

THE TRUTH BEHIND PRIVATE DEBT AND ELTIF FUNDS





What is an ELTIF?

ELTIF (European Long-Term Investment Fund) is an investment fund regulated by the European Union, designed to offer your clients secure and supervised access to private assets. Since its launch in 2015, this type of fund, which has seen strong growth, enables long-term investment in the real economy, with strict transparency conditions. With ELTIF 2.0, launched at the beginning of 2024, your clients can benefit from greater flexibility, facilitating access, including for individual investors, to a solution previously reserved for institutional or wealthy investors only.

What is private debt?

Private debt is the term used to describe all loans taken out by companies (generally unlisted) from private investors, whether institutional, individual or specialised finance funds. Unlike traditional bank loans, this financing is provided by specific investment solutions such as those offered by Candriam and Kartesia. This approach enables small and medium-sized enterprises (SME/Mid-caps) to access capital to support their growth, at a time when traditional bank financing conditions have been tightened since the 2008 crisis.

Invest in the real economy with Candriam

Private debt is an investment opportunity that complements your clients' traditional investments. In collaboration with Kartesia, a recognised expert in private debt in the "lower mid-market", Candriam offers a specialised strategy providing access to these investments within a rigorously regulated and transparent framework. The aim of this solution is to enable your clients to target potentially attractive returns, backed by loans secured by solid guarantees and a rigorous protection framework.



¹⁻ The "lower mid-market" segment comprises companies between very small organisations and large groups in terms of size and revenue.

Why choose Candriam?

Candriam has joined forces with Kartesia to offer investments in pan-European SMEs and Mid-caps via flexible financing solutions. This partnership directly supports the real economy while targeting net returns of 8 to 9% per annum for your clients². Our solution is based on a strong selection of diversified companies and includes inflation protection, strict *covenants*³ and priority repayment in the event of default.

Specifically designed to meet the needs of your clients, this solution is based on disciplined yet flexible management. It offers them the opportunity to diversify their investments while playing an active role in supporting the real economy. The aim of this product is not only to offer attractive returns, but also to reduce exposure to fluctuations in the financial markets, within a strictly regulated framework. In addition, by placing ESG (Environmental, Social and Governance) criteria at the heart of its strategy, our approach ensures your clients increase their positive impact on the economy.

²⁻ The performance objective presented is indicative and there can be no assurance that an investment in the product will achieve similar returns or its investment target.

³⁻ Covenants are clauses in loan agreements between a lender and a company that require the debtor to comply with certain specific commitments, in particular financial ratios.



This semi-liquid product also includes controlled exit opportunities, offering greater flexibility. This is an opportunity to augment your offer and meet the growing demand for alternative investments.

Please contact our teams for more information on our strategy, subscription and exit conditions, and to find out how this product can augment your investment offer.

Offer your clients the opportunity to diversify their investments while helping to finance the local economy, and increase their loyalty.

Build lasting client loyalty.







Unlisted assets are reserved for financial experts.

The reality

ELTIF designed funds make investments in unlisted assets more accessible to individual investors. With ELTIF 2.0, these products benefit from a simplified and more flexible structure, backed by strict European regulations guaranteeing structured framework and greater transparency. The aim of this development is to democratise long-term investment in this asset class and to meet the needs in this area.

Simplified structure accessible for small amounts

In partnership with Kartesia, Candriam is offering a private debt investment solution accessible from a few thousand euros, thus democratising access to a world previously reserved for institutional investors.

With this approach you can broaden your client base while offering investors the opportunity to position themselves in **diversified asset classes** with low correlation to the financial markets, **complementing their traditional investments** such as equities or bonds.





It is true that managing illiquid products, such as private debt, can involve higher costs than traditional funds. However, these costs reflect the inherent complexity of these products and the effort required to identify, structure and execute bespoke investment opportunities, often on a local scale.





Higher costs for potentially more attractive returns

Offering liquidity windows involves costs, but these are offset by potentially attractive returns, which can exceed 8% net per annum. This means that your clients can benefit from higher potential returns than other asset classes, offsetting these costs.

In addition, the investment philosophy developed by Kartesia for Candriam is based on a disciplined and flexible approach, with the aim of creating value over the long term.





The risks associated with unlisted assets are better controlled thanks to **rigorous risk management mechanisms**, such as those put in place by Candriam and Kartesia. These strategies include strict contractual clauses, interest rates adjusted to protect against inflation and active monitoring of the companies financed, all of which help to limit the inherent risks.

Unlike the volatility of listed markets, private debt often offers more stable and predictable returns. This asset differs from traditional investments in that it is less sensitive to economic and geopolitical fluctuations, as it is not quoted daily.



An optimised balance between risk and return

Our partner Kartesia stands out for its rigorous and strict risk management, with moderate recourse to debt and increased sectoral and geographical diversification. In addition, with a relatively low net debt/EBITDA ratio (2-4.5x), the repayment capacity of the companies we finance is better controlled, offering an optimised balance between risk and return.

Myth/4

Investing in SMEs is very risky, particularly during an economic downturn.

The reality

The companies financed are SMEs with a moderate risk of default. To limit potential risks, Kartesia offers flexible financing solutions, including bank *covenants*, early repayment facilities and the right to sit on the board of directors as an observer. In addition, the loans granted are at variable rates, guaranteeing protection against inflation, and are classified as secured senior debt, with priority in the event of default.

Kartesia specifically targets companies with conservative debt ratios (i.e. below 4.5x EBITDA), a key factor in reducing



A selection of moderate-risk
SMEs and prudent management of financing conditions

the risk of default, as demonstrated by Moody's⁴, the rating agency. In comparison, company size is less of a determining factor. In family businesses or those run by their founders, which are particularly common among SMEs, there is an additional alignment of interests. The management of these companies, anxious to preserve their reputation or heritage, often see beyond purely financial issues, adding an extra dimension to the investment relationship.



Unlike private equity, private debt allows **regular distributions in the form of coupons**, often annually or half-yearly. With short loan maturities (generally 3 to 6 years), it offers greater visibility over repayments and stable returns.









ELTIF 2.0 funds offer a semi-liquid solution with regular exit windows and the possibility of creating a secondary market, facilitating withdrawals. Unlike other private investments, these funds enable frequent valuations, reducing concerns about lack of liquidity. Active liquidity management and regular distributions also enhance investors' flexibility.









The solution developed by Candriam in partnership with Kartesia offers a semi-liquid structure, with regular valuations and liquidity opportunities, while avoiding the day-to-day volatility of the financial markets.







Although private equity is often seen as more attractive because of its potential returns, private debt offers equally significant benefits, particularly in supporting the real economy. Following the 2008 financial tightened the authorities crisis. financing regulations, restricting banks' ability to lend to Mid-caps, particularly those without a rating or considered riskier. This situation has increased the demand for alternative financing for Europe's SMEs and Midcaps, which make up more than 99% of non-financial businesses, generate





almost 70% of jobs and contribute around 56% of the region's added value⁵.

Kartesia, an expert in SME/Mid-cap financing, has positioned itself in this segment with flexible solutions. Since its creation, Kartesia has posted an average gross internal rate of return (IRR) of 16%, with a particularly low annualised loss rate of 0.3%. These results show that private debt can compete with private equity returns, while supporting the real economy.

⁵⁻ Source: Deloitte Alternative Lender Deal Tracker, Spring 2022

⁶⁻ Data to end of September 2024

Main risks

- risk of capital loss
- operational risk
- senior secured loans
- investment conditions
- co-investments

- interest rate risk
- sustainability risk
- debt instruments backed by tangible assets
- dependence on the supervision and management of debtor companies

- credit risk
- risk associated with investments in debt instruments
- performance of portfolio companies
- risks associated with investment in debt instruments linked to LBO transactions

Important information

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