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Field Guide TO Private Credit

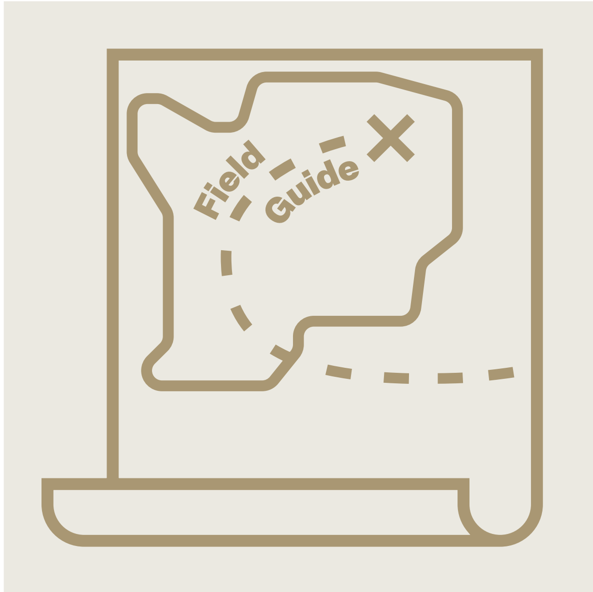
MAY 2023

Private Debt Investor
AWARDS 2022
Advisory and Placement Agent of the Year: Americas
WINNER

Your guide to private credit

We are pleased to introduce the Briarcliffe Field Guide to Private Credit™, your companion for the journey through the panorama of this broad and growing asset class. It provides descriptions and key characteristics of each of the 26 sub strategies that comprise our Four Pillars of Private Credit™. The insights within the guide are informed by our deep private credit expertise coupled with the regular conversations we hold with some of the most active and astute investors, managers, and consultants in the industry.

While there are no lurking tar pits or poisonous snakes to contend with, the breadth, complexity, and illiquidity of the asset class requires investors to be informed and prudently plan each step when constructing a quality portfolio.



Briarcliffe's Four Pillars of Private Credit™

1. Corporate Credit

- Direct Lending
- Distressed
- Mezzanine
- Non-Performing Loans (NPL)
- Opportunistic
- Secondaries
- Special Situations
- Venture Debt

2. Specialty Finance

- Asset Based Lending
- Consumer Lending
- Insurance Linked
- Litigation Finance
- Net Asset Value (NAV) Lending
- Regulatory Capital Relief
- Royalties
- Trade Finance

3. Structured Credit

- Asset Backed
- Collateralized Loan Obligations
- Commercial Real Estate
- Residential Real Estate

4. Real Assets Credit

- Agriculture
- Energy
- Infrastructure
- Metals & Mining
- Real Estate
- Transportation

Mapping the universe

The Field Guide provides background on each of the 26 sub strategies of private credit. There are several metrics through which to examine them, including target returns, risks, downside protection, etc. At the highest level, we identify one of three investment attributes each strategy contributes within a portfolio, including those that 1) provide income, 2) are designed for total return, or 3) act as a portfolio diversifier. Below, each of these is described in more detail and the strategies that meet each attribute are listed.

Income

For income seekers, direct lending remains the "go-to" strategy as it has been proven across cycles. With core managers largely set, investors are spending time refining their portfolios, adding diversification through sector specialists and investment managers with specific sourcing and underwriting advantages. These investors are also seeking to diversify corporate risk through other income oriented private credit strategies, like specialty finance, which offers exposure to credit backed by large, diversified pools of hard and/or financial assets. These are intrinsically diverse and encompass a wide variety of underlying exposures such as consumer debt, single family rental homes, and transportation assets.

1. Corporate Credit

Direct Lending
Distressed
Mezzanine
Non-Performing Loans (NPL)
Opportunistic
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Special Situations
Venture Debt

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Agriculture
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Transportation

Mapping the universe

Total Return

Investors seeking total return are experiencing more opportunities stemming from market volatility, primarily through special situations and opportunistic credit strategies. They are willing to accept greater risk (e.g., credit, structuring, event) to achieve returns potentially on par with, or above, equity. Investors value these strategies for their inherent flexibility across asset types, geographies, and paths to value creation.

1. Corporate Credit

- Direct Lending
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Diversifier

Lastly, niche strategies seeking to exploit credit imbalances and sourcing barriers in specific sectors are rapidly gaining investor interest as core private credit portfolios mature. Among many others, some diversifying strategies include NAV lending, media royalties, and litigation finance. These strategies can deliver attractive, uncorrelated returns with structural downside protections.

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In addition to portfolio construction solution considerations, the Field Guide also describes each strategy across six other categories:

- Potential Return Drivers
- Strategy Variations
- Risk Drivers
- Downside Protection
- Investor Access
- Representative Unlevered Net Return

For example, potential return drivers for venture debt include cash yield and equity warrants. Typical unlevered net returns fall between 15% and 20%. Downside protection is provided from shorter maturities. And, execution risk is one consideration for investment in this strategy.

The Field Guide represents the insights gathered from our unique position at the intersection of our industry: since Briarcliffe's inception two years ago, we have met with more than 500 managers and have conducted 2,100 LP / GP meetings. Every day, we hear what is on the mind of sophisticated institutional investors and speak with private credit managers with proven strategies ranging from direct lending to highly esoteric approaches to debt investing.

Typical net returns (unlevered)

KEY

1. Corporate Credit
2. Specialty Finance
3. Structured Credit
4. Real Assets Credit

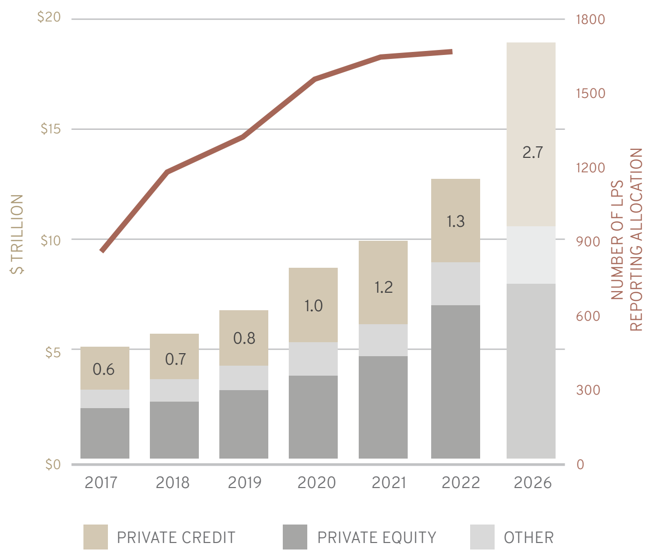
20+%	Distressed			
15%–20%	Opportunistic	Special Situations	Venture Debt	
10%–15%	Agriculture Asset Based Lending Consumer Lending Energy	Insurance Linked Litigation Finance Metals & Mining Mezzanine	Net Asset Value (NAV) Lending Non Peforming Loans (NPLs) Royalties Secondaries	Asset Backed Collateralized Loan Obligations Commercial Real Estate Residential Real Estate
5%–10%	Direct Lending Infrastructure	Regulatory Capital Relief Real Estate	Trade Finance Transportation	

It's a bull market

Private credit has grown substantially over the past decade into a mature, $1.5 trillion asset class and continues its expansion at more than 20% per year.[1]

There are strong tailwinds from current macroeconomic conditions which do, and should continue to, drive institutional investor demand. Traditional lenders face rising provisions from slowing economies and the fallout from the collapses of SVB, Signature, and First Republic, further drive the need for private capital. These combined forces are expected to take AUM from $1.5 trillion presently to more than $2.7 trillion in the coming years.

AUM Growth & Number of LPs Allocating[1]



To capture this momentum, investors of all types are seeking to develop – or for newer entrants, build – private credit portfolios. Given the breadth of strategies, illiquidity, and, in some cases, limited historical data, disciplined portfolio construction is paramount. We believe the right approach is with exposure across the 26 sub strategies of Briarcliffe's Four Pillars of Private Credit™, including those that participate in deep and established markets, complemented by specialized strategies seeking to exploit specific market imbalances.

One thing is certain: it is a good – and right – time to be investing in private credit! We hope the Field Guide is a useful tool for you and that you'll always count Briarcliffe as your private credit resource. ■

1. Preqin, May 2023.

PDI Awards
Advisory and Placement
Agent of the Year: Americas
2022

BRIARCLIFFE CREDIT PARTNERS

Briarcliffe's Four Pillars of Private Credit™

1. Corporate Credit | 2. Specialty Finance | 3. Structured Credit | 4. Real Assets Credit

- Direct Lending
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- Opportunistic
- Secondaries
- Special Situations
- Venture Debt

1. Corporate Credit

Direct Lending

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | Diversifier

Direct lending is directly originated senior debt of middle market corporate borrowers across a wide range of industries and sizes (by definition, below investment grade issuers). Direct loans are generally structured as First Lien, Second Lien, or Unitranche - a hybrid loan combining elements of senior and subordinated debt at a single blended interest rate. The strategy is typically categorized by borrower size (EBITDA-based), sponsor involvement, geography, and generalist or sector focused. Debt is generally used in conjunction with LBO transactions and arranged by a private equity sponsor. Notwithstanding higher cost, borrowers like direct lending for its greater flexibility, speed, and execution certainty relative to the more volatile syndicated loan market.

Direct lending, often the "gateway" allocation to private credit, is a large, mature asset class. It has been adopted by institutional, insurance, and retail investors as a defensive source of floating rate income with an attractive illiquidity premium (~200 to 300bps). Given defensive characteristics (i.e., senior, secured, floating rate), the strategy is generally levered (typically 1x to 2x) to enhance returns (and risk).

As an efficient and competitive market, asset-level returns tend to be range bound. That said, the strategy is evolving to reflect increased specialization and differentiation including sector focus (e.g., technology, healthcare), ESG (e.g., SFDR Articles 8 and 9), non-sponsored, and geography (e.g., Europe, Asia). This evolution allows investors to construct a portfolio with more nuanced exposures to the asset class.

POTENTIAL RETURN DRIVERS

- Yield
- Arrangement fees
- Original issue discount (OID)
- Prepayment and covenant-breach fees

STRATEGY VARIATIONS

- Borrower size
- Geography
- Levered vs. Unlevered
- Sponsor vs. Non-Sponsor
- Broad vs. Sector focus

REPRESENTATIVE UNLEVERED NET RETURN[2]

5%–10%

RISK DRIVERS

- Credit
- Portfolio concentration
- Origination volume

DOWNSIDE PROTECTION

- Seniority
- Security
- Collateral
- Floating rate
- Covenants

INVESTOR ACCESS

- Drawdown fund
  - Closed end
  - Evergreen
  - Insurance rated note
- SMA[3]
- Registered fund[4]

2. Represents typical fund unlevered net IRR over a credit cycle
3. Separately Managed Account
4. Includes: BDCs, Interval Funds, Listed Closed End Funds

1. Corporate Credit

Distressed

PORTFOLIO CONSTRUCTION SOLUTION

Income | **Total Return** | Diversifier

Within private credit, distressed offers the greatest potential for outsized returns - and risk. The strategy typically involves gaining influence over, or taking full control of, a good company in a stable industry that is financially or operationally distressed. When investors seek to gain control of a company to effectuate a turnaround, they may do so by converting a deeply discounted debt instrument (e.g., loan or high yield bond known as the "Fulcrum Security") into all, or a majority, equity position through a bankruptcy process.

To be successful, a distressed manager must orchestrate many complex steps: identifying the target company and Fulcrum Security, equitizing the credit asset through a bankruptcy proceeding, implementing an operational and financial turnaround (usually with a new management team), and orchestrating a successful exit of the equity to realize an outsized return. This process is competitive, time intensive, and expensive, and is rife with market and execution risks. Thus, the strategy typically favors larger investment managers with deep legal and restructuring resources and staying power. Another approach may be passive, where an investor purchases a deeply discounted traded instrument that it expects to appreciate with market sentiment.

Given low interest and default rates and changes in credit agreements post GFC, as well as strong central bank support for businesses throughout the COVID-19 pandemic, the distressed opportunity set has been constrained. As a result, many previously successful distressed managers have exited the space or pivoted to strategies like opportunistic and special situations.

POTENTIAL RETURN DRIVERS

- Capital appreciation through equity ownership
- High contractual yield

RISK DRIVERS

- Market
- Execution
- Sourcing and Origination

STRATEGY VARIATIONS

- Distress for "Control" vs. Distress for "Influence"
- Private vs. traded market focus
- Geography
- Transaction size

DOWNSIDE PROTECTION

- Deep value orientation
- Highly structured transactions

REPRESENTATIVE UNLEVERED NET RETURN

20%+

INVESTOR ACCESS

- Drawdown fund
  - Closed end

1. Corporate Credit

Mezzanine

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | Diversifier

Mezzanine is one of the original forms of private capital financing for middle market companies, originating in the 1980s. It is used for growth or transactional purposes (e.g., LBOs). Today, given the rise and popularity of direct lending, the demand for mezzanine capital by borrowers and sponsors has been offset to some degree by Second Lien and Unitranche solutions.

More recently, mezzanine is competing for investor dollars with levered direct lending, particularly in weaker economic environments where investors take comfort being senior in the capital structure and having floating rate loans exposure. The growth of Unitranche loans has also supplanted some of the historical need / demand for mezzanine debt. Though marginal performance by a good number of historical mezzanine funds has also cast a somewhat negative shadow over this strategy, it remains an important source of credit, particularly during periods when bank lending is constrained and borrowers need sources of junior capital to fill gaps in their balance sheets.

POTENTIAL RETURN DRIVERS

- Yield
- Warrants

RISK DRIVERS

- Credit
- Interest rate duration

STRATEGY VARIATIONS

- Borrower size
- Geography

DOWNSIDE PROTECTION

- Equity subordination
- Higher coupon

REPRESENTATIVE UNLEVERED NET RETURN

10%–15%

INVESTOR ACCESS

- Drawdown fund
  - Closed end
  - Insurance rated note
- SMA
- Registered funds

1. Corporate Credit

Non-Performing Loans (NPL)

PORTFOLIO CONSTRUCTION SOLUTION

Income | **Total Return** | Diversifier

NPLs are a deep-value strategy seeking exposure to non-performing loans that investment managers purchase below their assumed recovery value. Loans are generally backed by real estate, small- to medium-sized corporate enterprises, or consumers. NPL sellers are typically financial institutions (i.e., banks) where regulatory or risk management reasons require a reduction of balance sheet exposure to such loans.

The strongest market opportunities typically follow a significant market dislocation (e.g., the GFC, European Debt Crisis) which impact broad economic sectors. A notable opportunity has been the purchase of residential real estate mortgages that fueled the property boom in southern Europe (e.g., Spain, Italy, Portugal) that ended post GFC. Interestingly, more than 10 years post crisis, banks in this region are still shedding NPL portfolios.

While there are dedicated funds, NPLs are often sub allocations within multi-strategy, opportunistic credit funds.

POTENTIAL RETURN DRIVERS

- Capital appreciation

RISK DRIVERS

- Accuracy of critical portfolio assumptions
- Quality of servicer (responsible for managing cash flows and recoveries of each loan); larger managers may own all or a part of a servicer to control quality.

STRATEGY VARIATIONS

- Geography
- Underlying collateral type

DOWNSIDE PROTECTION

- Hard asset
- Deep value orientation

REPRESENTATIVE UNLEVERED NET RETURN

10%–15%

INVESTOR ACCESS

- Drawdown fund
  - Closed end
- SMA

1. Corporate Credit

Opportunistic

PORTFOLIO CONSTRUCTION SOLUTION

Income | **Total Return** | Diversifier

A broad, global investment strategy, opportunistic credit seeks the most attractive relative value across multiple credit types (e.g., private vs. traded debt, senior vs. junior, structured vs. non-structured, US vs. Non-US, and performing through stressed credit and investment strategies). Investors value the strategy's inherent flexibility and rely on managers' experience and proprietary investment processes and platform edges to target returns above relevant indexes, particularly during dynamic and stressed market environments.

Given the broad and flexible nature of the strategy, there is a wide range of return and risk profiles. As a result, additional care is required when evaluating and benchmarking the strategy and investment managers (e.g., corporate vs. asset based vs. specialty finance).

POTENTIAL RETURN DRIVERS

- Yield
- Capital appreciation from buying below par

RISK DRIVERS

- Credit
- Manager sourcing / underwriting skills across multiple global credit strategies

STRATEGY VARIATIONS

- Sub strategy mix
- Asset mix
- Geography

DOWNSIDE PROTECTION

- Value orientation
- Exposure to senior debt, asset-backed debt

REPRESENTATIVE UNLEVERED NET RETURN

15%–20%

INVESTOR ACCESS

- Drawdown fund
  – Closed end
- SMA
- Registered fund

1. Corporate Credit

Secondaries

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | Diversifier

While established in private equity, secondaries in private credit represents a niche but growing market given the expanding investor base. Equity volatility has markedly increased investors' need for liquidity and for portfolio rebalancing which has helped to fuel growth of the credit secondaries market. Market players estimate that 1% to 3% of private markets stock turns over annually.[5]

There are two types of secondary transactions: LP-led and GP-led. In both cases, the asset is a diversified portfolio of credit and not a single asset (i.e., a company, which is common in equity secondaries). The typical LP-led transaction involves an LP offering its fund interest for sale, with assistance of an advisor, to achieve liquidity or portfolio rebalancing objectives. Given a bilateral transaction with the seller, a purchaser might be able to negotiate a transaction price that is a discount to NAV. The popularity of GP-led transactions has grown recently as managers seek to address their investors' liquidity needs, including to subsequent commitments. A typical GP-led transaction involves the establishment of a new fund (also known as a "continuation" fund). A portfolio of assets is transferred from the existing fund to the continuation fund and investors are given a choice between liquidity and receiving cash, or to roll their interest in the existing fund into the continuation fund, which may include a financial incentive.

The credit secondary market is considered undercapitalized with a mismatch between those seeking liquidity (sellers) and potential investors (buyers). In response, an increasing number of large asset managers and independent firms have established credit secondary funds to purchase LP interests via GP- and LP-led transactions. The benefit to investors in secondary funds includes: professional asset selection and portfolio construction, immediate access to seasoned, income producing portfolios (no "J-Curve"), the ability to perform in-depth portfolio diligence, shorter maturities, and a potential purchase price discount.

POTENTIAL RETURN DRIVERS

- Returns of underlying LP commitments
- Accretion from discounted purchase price

RISK DRIVERS

- Market
- Manager selection
- Execution

STRATEGY VARIATIONS

- Credit strategies
- Geography

DOWNSIDE PROTECTION

- Manager, portfolio vintage, diversification

REPRESENTATIVE UNLEVERED NET RETURN

10%-15%

INVESTOR ACCESS

- Drawdown fund
  – Closed end
- SMA

5. Private Debt Investor, "Why Secondaries are in the Spotlight." April 13, 2023.

1. Corporate Credit

Special Situations

PORTFOLIO CONSTRUCTION SOLUTION

Income | **Total Return** | Diversifier

Special situations typically involve an event-driven catalyst (or multiple catalysts) to unlock value and drive capital appreciation of performing or stressed credit. Investments can involve complex, negotiated facilities and terms agreed bilaterally with borrowers and other capital providers. Other examples are credit assets purchased at a discount to intrinsic value that are facing financial stress due to near term challenges (e.g., debt maturity, liquidity crunch) or operational stress (e.g., supply chain disruption).

Credits can also have strong business models but inappropriate capital structures. Investment managers might seek to influence a company via a board seat or a restructuring committee membership, but not to control it through ownership.

Special situations can perform well across market environments given cyclical and noncyclical sources of borrower stress, though generally outperforms during periods of market volatility and stress given an expanded opportunity set.

POTENTIAL RETURN DRIVERS

- Yield
- Capital appreciation
- Warrants

RISK DRIVERS

- Credit
- Event
- Execution

STRATEGY VARIATIONS

- Asset mix
- Sub strategy mix
- Geography

DOWNSIDE PROTECTION

- Value orientation
- Exposure to senior debt, asset-backed debt

REPRESENTATIVE UNLEVERED NET RETURN

15%–20%

INVESTOR ACCESS

- Drawdown fund
  – Closed end
- SMA

1. Corporate Credit

Venture Debt

PORTFOLIO CONSTRUCTION SOLUTION

Income | **Total Return** | Diversifier

As the name implies, venture debt involves lending to small, newly established companies during their high growth phase. They are generally not yet EBITDA positive or positive enough to secure a traditional loan. These companies are typically backed by venture capital and considered to have a high chance of commercial success. While debt is typically senior secured, venture debt is considered speculative: lending is based on estimates of the borrower's LTV, cash, tangible / intangible assets, and the path to profitability. Borrowers look to venture debt as an attractive form of temporary, non-dilutive capital, unlike further equity raises. Demand for venture debt typically grows as volatility increases and equity becomes more scarce.

In exchange for startup risk, venture debt lenders demand higher spreads, financial covenants, and a meaningful level of warrants. Venture debt is a niche strategy that, currently, is not widely adopted by private credit investors as a core allocation.

POTENTIAL RETURN DRIVERS

- Yield
- Warrants

RISK DRIVERS

- Credit value of collateral (i.e., intellectual property)
- Execution

STRATEGY VARIATIONS

- Structured solutions
- Collateral type
- Sector focus

DOWNSIDE PROTECTION

- Shorter maturity

REPRESENTATIVE UNLEVERED NET RETURN

15%–20%

INVESTOR ACCESS

- Drawdown fund
  - Closed end

PDI Awards
Advisory and Placement
Agent of the Year: Americas
2022

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CREDIT PARTNERS

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2. Specialty Finance

Asset Based Lending

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | Diversifier

As the name implies, asset-based lending involves senior loans that are secured by hard (e.g., equipment, inventory) and/or financial assets (e.g., accounts receivable, royalties) across a variety of industries. In contrast to asset-*backed* lending, asset-*based* lending does not involve the use of securitizations. As a rule of thumb, asset-based borrowers are typically corporations and asset-backed borrowers are typically lenders. Borrowers seek asset-based loans for a variety of purposes, including for financing growth, acquisitions, refinancings / recapitalizations, bridge financings, and special situations. During difficult economic periods, stressed or distressed companies that are cash flow constrained often turn to asset-based loans – in lieu of cash flow based loans – for rescue financing. Or, in the worst case, debtor-in-possession ("DIP") / exit financing.

Unlike corporate direct lending where borrowing capacity (i.e., loan-to-value ("LTV")), is measured against enterprise value, the LTV of asset-based loans is measured against the liquidation value of specific assets. As a result, the recovery of asset-based loans is dependent on the value of borrowers' assets and not on their financial performance (i.e., EBITDA). Asset-based lenders generally take measures to mitigate downside risk by legally protecting their rights, such as entering into security agreements and filing Uniform Commercial Code ("UCC") financing statements on the assets. Lenders often seek to maintain a diverse asset pool in the form of correlated and/or non-correlated assets to protect their principal. In certain circumstances, asset-based lenders will obtain warrants in the borrower as an additional form of compensation.

Investors favor the asset-based lending strategy for its attractive risk-adjusted return, including income, which is rooted in lenders' ability to charge a premium for valuable, generally customized capital solutions, as well as the downside protection of assets. Diversification through exposure to idiosyncratic borrower events and the strategy's ability to perform in varying market conditions are other reasons why investors are drawn to asset-based lending.

POTENTIAL RETURN DRIVERS

- Yield
- OID
- Occasionally, equity warrants

RISK DRIVERS

- Credit
- Origination volume

STRATEGY VARIATIONS

- Borrower size
- Geography
- Levered vs. Unlevered
- Sponsor vs. Non-Sponsor

DOWNSIDE PROTECTION

- Asset value
- Seniority
- Security
- Covenants

REPRESENTATIVE UNLEVERED NET RETURN

10%–15%

INVESTOR ACCESS

- Drawdown fund
  - Closed end
  - Evergreen
- SMA

2. Specialty Finance

Consumer Lending

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | **Diversifier**

Consumer lending provides secured and unsecured credit to individual borrowers of varying credit quality profiles (typically sub-prime to near prime) that is commonly used to finance purchases of consumer goods (durable and discretionary), services, real estate, autos, and many other categories. Once the domain of banks, consumer lending is a newer entrant to the private credit asset class with expansion fueled by i) the growth and innovation in "FinTech"-enabled loan originators (e.g., Buy Now Pay Later), ii) faster AI-assisted underwriting, iii) growing use of credit in the developing markets, and iv) the continued retreat of banks from niche credit markets. Investments are used to fund lending and/or establish and capitalize a loan origination platform.

Investors are attracted to consumer lending by the size and diversity of the market opportunity, attractive yield premia, short underlying loan duration, and diversification from corporate credit. To achieve target returns, the strategy typically employs leverage at the investment level (e.g., senior bank loan or private securitization) and not at the fund level. Others, like insurance companies and corporate pensions, invest in the investment grade portions of the asset class on an unlevered basis as a higher yielding substitute for corporate investment grade debt.

POTENTIAL RETURN DRIVERS

- Yield
- Equity upside in loan origination platforms

RISK DRIVERS

- Inaccurate portfolio assumptions
- Payment delays and defaults
- Origination volume / quality below expectation

STRATEGY VARIATIONS

- Lending sectors
- Borrower credit profile
- Geography
- Origination source
- Levered vs. Unlevered

DOWNSIDE PROTECTION

- Borrower diversification
- Small balance loans
- Credit support by originator
- Committed leverage

REPRESENTATIVE UNLEVERED NET RETURN

10%–15%

INVESTOR ACCESS

- Drawdown fund
  - Closed end
  - Evergreen
- SMA
- Registered fund

2. Specialty Finance

Insurance Linked

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | **Diversifier**

The insurance linked asset class links insurers, reinsurers, and sometimes corporations to the private capital markets as a means of offlaying event risks to third party investors. Catastrophe ("Cat") bonds — returns are linked to natural and manmade catastrophes — are the largest and most active segment of this relatively niche and opaque asset class. Other insurance linked investments are tied to risks in sectors such as marine, aviation, and agriculture, but tend to be more bilateral.

Insurance linked investments are typically structured as a bond like instrument by placing a special purpose vehicle ("SPV") between the insurer (protection buyer) and investor (protection seller). The insurers pay the SPV an interest payment in exchange for a risk transfer contract. The SPV pays the investor a coupon (generally floating rate) in exchange for proceeds which are held in a collateral account. This structure reduces credit risk of the insurer so that investors are only exposed to the agreed "insured event" (e.g., floods, hurricanes, wildfires). Underwriting and pricing the yields on Cat bonds relies on statistical modeling and forecasting techniques.

Investors consider insurance linked investments as a portfolio diversifier and a source of floating rate income.

POTENTIAL RETURN DRIVERS

- Yield

RISK DRIVERS

- Event occurrence
- Difficulty to hedge in negative outcomes

STRATEGY VARIATIONS

- Risk type (catastrophe vs. other sectors)
- Geography
- Counterparty type

DOWNSIDE PROTECTION

- Statistical modeling and risk assumptions

REPRESENTATIVE UNLEVERED NET RETURN*

10%–15%

INVESTOR ACCESS

- Drawdown fund
  - Closed end
  - Evergreen
- SMA

2. Specialty Finance

Litigation Finance

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | **Diversifier**

Litigation finance emerged as an investment strategy in the last 10 to 15 years and is gaining prominence as more established firms enter the strategy. It is used by corporations and law firms to finance legal expenses typically associated with litigation. The strategy is not credit, per se, but a non-or limited-recourse investment for which its pre-agreed rate of return is based on the outcome of a legal claim. In the event of a successful outcome of a lawsuit (i.e., via settlement, award, judgment), the investment manager recovers its invested capital plus the pre-agreed return. In the event of an unsuccessful outcome, the investor receives nothing. Types of litigation can involve small- and medium-sized companies, single cases, major law firms, and large, publicly traded organizations.

For businesses, litigation finance can help expand their legal budgets and manage earnings. It helps law firms manage budgets, continue the transition away from the traditional billable hour model, and support growth plans.

Rather than balance sheet and cash flow analysis, the litigation finance investment process involves handicapping the outcome of litigation usually through a data driven approach of both defendants and judges / jurisdictions, as well as court room experience. For example, the manager reviews the frequency of a defendant being sued, its historic success rate at trial, and its settlement rate, among many other factors. The manager may also review the judge's track record of case resolutions (i.e., defendant vs. plaintiff, consent and default judgments, trial rate, etc.). Litigation finance investment firms are generally staffed with experienced lawyers.

POTENTIAL RETURN DRIVERS

- Pre-agreed return

RISK DRIVERS

- Inaccurate litigation assumptions
- Opportunity cost

STRATEGY VARIATIONS

- Claim types (e.g., mass torts, class action, IP/Patent)

DOWNSIDE PROTECTION

- No principal exposure

REPRESENTATIVE UNLEVERED NET RETURN

10%–15%

INVESTOR ACCESS

- Drawdown fund
  - Closed end

2. Specialty Finance

Net Asset Value (NAV) Lending

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | **Diversifier**

NAV lending is a relatively niche but growing private credit sub strategy that has benefited from the rapid expansion of private equity ("PE") and periods of market volatility which have constrained liquidity for PE funds. NAV lending is senior credit backed by the unrealized value of multiple private companies owned within traditional closed end PE funds. Managers of PE funds borrow against the collective value of portfolio companies typically during the middle stages of the fund life (i.e., after the investment period when liquidity from dry powder is low, and the focus on value creation is high). PE managers utilize NAV lending to achieve two distinct strategic goals: i) defensive (i.e., seek to defend the value of portfolio companies), or ii) growth-oriented (i.e., seek to grow the value of portfolio companies). Examples of defensive uses include supporting companies effecting a turnaround, obtaining covenant relief from lenders, or bridging a company through a near term exit. Growth uses include financing add-ons, growth capital, or accelerating dividends to LPs through a recapitalization. Managers find the optionality that NAV lending solutions offer more attractive, particularly during more volatile environments, than the sale of portfolio companies or injection of new / dilutive capital.

NAV loans are typically secured by the unrealized value of an entire PE fund, as opposed to the credit profile of a single company. The debt is an obligation of a fund's general partner and senior to the limited partners. Thus, under a default scenario, loans must be repaid before distributions to LPs and carry to the GP. Covenants, principally loan-to-value and portfolio diversity, are measured at the fund level. Like corporate direct lending, NAV loans are typically floating rate, priced at a spread to SOFR (with a floor), have a partial PIK component, and feature a 1% to 2% original issue discount and call protection.

Given the negotiated downside protection features, the resilience of PE funds during economic downturns, and low reported loss given defaults, investors view NAV lending as a source of very attractive risk adjusted income.

POTENTIAL RETURN DRIVERS

- Yield
- Original issue discount

RISK DRIVERS

- PE fund performance
- Time waiting for PE funds to exit investments to repay loan

STRATEGY VARIATIONS

- Underlying PE fund strategy and size (e.g., buyout vs. growth, lower vs. upper middle market, etc.)
- Use of proceeds (i.e., growth vs. defense)

DOWNSIDE PROTECTION

- Backed by diversified portfolio
- Seniority in waterfall
- Covenants
- Low loan to value

REPRESENTATIVE UNLEVERED NET RETURN

10%–15%

INVESTOR ACCESS

- Drawdown fund
  - Closed end
  - Insurance rated note
- SMA

2. Specialty Finance

Regulatory Capital Relief

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | **Diversifier**

In the wake of the GFC, global financial regulators imposed new, more stringent regulations on financial institutions (in the US with Dodd-Frank; in Europe with Basel III) aimed at preventing future bank insolvencies. These regulations increased banks' adequacy requirements for capital and liquidity. To meet the new requirements, banks had three options: i) shed non-core and non-performing assets and take an immediate P&L hit, ii) preserve capital by curtailing lending but see lost revenue, or iii) raise new capital which improves capital adequacy ratios but potentially dilutes existing shareholders. Given the financial impacts, banks find these options largely unattractive. The regulatory capital relief strategy has proved to be an attractive alternative by allowing banks to purchase credit protection on a portion of their loan portfolio, thereby reducing the amount of regulatory capital they are required to hold on the balance sheet.

The strategy involves an asset manager establishing a special purpose vehicle ("SPV"). The bank and manager agree on a portfolio of loans on the bank's balance sheet eligible for risk sharing. These loans may range from short term paper to longer-term corporate loans. The bank will typically hold a percentage of the first loss tranche and the senior tranche, which aligns interest between parties. The bank continues to service the loans which further aligns interest. The transaction is generally structured as a credit default swap with the full notional amount of the portfolio held in a SPV. The bank pays the asset manager a fixed annual premium. At the end of the agreed term (e.g. five to six years), the manager's net return is the total premiums collected less any realized loss given defaults.

The regulatory capital relief strategy provides investors with immediate access to seasoned, income producing credit portfolios, with structural downside protections. The manager can perform a credit analysis on an existing and pre-agreed portfolio (avoiding ramp risk). Banks are willing to pay a premium (over the portfolio yield) for the credit protection given the corresponding financial benefit of lowering tier one capital requirements.

POTENTIAL RETURN DRIVERS

- Fixed annual premium

RISK DRIVERS

- Credit
- Bank counterparty

STRATEGY VARIATIONS

- Underlying credit types
- Geography
- Bank counterparty

DOWNSIDE PROTECTION

- Diversified portfolio
- Credit diligence on portfolio (no "blind-pool" or "ramp risk")
- Bank maintains credit exposure

REPRESENTATIVE UNLEVERED NET RETURN

5%–10%

INVESTOR ACCESS

- Drawdown fund
  – Closed end
- SMA

2. Specialty Finance

Royalties

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | **Diversifier**

Royalties encompass a broad asset class that involves cash payments to the owner of a financial asset in exchange for the right to use that asset for commercial purposes. Asset types may include patents, mineral rights, trademarks, pharmaceuticals, music, and entertainment.

Pharmaceutical is one of the largest, most established royalty strategies whereby asset managers acquire the royalties (typically from hospitals, universities, and research laboratories), invest significantly to commercialize them through product development, and monetize their value through drug sales.

During the past decade, the explosion in streaming and social media consumption (e.g., Spotify, Netflix, TikTok) has resulted in music royalties gaining significant investor interest as a niche source of uncorrelated return built on long-tailed, contractual, cash flowing assets. Recently, music royalties have attracted the attention of mega investment firms that have deployed billions of dollars into the asset class, typically partnering with established music publishers for industry expertise. While valuations have increased, especially for royalties of well known artists, many believe they are supported by the global music industry's strong growth forecast which benefits from the ongoing expansion of streaming in underpenetrated markets (e.g., China, India, and Latin America) and the rebound in live performances post COVID-19 lockdowns.

Investors seek exposure to royalties as a source of uncorrelated returns and income.

POTENTIAL RETURN DRIVERS

- Yield

RISK DRIVERS

- Accuracy of royalty payment and sale assumptions

STRATEGY VARIATIONS

- Underlying royalty type
- Commercialization strategy

DOWNSIDE PROTECTION

- Manager track record
- Quality of underlying portfolio

REPRESENTATIVE UNLEVERED NET RETURN*

10%–15%

INVESTOR ACCESS

- Drawdown fund
  - Closed end
  - Evergreen
- Registered fund

2. Specialty Finance

Trade Finance

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | Diversifier

Trade finance is the capital that powers global trade and commerce and is one of the oldest forms of private credit. It is used primarily to bridge the time between the processing of raw materials through manufacturing, shipment of goods, inspection, and ultimate payment. Most trade finance credit is short term (two to six months), self-liquidating, and collateralized by tangible goods.

Due to the imposition of new regulations post GFC and disruptions to trade caused by COVID-19 lockdowns, available credit from global banks and commodity trading firms has been significantly reduced, resulting in a shortfall in available credit estimated in 2020 by the Asian Development Bank to be $1.7 trillion, and growing. The imbalances disproportionately impact small- and medium-sized enterprises, and developing economies that rely heavily on trade.

Notwithstanding the massive market opportunity and differentiated risk adjusted return potential, trade finance has not been widely adopted by investors, unlike other private credit strategies (e.g., direct lending). This is due to the absence of an agreed benchmark and the investment community's general unfamiliarity with operational, logistical, and documentary risks. For example, the asset class involves receiving, confirming, and paying invoices on a daily basis which requires managers to have specialized knowledge and processes. More recently, to streamline trade finance and make it more appealing to private capital, parts of the operational burden are being addressed through FinTech, digitization of workflows (e.g., AI and machine learning), and even non-fungible token (NFT) based transactions.

Trade finance can be an attractive source of downside protected income, offering a diversification of obligors and a low correlation to broadly held asset classes.

POTENTIAL RETURN DRIVERS

- Yield

RISK DRIVERS

- Credit
- Operational

STRATEGY VARIATIONS

- Geography

DOWNSIDE PROTECTION

- Collateral backing
- Short duration loans
- Insurance mitigants
- Good structuring

REPRESENTATIVE UNLEVERED NET RETURN

5%–10%

INVESTOR ACCESS

- Drawdown fund
  - Closed end
  - Evergreen

PDI Awards
Advisory and Placement
Agent of the Year: Americas
2022

BRIARCLIFFE CREDIT PARTNERS

Briarcliffe's Four Pillars of Private Credit™

1. Corporate Credit

2. Specialty Finance

3. **Structured Credit**

- Asset Backed
- Collateralized Loan Obligations
- Commercial Real Estate
- Residential Real Estate

4. Real Assets Credit

3. Structured Credit

Asset Backed

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | Diversifier

The market for private structured credit investments has grown rapidly post GFC as private credit has expanded and investors have sought new sources of yield (investment grade and otherwise) and diversification. These investments are comprised of debt backed by cash flowing portfolios of hard assets (e.g., equipment, solar panels, railcars, aviation) or financial assets (e.g., consumer loans, trade receivables, music royalties). Like public securitizations, private asset backed investments are special purpose vehicles established to acquire assets and simultaneously issue various tranches of debt and equity secured by those assets. Similarly, these structures must adhere to numerous covenants (e.g., leverage and cash flow related) which provide governance and structural downside protection for investors.

Private asset backed securitizations differ from public securitizations in several ways:

- Size: Private securitizations can generally be completed with a portfolio size significantly smaller than a public securitization, broadening access to a wider universe of issuers and investors,
- Diversity: Asset types can be very diverse and include niche areas of private credit as noted above vs. the established public ABS, CMBS, and RMBS markets, and
- Rating: A public rating is not required, which lowers the cost, complexity, and time to establish.

Private asset backed investments appeal to a wide range of investors, including those requiring investment grade assets (e.g., insurers, pensions, banks) and those seeking higher returns through junior tranches and equity (e.g., endowments, foundations, high net worth individuals).

POTENTIAL RETURN DRIVERS

- Yield
- Principal prepayments

RISK DRIVERS

- Asset selection and performance
- Structured integrity

STRATEGY VARIATIONS

- Underlying asset types
- Securitization structure

DOWNSIDE PROTECTION

- Significant diversification
- Equity subordination
- Governance

REPRESENTATIVE UNLEVERED NET RETURN*

5%–15% depending on rating / tranche

INVESTOR ACCESS

- Drawdown fund
  - Closed end
  - Evergreen
- SMA

3. Structured Credit

Collateralized Loan Obligations (CLO)

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | Diversifier

Collateralized loan obligations (CLO) are one of the original forms of private credit coinciding with the development of the broadly syndicated loan market in the late 1980s. CLOs are special purpose vehicles with eight to ten year lives established to purchase senior secured loans (referred to as the "collateral") through the issuance of tranches of debt and equity. Typically, CLO collateral is a diversified pool of 150 to 200 or more, large and/or mid cap loans actively managed by a collateral manager. The manager's goal is to exploit the spread between income earned by the collateral and the cost of debt financing which is priced as a spread over SOFR. The CLO collateral manager is usually a credit asset management firm with expertise in sub-investment grade debt.

The capital structure of the typical CLO includes debt (rated "AAA" to "BB") and equity. The Senior ("AAA") tranche is usually the largest (~65% of total), with Mezzanine ("AA" to "BB") at 5% to 15%, and the balance equity (8% to 10%). CLOs are among the largest purchasers of new issue loans (historically, approximately two thirds of total), and are therefore vital to the loan market.

CLOs benefit from numerous structural downside protection features, which help preserve capital in periods of loan market volatility. These include ongoing interest and asset coverage tests and rules that redirect cashflows from subordinate to senior tranches in periods of credit stress. In addition, CLO collateral is not marked-to-market, so the structure is insulated from market volatility.

Large, sophisticated debt investors (e.g., banks, insurers, hedge funds) invest in CLOs by purchasing the debt and/or equity directly. The majority of investors gain access via commingled funds (private and registered) managed by specialist asset managers that construct portfolios diversified by collateral manager, vintage, geography, ratings, etc. Investors favor CLO debt for its income, diversification, and downside protection which has resulted in default rates below the loan market over multiple cycles.

POTENTIAL RETURN DRIVERS

- Yield
- Capital appreciation

RISK DRIVERS

- Credit
- Ratings
- Structural integrity

STRATEGY VARIATIONS

- Collateral type
- Geography
- Strategy (dynamic vs. static)
- Securitization structure

DOWNSIDE PROTECTION

- Active management
- Significant collateral diversification
- Equity subordination
- Governance

REPRESENTATIVE UNLEVERED NET RETURN*

5%–15% depending on rating / tranche

INVESTOR ACCESS

- Drawdown fund
  - Closed end
- SMA
- Registered fund
- Direct investment

3. Structured Credit

Commercial Real Estate

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | Diversifier

Commercial real estate credit is typically classified as either "stabilized" or "transitional" (or "bridge"). Stabilized loans are backed by commercial buildings which have achieved an occupancy rate of 80% or higher, usually at market rental rates. These loans are considered to be steady and lower risk transactions. The core lending market is competitive with a large number of traditional lenders, including banks, insurance companies, and pensions. In contrast, bridge loans (also referred to as "pre-stabilized bridge"), is mortgage debt used to finance renovations, expansion, or repositioning of fundamentally sound properties. Bridge loans are highly customizable and used by real estate owners to drive value creation through re-leasing or sale. They typically have a shorter duration (e.g., three years with two, 1-year extensions upon achieving certain debt service coverage ratios, as well as other financial thresholds), are floating rate, and command a higher yield than stabilized loans.

Similar to residential loans, both stabilized and bridge commercial loans can be purchased outright on unlevered bases or invested in through securitizations. Stabilized loan securitizations are known as commercial mortgage backed securities ("CMBS") and are public securities underwritten and broadly syndicated to a wide range of investor types. Loans are sourced from multiple originators and the portfolio composition typically does not change over the life of the vehicle. Securitization backed by bridge loans are referred to as Commercial Real Estate ("CRE") CLOs and are private placements issued under Rule 144A. The loans are generally contributed by the sponsor of the CRE CLO, may include loan advance features, and the portfolio can be fixed or actively managed during the reinvestment period. Like traditional CLOs backed by corporate loans, CRE CLOs have multiple layers of debt that range from investment grade, to subordinated (typically held by the issuer or transaction sponsor), to equity (held by the agent that originated the underlying loans).

POTENTIAL RETURN DRIVERS

- Yield
- Capital appreciation

STRATEGY VARIATIONS

- Geography
- Market sector
- Tranche focus

REPRESENTATIVE UNLEVERED NET RETURN

5%–15% depending on rating / tranche

RISK DRIVERS

- Credit
- Interest rate
- Credit spread
- Prepayment
- Liquidity

DOWNSIDE PROTECTION

- Significant diversification
  - Underlying loans are short term
- Equity subordination
- Governance

INVESTOR ACCESS

- Drawdown fund
  - Closed end
- SMA

3. Structured Credit

Residential Real Estate

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | Diversifier

With more than $13 trillion outstanding, residential mortgage debt is one of the largest US fixed income markets. Loans are typically senior secured and collateralized by single family homes. This market has limited penetration from private credit with more than 95% of residential loans guaranteed by the US government or owned by banks. "Agency" mortgage loans refer to loans that are originated to the standards of government agencies, such as Fannie Mae, Freddie Mac, and Ginnie Mae, and represent the government portion of the market. Today, banks primarily focus on lending to their highest quality customers in what is categorized as "jumbo prime" lending. Since the GFC, banks have significantly pulled back from mortgage lending which has created large segments of underserved, but high credit quality, borrowers. Examples include self-employed borrowers, borrowers with loan amounts above government limits, owners of rental properties, and other borrowers that do not fit within the inflexible standards of government and bank programs. The general trend continues toward reduced credit availability from the government and banks which provides an increasing opportunity for private capital. In addition to newly originated loans, other market segments include re-performing, non-performing and bridge loans.

While residential loans can be purchased outright on an unlevered basis, they are often invested in with the benefit of a structured financing through the execution of a securitization to enhance the risk and return characteristics of the underlying loans. In an example structure, 70% may comprise senior bonds, 20% mezzanine, and the remaining 10% junior bonds or equity. Given the strong historic performance of mortgage loans, a significant share of a securitization may be rated "AAA" by a rating agency. An investor may tailor their investment exposure based upon which bonds are retained and which are sold in the market to third party investors.

Private credit investors allocate to residential loans seeking stable income, downside protection through a senior secured position backed by US housing, attractive relative value vs. public bond markets, and diversification from corporate credit.

POTENTIAL RETURN DRIVERS

- Yield
- Principal prepayments

RISK DRIVERS

- Credit
- Interest rate
- Credit spread
- Prepayment
- Liquidity

STRATEGY VARIATIONS

- Geography
- Market sector
- Tranche focus

DOWNSIDE PROTECTION

- Significant diversification
- Equity subordination
- Governance

REPRESENTATIVE UNLEVERED NET RETURN

5%–15% depending on rating / tranche

INVESTOR ACCESS

- Drawdown fund
  – Closed end
- SMA

Briarcliffe's Four Pillars of Private Credit™

1. Corporate Credit

2. Specialty Finance

3. Structured Credit

4. Real Assets Credit

Agriculture
Energy
Infrastructure
Metals & Mining
Real Estate
Transportation

4. Real Asset Credit

Agriculture

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | **Diversifier**

Agriculture is a large and diverse market in the US. Ownership of agricultural farmland is fragmented with a very low share owned by institutions vs. individuals and families. The sector is benefiting from two tailwinds: i) global population growth and an expanding middle class, which drives demand for value added, nutritious crops, and ii) greater farming efficiency resultant of new "Farm Tech", robotics, and mechanization. Farmland is generally categorized as producing row crops (e.g., corn, wheat, soybeans) or permanent crops (e.g., fruits, nuts, grapes – eating and wine) which have different return and risk profiles.

Agriculture investors are attracted to its cash yield, inflation resistance, and uncorrelated returns. While there are several investable assets at every stage in the "food chain" (e.g., vertically integrated agriculture, agribusiness, food and beverage), one common investment strategy involves the acquisition of productive farmland, hiring of a management team to oversee day-to-day farming operations, and receiving cash flows from the sale of crops each season. While not technically debt, the strategy is viewed as "debt-like" given its stable cash flows and downside protections. Investment managers may seek to exploit market dislocations (e.g., weather, water shortage, commodity prices, pestilence, etc.) and market themes (e.g., organics, niche crops) as part of their strategy to maximize returns. Lending against farmland real estate is another, more common strategy.

POTENTIAL RETURN DRIVERS

- Yield
- Potential farm value appreciation

RISK DRIVERS

- Weather, natural disasters
- Water, labor shortages, pestilence
- Commodity prices

STRATEGY VARIATIONS

- Crop type
- Geography
- Core vs. Value-Add
- ESG / Impact

DOWNSIDE PROTECTION

- Insurable asset (crops)
- Crop rotation
- Long term crop sale contracts

REPRESENTATIVE UNLEVERED NET RETURN

10%–15%

INVESTOR ACCESS

- Drawdown fund
  - Closed end
  - Evergreen
- SMA
- Direct investment

4. Real Asset Credit

Energy

PORTFOLIO CONSTRUCTION SOLUTION

Income | **Total Return** | Diversifier

The traditional energy sector is underrepresented in private credit given competition from entrenched sources of capital and heightened ESG-related risks which dampens investor demand. Like other real assets strategies, the largest catalyst for increased private credit participation appears to be energy transition and the shift to decarbonization. This may result in new areas of lending that produce the returns private credit investors require. For instance, private credit was an early lender to utility-scale solar and wind projects. In 2021, according to S&P Global Market Intelligence, a record $6.7 billion in venture and private equity capital flowed into energy transition in North America. Furthermore, the 2022 Inflation Reduction Act includes more than $400 billion to fund clean energy and climate projects. As a result, it is expected that private credit will be a growing component of the financing puzzle across a wide opportunity set that shares traits of the Infrastructure and Metals & Mining private credit sub strategies.

POTENTIAL RETURN DRIVERS

- Yield
- Warrants

RISK DRIVERS

- Project finance
- Commodity prices
- ESG

STRATEGY VARIATIONS

- Energy sector
- Use of proceeds
- Asset type
- Geography

DOWNSIDE PROTECTION

- Asset value
- Long term contracts

REPRESENTATIVE UNLEVERED NET RETURN

10%–15%

INVESTOR ACCESS

- Drawdown fund
  - Closed end

4. Real Asset Credit

Infrastructure

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | Diversifier

Credit funds typically invest in debt tranches (senior and mezzanine) backed by infrastructure development projects (i.e., project finance) and not a corporate entity. Investor capital is generally used to fill financing gaps created by the retreat of banks and shortfalls in government budgets. The projects are generally defined as being monopolistic or semi-monopolistic, regulated, and having inelastic demand. Example sectors include energy / utilities (e.g., wind / solar farm, gas pipeline construction), transportation (e.g., railway, port construction), telecommunications (e.g., cell tower, network construction) and social infrastructure (e.g., hospital, housing construction). Not surprisingly, projects are long term which is reflected in typical closed end fund maturities (e.g., 10 to 20+ years).

Investors view infrastructure investments as a defensive source of income and diversification. They are generally illiquid, long dated, and possess strong downside protection through the characteristics noted above. Strategies can deliver a range of return and risk characteristics based on their position in the capital structure, so can meet the needs of different investor types. Strategies range from capital preservation, to return enhancing, to opportunistic, based on the mix of debt seniority, credit quality, and project risk profile (new development vs. refurbishment). Many core infrastructure opportunities are outside the US (i.e., in Europe, Asia, and Latin America) so geopolitical and FX hedging risk can be important considerations.

POTENTIAL RETURN DRIVERS

- Yield

RISK DRIVERS

- Credit
- Project completion
- Geopolitical
- Jurisdictional
- Long term illiquidity

STRATEGY VARIATIONS

- Geography
- Sector focus
- Project type
- Credit risk profile

DOWNSIDE PROTECTION

- Monopolistic / Semi-monopolistic projects
- Government backstop
- Regulated
- Inelastic demand

REPRESENTATIVE UNLEVERED NET RETURN

5%–10%

INVESTOR ACCESS

- Drawdown fund
  - Closed end
  - Evergreen
  - Insurance rated note
- SMA

4. Real Asset Credit

Metals & Mining

PORTFOLIO CONSTRUCTION SOLUTION

Income | **Total Return** | Diversifier

Metals and mining strategies are underrepresented in private credit. This is partly explained by the sector's exposure to underlying commodity prices which add idiosyncratic risk that is difficult to model and mitigate. This risk was underscored in 2020 when commodity prices bottomed due to COVID-19 related lockdowns. Headline ESG risks are another source of concern.

That said, energy transition is a tailwind that could draw private credit investors back to the market. Western governments (US, Canada, EU, UK) have launched domestic initiatives to develop critical minerals (e.g., lithium, cobalt, rare earths, graphite), infrastructure, and supplies. These are essential to support electric vehicle batteries, wind towers, and defense applications. As a result, there may be opportunities for private credit financing that is less exposed to traditional commodity risk.

POTENTIAL RETURN DRIVERS

- Yield

RISK DRIVERS

- Commodity prices
- ESG

STRATEGY VARIATIONS

- Type of credit (senior, junior, asset-based)
- Geography

DOWNSIDE PROTECTION

- Focus on downstream borrowers

REPRESENTATIVE UNLEVERED NET RETURN

10%–15%

INVESTOR ACCESS

- Drawdown fund
  - Closed end

4. Real Asset Credit

Real Estate

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | Diversifier

The real estate debt market is large and well established. The strategy primarily targets major commercial and residential property types, including industrial, multifamily, office, retail, lodging, and senior living properties as are further described within the Commercial Real Estate and Residential Real Estate strategies in this report. Strategies may also selectively consider hospitality, mixed-use, self-storage, single tenant / owner occupied, specialty use, and student housing. As a result, the strategy is a source of diversified income.

Real estate can target stabilized properties, value add situations (i.e., redeveloping existing property), as well as new development. Investment types can include senior (i.e., first mortgages) and junior financing (i.e., mezzanine and preferred equity), as well as equity. Some managers invest opportunistically in public real estate securities based on market conditions. As a result, the strategy delivers a wide range of returns.

POTENTIAL RETURN DRIVERS

- Yield

RISK DRIVERS

- Credit
- Interest rate
- Execution

STRATEGY VARIATIONS

- Property type
- Geography
- Loan type
- Seniority

DOWNSIDE PROTECTION

- Hared asset collateral
- Covenants
- Amortization

REPRESENTATIVE UNLEVERED NET RETURN

5%–10%

INVESTOR ACCESS

- Drawdown fund
  - Closed end
- SMA
- Registered (REIT)

4. Real Asset Credit

Transportation

PORTFOLIO CONSTRUCTION SOLUTION

Income | Total Return | **Diversifier**

Transportation is a diverse and well established strategy within private credit and typically refers to the acquisition and leasing of assets within the shipping, aircraft, and railcar sectors (see examples below). The strategy offers investors access to long term contractual cash flows, downside protection from tangible assets, and an inflation hedge as the collateral tends to appreciate with rising rates and lease renewals at higher rates.

Investment managers generally outsource or have proprietary servicers that execute daily operations of the leasing business while seeking to maximize the lease and asset value of the portfolio. The risk and return profile of the strategy will differ based on the sector and unique ways in which each manager pursues the target opportunity sets. Historically, the strategy has been impacted by market cycle risks and geopolitical disruptions.

Examples of transportation assets include:

- Ship: ultra large container, post / neo-panamax, panamax, feeder, and small feeder.
- Aircraft: new, mid, end of life, and wide and narrow body.
- Railcar: boxcar, covered hopper, flatcar, tank, and autorack.

POTENTIAL RETURN DRIVERS

- Yield (Lease income)

RISK DRIVERS

- Commodity cycles
- Geopolitical
- Financing cost

STRATEGY VARIATIONS

- Transportation sector
- Asset type
- Geography
- Lease vs Loan

DOWNSIDE PROTECTION

- Asset scrap value
- Lessee quality
- Lease terms and duration
- Diversification
- Termed financing
- Insured assets
- Inflation hedge

REPRESENTATIVE UNLEVERED NET RETURN

5%–10%

INVESTOR ACCESS

- Drawdown fund
  - Closed end
  - Insurance rated note

Exclusively private credit

Briarcliffe's fund offerings are subject to our uniquely rigorous review, with criteria including proven strategies, particular size and performance hurdles, and market relevance. With a team that includes former allocators, and by leveraging our regular contact with LPs across North America, we exercise thorough due diligence with an institutional investor perspective on topical market conditions.

Specialized focus

Our proven mid-teens returning strategies encompass investments of these types:

- Fund II or Higher
- Top Quartile Performance
- Fund Size: $500m – $2bn
- Net IRR: >10%

Uniquely selective

We act very selectively to present positive offerings for investors. Of the 200+ GPs we meet with per year, we select just 2% to 3% of mandates to represent.

200 GPs Annually

- Initial Screening
- Sales Underwriting
- Due diligence
- Legal

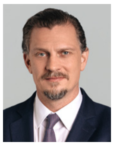
8 Mandates (~2% Selectivity)

Just 18 months after its founding, in March 2023, Briarcliffe was recognized by private credit investors and managers through its selection as the *Private Debt Investor* 2022 Advisory and Placement Agent of the Year (Americas).

Private Debt Investor
AWARDS 2022
Advisory and Placement Agent
of the Year: Americas
WINNER

Deep expertise

FIRM



Jess Larsen
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Robert Molina
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Ryan Tirre
Head of Marketing & Communications

Laura Morales
Head of HR & Office Infrastructure

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Kyle John
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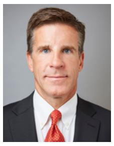
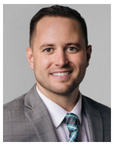


Jonathan Moll
Managing Director

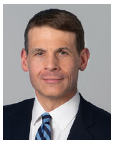
Jennie Park
Managing Director



Brett Murray
Vice President

Bogdan Vilicich
Vice President

GP ADVISORY



Kyle Abel
COO & Co-Head of GP Advisory

Roger Li
Co-Head of GP Advisory

Dax O'Gorman
Associate

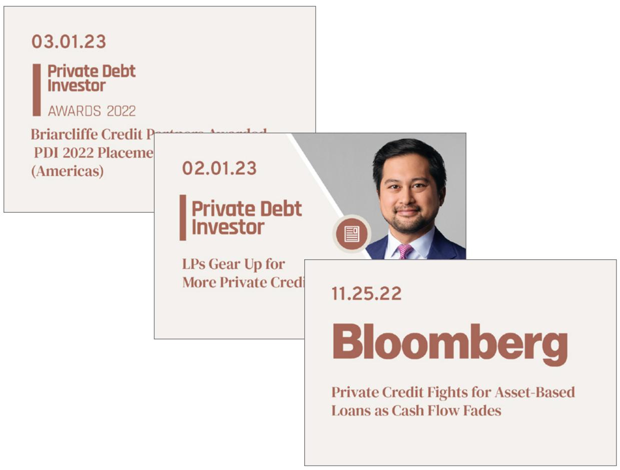
Alexander Schuck
Associate

CAIA ASSOCIATION®

UniFi by CAIA — Private Debt — MICROCREDENTIAL

Briarcliffe helped coauthor the curriculum of the newly launched private debt credential administered by the Chartered Alternative Investment Analyst Association (CAIA). The certificate covers private credit fundamentals, corporate and asset-based lending, and portfolio implementation.

Our insights are sought throughout the industry, which includes speaking regularly at private credit and alternatives conferences and with global media.



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