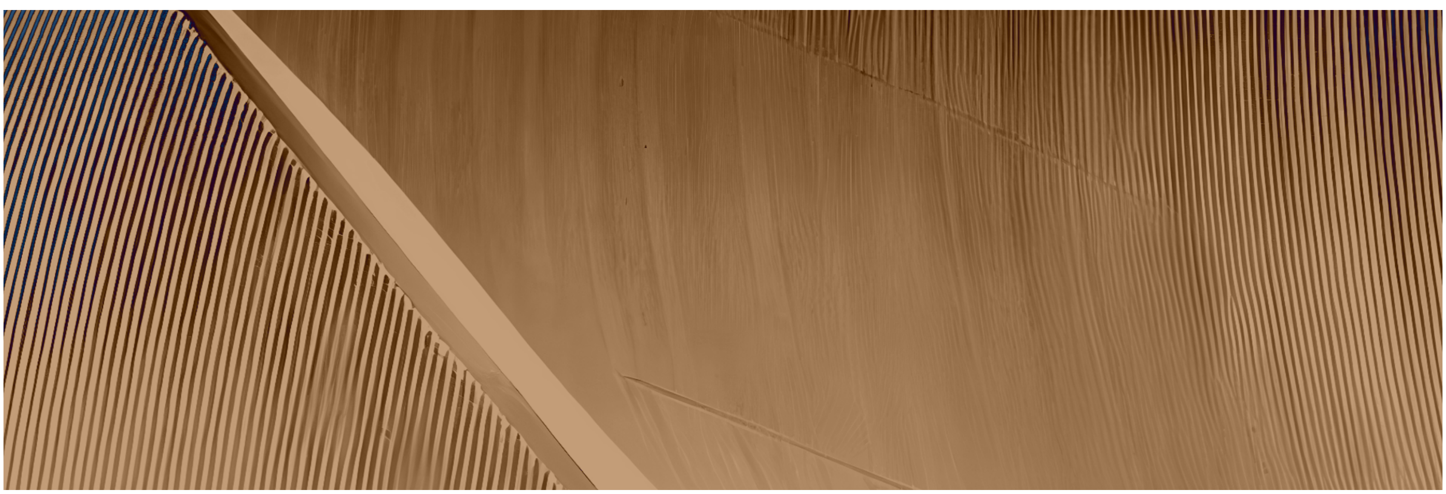
Blackstone University | Essentials

Private Credit

Private credit funds issue corporate loans and other credit instruments that do not involve a traditional bank and are not publicly traded.



Blackstone

Private Markets

Need to Know

01 Growing Demand

Privately held companies **focused on growth** and transformation have increasingly turned to private credit as a source of capital. Working with non-bank lenders, these companies are seeking to meet their capital needs more efficiently through **direct loans.**

02 Defensive Income

Private loans are typically **senior secured** with meaningful cushion below in the form of junior debt and equity. Also, they typically offer floating rate coupons. These features aim to provide investors with principal preservation and **high income potential.**[1]

03 Core Allocation

When added to a traditional balanced portfolio of stocks and bonds, private credit can offer **meaningful diversification** and improve risk-return potential.[2]

Basics of Private Credit

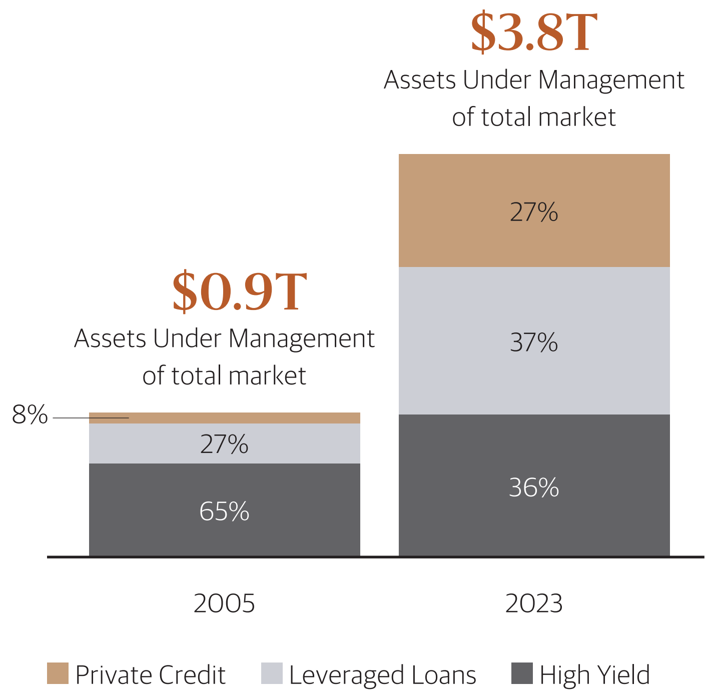
Private credit can offer companies a more direct and efficient way to access capital. Private credit managers raise funds directly from investors and lend to corporate borrowers in transactions that often involve a private equity firm. This direct approach—with no bank in the middle—can result in greater efficiency, confidentiality, certainty in execution, and flexibility in terms of structure for the borrower. For the investor, it can lead to stronger documentation, protection, and ultimately more attractive returns. Particularly for investors looking beyond the 60/40 portfolio of stocks and bonds, private credit can represent an attractive core holding.[3]

1. Capital is at risk and investors may not get back the amount originally invested. Risk management seeks to mitigate risk but does not reduce or eliminate risk and does not protect against losses.
2. Diversification does not ensure a profit or protect against losses.
3. Traditionally, stocks and bonds have been regarded as the core building blocks of a diversified portfolio, often allocated 60% to equities and 40% to fixed income.

Private credit has expanded rapidly for years, in part due to bank consolidation and regulatory change in the aftermath of the Global Financial Crisis. Today, private credit represents more than 25% of the US market for below-investment-grade credit, up from 5% in the mid-2000s (Exhibit 1), and plays an important role in financing large transactions.[4] This trend has been largely driven by private equity activity and companies that are seeking more flexible capital solutions.

EXHIBIT 1: The Growth of Private Credit[4]

US Below-Investment-Grade Credit Market



Industry research suggests private credit will reach $2.8T by 2028[5]

4. Source: Bloomberg ("High Yield") and Pitchbook LCD ("Leveraged Loans") as of March 2024. Preqin ("Private Credit") as of September 2023, which is the latest data available. Private Credit market size based on AUM. Total addressable US sub-investment grade credit market defined as the aggregate of the US high yield bonds, US leveraged loans and North American private credit markets. Leveraged loans refer to broadly syndicated loans. Private Credit includes Business Development Companies ("BDCs").
5. Source: Preqin as of December 2023.

Any investment involves a high degree of risk and should only be made is an investor can afford the loss of the entire investment. The protections mentioned seek to mitigate risk but do not reduce or eliminate risk and do not protect against losses.

Why Investors Allocate

Historically, private credit has outperformed traditional credit segments such as high yield bonds and leveraged loans (Exhibit 2), in part reflecting the premium that borrowers pay for the efficiency, confidentiality, and flexibility of private capital. Private credit also has defensive characteristics, such as seniority in the capital structure. Much like a mortgage with repayment priority, private credit investors are paid before junior debt and equity holders (Exhibit 3). High income potential is another feature. Private credit typically consists of floating rate loans, so investors may benefit as income can increase with rising interest rates, and base rate floors can help protect against falling rates.

EXHIBIT 2: Private Credit's Strong Historical Performance[6]

Annual returns of Fixed Income Key Indices Ranked in Order of Performance (2016-2023)

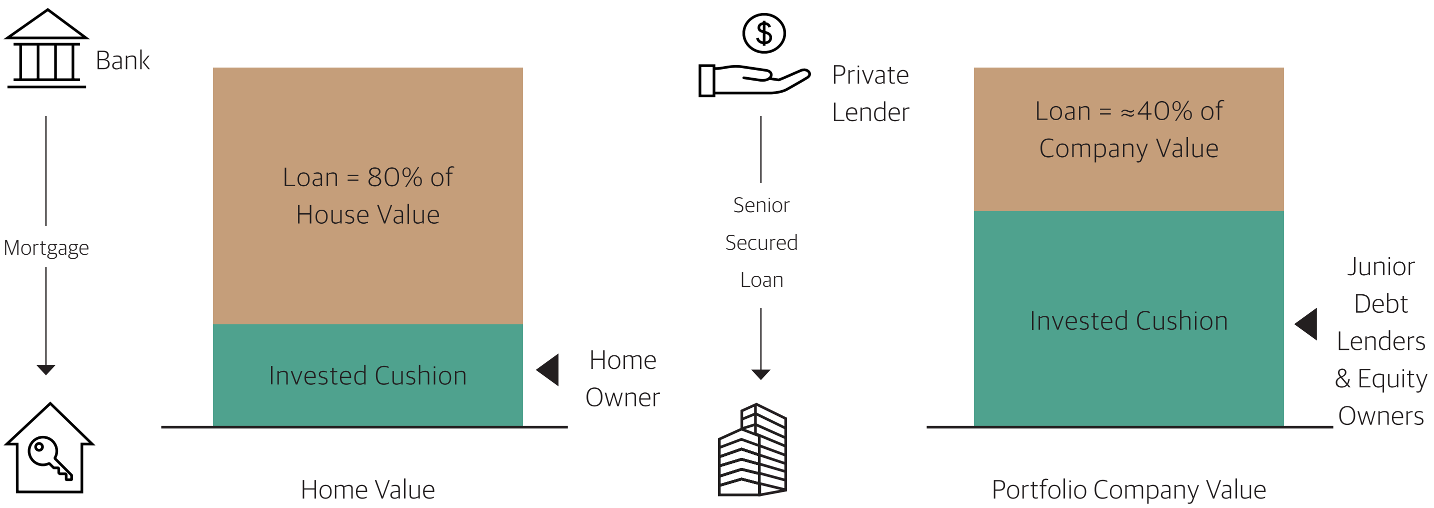
2016	2017	2018	2019	2020	2021	2022	2023	Total Return[6]
17.1% High Yield	**8.6%** Private Credit	**8.1%** Private Credit	**14.3%** High Yield	**7.5%** Investment Grade Bonds	**12.8%** Private Credit	**6.3%** Private Credit	**13.4%** High Yield	**9.2%** Private Credit
11.2% Private Credit	**7.5%** High Yield	**1.8%** 1-3 Month T-Bill	**9.0%** Private Credit	**7.1%** High Yield	**5.3%** High Yield	**1.5%** 1-3 Month T-Bill	**13.3%** Leveraged Loans	**6.1%** High Yield
10.2% Leveraged Loans	**4.1%** Leveraged Loans	**1.4%** Treasuries	**8.7%** Investment Grade Bonds	**5.8%** Treasuries	**5.2%** Leveraged Loans	**-0.8%** Leveraged Loans	**12.1%** Private Credit	**5.4%** Leveraged Loans
2.6% Investment Grade Bonds	**3.5%** Investment Grade Bonds	**0.4%** Leveraged Loans	**8.6%** Leveraged Loans	**5.5%** Private Credit	**0.0%** 1-3 Month T-Bill	**-7.8%** Treasuries	**5.5%** Investment Grade Bonds	**1.5%** 1-3 Month T-Bill
1.1% Treasuries	**1.1%** Treasuries	**0.0%** Investment Grade Bonds	**5.2%** Treasuries	**3.1%** Leveraged Loans	**-1.5%** Investment Grade Bonds	**-11.2%** High Yield	**5.1%** 1-3 Month T-Bill	**1.5%** Investment Grade Bonds
0.3% 1-3 Month T-Bill	**0.8%** 1-3 Month T-Bill	**-2.1%** High Yield	**2.2%** 1-3 Month T-Bill	**0.5%** 1-3 Month T-Bill	**-1.7%** Treasuries	**-13.0%** Investment Grade Bonds	**4.3%** Treasuries	**1.1%** Treasuries

6. Source: Morningstar, Cliffwater. As of December 31, 2023. Represents the annual returns for the respective calendar year, ranked in order of performance. The asset classes presented are based on the following indices: Cliffwater Direct Lending Index for Private Credit, Bloomberg US Corporate High Yield for US High Yield, Bloomberg US Aggregate Bond Index for US Investment Grade Bonds, Morningstar LSTA US Leveraged Loan Index for US Leveraged Loans, Bloomberg U.S. Intermediate Treasury Index for Treasuries, Bloomberg U.S. Treasury Bill 1-3 Month Index for 1-3 Month T-Bill. **Past performance does not predict future returns**. There can be no assurance than any alternative asset classes will achieve their objectives or avoid significant losses. Past events and trends do not imply, predict or guarantee, and are not necessarily indicative of, future events or results. The volatility and risk profile of the indices is likely materially different from that of a fund. The indices employ different investment guidelines / criteria than a fund and do not employ leverage; a fund's holdings and the liquidity of such holdings may differ significantly from securities comprising the indices. The indices aren't subject to fees / expenses, and it may not be possible to invest in the indices. The indices' performance has not been selected to represent an appropriate benchmark to compare to a fund's performance, but rather is disclosed to allow for comparison to that of well-known and widely recognized indices. A summary of the investment guidelines for the indices are available upon request. The indices are not necessarily the top performing indices in the given asset class and recipients should consider this when comparing the performance of any fund or investment to that of the indices. See "Important Disclaimer Information," including "Index Comparison." Total return is calculated over the period January 1, 2016 to December 31, 2023.

Managing Risk

As is true of other segments of the sub-investment grade credit market, private credit carries default risk -- how lenders manage it is key to delivering strong risk-adjusted returns. Since private lenders own loans and the corresponding default risk directly (versus risk being traded in public markets), private credit managers typically adopt a highly defensive investment approach. Managers such as Blackstone focus on being senior secured lenders to scaled businesses that are in sectors with strong secular tailwinds and having the right structures in place to protect their investors – a combination which in Blackstone's view is central to delivering attractive risk-adjusted returns.

EXHIBIT 3: Similarities between Home Mortgages and Senior Secured Loans



Note: For illustrative purposes only. The above reflects Blackstone's views and beliefs unless otherwise indicated as of the date appearing in this material. The protections mentioned seek to mitigate risk but do not reduce or eliminate risk and do not protect against losses. The examples shown above are illustrative and not representative of any product's returns. Returns may be lower than depicted in this illustration.

Why Borrowers Turn to Private Credit

Aside from the benefits private credit offers to borrowers (Exhibit 4), with the right lending partner, borrowers can also benefit from the lender's scale and the resources of its platform and network.[7] As is the case with Blackstone Credit, the result can be a deeper relationship than is possible with a bank, one that may create value for borrowers beyond the initial loan.

EXHIBIT 4: Blackstone's View: Key Reasons Borrowers Select Private Lending

- Efficiency of execution
- Greater certainty of terms
- Flexible structuring
- Fewer public disclosure requirements
- Maintenance of confidentiality

Any investment involves a high degree of risk and should only be made if an investor can afford the loss of the entire investment. There are no guarantees or assurances regarding the achievement of investment objectives or performance and you could lose some or all of your investment.

7. Investment performance may be volatile. An investment should only be considered by sophisticated investors who can afford to lose all or a substantial amount of the investment. Fees and expenses may offset or exceed profits. See also "Considerations Before Allocating" on page 8.

High Income Potential

In private credit, income is derived from three main components: the base rate, spread, and deal fees. The base rate is the benchmark interest rate tied to a reference rate like the secured overnight financing rate (SOFR). The spread represents the additional interest charged above the base rate and is determined based on factors such as the borrower's creditworthiness, market conditions, and the specific terms of the loan agreement. Deal fees also contribute to income. Together, these components can result in significant current income for lenders.

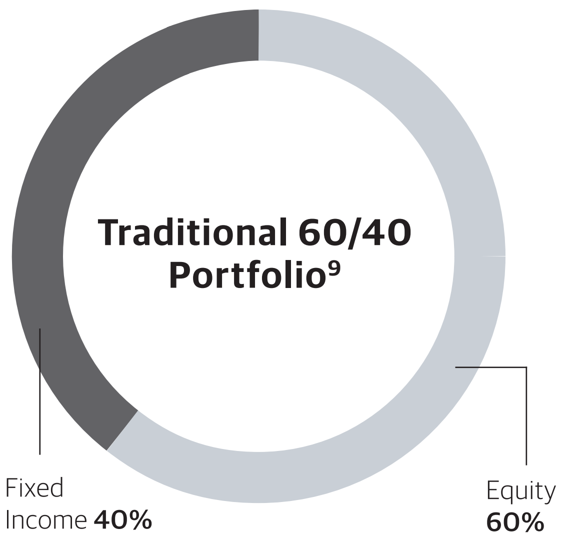
EXHIBIT 5: Illustrative Components of Income in Private Credit Loans[8]

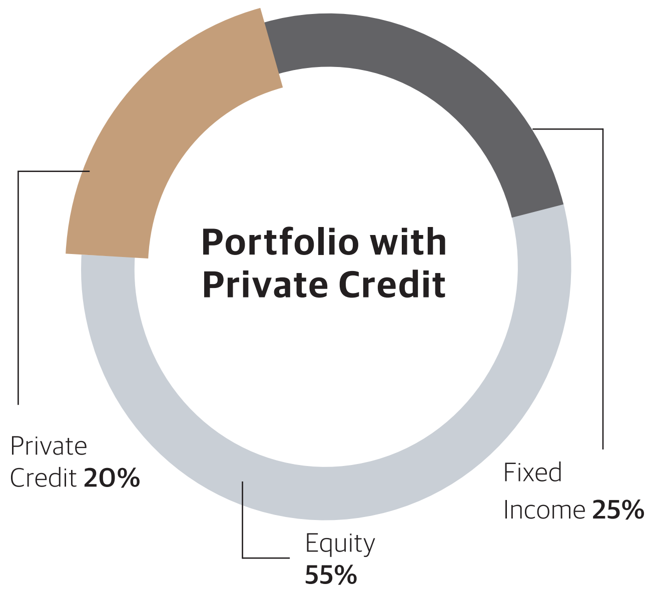
Note: The above investment is not representative of all investments of a given type or of investments generally. **Past performance does not predict future returns.** There can be no assurance that any Blackstone fund or investment will achieve its objectives or avoid substantial losses. The opinions expressed herein reflect the current opinions of Blackstone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. The above is not intended to be indicative of future results to be achieved by the proposed fund; actual results may differ materially from the information generated through the use of illustrative components of return. While Blackstone believes that these assumptions are reasonable under the circumstances, there is no assurance that the results will be obtained, and unpredictable general economic conditions and other factors may cause actual results to vary materially. Any variations could be adverse to the actual results.

8. Deal fees include original issue discount and call premiums/prepayment fees.

Historically, private credit has helped to enhance returns, reduce volatility, and improve the income potential of traditional investment portfolios (Exhibit 6). For investors seeking defensive positioning with return potential in the face of interest rate volatility, inflation, and continued uncertainty in public markets, these characteristics may be attractive.

EXHIBIT 6: Reshaping the Risks and Returns of Traditional Portfolios with Private Credit (Q4 2015-2023)





Traditional 60/40 Portfolio

Annualized return	8.9%
Annualized volatility	11.0%
Current yield	2.9%

Portfolio with a 20% Private Credit Allocation

Annualized return	9.9%
Annualized volatility	10.2%
Current yield	4.5%

Source: Bloomberg, Morningstar, Cliffwater, as of 12/31/2023. As commonly used in the industry, the 60/40 portfolio is 60% allocated to the S&P 500 index and 40% is allocated to the Bloomberg US Aggregate Bond index. Private Credit is represented by the Cliffwater Direct Lending Index. **Past performance does not predict future returns.** The information provided herein is presented for educational purposes only, is solely an indication of the historical experience of certain asset classes based on publicly available indices and benchmarks during a fixed period, and does not reflect the experience or return to any Blackstone client, fund, or portfolio, the return of any investment by a Blackstone fund or other client, or the return to any investor in any Blackstone fund. There can be no assurance that any Blackstone fund, other investment, or any asset allocation will achieve its objectives or avoid substantial losses, or that alternative investments will generate higher returns than other investments. The information presented should not be construed as financial or investment advice, or relied on when making an investment decision. Investors should consult their financial advisor to determine what private markets allocation, if any, is most appropriate for them in light of their financial profile. Actual returns achieved by a fund or product investing in any asset class presented herein may be materially lower. The indices and benchmarks reflected herein are not representative of all investments in the applicable asset classes, the performance of such indices and benchmarks in periods other than that the period from October 2015 to December 2023 shown herein may differ materially, and it should not be assumed that any trends shown will continue. October 2015 is the inception date of the Cliffwater Direct Lending Index. Annualized returns and volatility are calculated based on the quarterly returns over the period from October 2015 to December 2023. The annualized returns shown do not necessarily consider fees and expenses, which are typically borne by the investor and may materially reduce returns. The yield on the portfolio with a private market alternative allocation was calculated using the annualized S&P 500 Dividend Yield, the annualized Bloomberg US Aggregate Bond Yield, and the annualized Cliffwater Direct Lending Index quarterly income.

9. Traditionally, stocks and bonds have been regarded as the core building blocks of a diversified portfolio, often allocated 60% to equities and 40% to fixed income.

Why Borrowers Go Private

In March 2024, Blackstone Credit & Insurance led a $2 billion loan package to Park Place Technologies, a leading provider of third-party maintenance services for data center hardware, one of Blackstone's highest conviction sectors. Blackstone leveraged its industry expertise and strong relationship with the private equity sponsor to deliver a tailored capital solution.

The ability of Blackstone to commit quickly at scale highlights some of the main features driving borrowers to seek private financing: speed, simplicity, and flexibility. As an existing portfolio company, Park Place is an active participant in Blackstone's Value Creation Program, where Blackstone takes on the role of more than just a provider of capital. Through this program, Park Place has benefited from numerous introductions that created value from synergies. We believe all these components coming together illustrate why large, high-quality companies are increasingly seeking private capital for their financing needs.

Patient Capital

From the perspective of the manager, private investing means active value creation, versus passively holding stocks and bonds, which are very "liquid" and can be sold at any time. Private investing involves long-term commitments because value creation generally takes time. This gives rise to the concept of the "iliquidity premium," meaning the return that investors seek to offset the risk of holding a non-liquid asset. This potential return can be pursued in private asset classes through funds with long-term capital lockups as well as those with semi-liquid structures which offer the potential, but not a guarantee, to redeem capital at regular intervals.

Some of the methods used by private market managers include:

- Informational Advantage
- Operating Intervention
- Strong Governance
- Customized Terms

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Alternative investments are generally illiquid and there may be no liquid secondary markets or ready purchasers for these securities. They may not be required to provide periodic pricing or valuation information to investors.

Considerations before Allocating

Manager selection can be important when allocating to private credit. Investors should be aware of considerations such as credit selection and the acumen of the managers conducting borrower due diligence.

Liquidity and time horizons can also be key considerations. The compounding power of private credit returns typically requires a medium- to long-term investment horizon.[10] Investors should carefully consider their liquidity needs within the context of their overall portfolio to determine whether and how much to commit to private credit.

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10. "Medium- to long-term" defined as a horizon of multiple years, for instance 5+ years.

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Index Definitions

Bloomberg US 1-3 Month Treasury Bill: The index measures the performance of public obligations of the U.S. Treasury with maturities of 1-3 month, including securities roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices.

Bloomberg US Aggregate Bond Index: The Bloomberg US Aggregate Bond Index is an index of US dollar-denominated, investment-grade US corporate government and mortgage-backed securities.

Bloomberg US Intermediate Treasury Index: The index measures the performance of public obligations of the U.S. Treasury with maturities of 1-10 years, including securities roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices.

Bloomberg US Corporate High Yield Bond Index: The Bloomberg US Corporate High Yield Bond Index measures the US dollar-denominated, high yield, fixed-rate corporate bond market.

Cliffwater Direct Lending Index: The Cliffwater Direct Lending Index (CDLI) seeks to measure the unlevered, gross of fee performance of US middle market corporate loans, as represented by the asset-weighted performance of the underlying assets of Business Development Companies (BDCs), including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements.

Morningstar LSTA US Leveraged Loan Index: The Morningstar LSTA US Leveraged Loan Index is designed to deliver comprehensive, precise coverage of the US leveraged loan market. Underpinned by PitchBook | LCD data, the index brings transparency to the performance, activity, and key characteristics of the market.

S&P 500 Index: The index measures the performance of 500 widely held stocks in US equity market. Standard and Poor's chooses member companies for the index based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. Since mid 1989, this composition has been more flexible and the number of issues in each sector has varied. It is market capitalization-weighted.