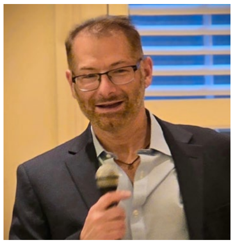
HAYNES BOONE

PRIVATE CREDIT CONNECTIONS

From The Insider's View

Brett Cohen, President and General Partner of JGB Capital Management, shares his thoughts on the opportunities available to direct lenders in the current economic environment.



Brett Cohen

Company & Title: *President and General Partner of JGB Capital Management*
Education: *Yale Law School and Columbia*
Current City: *Westport, CT*
Fun Fact: *I raise chickens and Nigerian pygmy goats in my backyard*

The past year has been filled with a number of macroeconomic and geopolitical events that have impacted the economy and deal flow. In hindsight, which do you think had the biggest impact on the private credit market and which will have the longest lasting implications?

The biggest impact has been a rise in interest rates from zero to a high rate environment where there is an actual cost of money. This has had profound implications for direct lending and the broader economy. Higher rates will mean higher returns for direct lenders if they can avoid losses. Obviously, with higher interest rates certain borrowers may have more difficulty servicing their debt, which will mean that underwriting and collateral will be more important than ever. The regional bank collapses in early 2023 also materially reduced traditional sources of capital for many transitional companies and industries, further increasing the demand for private credit.

How are you looking at 2024 deal flow compared to 2023, and what do you think the key drivers will be for any differences?

2024 has started out quite strong in terms of deal flow. At some level, this is a result of higher interest rates and a pull back by regional banks. One noticeable trend we are seeing in our high volume of deals has been an increase in commercial real estate loans, as existing loans are maturing for stressed commercial real estate properties. At JGB, our real estate loans tend to be structured as short-term loans and we're focused on the value of the real estate itself as opposed to any kind of long term development plan for the property. We're often a bridge until the borrower can refinance us with a more traditional real estate lender.

As we look toward 2024, how do you view the outlook for private credit compared to other asset classes?

We have more expertise in our own asset than in other asset classes, so I am hesitant to make comparisons between investing in direct lending versus tech stocks or some other asset class. Direct lending can provide investors with consistent risk adjusted returns when done prudently. Perhaps more apt would be to compare the opportunities in private credit today to the opportunities in private credit several years ago. Today is a strong environment for private credit investors to earn significant returns.

What are the key considerations or terms that you will be looking for in private credit deals as we move into 2024?

We remain consistent in terms of our key considerations and terms since the inception of our firm and across years and whole economic cycles. We are primarily looking to make sure that we are covered by collateral that is worth more than we are investing. When possible, we also like to arrange deals to get equity upside.

Are you expecting to focus more on new deals or portfolio maintenance in 2024?

We're focused on finding new deals. Our current portfolio is performing well and has not required more than usual maintenance. We're in a position to reinvest our P&L from existing deals into new transactions in addition to attracting capital from investors.

There have been a lot of new entrants into the private credit market in recent years. Do you see that trend continuing, and what can firms do to differentiate themselves?

When people ask me this, I always tell them they should look for a lender that has operated and maintained strong relationships and performance through many cycles. Look for the managers that have been doing private credit before it became the super-trend that it is today.

> *"After all, you only find out who is swimming naked when the tide goes out."*
> *– Warren Buffett*

Should we be on the lookout for any "new frontiers" for private credit in the next year or two?

The wave of maturities in commercial real estate will take a few years to work out and that will be a wave of opportunities for direct lenders. We're seeing other opportunities to make loans to venture capital backed companies and microcap public companies as well, as venture capital and emerging growth investors have pulled back.

JGB Capital Management

JGB was founded by Brett Cohen in 2005 and is an alternative asset management firm focused on investing in niche credit-oriented situations. JGB's cohesive and complementary team leverages decades of collective expertise in multi-asset class investing. JGB seeks to achieve capital appreciation through a variety of investment strategies, including directly negotiated private transactions.

Haynes Boone

Haynes Boone's Private Credit Finance Group is a leader in the representation of lenders and borrowers, including private debt funds, independent commercial finance companies, specialty finance companies, business development companies (BDCs), insurance companies, hedge funds, family offices, private equity groups and other investors in connection with direct lending transactions across all industries.

Our team is comprised of lawyers based in key financial centers throughout the U.S. and abroad, including Charlotte, Dallas, Houston, London and New York.

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