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Top Ten Myths About Private Credit (Last of a Series)

THE LEAD | March 3, 2020

Myth #9: "Without a public benchmark, private credit returns aren't dependable"

Private credit assets are illiquid, and don't trade. That distinguishes them positively from larger, liquid, public, yet more volatile, assets correlated with market moves. Middle market loan yields are therefore more stable through business cycles.

Also, being illiquid, private credit demands, and achieves, a premium to the broadly syndicated loan market. This differential is historically 100-200 basis points.

Similarly, private credit issuers are smaller, yet are leaders within their industry niches. That makes them unique investments, requiring experienced managers to source and underwrite.

Public BDCs represent the best public benchmark for private credit. The Cliffwater Direct Loan Index (CDLI) has tracked over 6000 loans since 2005. It shows private credit returns performing better than their high-yield equivalents (*Chart of the Week*).

Myth #10: "Private credit is now a commodity; generating alpha is a challenge"

Market returns, "beta," in private credit are typically shown gross of losses and expenses. But avoiding losses is what experienced managers do to maximize returns, i.e. "alpha."

The difference between experienced managers who minimize losses and those who don't can be significant. That's because private credit all-in yields are the sum of interest, principal, and market fees. Senior credit does not carry equity upside, so alpha means not eroding those components with losses.

Being an asset class that generates consistent returns, and is not rewarded when a company over-performs, means you don't need to pick portfolio winners. As our friend Steve Bavaria says, your horses just have to finish the race.

So as our special series on private credit myths concludes, we reiterate the well-founded characteristics of the asset class:

- While private credit, like all investments, contains risks and is subject to changing supply/demand dynamics, it is an extremely resilient asset class.
- The most experienced managers of private credit have demonstrated an ability to successfully source and underwrite quality transactions and deliver consistent and premium yields to their investors through multiple cycles.
- Regardless of interest rates, economic outlooks, or geopolitical uncertainties, private credit has proven over time it should be a permanent part of any institutional investor's portfolio.