SEVIORA

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Macro Insight

Asian Private Credit: Is the Yield Pick-Up Worth the Risk?

For Institutional and Accredited Investors Only

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Asian Private Credit: Is the Yield Pick-Up Worth the Risk?

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Foreword

The ream of executive orders issued on the first day of the new US administration presented a clear view of the year ahead: Change. Financial markets are cautiously optimistic but are also braced for bouts of fresh volatility. The potential for economic headwinds remains a concern as policy makers, central bankers and business owners anticipate a changing environment with global implications. Despite a marked shift towards lower interest rates in many jurisdictions, the threat of renewed inflation will continue to impact confidence and investment decisions.

As financial markets change, so too do funding needs, challenging the capacity of traditional sources of capital. But we believe that the next four years should present compelling opportunities for providers of private capital. Typically, more agile than banks, private lenders can adapt quickly to changing environments, providing borrowers tailored funding solutions. Indeed, global investors seeking diversified, risk-adjusted returns are increasingly looking to private credit as an alternative to traditional fixed income.

This is particularly true in Asia. The Asian private credit market is a story of untapped potential. With US$99 billion in assets under management (AUM), accounting for just 6.6% of global private credit AUM[1], the region has significant room for growth. With Asia Pacific expected to account for more than a third of global GDP by 2030[2], the opportunities are worth exploring.

Unlike traditional banks, private credit lenders tend to think **"outside the box",** responding to the needs of borrowers and providing lending solutions that, enable faster deployment of funds and greater adaptability. Asia is a region dominated by under-banked, high growth SMEs and private credit remains a sector that is overlooked by global investors. With spreads often significantly wider to its US and European counterparts, and downside protection in the form of collateral, covenants and greater oversight, Asia private credit is compelling.

Across the Seviora Group, we possess a range of investment expertise tailored to suit most investors' approach, risk profile and investment timeline.

With global uncertainties set to dominate, many investors are eyeing alternative asset classes, particularly in Asia. Our expertise in navigating the private credit landscape is unparalleled. We have deep roots in the region as part of the Temasek ecosystem.

The unlevered yield pick-up in Asian private credit is **undeniably attractive**, underpinned by strong downside protection, low default rates, and premium spreads.

In this paper, we will take a deeper look at the supply and demand driven factors impacting private credit.

Whilst geopolitical and regulatory challenges persist, many of these are mitigated by strong investment processes, effective risk management, robust governance, and deep local knowledge, offering investors seeking diversification a compelling risk-reward profile.

By the conclusion of this paper, we aim to answer the question, is the yield pick-up for Asian private credit worth the risk?

Christopher Smith
Head of Sales and Distribution
Seviora Group

Executive Summary

Private credit in the Asia Pacific (APAC) region is rapidly gaining traction, fuelled by increasing demand for alternative financing solutions and underpenetrated markets. This presents an attractive opportunity for investors to access premium returns while supporting the region's dynamic economic growth and innovation.

We observe several drivers behind the growing prominence of this asset class:

- Compelling demand-driven factors: APAC's capital-intensive industries and SMEs face financing challenges due to higher credit risks and limited options. Growing infrastructure needs, fragmented ESG standards, and banks' rigidity create opportunities for private credit to bridge critical financing gaps.
- Encouraging supply-driven factors: The growth of APAC private credit is fuelled by its under penetration compared to US and EU markets, increasing constraints on banks to lend, rising institutional participation, better lender covenants, FinTech platforms warming markets to alternative lenders, and regulatory movements encouraging expansion in alternative financing.
- Availability to tailor financing solutions: The asset class provides the flexibility to align business financing solutions with various factors, complementing traditional bank metrics. With its speed and adaptability, the demand for private credit continues to rise.
- Diversification: Private credit enhances portfolio diversification by focusing on borrower-specific metrics such as cash flow and collateral rather than the broader macro environment. This approach reduces volatility and correlation with traditional public equity markets.

This paper aims to answer whether the yield pick-up in Asian private credit is worth the risk, focusing on the region's underpenetrated markets, borrower-specific metrics, reduced reliance on macro factors, and increasing institutional participation.

Across Seviora Group our asset management companies (AMCs) manage a variety of strategies to tap into the growing profile of private credit across the Asia Pacific.

This paper will identify three different approaches to private credit in Asia Pacific. The three could be thought of as the ***Small, Medium and Large*** approaches to the strategy in the region, each encapsulating a variety of risk factors and tolerances.

Our various AMCs have successfully navigated the private credit space, through smaller strategies such as venture debt, spearheaded by InnoVen Capital, mid-market SME financing through our strategic partner ADM Capital and through larger APAC corporate focused private credit strategies via SeaTown.

InnoVen Capital: Driving Innovation with Venture Debt

This funding addresses the needs of PE/VC backed high-growth startups, with non-dilutive capital. This strategy supports APAC's vibrant tech ecosystem, while delivering attractive returns for investors.

ADM Capital: Expertise and ESG Integration at the Forefront

With decades of experience and deep local relationships to unlock value in diverse APAC markets, their strong governance structures and ESG integration provide sustainable, high-quality returns while supporting economic growth and environmental resilience.

SeaTown Holdings International: Proven Risk Management and Superior Returns

A focus on larger Asian corporate opportunities while maximising cash flow yield and downside protection. Their access to unique deal flow, robust risk management, and innovative structuring are a cornerstone of their offering.

The APAC private credit market represents a story of immense untapped potential. With US$99 billion in Assets Under Management (AUM), accounting for just 6.6% of global private credit AUM, the region highlights significant room for growth.

At A Glance

- **US$99B AUM = 6.6% of global private credit[1]**
- **19.5% APAC growth rate (2020–2023); CAGR of 11.6% (2010–2023)[1]**
- **77% of APAC financing comes from traditional banks[3]**
- **$2.5T funding gap[4], higher trade finance rejection rates for SMEs[5]**
- **Superior returns (APAC IRR: 14.2% vs. Global 10.4%) and stronger downside protection[1]**

A 19.5% growth rate from 2020 to 2023 outpaced the global average of 11.5%, while the compound annual growth rate (CAGR) for APAC private credit from 2010 to 2023 matches the global average of 11.6%, according to Preqin's Global Report on Private Debt 2025 (Refer to Figure 1).

While APAC's private credit market remains smaller in scale than its counterparts in the US and Europe, it offers a unique proposition for investors seeking diversification and attractive returns. The lower penetration of private credit in the region reflects a strong growth opportunity, especially as economies transition toward services and capital-intensive industries like technology, renewable energy, and healthcare. These shifts drive demand for bespoke, flexible financing solutions tailored to the evolving needs of businesses in the region.

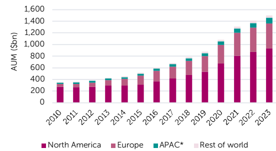
From a supply perspective, APAC's private credit market is marked by favourable risk-reward dynamics, including tighter covenants, robust downside protections, and the potential for higher yields compared to developed markets. However, navigating the region's fragmented and heterogeneous economies spanning south, east and north Asia - requires deep local expertise, strategic agility, and a long-term perspective.

Institutional investors are increasingly drawn to these opportunities, recognising the region's potential to deliver cashflow, high total returns, diversification and downside protection amid global market uncertainties.

Seviora, a Temasek-owned asset management group, leverages its expertise to bridge these gaps and unlock opportunities in APAC. Through venture debt via InnoVen, SME and ESG-focused credit through its partner, ADM Capital, and high yield private corporate financing solutions via SeaTown, Seviora caters to a wide range of investor needs.

Its commitment to regional expertise, sustainable growth, and tailored solutions ensures that it remains at the forefront of APAC's rapidly evolving private credit market.

Figure 1: APAC holds steady on share of private debt
Private debt AUM* by primary region focus



*AUM figures exclude funds denominated in yuan renminbi.
Source: Preqin 2025.
All figures are nominal.

The demand for private credit in APAC is shaped by a unique combination of macroeconomic shifts, sector-specific needs, and the limitations of traditional banking systems. In this section, we will showcase the six key factors driving this demand, illustrating how private credit is stepping in to bridge critical financing gaps and support growth across the region.

Demand-Driven Factors

1. **Macroeconomic Growth and Transformation**
2. **SMEs Financing Needs**
3. **Infrastructure Development Needs**
4. **Shift to Sustainable Financing**
5. **Increased Cross-Border Trade**
6. **Need for Faster Access to Capital**

1. Macroeconomic Growth and Transformation

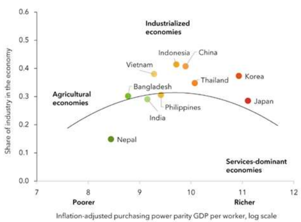
APAC's economies, which account for nearly half of global GDP, are transitioning from agriculture and manufacturing toward services, as illustrated by their evolving financial ecosystems. This transformation aligns with growing demands for alternative financing options to support high-value, capital-intensive industries. The retreat of traditional banking post-pandemic has further accelerated the role of private credit as a vital financing mechanism in APAC economies, catering to the dynamic needs of these transforming sectors.

As wealth across the region continues to grow, the composition of regional economies is shifting, moving from once being reliant on agriculture, towards industrialisation and, eventually, to services-dominant industries[6] (Refer to Figure 2).

Economies such as Thailand, Korea, and Japan exemplify this trend, with significantly more prominent service sectors.

Technology, renewable energy, logistics, and healthcare are all sectors that are aligned with the region's transition, but require significant capital for scaling operations, often exceeding the appetite of traditional banks.

Figure 2: As countries become richer, they move from agriculture to factory to services
Industry share of value versus income level



Source: IMF, 2024

Companies seeking financing options across these sectors often prioritise solutions that offer flexible terms and rapid disbursements, creating opportunities for private credit providers to offer tailored, innovative and quick lending solutions.

Demand-Driven Factors
Asian Private Credit: Is the Yield Pick-Up Worth the Risk?

2. SMEs Financing Needs

SMEs, which constitute 97% of enterprises and 69% of the workforce in APAC[7], face a US$2.5 trillion annual financing gap. Despite their critical role in the economy, they encounter significant barriers to accessing trade finance, further exacerbating funding challenges.

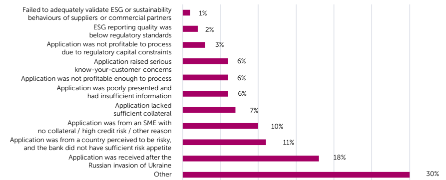
Why Traditional Banks Fall Short

Traditional banks face multiple barriers in meeting SMEs' financing needs, resulting in high rejection rates for trade finance applications. Common reasons for rejection include:

- Insufficient collateral or high credit risk
- Applications from perceived high-risk countries
- Regulatory capital constraints, which make processing certain applications unprofitable
- Poorly presented applications or insufficient information

Broader challenges, such as perceived country risk, amplified by banks' limited risk appetite, highlight the critical role these factors play in shaping financing outcomes, particularly in regions affected by geopolitical tensions. Such challenges leave SMEs underserved and increasingly reliant on alternative financing solutions to navigate uncertainties (Refer to Figure 3).

Figure 3. Reasons for Rejecting Trade Finance Applications 2022 (% of bank responses)



ESG = environmental, social, and governance; SME = small and medium-sized enterprise.
Source: ADB 2023 Trade Finance Gaps, Growth, and Jobs Survey–Banks.

Consequences from Banking Rigidity

- SMEs face limited growth opportunities due to restricted access to essential financing.
- High rejection rates leave SMEs vulnerable to cash flow issues and operational risks.
- Regional economic growth slows as SMEs, the backbone of the APAC economy, remain underserved.

How Private Credit Addresses the Gap

Private credit providers are stepping in to offer faster approvals and bespoke solutions tailored to the unique needs of SMEs, including irregular cash flows, rapid expansion, and lack of collateral. By addressing the reasons for trade finance rejection and bypassing traditional hurdles, private credit enables SMEs to scale operations and drive economic growth across the region.

3. Infrastructure Development Needs

According to the Asian Development Bank (ADB) report, APAC's infrastructure needs are immense, with a baseline investment requirement of $22.6 trillion from 2016 to 2030[8]. This figure increases to $26.2 trillion when factoring in climate mitigation and adaptation needs, leaving an annual investment required of $1.7 trillion (See Figure 4). Public finance reforms are estimated to address less than half of this gap, highlighting the critical role of private sector financing. Innovative models such as Public-Private Partnerships (PPPs) and blended finance are essential to attract private capital and close these funding shortfalls. By stepping in where public resources fall short, private sector financing can not only bridge the gap but also support sustainable development objectives and ensure that critical infrastructure demands are met across the region.

Figure 4: Estimated Infrastructure Investment Needs by Region, 45 DMCs, 2016-2030

Region / Subregion	Projected Annual GDP Growth	2030 UN Population Projection (Billions)	2030 Projected GDP per Capita (201$)	Baseline Estimates			Climate-adjusted Estimate**		
				Investment Needs	Annual Average	Investment Needs as % of GDP	Investment Needs	Annual Average	Investment Needs as % of GDP
Central Asia	3.1	0.096	6,202	492	33	6.8	565	38	7.8
East Asia	5.1	1.503	18,602	13,781	919	4.5	16,062	1,071	5.2
South Asia*	6.5	2.059	3,446	5,477	365	7.6	6,347	423	8.8
Southeast Asia	5.1	0.723	7,040	2,759	184	5.0	3,147	210	5.7
The Pacific	3.1	0.014	2,889	42	2.8	8.2	46	3.1	9.1
Asia and the Pacific	5.3	4.396	9,277	22,551	1,503	5.1	26,166	1,744	5.9

$ billion in 2015 prices. Note:* Pakistan and Afghanistan are included in South Asia. ** Climate change adjusted figures include climate migration and climate proofing costs, but do not include other adaption costs, especially those associated with sea level rise. Source: 2015 Revision of World Population Prospects, United Nations; ADB estimates. Source: ADB,2017

The Promise of Private Financing, But Challenges Persist

Private financing offers hope for bridging APAC's infrastructure gap, yet even within the private sector, traditional banks face significant regulatory constraints that limit their ability to provide long-term solutions.

What Challenges Persists?

South Asia and Southeast Asia face substantial infrastructure investment needs[9], with South Asia requiring investments equal to 7.6% of GDP annually (See Figure 4). While public financing covers over 92% of infrastructure investments in the region, fiscal reforms alone are insufficient to close the gap, emphasising the urgent need for private sector participation to address growing infrastructure demands. Alas, these nations need significant financing, but regulatory frameworks like Basel III make it challenging for banks to offer long-term financing. Infrastructure projects benefit from private credit providers' flexibility to align repayment schedules with project cash flows, enabling progress while reducing the burden on government budgets and institutional lenders.

Private Credit: Bridging Growth and Connectivity

Private credit provides a flexible, scalable solution to address Asia's infrastructure financing gaps, offering project finance via Special Purpose Vehicles (SPVs) and mezzanine debt to fund large-scale projects while mitigating associated risks. This approach enables governments, especially in fiscally constrained regions like South and Southeast Asia, to attract critical capital for transport, utilities, and urban infrastructure development. By accelerating projects in transport networks, energy grids, and urban facilities, private credit supports urbanisation, regional connectivity, and sustainable economic growth, unlocking long-term prosperity across the region.

Demand-Driven Factors

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4. Shift to Sustainable Financing

As public financing remains insufficient to meet APAC's infrastructure investment needs, particularly the $26.2 trillion climate-adjusted target projected by the Asian Development Bank (ADB), private financing has become indispensable. Sustainable projects face additional challenges due to fragmented ESG standards, inconsistent data, and the rigidity of traditional banking systems, which often lack the flexibility to accommodate the specific requirements of ESG-focused initiatives.

How Private Credit Drives ESG Adoption

Private credit offers a solution by embedding sustainability principles into financing structures, creating pathways for impactful investments. By incorporating key performance indicators (KPIs) into loan covenants, private credit ensures borrowers adhere to environmental and social targets while aligning financial returns with ESG goals. This approach is especially critical for APAC, where climate risks and reliance on natural resources heighten the urgency for sustainable financing. As private credit aligns repayment schedules with project cash flows, it enables infrastructure projects to move forward without overburdening government budgets. This flexibility ensures that both environmental objectives and economic progress can be pursued simultaneously.

A Pivotal Role for the APAC Region

The integration of private credit into ESG and climate-focused projects is particularly timely given the scale of investment required for climate-resilient infrastructure. With an annual investment required of $1.7 trillion in APAC as mentioned in the segment of financing infrastructure in APAC, private credit is uniquely positioned to address this shortfall by mobilising capital for projects that balance environmental, social, and financial outcomes. In doing so, private credit serves as a vital enabler of the region's transition toward sustainable development.

5. Increased Cross-Border Trade

The rise of e-commerce and global supply chains has driven demand for trade finance, especially among SMEs involved in cross-border trade.

SMEs engaged in cross-border trade often face hurdles such as currency fluctuations, payment delays, and complex regulatory requirements. These challenges limit their ability to expand and compete in international markets.

Private credit providers address these issues through alternative financing options like invoice financing, supply chain finance, and export credit. These solutions enable SMEs to manage cash flow, mitigate risks, and support global trade activity.

6. Need for Faster Access to Capital

Time-sensitive industries, such as e-commerce, tech startups, and logistics, depend on rapid access to capital to remain competitive. What happens when traditional banks can't keep up with their speed?

Challenges Faced by Traditional Banks

With lengthy approval processes, rigid lending criteria, and a heavy reliance on collateral, traditional banks often struggle to meet the urgent capital needs of fast-paced, high-growth companies. These limitations hinder the ability of businesses to act quickly in today's agile markets, putting them at a disadvantage.

How Private Credit Fills the Gap

Private credit providers address these challenges by offering expedited approval processes and flexible funding solutions, such as bridge loans and revenue-based financing. These tailored solutions empower companies to act decisively, enabling them to capitalise on growth opportunities and adapt to changing market dynamics.

The supply of private credit in APAC is expanding, fueled by a combination of structural advantages, increasing institutional participation, and emerging opportunities in specialised areas. These factors reflect APAC's growing appeal as a private credit destination, offering higher returns, diversification, and flexibility compared to mature markets. In this section, we will explore the key factors shaping the supply landscape and how they position APAC as a hub for private credit investments.

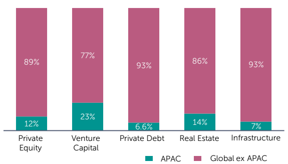
Supply-Driven Factors

1. **Underpenetrated Market**
2. **Growth of Private Credit Deals**
3. **Increasing Institutional Participation**
4. **Premium-enhanced Yield Potential Through Premium Spread Pick-up**
5. **Diversified Strategies**
6. **Proliferation of FinTech Platforms**
7. **Expansion of Secondary Markets**
8. **Regulatory Encouragement**

1. Underpenetrated Market

APAC private credit accounts for just **6.6% of global AUM**, underscoring immense growth potential compared to saturated markets in Europe and North America. Private credit lenders in the region face fewer regulatory constraints than traditional banks, enabling faster deployment of funds and greater adaptability to borrower needs (Refer to Figure 5).

Figure 5: APAC as % of global AUM by asset class, 2023

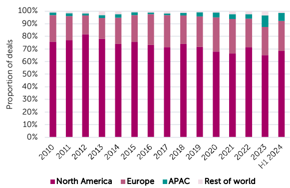


Source: Preqin 2025

2. Growth of Private Credit Deals:

Private equity and credit funds have increased their focus on APAC, drawn by the region's high returns compared to more mature Western markets. Supply is growing as fund managers seek diversification and exposure to high-growth economies (Refer to Figure 6).

Figure 6: APAC sees steady growth of deal activity
Proportion of private debt deals by region



Source: Preqin Pro

3. Increasing Institutional Participation

Pension funds, insurance companies, and sovereign wealth funds are entering the private credit space, significantly boosting available supply. Large institutions view private credit as a stable, long-term investment that aligns with their portfolio diversification strategies.

This trend is also due to the growing emphasis on robust governance practices, such as financial maintenance covenants, ESG action plans, and cash flow monitoring, which align with their risk management priorities and enhance borrower accountability. This holds borrowers to account in their pursuit of agreed business plans and encourages favourable restructuring and amendment discussions that benefit lenders.

4. Premium-enhanced Yield Potential Through Premium Spread Pick-up

APAC's private credit offers compelling returns, with IRR at 14.2%, according to Preqin's 2025 Global Private Debt Report, outperforming global averages of 10.4% and 11.6% in North America (Refer to Figure 7). The structural flexibility of private credit, including bespoke financing and tighter covenants, has further solidified its position as a key driver of investor confidence in APAC markets.

Attractiveness of High Yields: Private credit offers attractive returns to investors compared to traditional fixed-income products, encouraging more capital inflows into the sector. Institutional investors and High-Net-Worth Individuals (HNWIs) are increasingly allocating to private credit funds.

APAC private debt outperforms North America and Europe recently
Figure 7: Regional Private Debt historical performance by sub-strategy

Performance*	IRR 2017-2023	IRR 2020-2023
Private debt	8.12%	10.39%
North American – private debt	8.85%	11.56%
North American – private debt – direct lending	7.13%	8.85%
North American – private debt – distressed debt	8.20%	14.80%
North American – private debt - other	11.64%	12.30%
Europe – private debt	6.53%	7.47%
Europe – private debt – direct lending	6.19%	7.01%
Europe – private debt – distressed debt	4.65%	6.49%
Europe – private debt - other	8.35%	9.21%
APAC – Private debt	9.18%	14.23%
APAC – direct lending**	7.23%	9.16%
APAC – distressed debt**	4.69%	11.60%
APAC – other**	10.84%	16.97%

*Values relate to end of year.
**When we calculate performance we exclude funds denominated in yuan renminbi
To avoid double counting we exclude funds of funds all the remaining aggregates.

Source: Preqin 2025

Recently, the broadly syndicated loan market has been refinancing US private debt loans as interest rates moderate. More than US$30bn of private credit deals were recapitalised in the US in 2024, with research suggesting borrowers reduced the cost of capital by more than 300bps in some instances. If the pressure to deploy dry powder persists and banks look to recapture market share, direct lenders may be faced to make further pricing and structuring concessions. In APAC, where syndicated markets lack depth and an ability to service mid-market corporate financing needs, private credit returns are unlikely to be eroded[10].

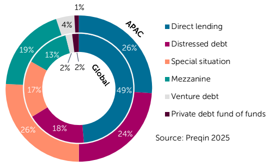
In addition, Private credit offers a **diversified risk profile** compared to equities or public debt markets, attracting a broader range of investors. Rising geopolitical and market uncertainties push investors toward private credit for its predictable returns.

5. Diversified Strategies:
In APAC, private credit is primarily driven by special situations financing (26%) and distressed debt (24%), serving as the backbone of its structured financing ecosystem (Refer to Figure 8). These strategies address companies undergoing financial restructuring or unique challenges. Mezzanine financing (19%) supports additional capital needs without equity dilution, while direct lending, a globally dominant strategy (49%), represents only 26% in APAC, reflecting the region's preference for tailored solutions. Venture debt (4%) further fuels APAC's startup ecosystem, highlighting the region's reliance on alternative methods to navigate fragmented markets. The focus on distressed and opportunistic credit underscores APAC's evolving and high-potential private credit landscape.

6. Proliferation of FinTech Platforms:
The rise of FinTech platforms such as Funding Societies and Qupital is transforming the private credit landscape across Asia-Pacific. According to FinTech Futures, these platforms leverage advanced technologies like AI and data analytics to streamline underwriting, enhance risk assessment, and improve scalability, enabling credit access for underserved SMEs and individuals without traditional credit histories. Faster approvals and flexible terms align with the dynamic needs of modern businesses, filling critical financing gaps left by traditional banks[11].

Regulatory support further accelerates FinTech adoption. Initiatives like the Monetary Authority of Singapore's (MAS) FinTech Regulatory Sandbox and Indonesia's digital inclusion policies foster innovation while expanding financial access. By lowering entry barriers for both lenders and borrowers, FinTech platforms contribute to financial inclusion and drive economic growth, solidifying their role in reshaping the region's private credit ecosystem[11].

Distressed and Special Situations dominated in APAC
Figure 8: Proportion of Private debt deals by region



Source: Preqin 2025

7. Expansion of Secondary Markets:
The development of secondary markets for private credit instruments allows better liquidity, encouraging more lenders to participate. Improved exit options for investors increase the attractiveness of the sector.

8. Regulatory Encouragement :
Governments across APAC are proactively fostering private financing to bolster key sectors like SMEs, renewable energy, and infrastructure. For instance, Hong Kong has eased regulations to attract private equity and credit funds, aiming to become a regional hub for private credit activities[12]. Similarly, the Monetary Authority of Singapore (MAS) has allocated $1 billion to global credit fund managers to position Singapore as a leading private markets centre, emphasising its openness to alternative financing[13].In South Korea, regulatory amendments like the 2021 revisions to the Financial Investment Services and Capital Markets Act have broadened the role of private equity funds, extending private credit offerings beyond real estate to include M&A financing and direct lending. These progressive policies stimulate private credit growth and enhance accessibility to alternative financing solutions, reinforcing APAC's position as a dynamic private credit market.

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In the Spotlight: Perspectives from Our Asset Management Companies (AMCs)

Ashish Sharma
Managing Partner
InnoVen Capital India

"Traditional lenders, including banks have limited expertise in underwriting new business models."

APAC's rapid economic growth, driven by countries such as China, India, and Indonesia, has created a fertile ground for private credit investments. This growth is fuelled by a burgeoning middle class, which is expected to reach 3.5 billion people by 2030.The region's rapid digitalisation, with over 2.8 billion people using the internet, is also giving impetus to new age business models.

As a result, there is an ever-growing need for debt to support the growth of SME, mid-market and startup enterprises. Traditional lenders, including banks haven't been able to satisfy the demand due to a variety of reasons. Private credit penetration in Asia significantly lags developed markets like the US. This confluence of factors presents a compelling opportunity for private credit investors to fill the gap and support the region's continued economic growth and development.

Why venture credit is worth allocating to as it presents a unique opportunity of fixed income returns in a sector that is oversaturated with equity products

The Asian technology ecosystem has witnessed unprecedented growth in recent years, driven by a potent combination of favourable demographics, rapid digitisation, and supportive government policies.

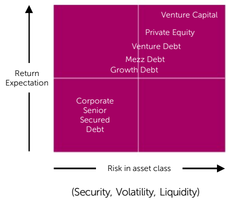
Emerging technologies like artificial intelligence, blockchain, and the Internet of Things are expected to drive the next wave of innovation, with potential applications in areas like FinTech, HealthTech, and smart cities.

Historically, investors eager to invest in APAC's innovation and technology themes were limited to equity funds. The venture debt strategy offers investors an opportunity to get exposure to Asia's high growth venture eco-system, through a targeted credit strategy.

Venture debt is a niche asset class within the Private Credit space that provides structured senior secured debt to high quality early/growth stage startups, that have raised institutional capital from reputed investors (PE/VC funds).

Most well-run startups have a plethora of options to raise equity capital but struggle to obtain adequate debt solutions. Traditional lenders, including banks have limited expertise in underwriting new business models. Increasing demand for debt coupled with limited supply offers an opportunity to specialised investors like InnoVen Capital to fill the gap.

Figure 9: Providing an optimised risk / return via steady cashflow distributions and potential equity upside



Source: InnoVen Capital.

The asset class provides investors with predictable fixed income returns, while generating additional returns through equity kickers. Investors enjoy faster distributions through quarterly coupons, providing a regular income stream (Refer to Figure 9).

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Our Investment Philosophy

InnoVen Capital stands as a pioneer in the venture debt space, with a robust presence across India, China, and Southeast Asia. With an impressive track record of deploying over $1.7 billion across 400+ companies, InnoVen has consistently demonstrated its ability to identify and support high-growth businesses. Notably, its portfolio comprises an impressive 50+ unicorns, a testament to its keen eye for spotting winners early. As an established player, with deep domain expertise and deep networks across the Asian venture ecosystem, InnoVen is uniquely positioned to address the opportunity and generate superior risk-adjusted return for investors.

Key Figures

- $1.7B+ Capital Invested
- 650+ Debt Transactions
- 9+ Years of Investing
- 50+ Unicorns in Portfolio
- 400+ Portfolio Companies
- $51B+ Equity Raised from Investors

Source: InnoVen Capital

Who We Are

InnoVen Capital is Asia's leading venture lending platform providing debt capital to high growth, venture-backed technology companies. Established as a joint venture between Seviora and United Overseas Bank in 2015, we have pioneered venture debt financing in the region. With offices in India, China and Singapore, we actively support talented founders in Asia in growing their businesses.

How We Empower Founders to Scale and Succeed

Empowering Founders
- Our culture and capital empower founders to scale rapidly and adapt to everyday challenges.
- Deep understanding of the industry and startup ecosystem enhances strategic guidance.

Flexible Financing Solutions
- Venture Debt extends the cash runway, helping companies achieve targeted milestones and higher valuations.
- Raise additional capital while retaining control of your company

Strategic Applications of Capital
- Venture Debt can be utilised to finance acquisitions, capital expenditures, and working capital requirements.

Regional Expertise and Networks
- InnoVen Capital operates across SEA geographies with a strong network and relationships with investors in the region.

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David Whyte
Managing Director
ADM Capital

"SMEs are the backbone of the APAC economy yet face a $2.5 trillion financing gap that private credit is uniquely positioned to bridge."

Small and medium-sized enterprises ("SMEs") are driving innovation and economic growth across APAC but remain underfunded in a region where traditional bank lending dominates, and capital markets lack depth and diversification. SMEs employ 69% of the region's workforce, contributing ~40-60% of GDP value, while the financing gap is estimated to be approximately $2.5 trillion[4].

Asia is driving global growth and is expected to contribute 53% to global GDP by 2050, according to the Asian Development Bank, supported by a rising middle class, strong demographics, improving infrastructure and increased intra-regional capital flows[14].

What role can private credit play in APAC?

Regional private credit funds, bilaterally working with borrowers to deliver highly structured financing solutions primarily in US dollars, can fill this void and provide attractive risk-adjusted returns. Boutique managers with appropriate fund sizes can effectively diversify across APAC's smaller markets while simultaneously providing investors with consistent co-investment opportunities.

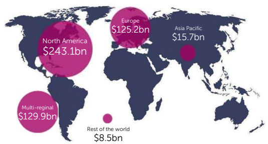
How do market dynamics vary across APAC?

Market dynamics vary across developed and emerging APAC markets. Private credit managers can lend into growth and acquisition situations (which comprise the majority of ADM Capital's investment activity) as well as event-driven special situations, restructurings and distressed debt opportunities across 15 countries. This diversified geographic opportunity allows ADM Capital to construct diversified portfolios that are uncorrelated with the US and European markets, and single political or economic events. With 26 years in the region, we also have the ability to consider what is the ideal relative value from across the entire region for the best risk adjusted reward.

Barriers to Entry Protecting APAC Credit Standards

As fund managers in APAC require local expertise and broad, trusted sourcing networks to consistently originate deal flow, the barriers to entry are high and protect underwriting standards in APAC. Annually, ADM Capital evaluates a substantial volume of deals but invests in less than 1% (by USDm), maintaining disciplined selection criteria. Its approach supports the consistency of its targeted gross IRR returns.

Figure 10: Private Debt Funds In Market (Jun-24)



As at Jun-24, there was US$522bn in capital being sought for private credit funds, globally, with more than half being targeted for North American focused funds.

Source: Private Debt Investor 1H 2024 Fundraising Report
Note: ADM Capital is a strategic partner of Seviora Group

What Differentiates APAC SME Private Credit?

In comparison to the US, the majority of SME private credit in APAC is non-sponsored, with investment activity less reliant on M&A trends and private equity activity. In the US, the number of lenders in a single direct lending loan facility has been steadily increasing, averaging 2.53 in 2023, in contrast, we are able to underwrite the entire USD 20-80 million financing, ensuring control in the event of default and the ability to take effective remedial action[15].

Loans are also over-collateralised in the region with minimum LTVs of 66%, with personal and corporate guarantees commonplace, and in contrast to the US, lenders have restrictive financial covenants and bank account/ cash monitoring provisions that endure through capital cycles.

ADM Capital has direct board representation (via voting or observer rights) on nearly 75% of portfolio company loans outstanding. In the remaining, we typically work with trusted, aligned partners that represent our interests. In Asia, alternative creditors participate actively in the governance of portfolio companies, enhancing financial oversight.

We are in constant dialogue with borrowers and look to be a helpful confidant for entrepreneurs and businesses who can benefit from ADM Capital's extensive track record and regional network, whilst exercising discipline in our ability to accelerate loans and exit events. This creditor role, more akin to private equity investing than typical bank lending, is less common in more competitive US and European markets.

Integrating ESG for Risk Management and Value Creation

Almost 40% of worldwide climate disasters between 2000 – 2021 occurred in APAC and the region is warming faster than the global average[16]. 53% of Asia Pacific's gross economic value is moderately or highly dependent on natural resources[17].As regulatory environments continue to evolve, ESG integration is an essential risk management consideration. ADM Capital works closely with portfolio company executives to improve environmental and social management capacity, ultimately reducing risk, improving value creation and exit outcomes.

As at Jun-24, Asian funds accounted for only 3% of private debt funds in market when considering target final close fundraise amounts, and we expect lending conditions to remain favourable for years to come[18].

Is the Yield Pick-Up Worth the Risk?

Given the quality of downside protection and governance provisions embedded in ADM Capital's private credit transactions, and the dynamic mix of assets in pan-Asian portfolios, we believe the unlevered yield premium is particularly attractive when compared with more homogenous markets and unsecured, fixed income alternatives.

Our Investment Philosophy

With strong downside protection, governance provisions, and diverse pan-Asian assets, ADM Capital offers an attractive unlevered yield premium over homogenous markets and unsecured fixed income alternatives.

Key Figures

- $1.6B Current Asia Private Credit AUM
- $5.4B Invested since Inception
- 193 Loans Invested
- 147 Loans Fully Repaid
- 1998 Founding Year

Source: ADM Capital

Proprietary Loan Origination

We source bi-lateral lending opportunities through a robust proprietary network, avoiding syndicated deals and aligning with macroeconomic trends.

Trusted Credit Providers

We build strong borrower relationships, offering flexible, bespoke financing with governance rights and downside protections.

Secured Direct Lending

Our secured credit strategy ensures strong collateral, governance, and risk-adjusted returns, addressing APAC's credit gap.

ESG Integration

We embed ESG into every investment, enhancing borrower standards, mitigating risks, and ensuring sustainable outcomes.

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Eddie Ong
Deputy CIO and Managing Director, Private Investments
SeaTown Holdings International

"As companies increasingly seek flexible financing solutions beyond traditional banking, SeaTown believes there is a significant opportunity in APAC private credit."

In recent years, the APAC private credit market has emerged as a compelling investment opportunity for global investors. Private credit AUM targeting APAC has outpaced other regions, growing at 19.5% from 2020 to 2023, compared with the global average of 11.6%. Private credit AUM now stands at USD1.5 trillion globally, of which just 6.6% was attributed to APAC, or USD99.3 billion, as of the end of 2023[1].

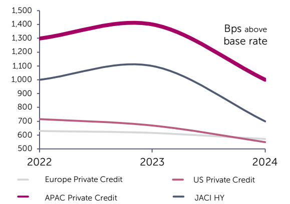
What makes APAC private credit returns appealing?

A key driver of this demand is the **compelling return differential** between APAC private credit and developed markets ("DM") private credit. Private credit spreads in the US and Europe have been tightening. In 2024, spreads were approximately 550bps and 570bps respectively on the back of softening central bank rates and capital inflows into the sector. In comparison, the J.P. Morgan Asia Credit Index High Yield ("JACI HY") spread ended the year at **700bps**, with APAC private credit spreads seeing an additional premium of around 200-500bps above the JACI HY spread based on our market observations from our investment pipeline[19](Refer to Figure 11).

Is the supply-demand gap a factor in APAC?

Despite APAC being poised to see a real Gross Domestic Product ("GDP") annual growth rate of north of 4% over the next 5 years, surpassing that of the US and Europe, and expected to comprise more than a third of global GDP by 2030[2], the supply of loans has not kept pace with the demand in the region. As Asian banks scale back on financing and successive iterations of the Basel Accords impose higher capital charges for corporate lending, SeaTown has been focused on the opportunity to provide solution capital to finance corporate growth in APAC. This supply/demand imbalance of corporate credit and the scarcity of options present advantages in yield for private credit investors here in the region.

Figure 11: Average Credit Spreads across regions



Source: SeaTown Holdings International

What risks does APAC private credit carry?

That said, APAC private credit is not without its risks. For one, APAC as a region is highly fragmented and heterogenous – each market presents its own set of challenges and nuances to be navigated, coupled with geopolitical issues, regulatory challenges, currency fluctuations, and overall economic volatility in emerging markets.

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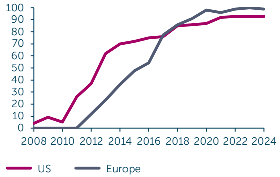
Assessing borrower creditworthiness is also imperative in APAC, where there is relatively limited transparency compared to developed counterparts. Credit markets in general are also less developed compared to the US and Europe.

Is the yield pick-up in APAC private credit worth the associated risks?
At SeaTown, we generally work with larger corporates when lending in the emerging markets of APAC. Stemming from three decades of credit experience in the region, the senior members of the private credit team have seen how the larger corporates in APAC generally have better access to local financing and governmental support when foreign capital requires refinancing. From a credit risk perspective, this provides more certainty for loan repayments.

In APAC, market dynamics also enable private credit lenders to structure loans with stringent covenants and secure comprehensive collateral packages, including real estate, listed shares, personal and corporate guarantees from borrowers, among others.

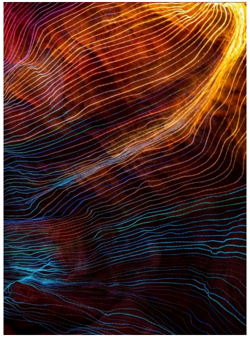
Over 99% of SeaTown's private credit portfolio is secured with collateral. We also often derive additional comfort by securing loans with collateral that is outside of the borrowing entity, with such situations making up more than 70% of our portfolio[20] . This dynamic is largely reversed in western economies. 'Covenant-lite' loans now make up most North American leveraged loans and thin loan documentations mean that protections to investors in such markets are limited (Refer to Figure 12).

Figure 12: Cov-Lite share of institutional leveraged loans



Source: Pitchbook LCD, January 2025. Europe - Quarterly European Leveraged Lending Review Q4 2024.
US - US Leveraged Loan Quarterly Trend Lines Q4 2024.

Another interesting feature of many of our private credit transactions in APAC is the presence of an equity kicker. This is often executed via warrants that are included as part of the transaction. Having the optionality to participate in the equity of the borrower allows us to benefit from any appreciation in the borrower's stock price, aligning interests between lender and borrower. Taking the view that equity valuations in APAC are modest relative to the US or Europe, such instruments serve to potentially further boost returns for our investors.



Is APAC private credit worth the risks?
Since mid-2022, distress for private credit senior loans in the US have nearly tripled, based on MSCI's private credit data. As of June 2024, the proxy distress rate among senior private credit loans is now around 12%[21]. In APAC, the trailing-12-month speculative-grade corporate default rate, as a proxy for private credit, remains at a multi-year low of 0%[22]. Hence, it is arguable that the current spreads and pricing seen in DM private credit is not sufficiently compensating for the risk.

What opportunities lie ahead?
As companies increasingly seek flexible financing solutions beyond traditional banking, SeaTown believes there is a significant opportunity in APAC private credit to deploy sizeable capital at short tenors and with strong downside protection to companies with visible and recurring cashflows. This creates a compelling risk-reward profile backed by higher yields, increased protections and serving as a reliable form of diversification for institutional investors looking for capital preservation and income.

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Conclusion: Is the Yield Pick-Up Worth the Risk?

Conclusion

As we have highlighted in this paper, we believe the yield pick up in Asian private credit is worth the risk. A burgeoning market, that remains largely untapped provides investors with a multitude of opportunities, with the prospect of double-digit annual returns.

Dynamic Market Poised for Growth

APAC private credit is positioned as a high-potential asset class, driven by the region's economic dynamism, rising middle-class populations, and regulatory encouragement. The fragmented yet diverse markets offer unique opportunities for tailored financing solutions, enabling private credit to fill gaps left by traditional banking systems. Diversified strategies such as distressed debt, mezzanine financing, and venture debt further bolster the region's appeal.

Regulatory Encouragement and Demand Drivers

Governments across APAC are actively fostering private credit growth to support SMEs, infrastructure, and sustainable development. Policies like Thailand's subsidised loan schemes and China's IP-backed financing highlight the region's commitment to enabling alternative finance solutions. These initiatives create favourable conditions for private credit investors to capitalise on the increasing demand for flexible and accessible capital.

InnoVen Capital: Driving Innovation with Venture Debt

InnoVen Capital's focus on venture debt addresses the funding needs of high-growth startups, providing non-dilutive capital to Asia's vibrant tech ecosystem. This strategy supports entrepreneurial growth while delivering attractive returns for investors.

ADM Capital: Expertise and ESG Integration at the Forefront

ADM Capital leverages decades of experience and deep local relationships to unlock value in diverse APAC markets. Their strong governance structures and ESG integration provide sustainable, high-quality returns while supporting economic growth and environmental resilience.

SeaTown Holdings International: Proven Risk Management and Superior Returns

SeaTown's ability to navigate APAC's complex credit landscape underscores the region's strong private credit opportunities. Their robust risk management and innovative structuring have delivered compelling distribution yields and realised IRRs.

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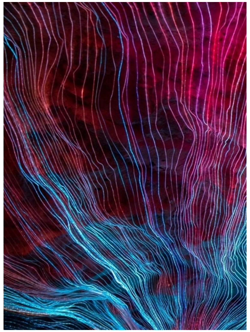
Conclusion

Asian Private Credit: Is the Yield Pick-Up Worth the Risk?

The Verdict: Rewards Outweigh the Risks

The yield pick-up in APAC private credit is undeniably attractive, underpinned by strong downside protection, low default rates, and premium spreads. Challenges such as geopolitical risks and regulatory nuances are effectively mitigated by local expertise, flexible capital pools, and stringent governance. For investors seeking diversification, stable returns, and exposure to APAC's economic growth, APAC private credit offers a compelling risk-reward profile that justifies the associated risks. This compelling risk-reward profile in APAC private credit stands in contrast to trends observed in developed markets like the US, where spread compression is putting downward pressure on yields.

Although lower middle-market firms in the US are expected to be less impacted by spread compression, direct lending yields are expected to continue to move lower in 2025 across all EBITDA ranges in the US, according to Cambridge Associates' 2025 Outlook[23]. Looking ahead, given favourable macroeconomic tailwinds, continued structural challenges to the banking sector, increasing corporate specialisation, and the emergence of new market sectors which require agile and flexible funding, we expect smaller companies in APAC will continue to pay a premium for non-dilutive, efficient, and versatile credit solutions. This should help assure investors that return targets can be sustained throughout the life of a closed-end fund.



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