

## Recommendation on Owl Rock Capital Corporation

To: RISIC  
Prepared: November 27, 2017  
From: Thomas Lynch, CFA, Senior Managing Director

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The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Owl Rock Capital Corporation ("Owl Rock"). Cliffwater has completed its investment due diligence and operational due diligence and recommends Owl Rock as a private credit investment in ERSRI's Income Class.

### Summary of Owl Rock Capital Corporation

*Fund Overview:* Owl Rock is a private business development company ("BDC") which originates and makes private senior direct loans in middle market companies.

*People and Organization:* Owl Rock was formed by a high profile team including Doug Ostrover, co-founder of GSO Capital Partners, Marc Lipschultz, former global head of energy and infrastructure at KKR, and Craig Packer, former co-head of leveraged finance at Goldman Sachs. The team's well-established reputation and deep network of contacts in the private equity industry will be essential in sourcing private equity sponsor-backed transactions. Since its founding, Owl Rock has raised \$4.8 billion from mostly institutional investors. Owl Rock Capital Advisors, the investment manager of Owl Rock, has a team of 22 investment professionals and total employees of 64.

*Investment Strategy and Process:* Owl Rock Capital Corporation (the "Fund") will seek to directly originate loans to U.S. middle market companies. The Fund will target sponsor-backed companies that have \$50 million to \$200 million of EBITDA. The typical leverage profile of Owl Rock's target companies is between 5.0 and 6.0 times net debt-to-EBITDA and/or a loan-to-value of 60% or lower. Owl Rock intends to invest across the capital structure with a focus on weighting the portfolio to first lien loans. The portfolio will consist of 30 to 50 loans with typical investment sizes ranging from 2% to 5%. The target loans are between \$50 million and \$200 million. Owl Rock expects to focus exclusively sponsor-backed transactions. The target cash yield for the portfolio is 8% to 10%. Industry concentration is expected to be diversified with most sector exposures below 20%. Owl Rock anticipates holding most loans for two to four years. The strategy will focus on U.S.-based companies.

A BDC structure is common for direct lending firms. A BDC is regulated by the SEC, required to distribute at least 90% of income to shareholders, and required to perform quarterly valuations by a third party and provide quarterly financial statements. Upon a public listing, investors are able to use the public markets to exit their investment.

*Performance:* Through September 30, 2017, Owl Rock has invested \$2.2 billion. The portfolio currently has loans to 37 companies and generating a gross yield of 8.8%. Since inception, the Owl Rock has generated an annualized IRR of 9.3% net of fees.

*Investment Terms:* Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. Owl Rock will distribute at least 90% of its income quarterly. Owl Rock intends to become a public BDC before March 2021. Prior to a public listing, Owl Rock will charge a management fee equal to 0.75% of invested assets plus 0.75% on unfunded commitments. Post a public listing, Owl Rock will charge a management fee of 1.75% on assets. There is no performance

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fee charged prior to a public listing. Post a public listing, Owl Rock will charge a performance fee of 20% after a 6% hurdle rate. If Owl Rock does not have a public listing prior to March 2021, the portfolio will wind down in a manner similar to a fixed term fund.

Cliffwater Recommendation

Cliffwater recommends a commitment up to \$50 million to Owl Rock Capital Corporation as part of ERSRI's private credit allocation in the Income Class.