



PRIVATE CAPITAL

Private Credit Quarterly Update

Third Quarter 2022

Introduction

MetLife Investment Management's¹ Private Credit Group manages over \$123.9 billion² in assets as of October 31, 2022 and brings over 100 years of investing in the asset class. We offer exceptional access to investment grade deals due to our significant scale, long-standing market relationships, and sector expertise. Given our standing in the infrastructure and corporate private placement markets we often fund an entire deal or become the cornerstone of the deal, which can lead to larger allocations for our clients. Our investment decisions are informed by a team-based risk culture with a time-tested approach to managing risk, combined with proprietary research, and layered independent oversight. We have more than 60 seasoned industry specialists working together to develop customized portfolio solutions to help meet client needs.

Corporate Private Placement Market

Q3 2022 private corporate issuance reached an initial total of \$10.8 billion a significant decrease from \$24.4 billion for Q2 2021. YTD market issuance stands at \$55 billion versus \$74 billion during the same period in 2021.³ After a strong first quarter emerging from Covid disruptions, the slowdown in issuance is mainly attributable to persistent inflation, the related sharp rise in interest rates and uncertainty over a potential recession. Quarterly deal flow was primarily driven by issuance in REITs, financials and utilities. The average deal size for Q3 2022 was \$188 million across 56 transactions, versus Q3 2021 that included 113 transactions with an average deal size of \$144 million. Issuance was led by activity in North America, comprising 70% of total issuance. European volume was 25% and Australia 5%, USD currency made up 78% of corporate issuance, GBP 11%, EUR 9%, and AUD at 2%.³

Ratings and Delayed Fundings: A-rated (NAIC-1) names were responsible for 36% of total quarterly issuance, relatively in-line with the historical norm (~40%) and BBB-rated companies (NAIC-2) comprised 63%. Delayed fundings continued to be utilized by issuers with 20% of Q3 2022 transactions having a delayed funding. We expect this trend to continue as private issuers approach the market for financing opportunities with concerns of anticipated inflation and the continued potential rise in interest rates.³

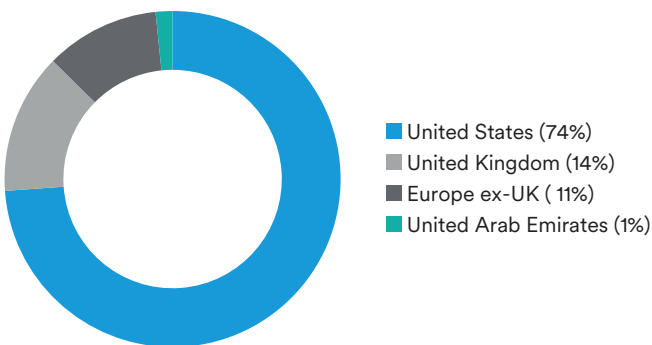
Spreads and Treasuries: Private credit spreads, following public spreads, widened through the quarter driven by increased inflation pressure and aggressive Fed policy. Private spreads have maintained a healthy premium over publics but have slowly contracted towards historic averages driven by

the strong demand for private assets. This was particularly seen with broadly marketed deals from agent banks.

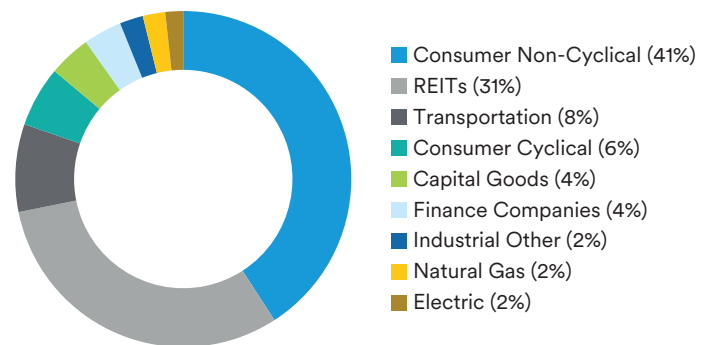
MIM Corporate Private Placement Activity: MIM’s origination activity for Q3 2022 was \$1.1 billion compared to \$1.8 billion in Q3 2021. Year-to-date, origination stands at \$6.5 billion versus \$5.8 billion for the same period in 2021. The reduction in origination was driven by the slower overall market as indicated above. However, MIM was able to somewhat offset the slowdown through our direct origination platform. MIM continues to benefit from both direct and club transactions which lead to larger allocations and more diverse deal flow.

MIM’s 2022 Outlook: As a result of continued, persistent inflation readings and the Fed’s aggressive response, MIM’s US GDP forecast was revised down to +1.7% growth YoY for the full year 2022 and the forecast for US inflation was revised up to 7.6%. MIM is projecting 10-year UST rates to remain elevated. Given the elevated rates, MIM expects issuance to remain somewhat muted throughout the remainder of the year. Corporate CFOs have begun to take a more selective approach to issuance with the potential of an economic slowdown. Despite this more conservative approach, MIM maintains an open dialogue with issuers in order to facilitate unique financing opportunities. MIM is closely monitoring the portfolio and notes issuers have continued to maintain steady margins and leverage ratios have remained conservative. MIM will continue to utilize our sector specialist approach and relationships to try and uncover the broadest range of appropriate opportunities for our clients.

MIM 3Q 2022 Origination by Region*



MIM 3Q 2022 Origination by Sector*



Source: MIM, Private Placement Monitor

* Includes origination activity on behalf of the MetLife general account, separate account and unaffiliated investors.

Infrastructure Debt Market

Infrastructure Debt Market: Driven by the rise in rates and widening spreads, capital market activity remains sluggish. Year to date, issuance was down 42% to \$37.5 billion compared to \$64.8 billion during the same period last year.² While investors continue to assess and navigate market volatility, several large transactions closed within the transportation, energy, and telecom space. The broader infrastructure market including bank financing was generally flat year-over-year. Through 3Q 2022, the broader market was at \$678 billion compared to \$652 billion last year. These transactions were spread across energy (23%), transportation (22%) followed by telecom (19%), renewables (19%), power (9%), social infrastructure (6%), and other (2%). Activity was focused in EMEA (38%), US & Canada (31%), Asia Pacific (22%), and Latin America (8%).³

Global Sector Highlights:

United States: While the market still waits to see the impacts from the \$1.2 trillion infrastructure bill, the Inflation Reduction Act was signed in August 2022 which provides \$369 billion to support energy transition. The Act will help confront the climate crisis by expanding tax credits for clean energy and electric vehicles, boosting energy efficiency and establishing a national climate bank. The Act includes \$270 billion in tax incentives that will spur private investment in climate related sectors. Outside of energy, the US market remains active in the power, water, PPPs, transportation, and the digital space. Given the rising interest rate environment, we remain cautiously optimistic on new refinancing opportunities.

EMEA: Deal flow has been slower than normal. MIM has seen the return of UK utility names that have not been active in the private market for a couple of years due to the strength of the public markets. MIM continues to see opportunities in the digital space, mostly fiber and data centers. MIM

expects utilities and some of the transportation names to come to the market.

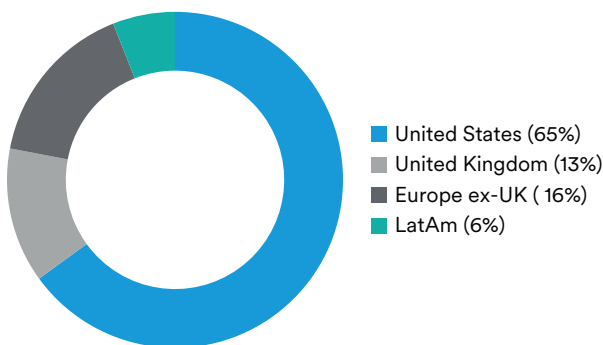
Latin America: The rejection of the proposed constitution was positive news out of Chile and has led to moderation in public policy. Governments across the region continue to push for the expansion of renewable generation, particularly Chile, Peru, Colombia and Brazil. Congress in Chile approved key electricity storage and EV legislation. Public bond markets remained largely closed given the volatility in rates. Despite this, two relevant renewable USPP transactions closed in the quarter. Bank deals are generally unattractive, with pricing inside of publics. MIM has an active pipeline in the port, toll road, renewables, transmission and digital sectors.

Australia: Capital markets resumed activity with three transactions approaching the market. MIM expects three more transactions in the fourth quarter in transport, electricity distribution, and digital.

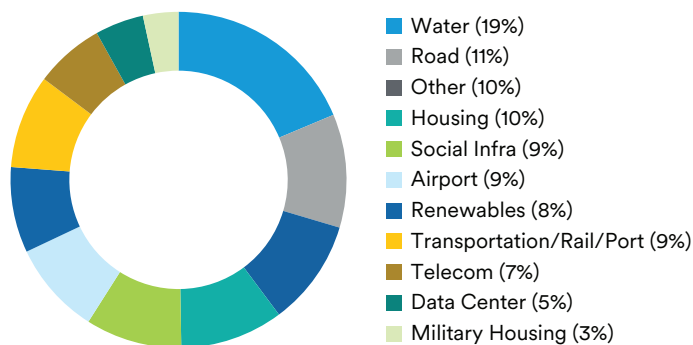
MIM Infrastructure Debt Activity: MIM had another strong quarter with \$1.3 billion of origination across 22 transactions. Year-to-date, MIM has originated \$3.9 billion across 60 transactions. MIM originated notably large transactions in both the US and the UK. MIM received outsized allocations given strong relationships with Sponsors, Agents, and Advisors.

MIM's 4Q 2022 Outlook: Typically, the fourth quarter is the busiest for the market. However, given the macro environment with rising rates and spread widening, we are cautiously evaluating our pipeline as Sponsors assess the rising cost of debt. This has led to an increase in short term, floating rate deals where MIM is equally active and participating. MIM expects a continued pipeline driven by opportunities focused on renewables, transportation, pipelines, public-private-partnerships, digital infrastructure, and energy transition assets.

MIM 3Q 2022 Origination by Region*



MIM 3Q 2022 Origination by Sector*



Source: MIM, *InfraDeals*, 3Q2022

*Includes origination activity on behalf of the MetLife general account, separate account and unaffiliated investors.

Private Structured Credit

Strong investor demand kept pricing spreads relatively tight as we entered Q3. Early in the quarter we continued to see deals where the premium to public markets remained narrow. However, later in the quarter, deal pricing in private structured credit had reestablished a healthy spread premium to public markets. Private issuers were initially slow to adjust to higher benchmark rates and wider credit spreads earlier this year but have since recalibrated to a higher cost of funding environment.

Looking to 4Q 2022: Deal flow has accelerated into Q4 after a seasonal summer slowdown. We currently have a diverse pipeline of transactions across various sectors, including equipment, solar, CRE CLOs, energy, low-income housing, C-PACE, residential and consumer credit. We remain disciplined in seeking the most attractive transactions that meet stringent underwriting criteria in terms of deal sponsor, credit, structure and pricing.

Across the portfolio, fundamentals remain stable although we observe performance metrics such as delinquency and default beginning to trend upward from historical lows back towards long-run averages. It is worth noting that a critical focus of our underwriting is assessing the robustness of transaction credit enhancement and structural features to protect against loss; downturn scenarios are run at multiples of historical worst vintage performance.

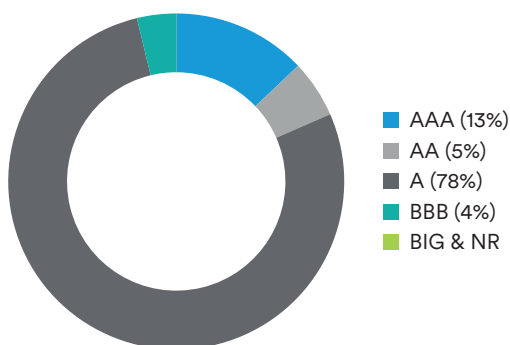
MIM Private Structured Credit Transaction Activity:¹

Largely driven by relative value dynamics noted above, MIM activity for Q3 2022 was highly selective with \$60 million of closed investments. Year-to-date origination through the end of Q3 was \$1.4 billion.

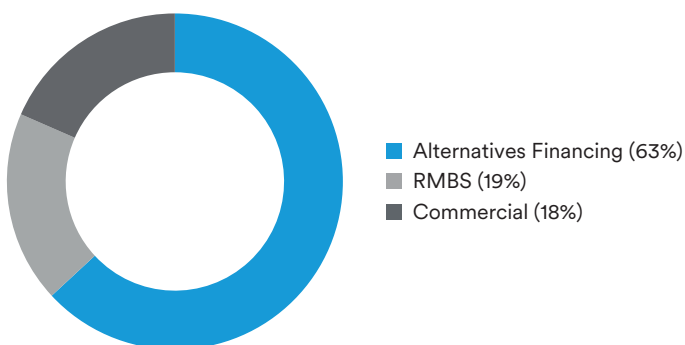
Endnotes

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- ² At estimated fair value as of 10/31/2022. Includes MetLife general account and separate account assets and unaffiliated/third party assets
- ³ MetLife Investment Management, Private Placement Monitor

MIM YTD 3Q 2022 Origination by Rating*



MIM YTD 3Q 2022 Origination by Sector*



*Based on total commitment size. Includes origination activity on behalf of the MetLife general account and unaffiliated investors.

About MetLife Investment Management

MetLife Investment Management (MIM)¹ serves institutional investors around the world by combining a client-centric approach with deep and long-established asset class expertise. Focused on managing Public Fixed Income, Private Credit and Real Estate assets, we aim to deliver strong, risk-adjusted returns by building sustainable, tailored portfolio solutions. We listen first, strategize second, and collaborate constantly to meet clients' long-term investment objectives. Leveraging the broader resources and 150-year history of MetLife provides us with deep expertise in skillfully navigating markets.

We are institutional, but far from typical.

For more information, visit: investments.metlife.com

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