December 17, 2024

To Our Shareholders:

This letter represents an additional earnings-related communication outside our formal (required) quarterly financial statement filings. It is designed to provide a supplemental update on the most recent financial results and investment activity of Sixth Street Lending Partners (SSLP). The contents of this letter should be reviewed in conjunction with our quarterly report on Form 10-Q for the quarter ended September 30, 2024, filed on November 6, 2024 with the Securities and Exchange Commission (SEC), and the presentation for the quarter ended September 30, 2024 posted in the Investor portal and on the Investor Resources section of our website at https://sixthstreetlendingpartners.gcs-web.com/presentations-and-events.

Q3 2024 Highlights

For the third quarter ended September 30, 2024, adjusted net investment income per share was $1.09, corresponding to an annualized return on average daily equity of 15.0%, and adjusted net income per share was $1.36, corresponding to an annualized return on average daily equity of 18.7%. At quarter end, we had approximately $0.15 per share of cumulative accrued capital gains incentive fees on the balance sheet. This non-cash expense, which was not paid or payable, was $0.04 per share for Q3. From a reporting perspective, our Q3 net investment income and net income per share, inclusive of these accrued capital gains incentive fee expenses, were $1.05 and $1.32, respectively.

The difference between this quarter's net investment income and net income per share was primarily driven by unrealized gains from both the impact of tightening credit spreads on the valuation of our portfolio and a number of positive portfolio company-specific events. At quarter-end, our reported net asset value per share reached another record high of $29.69, compared to $29.05 in the prior quarter and $27.19 at September 30, 2023.

Adjusted net investment income of $1.09 per share exceeded our base quarterly dividend by $0.42 per share, or 63%. We view our base dividend as an ongoing cash liability and therefore, we set it at a level that we believe – with a high degree of confidence—will be supported by the earnings power of our portfolio, inclusive of credit losses and fully burdened for the post-listing fee structure. We continue to meaningfully over-earn the current dividend level given the concessional fee structure combined with the impact from the higher interest rate environment and zero credit losses.

As of September 30, 2024 our estimated undistributed income grew to $1.42 per share. To proactively address our RIC distribution requirements, our Board has declared a payment of a special dividend in the amount of $1.86 per share during Q4 2024. The special dividend amount is $0.44 per share higher than our undistributed income as of September 30 because we have included preliminary estimates of excess earnings for Q4 within the special dividend amount to minimize excise taxes for the calendar year. The record date for the special dividend was December 9, 2024 and the payment date has been established as December 18, 2024. This special dividend will allow us to prioritize returns to shareholders by minimizing the drag on return on equity that is caused by excise taxes and ensure we comply with our RIC distribution requirements. We will continue to follow this framework of quarterly base dividends supplemented with special dividends as necessary to achieve these objectives.

As for the quarterly base dividend, on September 30, 2024, our Board of Trustees approved a dividend of 67 cents per share to shareholders of record as of September 30, 2024, and the dividend was paid on November 12, 2024. As the record date occurred on the last day of Q3, the dividend liability (payable) is reflected on the balance sheet as of September 30, 2024.

Financial Overview

Total investment income for the quarter was $178.9 million, compared to $157.5 million in the prior quarter. Net expenses, excluding the impact of the non-cash accrual related to capital gains incentive fees, were $74.6 million, up from $68.5 million in the prior quarter. The increase in expenses was primarily driven by the combination of higher interest expense resulting from an increase in the average debt outstanding and higher management and incentive fees due to an increase in average capital called and pre-incentive fee net investment income.

At quarter-end, total assets were $6.7 billion, up from $5.5 billion in Q2 2024. Our average debt-to-equity ratio decreased quarter over quarter from 0.99x to 0.93x and our net debt to equity was 0.99x at quarter-end. This compares to our previously stated target average leverage of 1.00x debt-to-equity.

During Q3, we continued to build out our debt capital profile including pricing $600 million of long 5-year 5.750% bonds in September 2024. The issuance marked SSLP's third trip to the bond market, bringing total unsecured debt proceeds issued since inception to $1.35 billion across 2029 and 2030 maturities. The issuance also increased the unutilized capacity on our credit facilities, inclusive of unrestricted cash, to over $1.2 billion at quarter-end, which can be viewed against $691 million of unfunded portfolio company commitments eligible to be drawn. As a reminder, we have obtained two investment grade ratings from Moody's (Baa3; stable) and Fitch (BBB-; stable). We are proud of the timeline in which have proved our access to financing and are in the process of expanding the number of investment grade ratings that we hold. Over time, this should ultimately lead to a lower cost of financing.

Total principal debt outstanding at quarter end was $3.5 billion, and net assets were $3.1 billion, or $29.69 per share. Net asset value per share was up $0.64 per share or 2.2% from prior quarter net asset value per share of $29.05. Year-over-year, net asset value per share has increased by $1.09 per share, or 9.2%.

In terms of the main drivers of NAV movement during the quarter, we added $1.09 per share from adjusted net investment income against our base dividend of $0.67 per share. There was $0.04 per share of non-cash accrued capital gains incentive fee expenses related to this quarter's net realized and unrealized gains. Portfolio company specific events resulted in $0.16 per share uplift to net asset value per share, primarily driven by higher marks on equity investments. The impact of tightening credit spreads on the valuation of our portfolio had a positive $0.15 per share impact. And finally, the reversal of net unrealized gains on the balance sheet related to investment realizations resulted in a $0.03 per share reduction to NAV per share.

Investment Activity

Our outlook for private credit improved in the third quarter following the interest rate cut in September 2024. As rates continue to decline based on the shape of the forward interest rate curve, we generally expect corporate credit and activity levels to benefit from the shift in economic policy. On corporate credit, a lower cost of capital should improve the cash flow profile of borrowers after a prolonged period of slower growth and higher interest rates. In terms of activity levels, we anticipate that rates unlocking will support a more active M&A environment which we already started to see in Q3 as broadly syndicated loan volume to finance LBOs reached the highest level in 2.5 years. While it is encouraging to see this uptick in activity, we believe a more significant increase in deal flow will take time, as today's valuations generally remain below the purchase prices paid in the low interest rate or "free money" era prior to 2022.

In Q3, we remained busy ramping the SSLP portfolio with total commitments and fundings of $1,156 million and $890 million, respectively. This was distributed across eight new portfolio companies and four upsizes to existing investments. Total exits and repayments (inclusive of sales) were $84 million from one full and three partial realizations in Q3 2024 resulting in $807 million of net funding activity.

Given the tighter spread environment that persists in credit markets, we continued to lean in on the capabilities across the Sixth Street platform during the quarter to differentiate our capital. This includes focusing on sector themes that coincide with our platform's underwriting expertise and leveraging our deep relationships to source unique investment opportunities.

To highlight one of our sector themes where we were active during the quarter, Sixth Street closed and funded a $400 million senior secured credit facility for Arrowhead Pharmaceuticals, which is a clinical-stage biotech company focused on the development of drugs for a wide range of conditions. We worked alongside our healthcare sector team to provide the company with long-term capital to fund R&D and platform development. The combination of Sixth Street's scale, expertise and flexibility contributed to the sourcing and execution of this attractive investment opportunity for SSLP shareholders.

We also added to our retail ABL portfolio during Q3 through our investment in Belk, which was our second largest funding for the quarter. Belk is a regional department store retailer with a strong collateral base. The transaction was part of a balance sheet restructuring, ultimately allowing the company to de-lever and improve its financial positioning. Our ability to create value for shareholders in this theme has been built over a number of years by investing in dedicated resources, teams and relationships. We do not believe these competitive advantages can be replicated overnight.

We've been increasingly active in opportunistic and non-sponsor channels to drive shareholder returns. Arrowhead and Belk represent non-sponsor transactions, which comprised 37% of total new investments funded in Q3. The weighted average yield at fair value on these investments was 13.6% compared to 10.4% for our other new investments during the quarter.

From a credit quality standpoint, the overall performance rating of the portfolio remains strong, with a weighted average rating of 1.05 on a scale of 1 to 5, with 1 being the strongest, representing no change from prior quarter. There were no investments on non-accrual status as of September 30, 2024.

In terms of portfolio composition, yields on debt and income producing securities at fair value decreased quarter-over-quarter from 12.4% to 11.9%. The weighted average yield at amortized cost of new investments, including upsizes, this quarter was 11.7%. Across our core borrowers for whom these metrics are relevant, we continue to have conservative weighted average attachment and detachment points on our loans of negative 0.4 times and 4.9 times, respectively, and their weighted average interest coverage remained flat at 2.0 times quarter-over-quarter.

As of Q3 2024, the weighted average revenue and EBITDA of our core portfolio companies was $679 million and $217 million, respectively. Beginning this quarter, we will also note going forward the median revenue and EBITDA for those same borrowers which was $224 million and $73 million, respectively, for Q3.

September 30, 2024 marked the end of our ninth quarter of operations for SSLP since we made our first investment. We are pleased with the results we have generated for shareholders to date, represented by 17.3% net income return on average daily equity since inception in August 2022. We believe the strength of our results reflects the continued impact from the higher interest rate environment, ongoing benefit of the pre-listing fee structure, our disciplined asset selection and stable credit performance across underlying portfolio companies. Further, we believe the current environment indicates that we have likely reached peak earnings. As interest rates are expected to decline, we expect returns to be lower on an absolute basis but remain high on a risk-adjusted basis for our shareholders. As we continue to build the business, we are committed to maintaining top tier returns, and we thank you for your continued support.

Sincerely,

Joshua W. Easterly
Chief Executive Officer and Chairman, Sixth Street Lending Partners
Co-Founding Partner, Co-President and Co-Chief Investment Officer, Sixth Street