Blending Public & Private Credit for Enhanced Yield

SAA Conference
2022

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Private & Confidential

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01

Overview

Executive Summary

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- Private credit has increased dramatically in popularity amongst insurers and other institutional investors, as the search for yield has driven new interest in an asset class which may deliver a 1-2% premium to public fixed income alternatives like high yield and broadly syndicated loans.

- Equally, the narrative around why private credit will remain a relevant asset class is compelling: Banks have retreated from lending, with private credit filling the void, and private equity's significant "dry powder" is increasing the need for alternate sources of debt capital.

- **But…**
  - How should private credit's impact on a portfolio be thought of in a broader context?
  - How does one gain comfort from such a new asset class? (*Hint:* it's not new!)
  - What happens to a portfolio's yield, volatility, and Sharpe ratio when you add private credit?
  - What considerations should one think through about how to access the asset class most efficiently?

Muzinich views and opinions as of March 15, 2022.

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Market Backdrop

Falling Yields from Public Asset Classes/Debt

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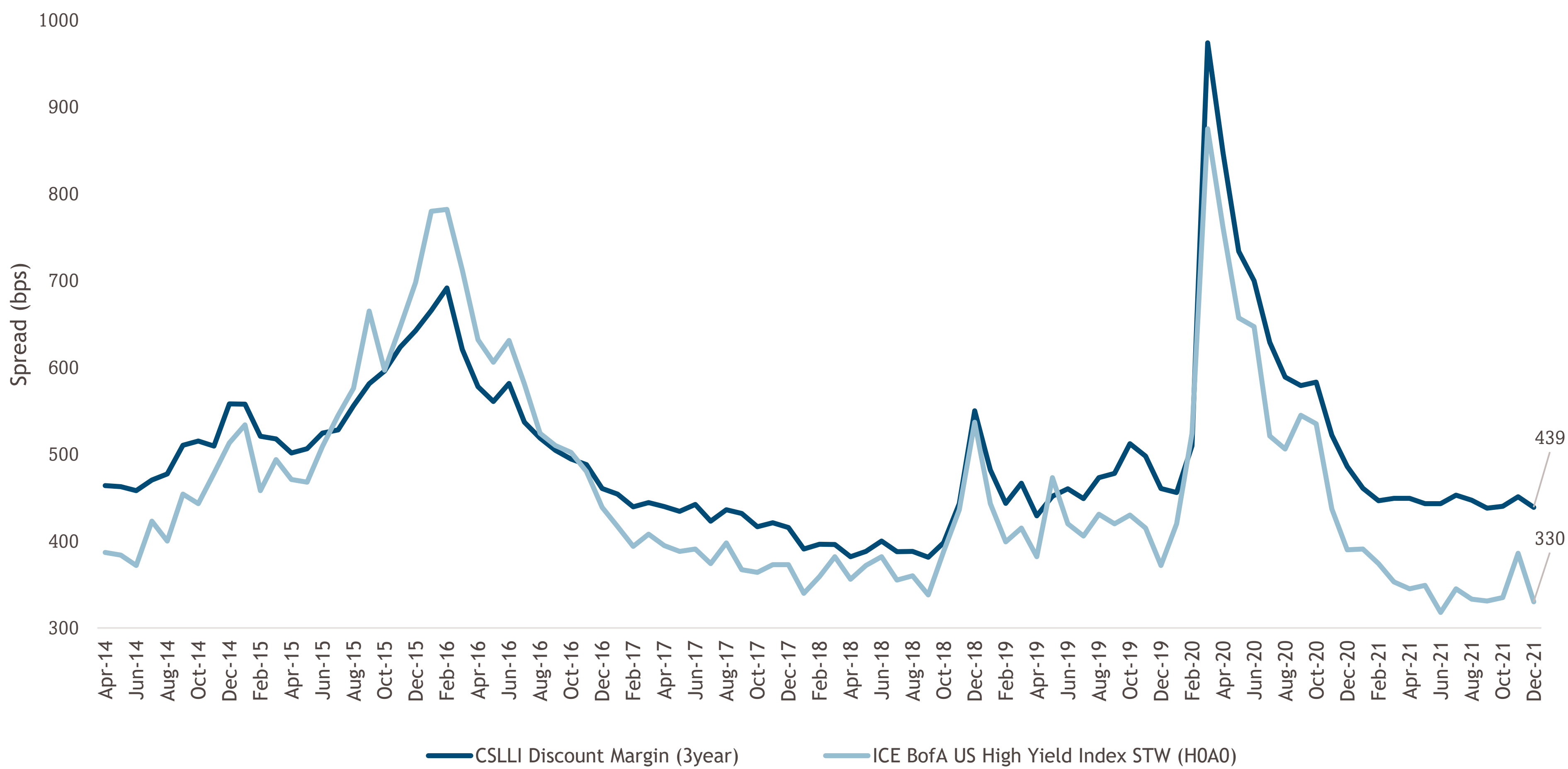
Broadly syndicated loans and high yield bonds have historically generated 4-5% yields with more recent offerings trending toward 3%-4% yields



Source: Bloomberg and Credit Suisse Leverage Loan Index (CSLLI). Data as of December 31, 2021. ICE BofA ML US Cash Pay High Yield Constrained Index (JUC4). Loan Market referenced above refers to the Credit Suisse Leveraged Loan Index (CSLLI) as of December 31, 2021. For more index descriptions, please see Market Index Descriptions at the end of the presentation.

Default Rates

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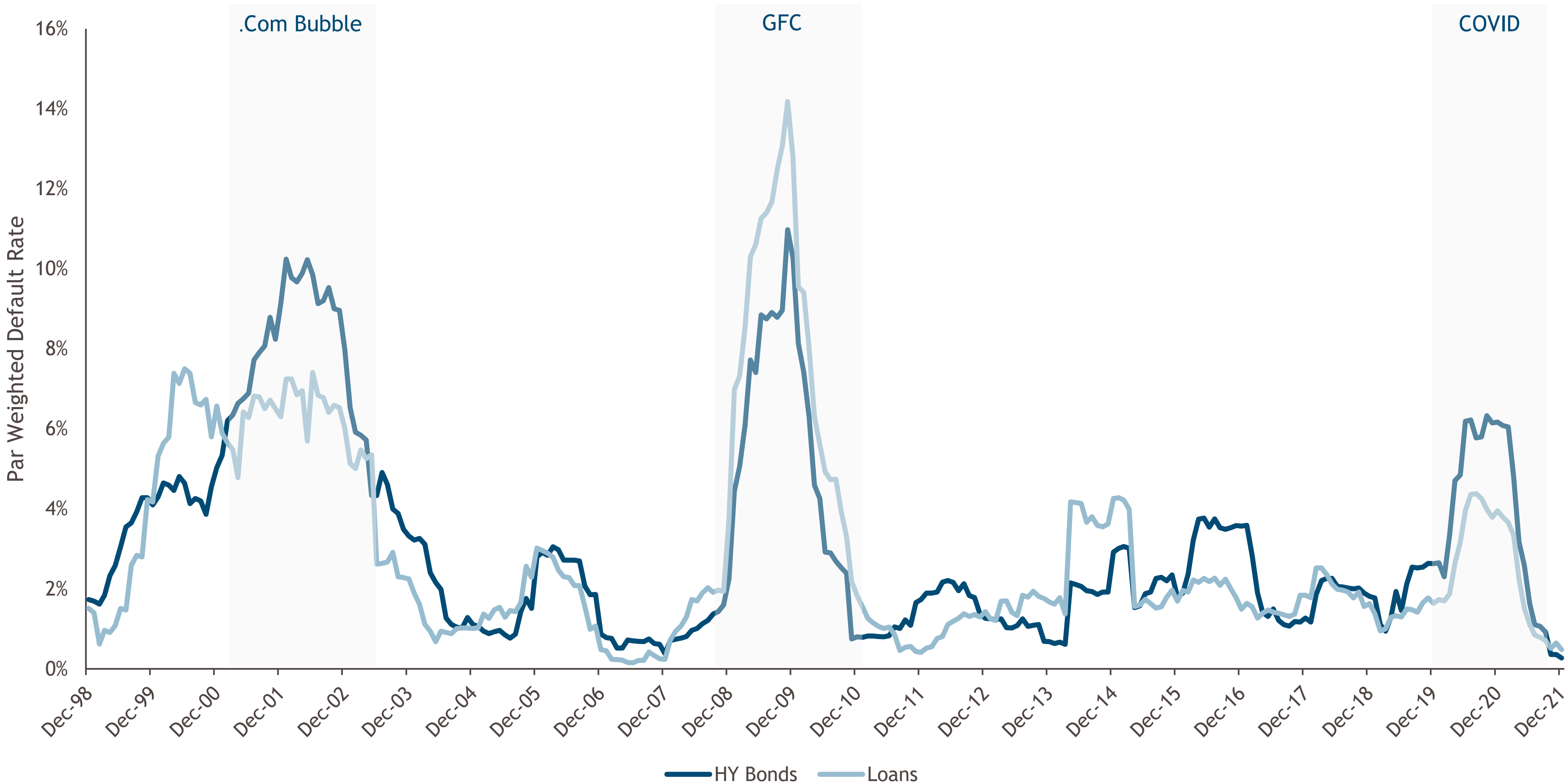
US Company balance sheets are well-managed with default rates near all-time lows



Source: JP Morgan Default Monitor. Data as of December 31, 2021. For illustrative purposes only. Muzinich views and opinion for illustrative purposes only. Not to be construed as investment advice or an invitation to engage in any investment activity.

Opportunity: Private Debt’s Yield Advantage

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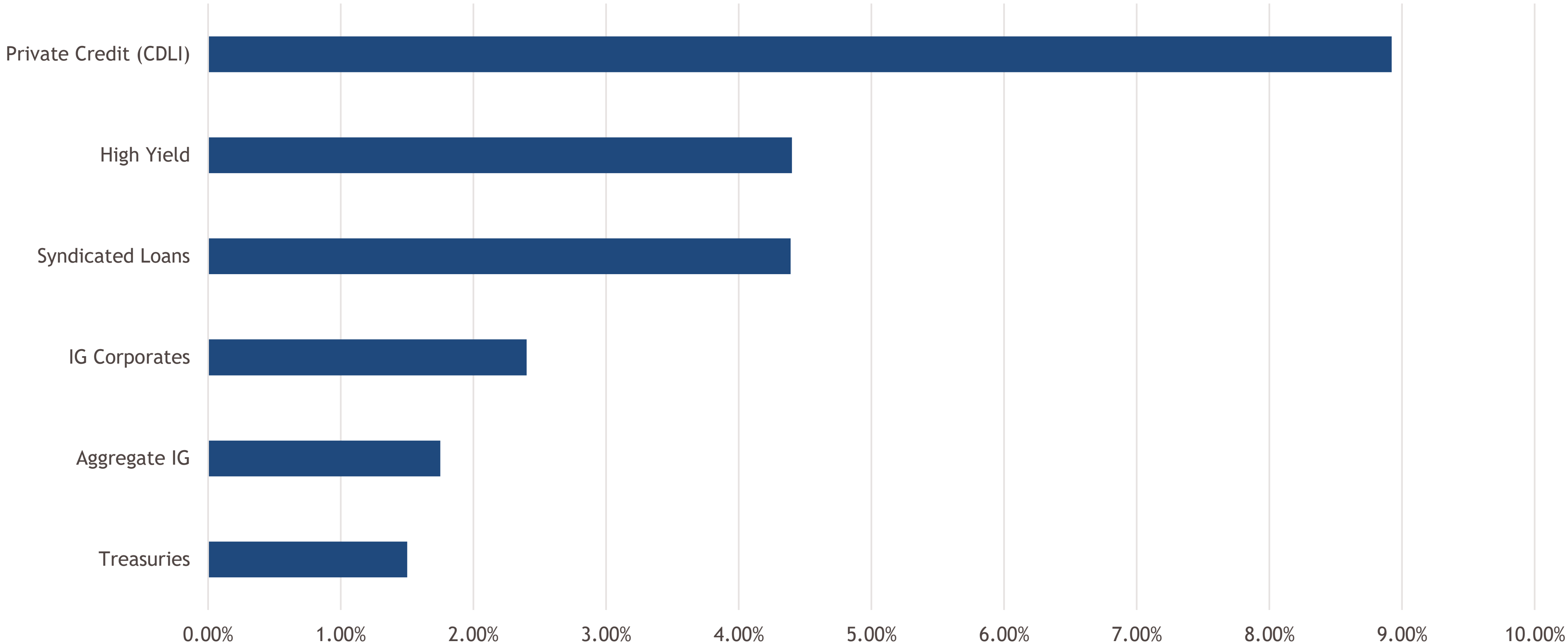
When compared to other fixed income-oriented investments, private credit offers a significant yield enhancement over traditional public credit options

Annualized yields by Fixed Income Type



Sources: Yields as of 12/31/21. Private Credit from Cliffwater Direct Lending Index. High Yield is represented by the ICE BofA ML US Cash Pay High Yield Constrained Index (JUC4). Senior Loans Is represented by the S&P/LSTA Leverage Loan Index. Corporates is represented by the ICE BofA ML US Corporate Index Effective Yield (C0A0). Investment Grade Bonds is represented by the Bloomberg US Agg Total Return Value Unhedged USD Index (LBUSTUU). Treasuries is represented by the ICE BofA ML 10 Year US Treasury Index (GA10). For more index descriptions, please see Market Index Descriptions at the end of the presentation.

03

Private Debt Primer

What's the difference between Public and Private Debt?

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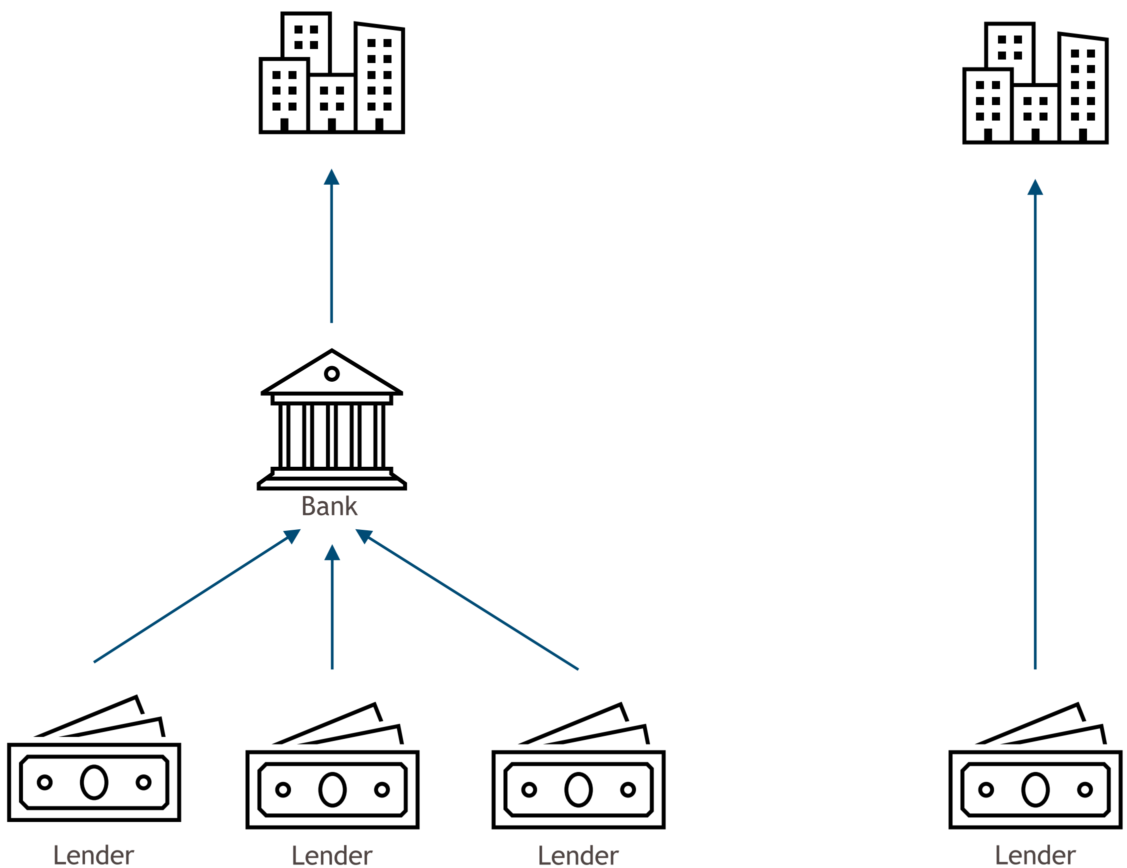
In its simplest form, private credit refers to loans made by non-bank lenders directly to companies. The use of proceeds from these loans can vary, and typically include financing a buyout, acquisition, and/or shareholder dividend.

Public Credit

Private Credit



Potential Benefits of Private Credit to Borrower:

- Direct communication
- Flexibility of loan terms
- Broader loan purposes

Potential Benefits of Private Credit to Investor:

- Higher returns;
- Floating rate;
- Greater lender protections;
- Lower volatility; and
- More robust information rights

Source: Muzinich views and opinions. For illustrative purposes only.

Private Debt Is Not a New Asset Class

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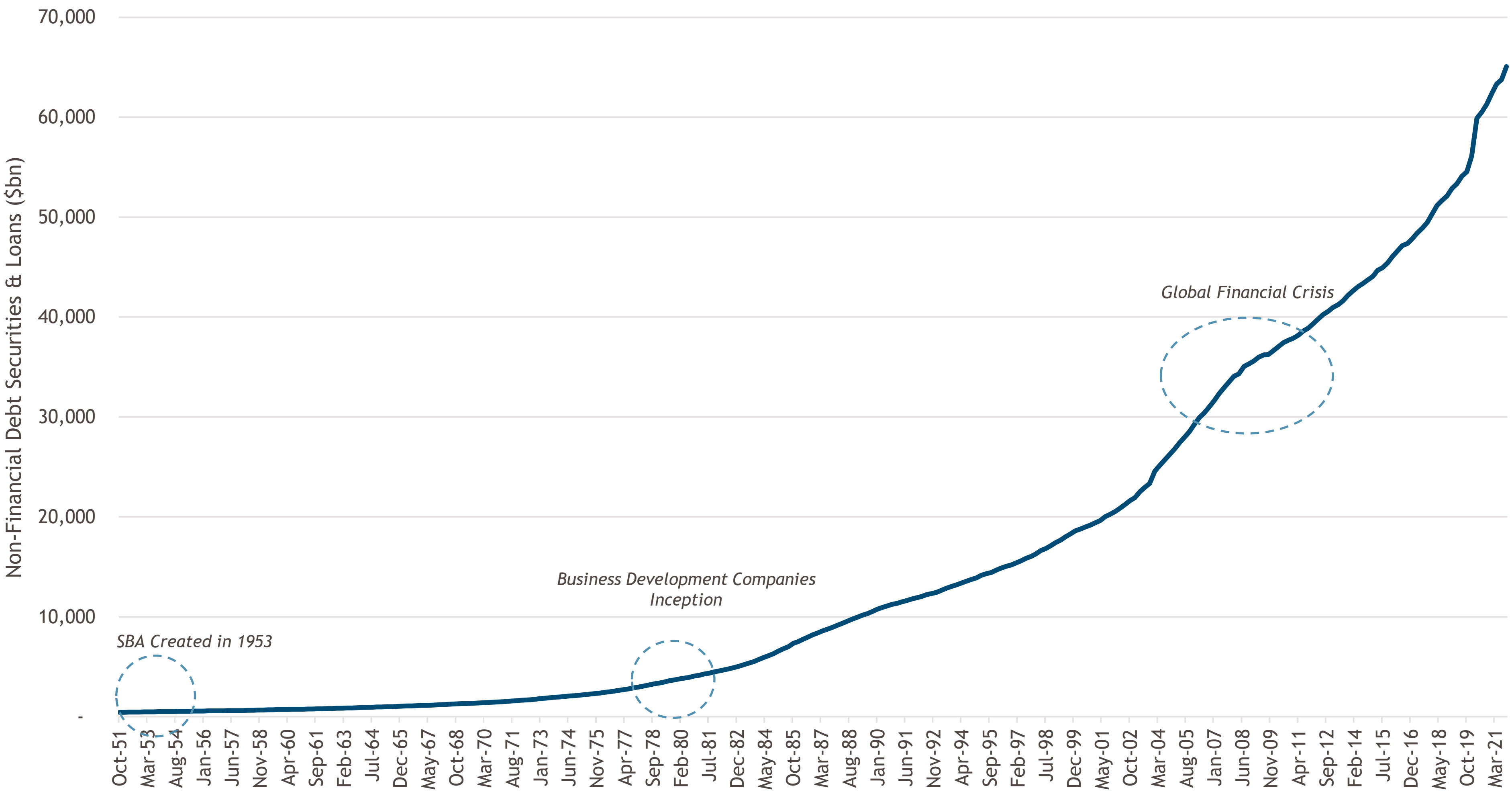
Private lenders have financed corporate growth for 70+ years, however, their contribution to the overall financial market has accelerated with the advent of new fund types and catalyzing market events



Source: Board of Governors of the Federal Reserve System (US), Domestic Nonfinancial Sectors; Debt Securities and Loans; Liability, Level [TODNS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/TODNS, March 12, 2022.

Why does the opportunity exist?

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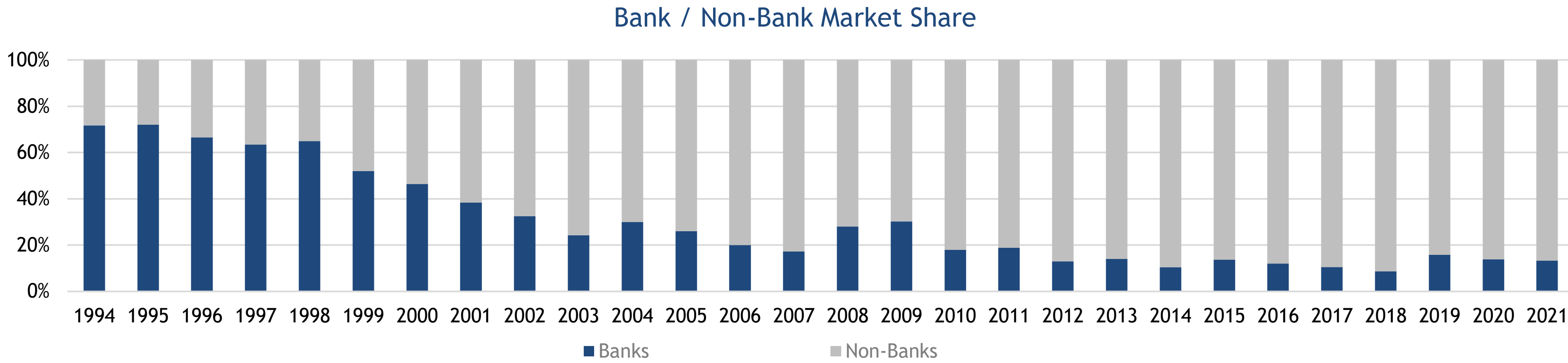
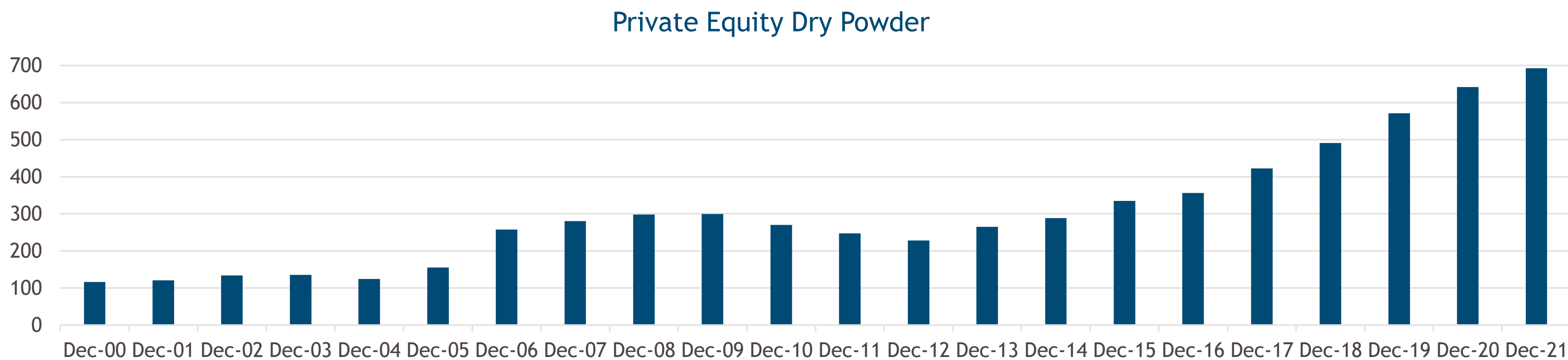
Banks have retreated from providing balance sheet debt capital to companies while demand for this capital has increased as more investors shift focus to the higher returning private equity asset class





Source: Bank / Non-Bank Market Share per S&P LCD Quarterly Q4 2021. PE Dry Powder per Preqin at 3/12/22 and includes Buyout, Growth, and Co-Investment Funds.

Private Credit Historical Returns

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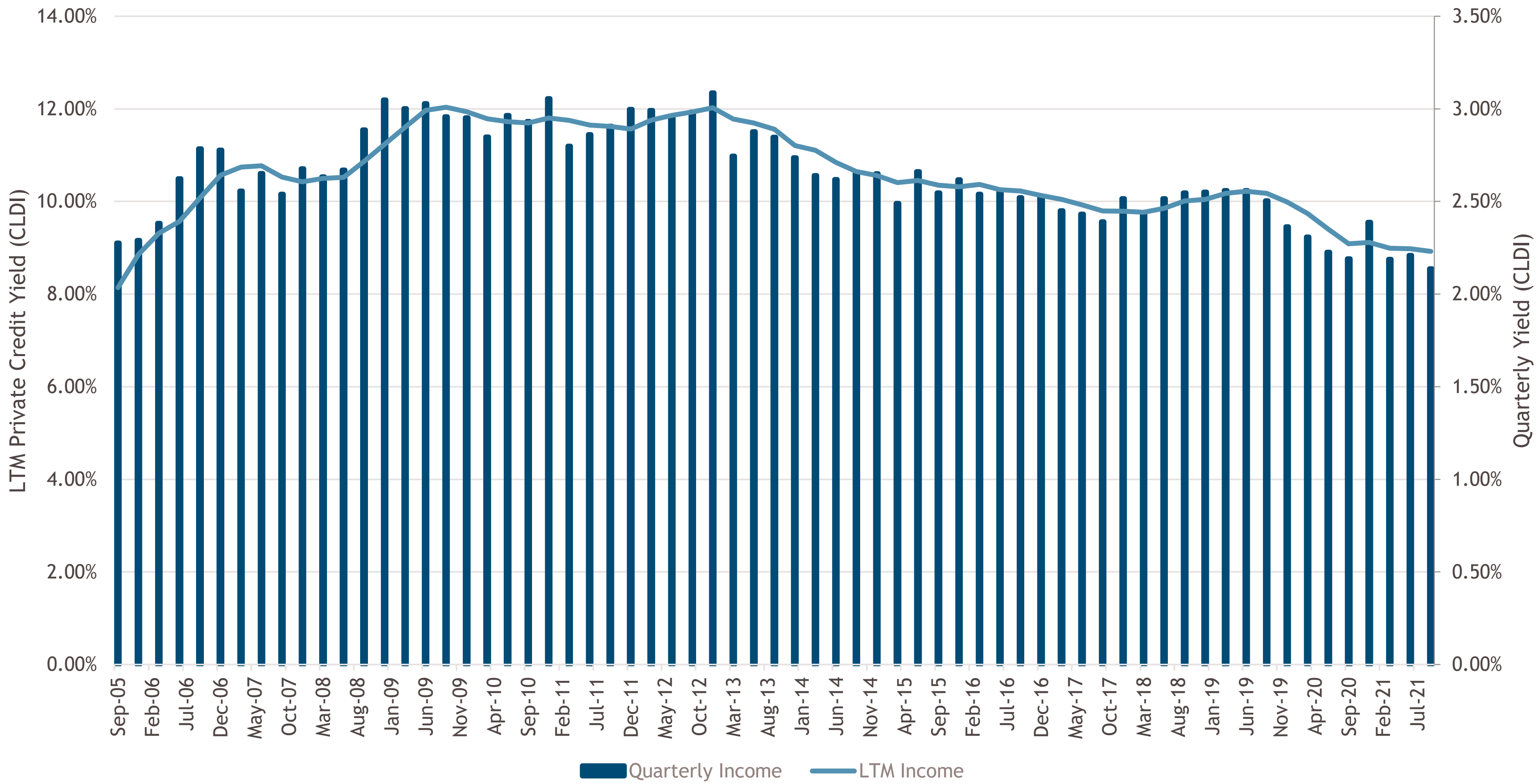
Strong historical yields across the private credit spectrum resulting in quarterly yield of 2%+ and average annual historical yields of 10.5% over the last 15+ years



Source: Cliffwater Direct Lending Index (CDLI) as of 9/30/21.

04

Blending Public and Private Credit

Blended Public & Private Strategy

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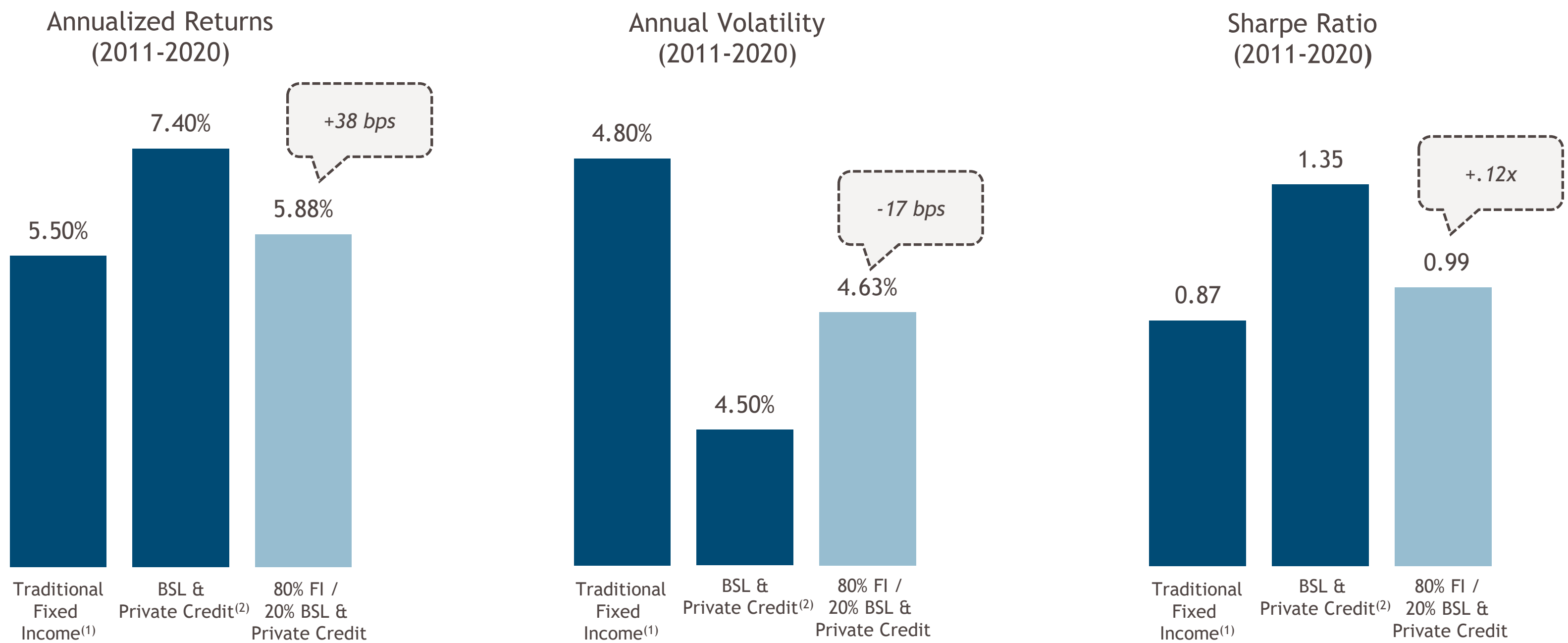
Allocating to private credit may help improve yield and lower volatility, potentially leading to a significant improvement in a portfolio's Sharpe Ratio (a measure of risk adjusted return)



Source: Muzinich Analysis, Institutional Investor: "Private Credit: The $1 Trillion "New 40" Opportunity

[1] 1/3 Barclays US Corporate Bond Index (LUACTRUU), 1/3 Barclays Canada Corporate Bond Index (LCANTRDU), 1/3 Barclays US Corporate high Yield Bond Index ((LF98TRUU) [2] 50% S&P LCD Leveraged Loan Index, 50% Cliffwater Direct Lending Index

For more index descriptions, please see Market Index Descriptions at the end of the presentation.

Private Debt Default Rates

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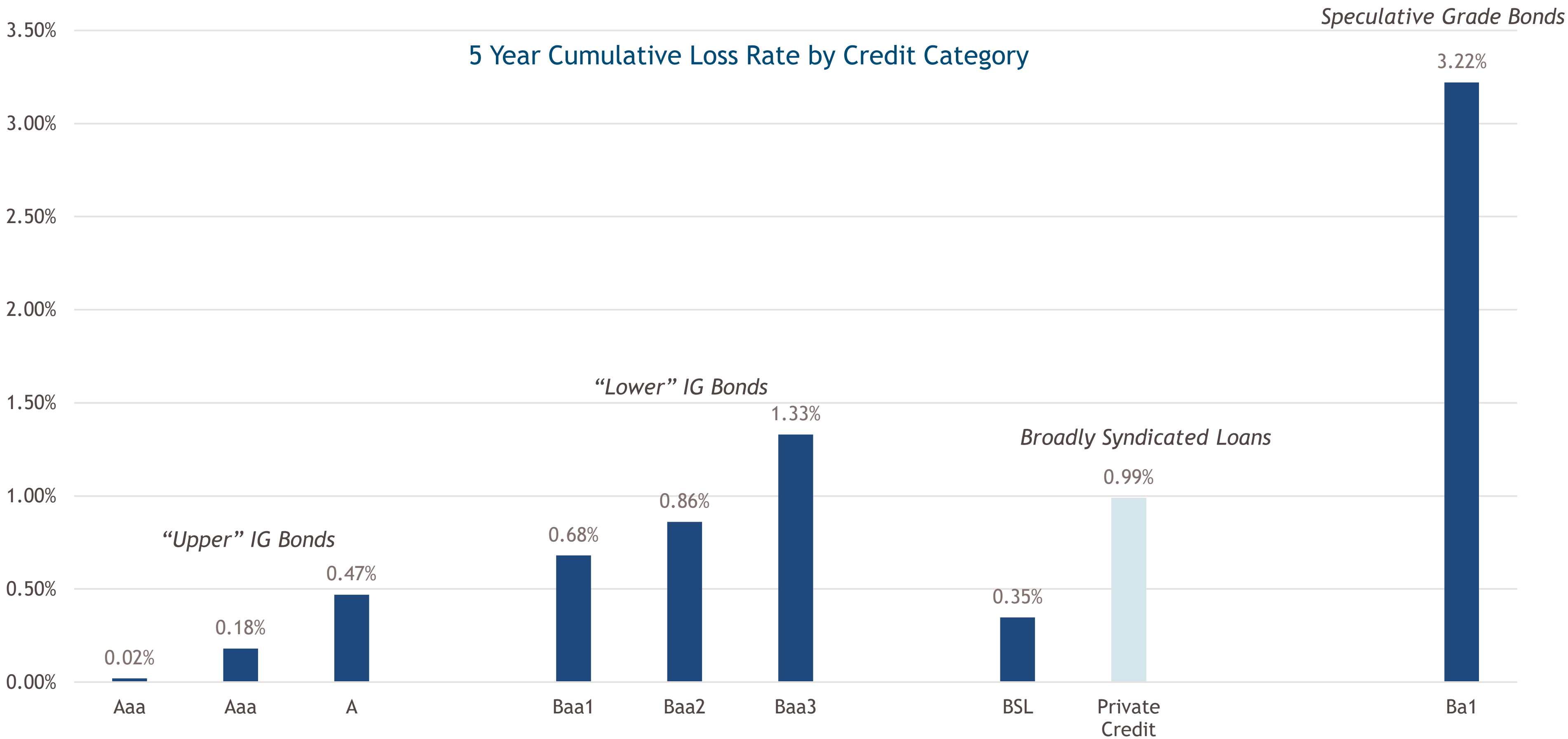
Comparing cumulative loss rates across the fixed income spectrum highlights the benefits of loans within a bond portfolio, especially when factoring in the yield enhancement



Source: S&P Leveraged Commentary and Data (LCD) index review and Moody's Annual Default Study (2016); S&P LCD Default Review, Q1 2018; S&P Global Market Intelligence "Recoveries from Drexel through the Credit Crunch" (2016); TIAA private debt report (2016); Muzinich Analysis. Default rates for investment and speculative grade bonds based upon cumulative five-year default rates reported by Moody's for the period 1983-2016; loss rates calculated by applying five-year recovery rate for broader asset class as reported by Moody's to each individual sub-asset class (e.g., same recovery rate of 44% reported for Baa applied to Baa1, Baa2, and Baa3). Default rate for broadly syndicated loans based upon cumulative five-year default rates reported by S&P for loans <$250M over the period 1995-2017; loss rate calculated by applying recovery rates as reported by TIAA (utilizing S&P LCD data) for loans <$200M for the period 1998-2015.

How to Access Private Credit to Enhance Portfolio Yield

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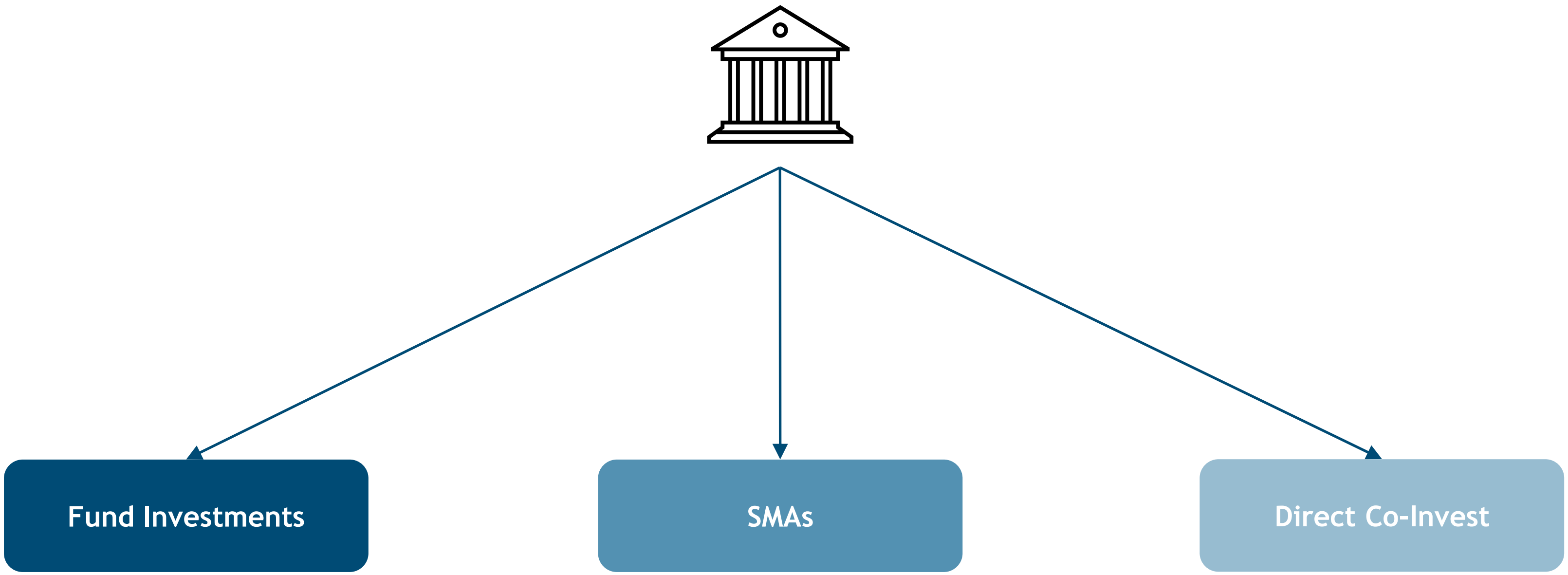

<u>**Important Considerations:**</u>

Regulatory Treatment ***Liquidity*** ***Reporting / Transparency*** ***Volatility***

<u>Shameless Plug:</u> Consult your SAA advisor to help you figure out how best to add private credit to your portfolio

Muzinich views and opinions as of March 15, 2022

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Important Information

Index Definitions

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JUC4 - The ICE BofA ML BB-B US Cash Pay High Yield Constrained Index contains all securities in the ICE BofA ML US Cash Pay High Yield Index (J0A0) rated BB1 through B3, based on an average of Moody's, S&P and Fitch, but caps issuer exposure at 2%.

S&P/LSTA Leveraged Loan Index – The S&P/LSTA Leveraged Loan Index is a market value-weighted index designed to measure the performance of the US leveraged loan market based upon market weightings, spreads and interest payments.

CS Leveraged Loan Index (CSLLI) – The CS Leveraged Loan Index is designed to mirror the investable universe of US dollar denominated leveraged loan market. The index is rebalanced monthly on the last business day of the month instead of daily. Qualifying loans must have a minimum outstanding balance of $100 million for all facilities except TL A facilities (TL A facilities need a minimum outstanding balance of $1 billion), issuers domiciled in developed countries, at least one year long tenor, be rated “5B” or lower, fully funded and priced by a third party vendor at month-end.

C0A0 - The ICE BofA ML US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody’s, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $250 million.

LBUSTRUU - The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

LUACTRUU - The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

LCANTRDU - The Bloomberg Canada Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes CAD denominated securities publicly issued by Canadian and non-Canadian industrial, utility and financial issuers.

LF98TRUU - The Bloomberg US Corporate High Yield Bond 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. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded

GA10 - The ICE BofA ML Current 10-Year US Treasury Index is a one-security index comprised of the most recently issued 10-year US Treasury note.

You cannot invest directly in an index, which also does not take into account trading commissions or costs. The volatility of indices may be materially different from the volatility performance of an account or fund.

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