Direct Lending: An “All Weather” Asset?

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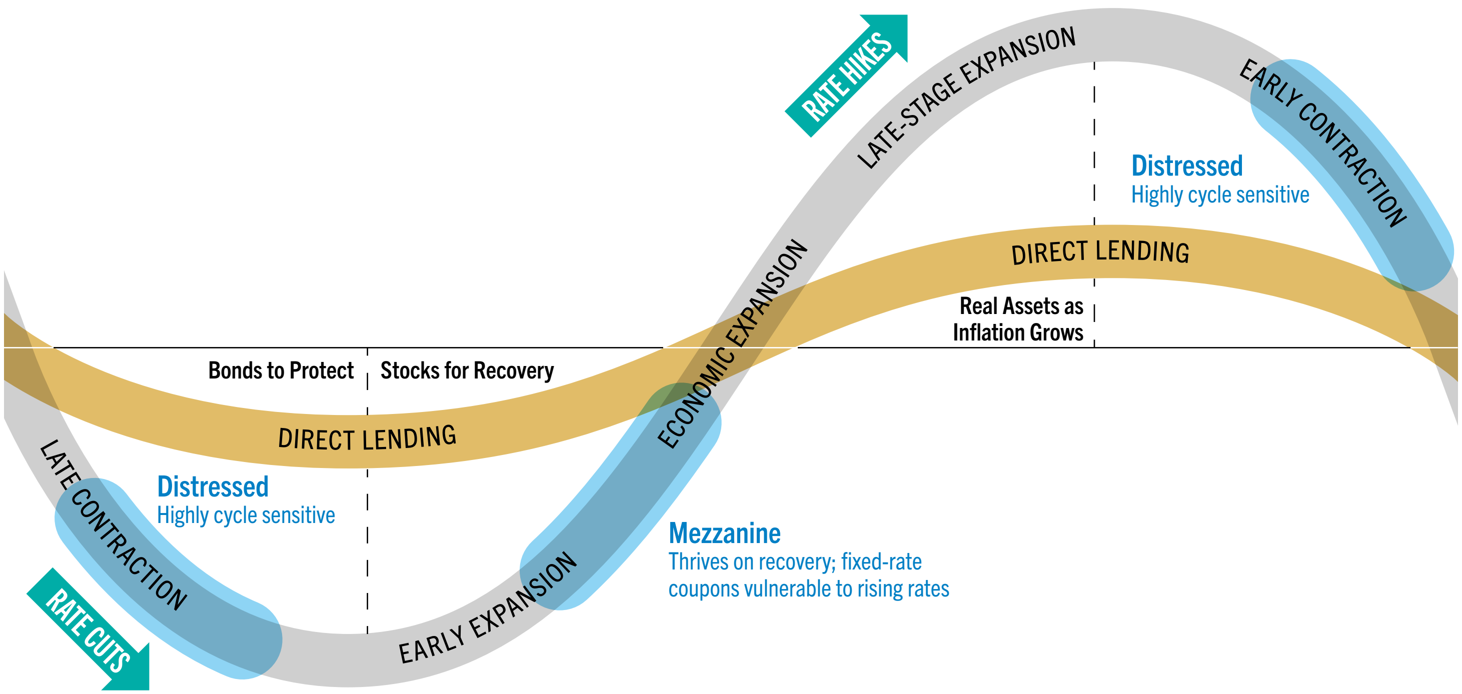
Direct lending tends to be more insulated from business and interest rate cycles than other public and private investments.

Asset Class Performance Across Business and Interest Rate Cycles



Direct lending is not immune to cycle risk, but its floating-rate nature and seniority in the capital stack may help preserve capital.
By mitigating these cyclical risks, direct lending may be the closest to an “all-weather” strategic allocation in corporate credit.

Smoother Sailing

- Economic and rate cycles can smile or frown on different assets at different times: stocks in recovery; bonds to protect in a contraction; commodities and other real assets as inflation rises.
- Other segments of private credit can also be quite rewarding, but may depend heavily on the timing of the investment (e.g., “distressed” investing).
- We believe direct lending—with lower sensitivity to rate risk, high correlation to CPI and less vulnerability to credit risk in market downturns—tends to manage through both rate and economic cycles with a good degree of resilience.

Source: Cambridge Associates and Golub Capital.

TILE 3.2: DIRECT LENDING INVESTMENT CHARACTERISTICS

Top of the Stack: Senior, Secured, Covenanted

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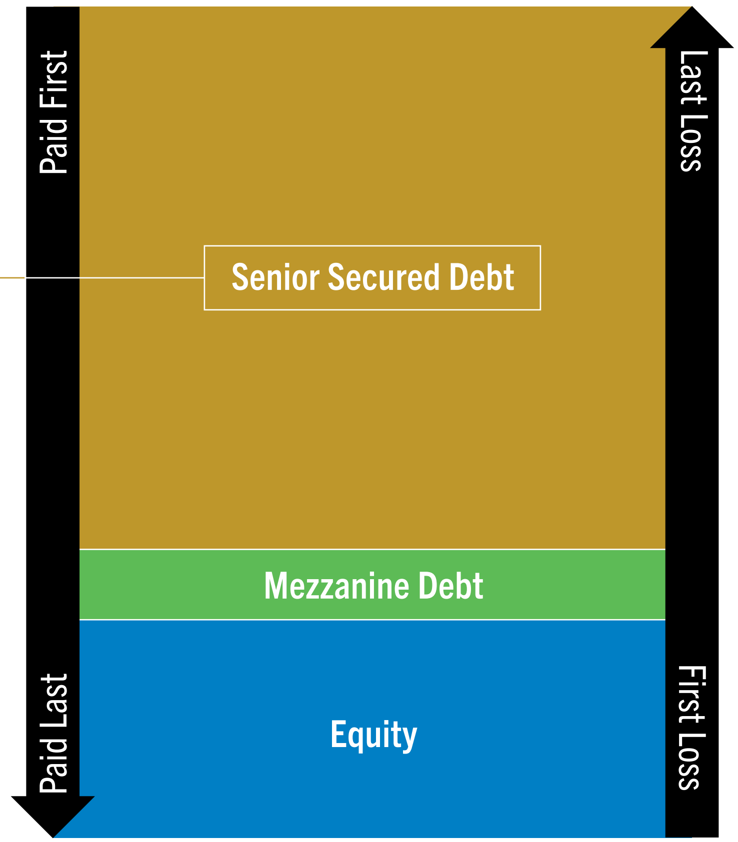
Direct lending may be a source of capital preservation for risk-averse investors.

Direct Lending: Structurally Senior

Seniority and Control
Highly negotiated credit agreements and structural seniority in the capital stack

Covenant Terms
Strict financial covenants, including leverage restrictions, liquidity minimums and interest coverage

Collateral
Strong cash flows and high-value company assets



A More Secure Allocation

- Most middle market loans are senior in the capital "stack."
- The loans are secured by company cash flows and assets as collateral.
- They are last to lose money and first to be paid back, with a significant "equity cushion" to absorb potential credit loss.
- Loan documents are further buttressed with financial covenants that enforce strict constraints and allow for early remediation.

An Outlier: Measured by Return or Yield, Volatility or Duration

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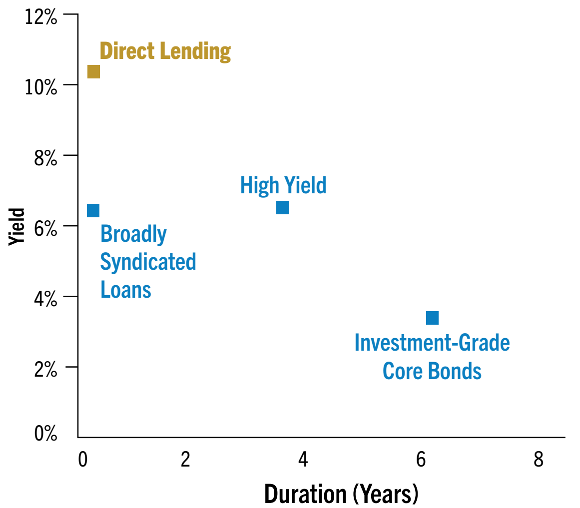
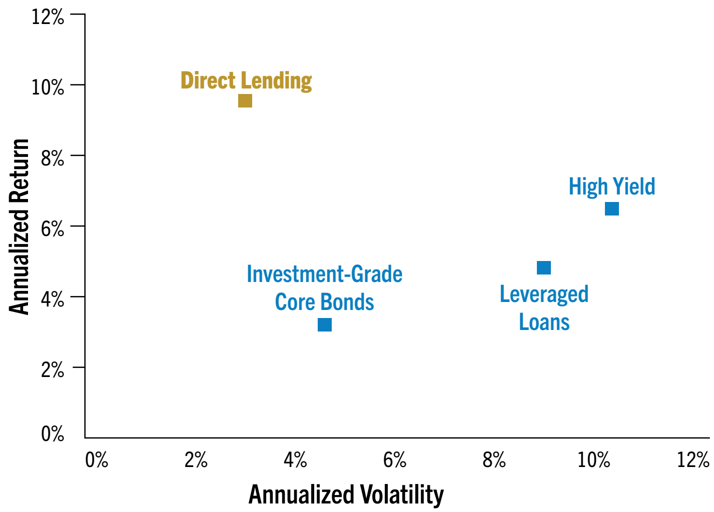
Private direct lending has attractive investment characteristics relative to public credit options.

Yield vs. Duration: Direct Lending vs. Traditional Fixed Income[1]



Return vs. Volatility: Direct Lending vs. Traditional Fixed Income[2]



Not Like the Others

- As a floating-rate asset, direct lending has very low duration or interest rate risk, generally making it less vulnerable to rising rates.
- It offers a premium yield (over 10% annually) relative to most fixed income assets, which, over the last decade, yielded about half that.
- It is mostly senior in the capital stack and secured by collateral and is priced quarterly; this typically translates to less volatility and lower drawdown risk.
- With average annual credit impairment of about 1%, total returns over the past 20 years have been just under 10%, again about double that of public credit peers.

1. Source: Morningstar. Cliffwater Direct Lending Index ("CDLI") Q2 2015 – Q1 2025. Data as of April 30, 2025. Direct Lending and Broadly Syndicated Loans are floating rate; therefore, depictions of duration for these are for illustrative purposes only.

2. Returns are measured by annualized returns, which are calculated based on quarterly returns. Annualized volatility is measured by standard deviation of quarterly returns. Data from September 30, 2004 through December 31, 2024. The indices used in this analysis are: Direct Lending is represented by the CDLI; High Yield is represented by ICE BofA US High Yield Index. The ICE BofA US High Yield Index tracks the performance of dollar-denominated, below-investment grade corporate debt publicly issued in the US domestic market; Leveraged Loans are represented by the Morningstar LSTA US Leveraged Loan Index. The Morningstar LSTA US Leveraged Loan Index is a market value-weighted index designed to measure the performance of the U.S. broadly syndicated leveraged loan market. The Morningstar LSTA US Leveraged Loan Index typically encompasses 90%-95% of the entire broadly syndicated leveraged loan market; Investment Grade Bonds are represented by Bloomberg US Aggregate Bond Index. The Bloomberg US Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Note: Past performance does not guarantee future results. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of indices may be materially different from the performance of Golub Capital Funds. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income.

Resilient in Dislocation and Drawdown

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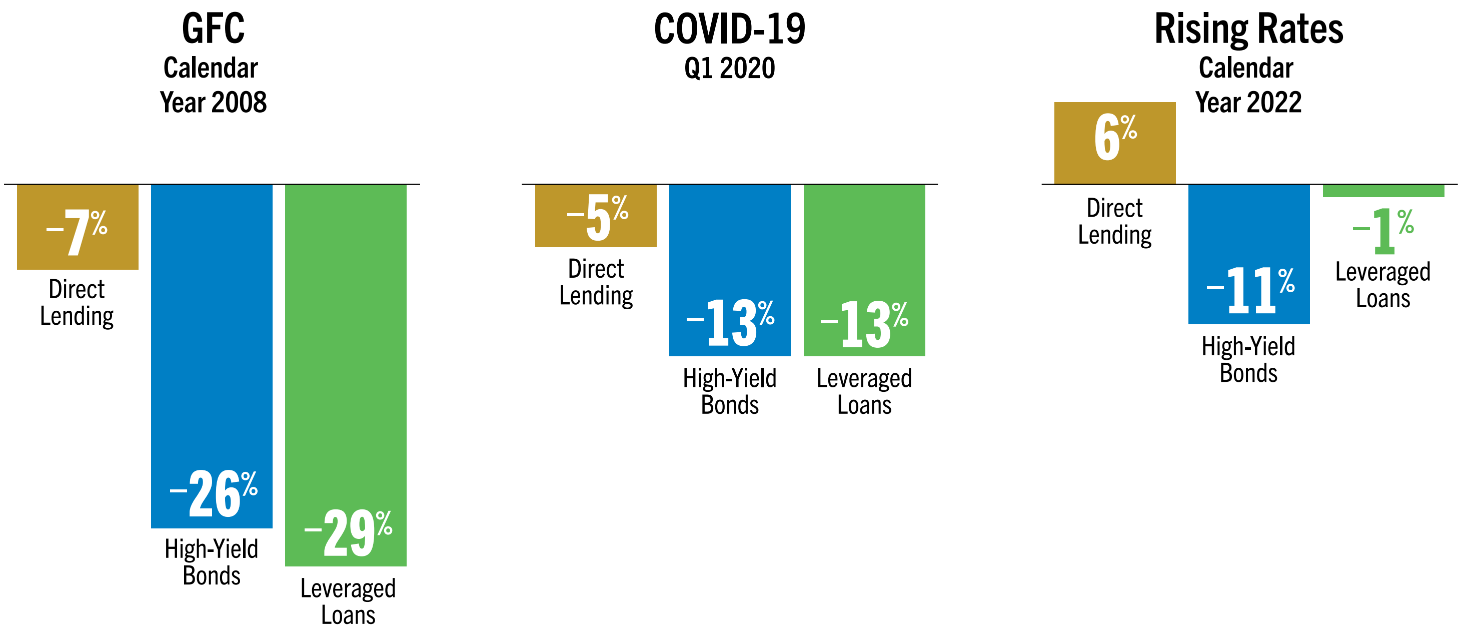
Mark-to-market volatility is more muted in private assets, mitigating the impact of market dislocations and drawdowns.

Maximum Drawdown by Asset Class

Values rounded to the nearest whole number



For Capital Preservation

- We believe middle market portfolios can provide strong downside protection for investors.
- With strong underwriting, strict financial covenants and close sponsor engagement, defaults have historically been rare.
- In market dislocations such as the COVID-19 Outbreak ("Covid") and the Global Financial Crisis ("GFC"), when public credit suffered steep drawdowns, private direct lending proved resilient in contrast.

Returns are measured by annualized returns, which are calculated based on quarterly returns. The indices used in this analysis are as follows: Direct Lending is represented by the CDLI; High Yield is represented by ICE BofA U.S. High Yield Index. The ICE BofA U.S. High Yield Index tracks the performance of dollar-denominated, below-investment-grade corporate debt publicly issued in the U.S. domestic market; Leveraged Loans are represented by the Morningstar LSTA U.S. Leveraged Loan Index. The Morningstar LSTA U.S. Leveraged Loan Index is a market value–weighted index designed to measure the performance of the U.S. broadly syndicated leveraged loan market. The Morningstar LSTA U.S. Leveraged Loan Index typically encompasses 90%–95% of the entire broadly syndicated leveraged loan market. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

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Consistent Yield Cushion Helps Smooth the Ride

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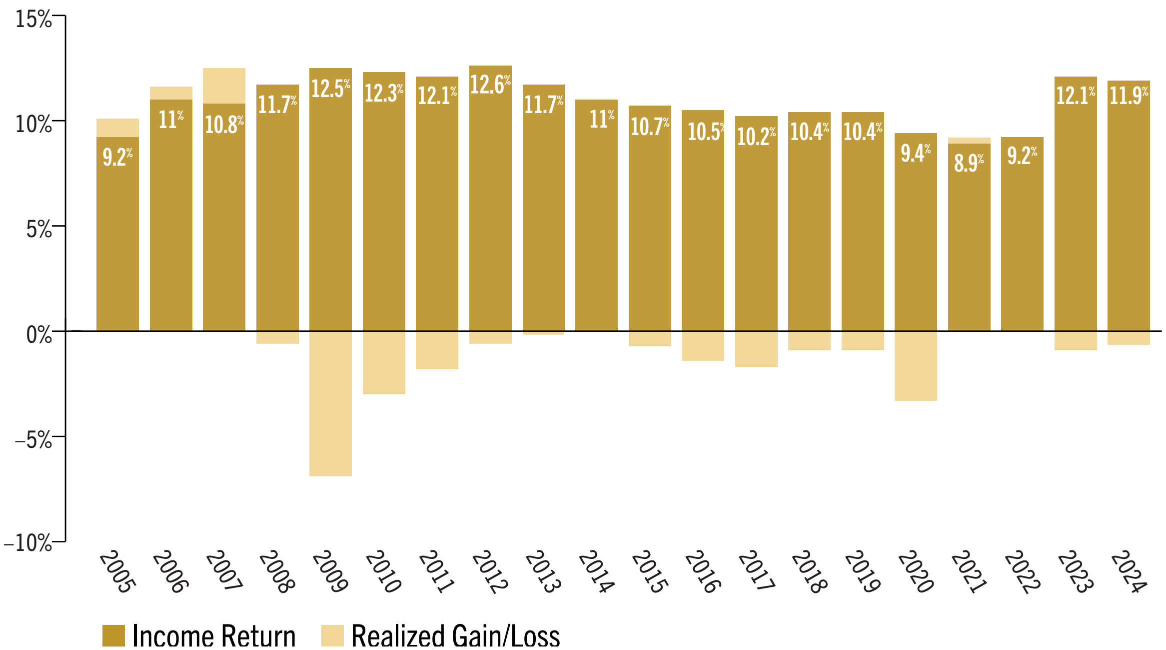
We believe no other asset class delivers as high and as consistent an income stream to investors as middle market lending.

Contractual Interest Income Buoys Total Returns



10.9%

Average Annual Income Return Since 2005

AVERAGE ANNUAL INCOME RETURN	
Direct Lending	10.9%
High Yield	7.4%
Leveraged Loans	5.9%

Margin of Safety

- The total return of direct lending derives almost entirely from contractually negotiated interest payments, which over 20 years has measured in double digits annually—nearly 11%.
- The average annual investment income from direct lending is about two times that of its nearest public credit peer, leveraged loans.
- This robust and stable yield cushion helps buoy total returns, mitigating the impact of periodic credit impairment.
- We believe this provides a comforting margin of safety for investors and a smoother investment experience overall.

1. Returns are measured by annualized income returns, which are calculated based on quarterly income returns. Data from January 1, 2005 through December 31, 2024. The indices used in this analysis are: Direct Lending is represented by the CDLI; High Yield is represented by ICE BofA US High Yield Index tracks the performance of dollar-denominated, below-investment grade corporate debt publicly issued in the US domestic market; Leveraged Loans are represented by the Morningstar LSTA US Leveraged Loan Index. The Morningstar LSTA US Leveraged Loan Index is a market value-weighted index designed to measure the performance of the U.S. broadly syndicated leveraged loan market. The Morningstar LSTA US Leveraged Loan Index typically encompasses 90%-95% of the entire broadly syndicated leveraged loan market. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

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A Hand-Crafted Asset: Building a Consistent Return Premium

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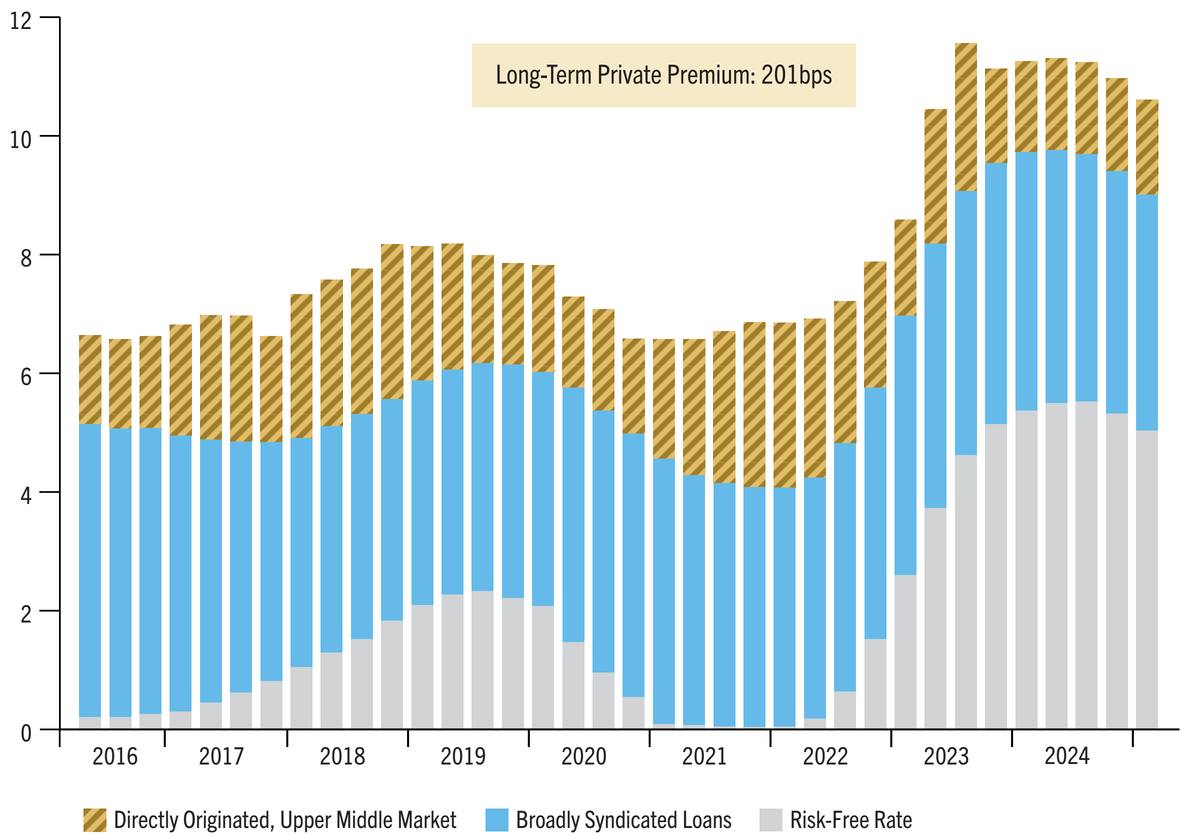
Private market managers are akin to artisans, creating and molding the risk and return characteristics of their chosen investment medium.

The Direct Lending Return Premium



The Upside of Illiquidity

- Private fund managers seek to earn a return premium over public credit markets by thoughtfully capitalizing upon the distinct characteristics of private market investing, for example:
  - – Private debt tends to be less liquid: it is not traded in a public market and is often held to maturity.
  - – There are no public ratings or analyst research available, so information is managed through confidential, bilateral agreements.
  - – Deal flow is off market and relationship driven, with few lenders able to compete for any single deal.
  - – Direct lenders create bespoke loan documentation with strong covenants and other creditor protections to help control for the desired outcome.
- We believe all of these characteristics enable direct lenders to support a return premium over public investments.

Sources: Morningstar. Cliffwater Direct Lending Index ("CDLI") Q2 2016 – Q1 2025. Data as of March 31, 2025.

TILE 3.7: DIRECT LENDING INVESTMENT CHARACTERISTICS

High and Tight: Seeking Consistent Returns

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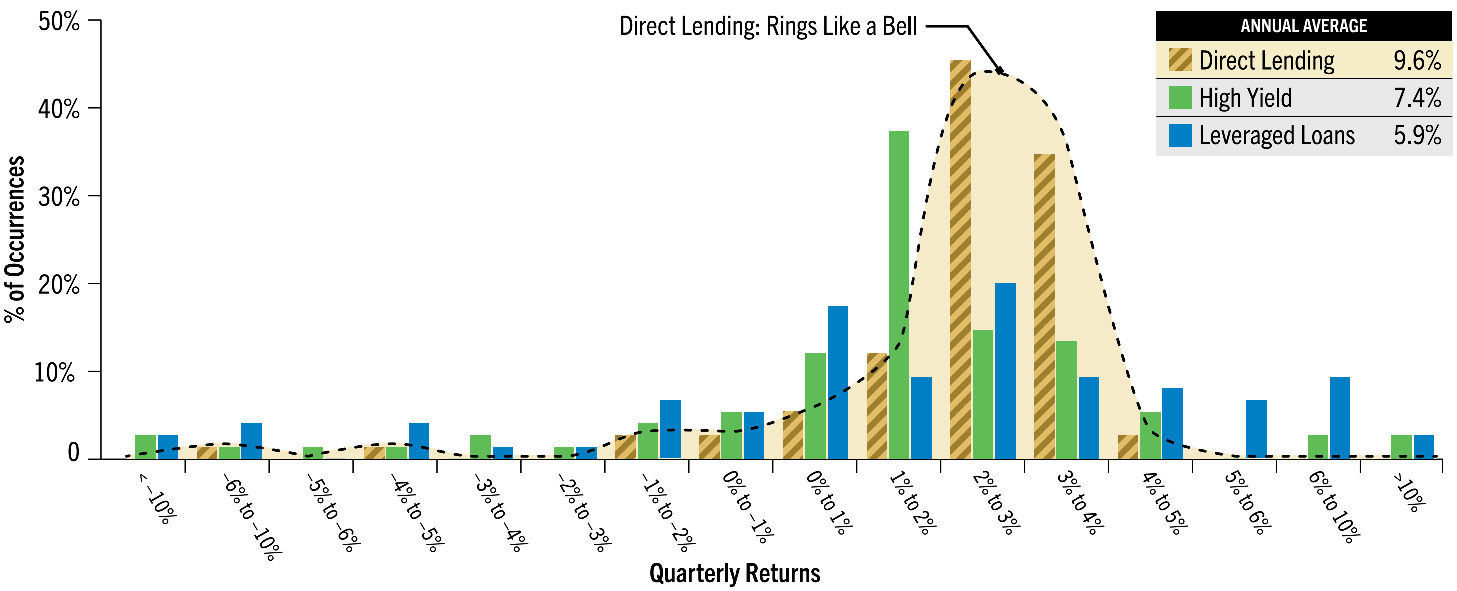
Direct Lending offers higher and more consistent total returns than other public market credit peers.

Direct Lending Quarterly Returns vs. Public Market Credit Peers[1]

Q4 2004–2024



1. Returns are measured by annualized returns, which are calculated based on quarterly returns. Data from September 30, 2004 through December 31, 2024. The indices used in this analysis are: Direct Lending is represented by the CDLI; High Yield is represented by ICE BofA US High Yield Index tracks the performance of dollar-denominated, below-investment grade corporate debt publicly issued in the US domestic market; Leveraged Loans are represented by the Morningstar LSTA US Leveraged Loan Index. The Morningstar LSTA US Leveraged Loan Index is a market value-weighted index designed to measure the performance of the U.S. broadly syndicated leveraged loan market. The Morningstar LSTA US Leveraged Loan Index typically encompasses 90%-95% of the entire broadly syndicated leveraged loan market. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

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Higher Top, Shorter Tails

- Total returns from direct lending tend to be “high and tight”—they are consistent and consistently higher than public credit equivalents, such as high-yield and leveraged loans.
- Looking at quarterly returns over 20 years—with 80 individual data points per asset class—the return history of direct lending takes the shape of a very narrow and tall “bell.”
- 85% of the time, direct lending delivered between 1% and 4% per quarter; public credit returns stretch to both sides, with lower returns and much wider dispersion of returns.
- It’s the consistency of returns, not just the size, that stands out for an investor in middle market credit.

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