



PENGANA
CAPITAL GROUP

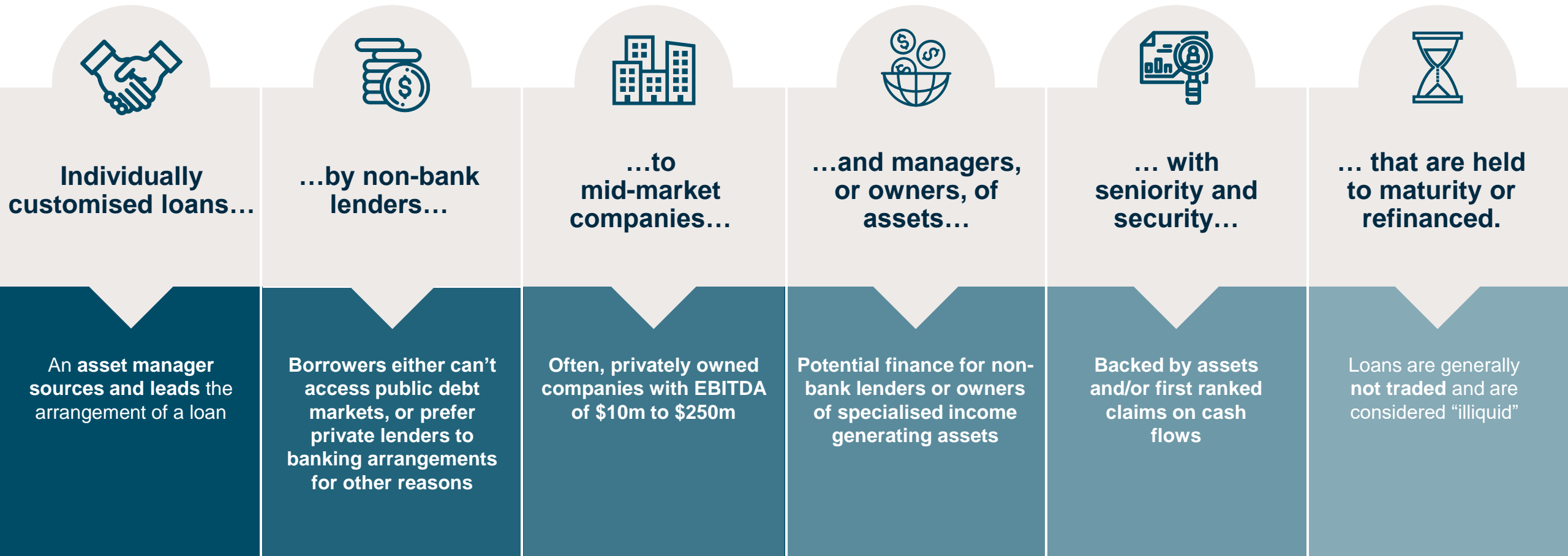
THE GLOBAL PRIVATE CREDIT OPPORTUNITY



September 2023

WHAT IS INVESTABLE PRIVATE CREDIT?

Individually customised non-bank loans to mid-market companies, with seniority and security, that are held to maturity or refinanced.



A BROAD OPPORTUNITY SET

1 Direct Lending

Bilaterally negotiated loans, primarily to companies earning US10-\$250 million EBITDA (“Middle Market”)

- ❖ **Senior Secured** – these loans have first right to the cash flows and assets of a company for payment of interest and repayment of debts. They will also have additional documented protections (covenants) which help the lender spot problems early and arrange remedies.
- ❖ **Mezzanine** – unsecured loans which only receive payment after Senior Secured lenders have been paid. In return for the subordinated position, the lender is paid a higher rate of interest and often receives additional upside, normally through an equity-linked instrument.
- ❖ **Unitranche** – a single loan combining the characteristics of Senior Secured and Mezzanine loans.

2 Structured Credit / Specialty Finance

A wide range of products that are typically backed by assets

- ❖ **Structured Credit** – loans typically made to non-bank lenders that are backed by the cash flows from portfolios of financial assets (e.g. lending to companies that provide consumer loans, commercial loans, or trade receivables).
- ❖ **Specialty Finance** - loans typically made to owners of niche assets by lenders with specialised expertise to assess the value of these assets and their cash flows. Examples include:
 - Royalty lending against a pool of pharmaceutical patents or music catalogues; and
 - Loans against cash generative assets like aeroplanes or mining equipment

3 Distressed Investing

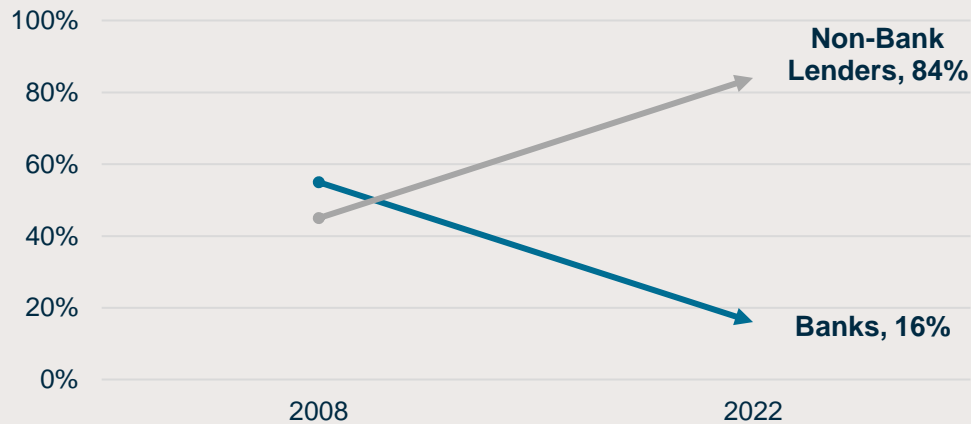
Purchasing deeply discounted debt in distressed companies

- ❖ The objective of such investments is to benefit from a turnaround in the company's profitability, either through improved financial performance, refinancing or restructuring.
- ❖ Active strategies require a complex set of managerial, legal and operational skills.

GROWING DEMAND – A CASE FOR THE BORROWERS

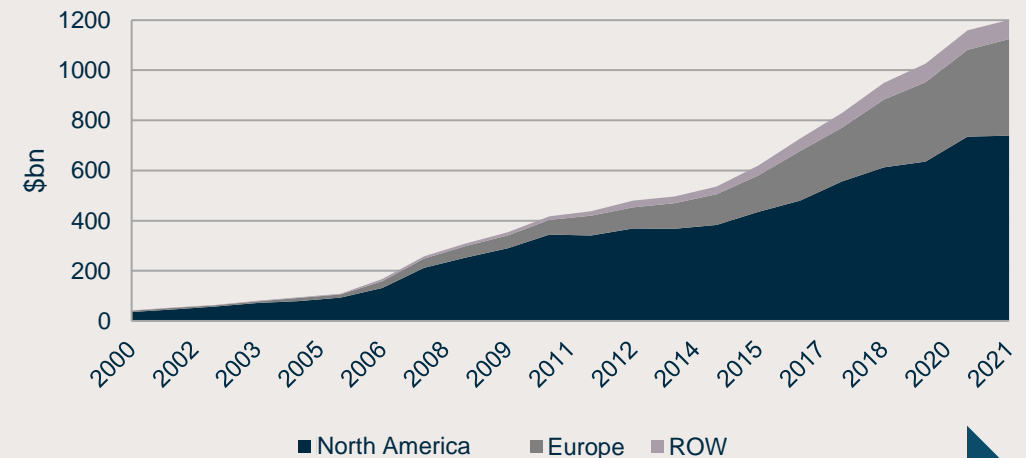
Banks are scaling back lending as regulation decreases their appetite for certain activities

Bank Share of US and European Middle Market Corporate Loans¹



Private lenders now the first “port of call” for growing subset of borrowers

Global Private Credit – Growth in AUM²



Borrowers increasingly demand flexible solutions that can be quickly executed

1. LCD Global Leveraged Lending Review Q4 2022.
2. Preqin as at December 31, 2022..

THE CASE FOR INVESTORS

Attractive Characteristics of Global Private Credit

Yield



1

- ❖ Attractive stable returns with low volatility as illiquidity premium is captured.
- ❖ Borrowers pay premium for flexibility, speed of execution, customisation, confidentiality, and strategic partnership.
- ❖ Yields are amplified by origination fees.

Diversification



2

- ❖ Reduced correlation to more traditional asset classes.
- ❖ Potential to create diversified private credit portfolio (lending to different sectors with different terms) further reducing volatility and correlations.
- ❖ Diverse range of investment strategies provide a range or risk/return options from stable income to equity-like returns.

Resilience

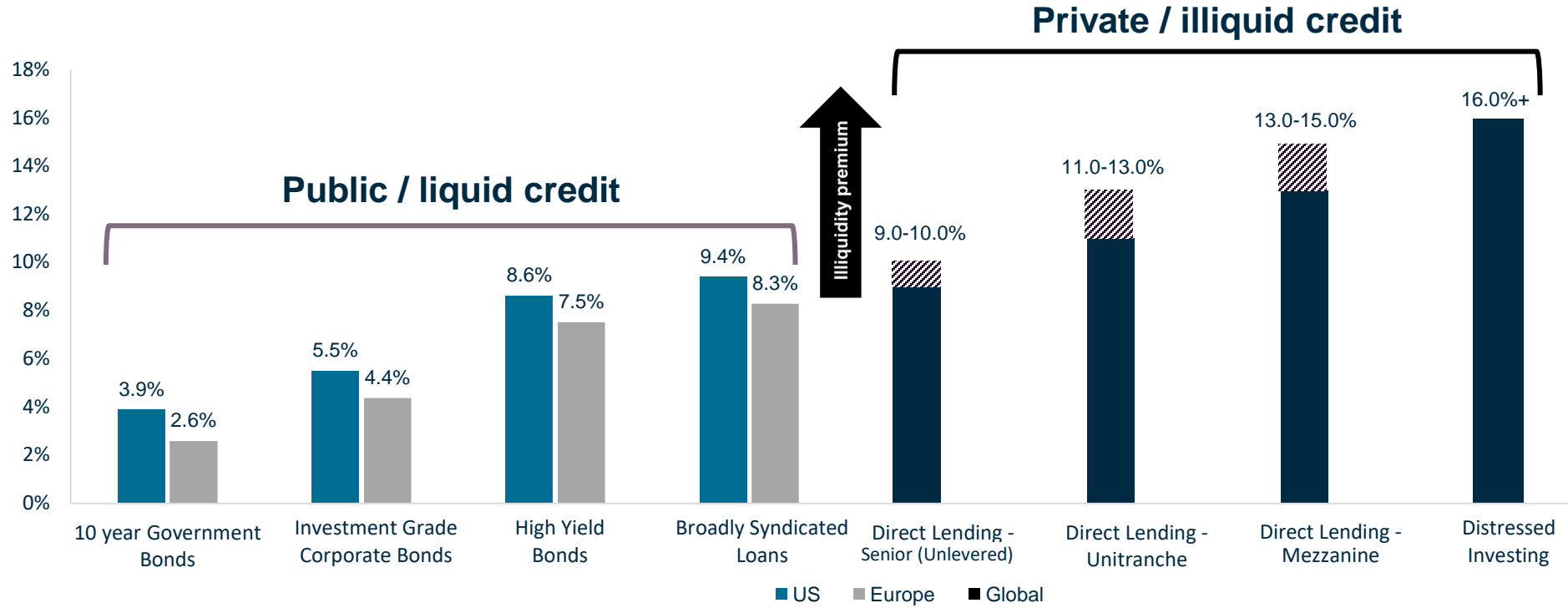


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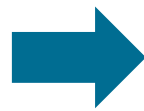
- ❖ Loans are typically individually negotiated and structured, allowing the borrower to obtain legally enforceable protections. This leads to lower default rates and higher recovery rates than other fixed income alternatives.

GLOBAL PRIVATE CREDIT HAS DELIVERED A ROBUST YIELD PREMIUM OVER TIME

Outperformance of Global Private Credit Versus Public Market Equivalents



Drivers of Global Private Credit outperformance



Attracts a yield premium for illiquidity

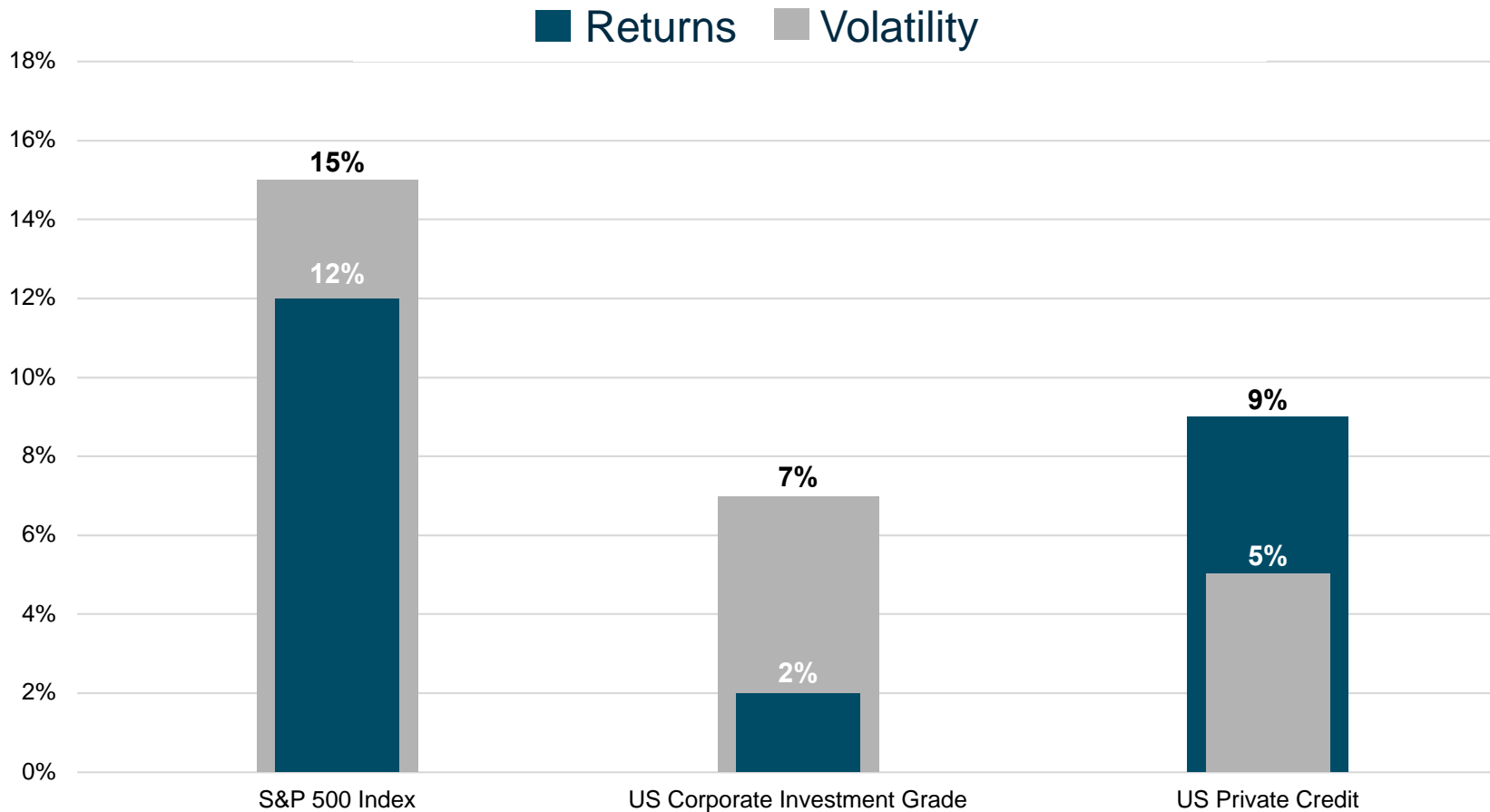
Typically floating rate which allows yields to adjust with base rates

Low volatility given hold-to-maturity nature

Source: DataStream and S&P LCD, as at February 28, 2023. 10 year government bond: Bloomberg Barclays US Treasury Bellwether 10 year and Germany Government Stored Yield Curve 10 year, Investment Grade Corporate Bond: Bloomberg Barclays US Corporate Investment Grade and Bloomberg Barclays Euro Aggregate Corporates, High Yield Bonds: Bloomberg Barclays US High Yield 2% Issuer Cap and Bloomberg Barclays Pan European High Yield, Broadly Syndicated Loans: S&P Leveraged Loan Index and S&P European Leveraged Loan Index. Private debt yields are estimates based on Mercer analysis.

POSITIVE RISK RETURN RATIO (10 YEARS)¹

Equity-like returns with lower volatility



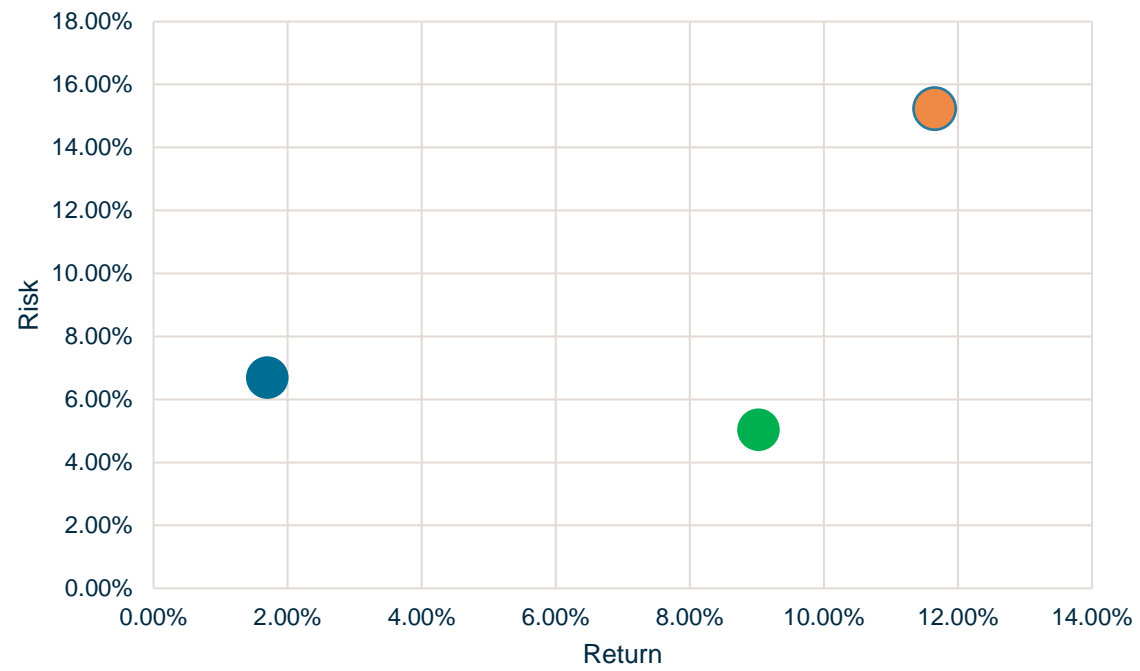
- ❖ Superior risk return
- ❖ Demonstrable track record of resilience relative to other asset classes across different economic environments

1. Volatility measured by Standard Deviation. Returns in USD. Source: S&P 500 Index, Bloomberg US Corporate Total Return Value Unhedged USD, Burgiss - Private Debt (North America), 10 year period from 1.10.2012 to 30.09.2022

ATTRACTIVE PORTFOLIO CONSTRUCTION TOOL

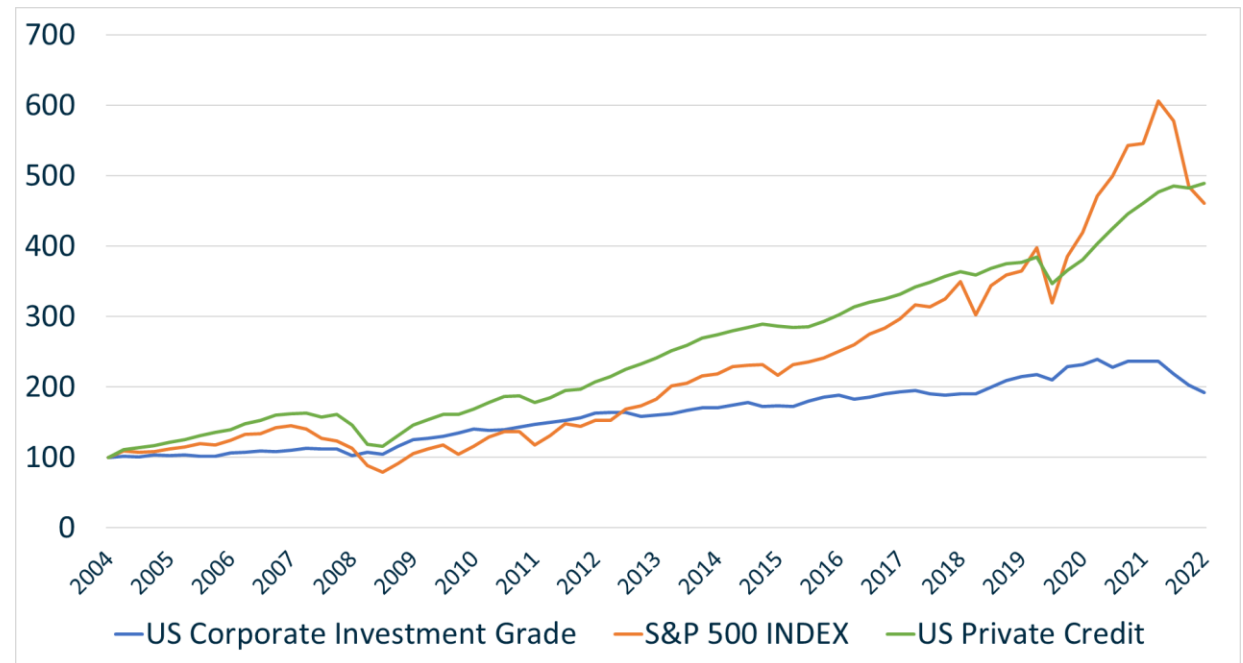
Low correlation and attractive returns make Global Private Credit an accretive diversifier for fixed income and listed equity portfolios

Risk and Returns (10 year return¹)



● US Corporate Investment Grade ● S&P 500 INDEX ● US Private Debt

A longer term perspective: Growth of \$100²

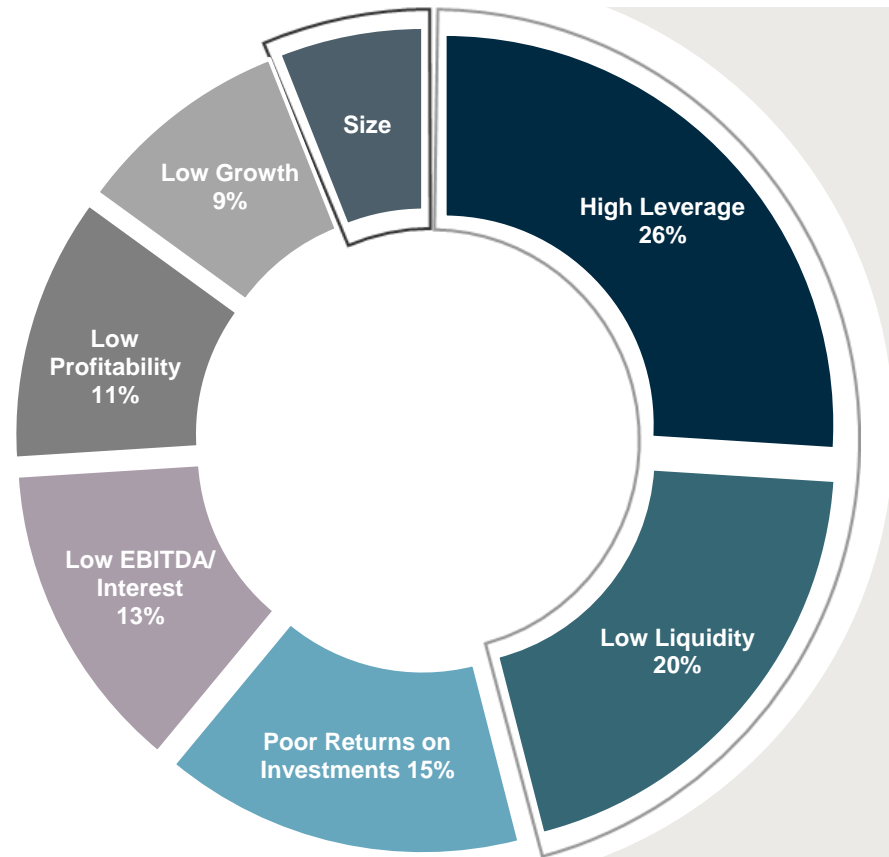


1. Risk represents volatility measured by Standard Deviation. Returns in USD. Source: S&P 500 Index, Bloomberg US Corporate Total Return Value Unhedged USD, Burgiss - Private Debt (North America), 10 year period from 1.10.2012 to 30.09.2022
 2. Period from 1.10.2004 to 30.09.2022

GLOBAL PRIVATE CREDIT RESILIENCE

Lower levels of default and higher recovery rates are achieved through bespoke structuring and lender access to information and executive management

Drivers of default¹



Company size is the **least significant factor in default scenarios**



Credit fundamentals matter regardless of company size with leverage and serviceability having the largest impact.



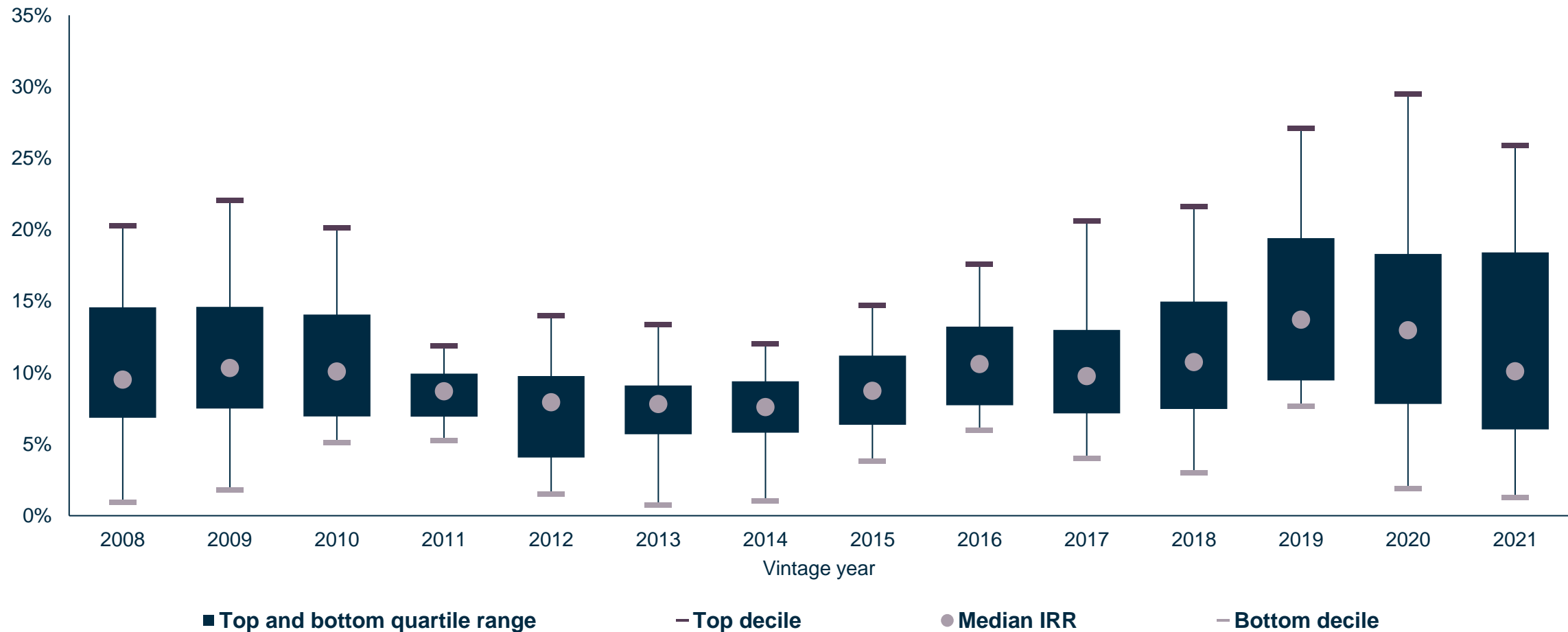
Experienced private credit managers are well positioned to manage fundamental credit risks due to:

- ❖ Access to detailed information in due diligence
- ❖ Specialist expertise and sector specialisation
- ❖ Greater levels of control from negotiated contractual protections
- ❖ Ongoing information access allows early detection of potential issues
- ❖ Operational and workout experience

1. Mercer analysis combined with Deerpath Capital; Moody's Analytics RickCalc 4.0 U.S.

MANAGER SELECTION IS CRITICAL TO OUTCOMES

Global Private Credit Manager IRR dispersion by vintage year



Source: PitchBook Data, Inc. Underlying data is net of fees and carry and based on pooled cash flow data and is based on Pitchbook classifications, which may differ from those of Mercer. This information is not intended to convey any guarantee as to future performance of the asset class. Past performance is not a guarantee of future returns. As of March 31, 2022.

WHY NOW?

The value proposition to borrowers and investors is only increasing



A growing opportunity

- Banking crises (highlighted by the recent failures of Silicon Valley Bank, First Republic Bank, and Credit Suisse) driving increasing regulation and further retreat from lending. This creates a significant liquidity gap.



In a very attractive return environment

- Higher credit spreads resulting from supply/demand imbalance.
- Ability to structure favourable lending terms and protections.



And enhancing portfolio construction

- Maturity of the asset class has driven a wide array of strategies with varying risk/reward propositions.
- Illiquidity premium and lower volatility enhance existing allocations to fixed income and equity portfolios.

HISTORICAL CHALLENGES.

Typical Challenges of Global Private Credit Investing

GLOBAL ACCESS

- ❖ Identifying, assessing and securing access to the top performing global private credit managers

DIVERSIFICATION

- ❖ Available vehicles typically single manager and concentrated by geography, asset class and/or strategy

DRAWDOWN PROFILE AND HEDGING

- ❖ Funds have up to 48 month drawdown schedules, so dilute investor IRRs
- ❖ Hedging USD and Euro illiquid credit assets is not possible or prohibitively expensive

STAYING INVESTED

- ❖ Staying invested - closed end funds return capital, requiring repeat of entire investment process



**PENGANA Solution
Coming Soon**



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PENGANA GLOBAL PRIVATE CREDIT TRUST

FOR MORE INFORMATION

[pengana.com / privatecredit](http://pengana.com/privatecredit)

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