THE APPEAL OF PRIVATE CREDIT

The 60/40 portfolio that relies on a 40% allocation to bonds has been an asset allocation staple for decades. This traditional credit allocation provided income and helped to balance a portfolio's risk profile. The Federal Reserve's fight to bring inflation under control has raised rates, but has resulted in underperformance in the traditional credit markets. It has also increased volatility in both equity and credit markets. Additionally, we've seen the negative correlation between equities and bonds dissipate. With these two markets moving in tandem, the utility of the 60/40 portfolio has been weakened.

Private credit may help investors generate the income they need, while increasing portfolio diversification and helping to maintain an appropriate risk profile.These alternative assets are not traded on public exchanges, so they can carry an illiquidity premium to traditional investments. This also may result in lower correlation to traditional public assets.

Private credit strategies tend to focus on investing in middle market companies, which represent a sizeable investment opportunity. In the U.S., there are nearly 200,000 middle market businesses[1].

These businesses are often unable to access the public capital markets, and their funding needs are generally too small to attract large commercial banks. This has led to a rise in asset managers that specialize in lending to these companies.

As the asset class has matured, it has attracted substantial assets and four key components have emerged that underscore the potential benefits of adding private credit to a portfolio.

1. A Yield Premium

Private credit can offer a higher yield than other more liquid assets. As middle market borrowers have less access to large bank funding coupons tend to be higher and offer an illiquidity premium, as the loans are longer-term investments.

2. Diversification

Low correlation with traditional credit asset classes can help to improve portfolio diversification. Private credit has historically had a low correlation to investment grade bonds and the asset class has been generally negatively correlated to U.S. Treasuries.

3. Interest Rate Risk Mitigation

Loans made to private companies typically are floating rate instruments meaning their interest rates adjust as market interest rates rise or fall.

4. Stability in Difficult Markets

Private credit strategies demonstrated resiliency throughout the pandemic. This may be the result of the two features of these types of loans. They are typically senior secured loans and are at the top of a company's capital stack and they have recourse to the company's assets in the event of default. The lender also has the ability to add specific covenants on the loan that provide the lender with a degree of control.

Risk and Return (15 Years Annualized)

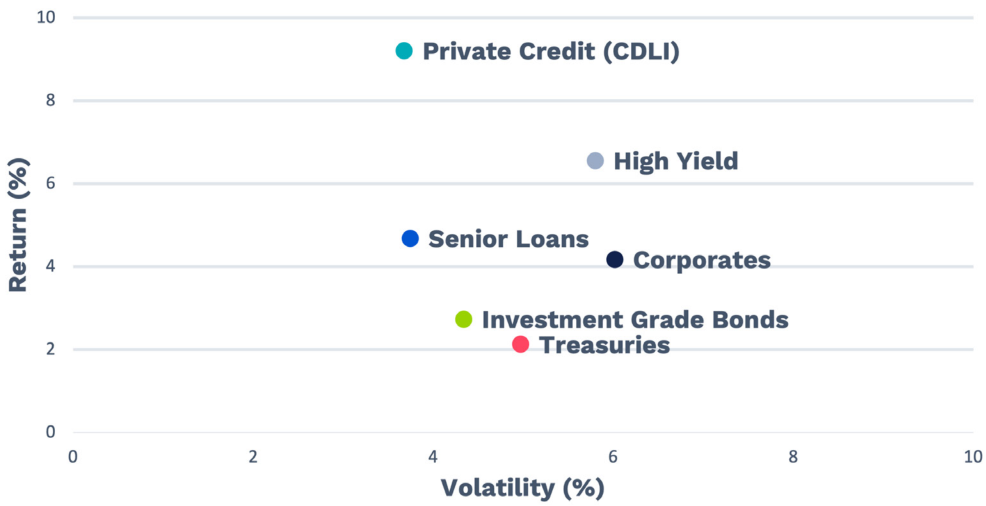
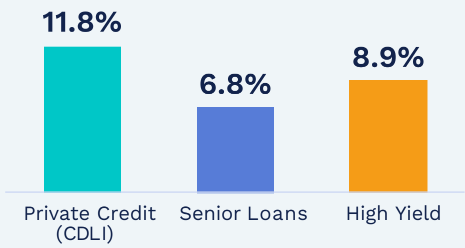


Chart compiled by CION Investments. For illustrative purposes only.

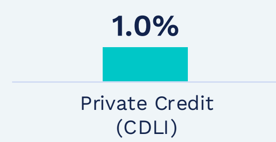
Source: ICE BofA Indices, Credit Suisse Leveraged Loan Index, JPM CLOIE Indices, as of June 30, 2023 unless otherwise noted.

Annualized Yield 12-Month



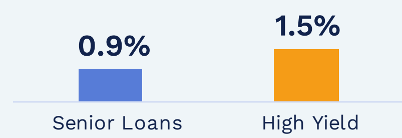
As of September 30, 2023. Source: Cliffwater Direct Lending Index, Credit Suisse, Bloomberg High Yield Index

Avg Realized Loss Inception



As of September 30, 2023. Average realized loss is the historical average of the realized gain/loss for the Cliffwater Direct Lending Index, Inception September 30, 2004. Source: Cliffwater

Avg Loss Rate 2005-2022



Average Loss Rate is calculated by taking the default rate*1-recovery rate). Source: Credit Suisse; Bank of America/Merrill Lynch

As with any asset class, there are certain risks associated with private credit strategies. Credit risk is the risk of non-payment of scheduled interest or principal payments on a debt investment. Because private credit can be a debt investment in non-investment grade borrowers, the risk of default may be greater. Should a borrower fail to make a payment, or default, this may affect the overall return to the lender.

Interest rate risk is another common risk associated with private credit. Interest rate changes will affect the amount of interest paid on a floating rate loan by a borrower meaning they may move in-step with broader interest rate fluctuations. However, this typically has had little impact on the underlying value of floating rate debt. Further, private credit strategies are generally illiquid which require longer investment time horizons than certain other investments. For these and other reasons, this asset class is considered speculative and not appropriate for all investors.

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1. National Center for the Middle Market, Mid-Year 2023 report