BlackRock Private Credit

Eine Anlageklasse im Rampenlicht

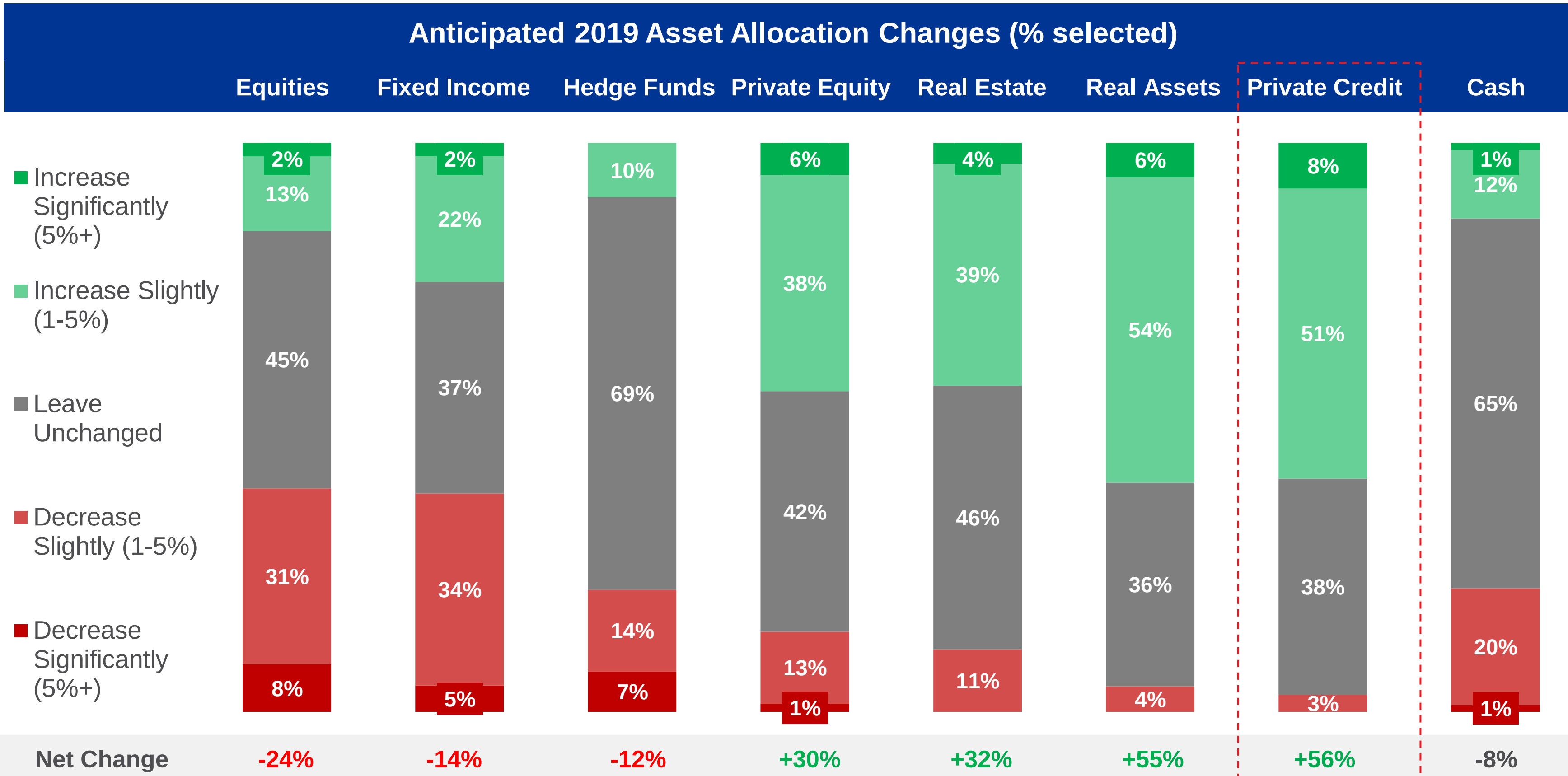
Frankfurt, 26. Februar 2019

FOR PROFESSIONAL CLIENTS AND QUALIFIED INVESTORS ONLY

EMEA institutions are looking to allocate to illiquid assets while paring back public equity and fixed income exposures

EMEA CLIENT BASE OVERALL PORTFOLIO ALLOCATIONS:

In 2019, how do you anticipate changing your allocations to the following?



Net percentages represent a net percentage intending to increase or decrease allocations to each asset class. (Calculation: % of firms intending to increase - % of firms intending to decrease) Base sizes: Total EMEA (86); Equities (84); Fixed Income (86); Hedge Funds (42); Private Equity (71); Real Estate (82); Real Assets (67); Cash (83)

As of December 2018. For illustrative purposes only. The figures/net change represented in percentages is illustrative in nature and do not express a forecast. This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. No analysis of their suitability was conducted and no statement of opinion in relation to their suitability is provided.

BlackRock Global Credit platform

James Keenan
Chief Investment Officer and
Co-Head of Global Credit

Tim O'Hara
Co-Head of Global Credit

AUM: USD 98 billion[1]

Global Capital Markets (15+) & BlackRock Private Capital Markets (5)

Global Credit Investment Professionals (155+)[1]

Leveraged Finance

- High Yield
- Bank Loans
- CLOs

Multi-Strategy Credit

- Pan-Credit Solutions
- Hedge Fund Strategies
- Custom SMAs

Private Credit

- Direct lending
- Opportunistic Debt
- Specialty Finance
- Core Distressed

BlackRock Investment Institute

Risk & Quantitative Analysis (250+)

Aladdin, including "Aladdin-for-Alternatives"

Note: BlackRock. All dollar figures are in US dollars
[1] As of 31 December 2018, includes committed capital. Subject to confirmation

BlackRock provides a range of Private Credit strategies

Opportunistic Credit	
Global Opportunistic	**Asia Pacific Opportunistic**
Seeks to provide capital solutions to companies in complex or other special situations that cannot access traditional financing	Deep value investing across APAC focused on both privately structured debt and secondary stressed investments

Direct Lending	
Europe	**US**
Privately originated senior debt to middle market companies in Western Europe	Privately originated senior debt to middle market companies in North America

93 seasoned investment professionals averaging 20 years experience

19 industry verticals showcasing depth and breadth of expertise

Ability to provide capital across corporate lifecycles enables differentiated sourcing

Deep bankruptcy and restructuring expertise embedded across teams

We leverage longstanding experience in Private Credit strategies that seeks to help clients across market cycles

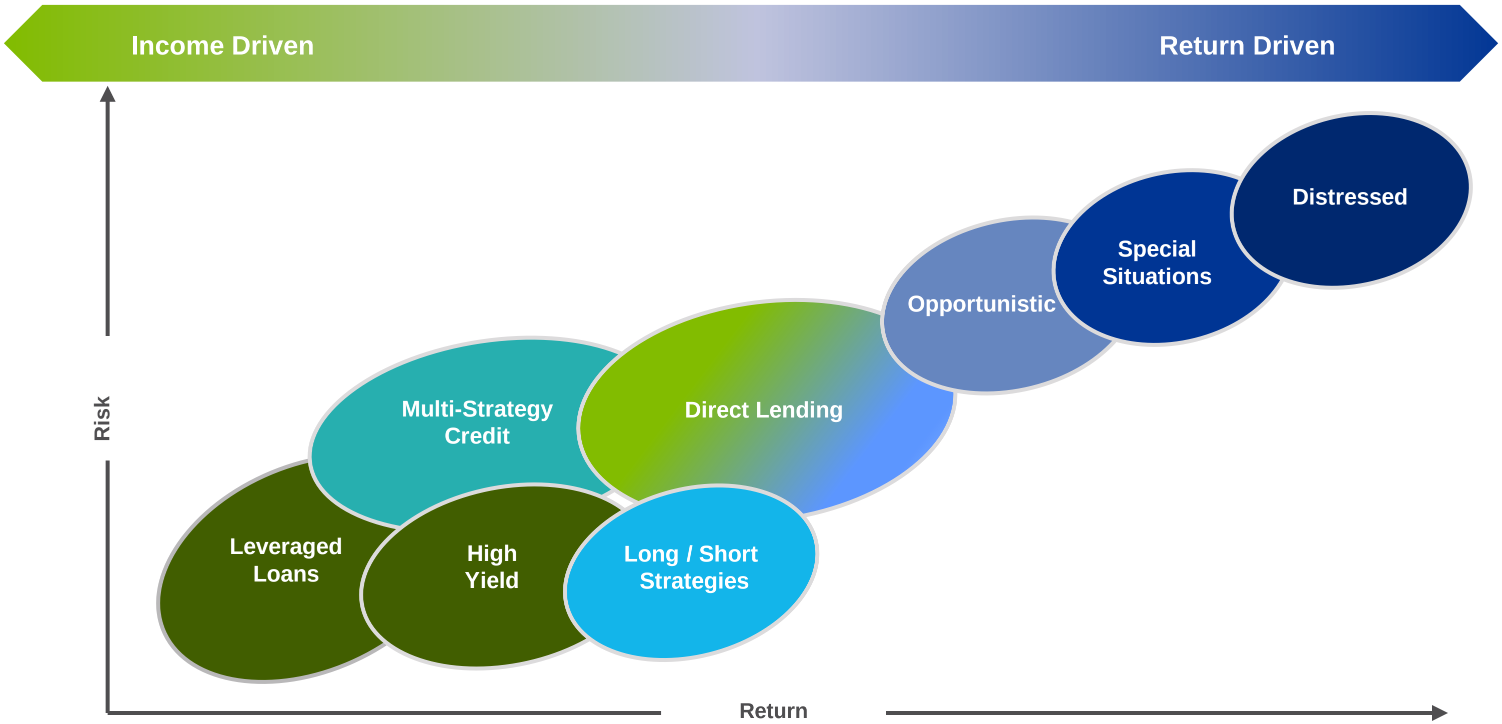
As of October 2018, subject to change. There is no guarantee that a positive investment outcome will be achieved.

For illustrative purposes only. Source: BlackRock, October 2018. This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to adopt any investment strategy. Private Credit strategies can be exposed to illiquidity risk, credit risk, default risk, and diversification risk. Diversification and asset allocation may not fully protect you from market risk. Diversification and asset allocation may not fully protect you from market risk.

Opportunities within the Credit Investment Spectrum

Investment Considerations

- Income vs. return
- Risk tolerance
- Inflation protection
- Liquidity needs
- Leveraged vs. unlevered
- “Buy & Hold” vs. “Buy to Sell”



	Public Credit	Multi-Strategy Credit	Credit Long / Short Strategies	Direct Lending	Opportunistic	Special Situations	Distressed
Liquidity	Highly liquid	Monthly liquidity	Quarterly liquidity	Illiquidity premium	3-5 years horizon	3-5 years lock-up	8-10 years lock-up
Focus	Income	Income	IRR	Income	IRR & MOIC	Income and Capital Gains	MOIC

Notes: For illustrative purposes only. This information demonstrates, in part, the firm’s Risk/Return analysis. This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

Finding Value in today's Credit Markets

We believe evolving dynamics are creating an attractive environment for middle market investing

Secular Shift

- Continued global financial regulation (e.g., Dodd-Frank, Volcker, Basel III) reducing capital sources
- Mutual funds are reducing their ownership of lower rated issues

Cyclical Shift

- Extended credit cycle with weakening growth
- While a broad-based default cycle appears unlikely, mini-cycles occur with increasing frequency requiring a broad-based research capability to provide industry context

Technical Drivers

- Banks cannot serve as the capital providers they were during prior credit cycles
- Dealers have consistently shrunk their balance sheets, increasing volatility and exacerbating stress for certain issuers

Investment Opportunities

Bank Regulation

Need for regulatory capital relief or transactions that are no longer completed by traditional banks, including asset financing, off balancing sheet financing, mezzanine financing, and rescue financing

Acquisition Finance

Desire for quick execution in the private markets or complex situations requiring in-depth underwriting that are challenging for the syndicated markets

Project Finance

Pent-up demand for capital spending presents a diverse range of projects from chemicals to mining

Growth Capital

Expansionary capital need from companies that are seeking to grow existing business lines or launch into adjacent opportunities

For illustrative purposes only.

Demand-side dynamics: Traditional middle market financing providers are exiting

Regulatory changes have de-leveraged the banking system

Basel III | **Dodd Frank, Volcker Rule** | **Leverage Lending Guidelines**

Increased capital requirements for banks

Up ~40-50% since recession

Effective 2019, the top-8 US banks must increase current capital surcharge levels by 2.7% on average

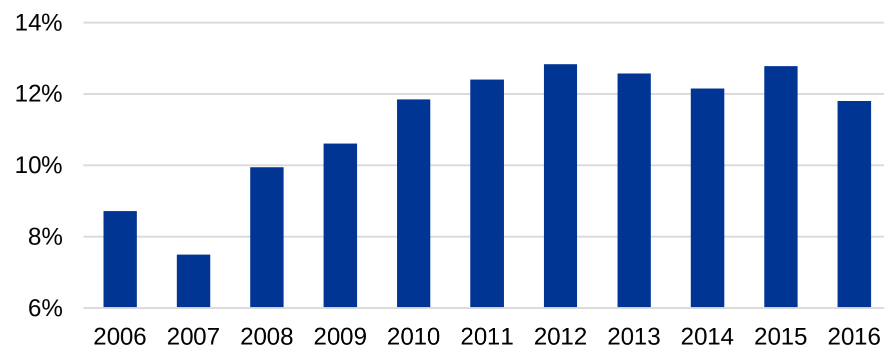
Reduced risk appetite

Balance sheet de-leveraging

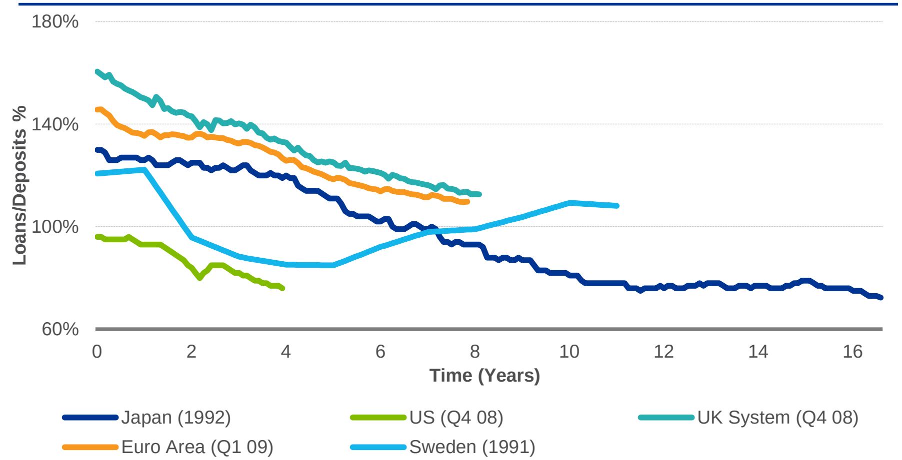
Leveraged lending guidelines and increased regulation further reducing bank lending

Banks can no longer lend on the same scale

Average Tier 1 common capital ratio of top-4 US banks increasing[1]



European Bank Deleveraging is Still in its Early Stage[2]



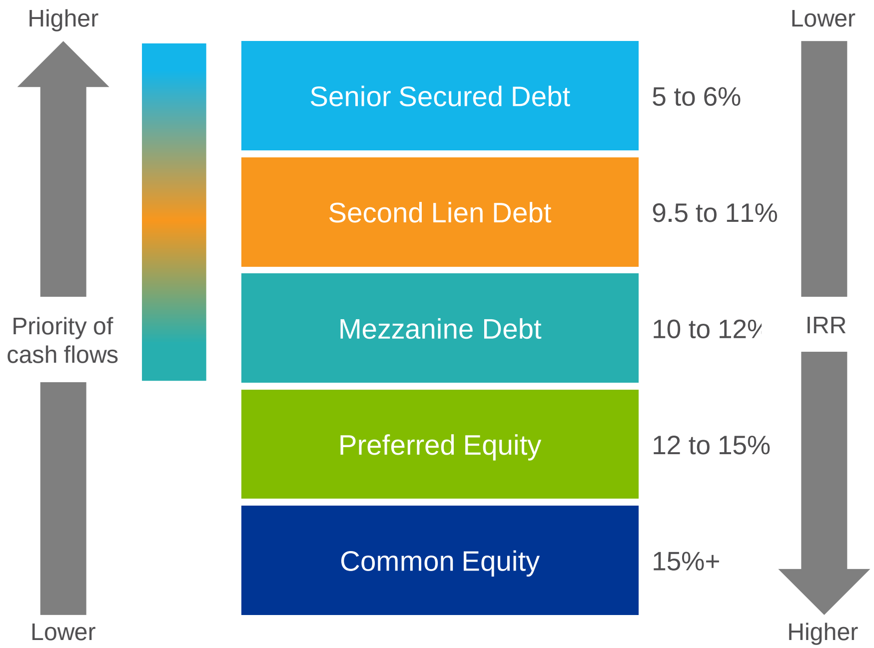
1. Source: Bloomberg as of 12/31/16. Top-4 US Banks include BoA, Citigroup, JP Morgan & Wells Fargo. 2. Source: KBW Bank Index as of 12/31/16. 3. Leverage defined as Total Debt to Total Assets 2. Source: Morgan Stanley, March 2017.

Overview of European mid-market private debt

Direct lending (also called "private debt" or "middle market lending") is the provision of private financing to mid-sized, private companies by a non-bank lender

- Borrowers are typically private companies who are too small to access the capital markets for debt funding or who value speed of execution, flexibility and dealing with a smaller group of lenders
  - There is no universal definition, however middle market borrowers are generally considered by BlackRock to be companies with annual EBITDA of <Eur50mm, revenues of <Eur500mm, and debt of <Eur500mm
- In mid-market debt, non-bank lenders make loans to these companies in bilaterally negotiated transactions for a variety of needs, such as LBOs, refinancing, restructurings, acquisitions, capital expenditure or general liquidity purposes

Capital Structure / Assets



Direct lending funds are typically active across debt portions of the capital structure

Often, investments are structured as **"unitranche"** deals where senior and subordinated debt are combined into one instrument with first and second lien components

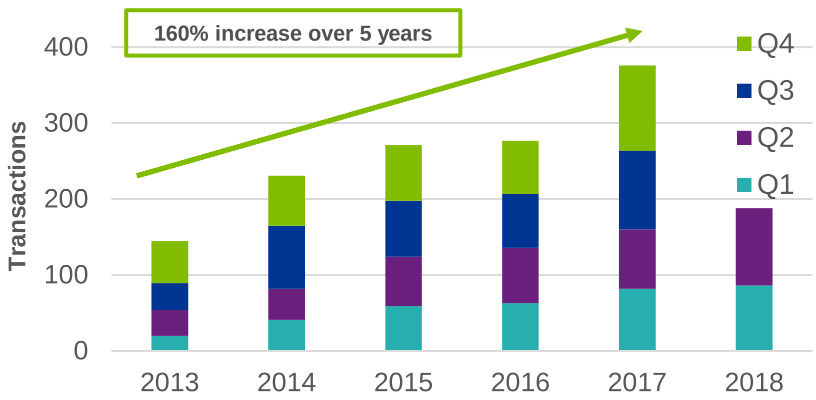
- Pricing broadly reflects the weighted average cost of a conventional senior loan and mezzanine structure
- If there is more than one lender, they will enter into an agreement regarding their respective payment priority and will allocate interest received accordingly on a non-pro rata basis
- Unitranche benefits borrowers through a quicker execution process with fewer parties and no need for syndication or inter-creditor agreements

Source: BlackRock. Indicative returns reflect market environment as of August 2018.

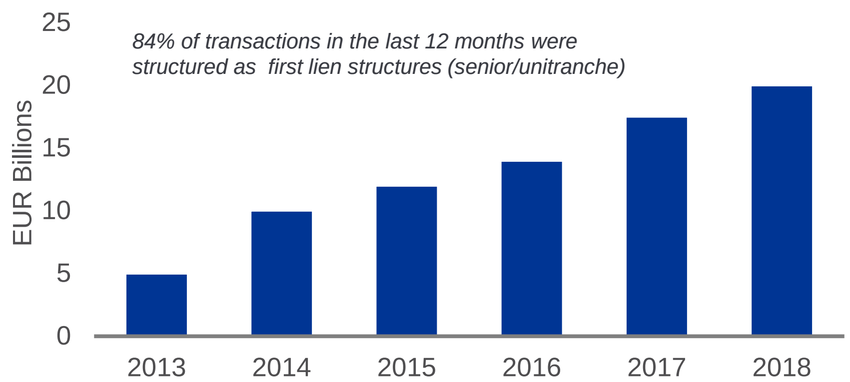
Direct lending managers are an established debt provider for corporates

The direct lending still has significant room for further growth

European Middle Market Transactions between 2013-2018[1]



Deal Volumes Continue to Grow [1,2]



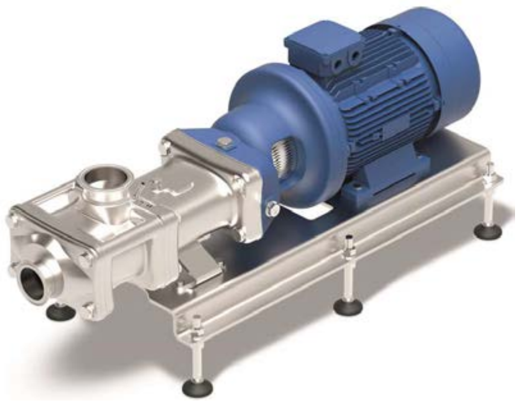
- Mid-sized companies, which have historically been largely dependent on relationship banks, generally don't have access to the public capital markets
- Middle market borrowers and sponsors are now actively engaging non-bank providers and seeking flexible financing solutions and execution certainty
- Market has grown significantly, driven by an increasing market acceptance of middle market lenders, both in the UK and continental Europe
  - There were 376 transactions in 2017 compared with 145 in 2013 – a 160% increase over the last 5 years
  - Unitranche is the dominant structure, with 57% of UK transactions and 50% of European transactions
  - M&A activity still the main driver for middle market deals ~ 70% of deals being used to fund a buy-out
  - Of the 404 deals in the last 12 months, 72 deals i.e. 18% did not involve a private equity sponsor
- Middle Market is growing in the main European markets (UK, Germany, France, Netherlands)
  - In Germany private debt funds had a 52% share of mid-market financing as of Q3 18' vs 16% in 2016 [3]

Source: [1] Deloitte Alternative Lender Deal Tracker Autumn 2018. [2] BlackRock estimates January 2019, [3] GCA Altium – MidCap Monitor Q3 2018

Project Flow – German industrial manufacturer

Key Terms

Investment Type:	Unitranche	**IRR** (contractual/ expected)	7.3% / 7.8%
Size:	€25.9m	**Floor Protection:**	Yes
Funding Date:	Oct 12, 2017	**Call Protection:**	Yes
Country:	Germany	**Opening Leverage gross/net:**	5.0x / 4.9x
Primary Industry:	Machinery	**LTV at Opening:**	<50%
Tenor:	7 Years	**Covenants:**	Yes



Sourcing

- BlackRock benefitted from preferred positioning as a lender resulting from the following multiple entry points: (i) close sponsor relationship of BlackRock EMMPD origination team, (ii) privileged access given BlackRock PEP's investment into the Sponsor's funds, as well as (iii) relationship with the Debt Advisor advising on the deal.

Investment Thesis

- **Clear market leading position** in the Biogas sector in Germany (50% market share) with a strong reputation for the quality of its products. This creates high barriers to entry, protecting the company's revenue in the growing aftersales services market which is underpinned by strong underlying market dynamics due to the ageing installed base.
- **The regulatory framework** of the Biogas industry provides a high visibility on the company's cashflows over the next decade.
- **First mover in the twin-screw pump market**. Thanks to its unique and superior proprietary technology, the company is well-positioned to benefit from the increased penetration of twin-screw pumps, notably in the food and beverages segment globally.

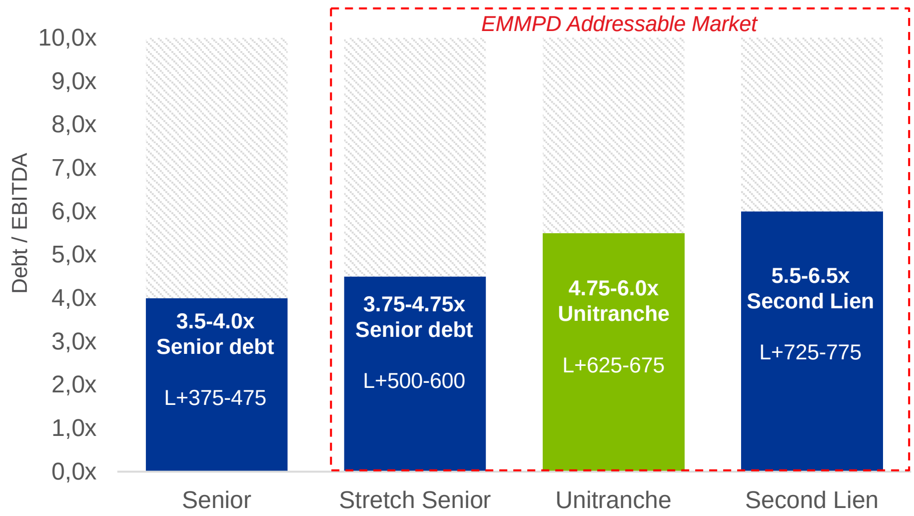
Investment Overview

- BlackRock provided financing to support the Sponsor's acquisition of Project Flow on 9 October 2017.
- Financing package: €50.0m unitranche provided by BlackRock with controlling majority of the facility.
- Project Flow is a leading producer of progressing cavity pumps and twinscrew pumps in Europe predominantly in Germany. The business also provides aftersales services to the installed pump base.
- Growing presence in new geographies beyond Germany (France, Italy, China, USA) / 170 FTEs (FY17).

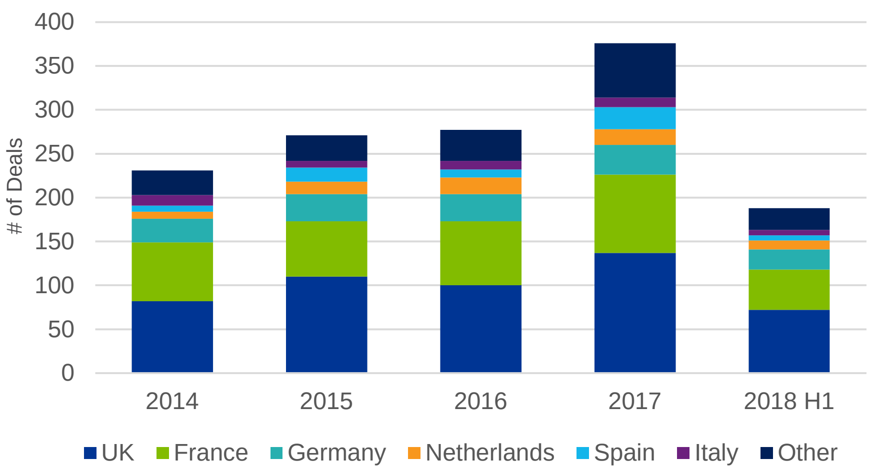
European direct lending market characteristics & trends

- The deal activity in European Direct Lending market grew 34% in the 12 months to end of Q2 18' vs the previous year
  - Germany and France are increasingly becoming important markets while no considerable slowdown in deal activity in UK in 2018 despite Brexit
- Unitranche continues to be preferred capital structure for both sponsors and lenders. More "landmark" (>Eur100mm+) unitranche deals being completed
- Bifurcated market with 60 active players including 9 funds who have raised an average ~Eur4bn and 16 funds >Eur2bn
- Spreads have remained somewhat stable in the market even with increased competition from funds and banks
- Seeing more flexible terms including wider covenant headroom, EBITDA add-backs

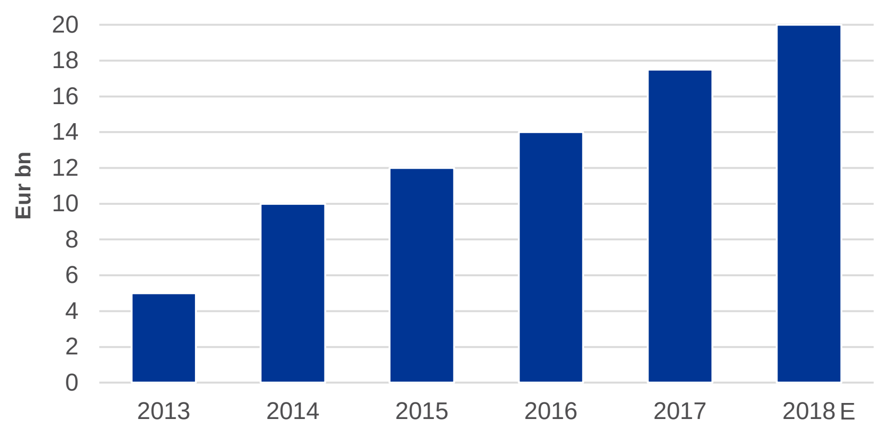
[1] Private Debt Structures & Average Pricing / Spread



[2] European Direct Lending Deals Completed by Country



[3] Deal Volumes Continue to Grow



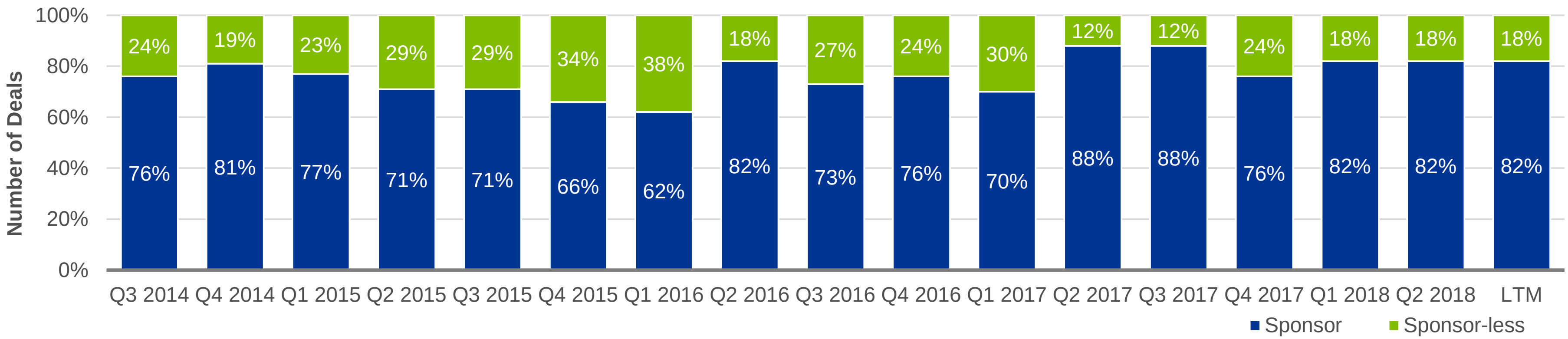
84% of transactions in the last 12 months were first lien structures (Senior/ Unitranche)

Source: [1] BlackRock - September 2018 [2] Deloitte Alternative Lender Deal Tracker, Q2 2018 [3] Deloitte Alternative Lender Deal Tracker Q2 2018, BlackRock estimates

Sponsor led vs. sponsor less in European mid-market private debt

Performing private companies are increasingly borrowing from alternative lenders, however there are a number of pros and cons to consider when lending to sponsor-less borrowers. BlackRock's multiple origination channels, role as a pure fiduciary and ability to finance companies throughout their life leaves us well positioned to capture these flows where attractive to do so

Growth of Sponsor-less Deals in European Mid-Market Debt[1]



	Sponsor-backed Middle-Market	Sponsor-less Middle-Market
Market Opportunity	◑	◕
Ease of Access / Origination	◕	◔
Quality of DD	◕	◔
Leverage	◕	◑
Equity Cushion	◕	◔
Documentation Standard	◔	◕
Pricing	◑	◕

[1] Source: Deloitte Alternative Lender Deal Tracker, Q2 2018. This data is for European ex-UK deals.
There is no guarantee that a positive investment outcome will be achieved.

A compelling asset class

Middle Market senior loans offer investors a yield premium, lower leverage and higher coverage ratios, more conservative deal terms and maintenance covenants

- Robust investment process:
  - Extensive, bottom-up due diligence
- Tighter covenant packages:
  - Protection where it matters
- Lead the transaction:
  - Exert significant influence over capital structure, terms and documentation with control voting rights
- Downside management:
  - Higher recovery rates
- Restructuring experience to mitigate losses to client capital:
  - Ability to take control of company to capture value
- Information and transparency
  - Monthly / quarterly reporting and access to management

	Mid-Market Loans	Syndicated Bank Loans	High Yield Bonds
Annual Default Rate	2.1%[1]	3.3%[2]	2.9%[3]
Median Recovery Rate[4]	100%	75%	38%
Mean Recovery Rate[4]	76%	74%	46%
Annual Loss Rate[5]	0.3%	0.9%	1.7%
Spreads Over Libor	500 to 700bps[6]	360bps[7]	491bps[7]
Libor Floor	50 to 75bps[6]	9bps[7]	N/A
Upfront Fees (over 3 yrs)	83-100bps[6]	6bps[7]	1bps[7]
Call Protection[6]	101 to 102%	100 to 101%	Typically 50% of coupon after 3 years

[1] Fitch Leveraged Credit Database, average annual default rates for European issuers with debt <Eur500mm over period 2011-2016 inclusive.
[2] S&P LCD, Average 12 month ELLI index default rates based on principal amount *for Jan 2011-Aug 2018.*
[3] Moody's, Europe 12 month issuer weighted speculative grade default rates *as of May 2018.*
[4] S&P 2016 European Empirical and Recovery Rating Performance Update, covering period *2003-2016*. Mid-market recovery for companies with less than USD500mm total debt, sample size of 379 instruments..
[5] Loss rate calculated as default rate x 1-mid point of median and mean recovery rates.
[6] BlackRock *as of June 2017*
[7] S&P LCD, 3 months average for new issues for bank loans *as of May 2018,* primary yield for HY bonds issued *as of Mar-May 2018*
There is no guarantee that a positive investment outcome will be achieved.

Excurse: The benefits of credit within an asset allocation framework

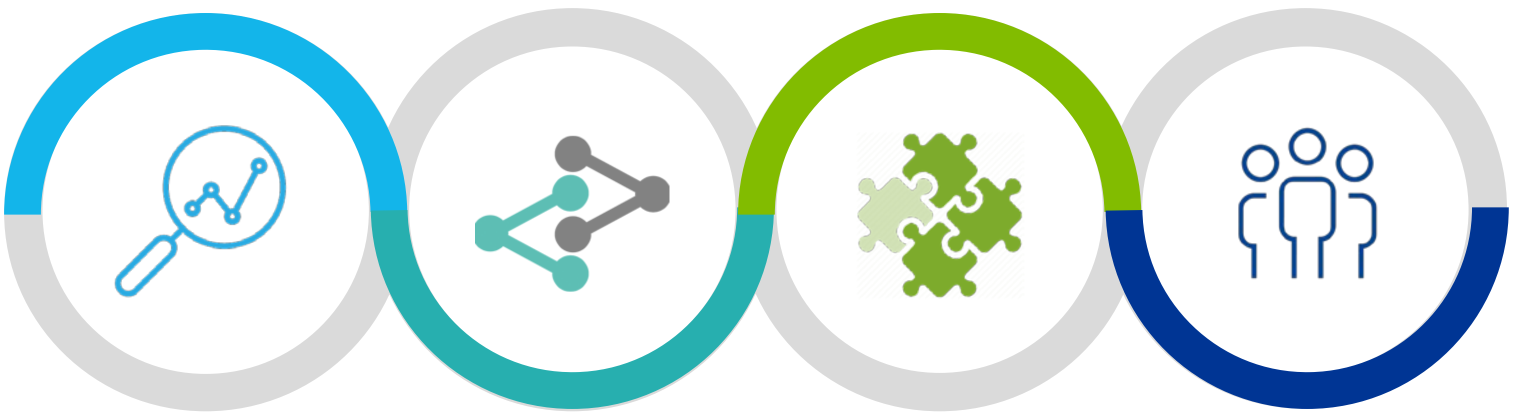
Including credit in a balanced global stock and core bond portfolio enhances returns and lowers volatility

Source: BBg Barclays, Bloomberg and J.P. Morgan, as of 12/31/18. Data backwards looking to January 2007. MSCI Global = MSCI ACWI - All Country World Index. Global Agg = Bloomberg Barclays Global-Aggregate Total Return Index USD hedged. Credit = Market cap weighted portfolio excluding US Investment Grade is comprised of BBg Barclays US HY 2% Issuer Cap, BBg Barclays Pan-European High Yield USD hedged, S&P/LSTA Leveraged Loan, BBg Barclays US Corp IG, BBg Barclays Pan-Euro Corporate USD hedged, JP Morgan EMBI Global, S&P/LSTA European Leveraged Loan Index. And JPMorgan Asian Credit Index (JACI). Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index. **Past performance is not a reliable indicator of current or future results.**

We are committed to being an industry leader in how we incorporate Sustainable Investing across our entire organization:

A company's ability to manage environmental, social, and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process"

– Larry Fink, 2018 Letter to CEOs



Insights

Developing the clearest possible picture of how environmental, social and governance issues affect risk and long term return

Integration

Integrating sustainability-related insights and data into BlackRock's investment processes across asset classes and investment styles

Solutions

Delivering sustainable investment solutions that empower clients to achieve their financial objectives

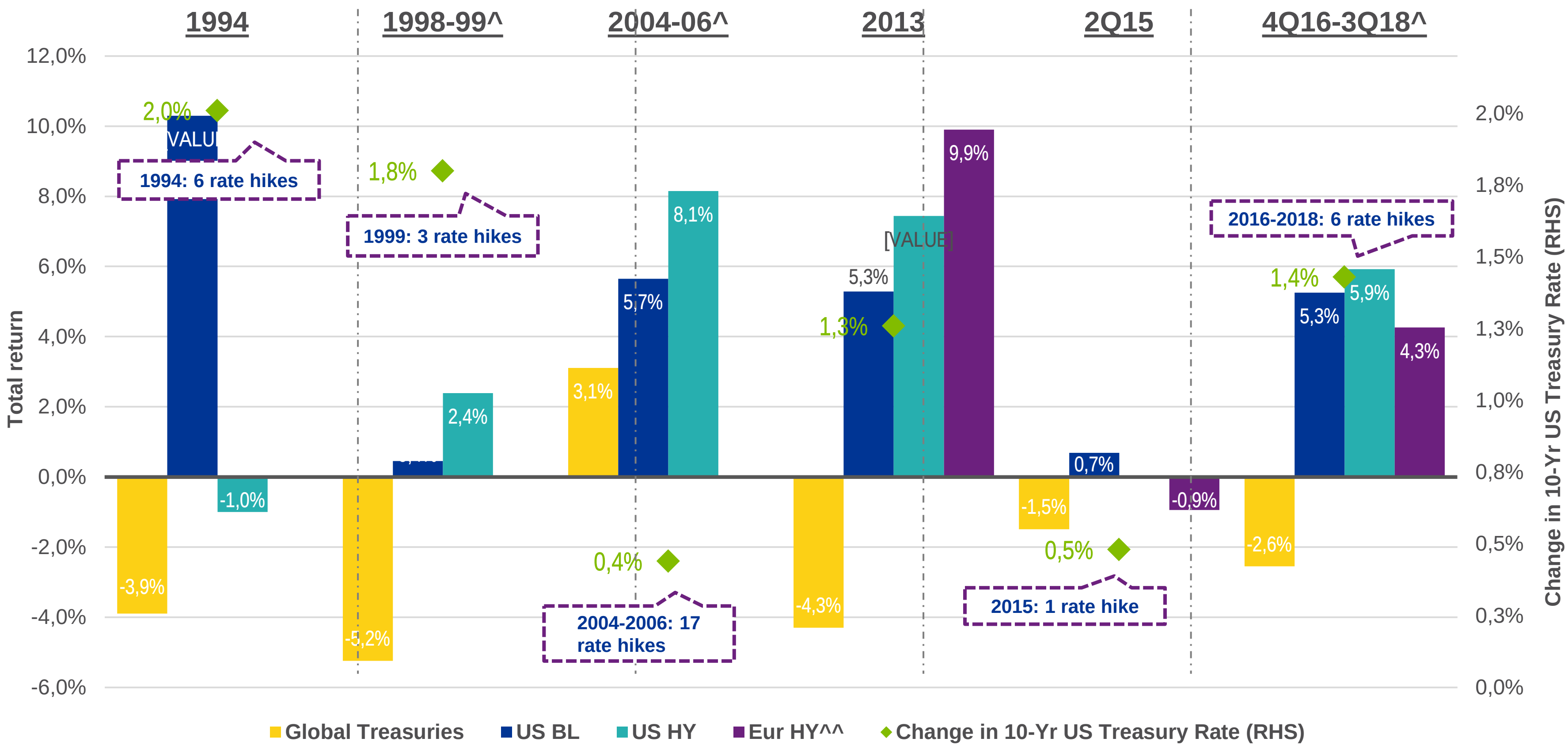
Stewardship

Engaging companies in index and alpha-seeking portfolios alike on sustainability-related issues that impact long-term performance

Source: BlackRock Sustainable Investing, February 2018. There is no guarantee that a positive investment outcome will be achieved.

Credit has proven resilient in rising interest rate environments

High yield and bank loans have outperformed traditional fixed income assets during historical periods of rising rates



Sources: Bloomberg Barclays (BBgBarc), S&P LCD as of 9/30/18. “Global Treasuries” = BBgBarc Global Treasury Index USD. “Global Agg” = BBgBarc Global Aggregate Index USD. “US BL” = S&P/LSTA Leveraged Loan Index. “US HY” = BBgBarc US Corporate High Yield Index. “EUR HY” = BBgBarc Pan-European High Yield Index EUR. ^Represents periods when the US Federal Reserve made explicit changes to the Fed Funds Rate (FFR). ^^Eur HY shown from 2013 onward. Past performance is no guarantee of future results. Index performance shown for illustrative purposes only. It is not impossible to invest directly in an index.

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Source: BlackRock: 31 December 2018.

Risk Warnings

Capital at risk. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

You may not get back the amount originally invested. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Fund Risks

Fixed income: Two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds/debt. Credit risk refers to the possibility that the issuer of the bond/ debt will not be able to repay the principal and make interest payments. Changes in interest rates may also adversely affect the value or profitability of the Strategy. Changes in the general level of interest rates may impact the Strategy's profitability by affecting the spread between, amongst other things, the income on its assets and the expense of any interest-bearing liabilities.

Credit risk: The Strategy invests in fixed interest and debt securities issued by companies. There is a risk of default where the issuing company may not pay income or repay capital to the Strategy when due.

Loans – Subordinated Claims: Although it is intended that the investments will generally be secured, the claims of the Strategy against an borrower in respect of an Investment may in some instances be subordinated to those of other secured creditors. The assets of the portfolio may include first lien senior secured debt, and may also include selected second lien senior secured debt, which involves a higher degree of risk of a loss of capital.

Risks Associated with Investments in Medium Sized Companies: The Strategy will, in accordance with the investment strategy, originate loans to and invest in privately and publicly held European issuers that are categorised as medium sized entities. Investments in such medium-sized enterprises involve a number of risks generally associated with other types of loans described in the product prospectus.

Important Information

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