

# Carlyle Constructs: Direct Lending

Our quick guide for navigating private market topics

## THE CONCEPT

We define **direct lending** as private financing primarily provided to private equity sponsored borrowers in the U.S. middle market. These loans are predominately directly originated, first-lien senior secured, and are typically originated by a small club of lenders.

## WHY CONSIDER DIRECT LENDING?

- Seeks to deliver sustainable current cash income from predominately first lien, senior-secured floating rate instruments
- Potential for excess risk-adjusted returns relative to traditional fixed income asset classes due to the incremental complexity and liquidity risk
- Opportunity for significant downside mitigation from increased control, strong defensive characteristics and structural protections (priority in the capital structure and covenants)

## OUR DIRECT LENDING TEAM

Investment culture driven by senior leadership with diverse perspectives

~22 YRS

Average years of experience of senior leadership team<sup>1</sup>

~11BN

Assets under management<sup>2</sup>

40

Direct Lending professionals<sup>3</sup>

## DIRECT LENDING: HOW IT WORKS



Note: For illustrative purposes only.

Source: Carlyle. 1. Years of experience and team information as of December 31, 2024. Average years of industry experience for senior leadership includes all Managing Directors and Partners. 2. As of December 31, 2024 represents AUM in dedicated direct lending vehicles. Does not include direct lending assets managed in cross-platform vehicles by the same team. 3. Includes all members of the direct lending team from analyst to partner as of December 31, 2024.

**KEYS TO OUR APPROACH**

At its core, Carlyle’s direct lending strategy seeks to generate attractive risk-adjusted returns with low-to-moderate price volatility, a stable distributable income component and significant downside mitigation by constructing defensive and diversified portfolios of primarily directly originated senior secured debt of sponsored U.S. based businesses in the core middle market.<sup>4</sup>

**THREE CHARACTERISTICS OF OUR APPROACH**

**Significant Experience**

Carlyle is a market-leading global platform with well-established, long-standing relationships across sponsors, management teams, and industry experts. We believe this integrated and collaborative approach allows us to move faster and with higher conviction than our competitors in many scenarios.<sup>5</sup>

**Rigorous Credit Selection**

The Carlyle Direct Lending team employs a robust and documented underwriting process, generally consisting of four “gates” through which a credit is reviewed and sign-off is required, including (i) at the point of origination, (ii) by the underwriting team, (iii) by Carlyle’s direct lending screening committee, and finally (iv) by Carlyle’s Private Credit Investment Committee.<sup>6</sup>

**Breadth of Capabilities**

As a global private credit platform, Carlyle has the ability to invest across the capital structure in first lien, second lien, junior debt and preferred equity. We strive to serve as a one-stop shop, providing creative and holistic solutions for borrowers across the capital structure, which we believe allows us to pursue investment opportunities with limited competition.

**IN OUR WORDS**

*“Our goal is to drive performance with a consistent approach to direct lending, anchored in disciplined credit selection and conservative portfolio management. We continue to benefit from the OneCarlyle platform, which differentiates us in the core middle market.”*



**Justin Plouffe**  
Deputy CIO of  
Global Credit

For more information, please visit [www.carlyle.com](http://www.carlyle.com), or reach out to your Financial Advisor.

Comments made here are based on Carlyle’s subjective views. 4. There is no assurance that any portfolio construction objectives can be achieved or that any such portfolio will be profitable or have similar characteristics. Diversification does not eliminate the risk of loss. 5. Certain communications between Carlyle Global Credit and investment professionals in other business segments may be restricted in accordance with Carlyle’s information barrier policy. 6. The Private Credit Investment Committee delegates approval to the Screening Committee for certain amendments, follow-on investments with existing borrowers, investments below certain size thresholds (existing or new borrowers), and other items appropriate for delegation as determined by the Investment Committee.

## **RISK FACTORS**

Prospective investors should be aware that an investment in a Fund involves a high degree of risk, and it is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a Fund and for which a Fund does not represent a complete investment program. An investment in a Fund should only be considered by persons who can afford a loss of their entire investment. Prospective investors are urged to consult with their own financial, tax, and legal advisors about the implications of investing in a Fund. The following is a summary of only certain considerations and is qualified in its entirety by a Fund's offering materials, which may contain additional information about associated risks pertaining to an investment in a Fund.

**Speculative Investment.** Carlyle cannot provide any assurance that it will be able to choose, make or realize any particular investment, asset, or portfolio on behalf of a Fund. There can be no assurance that investments made by a Fund will be able to generate returns or that the returns will be commensurate with the risks of investing in the type of transactions described herein. The activity of identifying, completing and realizing upon attractive investments is highly competitive and involves a high degree of uncertainty. A Fund must compete for investments with other private equity investors having similar investment objectives. The portfolio companies in which a Fund may invest (directly or indirectly) are speculative investments and will be subject to significant business and financial risks.

**Highly Illiquid and Difficult to Value.** A Fund is intended for long-term investment by investors that can accept the risks associated with making highly speculative, primarily illiquid investments in privately negotiated transactions. There is no organized secondary market for investors' interests in a Fund nor is there an organized market for which to sell a Fund's underlying investments, and none is expected to develop. Withdrawal and transfer of interests in a Fund are subject to various restrictions, and similar restrictions will apply in respect of the Fund's underlying investments. Further, the valuation of a Fund's investments will be difficult, may be based on imperfect information and is subject to inherent uncertainties, and the resulting values may differ from values that would have been determined had a ready market existed for such investments, from values placed on such investments by other investors and from prices at which such investments may ultimately be sold.

**Borrowed Money and Other Leverage.** To the extent a Fund borrows money or otherwise leverages its investments, the favorable and unfavorable effects of price movements in a Fund's investments will be magnified. A Fund investment with substantial leverage may be at risk of increases in interest rates and therefore increases in interest expenses. In the event any Fund investment cannot generate adequate cash flow to meet debt service, a Fund may suffer a partial or total loss of capital invested in a Fund investment. The use of leverage will also magnify the volatility of changes in the value of a Fund's investments. While the use of leverage may increase a borrower's returns, it will also increase its exposure to risk. If a Fund uses borrowed funds in advance or in lieu of capital contributions, a Fund's investors generally make correspondingly later capital contributions, but a Fund will bear the interest expense on such borrowed funds. Borrowing by a Fund will generally be secured by capital commitments made by the Fund's investors and/or by a Fund's assets, and documentation relating to such borrowing may provide that during the continuance of a default under such borrowing, the interests of the investors may be subordinated to such Fund-level borrowing.

**Investors in a Fund will bear multiple layers of fees and expenses.** In general, a Fund's investors will bear the fees, expenses and carried interest of the Fund and will indirectly bear any fees, expenses and carried interest (if any) of the Fund's investments. Such amounts are expected to be material. This will result in greater expense to a Fund's investors than if such fees, expenses and carried interest were not charged by both a Fund and its underlying investments.

**Investors Must Fulfill Capital Drawdown Obligations.** Capital calls will be issued by a Fund from time to time. To satisfy such capital calls, investors may need to maintain a substantial portion of their capital commitment to the Fund in assets that can be readily converted to cash. An investor's obligation to satisfy capital calls will be unconditional and at its sole expense. Failure to satisfy a capital call to a Fund can result in adverse consequences in the discretion of the Fund's general partner, including complete forfeiture of the investor's interest in a Fund. If a limited partner of a Fund defaults on or is excused from its obligation to contribute capital to the Fund, other limited partners thereof may be required to make additional contributions to the Fund to replace such shortfall.

**No Operating or Investment History.** In general, a Fund will be a newly formed investment vehicle that has no operating history upon which investors can evaluate its likely performance.

**No Registration.** No Fund discussed herein has been or is expected to be registered with the SEC as an investment company pursuant to the Investment Company Act of 1940 (the "1940 Act"), in reliance upon an exemption available to privately offered investment companies. Accordingly, the provisions of the 1940 Act will not be applicable to a Fund. In addition, no such Fund has been or is expected to be registered with any regulatory or governmental authority as a regulated or registered fund in any European Economic Area member states. Furthermore, no such Fund is expected to be required to register under the Mutual Funds Law (as amended) of the Cayman Islands.

**Complex Tax and Regulatory Risks.** A Fund and a Fund's investments may involve a complicated tax structures and there may be delays in distributing important tax information to investors. In addition, legal, tax and regulatory changes (including changing enforcement priorities, changing interpretations of legal and regulatory precedents or varying applications of laws and regulations to particular facts and circumstances) could occur during the term of a Fund that may adversely affect any of such Fund or its investors.

**Currency Risks.** A Fund's base currency may be one that is different from an investor's home currency. For example, an investor based in the European Economic Area or the United Kingdom that commits to a Fund with a US Dollar base currency. Contributions to, and distributions from, the Fund will generally be required to be made in the Fund's base currency. Accordingly, changes in currency exchange rates, costs of conversion and exchange control regulations can adversely affect an investor's investment in a Fund, including the investor's cost of investing in a Fund.

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**AN INVESTMENT IN A FUND ENTAILS A HIGH DEGREE OF RISK, INCLUDING THE RISK OF LOSS.** A Fund will be actively managed by Carlyle. There is no assurance that a Fund’s investment objective will be achieved or that investors will receive a return on their capital. Investors must read and understand all the risks described in a Fund’s final confidential private placement memorandum and/or the related subscription documents before making a commitment. The recipient also must consult its own legal, accounting and tax advisors as to the legal, business, tax and related matters concerning the information contained in this document to make an independent determination regarding the consequences of a potential investment in a Fund, including U.S. federal, state, local and non-U.S. tax consequences. Unless otherwise explicitly stated, the investments underlying any Fund or other investment program, or any specific investment thereof, do not take into account the EU criteria for environmentally sustainable economic activities.

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Prospective investors will be given the opportunity to ask questions and are encouraged to contact Carlyle to discuss the procedures and methodologies used to calculate the investment returns, as well as any terms and conditions of any Fund offering.

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