Insights

Beyond Real Estate: The Benefit of diversification in Private Credit

May 2025

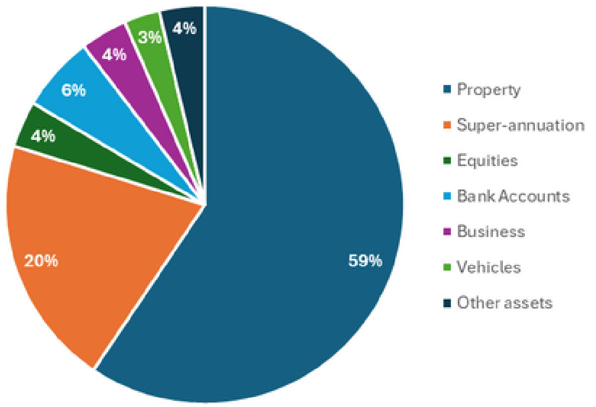
Diversification and a focus on defensive industries are key success factors in uncertain markets.

- **The household wealth of Australians has historically been concentrated in Real Estate.**
- **The recent macro-economic environment has negatively impacted the construction industry demonstrated by an increase in the number of insolvencies.**
- **Tanarra Credit Partners focuses on defensive corporate sectors and offers an opportunity to diversify your portfolio.**

Diversification in private credit is a critical consideration for successful portfolio construction. Spreading exposure across industries, borrower types, geographies, and assets can mitigate concentration risk and ensure a more stable return. During periods of economic volatility, different sectors and borrowers respond in varied ways. A well-diversified portfolio is better positioned to preserve capital and deliver more resilient, consistent returns throughout the economic cycle.

Australia's wealth concentrated in real estate
Historically, a substantial portion of Australian household wealth has been concentrated in real estate. According to the 2022 Household, Income and Labour Dynamics in Australia (HILDA) Survey, property assets, including primary residences and additional real estate, represent 59.3% of total household wealth[1].

Breakdown of Household Wealth, 2022 HILDA Survey



1 Melbourne Institute of Applied Economic and Social Research HILDA survey 2022

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Smarter diversification. No real estate.

There is also significant exposure to direct property, both commercial and residential, in Australia's retirement savings. Of the $4.2 trillion in superannuation at end 2024, nearly one-third is held in SMSFs. Asset allocation data for the same time period shows property to represent 17% of SMSF portfolios on average, only second to Australian shares (27%)[2].

Given this significant exposure to the property market, it is prudent for Australians to consider diversifying their portfolios through private credit managers which specialize in corporate investments rather than adding additional real estate exposure.

Tanarra Credit Partners Investment Strategy
The TCP Private Debt Income Fund (PDIF) offers a differentiated investment focus on corporate lending in defensive sectors and excludes real estate loans. As at February 2025, the PDIF portfolio was primarily concentrated in Information Technology (29%), Health Care (17%), and Childcare (16%)[3] industries, each of which exhibits stability across economic cycles.

This strategy provides investors with a meaningful opportunity to diversify their exposure with an asset manager that will complement a real estate focused private credit fund or other real estate investments.

The majority of TCP's transactions are executed in partnership with Private Equity sponsors that incorporate a minimum 50% equity buffer[4] at origination.

Private Equity sponsors typically maintain significant equity ownership in the underlying businesses, which provide several advantages to such partnership, including:

- access to additional financial support during periods of stress
- enhanced credit quality through rigorous sponsor-led due diligence
- aligned incentives

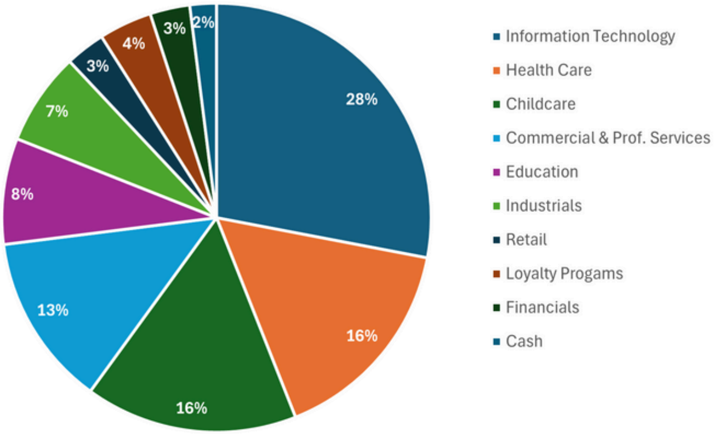
By excluding real estate transactions, TCP can avoid exposure to the property market cycle, valuation volatility and development risks that can be outside the control of both the borrower and asset manager. The construction industry is presently dealing with rising material costs and skilled labour shortages, which combined with fixed price contracts, puts pressure on cashflow.

In 2023-24 the Australian construction industry was responsible for the largest number of insolvencies (27%). This is in contrast to the Health Care and Social Assistance industry (which includes childcare services), which accounted for 3% of total insolvencies. This highlights the benefit of diversification and investing in defensive industries that have pricing power to deal with economic challenges.

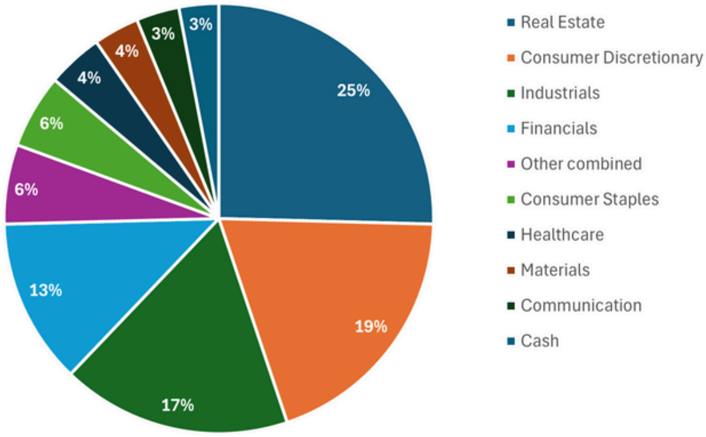
2 ATO, SMSF Quarterly Statistical Report, December 2024
3 TCP Private Debt Income Fund, February 2025 Report
4 Equity buffer supports capital preservation as equity must be eroded before TCP capital is at risk.

The bottom line

Private Debt Income Fund



Peer Average*



At a time when geopolitical and economic uncertainties abound and market volatility is high, it's particularly important to ensure client portfolios are well diversified and positioned away from those industries most likely to come under pressure.

While the Australian corporate private credit market is not entirely immune to global economic forces, it exhibits a degree of insulation from the volatility experienced in larger markets such as the US. This stability, coupled with the attractive yields offered by private credit, makes it an attractive investment proposition irrespective of the prevailing economic conditions.

**Average of two of the largest domestic Private Credit Funds.*

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About Tanarra Credit Partners

Tanarra Credit Partners ("TCP") is an Asia-Pacific private credit specialist with offices in Sydney and Melbourne. TCP's senior investment team has 50+ years of combined global credit markets experience.

Since inception in 2017, TCP has invested over $900 million of investor capital and has an excellent record of originating and structuring leveraged finance transactions across the Asia-Pacific region.

TCP is the credit team of Tanarra Group, diversified alternative asset investment firm, headquartered in Australia, with over A$3 billion in assets under management.

Investment Team

Peter Szekely
Managing Director

Violeta Kelly
Managing Director

For more information about the TCP Private Debt Income Fund, speak to a GSFM Account Manager

gsfm.com.au

GSFM FUNDS MANAGEMENT

Note

1. While TCP Private Debt Income Fund will generally distribute its available income quarterly, there is no guarantee that any income will be generated.