

Recommendation for Owl Rock Capital Corporation

To: RISIC
Prepared: November 12, 2019
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with Cliffwater's recommendation the post-IPO investment in Owl Rock Capital Corporation ("ORCC").

Summary of Owl Rock Capital Corporation

Fund Overview: ORCC is a private business development company ("BDC") which originates and makes private senior direct loans in middle market companies. A BDC structure is common for direct lending firms. A BDC is regulated by the SEC, required to distribute at least 90% of income to shareholders, and required to perform quarterly valuations by a third party and provide quarterly financial statements. Upon a public listing, investors are able to use the public markets to exit their investment.

Since commencement of the ORCC in 2017, the firm has built a portfolio of over \$3 billion loans to over 45 issuers. The portfolio is approximately 70% 1st lien and 30% 2nd lien loans. As part of ORCC's investment plan, the firm went public (stock symbol: ORCC) on July 18, 2019. As with most IPOs, the existing investors are "locked-up" for an initial time period. For ORCC, the shareholder lock-up schedule provides liquidity of holdings over a one year period allowing 1/3 of shares to be sold 181 days after the IPO, an additional 1/3 of shares 271 days after the IPO, and the remaining 1/3 of shares 366 days after the IPO.

Investment History and Performance

RSIC approved a commitment of \$50 million to ORCC in December of 2017 as part of its private credit allocation. The first funding was made on March 16, 2018. Since inception, ERSRI's entire commitment has been invested and ERSRI has received distributions of \$3.7 million. ERSRI has 3,251,813 shares of ORCC. Based on the IPO price of \$15.30 per share, the investment has generated a net IRR of 10.6%. Based on the closing price on November 11, 2019 of \$17.90 per share, the investment has generated a net IRR of 23.6%.

Cliffwater Recommendation

While the investment has met or exceed expectations for investment, income and total return, the investment as a public security no longer fits the strategic allocation of private credit. Cliffwater recommends that ERSRI liquidate the public shares, in accordance with the lock-up schedule, when such shares are trading at or above a reasonable price target and subject to market liquidity.

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