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A Comprehensive Guide to Private Credit

Development, expansion and opportunity

AUTHORED BY:

Brendan McCurdy

MANAGING DIRECTOR,
HEAD OF RESEARCH & MARKETING
ARES WEALTH MANAGEMENT SOLUTIONS

ACCESSARES

" At Ares, we believe the private credit asset class will play an important role in funding growing companies and economies into the future and can serve as a core allocation in well-diversified investment portfolios."

Raj Dhanda

PARTNER,
GLOBAL HEAD OF WEALTH MANAGEMENT

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Executive Summary

Direct lending private credit, an established yet dynamic asset class, may offer unique opportunities for investors seeking risk-adjusted returns, yield and diversification. This piece highlights key aspects of direct lending's historical development, characteristics and placement within investment portfolios and its future prospects.

Rising Interest in Direct Lending

- Demand for direct lending increasing, with a market size of $1.7 trillion[1] across various subsectors.
- Direct lending is hold-to-maturity lending to businesses, secured by collateral.
- Strong contractual protections, shorter issuance time and 1:1 negotiations can differentiate vs. the public markets.
- Accessibility has improved for ordinary investors due to newer fund structures.

History and Development

- Bank consolidation and regulatory changes led to reduced lending to small and medium-sized companies.
- Private credit filled the void, providing capital to borrowers and consistent returns for investors.
- European and Asian markets also experience strong demand for private debt capital.

Characteristics to Understand

- Include position in the capital structure, loan to value, leverage and interest coverage.
- Sustainability of the yield premium is driven by supply/demand, convenience factor for borrowers.
- Return and risk have historically outperformed most other asset classes.

Size Differences and Middle Market Importance

- The U.S. middle market, comprising private companies, represents a significant economic force.
- Lending to midsized companies may offer favorable spreads, lower leverage and less competition.

Sponsor vs. Non-Sponsor

- Private equity sponsor-backed companies can provide scalability and general partners (GPs) can give capital support during difficult times.
- Non-sponsor backed companies can fetch better economics and stronger lender protections.
- Yet, comprehensive coverage of non-sponsor space requires a robust origination team.

Regional Opportunities

- Private lending extends to Europe and Asia, mirroring U.S. trends.
- European middle-market companies have shown promising revenue growth and steady margins.
- Regional diversity poses challenges; a local presence is critical for deep relationships and understanding of local norms.

1. Source: Preqin for non-business development company (BDC) data plus BDC assets from Cliffwater as of the Q3 2023 report. Includes direct lending, distressed debt and special situations as defined by Preqin.

Executive Summary, cont.

Investment Success Factors

- **Good underwriting:** historical performance crucial for benchmarking
- **Deep borrower relationships:** active origination through networks
- **Incumbency:** first/last look advantage; reduces diligence risks
- **Investment team scale:** covers diverse markets and sponsors
- **Flexibility:** selectivity across flavors; adapts to market conditions
- **Diversification:** smaller average position sizes can enhance risk management

Flexibility in Direct Lending Allocation:

- Flexibility can be key to finding the best opportunities and building the best borrower relationships.
- Different flavors (small, mid, large; sponsor, non-sponsor; U.S., Europe, Asia) offer varying risk-adjusted returns.
- Incumbency—sticking with borrowers as they grow—can enhance sourcing and risk management.

Direct Lending in Portfolio Construction:

- Cycle-tested high yield and equity-like returns with lower risk.
- Potential diversification benefits due to low correlations with other asset classes.
- Sizing: from 8%–18% weighting depending on portfolio type; often part of fixed-income allocations.

Driven by investor demand, regulatory shifts and the need for flexible lending solutions, we believe direct lending private credit will continue to play a vital role in funding growing companies globally. However, investors may want to be careful to prioritize managers who display strong underwriting, flexibility and diversification. As the asset class evolves, direct lending may remain a valuable addition to well-diversified portfolios.

1 Making the Case for Direct Lending Private Credit

REASONS FOR THE RISING INTEREST IN DIRECT LENDING

Demand for direct lending increases steadily each year. We believe this market—now $1.7 trillion in assets across an array of subsectors—will continue to present attractive opportunities for investors.[1]

The terms “private credit” and “private debt” are used interchangeably and can include such diverse sub-asset classes as direct lending to businesses and asset-based lending to real estate projects, infrastructure projects, aircraft and shipping assets. For the purposes of this paper, we will focus primarily on the highest-quality, or “senior,” direct lending to businesses, although riskier junior lending can also be a very fruitful investment strategy.

Senior direct lending private credit is:

Senior
First in line among creditors in case of a bankruptcy

Secured
Collateral from the borrower backs the loan

Floating rate
Very short duration

Private Credit Has Evolved and Can Offer a Number of Potential Benefits to Investors

Private credit has key differences compared to public fixed income

1 **Banks have retrenched** from middle-market companies given regulatory risks and bank consolidation

2 **Asset managers have filled the void** as a source of stable capital

3 **Income-oriented and floating rate** portfolios that embed value and act as a **hedge** to rising interest rates

4 **Enhanced documentation** and **robust portfolio management** to help mitigate downside risk

5 **Lower correlation and lower volatility** to traditional assets, enhancing portfolio **diversification**

6 Historically **low defaults** with **higher recovery** rates

We believe private credit can be a core portfolio allocation

Diversification does not assure profit or protection against market losses.

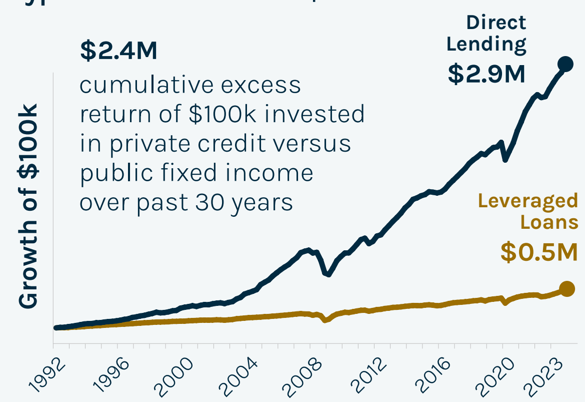
1. Source: Preqin for non-business development company (BDC) data plus BDC assets from Cliffwater as of the Q3 2023 report. Includes direct lending, distressed debt and special situations as defined by Preqin.

Investors have done well by direct lending over the past 30 years, outperforming public bond markets, as demonstrated in the right hand chart.

While it may feel like direct lending has just recently burst onto the investing scene, this is not a new asset class. Rather, it is an established asset class that lived outside of the mainstream media limelight and represented a longer-term opportunity for investors.

Although direct lending has, until recently, been the purview of sophisticated institutional investors and knowledgeable individual investors using publicly traded business development companies (BDCs), the individual investing public can now access direct lending products more easily given new fund structures that allow for minimal lockups, no queues or capital calls and more transparent reporting structures.

Hypothetical Growth of $100k



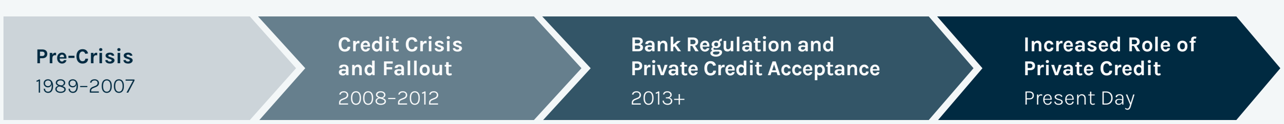
3/31/1992–12/31/2023. Direct lending is represented by the Burgiss Private Credit Index, which includes both senior and junior direct lending. Leveraged loans is represented by Credit Suisse Leveraged Loan Index.

HISTORY AND DEVELOPMENT OF DIRECT LENDING PRIVATE CREDIT

As one of the original private direct lenders, Ares has witnessed firsthand the changes to lending markets and the growth of direct lending over the past two decades.

Banks shifted focus after a multi-decade bank consolidation: Significant bank consolidation started in the mid-1990s and led to the retrenchment of lending to small- and medium-sized companies. In the U.S., commercial banks have declined in number by 50% since 1998, and the top 25 banks now hold more than 50% of all bank commercial and industrial (C&I) loans and focus on larger borrowers. This trend accelerated in response to increased bank regulations following the Great Financial Crisis (GFC), which led to reduced appetite for illiquid assets and accelerated the shift in traditional bank lending to an "originate and distribute" model. Similarly, in Europe the Basel Accords have pressured bank balance sheets, reducing total bank-originated lending and creating white spaces for private lenders to step into.

U.S. Bank Consolidation



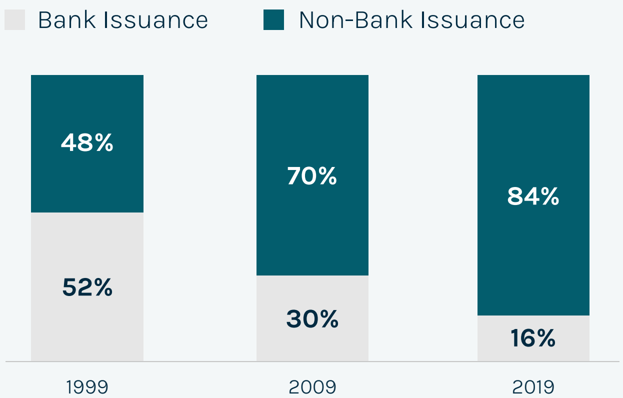
Bank consolidation over past decades[1]

Bank of America Merrill Lynch		JPMorgan Chase & Co.	Wells Fargo
Continental Illinois	Security Pacific Bank	Manufacturers	Foothills Capital Corp.
Nations Bank	Merchants Bank	Hanover	First Interstate Bank
Sovran Bank	NCNB	First Chicago	South Trust
BankBoston	Summit Bank	BankOne	First Union
La Salle Bank	Fleet	Chemical Bank	Northwest Bank
Barnett Bank	Bank of New England	Washington Mutual	Wachovia
		Chase	Goldenwest

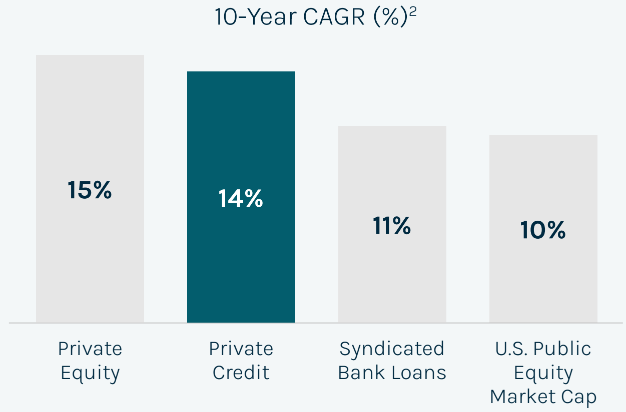
1. Source: Ares. For illustrative purposes only.

U.S. Bank Consolidation, cont.

Banks represent a dwindling share of U.S. primary commercial loan issuance[1]



Private credit has become the stable source of capital for small-, medium- and large-cap companies



For source information, see the bottom of this page.

Public markets shift focus to larger companies: Traded debt like high yield and bank loans (also known as "leveraged loans" or "syndicated loans") shifted away from smaller borrowers as well.

Private capital fills the void: There has been a general trend of moving from public to private across many markets. As traditional sources of public capital financing became less available and regulatory burdens pushed banks toward lower risk lending, private capital filled the void. Along the way, borrowers became comfortable with non-bank private lenders, and supply of private capital increased as investors were attracted to the potentially strong and consistent returns from direct lending investments.

These trends exist beyond the U.S.: European and Asian markets are also experiencing strong demand for private debt capital, as traditional banks and public markets focus less on the needs of small- and middle-market companies. As banks became fewer and larger, small-to-midsized borrowers found it harder to procure loans. We believe both are following a similar growth trajectory to the U.S. market, with Europe approximately five years behind the U.S. and Asia approximately 10 years behind Europe. As a result, these geographies will continue to mature and contribute to growth of the asset class.

Given these developments, private lending is now the largest part of the commercial loan market by number of loans, as illustrated above.

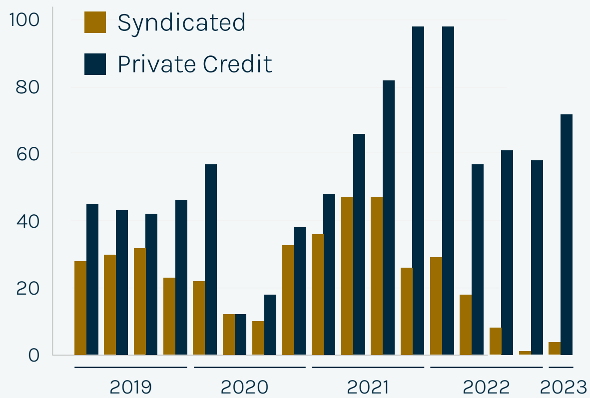
While it may feel as if the asset class has grown by leaps and bounds, at an approximately 14% compound annual growth rate (CAGR), total assets have actually generally grown steadily in lockstep with private equity and just a bit faster than the publicly traded bank loan market.[2]

1. Source: S&P LCD Quarterly Q4-2019 Leveraged Lending Review.
2. Sources: Preqin via public S&P Global article. JPMorgan North America Credit Research, Bloomberg, Bloomberg United States Exchange Market Capitalization (WCAUUS), St. Louis Federal Reserve Economic Data (FRED), SIFMA Research. U.S. public equity market cap CAGR from December 31, 2012–2021 totaled 13.7%, CAGR from 2012–2022 totaled 9.3% and CAGR from 2012 through June 30, 2023, totaled 10.2%.

THE PRESENT AND FUTURE OF DIRECT LENDING PRIVATE CREDIT

We continue to see the majority of private equity buyout transaction lending happen through the direct lending market versus the public syndicated bank loan (leveraged loan) market.

Count of Syndicated vs. Privately Financed LBO Transactions



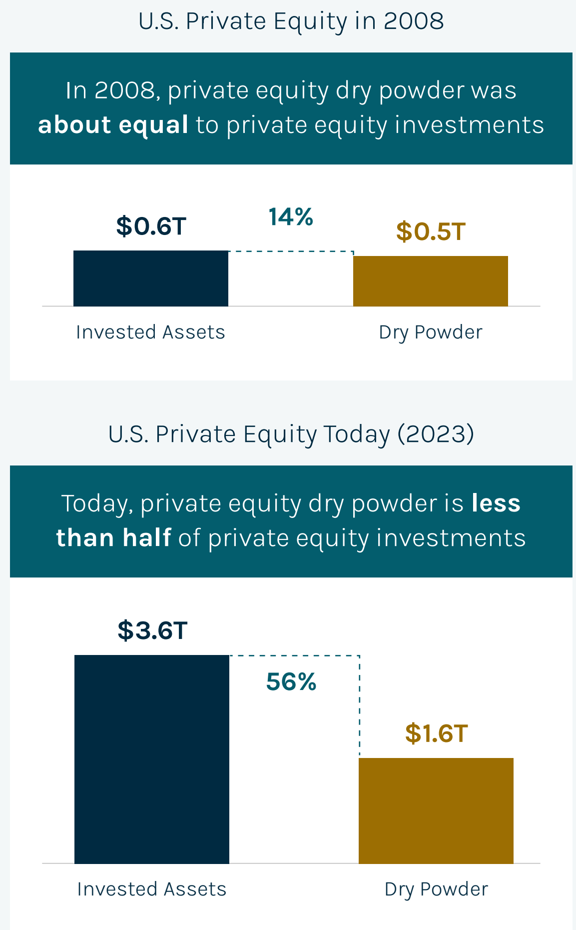
Sources: LCD Q1 2023 Quarterly Review, an offering of S&P Global Market Intelligence; S&P/LSTA Leveraged Loan Index.

Total assets under management (AUM) of the direct lending asset class (including all sub-asset classes) is estimated to stand at $1.7 trillion as of the end of 2023 versus $400 million in 2012, a 13.6% compound annual growth rate—roughly in line with the growth of private equity over the same time period (14.5% CAGR) and about twice the growth rate of bank-led commercial and industrial loans (6.7% CAGR). Direct lending private credit is estimated at $700 billion.[1]

> "Total AUM of the direct lending asset class (including all sub-asset classes) is estimated to stand at $1.7 trillion as of the end of 2023."

When thinking about future AUM growth, signposts can be found in dry powder. Although the amount of private equity (PE) dry powder is small relative to existing private equity assets, it dwarfs the amount of direct lending dry powder.

U.S. Private Equity Invested Assets vs. Dry Powder



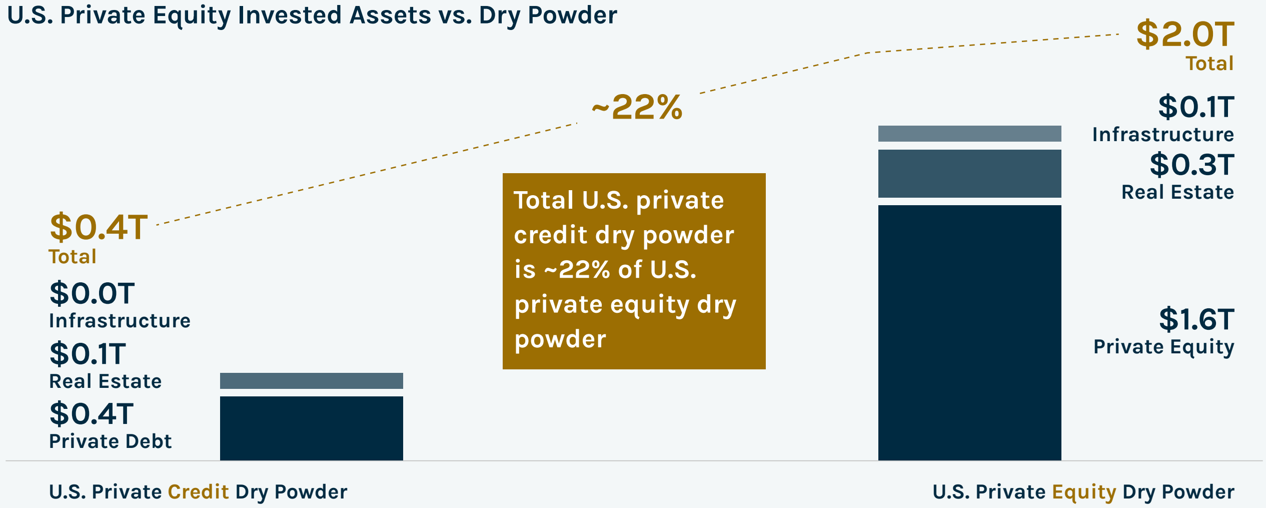
Sources: Preqin, PitchBook LCD Q4 2023 Global Report – U.S./Europe. As of Dec. 31, 2023.

1. Sources: Preqin via public S&P Global article on private markets growth and AUM, St. Louis Federal Reserve Economic Data (FRED) for Bank C&I loans.

This private equity dry powder—as well as un-exited PE assets, which will require financing upon sale—hints at future deals that are likely to get done and likely to require vast sums from private lenders.

We believe this high level of potential future demand can continue to create a supply/demand imbalance in the market that can keep pricing attractive for lenders and investors in direct lending.

U.S. Private Equity Invested Assets vs. Dry Powder



Source: PitchBook Q4 2023 LBO Report. Note: Totals may not sum due to rounding.

Key Trends That Are Influencing the Market Opportunity

Maturation of credit markets has increased access and demand for more flexible terms offered by direct lenders.

Structural Shifts in Supply and Demand for Private Capital

- Continued bank retrenchment
- Structural shift from public to private capital
- Increased reliance of private equity on direct lending for deal financings

Expansion of Average Issuer Size in Loan and High Yield Markets

- The growth of the leveraged finance markets and the increase in average issuer size expand the addressable market
- Especially during periods of dislocation, private capital providers continue to take market share

Credit Markets Are Less Liquid

- Growth of passives with structural duration mismatches drives greater volatility in liquid markets
- Dealer inventories and market making reduced
- Private solutions represent an attractive alternative

ATTRACTIVE OPPORTUNITIES IN DIRECT LENDING

2 Defining the Opportunity

WHAT IS DIRECT LENDING IN ESSENCE?

Private credit refers to privately held loans issued by anyone who is not a bank ("non-bank lender")

Private credit is a broad term; one of the most popular segments is direct lending

Direct lending refers to a loan made to a business, most often to a private company owned by private equity

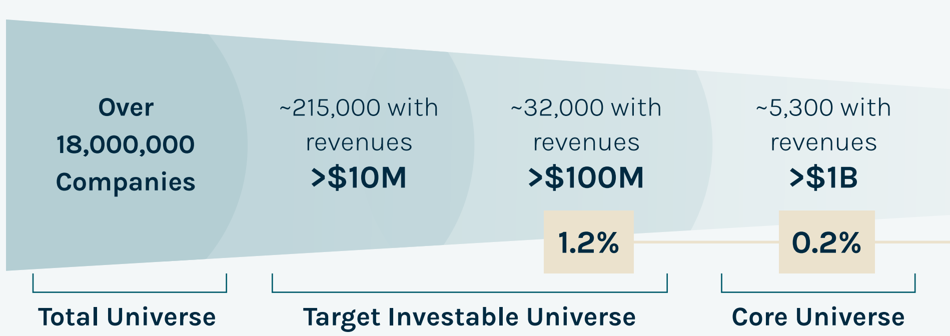
Non-bank lenders have been able to offer more flexible capital, more certainty for follow-on capital and more flexibility to price within different currencies for private equity firms trying to finance takeovers. This is because they hold the loans to maturity rather than try to package and sell them on to other investors. This can also differentiate non-bank lenders given the strong relationships they build through the loan process and the services they can provide to borrowers through the life of the loan.

These points of value accrue to investors as private lenders give investors access to the returns of their lending business.

Private Loan Characteristics

- Predominately floating rate
- While the direct lending sector lends to smaller companies on average than those financed in the broadly syndicated market, direct lending borrowers are typically in the top 1%–2% of all U.S. companies based on revenues and are vital to our economy (see diagram below).
- Strong contractual protections for the lender to control risk—for example:
  - earnings definitions, adjustment caps
  - incurrence tests and covenants
  - base rate floors
  - call protection
- Issued in approximately half the time of public loans
- 1:1 negotiations between borrower and lender in case of default (rather than amendment agreements needed from hundreds or thousands of bondholders)
- Loan is held to maturity by the lender rather than packaged and sold on to other buyers

Number of U.S. Companies by Annual Revenues



Source: NAICS Association

Of the 18 million businesses in the U.S., we estimate that the 5 largest business development companies lend to the top ~2% largest companies in the country.

STRUCTURAL DIFFERENCES (AND SIMILARITIES) VS. PUBLIC MARKETS CAN DESCRIBE THE PROTECTIONS AND RISKS

First, there are important similartities between direct lending and its publicly traded counterparts. First lien (“1L”) secured debt is senior direct lending and sits at the top of the capital structure—meaning that it is first in line to get paid back in case of a bancruptcy. Over time, this senior debt has tended to make up 35%-45% of a company’s value. It is similar to publicly traded bank loans in these regards.

Second lien and mezzanine junior debt can make up another 25%-35% of a company’s value and sits below the first lien debt in order of repayment. It has a higher yield as a result of this additional risk and is most comparable to high yield bonds in the public markets. Although there may be small subordinated debt positions in Europe, second lien and mezzanine debt tend to be a U.S. phenomenon.

Illustrative Capital Structure (%)

Public Market Equivalent		Private Market Naming Convention
Leveraged Loans & IG Corporate	**Senior Debt (35–45%)**	**1 Lien (1L) = secured**
High Yield	**Junior Debt (25–35%)**	**2 Lien (2L) = secured Mezzanine = unsecured**
	Equity (30–50%)	

There are also important differences between each of these credit types, as illustrated below. These can include wider spreads in direct lending, more negotiated covenants and protections in direct lending, ongoing oversite by private lenders and the possibility for some preferred equity or warrants in direct lending.

Comparison of Commercial & Industrial Loan Structures

		Direct Lending			
		Unitranche*			
	Bank Loans	First Lien	Second Lien	Mezzanine	High Yield Bonds
Coupon Payments	**Floating** 3.5–4.5% floating over SOFR (~5% today)	**Floating** 5.0–6.0% floating over SOFR (~5% today)	**Floating** 6.0–8.0% floating over SOFR (~5% today)	**Fixed** 12.0–15.0% fixed (may have a PIK component)	**Fixed** 7.0–10.0% fixed (may have a PIK component)
Security	Secured; first lien on assets	Secured; first lien on assets	Secured; second lien on assets	Subordinated	Subordinated
Liquidity	Fairly liquid	Illiquid	Illiquid	Illiquid	Typically liquid
Covenants	Loose or no covenants (depends on what market will bear)	Highly negotiated covenants, 1-2 at the moment, including maintenance/ incurrance covenants	Highly negotiated covenants, including maintenance/incurrance covenants, but takes a back seat to 1L covenants		Typically incurrance covenants only
Stated Maturity	5-6 years	5-7 years	5-7 years	5-7 years	7-10 years
Prepayment Terms	Par	Par - $1.03	Par - $1.03	Often 2-yr non-call, then at premium	Often 3-5-yr non-call
Closing Fees / Discount ("OID")	1-3% goes to banks	1-3%	2-5%	2-5%	1-2%
Equity	No	Not generally	Yes, potential upside through equity co-investments or warrants		No
Due Diligence (DD)	Intensive DD by lead investors; syndicate access to diligence may be more limited	Intensive, including full access to management, 3rd-party accounting reviews			Public equity-style research designed to identify attractive risk-adjusted returns within the investable universe
Control	Limited to no control over deal structure and terms; risk of large group of investors who may have misaligned interest in downside scenario	Generally sole lender or part of small group of investors, giving lenders more control over structure, terms, documentation, amendments and work-out situations; benefit from position of incumbency for follow-on investments			Limited to no control over deal structure and terms; risk of large group of investors who may have misaligned interest in downside scenario
Board Rights	No	May have board observer seats	May have board observer seats or board seats		No
Information	Variable	Typically access to robust financial packages and frequent contact with management teams			Limited to quarterly public information

*Unitranche is a loan structure that combines senior and subordinated debt into one loan.

Terms to understand

Diving further into the structure of private direct loans can help a potential investor understand all the terms they might run across. We share an example below.

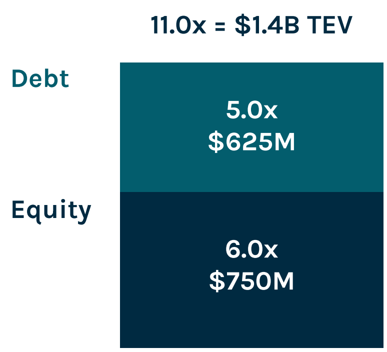
Direct Loans Have Conservative Structures and Loan to Values

Illustrative capital structure for a company with $125 million in EBITDA

Initial Credit Metrics

45% **Loan-to-total value**	125M **EBITDA**
0.83 : 1 **Debt-to-equity ratio**	2.0x **Interest coverage at 10% interest**

Total Enterprise Value (TEV)



Considerations in a Changing Market

Companies in private transactions are typically valued at a multiple of unlevered free cash flow (FCF) or an EBITDA metric.

Unlevered free cash flows of performing companies typically **grow with the economy** and can help **offset interest and inflation costs.**

In the event that unlevered cash flows and enterprise value multiples decline, the **equity cushion supporting the loan can be substantial** and the overall enterprise value can remain **supportive of the loan.**

Private credit capital structures are generally supported by significant equity value from PE sponsors, which can help provide better credit outcomes in difficult economies.

Loan to Value

The first metric that's important to understand is loan to value (LTV). This refers to the amount of debt a portfolio company has relative to its total value.

As an analogy, if you put a 20% down payment on your home and borrow the remaining 80% from the bank, your mortgage would have an 80% loan to value. For the above hypothetical example, the company has borrowed 45% of its total value. (In the private equity world, total value is called "enterprise value," and it functions roughly similarly to the "market capitalization" of a publicly traded company.)

Similar to the way a home purchaser who puts down a larger down payment may be less likely to default on his/her loan, when company owners put in more equity, it is a general market indicator of lower risk. Of course, for any individual loan, a company might be able to borrower at a higher LTV because it is a better credit with lower default risk. But for a large portfolio of loans or the industry as a whole, lower LTV generally indicates safer loans.

Company or Deal Leverage

The next metric is company or deal leverage. Deal leverage refers to the size of the loan compared to the annual earnings of the company, and it is presented as a multiple. The company in the example above makes $125 million of annual earnings (in the private equity world this measure is called "EBITDA" or earnings before interest, taxes, depreciation, and amortization). That means this company has deal leverage of 5x ($625 million loan/$125 million annual earnings).

Interest Coverage

The next important metric is interest coverage. Lenders often measure a borrower's ability to make interest payments on their loans using an "interest coverage ratio." Interest coverage is simply the company's annual earnings, as measured by EBITDA, divided by the annual interest payments on outstanding debt. For the company above, which is being charged a 10% annual interest rate on its $625 million of outstanding debt, this is $125 million of annual earnings divided by $62.5 million of annual interest, or a "2x interest coverage ratio." The company's earnings would have to fall by half before the company would not have the means to meet its loan payments.

Leverage

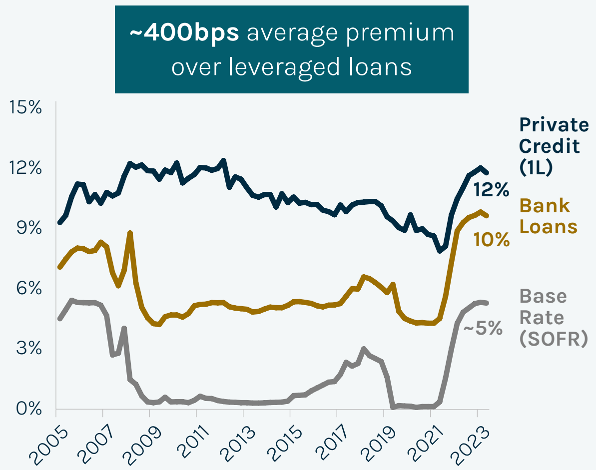
Finally, a direct lending fund that holds these loans may be using leverage in the fund structure to increase the capital available to make private direct loans, as well as increase fund-level returns. The leverage ratio of the fund is completely separate from the leverage levels of the underlying companies.

In the example on page 14, the fund holding the loan has a 0.83 debt-to-equity ratio, meaning that for every $1 billion of investor capital in the fund, another $830 million of borrowing is being used to make further loans for a total value of $1.83 billion.

STRUCTURAL DIFFERENCES VS. PUBLIC MARKETS CAN EXPLAIN THE YIELD PREMIUM

Because of the differences in structure, private lenders can charge a premium, or spread, to publicly traded bank loans. That premium has ranged from ~200–400 basis points (bps) over time.

Yield Premium to Public Market Equivalent Sustained Over Time[1]



The demand for speed, customization and flexibility drives premiums

For source information, see the bottom of this page.

Much of that comes from the inherent differences in process—1:1 relationships and negotiations in direct lending versus the syndication process in publicly traded bank loans and high yield. This allows private lenders to turn around a loan more quickly and offer more certainty of execution to the buyer where speed can also mean the difference between winning or losing the deal.

Additionally, in the case of any troubles throughout the loan life, most borrowers find it easier to work with their private lender on debt restructuring versus the process of wrangling hundreds or thousands of underlying bond holders to try to request a loan restructuring.

These conveniences allow private lenders to charge a slightly higher spread versus the publicly traded bank loan and high yield markets.

Enhanced Flexibility/Capabilities vs. Bank Syndications

Loan Structure

- Yield Premiums
- Bilateral Relationships
- Hold to Maturity Bespoke Structures
- Stronger Financial Covenants

Restructuring Capabilities

- Liquidity to Support Transactions
- Flexibility in Restructurings
- In-House, PE-Style Work-out Teams

Note: Features listed may be available in bank syndications. Individual direct lending transactions may not include all features listed.

While both private and public loans charge the borrower an origination fee (in the form of an "original issue discount" or OID), only private lenders pass that origination fee on to their investors, while in the public markets, the originating investment bank eats that OID as part of its fee. Traditionally, that fee has ranged from 1.5% to 3% of total loan value.

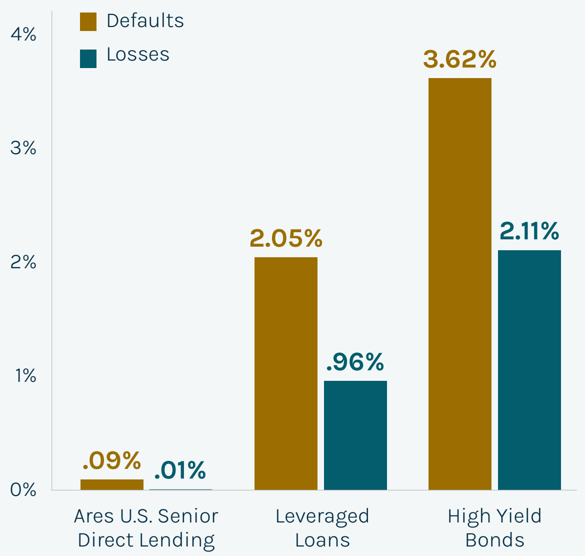
Adding up the three portions of return: risk-free rate + credit spread + origination fee = total yield of the private loan. Today (Q2 2024) that ranges from the high single digits to low double digits.

1. For illustrative purposes only. Data as of March 31, 2024. Private credit is represented by the Cliffwater Direct Lending Index annualized current yield. Bank Loans are represented as Credit Suisse Leveraged Loan Index yield to maturity. Base rate represented by 3M LIBOR 2005 – Q1 2018 and SOFR thereafter. Please refer to the endnotes for important information and information related to indexes.

RETURN AND RISK AS AN INVESTOR

We believe one of the best ways to look at risk in direct lending is by focusing on defaults and losses.

Average Annual Realized Default & Loss Rates



Time frame for data listed above: October 8, 2004 (inception) – September 30, 2023

Source: Ares Management, Cliffwater, Fitch U.S. Leveraged Loan Default Index, Refinitiv LPC, Bloomberg. Represents annualized defaulted invested capital as a percentage of total invested capital since inception. Past performance of Ares U.S. Direct Lending Team's senior direct lending strategy is not an indicator of future performance.

Although defaults will happen from time to time, losses can mostly be avoided through a combination of working with the borrower to improve its business, debt restructuring and quality collateral. Any loan with collateral is termed "secured." Collateral can take the form of property, plant and equipment and even intellectual property. It is the quality of the collateral that is the ultimate backstop in the worst of times and can ensure that a lender recovers its principal and interest.

Avoiding losses is also critical for returns. Because the market largely sets the going yield at any given moment, there is little a private lender can do to increase topline returns. However, by mitigating losses that subtract from those topline returns, an effective private lender can increase its net take-home return versus a manager experiencing higher loss rates.

> "Direct lending private credit has outperformed the Bloomberg Aggregate Bond Index 88% of the time over the past 18 years."

Direct lending is a cycle-tested asset class. It is worth looking at history to remind ourselves how the asset class has performed over time. This excellent chart from Cliffwater, the direct lending benchmark provider, illustrates that over the past 19 years, direct lending private credit outperformed the Bloomberg Agg in all but two instances (i.e., ~89% of the time) and high yield (HY) in all but five (i.e., ~74% of the time).

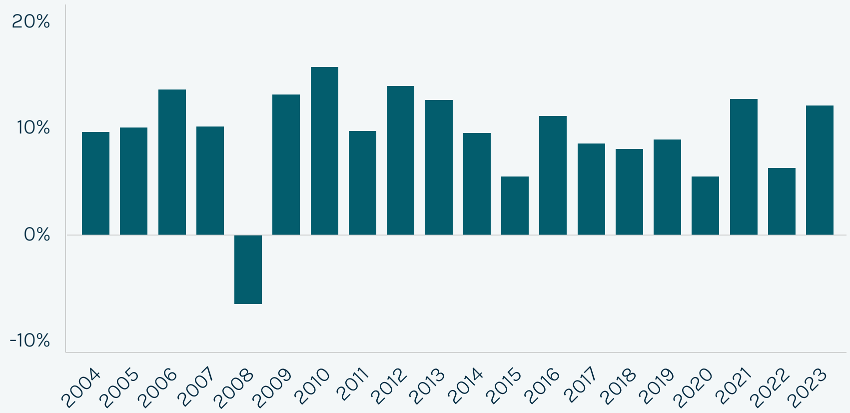
Calendar Year Return Comparison: 2005–2024

Calendar Year	Cliffwater Direct Lending Index (CDLI)	Bloomberg High Yield Bond Index	Morningstar LSTA US Leveraged Loan Index	Bloomberg Aggregate Bond Index
2005	10.1%	2.7%	5.1%	2.4%
2006	13.7%	11.9%	6.7%	4.3%
2007	10.2%	1.9%	2.1%	7.0%
2008	-6.5%	-26.2%	-29.1%	5.2%
2009	13.2%	58.2%	51.6%	5.9%
2010	15.8%	15.1%	10.1%	6.6%
2011	9.8%	5.0%	1.5%	7.9%
2012	14.0%	15.8%	9.7%	4.2%
2013	12.7%	7.5%	5.3%	-2.0%
2014	9.6%	2.5%	1.6%	5.9%
2015	5.5%	-4.5%	-0.7%	0.6%
2016	11.2%	17.1%	10.1%	2.7%
2017	8.6%	7.5%	4.1%	3.6%
2018	8.1%	-2.1%	0.5%	0.0%
2019	9.0%	14.2%	8.7%	8.7%
2020	5.5%	7.1%	3.1%	7.5%
2021	12.8%	5.3%	5.2%	-1.5%
2022	6.3%	-11.2%	-0.8%	-13.0%
2023	12.1%	13.5%	13.3%	5.5%
10 Years	**8.8%**	**4.6%**	**4.4%**	**1.8%**
Inception	**9.5%**	**6.4%**	**4.8%**	**3.1%**

Source: Cliffwater. Blue highlights show the best performing of the four indexes for a given year, while tan highlights are our own and notate negative absolute return years. All returns are gross total returns. Past performance is not an indicator of future returns.

Only during 2008 has direct lending as a whole experienced a negative return, and even then, an arguably mild one that significantly outperformed bank loans and high yield bonds.

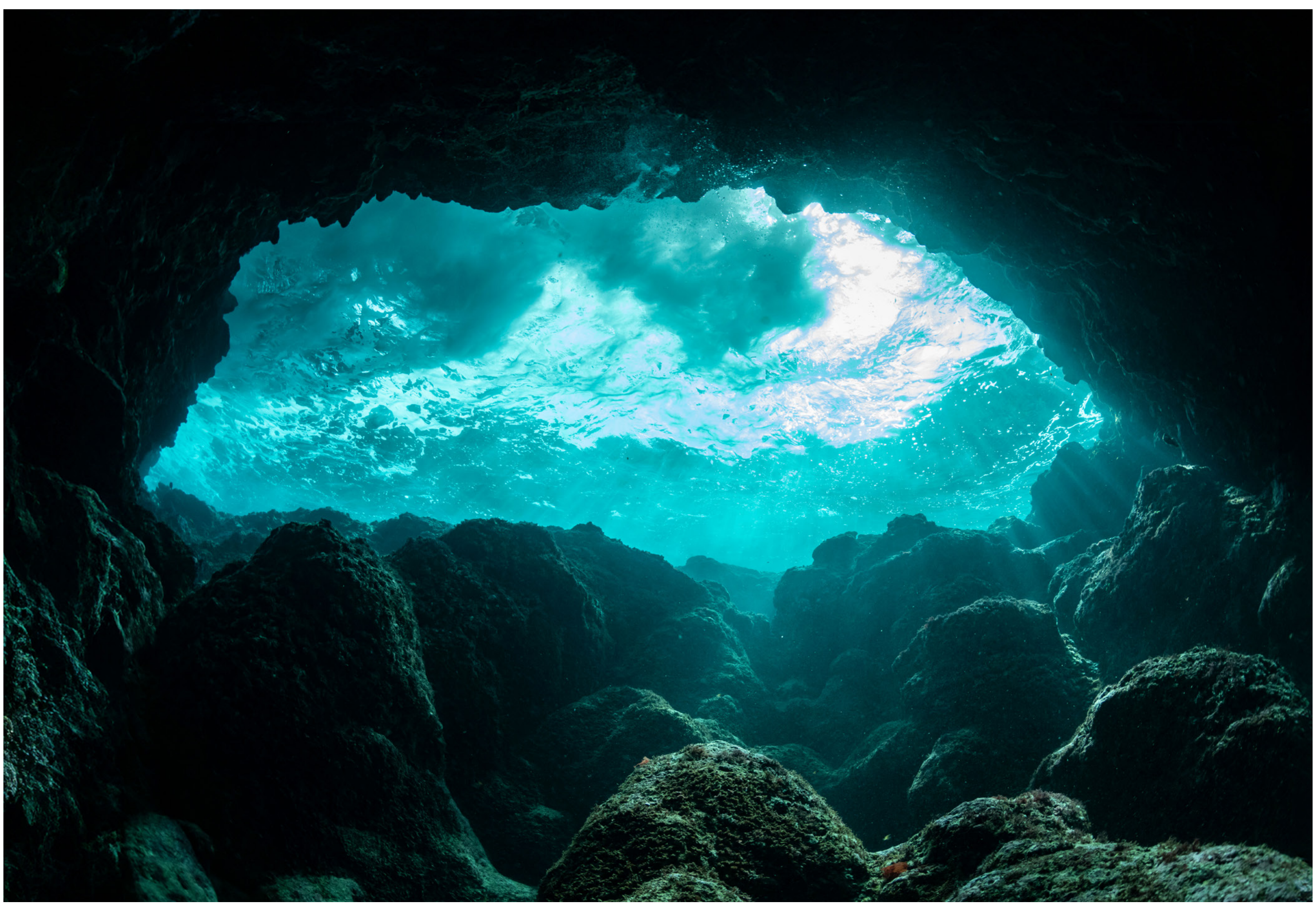
Direct Lending Has Historically Provided Investors with Attractive Relative Downside Protection



Comparative Max Drawdown

Asset Class	Max Drawdown
Private Credit	-8%
Leveraged Loans	-30%
High Yield Bonds	-27%
S&P 500	-48%

As of December 31, 2023. Direct lending is represented by the Cliffwater Direct Lending Index (CDLI). The CDLI Index does not reflect the impact of fees and expenses of the Fund. Investors cannot invest directly in the index. Leveraged Loans is represented by Morningstar LSTA US Leveraged Loan Index. High Yield Bonds is represented Bloomberg Barclays U.S. Corporate HY Bond Index. S&P 500 is represented by the S&P Total Return Index. Past performance is not an indicator of future returns.



3 Not All Direct Lending Is the Same

SIZE DIFFERENCES

Different loan and company sizes have different barriers to entry. For example, to work with larger companies, a lender needs to be able to put large amounts of capital to work and compete against other large lenders, banks and public markets. To put the same amount of capital to work with smaller companies, a lender needs a larger team with depth and breadth of relationships to source deals and maintain relationships.

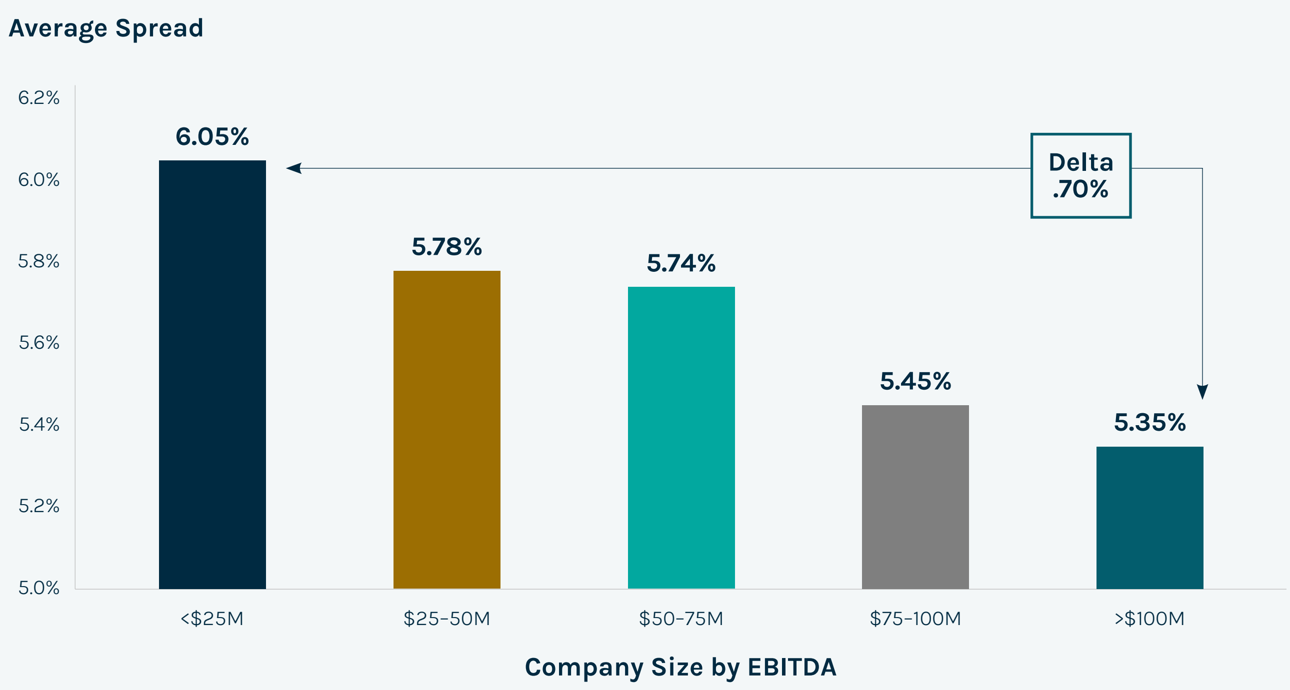
Many lenders prefer to lend to large companies where they can get scale. Doing large deals requires a smaller deal team and fewer originators doing larger dollar transactions.

On the other hand, working with smaller companies takes a larger team to cover more relationships. For example, to originate $1 billion in loans, a lender can do one billion-dollar loan or 20 $50 million loans—essentially 20x the work to loan the same money.

This works if the lender has a large team in place, but it is tough to do when a lender is starting off and wants to originate large quantities of money. So, most direct lending lenders of size stick to making larger loans, even though that means competing with banks and other large lenders in a more competitive market.

Despite the greater work required to lend to smaller companies, there is typically a payoff in the form of more favorable spreads, and we believe those private lenders with the largest and most experienced teams are best positioned to provide the strongest performance.

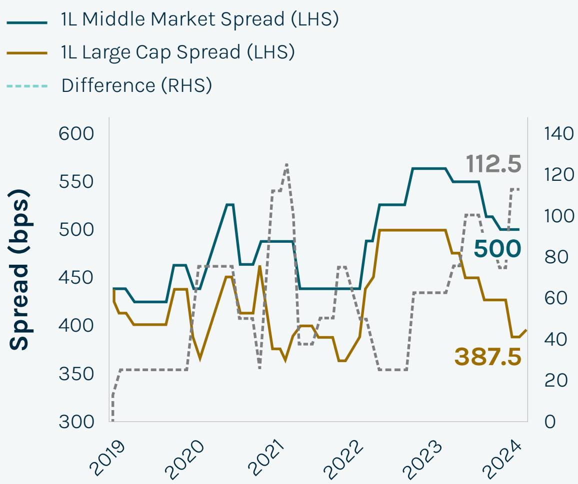
For example, in today's environment we are seeing a ~70 bps spread between smaller EBITDA and larger EBITDA borrowers.



Source: Ares Management. Data as of February 29, 2024.

This spread has persisted through most market environments, though it can change over time, as we illustrate below.

1st Lien Middle Market/Large Cap Spread



Source: Ares Management. Data as of February 29, 2024.

So there is a payoff for lenders that are able to work below the level of the largest companies, in what we call the "middle market."

Less competition can also lead to better terms for lenders. For example, higher Secured Overnight Financing Rate (SOFR) floors for loans to smaller borrowers can protect lenders in the case of falling interest rates.[1]

EBITDA Range	Floors	Delta
<$25M	1.03%	0.25%
$25-50M	0.91%	
$50-75M	0.90%	
$75-100M	0.80%	
>$100M	0.78%	

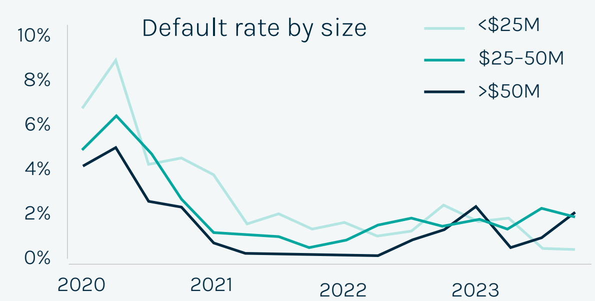
Source: Ares Management. Data as of February 29, 2024.

We typically also see lower leverage levels in loans to smaller borrowers, reducing the risk of the deal.

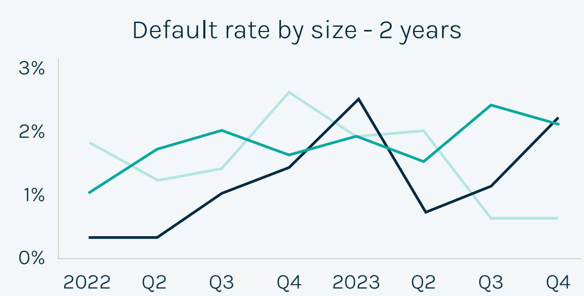
Status	Leverage	Delta
<$25M	4.60x	-0.62x
$25-50M	4.82x	
$50-75M	4.95x	
$75-100M	5.12x	
>$100M	5.22x	

Source: Ares Management. Data as of February 29, 2024.

Defaults by size vary over time. Smaller companies had a harder time during Covid...



...but have had lower defaults more recently.



Source: Proskauer Private Credit Default Index tracks, on a quarterly basis, the default rates of senior secured and unitranche loans.

1. SOFR stands for Secured Overnight Financing Rate and is used globally as the risk-free reference rate for financial contracts.

If everything is perfectly equal between a large company and small company, it is true that the larger company will tend to be less risky. But rarely are the terms the same between larger and smaller companies—typically you get better terms, better protections and more covenants from smaller borrowers.

That said, we would still do both loans! Great companies can be found across the size spectrum, and we believe that lenders that are equally comfortable working across the smaller, mid and large markets hold an advantage.

As one further illustration, below we show observed terms between different-sized borrowers over the past four years.

Ares U.S. Senior Direct Lending Investments by Company

ARES	EBITDA Range		
	<$50M	**$50–100M**	**>$100M**
Originations	65%	22%	13%
Spread	6.04%	5.90%	5.57%
Leverage	5.14x	5.16x	5.40x
Yield per Unit of Leverage	2.39%	2.20%	1.78%

From January 1, 2019 to September 20, 2023. Represents U.S. Senior Direct Lending portfolios as of each identified period. Included capital deployed by ARCC, the Senior Secured Loan Program (SSLP), the Senior Direct Lending Program (SDLP), mingled funds (SDL I, SDL II) and separately managed accounts (SMAs) on the platform. Certain financial information provided by portfolio companies is derived from available portfolio company data, has not been independently verified and may reflect normalized or adjusted amounts.

> "Great companies can be found across the size spectrum, and we believe that lenders that are equally comfortable working across the smaller, mid and large markets hold an advantage."

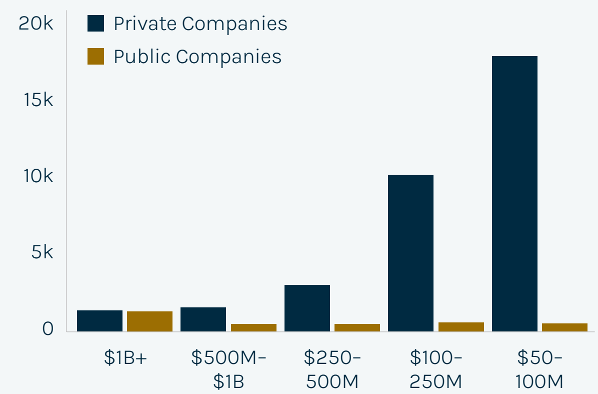
WHY IS THE U.S. "MIDDLE MARKET" IMPORTANT?

There are ~200,000 U.S. companies with 100+ employees

- Collectively, they represent ~1/3 of U.S. economic output
- Same size by output as Germany or Japan
- 99% of them are private

Another lens is revenue. There are ~18,000 U.S. companies with revenue of $50–$100 million and another ~16,000 with revenues greater than $100 million. This is the heart of the middle market, and the majority of these companies are private.

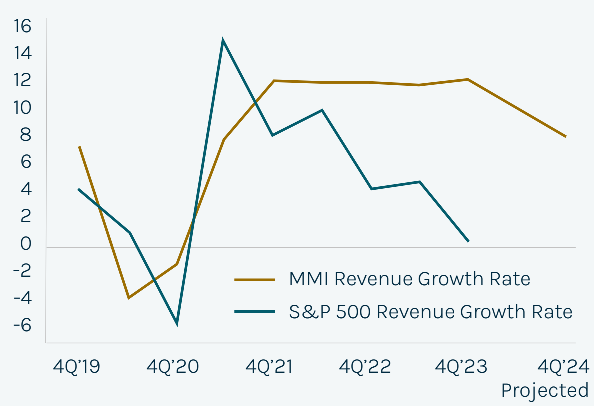
Number of U.S. Public and Private Companies by Annual Revenue



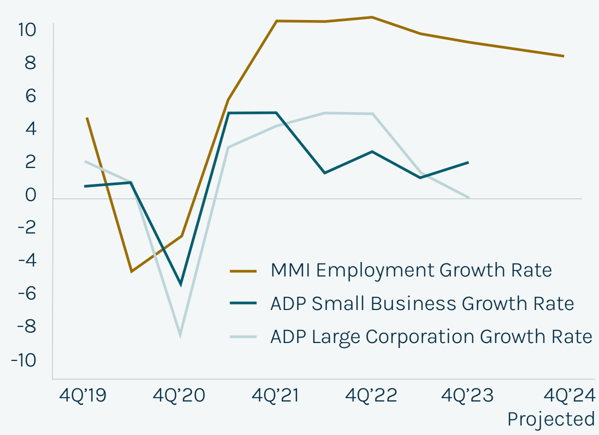
Source: World Economic Forum.

Middle-market companies typically experience stronger growth than large-market companies.

Past, current and projected revenue growth rates for the middle market and the S&P 500 (%)



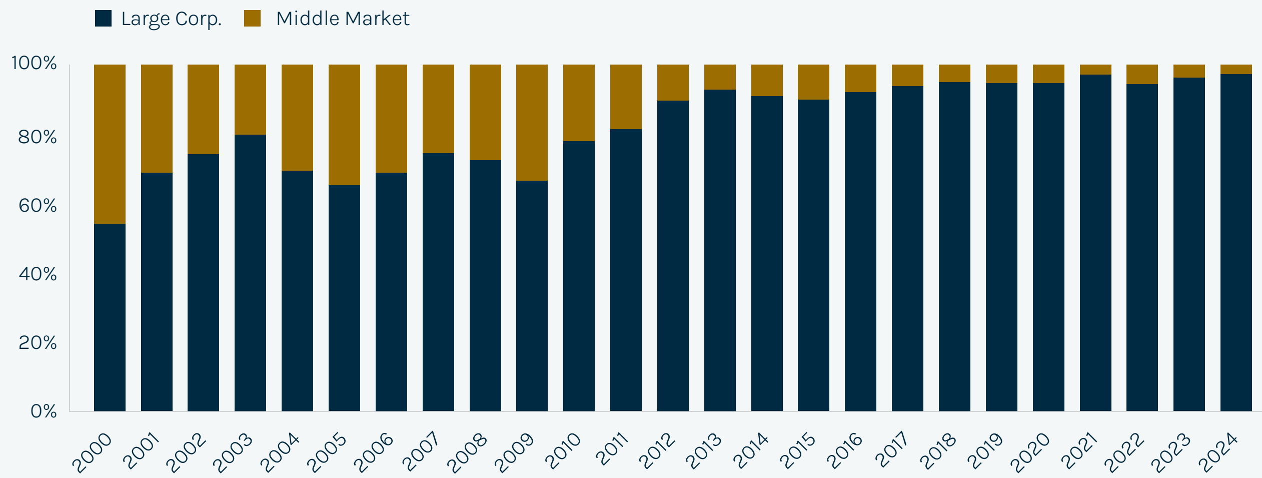
Past, current and projected employment growth rates for middle market, small and large companies (%)



Source: National Center for the Middle Market, as of Q2 2022. "Middle market" includes companies with $10M to $1B in revenues.

However, publicly traded bank loan deals have increasingly focused on large-market companies, ignoring middle-market companies.

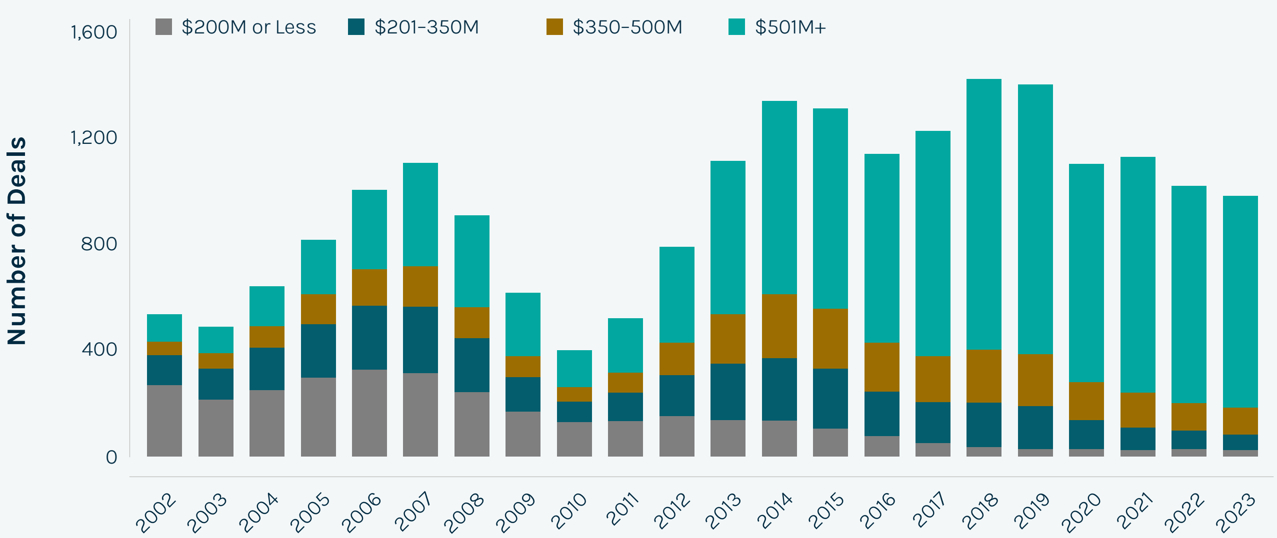
Bank Loans by Deal Count



Source: LCD US Leveraged Loan Volume Report.

As a result, bank loan size has progressively increased over the years. This has left a gap or white space for middle-market lending into which private lenders have stepped.

Rolling 3-Year Bank Loan Deal Size



We believe supporting this U.S. middle market is incredibly important from an economic perspective, and it has been the most fruitful part of the private lending market from an investment perspective.

SPONSOR VS. NON-SPONSOR

Similarly, there are both advantages and disadvantages to working with private equity sponsor-backed companies. A sponsor can inject capital during troubled times. A lender with a GP relationship has an easier time conducting due diligence on a new deal with that sponsor. Additionally, working with a sponsor can give a lender scale, since a sponsor will do many deals per year.

However, there is less competition covering non-sponsor-backed companies. As a result, non-sponsor lending typically pays wider spreads, as we illustrate below.

Status	Spread	Delta
Sponsored	5.79%	-0.28%
Non-Sponsored	6.08%	

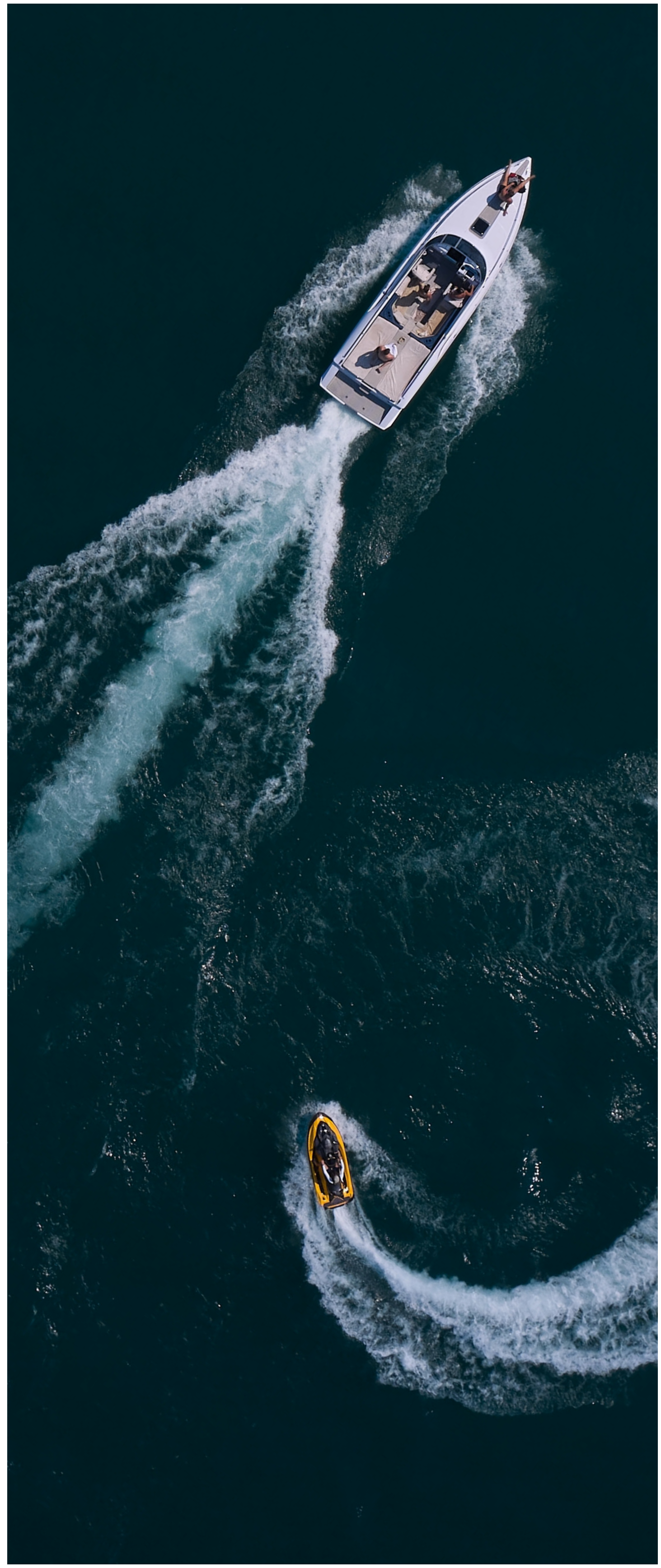
Non-sponsored investments are typically less levered than sponsor-backed deals, which can reduce the risk of those loans.

Status	Leverage	Delta
Sponsored	4.93x	-1.56x
Non-Sponsored	3.37x	

Non-sponsored deals tend to receive more covenants, tighter documents and better economics.

But, it is challenging for most lenders to comprehensively cover the non-sponsor space. A lender needs a sizeable origination team to be able to cover these diverse non-sponsor companies.

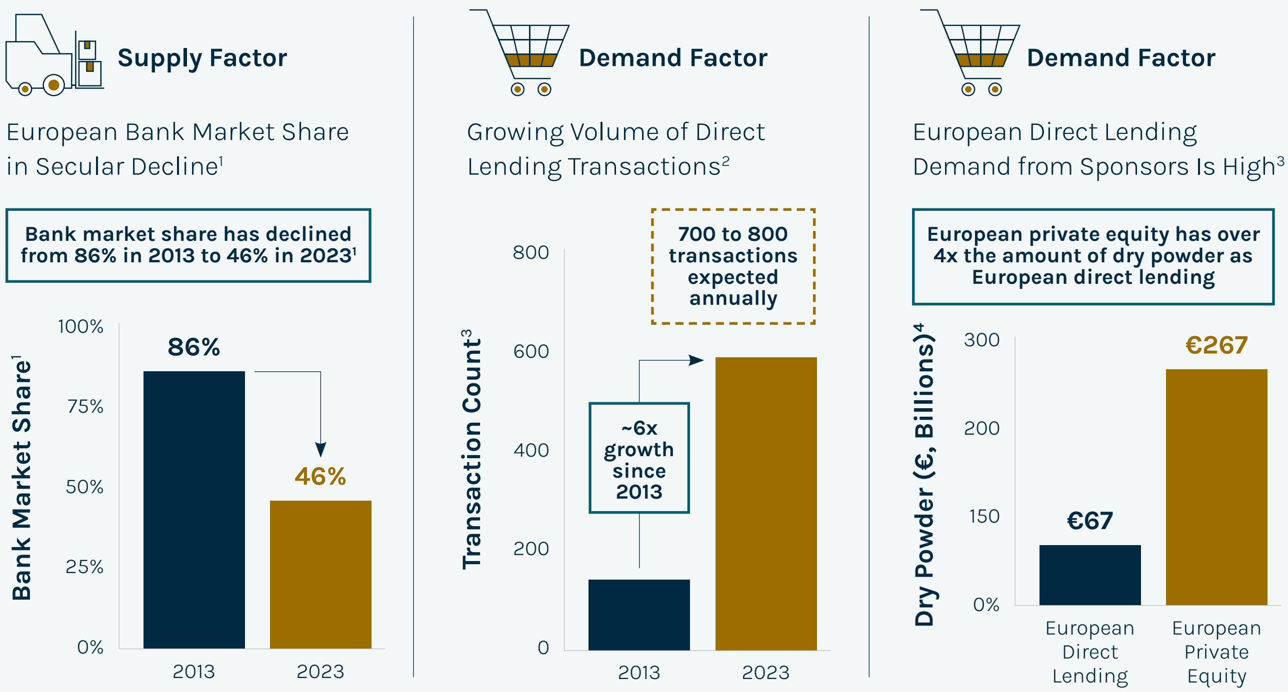
At Ares, we prefer to be able to work with both sponsor-backed and non-sponsor companies, choosing one or the other (or both!) depending on the payoffs and protections we are seeing in the marketplace at any given time.



REGIONAL OPPORTUNITIES

Opportunities for private lending increasingly extend to Europe and Asia. For example, Europe exhibits similar dynamics to the U.S. with long-term declines in the number of banks, recent lending being driven from direct lending ahead of liquid credit and a dearth of dry powder when compared to European private equity powder that will need lending in coming years. More recently, private equity dealmakers have struggled to raise debt through leveraged loans arranged by banks or high-yield bonds, opening more doors for direct lending fund managers.

European Direct Lending Has Embedded Long-Term Secular Growth



1. Houlihan Lokey MidCap Monitor (Q4 2023).
2. Note that 592 deals were completed in 2023. Typically, 700 to 800 deals are expected to be completed annually based on annualized figures since 2021. Deloitte Private Debt Deal Tracker, Q4 2023. Mid-market deals with up to €350 million of debt. Transaction count is as per the specific Deloitte deal count requirements.
3. Preqin. Data as of April 14, 2024.
4. Preqin. Data as of November 6, 2023.

Also like the U.S., European middle-market companies have shown improved revenue growth, improved earnings growth and steady high margins. This appears promising for future repayments and returns.

European Middle Market Operating Performance Has Been Robust

Source: Ares Management, as of September 30, 2023. LTM = last twelve months. YoY = year over year.

1. Weighted by funded capital as of quarter-end. Data above shows actual weighted average revenue, actual weighted average EBITDA and actual weighted average margin.
2. Like-for-like revenue and EBITDA figures refer to the same set of companies and exclude new transactions and realizations during the observed period, as well as excluding businesses with negative EBITDA and outliers. YoY revenue and EBITDA growth figures include both organic and inorganic growth.

However, regional diversity can present investment challenges as these regions are not a monolith. Each country has different banking environments, regulations and norms.

As a result, it is our view that lenders need an on-the-ground presence to facilitate deep local relationships, knowledge of local languages and cultures, sophisticated structuring knowledge and a deep understanding of insolvency processes in each jurisdiction, which are critical for diligence, counterparty selection and protecting capital.

FLEXIBILITY

As you can see, not all direct lending is the same. As a result, there are many potential decisions to make regarding which flavors of direct lending to allocate to: large vs. mid vs. small; sponsor vs. non-sponsor; U.S. vs. Europe or Asia.

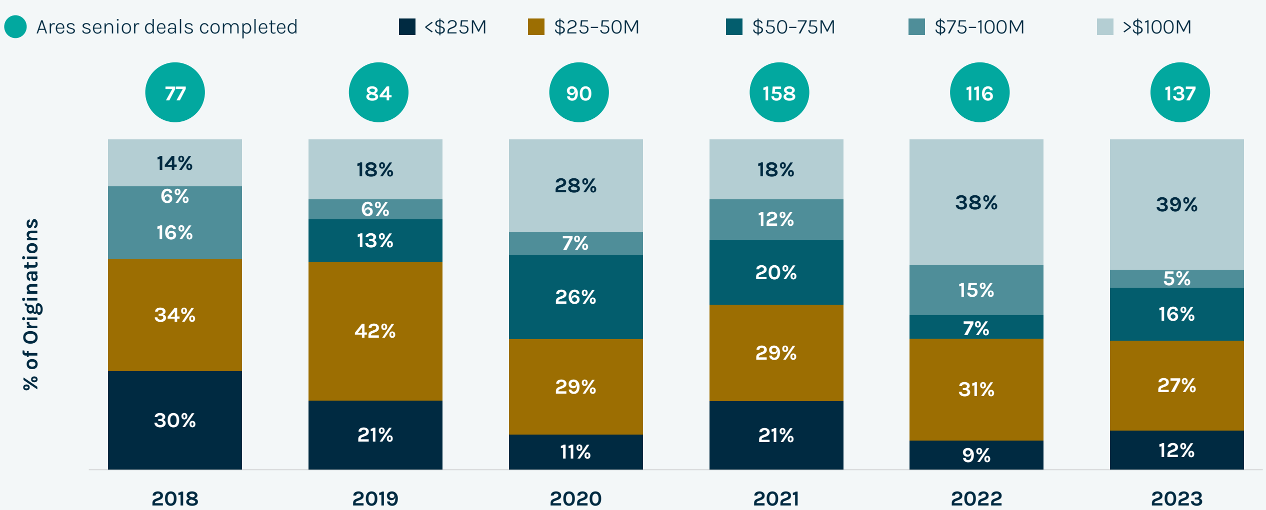
We do not believe that one flavor of direct lending is inherently better than another or that a static asset allocation should apply because (a) success in direct lending generally comes down to great underwriting rather than successful asset allocation, and (b) different flavors of direct lending are attractive at different times.

Some managers, depending on their capabilities, will hew toward a particular flavor and live in that space. Many newer managers who are not traditionally associated with direct lending can naturally only gravitate to those segments where cultivating broad deal flow and having multiyear trust-oriented relationships is not a pre-requisite. This tends to be the large-cap market. We like large deals as well but, as we illustrated above, we do not believe they are "the best" all the time and may present more risk as banks aggressively come back into the market.

So, for a manager to span from the small market all the way up to the large market, and across both sponsor and non-sponsor transactions, the relationships the manager must have to source those loans is crucial. It is also an easy way to differentiate a manager versus newer scaled entrants to the space that are competing only at the large end of the direct lending market, typically against banks.

Using our own experience, we illustrate one way flexibility can be expressed, with the size of transactions we completed shifting year by year depending on the prevailing market conditions.

Ares U.S. Senior Direct Lending Investments by EBITDA



Flexibility across the size spectrum allows us the ability to pivot based on where we are seeing attractive risk-adjusted return opportunities

Represents count of U.S. Senior Term Loans. Represents U.S. Senior Direct Lending portfolios as of each identified period. Includes capital deployed by ARCC, the Senior Secured Loan Program (SSLP), the Senior Direct Lending Program (SDLP), commingled funds (SDL I, SDL II) and SMAs on the platform. Certain financial information provided by portfolio companies is derived from available portfolio company data, has not been independently verified and may reflect normalized or adjusted amounts.

Having built the market foundation in most of these flavors of direct lending, Ares today prefers to invest across all flavors to make loans to great businesses no matter where they sit.

Depth in Origination

Invest across the full company size spectrum

$5M — **$2B+**

Ares senior direct lending EBITDA range

While we could focus on only larger, sponsor-backed U.S. deals if we want to, we believe maintaining flexibility to flex in and out of different flavors allows for:

Higher selectivity

Having a wider spectrum of deals to look at allows a manager to be more selective with the loans it originates. Greater selectivity allows manager to just say "no" when the terms are not favorable.

Ability to seek best risk-adjusted returns

At different times, different flavors offer more attractive terms for lenders: This can be driven by the economic cycle or the level of competition.

- **Example:** In 2021, spreads were tight, covenants were non-existent and competition was fierce in the large market, so we skewed more small and middle market, where our dollars were more highly valued. Whereas in 2023, when banks took a pause on large-market lending, then our dollars became very valuable in that space, so we leaned more toward large-market companies.
- Today, in 2024, we are starting to tilt back into the middle market as competition in the large market heats up and spreads and protections come down.

Greater diversification

Flexibility across flavors allows for more diversification in the underlying holdings.

- In fixed income, the outcomes are asymmetric. Because upside in fixed income is limited—if we lend to a great business, they change the world and quadruple in value, that does not change what the business owes us in terms of interest and principal—outperformance comes mainly on the downside by limiting losses.
- As a result, in credit, we believe there is no such thing as overdiversification. We generally keep our average position sizes well below 1%.

Incumbency

Incumbency is about growing with a firm and sticking with it as it grows, which we believe is the best risk management and makes for more efficient sourcing. Being flexible with size and company type means:

- We are not waiting for companies to grow into our remit.
- Companies do not grow out of our remit.
- We can stick with our best borrowers and keep backing our winners.
- We help keep the first and last look on deals and sometimes the only look.

Incumbency Has Allowed Ares to Grow with Performing Companies

Incumbency has provided a consistent and reliable stream of differentiated deployment opportunities through the years

Incumbency Differentiators[1]

First look
at follow-on financings capitalizing on incumbent knowledge

Information edge
gives access to management teams and financial reporting

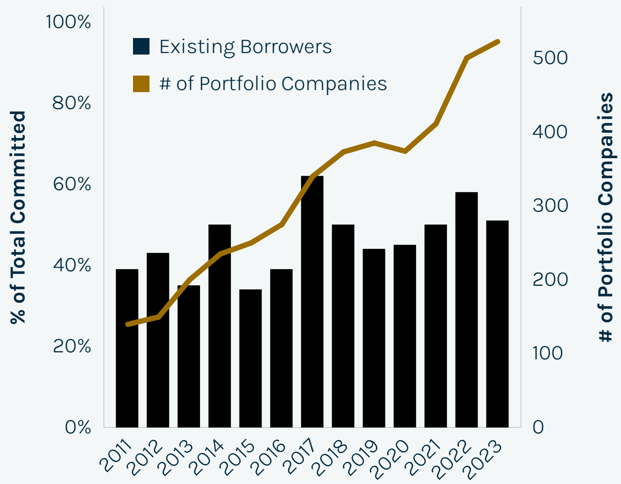
Original terms
are often maintained, which can allow for stable pricing with strong governance controls

Potential for growth
with performing companies

Aids selectivity
and can help sustain high-quality deployment in challenging markets

Last look
to review deals before the borrower moves forward

Commitments to Existing Borrowers[2]



Over the past five years, approximately ~50% of our yearly commitments have been to existing borrowers.[1]

1. This represents Ares' beliefs based on prior transactions/experience. Not all investments, including with existing borrowers, provide these benefits.
2. As of September 30, 2023. Represents commitments, including unfunded amounts of the entire Ares U.S. Direct Lending Team's portfolio, including pooled investment vehicles and separately managed accounts. Excludes investments deployed by Ivy Hill Asset Management, L.P., a wholly owned portfolio company of Ares Capital Corporation and an SEC-registered investment advisor, as well as investments acquired from certain third parties through acquisitions.

Case study on incumbency

UNITED DIGESTIVE

United Digestive is a leading national gastrointestinal-focused physician practices provider with a strong presence in the Southeastern U.S. The company has grown through both organic initiatives, as well as acquisitions of leading physician practices, with its core professional services supplemented by various ancillaries to provide patients with a full continuum of coordinated care.

- Ares' thesis includes meaningful scale in an attractive market, best-in-class provider offering a compelling value proposition for its customers, favorable industry dynamics, attractive growth opportunities, growing patient volumes and a history of strong financial performance and cash flow generation.
- Ares has been a supportive partner to United Digestive over the years, providing support to M&A activity, debt refinancings and maturity extensions, as well as other capital activities.
- Ares has been invested since 2018 through multiple sponsor ownership periods, including most recently a change of control transaction in March 2023.
- The company's EBITDA has quadrupled over this time period, and we believe the company remains a strong credit story.

This example is for illustrative purposes and may not be representative of all borrowers.

4

Direct Lending in Portfolio Construction

WHAT IS DIRECT LENDING'S ROLE IN A PORTFOLIO?

The quick answer is that it is all about yield and risk-adjusted returns. In particular:

Income

» Direct lending is primarily used for yield and diversification.

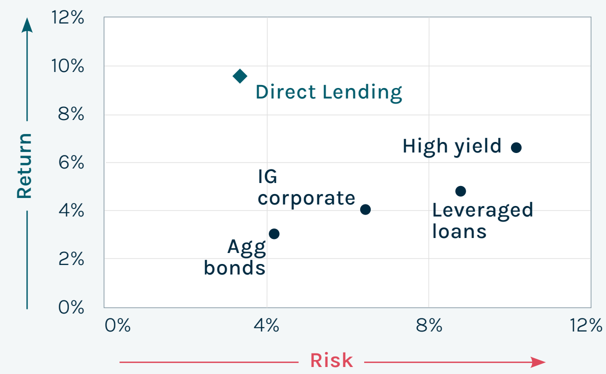
Growth

» Direct lending is sometimes used in situations where an investor is seeking equity-like returns without taking equity risk.

Historically, direct lending has been one of the most efficient risk-adjusted return investments available. On a traditional efficient frontier, direct lending sits "up and to the left" of other fixed-income asset classes and has historically provided one of the highest Sharpe ratios that can be found among common asset classes.

1. Source: Venn. All data September 30, 2004–March 31, 2024. Direct lending is represented by the CDLI Index. Leveraged Loans is represented by Credit Suisse Leveraged Loan Index. Agg Bonds is represented by Bloomberg Barclays US Agg Total Return Index. IG corporate is represented by Bloomberg US Corporate Bond Index. High yield is represented by Bloomberg Barclays US Corporate HY Bond Index. Past performance does not guarantee future results.

Historical Risk and Return[1]



	Sharpe Ratio[1]
Direct Lending	1.72
Bloomberg US Aggregate Bonds	0.38
Bloomberg Global Agg Credit (hedged)	0.48
Credit Suisse Leveraged Loan Index	0.52
US Corporate High Yield	0.57
MSCI World	0.53
PE Buyout (Burgiss)	1.02

DIRECT LENDING AS A DIVERSIFIER

Direct lending also historically exhibits low to moderate correlations across the rest of an investor's portfolio. It can provide strong diversification benefits to common asset classes and existing portfolios.

2. Source: Venn. All data September 30, 2004–March 31, 2024. Direct lending is represented by the CDLI Index. Leveraged Loans is represented by Credit Suisse Leveraged Loan Index. Agg Bonds is represented by Bloomberg Barclays US Agg Total Return Index. IG corporate is represented by Bloomberg US Corporate Bond Index. High yield is represented by Bloomberg Barclays US Corporate HY Bond Index.

	Correlation to 1L Direct Lending[2]
Bloomberg US Aggregate Bonds	-0.16
Bloomberg Global Agg Credit (hedged)	0.22
Credit Suisse Leveraged Loan Index	0.81
US Corporate High Yield	0.74
MSCI World	0.68
PE Buyout (Burgiss)	0.56

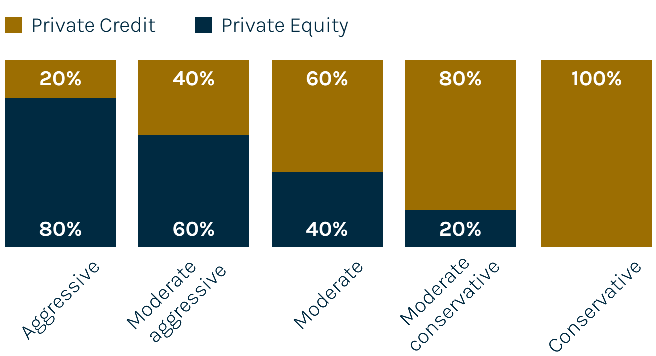
SIZING IN A PORTFOLIO

While there are a couple ways to think about sizing direct lending into an existing portfolio, we most often see investors use direct lending for income as part of the overall fixed-income allocation. When used like this, the allocation to direct lending scales with the size of the total fixed-income allocation.

For example, allocating 20% of an investors fixed-income allocation to direct lending would lead to an 8% allocation in a standard 60% equity / 40% fixed-income portfolio and a 12% allocation in a 40% equity / 60% fixed-income portfolio.

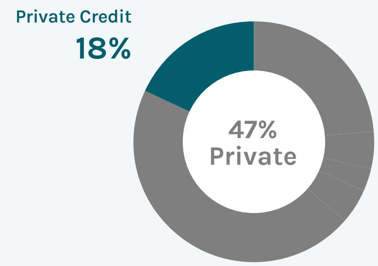
In our own model spectrums (see right-hand column), we allocate as much as 18% to direct lending in our unconstrained Growth & Income model and as low as 8% in our unconstrained Growth model. In both models, direct lending helps drive down risk (both volatility and drawdowns), while maintaining returns and increasing yield. It has provided one of the highest risk-adjusted returns of any asset class.

On the other hand, investors who prefer to keep a separate "private market" or "alternatives" allocation often choose to scale across a model spectrum like this:

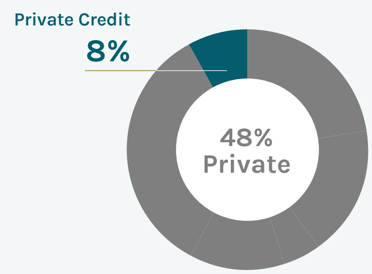


This is because private equity fits more naturally within return-seeking portfolios, while direct lending works best within more income-oriented portfolios. However, some direct lending remains even within the most growth-oriented portfolios since direct lending has historically provided equity-like returns while providing diversification to equities within the aggressive portfolio. It is also the case that aggressive investors tend to be less interested in low-returning fixed income, leaving direct lending as the natural replacement.[1]

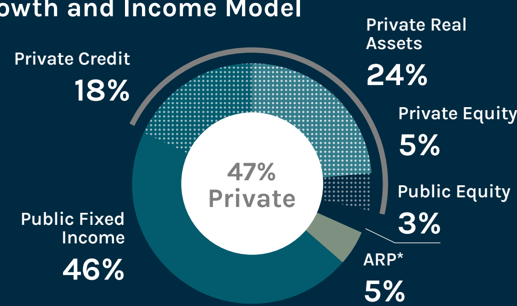
Growth and Income Model



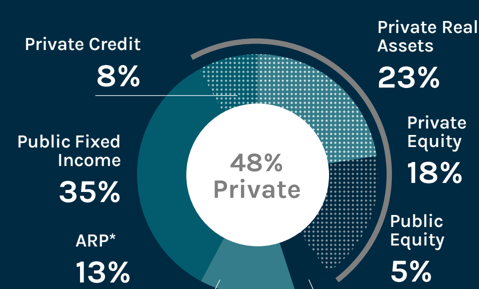
Growth Model



Growth and Income Model



Growth Model



*ARP = alternative risk premia, which is typically found in hedge funds. (For more information on these and other model portfolios, as well as our factor-risk-budgeting allocation approach, please see these papers: '50% Private Markets Portfolio' and 'How to Optimize Private Markets'.)

1. The allocations above are not recommendations. Investors should speak with their financial advisor regarding their specific situation. Ares Management Corporation and its affiliates to do not provide investment advice.

DRAWDOWNS AND EVERGREENS AS FUND IMPLEMENTATION

There are three main fund structures through which investors can access direct lending:

- **Drawdown funds** are classic private equity structures with capital calls, 7-10-year lockups and no liquidity provisions.
- **Private evergreen funds** typically have a non-traded BDC or interval fund structure, allowing investors to enter and exit at net asset value—in other words, at the value of the underlying loans. There are no capital calls—the investor's money gets put to work in the fund immediately and continues to work until withdrawn. These funds provide a certain amount of liquidity (most often 5% of fund AUM per quarter), with redemption caps protecting remaining investors against forced sales by the manager.
- **Publicly traded BDCs** have underlying portfolios of loans that are permanent and cannot be withdrawn, but these funds can trade at a premium or discount to the value of those loans depending on market supply/demand. Market trading pushes volatility to that of small-cap equities. There is daily liquidity, but rarely can investors get in or out at net asset value (NAV).

Because most direct lending is backed by big institutional investors, like insurers or pension providers, which agree to lock up their money for years at a time, and because of the caps on evergreen fund redemptions, in times of panic investors cannot just ask for their cash back like depositors in a bank. That means the fund managers won't need to try to pull the rug from under its borrowers or sell its loans quickly, and direct lending values do not collapse.

Fund Stucture

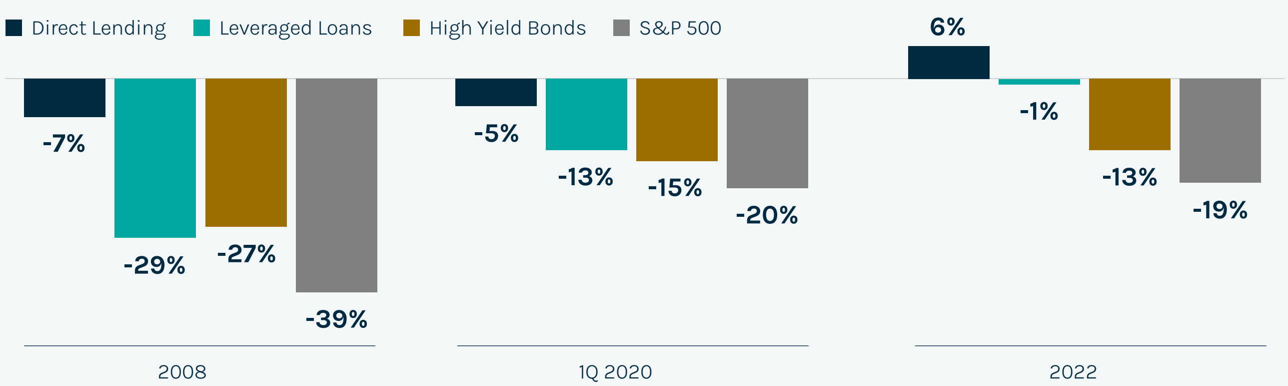
- Model Leverage of 0-2x
- Match-Funded*
- Locked Up, Long-Life Funds

Even when the market drives prices meaningfully lower for publicly traded BDCs, it is typically because those BDCs are trading at large discounts to the underlying value of the loans. Because the shares only change hands while the underlying pool of capital remains permanent, managers are not forced to sell loans.

As a result, direct lending has tended to maintain its value fairly well, even in the worst of times.

No matter which of these structures investors choose to use, the return expectations across each should be relatively similar over a cycle. Rather, it should be the ease of use, liquidity needs and portfolio management capabilities of the investor that determines which type of fund is most appropriate.

Total Returns During Market Dislocations



As of December 31, 2022. Direct lending is represented by the Cliffwater Direct Lending Index (CDLI). The CDLI Index does not reflect the impact of fees and expenses of the Fund. Investors cannot invest directly in the index. Leveraged Loans is represented by Morningstar LSTA US Leveraged Loan Index. High-Yield Bonds is represented Bloomberg Barclays US Corporate HY Bond Index. S&P 500 is represented by the S&P Total Return Index. Past performance is not an indicator of future returns.

*Match-funded means that the duration of fund investments roughly matches the duration of investor dollars, limiting forced liquidation scenarios.

Conclusion

We are witnessing the direct lending private credit investment universe continuing to expand in size, choice and sophistication.

We see a few keys benefits to investing consistently in the asset class:

- Potential yield premium to other asset classes
- Potential for equity-like returns
- Diversification to other asset classes
- Short duration and resilience against moving interest rates
- Lender protections and first in line in case of bankruptcy
- A history of maintaining value with mild drawdowns
- Access to the large, fast-growing portion of economies that is not publicly traded

In our view, there are a few key factors for investing successfully in direct lending that investors will want to be aware of:

Good underwriting, with history

- **Why it's important:** Understanding risks, writing in appropriate terms and protections and negotiating successfully with borrowers are the most important functions of a private lender. It is only with the benefit of hindsight, through multiple market cycles, that a manager can properly benchmark how successful its underwriting has been.

Deep borrower relationships

- **Why it's important:** Borrowers in the direct lending space do not show up at a manager's doorstep asking for a loan—rather, managers must actively originate the loans through their networks. Cultivating deep borrower relationships can lead to a manager achieving "preferred lender status," which allows for greater selectivity and potentially better terms and spreads.

Incumbency

- **Why it's important:** Being the incumbent lender can aid origination and future deployment by giving a manager the "first look" or "last look" at potential transactions. We also believe that incumbency generally decreases diligence risks and can often drive better economic terms.

Investment team scale

- **Why it's important:** This allows managers to cover larger portions of the PE sponsor market, while also covering non-sponsored companies and multiple geographies. Also, a scaled team will have an appropriately sized and tenured "work-out" team to deal with troubled loan situations.

Flexibility

- **Why it's important:** Having flexibility to invest across different flavors of loans (small/large, sponsor/non-sponsor, local/international) can lead to higher selectivity and the ability to seek the best risk-adjusted returns. Managers need the scale to cover small- and mid-market sponsors and companies and yet lead large transactions (can be $1 billion+) and still maintain appropriate portfolio diversification.

Diversification

- **Why it's important:** In credit, outperformance comes by limiting losses. We believe there is no such thing as overdiversification in credit, and therefore smaller average position sizes are generally preferable.

At Ares, we believe the direct lending asset class will play an important role in funding growing companies and economies into the future and can serve as a core allocation in well-diversified investment portfolios.

About Ares Management

Ares Management was founded in 1997 as a global alternative investment manager and provides flexible capital across the credit, private equity, real estate and infrastructure asset classes. By collaborating across our investment groups, we aim to deliver consistent and attractive investment returns throughout market cycles.

$447bn
ASSETS UNDER MANAGEMENT

~3000
EMPLOYEES GLOBALLY

35+
OFFICES GLOBALLY

25+
YEARS INVESTING THROUGHOUT MARKET CYCLES

All data source: Ares Management as of June 30, 2024.

About Ares Wealth Management Solutions

Ares Wealth Management Solutions (AWMS), a subsidiary of Ares Management Corporation, has a mission to provide advisors and their clients access to innovative, solutions-oriented investment opportunities across the Ares platform of credit, private equity, real estate, infrastructure and secondaries strategies. Through our range of institutional and retail structures, coupled with excellent client service and educational resources, we help investors diversify their portfolios with private market solutions that seek to deliver consistent, long-term growth.

For further information visit:

www.areswms.com

Contact Ares Wealth Management Solutions

Americas

General Inquiries:

AWMS@aresmgmt.com

EMEA

General Inquiries:

AWMSEurope@aresmgmt.com

APAC

General Inquiries:

AWMSAsia@aresmgmt.com

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