

Private Credit Outlook

2025

Managers Can Add \$28 Billion in Fees Over Time

Private credit is set to meaningfully increase its share of investment portfolios as managers position for an ongoing shift from traditional financing, while expanding distribution and fundraising increases a vast addressable market. Respondents to a Bloomberg Intelligence survey identified 11% potential market penetration as well as regulatory and credit risks.

- **Private Credit Can Boost Fees:** Growing demand in the \$41 trillion fixed-income market can double related fees for alternatives managers in 15 years, an additional \$28 billion a year.
- **Insurance and Retail Are Opportunities:** Investment into private credit can get an incremental boost from the expansion of insurance assets of private equity firms, which could drive \$6-\$10 billion of annual industry-wide fees; alternatives penetration of the retail market could triple to 8-10%.
- **Size, Diversity Provide an Edge:** Apollo, Ares, Blackstone and KKR, the largest and most diversified alternatives managers, are poised for the fastest gains, while Carlyle, Brookfield and TPG are rapidly adding private credit exposure. The largest BDCs benefit from their broader platforms' deal flow, underwriting and portfolio management capabilities.

Featured in This Report: Throughout this report and at BI FLOWG <GO> on the Terminal, Bloomberg Intelligence's **proprietary models** have estimated market size and quantified fee opportunities in key growth businesses over the next 15 years. Survey responses provide insights into key market participants' views on opportunities and risks.

A photograph of the Shanghai skyline, featuring the Shanghai Tower and other skyscrapers, with a green tint overlay.

Dec. 4, 2024

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More detailed analysis and interactive graphics are available on the Bloomberg Terminal

Section 1. Executive Summary

11%

Potential market share capture of \$41 trillion total addressable fixed-income market

2x

Potential global private credit midterm growth

43%

Share of survey respondents citing credit quality as biggest risk to private credit

Private Credit's \$28 Billion in Fees on Taking Debt Share

Private credit managers -- including the three largest, Apollo, Ares and Blackstone, as well as expanding peers KKR, Carlyle, Brookfield and TPG -- stand to benefit from opportunities in lending and asset-based finance. Tighter regulations, competitive and collaborative relationships with banks, and a hunger to finance growing insurance-related assets could help deepen their engagement in an expanding \$41 trillion fixed-income market. Business development companies, or BDCs, make up a large portion of the direct lending market, helping drive managers' continued penetration of the retail wealth market, and offer a window into the assets that underlie private portfolios and their credit quality. Though already leading in leveraged lending, the potential to gain an asset-weighted 9-11% of the market could translate into \$25-\$28 billion of industry management fees, led by the largest managers. Current available capital and growth in insurance assets combined are less than a third of the addressable set, leaving room for gains.

Key Research Topics

- **Private Credit Can Boost Fees:** Private credit managers may be able to eventually capture 9-11% of the \$41 trillion addressable fixed-income market, translating to \$25-\$28 billion of industry fees.
- **Insurance, Retail Growth:** BI-tracked managers can capture 6% of traditional insurance managed assets which could add over \$2 trillion of assets under management. Private credit is seeing strong demand from retail investors and could help drive a tripling of alternative assets' share of private wealth, from 3% today.
- **Size Advantage to Larger Managers:** The largest alternative managers, that manage over \$2 trillion of total credit assets (private and public), have broad fixed-income capabilities allowing them to attract an outsized share of demand.
- **Survey Finds More Demand:** Respondents to Bloomberg Intelligence's proprietary private credit survey noted ongoing demand and increased activity for the asset class, as well as risks related to credit quality and regulation.
- **BDCs Signal Weaker Credit View:** Publicly traded BDCs offer a window into credit quality among private assets. Credit quality has shown signs of deterioration, though managers have actively addressed underperforming credits, resulting in low nonaccruals, yet elevated losses and a higher incidence of payment-in-kind features.

Performance and Valuation

BI-covered North American alternative asset managers' shares have appreciated about 60% on average so far this year, favoring credit-focused managers, expanding the average forward 12-month P/E multiple to 25x. This reflects average consensus growth of 23% in fee-related earnings and 28% in profit in 2025. BDC multiples also advanced as rates increased and credit held, with the average now trading around 1x price-to-book, with an 11% dividend yield. Top BDCs with strong dividend coverage have performed largely in line with the S&P 500 year-to-date, while those experiencing credit issues have underperformed.

Section 2. Catalysts to Watch

Doubling Growth Propels Fees Mid-to-Long Term

Broader penetration of the global fixed-income markets, including of investment grade and asset-backed transactions, could support upside to expectations for a doubling of the traditionally defined private credit market. As the largest managers attract the bulk of private credit assets, including through wealth and insurance channels, a potential 20% annual fee growth rate is not unreasonable to achieve, adding billions of fees over 10-15 years. Near-to-medium term rate and credit risks are unlikely to derail the demand.

Critical Milestones:

- **2025:** Assets increase by low-to-mid-double digits through fundraising and inorganic growth
- **2025:** Largest managers' fees could rise by median 20%
- **2025:** Potential rate cuts do not hinder private credit demand, credit quality holds
- **2025-29:** Private manager-sponsored asset-backed finance activity, grows faster than credit lending
- **2029:** Private credit assets under management could about double, according to a BI Survey and industry estimates
- **2029-34:** \$6-10 billion in industry-wide annual fees from insurance
- **2034-39:** Fees from private credit and insurance could increase by \$28 billion a year

Section 3. Growth Potential

Privates Eye 11% of \$41 Trillion Fixed-Income Market

Alternative managers, including private credit leaders Apollo, Ares and Blackstone, could eventually capture 11% of the \$41 trillion fixed-income market vs. about a third of that in 2023, results from our BI survey show, a share that could add \$28 billion of management fees for the industry and that further penetration could bring up to \$75 billion. Bankers see more share turning to alternatives than do managers.

3.1 Alternative Credit Managers May Reap Billions

Private credit's opportunity may extend across North America and Europe as managers partner or take share from banks, asset-based financing structures and possibly some public instruments. The total fixed-income market may climb from \$37 trillion in 2023, and about \$4.3 trillion of that could be up for rotation long term, potentially generating \$28 billion in fees in 10-15 years for alternatives managers.

In the medium term, \$520 billion is available for investment by private credit funds, which can garner \$5 billion in fees. An additional \$640 billion may be available in new insurance assets over five years if the seven largest managers boost this by 10-12% annually, or \$1-\$2 billion in fees. Performance-fee opportunities can add to our calculations.

Figure 1: Debt Markets Ample Opportunity for Private Credit

Fixed Income Addressable Market					Private Capital Fee Opportunity				
(\$ Billions)	Current Addressable Market (\$M)	Potential Fixed Income Penetration	Long-Term Opportunity (\$)	Current Private Credit Capital	Sources of Addressable Market Funding	Current	Growth (5-Year)	Future	% of Addressable Market
Fixed Income Addressable Market	40,891	11%	4,336	1,541	Private Credit Dry Powder	520	-	520	12%
	<i>incl. Private Credit</i>		<i>excl. Private Credit</i>		<i>Alternative Managers Covered by BI</i>	249			6%
Long-term Private Credit Capital (10-15 years) Growth Opportunity 281%					Insurance Asset Growth* (5-Year Growth)	1,048	10%	640	14%
Global Corporate Bond Market	12,750	11%	1,399		Management Fee Rates				
US Corporate Bonds	8,400	11%	964		Private Credit	1.00%			
US Investment Grade Bonds	7,070	11%	778		Insurance	0.25%			
US High Yield Bonds	1,330	14%	186		Blended	0.65%			
European Investment Grade	2,710	10%	271		Mid-Term Incremental Fee Opportunity				
European High-Yield	335	10%	34		<i>Management Fees (\$B) From:</i>				
UK Corporates	392	10%	39		Private Credit Dry Powder	5.2			
Other	913	10%	91		Insurance Asset Growth	1.6			
Bank Balance Sheet (Loans and Leases)	19,263	10%	1,983		Long-Term Incremental Fee Opportunity				
US	12,465	11%	1,371		<i>Based on Long-Term Fixed Income Asset Penetration @ Blended Fee Rate</i>				
Commercial and Industrial	2,773				Management Fees	28.2			
Real Estate Loans	5,600				Current Private Credit Industry Fees (\$B)	16	--	26	
Consumer Loans	1,920				Incremental Long-Term Fee Growth	107%	--	179%	
Other	2,173				*Based on BI-tracked manager assets, which have significant share				
European	6,798	9%	612						
to Non-Financial Institutions	5,449								
to Financial Institutions	1,349								
Non-Bank Leveraged Loans	2,137	13%	278						
US	1,677								
Syndicated	1,377								
CLO	1,000								
Other (Insurance, Pension, MF, Other)	377								
European	460								
Asset-Based Finance, Ex CLO	5,200	13%	676						
Private Direct Loans	300								
BDC	300								

Source: SIFMA, Federal Reserve, LCD Pitchbook, Refinitiv, KKR, Voya, Ares Management, Statista, Trading Economics, Preqin, Bloomberg Intelligence

Bloomberg
Intelligence

BI

Seeking \$28 billion in management fees

Alternative managers' fee opportunity on fixed-income penetration may be triple that of our internal calculations, based on the maximum capture responses to our BI survey. A 30% capture of each credit area, which is likely an exaggerated expectation, may lead to over \$75 billion in potential management fees, compared with the \$25 billion using our assumptions. This would require taking 29% of the pie, much higher than our 9%.

These results bode well for credit-focused managers like Apollo and Ares. Apollo has 82% of its assets in credit, which touts fixed-income replacement as a growth driver and doubles its total addressable market. Ares, with 72% of its assets in credit, has 0.8% market share in an addressable market similar to BI's projections. About 32% of Blackstone's assets are in credit and insurance. Other BI-tracked managers are also growing in credit.

Expectations for private credit growth to outpace other alternative assets help the associated revenue pool, and we believe that managers with a concentrated exposure who already dominate the industry should continue to benefit. BCG estimates global revenue in the asset class was \$11 billion in 2023 and could grow 11% annually through 2028, up from prior estimates of 10% through 2027, while it could grow almost 12% a year as a percent of assets under management. It might represent 7% of alternative assets in 2028 vs. 6% now and 5% in 2015, according to BCG, while we calculate that the six largest managers earned over \$7 billion in private-credit fees in 2023 and note additional sizable competitors.

Consistent with the broad asset-management industry, the space is dominated by a handful of big participants. Scale, track record and resources may allow these incumbents to seize on growth in the asset class.

Private credit managed assets are expected to reach \$2.6 trillion by 2029, growing 10% compounded annually from 2023, according to Preqin. Despite marginally lower growth from prior forecasts, the asset class will likely be among the faster-growing alternatives segments, not far behind private equity. Its share of overall alternatives is 11% as of March.

Rate cuts have started, but interest rates remain elevated, which boosts demand for private credit, as it's better hedged than public credit given its largely floating-rate nature. Still, higher rates are starting to pressure borrowers. Private credit lending is filling gaps left by banks, with direct lending accounting for more than 40%. As banks contend with rising credit risk, opportunities in middle-market lending and asset-based financing may favor private markets.

Section 4. **BI Survey**

Private Credit Seen Rising Double Digits to 11% of Debt

The private credit market could expand by double digits annually in the medium term to about \$3 trillion, replacing 11% of the broad fixed-income market, based on our survey of almost 140 investors, fund managers and bankers (see Fig. 2). Most growth is projected to be in North America, followed by Europe. Respondents see inflows across investors, getting significant contributions from the insurance and wealth channels. Deployment can accelerate, driving fees. Managers' fee rates will likely be stable, while providing 100-300 bps of excess spread above public markets. Those surveyed broadly agree on key opportunities and risks. Bankers' views for higher growth imply competition as well as collaboration with private credit. Risks can arise from credit quality, borrower cash flows and regulation, according to most respondents.

4.1 Respondents Broadly See Private Credit Gains

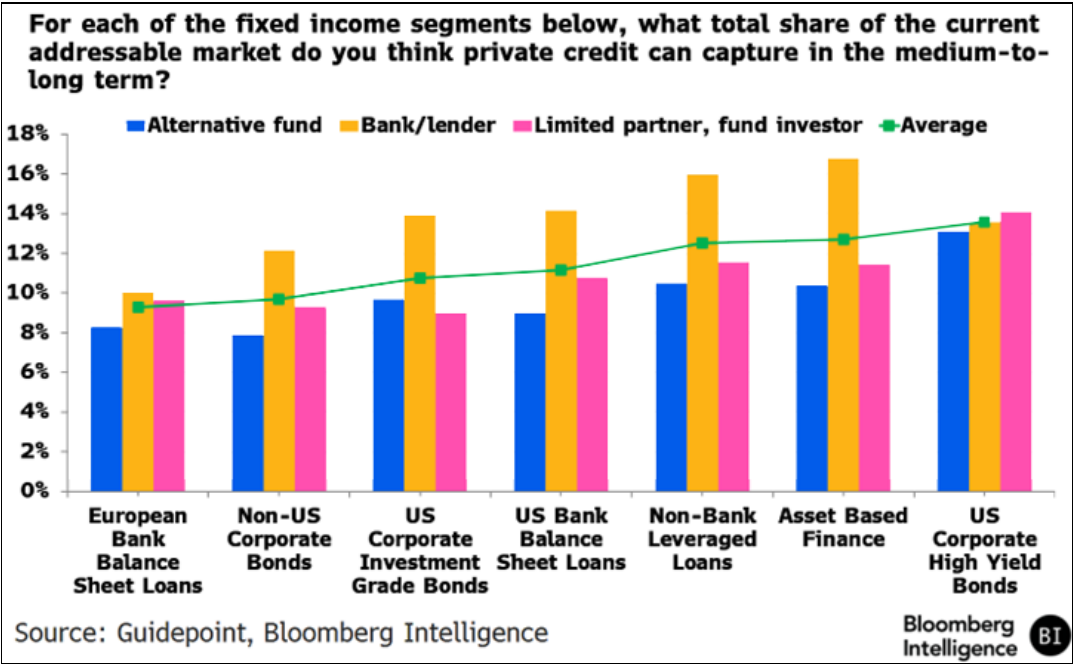
Our internal assumption was that private credit can replace about 9% of the traditional fixed-income market, so we asked investors, fund managers and bankers to indicate their expectation for penetration of the addressable market by alternative asset managers across various asset classes, which totaled 9-14% in the aggregate for each group. Respondents said that the US has the most potential -- including for high yield, leveraged loans and bank balance sheets -- with Europe not far behind.

Bankers and lenders seem the most optimistic about private credit's potential, acknowledging the industry demand and regulatory frictions that make private investors and managers competitive. Investors and managers hold similar views.

BI

Bank lenders most optimistic about private credit opportunities

Figure 2: Fixed-Income Market Capture Potential



Asset managers may provide the greatest support to private credit (as seen in Fig. 3), chosen by 32% of respondents as the biggest allocators going forward, with sovereign wealth funds next, at 23%. The rest is split between pensions, insurers and retail. Only 17% of respondents identified insurance investors as leading contributors to private credit. Some large private equity managers we cover invest at least half of their credit assets on behalf of insurance clients or insurance-owned entities.

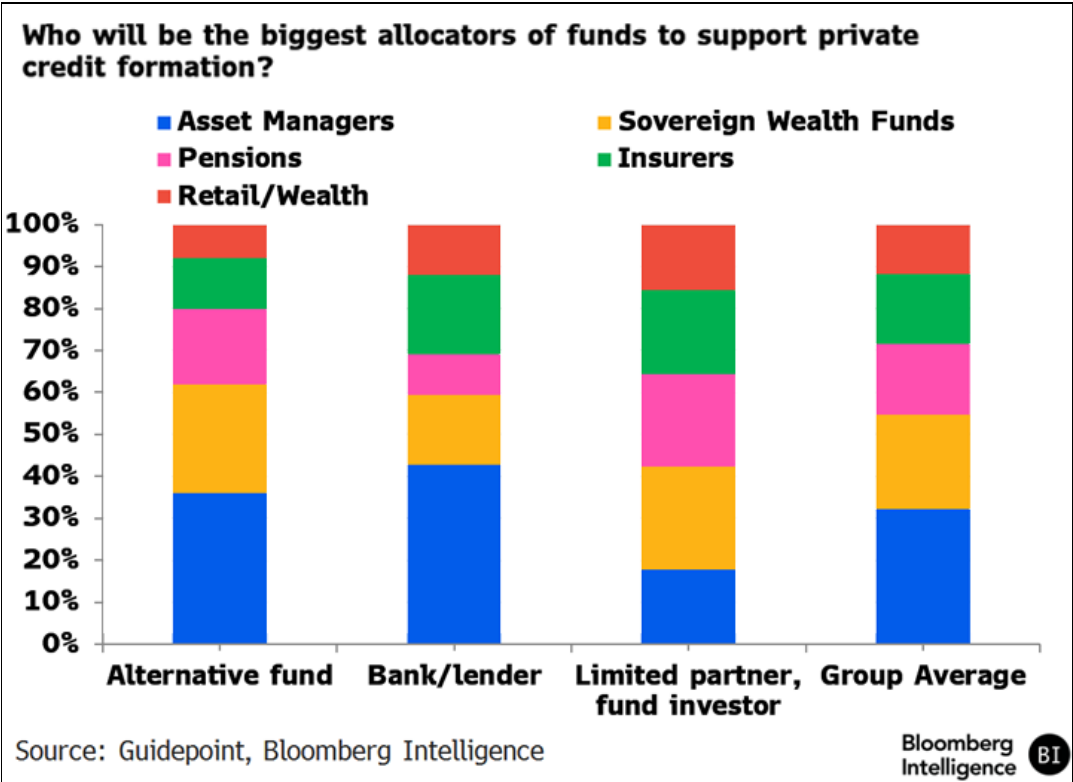
Retail and wealth could be a high-growth area. More investors and lenders in the survey see the group becoming a leading allocator, which may imply that demand is even more ambitious than product supply by managers.

Private credit industry fundraising is holding steady in 2024 after slowing in 2023 from a robust 2021-22, yet the leaders continue to grow. The pace is still healthy, while additional fixed-income inflows come from recurring products, including insurance. Funds have brought in \$221 billion year to date, likely to exceed \$236 billion in 2023. The number of funds attracting money has dropped, highlighting the dominance of the largest private credit managers, such as Apollo, Ares and Blackstone, and their diversified yet less credit-focused peers. We anticipate more activity through the end of the year, while insurance-related inflows could support broader fixed-income replacement given robust demand for the asset class.

Direct-lending strategies face more competition, as well as opportunities to work and compete with banks.

BI
Asset managers seen as biggest allocators, retail/wealth smallest

Figure 3: Key Allocators



4.2 Partnerships Offer Opportunity

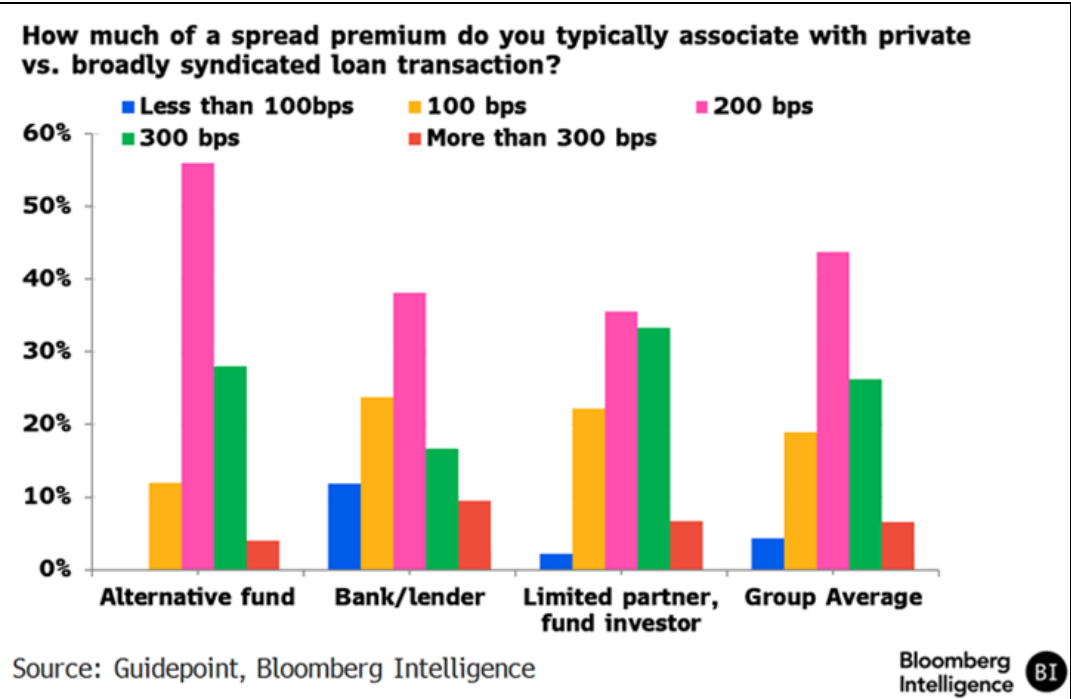
Over 70% of lenders and half of investors and fund managers expect deployment to accelerate modestly over the next 12 months, consistent with an improving deal environment as interest rates decline. More than 20% of fund managers and investors expect a significant increase, while more than 60% of the overall group expect at least a modest increase. Lenders' strong view of rising private credit deployment could suggest an expectation of more competition with managers -- or collaboration, in which banks originate loans and managers provide capital. Recent partnerships, including Apollo's deal with Citigroup to manage up to \$25 billion in direct lending and \$5 billion with BNP Paribas for asset-backed finance, highlight the trend.

Such views should be positive for management fees and fee-related earnings, as managers typically start collecting fees on deployment of credit funds.

Most respondents see private lending holding a spread premium of 100-300 bps over public markets (illustrated in Fig. 4), with 44% pointing to a 200-bp premium. Most of the spread compensates for the lack of liquidity for private instruments, but it also indicates the benefits to borrowers of faster and more certain execution of private transactions. Banks see a wider range of private spread outcomes in their lending, though it's still clustered around 200 bps, while bank lenders have the largest share of groups surveyed that see excess spread at less than 100 bps.

As banks step back into middle-market lending and private credit managers look to defend market share, excess spreads appear to be compressing.

Figure 4: Spread Over Public Markets



Private credit returns that exceed those of public markets drive demand for the asset class and sustain robust management fees. About 45% of respondents expect private credit fee rates to remain stable, and more than 20% each see either a small decline or increase. No fund managers, and just 4% of investors, expect significant declines.

Fees at the largest peers -- including Apollo, Ares, Blackstone, KKR, Carlyle, Brookfield and TPG -- could prove particularly resilient, as just 3.5% of private debt fundraising has come from emerging managers this year, down from 15% in 2021. As the asset class expands and shifts further into mainstream fixed income, more attractive fee products become possible.

Section 5. Credit Growth

Alternatives' Private Credit, Insurance Assets Swell

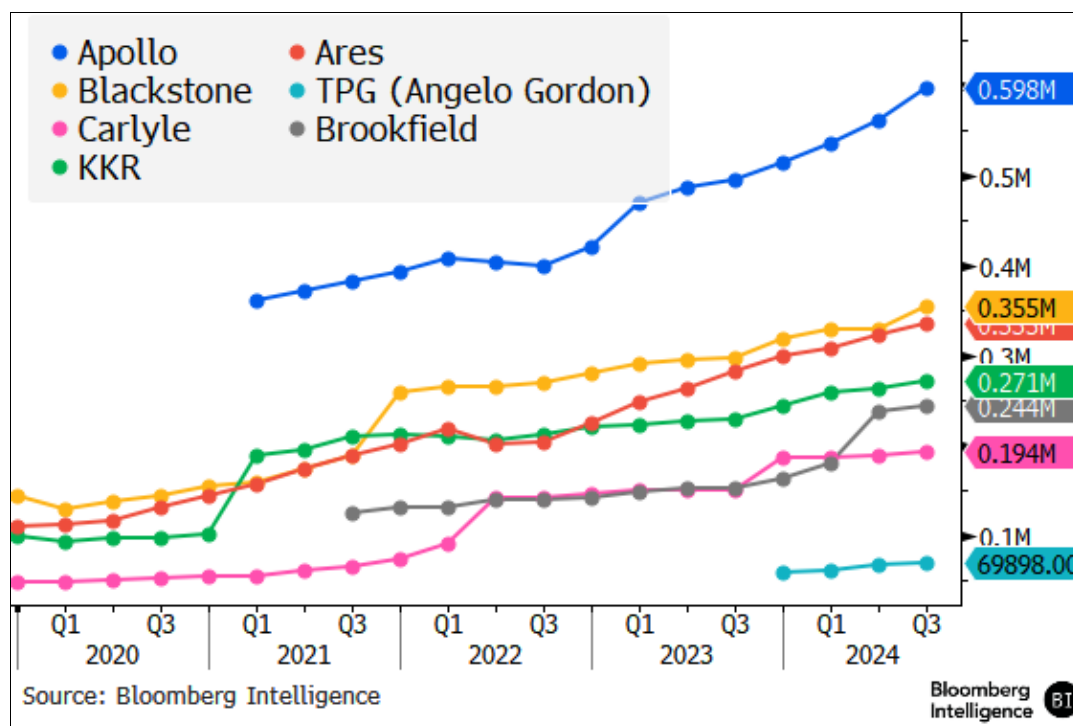
Alternative-asset managers are building capabilities and products to broaden their addressable credit markets and opportunities for fees. Apollo, Ares, and Blackstone dominate and manage over 60% of the industry's \$2.1 trillion, and they continue to boost their insurance assets, prompting them to expand beyond conventional private credit.

5.1 Credit Adding Share Among Publicly Traded Managers

The largest alternative managers (see chart in Fig. 5) are focused on augmenting their credit portfolios ahead of other asset classes, supported by direct-lending demand and insurance-asset acquisitions. Apollo, which holds 82% of its total assets in its Credit segment after 2020 insurance-asset acquisitions, maintains a higher credit concentration than Ares and Blackstone, which have 72% and 32%, respectively. KKR's credit allocation is 43%, boosted by its Global Atlantic purchase in 1Q21 (32% before the deal) and Manulife this year. Carlyle's purchase of CBAM Partner's CLO portfolio, among others, increased credit to 43% of managed assets and made it the world's largest CLO manager. Brookfield's is about 45% of the total, after adding AEL in May.

TPG's Angelo Gordon deal brought \$57 billion of assets, now 29% of the total.

Figure 5: Private Credit Assets Under Management

**BI**

**Apollo leads
private credit AUM
by a wide margin**

5.2 Insurance-Related Assets Fuel Private Credit

The largest alternative managers handle much more than traditional private credit, diversifying with insurance-managed assets and liquid credit offerings. Private-credit assets at BI-tracked alternative managers are up 19% since the start of the year, much of it allocated to investment-grade credit, which is partly non-public, yet not captured by alternative-data providers. Subtracting insurance assets for the seven largest standalone managers implies \$1 trillion of private credit, accounting for over half of the industry total.

Apollo, KKR, Blackstone and Carlyle manage the largest share of the estimated \$1 trillion insurance-related assets. Brookfield made a strong push adding AEL assets. All developed capabilities beyond direct lending, allowing them to pursue other yield assets.

Figure 6: Alternative Credit Managers More Than Private

Company	Credit							Insurance		
	Fee-Earning AUM	% of Manager's FAUM	AUM	% of Manager's AUM	Dry Powder	as % of Manager's Dry Powder	as % of Manager's FAUM	AUM	% of Total	Credit Ex-Insurance
(\$B)										
Blackstone	252	31%	355	32%	36	21%	14%	221	20%	134
Apollo	479	87%	598	82%	38	59%	8%	374	51%	224
Ares	205	72%	335	72%	94	75%	46%	17		318
TPG (Angelo Gordon)*	42	30%	70	29%	12	20%		17		53
KKR	249	49%	271	43%	20	18%	8%	247	40%	24
Brookfield (inc. Oaktree)*	245	45%	245	45%	32	30%	13%	89		156
Carlyle	159	51%	194	43%	17	20%	11%	83	19%	111
			2,068		249					1,020
BlackRock	120	38%	125	36%						
JPM*	63	19%	144	28%						
Goldman	63	19%	144	28%						
Blue Owl	89	58%	128	55%	15	71%	17%			
Partners Group			30	20%						
EQT	0	0%	0	0%						
Bridgepoint	9	23%	14	19%						
StepStone	16	16%	30	18%						
Bridge Inv.	5	23%	16	32%						
CVC	44	28%	47	22%						
Bain			48	26%						

Note: TPG Insurance is approximated as 7% of total AUM, Goldman uses Assets Under Supervision for FAUM

*Based on most recent available data

Source: Company Filings, Bloomberg Intelligence

Expansion of credit capabilities (see Fig. 7 below) unlocks broader addressable market opportunities for alternative asset managers. Though larger private credit strategies such as direct lending and distressed debt still dominate, firms have diversified into areas like liquid credit and structured products, facilitating the deployment of dry powder amid credit demand and continual insurance float.

Ares' direct-lending franchise is its cornerstone, yet it holds \$47 billion of its \$335 billion of credit assets in liquid credit, \$12 billion in Asia and \$41 billion in alternative. KKR, Apollo and Carlyle look focused on asset-backed finance to aid deployment of insurance collections. Brookfield's Oaktree specializes in distressed debt but manages across asset classes, while TPG's addition of Angelo Gordon provides diversified credit exposure.

Figure 7: Large Manager Credit Capabilities

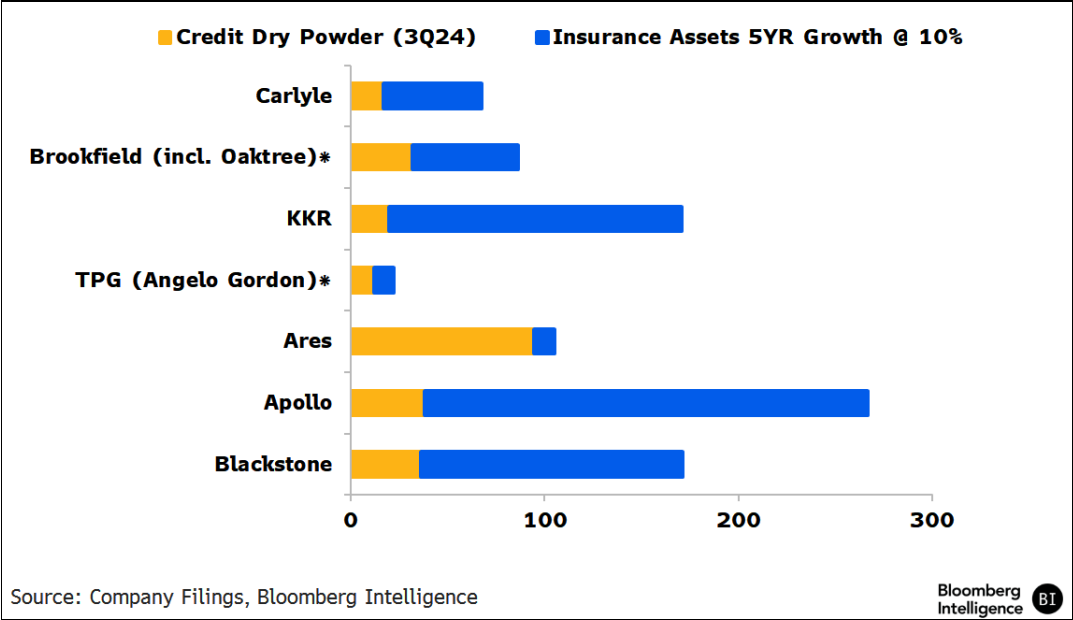
Apollo - Corporate Credit and Fixed Income - Direct Lending - Structured Credit - Real Estate and Other Ares - U.S. Direct Lending - European Direct Lending - Alternative Credit - Liquid Credit - Asia Credit - Secondaries Blackstone - Loans, HY and IG Bonds - Systematic Strategies - SCLO Investing - Direct Lending - Mezzanine - Opportunistic/ Stressed Debt - Sustainable Resources Platform Carlyle - Liquid Credit (CLO) - Private Credit - Direct Lending - Private Credit - Opportunistic Credit - Private Credit - Distressed and Special Situations - Real Assets Credit	KKR - Strategic Investments - Private Credit - Asia Credit - Private Credit - Asset-Based Finance - Private Credit - Direct Lending - Private Credit - Junior Debt - Leveraged Credit (Bank Loans, HY, CLO) Brookfield AM - Oaktree - Opportunistic Credit - Oaktree - HY Bonds - Oaktree - Senior Loan - Oaktree - Private Credit - Oaktree - Multi-Asset Credit - Oaktree - Emerging Markets Credit - Oaktree - Convertible Securities - Oaktree - Structured Credit - Oaktree - Investment Grade Solutions - Brookfield Credit - Direct Lending - Brookfield Credit - Alternative Strategies (Primary Wave) - Brookfield Credit - Consumer and SME Credit (LCM Partners) TPG (Angelo Gordon) - Distressed & Corporate Special Situations - Performing Credit - Structured Credit - Middle Market Direct Lending - Multi-Strategy Platform
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Source: Company Filings, Bloomberg Intelligence

Available private credit capital is a small fraction of fixed-income markets, giving room for even further growth as managers bring in strong inflows. Private credit's aggregate of about \$520 billion in dry powder is just 1% of the addressable market, while the \$249 billion in the hands of the seven largest managers (48% of total, illustrated in Fig. 8) equals about 7% of the total attainable share. Though direct lending and opportunistic funds are leading the opportunity, structured credit and other verticals are growing.

Insurance assets could add \$640 billion, growing at 10% annually, after expanding at 15-20% a year, led by Apollo, KKR and Blackstone, aided by competitive positioning and acquisitions. These permanent-capital assets often hunt investment-grade lending and increasingly focus on structured credit such as origination capabilities.

Figure 8: Dry Powder, Insurance Asset Base



BI

Ares sits on largest pile of dry powder

Section 6. Insurance Inflows

PE’s Insurance Push Can Bring \$6-\$10 Billion in Fees

Investment into private credit is getting an incremental boost from the expansion of insurance assets of private equity firms, which could generate \$6-\$10 billion in industrywide annual fees in the medium term from that insurance growth, well ahead of expectations just a few years ago. The gains are fueled by their capabilities and efforts in managing investment-grade and asset-backed capital, in addition to alternative credit. Blackstone, Apollo and KKR may have a combined \$2.5 billion of such fees already.

6.1 Managers Progress Toward Possible Big Fee Payoff

Alternative-asset managers tracked by BI are showing greater ability and effort to capture a larger share of traditional insurance assets, and we calculate they can get 6% of these holdings, with potential upside that would drive more management fees, yet that might play out over time. Our scenario excludes potential incentive fees, which may be generated in some asset classes or via performance agreements. Combined, Apollo, KKR and Blackstone may already be producing almost one-third of the base-case projection of \$8.2 billion annually for the industry.

Applying hypothetical fees of 27.5 bps to core assets (mostly credit) and 75 bps to alternatives suggests strong potential for fee revenue.

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Insurance could generate \$8 billion in fees

Figure 9: Insurance Assets Revenue Opportunity

Insurance Global Assets Pool		\$40 Trillion	
		Traditional	Alternative
Industry Allocation Target		93%	7%
Potential Pool (\$T)		37.2	2.8
Hypothetical Capture		6%	10%
Captured AUM (\$B)		2,232	280
Management Fee Rate		0.28%	0.75%
Potential Management Fees (\$M)		6,138	2,100
Total Potential Management Fees (\$M)		~\$8.2 Billion	
Pool Size/ Traditional Asset Fees		25 bps	30 bps
\$30 Trillion		\$5.8 Billion	\$6.6 Billion
\$35 Trillion		\$6.7 Billion	\$7.7 Billion
\$40 Trillion		\$7.7 Billion	\$8.8 Billion
\$45 Trillion		\$8.6 Billion	\$9.9 Billion
Source: Company Filings, Bloomberg Intelligence			
			Bloomberg Intelligence BI

BI

Managers say they see vast opportunities in insurance

Alternative managers are embracing the insurance market (Fig. 10) as a key driver of managed-asset growth, particularly in credit -- albeit with somewhat different approaches. Apollo manages the most, with insurance assets making up about half its portfolio, mostly through fully owned Athene. Its balance sheet capitalizes Athene, then directs investable funds to Apollo vehicles. KKR is next on a relative basis with Global Atlantic, and Blackstone can increase its managed assets to \$250 billion once deals are fully phased in. Brookfield closed its AEL deal in April, adding \$50 billion and targets another \$50 billion from other third-party insurance over the next 5 years. Blackstone and Carlyle have used a more capital-light approach to asset acquisitions.

Blackstone and Apollo plan to manage all the assets of these insurance companies.

Figure 10: Current Insurance Involvement

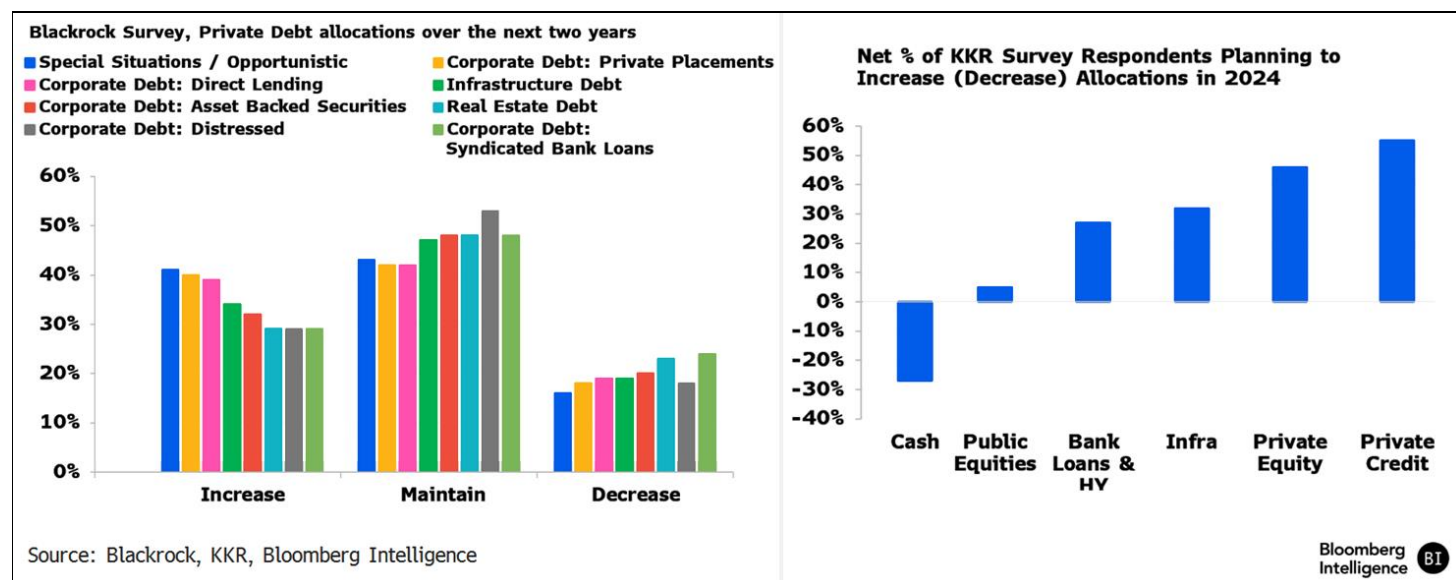
	AUM \$	% of AUM	Target/Comments	Notable Vehicles
Apollo*	\$374 Billion in Athene and Athora	51%	"And we estimate the total target market globally is \$45 trillion. And you think about where Athene sits as the industry leader in retirement services, we're less than 1% of the global opportunity."	Athene, Athora
Blackstone	\$221 Billion	20%	"We do not consolidate insurance company balance sheet and all its liabilities. Like the rest of our business, we're a third-party asset manager with a multi-client model, a model that's built to serve multiple clients."	Allstate, AIG, FGL, Resolution Life
Carlyle	\$83 Billion in Fortitude Re	19%	"The opportunities in our insurance business remain quite significant. Fortitude has grown its general account assets by almost 70% in the past year."	Fortitude
KKR	~\$247 Billion Total; \$187 billion in Global Atlantic inclusive of Manulife reinsurance transaction	40% Total; 30% Global Atlantic	"In Insurance, we have strong conviction that we could double Global Atlantic (AUM) from here."	Global Atlantic
Ares	\$17 Billion in Aspida	4%	"We have Aspida and we're very happy with how Aspida has grown ... We mapped out that we thought Aspida would go from, about \$25 billion to about \$50 billion over the next five years, so double in size"	Aspida
TPG**	\$16-17 Billion Managed on Behalf of Insurance Companies	7%	Noted Insurance as an opportunity	
Brookfield	\$89 Billion in Brookfield Wealth Solutions	16%	"This is just the beginning of managing third-party insurance capital through our Insurance Solutions business and we are targeting 50 billion of external partner capital from this strategy over the next five years."	American Equity Life, American National Group

*Apollo has additional insurance entities, but these are not material to AUM
**TPG based on insurance representing 7% of total commitments in active funds
Based on most recent data available
Source: Company Filings, Bloomberg Intelligence

Private credit and equity may be the most in-demand strategies, insurance-investor surveys show. Even as a share of nontraditional investments, those declined to 29% in KKR's 2023 analysis from 32% in 2021, as investment-grade debt offers improved returns. About half of investors plan to increase allocations to private credit and equity. A BlackRock survey found special situations/opportunistic, corporate private placements and corporate direct lending to be the most popular private credit strategy for insurers planning to increase allocations.

Some 64% of CIOs in KKR's survey rely on alternatives to drive portfolio returns. Not only did private credit offer better returns, but its investment-grade and high-yield components generated lower impairments for insurance portfolios than the public market.

Figure 11: Insurers' Asset Allocation Plans



6.2 PE-Insurance Deals Drive Asset, Fee Growth

Alternative asset managers' focus on insurance assets has benefited from a period of elevated interest rates and inflation. In a bid to meet their return objectives, US insurance companies increased their allocation to private equity by 10% in 2019, according to AM Best, spurring a spate of deals (which can be seen on the Bloomberg Terminal using the MA <GO> function). Overall allocation levels have fallen slightly since 2021, to 29% in 2023 from 32%, according to a KKR report, as risk-free rates became more attractive.

KKR, Apollo and more recently Brookfield (AEL, Argo), Carlyle (Fortitude) and Blackstone (Resolution Life), have all announced expansion of insurance assets via acquisitions, adding over \$450 billion in assets under management combined. Ares and TPG each manage less but have shown interest in expanding. Brookfield benefits from its parent corporation's insurance operation.

Private equity's lofty insurance goals illustrate the potential for industry-asset and related fee capture. After its 2022 Resolution Life deal, Blackstone lifted its expectations to \$250 billion in managed assets from existing insurance clients, and currently manages over \$200 billion as non-captive assets. Apollo aims to expand its insurance managed assets by doubling Athene to \$600 billion in the five-year period ending in 2029 while increasing third-party capital from ADIP. KKR manages \$247 billion, \$187 billion of which is from Global Atlantic, and recently expressed a conviction to double these assets to \$350 billion. Carlyle's service agreement with Fortitude now has \$79 billion of such assets.

Section 7. Retail Frontier

PE's Focus on Retail Demand in Product Development

The largest private asset managers are focused on expanding a suite of products for retail investors as demand grows. This effort could add billions of management fees, potentially tripling current levels over 5-10 years for the BI-tracked managers. The currently estimated 3% wealth market penetration by alternative investments could grow toward 8-10%, which is consistent with many market participants' ambitions. Retail-friendly investment structures include key private credit drivers, such as BDCs, REITs and newly launched buyout products. We anticipate continued demand growth for these products.

7.1 Wealth Trillions Could Triple PE's Fee Billions

Allocations for private wealth investors could grow at a 12% CAGR to \$13 trillion by 2032 (see Fig. 12), Bain projects, and we calculate that could add \$10 billion or more of base fees. BI-tracked names manage about \$580 billion of the \$145 trillion private wealth market, led by Blackstone, at 23% of its assets.

Retail adoption of private assets presents a multi-billion fee opportunity for large BI-tracked managers, supported by demand, product innovation and constructive markets. The magnitude and speed of growth remain variable. In the \$145-\$150 trillion high-net-worth and mass-affluent market, based on Bain's calculation, it sees \$4 trillion in retail alternatives, or 3% penetration, while BI-tracked manager disclosures suggest 14% share. Assuming a conservative 1% management fee (and ignoring incentive fees), Bain's projection for these assets to grow to \$13 trillion, and our view of the largest managers increasing share, these peers could triple their retail fees over a decade. Total alternatives could reach \$61 trillion among all investors by 2032, from \$26 trillion in 2022, with institutional investors moving to \$47 trillion from \$22 trillion and private \$13 trillion from \$4 trillion.

BI

Retail alternatives could reach \$13 trillion by 2032

Figure 12: Additional Retail Base-Fee Opportunity

Retail/Wealth Alternative Assets (\$B)	Largest Manager Share of Total			
	14%	15%	17%	20%
4,000	6			
5,000	7	8	9	10
6,000	8	9	10	12
7,000	10	11	12	14
8,000	11	12	14	16
9,000	13	14	15	18
10,000	14	15	17	20
11,000	15	17	19	22
12,000	17	18	20	24
13,000	18	20	22	26

Assumes 1% fee capture on managed assets
Fee opportunity in \$ billions
Source: Company Filings, Bain, Bloomberg Intelligence

Bloomberg Intelligence **BI**

Regulatory and volatile market conditions could be potential risks for retail growth into alternatives, but increased investor sophistication and an improved sales infrastructure should help capture rising demand.

Retail is an average of 14% of managed assets (Fig. 13) for BI-tracked firms, and most of the focus is on attracting more retail money from accredited US investors, with a growing number from overseas. Blackstone leads with 23% in retail, followed by Ares and Carlyle.

Blackstone has nearly reached its \$250 billion target for 2026 and may significantly boost it. Apollo's acquisition of Griffin Capital's US wealth-distribution unit supports its five-year goal of generating 30% of fundraising from retail clients, or \$50 billion through 2025, while KKR expects wealth to become 30-50% of inflows over time, from 10-20% currently, and Brookfield anticipates private wealth inflows will grow \$12-\$15 billion annually.

BI

Retail accounts for
14% of large
manager assets

Figure 13: Retail Share of Managed Assets

	Retail Managed Assets	% of Total Managed Assets
Apollo	\$30 Billion	4%
Ares	\$89 Billion	19%
Blackstone	\$250 Billion	23%
Carlyle	\$81 Billion	18%
KKR	\$75 Billion	12%
TPG	\$38 Billion	16%
Brookfield AM	\$16 Billion	3%
Average		14%

Data are estimates and based on last available %, applied to current AUM
 *TPG based on LP commitments shared disclosure
 Source: Company Filings, Bloomberg Intelligence

Bloomberg Intelligence **BI**

Alternative-asset managers see continued opportunity to provide more products to retail investors, with comments on recent conference calls indicating a robust view of the market's potential and a commitment to tapping it. Management teams recognize there's structural demand for alternative assets within wealth portfolios.

Increased adoption of alternative investments bodes well for general partners' efforts to further penetrate the segment. Of top-ranked advisers, 71% allocate 6%-20% of client portfolios to alternatives, according to a 2023 survey by Shook Research and Blackstone, up from 53% in 2022. Just 14% of advisers allotted less than 5%, down from 32% in the preceding year. Meanwhile, 15% allocated more than 20%, similar to 2022. Such figures suggest that more advisers are growing more comfortable allocating their clients' assets into alternatives, though they may be cautious about allocation size.

Some 85% of advisors planned to increase existing client allocations to one or more alternative asset classes, according to a survey by CAIS-Mercer.

7.2 Established Managers Attract Most Retail Business

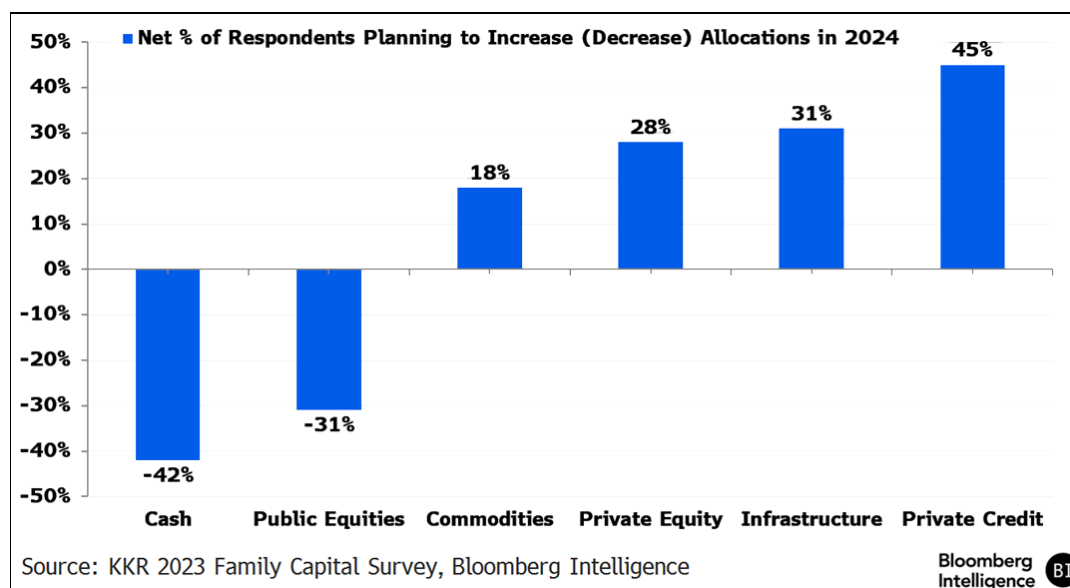
BI-tracked alternative asset managers can benefit from product breadth and reputation, attracting retail investors, and these six (TPG did not reach the top 50) have contributed nearly half of retail alternative investment fundraising over the past three years, according to Stanger data. These managers' total assets represent about 30% of global private capital, as identified by Preqin, with Blackstone raking in a third of the funds from 2021-23, while Blue Owl, the next largest, only accounted for 9%. More than half (52%) of semi-liquid product sales went to the top two to six sponsors in 2023, compared to 17% in 2021, calculated by Ares.

Managers compete over shelf space, as private wealth distributors tightly maintain the number of firms on their platforms.

Family offices, which represent about \$3.1 trillion of assets under management, according to Deloitte, in many instances could be comparably or higher allocated to alternatives relative to institutional investors. They allocated 46% of assets to alternatives, based on a JPMorgan survey. About 86% of the family offices held some exposure in private equity, and 38% held private credit.

Nearly half (45%) of family office CIOs planned to increase their private credit allocation this year, according to KKR (as seen in Fig. 14).

Figure 14: Planned Allocation Changes



BI

45% of family offices expect to increase private credit allocations

Alternative managers use products like business-development companies and REITs to engage with retail investors, and we anticipate an expansion of such structures. BDCs allow for exposure to private credit and have grown to over \$250 billion in assets, more than doubling in three years, while redemption requests amid real estate woes have slowed. Managers have also developed products that grant access to buyouts.

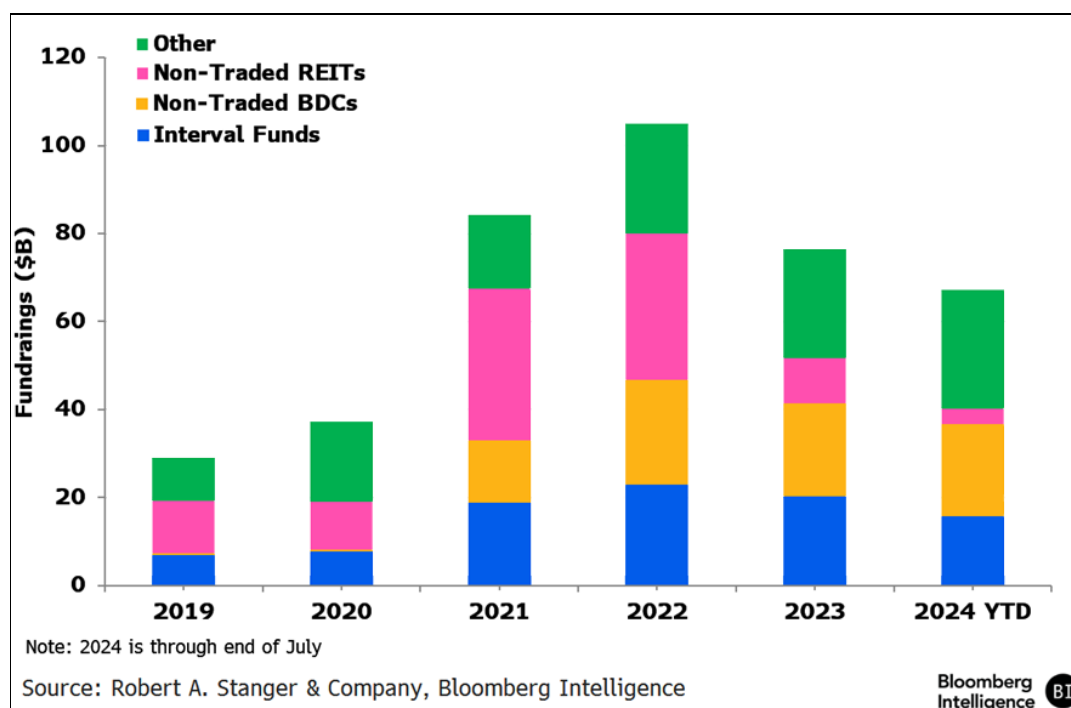
Private managers' renewed focus on outfitting investment vehicles with retail-friendly structures that provide intermittent liquidity should help them capture more assets. BDCs, REITs and interval funds are among the most prevalent -- accounting for 60-80% of retail-product fundraising in recent years, according to the Stanger Report -- though product innovation is also driving growth. Blackstone's recently launched BXPE product is tailored to wealthy individual investors and offers exposure to corporate buyouts, while the company expects its BREIT vehicle will become its largest. KKR and Ares are gaining in retail via BDC products.

Distribution is key to growth, with Carlyle joining up with Oppenheimer, Apollo buying Griffin Capital and Brookfield relying on Oaktree Wealth Solutions. Others have built in-house sales.

BI

Fundraising by retail alternatives topped \$100 billion in 2022

Figure 15: Fundraising by Retail Alternative Product



Some 70% of investment advisers are planning to increase allocations to private markets in 2024, according to a Hamilton Lane survey. Asset classes across the board are in favor, with the exception of real estate -- especially commercial -- which has experienced economic headwinds. Private credit is in demand, with 60% of advisers surveyed by Crystal Capital Partners expecting to add exposure to the asset class; those that aren't are mainly concerned about risk.

Retail investors, however, tend to arrive late to the party in investment trends compared with institutional. Credit assets have seen robust growth, though potential rate cuts could hurt returns on floating-rate assets, while some alternative managers' comments indicate that real estate may have already reached a bottom.

7.3 BDCs Get Boost From Retail, Private-Credit Demand

Business-development companies are likely to see sustained demand, as their structures sit at the cross section of two major alternative-asset growth drivers -- private credit and retail wealth penetration. Managers may also be keen to extend offerings as BDCs bring diversified fee opportunities. Excluding private non-traded vehicles, assets under management have grown to over \$250 billion in 2024 from about \$110 billion in 2020 and just \$50 billion in 2013. New launches from Bain, Nuveen, Fidelity and others should broaden product awareness and distribution. The largest alternative managers, including Blackstone, Ares Capital, Apollo, Angelo Gordon, KKR, Oaktree and Carlyle all have BDCs in the market.

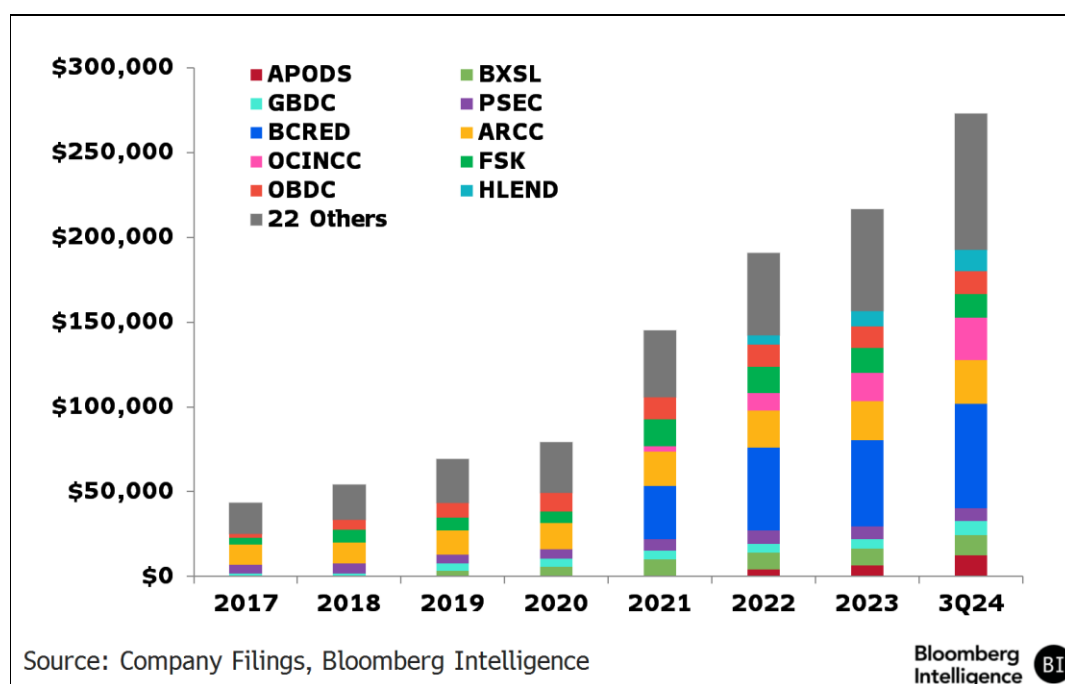
BDC Ares holds about 10% of the AUM of the parent's credit unit yet generated 34% of the segment's fees. Blackstone's BCRED manages over \$60 billion.

BDCs are a vibrant and growing segment with more than \$50 billion of public bonds that provide a window into the \$2 trillion private-credit world. Consensus points to a benign economic and interest-rate backdrop in 2025, supporting a receptive market for more BDC bond issuance. BDC credit trends are mixed but skewed toward positive. Growth and low non-accruals are buoying sentiment, though the elevated payment-in-kind rate could foretell building stress.

Private credit, including BDCs, is in a new phase of double-digit growth fueled by conducive capital markets, about \$500 billion of dry powder supporting deal flow, and a solid economic backdrop. Consensus sees moderate GDP growth, low inflation and stable employment, along with the prospect of multiple Federal Reserve rate cuts. Animal spirits have returned, with the 32 high-grade BDCs we track scoring 26% growth in the first three-quarters of 2024 in their investments (see Fig. 16), now at about \$250 billion. Barring a significant bout of volatility, hothouse-growth conditions could last.

With strong growth and lower spread premiums, risk may also be on the rise. The IMF in April recommended greater transparency and more "intrusive" regulation for the \$2 trillion-plus credit market worldwide.

Figure 16: High-Grade BDC Growth Is Trending Up (\$ Million)



7.4 Debt Capital Markets Open Business for BDCs

BDCs are heavily reliant on external funding to support their growth ambitions, and access to durable committed bank funding and bond financing via public debt capital markets is crucial to their liquidity needs. Liquidity can be fickle, so having robust and diverse funding sources is key. BDCs proved their mettle, for the most part, by keeping their external funding channels open

(perhaps at a cost) in the challenging capital markets of 2022 and 2023, that saw major US regional bank failures and 525 bps of rate increases by the Federal Reserve.

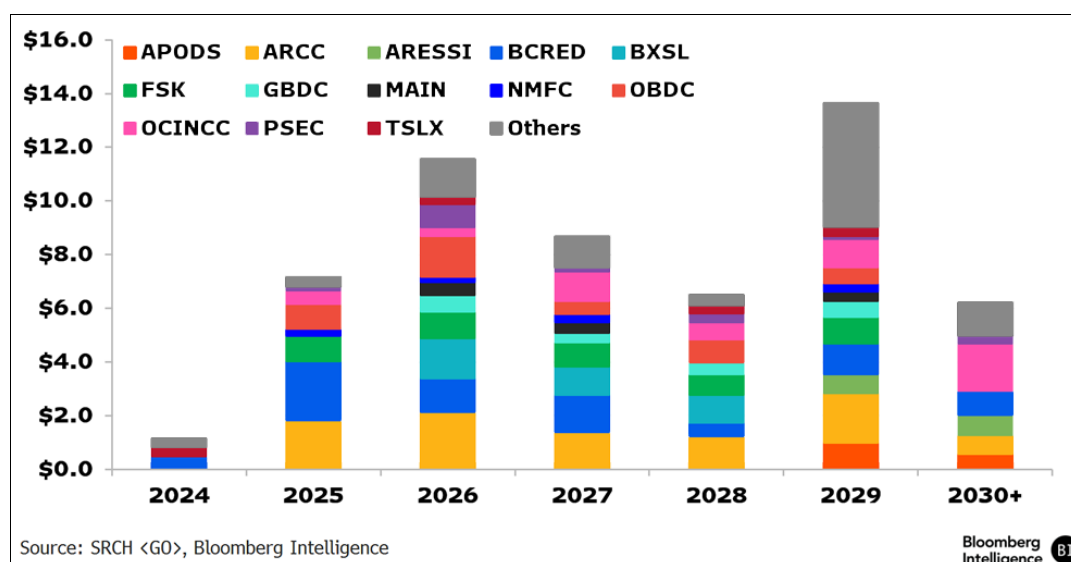
Debt capital market conditions have been far more amenable in 2024. BDCs have used this change in tone to extend, enlarge and diversify their committed bank funding facilities. They have also increased their profile with bond investors as existing BDCs and new entrants have issued a record amount of debt in 2024.

Placid credit markets, with the US Corporate Bond Index near all-time tightness at 83 bps, seem receptive to ongoing BDC bond issuance, and through October, the high-grade BDCs we track issued \$20.5 billion of bonds (more than 4x the full-year amount in 2023). Blue Owl Credit Income (\$3.4 billion), Ares Capital (\$1.9 billion) and Blackstone Private Credit (\$1.8 billion) led the charge, but the year has also featured issuance from BDCs such as Apollo Debt Solutions, Ares Strategic Income and HPS Corporate Lending, with proceeds used mainly to pay down bank credit facilities and fund bond maturities and growth. This seems quite prudent, as market sentiment can shift rapidly and BDCs may not always have such ready access to funding.

BDCs are in the fortunate position of not facing heavy bond maturities (Fig. 17). Through the end of 2025, high-grade BDCs face \$8.3 billion of bond redemptions, and while no trifling sum, it comes in the context of more than \$20 billion of committed undrawn bank facilities, a BDC sector with more than \$50 billion of outstanding bonds, and a US high-grade market with \$7.3 trillion of debt outstanding. Only two BDCs face bond maturities of more than \$1 billion through 2025: Blackstone Private Credit Fund at \$2.7 billion, and Ares Capital at \$1.9 billion.

BDC maturities are set to increase to about \$12 billion in 2026 before dropping off in 2027 and 2028, with another peak of \$14 billion due in 2029. The growing stature and familiarity of BDCs among bond investors may facilitate future issuance.

Figure 17: BDC Bond Maturity Schedule (\$ Billion)



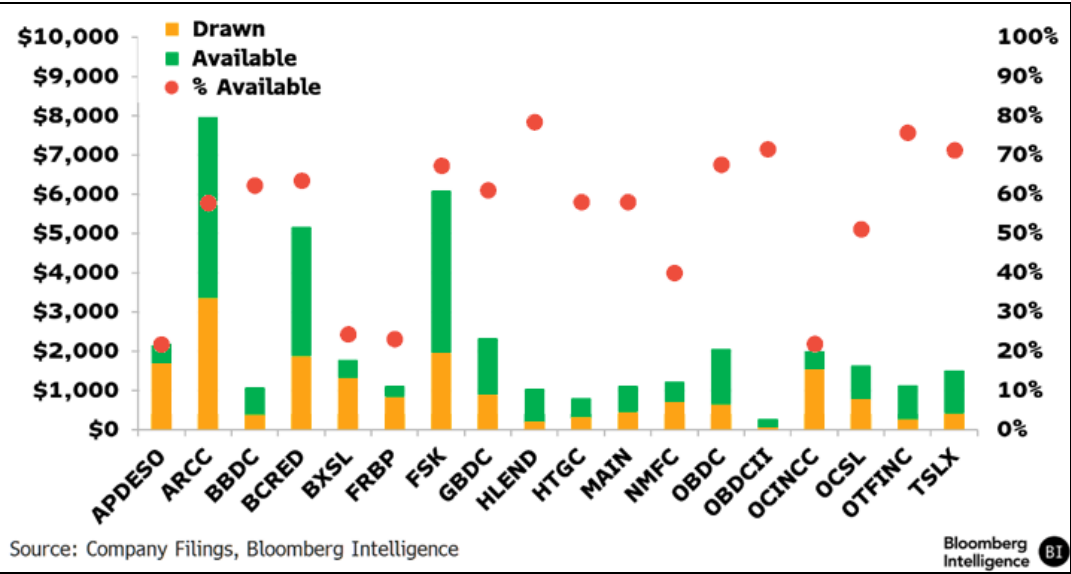
BI
Bond maturities appear manageable for BDCs

Committed credit facilities from banks offer liquidity and a cushion for BDCs should debt capital markets suddenly sour on bonds from the segment. The large BDCs we track had 2Q aggregate

revolving credit-facility commitments of \$40 billion in place. Almost all of them extend out three years or more, with average untapped availability of 56%. With BDCs facing only \$8.3 billion of bond maturities through the end of 2025, bank facilities offer ample liquidity.

Liquidity is further enhanced through an array of committed special-purpose-vehicle secured conduit programs, as well as other securitizable unencumbered assets. With placid capital markets for now, BDCs can pursue unsecured funding options.

Figure 18: Use of Bank Revolving Credit in 2Q (\$ Million)



7.5 Ratings Mostly Trending Up for BDCs

BDCs are on a slightly positive footing from a credit-rating perspective (as shown in Fig. 19), with a handful of recent upgrades and positive outlooks outnumbering a few scattered negative outlooks, and no rating downgrades. On the upgrade side of the ledger, Ares Capital, Blackstone Private Credit, Blackstone Secured Lending, Golub Capital, Blue Owl Capital and Sixth Street Specialty Lending have had upgrades. Meanwhile, negative rating actions have been limited to outlook changes, with FS KKR and Prospect Capital as the most notable.

The ticket for entry among BDCs planning to issue bonds seems to be a triple-B range credit rating. We think most BDCs would undertake a range of significant actions to defend their investment-grade ratings, as that helps limit borrowing costs, thereby feeding into wider margins.

Figure 19: Median Credit Ratings and Changes (2024)

Bond Ticker	APODS	ARCC	ARESSI	BBDC	BCRED	BXSL	CGBD	FSK	GBDC	GCRED	HLEND	HTGC	MAIN
Rating Change	↔	↑	↔	↔	↑	↑	↔	↔	↑	↔	↔	↔	↔
Outlook Change	↔	↑	↔	↓	↔	↔	↔	↓	↑	↔	↔	↑	↔
Median Rating	BBB-	BBB	BBB-	BBB-	BBB-	BBB	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

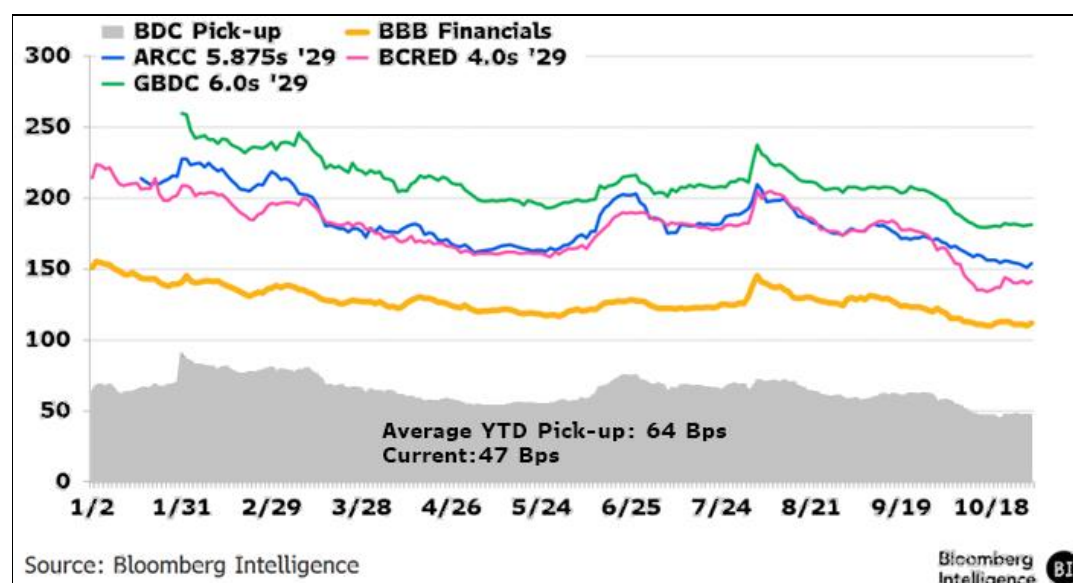
Bond Ticker	MSTDLF	NHPIFS	NMFC	OAKSCF	OBDC	OBDCII	OCINCC	OCSL	OTFCII	PSEC	SIXSLP	TCPG	TSLX
Rating Change	↔	↔	↔	↔	↑	↔	↔	↔	↔	↔	↔	↔	↑
Outlook Change	↔	↔	↔	↔	↑	↑	↑	↓	↔	↓	↔	↓	↑
Median Rating	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: Moody's, S&P, Fitch Ratings

Depending on how credit markets unfold into 2025, BDC bonds may still have scope to tighten, though their success since 2023 makes each additional basis point of relative tightening harder to come by. We selected three benchmark bonds of the largest BDCs with high Bloomberg Liquidity Assessment Scores in the belly of the curve and compared them against the Bloomberg Finance Baa Index. Year-to-date, the bonds issued by Ares Capital, Blackstone Private Credit and Golub tightened by 56 bps. Meanwhile, the Baa Finance Index tightened by 39 bps.

Year-to-date, the average spread pickup for these BDC bonds compared with the Baa Finance Index is 64 bps, while the current differential is 47 bps. If the benign consensus outlook comes to pass, then carry alone could help BDCs out-deliver peer finance bonds.

Figure 20: BDC Benchmark Spread Moves (Bps)

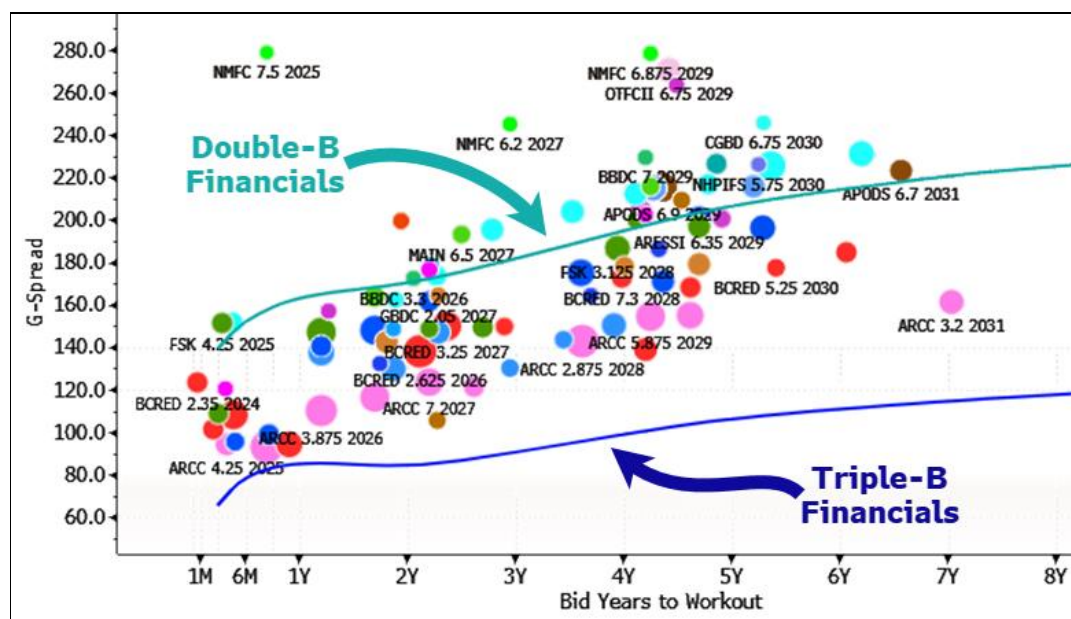


The broad universe of BDC bonds trades in close proximity to double-B financials rather than the triple-B curve (see Fig. 21 below), despite BDC ratings being in the triple-B range. Larger BDCs

affiliated with large, A-range alternative managers such as Ares and Blackstone trade with the lowest spreads, yet these are still midway between double-B and triple-B financials, despite carrying the nameplate of their eponymous advisers. If market conditions remain fairly steady, then the gravitational pull of the triple-B financial curve, combined with favorable momentum from recent performance, may pull BDC spreads tighter.

Yet BDCs are a relatively new high-grade sector, and investors are still settling in. Their spreads tend to be volatile, and many are managed by entities seen as competitors by some investors.

Figure 21: BDC Bond Universe Relative Value (Bps)



Source: Bloomberg Intelligence

Section 8. Banks: Partners and Rivals

Private Credit Angles for Share

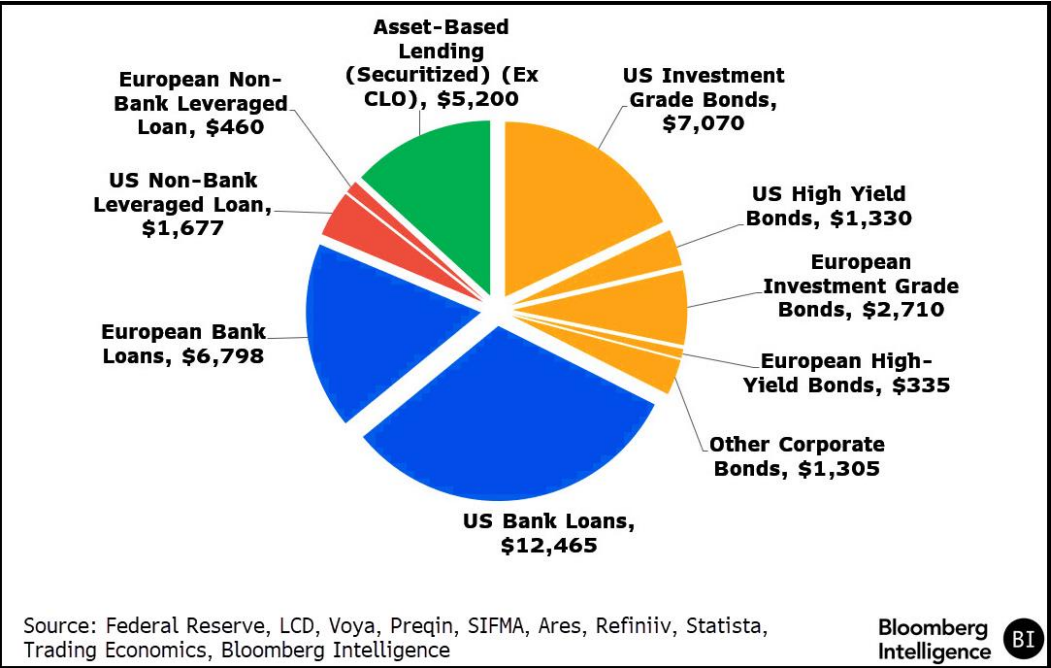
Private credit managers wield significant fee possibilities by continuing to penetrate various segments of the fixed-income market, though competition with traditional banks is evolving. Banks are returning to the leveraged-loan market, while partnerships such as Citi with Apollo highlight the collaboration efforts where capital can be deployed efficiently. Trump's election win may usher lighter bank capital rules, which could intensify competition. Private credit has been and will remain a key theme for asset growth, including insurance and asset-based finance (ABF). Banks have been more successful defending against private credit taking share so far this year.

8.1 Breadth, Size of Credit Market Offers Potential

The fixed-income market offers diverse investment structures and profiles, presenting a unique opportunity for private credit managers, and though not all are directly addressable, some segments may be more suitable for certain purposes and managers. Penetration of these markets may be quite low as a share of wallet, yet they offer significant fee possibilities for alternative-asset managers.

Loans and leases on bank balance sheets total roughly \$19 trillion (see Fig. 22) and make up almost half the credit market, with about two-thirds coming from the US. Corporate bonds are about \$13 trillion, private credit holds \$1.6 trillion, non-bank leveraged loans \$2.1 trillion and asset-based financing \$5.2 trillion.

Figure 22: Credit Market (\$ Billion)

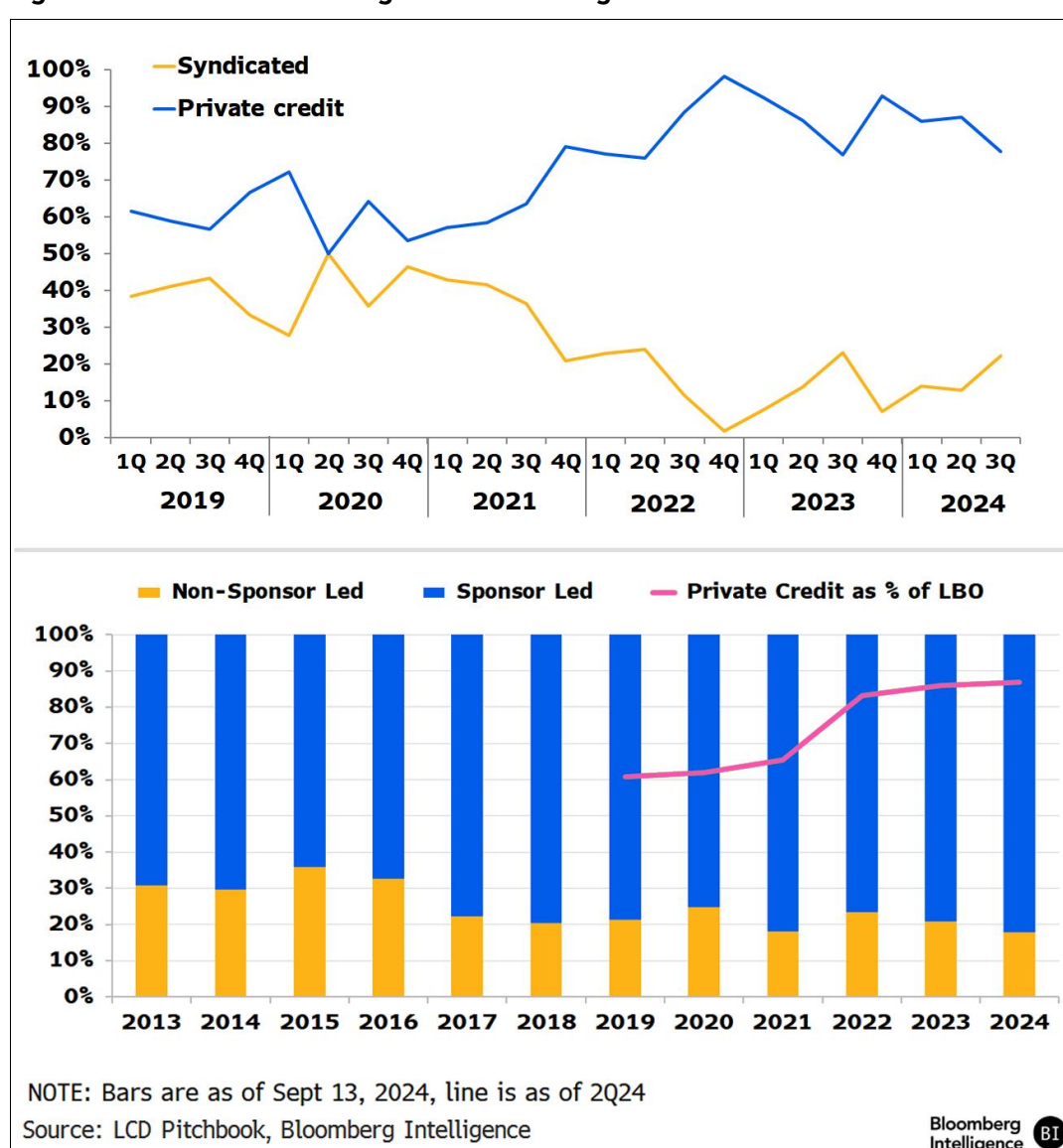


BI
US bank loans the biggest piece of credit market at \$12.5 trillion

Sponsor-backed borrowers continue to make up the majority of new-money leveraged-loan borrowing, with Bloomberg data showing 80% of new leveraged-loan issuance since the start of 2021 supported private equity-backed companies, rising to 82% so far in 2024. At the same time, LCD Pitchbook data suggest private credit funded 87% of buyout values in 1H, up from 61% in 2019. Banks are returning to the market, mostly through refinancing, keeping it competitive, yet private credit's share remains meaningful, with deployment activity picking up during 2024 and set to continue into 2025, while dry powder has remained relatively flat since 2021, based on Pitchbook data.

Prequin projects direct lending to nearly double from 2023-29. Others, like BlackRock, are even more optimistic, expecting the industry to reach \$3.5 trillion in that span.

Figure 23: Bank Share of Leveraged Loans Receding

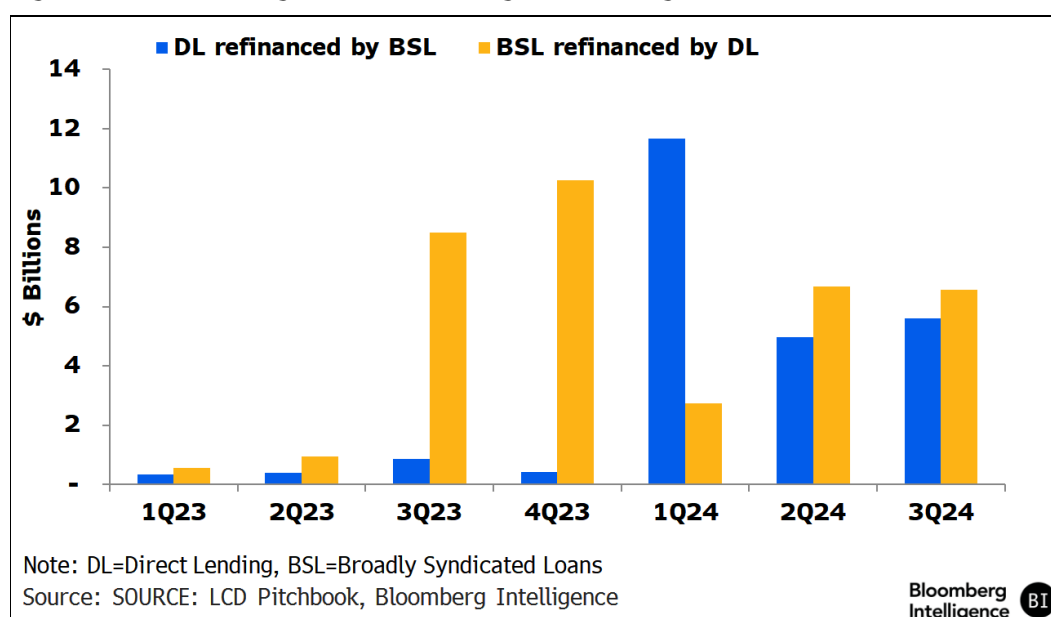


8.2 Bank Capital and Regulatory Changes Open Paths

Though private lenders remain well positioned to compete with traditional commercial-lending channels, momentum could be more balanced as the syndicated-loan market becomes more active. Origination share and bank collaboration might be targeted over time, while acquiring bank loan portfolios and synthetic risks transfers could accelerate this trajectory.

Stricter bank capital requirements may mean less risk appetite, supporting borrowing demand from the alternative lenders. Softer Basel III Endgame requirements might still leave a mark, as prior regulations, including Dodd-Frank, have accelerated the pickup in nonbank lending share.

Figure 24: Banks Taking Back Loans Through Refinancing



8.3 Asset-Based Finance Is a Private-Capital Opportunity

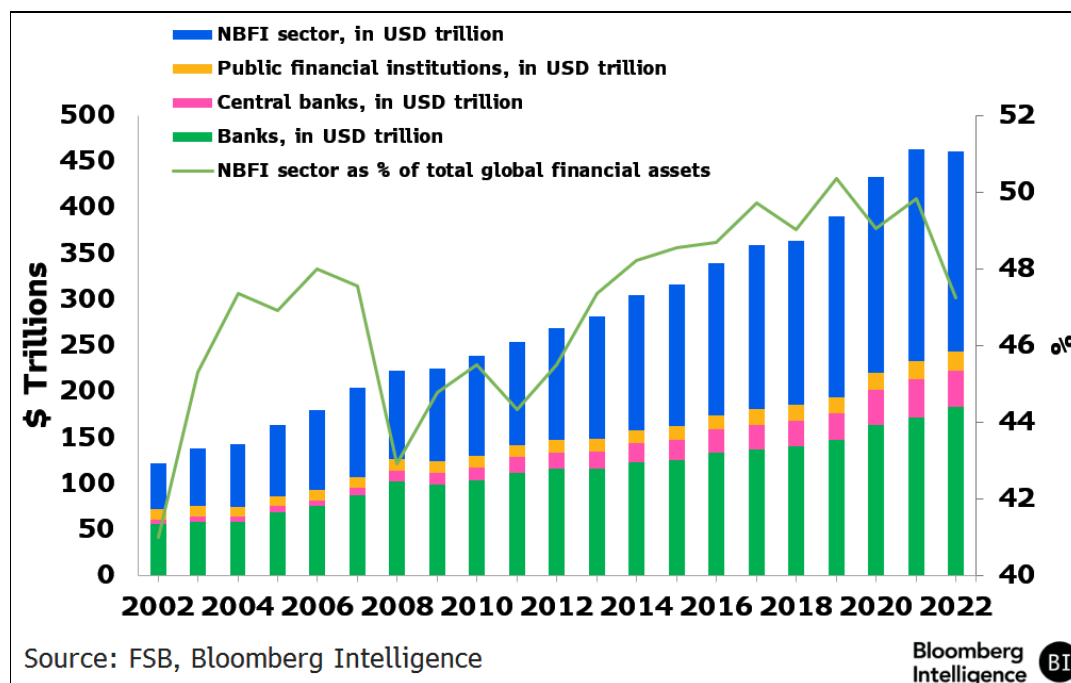
Apollo, KKR, and Blackstone lead peers with the most insurance-related assets and are keying in on asset-based financing to spur growth, with KKR and Integer Advisors valuing the segment at \$5.2 trillion in 2022 and projecting it reaches \$7.7 trillion by 2027. Apollo increased its target to over \$275 billion of origination volume annually by 2029, from its original \$150 billion goal, and has originated \$194 billion in the past 12 months, much of which is from its platforms.

The US accounted for 57% of the addressable market and Europe for 19%. Private asset-backed financing share grew to 47% in 2022 vs. 36% in 2006. We suspect the managers will focus on secured financing, including autos and certain personal loans, with meaningful involvement already.

Ares should continue to benefit as non-traditional lenders gain market share (see Fig. 25), though we note that banks have started to return in 2024, following extra caution exercised amid the uncertainty and funding pressure in 2023. Direct lending, which accounts for 46% of the segment, should be driven by fundraising demand and investment opportunities.

The Financial Stability Board's global monitoring report on nonbank financial intermediation showed a fall in the share of such lending in 2022 to 47%, though it continues to rise post financial crisis and likely shifted out of banks last year. Regional bank hurdles may add opportunity in private middle-market and asset-based lending.

Figure 25: Nonbank-Lending Growth



BI

Nonbank share of lending increased steadily

8.4 What's at Stake for Bank Capital Levels?

Less capital constraints for banks could sharpen competition with private credit lenders. Bank regulators have been working on tougher bank capital rules, but the regulations could be further diluted or tabled altogether under the second Trump administration. Under the prior proposal, banks with more than \$100 billion in assets would have faced an estimated 16% increase in capital requirements, with the brunt felt by the eight largest lenders (an anticipated 19% gain in CET1). Yet a new plan laid out by Fed Vice Chair of Supervision Michael Barr suggests a forthcoming re-proposal will reduce that to a 9% increase for the largest banks, in line with our expectations of 8%. Though specifics are still to come, Barr highlighted changes to the rule's operational, market and credit-risk provisions, as well as lower risk weightings for consumer-facing products like residential real estate.

Figure 26: Capital and Liquidity Ratios 1Q23-2Q24

Name		2024 Q2	2024 Q1	2023 Q4	2023 Q3	2023 Q2	2023 Q1
Capital & Liquidity							
▼ Tier 1 Capital		1.135M	1.122M	1.118M	1.104M	1.100M	1.046M
Bank of America Corp		224,641.0	225,021.0	223,323.0	222,623.0	218,503.0	212,825.0
Barclays PLC		76,678.8	76,205.9	77,225.1	72,937.0	76,727.1	73,728.7
Citigroup Inc		173,783.0	172,065.0	172,504.0	176,878.0	175,743.0	175,249.0
Deutsche Bank AG		62,144.2	60,472.3	62,395.4	61,065.7	62,970.7	62,229.4
Goldman Sachs Group Inc/The		113,263.0	112,462.0	110,288.0	109,752.0	108,674.0	108,563.0
JPMorgan Chase & Co		290,442.0	280,771.0	277,306.0	268,579.0	262,585.0	253,837.0
Morgan Stanley		80,513.0	79,046.0	78,183.0	77,891.0	78,429.0	77,947.0
Nomura Holdings Inc		21,995.6	22,917.0	23,941.4	22,639.0	23,189.9	24,129.7
UBS Group AG		91,804.0	93,467.0	92,377.0	91,546.0	93,287.0	57,694.0
► Common Equity		1.220M	1.210M	1.202M	1.178M	1.172M	1.132M
► Tangible Common Equity		992,790.8	1.004M	994,839.2	970,973.9	962,906.0	925,695.8
► Risk Weighted Assets		7.153M	7.151M	7.121M	7.044M	7.110M	6.794M
► High Quality Liquid Assets		3.7M	3.5M	3.5M	3.4M	3.5M	3.3M
Source: Bloomberg Intelligence							

The last remaining piece of Basel III, known informally as the Basel III Endgame, would alter capital levels for US banks as regulators recalibrate risk-weighting of assets and restrict internal models used to calculate credit and operational risks. The July 2023 proposal from the Fed, FDIC and the Office of the Comptroller of the Currency would implement the US version of an internationally agreed-upon consultation. It also came partly in response to bank collapses, such as California's Silicon Valley Bank and New York's Signature Bank, as regulators expanded the scope to include all banks over \$100 billion in assets rather than just the largest. Yet significant changes are expected if regulators repropose portions of the rule.

8.5 Regional Banks May Attract Private Credit Rivals

Private credit has yet to significantly infringe upon regional banks' lending, despite Blackstone and Apollo pegging it as a \$30-\$40 trillion opportunity. Banks with lending-only relationships and a leveraged-loan focus may see more rivalry, but such loans are less than 2% at Citizens, Keycorp and Fifth Third. Keeping customer relationships is key, with diversity helping PNC, Fifth Third and U.S. Bancorp defend share.

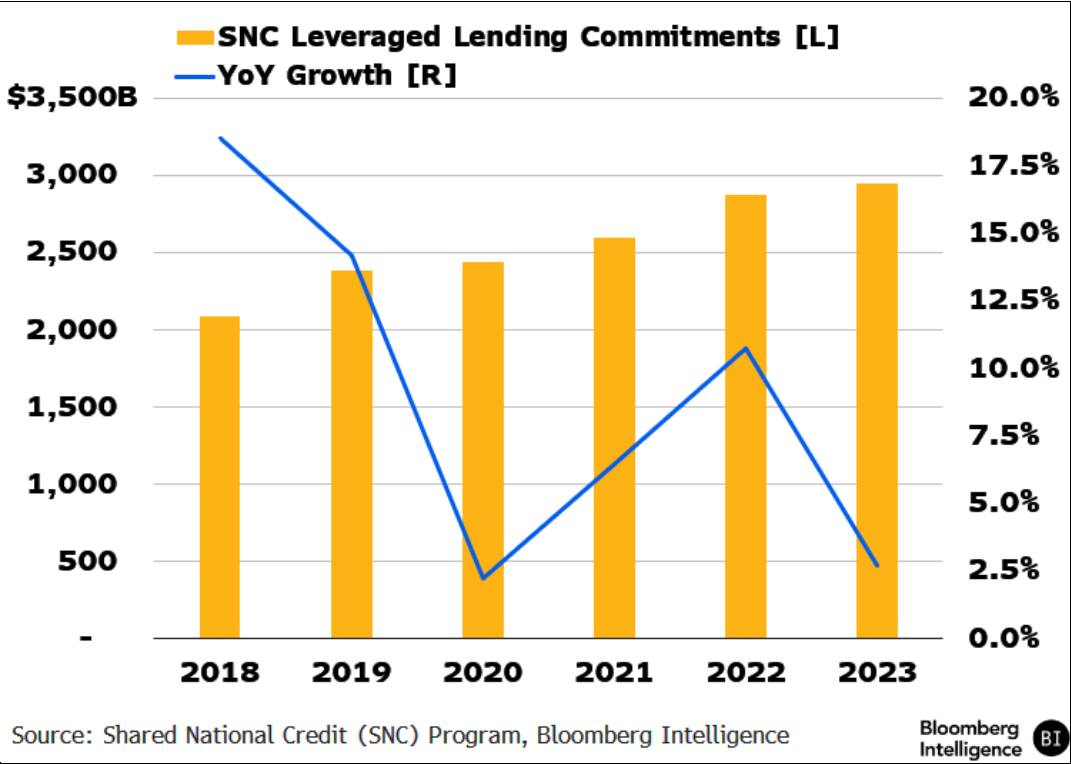
With private credit largely focused on leveraged loans offering longer terms and weaker covenants, regional banks have yet to view nonbank lenders as direct competitors, but we could see a change as private credit grows and lowers its cost of capital. As this occurs, private capital may shift its focus more to investment-grade credits, which could spur competition for regionals. Banks with loan-only relationships could see their client base erode, while larger regionals like PNC and Fifth Third with more diverse product offerings may continue to succeed.

The current lack of competition is evident with an average bank yield at 6%, about half that of a private-credit loan on the high end.

Modest growth in leveraged-lending commitments within the OCC's Shared National Credit Program could reflect the direct competition from private credit. Commitments rose only 2.7% in 2023 vs. 10.8% in 2022. Leveraged-loan commitments represent 46% of the total program, a meaningful share, so smaller banks that are more reliant on SNC participation to expand loans could see weaker performance as a result. We think a significant portion of the largest regionals' leveraged-loan exposure is within SNCs. Huntington has said 2.3% of its total is leveraged loans, while 73% of its leveraged portfolio are classified as SNCs.

SNCs are loans or commitments at or above \$100 million and are shared by three or more parties (see next figure).

Figure 27: Commitment Growth Slows



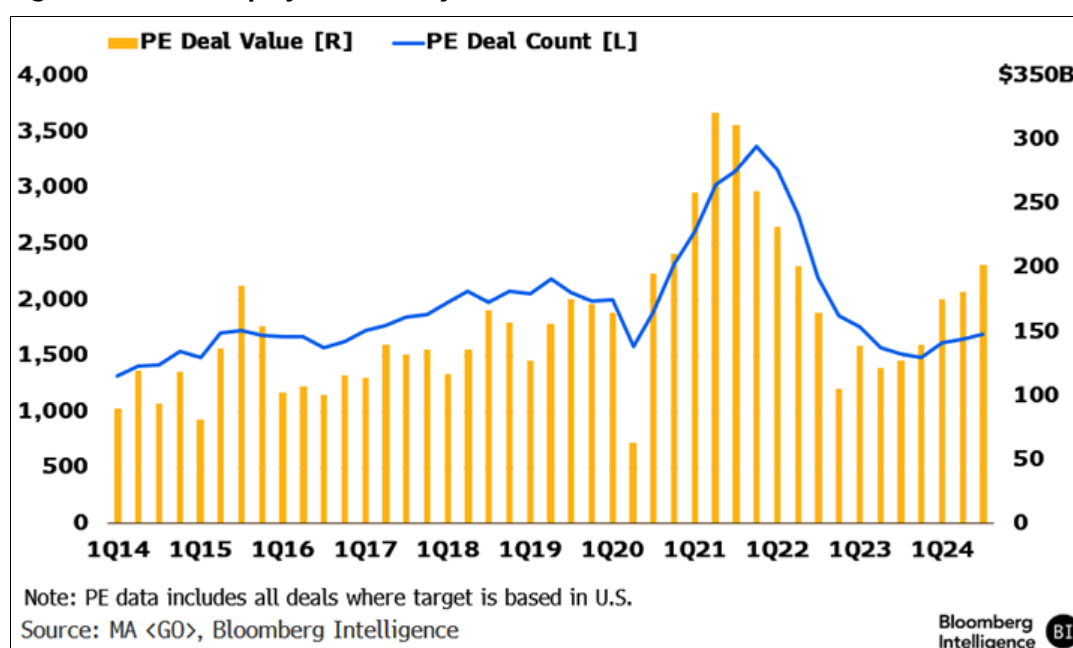
Regional bank management teams appear mixed about current rivalry from private credit. PNC says nonbanks aren't a threat and private credit is operating in higher-risk areas where it's unwilling to participate. Regions eyes looming private-credit competition, but doesn't see it infringing quite yet. The Southeast lender noted differentiators that banks offer vs. private credit include greater available leverage, longer terms, more loan proceeds and fewer covenants. U.S. Bancorp sees more partnership opportunities in areas like foreign currency and derivatives.

Fifth Third noted the most overlap in leveraged loans, where it's less exposed. In the middle market, private credit is using a unitranche structure to consolidate senior and subordinate debt, without the same level of due diligence Fifth Third would use.

Competition from private equity, active prior to the pandemic, is also a risk. In 2016-19, banks' business loans grew at a 4.5% compounded annual rate, below GDP of 4.7%. Banks like M&T cited loan payoffs due to PE takeovers of middle-market customers, which then paid down bank loans and replaced the debt with more expensive leverage. We hear less of this competition at present, but with the Fed shifting to a lower-rate backdrop, a return of PE volume could spur additional loan competition for banks. PE deal count in 2Q was down 51% from the record in 4Q21 but up 5% vs. the prior year.

Private capital takeover of middle-market firms can also hollow out regionals' deposit bases and fee income as sponsors shift banking relationships of portfolio companies to larger banks. PNC's partnership with TCW addresses this.

Figure 28: Private Equity Deal Activity



BI

Private equity deal value ticked higher in the past year; hit peak in 2021

8.6 Bank-Private Credit Tie-Ups Help, Don't Transform

A spate of partnerships between banks and private credit managers -- like Citi with Apollo, and JPMorgan with FS -- in which the former funnels deals to the latter, helps complement managers' origination and distribution capabilities and could support further market share gains. While they may not have far-reaching implications for well-established BDCs sitting within these platforms, we expect more tie-ups as lenders embrace collaboration.

Unions between banks and private credit managers take different forms (see Fig. 29, next page), though most appear to leverage banks' origination and distribution capabilities with BDCs' available capital, as in Citi's tie-up with Apollo, and JP Morgan's with FS Investments. Other collaborations will create new advisor entities, like Wells Fargo and Centerbridge's spurring the launch of a new nonsponsor lending-focused BDC. Barclay and AGL Credit's creation of AGL Private Credit, PNC Bank's with TCW Group are other examples. Societe Generale and Brookfield will launch a joint fund.

In Mizuho's collaboration with Golub Capital, the bank will sell the latter's products in Japan, expanding distribution. Citi and Apollo's agreement reportedly focuses on noninvestment grade credit, but as other arrangements target higher-quality, non-sponsored deals, BDCs may not be a primary destination for such assets.

Though there certainly is some overlap with deals that banks pursue, most BDCs that we cover already have robust deal engines, and selectivity rates of 3-5% suggest that they produce sufficient flow to prioritize credit quality. Fee cannibalization also presents a risk.

Figure 29: Recent Bank - Private Capital Tie-Ups

Bank	Asset Manager	Category	Details
Citi	Apollo Management	Originator - Capital Provider	Partner on \$25 billion of deals over next 5 years
JPMorgan	FS Investments, Others	Originator - Capital Provider	Partner on private credit deals
Mizuho Financial	Golub Capital	Distribution	Mizuho takes minority stake, will exclusively market Golub Capital products in Japan
Wells Fargo	Centerbridge	Asset Management Partnership	Will create advisor partnership (Overland Advisor), and launch newly formed BDC
Barclays	AGL Credit	Originator - Capital Provider	Creation of AGL Private Credit
Societe Generale	Brookfield	Asset Management Partnership	Launching private debt fund
PNC Bank	TCW Group	Asset Management Partnership	Creation of private credit platform

Source: Company Filings, Bloomberg Intelligence

Section 9. Credit-Quality Risks

Borrower Quality Main Challenge to Private Credit Growth

Credit quality and borrowers' cash flow appear to be the largest risks facing private credit stability and growth, as flagged by 43% of respondents in our survey. Most see adequate underwriting standards across the industry yet also expect alternative credit to underperform public markets in an economic downturn.

9.1 Credit Quality, Regulation Pose Threats

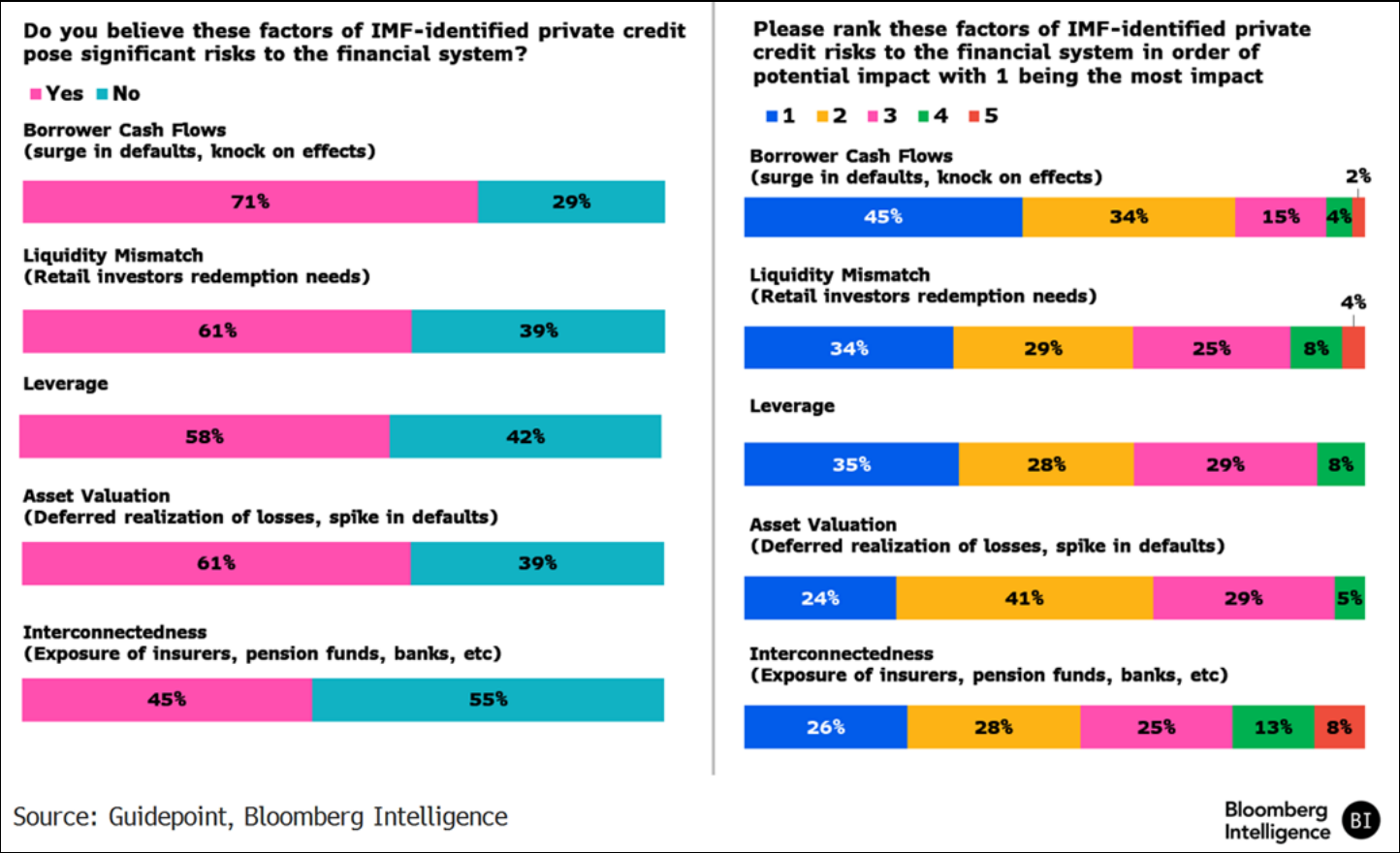
After credit quality, the potential for stricter regulation was viewed as the next-largest risk to private credit, at 29% in our survey, while investors also identify competition from banks as a concern. Fund managers seem less worried about that, which could be because they expect more collaboration with banks.

While economic risks remain, declining interest rates foster cheaper funding for borrowers and will likely ease some key concerns. Many global regulators have called for more rules and transparency in private markets, but the US Supreme Court in June struck down the SEC's attempt to regulate private funds.

Borrower cash flow, identified in an International Monetary Fund report, is seen as a risk to private credit by 71% of respondents, with 45% flagging it as the primary risk and another 34% as the secondary. Threats associated with liquidity mismatches constitute the next biggest focus, as noted by about 60% of survey participants, with leverage and asset valuation factors following.

The risks flagged by the IMF in Fig. 30 sparked a few surprises in the survey. About 35% of respondents saw leverage as a primary risk, though managers typically don't employ meaningful amounts of leverage at the fund level. On the other hand, only 24% identified asset valuations as the primary risk, yet 41% see them as secondary, which may appear benign, as credit quality and transparency are highly scrutinized.

Figure 30: IMF-Identified Risk Factors



9.2 Underwriting Appears to Be Adequate

BI

Borrower cash flow cited as biggest risk

Over half of private credit investors, managers and bankers see current underwriting standards as adequate, 30% consider them easy and only 13% think they are too tight. Investors more often feel some standards are too easy, likely preferring additional protections because of the nature of their position in the ecosystem, while most bankers are eager to lend and think standards are adequate. We expect differences in credit performance between managers who have been strict in underwriting policies and those who have been more loose.

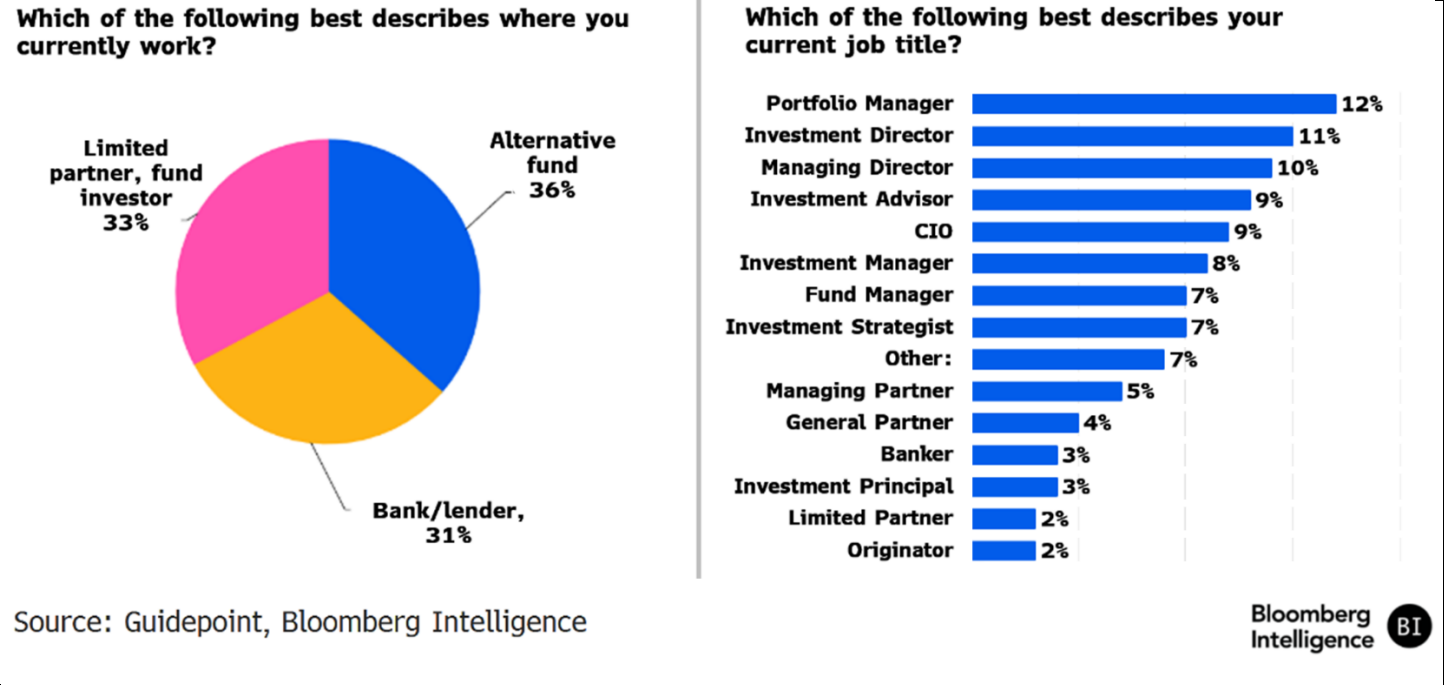
Over 50% of respondents say that private credit investments would experience similar losses to those in public markets in an economic downturn, while 40% say private credit could underperform. The assessments may be tested as the market battles economic uncertainty, though an easing interest rate cycle could provide some breathing room. Private investment managers are the most optimistic cohort about investments performing at least in line with public markets, while just 8% of all respondents say private could perform better.

Our survey was administered to 137 participants by Guidepoint from Sept. 3-24 and asked respondents to answer a wide range of questions about the future of private credit. The survey included a diverse group of financial professionals familiar with the industry, with 36% coming from alternative funds, 31% limited partners and fund investors, and 31% bankers and lenders.

Portfolio manager, at 12% of respondents, was the most common job title, followed by investment director (11%), managing director (10%) and investment adviser and CIO (9% each).

The group was largely based in North America, at 81%, with 9% in each of Asia and Europe.

Figure 31: Survey Demographics



Section 10. BDC Risks and Rewards

Precarious Point in Credit Cycle a Risk to Portfolios

BDC disclosures, which provides key visibility into private credit asset quality, particularly within direct lending, shows a growing performance bifurcation, with peers that have more robust credit platforms and defensive portfolios seemingly positioned better. Slightly higher nonaccruals and continued loan losses may remain the trend for business development companies and direct lenders alike, as a host of factors create an uncertain credit-quality backdrop. Lower rates and Ebitda growth mean interest-coverage ratios have likely troughed, and defaults remain low, though restructurings often generate losses. Consensus, where available, sees a slight increase in nonperforming asset rates, peaking in 1H25 at about 1 percentage point higher than the current pace.

10.1 BDCs Diverge as Robust Platforms Dodge Creeping Stress

BDC's with better workout abilities, stricter underwriting and more defensive portfolios will likely fare better amid this unsettling credit backdrop. Nonaccrual rates have been managed through restructurings, contributing to elevated net realized losses of 1.5-2%, as well as via payment-in-kind -- now featured on 17% of loans. Nonperforming debt may peak at about one percentage point higher than now in 1H25.

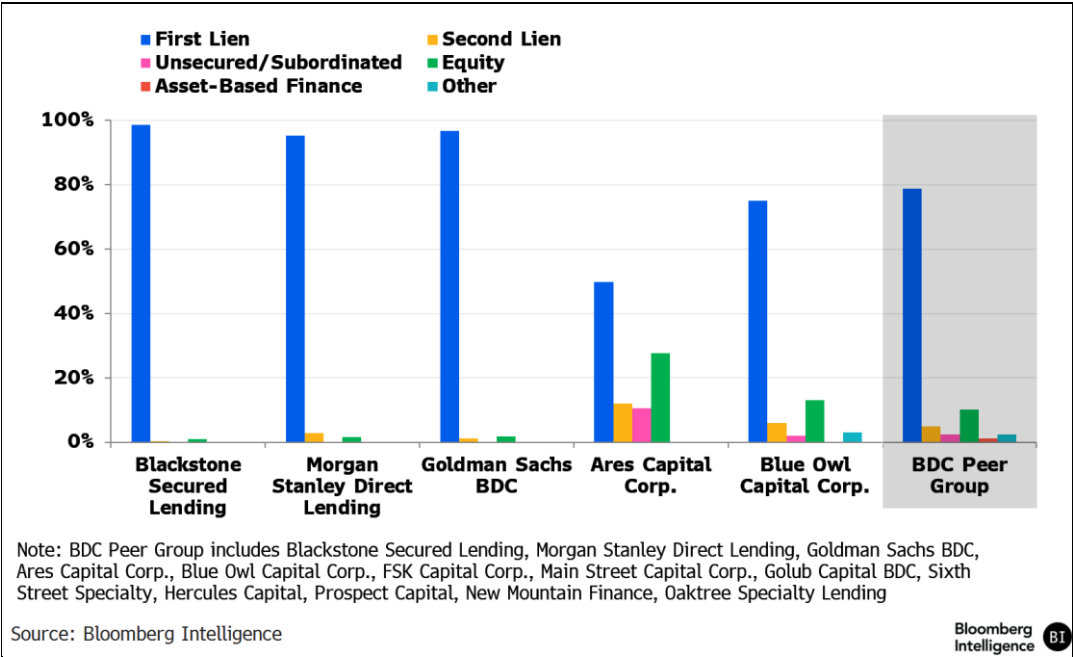
Within our coverage universe, Blackstone Secured Lending, Morgan Stanley Direct Lending and Goldman Sachs BDC have among the highest share of their portfolio in first-lien loans (as illustrated in Fig. 32 on the next page), though the last was caught offside by its recurring revenue software loan exposure. Large-scale operators with extensive direct lending platforms, including Ares Capital and Blue Owl Capital may also be better positioned in a tougher environment.

BDCs across the group are being more proactive in their management of underperforming loans.

BI

First lien loans make up an average 80% of BI peers' portfolios

Figure 32: Portfolio Capital Structure



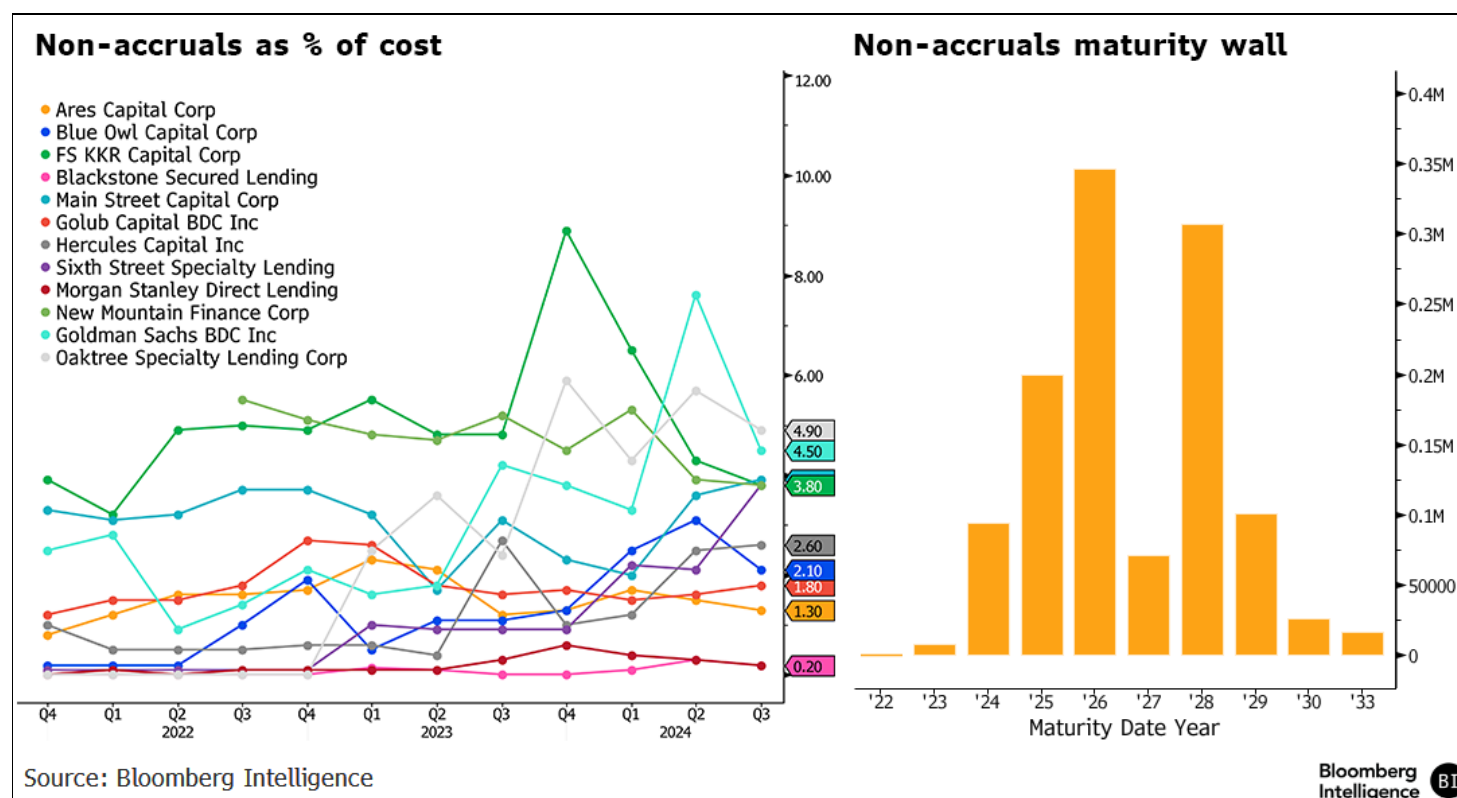
Nonaccrual ratios are gradually ticking up on average for BDCs in our peer coverage, and consensus, where available, implies a peak in early 2025 about 1 percentage point higher than today's rate. This translates to a manageable low-single-digit headwind to earnings across our coverage, though peers may incur losses as they manage down these loans. Nonperforming loans are about 2.7% of portfolios on an amortized cost basis, and about 1.3% of fair value, with the average nonaccrual loan marked at about 50 cents on the dollar. Recent notable nonaccrual additions seem to be concentrated in recurring-revenue software loans.

More than 60% of nonaccrual loan content matures in 2026-28, we find, giving lenders ample time to work with borrowers, while 25% mature in 2024-25, likely posing more immediate risk of losses.

After 525 bps of base rate hikes in 2022 and 2023, a few quarters of tepid economic growth and some large US regional bank failures, many private-credit market observers expected a tsunami of leveraged borrower bankruptcies. Yet our analysis of public data from BDCs indicates that this simply hasn't happened. Yes, credit problems have ticked up at the BDCs we cover, and this trend in nonaccruals bears watching, though the surprise here may not be that problems are rising, rather that they remain so low.

Non-accruals may continue to trend up, as they tend to be a lagging indicator, and several large BDCs are new and their loan portfolios aren't yet seasoned. The macroeconomic backdrop, though, suggests only moderate additional stress.

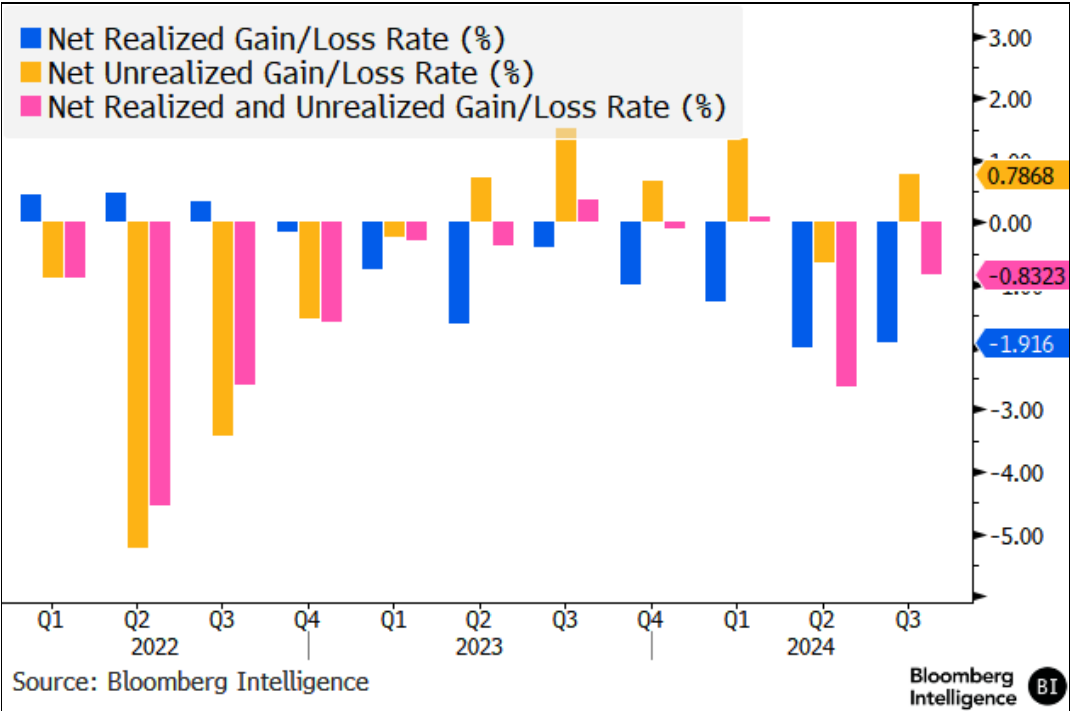
Figure 33: NA as % of Cost (T); NA Maturity Wall (B)



Elevated losses, more reliance on payment-in-kind and other restructuring tools have likely helped keep a lid on bad loans. In some cases, these tactics may prove only a temporary solution, and we anticipate some issues to reemerge.

BI-tracked BDCs have experienced heightened net realized losses in recent periods (Fig. 34), averaging an annualized 1.5-2% of portfolio in recent quarters. Losses may result from restructurings, which seem to have increased industrywide, often resulting in markdowns or write-offs of previously unrealized depreciation, and weigh on net asset values, though don't impact net investment income.

Figure 34: Annualized Realized Gains/Losses as % of Cost



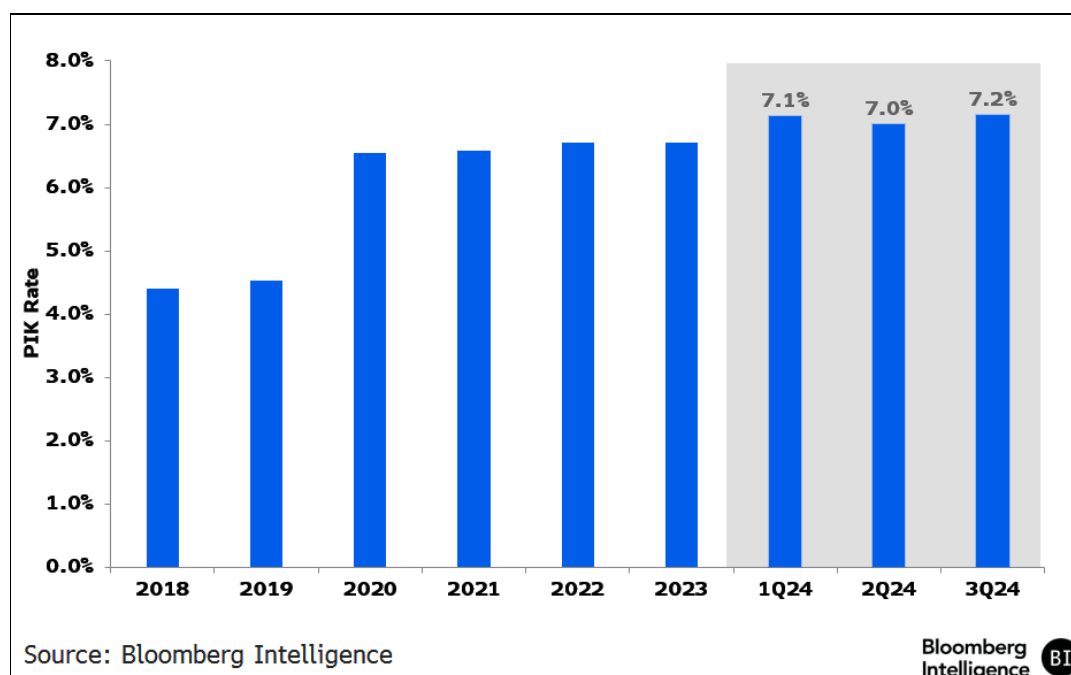
10.2 Payment-in-Kind Feature on 17% of BDC Loans

Payment-in-kind rates are increasing across the BDC peer group, partially in response to pressure on borrowers' cash flows brought on by high-for-long interest rates. Our analysis of the schedule of investment data shows about 17% of loans within BDC portfolios we track have an active PIK feature, up from 11% in 3Q22, though down 1% sequentially. PIK's share of income is substantially lower than this level though, as many loans pay only part of the coupon this way.

Lenders appear increasingly willing to offer PIK features to borrowers, partially attributable to an effort to win business from the broadly syndicated market, though we anticipate a subset has gone to support borrowers struggling to service debt in a higher-rate environment. Toggling to PIK temporarily supports debt that might otherwise be marked as nonaccruing.

While the rise in non-accrual rates has been modest, payment-in-kind (PIK) investment income as a percent of the total has been elevated since the pandemic emerged in 2020, and there is no sign yet that the PIK rate will decline. As of 3Q, the PIK rate for the 32 high-grade BDCs we track increased to 7.2% from 6.7% in 2023 and less than 5% in 2019. We see this as a possible yellow flag that warrants vigilance, as further increases in the PIK income rate could translate to actual impairment losses.

Figure 35: Payment-in-Kind Rate



There's a wide array of performance, with notable BDCs such as Prospect Capital (16.8%) and Blue Owl Capital (11.4%) above 10%. Private lenders have scope to undertake differing underwriting and remediation approaches if stress arises, so a wide range of outcomes isn't a surprise, though the upward trend bears watching.

10.3 Share of Distressed BDC Loans Decreases

Our analysis of portfolio position data across 16 of the largest BDCs shows slightly declining levels of loans priced at distressed levels. This suggests the absence of broad-based credit deterioration. Loans priced below 80% of cost declined to 1.4% of total portfolio fair value on average, down from 2% a year ago and more than 6% in 1Q20.

Prospect Capital Corporation and Goldman Sachs BDC have more than 3% of portfolio value, and more than 5% of portfolio cost, marked at these levels, signaling increased risk of realized losses relative to peers.

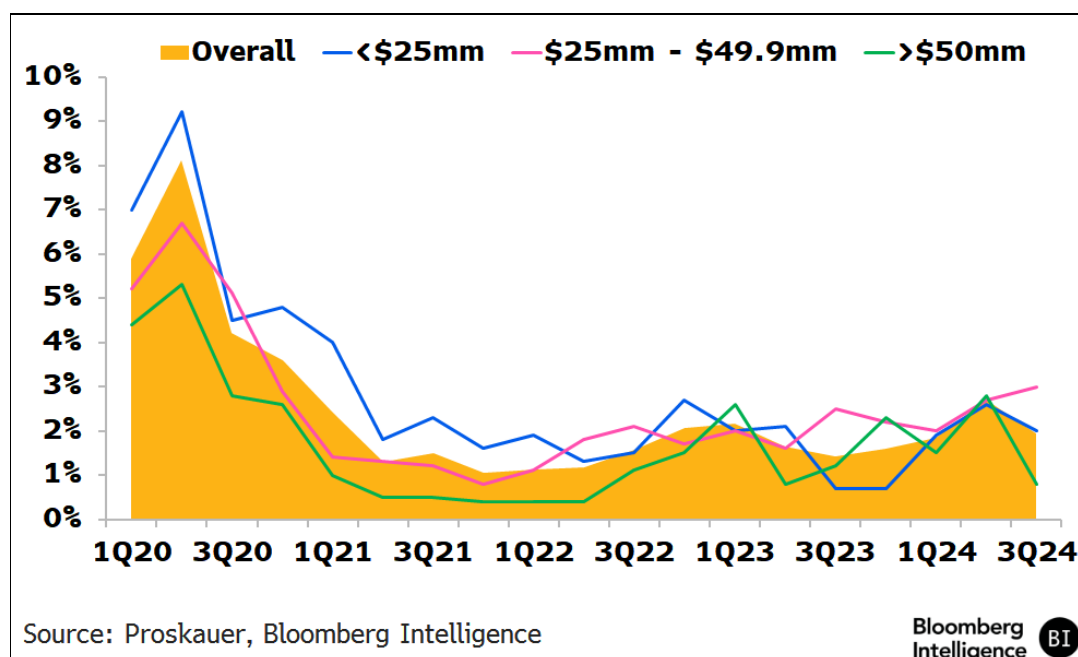
A mix of factors leave the credit backdrop unclear, casting uncertainty on the path of private credit quality and performance. Interest coverage should recover from troughs as rate cuts reduce the burden on borrowers, yet election and geopolitical worries loom. Business development companies, and direct lending more broadly, may continue restructuring debt to address underperforming credits.

Defaults across private credit, as tracked by the Proskauer Default Index (Fig. 36, next page), declined in 3Q as the sector continues to see relatively contained fallout from a period of higher interest rates. Lenders aren't quite in the clear yet though, as stress may still be materializing, though a drop in base rates should help shore up credit quality. Geopolitical and election

concerns, as well as potentially lagging effects from higher rates, represent ongoing risks to credit quality.

The default index declined to 1.95% in calendar 3Q from 2.71% in 2Q, though is up slightly from 1.41% a year prior. Default rates decreased sequentially for the largest and smallest borrower cohorts but rose for those with Ebitda of \$25-\$50 million.

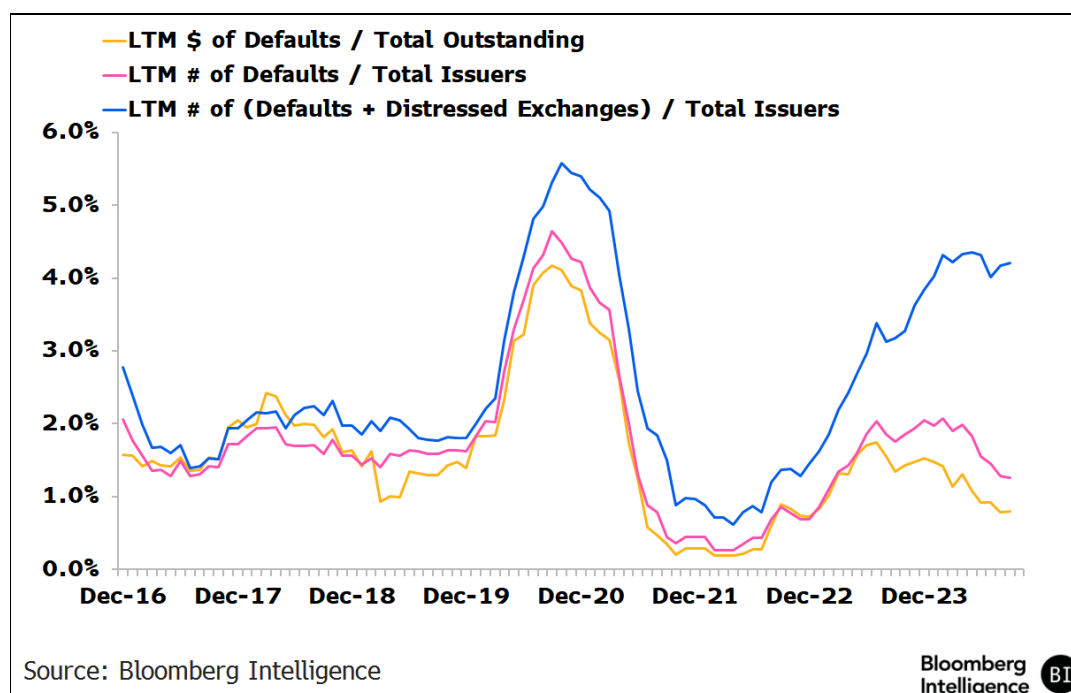
Figure 36: Proskauer Default Index (by Ebitda)



The divergence between traditional leveraged-loan defaults and distressed exchanges appears to be widening. PitchBook data show a steady rise in the latter, in which lenders extend a lifeline to troubled borrowers by granting concessions on certain loan terms, to 4.21% of the leveraged loan universe in September, from 3.17% a year earlier and less than 2% in early 2023. This appears to be keeping a lid on bankruptcy-related defaults, which have declined over the prior year. This dynamic looks consistent with how BDC peers we track are choosing to manage underperforming loans.

Sentiment points to a relatively stable leveraged-loan default rate, with Federal Reserve rate cuts in the queue likely alleviating interest-coverage-ratio pressure, yet further restructurings and amendment activity may continue.

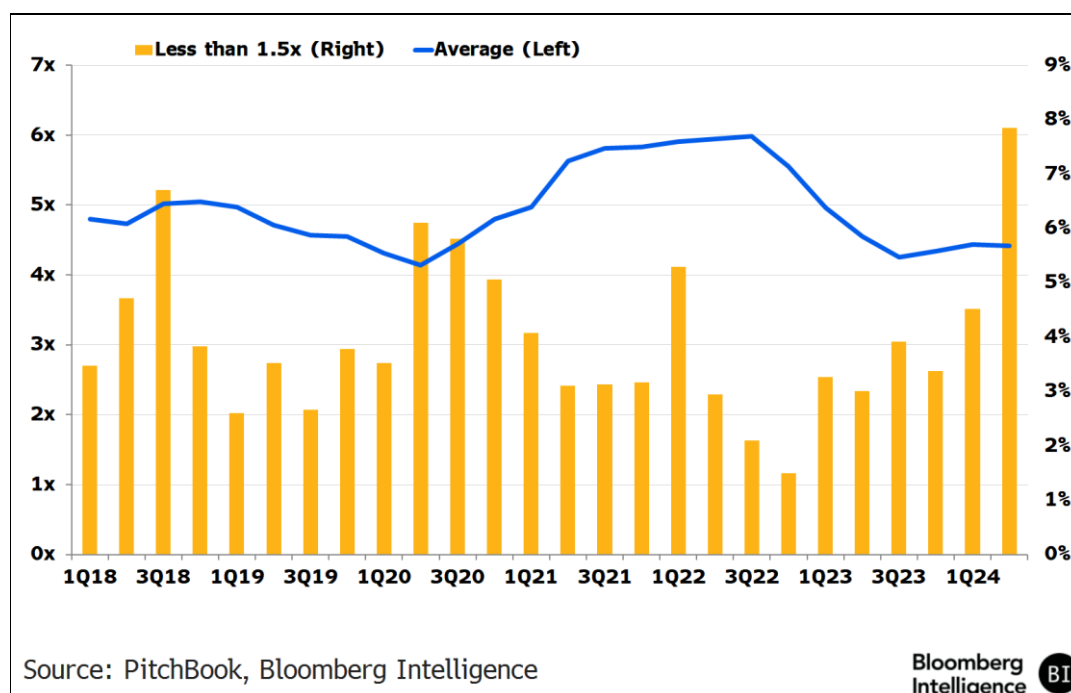
Figure 37: US Loan Defaults



Interest coverage ratios may have troughed in 2Q or 3Q, we believe, at an average of around 4.4x Ebitda, per PitchBook data, as Federal Reserve rate cuts ease pressure on interest burdens at floating rate borrowers. This bodes well for the default outlook, though there are other factors at play. Ebitda growth has been relatively strong across the likes of midmarket borrowers that BDCs and direct lenders mostly target, helping to blunt the effect of higher base rates. Still, interest coverage declined from nearly 6x in 3Q22.

PitchBook data show about 8% of borrowers with a coverage ratio below 1.5x as of calendar 2Q (Fig. 38).

Figure 38: Leveraged Loan Interest Coverage



Distressed ratios in below-investment-grade corporate debt have declined to around 5% from a local peak above 30% reached in 2022, when the rate-hike cycle commenced, though they're potentially benefiting from lenders' proactive management of underperforming credits.

10.4 Raters Push Back to Neutral for Private Companies

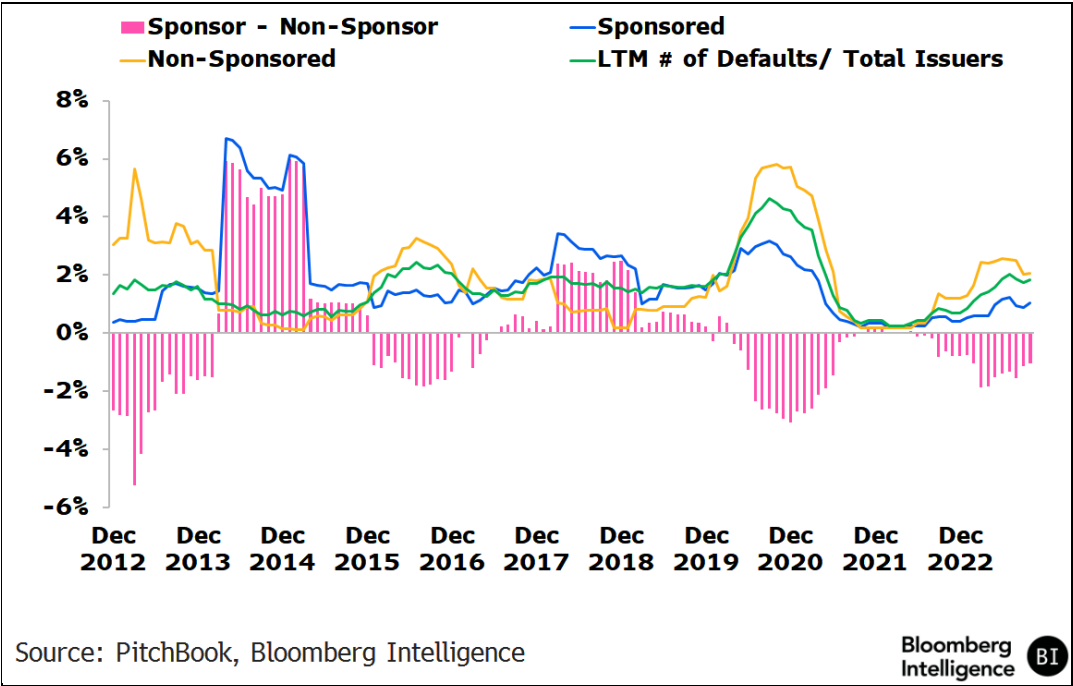
Actions from raters for private high yield companies moved back toward neutral territory in September, with downgrades outnumbering upgrades by just 1.16x. Across the broader corporate space, ratings companies haven't taken a stance via actions in recent months, as the upcoming election and geopolitical uncertainty go head-to-head with rate-cut hopes and strong economic data. The upgrade-to-downgrade ratio for publicly listed companies has also shifted toward an impartial level at 1.3x, down from 4.2x in July.

Ratings-company outlooks and reviews for high yield debt point to potential for positive actions over the intermediate term.

Sponsor-backed borrowers benefit from the resources and backing of their private equity owners, likely supporting default rates below those of non-sponsor-backed borrowers. Sponsors hold significant capital and operational resources to support portfolio companies, providing a lifeline to borrowers in distress. Most BDCs in our peer group largely provide capital for such deals -- around 85-90% at Ares Capital and Blue Owl Capital, and likely similar at most large peers -- potentially mitigating the impact of a worsening credit environment, if history serves as a guide. Oaktree Specialty Lending notably maintains a focus on non-sponsor-backed borrowers, as may Main Street Capital Corp.'s lower-middle-market segment.

In September 2020, sponsor-backed defaults were 2.6%, and non-sponsor-backed defaults 5.7%, per PitchBook data.

Figure 39: Sponsor vs. Non-Sponsor Backed Defaults



Section 11.

Company Impacts

Private Credit Demand Leads Growth

Demand for private credit investment strategies has driven inflows and growth for the largest alternative managers. They are gathering a large portion of the new business in the market, which is expected to double in five years. Insurance expansion and ownership and product innovation are accelerating the growth benefits. Ares and Apollo are most focused on credit strategies, while Carlyle and TPG expanded through acquisitions. Credit became the largest segment for Blackstone by assets, as KKR is rapidly expanding the strategy, though insurance assets are also gathering. Direct lending, asset-based finance and liquid credit strategies are significant opportunities to expand stable fees for the managers, which also operate the largest public and private business development companies (BDCs).

11.1 Apollo The Largest, Fast Growing Credit Manager



20%

Annual FRE Growth Goal

\$600 Billion

Athene’s Insurance Assets Goal

Company Outlook: Apollo Global's credit- and insurance-focused inflows are aimed at differentiating the company as exit delays ease. Ownership of insurer Athene shifted attention to retail and yield assets, while permanent-capital vehicles Athene and Athora boost its view of managed-asset growth. Several flagship funds have entered a harvesting cycle, yet realizations' support of adjusted net income trail historical levels. Revenue may be bolstered by fee-related earnings and managed assets. Annual gains could normalize to 15-20% in FRE, but slow to mid-single digits in spread-related earnings, before returning to about 10% growth.

Private Capital Impact: Apollo’s ownership of annuity provider Athene accelerates its asset gathering ahead of peers, with growth expected to exceed 20% annually. Most of these assets are invested in the private credit markets, hastening its growth and penetration of fixed-income markets, which it sees as a “fixed-income replacing cycle.” It plans to double Athene’s invested assets over five years to \$600 billion. The manager also stands to benefit from the expansion of origination, as it gets deeper into asset-backed markets, driving management and transaction fees, as it targets a near-doubling of annual originations to \$275 billion.

11.2 Ares Leads Global Direct Lending Race



\$750 Billion

Asset Target

72%

Of Assets in Credit

Company Outlook: Ares Management's focus on credit, dominated by direct lending in the US and Europe, is a key catalyst for market-share gains as the private equity industry's managed debt could double in five years. A shift to lower rates may affect mostly variable-rate loans, yet returns could remain strong even if rates drop modestly. The revenue stream is stable and growing, with about 85% from fees. The GCP deal will expand assets by 10%, focused on Asia and data centers. Ares' bolt-on acquisitions might drive cross-selling synergies -- boosting fees and profitability -- and open up faster-growing areas such as Asia, retail and insurance.

Private Capital Impact: Ares is well positioned to maintain its leadership as the largest global direct lender. The manager anticipates reaching \$750 billion of assets over the five-year cycle, which is likely an understatement given demand for private credit, large manager concentration, though there are questions along the way. As credit assets are base-fee centric, Ares has clear visibility to 16-20% annual fee-related earnings growth, while expanding performance-fee momentum for waterfall funds could aid realized income. It operates the largest publicly traded BDC, Ares Capital Management, which gives it a leg-up on retail assets, while targeting an expansion of wealth management to \$100 billion.

11.3 Blackstone's Momentum Tilts to Credit



\$355 Billion

Credit & Insurance Assets

\$62 Billion

Largest Private BDC

Company Outlook: Demand and diversification can support Blackstone's fee earnings amid a tougher cycle, helping it to overcome fundraising delays. Its valuation has remained pressured even as the firm reached its goal of \$1 trillion in assets. Realizations might remain slow but are opening up, as could deployments. Double-digit organic growth in managed assets, before fund distributions, may not return until 2024, as perpetual- and retail-asset expansion have slowed. Rising fee-earning managed assets can more than offset potential concessions, while capital deployment clears the way for performance fees. S&P 500 inclusion should drive passive-investor demand.

Private Capital Impact: Blackstone's faster-growing private credit and insurance business became the largest segment, accounting for about one-third of \$1.1 trillion of assets to overtake its leading private equity and real estate operations. Although the manager isn't interested in owning insurance operations, it has successfully gathered \$221 billion of related assets through various partnership arrangements. Blackstone operates the largest private BDC, a \$62 billion BCRED, that continues to gather assets through wealth channels, where it leads peers. It is expanding its asset-backed finance capabilities.

11.4 Brookfield’s Built Credit Into Its Biggest Business



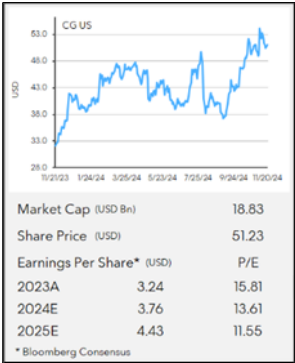
45%
Credit AUM as a percentage of the total

\$200 Billion
Targeted 5-Year Insurance Solutions AUM Growth

Company Outlook: Brookfield Asset Management's split from its capital-intensive parent illustrates the fee-centric, asset-light structure that can help justify its above-peer earnings multiple, and its positioning for broader index inclusion, which may provide a valuation boost. Growth goals -- including roughly doubling fee-bearing capital and fee-related earnings over five years -- appear achievable despite uneven progress, yet may continue to require support from Brookfield Corp., which should provide a boost in 2024. Its experience operating real assets underpins a robust infrastructure and renewables portfolio amid secular tailwinds.

Private Capital Impact: Brookfield expects credit to be its fastest growing business line, with an ambitious goal of more than doubling its \$245 billion fee-bearing capital in the unit to \$590 billion by 2029. It's invested heavily in the segment in recent years, particularly in its Brookfield Wealth Solutions insurance business, where it benefits from managing Brookfield Reinsurance assets, exemplified by its recent deal for \$50 billion of AEL assets. It now owns more than 70% of credit manager Oaktree, after its initial acquisition in 2019.

11.5 Acquisitions, CLO Business Bring Credit to Carlyle



43%
Of assets in credit

\$83 Billion
Liquid Credit CLOs

Company Outlook: Carlyle Group's fee-related earnings are improving following a compensation shift, while deal activity, private equity and credit fundraising could pick up. The company should deliver on most 2024 fundraising targets, on 2H momentum from several asset-boosting transactions. Carry-accrued balances of \$2.8 billion have been aided by resilient fund performance, as they're being rebuilt after a realignment charge. Expanding the credit unit -- which reached about 43% of managed assets -- is a priority, aided by its continued insurance build-out.

Private Capital Impact: Carlyle caught up in key growth of private credit, with recent acquisitions and the buildout of insurance expanding the strategy's presence to 43%. It is lighter than peers in insurance, yet rapidly catching up through a hybrid approach, with more assets to be added through its Fortitude operation. It's also developing retail products. Like rivals, demand for private credit products has rewarded Carlyle with the most inflows, while the CLO business rebounded. Liquid credit, which accounts for \$83 billion of managed assets, is in high demand as investors seek flexibility.

11.6 Angelo Gordon Brought Leading Credit Growth to TPG



29%
Assets in credit

10%
Overlap between equity
and credit clients

Company Outlook: TPG is maintaining healthy private equity fundraising in 2024, which could gain in 2025, and leading credit inflows that are driving managed assets and fee-related earnings (FRE). The Angelo Gordon acquisition expanded assets by more than 50% and gave TPG a significant credit presence, diversifying from tech-focused private equity. TPG's FRE margin could struggle to reach 45% until 2H25 from a deal downshift to 40%. Before the transaction, the company had an 80% private equity managed-asset concentration, with 36% in tech, higher than large publicly traded peers. Asia and ESG platforms could be fast-growing catalysts.

Private Capital Impact: A 2023 acquisition of Angelo Gordon put TPG on a footing closer to its large, publicly listed peers. Credit now accounts for 29% of the manager's assets, and inflows in this strategy dominated 2024 growth. As TPG benefits from secular private credit trends and business diversification across middle-market direct lending, structured credit and specialty finance, as well as credit solutions, its key growth potential depends on the ability to cross-sell to clients, as there was just a 10% investor overlap at the time of the deal.

11.7 Insurance Ownership Builds KKR's Credit



43%
Assets in credit

2x
Global Atlantic assets
growth goal

Company Outlook: KKR complements its private equity and credit operations with a capital markets unit and uses its balance sheet for strategic investments, adding risk and fee variability. Full ownership of Global Atlantic aids profit as it expands the business's insurance assets. The company accelerated fundraising in 2024 after beating its previous two-year goal, before a pause. Fee-related earnings are pacing to double-digit growth this year as KKR focuses on Asia, infrastructure, real estate and permanent capital. It's reaching a broader investor base and targets 30-50% of new capital from retail clients.

Private Capital Impact: KKR expects Global Atlantic insurance assets to double over five years, from \$187 billion at 3Q, of which \$140 billion was credit. This fully owned business is a primary driver of credit assets, which together with liquid strategies account for 43% of the manager's assets. KKR is leaning into asset-based finance opportunities, with 19 origination platforms, as related assets reached \$66 billion. Its credit business is light on direct lending and dominated by leveraged finance, which includes CLOs and is spread across US and European direct lending.

11.8 Ares Capital Corporation Benefits From Platform



\$25.9 Billion
Of investments

11.7%
Investment yield

Company Outlook: Ares Capital, the largest publicly traded business development company, is holding up well amid pockets of credit stress in the industry and despite holding more junior debt than peers. Nonaccruals could stay low, though managing potential bad loans might weigh on investment performance. Ares' dividend coverage is strong, and spillover income helps support its distribution stability. The BDC's premium valuation likely reflects its ability to generate growth as well as its scale, credit and portfolio-management capabilities derived from its ties to investment adviser Ares Management.

Private Capital Impact: Ares Capital Corporation may be the cornerstone of Ares Management's US direct lending efforts and should benefit from the parent's expansion. The vehicle should continue to exhibit measured growth as it deploys capital raised from ongoing equity issuance, driven by extended demand for its strategy, into attractive risk-reward opportunities. Its inclination and ability to invest across both the lower and upper-middle market, as well as in more junior securities, promotes strong economics and hasn't weighed on its above-average credit results.

11.9 Blue Owl Capital Corporation Rising to Top of Class



\$13.5 Billion
Of investments

76%
First-lien debt

Company Outlook: Blue Owl Capital Corp. ranks among the blue-chip business-development companies that can continue to benefit from the shift in middle-market funding to private lenders, gaining efficiencies and competitive advantages from parent Blue Owl's extensive direct-lending platform and added scale from the OBDC III merger. However, spreads at the top of the middle market where it operates are tightening, while base rate and credit risks pose broad industry challenges to earnings growth and portfolio resilience. Recent dividend hikes have helped to close the valuation gap with other large externally managed peers.

Private Capital Impact: Despite a relatively short track-record compared with many BDC peers, Blue Owl Capital Corporation can continue to reap the benefits from the ongoing shift in middle-market financing to private markets. Its positive results and the increase in retail penetration should support demand for the vehicle, while a growing sponsor-relationship network supplies deal flow. The recent high-profile restructuring of Pluralsight debt highlights broader concerns over private credit quality yet demonstrates the broad capabilities managers have to work out underperforming credits.

11.10FS KKR Capital's Working Through Credit Challenges



\$13.9 Billion

Of investments

3.8%

Nonaccruals at portfolio
cost

Company Outlook: FS KKR Capital is actively restructuring and marking down underperforming loans, which have declined as a share of the total portfolio but remain near the top of their peer group as credit issues nag. The backing of KKR's credit platform provides scale, access to deal flow and, perhaps most importantly, portfolio management and workout capabilities -- a competitive advantage over smaller rivals. Business-development companies are facing a less constructive rate and credit environment, weighing on supplemental dividends, though regular distributions remain well-covered.

Private Capital Impact: FS KKR Capital Corporation benefits from investment sourcing capabilities from the larger KKR network, though recent credit quality challenges highlight some of the risks to private credit that respondents cited in our survey. It might be an outsized beneficiary of the expansion of alternative credit managers into ABF, as it's a particular focus for KKR, and the portfolio allocates more than 15% to this area. The ability to limit further downside through the remainder of the credit cycle could be key for investor perception.

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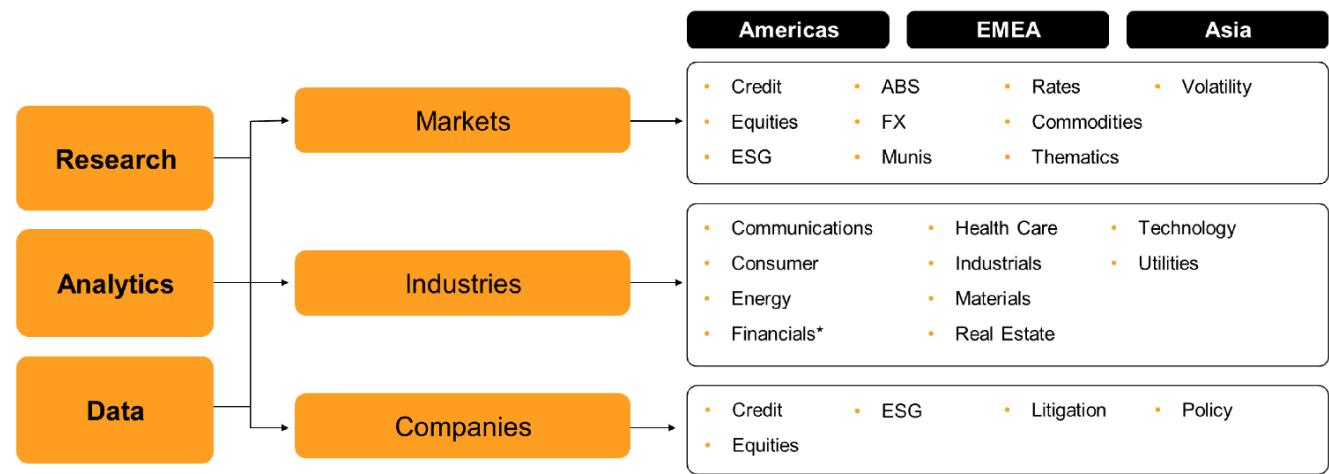
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