European Middle Market Private Debt

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BlackRock's Global Credit Platform

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AUM[1]: $84 billion

Multi-Strategy Credit	Leveraged Finance	Hedge Funds	Private Credit
Credit Strategies Income Credit Plus	High Yield Bank Loans CLO Tranche Investing	Event Driven Long-Short Credit	Opportunistic Debt Middle Market Investing Specialty Finance

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Source: BlackRock, As of September 2017.
1. AUM is shown on a managed view basis and includes committed capital

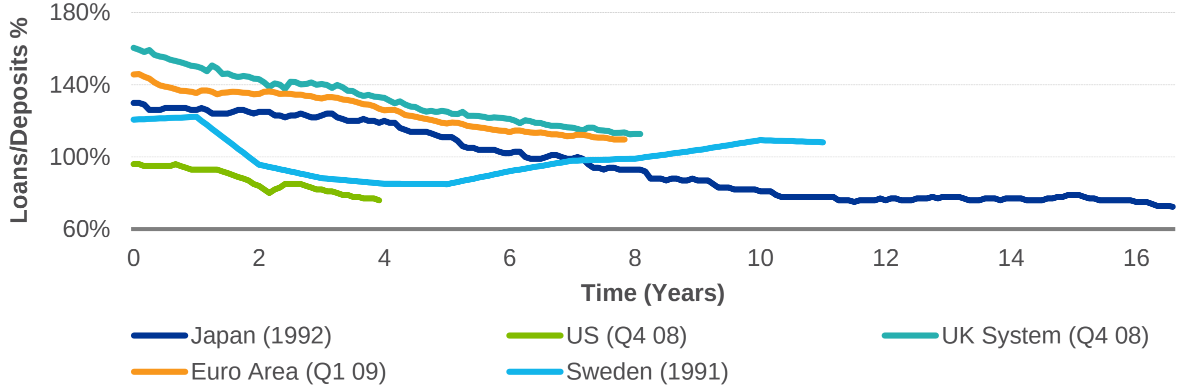
Impact on the middle market

Changes in the financial system and macro economic events have impacted the dynamics of the middle market…

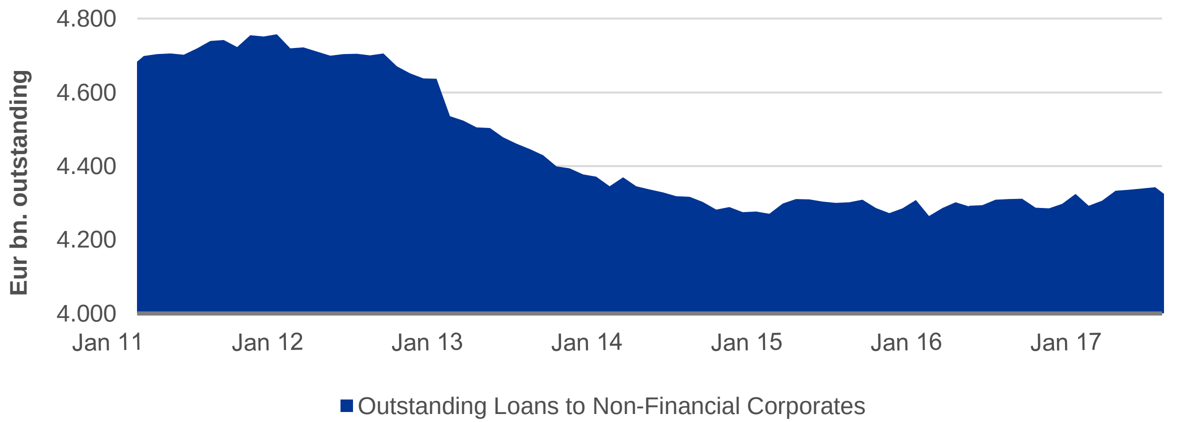
Historically, 80% of corporate lending in Europe has been provided through the banking system[1]

- Increased regulation is forcing banks to hold fewer assets and more capital, making it more costly for banks to hold middle market loans and illiquid / below investment grade paper
- Stricter regulations and an active enforcement climate will further reduce bank financing support for middle market companies
- Draft guidance from the ECB indicates a move towards imposing leverage caps on bank lending, further restricting activity in this market
- Middle market borrowers and sponsors are engaging non-bank providers and frequently seeking holistic financing solutions and execution certainty
- As a result, a structural opportunity exists for institutional capital to address the debt financing needs of this economically important sector

European Bank Deleveraging is Still in its Early Stage…[2]



…Despite Central Bank Easing, Lending Remains Constrained[3]



[1] Source: ECB, 2016.
[2] Source: Morgan Stanley, March 2017.
[3] Source: ECB, June 2017.

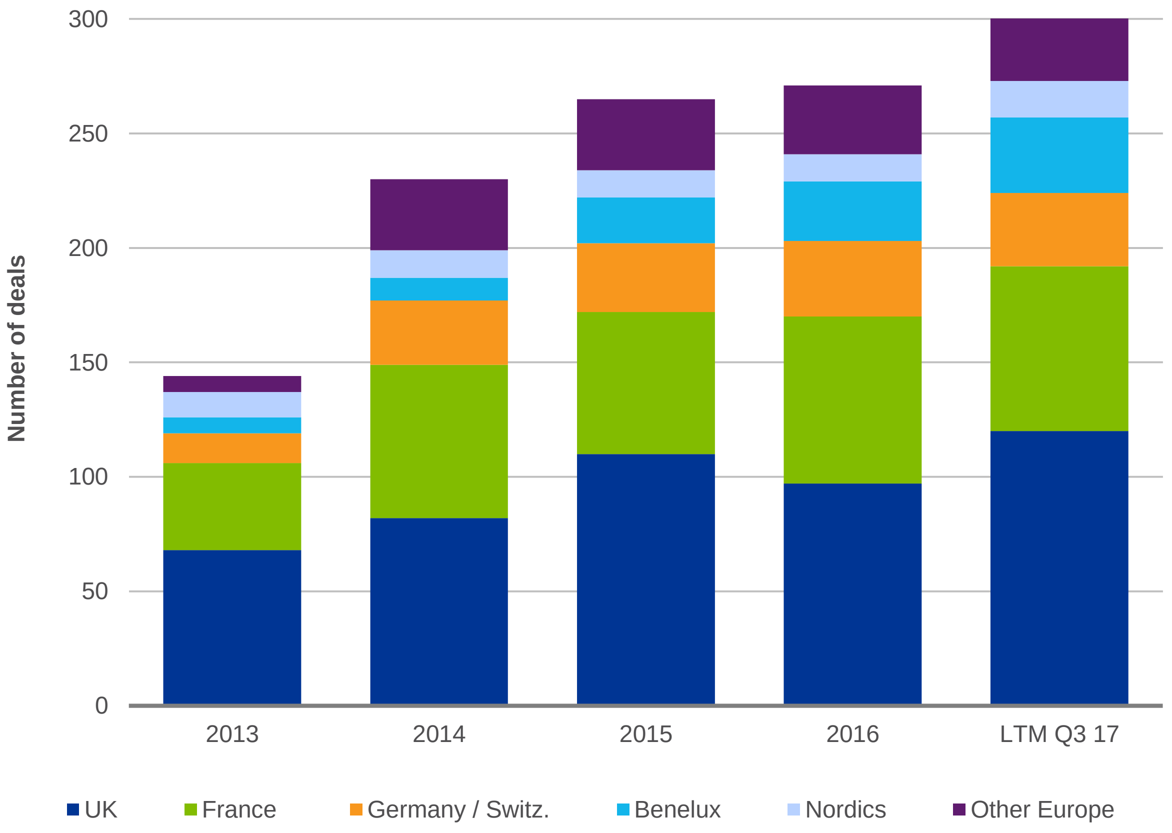
The emergence of European mid-market financing

…resulting in a strong need and sizable opportunity for non-bank middle market investors

The mid-market is a large segment of the economy with approximately 140,000 firms contributing nearly a third of private sector GDP[1]

- Mid-sized companies, which have historically been largely dependent on relationship banks, generally don't have access to the public capital markets
- Banks' new focus on larger borrowers with the potential for ancillary services is leaving a growing funding gap
- Private equity activity is on the rise with a $265bn pool of capital available in Europe for investments
- UK historically accounted for ~40% of non-bank transactions, France ~25% and Germany ~10%. Although post Brexit UK deal activity is decreasing, this is offset by rising deal flow in the rest of Europe
- Non-sponsor transactions increasing in prominence: 24% of transactions

Direct Lending Deal Flow Up Significantly[2]



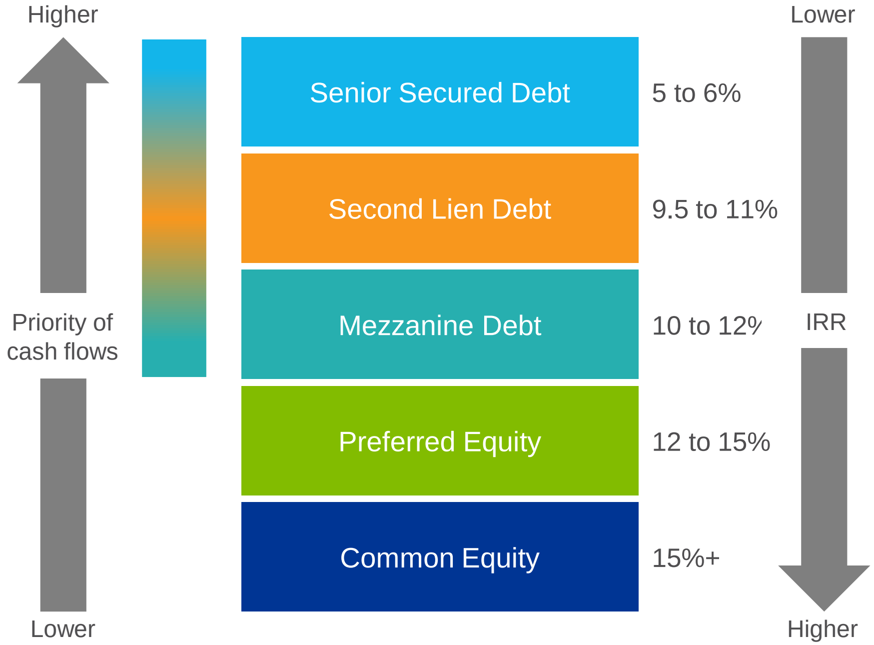
[1] BlackRock estimates, September 2017.
[2] Source: Deloitte Alternative Lender Deal Tracker, Q3 2017.

Overview of European mid-market private debt

Direct lending (also called "private debt" or "middle market lending") is the provision of private financing to mid-sized, private companies by a non-bank lender

- Borrowers are typically private companies who are too small to access the capital markets for debt funding or who value speed of execution, flexibility and dealing with a smaller group of lenders
  - There is no universal definition, however middle market borrowers are generally considered by BlackRock to be companies with annual EBITDA of <Eur50mm, revenues of <Eur500mm, and debt of <Eur500mm
- In mid-market debt, non-bank lenders make loans to these companies in bilaterally negotiated transactions for a variety of needs, such as LBOs, refinancing, restructurings, acquisitions, capital expenditure or general liquidity purposes

Capital Structure / Assets



Direct lending funds are typically active across debt portions of the capital structure

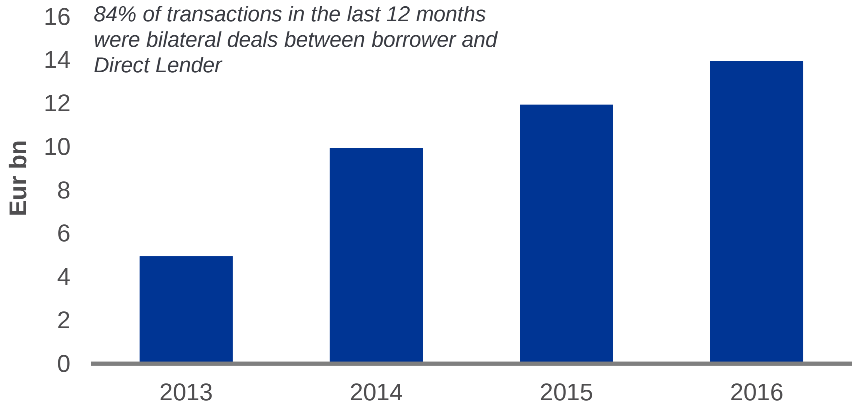
Often, investments are structured as **"unitranche"** deals where senior and subordinated debt are combined into one instrument with first and second lien components

- Pricing broadly reflects the weighted average cost of a conventional senior loan and mezzanine structure
- If there is more than one lender, they will enter into an agreement regarding their respective payment priority and will allocate interest received accordingly on a non-pro rata basis
- Unitranche benefits borrowers through a quicker execution process with fewer parties and no need for syndication or inter-creditor agreements

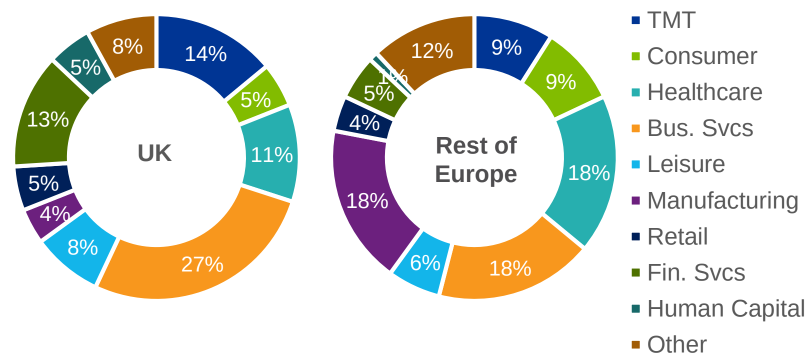
Source: BlackRock. Indicative returns reflect market environment as of August 2017.

Key characteristics of the European mid-market private debt asset class

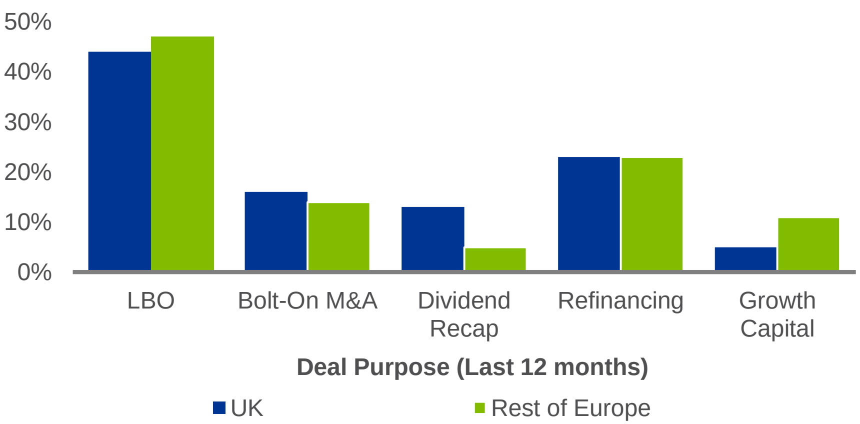
Deal Volumes Continue to Grow[1,2]



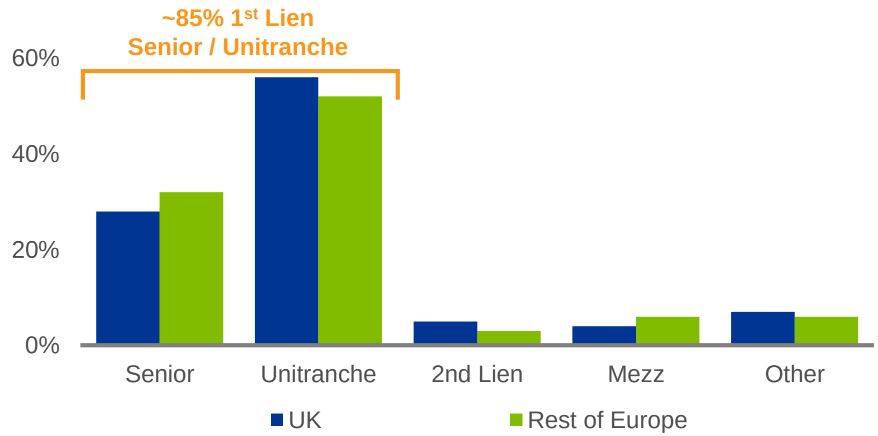
Deals Are Diversified by Industry[2]



Most Deals Involve Bespoke Financing for "Event Situations"[2]



Majority of Deals are Structured as First Lien[2]

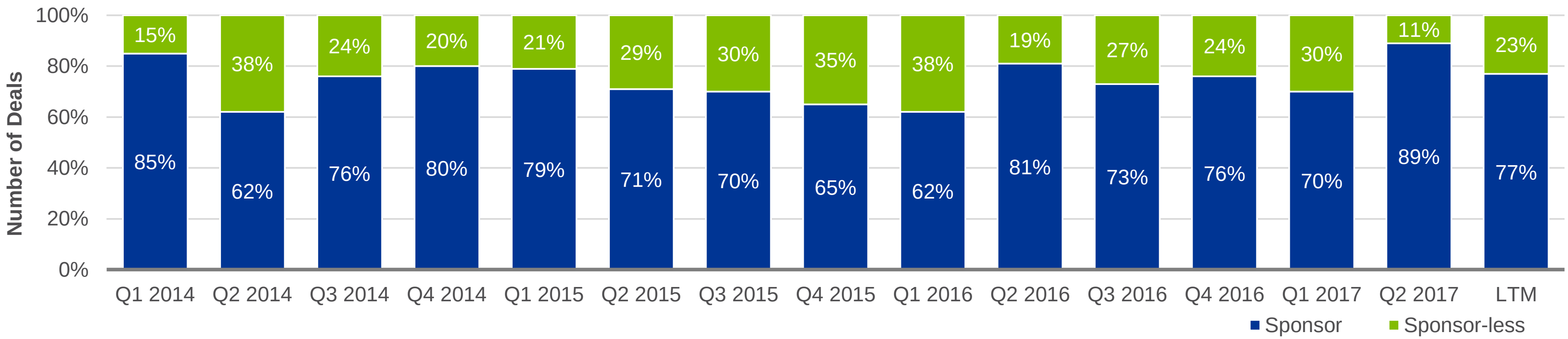


[1] Source: S&P, January 2015, BlackRock estimates.
[2] Source: Deloitte Alternative Lender Deal Tracker, Q3 2017. Deal industry, purpose and structure data is for last 12 months as of end Q1 2017. Note numbers may not add up to 100% due to rounding.

Sponsor led vs. sponsor less in European mid-market private debt

Performing private companies are increasingly borrowing from alternative lenders, however there are a number of pros and cons to consider when lending to sponsor-less borrowers. BlackRock's multiple origination channels, role as a pure fiduciary and ability to finance companies throughout their life leaves us well positioned to capture these flows where attractive to do so

Growth of Sponsor-less Deals in European Mid-Market Debt[1]



	Sponsor-backed Middle-Market	Sponsor-less Middle-Market
Market Opportunity	◐	◕
Ease of Access / Origination	◕	◔
Quality of DD	◕	◔
Leverage	◕	◐
Equity Cushion	◕	◔
Documentation Standard	◔	◕
Pricing	◐	◕

[1] Source: Deloitte Alternative Lender Deal Tracker, Q2 2017.
There is no guarantee that a positive investment outcome will be achieved.

A compelling asset class

Middle Market senior loans offer investors a yield premium, lower leverage and higher coverage ratios, more conservative deal terms and maintenance covenants

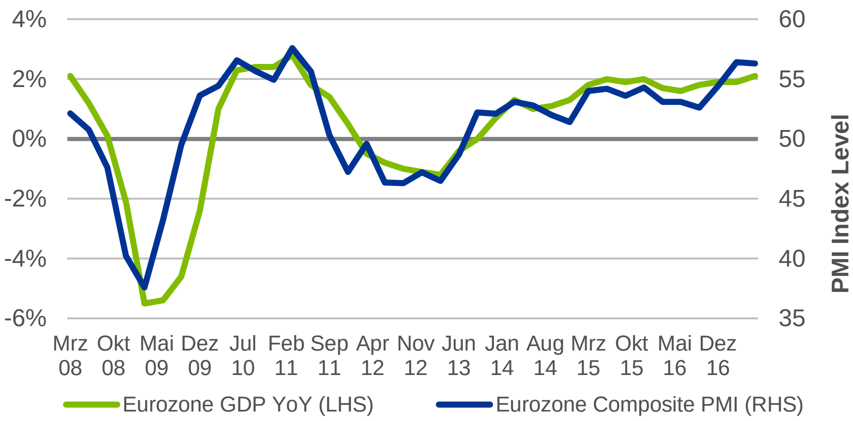
- Robust investment process:
  - Extensive, bottom-up due diligence
- Tighter covenant packages:
  - Protection where it matters
- Lead the transaction:
  - Exert significant influence over capital structure, terms and documentation with control voting rights
- Strong downside protection:
  - Higher recovery rates
- Restructuring experience to protect client capital:
  - Ability to take control of company to capture value
- Information and transparency
  - Monthly / quarterly reporting and access to management

	Mid-Market Loans	Syndicated Bank Loans	High Yield Bonds
Annual Default Rate	2.6%[1]	4.8%[2]	3.4%[3]
Median Recovery Rate[4]	100%	75%	38%
Mean Recovery Rate[4]	76%	66%	46%
Annual Loss Rate[5]	0.3%	1.4%	2.0%
Spreads Over Libor	500 to 700bps[6]	368bps[7]	450bps[7]
Libor Floor	50 to 75bps[6]	11bps[7]	N/A
Upfront Fees (over 3 yrs)	83-100bps[6]	6bps[7]	1bps[7]
Call Protection[6]	101 to 102%	100 to 101%	Typically 50% of coupon after 3 years

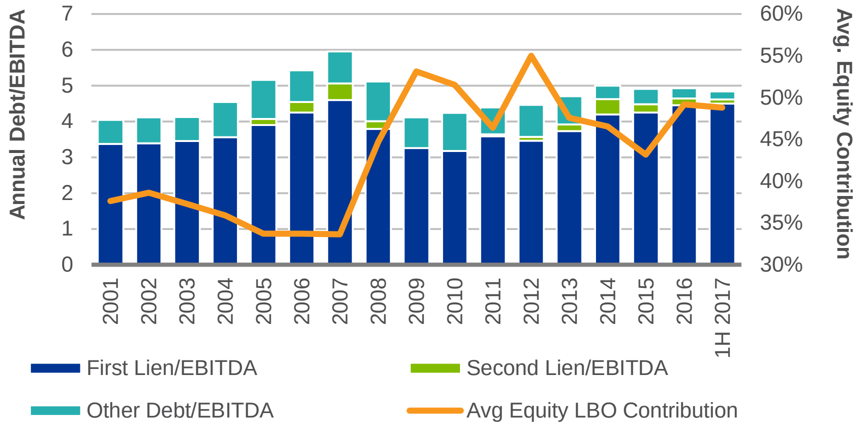
[1] Fitch Leveraged Credit Database, average annual default rates for European issuers with debt <Eur500mm over period 2011-2015 inclusive.
[2] S&P LCD, 12 month ELLI index default rates 2007-2015 based on principal amount.
[3] Moodys, Europe 12 month issuer weighted speculative grade default rates 2007-2015.
[4] S&P 2014 European Empirical and Recovery Rating Performance Update, covering period 2003-2014. Mid-market recovery for companies with less than USD500mm total debt, sample size of 379 instruments..
[5] Loss rate calculated as default rate x 1-mid point of median and mean recovery rates.
[6] BlackRock, June 2017.
[7] S&P LCD, 3 months average for new issues, Q2 2017.
There is no guarantee that a positive investment outcome will be achieved.

Where are we in the credit cycle?

Growth in the Eurozone has returned[1]



Leverage Stable, Equity Cushions Remain High[2]

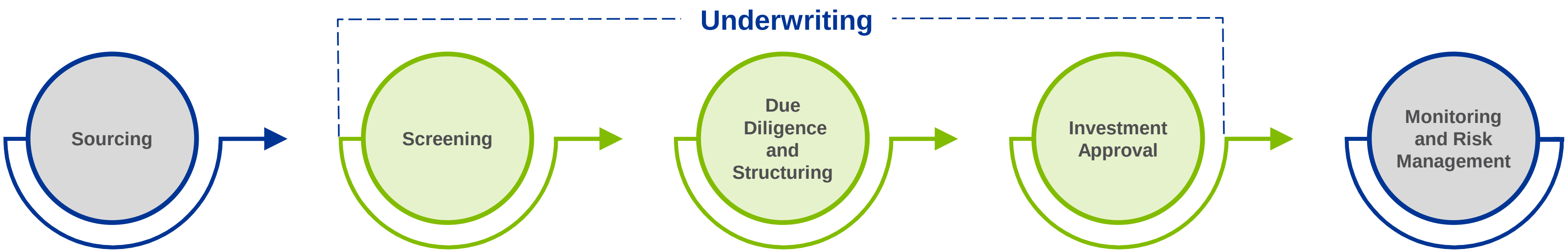


BlackRock European Leveraged Finance Credit View[3]

[1] Source: Bloomberg, Markit June 2017.
[2] Source: S&P LCD, July 2017.
[3] Source: BlackRock, January 2017.

Investment process overview

BlackRock's European Middle Market Private Debt Fund utilises a private equity style investment approach that combines fundamental bottom-up analysis with credit structuring and active investment management



Sourcing

- Experienced, dedicated sourcing professionals
- Leverage BlackRock brand and platform
- Cultivate relationships with private equity, legal, accounting and advisory firms
- Access middle market management and industry participants
- Utilise long-standing relationships with banks and specialty finance companies

Screening

- Conduct analysis of company and industry dynamics
- Evaluate quality of management
- Analyse financials and capital structure
- ESG risk screening
- Access BlackRock firm-wide insights and relationships
- Take into account jurisdictional considerations
- Follow comprehensive underwriting process

Preliminary Investment Committee review

Due Diligence and Structuring

- Further research company, business model, sustainability, growth and endurance in adverse conditions
- Analysis of financial, operational, legal and tax information
- Due diligence with management, consultants, industry participants
- Consider enhanced ESG due diligence, deal structuring, investment analysis, pricing & returns, risks & mitigants, downside case, sensitivities, recovery analysis / exit scenario

Investment Approval

- Debate investment decision rationale, focusing on downside risk, risk-adjusted returns and suitability

Investment Committee Approval

- KYC/AML review
- Finalise terms and covenants, including detailed legal documentation with focus on contractual protection and covenants
- Negotiation of inter-creditor document
- Close and fund investment

Monitoring and Risk Management

- Active monitoring against expectations, variance analysis and evaluation of business plan/covenants
- Meet with management regularly to review business / performance
- Monitoring ESG risks
- Maintain credit watch list and identification of potential issues
- Use of maintenance covenants/contractual rights to preserve value in underperforming credits
- Participation / control in work-out scenarios

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