

# Private Credit:

## An Opportunity for Enhanced Diversification, Yield and Total Return

### Key Points

- > Private credit's focus on both cash yield and risk mitigation, along with the array of different underlying collateral exposures and lending situations, support the case for including it as a strategic allocation to the asset class.
- > Institutional investors have long recognized the opportunity of private credit (see sidebar).
- > We believe private credit is a large, growing opportunity set and home to a wide range of strategies that can diversify risk, generate resilient yield streams and dampen overall portfolio volatility.
- > The wide variety of opportunities means individual strategies feature different investment risks and return drivers and may, therefore, have little correlation with each other and to the rest of an investor's portfolio.

### What Is Private Credit?

Private credit refers to a variety of strategies sourced through private channels that focus on generating cash yield through (typically) secured debt instruments (or debt-like instruments, such as leases). Private credit assets are generally senior in a capital structure, potentially insulating investors' principal from significant losses in times of economic stress and market dislocations. Historically, the values and yields of private credit assets have also tended to be steadier, less volatile and greater than what can be found in the public markets.

### Private Credit Offers a Breadth of Opportunity

Private credit is a broad asset class; a variety of underlying sectors provide access and exposure to different parts of the market. Private credit lenders finance different small, medium and large companies and secure loans using different collateral types (such as corporate cash flow, real estate or real assets, among others) through senior, secured loans. The private credit asset class is estimated to total over \$1 trillion in assets and is home to a wide range of strategies that can diversify risk, generate resilient yield streams and dampen overall portfolio volatility for investors.









### Institutional Interest in Private Credit Is Higher than Ever

Private credit is an important component of the larger class of private assets (including private equity, venture capital and real assets) that has gained traction with the world's largest, most sophisticated institutions.

Allocations are expected to grow in the current market and economic environment because, unlike other "private" strategies, private credit offers a wide array of sub-strategies that are defensive and can take advantage of rising rates, market volatility and economic weakness.

Institutions have long recognized and benefited from use of the private credit asset class. Asset owners such as public and corporate pension plans, insurance companies, foundations and endowments use private credit in their portfolios to generate current income, seek downside risk mitigation and take aim at volatility.

Private credit can be broadly segmented into the following sectors:

Sector	Definition
 Direct lending	<ul style="list-style-type: none"><li>&gt; Senior secured loans typically made to privately held operating businesses typically used to finance an acquisition, refinance an existing loan and/or support company growth</li></ul>
 Distressed debt and special situations	<ul style="list-style-type: none"><li>&gt; Purchase of a loan or other credit position collateralized by:<ul style="list-style-type: none"><li>&gt; Assets undergoing restructuring or bankruptcy</li><li>&gt; Assets going through financial challenges</li><li>&gt; Assets that are undervalued as a result of discrete events</li></ul></li><li>&gt; Lending for a specific purpose to address a distinct financing issue</li></ul>
 Specialty finance	<ul style="list-style-type: none"><li>&gt; Broad array of strategies that range from rediscount lending to royalties, litigation finance, or asset-based lending, along with other lending strategies secured by non-corporate collateral types</li></ul>
 Real estate credit	<ul style="list-style-type: none"><li>&gt; Senior secured, subordinated or hybrid loans secured by a variety of real estate assets, such as commercial real estate, mortgages and healthcare assets</li></ul>
 Real asset credit	<ul style="list-style-type: none"><li>&gt; Typically subordinated or hybrid loans secured by real assets, such as infrastructure, energy companies and projects, transportation and equipment assets metals and mining companies and projects and agriculture</li></ul>
 Mezzanine	<ul style="list-style-type: none"><li>&gt; Subordinated loans typically used to effectuate buyout transactions or recapitalizations typically with some form of equity participation rights</li></ul>

## Who Uses Private Credit for Financing?

Private credit finances borrowers from all parts of an economy. Private equity funds use senior secured loans (i.e., “direct lending”) to finance their purchase of companies. Family-owned and closely held businesses turn to private lenders if they are too small to clear the administrative hurdles required by the public markets and banks. Others may want to avoid the expense and burden of filing quarterly reports with the SEC. Families going through a transition, such as a generational change or a divorce, may use private credit’s creative solutions to acquire a sibling’s or spouse’s shareholding.

Private credit funds help finance the world’s supply chains, inventory, trade receivables, rolling stock, and even artwork through highly structured, closely monitored senior secured loans. Specialized private credit investors own and lease out airplanes, ships, and commercial and residential real estate. They buy and collect on defaulted consumer credit card debt, auto loans, real estate loans, bankruptcy claims, and legal settlements. Other specialist investors may focus on structuring royalty streams (such as healthcare, music or movies), acquiring distressed liquid securities or financing growth stage companies.

The wide variety of opportunities means individual strategies assume different investment risks and in our experience are less correlated with each other and to the rest of an investor’s portfolio. As a result, private credit has grown tremendously since the Great Financial Crisis. In fact, the global market in 2021 was \$1.2 trillion, rivaling the size of the broadly syndicated loan market.

## Private Credit Resiliency across Markets

With a focus on cash yield and security and an array of different underlying risks and lower correlations with traditional public market assets, private credit offers investors both defensive and opportunistic strategies. In bad times, defensive strategies may support a portfolio, whereas opportunistic investments potentially outperform liquid markets. The chart below summarizes our observations of each sector's historical return makeup and pattern.

	Direct Lending	Distressed Debt and Special Situations	Specialty Finance	Real Estate Credit	Real Assets Credit	Mezzanine
Yield	High	Moderate	High	High	High	High
Capital Appreciation	Low	High	Low	Low	Low	Moderate
Inflation Protection	High	Moderate	High	High	High	Low
Market Conditions	Full Cycle/ All Weather	Declining/ Shrinking	Full Cycle/ All Weather	Steady/ Rising	Steady/ Rising	Steady/ Rising

## Calamos Aksia: A New Horizon of Private Credit Access for Investors

Calamos Aksia joins two alternative powerhouses—Calamos Investments, a leader in liquid alternatives, and Aksia, a global leader in private credit with extensive breadth of expertise across the asset class. Together, we intend to offer investors access to private credit opportunities enjoyed by the world's top institutional investors, joining forces to provide you a strategic portfolio allocation and full-spectrum private credit solution.

**Investment professionals, if you're ready to learn more about the opportunity of private credit, please reach out to your Calamos Investment Consultants at 888-571-2567 for more information.**



**Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. Opinions are subject to change due to changes in the market, economic conditions or changes in the legal and/or regulatory environment and may not necessarily come to pass. This information is provided for informational purposes only and should not be considered tax, legal, or investment advice. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations.**

**General Economic Conditions and Recent Events.** Difficult global credit market conditions have adversely affected the market values of equity, fixed-income, hard assets, and other securities and these circumstances may continue or even deteriorate further. The short- and longer-term impact of these events is uncertain, but could have a material effect on general economic conditions, consumer and business confidence and market liquidity. Investments made by the Adviser are expected to be sensitive to the performance of the overall economy.

**Direct Lending.** The Adviser may invest in directly originated senior secured loans, including unitranche loans, of performing middle market companies. The value of the Adviser's assets is volatile and may fluctuate due to a variety of factors that are inherently difficult to predict and are outside the control of the Adviser and Sub-Advisors, including prevailing credit spreads, general economic conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular industry, changes in interest rates, or the financial condition of the obligors of the Adviser's assets.

**Direct Origination.** A significant portion of the Adviser's investments may be originated. The results of the Adviser's operations depend on several factors, including the availability of opportunities for the origination or acquisition of target investments, the level and volatility of interest rates, the availability of adequate short and long-term financing, conditions in the financial markets and economic conditions. Further, the Adviser's inability to raise capital and the risk of portfolio company defaults may materially and adversely affect the Adviser's investment originations, business, liquidity, financial condition, results of operations and its ability to make distributions to its investors.

**Loans.** Loan interests generally are subject to restrictions on transfer, and the Adviser may be unable to sell loan interests at a time when it may otherwise be desirable to do so or may be able to sell them only at prices that are less than what the Adviser regards as their fair market value. Accordingly, loan interests may at times be illiquid. Loan interests may be difficult to value and may have extended settlement periods, which expose the Adviser to the risk that the receipt of principal and interest payments may be delayed until the loan interest settles.

**Secured Debt.** Secured debt holds the most senior position in the capital structure of a borrower. Secured debt in most circumstances is fully collateralized by assets of the borrower. However, there is a risk that the collateral securing the Adviser's loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise, and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the borrower to raise additional capital. Also, substantial increases in interest rates may cause an increase in loan defaults as borrowers may lack resources to meet higher debt service requirements.

**High Yield, Low-Rated or Unrated Securities.** Debt securities (including bonds) and preferred stock in which the Adviser invests may or may not be rated by credit rating agencies. The values of lower-rated securities (including unrated securities of comparable quality) fluctuate more than those of higher-rated securities because investors generally believe that there are greater risks associated with them. The inability (or perceived inability) of issuers to make timely payment of interest and principal would likely make the values of the securities more volatile and could limit the purchaser's ability to sell the securities at prices approximating the values it had placed on the securities. In general, the market for lower-rated or unrated securities is smaller and less active than that for higher-rated securities, which can adversely affect the ability to sell these securities at favorable prices. In addition, the market prices of lower-rated securities are likely to be more volatile because: (i) an economic downturn or increased interest rates may have a more significant effect on the yield, price and potential for default; (ii) past legislation has limited (and future legislation may further limit) investment by certain institutions in lower-rated securities or the tax deductibility of the interest by the issuer, which may adversely affect the value of the securities; and (iii) it may be difficult to obtain information about financially or operationally troubled issuers. The Adviser will not necessarily dispose of a security when its rating is reduced below its rating at the time of purchase.

**Unsecured Loans.** The Adviser may make unsecured loans to borrowers, meaning that such loans will not benefit from any interest in collateral of such borrowers. Liens on such a borrower's collateral, if any, will secure the borrower's obligations under its outstanding secured debt and may secure certain future debt that is permitted to be incurred by the borrower under its secured loan agreements. The holders of obligations secured by such liens will generally control the liquidation of, and be entitled to receive proceeds from, any realization of such collateral to repay their obligations in full before the Adviser. In addition, the value of such collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of such collateral would be sufficient to satisfy the Adviser's unsecured loan obligations after payment in full of all secured loan obligations. If such proceeds were not sufficient to repay the outstanding secured loan obligations, then the Adviser's unsecured claims generally would rank equally with the unpaid portion of such secured creditors' claims against the borrower's remaining assets, if any.

## CALAMOS<sup>®</sup> INVESTMENTS

Calamos Financial Services LLC  
2020 Calamos Court | Naperville, IL 60563-2787  
800.582.6959 | [www.calamos.com](http://www.calamos.com) | [caminfo@calamos.com](mailto:caminfo@calamos.com)

© 2023 Calamos Investments LLC. All Rights Reserved.  
Calamos<sup>®</sup> and Calamos Investments<sup>®</sup> are registered  
trademarks of Calamos Investments LLC.

19018b 0123