



Positioning Your Portfolio for Rising Interest Rates & High Inflation

FPPTA

Q4 2022

CONFIDENTIAL



Jens Ernberg
Co-head
Private Credit

Agenda

Private credit should be viewed as an all-weather strategy that can be expected to perform well in environments of rising rates, high inflation, and even heightened geopolitical risk

1. Team and Platform
2. Market Opportunity
3. Direct Lending in Times of High Inflation
4. Direct Lending in a Rising Interest Rate Environment



Team and Platform

Dedicated Private Credit Team, Supported By A Powerful Global Asset Management Platform

Private Credit Investment Team¹



Jens Ernberg
Co-head of
Private Credit



Thomas Hall, CFA
Co-head of
Private Credit



Matthew Bandini
Managing Director



Bryan Chen
Senior Vice President
RI Committee Member



Zach Crowley
Associate



William Sze Senior
Analyst

Private Credit Support Team



Jason Gu
Private Credit
Fund Operations



Yelena Kuznetsova
Private Credit
Marketing & Comms.



Robert Napolitano
Product Development and
Strategy



Alyssa Penwell
Head of Legal Funds
Global

Investment Committee ("IC") Members



Andrew Bernstein
Head of
Private Equity



Janusz Heath
Head of Investment
Management



Jens Ernberg
Co-head of
Private Credit



Thomas Hall, CFA
Co-head of
Private Credit

Investment Committee Observers and ESG



Bryn Gostin
IC Observer
Head of
RI Committee



Reid Conway
Global Chief Compliance Officer
IC Observer



Philippe Jost
Head of Risk & Solutions
IC Observer
RI Committee Member



Verena Rossolatos
ESG Specialist

Capital Dynamics Overview

USD 14 bn⁺²
AUM/ AUA

14
Offices

150+
Employees

550+ / 950+
Institutional / Private Clients

(1) All information as of June 30, 2022 unless otherwise stated. (2)) As of September 30, 2022. Assets Under Management are calculated based on the total commitments as of the final closing date for all funds currently managed by Capital Dynamics, including amounts that have been distributed. Assets Under Advisement includes assets for which Capital Dynamics provides services such as reporting, monitoring and risk management.



Challenging Markets

Challenging Market Dynamics

Investors are being challenged by the current macro environment

- Inflation
- Rising interest rates
- Geopolitical risk



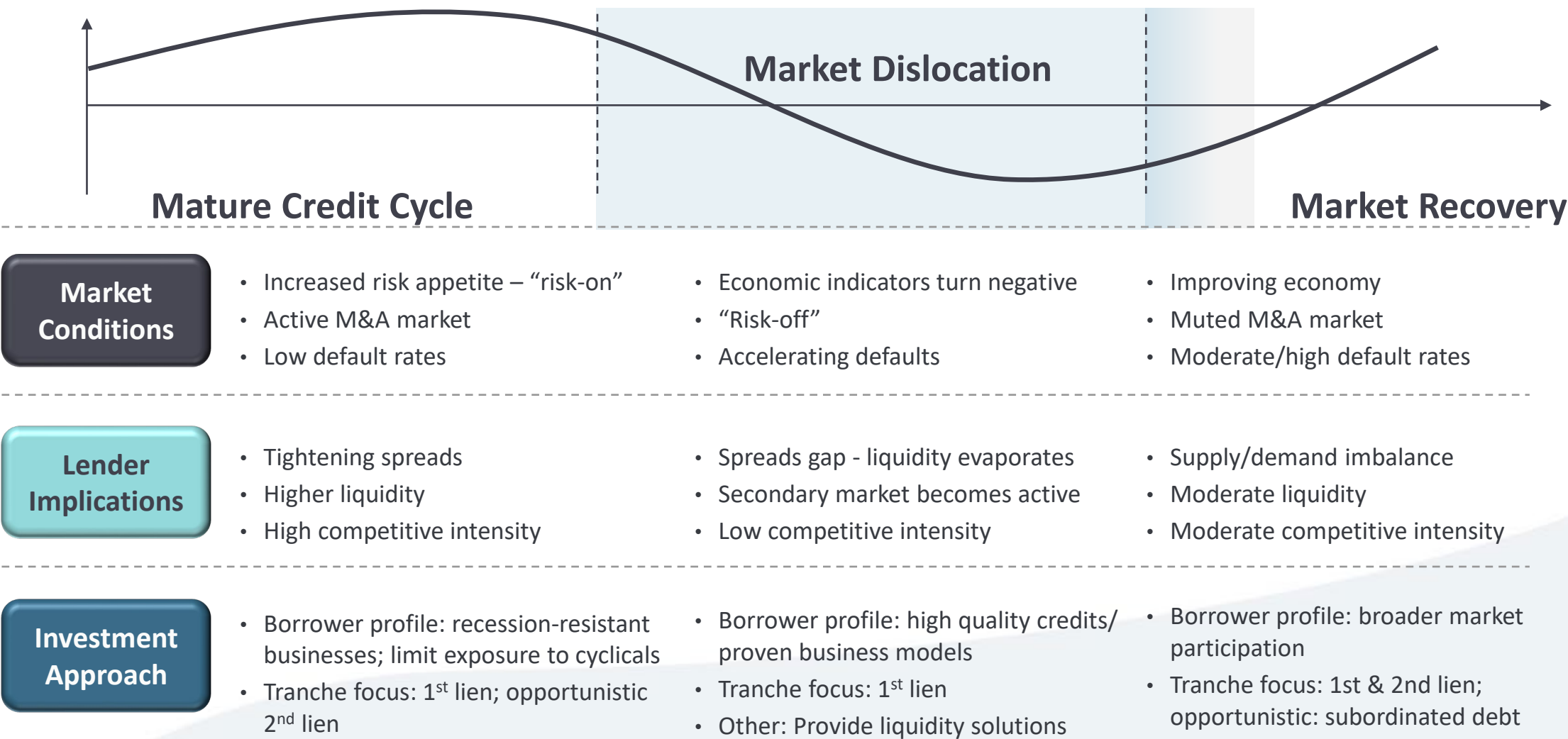
- Increased volatility
- Pressure on asset prices
- Recessionary fears



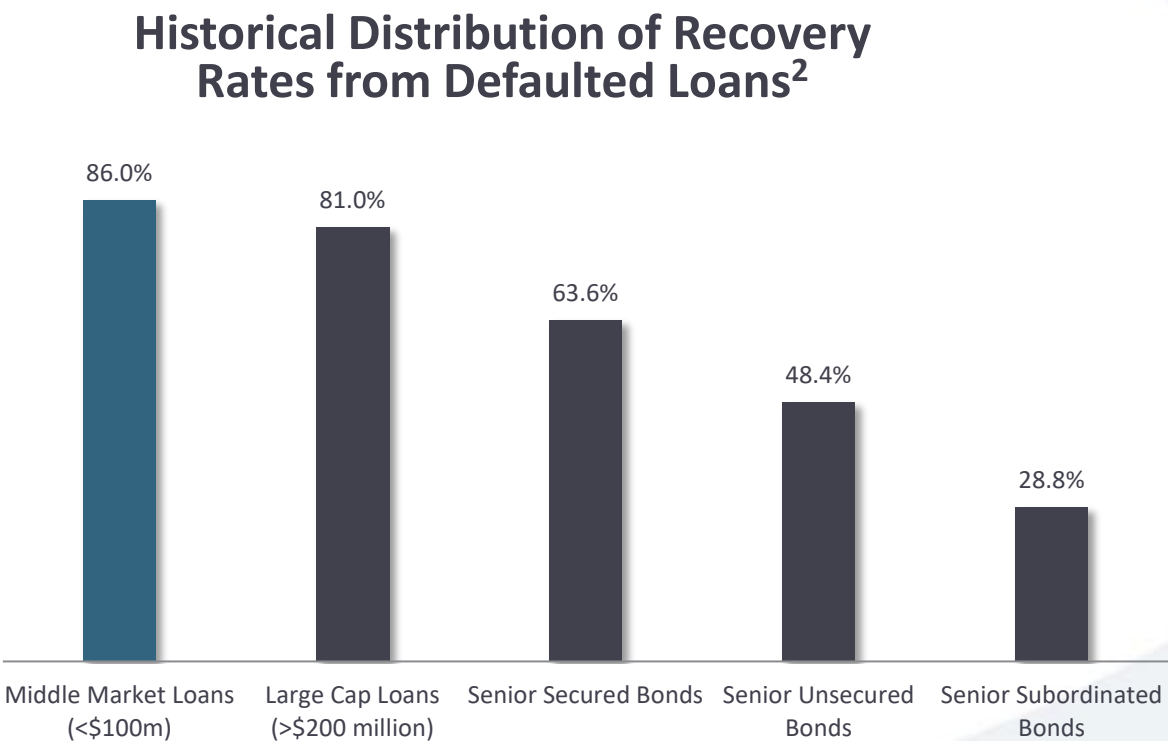
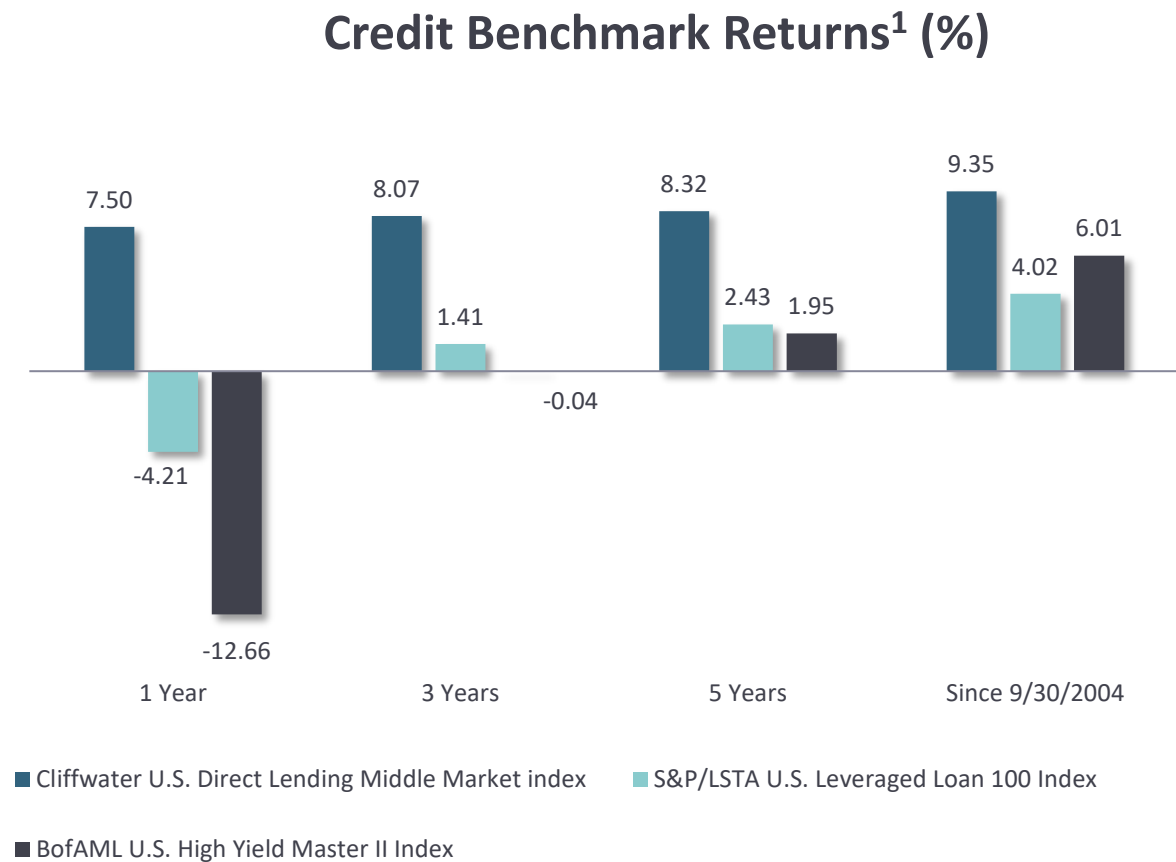
Why Private Credit?

“All-Weather” Strategy That Does Not Rely on Market-Timing

Experienced team capable of adjusting the strategy based on prevailing market conditions



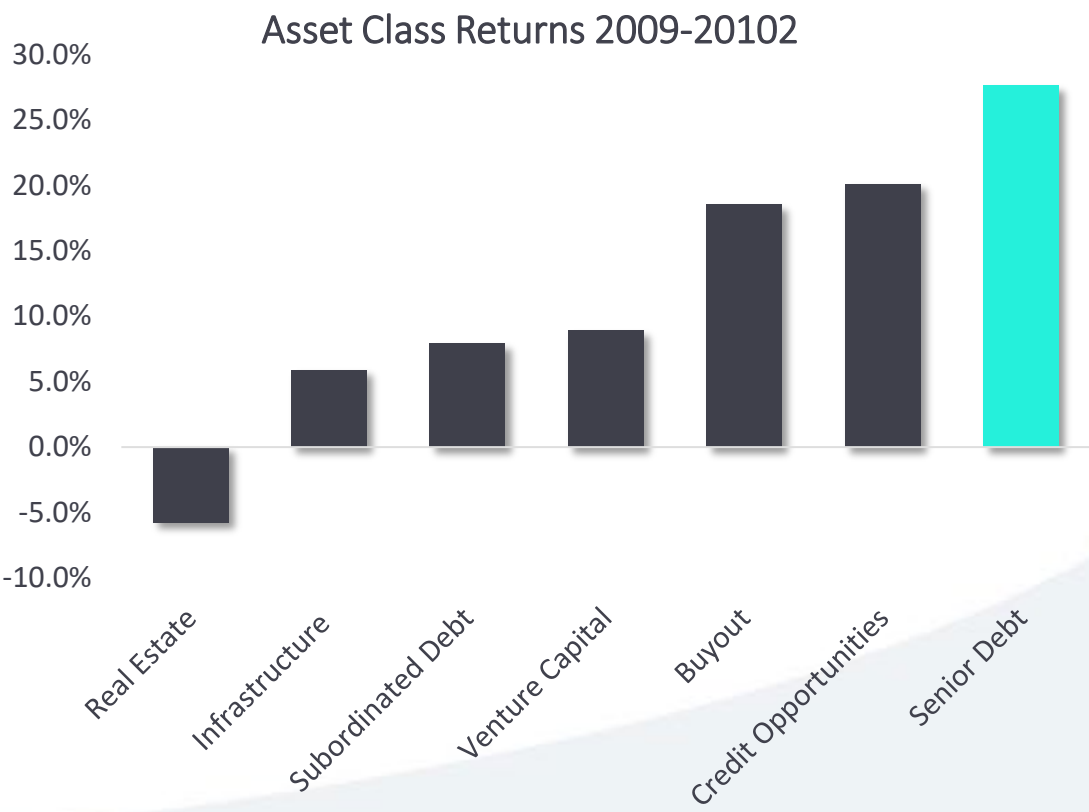
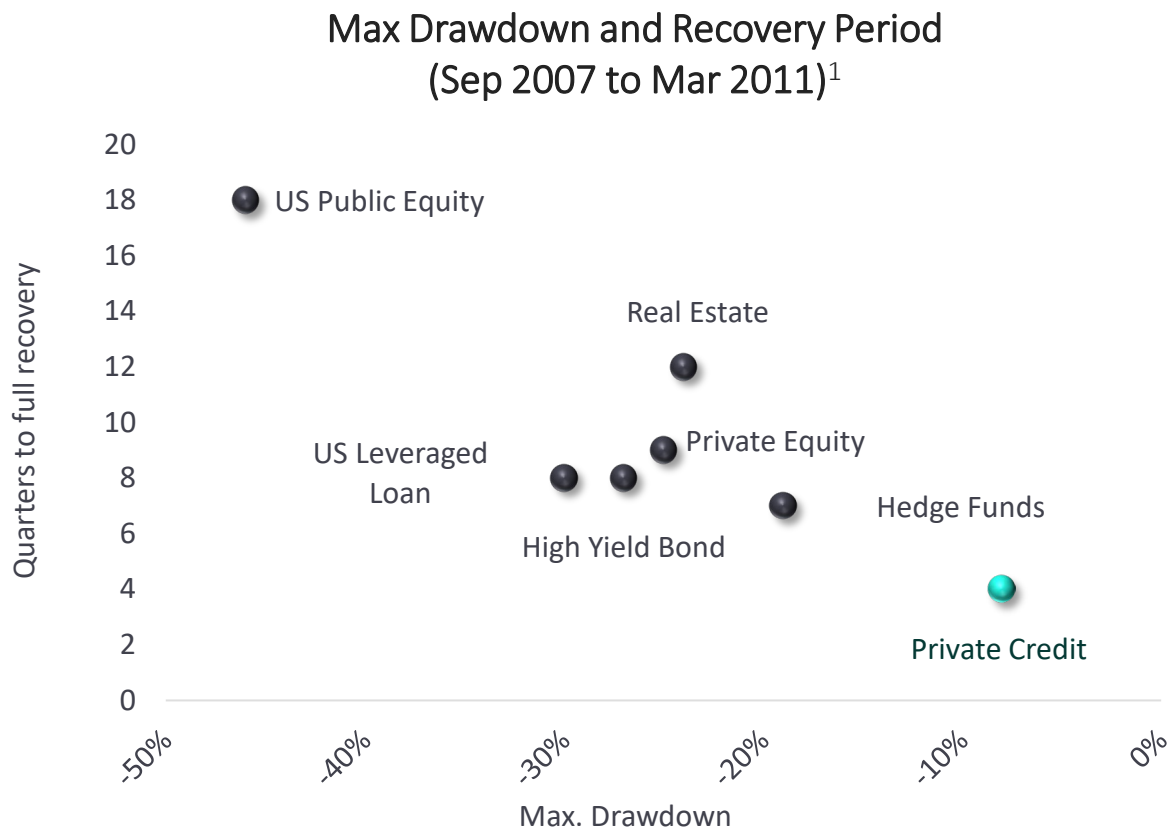
The Asset Class has Consistently Outperformed its Peers...




(1) Cliffwater, Bloomberg, Federal Reserve Bank of St. Louis, Total return indices as of June 30, 2022. (2) Source: Moody's/LSTA ultimate recovery rates from 1989 to 2013.

...And Provided Investors with Strong Downside Protection

Battle tested asset class - the Global Financial Crisis (“GFC”)



(1) Cliffwater Direct Lending “US Direct Lending: Comparative Performance Through the Financial Crisis” July 30th, 2019. US Public Equity represented by Russell 3000 Index, US Leveraged Loan represented by S&P/LSTA U.S. Leveraged Loan Index, High Yield Bond represented by Bloomberg Barclays High Yield Bond Index, Private Equity represented by Cambridge Private Equity Universe Index, Real Estate represented by NCREIF Property, Hedge Funds represented by HFRI Fund Weighted Index and Private Credit represented by Cliffwater Direct Lending Index. (2) Cambridge Associates Horizon Returns based on net returns to limited partners Index.

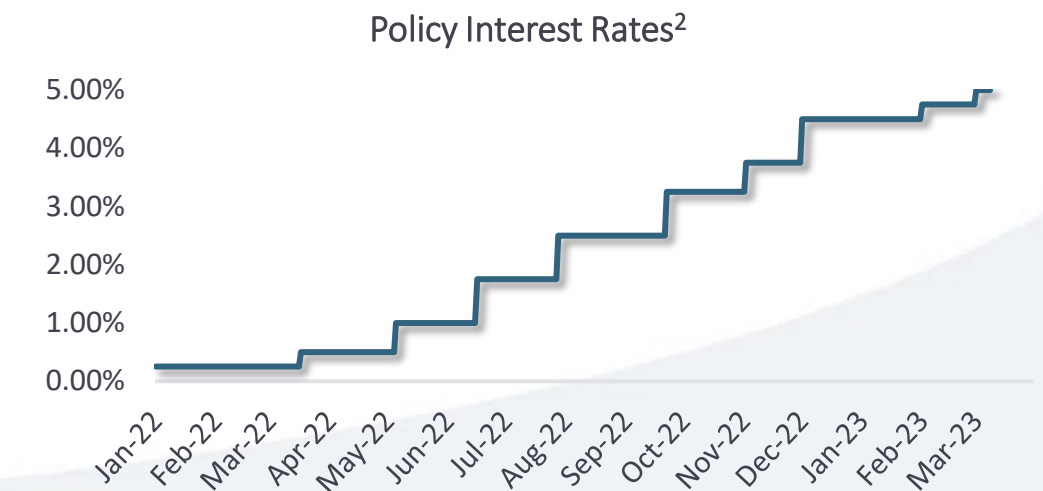
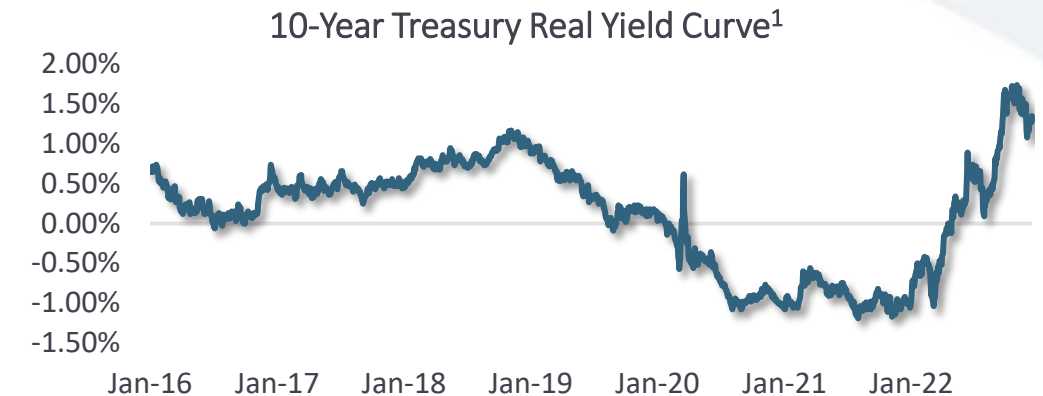


Direct Lending in a Rising Interest Rate Environment

Inflation and Rising Rates are Pressuring Asset Prices and Corporate Margins, While Fueling Market Volatility

Floating rates and conservative structuring in the LMM Offers Risk Mitigation

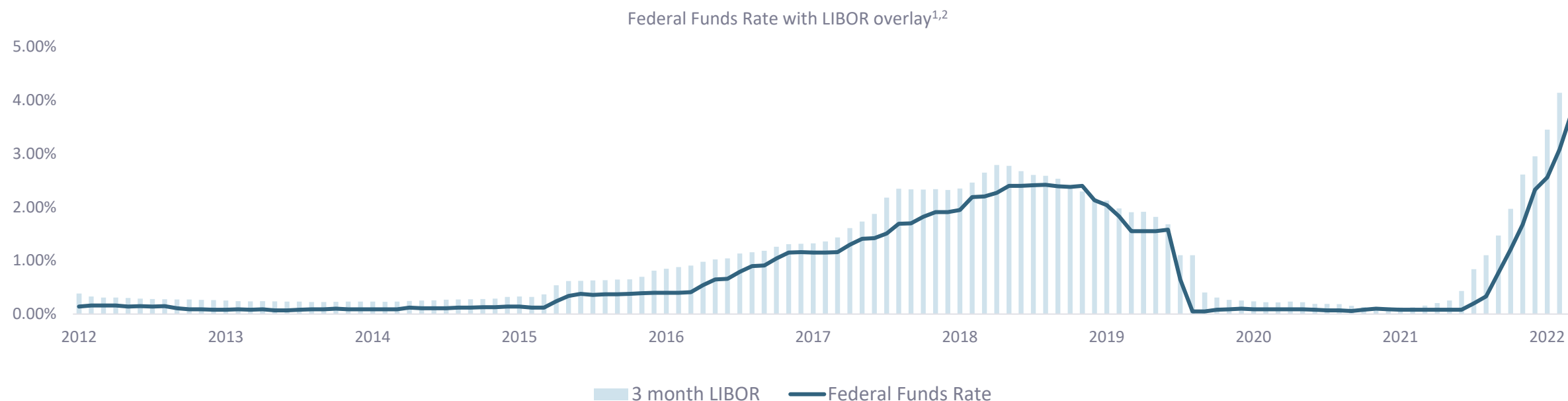
- With inflation running well above target, central banks are increasing interest rates leading to:
 - Margin compression and diminished cash flows for corporates
 - Increased cost of capital for borrowers
 - Pressure on asset prices and fixed income returns
 - Increased market volatility
- Floating rate loans tend to outperform in rising interest rate environments
- Lower middle market direct lending provides investor protections against the impacts of inflation and increased financing costs



(1) Board of Governors of the Federal Reserve System (US), Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis, Inflation-Indexed [DFII10], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DFII10>, December 19, 2022. (2) Note: US policy rate shows the upper bound of the Federal Funds Rate. Source: Fitch Ratings.

A Hedge Against Rising Rates

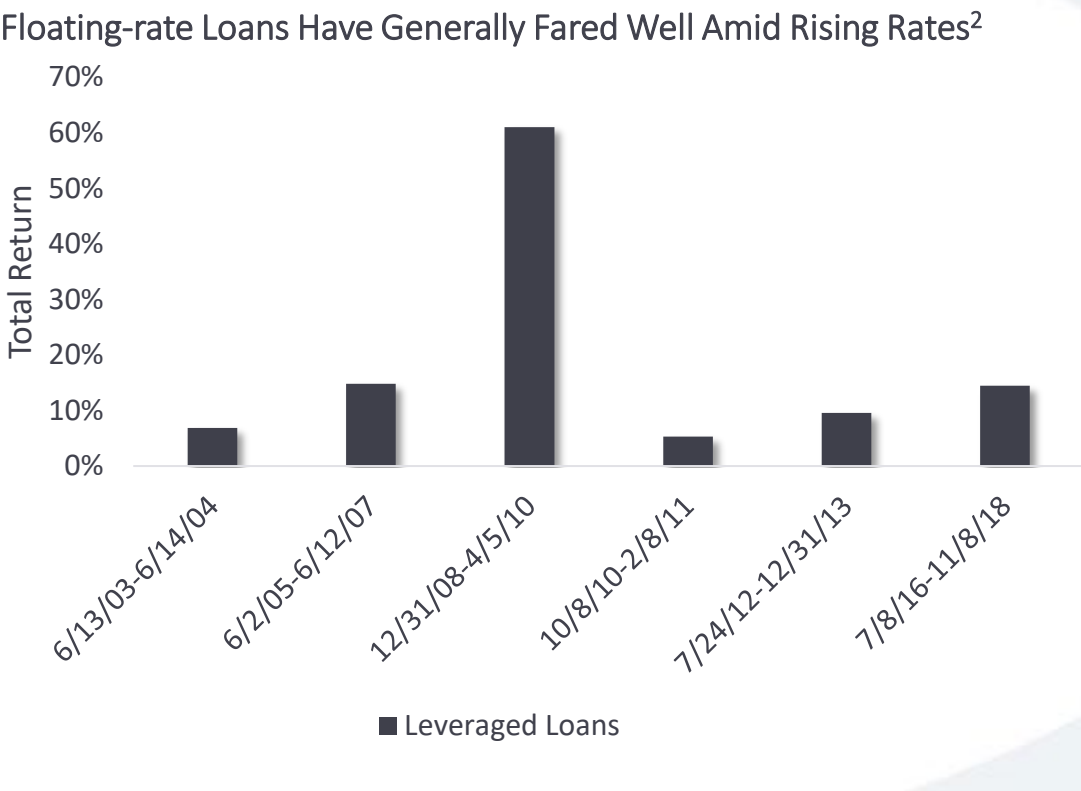
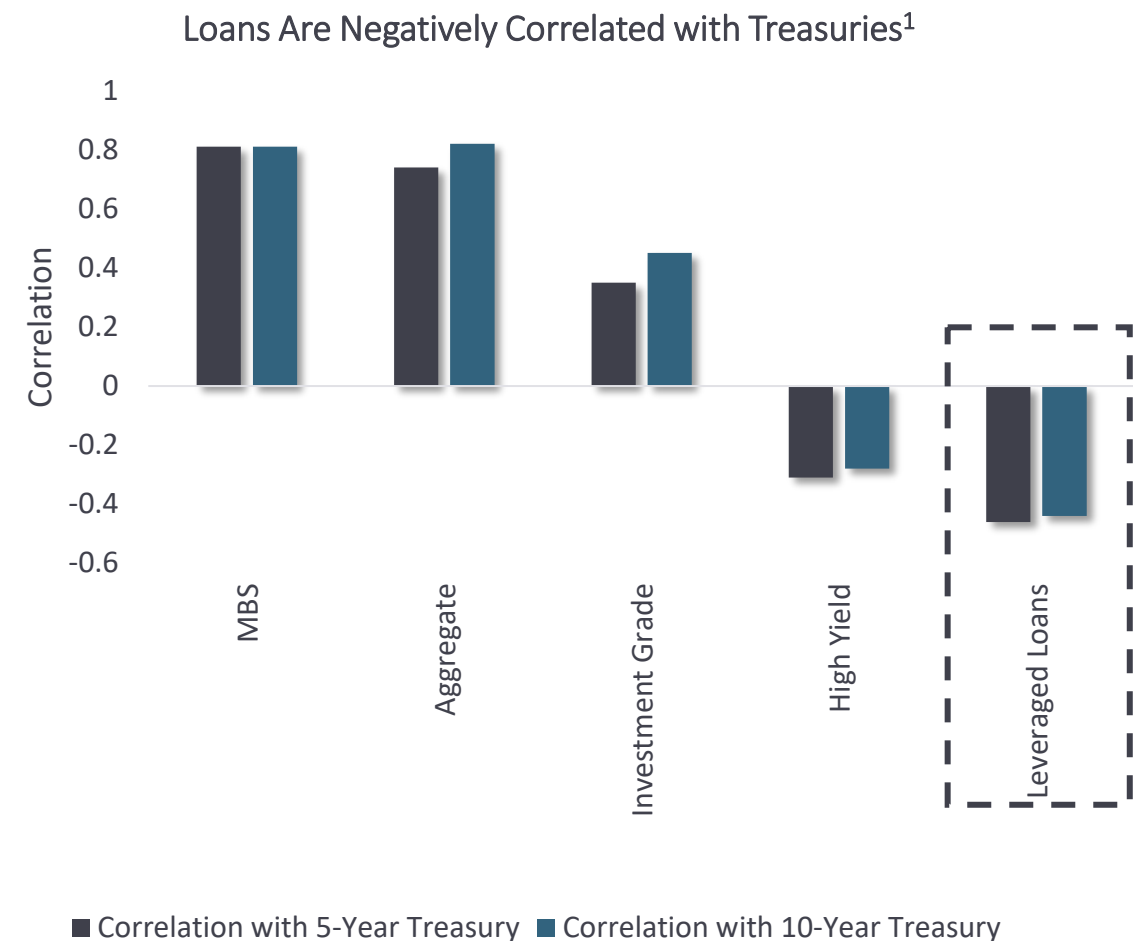
Floating rate loans mean higher all in nominal returns for investors in times of rising rates



- The Federal Reserve **raised the target range for the federal funds rate** to 4.25%-4.50% while SOFR has reached 3.89%¹
- Economists predict **the federal funds rate in the US will climb** to 4.50% by year end and 5.25% by the end of 2023³
- **Senior secured loans** are priced with a spread over a base rate, **LIBOR** or its replacement **SOFR**, that floats with rising rates, protecting **nominal and real yields** earned by investors


(1) Board of Governors of the Federal Reserve System (US), Federal Funds Effective Rate [FEDFUNDS], retrieved from FRED, Federal Reserve Bank of St. Louis as of December 20, 2022 (2) Fedprimaterate.com: 3-month LIBOR. (3) Federal Reserve; Federal Funds Rate Dotplot

Floating Rate Loans Outperform in Rising Rate Environments



| | | | | | | |
|---------------------------------|-------|-------|-------|-------|-------|-------|
| Increase in 10-yr Treasury Rate | 1.80% | 1.40% | 1.90% | 1.30% | 1.60% | 1.90% |
| # of Months | 12 | 24 | 15 | 4 | 17 | 28 |

(1) JPMorgan, S&P/LCD as of December 31, 2020. MBS is represented by the JP Morgan MBS Bond Index, Aggregate is represented by the Bloomberg Barclays US Aggregate Bond Index, Investment Grade is represented by the JP Morgan US Liquid Index (JULI High-Grade Index), High Yield is represented by the JP Morgan US High Yield Index, and Leveraged Loans is represented by the JP Morgan Leveraged Loan Index. (2) Fidelity Viewpoints, Investing In Loans: Leveraged loans may offer higher yields and inflation protection, published September 13, 2021



Direct Lending in the US Lower Middle Market ("LMM")

Advantages for Lower Middle Market Focused Direct Lenders

Underwriting

- Lenders are intimately involved in directing the diligence process
 - ✓ **Longer underwriting timelines** allow lenders to better identify resilient companies and validate underwriting merits – e.g., pricing power

Yield

- Significant and consistent **yield premium (~250-500 bps)** over core and upper middle market
 - ✓ Yield has been relatively constant over time – uncorrelated return

Structure

- **Conservative leverage** - <50% LTV with average leverage < 4x (vs. 5.5x in core middle market) – and full complement of **maintenance covenants**
 - ✓ Gives companies the flexibility to manage through cycles
 - ✓ Covenants allow for early intervention by lenders if borrowers underperform

Diversification

- U.S. middle market is **vast and diverse**
 - ✓ Deep opportunity set
 - ✓ Provides for diversified portfolio construction with limited correlation across portfolio investments

What are the Driving Factors of Risk Adjusted Returns in the LMM?

Lead Arranger And Syndication

The Team assumes the role of a “lead arranger” for the majority of transactions

Advantages include:

- Advantaged economics
- Risk mitigation
- Enhanced sourcing

Financial Maintenance Covenants

Financial maintenance covenants provide downside protection

Advantages include:

- Early warnings signs
- Course corrections
- Enhanced recoveries

Due Diligence and Structuring

Lower middle market investing allows for direct engagement with teams and sponsors

Advantages include:

- Control documentation
- Validate underwriting assumptions
- Enhanced reporting

Real Yield Premium

Sponsor is typically first institutional capital into entrepreneur-owned businesses

Advantages include:

- Higher yields and relative risk adjusted returns
- Conservative structuring

LMM vs. Core/Upper MM vs. Broadly Syndicated Loans

| | LMM | Core/Upper | BSL |
|------------------------------------|--------------------|------------------------|------------------------|
| Company Size (EBITDA) | USD 5- 30 million | USD 25 – 100 million | > USD 75 million |
| All-in Yields | 11.0 - 13.0 % | 8.5 - 11.0% | 8.0 - 10.0% |
| Covenants | Always | Rarely | Almost Never |
| Leverage | 2.5 - 5.0x | 3.5 – 6.5x | 4.5 – 7.5+x |
| Geographic Scope | Concentrated | Broad | Broad |
| Liquidity | Limited | Modest | High |
| Volatility | Low | Modest | High |
| Underwriting periods | 4-8 weeks | 2-4 weeks | 1-3 weeks |
| # of Lenders/Facility | 1-4 | 1 - 10 | 10 - 50+ |
| Competitive Intensity | Modest | High | High |
| Control of structure and price | High | Modest | Limited |
| Reporting / management interaction | Monthly / Frequent | Quarterly / Infrequent | Quarterly / Infrequent |

How Have the Markets Informed Our Underwriting?

Underwriting standards and approach are unchanged, but we are armed with powerful lessons learned from the pandemic as well as recent economic headwinds

Company profile

- ✓ Market leadership
- ✓ Predictable demand drivers
- ✓ Favorable industry dynamics
- ✓ Robust cash flow generation
- ✓ Experienced management team
- ✓ Capable sponsor
- ✓ ESG sustainability

Transaction dynamics

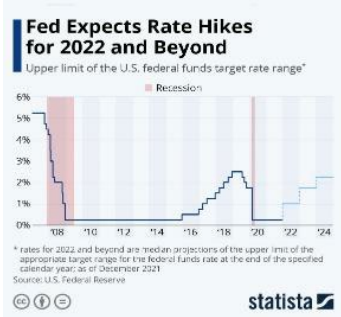
- ✓ Limited competition
- ✓ Strong asset coverage
- ✓ Conservative structuring
- ✓ Powerful investor protections

Market test

- ✓ Demonstrated resiliency
- ✓ Pricing Power
- ✓ Management actions
- ✓ Sponsor support
- ✓ Business continuity

Recap: US LMM Direct Lending Is Well-Positioned to Weather the Current Macro Environment

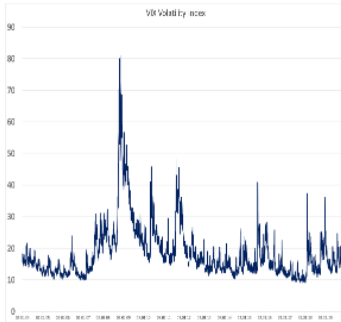
Macro Factors



Rising Interest Rates



High Inflation



Market Volatility



Geopolitical Risk

Defensive Attributes

- ✓ **Floating rate loans** provide a hedge against rising interest rates
- ✓ **Conservative structuring**
- ✓ Differentiated sourcing → **Selectivity and diversification**
- ✓ Underwriting market leaders with **pricing power**
- ✓ **Private markets are less susceptible** than public markets to short-term investor sentiment and expectations
- ✓ **US-centric strategy** provides **insulation**
- ✓ Tailwinds from **relative strength of the US economy** and **localized demand**
- ✓ Greater **energy and food independence**



Jens Ernberg

Managing Director

Co-head of Private Credit

Jernberg@capdyn.com

DISCLAIMER

DISCLOSURE STATEMENT

Capital Dynamics Group is an independent asset management firm focusing on private assets and comprises Capital Dynamics Holding AG and its affiliates.

For investors based in the **United Kingdom**, and **Dubai International Financial Centre (DIFC)**, this presentation is being communicated to you by Capital Dynamics Ltd (CDL). CDL is a firm authorized and regulated by the UK Financial Conduct Authority, and a regulated entity by the Dubai Financial Services Authority for the provision of advisory and arranging services.

For investors qualifying as professional investors (as that term is defined under the AIFMD) based in **European select countries (Austria, Belgium, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Italy, Republic of Ireland Liechtenstein, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Spain, Sweden)** this presentation is being communicated to you by Capital Dynamics Ltd (CDL) in agreement with the external AIFM, Alter Domus Management Company S.A. The AIFM is authorized and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg as an Alternative Investment Fund Manager. Capital Dynamics Ltd is authorized and regulated by the Financial Conduct Authority (FCA). Any Recipient not interested in the analysis described herein should return this document to Capital Dynamics Limited, Whitfield Court, 2nd Floor, 30-32 Whitfield Street, London W1T 2RQ, United Kingdom and contact Capital Dynamics as soon as possible (t. +44 20 7297 0200).

For investors based in the **United States**, this presentation is being communicated to you by Capital Dynamics Broker Dealer LLC, a registered broker-dealer with the SEC, and a member of the Financial Industry Regulatory Authority (FINRA) and Securities Investor Protection Corporation (SIPC). Such registration does not imply in any manner whatsoever that Capital Dynamics Broker Dealer LLC has been sponsored, approved or recommended or that its abilities or qualifications have in any way respect been passed upon by the United States or any agency or office thereof.

For all other investors, the presentation is being communicated by the firm entity acting as the manager or general partner, adviser to the client or such other firm entity authorized to make this communication as appropriate.

This presentation is intended only for sophisticated institutional investors who have sufficient understanding of the types of investments described herein and the ability to bear the risks associated with such an investment.

This presentation does not constitute an offer of any Capital Dynamics Fund, it is for informational purposes only, is confidential and may not be reproduced in whole or in part (whether in electronic or hard-copy form).

DISCLAIMER [to put on first slide of Reporting Decks when held via Zoom]

This presentation constitutes client reporting, and is being furnished on a confidential basis exclusively to the limited partners of the funds referenced herein (collectively, the “Funds”) for purposes of monitoring investments therein (each a “Recipient”) and is not for redistribution or public use. The data and information presented are for informational purposes only. The information contained herein should be treated in a confidential manner and may not be transmitted, reproduced or used in whole or in part for any other purpose, nor may it be disclosed without the prior written consent of Capital Dynamics Holdings AG (together with its affiliates, “Capital Dynamics”). By accepting this material, the Recipient agrees not to distribute or provide this information to any other person. The information is qualified in its entirety by reference to the Limited Partnership Agreement, Confidential Private Placement Memorandum and Subscription Agreement of each Fund (as defined above), each as amended and/or restated from time to time (the “Fund Documents”).

The interests in the Funds advised by Capital Dynamics (the “Interests”) have not been approved or disapproved by the U.S. Securities and Exchange Commission (the “SEC”) or by the securities regulatory authority of any state or of any other jurisdiction. The Interests have not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), the securities laws of any other state or the securities laws of any other jurisdiction, nor is such registration contemplated. None of the Funds will be registered as an investment company under the Investment Company Act of 1940, as amended (the “1940 Act”). Consequently, limited partners of the Funds are not afforded the protections of the 1940 Act.

This presentation shall not constitute an offer to sell or the solicitation of any offer to buy Interests, which may only be made at the time a qualified offeree receives a Confidential Private Placement Memorandum describing the offering and related subscription agreement. These securities shall not be offered or sold in any jurisdiction in which such offer, solicitation, or sale would be unlawful until the requirements of the laws of such jurisdiction have been satisfied.

The information in this presentation is only as current as the date indicated, and may be superseded by subsequent market events or for other reasons. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. This presentation should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or to adopt any investment strategy.

Private funds, such as the Funds, are speculative investments and are not suitable for all investors, nor do they represent a complete investment program. Private funds are available only to qualified investors who are comfortable with the substantial risks associated with investing in private funds. An investment in a private fund includes the risks inherent in an investment in securities. There can be no assurance that an investment strategy will be successful.

DISCLAIMER

Disclaimer (continued)

Investors in a private fund, such as the Funds, may have no right to or a limited right to redeem or transfer their interests in a private fund. No Interests will be listed on an exchange and it is not expected that there will be a secondary market for any Interests.

The information in this presentation may contain projections or other forward-looking statements regarding future events, targets or expectations regarding the Funds or the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this Presentation, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.

General discussions contained within this presentation regarding the market or market conditions represent the view of either the source cited or Capital Dynamics. Nothing contained herein is intended to predict the performance of any investment. There can be no assurance that actual outcomes will match the assumptions or that actual returns will match any expected returns. The information contained herein is as November 4, 2022 unless otherwise indicated, is subject to change, and Capital Dynamics assumes no obligation to update the information herein.

MATERIAL NOTES TO INVESTORS

United States of America: None of the information contained herein has been filed with the Securities and Exchange Commission (SEC), any securities administrator under any state securities laws or any other governmental or self-regulatory authority. No governmental authority has passed on the merits of this information or the adequacy of this document. Any representation to the contrary is unlawful. Capital Dynamics, Inc. is registered as an Investment Adviser with the SEC. Any securities sold by Capital Dynamics are offered through Capital Dynamics Broker Dealer LLC, a registered broker-dealer with the SEC, and a member of the Financial Industry Regulatory Authority (FINRA) and Securities Investor Protection Corporation (SIPC). Any Recipient not interested in the analysis described herein should return this document to Capital Dynamics, Inc. or Capital Dynamics Broker Dealer LLC, 156W - 56th Street, CitySpire Building, Squad 301, New York, NY 10019, USA and contact Capital Dynamics as soon as possible (t. +1 212 798 3400).

Such registration does not imply in any manner whatsoever that Capital Dynamics Inc. has been sponsored, approved or recommended or that its abilities or qualifications have in any way respect been passed upon by the United States or any agency or office thereof.