FIERA
PRIVATE CREDIT

# Private Credit

FIERA CAPITAL

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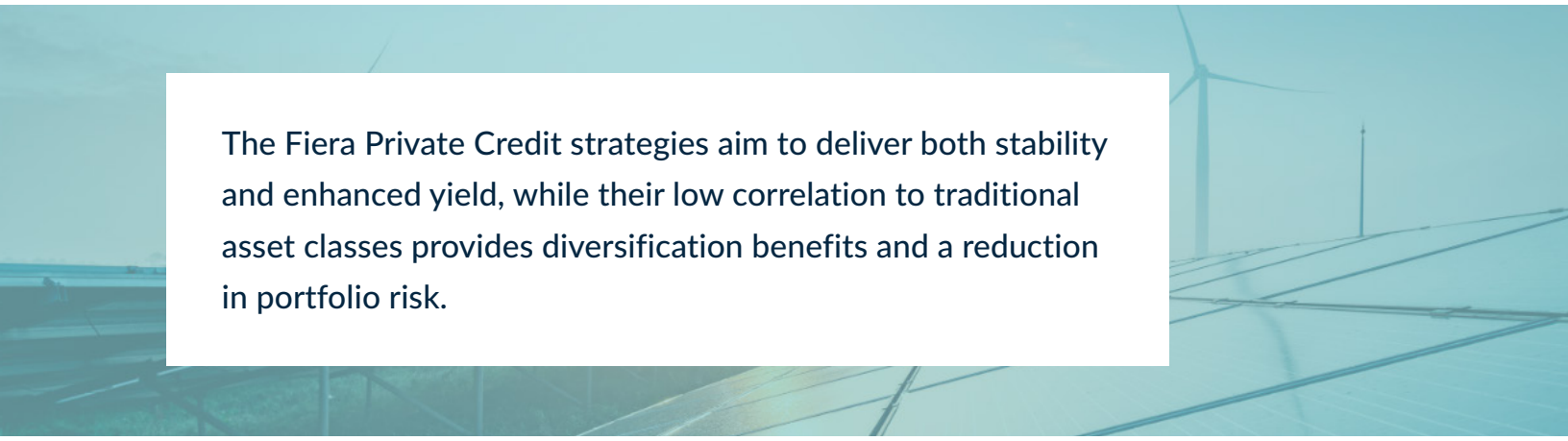


The Fiera Private Credit strategies aim to deliver both stability and enhanced yield, while their low correlation to traditional asset classes provides diversification benefits and a reduction in portfolio risk.

## Key Takeways

**What Is Private Credit?**

The Private Credit asset class involves direct lending to borrowers that don't have access to larger markets such as banks or the public bond market.

**The Case for Private Credit**

Given the higher risk assumed by non-bank lenders and the illiquidity premium, investors are privy to more attractive interest rates than traditional bonds.

**An All-Encompassing Private Credit Platform**

Our diversified suite of private credit strategies span globally across real estate, corporate, and infrastructure financing.

**Proven Risk-Adjusted Performance**

Our private credit platform has demonstrated a solid track record of risk-adjusted performance, some with over 10 years of track record.

**Focus on ESG and Responsible Investing**

We are committed to ensuring that environmental, social, and governance (ESG) considerations are integrated into the private credit investment processes.

## Key Stats at a Glance

**5.5B**[1] in assets under management[2]

**9** private credit strategies

**16B**[1] deployed

**8000+** private credit transactions

1 Canadian dollars 2 As of March 31, 2022

# What is Private Credit?

Private Credit is an asset class that consists of privately negotiated loans and debt financing originated by non-bank lenders. There are three key characteristics that distinguish the private credit landscape from its public counterparts.

## Private Origination

1

Loan terms are directly negotiated between the lender(s) and the borrower.

This feature often underpins the superior risk-adjusted returns that can be generated by investors. Borrowers seeking customized and individually tailored loan packages are incented to work with private market lenders that can deliver this flexibility. The high level of customization requires an experienced team equipped to conduct rigorous credit analysis. As a result, private lenders extract yield premiums and origination fees from borrowers as compensation.

## No Secondary Market

2

The lack of standardization of loans and a centralized clearing mechanism necessitates that private loans are generally held to maturity by their originators.

While there is no market-based liquidity, the typically high coupons and amortizing nature of private credit funds creates natural liquidity to investors in the form of high and consistent periodic cash payments. However, the fixed hold period and lack of early-exit options gives rise to an observable illiquidity premium. In addition, the lack of secondary market eliminates mark-to-market volatility. While investment managers will provide periodic assessments of loan value and impairments, the value is not directly impacted by sentiment from public markets.

## Active Management of Loans

3

Given private loans are generally held until maturity, appropriate structuring and ongoing monitoring of credit quality is critical to ensure that cash flows identified for debt service are sufficient to meet the interest rate requirements over the loan's full term to maturity.

Private loans can be structured as bilateral or syndicated agreements. Even in syndicated deals, a small group of controlling lenders will drive decision making. Lenders will be directly involved in any renegotiation of terms or restructuring concessions should a loan encounter impairment or default. As such, evaluating private lending teams for their restructuring and workout experience is an important component of investor due diligence.

## Loan Overview

| Loan Category | Description | Loan Type | Asset-Backed | Gross Expected Return |
|---|---|---|---|---|
| **Real Estate Loans** | Direct lending to real estate developers and property owners for construction or redevelopment of real estate assets | Fixed and floating | Yes | 10% to 12% |
| **Corporate Loans** | Direct lending to mid-market companies, generally secured against cash flows and earnings | Fixed and floating | No | 8% to 14% |
| **Infrastructure Loans** | Direct lending for infrastructure development and investment in existing assets | Fixed and floating | Yes | 8% to 10% |

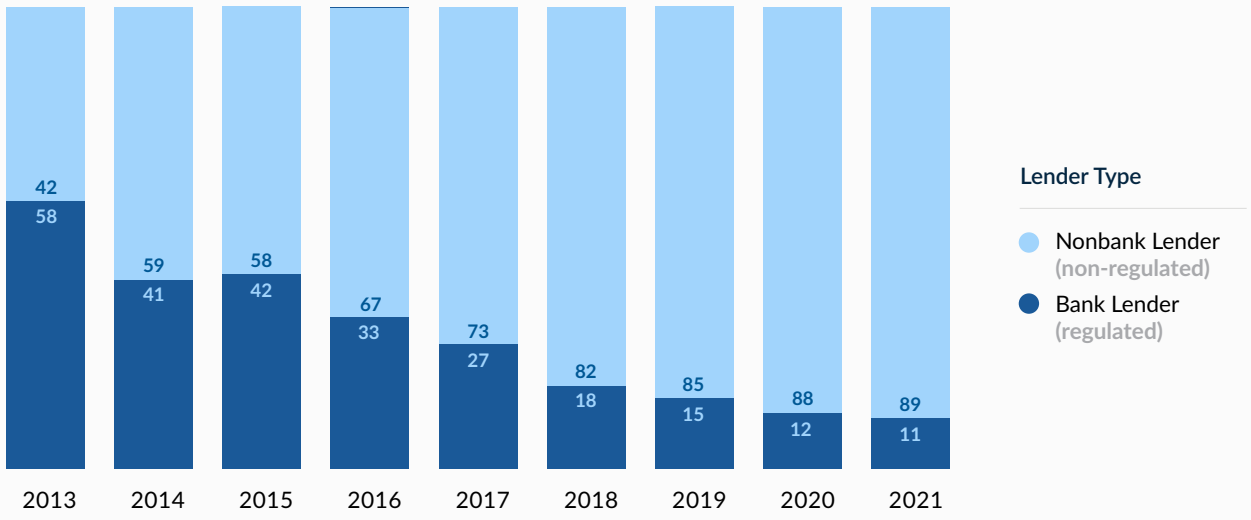
# Evolution of Private Credit

Private Lending has been bridging the gap between banks' shrinking balance sheets and steady demand from middle market corporations and investors. The confluence of supply and demand has catapulted private credit investing to the fore.

## Shrinking Supply Of Bank Loans

Traditionally, the activity of originating private loans sat with the banks. In the wake of the Global Financial Crisis, tighter banking regulations and higher capital charges significantly hindered the banks' ability to profitably provide financing to a significant portion of borrowers. The result was a significant void in the market which non-bank lenders stepped in to fill.

Sponsored Middle-Market Deals by Lender Type (%)



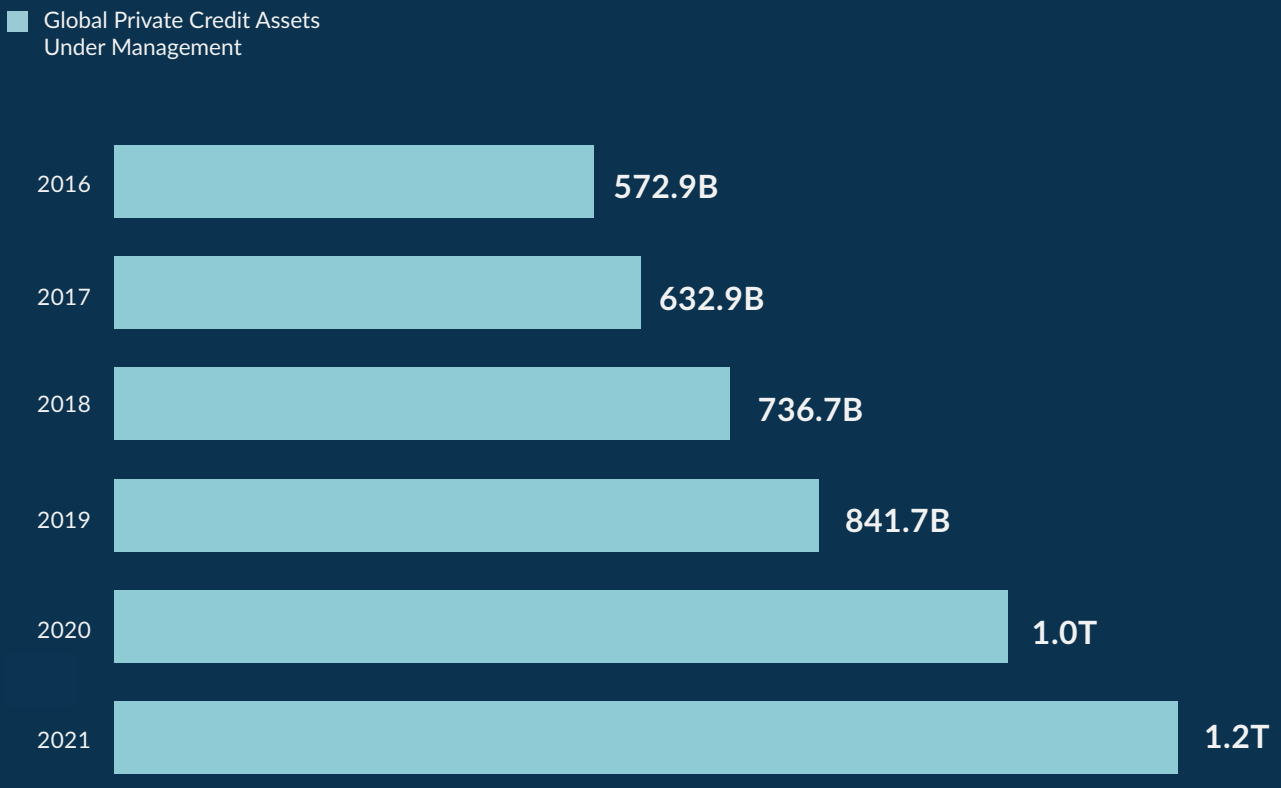

*Source: Refinitiv (deals submitted by private database)*

## Search for Yield Drives Demand for Private Credit

The multi-decade decline in interest rates left investors unable to meet income requirements. Investors began seeking new opportunities to generate cash yields such as through real estate, infrastructure and private equity investments. With significant assets under management flowing to private equity categories, the demand for debt to create leverage in these deals grew commensurately.

Furthermore, the proliferation of new fund structures has democratized access to private market opportunities. The array of structures now available to cater to distinct investor needs has further fueled demand as the benefits of private credit become more widely appreciated.

Private credit managers have amassed almost $1.2 trillion from investors.




*Source: Preqin/Bloomberg*
*All figures are in USD and as of December 31, except for 2021 which is as of September 30*

# The Case for Private Credit

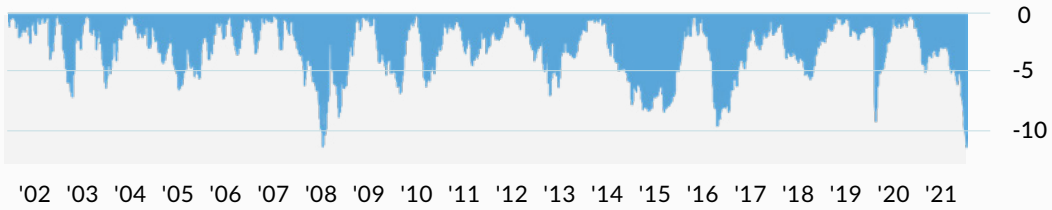
Investors need to reassess the role that traditional fixed income plays in a well-balanced portfolio in an environment of elevated inflation and rising interest rates.

## A Challenging Environment for Traditional Fixed Income

Fixed income investors have benefitted from solid returns over the last several decades, with interest rates falling to rock bottom levels. In turn, investors have been rewarded with a combination of positive returns and capital preservation over that time horizon. It may prove difficult to replicate solid results going forward – while offering little in the way of income generation, the low starting point for interest rates has condemned government bonds to future losses. As a result, questions have surfaced about the inherent safety of the so-called conservative asset class. At the same time, both cyclical and structural drivers are set to keep inflation elevated. As a result, policymakers are forging ahead with their plans to normalize monetary policy in response to the strongest inflation in decades that's shown little sign of letting-up.

With inflation running strong and central banks poised to withdraw support at an expedited pace, the path of least resistance for interest rates should be higher. Consequently, traditional fixed income strategies are unlikely to play the same role of providing both stability and income in the portfolio setting, with far too little coupon income to offset any capital losses as interest rates rise.

The Worst Drawdown on Record for Global Fixed Income (%)




*Source: Bloomberg Indices*

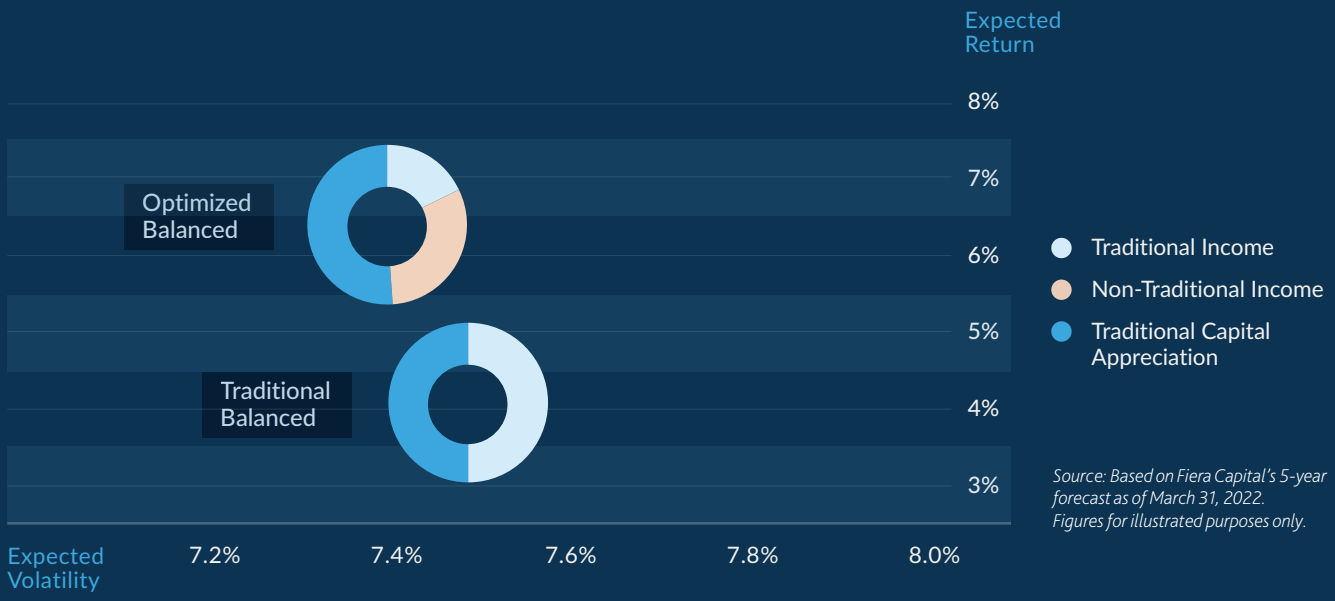
## The Solution

This macroeconomic outlook requires an expanded set of investment opportunities, and the natural evolution for those seeking both stability and higher yield is a pivot towards private credit. The construction of a well-balanced portfolio will need to consider higher allocations to private credit in order to compensate for sub-par returns in the traditional fixed income space.

## Private credit offers distinct advantages and appeal in a low return and potentially more volatile macro environment:

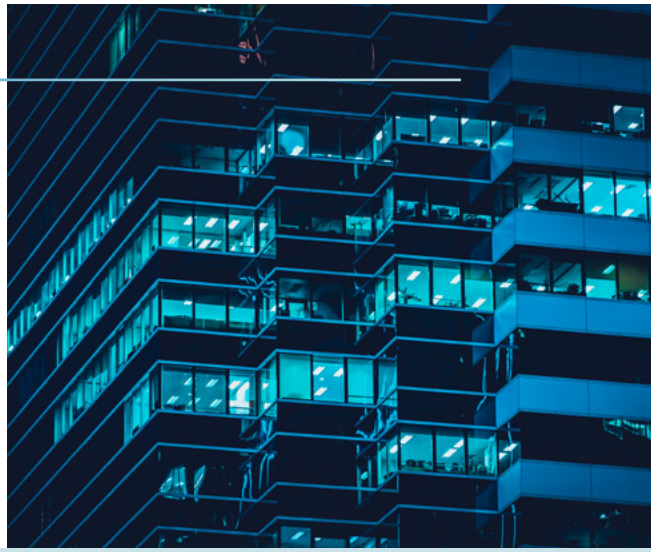
- Can generate a higher, more sustainable income stream than traditional income strategies. Low correlation to traditional asset classes provides diversification benefits and a reduction in overall risk.
- Provides a structural source of incremental yield given the illiquidity and complexity premia achieved in private markets.
- Less susceptible to significant price swings or outflows if there is broader market volatility.
- While the next few years promise to be volatile as interest rates rise, private credit is a viable option for those looking for security and yield. Much of the sector utilizes floating-rate structures, insulating returns from changes to interest rates.

The inclusion of private credit can significantly improve a portfolio's risk-adjusted performance




*Source: Based on Fiera Capital's 5-year forecast as of March 31, 2022. Figures for illustrated purposes only.*

# Fiera Private Credit Platform



The Fiera Private Credit platform offers investment expertise across real estate, corporate and infrastructure financing that spans across Canada, the United States, Europe and Asia.

## A Compelling Risk-Reward Proposition

- Private Credit strategies offer more favourable risk-adjusted returns than traditional investment grade and high yield bonds. The enhanced yield generation potential in private credit is particularly attractive in the low interest rate environment.
- While traditional fixed income asset classes are vulnerable as interest rates rise, many of our private credit strategies invest in floating rate loans, which may act as a hedge to changes in monetary policy and interest rates.
- Additionally, the higher fixed rate coupons achieved in private market lending provide a significant cushion in a rising rate environment.

## Diversified Lending

**Diversified Credit Solutions**

**Description:** A one-stop, global diversified credit portfolio of Fiera Private Credit strategies

**Geography:** Global

**Loan Terms:** 1-2 years

**Loan Type:** Primarily senior secured across real estate, corporate, and infrastructure loans

## Asia Direct Lending

**Real Estate Loans**

**Description:** Short-term bridge and construction financing

**Geography:** Australia; New Zealand; Korea

**Loan Terms:** 1-3 years

**Loan Type:** 1st and 2nd lien

## Real Estate Financing

**Real Estate Loans**

**Description:** Short-term financing to real estate developers and property owners

**Geography:** Canada

**Loan Terms:** 1-2 years

**Loan Type:** 1st and 2nd lien

## Business Financing

**Corporate Loans**

**Description:** Short-term lower middle market corporate financing

**Geography:** Canada

**Loan Terms:** 1-2 years

**Loan Type:** 1st and 2nd lien

## Enhanced Private Debt

**Corporate Loans**

**Description:** Medium-term lower middle market corporate financing

**Geography:** Canada

**Loan Terms:** 2-5 years

**Loan Type:** 1st and 2nd Lien

## Corporate Mid-Market Private Debt

**Corporate Loans**

**Description:** Long-term lower middle market corporate financing

**Geography:** Canada

**Loan Terms:** 5-10 years

**Loan Type:** 1st Lien

## Private Credit Opportunities

**Corporate Loans**

**Description:** Financing to middle-market companies

**Geography:** U.S.; Western Europe

**Loan Terms:** 2-5 years

**Loan Type:** 1st and 2nd lien; mezzanine

## Infrastructure High Yield Private Debt

**Infrastructure Loans**

**Description:** Specialized direct lending; focusing on high-yield middle market infrastructure

**Geography:** North America

**Loan Terms:** 3-5 years

**Loan Type:** Senior secured, holdco, mezzanine

## Infrastructure Private Debt

**Infrastructure Loans**

**Description:** Specialized direct lending; focusing on senior secured middle market infrastructure

**Geography:** North America

**Loan Terms:** 7-10 years

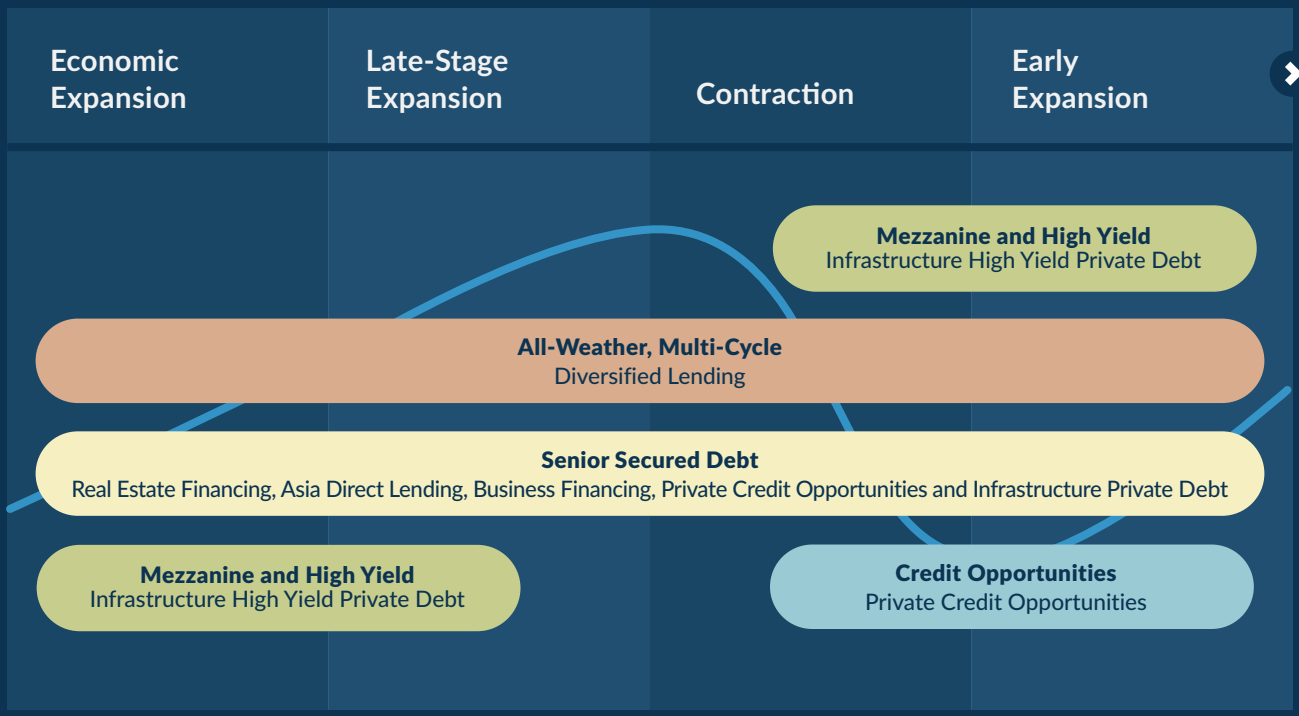
**Loan Type:** Senior secured – max 30% mezzanine

*The above strategies are managed and offered by various subsidiary firms of Fiera Capital Corporation.*

## An All-Encompassing Approach to Private Credit

With the flexibility to invest across the capital structure, collateral type, loan structure, and geography, our expansive investment platform creates the opportunity for investors to capitalize throughout all stages of the economic cycle.

Private Credit Strategies Across the Economic Cycle



# ESG from a Creditor's Perspective

At Fiera Capital, we are committed to ensuring that environmental, social and governance (ESG) considerations are fully integrated into our investment processes from sourcing, due diligence and risk assessment, decision making and post-investment portfolio management.

We believe that businesses that effectively manage ESG factors have superior long-term prospects, and are more likely to create sustainable long-term value, than those that do not.

Incorporating assessment of ESG management in the due diligence on prospective borrowers assists in evaluating the credit worthiness of the business and can materially reduce our risk. Evaluating ESG performance is an important consideration in determining whether an investment is viable and attractive.

Fiera Capital's private credit investment professionals integrate the consideration and thoughtful management of material ESG factors throughout the investment cycle, including at sourcing, due-diligence, final investment decision, and ongoing portfolio management of our debt investments.

We apply our judgment and expertise in assessing risks and opportunities related to material ESG factors. In order to support this effort, we may revert to UNPRI's principles and other industry frameworks to help achieve the voluntary performance standards we base the assessment of ourselves and borrowers during the evaluation and ongoing management of our investments. The approaches are also tailored according to each strategy.

Private Credit ESG Framework

**Pre-Investment**

- Formal exclusions/screening lists
- Due diligence checklists, ESG materiality
- Investment memos, decisions, tracking
- ESG Analysis (material ESG risks and mitigants, impacts on cash flow and credit quality)
- Identification of sustainability outcomes

**Post-Investment**

- ESG Performance, incident and controversies monitoring
- Integration in risk management and evaluation

**Climate and Sustainability**

- Identification of climate risks and opportunities
- Use of climate data metrics and scenario analysis
- Identification of targeted sustainability outcomes

**Stewardship**

- Collaborative industry engagement

**Investor Relations and Reporting**

- ESG in fund agreements
- ESG in annual and quarterly reporting

# Appendix

## Our People

**50+**

**Private Credit investment professionals**

**130**

**Professionals providing operational support**

Solutions

### Diversified Credit Solutions

**Jean-Guy Desjardins**
C.M., LSc Com, CFA
40+ years experience

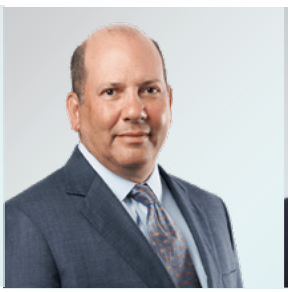
**Candice Bangsund**
CFA
18+ years experience

**Majlinda Kamberi**
CAIA
15+ years experience

Infrastructure

### Infrastructure Private Credit

**Jean Gamache**
MBA
25+ years experience



**Paul Colatrella**
MBA
30+ years experience

**Katherine McElroy**
18+ years experience

**Andrew Shannon**
MBA, CFA
16+ years experience

Real Estate

## Real Estate Private Credit

**Jean Gamache**
MBA
25+ years experience

**Pierre Pelletier**
27+ years experience

**Rob Petty**
36+ years experience

**Amit Gupta**
MBA
30+ years experience

**Joshua Bartlow**
MBA
17+ years experience

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Corporate

## Corporate Private Credit

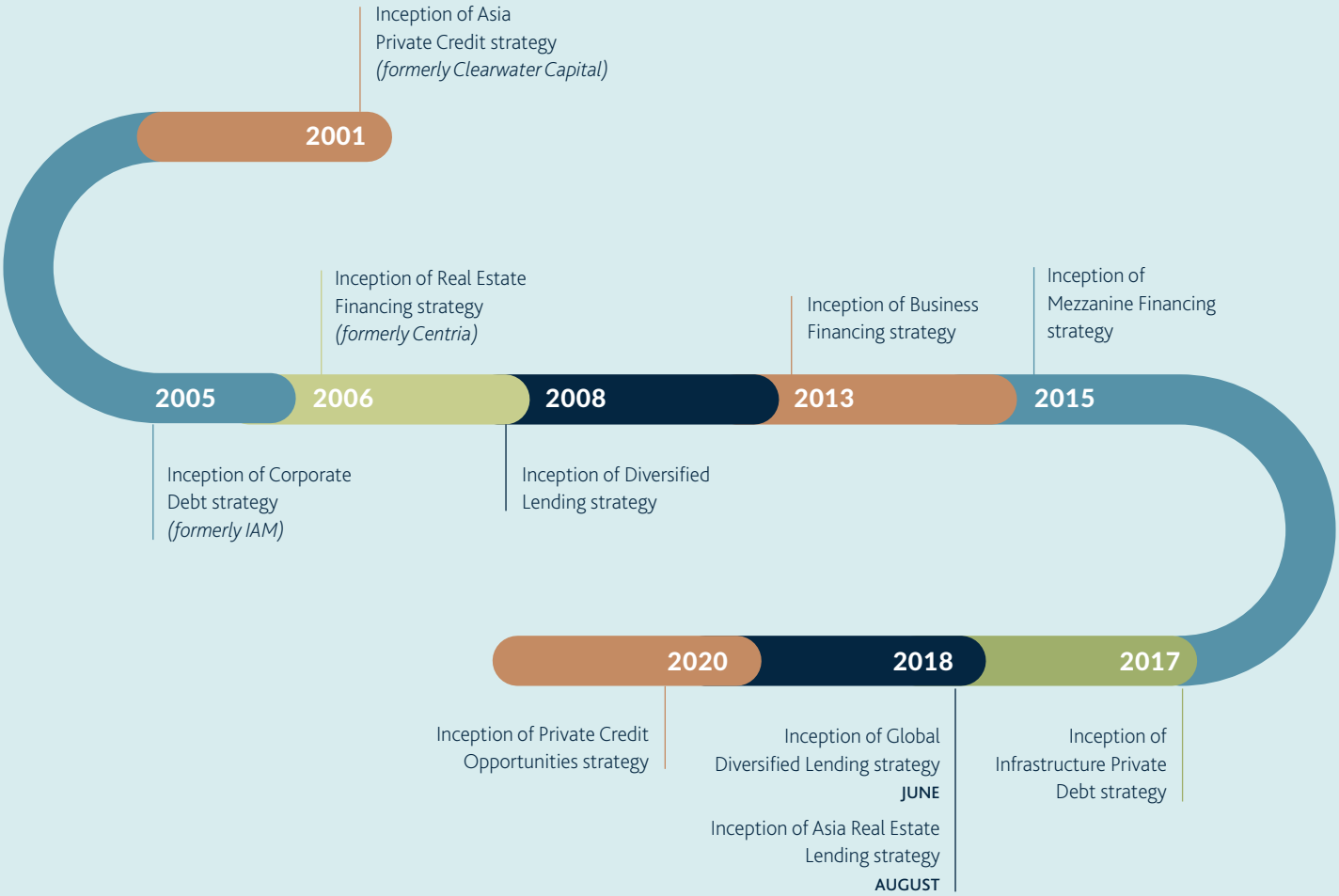
**Jean Gamache**
MBA
25+ years experience

**Theresa Shutt**
CFA, MBA, MA
25+ years experience

**Antoine Bisson McLernon**
MBA, CFA
18+ years experience

**Mathieu Desforges**
LL.B, MBA
24+ years experience

## Fiera's Private Credit Historical Timeline



# Firm Overview

Fiera Capital is an established asset management firm with a growing global presence and an efficient allocator of capital harnessing the latest in the investment science to create innovative investment solutions and to foster sustainable prosperity for all our stakeholders.

Private Markets are a strategic focus for the firm on a global and regional level.

Specialized investment teams operate independently while benefiting from scale advantages in risk management, research, shared expertise and a common service platform.

We are a firm built for capital allocation excellence, serving the ever-evolving needs of institutional, financial intermediaries, and private wealth clients: the need for the most sophisticated, diversified solutions in public and private markets, and the need to innovate in the face of changing global market conditions.

Our outstanding investment performance has fueled close to two decades of tremendous growth with a track record of significant alpha generation, growing capabilities, strategic acquisitions and geographic expansion. We owe this sustained performance to our exceptional investment teams, and pride ourselves on providing a unique entrepreneurial environment for the finest minds to fully express their intellectual capital to the benefit of our clients and stakeholders.

## Key Facts

**840+**
employees worldwide

**235+**
investment professionals

**174.5B**
Canadian dollars in AUM*

**Publicly-traded** independent Canadian investment management firm

**Depth of expertise** in public and private markets investment strategies

**Headquartered in Montreal** with offices across Canada, the United States, Europe and Asia

*As of March 31, 2022

fiera.com

**IMPORTANT DISCLOSURES**

Fiera Capital Corporation is a global asset management firm with affiliates in various jurisdictions (collectively, "Fiera Capital"). The information and opinions expressed herein relate to Fiera Capital's investment advisory services and investment funds and are provided for informational purposes only. It is subject to change and should not be relied upon as the basis of any investment or disposition decisions. Past performance is no guarantee of future results. All investments pose the risk of loss and there is no guarantee that any of the benefits expressed herein will be achieved or realized. Valuations and returns are computed and stated in Canadian dollars, unless otherwise noted. The information provided herein does not constitute investment advice and should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell any security or other financial instrument. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. There is no representation or warranty as to the current accuracy of, or responsibility for, decisions based on such information. Any opinions expressed herein reflect a judgment at the date of publication and are subject to change. Although statements of fact and data contained in this presentation have been obtained from, and are based upon, sources that Fiera Capital believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed.

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