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PRIVATE CREDIT

PRICING RISK AND OPPORTUNITY

WHAT ARE PRIVATE CREDIT SECONDARIES?

Private credit secondaries involve the **buying and selling** of existing **private loans or fund interests** after their initial origination, typically via negotiated, illiquid transactions.

LP-led transactions	GP-led transactions	Securitisations
Earlier-stage diversified fund interests	Continuations funds (often synonymous with GP-led)	Collateralised fund obligations (CFOs)
Later-stage diversified fund interests	Fund-to-fund transfers: whole assets and strip sales	Private credit CLOs

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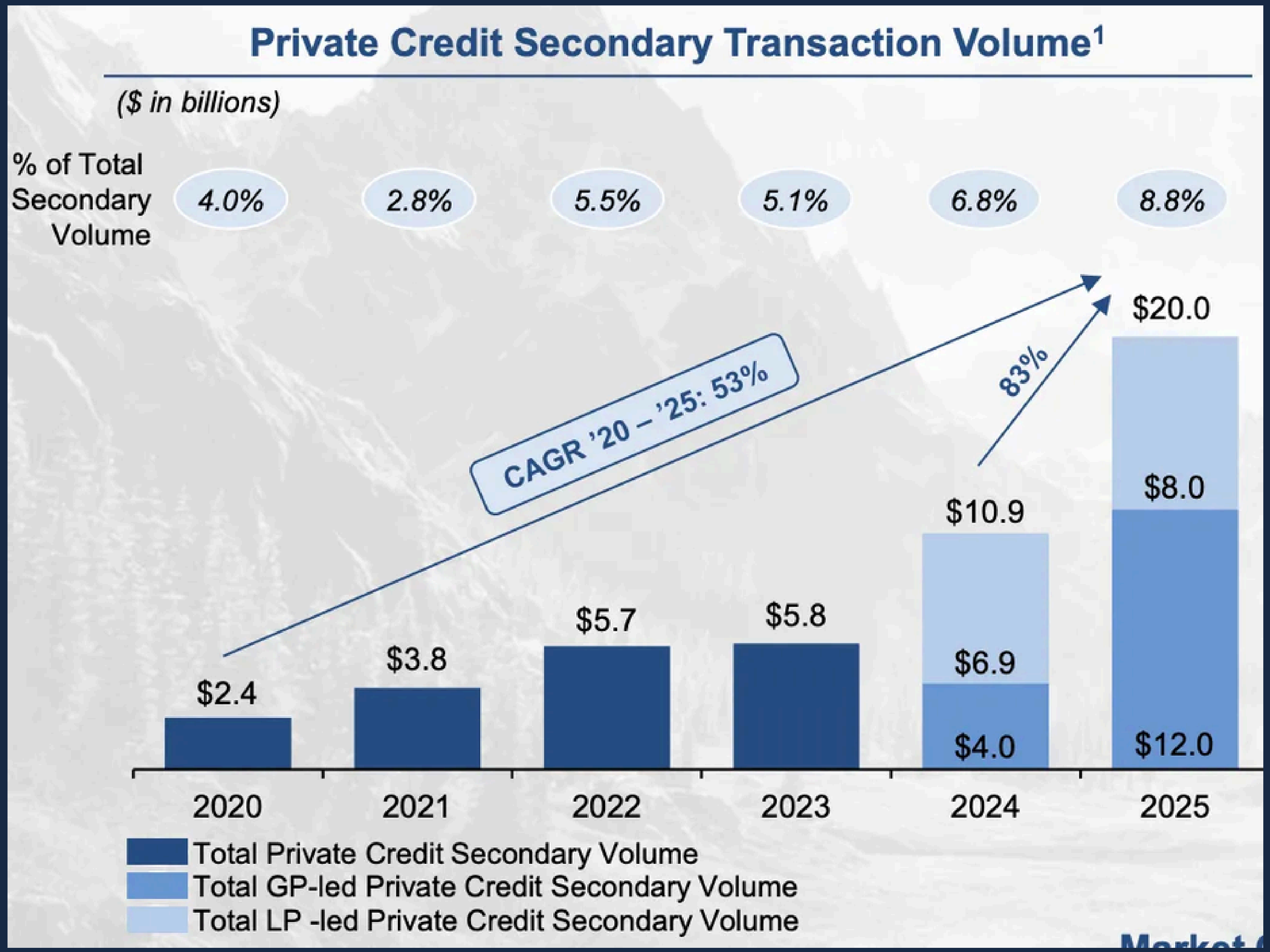
THE EVOLUTION

The "Buy-and-Hold" Era (Pre-2018)

Private credit functioned as a structurally illiquid asset class. Investors were effectively **locked into ~10-year fund lifecycles**, with limited or no exit options, forcing them to hold positions to maturity regardless of changing macro conditions or portfolio needs.

The Market Inflection (2020–Present)

A rapid market shift, driven by ~50%+ CAGR, has scaled private credit secondaries into a $20B+ annual market. This evolution introduces **active liquidity,** enabling LPs and GPs to manage portfolios by buying and selling positions at negotiated market prices, rather than remaining locked in until maturity.



WHERE THEY FIT IN PRIVATE CREDIT

	Primary market	Secondary market
Investor role	Originator	Purchaser
Counterparty	Corporate borrower	Existing lender
Capital use	New loan creation	Portfolio rebalancing
Standard pricing	Par (100 cents on the dollar)	Negotiated (eg. 80–95 cents)

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NATURE OF THE SECONDARY MARKET

Information Asymmetry

Valuation is not public. Buyers must conduct deep due diligence on private underlying loan documents to bridge the knowledge gap between the original lender and the market.

Negotiated Pricing

Every transaction is a bespoke "handshake" deal. Price is determined by the seller’s urgency and the buyer’s assessment of credit risk, rather than a centralized ticker.

Episodic Liquidity

Liquidity is not "on-demand." It is event-driven, appearing in cycles when institutional players need to rotate capital, making timing a critical factor for entry.

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WHO BUYS AND WHO SELLS?

Sellers	Buyers
Banks & Insurance Companies: Sell private credit exposures to optimize regulatory capital and reduce risk-weighted assets (RWA) under capital requirements.	**Specialized Secondary Funds:** Deploy dedicated capital to acquire seasoned private credit assets, typically at a discount to NAV.
Pension Funds & Endowments: Sell positions to rebalance portfolios following overallocation to private credit, often driven by the denominator effect.	**Asset Managers / GPs:** Acquire existing portfolios to scale AUM and gain immediate exposure to diversified, performing credit assets.
General Partners (GPs): Execute secondary transactions to provide liquidity to LPs or extend the duration of high-quality assets through continuation structures.	**Sovereign Wealth Funds:** Invest in secondaries to access private credit at scale with immediate deployment, avoiding the J-curve of primary funds.
Family Offices: Monetize positions to generate liquidity, rebalance portfolios, or reallocate capital to new opportunities.	**Opportunistic Credit Investors:** Target dislocations to purchase assets at attractive discounts and capture enhanced risk-adjusted returns.

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WHY SECONDARIES EXIST: A SELLER-DRIVEN MARKET

Primary market	Secondary market
Originator	Purchaser
Corporate borrower	Existing lender
New loan creation	Portfolio rebalancing

Selling is driven by constraints, not credit views

Liquidity & Portfolio

- Liquidity needs
→ Need cash before maturity
Rebalancing (denominator effect)
→ Public markets fall → overweight

Risk Reduction

- Risk reduction
- → Higher rates / macro uncertainty
Distressed exit
→ Avoid restructuring

Regulatory Constraints

- Basel III → Capital rules → forced sales

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WHAT DRIVES PRICE IN THE SECONDARY MARKET

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Price is negotiated, not quoted. Investors demand a discount to compensate for these risks

Credit Risk

→ Probability of repayment
→ Higher risk → deeper discount

Liquidity

→ Illiquid, limited market depth
→ Forced selling → lower prices

Information / Valuation

→ Limited transparency
→ Valuation uncertainty → discount

Discount = Compensation for risk, illiquidity, and uncertainty

HOW INVESTORS MAKE RETURNS

Performing Credit	Stressed Credit
Carry (income) → Interest payments	**Recovery value** → How much you get back
Pull-to-par → Price moves towards full value	**Timing** → Delays reduce returns
Return = income + price	**Return = recovery – price**

Returns shift from income → recovery

STRATEGY MAP IN PRIVATE CREDIT SECONDARIES

PAR / HIGH-QUALITY

- Buying of strong private credit position
- **At or close to par**, around 90-100% of NAV
- Objective: to earn consistent and stable carry with limited downside
- Return drivers: coupon income, modest pull-to-par, low default risk

Low Risk

DISCOUNT / VALUE

- Buy loans **below par** (70-90%), when market appears too pessimistic.
- Borrower may be under pressure but not to the point of recovery.
- Objective: buy a mispriced asset with upside potential
- Return drivers: entry discount, carry and potential pull-to-par.

Moderate Risk

DISTRESSED / RECOVERY

- Buy heavily stressed positions at **deep discounts.**
- Default or restructuring is a meaningful part of the strategy
- Objective: underwrite downside and recovery value.
- Return drivers: entry price, recovery rate, recovery timing and seniority.

High Risk

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WHY PRIVATE CREDIT SECONDARIES MATTER NOW?

$20bn

Secondaries Transactions Volume

▲83%YoY

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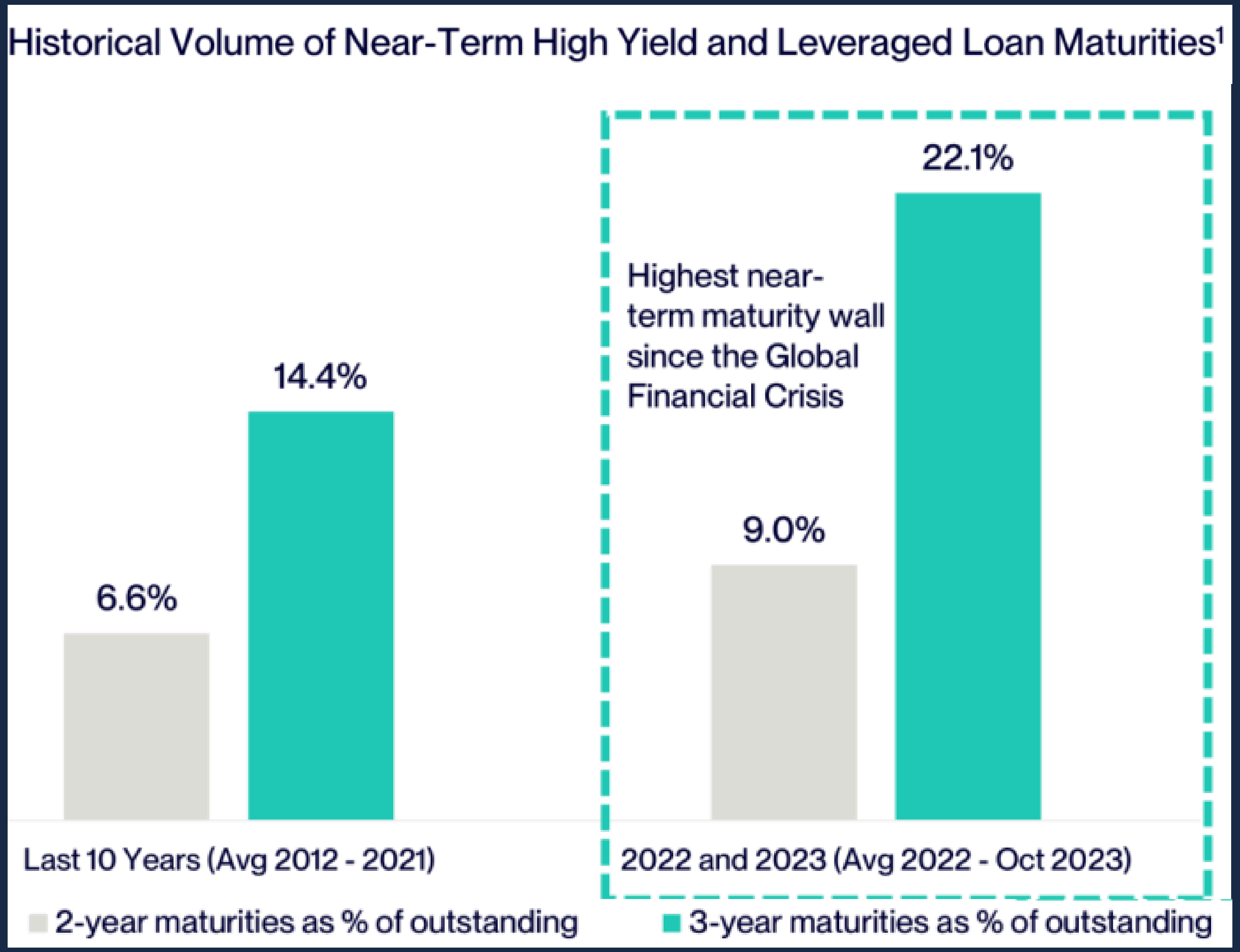
Large, maturing market:
- as private credit AUM expands and portfolios mature, more investors and managers are using secondaries for liquidity, rebalancing, and portfolio management.

Higher for longer rates:
- Higher rates are increasing pressure on leveraged borrowers reducing their interest coverage capabilities

Refinancing pressure:
- As loans approach maturity, weaker borrowers may struggle to replace existing debt in a tighter lending environment, turning maturity into a key credit risk point.



THRASIO – WHAT MATTERS MOST IN DISTRESSED SECONDARIES

Thrasio is one stressed example showing how a secondary buyer thinks when downside matters more than headline yield.

Base Case IRR: **26.1%**

Purchased at 75% par and repaid at 100.
Returns driven by combination of **coupon income** and **pull-to-par.**

Downside Case IRR: **-5.6%**

Purchased at 75% par and repaid at 100.
With a default in quarter 5 and a **recovery rate** of 55%.

Hierarchy of what matters in most distressed pricing

More important

Entry Price
Main Margin of safety

Recovery Rate
Key Downside Driver

Default Timing
Affects carry received

Recovery Lag
Delay reduces IRR

Less important

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Bottom line: price is the first line of defense, while recovery and timing dictate if defense is enough for positive returns.

GLOSSARY

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- **Discount to par**: Pay less than 100 for 100 of principal (e.g., pay 75 for 100). The discount can buffer downside and boost return if repaid at par.
- **Carry**: Interest income you collect while holding the position.
- **Pull-to-par:** Discounted loans may drift toward 100 as maturity approaches if the borrower stabilizes.
- **Default**: Borrower fails to meet obligations; contractual cashflows may stop or change.
- **Recovery rate**: How much of par lenders ultimately receive after default/restructuring.
- **Recovery timing (lag)**: How long it takes to receive recoveries; delays can reduce IRR materially.
- **Seniority**: Who gets paid first; more senior claims typically recover more.
- **Margin of safety:** Downside buffer from buying at a discount and/or holding senior, well-secured claims

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