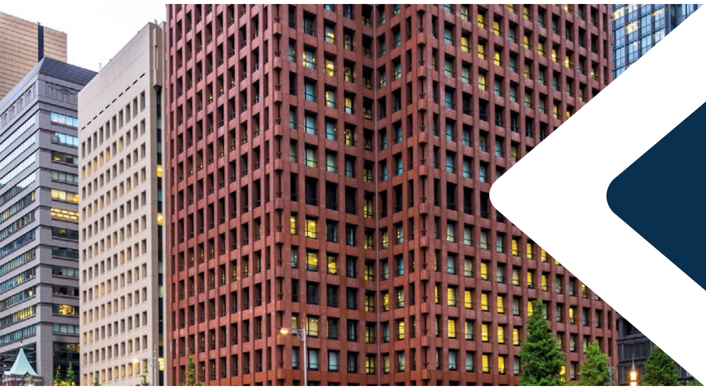


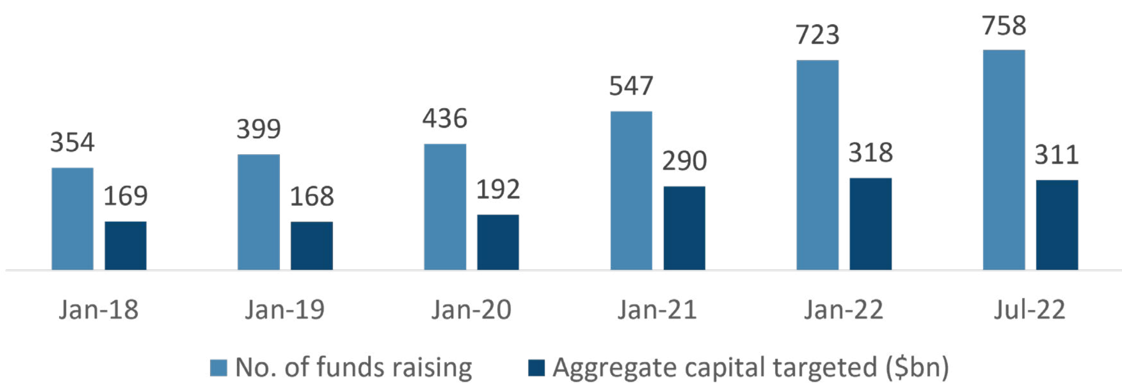
Capturing Co-Investment Opportunities in the Evolving Private and Alternative Credit Market

The private investing landscape has evolved greatly over the past few decades. Traditionally, investors looking for exposure to private equity and infrastructure entered the market through primary funds offered by core managers. As the landscape grew and matured, investors began investing beyond their "bulge bracket" funds, seeking the performance, diversification, and economic benefits offered by specialist and emerging managers, as well as through co-investments.

We are seeing a similar trend in private credit. While large direct lending firms make up most of investors' private credit exposure, there has been a shift towards specialist managers and an emerging opportunity for credit co-investments.

A GROWING NUMBER OF FUNDS CREATES DIVERSIFICATION IN THE PRIVATE CREDIT MARKET

Private debt funds in market, 2018-2022



Source: Preqin Pro.

Predictably, many investors are now seeking the potential for structural alpha, fee savings, and increased returns offered by credit co-investing. But given that co-investing in private credit is a relatively new and somewhat esoteric investment approach, there are unique elements that we believe contribute to a successful program.

Here, we look at the benefits of credit co-investing and explore what we believe to be the elements for success for those seeking to integrate co-investing into their credit allocations.

Efficacy of Credit Co-Investing

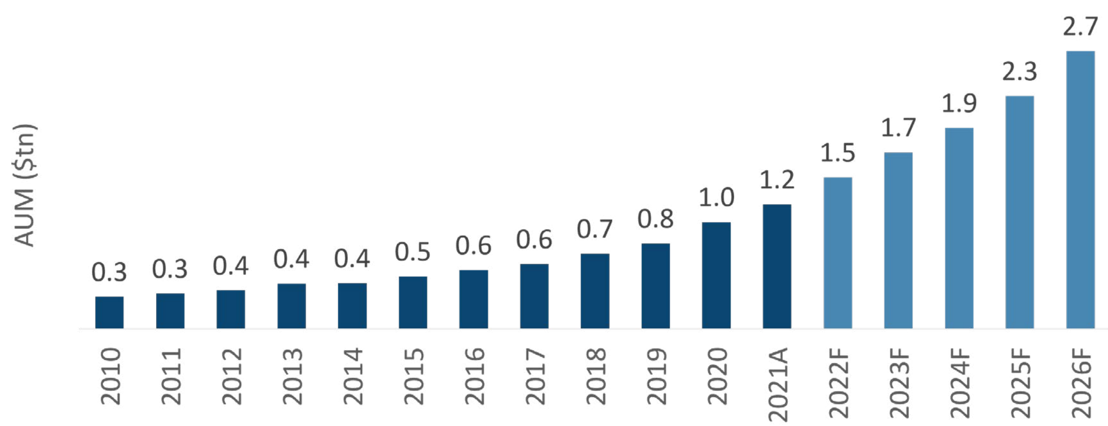
We believe there is a strong rationale for credit co-investing for several reasons:

- The **broad universe** of private credit opportunities extends beyond the often-vanilla direct lending that is typical of most private credit investments.
- There is **flexibility** in not being limited to a single credit strategy, which is particularly important during periods of market volatility.
    - » Investors can move towards what's interesting and/or away from what's not.
    - » Activity does not become stalled when a specific credit market is inactive; investors can move to other opportunities.
- There are **favorable economics** associated with a reduced total layer of fees, which can lead to better risk-adjusted returns than private credit alternatives.

Layering Co-Investments into a Private Credit Program

Allocations to private credit have grown in recent years. Continued growth is expected, as more investors see the benefits of adding it to their programs as they seek to decrease their risk appetite.

PRIVATE DEBT ASSETS UNDER MANAGEMENT, 2010 – 2026 FORECAST[1]



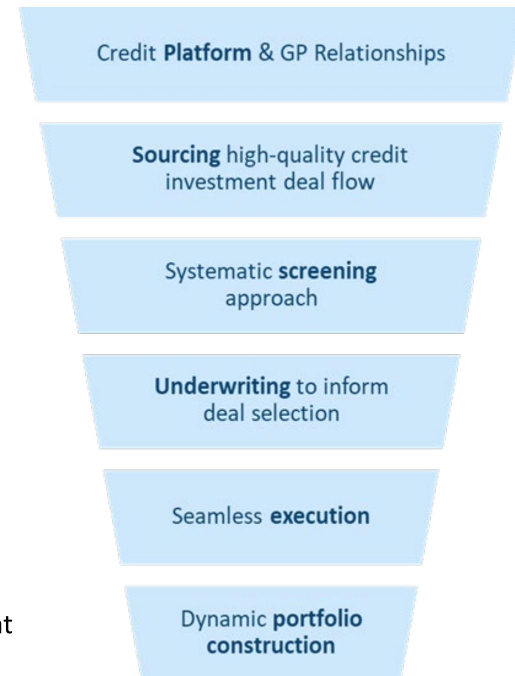
1. 2021 figure is annualized based on data to March. 2022-2026 are Preqin's forecasted figures.
Source: Preqin.

The benefit of layering-in co-investments allows investors to grow their existing private credit exposure more quickly with enhanced efficiency, while acting as an important diversifier. Given the current state of heightened volatility and uncertainty, we expect the trend to continue.

Elements for Success

There are several key attributes and/or areas of expertise we feel are crucial for an investor or advisor to successfully implement a credit co-investing program.

Investment platform
A prospective investor should have a broad scale, "open architecture" investment platform with many potential co-investment partners and a wide breadth of coverage across markets, geographies, and capital structures.



Sourcing
A healthy pipeline of deal flow is critical. An investor must not only develop many relationships with credit managers but also deep relationships to achieve "first-call" status. Doing so will create efficiencies (e.g., through quick yes/no decisions) and can provide access to capacity-constrained opportunities. An existing manager, sponsor, or partner is often a good place to start when sourcing credit co-investments.

Screening
It is challenging in any asset class to find the highest alpha producers, and credit is no different. When narrowing the funnel of opportunities, investors are seeking sponsors who are aligned with their desired risk/return profile. Finding that "sweet spot" is a challenge, but we believe an investor or advisor with a strong network can achieve it.

Underwriting
To successfully underwrite credit co-investments, we believe it takes years of experience and a high degree of skill in direct investing to avoid adverse selection. We also feel that a trust-but-verify approach is best – one that includes independent diligence while leveraging a co-investment partner's work.

Execution
Because of the broad range of investment securities, types, and regions involved, implementing credit co-investments can be challenging. It's our view that an investor should have a full suite of internalized capabilities, which includes prime brokerage relationships, ISDAs, traders, legal, compliance, tax, and other specialties that, when kept in-house, can significantly increase the speed of deal execution that is often critical to accessing an opportunity.

Portfolio Construction
Last, portfolio management of credit co-investments to meet an investor's optimal risk/return preferences is vital. We believe it takes requisite levels of skill and experience to create a diversified portfolio that properly manages various risk factors and incorporates hedging components where needed.

At GCM Grosvenor, we feel that we are one of very few asset managers with the requisite investment platform, sourcing capability, investment implementation options, and track record to sufficiently partner with investors seeking private and alternative credit, particularly co-investing.
[Read more about our credit capabilities.](#)

About GCM Grosvenor

GCM Grosvenor (Nasdaq: GCMG) is a global alternative asset management solutions provider with approximately $71 billion in assetsunder management across private equity, infrastructure, real estate, credit, and absolute return investment strategies. The firm has specialized in alternatives for more than 50 years and is dedicated to delivering value for clients by leveraging its cross-asset class and flexible investment platform. GCM Grosvenor's experienced team of over 510 professionals serves a global client base of institutional and high net worth investors.

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Important Disclosures

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