

# Wyoming State Treasurer's Investment Conference

September 13-15, 2017

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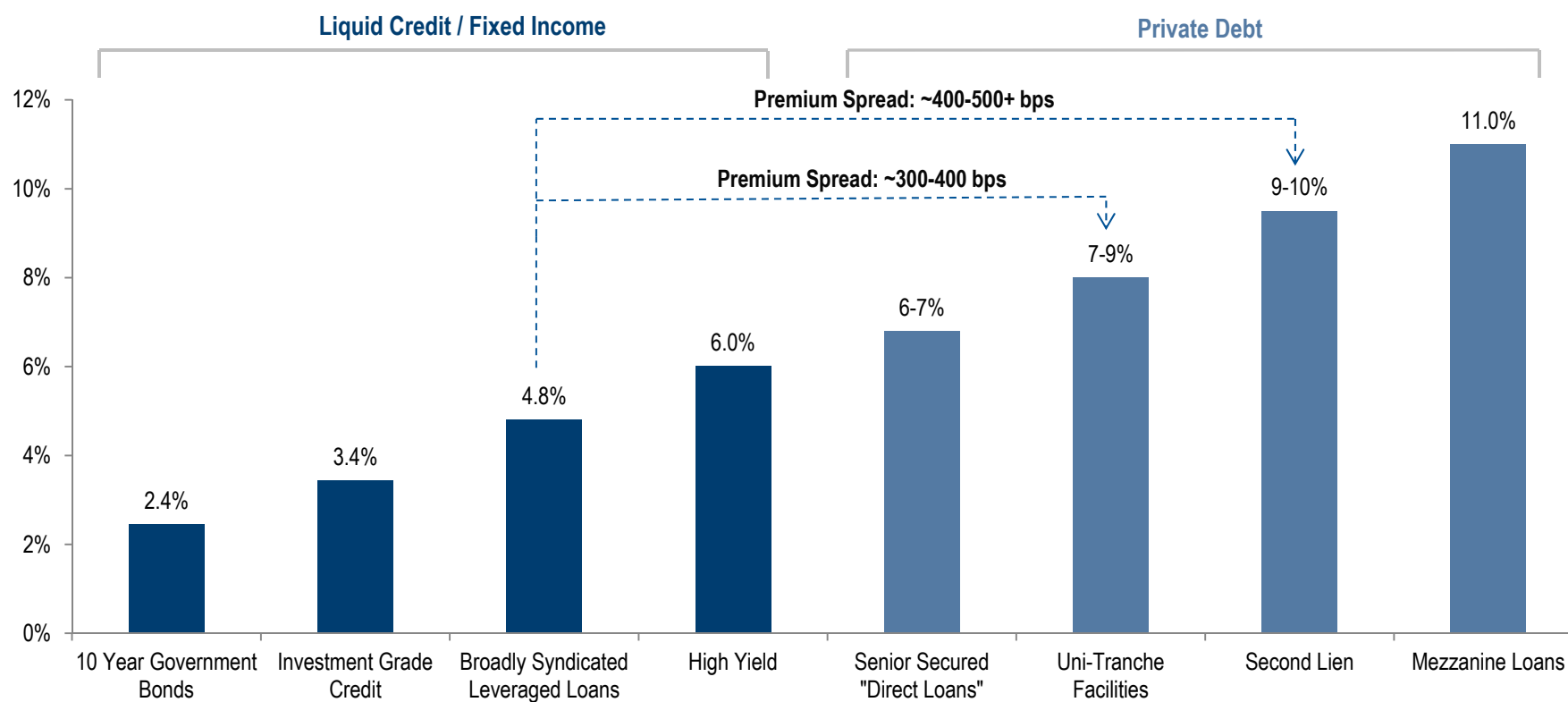
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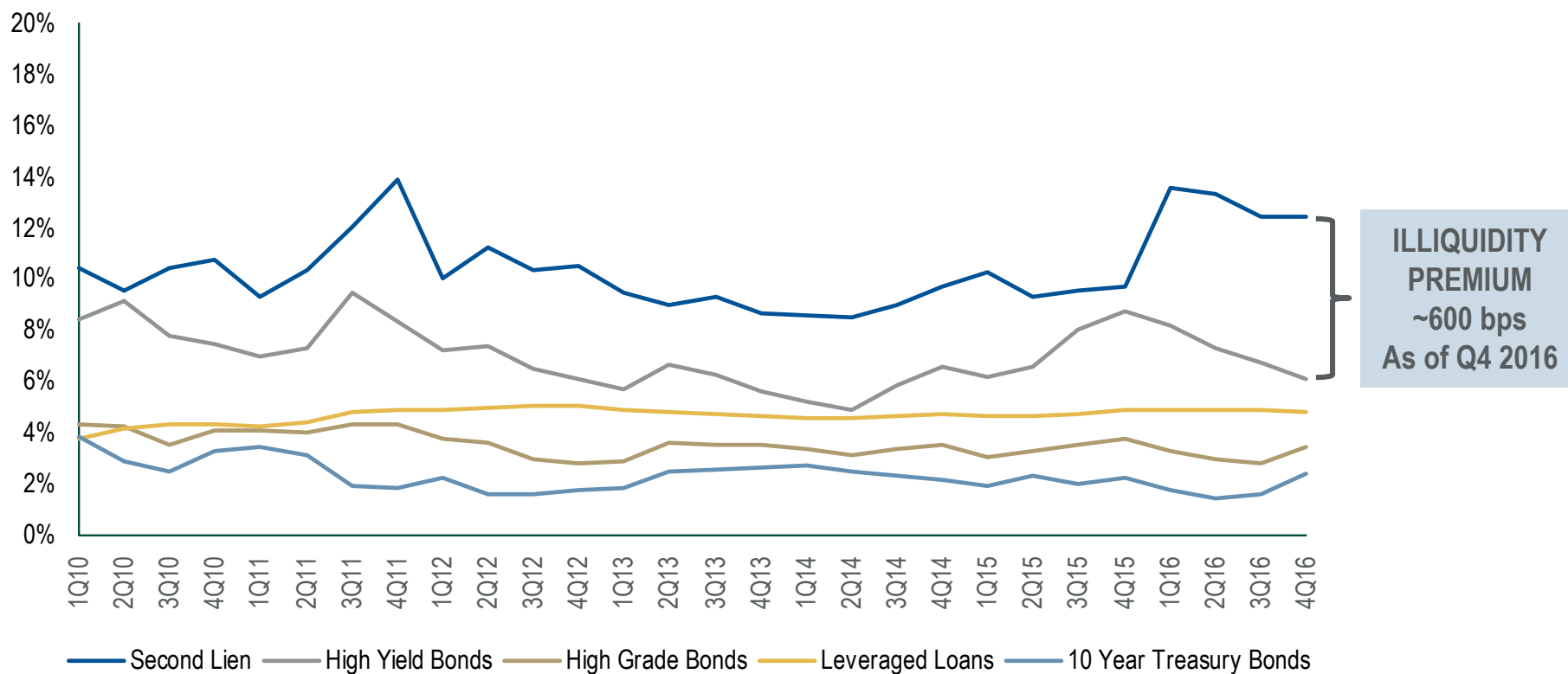


## Fixed Income Return Spectrum



Source: Bloomberg, Credit Suisse, Barclays, JP Morgan. Data as of December 31, 2016.  
 Yields represent: US Government Generic 10 Year Index, Barclays Corporate Investment Grade Index, Credit Suisse Leveraged Loans 1st Lien Index, JP Morgan Corporate High Yield Bond Index.

## Private Debt Illiquidity Premium Has Remained Stable



Source: Bloomberg, Credit Suisse, Barclays, JP Morgan. Data as of December 31, 2016.

Yields represent: US Government Generic 10 Year Index, Barclays Corporate Investment Grade Index, Credit Suisse Leveraged Loans 1st Lien Index, JP Morgan Corporate High Yield Bond Index, and 3-month average new-Issue Second Lien Spread from JP Morgan (includes LIBOR floor and upfront fee).

## Venture Debt Relative to Other Loan Types

	Venture Debt	Convertible Debt	Working Capital Line
<b>Description</b>	<ul style="list-style-type: none"> <li>A non-convertible, senior term loan that can be used like equity, and generally includes warrants</li> </ul>	<ul style="list-style-type: none"> <li>A loan (typically provided by an equity investor) which converts to stock in the company's next equity round</li> </ul>	<ul style="list-style-type: none"> <li>A revolving line of credit which is secured by working capital. May or may not include warrants for purchase of company stock</li> </ul>
<b>Repayment of Loan Principal</b>	<ul style="list-style-type: none"> <li>Generally repaid in monthly payments over the life of the loan</li> </ul>	<ul style="list-style-type: none"> <li>None, converts to equity</li> </ul>	<ul style="list-style-type: none"> <li>Can flex up or down over the life of the loan, depending on the size of the "borrowing base" securing the loan</li> </ul>
<b>Interest Rate (Estimated)</b>	<ul style="list-style-type: none"> <li>10-15%</li> </ul>	<ul style="list-style-type: none"> <li>3-8%</li> </ul>	<ul style="list-style-type: none"> <li>6-10%</li> </ul>
<b>Dilution</b>	<ul style="list-style-type: none"> <li>Generally a small fraction of equity (&lt;1%), due to warrants</li> </ul>	<ul style="list-style-type: none"> <li>Similar to equity, but can be more or less dilutive depending on valuation in next round and specific terms</li> </ul>	<ul style="list-style-type: none"> <li>Minimal to none, may or may not include warrants</li> </ul>
<b>Default Clauses</b>	<ul style="list-style-type: none"> <li>Varies, but often limited to failure to repay</li> </ul>	<ul style="list-style-type: none"> <li>Generally none</li> </ul>	<ul style="list-style-type: none"> <li>Often includes MAC catch-all (any "material adverse change"), investor abandonment, etc.</li> </ul>
<b>Financial Covenants</b>	<ul style="list-style-type: none"> <li>Generally none</li> </ul>	<ul style="list-style-type: none"> <li>Generally none</li> </ul>	<ul style="list-style-type: none"> <li>Often bound to a minimum amount of cash, accounts receivable, performance vs. plan, etc.</li> </ul>

Source: Leader Ventures. There is no guarantee that the described investments will have the characteristics or be on the terms and conditions described herein.

## Project Finance Bank Loans

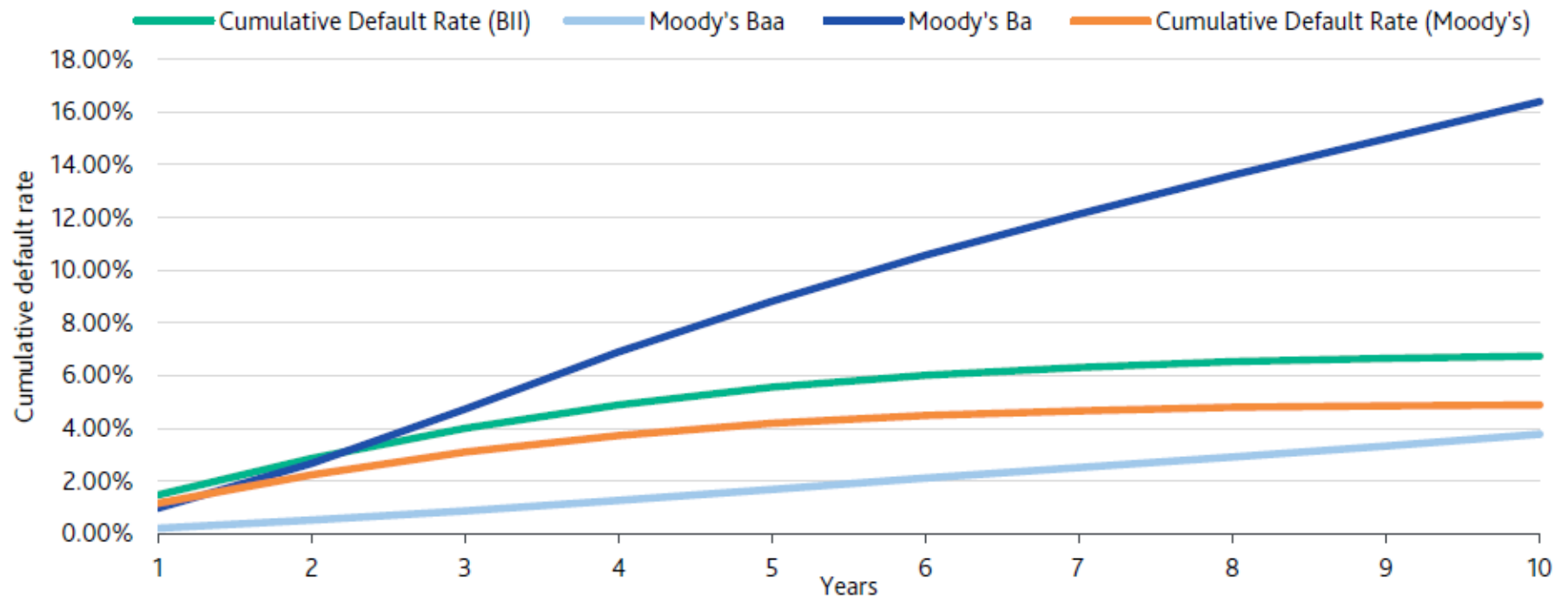
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### CHARACTERISTICS OF PROJECT FINANCE

- Project finance refers to the financing of long-term infrastructure, industrial or public assets and services using limited recourse long-term debt raised by an enterprise operating in a focused line of business in accordance with contractual agreements
- Project financings are based on the notion that risks in the transaction are identified upfront, allocated to transaction parties best able to manage those risks and mitigated such that residual risks are acceptable to funders
- A project finance structure typically includes the use of a special or single purpose entity or project company to raise non-recourse debt which is serviced and repaid from the net cash flows generated by the project
- The scope of the project, its financing arrangements and the security interests granted to secured debt providers are set out in comprehensive contractual arrangements entered into by the project company
- Project finance transactions with lower credit risk tend to benefit from long term contracts providing predictable revenues from creditworthy counterparties and limited competition
- At the other end of the spectrum are projects that have a weak economic or competitive position, face uncertain net cash flows given exposure to market risk, may use complex technologies and/or may have weak counterparties
- Project finance senior debt facilities are typically structured to be robust to potentially severe risks, including significant macroeconomic and performance stresses

## Project Finance Bank Loans – Cumulative Default Rates

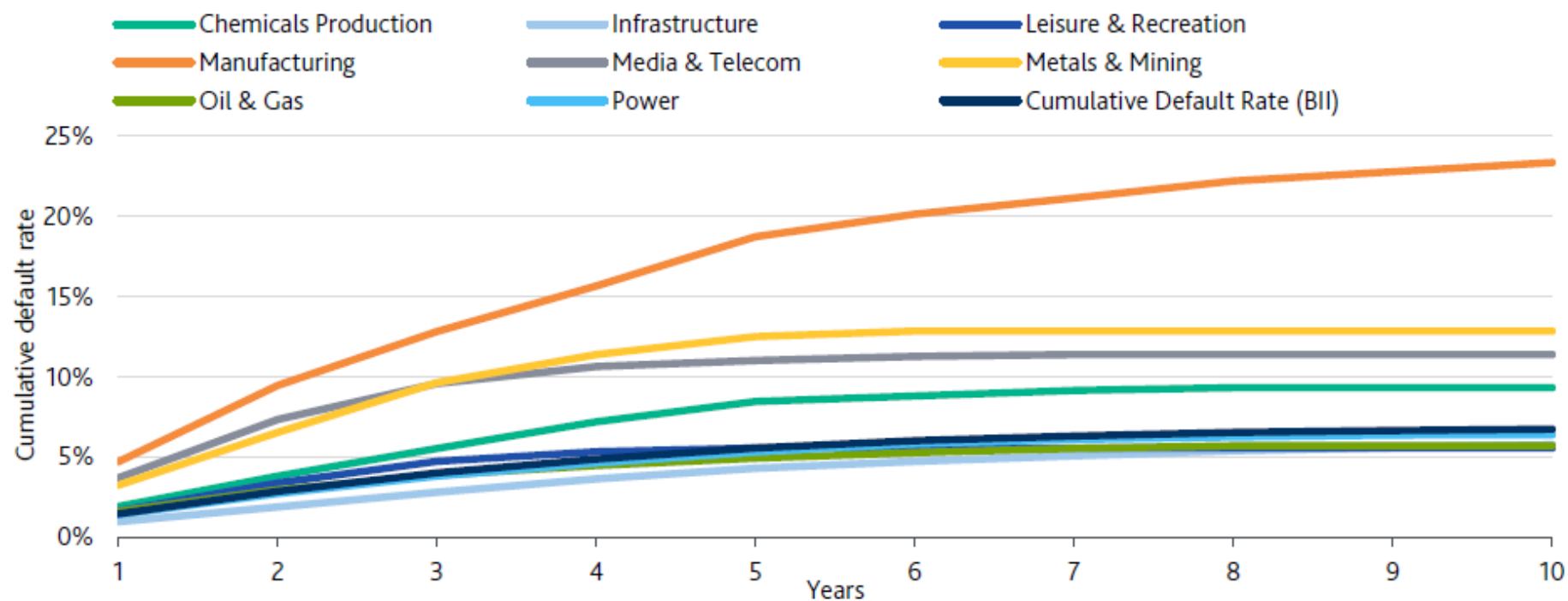
Cumulative default rates increase dramatically for project loans as the credit quality of the issuer weakens. Recovery rates typically average 75–80%, but they drop severely to ~50% in the case of distressed sales



Source: Moody's Analytics Project Finance Data Consortium. Moody's Investors Service: Default and Recovery Rates for Project Finance Bank Loans, 1983-2015. There is no guarantee that the described investments will have the characteristics or be on the terms and conditions described herein.

## Project Finance Bank Loans – Cumulative Default Rates by Industry

Default rates are highest in manufacturing, metals and mining, and media and telecom



Source: Moody's Analytics Project Finance Data Consortium. Moody's Investors Service: Default and Recovery Rates for Project Finance Bank Loans, 1983-2015. There is no guarantee that the described investments will have the characteristics or be on the terms and conditions described herein.





## Overview of U.S. Corporate Private Debt Landscape

	1 <sup>st</sup> Lien / Leveraged Loan Market	Middle Market 1 <sup>st</sup> Lien	Unitranche Loans	2 <sup>nd</sup> Lien / Private High Yield	Mezzanine
<b>Company Size (\$mm EBITDA)</b>	> \$75mm	\$25-\$75mm	\$25-\$50mm	\$30-\$150mm	\$20-\$50mm
<b>Security</b>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	None
<b>Maintenance Covenants</b>	Rarely	Yes	Yes	Rarely / No	Usually
<b>Leverage</b>	0-4.0x	0-4.5x	0-5.5x	4.5-6.5x	4.5-6.0x
<b>Sponsor-Owned Issuers</b>	Varied	Mostly	Mostly	Mostly	Mostly
<b>Ratings</b>	BB/B	B/NR	B/NR	CCC/NR	NR
<b>Cash Coupon<sup>1</sup></b>	L+ 350-450	L+ 450-575	L+ 575-675	L+ 700-1000	9-10%
<b>Yield</b>	4-5%	5-7%	7-9%	9-11%	11-13% (incl. 0-2% PIK)

Source: NB Alternatives Analysis.

1. Commonly with LIBOR floor of 1.0%.

## Characteristics of Target Private Debt Securities

### KEY ADVANTAGES AND DISADVANTAGES OF TARGET PRIVATE DEBT SECURITIES

	Middle Market First Lien Loans	Unitranche Loans	Second Lien Loans
<b>Advantages</b>	<ul style="list-style-type: none"> <li>Floating rate loans</li> <li>Maintenance covenants</li> <li>Leverage from 0.0x – 4.5x</li> <li>Senior-secured, first claim on assets</li> <li>Pricing range stable at 4.5-6.5%</li> <li>Amortization with mandatory free cash flow sweeps</li> </ul>	<ul style="list-style-type: none"> <li>Floating rate loans</li> <li>Maintenance covenants</li> <li>Leverage from 0.0x – 5.5x</li> <li>Senior-secured, first claim on assets</li> <li>Call protection</li> <li>Pricing range stable at 7.5 – 8.5%</li> <li>Amortization with mandatory free cash flow sweeps</li> </ul>	<ul style="list-style-type: none"> <li>Floating rate loans</li> <li>Call protection</li> <li>Senior-secured</li> <li>2 – 3% upfront fees</li> <li>High unlevered cash yield of 8 – 11%</li> <li>Larger companies (\$75 – \$150mm EBITDA)</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>No call protection</li> <li>1% upfront fees</li> <li>Low unlevered cash yield of 4.5 – 6.5%</li> <li>Smaller companies (\$25 – \$75mm EBITDA)</li> </ul>	<ul style="list-style-type: none"> <li>Low unlevered cash yield of 7.5 – 8.5%</li> <li>Smaller companies (\$25 – \$75mm EBITDA)</li> </ul>	<ul style="list-style-type: none"> <li>Incurrence covenants only</li> <li>Junior debt with second claim on assets</li> <li>Price range moves with loan inflows (today at lower end of range)</li> <li>Leverage from 4.5x – 6.5x</li> </ul>

Source: NB Alternatives Analysis. There is no guarantee that the described investments will have the characteristics or be on the terms and conditions described herein.

## Other Alternatives: Economic & Job Development Grants

### ECONOMIC DEVELOPMENT PURPOSE GRANTS <sup>1</sup>

- Funding for economic development initiatives and projects that create or retain jobs, generate increased economic activity and improve the economic and social viability and vitality of local communities
- Example use of funds include:
  - Acquisition or leasing of land, buildings, machinery and/or equipment
  - Acquisition of existing business and/or assets
  - Demolition and environmental remediation
  - New construction, renovation or leasehold improvements
  - Acquisition of furniture and fixtures
  - Planning and feasibility studies
  - Site and infrastructure development
  - Inventory
  - Working capital
  - Marketing and advertising

### JOB DEVELOPMENT INVESTMENT GRANTS <sup>2</sup>

- Performance-based, discretionary incentive program that provides cash grants directly to new and expanding companies to help offset the cost of locating or expanding a facility in the state
- Amount of the grant can be based on a percentage of the personal income tax withholdings associated with the new jobs
- No restrictions on the use of funds assuming the project meets the basic requirements for eligibility

1. New York, Empire State Development.

2. Economic Development Partnership of North Carolina.

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