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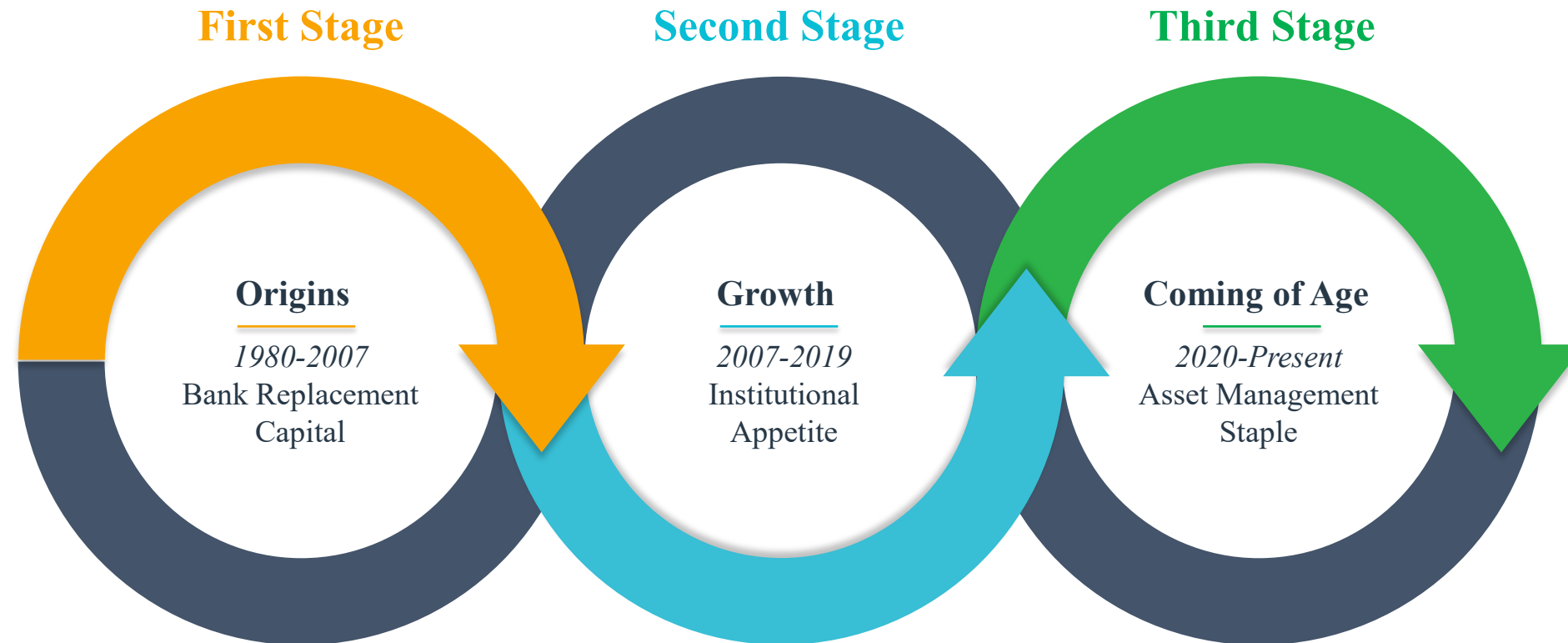
The Basics of Private Credit Investing



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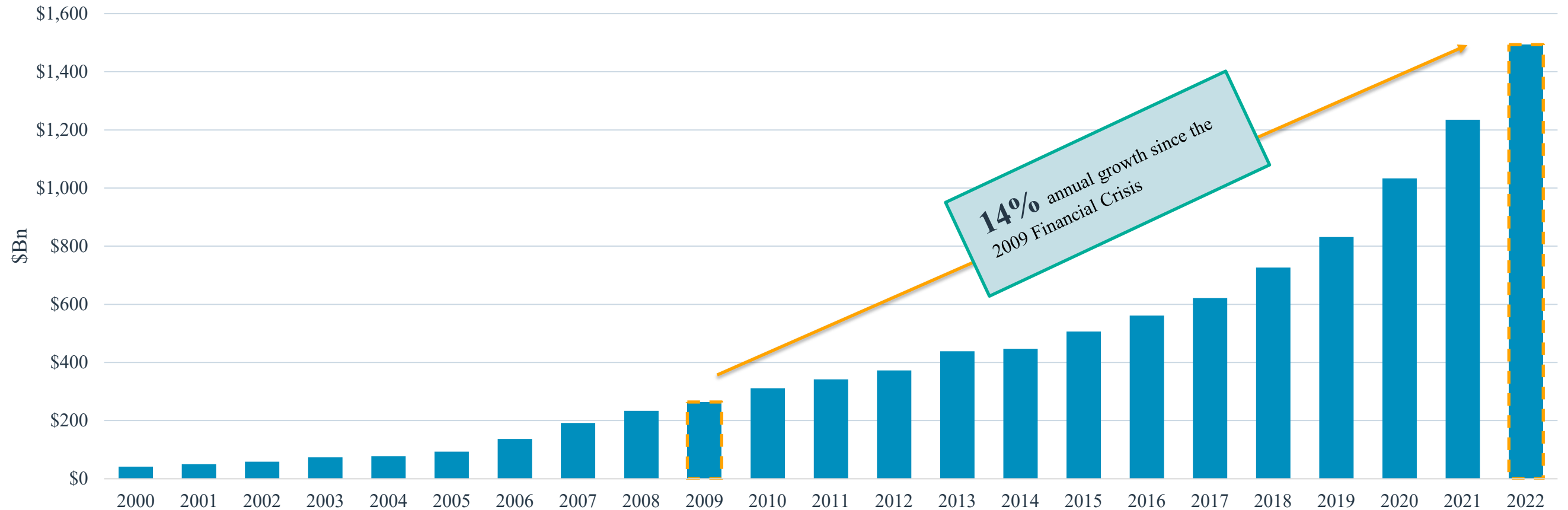
January 29, 2024

Evolution of *Private Credit*



Private Credit AUM approaching \$1.5 trillion with 14% annual growth since 2009

Global Private Debt AUM (\$Bn)



Source: Preqin; As of Dec 31, 2023

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Private credit investment strategies

Middle Market Lending

Capital preservation

Direct lending

Non-bank lenders extending senior or subordinated loans to small and mid-sized businesses

Mezzanine

A hybrid of equity and debt finance that gives the lender the **right to convert debt to equity in the case of default.**

Venture debt

A loan provided to a start-up or early-stage company to act as growth capital.

Capital appreciation

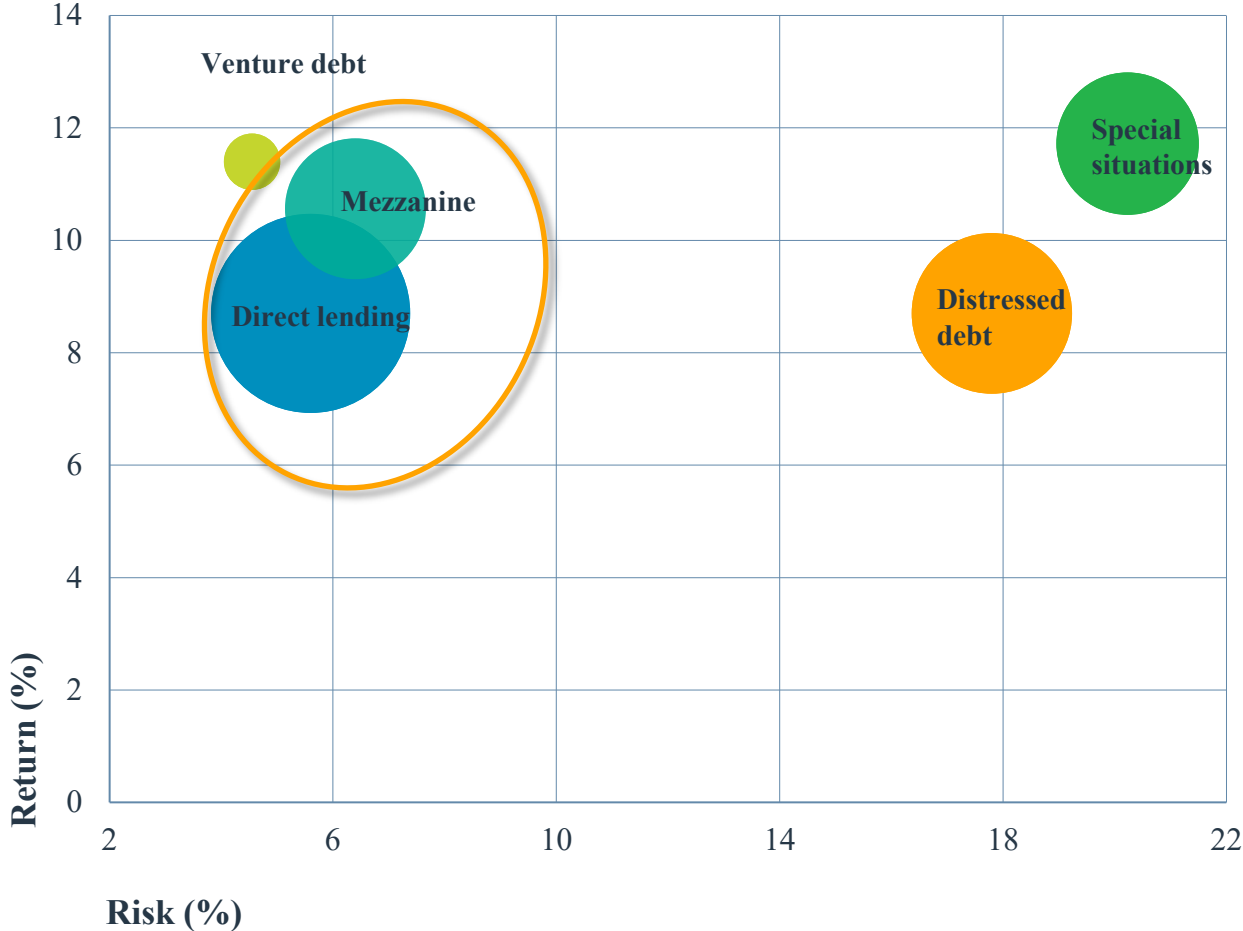
Special situations

A loan based on a ‘special situation,’ referring to something other than underlying company fundamentals (i.e. spin-offs, M&A, etc..)

Distressed debt

Buying the debt of companies that are in bankruptcy or likely to enter bankruptcy, often at a significant discount.

Private Debt: Risk/Return by Strategy Type (Vintages 2009 – 2018)¹



¹Source: Preqin; Risk - Standard Deviation of Net IRR; Return – Median Net IRR.

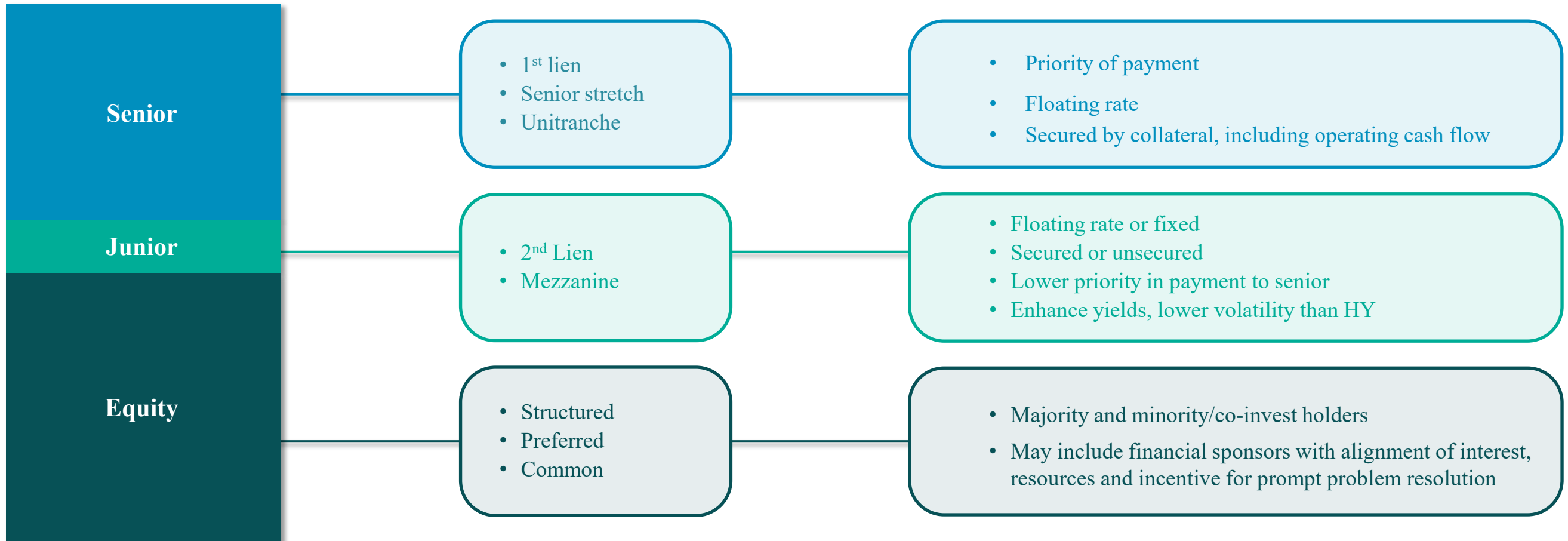
Capital structure features

Tranches across the capital structure offer distinct diversification features

Illustrative capital structure

Investment types

Attributes

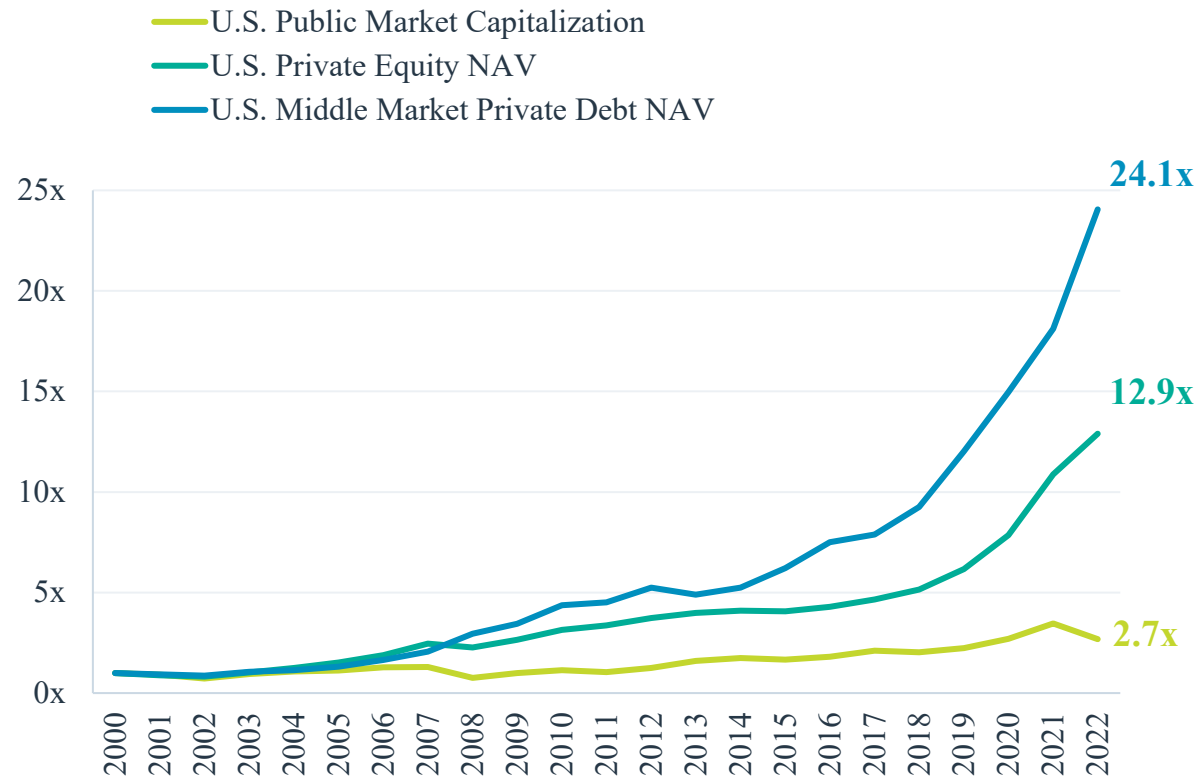


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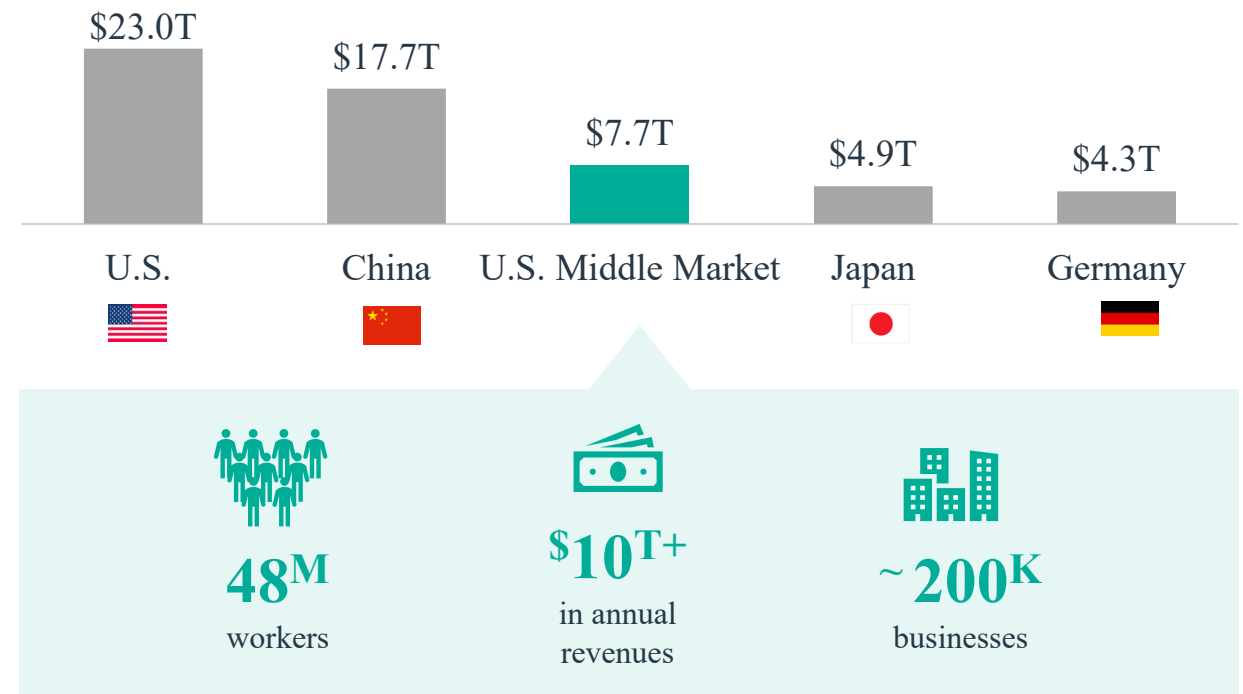
Sizable, resilient and growing market

The U.S. middle market offers significant opportunity for private capital investment, with generally lower valuation multiples and potential for meaningful growth

More growth in the private vs. public markets¹



The U.S. middle market is the 3rd largest global economy by GDP³



¹ World Bank. ² Sibilis Research, Prequin, December 2022. Notes: Net asset value (NAV) = AUM less dry powder. Total market capitalization of U.S. listed companies. There are significant differences between public and private equities, which include but are not limited to the following: public equities can provide liquidity and greater access to company information and private equities have a longer time horizon, are considered illiquid and private equity NAV is typically based on estimated valuations of portfolio holdings that may not reflect actual market value. ³ World Economic Outlook Database, December 2021, Middle Market assumption based on the definition by National Center for the Middle Market as of 2020 of U.S. businesses with revenues between \$10MM and \$1B.

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Defining the middle market in private credit

Company size drives key financing attributes

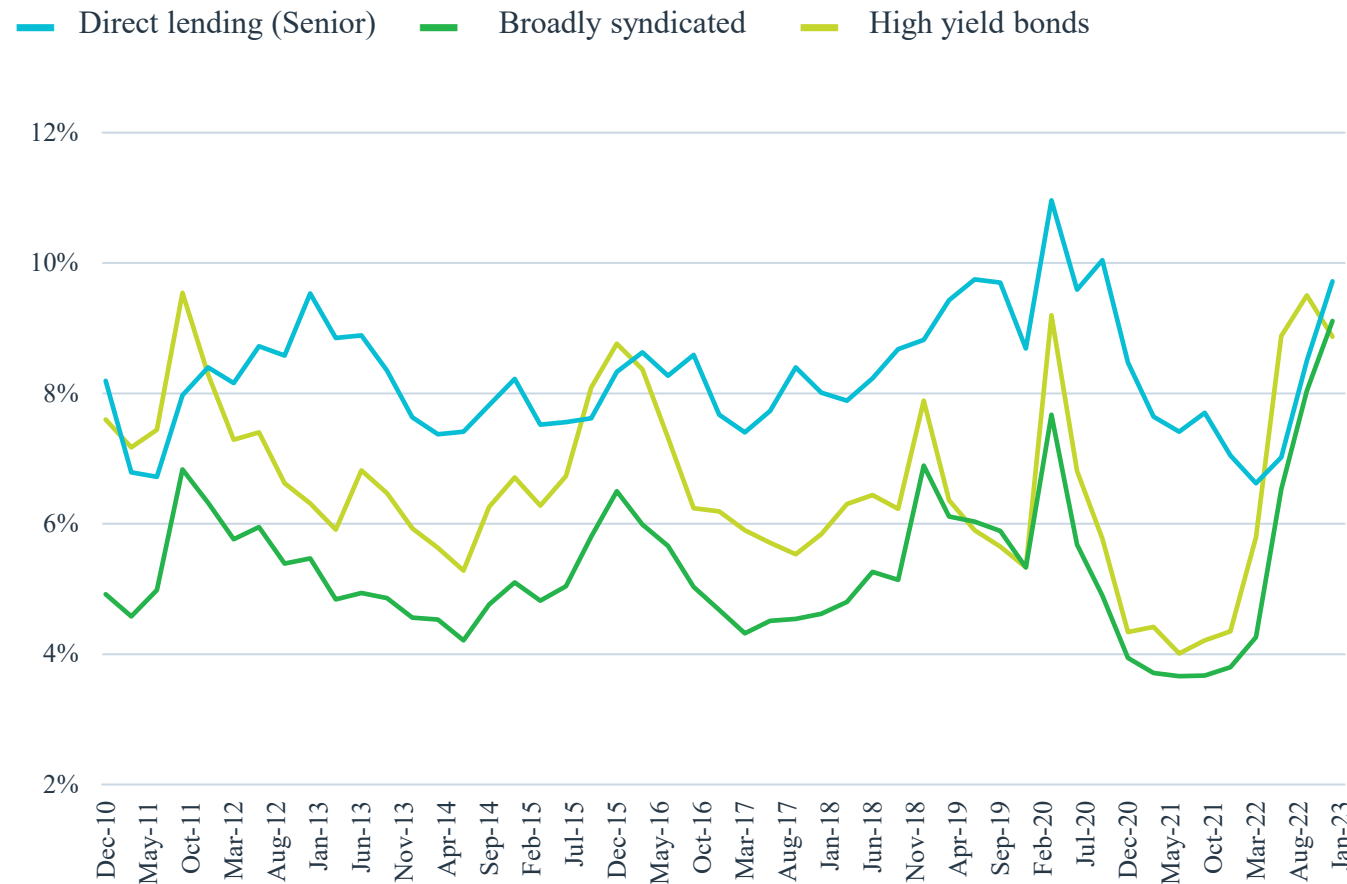
	Lower Middle Market	Traditional Middle Market	Upper Middle Market	Broadly Syndicated Market
Company Size (EBITDA)	\$3 to \$15 million	\$15 to \$50 million	\$50 to \$150 million	\$150+ million
Size of Lending Group	1 to 5	3 to 5	10 to 25	25 to 100+
Borrower Compliance Metrics	Traditional Covenants	Traditional Covenants	Majority Covenant-Lite	Covenant-Lite
Loan Sourcing	Direct transactional driven	Direct relationship driven	Relationship driven via agents and sponsors	Buyer model
Liquidity	Illiquid	Relatively illiquid	Partially illiquid	Liquid
Level Of Borrower Diligence	Primary due diligence	Extensive primary and/or secondary due diligence	Primary and secondary due diligence	Light due diligence

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Middle market direct lending advantages

Attractive yield premiums

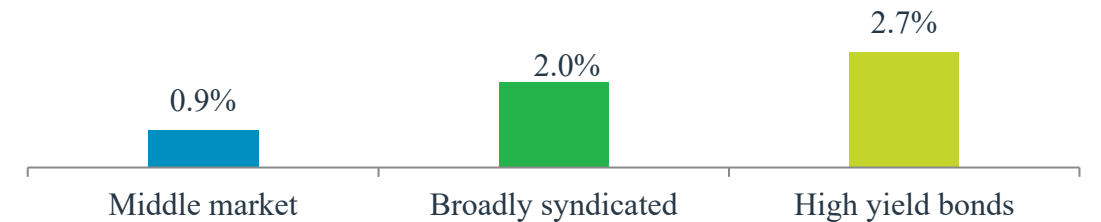
Average loan yields¹



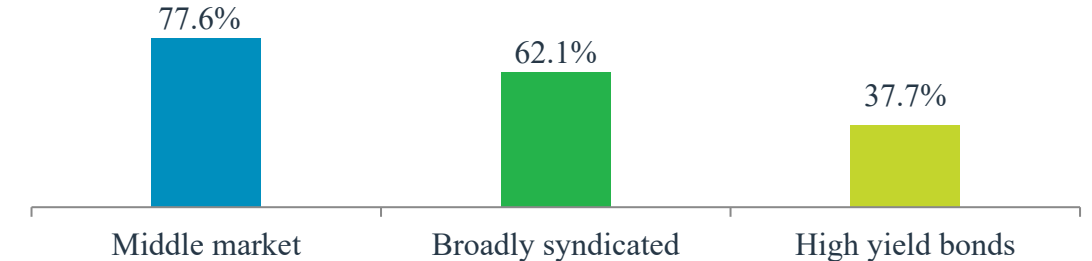
Higher recovery and lower loss rates

Middle market & broadly syndicated loan performance, 1995-1Q 2022²

Average annual loss rate








Average annual recovery rate



Past performance does not guarantee future results. It is not possible to invest in an index. Performance for indices does not reflect investment fees or transaction costs. 1 Source: : ICE BofA US High Yield Index, High Yield; S&P/LSTA LL 100 YTM, BSL; Cliffwater Direct Lending Index's senior loan current yield, Direct Lending 2 Source: CreditPro/LossStats, an offering of S&P Global Market Intelligence, 1995-1Q 2022; Middle market loans include total facility sizes of less than \$500 million and broadly syndicated loans denote total facility sizes of greater than or equal to \$500 million.

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How *Private Credit* responding to global market challenges

Issues are investors facing	
	Geo-political uncertainty
	Public market volatility
	Inflation & rising interest rates
	Correlation with liquid assets
	Energy prices



Benefits of private market investments	
✓	U.S. middle market focused
✓	Lower mark-to-market volatility
✓	Floating rate nature of senior loans
✓	Less correlated
✓	Minimal oil/gas exposure

How *private credit* helps institutions achieve their investment objectives

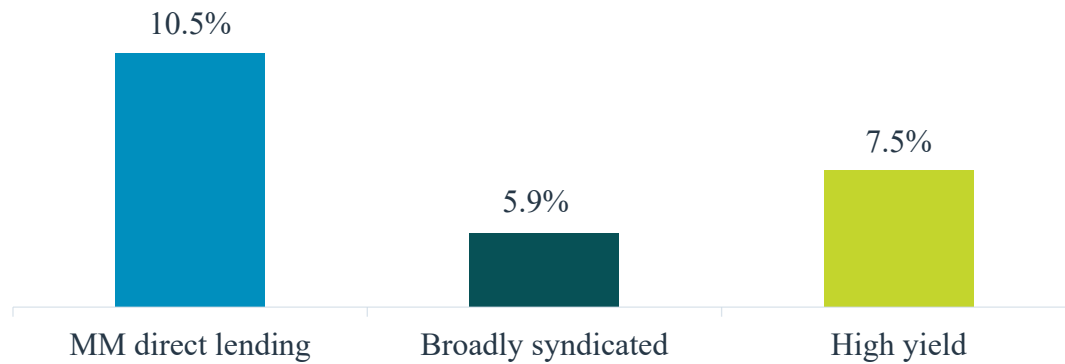
5 reasons to select a private credit strategy



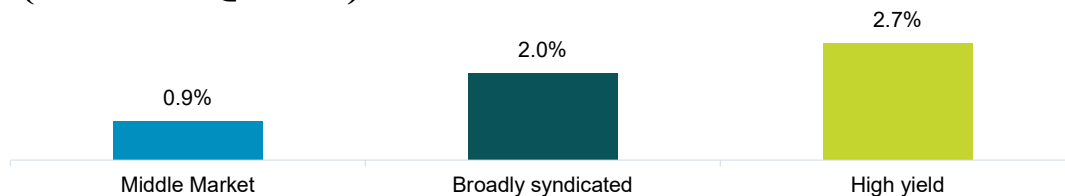
1 2 Income & risk adjusted returns

Highly selective, diversified private capital portfolios with low losses can provide durable income & attractive-risk adjusted returns

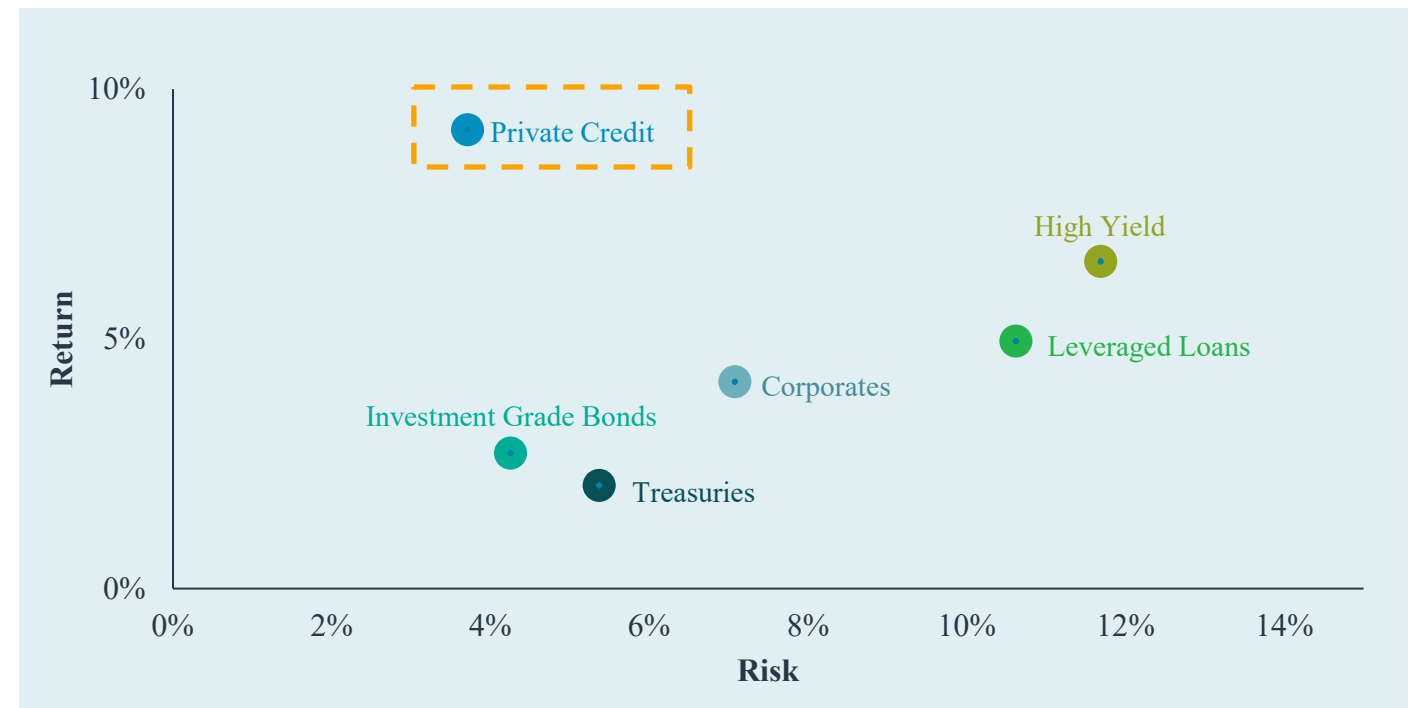
Average yields over 15-years¹



Average annual loss rates²
(1995 – 1Q 2022)



Risk vs. Return³
(15-Years, Annualized)



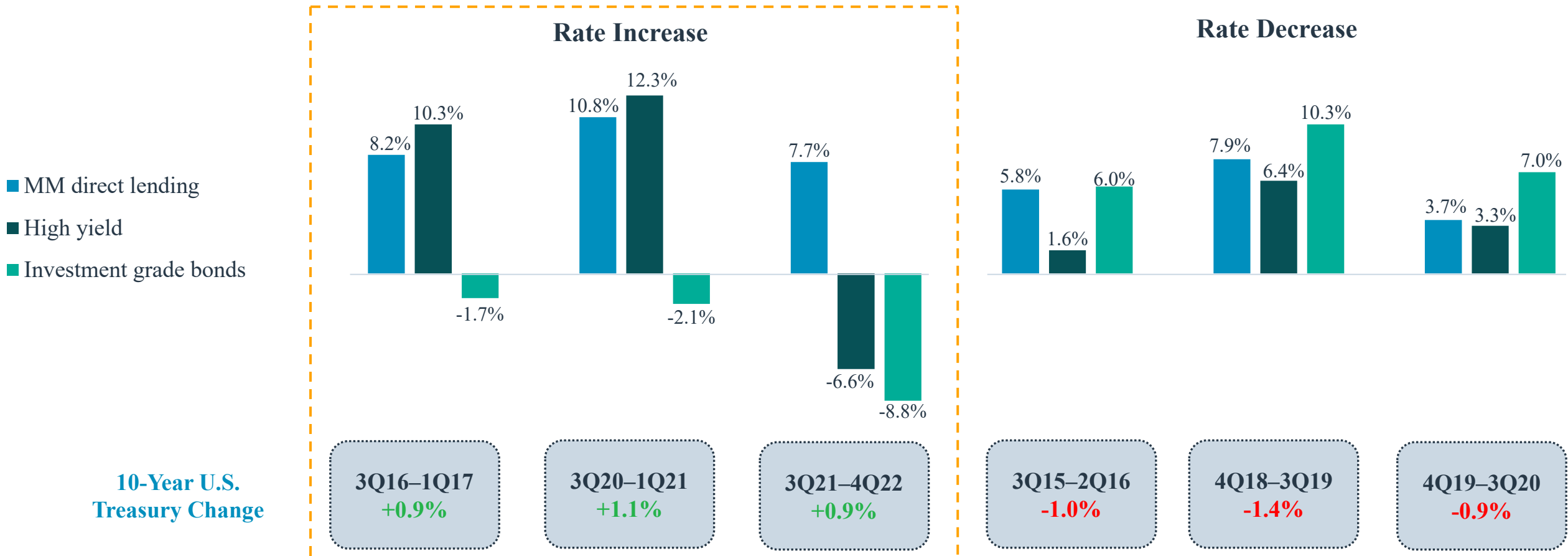
1 Sources: MM direct lending - Cliffwater CDLI, High yield - ICE BofA US High Yield Index, Broadly syndicated - S&P/LSTA LL 100. As of 1Q 2023. 2 Source: Moody's, 1995-1Q 2022; Middle market loans include total facility sizes of less than \$500 million and broadly syndicated loans denote total facility sizes of greater than or equal to \$500 million; 3 Source: "Private debt" - Cliffwater Direct Lending Index. "Leveraged loans" - S&P/LSTA Leveraged Loan Index. "High Yield"- Bloomberg Barclays High Yield Index. "Corporates" - Bloomberg Barclays US Corporate Bond Index. "Investment Grade Bonds"- Bloomberg Barclays US Aggregate Bond Index. "Treasuries" - Bloomberg Barclays US Treasury Index. As of 1Q 2023.

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3 Well positioned for rising rates

Private credit has benefitted from floating rates in rising interest environments, while also demonstrating relatively stable returns in declining interest environments

Returns During Rising/Decreasing Interest Rates



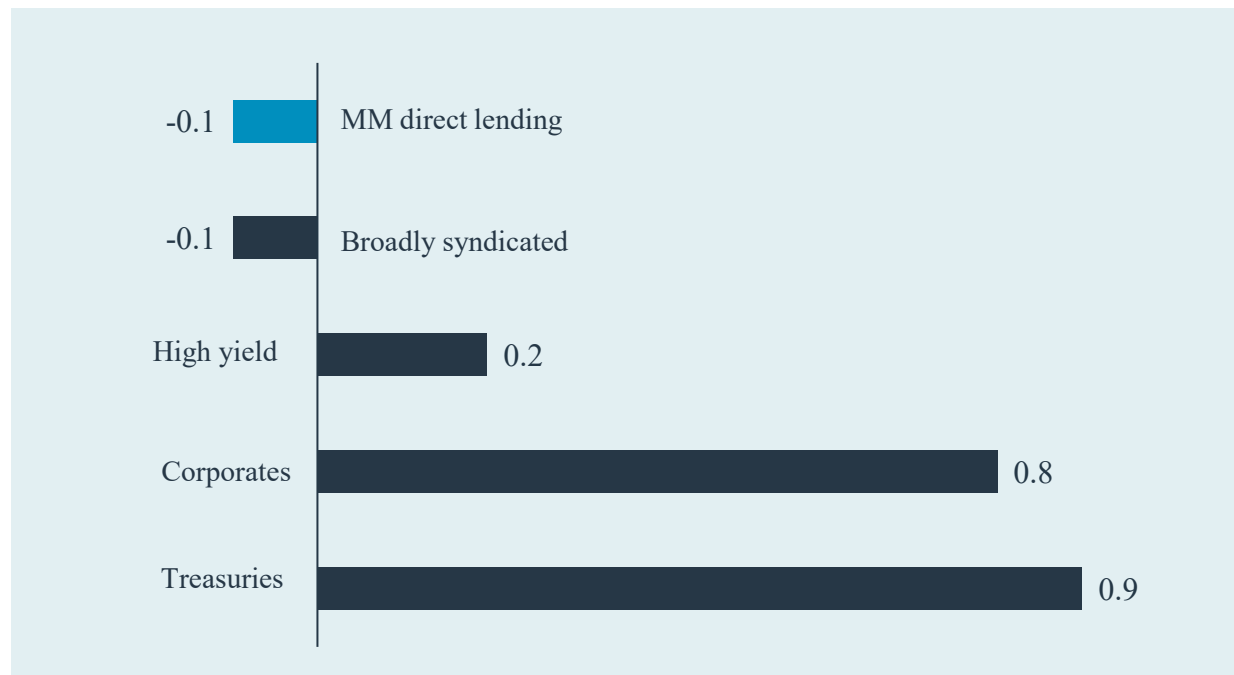
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Source: Private Credit - Cliffwater Direct Lending Index; Investment Grade Bonds - Bloomberg US Agg Total Return; High Yield - High Yield Bloomberg US Agg Total Return;

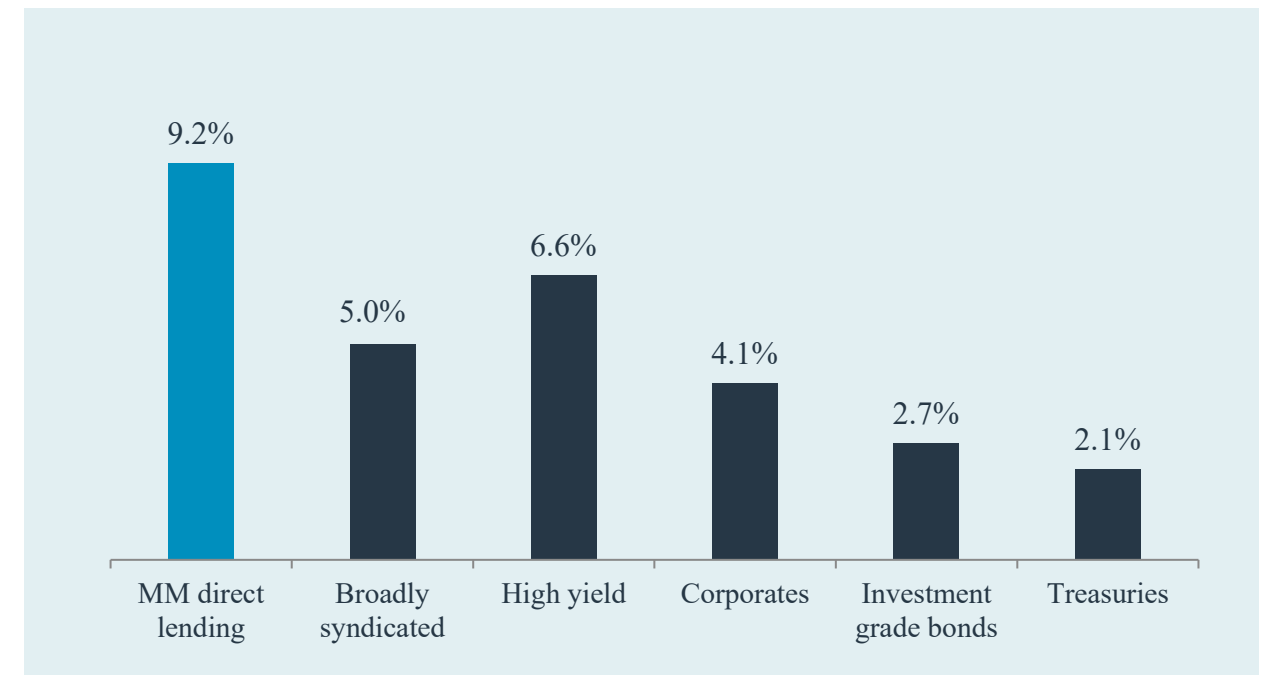
4 Diversification with less correlation

By targeting different parts of the market and hard to access opportunities, private credit can be a portfolio diversifier while providing attractive income throughout cycles

Correlation to Investment Grade Bonds (15-Years, Annualized)



Returns (15-Years, Annualized)



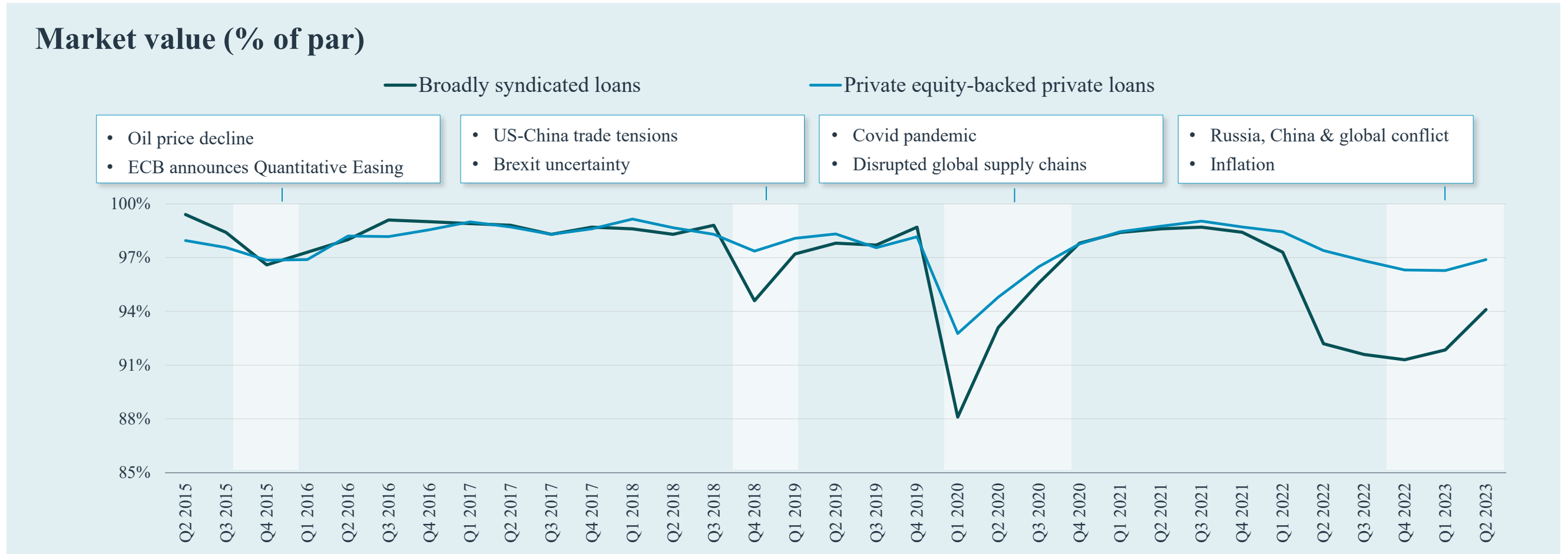
Diversification is a technique to help reduce risk. It is not guaranteed to protect against loss.
Source: Morningstar, Cliffwater, and S&P/LSTA Leveraged Loan Index as of March 31, 2023.

(i) Indices. "MM direct lending" is represented by the Cliffwater Direct Lending Index. "Broadly syndicated" is represented by the S&P/LSTA Leveraged Loan Index. "High Yield" is represented by the Bloomberg Barclays High Yield Index. "Corporates" is represented by the Bloomberg Barclays US Corporate Bond Index. "Investment Grade Bonds" is represented by the Bloomberg Barclays US Aggregate Bond Index. "Treasuries" is represented by the Bloomberg Barclays US Treasury Index.

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5 Volatility management

Private market valuation methodologies are robust, often led by third party providers, and driven by true credit fundamentals vs the volatility of market sentiment



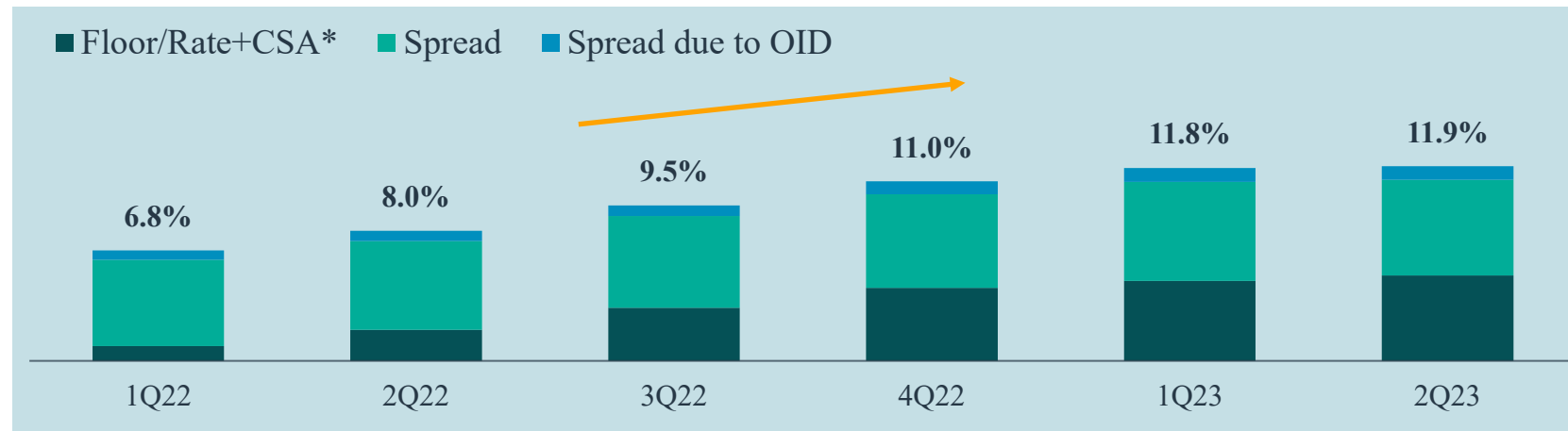
Source: Lincoln International & Refinitiv LPC; As of Q2 2023

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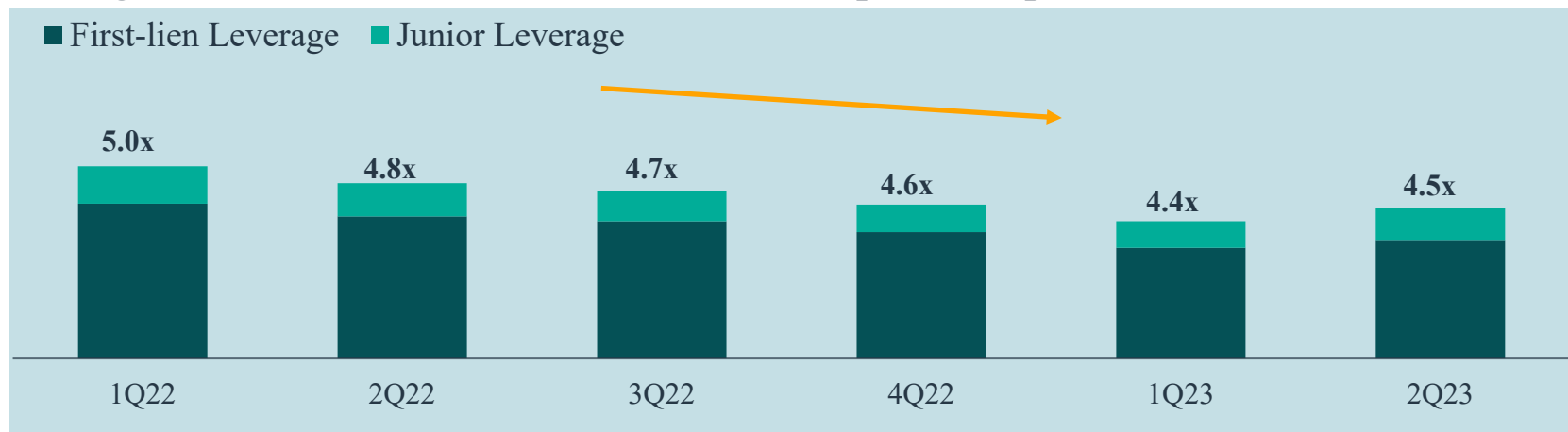
Higher rates, higher yields, better terms

We see a compelling opportunity in middle market lending

Average first-lien middle market term-loan yield % (3-year term)



Average Debt to EBITDA across middle market sponsored private deals



Source: Refinitiv LPC

The middle market opportunity:

- **All-in asset level yield up 500bps to ~12%**
 - 75-100bps wider spreads/larger OIDs with tailwinds from rising reference rates
- **Lower leverage**
 - (0.5x lower to 5.0x max leverage)
- **High quality businesses in recession resistant industries**
- **Better covenant protections & higher equity contributions**

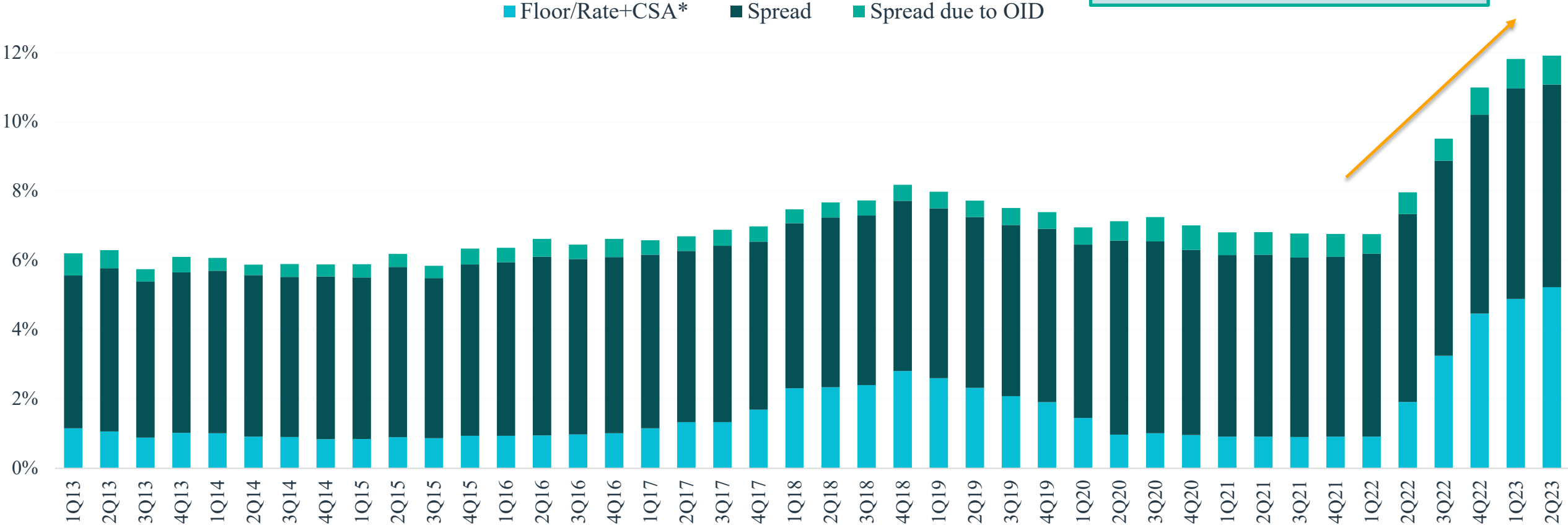
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What does the current environment look like?

Higher all-in yields and increasingly lender friendly terms

Avg. first-lien MM TL yield % (3-year term)

- Base rates, spreads and OID have all increased
- All-in yields approaching 12%



Source: Refinitiv LPC; Based on private data submissions, which include both syndicated and direct execution deals excludes unitranche and second-lien term loans. Beginning Q22, data includes LIBOR and SOFR based deals *Libor loans = 3-month Libor rate. Term SOFR loans = 1-month TSOFR+CSA if available

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Key takeaways



Significant and sustainable demand

There remains significant demand for **private credit**, both on the part of borrowers supported by private equity and investors looking for **current income** and attractive risk adjusted returns.



Higher rates, higher yields, better terms

The higher rate environment has accelerated a **flight to quality** and shifted the focus to **free cash flow**, with all in yields per unit of leverage at the **highest seen in decades**.



Scale, relationships and expertise matter more than ever

Managers with the scale to offer **execution certainty**, differentiated **sourcing capabilities** to reinforce trusted relationships, and all-weather portfolios to withstand recessionary concerns will **attract more capital** and secure the most attractive deals.

Biography



Laura Stolfi

Managing Director, Senior Investment Strategist
Churchill Asset Management

Laura serves as a Managing Director, Senior Investment Strategist for Churchill Asset Management. In her role, Laura provides meaningful investment insights across the private capital spectrum to the investment community, with a particular emphasis on the Private Wealth and Retail channel. She works closely with Nuveen's global distribution team to deepen relationships with and educate Churchill's investors and partners. From 2014 to 2021, she worked for Invesco's Global Private Credit platform where she supported new business development and institutional client communications, shaping investor messaging and business strategy globally. Previously, Laura worked in corporate finance and investor relations at CIFIC Asset Management where she supported marketing efforts and was responsible for financial projections on behalf of their private equity owners. Prior to CIFIC, she was an associate at Goldman Sachs, where she worked in the firm's investment management finance division focused on credit strategies. Laura began her career at Deloitte & Touche. She entered the investment management industry in 2003.

Laura graduated with both a B.S. in Business with a major in Accounting and an M.S. in Accounting from the University of Connecticut. She is a Certified Public Accountant (inactive) and holds the FINRA Series 7 and Series 66 registrations.

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