Value Investing in Private Credit Syllabus

Mac Trivedi
Professor Office Location: TBD
Office Phone: 312.307.7643
Office Hours: TBD

David Glazek
Professor Office Location: TBD
Office Phone: 312.375.6683
Office Hours: TBD

Communications from the professors about the course will take place through Canvas. Students should make sure they regularly check for announcements and messaging notifications.

COURSE DESCRIPTION
The course will focus on evaluating and investing in private credit up and down the debt stack (Senior Secured, Mezz, Unsecured) from both an origination perspective and secondary market purchase. There will be an introduction to portfolio construction and management including workouts and loan sales.

REQUIRED COURSE MATERIALS
• Distressed Debt Analysis by Stephen G. Moyer (DDA)
• Bankruptcy and Debtor/ Creditor by Brian Blum (BDC)
• Business Organization and Finance (Legal and Economic Principles) by William Klein, John Coffee Jr., Frank Partnoy (BOF)

REQUIRED PREREQUISITE
• Corporate Finance

REQUIRED COREQUISITES
• Capital Markets

CONNECTION TO THE CORE
• Corporate Finance:
  1. Risk and Return
  2. Firm Valuation Model
  3. Capital Return Policy
• Strategic Formulation: Competitive analysis
• Global Economic Environment I:
  1. Causes of business cycle
  2. Role of financial markets in the economy
• Financial Accounting
  1. The accounting model
  2. Revenue and expense recognition
3. Resources and obligations—measurement and disclosure

CLASSROOM NORMS AND EXPECTATIONS
Students are expected to adhere to CBS Core Culture in this class by being Present, Prepared, and Participating.

COURSE ROADMAP/SCHEDULE

Class One: Why Private Credit?
In this class, we will spend time understanding private credit as an asset class; how it compares to other types of asset classes; why and how investors would think about incorporating private credit into their investment portfolios; different flavors of private credit and where they fit in the capital stack and on the risk/yield curve, and start a framework to put together a private credit investor deck which will be added to throughout the course.

1. Compare private credit to other assets classes (returns, volatility, beta, upside (cap), downside (protection), and strategies (value investing, growth investing)
2. Types of private credit and how they can fit into a value framework
3. Basics of putting together an investor deck/ fund (framework which will be added to throughout the course)

Homework (to be done after class and submitted prior to the next class):

1. Start the framework of an investor deck based on class discussion including - compare asset classes that seem relevant to each student to private credit using public data on private credit funds, BDCs and hedge/mutual funds. This process will help students understand how investors look to diversify their portfolios as well as to help each student to understand if private credit is compelling and compatible with one’s investment style and how it compares to other investment styles and asset classes.
2. Read background information on Ace Recyclers and prepare a list of questions you would want to ask management

Reading for next class:

1. BOF- Chapter 3
2. BDC- Chapter 1
3. DDA- Chapter 2/3 (pages 22-49), Chapter 5 will start to layout of the framework of the firm and how capital (specifically) debt is organized in the firm, read background on Ace Recyclers

Class Two: Fundamentals of evaluating a company
In this class we will start to set the framework of a bottom up evaluation of a business including: the business strategy, understand the financials and how they tie together, introduce the concept of margin of safety from a creditors perspective and how that can change over the maturity of a loan (and how to think about protecting against it) and evaluation of management teams.

1. Understanding financials in conjunction with the business and business strategy with a focus on the balance sheet and how it connects to the rest of the financials
2. Determining the enterprise value (replacement value vs value from cashflows), growth of the business and how that value protects or distributes to the debt
3. Deep dive into assets (types, turns, liquidity, how they inform other aspects of the financials and enterprise value of the business)
4. Management - management interviewing and what to look for in management team
Homework (to be done after class and submitted prior to the next class):

3. Case Study, Ace Recyclers- finding competitive advantage in competitive markets
4. Based on our class discussion on evaluating management teams, build a checklist of questions you would want to ask all management teams you were evaluating

Reading for next class:

1. BDC- Chapter 2, 3, 15
2. DDA- Chapter 6, 7

Class Three: Debt Structures

In this class we will start to dive into various types of debt structures and how each type can be impacted or utilized by the where a lender wants to be on the risk / yield curve. We start to incorporate learnings from the previous class on how to evaluate a business into formulating a diligence process and determining what are the key drivers a lender would need to think about based on the debt structure being utilized and what a lender can do to mitigate their risks based on the debt structure utilized

1. Deep dive into the different types of debt structures and situations where an investor would prefer to be in one vs the other (senior, mezz, uni-tranche, term, LOC)
2. Thinking through the diligence process based on debt structure
3. Continued discussion on the evaluation of assets and cashflows and tying that evaluation into the proper debt structure to utilize

Homework (to be done after class and submitted prior to the next class):

5. Case Study, Radio Shack- valuing tangible and intangible assets and determining what priority results in maximum yield for an expected time horizon / investment strategy
6. Problem set- review 5 scenarios and determine where in the capital stack you would like to lend and articulate the risks, mitigants (or how you would think about creating mitigants) and potential pricing and tenor you would consider and why

Reading for next class:

3. BOF- Chapter 5, 6 (pgs. 422-447)
4. BDC- Chapter 4, 17

Class Four: Senior and Mezz debt Structures

In the first half of class we will have a guest speaker come in to discuss through a case study how lenders can deploy capital into various parts of the capital structure to be competitive in the market, satisfy various tranches of risk yield appetites of investors, and utilize the covenant structures of the different debt instruments to protect capital deployed. The second half of class will review and discuss the homework case study Valuing Intangible and Tangible assets. Deep dive into the different types of debt structures and situations where an investor would prefer to be in one vs the other (senior, mezz, uni-tranche, term, LOC)

Homework (to be done after class and submitted prior to the next class):
1. Build out a model based on class guidance that shows total all in cost and payment structure to the borrower with ability to service debt in normal and stressed scenarios, total yield to each investor class including base case and downside scenarios (loss adjusted net yield).

Reading for next class:

1. DDA- Chapter 9

Class Five: Portfolio Construction and introduction to FinTech

The first half of class will be a guest speaker who will discuss portfolio construction which will include how to manage concentrations, how to segment a portfolio by vintage, and how to identify favorable and unfavorable characteristics of vintages in a portfolio to inform risk management in the current and future portfolio construction. Second half of class will review questions on the model homework assignment and discuss best practices when building models, and will introduce the homework assignment - Decision to buy or not buy a portfolio of whole loans.

Homework (to be done after class and submitted prior to the next class):

1. The class will be provided a portfolio of whole loans and students will price the portfolio and determine if they are willing to purchase the portfolio and at what price using guidance from the guest speaker and class discussion. The winning bid and cover bid will be announced in the next class.

Reading for next class:

1. Read background information for the case Securing Equity through Distressed Debt

Class Six: Securing equity through a distressed debt

The first half of class will be a guest speaker that will discuss opportunities in the distressed debt market and how these opportunities can be used to secure long term return in the equity of restructured companies. The speaker will provide a brief overview and walk through a case study. The second half of class will announce the winning bid and cover bid, discuss the homework assignment and provide guidance and answer any questions for the final project.

Homework (to be done after class and submitted prior to the next class):

1. Final project- Investor deck

METHOD OF EVALUATION- All assignments are type B’ (Individual with discussion of concepts only).

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation</td>
<td>15%</td>
</tr>
<tr>
<td>Homework assignments</td>
<td>35%</td>
</tr>
<tr>
<td>Final Project</td>
<td>50%</td>
</tr>
</tbody>
</table>

ASSIGNMENTS
All of your assignment submissions are subject to the **CBS Honor Code**. Violations of the CBS Honor Code may lead to failing the assignment, failing the course, suspension, and/or dismissal. In order to avoid ambiguity that may lead to unintentional violations of the Honor Code, assignment description types have been standardized and specified below.

<table>
<thead>
<tr>
<th>Type</th>
<th>Designation</th>
<th>Grade</th>
<th>Preparation of submission</th>
<th>Discussion of Submission*</th>
<th>Discussion of Concepts**</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Group Work</td>
<td>Same grade for all group members</td>
<td>By the group</td>
<td>Permitted to discuss (within group)</td>
<td>Permitted</td>
</tr>
<tr>
<td>B</td>
<td>Individual w/ Discussions of Concepts and Submission</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Permitted to discuss; sharing solutions or submission files is not allowed</td>
<td>Permitted</td>
</tr>
<tr>
<td>C</td>
<td>Individual</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Not permitted to share/discuss solutions or submission</td>
<td>Not permitted***</td>
</tr>
</tbody>
</table>

* The designated group can be either an assigned study group or a self-selected one.

**ATTENDANCE POLICY**

Students are required to attend each class. Students should reach out to the **Office of Student Affairs (OSA)** by using Core Absence Form on this course’s Canvas page regarding excused absences (for religious observances; personal, medical, and family emergencies; military service; court appearances such as jury duty). Unexcused absences will affect your course grade.

NOTE: The following is applicable for Core Courses:
- Students that miss more than **33%** of their classes (unexcused absences) will at most receive a **P for the course grade**
- Students that miss more than **50%** of their classes (unexcused absences) will receive a **F for the course grade**

NOTE: The following is applicable for Core Courses and for any electives with OSA-administered exams:
- Students that miss the exam for an **excused** reason but are unable to take the exam within the stated make-up period will receive a **zero for the final exam grade**
- Students that miss the exam without notifying OSA (**unexcused**), will receive an **F for the course grade**

**INCLUSION, ACCOMMODATIONS, AND SUPPORT FOR STUDENTS**

At Columbia Business School, we believe that diversity strengthens any community or business model and brings it greater success. Columbia Business School is committed to providing all students with the equal opportunity to thrive in the classroom by providing a learning, living, and working environment free from discrimination, harassment, and bias on the basis of gender, sexual orientation, race, ethnicity, socioeconomic status, or ability.

Columbia Business School will make reasonable accommodations for persons with documented disabilities. Students are encouraged to contact the Columbia University’s Office of Disability Services for information about registration. Students seeking accommodation in the classroom may obtain information on the services offered by Columbia
University’s Office of Disability Services online at [www.health.columbia.edu/docs/services/ods/index.html](http://www.health.columbia.edu/docs/services/ods/index.html) or by contacting (212) 854-2388.

Columbia Business School is committed to maintaining a safe environment for students, staff and faculty. Because of this commitment and because of federal and state regulations, we must advise you that if you tell any of your instructors about sexual harassment or gender-based misconduct involving a member of the campus community, your instructor is required to report this information to a Title IX Coordinator. They will treat this information as private, but will need to follow up with you and possibly look into the matter. Counseling and Psychological Services, the Office of the University Chaplain, and the Ombuds Office for Gender-Based Misconduct are confidential resources available for students, staff and faculty. “Gender-based misconduct” includes sexual assault, stalking, sexual harassment, dating violence, domestic violence, sexual exploitation, and gender-based harassment. For more information, see [http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students](http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students).