Three Horizons Capital

Market Beta Private Credit Portfolio

Democratizing Private Credit: Institutional Returns, Retail Access.

Executive Summary

This case study presents the partnership between Three Horizons Capital and a new asset management team to **design and implement a market-representative, maximally diversified private credit portfolio for retail investors**. The initiative addressed a critical gap in the market: retail investors' limited access to private credit, an asset class that has delivered strong risk-adjusted returns and diversification benefits for institutional portfolios but has remained largely inaccessible due to high minimums, illiquidity, and lack of transparency.

Our client sought to democratize private credit by launching a product that mirrors the risk and return characteristics of the broader market, while meeting the regulatory, liquidity, and transparency requirements essential for retail distribution. This required a step-change in data aggregation, risk modelling, and benchmark construction—leveraging recent advances in data infrastructure, risk factor analytics, and index design.

The project's objectives were fourfold:

1. Deliver a diversified, market beta private credit portfolio	**2. Ensure accessibility and compliance for retail clients**
3. Use data-driven insights to minimize tracking error and enable scalability	**4. Systematize portfolio design for efficient product launch and communication.**

Each objective was addressed through a combination of advanced technology, rigorous research, and close alignment with client and regulatory needs.

Our approach included innovative data aggregation and cleaning across a broad universe of private credit managers, robust risk factor modelling to capture the true drivers of market beta, and the construction of a rules-based, replicable benchmark in partnership with a specialist index provider. Rigorous back testing and validation against real-world portfolios and commercial indices ensured the robustness and reliability of the solution.

The results were transformative: the client achieved a first-mover advantage with a differentiated, scalable product; operational efficiency and risk oversight were enhanced through standardized index construction; time-to-market for future launches was reduced by 30%; and client communication was elevated through transparent, rules-based benchmarks.

Introduction: About Three Horizons Capital

Three Horizons Capital is not a conventional consultant or another asset manager. We are practitioners—people who have built, led, and transformed investment businesses from the inside. Our guidance is rooted in lived experience, not theory.

We partner with clients, working shoulder to shoulder to address the realities of growth. Our focus is unwavering: we help organizations unlock and drive revenue, not through generic advice, but through a process that is adaptive, cost-conscious, and always tailored to the client's unique environment.

Our core pillars are:

- **Sales Enablement and Client Onboarding (Distribution):** Leveraging advanced data and AI-driven insights to help clients anticipate investor needs and maximize distribution impact.
- **Investment Management:** Designing and implementing scalable, cost-effective portfolio solutions, from customized indexing to automated reporting.
- **Product Design (& Operating Platform Development):** Identifying market gaps and designing products that meet real investor needs, using a collaborative, data-driven, and risk-minimizing "sandbox" approach.

We embed within client teams, guiding them from minimum viable product to scalable success, always with transparency, collaboration, and a deep respect for each client's journey.

Three Horizons Capital

Market Beta Private Credit Portfolio

Democratizing Private Credit: Institutional Returns, Retail Access.

The Opportunity and The Objectives

Retail investors have historically faced significant barriers to accessing private credit—an asset class that has delivered strong risk-adjusted returns for institutions but remains largely out of reach for individuals due to high minimums, illiquidity, and lack of transparency. As the private credit market surpasses $1.7 trillion and continues to grow, the demand for accessible, diversified solutions is accelerating (Preqin, 2024; JPMorgan, 2023).

Innovation Required - Delivering a market beta private credit portfolio for retail investors required a fundamental shift in data aggregation, risk modelling, and benchmark construction. Recent advances in data infrastructure and index design now make it possible to offer systematic, transparent, and scalable private credit solutions—capabilities that were previously unavailable in the market (CFA Institute, 2023; Solactive, 2024).

Three Horizons Capital set out four clear objectives, each explained in terms of what we are doing, why it matters, and how we are delivering:

1. Develop a diversified private credit portfolio reflective of the broader market ("market beta")

What: Construct a portfolio that mirrors the risk and return profile of the overall private credit market.

Why: Retail investors deserve access to the same diversified exposures that have driven institutional allocations and outperformance in private credit (JPMorgan, 2023; Preqin, 2024). Concentrated or niche exposures increase risk and reduce the reliability of outcomes.

How: Aggregate and normalize data from a wide range of private credit managers, ensuring broad representation across credit structures, sectors, and geographies. Use systematic portfolio construction to minimize idiosyncratic risk and maximize diversification (Journal of Finance, 2022).

2. Ensure the portfolio is accessible and compliant for retail clients

What: Design the product to meet regulatory, liquidity, and transparency standards for retail distribution.

Why: Regulatory scrutiny and investor protection are paramount in retail markets (ESMA, 2024; SEC, 2023). Products must be understandable, liquid, and transparent to build trust and meet compliance.

How: Implement robust data pipelines, clear reporting, and liquidity management tools. Structure the product to align with UCITS and 40 Act requirements, leveraging technology to automate compliance and reporting (CFA Institute, 2023).

3. Use data-driven insights to reduce tracking error and enable scalability

What: Systematically minimize deviations from the market beta benchmark, ensuring consistent performance.

Why: High tracking error undermines investor confidence and product credibility, especially in new asset classes (Journal of Portfolio Management, 2023). Scalability is essential for efficient growth and cost control.

How: Employ advanced risk factor modelling and real-time data integration to monitor exposures and rebalance efficiently. Automate portfolio management processes to support growth without sacrificing oversight (Investment Management Regulatory Update, 2024).

4. Systematize portfolio design for efficient product launch and communication

What: Create a repeatable, technology-enabled process for portfolio construction, launch, and ongoing communication

Why: Speed to market and clarity of communication are critical in a competitive landscape. Manual processes are slow, error-prone, and difficult to scale (CFA Institute, 2023).

How: Build a modular technology stack that integrates data, risk analytics, and client reporting. Partner with index providers to deliver transparent, rules-based benchmarks that support both internal oversight and external communication (Solactive, 2024).

Three Horizons Capital

Market Beta Private Credit Portfolio

Democratizing Private Credit: Institutional Returns, Retail Access.

Three Horizons Capital Approach

Delivering a market beta private credit portfolio for retail investors required a disciplined, technology-enabled process that could bridge the data and transparency gaps inherent in private markets. Our methodology combined advanced data aggregation, robust risk factor modeling, and innovative benchmark construction to ensure the portfolio was both representative of the broader market and suitable for retail distribution. Each step was designed to bring institutional rigor and scalability to an asset class traditionally characterized by opacity and fragmentation. The following outlines the key components of our approach and the innovations that set this solution apart.

1. Data Aggregation and Cleaning

We systematically collected portfolio-level data from a broad universe of private credit managers, leveraging public filings, institutional reports, and proprietary contributions. This process required normalizing and structuring datasets across credit rating, duration, sector, and capital structure.

Why this is innovative: Private credit has historically suffered from data fragmentation and opacity, making true market representation nearly impossible (Journal of Alternative Investments, 2023). By building a unified, clean dataset, we enabled systematic analysis and portfolio construction—bringing the rigor of public markets to private credit. Recent advances in data infrastructure and manager reporting standards have made this possible at scale (CFA Institute, 2023).

2. Risk Factor Modeling

We defined and modelled the key drivers of market beta within private credit:

1. Credit Structure	2. Duration Profile
Senior, mezzanine, and unitranche loans each carry distinct risk/return profiles. Senior loans offer lower risk and yield, while mezzanine and unitranche provide higher returns with greater risk—mirroring the capital structure risk premium seen in public credit, but with less liquidity and more bespoke terms (Journal of Finance, 2022).	Private credit portfolios often have shorter effective durations than public bonds, but duration risk remains a key driver of returns and volatility, especially in rising rate environments (JPMorgan, 2023).
3. Industry Sector Allocations	**4. Concentration and Borrower Characteristics**
Sector exposures drive idiosyncratic risk and return dispersion. Diversification across sectors is critical to achieving market beta and reducing drawdown risk (Preqin, 2024).	Private credit portfolios are typically more concentrated than public indices. Managing concentration risk and understanding borrower quality are essential for replicating market beta (Journal of Portfolio Management, 2023).

While both Public and Private Credit share risk factors such as credit quality, duration, and sector, private credit's illiquidity, bespoke structuring, and higher concentration require more granular modelling and risk controls (CFA Institute, 2023).

3. Benchmark Construction

We partnered with a specialist index provider (Solactive) to build a rules-based, replicable benchmark for private credit. This enabled real-time exposure monitoring, strategy replication, and transparent performance communication.

Why this is unique: Private credit benchmarks are rare—most products rely on proprietary or opaque reference points, limiting transparency and comparability (Journal of Alternative Investments, 2023). Solactive and a handful of innovative providers are pioneering open, rules-based indices for private markets, offering greater flexibility and customization than legacy index giants.

How this supports clients: Our benchmark design aligns with both front-office needs (portfolio management, risk oversight) and client communication (clear, rules-based performance reporting). This is a market first in many respects, enabling retail investors to access private credit with the same transparency and discipline as public markets (Solactive, 2024).

Market Beta Private Credit Portfolio

Democratizing Private Credit: Institutional Returns, Retail Access.

Three Horizons Capital Approach (cont'd)

4. Backtesting and Validation

We validated our benchmark and portfolio design against real-world portfolios and commercial indices, measuring tracking error, return distributions, drawdowns, and volatility.

Why this matters: Backtesting is a standard industry practice, but its credibility depends on rigorous validation against actual portfolios and independent indices (Journal of Portfolio Management, 2023). By benchmarking our results against both commercial and real-world data, we ensured that our approach delivers robust, reliable outcomes—not just theoretical performance.

Why these metrics: Tracking error quantifies how closely the portfolio follows the benchmark; return distributions and drawdowns test resilience across market cycles; volatility measures risk. Together, these metrics provide a comprehensive view of performance and risk, supporting both regulatory compliance and investor confidence (CFA Institute, 2023).

Results

Outcome	Impact
Strategic Differentiation	Enabled the launch of a diversified private credit product for retail clients
Operational Efficiency	Standardized index improved portfolio construction and risk oversight
Time-to-Market Reduction	Cut future fund launch timelines by 30%
Enhanced Client Communication	Offered transparent benchmarks to explain product exposure and performance

For the client, these outcomes delivered a first-mover advantage in a rapidly growing segment, with a product that is both differentiated and scalable. For the market, this approach sets a new standard for transparency, efficiency, and access in private credit.

The Ultimate Winner: The Retail Investor

Retail investors now gain access to a diversified, market-representative private credit portfolio—delivering institutional-quality risk/return, robust transparency, and regulatory compliance. They benefit from lower concentration risk, improved liquidity, and clear, rules-based reporting—features previously unavailable in private credit. In short, we have democratized access to an asset class that has historically driven superior risk-adjusted returns for institutions, now delivered with the safeguards and clarity retail investors deserve.

Conclusion

The client's initial ask was clear:

- Deliver a market-representative, maximally diversified private credit portfolio suitable for retail investors.

Through a combination of advanced data aggregation, risk modelling, and benchmark construction, Three Horizons Capital delivered a solution that is both innovative and practical—setting a new standard for access, transparency, and efficiency in private credit.

Our approach is grounded in deep market expertise, robust technology, and a relentless focus on client outcomes. For asset managers and distributors seeking to lead in the next generation of private market solutions, Three Horizons Capital is the partner of choice.

Three Horizons Capital

TEAM BIOGRAPHIES

Dr. Jay Raol focuses on providing customized direct indices and analytics to help asset managers and wealth advisors to efficiently manage portfolios to specific outcomes through innovative technology.

Previously, Dr. Raol was head of fixed income within the Systematic and Factor Investing (SFI) Group at Invesco and a member of the SFI leadership team. His team researched and managed strategies in global fixed income including investment grade, high yield and treasures. The group managed $2 bill ion in strategies across active ETFS, mutual funds and separately managed accounts. In addition, he worked with clients to develop bespoke multi-asset solutions across equities, fixed income, managed futures and options.

Before joining SFI, he was director of quantitative research within Invesco Fixed Income with responsibilities in quantitative macroeconomic strategy, portfolio construction and risk management. Mr. Raol has been in the industry since 2010. He has numerous publications covering macro economic, systematic and multi-asset subjects. Mr. Raol earned a BA degree and a PhD in computational and applied mathematics from Rice University in Houston, Texas.

Bin Yang leads the research initiatives and oversees the technology platforms that drive the firm's innovative products. Previously, Mr. Yang was a Senior Quantitative Researcher at Invesco, where he specialized in fixed income quant research, multi-asset factor strategies, and portfolio construction. Mr. Yang earned a M.S. degree in financial engineering from Columbia University and B.A. degrees in Applied Mathematics, Economics, and Statistics from Rice University. He is a Chartered Financial Analyst® (CFA) charter holder.

Andrew Gardner focuses on innovative implementation of investment strategies and distribution strategies partnering with asset managers globally to effectively and efficiently increase long term sustainable organic growth.

Andrew has over 25 years in the asset management industry working across all three regions where he helped to build and establish Invesco's presence in Asia Pacific with key Merger and Acquisition while developing Invesco's Global Sovereign Wealth Program. Over the last 10 years Andrew has worked alongside Dr. Raol at Invesco where they helped to grow Invesco Systematic and Factor Investing Group across Equity, Fixed Income and Multi Asset to $40billion.

Andrew is a chartered certified Accountant with a Master's degree in Renewable Energy and Environmental Finance from University College Dublin.