager fee (0.75% load, no trail) Class I: 0% selling commission, 0% dealer manager fee (no load, no trail)
Investment strategy	CLO equity and debt
Historical distribution yield on offering price	9.97% Net Investment Income coverage of distribution: ~125% as of last twelve months ended 12/31/2020
Investment adviser	Priority Senior Secured Income Management, LLC
Transfer agent	DST Systems, Inc.
Custodian	U.S. Bank National Association
Auditor	BDO USA, LLP
Administrator	Prospect Administration LLC
Total assets (12/31/2020)	\$606 million
Due diligence report	Bowman and FactRight
Minimum investment	\$1,000

## HISTORIC SHAREHOLDER NET RETURNS

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The calculations herein have many inherent limitations, only some of which have been described. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used have been stated or fully considered, and any reliance on the returns presented is at an investor's own risk. Alternative assumptions would produce different results, which differences could be significant, and prove to be more appropriate. Investors should not assume that they will have, and no assurance can be given that investors will have, an investment experience similar to the hypothetical performance shown.

The value of outstanding Priority investments is determined by the Board of Directors of Priority in accordance with its valuation policies and procedures, which include a review of quarterly valuations by independent valuation firm Gifford Fong Associates (who has valued each applicable Priority investment at quarter end) prepared in accordance with U.S. GAAP and FASB Accounting Standards Codification Topic 820 (ASC 820). Because substantially all of Priority's investments are not actively traded, this determination of current value is a material factor in determining the returns presented. Actual amounts subsequently realized on an investment may differ materially from

### **ADDITIONAL TRACK RECORD DISCLAIMER**

These materials contain information about Priority. This information has been supplied by Priority Senior Secured Income Management LLC to provide prospective investors with information as to its general portfolio management experience. No assurance can be given that any particular individual will be responsible for managing the proposed investments for any length of time.

An investor's net return may differ significantly from the Shareholder returns shown due to differences in timing of the investment and other factors. In fact, net returns may be significantly higher or lower than an investor's estimated return.