



CALSTRS

Private Credit Education

February 8, 2023

Private Credit core investment fundamentals

1

Attractive risk-adjusted returns

- Trading liquidity for incremental return to compliment broader fixed income portfolios

2

Income generation

- Recurring distributions or compounding and de-risking returns through reinvestment

3

Downside protection

- Through placement in borrowers' capital structures and structuring/documentation

4

Alignment of interests

- Source, structure, and hold vs allocation through market syndication; Control documents

5

Lower correlation

- Floating rates and low Loan-to-Value lessen correlation to fixed income and equity markets

Evolution of the U.S. banking system and Private Credit

» Historically, banks were meaningful underwriters and lenders to middle market companies; however, their presence in the market has significantly diminished over the years due to a variety of factors

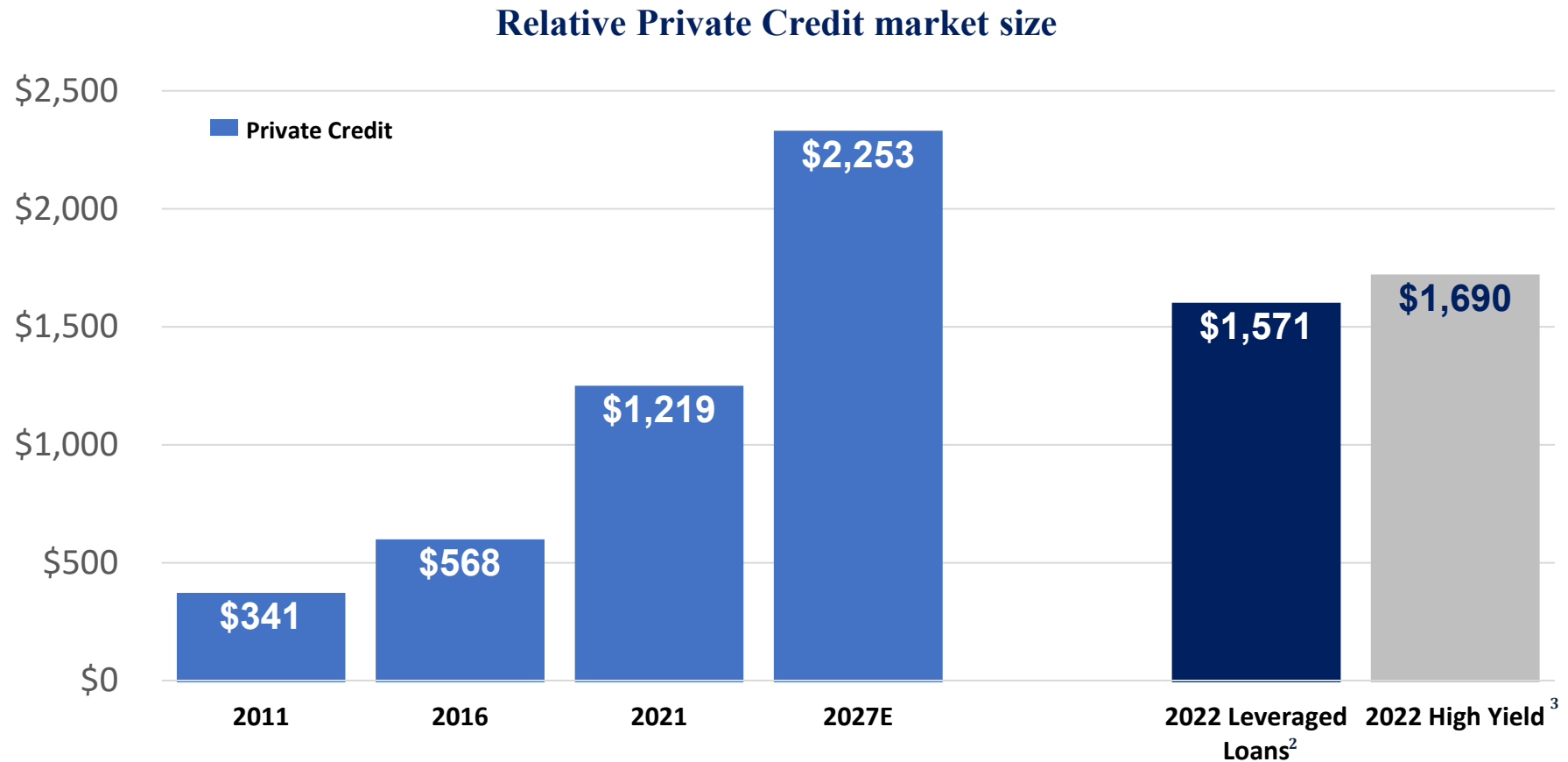
Bank consolidation coupled with stringent banking regulations have significantly curtailed bank underwriting



For illustrative purposes only.
1. Source: Preqin. As of December 2022.

Private Credit is a large and rapidly growing market

Private Credit is quickly approaching the size of the leveraged loan and high yield bond markets. Strong demand and reduced supply from traditional lending sources may drive further growth



¹Preqin Special Report: The Future of Alternatives in 2027. ²Market size of the global USD leveraged loan market. Source: J.P. Morgan Credit Strategy Weekly Research, data as of December 31, 2021. ³Market size of the global USD high yield market. Source: J.P. Morgan Credit Strategy Weekly Research, data as of December 31, 2021.

Current market analysis – Private Credit

Private Credit offers a proactive approach in the current market

Recession risk

- Strong documentation
- Tighter covenants
- Ongoing portfolio management
- Low defaults
- High recoveries

Impact of rising rates

- Floating rate
- Focus on companies with:
 - Strong asset coverage
 - Ample liquidity
 - Access to financial & operational support from PE sponsors

Inflationary pressures

- Attractive returns
- Illiquidity premium
- Capture full upfront fees (OID)
- Buy-and-hold investors
- Low volatility