CLIFFWATER

Recommendation for HPS Specialty Loan Fund VI

To:	RISIC
Prepared:	January 17, 2023
From:	Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on HPS Specialty Loan Fund VI. ("HPS SLF VI" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's and OPEB's Private Credit allocation.

<u>Summary of HPS SLF VI</u>
Fund Overview: HPS SLF VI will make direct loans to upper middle-market companies primarily located in the U.S.

People and Organization: HPS Investment Partners ("HPS" or "the Firm") was founded in 2007 to manage both private and public credit strategies. The Firm had previously been a subsidiary of J.P. Morgan Asset Management ("J.P. Morgan"), but the management team bought out J.P. Morgan in March 2016 through a deferred payment structure. The Firm subsequently sold an interest of approximately 15% to Dyal and other passive investors and utilized the proceeds to further reduce J.P. Morgan's interest in the HPS. The Firm is currently led by Scott Kapnick, who serves as CEO, and a deep senior team of 46 managing directors across all strategies. HPS has teams focused on direct lending, mezzanine, real estate credit, European financial assets, CLOs, leveraged loans, and liquid credit opportunities. As of October 2022, HPS manages a total of $95 billion of assets. The direct lending team currently manages $43 billion of assets. HPS has over 500 employees, located in 12 offices globally. The headquarters is in NYC. The direct lending team is led by Michael Patterson and is comprised of 47 investment professionals including shared resources with the mezzanine strategy. The Fund has an eight-member investment committee comprised of Scott Kapnick, Scot French who leads the mezzanine strategy, Michael Patterson, Purnima Puri who leads public credit, and Faith Rosenfeld, chief administrative officer. The other three members of the investment committee include Colbert Cannon, Jeffrey Fitts, and Vikas Keswani.

Investment Strategy and Process: The Fund will seek to directly originate senior secured loans to middle-market companies. The Fund will target non-sponsor companies and sponsor-backed companies where there is a sourcing angle or timing issue that allows HPS to generate premium pricing. The direct lending team will invest primarily in first lien loans, but may invest in second lien loans on an opportunistic basis. The Fund targets upper middle market companies with EBITDA of $100 million to $350 million. HPS may invest in larger companies where there is some competitive advantage from a sourcing angle or the Firm believes there is a premium driven by a market dislocation or idiosyncratic event. The typical leverage profile of HPS' companies is between 3.0 and 6.0 times net debt-to-EBITDA and/or a loan-to-value between 45% and 55%. The average leverage through HPS' investment in the prior fund, a 2020 vintage, has been 4.8 times net debt-to-EBITDA. The portfolio will consist of 70 to 100 loans with investment sizes ranging from 1% to 3%. HPS expects 50% to 70% of deals to be non-sponsored, or not sponsor sourced, and 30% to 50% of deals to be sponsored. Industry concentration is expected to be diversified with most sector exposures below 15%. HPS anticipates holding most loans for two to four years. The strategy will primarily be North America focused with a secondary focus on Europe, Australia, and New Zealand. North America is expected to be 65% to 85% of the portfolio.

Performance: Since 2010, HPS has raised over $16 billion across four prior commingled funds and separate accounts. The commingled funds have generated a combined net levered IRR of 7.7% as of September

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.

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30, 2022. As of September 30, 2022, HPS' commingled direct funds have generated a net levered IRR of 7.3% since 2010. Investing in the Morningstar/LSTA Leveraged Loan Index during the same period, at the same pace, would have generated a return of 3.5%. HPS has outperformed the index by 4.2%.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund is offered in an unlevered and levered structure. The levered structure is expected to be levered 0.5 to 0.8 times. The management fee for the unlevered and levered vehicles is 1.25% on gross assets, including leverage, during the investment period and 1.00% thereafter. There is a fee discount of 0.125% for the first year for investors who are in the first close. The investment period is three years with a seven-year fund term. The carried interest for both the unlevered and levered vehicles is 15% on a deal-by-deal basis. The preferred return is 5% for the unlevered vehicle and 7% for the levered vehicle. The preferred return does not include capital drawn for management fees and is not compounded.

Cliffwater Recommendation

Cliffwater recommends an investment of up to $50 million and $4 million to the levered structure of HPS Specialty Loan Fund VI as part of ERSRI's and OPEB's Private Credit allocation, respectively.

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