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Of Vineyards and Vintages

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Sad news reached us last week on the consumer products front. We're referring, of course, to Coca-Cola's decision to discontinue *Tab* by year end.

Launched in 1963 against the first diet cola, Diet Rite, Tab came of age in the 1960's and '70's, appearing in *Back to the Future*, *Terminator* and *Ghostbusters*. But competition from Diet Coke (and the better taste of aspartame) spelled its demise.

Who remembers Scooter Pies, Quisp, or FudgeTown cookies – beloved snack and cereal names of our childhood, now defunct. It takes superior brand management to keep them vital. Some have staying power, others lose their grip as tastes change.

We take a similar view of private credit. As an asset class, private credit features a number of participants, each with their own customers and strategies. But not all are created equal. Some have long track records of investing successfully in the industry. Others, as one friend put it, "are operating without a driver's license."

That notion came to mind during an interview with one top institutional investor-focused publication. The reporter was curious about our contention – publicly expressed at conferences, webinars, and in this space – that 2020 could represent the best vintage for private credit in a decade.

"But," the reporter asked, "aren't there a number of COVID issues severely impacting many consumer businesses? And isn't the economy at risk for a double-dip if a second wave of infections hit this fall and winter?"

Yes, we said, you've identified global risks that make investing a continuing challenge. But experienced private equity sponsors find ways to uncover companies unhurt, even benefiting, from the crisis. Their direct lending partners then help finance them.

"It's like a vineyard," we suggested. "Sunshine, temperature, and rainfall can combine to produce a great vintage. But that doesn't guarantee a great bottle of wine! Winemaker skill, equipment quality, soil preparation and numerous other factors are also required to deliver a memorable outcome."

What makes a great loan vintage? Clearly being in an economic environment that discourages excess risk taking. Low interest rates are good for corporate cash flows. And public credit volatility encourages borrowers to seek private financing options.

But individual manager competence is key. Knowing what sectors to avoid, especially when consumer-facing businesses are in turmoil. And understanding the importance of tight covenants and sound structures. But the real secret sauce is credit selection. The skill to picking the right deals is earned from decades of experience.

As the great winemaker Robert Mondavi once said: "You can make bad wine with great grapes but you can't make great wine with bad grapes."