PART 2 OF A SERIES

Antares Capital

Creating Alpha in Private Credit

Adding Value for Sponsors & Borrowers

KEY TAKEAWAYS

- Optimal deployment of direct lending capital for investors requires that a general partner (GP) lender have a strong value proposition for sponsors and borrowers.
- Trust in a GP lender is a crucial competitive advantage that is built on experience and capabilities that are not easily replicated.

The Bottom Line

Adding value for sponsors and borrowers directly contributes to an asset manager's ability to deliver differentiated alpha for investors. Having a deep, long-tenured relationship becomes a self-sustaining competitive moat that drives scale, deal flow, selectivity and recovery rates.

Digging Deeper

The term "alpha" in investing typically refers to excess incremental return achieved above an appropriate benchmark (i.e. beta). However, in the context of this "creating alpha" series, we ("we" or "our" referring to Antares Capital) expand on the term to encompass "value creation" across stakeholders including private equity sponsors, borrowers, and investors. In this second installment in our series, we focus on how sponsor and borrower value creation strengthen investor portfolios by enhancing deal flow, lead management positioning, scale and risk management. In future installments, we will address capturing relative value across market segments and optimizing investment products and structures to meet investor needs.

In this analysis, we dig deeper into the three primary dimensions private equity sponsors generally assess lenders across:

1. **Capabilities**: Operational scale, deal structuring and execution capabilities, experience, and expertise.
2. **Relationship of Trust:** Reliability, transparency, and constructive collaboration in varying market conditions.
3. **Competitiveness:** Pricing, terms, and ability to offer tailored solutions.

Reflects Antares' beliefs unless otherwise cited with a source.

Capabilities

A lender's capabilities from a sponsor and borrower perspective covers a broad range of considerations, some of which may be considered table stakes more broadly and others which may be more material only in specific instances. The principal areas of consideration here include:

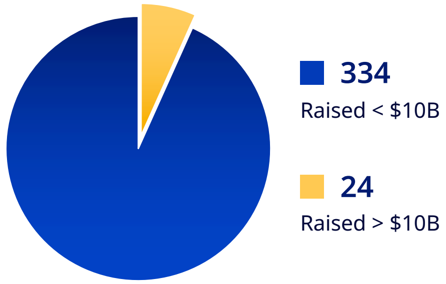
Scale

- **Underwrite and hold size:** A lender's ability to underwrite and hold large dollar amounts can be a significant differentiator for private equity sponsors looking to do larger deals. Borrowers also like to know that their lender can provide adequate capital as they grow. KBRA DLD regularly publishes a list of lenders that can hold $400M or more of a deal they underwrite called the "$400M+ Club" which currently stands at a count of 18.

- Scale, from a borrower and sponsor perspective, also enables many of the best execution capabilities listed in further detail below and extends well beyond being able to do big deals. As shown in *Figure 1*, there are a limited number of managers with significant scale. Per Preqin's database, the top 20 managers account for 60% of assets raised in the last 10 years and only 24 have raised > $10B.

Figure 1: Few Manager Have Scale[1]

# of Direct Lenders by Total AuM Raise Over Last 10 years



Best Execution

- **Direct or syndicated and related structuring options:** Lenders who offer flexibility in structuring and execution options (e.g. syndicated vs. direct; unitranche vs. 1st lien/2nd lien) can provide sponsors and borrowers with pricing and terms that are best suited to a given deal under various market conditions. Sponsors value lenders with multiple structuring options, as they can seamlessly adapt to shifting public and private market dynamics.

- **Lead management:** Having a strong track record and experience as a lead manager as evidenced in league table rankings is also a critical consideration when striving for best execution. In a syndicated transaction, this includes clearing a transaction with the most favorable pricing and may include additional value add such as ratings advisory guidance.

- **Speed of execution:** Speed of execution and confidentiality can be critical to sponsors that want to move quickly in competitive situations. Sometimes speed comes naturally for a lender in an incumbent situation - an advantage that comes with a large portfolio. At other times, it may reflect a lender's familiarity with the credit either from having been a lender previously or having competed for the credit in prior deals (instances of which tend to come with scale and experience). Speed also reflects a lender's origination and underwriting teams experience and industry expertise. While speed is valued, it is critical that it not come at the cost of performing adequate due diligence. (Note: even in a syndicated transaction which will normally take longer than a private transaction, the ability to execute well as quickly as feasible can be valuable if for no other reason than that it will reduce pricing risk related to market volatility.)

- **Ease of execution:** Sponsors and borrowers appreciate lenders who simplify processes, from due diligence to legal documentation. This may derive from a lender's incumbency or pre-existing borrower relationship but can also more generally reflect a lender's experience and customer-focused culture. By minimizing unnecessary deal execution friction, lenders not only improve speed but also the sponsor's and borrower's general level of satisfaction which in turn benefits investors via improved future deal flow.

Figure 2: Pros and Cons of Direct vs. Syndicated Execution[2]

	Sponsor Perspective		Investor Perspective	
	Pros	**Cons**	**Pros**	**Cons**
Direct	No execution risk / No Flex	Higher spread	Higher yields / "illiquidity" premium	Illiquid
	Creative structures	More convenants	Expanded "private" opportunity set	Less transparency
	Ease of execution (e.g. no rating	More restricting terms	No mark to market / less volatility	Slower deployment
	Speed of execution / quick close		More constructive workout	
	Small lender group eases negotiations			
	Delayer Draw Term Loans (DDTLS)			
	Confidentiality			
	Pros	**Cons**	**Pros**	**Cons**
Syndicated	Lower pricing	Execution risk / pricing flex	Liquidity	Volatility
	Looser docs	Slower / more complex execution	Ratings	Potential for LMEs
	Larger potential size	Large / variable lending group	Transparency	
		Less flexibility (e.g. to PIK)	Fast deployment	
		Less confidentiality		

Experience, Expertise and Other Capabilities

In addition to bringing best execution, dealing with an experienced origination and credit team also can also entail other potential benefits, including:

- **Industry expertise:** Deep industry knowledge and experience allows lenders to "lean in" with conviction when competing to win deals, tailor bespoke financing solutions, streamline underwriting/due diligence and share industry insights and value-creation ideas.

- **Creativity and product breadth:** Offering a broad spectrum of creative and differentiated financing solutions is an important element of a lender's value add for sponsors and borrowers that can also translate into more fulsome investment options for investors. Loan product breadth spans from senior loans (cash flow or asset based) to more junior capital (e.g. 2nd lien, mezzanine, or PIK preferred) and would also include more bespoke financing solutions such as Annual Recurring Revenue loans (ARR) and NAV loans (i.e. loans secured against the equity of a private equity sponsor's portfolio or a subset of its portfolio). Other value-add financing "solutions" for borrowers could include staple financing and "portability" (i.e., the ability for a borrower to change ownership without having to refinance a loan). Having broad product and solution capabilities not only allows a lender to win new business, but also be able to offer the best solutions to a borrower over the lifecycle of a loan. This improves a lender's ability to retain its best credits which aligns with investor interests. It also allows the lender to not only offer investors different investment options and the ability to capture relative value, but also to create tailored investment products. An example most recently that has gained popularity is the evergreen BDC structure where Broadly Syndicated Loans (BSL) are included in the BDC in order to allow the lender to offer periodic liquidity to investors.

- **Geographic reach:** Obviously, for sponsors/borrowers headquartered in regions abroad, it goes without saying that the ability to underwrite loans in their region is a requirement. However, even from a North American sponsor/borrower centric perspective, the ability to underwrite entities/assets in other regions will be valuable to some that wish to grow and invest abroad. For example, a meaningful percentage of top tier U.S. PE sponsors also invest directly in companies in Europe or have investments with operations in Europe.

- **Portfolio insights:** Having a large portfolio and experience with many credits over many years can provide a fountain of insights private lenders can share with PE sponsors. This can range from proprietary sub-segmented financial benchmarking, survey intel and market data (e.g. leverage/terms and multiples data) to sharing potential value creation opportunities (talent connections, sponsor to sponsor transactions, etc.)

Relationship of Trust

- **Trust:** Sponsors rely on lenders who demonstrate reliability across market cycles:
  - No “slow maybes”: Sponsors value timely responses, even when the answer is “no,” allowing them to pivot quickly.
  - Follow-through: Delivering on commitments without renegotiating terms builds credibility and strengthens incumbency benefits.
  - Confidentiality: Protecting sensitive deal information is essential and creates competitive advantages beyond pricing.
  - Constructive amendments and workout: Sponsors favor lenders who collaborate on solutions during periods of stress that help preserve equity value while safeguarding investor capital.

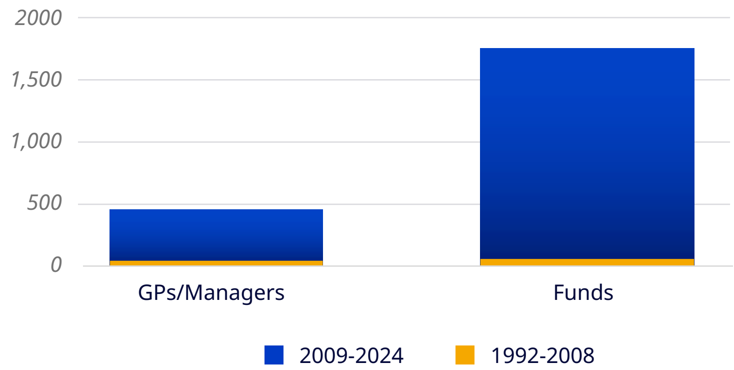
Establishing a high level of trust with a lender does not come easy. It accrues over time – often measured in decades – and is an important barrier to entry for new entrants.

- **Experience:** Does a lender have deep experience through cycles, an experienced workout team, and a track record of helping resolve conflicts fairly and responsibly as a lead manager within a club or syndicate? Does the lender know which terms are most critical and which are more flexible based on experience with respect to various structures and industries?

According to Preqin, the majority of firms that have raised direct lending funds in the last 10 years were founded after the Global Financial Crisis (2008), suggesting that not all managers operating today have experience managing capital through cycles. *(Figure 3)*

Figure 3: Few Fund Managers Existed Pre Global Financial Crisis[3]

Count of North American focused direct lending funds and managers before and after 2008



Competitiveness

Capabilities and trust often determine which lenders are short listed for consideration by a private equity sponsor to lead manage a deal. From there, competitiveness on pricing, terms, and leverage play a critical role.

- **Pricing:** All else equal, lower pricing is of course preferred; however, rarely is all else equal. If a lender offers lower pricing but with lower leverage and/or more restrictive terms or a smaller hold size, pricing may "lose out" to other considerations. When comparing syndicated vs direct markets, syndicated will often offer lower pricing, but typically at the cost of a slower and less confidential process that may require a credit rating. There may be other considerations too like a lack of access to a DDTL or the ability to work with a small group of lenders if and when amendments are needed such as when stress occurs.

- **Terms:** This includes language in credit agreements with respect to topics such as acceptance of certain EBITDA add-backs, financial maintenance and incurrence covenants, restrictions on collateral leakage and additional debt incurrence, PIK options and more. Experienced lenders know where they can bend to be competitive but also know where to draw the line on key terms to avoid undue risk.

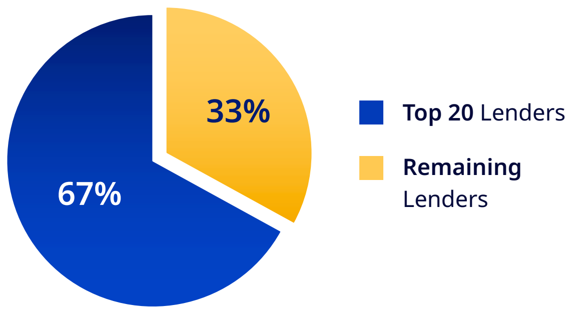
- **Leverage:** Sponsors generally favor maximizing leverage or at least having the option of maximizing leverage (at a rational cost) as doing so can enhance their equity returns. Senior lenders on the other hand do not want to "attach" at a level in the capital structure that effectively implies they are likely incurring equity risk for only a senior debt level of reward (Note: EBITDA add-backs may also play into this calculus). Having experience through cycles, industry expertise, and a strong due diligence practice are all critical to a lender making a proper assessment of how aggressive they should be in competing for a deal based on leverage.

- **Underwrite and hold:** This can be an important factor in competition on larger deals. It is primarily a matter of capability as covered previously related to a lender's scale, but it can also be a matter of conviction. For example, a lender may be capacity constrained in its ability to do only so many deals at a maximum hold level over some given timeframe and therefore will offer large holds only to the credits in which it has the highest conviction. In some cases, the lender may underwrite considerably more than it hopes to ultimately hold, but this comes with risk and likewise typically will require deep conviction in the credit (as well as deep experience in leading clubs and syndicating transactions).

Of the over 2,100 LBO and add-on M&A transactions since the beginning of 2023 in KBRA DLD's database, 20 "lead arranger" lenders account for about 2/3rds of the transaction count which underscores private equity sponsors' preference to transact most frequently with a select group of lenders that can satisfy the above deal characteristics. *(Figure 4)*

Figure 4: Top Lenders Capture Most Deals[4]

Lead Arranger share of LBO and Add-on deals count since 2023



Creating Alpha for Investors

There are some natural competing interests between the equity interests of sponsors and borrowers and the creditor interests of a lending general partner and its limited partners (Note: the alignment of general partner's and limited partner's interests is a separate topic of discussion to be addressed in a later "creating alpha" installment). For example, typically, sponsors and borrowers will want the lowest price and most favorable terms on a loan while the general and limited partner investors will want the highest price and most lender friendly terms. As another example, in a workout, the sponsor and borrower will want to preserve as much equity value as possible while lenders on the other hand may seek to maximize their recoveries at the expense of equity holders (e.g. through liquidation), depending on the situation.

In order to manage these competing interests well, a good lender needs to, first and foremost, be selective in choosing the sponsors it partners with and the borrowers it lends to. Then, within this context, the lender needs to develop a long-term value proposition for sponsors and borrowers that will also end up creating value for its investors. Doing this well can lead to a virtuous circle of performance differentiation that leads to higher fundraising and increased scale which in turn improves the lender's value proposition, competitive position, and performance, leading to increased fundraising and so on.

The elements of competitive advantage that arise and create value for investors as a lender achieves scale include:

- **Incumbency:** As a lender's portfolio grows, a larger percentage of all the financing opportunities it sees comes from its portfolio which is a source of competitive advantage that provides differentiated benefit to investors:
    - Incumbent lenders are generally preferred as a source of capital by borrowers and sponsors due to the speed and ease of financing that comes with an existing lender. Investors benefit from access to this favorable deal flow where the lender has both a positional and information advantage.
    - Being able to source deals from one's portfolio relieves pressure from having to deploy capital into the broader market when conditions are less favorable, effectively allowing the lender to be more selective in financing new borrowers. In contrast, lenders with subscale portfolios that are flush with dry powder may feel pressured to deploy capital even when market conditions are unfavorable. Thus, investors benefit from incumbency because it allows for increased new borrower selectivity.
- **Lower cost of capital:** As a lender's AUM grows, access to capital tends to increase and cost of capital falls. A lower cost of capital can flow through to the advantage of investors and sponsors and borrowers alike.
- **Co-investment opportunities:** As a lender gains scale and sees more deals, this improves the deal flow of co-investment opportunities for some investors that in effect allows them to average down their management fees, while allowing the lender to offer a large effective underwrite and hold size to the benefit of the sponsor and borrower.
- **Enhanced workout capabilities:** Scale allows for a dedicated workout team which can enhance loan recoveries when a loan defaults, thereby benefiting investors returns. Workout teams can't easily be bought/staffed up when they are most needed in times of widespread stress (e.g. Covid, Global Financial Crisis, etc.) Experienced workout teams can also be of benefit to sponsors by working constructively and with a longer-term perspective versus some other loan providers (such as banks) that may be required to expedite the exiting of defaulted loans.
- **Criticality to sponsors:** A lender whose value proposition has resonated with a sponsor over many years will tend to have loans into multiple sponsor portfolio companies. Once in this position, a sponsor is less likely to act aggressively against the lender's interest knowing it will need to work constructively with the lender with respect to its other portfolio investments' needs. Such an advantageous position for the general partner lender is a shared benefit with limited partner investors.
- **Deployment and diversification:** The self-reinforcing value proposition to sponsors and borrowers that comes with scale is also a benefit to investors in the form of (1) faster deployment of capital and (2) greater diversification which reduces position concentration and factor risks (e.g., industry and end market exposure, geopolitical risk exposure, etc.)

Footnotes & Disclosures:

[1] Source: Prequin

[2] Source: KBRA DLD; Antares Capital

[3] Source: Prequin as of 12/5/24; includes liquidated funds; excludes BDCs

[4] Source: KBRA DLD

The materials presented herein are provided to you solely for informational purposes and unless otherwise indicated herein, has been prepared using, and is based on, information obtained by Antares Capital ("Antares") from publicly available sources. It does not constitute an agreement, or an offer, commitment to offer, or agreement to sell any loans, securities or other assets including interests in any fund or vehicle. The materials contained herein are not intended, nor should they be construed or implied, to be a recommendation or advice of any kind. The information set forth herein has been compiled as of the date(s) noted, is preliminary and subject to change. There is no obligation on the part of Antares to update the information provided herein after the date hereof. Neither Antares nor any affiliate thereof represents or warrants the accuracy, completeness or reliability of any of the materials contained herein, either expressly or impliedly, for any particular purpose, and shall have no duty to update or correct any such information. Without in any way limiting the generality of the foregoing, you understand that certain of the information provided herein is based on information provided by third parties, and neither Antares nor any affiliate thereof makes any representation or warranty regarding the accuracy, completeness or reliability of any such information. In no event will Antares be liable for any losses or damages arising from or as a result of the use of the information or the materials contained herein.

Certain information contained herein concerning economic trends and performance is based on or derived from information provided by independent third-party sources. Antares believes that such information is accurate and that the sources from which it has been obtained are reliable; however, none of Antares nor any of its affiliates or agents can guarantee the accuracy of such information and they have not independently verified and are not responsible for any inaccuracies, omissions and outdated information contained in such third-party information or the assumptions on which such information is based. Certain other information regarding market analysis and conclusions could be based on opinions or assumptions (including those of Antares) that Antares considers reasonable. Unless otherwise indicated, such market analysis and conclusions represent the subjective views or beliefs of Antares.

The materials presented herein may include certain projections, forecasts and estimates that are forward-looking statements. Any such forward looking statements are based on certain assumptions about future events and are subject to various risks and uncertainties. Forward-looking statements are necessarily speculative in nature and it should be expected that some or all of the assumptions underlying them will not materialize or will vary significantly from actual results. Accordingly, actual results will vary from the projections, and such variations may be material. Some important factors that could cause actual results to differ materially from those in any forward-looking statements contained in these materials include, without limitation, changes in interest rates, default and recovery rates, market, financial or legal uncertainties, the timing of acquisitions of loans, the types of loans acquired, differences in the actual allocation of loans from those assumed mismatches between the time of accrual and receipt of interest proceeds from the loans and whether or not and how loan investments may be leveraged.

Any statements involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that such opinions or estimates will be realized. The statements and expressions of opinion contained in this presentation are subject to change without notice and involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon nor should they form the basis of an investment decision.

For Benefit Plan Investors
Not in limitation of the foregoing, if you are (or are acting on behalf of) a person that is a "benefit plan investor", as defined in Section 3(42) of ERISA and DOL regulations ("Benefit Plan Investor") you are not authorized to, and should not, rely on any information Antares is providing to you as a basis for, or otherwise in connection with, making a decision whether or not to invest with Antares. Antares has not provided and will not provide any investment advice of any kind whatsoever (whether impartial or otherwise) and Antares is not acting as a fiduciary, within the meaning of Section 3(21) of ERISA, and regulations thereunder, to the Benefit Plan Investor or to any fiduciary or other person making investment decisions on behalf of the Benefit Plan Investor, in connection with these materials or any related presentation.

Additional Matters and Important Information for All Non-U.S. Investors
An interest in products or services referenced in this presentation may not be licensed in all jurisdictions, and unless otherwise indicated, no regulator or government authority has reviewed this document or the merits of the products and services referenced herein. If you receive a copy of this presentation, you may not treat this as constituting a public or other offering and you should note that there may be restrictions or limitations to whom these materials may be made available. This presentation is directed at and intended for institutional investors (as such term is defined in the various jurisdictions). This presentation is provided on a confidential basis for informational purposes only and may not be reproduced in any form. Before acting on any information in this presentation, recipients should inform themselves of and observe all applicable laws and regulations of any relevant jurisdictions. Recipients should inform themselves as to the legal requirements and tax consequences within the countries of their citizenship, residence, domicile and place of business with respect to the ongoing provision of services, and any foreign exchange restrictions that may be relevant thereto. Antares does not accept any responsibility, nor can be held liable for any person's use of or reliance on the information and opinions contained herein. Any entity responsible for forwarding this material to other parties takes responsibility for ensuring compliance with applicable securities laws.

Notice to persons in the European economic area and the United Kingdom
This presentation is being made available: (1) to persons in the European economic area only if they are professional investors as defined in the Alternative Investment Fund Managers Directive (2001/61/EU); and (2) to persons in the United Kingdom only if they are professional investors, as defined in the Alternative Fund Managers Regulations 2013 and fall within the following categories of exempt persons under the Financial Services and Market Act (Financial Promotion) Order 2005 (the "FPO") and the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "CISPO"): (i) persons who are investment professionals, as defined in article 19(5) of the FPO and article 12(5)of the CISPO; (ii) persons who are high net worth companies, unincorporated associations etc., as defined in article 49(2)(a) to (d) of the FPO and article 22(2)(a) to (d) of the CISPO; or (iii) persons to whom it may otherwise lawfully be communicated. This presentation is provided for informational purposes only and does not constitute as offer to purchase, acquire, or subscribe for any type of investment.

Antares Capital

antares.com

@Antares Capital LP