Important Information about Private Credit Funds

Baird has prepared this document to help you understand the characteristics and risks associated with investing in private debt, private income or private credit funds (collectively, "private credit funds") so that you can make an informed decision when buying these securities. Investing in private credit funds can be speculative and involve significant risks. As a result, private credit fund investments may not be suitable for all clients. Your Baird Financial Advisor can further explain the features, characteristics and risks of private credit funds.

What is Private Credit?

Private credit is an umbrella term referring to a loan extended to a privately held company. Private credit provides capital to companies that may not otherwise be able to access the traditional loan market. Repayment of the loan is often secured by a pledge of the borrower's assets.

Private Credit Funds

Private credit funds are pools of actively managed capital that invest primarily in loans to private companies, seeking to generate income by investing in loans of private companies. Private credit funds are typically structured as limited partnerships or limited liability companies managed by a general partner and/or manager who sources and vets potential investments and has the discretion to make investments for the fund. Through a private credit fund, investors combine or pool their capital and enable the manager of the fund to make investments in loans to various private companies. These loans and other financings may take the form of senior, mezzanine, subordinated, junior, convertible or other loans, collateralized loan obligations, loan participations and debt investments (which can be either secured or unsecured) in portfolio companies, although the applicable fund may make certain equity or equity-like investments and may hold equity as a result of a restructuring. Private credit funds may purchase loans on a primary basis or in the secondary market, and may include term loans, fixed or variable rate loans, and lines of credit. Private credit funds usually have an investment objective or strategy that may focus on companies in certain sectors, industries, geographic regions, size ranges or stages of development or operations, or on certain types and sizes of investments.

Private credit funds raise capital by selling limited partner interests to investors. Private credit funds are generally exempt from registration as investment companies under the Investment Company Act of 1940, although some private credit funds may be so registered. In addition, interests in private credit funds are commonly issued in private placements rather than in public offerings so as to avoid registration under the Securities Act of 1933. In order to rely on such exemptions, private credit funds often limit the number and type of persons that may invest in them. Most private credit funds are only available to persons or entities

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who meet certain qualification and minimum investment requirements. Often, only high net worth persons and institutional investors are eligible to invest. Interests in a private credit fund are not listed on an exchange or otherwise transferable. In limited circumstances, some private credit funds will repurchase interests from investors, but an investment in a private credit fund should be regarded as illiquid.

In connection with an investment in a private credit fund, potential investors receive a Private Placement Memorandum ("PPM"). The PPM discloses material information about the offering such as the strategy, terms and risks to allow investors to make an informed decision. If the investor decides to invest, the investor will be responsible for completing and signing a subscription booklet, which assists the manager of the fund in determining whether the investor is eligible to invest in the fund. The investor will also be required to sign the fund's partnership or LLC operating agreement. The partnership or operating agreement sets forth the terms of the investment, the fees charged and the rights and requirements of the limited partners, among other provisions.

How do Private Credit Funds Differ from Private Equity?

Although the objectives of each type of fund differ materially in terms of structure and operation, private credit funds bear many similarities to private equity funds. However, in contrast to private equity funds, private credit funds typically do not seek ownership in the companies they lend to. While a private equity fund may generate returns by increasing the value of the company it invests in, a private credit fund's returns are achieved primarily through its receipt of interest on the loans it extends and through the sale or repayment of such loans. In addition, whereas private equity funds typically feature a limited life span, many private credit funds do not. For more information on private equity funds, please visit bairdwealth.com/retailinvestor.

Understanding the Risks of Investing in a Private Credit Fund

Investing in a private credit fund involves considerable risks, some of which are described below. These and other risks are disclosed in the PPM for the fund in which you may be considering.

- Credit Risk. The debt instruments purchased by the fund are subject to the risk that a borrower will default on the payment of principal, interest or other amounts owed. The financial strength and solvency of the issuer, including the lack or inadequacy of any collateral securing repayment affect credit risk.

- Interest Rate Risk. In general, rising interest rates in the market will negatively affect the price of the debt instruments the fund invests in. Sensitivity to a change in interest rates is more pronounced and less predictable in instruments with uncertain payment (or prepayment) schedules.

- Lack of Liquidity. Investments in private credit funds should be regarded as illiquid. They are not listed on an exchange, traded in the secondary market and are generally not transferable. In addition, many private credit funds have significant restrictions on transfers and withdrawals.

- Leverage. Funds may use leverage in their investment activities by incurring debt to finance a portion of its investments. Utilizing leverage generally magnifies opportunities for gains, but also its risk of loss and results in greater fluctuations in the fund's net assets. Use of leverage increases the fund's interest expenses and will limit its flexibility to make distributions or sell assets pledged to secure the indebtedness.

- Fees. There are potentially significant fees that investors in private credit funds bear. These fees include start-up or organizational costs, placement fees, management fees, administrative service fees, and performance allocation or incentive fees that may become payable to the general partner of the fund based upon returns of the fund.

- Prepayment Risk. The fund may purchase loans for which the issuers are not subject to prepayment penalties. Prepayment on loans before payment obligations mature are difficult to predict and may cause the fund to experience losses for loans purchased at a price greater than par value.

- Refinancing Risk. A significant portion of the fund's assets may consist of loans for which most of the principal is due at maturity. The borrower's ability to repay these loans at maturity typically depends upon its ability to obtain additional financing, which may not be available to the borrower, at acceptable rates.

- Conflicts of Interest. There may be conflicts of interest between the general partner and investors. The general partner may make riskier investments than would otherwise be appropriate in order to generate high returns and earn performance allocation or other incentive fees based upon returns achieved by the fund. The general partner or its affiliates may have other funds that compete for similar investments as the private credit fund and may create other such funds. Allocations of investment opportunities between the private credit fund and other funds managed by the general partner or its affiliates are made in the sole discretion of the general partner and its affiliates. Managing multiple funds may make it difficult for the general partner to devote its full time and attention to managing the private credit fund in which you invest. Additionally, the general partner or its affiliates may make co-investments or side-by-side investments with the private credit fund.

- Dependence on Key Personnel. The success of any private credit fund is highly dependent on the general partner and its management team who are valuable in identifying, vetting and structuring investments, and determining the appropriate time to sell those investments. The loss of one or more key individuals may have a material adverse effect on the performance of the fund.

- Limited Information. Private credit funds often do not provide much information about their investments, other than annual or semi-annual financial statements, an annual Schedule K-1, and possibly quarterly reports.

- Lack of Regulation. A private credit fund is typically not registered as an investment company under the Investment Company Act of 1940 and the general partner may not be registered as an investment adviser under the Investment Advisers Act of 1940. Moreover, an offering of interests in a private credit fund is not registered under the Securities Act of 1933. Accordingly, private credit funds are generally not subject to much regulation and investors may not have the protections afforded by such laws.

- Tax Considerations. Private credit funds are usually taxed as partnerships and investors will receive an annual Schedule K-1 showing their pro rata share of the fund's gains, losses, income, credits and distributions. An investment in a private credit fund will complicate an investor's tax return and increase tax preparation costs. Please consult your tax advisor before investing in a private credit fund.

Before investing in a private credit fund, you should discuss the merits and risks of the investment with your Baird Financial Advisor to make sure it is consistent with your investment objectives, financial needs, liquidity expectations and risk profile.

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