Saichild Financial Holdings Limited

2nd Quarter 2024

Letter from the Chief Investment Officer – Paulus Saichild

As a heavy consumer of financial press and media content, I have seen no topic more discussed and debated than the ever-increasing size and importance of the private credit market.

To best understand private credit, it is important to remember that traditionally, large and medium-sized companies have raised debt financing through either the issuance of loans or bonds. At the center of both the corporate bond and loan markets have been the large regional and global banks, who originated and underwrote these transactions, placed them with investors, and then provided support through research and secondary trading.

Our Viewpoint

Over the past decade, private credit has become a critically important sector within global capital markets. Given the structural attributes of this asset class, we believe private credit instruments are a core component of any well-balanced private markets portfolio.

The Evolving Debt Landscape

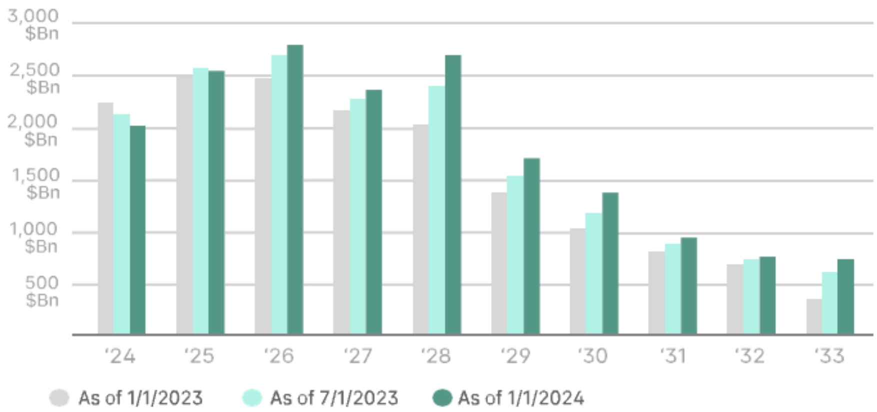
The aftermath of the financial crisis brought considerable change to this model, particularly the loan market (i.e., the "broadly syndicated loan market"). Global regulators realized that large amounts of credit exposure were heavily concentrated on the balance sheets of the largest and most interconnected banks in the world, which required extensive "bailouts" and other governmental intervention.

In the decade since the crisis, regulators have increasingly imposed higher capital requirements and other restrictions that have curtailed the ability for banks to lend and hold risk. This regulatory tightening increased even more over the past year in light of the failure of Silicon Valley Bank and other regional banks.

As banks have reduced their exposure to the loan market over the last couple of years, the demand for corporate loans has continued to grow, particularly from small and mid-sized private companies.

Looming maturity wall on the horizon

S&P Global: Amount of global corporate debt maturing each year[1]



The looming trillion-dollar maturity wall for corporate debt presents an opportunity for private credit to fill the financing gap as traditional lenders pull back.

Up to now, this gap has been filled by non-bank lenders, mostly asset managers, who have large amounts of committed capital dedicated to this strategy and have the ability to hold the loans to maturity. From an investor's perspective, loans originated in the private credit market are generally more lender-friendly, with strong collateral and covenant packages, relative to the 'cov-lite' structures generally found in the broadly syndicated market.

So when we use the term "private credit," we are referring to lending activity that is happening outside of the bank-dominated syndicated loan market and being directly originated by asset managers. While private credit generally refers to corporate lending, this market also includes other related asset classes, such as structured finance, trade finance, and supply chain finance, each of which has been impacted by the decreased risk appetite from banks.

Closing Thoughts

We recently reorganized our investment team structure to increase our resources allocated to the private credit space, and we look forward to sharing these opportunities with you in the future.