



## **Why Private Credit?**

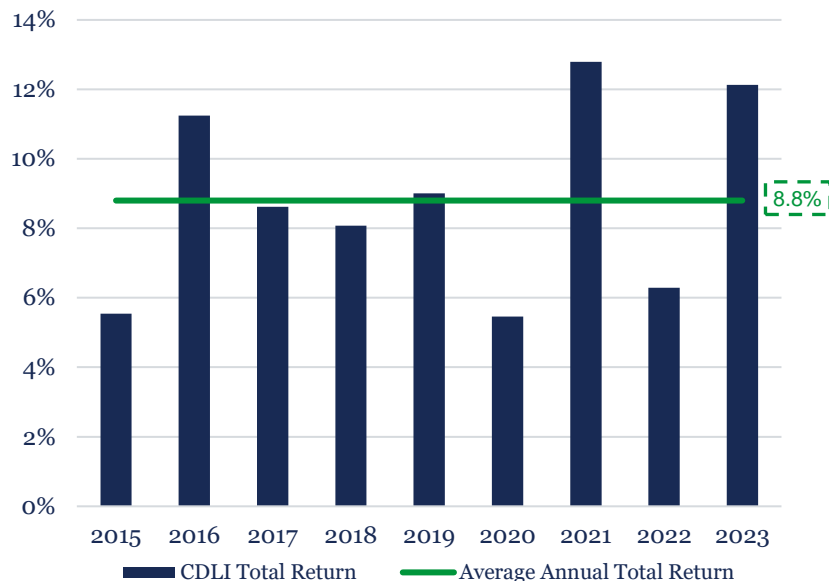
# Attractive Historical Returns with Low Relative Volatility

Private credit may act as a diversification tool given low relative volatility/higher return profile compared to several other asset classes.

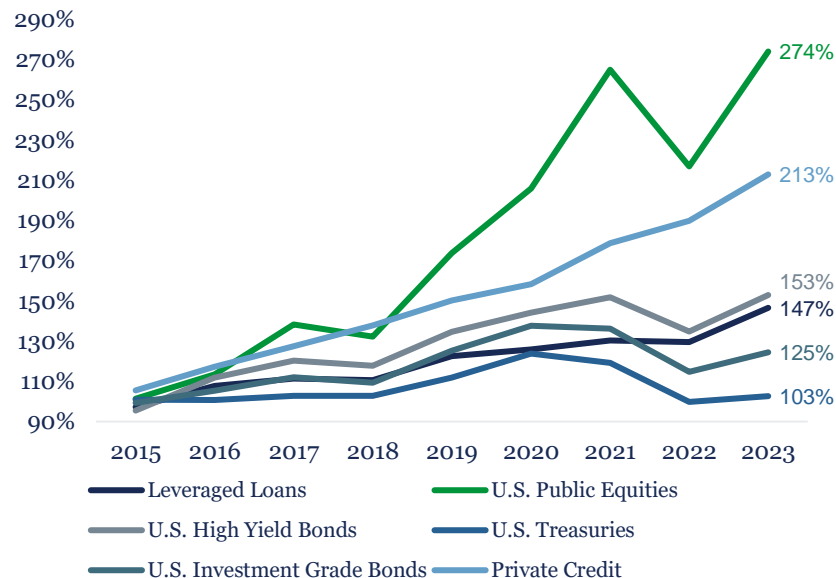


Source: Cliffwater and Morningstar Direct. Data represents average annual total returns from 2015 – 2023. Volatility is measured by standard deviations of annual total returns to average annual total returns. The following indices are referenced as follows: “Private Credit” – Cliffwater Direct Lending Index; “Leveraged Loans” – Morningstar LSTA LL100; “U.S. Investment Grade Bonds” – Bloomberg US Corp Bond; “U.S. High Yield Bonds” – Bloomberg US Corporate High Yield; “U.S. Treasuries” – ICE BofA Current 10-Y US Trsy; “U.S. Public Equities” – S&P 500. See “Important Information” section at the end of this presentation for detailed descriptions of each index’s parameters as defined by Cliffwater and Morningstar Direct. **PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.**

## Private Credit has Delivered Consistent Returns with Low Volatility



## Cumulative Returns for Cliffwater Direct Lending Index (CDLI) Have Exceeded Traditional Credit Strategies



## Durable Positive Annual Returns

- Robust direct lending coupons have delivered consistent positive annual returns.
- Direct lending portfolios have generated substantial investment income that offset unrealized/realized losses.
- Positive returns in each of the last 9 years, with an average return of 8.8%.

## Outperforming Traditional Credit Strategies

- Floating rate, senior secured portfolios, with illiquidity premium.
- Less competition allow for more attractive pricing.
- Benefiting from rising rates.

Source: Cliffwater, Morningstar Direct, and Barings. Data represents average annual total returns from 2015 – 2023. Volatility is measured by standard deviations of annual total returns to average annual total returns. The following indices are referenced as follows: "Private Credit" – Cliffwater Direct Lending Index; "Leveraged Loans" – Morningstar LSTA LL100; "U.S. Investment Grade Bonds" – Bloomberg US Corp Bond; "U.S. High Yield Bonds" – Bloomberg US Corporate High Yield; "U.S. Treasuries" – ICE BofA Current 10-Y US Trsy; "U.S. Public Equities" – S&P 500. See "Important Information" section at the end of this presentation for detailed descriptions of each index's parameters as defined by Cliffwater and Morningstar Direct. **PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.**

# What is Private Credit?

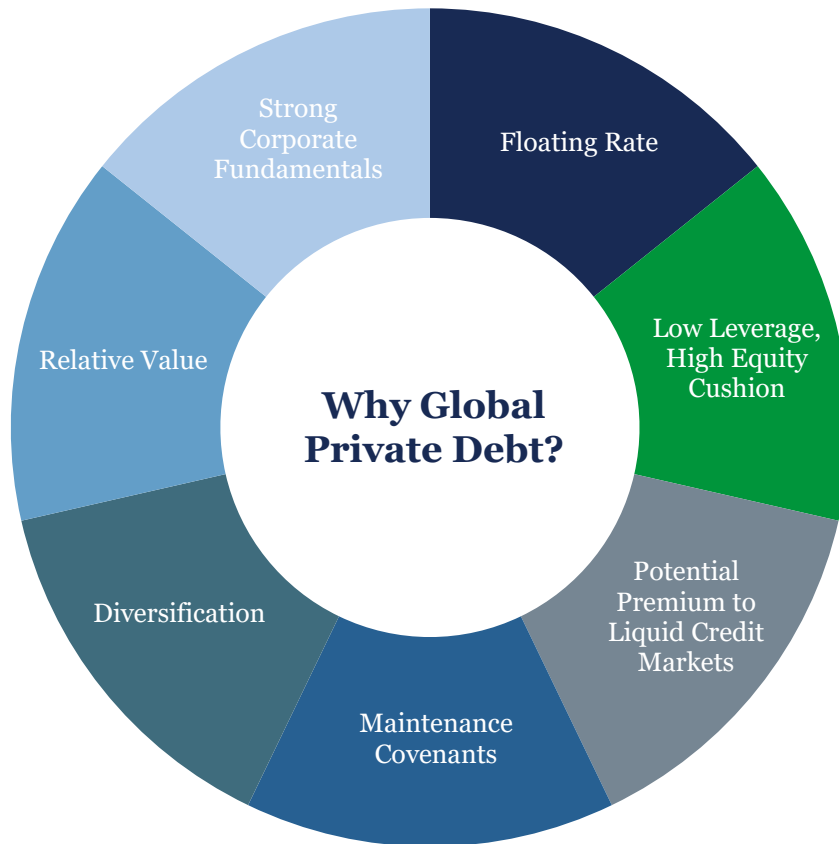
Private credit is a debt investment directly originated by an asset manager. Transactions may consist of corporate credit, infrastructure debt, or private placements in a variety of securities.

<b>Potential Premiums</b>	Private credit transactions may provide enhanced yield relative to liquid credit markets, commonly referred to as an “illiquidity premium”
<b>Speed of Execution</b>	Transactions are often bilateral (issuer and lender) or small club facilities, obviating a syndication process to cobble a facility together
<b>Tailored Financings</b>	Financings are structured to achieve the objectives of both the issuer and the lender
<b>Confidentiality</b>	Given the smaller number of transaction participants, information is disseminated to fewer parties than in a syndicated execution
<b>Takeaway?</b>	Private credit is exactly that—issuance of credit that is maintained on a private basis. Investors must understand the details of a manager’s investment strategy to appreciate the risks and return

# Why Private Senior Loans?

A global private debt strategy can provide flexibility to take advantage of shifts in relative value and greater portfolio diversification by issuer, industry, currency and return components.

## Why a Global Private Debt Allocation<sup>1</sup>



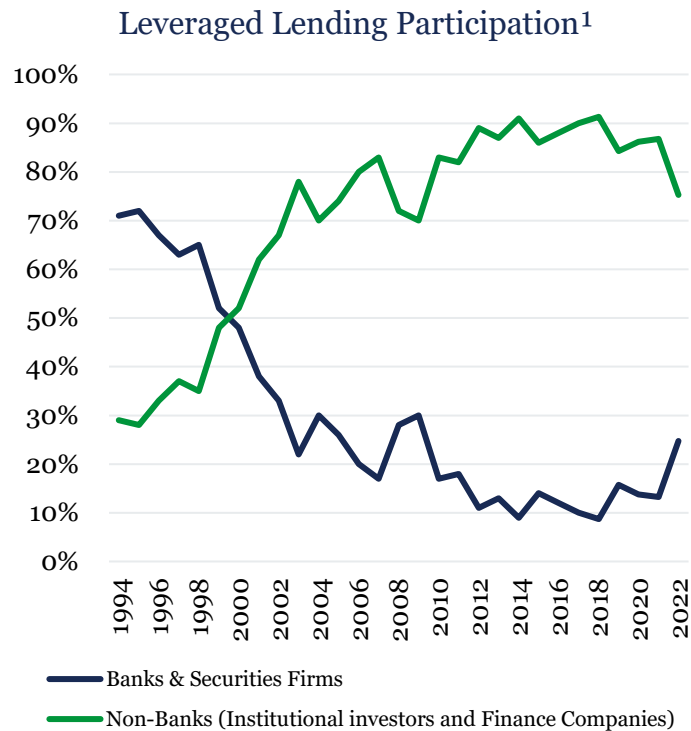
- **Potential for high yields with low volatility** relative to certain liquid markets
- **Large opportunity set** given regulatory pressure on banks and record levels of private equity dry powder driving new financing opportunities
- **Potential illiquidity premium** to large corporate market with relatively **lower risk profile**: lower leverage and higher equity contributions
- Global allocation provides opportunities to construct **a highly diversified portfolio**
- Global team and dynamic portfolio management provide ability to find **relative value** throughout portfolio construction

1. According to Barings' market observations as of September 30, 2024  
Note: For illustrative purposes only. There can be no assurances that the stated will be achieved.

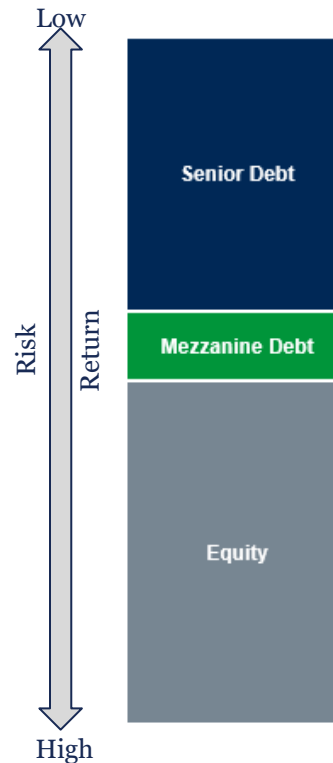
# What is Private Credit?

With increased regulation on the banking system, more loans are extended to borrowers from non-bank lenders.

## INCREASED REGULATION LOWERS BANK PARTICIPATION IN LENDING...



## ...MIDDLE MARKET COMPANIES THEN SEEK DEBT VIA NON-BANK FINANCING...



## ...WHICH FURTHER DRIVES THE MIDDLE MARKET ECONOMY...

- The US Middle Market is made up of companies with annual revenues between \$10 million and \$1 billion
- Responsible for roughly one-third of private U.S. GDP, equivalent to the 5<sup>th</sup> largest economy in the world<sup>2</sup>
- Consists of nearly 200,000 companies – including family-controlled, private equity sponsored, and publicly-owned businesses

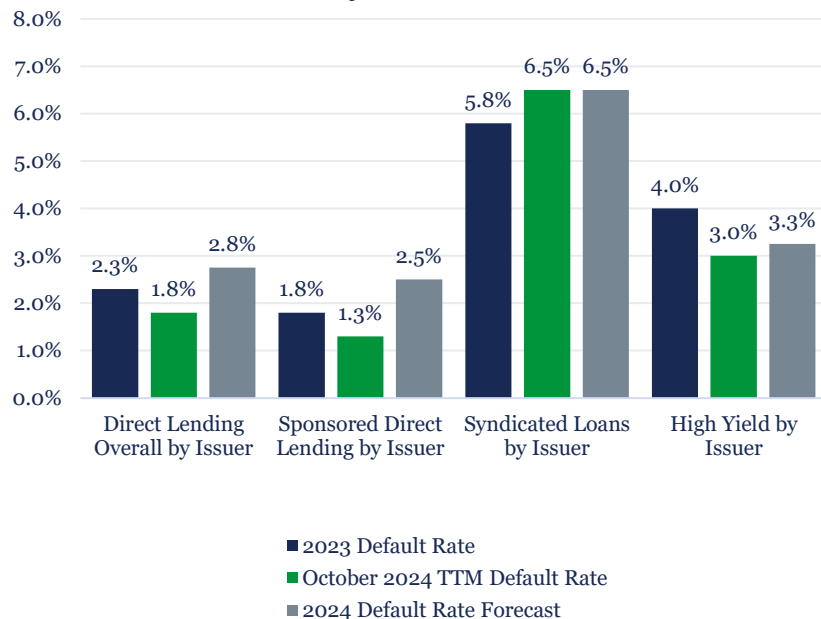
1. S&P LCD, data as of 12/31/22

2. National Center for the Middle Market, Q4'23 Middle Market Indicator

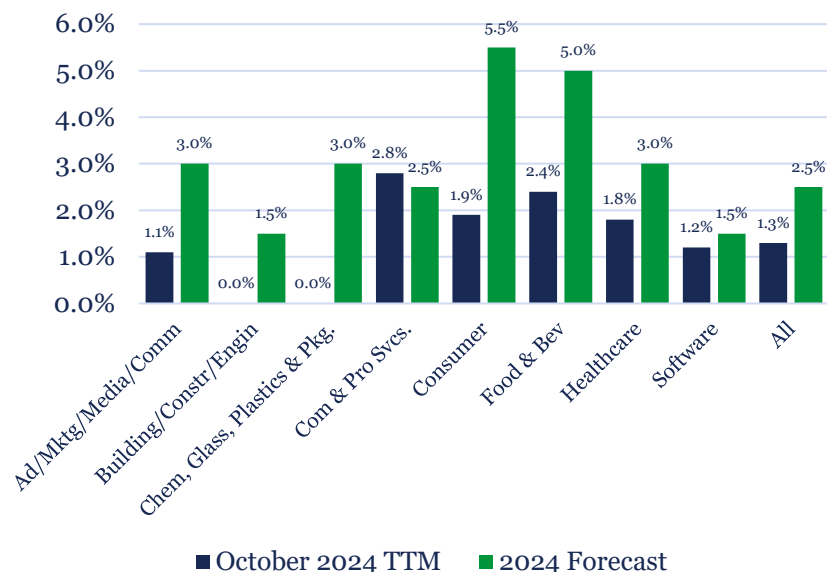
3. National Center for the Middle Market, State of the Middle Market Economy: Managed Expectations Amid Stable Growth  
Note: For illustrative purposes only. There can be no assurances that the stated will be achieved.

# Private credit default and loss rates remain steady, credit losses remain resilient

*Default Rates<sup>1</sup>*



*Sponsored Direct Lending Default Rates by Sector<sup>1</sup>*



*Loss Rates*

	Barings <sup>3</sup>	Direct Lending <sup>2</sup>	High Yield Bonds <sup>2</sup>	Leveraged Loans <sup>2</sup>
Loss Rates over last 10 Years	0.02%	0.96%	1.58%	0.88%

1. Source: KBRA DLD

2. Source: Cliffwater, JPMorgan Markets. Credit losses = defaults adjusted for value recovered

3. As of September 30, 2024. Includes all of Barings private first lien loan strategies. Barings North American Senior Loan Strategy, excluding secondary purchases and deals originated solely for Barings Middle Market CLOs (Inception: 2012). Barings European Senior Loan Strategy (Inception: 2013). Barings Asia Pacific Senior Loan Strategy (Inception: 2011).

# Core Middle Market Offers Greater Degree of Structural Protection

Large corporate private credit strategies resemble broadly syndicated loan terms and structure.

		Private Credit		Public Credit	
		Core Middle Market	Large Corp Club /Mega Cap	Broadly Syndicated Loans	High Yield Bonds
		EBITDA \$15-\$75M	EBITDA \$75M+	EBITDA \$100M+	EBITDA \$100M+
Barings Focus	Borrower Size				
	Privately Negotiated	Often	Sometimes	Rarely	Rarely
	Floating Rate	Often	Often	Often	Rarely
	Senior Secured	Often	Often	Often	Rarely
	Financial Maintenance Covenants	Often	Sometimes	Rarely	Rarely
	Leader Influence on Debt Structure	Often	Sometimes	Rarely	Rarely
	Call Protection	Sometimes	Sometimes	Sometimes	Often
	Control During Workout Process	Often	Rarely	Rarely	Rarely



# Financial Covenants

Not all financial covenants protect lenders in the same way as credit agreements lacking 'Financial Maintenance Covenants' are generally referred to as 'Covenant Lite' documents

## What is a Financial Maintenance Covenant?

Maintenance covenants are different from incurrence covenants, which are only tested when a borrower takes a specific action, such as taking on more debt. Maintenance covenants are often preferred by lenders and investors because they allow for quicker action if a borrower's finances need attention.

### Incurrence Covenant

Prevent lenders from taking action until a borrower breaches a specific financial ratio. They trigger when a predetermined event occurs, such as taking on more debt or paying dividends.

### Negative Covenant

Restrict a company from taking certain actions. For example, a negative covenant might limit the amount of dividends a company can pay to its shareholders or the ability to carve out assets away from first lien lenders.

### Maintenance Covenant

Condition in a loan agreement that requires a borrower to maintain certain financial requirements on a regular basis. These requirements are usually tested quarterly, regardless of the borrower's debt issuance or other activities.

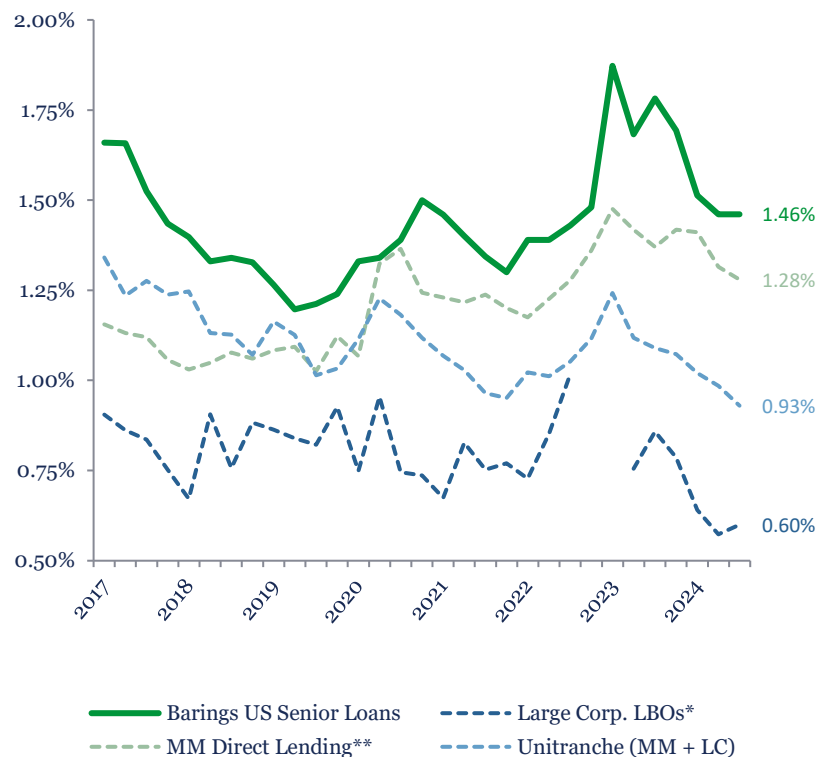
# Strong Relative Returns Above Broadly Syndicated Market

Barings' realized illiquidity premium over the broadly syndicated leveraged loan index has historically averaged ~250+ bps in aggregate or ~80 bps per turn of leverage.

## ILLIQUIDITY PREMIUM OVER BROADLY SYNDICATED MARKET<sup>1</sup>



## SPREAD PER TURN OF LEVERAGE OVER BROADLY SYNDICATED MARKET<sup>2</sup>



As of September 30, 2024

1. Data represents 3 year discount margin (All-In Spread (DM-3) = [(fee/3) + spread + greater of floor or base rate] / (1 - fee) - base rate) for both Barings and CS LL Index.
2. Source: Refinitiv. \*Large corporate LBOs shows first-lien debt to first-lien leverage. \*\*MM Direct Lending shows first-lien deals, and excludes second-liens and unitranches

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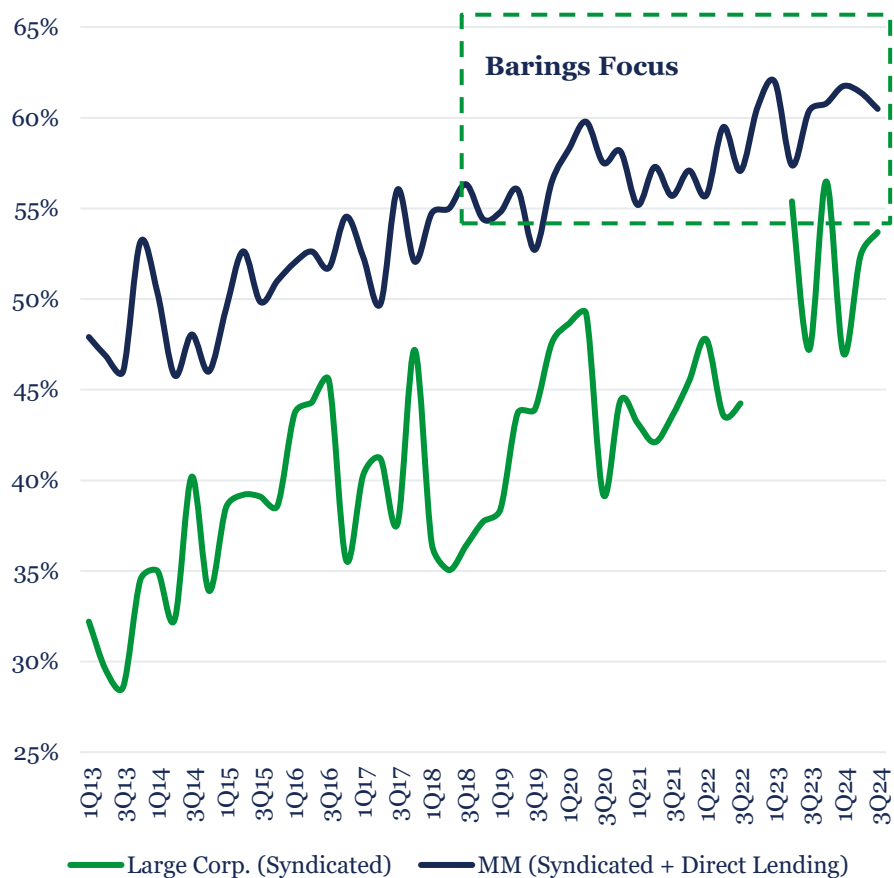
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**BARINGS**

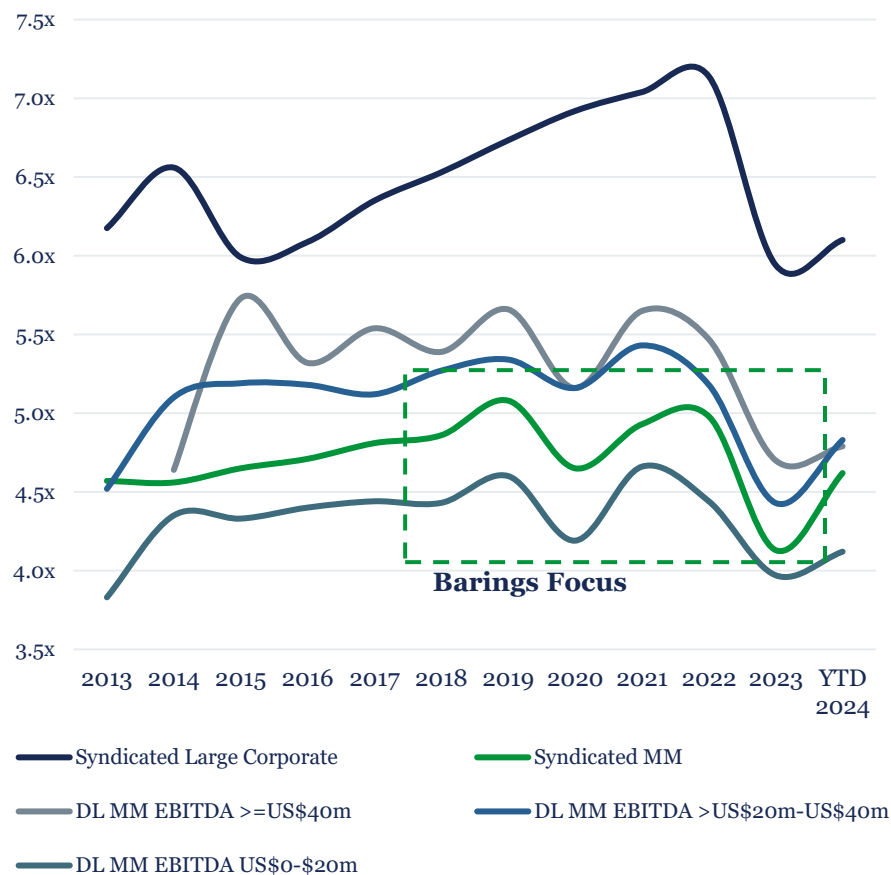
# Corporate Leveraged Credit

Barings operates in the middle of the middle market, where loan-to-value and total leverage tend to be lower than in the large corporate and institutional segments.

## LBO Total Equity Contribution Comparison



## LBO Total Leverage by Market Segment (Annual)



Source: LSEG LPC. As of September 30, 2024. Periods without a datapoint represent lack of LBO activity for that particular segment. All charts within the M&A analysis exclude annual recurring revenue deals.

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# **Barings Investment Process**

# A Typical Deal

Barings evaluates every transaction in the context of three variables.

## Key Considerations

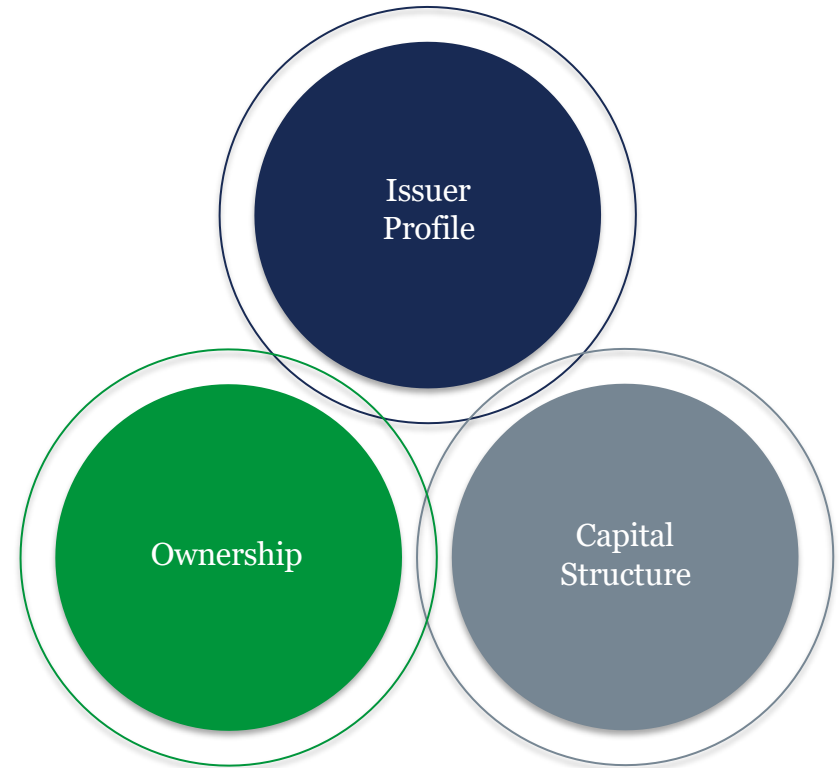
- How resilient are the Issuer's end markets?
- How did the Issuer perform during the GFC and COVID?
- To what degree are sales diversified?
- What are gross and EBITDA margins?

## Key Considerations

- Who owns the issuer?
- Does the owners have experience with assets of a similar type?
- How long has the Sponsor been investing?
- In times of distress, how has the ownership group responded?

## Key Considerations

- What is the total enterprise value of the issuer?
- What is the structure of the equity (cash, implied, preferred)?
- How much debt will the issuer bear?
- How "adjusted" is EBITDA?



# Opportunity Sourcing & Conversion

Barings leverages its broad and wide-reaching network across private equity sponsors and advisors to originate opportunities.

## Sourcing Capabilities

### Internal Origination Channels

**Barings' Network**

**Affiliate Network**

**GLOBAL PRIVATE FINANCE: 180+ PE SPONSOR RELATIONSHIPS<sup>2</sup>**

**GLOBAL HIGH YIELD: 1,800+ CORPORATE ISSUERS COVERED**

**GLOBAL STRUCTURED CREDIT: 3,300+ CLO TRANSACTIONS**

### External Origination Channels

**Restructuring  
Advisory & Legal  
Community**

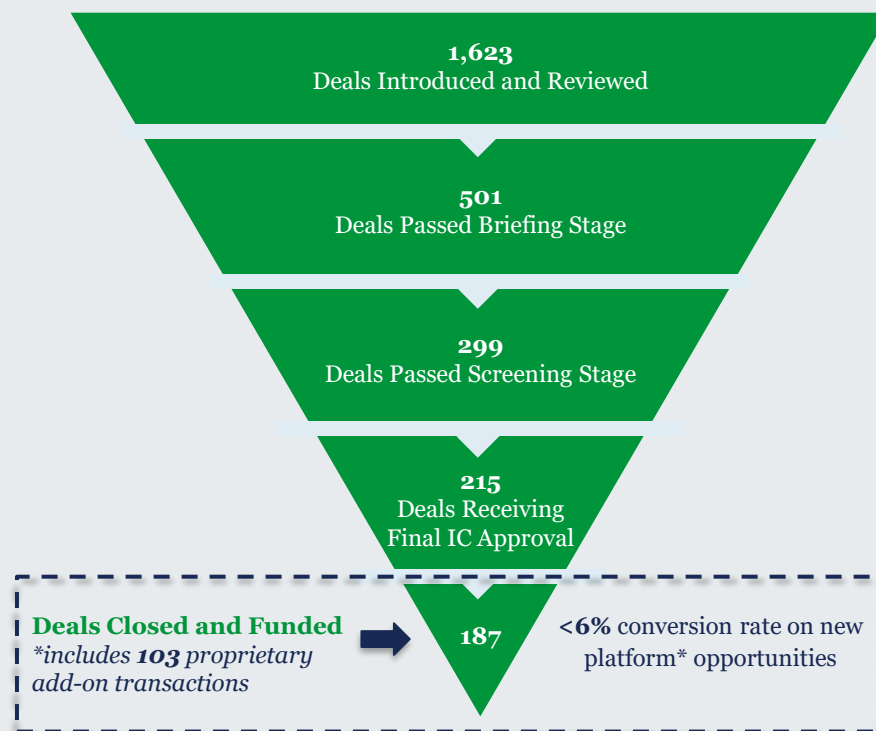
**Banks &  
Intermediaries**

**Direct Relationships**

**SOURCED OPPORTUNITIES FROM 475+ UNIQUE PRIVATE  
EQUITY SPONSORS IN THE PAST 12 MONTHS**

**CLOSED FINANCINGS WITH 105+ UNIQUE PRIVATE EQUITY  
SPONSORS IN THE PAST 12 MONTHS**

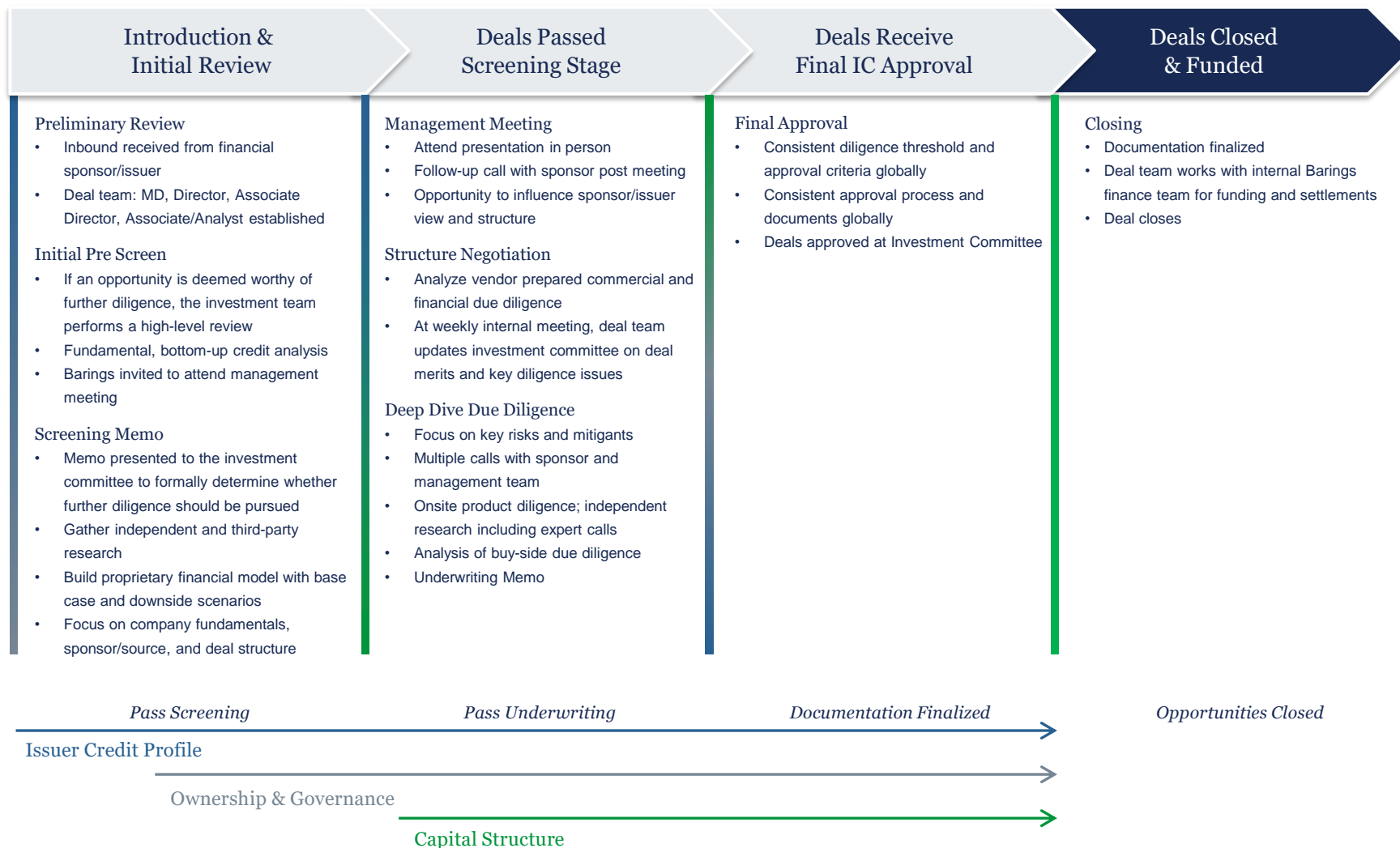
## Barings Deal Origination Process<sup>1</sup>



1. Average annual LTM metrics over previous three years to March 31, 2024, based on closed date  
2. Represents trailing three years of activity

# Investment Process

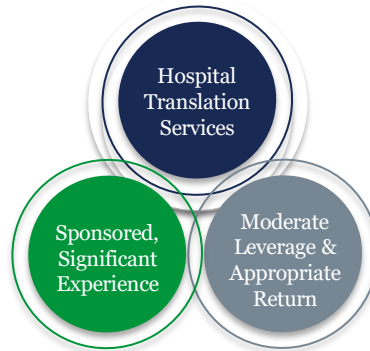
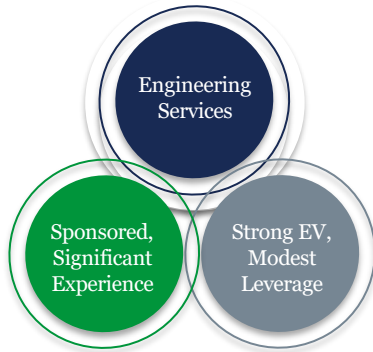
Barings' Three-Pronged Approach in Practice.



# A Typical Deal, with Examples

Barings evaluates every transaction in the context of three variables and structures the transaction accordingly.

## New Transactions



## Refinancing



## Deal Statistics

- EBITDA: \$16mm
- DM-3: 5.89%
- Leverage: 2.3x
- LTV: 23%
- EV:9.8x
- Close: August 24

- EBITDA: \$19mm
- DM-3: 6.89%
- Leverage: 4.2x
- LTV: 41%
- EV:10.2x
- Close: March 24

- EBITDA: \$102mm
- DM-3: 5.89%
- Leverage: 4.3x
- LTV: 38%
- EV:11.2x
- Close: August 24

## Deal Considerations

- 100+ years of experience with strong blue-chip customers. Sponsor experience in the sector
- Revenues driven from project related work, but highly granular composition with long term growth
- Issuer is one of small number of scale providers operating in the niche industry segment
- Strong revenue retention & diverse customer base
- Average unit pricing pressures and carve-out risks required diligence to properly understand risks
- Extremely high customer granularity and low average selling price
- Known and seasoned Barings issuer
- Issuer size created significant competitive interest, but incumbency positioned Barings to retain asset

## Outcome

- Barings won agency and holds 100% of the first lien facilities
- Barings won agency and holds 100% of the first lien facilities
- Barings institutional relationship with the Sponsor led to retaining the Agency for a large club

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# Ongoing Portfolio Monitoring

Portfolio managers and original investment team monitor at investment and portfolio level with goal of addressing any issues well in advance of potentially adverse events.

## Investment Team Monitoring

- Same team who underwrote deal monitors it in the portfolio
- Receive monthly/quarterly financials from portfolio companies
- Proprietary portfolio management system aggregates data to monitor trends
- Engage sponsor and management early to address potential covenant breaks or other issues



## Committee and External Monitoring

- Hold regular watchlist reviews
- Quarterly portfolio reviews internally to review risk sensitivities, near-term market outlook and relative value
- Discuss any latent issues regularly with investment committee
- Pricing committee utilizes independent third-party pricing vendors
- Annual third party audit

**Multiple, independent layers of review, both internally and externally**

# Managing Downside Risk

Investment professionals possess extensive experience with managing portfolios of private credit investments across economic cycles.

## Extensive Experience

Barings has been managing private debt (including junior capital) for **27+ years**

Senior management within the investment teams have invested **through numerous cycles**

Potential to leverage experience from our **specialist distressed debt team**

Utilize our **in-house legal and operational firm wide teams**

## Constant Communication

Barings maintains constant contact with its management teams and private equity partners to ensure we are acting on the most current data and able to get ahead of any upcoming issues

Request further information (i.e. financial forecasts) and consult with **internal experts and consult external advisors**

## All-Hands Approach

### Sample Workout Team

Member(s) of IC  
Originator  
Lead Underwriter  
Deal Analyst  
Internal Legal  
Internal Workout Specialist  
External Advisors  
External Lawyers

## Potential Solutions for Loss Mitigation

Collaborative approach between lenders and sponsors to support financial and operational improvements debt securities

Lender-driven approach to maximize enterprise value through liquidity and operational support

## Potential Outcomes

Position on the board

Restructuring of debt securities

Forced sale of business

Take the “keys”



# Investing *Together*

PUBLIC & PRIVATE FIXED INCOME | REAL ASSETS | CAPITAL SOLUTIONS

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# Important Information

## Index descriptions and parameters as defined by Cliffwater and Morningstar Direct:

**Cliffwater Direct Lending Index:** The Cliffwater Direct Lending Index ("CDLI") seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility criteria. The CDLI is asset-weighted and calculated quarterly using financial statements and other information contained in the U.S. Securities and Exchange Commission ("SEC") filings of all eligible BDCs. The loans captured in the by the CDLI represent a large share of the direct lending universe and, importantly, represent loans that are originated and held to maximize risk-adjusted returns to shareholders and investors.

**Morningstar LSTA US LL100:** The Morningstar LSTA US Leveraged Loan 100 Index is designed to measure the performance of the 100 largest facilities in the US leveraged loan market. Index constituents are market-value weighted, subject to a single loan facility weight cap of 2%.

**S&P 500:** 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.

**Bloomberg US Corporate High Yield:** The index measures the performance of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds, including corporate bonds, fixed-rate bullet, puttable, and callable bonds, SEC Rule 144A securities, Original issue zeros, Pay-in-kind (PIK) bonds, Fixed-rate and fixed-to-floating capital securities.

**Bloomberg US Corp Bond:** The index measures the performance of the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.

**ICE BofA Current 10-Y US Trsy:** The index measures the performance of the most recently issued 10-year U.S. Treasury note.