Is Now a Good Time to Invest in Asia-Pacific Corporate Private Credit?

Given market and rate volatility, and economic uncertainty, TCP believes now is the right time to invest in private credit. Our focus on high cash generating, defensive corporates could help mitigate this instability in these challenging times.

SVB, Credit Suisse, US Treasuries moves… What Does it Mean for Private Credit?

In recent days we have seen the collapse and bailout of various US regional banks, including SVB, the rescue/acquisition of Credit Suisse, and large and sudden moves in government bond rates. What does all this mean for corporate private credit in Australia and across Asia? The short answer is, not a lot.

- Large shifts in rates do not impact our portfolio as it is a floating rate portfolio with minimal duration risk vs. a traditional fixed income (bond) portfolio.
- There is no doubt that recent market volatility and news of banks collapsing will weigh on consumer and corporate sentiment.
- Rising interest rates, high levels of inflation, reducing disposable household income, fears of recession and concerns around the property market will also be playing on investors minds.
- Private Credit will not be immune to these concerns with the potential for default rates to rise in sectors exposed to cyclicality, such as consumer discretionary, mining services and property/construction. TCP's investment team has invested through these cycles before, and is focused on businesses and industries with the following characteristics:
  - Businesses where management teams are largely in control of their own destiny. By this, we mean businesses which are not susceptible to cyclicality, whether that be levels of consumer demand, property prices or commodity prices
  - Businesses with market power to be able to pass through input cost price increases, in order to maintain margins – important in this inflationary environment
  - Defensive businesses with macro tailwinds, such as healthcare (ageing demographic), childcare (increase in dual-parent working families and bi-partisan government funding support), and infrastructure services (underpinned by significant committed future government spend on infrastructure projects). These businesses produce steady, sustainable cashflows which provide high degrees of comfort around their ability to service their debt

The Case for TCP's Private Credit Fund

- Against this uncertain backdrop, TCP Asia Pacific Fund II ("Fund II") provides an investment alternative offering the following potential benefits:
  - Floating rate portfolio: Our investments are priced at a fixed margin over BBSY. This means total returns to investors move in tandem with the base rate
  - Lack of property exposure: TCP is focused on corporate lending, with no exposure to the property sector to date
  - Security position: TCP will invest into largely senior secured loans, meaning we have first rights to cashflows and assets of borrowers. Our investments have meaningful equity buffer sitting beneath our secured debt in the capital structure (Fund II investments to date all have 50%+ equity buffers). It is this equity which bears the volatility and risk of earnings or valuation multiple deterioration, meaning there is significant value that would need to be eroded before our capital is at risk – a key driver of the low-volatility nature of the product
  - Maintenance financial covenants: The majority of our loans, including all of our self-originated loans, have maintenance financial covenants. This covenant testing provides an early warning signal that there has been a deterioration in credit quality of the borrower and enables us to take action as required to protect our capital and increase pricing, if warranted

- Cash returns to investors: TCP Private Debt Income Fund targets an all-cash net return of BBSY + 5 - 6% p.a. with distributions paid quarterly[1]. With base rates at 3.6% and rising, this equates to a target net cash yield to investors of ~9% p.a.[2], which for primarily senior secured debt risk, is a compelling risk/return proposition in the current environment
- Improved pricing and terms: With these increased levels of market volatility, the pendulum continues to swing in lenders' favour, with higher pricing and tighter terms
- An experienced fund manager: Having a fund manager with the experience to navigate through this uncertain economic environment is critical for successful deal selection and ongoing portfolio management. The TCP leadership team has multiple decades of corporate lending experience, having successfully navigated a number of economic and credit cycles

Notes:

1. *While TCP Private Debt Income Fund will generally distribute its available income quarterly, there is no guarantee that any income will be generated.*
2. *This is a target return and may not be achieved*

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 $775 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 Asia Pacific Fund II and TCP Private Debt Income Fund (a retail and wholesale PDS investing into TCP Asia Pacific Fund II) are available for commitments. For more information, please contact TCP as provided below.

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