

ARETE HIGH CONVICTION DIRECT LENDER: OWL ROCK CAPITAL

George Soros/Quantum, MSD Michael Dell and the Alibaba Family Office are few of the well-known investors that have seeded Owl Rock Capital, and brought them to their near USD 4bn+ in capital commitments.

Charlie attended a hedge fund conference in San Francisco in May of this year. The main draw was the key note speaker - George Roberts of KKR - ala Barbarians at the Gate. But the person who captured Charlie's attention was Douglas Ostrover of Owl Rock Capital. He spoke not of "get rich, rather stay rich". And given very high valuations in a number of markets, including parts of both the stock and the bond markets, he stuck a chord. Charlie was fortunate to be able to spend some time with him after his speech.

After that first meeting and a couple months of due diligence work later, Arete Capital Asia is happy to share our high conviction choice for Smarter and Better Yield - the Direct Lender Owl Rock Capital.

Owl Rock Capital Fund 1 is the most compelling opportunity of its class to participate in, as it is principally designed to grow a base of loyal and stable long-term investors. The institutional fee set is very low - way below industry average and much lower than the tranches offered by banks for other similar products.

Our previous notes about Owl Rock have shared much about the features and strategies of this nimble and opportunistic direct lending platform. The purpose of this note is to emphasize:

- What we like about the Direct Lending space
- Owl Rock's ability to outperform in this environment
- Positioning an allocation within a portfolio

Owl Rock has now secured > than USD 4.25bn in capital commitments. Their initial goal for their Fund 1 is USD 5bn, and as such I can foresee that they will be closing Fund 1 to new investments at some point in the near future.

Throughout Arete Capital Asia's investment thought process and due diligence, we stand by our key principles of:

- "Rolling up our Sleeves" and Striving to Deliver
- Thinking Differently to Deliver Intellectual Capital, and
- Objectively Managing Risk & Return

We hope that you find some relevant material here, and as always we are happy to hear your thoughts and discuss the matter.

Thank you for reading.




Charles Luchangco

Terry Leeworthy

OVERVIEW OF OWL ROCK CAPITAL

The focus and expertise of this manager satisfies many of the requirements for both strong potential returns and sober risk management:

- **Strong yield:** targeting c. 10 - 12% yields at portfolio level. Yield to maturity c. 9.18% + moderate leverage to achieve target.
- **Stock exchange listing** planned - in which investors will fully participate
- **Very low Institutional fee structure:**
 - Management Fee 75 bps p.a.
 - No Performance Fee
 - Recommended minimum USD 1m, Floor minimum USD 500k Capital Commitment
 - After potential listing (c. 2020?) Mgmt Fee moves to 1.75% and Performance Fee 80/20 over 6%.
- **Protection & Risk Management**
 - Diversified as to counterparty risk and industries
 - Focusing at "Top of the Capital Structure" - Senior Secured 1st Lien.
 - Floating interest rate coupons - that move up as interest rates move up.
- **Seasoned Team:** with "skin in the game" (Mgmt has USD 112m in capital commitments) - aligned interests.
- **USD 4.25bn in capital commitments** from solid investor base: Soros Group, US State Pension Funds, Major School Endowments. Please see details in table in table at the end.

REASONS WHY WE LIKE THE DIRECT LENDING SPACE TO MID MARKET COMPANIES

OWL ROCK TARGET: US MIDDLE MARKET SECTOR

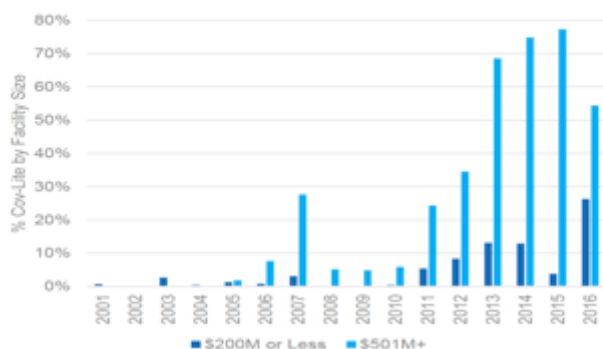
- US Middle Market is a BIG sector: equating to 3rd largest economy in the World
- Approx. 1/3 of US Private Sector GDP
- Nearly 200,000 businesses
- More than US 10T in annual revenues
- 48 million employees
- c. 50% of net new jobs created (2016 estimate)
- Despite the large size of the market, currently under the radar horizon of large US Banks
- Nimble manager to deploy loans in sizes of up to c. USD 100m to mid-sized quality companies.



MIDDLE MARKET LOANS OFFER BETTER TERMS FOR LENDERS:

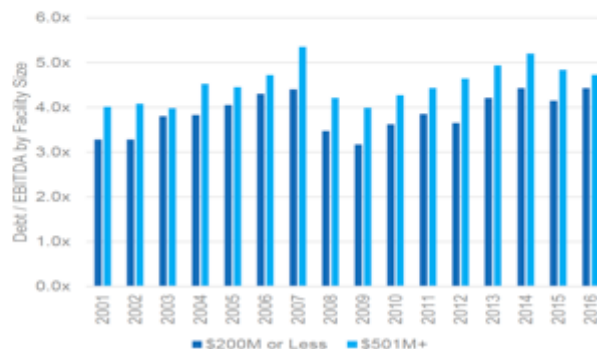
MORE PROTECTION

- Middle market loans have been more likely to include financial covenants and generally have more lender-friendly structures



LESS LEVERAGE

- Middle market loans have, on average, been ~0.65x less levered than large corporate loans



OPPORTUNITY CREATED BY INCREASED BANKING REGULATIONS & CHANGING MARKET DYNAMICS LIMIT U.S. MIDDLE MARKET COMPANIES ACCESS TO TRADITIONAL SOURCES OF CAPITAL

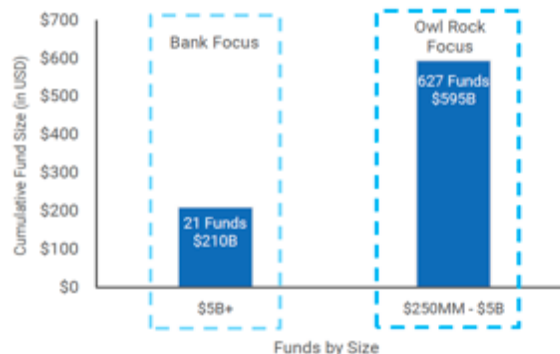
As Existing Loans Mature, U.S. Middle Market Companies will Demand Refinancing Solutions

\$366 billion in loans are set to mature over the next few years¹



Middle Market Private Equity Community is Underserved

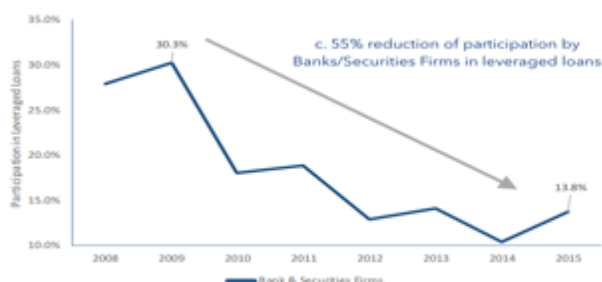
Banks have narrowed coverage focus to "top tier" private equity relationships and many sponsors are constrained²



REGULATORY ARBITRAGE CREATED

- Dodd-Frank, Volcker Rule and Basel III have reduced banks' ability to lend to below investment grade credit
- OCC / Fed leveraged lending guidelines have sharply curtailed banks' ability to hold or syndicate new loans

AS BANKS WITHDRAW, FUNDING TO MIDDLE MARKET DECREASES

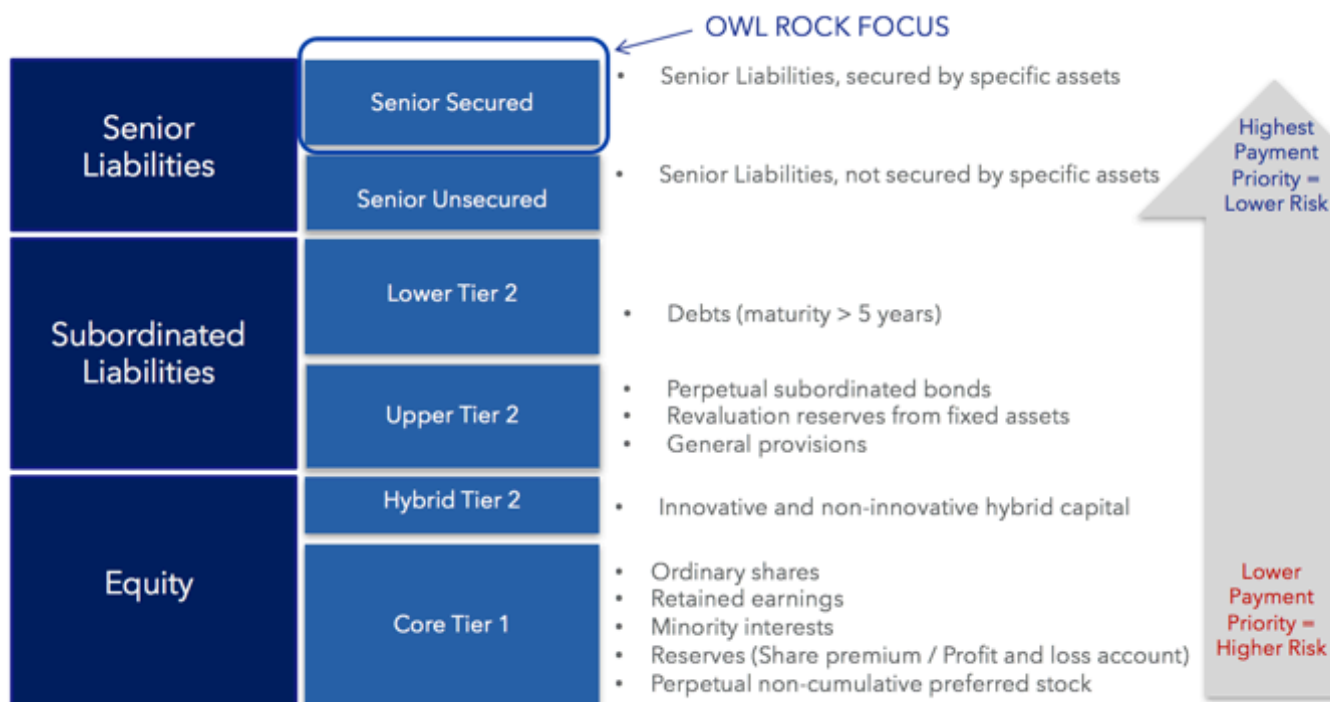


OWL ROCK CAPITAL: A SEASONED YET NIMBLE MANAGER

Owl Rock has implemented measures to take mitigate potential changes in the business environment

- Focus on granting loans that are at the "Top of the Capital Structure"
- Regular cash distribution (over c. 95% of income paid out as dividends)
- Strong credit assessment and loan sanctioning decision before lending
- Appendix - Floating Rate Lending both as a defense against and benefit from rising rates

TOP OF THE CAPITAL STRUCTURE LENDING



CURRENT PORTFOLIO DETAILS

- This is a breakdown of Owl Rock's loan portfolio going into end Q2 2017
 - USD 1.8bn in loans already deployed
 - Weighted average yield spread over LIBOR is + 7.11%
 - Weighted average yield to maturity is 8.81%
 - Owl Rock then applies a moderate leverage (credit facilities average L+200) to target yields of 10% to 12% per annum

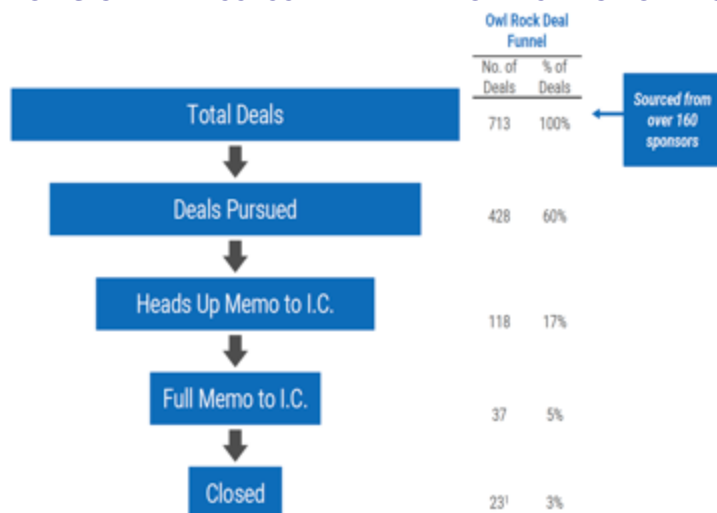
Investment Name	% SPREAD OVER LIBOR			YIELD TO MATURITY				Maturity Date	Facility Type	Industry
	Fair Value	Amortized Cost	Interest Spread	LIBOR Floor	Total Rate	OID	YTM (3Yr)			
Cushman & Wakefield	\$ 123,750	\$ 123,750	7.75%	1.00%	8.75%	1.00%	9.08%	11/4/22	2nd Lien	Buildings and real estate
Feradyne Outdoors, LLC	114,097	114,097	6.25%	1.00%	7.25%	1.21%	7.65%	5/25/23	1st Lien	Consumer products
Dominion Web Solutions, LLC	107,104	107,104	6.25%	1.00%	7.25%	1.50%	7.75%	6/17/24	1st Lien	Internet software and services
Keane Group Holdings, LLC	98,250	98,312	7.25%	1.00%	8.25%	1.75%	8.83%	8/18/22	1st Lien	Energy equipment and services
Valpak	80,165	79,464	8.00%	1.00%	9.00%	2.00%	9.67%	6/30/22	1st Lien	Advertising and media
Medical Specialties Distributors, LLC	88,356	87,970	5.75%	1.00%	6.75%	1.00%	7.08%	12/6/22	1st Lien	Distribution
Applied-Cleveland Holdings, Inc.	75,048	73,396	7.25%	1.00%	8.25%	2.00%	8.92%	9/8/22	1st Lien	Infrastructure and emm snvcs
Ferrara Candy	72,750	74,319	9.00%	1.00%	10.00%	1.00%	10.33%	12/15/23	2nd Lien	Food and beverage
JMI Swank	75,321	73,260	7.50%	1.00%	8.50%	2.00%	9.17%	7/25/22	1st Lien	Distribution
National Dentex	69,041	69,030	6.54%	1.00%	7.54%	1.53%	8.05%	12/1/21	1st Lien	Healthcare equip and snvcs
Vestcom International, Inc.	64,350	64,070	8.50%	1.00%	9.50%	1.50%	10.00%	6/19/24	2nd Lien	Business snvcs
Pomero	58,357	57,500	6.00%	1.00%	7.00%	4.00%	8.33%	11/30/21	1st Lien	Professional snvcs
Tall Tree Foods, Inc.	58,312	58,413	6.75%	1.00%	7.75%	1.50%	8.58%	8/12/22	1st Lien	Food and beverage
Vencore	50,000	49,218	6.75%	1.00%	7.75%	2.00%	10.83%	5/23/20	2nd Lien	Aerospace and defense
Osmotica Pharmaceutical Corp.	49,614	48,941	5.00%	1.00%	6.00%	1.00%	6.83%	2/3/22	1st Lien	Healthcare and pharmaceuticals
CBT Global, Inc.	47,775	47,778	7.75%	1.00%	8.75%	2.50%	9.33%	6/1/25	2nd Lien	Business snvcs
Beaver-Visitec International	46,178	46,424	5.00%	1.00%	6.00%	1.25%	6.50%	8/19/23	1st Lien	Healthcare equip and snvcs
Beaver-Visitec International	34,825	34,349	9.00%	1.00%	10.00%	2.00%	10.67%	8/19/24	2nd Lien	Healthcare equip and snvcs
SABA Software, Inc.	44,149	44,434	5.50%	1.00%	6.50%	1.25%	6.91%	5/1/23	1st Lien	Human resource support snvcs
Access Information	39,978	39,537	5.00%	1.00%	6.00%	0.96%	6.32%	10/17/21	1st Lien	Business snvcs
Access Information	19,180	19,201	8.75%	1.00%	9.75%	4.10%	11.12%	10/17/22	2nd Lien	Business snvcs
Pexco LLC	37,185	36,633	8.00%	1.00%	9.00%	1.00%	9.33%	5/8/25	2nd Lien	Manufacturing
Sage Natural Business, Inc.	34,779	34,838	--	--	12.00%	2.00%	12.20%	4/21/22	2nd Lien	Specialty Retail
UFC Holdings, LLC	35,613	34,688	7.50%	1.00%	8.50%	1.00%	8.83%	8/18/24	2nd Lien	Leisure and entertainment
Tranzact	34,477	32,929	6.00%	1.00%	7.00%	6.00%	9.00%	7/21/23	1st Lien	Insurance
Imperial-Dade	32,830	32,815	7.50%	1.00%	8.50%	2.00%	9.17%	6/9/24	1st Lien	Distribution
Roland	32,000	31,443	9.00%	1.00%	10.00%	2.00%	10.67%	12/1/22	2nd Lien	Food and Beverage
PetVet Care Centers, LLC	30,870	30,870	6.00%	1.00%	7.00%	1.00%	7.33%	6/8/23	1st Lien	Healthcare equip and snvcs
Infoblox Inc.	30,000	29,441	8.75%	1.00%	9.75%	2.00%	10.42%	11/7/24	2nd Lien	Internet software and services
Giv & Go	28,358	27,845	9.75%	1.00%	10.75%	2.50%	11.58%	1/29/24	2nd Lien	Food and beverage
Giv & Go	6,045	5,985	5.50%	1.00%	6.50%	0.00%	6.67%	7/1/23	1st Lien	Food and beverage
QC Supply, LLC	27,701	27,343	6.00%	1.00%	7.00%	2.50%	7.83%	12/29/22	1st Lien	Distribution
ABB Concise	24,750	24,333	9.00%	1.00%	10.00%	3.00%	11.00%	6/17/24	2nd Lien	Distribution
USA/Allied Barton	19,600	19,635	--	--	11.00%	2.00%	11.46%	7/28/23	2nd Lien	Professional snvcs
Blount International	14,388	14,388	5.00%	1.00%	6.00%	0.00%	6.00%	4/12/23	1st Lien	Manufacturing
Portfolio as of 16-Jun-17	\$ 1,805,193	\$ 1,793,673	7.11%	1.00%	8.22%	1.74%	8.81%			

32 Portfolio Companies

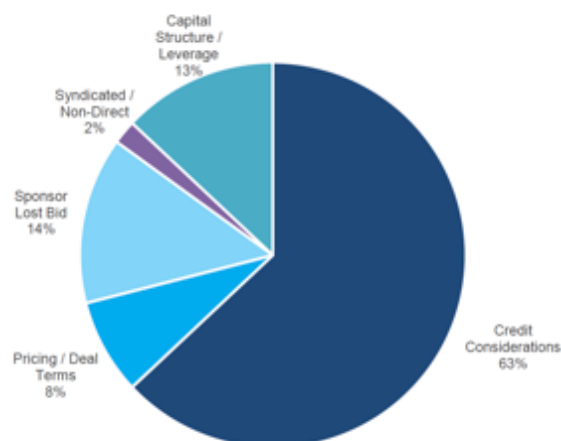
Note: Weightings based on fair value of investments. Portfolio snapshot does not include any additional fees or leverage

1. In addition to 1% OID, Owl Rock also received a 1.5% structuring fee

STRONG CREDIT ASSESSMENT AND LOAN SANCTIONING



REASONS FOR DECLINED CREDIT



Note: As of 30/9/17

1. Represents number of portfolio companies. Owl Rock closed 25 unique investments as of 30/9/17

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OWL ROCK FIT WITHIN A FIXED INCOME OR BALANCED PORTFOLIO

THINK OF IT AS A CASH MANAGEMENT TOOL - WITH INVESTMENT CHARACTERISTICS

- Please see appendix chart of US Fed Funds Rate: over the past 25 years it has average between 3% to 5%.
- If and as Owl Rock is able to perform at the c. 10% to 12% target, it is reasonable to assume that one can fund themselves at a cheaper rate than this return - creating a positive carry
 - These monies remain in Owl Rock and invested at that return
 - If one needs cash for various uses, as long as Owl Rock is performing above funding costs, borrow elsewhere and make use of the positive carry results.
- The Floating Rate nature of the Owl Rock is important both for adjusting returns upwards, as well as avoiding price declines, when interest rates rise.

TIMING OF CASH FLOWS & IMPROVED YIELD

- Capital Calls are made on an incremental basis, estimate perhaps 35% called down in first 6 months.
- Consider portfolio cash flows
 - Capital Calls in pieces can be handled by existing bond yield or bond maturities
 - If Owl Rock performs at targeted, it will be providing a higher income stream than current fixed income
- This higher yield allows an investor to:
 - To keep allocation monies the same and earn more yield, or
 - Decrease monies invested in fixed income, and yet earn the same yield.
 - Cash is then free to invest in other areas: business, real estate, portfolio = **CASH EXTRACTION**
- 90%+ of income distributed cash quarterly - NO withholding on all dividends from loans to US companies.

PORTFOLIO DIVERSIFICATION

- Many portfolios do not have much Senior Secured exposure, nor floating rate exposure.
- By adding these pieces to the mix is of benefit not only for diversification purposes, but also for return potential.
- Even as bonds are sold or mature, the addition of Owl Rock may provide an improvement in amount of risk taken (trading subordinated debt or Perps for Senior Secured Owl Rock credits).
 - In other cases, the resulting risk may be either higher lower depending specific portfolio details.

MANAGING THROUGH MARKET VOLATILITY

Features of Owl Rock Capital that will afford relative protections in times of volatility or uncertainty, include:

- All Senior Secured lending, of it 66% 1st Lien, 33% 2nd Lien
- Avoidance of industries that are cyclical in nature or in long term decline
- The first focus being getting repaid on the loan and sacrificing higher yields by avoiding riskier credits.
- Conservative transaction metrics and covenant packages, including financial maintenance and anti-layering
- Secured lending recovery rates are historically c. 67% vs. c.30%- 40% for unsecured / mezzanine debt
- Other general risk mitigants:
 - Limits to each sector < 20%
 - Limit loans to individual borrowers of 1% to 2% with maximum of < 5%

NOTABLE INVESTORS INCLUDE:

Institutions & Investors	Type of Institution	Capital Commitment Amount (\$ mm) [*]	Source
New Jersey State Investment Council	Pension Fund	\$600	www.sec.gov
University of California, Regents additional	Educational Endowment	\$400	
Oregon Public Employees Retirement Fund (O	Pension Fund	\$150	www.oregon.gov
Soros Fund Management /Quantum Strategic F	Private Equity Firm	> USD 150m	www.sec.gov
Brown University	Educational Endowment	\$100	www.srwealth.com
University of California, Regents	Educational Endowment	\$100	www.sec.gov
Maine Public Employees Retirement System	Pension Fund	\$100	www.pionline.com
MSD Capital (Michael Dell)	Private Equity Firm	> USD 90m	www.sec.gov
Ohio Police & Fire Pension Fund	Pension Fund	\$75	www.pionline.com
Joseph Tsai co-founder Alibaba	HNWI	No Info provided	www.bloomberg.com

^{*} estimated value of commitment based on shares already owned vs. estimated % of capital commitment fulfilled.

SPECIFIC LINKS

New Jersey State Investment Council

<http://bit.ly/2yLdsys>

Oregon Public Employees Retirement Fund

<http://bit.ly/2x1b44g>

Soros Fund Management / Quantum Strategic Partners / Quantum Athena

<http://bit.ly/2fVLBDP>

Brown University

<http://bit.ly/2xOXeGf>

University of California, Regents

<http://bit.ly/2yLdsys>

Maine Public Employees Retirement System

<http://bit.ly/2yLdDtF>

MSD Capital (Michael Dell)

<http://bit.ly/2yLdsys>

Ohio Police and Fire Pension Fund

<http://bit.ly/2ywwuDL>

Joseph Tsai – Co-founder Alibaba

<http://bit.ly/2ywwcAV>

ABOUT ARETE CAPITAL ASIA

RESPONSIBLE OFFICERS

Charles Luchangco & Terry Leeworthy

For details please visit <http://www.arette-asia.com>

OUR APPROACH

"Sit On the Clients Side of the Table" source Best in Class Solutions, and Negotiate the Best Terms for Clients

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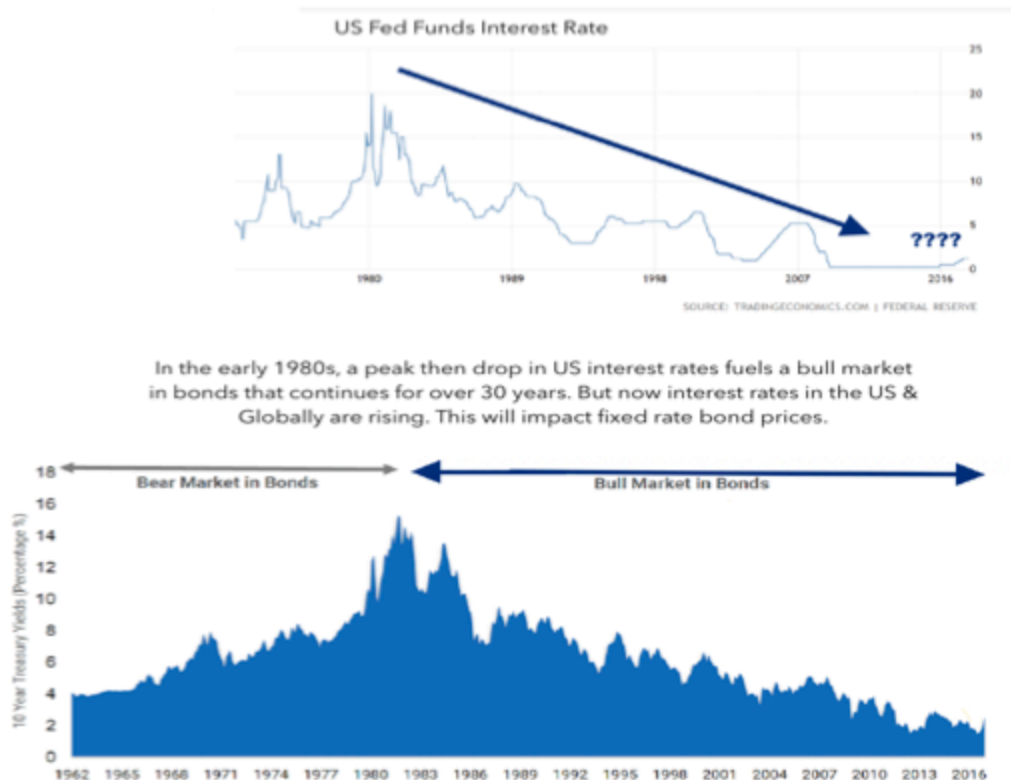
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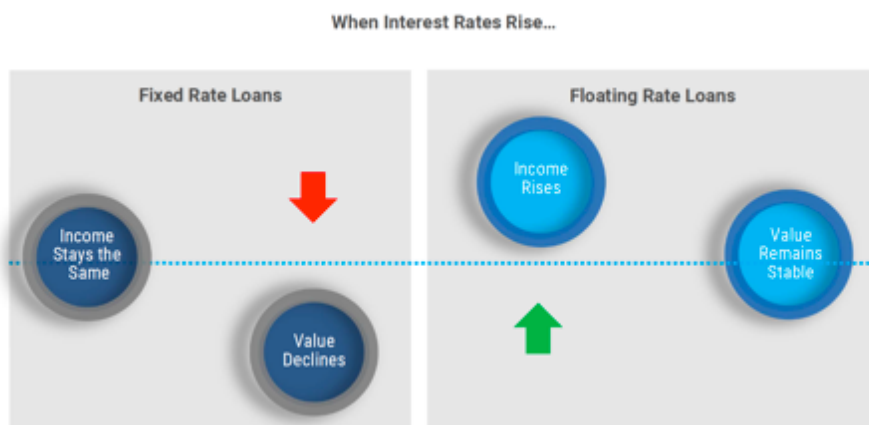
APPENDIX

A 30+ YEAR BULL MARKET IN FIXED RATE BONDS IS COMING TO AN END



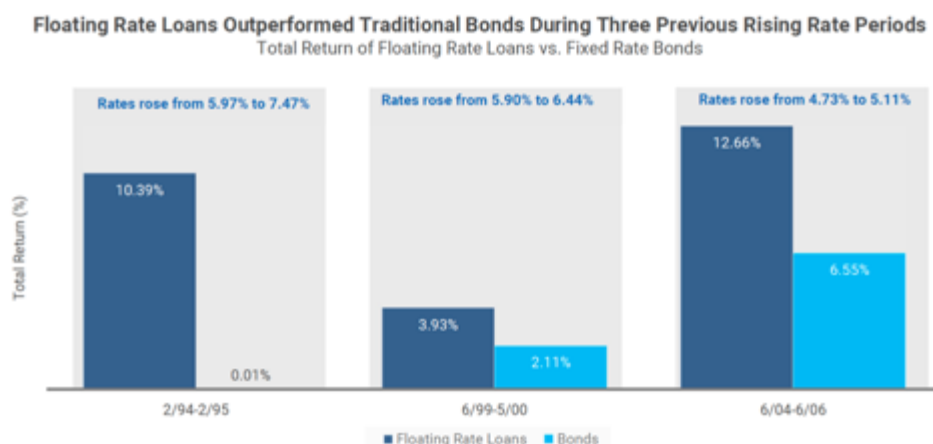
DEFENSIVE NATURE OF FLOATING RATE LOANS

- As we are nearing the end of a LONG bull market in fixed rate bonds, since about 1983 it's only a matter of when and by how much interest rates rise.
- Floating rate loans reset higher with rate rises and therefore 1) Offer greater return, and 2) avoid the price declines of fixed rate loans (bonds).



WHEN RATES RISE - FLOATING RATE GENERALLY OUTPERFORMS FIXED RATE BONDS

- Historically, floating rate loans outperform fixed rate bonds in a rising rate environment.
- Please see below various periods of rising rates: 1995, 1999 and 2004.



DIRECT LENDING VS. QUASI DIRECT LENDING / SYNDICATED LOANS

To fully appreciate the business case and positioning for Owl Rock, it is necessary to understand the difference between true Direct Lending vs. “3rd Party Direct Lending Funds” and/or the Syndicated Loan market.

With the true Direct Lending approach, there is a direct relationship, conversation and due diligence between Lender and Borrower. The Direct Lender may be the only lender on that loan, or one of only a very few lenders. The business model requires an in depth due diligence, so there is a high understanding of the borrower’s business model and finances, and any effects/changes in the business environment may have on its business prospects, cost of capital and ability to repay loans. Owl Rock takes the decision to lend on the basis that the loan will be on their books until it is fully repaid, so rigorous due diligence is vital. An ongoing conversation/monitoring of the borrower is also important.

Owl Rock is a buy and hold investor in the private lending market, so are not susceptible to swings in inflows/outflows in the syndicated market that can certainly impact deal terms. Owl Rock is not a company that repackages loans for resale in the market – that area has been a source of controversy and poor regulation in the past.

Owl Rock’s true Direct Lending approach contrasts with the 3rd Party Direct Lending Funds or the Syndicated Loan Market. Typically a 3rd Party Direct Lending Funds buy pools of pre-packaged loans and usually have not done thorough the due diligence on the ultimate borrower themselves. Banks or other financial intermediaries have granted these loans and “sell them down the food chain” to these various funds/investors.

Similarly, in the Syndicated Loan market the grantor of a loan does not hold on to the loan, and repackages them into Credit Loan Obligations (CLOs) or other instruments and sold to other intermediaries. Again in this case, the ultimate lender usually has not completed thorough direct due diligence and loan sanctioning and may not have frequent/in depth interface with the borrower because their business model is to simply sell repackaged loan instruments.