



Canterbury Consulting

canterburyconsulting.com

## Quarterly Asset Class Report Private Credit

Canterbury Consulting ("CCI") is an SEC registered Investment Adviser. Information pertaining to CCI's advisory operations, services, and fees is set forth in CCI's current Form ADV Part 2 (Brochure), a copy of which is available upon request and at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Information provided through CCI's Quarterly Outlook related to market or asset class performance figures is believed to be derived from reliable sources. However, CCI assumes no responsibility for their content or the manner in which the viewer utilizes such information. The performance information presented in certain charts or tables is for informational purpose only and represents historical performance based on available market data results for the quarterly period shown above and does not reflect any performance related to trading in actual accounts. Any recommendations or statement made in the Quarterly Outlook is not to be construed as specific investment advice. The viewer should be aware of the inherent limitations of data derived from the retroactive application of historical data developed with the benefit of hindsight and that actual results may differ. Actual performance with client accounts would be materially less than the stated performance results for the same period when including the deduction of advisory fees, brokerage or other commissions, and any other expenses that a client would have paid.

December 31, 2023

Canterbury Consulting recommends and communicates asset-class strategy with the objective of constructing a diversified portfolio of private credit strategies designed to (in aggregate):

- Preserve capital and mitigate volatility
- Provide measured exposure to the diverse universe of the middle market economy
- Exhibit returns with lower correlation to equity markets

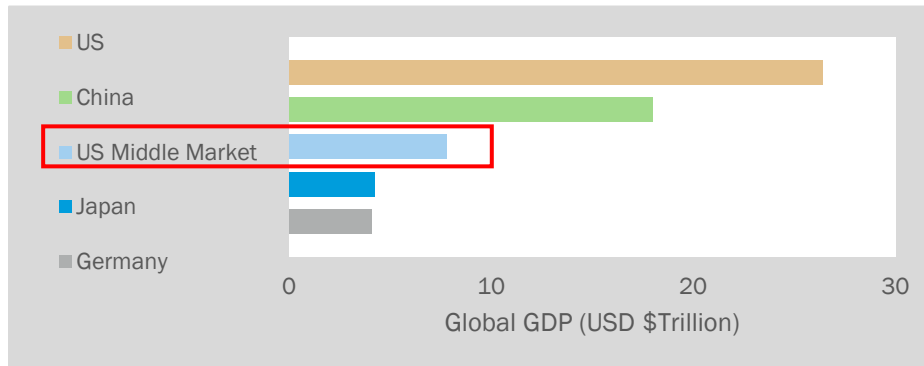
Role	Asset Categories	Risks
Growth	Public and Private Equity	Market Decline
<b>Capital Preservation</b>	<b>Fixed Income, Hedge Funds, Private Credit</b>	<b>Rising Interest Rates, Highly Correlated Markets</b>
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

- Canterbury private credit portfolios are set up with a goal to deliver consistent net-of-fees excess returns versus a 50/50 benchmark of the Morningstar Leveraged Loan Index and Bloomberg High Yield Corporate Credit Index.
- Canterbury’s current private credit portfolios consists of diversified private credit strategies across corporate lending and asset-based lending to borrowers in various GICS sectors.

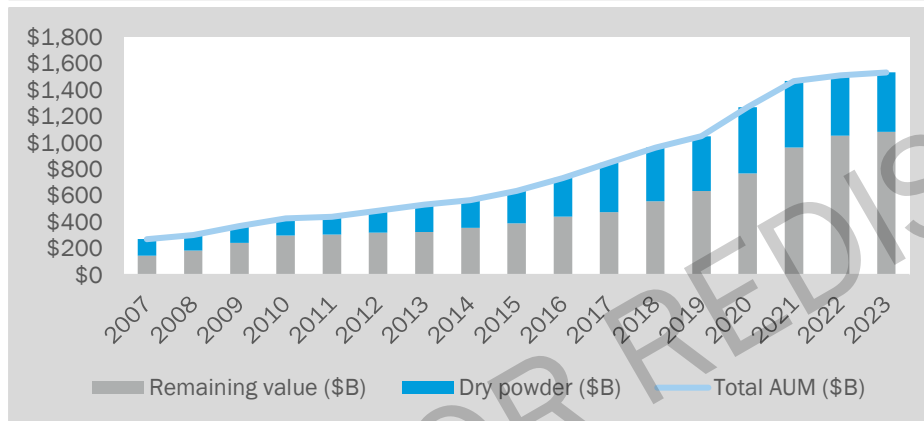
# The Private Credit Opportunity

## Private Credit

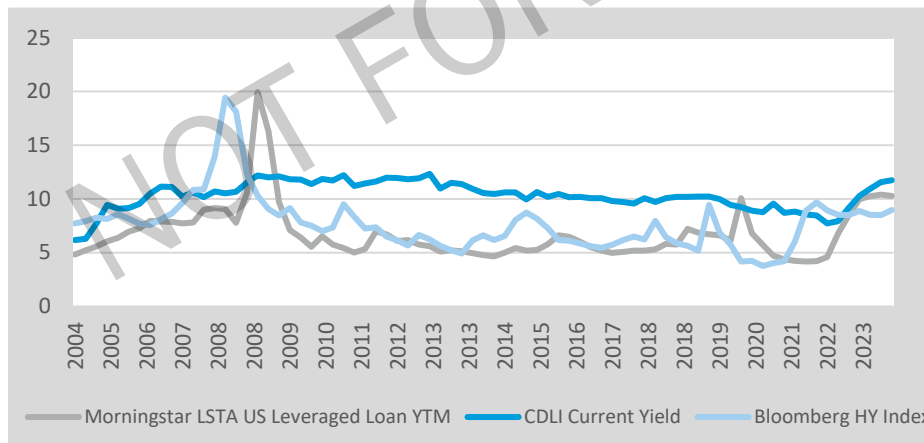
Size of Global Economies (GDP)<sup>1</sup>



Size of Market (\$B)<sup>2</sup>



Yields (%) Public vs Private Debt Yields<sup>3</sup>

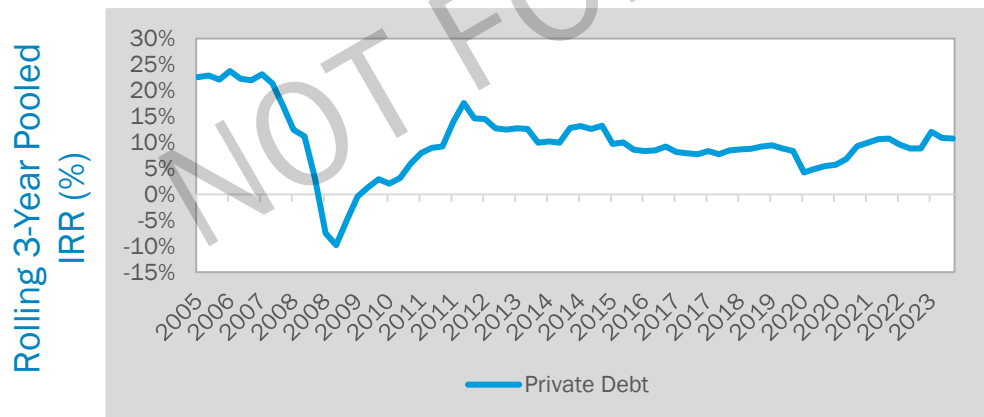
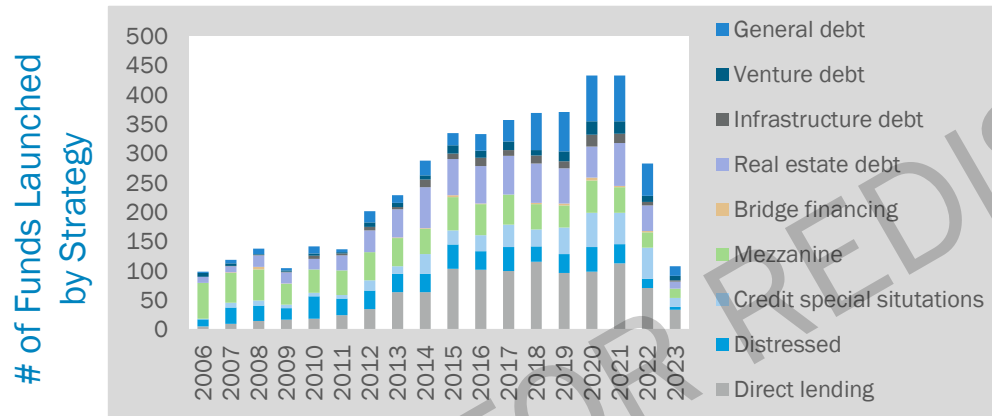
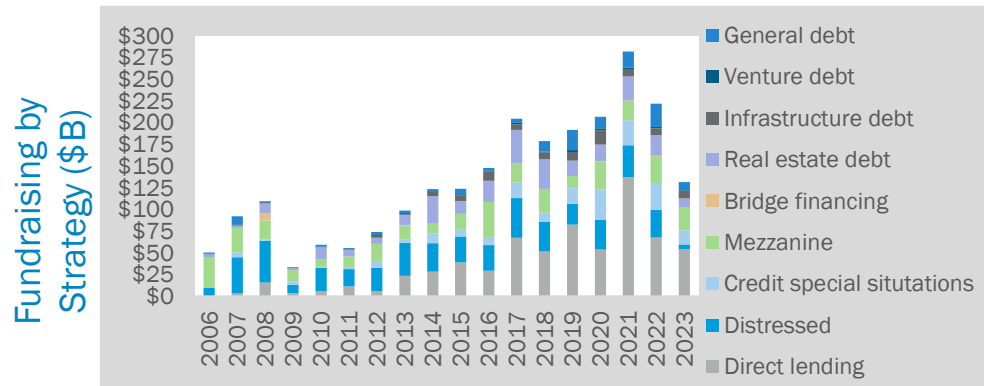


- From a GDP perspective, the U.S. middle market segment is the third largest economy in the world.
- 200,000 businesses categorized in the middle market equate to a combined one-third of private sector GDP.
- The private credit asset class has grown considerably since the Global Financial Crisis to \$1.5 trillion as of end of 2022 from \$300 billion in 2008.
- Over the last several years, dry powder in private credit funds has ranged between \$400-\$500 billion even though the pace of deployment has grown rapidly.
- Private middle market loans have generally produced a yield premium above public high yield bonds and leveraged loans with lower volatility.
- The private yield premium over public markets has narrowed in recent quarters given the rise of short-term interest rates and the lagged impact of rising base rates within private credit.
- The Cliffwater Direct Lending Index (CDLI) is an asset-weighted index of directly originated middle market loans. The index measures unlevered, gross of fees, performance of the underlying loans of Business Development Companies (BDC's).

Source: 1) National Center for the Middle Market, Bloomberg, and World Bank Data as of 12/31/2022. 2) Pitchbook Data as of 9/30/2023. 3) Cliffwater Direct Lending Index, Bloomberg, and Morningstar Data as of 09/30/2023.

# Private Credit Activity

## Private Credit



- 2023 fundraising was off to a slow start as the denominator effect continued to impact portfolio allocation changes.
- Although overall fundraising levels were lower throughout the year, asset managers raised larger fund sizes relative to prior years.
- Special situations and mezzanine strategies led most of the fundraising activity in the first half of the year and reversed in the third quarter as direct lending fundraising increased.
- Real estate debt strategies are on pace for the slowest fundraising period in over a decade due to concerns around high financing costs and potential defaults, particularly in office assets.
- Rolling 3-year private debt IRRs have moderated between 5-10% over the last several years as the asset class has matured. Performance for the past three quarters, ending 9/30/2023, has averaged above 10% as base rates have moved higher.

Source: Pitchbook

Private Debt includes the aggregation of general debt, venture debt, infrastructure debt, real estate debt, bridge financing, mezzanine debt, credit special situations, and distressed debt as defined by Pitchbook. AUM and fund count data is as of 9/30/2023. Rolling 3-Year IRR data as of 9/30/2023.