

# Constructing A Portfolio of Private Credit Managers



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# Model Portfolio Operational Assumptions



## ■ Portfolio Level

- \$30 million+ required to achieve manager minimums, adequate balance, and fee negotiations
- Liquidity must match that of the underlying manager allocations (e.g. lockup period, notification requirements, audit holdback, cash income distribution options)
- **Expense assumptions based on modest scale with delegated management**
  - Operational expenses and fees of 2% per annum

# Model Portfolio

## Meeting the Investor Criteria?



- **Real choices, actual results – no pie-in-the-sky**
  - **Attractive returns:** 7% - 9% annual net return
  - **Short duration:** under two years
  - **Downside protection:** 9x return buffer over current write-off expectations
  - **Quarterly liquidity**
  - **Low correlation**
  - **Multi-asset diversification**
  - **Cash income**
- **Many alternatives and tradeoffs**

# Strategy Diversification

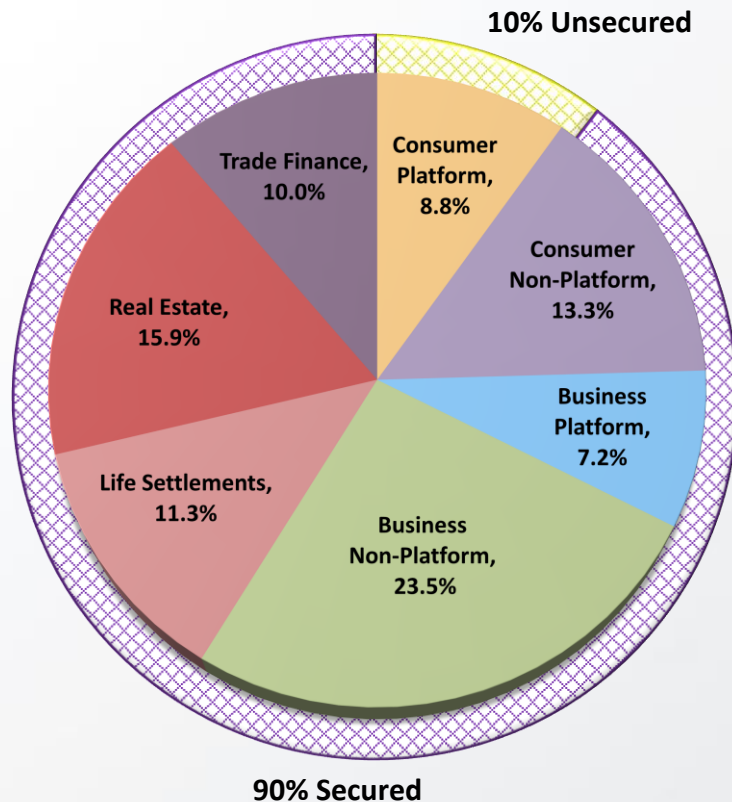


## 10 Discrete Allocations Across:

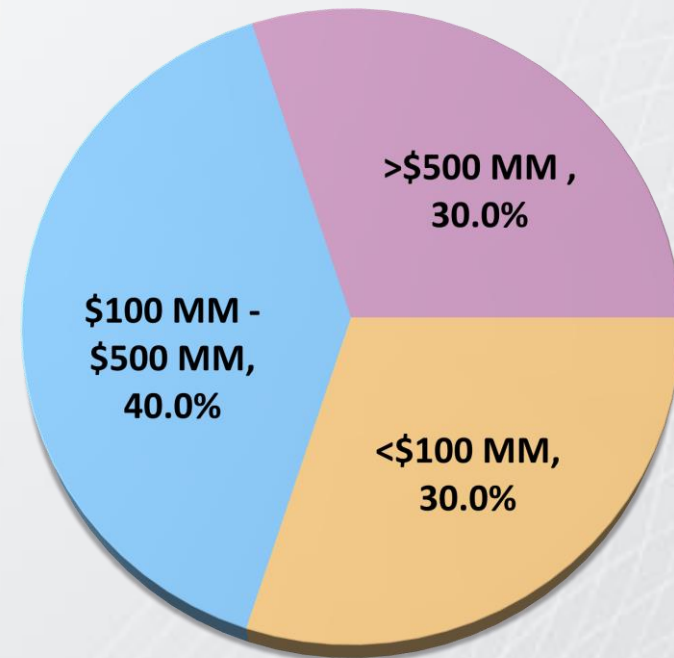
- **Business:** invest in business platform loans and niche lenders
- **Consumer:** invest in consumer platform (“marketplace”) loans and niche lenders
- **Real Estate:** originate private short-term “bridge” financing for commercial, multi-family and residential real estate
- **Trade Finance:** finance the export of raw goods from local suppliers to international importers and related accounts receivable
- **Life Settlements:** acquire unwanted life insurance policies from original policy owners

# Model Portfolio Allocations

## Portfolio Balance

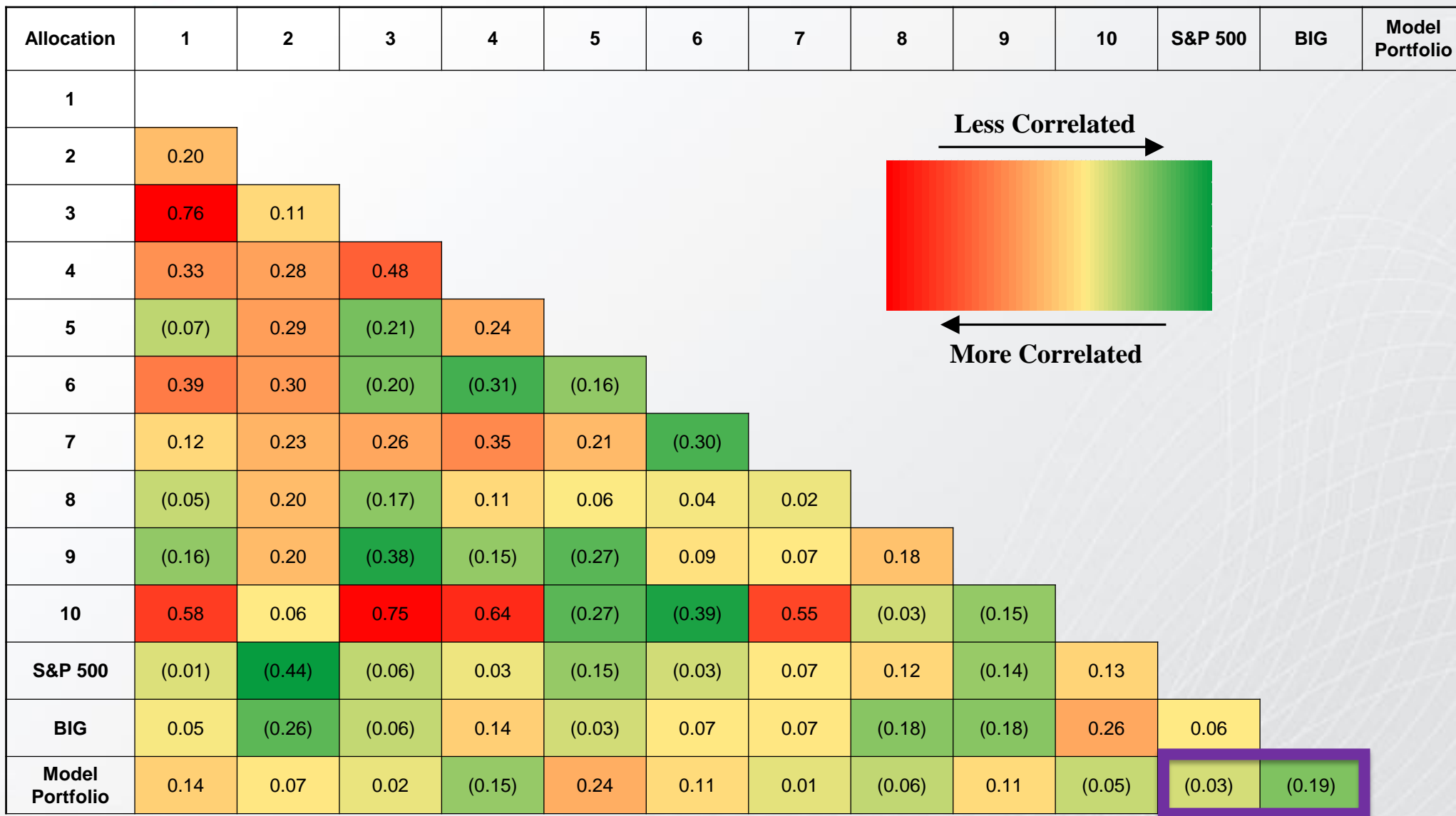


## Domain Expert Assets Under Management (“AUM”)



Weighted-Average AUM: \$476 million  
 Total AUM: \$4.8 billion  
 Estimated Capacity: Substantial

# Low Correlation Between Allocations & Indices



\*Spearman's rank correlation

\*\*Citigroup U.S. Broad Investment Grade Bond Index

# Protection From the Unexpected

Return before Write-Offs\*  
12.6%

Excess return provides a margin of safety approximately **9x greater** than current write-offs

11.4%

Margin of Safety Before Principal Loss\*\*

Current Annual Write-Offs → 1.2%

\*Annual return before write-offs less sub-manager operating expenses and management fees and portfolio operating expense and fee assumptions (see page 16).

\*\*Assumes losses are evenly distributed among sub-managers.

# Model Portfolio Track Record

## Performance and Risk Analysis, April 2016 – March 2017

(Pro forma based on actual results from underlying managers)

	Portfolio	S&P 500	BIG*
<b>Compound Annual Growth Rate (CAGR)</b>	7.8%	14.7%	0.5%
<b>Sharpe Ratio @ 0%</b>	20.4	2.4%	0.1%
<b>Annualized Standard Deviation</b>	0.4%	6.1%	3.4%
<b>Max. Drawdown †</b>	0.0%	(2.2%)	(3.3%)
<b>Skew</b>	(1.0)	0.1	(1.1)
<b>Kurtosis</b>	1.4	(0.8)	3.7

CAGR	Portfolio	S&P 500	BIG*
<b>Q1 2017</b>	7.5%	24.0%	3.4%
<b>2016</b>	8.3%	9.5%	2.7%
<b>2015</b>	9.6%	(0.7%)	0.5%
<b>2014</b>	8.9%	11.4%	5.9%
<b>2013</b>	9.5%	29.6%	(2.0%)
<b>2012</b>	9.6%	13.4%	4.2%

\*Citigroup U.S. Broad Investment Grade Bond Index

†In past 10 years, S&P 500 maximum drawdown was (52.6%) and BIG was (5.0%)



# Model Portfolio Characteristics



Net Yield*	7.8% return (LTM)
Leverage	9.8%
Duration	17.3 months
Liquidity*	Quarterly, after one-year lockup period
Cash Income	Quarterly distributions available
Correlation	Low
Sub-Manager	5.8 average years in operation

\*Special terms with selected managers

# Portfolio Risks

<b>SCENARIO</b>	<b>POSSIBLE OUTCOME</b>	<b>RISK MITIGATION</b>
<b>Economic Crisis – Maturity Extension</b>	<b>Less Liquidity</b>	<b>Short Duration Starting Point</b>
<b>Economic Crisis – Borrower Failures and Asset Depreciation</b>	<b>Higher Write-Offs; Slower and Smaller Recoveries</b>	<b>Significant Rate Buffer/ Low Loan-to-Value Ratios</b>
<b>Individual Manager Failure</b>	<b>Return Reduction</b>	<b>Low Sub-Manager Concentration</b>
<b>Increased Competition</b>	<b>Lower Returns</b>	<b>Enormous Market Potential and Returns Exceeding Current Alternatives</b>
<b>Regulatory or Political Actions</b>	<b>Lower Returns</b>	<b>Diversification by Strategy and Sub-Manager</b>

\*Portfolio allocation-weighted sub-manager average position size with largest position 1.2%

# Meeting the Challenge



- **Compelling yield**
- **Protection from rising rates**
- **Dramatic downside cushion**
- **Relative liquidity**
- **Low correlation/portfolio complement**
- **Cash income**
- **Widespread diversification by:**
  - **Sector**
  - **Position**
- **Low leverage**
- **One stop shopping**