OAKTREE INSIGHTS

MAY 2021

DIRECT LENDING: BENEFITS, RISKS AND OPPORTUNITIES

OAKTREE

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DIRECT LENDING:
BENEFITS, RISKS AND OPPORTUNITIES

KEY POINTS

- **Direct lending** may generate attractive returns with less downside risk and mark-to-market volatility than more liquid credit strategies like broadly syndicated loans.
- **Debt financing needs** could grow in the coming years because middle-market companies face a significant maturity wall and private equity sponsors may drive deal activity with the sizable store of capital they have on hand.
- **Superior risk control** may be achievable because direct lenders have better access to management than investors in more liquid strategies and the ability to design bespoke creditor-friendly structures.
- **Tax-efficient** investment solutions are available for limited partners from many geographies.
- **Outperformance** may require superior deal sourcing capabilities and underwriting skill as well as extensive experience crafting creative solutions in complex situations.

WHAT IS DIRECT LENDING?

Direct lenders are non-bank creditors that make loans to businesses without using an intermediary, such as an investment bank. Direct lending, a subset of private debt, most commonly refers to first lien loans made to middle-market companies (i.e., those that report between $50 million and $1 billion in annual revenue); however, Oaktree broadens the definition beyond first lien loans to encompass many additional forms of middle-market lending, including second lien debt, mezzanine debt and unitranche debt (i.e., hybrid loans combining junior and senior debt). There are over 200,000 middle-market companies in the United States alone: a vast market that accounts for one-third of U.S. private-sector GDP and employment – a sum that would make it the world's fifth-largest economy.[1] Middle-market companies also play a significant role in Europe, representing around one-third of private-sector employment in the four largest economies.[2] Loans made to middle-market businesses are normally used to finance leveraged buyouts (LBOs), mergers and acquisitions (M&A), growth investments, and recapitalizations.

Direct lending investments typically have:

1. **Floating-Rate Coupons**: Interest rates are normally quoted as a spread above a reference rate, such as LIBOR[3] or the Secured Overnight Financing Rate (SOFR).
2. **Short Terms to Maturity**: The average term to maturity on these loans is between five and six years compared to over seven years for high yield bonds, and the loans' average lifespan is between three and four years.
3. **Strong Covenants**: Loan contracts usually include negative and affirmative covenants that limit the borrower's ability to reduce the value of the loan. These include maintenance-based covenants, which are tested at regular intervals throughout the life of the loan. These lender protections require companies to meet certain financial conditions, such as keeping their ratio of debt to EBITDA below a specific level.
4. **Less Liquidity**: Lenders can't move in and out of these investments as easily as investors can normally buy and sell broadly syndicated loans (BSLs) and high yield bonds; however, lenders are typically compensated for this risk with the possibility of additional return – the so-called illiquidity premium.
5. **Low Correlation with Public Markets**: Because of the bespoke nature of direct lending deals, returns are normally not highly correlated with those of public debt and equity markets.

Direct lending, like private debt in general, has grown significantly since the Global Financial Crisis of 2007–2008. In the U.S., direct lending assets under management jumped by over 800% in the decade following the GFC.[4] By 2020, the total U.S. direct lending market had grown to around $800 billion, according to a Refinitiv estimate.[5] This growth has been due in part to the declining presence of banks in middle-market lending – a trend that began in the 1990s (see Figure 1). At that time, regional U.S. banks that serviced middle-market companies began consolidating; the resulting larger banks focused less on lending to small- and medium-sized companies and more on fee-based business lines and financings for larger firms.

The GFC accelerated this consolidation trend, and the Dodd-Frank Wall Street Reform and Consumer Protection Act, passed in 2010, introduced enhanced rules and regulatory requirements that intensified underwriting standards and mandated that banks hold additional capital against assets. These changes further decreased banks' ability and willingness to issue and hold loans to middle-market companies, especially businesses with riskier credit profiles. The impact of these shifts is underscored in leveraged loan primary market statistics: U.S. banks were responsible for over 70% in 1994, but only around 10% by 2020 (see Figure 1).

In Europe, banks play a much larger role in funding corporations than banks do in the U.S., where businesses rely more on the capital markets. However, European banks' control over middle-market financing was declining for much of the last decade. For example, European banks' outstanding corporate loan volumes were relatively stagnant in the years leading up to 2020. During the same period, European direct lending assets under management skyrocketed from almost nothing in 2009 to over $150 billion in 2020 (see Figure 2).

OPPORTUNITIES

Oaktree participates in four types of direct lending opportunities across many geographies:

1. **Situational Lending: Loans to companies with nontraditional revenue or earnings histories, such as those that report high levels of revenue but no earnings. Traditional lenders like banks may be unable to properly value these companies' assets.**

   Example: A life sciences company with revenue-generating drugs and substantial hard assets seeking to commercialize a promising new product

2. **Stressed Sector / Rescue Lending: Loans to companies in sectors experiencing stress and reduced access to the capital markets.**

   Example: A business in an industry negatively affected by the Covid-19 pandemic, such as entertainment or travel

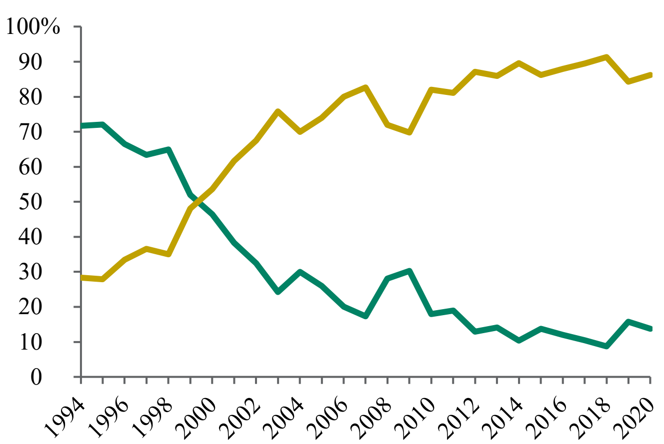
3. **Secondary Private Loans and Loan Portfolios: Direct loans or portfolios of loans sold by investors or leverage providers. Sellers might be forced to offload loans in response to near-term liquidity needs, leverage pressures, regulatory capital requirements, or performance concerns.**

   Example: Loans sold by banks looking to reduce geographic or sector concentration

4. **Sponsor Financings: Loans related to LBOs, where the lender works with sponsors who have subject-matter expertise in more complex industries.**

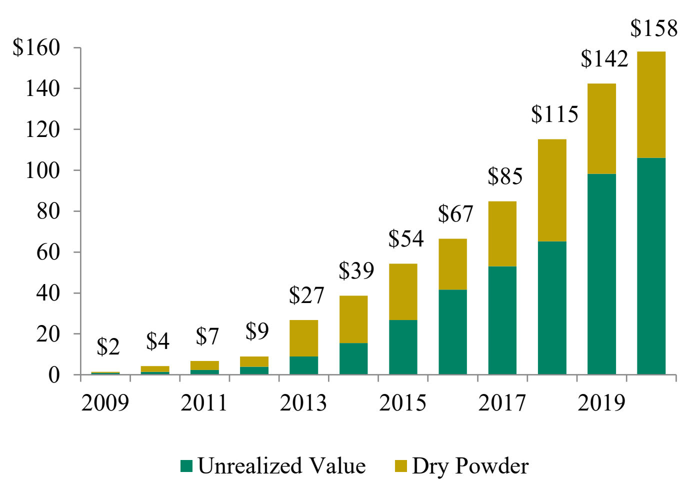
   Example: Loans to fund LBOs in partnership with a software-focused private equity firm

Figure 1: Primary Market Corporate Loan Participation



As of December 31, 2020
Source: S&P LCD

Figure 2: European Direct Lending Assets Under Management



As of Septemer 30, 2020
Source: Preqin

WHAT ARE THE BENEFITS OF DIRECT LENDING?

Direct lending portfolios, if structured properly, have the potential to generate **returns similar to or higher than those of other credit investments such as BSLs, but with less risk**. Additionally, an allocation to direct lending enables investors to gain exposure to private-equity-sponsored deals without assuming the same level of risk as equity investors. The advantages versus many other types of debt investments include:

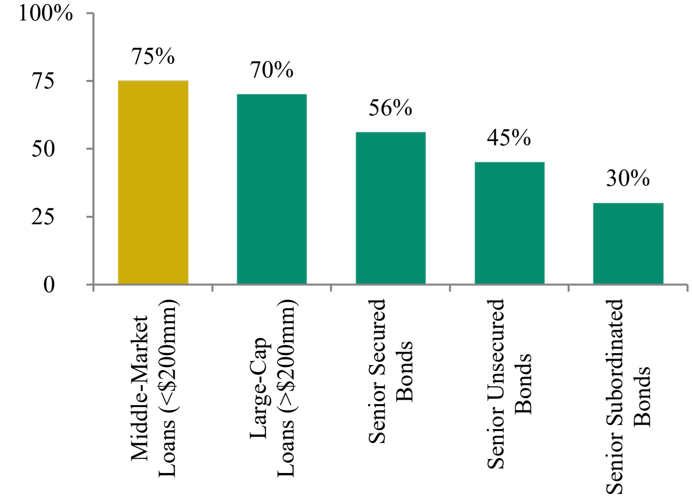
1. **Greater Protection From Rising Interest Rates:** Loans have shorter duration (i.e., less sensitivity to interest rate changes) than fixed-rate debt. Unlike most debt instruments, many loans don't decline in value as interest rates increase because they have floating-rate coupons that increase in line with the underlying reference rate. Duration is also shortened because loans usually feature all-cash coupons, while some high yield bonds include payment-in-kind, or PIK, coupons, which are paid with the principal at maturity. Middle-market loans may also include call protection, which reduces prepayment risk by restricting borrowers from retiring loans within a few years of issuance, or prepayment penalties. Additionally, floating-rate loans normally have contracted floors on the reference rate, offering some protection when rates decline.

2. **Higher Seniority and Security:** Loans are first in line in the capital structure to be paid out in the event of a default. Senior loans have the initial claim on assets, such as cash, accounts receivable and equipment; junior loans have subordinated claims, but are still senior to bonds.

3. **Greater Lender Protections:** These loans typically offer strong downside protection because they are collateralized and high in the capital structure. Additionally, the loan contracts normally include both incurrence covenants, which are applied when the company seeks to take an action like adding additional debt, and maintenance covenants, which restrict certain activities and require companies to maintain specific leverage and interest-coverage metrics that are measured at least quarterly. Meanwhile, BSLs are increasingly classified as covenant-lite because they rarely include maintenance covenants.

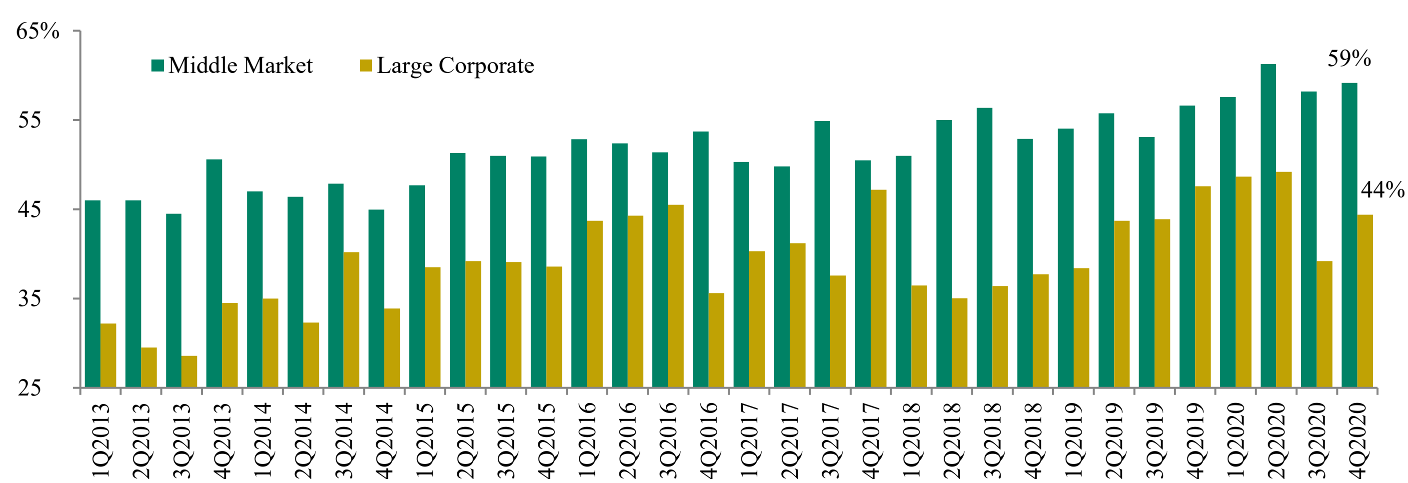
4. **Lower Potential Losses in a Default:** The average recovery rate for U.S. middle-market senior loans between 1989 and 2018 was 75% – far higher than the 56% for senior secured bonds (see Figure 3). Additionally, around 59% of the average U.S. middle-market LBO purchase price was financed by equity in 2020, meaning that the company would have to lose more than 59% of its value before the loan would be impaired (see Figure 4). That's far more than the 44% equity contribution reported for large-company LBOs.

Figure 3: Recovery Rates by Asset Class (1989-2018)



As of December 31, 2018
Source: S&P CreditPro
Note: Recovery rates are calculated as the value received in settlement, discounted at the effective interest rate on the instrument, as a percentage of the principal default amount.

Figure 4: Total Equity Contribution For LBOs



As of December 31, 2020
Source: Refinitiv LPC

5. **More Upside Potential:** First lien middle-market loans have offered more yield spread per unit of leverage since late 2016 compared to first lien large-corporation LBO loans (see Figure 5). Middle-market loans also feature warrants and other sweeteners more frequently than other credit instruments, providing debt investors with the ability to enjoy equity upside potential along with downside protection.

6. **More Control:** While direct lending normally requires greater due diligence than traditional debt investment strategies – more akin to the private equity norm – this relationship-based lending model gives the lender more access to the company before and after deal inception and greater control over terms and structure – which can be especially advantageous in adverse scenarios.

7. **Higher Illiquidity Premium:** Direct lenders can often secure higher origination fees and coupon rates compared to investors in BSLs, which are more liquid. Middle-market companies with fewer borrowing options are often focused on the certainty of capital rather than just the cost of capital.

8. **Lower Volatility:** The marked-to-market valuations of direct lenders' investments normally aren't as volatile as those of high yield bonds or more liquid loans, and price volatility is commonly used to represent risk in risk-adjusted return calculations.

9. **Greater Diversification:** Private loan performance is often not well correlated with that of other types of assets or with the business cycle in general. This is especially true in industries with highly specialized products; for example, in life sciences, individual companies are often focused on different diseases, reducing intra-sector-concentration risk. The large size of the universe also helps lenders create more diversified portfolios, as they can access opportunities unavailable to investors limited to the public markets.

WHAT ARE THE BIGGEST RISKS IN DIRECT LENDING?

The relationship-based nature of direct lending and the bespoke nature of the loans involved mean one's ability to properly source, underwrite, structure, and monitor an investment is even more important here than in traditional credit strategies. This is a demanding workload, which could overwhelm inexperienced investors. Problems may arise at any stage in the lending process:

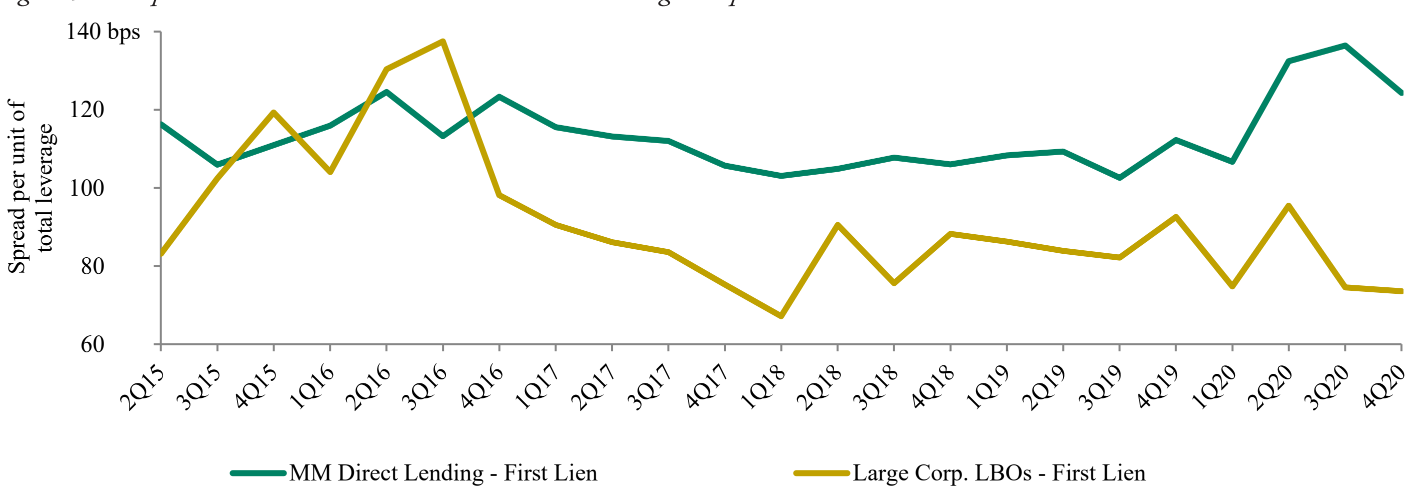
1. **Failure to Establish a Robust Sourcing Pipeline:** Increased competition for direct lending deals means established firms with large origination platforms and strong deal sourcing pipelines will have a significant advantage over newer, smaller funds.

2. **Failure to Manage Fund-Level Leverage:** Direct lending funds may use leverage offered by commercial banks to amplify the returns on their investments. However, the term of the fund-level leverage is often shorter than that of the underlying assets, which creates leverage refinancing risk. Additionally, leverage providers may demand quick repayment when the assessed value of the direct lenders' portfolio companies declines – even if this decrease is minimal – which can magnify liquidity problems in a downcycle.

3. **Failure to Complete Proper Due Diligence:** Direct lending requires the type of extensive research normally associated with private equity transactions – far more than is often necessary or feasible with BSLs. Not only must lenders have the proper staff and resources, but investing in certain industries, like life sciences or software, also requires lenders to possess sector-specific expertise.

4. **Failure to Properly Structure the Investment:** Firms without structuring expertise or with narrow investment mandates may lack the creativity and flexibility needed to adapt to borrowers' needs and thus be unable to seize attractive opportunities or design financing structures

Figure 5: Compensation Potential in Middle-Market and Large-Corporation Loans



As of December 31, 2020
Source: Refinitiv LPC

that could maximize risk-adjusted return potential. Firms may also lack the resources to properly address the legal, tax and regulatory concerns that arise when setting up bespoke structures.

5. **Failure to Sustain Active Management:** Successful direct lending requires continuous monitoring of investments. This demands discipline, resources and experience so that problems can be identified and addressed early.

6. **Failure to Properly Navigate a Restructuring:** Firms with limited experience in distressed situations and challenging economic environments may lack the skills needed to identify early warning signs of distress, return a company to solid financial footing, or maximize the recovery value of an investment.

The past decade's ultra-low interest rate environment increased investor appetite for the attractive risk-adjusted returns that can potentially be secured through direct lending. This competition has enabled companies with weaker balance sheets to borrow and to offer fewer investor protections when doing so. For example, leverage multiples of five to six times EBITDA have become more commonplace even for firms with EBITDA under $20 million. Lenders have also been agreeing to more generous earnings add-backs that inflate EBITDA, making leverage levels appear artificially low. Demand for private investments is also reducing illiquidity premiums and enabling some borrowers to dilute lenders' call protection. **This competition will likely only intensify in the near term if fear of rising interest rates increases demand for floating-rate products.**

HOW DOES OAKTREE SEEK TO ADDRESS THESE RISKS?

Oaktree believes many of the aforementioned risks can create opportunities for experienced contrarian investors who prioritize downside protection and patience over immediate capital deployment – those who never seek to do a deal "at any price." With an 18-year track record in middle-market direct lending – representing over 300 transactions and $11 billion in financings in many geographies – Oaktree believes it has developed the skill set needed to control risk at every stage in the lending process.

Sourcing: Oaktree maintains relationships with over 200 sponsors as well as many advisors, commercial banks and capital markets teams, which we believe provides us with a comprehensive view of the investment universe. Our dedicated sourcing and origination platform has helped us maintain and expand these relationships; they are enhanced by our strong reputation for keeping our word and honoring our commitments. Also, when we work with sponsors, we prioritize invitation-only opportunities from private equity firms with which we already have relationships because: (1) we don't face as much competition for these deals; (2) our familiarity with the sponsors normally speeds up the deal process and increases the probability of closure; and (3) our longstanding relationships help us gauge how sponsors will act during the investment's life cycle, including in a possible restructuring.

Selectivity: Oaktree seeks to be highly selective when choosing partners and investments. Historically, actual investments have represented around 3% of the total financings our direct lending funds have considered, as potential opportunities must survive a rigorous screening process involving extensive due diligence. For example, Oaktree often engages its own third-party experts prior to making an investment in addition to fully reviewing the sponsor's diligence analyses and all buy-side and sell-side commissioned third-party reports. This independent and comprehensive due diligence is highly valued by private equity sponsors, who repeatedly partner with Oaktree to benefit from the firm's insights and vast resources. This advantage better enables us to demand attractive terms that can bolster downside protection.

Valuation: Oaktree employs a loan-to-value approach using what it considers to be conservative assumptions unlike many lenders who use a simplistic multiples-based approach or more aggressive assumptions. We believe beginning with an appropriate company valuation is key to securing downside protection.

Structuring: Oaktree's extensive experience with complex financings enables us to more easily identify structural risks and develop creative solutions. This means deals are designed so that Oaktree can limit potential losses in negative scenarios, mitigate tax concerns, and navigate local regulatory regimes.

Monitoring: Oaktree continuously monitors portfolio companies and has extensive access to companies' management teams and sponsors so that we can manage overall risk and begin risk-mitigating discussions with companies long before covenants are breached.

HOW CAN AN INVESTOR ADDRESS TAX CONCERNS?

U.S. tax law considers loan origination to be engagement in a business or trade, so investors both inside and outside the U.S. may therefore have concerns about increased taxes stemming from direct lending. However, there are numerous tax-efficient strategies available to address these concerns.

Ex-U.S. Investors

- For U.S. income tax purposes, all income a foreign person realizes from a trade or business in the U.S. is considered effectively connected income (ECI) and is therefore subject to taxation. As stated above, this often includes income related to direct lending.

- For large investors domiciled in countries with favorable tax treaties, such as Canada, Japan, the United Kingdom and many EU countries, this tax concern may be addressed with a bespoke fund-of-one solution. The investor would still be subject to state income taxes and be required to file U.S. tax returns.
- Ex-U.S. clients may invest through a levered blocker corporation, which blocks ECI and eliminates the need for U.S. tax filings. However, regular corporate tax and withholding tax may still be imposed on dividends and interest income. The effective tax rate is generally expected to be between 10–35%, depending on whether the investor holds less than 10% of the blocker, the amount of debt in the structure, the cash distribution profile, and the tax treaty of the country in which the investor is domiciled. If a sovereign wealth fund owns less than half of the blocker, then its interest income and dividends won't be subject to U.S. taxation.
- Some investors may gain exposure to direct lending without being subject to ECI tax by investing through a Business Development Company (BDC). However, this tax-efficient structure may be inappropriate in some situations. Please see the BDC overview on page 8 for more details.
- Ex-U.S. investors are generally not subject to the ECI tax if the loans in the direct lending fund are to non-U.S. companies and structured properly.

U.S. Investors

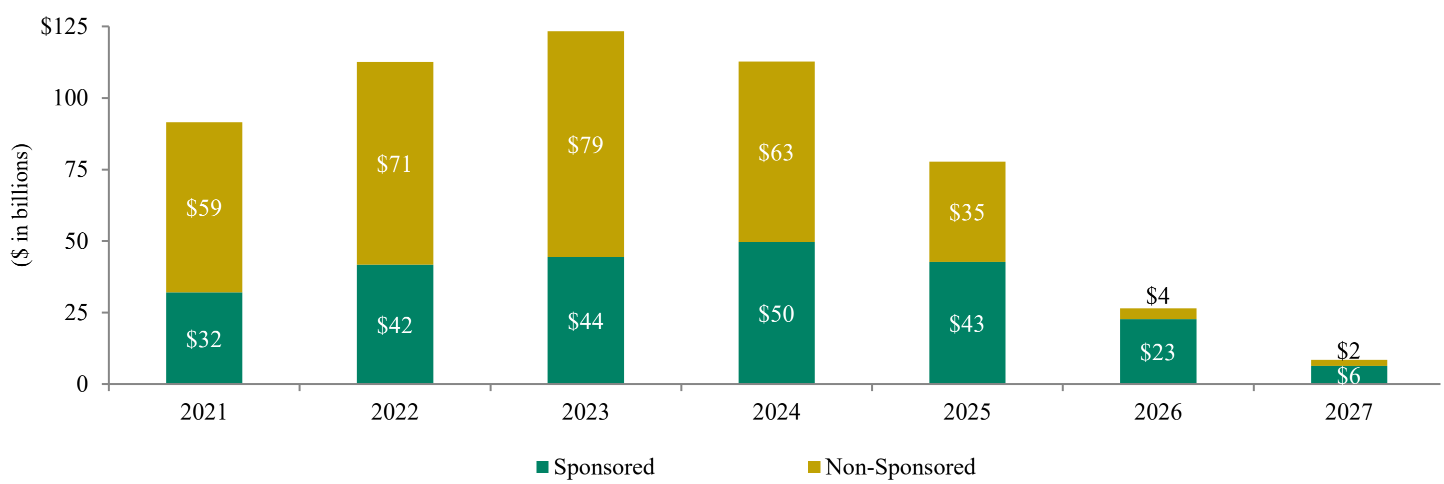
- Tax-exempt U.S. investors – including corporate pension plans, foundations and endowments – may be subject to tax on unrelated business taxable income (UBTI) related to leverage used by a direct lending fund.
- Tax-exempt investors with UBTI sensitivity can normally mitigate this tax concern by gaining exposure to direct lending through a U.S. blocker corporation vehicle, which is similar to the levered blocker described above for non-U.S. investors.
- U.S. tax-exempt investors can also generally avoid being subject to UBTI by investing through a BDC. Please see the BDC overview on page 8 for more details.
- So-called super tax-exempt investors like public pension plans are normally not subject to U.S. taxation, including on income related to direct lending.
- All other taxable U.S. investors will be taxed on income realized through direct lending, but these taxes may be reduced by investing through a BDC. Again, please see page 8 for more details.

In addition to U.S. taxes, investors may also be concerned about local withholding taxes on interest from the borrowing company's jurisdiction. These concerns can often be addressed with specific investment structures: for example, investing through a Luxembourg corporation for loans to European companies. Oaktree has well-established regional investment platforms that can help clients mitigate the impact of taxes on returns.

WHAT MIGHT THE POST-PANDEMIC-ERA OPPORTUNITY SET LOOK LIKE?

Middle-market companies in many regions will likely require significant refinancing capital moving forward. First, U.S. companies face an impending maturity wall: over $550 billion in middle-market debt is scheduled to mature through 2027 (see Figure 6). European banks may have limited lending capacity, so firms that have faced extended Covid-19 lockdowns may also struggle to refinance upcoming maturities. Additionally, some U.S. firms' BDCs have struggled during the pandemic: the non-accrual rate (i.e., the percentage of loans with payments over 90 days late) hit 5.1% in the third quarter of 2020, topping the record 4.5% middle-market loan default rate record experienced in

Figure 6: Middle-Market Loan Amounts Maturing Through 2027



As of December 31, 2020
Source: Refinitiv LPC

2009. This stress could increase the need for refinancings and generate forced asset sales, creating attractive buying opportunities for patient investors.

We believe that the best opportunities may be found in either beaten-down industries, such as travel and leisure, or those requiring more subject-matter expertise, like healthcare or information technology:

- **"Unloved" Sectors:** Many creditors eschew all companies in a troubled industry, potentially increasing the interest rates willing lenders can secure. Locating bargains requires portfolio managers to have both skill and discipline, as they must conduct rigorous issuer-by-issuer analysis to identify strong companies whose fundamentals belie their stressed-sector discount. Additionally, significant structuring expertise is needed to ensure investments offer sufficient downside protection.
- **Complex Sectors:** Successful investment in sectors with highly technical products and assets, such as life sciences and software, requires specialized expertise. Many traditional lenders often won't lend to these types of companies because the businesses' lack of stable earnings makes simple multiples-based valuation techniques unworkable.

The demand for capital from direct lenders is already rebounding from the Covid-19-induced pullback in the second and third quarters of 2020. M&A and LBO activity declined during this period because financial market participants were unwilling to transact given the uncertainty created by the pandemic. However, by the fourth quarter, worst-case scenarios in many sectors had failed to materialize, and deal flow not only bounced back, it reached record levels, and activity has remained robust thus far in 2021. Moving forward, demand for debt financing could increase because private equity funds focused on middle-market companies have over $80 billion in dry powder available to drive LBO activity.[6]

This historical moment is characterized by a lack of clarity, so it's more important than ever that direct lenders possess an uncommon skill set: capital discipline, sector-specific expertise, strong sourcing relationships, knowledge of tax-efficient strategies, and structuring experience. The pandemic has accelerated some trends – such as the shift to e-commerce and interest in advanced healthcare solutions – but it has also introduced new anxieties, like those over rising inflation. Lending into such uncertainty demands consideration of downside protection as well as upside potential. As our co-founder Howard Marks has long said, "we can't predict, but we can prepare."

BUSINESS DEVELOPMENT COMPANIES (BDCs)

What are BDCs?

Business Development Companies are closed-end investment vehicles that were created by the U.S. Congress in the 1980s to invest in and provide managerial support to small- and medium-sized enterprises. They are regulated like an investment company, but have filing demands similar to those of an operating company.

BDCs are characterized by a unique set of requirements:

- Seventy percent of the BDC's total assets must be invested in "eligible portfolio companies" (i.e., U.S. private businesses or U.S. public companies with a market capitalization under $250 million).
- The BDC must offer significant managerial assistance to its eligible portfolio companies.
- No single investment may account for more than one-quarter of total assets, and over half of all investments must each represent under 5% of total assets.
- The BDC's debt-to-equity ratio may not exceed two to one.
- Annual shareholder meetings must be held to elect a Board of Directors, depending on the jurisdiction and corporate structure.
- The BDC must file quarterly financial reports (10-Qs) and annual financial reports (10-Ks), including valuation disclosures of all investments.

BDCs can either be publicly listed on exchanges and offer daily liquidity or be structured as unlisted vehicles with defined investment and wind-down periods. Investors own shares in a BDC.

What are the tax benefits of BDCs?

Most BDCs elect to be formed as a Regulated Investment Company (RIC), an entity that isn't subject to federal corporate income tax provided all of its taxable income is distributed to investors and the BDC meets certain source-of-income and asset-diversification requirements. A BDC will also block ECI and UBTI from flowing through to the investors. Most of the dividends paid to non-U.S. investors aren't subject to U.S. withholding taxes because the BDC's income is primarily derived from interest income. Additionally, BDC tax reporting is relatively simple and similar to the process used when investing in mutual funds (i.e., a 1099 form is submitted). Investors aren't required to file federal or state returns around a liquidity event.

What are the other benefits of BDCs?

Federal regulations mandate:

- dividend distributions,
- greater transparency through quarterly reporting, and
- limitations on the use of leverage.

What are some of the drawbacks of BDCs?

- Federal regulations restrict BDCs' potential investment opportunities.
- Operational expenses are much higher than those of a non-BDC-structured fund because they include the cost of a Board of Directors, public filing fees, and other regulatory/compliance costs.
- BDCs may not be the best option for investors from some European countries.

What differentiates Oaktree's approach to BDCs?

Oaktree's extensive firm-wide credit platform gives us access to higher quality deal flow compared to the typical BDC, meaning we can be more selective and potentially secure better terms – the foundation of risk control in direct lending. Oaktree also believes it can keep its expenses low because we have a well-established, scalable operations platform.

END NOTES

[1] The National Center for the Middle Market

[2] Invest Europe

[3] LIBOR was formerly an acronym for the London Interbank Offered Rate; its official name is now LIBOR ICE. It's being phased out and replaced by rates like SOFR and SONIA (Sterling Overnight Index Average). The ICE Benchmark Administration will stop publishing LIBOR for most settings after December 31, 2021.

[4] Preqin

[5] Refinitiv's estimate is based on the middle-market loan amounts maturing through 2026.

[6] Preqin

ABOUT THE AUTHORS

ARMEN PANOSSIAN

Head of Performing Credit and Portfolio Manager

Mr. Panossian is a managing director and Oaktree's Head of Performing Credit, as well as portfolio manager for Oaktree's Strategic Credit strategy. His responsibilities include oversight of the firm's performing credit activities including the senior loan, high yield bond, convertibles, structured credit, emerging markets debt, mezzanine and direct-lending strategies. Mr. Panossian also serves as co-portfolio manager for Strategic Credit's Life Sciences Direct Lending platform which focuses on investment opportunities across the healthcare spectrum from biotechnology and pharmaceuticals to medical devices and healthcare services. Mr. Panossian joined Oaktree in 2007 as a senior member of its Opportunities investment team. In January 2014, he joined the U.S. Senior Loan team to assume co-portfolio management responsibilities and lead the development of Oaktree's CLO business. Mr. Panossian joined Oaktree from Pequot Capital Management, where he worked on their distressed debt strategy. Mr. Panossian received a B.A. degree in economics with honors and distinction from Stanford University, where he was elected to Phi Beta Kappa. Mr. Panossian then went on to receive an M.S. degree in health services research from Stanford Medical School and J.D. and M.B.A. degrees from Harvard Law School and Harvard Business School. Mr. Panossian serves on the Advisory Board of the Stanford Institute for Economic Policy Research. He is a member of the State Bar of California.

RAJ MAKAM

Managing Director and Co-Portfolio Manager

Mr. Makam joined Oaktree in 2001 and currently serves as co-portfolio manager for the U.S. Private Debt group. His primary responsibilities include oversight of the group's professionals, portfolio construction and overall management of the Mezzanine Finance and Middle-Market Direct Lending strategies. Prior to joining Oaktree, Mr. Makam worked at Banc of America Securities LLC (previously NationsBanc Montgomery Securities LLC) for four years in their Leveraged Finance/High Yield Group. During that period, he specialized in bridge finance and was responsible for deal origination, market analysis, structuring, due diligence and legal documentation. Prior to joining Banc of America Securities in 1997, he worked for five years as a senior software engineer at Montage Group Ltd. and Dantec Electronics Inc. Mr. Makam received a B.S. degree with distinction in engineering from the Bangalore Institute of Technology, India. He then went on to receive an M.S. degree in engineering from the University of Akron, Ohio and an M.B.A. in finance from Yale University.

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Mr. Casperson joined Oaktree in 2001 and currently serves as co-portfolio manager for the U.S. Private Debt group. His primary responsibilities include oversight of the Middle-Market Finance team, portfolio construction and overall management of the Mezzanine Finance and Middle-Market Direct Lending strategies. Prior to joining Oaktree, Mr. Casperson worked in the Leveraged Finance and Global Syndicated Finance groups at J.P. Morgan Chase where he was responsible for leading high yield deal teams in all phases of due diligence and "one-stop" financings including senior credit facilities, high yield bonds and bridge loans. Prior to that, Mr. Casperson was a member of Chase Manhattan's Financial Sponsor Group, where he was responsible for managing relationships with a variety of buyout funds. From 1989 to 1998, Mr. Casperson worked at NationsBank N.A., most recently as a principal in the High Yield Finance Group. Prior to NationsBank, he was an auditor at Touche Ross & Co. Mr. Casperson holds a B.A. degree in accounting from Rutgers University and an M.B.A. from The University of Michigan School of Business Administration with a concentration in finance.

CLARK KOURY

Senior Vice President and Credit Product Specialist

Mr. Koury is a senior vice president and product specialist focused on Oaktree's credit strategies. He has led initiatives across the performing and opportunistic credit businesses and currently oversees the efforts for Oaktree's private credit strategies. In this capacity, Mr. Koury is responsible for various aspects of product marketing, strategy updates, client communications and product development. Mr. Koury joined Oaktree in 2016 from the Investment Banking Division of Goldman, Sachs & Co., where he was most recently a vice president in the Leveraged Finance department. Prior experience includes work at Barclays in the firm's Leveraged Finance and High Yield Capital Markets groups. Mr. Koury graduated with a B.A. degree in economics and political science from Columbia University.

ALLISON LEE

Vice President, Infrastructure Investing and U.S. Private Debt Product Specialist

Ms. Lee joined Oaktree in 2019 from Capital Dynamics, where she was a product manager for Clean Energy Infrastructure. Prior thereto, she was an investment banking analyst with Threadstone Advisors. Ms. Lee began her career at Morgan Stanley, where she was a credit risk analyst on the Hedge Funds team. She graduated from the Wharton School at the University of Pennsylvania with a B.S. in economics *magna cum laude*.

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