January 2023

Direct Lending Overview

Prepared for: Florida Public Pension Trustees Association

Private Credit Basics

Why Invest in Private Credit?

Portfolio Diversification

Higher returns than fixed income. Low correlation to public markets

Potential for Attractive Returns

With low default rates

Floating Rate

Provide protection against rising rates

Lower Volatility

vs public markets

Reliable Cash Yield

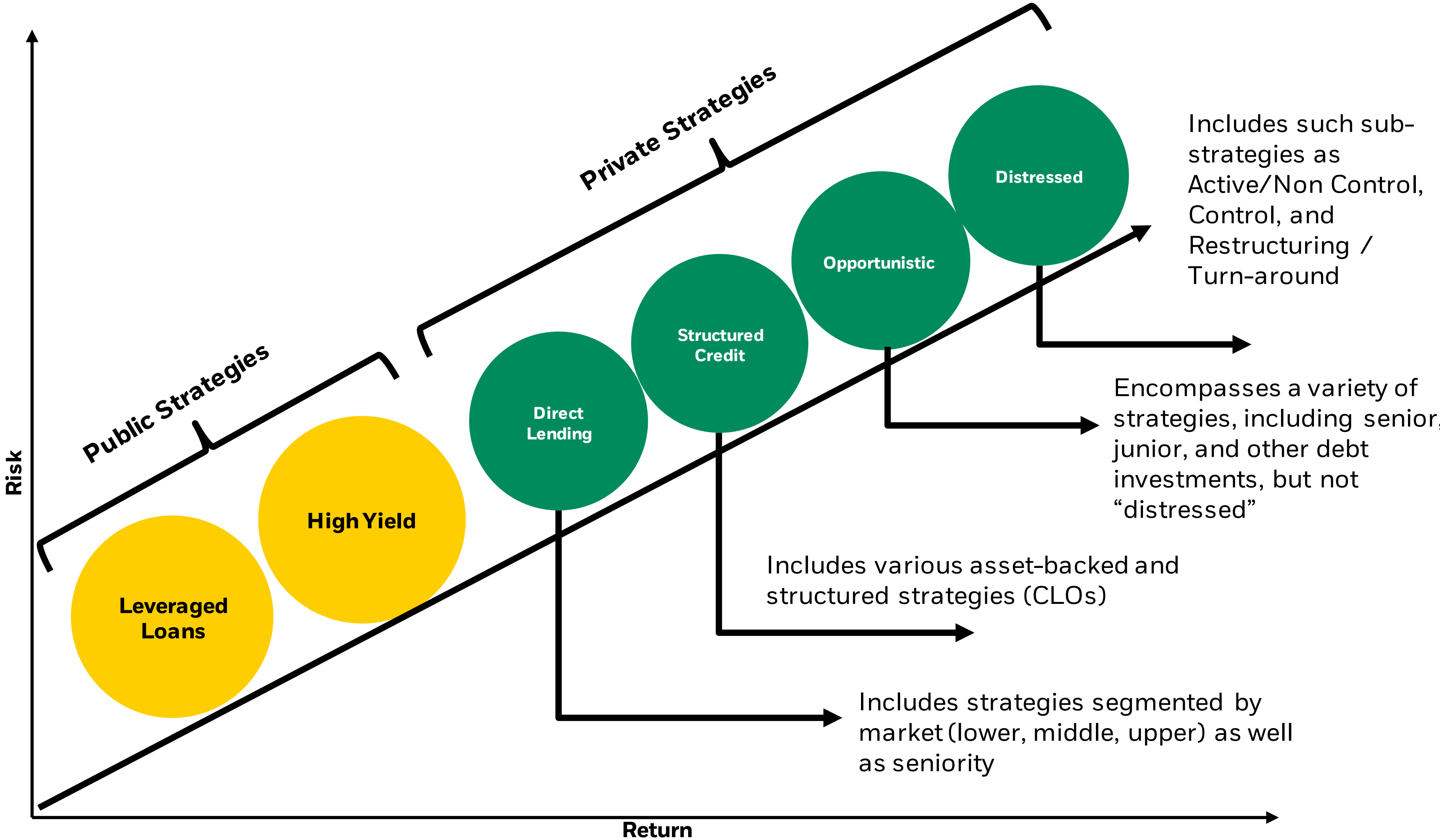
Coupons provide predictable current income

Lender Protections

Loans structured with financial covenants

Source: BlackRock, as at 31 December 2022. Diversification and asset allocation may not fully protect you from market risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Putting Private Credit in Context



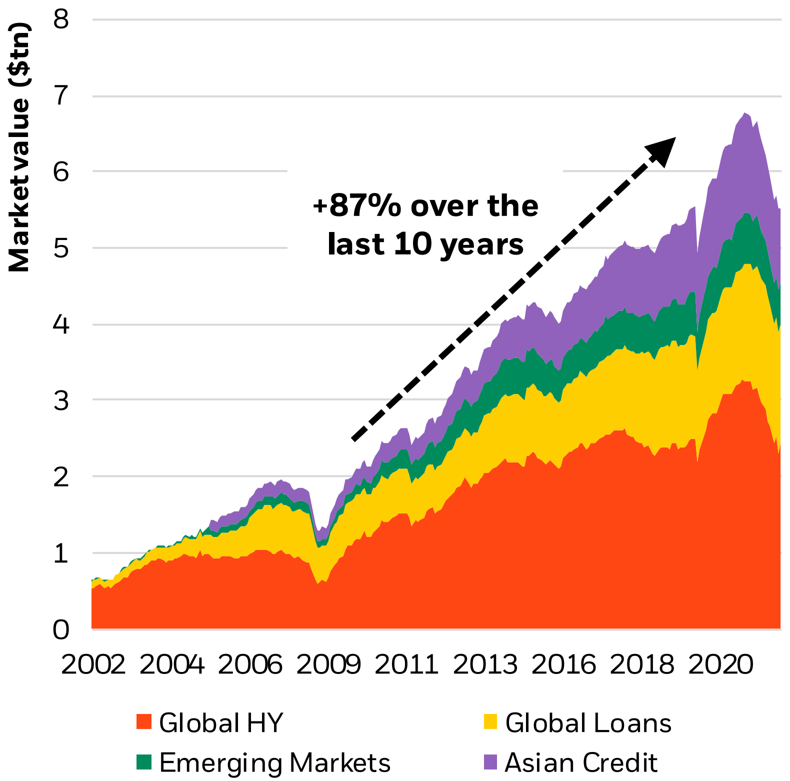
Source: BlackRock, as at 31 December 2022. Diversification and asset allocation may not fully protect you from market risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

A Growing Opportunity Set

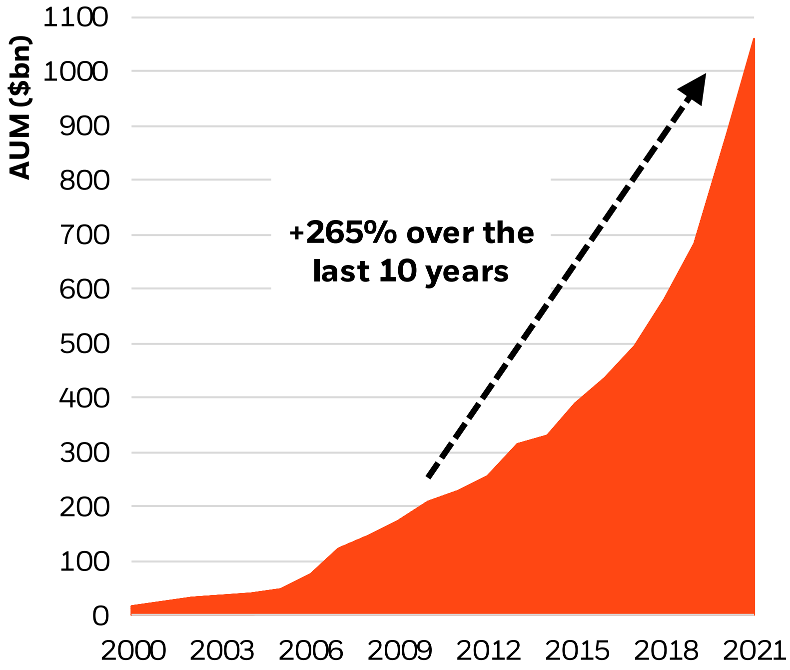
Global credit opportunity set expands beyond liquid markets

Significant growth in global credit markets over the last 15 years created a $7+ trillion opportunity set for investors across higher yielding liquid and private credit

$5+ trillion in liquid credit globally[1]



$1+ trillion in private credit[2]



[1] Source: Barclays Live, Bloomberg and J.P. Morgan, as of 9/30/2022. Global HY = Bloomberg Global High Yield Index. Global Loans = sum of the Morningstar LSTA US Leveraged Loan Index and the S&P European All Loans Index. Emerging Markets = JP Morgan CEMBI Index, Asian Credit = JPMorgan Asian Credit Index (JACI). Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index. [2] Source: Preqin Pro as of 12/31/2021. For illustrative purposes only and subject to change. There is no guarantee that above assumptions can be achieved. Investments in less liquid or illiquid private credit investments involve risks. Any decision to invest in the Fund should be made solely on reliance upon the Private Placement Memorandum of the Fund.

Investors are increasing allocations to private credit

Of the 271 institutional clients surveyed in 2021, 90% said they plan to increase their allocation to Private Credit[1]

Potential Portfolio Benefits	**Income**	**Lower Volatility**	**Downside Mitigation**	**Diversification**
Source of Allocation	**Fixed Income**	**Public Equity**	**Private Equity**	**Liquid Alternatives**

Private credit opportunities will continue to expand to meet the capital needs of current borrowers and companies that require new liquidity solutions as economic conditions evolve

[1]Source: BlackRock 31 December 2020 Institutional Rebalancing Survey. 271 institutional clients, representing over US$9.8 trillion in investible assets, participated in this survey.

Direct Lending

What is Direct Lending?

Direct lending is typically a form of senior debt financing to small and mid-sized companies which can generally not access lower-cost financing in the public markets

Common structural benefits

Secured debt

Typically secured by real assets, intangible assets, and enterprise value

Yield & amortization

Principal and interest payments provide current income, while amortization uses excess cash to pay down debt

Financial covenants

Limit ability to increase debt, make distributions and payments, and to liquidate assets

Structural seniority

1st and 2nd lien positions provide repayment priority in the event of default

Floating rate

Adjustable coupons that increase when interest rates rise and provide floors when they decline

Management access

Access to management teams provides an edge that potentially improves decision-making and loan structuring

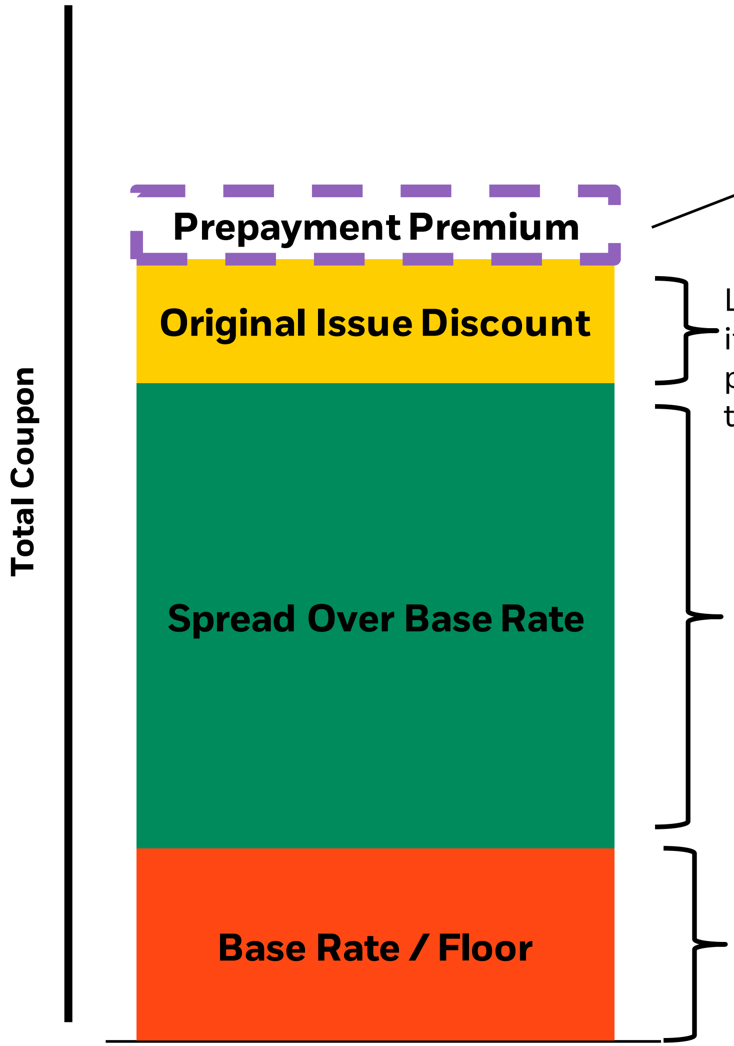
Source: BlackRock as of 30 September 2022. All $ figures are US dollars. Lending market overview provided for illustrative purposes only

Segmenting the U.S. Leveraged Lending Market

	Lower Middle Market	Core Middle Market	Upper Middle Market	Broadly Syndicated Loans
EBITDA	$0 - 25 million	$25 – 75 million	$75 – $150 million	$150 million+
Market Dynamics	• Underwritten by smaller asset managers or community banks • Typically either a sole lender or member of a small club • Borrowers can be less sophisticated due to smaller businesses or no Private Equity partner • Least efficient segment; Limited to no liquidity; cost of capital mixed because dependent on banking relationship • Business may not be able afford bankruptcy due to high costs	• Underwritten by institutional asset managers • Typically either a sole lender or member of a club of 1-5 direct lenders • Stronger total covenant package plus prepayment protection and ability to customize reporting • Less efficient segment; higher cost of capital, robust lender protections • Managers less focused on middle market league tables.	• Underwritten by an agent • Typically arranged and distributed by mid-market lender • Often covenant-lite or a single maintenance-based test • More efficient segment; lower costs of capital and less lender protections • Most completive segment of middle market. • Manager focused on middle market league tables	• Typically arranged and distributed by a large bank • Most efficient segment; lowest cost of capital and borrower-friendly terms • Primarily covenant-lite (75%+ of market) • Trades daily in high volume in a normal, functioning market

Source: BlackRock as of 30 September 2022. All $ figures are US dollars. Lending market overview provided for illustrative purposes only

Essential Elements of a Private Loan



A typical feature of private loans is a prepayment premium which specifies a penalty that a Borrower must pay if they elect to repay their loan prior to a specified amount of time has elapsed (typically 1-2 years)

Loans are often funded at a discount to par (OID). For example, if a company borrows $100, a lender will fund $98, with the $2 providing a return enhancement or fee, which is amortized over the loan's life

Typically the largest contributor to total return, especially for direct lending transactions, this represents the credit spread (interest rate) OVER the base reference rate that borrowers pay

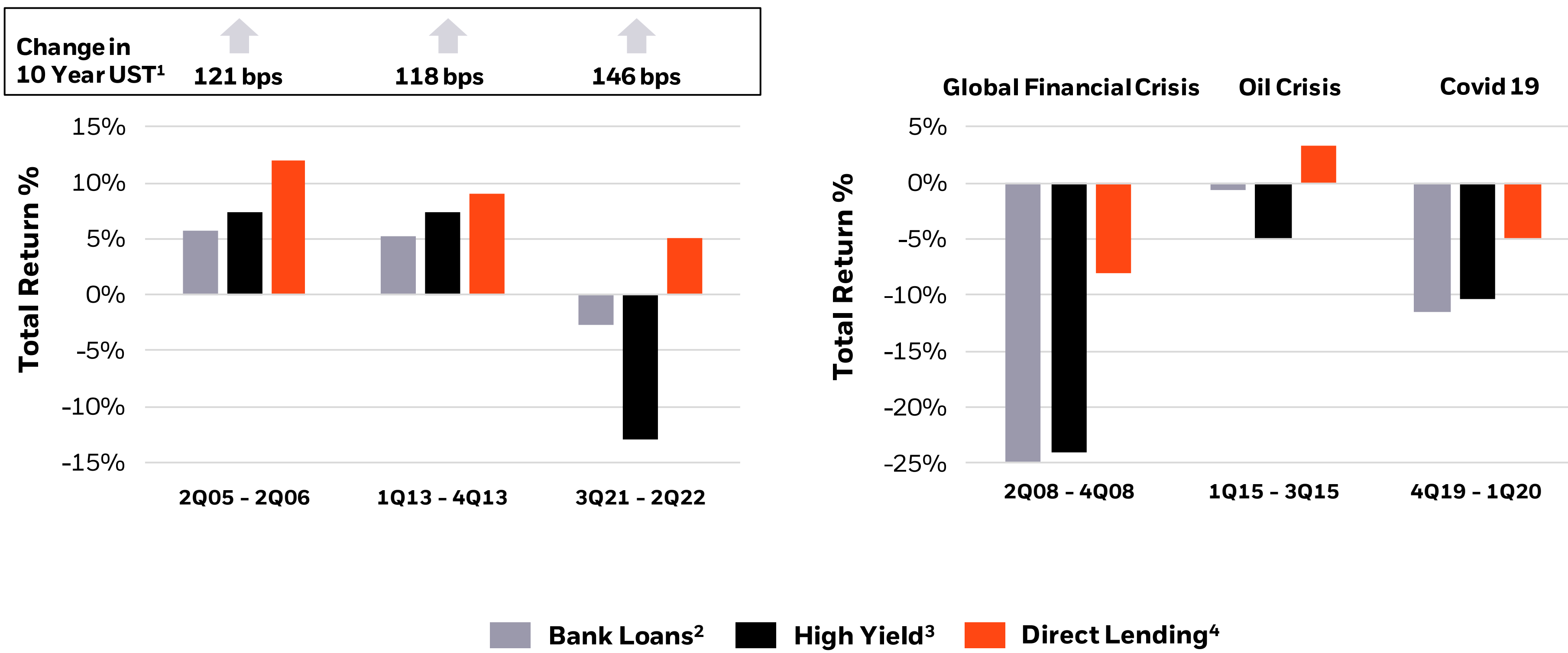
Loans typically include a base rate floor, which specifies the minimum base floating rate to be paid BEFORE the fixed spread. If the reference rate is below this, then the floor is in effect

Key Risks and Mitigants

Risk	Description	Mitigant
Credit Risk	Describes a borrower's ability to repay their debt obligation.	Potential extensive pre-investment diligence with managers performing a thorough review of a borrower's business, operating history, and the industry in which it operates
Default Risk	The possibility of a loss resulting from a borrower's failure to fulfill its interest or principal. payments	Potential pre-investment diligence; ongoing monitoring during the period the investment is held; potential covenant packages tailored to a specific borrower; potential ability to perform workouts in the event of default
Liquidity Risk	Lack of a readily available secondary market for privately-negotiated loans	Fund structure – private credit assets are typically held in lockup vehicles with a defined life
Prepayment Risk	The risk that the borrower will elect to repay their debt early which impacts an investor's cash flows, and also results in reinvestment risk	Potential negotiated prepayment protections built into credit documents specifying penalties for voluntary early repayment
Systematic Risk (Macro)	The risk that a security's value will change due to systemic, market, or geopolitical factors	Potential broad diversification across borrowers and industries; senior secured position in a borrower's capital structure

Direct Lending Performance in Challenging Markets

During periods of rising rates… and in times of distress



Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only and does not reflect any deduction for fees or expenses. You cannot invest directly in an unmanaged index. Not indicative of future returns. Source: Bloomberg, Cliffwater Direct Lending Index, St. Louis Fed as of 30 June 2022. For illustrative purposes only. [1] Reflects changes in the 10 year treasury rate; Source: The St. Louis Fed/Board of Governors of the Federal Reserve System [2] Bank Loans reflects the S&P/LSTA Leveraged Loan Total Return Index. [3] High Yield reflects the Bloomberg US Corporate High Yield Total Return Index. [4] Direct Lending reflects the Cliffwater Direct Lending Index.

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