

What is Private Credit?



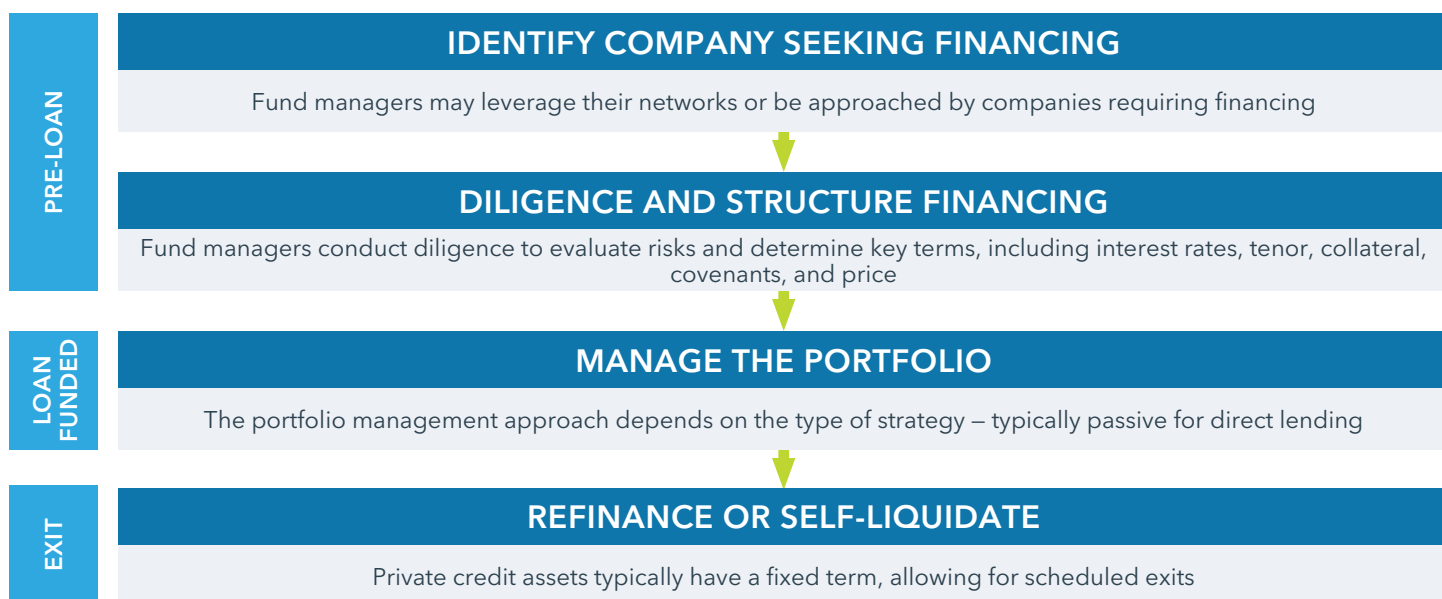
Private credit funds are designed to generate enhanced risk-adjusted returns and current income by investing in the debt of strategically identified companies, either by making loans to these companies or acquiring loans in the secondary market.

TAILORED FINANCING SOURCE

Private credit fund managers negotiate directly with small and medium-sized companies seeking a tailored financing solution that is not accessible to them in the public credit markets or through bank lenders, who are subject to strict regulations. Increasingly, large companies are borrowing from private credit managers due to their ability to offer speed, flexibility, and certainty of execution that traditional banks often cannot, particularly in challenging market conditions. The company pays interest, typically at a spread above a floating reference rate, until returning the principal amount at the end of the loan term. In addition, private debt agreements typically include covenants that offer greater protection to the lender, i.e., the fund manager.

FUND INVESTMENT PROCESS - DIRECT LENDING

The fund investment process varies depending on the type of private credit investment strategy. The graphic below provides an overview of the typical fund investment process for a direct lending strategy, one of the most common private credit strategies in the market today.



PRIVATE CREDIT CATEGORIES

There are a range of private credit strategies, each with unique risk profiles. These strategies include, but are not limited to:

Investment Strategy	Description	Typical Fund Term	Typical Target Fund Returns	Repayment Priority
Direct Lending	Fund acts as a non-bank lender and extends senior secured loans or credit to companies seeking financing.	5-8 years ¹	7-12%	Priority, first lien
Asset-Backed	Fund extends senior secured loans against specialized assets, such as aircraft or shipping vessels, or financial assets, such as contractual revenue streams or leases.	5-8 years	7-14%	Typically, priority, first lien
Subordinated Debt	Fund acts as a non-bank lender and extends mezzanine or subordinated loans or credit to companies seeking financing.	8-10 years	12-15%	Junior to first lien, above equity interests
Distressed/Special Situations	Fund invests in the debt of a financially distressed company that has filed for bankruptcy or has a significant chance of filing for bankruptcy in the near future, with the goal of providing a more appropriate capital structure for the restructured company.	5-10 years	> 15%	Could be structured as first lien or second lien



BENEFITS

- Private credit has generated higher yields than most other fixed income strategies, including public high yield and broadly syndicated loans.²
- Private credit managers can impose protective covenants for investors in their lending agreements, providing downside protection not typically available in the public credit markets.
- Private financing is typically offered with interest payments at a spread above a floating reference rate and a floor on minimum rate, reducing interest-rate risk for investors and providing protection in an inflationary environment.
- Private credit lenders typically are first lien, and have seniority on company assets in the event of default.
- A private credit allocation can provide enhanced income potential, diversification benefits, and access to an array of investment not available in the public markets.

1. Direct lending strategies may also be offered through business development companies ("BDCs") and interval fund structures.

2. Source: Goldman Sachs Asset Management, October 20, 2022. This is not intended to be an offer or solicitation to employ a specific investment strategy. Past performance is not indicative of future results. Future results are not guaranteed.



KEY RISK CONSIDERATIONS

Key risk considerations may include, but are not limited to, the following:

- **Credit Risk:** Private credit funds may hold debt in non-investment grade borrowers, and therefore there may be a greater risk of nonpayment of scheduled payments or default, which may affect the return to investors.
- **Manager Selection:** Not all private credit managers are the same. It is critical to have a thorough diligence process in place to evaluate private credit fund managers.
- **Liquidity:** Private credit funds are considered longer-term investments with terms of five to 10 years, depending on the fund strategy.
- **Transparency:** Private credit funds may not offer the same level of transparency as traditional investments, which are required to provide frequent and full disclosures.
- **Fees:** Private credit fund managers charge an annual management fee, typically 1% of assets under management. Fund managers also collect performance fees, known as carried interest, which traditionally represent 10-20% of any value appreciation or aggregated profits generated by the fund.
- **Leverage:** Private credit funds may use some form of leverage, which offers the potential for higher returns, but also increases the downside risk.

Please contact your financial professional or a fund manager to learn more.

IMPORTANT INFORMATION

The material herein has been provided to you for informational purposes only by Institutional Capital Network, Inc. ("iCapital Network") or one of its affiliates (iCapital Network together with its affiliates, "iCapital"). This material is the property of iCapital and may not be shared without the written permission of iCapital. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of iCapital.

This material is provided for informational purposes only and is not intended as, and may not be relied on in any manner as, legal, tax or investment advice, a recommendation, or as an offer or solicitation to buy or sell any security, financial product or instrument, or otherwise to participate in any particular trading strategy. This material does not intend to address the financial objectives, situation, or specific needs of any individual investor. You should consult your personal accounting, tax and legal advisors to understand the implications of any investment specific to your personal financial situation.

ALTERNATIVE INVESTMENTS ARE CONSIDERED COMPLEX PRODUCTS AND MAY NOT BE SUITABLE FOR ALL INVESTORS. Prospective investors should be aware that an investment in an alternative investment is speculative and involves a high degree of risk. Alternative Investments often engage in leveraging and other speculative investment practices that may increase the risk of investment loss; can be highly illiquid; may not be required to provide periodic pricing or valuation information to investors; may involve complex tax structures and delays in distributing important tax information; are not subject to the same regulatory requirements as mutual funds; and often charge high fees. There is no guarantee that an alternative investment will implement its investment strategy and/or achieve its objectives, generate profits, or avoid loss. An investment should only be considered by sophisticated investors who can afford to lose all or a substantial amount of their investment.

iCapital Markets LLC operates a platform that makes available financial products to financial professionals. In operating this platform, iCapital Markets LLC generally earns revenue based on the volume of transactions that take place in these products and would benefit by an increase in sales for these products.

The information contained herein is an opinion only, as of the date indicated, and should not be relied upon as the only important information available. Any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets is not necessarily indicative of the future or likely performance. The information contained herein is subject to change, incomplete, and may include information and/or data obtained from third party sources that iCapital believes, but does not guarantee, to be accurate. iCapital considers this third-party data reliable, but does not represent that it is accurate, complete and/or up to date, and it should not be relied on as such. iCapital makes no representation as to the accuracy or completeness of this material and accepts no liability for losses arising from the use of the material presented. No representation or warranty is made by iCapital as to the reasonableness or completeness of such forward-looking statements or to any other financial information contained herein.

Securities products and services are offered by iCapital Markets, an SEC-registered broker-dealer, member FINRA and SIPC, and an affiliate of iCapital, Inc. and Institutional Capital Network, Inc. These registrations and memberships in no way imply that the SEC, FINRA, or SIPC have endorsed any of the entities, products, or services discussed herein. Annuities and insurance services are provided by iCapital Annuities and Insurance Services LLC, an affiliate of iCapital, Inc. "iCapital" and "iCapital Network" are registered trademarks of Institutional Capital Network, Inc. Additional information is available upon request.

©2024 Institutional Capital Network, Inc. All Rights Reserved. | 2024.01



iCapital®

60 East 42nd Street, 26th Floor
New York, NY 10165
212.994.7400

www.icapital.com

North America

New York City
Princeton
Greenwich
Boston
Boca Raton
Toronto
Birmingham

Europe

Zurich
London
Lisbon

Asia

Hong Kong
Singapore