Demystifying Private Credit

An evidence-based approach

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Private and Confidential

Second Quarter 2024

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Game Plan and Upfront Caveats

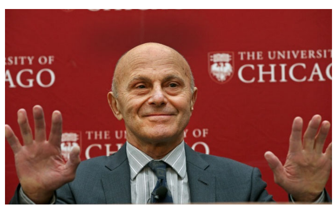
chief investment officer

Take the perspective of a CIO or head of asset allocation, not a private market's manager selection or security selection expert.

SKEPTICISM IS A WEAPON.

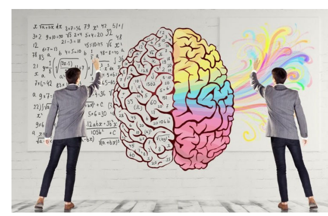
Private market data, by definition, is of poor quality. Be skeptical of any empirical results.

All models are false by definition, including the ones I will use today.



***Eugene Fama**: Father of Efficient Markets, 2013 Nobel Prize in Economics*

Remember finance is a social science. Strategic asset allocation is a combination of art and science.



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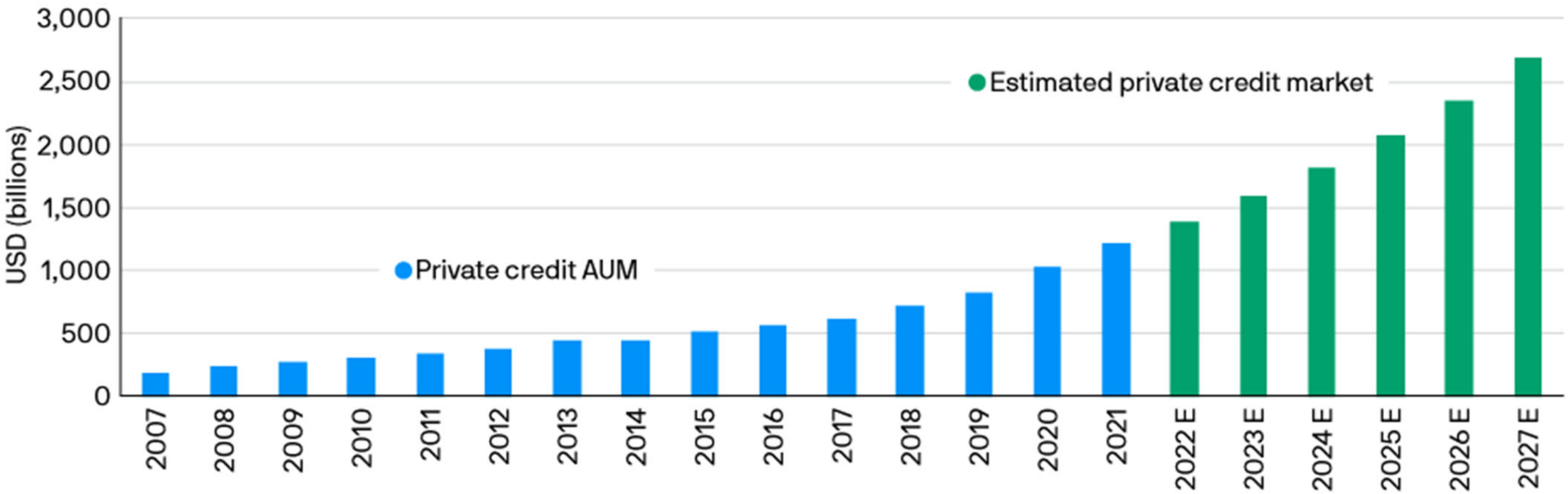
Private Credit Markets Have Grown Dramatically in Recent Years

… and are forecasted to surpass $2.5 trillion by 2027

Growth in Private Credit Assets Under Management

January 1, 2007 – December 31, 2021, forecasted January 1, 2022 – December 31, 2027



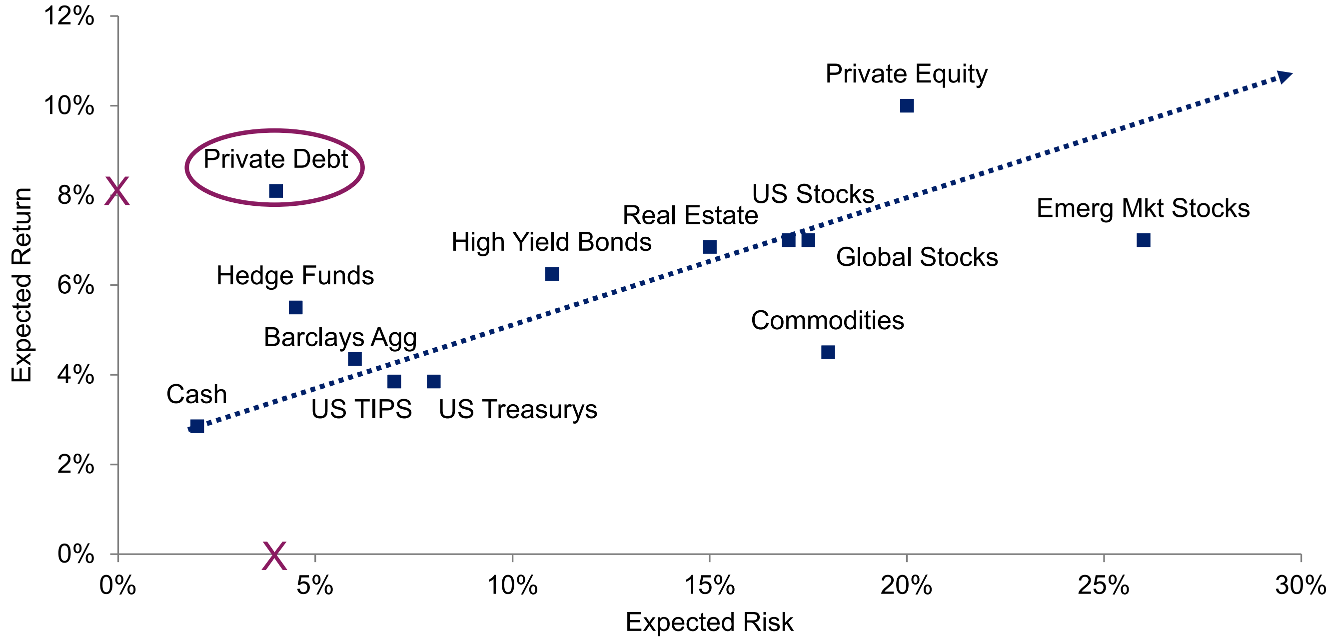
Source: AQR, "The paradox of private credit" (Gross, 2023. J.P.M.). Forecasted results are for illustrative purposes only, are not a guarantee of performance and are subject to change.

Why Is Private Credit So Popular?

Perceived high expected returns with low risk

Hypothetical Long-Term Expected Return vs. Risk of Major Asset Classes

Ten Year Forecast, as of December 2023



Let's re-underwrite the risk and return assumptions for private credit

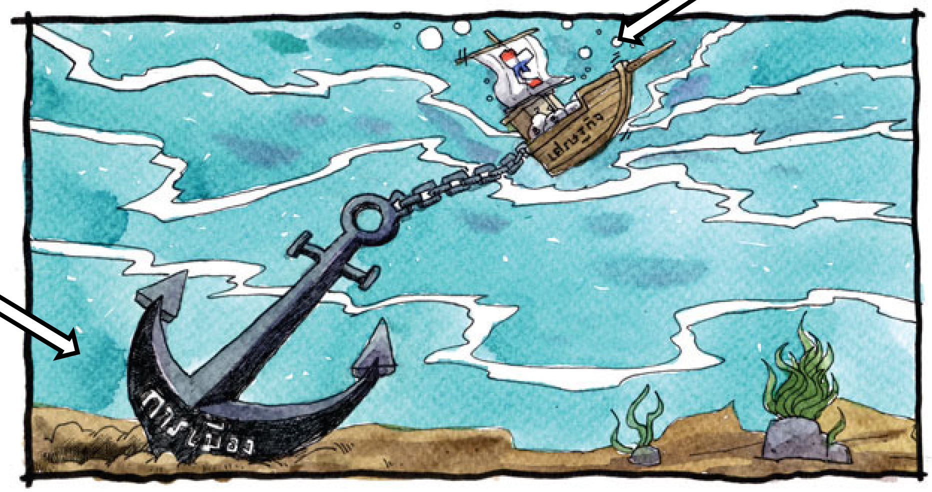
Source: AQR, Bloomberg, HFRI. In general, estimates of expected returns are approximated based on historical yields, cash flow growth, and changes in valuation. Volatilities are based on historical realized volatility. Please see the disclosures in the appendix for a detailed description regarding indices. Asset class returns and volatilities are hypothetical estimates and for illustrative purposes only. They are not a guarantee of performance and are subject to change. Hypothetical data has inherent limitations, some of which are disclosed in the Appendix. Not representative of any portfolio that AQR currently manages.

Is Private Credit That Different from Public Credit?

Economic theory and intuition suggest the risk-adjusted return (Sharpe ratio) of private credit should be related to public credit

Risk-adjusted return of private credit

Risk-adjusted return of public credit



But…

Source: AQR, http://2bangkok.com/boat-and-anchor.html. The use of the logos and pictures is for informational purposes only and is not authorized by, sponsored by or associated with the trademark owners.

There Are Many Reasons Private Credit May Differ from Public

Let’s consider some of the differences between private credit (PC) and public credit and how those differences may lead to different risk-adjusted returns for the two asset classes

Why would PC’s risk-adjusted return be higher?

Low price volatility suggests low risk

Lower defaults

Illiquidity premium

Borrower willing to pay up for additional flexibility & certainty of execution

More efficient workouts when problems arise

Why would PC’s risk-adjusted return be lower?

Higher fees

Overpaying for embedded leverage

Overpaying for price smoothing

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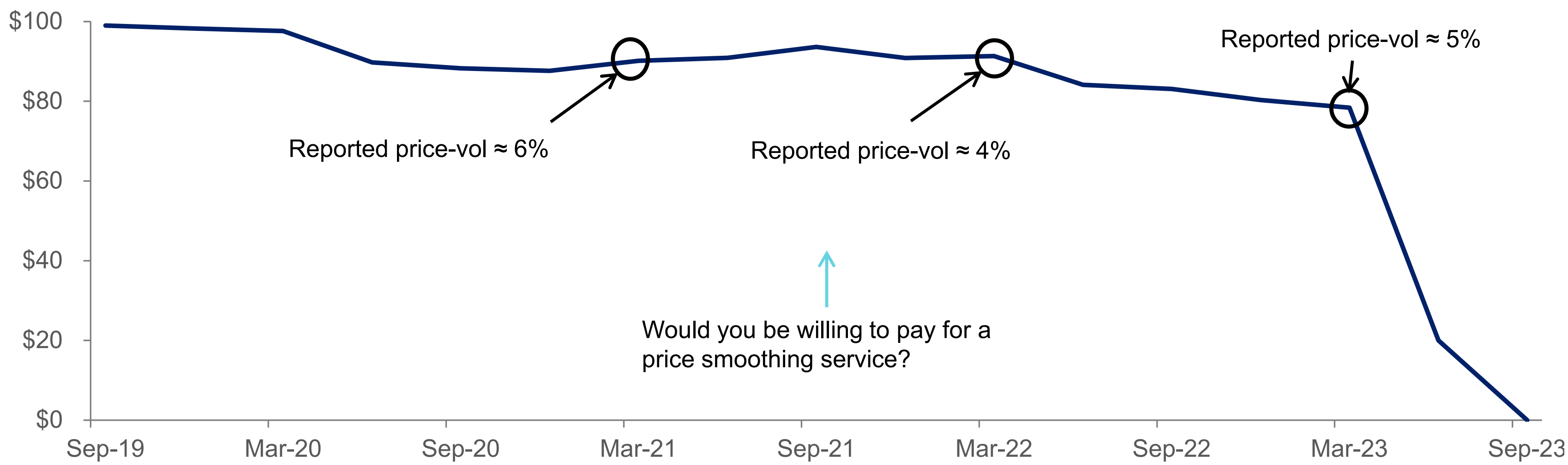
Private Credit Risk

Volatility Estimates Using Reported Prices Do Not Reflect Risk

Loans can default following relatively low price-volatility

Fair Value/Par Value of a Hypothetical First Lien Senior Secured Loan

June 1, 2019 – September 30, 2023



Hypothetical Commentary:

- Ginny Greg Weight Loss (underlying hypothetical company of loan above) began to experience economic distress during Covid given its large retail (not online) footprint, which was largely reliant on margin-thin meal delivery.
- It continued experiencing economic distress over the subsequent years as weight loss programs and weight loss drugs took market share.
- The company filed for Chapter 7 bankruptcy in mid-2023.

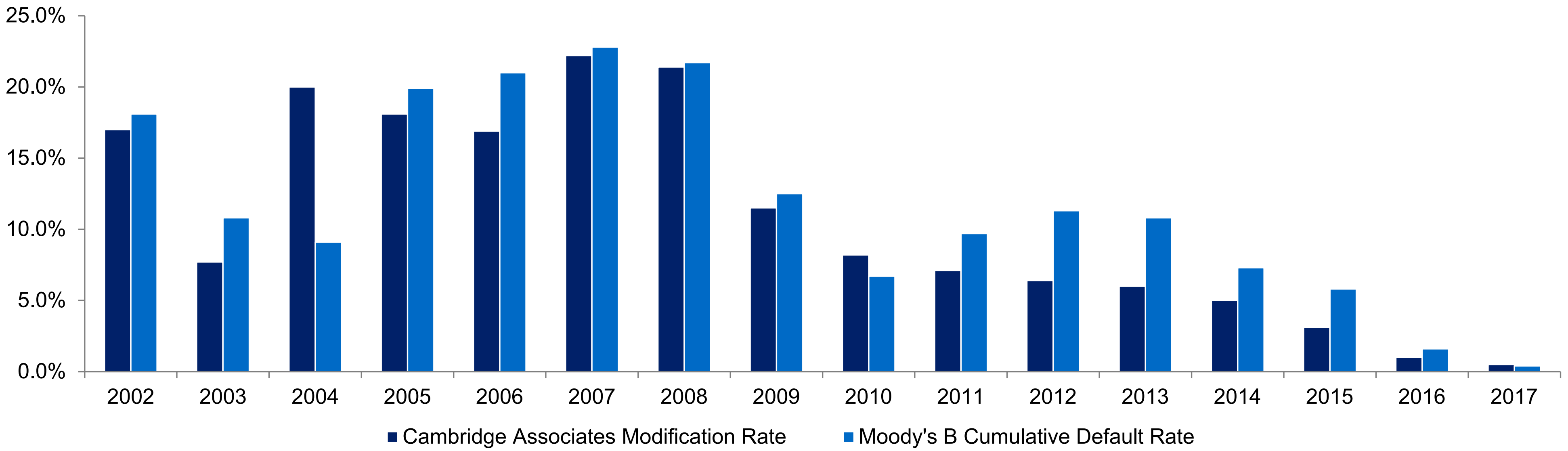
Source: AQR. The chart represents the face value divided by par value per $100 of a hypothetical loan issued by a hypothetical BDC to Ginny Greg Inc., a hypothetical publicly traded company. Fair value and par value are the values observed and priced quarterly as would be found in 10-Q SEC filings. Market volatility is the rolling volatility of past six quarters' quarterly returns, annualized. The securities presented above are intended to demonstrate the application of model market and risk accounting to evaluate securities and do not constitute a recommendation to buy or sell any security and are not intended to represent all securities bought or sold by AQR during any time period. For illustrative purposes only. Hypothetical data has inherent limitations, some of which are disclosed in the Appendix.

Private Credit Advertises Default Rates That Are Misleading

Accounting for "extend & amend" suggests single-B credit

Private Debt Modification Rate vs. Moody's Public Single-B Default Rate

January 1, 2002 – December 31, 2017



Approximately 30% of B credits default in a typical recession.*

* Moody's Investors service reports that about 30% of B-rated issuers default in a typical recession.
Source: "High-Yield Was Oxy. Private Credit Is Fentanyl." (Institutional Investor, 2020)

Private Credit Return

Does Private Credit Earn an Illiquidity Premium?

No. Alphas are zero versus public high yield or levered loans

Regression of All Burgiss Private Credit Funds on High-Yield and Leveraged Loan Indices
July 1, 2005 – June 30, 2020

	PC vs. High Yield Index	PC vs. Leveraged Loan Index
Index Beta (no lag)	0.71***	0.80***
Index Beta (lagged 1 quarter)	0.20***	0.27***
Index Beta (lagged 2 quarters)	0.08	0.16***
Adjusted Index Beta (sum of lags)	**0.99**	**1.21**
Annualized Alpha	**0.0%** (t-stat 0.0)	**1.2%** (t-stat 1.0)
Observations	58	58
Adjusted R-squared	81%	85%

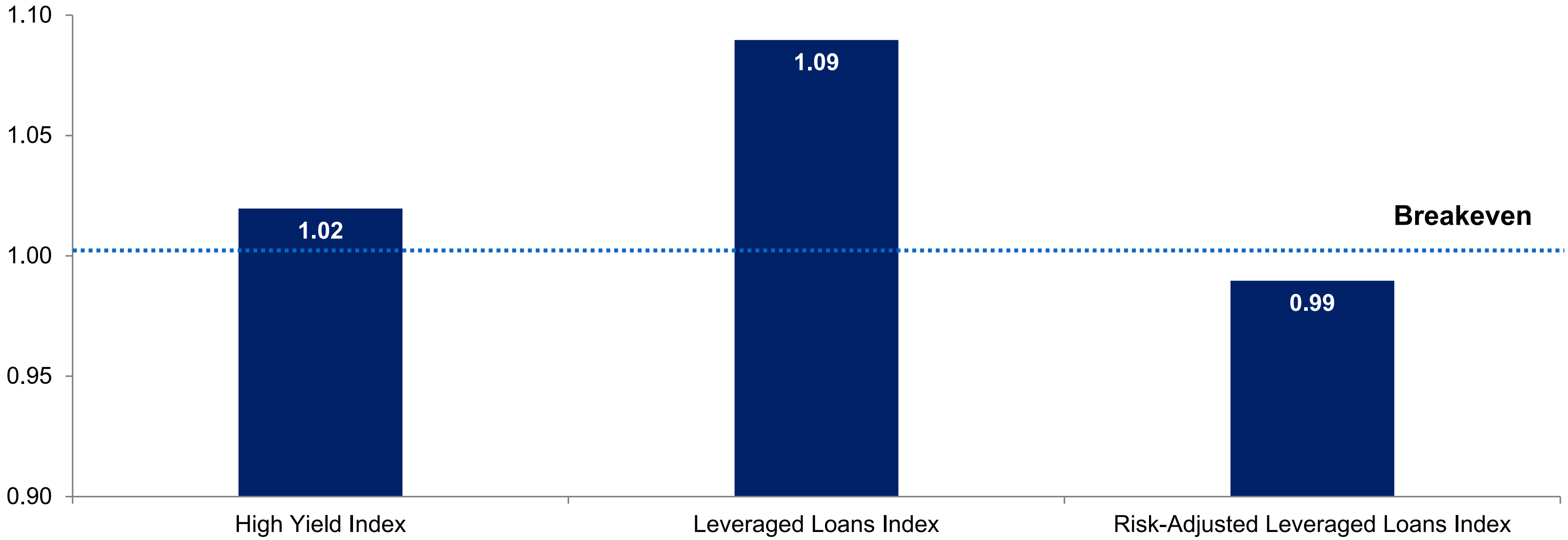
*** denotes statistical significance at the 99.9% level.
Source: "Private Credit Update" (slides 12, 14; Hu et al., 2020), which was presented at the 2020 Private Equity Research Consortium and is an addendum to their original "Performance of Private Credit Funds: A First Look", (Hu et al., JAI 2018). An index of "all funds" is created by size-weighted commitments to all funds across seven Burgiss private debt indices. The High Yield Index represents total returns for publicly traded non-investment grade corporate bonds of large global corporations. The Leveraged Loan Index represents total returns for syndicated and traded (over-the-counter) non-investment grade loans to large U.S. corporations.

What If We Look at PMEs Instead of Regression Alphas?

No-to-low illiquidity premium on a risk-adjusted basis

Public Market Equivalents for Private Credit

July 1, 2005 – June 30, 2020



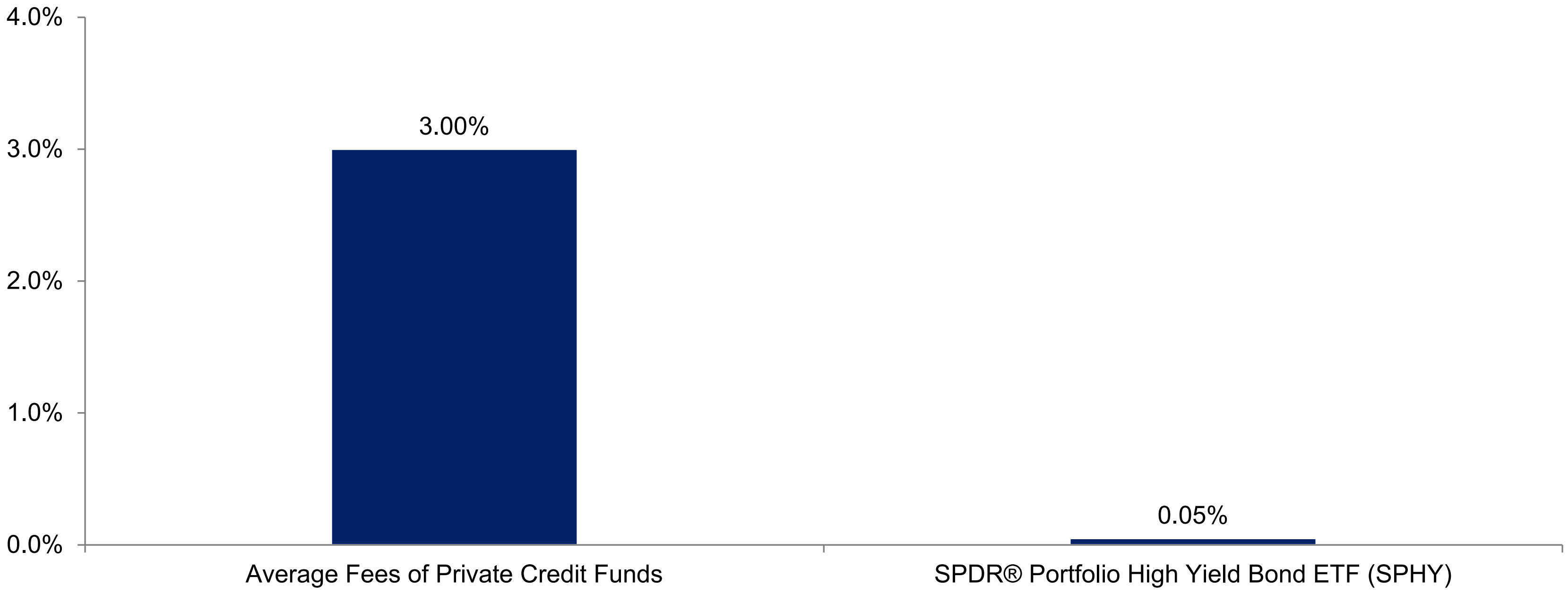
Source: “Private Credit Update” (slides 16; Hu et al., 2020), which was presented at the 2020 Private Equity Research Consortium and is an addendum to the original paper “Performance of Private Credit Funds: A First Look”, (Hu et al., JAI 2018). A private credit index of “all funds” is created by size-weighted commitments to all funds across seven Burgiss private debt indices. The High Yield Index represents total returns for publicly traded non-investment grade corporate bonds of large global corporations. The Leveraged Loan Index represents total returns for syndicated and traded (over-the-counter) non-investment grade loans to large U.S. corporations. The above PMEs are calculated as in Kaplan and Schoar (2005) on the three indices as benchmarks for the Burgiss All Funds Index. Public Market Equivalent (PME) is a method of evaluating private debt performance by discounting the PC cash flows at the public benchmark’s return. In the above, a PME greater than 1 means that private debt outperformed the reference benchmark using this methodology.

Gross of Fee Illiquidity Premium Could Be Materially Positive

Private credit fees are 3% on average

Private Credit vs. Public Credit Fees

Representative average as of Q4 2022 and ETF expense ratio as of December 31, 2023, respectively



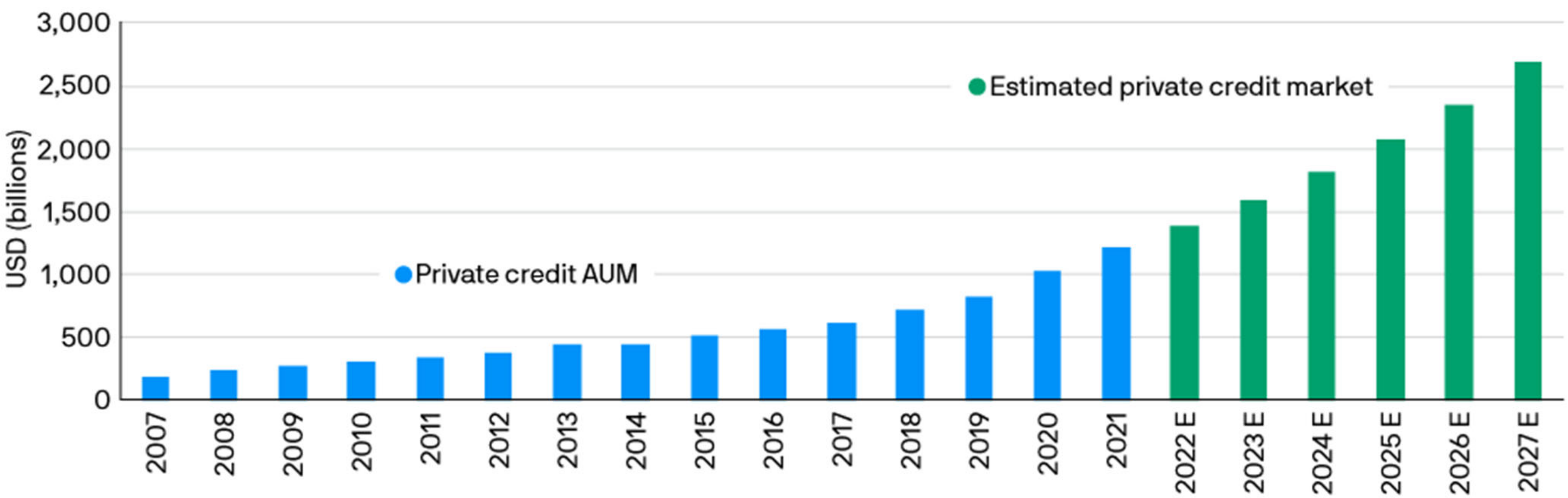
Source: Bloomberg, “A Survey of Private Debt Funds” (Block, Soo Jang, Kaplan, Schulze, 2023). Private credit fees are an annualized average of all fees across 58 of the largest direct lending firms. Study data is collected during the fourth quarter of 2022. The SPDR® Portfolio High Yield Bond ETF (SPHY) seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of the ICE BofA US High Yield Index (Bloomberg). The expense ratio is the gross annual total operating expense ratio and can be found in the fund’s most recent prospectus. The securities presented above are intended to demonstrate the application of comparing expected fees to evaluate securities and do not constitute a recommendation to buy or sell any security and are not intended to represent all securities bought or sold by AQR during any time period. For illustrative purposes only.

Remember This Slide? PC Is Expected To Surpass $2.5 Trillion

Permanent supply increase → lower expected returns

Growth in Private Credit Assets Under Management

January 1, 2007 – December 31, 2021, forecasted January 1, 2022 – December 31, 2027



Source: AQR, "The paradox of private credit" (Gross, 2023. J.P.M.). Forecasted results are for illustrative purposes only, are not a guarantee of performance and are subject to change.

Many of the Private Credit Borrowers Are PE-Sponsored

Sophisticated PE-backed borrowers are unlikely to overpay for debt financing

Private Credit Lender

vs

Private Credit Borrower

Joseph Bae
KKR, CEO

Harvey Schwartz
Carlyle, CEO

Stephen Schwarzman
Blackstone, CEO

Source: AQR. The use of the logos and pictures is for informational purposes only and is not authorized by, sponsored by or associated with the trademark owners. KKR, Carlyle and Blackstone selected for illustrative purposes only.

What Can We Learn from Publicly-Listed Private Credit?

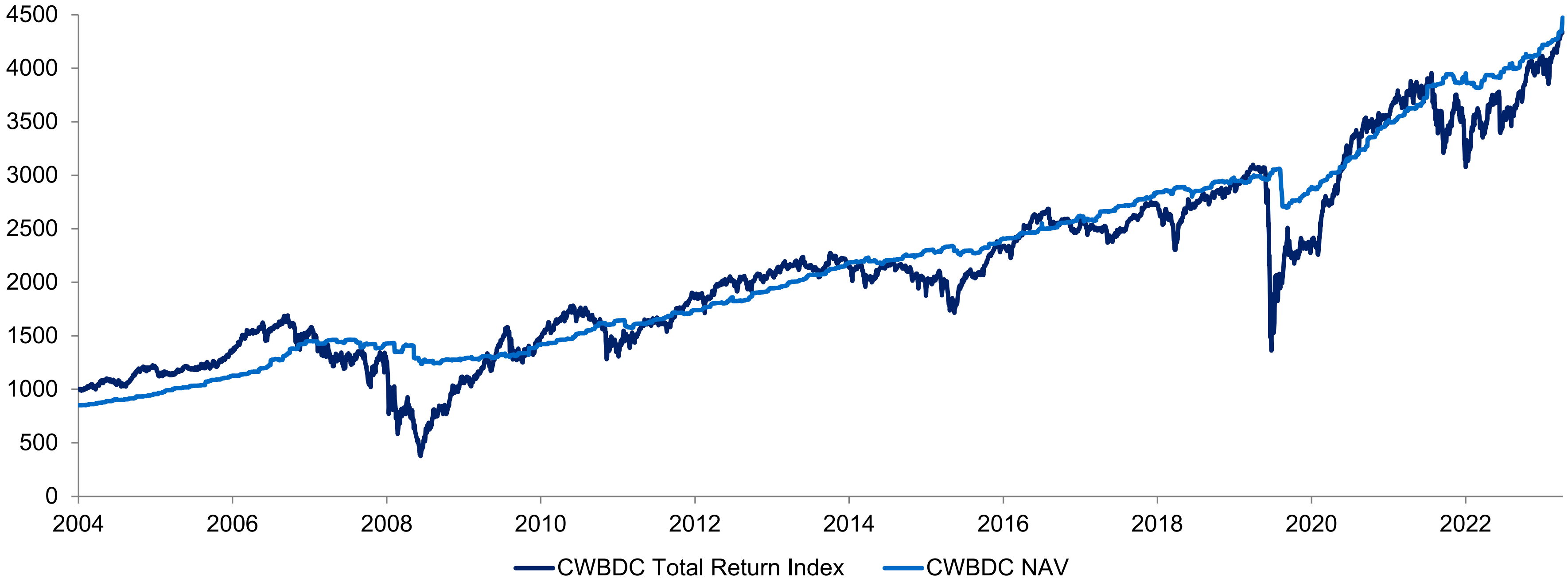
I.e., Business Development Companies (BDCs)

The CWBDC Index Tracks Lending-Oriented BDCs

The market price is more volatile than the underlying loan marks

CWBDC Total Return Index & Net Asset Value (NAV)

September 30, 2004 – December 31, 2023



Source: AQR, Bloomberg. The CWBDC measures the performance of lending-oriented, exchange-traded Business Development Companies (BDCs), subject to certain eligibility criteria regarding portfolio composition, market capitalization, and dividend history. The CWBDC is a capitalization-weighted index that is calculated on a daily basis using publicly-available closing share prices and reported dividend payouts. The CWBDC Total Return Index includes two components: (1) Income Return and (2) Price Return. Charts are for illustrative purposes only. Not to be construed as a recommendation or investment advice. Not representative of a portfolio that AQR currently manages.

BDC Risk-Adjusted Return Slightly Lower than Public Credit

BDC correlation to stocks slightly higher than that of public credit

Summary Statistics: Private Credit and BDC Indices & ETFs

September 1, 2004 – December 31, 2023

	Average Total Return	Average Excess Return	Volatility (monthly, annualized)	Volatility (quarterly, annualized)	Sharpe Ratio	Correl. to US Stocks	Correl. to US Bonds	No. of Obs.	Start Date
CWBDC	10.3%	8.9%	22.6%	26.1%	0.39	0.78	-0.15	231	Oct-04
Barclays US HY	6.8%	5.3%	9.3%	10.7%	0.57	0.75	-0.06	232	Sep-04
Credit Suisse Leveraged Loans	4.9%	3.4%	6.7%	9.3%	0.50	0.59	-0.32	232	Sep-04
S&P 500	10.7%	9.3%	15.1%	16.3%	0.61	1.00	-0.09	232	Sep-04
Barclays US Tsy Unhedged	2.8%	1.3%	4.5%	5.2%	0.29	-0.09	1.00	232	Sep-04

Nonfundamental liquidity effects are unlikely to be a material driver of annualized volatility when using lower frequency data, such as monthly or quarterly returns.

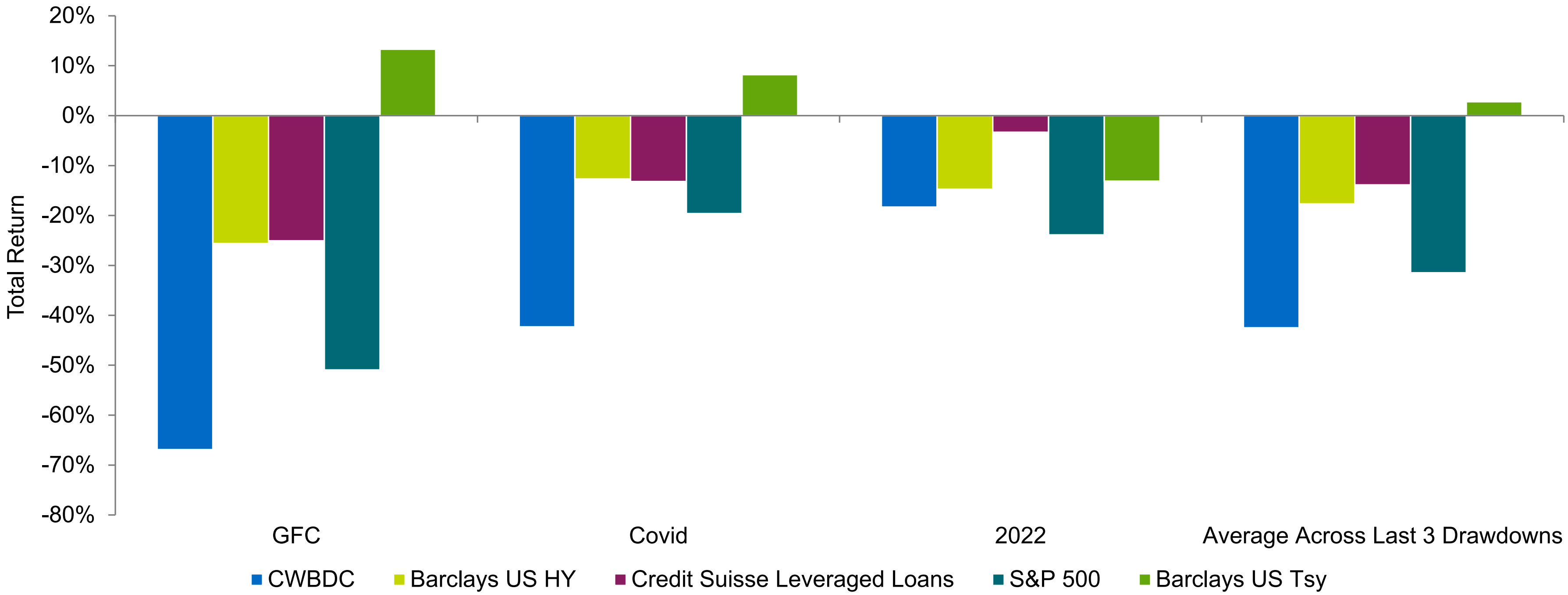
Source: AQR, Bloomberg. Cash rate used is ICE BofA US Treasury Bill 3 Month Index. US Stocks is the S&P 500 Total Return Index, and US Bonds is Barclays US Treasury Unhedged USD Index. Every statistic for each asset is calculated using monthly returns when available. Correlations and regression betas are run on the longest possible common period of each pair (or set) of assets as they are available (ie, since inception of the asset with the shortest return series).

BDC Tail Risk Is Material and Greater than Public Credit

Suggests levering up private senior secured loans comes with risks

CWBDC Index vs. Public Credit Indices, Performance During Major Equity Drawdowns

September 1, 2004 – December 31, 2023



Source: AQR, Bloomberg. We define the periods for the Global Financial Crisis (GFC) as November 1, 2007 – February 28, 2009, Covid as January 1, 2020 – March 31, 2020, and the 2022 drawdown as January 1, 2022 – September 30, 2022.
For illustrative purposes only.

So, What Are Reasonable SAA CMAs for Private Credit?

Putting It All Together for a Strategic Asset Allocation

Assume private credit has a similar SR to risk-matched public credit

Private credit Sharpe ratio assumption ≈ risk-matched public credit Sharpe ratio. Adjust for possible fund leverage to get private credit risk and return assumption.

Risk-adjusted return of public credit

Risk-adjusted return of private credit

Low price-vol reflecting low risk

Illiquidity premium

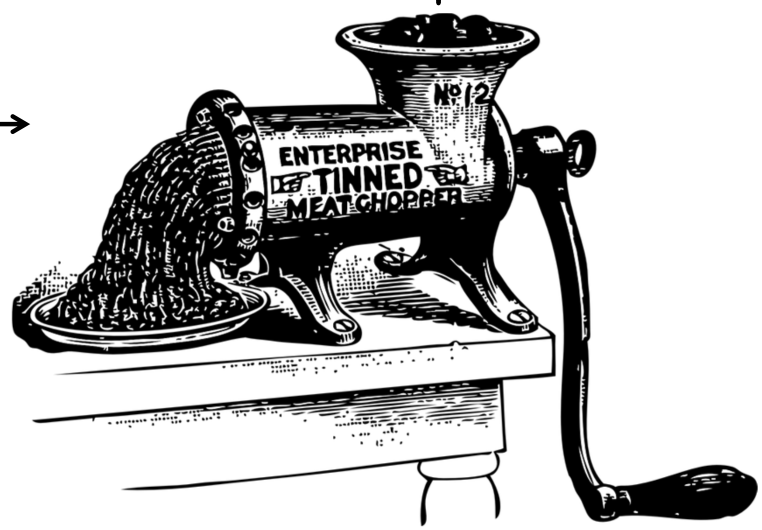
Higher fees

Overpaying for price smoothing

Lower defaults

More efficient restructuring

Overpaying for embedded leverage



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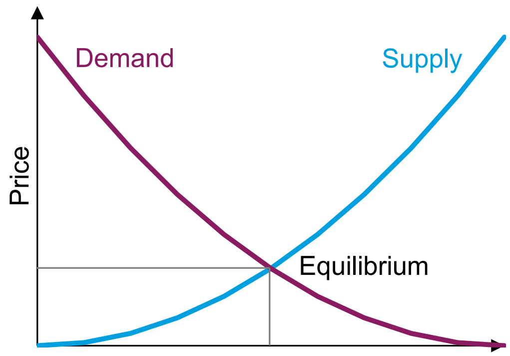
Why Use A Public Proxy To Value Privates?

Publics better represent what privates can be sold for

How should I value my private portfolio?

The price I get in an orderly sale, i.e., the market



The price I think it's worth, i.e., my opinion

"What's really exciting is if you extend this out five years, we own around 400% of the market!"

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Let's Look at a Real-Life Example

Model private credit as "floating rate" HY corporate bonds

Game Plan:

1. Calculate expected excess return, volatility, and Sharpe ratio of "floating rate" HY corporate bonds
2. Assume, for this example, private credit has similar credit risk as HY corporate bonds
3. Adjust for potential leverage used in private credit fund. Assume no leverage in the example below.

	US HY Credit (Public)	Leverage Multiplier		Private Credit
Excess Return	1.8%	x1.0	=	1.8%
Volatility	8.4%	x1.0	=	8.4%
Sharpe Ratio	0.22			0.22
Total Return (AM)	6.0%			6.0%
Private Credit Return Premium (AM)				0.0%
Total Return (GM)	5.7%			5.7%
Private Credit Return Premium (GM)				0.0%

What about correlation? Model like public credit, can be proxied by "floating rate" US HY Credit Index.

Which asset allocation bucket? Private credit belongs in the credit/fixed income bucket, not alternatives.

*In our formal capital market assumptions, we model geometric returns. The return here has been converted to an arithmetic mean to be consistent with the definition of a Sharpe ratio.
Source: AQR, Consensus Economics and Bloomberg. The long-term capital market assumptions used herein are based on a constant Sharpe ratio approach, do not reflect current yields, and by design do not vary meaningfully within a given year. Return assumptions and methodology are subject to change and based on data as of December 31, 2023. US HY Credit is proxied by the Barclays US CDS Local Index. Volatility calculated as the average volatility of the since 1990 returns and since 2008 returns of the indices. Cash rate used to make returns excess and to calculate Sharpe ratio is the Merrill Lynch 3-month treasury bill index. For illustrative purposes only. Not representative of any AQR product or strategy. There is no guarantee, express or implied, that long-term return and/or volatility targets will be achieved. Realized returns and/or volatility may come in higher or lower than expected. Hypothetical data has inherent limitations, some of which are disclosed in the Appendix.

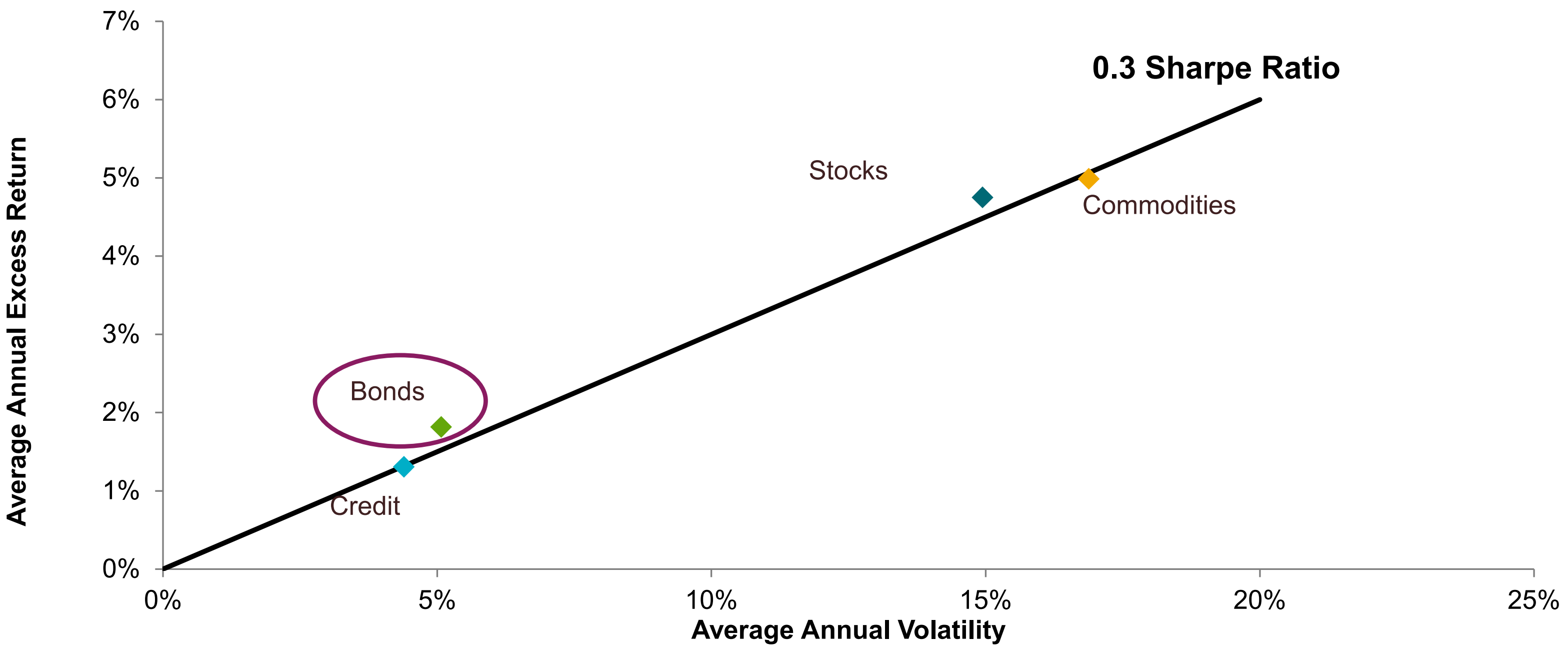
Other SAA Considerations

Interest Rate Risk Exposure Has Been Historically Compensated

Moving to floating rate private credit loses this attractive risk premium…

Historical Asset Class Risk and Return

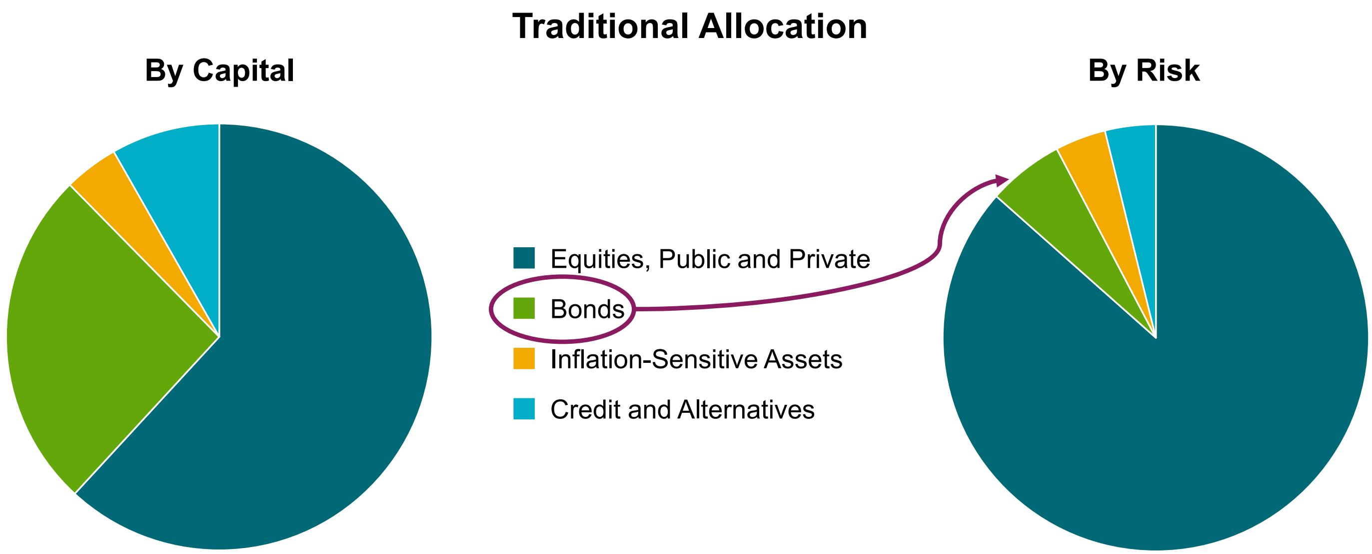
January 1971 – December 2022



Source: AQR, Barclays Live, Bloomberg, Ibbotson Associates (Morningstar). Excess returns are in excess of cash proxied by the ICE BofAML U.S. 3-Month T-Bill Index. Stocks are defined as the MSCI World Index. Bonds are defined as the Bloomberg Barclays U.S. Government Bond Index and, prior to 1973, the Ibbotson U.S. Intermediate Government Bond Index. Commodities are defined as the Bloomberg Commodity Index. Credit is defined as the Bloomberg Barclays U.S. Corporate Index minus key-rate duration matched treasury returns and, prior to 1988, the Ibbotson's Long-term Corp Bond Index minus duration matched long-term government bonds total returns. 0.3 Sharpe Ratio is derived from an average of the historical Sharpe Ratios of the 3 asset classes displayed on the chart. Please read important disclosures in the Appendix.

…And Exacerbates an Existing Risk Allocation Problem

Most investors already have too little interest rate risk exposure



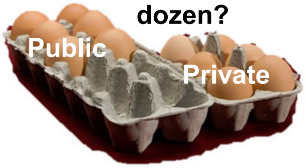
Source: AQR. “By Capital” and “By Risk” allocation charts are for illustrative purposes only and are intended to illustrate an asset class allocation and corresponding risk allocation/exposure of the typical multi-asset class, or “traditional” portfolio. The illustrative allocation above does not represent the actual or target allocation of any AQR client account, fund or strategy, or that of any other adviser.

In Summation

Private credit has a role in many portfolios, but the typical investor is likely too backward looking and overoptimistic. Be humble when investing in private credit.

To a first order approximation, private and public credit are driven by similar economic forces. Due to competition, over the long-run (which is relevant for the SAA), private and public assets should have similar risk-adjusted returns.

Six vs. half dozen?



While the private credit framework discussed today is reasonable, remember there are others. What do they all have in common? They are all "false by definition."

Eugene Fama

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Appendix

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Gross performance results do not reflect the deduction of investment advisory fees and other expenses, which would reduce an investor's actual return. AQR's asset based fees may range up to 2.85% of assets under management, and are generally billed monthly or quarterly at the commencement of the calendar month or quarter during which AQR will perform the services to which the fees relate. Where applicable, performance fees are generally equal to 20% of net realized and unrealized profits each year, after restoration of any losses carried forward from prior years. In addition, AQR funds incur expenses (including start-up, legal, accounting, audit, administrative and regulatory expenses) and may have redemption or withdrawal charges up to 2% based on gross redemption or withdrawal proceeds. Please refer to AQR's ADV Part 2A for more information on fees. Consultants supplied with gross results are to use this data in accordance with SEC, CFTC, NFA or the applicable jurisdiction's guidelines.

Important Information for Analysis Tools

The information generated by the analysis regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. The analyses provided may include certain statements, estimates and targets prepared with respect to, among other things, historical and anticipated performance of certain assets. Such statements, estimates, and targets reflect various assumptions by AQR concerning anticipated results that are inherently subject to significant economic, competitive, and other uncertainties and contingencies and have been included solely for illustrative purposes.

The results shown represent a hypothetical illustration. Hypothetical or simulated performance results assume the portfolio holding(s) were purchased on the first day of the period indicated. The hypothetical or simulated performance results are compiled with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. Changes in the assumptions may have a material impact on the model presented. Other periods may have different results, including losses. There can be no assurance that the analysis will achieve profits or avoid incurring substantial losses. AQR did not manage or recommend this allocation to clients during periods shown, and no clients invested money in accounts managed by AQR in accordance with the recommended allocation. Results may vary with each use of the analysis and over time. Past performance is no guarantee of future results.

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Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index.

Global Equities (Developed UH) uses the MSCI World UH USD Index.
Global Bonds (Agg H) uses the Global Agg Hedged USD Index.
Global Private Equity uses 1.2x MSCI World Small Cap Index.
Public Real Estate (REITs) and Private Real Estate use the FTSE NAREIT All REITs TR Index.
Public and Private Infrastructure use the S&P Global Infrastructure Index.
Public and Private Credit use the Barclays U.S. High Yield Index.
Global Bonds Long use the Global Agg Hedged USD 2.5x.

The S&P 500 Index consists of 500 large U.S. companies listed on the NYSE and Nasdaq and is designed to measure U.S. large cap equity market performance.

The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure the large and mid cap equity market performance of 23 developed countries.

The CWBDC Index measures the performance of lending-oriented, exchange-traded Business Development Companies (BDCs), subject to certain eligibility criteria regarding portfolio composition, market capitalization, and dividend history.

The Bloomberg Commodity Index is a broadly diversified commodity price index designed to reflect commodity futures price movements.

The Bloomberg Barclays Global Aggregate Bond Index is a market-weighted index of global government, government-related agencies, corporate and securitized fixed-income investments.

The Barclays U.S. Corporate High Yield Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

The Barclays US Treasury Index is a market-capitalization weighted index that measures the performance of public obligations of the U.S. Treasury that have a remaining maturity of one year or more.

The Barclays Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities.

Disclosures

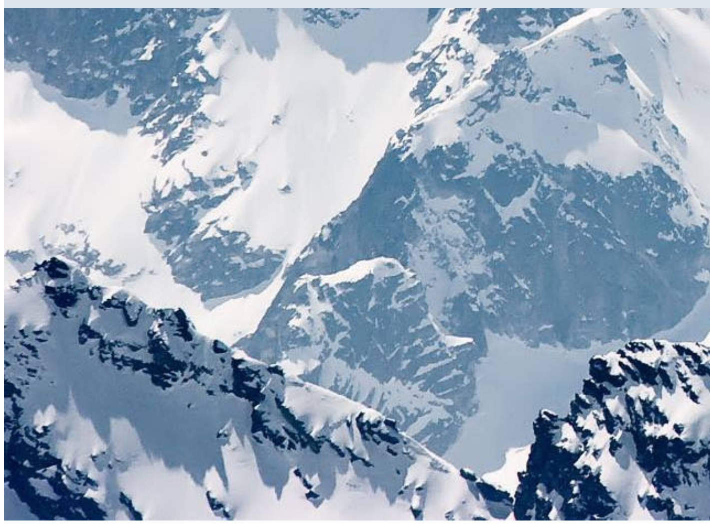
The Credit Suisse Leveraged Loan Index tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated “5B” or lower, meaning that the highest rated issues included in this index are Moody’s/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

The S&P Global Infrastructure Index is designed to track 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities.

The FTSE NAREIT All REITs Index is a market capitalization-weighted index that includes all tax-qualified U.S. REITs.

NEW MOUNTAIN CAPITAL LLC

Building Great Businesses



A Compelling Time For Private Credit

Laura Holson

COO, Credit

New Mountain Capital

June 18, 2024

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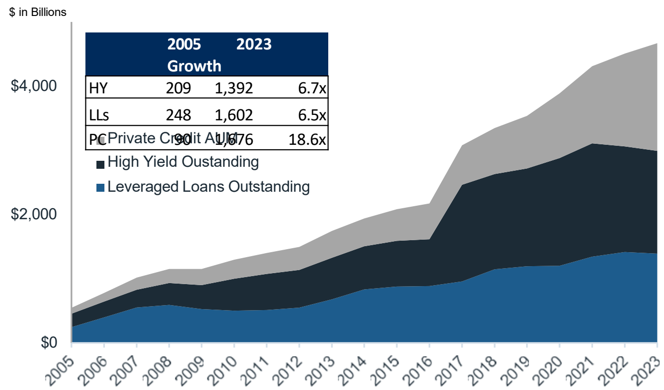
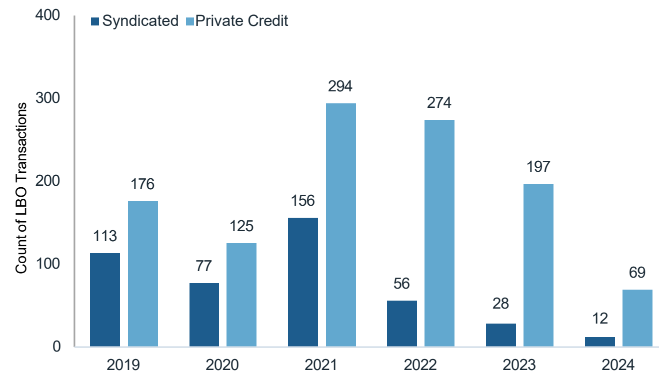
Growth in Private Credit AUM Continues to Accelerate



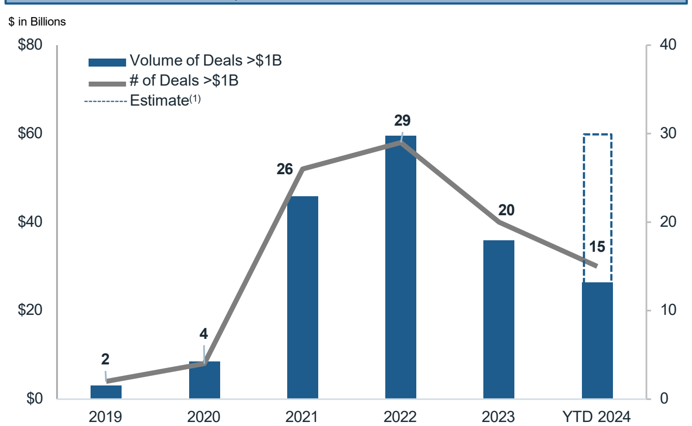
Source: Preqin, LCD / Pitchbook.

Solidifying the Asset Class as a Reliable Financing Source



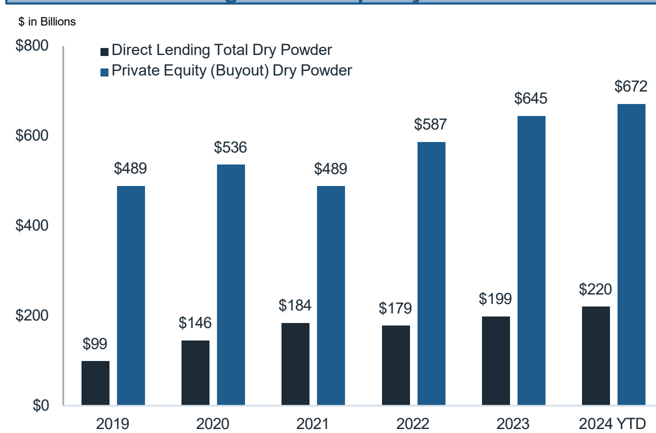
Source: Preqin, LCD / Pitchbook.

Increase in $1b+ Private Credit Transactions



Source: Citi Group Leverage Finance, LCD/Pitchbook, and Preqin.

With Significant Capacity for Growth



Source: Preqin.

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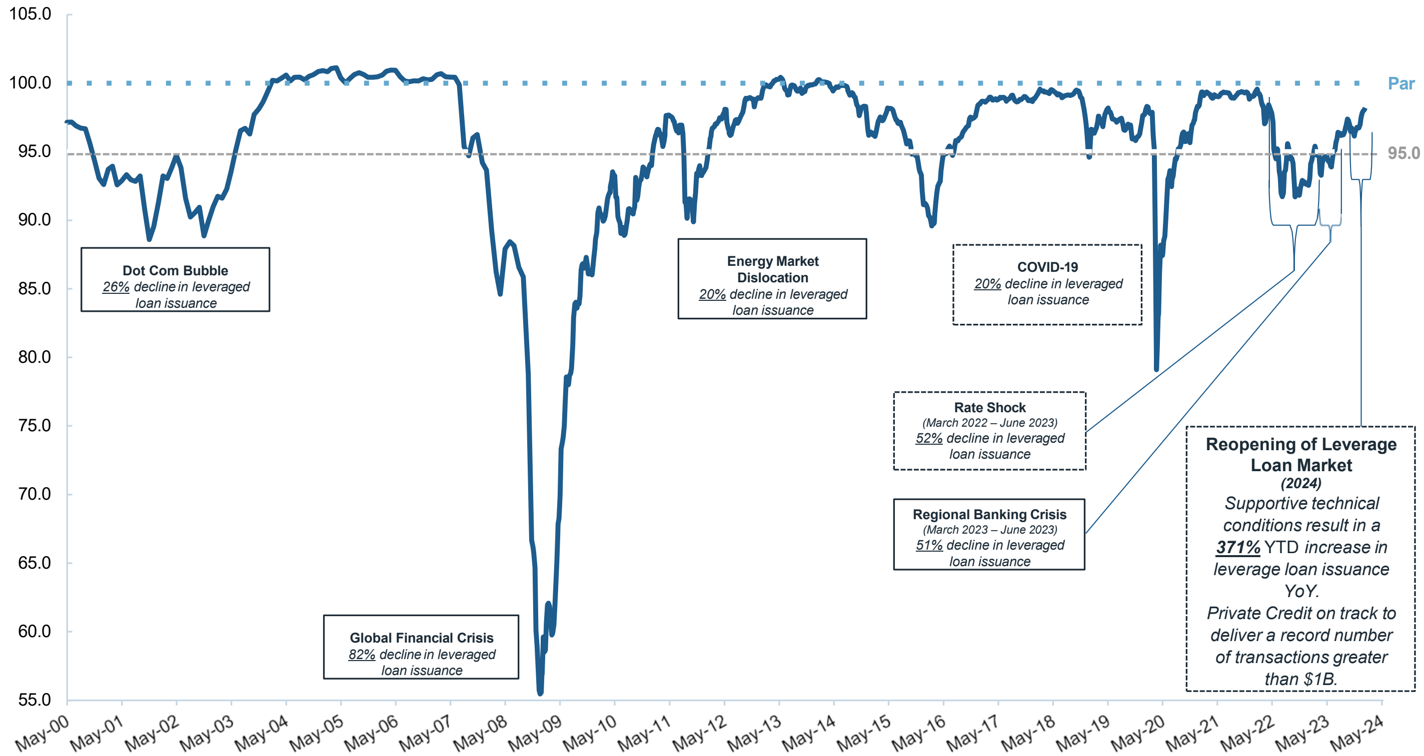
Since 2000, broadly syndicated credit markets have experienced six periods of significant dislocation, each of which has been instrumental in pushing borrowers to pursue private credit alternatives

Weekly Average Bid Price of B-Rated Loans



Source: Pitchbook / LCD. Note: LL Volumes represent Pro Rata and Institutional transactions. Please see endnotes at the end of the presentation.

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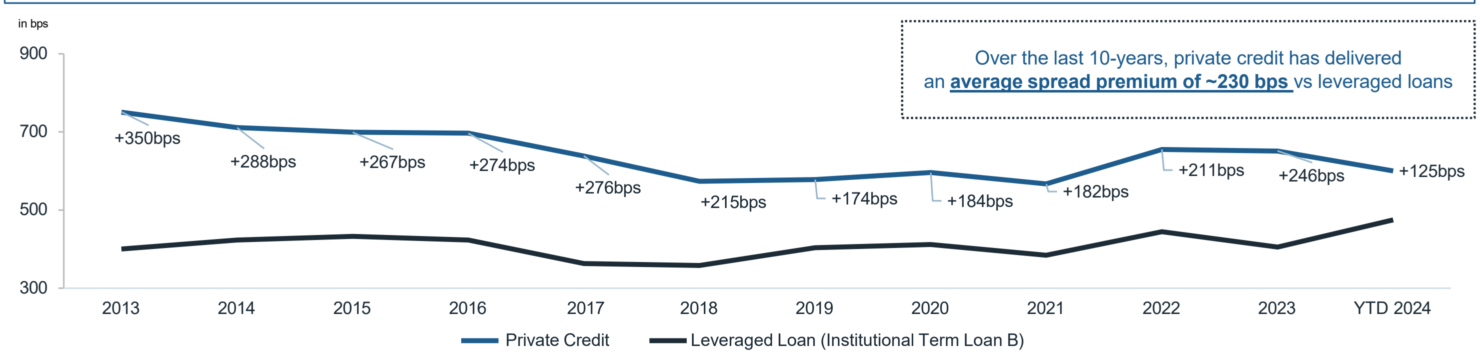
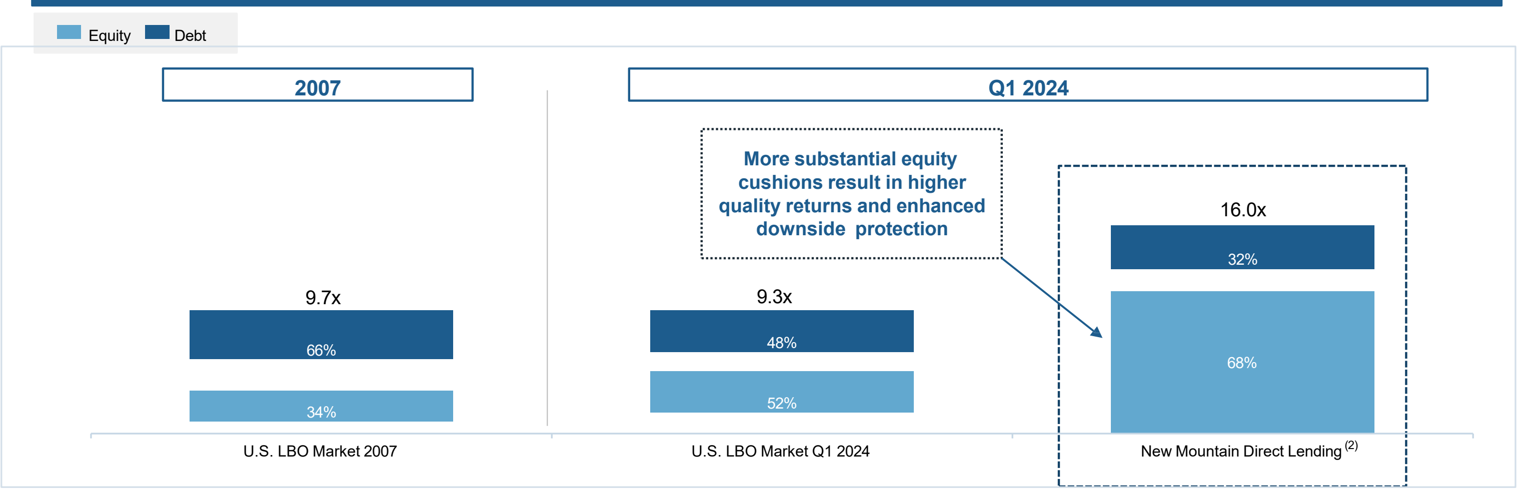
Private Credit Delivers a Consistent Spread Premium



LBO Capital Structure Evolution



Source: Federal Reserve, Standard and Poor's Capital IQ Leveraged Commentary and Data, AIC 2023-Q4 Private Equity Trends. Please see endnotes at the end of the presentation.

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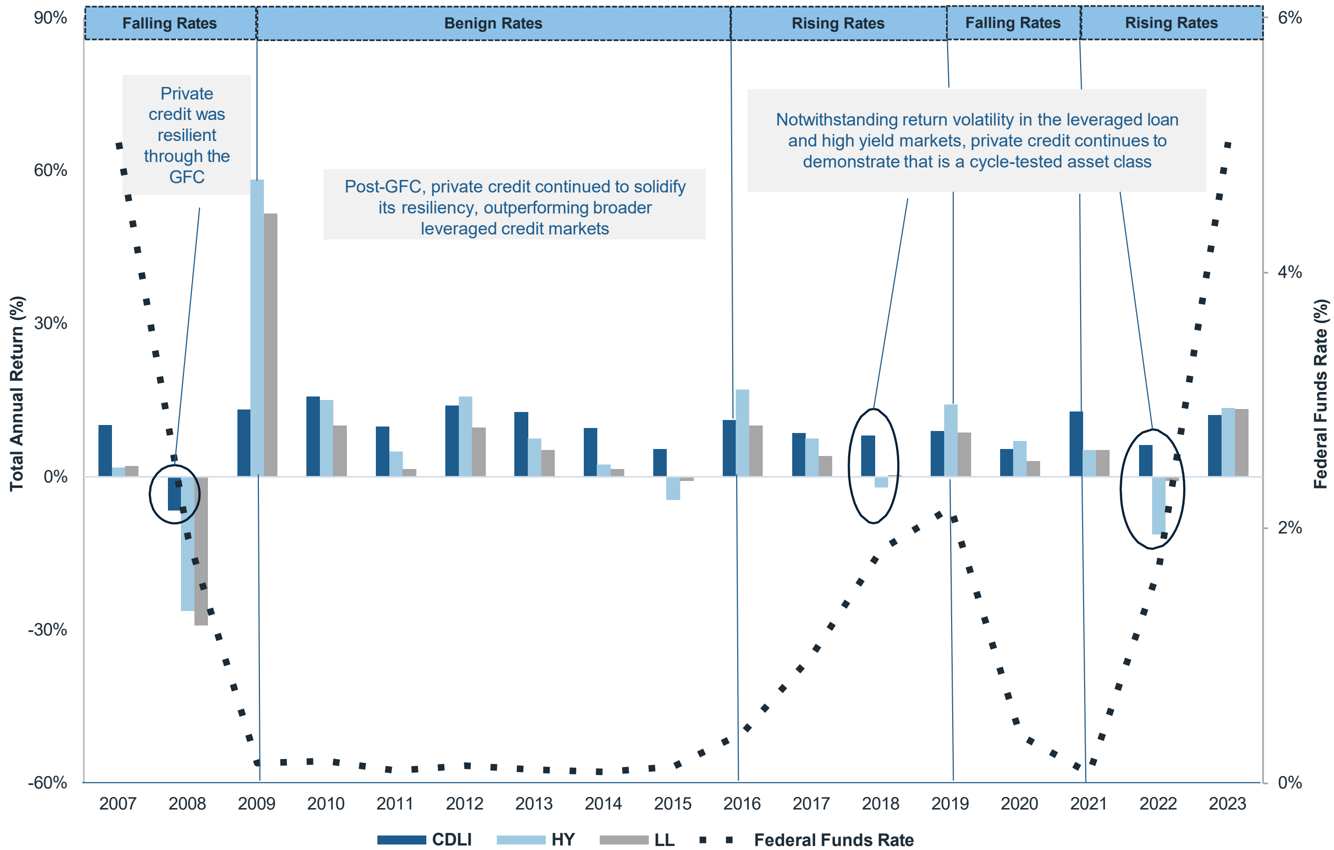
Private Credit Delivers Consistent Returns Across High and Low-Rate Environments



Source: Federal Reserve, LCD / Pitchbook, Cliffwater. Federal Funds Rate represents Federal Funds Effective Rate, as a percent, monthly, not seasonally adjusted. "LL" represents the Morningstar LSTA USD Leverage Loan Index. "HY" represents the Bloomberg USD HY Corp Bond Index. "CDLI" represents the Cliffwater Direct Lending Index. Total Annual returns for all indices represent total year returns.

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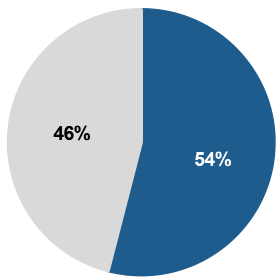
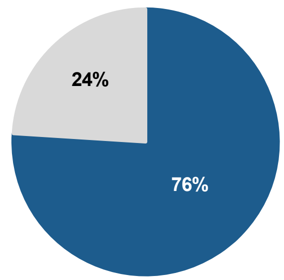
New Mountain Delivers an All-Weather Portfolio - Financing the Highest Quality Companies in the U.S Economy

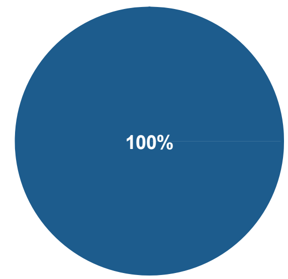
JP Morgan Leveraged Loan Index



Cliffwater Direct Lending Index

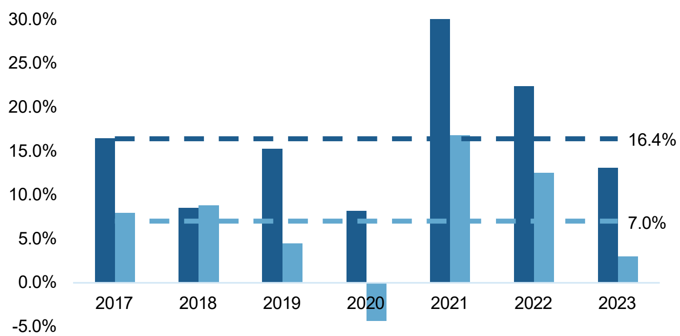


New Mountain Capital

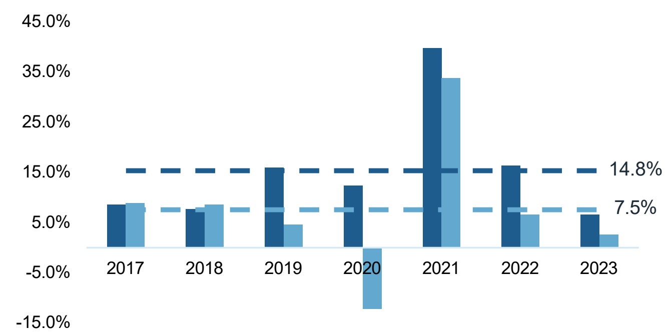


Sectors within NMC Defensive Growth Power Alleys | Sectors Actively Avoided by NMC

Sales Growth – Defensive Growth vs S&P 500[3][4]



EBITDA Growth – Defensive Growth vs S&P 500[3][4]



New Mountain Direct Lending | S&P 500 | New Mountain Direct Lending Avg. Growth | S&P 500 Avg. Growth

Please see endnotes at the end of the presentation.

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Certainty of Execution

Private credit has established itself as an alternative to syndicated financing markets, even for the largest transactions. Not subject to pricing flex or market volatility

Ability to Complete Add-On Financings to Fund Growth

Seamless ability to tap incumbent lenders to fund add-on acquisitions with better availability and terms for delayed draw term loans. Not reliant on syndicated market being "open".

Confidentiality

Private credit solutions limit the number of lenders that have access to a company's proprietary data. Limited trading and absence of market noise

No Ratings Process

Borrowers save time and expense of going through initial and ongoing ratings processes and avoid unpredictable outcomes

Ability to Digest Business or Industry Complexity

One of the most significant benefits of private credit for a borrower is the heightened ability to digest business or operational complexity relative to the public credit markets

Lower Demands on Management Time

Private credit investors work directly with private equity deal teams to complete diligence. Management remains focused on the business, not the financing

Past Performance is not indicative of future results and future returns are not guaranteed. Please see Disclosures at the end of this presentation.

1. Estimate represents New Mountain's forecast for expected deal flow for the remainder of FY 2024.
2. Represents all unrealized investments in New Mountain Direct Lending Strategy as of Q1 2024.
3. New Mountain Direct Lending growth rates are based on weighted average growth rates of the strategy. Weighted averages are based on fair value of debt investments for each respective year end, excluding revolvers, non-accrual positions, and recurring revenue loans. Historical data is only inclusive of companies that were in the portfolio as of December 31, 2023.
4. Prior year revenue and EBITDA are not pro forma for M&A activity.

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The New Mountain Funds’ assets generally will be denominated in the currency of the jurisdiction in which the assets are located. Consequently, the return realized by investors whose functional currency is not the currency of the jurisdiction in which the assets are located may be adversely affected by movements in currency exchange rates, in addition to the performance of the investment itself. Furthermore, the New Mountain Funds and investors may incur costs in connection with conversions between various currencies.

The information herein contains certain summary information regarding the investment performance of the New Mountain private equity funds. The New Mountain private equity funds pursue different investment programs from New Mountain Credit Funds. For example, the New Mountain private equity funds obtain controlling interests in their portfolio companies, and the target investment size of the New Mountain private equity funds is substantially higher than the expected target investment size of the New Mountain Credit Funds. As a result of the foregoing, no conclusion should be drawn with respect to any specific nexus between the New Mountain private equity funds and the New Mountain Credit Funds, including, without limitation, with respect to the performance information presented herein. Past results are not necessarily indicative of future results and no representation is made that results similar to those shown can be achieved. Investments in funds and accounts managed by New Mountain may lose value.

The target returns set forth herein have been established based on assumptions with respect to market conditions, credit risk and the expected structure of each of the strategy’s investments and take into consideration the investment experience of senior members of the Adviser’s investment team in making investments utilizing investment strategies similar to those contemplated by New Mountain Credit Funds. The assumptions used to establish the strategy’s target returns may, however, prove not to be accurate or may not materialize. Accordingly, the target returns set forth should not be used as a basis for an investor’s decision to invest in the strategy. The target performance of a particular investment may not correlate to the actual investment return to an investor. The actual returns for any particular investor may differ materially from the target performance figures due to a number of factors, including, without limitation, the actual management fees, performance compensation and other expenses payable in respect of such investor. Projected performance data are based on management estimates. Future returns are not guaranteed and may be higher or lower than the estimates presented herein. Projected yields are calculated based on projected investment inflows and outflows. In the case of portfolios of projected realized and projected unrealized investments, the gross yields would be based on realizations and internal (or third party) valuations of New Mountain as of an applicable date. Projected gross yields do not reflect the management fees, taxes, transaction costs and other expenses to be borne by investors in the Fund (including costs of fund-level borrowing or a subscription line), which will reduce returns and, in the aggregate, may be substantial.

Past Performance is not indicative of future results and future returns are not guaranteed. Please see Disclosures at the end of this presentation.

No assurance can be given that investment objectives or target returns will be achieved. Gross investment returns do not reflect deduction of all applicable expenses, including management fees and incentive allocations/fees so that, if the target gross investment returns were achieved, the net investment returns to investors will be lower than the target gross returns. The strategy may employ leverage and other speculative investment practices that involve a substantial degree of risk. Claims and collateral in respect of debt obligations may be difficult to enforce in bankruptcy or default and no assurance can be made that full or significant recovery of principal and/or interest will be received.

Past performance is not a guarantee of future results and as it relates to NMFC is presented net of fees as described in NMFC's reports filed with the SEC, and represents the reinvestment of all dividends, interest, income and profits. For a description of fees charged to other New Mountain clients, please refer to the applicable Part 2A of Form ADV. The performance data includes the reinvestment of dividends and other earnings, and the gross figures do not reflect the deduction of all applicable expenses, including management fees and incentive allocations/fees. The actual results of any particular investor was materially lower than the gross performance figures herein due to a number of factors, including, without limitation, the actual management fees, performance compensation and other expenses payable in respect of such investor.

Net IRR calculations for the New Mountain Credit Funds presented herein also reflect the impact of leverage due to a fund's use of a subscription line and/or other credit facility, which may be significant.

For private equity funds, "Gross IRR" means an aggregate, compound, annual gross internal rate of return on investment. "Gross IRRs" do not reflect the management fees, carried interest, taxes, transaction costs in connection with the disposition of unrealized investments and other expenses to be borne by investors in New Mountain funds, which will reduce returns and in the aggregate are expected to be substantial. For a description of such fees, carried interest and expenses, please see the private placement memorandum of the applicable Fund and Part 2A of Form ADV. In the case of portfolios of realized and unrealized investments, the "Gross IRRs" are based on realizations and internal valuations of New Mountain as of the applicable date. "Net IRR" reflect all management fees, carried interest, transaction costs, and other expenses (other than taxes) borne or to be borne by investors. Net performance figures represent a full fee paying limited partner of each stated Fund and exclude the general partner. For certain New Mountain funds, Net IRR also reflects the impact of leverage due to a fund's use of a subscription line or other credit facility, which may be significant.

Information regarding projected portfolio holdings and other characteristics are presented to illustrate examples of the types of investments that New Mountain and the funds under its management (directly or indirectly) may make as of a particular date. It may not be representative of any current or future investments. The performance of these investments is not and will not necessarily be indicative of the overall performance of investments made by New Mountain. Depending on market conditions and opportunities, the actual investments to be made by New Mountain going forward may differ substantially from the examples included herein. The performances of individual companies held by the New Mountain Funds do not and will not necessarily represent the performance of future New Mountain Funds or clients. Portfolio holdings will vary. Investors should not assume they will participate in these or similar investments. Due to various risks and uncertainties, including but not limited to the effects of market or economic conditions, or political, legal, environmental or regulatory developments, actual investment results may differ materially from the anticipated results shown herein. An investment could result in a partial or total loss for the New Mountain Fund.

A list of all recommendations made by New Mountain within the immediately preceding period of not less than one year is available upon request and will be furnished separately.

Unrealized investments are shown at their fair market value. The Funds may not be able to liquidate these assets when New Mountain desires to do so or at what it believes to be fair market value and actual realized values may be materially below fair value.

Relevant credit benchmarks include the Bloomberg US Corporate High Yield Total Return Index, Morningstar LSTA Leveraged Loan Total Return Index and Bloomberg US Aggregate Total Return (together, the "Benchmarks"). The Bloomberg US Corporate High Yield Total Return Index is a rules-based, market-value-weighted index engineered to measure publicly issued non-investment grade USD fixed-rate, taxable and corporate bonds. To be included in this index, a security must have a minimum par amount of $250 million and have a minimum maturity of 1 year at rebalancing. Emerging market debt is excluded. The Morningstar LSTA Leveraged Loan Total Return Index is a daily tradeable index designed to measure the performance of the 100 largest facilities in the US leveraged loan market. This index constituents are market-value weighted, subject to a single loan facility weight cap of 2%. The Bloomberg US Aggregate Total Return is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance. The loans and other investments held by New Mountain Credit Funds may be materially different in composition and diversification as compared to the loans comprising each of the Benchmarks described above.

The volatility of an index may be materially different from the performance attained by a client or fund. In addition, a client or fund's holdings may differ significantly from the securities that comprise the index. You cannot invest directly in an index.

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