PRIVATE CREDIT: AN OVERVIEW

Antares Capital

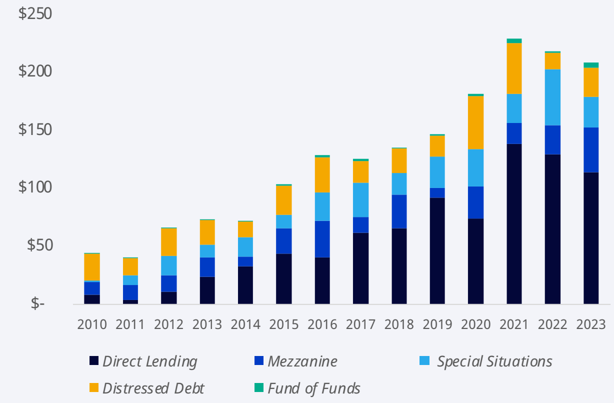
What is Private Credit

Private credit (often used interchangeably with private debt), typically refers to loans made by a single or small group of lenders.

The private credit universe covers an array of strategies spanning the capital structure, enabling investors to tailor their allocation to a preferred return and risk target.

Direct lending, the largest sub-strategy within private credit, entails providing a loan to a company in a privately negotiated transaction. These companies range from medium-sized to large corporates and are often backed by private equity firms (sponsors).

Private Credit Historical Fundraising by Strategy ($BN)[1]

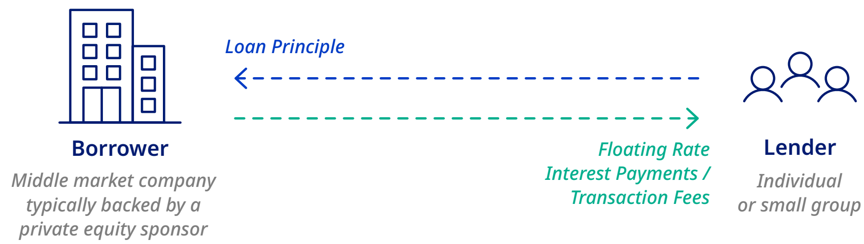


How Private Credit Differs From Traditional Bank Lending

Direct Loan

A loan directly negotiated with a corporate issuer that is usually senior in the capital structure and secured by assets.

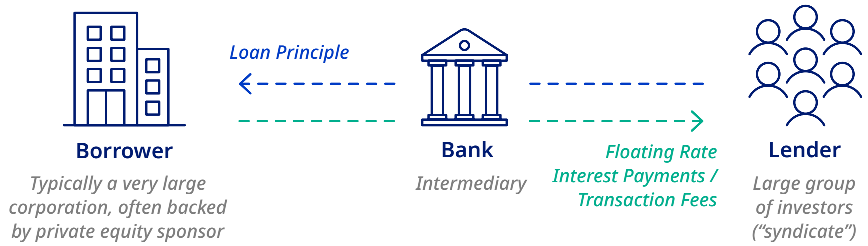
Typical Private Credit Loan



Syndicated Loan (BSL)

A bank originated loan which is sold to a group of investors. A complex process entailing roadshows and engagement with ratings agencies.

Typical Bank Loan



Note: Represents Antares' beliefs and is provided for illustrative purposes only.

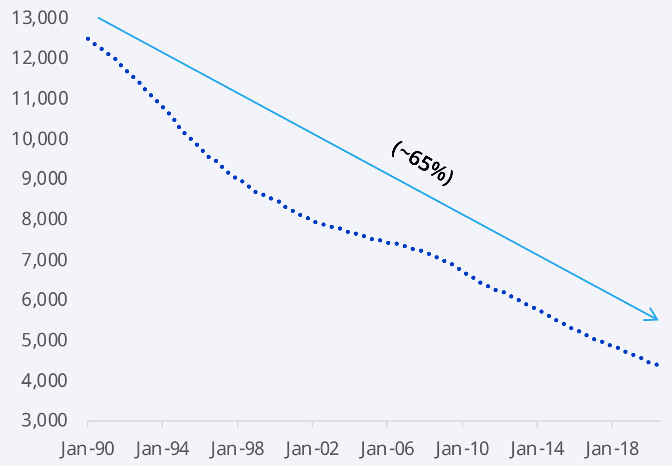
EVOLUTION OF PRIVATE CREDIT

Banks Retreat From Middle Market Lending

Structural changes in the banking industry have resulted in a multi-decade shift in the supply of capital for small and medium-sized companies from traditional bank lending to the private markets, fueling the growth of private credit.

- A bank consolidation wave starting in the 1990's resulted in over a 65% decline in the number of commercial banks.
- Middle-market companies lost access to debt financing as financial institutions shifted their focus to targeting larger borrowers.
- Non-bank lenders rose to satisfy the financing needs of middle-market borrowers.

Commercial Banks in the U.S.[2]



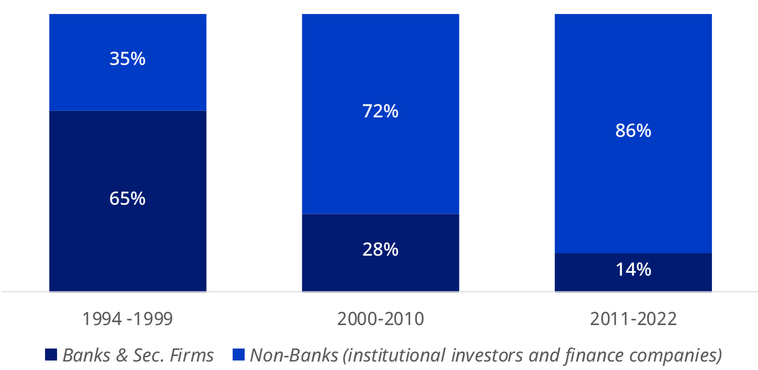
U.S. Middle Market[3]**: By the Numbers**

- Over 200,000 privately owned companies
- Over 48 million jobs
- 1/3 of private sector GDP growth

Private Credit Fills A Lending Void Following The Global Financial Crisis (GFC)

As banks continued to retrench in the aftermath of the GFC and the Fed's zero interest rate policy suppressed bond yields, private credit evolved to meet borrower's needs for reliable sources of financing and investor's needs for stable, higher yielding sources of income.

Primary Investor Market: Banks vs. Non-Banks Historical Average[4]

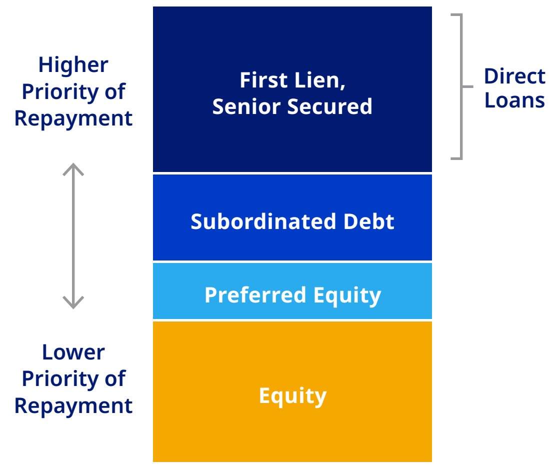


- Changes in the regulatory landscape in the aftermath of the GFC introduced capital constraints which reduced bank's ability to lend.
- A rapidly growing private equity industry drove demand for private market financing alternatives. Private credit emerges as the preferred source of financing for private equity firms.
- The ultra-low interest rate environment spurred increased investor appetite for higher yielding fixed income alternatives, such as private credit.

Typical Features of Direct Loans

- **Floating-Rate Coupons:** Private credit loans are typically tied to a floating rate, such as the Secured Overnight Financing Rate (SOFR). Loans adjust with interest rates which helps to mitigate inflation and interest rate risk.
- **Covenants:** Direct loans tend to have stronger lender protections since they are directly negotiated. These protections require companies to meet certain financial terms such as requiring companies to comply with leverage, debt / EBITDA or interest coverage ratios.
- **Shorter Maturities:** Loans are typically structured as 5-7 year maturity term loans but often are paid down or refinanced in 2-4 years.
- **Higher Seniority and Security:** Typically structured as first lien loans, which are first in line in the capital structure to be paid.
- **Less Liquidity:** Private credit loans are not publicly traded and compensate investors with an illiquidity premium.

Where Direct Loans Sit in the Capital Structure



Direct loans are at the top of the capital structure and usually have significant equity cushions, increasing the likelihood of a better outcome in the event of a default.

Note: Represents Antares' beliefs and is provided for illustrative purposes only.

Why Borrowers Choose Direct Loans

Reliable execution: Public debt market issuance is normally subject to underwriting price flex and other market condition related "best effort" uncertainties. In contrast, private market lenders can offer fixed pricing terms and assured execution, often in exchange for a price premium.

Flexibility: Because of their sophistication, private lenders can provide a unique value proposition to borrowers by offering customized terms and structures.

Speed and simplicity: Direct lending executions are faster and more efficient due to a smaller club of lenders with no need for a roadshow or ratings (which typically adds 4+ weeks to execution). A smaller club may also be less cumbersome to negotiate within amendment and workout scenarios.

Confidentiality: Borrowers can avoid broad dissemination of proprietary or financial information because loans are either negotiated bilaterally or with a small group of lenders.

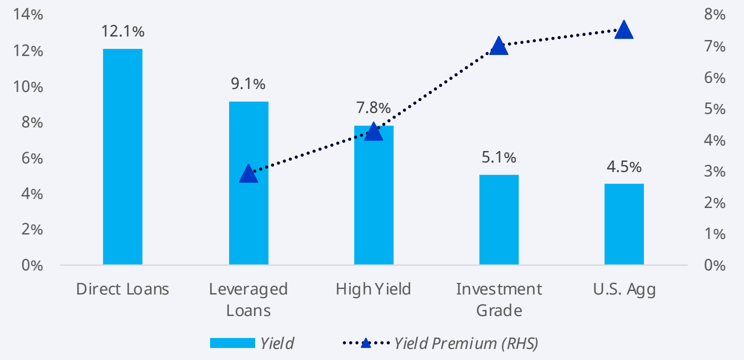
Drivers of Direct Lending Performance

The strong risk-adjusted historical return profile of direct lending can be attributed to higher yields and enhanced downside protection compared to other fixed income investments such as leveraged loans (BSL) or high yield bonds.

Higher All-In Yields

Direct lending has historically delivered a consistent yield premium vs. syndicated loans driven by a sustained pricing premium (spread) and higher fees. Direct lenders can achieve this pricing premium, or yield "pick-up," because borrowers are willing to pay a premium for the value proposition direct lenders offer.

Direct Lending has produced a sustained yield premium compared to public credit[5]



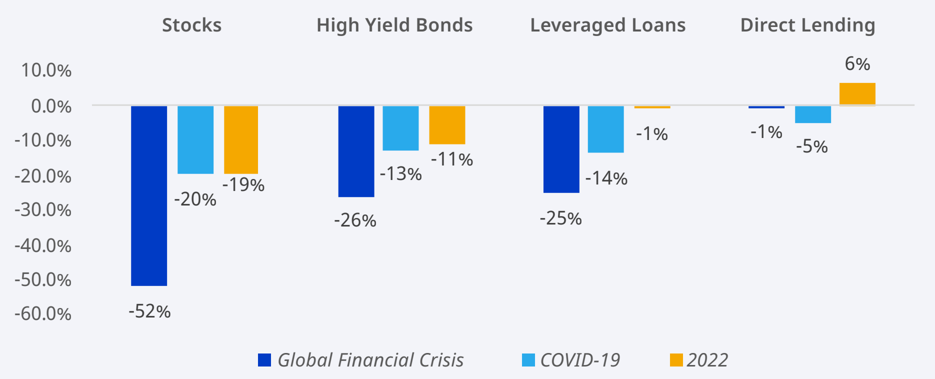
And Enhanced Downside Protection

Private credit investments have historically offered greater downside protection during market downturns compared to public equity or credit.

Private credit loans tend to be the highest in the capital structure and often include structural protections which provide investors with greater defense during market volatility relative to comparable fixed income investments.

This has translated into senior direct loans having a lower historical loss rate compared to public fixed income.

Asset Class Performance During Market Dislocations[5]



Benchmarks: Direct Loans = Cliffwater Direct Lending Index, Leveraged Loans = Credit Suisse Leveraged Loan Index, High Yield = Bloomberg Barclays U.S. High Yield Index, Investment Grade = Bloomberg Barclays U.S. Corporate Bond Index, U.S. Agg = Bloomberg Barclays U.S. Aggregate Bond Index. Stocks = S&P 500 Index.

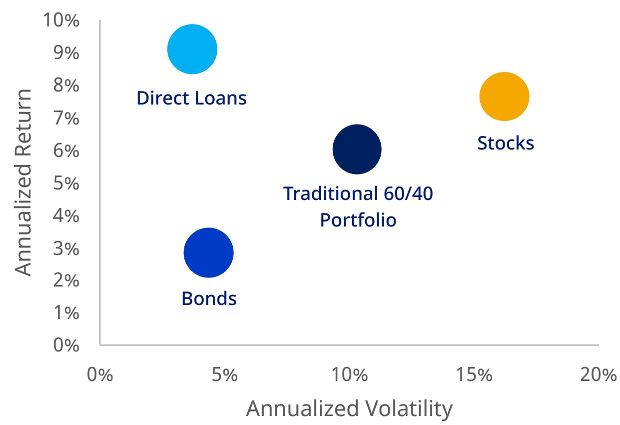
Allocation Benefits of Direct Lending

Consistent Risk-Adjusted Returns

Historically, private credit has generated higher returns with lower volatility relative to public fixed income and equities.

The economic and structural features of private credit translates into a return profile that can potentially enhance portfolio performance while dampening portfolio volatility.

Annualized Risk / Return (Jan 08 - Dec 23)[5]

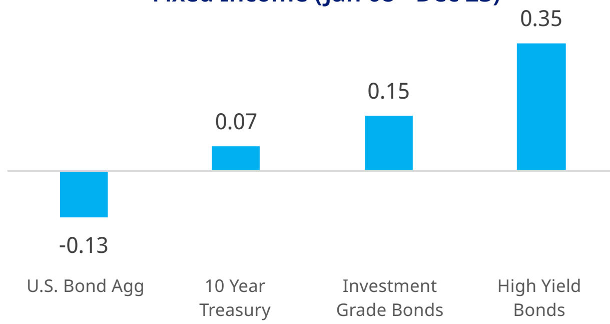


Low Correlation To Traditional Fixed Income

The unique attributes of direct lending deals and the floating rate nature create a return profile decorrelated from public debt markets.

Private credit tends to be less sensitive to the macro environment and therefore can provide valuable diversification benefits to a portfolio.

Direct Lending Correlation with Traditional Fixed Income (Jan 08 - Dec 23)[5]



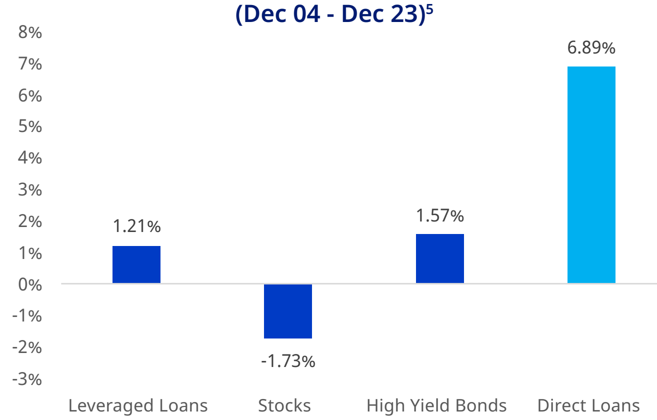
All-Weather Performance

Private credit has generally shown to provide portfolios with strong downside protection.

This downside protection is a result of many of the structural features of private credit loans, such as strong covenants, seniority in the capital structure and large equity cushions which provide a strong defense against potential losses.

Achieving out-performance with a direct lending allocation does not require market timing, as the worst five-year annualized performance is historically much better compared to public market investments.

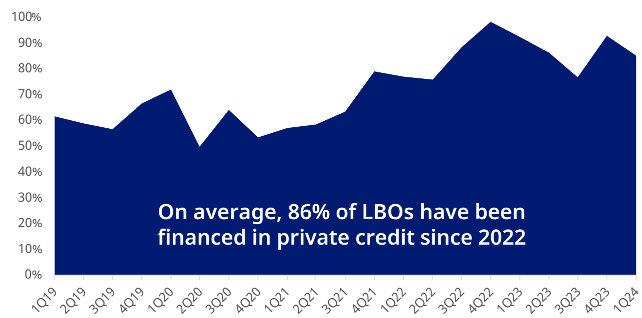
Worst Five-Year Annualized Performance (Dec 04 - Dec 23)[5]



Why The Asset Class Is Poised To Continue Growing

With global private credit AUM forecasted to reach $2.8T by 2028 from $1.7T in 2023, the secular tailwinds that have powered the growth of private credit over the last few years appear poised to continue.

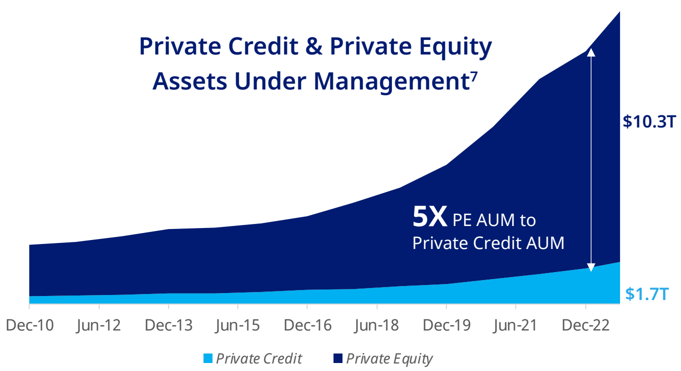
Percent of LBOs Financed With Private Credit[6]



Private credit likely to remain the preferred financing source for LBO transactions

Borrowers want tailored and reliable financing solutions not subject to market volatility.

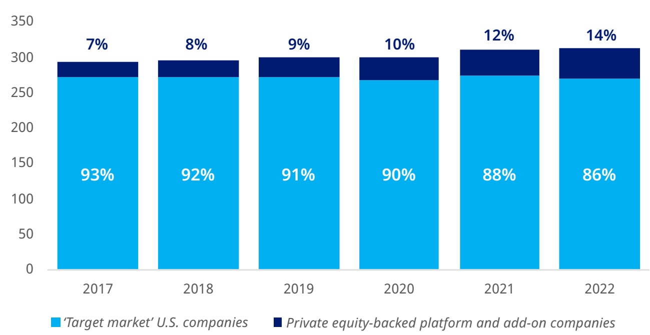
Private Credit & Private Equity Assets Under Management[7]



Private credit assets are modest relative to private equity.

Private equity is typically supported by private credit financing. With North America private equity buyout firms sitting on over $700B of dry powder, there remains a long runway of future demand for financing.

PE-backed 'middle market' platform and add-on company count as a portion of all U.S. 'middle market' and potential add-on companies. %[8]



Private equity penetration in the U.S. middle market remains low.

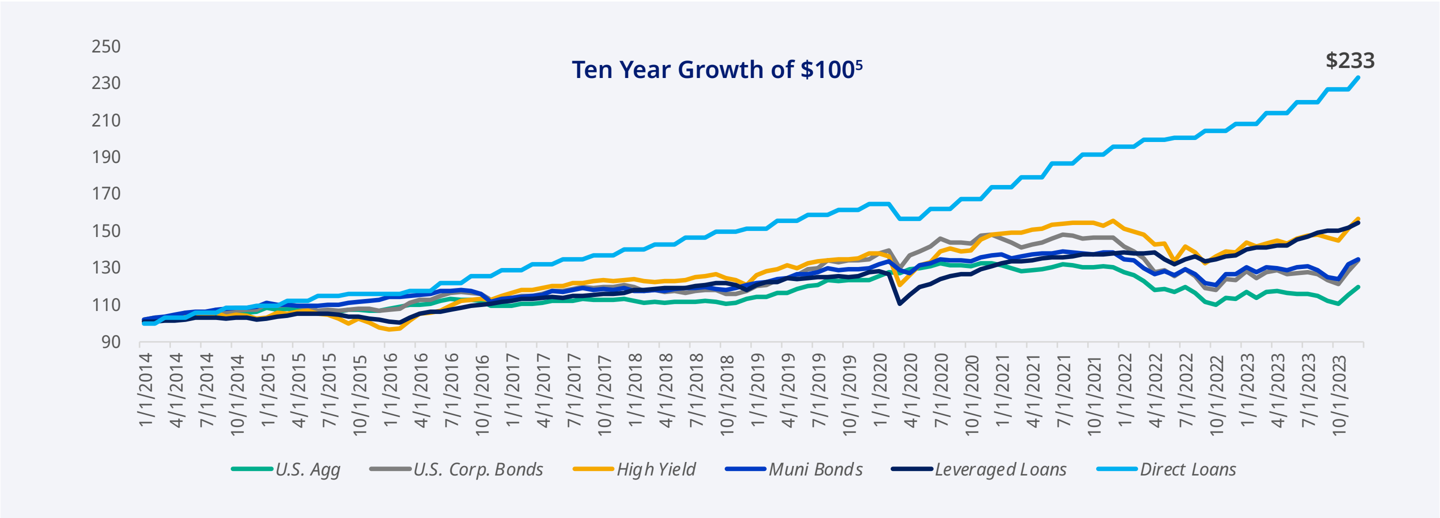
We estimate that private equity ownership equates to around 14% of all middle market companies, providing ample opportunity for growth in the core middle market.

HISTORICAL ASSET CLASS PERFORMANCE

Direct loans have consistently outperformed public fixed income markets[5]

2017	2018	2019	2020	2021	2022	2023
8.62% Direct Loans	**8.07%** Direct Loans	**14.54%** U.S. Corp Bonds	**9.89%** U.S. Corp Bonds	**12.79%** Direct Loans	**6.28%** Direct Loans	**13.45%** High Yield
7.50% High Yield	**1.28%** Muni Bonds	**14.32%** High Yield	**7.51%** U.S. Agg	**5.40%** Leveraged Loans	**-1.06%** Leveraged Loans	**13.04%** Leveraged Loans
6.42% U.S. Corp Bonds	**1.14%** Leveraged Loans	**9.00%** Direct Loans	**7.11%** High Yield	**5.28%** High Yield	**-8.53%** Muni Bonds	**12.14%** Direct Loans
5.45% Muni Bonds	**0.01%** U.S. Agg	**8.72%** U.S. Agg	**5.46%** Direct Loans	**1.52%** Muni Bonds	**-11.19%** High Yield	**8.52%** U.S. Corp Bonds
4.25% Leveraged Loans	**-2.08%** High Yield	**8.17%** Leveraged Loans	**5.21%** Muni Bonds	**-1.04%** U.S. Corp Bonds	**-13.01%** U.S. Agg	**6.40%** Muni Bonds
3.54% U.S. Agg	**-2.51%** U.S. Corp Bonds	**7.54%** Muni Bonds	**2.78%** Leveraged Loans	**-1.54%** U.S. Agg	**-15.76%** U.S. Corp Bonds	**5.53%** U.S. Agg

Total 2017-2023
8.88% Direct Loans
4.73% Leveraged Loans
4.57% High Yield
2.56% Muni Bonds
2.41% U.S. Corp Bonds
1.29% U.S. Agg



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Disclosures

Note: Unless otherwise stated herein, the statements included in this whitepaper reflect Antares' beliefs. Past performance is not a reliable indicator of future performance and future results may differ materially.

[1] Preqin as of December 31, 2023.

[2] St. Louis Fed (FRED).

[3] National Center For Middle Market. Based on business performance update and economic outlook survey conducted among 1,000 c-suite executives of companies with annual revenues between $10MM and $1B. As of June 2023.

[4] Pitchbook LCD

[5] Cliffwater LLC and Bloomberg as of December 31, 2023.

[6] LSEG LPC as of March 31, 2024.

[7] Preqin as of December 31, 2023.

[8] Antares Capital,Pitchbook LCD, Preqin and U.S. Census. Middle market is defined as companies with EV <$5B and companies with revenues $5M – 2.5B.

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