Private Credit
White Paper

VINTAGE

Executive Summary

Depreciable Tax Basis

- Private credit is an all-weather strategy ideal for income focused investors. Senior secured loans deliver consistent, current income with downside management from first lien seniority and low historical default rates
- Private credit provides premium yields above public fixed income
- Floating rate loans capitalize on current market conditions, providing a natural hedge against inflation and rising interest rates

Why Now?

- This is the golden era of private credit investing. Rates and returns are at historical highs and 2023/2024 likely to be a strong vintage year for credit investments
- Regional banking crisis has led to improved terms and opportunities for private lenders
- Recent market volatility has led to spread-widening and lower valuations, providing a compelling environment to deploy capital into private credit

What is Private Credit?

Private credit (or private lending) is an asset class that consists generally of loans, fixed-income, or other structured investments that aim to deliver higher yields with lower overall risk when compared to equity investments. In other words, investors in private credit are lending money to borrowers in exchange for a fixed rate of return (often captured in the form of an interest rate or preferred return) but typically do not have any equity ownership or upside participation. Similar to other private market assets, private credit differs from publicly traded credit or fixed-income investments, such as bonds or asset-backed securities, because it is illiquid and consequently aims to deliver a higher relative return.

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Why Private Credit?

Private Credit is an all-weather strategy with the potential to generate superior risk-adjusted returns relative to traditional fixed income markets.

01

Cash yields generated by private credit securities are often higher than traditional fixed income due to an illiquidity premium available in credit markets

02

Skilled fund managers can generate strong risk-adjusted returns through thoughtful underwriting and asset selection

03

Senior secured loans and other private credit instruments often provide an inflation hedge due to the floating interest rate nature of credit investments

04

Strong tailwinds exist for private credit due to the regional banking crisis. This provides an ideal backdrop (likely strong vintage year) to place credit investments along with a sustained opportunity set for the foreseeable future

Other Private Credit Benefits

How private credit can help achieve investment objectives:

- Inflation protection - Floating rate feature of senior loans can protect returns in rising rate and inflationary environments
- Diversification - Private market asset returns have low or negative correlations with public market returns
- Volatility management - Private market assets are generally not marked to market, so less exposed to headline and other risks that can rock public markets

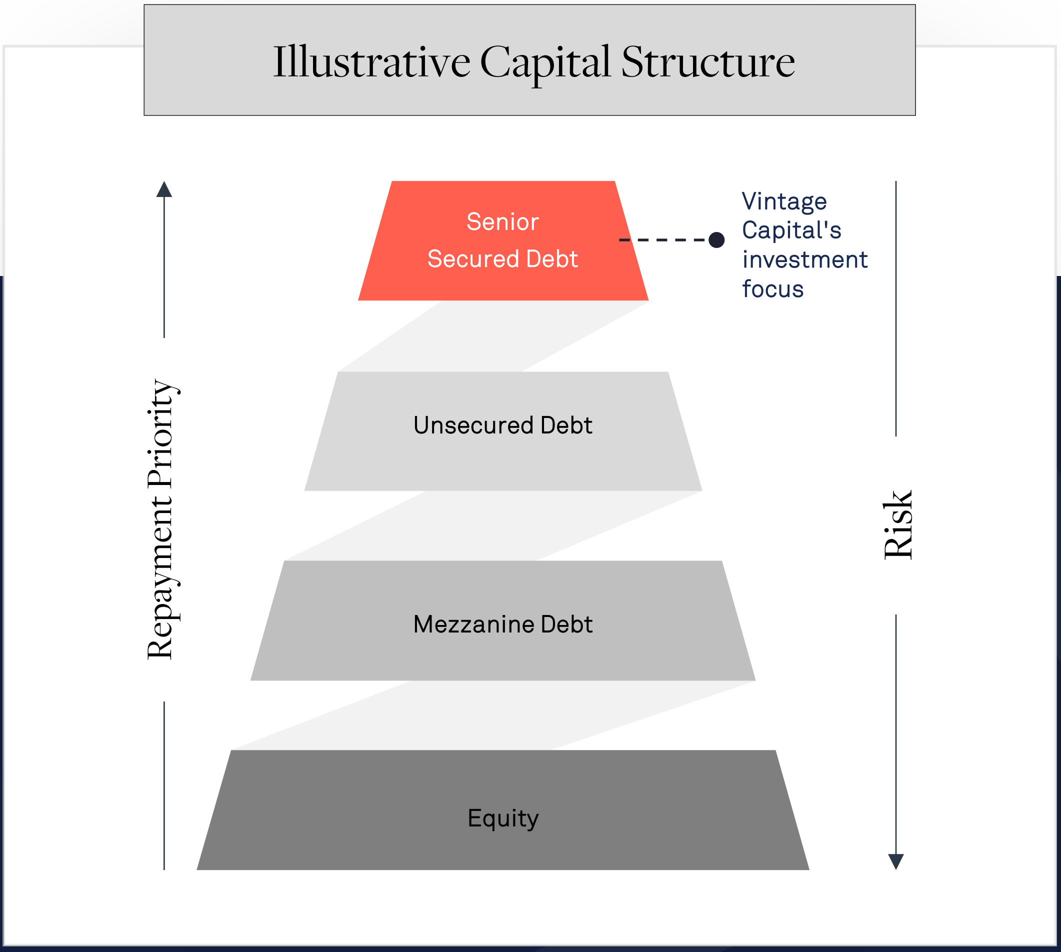
How We Invest

Private Credit direct lending – primarily through first-lien senior secured loans to US companies

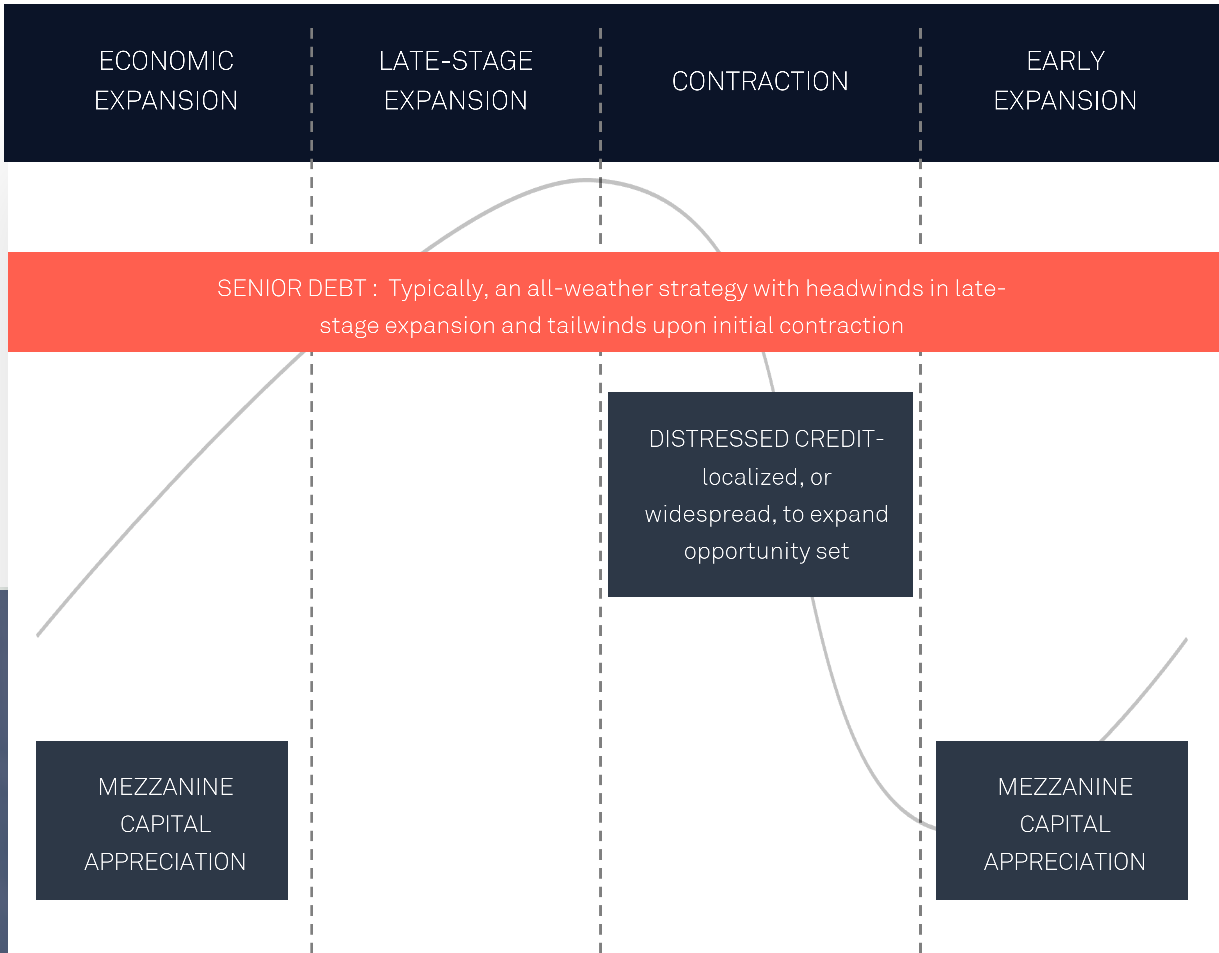
Large Company Lending

Private Real Estate Lending

Low Loan to Value Positions



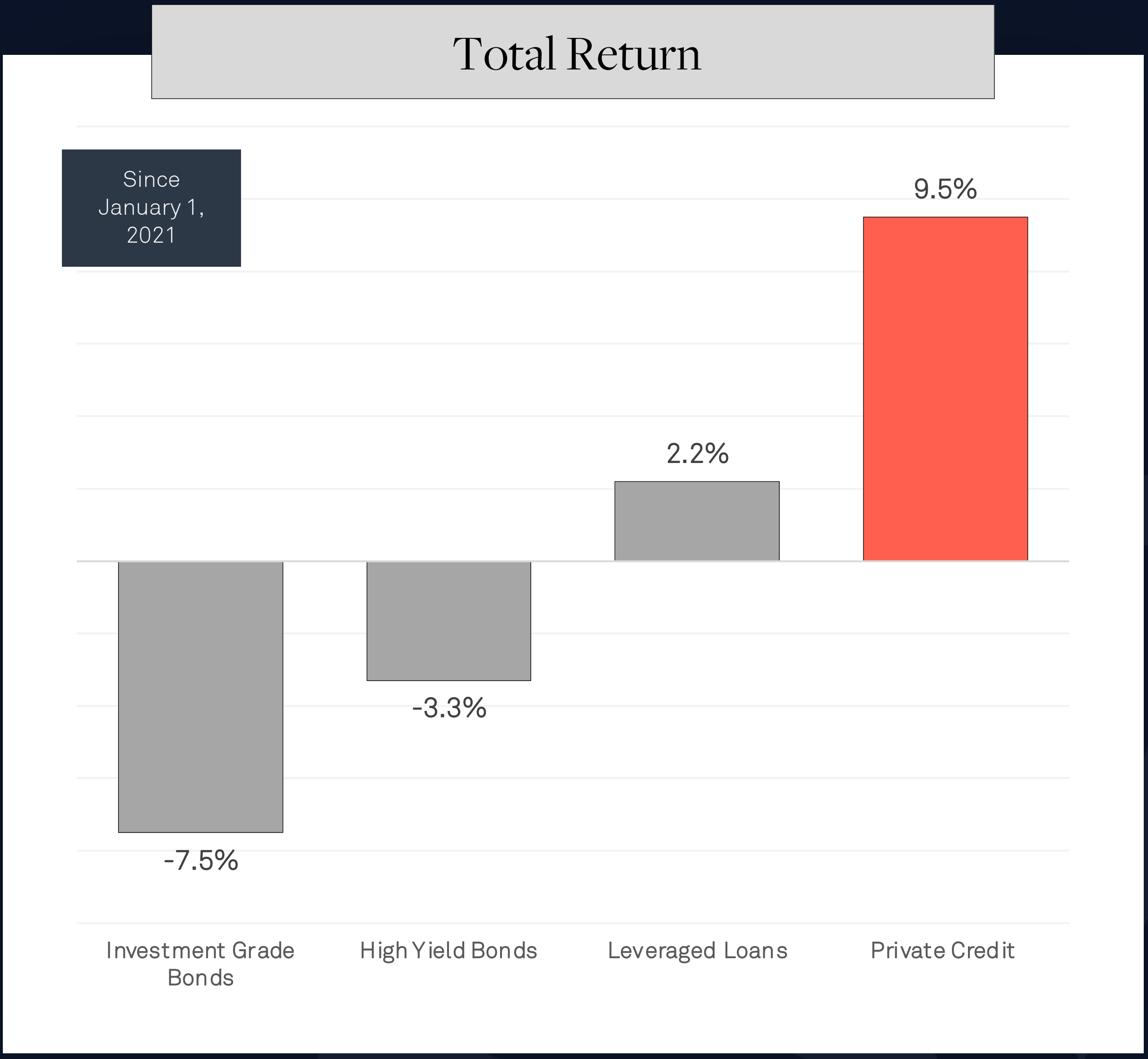
Private Credit Cycle



Private Credit has an excellent track record as an all-weather strategy with the potential to generate superior risk-adjusted returns relative to traditional fixed income markets.

However, to maximize returns, it is best to maintain discipline during late-state economic expansions when asset values are elevated.

Traditional fixed income is under pressure



Disclosure: Past performance is no guarantee of future results. All investments involve a degree of risk, including the risk of loss.

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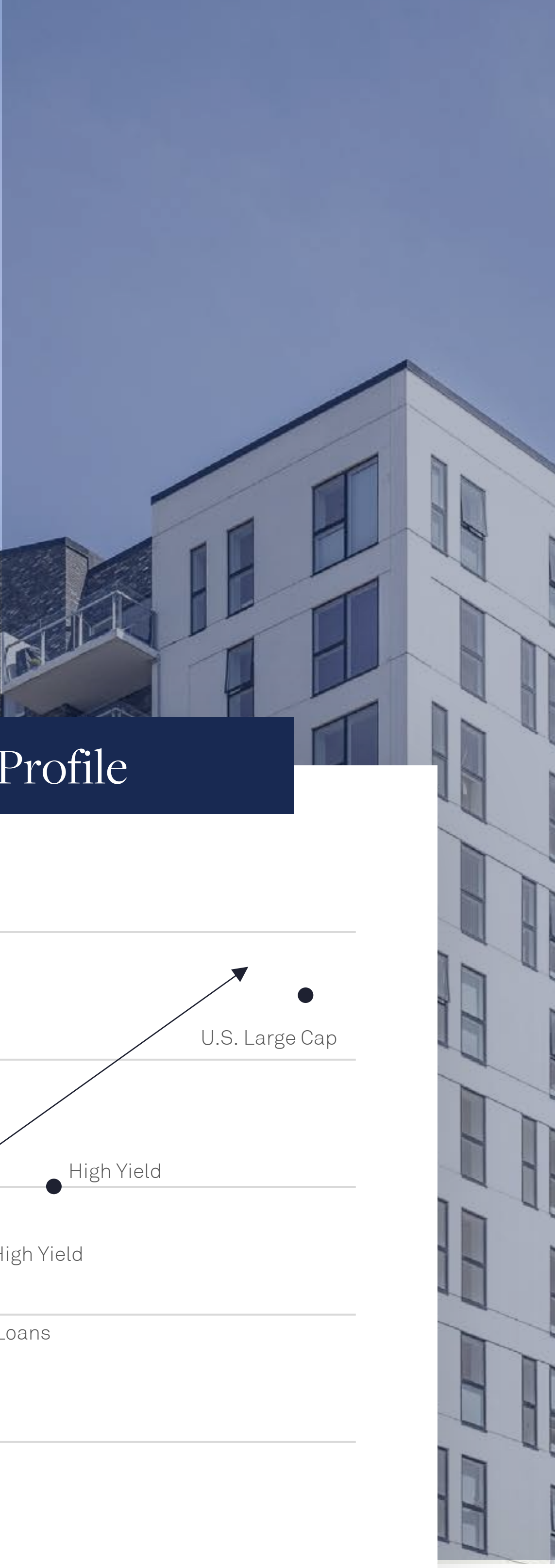
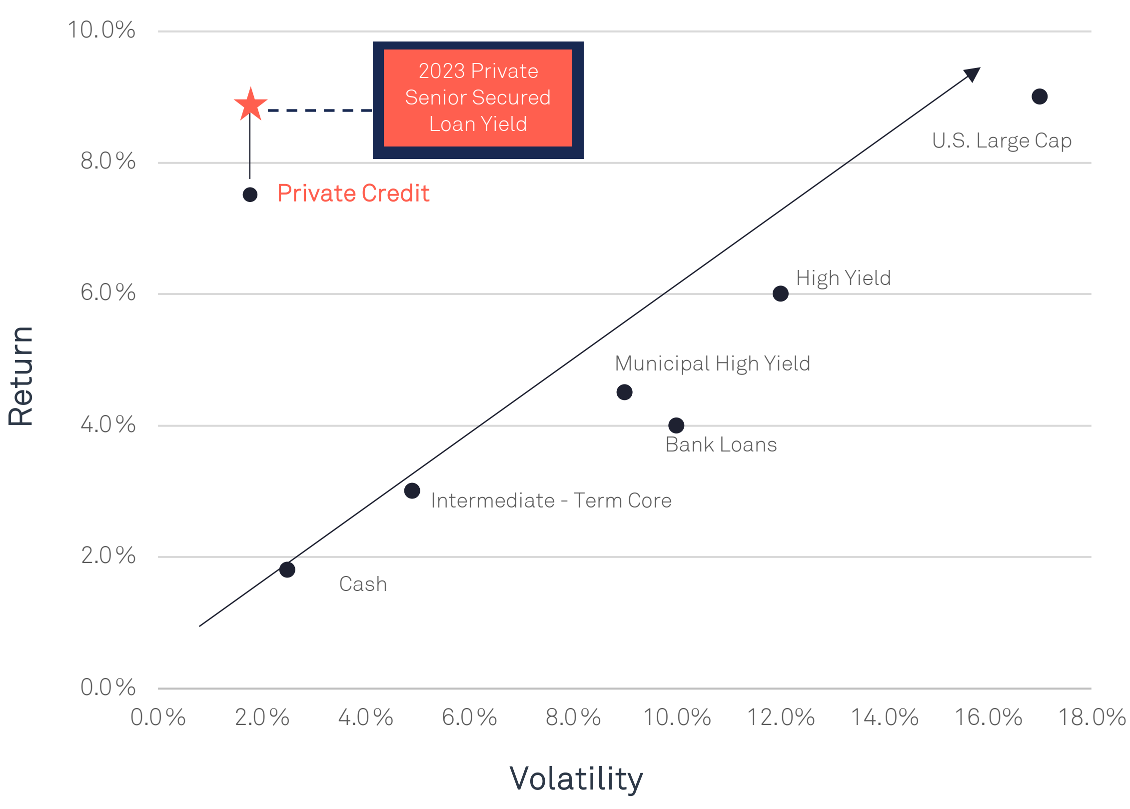
Private Credit



Private Credit is a resilient asset class, providing **higher potential returns with lower volatility** vs. fixed income

Strong Risk-Return Profile



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Real Estate Debt (Private Credit) Opportunity

Similar to corporate credit, we believe the recent spike in interest rates is creating compelling opportunities for real estate debt investors. These circumstances present an opportunity for non-banks to lend to borrowers with high-quality assets at attractive yields with moderate risk assets. Non-banks can likely extend loans with attractive loan-to-value ratios based on reduced valuations. This has the potential to provide investors with additional downside protection and more room for future appreciation.

In a recent memo to investors, Oaktree Capital Co-Founder and Co-Chairman Howard Marks outlined the attractive opportunity for real estate debt investing. Higher interest rates since the beginning of 2022 have dramatically impacted the investment landscape for real estate debt by causing:

- A decline in real estate values
- Increased borrowing costs for asset owners
- Reduced credit availability from traditional financing sources such as banks and the securitization market.

While this backdrop has created challenges for borrowers, we believe it has also generated tremendous opportunities for real estate debt investors with capital to deploy. as they can now earn higher yields while taking less risk.

"We've gone from the low-return world of 2009-21 to a full-return world, and it may become more so in the near term. Investors can now potentially get solid returns from credit instruments, meaning they no longer have to rely as heavily on riskier investments to achieve their overall return targets. Lenders and bargain hunters face much better prospects in this changed environment than they did in 2009-21"

Howard Marks

SEA CHANGE, DECEMBER 2022

Credit Funds are built for today's changing markets

Defense

Cash yields generated by private credit securities are often higher than traditional fixed income due to an illiquidity premium available in credit markets.

- Senior secured focus
- Low LTV (loan to value)
- Large-cap companies
- Portfolio with broad diversity
- Top-tier credit managers
- Highly attractive vintage year (start date to invest)

Offense

Seeks risk-adjusted returns and current income especially in today's rising rate environment

- Primarily floating rate loans
- Seeks high-growth sectors
- Robust deal sourcing
- Upfront deal fees charged to borrowers

High-Income Solution

We believe high quality credit is well-positioned to deliver equity-like returns with debt risk for the foreseeable future

World-Class Credit Managers

Vintage Capital has created an efficient and scalable vehicle to invest with a diversified group of institutional-quality credit managers offering favorable economics to Vintage investors.

Example Managers:

CHURCHILL from nuveen

OAKTREE

MARATHON ASSET MANAGEMENT

BLUE OWL

CARLYLE

ARES

- Vintage Capital invests in a diversified portfolio of private senior secured loans with the objective of delivering consistent income and strong downside management.

Get in Touch:

info@vintage-funds.com

vintage-funds.com