MEKETA CAPITAL

The Art of Downside Protection

A Private Credit Q&A with Mary Bates, Private Credit Consultant.

DECEMBER 2024

Mary Bates has spent her entire career in credit, starting on an emerging market debt desk. From there, she covered credit across the yield curve and risk spectrum. Over the years, she has been on both the traditional fixed income side and the private credit side, including working with the US Treasury during the global financial crisis on the Public-Private Investment Program. That experience really solidified her understanding of downside risk management—something crucial in private credit.

How does private credit differ from other asset classes, like public credit or private equity?

Private credit can be broken down into two primary strategies: origination-based, where you're directly making loans, and asset-purchase based, involving buying existing assets. Banks used to cover a lot of lending needs but have pulled back, especially post-GFC (Global Financial Crisis), opening up opportunities for private credit to fill those gaps. The liquidity premium is what you earn in private credit for tying up capital over longer periods, unlike in public credit where you have quicker access to your funds. It's a broader field than people often realize, encompassing everything from direct lending to asset-based lending.

What role does private credit play in a diversified portfolio?

Private credit may provide consistency and diversification, especially in terms of risk-adjusted returns. Depending on a client's goals, it can serve as a fixed income substitute or add diversification. For instance, some clients prefer income distributions, while others opt to recycle capital for compounding. It's versatile, aligning well with different risk tolerances and time horizons, and offers exposure to assets that traditional portfolios lack.

Can you give us an example of how asset-based lending fits into client portfolios?

Absolutely. In private credit, the focus is on preserving capital rather than seeking massive upside. Unlike private equity, where you hope for high returns on winners, private credit involves avoiding losses. The return stream here is yield-based, so it's about managing interest, prepayments, and penalties carefully to protect capital.

Lastly, what makes working in private credit at Meketa unique for you?

The discretionary aspect at Meketa is significant. Having the ability to make strategic decisions about capital deployment provides a different appreciation for risk. We're part of a broader private markets team, and there's a lot of synergy with private equity and real assets, which gives our clients a diversified, well-rounded exposure. Being at the intersection of these areas is both professionally rewarding and beneficial for our clients.

As banks continue to re-entrench, limiting lending avenues, private credit steps in to fulfill a widening gap, offering tailored lending solutions with a focus on downside protection. Mary Bates highlights this evolving landscape as both an opportunity and a challenge, reflecting the adaptable nature of private credit. With its ability to complement traditional and alternative assets, private credit remains poised to serve as a critical tool in diversified portfolios. To learn more about private credit, please review our private credit primer or contact us at meketa.com.

For more information about Meketa Capital, please contact us at info@meketacapital.com.

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