Delray Beach Police Officers' Retirement System

Senior Direct Lending Review
May 16, 2024

MARINER

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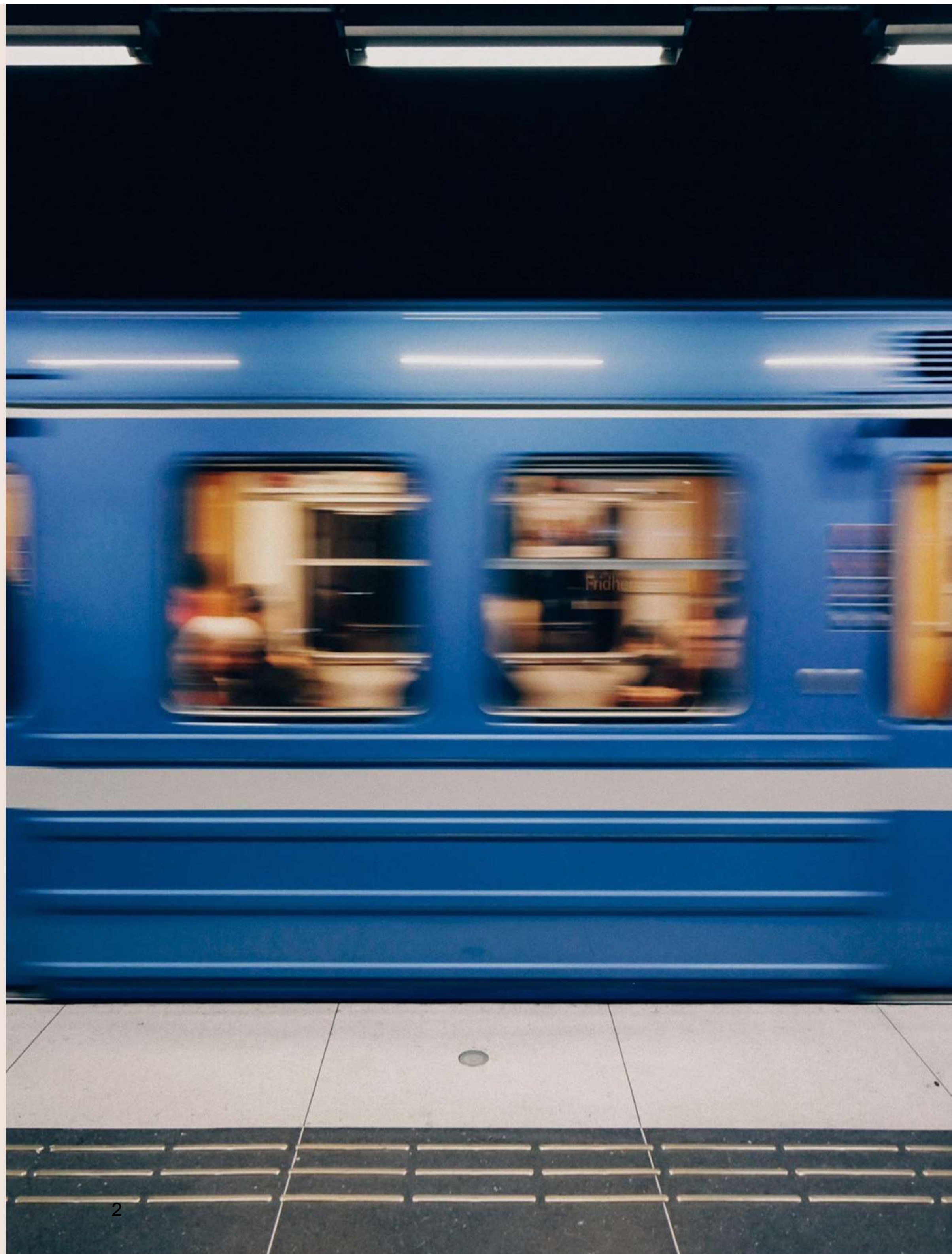
As presented in this report, although investing in private debt funds can be beneficial, it is also important to consider the associated risks. Investing in private debt funds is higher risk, may involve speculation, and is not suitable for all investors. Prospective investors should be aware of the long-term nature of an investment in private debt funds. Investments (direct or indirect) in private debt are typically illiquid. Other general risks and important considerations associated with private debt funds include, but are not limited to: volatilities in political, market and economic conditions; extensive and frequently changing regulation; downturns in demand; changes to private debt values and taxes; valuation and appraisal methodologies; interest rates; and environmental issues. The risks outlined herein do not purport to cover all risks or underlying factors associated with investing in private debt funds. Please refer to the respective offering documents for complete information.

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)
Churchill Asset Management, LLC (Churchill)	Churchill Middle Market Senior Loan Fund V – Levered (Delaware), LP (Churchill V)
Deerpath Capital Management, LP (Deerpath)	Deerpath Capital Advantage VII (US), LP (Deerpath VII)
Deerpath Capital Management, LP (Deerpath)	Deerpath Evergreen Advantage (US), LP (Deerpath Evergreen)
Monroe Capital Management Advisors LLC (Monroe)	Monroe Capital Private Credit (Delaware) Feeder Fund V LP (MCPC V)
PennantPark Investment Advisers, LLC (PIA)	PennantPark Credit Opportunities Fund IV (PCOF IV)

Unless noted otherwise, all data is as of the date each fund was added as an approved strategy with Mariner Institutional.

Firm Overview

Firm	Direct Lending Strategy Inception	Ownership	Firm / Direct Lending AUM	Direct Lending Team Primary Locations	Direct Lending 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.	$381.0 billion / $9.6 billion	New York, NY	>40
Churchill	2015	Wholly owned by Nuveen Private Capital LLC (NPC). NPC is majority owned by Nuveen, LLC and partly owned by NPC employees. Nuveen, LLC is owned by the Teachers Insurance and Annuity Association of America (TIAA).	$50.6 billion / $27.1 billion	New York, NY	37
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%).	$5.6 billion / $5.6 billion[1]	Fort Lauderdale, FL; New York, NY; Chicago, IL; Boston, MA; Los Angeles, CA	20[2]
Monroe	2006	75.1% employee-owned. 24.9% owned by Bonaccord Fund I, whose passive interest is non-voting.	$15.9 billion / $11.2 billion	Chicago, IL	92
PIA	2007	100% owned by Art Penn, Founder and Managing Partner.	$6.0 billion / $6.0 billion[1]	New York, NY; Miami, FL	22

[1] Deerpath and PIA only manage direct lending strategies.
[2] 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.
Churchill	Churchill Middle Market Senior Loan Fund V – Levered (Delaware), LP	Senior loans to PE-sponsored U.S. companies in the core middle-market with $10 million to $100 million in EBITDA.
Deerpath	Deerpath Capital Advantage VII (US), LP and Deerpath Evergreen Advantage (US), LP	Senior loans to PE-sponsored U.S. companies in the lower middle-market with $8-20 million in EBITDA.
Monroe	Monroe Capital Private Credit (Delaware) Feeder Fund V LP	Senior loans to U.S. companies in the lower-to-core middle-market with $10-50 million in EBITDA. Loans to non-PE-owned companies are expected to be less than 20% of the portfolio. Up to 20% of the portfolio may be invested in asset-based loans.
PIA	PennantPark Credit Opportunities Fund IV	Senior debt, junior debt, and equity co-investments in PE-sponsored, lower-to-core middle-market companies with $10-50 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 about 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 defensive profile due to its emphasis on larger borrowers than the other candidates, focus on PE-sponsored companies, and 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 8.3% 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.
Churchill	The fund is evergreen, which may ease administration for some clients. The fund holds periodic closings and calls commitments sequentially. Commitments may be called at any time before an investor withdraws from the fund. Please see the Key Terms section for a description of redemption terms. We consider the fund's fees low. Its 0.50% management fee on gross assets is lower than the other candidates. Its 10.00% carried interest share is also lower than most of the other candidates. We expect Fund V to be broadly diversified. The portfolio is expected to include over 100 concurrent investments and the largest position is expected to be only 1-2% of its assets. This compares favorably to the 40-60 portfolio companies we consider typical among direct-lending funds.	Churchill V merged with a special purpose vehicle (SPV) owned by Churchill's parent company, TIAA, on June 9, 2023. The transaction resulted in Churchill V acquiring loans from TIAA. We would prefer for the fund not to purchase investments from an affiliate of its manager. TIAA is permitted to reduce, but not fully sell, its investment in Churchill V without waiting the two-year lock-up period that applies to other investors. We would prefer that TIAA be treated the same as unaffiliated investors. Churchill may retain up to 1.0% in origination fees paid by borrowing portfolio companies that would not be passed through to Churchill V. This increases Churchill's compensation for managing the fund and may reduce returns relative to peers whose funds receive such fees. We would prefer for Churchill to pass these fees through to Churchill V.

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 invested in only about 3% of the platform opportunities they reviewed in 2022. Strong performance. As of December 31, 2023, Deerpath's since-inception unlevered gross IRR was 10.8% since 2009. That is well above the 6-8% range we consider typical. Conservative approach. The typical borrower has over 15 years of operating history. Deerpath seeks to make loans with low leverage and loan-to-value ratios, which have contributed to a low 0.1% annualized credit-loss rate 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.
Monroe	A deep team of more than 20 originators in four regional offices allows the team to diversify the portfolio broadly among more than 100 expected issuers during the fund's term while remaining selective. The team reviews about 2,000 opportunities annually and invests in about 5% of them. Monroe focuses on smaller loans that may be harder to find, on a per-dollar-invested basis, than loans to larger companies. Non-PE-sponsored companies may also be harder to find because targeting PE sponsors can allow lenders to find many opportunities in a shorter amount of time. Moving off the beaten path may allow Monroe to find better relative value. Monroe has achieved a low annualized credit-loss rate of 0.1% since inception. We attribute its success to selectivity, conservative loan sizing and an assertive credit workout style.	While the fund is expected primarily to invest in U.S. PE-sponsored companies, it may also invest in loans to non-PE-sponsored companies and up to 20% in opportunistic or asset-backed loans (ABL). We expect these transaction types to increase its diversification, yield, and risk relative to the typical senior direct lending strategy. Zia Uddin, who was lead PM for the prior fund, has stepped back to Co-PM of MCPC V alongside Chris Lund. Uddin has been named Monroe's president and we think he may become CEO when co-founder Ted Koenig retires. Uddin and Lund make decisions jointly for MCPC and we think that Lund may take the lead role in the next few years. We are comfortable with these transitions, which we expect to continue over several years. We also note that the experienced, 10-member investment committee is responsible for approving investments.

Key Differentiators

Firm	Key Strengths	Points to Consider
PIA	We expect the fund's flexible approach to increase return in stable or improving market environments. Specifically, unlike the other candidates, the fund is expected to invest significantly in junior debt and equity. We associate those transaction types with higher targeted IRRs. Relative to many opportunistic products, PCOF IV's modest targeted fund size may allow it to pursue smaller and less-followed secondary-market opportunities during dislocations in the public bank-loan market. The strategy that includes PCOF IV has a solid track record. Since its 2007 inception, PIA's Opportunistic Credit strategy invested $8.8 billion in more than 400 companies and achieved a 10.0% gross unlevered IRR and a 0.3% annualized credit-loss rate through December 31, 2023.	We expect PCOF IV's larger allocation to junior debt and equity investments to increase its risk relative to the other candidates. This is because we generally expect junior debt and equity investments to be impaired before senior loans to the same company when its valuation declines. The fund will assess a 1.50% management fee on invested capital. This is higher than the about 1.25% rate we consider typical for the fund's style. If all three senior partners left PIA, PCOF IV could still make investments during its investment period because the fund's key-person provision is broadly drafted. While we like PIA's collaborative culture, we would prefer for PCOF IV to pause new investments if all PIA's senior partners left. PIA is seeking $400 million in commitments for PCOF IV, which is more than twice the prior fund's $180 million in committed capital. Accordingly, to stay as selective as the typical direct-lending strategy, the firm may need to increase its deal flow if all else about the strategy stays the same.

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.	Aren LeeKong, Head of Direct Lending, left Carlyle on February 29, 2024. We do not consider day-to-day management of the strategy to be part of this role and are comfortable with the transition. LeeKong served on the direct-lending strategy's IC, managed the team's staffing and product development, and represented the team in investor relations. He was succeeded by Justin Plouffe, who has served as Deputy CIO of Global Credit for about eight years. 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.
Churchill	Decisions are made by a five-member IC comprising Ken Kencel, CEO; Randy Schwimmer, Co-Head of Senior Lending; Christopher Cox, Chief Risk Officer; Mathew Linett, Co-Head of Senior Lending; and Shai Vichness, CFO. Churchill comprises about 170 professionals who make or administer senior loans, junior loans or equity investments in PE-owned companies or PE funds. The fund is primarily managed by Churchill's senior lending team, which comprises about 40 investment professionals.	IC members Kencel, Schwimmer, and Cox have worked together for more than 15 years. They founded a predecessor firm, Churchill Financial, within Bear Stearns in 2006. IC members Linett and Vichness joined Churchill in 2015 and 2018, respectively.

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.
Monroe	Decisions are made by a 10-member IC comprising CEO Theodore Koenig, Head of Originations Thomas Aronson, Chief Credit Officer Michael Egan, President & Co-PM of Institutional Portfolios Zia Uddin, MD & Co-PM of Institutional Portfolios Chris Lund, Managing Director (MD) & Head of Direct Underwriting Alex Franky, MD & Head of Capital Markets Carey Davidson, MD & Co-Head of Opportunistic Credit Aaron Peck, MD & PM of CLO & Loan Trading Jeremy VanDerMeid, and MD and PM of High Net Worth Portfolios Mick Solimene. They each have at least 14 years of experience. Monroe's investment team is organized in a functional-specialist model, where certain tasks in the investment process are carried out by certain members. Thomas Aronson leads the originations team. Michael Egan leads underwriting and portfolio management.	Koenig, Aronson and Egan co-founded Monroe in 2004. Each member of the investment committee has been with the firm for at least five years except Mick Solimene, who joined the firm in 2021 and has more than 40 years of experience. Monroe generally experiences about 20% annual turnover in its origination team. Much of the turnover is intentional. Originators receive a base salary, incentive based on the deals they find that close (originators do not make decisions on what deals are ultimately completed) and carried interest in Monroe's funds. This compensation structure encourages originators who do not generate enough actionable deal flow to find other opportunities.

Investment Team

Firm	Key Decision-Makers	Team Stability
PIA	Decisions are made by a seven-member IC comprising Managing Partner Art Penn; Senior Partners Jose Briones, Jr. and Salvatore Giannetti III; and Partners Dan Horn, James Stone, Steve Winograd, and Ryan Raskopf. Each member of the IC has more than 15 years of experience, including more than five years of tenure with PIA. PIA's investment team works collaboratively throughout the investment process. Most opportunities are originated by senior team members, who work with mid- and junior-level investment professionals to underwrite promising ideas. The same deal team that underwrote each investment monitors it and, if necessary, works out its underperformance.	PIA has had three Chief Financial Officers (CFOs) in the last three years. The firm's first CFO, who served from 2007 to 2021, left to start an administration business. His successor left after about a year for personal reasons. He was succeeded by Richard Allorto in June 2022. We discussed Allorto's experience and these developments with PIA and are comfortable with them. Four investment team members with the title Principal or above left PIA in the last five years. We consider this turnover typical for a team of this size.

Product Profile

Product	Target Size	Minimum Commitment[1]	Profile	Fund-Level Leverage	First Close	Final Close[2]	Target Net IRR	Fund Lifecycle
Carlyle CDLF	n/a	Negotiable	Senior debt. Core-to-upper mid-market PE-sponsored companies with $25-100M EBITDA.	1.0x debt/equity[3]	Jul. 2022	n/a	10-12%	Evergreen. After a two-year lock-up, redemptions may be requested either quarterly or annually.[4]
Churchill V	n/a	Negotiable	Senior debt. Core middle-market PE-sponsored companies with $10-100M EBITDA.	2.0x debt/equity	Dec. 2023	n/a	9-11%	Evergreen. After a two-year lock-up, redemptions may be requested annually.[5]
Deerpath VII	$2.0 billion	Negotiable	Senior debt. Lower mid-market PE-sponsored companies with $8-20M EBITDA.	2.0x debt/equity[3]	Mid-2023	4Q 2024	10-13%	Eight years from the final closing, plus up to two one-year extensions.
Deerpath Evergreen	n/a	Negotiable	Senior debt. Lower mid-market PE-sponsored companies with $8-20M EBITDA.	2.0x debt/equity[3]	4Q 2023	n/a	10-13%	Evergreen. After a three-year lock-up, redemptions may be requested annually.[6]
Monroe MCPC V	$3.0 billion	Negotiable	Senior debt. Lower-to-core mid-market companies with $10-50M EBITDA.	1.0x debt/equity[3]	Mid-2023	Dec. 2024	12-14%	Seven years from the final closing, plus up to two one-year extensions.
PIA PCOF IV	$400 million	Negotiable	Debt and equity. Lower-to-core mid-market PE-owned companies with $10-50M EBITDA.	0.8x debt/equity	Oct. 2022	Jun. 2024	13-15%	Seven years from the final closing, plus up to two one-year extensions

Please see the next slide for references noted on this slide.

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] Anticipated final closing dates are as of the time this report was prepared. They may have changed since the respective product was approved at Mariner Institutional.

[3] The Carlyle, Deerpath (VII and evergreen), and Monroe 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. Carlyle's unlevered fund had not commenced operations at the time of this writing.

[4] 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 generated cash, that would be distributed as available. We expect the annual redemption option to take multiple years.

[5] Churchill V has a two-year initial lock-up. After that period, investors may request redemptions annually as of each calendar-year end by giving Churchill 180 days' advance notice. After the applicable year-end, Churchill would either pay out the balance over time based on portfolio cash flow or pay out the balance at market value at Churchill's discretion. For full withdrawals, 10% of proceeds are expected to be retained until after the fund has completed its annual audit for the relevant fiscal year.

[6] 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	None.
Churchill V	The period from each investor's commitment until its withdrawal date.	Management Fee: 0.50% annually on gross asset value. Discounts may be available for commitments of at least $50 million.[2]	7%	10%[3]

Please see the Key Terms Endnotes slide for references noted on this slide.

CANDIDATE OVERVIEW

Key Terms

Product	Investment Period	Investment Management Fees[1]	Preferred Return	Carried Interest
Deerpath VII	Three years from the final closing.	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. A 10% discount from the management fee (resulting in 0.90%) may be available for commitments of at least $100M.[2] Administrative Fees: Estimated at 0.35-0.45% of gross assets annually.	7%	15% A 10% discount (resulting in a 13.5% rate) is available for commitments of at least $100M.[2]
Deerpath Evergreen	Three years from the closing in which each investor commits capital.	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. A 10% discount from the management fee (resulting in 0.90%) is available for commitments of at least $100M.[2] Administrative Fees: Estimated at 0.35-0.45% of gross assets annually.	7%	15%[4] A 10% discount (resulting in a 13.5% rate) is available for commitments of at least $100M.[2]

Please see the Key Terms Endnotes slide for references noted on this slide.

Key Terms

Product	Investment Period	Investment Management Fees[1]	Preferred Return	Carried Interest[2]
Monroe MCPC V	Four years from the final closing.	Management Fee: 1.25% of invested assets, which is the difference between contributions and distributions that represent a return of capital, plus the principal amount of any indebtedness incurred by the partnership and currently outstanding. Discounted management fees of 1.15% of invested assets, 1.00% of invested assets, and 1.30% of invested equity (i.e., excluding leverage) are available for commitments of at least $50M, $75M, and $160M, respectively.[2]	7%	15% Discounted carried interest of 12.5%, 10.0%, and 12.5% is available for commitments of at least $50M, $75M, and $160M, respectively.
PIA PCOF IV	Four years from the final closing.	Management Fee: 1.50% annually on invested capital, which is defined as the cost of portfolio investments that have not been written off or written down. PIA offered a discounted management fee of 1.25% if commitments by Mariner Institutional clients are at least $25 million.[2,5] Administration: $62,500 quarterly. We estimate that this would be about 0.03% of gross assets annually if PIA's goals for the fund's size and leverage are met.	8%	15%[5]

Please see the Key Terms Endnotes slide for references noted on this slide.

Key Terms Endnotes

[1] Each candidate is expected to use fund-level leverage. Consistent with prevailing direct lending industry practice, each candidate's 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 + the amount of fund-level leverage), if expressed as a percentage of invested equity.

[2] Each candidate has agreed to aggregate Mariner Institutional 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. There is no guarantee that any discount will be available.

[3] Churchill V's carried interest will be allocated regarding each fiscal year. Carried interest may be clawed back the year after it is earned based on subsequent performance. Specifically, if the return before carried interest was less than the preferred return during the trailing two-year look-back period, then Churchill will be required to return any excess carried interest that it received.

[4] 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.

[5] Regarding PCOF IV, further management fee discounts and carried interest discounts may be available if commitments by Mariner Institutional clients are at least $50 million. The first discount from the carried interest may apply at the $50 million aggregate level. There is no guarantee that any discount will be available.

AS OF DECEMBER 31, 2023

Performance and Fees

Vintage-Year Performance

- Diverse vehicle structures and amounts of fund-level leverage can make direct lending 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.

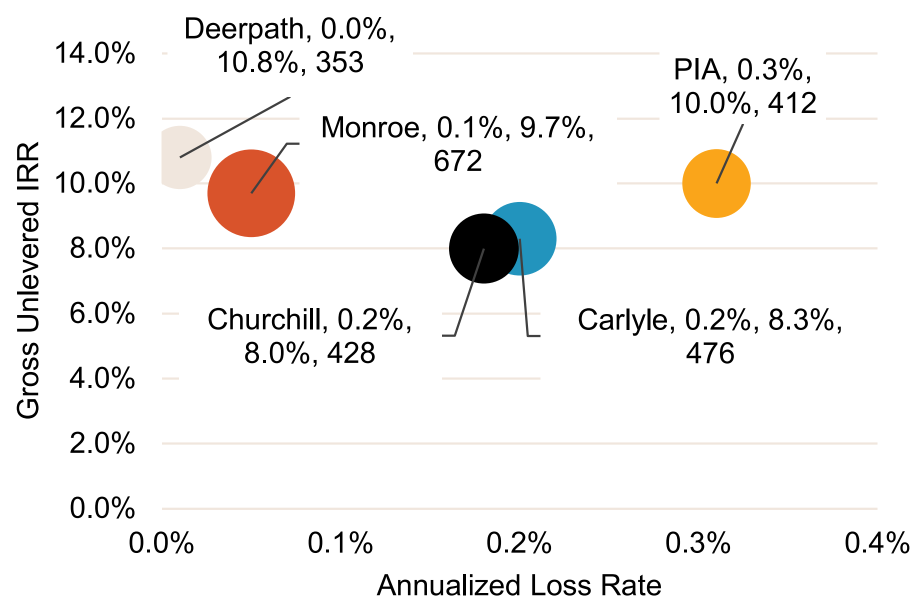
Vintage Year[1]	Carlyle	Churchill	Deerpath	Monroe	PIA
2006				4.5%	
2007				7.7%	5.6%
2008				3.7%	12.4%
2009			19.8%	15.8%	13.7%
2010			14.2%	4.2%	12.0%
2011			14.2%	7.5%	7.6%
2012			12.0%	9.4%	16.0%
2013	7.2%		10.5%	13.6%	12.1%
2014	5.6%		9.0%	7.9%	0.6%
2015	8.3%	6.0%	9.6%	9.8%	9.5%
2016	7.9%	7.4%	11.0%	8.1%	12.8%
2017	8.5%	6.4%	10.5%	7.8%	17.4%
2018	7.9%	6.8%	9.4%	10.0%	9.4%
2019	6.9%	7.7%	9.1%	9.6%	11.1%
2020	10.5%	7.9%	9.3%	10.8%	10.7%
2021	9.2%	9.1%	10.3%	9.8%	5.1%
2022	13.2%	11.1%	13.4%	14.0%	8.2%
2023	N/M[2]	N/M[2]	N/M[2]	N/M[2]	N/M[2]
Aggregate IRR	**8.3%**	**8.0%**	**10.8%**	**9.7%**	**10.0%**

[1] Vintage year refers to the year that the manager made an investment in a portfolio company. Performance is shown since inception, 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] Direct-lending transactions typically have high IRRs in the year they are made due to one-time origination fees. We do not yet consider the 2023 vintage year return meaningful due to the youth of these investments.

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.

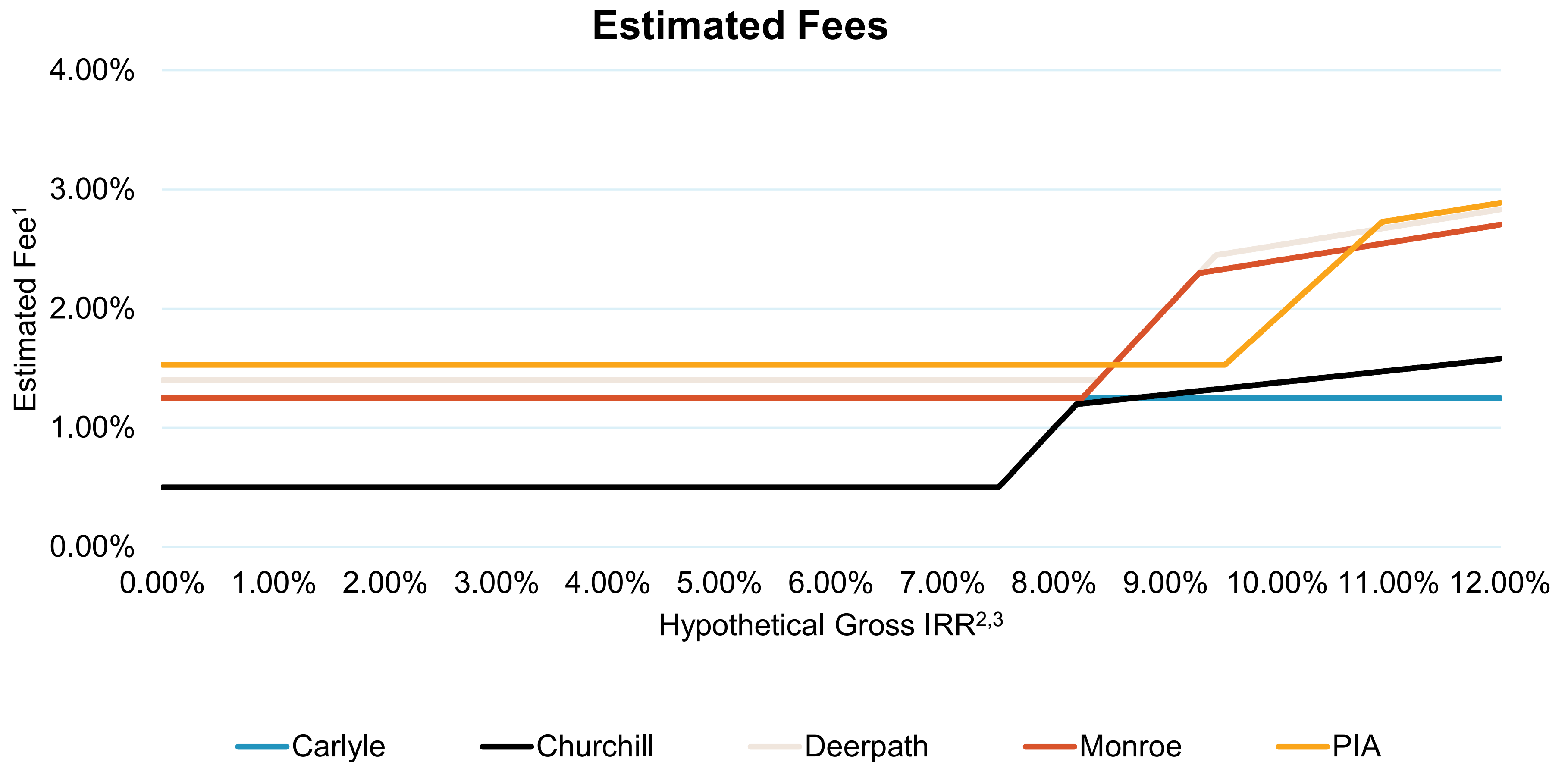
Since-Inception Statistic	Carlyle	Churchill	Deerpath	Monroe	PIA
Track Record Inception	2013	2015	2009	2006	2007
Portfolio Companies	476	428	353	672	412
Total Cost ($M)	$17,528.2	$25,632.6	$9,038.1	$30,168.8	$8,792.0
Gross Unlevered IRR	8.3%	8.0%	10.8%	9.7%	10.0%
Annualized Loss Rate[1]	0.2%	0.2%	0.0%	0.1%	0.3%



[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



Please see the Fee Illustration Assumptions & Endnotes slide for assumptions and references noted on this slide.

Fee Illustration Assumptions & Endnotes

Assumptions	Carlyle	Churchill	Deerpath	Monroe	PIA
Management Fee[4]	1.25%	0.50%	1.40%	1.25%	1.53%
Carried Interest	None	10.00%	15.00%	15.00%	15.00%
Preferred Return	N/A	7.00%	7.00%	7.00%	8.00%
GP Catch-up	N/A	100.00%	100.00%	100.00%	85.00%

[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] The blue Carlyle line is not visible for a portion of the chart because it is covered by the red Monroe line.

[4] Operating and organizational expenses are not included. The management fees shown for Deerpath and PIA include estimated internal administration expenses of 0.40% and 0.03%, respectively. Please see the Key Terms page earlier in this report for more information.

Carlyle Direct Lending Performance

Investment-Level Performance by Vintage Year

	INVESTMENT-LEVEL, IN USD MILLIONS						GROSS OF FEES	
Vintage Year	Portfolio Companies (#)	Total Invested Capital	Total Realized	Total Unrealized	Total Value	MOIC	IRR
2013	30	$334.7	$395.7	$0.0	$395.7	1.2x	7.2%
2014	49	$815.1	$915.9	$0.0	$915.9	1.1x	5.6%
2015	34	$926.3	$1,072.3	$0.0	$1,072.3	1.2x	8.3%
2016	56	$1,722.7	$1,801.5	$250.9	$2,052.4	1.2x	7.9%
2017	60	$2,200.5	$2,401.0	$191.2	$2,592.2	1.2x	8.5%
2018	56	$2,277.3	$2,305.6	$428.1	$2,733.7	1.2x	7.9%
2019	54	$2,802.7	$2,329.3	$947.2	$3,276.6	1.2x	6.9%
2020	39	$1,651.8	$1,189.6	$821.1	$2,010.7	1.2x	10.5%
2021	41	$2,381.7	$968.5	$1,790.4	$2,758.9	1.2x	9.2%
2022	41	$1,843.7	$570.4	$1,537.6	$2,108.0	1.1x	13.2%
2023	16	$571.7	$56.1	$562.4	$618.5	1.1x	18.5%
Total	476	$17,528.2	$14,005.9	$6,529.0	$20,534.8	1.2x	8.3%

Fund Performance

	FUND-LEVEL, IN USD MILLIONS							FUND-LEVEL	
Fund	Vintage Year	Portfolio Companies (#)	Total Invested Capital	Total Distributed	Total Unrealized	Total Value	Leverage (Debt / Equity)	Net MOIC	Net IRR[2]
Carlyle Secured Lending, Inc. (CSL)[1]	2013	173	$1,217.7	$924.9	$912.8	$1,837.7	1.0x	1.5x	7.4%
SMA II	2017	67	$318.1	$86.8	$342.8	$429.6	1.2x	1.4x	10.8%
SMA I	2017	56	$192.7	$88.5	$159.7	$248.2	0.3x	1.3x	8.2%
Carlyle Credit Solutions, Inc. (CARS)	2017	154	$1,357.6	$696.1	$1,103.2	$1,799.3	0.8x	1.3x	9.4%
SMA IV	2018	110	$302.5	$46.8	$358.0	$404.8	1.1x	1.3x	10.2%
SMA III	2018	7	$235.7	$214.8	$37.2	$252.0	None	1.1x	3.1%
SMA V	2020	53	$376.1	$32.0	$427.3	$459.3	None	1.2x	10.3%
Carlyle Direct Lending Fund (CDLF)[2]	2022	67	$120.6	$12.1	$131.7	$143.8	0.8x	1.2x	22.2%
Carlyle Secured Lending III (CSL III)	2022	85	$194.9	$18.1	$203.7	$221.8	0.8x	1.1x	15.8%
SMA VI[3]	2023	16	$55.1	N/M	N/M	N/M	None	N/M	N/M
Total		476	$4,370.9	$2,120.1	$3,676.5	$5,796.6			

[1] Excludes investments in CLO Equity.
[2] Metrics shown for CDLF represent the onshore levered portfolio only.
[3] The inception date for SMA VI is March 2023. Accordingly, certain performance metrics are denoted as not meaningful ("N/M") given the performance history of less than one year.

Churchill Direct Lending Performance

Investment-Level Performance by Vintage Year[1]

	INVESTMENT-LEVEL, IN USD MILLIONS						GROSS OF FEES	
Vintage Year	Portfolio Companies (#)	Total Invested Capital	Total Realized	Total Unrealized	Total Value		MOIC	IRR
2015	25	$517.6	$581.1	$0.0	$581.1		1.1x	6.0%
2016	42	$1,203.9	$1,246.5	$200.7	$1,447.1		1.2x	7.4%
2017	44	$1,896.9	$2,126.5	$73.9	$2,200.4		1.2x	6.4%
2018	48	$2,655.8	$2,366.5	$747.9	$3,114.4		1.2x	6.8%
2019	50	$3,090.6	$2,136.4	$1,561.4	$3,697.8		1.2x	7.7%
2020	55	$3,703.3	$1,686.4	$2,724.2	$4,410.6		1.2x	7.9%
2021	67	$5,245.7	$1,350.2	$4,734.6	$6,084.8		1.2x	9.1%
2022	53	$4,179.9	$920.8	$3,795.8	$4,716.5		1.1x	11.1%
2023	44	$3,139.0	$126.3	$3,150.2	$3,276.5		1.0x	N/M
Total	428	$25,632.6	$12,540.6	$16,988.6	$29,529.2		1.2x	8.0%

Fund Performance[2]

		FUND-LEVEL, IN USD MILLIONS					FUND-LEVEL		
Fund[3]	Vintage Year	Portfolio Companies (#)	Total Invested Capital	Total Distributed	Total Unrealized	Total Value	Leverage (Debt / Equity)	Net MOIC	Net IRR
Churchill MMSL Fund (Combined)	2016	181	$277.1	$297.0	$81.0	$378.0	2.0x	1.4x	7.9%
Churchill MMSL Fund II (Combined)	2018	155	$1,859.2	$713.0	$1,580.4	$2,293.5	Unlevered	1.2x	6.4%
Churchill MMSL Fund III (Master Fund)	2020	181	$428.9	$87.3	$428.0	$515.3	2.0x	1.2x	11.3%
Churchill MMSL Fund IV (Master Fund)	2021	160	$1,594.8	$178.7	$1,619.6	$1,798.3	Unlevered	1.1x	8.7%
Churchill MMSL Fund V - Levered Evergreen (Master Fund)	2023	86	$76.3	$3.4	$79.5	$82.9	2.0x	1.1x	N/M
Churchill MMSL Fund V - Unlevered Term (Master Fund)	2023	18	$60.0	$0.0	$59.5	$59.5	Unlevered	N/M	N/M
	Total	428	$4,296.3	$1,279.3	$3,848.0	$5,127.4			

[1] The performance and track record information contained herein relating to Churchill's senior loan investments represents all traditional middle market senior loan investments made, but excludes any 'upper middle' market senior loan investments and 'equity tags' made by Churchill Aasset Management since 2015. Additionally, the performance and track record information contained herein relating to Churchill's senior loan investments excludes any loans that are held in short term affiliated warehouse facilities, and only reflects the performance of such investments once held in client accounts that acquire such investments from any such warehouse facility. Net performance excludes the interest and fee expenses associated with the financing of portfolio investments. Performance is calculated on an asset class or strategy basis. In the case of client accounts that include a combination of traditional middle market senior loans, upper middle market senior loans, junior capital investments and private equity investments ("Mixed Strategy Accounts"), the net performance shown herein reflects only the percentage of total fees and expenses of the Mixed Strategy Account that is attributable to the relevant portfolio company (using a net capital invested weighted methodology).

[2] The funds presented herein encompasses commingled senior loan funds managed by Churchill within its flagship traditional middle market senior lending strategy and does not include return metrics for other senior lending vehicles managed by Churchill, including funds of one, third-party separately managed accounts ("SMAs"), sub-advised funds, funds recently launched (Churchill Middle Market Senior Loan Fund - Canada, L.P. and Churchill CPCF Fund LLC), collateralized loan obligations ("CLOs") or publicly registered products, as either the structure is not comparable to the vehicles presented herein, the asset mix comprises investments other than senior loans, or the leverage profile is unique for the client type.

[3] Each fund's name includes the phrase "Middle Market Senior Loan". We abbreviated that phrase as MMSL to increase readability.

PERFORMANCE AND FEES

Deerpath Direct Lending Performance, Investment-Level

Investment-Level Performance by Vintage Year

	INVESTMENT-LEVEL, IN USD MILLIONS					GROSS OF FEES	
Vintage Year	Portfolio Companies (#)	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	$155.3	$0.2	$155.4	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	$196.1	$224.2	$19.0	$243.2	1.2x	10.5%
2014	26	$344.1	$401.0	$2.0	$403.0	1.2x	9.0%
2015	16	$275.8	$307.2	$30.9	$338.1	1.2x	9.6%
2016	9	$288.3	$284.1	$101.9	$386.0	1.3x	11.0%
2017	13	$289.3	$355.3	$5.3	$360.7	1.2x	10.5%
2018	28	$829.8	$753.6	$303.7	$1,057.3	1.3x	9.4%
2019	37	$633.6	$588.3	$171.8	$760.1	1.2x	9.1%
2020	45	$1,084.0	$482.9	$802.2	$1,285.1	1.2x	9.3%
2021	65	$2,290.4	$829.1	$1,855.9	$2,685.0	1.2x	10.3%
2022	46	$1,582.8	$421.1	$1,362.2	$1,783.3	1.1x	13.4%
2023	21	$658.2	$19.2	$671.9	$691.1	1.0x	20.1%
Total	**353**	**$9,038.1**	**$5,390.5**	**$5,327.0**	**$10,717.5**	**1.2x**	**10.8%**

PERFORMANCE AND FEES

Deerpath Direct Lending Performance, Fund-Level

Fund Performance

			FUND-LEVEL, IN USD MILLIONS				FUND-LEVEL		
Fund	**Vintage Year**	**Portfolio Companies (#)**	**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 4 Cayman	2016	258	$143.7	$55.8	$143.7	$199.5	2.0x	1.4x	7.9%
Fund 4 US	2016	271	$154.2	$79.2	$160.8	$240.0	2.0x	1.6x	10.8%
Fund 4C	2016	80	$78.6	$46.2	$87.1	$133.3	2.0x	1.7x	11.4%
Fund 4A	2017	166	$45.5	$15.6	$46.0	$61.6	0.0x	1.4x	6.3%
Fund 5 US	2019	271	$207.3	$59.9	$218.1	$278.0	2.0x	1.3x	11.8%
Lightly Levered	2019	114	$60.9	$19.7	$62.6	$82.3	0.4x	1.4x	8.1%
RAIF-1	2019	183	$202.0	$46.4	$204.1	$250.5	0.0x	1.2x	6.3%
Fund 5 Cayman	2020	258	$39.0	$10.9	$39.5	$50.4	2.0x	1.3x	8.5%
Fund 5 ERISA	2020	258	$66.3	$15.2	$67.9	$83.1	2.0x	1.3x	9.7%
Fund 5A	2020	162	$130.0	$26.0	$132.8	$158.8	0.0x	1.2x	8.0%
Fund 5C	2020	54	$78.0	$18.5	$81.1	$99.6	2.0x	1.3x	15.2%
Newbury	2020	85	$21.7	$5.3	$23.1	$28.4	0.0x	1.3x	11.3%
RAIF-2	2020	172	$177.0	$24.6	$180.7	$205.3	0.0x	1.2x	6.3%
Broadway	2021	271	$94.7	$25.1	$98.2	$123.3	2.0x	1.3x	13.7%
Fund 5C-SBIC	2021	52	$8.1	$1.7	$8.4	$10.2	2.0x	1.3x	14.9%
Fund 6 Cayman	2021	258	$25.9	$3.4	$25.8	$29.2	2.0x	1.1x	9.2%
Fund 6 US	2021	271	$329.8	$46.9	$337.1	$384.0	2.0x	1.2x	13.2%
Fund 6A	2021	152	$113.8	$17.1	$115.6	$132.8	0.0x	1.2x	8.5%
RAIF-3	2021	151	$252.7	$31.2	$257.2	$288.4	0.0x	1.1x	8.0%
Fund 6 US ERISA	2022	271	$58.8	$8.0	$60.0	$68.0	2.0x	1.2x	13.2%
Fund 6A (Cayman)	2022	144	$26.9	$2.2	$27.3	$29.4	0.0x	1.1x	7.4%
TRS Kentucky	2022	271	$95.4	$9.9	$97.4	$107.3	2.0x	1.1x	13.2%
	Total	**353**	**$2,690.9**	**$1,024.8**	**$2,474.8**	**$3,499.6**			

Monroe Direct Lending Performance, Investment-Level

Investment-Level Performance by Vintage Year[1]

		INVESTMENT-LEVEL, IN USD MILLIONS				GROSS OF FEES	
Vintage Year	Portfolio Companies (#)	Total Invested Capital	Total Realized	Total Unrealized	Total Value	MOIC	IRR
2006	13	$102.3	$107.8	$0.0	$107.8	1.1x	4.5%
2007	13	$90.8	$101.8	$0.0	$101.8	1.1x	7.7%
2008	4	$24.5	$27.1	$0.0	$27.1	1.1x	3.7%
2009	1	$3.0	$4.6	$0.0	$4.6	1.5x	15.8%
2010	4	$14.9	$16.4	$0.0	$16.4	1.1x	4.2%
2011	15	$272.2	$296.9	$62.5	$359.4	1.3x	7.5%
2012	16	$320.1	$374.4	$0.0	$374.4	1.2x	9.4%
2013	17	$568.8	$712.5	$0.0	$712.5	1.3x	13.6%
2014	30	$916.1	$1,055.3	$53.5	$1,108.9	1.2x	7.9%
2015	48	$1,388.8	$1,698.6	$66.1	$1,764.7	1.3x	9.8%
2016	51	$1,466.5	$1,698.2	$120.8	$1,819.0	1.2x	8.1%
2017	61	$2,703.3	$2,823.4	$397.5	$3,220.9	1.2x	7.8%
2018	66	$3,121.0	$3,259.8	$653.6	$3,913.4	1.3x	10.0%
2019	73	$3,818.8	$2,957.4	$1,756.4	$4,713.8	1.2x	9.6%
2020	50	$2,608.3	$2,063.4	$1,069.7	$3,133.1	1.2x	10.8%
2021	89	$5,936.3	$2,497.2	$4,426.5	$6,923.7	1.2x	9.8%
2022	69	$3,940.8	$1,004.7	$3,554.0	$4,558.7	1.2x	14.0%
2023	52	$2,872.2	$253.9	$2,843.3	$3,097.2	1.1x	20.2%
Total	**672**	**$30,168.8**	**$20,953.2**	**$15,004.0**	**$35,957.2**	**1.2x**	**9.7%**

[1] Information shown is Monroe's directly originated track record.

Monroe Direct Lending Performance, Fund-Level

Fund Performance[1]

Fund	Vintage Year	Total Portfolio Companies (#)	Total Invested Capital	Total Distributed	Total Unrealized	Total Value	Target Fund Leverage (Debt / Equity)[4]	Net MOIC	Net IRR
			FUND-LEVEL, IN USD MILLIONS				FUND-LEVEL		
Monroe Capital Senior Secured Direct Loan Fund (Offshore) LP	2014	61	$108.9	$167.9	$0.0	$167.9	1.0x	1.5x	9.9%
Monroe Capital Senior Secured Direct Loan Fund LP[5]	2014	62	$125.7	$217.6	$0.0	$217.6	1.0x	1.7x	12.1%
Monroe Capital Senior Secured Direct Loan Fund (Unleveraged) LP	2014	63	$209.5	$304.6	$0.0	$304.6	0.0x	1.5x	8.6%
Monroe Capital Private Credit Fund II (Unleveraged) LP	2016	113	$109.7	$136.9	$10.4	$147.3	0.0x	1.3x	7.3%
Monroe Capital Private Credit Fund II LP	2016	117	$435.0	$536.9	$93.6	$630.5	1.0x	1.4x	8.8%
Monroe Capital Private Credit Fund II Ireland ICAV - Unleveraged Fund	2016	108	$125.8	$145.8	$11.3	$157.1	0.0x	1.2x	5.7%
Monroe Capital Private Credit Fund III (Unleveraged) LP	2018	148	$249.4	$166.2	$165.5	$331.7	0.0x	1.3x	8.0%
Monroe Capital Private Credit Fund III LP	2018	168	$469.6	$212.3	$486.5	$698.8	1.0x	1.5x	11.3%
Monroe Capital Fund SCSp SICAV-RAIF - Private Credit Fund III	2018	146	$187.7	$67.5	$190.8	$258.2	1.0x	1.4x	9.1%
Monroe Capital Fund SCSp SICAV-RAIF - Private Credit Fund III (Unleveraged)	2018	138	$245.2	$130.6	$181.3	$311.9	0.0x	1.3x	6.9%
Monroe Capital Private Credit Master Fund IV (Unleveraged) SCSp	2022	147	$1,200.9	$161.7	$1,217.2	$1,378.9	0.0x	1.1x	7.8%
Monroe Capital Private Credit Master Fund IV SCSp	2022	158	$758.3	$124.6	$766.2	$890.8	1.0x	1.2x	10.0%
Monroe Capital Private Credit Fund V (Unleveraged) SCSp SICAV-RAIF	2023	28	$173.7	$0.0	$176.5	$176.5	0.0x	1.0x	N/M
Monroe Capital Private Credit Fund V (Leveraged) SCSp SICAV-RAIF	2023	14	$46.7	$0.0	$46.2	$46.2	1.0x	1.0x	N/M
	Total	672	$4,446.1	$2,372.6	$3,345.5	$5,718.1			

[1] Information has been provided for Monroe's private commingled Funds I-IV, which Monroe defines as the related funds for Fund V. Excludes Retail Funds, Funds of One, and CLO Funds.

PIA Direct Lending Performance

Investment-Level Performance by Vintage Year[1]

	INVESTMENT-LEVEL, IN USD MILLIONS					GROSS OF FEES	
Vintage Year	Portfolio Companies (#)	Total Invested Capital	Total Realized	Total Unrealized	Total Value	MOIC	IRR
2007	15	$ 290.8	$ 355.9	$ -	$ 355.9	1.2x	5.6%
2008	7	$ 183.2	$ 252.4	$ -	$ 252.4	1.4x	12.4%
2009	17	$ 160.3	$ 197.9	$ -	$ 197.9	1.2x	13.7%
2010	19	$ 461.6	$ 579.9	$ -	$ 579.9	1.3x	12.0%
2011	13	$ 380.0	$ 412.1	$ 23.4	$ 435.6	1.1x	7.6%
2012	39	$ 550.3	$ 765.8	$ -	$ 765.8	1.4x	16.0%
2013	30	$ 700.8	$ 848.1	$ -	$ 848.1	1.2x	12.1%
2014	19	$ 601.9	$ 608.0	$ 3.2	$ 611.2	1.0x	0.6%
2015	17	$ 380.1	$ 382.2	$ 98.6	$ 480.8	1.3x	9.5%
2016	19	$ 535.5	$ 613.1	$ 11.4	$ 624.4	1.2x	12.8%
2017	20	$ 609.3	$ 914.3	$ 3.2	$ 917.5	1.5x	17.4%
2018	26	$ 860.9	$ 928.1	$ 112.5	$ 1,040.7	1.2x	9.4%
2019	37	$ 575.1	$ 582.1	$ 88.9	$ 671.0	1.2x	11.1%
2020	20	$ 462.1	$ 277.7	$ 271.6	$ 549.4	1.2x	10.7%
2021	52	$ 990.3	$ 794.6	$ 243.7	$ 1,038.4	1.0x	5.1%
2022	33	$ 630.7	$ 306.4	$ 375.9	$ 682.3	1.1x	8.2%
2023	29	$ 419.0	$ 105.3	$ 324.9	$ 430.2	1.0x	12.0%
Total	412	$ 8,792.0	$ 8,924.0	$ 1,557.4	$ 10,481.4	1.2x	10.0%

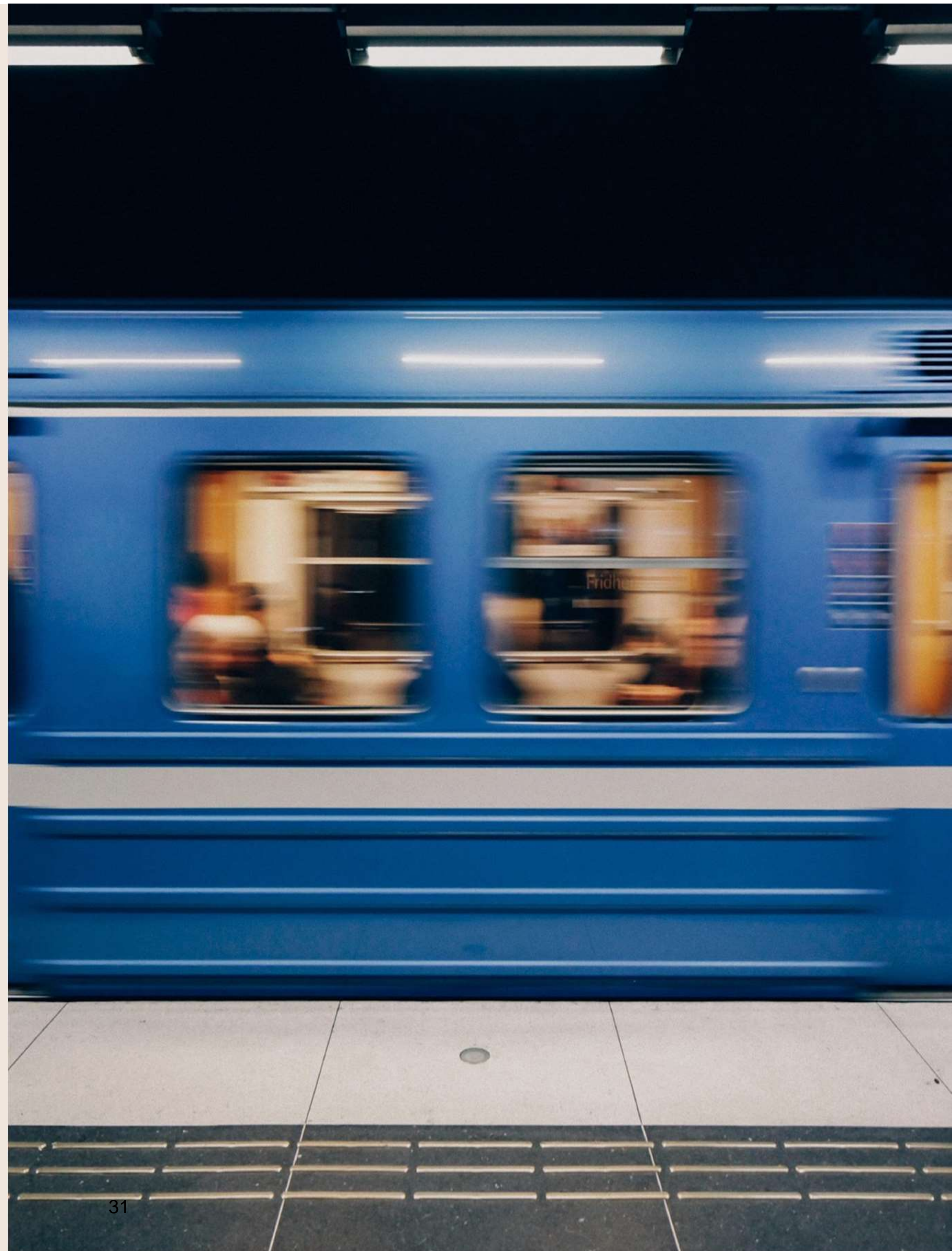
Fund Performance[2]

		FUND-LEVEL, IN USD MILLIONS					FUND-LEVEL		
Fund	Vintage Year	Portfolio Companies (#)	Total Invested Capital	Total Distributed	Total Unrealized	Total Value	Leverage (Debt / Equity)	Net MOIC	Net IRR
PCOF II[3]	2015	90	$ 109.7	$ 147.0	$ 7.0	$ 154.0	0.8x	1.4x	9.0%
PCOF III	2018	118	$ 161.2	$ 56.4	$ 147.8	$ 204.2	0.8x	1.3x	9.6%
PCOF IV	2022	40	$ 66.5	$ -	$ 69.6	$ 69.6	1.0x	1.0x	15.7%
	Total	248	$ 337.4	$ 203.4	$ 224.4	$ 427.8			

[1] Represents the investment-level performance of PennantPark's Opportunistic Credit strategy, including the firm's BDCs.
[2] Represents the fund-level performance of PennantPark's closed-end drawdown vehicles within the firm's Opportunistic Credit strategy.
[3] At the end of 2014, PennantPark Credit Opportunities Fund I was converted into a closed-end drawdown vehicle to form PennantPark Credit Opportunities Fund II (PCOF II).

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 2,200 employees in more than 25 offices globally, who manage about $380 billion as of September 30, 2023. 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 also includes Nino Cordoves, Head of Origination of CDL; David Richman, Deputy CIO of CDL; a rotating managing director from CDL; and a rotating managing director from Carlyle's opportunistic credit team. The IC also includes senior managers who oversee Carlyle's global credit platform and 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; 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 5.0% and the portfolio's weighted average spread is about 6.3%, leading to total coupons of about 11.3%. After adding one-time closing fees of 2.0-3.0% amortized over four years, which is 0.50-0.75% 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 December 2023, the team invested $17.5 billion in more than 450 portfolio companies. They achieved an 8.3% gross unlevered IRR, which is at the upper end of 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.

Churchill

Firm Overview

Churchill Asset Management, LLC (Churchill) specializes in making debt and equity investments in private equity (PE) owned middle-market companies. Senior members of the Churchill team previously founded Churchill Financial (CF) within Bear Stearns in 2006. The current firm, Churchill, was founded within Teachers Insurance and Annuity Association of America (TIAA)'s wholly owned asset management division, Nuveen, LLC, in 2015. TIAA is a not-for-profit stock life insurance company. Churchill merged with Nuveen's junior capital and private equity business in 2020. In March 2023, Nuveen, LLC acquired Arcmont Asset Management Limited (Arcmont), a European direct-lending firm, and merged Arcmont with Churchill to form Nuveen Private Capital (NPC). NPC is majority-owned by Nuveen and partially owned by Churchill and Arcmont senior management. Churchill manages more than $45 billion in committed capital.

Team Overview

Churchill comprises more than 150 professionals who make or administer senior loans, junior loans or equity investments in PE-owned companies or PE funds. The fund is primarily managed by Churchill's senior lending team, which comprises about 40 investment professionals. The fund's investment decisions are made by an investment committee comprising Ken Kencel (CEO/co-founder of CF), Randy Schwimmer (Co-Head of Senior Lending/co-founder of CF), Christopher Cox (Chief Risk Officer/co-founder of CF), Mathew Linett (Co-Head of Senior Lending/joined in 2015) and Shai Vichness (CFO, joined in 2018).

Strategy Overview

Fund V primarily invests in senior loans to PE-owned U.S. middle market companies with $10-100 million in EBITDA, which we classify as a core middle-market strategy. The portfolio is generally expected to include over 100 portfolio companies, which represents broader diversification than the 40-60 portfolio companies we consider typical in the category.

Churchill's investment process follows a functional-specialist model. This model is expected to increase process consistency but can result in more touchpoints for PE sponsors, which can reduce deal flow relative to the cradle-to-grave model. The firm's origination and capital markets team seeks to source deal flow from leading PE firms across the U.S. Opportunities identified are underwritten by a separate underwriting and portfolio management team. The team typically reviews about 1,000 lending opportunities and makes 50-70 new investments annually, not including add-on investments. The implied 5-7% closing rate is within the 4-8% range we consider typical, so we consider the team's selectivity in line with peers.

The fund is expected to focus on stable companies in non-cyclical industries that have strong management teams, customer diversification and competitive advantages. The strategy of which it is a part has historically lent an average of 4.2x debt/EBITDA for senior loans made between 2015 and March 2023. This is within the 4.0-5.0x range that we typical for middle-market direct-lending strategies. The loans in which the fund will invest tend to have three to five co-lenders. This "club loan" structure may allow for more holdings with less capital, increasing diversification, but tends to lead to investing in loans originated by other firms more often. That may cause the Fund to earn lower origination fees than it could have on loans it originated.

Expectations

Fund V seeks a 9-11% levered net IRR. Churchill currently targets about 12.0% gross unlevered yields from underlying investments. The targeted return comprises 4.5-6.5% targeted spreads over SOFR, one-time origination fees of 0.5-2.0%, and the SOFR short-term benchmark interest rate, which was about 5.4% on December 31, 2023. After considering expected credit losses, fees, and leverage, we consider the fund's return target achievable.

We consider the fund's net IRR target in line with peers. While the team's credit spread objectives are lower than the 6.0-8.0% range we consider typical, the fund's higher targeted leverage (2.0x debt/equity at the fund-level as compared to the 1.0x we consider typical) and its low management fees approximately offset that headwind.

Points to Consider

Churchill's four prior funds in the 2016, 2018, 2020, and 2021 vintage years earned lower net IRRs than the median direct-lending funds incepted in each of those vintage years as of December 31, 2023. Churchill's prior levered funds (2016 and 2020) earned above median TVPIs, while its unlevered funds (2018 and 2021) earned below median TVPIs as of the same date. These peer comparisons are based on Preqin benchmarking as of December 31, 2023.

TIAA contributed a special purpose vehicle (SPV) from its balance sheet to Fund V. The SPV held $220 million in senior loans, which were financed using $75 million in equity from TIAA and $145 million in third-party debt financing. Since we think that direct loans originated prior to mid-2022 generally had looser credit provisions, we consider the in-kind contribution negative for investors in Fund V. TIAA may also redeem a portion of its investment in Fund V on terms more favorable than those offered to other Fund V investors. This conflict of interest is partially mitigated by TIAA's use of valuation agents to determine the price at which the assets were contributed, which resulted in a discount, and cash commitments that TIAA made to Fund V.

The fund assesses a management fee of 0.50% on gross assets. This is lower than the 1.00-1.25% range we consider typical for this style of direct lending. This benefit is partially offset by the fund's higher targeted leverage. For example, if the fund uses 2.0x debt/equity leverage as it targets, it will hold $3 in assets per $1 in investor equity. That would result in a 1.50% management fee as a percentage of investor equity. Thus, we consider the fee competitive with, rather than lower than, unlevered direct lending funds.

Churchill may retain up to 1.0% in origination fees paid by borrowing portfolio companies that would not be passed through to Fund V. This increases Churchill's compensation for managing the fund and may reduce returns relative to peers whose funds receive such fees. We would prefer for Churchill to pass these fees through to Fund V.

Recommendation Summary

We think Fund V could be a fit for clients seeking core exposure to the direct-lending category due to its experienced management team, low management fee, and evergreen structure. Clients seeking higher returns may wish to consider direct-lending strategies that emphasize smaller companies, that include investments in non-PE-sponsored companies, or that target higher spreads and origination fees.

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, in which it manages over $5.5 billion. 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. The firm invested in about 3% of the new portfolio company opportunities it reviewed in 2022. 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 Capital VII (US) and Deerpath Evergreen (US) are unlevered and seek 6-9% net IRRs. Deerpath Capital Advantage VII (US) and Deerpath Evergreen Advantage (US) are expected to add 2.0x debt/limited-partner equity leverage to target net IRRs 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 5.4% on December 31, 2023) and one-time fees of 2.0-3.0%, 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 comprising Fund VII 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.

Monroe

Firm Overview

The firm (Monroe) specializes in managing U.S. lower middle-market private debt. It was founded in 2004 by Theodore Koenig, Michael Egan, and Thomas Aronson, who previously worked together at Hilco Capital. Monroe manages about $15.9 billion, primarily in private debt. It comprises about 200 employees, including more than 90 investment professionals. The Chicago office is its headquarters, with additional offices in Atlanta, Boston, Los Angeles, Miami, New York, and San Francisco. Its flagship strategy focuses on cashflow-based direct lending. Monroe also manages a tangential asset-based lending (ABL) strategy that is a minority of the flagship series, a business development company (BDC) called Monroe Capital Corporation (NASDAQ: MRCC), and collateralized loan obligations (CLOs).

Team Overview

The firm's investment professionals are organized in functional groups based on stages in the investment process. About 20 originators based in four of Monroe's offices are led by Head of Originations Thomas Aronson. About 70 professionals focused on underwriting and loan structuring indirectly report to Chief Credit Officer Michael Egan through four Managing Directors: Head of Underwriting – Direct Loans Alex Franky, Head of Underwriting – Capital Markets Jeffrey Williams, Co-Head of Opportunistic Credit Kyle Asher, and Head of Portfolio Management Nathan Harrell. Additional senior investment professionals include President and Co-Portfolio Manager (PM) of Direct Lending Zia Uddin; Co-PM of Institutional Portfolios Chris Lund; PM of CLO Vehicles Jeremy VanDerMeid; and PM of the BDC and Co-Head of Opportunistic Credit Aaron Peck.

Strategy Overview

The strategy primarily originates senior loans to U.S. companies with $10-50 million in EBITDA (a measure of cash flow). It is expected to invest most of its capital in direct loans to companies that are private equity (PE)-sponsored, a lesser amount in direct loans to non-PE-sponsored companies, and less than 20% in opportunistic transactions such as ABL. Under the supervision of a 10-member Investment Committee (IC), functions within the investment process are carried out in a "functional-specialist" format, wherein investment professionals who find lending opportunities ("originate") are separated from those who underwrite and monitor them. The process follows the life of a loan: origination, underwriting, structuring, monitoring, and portfolio management (workouts) for those not repaid as agreed.

Opportunities are identified by Monroe's robust origination team. Opportunities that pass initial screening are reviewed by the underwriting and structuring team. The transaction type (direct loans, syndicated loans, or opportunistic) determines which of three Heads of Underwriting would assign an underwriter to review the opportunity. The underwriter reviews the potential borrower's cash flow, business strategy, competitive positioning, collateral, and proposed loan terms like leverage and covenants. Environmental, social and governance (ESG) considerations are also evaluated at this stage. After underwriting, the same team structures loans that the IC has approved. Monitoring is conducted by PMs and the IC using "trend cards" customized to the borrower's key business metrics. The portfolio management team is assigned for heightened monitoring of and, if necessary, help in working out, credits assessed as below plan.

Expectations

Monroe Capital Private Credit (MCPC) V is offered in unlevered and levered partnerships that will seek 8-10% and 12-14% net IRRs, respectively. We think these targets are achievable. Underlying loans are expected to have interest rates of SOFR plus 6-7%, plus one-time fees of 2-3% and equity participation through warrants. Monroe's loans have historically been repaid 2-3 years after issuance, so we expect the one-time fees to be about 1.0% annualized. We expect higher returns from the fund's opportunistic investments.

The levered partnerships are expected to borrow an amount equal to investors' equity (1.0x debt/equity fund-level leverage) using one or more asset-backed lending facilities provided by traditional banks. Monroe expects the cost of the facility to be SOFR + 2.75-3.00% of the amount borrowed, plus 1.00-1.25% in fees. 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

We like MCPC V's diversified approach. While we expect the fund to invest primarily in PE-sponsored companies, we also expect it to include non-PE-sponsored companies and ABL. We expect non-PE-sponsored loans and ABL to allow for higher returns due to their harder-to-find nature and complexity, respectively. However, both non-PE-sponsored loans and ABL may be riskier than the typical cashflow-based loan to PE-sponsored companies, all else held equal.

Monroe's broad deal flow may help the team to build diversified portfolios. The firm reviews about 2,000 opportunities per year. In 2022, Monroe invested in 114 portfolio companies. Thus, the firm invested broadly yet kept its closing rate within the 4-8% range we consider typical for established lenders like Monroe, who tend to be able to be more selective than new entrants.

Zia Uddin, who was lead PM for the prior fund, has stepped back to Co-PM of MCPC V alongside Chris Lund. Uddin has been named Monroe's president and we think he may become CEO when co-founder Ted Koenig retires. While Koenig is only in his early 60s, Uddin leads most internal day-to-day operations now. Uddin and Lund make decisions jointly for MCPC and we think that Lund may take the lead role in the next few years. We are comfortable with these transitions, which we expect to continue over several years. We also note that the investment committee of about 10 members is responsible for approving investments.

Commitments by our clients may be aggregated for MCPC V's tiered fee schedule. Clients who wish to receive any discount that may apply should reference this understanding in their side letters with Monroe.

Recommendation Summary

We recommend the strategy as a sole or complementary allocation in direct lending. It may be a fit for clients seeking a broad-based approach to senior direct lending, as well as those seeking a complement to larger capitalization and/or strictly PE-sponsored approaches. The strategy's unlevered feeders may be a fit for more conservative investors, while those seeking higher returns may prefer the levered partnerships.

PIA

Firm Overview

PIA specializes in managing U.S. direct lending strategies. The firm has about 50 employees and manages about $6.0 billion. Art Penn founded PIA in 2007 and remains its sole owner. The firm moved its headquarters from New York to Miami in early 2022. New York remains a major office, with additional operations in Chicago, Houston, and Los Angeles.

Team Overview

PIA's approximately 20-member investment team is led by Managing Partner Art Penn and Senior Partners Jose Briones, Jr. and Salvatore Giannetti III. They each have at least 30 years of experience. Briones joined the firm in 2009 and Giannetti joined in 2007. A seven-member investment committee (IC) comprising Penn, Briones, Giannetti, and four Partners (Dan Horn, James Stone, Steve Winograd, and Ryan Raskopf) makes investment decisions by consensus. Each member of the IC has more than 15 years of experience, including more than five years of tenure with PIA.

Strategy Overview

The strategy primarily makes debt and equity investments of $10-100 million in private equity (PE)-sponsored, lower-to-core-middle-market companies with $10-50 million in EBITDA. It may also invest in the debt of non-sponsored and larger companies, including by purchasing broadly syndicated loans (BSLs or "bank loans").

In PIA's investment process, the same deal teams cover each investment from origination through repayment. PE sponsors like this "cradle-to-grave" model because they work with the same team members throughout a loan's life, but it can be difficult to keep consistent underwriting standards in this format as teams grow and more people become involved.

The steps in PIA's process are origination, underwriting, execution, monitoring, and credit workouts. In the origination step, senior team members primarily find lending opportunities by calling on over 600 middle-market PE sponsors, which leads to a broad set of about 1,000 lending opportunities annually. The team looks for profitable, growing companies in the business services, consumer, government services, healthcare, and software/technology sectors. If the originator thinks an opportunity may fit the strategy, underwriting is conducted by a three-member deal team. The deal team, which typically includes the originator, then writes a posting memo that discusses the risks and potential paths for due diligence, which is presented in one of the twice-weekly IC meetings. If the opportunity passes the initial IC discussion, the deal team's due diligence alongside the PE sponsor generally takes two months and results in a more thorough memo to the IC. If the transaction and structure are approved by IC consensus, the deal team makes the investment and prepares a closing memo with the final structure. Each loan typically includes at least two maintenance covenants. After investment, the deal team monitors the borrower's performance and, if necessary, works out problems. While PIA does not have a dedicated workout group, we note that PIA focuses on PE-sponsored companies and can use management consultants. PE sponsors may provide capital to overcome short-term challenges, while consultants may reduce the time PIA needs to spend on workouts and lessen PIA's need to allocate resources away from originations in troubled market environments.

Expectations

The strategy seeks a 13-15% net IRR. We think this is achievable based on the market environment and the yields PIA seeks from the underlying holdings, as well as the fund-level leverage the team plans to use.

Specifically, PIA seeks investments that will return an aggregate 10-12% gross unlevered IRR. The targeted yields range from a 7.5% spread over LIBOR or SOFR for first-lien debt to at least a 15% targeted fixed yield for preferred equity, plus upside from equity co-investments. The team plans to enhance returns by applying 0.8x debt/equity fund-level leverage and expects the cost of financing to be SOFR + 2.75-3.25%, which we consider reasonable.

Points to Consider

The Opportunistic Credit (OC) strategy that includes COF IV has a solid track record. In the OC strategy, PIA has invested $8.8 billion in more than 400 portfolio companies since 2007 and achieved a 10.0% gross unlevered IRR with a 0.3% annualized credit-loss rate through December 31, 2023. These statistics compare favorably to the 6-8% IRRs and 0.5-0.8% credit-loss rates we consider typical in the senior direct lending category.

We consider the strategy's risk profile higher than the typical direct lending strategy because 1) it is expected to make material investments in junior debt and equity, which are subordinated to senior debt, and 2) it may purchase BSLs on the secondary market that are discounted due to borrower, industry, or market stress. The prior fund in the series, COF III, invested 21% in junior, second-lien loans and 18% in equity. The team thinks that more than 20% of COF IV may be invested in discounted purchases.

COF IV's 1.50% management fee is higher than we consider typical for its style. The prior fund in the series, COF III, charged a 1.25% management fee that we would have considered more typical.

PIA is seeking $400 million in commitments for COF IV, which is more than twice the prior fund's $180 million in committed capital. To stay as selective as its typical peer, the firm will need to materially increase its deal flow if all else about the strategy stays the same. PIA has historically invested in about 5% of opportunities it identified, which is within the 4-8% range we consider typical for similarly established strategies.

Recommendation Summary

We consider the strategy a solid choice for clients seeking return enhancement. We think the core middle market offers an illiquidity premium and expect COF IV's investments in junior debt and equity to increase its expected returns relative to senior-focused direct lending strategies. The strategy's strengths include PIA's sole focus on private debt and the OC strategy's strong long-term track record.

COF IV may be less of a fit for risk-averse clients due to its investments in junior debt, equity, and discounted debt. Its management fee may also be a hurdle for some investors.

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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.

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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.

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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.

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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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