Direct Lending Insights

Reducing Portfolio Correlation

Diversification has always been among the most important principles in portfolio construction. When included in a balanced portfolio, an allocation to direct lending can provide potential diversification benefits by reducing the overall correlation of a portfolio's asset mix.

Historical Correlation[1]

	Direct Lending	High Yield	Corporate Investment Grade	Municipal Bonds	U.S. Aggregate Bonds	10 Year Treasury
Direct Lending	1.00	0.75	0.23	0.15	-0.17	-0.53
High Yield	0.75	1.00	0.61	0.42	0.15	-0.38
Corporate Investment Grade	0.23	0.61	1.00	0.78	0.79	0.40
Municipal Bonds	0.15	0.42	0.78	1.00	0.77	0.50
U.S. Aggregate Bonds	-0.17	0.15	0.79	0.77	1.00	0.83
10 Year Treasury	-0.53	-0.38	0.40	0.50	0.83	1.00

To learn more about the potential benefits of a direct lending allocation, please contact your financial advisor.

The past performance is not a guarantee of future results. There can be no assurance that historical trends will continue. Indices listed do not represent benchmarks for the funds but allow for comparison of a fund's performance to an Index. An investor cannot invest directly in an index. Index performance does not reflect fees and expenses.

1. As of September 30, 2022 since January 1, 2005. Correlation data is as of Report Date. Sources: Bloomberg; Cliffwater Direct Lending Index ("CDLI"). Benchmarks: Cliffwater Direct Lending Index, Bloomberg Barclays US Aggregate Bond Index, Bloomberg Barclays U.S. Municipal Index, Bloomberg Barclays U.S. Corporate Bond Index, Bloomberg Barclays US High Yield Index, SP LSTA Leveraged Loan Index.

Important Information

Unless otherwise indicated, the Report Date referenced herein is September 30, 2022.

Past performance is not a guide to future results and is not indicative of expected realized returns.

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Definitions

Direct Lending is the provision of credit by a non-bank lender, directly to a company.

Cross-asset Correlation measures the degree to which the price of a financial instrument is affected by a change in the price of another instrument of a different asset class.

Index Definitions

10-Year Treasury: The 10-year Treasury note is a debt obligation issued by the United States government with a maturity of 10 years upon initial issuance. A 10-year Treasury note pays interest at a fixed rate once every six months and pays the face value to the holder at maturity.

Corp. Investment Grade represented by the Bloomberg Barclays U.S. Corporate Bond Index. This index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers. Indices are not actively managed and investors cannot invest directly in the indices.

High Yield represented by the Bloomberg Barclays US Corporate High Yield Index. This index measures the USD-denominated, high yield, fixed-rate corporate bond market. Indices are not actively managed and investors cannot invest directly in the indices.

Municipal bonds represented by the Bloomberg Barclays U.S. Municipal Index. This index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds. (Future Ticker: I00730US) Indices are not actively managed and investors cannot invest directly in the indices.

Direct lending represented by the Cliffwater Direct Lending Index (CDLI). The CDLI seeks to measure the unlevered, gross of fee performance of U.S. middle market corporate loans, as represented by the asset-weighted performance of the underlying assets of Business Development Companies (BDCs), including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements. Indices are not actively managed and investors cannot invest directly in the indices.

U.S. Aggregate Bonds represents the Bloomberg Barclays US Aggregate Bond Index. This index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset backed securities and commercial mortgaged backed securities. Indices are not actively managed and investors cannot invest directly in the indices.