

CFA Society New York Third Annual PE/VC Conference

June 25, 2019



Aksia Overview

About Aksia

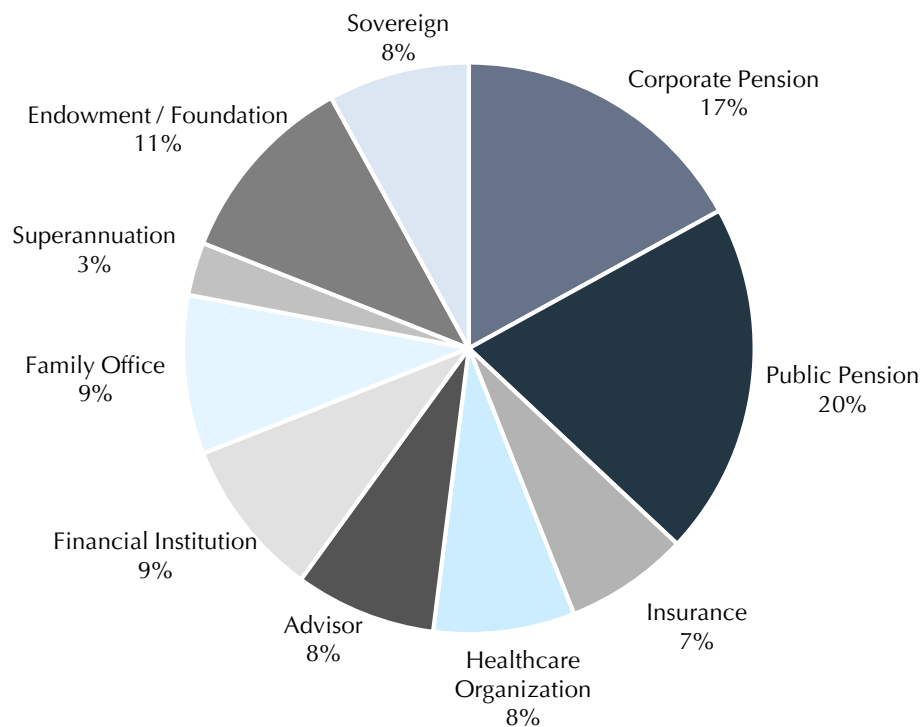
Aksia provides specialist alternative investment research and portfolio advisory solutions to institutional investors.

- 160+ professionals organized into specialist teams
- Headquartered in New York, with offices in Europe and Asia
- Registered with the SEC & CFTC in the US, the FCA in the UK, the FSA in Japan and the SFC in Hong Kong



Our Clients

- Aksia's clients are large, experienced institutional investors
- Aksia advises on \$85bn+ of alternative investments
- Currently, Aksia has 70+ clients located around the world



*Figures as of April 30, 2019; assets under advisory is not inclusive of clients who do not disclose their allocation size to Aksia

Private Credit: Overview and Update on Investor Trends

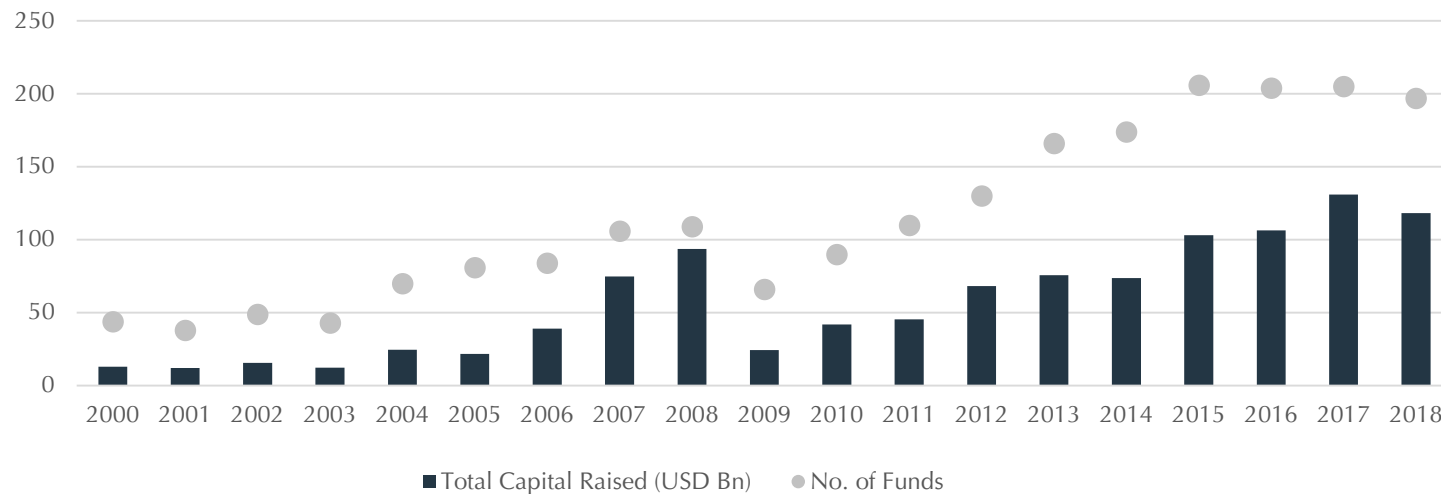
Private Credit

Primary motivations:

- Potential enhanced yields over public credit due to illiquidity and complexity premium
- Exposure to strategy “diversifiers” via wide spectrum of underlying collateral types
- Income generation through contractual yield, usually floating rate based

At the same time, capital inflows remain strong:

- Private debt funds raised \$118 billion in commitments in 2018 – the second most of any year on record¹
- That said, private credit is not without its issues. Investors cite the top 3 as: rising interest rates, pricing / valuations, and competition for assets²



Source: Preqin Data, as of June 24, 2019

1. Preqin Data, as of June 24, 2019
 2. 2019 Preqin Global Private Debt Report

What is PC? How do you define Private Credit?

DIRECT LENDING	DISTRESSED & SPECIAL SITUATIONS	SPECIALTY FINANCE	STRUCTURED CREDIT	REAL ESTATE CREDIT	REAL ASSETS CREDIT
U.S. Direct Lending Senior Opportunistic Lower Middle Market - <i>(sponsored focus)</i> Lower Middle Market - <i>(non-sponsored focus)</i> Private BDCs Industry Focused SBIC Revolvers	Corporate Distressed U.S. European Emerging Markets Global Single Trade	Consumer & SME Lending Marketplace Finance Lender/Platform Finance	CLO CLO Debt CLO Multi Captive CLO Equity 3 rd Party CLO Equity	U.S. CRE Core Lending U.S. CRE Core Lending	Infrastructure Lending Senior Focus Sub-IG Focus Mezz Focus
European Direct Lending Senior Opportunistic Lower Middle Market Country-Specific Funds	Real Estate Distressed U.S. European Global	Factoring & Receivables Factoring & Receivables	CRE Non-Agency CRE B-Piece Agency CRE B-Piece CMBS/CRE	U.S. CRE Transitional Lending Large Loan Middle Market Small Balance Opportunistic	Energy Credit Energy Lending Energy Mezzanine Lending Opportunistic
Emerging Markets Lending Asian African CEE/Middle East Latin American Pan-EM	Special Situations U.S. European Emerging Markets Global	Regulatory Capital Relief Regulatory Capital Relief	RMBS RMBS	U.S. CRE Bridge Lending Large Loan Middle Market Small Balance	Trade Finance Trade Finance
Global Direct Lending Global		Royalties Healthcare Music/Film/Media Energy & Minerals Royalties	Consumer ABS Consumer ABS	European CRE Lending Bridge Transitional Core	Metals & Mining Finance Metals & Mining Finance
		Healthcare Lending Healthcare Lending	Esoteric ABS Esoteric ABS	Emerging Markets CRE Lending Emerging Markets CRE Lending	Agricultural Credit Agricultural Credit
		Venture Lending Venture Lending	Europe Structured Credit European Structured Credit	Residential Mortgages Residential NPLs Single Family Rental Mortgage Servicing Rights Residential Origination	Transportation Aviation Lending Maritime Lending Road & Rail Lending Diversified Transportation Lending
		Insurance Linked Diversified Life Non-Life	Structured Credit Multi-Sector Structured Credit Multi-Sector		
		Litigation Finance Litigation Finance			
		Merger Appraisal Rights Merger Appraisal Rights			
		PE Portfolio Finance PE Portfolio Finance			
MEZZANINE					
U.S. Mezzanine Upper Middle Market Middle Market Lower Middle Market					
European Mezzanine European Mezzanine					
Structured Equity Structured Equity					

Private Credit – Complementary to other Asset Classes

Private Credit	vs. Private Equity	vs. High Yield Bonds	vs. Hedge Funds
Potential Benefits	<ul style="list-style-type: none"> - Typically lower fees / often paid on invested capital - J-Curve mitigation - Current yield - Shorter fund duration - Capital structure seniority - Less dispersion of returns / narrower range of outcomes 	<ul style="list-style-type: none"> - Benefit from rising rates (floating rate) - Senior vs. subordinated - Yield pick-up from illiquidity premium - Less price volatility / technical-driven selling - Lower EBITDA leverage - Covenant protection 	<ul style="list-style-type: none"> - Suitable structure for less liquid assets - Preferred return or hard hurdle - Improved transparency - Reduced investor adjacency risk - Reduced cash performance drag - Less whipsaw risk
Potential Drawbacks	<ul style="list-style-type: none"> - Lower expected returns / upside is capped - GP track record duration often limited - Less operational control 	<ul style="list-style-type: none"> - Less liquidity - Slower capital deployment - Less market transparency - Smaller issuers - Higher fees 	<ul style="list-style-type: none"> - Less liquidity - No ability to short - Less able to pivot with opportunity

Approaches to Portfolio Construction: Yield Generator vs Diversifier

Fixed Income Substitute:

Diversified positions in senior lending strategies - often a combination of corporate and real estate debt GPs



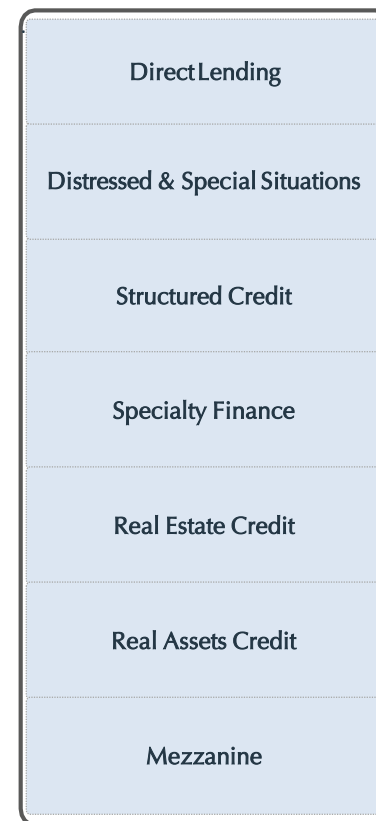
Core + Satellite:

Concentrated positions in direct lending and/or cross asset complemented with smaller holdings in specialized GPs



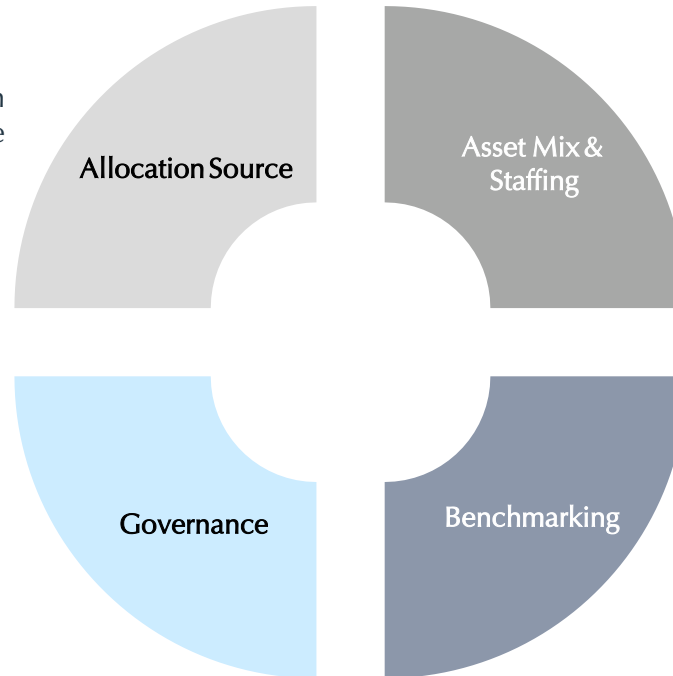
Opportunistic:

Diversified across various collateral types with a bias towards niche opportunities



Current Hot Topics of Discussion: Implementation Considerations

- Where should the source of allocation come from (e.g., high yield, private equity, hedge funds, other)?



- How are investment decisions made?
- Who has the ultimate signoff?

- What asset types will it include? (e.g., real estate, corporate, real assets?)
- Who at the organization should manage (i.e., Fixed Income, PE, Absolute Return, Team effort)?

- How should it be measured/ benchmarked (i.e., high yield index, levered loan index, LIBOR + spread, custom mix)?

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