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Direct Lending: Evergreen Structures

Evergreen Options for Direct Lending Strategies

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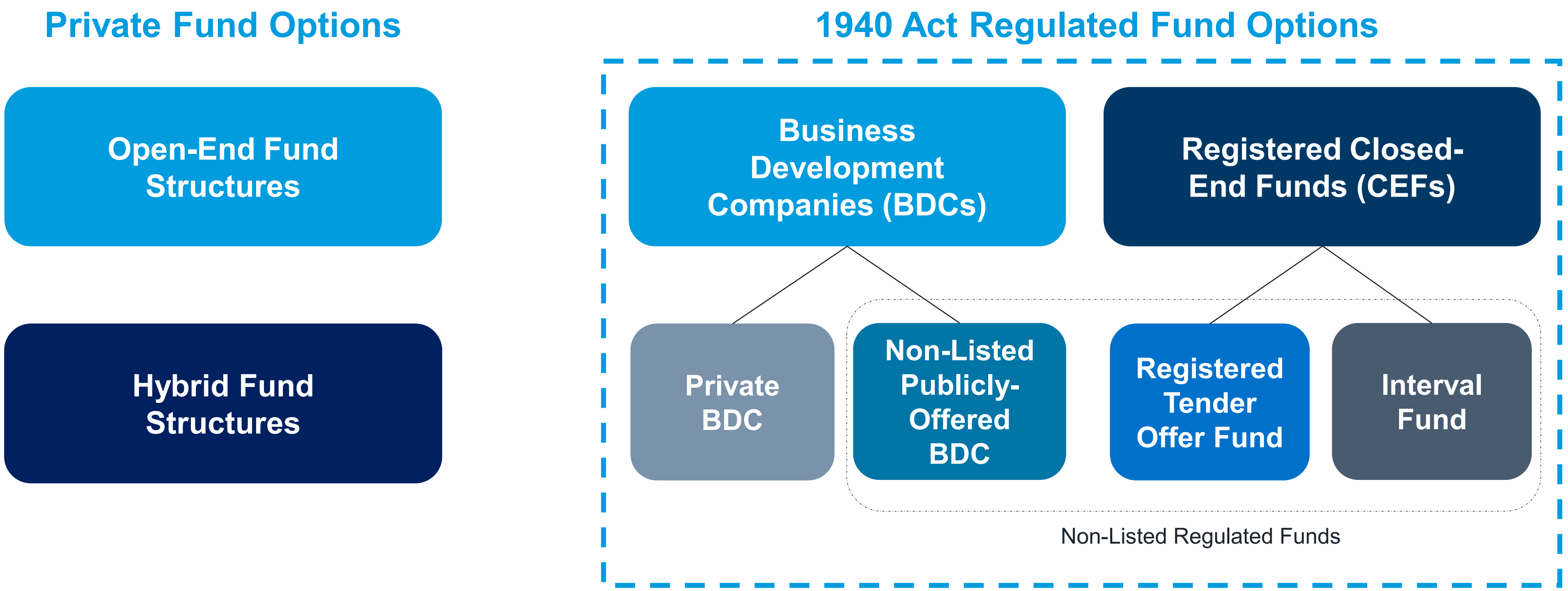
Types of Evergreen Structures for Direct Lending Strategies



Comparison of Evergreen Private Fund Options

Structure	Description	Pros	Cons	Tax Treatment
Open-End Fund Structures	Private open-end fund structure that permits continuous fundraising and provides investors with specified liquidity rights; redeeming investors may be switched to a “liquidation series/run-off series” tied to realizations of underlying credit investments or have gated withdrawals Capital contributions more typical, but can be structured with capital commitment option—fundraising will need to match deal flow Mark-to-market accounting Option to reinvest all income or have current income distributions	• Can charge typical management fees based on NAV and annual performance-based compensation • Performance and management-based fees will capture unrealized appreciation on equity kickers and warrants • No limitation on leverage • No SEC process or public reporting obligations • No 1940 Act restrictions on co-investments with affiliates • Single pool of assets for all investors • Continuously open for new investors	• Liquidity can be challenging absent run-off mechanics and there is operational complexity in potential structure of the run-off • Direct originated credit activities require structuring for tax purposes including either season and sell, use of leveraged blockers or BYOT structures. Treaty-based funds may be difficult to implement with liquidity options. • Heightened focus on valuations • Private fund will be classified as a Hedge Fund for regulatory purposes including Form PF reporting.	Partnership

Comparison of Evergreen Private Fund Options (*Cont'd*)

Structure	Description	Pros	Cons	Tax Treatment
Hybrid Fund Structures	Private fund structure that borrows from both open-end and closed-end fund architecture; typically utilizes a traditional closed-end waterfall structure and may be segmented into "vintages" Capital Commitment structure, where contributions are drawn pro rata based on capital commitments to allow earlier investors to be fully called first Call are made on NAV with book up of capital accounts like an open-end fund Management fees on invested capital or NAV Generally full recycling until exit opportunity, but possible to structure with current income distributions	• Typical management fees and carried interest based on back-end waterfall • Less pressure on valuations as management fees and carry can be determined on invested capital and realizations, respectively • Potentially more appealing to traditional close-end fund investors • Not classified as a Hedge Fund for Regulatory Purposes, including Form PF • No limitation on leverage • No SEC process or public reporting obligations • No 1940 Act restrictions on co-investments with affiliates • New vintages opened periodically, permitting a somewhat continuous offering period	• For investors rolling into subsequent vintages, need to provide a crystallization event on a mark-to-market basis (otherwise long delay to get carry) • Complexity in performance reporting if tracking performance on vintages • Cross-liability risk across vintages that can be mitigated with use of underlying SPVs • Direct originated credit activities require structuring for tax purposes including either season and sell, use of leveraged blockers or BYOT structures. Treaty-based funds may be difficult to implement with liquidity options. • Fundraising is still not as continuous as with an open-end fund structure	Partnership

Comparison of Evergreen Regulated Fund Options

Structure	Description	Pros	Cons	Tax Treatment
Business Development Companies (“BDCs”)	1940 Act regulated fund subject to lighter regulation in exchange for investing primarily in U.S.-based private companies	• Can charge incentive fees on realized capital gains regardless of investor qualifications • Up to 2:1 leverage permitted • Can use leverage even if including tax exempt U.S. investors	• Required to file Form 10-Ks and 10-Qs like operating companies • Must generally invest at least 70% of assets in “eligible portfolio companies” • Subject to being deemed “plan assets” for ERISA purposes if “benefit plan investors” ERISA investors exceed the 25% threshold of any class of equity • Restrictions on co-investments with affiliates	If all income is distributed, no corporate tax. No withholding tax on most U.S. source interest income. No UBTI for tax-exempt investors, even if the BDC is levered.
Registered Closed-End Funds (“CEFs”)	Investment fund that is registered under the 1940 Act	• Can have 100% ERISA investors without being deemed “plan assets” • More flexible than a BDC with respect to investments	• Required to file annual, semi-annual and other reports with the SEC • Leverage is greatly reduced relative to a BDC or private fund • Restrictions on co-investments with affiliates • No capital gains incentive fees generally	Same as above.

Comparison of Evergreen Regulated Fund Options (Cont'd)

Structure	Description	Pros	Cons
Private BDC	Non-exchange listed version of a BDC that is sold via a traditional private placement to primarily institutional investors	• Free from market price fluctuation • Most offer only limited liquidity prior to a public listing or conversion to a non-listed publicly-offered BDC structure • No state "blue sky" filings other than Form Ds in connection with the private placement of fund interests	• Distribution is limited within the U.S. given the private placement structure • Private BDCs must use a full subscription process
Non-Listed Publicly-Offered BDC	Non-exchange listed version of a BDC that is sold via a public offering to qualified individual investors	• Free from market price fluctuation	• Retail versions often require large distribution networks • Unlike publicly-offered CEFs, non-listed publicly-offered BDCs must registered in each U.S. state under "blue sky" registration requirements • Unlike private BDCs, non-listed publicly-offered BDCs must offer investors periodic liquidity • Liquidity requirements may require a more liquid portfolio • Non-listed publicly-offered BDCs must use a full subscription process

Comparison of Evergreen Regulated Fund Options (Cont’d)

Structure	Description	Pros	Cons
Registered Tender Offer Fund	Non-exchange listed version of a CEF that states an intent to offer liquidity via periodic tender offers	• Free from market price fluctuation • Offerings typically conducted publicly, but can be structured as private placements • Unlike BDCs, publicly-offered registered tender offer funds do not face full “blue sky” registration in each U.S. state • Unlike interval funds, registered tender offer funds can offer less than 5% liquidity per tender offer	• Retail versions often require large distribution networks • Liquidity requirements may require a more liquid portfolio
Interval Fund	Non-exchange listed version of a CEF that adopts a fundamental policy to conduct periodic repurchase offers at predetermined intervals	• Free from market price fluctuation • Offerings typically conducted publicly, but can be structured as private placements • Unlike BDCs, publicly-offered interval funds do not face full “blue sky” registration in each U.S. state • Unlike registered tender offer funds, interval funds may qualify for a ticker symbol and simplified subscription process similar to mutual funds	• Retail versions often require large distribution networks • Liquidity requirements may require a more liquid portfolio • Unlike registered tender offer funds, interval funds must offer at least 5% liquidity for each repurchase offer • Interval funds typically cannot deviate from liquidity requirements without investor approval • Publicly-offered interval funds must determine NAV on a daily basis

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