

INVESTMENT OPPORTUNITIES IN TRADITIONAL PRIVATE PLACEMENTS

A traditional private placement is an unregistered, negotiated agreement between an issuer and a limited number of “sophisticated investors” (which generally include insurance companies, pension funds, money managers, finance companies, and bank trust departments). Debt securities represent approximately 90% of total private placement volume. The majority of the transactions consummated in the private debt market are for companies with a “BB” to “A” credit profile, ranging from small private companies to well-known, publicly traded corporations across all industries. Companies of higher credit quality have traditionally favored the public market over the private market, where issuers can place debt on more favorable terms and lower rates.

Broadly speaking, issuers are attracted to the market for privately placed debt securities principally for the following reasons:

- Provides long-term fixed rate financing.
- Can accommodate complex structures or difficult-to-sell credits.
- Preserves confidentiality.
- Establishes new investor base.
- Permits tailoring of terms to meet strategic objectives.

Conversely, “sophisticated investors” are drawn to the private placement market because it offers the following attributes:

- Pricing is significantly more attractive than in the public market. For example, private placements are customarily priced 20 basis points to 100 basis points cheaper than public comparables, with high yield credits falling in the upper end of the range, or even higher.
- Covenant protection is more extensive than in public issues. Unlike public securities, where covenants tend to be non-negotiable, covenants in private placements are individually negotiated with investors and can be structured so as to limit the issuer’s ability to undergo any fundamental or financial changes.
- Overall liquidity is satisfactory, and especially high with larger, better quality issuers.

Vanderbilt Avenue Asset Management believes private placements offer significant relative value and should be included in portfolios seeking significant incremental yield and the protection afforded by covenants. Therefore, we recommend allocating 1% - 3% of a total portfolio value to private placements. Vanderbilt possesses the essential skills required for successful private placement investing – namely, credit evaluation and covenant negotiation. Investments in this sector will be spearheaded by a professional who has accumulated ten years of experience in credit and private placement investing and trading.