



Private Equity vs. Private Credit



Private Markets: Core Investment Pillars

Private Markets: Overview

Private markets have evolved from peripheral alternatives to foundational components of modern institutional portfolios, delivering:

- Return dispersion
- Income generation
- Structural diversification

This shift represents a fundamental change in investment strategy architecture

Private Equity

Core objective:

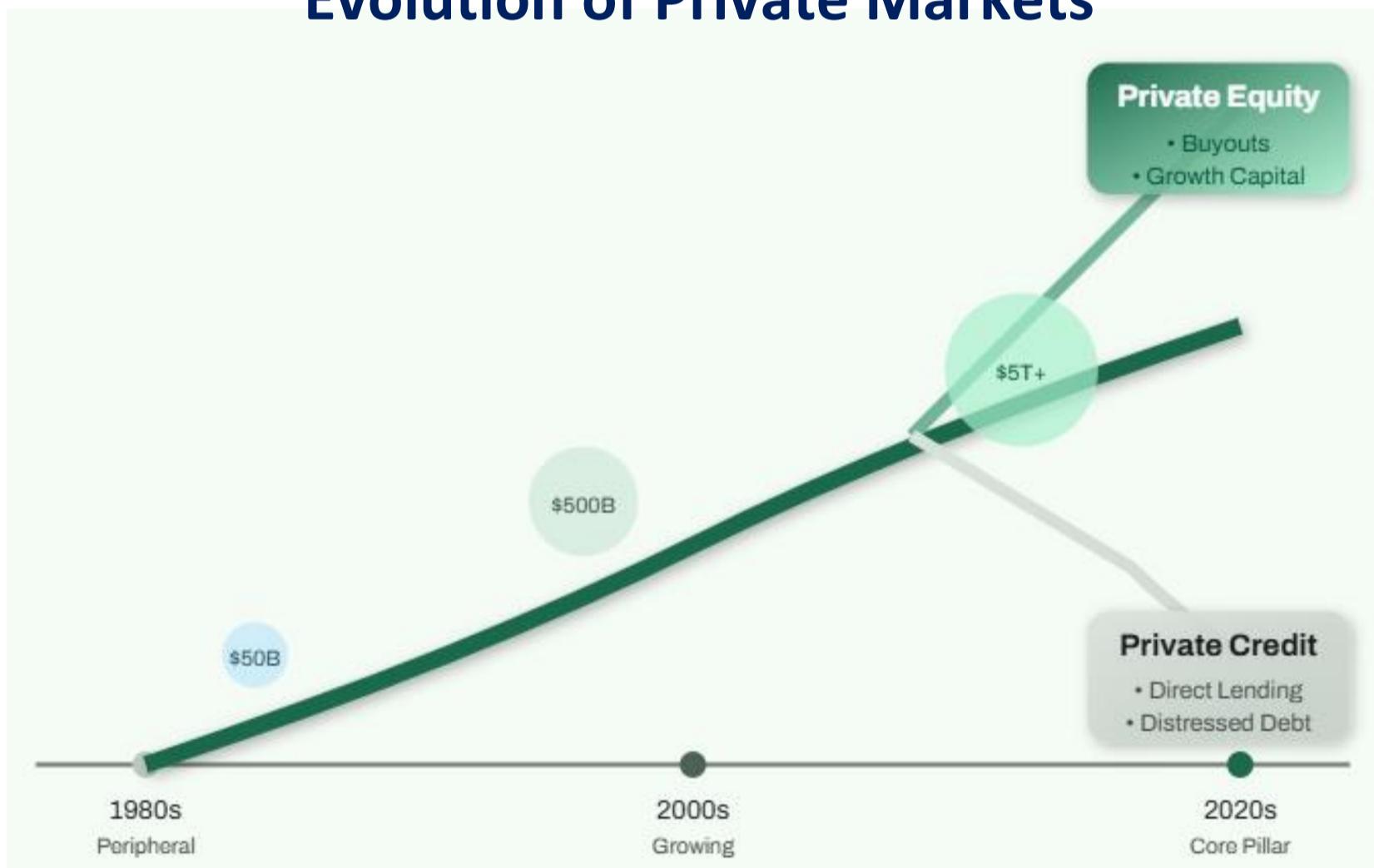
- Ownership stakes & multi-year value creation
- Active operational intervention
- Strategic enhancement
- Value realized through capital gains upon exit

Private Credit

Core objective:

- Originating & holding private loans
- Contractual income (often floating-rate)
- Robust covenant packages
- Focus on downside protection through collateral

Evolution of Private Markets



Convergence Trend

Multi-strategy platforms now offer flexible "capital solutions" blending:

Equity & Debt

Traditional ownership and lending instruments combined for optimal capital structure

Preferred Shares

Hybrid securities offering fixed income with potential equity upside

Structured Finance

Customized solutions addressing specific risk-return profiles

Market Shifts and Regulatory Impacts

Rate Regime Reset (22-24)

Interest rate environment shift has profoundly impacted both asset classes:

- **Private Equity:** Higher rates exposed leverage fragility in equity-heavy deals
- **Private Credit:** Unlevered yields became more attractive, enhancing relative appeal

Evolving Liquidity Dynamics

Traditional illiquidity assumptions being reshaped by:

- Growth of secondary markets
- Emergence of continuation vehicles
- Increasing use of NAV financing

Regulatory Tightening

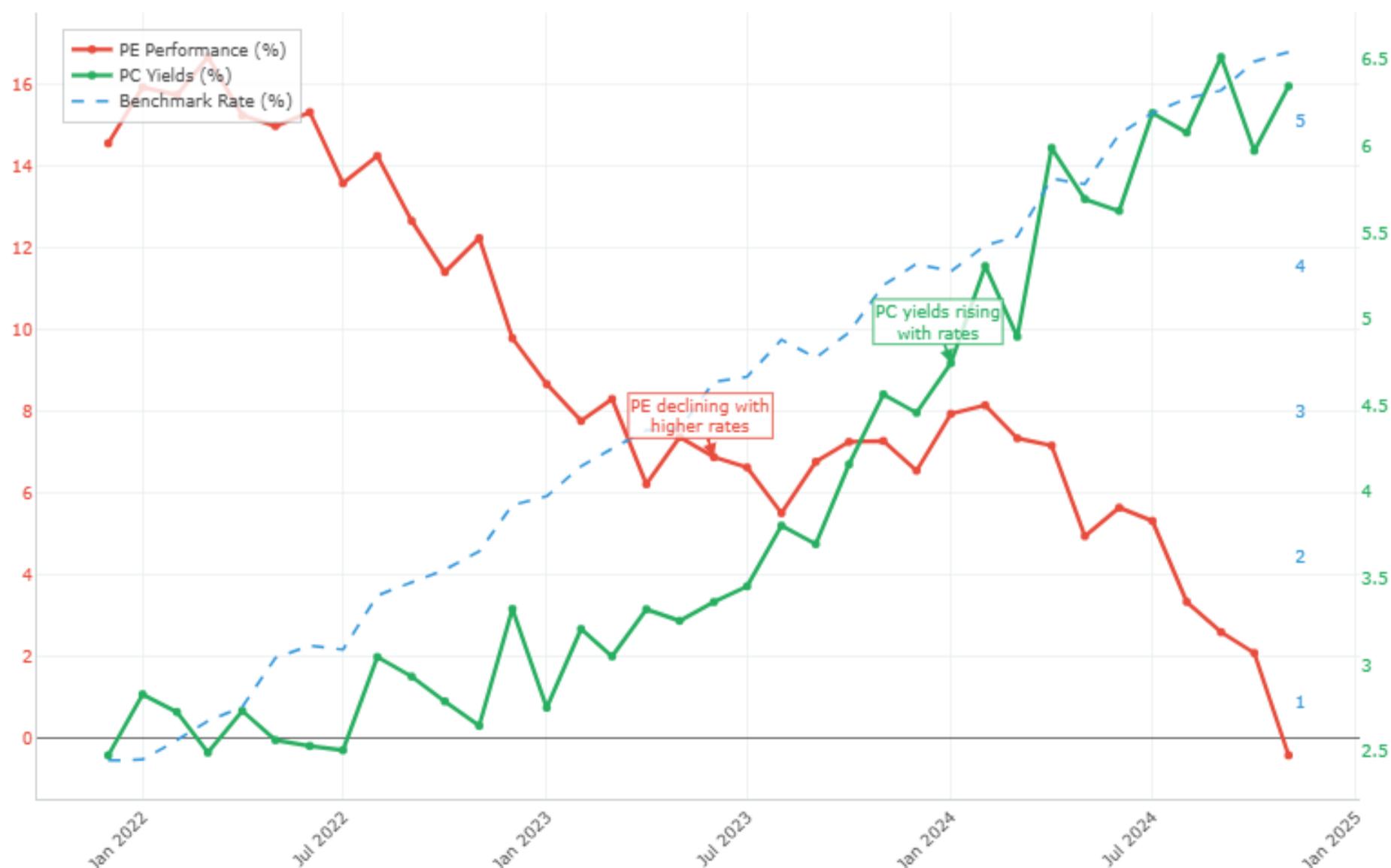
- **Post-GFC reforms** imposing stricter requirements such as the Basel III implementation
- **Evolving AIFMD 2.0 provisions** on US/UK supervisory focus
- **Result:** Compressed bank intermediation creating larger opportunity for private balance sheets

Broadening Investor Base

Democratization through retail-adjacent vehicles:

- Interval funds
- Semi-open structures
- Tokenized feeders
- Business Development Companies (BDCs)

Diverging Impact of Interest Rates (PE vs. PC)



PE and PC: Foundational Distinctions

Private Equity (PE)

- **Ownership-focused** with active intervention in portfolio companies
- **Value Creation:** Exit-dependent realization
- **Cash Flow Pattern:** J-curve with back-ended distributions
- **Return Target:** Higher dispersion (15 to +20% gross)
- **Key Sensitivities:** Exit multiples, leverage levels
- **Investment Horizon:** Longer-term (5 to 10 years), dependent on exits
- **Control Rights:** Typically majority ownership or board influence
- **Capital Deployment:** Drawdowns over time based on deal pipeline
- **Risk Profile:** Higher risk, equity-subordinated, reliant on multiple expansion
- **Market Correlation:** Higher correlation to public equities and cycles

Private Credit (PC)

- **Lending-focused** with robust covenant packages
- **Value Creation:** Contractual coupon payments
- **Cash Flow Pattern:** Earlier, consistent yield (often floating-rate)
- **Return Target:** Mid-single to low-teens net
- **Key Sensitivities:** Default rates, recovery values
- **Investment Horizon:** Shorter-to-medium term (3 to 7 years)
- **Control Rights:** Limited control; relies on covenants and legal remedies
- **Capital Deployment:** Deployed more quickly post-close
- **Risk Profile:** Lower risk, senior in capital structure, focused on downside
- **Market Correlation:** Lower correlation, but exposed to credit and rate cycles

Overview of Private Market Investment Categories

Private Equity	Private Debt	Real Estate	Infrastructure	Natural Resources
Buyout	Direct Lending			
Venture Capital	Distressed Debt	Private Equity Real Estate	Infrastructure	Energy
Growth				Agriculture/Farmland
Turnaround	Mezzanine			Metals & Mining
Other Private Equity	Special Situations	Private Equity Real Estate Fund of Funds	Infrastructure Fund of Funds	Timberland
Private Equity Secondaries	Venture Debt	Private Equity Real Estate Secondaries	Infrastructure Secondaries	Water Natural Resources Fund of Funds
Private Equity Fund of Funds	Private Debt Fund of Funds			

Capital Structure and Risk Dynamics

Position in Capital Stack

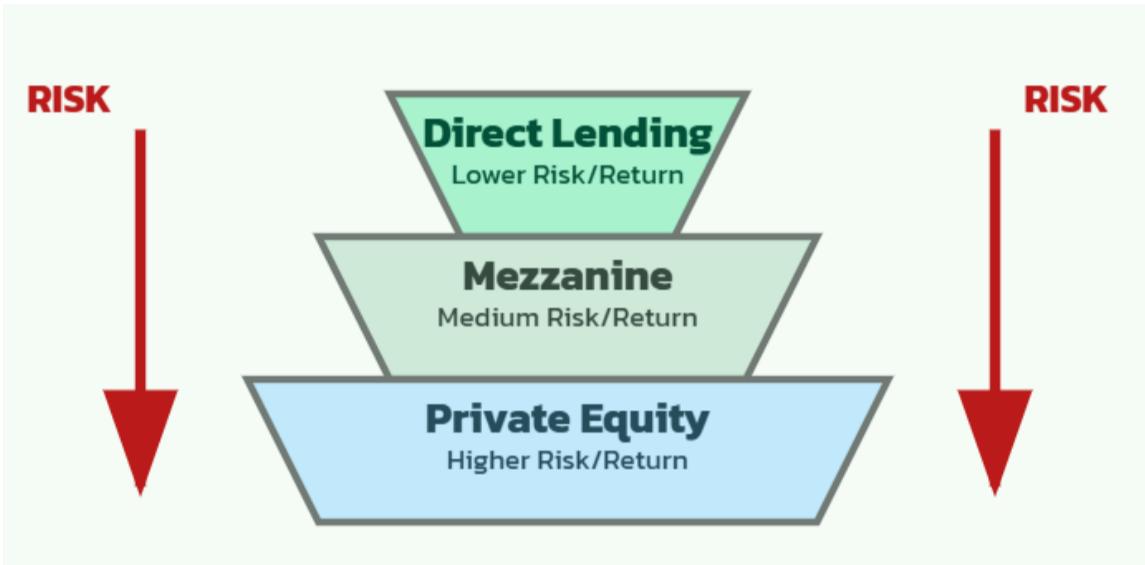
- **Private Equity** occupies the residual risk layer, absorbing operational and leverage risks first during underperformance
- **Private Credit** positions higher in the capital stack, prioritizing seniority, covenants, and collateral as protective buffers

Narrowing Protective Gap

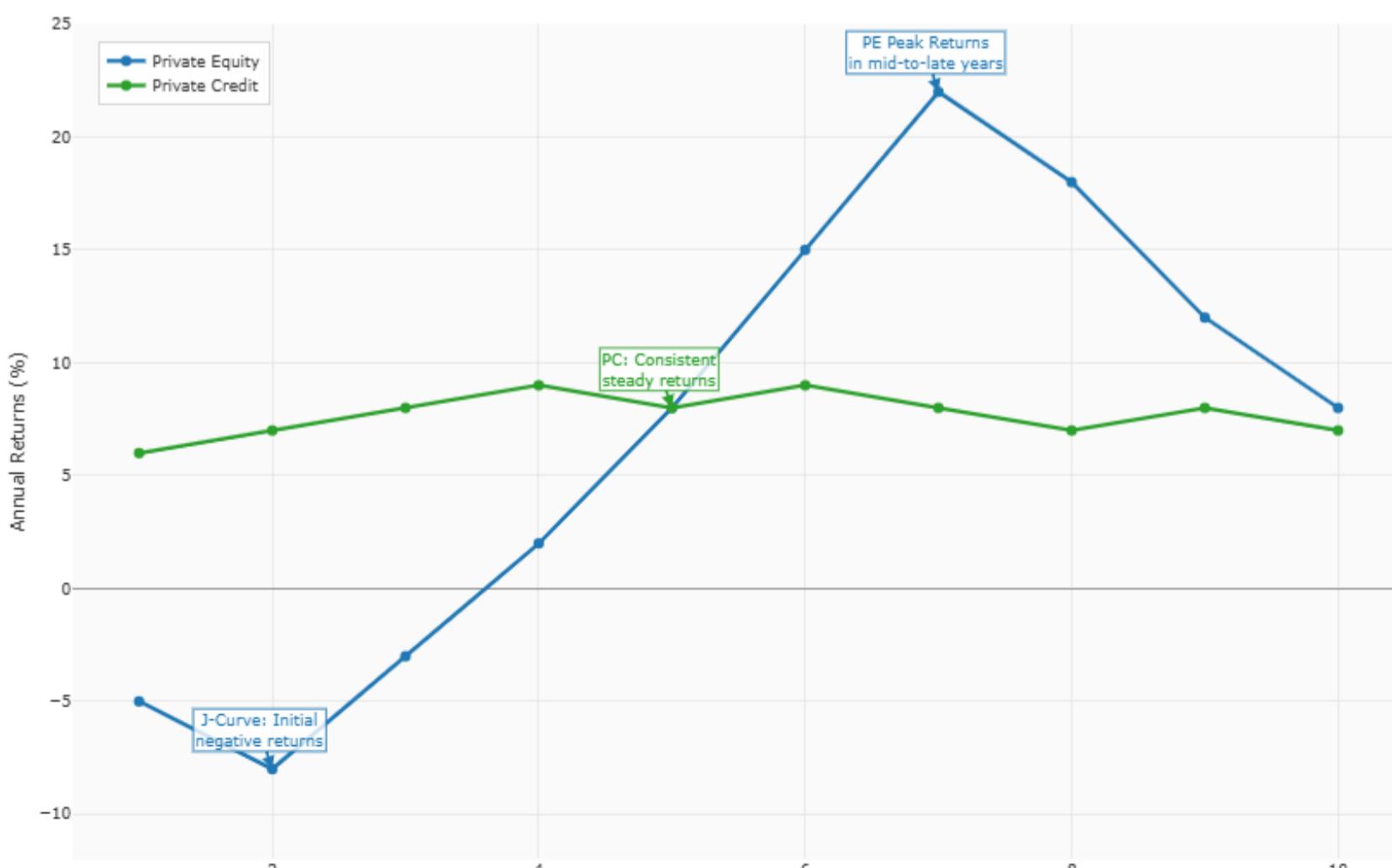
- Late-cycle structures have increased effective leverage across the capital stack
- **Covenant-lite loans** diluting traditional protections
- Unitranche and recurring revenue loans pushing boundaries
- NAV loans adding fund-level leverage complexity

Increased Correlation in Stress

- PE sponsors increasingly tap private credit for larger buyouts, creating interdependency between asset classes
- Deteriorating EBITDA simultaneously impacts equity valuations and credit coverage ratios



PE vs. PC: Return Profiles over Investment Period



Strategic Spectrum: Core Approaches

Private Equity Strategies

Leveraged Buyouts

Acquiring mature companies using leverage to finance the transaction

Growth Equity

Investing in mature companies needing capital to accelerate growth without control change

Venture Capital

Funding early-stage, high-growth companies with disruptive potential

Carve-outs & Roll-ups

Acquiring non-core divisions or building platforms through multiple acquisitions

Private Credit Strategies

Direct Lending

Providing loans directly to firms, often PE-sponsored

Unitranche

Single debt instrument combining senior and subordinated debt into one facility

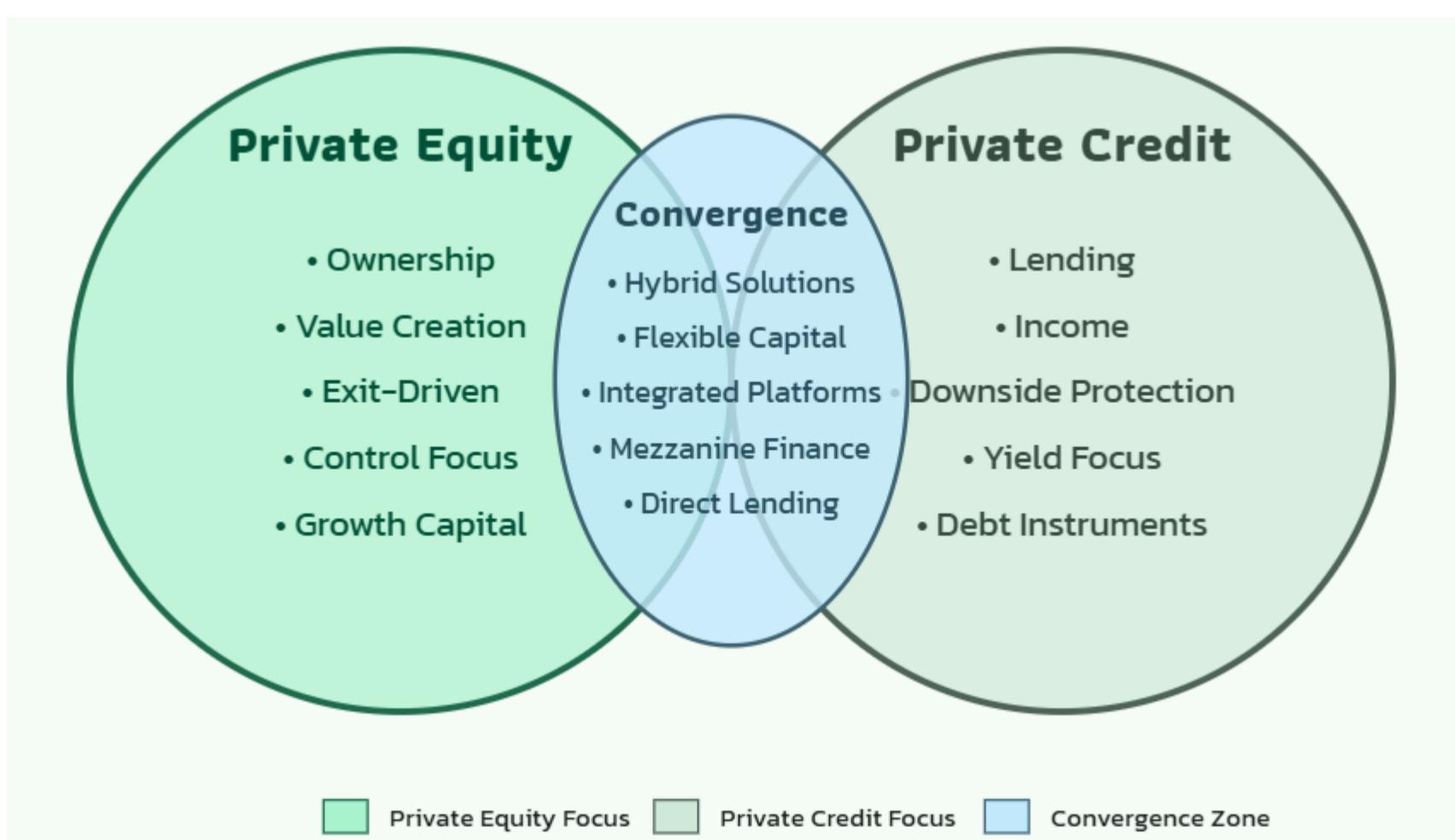
Mezzanine Debt

Subordinated debt sitting below senior debt but above equity

Asset-Based Finance

Lending secured by specific assets such as equipment, receivables, royalties

Private Capital Strategy Convergence



Return Architecture and Timing

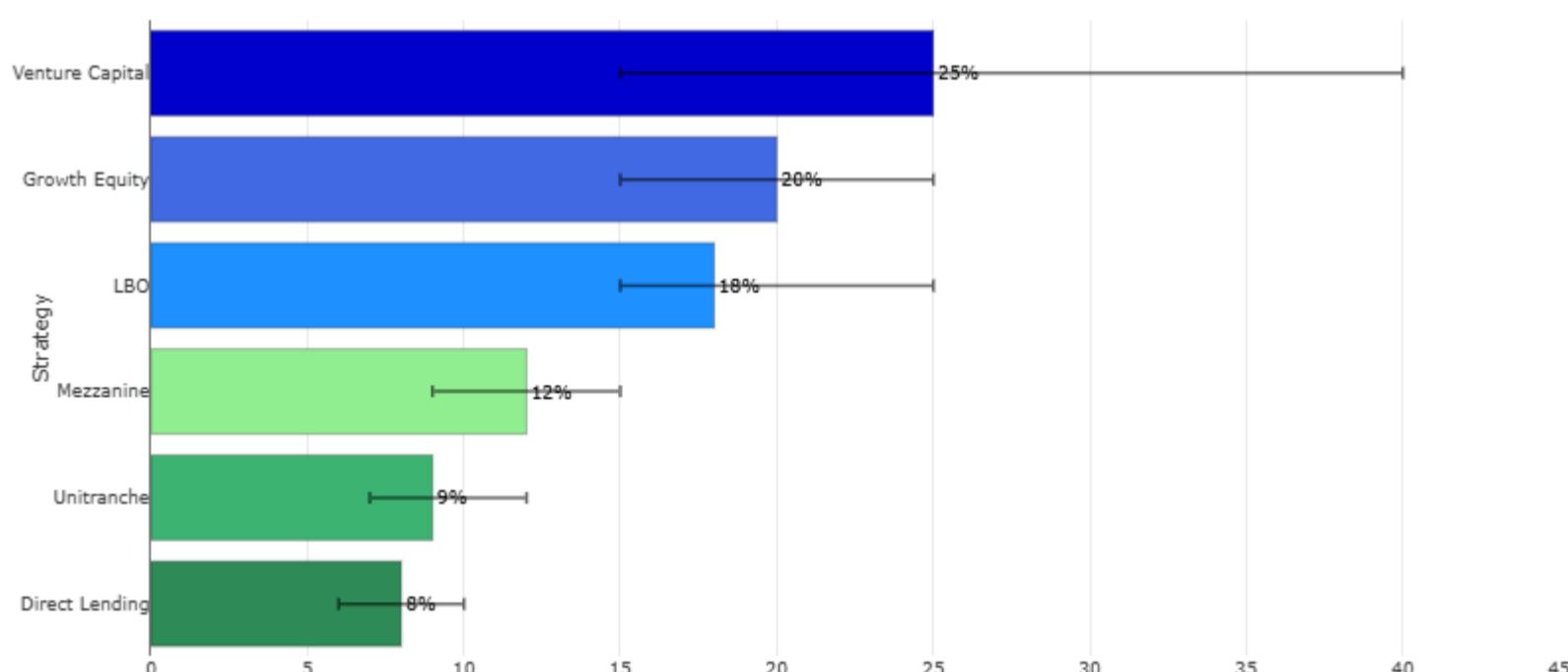
Private Equity Return Stack

- **Multiple Expansion:** Selling at higher valuation multiple than acquisition
- **EBITDA Growth:** Improving operational profitability
- **Deleveraging:** Reducing debt over holding period
- **Optionality:** Value from add-ons or strategic exits
- **Dividend Recaps:** Occasional value from debt-funded dividends
- **Performance is back-loaded**, and interim valuations can understate actual progress

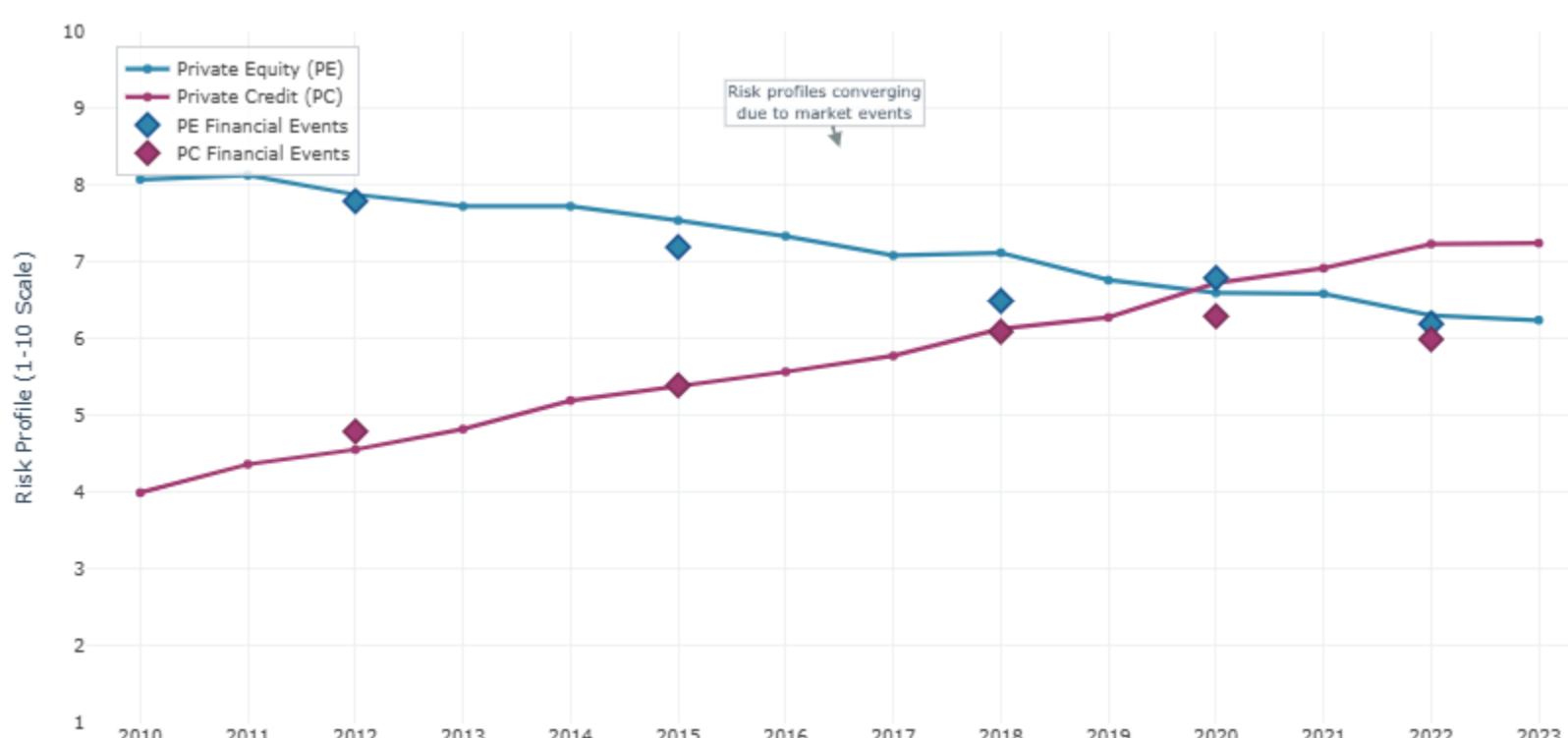
Private Credit Return Stack

- **Base Rate + Spread:** SOFR plus credit risk premium
- **OID + Fees:** Upfront/recurring fees enhancing yield
- **Equity Kickers:** Occasional warrants or equity participation
- **Credit Losses:** Returns net of default losses
- **Floating-rate structures** convert rate increases into higher immediate cash yields with more consistent income

Typical Returns by Strategy



PE vs. PC: Convergence of Risk Profiles over Time



Liquidity and Exit Channel Evolution

Private Equity Liquidity

- **Traditional Lock-ups:** 7-12 years, reflecting illiquid nature of underlying assets
- New mechanisms providing earlier liquidity options or extending investment horizons:
 - ✓ **GP-led secondaries**
 - ✓ **Continuation vehicles**
 - ✓ **NAV facilities**
 - ✓ **Fractional retail feeders**

Private Credit Liquidity

- **Shorter Tenors:** Typically 3-7 years, but face extension risk during stressed refinancing windows
- **Periodic redemption vehicles** (e.g. interval funds)
- **Key Considerations:** Gating mechanisms and potential dilution require careful scrutiny

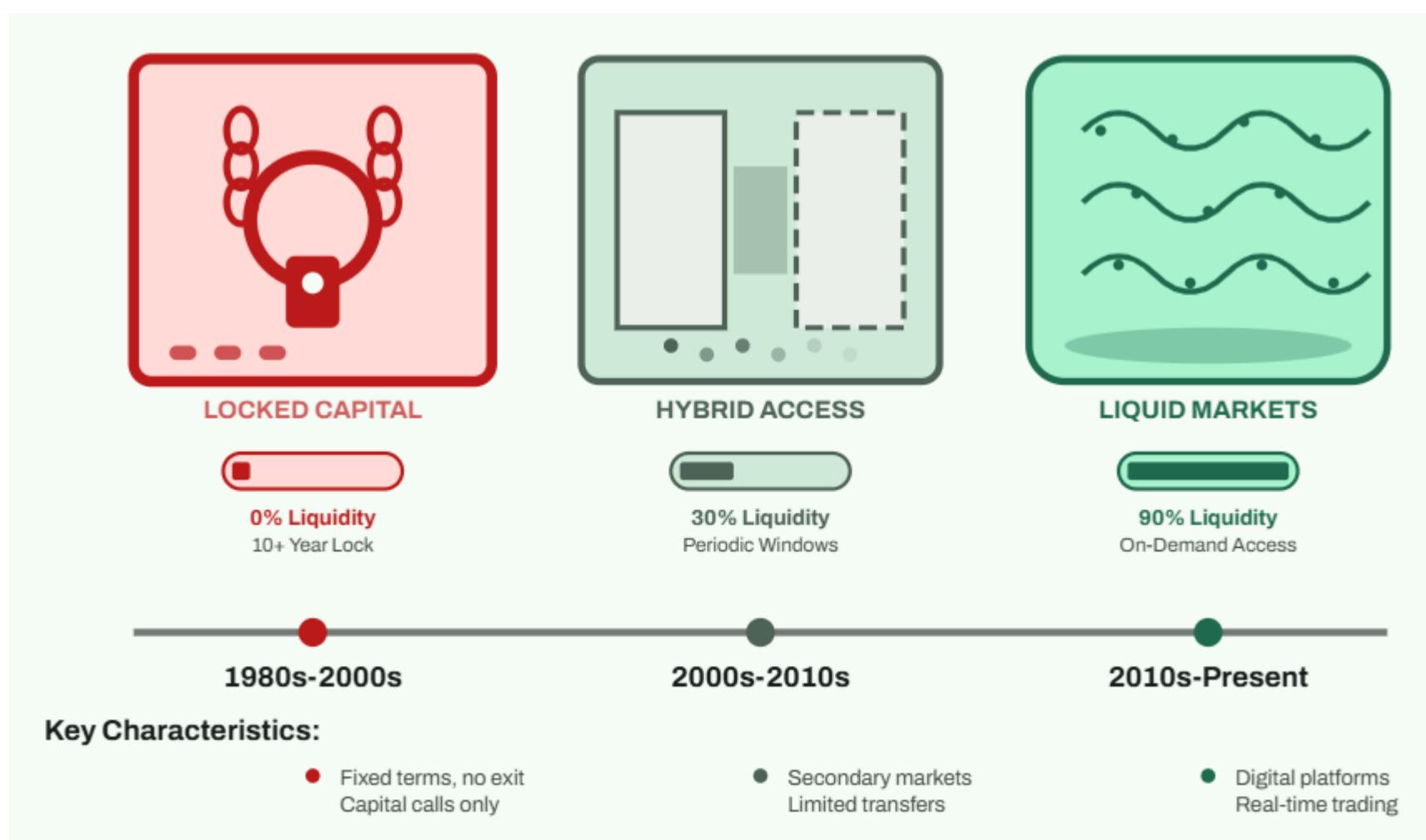
Strategic Allocation Framework

- **Income Stability:** Senior Secured/Direct Lending for consistent returns
- **Alpha Generation:** Diversified Buyout/Growth Equity with strategic sector tilts
- **Counter-cyclical:** Distressed/Special Situations Credit for market dislocations
- **Liquidity Enhancement:** Secondaries (both PE and PC) for accelerated distributions
- **Innovation Exposure:** Venture & Tech Credit with disciplined sizing

From Alternatives to Core Pillars

- PE and PC have evolved from peripheral "alternatives" to foundational components of modern investment strategies.
- Success factors include:
 - ✓ **Disciplined structuring**
 - ✓ **Rigorous manager selection**
 - ✓ **Meticulous underwriting**
 - ✓ **Proactive risk management**

Evolution of Private Market Liquidity



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