SEKURA AM – Market Commentary – October 2025

First Brand Failure, considerations on Private Credit and comparison with SRT

In recent years, many corporates have turned away from traditional banks.

Frustrated by rigid processes, bureaucracy, and regulatory oversight, they've sought flexibility and speed through **private credit lenders** — often viewed as more "business-friendly."

One such corporate, ***First Brands***, ultimately collapsed. Its failure offers valuable lessons about today's private credit industry.

1️⃣ As a private credit investor, you are often Junior in the Capital Structure of the fund, and secured by an evaporating asset

Many private credit funds employ **senior bank leverage**. As a result, investors are effectively **junior lenders**, exposed to first losses.
Understanding a fund's **leverage ratio** is essential — it determines your true risk position.

On receivable funds, the deals are "secured" by an asset but does this asset exist? Often, **borrowers will pledge future receivables**.

2️⃣ Excess Capital Creates Pressure to Compromise

We currently see **significant capital inflows** into private credit, even as deal flow slows.
This imbalance encourages funds to **lower their risk thresholds**.
When incentives aren't aligned, managers may prioritize closing deals over preserving risk discipline — often to the detriment of investors.

3️⃣ Liquidity Promises Can Be Misleading

Private loans are **inherently illiquid**. Funds described as "evergreen" or "semi-liquid" often include:

- **Withdrawal restrictions or penalties**
- **Caps on redemptions**
- **Potential contagion effects**, as investors preemptively redeem from healthy funds when others face stress

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4️⃣ Transparency and Fees Remain Opaque

Borrower ratings are frequently **internally determined**, not externally verified.
Investors face multiple layers of cost:

- **Management and performance fees**
- **Distribution fees**

- **Unclear leverage costs** borne by the fund

These elements can erode returns, and in many cases, managers fall short of their targeted performance once all fees are accounted for.

5️⃣ Our Assessment

Given these factors, we believe most private credit funds **do not offer sufficient compensation for the risks taken**, particularly when compared to a **leveraged portfolio of liquid, transparent bonds**.

However, this does **not** mean all private credit opportunities lack value.

6️⃣ Our Preference: SRT (Significant Risk Transfer) Structures

At **Sekura AM**, we favor SRT transactions — exposures to **corporate loans originated by regulated banks** under stringent underwriting standards.

The mezzanine portion offers **spreads of 250–300 basis points**, comparable to standard private loan funds, yet investors remain **higher in the capital structure**, **senior to specialist credit funds** that absorb first losses.

This alignment delivers robust returns while maintaining stronger risk control.

We would be pleased to discuss these dynamics and our investment approach in more detail. Please don't hesitate to contact us.

Here are a couple of related articles:

- UBS Funds Face Half-Billion-Dollar Exposure to First Brands - Bloomberg
- First Brands files for bankruptcy, revealing billions of dollars in liabilities | Reuters
- First Brands' lenders race to rescue car parts supplier as debt woes rattle markets