BLUE OWL

ON THE HOOT

# Direct Lending: Built for All Seasons

Our all-weather approach to portfolio construction

DECEMBER 2025

# Executive Summary

If the past five years have taught us anything, it is that investors should expect the unexpected – near-zero interest rates and the highest rate environment experienced in almost 20 years, geopolitical escalations, and even a global pandemic. Volatility and uncertainty have been constant companions for investors, making it critical to construct portfolios that can perform well through various environments.

We believe direct lending remains a compelling asset class for many portfolios, particularly in volatile markets. Its defining characteristics — returns generally driven by current income and moderate loan-to-value (LTV) ratios — aim to provide meaningful downside protection and portfolio stability. Blue Owl pairs these structural characteristics with disciplined underwriting to build a direct lending portfolio designed to deliver attractive risk-adjusted returns across market cycles, including resilience through periods of economic stress.

Here, we explore the foundational principles of our all-weather portfolio strategy, which focuses on credit quality and income generation across market cycles. We examine how our direct lending portfolio is performing in the current environment and how it performed during another period of extreme volatility – the COVID-19 crisis in 2020. We also analyze 2009 public loan default outcomes from the Global Financial Crisis ("GFC") to demonstrate the importance of sector selection on portfolio performance during periods of outsized economic stress and market volatility.

## Key observations

We believe intentional portfolio construction is essential for navigating uncertainty and withstanding economic shock. Some of the cornerstones of our portfolio construction philosophy are:

- Prioritize borrowers with scale
- Focus on opportunities at the top of the capital structure
- Focus on non-cyclical sectors
- Prioritize borrowers with sponsor support

Robust documentation is broadly a key differentiator in direct lending. Unlike the public loan markets, where decision-making and covenant enforcement can be fragmented among many lenders, direct lenders can negotiate tailored credit agreements and enforce covenants directly

We believe these tenets underpin our track record of lower default and loss rates compared to the public markets

- Our average annual non-accrual rate is 0.5% from 2016-2024, compared to an average annual public market default rate of 3.7% over that period[1] (Figure 2)
- During the COVID-19 crisis, our non-accrual rate peaked in 2020 at 2.5%, compared to a public market default rate of 6.3%[1] (Figure 3)
- Our average annual loss rate is 13 bps compared to 73 bps for public loans and 1.5% for high yield bonds (Figure 8)

**Past performance is not a guarantee of future results.** References to "downside protection" or similar language are not guarantees against loss of investment capital or value. There can be no assurance that any future investments will achieve comparable results to those presented herein. See endnotes and Important Information for additional information.

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# Private credit is just credit…

Private credit is not a new market. It finances the same types of companies that have long been served by the traditional corporate credit ecosystem. Over time, the corporate loan market has evolved from a bank-intermediated model — where loans were underwritten, syndicated, and distributed to mutual funds, insurance companies, and hedge funds — to one increasingly led by non-bank direct lenders such as Blue Owl. Direct lenders underwrite, originate, and often retain the credit, offering greater flexibility and certainty of execution. Direct lending, a subset of private credit, has gained significant market share from the broadly syndicated loan market over the past decade, as private equity sponsors and other borrowers have gravitated toward solutions backed by permanent or long-dated capital. As of September 30, 2025, direct lending represents approximately 40% of Blue Owl's assets under management and more than 95% of those investments are held in our BDC portfolios.

# Our foundational principles for portfolio construction

A guiding principle of our direct lending business has been — and continues to be — maintaining strong credit quality across our portfolio. Our portfolio is not designed to mirror the performance of the broader U.S. economy; it is designed to reflect our deliberate focus on stability. To that end, we predominantly lend to companies in the upper middle market, which we categorize as companies generating more than $50 million of EBITDA annually. These companies tend to have more established operations and stronger financial profiles that we believe can better withstand a downturn. Our investments are generally structured to be senior to all other forms of capital, providing us downside protection potential, and our permanent capital means we are not forced sellers in the event of volatility. We target non-cyclical sectors that we believe are less vulnerable to economic swings. We also prioritize sponsor-backed transactions, where reputable private equity firms have a vested interest in supporting their equity investments in these portfolio companies. Finally, our scale as one of the largest direct lenders allows us to be highly selective, choosing only the most compelling opportunities that align with our disciplined underwriting standards. (Figure 1) This scale can also help ensure our portfolio is well diversified and the impact of any one investment is small, with the average investment size across our direct lending portfolio being just 0.2%.

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Figure 1

## Blue Owl's direct lending portfolio construction by the numbers

*(As of 9/30/25)*

| | | | |
|---|---|---|---|
| **Scale** | Weighted average borrower EBITDA of $277 million[2] | Weighted average borrower enterprise value of $4 billion[2] | *The Cliffwater Direct Lending Index Upper Middle Market default rate is ~70% lower than its Lower Middle Market default rate[5]* |
| **Seniority** | 39%[2,3] | Weighted average net loan-to-value | *Portfolio companies would need to lose ~60% of their value, on average, for our investment to be impaired* |
| **Sector** | 3% | Current exposure to 5 hardest hit sectors in the GFC[1] | *The vast majority of our investments are in non-cyclical sectors, where products and services are generally less influenced by economic cycles* |
| **Sponsor support** | 90% | of investments are sponsor-backed[4] | *Private equity sponsors are highly incentivized to support their portfolio companies* |
| **Selectivity** | Blue Owl invests in 5% | of opportunities we review | *Exposure to a wide funnel of opportunities allows us to choose only what we view as the best fits* |

# The importance of documentation

Another component of our portfolio construction philosophy is our emphasis on documentation. Each credit agreement is customized and negotiated by our debt negotiation group. Our transactions incorporate negative and positive covenants including, for example, limitations on debt incurrence, caps on dividends, and requirements for timely financial reporting and legal compliance. Many also incorporate financial maintenance covenants requiring borrowers to meet certain minimum performance metrics.

Additionally, Blue Owl is typically in a leadership position in our investments, and this leadership is a distinct advantage of large direct lenders. We are the sole, lead, or co-lead lender on approximately 90% of our loans, which can afford us greater control over loan structuring, covenant design, and borrower engagement. This becomes critical when navigating economic stress.

Unlike broadly syndicated loan markets, where decision-making is often fragmented across many lenders, Blue Owl maintains a direct line of communication with our borrowers. Among other benefits, this allows us to regularly monitor borrowing activity, more easily negotiate amendments, and tailor workout strategies that preserve value and mitigate losses when the need arises.

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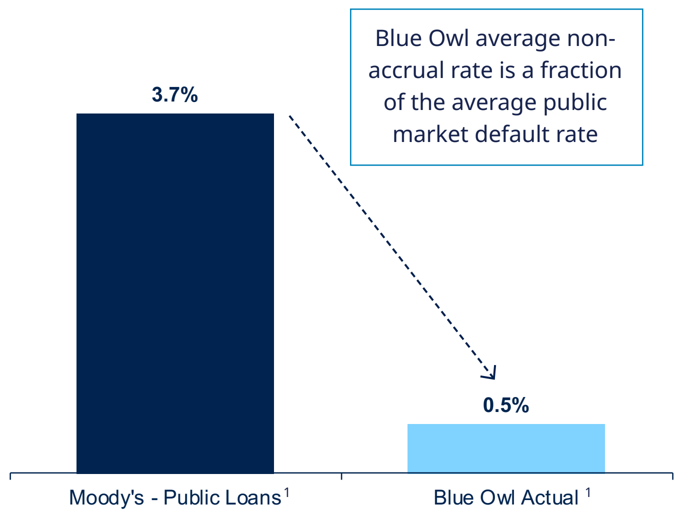
# Blue Owl's direct lending portfolio resilience

A key indicator of the health of our direct lending portfolio is our non-accrual rate, or the share of our portfolio for which we are not currently recognizing interest income. Investments are placed on non-accrual when we believe we may not be able to collect principal or interest payments. We view non-accruals as a conservative measure of credit quality, as loans may be placed on non-accrual even before having technically defaulted. Loans on non-accrual have represented 0.5% of our direct lending portfolio on average from 2016-2024, a small fraction of the public market default rate over that period. (Figure 2)

Figure 2

**Average public market default rate & Blue Owl non-accrual rate – 2016-2024**

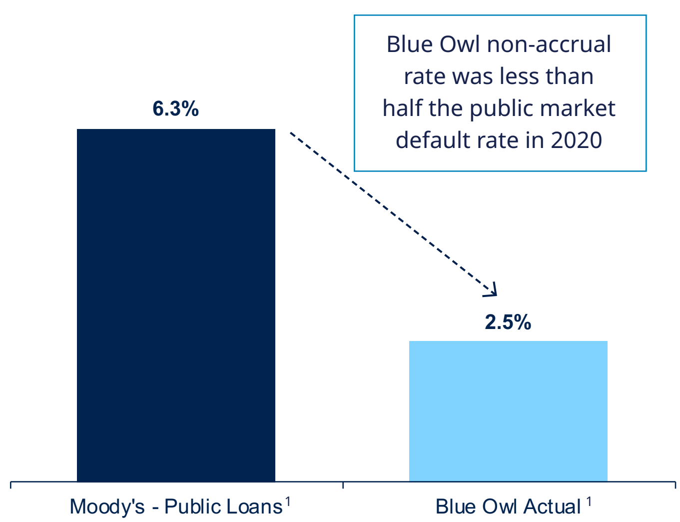



# Blue Owl's direct lending portfolio health during the COVID-19 crisis

The thesis of our strategy is also underscored by the resilience of our portfolio during the COVID-19 crisis, a period that stress tested the operational durability and credit worthiness of our borrowers. Despite unprecedented economic disruption, including an almost overnight stop to much in-person business and huge job losses, our portfolio companies adapted. Importantly, the credit quality of our portfolio significantly outperformed the public markets. In 2020, the non-accrual rate of our direct lending portfolio peaked at 2.5%, which was less than half of 2020 public market defaults. (Figure 3)

Figure 3

**2020 public market default rate & Blue Owl non-accrual rate**

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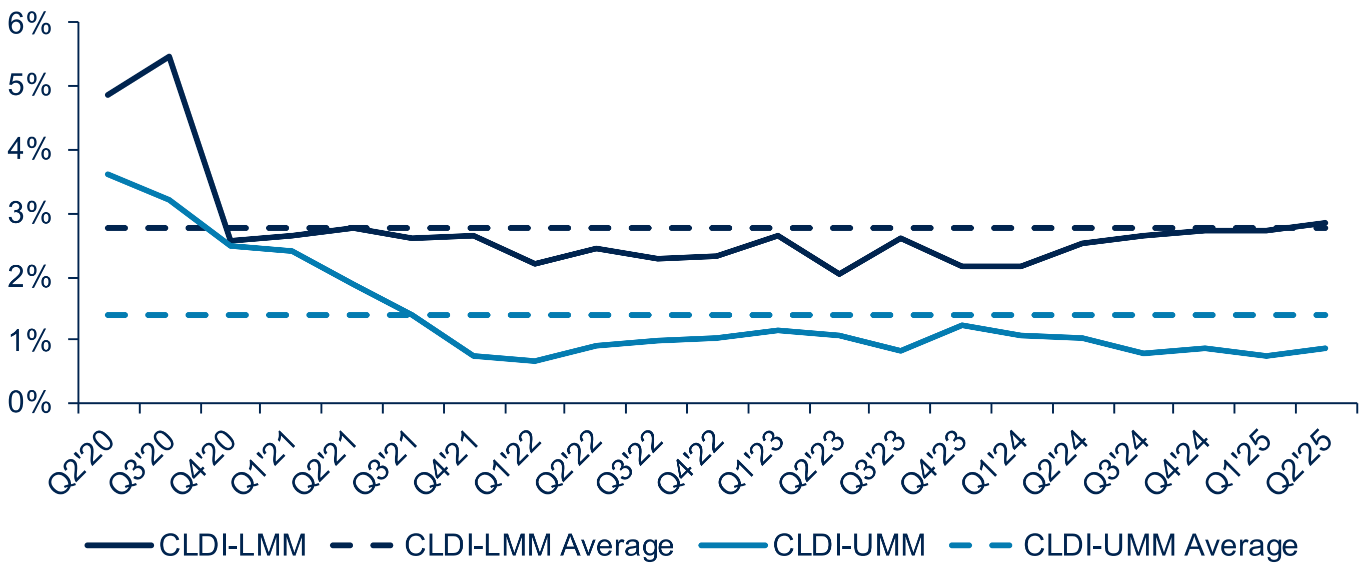
# The benefits of size

It is worth spending a moment on the downside protection that can be provided by lending to the upper middle market. Scale fundamentally enhances a company's ability to withstand market volatility. Larger businesses generally benefit from greater diversification across revenue streams, product proliferation, customer base and supplier concentration, and they tend to be more geographically diverse in these metrics, allowing them to better absorb unexpected challenges. Furthermore, our view is that they tend to be strategically more important to their underlying industry. With larger portfolio companies, lenders benefit from larger equity cushions from high-quality sponsors, who can inject additional equity or provide operational expertise during downturns. These benefits are evident in the non-accruals rates of upper middle market and lower middle market lenders. The Cliffwater Direct Lending Index 5-year average non-accrual rate of upper middle market loans is half that of lower middle market loans and the current non-accrual rate of upper middle market loans is 70% lower than that of lower middle market loans. (Figure 4) Cliffwater defines the upper middle market as private loan collateral with borrowers generating more than $100 million of EBITDA and the lower middle market as private loan collateral with borrowers generating less than $30 million of EBITDA.

Figure 4

## Quarterly Cliffwater Direct Lending Index upper middle market & lower middle market non-accrual rate, last 5 years[5]




*Source: Cliffwater.*

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# Examining the global financial crisis to demonstrate the importance of capital structure positioning & sector selection

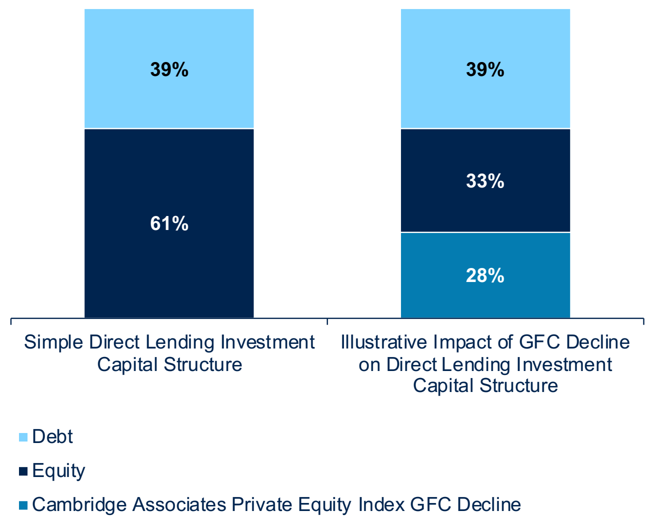
Blue Owl's position in the capital structure plays an important role in seeking to protect our investments. Our investments are generally senior to all other forms of capital – unsecured debt, preferred equity, and common equity – and our weighted average loan-to-value is 39%[2,3]. It is even lower across our technology investments, averaging 33%[2,3]. This implies our average borrower would need to lose more than 60% of its value before we experience potential principal loss.

During the 2008-2009 GFC, the Cambridge Associates Private Equity Index experienced a 28% peak-to-trough valuation decline – well within the cushion afforded by the average net LTV in our direct lending portfolio. (Figure 5) This simplistic view does not spotlight individual loan outcomes, but it illustrates the protective power of moderate LTVs within a capital structure.

In addition, the long-dated nature of private equity capital generally allows sponsors to focus on financially supporting their portfolio companies through challenges as opposed to being forced to sell at undesirable prices. During the COVID-19 crisis, in nearly all instances where Blue Owl executed a material amendment to address liquidity constraints, the sponsor contributed additional equity. The duration of capital in private equity is a meaningful advantage for sponsors and is protective for direct lenders as well.

Figure 5

**Illustrative application of private equity peak-to-trough GFC mark-to-market decline on a direct lending investment**




**Past performance is not a guarantee of future results. Disclaimer:** This chart is being provided for illustrative purposes to demonstrate structural positioning within the capital stack and to highlight the potential impact of severe market stress. This assumes a typical investment structure, comprised of 39% debt (our position) and 61% equity contributed by other investors, based on the actual weighted average loan-to-value (LTV) of our direct lending portfolio at the time of calculation. **This illustration does not represent any single portfolio and should not be considered performance, nor does it imply that the direct lending portfolio existed or would have held investments with similar risk characteristics at the time of the Global Financial Crisis (GFC) in 2008-2009. There is no guarantee that any direct lending portfolio will hold investments with similar risk characteristics in the future. Past market conditions, including equity declines observed during the GFC, using the Cambridge Associates Private Equity Index as a reference point, are not indicative of future market conditions.** An investor cannot invest directly in an index and index performance does not reflect fees and expenses which may include management fees, access fund expenses, and administrative fees. There is no guarantee that similar outcomes would occur under comparable circumstances.

Why does sector selection matter? During the GFC, there was a wide range of default rates, reflected in the Moody's public loan default rates of each sector in 2009. Sector default rates ranged from 35% at the high end to near-zero at the low end. The highest default rates were generally concentrated in cyclical industries such as Media, Automotives, and Retail, which together account for approximately 3% of our direct lending portfolio today. (Figure 6)

For example, if we applied the Moody's public loan default rates of each sector in 2009 to what we believe are the equivalent sectors within our current direct lending portfolio, the calculation would result in an implied default rate of approximately 4.3%.[1] Every credit cycle is different, we were not in existence at the time of the GFC, and we are not saying that our underlying portfolio would have the same outcomes as historical sector outcomes. However, it is important to note the importance of sector selection in portfolio construction, and our preference has been to largely avoid what we view as highly cyclical sectors. (Figure 7)

Figure 6

## 2009 defaults by sector for top five highest sectors – public loan market[1]

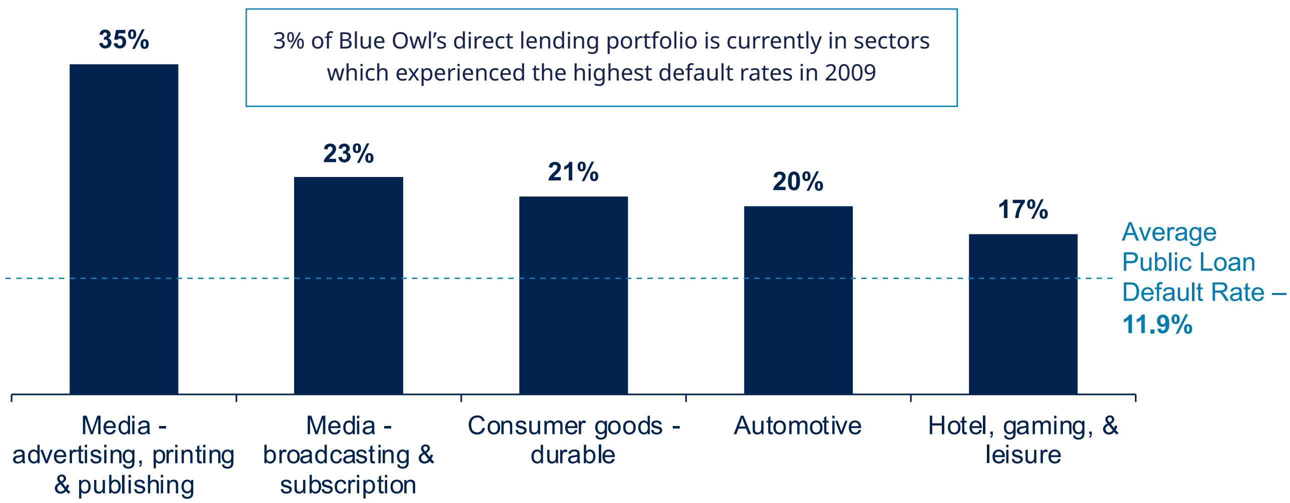
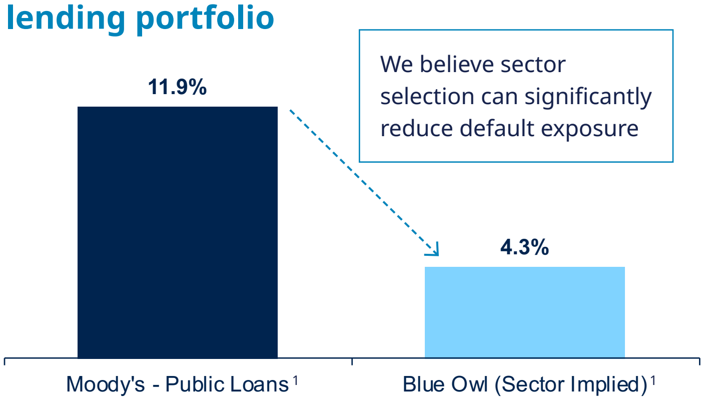



Figure 7

## Illustrative application of 2009 default rates by sector to current Blue Owl direct lending portfolio




We believe it is also important to consider the ultimate recovery rate in the event of a default. Term loan recoveries have averaged approximately 70% from 1987-2024.[8] As an illustrative calculation, if a lender received 3 years of 10% interest income on a loan and generated a 70% recovery rate in a default scenario, it would recover the original value of its investment.

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# Conclusion

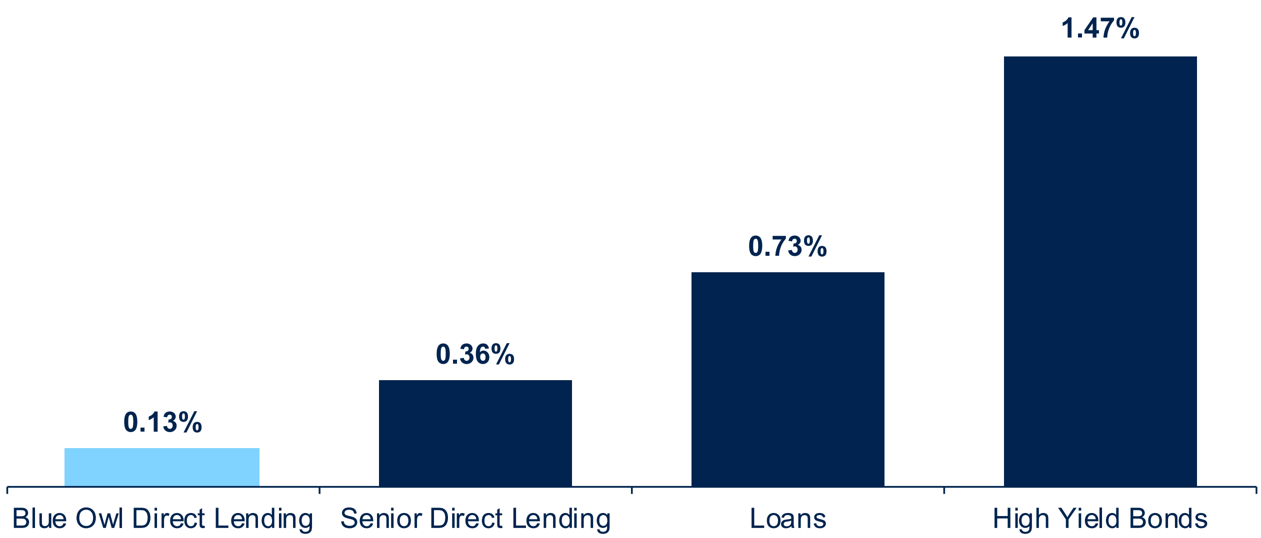
While no asset class is entirely immune to losses, we believe that our direct lending platform offers a compelling degree of resilience. There are foundational components of our underwriting strategy that we believe support these results:

- A focus on the upper middle market, with an average portfolio company enterprise value of $4 billion and EBITDA of $277 million
- Moderate loan-to-values, averaging below 40%, and predominantly senior secured positioning in the capital structure
- An emphasis on non-cyclical sectors
- Rigorous underwriting, investing in 5% of opportunities
- Investment diversification, with the average position representing approximately 20 bps of the portfolio
- Aligning incentives with private equity sponsors
- Leadership roles on approximately 90% of our transactions
- Generating nearly all returns from current income

Since inception, Blue Owl's direct lending platform has demonstrated a consistent ability to beat the credit quality of the public market. We believe this outperformance coupled with competitive returns (Figure 8) make direct lending a valuable component of a diversified, all-weather portfolio.

Figure 8

## Average annual loss rates by asset class – 2016-current[6,7]




**Past performance is not a guarantee of future results.** There can be no assurance that any future investments will achieve comparable results to those presented herein. Indices listed do not represent benchmarks for the funds but allow for comparison of a fund's performance to an Index. An investor cannot invest directly in an index. Index performance does not reflect fees and expenses which may management fees, access fund expenses, and administrative fees. See endnotes and Important Information for additional information.

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# Endnotes

1. Source: Moody's Annual Corporate Default Study 2025, published February 28, 2025. Figure 2 represents the Blue Owl direct lending portfolio average non-accrual rate at cost from 2016 to 2024. Figure 3 represents the Blue Owl direct lending portfolio average non-accruals at cost for the twelve months ended 12/31/2020. Figure 6 shows the sectors with the five highest default rates in 2009. Figure 7 represents the weighted average of Moody's speculative grade industry-level default rates in 2009 and Blue Owl's corresponding direct lending platform industry exposure at cost as of the report date. The implied default rate of 4.3% is derived by applying the Moody's speculative grade industry-level default rates in 2009 to Blue Owl's corresponding direct lending platform industry exposure at cost as of the report date. The Moody's 2009 speculative grade default rates by industry were as follows: Media – Advertising, Printing and Publishing (35.1%), Media – Broadcasting & Subscription (23.4%), Consumer Goods – Durable (21.4%), Automotive (19.7%), Hotel, Gaming & Leisure (17.0%), Forest Products & Paper (15.4%), Construction & Building (14.7%), Capital Equipment (10.4%), Wholesale (10.3%), Metals & Mining (10.2%), Containers, Packaging & Glass (9.0%), Consumer Goods – Non-Durable (8.3%), Chemicals, Plastics & Rubber (7.4%), Transportation – Cargo (7.4%), Services – Consumer (7.3%), High Tech Industries (6.8%), Telecomm (6.3%), REIT (5.8%), Finance (5.3%), Beverage Food & Tobacco (4.3%), Aerospace & Defense (4.3%), Retail (3.7%), Services – Business (3.1%), Transportation – Consumer (3.1%), Energy – Electricity (2.0%), Energy – Oil & Gas (1.9%), Banking (0.9%), Healthcare & Pharmaceuticals (0.7%), Insurance (0.3%), Utilities – Electric (0.3%), Environmental Industries (0.0%), Media – Diversified & Production (0.0%), Sovereign & Public Finance (0.0%), Utilities – Oil & Gas (0.0%), Utilities – Water (0.0%). For illustrative purposes only and does not reflect actual performance or outcomes. Blue Owl Capital was not in existence during the Global Financial Crisis and any comparisons to the Global Financial Crisis are hypothetical.

2. Borrower financials are derived from the most recently available portfolio company financial statements, typically a quarter in arrears, have not been independently verified by Blue Owl, and may reflect a normalized or adjusted amount. Accordingly, Blue Owl makes no representation or warranty in respect of this information. This represents 91% of our total debt portfolio based on fair value as of the report date and excludes certain investments that fall outside of our typical borrower profile.

3. Weighted average net LTV represents the net ratio of "loan to value" for each portfolio company, weighted based on the fair value of Blue Owl's loan investment. The "attachment point" is the principal amount of debt that is senior to Blue Owl's loan investment, and that amount plus the principal amount of the loan in which Blue Owl invested and other equally ranked debt is the "last dollar" amount. "Value" represents an estimate of enterprise value of each portfolio company, a calculation that will vary by portfolio company.

4. Excludes joint ventures and investments in Blue Owl Cross-Strategy Opportunities, Wingspire, Amergin, LSI, and Fifth Season.

5. Source: Cliffwater Direct Lending Index Upper & Lower Middle Market non-accrual rates at cost – last 5 years.

6. Blue Owl direct lending platform loss rate based on net realized losses over cost of investments. The average annual loss rate is based on the loss rate in each year since inception to the current quarter, unless otherwise noted. Blue Owl's Credit platform has an average annualized realized loss rate of approximately 13 basis points.

7. Source: SP LCD, Cliffwater, JP Morgan. Market loss rates calculated as average loss rates and defined as: for loans, based on SP LCD default rates for all loan defaults as percentage of total outstanding and calculated as default*(1 – average historical Recovery Rate) from 2016 to 4Q24; Direct Lending based on Cliffwater Direct Lending Index realized gains/losses from 2Q16 to 2Q25; High Yield Bonds based on JP Morgan Default Monitor annual defaults and calculated as default*(1 – average historical Recovery Rate) from 2016 to 4Q24; recovery rates for loans of range from 48%-63% by year and 22%-55% for bonds and are based on JP Morgan Default Monitor, May 1, 2025.

8. Source: Moody's Annual Corporate Default Study 2025, published February 28, 2025. Average ultimate term loan recovery rates, 1987-2004 (study Exhibit 9).

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# Important information

For the quarter ended September 30, 2025, unless otherwise noted. All figures reflect investments in Blue Owl Capital's direct lending portfolio in aggregate unless otherwise noted.

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**Risk factors relating to Blue Owl Capital's BDCs may be found in each of their most recent Annual Reports on Form 10-K and Quarterly Report on Form 10-Q under "Item 1A. Risk Factors." Past performance is not a guarantee of future results.**

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**Other investments may have been placed on non-accrual, experienced bankruptcy, or resulted in loss of principal.**

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