CION INVESTMENTS

THE THIRD LEVER OF YIELD



Individual retail investors have historically had to accept that generating increased yield from their fixed income portfolios is accompanied by accepting greater risk – whether through decreasing credit quality or increasing term.

Bonds below investment grade typically offer a higher yield premium than investment-grade bonds to compensate for a higher risk of default.

Similarly, long-maturity bonds typically offer a higher yield premium than short-maturity bonds. This is to compensate for interest rate risk due to the investor holding the bond over a longer time period.

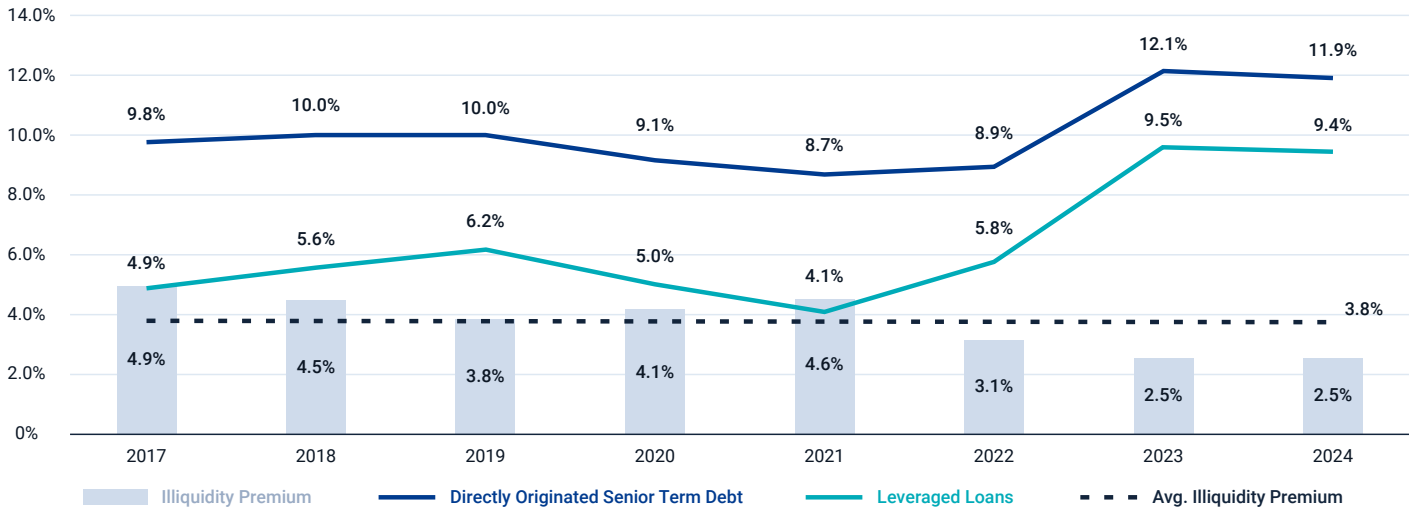
But there is a third lever that fixed income investors can pull: liquidity. In other words, investors that accept lower liquidity can potentially earn higher yields.

AN ALTERNATIVE LEVER: ILLIQUID PRIVATE CREDIT

Illiquid private credit can offer more attractive yields than public credit due to an opportunistic focus on companies with limited funding options.

In addition, if markets turn downward, loan funding may become scarce and some private lenders can often charge a premium for access to capital.

Directly originated senior loans have generated an average 380 bps premium over traded loans since 2017.



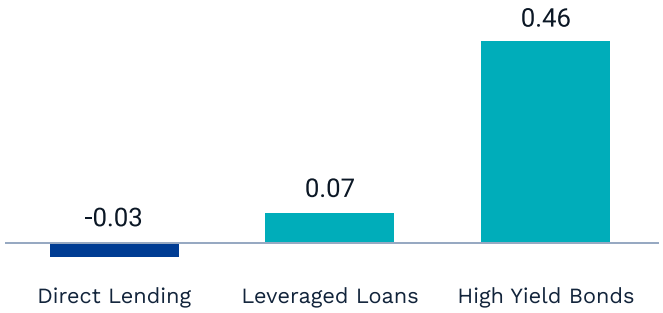
Source: Data as of August 12, 2025. Directly Originated Senior Term Debt represented by the Cliffwater Direct Lending Income Return Index. Leveraged Loans represented by Morningstar LSTA US Leveraged Loan Income Return Index.

These loans typically comprise senior secured notes, which are at the top of the capital structure and can be backed with recourse to company assets, offering a degree of risk mitigation. The historical recovery rate for these types of securities from 1987 – 2023 is approximately 70%, according to a study by S&P Global Ratings.

PORTFOLIO UTILITY: LOWER CORRELATION TO PUBLIC INVESTMENTS

While investing in private credit can offer more attractive yield, it may also provide further portfolio utility. Because loans are not traded on public exchanges, they tend to have a lower correlation to public debt and equity instruments. This makes them a potential source of portfolio diversification.

Correlation to the Bloomberg US Aggregate Bond Index



Source: Data as of December 31, 2024. Direct Lending represented by the Cliffwater Direct Lending Index. Leveraged Loans represented by the Morningstar LSTA US Leveraged Loan Index. High Yield Bonds represented by the Bloomberg US Corporate High Yield Index.

One of the fastest-growing sub-asset classes within diversified private credit is direct lending – bilateral agreements between one borrower and one lender. Direct lending typically focuses on middle market credits, which may be considered by investors because they can offer diversity across both geographies and industry sectors.

The middle markets have also shown resilience, and outperformed during 2007–2010, the depth of the GFC, by adding 2.2 million jobs.

Throughout the post-pandemic period (Q4 2021 - Q2 2025), middle market companies have reported an average year-over-year revenue growth rate of 12.4%.[1]

INVESTING IN PRIVATE CREDIT: THE MANAGER MATTERS

Experienced managers in the direct lending space have a vigorous approach when it comes to their investing process. Most managers often spend three to six months in due diligence on a company.

This helps them to understand the ins and outs of the particular business including the balance sheet, talent, collateral, growth plans and risk.

Once managers make an investment, they have a tendency to hold the loans long term over several business cycles. Most managers tend to invest in senior loans, which can offer a degree of risk mitigation as they sit at or near the top of the capital structure.

Direct lending requires intensive, bottom-up fundamental research and thorough due diligence. Manager success in this asset class can depend on access to capital, experience, and expertise across all stages of the business cycle. In addition, if markets turn downward, volatility increases, and loan funding becomes scarce, larger lenders can likely charge an even higher premium for access to capital.

HOW CAN RETAIL INVESTORS GET ACCESS?

Because most private credit strategies involve long-term investing in assets that are not traded on exchanges, they are considered to be illiquid. This lack of liquidity is the third lever of yield.

An innovative structure, the interval fund, makes this lever available to individual retail investors, as long as the investor can accept only periodic liquidity. An interval fund is a type of closed-end fund that continuously offers new shares for sale but buys back existing shares only during specified periods, or intervals.

1. National Center for the Middle Market, Mid Year 2025 Middle Market Indicator.

Risks

As with any asset class, there are certain risks associated with private credit. Credit risk is the risk of nonpayment of scheduled interest or principal payments on a debt investment. Because private credit can be debt investments in non-investment grade borrowers, the risk of default may be greater. Should a borrower fail to make a payment, or default, this may affect the overall return to the lender. Further, private credit investments are generally illiquid which require longer investment time horizons than other investments. For these and other reasons, this asset class is considered speculative and not appropriate for all investors.

An interval fund has risks that include lack of daily liquidity and can expose investors to liquidity risk. Each fund will also have specific capital, market and strategy risks, depending on the underlying fund assets which can be affected by economic downturns, interest rate changes, credit quality, and other factors that can reduce their value and performance. They can also have higher fees than traditional mutual funds, which can erode their returns and reduce net asset value (NAV) of the fund and the amount of money available for repurchase. Therefore, interval funds are best suited for investors who have a long-term horizon, a high-risk tolerance, and a diversified portfolio. These risks are outlined in the prospectus and should be read carefully.

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