TANARRA CREDIT PARTNERS

Private Credit – higher returns vs. bank lending does not always equate to outsized risk

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TCP takes a closer look at why the higher returns offered by Private Credit vs traditional bank lending does not necessarily equate to outsized risk: fund manager experience in deal selection and structuring with downside protection is crucial in mitigating risk

How Risky is Investing in Private Credit?

- We are often asked whether the higher returns offered by Private Credit (compared to traditional bank lending) means that it is a high risk investment that should be avoided as either the borrowers are low-quality, or the deals carry too much risk
- This perception is exacerbated by the cashflow lending nature of corporate private credit, and limited hard asset security compared to some traditional bank loans
- There are a number of tools and structures that can be used to mitigate and manage the risks associated with Private Credit financings, which when combined with the returns available, we believe creates an appealing risk/return proposition for investors

TCP Approach to Mitigating Risks of Investing in Private Credit

- *Rigorous Due Diligence:* We conduct detailed due diligence on prospective borrowers including review of third party financial, legal and commercial due diligence reports, and detailed financial modelling to assess a range of downside scenarios. This enables us to better understand the credit profile of the businesses we are looking to finance, and gain a high degree of comfort around the ability of the cashflows of the business to service our debt
- *Lender Protections*: There are several downside protection features available for Private Credit investors
  - Senior ranking security: TCP largely invests into senior secured loans, meaning we have first rights to cashflows and assets of borrowers. Our investments have meaningful equity capital that sits underneath our debt in the capital structure (Fund II investments to date all have 50%+ equity buffers) which bears the volatility and risk of earnings or deterioration in valuation. Significant value would need to be eroded before our capital is at risk
  - Maintenance financial covenants: The majority of our investments have maintenance financial covenants unlike broadly syndicated loans, which are typically tested quarterly and provides an early warning signal if there is deterioration in credit quality of the borrower and enables us to take action as required to protect our capital and increase pricing, if warranted
  - Documentation protections: Our loan documentation will typically impose a range of restrictions on the borrower that protect our position as a lender, including cashflow sweeps to repay debt should the business underperform, restrictions on ability to make acquisitions and disposals (without debt repayment), and not allowing distributions to shareholders until leverage has reduced

Why Borrowers Use Private Credit

- It is not true that only uncreditworthy borrowers who are unable to access bank loans will seek Private Credit financing. Whilst borrowers typically do pay a higher interest rate for Private Credit financings vs. regular bank loans, many borrowers are prepared to pay the higher cost in return for the benefits offered by Private Credit
  - Flexibility for the borrower: As bank loans typically require more restrictive terms and conditions, borrowers may prefer to pay a higher interest rate in return for greater flexibility offered by TCP's financings (e.g., repayment of principal upon maturity with excess cash sweep mechanics to protect our downside, rather than being forced into a strict amortisation schedule favoured by banks)
  - Certainty and speed: TCP offers faster and more transparent decision-making vs. a bank's credit process, with this divide only growing larger. Borrowers are often prepared to pay more in return for the greater certainty and speed of execution. This is particularly important for borrowers who are under a strict deadline to conclude a corporate activity (e.g., a borrower seeking financing to complete an acquisition or to secure a valuable contract from a key customer)

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ABOUT 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 $780 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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In making any investment decision in relation to the Fund, each prospective investor should consider whether the investment is suitable to its own individual circumstances, and is urged to consult with its own qualified advisors with respect to the legal, tax, regulatory, financial and accounting consequences of investing in the Fund.

No person guarantees the performance of the Fund, a rate of return from the Fund, or the repayment of capital from the Fund. A purchase of interests in the Fund will involve a high degree of risk due, among other things, to the nature of the Fund's investments. Any forward-looking statements included in this document may prove to be inaccurate and should not be relied upon as indicative of future matters. There can be no guarantee that targets or objectives set out in this document will be met.

TCP Private Debt Income Fund's Target Market Determination is available https://www.eqt.com.au/corporates-and-fund-managers/fund-managers/institutional-funds/institutional-fund-manager?f=77b95b6b-3db3-483b-96b7-684f9e803fec. A Target Market Determination describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.