



# NWM PRIVATE DEBT FUND

## THE FUND

The NWM Private Debt Fund combines a fund-of-funds approach and direct investing in private debt opportunities to target an attractive premium above public market fixed income yields and returns. We intend to generate a higher return from the higher coupons, equity upside and stronger risk protection. The Fund is targeting 7-8% income yield plus 1-2% capital gains, for 8-10% net return per annum.

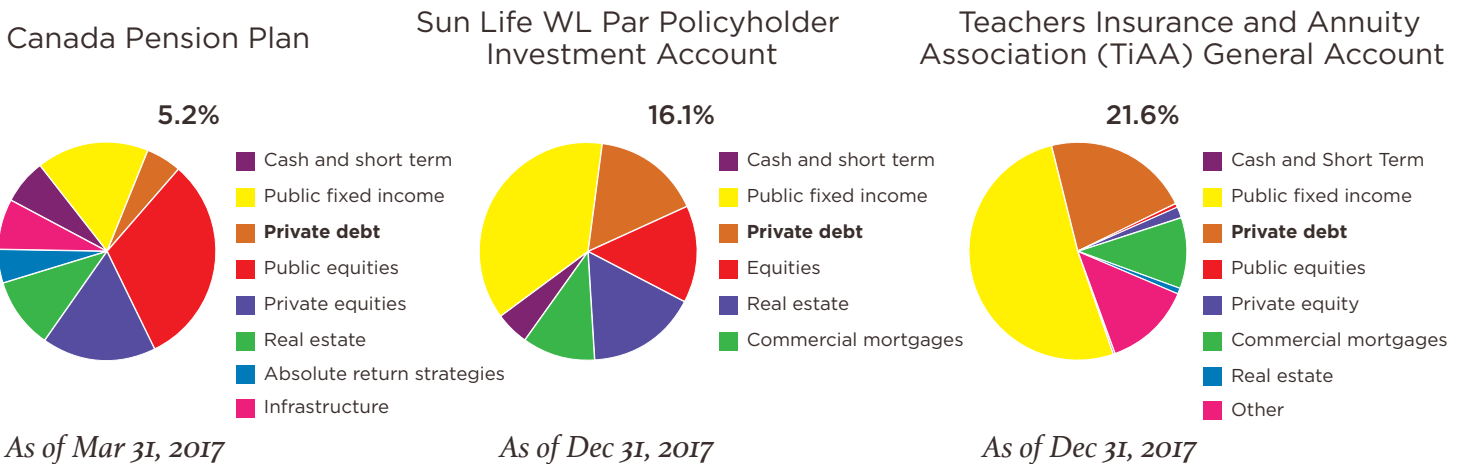
## THE MANAGER

Nicola Wealth Management Ltd., the “Manager,” established in 1994, is one of Canada’s fastest growing wealth management firms. With a philosophy built on cash flow and diversification, our growing series of funds are managed by members of Nicola Wealth’s Portfolio Management Team.

## WHAT IS PRIVATE DEBT?

Private debt is the direct lending by one or few investors in the form of loans or debentures to private or public companies, as opposed to bonds and loans that are issued to many participants and tradable in markets. Private debt opportunities are illiquid investments that generally need to be held until maturity. For the long-term investor who can make this commitment, private debt can offer attractive yields and returns.

## Private Debt Allocations of other Long-Term Institutional Investors



## WHY PRIVATE DEBT?

### High Income Yield

Private debt transactions aim to generate high and stable income for the investor from the combination of coupon interest and fee income. Several factors help private debt usually generate higher yields than publicly traded fixed income:

- **Inefficient Markets** – private deals will usually have better pricing when borrowers cannot access competitive publicly traded markets, require a customized financing solution, or prefer a trusted or sole lender relationship.
- **Illiquidity Premium** – since private debt generally does not trade and needs to be held until maturity, long-term investors can earn an illiquidity premium over publicly traded fixed income when in less competitive situations.

### Equity Participation

Lenders can often negotiate equity participation through stock, warrants or bonus payments, which can contribute significantly to the overall investment return. Equity upside is common in private debt transactions, particularly in junior debt securities, to adequately compensate the lender for the risks.

### Downside Protection

Private debt generally has lower default rates and losses than publicly traded debt. Some factors for this are:

- **Security and Covenant Protection** – private debt investors can structure more security and covenants for loss protection in unique and less-competitive transactions.
- **Information Advantage** – private lenders conduct extensive due diligence before investing and have ongoing access to company information to monitor risk. Our private debt managers often have board representation or observation rights for their investment companies.

- **Coordination and Control** – because there are not many investor participants involved, sole or coordinated private lenders can protect their investments more effectively when negotiating with companies and other stakeholders.

### Low Volatility

Private debt generally does not trade in open markets so it is not subject to the pricing volatility that public markets such as high yield bonds can exhibit from technical flows.

## NWM PRIVATE DEBT STRATEGY

### Diversified Access to Private Debt Funds

Similar to large institutional investors, we focus on a fund-of-funds approach where we invest with multiple managers. By diversifying across managers, regions, industries and strategies, the portfolio enables investment access to a wide set of attractive private debt opportunities.

NWM has been investing in private debt investments as part of the NWM Private Equity Limited Partnership. Upon launch, the NWM Private Debt Fund will hold these seasoned investments as part of its portfolio, resulting in immediate income and diversification benefit to investors.

### Co-Investment and Direct Lending Platform

Through our sub-managers and networks, NWM has created a platform for the NWM Private Debt Fund to make co-investments alongside our managers, essentially reducing fees for clients. A significant portion of the NWM Private Debt Fund will focus on direct lending and co-investment opportunities, benefiting from the industry expertise, sourcing capabilities and investment resources of our partners.

### Liquidity

Typically, investors in private debt have no liquidity or redemption options. It is our intention to diversify the portfolio such that an individu-

al investor may be able to access partial or full liquidity for their investment on a quarterly basis after the initial one-year lockup (during which an 8% redemption fee is charged). Please speak to your NWM advisor for details and restrictions. In order to realize the best returns over time, however, the fund manager recommends that investors should have an investment horizon of 5 to 10 years in this asset class.

### Registered Account Eligibility

The NWM Private Debt Fund is organized as a mutual fund trust and will be an attractive fixed income investment in the tax-sheltered accounts of many of our clients (RRSP, TSFA, RESP).

### PRIVATE DEBT FUND SUB-MANAGERS

*As of Mar 31, 2018*



Crown Capital is a Toronto-based specialty finance company focused on providing capital to middle market companies that are unwilling or unable to obtain suitable financing from traditional capital providers. It was originally formed by Crown Life Insurance in 2000, and became a publically listed company in 2015.

**Crown Capital Fund IV** focuses on senior secured lending to Canadian businesses for transitional capital requirements, often with attractive upside through equity, warrants or bonus payments.



Bridging Finance was founded in 2012 and provides middle-market Canadian companies with alternative financing options for short-term needs, including restructuring existing debt, providing working capital for growth, as well as supporting inventory purchases, capital expenditures and acquisitions/buyouts.

**Bridging Private Debt Institutional LP** is an open-ended fund formed in 2015, and provides short-term loan facilities and accounts receivable factoring to companies.



### OAKTREE

Oaktree Capital Management was founded in 1995 and is a leading global alternative investment management firm with expertise in credit strategies. In private debt, Oaktree lends to companies with a strong market position and a well-developed business strategy, sustainable cash flows and a proven management team.

**Oaktree Middle Market Direct Lending Fund** focuses on senior secured lending to companies with annual EBITDA of \$10 million - \$50 million, in buyout, acquisition and corporate growth situations.



### Credit

THL Credit is an experienced alternative credit manager founded in 2007, affiliated with Thomas H. Lee Partners, one of the world's oldest private equity firms. Based in Chicago, THL Credit lends to U.S. lower middle market companies in specific sectors: business & financial services, consumer & healthcare and media & information services.

**THL Credit Fund III** launched in 2016 and provides senior secured loans to companies with annual EBITDA of \$10 million - \$25 million.



Audax Group was founded in 1999 and is a leading investor in U.S. middle market companies, through private equity, mezzanine debt, and private senior debt. Audax Senior Debt invests in senior secured debt in companies backed by private equity sponsors, and seeks current income, low volatility and principal protection through a diversified pool of investments.

Audax Senior Loan Fund I is an open-ended fund launched in 2007 and provides senior secured loans to companies with annual EBITDA of \$10 million - \$75 million.

*Disclosure:*

*This is a summary only, and is not intended as an offering document. This investment is generally intended for tax residents of Canada who are accredited investors. Some residency restrictions apply. NWM is registered as a Portfolio Manager, Exempt Market Dealer and Investment Fund Manager with the required provincial securities' commissions. All investments contain risk and may gain or lose value. Please speak to your NWM advisor for advice based on your unique circumstances.*