

SBCERS

Santa Barbara County Employees' Retirement System

DATE: August 28, 2024

TO: SBCERS BOARD OF RETIREMENT

FROM: SBCERS Investment Staff

RE: **Private Credit Education: Secular Supply Demand Imbalance**

Recommendation

That the Board of Retirement receive and file the Private Credit Market Update: Secular Supply Demand Imbalance presentation by Head of Capital Solutions and Strategy, Middle Market Direct Lending Jeff Frank and Managing Director Sharone Ben-Ezra of TPG Angelo Gordon.

Summary

This Education focuses on the current market conditions affecting private credit investments. A recent article in the *Wall Street Journal*, titled “Banks Strike Back Against Private Credit” by Telis Demos illustrates how traditional banks are beginning to compete for certain types of loans against Private Credit providers and posits that the increasing competition could result in lower yields and potentially impact the strength of loan covenants.

TPG Angelo Gordon has been part of the SBCERS investment portfolio since 2018, when AG Direct Lending Fund III, L.P. (AG III) was the inaugural investment into the newly approved Private Credit allocation. Since then, SBCERS has added AG Direct Lending Fund IV, L.P. (AG IV) and Angelo Gordon Evergreen Fund (AG Evergreen). AG III and AG IV are considered lower-middle market direct lending strategies, while AG Evergreen focuses on both the lower-middle and middle market segments. Currently, Angelo Gordon represents 29% of SBCERS' overall Private Credit Allocation. Angelo Gordon has extensive experience in Direct Lending, and will be discussing the recent trend of banks re-entering Direct Lending markets.

The presentation will start with a historical look at the banks' retrenchment from providing credit from 1990 through 2008. The presentation will then discuss how Private Equity and Venture Capital have created demand to provide credit since 2002, which led to an increase in Private Credit funds to step in to take advantage of those opportunities. Angelo Gordon will also discuss what they believe to be tailwinds for the Private Credit market including the lag of Private Credit markets compared to other Private Assets, Public Market Volatility and Limited-Partner demand.

Attachments

- TPG Angelo Gordon Private Credit Discussion