

WEBINAR SERIES



Increased Spreads with Directly Originated Structured Credit

Presented by **Blackstone**

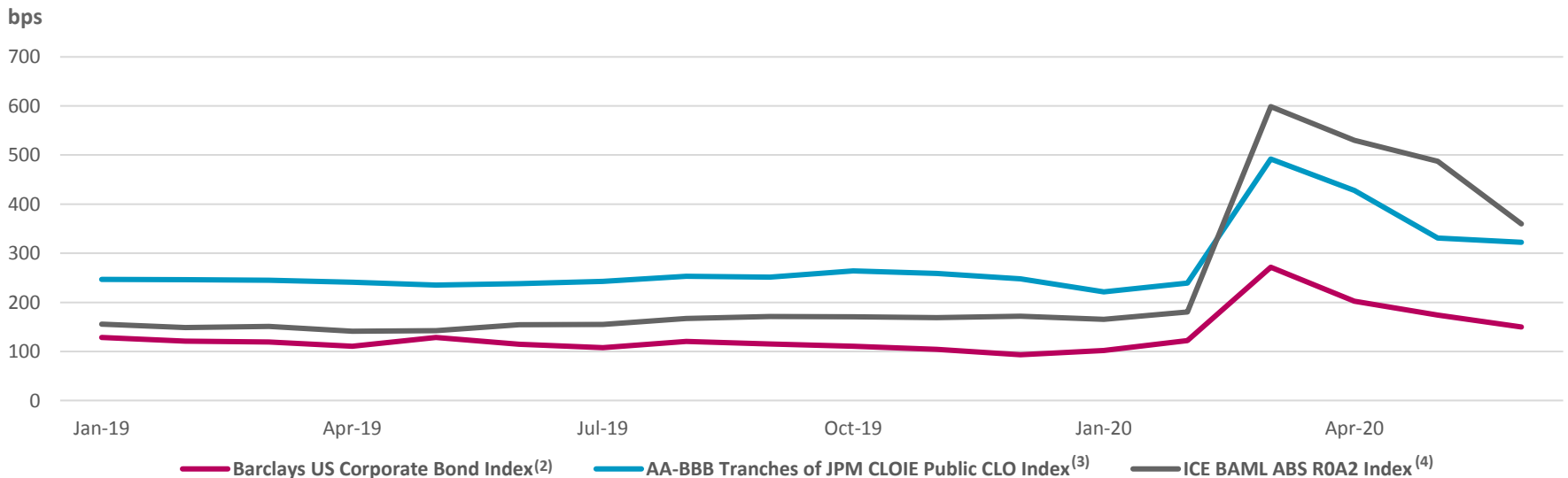
September 11, 2020 | 1:00 PM EDT

Yields Continue to Compress for Public, Investment Grade Assets; Spreads Have Remained More Stable

10-year UST Rates Trend (June 1985 – June 2020)⁽¹⁾



IG Spreads Trend



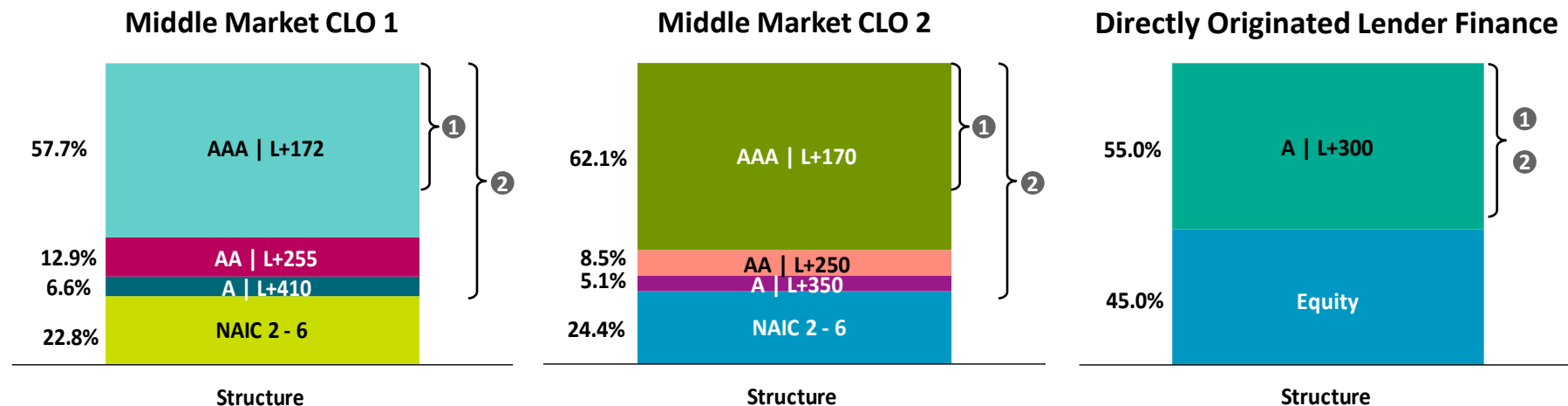
(1) Board of Governors of the Federal Reserve System (US) (6/28/85 – 6/30/20)

(2) Bloomberg Barclays US Corporate Bond Index (7/31/17 – 6/30/20)

(3) AA-BBB tranches of JPM CLOIE Index for US CLOs (7/31/17 – 6/30/20)

(4) R0A2 ICE BAML Fixed Rate ABS AA-BBB Index (7/31/17 – 6/30/20)

A 2019 Directly Originated Lender Finance Transaction Compares Favorably to 2 Similar Vintage Middle Market CLO Deals



1 LTV Comp – 0%–55%			
	MM CLO 1 ⁽¹⁾	MM CLO 2 ⁽²⁾	Directly Originated Lender Finance ⁽³⁾
Blended LTV	0%–55%	0%–55%	0%–55%
Rating	AAA	AAA	A
Weighted Average Spread	172	170	300

+128bp spread premium to MM CLO 1
+130bp spread premium to MM CLO 2

2 Unitranche Blended Ratings Class Comp – AAA–A (NAIC 1)			
	MM CLO 1 ⁽¹⁾	MM CLO 2 ⁽²⁾	Directly Originated Lender Finance ⁽³⁾
Blended LTV	0%–71%	0%–71%	0%–55%
Rating	NAIC 1	NAIC 1	A
Weighted Average Spread	205	191	300

+95bp spread premium to MM CLO 1
+109bp spread premium to MM CLO 2

Note: **Past performance is not necessarily indicative of future results** and there can be no assurance that any Blackstone fund or investment will have similar terms or be able to achieve its objectives or avoid substantial losses.

(1) This 2019 deal was selected as a comparison due to its temporal proximity to the 2019 BISF directly originated lender finance transaction. As marketed by Natixis as of 2/12/19 with a closing date of 03/07/19.

(2) This 2019 deal was selected as a comparison due to its temporal proximity to the 2019 BISF directly originated lender finance transaction. As marketed. Quoted as of 2/12/19.

(3) This 2019 deal was selected as it is the most recent directly originated BISF Lender Finance transaction. The BISF strategy includes 62 closed deals with spreads ranging from 265bps – 396bps for Lender Finance deals and 139bps – 563bps for all BISF deals. Illustrative Rate as of February 2019.

There are Key Differences Between Private Direct Origination and Syndicated Private Placements and ABS

Blackstone Sample Portfolio	Private Direct Origination	Narrowly Syndicated	Broadly Syndicated
Form of Instrument	Private Loan	Reg 4(a)(2), Reg D – Rule 506 (Private Placements)	Registered Public Debt
Bank-led Transaction	No (Proprietary)	Yes	Yes
Ability to Customize Borrower Terms & Lender Protections	High	Low / Moderate	Low
Liquidity	Low	Low / Moderate	High
Median Spread (bps) ⁽¹⁾	320	270	250
Median Issuance Size ⁽²⁾	\$107M	\$209M	\$500M

Note: **Past performance is not necessarily indicative of future results** and there can be no assurance that any Blackstone fund or investment will have similar terms or be able to achieve its objectives or avoid substantial losses. Terms are presented for illustrative purposes only and reflect Blackstone's views and beliefs of the market and these types of transactions. All transaction terms are subject to negotiation and the execution of definitive legal documents.

(1) As of July 2, 2020. Reflects the inception to date median initial spread of all fixed and floating rate deals of this type consummated by the BISF strategy, which includes 62 closed deals with spreads ranging from 231bps – 563bps for private direct origination deals, 139bps – 498bps for narrowly syndicated deals, and 185bps – 400bps for broadly syndicated deals.

(2) As of July 2, 2020. Reflects the inception to date median issuance size of all deals of this type consummated by the BISF strategy.

Direct Origination Spread Advantage is Driven by Multiple Premia

Sources of Spread Premia

1

Illiquidity

- ▶ Given the nature of these transactions, they are not often publicly traded and therefore predominantly held until maturity

2

Proprietary Sourcing

- ▶ Longstanding relationships across borrowers to find and create bespoke financing needs

3

Size

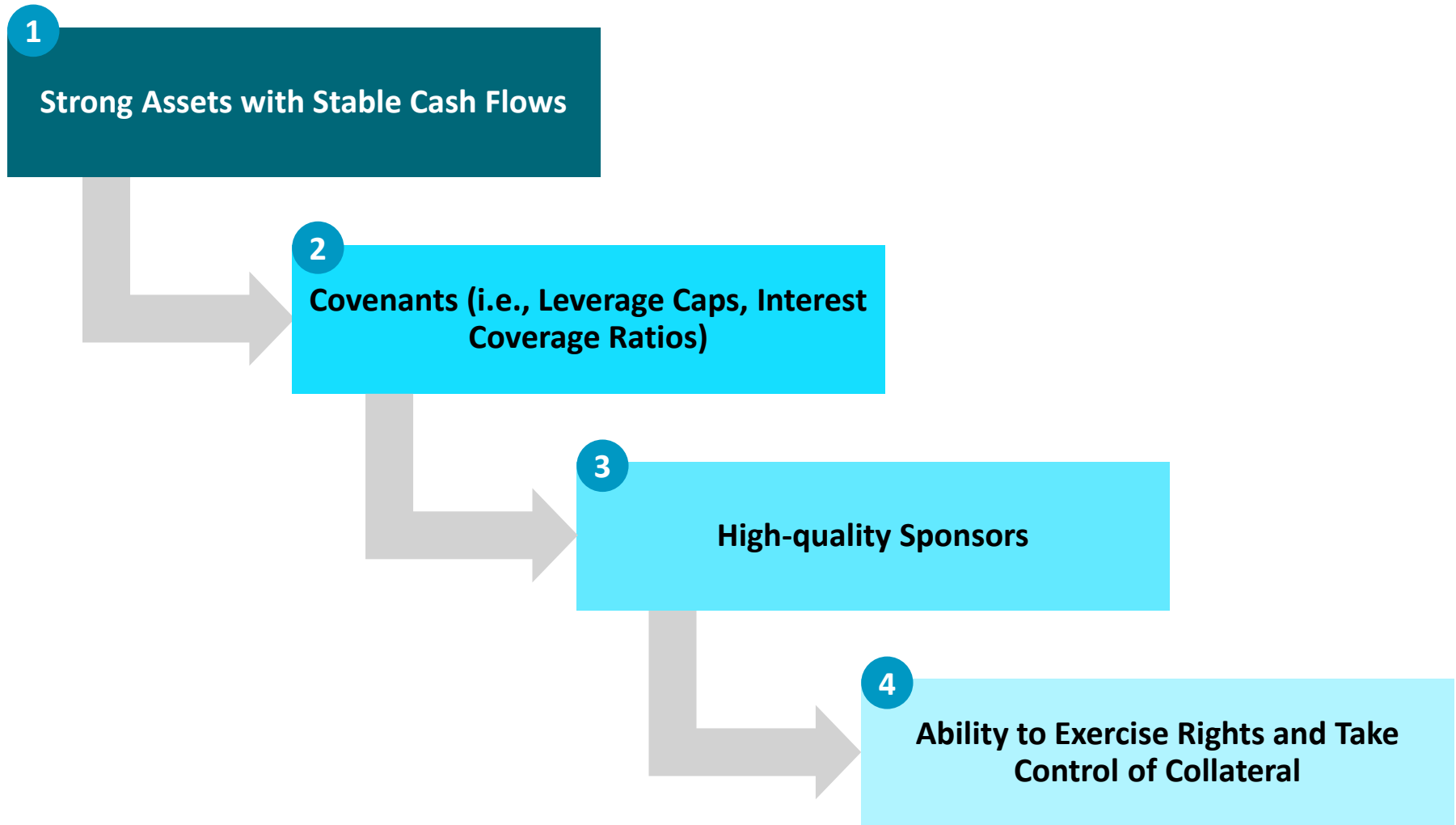
- ▶ Ability to underwrite smaller deals that traditional bank lenders find unattractive

4

Customization

- ▶ Ability to provide borrowers with customized structures and terms to best suit their specific needs

Private Assets Offer Additional Lines of Defense to Combat Downgrade and Impairment Potential



2 Comparable Transactions Further Demonstrate the Advantages of Direct Origination

	Directly Originated Transaction	Syndicated Transaction ⁽¹⁾
Asset Description	Delayed draw term loan collateralized by a pool of distributed solar generation to commercial and industrial customers	Senior Secured Note secured by (i) all membership interests and assets of the Issuer, (ii) all assets of each guarantor (including its ownership interests in any portfolio company), and (iii) all proceeds of the foregoing, in each case subject to customary exceptions
Transaction Size	▶ \$251mm (Class A: \$148mm, Class B: \$103mm)	▶ \$500mm
Transaction Economics	<ul style="list-style-type: none"> ▶ Financing: S+250bps blended rate ▶ Upfront Fee: 1.0% ▶ Initial Advance Rate: 60% of PV6⁽²⁾ through Class A Notes; 70% of PV6⁽²⁾ through Class B Notes 	<ul style="list-style-type: none"> ▶ Financing: S+190bps ▶ Initial Advance Rate: 68% through PV6⁽²⁾
Rating	<ul style="list-style-type: none"> ▶ Class A Notes: A- (KBRA) ▶ Class B Notes: BBB (KBRA) 	▶ BBB (Fitch)
Type of Issuance	▶ Private direct origination	▶ Narrowly syndicated

Note: Past performance is not necessarily indicative of future results and there can be no assurance that any Blackstone fund or investment will have similar terms or be able to achieve its objectives or avoid substantial losses. The directly originated investment is a closed transaction and was selected as a case study due to it being the first Blackstone affiliated investment in its sector. Nothing contained herein may be relied on in any manner as investment advice nor shall it or the fact of its distribution form the basis of, or be relied on in connection with, any investment decision.

(1) For comparison purposes only. Reflects a solar deal brought to market in 2020 that BISF did not participate in.

(2) Present Value at 6% discount.

An Opportunistic, Bottoms-up Approach is Critical to Portfolio Construction

A diverse pool of prospective asset-backed deals

Corporate



- ▶ Lender finance
- ▶ Small business loans
- ▶ Receivables
- ▶ Life settlements
- ▶ Insurance collateral

Transportation



- ▶ Aircraft
- ▶ Rail cars
- ▶ Shipping containers

Renewable & Infrastructure



- ▶ Renewable energy
- ▶ Pipelines
- ▶ Distributed generation / energy efficiency
- ▶ Equipment leases / loans
- ▶ Telecom infrastructure

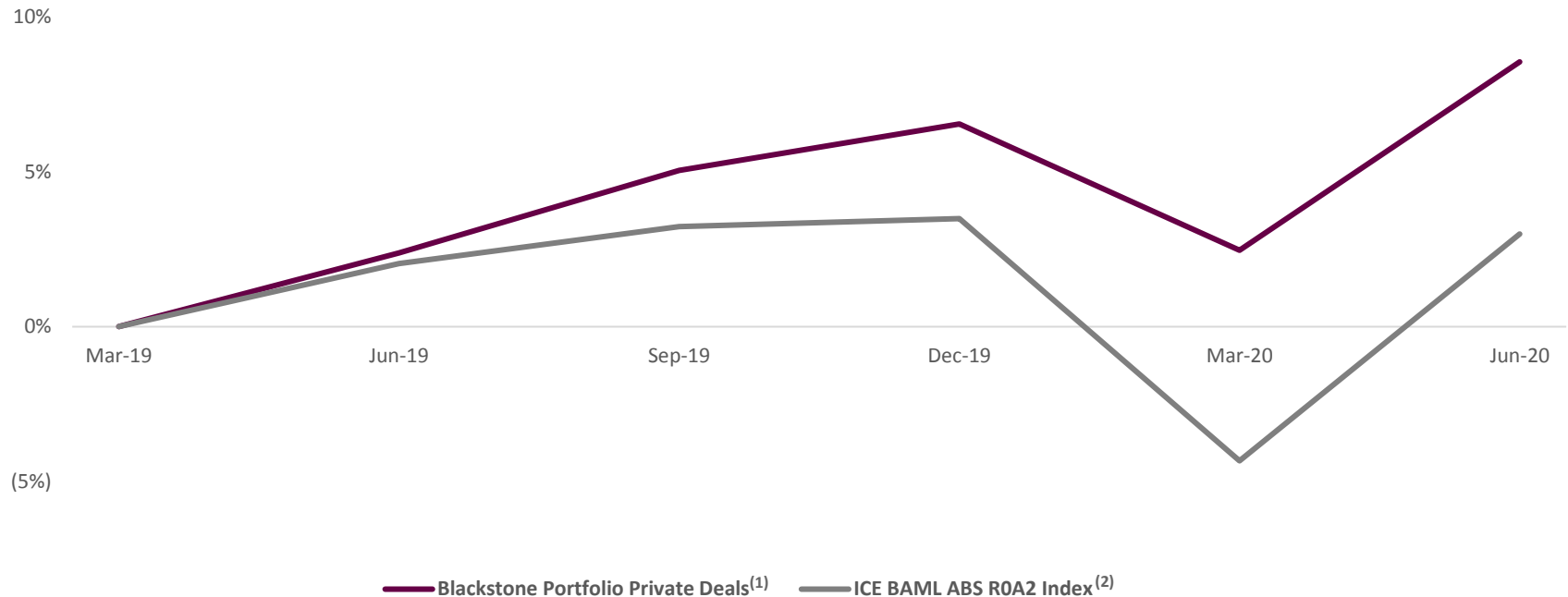
Consumer



- ▶ Auto leases / loans
- ▶ Consumer loans
- ▶ Credit cards
- ▶ Student loans

Recent Volatility Demonstrates the Benefits of Holding Directly Originated vs. Syndicated Deals

Total Return



Note: Past performance is not necessarily indicative of future results and there can be no assurance that any Blackstone fund or investment will achieve comparable results or that it will be able to achieve its objectives or avoid substantial losses.

(1) BISF Portfolio Privately Originated Deals (6/30/19 – 6/30/20)

(2) ICE BAML Fixed Rate ABS AA-BBB R0A2 (6/30/19 – 6/30/20)

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Thank You



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