Merced County Employees' Retirement Association

AGENDA
Retirement Board Education Meeting

Tuesday, July 8, 2025, 8:30 A.M. - 1:00 P.M.

Location: Merced County Employees' Retirement Association
690 W 19th Street, Merced, CA
2nd Floor, Training Room

1. **Call to Order- 8:30 A.M.**

The Retirement Board may discuss and take action on the following:

2. **Roll Call**

3. **Public Comment**
   Members of the public may comment on any item under the Board's jurisdiction including items on the Board's agenda. Matters presented under this item will not be discussed or acted upon by the Board at this time. Persons addressing the Board will be limited to a maximum of five (5) minutes in total. Please state your name for the record.

4. **Meeting**
   Board Education
   Discussion and possible action on the following presentations:
   a. Retirement Board Fiduciary Duty - Ashley K. Dunning, Nossaman, LLP
   b. Private Equity Research Process - Gabrielle Zadra, Cliffwater LLC
   c. Developing Capital Market Assumptions - Zach Stevens, Meketa Investment Group
   d. Direct Lending and Alternative Credit - Jason Park, Ares Management

5. **Information Sharing**

6. **Adjournment**

The Agenda and supporting documentation, including any material that was submitted to the Merced County Employees' Retirement Association Board after the distribution of the Agenda, are available online at www.mercedcera.com.

All supporting documentation for Agenda items, including any material that was submitted to the retirement board after the distribution of the Agenda, is also available for public inspection Monday through Friday from 8:00 a.m. to 5:00 p.m. at the administrative office for the Merced County Employees' Retirement Association located at 690 W 19th Street, Merced, California 95340.

Persons who require accommodation for a disability in order to review an agenda, or to participate in a meeting of the Merced County Employees' Retirement Association per the American Disabilities Act (ADA), may obtain assistance by requesting such accommodation in writing addressed to Merced County Employees' Association, 690 W 19th Street, Merced, CA 95340 or telephonically by calling (209) 726-2724. Any such request for accommodation should be made at least 48 hours prior to the scheduled meeting for which assistance is requested.

Persons who require accommodation for any audio, visual or other disability or Spanish or Hmong interpretation in order to review an agenda, or to participate in a meeting of the Merced County Employees' Retirement Association per the American Disabilities Act (ADA), may obtain assistance by requesting such accommodation. Please address your written request to Merced County Employees' Association, 690 W 19th

Street, Merced, CA 95340 or telephonically by calling (209) 726-2724. Any such request for accommodation should be made at least 48 hours prior to the scheduled meeting for which assistance is requested.

Spanish and Hmong interpreters are available.

Interpretes de espanol y hmong estan disponibles.
Peb muaj tug paab txhais lug Mev hab Hmoob.

Merced County Employees' Retirement Association

MercedCERA TRUSTEE EDUCATION
JULY 8, 2025

8:30 A.M. – 9:30 A.M.

Session I – Retirement Board Fiduciary Duty
Ashley K. Dunning, Attorney
Nossaman, LLC.
Overview of the fiduciary responsibility of the Board of Retirement and how it translates to decision making. Discussion on potential fiduciary risks and steps for mitigating them, including real-world examples of challenges faced by trustees.

9:40 A.M. – 10:40 A.M.

Session II – Private Equity Research Process
Gabrielle Zadra, Senior Managing Director
Cliffwater
Overview of Cliffwater process for sourcing and researching private investments. Review of investment and operational due diligence steps conducted by the research team. Discuss risks associated with private investments and how they are evaluated and potentially mitigated during the research process.

10:50 A.M. – 11:50 A.M.

Session III – Developing Capital Market Assumptions
Zach Stevens, Executive Vice President & Senior Quantitative Research Analyst
Meketa Investment Group
Review of Meketa's process for creating its capital market expectations. Discuss assumptions that go into the forward-looking expectations and the limitations of the process. Review how those capital markets expectations then drive asset allocation modeling for the MercedCERA portfolio.

12:00 A.M. – 1:00 P.M.

Session IV – Direct Lending and Alternative Credit
Jason Park, Partner
Ares Management
Overview of direct lending and alternative credit investment landscape. Discussion on evolution of the investment opportunities and challenges facing investors. What are the risks and opportunities in the potentially changing interest rate landscape going forward.

Ashley K. Dunning
Partner & Co-Chair, Pensions, Benefits & Investment Group
Nossaman LLP

Ashley Dunning is co-chair of the Pensions, Benefits & Investments Group at Nossaman and a member of the firm's Litigation department. She has provided fiduciary, governance and litigation counsel services to retirement systems and their boards since 1998.

Ms. Dunning currently serves as fiduciary counsel to the New York State Teachers' Retirement System (NYSTRS), the California Public Employees Retirement System (CalPERS) and the Public Employees' Retirement System of Idaho (PERSI) as well as fiduciary, litigation, governance and/or special projects counsel to the majority of the twenty California retirement systems governed by the County Employees Retirement Law of 1937 (CERL). Collectively, the retirement systems she serves hold more than $1 trillion in trust assets.

Ms. Dunning has represented public retirement systems in litigation in numerous cases resulting in published decisions. Ms. Dunning's most recent argument on behalf of retirement systems before the California Supreme Court resulted in a unanimous decision in *Alameda County Deputy Sheriff's Ass'n v. Alameda County Employees' Retirement Ass'n,* 9 Cal. 5th 1032 (2020).

Ms. Dunning is also currently lead counsel for public retirement systems in six cases pending in California, one that is before the Supreme Court, two of which are before the Second and Third District Courts of Appeal, respectively, and three that are in trial court proceedings.

Gabrielle Zadra
Senior Managing Director
Cliffwater

Ms. Zadra is head of Cliffwater's private market research team and a portfolio manager for the Cascade Private Capital Fund. She leads a team dedicated to originating, underwriting, and monitoring private equity, growth equity, venture capital, real asset, and real estate funds, as well as co-investment and secondary investment opportunities.

Prior to joining Cliffwater in 2004, Ms. Zadra was an Associate with Pathway Capital Management, LLC where she led due diligence on private equity investments including venture capital, buyout, debt-related and special situation partnerships. Previous experience includes Banc of America Securities Technology Group and the Service Employees International Union / AFL-CIO.

Zach Stevens

Executive Vice President, Senior Quantitative Research Analyst

Meketa Investment Group

Mr. Stevens conducts quantitative analysis and model development to provide Meketa's clients with additional data points in their decision-making process to further optimize their portfolios. He also serves on the Asset-Liability Risk Management Committee.

Mr. Stevens joined Meketa in 2018 as a performance analyst before moving to the research team. Prior to joining the firm, Mr. Stevens worked as a risk modeling analyst at Aqaix where he built machine learning driven risk models to conduct rapid due diligence of investments in water infrastructure projects. He also designed quantitative ESG risk metrics to identify social benefits of infrastructure investments.

Jason Park
Partner
Ares Management

Mr. Park is a Partner in the Ares Credit Group, where he is responsible for leading sponsor finance in the Western U.S. for Ares' U.S. Direct Lending business. He is a member of the Ares Credit Group's U.S. Direct Lending Investment Committee.

Prior to joining Ares in 2008, Mr. Park was an Associate in the Leveraged Finance Origination Group and Debt Capital Markets Group of Credit Suisse, where he focused on financings for leveraged buyouts and general corporate refinancings, as well as investment grade-bond transactions.

Fiduciary and Conflict-of-Interest Education for MercedCERA Board of Retirement

Ashley Dunning | MercedCERA Fiduciary Counsel
Nossaman Partner, Co-Chair, Pensions, Benefits & Investments Group
Meeting of the Board of Retirement | Merced County Employees’ Retirement Association
July 8, 2025

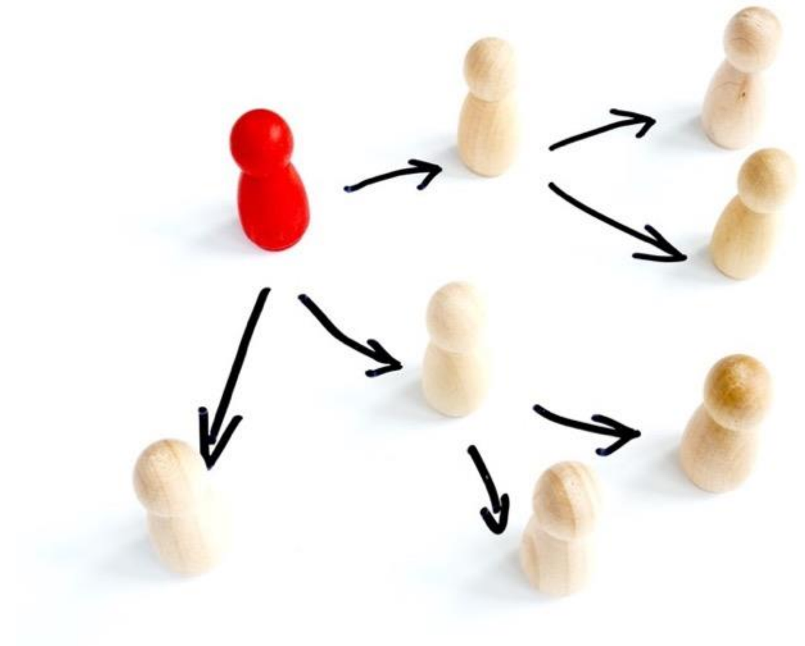
NOSSAMAN LLP

Your Presenter

Ashley K. Dunning
MercedCERA Fiduciary Counsel

Nossaman LLP
Partner and Co-Chair, Pensions, Benefits & Investments Group

Overview



- Fiduciary Framework:
  - What and who is a fiduciary?
  - Duties of a California public plan fiduciary
  - Discussion of hypotheticals for each duty
- Government Transparency: Brown Act Compliance
  - Rules governing your work on MercedCERA business

What is a Fiduciary?

- A fiduciary is any person or organization that has discretionary authority or control over management or disposition of retirement plan assets or plan administration for the benefit of members and beneficiaries of MercedCERA or that has a duty to put the interests of those members/beneficiaries ahead of all other interests.

Who is a Fiduciary?

- **By definition, therefore:**
  - All MercedCERA Board members and executive officers:
    - are **fiduciaries**
    - who thus owe **duties of care and loyalty**
    - to MercedCERA **members and their qualified beneficiaries**
    - with respect to the **benefits due to them**
    - by **the retirement system**.

Who is (not) a Fiduciary?

- Not everyone who interacts with MercedCERA is a fiduciary, either to MercedCERA or its members.
    - For example: plan sponsors, employee associations, state agencies, investment professionals (unless by contract with MercedCERA), trustees of *other* public retirement systems, and members themselves (unless they are also MercedCERA Board or executive staff members) are not MercedCERA fiduciaries.

Six Duties of a Public Retirement Board Fiduciary in California

1. Duty of loyalty
2. Duty of care
3. Duty to diversify investments
4. Duty to assure competency of retirement system assets to pay promised benefits
5. Duty to defray administrative expenses
6. Duty to administer plan in accordance with plan terms and other applicable law

Duty of Loyalty: Exclusive Benefit and Primary Duty Rules

- Under the California Constitution (Article XVI, Section 17) and other applicable law, a fiduciary must discharge its duties:
  - Solely in the interest of, and for the exclusive purposes of providing benefits to, participants (i.e., members) and their beneficiaries
- The Board's duty to MercedCERA members and beneficiaries "**shall take precedence over any other duty**." In trust law, this is referred to as the "primary duty" rule.
- Constitutional obligation of "minimizing employer contributions" and "defraying reasonable expenses" of administering the system are secondary to the primary duty.
- Note that the Board's constitutional duty to "minimize employer contributions" is not a "fiduciary" duty (because fiduciary duties are owed by Board members to system members, not to plan sponsors).

Fiduciary Duty of Loyalty

- Putting a plan sponsor’s, union’s, other party’s, or your *own*, interests ahead of the overall best interests of members and beneficiaries in the security of their vested MercedCERA retirement benefits is not consistent with the exercise of a trustee’s fiduciary duties.
- Basically a conflict-of-interest rule—fiduciaries cannot have conflicting loyalties. A fiduciary has a duty not to use or deal with trust assets for the benefit of a third person, including that of the plan sponsor, or for any other purpose unconnected with the trust.

Fiduciary Duty of Loyalty: Not an “Agent” for Another

- Trustees are not permitted to administer the retirement system as an “agent” for the party that appointed, or subgroup of members that elected, that individual to the Board.
- On the contrary, the California Constitution, Art. XVI, Sec. 17 (Prop. 162) seeks to prevent such political “meddling” or “interference” by others and mandates loyalty to the overall best interest of members and beneficiaries.
  - See *Los Angeles County Employees Retirement Association v. County of Los Angeles* (2024) 102 Cal.App.5th 1167 (S. Ct. review pending)

Fiduciary Duty of Loyalty: Conflicting Interests Among Various Members and Beneficiaries

- Can be complex and crosscutting.
- Determinations of priorities among members and beneficiaries must serve their overall best interest with respect to the trust purpose.
- Appropriate balance may not be obvious when the interests within the member and beneficiary groups are not the same.

Hypothetical No. 1: Fiduciary Duty of Loyalty

- Phil is a member of the Board of Retirement (“Board”). Phil also has been active for many years with the union representing active members of the retirement system (“Union”).
- Penny also is a member of the Board, and Penny has been active for many years with the retirees’ association of Merced County.
- Prudy is a member of the Board, who also is on the Merced County Board of Supervisors.
- The retirement system’s actuary has completed an experience study and is recommending no changes in actuarial assumptions.
- What are, and are not, fiduciarily appropriate considerations for Board members with respect to this topic?

Fiduciary Duty of Care

- Under Article XVI, Section 17, a fiduciary must discharge its duties:
  - “With the care, skill, prudence, and diligence then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims”
  - Carefully consider the particular expertise needed to address a topic within the Board’s jurisdiction.
    - Medical? Legal? Plan administration? Investment? etc.
  - The question is whether the fiduciary, at the time it made the decision, employed the appropriate methods.
    - Reasonable consultation with experts is important, but not a substitute for independent exercise of trustee’s responsibilities

Fiduciary Duty of Care: The “Prudent Fiduciary with Experience Dealing with a Similar Enterprise”

- Good faith is not enough.
  - **Example No. 1:** Board member, convinced that a particular investment action is morally right, even though MercedCERA’s CIO and Investment Consultant have concluded that it is not appropriate for MercedCERA from a risk-adjusted return perspective, advocates to other Board members about “doing the right thing” on the topic.
  - **Example No. 2:** MercedCERA’s actuary has identified that experience losses are occurring on service credit purchases because MercedCERA has not applied interest to the purchase of such service credit, which is required by CERL. Board is concerned that service credit purchases will be too expensive if interest is applied to purchase prices, and thus the Board directs staff to continue not to apply interest to such purchases.
- What fiduciary issues are implicated by these examples?

Duty of Care: “Prudent Fiduciary with Experience Dealing with a Similar Enterprise”

- A fiduciary need not be the expert but may need to consult an expert. When using experts, the fiduciary may take into consideration the advice of relevant experts, but the fiduciary is still ultimately responsible.
- Expertise resides both with *in-house* MercedCERA staff, as well as in MercedCERA’s outside retained experts.
- Trustees also *develop* their own capability to provide *prudent oversight* through
  - careful review of Board materials;
  - communication with staff on questions about those materials;
  - thoughtful participation in board meetings; and
  - MercedCERA-provided and other appropriate and cost-effective educational opportunities on topics focused within the Board’s jurisdiction and consistent with MercedCERA’s policies.

Fiduciary Duty of Care: Process and Soundness of Analysis Matter

- Duty of care does not require a fiduciary to guarantee specific outcomes but does require use of a prudent process.
- Highlights the importance of documenting fiduciary considerations and decision-making.
- However . . . (see next slide)

Fiduciary Duty of Care: Process and Soundness of Analysis Matter

- Substantively, a prudent decision may be neither "arbitrary" nor "capricious," and deliberations by fiduciaries should illustrate the relationship between the information presented and the action taken, if any.
  - Courts may review a fiduciary's decisions substantively, rather than simply deferring to a determination that a fiduciary may make after a prudent process.
  - Not dissimilar from U.S. Supreme Court's discussion in *Loper* of courts' duty to "exercise their independent judgment in deciding whether an agency has acted within its statutory authority," while "[c]areful attention to the judgment of the Executive Branch may help inform that inquiry".
  - Under California law, courts afford fiduciaries the authority to exercise judgment as to prudent administration of the plan, so long as the administration of the plan comports with the plan design set forth in plan documents. See generally, *Alameda Health System v. Alameda County Employees' Retirement Association* (2024) 100 Cal.App.5th 1159; see also *City of San Diego v. San Diego City Employees' Retirement System* (2010) 186 Cal.App.4th 69.

Fiduciary Duty of Care: Process and Soundness of Analysis Matter (cont.)

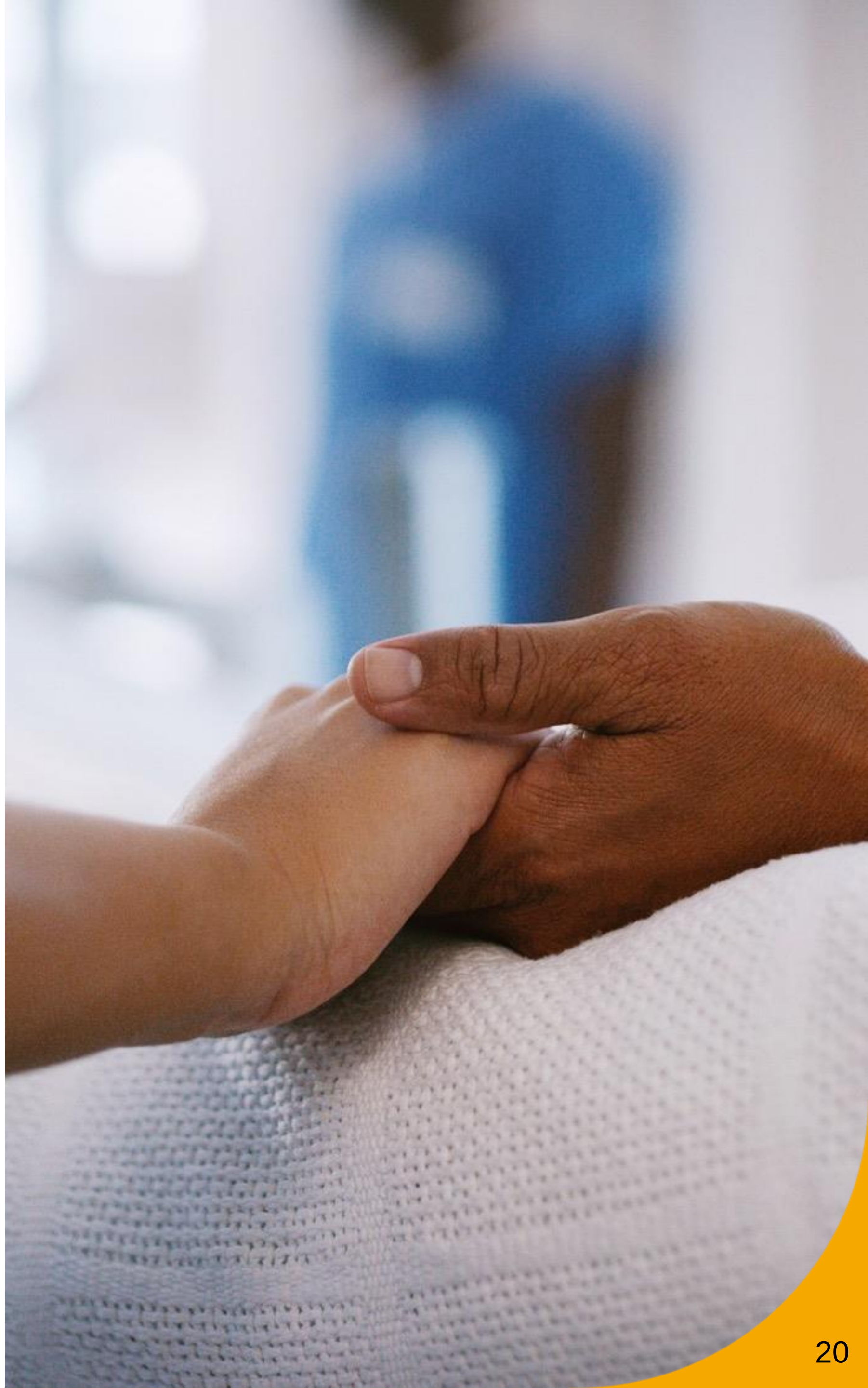
- What does prudence look like?
  - Acting consistently with laws and plan governance documents, which include Board policies and procedures (and making sure the plan governance documents match each other).
  - Where aspects of fiduciary duty are delegated, periodic and systematic monitoring.
  - Facts, analysis, questions, answers.
  - Documented decision-making.
  - Agendas, staff/consultant supporting materials, minutes, resolutions detailing facts, findings and conclusions are all ways to document procedural prudence.
  - Periodic review and reevaluation of processes and approaches—*continuous process improvements.*

Fiduciary Duty of Care: Consult with Experts

- "To the extent necessary or appropriate to the making of informed investment judgments by the particular trustee, care also involves securing and considering the advice of others [such as legal, actuarial and investment counsel] on a reasonable basis." Rest. 3d Trusts, supra, § 227, p. 15, comment d.
- The implicit corollary to the duty to consult with experts is that if a fiduciary fails to follow the advice of its professional consultants, it must demonstrate an informed, reasonable, and prudent rationale for failing to do so.
- Another implicit corollary is that expert advice from a reasonable source should provide the basis for a Board's decision to take an alternative course of action on a topic within that area of expertise (e.g., investment, actuarial, legal).

Hypothetical No. 2: Duty of Care

- Board member, May, is personal friends with an ailing active member of the retirement system who has applied for disability retirement. May has spoken with the member about the application.
- The competent medical evidence establishes that the member is not permanently incapacitated under the applicable legal standards, and retirement system staff recommends that the Board deny the application.
- The applicant attends the Board meeting at which the application is considered and speaks to the Board about the application, urging the Board to grant it.
- What are, and are not, fiduciarily appropriate considerations for all Board members, and in particular May, with respect to this topic?



Fiduciary Duty to Diversify Investments to Maximize Risk-Adjusted Returns

- Under Article XVI, Section 17, of the California Constitution a fiduciary must “diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.”
- Diversification is generally considered based on the plan’s entire portfolio.

Hypothetical No 3: Fiduciary Duty to Diversify Investments

- Board member Xavier is a retired private equity manager. Xavier is passionate about private equity investment opportunities, and is a self-professed contrarian as to any other investment-types in the public or private markets.
- Board member Xanadu is active with a group that is urging public retirement systems nationally to divest from fossil fuels, citing climate change risks.
- Retirement system’s Chief Investment Officer and Investment Consultant are presenting the retirement system’s annual asset-liability study, and they are proposing various alternative tilts in the allocations of the retirement system, all of which result in a well-diversified portfolio, but with varying levels of anticipated risk-adjusted return.

Hypothetical No 3: Fiduciary Duty to Diversify Investments

- A retired member of the system presents in public comment to the Board and urges the Board not to adopt any of the recommended asset allocations, and instead to adopt policies that will remove all fossil fuels from the portfolio, citing to the work performed by Board member Xanadu in other contexts.
- A private equity manager who used to work with Board member Xavier urges the Board to increase the allocation to private equity beyond that which is proposed in all of the recommended alternatives.
- From a fiduciary perspective, what considerations should Board members take, and not take, into account with respect to this topic?

Divestment mandates?

- Statutorily-provided divestment
  - "The Legislature may by statute continue to prohibit certain investments by a retirement board where it is in the public interest to do so, and *provided that the prohibition satisfies the standards of fiduciary care and loyalty required of a retirement board pursuant to this section*."
    - Cal. Const., art. XVI, § 17(g) (emphasis added).

Fiduciary Duty to Control Actuarial Services and Assure "Competency" of Assets

- Under Article XVI, Section 17 of the California Constitution, the Board:
  - "consistent with the exclusive fiduciary responsibilities vested in it, shall have the *sole and exclusive power* to provide for actuarial services in order to *assure the competency of the assets* of the public pension or retirement system." (Emphasis added.)

Fiduciary Duty to Control Actuarial Services and Assure “Competency” of Assets

- In *O’Neal v. StanCERA*, petitioners challenged various board of retirement decisions relating to the actuarial methodologies and transfers of funds among reserves authorized by the board of retirement.
- *O’Neal* concluded that the retirement board had not violated its fiduciary duty of care by making certain actuarial decisions that resulted in lowering the employer contribution rate (such as permitting negative amortization), though it deferred a final decision on that topic with respect to the alleged breach of the duty of loyalty (resolved in board’s favor after trial).

Hypothetical No 4: Fiduciary Duty re Actuarial Matters

- Board’s actuarial funding policy includes layered amortization that results in some tail volatility when layers reflecting larger unfunded liabilities are paid off.
- Board’s consulting actuary presents three different approaches with respect to managing this tail volatility, all of which have differing impacts on employer contribution rates, in the short-term and/or long-term. The actuary states that it recommends two of the approaches, but notes that the third alternative, which results in the lowest immediate employer cost, is a reasonable “option” but is not “recommended”.
- An active member of the system presents in public comment to the Board and urges the Board to select the alternative that results in lowest employer cost in the short-term, because her employer’s already constrained budget is preventing it from providing raises to its employees.

Hypothetical No 4: Fiduciary Duty re Actuarial Matters (cont.)

- A retired member of the system presents in public comment to the Board and urges the Board to adopt the alternative that results in the highest employer cost in the short-term, expressing concern about the security of her retirement benefits if funding of those benefits is delayed.
- A department head from one of the retirement system's participating employers presents in public comment and argues that the Board should reject both of actuary's recommendations and other "option," and instead use a different funding method that it argues is "fairer" to it given its own employment practices.
- What are fiduciarily appropriate, and inappropriate, considerations for Board members to take into account with respect to this topic?

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Fiduciary Duty to Defray Administrative Expenses

- “The assets of the public pension or retirement system are trust funds and shall be held for the exclusive purpose of providing benefits to participants in the pension or retirement system and their beneficiaries and ***defraying reasonable expenses of administering the system.***” (Cal. Const., art. XVI, §17(a).)
  - “Cost-conscious management is fundamental to prudence” and requires that expenses be monitored and periodically reviewed. See *Tibble v. Edison Int’l*, 843 F.3d 1187, 1197-1198 (9th Cir. 2016) [decided under ERISA]; *see also* Rest. 3d Trusts, §90(c)(3) (A trustee is to “incur only costs that are reasonable in amount and appropriate to the responsibilities of the trusteeship.”).
- **Note:** This duty does not mandate a specific course of action, but rather that the Board is to have a prudent process to determine the expenses needed to perform MercedCERA business.
  - Board exercises this responsibility through adoption of, and MercedCERA compliance with, policies, such as its Travel and Expense Reimbursement Policy,

Hypothetical No. 5: Duty to Defray Reasonable Expenses of Administering Retirement System

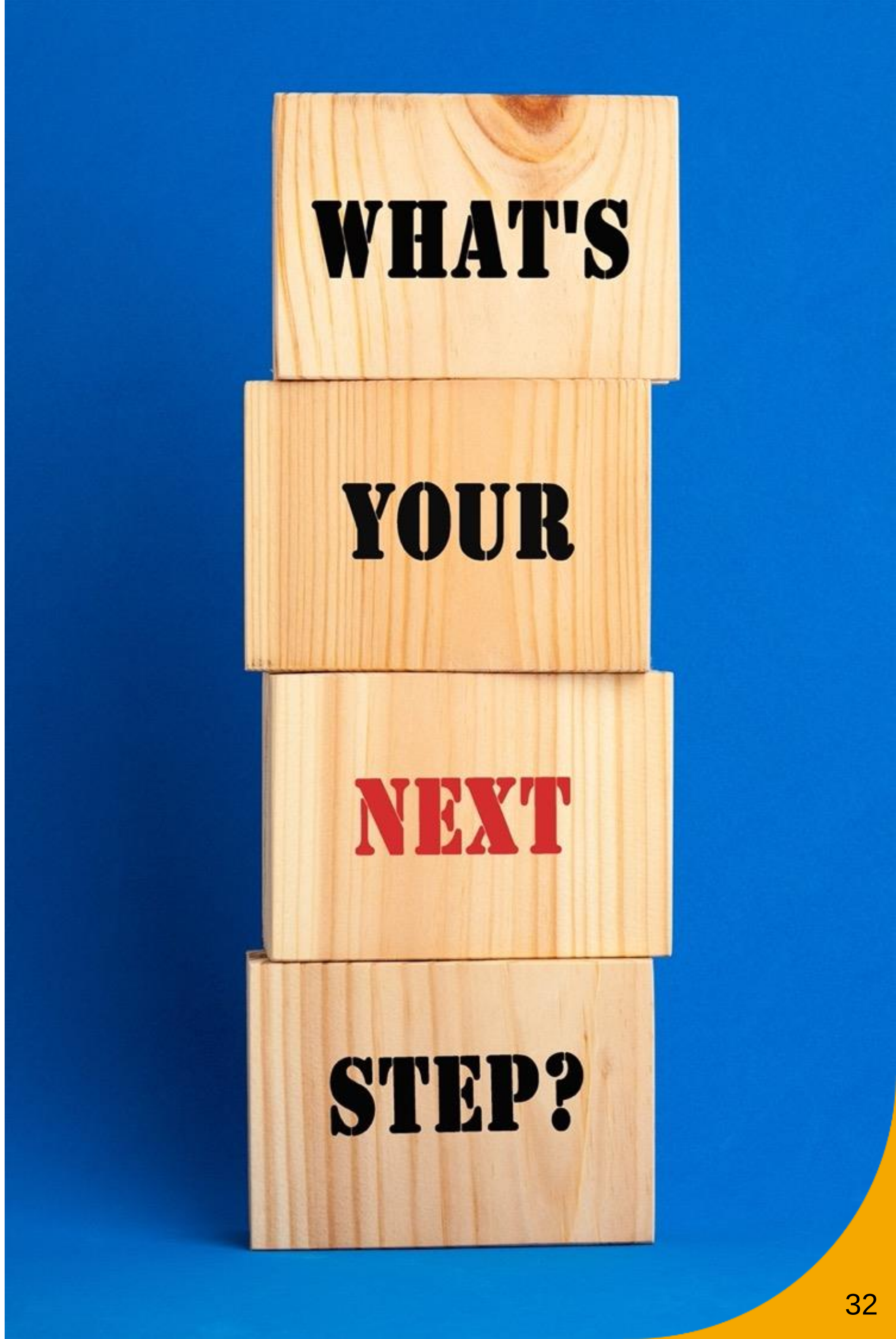
- Board has an Education Policy that permits periodic travel for pre-authorized trainings for public retirement system trustees, but limits costs per trustee.
- Board member Penelope requests an exemption from policy to attend a conference occurring in Switzerland, and requests reimbursement for (i) business class travel, and (ii) an additional weekend stay, which results in lower airfare but higher hotel costs.
- Board member Pam requests authorization for the same business travel, citing his desire to have an additional opportunity to socialize with fellow board member Penelope.
- What fiduciary issues are implicated by this hypothetical?

Fiduciary Duty to Act in Accordance with Plan Documents and Other Applicable Law

- Fiduciaries have a duty to administer plans in accordance with plan terms and applicable law.
- California courts, including the California Supreme Court in 2020, have articulated this principal consistently.

Fiduciary Compliance

- The Board must use *informed judgment* and act in the *overall best interest of system members/beneficiaries* in a manner that is *consistent with applicable laws* when exercising its *plenary authority over the administration* of MercedCERA and investment of its assets.
- The Board's actions in that regard may not be "arbitrary" or "capricious," must be *consistent with its fiduciary responsibilities,* and must be *rationally related to the information presented to the Board by MercedCERA's in-house and outside consulting experts*.

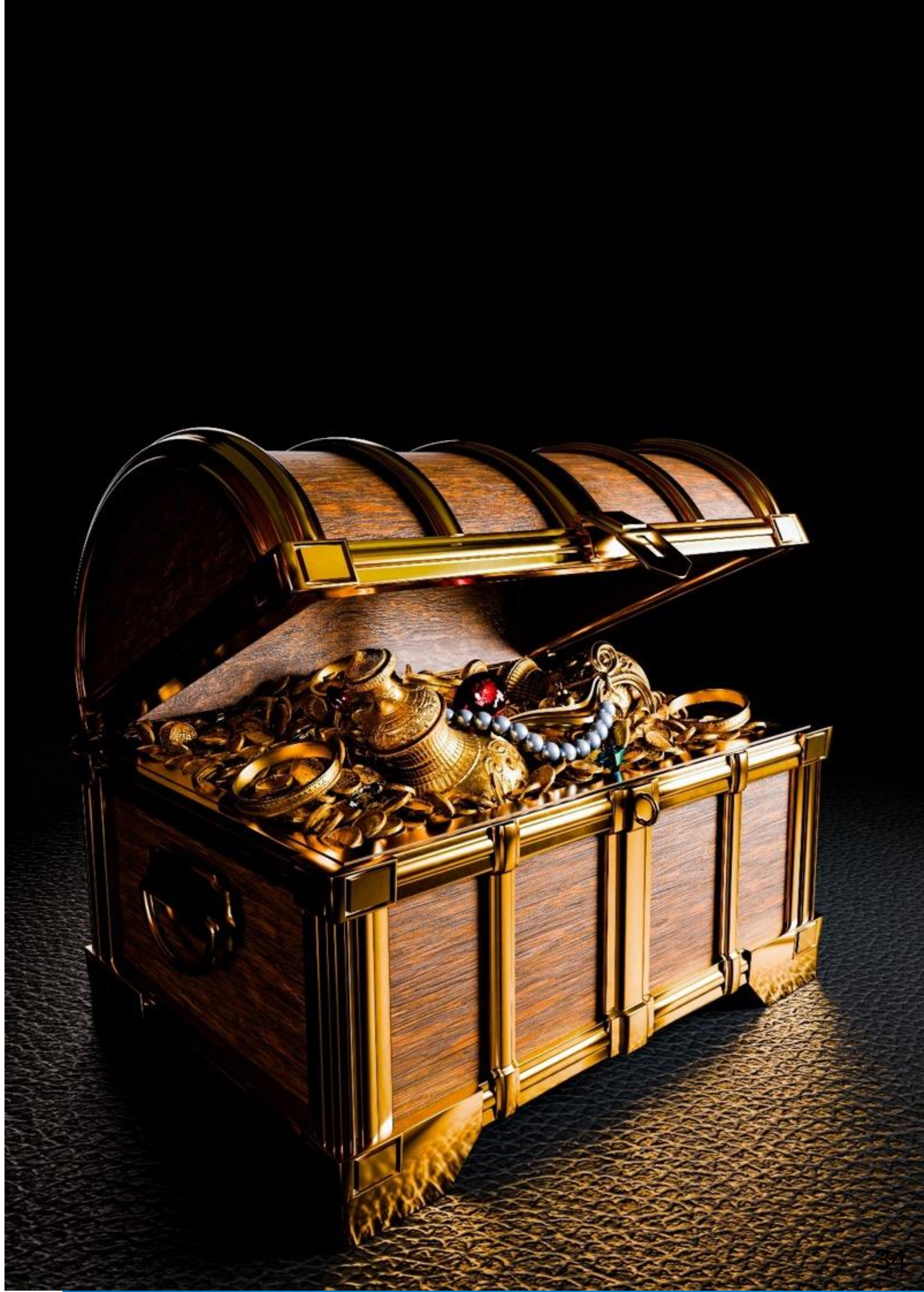


Ethical Rules: Avoiding Conflicts of Interest

- Combination of statutes and common law
- Public officials must avoid even the appearance of acting in their self interest
- Laws are minimum standards
  - The public expects and deserves the highest standard of conduct

Personal Financial Gain: General Rule

- Public officials must make decisions in the public interest, not in their own financial interest
- Even the appearance of a financial conflict is to be disclosed or avoided



In Other Words

- You have a conflict of interest with respect to a government decision if it is sufficiently likely that the outcome of the decision will have a material impact on your economic interests,

AND

- a significant portion of the public does not also feel the same impact on their economic interests.

1. Are you a public official?

- If a Retirement Board trustee, senior staff, or your position is designated in your agency’s Conflict of Interest Code, then “Yes”

2. Are you involved in the decision?

- If you do any of the following, then "Yes"
  - Make → Vote
  - Participate → Advise, Recommend
  - Influence → Communicate

3. Do you have any of the following financial interests?

- Investment in any business entity ≥ $2,000 by official or immediate family or 10% owned entity
  - Investments exclude time deposits insurance and diversified mutual funds
- Real property in which invested $2,000 or more and certain leasehold interests
- Income source ≥ $500 (promised or provided) to official within prior 12 months (or $1,000, if community property)
  - Governmental income is not a “financial interest,” as defined in the PRA
- Any business entity of which official is an officer, director, manager, or employee, even if the position is uncompensated
  - Uncompensated position on a nonprofit board is not a “financial interest”

3. Do you have any of the following financial interests?

- Received gifts ≥ \$590 (2023-2024) or ≥ \$630 (2025-2026) in 12-month period
  - Local restrictions on gifts by investment advisor placement agents or other "restricted persons" may be lower
  - Contributions to campaigns for elected retirement board members that are not required to be reported are treated as gifts subject to same annual limit
- Reported campaign contributions > \$250 to a board member's campaign or other controlled committee are not gifts, but are disqualifying under Gov. Code §84308
- Personal financial effect → if own or family's finances will be impacted at all

4. Is it reasonably foreseeable that the decision will have a financial effect on the official's financial interest?

- If the financial interest is a named party, or the subject of the decision, then "Yes"
  - Pay attention if any "interests" identified in Form 700 disclosure appear before the Board
- If the financial interest is not explicitly involved in the decision but the financial effect is a realistic possibility (more than hypothetical) , then "Yes"

5. Is the effect on the financial interest material?

- The official’s interest in a business entity is material:
  - If business entity is a party to any proceeding, contract, application, inspection, or is otherwise subject to the agency’s authority, or likely to have an increase or decrease in costs, profits, or value as a result of the decision
- The official’s interest in real property is material:
  - In any decision that would influence the market value of the property or other property within 500 feet of it (unless FPPC determines otherwise)
  - Excludes leasehold interest that is subject to less strict standards, unless the decision directly affects the value or terms of the lease or impacts the official’s use or enjoyment of it

5. Is the effect on the financial interest material?

- Tests for materiality for the official's interest in a source of income:
  - Financial interest in the sale of goods or services is material if the source of income is party to any proceeding, contract, application, inspection, or is otherwise a subject of the proceeding, or is an individual, business, or nonprofit that is likely to have a measurable benefit or loss from the decision or owns property that would be affected by the decision
  - Financial interest in the sale of real/personal property owned by the official is material if the source of income is involved in the proceeding or has any interest in any business entity or real property affected by the decision
- The official's interest in the donor of a gift of $590 (2023/2024) and $630 (2025-2026), or more is material:
  - If the donor is named, or the subject of the proceeding, or an individual or entity that will be financially affected by it

5. Is the effect on the financial interest material?

- The official's interest in a personal financial effect of the decision on the official or their immediate family is material:
  - If the decision will have "measurable financial benefit or loss" on the official or family member (Per regulation § 18702.5 "if the decision may result in the official or the official's immediate family member receiving a financial benefit or loss of $500 or more in any 12-month period.")
  - Excludes effect of
    - Any employment or retirement benefit decision that applies equally to all employees in the same bargaining unit or other representative group;
    - Legally authorized official travel expenses;
    - Meeting stipends;
    - Use of government property for official or even negligible or inconsequential personal use;
    - Membership rewards available to the public for official travel; or
    - A decision to fill a position on the body of which the official is a member

5. Is the effect on the financial interest material?

- With respect to investments, there is a “Small Shareholder Exception” under Regulation 18702.1(b), which provides that a decision’s reasonably foreseeable financial effect on an official’s financial interest in a business is not material if both:
    - The official’s only financial interest in the business in an “investment interest” under Section 87103(a) valued at $25,000 or less; and
    - The official’s interest in the business is less than one percent of the business’s shares.

Unless . . .

5. Is the effect on the financial interest material?

- The “Small Shareholder Exception” described on the prior slide applies unless one of the following circumstances exists as to the financial interest:
  - **Gross Revenues and Assets or Liabilities**. The decision may result in an increase or decrease in the entity’s annual gross revenues, or the value of the entity’s assets or liabilities, in an amount equal to or more than:
    - $1,000,000; or
    - 5% of the entity’s annual gross revenues and the increase or decrease is at least $10,000.
  - **Expenses**. The decision may cause the entity to incur or avoid additional expenses or to reduce or eliminate expenses in an amount equal to or more than:
    - $250,000; or
    - One percent of the entity’s annual gross revenues and the change in expenses is at least $2,500.
  - **Real Property**. The official knows or has reason to know that the entity has an interest in real property and there is “clear and convincing evidence that decision would have a substantial effect on the property.”

5. Is the effect on the financial interest material?

- If the Small Shareholder Exception applies, the official is not disqualified from taking action on an investment in that company.
- If the exception does not apply, however, then the official would have a disclosure and recusal obligation under the PRA, unless another exception applies (see parent, subsidiary, otherwise related business entity discussion on next slide).

5. Is the effect on the financial interest material?

- An official with a financial interest in a business entity also has a financial interest in a parent or subsidiary of the business entity or an otherwise related business entity, as those terms are defined by regulation. (Regulation 18700.2(c).) However . . .
- An official with a financial interest in a business entity does **not** have a financial interest in the parent, subsidiary, or otherwise related business entity **if**:

  (1) the official's only interest is that of a shareholder and the official is a passive shareholder with less than 5 percent of the shares of the corporation; **and**

  (2) the parent corporation is required to file annual Form 10-K or 20-F Reports with the Securities and Exchange Commission and has not identified the subsidiary on those forms or its annual report. (Regulation 18700.2(d).)

5. Is the effect on the financial interest material?

- **Cautionary Note: FPPC Advice Letter No. I-17-093**
  - Retirement board trustee reports stock ownership in companies in which retirement system invests on Form 700. This constitutes a "business interest" in those companies because of stock ownership in excess of $2,000 each.
  - FPPC says: "Disposing of interests in those entities or creating a blind trust for investments can eliminate the potential for conflicts of interest under the Act." The Act "would prohibit the Board member from taking part in a decision relating to [four named companies] if the decision would have a reasonably foreseeable material financial effect on one or more the Board Member's financial interests in those business entities."
  - Although the FPPC did not address the topics expressly, **neither the Small Shareholder Exception, nor the Parent, Subsidiary, Otherwise Related Business Entity exceptions applied**.

6. Is the effect on the financial interest too insignificant?

- Notwithstanding the foregoing specific materiality standards there is a generally applicable exception in FPPC regulation 18702(b) that may potentially override them, stating:
  - "… the financial effect of a governmental decision is not material if it is nominal, inconsequential, or insignificant."
- This is an objective, not a subjective test, and recent FPPC advice letters and enforcement decisions appear not to rely on it in a disqualification analysis

7. Does the economic effect apply to the public generally?

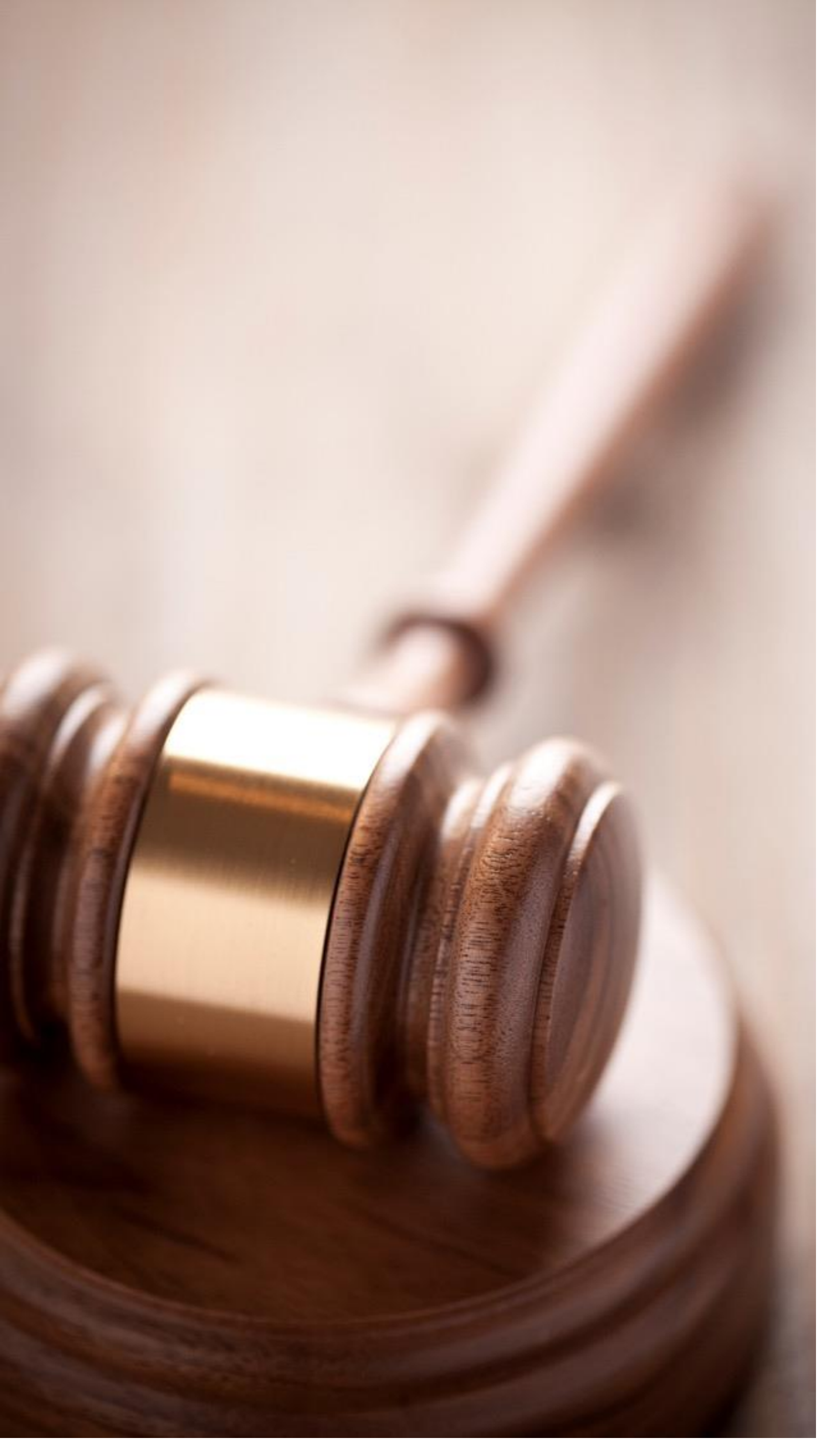
- Defined broadly as all individuals residing in the jurisdiction and those affecting residing outside of it, with similar broad definitions for business entities and real property
  - Jurisdiction defined in terms of geographical area, not scope of legal authority
  - Exception for legally created boards with appointed members to represent particular interests
  - Applicability of this exception to retirement boards is uncertain, but broad exception for generally applicable employment or retirement benefits from a personal financial effect may alleviate the narrowing applicability of the publically available exception for retirement board members

8. If no statutory exception is applicable, is participation legally required?

- Difficult standard to meet – invoked only if:
    - There exists no alternative source of decision consistent with the purposes and terms of the statute authorizing the decision, and
    - Cannot be used to break a tie, or add to the minimum of non-disqualified members sufficient to make up a quorum, even if such members cannot be present
- Must use a random method to select the minimum number of members to make up a quorum, and the selected member is selected for the duration of the proceedings in all related matters
- Additional disclosure and record requirements apply

Effect of Economic Conflict

- Board Member: Disqualified
  - Publicly declare the specific interest
  - Refrain from participating as board member and leave the room unless as a public participant on matters relating solely to the official's personal interests
  - Board may make decision without participation of disqualified officials
- Employees:
  - Follow same rules of non-participation as to non-ministerial matters



Effect of Violation of PRA Depends on Offense/Circumstances

- Criminal conviction of misdemeanor precludes public office for four years
- Fines up to $5,000 per occurrence
- Decision may be voided

Question for Attendees

- The retirement board is considering hiring an investment consultant for which a board member worked more than 12 months prior, and the board member continues to own between $10,000-$20,000 in stock in the company.
- **Must the trustee recuse herself under the Political Reform Act?**
  - Yes, the board member cannot be impartial with respect to a former employer.
  - No, the decision will only have a nominal financial effect on trustee.
  - No, the decision will have the same effect on all similarly situated holders of stock and is not discretionary as to a particular board member.
  - Maybe, depending upon whether the Small Shareholder Exception applies (e.g., will the retirement system's engagement of the investment consultant result in an increase in consultant's annual gross revenues by either 5% or $1,000,000?). Discuss with system counsel.

Question for Attendees

- The retirement board is considering allocating $100 million to an investment strategy through Hypothetical Investment Manager (“HIM”), and a trustee on the board reported owning between $10,000-$100,000 in stock in HIM on her Form 700 for the prior year.
- Must the trustee recuse herself under the Political Reform Act?
  - Yes, trustees cannot be impartial with respect to any company in which they own stock.
  - No, the board’s decision will only have a nominal financial effect on trustee.
  - No, the decision will have the same effect on all similarly situated holders of stock and is not discretionary as to a particular board member.
  - Maybe, depending upon whether the Small Shareholder Exception and/or Parent, Subsidiary, Otherwise Related Business Exception applies (note: even if the trustee owns under $25,000 in stock, the exception might not apply given the size of the allocation). Discuss with system counsel.

Questions?

Conflicts of Interest in Contracting: General Rules

- Public officers and employees shall not be financially interested in any contract made by them or by any body/board of which they are members (Gov. Code Sec. 1090)
- Board members presumed to be involved in all contracts under Board's jurisdiction
    - Even disqualification or recusal of the interested member will not allow the board or board to make the contract unless an exception applies
- Interested employees may not participate
- The reach of the statute has been broadened to prohibit any individual from aiding or abetting a violation of Section 1090 by any public official or employee

Contracting Factual Analysis

- Public officer or employee?
- Is there a contract? Broadly defined
- Involved in making a contract?
  - Developing, negotiating, modifying and soliciting bids
- Financial Interest?
  - Direct or indirect, positive or negative
- Does an Exception Apply?
  - Non-Interest
  - Remote Interest
- Rule of Necessity? Only for essential services
- Violation to aid or abet another's violation

Contracting Exceptions

- Non-Interests: List of statutory exceptions, including:
  - "Governmental salary" exception (1091.5(a)(9)):
    - No change in compensation to public employee; and
    - Contract is not with, nor "directly affects," employee's own department
    - See *Lexin v. Superior Court*
  - "Public services generally provided by the board" (1091.5(a)(3))
    - See *Lexin v. Superior Court*
  - Reimbursement by official's agency for actual and necessary expenses incurred in the performance of public duties (1091.5(a)(2))
  - The ownership of less than 3 percent of the shares of a corporation for profit, provided that the total annual income to him or her from dividends, including the value of stock dividends, from the corporation does not exceed 5 percent of his or her total annual income, and any other payments made to him or her by the corporation do not exceed 5 percent of his or her total annual income. (1091.5(a)(1))
    - This non-interest exception exempts from Section 1090 coverage the type of stock ownership that would require disclosure and recusal under the PRA (see discussion on Small Shareholder Exception above)

Lexin v. Superior Court (2010) "Governmental Salary" Exception

- The California Supreme Court concluded:
  - A contract that may result in future changes to a Board or staff member's government compensation is not exempted from Section 1090 by the "governmental salary" exception
  - A contract that is with, or directly affects, a Board member's employing City/County/District department (where said Board member's government compensation will not be impacted), requires that Board member to disclose and recuse
  - A contract that is between Retirement System and City/County/District, that does not affect (1) any Board or staff member's government compensation or (2) directly affect any Board member's employing department, is exempted from Section 1090 by this exception

Lexin v. Superior Court (2010) "Public Services Generally Provided" Exception

- The Supreme Court concluded that this exception may be invoked:
  - The contractual benefit provided to the public official is one of the benefits that the public agency provides generally;
  - There is no opportunity for the exercise of individualized discretion that would allow preferential treatment to be provided to the public official; and
  - The public official and the agency's "constituents" have access to benefits "on the same terms and conditions," without respect to the public official's status

Lexin v. Superior Court: A Warning to Others?

- Supreme Court noted "a wealth of other legal remedies exists to ensure municipalities and retirement boards do not abuse the public trust," even if there is no criminal liability under section 1090, such as:
  - Actions for declaratory relief or mandamus challenging governmental actions
  - Civil suits for breach of fiduciary duty

Post-*Lexin* Guidance

- Statutory immunity for discretionary decisions by public retirement board (but not its consultants) was confirmed in
  - *Naswari v. Buck Consultants LLC et al.* (2014)
- No immunity, however, for "ultra vires" acts such as public officials providing "excessive compensation" to themselves.
  - *People ex rel. Harris v. Rizzo* (2013)
  - Attorney General alleged that City of Bell's CAO and Asst. CAO modified the City's supplemental retirement plan to "create particularized benefits to themselves," in violation of section 1090

“Remote” Interest Exception to Section 1090 (Sec. 1091(b)(15))

- Permits settlement of litigation between public body or board of which the officer is a member, and officer is a party if all of the following apply:
  - The body or board is represented by legal counsel in the litigation
  - Court finds that the agreement serves the public interest
  - The interested member has recused himself or herself from all participation, direct or indirect, in the making of the agreement on behalf of the body or board
  - Disclosure is made of the interest and is noted in board’s official records

Violation of Contracting Law

- Ordinarily a Board member cannot escape liability for a contracting law violation by recusal
- Financially interested Board member must resign from the Board (and/or irrevocably renounce interest) unless an exception applies to permit the Board to act
- Staff members with financial interest must be screened from Board action (and/or irrevocably renounce interest); only "involvement" must clearly state action is in individual, not official, capacity (see FPPC Advice Letter No. A-17-087)
- Violation of contract law is felony that can result in imprisonment of the public official, permanent disqualification from public office, and fines
  - Disgorgement of all benefits received under illegal contract may be required

DO YOU HAVE A DISQUALIFYING ECONOMIC CONFLICT UNDER THE PRA?

Thank You for Your Time

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MercedCERA Fiduciary Counsel

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July 8, 2025

Cliffwater Private Assets Investment Process

Merced County Employees' Retirement Association

CLIFFWATER

Overview

CLIFFWATER

Who We Are:

Alternative Investments

Founded 2004

196 employees

Locations: New York, Chicago, Newport Beach, and Los Angeles

What We Do:

Advisory and Alternative Asset Management[1]

- **$121 Billion** Assets under Advisement (AUA) and Assets Under Management (AUM)
- Consulting to pensions, endowments, sovereign wealth funds
- Advise on private equity, private debt, real assets, and hedge funds
- Manage three interval funds focused on corporate lending, enhanced lending, and private equity strategies

[1] Information as of May 31, 2025. Assets under management (AUM) equal to net invested assets and excluding unfunded commitments.

Cliffwater Advisory Services

CLIFFWATER

Strategic Review

- Review strategic objectives
- Assessment of current program
- Capital markets assumptions
- Recommend investment plan

Manager Sourcing and Due Diligence

- Sourcing qualified managers/funds
- Investment due diligence
- Operations & Legal due diligence

Investment Program Monitoring

- Capital markets/tactical updates
- Market commentary
- Asset class strategy outlook
- Sub-portfolio assessments and outlook

Manager Monitoring

- Regular monitoring calls
- Review of investor letters & financials
- Periodic on-site meetings
- AGMs & LPAC meeting attendance
- Provide reports and notes

Reporting

- Quarterly performance, exposure & characteristics reports
- Significant partnership events
- Fund development recommendations
- Client portal

Operations Support

- Review transactions
- Review account statements
- Assistance with annual audit if needed

Education

- Board education
- Staff training

Staff and Board Meetings

- Calls to update on activity and issues
- Review new investments in process

Cliffwater Private Fund Investment Process

CLIFFWATER

All Funds | **"Focus List"** | **A-rated Funds**

Manager, Partnership Sourcing → Research Group Preliminary → Investment Due Diligence / Operations and Legal Due Diligence → Research Group Vote → Investment Committee Approval → Client Recommendation

Comprised of A- and B-rated Funds. We archive C-rated Funds.

Our approval process is transparent and documented

Preliminary Rating

Full Investment & Operations Due Diligence

Investment Committee Minutes

Cliffwater Due Diligence Process

CLIFFWATER

Investment due diligence is led by senior research team members.

- Research responsibilities organized by strategy
- In-depth diligence typically completed over several months
- Periodic onsite meetings and reference calls conducted
- Multiple senior Cliffwater professionals involved in the due diligence process

Cliffwater utilizes a consistent and thorough diligence process for fund recommendations

Dedicated, experienced operations due diligence team.

- Independent review
- Evaluate primary areas of business risk
- Compare to industry best practices
- Background checks as needed
- Ongoing evaluation of operational capabilities for recommended managers through monitoring and periodic re-underwriting

Full operations due diligence conducted on private fund recommendations

Legal team reviews fund documents across multiple dimensions.

- Investor protections
- Fees
- Liquidity
- Alignment of interests

Cliffwater seeks to improve terms in fund documents on behalf of all clients.

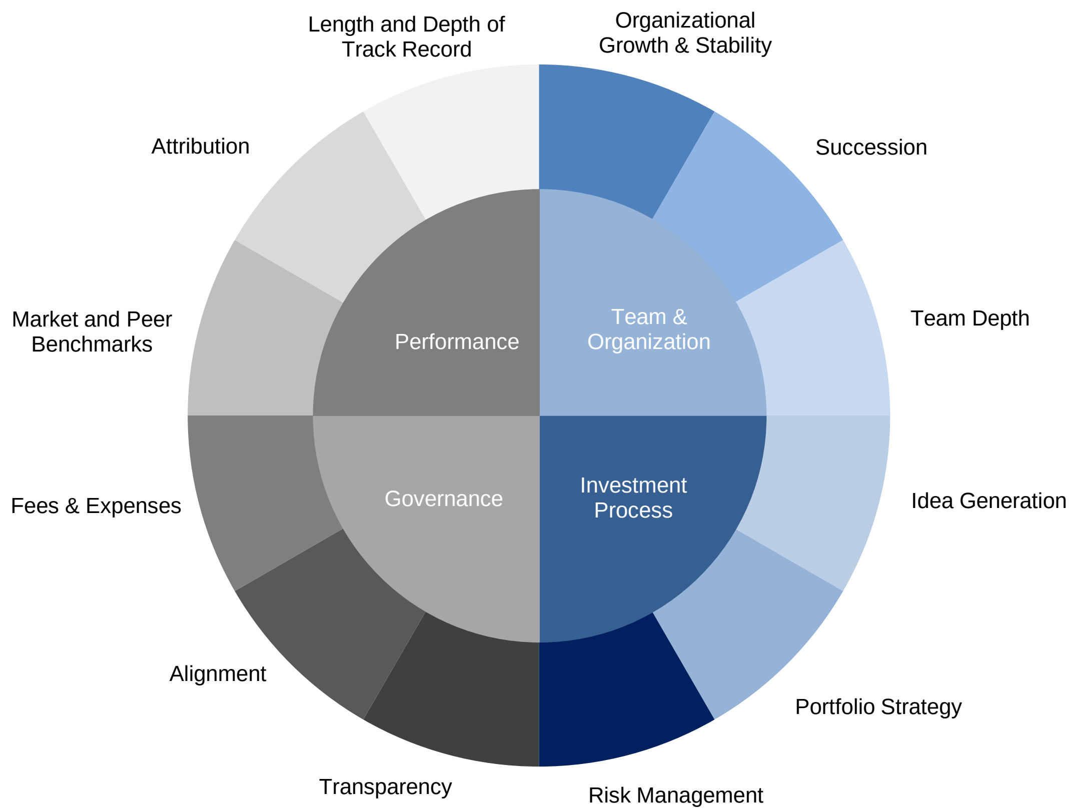
When desired, Cliffwater's team will work together with client's internal and/or outside counsel

Investment Due Diligence

Investment due diligence is led by senior research team members.

- Research responsibilities organized by strategy
- In-depth diligence typically completed over several months
- Onsite meetings and reference calls conducted
- Multiple senior Cliffwater professionals involved in the due diligence process

Cliffwater utilizes a consistent and thorough diligence process for fund and co-investment recommendations.



Operations Due Diligence

Dedicated, experienced operations due diligence team.

- Independent review
- Evaluate primary areas of business risk
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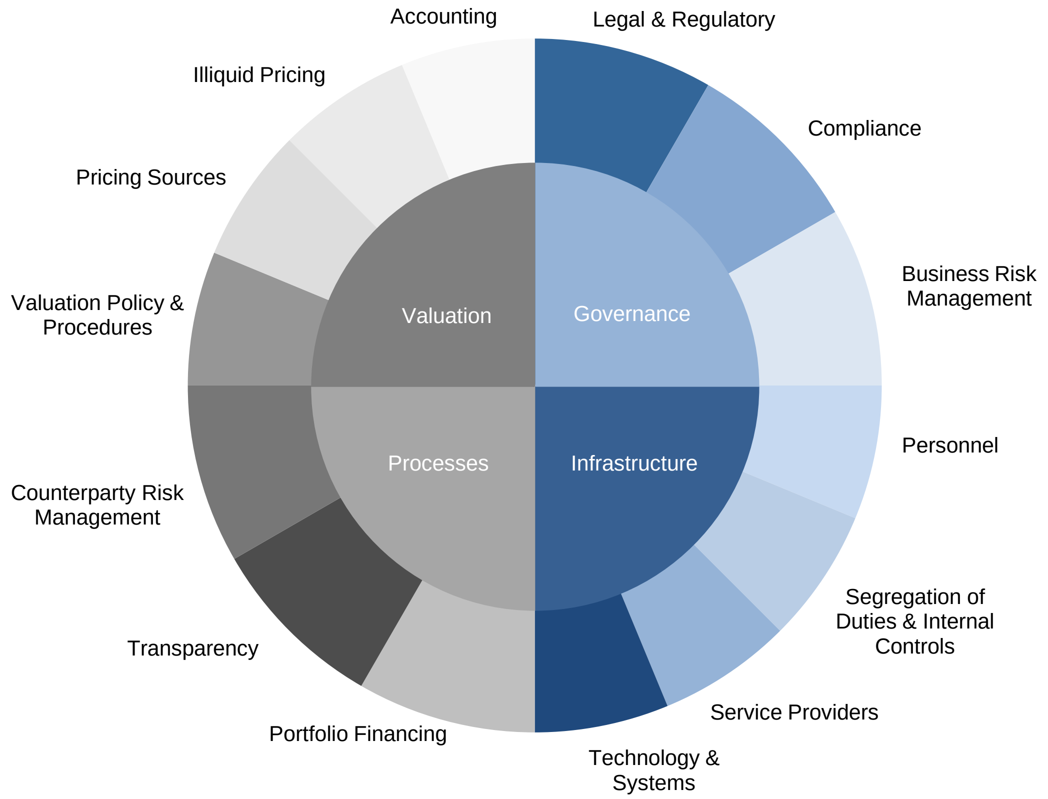
- Background checks as needed
- Ongoing evaluation of operational capabilities for recommended managers through monitoring and periodic re-underwriting

Full operations due diligence conducted on private fund recommendations.



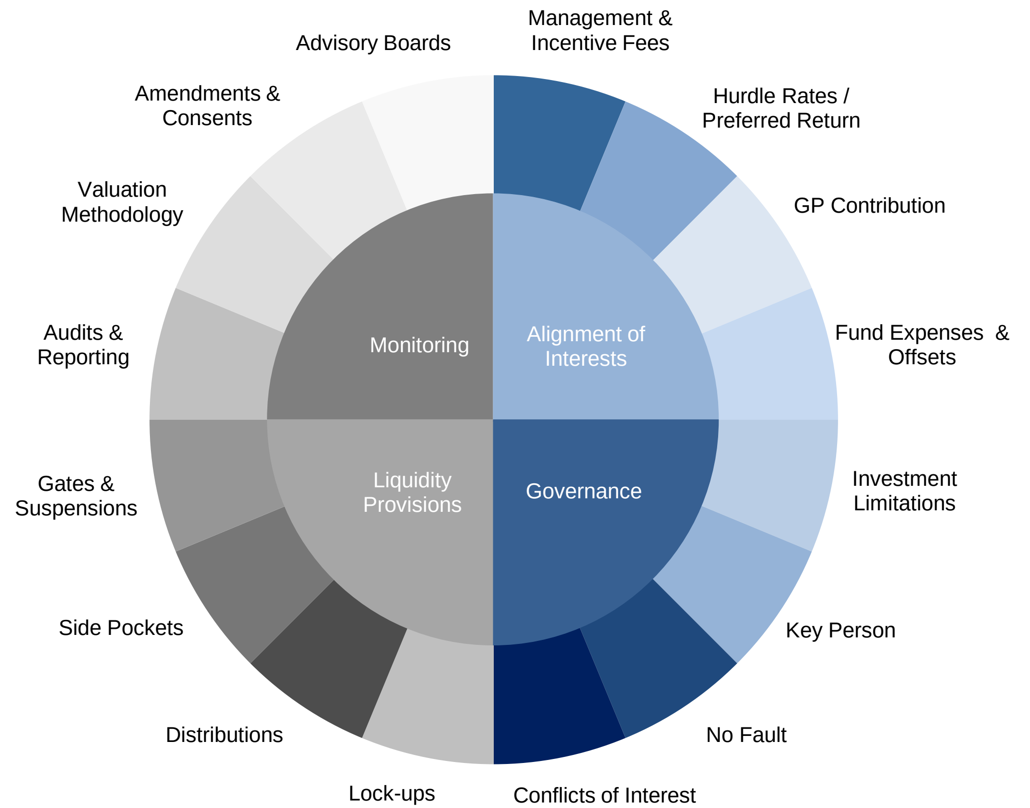
Legal Due Diligence

Legal team reviews fund documents across multiple dimensions.

- Investor protections
- Fees
- Liquidity
- Alignment of interests

Cliffwater seeks to improve terms in fund documents through side letters on behalf of all clients.

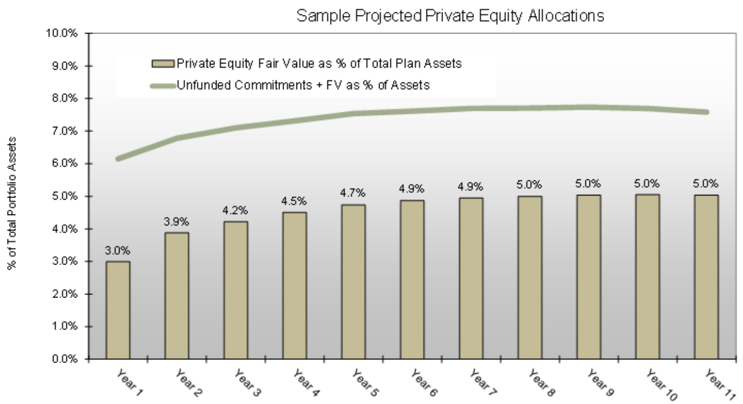
When desired, Cliffwater's team will work together with client's internal and/or outside counsel.

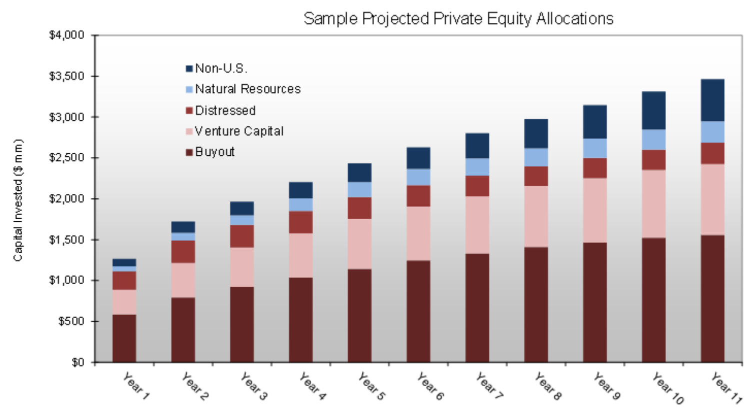


Cliffwater Capital Budget Model

Cliffwater models clients' existing portfolios & projects future commitments to determine annual commitment pacing

- Includes cash flow and strategy composition
  - Funds typically have a 10 year life and draw capital in years 1-5 and return capital in years 3-10
  - Maintain strategy-specific assumptions
  - Can customize forecasts and assumptions as needed
- Given the timing of draw downs and return of capital, need to over commit to ensure maintaining the desired asset class exposure
- Formally review the capital budgets on an annual basis to ensure commitment pace matches investment objectives
- Strive for meaningful commitment sizes per fund while maintaining time, strategy, and geographic diversification
- Opportunistically scale cyclical strategies

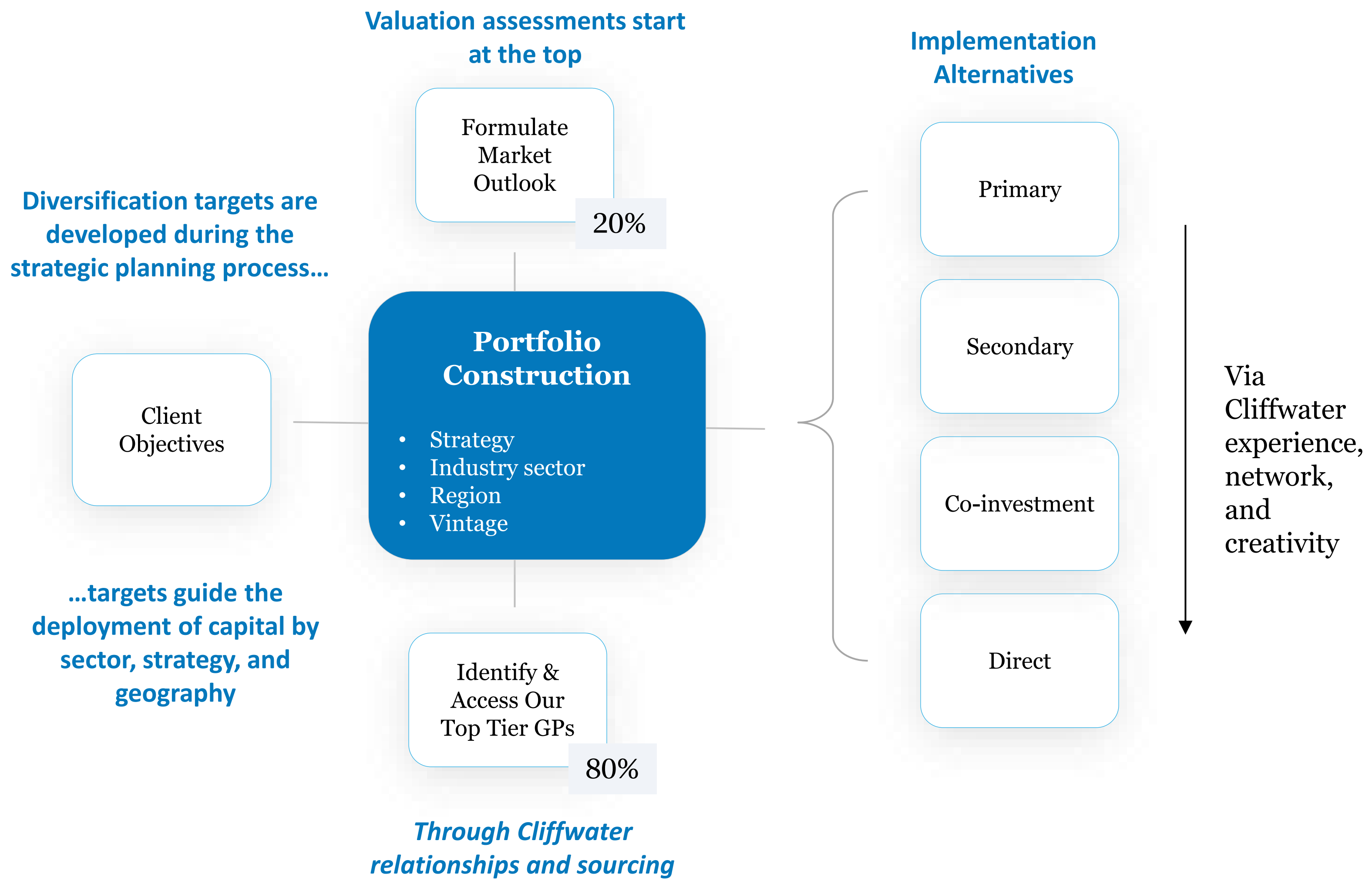




For illustrative purposes only. The charts are intended only to identify possible allocations. Actual allocations will vary depending on the specific circumstances. There is no guarantee that a portfolio will be allocated as shown above.

Cliffwater Private Assets Portfolio Construction

CLIFFWATER



For illustrative purposes only. Diversification does not eliminate the risk of loss.

Private Assets Fund Selection

CLIFFWATER

Sector Research

Manager list by sector:

- Buyouts
- Venture/Growth
- Private Debt
- Energy
- Natural Resources
- Infrastructure
- Real Estate

Portfolio Construction

- Analytic tool organizes sourcing pipeline by sub-strategy & expected vintage year
- 3-4 year forward plan to build relationships and improve access

Ongoing Analysis

- Quarterly private assets activity report
- Regular webinar with market review & sector outlook
- Focus List of managers available to clients

Approximate annual activity:

- 1,200+ manager meetings/calls
- ~700 fund reviews
- Over 150 annual meetings

→

More than 200 Managers On Our Private Assets Top Tier List

→

Fund selection driven by manager quality and client portfolio fit

Helping Clients Build and Monitor Pipeline

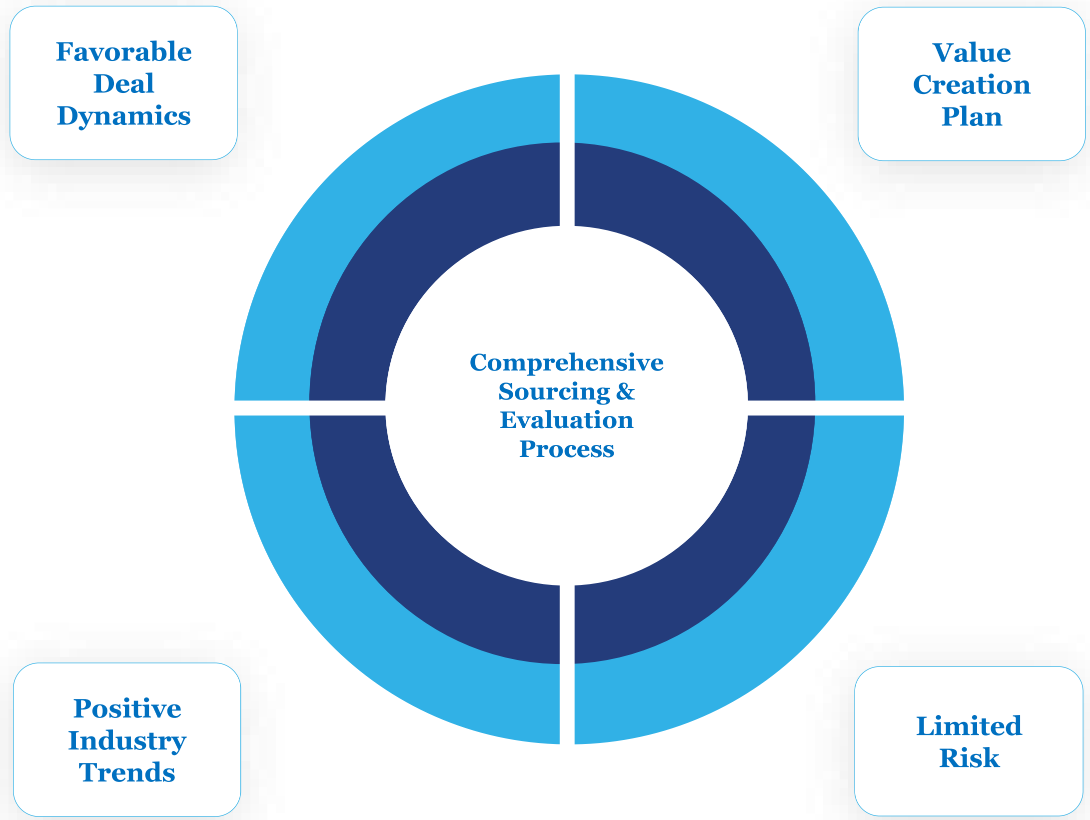
CLIFFWATER

Annual Activity

1,200+
Manager meetings

150+
Annual meetings

110+
LPAC representation



- Track 4,000 Firms
- Ongoing Dialogue with Top Performing Sponsors
- Meet with A-rated managers quarterly
- Client Input

Monitoring, Reporting, and Data Access

CLIFFWATER

Quarterly Performance Reports

Client private assets portfolio data maintained by Cliffwater. Clients can access and export portfolio data via Cliffwater's secure website.

Cliffwater provides client reports that include:

- Performance by portfolio, strategy, vintage year, and partnership
- Significant partnership events
- Portfolio characteristics from company level data for funds and for the total portfolio

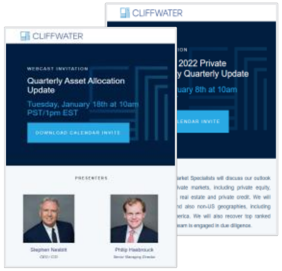
Client Portal

- Manager database with profile reports, due diligence reports, and monitoring notes
- Updated contributions and distributions data
- Estimated market values and returns
- Portfolio and partnership analytics
- Holdings data

Research and Education

- Research Papers

- Webinars



Cliffwater Disclosures

Important Notice

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This presentation may include sample or pro forma performance. Such information is presented for illustrative purposes only and is based on various assumptions, not all of which are described herein. Such assumptions, data, or projections may have a material impact on the returns shown.

References to market or composite indices (such as the S&P 500), benchmarks or other measures of relative market performance over a specified period of time (each, an “index”) are provided for information only. Reference to an index does not imply that a portfolio will achieve returns, volatility or other results similar to the index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change over time.

The S&P/LSTA U.S. Leveraged Loan Index is a market value weighted index tracking institutional leveraged loans in the United States based upon market weightings, spreads and interest payment, including Term Loan A, Term Loan B and Second Lien tranches.

The Bloomberg Barclays U.S. Corporate High Yield Index (Bloomberg Barclays High Yield) measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices’ EM country definition are excluded.

The Bloomberg Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

The NCREIF Property Index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the index have been acquired, at least in part, on behalf of tax-exempt institutional investors.

The Cambridge Private Equity Index is based on data compiled from global institutional-quality buyout, growth equity, private equity energy, venture capital and mezzanine funds, including fully liquidated partnerships, formed between 1986 and 2016.

The Russell 3000 Index is a capitalization-weighted stock market index that seeks to track the entire U.S stock market. It measures the performance of the 3,000 largest publicly held companies incorporated in the United States based on market capitalization.

MEKETA

Meketa Investment Group

July 2025

Investment Concepts 101:
Asset Allocation and Capital Market Assumptions

Setting Capital Market Expectations

→ Capital markets expectations ("CMEs") are the inputs needed to determine the long-term risk and returns expectations for a portfolio.

- They serve as the starting point for determining asset allocation.

→ Consultants (including Meketa) generally set them once a year.

- Our results are published in January and based on data as of December 31 for public markets and September 30 for private markets.
- Changes are driven by many factors, including interest rates, credit spreads, cap rates, and equity prices.

→ Setting CMEs involves crafting long-term forecasts for:

- Returns
- Standard Deviation
- Correlations (i.e., covariance)

→ We do not assume any "alpha."

→ For asset classes where there is no passive option (e.g., private markets) we include an assumption for estimated fees.

→ Our process relies on both quantitative and qualitative methodologies.

Executive Summary

- We update our capital markets expectations (“CMEs”) each year in January.
  - Capital markets are dynamic, and regular updates ensure that assumptions accurately reflect the current market environment.
- Changes in our CMEs are driven by shifts in the capital markets, including factors such as interest rates, credit spreads, cap rates, and equity prices.
  - Yields increased for much of the investment grade bond market, while credit spreads tightened, especially for lower quality credit such as high yield.
  - Stock market valuations continued to rise, especially in the US, where equity markets rallied at a faster pace than the gain in earnings.
  - Cap rates for real estate moved higher, while the rebound in buyout multiples lagged the valuation gains for public markets.
  - Not only did current Treasury yields increase, but projections for future Treasury yields also increased.
- Our 10-year CMEs continue to be lower than our 20-year CMEs for every asset class, largely due to a higher assumed “risk-free” rate in the future.
- The return assumption decreased for two-thirds of the asset classes over the 10-year horizon, while it increased for half the asset classes over the 20-year horizon.
- Our lower return assumptions over the 10-year horizon implies that investors might be well served by moderating their return expectations for the next ten years.

Building 10-Year Forecasts

→ Our first step is to develop 10-year forecasts based on fundamental models.

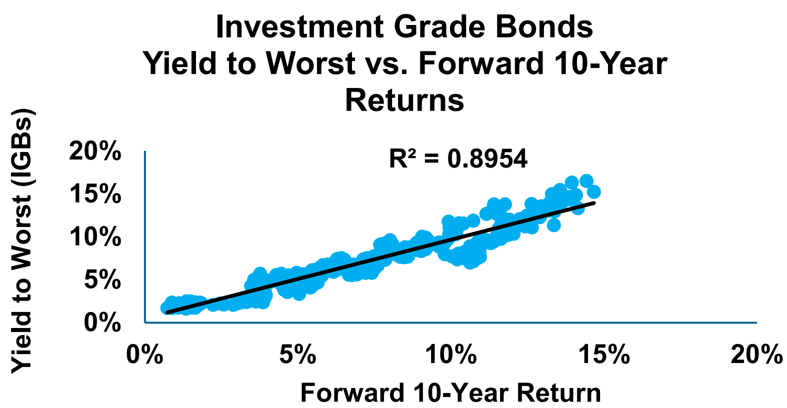
- Each model is based on the most important factors that drive returns for that asset class:

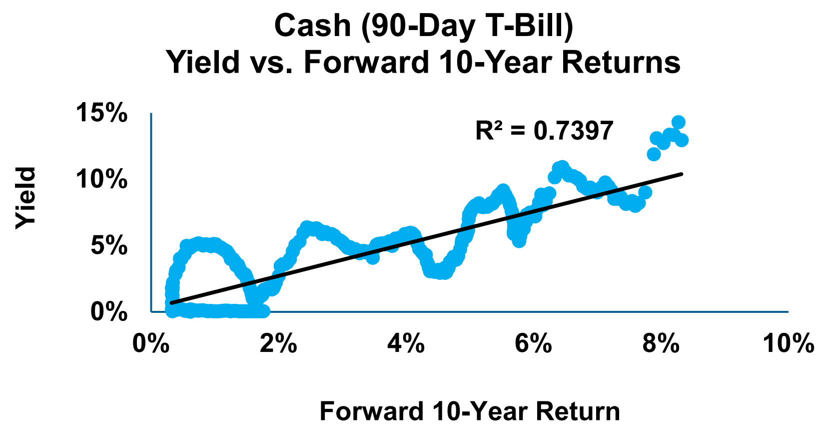
Asset Class Category	Major Factors
Equities	Dividend Yield, GDP Growth, Valuation
Bonds	Yield to Worst, Default Rate, Recovery Rate
Commodities	Collateral Yield, Roll Yield, Inflation
Infrastructure	Public IS Valuation, Income, Growth, Leverage
Natural Resources	Price per Acre, Income, Public Market Valuation
Real Estate	Cap Rate, Yield, Growth, Leverage
Private Equity	EBITDA Multiple, Leverage, Public VC Valuation
Hedge Funds and Other	Leverage, Alternative Betas

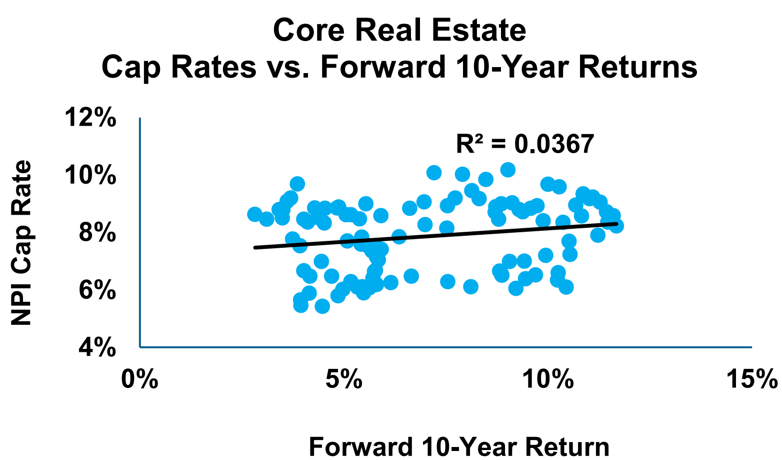
→ The common components are income, growth, and valuation.

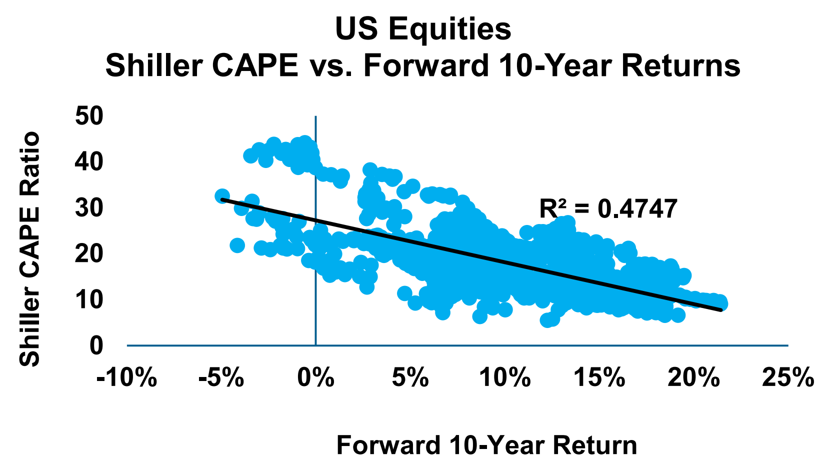
- Leverage and currency impact are also key factors for many strategies.

Some Factors are Naturally More Predictive Than Others









Sources: Bloomberg, FRED, NCREIF, S&P, Robert Shiller (Yale University), and Meketa Investment Group. As of December 31, 2024.

Moving from 10-Year to 20-Year Forecasts

→ Our next step is to combine our 10-year forecasts with projections for years 11-20 for each asset class.

→ We use a risk premium approach to forecast 10-year returns in ten years (i.e., years 11-20).

- We start with an assumption (market informed, such as the 10-year forward rate) for what the risk-free rate will be in ten years.
- We then add a risk premium for each asset class.
- We use historical risk premia as a guide, but many asset classes will differ from this, especially if they have a shorter history.
- We seek consistency with finance theory (i.e., riskier assets will have a higher risk premia assumption).

→ Essentially, we assume mean-reversion over the first ten years (where appropriate), and consistency with CAPM thereafter.

→ The final step is to make any qualitative adjustments.

- The Investment Policy Committee reviews the output and may make adjustments.

The Other Inputs: Standard Deviation and Correlation

→ Standard deviation:

- We review the trailing twenty-year standard deviation, as well as skewness.
- Historical standard deviation serves as the base for our assumptions.
- If there is a negative skew, we increased the volatility assumption based on the size of the historical skewness.

Asset Class	Historical Standard Deviation (%)	Skewness	Assumption[1] (%)
Bank Loans	6.5	-2.9	10.0
FI / L-S Credit	5.8	-2.7	9.0

- We also adjust for private market asset classes with "smoothed" return streams.

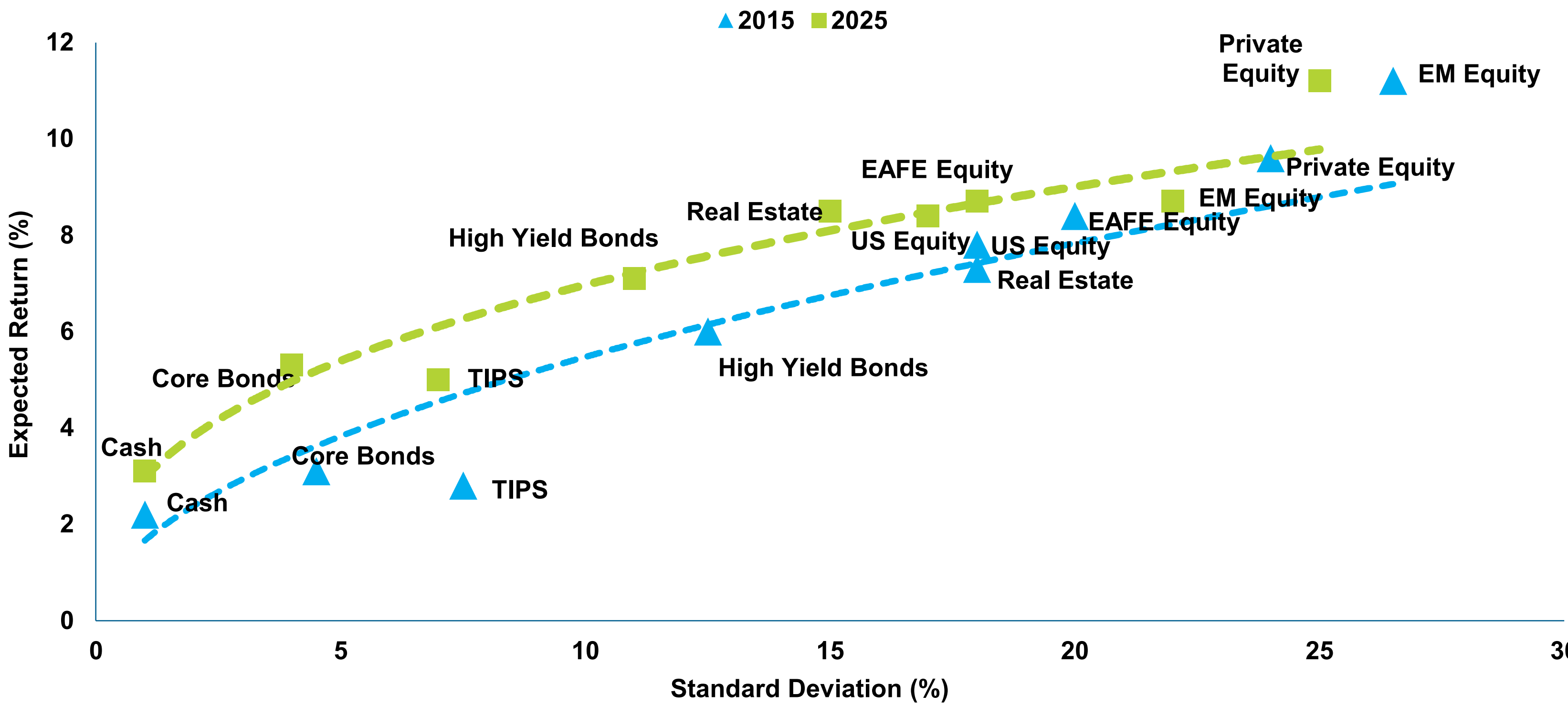
→ Correlation:

- We use trailing twenty-year correlations as our guide.
- Again, we make adjustments for "smoothed" return streams.
- Most of our adjustments are conservative in nature (i.e., they increase the standard deviation and correlation).

1 Note that we round our standard deviation assumptions to whole numbers.

The Big Picture: Higher Return for Similar Risk[1]

- The relationship between long-term return expectations and the level of risk accepted is not static.
- The higher interest rates compared to a decade ago mean that many investors have greater flexibility in how they structure a portfolio to achieve their target returns.



1 Expected return and standard deviation are based upon Meketa Investment Group's 2015 and 2025 20-year capital market expectations.

What is Asset Allocation?

→ Asset allocation is the process of accepting and managing both risk and opportunity.
- Explicitly, it is the decision of how much to invest in distinct asset classes.
- Implicitly, it is also the determination of how much and what types of risks you are willing to accept.

How does Asset Allocation Affect Performance?

- Each asset class exhibits unique risk and return behavior.
- Each asset class interacts differently with other asset classes.
- Combining asset classes allows investors to control more fully the aggregate risk and return of their portfolio.
  - Allows investors to create a multi-asset portfolio tailored to a unique set of objectives.

The Importance of Asset Allocation

- Likely to have the largest impact of any decision you make.
- The amount you invest in stocks, bonds, real estate, etc., will be a key driver of long-term returns.
  - Asset allocation explains more than 90% of the variability of a fund's return over time[1]
  - Further, asset allocation explains 100% of the level of returns at the policy level[2]

1 Source: Determinants of Portfolio Performance, Brinson, Hood, and Beebower, 1986 "investment policy dominates investment strategy (market timing and security selection), explaining on average 93.6 percent of the variation in total plan returns."
2 Source: Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance?, Ibbotson and Kaplan, 2000. "We found that about 90 percent of the variability in returns of a typical fund across time is explained by policy…and on average about 100 percent of the return level is explained by the policy return level."

Understanding Asset Allocation

- → Asset allocation is like cooking.
- → Putting together a great dish first involves selecting the proper ingredients
  - We must understand the characteristics of each individual ingredient and
  - We must understand how those ingredients interact with each other
- → Then we need to figure out the right amount of each ingredient to include
  - The proper combination should yield an optimal result

Determining the Right Combination of Assets

- → In cooking, we learn from history and from trial and error
  - However, learning from history is less straight forward for investors
- → In investing, it is arguably best to leave the trial and error up to peer investors
  - This is probably why most investors of a similar type (e.g., pension plans) tend to resemble each other

One Advantage Investors have is Modeling

→ The investment industry has been building mathematical models since before there were computers.

→ More data and computing power is available every day

- Models are more sophisticated and robust, but not always more accurate
- Need to distinguish between signal and noise

Modern Portfolio Theory (MPT)

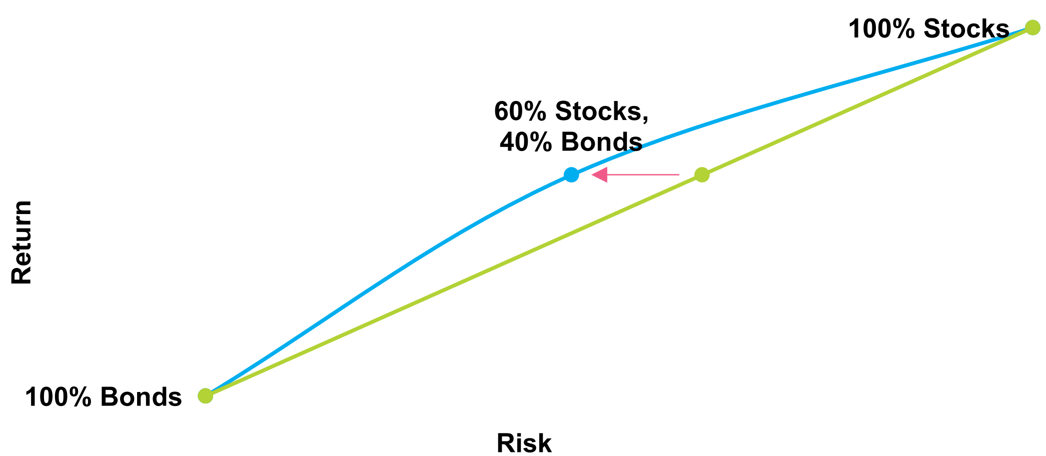
- Developed by Harry Markowitz in 1950s.
- Attempts to quantify the benefits of diversification.
  - Investments should be chosen based on the context of the entire portfolio
- The risk in a diversified portfolio will be less than the risk in a single investment
  - Why? Because assets are generally less than 100% correlated
- MPT is the basis for mean variance optimization.

Mean Variance Optimization (MVO)

- MVO is the traditional starting point for determining asset allocation.
- MVO mathematically determines an “efficient frontier” of policy portfolios with the highest risk-adjusted returns.
- All asset classes exhibit only three characteristics, which serve as inputs to the model:
  - Expected return
  - Expected volatility
  - Expected covariance with all other assets
- The model assumes:
  - Normal return distribution
  - Stable volatility and covariances over time
  - Returns are not serially correlated

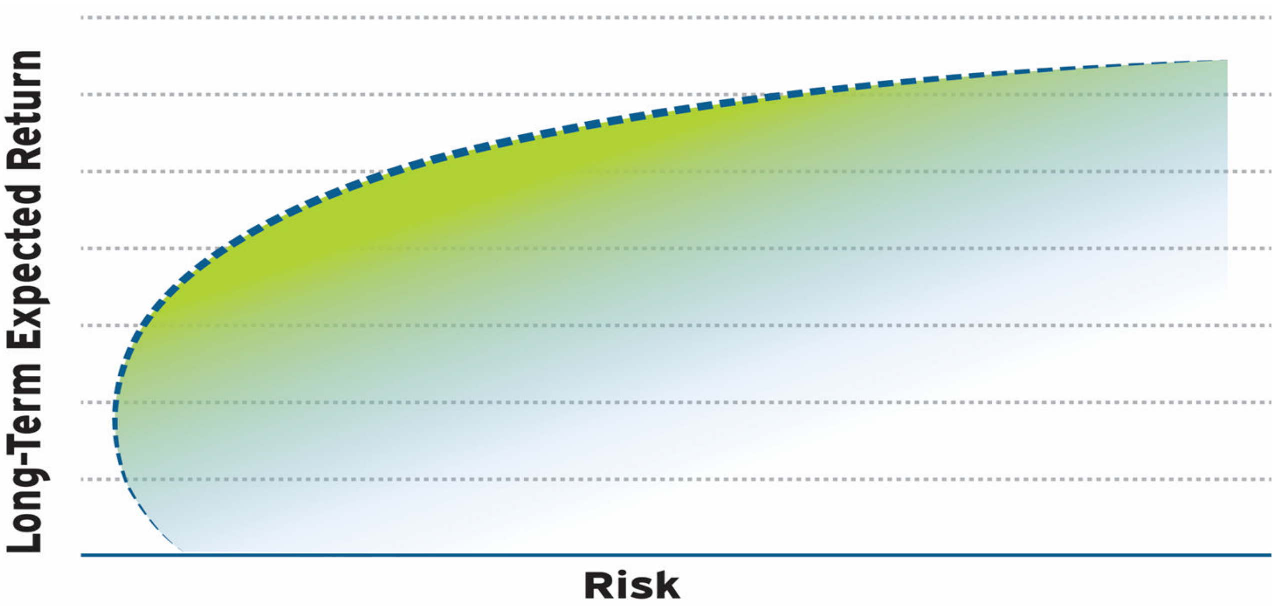
The Efficient Frontier

- Combining uncorrelated assets produces an “efficient frontier”
  - Different combinations of “optimal” portfolios will lie along this frontier
- Allows investors to create a portfolio that typically:
  - Provides a higher return for a given level of risk
  - Experiences less risk for a given level of return



The Efficient Frontier is not Perfect

- May give a false sense of precision / illusion that there is only one correct portfolio at any given risk/return level.
- Better interpreted with a gradient underneath
  - This gradient represents "near-optimal" portfolios
  - It also allows for other objectives and constraints

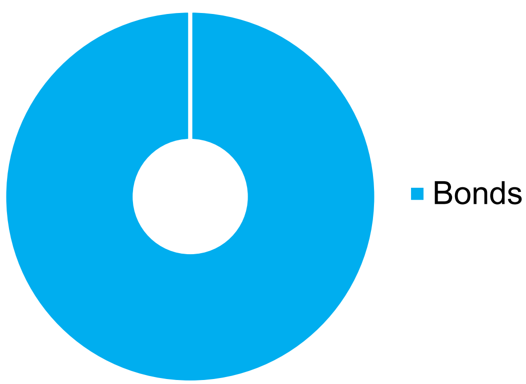


Diversification

- Primary motive for diversification is to reduce risk.
- Represents the only way to reduce risk without reducing expected returns.
- Investments should be allocated across multiple classes of assets that enhance diversification.

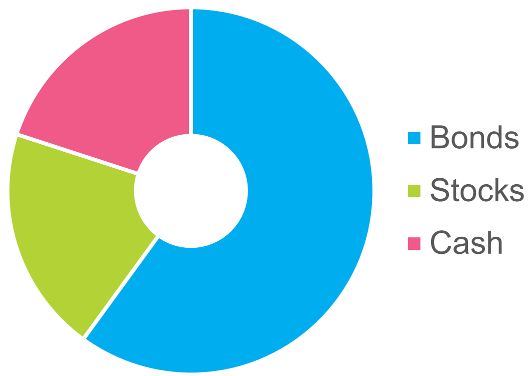
Example: Benefits of Portfolio Diversification

Bond Portfolio



Return:	3.1%
Std Dev:	5.0%

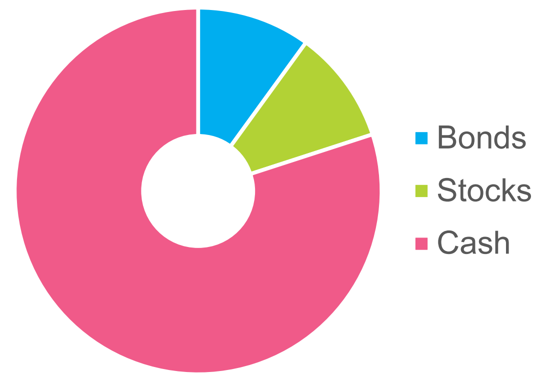
Diversified Portfolio A



Higher return, same risk

Return:	4.3%
Std Dev:	5.0%

Diversified Portfolio B



Lower risk, same return

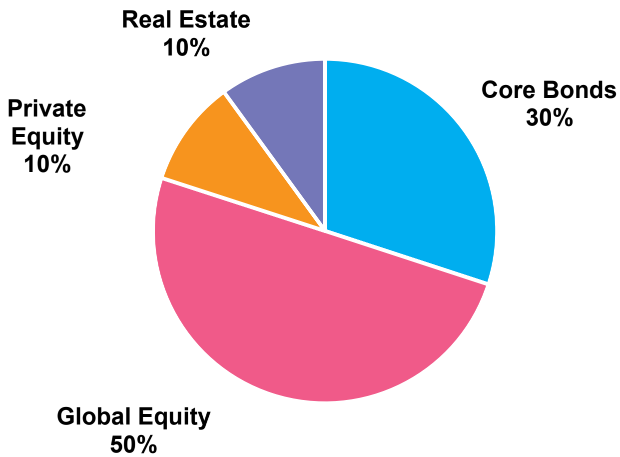
Return:	3.1%
Std Dev:	2.7%

→ By diversifying, investors have the ability to create more efficient portfolios.

Note: based on proprietary expected return, standard deviation and correlation inputs.

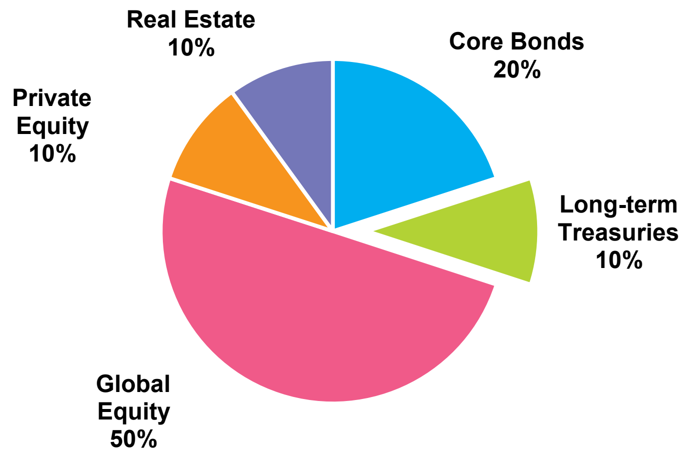
Example: the Counter-Intuitive Benefits of Adding a "Riskier" Asset

Portfolio A



Expected return = 6.54%
Standard deviation = 12.41%
Sharpe ratio = 0.39

Portfolio B



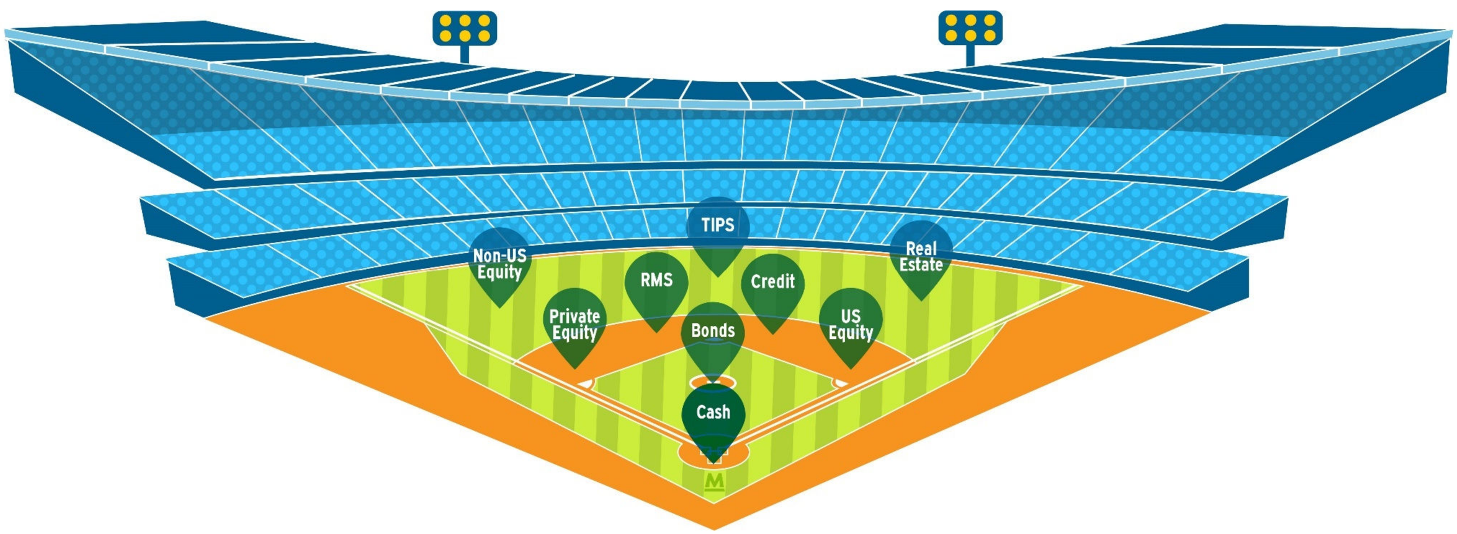
Expected return = 6.66%
Standard deviation = 12.19%
Sharpe ratio = 0.41

- On a standalone basis, long-term Treasuries are riskier than "core" bonds.
- Yet, they are generally negatively correlated with stocks.
- Hence, when we add them to a stock-dominated portfolio, overall risk decreases.

Note: based on proprietary expected return, standard deviation and correlation inputs.

Each Asset Class Should Play a Specific Role

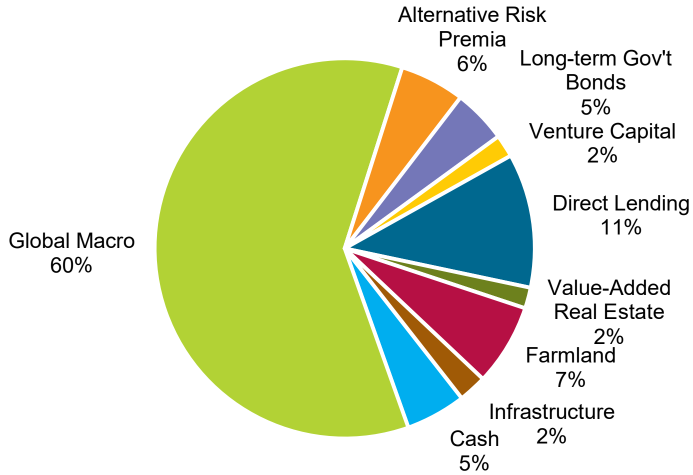
- To be a successful team, each position plays a different and important role.
- The same concept applies to portfolios: different asset classes should operate together like a well-rounded team.
- Like players on a team, some assets may have “slumps” or “hot streaks”.
- A diversified team protects the portfolio from the volatile swings of individual assets.



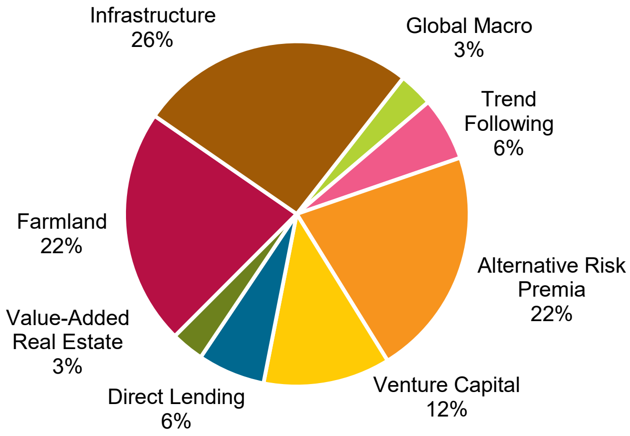
Critiques of MVO-Based Asset Allocation

- Assumptions do not closely resemble real-world observations
- Output is only as good as the inputs (a common problem with all models)
- Framework does not account for all the needs of an investor
- Implies a false level of precision

MVO Portfolio for 5% ER



MVO Portfolio for 7.5% ER



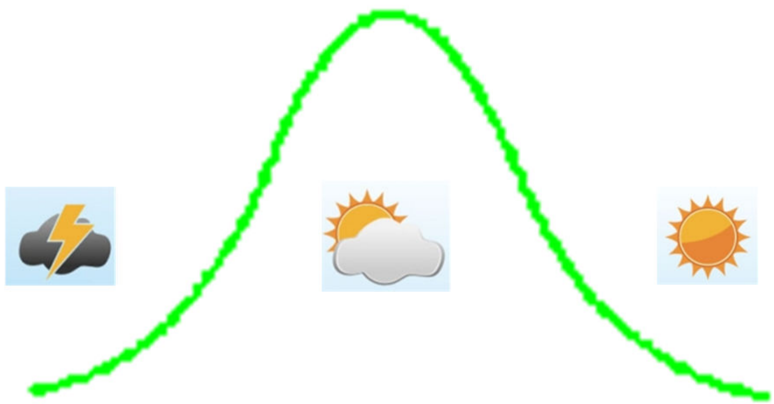
The Mosaic Approach

- The real-world risks and objectives faced by investors are complex and often conflicting
  - These cannot be summarized in a single statistic
  - Hence, we recommend using a variety of tools to build a more complete picture, or mosaic

Mean-Variance Optimization	Tracking Error vs. Peers
Risk Budgeting	Historical Scenario Analysis
Alpha Assumptions	Factor Stress Tests
Sequence of Returns Impact	Liquidity Stress Tests
Big Data Simulations	Economic Regime Analysis
High Dimension Optimization	Simulation-Based Optimization

An All-Weather Approach

- An undiversified portfolio often represents a bet, intentional or not, on very specific market conditions.
- Predicting the direction of the markets with any consistency is challenging.
  - A strong thesis about the direction of the markets can be ruined by unexpected events.
- Seek to construct a portfolio that is designed to weather all possible environments.
- This means not just structuring the portfolio for the environment you believe is most likely to occur.



The Asset Allocation Process

- The first step is to develop (or confirm) objectives and constraints:
  - Establish long-term return (and risk) objectives
  - Determine time horizon, liquidity needs, legal and regulatory constraints, etc.
- The next step is to evaluate different options that meet these objectives and constraints
  - This can/should be an iterative process
- The final step is to choose an asset allocation policy and memorialize it

Making Choices

→ Many investors select a portfolio at or above their target return

- The return target could be based on an actuarial assumed rate of return, real spending rate, etc.

→ Others might choose a risk target instead

- Pension funds, for example, might choose a risk target relative to their liabilities
- But risk, unlike return, has many different interpretations
- Therefore, it can be harder to come to agreement on such an approach

	Portfolio A (%)	Portfolio B (%)	Portfolio C (%)
Expected Return (20 year)	6.56	6.79	7.01
Standard Deviation	12.66	12.93	13.32
Probability of hitting target	46.8	50.1	53.0

Considering Trade-Offs

- Most options offer trade-offs
- There is no single right way to choose

Asset Group	Current Portfolio (%)	Portfolio X (%)	Portfolio Y (%)	Portfolio Z (%)
Rate Sensitive	16	25	16	17
Credit	11	4	10	3
Growth/Equity	53	51	51	53
Real Assets	13	13	13	27
Hedge Funds	7	7	10	0
Expected Return (20 year)	6.56	6.56	6.85	6.94
Standard Deviation	12.66	11.64	12.99	13.41
% Illiquid	28	28	40	28
20-year probability of achieving 6.5%	50.4	50.5	54.3	55.3
Tracking Error vs Peer Group	0.31	1.89	1.04	1.51
Global Financial Crisis (Oct 2007 - Mar 2009)	-28.2	-23.7	-26.6	-30.2
Stagflation (Jan 1973 - Sep 1974)	-23.3	-22.2	-21.2	-13.9
10-year Treasury Bond rates rise 300 bps	-2.5	-4.6	-3.1	-2.2

Asset Allocation Best Practices

- → Define and set explicit (preferably quantifiable) objectives
- → Conduct a risk survey
- → Review the strategic asset allocation policy targets annually
  - But make changes to it infrequently (e.g., every 3-5 years)
- → Plan for multiple meetings to discuss asset allocation
- → Set targets and ranges for each asset class
- → Set interim targets when making changes
- → Document reasons for the objectives and policy chosen and share with new members

Summary

- Asset allocation will have the greatest impact on long-term performance
- Consider assets based on how they fit within a portfolio
- Take a “mosaic” approach to understanding the risks
- Construct a portfolio that is designed to weather all possible environments
- Choose what you believe is in the best interest of your institution

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Ares Direct Lending

Presentation to Merced County Employees' Retirement Association

July 8, 2025

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PAST PERFORMANCE DOES NOT PREDICT FUTURE RETURNS.

REF: DLUS-03699

Ares Presenters

Jason Park – Partner – Los Angeles

Mr. Park is a Partner in the Ares Credit Group, where he is responsible for leading sponsor finance in the Western U.S. for Ares' U.S. Direct Lending business. Prior to joining Ares in 2008, Mr. Park was an Associate in the Leveraged Finance Origination Group and Debt Capital Markets Group of Credit Suisse, where he focused on financings for leveraged buyouts and general corporate refinancings, as well as investment grade bond transactions. Mr. Park holds a B.A. in Economics from Carleton College.

Tyler Riccio – Vice President – Los Angeles

Mr. Riccio is a Vice President in the Ares Global Client Solutions Group, where he focuses on institutional client management in North America. Prior to joining Ares in 2024, Mr. Riccio was a Product Specialist and Vice President of Business Development at Benefit Street Partners, where he managed client relationships. Previously, Mr. Riccio was an Associate in the Leveraged Finance division at Credit Suisse. Mr. Riccio holds a B.S.B.A., magna cum laude, from Elon University in Finance.

1. Ares Management Overview

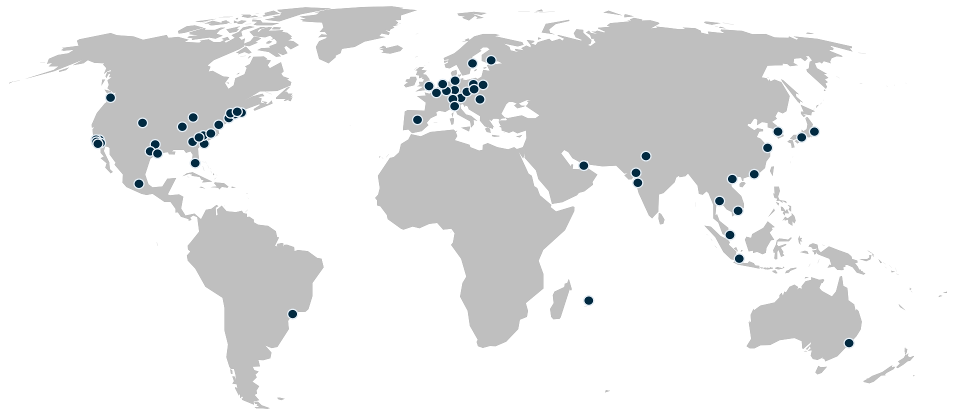
Ares Management is a Global Leader in Private Markets

» With approximately $546 billion in assets under management, Ares Management Corporation is a global alternative investment manager operating an integrated platform across five business groups

Profile

Founded	1997
AUM	$546bn
Employees	4,140+
Investment Professionals	1,640+
Global Offices	50+[1]
Direct Institutional Relationships	2,700+
Listing: NYSE – Market Capitalization	$55.1bn[2]

Global Footprint[3]



The Ares Differentiators

Power of a broad and scaled platform enhancing investment capabilities

Deep management team with integrated and collaborative approach

20+ year track record of attractive risk adjusted returns through market cycles[6]

A pioneer and leader in leveraged finance, private credit and secondaries

	Credit	Real Assets	Private Equity	Secondaries	Other Businesses
AUM	$359.1bn	$124.2bn	$24.7bn	$31.3bn	$6.6bn
Strategies	Direct Lending	Real Estate Equity	Corporate Private Equity	Private Equity Secondaries	Ares Insurance Solutions[4]
	Liquid Credit	Real Estate Debt	APAC Private Equity	Real Estate Secondaries	Ares Acquisition Corporation[5]
	Alternative Credit	Digital Infrastructure		Infrastructure Secondaries	
	Opportunistic Credit	Infrastructure Opportunities		Credit Secondaries	
	APAC Credit	Infrastructure Debt			

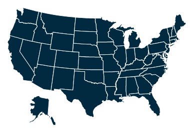
Note: As of March 31, 2025. AUM amounts include funds managed by Ivy Hill Asset Management, L.P., a wholly owned portfolio company of Ares Capital Corporation and registered investment adviser. Past performance is not indicative of future results. Figures shown on an as combined basis for the closing of the acquisition of GCP International. Totals may not foot due to rounding.

1. Only counts one location per metro area. Includes only offices that Ares has leased or acquired. Does not include legacy GCP International locations where Ares is not acquiring the leases.
2. As of June 25, 2025.
3. New Delhi office is operated by a third party with whom Ares Asia maintains an ongoing relationship relating to the sourcing, acquisition and/or management of investments.
4. AUM managed by Ares Insurance Solutions excludes assets which are sub-advised by other Ares' investment groups or invested in Ares funds and investment vehicles.
5. AUM includes Ares Acquisition Corporation II ("AACT").
6. Risk adjusted returns do not guarantee against loss of capital.

ARES

An Established Global Direct Lending Platform

» We believe we are the largest and best positioned direct lender globally

	The Development of Ares' Direct Lending Platform			Ares Global Direct Lending Today
Founded	2004	2007	2009	
Region	U.S. 	Europe 	Asia-Pacific 	
AUM[1]	$165 bn	$77 bn	$11 bn	$254 bn
Investment Professionals / Offices[2]	233 / 9	91 / 6	67 / 11	391 / 26
Net Invested Capital Since Inception[3]	$176 bn	€73 bn	$14 bn	$265 bn
LTM Committed Capital[4]	$50 bn	$12 bn	$1 bn	$63 bn
Investments Since Inception[5]	2,390+	385+	280+	3,060+

Note: As of March 31, 2025, unless otherwise stated.
Please refer to Endnotes for additional important information.

ARES

Large and Cycle-Demonstrated U.S. Direct Lending Team

Ares has a deep bench of experienced investment professionals across 9 offices

233	104	~10 years	28+ years
Investment Professionals	Senior Investment Professionals	Avg. Tenure Among Senior Team	Avg. Experience of IC

U. S. Direct Lending Investment Committee

Mark Affolter Partner 36 years	Ryan Brauns Partner 28 Years	Kipp deVeer Partner 30 Years	Michael Dieber Partner 39 Years	Mitch Goldstein Partner 31 Years	Neil Laws Partner 20 Years	Mark Liggitt Partner 27 Years	Jim Miller Partner 26 years	Jason Park Partner 22 Years	Kort Schnabel Partner 27 Years	Michael Smith Partner 30 Years	Mike Zugay Partner 24 Years

New York

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Kara Herskowitz Partner	Spencer Ivey Partner	Jana Markowicz Partner	Scott Rosen Partner
Craig Shirey Partner	Patrick Trears Partner	Chris York Partner	Aashish Dhakad Managing Director
Daniel DiBona Managing Director	Dan Dirscherl Managing Director	Brooke Epstein Managing Director	Joan Fang Managing Director
Bruce Hodges Managing Director	Joseph Koerwer Managing Director	Arjun Misra Managing Director	Adam Schatzow Managing Director
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Thomas Vosbeek Vice President	Christina Zajkowski Vice President	James Zhao Vice President	+36 Associates and Analysts

Boston / Atlanta / Dallas / Miami / London

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Kyle Lind Principal	Ardeshir Sorabjee Principal	Patrick Souki Principal	JP Kril Vice President
Patrick Sallet Vice President	+4 Associates and Analysts		

10+ years with the firm

5+ years with the firm

Less than 5 years with the firm

ESG Champions

Non-Sponsored / Industry Focused

Los Angeles

Douglas Dieter Partner	Brian Kim Partner
Tara Arens Managing Director	Vishal Gandhi Managing Director
James Granello Managing Director	Matt Stoner Managing Director
Hiren Bahal Principal	John Clark Principal
Kris Talgo Principal	William Bendarghate Vice President
Julia Brady Vice President	Brett Candland Vice President
Daniel Cohen Vice President	Kalan Patel Vice President
Katherine Rendleman Vice President	Stephen Yu Vice President
+13 Associates and Analysts	

Tarrytown - Ares Commercial Finance

Ryan Cascade Partner	Mitch Drucker Partner
Ryan Magee Partner	Arthur Boyle Managing Director
Joe Ciciola Managing Director	Susan George Managing Director
Kristen Holihan Managing Director	Brock Johnson Managing Director
Sridharan Kannan Managing Director	Richard Lee Managing Director
Ian Maccubbin Managing Director	Nicholas McDearis Managing Director
Hector Molina Managing Director	Gina Ogburn Managing Director
Daniel Reilly Managing Director	Bryan Rozum Managing Director
Victor Verazain Managing Director	Brian Hickey Principal
Tim Sardinia Principal	Faisal Tarazi Principal
Michael White Principal	+8 Associates and Analysts

Various Locations

Portfolio Management

Adam Ferrarini Partner	Daniel Katz Partner
Phil LeRoy Partner	Stephen Chehi Managing Director
Andrew Hua Managing Director	Joe Urciuoli Managing Director
Zlatan Bojadzic Principal	Anthony Galli Principal
Abner Kwon Principal	Chelsea Brophy Vice President
Varun Gupta Vice President	Arianna Kahn Vice President
Daniel LaWare Vice President	Maeve Manley Vice President
Nate Simon Vice President	Andrew Wood Vice President
+30 Associates and Analysts	

Chicago

Rajiv Chudgar Partner	Brian Moncrief Partner
Andrew Kenzie Managing Director	Amy Klemme Managing Director
Robert Brown Principal	Brendan Moran Vice President
Michael Murri Vice President	George Short Vice President
+9 Associates and Analysts	

Ivy Hill Asset Management – New York

Shelly Cleary Partner & President	Steven Alexander Partner
Stephanie Setyadi Partner	Jon Blum Managing Director
Joseph Ehardt Managing Director	Adam James Managing Director
Avi Ahuja Principal	Michael Bedore Principal
Ryan Rattay Vice President	+5 Associates

Note: As of March 31, 2025.

2. Evolution of Private Credit Landscape

Evolution of the U.S. Banking System and Private Credit

Historically, banks were meaningful underwriters and lenders to middle market companies; however, their presence in the market has significantly diminished over the years due to a variety of factors

Bank consolidation coupled with stringent banking regulations have significantly curtailed bank underwriting

Pre-Crisis
1989-2007

- **Consolidation wave** - large banks acquire smaller banks
- **Diminishing lending capabilities** of mid-market banking platforms
- **Rise of non-bank lenders** and institutional investors

Credit Crisis and Fallout
2008-2012

- Regulators increase **capital and risk standards**
- **Banks refocus** towards lower risk lending
- Growing borrower **acceptance of non-bank lenders**

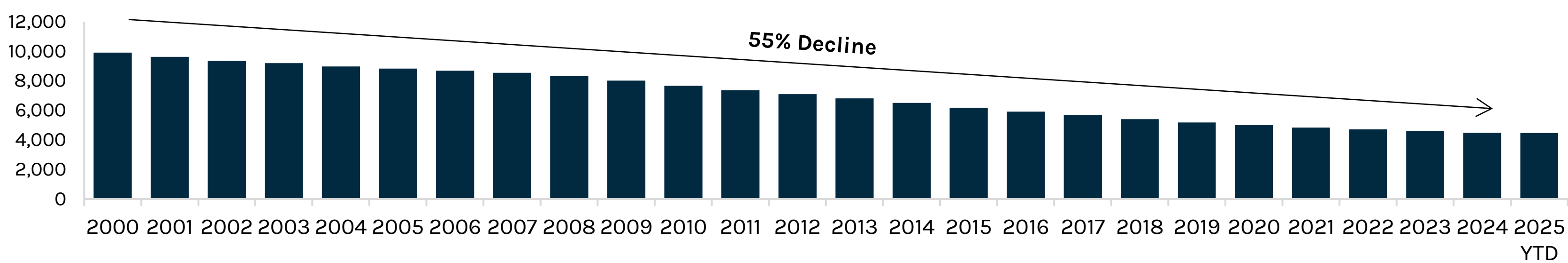
Bank Regulation and Private Credit Acceptance
2013+

- **Growing demand from borrowers** underserved by current banking system
- Global **demand from high net worth and institutional** investors supported by low global interest rates
- Opportunity for absolute returns in **pursuit of yield**

Increased Role of Private Credit
Present Day

- **Growth in private equity drives growth in private credit**
- Private credit has become a **stable source of capital** for small, medium and large cap companies

Total Number of U.S. Banks[1]



Note: For illustrative purposes only. Based on Ares' observations of the current market. There are no guarantees that these current market trends will continue.
1. Federal Deposit Insurance Corporation (FDIC), "Statistics at a Glance: Latest Industry Trends." As of March 31, 2025.

ARES

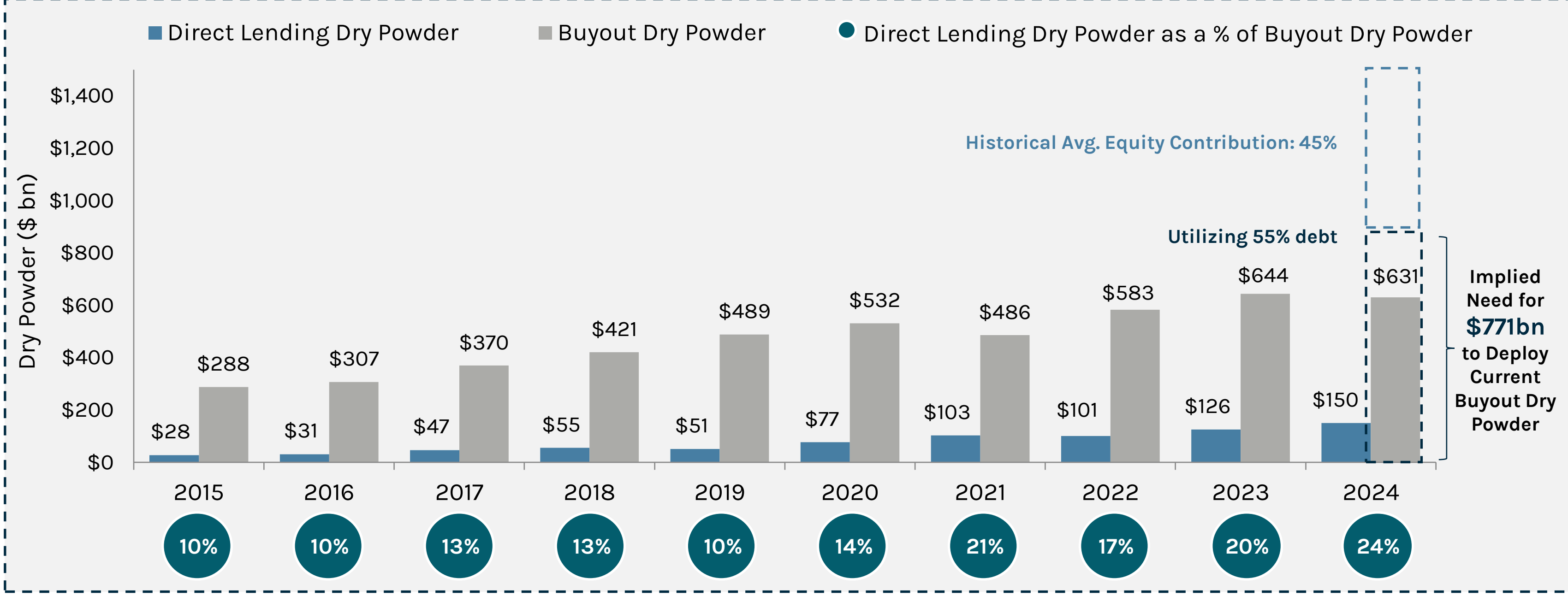
Private Equity Dry Powder Supports Continued Demand Outlook

» There is an increased reliance on direct lending to support the continued growth of private equity

North American focused direct lending dry powder is currently **$150 billion**, which represents **24% of North American focused buyout dry powder**

As private equity is **increasingly reliant on direct lending**, we believe that scaled managers will continue to fill the void and provide private financing solutions to meet private equity's financing needs

North America Focused Dry Powder – Direct Lending and Buyout

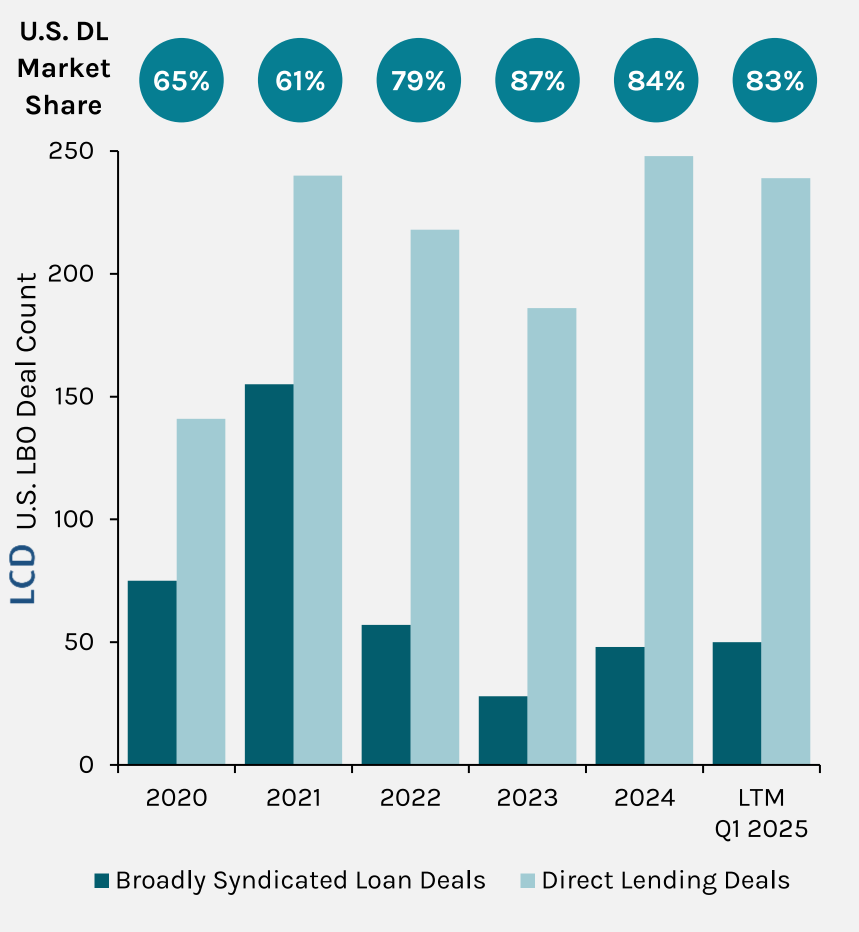


Note: For illustrative purposes only.
Source: Preqin. As of December 2024. Based on Ares' observations of the current market. All investments involve risk, including the loss of principal. There are no guarantees these market trends will continue.

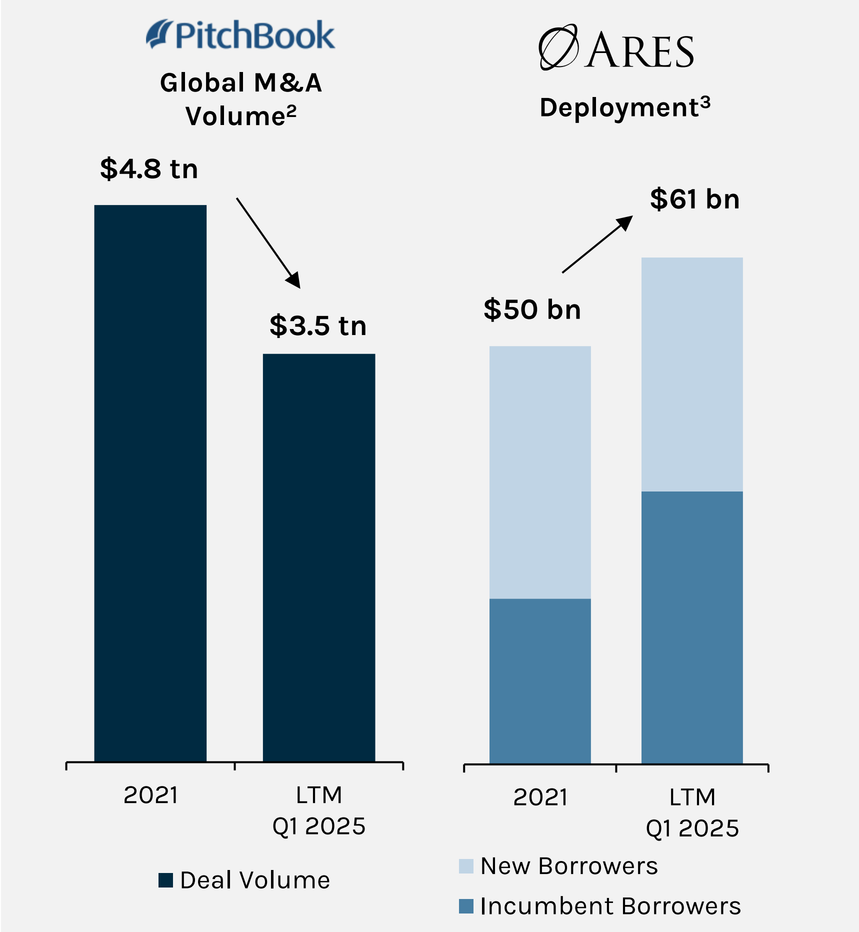
ARES

Direct Lending Deployment Remains Resilient Through Changing Market Conditions

Direct Lenders Continue to Gain Market Share[1]



Ares Global Direct Lending Growth Despite Decline in Global M&A Volumes



As of March 31, 2025. For illustrative purposes only. **All trademarks, service marks, logos, and brand names mentioned or displayed herein are the property of their respective owners. The use of these trademarks is solely for informational purposes and does not imply any affiliation with or endorsement by the trademark owners. Please refer to detailed Endnotes for additional important information.**

3. Direct Lending Considerations

Direct Origination Allows For Optimal Asset Selectivity

Vast Sponsor Coverage Across the Market

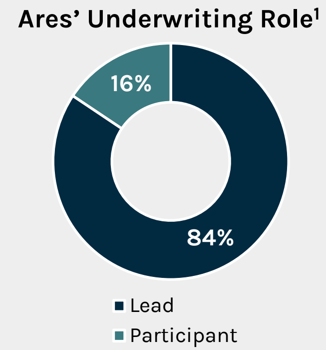
~575+
Sponsor Relationships

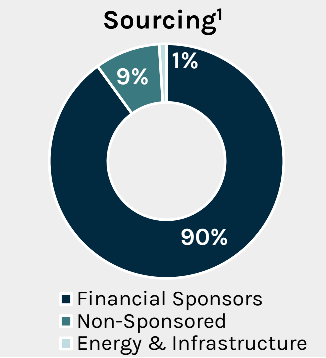
~488
Distinct Sponsors Transacted With*

326+
New Sponsor Relationships Since 2018

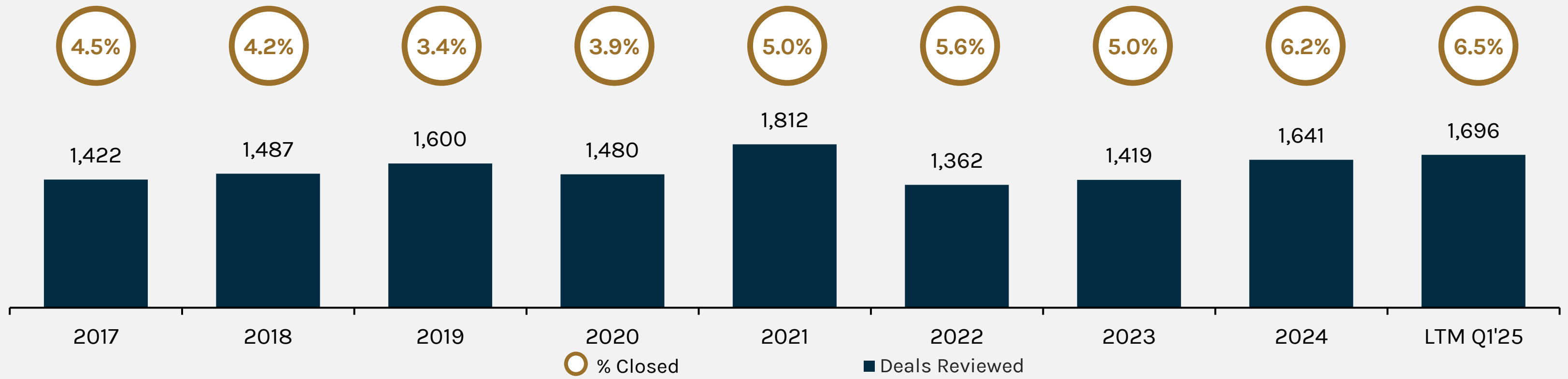
~12%
15-year CAGR of Distinct Sponsors Transacted With*

Focus on Lead Investments with Quality Sponsors





Ares U.S. Direct Lending Closing Conversion Rates[2]



High degree of selectivity, with an average ~4.8% closing rate from 2017 – 2024

Ares USDL is typically processing 200 to 300 deals at various stages of due diligence and review

Note: All data is as of March 31, 2025, unless otherwise indicated. *Data as of December 31, 2024.
Please refer to Endnotes for additional important information.

Incumbency Drives Consistent Origination

Incumbency has provided a consistent pipeline of differentiated deployment opportunities across market cycles

U.S. Direct Lending Incumbency Highlights

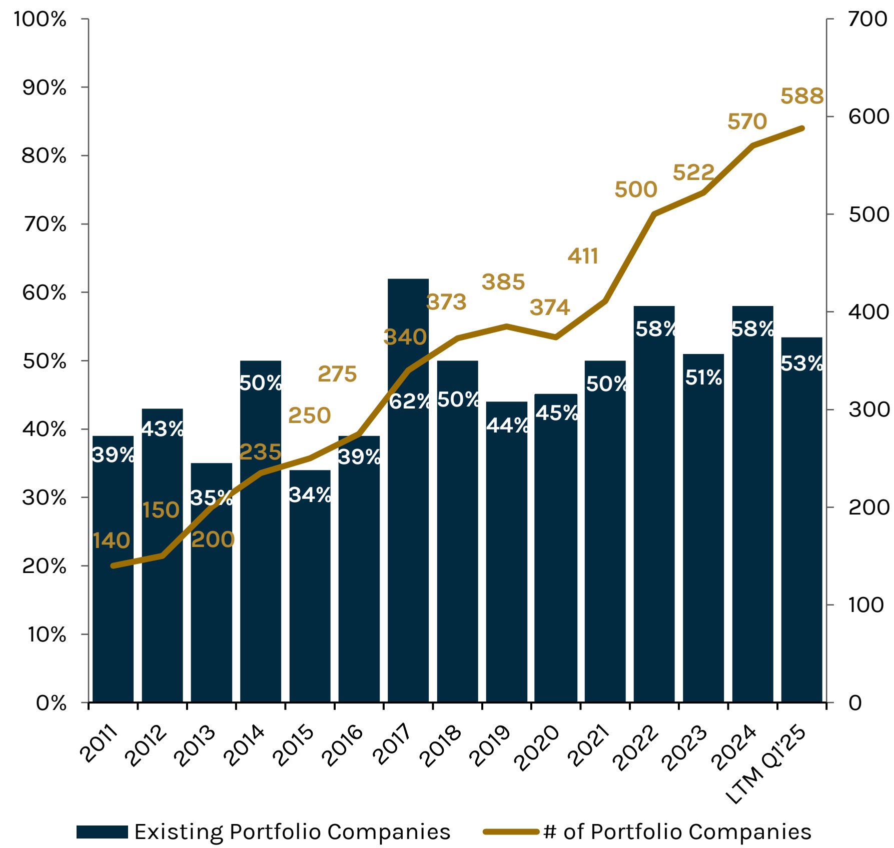
53%+
Deal Flow From Incumbent Borrowers

588
Existing Portfolio Companies

1,063+
Portfolio Companies Since Inception[1]

- **First look** at follow-on financings, often with original terms
- **Information resourcing** from access to management and reporting
- **Potential for growth** with performing companies
- **Aids in selectivity** to sustain high quality deployment
- **Last look** to review deals before the borrower moves forward

Commitments to Existing Portfolio Companies[1]



Over the last 5 years, approximately 54% of U.S Direct Lending deployment has been to existing portfolio companies

As of March 31, 2025. **Please refer to Endnotes for additional important Information.**

Full Coverage of the Market is Critical

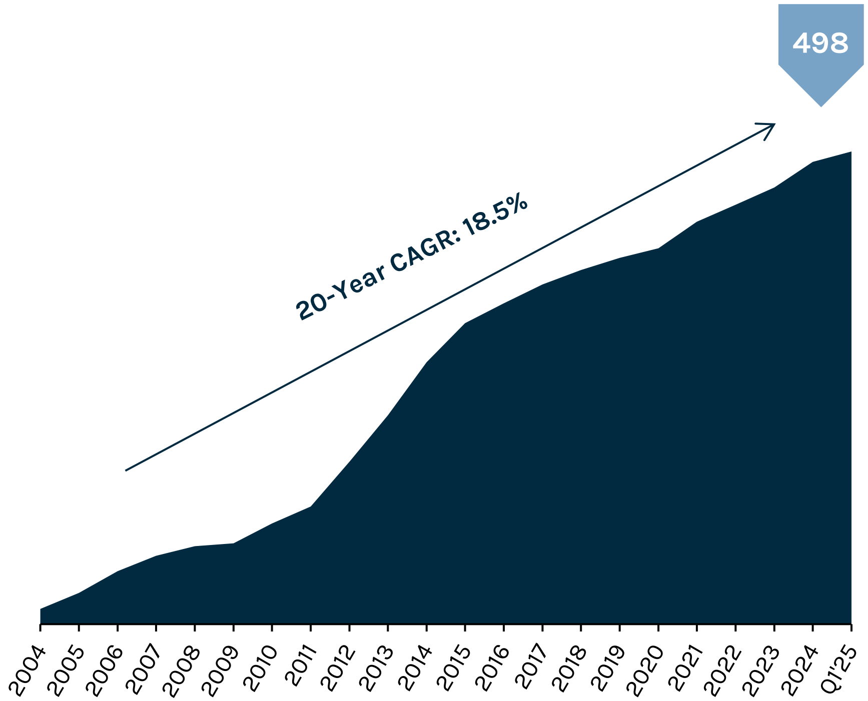
~580
USDL Sponsor Relationships[1]

233
Investment Professionals

42
Professionals Dedicated to Non-Sponsored and Industry Verticals

Growth in Sponsor Coverage

Cumulative Distinct Sponsors Transacted With



Growth in Proprietary Deal Flow Through Non-Sponsored and Industry Verticals

Specialization allows us to see proprietary deal flow that often comes with more attractive terms

+127% Increase in **Specialty Healthcare** deals reviewed since 2018[2]

+175% Increase in **Sports, Media & Entertainment** deals reviewed since 2018[2]

The percentage of non-sponsored deals reviewed has also increased

24% Percentage of Non-Sponsored Deals Reviewed in 2024

As of March 31, 2025. **Please refer to Endnotes for additional important Information.**

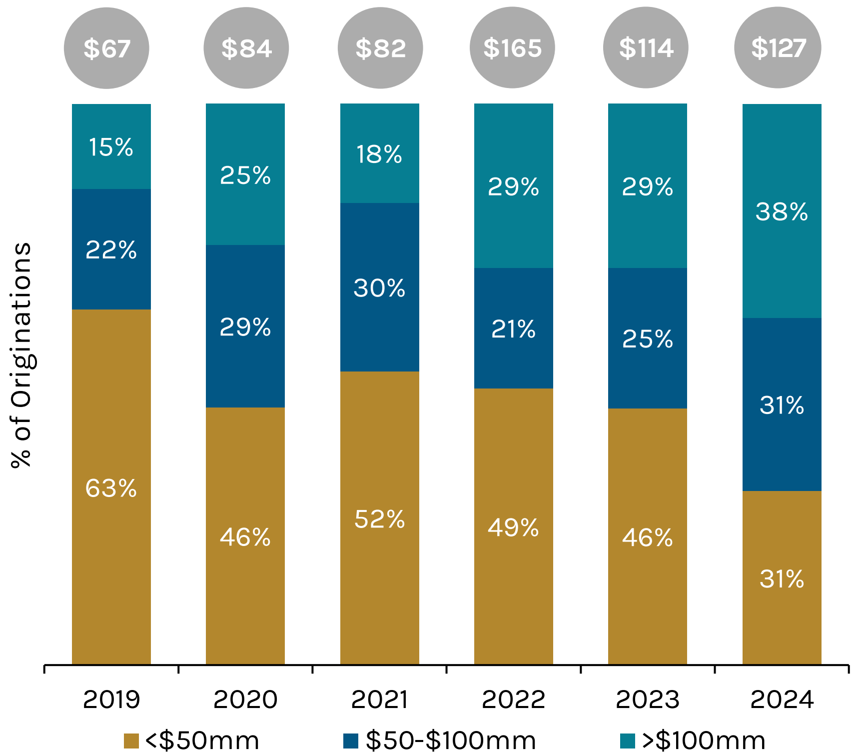
Growing Addressable Market Across the Company Size Spectrum

- Flexibility to invest across different sized borrowers allows us to pivot based on where we are seeing attractive risk-adjusted return opportunities

Ares U.S. Senior Direct Lending Originations by Company Size[1]

% of New Originations by EBITDA

$49 Billion of 2024 Gross Originations[2]



Average EBITDA for Senior Originations[4]

5-Year Average Deployment by EBITDA

Ares is largely focused on the core middle-market

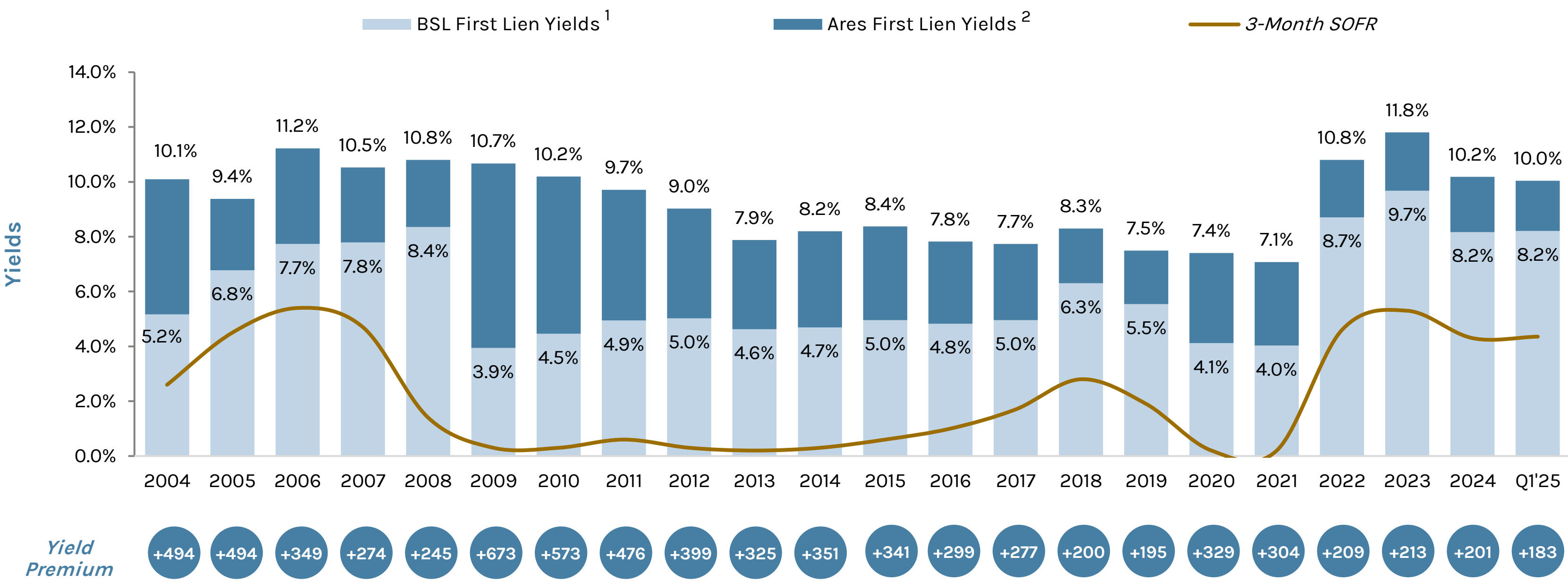
ARES	EBITDA Range[3] <$50mm	$50-$100mm	>$100mm
Originations	29%	28%	43%
Spread	5.99%	5.91%	5.55%
Leverage	5.20x	5.34x	5.66x

As of December 31, 2024, unless otherwise stated. **Please refer to Endnotes for additional important Information.**

ARES

Yield Premium Sustained Across Various Market Environments

Ares Senior Debt vs. Broadly Syndicated Market



Senior Defaults and Losses*

(As of Q4'24)	ARES	BSL First Lien
Average Annual Defaults	**0.14%[3]**	2.48%[5]
Average Annual Realized Losses	**(0.01%)[4]**	(1.11%)[5]

We believe our investments offer attractive relative value in this interest rate environment and have historically provided a yield premium to the broadly syndicated and high yield markets

Note: For illustrative purposes only. As of March 31, 2025, unless noted otherwise. For illustrative purposes only. *As of December 31, 2024. Portfolio yields are representative of a gross portfolio at each data point in time and do not represent a return to investors. BSL First Lien Current Yields represented by the S&P UBS Leveraged Loan Index ("S&P UBS LLI") and HY Bond Current Yield represented by the ICE BofA US High Yield Constrained Index ("HUC0"). Effective December 2, 2024, the benchmark was rebranded from Credit Suisse Leveraged Loan Index ("CSLLI") to S&P UBS Leveraged Loan Index ("S&P UBS LLI"). Ares yields are calculated without the deduction of fees and expenses.
Please refer to Endnotes for additional important information.

Endnotes

Index Definitions and Disclosure

- **The S&P UBS Institutional Leveraged Loan Index ("S&P UBS LLI")** is designed to mirror the investable universe of the $US-denominated leveraged loan market. The index inception is January 1992. The index is priced daily and rebalanced monthly. New loans are added to the index on their effective date if they qualify according to the following criteria: 1) Loan facilities must be rated "5B" or lower. That is, the highest Moody's/S&P ratings are Baa1/BB+ or Ba1/BBB+. If unrated, the initial spread level must be Libor plus 125 basis points or higher. 2) Only fully-funded term loan facilities are included. 3) The tenor must be at least one year. 4) Issuers must be domiciled in developed countries; issuers from developing countries are excluded. Effective December 2, 2024, the benchmark was rebranded from Credit Suisse Leveraged Loan Index to S&P UBS Leveraged Loan Index.
- **The ICE BofA US High Yield Master II Constrained Index ("HUC0") ICE BofA US High Yield Master II Constrained Index ("HUC0")** The index is priced daily and rebalanced monthly. The returns of the benchmark are provided to represent the investment environment existing during the time period shown. For comparison purposes the index includes the reinvestment of income and other earnings but does not include any transaction costs, management fees or other costs. ICE BANK OF AMERICA IS LICENSING THE ICE BofA INDICES AND RELATED DATA "AS IS," MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE ICE BofA INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THEIR USE, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND ARES MANAGEMENT, OR ANY OF ITS PRODUCTS OR SERVICES.
- **The S&P 500 Index** is a stock market index tracking the stock performance of 500 large companies listed on stock exchanges in the United States.
- **The VIX Index** is the Chicago Board Options Exchange's CBOE Volatility Index, a measure of the stock market's expectation of volatility based on S&P 500 index options.
- **The Morningstar LSTA US Leveraged Loan Index** is a market-value weighted index designed to measure the performance of the US leveraged loan market. The index inception is December 1996. The index was calculated on a monthly basis from December 31, 1996 to December 31, 1998. From January 1, 1999 until March 30, 2007 it was calculated on a weekly basis. From April 1, 2007 onwards it has been calculated daily. New loans are added to the index on their effective date if they qualify according to the following criteria: 1) Loan facilities must senior secured. 2) Have a minimum initial spread of Base Rate + 125 bps. 3) The tenure must be at least one year. 4) Minimum initial issue size must be $50.0 million.

Indices are provided for illustrative purposes only and not indicative of any investment. They have not been selected to represent appropriate benchmarks or targets for the strategy. Rather, the indices shown are provided solely to illustrate the performance of well-known and widely recognized indices. Any comparisons herein of the investment performance of a strategy to an index are qualified as follows: (i) the volatility of such index will likely be materially different from that of the strategy; (ii) such index will, in many cases, employ different investment guidelines and criteria than the strategy and, therefore, holdings in such strategy will differ significantly from holdings of the securities that comprise such index and such strategy may invest in different asset classes altogether from the illustrative index, which may materially impact the performance of the strategy relative to the index; and (iii) the performance of such index is disclosed solely to allow for comparison on the referenced strategy's performance to that of a well-known index. Comparisons to indices have limitations because indices have risk profiles, volatility, asset composition and other material characteristics that will differ from the strategy. The indices do not reflect the deduction of fees or expenses. You cannot invest directly in an index. No representation is being made as to the risk profile of any benchmark or index relative to the risk profile of the strategy presented herein. There can be no assurance that the future performance of any specific investment, investment strategy, or product will be profitable, equal any corresponding indicated historical performance, or be suitable for a portfolio.

Endnotes

<u>"An Established Global Direct Lending Platform"</u>

1. As of March 31, 2025. U.S. Direct Lending AUM amounts include ARCC, Senior Direct Lending Program ("SDLP"), private commingled funds, separately managed accounts, and funds managed by Ivy Hill Asset Management, L.P., a wholly owned portfolio company of Ares Capital Corporation and a registered investment adviser. There is no assurance that anticipated transactions will occur as expected or at all. Ares EDL AUM is defined as all unrealized investments made by the Ares European Direct Lending Team in its commingled funds (ACE I, ACE II, ACE III, ACE IV, ACE V and ACE VI) since inception in July 2007, including all Separately Managed Accounts ("SMAs") managed within the European Direct Lending strategy.
2. Offices as of March 31, 2025. New Delhi office is operated by a third party with whom Ares Asia maintains an ongoing relationship relating to the sourcing, acquisition and/or management of investments.
3. As of December 31, 2024. Includes Ares Asia Special Situations funds, Secured Lending funds and Australia/NZ Unitranche fund. U.S. invested capital includes capital deployed by ARCC, the Senior Direct Lending Program ("SLDP"), funds and SMAs. For investments made through the SSLP and the SDLP, invested capital represents the total facility amount funded by the SDLP. Excludes capital deployed by Ares Commercial Finance and Ivy Hill Asset Management. Excludes $1.8 billion of assets acquired as part of ARCC's acquisition of Allied Capital Corporation on April 1, 2010. Excludes $2.5 billion of assets acquired as part of ARCC's acquisition of American Capital on January 3, 2017. Invested capital represents the book value of investments net of OID and syndications within one year of investment closing and excludes warrants, CLO investments, LP/vehicles and investments inherited from portfolio acquisitions.
4. As of March 31, 2025. Gross committed investments.
5. U.S. Direct Lending data is as of December 31, 2024 and includes First Lien investments (excluding syndication and other fees or income and includes all realized First Lien investments of the Credit Group's U.S. direct lending team (excluding venture investments, oil & gas investments, private asset backed securities, investments warehoused or held for seasoning and syndication purposes (including investments held for less than 30 days and other investments determined to be temporarily held by Ares in conjunction with syndication processes),and investments inherited from portfolio acquisitions), including investments made through Ares Capital Corporation and from separately managed accounts and other funds)) and U.S. Direct Lending Junior Debt investments (includes all second lien, mezzanine, and other private high yield debt investments of the Credit Group's U.S. direct lending team (excluding warrants and investments held for less than 30 days and investments inherited from portfolio acquisitions)), including more than 90% from Ares Capital Corporation and the remaining from separately managed accounts and other funds. EDL transactions as of December 31, 2024 and exclude the Barclays portfolio purchase. Ares Asia transactions is as of December 31, 2024 and includes Ares Asia Special Situations funds and Secured Lending funds. U.S. invested capital includes capital deployed by ARCC, the Senior Direct Lending Program.

<u>"Direct Lending Deployment Remains Resilient Through Changing Market Conditions"</u>

1. Pitchbook Leveraged Commentary & Data as of March 31, 2025.
2. Pitchbook Global M&A Report as of March 31, 2025. Represents Global M&A volume.
3. As of March 31, 2025. Includes capital deployed by ARCC, the Senior Secured Loan Program ("SSLP"), the Senior Direct Lending Program ("SDLP"), Ares Asia Direct Lending strategies, commingled funds (SDL I, SDL II, SDL III, PCS I, PCS II, ACE I, ACE II, ACE III, ACE IV, ACE V, ACE VI, ADL I) and all SMAs on the platform.

<u>"Direct Origination Allows For Optimal Asset Selectivity"</u>

1. Calculated based on the cost basis of Ares U.S. Direct Lending's portfolio as of March 31, 2025 excluding equity-only investments and legacy investments from portfolio acquisitions.
2. Calculation based on Ares U.S. Direct Lending's reviewed and closed transactions with new portfolio companies (excludes any additional investments in existing portfolio companies) in each calendar year excluding equity-only investments and legacy investments from portfolio acquisitions. As of March 31, 2025.

<u>"Incumbency Drives Consistent Origination"</u>

1. As of March 31, 2025. Represents the entire Ares U.S. Direct Lending portfolio, including ARCC, ARCC's investments in the SSLP subordinated certificates, of which the SSLP then made an investment in a new or existing borrower of the SSLP, respectively, all SMAs, CADEX, and Commingled Funds (SDL I, SDL II, APCS I, APCS II, ACF, ASME). Excludes investments acquired in the Annaly acquisition. Excludes investments acquired in the Allied acquisition. Excludes Ivy Hill Asset Management investments.

Endnotes

"Full Coverage of the Market is Critical"

1. As of December 31, 2024.
2. Based on count of deals reviewed in FY 2018 and FY 2024 across the US Direct Lending platform.

"Growing Addressable Market Across the Company Size Spectrum"

1. Represents count of U.S. Senior Loan investments in each respective year. Includes first lien term loans in ARCC, the Senior Secured Loan Program ("SSLP"), the Senior Direct Lending Program ("SDLP"), commingled funds (SDL I, SDL II) and SMAs on the platform. For Europe, represents count of investments in each respective year for the Ares European Direct Lending Strategy, including commingled funds (ACE III, ACE IV, ACE V and ACE VI) as well as separately managed accounts. Certain financial information provided by portfolio companies is derived from available portfolio company data, has not been independently verified and may reflect normalized or adjusted amounts.
2. Average EBITDA of senior loan originations for each respective year. Includes first lien term loans in ARCC, the Senior Secured Loan Program ("SSLP"), the Senior Direct Lending Program ("SDLP"), commingled funds (SDL I, SDL II) and SMAs on the platform. For Europe, simple average EBITDA shown. Certain financial information provided by portfolio companies has not been independently verified and may reflect normalized or adjusted amounts. Accordingly, no representation or warranty is made in respect of the information.

"Yield Premium Sustained Across Various Market Environments"

1. Reflects annual current yield of first lien assets in the S&P UBS Leveraged Loan Index. The S&P UBS Leveraged Loan Index may differ from the Ares first lien strategy by having a higher proportion of CCC or lower rated loans, larger loan facilities, cyclical sectors, USD-only global denominated leveraged loans, and publicly traded loans. The Ares strategy primarily holds private assets with no immediate market, and may benefit from an illiquidity premium and higher upfront fees compared to the index. Effective December 2, 2024, the Credit Suisse Leveraged Loan Index ("CSLLI") benchmark was rebranded from Credit Suisse Leveraged Loan Index to S&P UBS Leveraged Loan Index ("S&P UBS LLI").
2. Includes all unrealized first lien investments at each data point in time of the Credit Group's U.S. direct lending team (excluding venture investments, oil & gas investments, private asset backed securities, investments warehoused or held for seasoning or syndication purposes (including investments held for less than 30 days and other investments determined to be temporarily held by Ares in conjunction with syndication processes), and investments inherited from portfolio acquisitions), including investments made through Ares Capital Corporation (NASDAQ: ARCC) and from separately managed accounts and other funds. Yield reflects the weighted average yield on debt and other income producing securities and is computed as (a) annual stated interest rate of yield earned plus the net annual amortization of original issue discount and market discount of premium earned on accruing debt and other income producing securities, divided by (b) total accruing debt and other income producing securities at fair value.
3. Represents Ares U.S. Direct Lending Senior Debt average annual defaults rates from inception in October 8, 2004 through to December 31, 2024. The default rate shown has been compiled by Ares. Represents the annualized defaulted invested capital as a percentage of total invested capital since inception.
4. Represents Ares U.S. Direct Lending Senior Debt average loss rate from inception in October 8, 2004 through to December 31, 2024. The loss rate shown and has been compiled by Ares. Defined as total gains/(losses) on assets with a payment default as a % of total invested capital since inception, divided by number of years since inception. For realized investments, includes interest, fees, principal proceeds, and related expenses. An investment that has experienced a payment default is placed on Non-Accrual status by Accounting; however, prior to placing a loan on Non-Accrual status, Ares U.S. Direct Lending may elect to grant a waiver or amendment related to such default and, in such case, the investment would not be placed on Non-Accrual.
5. Represents the average default rate from October 8, 2004 through December 31, 2024. Source for First Lien is S&P UBS Leveraged Loan Index ("S&P UBS LLI") as of December 31, 2024.

Endnotes

"Yield Premium Sustained Across Various Market Environments (cont.)"

5. Represents Ares U.S. Direct Lending Senior and Junior Debt average annual defaults rates from inception in October 8, 2004 through to December 31, 2024. The default rate shown has been compiled by Ares. Represents the annualized defaulted invested capital as a percentage of total invested capital since inception.
6. Represents Ares U.S. Direct Lending Senior and Junior Debt average loss rate from inception in October 8, 2004 through to December 31, 2024. The loss rate shown and has been compiled by Ares. Defined as total gains/(losses) on assets with a payment default as a % of total invested capital since inception, divided by number of years since inception. For realized investments, includes interest, fees, principal proceeds, and related expenses. An investment that has experienced a payment default is placed on Non-Accrual status by Accounting; however, prior to placing a loan on Non-Accrual status, Ares U.S. Direct Lending may elect to grant a waiver or amendment related to such default and, in such case, the investment would not be placed on Non-Accrual.
7. Represents the average default rate from October 8, 2004 through December 31, 2024. Source for First Lien is S&P UBS Leveraged Loan Index ("S&P UBS LLI") as of December 31, 2024. Source for High Yield Bond Data is the ICE BofA US High Yield Master II Constrained Index ("HUC0") as of December 31, 2024.