List of Exhibits

Exhibit 1.1  Breakdown of the $10 trillion US corporate debt market.
Exhibit 1.2  Capital structure of a $40 million EBITDA company.
Exhibit 2.1  Cliffwater Direct Lending Index performance.
Exhibit 2.2  Components of direct lending returns, September 2004 to December 2017.
Exhibit 2.3  Direct loan income as percent of loan asset value, rolling four quarters.
Exhibit 2.4  Net realized gains (losses) as a percentage of loan assets, rolling four quarters and cumulative returns.
Exhibit 2.5  Net unrealized gains (losses) as a percentage of loan assets, rolling four quarters and cumulative returns.
Exhibit 2.6  Direct loan total return as a percentage of loan asset value, rolling four-quarter returns.
Exhibit 3.1  Asset class return and risk, September 2004 to December 2017.
Exhibit 3.2  Asset class cumulative returns (growth of $1.00), September 2004 to December 2017.
Exhibit 3.3  Direct lending drawdown during the global financial crisis, June 30, 2008 to December 31, 2010.
Exhibit 4.1  Direct loan fair value versus par (principal) value.
Exhibit 4.2  Current yield and yield-to-three-year-takeout for the Cliffwater Direct Lending Index.
Exhibit 4.3  Yields and yield spreads for direct loans and high-yield bonds.
Exhibit 4.4  Yields and yield spreads for direct loans, high-yield bonds, and leveraged loans.
Exhibit 5.1  Credit losses from high-yield bonds, bank loans, and middle market loans, 2005–2017.
Exhibit 6.1 Liquidity measurement for US middle market direct loan assets.

Exhibit 7.1 Return and risk for interest rates, equity, and credit, December 31, 1999 to September 30, 2017.

Exhibit 7.2 Optimal allocations to stocks, interest rates, and credit.

Exhibit 7.3 Public and private credit opportunities by type.

Exhibit 7.4 Credit opportunity descriptions.

Exhibit 8.1 Merton model of debt costs and loan-to-value ratios for private debt.

Exhibit 8.2 Credit risk premium and firm risk.

Exhibit 8.3 Firm volatility (standard deviation) by industry group.

Exhibit 8.4 Credit risk premium and the risk-free rate.

Exhibit 8.5 Credit risk premium and time to maturity.

Exhibit 8.6 Simulation results for a hypothetical first-lien, unitranche, and second-lien loan.

Exhibit 8.7 Simulation results for hypothetical first-lien and second-lien loans.

Exhibit 8.8 Simulation results for hypothetical first-lien, unitranche, and second-lien 100-loan portfolios.

Exhibit 8.9 Simulation results for hypothetical first-lien and second-lien loan portfolios.

Exhibit 8.10 Simulated versus actual risk calculations.

Exhibit 8.11 Illustration of down-and-in option.

Exhibit 8.12 Debt costs with/without covenants (a theoretical representation using the Black–Cox model.

Exhibit 8.13 Simulation results for hypothetical unitranche 100-loan portfolio with and without covenants.


Exhibit 11.1 Indicative fee and leverage specifications for a direct lending portfolio.

Exhibit 11.2 Indicative direct lending portfolio after fees, expenses, and leverage.
Exhibit 11.3 Performance simulation for direct lending portfolios with leverage: September 2004 to December 2017.

Exhibit 11.4 Simulated return and risk for levered direct lending portfolios: September 2004 to December 2017.

Exhibit 11.5 Factors explaining the cost of financing leverage.

Exhibit 11.6 Loan subordination and financing cost.

Exhibit 12.1 BDC industry statistics at December 31, 2017.

Exhibit 12.2 Private, nonlisted business development companies at December 31, 2017.

Exhibit 12.3 Publicly traded business development companies at December 31, 2017.

Exhibit 12.4 Comparison of Cliffwater BDC Index and five-year Treasury yields.

Exhibit 12.5 Cliffwater BDC index price premium or discount to NAV.

Exhibit 12.6 Comparison of market return and net operating return for Cliffwater BDC Index.

Exhibit 12.7 Comparison of price return and NAV return for Cliffwater BDC Index.

Exhibit 13.1 Performance comparison of two direct lending managers.

Exhibit 13.2 Yield (interest income) by direct loan manager, 2005 to 2017.

Exhibit 13.3 Manager exposure to direct loan risk factors, at December 31, 2017.

Exhibit 13.4 Net realized gains (losses) for direct lending managers and the Cliffwater Direct Lending Index, by year.

Exhibit 13.5 Cumulative net realized gains (losses) for direct lending asset managers and the Cliffwater Direct Lending Index (heavy dark line): September 2004 to December 2017.

Exhibit 13.6 Total return for direct lending managers and the Cliffwater Direct Lending Index, by year.

Exhibit 13.7 Due diligence checklist for middle market direct lender.

Exhibit 13.8 Portfolio characteristics for direct lending private partnerships.
Exhibit 14.1  Price comparison for direct loans, high-yield bonds, and bank loans, March 2004 to December 2017.

Exhibit 15.1  Distribution of combined direct lending fees as a percentage of net assets.

Exhibit 15.2  Factors explaining direct lending fee differences.

Exhibit 15.3  Distribution of combined direct lending fees as a percentage of net assets.

Exhibit 16.1  J-curve comparison for direct lending and buyout funds.

Exhibit 17.1  10th to 90th percentile distribution of state fund returns, 10 years ending June 30, 2016.

Exhibit 17.2  CDLI industry weightings as of December 31, 2017.

Exhibit 17.3  Russell 2000 industry weightings as of December 31, 2017.

Exhibit 18.1  Calculation of expected return for corporate direct lending.

Exhibit 18.2  Expected return, risk, and correlations across asset classes.

Exhibit 19.1  Optimized portfolios with direct lending, both unlevered and levered.

Exhibit 20.1  Comparison of European and US direct lending markets.

Exhibit 21.1  US sponsor survey on choosing bank versus nonbank financing.

Exhibit 21.2  European sponsor survey on choosing bank versus nonbank financing.

Exhibit 22.1  US mezzanine fund return (IRR) by vintage year through June 2016.

Exhibit 22.2  Model pricing of CLO notes and CLO equity.