

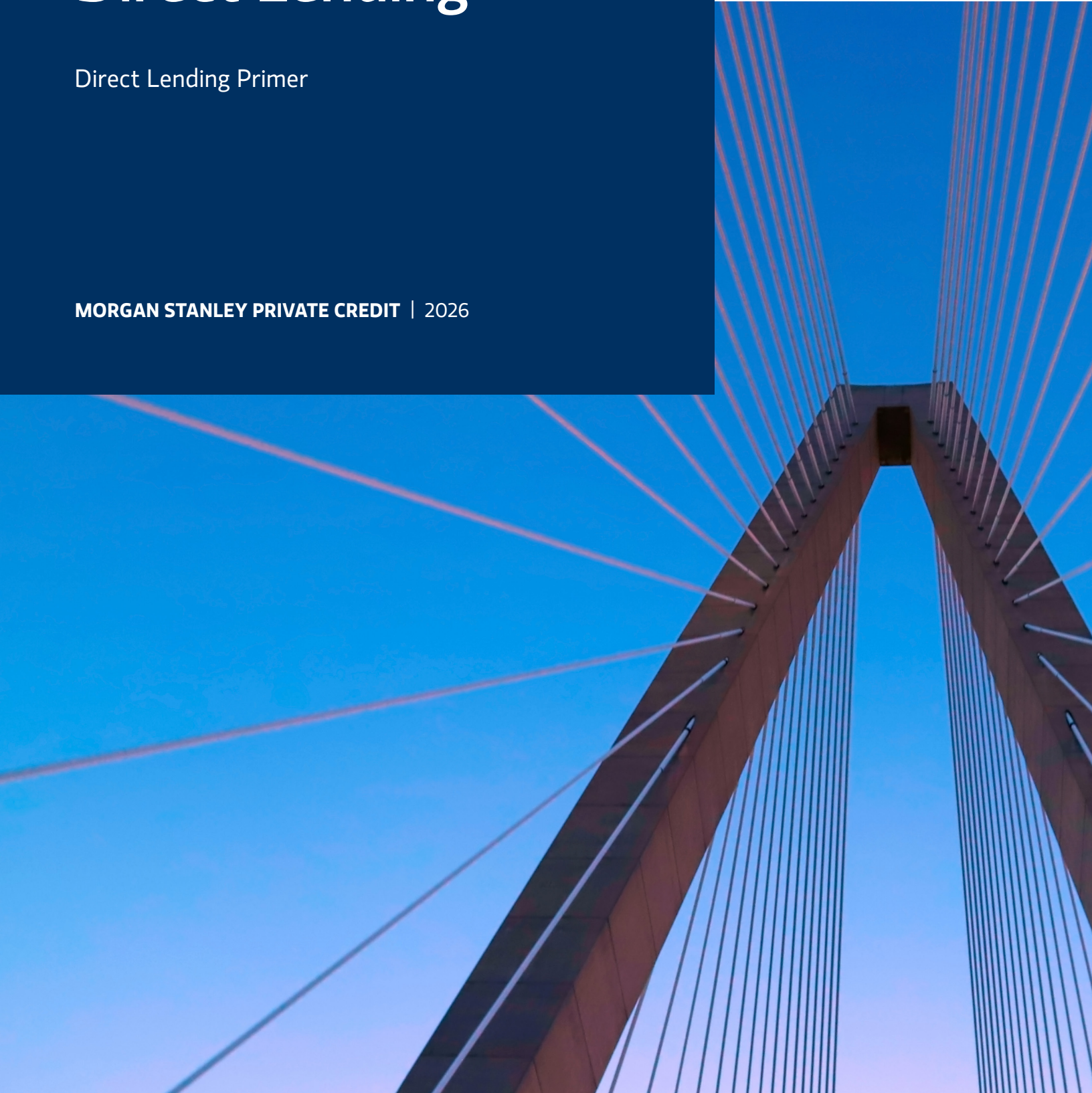
Morgan Stanley

INVESTMENT MANAGEMENT

Evolution of Direct Lending

Direct Lending Primer

MORGAN STANLEY PRIVATE CREDIT | 2026





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Overview of Private Credit

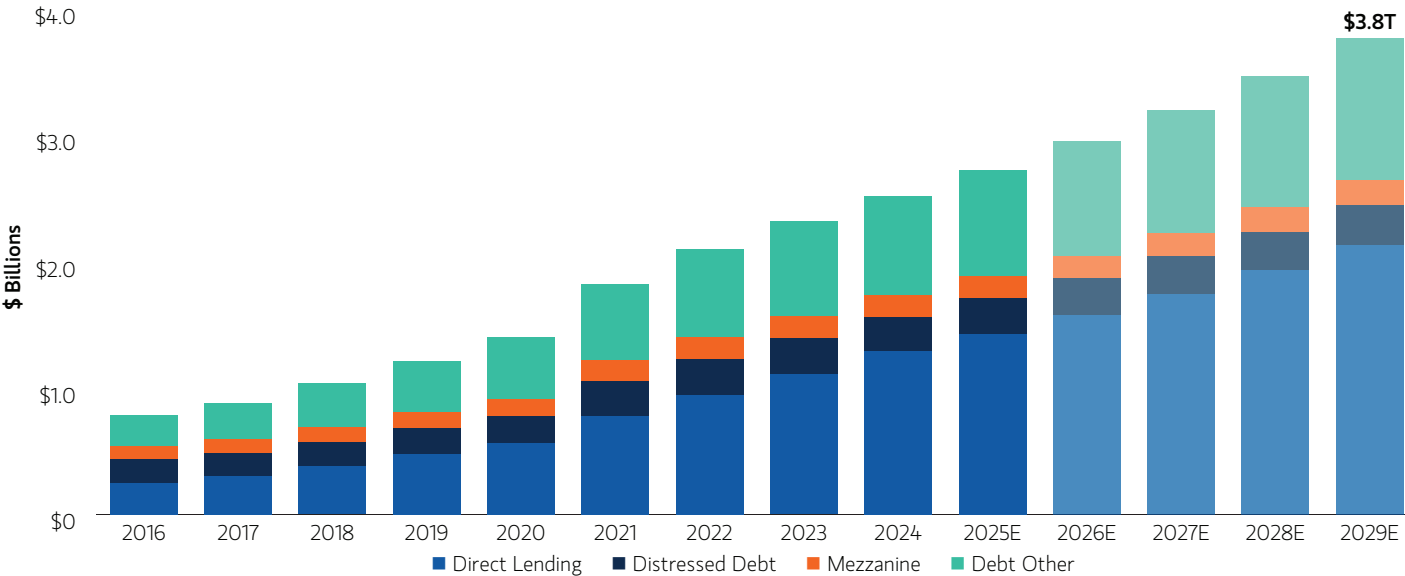
Private Credit investing is a form of lending capital outside of the traditional banking system, whereby lenders work with borrowers to originate and negotiate privately held loans not traded in public markets. Investor allocation to Private Credit has grown significantly in recent years, with a total market size of approximately \$2.7 trillion as of the end of 2025 and forecasted to grow to \$3.8 trillion by 2029.¹



Historically, corporate borrowers have looked to banks for their lending needs. However, the number of US banks declined by 75% between 1986 and 2025. Much of that consolidation occurred in the years following the Global Financial Crisis (“GFC”) in 2008, as regulations and increasingly conservative lending policies among banks reduced their willingness to lend. As a result of these changes, the market opportunity for Private Credit has evolved over the last several decades as private lenders have stepped in to fill the need for capital.

As lenders have sought to address the capital deployment needs of investors with different risk and return profiles, a number of Private Credit investing strategies have emerged. Direct Lending, which is discussed in detail in the following pages, now accounts for the largest share of Private Credit assets under management, making up more than half of all Private Credit as of September 30, 2025.

DISPLAY 1
Projected and Historic Growth in Private Credit Assets



Source: PitchBook, LSEG, Morgan Stanley Investment Management. Gross invested assets including leverage applied. Excludes uncalled capital in drawdown funds. Forecasts generated on April 19, 2025. Historical data as of September 30, 2025.

¹ PitchBook, 2029 Private Horizons report, May 1, 2025.

Types of Private Credit

Private Credit is generally made up of six sub-strategies. These sub-strategies are categorized either by the types of borrowers they lend to (e.g., Distressed or Venture strategies), the types of loans they make (e.g., Direct Lending or Mezzanine), or the collateral type (e.g., Asset-Based). Each strategy offers a tradeoff of risk/reward characteristics.



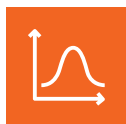
Direct Lending strategies provide credit primarily to middle market, non-investment grade private companies and generally focus on generating current income like other fixed income investments. Direct lenders typically concentrate their investment activity in first lien and unitranche debt, both of which are discussed in greater detail in the following pages.



Asset-Based Finance describes a wide range of strategies that target assets as opposed to operating companies. They include loans on real assets, such as real estate and infrastructure, or pools of assets such as equipment and fleet financing, or balance sheet assets of financial intermediaries such as student loans, credit card receivables, or account receivables in general held by non-financial companies.



Distressed Debt investing is lending to companies that are “distressed” because of issues such as bankruptcy or other complications with meeting debt obligations, with the intention of generating profit post-company turnaround. Distressed debt has a risk-return profile similar to equity securities because factors specific to the issuer have a greater effect on the debt’s performance.



Mezzanine Lending provides borrowers with a hybrid of debt and equity financing. These debt issuances often have equity conversion rights or other types of embedded equity options. Mezzanine debt is subordinated to first lien debt.



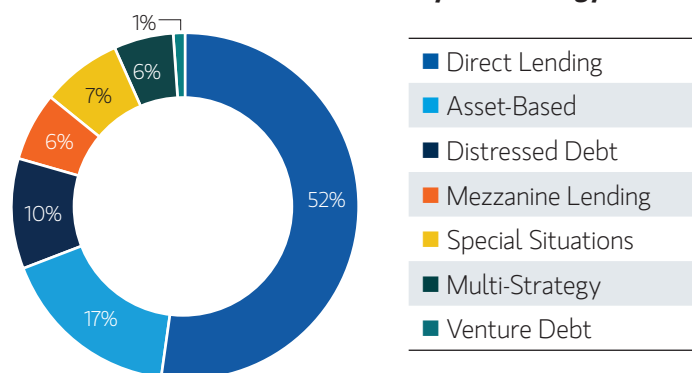
Special Situations strategies focus on flexible solutions for planned events, such as corporate expansion, or unplanned events during periods of stress, such as restructurings. Also referred to as opportunistic or structured debt, their borrowers start out as performing although some may transition to distressed.



Venture Debt, like venture capital, focuses on startup or early-stage companies looking for funding. Debt financing for these firms has expanded as early-stage companies look to increase their working capital or capital investment without issuing new and dilutive equity.

DISPLAY 2

Share of Global Private Credit AUM by Sub-Strategy



Direct Lending now makes up 52% of the total Private Credit market, up from 18% in 2010.

Source: PitchBook, LSEG, Morgan Stanley Investment Management. Gross invested assets inclusive of leverage applied. Excludes uncalled capital in drawdown funds. As of September 30, 2025.

Overview of Direct Lending

Direct Lending is a type of Private Credit strategy that makes direct, illiquid loans to middle market companies. While Direct Lending usually refers to first lien (including unitranche) loans, second lien and mezzanine lending similarly lend to middle market companies and have developed as a result of the same dynamics as senior first lien Direct Lending investing.

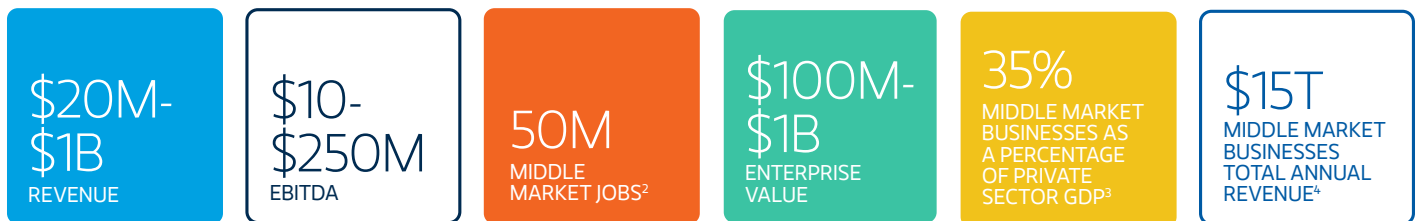
Defining the Middle Market

Companies within the “middle market” generally fall within a range of approximately \$10 million to \$250 million in EBITDA, roughly comparable to medium- and small-cap stocks included in indexes such as the Russell 2000. This middle market segment represents a major piece of the US economy, approximately one third of private sector GDP, and continues to grow, experiencing 10.7% revenue growth for the 12 months ending Q2 2025.²

Middle market borrowers are typically either not within the lending profile of the broadly syndicated loan market or not interested in undergoing the often lengthier and less flexible process of broadly syndicated loan origination. As such, a large portion of the middle market is turning to Direct Lending to meet their capital needs. In exchange for providing capital to these borrowers, direct lenders can expect to earn higher interest rates to compensate for the added risk of lending to smaller companies, as well as an illiquidity premium for providing non-publicly tradeable issuances. These direct loans are often highly negotiated with protective covenants that provide downside protection for lenders.

This middle market segment represents a major component of the U.S. economy, approximately one-third of private sector GDP, and continues to grow, experiencing 10.7% revenue growth for the 12 months ending Q2 2025.²

Size and Scope of the Middle Market



² National Center for the Middle Market, Mid-Year 2025 Report.

³ US Bureau of Economic Analysis and National Center for the Middle Market 2024 Indicators Report.

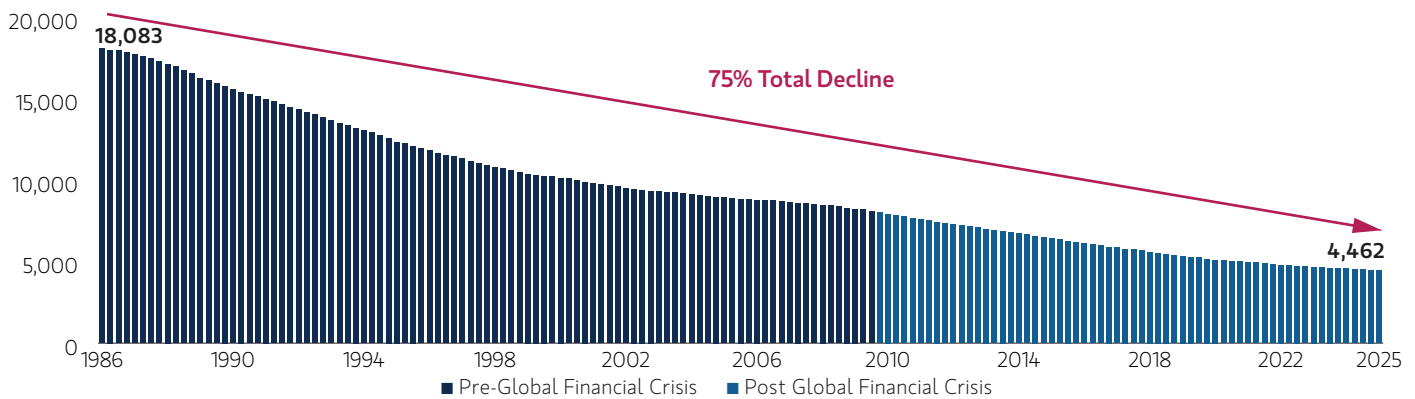
⁴ US Bureau of Economic Analysis and US Census Dynamics Statistics.

Direct Lending – Changing Sources of Capital

The increase in demand for Direct Lending to meet the needs of middle market companies has been driven by a decades-long trend of bank consolidation that re-accelerated from the regulations enacted following the GFC, as described on page 5 in *Direct Lending – Regulatory Impacts*. As shown in *Display 3*, between 1999 and up to the start of the GFC in 2007, a period that included a number

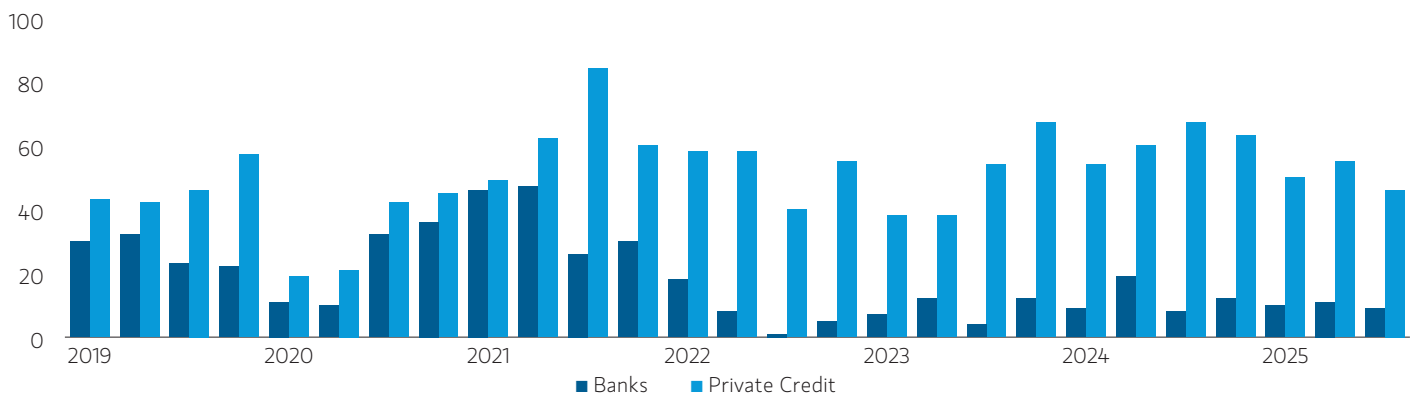
of high-profile mergers such as Chase Manhattan Bank with J.P. Morgan & Co., the number of US banks declined by around 16%. Since then, the number of banks has declined by 48% while average assets have increased nearly four-fold.⁵ This consolidation trend has generally resulted in a smaller number of banks that are more focused on lending to larger borrowers.

DISPLAY 3
Number of FDIC-Insured Banks



Source: FDIC, as of March 31, 2025.

DISPLAY 4
Banks' Declining Share of LBO Loans to PE Borrowers



Source: PitchBook LCD. As of December 31, 2025.

⁵ FDIC, as of March 31, 2025.

The declining number of bank lenders, coupled with the declining willingness of these institutions to lend, has led to a major shift in the source of funding for certain borrower types. Private lenders have subsequently moved to fill this gap, driving a large part of lending outside the banking system.

Direct lenders have emerged as a provider of loans to the middle market. As shown in *Display 4* on page 4, global banks' share of the leveraged buyout loan market hasn't risen above 50% since 2019 and dropped to as low as 7% in 2023.⁶



Direct Lending – Regulatory Impacts

Regulations enacted after the GFC have contributed to a shift in banks' ability and willingness to issue or hold certain assets, driving increased demand for Direct Lending.

■ **Bank of International Settlements Framework III (“Basel III”):**

Basel III regulations were formed as a direct response to market-wide contagion of bank collapses during the GFC. The Basel III framework is based on three target risk measures, requiring banks to maintain minimum levels of capital, liquidity, and stable funding. Higher and broader minimums were proposed as recently as 2023 after the Silicon Valley Bank failure and the mini-bank crisis that ensued.

■ **Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”):**

Dodd-Frank is legislation that initially aimed to curb risk concentration of banks. In particular, the Volcker Rule, implemented under Dodd-Frank, restricted banks' ability to lend to riskier borrowers, creating a gap in funding for private equity transactions. While the Dodd-Frank Act was rolled back in 2018, its impacts have largely been unchanged, with banks' overall risk tolerance significantly lower than pre-GFC, and there are few indications of a potential reverse of this trend.

■ **FDIC Leveraged Lending Guidance:**

In 2013, the Federal Deposit Insurance Corporation (FDIC) updated its guidance on leveraged financed activities, decreasing risk appetite for banks and increasing the need for stress-testing exposures and portfolios.

⁶ Pitchbook LCD Data. Based on deal count.

Private Equity Demand – An Additional Driver of Direct Lending Growth

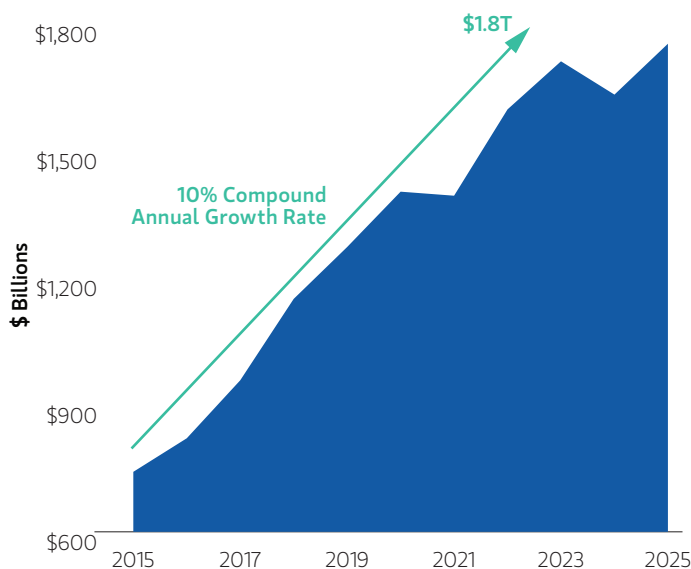
Coinciding with ongoing bank consolidation and retrenchment, markets have also seen a shift from public equity to private equity. The number of publicly listed companies in the U.S. has been declining for over two decades, with the total number of listed US companies decreasing by 50% from 1996 to 2024⁷. This reduction is related to several factors, including regulations such as the 2002 Sarbanes-Oxley Act, which heightened requirements for public company filings and governance. Small and medium companies have also increasingly found value in working with private equity investors who generally have a longer-term focus on growth versus public investors who focus heavily on quarterly results.

To address the growing debt capital need from private equity, Direct Lending has become a source of funding for private equity sponsors. The approximately 10% compound annual growth rate (CAGR) in private equity dry powder since 2015 (Display 5) suggests the demand for Direct Lending capital will likely continue.

While Direct Lending had previously been limited in its ability to underwrite at the size required to be a viable alternative to the syndicated loan market, this limitation has eroded significantly over the past few years. Direct Lending institutions continue to raise additional funds and expand the scope of their lending capabilities. The scale at which direct lenders are now able to underwrite debt and partner together makes Direct Lending a much more competitive option for private equity backed borrowers. A form of financing once only tapped by smaller, sponsor-backed companies evolved into a market that can meet the financing needs of much larger companies. Private equity firms are now able to execute debt financings of more than \$5 billion for their portfolio companies in the private market.

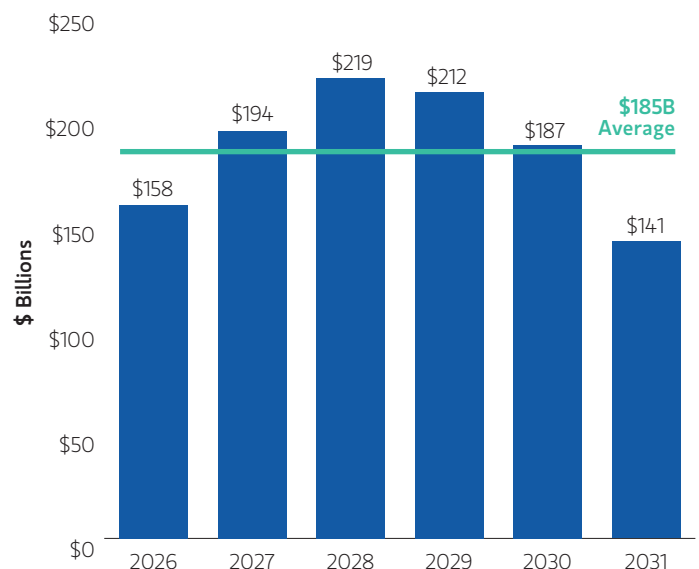
Another potential factor that may contribute to continued need for Private Credit is the “maturity wall” for middle market companies with debt that is coming due. As shown in Display 6 below, the combined value of maturing BDC and syndicated loans to middle market companies averages \$185 billion per year through 2030, and peaks at \$219 billion in 2028. The growing amount of maturing debt suggests that the middle market will remain in need of financing, and private lenders will likely benefit from this dynamic.

DISPLAY 5
Global Private Equity Dry Powder



Source: PitchBook, as of June 30, 2025.

DISPLAY 6
Middle Market Debt Maturities Through 2030



Source: LSEG, PitchBook LCD, Morgan Stanley Investment Management. As of September 30, 2025. US only.

⁷ World Federation of Exchanges, data as of December 31, 2024

Direct Lending – Attractive Attributes for Borrowers

Beyond the supply-side market dynamics discussed herein, Direct Lending has a number of advantages that make it attractive to middle market borrowers and private equity owners of middle market companies, helping drive demand for the asset class. Features of Direct Lending can also increase alignment between the borrower and lender, which also can lead to better outcomes for both borrowers and lenders.

- **Speed and certainty of transactions:** Direct lenders can offer borrowers and private equity sponsors a more nimble underwriting process, leading to a quicker turnaround and lower fees than what banks had previously offered. A smaller number of lenders and a more bespoke process means transactions can close more quickly than a syndicated loan process.
- **No syndication risk:** The process of syndication can also introduce risks for borrowers, most notably that a loan's yield is not guaranteed during the syndication process of a transaction; borrowers may end up with a higher rate on their loan than the underwriters marketed. Likewise, the syndication process allows for possible changes in deal terms between arranging and close.
 - The scale at which direct lenders are now able to underwrite debt and partner together makes Direct Lending a viable competitive alternative to the syndicated loan market for private equity-backed borrowers. As mentioned above, private equity firms are now able to execute \$5 billion or more debt financings for their portfolio companies in the private market.⁸
- **More flexibility:** Private Credit lenders typically have more flexibility than public debt lenders to meet a borrower's unique needs. Relative to their public counterparts, private lenders are more likely to be willing to negotiate the terms of a loan, such as the interest rate structure, the repayment schedule and the covenants. Additionally, optionality provided by Private Credit lenders such as committed Delayed Draw Term Loans (DDTL) allows borrowers to request funds after the loan's initial close for specific purposes such as acquisitions or major capital projects. DDTLs are typically available for up to two years post-close and allow borrowers to reserve their revolving loan capacity to manage working capital and fund ongoing operations. Further, unlike traditional term loans, payment of interest on DDTLs is not required until the DDTL is utilized.
- **No ratings requirement:** Ratings require additional hurdles and costs for borrowers. Rated transactions also result in borrowers' financial results being widely distributed.
- **Cost efficiencies:** Although Private Credit offers lenders an illiquidity premium, the costs to borrowers are often not significantly higher than public issuances fees. Instead, underwriting costs are captured by investors in a private deal through original issue discounts and call premiums.
- **Direct relationship:** In private debt transactions, the lender typically has a direct relationship with the borrower. This dynamic means that the lender can work with the borrower to develop a financing plan that meets their needs, while also monitoring its performance closely.
- **Longer-term focus:** Private debt lenders typically have a longer-term focus than public debt lenders. A patient approach to lending means that direct lenders are more likely to be partnership-oriented with borrowers who are experiencing temporary financial challenges.

⁸ Bloomberg, "Private Credit Loans Are Growing Bigger and Breaking Records," Lisa Lee, John Sage. April 17 2023.

Characteristics of Direct Lending Investments



Structural Elements

To understand Direct Lending in greater detail, it is important to understand the structural elements that define a Direct Lending investment. The below elements are key components in determining the return and risk profile of a Direct Lending investment.

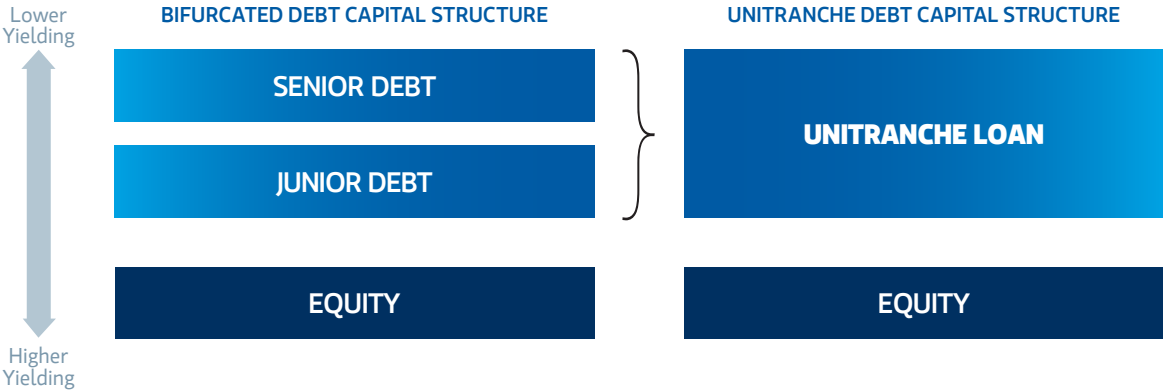


Senior, Junior and Unitranche Loan Comparison

When making direct investments, lenders usually make loans either as senior or junior debt, or a unitranche loan, which is a combination of the two, depending on the specific risk-return profile they are seeking and a borrower’s capital need.

- 1 Senior Debt:** Senior debt is the highest-ranking type of debt in a loan structure. Senior debt holders have first claim on the borrower’s assets in the event of a default. Senior debt is typically issued by banks or direct lenders.
- 2 Junior Debt:** Junior debt is the second-ranking type of debt in a loan structure. This means that junior debt holders have a claim on the borrower’s assets after senior debt holders have been paid in full. Junior debt is typically provided by funds raised specifically to invest in junior debt, or other institutional investors who are willing to take on more risk in exchange for a higher return.
- 3 Unitranche:** Unitranche is a type of debt financing that combines senior and junior debt into a single loan. This debt structure means that unitranche lenders have a senior claim on the borrower’s assets, but they also need to accept some of the risks associated with junior debt. Unitranche loans can reduce the borrower’s burden of holding two loans, coordinating with multiple lenders, and reduce the cross-default risk from issuing two loans. In return, direct lenders can expect higher rates on unitranche loans relative to senior debt, as well as a premium for their illiquidity. In recent years, unitranche loans have grown as a popular stand-alone option for Direct Lending, reaching \$1.3 trillion in gross invested assets in 2025. Unitranche loans are the preferred alternative for private equity owners to a syndicated loan execution with senior and junior debt.

DISPLAY 7
Direct Lending Capital Structure Option Comparison



⁹ Source: PitchBook, LSEG, Morgan Stanley Investment Management. As of September 30, 2025.

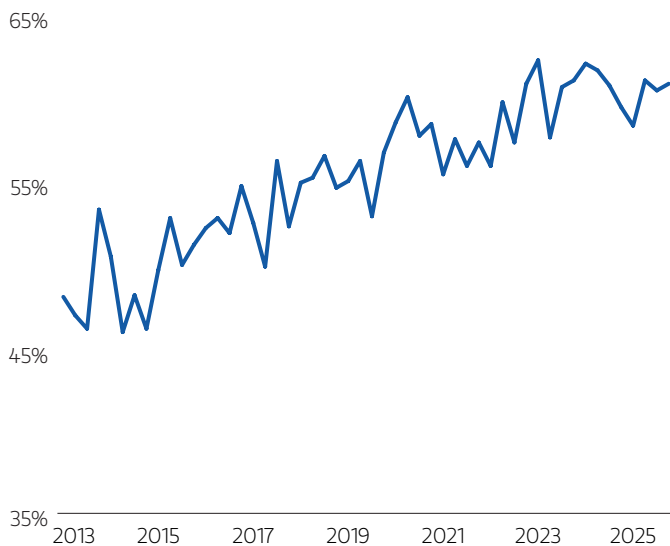
Increasing Equity Contributions

As Direct Lending has grown, there has also been a trend toward greater equity contribution in deals and lower loan-to-enterprise value (LTV). There is an inverse relationship between equity contribution and LTV. This shift means that private equity sponsors are contributing greater equity to new buyouts and are relying less on debt financing. As shown in *Display 8*, the average equity contribution for middle market direct loans has risen from less than 50% in 2013 to more than 60% in 2025. Correspondingly, as shown in *Display 9*, loan-to-enterprise value in middle market LBO deals has moved downward consistently during the same span. The primary reasons for lower LTVs and higher equity contributions are higher-for-longer interest rate cycles,

increased regulatory scrutiny and a more cautious approach to risk by private equity sponsors.

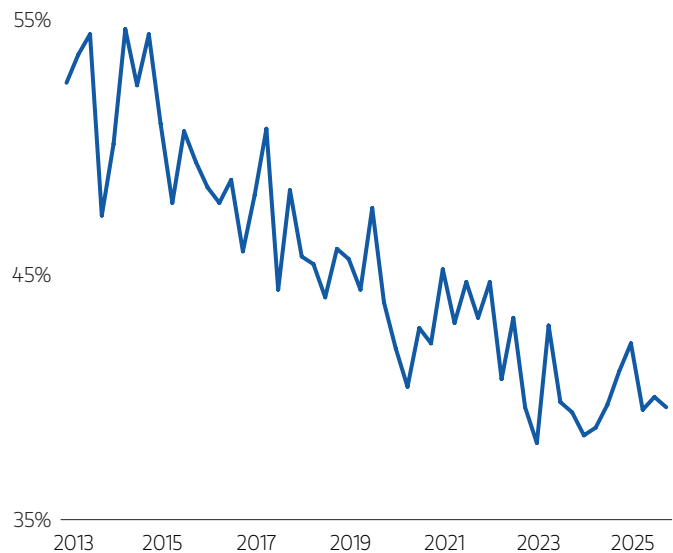
The trends discussed above can generally be taken as a positive sign for lenders that private equity sponsors believe they can still generate attractive returns on their investments, even with less debt. Further, on average, private equity firms that buy companies with a greater percentage of equity are more aligned with lenders in the performance of their portfolio companies. As such, they are more likely to support their portfolio companies with additional equity capital in times of need, which can improve lender recovery rates versus non-private equity-sponsored transactions.

DISPLAY 8
LBO Total Equity Contribution for Middle Market Loans (%)



Source: LSEG LPC US Sponsored Middle Market Private Deals Analysis. Data as of September 30, 2025 Annual #s based on average across each quarter.

DISPLAY 9
LBO Loan to Value for Middle Market Loans (%)



Source: LSEG LPC U.S. Sponsored Middle Market Private Deals Analysis. Data as of September 30, 2025.



Why invest in Direct Lending?

Rationale for Private Credit Portfolio Allocation

Investors should consider an allocation to Private Credit for a number of reasons. In general, both the attractive return and downside protection elements define the profile of the asset class. Several characteristics are driving investors to allocate to Direct Lending. While not comprehensive, investors generally allocate to Direct Lending for the following reasons:

Returns Enhancing



Current Income: Direct Lending offers investors current income in the form of periodic distributions. According to Preqin data, current income is the most frequently cited reason to add Private Credit to a portfolio; more than 60% of surveyed investors indicated a reliable income stream as a driver.¹⁰



Illiquidity Premium: Unlike traditional assets such as stocks and bonds, Direct Lending investments are less liquid and therefore command a premium associated with liquidity risk. *Display 10* illustrates the historic spread above the risk-free rate, and broadly syndicated loans that direct lending has provided. This premium can enhance returns for investors whose investment horizon allows them to bear this illiquidity.



Enhanced Risk/Return: As discussed in detail in the following section, portfolios including Private Credit offer enhanced alpha and higher returns with lower volatility.

Downside Protection



Inflation Protection: Private Credit may provide investors with inflation protection by way of the floating rate coupons associated with the underlying loan.



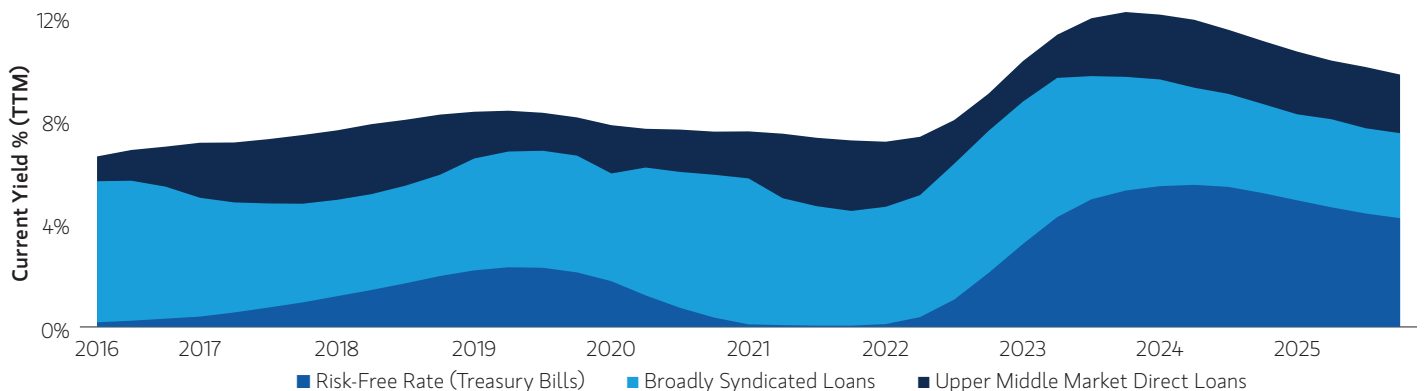
Diversification: According to Preqin data, diversification is the second most frequently cited reason to add Private Credit to a portfolio; more than 56% of surveyed investors indicated diversification as a driver.¹⁰



Loan Level Protections and Operational Enhancements: Unlike traditional fixed income, direct loans tend to be more highly negotiated, with the opportunity for covenants and contractual obligations within the loan terms. Direct lenders also may have a more direct relationship with borrowers, allowing for closer alignment and therefore positive outcomes for both borrowers and investors. These factors can potentially reduce default risk or increase recovery amounts for the underlying loans and improve performance for investors.

DISPLAY 10

Historical Yield Differences Between Direct Lending, Broadly Syndicated Loans and T-Bills (2016-Present)



Source: LSEG, FRED, PitchBook LCD. As of December 30, 2025.

¹⁰ Preqin Investor Outlook Report, H2 2025.

Historical Performance

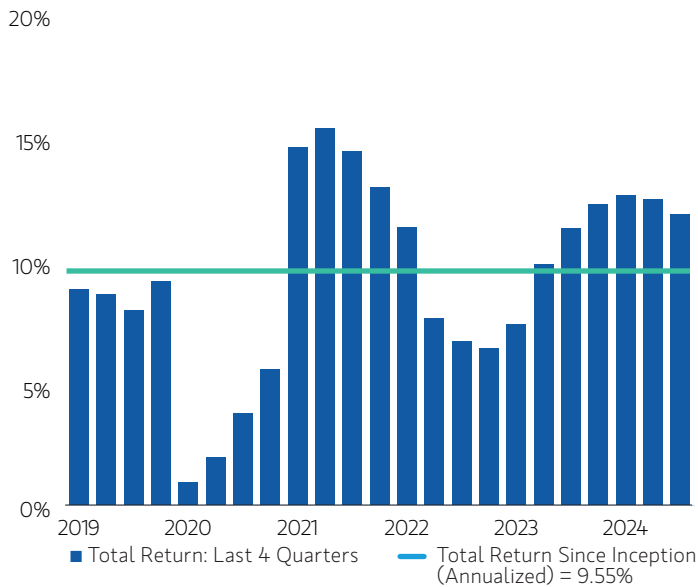
Direct Lending has shown strong returns over time on both an absolute basis and relative basis when compared with fixed income and a number of other asset classes. One of the ways performance of Direct Lending can be measured over time is from the performance of a group of investment vehicles known as Business Development Companies, or BDCs, which are entities registered under the Investment Company Act of 1940, with the specialized focus of making investments in small to medium sized US companies. According to the Cliffwater Direct Lending Index (CDLI), which consists of approximately

\$514 billion of direct loans held by public and private BDCs, Direct Lending has averaged 9.55% annualized gross return since index inception in 2004 (*Display 11*).¹¹

Spreads over the floating rate benchmark for Direct Lending have maintained a steady margin above syndicated deals. According to PitchBook LCD data (*Display 12*), direct lending spreads on LBO loans averaged 153 basis points above LBO loans funded in the broadly syndicated loan market in 2025. This incremental return is primarily the result of the “illiquidity premium” investors receive for providing buy and hold direct loans to private companies. This premium typically expands further when lending to private companies in the middle market as opposed to the large company market.

DISPLAY 11

Direct Lending Annual Total Return (%)



Source: Cliffwater Direct Lending Index as of September 30, 2025. Chart provided with permission of Cliffwater. Please see disclosures for further details.

DISPLAY 12

LBO Loan Spreads: Direct Lending vs. BSL



Source: PitchBook LCD. Data through December 30, 2025. BSL data reflects LBO loans issued to all borrowers.

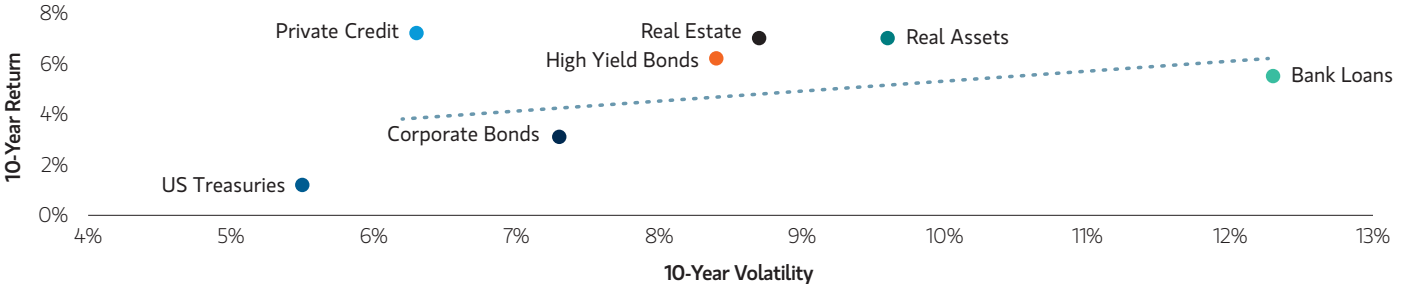
Longer term, private credit's ability to deliver attractive returns, when adjusted for risk, is perhaps most prized by investors, leading to increased allocations and asset class growth over the years. Private credit has delivered the highest net returns per unit of volatility among other income-oriented asset classes, outpacing real estate, infrastructure, corporate bonds, government bonds, high yield bonds and leveraged loans over the last 10 years (Display 13).

Private credit strategies that focus exclusively of senior secured lending can further enhance resilience and lead to lower losses.

This can be seen when comparing the maximum losses recorded during the three largest bond sell-offs since 2007 as well as the average of credit losses on underlying loans since 2017 (Display 14).

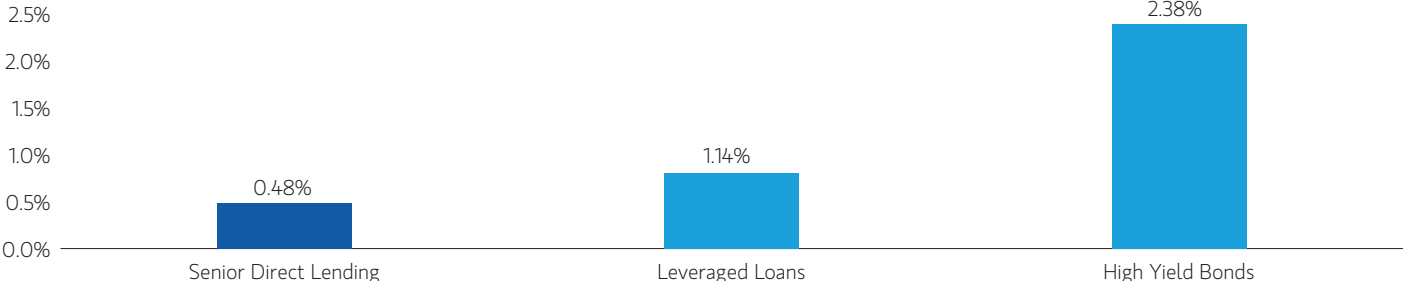
On the whole, these metrics suggest Direct Lending can provide an attractive current yield across multiple market environments, with potentially greater downside protection than traditional fixed income investments.

DISPLAY 13
Risk-Adjusted Returns for Private Credit vs. Other Income-Oriented Assets, Net of Fees



Source: Morningstar, PitchBook. Private asset performance reflects fund returns net of fees and desmoothed to remove artificial effects of late reporting of fluctuations in underlying fair values. As of September 30, 2025.

DISPLAY 14
Average Annual Loss Ratios Across Leveraged Finance (2017-2025)



Source: PitchBook LCD, Cliffwater, Moody's, S&P Global, Morgan Stanley Investment Management. Leveraged loan and high yield loss rates are calculated from annualized data between 2017 and 2025 and use the following formula: LTM default rate * (1 minus – average recovery rate). Default rates for leveraged loans are based on PitchBook LCD data and include distressed exchanges. Recovery rates for leveraged loans are based on S&P Credit Pro data. Default and recovery rates for high yield bonds are based on Moody's data and include distressed exchanges. Credit losses for senior direct lending are based on annualized data between 2017 and 2025 from the Cliffwater Direct Lending Index – Senior (CDLI-S) using reported net losses (realized) adjusted for estimated imbedded gains. The broader Cliffwater Direct Lending Index (CDLI), which is representative of both senior and non-senior loans originated for middle market borrowers, would produce an estimated annualized loss of 1.47%.

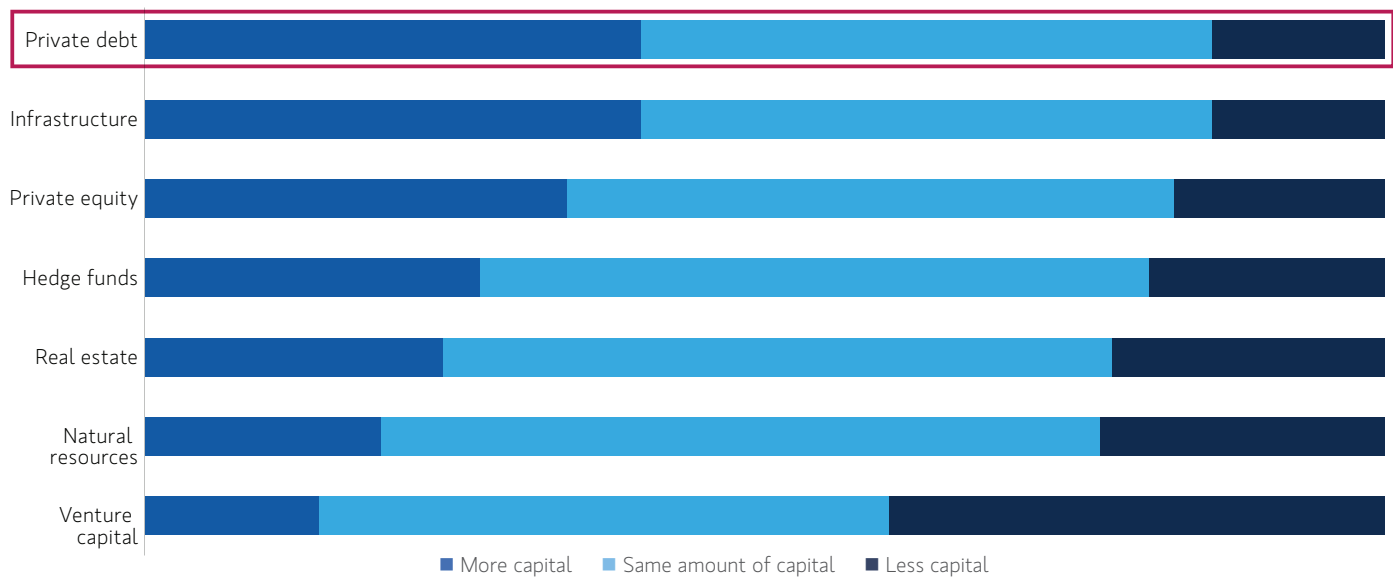
Where Does Direct Lending Fit Into a Portfolio?

As Private Credit markets have matured, Direct Lending has become a standard allocation across many institutional and individual investor portfolios through a variety of vehicle types. Managers have continued to build out their Direct Lending platforms, widening the range of options to access Direct Lending. As highlighted in *Displays 15* and *16*, institutional investors, such as pension funds, endowments, and insurance companies, have been allocating a greater portion of their portfolios to private credit strategies to capture higher yields and enhance their overall portfolio performance.

According to an analysis conducted by Preqin, Private Debt consistently enhanced the Sharpe ratio (return divided by volatility) across a broad range of scenarios when included in a portfolio of public assets (1.29 to 1.72) versus the same portfolio without Private Debt (1.03 to 1.23). Moreover, the analysis concluded that Private Debt can reduce portfolio tail risk during periods of exceptionally high volatility.¹⁵

DISPLAY 15

Investor 12-Month Allocation Expectations for Alternative Asset Classes



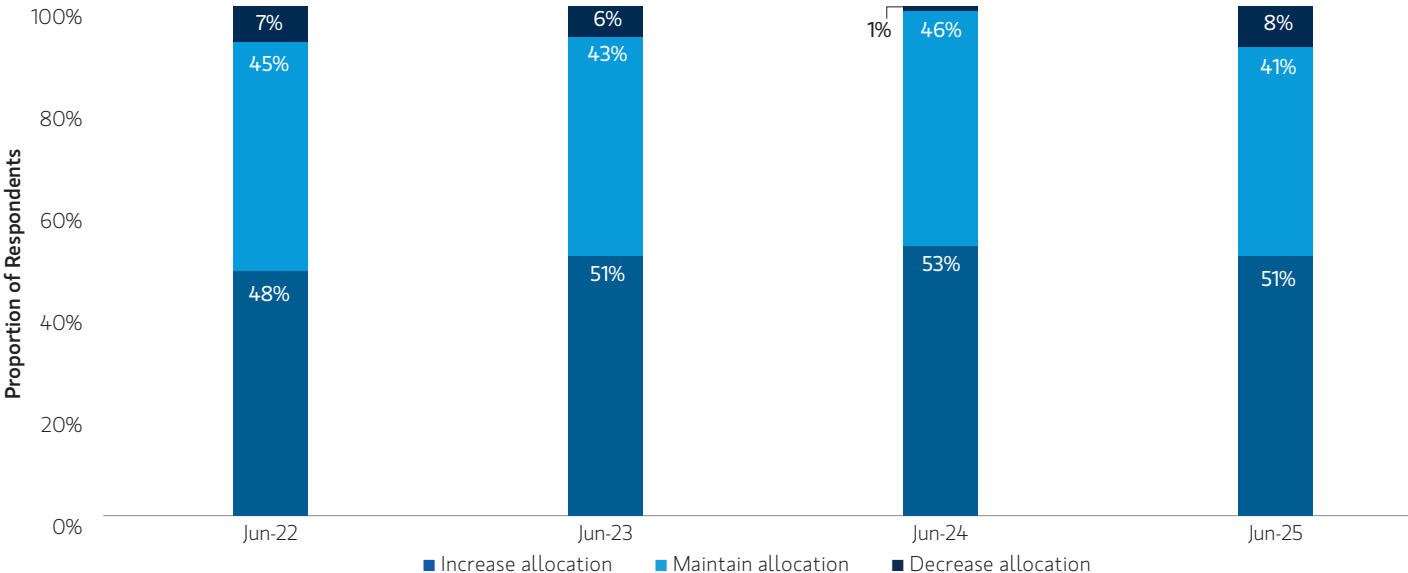
Source: Preqin Investor Outlook H2 2025.

¹⁵ Preqin Global 2023 Report: Private Debt, January 1, 2023.

Asset allocation data suggests optimized portfolios should include a 10-20% exposure to Direct Lending, which surveys indicate is the direction many investors are following. Specifically, Cliffwater found the optimal portfolio allocation to unlevered Direct Lending to be 11% and the optimal portfolio allocation for a 1:1 levered Direct Lending strategy to be 20%.^{16,17}

As shown in *Display 16*, according to a 2024 poll by Preqin, 51% of investors planned on boosting their commitment to private credit, up from 48% in 2022. Private credit led all other alternatives as an area of increased allocation in the year ahead. Overall, we expect the appetite for Direct Lending to grow, as it becomes a more standard allocation tool for investors of all sizes.

DISPLAY 16
Institutional Investor Plans to Allocate to Private Credit (2022 – 2025)



Source: Preqin Investor Outlook, 2022 - 2025.

¹⁶ Range of 8% to 14% based on risk tolerance.

¹⁷ Assumes no more than 40% allocation to illiquid assets and no more than 20% to any individual asset class.

Appendix

GLOSSARY DEFINITIONS

Bloomberg Barclays US Aggregate Bond Index – represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis

Bloomberg Barclays US Corporate Bond Index – measures the investment grade, fixed-rate, taxable corporate bond market

Bloomberg Barclays US Corporate High Yield Index – measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

BSL – Broadly syndicated loans

Call protection – bond provision that prohibits the issuer from buying it back for a specified timeframe

EBITDA – Earnings before interest, taxes, depreciation and amortization

First Lien (also referred to as senior debt) – Secured debt with first priority lien on borrower assets

Leveraged Loan – Loan provided to issues that already have high levels of debt

Loan to Value – the relationship between the loan amount and the market value of the asset securing the loan

Mezzanine – debt between secured senior debt and equity

Middle-Market Companies – companies that, in general, generate annual EBITDA in the range of approximately \$15 million to \$100 million

OID – original issue discount

Morningstar/LSTA Leveraged Loan Index – is a market value-weighted index designed to measure the performance of the US leveraged loan market based upon market weightings, spreads and interest payments.

Second Lien (also referred to as junior debt) – Secured debt with second priority lien on borrower assets

Special Situations – investments in companies involved in a takeover or financial difficulty

Sponsor – Private equity firm acquiring the majority of target company's equity

The Cliffwater Direct Lending Index (CDLI) – seeks to measure the unlevered, gross of fee performance of U.S. 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.

UBTI – Unrelated business taxable income

Unitranche – hybrid loan structure that combines senior and subordinated debt

Venture Debt – loans extended to startups or fast-growing companies

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