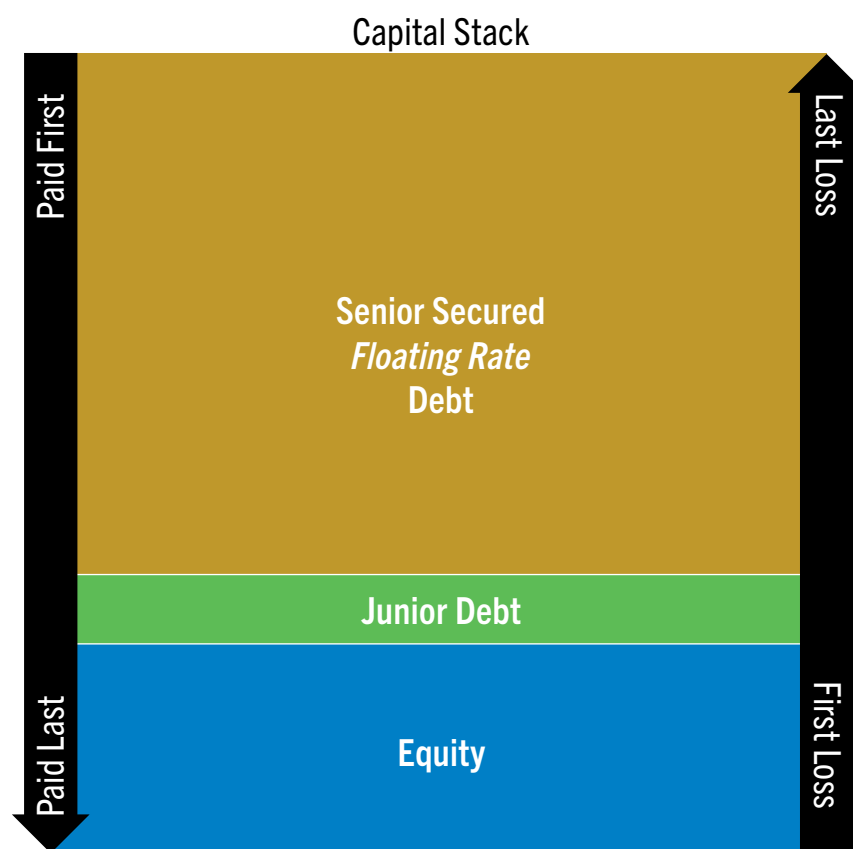


Senior, Secured (and Floating Rate) for Preservation of Capital

Core direct lending managers use mostly senior loans that “attach” at a higher point in the capital stack, enabling greater lender protections and higher preservation of capital for investors in the event of default.

Senior Loans Help Preserve Capital



No Juniors, No Subordinates, No Insecurities

- The most important characteristic in a credit fund is capital preservation; managers seek to avoid credit losses and, in the case of default, to retain as much principal as possible.
- Senior loans provide “seniority” relative to other subordinated financing in the capital stack.
- Senior loans are both structurally senior and secured or collateralized by strong cash flows and defensive assets.
- During instances of default, senior loan holders have priority claim on company assets and are repaid first.
- And in the case of actual default, senior secured loans historically recover about 60–70% of principal on average, compared with 40% for unsecured high yield bonds.¹
- Finally, the floating-rate nature of most senior loans also helps insulate them from interest rate risk.

Source: Golub Capital.

1. Golub Capital, Cliffwater, and JPMorgan Markets, as of June 30, 2024.

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