
Senior Direct Lending Search

Delray Beach Firefighters' Retirement System

DECEMBER 2025

MARINER

Candidate Overview



Candidate Selection

Qualities to consider and evaluate when reviewing private debt managers:

Experience: A long history as a reliable partner helps to drive deal flow by increasing the manager's reputation with prospective borrowers and intermediaries, allowing for greater selectivity.

Track Record: Past success relative to strategies taking similar risks, including in adverse environments, increases confidence that the strategy will be successful in the future.

Institutional Investment Process: Teams with established investment processes that do not overly rely on any individual, in order to increase confidence that past success may be repeatable.

Differentiated Sourcing: Differentiated approaches to originating deal flow may allow the manager to find opportunities that are less competitively priced.

Strong Underwriting (for Direct Lending strategies): The ability to protect investor capital, as reflected in low historical annualized credit loss rates.

Credit Workout Capabilities: Resources and experience working through troubled loans and restructurings.

Relative Value: Competitive net expected returns in the context of the risks being taken.

Illiquidity Premium: A well-grounded rationale for the strategy to outperform public investments of similar risk in the future.

Candidates

Based on our research process, we present the following candidates:

Firm	Fund
Carlyle Global Credit Investment Management L.L.C. (Carlyle)	Carlyle Direct Lending Fund (Levered), L.P. (CDLF)
Crescent Capital Group LP (Crescent)	Crescent Direct Lending Levered Fund IV (Delaware) LP (Crescent IV)
Deerpath Capital Management, LP (Deerpath)	Deerpath Evergreen Advantage (US), LP (Deerpath Evergreen)

Firm Overview

Firm	Strategy Inception	Ownership	Firm / Direct Lending AUM	Strategy Team Primary Locations	Strategy Investment Professionals
Carlyle	2013	Publicly traded (NASDAQ: CG). Carlyle's co-founders Daniel D'Aniello, William Conway, and David Rubenstein each own about 9% of the firm.	\$465.0 billion / \$12.1 billion	New York, NY	39
Crescent	2005	51% owned by Sun Life Financial (NYSE: SLF) and 49% employee-owned. Sun Life is expected to acquire the remainder of Crescent in 2026.	\$48.0 billion / \$11.7 billion	Boston, MA	31
Deerpath	2009	75% owned by PGIM Investments, a division of Prudential Financial (NYSE: PRU). 25% employee-owned by President James Kirby (20%) and COO Tas Hasan (5%).	\$8.7 billion / \$8.7 billion	Fort Lauderdale, FL; New York, NY; Chicago, IL; Boston, MA; Los Angeles, CA	20 ¹

¹ Origination and underwriting professionals are included. Individuals who focus on loan administration, cash management, and other functions related to portfolio management are not included.

Strategy Overview

Firm	Fund Offering	Strategy Focus
Carlyle	Carlyle Direct Lending Fund (Levered), L.P.	Senior loans to private equity (PE)-sponsored U.S. companies in the core-to-upper middle-market with \$25 million to over \$100 million in EBITDA and an emphasis on those with \$50-75 million in EBITDA.
Crescent	Crescent Direct Lending Levered Fund IV (Delaware) LP	Senior loans to PE-sponsored U.S. companies in the lower-to-core middle-market with \$5-50 million in EBITDA.
Deerpath	Deerpath Evergreen Advantage (US), LP	Senior loans to PE-sponsored U.S. companies in the lower middle-market with \$8-20 million in EBITDA.

Key Differentiators

Firm	Key Strengths	Points to Consider
Carlyle	The fund is evergreen, which may ease administration for some clients. The fund holds quarterly closings and calls commitments sequentially. Commitments are expected to be called over two years from each closing. Please see the Key Terms section for a description of redemption terms. We consider the fund's fees low because, unlike most peers, Carlyle does not charge an incentive fee. We think the strategy has a relatively defensive profile due to its emphasis on larger borrowers, its focus on PE-sponsored companies, and its emphasis on borrowers with diversified product offerings and high barriers to entry.	The fund focuses on core-to-upper-middle-market, PE-sponsored companies. Over the long term, we expect it to earn less of a size premium than funds that focus on smaller companies and not to earn the incremental yield that may come from lending to non-sponsored companies. Carlyle has historically earned a lower gross unlevered since-inception IRR than the other candidates. While the team's 8.8% gross unlevered IRR compares favorably with the 6-8% range we consider typical in the category, it is less than those of the other candidates.
Crescent	The Crescent Direct Lending (CDL) team's established track record predates and includes the Global Financial Crisis (GFC). From 2005 through June 2025, the team invested \$12.1 billion in loans to more than 280 portfolio companies. They achieved an exceptionally low annualized credit-loss rate of 0.02%, which rounds down to 0.0%, including realized and unrealized losses. The CDL team has deep relationships with established PE sponsors that may enable them to be approached with deal flow before less established lenders. Crescent's reputation as a relationship-oriented lender may be a reason for PE sponsors to prefer the firm if the incremental cost to a borrower is small, since Crescent may be more willing to constructively work through a troubled loan than a more transactional lender would. We consider Crescent IV's fees low for a lower-middle-market strategy. It does not pass through operating expenses for monitoring investments like some peers, and its 10.0% carried interest on a 7.0% preferred return is on the lower end of what we consider typical for its style.	Crescent is going through a senior leadership transition. In 2023, Managing Partners and Co-founders Mark Attanasio and Jean-Marc Chapus announced their intentions to delegate more responsibility to the firm's Operating and Executive Committees and identify new leadership. In June 2024, Managing Director and Head of Private Credit Christopher Wright was named Crescent's president; COO Joseph Viola was named chairman of its Operating Committee, which oversees daily operations; and the CEO of Crescent Capital BDC, Inc. was appointed to the Operating Committee. The managing partners are withdrawing from daily operations to focus on client relationships, corporate strategy, and maintaining the firm's culture. We are comfortable with the transition. Sun Life Financial acquired 51% of Crescent in January 2021. The CDL funds' European carried interest serves as a retention tool. While we note some team members' significant experience, we are comfortable with the risk of retirements and the team has had low turnover.

Key Differentiators

Firm	Key Strengths	Points to Consider
Deerpath	Regional offices drive broad deal flow of more than 2,000 lending opportunities annually. That allows the team to be selective while broadly diversifying portfolios. The team typically invests in less than 4% of the platform opportunities they review each year. Since the strategy's inception in 2009 through June 30, 2025, the team has delivered a strong unlevered gross IRR of 10.8%. That is well above the 6-8% range we consider typical. The typical borrower has over 15 years of operating history. The Deerpath fund offers a conservative approach that seeks to make loans with low leverage and loan-to-value ratios, which have contributed to a low annualized credit-loss rate of 0.01%, which rounds down to 0.0%, since inception.	PGIM Investments (PGIM), a subsidiary of Prudential Financial Inc. (NYSE: PRU), purchased 75% of Deerpath in December 2023. We consider the acquisition positive because it allowed two co-founders who worked for Deerpath part-time to be succeeded by tenured, full-time Deerpath employees on the investment committee (IC). Deerpath charges administrative fees on top of the management fee. We still consider the fund's fees competitive. The sum of these expenses and the management fee is below the median that Preqin reports for recently incepted direct lending funds.

Investment Team

Firm	Key Decision-Makers	Team Stability
Carlyle	Decisions are made by a 12-member investment committee (IC). Each member of the IC has at least 18 years of experience. The IC includes three members from the Carlyle Direct Lending (CDL) team: CIO of Direct Lending and Head of Underwriting Michael Hadley, COO and Chief Risk Officer of Direct Lending Tom Hennigan, and Deputy CIO of Global Credit and Head of Direct Lending Justin Plouffe. They each have more than 20 years of experience and have been with Carlyle for more than 15 years. The IC also includes senior managers who oversee Carlyle's global credit platform and managers of its other credit strategies. Before an investment opportunity advances to the IC, it is reviewed by a screening committee (SC). The SC includes five permanent members from the CDL team, each of whom has more than 20 years of experience, plus one rotating managing director from the CDL team and one rotating managing director from Carlyle's opportunistic credit team.	Justin Plouffe, Deputy CIO of Global Credit, has been promoted to CFO. Justin will continue his current role through the end of 2025. Alex Chi will join Carlyle as Deputy CIO of Credit and Head of Direct Lending in early 2026. Chi, who started at Goldman Sachs Asset Management in 1994, was most recently their co-head of private credit. Carlyle expects a natural short-term transition of managerial and leadership duties from Plouffe to Chi. We are comfortable with the team changes, and they have been communicated in advance. Carlyle expanded the IC from five to 12 people in late 2022. The additions represent other Carlyle teams and are intended to diversify the views represented on the IC. We are comfortable with the changes.
Crescent	The CDL team is led by 10 principals: John Bowman, Co-Head of CDL; Scott Carpenter, Co-Head of CDL; and Managing Directors Clayton Bruce, Jonathan Cignetti, Jake Garmey, Brady Hahn, Gia Heimlich, Hayes Olofson, Michael Rogers, and Jason Schryver. Crescent IV's investment committee comprises Bowman, Carpenter, Rogers, Cignetti, Garmey, and Schryver. Schryver joined CDL in 2022 from Madison Capital Funding, another lower middle-market direct lending firm. The other five IC members worked together at HighPoint Capital before they joined Crescent to start this strategy at that firm in 2012. Each member of the IC has more than 20 years of experience.	The team has been highly stable. No senior team members have departed the team in the last five years. Six of the 10 principals worked together at HighPoint Capital before they joined Crescent in 2012.

Investment Team

Firm	Key Decision-Makers	Team Stability
Deerpath	Decisions are made by a seven-member investment committee (IC). Each member of the IC has more than 10 years of experience and has been with the firm for at least five years. Six members are permanent: President James Kirby, COO Tas Hasan, Head of Underwriting Natalie Garcia, Head of Origination Reed Van Gorden, Head of Restructuring Mauricio Reyes, and Managing Director (in originations) Michael Contreras. They joined the firm in 2007, 2007, 2015, 2015, 2014, and 2018, respectively. The seventh seat is held by a rotating managing director from the investment team.	Co-founders Gary Wendt and John Fitzgibbons left the firm when they sold their interests in Deerpath to PGIM in December 2023. They had served on the IC and spent about one-third of their business time on Deerpath since they co-founded the firm with Kirby in 2007. Garcia, Van Gorden, Reyes, and Contreras were concurrently added as permanent members of the IC. We consider the changes in the IC positive. After these changes, all IC members are full-time Deerpath investment professionals. We expect this to streamline communication between the investment team and the IC.

Product Profile

Product	Target Size	Minimum Commitment ¹	Profile	Fund-Level Leverage ²	First Close	Final Close	Target Net IRR	Fund Lifecycle
Carlyle CDLF	N/A	Negotiable	Core-to-upper mid-market PE-sponsored companies with \$25-100M EBITDA.	1.0x debt/equity	Jul. 2022	N/A	10-12%	Evergreen. After a two-year lock-up, redemptions may be requested either quarterly or annually. ³
Crescent IV	\$3.0 billion	Negotiable	Lower-to-core middle-market PE-sponsored companies with \$5-50M EBITDA.	1.0x debt/equity	Dec. 2024	4Q 2025	10-12%	Seven years from the final closing plus up to three one-year extensions.
Deerpath Evergreen	N/A	Negotiable	Lower mid-market PE-sponsored companies with \$8-20M EBITDA.	2.0x debt/equity	4Q 2023	N/A	10-13%	Evergreen. After a three-year lock-up, redemptions may be requested annually. ⁴

Product Profile Endnotes

¹ The funds' stated minimums are \$5.0-10.0 million. The candidates have agreed to waive or reduce their funds' minimums for Mariner Institutional clients.

² Crescent and Deerpath strategies are also available in "unlevered" vehicles that are approved at Mariner Institutional. Those vehicles are expected to use subscription lines of credit to make managing cash flows easier for investors, but they are not expected to use long-term leverage. The unlevered funds' return targets are lower than those of the levered funds shown in this report.

³ Investors in Carlyle CDLF may request redemptions either quarterly or annually after a two-year initial lock-up measured from the date of each closing. In the quarterly redemption option, investors may be able to redeem at net asset value with 90 days' notice, subject to available matching subscriptions and unfunded commitments. In the annual redemption option, investors may redeem with 180 days' notice prior to year-end, which is when a pro-rata portion of the portfolio would be set aside in a run-off sleeve. As investments in the run-off sleeve generate cash, that would be distributed as available. We expect the annual redemption option to take multiple years.

⁴ Deerpath Evergreen has a three-year initial lock-up. After that period, investors may request redemptions annually as of each calendar-year end by giving Deerpath notice by the preceding September 30. After the applicable year-end, Deerpath would either pay out the balance over time based on portfolio cash flow or pay out the balance at market value at Deerpath's discretion.

Key Terms

Product	Investment Period	Investment Management Fees ¹	Preferred Return	Carried Interest
Carlyle CDLF	Capital is expected to be called within two years after each closing. Other than dividends, capital will be reinvested until the investor redeems. Investors can choose to reinvest dividends.	Management Fee: 1.25% annually on gross asset value. Discounts may be available for commitments of at least \$50 million. ²	N/A	N/A
Crescent IV	Three years from the final closing plus up to one six-month extension.	Management Fee: 1.00% annually on invested capital, including any assets bought using leverage. Discounts may be available for commitments of at least \$25 million. ²	7%	10%

Key Terms

Product	Investment Period	Investment Management Fees ¹	Preferred Return	Carried Interest
Deerpath Evergreen	Three years from the closing in which each investor commits capital.	Stated Management Fee: 1.00% annually on the fair value of the Fund's investments, as determined by Deerpath's valuation policy and excluding cash and cash equivalents. Mariner Institutional (MI) Discount: Deerpath offers MI clients a 0.90% management fee because MI clients' aggregate commitments to Deerpath VII and Evergreen are more than \$50 million.² Administrative Fees: Estimated at 0.35-0.45% of gross assets annually.	7%	15%³ A 10% discount (resulting in a 13.5% rate) is available for commitments of at least \$100M.²

Key Terms Endnotes

¹ Each candidate fund is expected to use fund-level leverage. Consistent with prevailing direct lending industry practice, the candidates' fees are assessed on gross assets, including assets purchased using debt as well as equity. Their management fees would be much higher, approximately the rates shown multiplied by the expression $(1 + \text{the amount of fund-level leverage})$, if expressed as a percentage of invested equity.

² Each candidate has agreed to aggregate Mariner Institutional (MI) client commitments for their funds' scale-based discounts. Clients who wish to receive any resulting discount(s) will need to reference this understanding and separately address via their own side letter(s) (or similar legal document) with the asset management firm. At the time of this writing, commitments by MI clients to select Deerpath funds were more than \$50 million in aggregate, which we expect to allow clients to qualify for a 0.10% discount from the management fee rate. MI client commitments to the other candidate funds had not reached the amounts that qualified for offered discounts at the time of this writing. MI does not guarantee that any discount will be available.

³ Deerpath Evergreen's carried interest will be allocated regarding each fiscal year. Carried interest allocations will be provisional until each investor makes a full or partial withdrawal, at which time the allocations will become permanent.

Performance and Fees Comparison

As of June 30, 2025



Vintage-Year Performance

- Diverse vehicle structures and amounts of fund-level leverage can make private debt track records difficult to compare. Reviewing gross unlevered IRRs by vintage year can reduce the distortions of timing and leverage.
- The table below includes each manager's investments that we consider similar to those of the candidate funds, regardless of the product that held them. The returns shown do not reflect any specific product and were not realized by any client.

Vintage Year ¹	Carlyle	Crescent ²	Deerpath
2009		N/A	19.8%
2010		10.3%	14.2%
2011		N/A	14.2%
2012		N/A	12.0%
2013	7.2%	5.4%	8.9%
2014	5.6%	8.4%	8.9%
2015	8.3%	7.8%	9.0%
2016	8.5%	8.4%	10.6%
2017	8.5%	8.9%	7.6%
2018	8.3%	7.8%	8.5%
2019	7.3%	8.9%	9.3%
2020	10.5%	10.2%	10.9%
2021	9.7%	9.9%	10.1%
2022	11.9%	12.2%	12.6%
2023 ³	13.5%	13.9%	14.1%
2024 ³	10.8%	13.2%	14.2%
2025 ³	N/M	N/M	N/M
Aggregate IRR	8.8%	9.2%	10.8%

¹ Vintage year refers to the year that the manager made an investment in a portfolio company. Performance is shown since inception (i.e., from the date the investments were made through the as-of date). For example, the performance of an investment made in 2009 is not only the performance of that investment during 2009, but from the date the investment was made through the earlier of when it was fully realized and the as-of date of this report.

² Years before 2009 are not shown in the table to increase readability. Crescent's track record began in 2005, when the team was with HighPoint Capital. Crescent's gross, unlevered IRRs for 2005, 2006, 2007, and 2008 were 8.9%, 9.3%, 8.8%, and 14.7%, respectively. Crescent did not originate loans in 2009, 2011, and 2012.

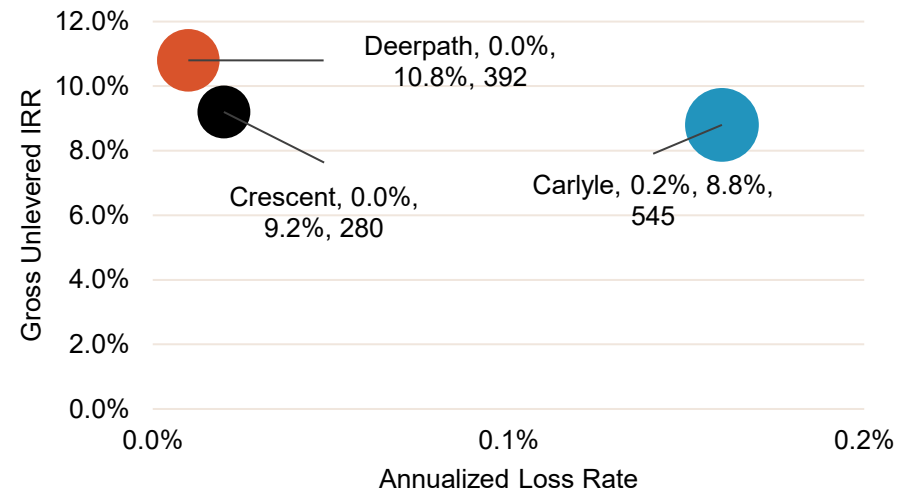
³ Direct-lending transactions typically have high IRRs shortly after origination due to one-time origination fees. We expect the returns of loans in the 2023-2025 vintage years to decline materially as the loans age.

Unlevered Performance Since Inception

- Robust track records give us confidence that past results arose from skill rather than luck.
- We associate low annualized credit loss rates with strong underwriting and/or credit workout capabilities, which may help managers to provide downside protection. We consider loss rates of 0.5-0.8% typical for a senior direct lending strategy across a full market cycle.

Since-Inception Statistic	Carlyle	Crescent	Deerpath
Track Record Inception	2013	2005	2009
Portfolio Companies	545	280	392
Total Cost (billions)	\$22.3	\$12.2	\$11.8
Gross Unlevered IRR	8.8%	9.2%	10.8%
Annualized Loss Rate ¹	0.2%	0.0%	0.0%

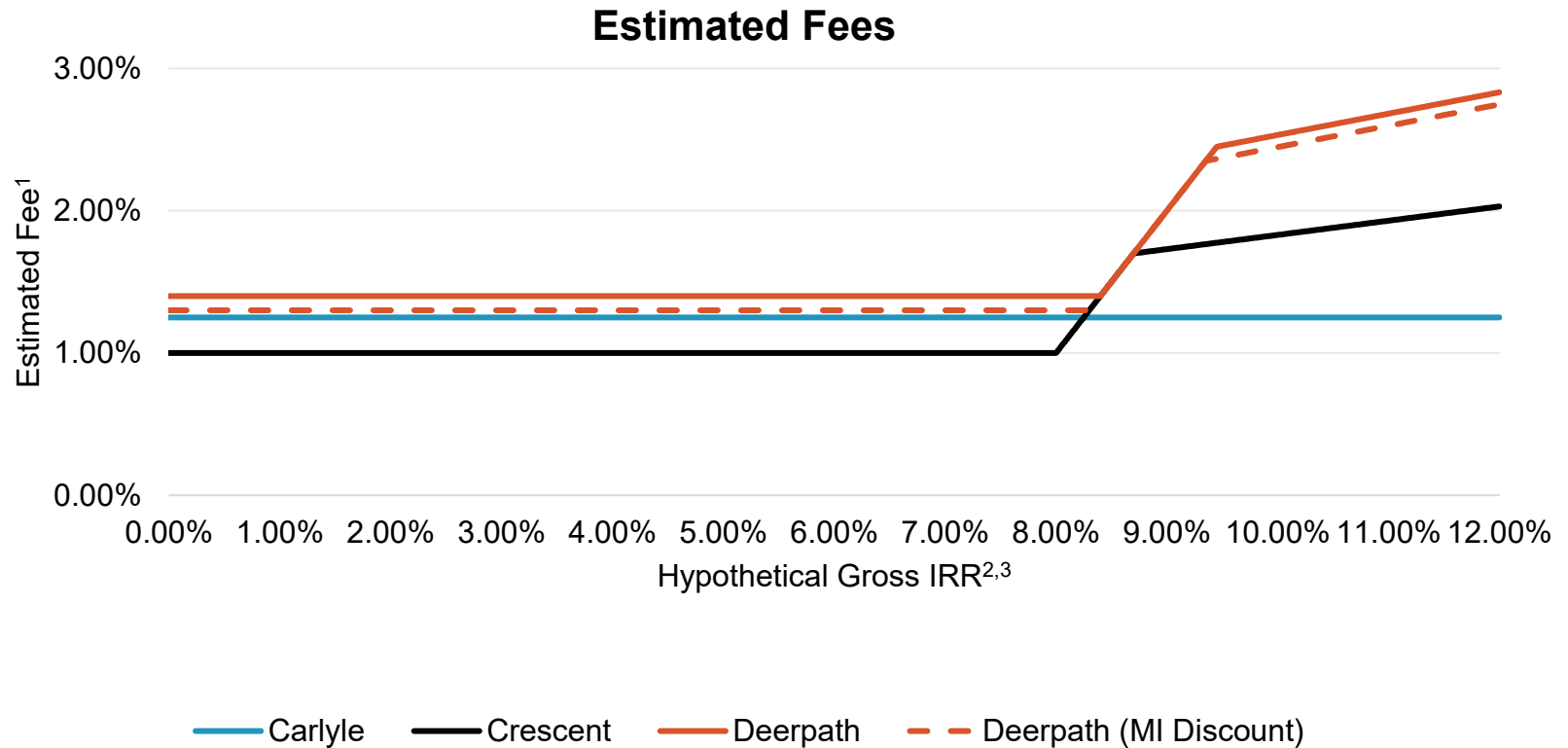
Track Record Summary²



¹ Loss rates were calculated in two steps. First, a cumulative loss ratio was calculated as the dollars lost on all investments that were held at or realized for less than cost. Next, the cumulative loss ratio was divided by the age of the track record in years.

² The text in the chart is the annualized loss rate, gross unlevered IRR, and count of portfolio companies since inception. Bubble sizes represent the number of portfolio companies.

Fee Illustration



Fee Illustration Assumptions & Endnotes

Assumptions	Carlyle	Crescent	Deerpath	Deerpath (MI Discount) ⁴
Management Fee ³	1.25%	1.00%	1.40%	1.30%
Carried Interest	N/A	10.00%	15.00%	15.00%
Preferred Return	N/A	7.00%	7.00%	7.00%
GP Catch-up	N/A	100.00%	100.00%	100.00%

¹ Estimated annual management fee and carried interest as a percentage of the candidate fund's assets. Since each candidate fund is expected to use leverage and these fees are expressed as percentages of gross assets (including assets bought using debt as well as those bought using investor equity), the funds' fees would be higher as a percentage of investor equity. Carried interest was assumed not to be assessed on returns that were less than the sum of 1) the Hypothetical Gross IRR and 2) the Management Fee associated with each manager. When the Hypothetical Gross IRR was in excess of those fees, each additional basis point of gross return was assumed to be assigned to the general partner (GP) at the GP Catch-up rate shown until the GP had received the share of total Carried Interest shown on all returns in excess of the Management Fee. Once that point was reached, the GP was assumed to receive the Carried Interest shown on each additional basis point of gross return.

² The Hypothetical Gross IRR is an arbitrary assumption intended to show the relationship between the IRR and fees. The IRRs shown may not be achieved.

³ Operating and organizational expenses are not included. The management fee shown for Deerpath includes estimated internal administration expenses of 0.40%. Please see the Key Terms pages earlier in this report for more information.

⁴ Deerpath offered MI clients a 0.10% discount from the management fee rate (resulting in a 0.90% rate before the administration expenses described in the preceding endnote) if MI client commitments to certain Deerpath funds were at least \$50 million. MI client commitments exceeded that amount at the time of this writing. MI does not guarantee that any discount will be available.

PERFORMANCE AND FEES

Carlyle Direct Lending Performance

Investment-Level Performance by Vintage Year

Vintage Year	Portfolio Companies (#)	INVESTMENT-LEVEL, IN USD MILLIONS			GROSS OF FEES		
		Total Invested Capital	Total Realized	Total Unrealized	Total Value	MOIC	IRR
2013	30	\$334.7	\$395.7	\$0.0	\$395.7	1.18x	7.2%
2014	49	\$815.1	\$915.9	\$0.0	\$915.9	1.12x	5.6%
2015	34	\$926.3	\$1,072.3	\$0.0	\$1,072.3	1.16x	8.3%
2016	56	\$1,716.0	\$1,965.3	\$137.2	\$2,102.5	1.23x	8.5%
2017	60	\$2,210.4	\$2,526.9	\$95.8	\$2,622.8	1.19x	8.5%
2018	56	\$2,348.2	\$2,708.5	\$164.4	\$2,872.9	1.22x	8.3%
2019	54	\$2,987.8	\$2,966.6	\$616.3	\$3,582.9	1.20x	7.3%
2020	38	\$1,890.1	\$1,666.9	\$680.1	\$2,347.1	1.24x	10.5%
2021	39	\$2,710.3	\$1,977.6	\$1,348.3	\$3,325.9	1.23x	9.7%
2022	40	\$2,574.3	\$1,519.1	\$1,564.4	\$3,083.5	1.20x	11.9%
2023	15	\$920.0	\$472.7	\$596.1	\$1,068.8	1.16x	13.5%
2024	40	\$1,523.4	\$282.3	\$1,348.8	\$1,631.1	1.07x	10.8%
2025	34	\$1,313.1	\$93.4	\$1,243.1	\$1,336.5	1.02x	NM
Total	545	\$22,269.6	\$18,563.0	\$7,794.7	\$26,357.7	1.18x	8.8%

Fund Performance

Fund	Vintage Year	Portfolio Companies (#) ¹	FUND-LEVEL, IN USD MILLIONS			FUND-LEVEL			
			Total Invested Capital	Total Distributed	Total Unrealized	Total Value	Leverage (Debt / Equity) ²	Net MOIC	Net IRR
Carlyle Secured Lending, Inc. ("CSL") ³	2013	202	\$1,533.5	\$1,076.4	\$1,197.9	\$2,274.3	1.0x	1.48x	7.5%
Carlyle Credit Solutions, Inc. ("CARS")	2017	227	\$1,965.3	\$1,060.1	\$1,491.9	\$2,552.0	0.7x	1.30x	9.1%
Carlyle Direct Lending Fund ("CDLF") ⁴	2022	133	\$232.8	\$43.5	\$244.0	\$287.4	0.8x	1.23x	14.0%
SMA I	2017	41	\$192.7	\$149.6	\$114.1	\$263.7	0.3x	1.37x	8.3%
SMA II	2017	55	\$391.1	\$244.9	\$318.5	\$563.4	1.2x	1.44x	11.4%
SMA III	2018	1	\$235.7	\$249.5	\$6.0	\$255.5	None	1.08x	3.5%
SMA IV	2018	133	\$302.4	\$46.6	\$416.5	\$463.2	1.0x	1.53x	10.3%
SMA V ⁵	2020	47	\$376.1	\$64.0	\$385.5	\$449.5	None	1.20x	10.0%
SMA VI	2023	51	\$164.0	\$10.6	\$167.0	\$177.6	None	1.08x	8.4%
Total		545	\$5,393.7	\$2,945.3	\$4,341.3	\$7,286.6			

¹ Portfolio Companies (#) reported as the unique investments within each fund or SMA.

² Leverage represents the average leverage since inception. For CDLF, represents the average leverage since inception of the onshore levered vehicle only.

³ On March 27, 2025, Carlyle Secured Lending III (CSL III) merged with Carlyle Secured Lending (CSL).

⁴ Metrics shown for CDLF represent the onshore levered portfolio only and reflect dividend re-investment.

⁵ Net IRR shown reflects the return on assets adjusted for the impact of management fees paid by the investor outside of the vehicle; this figure does not incorporate any other expenses beyond the management fee paid by the investor outside of the vehicle.

PERFORMANCE AND FEES

Crescent Direct Lending Performance

Investment-Level Performance by Vintage Year

Vintage Year	Portfolio Companies (#)	INVESTMENT-LEVEL, IN USD MILLIONS			GROSS OF FEES		
		Total Invested Capital	Total Realized	Total Unrealized	Total Value	MOIC	IRR
2005 and Prior	3	\$18.0	\$21.8	\$0.0	\$21.8	1.2x	8.9%
2006	7	\$59.1	\$70.6	\$0.0	\$70.6	1.2x	9.3%
2007	5	\$29.4	\$38.3	\$0.0	\$38.3	1.3x	8.8%
2008	7	\$67.1	\$86.4	\$0.0	\$86.4	1.3x	10.7%
2009	0	\$0.0	\$0.0	\$0.0	\$0.0	N/A	N/A
2010	3	\$32.5	\$37.8	\$0.0	\$37.8	1.2x	10.3%
2011	0	\$0.0	\$0.0	\$0.0	\$0.0	N/A	N/A
2012	0	\$0.0	\$0.0	\$0.0	\$0.0	N/A	N/A
2013	11	\$234.1	\$277.1	\$0.0	\$277.1	1.2x	5.4%
2014	20	\$438.2	\$532.1	\$0.0	\$532.1	1.2x	8.4%
2015	21	\$525.6	\$640.4	\$0.0	\$640.4	1.2x	7.8%
2016	23	\$887.6	\$1,140.7	\$0.0	\$1,140.7	1.3x	8.4%
2017	17	\$811.8	\$1,003.2	\$0.0	\$1,003.2	1.2x	8.9%
2018	25	\$1,144.1	\$1,247.7	\$199.3	\$1,447.0	1.3x	7.8%
2019	25	\$1,560.4	\$1,553.9	\$474.8	\$2,028.7	1.3x	8.9%
2020	13	\$741.3	\$738.7	\$190.2	\$928.9	1.3x	10.2%
2021	31	\$2,043.7	\$1,178.0	\$1,440.0	\$2,618.0	1.3x	9.9%
2022	21	\$1,460.8	\$673.8	\$1,162.7	\$1,836.5	1.3x	12.2%
2023	14	\$634.5	\$186.4	\$566.7	\$753.1	1.2x	13.9%
2024	23	\$983.6	\$81.1	\$994.1	\$1,075.3	1.1x	13.1%
2025	11	\$491.1	\$14.6	\$490.5	\$505.0	1.0x	13.2%
Total	280	\$12,162.9	\$9,522.5	\$5,518.3	\$15,040.8	1.2x	9.2%

Fund Performance¹

FUND-LEVEL, IN USD MILLIONS											FUND-LEVEL	
Fund	Vintage Year	Portfolio Companies (#)	Fund Size ²	Total Invested Capital	Total Distributed	Total Unrealized	Total Value	Leverage (Debt / Equity)	Net MOIC	Net IRR		
HighPoint Capital (Predecessor Fund) ³	2005	25	\$225.0	\$206.0	\$255.0	\$0.0	\$255.0	n/a	1.2x	8.5%		
Unlevered I	2013	61	\$386.0	\$502.9	\$604.8	\$0.0	\$604.8	n/a	1.3x	6.2%		
Levered I	2014	88	\$601.6	\$367.0	\$462.0	\$4.2	\$466.2	1.0x	1.3x	7.0%		
Unlevered II	2017	100	\$1,023.3	\$1,036.6	\$1,078.3	\$180.9	\$1,259.2	n/a	1.2x	6.9%		
Levered II	2017	98	\$1,114.1	\$565.3	\$638.6	\$99.8	\$738.5	1.0x	1.3x	8.6%		
Unlevered III	2021	119	\$2,207.2	\$2,031.1	\$842.8	\$1,593.7	\$2,436.5	n/a	1.2x	9.2%		
Levered III	2021	119	\$1,961.3	\$901.7	\$420.0	\$704.8	\$1,124.9	1.0x	1.2x	11.4%		
Unlevered IV	2024	22	\$545.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a		
Levered IV	2024	22	\$955.3	n/a	n/a	n/a	n/a	1.0x	n/a	n/a		
Total		280	\$9,018.8	\$5,610.6	\$4,301.6	\$2,583.5	\$6,885.1					

¹ Excludes both Crescent multi-strategy and CDL SMA investments. The total portfolio companies do not sum to 280 due to overlap between funds. The total number shown reflects unique portfolio companies.

² Fund size includes targeted leverage of 1:1 for the Levered Funds.

³ HighPoint Capital ("HPC") Net IRR is Pro Forma assuming the HPC Fund had a 1% management fee (consistent with the terms of the Unlevered Fund) and \$350,000 of organization expenses and administrative expenses of \$75,000 annually (which is consistent with the organizational and annual administrative expense costs of the HPC Fund).

PERFORMANCE AND FEES

Deerpath Direct Lending Performance, Investment-Level

Investment-Level Performance by Vintage Year

Vintage Year	Portfolio Companies (#)	INVESTMENT-LEVEL, IN USD MILLIONS				GROSS OF FEES	
		Total Invested Capital	Total Realized	Total Unrealized	Total Value	MOIC	IRR
2009	4	\$41.9	\$61.2	\$0.0	\$61.2	1.5x	19.8%
2010	10	\$117.7	\$156.0	\$0.0	\$156.0	1.3x	14.2%
2011	10	\$200.0	\$259.1	\$0.0	\$259.1	1.3x	14.2%
2012	11	\$206.1	\$249.0	\$0.0	\$249.0	1.2x	12.0%
2013	12	\$197.7	\$225.3	\$6.4	\$231.7	1.2x	8.9%
2014	26	\$344.1	\$401.0	\$1.8	\$402.8	1.2x	8.9%
2015	16	\$280.3	\$307.5	\$32.2	\$339.7	1.2x	9.0%
2016	9	\$285.4	\$352.6	\$37.4	\$390.0	1.4x	10.6%
2017	13	\$286.9	\$335.3	\$3.3	\$338.6	1.2x	7.6%
2018	28	\$826.9	\$992.5	\$56.4	\$1,048.9	1.3x	8.5%
2019	37	\$681.1	\$685.8	\$150.5	\$836.3	1.2x	9.3%
2020	44	\$1,221.2	\$960.2	\$627.3	\$1,587.5	1.3x	10.9%
2021	65	\$2,492.4	\$1,601.4	\$1,524.1	\$3,125.5	1.3x	10.1%
2022	46	\$1,787.1	\$880.3	\$1,331.6	\$2,211.9	1.2x	12.6%
2023	21	\$1,055.3	\$256.8	\$979.1	\$1,235.9	1.2x	14.1%
2024	25	\$1,196.1	\$113.7	\$1,192.3	\$1,305.9	1.1x	14.2%
2025	15	\$609.6	\$7.5	\$615.9	\$623.4	1.0x	15.9%
Total	392	\$11,829.7	\$7,845.2	\$6,558.2	\$14,403.4	1.2x	10.8%

PERFORMANCE AND FEES

Deerpath Direct Lending Performance, Fund-Level

Fund Performance

Fund	Vintage Year	Portfolio Companies (#)	FUND-LEVEL, IN USD MILLIONS				FUND-LEVEL		
			Total Invested Capital	Total Distributed	Total Unrealized	Total Value	Leverage (Debt / Equity)	Net MOIC	Net IRR
Fund 1	2008	47	\$87.7	\$172.0	\$0.0	\$172.0	2.0x	2.0x	12.5%
Fund 2	2011	44	\$40.9	\$77.2	\$0.0	\$77.2	2.0x	1.9x	11.2%
Fund 3A	2013	67	\$77.6	\$104.8	\$0.0	\$104.8	0.0x	1.4x	5.9%
Fund 3B	2013	50	\$74.4	\$102.2	\$0.0	\$102.2	1.0x	1.4x	7.5%
Fund 4A	2017	201	\$45.5	\$27.9	\$36.0	\$63.9	0.0x	1.4x	6.1%
Fund 4 US	2016	311	\$154.2	\$192.0	\$67.8	\$259.8	2.0x	1.7x	11.1%
Fund 4 Cayman	2016	295	\$143.5	\$86.6	\$127.7	\$214.3	2.0x	1.5x	7.9%
Fund 4C	2016	80	\$78.6	\$59.5	\$83.5	\$143.0	2.0x	1.8x	10.9%
Fund 5A	2020	201	\$130.0	\$43.1	\$131.5	\$174.6	0.0x	1.3x	8.1%
Fund 5 US	2019	311	\$207.3	\$95.7	\$197.4	\$293.2	2.0x	1.4x	11.3%
RAIF 1	2019	225	\$202.0	\$82.9	\$183.9	\$266.7	0.0x	1.3x	6.1%
RAIF 2	2020	208	\$177.0	\$58.4	\$164.7	\$223.1	0.0x	1.3x	6.5%
RAIF 3	2021	191	\$263.2	\$65.4	\$264.3	\$329.7	0.0x	1.3x	8.1%
RAIF 4	2024	191	\$38.5	\$0.4	\$39.3	\$39.7	0.0x	1.0x	7.9%
RAIF 5	2024	NA	\$44.6	\$0.4	\$45.2	\$45.6	2.0x	1.0x	7.4%
Fund 5 Cayman	2020	295	\$49.0	\$16.5	\$40.4	\$56.9	2.0x	1.2x	8.0%
Lightly Levered	2019	130	\$60.9	\$28.5	\$60.9	\$89.4	0.4x	1.5x	8.1%
Fund 5 ERISA	2020	295	\$66.3	\$24.0	\$63.7	\$87.7	2.0x	1.3x	8.1%
Newbury	2020	94	\$21.7	\$8.6	\$20.6	\$29.2	0.0x	1.3x	8.5%
Fund 5C	2020	71	\$83.0	\$36.0	\$83.0	\$119.0	2.0x	1.4x	14.1%
Fund 5C-SBIC	2021	69	\$8.5	\$3.5	\$8.6	\$12.2	2.0x	1.4x	14.3%
Broadway	2021	311	\$85.0	\$40.7	\$85.3	\$126.0	2.0x	1.5x	12.4%
Fund 6 US	2021	311	\$487.1	\$118.2	\$482.4	\$600.7	2.0x	1.2x	11.5%
Fund 6 Cayman	2021	295	\$38.7	\$6.9	\$37.1	\$44.0	2.0x	1.1x	7.1%
Fund 6A US	2021	192	\$142.7	\$34.1	\$143.5	\$177.6	0.0x	1.2x	8.5%
Fund 6A Cayman	2022	179	\$33.7	\$5.7	\$33.7	\$39.4	0.0x	1.2x	7.3%
Fund 6 US ERISA	2022	311	\$81.2	\$20.0	\$80.4	\$100.4	2.0x	1.2x	11.6%
TRS Kentucky	2022	311	\$95.4	\$31.2	\$86.6	\$117.9	2.0x	1.2x	11.7%
Evergreen US Levered	2024	311	\$79.3	\$5.2	\$79.9	\$85.1	2.0x	1.1x	10.1%
Evergreen US Unlevered	2024	179	\$10.4	\$0.2	\$10.6	\$10.8	0.0x	1.0x	6.2%
Fund 7 US	2024	311	\$18.7	\$0.8	\$18.9	\$19.7	2.0x	1.1x	8.7%
Fund 7A Cayman	2024	179	\$67.0	\$1.6	\$68.0	\$69.6	0.0x	1.0x	6.6%
Unlevered PGIM SMA	2024	81	\$479.3	\$0.0	\$509.9	\$509.9	0.0x	1.1x	11.3%
Evergreen Cayman Levered	2024	295	\$3.3	\$0.1	\$3.3	\$3.4	0.0x	1.0x	1.3%
Total		392	\$3,676.3	\$1,550.4	\$3,258.3	\$4,808.7			

Investment Manager and Fund Narratives



Carlyle

Firm Overview

The Carlyle Group Inc. (NASDAQ: CG) is an alternative asset management firm specializing in private capital. The firm has three divisions: Global Private Equity, Global Credit, and Investment Solutions. Carlyle has over 2,300 employees in more than 25 offices globally, who manage over \$460 billion as of June 30, 2025. The firm was founded in 1987 by William Conway, Jr., Daniel D'Aniello, and David Rubenstein. The firm's major offices are in Washington, DC; New York, NY; London; and Hong Kong.

Team Overview

The Carlyle Direct Lending (CDL) team includes over 40 investment professionals and is primarily based in New York. They specialize by stages in the investment process: origination, underwriting, and portfolio management, which occurs after loans have been made. The CDL team is led by Justin Plouffe, Deputy CIO of Global Credit and Head of Direct Lending; Michael Hadley, CIO and Head of Underwriting of Direct Lending; and Tom Hennigan, COO and CRO of Direct Lending. Investment decisions are made primarily by a seven-member screening committee (SC) that advances investment opportunities for consideration by a 12-member investment committee (IC). Plouffe, Hadley, and Hennigan serve on both committees. The SC primarily includes CDL team members. The IC primarily includes senior managers who oversee Carlyle's global credit platform and senior managers of its other credit strategies. In addition to CDL, Carlyle has a separate workout team to address troubled loans.

Strategy Overview

The strategy primarily makes first-lien, senior-secured loans of \$50-400 million to U.S. private equity (PE)-sponsored core to upper-middle-market companies with \$25 million to over \$100 million in EBITDA. We consider its risk profile below average within the senior direct-lending category. Its risk is reduced by focusing on borrowers with stable cash flow, low customer concentration, and in industries with barriers to entry. Risk is further reduced by making loans that generally average less than 50% of borrower enterprise value (loan to value or LTV); and focusing on companies owned by PE sponsors that may provide management expertise as well as capital to borrowers experiencing setbacks. Loans are expected to average 5.0-6.0x borrower EBITDA.

The investment process follows a "functional-specialist" model, wherein investment professionals specialize in phases of the investment process. CDL's dedicated originations team focuses on about 250 private equity (PE) sponsors in the U.S. and Europe. They emphasize PE sponsors with the strongest fit for their lending strategy. This includes sponsors that CDL considers established, successful, and good stewards of debt capital, and that invest in sectors where CDL has conviction. Underwriting is conducted by an investment team, which includes three to five investment professionals and the Head of Underwriting. The CDL team typically reviews about 2,000 lending opportunities annually and typically invests in 3-4%, which we consider selective. The due diligence process typically takes 60 to 90 days from opportunity identification to loan funding. The team monitors loans using a proprietary dashboard that reviews covenant compliance. Credit workout processes for troubled loans are supported by Carlyle's dedicated workout team.

Expectations

Carlyle Direct Lending Fund (the Unlevered Fund) targets a 6.5-7.5% net IRR. Carlyle Direct Lending Fund (Levered) and CDL Offshore Fund (Levered) (together, the Levered Funds) target 10.0-12.0% net IRRs. We think each fund's return target is achievable over the long term.

We think the funds' objectives may be exceeded in the short term. Their unlevered returns are mainly expected from cash coupons that float relative to SOFR. SOFR is currently about 4.1% at the time of this writing and the portfolio's weighted average spread is about 6%, leading to total coupons around 10%. After adding one-time closing fees of 1.0-2.0% amortized over four years, which is 0.25-0.50% annually; other fees from borrowers; and returns from limited equity participation, and deducting expected credit losses and the fund's fees, we think the return target may be exceeded. The Levered Funds are expected to use about 1.0x debt/equity leverage. Carlyle expects the cost of financing to be about 2.5% over SOFR. Adjusting the unlevered returns for this, we consider the Levered Funds' goals achievable.

Points to Consider

The partnerships are evergreen, which gives investors the option to remain invested. They will hold quarterly closings and draw commitments sequentially. After a two-year investor-level lock-up, investors who wish to redeem will have two options, quarterly or annual. The quarterly option will generally rely on matching contributions from other investors' commitments, while the annual option involves setting aside a pro-rata portion of the portfolio to naturally mature. Investors may also choose to receive or reinvest anticipated quarterly income distributions.

We think it could take seven years from an investor's initial commitment to fully exit the vehicle. We think the primary benefit of the slow redemption structure is that it addresses the illiquidity of the underlying holdings, which is important for mitigating "run-on-the-bank" risks.

Between the underlying CDL strategy's 2013 inception and June 2025, the team invested \$22.3 billion in over 500 portfolio companies. They achieved an 8.8% gross unlevered IRR, which is above the 6-8% range we consider illustrative of the category, and a 0.2% annualized credit-loss rate, which is better than the 0.5-0.8% we consider illustrative of the category.

We consider the strategy's fees low. It has no incentive fee, which most funds in the category charge. The management fee starts at a competitive 1.25% of gross invested assets, which includes assets bought using leverage. Carlyle has agreed to aggregate our clients' commitments for the fund's scale-based discounts.

Recommendation Summary

We recommend the strategy as a sole or diversifying allocation in a private debt portfolio. We think its style is representative of the typical U.S. institutional investor's approach to direct lending. The strategy's evergreen structure may reduce the need for clients to refresh the core direct-lending allocation. In contrast, its core approach may be of less interest to clients seeking to outperform the category since it leaves fewer opportunities for teams to exploit competitive advantages. The evergreen structure may also be of less interest to clients who feel more comfortable with the more-established closed-end limited partnership format.

Crescent

Firm Overview

Crescent Capital Group (Crescent) is an asset management firm that specializes in credit strategies. As of June 30, 2025, Crescent had more than 225 employees, including more than 100 investment professionals, and managed about \$48 billion in total assets. This included about \$36 billion in private debt.

Managing Partners Jean-Marc Chapus and Mark Attanasio co-founded the firm's predecessor, Crescent Capital Corporation, to focus on below investment-grade debt in 1991. In 1995, the firm was acquired by The TCW Group, Inc. Crescent spun out of TCW in 2011 and was majority employee-owned until its 51% acquisition by Sun Life Financial (NYSE: SLF) in January 2021. The remaining 49% is currently owned by employees. Sun Life is expected to acquire the rest of Crescent in 2026.

Team Overview

The approximately 30-member Crescent Direct Lending (CDL) team is led by 10 principals: John Bowman, Co-Head of CDL; Scott Carpenter, Co-Head of CDL; and Managing Directors Clayton Bruce, Jonathan Cignetti, Jake Garmey, Brady Hahn, Gia Heimlich, Hayes Olofson, Michael Rogers, and Jason Schryver. Crescent Direct Lending Fund IV (Crescent IV)'s investment committee comprises Bowman, Carpenter, Rogers, Cignetti, Garmey, and Schryver.

Six of the principals (Bowman, Carpenter, Cignetti, Garmey, Rogers, and Heimlich) joined Crescent in 2012 to found the CDL team. They previously worked together at HighPoint Capital Management. Olofson joined the team as an associate in 2013 and was promoted to his current role. He has more than 15 years of experience. Bruce, Hahn, and Schryver joined CDL from Madison Capital Funding in 2021 and 2022 to form CDL's Chicago-based financial services team. They each have at least 20 years of experience. The principals are supported by about 20 senior vice presidents, vice presidents, associates, and analysts throughout the investment process.

Strategy Overview

Crescent IV will primarily invest in the senior loans of U.S. lower-to-core middle-market companies with \$5-50 million in EBITDA that are owned by private equity (PE) sponsors. The fund is expected to be diversified among 80-100 investments during its life.

The CDL team has deep relationships with established PE sponsors that may enable them to be approached with deal flow before less established lenders. We expect Crescent's focus on lending to stable companies owned by established PE sponsors to lead to consistent performance over time. The team has achieved a low, 0.02% annualized credit-loss rate from 2005 through June 2025. This is much better than the 0.5-0.8% range we consider typical in the category.

The CDL team manages investments in a "cradle-to-grave" investment process wherein the same deal teams stay with loans throughout the loans' lives, including origination, underwriting, monitoring, and, where necessary, working out troubled loans. PE firms generally prefer this structure because it gives them consistent contacts at lenders, but it can be hard for larger lending teams to maintain consistent standards in this structure.

Expectations

Crescent IV's unlevered partnerships, including Crescent Direct Lending Fund IV (Delaware) LP and Crescent Direct Lending Fund IV (Cayman) LP, seek net 8.0-10.0% IRRs and 1.2-1.3x TVPIs. The fund's levered partnerships, including Crescent Direct Lending Levered Fund IV (Delaware) LP and Crescent Direct Lending Levered Fund IV (Cayman) LP, target 1.0x debt/equity leverage to seek higher 10.0-12.0% IRRs and 1.3-1.4x TVPIs.

We consider the funds' targeted returns achievable based on the loans' base rates, spreads, and fees, minus expected credit losses, expenses, and the cost of financing for leverage. The Secured Overnight Financing Rate (SOFR), on which the funds' interest payments are based, was about 4.1% at the time of this writing. Spreads are expected to be 4.0-5.5% and loan closing fees are expected to be about 1.0% annualized.

Points to Consider

Crescent is going through a senior leadership transition. In 2023, Managing Partners and Co-founders Mark Attanasio and Jean-Marc Chapus announced their intentions to delegate more responsibility to the firm's Operating and Executive Committees and identify new leadership. In June 2024, Managing Director and Head of Private Credit Christopher Wright was named Crescent's president; COO Joseph Viola was named chairman of its Operating Committee, which oversees daily operations; and the CEO of Crescent Capital BDC, Inc. was appointed to the Operating Committee. The managing partners are withdrawing from daily operations to focus on client relationships, corporate strategy, and maintaining the firm's culture. We are comfortable with the transition.

SLC Management, Sun Life Financial's alternative asset management arm, acquired 51% of Crescent in January 2021. The fund's principals recently signed three-year retention agreements, as they have for prior CDL funds, and the funds' European carried interest also serves as a retention tool. While we note some team members' significant experience, we are comfortable with the risk of retirements in light of the aforementioned retention tools and note that the team has had low turnover.

The first two CDL funds earned 6.2-8.6% net IRRs, which were lower than their median peers. While understandable given the strategy's conservative approach, clients comfortable taking incremental risk to seek higher returns may prefer other options.

Recommendation Summary

We consider Crescent IV a solid, conservative choice for clients seeking exposure to U.S. senior direct lending. The CDL team has a long track record with an exceptionally low annualized credit loss rate since its inception. The strategy focuses on lower-to-core middle-market companies, which we expect to add a size premium over strategies that focus on larger companies.

We think that the fund may be a good fit for clients seeking consistent performance from direct lending and are comfortable with its closed-end structure. Clients who want to seek higher returns may prefer options that are less focused on established PE firms, which tend to command narrower spreads, or that partly invest in non-PE-sponsored companies.

Deerpath

Firm Overview

Deerpath was founded in 2007 by President James Kirby and two co-founders, John Fitzgibbons and Gary Wendt, who are no longer affiliated with the firm. COO and investment team head Tas Hasan also joined the firm in 2007. Deerpath only manages direct lending and was managing over \$8.7 billion as of June 30, 2025. It launched its first fund in 2008 and funded its first loan in May 2009. Deerpath has five offices in New York, Chicago, Boston, Los Angeles, and Fort Lauderdale. PGIM Investments, a subsidiary of Prudential Financial (NYSE: PRU) purchased 75% of Deerpath in December 2023. Kirby owns 20% of the firm and Hasan owns 5%.

Team Overview

Deerpath comprises about 90 professionals. The investment team includes about 20 professionals, eight of whom are originators and about 12 of whom are underwriters. Deerpath's Finance, Operations, and Portfolio Reporting team includes about 45 members responsible for functions such as accounting, loan operations, financing, and cash management. The firm also has about 15 investor relations professionals. Deerpath's investment decisions are made by a seven-member investment committee (IC). Six members are permanent: Kirby, Hasan, Natalie Garcia, Head of Underwriting; Reed Van Gorden, Head of Origination; Mauricio Reyes, Head of Restructuring; and Michael Contreras, Managing Director (in originations). The seventh seat is held by a rotating managing director from the investment team.

Strategy Overview

The strategy primarily makes first-lien, senior-secured loans of \$25-75 million to lower middle-market, private equity (PE)-owned U.S. companies with \$8-20 million in EBITDA and total enterprise values of \$50-150 million. We consider the strategy conservative due to its focus on low leverage relative to borrowers' enterprise values and cash flow, as well as its emphasis on companies whose owners Deerpath expects to provide support during adverse circumstances. The funds are expected to invest in about 200 companies during their lives.

Functions within the investment process are primarily carried out in a "cradle-to-grave" format, wherein the same deal team that originates lending opportunities underwrites, monitors and, when necessary, works out troubled loans. The size and diverse locations of the origination effort help Deerpath to originate investment opportunities from PE sponsors, banks and existing portfolio companies located around the U.S. The team sees over 2,000 opportunities annually when add-on opportunities are included. This allows Deerpath to be selective while maintaining broad diversification. Deal teams are selected by the IC when origination opportunities are considered worthy of underwriting. The firm conducts quality of earnings reviews independently from PE sponsors and develops its own opinion of the prospective borrower's enterprise value. The typical portfolio company has more than 20 years of operating history. The firm generally lends 3.5-4.5x EBITDA, which is about 0.5x less than we commonly see for direct lending strategies and aims to lend less than 50% of the borrower's enterprise value. This may provide protection when cash flow declines or PE firms pay multiples that are too generous. Monitoring is supported by the firm's deep finance and operations team, which collects financial statements from borrowers. Troubled portfolio companies are added to a watch list and Head of Restructuring Mauricio Reyes coordinates the firm's response to those situations. Credit workouts are implemented by the deal team, but the decisions are made by the IC.

Expectations

The strategy is offered in unlevered and levered formats. Deerpath Evergreen (US) is unlevered and seeks a 6-9% net IRR. Deerpath Evergreen Advantage (US) is expected to add 2.0x debt/limited-partner equity leverage to target a net IRR of 10-13%. Deerpath also offers Cayman Islands-domiciled partnerships, which seek a 5-8% net IRR unlevered or an 8-11% net IRR with 2.0x debt/equity leverage. The offshore partnerships' targeted returns are lower due to features that Deerpath expects to reduce the odds that they will incur UBTI and/or ECI.

We think each partnership's net return target is achievable. On an unlevered basis, Deerpath targets gross IRRs of about 10-12% from its underlying loans, comprising coupons of 6-7% over SOFR (SOFR was about 4.1% at the time of this writing) and one-time fees of 1.0-2.0%, plus potential fees for loan modifications or default charges. The Advantage funds are expected to issue debt in the collateralized loan obligation (CLO) market. We expect the cost of their leverage to be 2-3% over SOFR at current interest rates. Adding the incremental expected return from the assets bought using debt and deducting the financing cost causes us to consider the levered partnerships' return targets reasonable.

Points to Consider

PGIM Investments (PGIM), a subsidiary of Prudential Financial Inc. (NYSE: PRU), purchased 75% of Deerpath in December 2023. We consider the acquisition positive due to changes in the IC, whose voting members are now all full-time Deerpath employees. Co-founders Fitzgibbons and Wendt had spent about one-third of their business time on Deerpath since its inception. They sold their interests and left the firm upon closing of the acquisition, while Kirby and Hasan each sold 50% of their preceding interests. On the IC, Fitzgibbons and Wendt were succeeded by Garcia, Van Gorden, Reyes, and Contreras. PGIM may also appoint a non-voting observer to the IC.

Returning investors should be aware that Deerpath funds may hold overlapping loan exposures. The partnerships to which investors commit are "feeder funds". They are expected to invest primarily in evergreen master funds that hold underlying investments either directly or through levered subsidiaries. Some older Deerpath funds invest in the same master funds, leading to overlap across fund vintages. We expect this structure to increase diversification and allow Deerpath greater flexibility to manage the levered funds' borrowing.

Deerpath will administer the funds internally and charge for these services. We expect these costs to be 0.35-0.45% of invested capital annually. We think internal administration benefits the strategy by allowing the team to quickly see changes in borrowers' performance relative to their business plans, which may protect capital by enabling faster responses when credit workouts are needed. Deerpath's management fee (1.0%) plus the amount we anticipate for administration is less than the 1.5% median management fee Preqin reports for peers.

Recommendation Summary

We recommend the strategy as a sole or diversifying allocation in a private debt portfolio. Its focus on lower middle-market companies may complement exposure to direct lending strategies that focus on the larger core or upper middle-market. As a conservatively managed strategy, it may also serve as a lower risk diversifier to complement non-PE-sponsored, subordinated, or distressed debt strategies.

MARINER

Glossary



Glossary

Alternative Investments: Broadly, investments in assets or funds whose returns are generated through something other than long positions in public equity or debt. Generally includes private equity, private debt, real estate, and hedge funds.

Bankruptcy: One of several federal court procedures that debtors may invoke to protect them from their creditors.

Broadly Syndicated Loans (BSLs): Senior term loans that are held by a large or potentially large group of investors. BSLs are originated by an agent bank who assigns participations in the loan to a group of investors (a “syndicate”) in a manner similar to the initial public offering for a stock. There is an established secondary market for BSLs, which allows them to be held in more liquid vehicles such as mutual funds. BSLs are also commonly called “bank loans.”

Buyouts: Investments made to acquire majority or control positions in businesses purchased from or spun out of public or private companies, or purchased from existing management/shareholders public equity shareholders in “going private” transactions, private equity funds or other investors seeking liquidity for their privately –held investments. Buyouts are generally achieved with both equity and debt. Examples of various types of buyouts include: small, middle market, large cap, and growth.

Carried Interest: Also known as “carry” or “promote.” A performance bonus for the GP based on profits generated by the fund. Typically, a fund must return a portion of the capital contributed by LPs plus any preferred return before the GP can share in the profits of the fund. The GP will then receive a percentage of the profits of the fund (typically 15.0-20.0%). For tax purposes, both carried interest and profit distributions to LPs are typically categorized as a capital gain rather than ordinary income.

Capital Commitment: The total out-of-pocket amount of capital an investor commits to invest over the life of the fund. This commitment is generally set forth on an investor’s subscription agreement during fundraising and is accepted by the GP as part of the “closing” of the fund.

Catch-up: A clause in the agreement between the GP and the LPs of a fund. Once the LPs have received a certain portion of their expected return, often up to the level of the preferred return, the GP is entitled to receive a majority of the profits (typically 50.0%-100.0%) until the GP reaches the carried interest split previously agreed.

Co-investments: Investment made directly into a company alongside a General Partner’s investment, rather than indirectly through a fund.

Covenant: A condition in a corporate loan agreement that requires the borrower to fulfill certain conditions (“maintenance covenant”) or prohibits the borrower from undertaking certain actions (“incurrence covenant”).

Covenant-Lite: A loan that does not have any maintenance covenants. The term’s spelling is by industry convention.

Creditor: The lender of a loan, who gives one or more debtors money in advance in exchange for later payments of principal and/or interest.

Debtor: The borrower of a loan, who receives money from one or more creditors in advance in exchange for later payments of principal and/or interest.

Glossary

Default: This occurs when the borrower does not meet the terms to which it committed in a loan agreement. Default can occur from failing to meet covenant conditions as well as failing to make principal or interest payments.

Distressed Debt: Strategies that purchase the debt of companies that are troubled, have defaulted, are on the verge of default, or are seeking bankruptcy protection. Investors have been referred to as “vultures” as they pick the bones of troubled companies. Investment structures of focus include subordinated debt, junk bonds, bank loans, and obligations to suppliers.

Distribution: When an investment by a fund is fully or partially realized, the proceeds of the realizations may be distributed to the investors. These proceeds may consist of cash, or, to a lesser extent, securities.

Dry Powder: Capital that has been committed to a limited partnership and has not yet been called or may be called again (“recycled”).

EBITDA: A measure of annual corporate cash flow defined as earnings before interest, taxes, depreciation and amortization. This measure of annual cash flow is intended to make comparisons between different industries more relevant. Multiples of EBITDA are a generally accepted method for valuing private companies and describing the amount of leverage in direct lending.

Effectively Connected Income (ECI): Income that a foreign entity earns from conducting a trade or business in the U.S.

Efficient Frontier: The set of portfolios that maximizes the expected rate of return at each level of portfolio risk.

Fair Value: An estimate of the price at which an unrelated buyer and seller would exchange an asset in an arms-length transaction. For a publicly traded asset, fair value may be observed based on recent trades in the market. For assets that are traded less frequently or not at all, the value of an asset is often estimated by forecasting its future cash flows and discounting them based on assumed discount rates.

General Partner (GP): A class of partner in a partnership. The GP makes the decisions on behalf of the partnership and retains liability for the actions of the partnership. In the private equity industry, the GP is solely responsible for the management and operations of the investment fund while the LPs are passive investors, typically consisting of institutions and high net worth individuals. The GP earns a percentage of profits.

Gross Assets: The fair value of all the partnership’s holdings, including those funded using limited-partner equity and leverage.

Insolvency: The state of not being able to pay amounts owed. This can result from not having enough assets to meet the borrower’s commitments or not having enough liquidity.

Internal Rate of Return (IRR): The compound interest rate at which a certain amount of capital today would have to accrete to grow to a specific value at a specific time in the future. Basically, it is the average return on capital over the lifetime of the investment. This is the most common standard by which GPs and LPs measure the performance of their private debt portfolios and portfolio companies over the life of the investment. IRRs are calculated on either a net (i.e., including fees and carry) or gross (i.e., not including fees and carry) basis.

Glossary

J-Curve: The IRR of a private investment plotted versus time. The J-curve refers to the fact that net IRRs in the early years of a fund are generally negative, dominated by drawdowns for fees and investments. As investments accrete in values and are gradually liquidated, returning capital and profits, the fund works through the J-curve and begins to show positive IRRs and multiples of investors' capital.

Leverage: The use of debt to acquire assets, build operations and increase revenues. By using debt (in either the original acquisition of the company or subsequent add-on acquisitions), investors attempt to achieve investment returns beyond which they could achieve using equity capital alone. Increasing leverage on a company also increases the risk that assets and revenues will not increase sufficiently to generate enough net income and cash flow to service the increased debt load.

Leveraged Buyout (LBO): The purchase of a company or a business unit of a company by an outside investor using mostly borrowed capital.

Limited Partner (LP): A passive investor in a Limited Partnership. The General Partner (GP) is liable for the actions of the partnership, while the LPs are generally protected from legal actions and any losses beyond their original investment. The LPs receive income, capital gains and tax benefits.

Loan-to-Value (LTV): The ratio of a loan's balance to the value of the collateral that secures it. This is often used in asset-based lending.

London Interbank Offered Rate (LIBOR): LIBOR rates measured the interest rates at which banks lent a variety of currencies (including the U.S. dollar) to one another for a variety of terms (such as one month or three months). These rates are being replaced with other rates around the world, and specifically the Secured Overnight Financing Rate (SOFR) in the U.S., due to problems with its survey-based methodology and alleged manipulation during the Global Financial Crisis.

Management Fee: A fee paid to the Investment Manager for its services. For a senior direct lending strategy, the fee is generally assessed on gross assets, including assets purchased using leverage. Other types of private debt tend to have more variation in the denominator against which they assess fees, such as assessments based on the partnership's aggregate committed capital.

Mezzanine: An unsecured debt instrument that is subordinated to the senior debt in a company but ranking senior to any equity claims. The instrument may include equity features such as warrants or options.

Middle-Market: Companies with \$10.0-100.0 million in annual cash flow (EBITDA), which are generally considered established but not large enough to issue publicly traded debt. The middle market is segmented into lower, core and upper capitalization ranges. We typically see the lower middle-market defined as companies with \$10.0-25.0 million in EBITDA, the core middle market defined as companies with \$25.0-75.0 million in EBITDA and the upper middle-market defined as companies with more than \$75.0 million in EBITDA.

Glossary

Morningstar LSTA U.S. Leveraged Loan Index: A market-weighted index intended to track the performance of tradeable U.S. broadly syndicated loans (“bank loans”). The index represents a partnership of Standard & Poor’s (S&P) and the Loan Syndications and Trading Association (LSTA).

Multiple of Invested Capital (MOIC): The total return on an investment as measured by (Total Money Out)/(Total Money In). Multiple of cost and IRR are the two most common measures of performance in private equity-style Limited Partnerships.

Net Asset Value (NAV): The value given by deducting an entity’s liabilities from its assets. This can refer to the estimated value available to all investors in a pooled vehicle or the value of a specific limited partner’s investment in it. The amount is different from gross assets because it includes an estimate for what it would cost to pay off the fund’s debt. This distinction is particularly meaningful for levered investments.

Payment-in-Kind (PIK): Interest assessed as increases in the principal owed, rather than in cash. When the debtor has the option of paying in cash or PIK, this is called a “PIK toggle”.

Preferred Return: The minimum return that the GP needs to achieve in order to receive carried interest. After the cost basis of an investment is returned to the LPs, they will also receive additional proceeds from the investment equal to a stated percentage, often 6.0-8.0%. Once the preferred return is paid, then the GP will be entitled to its carried interest on all profits realized from the investment in excess of zero (i.e. not limited to the portion above the preferred return).

Private Equity: May refer to the non-exchange-listed common equity of a corporation or a set of investment strategies that generally invest in that type of asset. Since such investments are illiquid, investors must be prepared for investment horizons from 5.0 to 10.0 years.

Secured Overnight Financing Rate (SOFR): SOFR measures the cost of borrowing overnight collateralized by Treasury securities, as published by the Federal Reserve Bank of New York.

Senior: Higher priority than other claims on the borrower’s assets. All else held equal, senior claims should receive higher recoveries in restructurings than subordinated claims.

Special Situations: Strategies that flexibly invest in companies that are in complex, less understood and/or troubled circumstances.

Subordination: Lower in priority than a more senior claim on the borrower’s assets. All else held equal, subordinated claims should receive lower recoveries in restructurings than more senior claims.

Unrelated Business Taxable Income (UBTI): Income earned by a tax-exempt entity that is not substantially related to the entity’s tax-exempt purpose.

Vintage Year: The year in which a private fund had its final closing.

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