Private Debt

Introduction: aka Private Credit, has grown to a versatile 1.7 trillion asset class, size wise at par to peer asset classes such as High Yield and Broadly Syndicated Loans markets. Private Debt has gained traction in the recent years among institutional investors and has become an essential allocation within the alternative investments, due to its compelling risk reward profile. Breaking down into 4 main aspects:

1. **attractive returns:** a wide range of return span from infrastructure debt with single digit return to 10+% yield of corporate direct lending or asset-based lending returns, to equity like returns of opportunistic credit. Private debt has evolved into a versatile asset class providing great investment opportunities to investors;
2. **favorable market environment** was created for the development of Private Debt, especially from regulatory tailwind leading to decades long banking retrenchment and at times turbulent and dysfunctional public markets. Our quantitative study indicates Private Debt as an compelling asset class to invest into in the current business cycle;
3. **structural features** of Private Debt help reduce credit risk, ie higher spread represents illiquidity and complexity premium rather than compensation for down in credit quality. Lower leverage, higher interest coverage ratio, financial maintenance covenants are some examples of how Private Debt protect investors from credit losses;
4. **diversification** benefit is contributed from exposure to a different set of obligors vs public market. Private Debt borrowers are typically middle market borrowers that do not have access to the public market funding. Even though this has turned into a blurry line as some upper mid market borrowers increasingly looking to diversify funding source from Private Market as well. Low correlation to traditional market and peer asset classes offer investors with an assets class with low correlation to their existing portfolio exposure.

For Insurance Investors: as a debt instrument that carries key advantages such as self-liquidating, regular income distributing and non-mark to market, Private Debt is considered insurance balance sheet friendly. Private debt has been commonly used as it has a natural match to the liability profile of the insurance business. It is worth noting that we observe an increasing allocation from insurance companies via Fund of Fund, direct placement or even long term partnership with some large GPs. Private debt has become an instrumental return contribution to the insurance business.

What should investors consider when investing into Private Debt? We put lots of thoughts and our expertise into how to construct an efficient private debt portfolio. Evergreen is deemed to be an highly efficient expression to allocate into Private Debt. Other aspect such as timing, scale of investments, level of diversification and longevity of the strategy design cross cycle, also last but not least reporting are all aspects that investor should consider when constructing a Private Debt portfolio.

Chen Xu, Director, Investment Management Klarphos

Chen joined Klarphos 2 years ago as Portfolio Manager. Chen has 18 years' experience in portfolio management and trading a wide range of liquid and illiquid fixed-income products in structured finance and rates.

Before joining Klarphos, Chen was a portfolio manager at PIMCO in Munich for 15 years, where she managed multi-billion AUM portfolios. Chen was also responsible for building the investment and treasury function at a Fintech bank.

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Klarphos

Klarphos is a specialist fund solution provider that offers tailored portfolio solutions to institutional clients. Based in Europe, Klarphos specializes in alternative investments; Private Debt, Private Equity, VC/Growth, Infrastructure, Real Estate, and Hedge Funds. The main offerings include commingled funds, customized investment programs, and strategic asset allocation/ALM advisory.

The customized investment programs encompass portfolio construction and management, fully-customized asset allocation across liquid and illiquid markets, and tailor-made risk and reporting.

The company combines core asset allocation capabilities and alternative investing expertise to achieve higher risk-adjusted returns, lower costs, and more transparent reporting for its clients.

With Klarphos, clients have access to leading global fund managers while simultaneously achieving robust diversification across vintages, geographies, and sectors.

The team at Klarphos brings together a wealth of experience, with an average of over 15 years in investment roles at top-tier asset management firms. Collectively, the team has managed assets exceeding €25bn in previous roles.