

Recommendation for Antares Senior Loan Fund III

To: RISIC
Prepared: November 19, 2024
From: George Bumeder, Managing Director

The purpose of this memo is to provide the RISIC with a summary of Cliffwater’s recommendation on Antares Senior Loan Fund III (the “Fund”). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI and OPEB’s Private Credit allocations.

Summary of Antares Senior Loan Fund III

Fund Overview: The Fund will provide lending in the form of first lien, senior secured loans to U.S. and Canadian borrowers. The Fund is targeting a net IRR of 11% to 13%, with the target return profile supported by leverage of up to 2.0 times debt-to-equity.

People and Organization: Antares Capital (“Antares” or the “Firm”) was founded in 1996 by twelve professionals who came from Heller Financial (backed by MassMutual) to establish a dedicated middle market lending platform. From 1996 to 2005, Antares grew to be a leading provider of financing to sponsor-backed U.S. middle market companies. In 2005, General Electric Capital Corporation (“GE Capital”) acquired Antares for over \$5 billion which doubled the size of GE Capital’s middle market lending business. Antares’ original management team remained in place and grew the business by acquiring Merrill Lynch’s middle market lending platform during the Great Financial Crisis. In 2015, General Electric announced its decision to divest most of GE Capital’s assets and subsequently sold Antares to the Canadian Pension Plan Investment Board (“CPPIB”) in a deal valued at \$12 billion. CPPIB viewed the acquisition as a long-term investment and a strategic way to gain access to the U.S. direct lending market. In 2016, Northleaf Capital Partners (“Northleaf”), a private markets manager with \$19 billion of commitments under management, purchased a 16% ownership stake to become the second largest owner of Antares.

Antares launched an asset management business and raised its first private commingled fund in 2018 – Antares Unitranche Fund (“AUF”) with \$650 million of total commitments. Following early strong performance of the inaugural fund, Antares raised its first flagship vehicle in 2020 – Senior Loan Fund I (“SLF I”) with \$1.5 billion of total commitments. Antares then raised Senior Loan Fund II (“SLF II”) in mid-2022 with \$2.3 billion of total commitments. As of March 31, 2024, Antares has over \$71.8 billion of capital under management and administration (“CUMA”) across balance sheet loans, CLOs, separate accounts, private funds, and contract investor programs. The Firm is headquartered in Chicago and has additional offices in New York, Atlanta, Los Angeles, and Toronto.

As of March 31, 2024, Antares has 450 employees including 226 investment professionals and 224 non-investment professionals. The investment team is organized by function across originations (23), capital markets (17), credit (112), asset management & funding (56), and credit advisory (17) roles. Antares’ key investment professionals have an average tenure of over 25 years at the Firm. Three of the seven professionals previously worked together at Heller Financial which further demonstrates the strong cohesion among senior professionals. Antares’ investment committee consists of Timothy Lyne (CEO), Tyler Lindblad (CIO), Shannon Fritz (Deputy CIO), Michael Hynes (Co-Head of Sponsor Coverage), Vivek Mathew (Head of Asset Management), Michele Kovatchis (Head of Credit Advisory), and Troy Unell (Head of Capital Markets).

This report reflects information only through the date hereof. Our due diligence and reporting rely upon the accuracy and completeness of financial information (which may or may not be audited by the fund manager) and other information publicly available or provided to us by the fund manager, its professional staff, and through other references we have contacted. We have not conducted an independent verification of the information provided other than as described in this report. Our conclusions do not reflect an audit of the investment nor should they be construed as providing legal advice. Past performance does not guarantee future performance. The information contained herein is confidential commercial or financial information, the disclosure of which would cause substantial competitive harm to you, Cliffwater LLC, or the person or entity from whom the information was obtained, and may not be disclosed except as required by applicable law.

Investment Strategy and Process: The Fund will provide senior secured loans in the form of first lien debt, unitranche debt, delayed draw term loans, and/or revolvers to sponsor-backed U.S. middle and upper-middle market companies. As of March 31, 2024, Antares' balance sheet portfolio is comprised of investments with 465 unique borrowers with a weighted average EBITDA of \$107 million and weighted average leverage (First Lien Debt/EBITDA) of 5.9x. Occasionally, the Fund will originate investments based on realized or contractual recurring revenue as opposed to cash flows. These companies typically have low or even negative EBITDA, so Antares will structure these transactions at lower LTV ratios. The average contractual loan term is 5-7 years with an expected life of 3-4 years. The Fund is targeting a net IRR of 11% to 13% on the levered sleeve, with the target return profile supported by leverage of up to 2.0 times debt-to-equity. The Fund is targeting a portfolio of at least 140 investments, deploying between \$35 and \$45 million per investment. 100% of the investments will consist of sponsor-backed transactions. Higher spreads within the portfolio will be driven by unitranche structures which remain prevalent as sponsors continue to look for a "one-stop" financing solution and certainty of execution. Generally, Antares focuses on borrowers in more resilient sectors such as healthcare & pharmaceuticals, business services, and industrials and avoids borrowers in more cyclical sectors such as retail and oil & gas. The average holding period for investments is expected to be three to four years.

Performance: Antares Senior Loan Fund II ("SLF II") was launched in 2022, raised \$2.3 billion of total commitments across an unlevered and levered vehicle, and completed 135 transactions. As of March 31, 2024, SLF II (Unlevered) has raised \$948 million, drawn \$490 million, and distributed \$164.2 million, and generated a net IRR of 19.2%. As of March 31, 2024, SLF II (Levered) has raised \$1,339 million, drawn \$564 million, and distributed \$119.2 million, and generated a net IRR of 41.0%. *Note that the long-term net IRR should normalize to the targeted 10-12% range once the subline is paid down. As of March 31, 2024, SLF II (Unlevered) and SLF II (Levered) have generated a combined net IRR of 31.5%. Investing in the Morningstar LSTA Leveraged Loan Index during the same period would have generated a net return of 17.8%. Antares has outperformed the S&P Leveraged Loan Index by 13.7%.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund will have a three-year investment period (with 2 one-year extensions at the discretion of the General Partner) and a four-year harvest period plus 2 one-year extensions at the discretion of the General Partner, and additional one-year extensions with the consent of a majority of limited partners or the Advisory Committee. The fund will normally charge a management fee on a sliding scale from 0.80% to 1.00% of (i) the average outstanding principal balance of all loans (including loans attributable to leverage used by the Partnership and commitments to loans in connection with letters of credit) and (ii) the cost basis of all other investments of the Partnership, subject to a minimum base amount equal to 10% of the Total Capital Amount after the investment period expires dependent on commitment amount. However, Cliffwater has secured a 75 bps management fee rate for its clients regardless of investment size. The Fund (levered version) will also charge a 12.5% performance fee subject to a 7.0% preferred return compounded annually and a 100% general partner catch-up. There will also be a general partner claw back. Antares or affiliate entities will invest in each transaction in an amount equal to at least 25% of the LP commitment.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$50 million to Antares Senior Loan Fund III (levered fund) as part of ERSRI's Private Credit allocation and an investment of up to \$5 million to Antares Senior Loan Fund III (levered fund) as part of OPEB's Private Credit allocation.