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CIBC GLOBAL ASSET MANAGEMENT

Introduction to private credit investing

Private credit is an increasingly prominent segment of private markets and alternative investing, typically providing private lending solutions to companies that may not have access to traditional financing channels. With private companies staying private for longer, and with attractive yields versus public markets, private credit has evolved into a flexible, income-generating asset class that appeals to a growing range of institutional and individual investors.

What is private credit?

Private credit (also known as private debt) refers to loans and credit instruments that are privately negotiated and not traded on public markets. These loans are typically provided to small and mid-sized companies for growth, acquisitions, or working capital, and are originated by asset managers or private lenders.

Common types of private credit

The common types of private credit includes, but is not limited to:

Direct lending

Primarily senior secured loans extended directly to private companies.

Risk rating: Medium

Asset-based lending

Loans secured by financial assets, contractual cash flows, or hard assets, including receivables, equipment, inventory and specialty finance exposures.

Risk rating: Low-medium

Mezzanine debt

Subordinated or unsecured debt structures that may include Payment in kind (PIK) features and equity participation to enhance returns.

Risk rating: Medium-high

Distressed debt

Lending to financial stressed borrowers, often seeking value through restructuring, recovery or market dislocations.

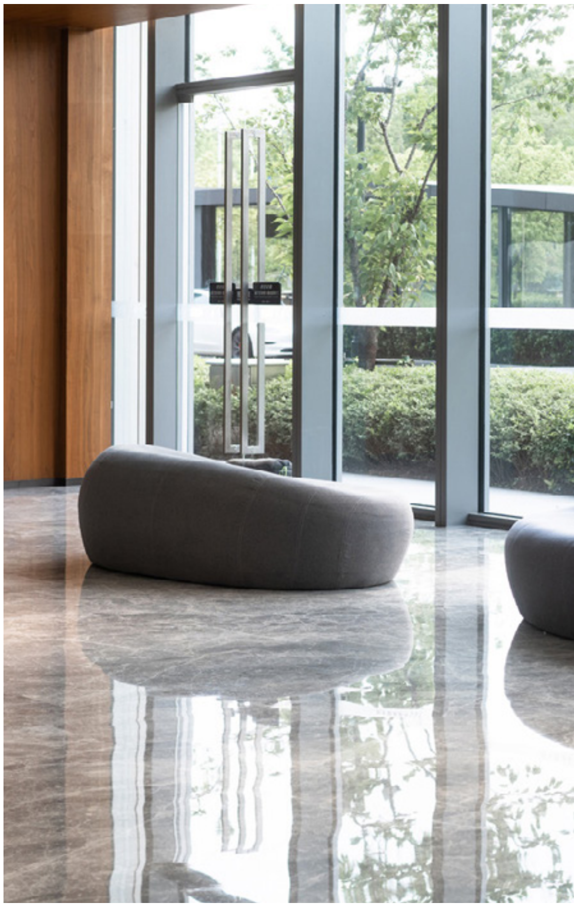
Risk rating: High

Risk ratings are provided for illustrative purposes only and may change over time with broader market conditions. Underlying risk levels can vary depending on specific credit quality, asset class, and other factors unique to each investment. Investors should contact their advisor to assess suitability based on their individual risk tolerance and investment objectives.

Key benefits of private credit

Private credit offers a unique set of advantages for investors seeking additional diversification and or alternatives from traditional asset classes. Some of the key benefits that make private credit an attractive addition to a diversified portfolio include:

Cash flow and income generation	Typically higher yields compared to traditional fixed income, which can include regular (monthly or quarterly) distributions.
Portfolio diversification	Lower correlation to public equities and bonds, which can help to reduce overall portfolio volatility.
Enhanced volatility management and reduced inflationary risk	Senior secured private credit strategies may provide enhanced downside mitigation relative to subordinated credit due to collateral protection, covenant packages and structural seniority. Floating rate loan exposure can also help mitigate inflation risk.



Source: KBRA DLD Monthly Insights & Outlook Report as of August 31, 2025.

Private credit investment process

Private credit requires a hands-on approach: managers source, underwrite, and monitor loans closely. Rigorous due diligence and ongoing borrower relationships help maximize returns and protect capital. Below are the typical steps in the private credit investment process.

Sourcing
Managers identify lending opportunities through relationships and market presence.

Underwriting
Rigorous analysis of borrower cash flows, assets, and industry dynamics.

Structuring
Negotiation of loan terms, covenants, and collateral.

Monitoring
Ongoing engagement with borrowers, regular financial reporting, and covenant compliance.

Exit strategies
Repayment through refinancing, company sale, or natural amortization of loans.

Private credit versus traditional fixed income

While there are some similarities between private credit and traditional fixed income investments, there are some significant differences that investors should be aware of.

Characteristic	Private credit	Traditional fixed income
Market description/traded	Privately held and not traded	Publicly issued and tradable
Income payments	Yes	Yes
Rate structure	Typically floating rate (base + spread)	Typically fixed rate
Valuation/pricing	Infrequent pricing	Daily pricing
Seniority/security	Typically senior secured (often first lien)	Varies widely (for example, high yield is often unsecured)
Covenants	Strong, negotiated covenants	Covenant-lite (especially in high yield bonds)
Return composition	Mostly income (interest + fees + original issue discount)	Income + price volatility (rates/spreads)
Liquidity	Limited liquidity	Highly liquid

Portfolio allocation considerations

Private credit can serve as an income-generating allocation and diversifier to traditional assets while providing potential inflation protection from floating rate loans. It is best suited for investors with a medium-to-long-term horizons who do not require daily liquidity. For investors and advisors considering private credit, it is important to assess:

- **Liquidity needs:** Consider time horizon, liquidity needs, and risk tolerance.
- **Exposure limits:** Evergreen funds can allow for lower minimums, allowing investors to gradually build exposure rather than directly participating in a closed-ended or drawdown funds.
- **Diversification:** Allocate across different managers, and strategies to minimize risk.
- **Due diligence:** Prioritize manager selection and seek transparency on fees, strategy, and track record. Consider the deal sourcing and underwriting that is being done, as well as the strength of the workout teams that help to restructure the loan or business when a borrower is under stress.

Associated risks and considerations for private credit

Private credit can serve as an income-generating component or as an alternative to traditional fixed income in a portfolio. However, like all investments, private credit has its own set of risks that investors should consider.

Risk consideration	Explanation
Less liquid	• Private credit funds typically require multi-year commitments. • Redemption options may be limited and or subject to gating fees.
Default risk	• While default risk can be lower compared to public loans, loans to smaller or less-established companies can carry higher risk of default, especially during economic downturns.
Complexity and due diligence	• Investments require careful manager selection, as fund structures and underlying loans can be complex and less transparent.
Valuations	• These assets are not marked-to-market daily, so returns may appear less volatile but can mask underlying risks.
Manager selection	• The dispersion between top- and bottom-quartile private credit managers is significant, making platform strength critical for success.

The bottom line

Private credit has matured into a mainstream alternative asset class, supported by long-term trends such as, private company growth, and investor demand for yield and diversification. With the right manager and thoughtful portfolio construction, private credit can provide attractive income, capital appreciation and volatility management, complementing both equity and traditional fixed income allocations.

For more information on private credit investing, speak to your Advisor, or visit cibc.com/gam-alternatives

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