5 Questions You Should Be Asking Your Private Credit Manager

Recent headlines about the private credit market have understandably prompted advisors and investors to take a closer look at how these portfolios are constructed, particularly when it comes to collateral quality, leverage, liquidity structures, and downside protection. In moments like this, it's worth revisiting the fundamentals and focusing on the questions that matter most when evaluating a private credit manager.

With that in mind, here are five questions advisors are, and should, be asking about private credit strategies today, and how we approach them at Sagard.

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1 What kind of collateral do you lend against, and how do you think about tangible versus intangible assets?

When evaluating private credit strategies, the starting point should be the underlying collateral and the recoverability of the loan.

At Sagard, we focus primarily on **first-lien senior secured loans**, which sit at the top of the capital structure and have priority on collateral. These loans are typically underwritten at conservative loan-to-value (LTV) levels of roughly 37–39%, with senior debt around 3.3x EBITDA.

We prioritize businesses with **durable cash flow and tangible value that can be analyzed through a full cycle**. In practice, that means being cautious about situations where value depends heavily on projected growth or multiple expansion rather than proven operating performance.

In uncertain markets, **collateral quality** and **underwriting discipline** matter more than headline yield. Our approach is to think about recovery before we invest, not after.

2 How do you maintain relationships with the companies you lend to?

Private credit is often described as relationship-driven lending, but the depth of those relationships can vary significantly across managers.

We do not view ourselves as passive capital. Many of the companies we lend to are **founder-led** or **non-sponsored middle-market businesses,** which gives us direct access to management teams and ownership groups.

That access is combined with **structured reporting, regular dialogue with management,** and **strong maintenance covenants** that provide formal touchpoints if performance changes.

This combination of **direct relationships** and **contractual protections** allows us to identify potential issues early and address them constructively before they become larger problems.

3 Being senior could imply lower risk, but also lower expected return. How do you balance these?

Senior secured loans occupy the **top position in the capital stack**, which means they have priority on collateral in a downside scenario. This structural seniority can reduce loss severity if something goes wrong, but it does not eliminate default risk.

Balancing risk and return in private credit often comes down to structural discipline.

At Sagard, we prioritize **structure over the highest yield**. Stretching for incremental return by increasing leverage, weakening covenants, or moving down the capital structure can materially change the risk profile of a loan.

Our focus is on building the loan correctly from the outset — conservative leverage, strong documentation, and disciplined underwriting — with the goal of generating attractive risk-adjusted returns over time rather than chasing the highest headline yield in any given market.

4 What's the game plan if credit quality deteriorates?

A disciplined credit strategy plans for stress before it happens.

We monitor borrower performance continuously, and loans we originate include **strong maintenance covenants**, which create formal intervention rights if performance weakens. **Recovery and downside scenarios are considered during the underwriting process**, not only after a problem emerges.

Because much of our lending is **non-sponsored**, our primary relationship is directly with the borrower and ownership group rather than with a private equity sponsor. This dynamic often allows for earlier transparency and more direct dialogue if conditions change.

If credit quality deteriorates, we engage management early, rely on covenant protections where appropriate, and draw on the team's experience navigating restructurings across cycles.

Credit risk can never be eliminated entirely. The objective is to **mitigate potential losses and preserve capital** through thoughtful structuring and proactive engagement.

5 How is liquidity structured in your fund, and how do you think about the trade-off between liquidity and return?

Liquidity is one of the most important structural considerations in private credit.

The Sagard Private Credit Fund is structured as an **evergreen vehicle**, offering monthly subscriptions and quarterly redemptions. To support that liquidity, we maintain a modest allocation — typically around 15–20% of the portfolio — in **broadly syndicated loans (BSLs)** that can be bought and sold.

That tradable sleeve helps provide liquidity, but it can introduce some mark-to-market volatility for that portion of the fund. By contrast, a purely private portfolio may allow for greater spread capture, but it offers less flexibility.

In our view, **liquidity is a design decision**, and it must be structurally supported to avoid mismatch risk. The more important question is not simply what premium an investor earns for giving up liquidity, but whether the fund's structure supports resilience through a cycle.

Compensation for lower liquidity should reflect **underwriting discipline**, **collateral quality, covenant strength,** and **overall portfolio construction**, not just headline yield.

In the current environment, we are deliberately managing liquidity conservatively and reassessing that balance on an ongoing basis.

The Bottom Line

Private credit can offer attractive income and diversification benefits, but the details of how a portfolio is constructed matter greatly.

Asking the right questions about collateral, relationships with borrowers, capital structure, downside protection, and liquidity design can help investors better understand how a strategy may perform across different market environments.

Ultimately, resilient private credit portfolios are built not only on yield, but on disciplined underwriting, thoughtful structure, and a clear focus on risk management.

Our team is always happy to address your questions. Reach out to your Sagard relationship manager to learn more about our investing approach and the **Sagard Private Credit Fund.**

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