Unusually Uncertain Times Lie Ahead

Private credit has remained a rare bright spot in 2022 which was a difficult year for many investors with volatility returning to markets. Many traditional asset classes such as equities and bonds suffered one of the worst years in recent memory, with unprecedented interest rate hikes being the main driver as central banks battled inflation pressure, while geo-political uncertainty and recession risks added to investor concerns.

2022 ended with a glimmer of hope as inflation pressure seemed to ease and risk assets rallied from the bottom but we believe the global outlook remains challenging in 2023 as the issues that surfaced last year remain unresolved and investor sentiment remains fragile:

- While peak inflation might be behind us, it is still well above-target and could remain stubbornly high (or rise again) during 2023
- US Fed is committed to contain inflation and is expected to continue to hike with the Fed Funds rate set to rise above 5% in 2023
- Unwinding of the Fed's Quantitative Easing program has only just started in June 2022
- Fears of a recession in the US and Europe, and corporate earnings downgrades with market volatility set to remain high
- Lingering impacts of Covid-19 pandemic with China grappling with a surge in cases following a surprise rapid re-opening of its economy

Ongoing conflict in Ukraine and tensions between China/Taiwan add to the uncertainty with implications for energy and food prices, as well as global supply chains.

In light of the difficulties in 2022 and the challenges that lie ahead in 2023, many investors are revisiting their approach to investing as traditional strategies (including the 60/40 portfolio) have performed poorly during the recent market turmoil. The S&P500 had the worst year since 2008 falling 19.4% in 2022 while ASX200 fell 5.5%. There has been little solace in other "alternative" market segments with crypto/digital assets collapsing and real estate suffering deep losses in 2022, leaving investors with limited options to generate stable returns besides holding cash.

TCP believes that now is the time to increase allocation to Australian private credit to provide a ballast for investors' portfolios. Australian private credit offers stable cash income with a compelling risk-return profile, strong investor protections, low correlation with public and global private markets whilst the floating return profile provides a natural hedge against inflation / interest rate movements. The asset class also has a long growth runway given its relative under-penetration against more mature, offshore markets.

In spite of the headwinds facing the global economy in 2023, Australia's economic outlook remains relatively positive. It benefits from a diverse economy with a growing technology and services sector, complemented by abundant resources and energy. Australia's economy is projected to grow 2.5% in 2023, well above the developed economy average of 0.9% and 1.0% for the US. Immigration will increase to support the labour sector and bring further investment.

The outlook for Australian private credit looks constructive, albeit in an environment of economic uncertainty and higher interest rates reducing debt serviceability for borrowers over the course of 2023. In such an environment, and against a more volatile global credit market backdrop, conditions will continue to swing in favour of lenders who will be able to demand higher returns, lower leverage and tighter terms and conditions. It is critical that investors entrust capital with an experienced manager with a strong track-record over several credit cycles to effectively navigate the risks and uncertainties ahead in 2023, while also maximising the downside protection features offered by private credit.

TCP believes that Australian private credit is a significant opportunity for investors to diversify into an effective and defensive investment strategy as they face an unusually uncertain 2023.

TANARRA CREDIT PARTNERS

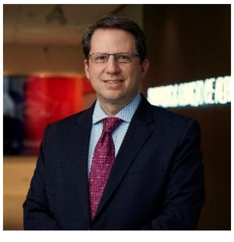
Tanarra Credit Partners ("TCP") is an Asia-Pacific Private Credit manager with offices in Melbourne, Sydney, Hong Kong and Wellington. TCP's senior investment team has 100 years of combined global credit markets experience.

Since inception in 2017, TCP has grown to manage over $750 million of investor capital and has successfully demonstrated an ability to originate a diversified portfolio of high-quality loans across its broad professional network.

TCP is the credit vertical of Tanarra Group, an alternative investment platform managing in excess of $3 billion.

Both TCP AP Fund II and TCP Private Debt Income Fund (a retail and wholesale PDS investing into TCP AP Fund II) are available for commitments. For more information, please contact TCP as provided below.

CONTACTS



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