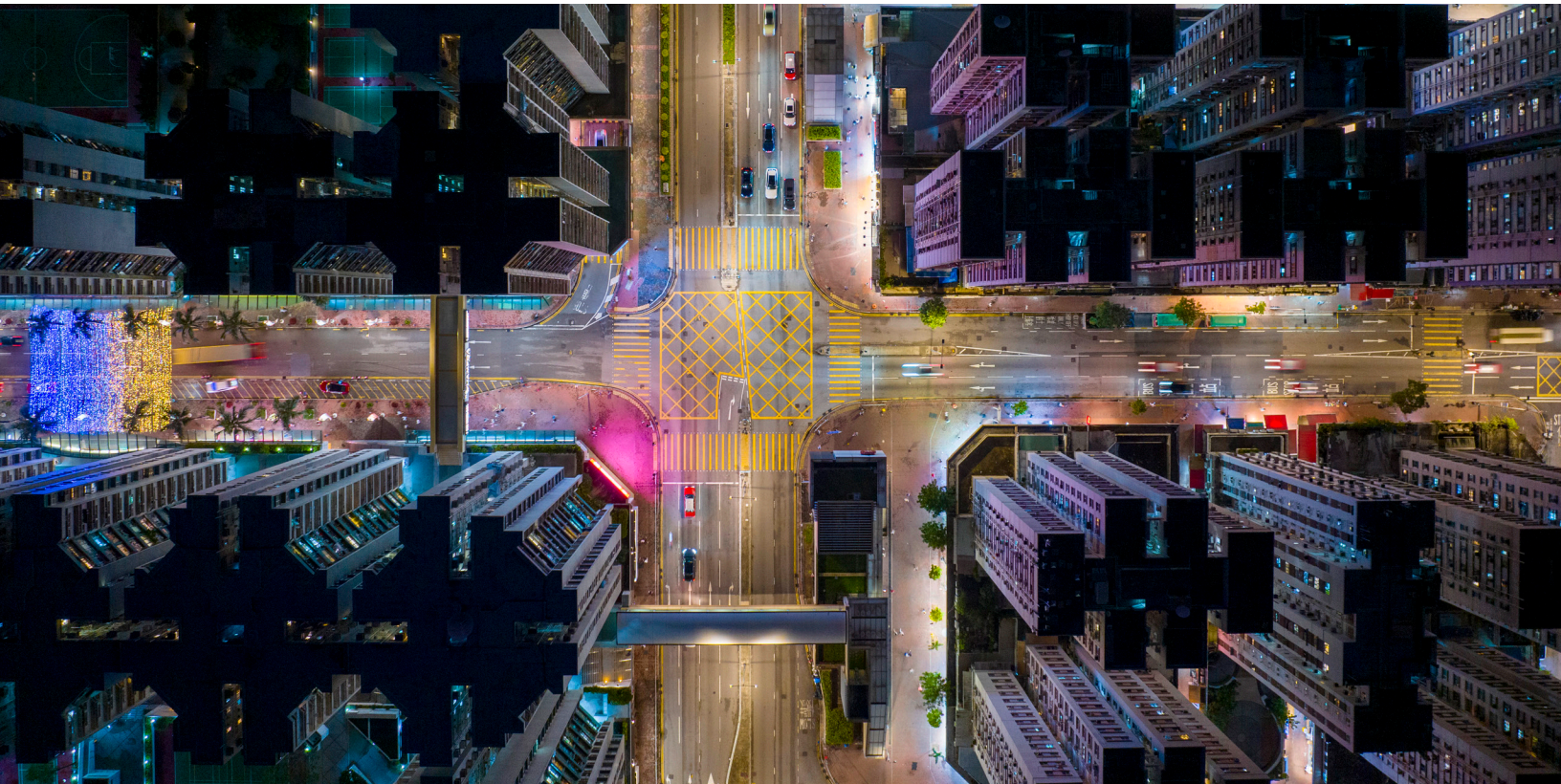


Private credit strategies and portfolio application

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Private credit has become a central component of the private markets landscape. To help advisors and investors understand the opportunities, challenges, and role of private credit in modern portfolios, CIBC Global Asset Management brought together three of its senior leaders for a panel discussion.

- **Chi Lee:** Head of Private Credit, CIBC Global Asset Management
- **Nick Schwartzstein:** Senior Vice President, CIBC Private Wealth
- **Gino Di Censo:** Vice President, Fixed Income, CIBC Global Asset Management

What is private credit and how does it differ from public credit?

Schwartzstein: Private credit covers loans that aren't broadly held, not publicly traded, and usually not originated by banks. It includes things like senior loans to small and mid-sized companies, structured products, real estate loans, and specialty finance. Unlike public credit, which includes things like investment grade bonds or syndicated loans, private credit deals are more customized and less liquid. The growth in private credit over the past decade is largely because banks stepped back from lending after the financial crisis, creating opportunities for asset managers and private lenders.

What are the key characteristics of private credit funds?

Di Censo: In Canada, you typically see closed-end and evergreen (open-ended) fund structures. Closed-end funds lock up investor money for 10 to 12 years, with an investment period followed by a harvest period when loans are repaid. Evergreen funds are more liquid, with redemptions possible after a short lockup, but there's always some illiquidity. Both types offer the illiquidity premium that attracts investors. Private credit funds often lend to both sponsor-backed and non-sponsor-backed companies, each with different characteristics and risk profiles.

How does private credit differ from public credit?

Schwartzstein: Liquidity is a big differentiator—private credit is much less liquid. Private credit typically offers higher returns, and mid-market borrowers tend to be less levered than large public issuers. There's also a stronger focus on selecting high quality borrowers and sectors with stable, recurring revenue.

The main draw for investors is the potential for higher returns than public credit. Senior direct lending, in particular, has a strong track record of low defaults and losses, even through volatile markets. Other private credit verticals share similar risk-return dynamics.

Why do borrowers seek private credit?

Schwartzstein: For small and mid-sized companies, private credit offers access to financing that might not be available from banks or public markets. The process is more streamlined and flexible, with fewer lenders involved and the ability to negotiate terms quickly if needed. During periods of market stress, private lenders can often provide support and modifications that aren't possible in the public markets.

Lee: For smaller private companies, public market financing isn't an option due to size. For larger companies, private credit can offer more certainty and less volatility than public fixed income, especially during market disruptions. Private credit stayed open even when public markets froze during events like COVID or geopolitical turmoil.

What are common private credit strategies?

Di Censo: The most common strategy is corporate direct lending to companies. Asset-based financing (backed by hard assets like receivables or equipment) and specialty finance (like credit card receivables or student loans) have been growing in popularity as well and offer unique and complimentary benefits. Senior direct lending is considered one of the most conservative, while mezzanine or opportunistic lending involves more risk but can offer higher returns.

How does the private credit investment process and due diligence work?

Lee: Sourcing is critical—we work to see as many opportunities as possible and partner with large institutions to build a strong pipeline. Underwriting focuses on high quality free cash flow, with detailed analysis of all financial and business factors. We stress test downside scenarios and look for strong downside protection, since private credit doesn't participate in equity upside. The process includes extensive research, third-party validation, and ongoing monitoring.

We use a structured process to evaluate every deal, looking at business fundamentals, financials, transaction terms, and industry

outlook. We rank opportunities, identify risks, and test our investment thesis. The goal is to confirm our thesis and ensure strong downside protection.

Di Censo: The difference between top and bottom managers in private credit is significant. Diligence on the manager's track record, sourcing ability, and workout experience is key. Advisors should look at how managers handle troubled loans and the depth of their platform.

How do private credit investments exit?

Lee: Most private credit loans are repaid when a private equity sponsor exits a business, often through a sale or IPO. There's also natural amortization built into loan terms. Typical maturities are five to seven years, so we have a clear timeline for getting repaid.

What is the investor profile and minimums for private credit?

Di Censo: Investors in private credit need to be comfortable with illiquidity and not need short-term access to their money. Private credit complements a traditional portfolio and adds diversification. Minimums have come down significantly; what started as a \$5 million minimum for institutions is now much more accessible for individual investors.

How has transparency and communication evolved in private credit?

Lee: We focus on being as transparent as possible. Our relationships with management and private equity sponsors allow us to monitor investments closely and respond quickly to changes. We provide regular updates, financial statements, and compliance certificates, and encourage investors to reach out with questions. Communication is more hands-on and direct than in public markets.

What is the outlook for private credit?

Schwartzstein: Private credit is a large and growing opportunity set, with more lending moving from banks to private lenders. Over time, investors will have access to a widening range of loan strategies with attractive risk-return characteristics.

Di Censo: We're at an exciting time for private credit, with new structures and more investor access. Private credit is a core portfolio complement, offering yield and diversification, but it's important to work with reputable managers and right-size allocations.

Lee: Private credit sits at the core of private market allocations, offering enhanced income and downside protection. It's a flexible, evolving solution for investors seeking more than what public markets can provide.



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