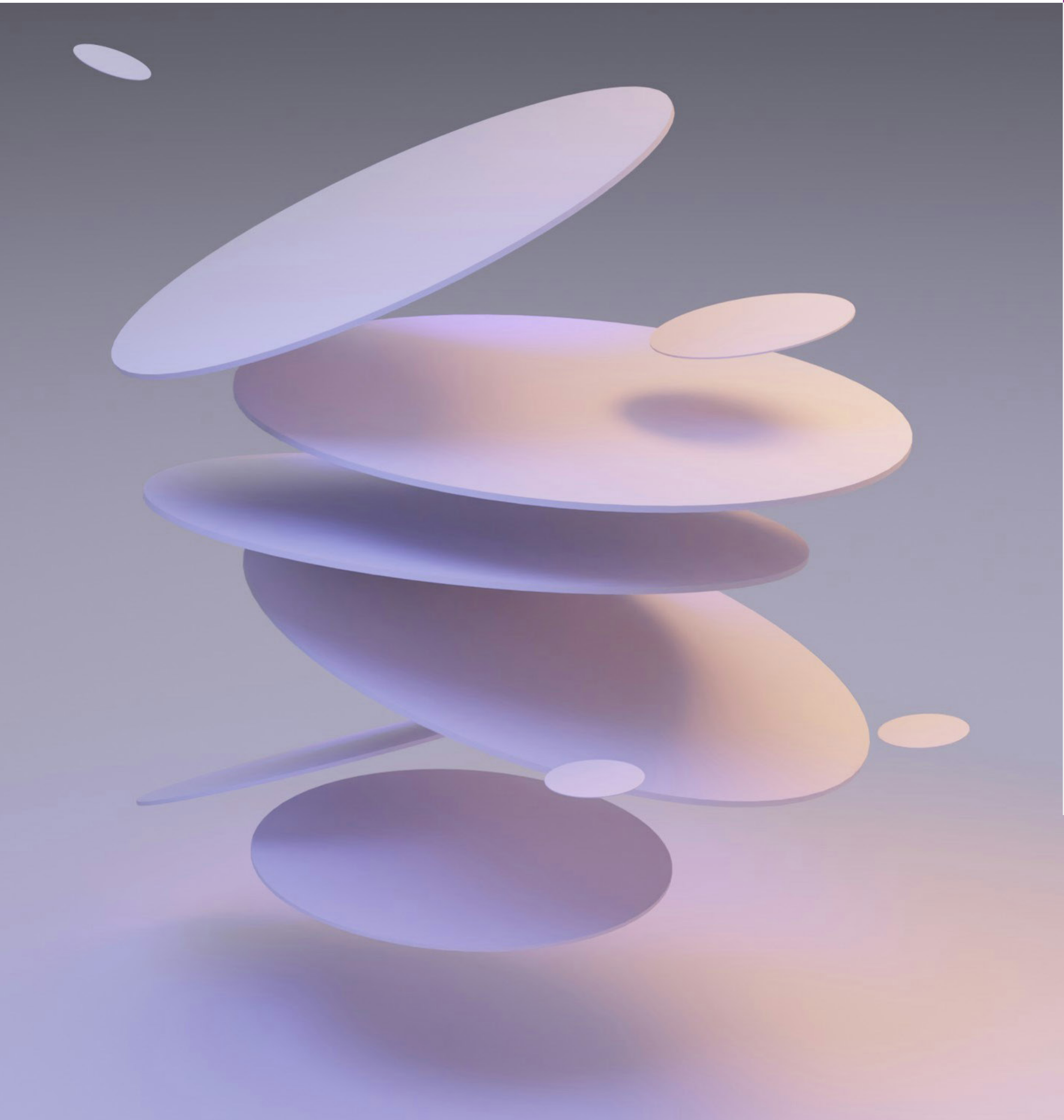
May 2024

momentum

PRIVATE CREDIT SECONDARIES



Private credit secondaries are attracting interest from institutional investors. Intriguingly, the interest is from both a buying and selling perspective.

Buying: as an alternative and/or supplement to traditional private credit programs.

Selling: to help liquidate private credit programs to raise capital for buy-in/buy-out transactions, or to reduce illiquid allocations and reinvest in liquid assets.

What are private credit secondaries?

Put simply, holdings of existing privately negotiated loans. The (primary) private credit market has developed significantly since the Global Financial Crisis, both in terms of capital raised and by number of managers. It was only a matter of time that the next stage in the growth of the private credit market was to have a highly functioning secondary market.

What is private credit, and why do borrowers utilise this form of financing?

Private Credit encompasses privately negotiated credit instruments that are not available in the public credit capital markets.

Borrowers use private markets for a number of reasons including:

Access
Public markets can be hard to access and require scale

Speed and timing
Responsiveness and certainty of execution even in volatile times

Flexibility
Bespoke loans with long-term partnerships

The loans are privately negotiated, illiquid and are typically unrated (credit quality is usually sub-investment grade).

Why consider investing in private credit?

Enhanced / excess yields over public market credit opportunities with a high cash yield.

Captures an illiquidity premium and also paid for deal-arrangement via up-front fees with early payment penalties.

Ability to negotiate better contractual protections.

Diversification with other asset classes.

Private credit secondaries exhibit the following desirable characteristics from an acquisition perspective (compared to traditional private credit):

- **Discounts –** secondary units are typically acquired at a discount to NAV (around 5 to 15%).
- **Number of holdings –** greater diversification by holding significantly more underlying loans (5 to 10x greater) across several GPs.
- **Profile –** exposure to pool of performing seasoned loans with lower leverage, and lower downside risk.
- **Duration –** capital deployment and subsequent repayment is quicker given loans have already been made.

Investors inevitably have less control on the underlying manager exposures as the manager of the private credit secondaries fund decides which pools of manager loans to acquire. In addition, fees should be considered for these arrangements relative to traditional private credit.

Some considerations for investors seeking to sell private credit allocations are:

- **Achieving 'fair-price'** - the market for investors to liquidate units in private markets at a 'fair price' remains challenging, and is generally achieved through the broker network. However, the launch of private credit secondary funds has helped to increase liquidity in this particular market as the number of potential buyers of Limited Partner (LP) stakes has increased.
- **Alignment of objectives** - the objectives for these funds are likely to be more aligned to the underlying investors (compared to traditional private equity secondaries for example). This should result in more competitive terms (lower discounts).
- **Broker selection -** given the number of private credit secondary funds now available, investors should confirm whether brokers include these types of funds as part of their potential buyer base when assessing which brokers to appoint to help with sales.

For more information, please contact:

Momentum Investment Solutions & Consulting
E: mgim_windsor_consultants@momentum.co.uk
T: +44 (0)1753 342302

Partnering with large institutional investors to help them achieve their goals

---

Important notes

Momentum Investment Solutions & Consulting is a trading name of Momentum Global Investment Management Limited (MGIM).

This document is only intended for use by the original recipient, either a MGIM client or prospective client, and does not constitute investment advice or an offer or solicitation to buy or sell. This document is not intended for use or distribution by any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, MGIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

MGIM (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London EC4R 1EB. MGIM is authorised and regulated by the Financial Conduct Authority in the United Kingdom (registration no.232357). For complaints relating to MGIM's financial services, please contact distributionservices@momentum.co.uk ©MGIM 2024.