INVEST BEYOND THE PUBLIC MARKETS

ACCESS SENIOR SECURED PRIVATE WEALTH MORTGAGE NOTES AND BUILD A FUTURE PROOF PORTFOLIO

ROYCE LYNCH
PRIVATE MARKETS

INVESTMENT GRADE PRIVATE PLACEMENTS:

A ROAD MAP FOR PROFESSIONAL INVESTMENT ADVISORS

OVERVIEW

STEPPING IN AS PRIVATE BANKING IS STEPPING OUT

Private market investing has long stopped being niche trade, in fact, the breadth of private market debt holdings rivals or even surpasses public markets and access is increasingly being accessed through syndicated private placement, not just blind pools, or traditional funds.

Fallout from the most rapid rise in interest rates in four decades has created the best environment for private credit investors since the global financial crisis (GFC). Private Banks are retreating in the face of liquidity constraints, regulatory scrutiny, and higher cost structures. Additionally, pressure from banking regulators to increase capital reserves at a time when bank reserves are already strained, freezing credit markets for the UHNW.

As private banks continue to restrict credit access, further creating a void in high net worth lending, private market investors are stepping in to fill the void. As demand for capital outpaces supply, investors stand to benefit from the combination of liquidity-driven opportunities in private client credit, as well as capital structure challenges for UHNW borrowers.

With minimal correlation to public volatility, private client credit offers individual investors and their advisor’s access to institutional quality credit, providing capital protection against principal erosion, with an emphasis on steady income generation regardless of the volatility inherent in the public markets.

The unprecedented impact of federal reserve policies and the resulting market volatility born from such intervention has created a perfect storm for private market investors. With minimal correlation to public volatility and demand for private capital outstripping supply, investors won’t need to take large risks, to generate compelling returns.

OVERVIEW

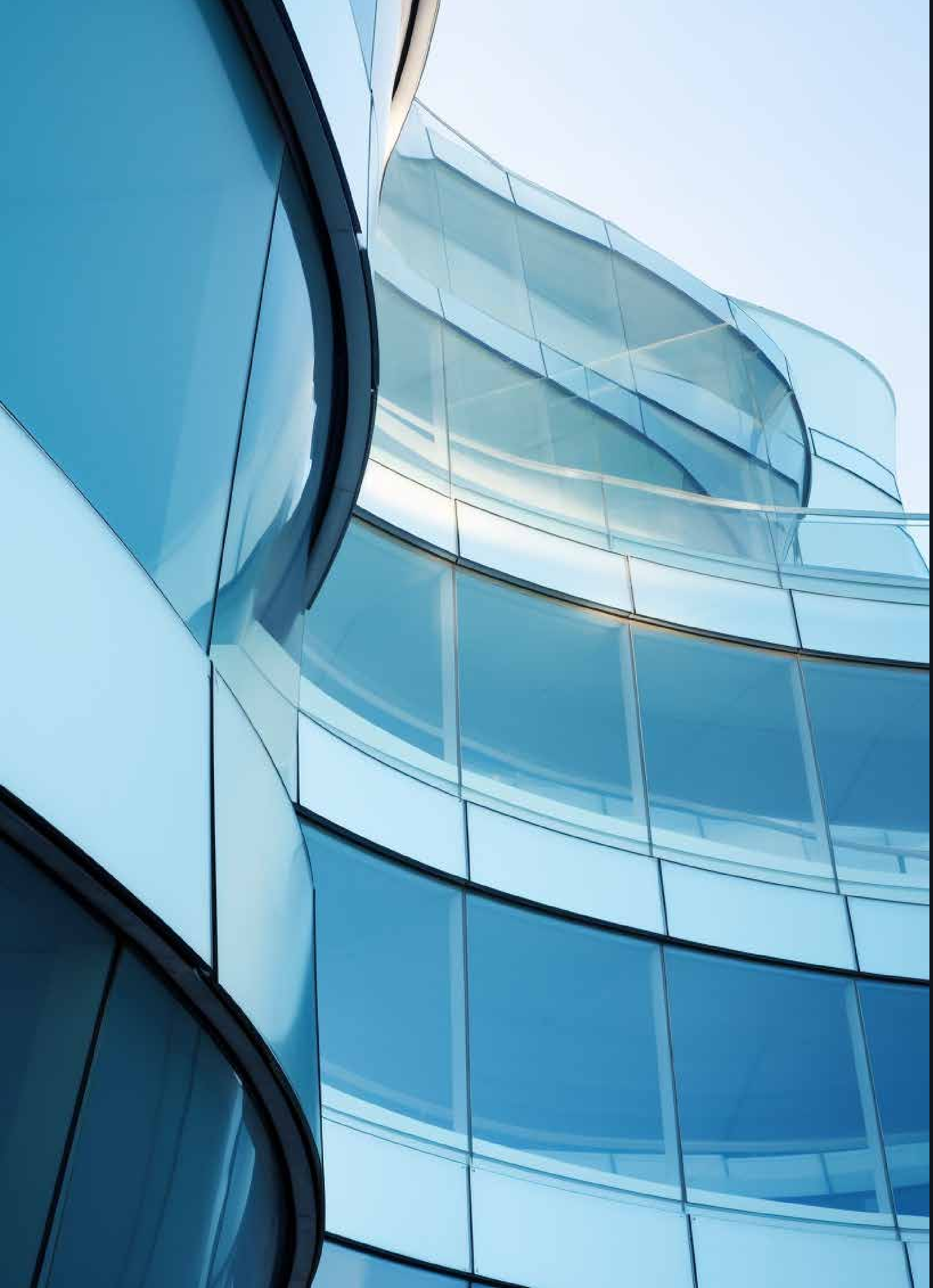
ESSENTIALS OF INVESTMENT GRADE PRIVATE CLIENT CREDIT

PRIVATE WEALTH MORTGAGES	Super jumbo mortgage loans made to UHNWI through Royce Private Client for the purchase and refinance of real property assets.
SYNDICATED SENIOR SECURED NOTES	Notes structured senior in priority backed by overcollateralized real property assets.
INVESTMENT GRADE PROXY	Notes are underwritten to Institutional, Regulatory, and NAIC 1 investment grade standards with "Whole Loan Look Through" structure.
MONTHLY INTEREST PAYMENTS	Notes accrue interest immediately upon settlement and all remittance payments are reconciled and distributed monthly.
RETURN ENHANCEMENT	Aided by the yield premium, enhanced covenants, and credit risk protection, Private Client Credit outperforms it publicly traded counterparts. Senior Secured Private Wealth Mortgage Notes offer investors above market returns and are unprecedented in the risk return spectrum.
FIXED DURATION	Private Wealth Mortgage Notes are structured as 5-year fixed rate obligation providing stable, duration matched, monthly income.
CREDIT RISK	Private Wealth Mortgage Notes high higher credit performance versus its counterparts due to lower LTV and superior quality of obligor. Principal is equity protected against market retracement and cum loss protected by personal guaranteed covenants.
CONVEXITY MANAGEMENT	Private Wealth Mortgage Notes are inherently low convexity obligations. Royce Private uses Portfolio Surveillance software to monitor mortgage inquiry activity to manage loan convexity and investor returns. Royce Private originates mortgage applications with borrower paid discount points creating an implied interest rate and prepayment hedge.
PRIVATELY SYNDICATED	Senior Secured Mortgage Notes are distributed privately within a Delaware Series SPV giving investors "Look Through" benefits without the complexities and experience needed to manage whole loan acquisition. Investors further benefit from Direct Share Ownership versus Managed Fund Shares.

OVERVIEW

ESSENTIALS OF INVESTMENT GRADE PRIVATE CLIENT CREDIT (CONTINUED)

REDUNDANT UNDERWRITING	"Built into the origination process of our senior secured private wealth mortgage notes is redundant underwriting by a rated third-party due diligence firm. This self-imposed, third-party audit is conducted on every credit package prior to trade availability. All data tapes and underwriting certifications are provided to investors as part of our assurance process to ensure strict adherence to institutional, regulatory, and compliant underwriting standards."
INVESTOR ADMINISTRATIVE SERVICES	Royce Lynch will manage all aspects of the structured oversight and corporate related distribution services such as sub-servicing, data aggregation, remittance reconciliation, monthly distribution, tax filings, and investor relations.
TRADE SIZING	Private Wealth Mortgage Notes provide investment professionals the flexibility of duration matching, trade sizing, and dispersion of investor risk across a portfolio of assets and amongst many other investors.
SMA	Private Syndication gives investors the ability to allocate capital on a transactional basis without the need to establish a traditional SMA relationship, always retaining total custody of investor capital until capital call is initiated.



WHY PRIVATE MARKETS

As the benefits of alternative investments have become increasingly accepted, family offices, endowments, pension funds, and other institutional investors have gradually increased their allocations to private markets. Many insurance companies have already taken note: a 2020 survey by Goldman Sachs Asset Management reported that insurers planned to increase their allocations toward private markets by as much as 28%. We believe there are several factors driving this trend.

ENHANCED RETURN POTENTIAL

Private markets are typically more illiquid than public markets. In exchange for this, investors expect to be compensated through higher returns. As seen in Figure 8, the benefits of the illiquidity and asset class specific premia are more than theoretical: between 2005 and 2017, private markets generated higher returns than their public counterparts.

GREATER PORTFOLIO DIVERSIFICATION

Not only are return expectations higher for private markets in comparison to their public counterparts, but the fact that some asset classes are uncorrelated with traditional investments can diversify systemic risk, generating a higher expected return for any given level of volatility. These diversification benefits are partly the result of a phenomenon known as smoothing and has very little impact on the correlation between public and private market volatility.

STRATEGIC ALLOCATION

Strategic Asset Allocation process follows a risk premium framework that decomposes each asset class into sets of common and idiosyncratic factors.

The factors, which include the risk-free rate, term, credit, and equity risk, contribute to the returns of public and private markets alike. The idiosyncratic factors on the other hand, can only be harvested by investing in private markets.

Compared with other institutions, stewards of significant wealth and endowments are sometimes subject to more constraints, which have greater influence on the SAA process. Some of the factors that investors may consider when beginning to define their SAA include:

- The general need to protect against capital loss and interest rate risk provides a natural tilt towards longer duration, buy and hold investments.
- The need to meet the required benchmarks leads to a natural preference for low-risk, low-volatility investments in the senior space of the capital structure and a balanced exposure to risk premia.
- Running cash yields are quite important, especially when mitigating the J-curve. Private client credit is often a good fit for this purpose.
- The fact that liquidity is generally less of an issue for managers of significant wealth allows them to capture attractive illiquidity premia within private client credit.

Because Private Wealth Mortgage Notes offer varying duration schedules and position sizing, portfolios can be tailored to specific requirements.

CONCLUSION

As investors continue to navigate a challenging environment, driven by public volatility, elevated inflationary pressures, hawkish central bank activity, geopolitical tensions, and unknown market-based risk events, capital protected investing are the challenge variables UHNW and their advisors face in the era of volatility and wealth preservation.

As professional investors shift their portfolios from public markets into private assets, one of the most attractive asset classes to emerge is private client credit. With higher spread premium, greater durability, persistent monthly income, and a lower credit risk profile than public fixed income equivalents, investment grade private client credit will continue to see tremendous growth as an asset class.

But unlike traditional public securities, investors must also address many internal and regulatory constraints to maximize the effectiveness of their private market exposure.

Private client credit offers investors significant relative value and protection against principal erosion and permanent loss of capital, while consistently generating spread premium. Institutional quality, investment grade, private client credit investing as a principled strategy, capital protected income is the primary investment objective. When allocating to private markets, investors are also faced with a set of unique challenges, such as illiquidity, program complexity, portfolio construction, data aggregation, deal sourcing, as well as execution capabilities. It is up to investors to master these challenges using a sound SAA framework.

We believe professional investors and allocators of capital will find that the benefits of investing in private wealth mortgage notes far outweigh the challenges of doing so, particularly when traditional portfolios are challenged to navigate such turbulent times.

With decades of lending and structured credit experience we offer access to investment grade private client credit for investors seeking capital-protected cashflow as a hedge against inflation, aggressive monetary policy, and alpha-based investment risk.

As capital continues to transition to private market alternatives, our scalable origination and distributive syndication capabilities provide partners the ability to retain and grow income without the risk of principal erosion or permanent capital loss.

In sum, senior secured private wealth mortgage notes are a critical component of a modern day and future proof duration matched portfolio.

ROYCE LYNCH PRIVATE MARKETS

WHY ROYCE LYNCH

The continuous retracement in private banking is creating outsized growth in demand for private market credit and unfolding a generational opportunity for investors seeking capital protected income. Rest assure, as capital allocation continues to trade away from public market volatility, private banking continues to step away from the credit markets, Royce Lynch will step in to fill the void.

Royce Lynch has dedicated its entire existence to serving the needs of high-capacity families and their advisors. The Syndicate platform is and extension of that commitment, providing qualified investors the opportunity to invest in predetermined, fixed monthly income coupled with risk mitigation structures that reduce capital risk, structured with appropriate recourse agreements, first loss equity protection, and reserve accounts.

We Are Private Client. We aspire to be the world's most exceptional financial institution, united by our shared values of partnership, experiential service, integrity, and excellence. A key contributor to our capabilities is our vertically integrated ecosystem and global team of private wealth focused companies. With nearly 30 years of asset optimization and capital markets experience, our private market economy provides clients and investors with efficient access to situational capital, capital markets, and private market investments.

Private Market Investing has been a staple of institutional portfolios for decades. The Syndicate is transforming traditional capital systems and empowering our high-capacity clients with access to a system of capital creation that is forever free from the politically motivated, market manipulated, and capital restricted, public markets.

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RISKS & CONSIDERATIONS DISCLOSURE

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Private client credit underwritten to NAIC 1 investment grade standards. Like all investments, there are risks associated with investing in a portfolio of private market alternatives. The primary risk to an investment in private market debt is credit risk. Credit risk is the risk of non-payment of scheduled interest or principal payments on a debt instrument. In the event a borrower fails to pay scheduled interest or principal payments on its debt, a portfolio of private market credit may experience a reduction in its income and a decline in secondary market value.

Information about a private credit offering and the related borrower details generally are not in the public domain. However, borrowers are required to provide financial information to Royce Lynch during the underwriting process to determine ability to repay and support the terms of the obligation and the credit package meets investment grade credit policies. Investments in private market credit involve a degree of risk and only accredited and qualified investors should invest. Additionally, investors may receive illiquid and/or restricted securities that may be subject to holding period requirements and/or liquidity concerns. Investments in private placements are highly illiquid and those investors who cannot hold an investment for the long term (at least 5-7 years) should not invest.

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