BAI-Webinar: Auswirkungen der Corona Krise auf Private Debt – Chancen und Risiken

Referenten:

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13. April 2021

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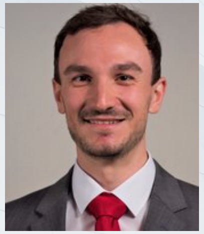

BAI – unser nächstes Webinar

15. April 2021
11:00 – 12:15 Uhr

Thema: Wie reagiert Private Equity in einem sich wandelnden Markt?

https://www.bvai.de/veranstaltungen/bai-webinare

Unser heutiger Kooperationspartner und BAI Mitgliedsunternehmen

StepStone

inside private markets

Marcel Schindler ist der Swiss Capital alternative Investments AG vor über 17 Jahren beigetreten. Zu Beginn des Jahres 2017 wurde diese komplett in die StepStone Group integriert und ist seither verantwortlich für die globale Private Debt Abteilung. Von 2004 bis 2016 war Herr Schindler zunächst COO, später CIO und ist seit 3 Jahren CEO StepStone Private Debt und Hedge Funds. Weiter ist Herr Schindler in verschiedenste Investment- und Managementaktivitäten involviert. Vor seiner Tätigkeit für StepStone hat Herr Schindler die Position als CFO bei einem öffentlichen Schweizer Finanzinstitut innegehalten. Der Fokus dieser Firma lag auf Equity Investments. Vorangehend war er Mitglied des Europäischen Risikomanagement Teams bei Arthur Andersen. Weiter hatte Herr Schindler sich in seiner Vergangenheit auf das kommerzielle Kreditgeschäft und die Hypothekarvergabe bei der UBS konzentriert.

Dr. Jan Kuhlmann ist Partner des Corporate Private Debt Teams und konzentriert sich auf Direct Lending Strategien in den USA und Europa. Vor seiner Tätigkeit bei StepStone war Herr Kuhlmann als Vice President bei MV Credit (fka MezzVest), einem Investor für Subordinated Debt. Davor arbeitete er für die Investmentbanking-Abteilungen der Credit Suisse und der Commerzbank in London und Frankfurt. Herr Kuhlmann hat einen Master und Doktortitel in Betriebswirtschaftslehre von der Universität Kiel.

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EFFECTS OF COVID-19 ON PRIVATE DEBT – OPPORTUNITIES & RISKS

April 13, 2021

Private Debt Investor
AWARDS 2020
LP/Investor Advisor of the Year

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All data is as of February 2021 unless otherwise noted.

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StepStone Group Overview

StepStone is a global private markets investment firm offering customized solutions and advisory and data services to our clients

$333B	$80B+	$50B+	560+
in private capital allocations[1]	assets under management[1]	annual commitments[2]	professionals

Private Markets Access

Comprehensive coverage across:

- Private Equity
- Real Estate
- Infrastructure & Real Assets
- Private Debt

Research Focused

StepStone annually conducts:[3]

- 4,300 manager meetings
- 340 investment committee approvals

Market intelligence on over:

- 14,000 GPs
- 36,000 funds
- 61,000 companies

Investment Strategies

Specialized teams covering:

- Fund Investments
- Secondaries
- Co-Investments

Sophisticated Client Base

Creating solutions for:

- Corporations
- Defined Contribution Plans
- Endowments/Foundations
- Insurance Companies
- Pension Funds
- Private Wealth/Family Offices
- Sovereign Wealth Funds

All dollars are USD.
1. $333B indicates total assets which includes $80B+ in assets under management as of December 31, 2020. Reflects final data for the prior period (September 30, 2020), adjusted for net new client account activity through December 31, 2020. Does not include post-period investment valuation or cash activity.
2. StepStone approved over $50B+ in 2020. Represents StepStone-approved investment commitments on behalf of discretionary and non-discretionary advisory clients. Excludes clientele that receive research-only, non-advisory services. Ultimate client investment commitment figures may vary following completion of final GP acceptance/closing processes.
3. Last twelve months through December 31, 2020.

StepStone Private Debt Platform – Unique Sourcing Capabilities & Flexibility

Broad sourcing capabilities with existing GP relationships, flexible allocations (no hard commitments) allow SSG to shift allocations to GPs with strongest pipeline

PARTNERING WITH GP'S VIA STEPSTONE PLATFORM

GP Managed Accounts (Primary Transactions)	Secondary Transactions	Co-Investment Transactions
> 25 GPs	> 20 GPs	> 30 GPs

Selection of GPs on the StepStone Private Debt Platform

BlackRock, H.I.G. Capital, Kayne Anderson Capital Advisors, L.P., HPS, CVC, Tree Line, Cerberus Capital Management, L.P., Freeport Financial, Tikehau Capital, Hayfin, Blue Torch, AlbaCore, Bridgepoint, NXT Capital, Ares, apera, Birch Grove

- FLEXIBILITY
- TRANSACTION QUALITY
- TRANSPARENCY & CONTROL
- YIELD GENERATION

SOURCING

- Established reputation since 1998
- Largest manager selection and portfolio monitoring team in the industry
- Access to StepStone GP Managed Accounts, Secondaries and Co-Investments

DEAL FLOW ORGINATION

230+ # of transactions executed on the platform last 12 months

$3'400m Total amount of executed deals last 12 months

55+ # of direct lending GPs approved on SSG platform from which deals are sourced

Note: Manager references are for illustrative purposes only and do not constitute investment recommendations
Source: StepStone, last 12 months (LTM) through December 31, 2020.

EDITORIAL

COVID-19 – LONGER THAN EXPECTED

In our first survey, early in the pandemic, we provided estimates of COVID-19 first order impacts, observations from GPs and borrowers. To handle the unprecedented, we created a framework with multiple scenarios.

Although the framework is still valid, the 1st order impacts differed from our expectations. Not in the areas / sectors and borrowers where we expected the highest impact, but in terms of 'ripple effects' on other sectors and the overall economy. This was partially due to central bank interventions and fiscal stimulus as unprecedented as the event itself.

Our update provides you with our most recent market observations, loan market data and scenario analysis. We are convinced that COVID-19 will:

- Dominate our lives and behavior for longer than expected and
- Continues to drive fundamental market changes (the so-called 2nd order effects discussed in our first survey) for business models (borrowers), GPs and investors

BACK TO NORMAL – AT LEAST ON THE SURFACE

Markets seem to be back to normal. At least on the surface, measuring transaction flows and market pricing. Below the surface though, we see bifurcation, dispersion and fundamental changes in all areas:

- <u>Bifurcation</u> of sectors and borrowers. The lower tier will struggle to be financed by 'traditional' markets or methods and needs alternatives
- <u>Dispersion</u> among GPs, affected differently in their existing portfolios, ability to raise capital and to source deals
- <u>Lower rates</u> for longer and increased valuations (for how long?) 'forcing' investors to continue their hunt for yield

A LATE CYCLE GUIDE

WHITE PAPER FROM JULY 2019

The current credit cycle may be long in the tooth, but investors in private debt don't need to panic. Spurred on by banking reforms after the GFC, direct lending has emerged as a stalwart asset class, delivering attractive yields across the cycle—but there are a few GPs who have been investing in this space since at least 2000. In uncertain times, experience matters.

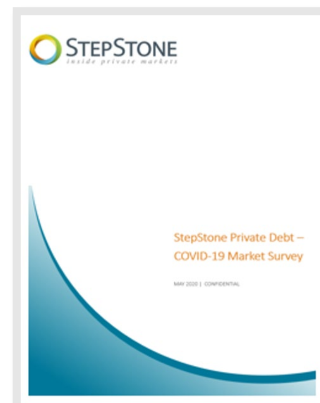
Even in the face of an impending downturn, direct lending may be a beacon of hope. Like any investor, we believe strongly in the value of having a disciplined commitment to our due diligence process. We find the value of limiting risk and reducing the variance of outcomes to be well worth the effort. Diversification, remaining invested, credit quality, and insisting upon covenants are critical disciplines to maintain late in the cycle.

COVID-19 MARKET SURVEY

RESEARCH FROM MAY 2020

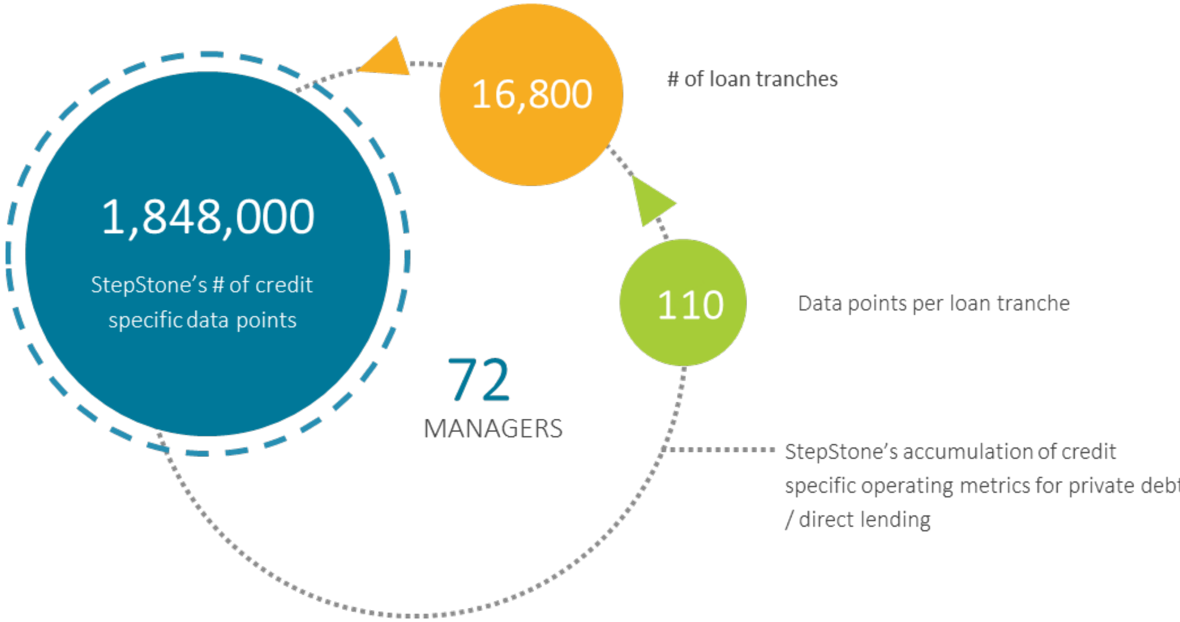
In response to the COVID-19 pandemic, and in addition to previous market updates, StepStone has undertaken a comprehensive analysis of the direct lending market. The analysis is based on StepStone's database and research, discussions with lending participants, GPs and banks, and analysis of individual borrowers, as well as external research studies.

Building out our private debt database over several years has proven to be very valuable, especially in a situation like this. We believe that our database, which has data on more than 15,000 loans, provides us with a significant advantage in assessing the broader market impact and its consequences.



The opinions expressed herein reflect the current opinions of Stepstone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. Diversification does not ensure from market loss.

STEPSTONE PRIVATE DEBT DATABASE



BROAD MARKET COVERAGE AND EXTENSIVE PRIVATE DEBT DATABASE [1]

1'565+ Private Debt General Partners

23'963+ # of Private Debt Investments

3'826+ # of Private Debt Funds

459+ # of Private Debt Fund Summaries

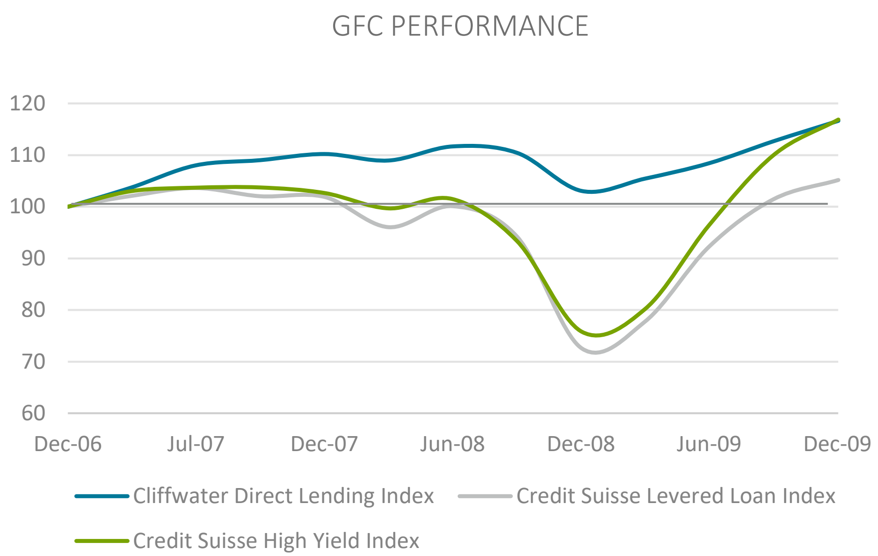
Source: StepStone as of December 2020

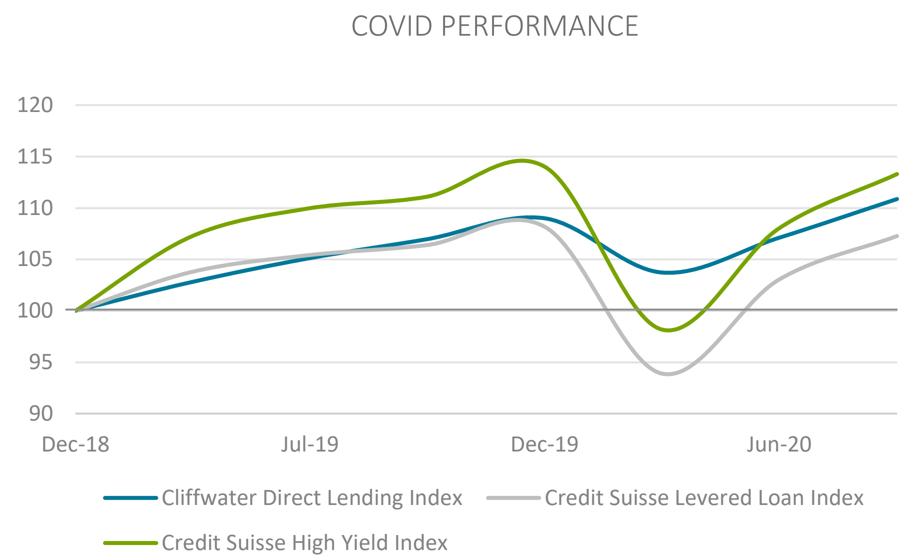
1. StepStone Private Markets Intelligence Database (SPI™) provides extensive analytics, increased transparency and enhanced insights. Data since inception as of February 2021

PRIVATE DEBT MARKET OBSERVATIONS

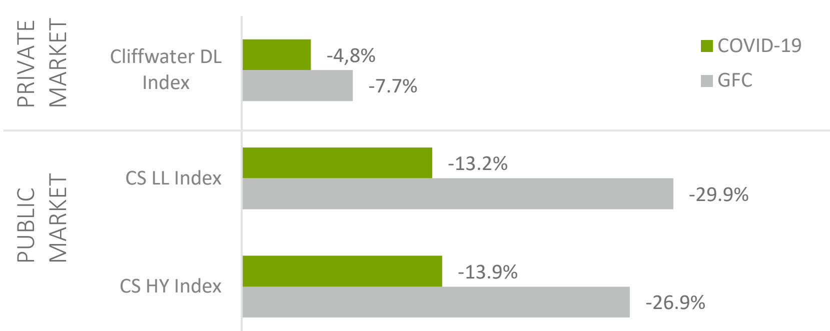
Resilience of Corporate Private Debt through Crisis

PRIVATE DEBT MARKET RESILIENCY





MAXIMUM DRAWDOWN



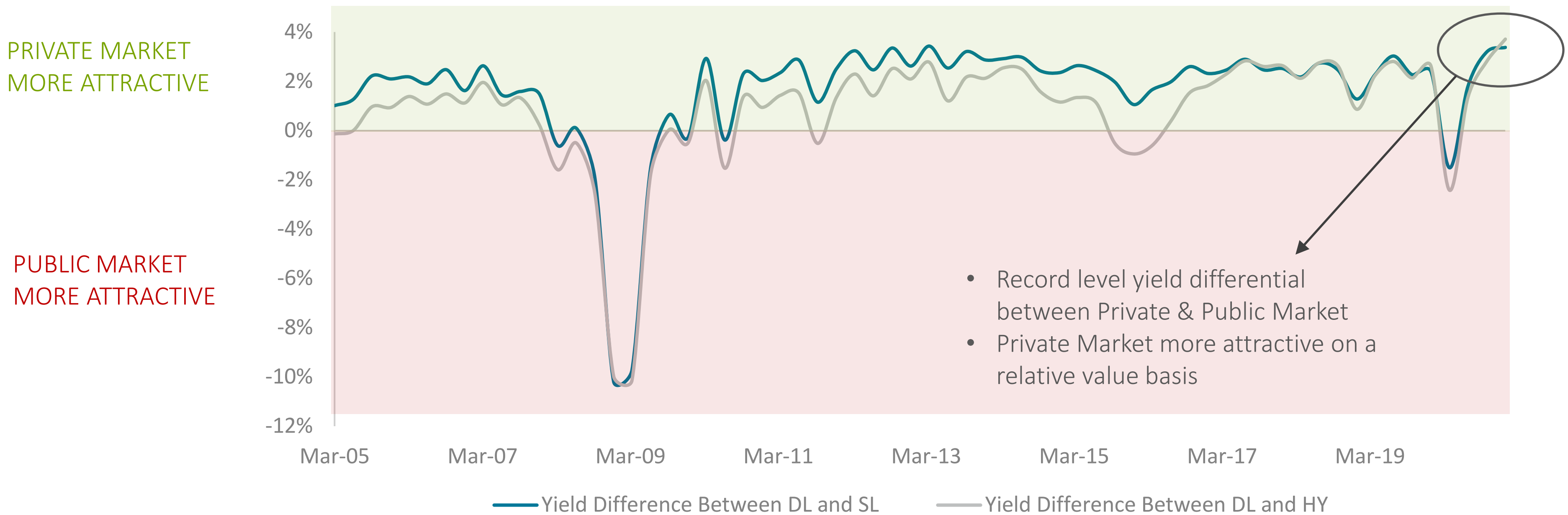
OBSERVATIONS

- Direct lending exhibited robust performance in both the GFC and COVID environment
- In both periods, private debt experienced significantly lower drawdowns relative to the traded public markets
- Even in periods of stress, private debt provided relatively smooth returns without creating excessive volatility

Source: all the data is as of Q4 2020
Syndicated loans data is based on Credit Suisse Leveraged Loan Index; High yield bonds data is based on Credit Suisse High Yield Index; Direct Lending data is based on Cliffwater Direct Lending Index

Private Markets Attractive on a Relative Value Basis

CORPORATE DIRECT LENDING REMAINS ATTRACTIVE – YIELD PREMIUM PRIVATE VS. PUBLIC MARKET



ASSET CLASS	ENTRY YIELD	DIFFERENCE VS DL
Direct Lending[1]	8.3%	n/a
Syndicated Loans[2]	5.1%	3.2%
High Yield[2]	4.6%	3.7%

OBSERVATIONS

- Public markets are relatively expensive due to unprecedented monetary and fiscal stimulus activity
- On a relative value basis, private markets reached historical highs versus public markets

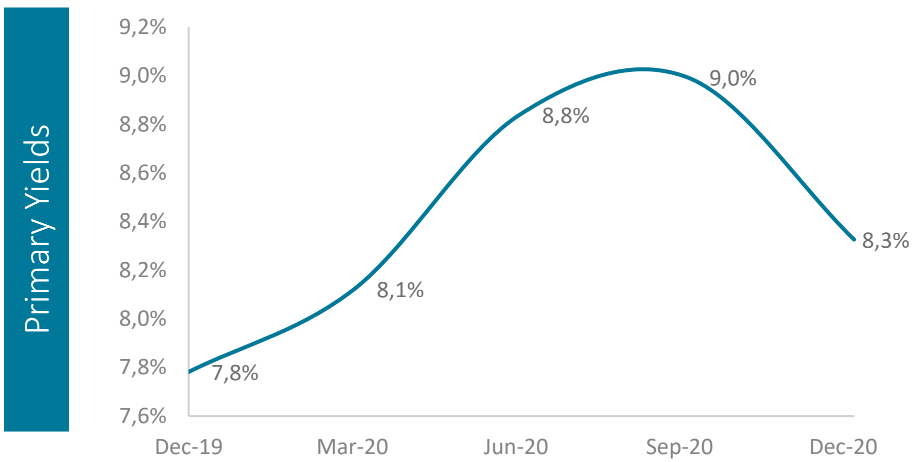
Source: Data as of Q4 2020. Historical yields are based on StepStone internal database for direct lending and on Credit Suisse Leveraged Loan Index and on Credit Suisse High Yield Index for Syndicated Loans and High Yield Bonds, respectively

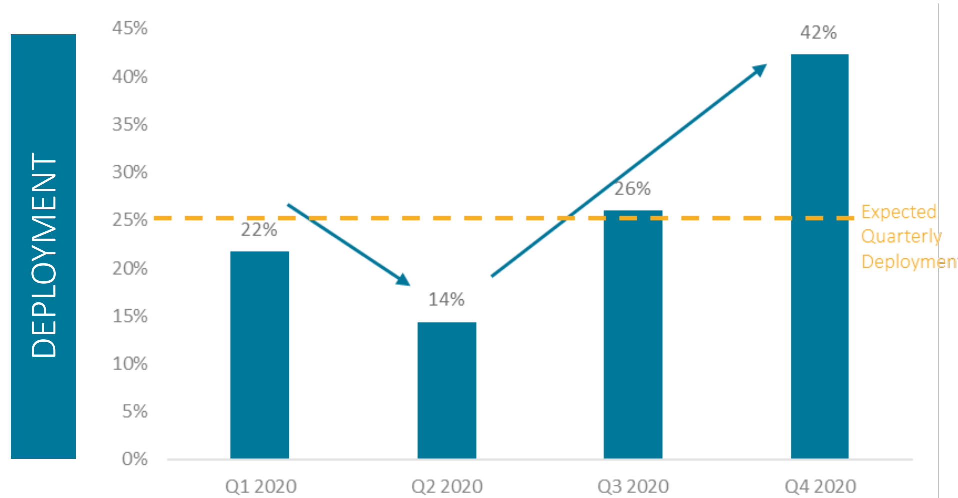
1 Direct Lending yields are the weighted average yield of the deals which were originated in Q4 2020 and in which StepStone has invested

2 For syndicated loans and HY bonds, traded yields are presented as the investors would enter the market at those yields

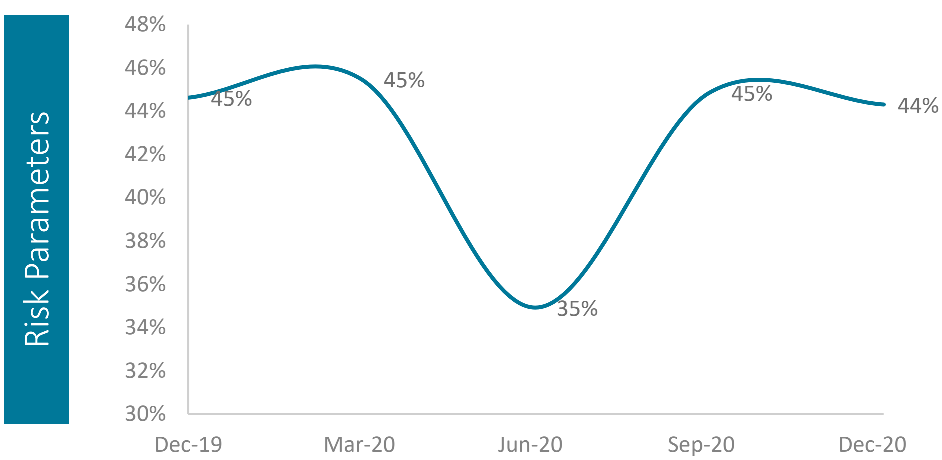
Coporate Direct Lending - Yields and Risk Parameters through COVID-19

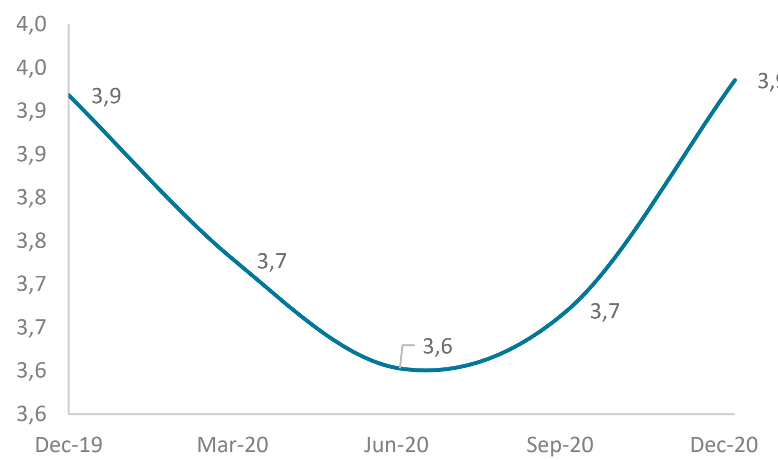
PRIMARY MARKET YIELDS – SPIKE CONTAINED BY 'SEARCH FOR YIELD'





LTV & LEVERAGE – COVID-19 PROVIDED LENDER WITH STRONGER NEGOTIATION POWER FOR A SHORT WHILE

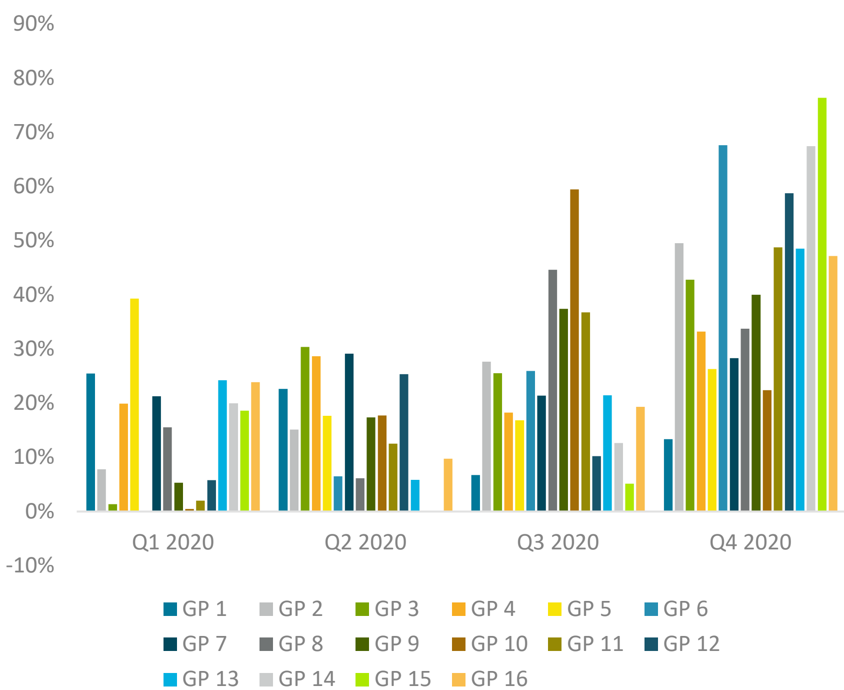




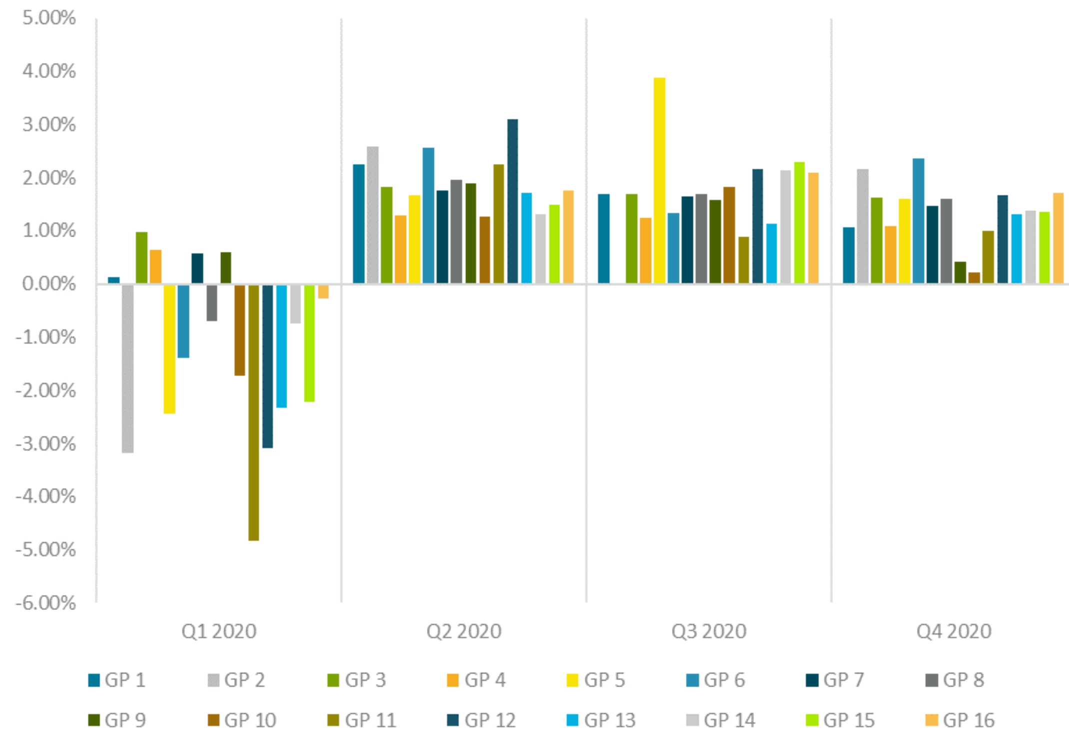
Source: StepStone, as of Q4 2020; presented stats are based on the deals in which StepStone is invested in

Corporate Direct Lending Dispersion through COVID-19 (US and Europe combined)

DEPLOYMENT DISPERSION



RETURN DISPERSION



Source: StepStone, as of Q4 2020;

Development of Transaction Characteristics — Expectations & Outlook on Sr. Corporate Direct Lending

	STEPSTONE EXPECTATIONS IN APRIL 2020	WHAT HAPPENED	OUTLOOK FOR 2021
	• Generally, StepStone believes that COVID-19 may move the pendulum back from 'borrower friendly' to 'lender friendly'	• We are tracking the market developments closely and discussing the expectations for 2021 with our GPs	• There is still significant uncertainty in the market about future developments as the crisis may have further downlegs
PRICING	• **Newly originated transactions** increase of 150–250bps of gross asset yield depending on borrower characteristics • **Performing secondaries** expected to be offered more frequently and priced to yield in the low to mid-teens	• Some yield gains in the US, partly given back; little flexibility in the EU	• Yields further tighten back to pre-COVID levels in the US and remain fairly constant in the EU • However, yield for severely impacted borrowers will likely be wider once they are able to access the market again
DOCUMENTATION UNDERWRITING STANDARDS	• **Newly originated transactions** based on more conservative forecasts (e.g., EBITDA adjustments) and credit metrics (e.g., level of leverage, covenants) • **Required amendments** on documents expected to become more restricted	• LTV and leverage levels relatively unchanged in the US; leverage levels significantly lower in the EU at the outset but more competitive again • Amended documentation benefitted from stricter terms and often additional covenants	• Structuring and documentation in general to revert to pre-COVID trends
EXPECTED DEFAULT AND LOSS RATES	• **Newly originated transactions**: default rates likely not below average due to tighter structures (e.g., covenants, covenant headroom) • **Loss rates of COVID-vintage** expected to be below long-term average	• Q3: # of impairment charges have further reduced • Charges on a small number of individual borrowers had to be increased • The two contrasting developments cancel each other out	• Expectation of further reduction of built provisions; some borrowers continue through the process of being restructured

Source: StepStone, as of January 2021

OBSERVED CHANGES ACROSS REGIONS

- The table illustrates the changes in the US and EU direct lending transaction characteristics. It depicts the early changes until the end of August, i.e., just after the transaction volume picked up again in July and the changes through to end of December
- In the US initially the yields picked up quite considerably by 1.21 percentage points. This gain was halfway given back to the market by the end of the year
- LTVs and leverage levels remained fairly constant
- Included # of transactions in the analysis:
  - Pre-2020: 391 (US: 289 / EU 102)
  - 2020: 292 (US: 192 / EU 100)
- Further, accepted levels of EBITDA adjustments dropped quite significantly by 17.8 percentage points through August although this gain was also largely lost by the end of December
- Overall, it shows that direct lending GPs were initially more conservative in their structuring approach and asked for higher risk premia; however, due to the competitive nature of the market in the latter part of the year, especially Q4, these gains in terms of lender-friendliness were somewhat eroded
- In contrast, in the EU, yield remained constant throughout the year compared with the pre-COVID period
- The structuring approach changed, however, with European GPs structuring with significantly lower leverage levels. Nonetheless, these gains were also partly given back to the market through the latter half of 2020
- An interesting increase in permitted EBITDA adjustments may point towards European lenders being willing to allow certain COVID add-backs during the earlier transactions; a stance that on average has reverted to pre-COVID levels by the end of the year

	YIELD		LTV		LEVERAGE		EBITDA ADJUSTMENTS	
	US	EU	US	EU	US	EU	US	EU
Changes through **August**	1.21%	0.09%	-1.85%	-1.80%	-0.10x	-0.93x	-17.80%	9.82%
Changes through **December**	0.60%	-0.12%	1.28%	-0.63%	0.06x	-0.39x	-6.57%	-0.15%

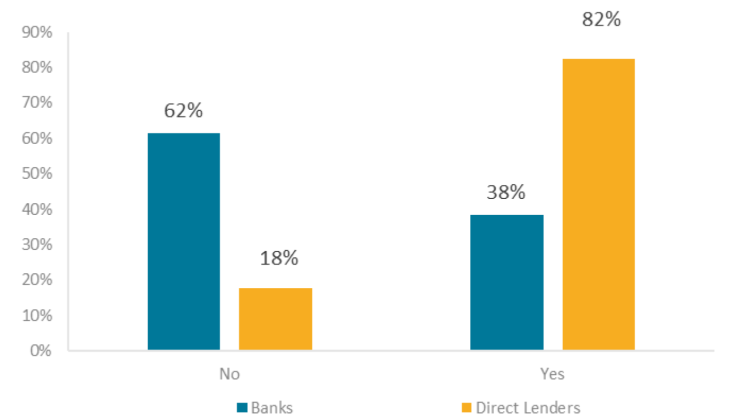
Source: StepStone Platform as of December 2020. The opinions expressed herein reflect the current opinions of Stepstone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass.

WINNERS & LOSERS?

LARGER GPS WITH LONGER TRACK RECORD

BANKS?

LENDER SURVEY: WERE YOU ABLE TO LEND AS MUCH AS YOU WANTED TO IN 4Q20? (% OF RESPONDENTS)



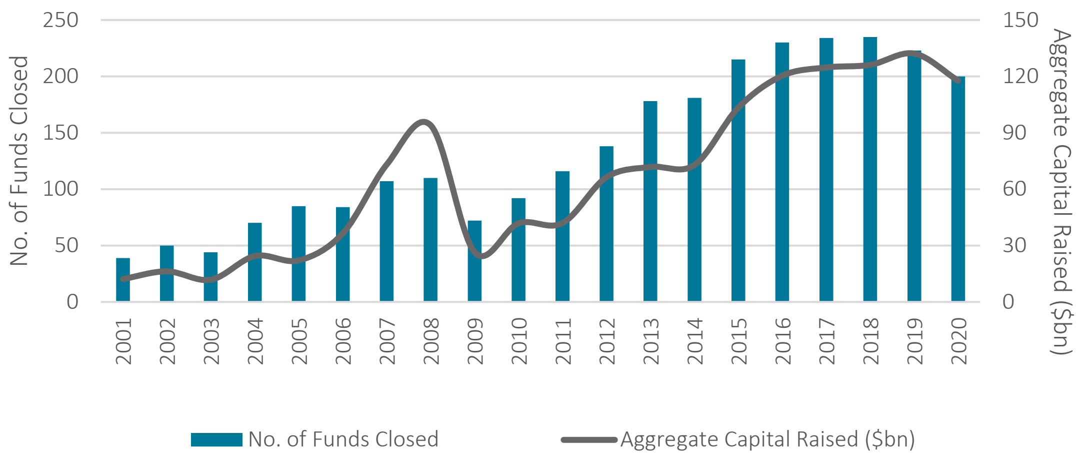
PUBLIC MARKETS?

SMALLER GPS / FIRST TIME FUNDS

Source: Refinitiv LPC as of January 2021

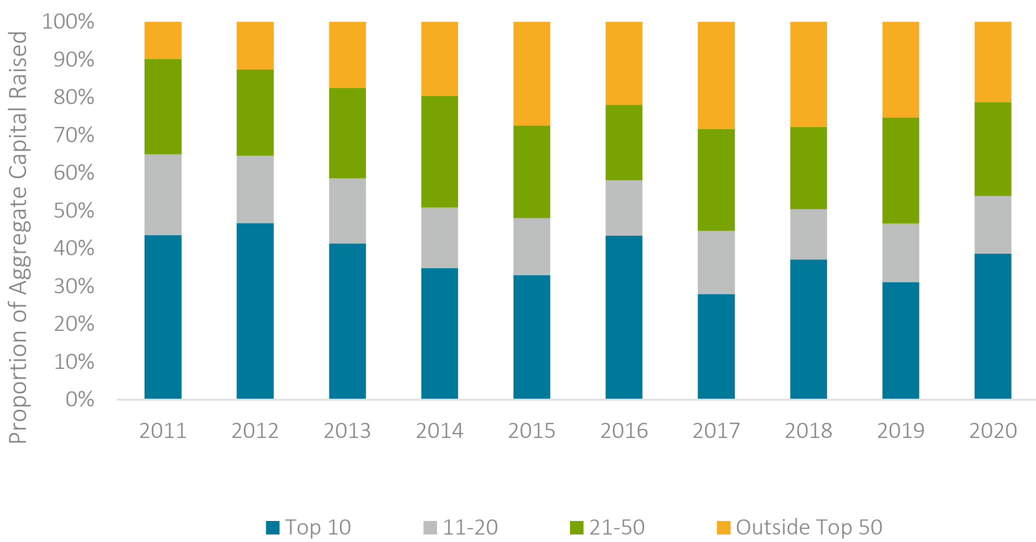
Private Debt - GP Fundraising

GLOBAL PRIVATE DEBT FUNDRAISING



- 200 private debt funds reached a final close, raising an aggregate $118 billion, down from the $132 billion raised in 2019
- The majority of capital raised by private debt funds in 2020 is focused on North America
- Funds targeting the region accounted for 63% of total capital raised (a 12 percentage-point increase on 2019)

CAPITAL RAISED BY THE LARGEST PRIVATE DEBT FUNDS



- Another result of the pandemic is compounded capital consolidation
- Larger funds have become even more prevalent in the private debt space, and the **10 largest funds accounted for 39% of the capital raised in 2020**, up from 31% in 2019
- At the other end of the scale, funds outside of the top 50 constituted only 21% of aggregate capital raised, a fall of four percentage points on the previous year

Source: Preqin Private Debt Report February 2021

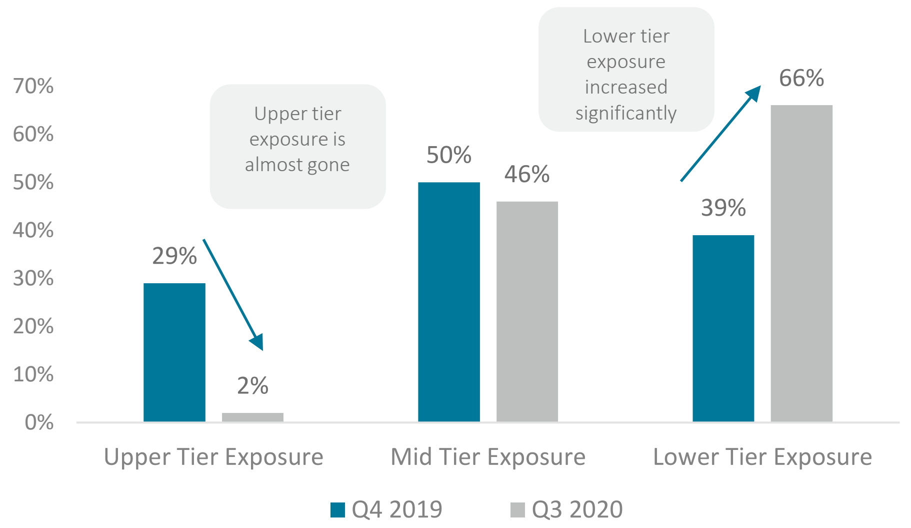
INDUSTRY / BORROWER BIFURCATION

COVID BUMPS (6%)	AVERAGE EBITDA GAIN + 22.1%
	eCommerce
	Semiconductors
	Electricity producers
	Paper and forest products
	Comm. Equipment
	Household products
	Etc.
NO IMPACT (42%)	AVERAGE EBITDA DROP -1.5%
	Food
	Utilities
	Air fright
	Logistics
	Etc.
RECESSION IMPACT (42%)	AVERAGE EBITDA DROP -24.3%
	Machinery
	Electrical Equipment
	Media
	Auto Components
	Textiles
	Luxury Goods
	Etc.
COVID IMPACT (10%)	AVERAGE EBITDA DROP -62.4%
	Airlines
	Hotels, Restaurants & Leisure
	Entertainment
	Mortgage REITs
	Oil & Gas
	Etc.

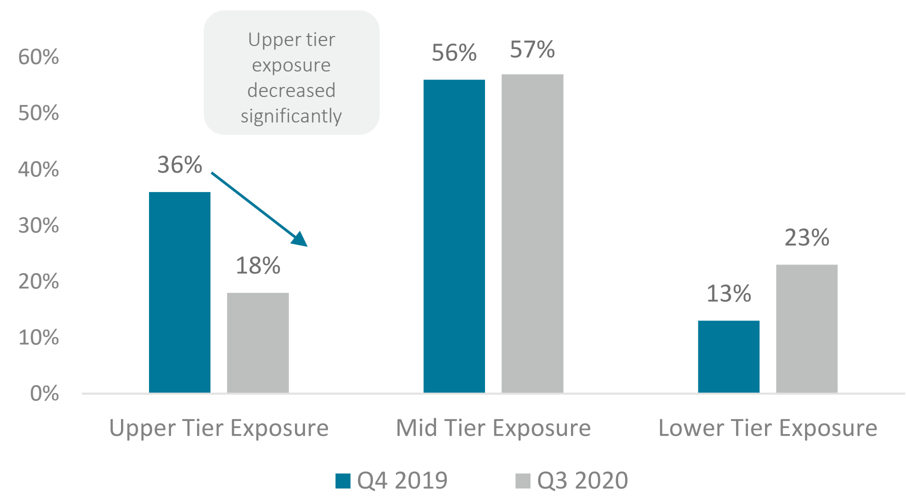
Source: StepStone as of Q3 2020

Direct Lending — Rating Migrations by Impacted Industry Segment

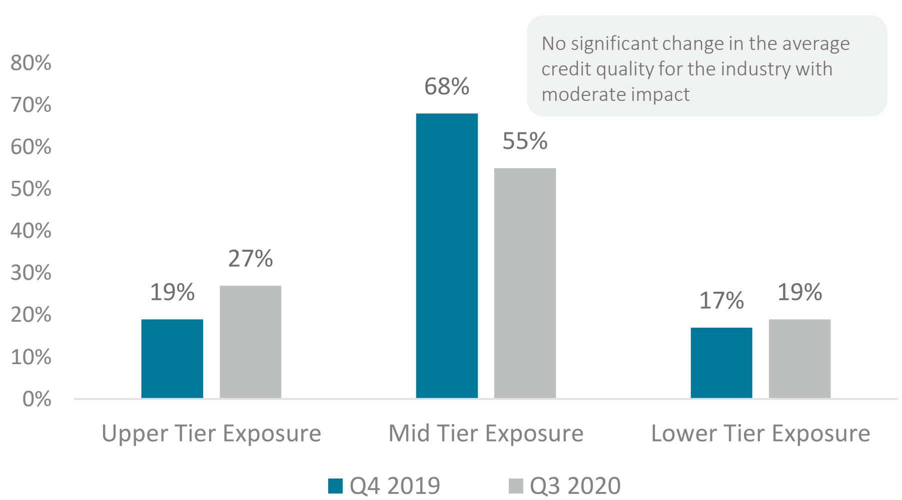
CREDIT RATINGS FOR INDUSTRIES WITH COVID IMPACT



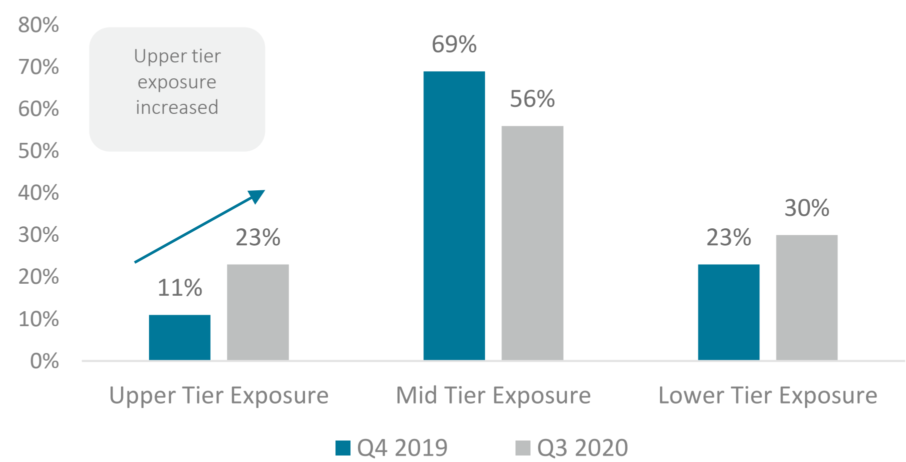
CREDIT RATINGS FOR INDUSTRIES WITH RECESSION IMPACT



CREDIT RATINGS FOR INDUSTRIES WITH NO IMPACT



CREDIT RATINGS FOR INDUSTRIES WITH COVID BUMPS



Source: StepStone invested StepStone deals and the as of date is November 2020

Various Outcomes for Provisioned First Lien Loans – Example

ACCOUNTING LOSS TO EQUITY UPSIDE

Borrower
- Provider of rental equipment, labor, production management, and other products for events and trade shows

Situation that led to provision
- Poorly integrated acquisition causing **underperformance ahead of COVID**
- **COVID** basically **shut the business down** and company **ran out of liquidity** despite significant cost reductions
- Loan marked down from 70 to 50 to **35** over the first three quarters

Main steps of the process
- A **restructuring** was completed in which
  - Lenders provided **fresh liquidity**
  - **Converted** c. 68% of the original loan tranche **into equity**

Ultimate outcome
- Lenders **control** the equity
- Based on **current** valuation, expected **recovery** on the original debt is c.43%*
- **Significant upside** remains through the equity holding in case of recovery of performance**

FULL RECOVERY AFTER COMPANY SALE

Borrower
- Provider of in-store/ -restaurant background music and marketing solutions

Situation that led to provision
- Non-essential stores and **restaurants closures** due to COVID leading to significant drop in revenues
- **Liquidity issues** resulted in PIK'ing of interest and need for **restructuring**
- Built **provision** and held loan at **90%** of par value of the loan

Main steps of the process
- Shareholders and junior lenders agreed to a consensual restructuring in which
  - **junior lenders lost their investment** in return for warrants on the equity
  - **Senior lender took over the equity** of the business (held at **75% of par**)

Ultimate outcome
- Senior lender was able to **sell the business** leading to **full recovery**
- Creating an **annualized IRR** for this investment of **10.4%**

FULL REPAYMENT DESPITE PROVISION

Borrower
- Global provider of loyalty/ reward program services, customer engagement solutions and insurance brokerage services

Situation that led to provision
- Sustained **reduction in travel volumes** and cancellation of bookings impacted 50% of the business' revenues
- Leverage spiked but **no liquidity issues** due to sponsor cash injection
- Built **provision** and held loan at **68%** of par value based on recovery expectations

Main steps of the process
- No restructuring was necessary
- Sponsor was able to refinance the debt leading to **full early repayment**

Ultimate outcome
- Received **prepayment penalties** of 3%
- Received **make-whole interest** for non-call features of c. 2%
- Resulting in **full recovery** and **annualized IRR of 11.9%** on the original debt tranche

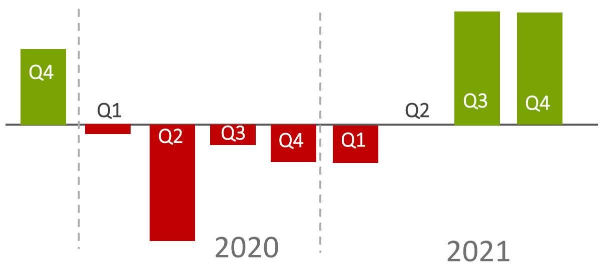
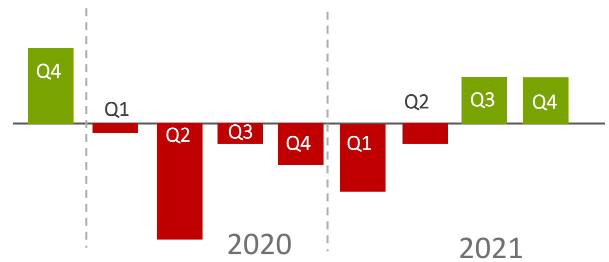
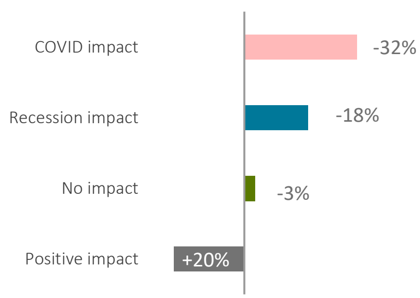
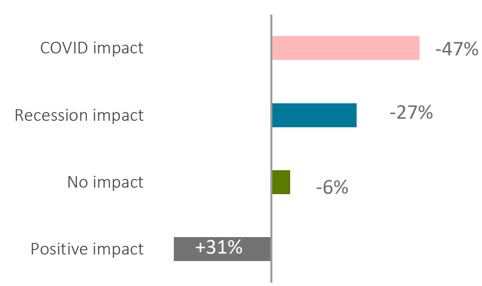
* Excluding fresh liquidity provided by lenders
** Lenders receive c. 85% of the first level of equity proceeds and 50% thereafter
Past performance is not necessarily indicative of future results and there can be no assurance that the investment will achieve comparable results or avoid substantial losses.
Source : GP Information as of February 2021

PRIVATE DEBT - RISK SCENARIOS

COVID-19: Updated Stress Scenario Assumptions for Senior Corporate Lending Portfolios issued PRE COVID

STEPSTONE inside private markets

ASSUMPTIONS

	BASE CASE SCENARIO	BAD CASE SCENARIO
Scenario	• No full lock downs need to be imposed. Broad economic activity below summer activity but above spring level. COVID depressed sectors remain depressed • Vaccination of high risk and systemic relevant individuals starts in January. No setbacks in production, due to side effects or distribution issues. Critical part of population vaccinated by end of Q1 • Government fiscal and CB monetary support remains accommodative enough to prevent large scale defaults and layoffs • After Q1 (warm weather, vaccination) even depressed sectors are allowed to operate more normally. Normal course of business possible mid 2021	Reasons that could lead to a worse outcome are: • Winter lockdowns need to be harsher than currently expected and closer to spring situation than summer (bigger activity declines in Q4 and Q1) • Vaccination campaign slower than currently projected or virus mutates to a degree where current vaccines are not fully effective • Damage to economies more substantial than currently expected (e.g., more defaults and higher job losses) and recovery
Economic Activity / GDP		
EBITDA (additional from Q3 2020)		
Default Rate	6.7%	11.0%
Recovery Rate	65%, 70%, 75%, 90% (according to 4 industry groups)	50%, 65%, 70%, 90% (according to 4 industry groups)

Source: StepStone as of December 2020

Hypothetical Stress Scenario for Senior Corporate Lending Portfolios issued PRE COVID: **BASE CASE**

STEPSTONE *inside private markets*

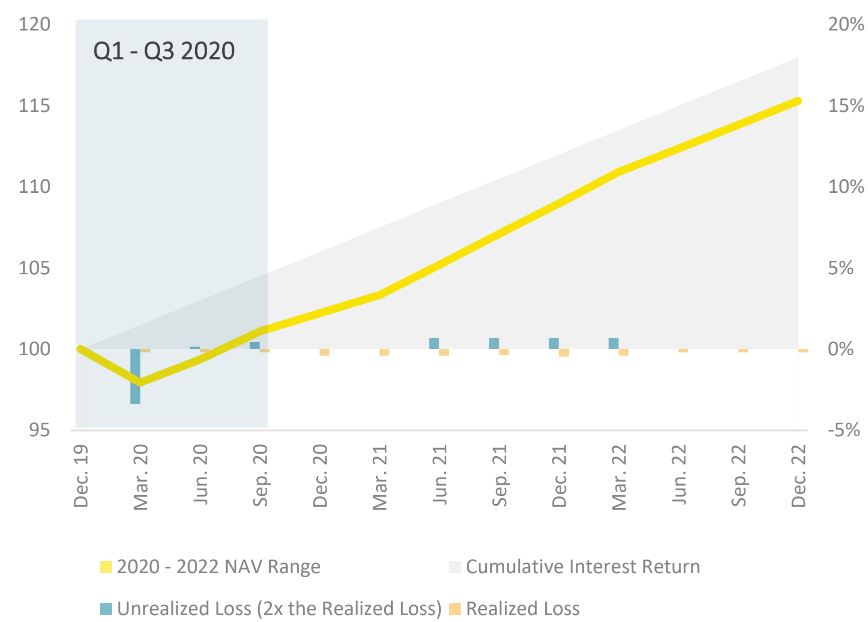
HYPOTHETICAL RISK RETURN PROFILE : 2020-2022

	Impairment Charges: 1.5x Realized Loss	Impairment Charges: 2x Realized Loss	Impairment Charges: 2.5x Realized Loss
Annualized Return	4.8%	4.8%	4.8%
Max DD	-2.1%	-2.1%	-2.1%
Annualized Loss Rate	-1.2%	-1.2%	-1.2%
Total Net Return	2020: 2,2% 2021: 6,6% 2022: 5,9%	2020: 2,2% 2021: 6,6% 2022: 5,8%	2020: 2,2% 2021: 6,7% 2022: 5,8%

PEAK SCENARIO - DEFAULT & LOSSES

	No stress	Stress Scenario 'Base Case'
Expected Loss*	0.8%	1.6%
Default Rate	2.9%	6.7%
Expected Impairment Change	-	2.4– 4.0%

NAV & REALIZED / UNREALIZED LOSS RATES



*expected peak loss rate over 12 month stress period

Source: StepStone as of December 2020. The following model is entirely hypothetical and an illustration of returns that could be earned if the assumptions specified above occurred. Investors are advised that actual returns could vary significantly from those shown herein. Any return contained herein is hypothetical and is not a guarantee of future performance. The returns set forth herein do not constitute a forecast; rather they are indicative of the internal transaction analysis regarding outcome potentials. Any returns set forth herein are based on the belief about the returns that may be achievable on investments that the it intends to pursue. Such returns are based on the current view in relation to future events and financial performance of potential investments and various models and estimations assumptions made, including estimations and assumptions about events that have not occurred. Actual events and conditions may differ materially from the assumptions used to establish returns and there is no guarantee that the assumptions will be applicable to the investments.

Hypothetical Stress Scenario for Senior Corporate Lending Portfolios issued PRE COVID: **BAD CASE**

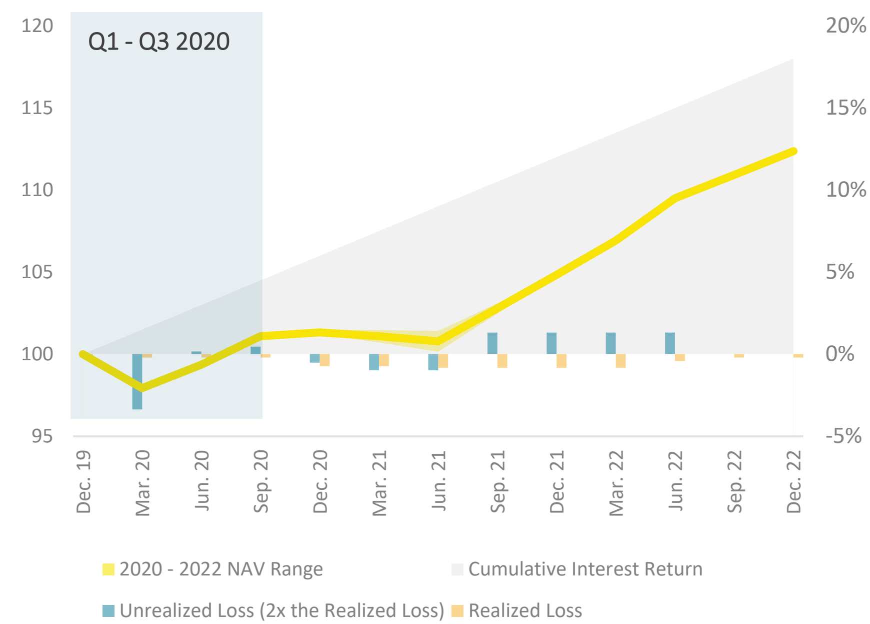
HYPOTHETICAL RISK RETURN PROFILE : 2020-2022

	Impairment Charges: 1.5x Realized Loss	Impairment Charges: 2x Realized Loss	Impairment Charges: 2.5x Realized Loss
Annualized Return	3.9%	3.9%	3.9%
Max DD	-2.1%	-2.1%	-2.1%
Annualized Loss Rate	-2.0%	-2.0%	-2.0%
Total Net Return	2020 1,5% 2021 3,7% 2022 6,9%	2020 1,3% 2021 3,5% 2022 7,2%	2020 1,2% 2021 3,3% 2022 7,5%

PEAK SCENARIO - DEFAULT & LOSSES

	No stress	Stress Scenario 'Bad Case'
Expected Loss*	0.8%	3.3%
Default Rate	2.9%	11.0%
Expected Impairment Change	-	4.9 – 8.2%

NAV & REALIZED / UNREALIZED LOSS RATES



*expected peak loss rate over 12 month stress period

Source: StepStone as of December 2020. The following model is entirely hypothetical and an illustration of returns that could be earned if the assumptions specified above occurred. Investors are advised that actual returns could vary significantly from those shown herein. Any return contained herein is hypothetical and is not a guarantee of future performance. The returns set forth herein do not constitute a forecast; rather they are indicative of the internal transaction analysis regarding outcome potentials. Any returns set forth herein are based on the belief about the returns that may be achievable on investments that the it intends to pursue. Such returns are based on the current view in relation to future events and financial performance of potential investments and various models and estimations assumptions made, including estimations and assumptions about events that have not occurred. Actual events and conditions may differ materially from the assumptions used to establish returns and there is no guarantee that the assumptions will be applicable to the investments.

INVESTMENT IMPLICATIONS

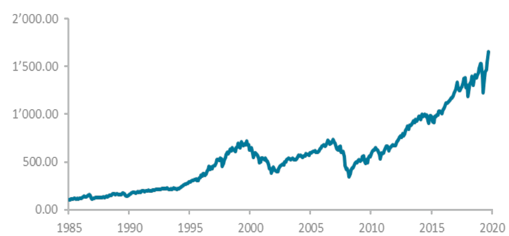
Investment Implications

MARKET ENVIRONMENT
(FOR LONGER THAN EXPECTED)

MONETARY INTERVENTIONS

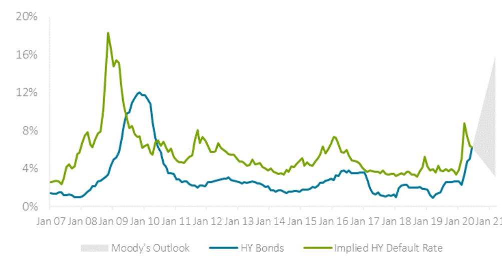
FISCAL STIMULUS

ELEVATED EQUITY VALUATIONS



LONG-TERM LOW INTEREST RATE ENVIRONMENT

LOAN DEFAULTS LIKELY TO INCREASE FURTHER



EXPECTED CHANGES AND CHALLENGES

RELATIVE ATTRACTIVENESS

- Relative attractiveness of Private vs Public Market
- But at lower yields / returns

GP'S / SUPPLY

- Withdrawal of banks & public markets (market growth)
- New funding gaps and investment opportunities (more complex)
- Industry consolidation and institutionalization (larger funds / lower returns?)
- Sourcing / fee pressure
- Portfolio & borrower restructurings

✓ Diversification (multi-credit-GP portfolio construction)

✓ Cost / Deployment efficiency

✓ Time to market implementation

✓ Transparency / customized M&R

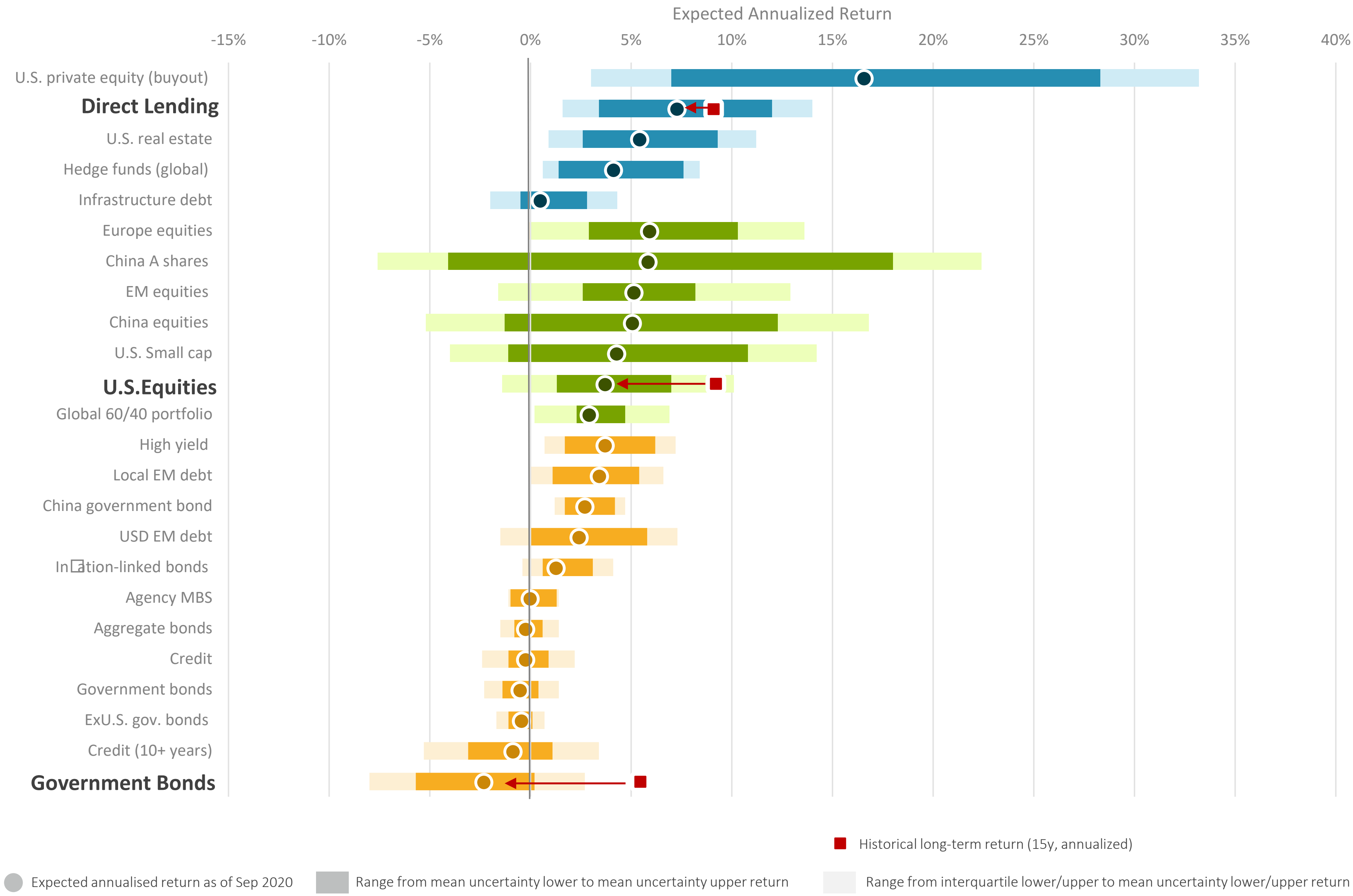
LP'S / DEMAND

- Long-term liability funding gap continued to drive search for yield
- Increase in private debt allocation / systematic integration into SAA / risk mgmt. / M&R
- Consolidation of providers
- Openness for new investment concepts
- Return expectations (private equity vs. fixed income driven allocations)

For illustraive purposes only

Source: StepStone as of January 2021

Return Projections (5y) across Asset Classes



Source: Blackrock Capital Market assumptions and uncertainty, return time period selected for expected annualized returns: 5years as of February 2021

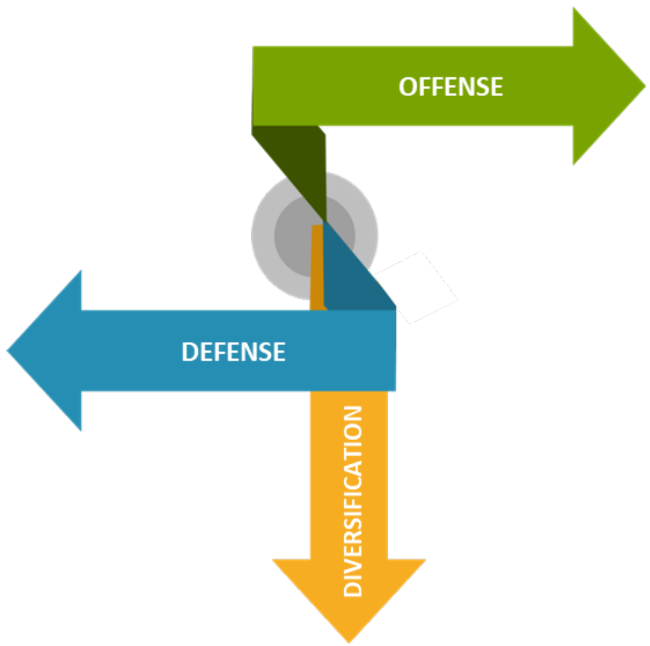
Portfolio Construction — Multi-Credit Opportunities

Scenario to materialize will determine the mix and timing of the portfolio (deployment speed & entry levels)

CORE

Direct lending is driven by demand and supply in the lending space. Alternative lenders will continue profiting from:

- The continued bank disintermediation
- The retreat of ‘public / traded’ markets in the high yield space
- A consolidation across the industry



OPPORTUNISTIC

Short-term tactical opportunities have gone from the market. However, we see an attractive opportunity set and investment topics over the mid to long term.

MID TO LONG-TERM OPPORTUNITIES

- Primarily dependent on the fundamental development and accordingly the scenario.
- These will drive ultimate defaults and recoveries
- Fiscal programs influence overall impact and especially recovery times (IRRs).

DIVERSIFICATION

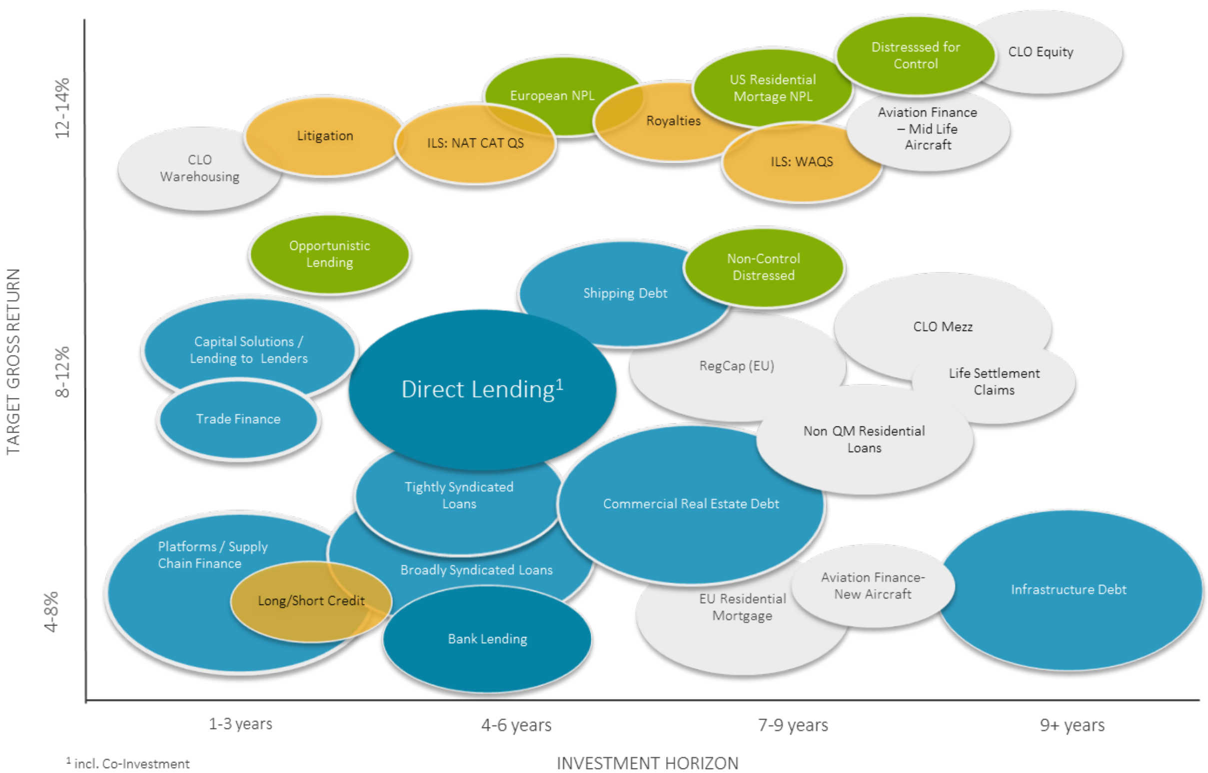
Multi-credit approach enhance the portfolios by creating diversification in terms of:

- Risk / return profile
- Deployment and re-investment
- Real estate and infra debt
- Other lending strategies ….

For illustrative purposes

Private Debt — Returns, Investment Horizon & Portfolio Construction

The broad range of strategies in private debt provides the building blocks to construct **diversified portfolios** with **different risk profiles** that is **optimally adjusted to the various stages** of the credit cycle



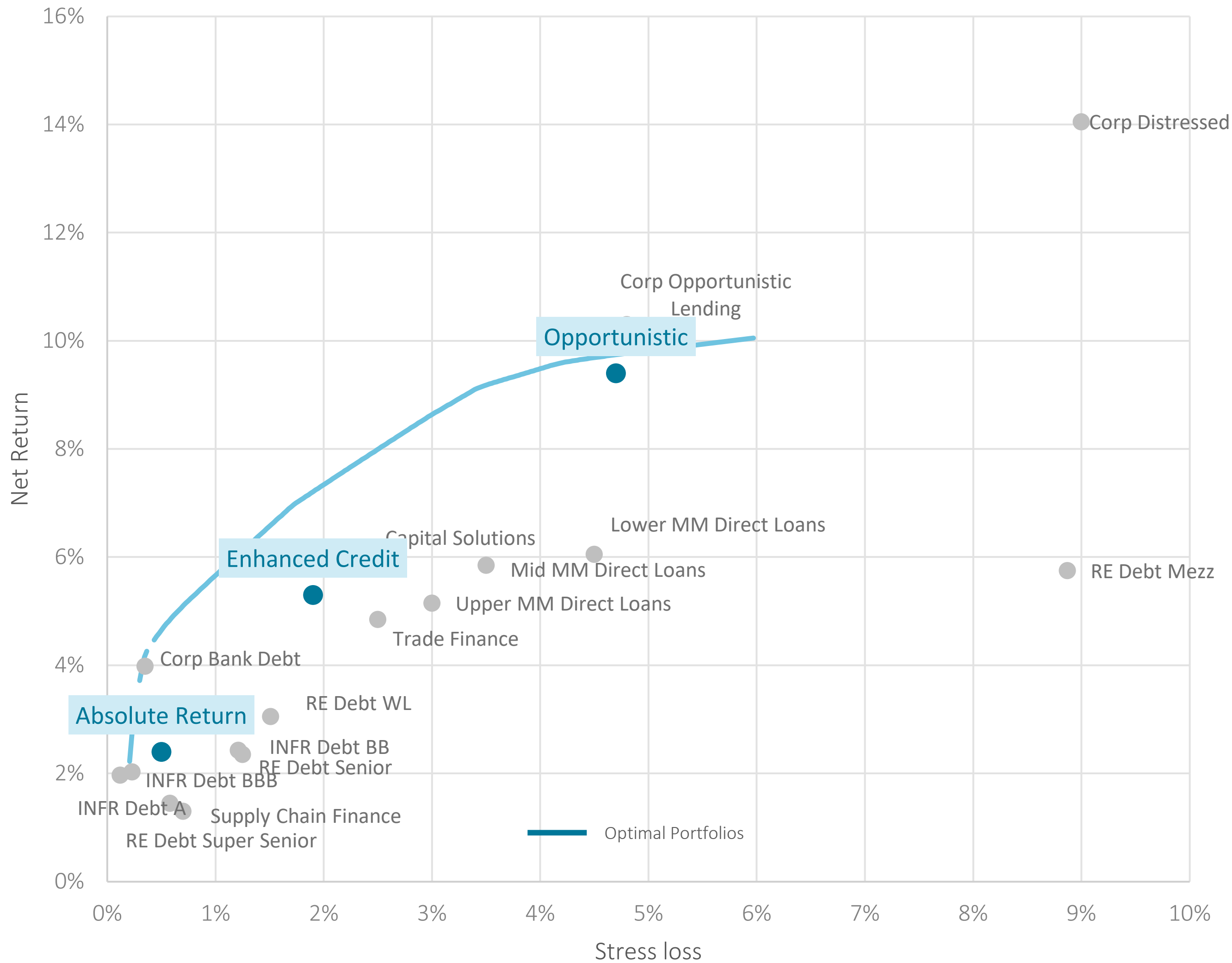
[1] incl. Co-Investment

STRATEGY	FUNCTION
CORE	CARRY
CYCLICAL	CAPITAL GAIN, RETURN ENHANCEMENT
LOW / NON-CORRELATED	DIVERSIFICATION, RETURN SMOOTHING

[1] includes Co-Investment

Note: Bubble size represents deployment capacity (small, mid, large). Target returns are hypothetical and are neither guarantees nor predictions or projections of future performance. Future performance indications and financial market scenarios are no guarantee of current or future performance. There can be no assurance that such target gross IRRs will be achieved or that the investment will be able to implement its investment strategy, achieve its investment objectives or avoid substantial losses. Further information regarding IRR calculation is available upon request. Gross IRR will ultimately be reduced by management fees, carried interest, taxes, and other fees and expenses. Data as of December 2019

Private Debt Risk/Return Spectrum — Multi Credit Portfolio Construction



- The private debt universe consists of a broad spectrum of sub-asset classes and strategies
- This allows the construction of optimal portfolios across a wide range of risk and return
- Optimal portfolios are shown as an efficient frontier where stress loss[1] is used as risk dimension
- Suggested portfolios take qualitative diversification aspects into account

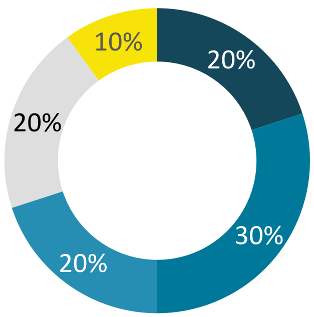
1. Stress loss = peak realized credit loss over a 12 months period

Source: StepStone as of February 2021

Target returns provided by fund managers are hypothetical and are neither guarantees nor predictions or projections of future performance. Future performance indications and financial market scenarios are no guarantee of current or future performance. There can be no assurance that such target IRRs will be achieved or that the investment will be able to implement its investment strategy, achieve its investment objectives or avoid substantial losses. Stepstone does not assume any responsibility for fund manager's methodology in determining target returns. Investors should be aware that different methodologies could result in different returns. Further information regarding target IRR calculation is available upon request.

Multi-Credit Model Portfolios — To Meet Specific Client Needs

OPPORTUNISTIC

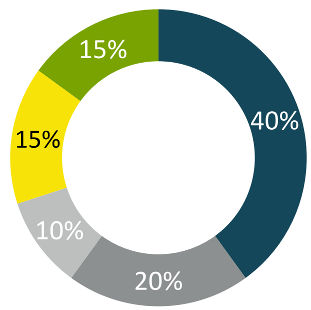


PORTFOLIO CHARACTERISTICS

• Target Return	+9%
• Cash Distribution	4–5% p.a.
• Drawdown Risk	4.7%

The portfolio is focused on sub investment grade corporate and real estate credit assets. Strong emphasis is put on opportunistic investments, secondaries and co-investments.

ENHANCED CREDIT

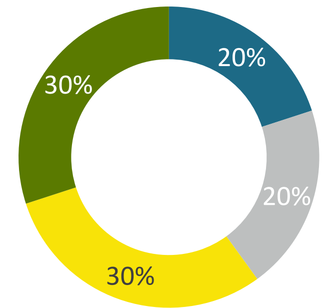


PORTFOLIO CHARACTERISTICS

• Target Return	5–6%
• Cash Distribution	5–6% p.a.
• Drawdown Risk	1.9%

The portfolio is broadly diversified across private debt assets. A big portion of the returns are generated in the form of income.

ABSOLUTE RETURN



PORTFOLIO CHARACTERISTICS

• Target Return	2.5–3%
• Cash Distribution	2.5–3% p.a.
• Drawdown Risk	0.5%

The portfolio consist of investment grade and investment grade like debt instruments across all asset classes. The focus is on reliable income generation with low credit loss potential.

1 Includes strategies as lending to lenders, claims and litigation finance, ABL strategies
2 Includes regulatory capital trades,
Source: StepStone as of January 2021

Risks and Other Considerations

Risks Associated with Investments. Identifying attractive investment opportunities and the right underlying fund managers is difficult and involves a high degree of uncertainty. There is no assurance that the investments will be profitable and there is a substantial risk that losses and expenses will exceed income and gains.

Restrictions on Transfer and Withdrawal; Illiquidity of Interests; Interests Not Registered. The investment is highly illiquid and subject to transfer restrictions and should only be acquired by an investor able to commit its funds for a significant period of time and to bear the risk inherent in such investment, with no certainty of return. Interests in the investment have not been and will not be registered under the laws of any jurisdiction. Investment has not been recommended by any securities commission or regulatory authority. Furthermore, the aforementioned authorities have not confirmed the accuracy or determined the adequacy of this document.

Limited Diversification of Investments. The investment opportunity does not have fixed guidelines for diversification and may make a limited number of investments.

Reliance on Third Parties. StepStone will require, and rely upon, the services of a variety of third parties, including but not limited to attorneys, accountants, brokers, custodians, consultants and other agents and failure by any of these third parties to perform their duties could have a material adverse effect on the investment.

Reliance on Managers. The investment will be highly dependent on the capabilities of the managers.

Risk Associated with Portfolio Companies. The environment in which the investors directly or indirectly invests will sometimes involve a high degree of business and financial risk. StepStone generally will not seek control over the management of the portfolio companies in which investments are made, and the success of each investment generally will depend on the ability and success of the management of the portfolio company.

Uncertainty Due to Public Health Crisis. A public health crisis, such as the recent outbreak of the COVID-19 global pandemic, can have unpredictable and adverse impacts on global, national and local economies, which can, in turn, negatively impact StepStone and its investment performance. Disruptions to commercial activity (such as the imposition of quarantines or travel restrictions) or, more generally, a failure to contain or effectively manage a public health crisis, have the ability to adversely impact the businesses of StepStone's investments. In addition, such disruptions can negatively impact the ability of StepStone's personnel to effectively identify, monitor, operate and dispose of investments. Finally, the outbreak of COVID-19 has contributed to, and could continue to contribute to, extreme volatility in financial markets. Such volatility could adversely affect StepStone's ability to raise funds, find financing or identify potential purchasers of its investments, all of which could have material and adverse impact on StepStone's performance. The impact of a public health crisis such as COVID-19 (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict and presents material uncertainty and risk with respect to StepStone's performance.

Taxation. An investment involves numerous tax risks. Please consult with your independent tax advisor.

Conflicts of Interest. Conflicts of interest may arise between StepStone and investors. Certain potential conflicts of interest are described below; however, they are by no means exhaustive. There can be no assurance that any particular conflict of interest will be resolved in favor of an investor.

Allocation of Investment Opportunities. StepStone currently makes investments, and in the future will make investments, for separate accounts having overlapping investment objectives. In making investments for separate accounts, these accounts may be in competition for investment opportunities.

Existing Relationships. StepStone and its principals have long-term relationships with many private equity managers. StepStone clients may seek to invest in the pooled investment vehicles and/or the portfolio companies managed by those managers.

Carried Interest. In those instances where StepStone and/or the underlying portfolio fund managers receive carried interest over and above their basic management fees, receipt of carried interest could create an incentive for StepStone and the portfolio fund managers to make investments that are riskier or more speculative than would otherwise be the case. StepStone does not receive any carried interest with respect to advice provided to, or investments made on behalf, of its advisory clients.

Other Activities. Employees of StepStone are not required to devote all of their time to the investment and may spend a substantial portion of their time on matters other than the investment.

Material, Non-Public Information. From time to time, StepStone may come into possession of material, non-public information that would limit their ability to buy and sell investments.

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