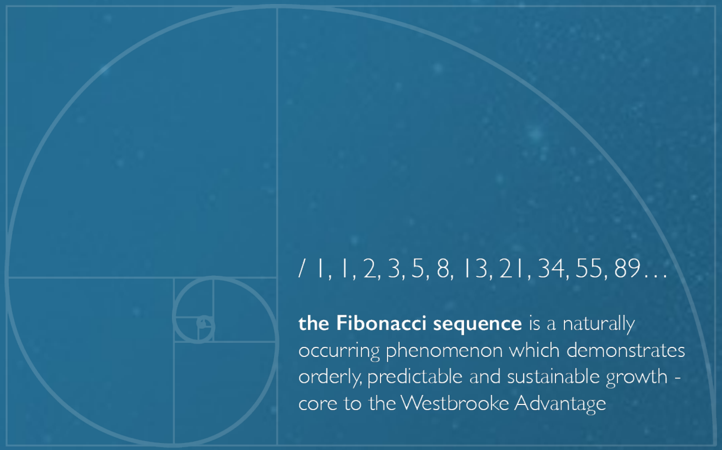
Why invest in private debt, and why now?

By Dino Zuccollo, Head of Investor Solutions



private debt
hybrid capital
real estate
private equity

westbrooke.com

westbrooke
Alternative Asset Management

the purpose of today's discussion

- Who is Westbrooke and why are we equipped to discuss this topic?
- Private debt - a recap of the basics
- The growth of the asset class globally
- Why do investors allocate?
- The challenges – why do investors not allocate?
- Why now?
- Survey feedback from our SA investor base
- Industry trends from SA, the UK and the USA

westbrooke alternative asset management

overview

Founded in 2004, Westbrooke creates **diversified and uncorrelated** investment opportunities

why westbrooke

Private Debt, Hybrid Capital, Real Estate and Private Equity

Manage approximately **R12bn of shareholder and investor capital invested** in SA, the UK and the USA

Team of 40 professionals

Heritage as a shareholder and operator of assets, investing our own capital to develop and grow our businesses and assets.

A 20-year successful track record of attractive risk-adjusted returns

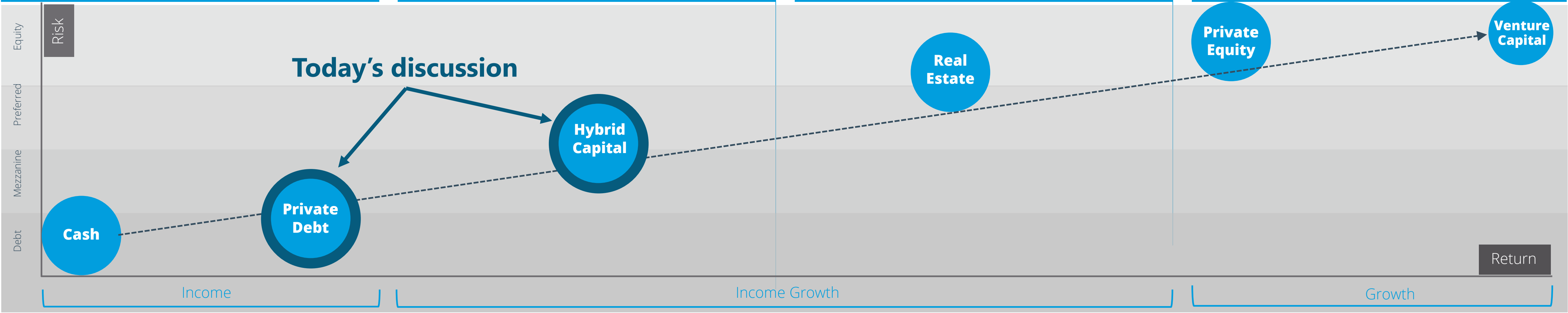
westbrooke's global **alternative investment offering**

private debt
AUM: R3.8bn

hybrid capital
AUM: R2.9bn

real estate
AUM: R1.8bn

private equity
AUM: R3.2bn



private debt

a recap of the basics

what is private debt?

“Private debt, or private credit, is the provision of debt finance to companies from funds, rather than banks, bank-led syndicates, or public markets”

Prequin

- Relatively **new trend** in alternative investments
- Borne out of the **2008 Global Financial Crisis**, where banks pulled back significantly
    - Increased red tape through various new banking regulations
    - Focus on larger loans and longer durations
- Previously considered a **sub-category of private equity**
- Now a **$1.6 trillion asset class** (12% of overall alternatives market)
- Incorporates **direct lending, distressed debt, mezzanine debt, special situations and venture debt**
- Recent growth has been driven by the **high interest rate environment**

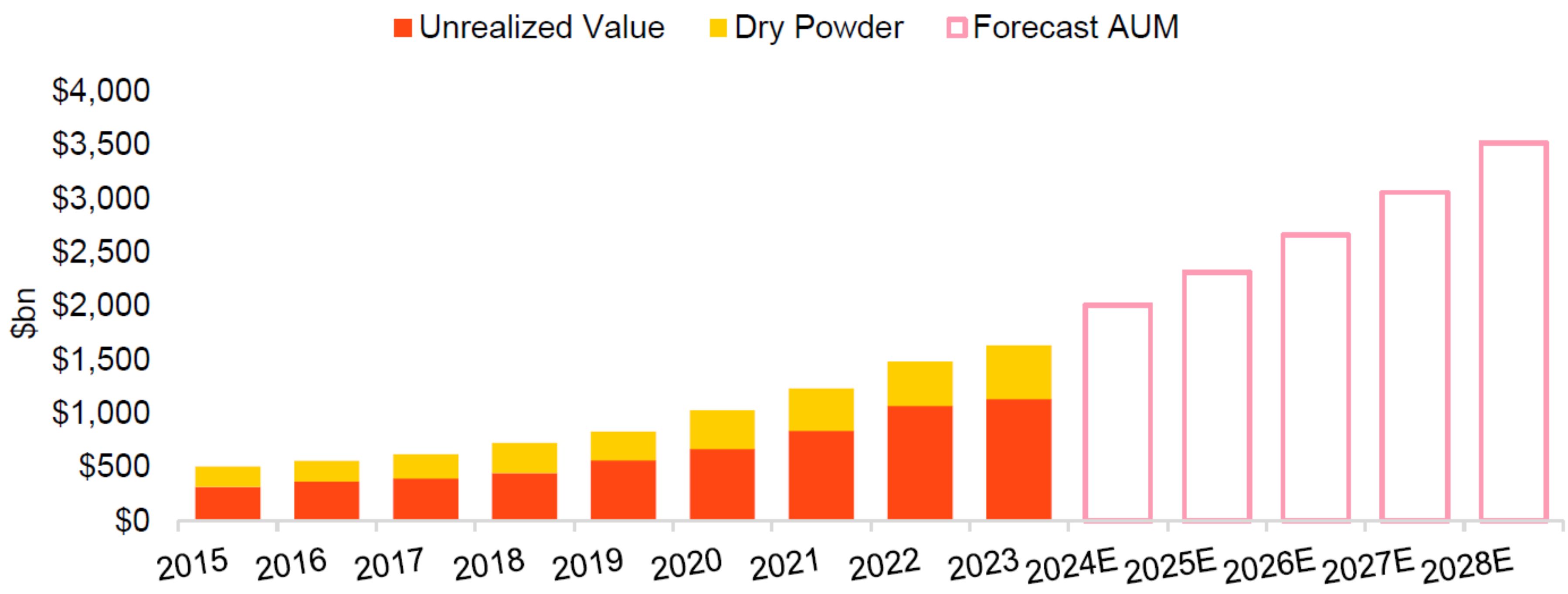
private debt AUM has doubled since 2018, tripled since 2014 and is expected to double again by 2028

“This is a golden moment for private credit asset classes”

Jonathan Gray, Blackstone

“[We see] a good time for the private credit product set”

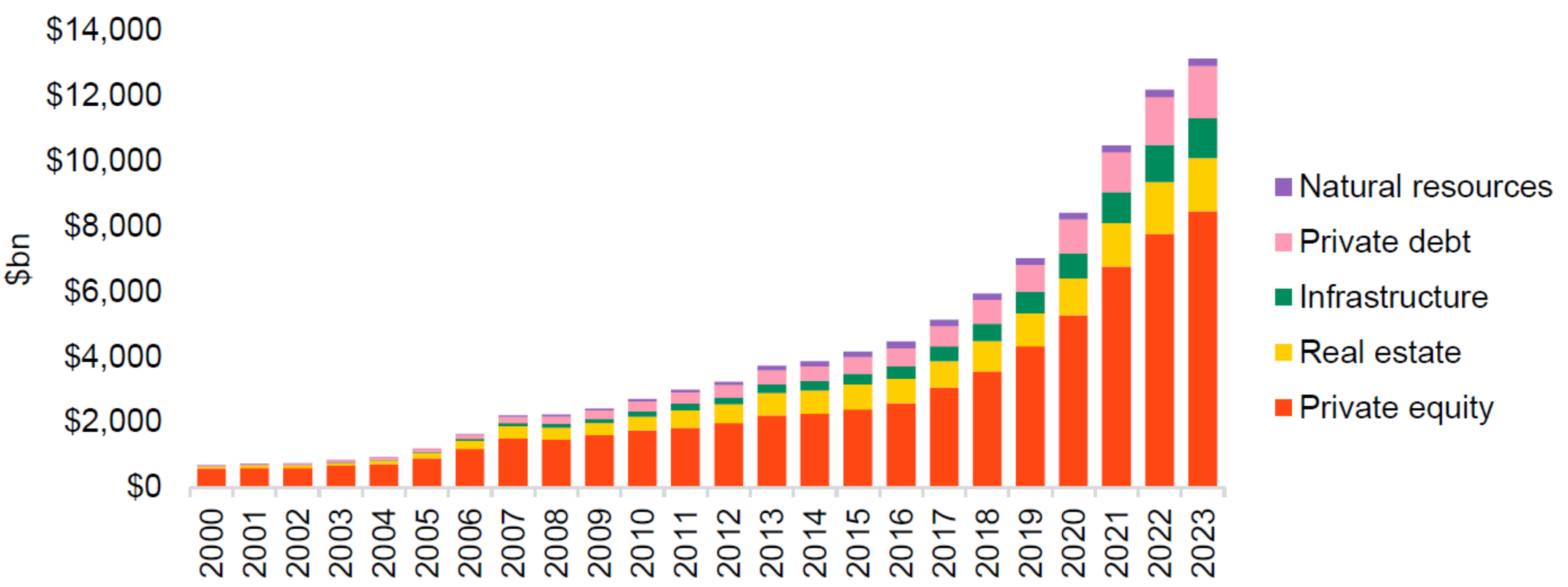
Marc Rowan, Apollo



Source: BlackRock, Prequin

how does private debt fit into the wider alternatives ecosystem?

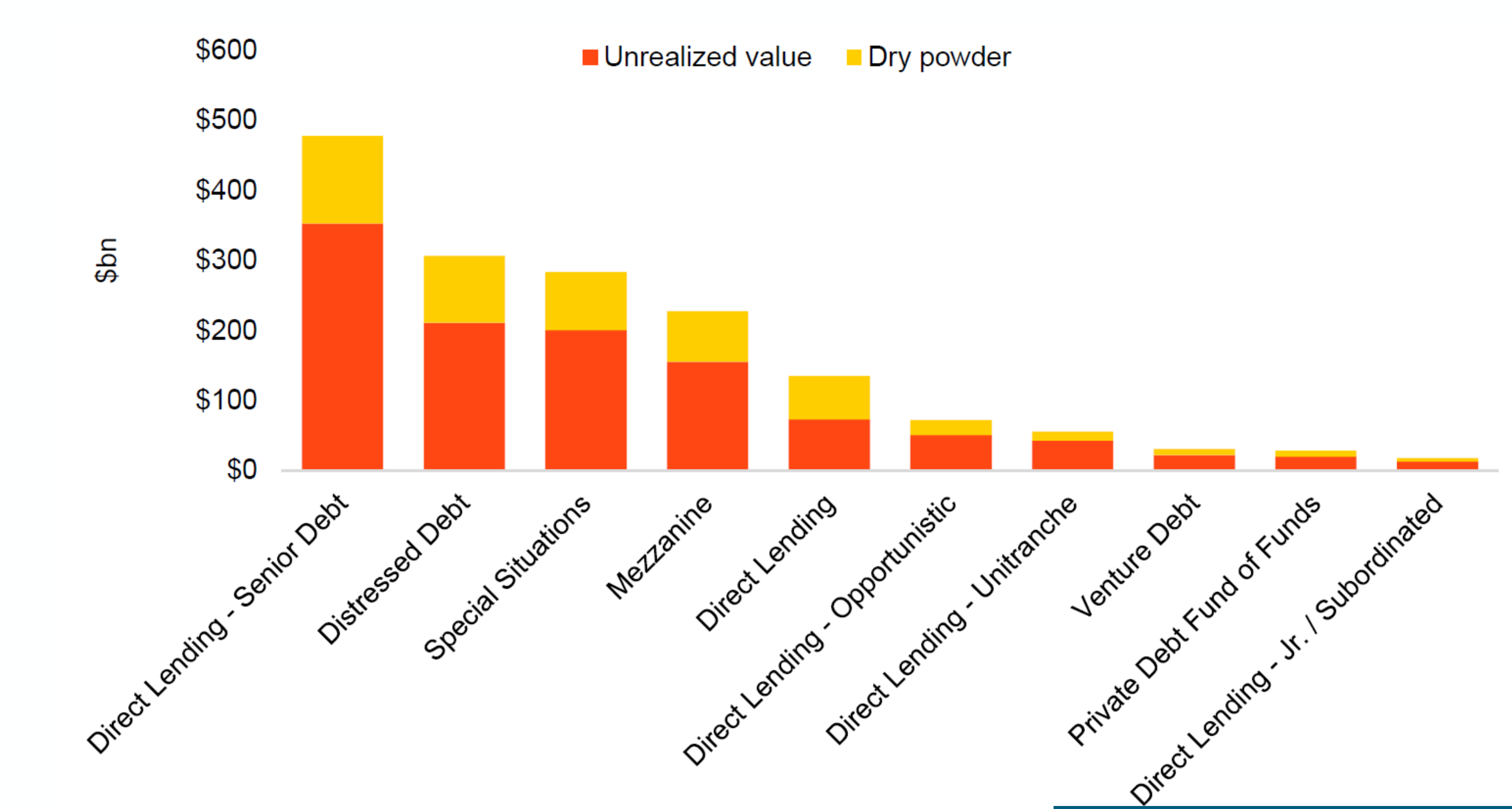
Private debt currently represents 12% of the total alternatives assets under management, but is rapidly gaining market share at the expense of other, riskier investment classes



Source: BlackRock, Prequin

the most popular private debt strategies

Unsurprisingly, direct lending represents the most popular private debt strategy. Direct lending refers to a situation where a lender directly negotiates a loan with a borrower and generally takes security over some portion of the borrower's assets

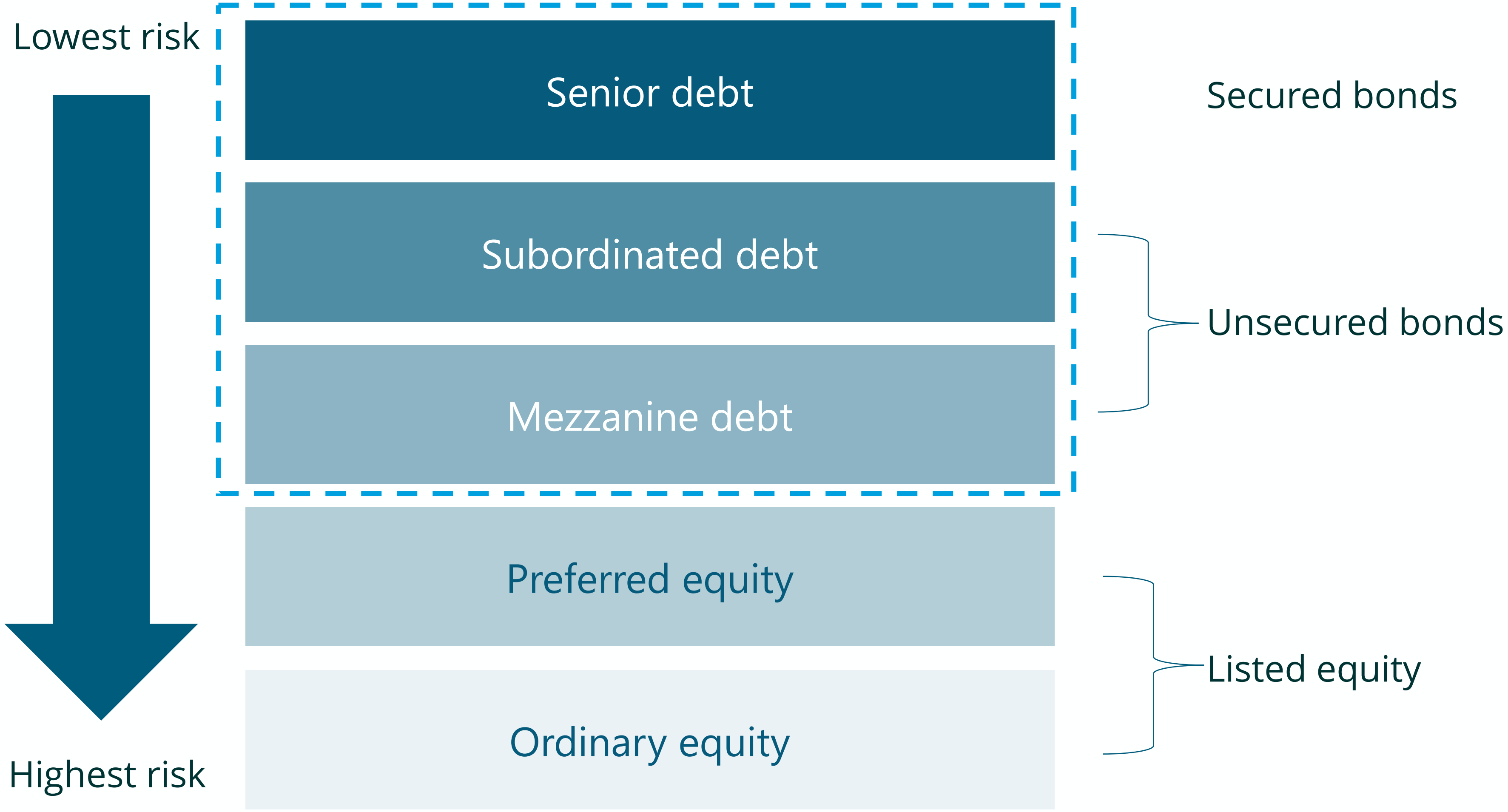


Source: BlackRock, Prequin

the capital stack

Typical private debt strategies invest across the capital stack, with returns commensurate with the level of risk assumed

The concept of "unitranching" has become increasingly popular, providing a single facility to a borrower without the need to interact and negotiate with multiple counterparties



making the investment decision

considerations for potential allocators

the benefits

- Capital preservation focus
- Higher absolute value returns
- Diversification
- Lack of correlation to traditional markets
- Lower volatility
- Reliable, cash yielding income streams
- Lock-in leads to better long-term decision making
- Potential tax efficiency

matters allocators raise as issues when making an investment

- Accessibility (especially platforms)
- Lock-ins and liquidity
- Complexity of the underlying investment thesis
- Opaqueness / lack of regulation
- Availability of hard currency (for offshore trades)
- Skill / competency of the investment manager
- FAIS licensing requirements
- Frequency of pricing and reporting
- Fees

outlook

why allocate now?

a regime change is occurring

"We firmly believe that we have entered a regime change, where structural forces now warrant a different approach to portfolio construction, including a re-examination of the merits of the '60/40' allocation.

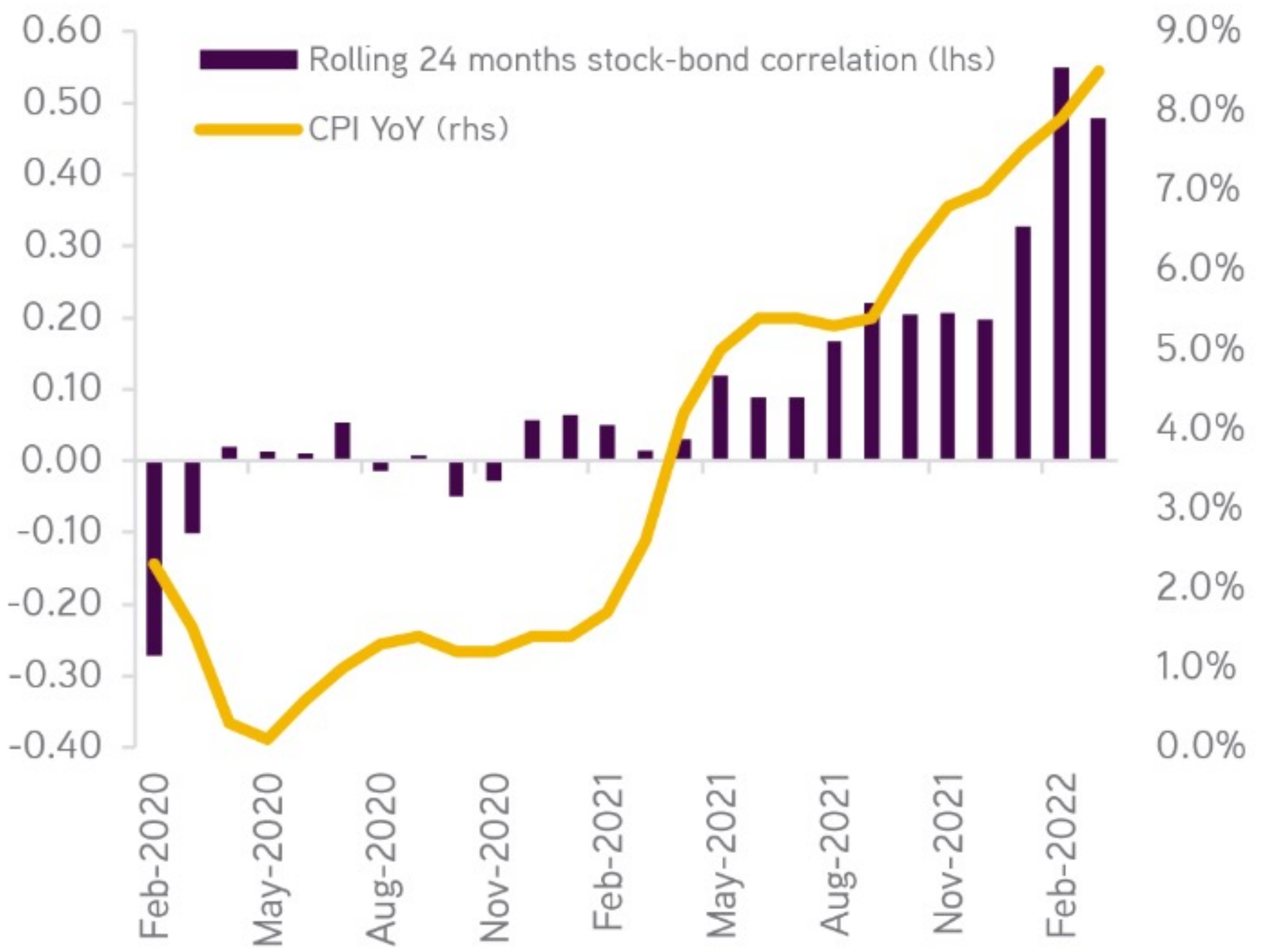
KKR

Data as at November 30, 2022. Source: KKR Global Macro & Asset Allocation analysis.

the stock-bond correlation

In today's high interest rate, high inflation environment, past performance is no longer an adequate predictor for potential future returns

The structural relationship between stocks and bonds is changing, such that bonds are no longer adequately positioned to act as the portfolio "shock absorbers"

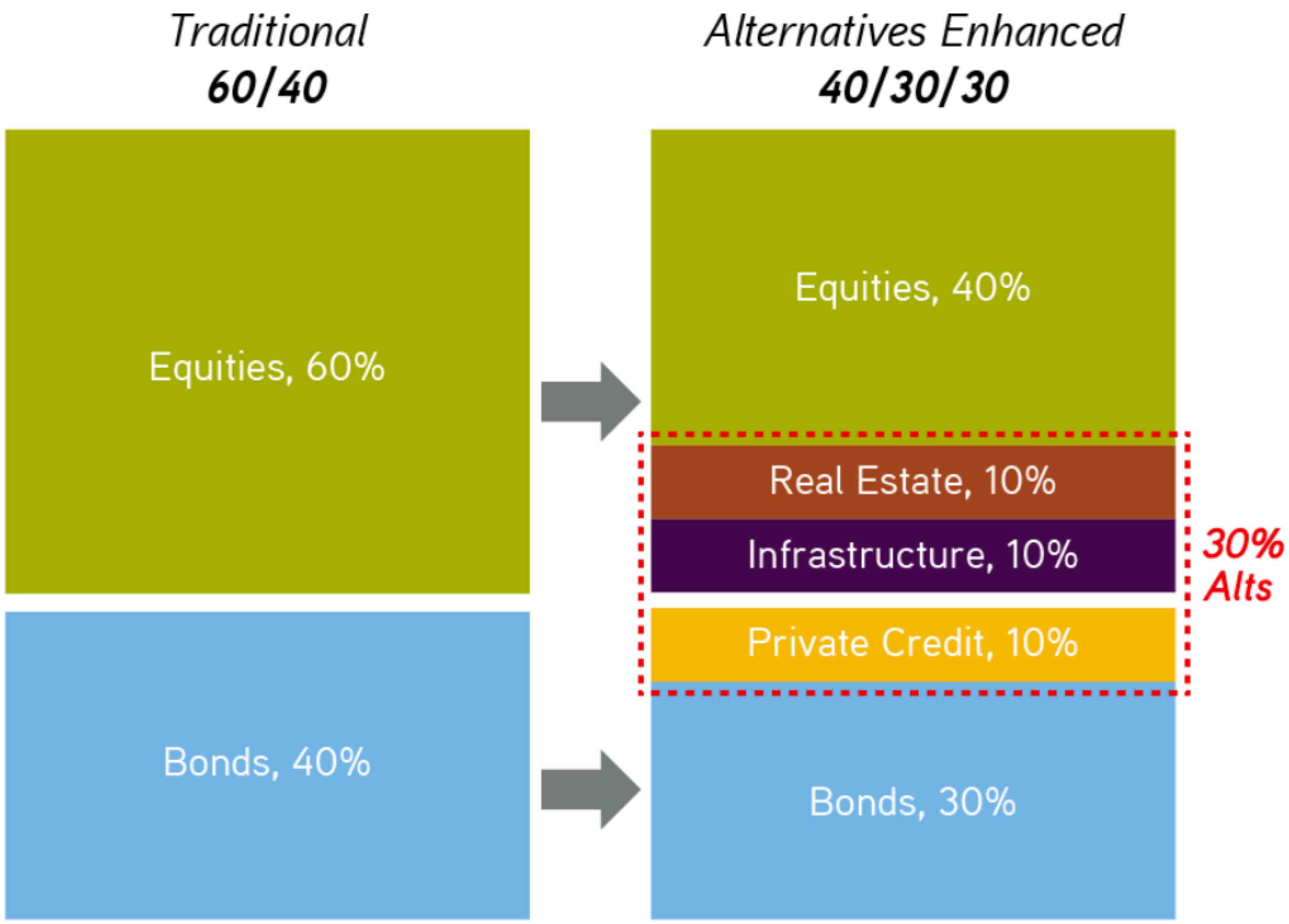


Data as at March 31, 2022. Source: KKR Global Macro & Asset Allocation analysis.

the new 60/40?

“We think that the case for a 10% allocation to Private Credit is actually more compelling today than when we wrote our original piece in May 2022”

KKR

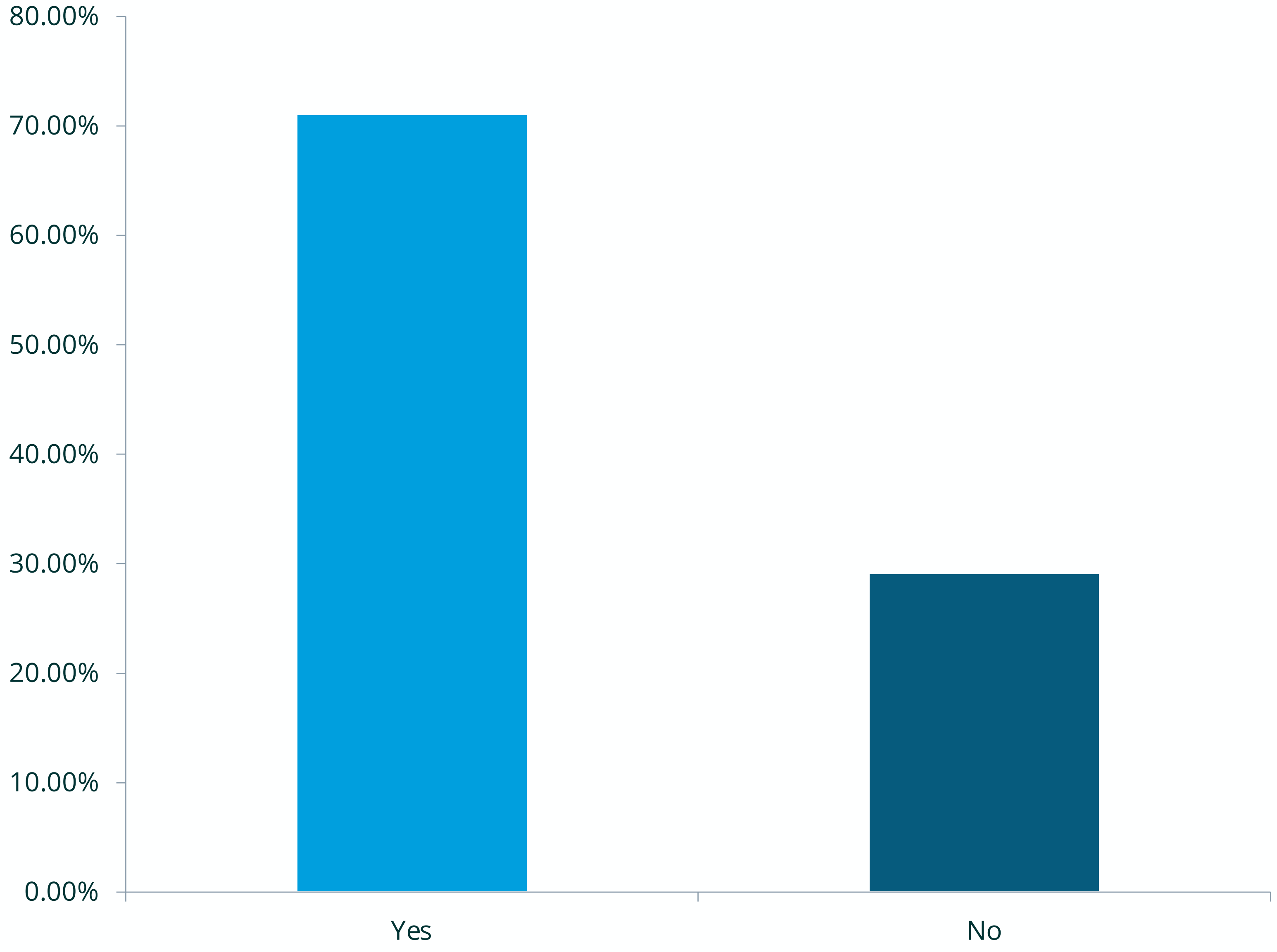


Data as at November 30, 2022. Source: KKR Global Macro & Asset Allocation analysis.

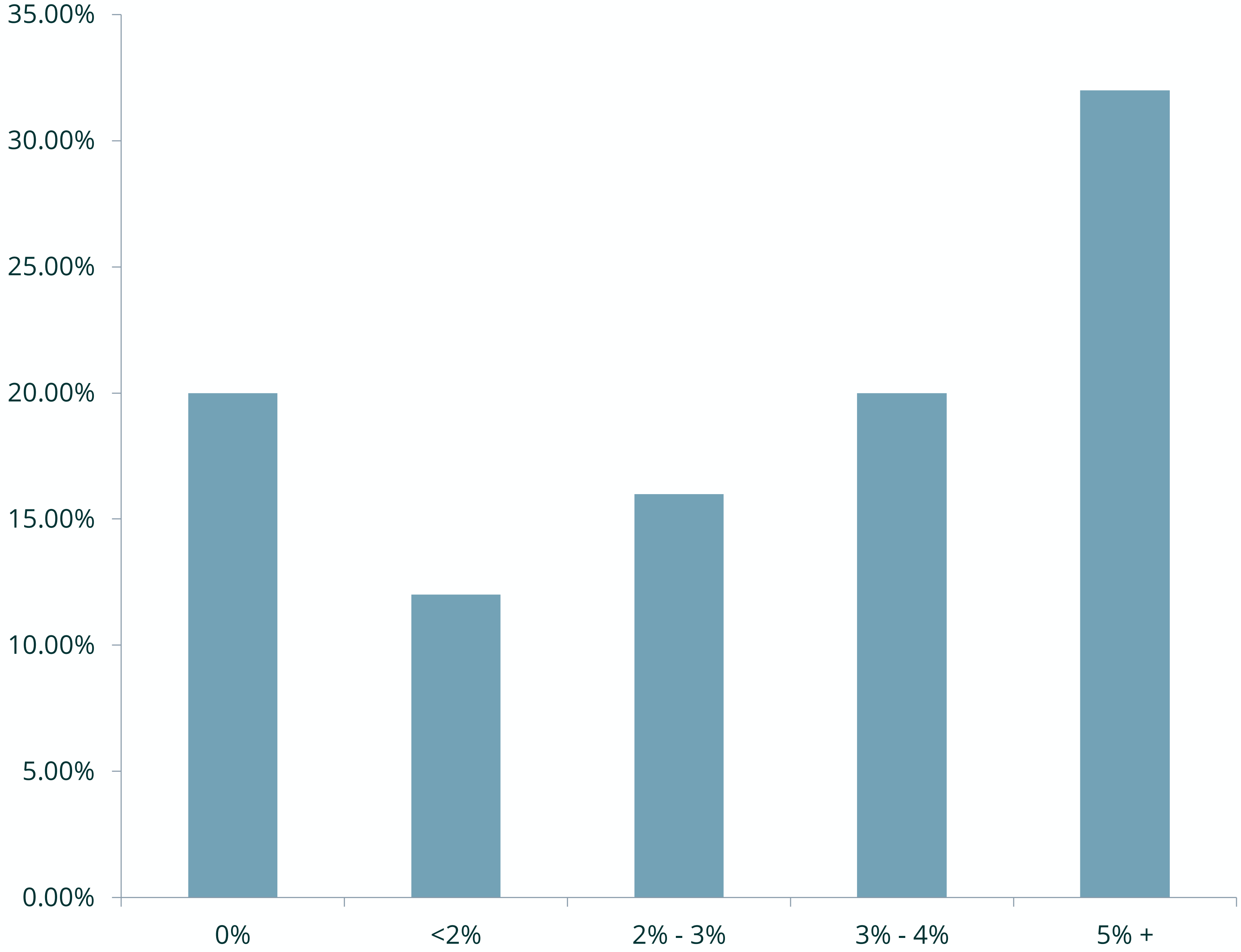
some feedback from our investor base

The results from a survey of our Wealth Partner base, which comprises more than 100 wealth management businesses across South Africa

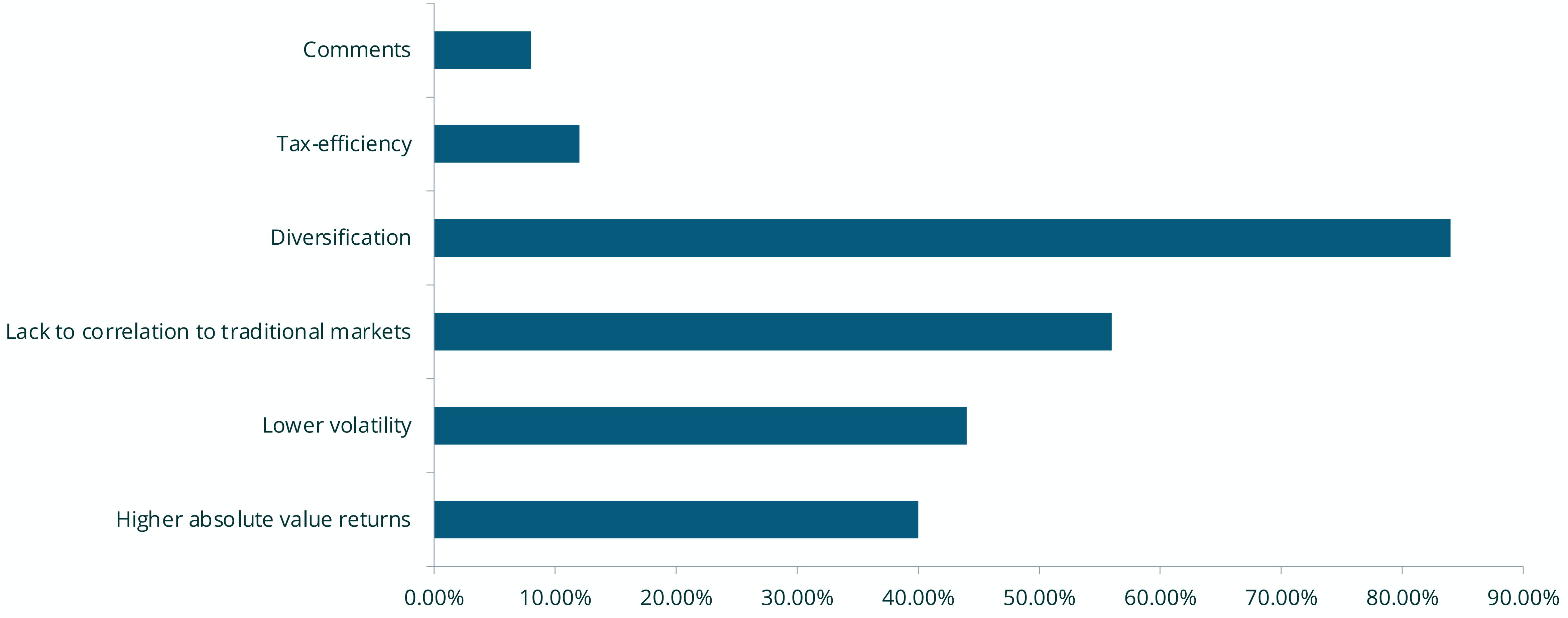
do you currently allocate to private debt?



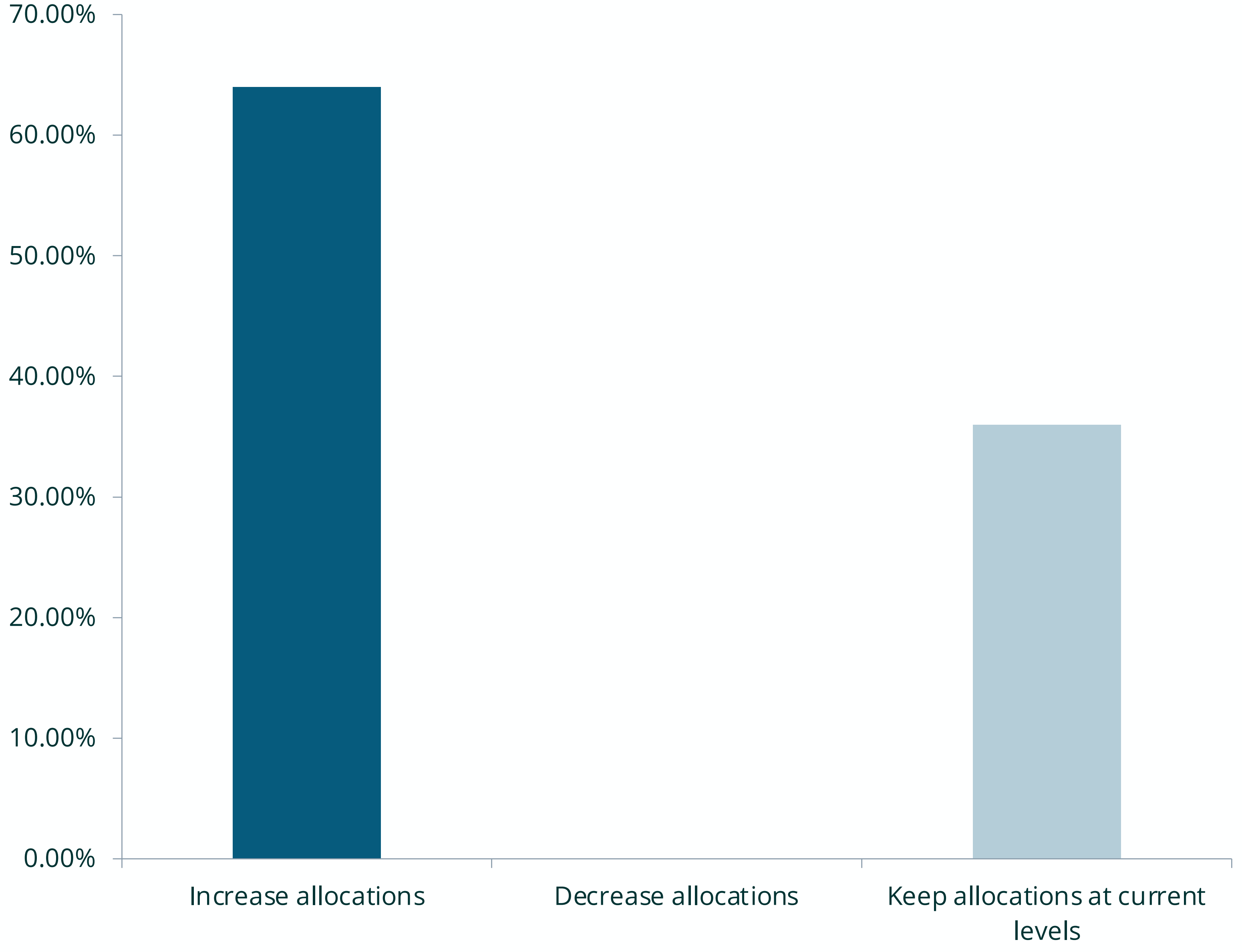
what percentage of client portfolios do you currently allocate to private debt?



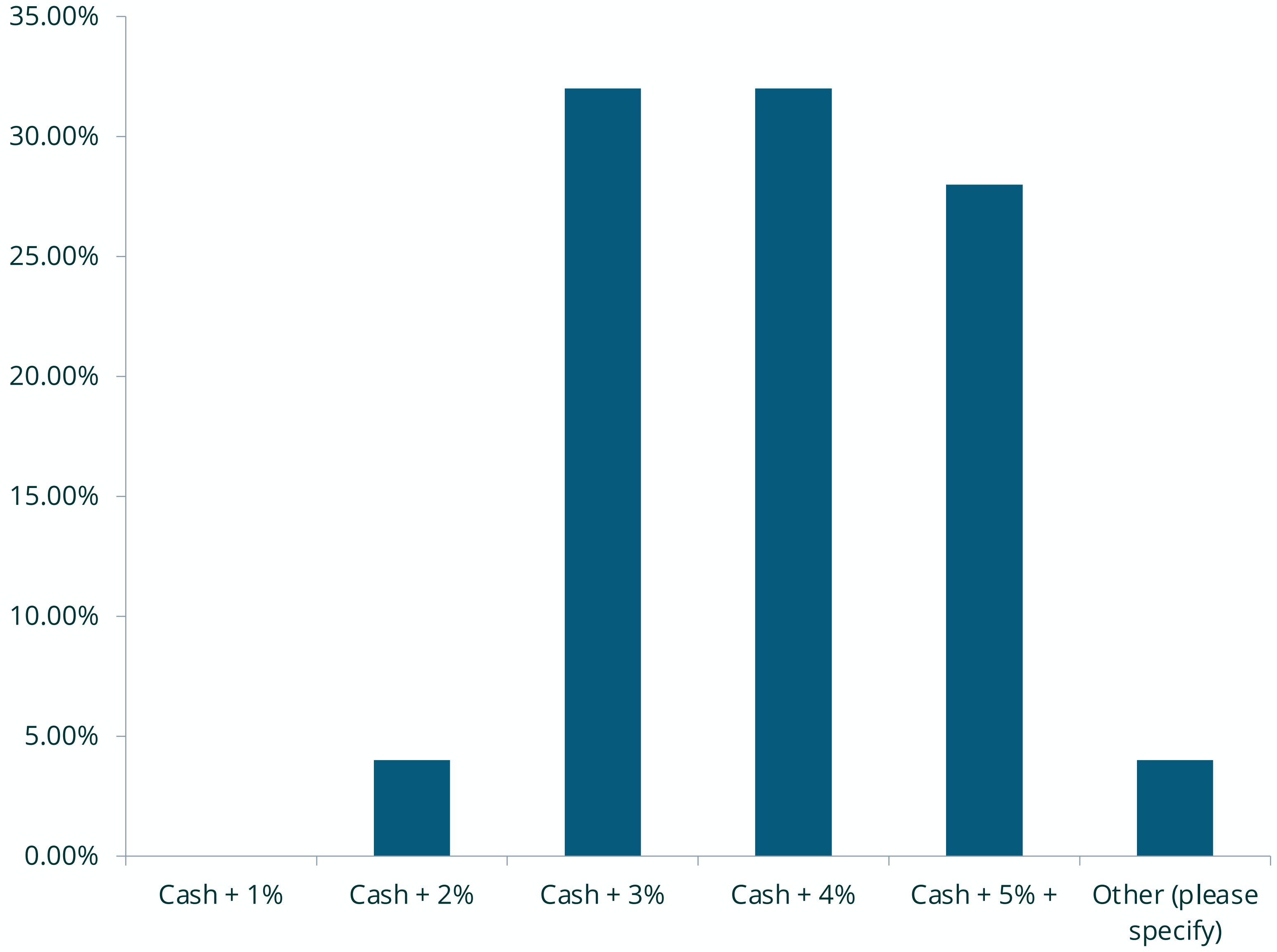
why do you allocate to private debt over cash, bonds and fixed income – what do you believe to be the key benefits?



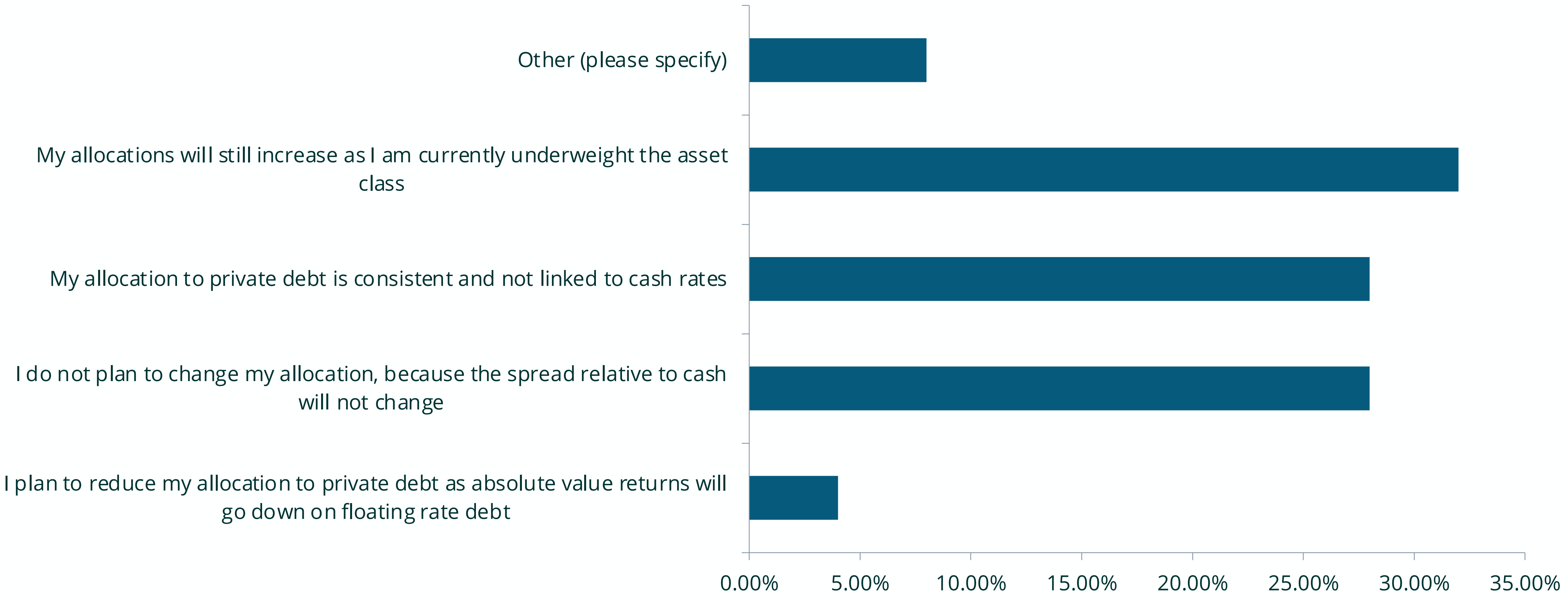
how do you plan to change your allocations to private debt going forward?



what spread above cash do you require in order to make an allocation?



if interest rates reduce going forward, I plan to…



industry trends

what our deal teams are seeing on the ground in SA, the UK and USA

key market trends

Local

- Smaller, more conservative market with **less bankable deals**
- Tough market for borrowers **– lower LTVs, more equity required**
- Less change – South Africans are **used to high interest rates**
- Very high rates plus a spread makes **debt too expensive for many** (why not raise more equity?)
- Lots of investor appetite but **deal flow is currently very limited**
- Best opportunity in **SA growth sectors** (energy, infra) and areas where **banks are too slow / sectors too small**

Offshore

- Banks **tightening breathing room** provided post Covid – adding pressure to the system
- **Very few funding lines available** for smaller borrowers – big opportunity
- LTVs down, amortisation up, creating an **equity funding gap** which borrowers can't fill
- Potential for **unitranching**
- **Mezz lending** one of the best risk/returns
- Big scope for **flexible funding which is readily available and not bank reliant** – borrowers will pay up for certainty

closing remarks

- **Significant opportunity** across market segment
- Westbrooke focused on **addressing the key reasons people don’t allocate**
- We advocate for an allocation to private debt, but **as a part of a wider, diversified portfolio**
- What worked in the past **unlikely to work going into the future**
- Local allocators seem to hold a **consensus view for an increase in allocations going forward / keeping current allocations**
- Lender friendly **market across the board**
- Westbrooke positioned to provide a **gateway to both local and offshore opportunities** for local allocators

confidentiality

This presentation is strictly confidential and is not intended, in whole or in part, for circulation or publication. The information contained herein is for the benefit of the addressee only. The addressee accepts total responsibility for ensuring that the complete confidentiality of this document will be maintained at all times. The contents of this document may not be distributed, communicated or disclosed to any person other than the addressee, its employees and advisors, and then only with the prior written consent of Westbrooke. The addressee is not entitled to reproduce this document either directly or indirectly or in whole or in part for any purpose other than for internal consideration of the proposal for which purpose this document has been provided.

The material is based upon information that we consider to be reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. The sender accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this communication