SIXTH STREET
SPECIALTY LENDING

April 30, 2025

To Fellow Shareholders and our Stakeholders,

Déjà vu (well, kind of) in that we find ourselves writing again in a period of market volatility and general uncertainty. Can't say we have missed this exercise!

But the letter writing itself is where the déjà vu ends. We believe that this generation of risk takers and investors have yet to experience what possibly lies ahead.

With so much going on, you may ask, "why even write a letter?"

Our hope is that over our firm's history, you have come to know the Sixth Street brand as one of (1) direct communication (and prioritizing this at the most difficult and uncertain times) and (2) an investor-first mentality that is focused on disciplined capital allocation that benefits all of our stakeholders. By writing this letter, we are continuing to clarify our thoughts and deliver both tenets. Please don't mistake this for us thinking we are always right – we get things wrong all the time and now we may have a shared record of it!

For the last couple of years, I have been asked by my partners (which they have often regretted given I can be wordy) to present the macro/investment section for our private funds annual general meeting. Please see select slides attached in the appendix (updated for the most recent data). One of our recurring themes was that the world started changing post global financial crisis (in an almost unnoticeable way given that the changes were slow and incremental) from a world that could be characterized by globalization, deflation, low rates, structurally low volatility and tight risk premiums (and arguably excess returns on capital) into something very different.

Our belief is that we are now living within a new world order with the backdrop of unwinding of globalization, higher structural rates, elevated volatility and increased risk premiums. We believe these changes are having and will continue to have a profound impact on the real economy, markets and risk assets (likely to include, but not limited to, structurally lower returns on capital and less growth). It is possible that we are currently in the middle of the most significant event that will have long-term impacts on the investment environment. In the long arc of the economy, we consider the current upheaval to global trade as more significant than the COVID stimulus and even the global financial crisis (although we would argue that the global financial crisis was the first domino to fall and got things rolling).

People can and will debate the politics of it all – the one thing that we are clear-minded about is the outcomes from the recent change of policies will not be known for some time and are quite complicated. As investors, our job is to embrace reality (not to hope for a different reality) and prepare/position probabilistically for changes in that reality.

Our hope in this letter is we accomplish the following:

- Thoughts on the Current Environment
- Unit Economics / Framework for the Industry (Spoiler: Inflection Point)
- Our Strive for "Anti-Fragility" (Our Business Model)
- Update on our Business Including:
    - The Portfolio (Lefthand Side of our Balance Sheet)
    - Liquidity, Funding, and Capital (Righthand Side of our Balance Sheet)

For long-time readers of our materials or listeners to our earnings calls, some of this will hopefully feel repetitive, but given the environment, we felt obligated to re-share.[1] Although we have strong feelings/conviction on some topics (and less conviction on others), this letter is written with humility and hopefully with some humor.

Thoughts on the Current Environment: An Investor's View (Not a Political View)

Given the strength of the consumer (and the consumer's relative impact on the U.S. economy), we believed the real economy entered the year from a place of strength. Although on the margin, the consumer was weakening, including from depleting "COVID" savings, the consumer's balance sheet and earnings profile was strong. The cohort of the consumer that was weakening was a cohort that spends relatively little and is not a driving force in the U.S. economy. Financial markets seemed, on the margin, out over their skis (or simply pricing in too much continued growth) with tight risk premiums across asset classes (i.e., excess returns over risk free). As we spoke about on our last earnings call, given tight, and in our view, unsustainable risk premiums across credit, coupled with our understanding of our cost of capital/equity, we were disciplined regarding asset selection (more to come on that topic below).

The current changes in global trade policy (again, not debating the merits of the policy) have, in our mind, not only broad-based impacts on risk assets but more importantly on the real economy. Let's start with the real economy. First, the level of uncertainty created by the policy shift will have a significant impact not only on the capital expenditure cycle for corporates but general hiring and resource allocation decisions. Any economy requires a level of certainty regarding the rules so decision makers can allocate resources. Those resources and the associated velocity of money is part of the fuel for the economy. The rules not only have to be known, but participants must also believe they are sticky.

A thought exercise might be helpful to illustrate this conundrum. Let's say you are in the C-suite at Nike. Your current supply chain is predominately overseas to ensure that you are competitive on the cost curve (consumers want a competitive price point and investors want industry-leading margins). Moving your supply chain back to the U.S. is not only complicated, but any change in tariff policies would have a meaningful impact on the "math" (return on investment), most significantly creating long-term impacts

[1] See our previous shareholder letters: "TSLX Provides Business and Portfolio Update" posted on March 16, 2023; "TSLX Update to Stakeholders" posted on March 26, 2020; "TSLX Provides a Business Update and Preliminary Q1 2020 Financial Results" posted on April 16, 2020; "TSLX Provides a Business Update and Preliminary Q2 2020 Financial Results" posted on July 23, 2020.

for where you sit on the cost curve. Talk about being between a rock and a hard place. We would generally assume that executive teams are not making decisions, or only small incremental ones.

Now consider that there are millions of these types of decisions being made (or not made) every day in the real economy. The slowing of such decisions will have a significant impact on the real economy. Among other factors, this uncertainty is weighing on prospects for both global and U.S. growth. Global growth estimates have been cut by 18% (from 2.8% to 2.3%), while U.S. growth estimates have been cut by more than 50% (from 2.6% to 1.2%) for 2025. These revisions are basically over 3 months. In addition to impacting global growth, the trade policy changes (combined with other policy changes), are inflationary on the margin. One would expect with the sharp change in global growth prospects, slack would be introduced into the economy which would be deflationary with a corresponding change in medium and long-term rates. But that's not what's happening. On the contrary, although very volatile, rates are basically unchanged with the 10-year at 4.19% (as of April 29, 2025) compared to 4.16% (on average during January 2025) and the 30-year at 4.66% compared to 4.39%. We think the market is saying the following (especially with the curve steeping): 1) risk of recession has increased with the tails getting fatter and 2) stagflation is now in play (slowing growth and sticky inflation).

In short, we think this environment is tricky for risk assets – especially those risk assets that depend on growth (think equities) and low discount rates (again, equities). To frame it differently, think about the environment that drove outsize returns on risk assets up until COVID and on the other side of COVID (pre Q3 2022). We would characterize that environment, and the associated dominos as follows; globalization (importing deflation into developed economies from emerging economies that were lower on the cost curve) with an accommodative demographic overlay; lower rates and structurally lower volatility, and tight risk premiums. High growth and low discount rates are the fuel for both earnings growth and multiple expansion (and therefore, outsized returns on equity). Now, compare that to the environment we find ourselves in today!

For the record, we do not think our thoughts on the "macro" should hold outsized weight! There are two watch outs or counterpoints to our "macro" call. First, technology – specifically, generative AI. AI has the ability not only to create disruption in the labor markets (near term headwind to the economy driven by increased unemployment) but also create significant deflation (although near term likely to be inflationary) which will be a significant boost to risk assets (starting the cycle of growth this time through productivity gains and low discount rates). The second is that policy could change again rapidly, although we think that does not completely unwind the secular shift put into motion.

Now on to stuff we can control. Hopefully the following is a helpful reset on Sixth Street Specialty Lending, Inc. ("SLX") and the industry we operate and compete in.

Unit Economics / Framework for the Industry, or "Today's Front Book is Tomorrow's Back Book"[2]

We don't want to bury the lede – the industry is at a real inflection point. If you have dialed into any of our earnings calls over the last several quarters, you will be familiar with our framework for creating

[2] BDC Peers consist of 26 externally managed BDCs in the S&P BDC Index with total assets greater than $1.0 billion measured as of 6/30/2024. Data sourced from company filings and SNL financial.

value for our shareholders. Put simply, this is deploying capital into investment opportunities that will earn a return on equity that is greater than one's cost of equity capital. This is the framework that guides us in maintaining investment selectivity and discipline. We have been vocal that a pricing floor exists in the BDC model and capital should not be allocated to investments below a certain spread. We'll walk through this again in detail now to clearly demonstrate that operating a successful BDC is about disciplined capital allocation. Given it is YOUR capital, we think success is defined by return on equity, not by growth in assets (unless you are allocating additional capital to us, you don't participate economically in such growth).

We believe it is not completely apparent to investors or allocators of capital at this point, the difference between the last twelve month ("LTM") or even last quarter results and the future. LTM and the future diverge in two important areas: 1) spot SOFR rates vs. the swap curve and 2) the spread on the back book vs. "market" spreads on the front book (i.e., new deals). First, spot SOFR is 4.3% vs. the 3-year SOFR Swap at 3.5%. This means the market believes the average SOFR experienced over the next 3 years will be approximately 80 basis points lower than the current spot rate. That is simply a pre-loss headwind to ROEs of approximately 80 basis points. Second, given loans are callable, the back book (i.e., higher spread assets) will disappear and the "front book" (capital allocated at today's spreads) will dominate. This will also be a major headwind to ROEs for the sector.

For simplicity, in this analysis we will assume management fees, incentive fees and operating expenses are all based on the LTM average for the sector and average cost of funds is based on the latest reporting period available (Q4 2024). We'll also assume leverage in the middle of the target range for BDCs indicated by the rating agencies to be designated investment grade of 1.10x. While management and incentive fee structures, as well as leverage levels, vary across the industry, these minor differences do not result in a different conclusion. And finally, we will assume annual credit losses of 100 basis points on assets which is the long-term historical average according to the Cliffwater Direct Lending Index. Using the current spot rate of approximately 4.3% and 1.5% OID over a 3-year average life, the return on equity based on the weighted average portfolio spread for public BDCs as of 4Q 2024 of 592 basis points is 6.7%.

It is important to note that this output is based on the current spot rate and portfolio spreads as of the most recent reporting period. Once again for emphasis, today's front book is tomorrow's back book. To illustrate the forward return on equity for the sector, we've done the same analysis using the 3-year SOFR swap rate of 3.5% and the weighted average spread on new first lien loans in public BDC portfolios in Q4 2024 of approximately 5.4%. This implies a forward return on equity of 5.2%. At these spreads, the sector is not earning its current dividend yield, let alone its cost of equity. Maybe the hope from management teams is that the cost of equity for the space will re-rate. We were hard pressed to find balance sheet heavy financials with a cost of equity less than 9%. The following two charts illustrate the math we have been discussing on our earnings calls. We have also included a sensitivity table reflecting ROEs at portfolio spread levels with the other variables held constant.

BDC Peers Illustrative Unit Economics / Return on Equity	Today	Forward
Return on Assets:		
Weighted Average Interest Rate of Portfolio	10.2%	8.9%
Amortization of upfront fees	0.5%	0.5%
Total Yield on Debt and Income Producing Securities	10.7%	9.4%
Impact of Additional fees	0.0%	0.0%
All-in Yield (on Assets)	10.7%	9.4%
Cost of funds[1]	(6.8%)	(6.0%)
Assumed Debt/Equity	1.10x	1.10x
Net Interest Income Return (on Equity)[2]	**15.0%**	**13.2%**
Management Fees (1.50% of Assets)[3]	(3.2%)	(3.2%)
Operating Expenses (0.49% of Assets)	(1.0%)	(1.0%)
ROE Before Incentive Fee	**10.8%**	**9.0%**
Incentive Fee[3]	(2.0%)	(1.7%)
Credit Losses	(2.1%)	(2.1%)
ROE on NI	**6.7%**	**5.2%**

1. Cost of funds reflect the annualized interest expense over average debt outstanding.

2. Calculated as All-in-Yield (on Assets) x (1 + Assumed Debt/Equity) – Cost of Funds x Assumed Debt/Equity.

3. Average BDC Peers management fees of ~1.50% and incentive fees of ~18.75% pre-incentive fee income.

BDC Peers Illustrative Forward ROE

Credit Losses (on Assets)	Weighted Average Portfolio Spread					
	4.50%	5.00%	5.50%	6.00%	6.50%	7.00%
0.00%	5.8%	6.6%	7.5%	8.3%	9.2%	10.0%
0.25%	5.2%	6.1%	6.9%	7.8%	8.6%	9.5%
0.50%	4.7%	5.6%	6.4%	7.3%	8.1%	9.0%
0.75%	4.2%	5.0%	5.9%	6.7%	7.6%	8.4%
1.00%	3.7%	4.5%	5.4%	6.2%	7.1%	7.9%
1.25%	3.1%	4.0%	4.8%	5.7%	6.5%	7.4%
1.50%	2.6%	3.5%	4.3%	5.2%	6.0%	6.9%
1.75%	2.1%	2.9%	3.8%	4.6%	5.5%	6.3%
2.00%	1.6%	2.4%	3.3%	4.1%	5.0%	5.8%
2.25%	1.0%	1.9%	2.7%	3.6%	4.4%	5.3%

Turning to our portfolio, there are two key differentiators that result in a significantly different outcome for return on equity. First, the weighted average spread over reference rate of the SLX portfolio as of March 31, 2025 was 7.5%, which is 160 basis points wider than the average portfolio spread for the public BDC sector. And second, we have a longstanding historical track record of lower credit losses relative to the Cliffwater historical average. For illustrative purposes, we've assumed 50 basis points of credit losses on assets for SLX. On a spot basis, this implies a return on equity of 11.8%. On a forward basis, using the 3-year swap rate and a portfolio spread of 7.0% (equal to the spread on new investments in Q1 2025), the implied return on equity is 10.3%. In addition to higher spreads and lower credit costs, we have generated additional economics on our portfolio through activity-based fee income (including call protection, structuring fees, etc.) that have averaged 0.7% over the past 3-years and 1.9% since IPO. For our illustrative purposes, we have used our LTM average of 0.8%.

TSLX Illustrative Unit Economics / Return on Equity	Today	Forward
Return on Assets:		
Weighted Average Interest Rate of Portfolio	11.8%	10.5%
Amortization of upfront fees	0.5%	0.5%
Total Yield on Debt and Income Producing Securities	12.3%	11.0%
Impact of Additional fees	0.8%	0.8%
All-in Yield (on Assets)	13.1%	11.8%
Cost of funds[1]	(7.1%)	(6.4%)
Assumed Debt/Equity	1.10x	1.10x
Net Interest Income Return (on Equity)[2]	**19.6%**	**17.7%**
Management Fees (1.48% of Assets)[3]	(3.1%)	(3.1%)
Operating Expenses (0.40% of Assets)	(0.8%)	(0.8%)
ROE Before Incentive Fee	**15.6%**	**13.8%**
Incentive Fee[3]	(2.7%)	(2.4%)
Credit Losses	(1.1%)	(1.1%)
ROE on NI	**11.8%**	**10.3%**

1. Cost of funds reflect the annualized interest expense over average debt outstanding.

2. Calculated as All-in-Yield (on Assets) x (1 + Assumed Debt/Equity) – Cost of Funds x Assumed Debt/Equity.

3. TSLX fee structure reflects management fees of 1.48% on average quarterly assets and incentive fees of 17.50% on pre-incentive fee income.

This analysis illuminates a significant challenge confronting the BDC sector: an imbalance between capital formation and deployment opportunities. Excess capital supply within the BDC space has exerted downward pressure on new investment spreads (coupled with the lack of global M&A volume), creating an environment where achieving appropriate risk-adjusted returns on equity is increasingly difficult. The vast majority of the capital coming into the strategy is through the non-traded perpetually offered vehicles. Below is the growth in BDC assets in 2024, highlighting that nearly 80% of capital flows into the sector were in perpetually private BDCs.

AUM by BDC Type

($ Billions)	12/31/2023	12/31/2024	YoY ($)	YoY (%)
Perpetually Private BDCs	114.7	205.8	91.1	79%
Private BDCs	68.0	67.3	(0.7)	-1%
Public BDCs[1]	124.1	149.2	25.0	20%
Total	**$306.84**	**$422.20**	**$115.36**	**38%**
% Perpetually Private of Total	*37.4%*	*48.7%*	*78.9%*	

Source: Cliffwater Direct Lending Index.

1. Excludes assets acquired by public BDCs via merger.

A couple of notes on the perpetual non-traded offering. There are a lot of great managers in the space. We are fans of many of them! Given our stated goals of managing our portfolio with robustness and "antifragility" (more on this later), however, we ourselves have not yet figured out a strategy to manage such a vehicle at scale in a way that would be consistent with our investment philosophy.

Investors in our industry have two choices, the "what" and the "when". Vehicles built on perpetual retail flows are vastly limited in both choices as retail capital ebbs and flows. You are limited on the "when", because dollars that come in need to be put to work right away, and the "what" is therefore determined in large part by what is on the menu at that time.

In addition, there is wrong way risk as it relates to flows. Flow levels tend to be the largest when risk premiums are at all time tights. You only have to look at 2024 and the Q1 2025 collapse in private market spreads. During "risk off" periods, when risk premiums are attractive, both capital and liquidity leave the system. This is wrong-way risk for both the capital and manager (as there is a promise and an expectation of liquidity, even if the fine print includes redemption gating provisions). These risks are borne by all shareholders.

There are significant advantages to these vehicles for allocators vs. drawdown funds, including getting money working quickly and access to a portfolio in one big swoop. Let us be clear, the unit economics (although the cost structure and incentives might be slightly different), apply equally to the traded and non-traded space. Again, there are great managers who manage these vehicles; we just haven't found a way to make sense of them if our goal is robustness and antifragility related to the return streams we are manufacturing.

This underscores the importance of our differentiated sourcing approach at SLX. Our ability to earn our cost of equity, stemming from our unique sourcing capabilities and focus on less competitive segments of the market, support our return profile. While we acknowledge the headwinds facing the broader BDC sector, we believe the current environment will ultimately reward disciplined managers with proven track records of performance who prioritize returns over growth and maintain a commitment to earning their cost of capital. This focus, we believe, will be the key contributor to the dispersion in returns for the sector in the future.

<u>Our Strive for Anti-Fragility (Our Business Model)</u>

The business model for a BDC is quite simple. A monoline, long only business that primarily owns credit assets (private credit for the most part) held in a regulated wrapper that forces distributions based on taxable income with limited choices related to your capital structure/use of financial leverage. Many industry observers conflate the simplicity of the model with a view that the participants in the market are undifferentiated. We believe the "undifferentiated" view is far from the truth and please excuse the philosophical off ramp as we explain why.

Pure credit assets (i.e., spread assets vs. other credit asset classes that have an interest rate component such as fixed-rate investment grade or high yield) are by nature fragile. While there are a number of reasons for this, it is primarily a function of two factors which are that pure credit assets (i.e., loans) are: (i) callable (the "gardening the weeds" paradox, where one's best investments are called away, and you are left with your poor investments, the weeds), and (ii) short volatility and uncertainty (i.e., during periods of uncertainty, credit spreads tend to widen and lower the value of these assets). For my partners and me, who are all long-term stakeholders in SLX, and as a manager whose business model is levered to retaining the management contract, this fragility seems outright undesirable.

Complicating this further is the typical BDC model where managers have to be long-only investors and fully invested to meet a dividend that the market expects (this is more pressurized in the perpetually offered non-traded product), and where the universe of "alpha" generating middle market loan assets that can be originated is not infinite (especially when you consider where the typical BDC sits on the cost curve, i.e., its fees and expenses). Layer on top of this the additional complications of the promises and perils of financial leverage, a mark-to-market valuation framework, and regulatory requirements (both on retaining capital and incurrence of debt), to name a few. We've used this metaphor before, but if you are a Texas hold'em player (which I am not), this is clearly not starting with pocket Aces or Kings or Ace-King suited.

How do we then try to solve these seemingly undesirable elements of the BDC model in our business? Unfortunately, there is no magic bullet. But we do have a pretty good idea of the "first step": recognizing the inherent constraints and risks of one's business model and developing principles to mitigate their undesired outcomes. Hindsight is always 20/20, but let us be clear, we have gotten things wrong in the past. We will inevitably get things wrong in the future, but we are learning along the way and continuing to evolve our thinking and our processes to build a more robust framework.

The fundamental constraint for BDCs as we see it: on the left-hand side of the balance sheet, we are long fragile assets (those that are short volatility and uncertainty). This is coupled with both leverage and strict regulatory requirements. Our stated goal is not only to survive volatility and uncertainty, but to grow and create value (following Nassim Nicholas Taleb's concept of anti-fragility[3]).

How do you bring anti-fragile elements into your model (or at minimum, elements of robustness)?

1. <u>Mitigating the "inherent fragility" on the left-hand side of the balance sheet</u>: Among the general tools we use to endeavor to mitigate this fragility in our investments are: high-quality sector; financial sponsor and management team selection; reducing reinvestment risk (the fight against the "gardening the weeds" paradox); covenants; interest rate floors; understanding where we are in the earnings and business cycles; and focus on secondary source of repayment (where that secondary source isn't correlated to the enterprise value of your issuer).

2. <u>Building anti-fragility (or at least robustness) on the right-hand side of the balance sheet</u>: We discuss our balance sheet positioning in more detail later in this letter, but at a high level, these elements include the following:
   - Paying for the "option" on liquidity during periods of low volatility – Although an uncomfortable concept because there is a cost, this is paying for and holding liquidity (which can be less than optimal from an ROE standpoint). We have over $1 billion of undrawn capacity on our revolving credit facility on a balance sheet that is approximately $3.5 billion

[3] "Antifragility is beyond resilience or robustness. The resilient resists shocks and stays the same; the antifragile gets better." *Antifragile: Things That Gain From Disorder*, Nassim Nicholas Taleb (2012)

in size. We cover our unfunded commitments by approximately 4.6 times versus the sector median of 2.1 times (as of December 31, 2024)[4].

- Paying for "insurance" related to tenor / roll risk – We have a policy of extending the maturity of our five-year revolving credit facility every 12-15 months. As a result of this and through opportunistically issuing term debt in the unsecured market during periods of low market volatility, we have an estimated weighted average remaining life of investments funded with debt at quarter end of approximately 2.3 years, compared to a weighted average remaining maturity on our debt of approximately 4.2 years.[5]
- Building anti-fragility into our financial policy regarding financial leverage: Our stated financial policy of 0.9x to 1.25x debt-to-equity ratio is well below the regulatory limits (and any constraints in our financing arrangements). This was designed to preserve our "reinvestment option" during times of high uncertainty when risk-reward is more obvious.

3. <u>Finding the right balance between business model and scale to create anti-fragility</u>: We have long said that scale is the enemy of outsized returns (there are not limitless "alpha" direct middle market lending opportunities especially in context of a BDC's total cost structure). Scale is most definitely beneficial – at times, one can bring the scale of the platform and its capital to solve an issuer's problem and create substantial value for stakeholders. In addition, scale allows you to have additional resources available (e.g., deep sector knowledge, sourcing capabilities) to benefit your clients (i.e., financial sponsors and issuers) and stakeholders. Scale on its own, however, should not be conflated with or seen as a replacement to the other required elements of a robust business model.

4. <u>Intentional Allocation of Your Capital</u>: First of all, make no mistake, it is YOUR capital that you have entrusted us to manage. On a side note, this was our major theme on our Q2 and Q4 2024 earnings calls. We take that responsibility seriously; it weighs heavy on us. We think about allocation of capital in three vectors. First, does the asset provide an "illiquid premium" compared to comparable liquid credit assets (i.e., the broadly syndicated loan index). This should be viewed on a loss adjusted basis (net asset spread post probability of default and loss given default for both assets). To be clear, the "illiquidity premium" is a euphemism for "can't change your mind premium". Given there is no readily available market for private assets (or at a price where a rational actor would transact), you can't really change your mind. I don't know about you, but I like changing my mind when the facts have changed (a little nod to John Maynard Keynes). Secondly, does the unlevered asset return provide the right return skew given the level of risk. Note, we didn't say the right expected (i.e., average) return. Given the distribution of losses, does the asset have the right unlevered return (as measured in "IRR") and

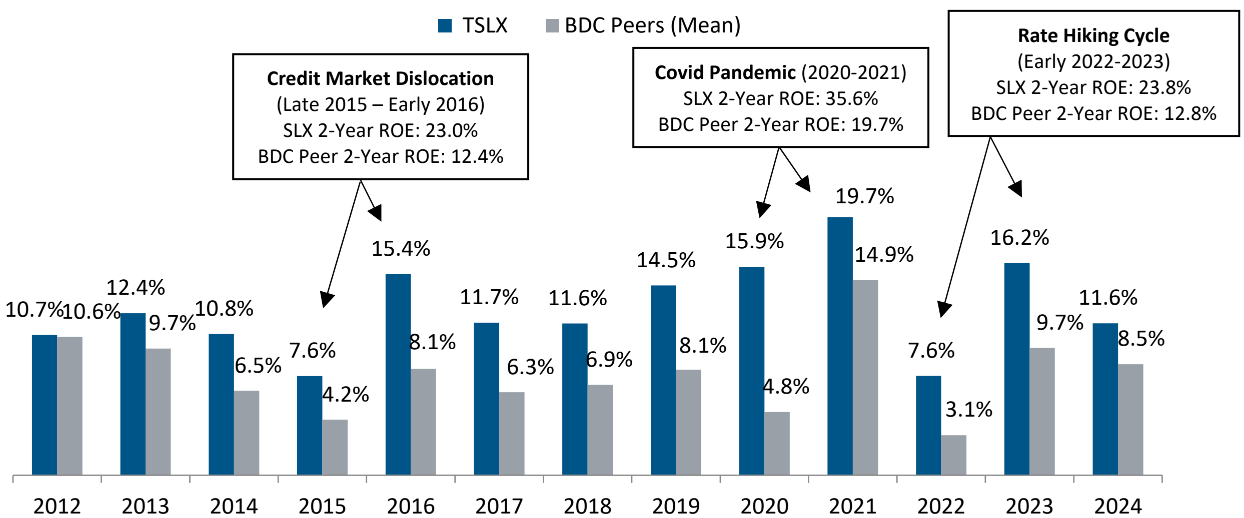
[4] BDC Peers consist of 26 externally managed BDCs in the S&P BDC Index with total assets greater than $1.0 billion based on quarter ended 6/30/24 financials. Metric is calculated as (total undrawn commitments under revolving credit facility + unrestricted cash) / unfunded commitments. Since unfunded commitments may be subject to limitations on borrowings set forth in the agreements between the Company and the applicable portfolio company, when data is available, we use the lessor of i) eligible unfunded commitment to be drawn as of 12/31/24 and ii) total unfunded commitments. Data sourced from company filings and SNL financial.

[5] Weighted by amortized cost of debt investments. Investments are financed by debt and permanent equity capital. This analysis assumes longer-dated investments are currently funded by permanent equity capital (47% of investments) and the remaining (shorter-dated) investments (53% of investments) are currently funded by debt financing. Permanent equity capital is defined as 12/31/24.

M-o-M/Return on Invested Capital (as nobody has figured out how to actually eat "IRR"). Finally, and where we think the sector may have lost its way, does the asset level return (post expected losses) exceed your cost of capital/equity. This is a relatively easy calculation (as previously outlined earlier in this letter).

So, how have we done creating, at a minimum, a level of robustness and hopefully some anti-fragility? Below is our track record of annual return on equity on net income since inception. Our average ROE during years of heightened volatility has been 13.7% (vs. average peer ROEs of 7.5%) compared to 12.0% (vs. average peer ROEs of 7.3%) during years that were benign.

Annual Net Income Return on Equity (Calendar Year Basis)[6]



Update on our Business

The Portfolio (Lefthand Side of our Balance Sheet)

As readers of our previous letters and long-term stakeholders will recognize, we have long operated with a late-cycle mindset and have taken a number of steps to proactively manage risk in our portfolio. Specifically, we have been primarily focused on investing at the top of the capital structure in businesses with limited commodity and cyclical exposure. Since our IPO in 2014 through the end of March 2025, we've increased the first lien composition of our portfolio from 82.4% to 92.9% of the portfolio on a fair value basis. Over this period, we've also decreased the exposure to cyclical businesses from 19.0% to 6.3% on a fair value basis. Note we exclude asset-based loans in the retail sector and reserve- and asset-based loans in the energy sector in this analysis given the different collateral exposure. To further manage risk in the portfolio, we have increased our diversification significantly demonstrated by our top 10

[6]Calculated as cumulative net income per share divided by beginning NAV per share over that period. SLX is adjusted to exclude the capital gains incentive fee expense that was accrued, but not paid, related to cumulative unrealized capital gains in excess of cumulative net realized capital gains less any cumulative unrealized losses and capital gains incentive fees paid inception to date. 2014 figures represent the full calendar year including returns prior to the IPO. BDC Peers consist of 26 externally managed BDCs in the S&P BDC Index with total assets greater than $1.0 billion measured as of 6/30/2024. Data sourced from company filings and SNL financial.

investments representing 49.8% of the portfolio by fair value at IPO in 2014 to 21.1% as of the end of March 2025. This diversification serves to mitigate the impact to net asset value and return on equity from underperformance of any one portfolio company. Each of these elements has contributed to the defensive portfolio in-the-ground today that we believe is well protected and durable through a variety of economic environments.

In light of the recent tariff announcements impacting today's macro-economic environment, we have outlined the direct and indirect impacts on our portfolio to assess potential risks.

We believe there is limited direct risk from these tariff policies on our underlying portfolio companies. The majority of our exposure, or 87% by fair value, is oriented towards the software and services economy which we believe presents limited direct risk from these policy shifts. To reach this conclusion, we completed a comprehensive, name-by-name tariff-related analysis of our entire portfolio which identified only three out of 115 portfolio companies that were considered to be directly affected. These investments represent approximately 2.0% of our overall portfolio by fair value, and based on our current understanding, we anticipate only a mild impact on topline and EBITDA performance metrics.

In our view, the potential derivative impacts on the real economy through uncertainty, lower growth, higher rates and weakening valuations (higher rates and lower growth are not great for risk asset valuations) is by far the bigger risk for risk takers and credit. However, these impacts remain unknown and unquantifiable at this stage. We have confidence in the durability of our underlying portfolio companies to withstand these potential recessionary pressures, as we have witnessed the strength of our underwriting and asset selection through previous downturns in the economy and periods of higher inflation and rate hiking cycles, as well as during economic shocks such as the COVID pandemic. This is evidenced by our annual (calendar year) return on equity during these time periods significantly exceeding (often times doubling, e.g., 2020 and 2022) the average for our BDC peers *(see chart above)*.

Two areas of our portfolio where we anticipate derivative impacts include our retail ABL and energy portfolios. Regarding our retail ABL investments, which comprise 3.4% of the portfolio's fair value at quarter-end, we acknowledge the potential for a direct impact on these consumer and retail businesses through lower demand, rising cost of goods and lower margins. However, our investment thesis for these companies remains intact, as it's predicated on the value of the underlying collateral, not the performance of the businesses themselves. As for our energy portfolio, which comprises 3.4% of the portfolio's fair value at quarter-end, our commodity price exposure is typically hedged on the front end of the curve mitigating short-term price volatility. On the tail-end of the curve, WTI futures are only off 2.1% since April 1, 2025 (pre-"Liberation Day").

Across our core portfolio companies, which represent 94.8% of our total portfolio, our average net attachment point and last-dollar leverage remains conservative at 0.5x and 5.1x, respectively, based on our latest available borrower financial statements. As of the end of March 2025, we had three investments on non-accrual status which represented 1.2% of the portfolio by fair value. Beyond the non-accruals, the portfolio is in good health with 97% of the portfolio rated a 1 or 2 on our internal ratings scale, with 1 being the strongest, and less than 2% of our debt investments by fair value marked below 90% of par value. We continue to stay close to our portfolio companies with regular conversations with management teams to proactively assess and manage potential risks across our portfolio. While things are evolving given the underlying uncertainty in the broader markets and there are many "unknowns" around the impact of recent policy shifts, we believe our portfolio has been positioned defensively leading up to current events.

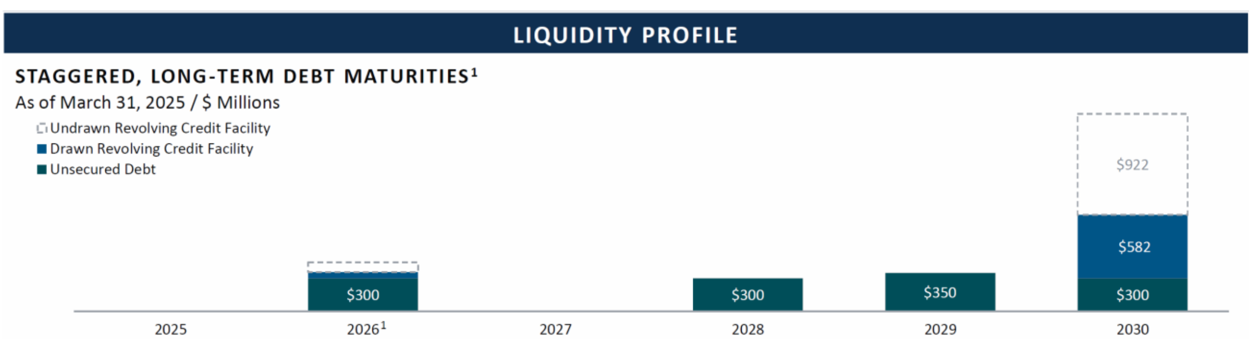
Liquidity, Funding, and Capital (Righthand Side of our Balance Sheet)

As we navigate prolonged uncertainty and higher structural volatility, the positioning of our balance sheet, including our liquidity, funding profile and capital, will play a crucial role in our ability to take advantage of attractive investment opportunities. Our goal is to deliver robustness with the intent of building anti-fragility.

Liquidity

We have ample and diverse funding sources with long-dated maturities to support our capital needs in the period ahead. Currently, we have in excess of $1.0 billion of capacity available on our revolving credit facility, compared to total unfunded commitments across our investment portfolio of approximately $323 million, with $175 million of this amount currently available to be drawn based on contractual requirements in the underlying loan agreements. Further, as a continuation of what we experienced during the first quarter this year, we have continued to see repayment activity in Q2, and as a result have built incremental capacity to provide new commitments at the appropriate level of risk-adjusted returns.

In addition to thinking about our liquidity in terms of funding our normal course operations and making investments, we think about it in the context of our funding profile (i.e., the ability to make required principal debt service repayments). We have historically modeled this so-called vector to withstand extreme stress, i.e., we assume all of our contractual unfunded commitments are drawn, limited access to new funding, etc. This perspective has informed our policy of extending the maturity of our 5-year revolving credit facility every 12-15 months and primarily funding our business in the unsecured market (vs. other markets such as collateralized loan obligations where you may lose access to the net interest spread in your portfolio in a highly stressed or correlated environment). In February, we issued $300 million of new unsecured notes and in March, we completed our regular maturity extension to our revolving credit facility through March 2030.



	2025	2026[1]	2027	2028	2029	2030
Unsecured Notes:	-	$300	-	$300	$350	$300
Drawn:	-	$57	-	-	-	$582
Undrawn:	-	$91	-	-	-	$922

1. Includes $150 million of remaining non-extending commitments with a maturity of April 23, 2027 and a revolving period ending April 24, 2026. The amount available may be subject to limitations related to the borrowing base under the Revolving Credit Facility, outstanding letters of credit and asset coverage requirements

Numbers may not sum due to rounding

The following table presents a summary of our current liquidity at March 31, 2025, including our unfunded commitments eligible to be drawn as described above.

$ Millions

Revolving Credit Facility[1]		Unfunded Commitment Activity	
Revolver Capacity	**$1,675**	**Unfunded Commitments (See Note 8 in 12/31/24 10-K)**	**$356**
Drawn on Revolver	($639)	Extinguished Unfunded Commitments	($18)
Unrestricted Cash Balance	$5	New Unfunded Commitments	$19
Issued Letters of Credit	($23)	Net Drawdown of Unfunded Commitments	($35)
Total Liquidity (Pre-Unfunded Commitments)	**$1,018**	**Total Unfunded Commitments**	**$323**
Available Unfunded Commitments[2]	($175)	Unavailable Unfunded Commitments[2]	($148)
Total Liquidity (Burdened for Unfunded Commitments)	**$843**	**Available Unfunded Commitments[2]**	**$175**

1. Includes $150 million of remaining non-extending commitments with a maturity of April 23, 2027, and a revolving period ending April 24, 2026. The amount available may be subject to limitations related to the borrowing base under the Revolving Credit Facility, outstanding letters of credit and asset coverage requirements
2. Commitments may be subject to limitations on borrowings set forth in the agreements between the Company and the applicable portfolio company. As a result, portfolio companies may not be eligible to borrow the full commitment amount on such date.
Note: May not sum due to rounding.

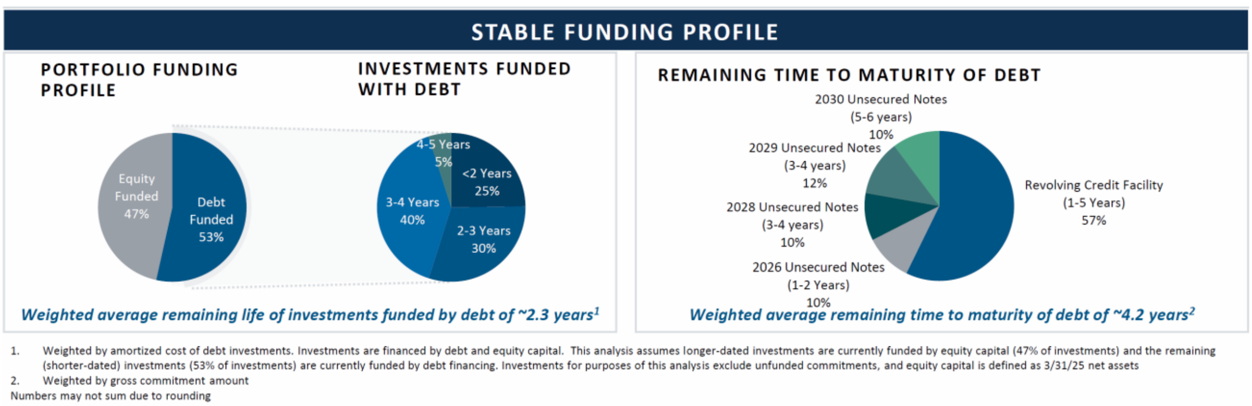
Funding Profile

We believe it is important to emphasize the nature of our funding model and differentiate the right hand-side of our balance sheet from those of banks and other vehicles in the non-bank lending sector, such as commercial and residential mortgage REITs. Important characteristics of our funding model to highlight include the following:

- **Significantly Less Leverage** – Our reported leverage (debt-to-equity) at March 31, 2025 was 1.18x. As a point of comparison, average reported leverage for G-SIBs, residential mortgage REITs and commercial mortgage REITs were approximately 7.9x, 5.2x and 3.2x, respectively as of December 31, 2024.[7]
- **Financial Flexibility** – Approximately 66% of our outstanding debt as of March 31, 2025 is unsecured in nature, which we believe provides significant financial flexibility during times of market volatility. This compares favorably to the investment grade-rated BDC space of approximately 57% as of December 31, 2024.[8]
- **No Near-Term Maturities** – We have no near-term debt maturities. Our earliest maturity is over 1.25 years away (August 2026). It should also be noted that this maturity obligation is relatively small at $300 million compared to our current liquidity position of approximately $1.0 billion. We effectively prefunded this maturity with our most recent issuance of $300 million long 5-year senior unsecured notes in March.
- **No Use of "Repo" Like Financing or Cash Flow CLO Technology** – All of our financing is "term in nature". As illustrated by the chart below, our business continues to have a stable funding profile. As of March 31, 2025, the weighted average remaining life of investments funded with debt was approximately 2.3 years, compared to a weighted average remaining maturity on our debt of approximately 4.2 years.[9] In contrast to the funding model of banks (longer dated

[7] Source: Company Filings, FactSet, SNL Financial.
[8] Source: SNL Financial, Company Filings.
[9] Weighted by amortized cost of debt investments. Investments are financed by debt and equity capital. This analysis assumes longer-dated investments are currently funded by equity capital (47% of investments) and the remaining (shorter-dated) investments (53% of investments) are currently funded by debt financing. Investments for purposes of this analysis exclude unfunded commitments, and equity capital is defined as 3/31/25 net assets. Weighted by gross commitment amount.

assets funded with short-term deposits that can be called away), our financing is longer-term in nature and applied to assets that have greater velocity and shorter weighted average life. As we have publicly discussed, we don't love the use of CLO financings for our sector given the regulatory wrapper of being a RIC. Although it provides matched funding, in a corner case, cash flow from the underlying assets in the CLO structure are diverted to repay (or reinvest in new collateral) senior notes. As a RIC, you must distribute basically all of your investment income, therefore, these structures can pull on liquidity during times of stress (i.e., you have to find another source of liquidity to pay your dividend at the exact wrong time). The use of CLO technology in the BDC/RIC wrapper creates a cash flow issue. We view our dividend as a cash liability – because that is what it is.



Capital

Let us now turn our focus to capital (which is quite different from liquidity). In terms of our business, we think about capital as the required amount to support our capital structure and most importantly, to absorb investment losses. Not all BDCs require the same amount of capital. Required capital is a function of investment profile (i.e., where you sit in the capital structure, the quality of the underlying business you are financing), expected losses (default rates coupled with loss severity given defaults), unfunded commitments, historical capital allocation practices (where you set your distribution compared to your core earnings), and other factors.

Based on our experience, sometimes the best investment opportunities exist during periods of elevated volatility and credit market dislocation. That is why, in addition to boosting our liquidity position, we have significant capital and have been operating in the middle of our target leverage range of 0.9x to 1.25x to preserve our reinvestment option to create high risk-adjusted returns.

During these times of elevated volatility, we have also historically experienced widening of credit spreads. As we have discussed in previous shareholder letters, spread movement is incorporated into the discount rate we utilize in determining fair value of our investments each quarter. We have provided below a sensitivity table illustrating the estimated impact of different spread widening and duration assumptions our portfolio valuations and therefore, our balance sheet leverage. Based on this analysis, we believe we are well positioned with a significant buffer against our regulatory leverage limit (2.0x debt-to-equity) taking into account potential valuation marks in a spread widening environment.

Portfolio Mark Impact on Leverage (Based on 3/31/2025 Balance Sheet)

Spread Widening	Duration (Months): 9	12	15	18	21	24
25 bp	1.18x	1.18x	1.18x	1.18x	1.18x	1.19x
50 bp	1.18x	1.19x	1.19x	1.19x	1.19x	1.20x
75 bp	1.19x	1.19x	1.20x	1.20x	1.20x	1.21x
100 bp	1.19x	1.20x	1.20x	1.21x	1.21x	1.22x
125 bp	1.20x	1.20x	1.21x	1.21x	1.22x	1.23x
150 bp	1.20x	1.21x	1.21x	1.22x	1.23x	1.24x
175 bp	1.20x	1.21x	1.22x	1.23x	1.24x	1.25x
200 bp	1.21x	1.22x	1.23x	1.24x	1.25x	1.26x
225 bp	1.21x	1.22x	1.23x	1.25x	1.26x	1.27x
250 bp	1.22x	1.23x	1.24x	1.25x	1.27x	1.28x
275 bp	1.22x	1.23x	1.25x	1.26x	1.28x	1.29x
300 bp	1.22x	1.24x	1.26x	1.27x	1.29x	1.30x

At this moment in time, we feel good about the level of capital and the significant amount of liquidity we have for what could be an extended period of market volatility ahead. In addition, we have significant dry powder across the Sixth Street platform that we're able to deploy to invest alongside SLX to support our investing activities.

Concluding Thoughts

Ultimately, we believe uncertainty and volatility will provide an opportunity to generate significantly high risk adjusted returns for those who are patient and have the capital to deploy at the appropriate time. We have been a very disciplined capital allocator which we believe will differentiate our returns given 1) we have maintained a higher yielding portfolio relative to the public BDC sector, and 2) our patience has positioned us with capital (along with significant liquidity) to deploy when the time is right. We will work hard to continue our track record of providing a little anti-fragility (or at least robustness) and the appropriate risk adjusted return for our shareholders. We look forward to staying in close communication during these uncertain times. Please do not hesitate to reach out to us with questions, thoughts or feedback.

Sincerely,

Joshua Easterly
Chief Executive Officer and Chairman of the Board, Sixth Street Specialty Lending, Inc.
Partner, Co-Chief Investment Officer and Co-President, Sixth Street

What has Been the Secular Macro Story Over the Last 30 Years?

SIXTH STREET LP CONFERENCE 2022

Let's Start With a Quick Recap

Globalization of the world economy

Disinflation

Lower rates / monetary easing

Risk premium evolution over time

Stability

Increasing asset prices

Secular stagnation

Surplus global productivity capacity

What has Been the Secular Macro Story Over the Last 30 Years?

SIXTH STREET LP CONFERENCE 2022

New World Order Relative to the Last 30 Years

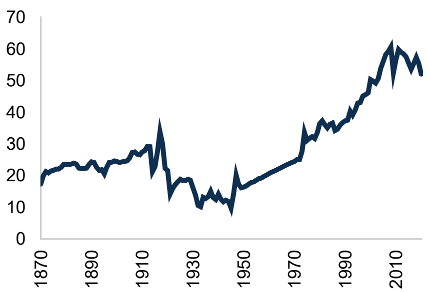
Is There a New Macro Super Cycle?

Here's Where We Were Last Year…

SIXTH STREET LP CONFERENCE 2022

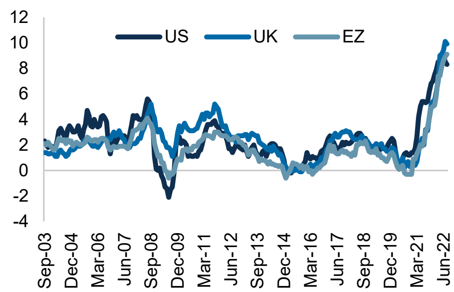
De-Globalization

Global Trade (% of GDP)



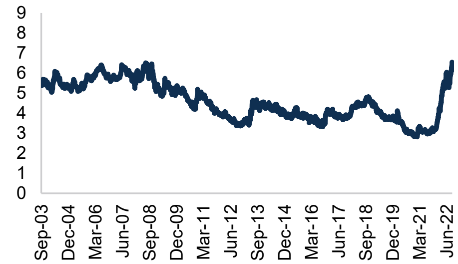
Inflation

Headline CPI



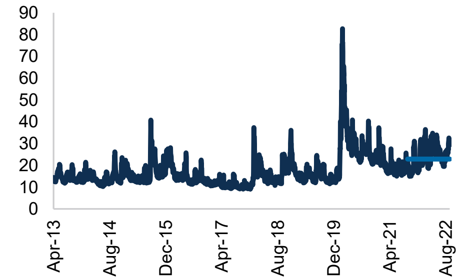
Higher Rates

Bankrate 30-Year Mortgage Rate



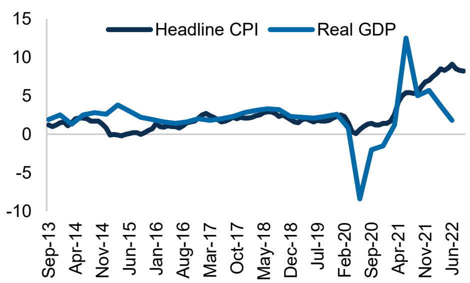
Structural Volatility

VIX



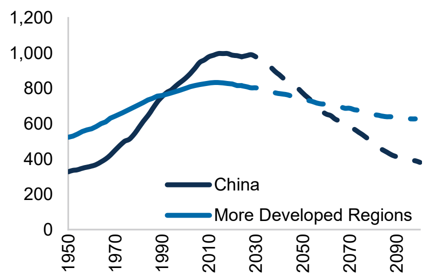
Secular Stagflation

Headline CPI Vs Real GDP



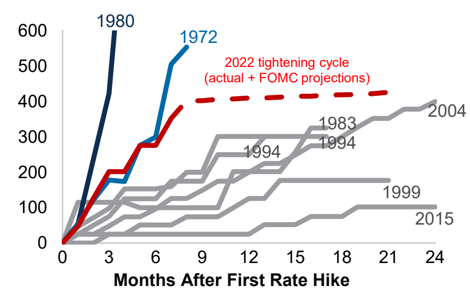
Global Labor Shortages

Working-Age Population



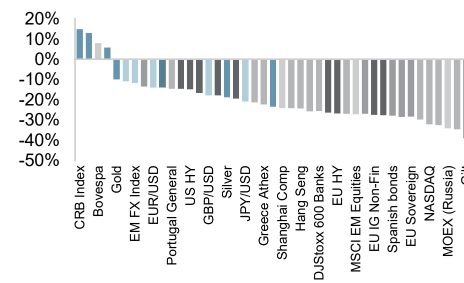
Monetary Tightening

Historic Fed Tightening Cycles



Asset Prices?

2022 YTD Market Returns



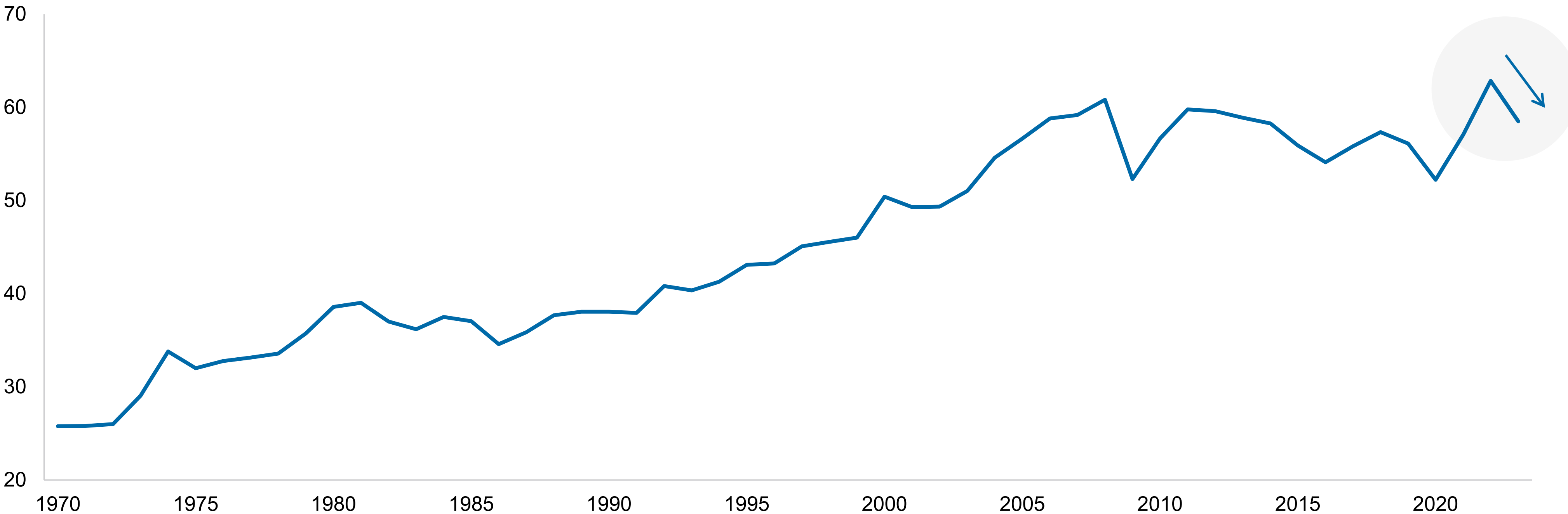
Source: Deutsche Bank, Klasing and Milionis, World Bank, Bloomberg, Haver Analytics

Let's See What We Got Right…

Where are we now?

Global Trade (% of GDP)

1 De-globalization

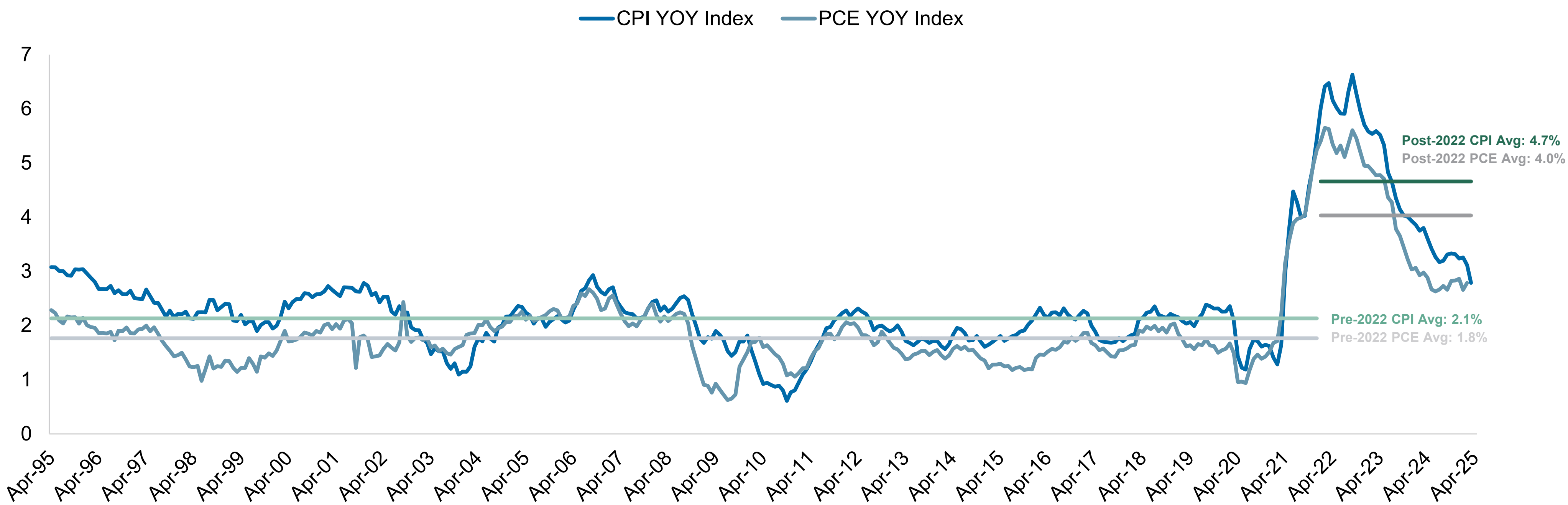


Source: Bloomberg. Data as of 12/31/2023

Where are we now?

CPI and PC

2 Inflation

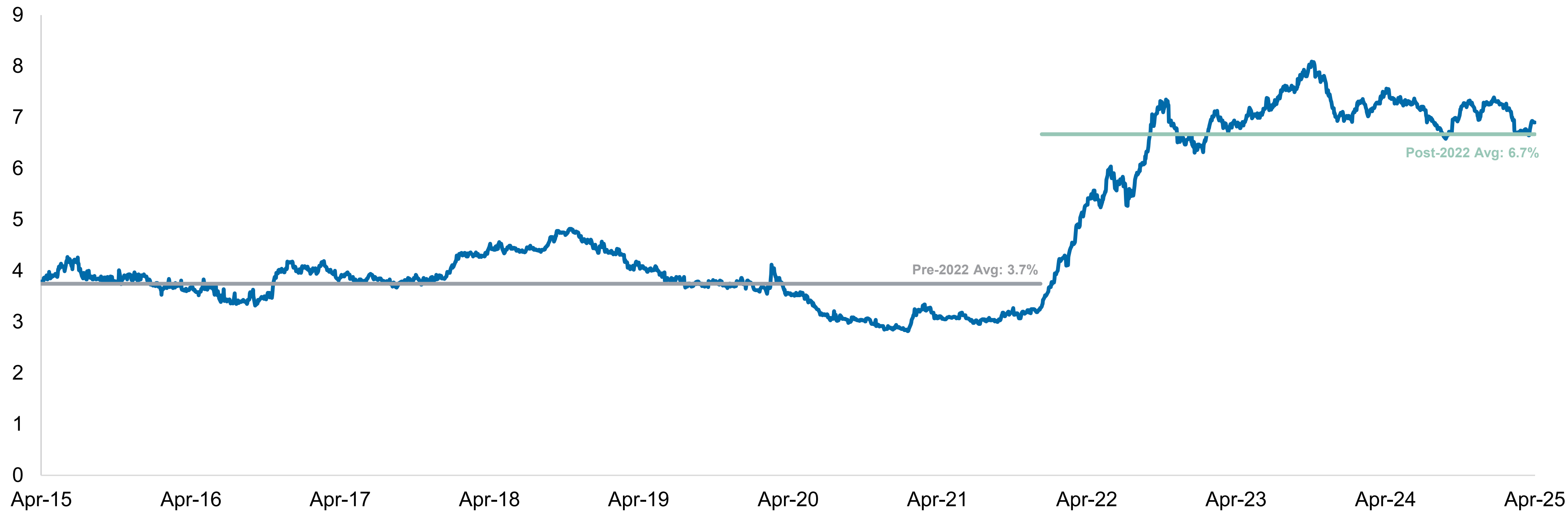


Source: Bloomberg. Data as of 03/31/2025

Where are we now?

Bankrate 30 Year Fixed Mortgage Rate

3 Higher Rates

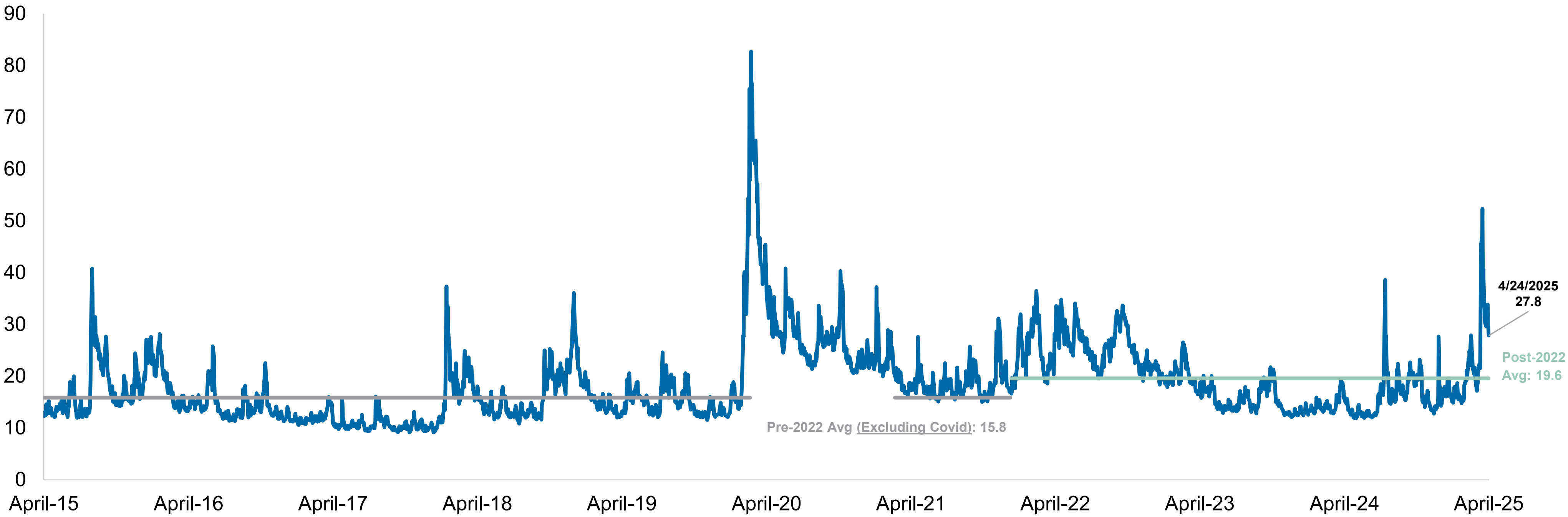


Source: Bloomberg. Data as of 04/23/2025

Where are we now?

VIX

4 Structural Volatility

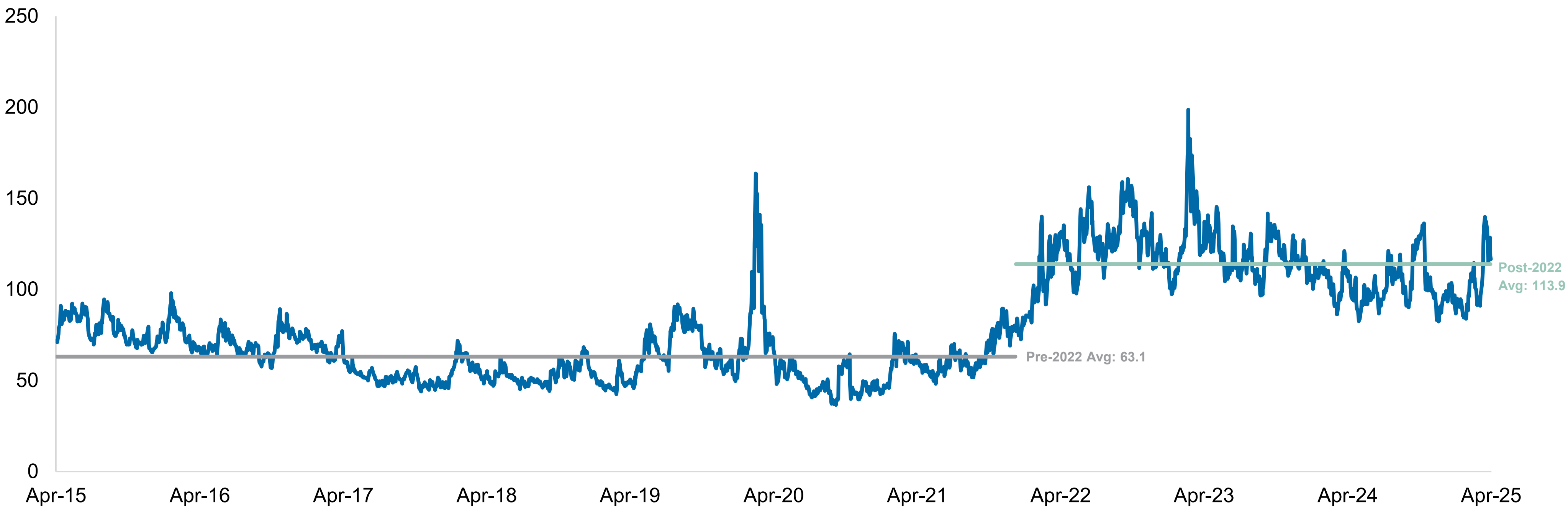


Source: Bloomberg. Data as of 04/24/2025

Where are we now?

MOVE

4 Structural Volatility

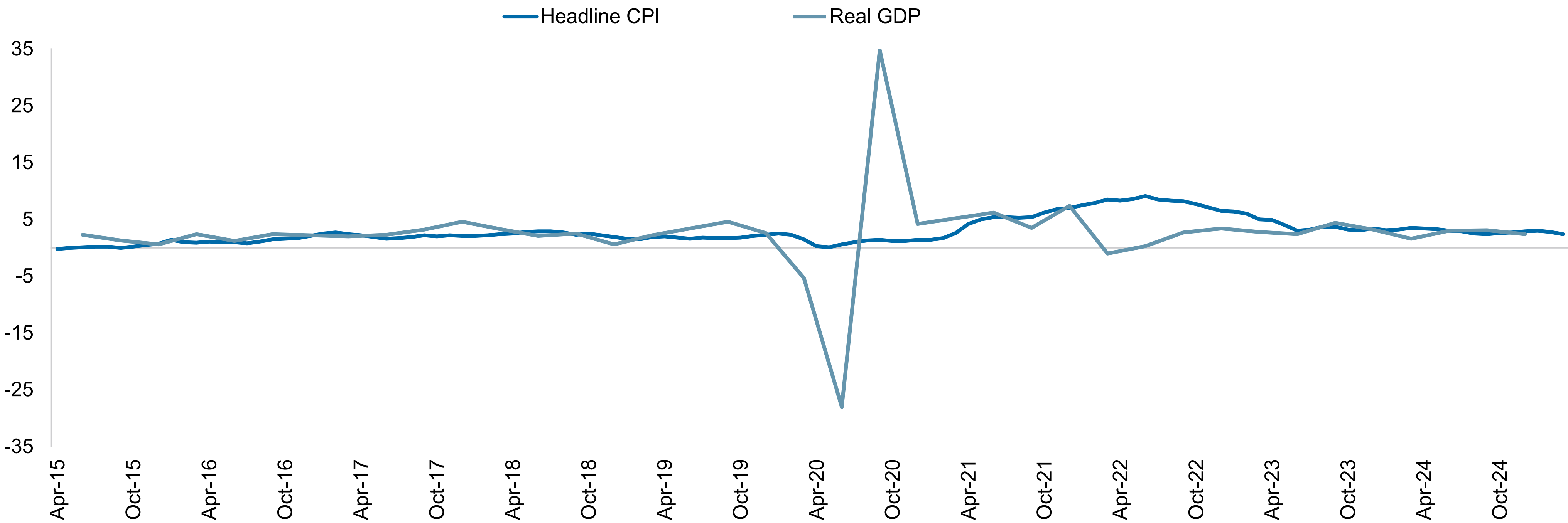


Source: Bloomberg. Data as of 04/24/2025

Where are we now?

Headline CPI vs Real GDP

5 Secular Stagflation

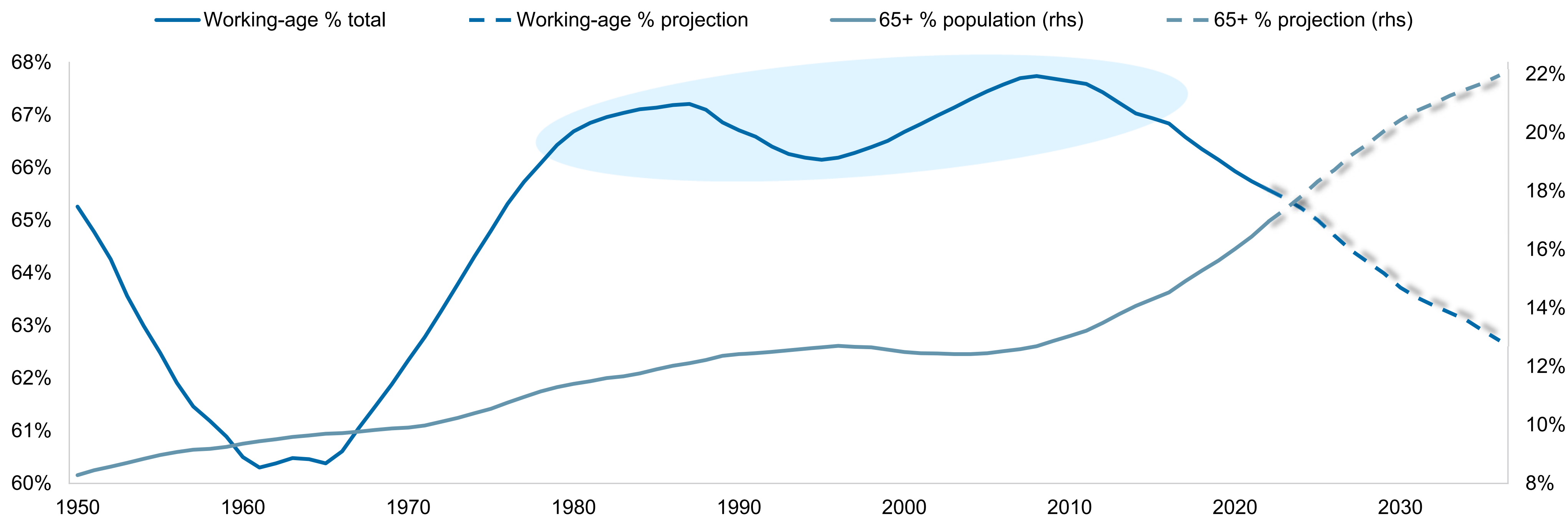


Source: Bloomberg. Data as of 04/24/2025

Where are we now?

Working Age Population

6 Global Labor Shortages



Source: State Street, Haver Analytics, Deutsche Bank. Data as of October 2023