PRESS RELEASE

Sydney, 10th March 2023 – Foresight Analytics launches its inaugural whitepaper on the Australian Private Debt Market

Foresight Analytics' Australian Private Debt whitepaper provides investors a practical framework for evaluating the strategies available to Australian investors and offers insights on position sizing and allocation layering.

Titled 'Australian Private Debt Market Review – Opportunities and Risks for Investors,' the whitepaper provides an overview of the Australian private debt market and a closer look at the sub-segments available to retail and wholesale investors.

We consider the key themes driving opportunities and risks for investors and highlight current trends and innovations led by data and technology. Our whitepaper discusses the headwinds and tailwinds that underpin the asset class and its sub-segments, such as Residential Property Lending, Commercial Real Estate Lending, Middle Market Lending, SME Lending and Specialist Finance.

With the expansion and proliferation of private debt strategies in Australia, investors can now adopt a portfolio approach to investing in this asset class says Foresight Analytics Analyst Rodney Lay. 'Indeed, it is our view that diversifying across various idiosyncratic and economic risk factors is the prudent thing to do. To that end, we have provided an overview of the sub-segments of the Australian private debt market that are readily available to retail and wholesale investors. These sub-segments are materially different from one another in terms of their risk-adjusted return profiles, economic factor sensitivity, idiosyncratic attributes and inflation protection.'

He further commented that 'Many private debt sub-segments require domain expertise and established networks, which lenders' with cheaper sources of capital lack. As a result, the supply and demand of financial capital in many of these segments remain imbalanced, providing opportunities for specialist debt managers to extract outsized risk-adjusted returns.'

Foresight Analytics' Founding Director, Jay Kumar, agrees. 'Investors in private debt receive a yield premium over traditional fixed income investments with similar risk or economic exposure,' confirms Jay. 'Part of the excess yield is an "illiquidity premium" due to the non-traded nature of these assets. Another component of the yield premium is the "complexity premia, " which is effectively compensation for structuring a private debt deal with non-standard origination, underwriting and pricing terms. The third and most material contributor to the yield premium is the "scarcity premium", which reflects the scarcity of debt supply in specific segments of the market. In addition to these drivers, the idiosyncratic skillset of a debt manager in sourcing deals, underwriting, pricing, structuring, portfolio management, recycling capital and risk management can add material alpha to the base return.'

He also goes on to say that 'many institutional investors have adopted the private debt asset class as a core part of their defensive portfolio. Higher yields and risk-adjusted returns compared to traditional fixed investments have resulted in greater institutional allocations.' Other benefits offered by private debt asset class include:

- Portfolio diversification due to idiosyncratic terms;
- Reduced volatility due to mark-to-model valuations;
- Inflation hedge due to short duration reset (floating-rate structure);
- Income dominated total return;

- Defensive and resilient capital protection;
- Expanding opportunity set for domestic and global private debt strategies; and
- Availability of specialist managers across private debt sub-segments.'

Debt is famously referred to a 'loser's game', meaning limited upside return but the potential for negative 100 percent downside. Downside protection, by way of collateral protections and prudent risk management, is critical to delivering on stable income and capital preservation. Accordingly, the white paper has a strong focus on protections common to each private debt sub-segment.

The full whitepaper is available [here](#).

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About Foresight Analytics

Foresight Analytics, an independent Sydney-based firm, provides investment diligence, data analytics, and advisory solutions to leading investment management companies, superannuation funds and wealth groups across the Asia Pacific. Foresight's innovative, evidence-based approach blends both human and forensic insights to provide a range of analytical, predictive and market intelligence solutions to investors. Foresight Analytics was founded in 2015 by Jay Kumar, a former executive of Morningstar, Optimix Investment Management, ANZ Wealth & Private Bank and the Reserve Bank of Fiji.

Foresight's fiduciary solutions include Diligence Services (Investment, Operational, ESG & Risk Diligence), Data Analytics and Asset Consulting. Foresight's fund strategy solutions include Data Analytics for asset managers, Fund Strategy Benchmarking Solutions and Strategic Research.

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