

Private Credit

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



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

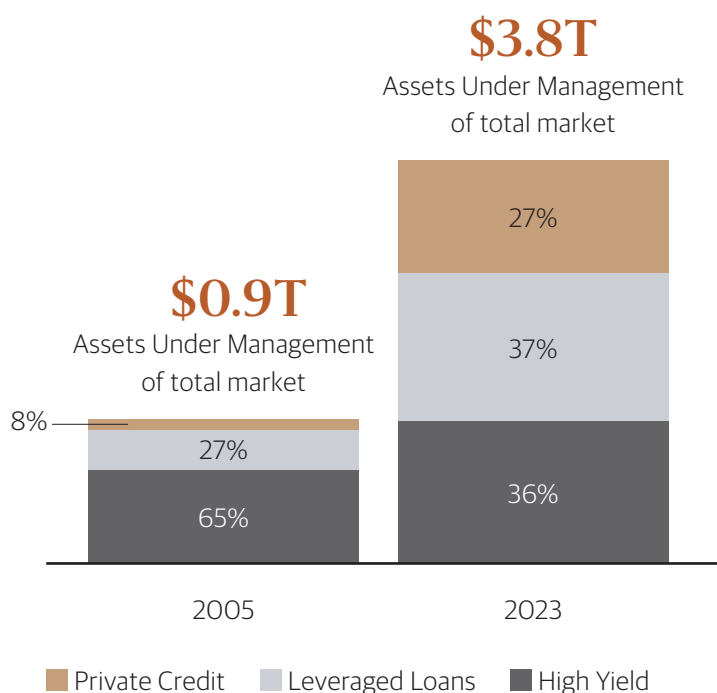


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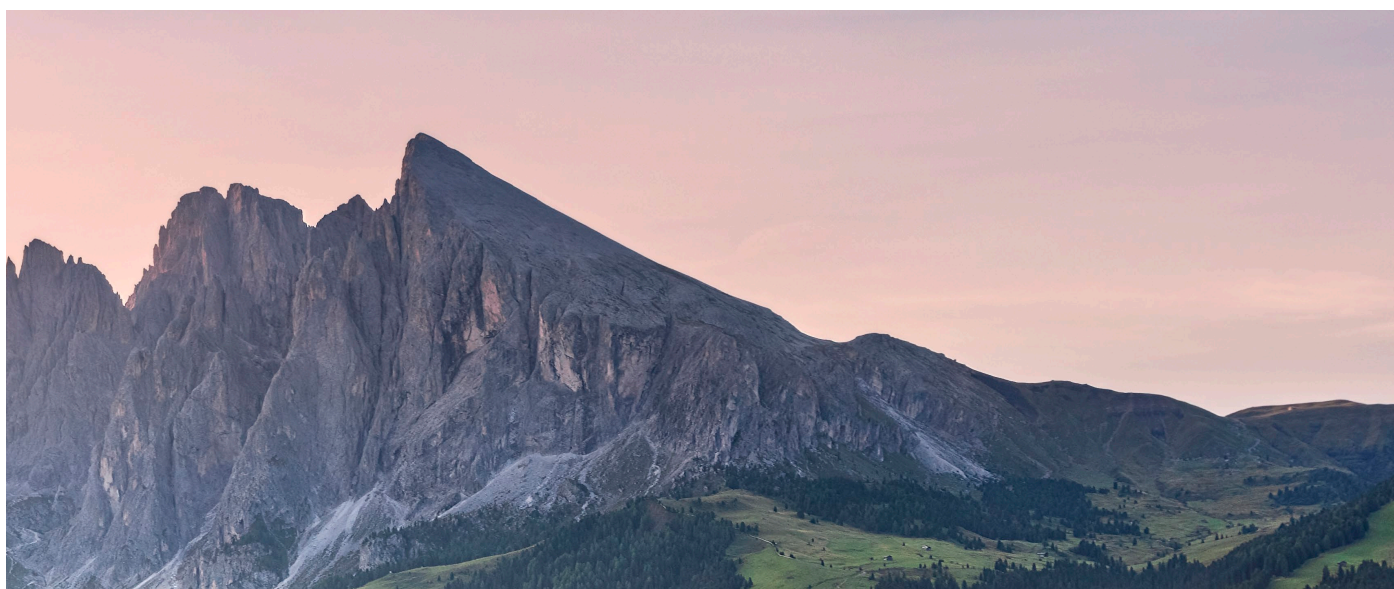
1. Capital is at risk and investors may not get back the amount originally invested. Risk management seeks to mitigate risk but does not reduce or eliminate risk and does not protect against losses.
2. Diversification does not ensure a profit or protect against losses.
3. Traditionally, stocks and bonds 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 Credit⁴
US Below-Investment-Grade Credit Market



Industry research suggests private credit will reach \$2.8T by 2028⁵



The above represents Blackstone's view of the current market environment as of the date appearing in this material only, which is subject to change. There can be no guarantee trends will continue or will not reverse.

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.

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 Performance⁶

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

2016	2017	2018	2019	2020	2021	2022	2023	Total Return Aggregate Performance
17.1% US High Yield	10.4% Global High Yield	8.1% Private Credit	14.3% US High Yield	9.2% Global Investment Grade Bonds	12.8% Private Credit	6.3% Private Credit	14.0% Global High Yield	9.2% Private Credit
14.3% Global High Yield	8.6% Private Credit	0.4% US Leveraged Loans	12.6% Global High Yield	7.5% US Investment Grade Bonds	5.3% US High Yield	-0.8% US Leveraged Loans	13.4% US High Yield	6.1% US High Yield
11.2% Private Credit	7.5% US High Yield	0.0% US Investment Grade Bonds	9.0% Private Credit	7.1% US High Yield	5.2% US Leveraged Loans	-11.2% US High Yield	13.3% US Leveraged Loans	5.4% US Leveraged Loans
10.2% US Leveraged Loans	7.4% Global Investment Grade Bonds	-1.2% Global Investment Grade Bonds	8.7% US Investment Grade Bonds	7.0% Global High Yield	1.0% Global High Yield	-12.7% Global High Yield	12.1% Private Credit	4.9% Global High Yield
2.6% US Investment Grade Bonds	4.1% US Leveraged Loans	-2.1% US High Yield	8.6% US Leveraged Loans	5.5% Private Credit	-1.5% US Investment Grade Bonds	-13.0% US Investment Grade Bonds	5.7% Global Investment Grade Bonds	1.5% US Investment Grade Bonds
2.1% Global Investment Grade Bonds	3.5% US Investment Grade Bonds	-4.1% Global High Yield	6.8% Global Investment Grade Bonds	3.1% US Leveraged Loans	-4.7% Global Investment Grade Bonds	-16.2% Global Investment Grade Bonds	5.5% US Investment Grade Bonds	0.8% Global Investment Grade Bonds

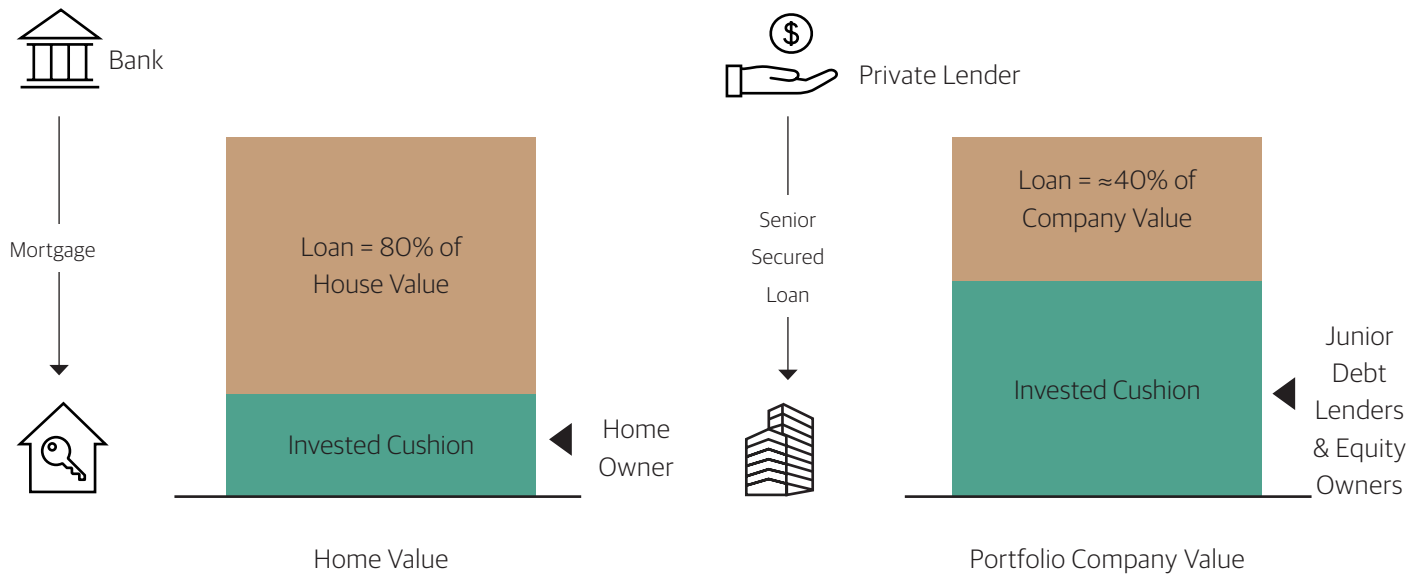
Any investment involves a high degree of risk and should only be made if an investor can afford the loss of the entire investment. The protections mentioned seek to mitigate risk but do not reduce or eliminate risk and do not protect against losses.

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 Global Aggregate Bond Index for Global Investment Grade Bonds, Bloomberg Global High Yield Index for Global High Yield. **Past performance does not predict future returns.** There can be no assurance that 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
- ✓ Flexible structuring
- ✓ Maintenance of confidentiality
- ✓ Greater certainty of terms
- ✓ Fewer public disclosure requirements

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 Loans⁸

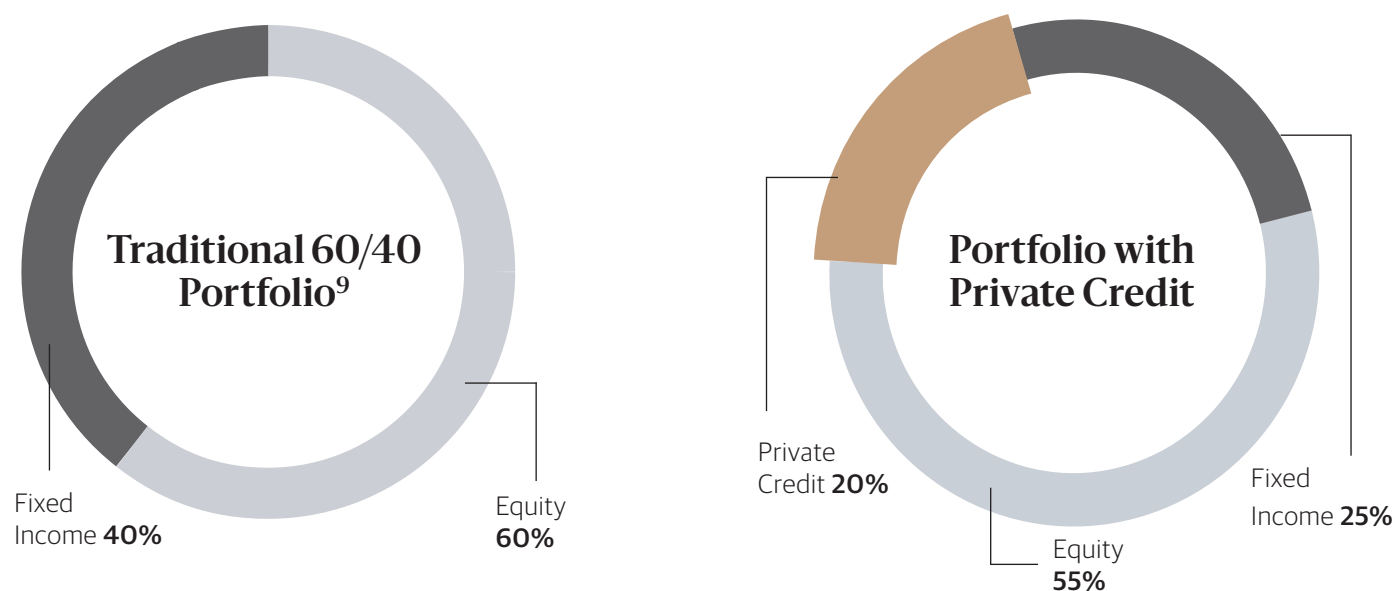


Note: The above investment is not representative of all investments of a given type or of investments generally. **Past performance does not predict future returns.** There can be no assurance that any Blackstone fund or investment will achieve its objectives or avoid substantial losses. The opinions 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 (2009-2023)



Traditional 60/40 Portfolio

Annualized return	7.2%
Annualized volatility	11.8%
Current yield	2.8%



Portfolio with a 20% Private Credit Allocation

Annualized return	8.6%
Annualized volatility	10.7%
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 MSCI ACWI index and 40% is allocated to the Bloomberg Global 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 January 2009 to December 2023 shown herein may differ materially, and it should not be assumed that any trends shown will continue. Annualized returns and volatility are calculated based on the quarterly returns over the period from January 2009 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 MSCI ACWI Dividend Yield, the annualized Bloomberg Global 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 benefitted 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 “illiquidity 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.

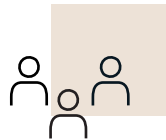
Some of the methods used by private market managers include:



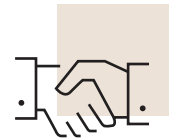
Informational
Advantage



Operating
Intervention



Strong
Governance



Customized
Terms

The above investment is not representative of all investments of a given type or of investments generally. The investment shown was made by an existing Blackstone fund and is provided for illustrative purposes only. This example may not be representative of all investments of a given type or of investments generally and it should not be assumed that any Blackstone fund, investment or acquisition will make comparable or equally successful investments. There can be no assurance that any Blackstone Fund or investment will achieve its objective or avoid significant losses. The information provided, including dollar amounts, represents the aggregated investment of all participating Blackstone Credit & Insurance vehicles. See “Important Disclosure Information” including “Case Studies” and “Logos.”

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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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.

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

Index Definitions

Bloomberg Global Aggregate Bond Index

The index measures the performance of global investment grade fixed-rate debt markets, including the U.S. Aggregate, the Pan-European Aggregate, the Asian-Pacific Aggregate, Global Treasury, Eurodollar, Euro-Yen, Canadian, and Investment Grade 144A index-eligible securities.

Bloomberg Global High Yield Index

The index measures the performance of the global high-yield fixed income markets. It represents the union of the U.S. High-Yield, Pan-European High-Yield, U.S. Emerging Markets High-Yield, and Pan-European Emerging Market High-Yield Indices. The index is a component of the Multiverse Index, along with the Global Aggregate Index

Bloomberg Pan-Euro High Yield Index

The Bloomberg Pan-European High Yield Index measures the market of non-investment grade, fixed-rate corporate bonds denominated in the following currencies: euro, pounds sterling, Danish krone, Norwegian krone, Swedish krona, and Swiss franc.

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 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.

MSCI ACWI

The index measures the performance of the large and mid cap segments of all country markets. It is free float-adjusted market-capitalization weighted

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.

Glossary

The following are explanations of terms you may come across in this presentation. These definitions are not exhaustive and are intended as a guide only.

Assets	Anything that has a commercial or exchange value that is owned by a business.
Assets Under Management "AUM"	Total market value of all financial assets that an individual or financial institution manages on behalf of investors.
Base Rate / Floor	The minimum level reference rate a borrower pays in a floating rate loan.
Below-Investment Grade Credit	Securities that are not rated on one of the four highest rating categories of a nationally recognized rating agency.
Bonds / Fixed Income	A type of investment security that pays out a set level of cash flows to investors, typically in the form of fixed interest or dividends until its maturity date. At maturity, investors are typically repaid the principal amount they had invested.
Business Development Companies ("BDCs")	A type of investment company that is subject to certain restrictions under the 1940 Act. As a BDC at least 70% of assets must be certain "qualifying" assets which are generally private-offered securities issued by the US private companies.
Call Premiums / Prepayment Fees	An additional amount of money that a borrower may be required to pay to a lender when a loan or bond is called or prepaid before its scheduled maturity date.
Debt	Something owed by one company to another, typically money.
Direct Lending / Loans	Loans made by non-bank lenders directly to a corporate issuer, lenders generally hold these loans to maturity or refinancing. They're typically senior secured in the capital structure and offer floating rate coupons.
Equity	Ownership in a company that may be listed on an exchange and purchased in the form of a stock.
Floating Rate Loan	Loans made to borrowers that feature a variable interest rate that is tied to a market reference rate and adjusted periodically.
Floating Rate Coupons	Variable interest payments based on their "Floating Rate" (see definition above) nature.
High Yield Bonds	Bonds that are rated below investment grade so have a higher risk of default or other adverse credit events. They offer higher yields than investment grade bonds to compensate for the increased risk.
Investment Grade Bonds	Bonds with a high credit rating, meaning they generally have a relatively low risk of default.
Junior Debt	Bonds or other forms of debt issued with a lower priority for repayment than other, more senior debt claims in the case of default.

Glossary (Cont'd)

The following are explanations of terms you may come across in this presentation. These definitions are not exhaustive and are intended as a guide only.

Leveraged Loans	A type of loan that is originated to companies that already have considerable debt or poor credit history and tend to carry a higher risk of default, making the loan more expensive for a borrower.
Liquidity	Ability for fund investors to subscribe and redeem units in a fund. The more liquid a fund, means the greater frequency to subscribe and redeem units.
Meaningful Cushions	The lower portions of a capital structure (more junior debt / equity) that sits below a senior secured loan in the repayment process.
Origination Fees	A fee paid by the borrower to the lender at issuance.
Original Issue Discount	Represents the discount or reduction in price at which the debt instrument is sold to investors when it is initially issued.
Private Credit	The investment of capital to acquire the debt of private companies (as opposed to acquiring equity).
Reference Rate	A standard interest rate or index used to determine the interest rate for various financial instruments, such as bonds. It serves as a reference point for pricing and adjusting interest rates in financial markets.
Risk-Return	The relationship between the amount of return gained on an investment and the amount of risk undertaken. Typically, higher return is correlated with higher risk.
Senior Secured Loans	Loans made to borrowers that are secured against the company and which sit high up on the capital structure.
Secured Overnight Financing Rate ("SOFR")	Used as a benchmark interest rate for various financial products, including derivatives, loans, mortgages, and floating-rate notes.
Spread	The difference in yield between two debt securities of the same maturity but different credit quality.
Syndicated	When a loan is originated by a lead bank or banks and sold to many other investors.
Yield	Refers to the earnings generated and realized on a investment over a particular period of time.

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Diversification; Potential Lack Thereof. Diversification is not a guarantee of either a return or protection against loss in declining markets. The number of investments which a Fund makes may be limited, which would cause the Fund's investments to be more susceptible to fluctuations in value resulting from adverse economic or business conditions with respect thereto. There is no assurance that any of the Fund's investments will perform well or even return capital; if certain investments perform unfavorably, for the Fund to achieve above-average returns, one or a few of its investments must perform very well. There is no assurance that this will be the case. In addition, certain geographic regions and/or industries in which the Fund is heavily invested may be more adversely affected from economic pressures when compared to other geographic regions and/or industries.

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