TRO INVESTMENT GROUP

Private Credit — A Vital Asset Class for Today's Investors

PART 3

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Author

Richard A. Lund
Founder &
Managing Member
TRO Investment Group

In Parts 1 and 2, we explored private credit's attractive investment attributes and its important role in commerce.

In this post, we wrap up by delving into our final criteria for favoring this asset class...

Criteria #3: Private Credit's Time-Tested Resilience

Private credit and the markets it serves have exhibited strong results through a considerable range of market environments

In scrutinizing investment disciplines and opportunities, our perspective is long term. We want to be confident that an asset class/investment strategy will likely continue serving the role it plays in the world of commerce, as well as continue to perform well for investors through a range of market cycles and economic environments. Since we cannot predict the future, the past must serve as our guide.

A resilient underlying market base

America's mid-size companies—the chief market served by private credit lenders—have collectively demonstrated solid performance through good times and bad. For example, during the economic downturn and recession of 2007 – 2010, U.S. middle-market companies (revenues between $10 million and $1 billion) did more than just survive. They grew and prospered, hiring more than two million additional employees. By comparison, during that same period, larger companies cut almost four million jobs from their payrolls. That difference is emblematic of the middle-market's long-term growth orientation.

Strong, long and steady investment performance

Private credit investing has produced favorable results over an extended time period. The yields on the direct lending component of private credit have been consistently strong from the early 2000s up to the present, a period that included the great recession and the fallout from the Covid pandemic.

The following chart shows that direct lending's yield was solid and close to historical levels over the Covid years, 2020 – 2022.

PRIVATE CREDIT DIRECT LENDING ANNUALIZED TRAILING YIELDS

(As of December 31, 2022)

1 Year	3 Years	10 Years
9.44%	9.18%	10.24%

Source: Cliffwater Direct Lending Index (CDLI)

Furthermore, many of the disciplines comprising the specialty finance component of private credit offer even higher return potential than direct lending, particularly in times of economic and market dislocation. This has meant exemplary long-term returns for private credit investment portfolios encompassing both direct lending and specialty finance.

KEY TAKE-AWAYS: FROM PARTS 1, 2 AND 3

Part 1: Private Credit's Multi-Faceted Investment Potential

- Superior income yields and equity-like returns without equity-like risk.
- Strong performance in a rising interest rate environment due to floating rates.
- Protection against inflation, and decorrelation from the stock and bond markets.

Part 2: Its Important Role in Commerce

- A rapidly growing source of financing for American businesses—particularly those in the middle market, which produces 1/3 of U.S. private-sector GDP.
- Global private credit AUM projected to surpass $1.5 billion by year-end 2023—triple its value in 2015—and then grow by an additional 50% over the next 4 years to $2.3 billion.

Part 3: Its Time-Tested Resilience

- Private credit's primary market—the U.S. middle market—grew and prospered during the recession of 2007 – 2010, hiring more than two million additional employees.
- The yields on the direct lending component of private credit have been consistently strong from the early 2000s to the present—a period that included the great recession and the fallout from the Covid pandemic.

Author's Viewpoint

Over the years, many institutional investors have turned to private credit to make up for the decreasing returns/yields of traditional equity and credit investments.

Given the investment discipline's key attributes—strong investment potential, important commercial role, and resilience—it could be said that private credit has grown beyond the province of institutional investors and is positioned to become the go-to asset class for accredited individual investors wishing to diversify their traditional stock/bond portfolios.

A diversified private credit fund: Your access to the opportunity
As attractive as private credit may be to individual investors, we recognize that access to this asset class can be difficult, as minimum investment amounts can be rather steep. The solution is to find a fund that can provide exposure to a diversified portfolio of private credit opportunities from superior sponsors via a single investment commitment.

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Given all the compelling attributes of well-managed private credit investments, we encourage you to explore how you could diversify your own portfolio with private credit to enhance yield and return, as well as decorrelate from stocks and bonds.