Heron

Generating Passive Income

Unlocking the Power of Private Credit in 2025

Featured in this ebook:

- How does private credit perform vs other asset classes?
- What are the pros/cons of different approaches to private credit investing?
- What type of private credit assets are right for your investing style?
- What are 3 ways to mitigate the risks of private credit investing?
- How much should you allocate to private credit?

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Private credit

A strong past and promising future

According to McKinsey & Company, private credit has been one of the fastest-growing segments of the financial system over the past 15 years. And that fact doesn't appear to be changing.

Recent media headlines continue to prop up awareness of the asset class:

- **Goldman Sachs** recently created a new private credit company division
- **Apollo** and **State Street Advisors** filed to offer a private credit ETF for retail investors
- **The Financial Times** reported that "the big new role for private credit" in 2025 may be providing trillions of dollars to support the development of data centers and energy projects

And when private credit goes head to head with the S&P 500, **the median fund hasn't lost money in 30 years** compared to six down years for stocks, according to data from Prequin and NYU Stern.

News headlines and data are interesting — but the real value of private credit for you as an investor is in its ability to generate stable passive income.

And here's why in 2025:

- Rates continue to fall.
- Stock market uncertainty continues to rise.
- And yet, private credit has remained steady.

If you're looking to generate income, a strategic allocation to high-quality private credit can be a wise choice.

Let's see why...

A note from Heron's CEO

At Heron, we're believers in the power of private credit to both fuel the growth of businesses and the long-term wealth of individual investors like you.

We've created this ebook with investors in mind who are seeking to generate passive income from their portfolio.

Our team has built a platform that provides investors like you with exposure to the world's largest credit funds, with 1,000s of loans, all in one portfolio to simplify investing.

At the heart of our expertise is our private credit manager scoring model, where we sift through thousands of data points to identify the best of the best funds.

To learn more about private credit investing, visit heronfinance.com.

Thanks for reading,

Mike Sall

CEO, Heron Finance

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The income comparison

Private credit wins by a longshot

Regardless of what income generating asset class you compare private credit to, if your goal is to earn passive income from your portfolio, private credit has proven its ability to deliver above average yield over the years.

Comparing 5 top income-generating asset classes

For income seeking investors, private credit has offered higher yields over time compared to other income-generating asset classes.

10-year annual returns

As of December 31, 2024

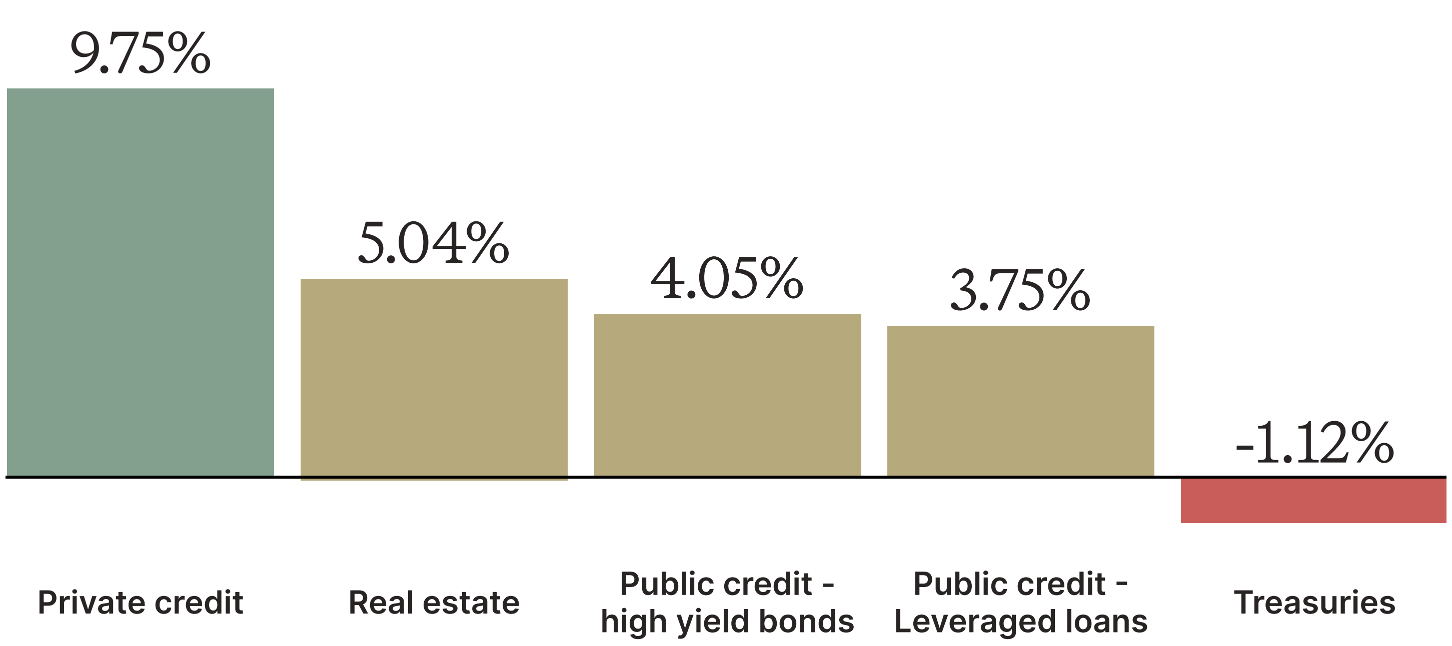

Chart Disclosure: Based on last 10-year annualized total returns as of December 31, 2024. Funds used to represent asset classes include: VanEck BDC Income ETF (BIZD), Vanguard Real Estate Index Fund ETF (VNQ), iShares iBoxx $ High Yield Corporate Bond ETF (HYG), Invesco Senior Loan ETF (BKLN), and iShares 20+ Year Treasury Bond ETF (TLT). Past performance does not guarantee future results.

What is private credit?

Private credit, also known as private debt, refers to loans or other forms of credit that are not issued or traded on public markets. It typically involves non-bank lenders providing capital to businesses or loan pools. This form of financing is often used as an alternative to traditional bank loans or public bond offerings. Private credit has grown significantly over the past decade as institutional investors seek alternatives to traditional fixed-income investments, especially in a low-interest-rate environment.

Beyond returns

3 questions every private credit investor should ask

Whether it's your first time considering an investment in private credit, or you have been actively investing in the asset class, our team at Heron thinks all investors should reflect on these three questions:

1. **Is private credit right for my investing style?**
2. **What are the risks of private credit investing?**
3. **How much should I allocate to private credit?**

Next, we'll break down each question for you, so you have the knowledge you need to feel confident navigating private credit.

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Question 1

Is private credit right for my investing style?

Although not suited for all retail investors, private credit can be beneficial for most accredited investors looking to generate stable passive income. But beware that not all private credit is created equal.

There are different methods to investing in private credit that may or may not fit your investing style and ultimately your financial goals. The table below provides an overview on the different types of private credit investments.

Common types of private credit investments

	Private funds Ex: Blackstone's BCRED	**Online platforms** Ex: Percent, Yieldstreet, Fundrise	**BDC ETFs** Ex: VanEck BDC Income ETF	**Heron** Personalized Private Credit Portfolio
Best for...	Financial advisors	Risk-taking retail investors	Non-accredited retail investors	Accredited retail investors and Financial advisors
Ease of access	Difficult	Easy	Easy	Easy
Manager experience	Low - high	Low	Low - high	High
Size of funds (AUM)	Billions	Millions	Billions	Billions
Returns	Moderate	Moderate - high	Low - high	Moderate
Volatility	Low	Low - high	High	Low
Diversification	Moderate	Low	Moderate - high	High

Case study:

Why volatility matters for private credit investors

For income-seeking investors, it's crucial to understand the differences between private credit investment vehicles, especially when it comes to volatility and protecting your capital. For example, when comparing the VanEck BDC Income ETF to Heron's Personalized Private Credit Portfolio, we see some stark differences.* Heron's diversified portfolio, which isn't traded on the public markets (yet still offers quarterly liquidity), carried far less volatility than VanEck's BDC Income ETF over the past two years.

26X

Less volatility

VanEck BDC Income ETF was 26X more volatile than Heron when comparing monthly return variance in 2023 and 2024

0

Negative return months

VanEck BDC Income ETF had 6 months of negative returns compared to Heron's 0 months over 2023 and 2024

Question 2

What are the risks of private credit investing?

While private credit returns are historically higher than traditional fixed-income investments like bonds, and more stable than stocks, they do come with some unique risks, which vary in level across different types of private credit investment vehicles.

<table>
<tr><th>Potential risk</th><th>Description</th><th>How Heron reduces risks for investors</th></tr>
<tr><td>Lack of liquidity</td><td>Some private credit funds may require lock-up periods.</td><td rowspan="4">Quarterly liquidity: Clients may request redemption at any time on a quarterly basis. There are also zero penalties or fees for redemption.

Quality management and assets: We use a proprietary scoring model to select funds from the world's most experienced private credit managers. On average, funds consist of greater than 90% senior secured loans, less than 5% payment-in-kind interest income, and target non-accrual loan rate of less than 0.75%.

Diversification: At Heron, our portfolios offer investors access to multiple funds, combining over 1,000 loans to reduce concentration risk.</td></tr>
<tr><td>Hard to value assets</td><td>Private credit loan valuations are subjective, determined by the fund managers.</td></tr>
<tr><td>Sector and concentration risk</td><td>Some private credit investments are heavily concentrated on a specific industry.</td></tr>
<tr><td>Relatively short history</td><td>Over 90% of credit fund managers formed after the global financial crisis, lacking long-term experience.</td></tr>
</table>

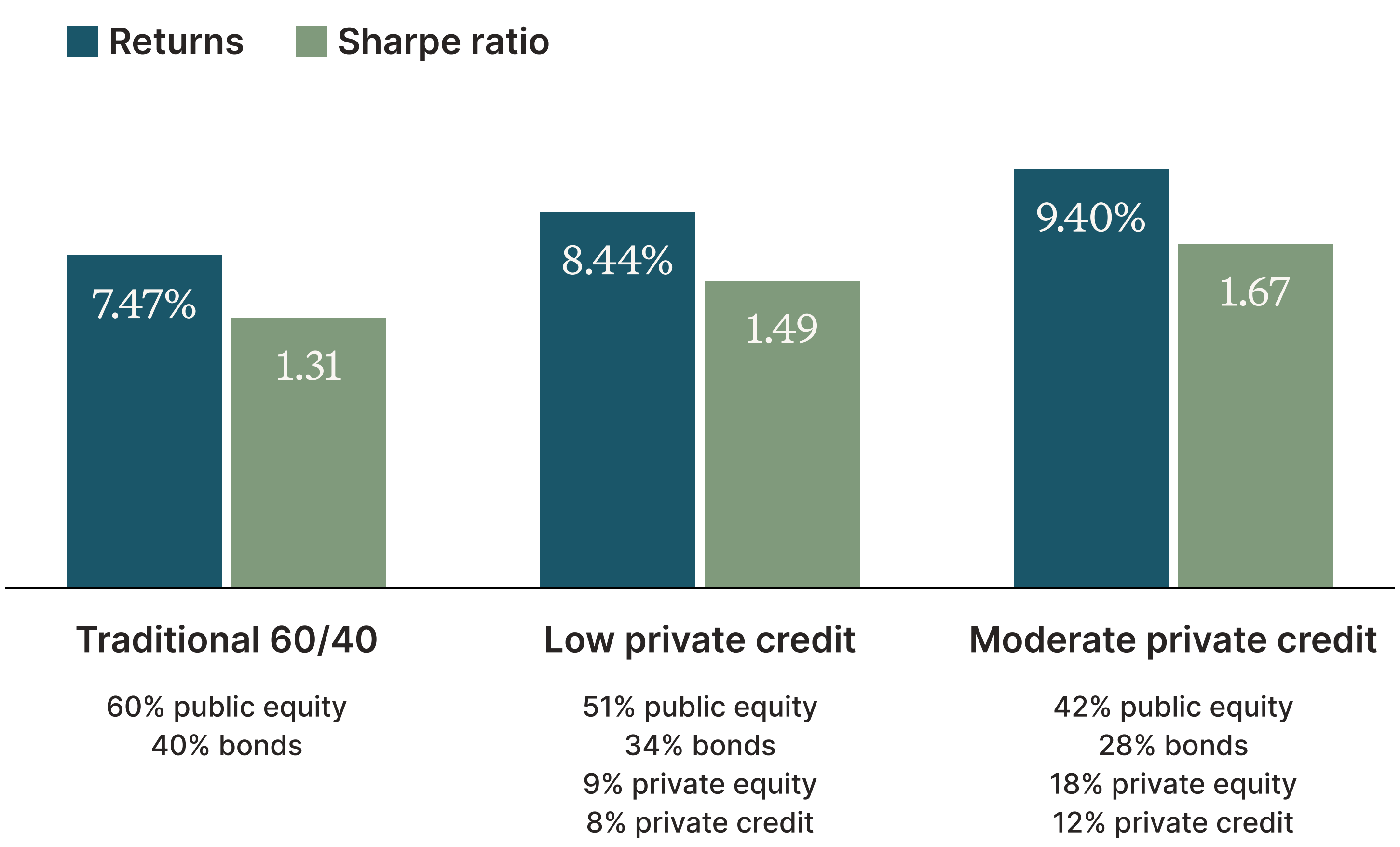
Question 3

How much should I allocate to private credit?

We can’t tell you exactly how much to invest in private credit, but we do have some guidelines based on industry leaders and historical performance.

A little private credit can go a long way

According to data from Hamilton Lane, an institutional private markets firm, by adding exposure to alternatives like private equity and credit, investors can increase their returns and Sharpe ratio.



As you can see, rather than using the traditional 60/40 allocation model, using closer to a 40/30/30 portfolio, meaning 30% gets allocated to alternative investments, of which private credit is a large share, can yield higher returns for the risk being taken with your portfolio.

What is the Sharpe ratio?

The Sharpe ratio helps investors understand how much excess return they are receiving for the level of risk taken compared to a risk-free asset. A higher ratio is desired, implying a higher investment return compared to the amount of risk of the investment.

Chart source: Hamilton Lane Data via Cobalt LP and Morningstar. Data based on average quarterly returns which were then annualized. Equity date range from 1995 to 2020 and credit range from 2000 to 2020. Performance shown for illustrative purposes only. Past performance does not guarantee future results.

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Start generating passive income

How you can unlock the power of private credit with Heron

The data clearly shows that private credit can generate passive income for investors. But achieving consistent yield from institutional-grade private credit funds takes real work.

Investing in private credit on your own requires you to navigate two difficult problems:

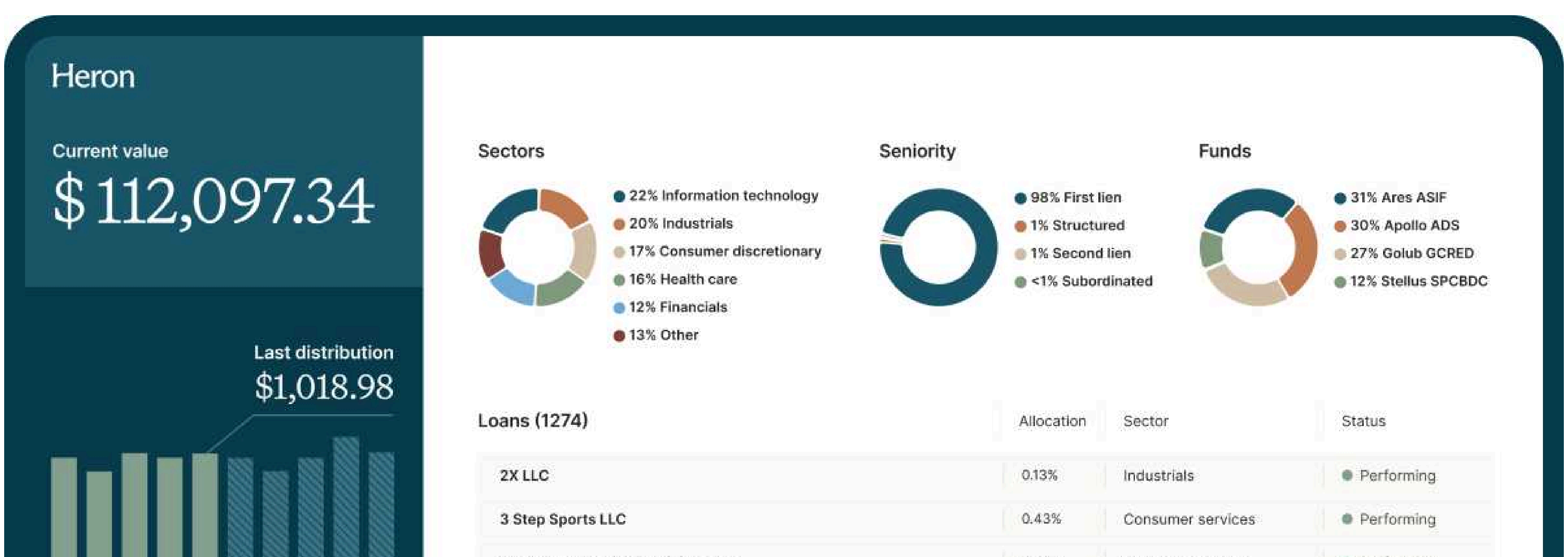
1. **Complex due diligence:** Diversifying across multiple funds requires doing research on dozens of fund managers to ensure you're finding only the best.
2. **Challenging fund access:** Since the best funds aren't available through your brokerage, it requires access through an advisor or other means of placement.

Heron solves these problems for you. By leveraging both technology and expertise, we perform the due diligence and provide fund access for you. With Heron, you get:

- **High-quality:** Using our proprietary fund scoring model and portfolio technology, we provide you a single investment with exposure to thousands of loans from leading private credit firms like Apollo, Ares, Golub, and more.
- **Ease of access:** If you invested in funds individually, each fund has you sign their own documents and sends you a different tax form. At Heron, you sign one document and get one tax form, no matter how many funds you're invested in under the hood.
- **Lower fees:** Beyond convenience, Heron often gets "institutional" share classes, which usually require $1M minimum investments. This results in our fees being reduced by as much as 0.85%, which we pass on directly to you.

The end result is one of the most diversified, highest quality private credit offerings on the market — and it's built for you based on your investment objectives and risk profile.

To learn more or schedule a call with our team, visit heronfinance.com



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*VanEck BDC Income ETF was selected for comparison as it is one of the largest (by assets) publicly traded BDC ETFs. Volatility source: Heron analysis completed using 2023 and 2024 data from VanEck BDC Income ETF and funds available in the Heron Personalized Private Credit portfolio.