



STATE OF RHODE ISLAND
OFFICE OF THE GENERAL TREASURER

**STAFF RECOMMENDATION: ANTARES CAPITAL SENIOR LOAN FUND III
DECEMBER 2024**

RECOMMENDATION:

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): Approve a commitment of up to \$50 million to Antares Capital Senior Loan Fund III (“SLF III”).
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): Approve a commitment of up to \$5 million to SLF III.

ASSET CLASS: Private Credit

SUB-STRATEGY: Middle-Market Direct Lending

STRATEGY OVERVIEW: SLF III will invest in directly originated senior secured floating-rate loans to private equity-backed companies in the U.S. and Canada. The fund aims to build a portfolio of approximately 150 loans to businesses generating \$25-100 million in EBITDA, across a diversified range of economically resilient industry subsectors. While the average position size will be less than 1% of the total portfolio, Antares will seek to be the lead or co-lead arranger on each investment, securing an advantaged position in terms of driving investment terms and legal documentation, information and company access, and control of the workout process if a borrower faces challenges.

ALLOCATION:

- [ERSRI](#): The Private Credit allocation as of October 31, 2024, is 3.1%, compared to the strategic allocation target of 3.0%. The current pacing plan for 2024 is \$75 million, committed to 2-4 funds at \$20-50 million per fund. ERSRI’s 2024 commitments will total \$70 million pending approval of this recommendation.
- [OPEB](#): The Private Credit allocation as of October 31, 2024, is 0.7%, compared to the strategic allocation target of 5.0%. The current pacing plan for 2024 is \$9 million, committed to 2-4 funds at \$2-5 million per fund. OPEB’s 2024 commitments will total \$7 million pending approval of this recommendation.

PORTFOLIO FIT:

- The Private Credit allocation primarily consists of non-traded performing debt for which current interest income represents the majority of investment returns. The allocation is anchored by strategies that make direct senior secured loans to middle market companies across sectors, complemented with diversifying strategies including geographic or sector-focused strategies, specialty finance and mezzanine lending. Funds managed under a senior secured direct lending mandate would represent 62% and 65% of ERSRI and OPEB’s respective Private Credit exposure, pending approval of this proposed recommendation (See Appendix A for Private Credit portfolio detail).

MERITS:

- [Legacy of Disciplined Capital Deployment](#): Founded in 1996, Antares has remained a dedicated middle-market lending platform, delivering consistent outperformance through multiple credit cycles. The firm distinguishes itself by its history of investing exclusively with its own capital until 2017. To maintain alignment of interests with SLF III, Antares will commit to retaining a minimum 25% co-investment in every transaction.
- [Extensive Coverage and Market Positioning](#): Antares maintains relationships with approximately 400 private equity sponsors through a dedicated team of over 25 coverage professionals, many with connections tracing back to their firm's founding. This network provides first and last looks at transactions, allowing for selective pursuit of high-quality credits. As one of the largest middle-market lenders, Antares leverages its incumbency to make quick, well-informed credit decisions, and providing further advantages in sponsor-to-sponsor sales, early awareness of financing needs, and a capacity hedge when LBO activity declines.

CONCERNS:

- **Recent Organizational Changes:** Since its acquisition by the Canada Pension Plan Investment Board in 2015, Antares has undergone major leadership and organizational changes. Its founding co-CEOs retired in 2019 and 2021, and in 2020, an internal reorganization de-emphasizing its capital markets capabilities resulted in the departure of about 10% of its employees. Nevertheless, the strategic rationale for the changes and the stability of the remaining management team are mitigating factors.

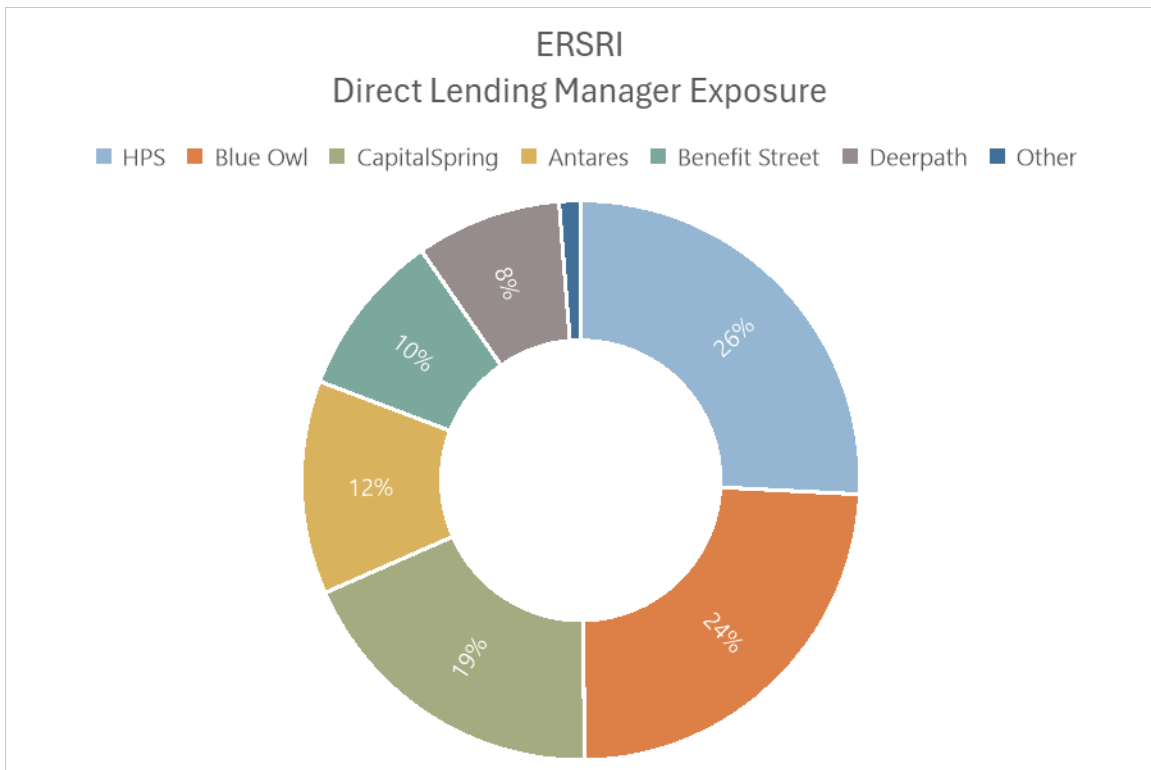
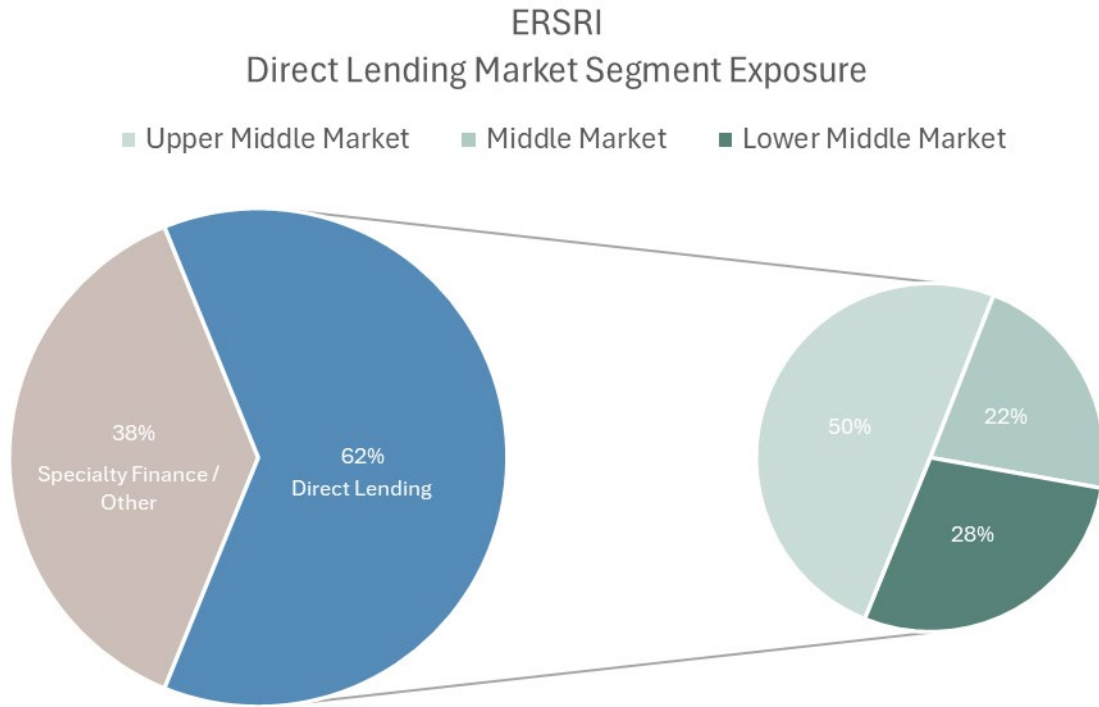
ESG AND DEI: Antares is classified as an ESG and DEI Leader.

- **ESG:** Antares employs a comprehensive approach to ESG due diligence. Investment professionals leverage internal assessments, third-party research, and materials from private equity sponsors to perform rigorous evaluations during underwriting. The firm uses a structured ESG scorecard aligned with SASB Standards' five dimensions, ensuring consistent and qualitative risk assessments for potential investments. Underscoring its commitment to ESG, Antares has appointed a full-time Head of Responsible Investment Strategy who leads the Responsible Investment Steering Committee in shaping and refining the firm's ESG strategy.
- **DEI:** Antares' DEI efforts are driven by a Steering Committee that includes its CEO, Chief Human Resources Officer, and senior business leaders who develop comprehensive DEI goals and implement targeted organizational initiatives. An Impact Council provides additional oversight and operational support, with members advocating for best practices through Employee Impact Groups (EIGs). A senior Human Resources team member ensures a cohesive implementation and advancement of the firm's DEI strategic objectives.

FEES: Fees are aligned with industry standards.

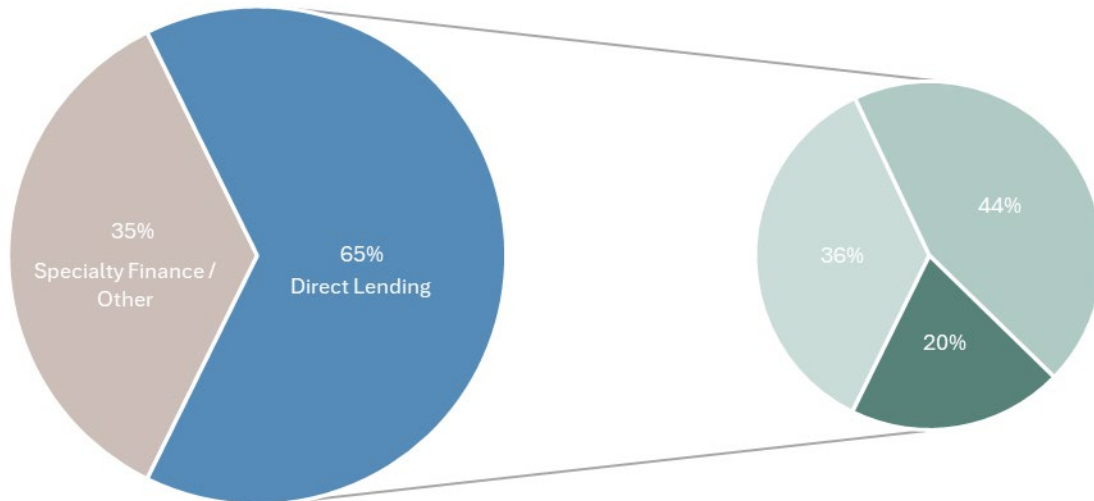
- **Management Fee:** 0.75% of gross assets, inclusive of consultant and early close fee discounts.
- **Carried Interest:** 12.5% applied after a 7% preferred return, with a 100% GP catch-up. The waterfall will follow a European style, calculated on a fund-wide basis.

APPENDIX A: PRIVATE CREDIT EXPOSURE



OPEB
Direct Lending Market Segment Exposure

■ Upper Middle Market ■ Middle Market ■ Lower Middle Market



OPEB
Direct Lending Manager Exposure

■ HPS ■ Antares ■ Deerpath

