

# Private credit: Boosting income and diversification potential

**What is private credit?** “Private” means investing in companies not publicly traded on stock and bond markets. “Credit” means lending your money to those companies as an investor – and receiving interest payments in return.

## Why invest in private credit?



Potential for **higher, more consistent income** than public alternatives



**Reduced exposure to risks** posed by rising interest rates and inflation



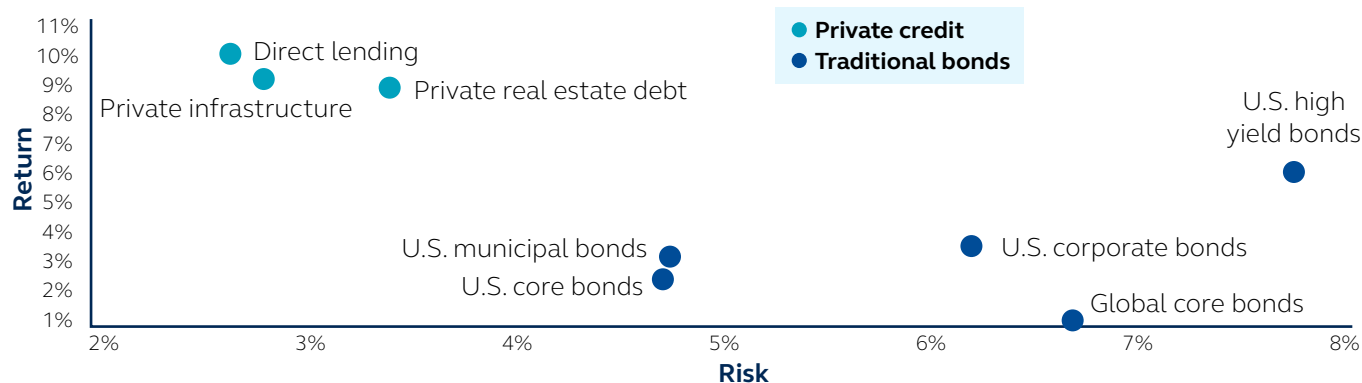
**Greater portfolio diversification** and durability during challenging times



Access to **underused, fast-growing markets** like digital infrastructure

## Best of both worlds: Historically higher returns with less volatility




Risk is as defined by lower standard deviation of returns and max drawdown. Annualized risk vs. return, April 2010 – March 2025



Standard deviation is a statistical measure that quantifies the volatility or risk of an investment by indicating how much its returns deviate from the average return. A higher standard deviation signifies greater variability in returns, suggesting a higher level of risk, while a lower standard deviation signifies the opposite. Max drawdown is the largest observed decline in the value of an investment from its peak to its subsequent lowest point before a new peak is attained. Notes: The chart above shows the annualized return and risk (as measured by the annualized standard deviation of quarterly returns) of each of the labeled asset classes. Sources: Cliffwater Direct Lending Index, Preqin Indices, Bloomberg, ICE BofA Indices, Observation period is 01.04.2010 to 03.31.2025. Please see indices used in the disclosures at the end of the document. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

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# Three types of private credit

	<div></div> <div>Direct Lending</div>	<div></div> <div>Private Infrastructure Debt</div>	<div></div> <div>Private Real Estate Debt</div>
WHAT IS IT	Lending to lower and core middle market companies to finance business plans and growth	Lending to companies that own and operate critical infrastructure such as airports, roads, power, and digital assets	Lending to real estate properties, such as housing, industrial warehouses, and retail mixed use
WHAT TO KNOW	<div><div>→ Most loans in this space are considered below investment grade, which typically results in higher yields</div><div>→ Track record of attractive risk-adjusted returns versus other traditional income investments</div></div>	<div><div>→ Monopoly-like businesses with less sensitivity to economic downturns and consumer demand</div><div>→ Utility fees often increase with inflation to support loan repayment and reduce risk</div></div>	<div><div>→ Loans normally backed by the properties being financed</div><div>→ Rents often increase with inflation to support loan repayment and reduce risk</div></div>

## Ready to take action?

Talk to your financial professional. Together, you can determine which private investments might be right for your portfolio.

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Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. Real estate investment options are subject to risks associated with credit, liquidity, interest rate fluctuation, adverse general and local economic conditions, and decreases in real estate values and occupancy rates. There are risks associated with private equity that are not applicable to typical investments in the public equity market, are generally illiquid and carry the potential for significant losses. Typically, private credit investments are in restricted securities that are not traded in public markets, can range in credit quality and are subject to substantial holding periods. Infrastructure investments are long-dated, illiquid investments that are subject to operational and regulatory risks. Private market investments, unlike publicly traded stocks, involve various risks due to illiquidity, lack of transparency, and higher minimum investment requirements. These risks include liquidity risk, market risk, capital risk, and regulatory risk. Additionally, private market investments often involve higher fees and expenses and may have longer investment horizons. Asset allocation and diversification do not ensure a profit or protect against a loss. The risk management techniques discussed seek to mitigate or reduce risk but cannot remove it.

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Indices used: Direct lending - Cliffwater Direct Lending Index seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans; Private infrastructure - Preqin Private Infrastructure Index tracks the quarterly performance of private market infrastructure funds globally, measuring the returns on invested capital for closed-end funds in the sector; Private Real Estate Debt - Preqin Real Estate Debt Index analyzes and benchmarks the performance of closed-end private real estate debt funds; U.S. Core Bonds - Bloomberg US Aggregate Bond TR Index is a market-capitalization-weighted benchmark that measures the performance of the U.S. dollar-denominated, investment-grade, fixed-rate taxable bond market; U.S. Muni Bonds - ICE BofA U.S. Muni TR Index is a performance benchmark for the U.S. municipal bond market, measuring the total return of U.S. dollar-denominated, tax-exempt bonds that are publicly issued by U.S. state and local governments and their political subdivisions; U.S. Corporate bonds - ICE BofA U.S. Corporate Total Return (TR) Index measures the performance of U.S. dollar-denominated, investment-grade corporate debt publicly issued in the U.S. domestic market; Global core bonds - Bloomberg Global Aggregate TR Index measures the performance of global investment-grade, fixed-rate debt from both developed and emerging markets, including government, government-related, corporate, and securitized bonds; U.S. High Yields Bonds - ICE BofA US High Yield TR Index tracks the performance of U.S. dollar-denominated corporate debt that is rated below investment grade, publicly issued in the U.S. domestic market.

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