



City of Ocala - General Employees Retirement System

Private Credit Search

May 2024 | Rob Hungerbuhler, Senior Consultant |

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Candidate Overview

| Investment Manager <i>Firm HQ</i> | Fund | Description |
|---|---|---|
| Churchill Asset Management New York, NY | Churchill Middle Market Senior Loan Fund V | <ul style="list-style-type: none"> • With \$46 billion in committed capital, Churchill Asset Management (“Churchill”) is a leading provider of customized financing solutions to middle market private equity firms and their portfolio companies across the capital structure. • In March 2023, Nuveen successfully completed its acquisition of a controlling interest in Arcmont Asset Management (“Arcmont”), a leading European private debt investment manager. The Acquisition of Arcmont expands Nuveen’s private capital expertise and presence in Europe and complements Churchill’s North American-focused private debt and private equity platforms. • The Strategy – evergreen structure - will strictly invest in first lien and unitranche debt of private equity-owned middle market companies in the U.S. |
| Partners Group Zug, Switzerland | Private Credit Solutions | <ul style="list-style-type: none"> • Partners Group is a well-regarded global investment manager with 25+ years’ experience and over \$140 billion in AUM across private equity, credit, real estate and infrastructure. • The Private Credit Solutions strategy is structured as an “evergreen fund” and seeks to provide investors with exposure to private debt, primarily through US sponsor-backed, senior secured direct lending. • Partners Group will employ a building block approach, investing immediately into senior syndicated loans and using a ramp and rotate approach to move into senior secured direct lending investments as opportunities are sourced. The Fund may also take select positions in opportunistic credit (up to 10%) as relative value opportunities arise. |

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Firm Snapshot

| | Firm | Churchill Asset Management | Partners Group |
|--------------|------------------------------------|---|--|
| Firm Details | Year Founded | 2006 | 1996 |
| | Ownership Structure | Launched as a TIAA/Nuveen affiliate in 2015. Majority-owned affiliate of Nuveen LLC | Publicly listed on the SIX Swiss Exchange (Symbol: PGHN). Employees own over 25% of total shares |
| | Lines of Business | Senior Lending, Junior Capital, Equity-co-investment, Private equity fund commitments and secondaries | Private Equity, Private Debt, Private Real Estate, and Private Infrastructure |
| | Total Firm Assets Under Management | \$46 billion | \$142 billion |
| | Number of Investment Professionals | 62 | 550 |
| | Years Investing in Strategy | 17 | 20+ |
| | Offices | 5 | 20 |

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Fund Overview, Target Returns, Liquidity and Leverage Snapshot

| | Churchill Asset Management | Partners Group |
|---------------------------------|--|-------------------------------|
| Fund Information | | |
| Fund Name | Churchill Middle Market Senior Loan Fund V | PG Private Credit Strategy |
| Fund Inception (Vintage) | 2023 | 2021 |
| Equity commitments to Date | \$250 million | \$597 million |
| Target Fund Size | \$3,500 million | \$2,000 million + |
| Expected Final Close | N/A | N/A |
| Performance Expectations | | |
| Target IRR | 10 - 12% net | 10 to 12% net |
| Target MOIC | None | None |
| Liquidity | | |
| Fund Structure | Evergreen | Evergreen |
| Investment Period | N/A | N/A |
| Term | N/A | N/A |
| Initial Lock-Up | Two Years | None |
| Subscriptions | Quarterly thru 06/2024 and semi-annually thereafter | Monthly |
| Redemptions | Investors may redeem with 180 days notice following the initial two lock-up period and quarterly thereafter with 180 days notice | Quarterly with 90 days notice |
| Distributions | Quarterly | Quarterly (optional) |
| Leverage¹ | | |
| Intend to use leverage? | Yes | Yes |

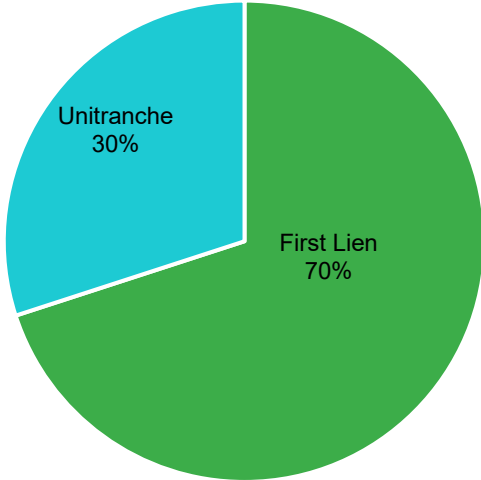
Latest available information. ¹This section describes a fund's willingness to apply leverage on investments. It does not describe the use of credit facilities to manage capital calls from fund limited partners over time.

Private Credit Search

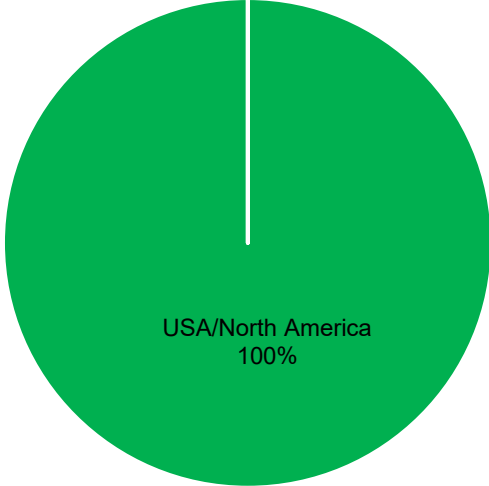
Expected Allocations – Security Type and Geography

Churchill Asset Management

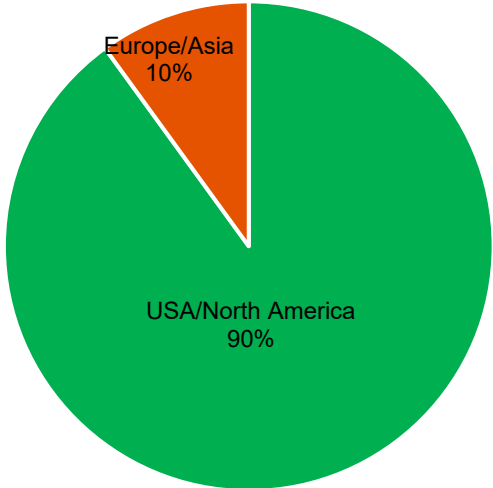
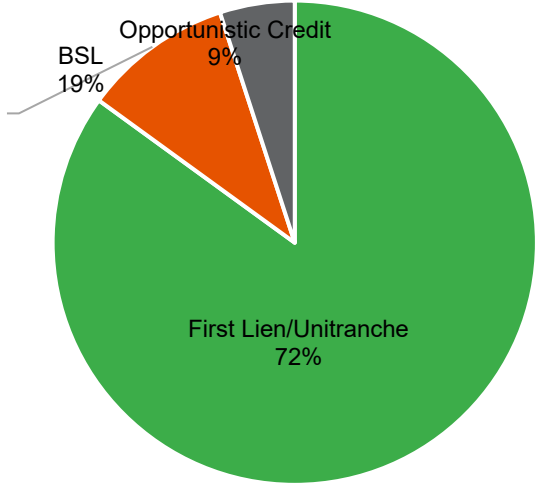
Security Type



Geography



Partners Group



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Fees Snapshot

| | Churchill | Partners Group |
|---------------------|--|--------------------------------|
| Fees / Other | | |
| Minimum Commitment | \$5 million | \$5 million |
| Management Fee | 0.50% on invested capital on assets of \$5 to \$49 million, 0.45% on assets of \$50 million to \$149 million, and 0.40% on assets greater than \$150 million | <i>1.25% on equity capital</i> |
| Carried Interest | 10% | 10% |
| Preferred Return | 7% | 6% |

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Track Record

Churchill¹

| Fund Name | Vintage Year | Committed Capital (in millions) | Net MOIC | Net IRR |
|-------------------------|--------------|---------------------------------|----------|---------|
| Senior Lending Fund I | 2016 | \$938 | 1.3x | 7.9% |
| Senior Lending Fund III | 2020 | \$1,300 | 1.1x | 11.3% |

Partners Group²

| Fund Name | Vintage Year | Committed Capital (in millions) | Net MOIC | Net IRR |
|---|--------------|---------------------------------|----------|---------|
| PG Private Credit Strategy Representative Track Record | 2012 | \$26,648 | 1.2X | 9.1% |

Past performance is not indicative of future results. Data as of December 31, 2023. Information presented in millions. ¹ Churchill's senior Lending Fund I and II are both levered vehicles, thus representative of Senior Lending Fund V

² This Track Record is unlevered and is comprised of 85% PG N.A first lien direct lending levered track record / 5% PG N.A second lien direct lending track record / 8% PG European first lien direct lending levered track record / 2% PG Asia first lien direct lending track record.

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Candidate Comparison (1 of 2)

The two candidates are well-qualified to contribute to your private credit portfolio construction, and offer:

- Established firms and/or teams with diversified, institutional client bases
- Strong operational processes and infrastructure
- Experienced, stable senior investment teams
- High levels of investment insight in their respective target opportunity sets
- Rigorous due diligence and analytical processes
- Conservative to flexible investment solutions
- Terms and conditions that are either below peers or consistent with market

However, there are points of distinction:

Churchill Asset Management – Fund V: Rated Recommended

- Given its sole focus on sponsor-backed senior lending, Churchill’s strategy is the more conservative of the two candidates profiled in this search book relative to Partners Group.
- Churchill significantly benefits from the institutional support of its parent company from a deal sourcing standpoint but also from an alignment of interest perspective.
- The firm has been investing in private debt since 2006 and has one of the largest, most stable, and most experienced investment professionals in the middle market lending industry. With 62 investment professionals dedicated to private credit, Churchill has, by far, the largest platform relative to the other two candidates.
- Churchill’s Middle Market Senior Loan Fund V is an evergreen “plain vanilla” fund and the “purest” direct lending strategy of the four candidates profiled. It focuses on senior debt lending, namely first lien and unitranche debt. In addition, the fund will exclusively invest in the U.S./North America.
- The economic terms of Fund V are very attractive – lower management fees and lower carried interest – for a pure direct lending fund. Furthermore, Fund V is offering a size discount whereby Churchill will aggregate Segal Marco clients' assets that commit to this Fund. Specifically, Churchill will consider Segal Marco aggregate assets as one client for purposes of the size discount. Note that the size discount will be retroactive.
- Fund V is best suited for clients looking to make a first allocation to private credit given the conservative nature of the strategy

Private Credit Search

Candidate Comparison (Continued, 2 of 2)

Partners Group – Private Credit Solutions Strategy: “Under Consideration” for a Recommended Rating

- The Private Credit Strategy is a relatively new investment program that combines multiple capabilities within Partners Group. Over the years, within Private Debt they set up a number of closed-end funds focused on senior secured content without leverage under their Private Market Credit Strategies vintages since 2012. More recently they have set up open-ended debt strategies across Syndicated and Private Debt. Within the firm, they have also a longstanding history of managing evergreen structures since 2001.
- The Private Credit Strategy is unique due to its innovative, easy to use open-ended/evergreen structure with no capital calls which allows investors to more easily reach and maintain their target asset allocation. It also offers investors the opportunity to become invested in a fully diversified portfolio on day one with long-term compounding of capital.
- The Fund structure has no lock up feature - which is rare among evergreen private credit offerings - and also offers the optionality for quarterly income. In addition, the Fund offers full redemption on quarterly basis with 90 days notice. Unlike drawdown vehicles, this Fund's ability to offer liquidity is undoubtedly the key distinguishing feature.
- Partners Group has set up a dedicated ERISA structure to manage the needs of that client type, including serving as an ERISA fiduciary and blocking UBTI.

Segal Marco Advisors Disclosure Statement

Segal Marco Advisors has a fiduciary duty to act in the best interests of our clients at all times and to place their interests before our own. In seeking to honor this principle, we constantly abide by one overriding rule – an absolute commitment to independent and unbiased advice. Moreover, the Company has a fiduciary duty of full and fair disclosure of all material facts to its clients. The following disclosure addresses areas of perceived conflict of interest:

| Firm | Intermediary |
|----------------------------|---------------------|
| Churchill Asset Management | No |
| Partners Group | No |

Financial Intermediaries

The above chart indicates whether or not managers included in this search book have an affiliated investment management company that purchases services from Segal Marco Advisors. Segal Marco Advisors has in affect mechanisms to ensure that investment managers are recommended by our consultants without regard to whether or not their affiliated investment management company purchases services from Segal Marco Advisors.

Investment Terminology

- **Lien** is the legal right of a lender or creditor to seize an asset from a borrower which has failed to repay. First and second lien loans have priority with respect to payment over debt holders lower in the capital structure and have claim priority in the case of a failure to repay.
- **Unitranche** is a hybrid debt instrument which combines both senior and subordinated debt into a single loan.
- **Mezzanine** is subordinated debt which is senior in the capital structure to equity but is below senior debt.
- **Sponsor Backed** are loans to companies which are owned by a private equity firm or firms, which offers a direct relationship with the private equity owner (the “sponsor”).
- **Distressed Debt** is an investment in the debt of a financially troubled company.
- **Special Situations** are investments made with a highly focused objective, seeking to capitalize on sporadic opportunities in a wide variety of sectors. Investments may include structured financing/venture lending, distressed, turnaround and restructuring opportunities, and special niche sectors such as Natural Resources.
- **Carried Interest** The general partner’s share of profits generated by the fund – which is intended to be the primary incentive compensation. A 20% “carry” has been typical – although firms with exceptional prior performance can warrant 25-30%
- **Catch-Up** Once the general partner provides the limited partners with their preferred return, there is a period where it receives the majority of profits until the agreed upon profit split (based on the carried interest) is achieved.
- **General Partner Clawback** is the extent to which the general partner receives more than its fair share of profits (as determined by the carried interest), the individual partners are responsible for refunding the excess to the limited partners.
- **Limited Partner Clawback** is intended to protect the general partner against future claims, should it be the subject of litigation. The fund’s limited partners commit to pay for any legal judgement imposed on the general partner or partnership. Typically, this includes a limitation on timing or amount of the judgement.
- **Preferred Return** The minimum annual IRR promised to the limited partners before the general partner shared in the profits of the partnership.
- **Key Man Provision** If during the investment period, a specified key management team member is no longer involved, the fund will go into suspension mode, where investments can be made in only limited circumstances until a replacement member is approved.
- **Vintage Year** is the year in which the fund is formed and used to benchmark performance against other funds formed in the same vintage year.
- **Internal Rate of Return (“IRR”)** is the annualized effective compound rate of return using daily cash flows and the period’s beginning and ending value. Unlike a “Time-Weighted Return” which neutralizes the timing of cash flows, and IRR, also known as “Dollar-Weighted Return”, reflects the timing of cash flows given that private fund managers determine when cash is being called from and distributed back to the investor.
- **J-Curve** is the return profile associated with closed-end private market fund vehicles where performance is typically negative during the early years as a result of upfront fees, expenses and capital drawdowns. As investments mature, gains and positive cash flows are realized.
- **Total Value:** *Net Asset Value + Total Distributions*
- **TVPI:** $Total Value to Paid in = \frac{Total Value}{Total Paid In Capital}$
- **DPI:** $Distributions to Paid In = \frac{Total Distributions}{Total Paid In Capital}$
- **RVPI:** $Residual Value to Paid In = \frac{Net Asset Value}{Total Paid In Capital}$

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