

# Investors Now Have a Unique Way to Combine Public and Private Investments

## STRATEGY SNAPSHOT: INVESTMENT GRADE PUBLIC/PRIVATE CREDIT



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### KEY TAKEAWAYS

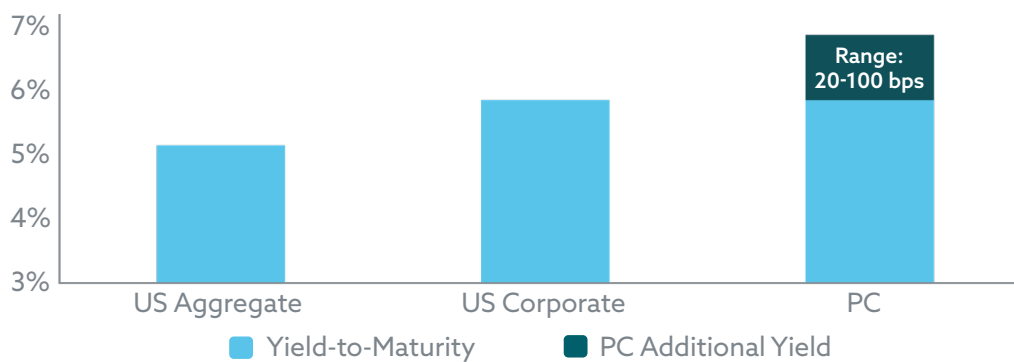
- > Historically, investors allocate funds to separately managed public credit and private credit strategies
- > As an alternative, investors can leverage the strengths of both markets through PPM America's (PPM) Investment Grade Public/Private Credit (IGPPC) Strategy, which can provide greater yield/spread potential, diversification and financial protections
- > Institutional investors in need of a Liability-Driven Investment (LDI) strategy have the option of building a customized IGPPC strategy
- > Each client's IGPPC strategy is defined by their individual goals, constraints and tolerances; these inform our recommended portfolio allocations and customized liquidity and return targets

Often, institutional investors have fixed mandates allotted to various asset classes when shaping their overall portfolio.<sup>1</sup>

For example, an insurance company or pension fund may have \$500M earmarked for investment grade public credit (IG) and \$100M for private credit (PC). Their money manager, who may have separate portfolio teams dedicated to each strategy, would then determine the best deals in each asset class to invest in with the goal of reaching that threshold. Alternatively, PPM has structured a product which leverages the benefits of both the public and private markets with one investment team that has the combined knowledge and experience working in both asset classes. This IGPPC strategy was designed to provide investors with a high level of flexibility in their investment approach.

This strategy actively invests in a diversified portfolio of public and private investment grade bonds. It seeks to maximize total return through security selection and tactical sector allocation, consistent with the preservation of capital and sound investment management. It cannot purchase securities below BBB- or an equivalent rating, but can hold a limited number of downgraded securities<sup>2</sup>. This strategy seeks to outperform its benchmark (e.g., the Bloomberg US Corporate Bond Index) over a market cycle.<sup>3</sup>

### PC MAY PROVIDE PREMIUM YIELD BEYOND STANDALONE IG<sup>4</sup>



(1) As of 18 September 2023. Unless otherwise stated, the information presented has been prepared from market observations and other sources believed in good faith to be reliable. Information and opinions expressed by PPM are current as of the date indicated and are subject to change without notice. Past performance is no guarantee of future results. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed. (2) Portfolio's average credit quality based on the 3 major NRSRO's for each security. In the absence of a public rating, which is the case for the majority of private holdings, PPM will assign an internal rating to be used in the calculation. (3) There is no universally accepted index for private placement strategies, but investors track total returns versus public benchmarks of their own choosing. (4) Bloomberg. Yield-to-maturity of Bloomberg US Aggregate Bond Index and Bloomberg US Corporate Bond Index as of 18 August 2023.

## IGPPC: BETTER TOGETHER

Yields in IG are currently near decade highs and are driving flows into the asset class. The breadth of sectors, issuers and capital structures available in IG provides the ability to invest across a wide risk premium while the market's liquidity allows investors to deploy capital efficiently with a high degree of price transparency. Investing in PC alongside IG can augment these strengths in several ways:

### > Greater Yield and Spread Potential

The yields and spreads for PC deals are typically 20 to 100 bps higher than comparable public investments.<sup>5</sup>

### > Easier Barrier of Entry

Some investors may not have previously committed to PC due to demanding requirements for fundings and closings. A combined strategy helps mitigate those concerns as we can allocate 100% to publics and layer in privates over time.

### > Diversification

The PC market has a unique set of issuers that are often not available in public markets. PPM estimates that over 80% of new issuance in Q2 2023 came from such companies.

### > Covenant Protection

PC deals often come with significant financial covenants which help mitigate risk. For example, many deals contain debt-to-EBITDA leverage covenants.

### > LDI Opportunity

Since a number of issues can offer longer duration, a customized IGPPC portfolio can be built as an LDI strategy for pension plans.

## CLIENT-LED STRATEGY IMPLEMENTATION

Due to the breadth and depth of investment options, partnering with the right manager is critical when investing in an IGPPC strategy to maximize return. We believe investors need a team with combined experience across both asset classes. They may be best positioned to understand which deals to invest in and when, in order to build a comprehensive and complementary IGPPC strategy. The IGPPC portfolio managers at PPM have an average of 24 years of investment experience and have worked together at the firm for 15 years.

The IGPPC portfolio management team is supported by PPM's dedicated fixed income research team (which includes 24 corporate analysts) and trading team, which work together to find alpha for our clients.<sup>6</sup> The flexibility inherent in the IGPPC strategy gives the investment team the ability to select between public and private opportunities depending on relative value.

Furthermore, the investment goals and criteria of our clients are not uniform. What may work for one client may not work for another. Understanding that, the portfolio management team builds the IGPPC strategy with each client based on their individual goals, constraints and tolerances. This often results in tailored portfolio allocations and customized liquidity and return targets.

The fast pace of rate hikes over the past year has led to a more volatile credit environment, which, in our view, favors a bottom-up, credit research focused firm like PPM. Additionally, clients may benefit from PPM's strong trading relationships and access to new issue markets. Our portfolio team also leverages other firm resources, including the quantitative research and risk management teams.

If a customizable IGPPC strategy, which may provide additional yield and a broader spectrum of issuers compared to investment grade public bonds alone, is relevant to your investment goals, we welcome the opportunity to listen and offer our help.



(5) Unless otherwise indicated, private placement statistics may include issuance amounts, spreads and premiums that are aggregated and calculated by PPM based on compilation of transactions PPM observes in the private placement market. Sources of PPM data may include, but are not limited to, the investment bank or agent sponsoring a transaction, SEC filings, or other third-party data sources obtained by PPM in good faith and believed to be reliable, including the Private Placement Monitor. Data on public bonds used to calculate private placement premiums comes from Bloomberg. (6) As of 30 June 2023. (7) As of June 2023.

## ABOUT PPM AMERICA

PPM America, Inc. (PPM) is a client-focused investment manager. PPM has the experience, global reach and resources to provide our clients with investment solutions across markets, including fixed income, private equity and commercial real estate. However, like a smaller shop, PPM remains nimble, investment-led and responsive to the opportunities that our teams discover together.

Our mission is to deliver specific client solutions and service to investors around the world with the goal of meeting investors' unique investment objectives. In addition, PPM employees are committed to building our community and supporting local nonprofits that strengthen families and increase economic opportunities.

**Past performance is no guarantee of future results.** Investments involve varying degrees of risk and may lose value.

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The **Bloomberg US Aggregate Bond Index** provides a broad measure of US investment grade, USD-denominated fixed rate bonds. It includes Treasuries, government-rated issues, corporate bonds, MBS, CMBS and ABS securities.

The **Bloomberg US Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

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