

## ABOUT ARETE CAPITAL ASIA

Arete Capital Asia is a boutique financial advisory firm based in Hong Kong. Our three Directors each have over 25+ years experience in international financial markets.

We are truly independent advisers - this means we offer advice based on the best solutions available and we are able to source a few opportunities that will never be shown by global banks. Charlie and Terry both dig deep and push boundaries to uncover and offer compelling risk / reward opportunities for our clients.

One such opportunity is investing in a fund managed by a quality US based direct lender - Owl Rock. This is the second fund from Owl Rock we show to our clients. This fund will make both investments and payouts over a multiple year period and will be wound down thereafter.

We believe this is an excellent means of taking USD floating rate interest rate exposure where the long investment period and illiquidity is rewarded with an exceptional yield.

## INVESTMENT THESIS

Owl Rock has developed a strategy to provide direct loans to a specific market segment where their capabilities can deliver a competitive advantage.

The sweet spot for this Owl Rock fund is not the higher yielding (and more risky) opportunities that attracts many private lenders, but the lower yield deals with lower risk and entering deals with better security and strong covenants

Owl Rock takes great care to mitigate the risk in this fund through a) Only taking on business where they are high in the capital structure - 1<sup>st</sup> lien only; b) broad diversification across many companies and sectors; and c) offering floating rate loans as protection against rising interest rates. They have also set a target average loan to value below ratio 50%.

Seek to generate yield potential of 6-7% unlevered and approximately 10% with leverage.

## THE LOAN OPPORTUNITY WITH US MEDIUM SIZED CORPORATES

- Medium sized corporates needing to borrow have few options - syndicated bank loans, high yield bond issues or direct lenders.
- The syndicated loan market and high yield bond market are generally only available for deal sizes in excess of USD200mill.
- Owl rock has passed on over \$100bn of 1st lien opportunities in their very first fund, in many cases because they had a lower risk/return profile that did not meet the criteria for the first fund.
- Owl Rock believe there is an opportunity in launching this new fund with a 1st lien strategy (with a lower yield and/or higher credit standing compared to their first fund). This strategy dis-intermediates banks in this market and will enable Owl Rock to offer a wider range of financing options to sponsors, increasing their relevance as a key source of financing.
- The target is to build a loan book of around USD1bill with L+500-600 margin using directly originated market loans (50% yield premium vs the syndicated loan market). Owl Rock intends to use leverage to enhance returns to around 10% over the cycle.
- Owl Rock already has a JV with UC Regents that is currently working in this space.
- Owl Rock expects lower loan losses than the syndicated market due to enhanced diligence, stronger documentation and covenant protection.

## COMPETITIVE ADVANTAGES AND SOURCING

### PEDIGREE OF OWL ROCK

- Exclusive focus on direct lending creates competitive advantages that allow Owl Rock to move quickly, with transparency, providing certainty of execution to sponsors
- Deeply experienced investment professionals combined with robust, relationship driven origination capabilities
- Extensive senior-level relationships with sponsors and other direct lenders creates enhanced sourcing through multiple touch points
- Owl Rock have vast experience and networks in this space and are well positioned to offer good financing terms to corporates that want to borrow
- The scale of these funds allows Owl Rock to provide customized, scaled financing solutions

### OWL ROCK IS A PREFERRED QUALITY CAPITAL PROVIDER

- In its short life, Owl Rock has an extensive network and quality origination capabilities
- Generated deal flow from over 250 sponsors
- Evaluated over 1,800 deals since inception
- 90 sponsors have shown Owl Rock four or more deals to date

### DIFFERENTIATED CAPITAL MARKETS RELATIONSHIPS

- Owl Rock's capital base and breadth of relationships enables them to offer larger loans and enter larger deals by placing excess amounts in the marketplace through co-investments.

## OWL ROCK 1<sup>ST</sup> LIEN FUND

- Institutional offering of senior secured loans. First lien only. Directly originated loans.
- Target primarily L+400 to L+550 loans, subject to market conditions.
- Fund leverage: up to 3.0x .
- Diversified across industries, target 40-60 borrowers.

## COMPARING THIS FUND OFFER TO OWL ROCKS FIRST FUND

Owl Rock's first fund comprises direct loans requiring a minimum yield threshold, which sometimes resulted in less security in terms of the credit risks over the cycle.

This new offering is investing in a subset of the direct lending universe, selecting only higher credit quality deals where OR has 1<sup>st</sup> call on assets in the event of default.



## ATTRACTIVE ATTRIBUTES OF MIDDLE-MARKET DIRECT LENDING

### DOWNSIDE PROTECTION

- **Due diligence:** Ability to conduct fulsome private side due diligence, including multiple opportunities to engage with the management team and sponsor; ongoing monitoring of loans.
- **Seniority:** First in line for payout, including in the event of a default, where there are available assets.
- **Security:** Typically first lien claim on cash, accounts receivable, inventory, property, plant and equipment, borrower's stock and intangibles.
- **Covenants:** Typically have maintenance-based financial covenants measured at least quarterly; robust affirmative and negative covenants.
- **Structure and Terms:** Directly negotiate credit documents with borrowers, not through an intermediary.
- **Defaults and recovery:** Historically fewer defaults and higher recoveries than broadly syndicated senior loans.

### INTEREST RATE PROTECTION

- **Floating-rate coupon:** Investing in floating-rate coupon loans helps mitigate negative effect of rising interest rates.
- **Matched liability funding:** Borrowings floating rate.

### ILLIQUIDITY PREMIUM

- **Origination fees and spread premium:** Higher origination fees and wider spreads than broadly syndicated loans enhance potential for attractive total return.

### STABLE CASH YIELD AND QUARTERLY VALUATION

- **All-cash interest:** Coupons paid in cash on a quarterly basis.
- **Valuation:** Anticipate fair value of non-traded loans to be determined quarterly.

## OWL ROCK (PREVIOUS FUND) TOTAL PORTFOLIO INVESTED

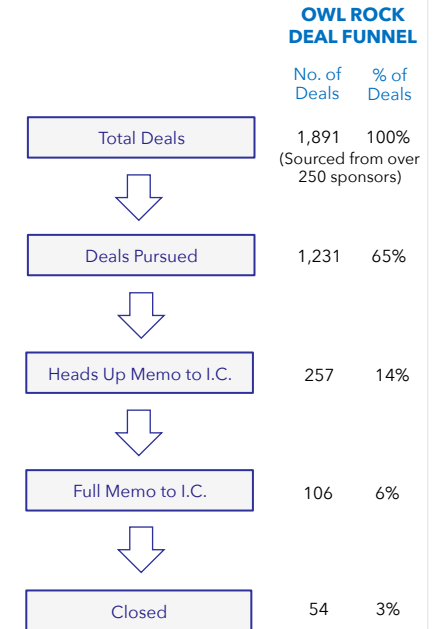
Portfolio Size	\$3.0 B
Number of Portfolio Companies	47
Number of Portfolio Industries	27
Asset Yield	9.3%
Capital Called	\$1.6 B
Annualized ROE	10.1%

## BORROWING OPTIONS AVAILABLE TO MID SIZE COMPANIES

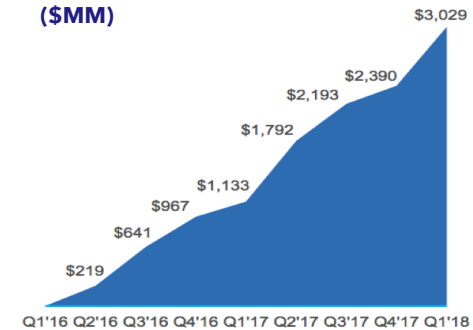
	Middle-Market Loans	Broadly Syndicated Loans	High Yield Bonds
<b>Coupon</b>	L + 450-525	L + 300-400	5.5-6.0%
<b>Rate</b>	Floating	Floating	Fixed
<b>Rate risk/duration</b>	Low	Low	High
<b>Upfront fees/OID</b>	100-200 bps	50-100 bps	Infrequent
<b>Covenants</b>	Typically full maintenance-based package negotiated	Generally covenant-lite	Incurrence
<b>Due diligence</b>	Direct and extensive (3-6 weeks)	Through intermediary/bank (Less than 1 wk)	Through intermediary/bank (Less than 1wk)
<b>Annual default rate</b>	2.4%	3.1%	4.9%
<b>Annual loss rate</b>	0.6%	0.8%	3.3%
<b>Liquidity</b>	Limited or none	Medium to high	High
<b>Redemption risk</b>	Limited	Medium to high	High
<b>All in Yield</b>	7%	5%	6%

Middle-market loans generally have stronger covenants and allow for more extensive due diligence than broadly syndicated loans or high yield bonds

## SINCE INCEPTION, OWL ROCK HAS BEEN SELECTIVE WITH THE DEALS THEY HAVE CLOSED



## TOTAL PORTFOLIO INVESTMENTS (\$MM)



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