

As of March 2024 – Unless otherwise stated

Private Credit Offers the potential for portfolio diversification, enhanced yield, and attractive risk-adjusted total returns.

Why Private Credit?

Private credit can complement traditional fixed income strategies by offering enhanced income generation, historically lower volatility, the potential for total return enhancement, and diversification

- 1. Enhanced Yield** Potential for higher yield due to several factors: the networks and skill sets needed to source and originate these loans coupled with the illiquid nature of the loans generally leads to higher yields than traditional publicly traded debt
- 2. Low Correlation** Wide variety of opportunities means individual strategies feature different investments risks and return drivers with typically less correlation to broader public markets
- 3. Diversification** Growing opportunity set can help diversify portfolios and dampen volatility via exposure to different parts of the economy. Some loans move with the economic cycle while others may be more counter-cyclical
- 4. Inflation and Interest Rate Risk Protection** Floating rate loans benefit investors when interest rates rise, and floors can protect income when interest rates fall

What is Private Credit?

Private Credit refers to loans made to borrowers that are originated outside of the traditional banking system or public fixed income markets

- 1.** These loans are generally floating rate, and do not trade publicly on an exchange
- 2.** The category covers a wide range of loans in various industries. These loans can be first lien/senior-secured loans all the way down to junior debt that is unsecured
- 3.** Collateral and terms for these loans can vary greatly from loan to loan and are highly customizable based on the borrower's needs

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Key Private Credit Sectors

The universe of private credit strategies has been expanding and diversifying

Direct Lending



- **What:** Non-banking institutions making loans directly to private companies
- **Examples:** Middle market companies, lending to distressed companies, special situations

Asset Based Lending



- **What:** Loans issued to borrowers that are secured by hard collateral
- **Examples:** Manufacturing equipment, shipping containers, airplanes

Specialty Finance



- **What:** Loans issued to borrowers that are secured by intangible collateral tied to future cash flows
- **Examples:** Music royalties, future cash flows + receivables, litigation finance

Real Estate Lending



- **What:** Loans issued to borrowers that are secured by commercial and residential properties
- **Examples:** Commercial, residential real estate lending

Private vs. Public Credit

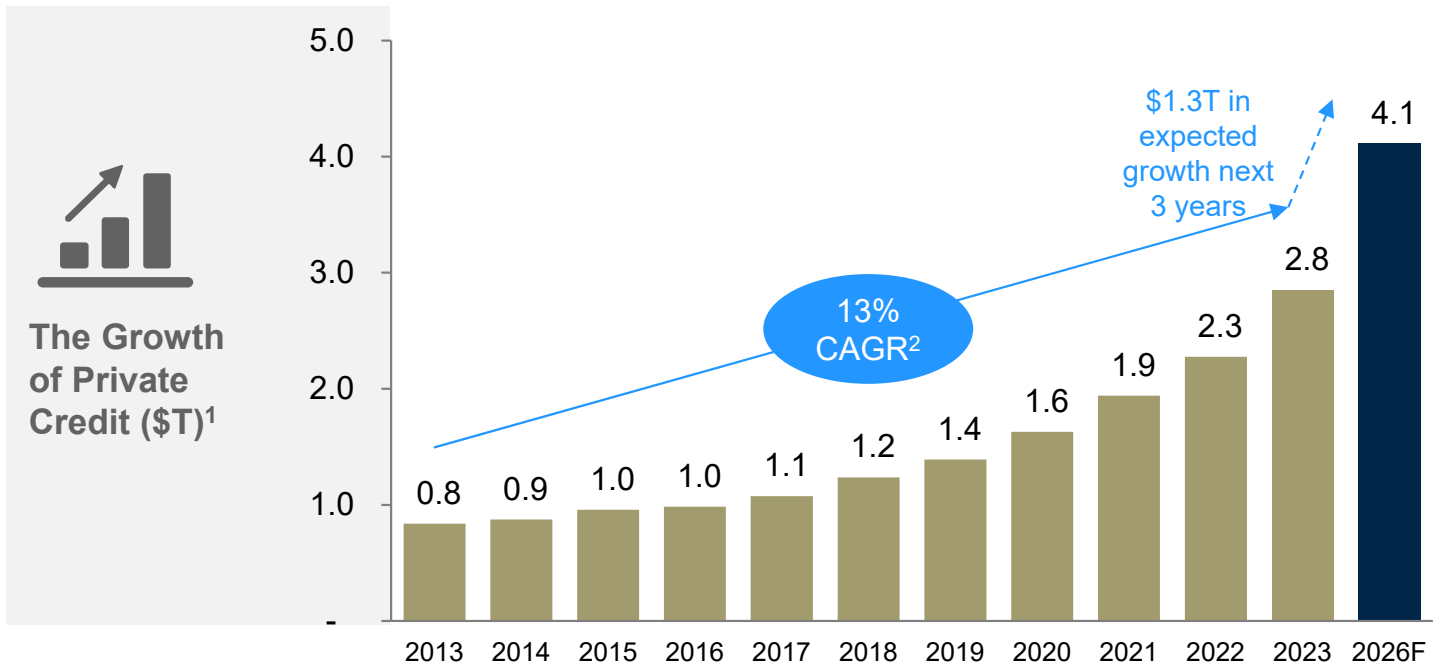
Credit refers to much more than one type of bond or investment as it encompasses a spectrum of different categories across the private and public markets

	Representative Private Credit Transaction	Representative Public Credit Transaction
Number of Lenders	Small # of Lenders ("Bilateral to Club Deal")	Large # of Lenders (Asset Managers, Banks, Insurance Companies, Retail)
Covenant Protection	Moderate - High	Low - Moderate
Origination	Directly Originated	Broadly Syndicated
Structuring	Highly Customized / Bespoke	Standardized
Liquidity	Illiquid	Daily Market Liquidity
Interest Rate	Predominantly Floating	Predominantly Fixed
Return Drivers	Credit, Illiquidity, and Complexity Risk Premia	Credit and Interest Rate Risk Premia

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Structural Changes are making Private Credit markets harder to ignore

Private credit markets have grown from under \$800bn in 2013 to over \$2.8tn in 2023, and are expected to continue to expand at a rapid trajectory



Traditional fixed income is under pressure

- Uncertainty in public markets generally leads to more opportunities in private markets
- New issuance continues to decline and remains concentrated in fewer sectors

Banks are lending less, enhancing the opportunity in private credit

- As changes to banks' lending practices continue to be influenced by regulation and concerns around their existing loan portfolios, they have significantly reduced their new loan issuance, opening the door for private lenders to fill the void

Private Credit's Attraction Continues into 2024

- Secured Overnight Financing Rate (SOFR) measures the cost of borrowing and has risen dramatically from near zero in Q1 2022 to +5% today
- Spreads remain wide relative to H1 2022 and prior, though there has been a slight tightening in spreads relative to 2023 levels
- Similarly to spreads, terms and collateral remain attractive but have experienced some pressure (observable in middle market direct lending) in Q1 2024 as activity in the broadly syndicated loan and high yield markets increase

Notes:

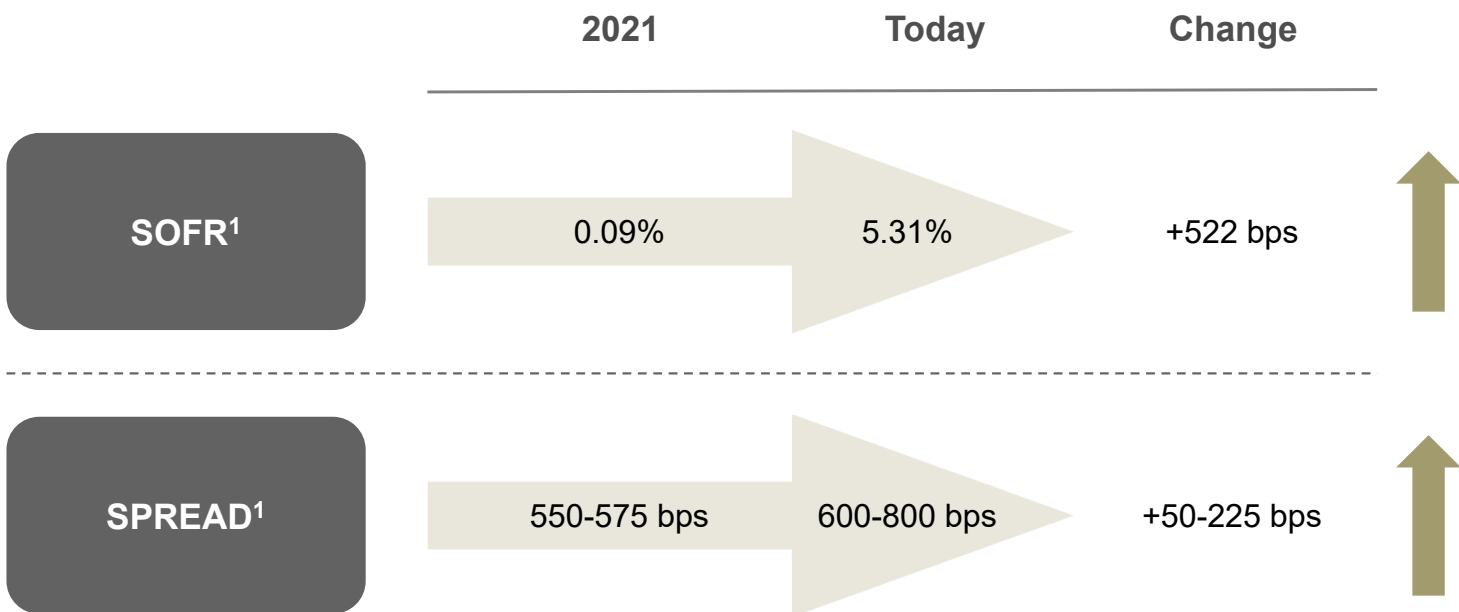
1. Source of data is Preqin, June 2023

2. "CAGR" is defined as Compound Annual Growth Rate | Projected CAGR based on annualized data from H1 2023

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Timing of Capital Deployment Can Affect Investment Outcomes

Loan terms, yields, and spreads evolve through a cycle and have significantly improved for lenders in 2023 relative to prior three years, potentially driving returns higher over time



Why Borrowers Turn to Private Markets as a Source of Funding

Benefits can include certainty and speed of execution — an attractive feature in volatile public markets – as well as confidentiality in avoidance of broad dissemination of proprietary information

- Speed of Execution**
- Flexibility in structuring**
- Maintain confidentiality**
- Certainty of Terms**
- Bilateral, bespoke process**
- Limited ratings requirements**

1. NCM estimates based on observations and commentary from NCM's investment partners ACORE, Atalaya, Maranon, and Medalist as of January 10, 2024

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Ways to Access Private Credit			
	Private LP	Interval Fund	Listed Closed-End Fund
Offering	Limited Investment Period	Continuous	One Time via IPO
Liquidity	Capital returned after multi-year investment period	Quarterly Redemption	Exchange Trade
Pricing	Monthly or Quarterly NAV	Daily NAV	Market
Valuation	Monthly or Quarterly	Daily	Daily
Tax Reporting	K-1s	1099-DIV	1099-DIV
Fees	Management + Incentive Fees	Typically Management Fee	Typically Management Fee
Accreditation	Qualified Purchaser (\$5mm net worth)	Accredited Investor (\$1mm net worth)	Accredited Investor (\$1mm net worth)

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