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Research News: GIM Liquid Private Credit Portfolio

April 2023

U.S. LIQUID PRIVATE CREDIT AVAILABLE ON THE JSE, IN AN AMC

The **GIM Liquid Private Credit Portfolio (JSE code: GIMPLC)** listed on the JSE on the 31st of October 2022. Grovepoint Investment Management LLP ("GIM") specialises in providing access to private markets, via listed credit vehicles, across the capital structure. The rise of private credit saw an uptake in the market since the Global Financial Crisis of 2008. With tighter regulation and increased capital requirements that were imposed on traditional lending banks, bank lenders had to reduce their lending capability, which meant that most middle-market companies could not obtain the funding required for the longevity of their business. This gap created in the financial market was filled by non-bank lenders, who are financial institutions that do not have a banking license, by providing alternative sources of financial and funding services to applicants that could not obtain funding from traditional bank lenders. As restrictive regulation is still being imposed on traditional bank lenders to avoid another financial crisis, the opportunities found in the private credit space makes for a good diversifying investment case. The GIM Liquid Private Credit Portfolio AMC is linked to the GIM Liquid Private Credit Portfolio as the reference portfolio, which was incepted in August 2015.

For more information on Actively Managed Certificates, check out episode 44 of the etfSA Investor podcast under the etfSA.co.za website > Media Center > Podcasts: Active Management and Exchange-Traded Products - the Next Generation

The details of the new product are as follows:

ETP Name	JSE Code	Issuer	Listing Date	ISIN	Sector Exposure
GIM Liquid Private Credit Portfolio	GIMPLC	UBS	31 October 2022	ZAE000315610	Specialist Securities – Liquid Private Credit

Please note: This AMC is **not** available for tax-free investments.

OVERVIEW

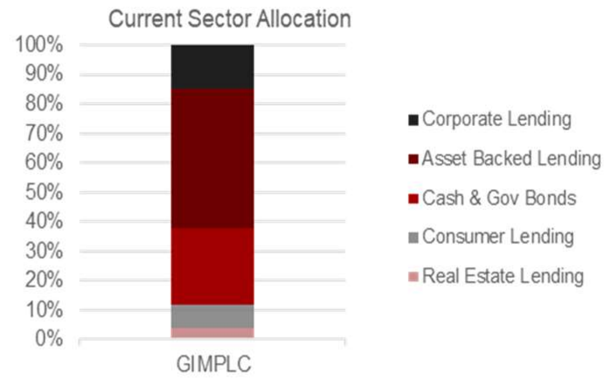
The **GIM Liquid Private Credit Portfolio AMC (GIMPLC)** is an Actively Managed Certificate that invests in **listed U.S.** private credit vehicles, which makes it a liquid portfolio. This means that the Certificate can be accessed at any time, without a lockdown period. These listed private vehicles in the portfolio are non-bank lenders that provide access to senior secured loans that are derived from the middle-market, specifically in the United States. By the loans being senior secured, it ensures that it takes priority above all other debt obligations of a borrower, so in the event of bankruptcy, senior loans receive payment before other creditors. The Portfolio, however, does provides access to over 3000 borrowers, so even in the event that an individual company declares bankruptcy, the effects to the portfolio should be marginal.

Due to the GIM Liquid Private Credit Portfolio being actively managed, the underlying holdings can change at any time so be sure to obtain the latest information on the Portfolio. Investments into this AMC are made in South African Rands; however, the underlying investments are in U.S. Dollars. This means that the performance is exposed to some currency risk (i.e., exchange rate differential). The GIM Liquid Private Credit Portfolio AMC (GIMPLC) is dual listed in Luxembourg and in Johannesburg, so you can invest with your foreign-denominated currency or in Rands. The fees are the same but be mindful of costs and minimums associated with the trading and custody on the exchange where you are trading.

- The management fee is 0.60% | UBS issuer fee is 0.25% | Performance fee is 8% participation above the high watermark (so if the returns of the Portfolio are 10% in a year, it will be 8% of the 10%, which is 0.8%).
- In terms of income distributions, it is a total return portfolio, which means that dividends will automatically be reinvested.
- etfSA.co.za recommends the suitability for investors with a medium-term view (3-5 years) and is classified as medium risk.

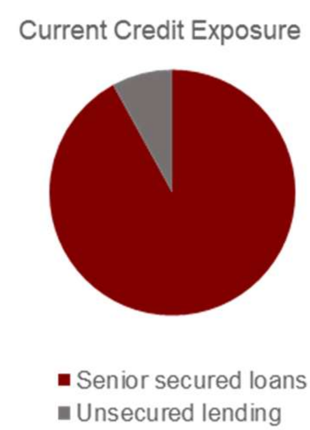
PORTFOLIO ANALYSIS

The GIM Liquid Private Credit Portfolio has similar characteristics to fixed income. Senior secured loans typically have floating interest rates, which means the interest rates fluctuate according to the USD London Interbank Offered Rate (LIBOR). LIBOR is considered a global benchmarked interest rate that illustrates lending rates between banks for short-term loans. In the case with this Portfolio, it aims to generate returns in excess of 3-month USD LIBOR + 6% per annum over an investment cycle. For instance, let's say that LIBOR is 5%, the rate will be 5% (LIBOR) + 6% = 11%, which is the rate that investors could earn if the portfolio manager achieves the target return goal. Keep in mind that this LIBOR rate changes frequently, so the interest charged on these loans will fluctuate too.



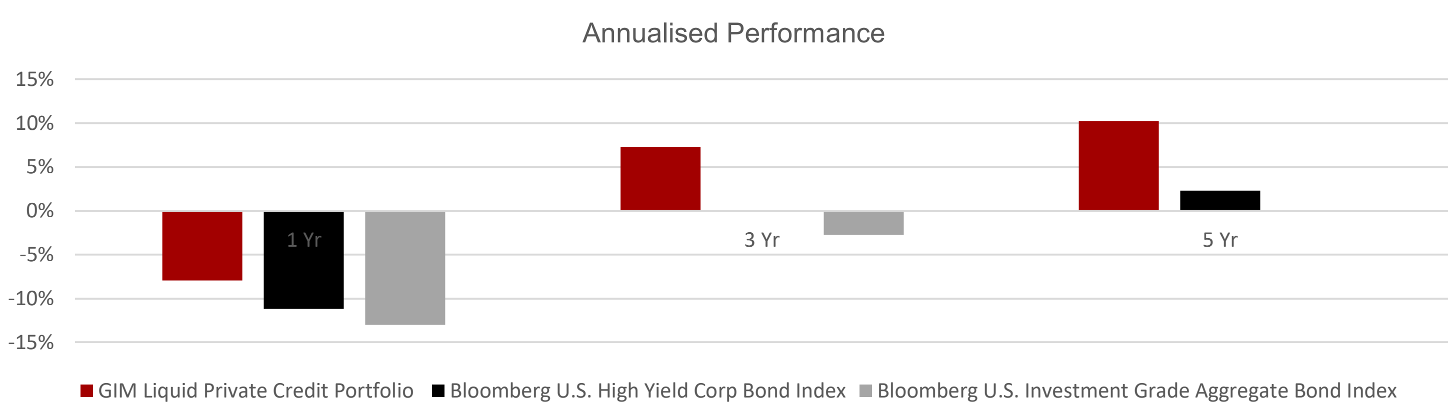
Source: Grovepoint Investment Management LLP (31 December 2022)

Non-bank lenders are funded differently to traditional banks. As highlighted earlier, non-bank lenders are financial institutions that do not have a full banking license, which means that they cannot accept public deposits. This is in comparison to traditional banks that are funded through deposits. Non-bank lenders are funded through loan origination through lines of credit with commercial banks and/or mortgage servicing. Examples include micro-loan companies, insurance companies, and venture capitalists, etc.
Looking at the sector allocation of the GIM Liquid Private Credit Portfolio, asset-backed lending makes up most of the portfolio's allocation. Asset-based lending is lending that is secured by a form of collateral. The rest of the portfolio is comprised of cash & government bonds, as well as consumer, corporate, and real estate lending. Speaking to this, if we look at the overall credit exposure, the Portfolio allocates a significant portion to senior secured loans with a marginal allocation to unsecured lending. Keep in mind that the because the portfolio is actively managed and may change, the latest portfolio information needs to be obtained.



Source: Grovepoint Investment Management LLP (31 December 2022)

The GIM Liquid Private Credit Portfolio (GIMPLC) is uniquely positioned as being an actively managed portfolio that provides exposure to private credit and is easily accessible. By means of a comparison, the asset manager has benchmarked its portfolio performance against the Bloomberg U.S. High Yield Corporate Bond Index and the Bloomberg U.S. Investment Grade Aggregate Bond Index, of which the performance figures may be seen below. GIMPLC currently outperforms these bencharks on the 1, 3, and 5-year basis. Please be informed that past performance is not indicative of future results.



Source: Grovepoint Investment Management LLP (31 December 2022)

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METHODOLOGY

Through active management, the GIM Liquid Private Credit Portfolio (GIMPLC) applies a look-through methodology in the selection of the most suitable listed private credit vehicles. The criteria is as follows:

- **Geographic specifity:** Solely looking at the United States' (U.S.) listed private credit vehicles in the middle-market
- **Maximise yield and generate capital appreciation**: Identifying opportunities in the market by acquiring these U.S. Listed private credit vehicles at a discount to par. In other words, purchasing them at a discount to its book value
- **Mitigate downside risk** by focusing on the following:
    - Vehicles of scale: Experienced private credit managers with underwriting expertise, structuring skills, strong direct loan origination (ability negotaite with the borrower), and strong track records.
    - Borrowers of substance: Looking at companies with EBITDA (Earnings Before Interest and Tax, Depreciation and Amoritisation) that generally range between $25 million to $250 million+ per annum.
    - Limited Cyclical Exposure: Limited exposure to companies or industries whose revenue generation capacilities are dependant on whether the economy is growing or slowing down, making it volatile.
    - Concentration of senior secured loans: Focusing on having most of the portfolio allocated towards senior secured loans

Source: Grovepoint Investment Management LLP (31 December 2022)

RISK PROFILE

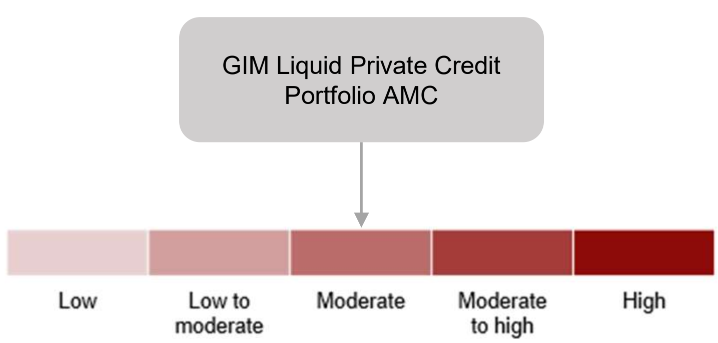
While non-bank lenders have attracted a sizeable portion of market share since the global financial crisis, there are still aspects to consider when looking to invest in listed private credit, which is illustrated below. etfSA.co.za classifies this AMC as moderately risky, and investors should be aware of their risk appetite.

Benefits

- Could be a viable diversifying alternative to traditional fixed income investments
- Low duration and floating rate loans provide protection against rate increases
- Investors have access to a piece of the private market pie at a fraction of the price
- Can be accessed when needed because the vehicles are listed, making them liquid
- Senior secured loans may result in higher recovery rates
- For non-US citizens, withholding tax does not apply because the underlying income is interest, and as the underlying listed investment vehicles distribute more than 90% of the interest earned, it is not subject to corporate income tax.

Risks

- Non-bank lenders are increasingly coming under pressure by federal regulators for being under-regulated and may be forced to comply with traditional restrictive bank regulation in the future
- Due to more relaxed and flexible eligibility criteria, riskier loans could be taken on by the non-bank lenders that could lead to default or even bankruptcy
- Unlike traditional banks that are heavily regulated by federal agencies, non-banks cannot access emergency liquidity from the Fed in the event of bankruptcy



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