BRIARCLIFFE CREDIT PARTNERS

"We're hungry for unique, esoteric private credit strategies"

Key takeaways from our LP Dinner Series

January 2022

Introduction

During the last few weeks of 2021, Briarcliffe hosted a series of dinners across the US with institutional private credit investors. Guests represented large public pension plans, fund of fund managers, insurance firms, family offices, and consultants, offering a holistic view of investment in the asset class.

Inspired by the Welsh proverb, "one understands poorly who listens poorly," these dinners are designed to focus on listening to investors in a confidential setting with no sales presentations or promotion of any product or service.

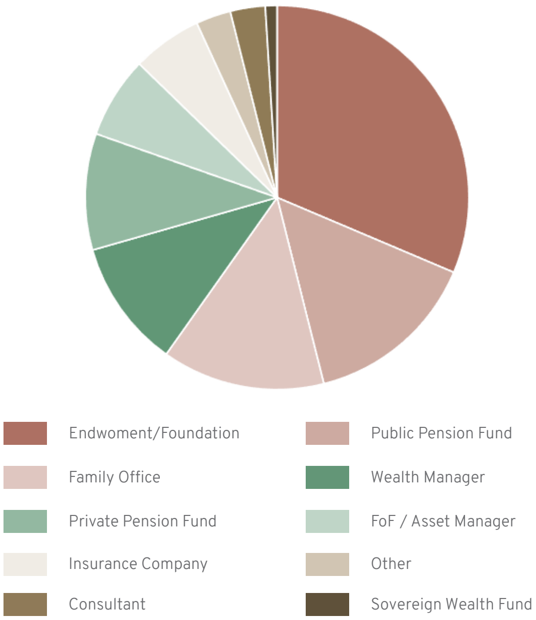
From these intimate groups of around 10 attendees, it was abundantly clear that investors are, in aggregate, growing their private credit allocations in 2022, and beyond. And, in particular, that sophisticated investors are seeking esoteric private credit strategies to complement their portfolios.

As we have heard throughout the year, attendees confirmed that interest in private credit is a result of it serving different, sometimes multiple, roles in their portfolios. In addition to diversification, private credit allows some investors to rotate their credit hedge allocation for return enhancements. Larger investors, such as state plans, indicated they are increasingly utilizing private credit as a fixed income substitute.

Our conversations were rich and free flowing and presented consistent themes throughout each of the dinners, which are outlined in more detail here.

Briarcliffe Coverage

3,000+ Institutional private credit investors



THEME 1

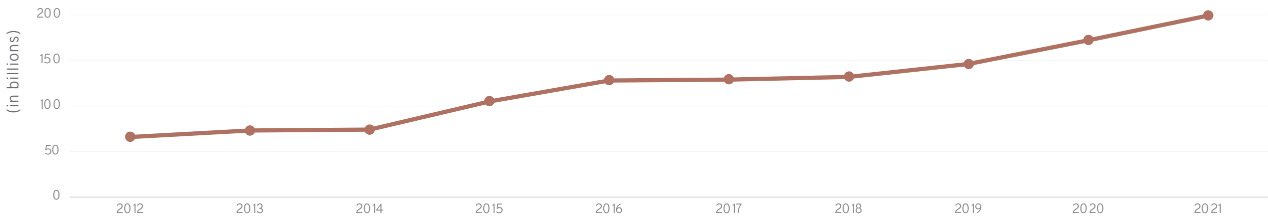
Increasing private credit allocation

Though a few investors suggested allocation would remain stable, most indicated a plan to increase their exposure to private credit. Notably, one Northeast insurance company will be doubling their private credit portfolio to 6-7% allocation over the next couple years. A family office investor mentioned they will redeem from credit hedge funds to increase allocation to private credit.

Following what we heard generally, one global consultant said they would be recommending investors to decrease their fixed income portfolio and leverage direct lending strategies for return enhancements.

Some investors indicated private credit investments are used as diversifiers in their overall private markets exposure. And they indicated that private markets allocation continues to increase which, by result, increases their investment in private credit.

Allocation to Private Credit



Source: Preqin, January 2022

THEME 2

Onboarding new private credit managers

There was no consensus on how many new manager relationships LPs would consider in 2022. However, there was strong agreement that re-ups with existing managers would account for most allocations. This is in large part driven by managers returning to market much quicker than seen before. All investors agreed that re-ups with existing mangers still require a significant level of diligence and re-underwriting, taking away time and resources to focus on new relationships.

THEME 3

New private credit strategies

Overall, attendees indicated a strong preference for esoteric, niche strategies versus traditional corporate lending as they offer higher returns and are less correlated with the broader markets. In particular, one large consultant expressed interest in hybrid strategies that include both primaries and secondaries. Only one investor conveyed its primary focus on direct lending. Across all our dinners, there was significant interest in asset backed lending; perhaps not surprising as we find ourselves in an inflationary environment.

The conversations regularly addressed evergreen structures. Our Boston attendees unanimously indicated that evergreen structures would be helpful with re-ups by eliminating the frustration of fundraise timing and the resources required to re-underwrite every year. A Texan LP agreed, saying the velocity of funds coming back to market puts immense pressure on investors and their consultants in re-underwriting the same funds. The investor continued by saying this dynamic decreases the resources available to look for new GP relationships and strategies accreditive to its portfolio, a sentiment shared by several others. On the whole, family offices and fund of funds took a more opportunistic approach and indicated they were less bound by re-ups.

At our New York dinner, the interest for Emerging Market credit overshadowed the appetite for Western European strategies. The multiple risk factors in investing in emerging markets kept the real dollar allocation lower than the interest in the area. In the end, US strategies remain those in greatest consideration as investors felt they exhibit sufficient opportunities to keep investments on “home turf.”

THEME 4

Consider impact investing

Though not universally a formal investor agenda item, Diversity & Inclusion was suggested as an increasing consideration in LP allocation conversations. One global consultant explained that certain of their LPs have “blank checks” for D&I allocations. We believe this will be an increasingly important topic.

It was discussed how Environmental, Social, and Governance (ESG) investing in Europe is concentrated on climate and that expectations for allocation to those strategies will continue to increase in those regions.

THEME 5

Meeting in person

There was not a consensus about how to meet with investors and managers. Though virtual meetings were repeatedly credited with increasing efficiency for initial conversations, investors agreed they simply cannot replace the necessity that meeting in person provides in building personal trust.

Across all our dinners, it was clear that so long as there are not drastic changes in the Covid environment, investors will dramatically decrease conference attendance in 2022. Though, interest remained in attending conferences when conditions returned to a more “normal” place.

In the Northeast, unsurprisingly, in person restrictions were different than the sentiments we heard at our Austin dinner. But, in general, investors are taking several approaches to meeting with managers, be it uniformly by virtual connection, a hybrid of in person and digitally, or fully back in the office.

Conclusion

Investors are hungry for unique, esoteric private credit strategies. Allocation remains on the rise with expectations for it to exceed $1.5 trillion in the coming year or two. Private credit is beginning to replace older fixed income investments as LPs seek higher returns.

To meet that demand, in 2021, Briarcliffe met with 200 managers and selected to represent just five mandates. Extending beyond traditional direct lending, our funds represent what these investors have said they desire: proven, mid-teen return strategies that offer both diversification qualities as well as overall return enhancements.

It's an exciting time to be investing in private credit. We hope to see you at a future Briarcliffe LP Dinner.

AUSTIN LP DINNER
BRETT MURRAY, JESS LARSEN AND KYLE JOHN

PHILADELPHIA LP EVENT
JESS LARSEN, JENNIE PARK AND BOBBY MOLINA

BOSTON LP DINNER
JESS LARSEN AND BOGDAN VILICICH

Briarcliffe is exclusively private credit

Briarcliffe Credit Partners is an exclusively dedicated private credit placement agency. Led by a team with deep expertise and passion for this growing asset class, our differentiated and methodical approach has a demonstrated track record of raising smart institutional investor capital for leading private credit strategies globally.

Specialized focus

Our proven mid-teens return strategy encompasses investments of these types:

- Fund II or higher
- Top Quartile Performance
- $300m – $2b
- Net IRR: >10%[1]

Uniquely selective

We act very selectively to provide positive offerings for investors. Of the 50+ GPs we meet with each quarter, only one or two mandates are selected.

Deep industry experience

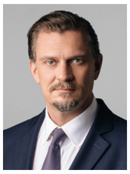
Our collective private credit experience offers managers and investors unique and deep insights, access to best-in-class industry relationships, and targeted fundraising and investment solutions.

For more information, please visit www.briarcliffepartners.com.

1. Historic net IRR is not guaranteed and possibly an indication of higher risk which could result in loss.

Our team

Fundraising



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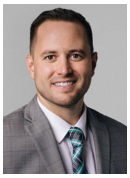

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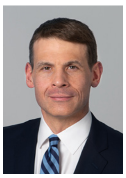

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