



## **Balancing Liquidity and Return Objectives**

**January 22<sup>nd</sup> 2019**

## In This Webinar

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Gloria Nelund is the Founder and CEO of TriLinc Global. She founded TriLinc in 2008 after a rewarding career on Wall Street; previously she was the CEO of the \$50B US Private Wealth Management Division at Deutsche Bank. Gloria leads TriLinc's high-level strategy and directs its growth, bringing over 30 years of experience in executive management as well as deep expertise in the creation, sales and distribution of investment products.



Paul Sanford is the Chief Investment Officer at TriLinc Global, and he is responsible for planning, implementing and managing all investment management related activities. For over 17 years, Paul has been a global macro investor with a focus on central bank policy, GDP growth trends, global interest rates, global currencies and foreign government policies with an emphasis in emerging markets.

## What is Liquidity?

## Defining Liquidity

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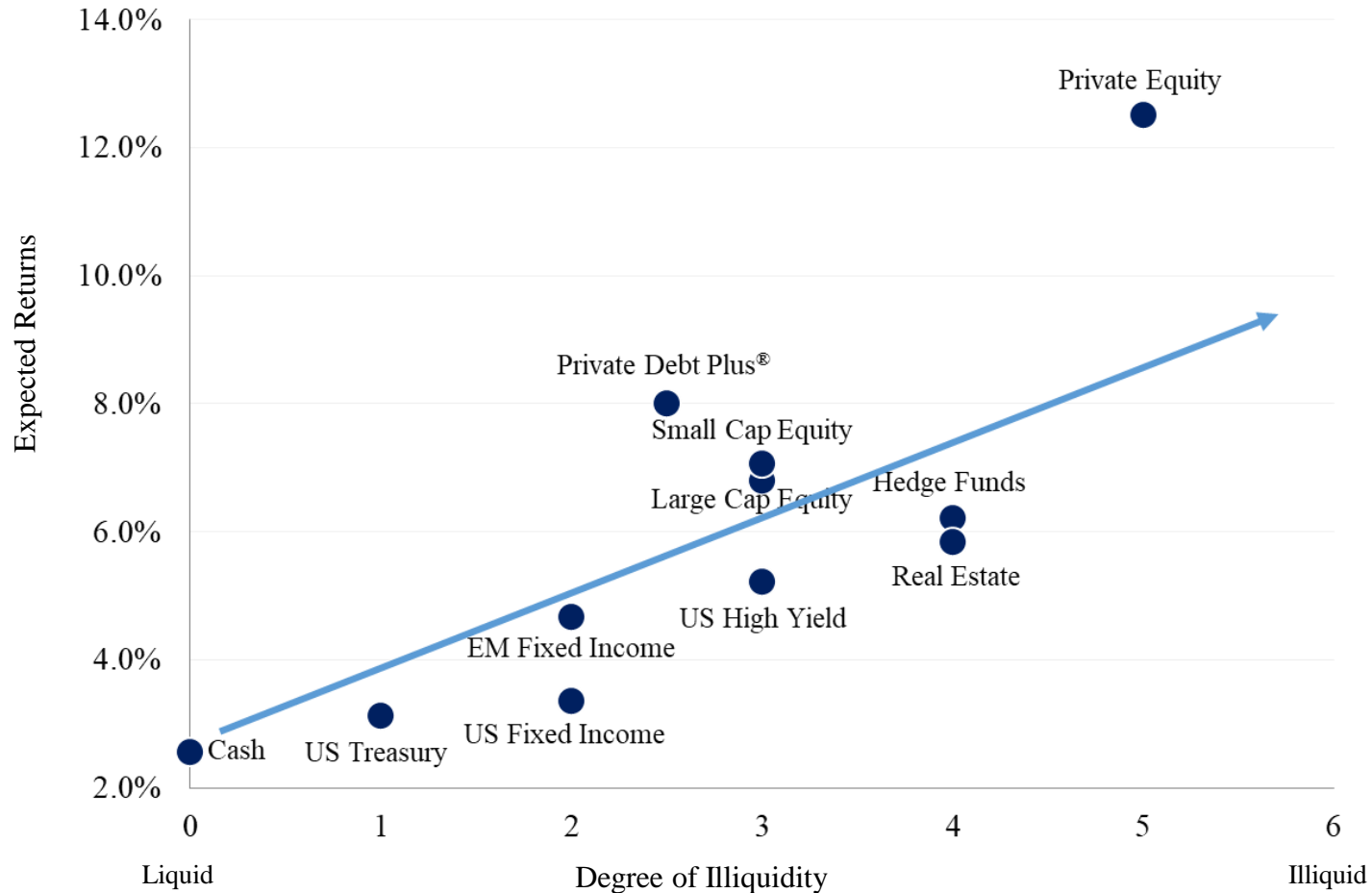
“Liquidity is a **multidimensional concept**. In a market context, it can be thought of as the *ease of trading a security*, but it actually has three dimensions:

- 1) The **price** (bid-ask spread),
- 2) The **quantity** (price impact of a trade), and
- 3) **Speed** (how quickly you can make a trade).

Moreover, liquidity varies over time. What is liquid today is not necessarily liquid tomorrow. This ‘liquidity risk’ is seen most clearly during a crisis, such as the 2008 credit crisis when *seemingly liquid asset classes froze overnight.*”

## Liquidity and Returns

# Quantifying the Illiquidity Premium: Across Asset Classes



*For illustrative purposes only. Expected gross returns on subjective illiquidity estimates. No investor would receive the returns shown; actual returns to investors would be net of fees.*

*Source: BlackRock Investment Institute, December 2018. Data as of 31 October, 2018.*

*Private Debt Plus®, TriLinc's private debt investment strategy, aims to deliver market-rate returns through private debt loans to Small and Medium-sized Enterprises (SMEs) in select developing countries PLUS positive impact that is measurable and reportable through the Global Impact Investing Network's (GIIN) Impact Reporting & Investment Standards (IRIS). Depending on the vehicle, the strategy combines private financing investment opportunities to meet the investment objectives.*

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# Liquidity within an Asset Allocation Framework

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One must look at illiquidity within an asset allocation framework.

## Determine objectives of the portfolio:

- Growth?
  - At what rate?
  - Over what time frame?
- Income?
  - What yield?
  - Current vs future?
  - Over what time frame?
- Capital Preservation
- Liquidity?
  - How much cash do you need, and when?

## Determine asset allocation:

- Stocks
- Bonds
- Alternatives
- Cash

# Liquidity within Asset Classes

Often, investors only consider alternatives within the context of growth (equity). It is more complex than that – alternatives can be both debt and equity.

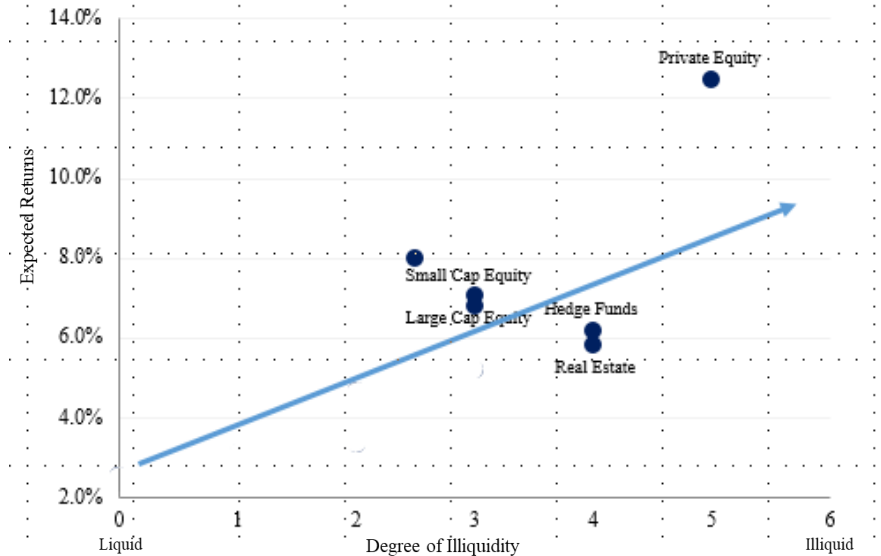
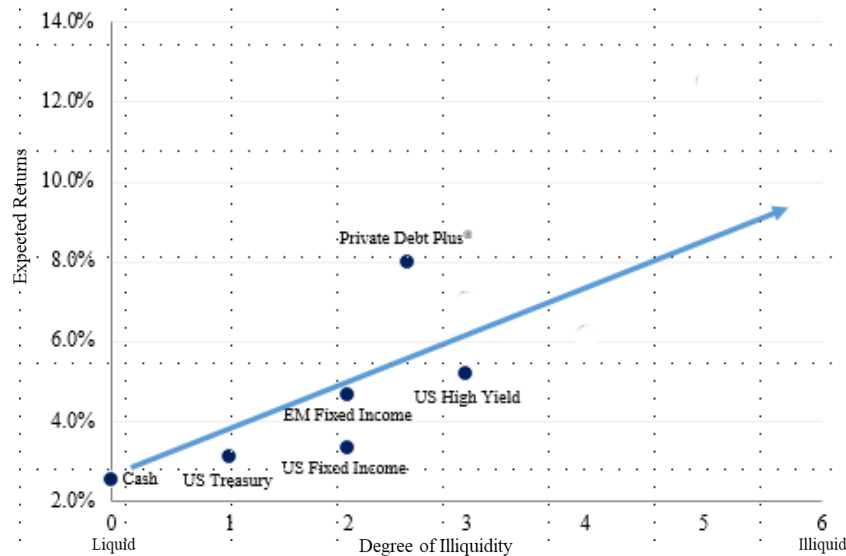
## Alternatives

### Debt

- Non-correlation
- Capital preservation
- Income

### Equity

- Non-correlation
- Growth
- Income



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# Opportunity for Alpha

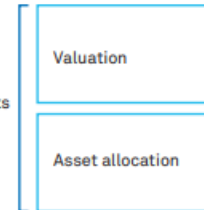
## *Private Investments*



Private Investments Dispersion

The wider array of value levers and risk drivers in private markets can result in greater performance dispersion vs. public assets

## *Public Investments*



Public Investments Dispersion

- ▶ **Sourcing:** Access to investment opportunities is selective and often made discretely.
- ▶ **Private information:** Relevant data is largely private. Selective disclosure is not restricted, it is the norm.
- ▶ **Structuring and negotiation:** Custom structures and security features are more widespread in privately negotiated transactions, and pricing is more likely to be impacted by non-economic factors, such as time pressures to get a deal done.
- ▶ **Valuation:** Comparables are often difficult to find or rely on for unique assets, requiring more work to establish intrinsic valuations.
- ▶ **Asset allocation:** Includes both active allocation to public market risk premiums and assessment of the illiquidity premium, which changes significantly over time.
- ▶ **Use (or misuse) of leverage:** Leverage and debt covenants are more varied than in public markets.

## The Endowment Model and Liquidity

## Liquidity and the Institutional Approach to Investing

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“Viewed in a time frame more appropriate for a long-term investor, well-chosen investments in illiquid assets perform better than otherwise comparable liquid assets.”

*- Yale Endowment Annual Report, 2010*

## Private Assets - Where the Smart Money Invests

Asset Class	2011	2012	2013	2014	2015	2016	2017
<b>Short-Term Securities/Cash/Other</b>	5%	4%	3%	4%	4%	4%	4%
<b>Fixed Income</b>	10%	10%	10%	9%	9%	8%	8%
<b>Domestic Equity</b>	16%	14%	16%	17%	16%	16%	16%
<b>International Equities</b>	17%	15%	18%	19%	19%	19%	20%
<b>Private Assets</b>	<b>53%</b>	<b>54%</b>	<b>53%</b>	<b>51%</b>	<b>52%</b>	<b>53%</b>	<b>52%</b>

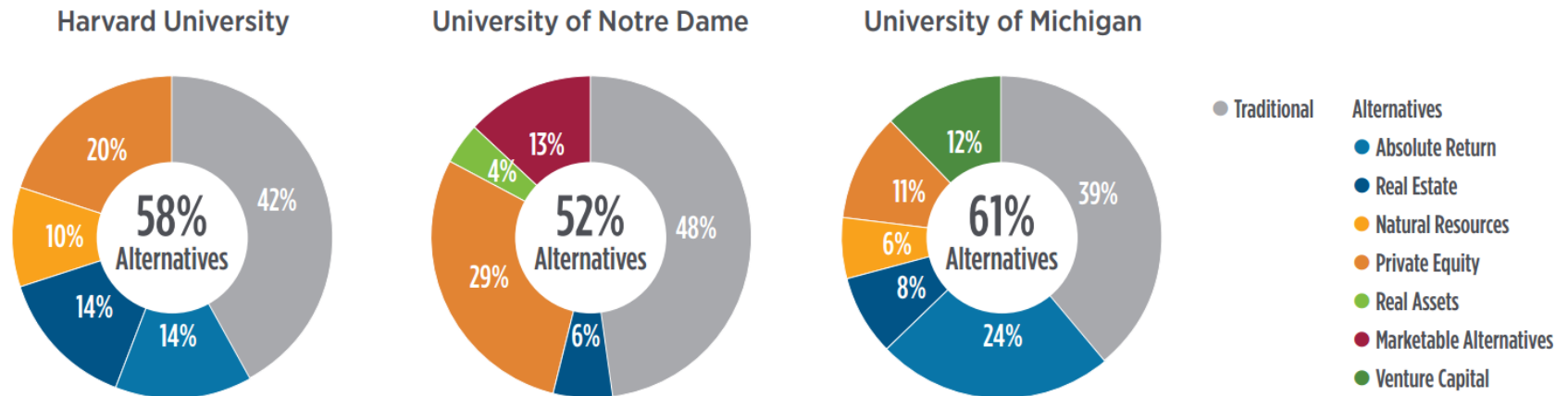
Source: National Association of College and University Business Officers, 2017NACUBO-Commonfund Study of Endowments.

Diversification does not assure a profit or protect against losses in a declining market. Note that the investment objectives of endowments may be significantly different from that of individual investors. Investors should carefully consider whether the use of alternative investments is appropriate in their own portfolios.

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# Private Assets - How Well Executed Endowments Invest

## Alternative investments dominate portfolio allocations of top U.S. university endowments



Source: University filings for FY2016. Allocations reflect available data and in some cases non-endowment assets.

## Rethinking Allocations

## The Liquidity Mismatch – Typical Endowment

Cash Needs	Time Horizon Allocation	Liquidity Allocation	% of Portfolio
<b>Monthly Expenses</b>	<b>5%</b>	<b>Liquid Assets (Stocks, Bonds And Cash)</b>	<b>90% - 100%</b>
<b>Unanticipated Expenses</b>	<b>1%</b>		
<b>Larger Capital Expenses</b>	<b>4%</b>		
<b>Corpus/Principal To Generate Income</b>	<b>90%</b>	<b>“Illiquid” (Real Estate, Hedge Funds, Private Equity, Private Debt)</b>	<b>0% - 10%</b>

*Illustrative example of typical Endowment  
Source: XA Investments, LLC, Liquidity Mismatch*

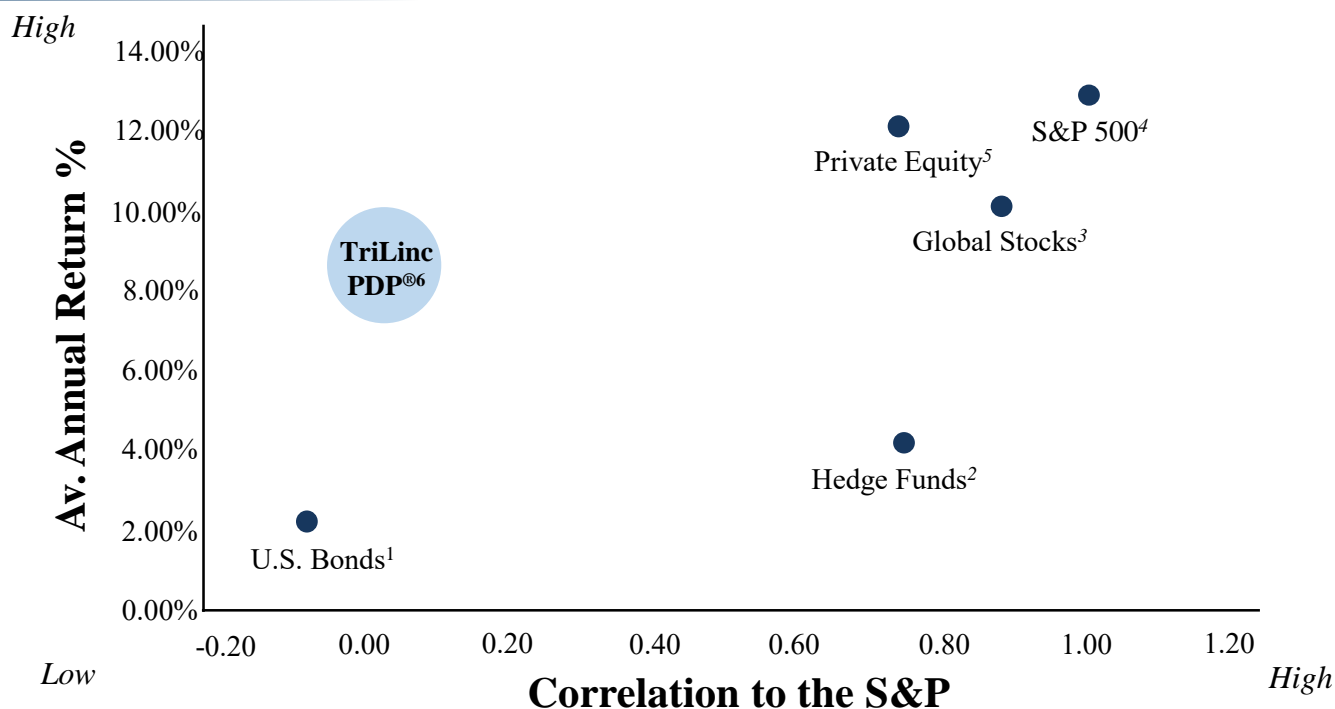
# The Liquidity Mismatch – Typical High Net Worth Individual

Cash Needs	Time Horizon Allocation	Liquidity Allocation	% of Portfolio
<b>Short Term Spending</b> <i>(1 – 5 years)</i>	<b>10%</b>	<b>Liquid Assets</b> <b>(Stocks, Bonds And Cash)</b>	<b>90% - 100%</b>
<b>College Savings</b> <i>(5 – 15 years)</i>	<b>10%</b>		
<b>Retirement</b> <i>(20 – 30 years)</i>	<b>60%</b>	<b>“Illiquid”</b> <b>(Real Estate, Hedge Funds, Private Equity, Private Debt)</b>	<b>0% - 10%</b>
<b>Wealth Transfer</b> <i>(30 – 60 years)</i>	<b>20%</b>		

*Illustrative example of typical High Net Worth Individual  
Source: XA Investments, LLC, Liquidity Mismatch*



# Correlation Considerations



Period: Since Inception 6/30/13 – 3/31/18

<sup>1</sup>iShares Core US Aggregate Bond ETF (AGG) seeks to track the investment results of the Barclays Capital US Aggregate Bond Index.

<sup>2</sup>HFRI Asset Weighted Composite Index is designed to capture the breadth of hedge fund industry performance trends across all strategies and regions. The index is weighted according to the AUM reported by each fund for the prior month.

<sup>3</sup>iShares MSCI ACWI ETF (ACWI) seeks to track the investment results of an index composed of large and mid-capitalization developed and emerging market equities.

<sup>4</sup>SPDR S&P 500 ETF (SPY) seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500<sup>®</sup> Index which is a diversified large cap U.S. index that holds companies across all eleven GICS sectors

<sup>5</sup>Preqin Private Equity Quarterly Index, December 2017. This is a money-weighted index that uses fund-level cash flow transactions and net asset values for over 4,000 private equity funds collectively worth more than \$3 trillion.

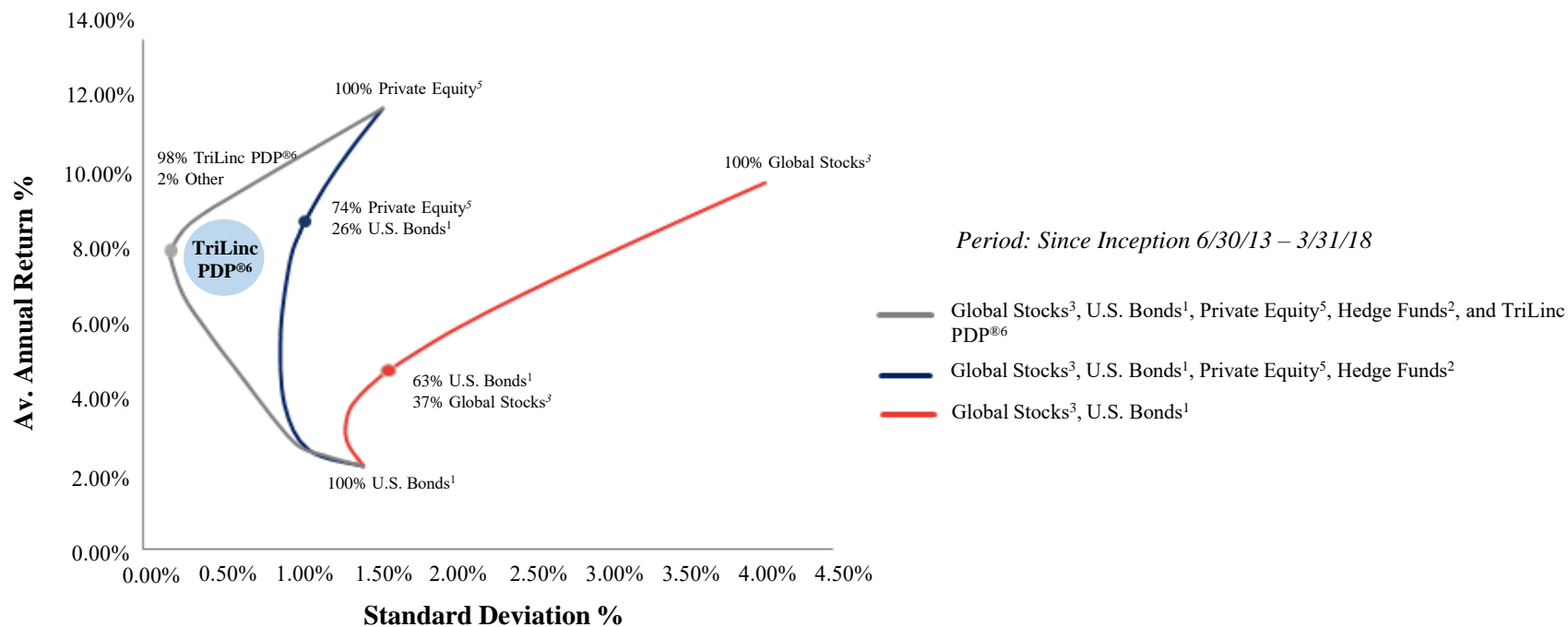
<sup>6</sup>Private Debt Plus<sup>®</sup> Net IRR

Performance displayed does not reflect the reinvestment of distributions and is net of expenses.

Results reflect the performance of Private Debt Plus<sup>®</sup> which consists of asset based weighted returns of TriLinc Global Impact Fund (TGIF) and TriLinc Global Sustainable Income Fund (TGSIF) and does not reflect the performance of the Funds individually (except as noted) or other investment vehicles. Cash flows from TGSIF are added to cash flows from TGIF as of the end of each month and not as of the actual transaction date of the cash flow as in the case for the TGSIF standalone IRR calculation. No investor actually received the returns shown.



# Optimizing Allocations



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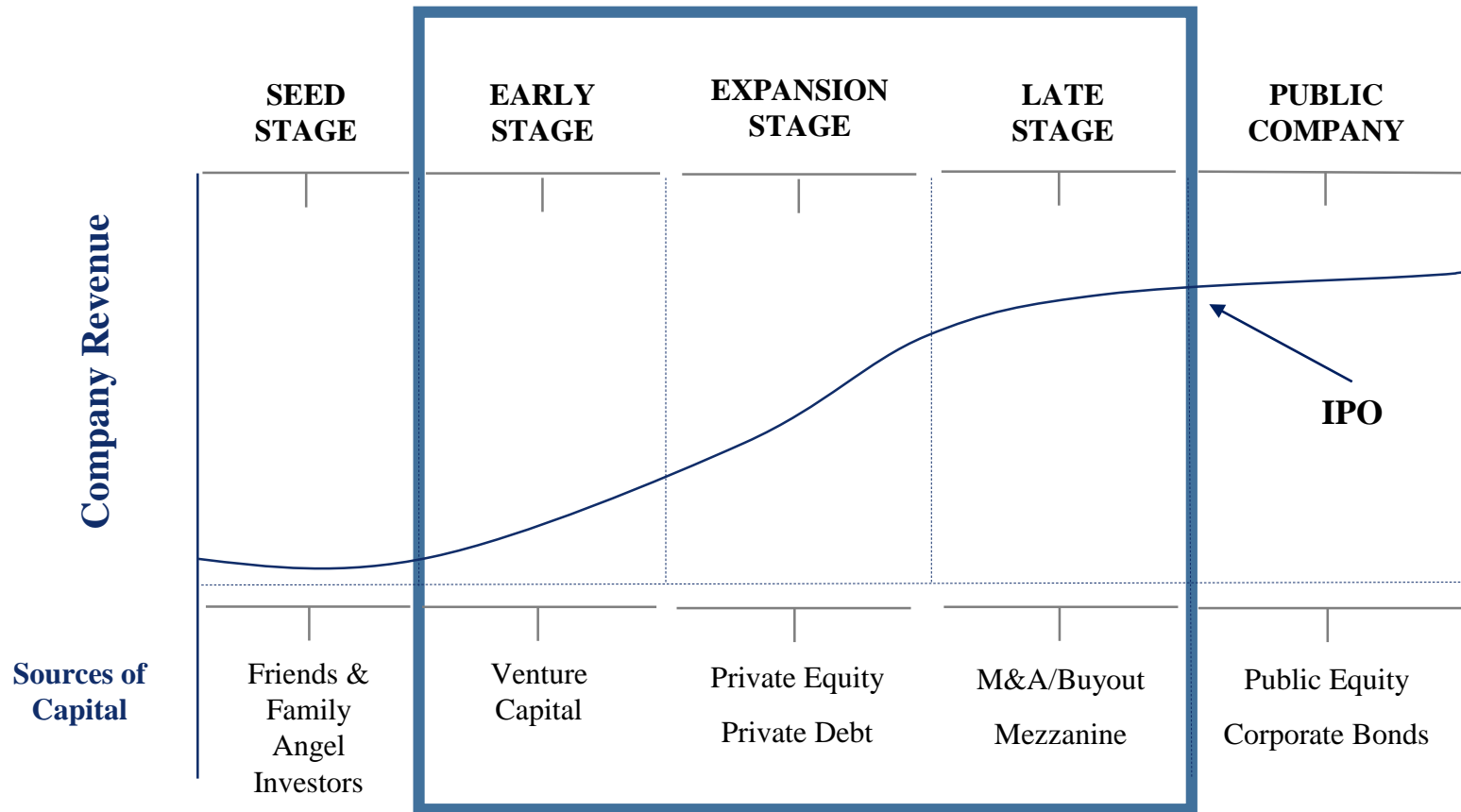
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## The Case for Private Assets

# Private Assets Investing

~70% of Private Asset Investing<sup>1</sup>



For Illustration Purposes Only.

<sup>1</sup>Source: McKinsey Global Private Markets Review, 2018

# Opportunity for Alpha

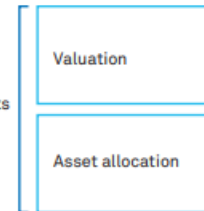
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## **The Case for Emerging Markets Private Debt**

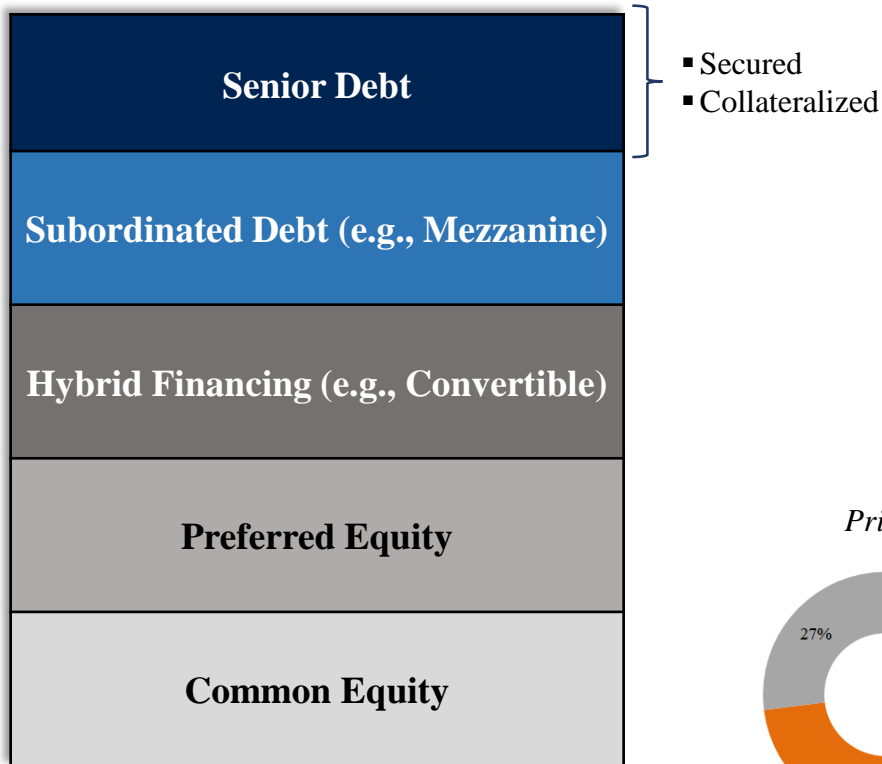
## The Case for Private Assets in Emerging Markets

Across asset classes, *developed markets* are experiencing an *over allocation of capital* resulting in *above average penetration rates*, while *emerging markets* are experiencing an *under allocation of capital* resulting in *lower penetration rates*.

	Developed Markets	Emerging Markets
Under Allocated Market	✘	✔
Lower Capital Penetration	✘	✔
Higher Expected Returns	✘	✔

# The Case For Emerging Markets Private Debt

## Capital Stack

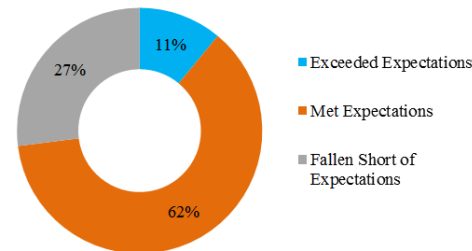


## More Predictable Alpha/Returns:

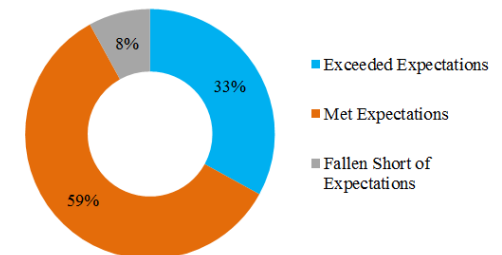
1. Structured Cash Flows
2. Self Liquidating/Exiting
3. Borrower Only Needs to Perform In-Line with Expectations

## Institutional Investors Happier with Private Debt

*Private Equity in EM<sup>1</sup>*



*Global Private Debt<sup>2</sup>*



<sup>1</sup>Source: *Investor Views of Private Equity in Emerging Markets, 2018*

<sup>2</sup>Source: *Preqin Investor Outlook: Alternative Assets, 2018*



## Emerging Markets Private Debt Opportunity

## Private Debt Plus<sup>®</sup>

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### Interest Rate Risk

- Short Duration (< 3 years)

### Credit Risk

- Primarily Senior Secured 1<sup>st</sup> Lien
- Over-Collateralized using Liquidation Values

### Market Risk

- Primarily Direct Origination Loans
- No Securities
- Income Basis Valuation
- 100% USD Denominated<sup>1</sup>

### Sector Risk

- Comprehensive Diversification
  - By Originator
  - By Asset Type (Trade Finance vs. Term Loan)
  - By Region
  - By Country
  - By Sector

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*<sup>1</sup>Principal balances and repayments are denominated in US dollars; interest payments on loans in Europe may have foreign currency exposure to the Euro.*

*Although TriLinc believes, based on certain factors and assumptions, that the target risk profile outlined above is reasonable, it is not guaranteed.*

## Private Debt Plus<sup>®</sup> Key Statistics (as of 11/30/18)

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**\$1.12 billion**

Trade finance, term loan, and short-term transactions in

**81**

Small & Mid-Sized Businesses supporting

**35,894**

Permanent jobs<sup>1</sup> in

**36**

Developing economies<sup>2</sup>

**0**

Default Losses<sup>3</sup>

<sup>1</sup>“Permanent Jobs” is based on the IRIS Metric of Permanent Employees

<sup>2</sup>TriLinc supports impactful trading operations, benefiting exports and/or imports into developing economies. For borrower companies that are located in developed markets, TriLinc provides trade financing transactions involving exports/imports for enterprises located in developing economies. The transactions involving these developing economy enterprises are included in the figures above.

<sup>3</sup>To date, TriLinc has not realized any loan losses, however the value of some loans have been marked down from their original loan amount and in such cases may no longer be accruing interest.

## Want to Learn More?

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If you would like a copy of today's presentation, or if you have any questions for Gloria and Paul, you may reach us at:

[info@trilincglobal.com](mailto:info@trilincglobal.com)

or you can visit us online at:

[www.trilincglobal.com](http://www.trilincglobal.com)



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*Thank you!*

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The information on which this Presentation is based has been obtained through industry contacts and publicly available sources. Although TriLinc has reason to believe the information to be true, TriLinc has not independently verified such information and no representation or warranty is given that it is up-to-date, accurate, and/or complete. Specific data is as of December 31, 2018, unless otherwise indicated, and TriLinc does not undertake any responsibility to update any information.

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An investment in the Company is suitable only for sophisticated investors who have no need for immediate liquidity in their investment. Such an investment has not been registered under federal or state securities laws, is restricted and provides limited liquidity because interests in the Company are not freely transferable and may be repurchased only under limited circumstances set forth in the Offering Documents. There is no public or secondary market for interests in the Company, and it is not expected that a public or secondary market will develop. The value and the income the investment produces may fluctuate and/or be adversely affected by exchange rates, interest rates or other factors. Prospective investors should inform themselves as to the legal requirements and tax consequences of an investment in the Company within the countries of their citizenship, residence, domicile, and place of business. Units will be sold only to accredited investors.

Anyone considering an investment in the Company will be provided with an offering memorandum, limited liability company agreement, and subscription agreement (the “Offering Documents”). You should review carefully and completely the Offering Documents and risk factors, as disclosed in the Offering Documents, prior to making a decision to invest. You should rely only on the information contained in the Offering Documents in making your decision to invest. Investors should not construe the contents of this Presentation as legal, tax, investment or other advice. Investors must consult their own advisors.

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