

# WHY PRIVATE DEBT

## MARKET OUTLOOK

“

Investment consultants recommend choosing Private Debt investments based on the manager's experience with the strategy.

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# The Private Debt Industry Is Rapidly Expanding

The growth in private debt financing is largely attributable to a continuing retreat by banks from loan markets under the pressure of tougher capital rules.

Source: 2018 Preqin Global Private Debt Report.

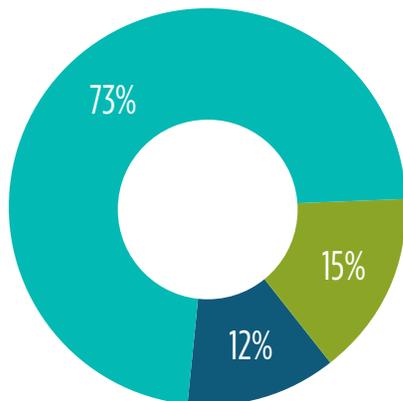
A perfect storm of cash-hungry mid-market firms who are unable to secure conventional loans, plus investors searching for alternatives to low yielding bonds and volatile equities has injected tremendous energy into the Private Debt space. Here's what it looks like:

## Private Debt AUM has more than tripled since 2007



Source: Preqin Online Products, 2019.

## Investor views on the performance of their Private Debt investments over the past 12 months

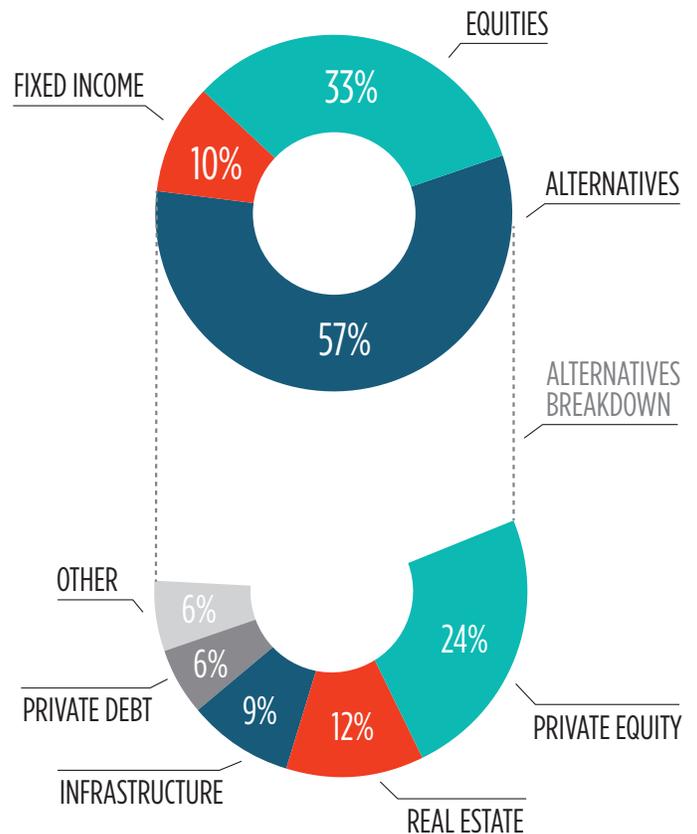


Met Expectations Exceeded Expectations Fell Short of Expectations

Source: Preqin Investor Survey, 2019.

## In 2019 the Canada Pension Plan allocated significantly to Private Debt

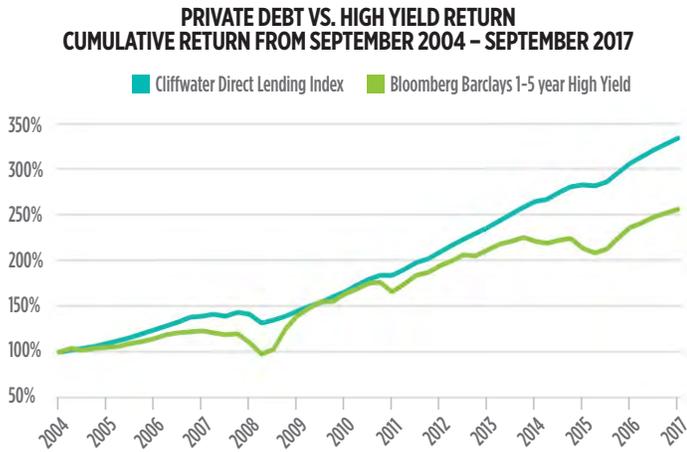
### CPPIB 2019 ALLOCATIONS



“The CPP is sustainable for the next 75 years... Investment income over the three years since the previous review was 248% higher than expected.”

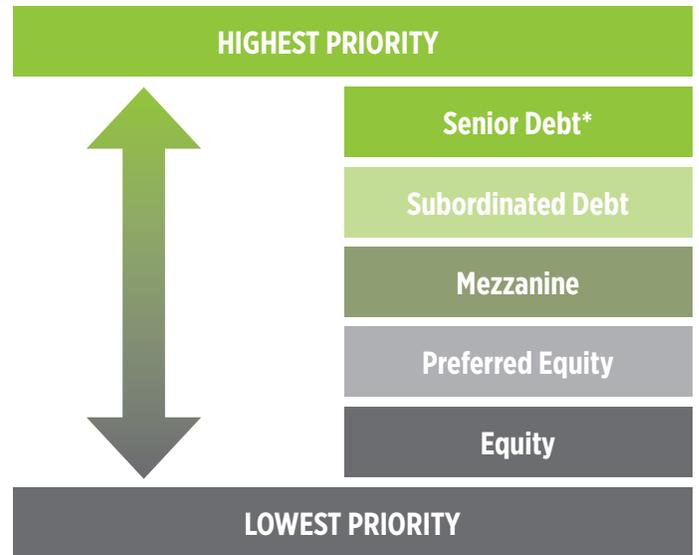
Source: CPPIB 2019 Annual Report

## Direct Loans have outperformed High Yield, with less volatility



Source: Cliffwater Direct Lending Index, Morningstar.

## Senior Debt is the safest part of the capital structure



\*Ninepoint Partners' current Private Debt strategy.

“Although the perception of the private debt sector can sometimes be characterized as being more risky than traditional bank debt, the number of private credit funds opting for a more conservative ‘senior secured’ structure suggests the contrary.”

Source: CPPIB, May 2018.

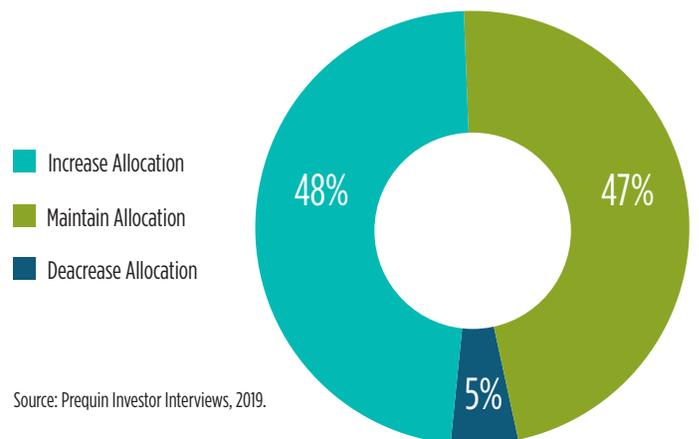
## Two distinct approaches to Private Debt investing

**1**  
**RETURN MAXIMIZING**  
 Distressed debt, structured equity and specialty finance

**2**  
**CAPITAL PRESERVATION\***  
 Direct loans (levered and unlevered)

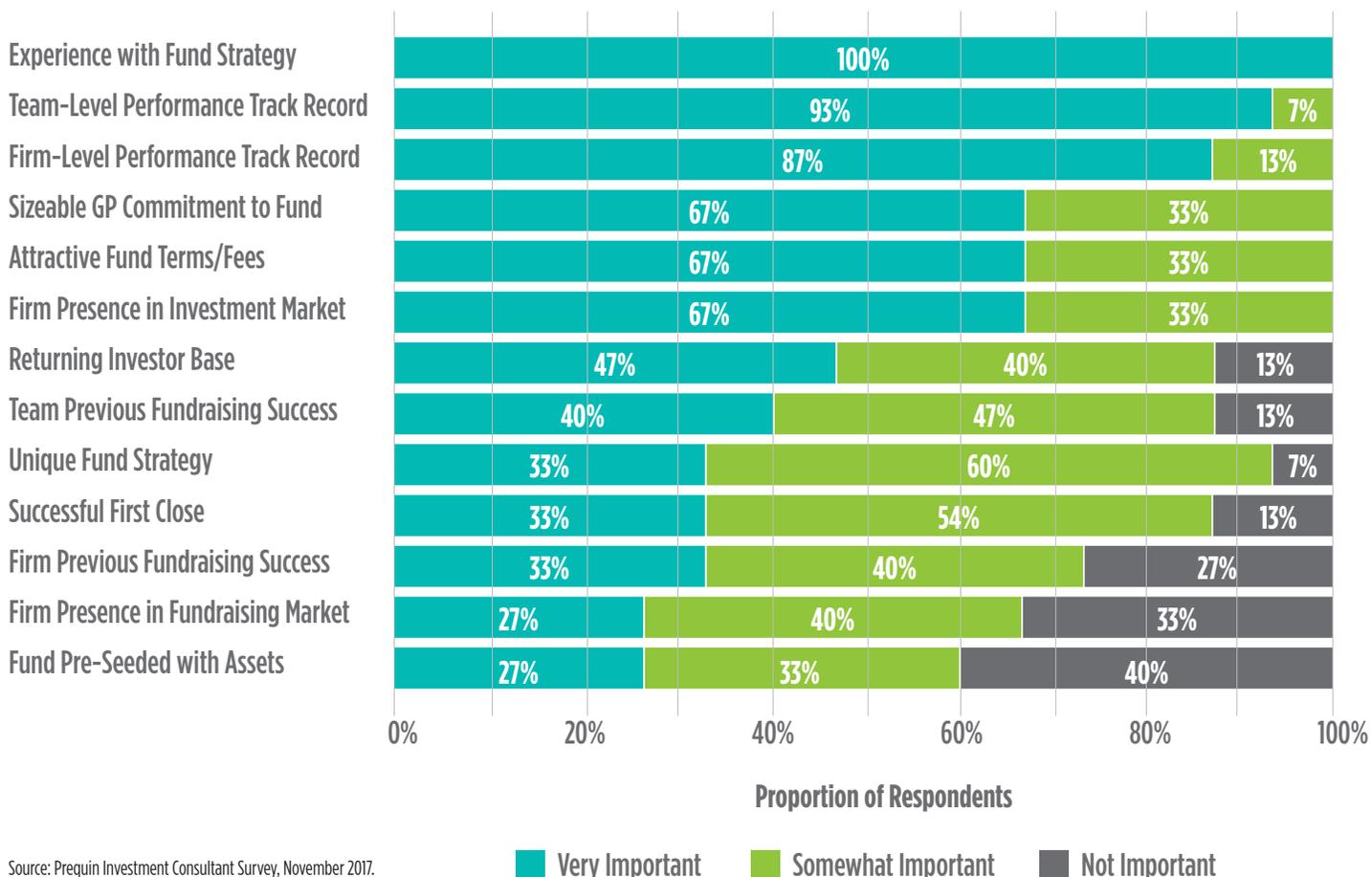
\*Ninepoint Partners' current Private Debt strategy.

## Over half of current Private Debt investors intend to increase their allocations



Source: Prequin Investor Interviews, 2019.

## Investment consultants say experience with fund strategy is key to Private Debt manager selection



## Private Debt can be viewed as a defensive asset class

### Benefits

- ✓ An innovative way to generate income
- ✓ Low volatility
- ✓ Equity-like returns
- ✓ Typically floating rate loans
- ✓ Collateralized by assets
- ✓ Safest part of capital structure (Senior Debt)
- ✓ Non-correlated to traditional asset classes
- ✓ Lower historical default and loss rates than high-yield bonds
- ✓ Capital preservation with strong long-term performance

### Challenges

- ✓ Illiquidity
- ✓ Transparency
- ✓ Limited information available on track record of the asset classes
- ✓ Lack of comparability with other asset classes in private and public markets
- ✓ No linear deal flow resulting in cash drag

A good manager can help you take advantage of the benefits while mitigating the challenges.



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