

Definition

Companies with annual revenues between \$10 mm - \$1 bn



Lower middle market
\$10MM - \$50MM



Core Middle Market
\$50MM - \$100MM



Upper Middle Market
\$100MM - \$1BN

Source: National Center for Middle Market

Growth in Middle Market

Revenue Growth



S&P 500

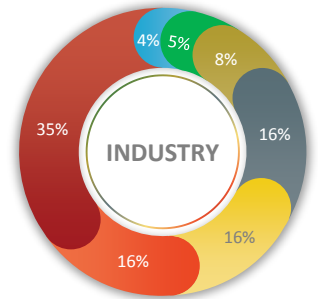


Employment Growth



Source: National Center for Middle Market; Note: 1) 2Q numbers include only companies who have reported 2Q earnings results

Middle Market Breakup by Industry - 2016

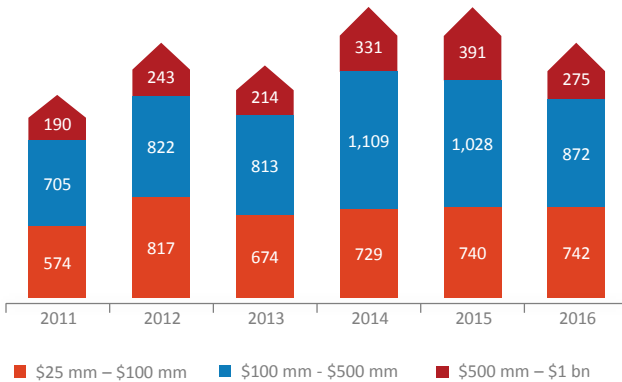


- Business Products and Services (B2B)
- Healthcare
- Financial Services
- Materials & Resources
- Consumer Products and Services (B2C)
- Information Technology
- Energy

Source: Brown Gibbons Lang & Company, PitchBook

Middle Market Deal Flow

(Number of Transactions)



Source: Brown Gibbons Lang & Company, PitchBook

Middle Market Capital Investment

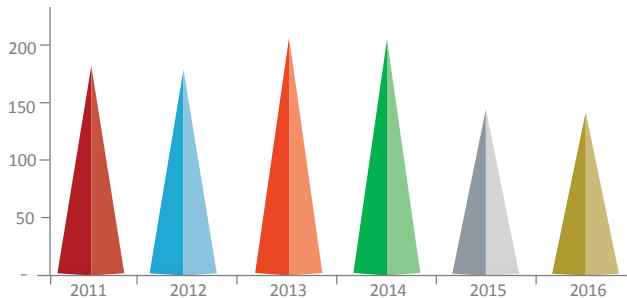
(\$ Billions)



Source: Brown Gibbons Lang & Company, PitchBook

US Middle Market Loan Volume²

(\$ Billions)

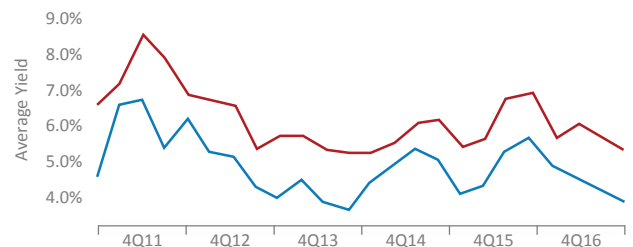


² Deal Size <= \$500M

Source: Latham & Watkins, Thomson Reuters LPC

Institutional Loan Yields

— Large Corporate Market — Middle Market



Source: Latham & Watkins, Thomson Reuters LPC

Middle Market Loan Characteristics

Attractive Risk Adjusted Returns

Directly originated middle market senior secured floating rate debt typically offers a higher yield and lower debt / EBITDA profile than large corporate or Broadly Syndicated Loans

Higher Recovery Rates

Middle market loans have experienced higher recovery rates and lower loss-given-default rates than large corporate loan market due to enhanced structural protections

Lower Volatility

Middle market loans have exhibited less correlation to, and lower volatility than broader capital markets due to lack of active trading³. Middle market direct lenders invest based on borrower and industry fundamentals, not based upon short-term technical or fund flows

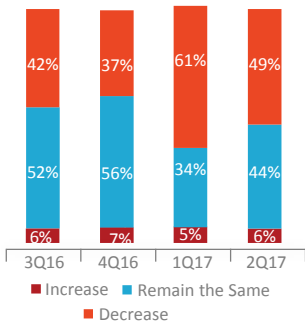
Protection Against Rising Interest Rates

First lien senior secured loans are floating-rate instruments with coupons structured based on a spread over LIBOR. Floating rate debt can provide a hedge against rising interest rates and inflation

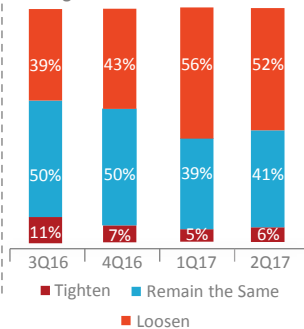
Source: TwinBrook Capital Partners, ; 3) P&I Senior Secured Loans Supplement

Middle Market Leveraged Lending Survey Output

Pricing

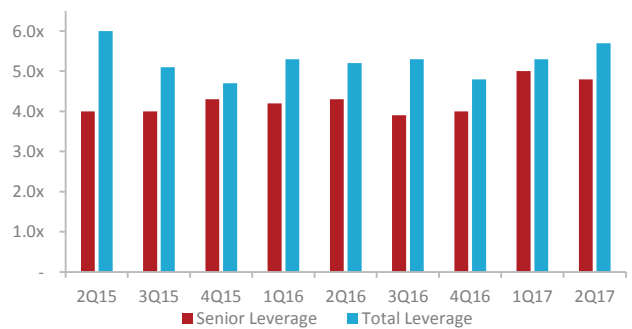


Leverage and Terms



Source: William Blair Q2 2017 Leveraged Finance Survey

Middle Market LBO Leverage Multiples



Source: William Blair Proprietary Mid-Market LBO Financing Database

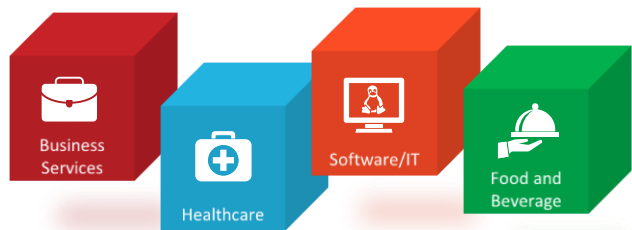
Trends in Middle Market Lending

Favorable Market Dynamics:

- Rise in Covenant-Lite Structure**
 Increased competition in the lending environment has driven aggressive transactions
- High-Yield Market Continues to Grow**
 Driven by the ability to capture yield premiums relative to larger deals with similar risk profiles
- Emergence of Split-Lien Term Loans**
 As a cost-efficient capital structure to support growth and LBOs for working-capital intensive businesses

Source: William Blair

Preferred Sectors



Source: William Blair

Regulatory Environment

Basel III

Updated risk-based capital weightings may require large banks to reserve more equity capital against leveraged loans

Volcker Rule

May impact large banks' ability to make markets in CLO paper and provide warehouse facilities to CLOs

Dodd-Frank and CLO Risk Retention

Increased capital requirements, risk retention (Dodd-Frank) through regulatory burdens would lead to improved competitive dynamics for non-traditional lenders

New FDIC, OCC and Fed Guidelines (Bank Leveraged Lending)

Revised definition of "leveraged" loans could lead to higher loan servicing costs and interest costs for borrowers, making banks less competitive

Source: TIAA-CREF, Wells Fargo

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