
Recommendation for Owl Rock Capital Corporation III

To: RISIC
Prepared: June 16, 2020
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Owl Rock Capital Corporation III ("ORCC III" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's Private Credit allocation.

Summary of Owl Rock Capital Corporation III

Fund Overview: ORCC III will make private direct loans in middle market companies in the U.S.

People and Organization: Owl Rock Capital ("Owl Rock" or the "Firm") was founded in 2016 by Doug Ostrover, Marc Lipschultz and Craig Packer as a non-bank provider of financing to middle market companies across the United States. Prior to forming Owl Rock, Ostrover was one of the founders of GSO Capital Partners, the Blackstone Group's alternative credit platform. Ostrover was joined by Lipschultz, former global head of energy and infrastructure at KKR, and Parker, co-head of leveraged finance in the Americas at Goldman Sachs. The Firm currently has \$17.2 billion in assets under management. The Firm, with headquarters in NYC and an office in Menlo Park, has 143 employees including 53 investment professionals. The three founders are co-CIOs and are members of the investment committee. The three founders are joined by Alexis Maged, who worked with Craig Packer at Goldman Sachs, to comprise the Fund's investment committee. The investment committee is responsible for all investment decisions for the Fund and unanimous approval of all members is required. The Firm is 80% owned by senior management and 20% by Dyal Capital Partners.

Investment Strategy and Process: ORCC III will seek to directly originate loans to U.S. middle market and upper middle market companies. The Fund will target investing 65% to 80% of assets in first lien and unitranche loans, 15% to 30% in second lien loans, and less than 10% in unsecured debt and equity. The Fund will target companies that have EBITDA of \$10 million to \$250 million. The typical leverage profile of Owl Rock's target companies have loan-to-values of less than 50% and leverage of 5.0 to 6.0 times debt-to-equity. The current weighted average EBITDA of ORCC's portfolio companies is \$83 million and weighted average leverage is 5.4 times debt-to-equity through ORCC's last dollar of risk. The portfolio is expected to have at least 100 loans with typical investment sizes ranging from 1% to 2% and maximum position size of 5%. The target loans are between \$20 million and \$250 million. Owl Rock expects to focus on exclusively sponsor-backed transactions. The target dividend yield for the portfolio is at least 8%. 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.

Performance: Since 2016, ORCC and Owl Rock First Lien Fund (the predecessor funds with the same strategy as ORCC III) have generated a combined net IRR of 5.1% based on ending NAV of each portfolio as of March 31, 2020. Investing in the S&P Leveraged Loan Index over the same time period generated a -4.5% return. Owl Rock outperformed the index by 9.6%.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards for private direct lending funds. Similar to the prior fund, the plan for ORCC III is to

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list as a public BDC within five years. The pre-exchange listing management fee is 0.50% on gross assets. The post-exchange listing management fee is 1.5% on gross assets for the first turn of leverage and 1.0% on gross assets on levered assets above that. Pre-exchange listing, there is no incentive fees. Post-exchange listing, the income incentive fee is 17.5% over a 6% preferred return and capital gains incentive fee is 17.5% on realized capital gains. Owl Rock is making an investment of \$100 million to the Fund and its parallel vehicle.

Owl Rock is giving certain investors the opportunity to receive a stake in the advisor (“Advisor Stake”) to the Fund, Owl Rock Diversified Holdings (“ORDH”), based on their pro rata commitment to ORCC III. Investors that own the Advisor Stake will make quarterly contributions in the form of an incentive fee of 10.0% of net investment income earned from ORCC III. Investors will receive distributable income from the management fee and incentive fees of ORCC III and certain parallel funds as well as the potential for capital gains from their ownership stake, which lasts in perpetuity.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$50 million Owl Rock Capital Corporation III as part of ERSRI’s Private Credit allocation. Cliffwater also recommends that ERSRI purchase the allocated Advisor Stake.