Santander
Private Banking

Private credit

What is private credit?

Private credit consists of **non-bank loans where debt is neither issued nor traded in the public markets.**

Future growth prospects

Increased **regulation** of banks, rising **debt maturities** and **high levels of** *dry powder* **in *private equity*** are driving the growth of this market.

Why invest now?

Interest rates are expected to **remain high** for longer, which translates into good return expectations for these assets.

1,7
Trillion dollars
Size of the global private credit market including effective issuance and *dry powder*[1]

17% CAGR*
Market size growth expected between 2023 and 2028[1]

10x
Private Equity inflows vs. private credit inflows over the last decade [2]

* CAGR: Compound annual growth rate.
[1] Source: Blackrock and own calculations. Data as of June 2023.
[2] Source: Preqin, as of September 2022.

Private credit has rapidly evolved from being a niche financing option to a significant and institutionalized asset class, driven primarily by regulatory changes and investor preferences.

Origins of private credit

The evolution of private credit has been marked by significant changes in market dynamics, the regulatory landscape and investor behavior.

It originated in the **late 1980s as** a response to the **limited availability of credit for smaller companies.**

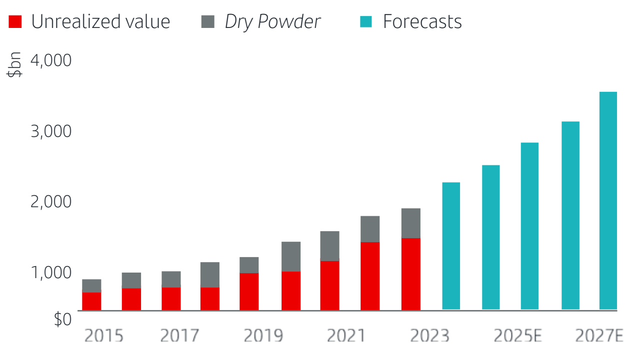
Following the **Great Financial Crisis (GFC) of 2008-2009, the tightening of regulations for traditional banks increased the role of non-bank lenders in lending**, with more flexible terms and structures tailored to borrowers' needs.

Since then, **private credit has rapidly evolved from a niche financing option to a significant and institutionalized asset class**, driven largely by regulatory changes and investor preferences. It also began to play an **important role in the financing of large transactions.**

Assets under management have quadrupled since the end of the GCF, reaching an estimated $1.7 trillion by the end of 2023 and **private credit is expected to exceed $3.5 trillion by 2028**[1] as a result of bank disintermediation.

Assets under management in private credit and growth forecasts to 2028

Source: Blackrock. Data as of June 2023.



An attractive investment option

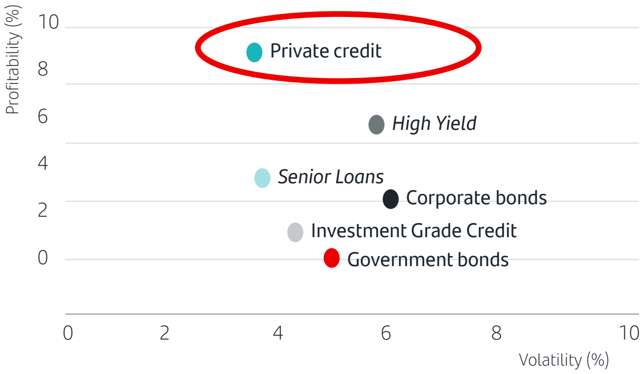
1. Potential for higher profitability than peer options

It can offer **yields between 3% and 6% higher** than that of lower credit quality bonds (*high yield*) and syndicated loans due to:

- The **premium associated with illiquidity** and
- Not being **listed in public markets**

Annualized risk/return profile (15 years)

Source: ICE BofA Indices, Credit Suisse Leveraged Loan Index, JPM CLOIE Indices, as of 06/30/2023.



2. Diversification

It allows **access to a range of sectors and companies that are not in the public markets**, which potentially

- **Adds diversification** to portfolios
- **It is decorrelated** with the rest of traditional investments.

3. Potential for lower volatility and loss ratios

Tends to **have lower volatility compared** to public market securities due to **less frequent pricing and trading.**

In addition, it has historically maintained **lower loss rates compared** to *high-yield* markets[2] **, due to the greater due diligence and structuring expertise of private credit managers.**

[1] Source: Blackrock, Preqin. Data as of June 2023.
[2] Source: Morgan Stanley, June 2024 report.

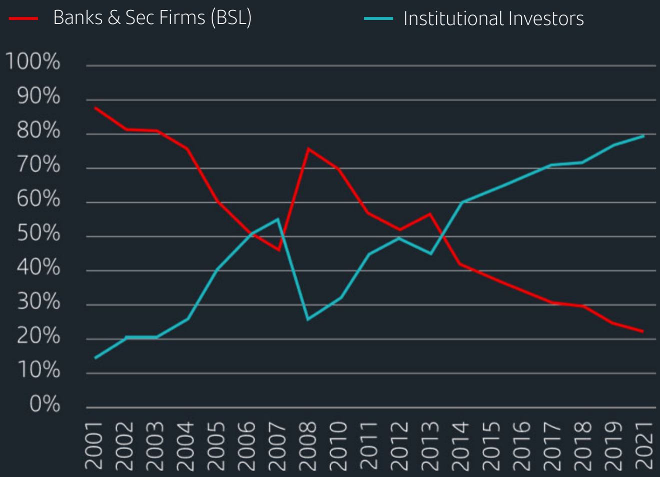
Why now?

1. Change of financing model after the GFC

Since the Great Financial Crisis, private credit has been gaining share over syndicated loans

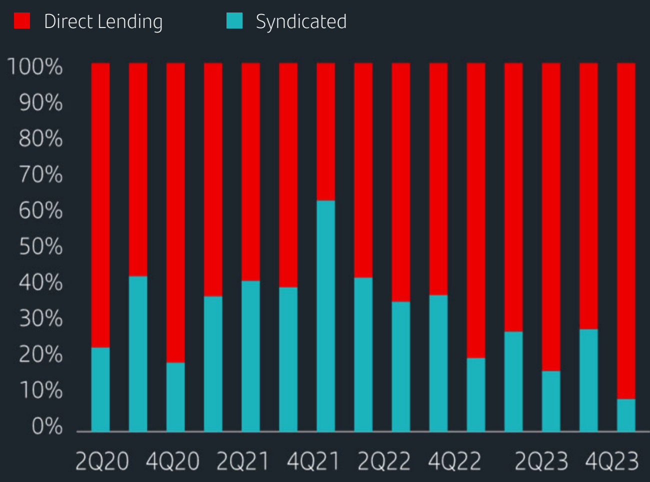
European Primary market corporate loan investment

Source: Goldman Sachs, Pitchbook LCD. Data as of December 2023



European LBOs financed via BSL vs. direct lending market

Source: Goldman Sachs, Pitchbook LCD. Data as of December 2023



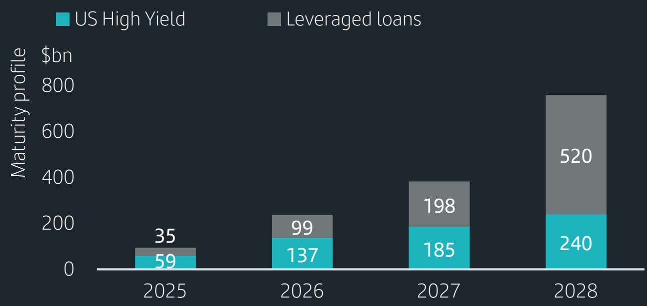
2. Refinancing needs

Growth opportunities for private lenders

Maturities of U.S. *high-yield* credit and leveraged loans between 2025 and 2028 is approximately **$1.5 trillion**, which may create **new** financing **opportunities** via private credit.

Maturity structure of *high-yield* credit and syndicated loans in the U.S.

Sources: Bloomberg, Pitchbook LCD. Data as of June 2024.



3. Mismatch between supply and demand

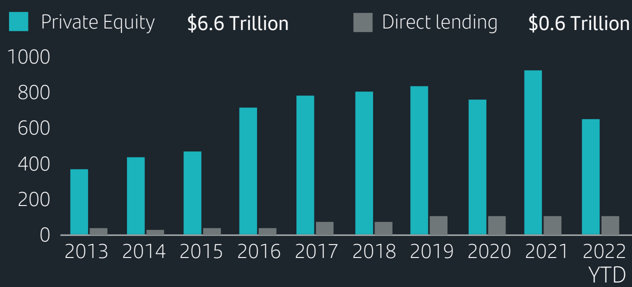
Private equity firms wishing to deploy capital effectively need credit.

Although capital flows to private debt have been substantial, *private equity* has received 10 times more capital in the last decade and, as a result, has a significant volume of *dry powder*.

The size of *private equity* funds has been increasing, which allows them to access transactions with larger companies. This trend can potentially lead to a considerable increase in the demand for credit.

Fund raising of Private Equity and Private Credit

Source: Preqin. Data as of September 2022.



The importance of selecting the right manager

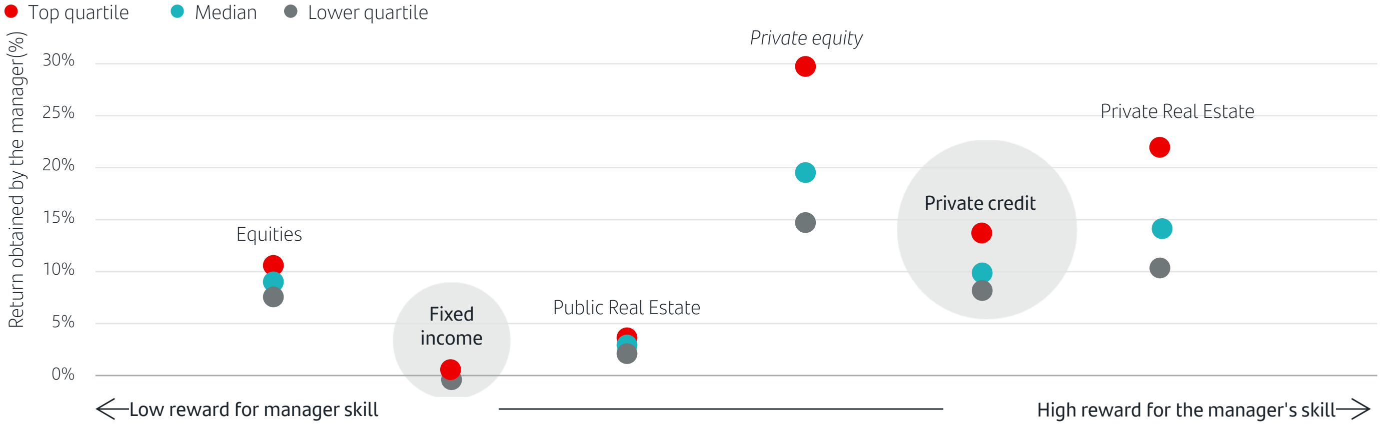
Due to the specialized skill set and infrastructure required to invest in private markets, the **return obtained by managers varies considerably.**

The difference between the top and bottom quartile in private markets is much larger than in other asset classes. asset classes.

Manager selection is a critical component of private credit investment.

The range of results is much wider among private managers than among public managers.

Source: Morningstar.



Returns refer to a five-year period from 10/1/2018 to 09/31/2023 (open-end funds): Public Equities (US Large Blend); Public Fixed Income (US Intermediate Core Bonds); Public Real Estate (US Real Estate). Preqin, returns are for 2018 vintages last reported between 09/30/2022 and 09/30/2023. (North America, Closed-end Funds): Private Equity (Buyout), Private Credit (all private debt strategies); Private Real Estate (Co-invest, Core, Core+, Debt, Value Added, FoF).

Santander Private Banking is a leading global partner leader in alternative investments

Experienced managers

Partnership with top-tier managers, through an exhaustive due diligence analysis.

Structures adapted to each geography to each geography

Partnership with top-tier managers, through an exhaustive due diligence analysis.

Co-investing with Santander

Co-investment with Santander in selected opportunities, with a strong commitment from the bank and full alignment of objectives.

Dedicated and experienced team

Selection of appropriate strategies, aligned with our investment vision, with a rigorous operational due diligence process.

Combination of the best global and local managers

Hamilton Lane, Blackstone, StepStone, Goldman Sachs, KKR, Brookfield, BainCapital, Arcano, Qualitas Equity, Morgan Stanley

Important Legal Information