GREY LEDGE
ADVISORS

Brief Summary

Private Credit

WHAT INVESTORS SHOULD UNDERSTAND ABOUT LIQUIDITY, OPACITY, AND STRESS

Core Takeaway

This article notes that private credit may offer more income, but that extra yield is compensation for giving up liquidity, transparency, and pricing clarity — especially when markets tighten or investors need flexibility.

What is Private Credit?

- Loans made **outside the public markets**.
- Often provided by **private funds or non-bank lenders** directly to businesses.
- Borrowers may value **speed, flexibility, and negotiated terms**.
- Investors are usually accepting less liquidity and transparency in exchange for the possibility of higher income.

The Draw for Investors

- It offers access to borrowers that may not use the public bond markets.
- Structures can be more **customized** than traditional public credit.
- The main attraction is the potential **illiquidity premium**.
- Its rapid growth has moved it from a niche strategy into a mainstream investing conversation.

3 Areas of Risk Highlighted in the Article

1 Illiquidity

- Private credit is often **hard to sell** and may need to be held to maturity.
- Secondary markets are limited or nonexistent for many loans.
- Even interval funds often provide only **periodic, partial redemption windows**.
- Liquidity matters when life changes, markets dislocate, or better opportunities appear.

2 Opacity

- Disclosure is usually **more limited** than in public markets.
- Many private credit investments are **unrated** and highly negotiated.
- Pricing is often **marked to model** rather than set by active daily trading.
- Smooth reported returns may reflect valuation methods as much as actual resilience.

3 Structural stress

- The real test comes when **refinancing gets harder** or liquidity tightens.
- Semi-liquid structures can create a mismatch between illiquid holdings and investor redemptions.
- Gates, fixed windows, or suspensions can matter most when investors want out.
- Stress may emerge through funding channels investors are not focused on when returns look smooth.

Why Grey Ledge Generally Avoids Private Credit

- Grey Ledge has a stated bias toward **transparent, liquid public-market investments**.
- Long lockups and limited exit options reduce client flexibility and access to capital.
- Limited disclosure and mark-to-model pricing make ongoing due diligence harder.
- For many individual investors and families, Grey Ledge believes the trade-off is **less compelling than the marketing suggests**.
- Well-constructed public portfolios can provide transparency, liquidity, and flexibility without the same level of opacity and lockup risk.