EMERGING MARKETS DEBT INSIGHTS
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PPMAMERICA

EM Private Credit: Another Arrow in the EM Quiver

KEY TAKEAWAYS

- EM private debt is not new, but the growing investor focus highlights its potential to complement public EM debt through increased income and diversification
- PPM believes successful EM private debt investing requires an EM-specific framework that recognizes differences in legal systems, enforcement, bankruptcy precedent and covenant effectiveness
- We currently see attractive opportunities across infrastructure-related financing, enhanced corporate borrowing, event-driven opportunities and structured credit
- PPM's multidisciplinary "deal-team" approach integrates sovereign, corporate, industry, legal and structural analysis to evaluate opportunities

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UNDERSTANDING THE EM PRIVATE CREDIT OPPORTUNITY

For many institutional investors, emerging markets (EM) debt has historically been viewed through the lens of public sovereign and corporate bonds: liquid, diversified and often offering attractive spread pick-up relative to developed market comparables. In our opinion, that framework remains a compelling foundation. However, for investors looking for opportunities for additional income pickup and further diversification, we believe EM private credit can serve as a complement to traditional allocations.

EM private credit is not a new subset of the asset class and has been part of the opportunity set for decades. We believe its recent growth in popularity reflects some of the same forces that have supported private credit in developed markets. In particular, regulatory constraints and capital requirements have encouraged banks to recycle risk and have created room for yield-seeking institutional lenders to finance assets that historically sat on bank balance sheets.

But, in our opinion, the similarities should not be overstated. Evaluating EM private credit requires a distinct framework, as applying a US style rule-of-law lens to EM can lead to the wrong conclusions. Legal architecture, bankruptcy precedent, the ability to attach assets and the practical enforceability of covenants can differ meaningfully. As a result, tranching the capital structure in EM can be more difficult. We believe value often lies less in ring-fencing assets or layering on covenant protections, which may offer limited protection in some jurisdictions, and more in sourcing and structuring transactions with features specifically designed to protect the investment in an EM context. We believe successful EM private credit investing involves identifying "where to fish" and having a well-established team and underwriting process to vet risks and the merits of a transaction.

PPM'S REFINED VIEW OF THE EM PRIVATE CREDIT OPPORTUNITY SET

Identifying where to fish means recognizing that not all EM private credit segments offer the same balance of risks. Our internal sovereign scoring model and governance framework seek to narrow the opportunity set. We then focus on areas where the investment thesis can be underwritten with clarity and where structural protections are designed for the realities of EM. We believe there are currently opportunities in the following four segments:

INFRASTRUCTURE RELATED

One of the defining features of EM, and often a key bottleneck to unlocking growth, is the lack of adequate infrastructure. Power generation, transmission, communications, light rail transit, freight rail, airports and port facilities are all critical areas where investment needs remain substantial. Given the breadth of infrastructure opportunities across EM, PPM prioritizes transactions in countries with a track record of consistent regulation and clear alignment with current and future government objectives.

PLANNED CORPORATE BORROWING WITH ENHANCEMENT

This category typically includes issuers with strong stand-alone fundamentals whose senior debt ratings are below investment grade due to sovereign rating caps in their country of domicile. By pledging offshore asset flows or payments as security, these issuers can often access investment grade-rated financing. These transactions are generally planned as part of the issuer's normal course of business.

EVENT-DRIVEN OPPORTUNITIES

This category includes opportunities that arise from unexpected or one-off events. For example, we have seen sovereign and quasi-sovereign opportunities in the Middle East emerge recently in the wake of the current conflict in Iran. Separately, we have noted one-off opportunities among Central American and Caribbean sovereigns seeking to reduce pressure on public funding markets and instead opting for the private placement market. These opportunities are often priced with spread pickups over public bonds, in our experience.

STRUCTURED CREDIT

Within this segment, we have observed an array of bespoke opportunities and novel structures. For example, within the sustainable financing segment, we note opportunities to "partner" with multi-lateral development banks to provide financing within the emerging market. These structures might be "A-B" financing with partial development bank guarantees or full securitizations (e.g., CLOs). Separately, banks often have loans on their balance sheets and may like to recycle the risk. There may be various structures/notes where investors can buy or participate in that exposure.

PPM'S DEAL-TEAM APPROACH TO EVALUATE EM PRIVATE CREDIT OPPORTUNITIES

We believe EM private credit opportunities require an integrated, multidisciplinary underwriting approach that accounts for the interaction of sovereign, corporate, legal and structural risks.

> PPM's EM debt team assesses the country outlook, regulatory backdrop, convertibility and transfer risk, political incentives and potential restructuring scenarios.

> Industry specialists evaluate competitive positioning, operating fundamentals, issuer credit metrics and sector dynamics.

> Our private debt team analyzes covenants, security packages, cash-flow controls, documentation and downside protections.

By bringing these perspectives together through open dialogue and the formal investment committee process, we believe PPM can identify well-vetted opportunities where the investment thesis, key risks and return potential are clearly defined.

CONCLUSION

We do not view EM private credit as simply developed market private credit with a higher coupon. Instead, we believe it requires EM-specific judgment, in addition to corporate, industry and structure analysis. For certain investors, it can be a complement to an EM allocation by expanding the opportunity set, providing potential income opportunities and adding diversification across countries, sectors and structures. In a world where investors continue to seek resilient income and differentiated sources of return, we believe EM private credit merits a place in the conversation.

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