

Navigating Private Debt at the End of the Cycle

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Chairman StepStone Private Debt & Liquid Alternatives



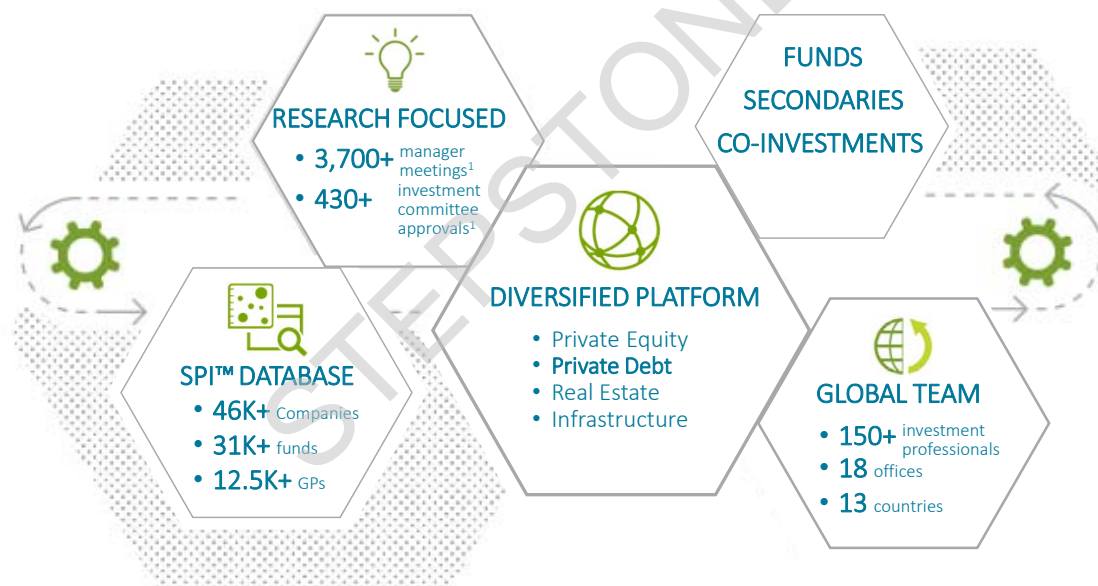
StepStone At-a-Glance



StepStone is a global asset management and advisory firm offering investment solutions across all private markets



STEPSTONE'S ADVANTAGE



SPECIALIZED RESEARCH

CUSTOMIZED SOLUTIONS

INFORMATION ADVANTAGE

As of December 2018. All dollars are USD.

1. Last twelve months through December 31, 2018.

2. \$255+ billion indicates total assets which includes over \$51 billion in assets under management as of December 31, 2018. Reflects final data for the prior period (September 30, 2018), adjusted for net new client account activity through December 31, 2018. Does not include post-period investment valuation or cash activity.

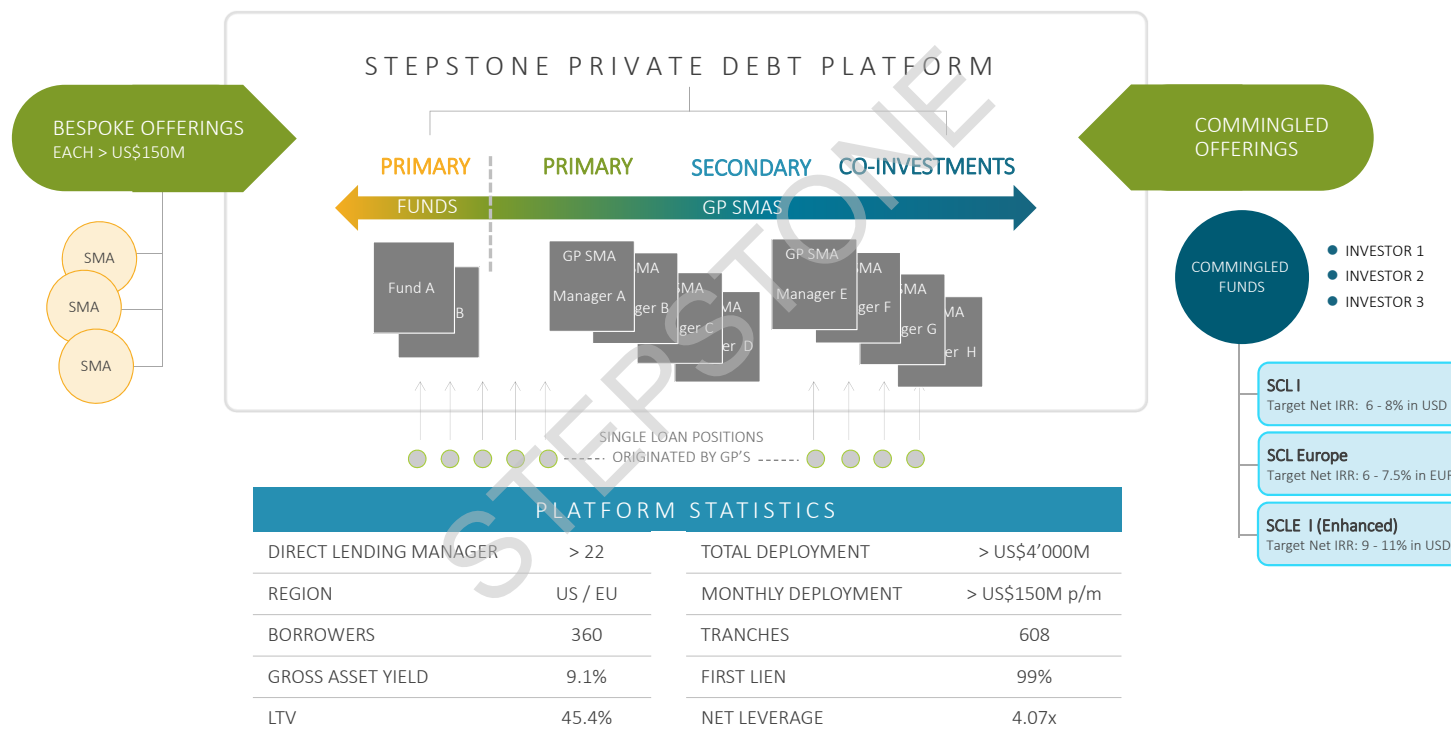
3. StepStone approved over \$37 billion in 2018. Represents StepStone-approved investment commitments on behalf of discretionary and non-discretionary advisory clients. Excludes clientele that receive research-only, non-advisory services. Ultimate client investment commitment figures may vary following completion of final GP acceptance/closing processes. Real Estate figures for CY 2018 include Courtland Partners approval activity from January 2018 – March 2018, prior to acquisition by StepStone in April 2018.

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StepStone Private Debt Platform & Access



The StepStone Private Debt platform offers differentiated access & implementation for private debt investments



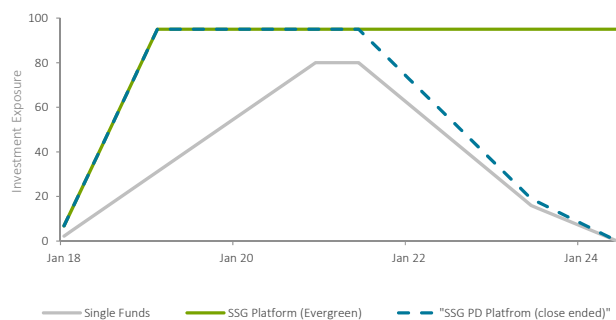
As of January 2019. For illustrative purposes only

Past performance is not necessarily indicative of future results and there can be no assurance that the investment will achieve comparable results or avoid substantial losses. Gross return will ultimately be reduced by management fees, carried interest, taxes, and other fees and expenses. Target returns are hypothetical and are neither guarantees nor predictions or projections of future performance. Future performance indications and financial market scenarios are no guarantee of current or future performance. There can be no assurance that such target net IRRs will be achieved or that the fund will be able to implement its investment strategy, achieve its investment objectives or avoid substantial losses. Further information regarding target net IRRs calculations is available upon request.

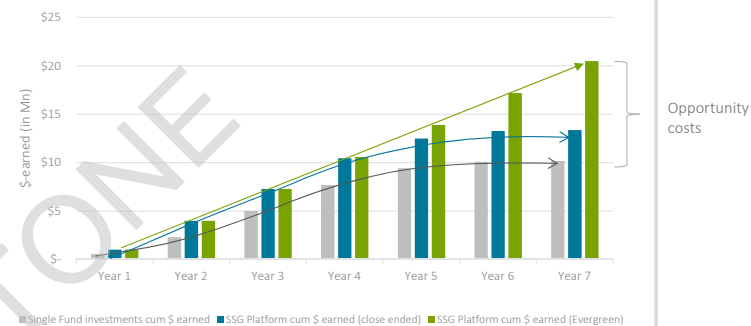
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Implementation Planning – Deployment Assumptions

Deployment Speed

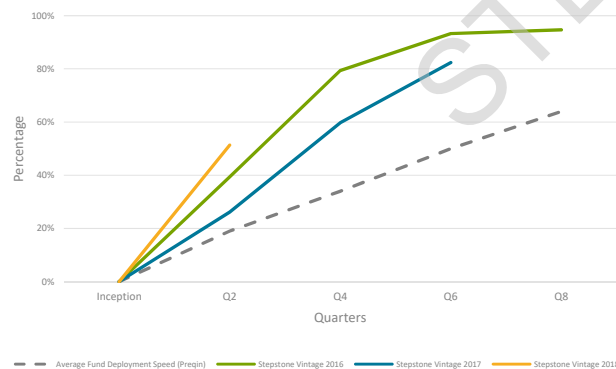


Comparison \$-earned



Assumption total investment of USD 100m

Deployment Speed

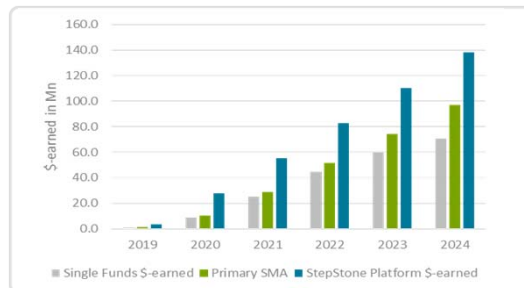


- Faster Ramp
- Higher Money Multiple
- More Dollar Earned
- Capital Efficiency through Techniques

For illustrative purposes only

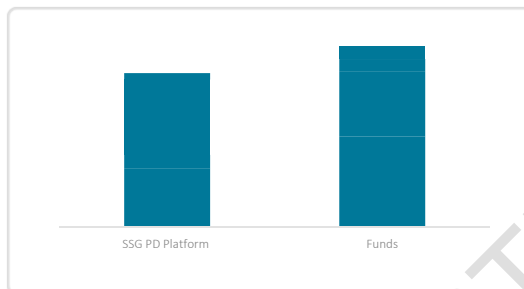
While Stepstone currently believes that the assumptions are reasonable under the circumstances, there is no guarantee that the conditions on which such assumptions are based will materialize or otherwise be applicable.

Direct Lending SMA Potential Advantages



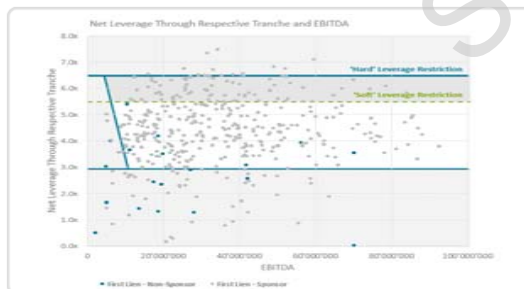
MORE DOLLARS CAN BE EARNED (up to USD 125M over 6 years)

- Designed for fast deployment, optimized to reach a high investment exposure
- Ready to execute, no need to wait for the next top quality GP to be in the market with a fund



LOWER TO SAME FEES

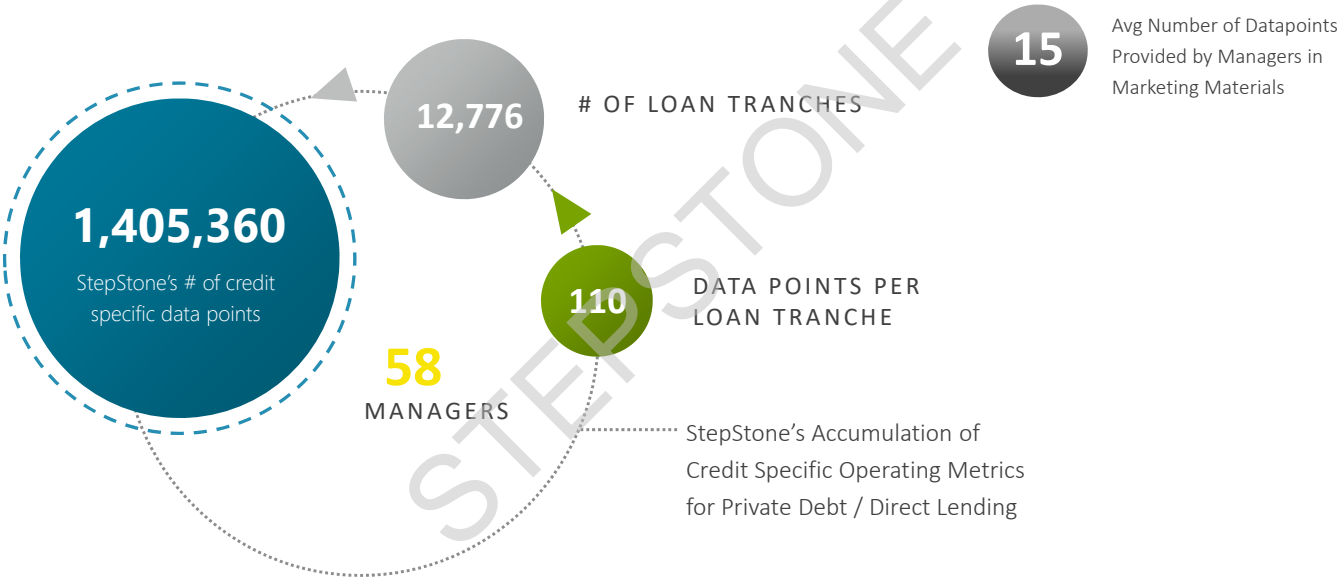
- Fee discounts from managers more than offset StepStone's fees
- Economies of scale further reduce operational costs



CREDIT QUALITY, DIVERSIFICATION & TRANSPARENCY

- Individual investment guidelines & restrictions per GP result in a lower risk profile
- "Ownership" positions ensure risk mitigation, credit quality, diversification & transparency

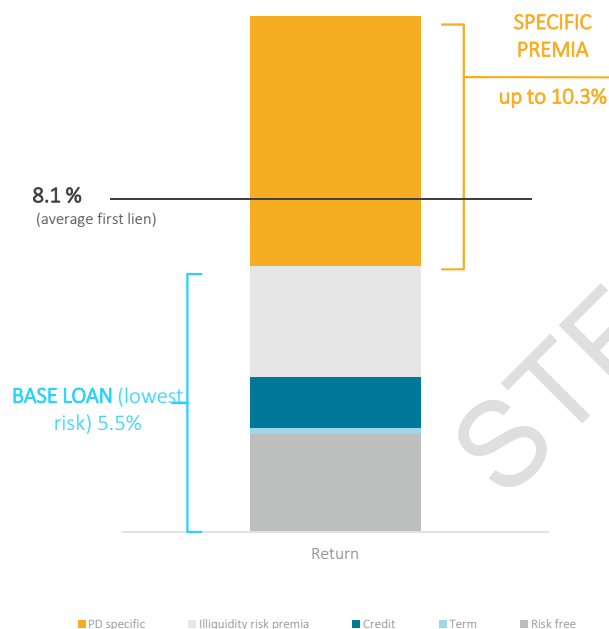
For illustrative purposes only.
Source: StepStone



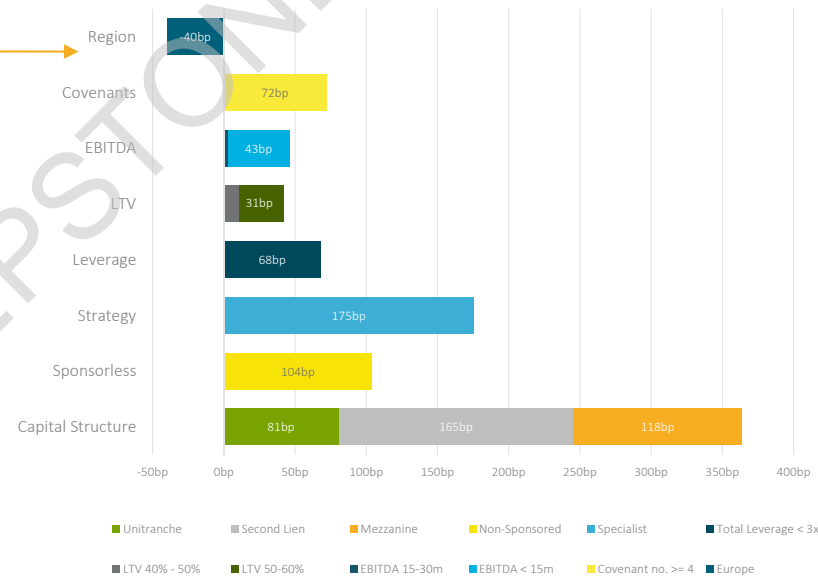
Private Debt specific Risk Premia

The Asset Classes specific Risk Premia of Private Debt may have an important impact on an Investors Portfolio

COMMON AND SPECIFIC RISK PREMIA



DECOMPOSITION OF SPECIFIC RISK PREMIA



Source: StepStone

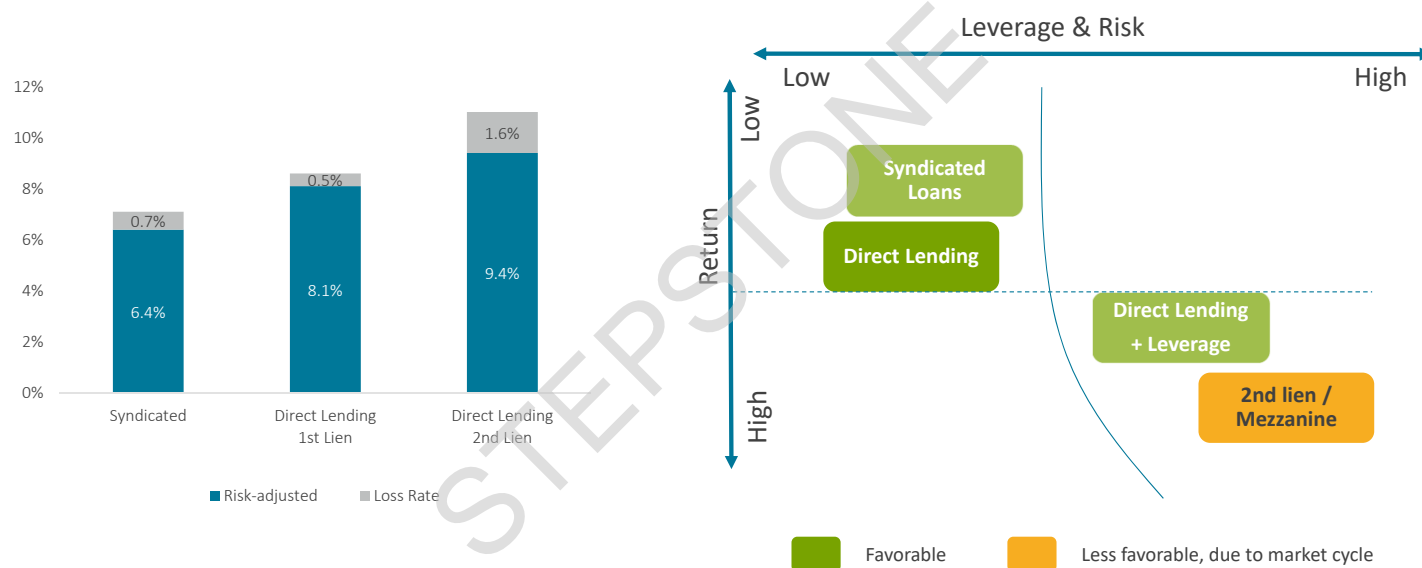
For the decomposition an extract of the SSG proprietary database with 7420 loan tranches is used. The study is based on a sample from 2010-2017 and the cross-sectional regression has an R^2 of 66%. The base loan (550 Bps) is first lien, sponsored, 0 Covenants, originated in 2017, leverage above 5, LTV < 40% and Ebitda of 30-50M and core manager

Note: For illustrative purposes only

Past performance is not necessarily indicative of future results and there can be no assurance that the investment will achieve comparable results or avoid substantial losses

Company Leverage vs. Portfolio Leverage

StepStone prefers in the current market cycle senior investments vs second lien / mezzanine investments...



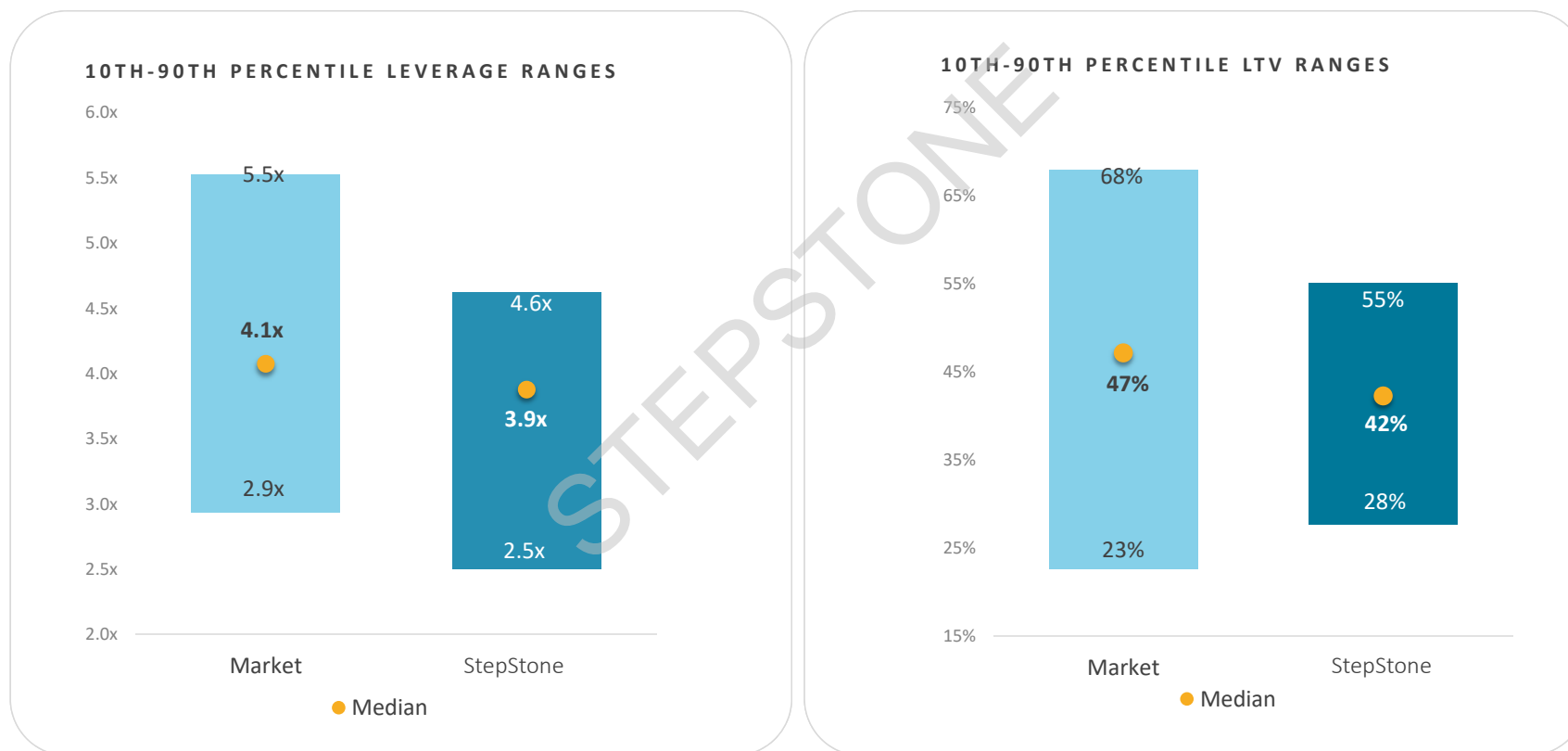
...in the future StepStone will adjust their positioning depending on the market environment.

Source: StepStone

For illustration purposes only

Note: The following model is entirely hypothetical and an illustration of returns that could be earned if the assumptions specified above occurred. Investors are advised that actual returns could vary significantly from those shown herein. Represents gross IRR which will ultimately be reduced by management fees, carried interest, taxes, and other fees and expenses. Any return contained herein is hypothetical and is not a guarantee of future performance. The returns set forth herein do not constitute a forecast; rather they are indicative of the internal transaction analysis regarding outcome potentials. Any returns set forth herein are based on StepStone's belief about the returns that may be achievable on investments that it intends to pursue. Such returns are based on the current view in relation to future events and financial performance of potential investments and various models, estimations and "base case" assumptions made, including estimations and assumptions about events that have not occurred. Actual events and conditions may differ materially from the assumptions used to establish returns and there is no guarantee that the assumptions will be applicable to the investments.

Limiting Risk Through Quality Credits

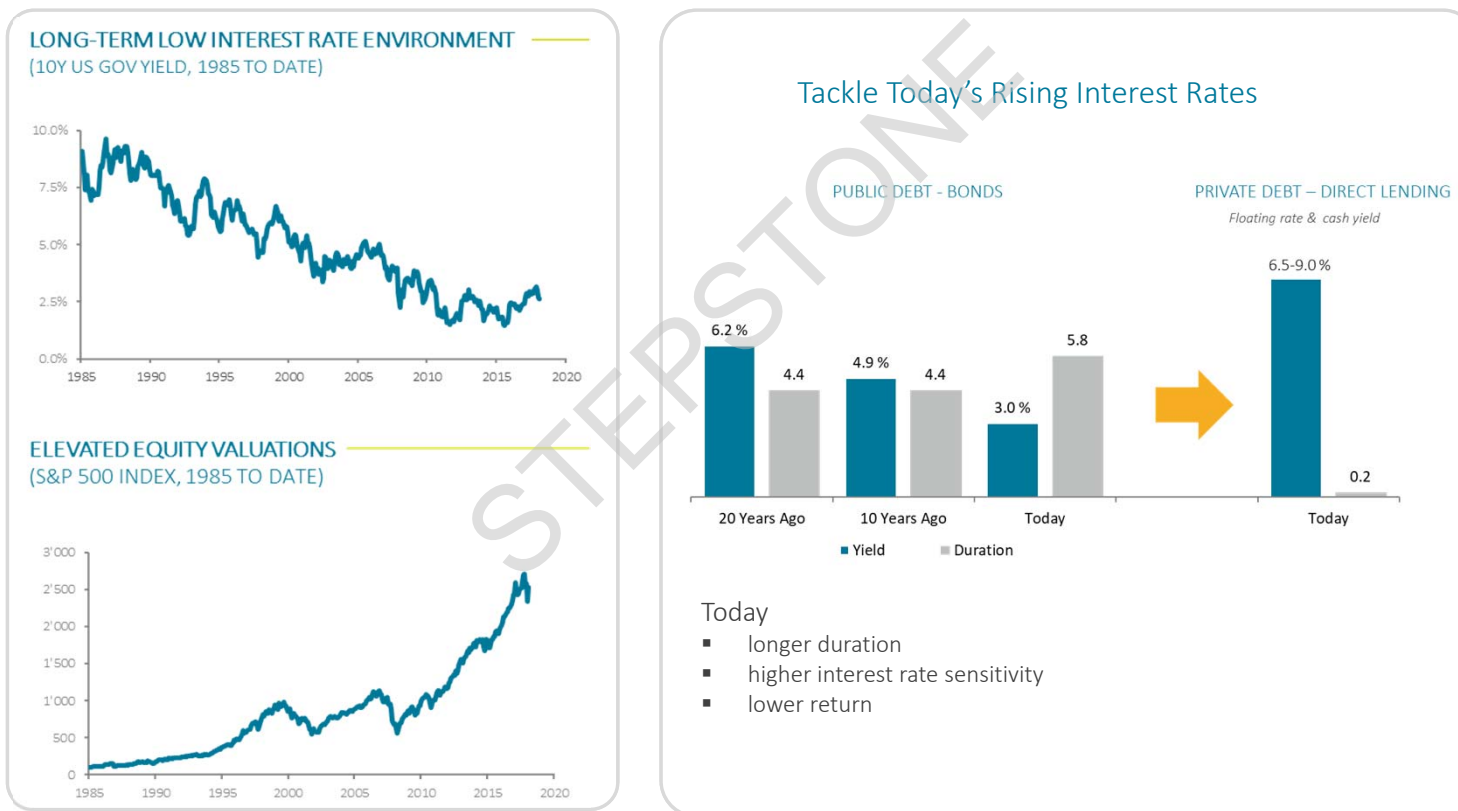


Source: StepStone proprietary AIDA database of over 8000 tranches of first-lien debt attributable to direct lending transactions executed by 13 European Direct Lending Managers and 45 North American Direct Lending Managers.

Note: Please see slide 36 for further detail on StepStone's proprietary AIDA dataset.

Strategic Dilemma & Investor Options

Private Markets can offer long term and cyclical solutions to traditional investment dilemmas – low interest rates, high valuations and volatility

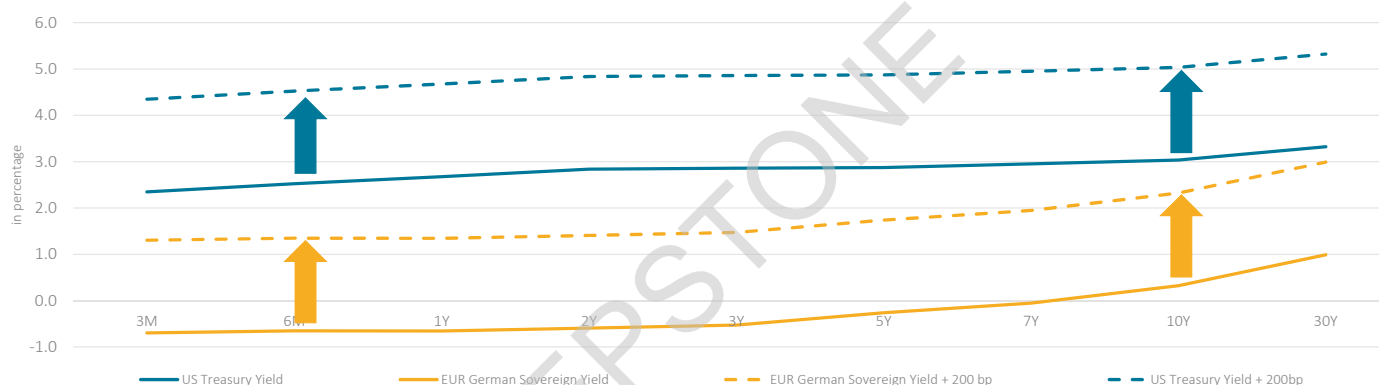


Sources: Bloomberg as of January 31, 2019

Current Yield Curves

An impact on yields after an increase of 200bp

YIELD CURVE



POTENTIAL IMPACT

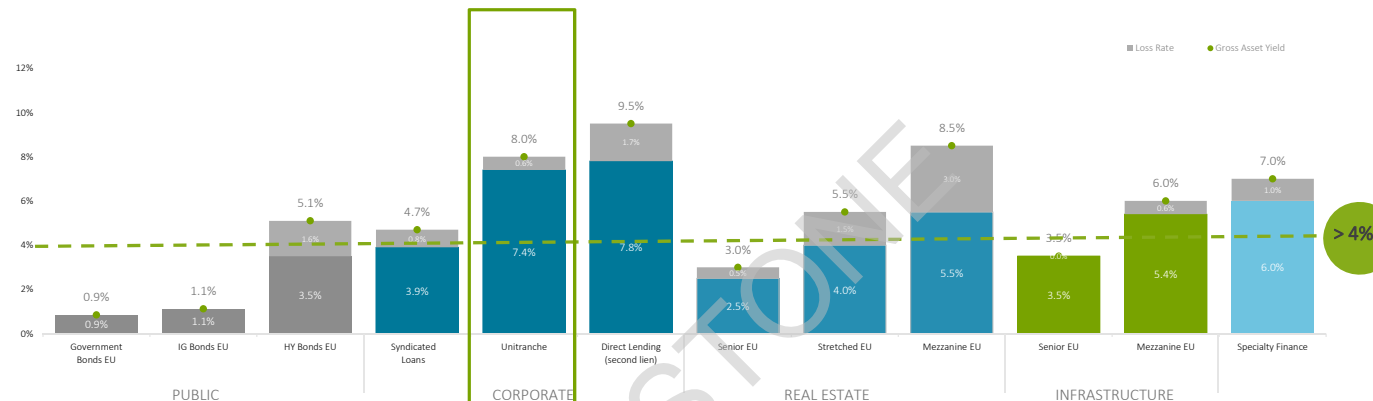
	Rate Hike	Duration ¹	Impact for Bonds	Impact for Direct Lending
United States	200bp	5.8	-11.6	++
Europe	200bp	6.7	-13.4	++

Source: Bloomberg as of December 2018.

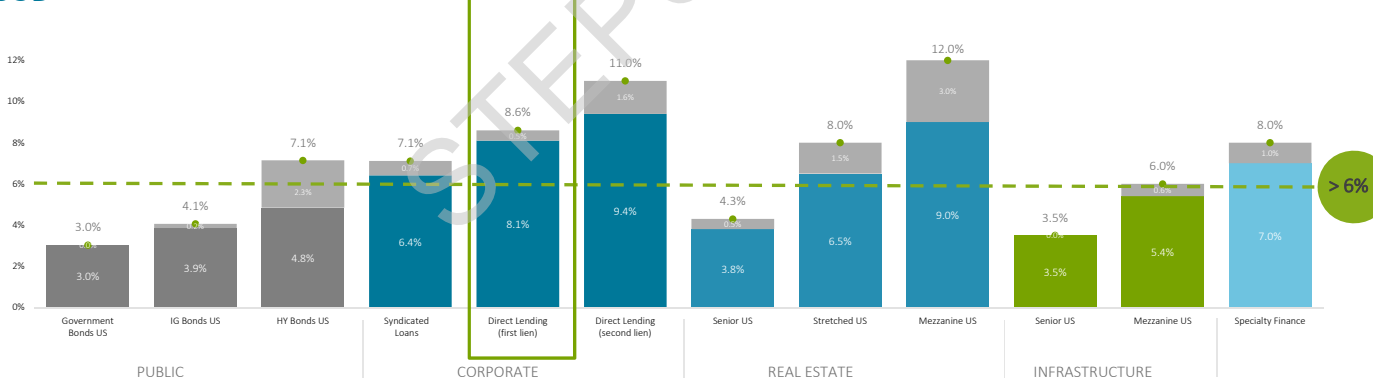
¹ US duration is based on Barclays US Aggregate Bond Index as of November 2018. European duration is based on Barclays Euro Aggregate Bond Index as of November 2018.

Indicative unlevered gross & risk-adjusted returns

EUR



USD

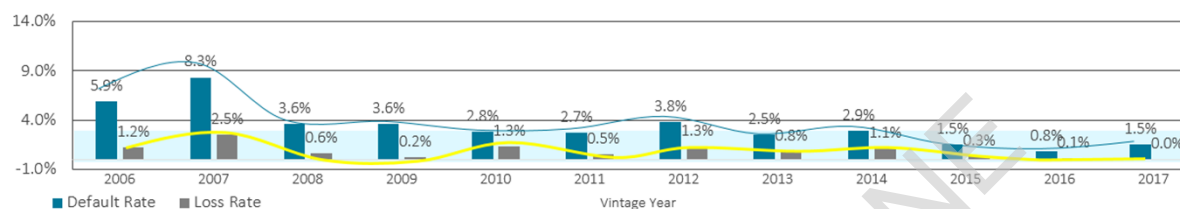


Source for the US Market: "Government Bonds" Data based on Barclays US Agg. Treasuries; "Investment Grade Credit" reflects the yield to worst of the Barclays Global Agg. Corporate index; "HY Bonds" Data based on CS HY Index; "Syndicated Loans" based on yield (3yrs life) on BB rated loans and the Broad index (CS data) minus the historical loss rate since 2010; "Direct Lending First Lien" based on average First Lien, Unitranch and High Octane Loans minus the estimated loss rate for first liens (estimation on internal database), Source: Thomson Reuters, Quarterly MM Private Deal Analysis. "Direct Lending Second Lien" based on Thomson Reuters, Quarterly MM Private Deal Analysis.. Data as of January 2019.

Source for the EU Market: "Government Bonds EU" Data based on Barclays Euro Aggregate Treasuries Index. "Corporate Bonds EU" Data based on average of Barclays Euro Aggregate Corporate Index. Corporate Bonds loss rates are calculated by assuming 80% recovery rates. "High Yield Bonds EU" Data based on CS Western European High Yield Index EU. High Yield Bonds loss rates are calculated by assuming 40% recovery rate. "Syndicated Loans EU" based on CS Western European Leverage Loan Index. Syndicated Loans loss rates calculated by assuming 80% recovery rate. "Unitranch" based on yield based Deloitte Alternative Lender Deal Tracker, 2018 Autumn. Direct Lending loss rates based on StepStone database. "Direct Lending second lien" based on Deloitte Alternative Lender Deal Tracker, 2018 Autumn. Direct Lending loss rates based on StepStone database. Data as of October 2018

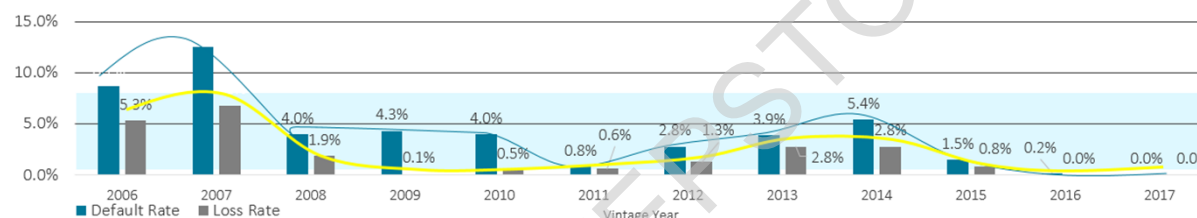
Loss Rate Variance

FIRST LIEN DIRECT LENDING: US DEFAULT & LOSS RATES



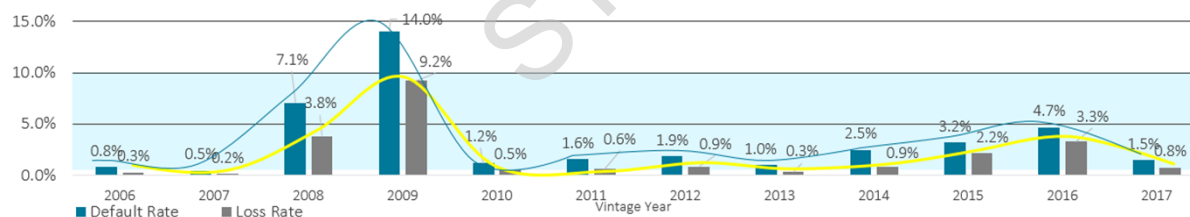
Loss Rate between
0.1% and 2.5%

SECOND LIEN DIRECT LENDING: US DEFAULT & LOSS RATES



Loss Rate between
0.1% and 6.8%

HIGH YIELD BONDS: US DEFAULT & LOSS RATES

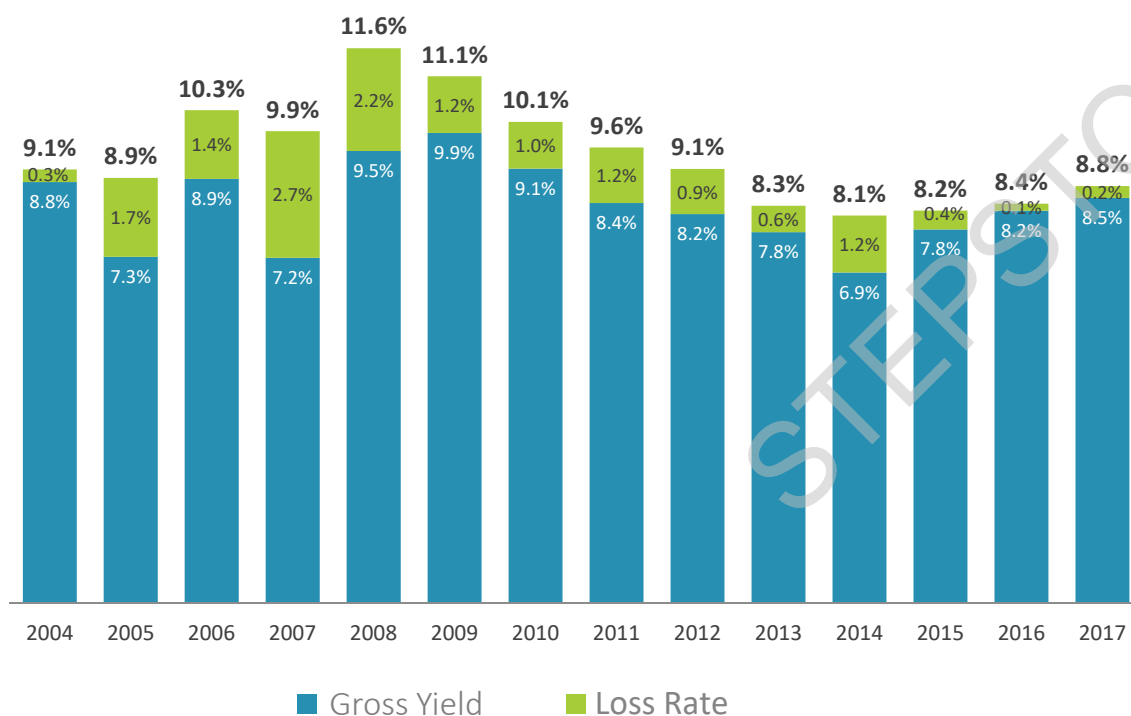


Loss Rate between
0.2% and 9.2%

Source: StepStone Database as of June 2018. High Yield Bonds: 2001-2016 data based on Fitch High Yield Default Insight as of 2017. 2017 default rate based on JP Morgan Default Monitor; Recovery Rate is the average recovery rate for the 2001-2016 period.

Persistent Returns Through the Cycle

GROSS AND LOSS-ADJUSTED YIELDS THROUGH THE CYCLE



Direct lending yields attractive
risk adjusted income returns
through the cycle

Source: StepStone proprietary AIDA database. Analysis comprises c. 7000 first lien European and US deals of c. US\$ 218 billion of capital
Note: Yield Earned includes the cash coupon and OID and Arrangement Fees and assumes a 3-year expected life. Loss rates present the annualized vintage loss rates and take into account any principal loss as well as any foregone interest

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All data is as of May 2019 unless otherwise noted.

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