

# Why Private Debt Market Outlook



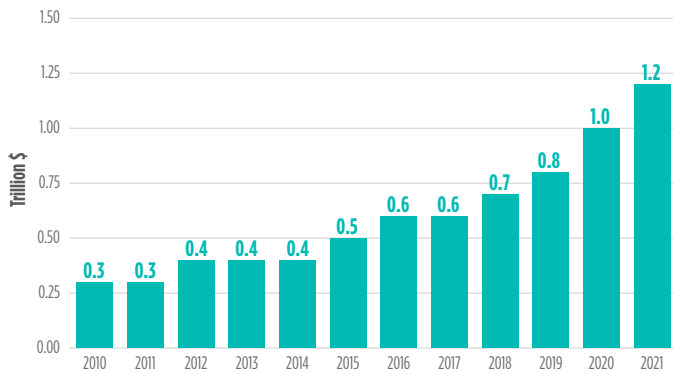
# The Private Debt Industry Is Rapidly Expanding

The growth in private debt financing is largely attributable to a continuing retreat by banks from loan markets under the pressure of tougher capital rules.

Source: 2018 Preqin Global Private Debt Report.

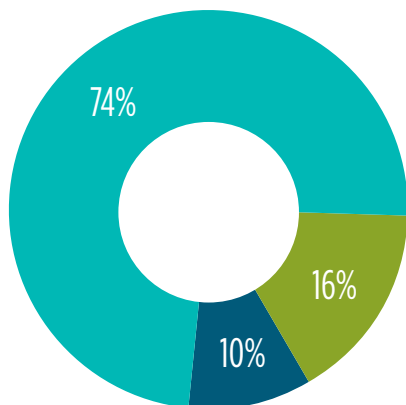
A perfect storm of cash-hungry mid-market firms who are unable to secure conventional loans, plus investors searching for alternatives to low yielding bonds and volatile equities has injected tremendous energy into the Private Debt space. Here's what it looks like:

## Private Debt AUM has more than tripled since 2010



Source: Preqin Online Products, 2022.

## Investor views on the performance of their investment portfolios over the past 12 months

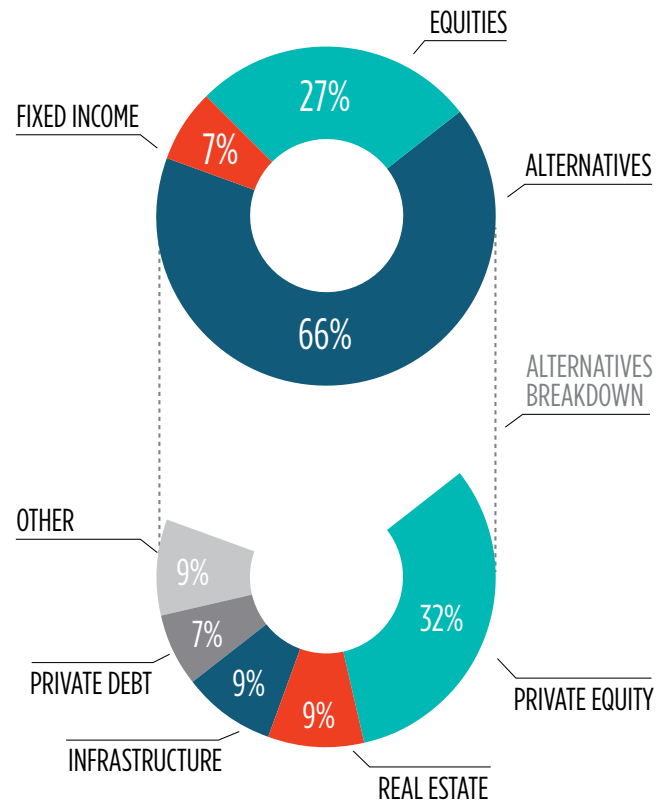


Met Expectations Exceeded Expectations Fell Short of Expectations

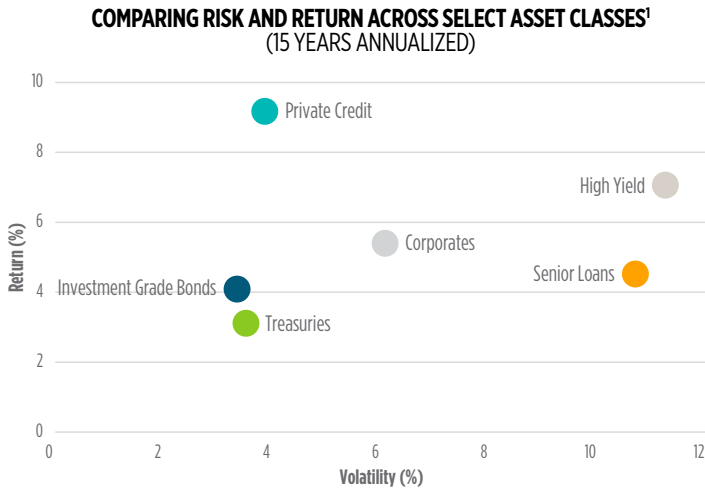
Source: Preqin Online Products, 2022.

## In 2021 the Canada Pension Plan allocated significantly to Private Debt

### CPPIB 2021 ALLOCATIONS



## Historical risk/return profile for Private Debt is attractive



Source: Morningstar, Cliffwater Direct Lending Index, as of December 31, 2021.

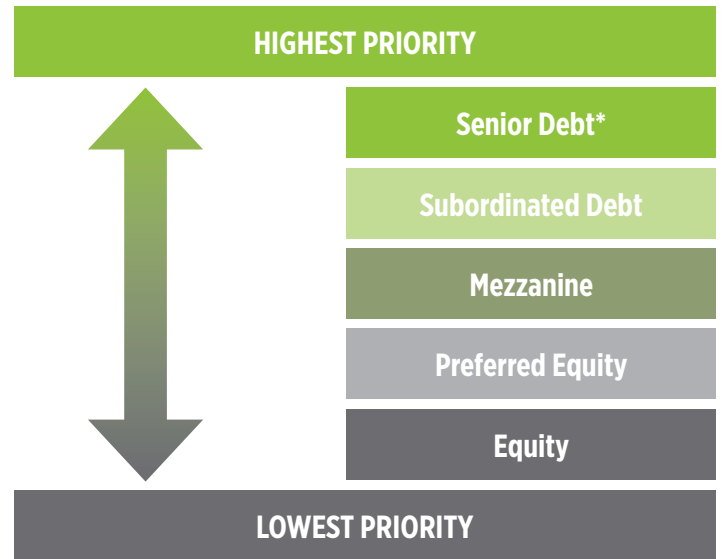
## Two distinct approaches to Private Debt investing

**1**  
**RETURN MAXIMIZING**  
Distressed debt, structured equity and specialty finance

**2**  
**CAPITAL PRESERVATION\***  
Direct loans (levered and unlevered)

\*Ninepoint Partners' current Private Debt strategy.

## Senior Debt is the safest part of the capital structure

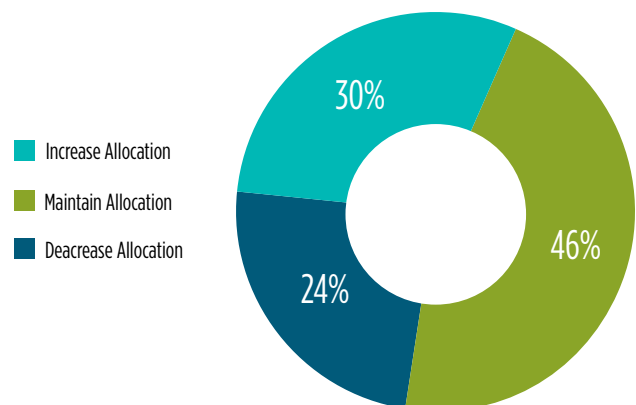


\*Ninepoint Partners' current Private Debt strategy.

“Although the perception of the private debt sector can sometimes be characterized as being more risky than traditional bank debt, the number of private credit funds opting for a more conservative ‘senior secured’ structure suggests the contrary.”

Source: CPPIB, May 2018.

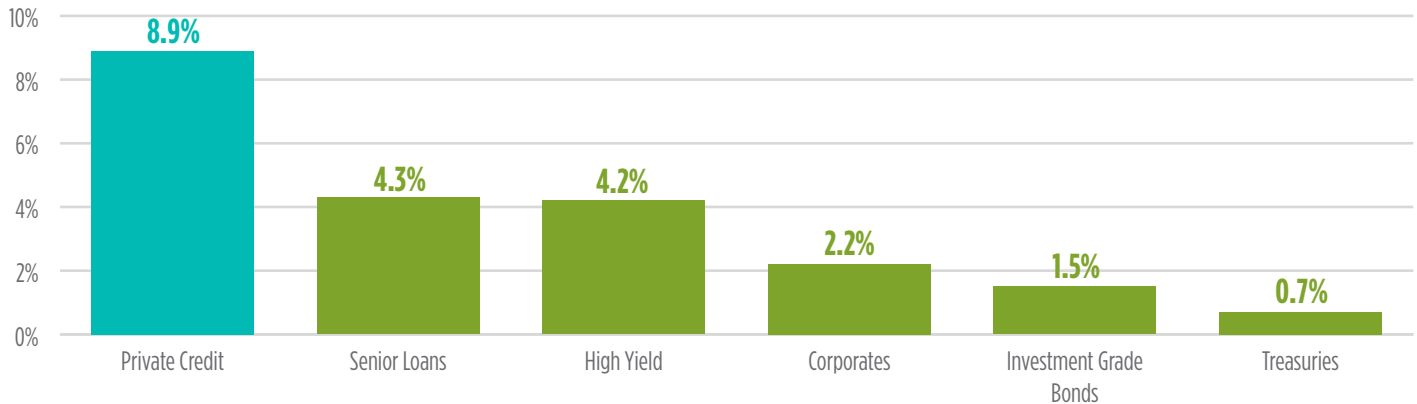
## Over 75% of current Private Debt investors intend to maintain or increase their allocations



Source: Equilibrium Global Institutional Study, 2022.

## Private Debt can help diversify traditional streams of income

YIELD COMPARISON ACROSS FIXED INCOME ASSET CLASSES  
(12-MONTH ANNUALIZED)



Source: Morningstar, Cliffwater, as of December 31, 2021.

## Private Debt can be viewed as a defensive asset class

### Benefits

- ✓ An innovative way to generate income
- ✓ Low volatility
- ✓ Equity-like returns
- ✓ Typically floating rate loans
- ✓ Collateralized by assets
- ✓ Safest part of capital structure (Senior Debt)
- ✓ Non-correlated to traditional asset classes
- ✓ Lower historical default and loss rates than high-yield bonds
- ✓ Capital preservation with strong long-term performance

### Challenges

- ✓ Illiquidity
- ✓ Transparency
- ✓ Limited information available on track record of the asset classes
- ✓ Lack of comparability with other asset classes in private and public markets
- ✓ No linear deal flow resulting in cash drag

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A good manager can help you take advantage of the benefits while mitigating the challenges.

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<sup>†</sup>Volatility is measured using standard deviation. Morningstar computes standard deviation using trailing quarterly total returns for 15 years. All of the monthly standard deviations are then annualized and the volatility is expressed as a percentage. "Private Credit" is represented by the Cliffwater Direct Lending Index. "Senior Loans" is represented by the S&P/LSTA Leveraged Loan Index. "High Yield" is represented by the Bloomberg US Corporate High Yield Index. "Corporates" is represented by the Bloomberg US Corporate Bond Index. "Investment Grade Bonds" is represented by the Bloomberg US Aggregate Bond Index. "Treasuries" is represented by the Bloomberg US Treasury Index.

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