



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 17

MEETING DATE: May 20, 2026

SUBJECT: Education: Private Credit

SUBMITTED FOR: Action Information

RECOMMENDATION

Receive and file presentation on private credit market dynamics, as presented by Cliffwater and Staff.

PURPOSE/STRATEGIC PRIORITY

This item contributes to the effective management and oversight of investment activities.

DISCUSSION

Private credit is an asset class that has experienced tremendous growth. It has also been in the news lately related to recent redemption requests within the retail segment, which remains a small component of private credit relative to the institutional segment, as well as concerns around some company defaults in the news and exposure to software companies that are potentially subject to AI risk.

Cliffwater will provide education on the private credit market at the May Board meeting. The presentation will provide background on SCERS' Credit asset class, which combines private and public credit exposure. The presentation will primarily focus on the direct lending market and provide background and data on some of the recent headline news. It will also provide data points around performance of the segment, historical credit losses, fundraising and redemption trends, and current spreads, and will conclude with implementation considerations for SCERS going forward.

ATTACHMENTS

- Board Order
- Cliffwater Private Credit Education

Prepared by:

/S/

Steve Davis
Chief Investment Officer

Reviewed by:

/S/

Eric Stern
Chief Executive Officer



Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
May 20, 2026

AGENDA ITEM:

Education: Private Credit

THE BOARD OF RETIREMENT hereby approves the Staff recommendation to receive and file the presentation on private credit market dynamics, as presented by Cliffwater and Staff.

I HEREBY CERTIFY that the above order was passed and adopted on May 20, 2026 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES (Present but not voting):

Chris Giboney
Board President

Eric Stern
Chief Executive Officer and
Board Secretary

May 20,
2026

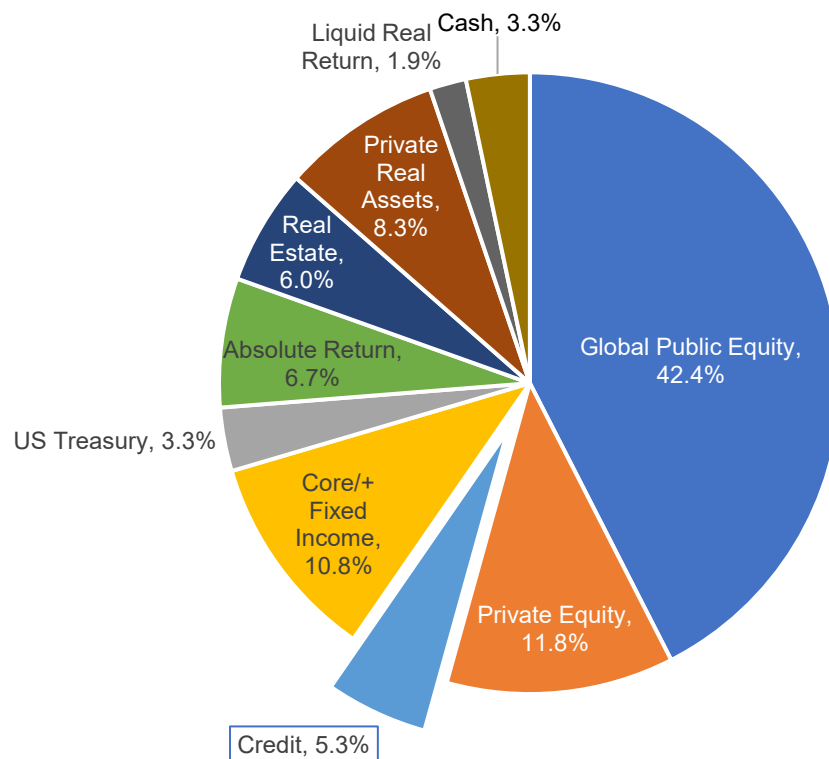
Private Credit Education

Sacramento County Employees' Retirement System



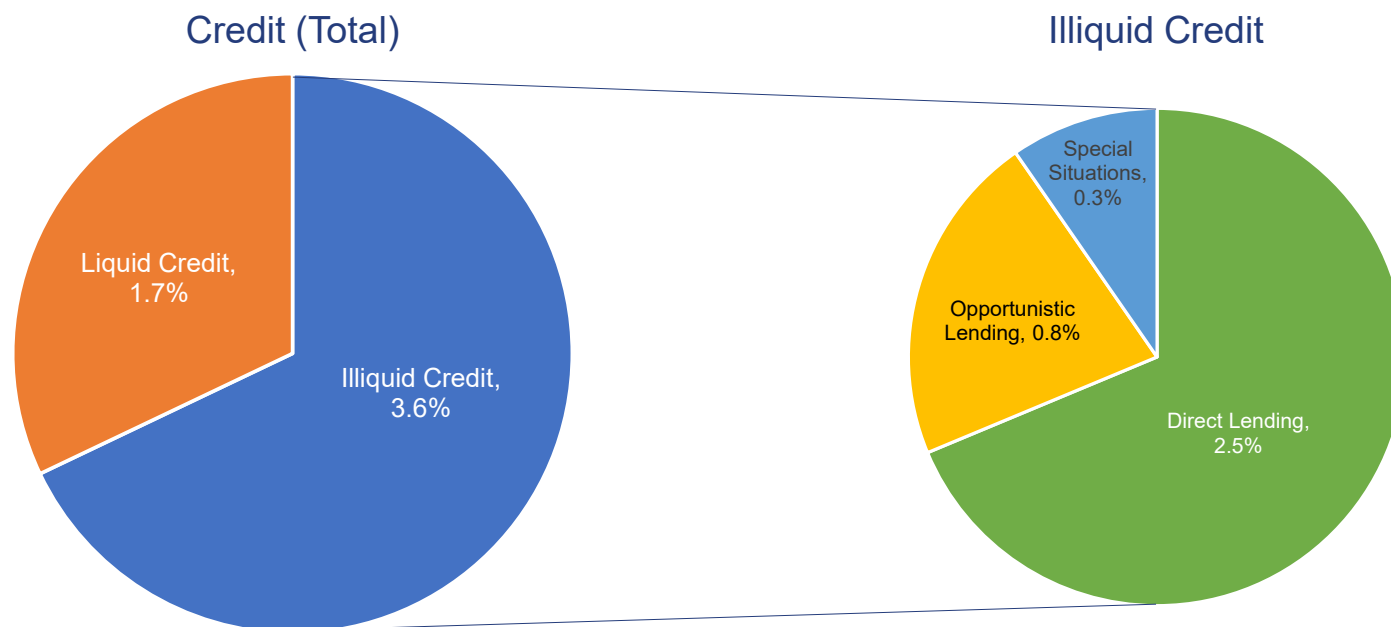
Strictly Confidential. Not for Distribution.

SCERS Portfolio Allocations
as of 12/31/25



Credit Investment Structure

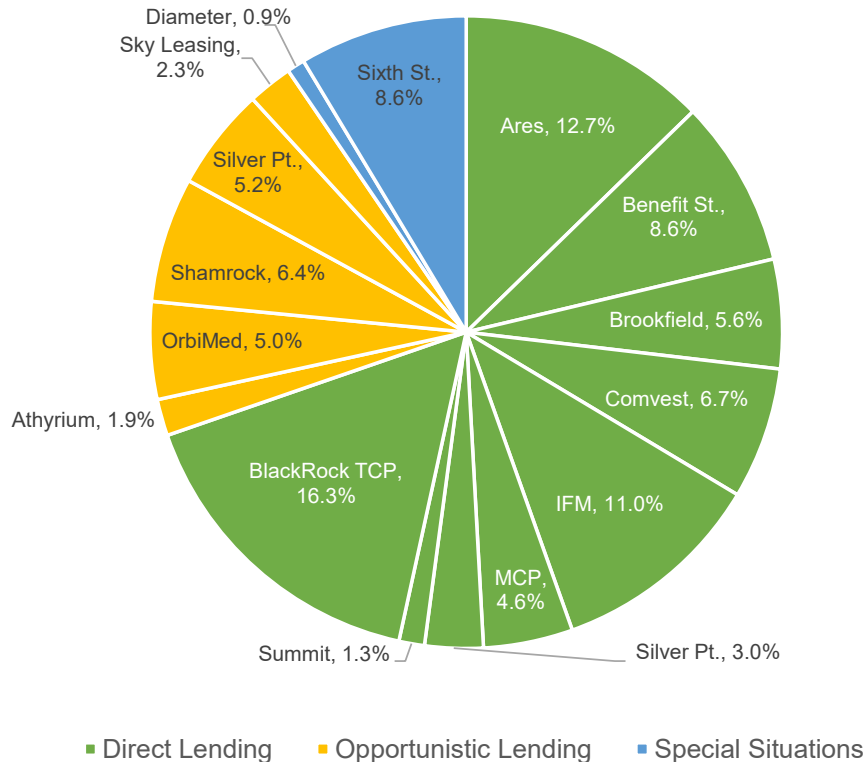
- SCERS consolidated Private Credit and Public Credit into a single Credit asset class in March 2025
 - 9.0% long-term target allocation; current allocation = 5.3%
 - Expect Private Credit (Illiquid Credit) to comprise the majority of the Credit allocation
 - SCERS targets 60% - 100% in Illiquid Credit and 0% - 40% in Liquid Credit



Illiquid (Private) Credit Investment Structure

- Three substrategies comprise SCERS Illiquid (Private) Credit portfolio
 - Direct Lending – directly originated, non-traded, mostly senior-secured performing loans to corporate borrowers
 - Opportunistic Lending – similar to Direct Lending, but includes a broader range of investments and collateral
 - Special Situations – investments in companies facing financial or operational stress

Portfolio Composition (%) by General Partner
(Based on 12/31/25 Fair Market Values)



Private Credit Portfolio (as of 12/31/25)

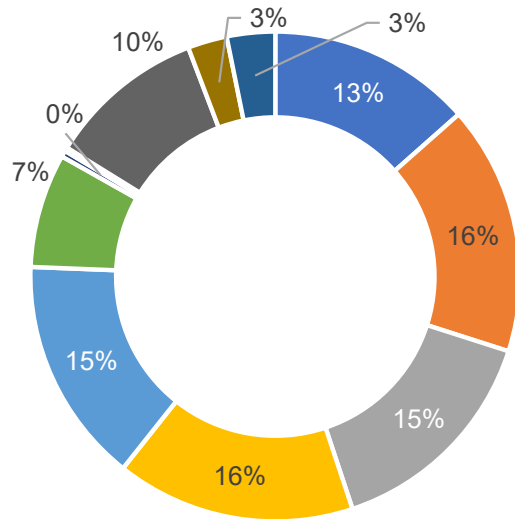
- 29 partnership commitments to 15 general partners
 - Mostly closed-end, drawdown structures
- Primarily US focused (66%)
 - Most of remaining (26%) is W. Europe
- \$1,224 million total commitments
- \$1,065 million total contributions
- \$718 million total distributions
- \$587 million total fair market value
- 8.65% since inception net IRR
 - October 14, 2011 inception date

Private Credit Portfolio Role

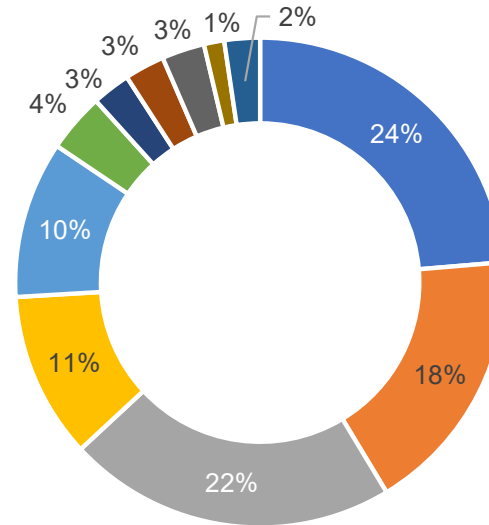
- Generate good risk-adjusted returns
 - Target 7 – 9% p.a. net returns
 - Lower volatility than comparable returning asset classes
- Cash flow generation
- Equity diversification

SCERS Private Credit Portfolio Industry Exposure as of Dec 31, 2025

SCERS Private Credit Portfolio



Cliffwater Direct Lending Index



- Information Technology
- Health Care
- Financial & Business Svcs
- Industrial/Transport
- Consumer Related
- Media & Telecom
- Materials
- Food, Bev & Staples
- Energy & Utilities
- Real Estate
- Other

The SCERS Private Credit portfolio has somewhat different industry exposure from the broader direct lending market (as proxied by the Cliffwater Direct Lending Index “CDLI”)

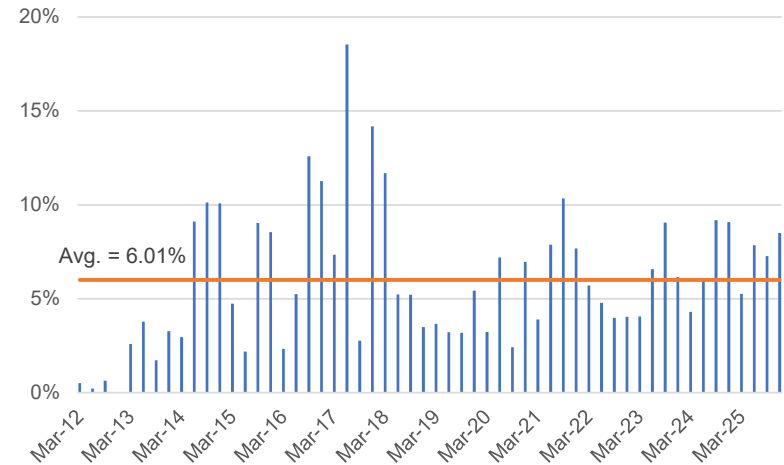
- Relatively less exposure to Information Technology and Financial & Business Services
- More focus on Industrial/Transportation, Consumer Related, and Energy

SCERS Private Credit Portfolio Performance as of Dec 31, 2025

SCERS Private Credit Performance¹



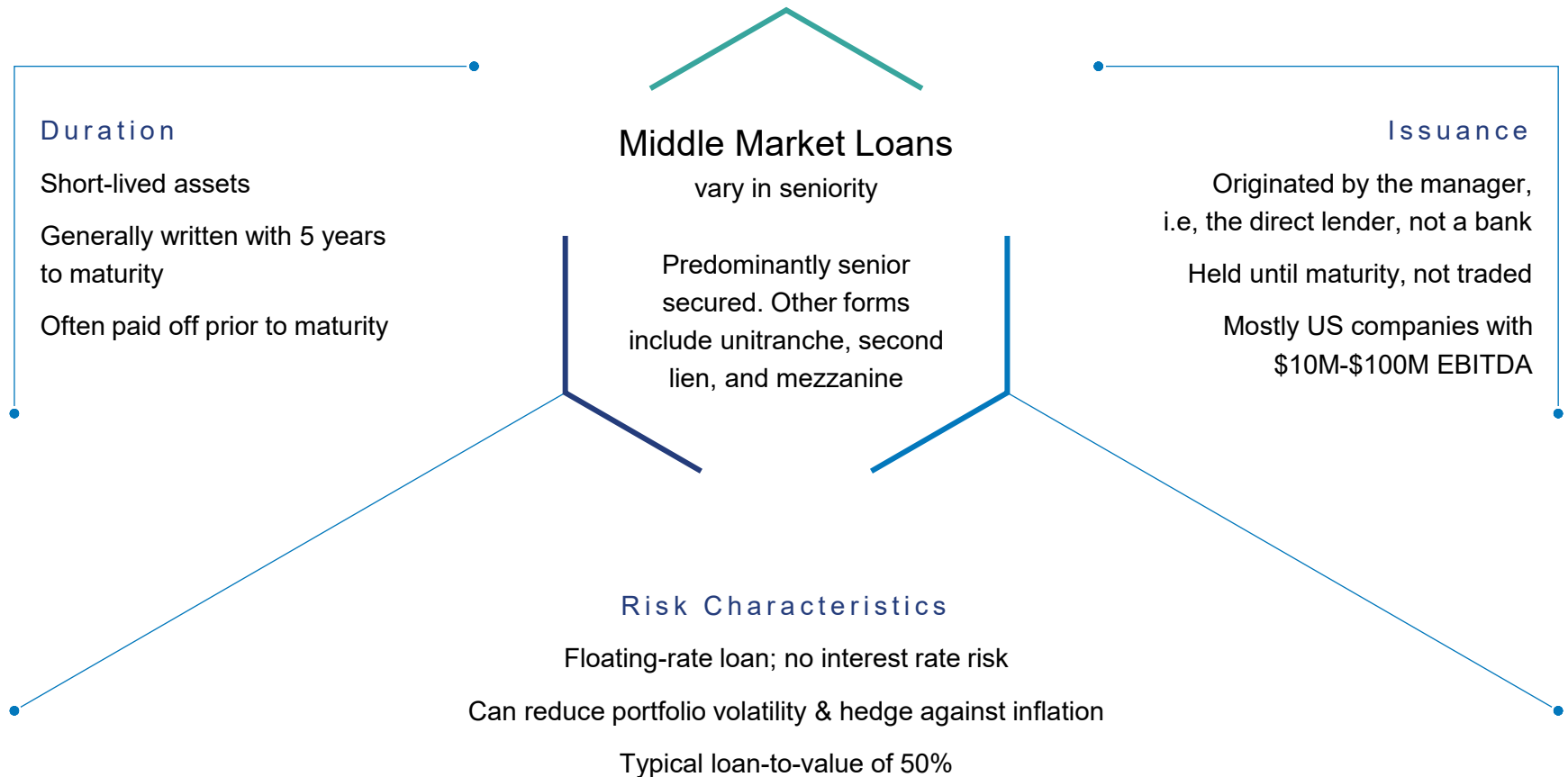
SCERS Private Credit Portfolio Quarterly Distribution Yield



The SCERS Private Credit portfolio has performed in-line with long-term expectations

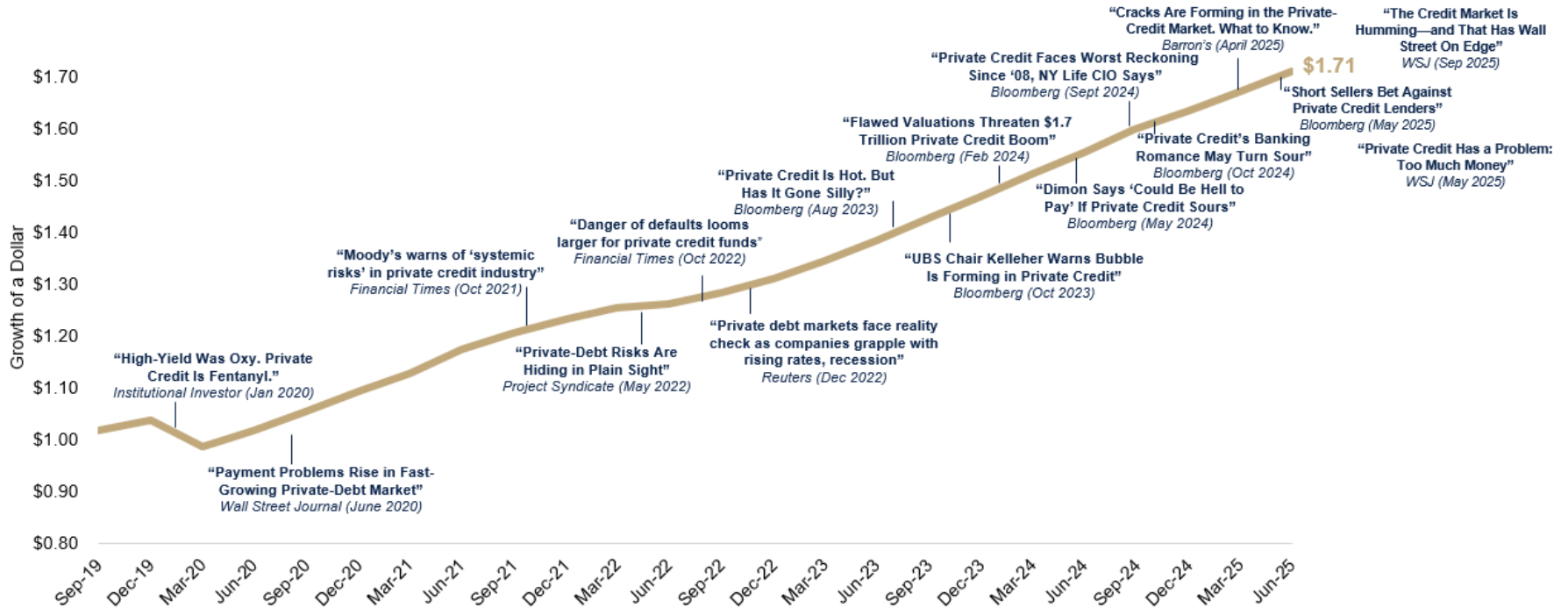
- Absolute and relative performance is meeting objectives
- The portfolio has consistently generated good cash flow yield
 - 6.01% average quarterly portfolio distribution rate since inception

¹ Preliminary performance as of 12/31/25. Performance reflects the following: SCERS Private Credit portfolio net IRRs (SCERS Pvt. Credit); Credit Suisse Leveraged Loan Index + 2% per annum (Lev. Loans + 2%); Bloomberg US High Yield Bond Index (High Yield).



“Recent” Headlines (aka Direct Lending’s Wall of Worry)

Growth of \$1: Cliffwater Direct Lending Index



Source: Cliffwater Direct Lending Index. Past performance does not guarantee future results. Any information presented prior to the Launch Date (September 30, 2015) of the CDLI is back-tested. The CDLI performance has been prepared for informational purposes only. Please see additional CDLI disclosures at the end of this presentation.

Recent Default Headlines

Headline defaults in Q4 2025 created confusion with Direct Lending

- In many cases, the exposures at the center of the headlines were not representative of Direct Lending strategies

	First Brands	Tricolor	Carriox	Renovo	United Site Services
Default Date	September 2025	September 2025	October 2025	November 2025	December 2025
Direct Lending?	No	No	No	Yes	No
Ownership	Non-Sponsored	Non-Sponsored	Non-Sponsored	PE-Sponsored	PE-Sponsored

Process Differences Between Broadly Syndicated Loans and Direct Lending

Recent credit events in leveraged loans do not inherently presage problems in Direct Lending

- While both markets may finance similar corporate borrowers, the process by which loans are originated, owned, and managed differ in meaningful ways

	Broadly Syndicated Loans	Private Debt
Originator	Banks	Direct lending manager
Owners	CLOs, bank loan mutual funds, institutional investors	Funds managed by lender
Documentation	Typically covenant-lite	Typically covenant protected
Information Flow	Limited; facilitated by banks	Direct access to management/PE sponsor
Lenders	20+	1-5
Alignment with Investors	Low; syndicate for fees	High; get paid for credit risk

Direct Lending: Historical Credit Losses

21-Year Credit Loss Rates (2005 to 2025)

Calendar Year	High Yield Bonds			Leveraged Loans			CDLI Middle Market Debt
	Default Ratio	Recovery Rate	Credit Loss	Default Ratio	Recovery Rate	Credit Loss	Credit Loss
2005	2.80%	56%	1.23%	3.00%	84%	0.48%	-0.89%
2006	0.90%	55%	0.41%	0.50%	84%	0.08%	-0.63%
2007	0.40%	55%	0.18%	0.20%	69%	0.06%	-1.74%
2008	2.30%	27%	1.68%	3.70%	58%	1.55%	0.59%
2009	10.30%	22%	7.99%	12.80%	48%	6.62%	6.91%
2010	0.80%	41%	0.47%	1.80%	71%	0.52%	2.96%
2011	1.70%	49%	0.87%	0.40%	67%	0.13%	1.78%
2012	1.30%	53%	0.61%	1.40%	55%	0.63%	0.60%
2013	0.70%	53%	0.33%	1.70%	69%	0.53%	0.19%
2014	2.90%	48%	1.51%	4.30%	73%	1.16%	-0.01%
2015	1.80%	25%	1.35%	1.70%	48%	0.88%	0.70%
2016	3.60%	31%	2.48%	1.50%	63%	0.56%	1.41%
2017	1.30%	53%	0.60%	1.80%	57%	0.79%	1.74%
2018	1.80%	40%	1.08%	1.70%	63%	0.64%	0.94%
2019	2.60%	23%	2.02%	1.60%	49%	0.84%	0.94%
2020	6.20%	22%	4.84%	4.00%	48%	2.08%	3.30%
2021	0.30%	50%	0.15%	0.50%	56%	0.22%	-0.27%
2022	0.80%	55%	0.38%	1.00%	60%	0.39%	0.10%
2023	2.10%	33%	1.41%	2.10%	38%	1.30%	0.86%
2024	0.40%	35%	0.23%	1.50%	44%	0.85%	0.69%
2025	1.00%	36%	0.64%	1.50%	36%	0.93%	0.64%
L10 Years	2.01%	38.00%	1.38%	1.73%	51.00%	0.86%	1.04%
L21 Years	2.19%	41.00%	1.45%	2.32%	59.00%	1.01%	0.99%

Historical credit losses in Direct Lending compare favorably to High Yield and Leveraged Loans

- Direct Lending has produced lower credit losses, despite consistently higher yields and much better total returns

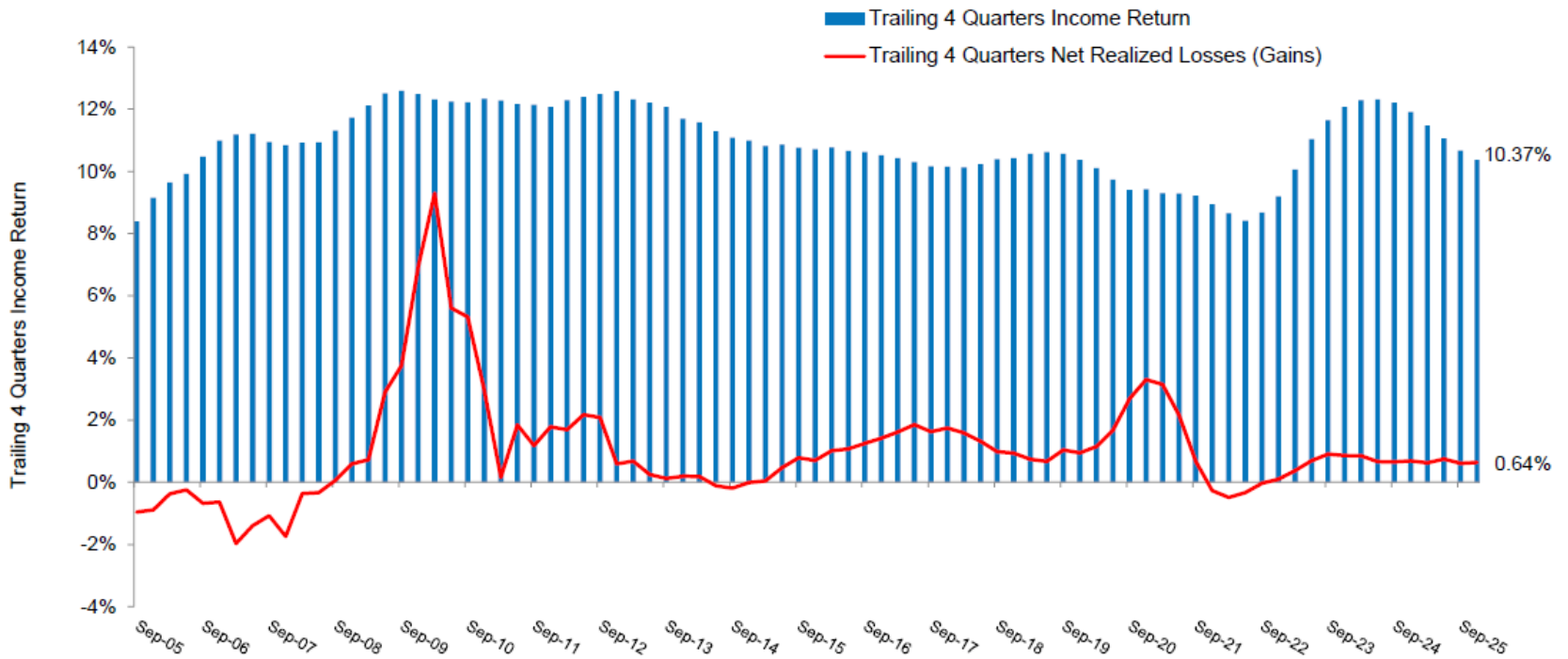
The periods with the highest credit losses were post-GFC (2009 – 2011) and COVID (2020)

Realized losses within CDLI were 0.64% for calendar year 2025, well below the 1.04% annual historical loss rate for private debt over the last 10 years

Source: Cliffwater Direct Lending Index, Bloomberg, JPMorgan Markets. Past performance does not guarantee future results. Any information presented prior to the Launch Date (September 30, 2015) of the CDLI is back-tested. The CDLI performance has been prepared for informational purposes only. Please see additional CDLI disclosures at the end of this presentation.

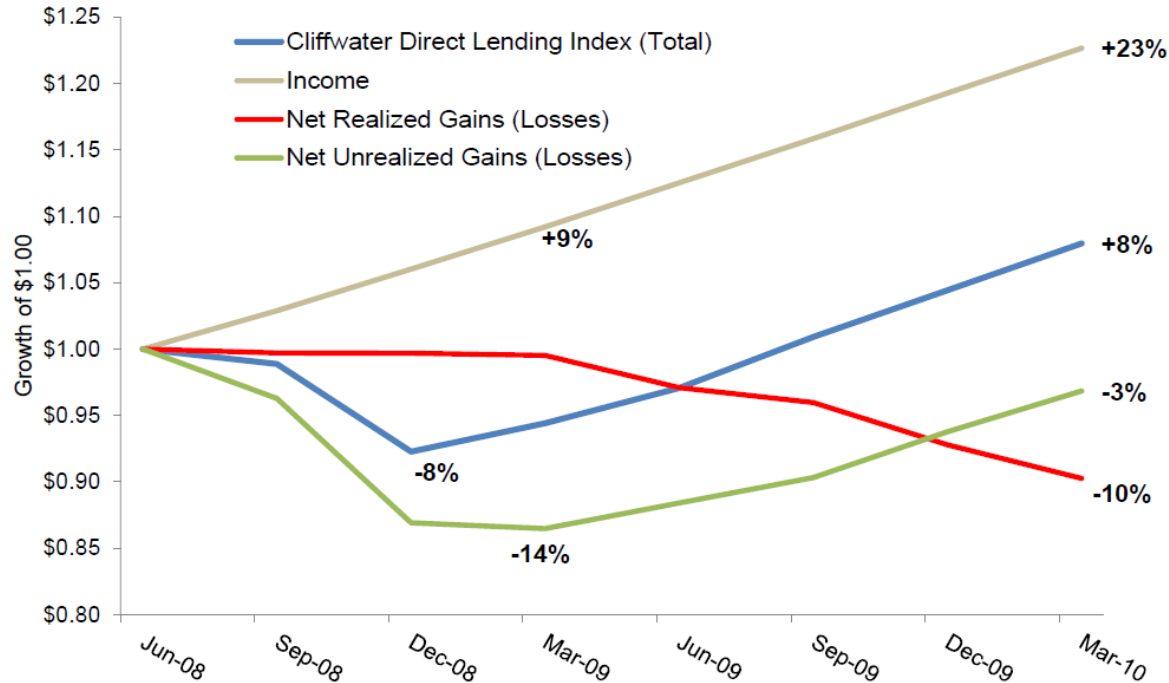
Income Has Overcome Credit Losses in Direct Lending, Even at Extremes

CDLI Income Return versus CDLI Realized Losses
(trailing four quarters ending Dec 2025)



Source: Cliffwater Direct Lending Index. Past performance does not guarantee future results. Any information presented prior to the Launch Date (September 30, 2015) of the CDLI is back-tested. The CDLI performance has been prepared for informational purposes only. Please see additional CDLI disclosures at the end of this presentation.

Direct Lending (CDLI) Performance Through the Financial Crisis



The maximum downside for unlevered private debt (CDLI) was -8% during the GFC

- Levered private debt accounts saw a maximum downside of -16%, net of fees, during the GFC

Direct Lending Performance – Baseline Recession Scenario

	Year 1	Year 2	Year 3	
<i>CDLI</i>				
Realized Losses	-1.0%	-3.0%	-2.0%	
Unrealized Gains (Losses)	-9.0%	+6.0%	+3.0%	
Reference Yield (SOFR)	+3.5%	+3.5%	+3.5%	
Spread (incl OID)	<u>+6.0%</u>	<u>+7.0%</u>	<u>+6.5%</u>	
CDLI Return	-0.5%	+13.5%	+11.0%	
 <i>Private BDC, Drawdown Fund</i>				
Realized Losses	-2.0%	-6.0%	-4.0%	1:1 Leverage
Unrealized Gains (Losses)	-18.0%	+12.0%	+6.0%	1:1 Leverage
Reference Yield (SOFR)	+3.5%	+3.5%	+3.5%	
Spread (incl OID)	+6.0%	+7.0%	+6.5%	
Financed Spread	+3.5%	+4.5%	+4.0%	COD=2.5%
Fees & Expenses	<u>-2.0%</u>	<u>-3.5%</u>	<u>-4.1%</u>	
BDC, Drawdown Return	-9.0%	+17.5%	+11.9%	

Providing above forecasted returns for a “typical” recession (severity approx. 50% that during GFC)

- Forecasting a short-lived and modest negative impact for unlevered Direct Lending
- Levered portfolios (1:1 leverage) could see drawdowns approach or exceed 10% in the first year

What About Software?

Factors Influencing Relative AI Risk

Not all software companies, and software-related investments, are created equally

Security Type and Vintage Year

- Equity v Debt – differing tenor, risk target, additional structural protections
- More recent vintage investments more focused on AI risk at underwriting

Investment Underwriting Thesis

- Mission-critical software companies with strong competitive moats
- Multi-year contracts, upfront payments, high integration/implementation costs, regulatory barriers
- Market leaders with highly proprietary data sets that can lead to better AI development and empowerment
- Ability to integrate AI to accelerate efficiency


Incumbent Benefits

- Proprietary data, long-standing customer relationships, entrenched distribution channels
- Central to customer workflows → advantage in applying AI effectively

Sector Nuance

- AI adoption varies by end market and use case

Illustrative AI Sensitivity Framework across Software Categories

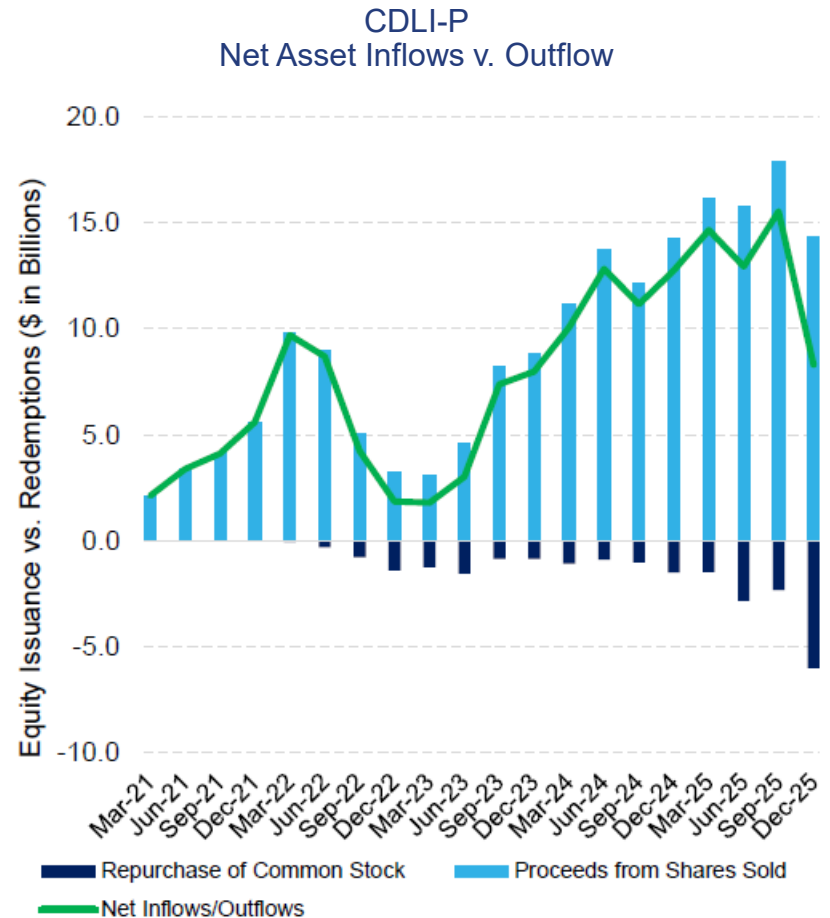
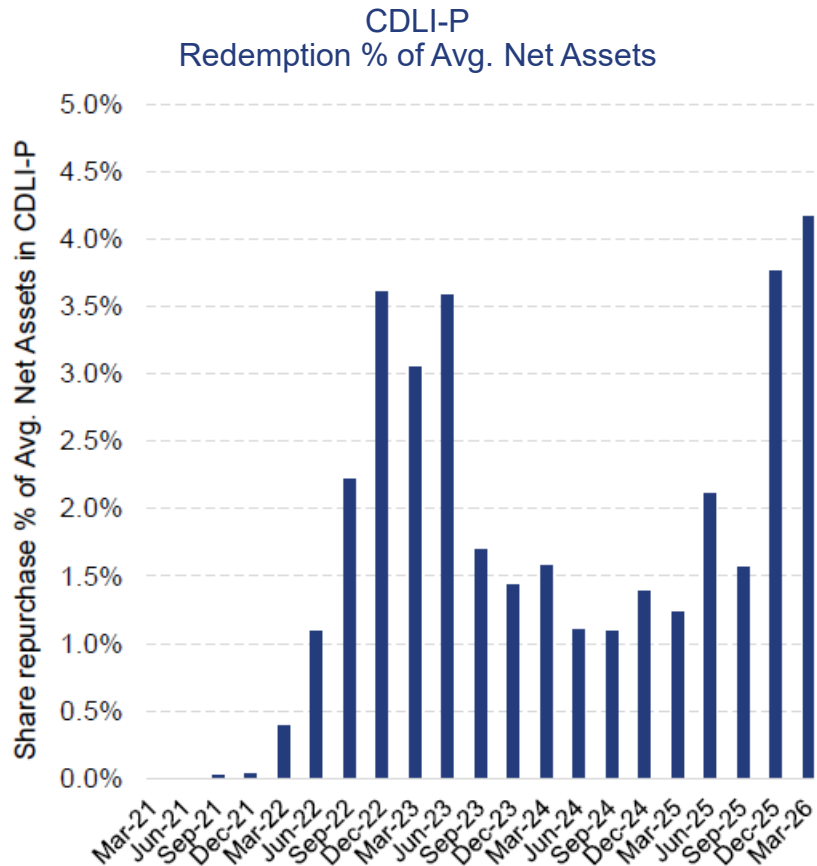


<i>AI Beneficiary</i>	Category	Definition
	AI-Native Platforms & Analytics	Companies that focus on providing AI models or have fully integrated generative AI into their platforms
	AI Infrastructure & Adjacencies (Picks & Shovels)	Memory, storage, or data management software providers that enable advanced AI/ML workflows
	Cybersecurity & Identity	AI-driven threat detection, Zero-Trust platforms, and Identity management
	Vertical-Specific SaaS	Software highly tailored to specific industries with depth of industry-specific capabilities
	Payments	Payment processing or bank connectivity platforms
<i>Neutral Impact</i>	Generic / Horizontal SaaS	Companies with broad solution suites not tailored to specific industries
<i>AI Disruption Risk</i>	Legacy Enterprise SaaS and Admin Software	Companies focused on legacy data analytics, manual admin, and automation of back-office functions

Though AI risk represents a profound technological shift, outcomes will be highly differentiated across companies and business models

- Many investors now categorize software exposures along a spectrum of AI sensitivity archetypes, distinguishing between probable beneficiaries, companies where impact may be incremental, and areas where disruption risk appears higher
- Not all software companies are created equally

Direct Lending Redemptions: Perpetual Non-Traded BDCs

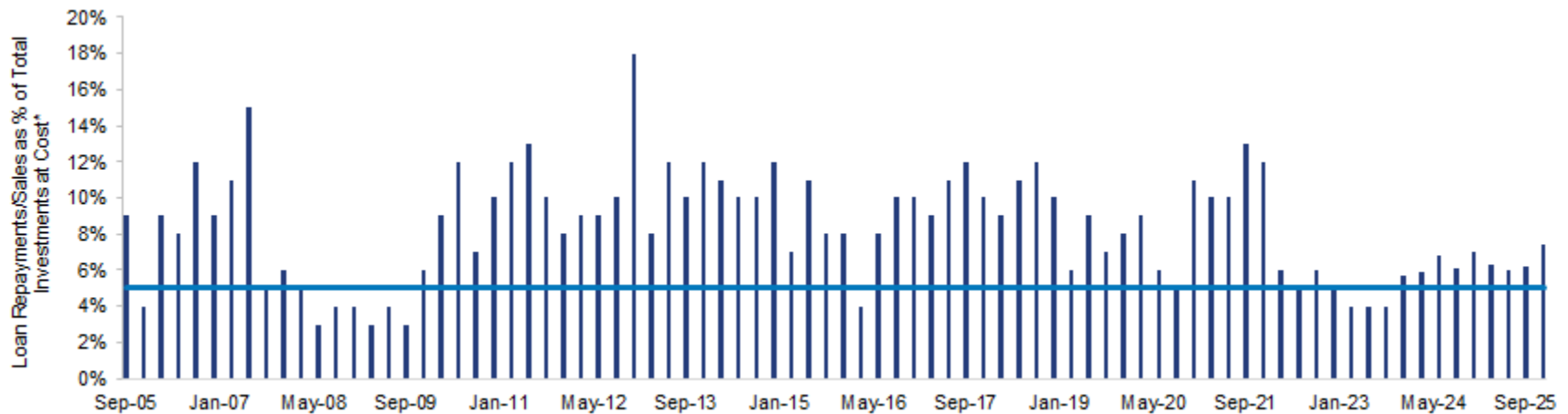


Despite rising redemptions, CDLI-P ROEs were solid, finishing 2025 at around 8.29%

- Trailing realized losses remained low at 43 bps

Asset/Liability Mismatch in Semi-Liquid Private Credit Funds?

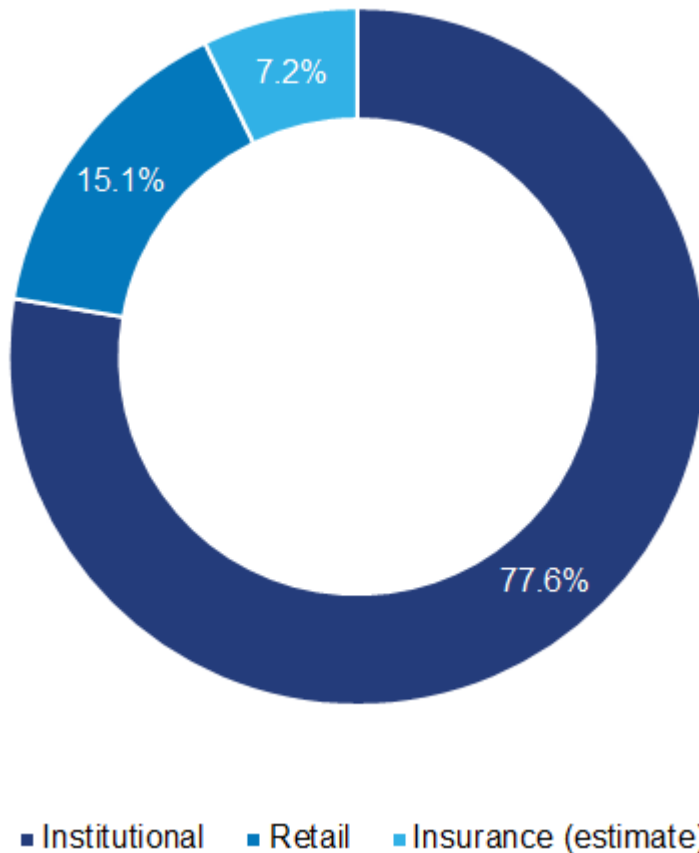
CDLI Quarterly Liquidity (excluding interest)
June 30, 2005 – December 31, 2025



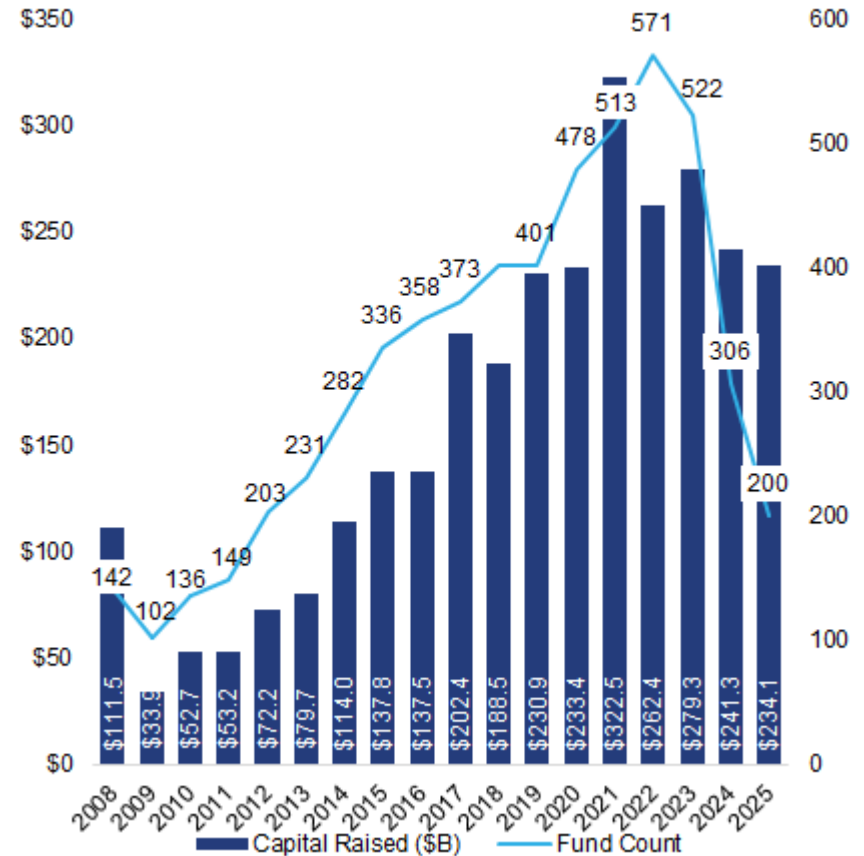
The “organic” liquidity of direct loans is often under-appreciated by investors

- Quarterly portfolio liquidity is oftentimes greater than the typical 5% quarterly tender required for most semi-liquid private credit funds
 - Quarterly Liquidity reflected above represents cash inflows from maturing loan prepayments, and sales, divided by total investments at cost; interest payments are not included in the liquidity figures

Private Debt AUM by Channel



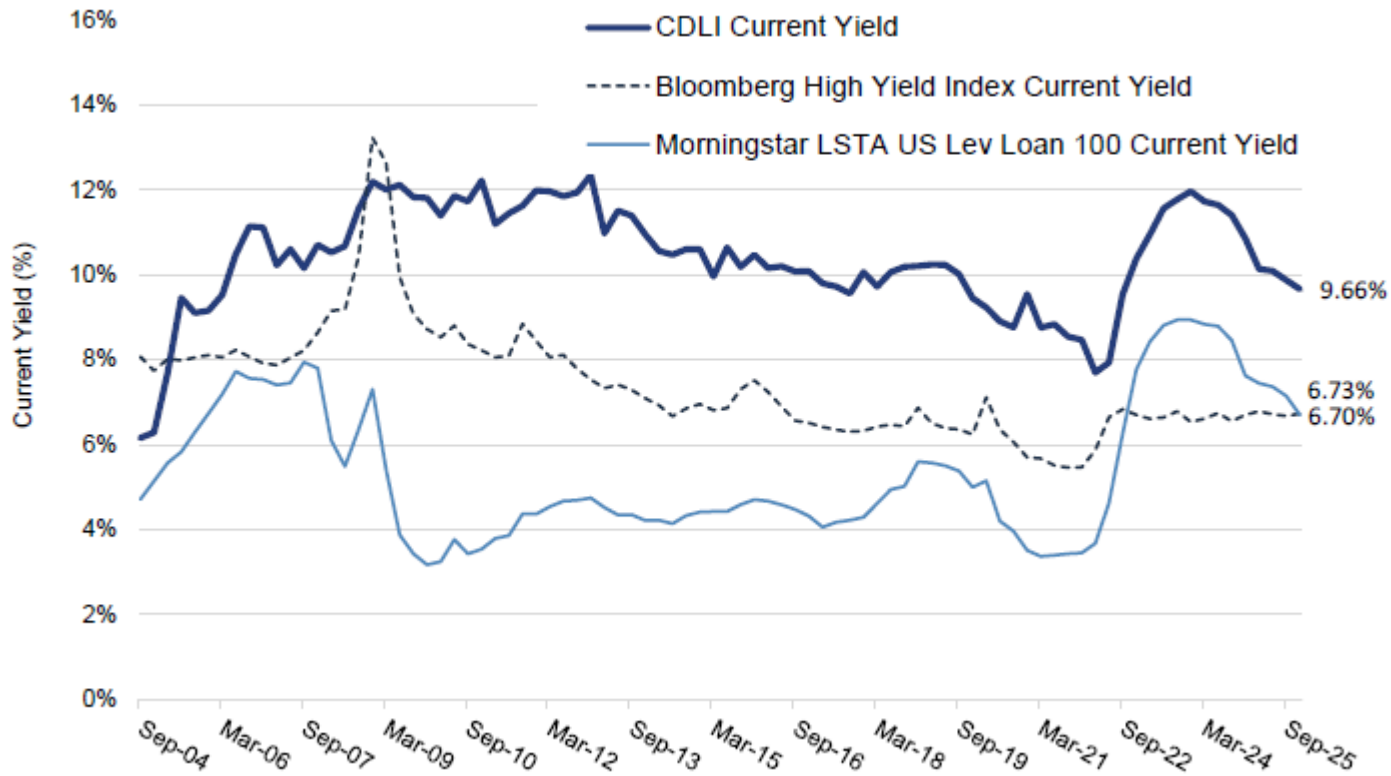
Private Debt Fundraising through Q4'25



Private debt fundraising has slowed since 2021 but remains at healthy levels

- The market remains dominated by institutional investors

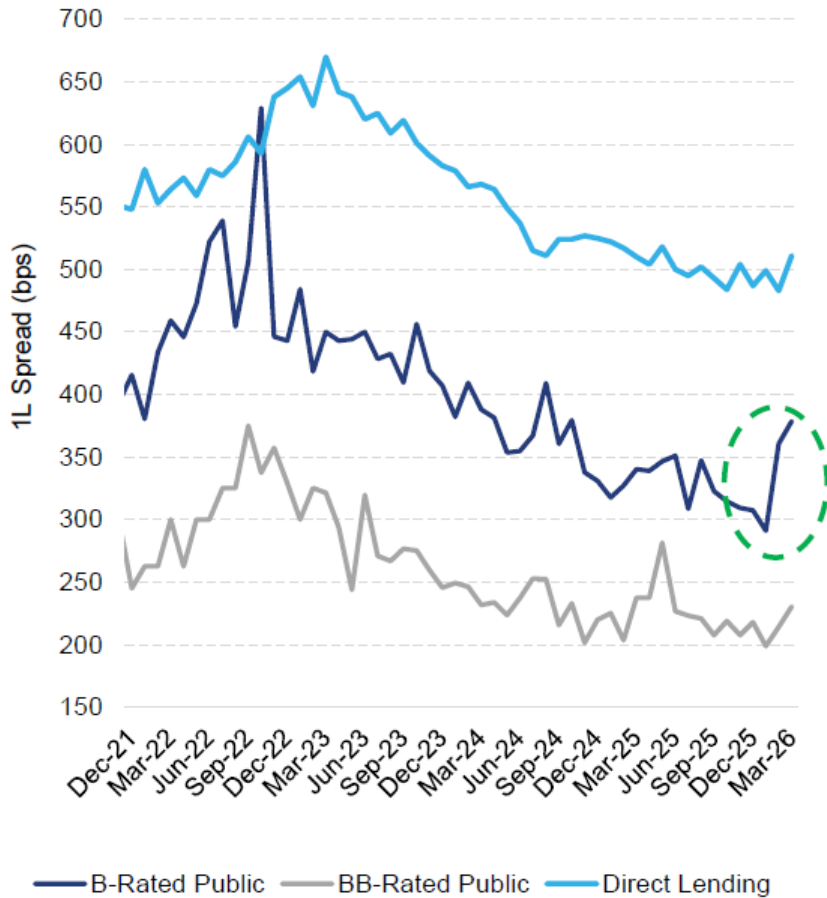
Direct Lending Yield Premium September 2015 – December 2025



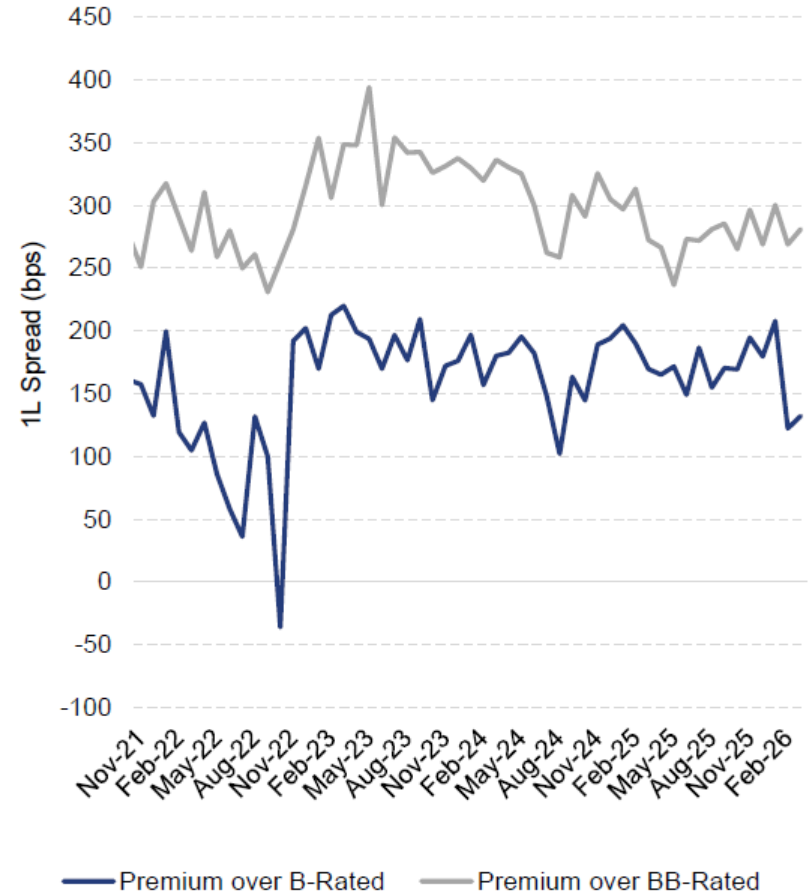
Today's yield premium in direct lending is in line with historical averages

Direct Lending Spreads Rising Given Outflows and Liquid Loan Pricing

New Issue Spreads:
Syndicated v. Direct Lending

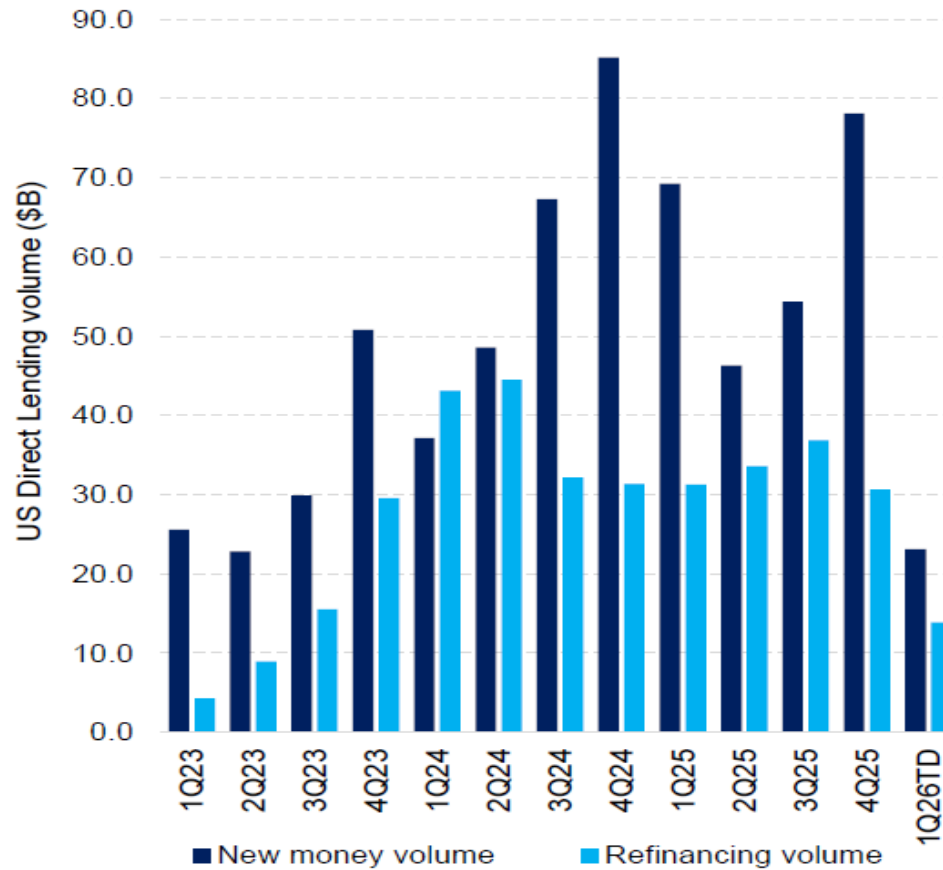


Direct Lending Spread Premium
Over Liquid Loans



Direct Lending Dealfow Slowed in Q1 2026

Direct Lending Loan Volume
2023 – Q1 2026



CDLI Credit Health Snapshot: No Noticeable Signs of Degradation

Credit Health Barometer	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
Non-Accruals % of Cost	1.33%	1.33%	1.26%	1.20%	1.35%	1.27%
PIK Income % of Inv. Income	7.03%	8.13%	6.92%	7.16%	7.30%	7.31%
Share of Loans Marked < 90 (at Cost)	5.17%	5.52%	6.65%	5.72%	5.92%	6.05%
% Portfolios on Watchlist (Fair Value)	9.55%	8.87%	7.19%	7.41%	7.38%	7.37%
Trailing 4Q Unrealized Losses %	+0.22%	+0.15%	-0.40%	-0.17%	-0.20%	-0.38%
Trailing 4Q Realized Losses %	-0.66%	-0.69%	-0.63%	-0.75%	-0.61%	-0.64%

SCERS Credit structure provides flexibility

- Not looking to make any strategic changes at this time

Strong pipeline of opportunities as SCERS continues to implement toward its target allocation

Illiquid/Private Credit

- Long-term strategy remains the same
- Foundational Direct Lending exposure combined with Opportunistic Lending and Special Situations opportunities
- Direct Lending is well-diversified and not overextended to potentially problematic areas
 - Combination of open-end, evergreen structures and closed-end, drawdown vehicles

Liquid Credit

- Less focus on pure play public credit mandates
- Greater focus on flexible mandates that can pivot between public and private credit markets

Important Notice

This presentation was prepared exclusively for information and discussion purposes, and is not meant to be, nor shall it be construed as, an attempt to define all information that may be material to you. All information including opinions or facts expressed herein are current as of the date appearing in this presentation and is subject to change without notice. All information has been obtained from sources believed to be reliable. No representation, warranty, or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this presentation. Past performance does not guarantee future performance.

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, 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 Morningstar LSTA US 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 US High Yield Bond Index 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.

Cliffwater is a service mark of Cliffwater LLC.

Cliffwater Direct Lending Index Disclosures

The Cliffwater Direct Lending Index (the “CDLI”), the Cliffwater Direct Lending Index – Senior (“CDLI-S”), and the CDLI-Perpetual (“CDLI-P”) are owned exclusively by Cliffwater LLC (“Cliffwater”), and are protected by law including, but not limited to, United States copyright, trade secret, and trademark law, as well as other state, national, and international laws and regulations. All information on the performance and characteristics of CDLI, CDLI-S, and is and shall remain the exclusive property of Cliffwater. All content is provided for informational purposes only. Cliffwater provides this information on an “as is” and “as available” basis, without any warranty of any kind, whether express or implied.

Past performance of the CDLI or CDLI-P is not an indication of future results. It is not possible to invest directly in the CDLI, CDLI-S, or CDLI-P. The CDLI, CDLI-S, and CDLI-P returns shown are not based on actual advisory client returns and do not reflect the actual trading of investible assets. The performance of the CDLI, CDLI-S, and CDLI-P have not been reviewed by an independent accounting firm and have been prepared for informational purposes only.

Exposure to the asset class represented by the CDLI, CDLI-S, and CDLI-P is available through investing in a fund, account or other financial product (each, a “Product”) referencing them. Products that reference the CDLI, CDLI-S, and CDLI-P may not be sponsored or endorsed by Cliffwater, and in such cases, Cliffwater does not make any representation regarding the advisability of investing in them. Cliffwater makes no assurance that any Product referencing the CDLI, CDLI-S, or CDLI-P will accurately track their performance or provide positive investment returns. No representation is being made that any person that invests in a Product will or is likely to achieve results similar to those presented herein. A decision to invest in a Product should not be made in reliance on any of the statements set forth on this website (the “Website”).

The data universe of the CDLI is comprised of all underlying assets held by business development companies (a “BDC”) that satisfy certain eligibility requirements. The data universe of the CDLI-S and CDLI-P is a smaller sub-set of the foregoing. Inclusion in the CDLI, CDLI-S, or CDLI-P of the assets held by a BDC does not in any way reflect an opinion of Cliffwater regarding the investment merits of such assets or the BDC, nor should it be interpreted as an offer to buy or sell such assets or the BDC. None of the assets included in the CDLI, CDLI-P, or CDLI-S or their respective BDCs has given any real or implied endorsement or support to Cliffwater or to the CDLI, CDLI-P, or CDLI-S. Cliffwater has no obligation to take the needs of a person investing in a Product or any other person into consideration in determining, composing or calculating the CDLI, CDLI-P, or CDLI-S.

Returns of the CDLI, CDLI-S, and CDLI-P do not reflect payment of any sales charges or fees a person may pay to purchase the assets underlying the CDLI, CDLI-S, CDLI-P, or a Product that is intended to track the performance of the CDLI, CDLI-S, or CDLI-P. The imposition of these fees and charges would cause the actual and back-tested performance of these assets or Products to be lower than the CDLI, CDLI-S, or CDLI-P performance shown.

When Cliffwater was unable to determine the nature of a BDC’s investments because of limited information included in historical SEC filings, Cliffwater did not apply the portfolio composition criteria (a substantial majority (approximately 75%) of reported total assets are represented by direct loans made to corporate borrowers, as categorized by each BDC and subject to Cliffwater’s discretion) to the BDC. In addition, the criteria regarding the timing of SEC filings were not applied for periods prior to the Launch Date. All other eligibility criteria were applied to determine whether to include the BDC in the historical CDLI, CDLI-S, or CDLI-P composition and return. Returns generally are published 75 days after calendar quarter-end.

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