State Street's Recently Launched 'PRIV' ETF Has Limited Private Credit Exposure

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Key Takeaways

- **The recently launched SPDR SSGA Apollo IG Public & Private Credit ETF (PRIV 25 NR) received significant attention because it proposes to hold more private credit than the 15% limit on illiquid securities stipulated in the Investment Company Act of 1940.**

Positive (+) or Negative (-) Implications
(+) VanEck BDC Income ETF (BIZD)

- **However, our analysis shows that PRIV's private credit exposure was only around 5% as of March 3, 2025. Public corporate debt, treasuries, and agency pass-throughs accounted for 76% of its exposure.**

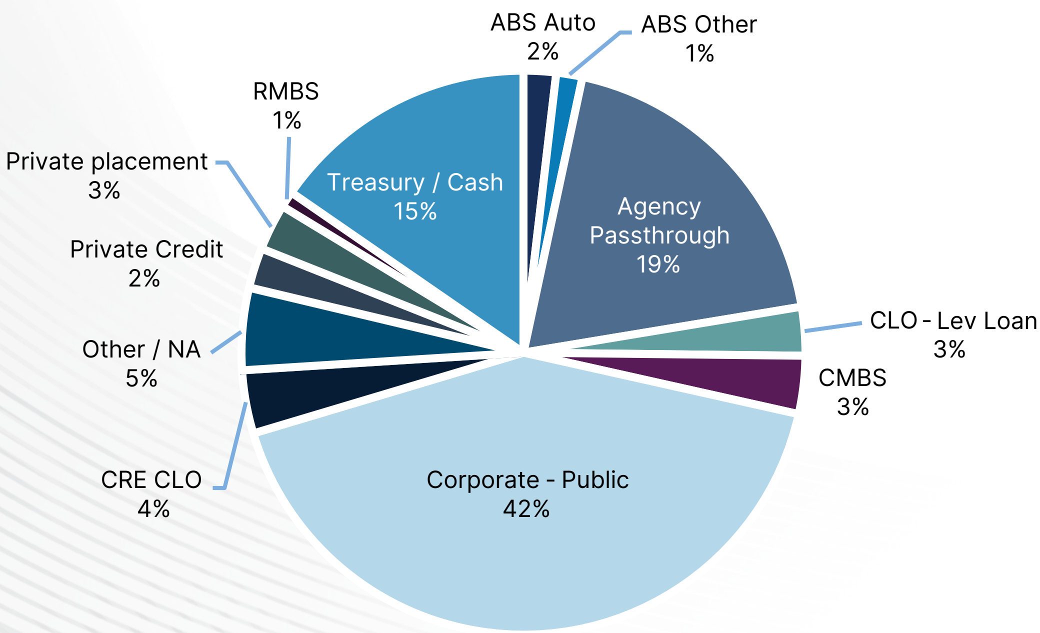
- **Due to this, PRIV's current constituents are very liquid and widely owned by mutual funds and other ETFs.**

Fundamental Context

The recently launched SPDR SSGA Apollo IG Public & Private Credit ETF (PRIV) has received significant industry attention because it proposes to hold between 10% and 35% (and potentially even more) of its portfolio in private credit instruments. This would exceed the 15% limit on illiquid securities as stipulated by Rule 22e-4 of the Investment Company Act of 1940. These private credit instruments will be primarily, but not solely, sourced by Apollo Global Securities. The fund received launch approval from the U.S. Securities and Exchange Commission (SEC) despite Rule 22e-4 because it entered into an agreement where Apollo "has contractually agreed to provide intra-day, firm, executable bids" on private credit investments that it has sourced. Therefore, in theory, investors would expect PRIV to have meaningful exposure to private credit.

However, our analysis of PRIV's holdings shows that its private credit exposure was only around 5%, as of March 3, 2025. Additionally, that 5% exposure includes securitized debt, and a Business Development Company (BDC) issued bond, rather than individual private corporate debt. About 42% of PRIV's exposure is in public corporate debt, with 19% in securitized agency mortgages and 15% in treasuries or cash instruments.

Figure 1: Holdings of PRIV Classified by Security Type



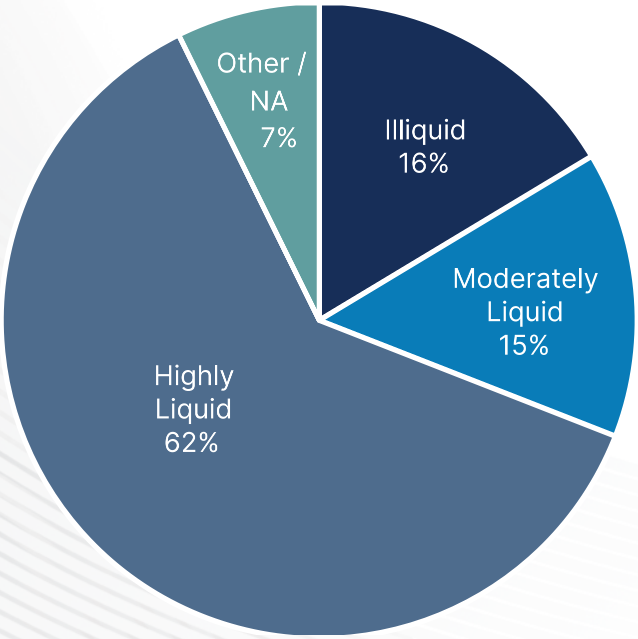
Note: Fixed income data sourced from SOLVE. Data as of March 3, 2025.
Source: CFRA, SOLVE analysis.

Liquidity Assessment of PRIV Based on TRACE Trade Data

Prior to PRIV's launch, industry professionals had questions about the liquidity of the potential holdings, and the fund's liquidity agreement with Apollo. The agreement requires Apollo to publish three executable quotation sheets per day to buy securities held in PRIV that were sourced from Apollo. These quotes must be no worse than those offered to "similarly situated clients." Apollo will accept orders up to a daily limit, i.e., 25% of the funds' holdings in an Apollo sourced investment.

Currently, this liquidity issue seems moot since the fund's exposure to private debt as of March 3, 2025, was extremely low. As of that date, over 75% of the portfolio was liquid, with 62% highly liquid. To assess the liquidity of the underlying portfolio, we used Trade Reporting and Compliance Engine (TRACE) data, as aggregated by SOLVE. We classified constituent holdings that had traded in the trailing week (five trading days) as highly liquid, those with recent trades but outside of the five-day window as moderately liquid, and the rest as illiquid. We then validated these trade-based liquidity categories using the count of bid-ask quotes in the trailing one-month period from the SOLVE database. Using these definitions, only 16% of the portfolio is illiquid, and private credit accounts for only a small share of those illiquid securities (Figure 2).

Figure 2: Liquidity of Holdings in PRIV



Illiquid Holdings by Type	%
CLO – Lev Loan	2.8%
Corporate – Public	4.5%
CRE CLO	3.6%
Private Credit	**0.9%**
Private Placement	**0.5%**
Other / NA	4.0%

Note: Fixed income data sourced from SOLVE. Data as of March 3, 2025.
Source: CFRA, SOLVE analysis.

Liquidity Comparisons to CLO ETFs Based on Constituent Holders

Another lens into the liquidity of PRIV's constituents is to examine how widely they are held by mutual funds, other ETFs, or insurance firms. We compared PRIV, based on this criteria, with two Collateralized Loan Obligation (CLO) constructed ETFs – the BondBloxx Private Credit CLO ETF (PCMM 51 *) and the Janus Henderson AAA CLO ETF (JAAA 51 ***). Although not focused on private credit, the latter name was selected as it is the largest alternative credit ETF in the U.S.

Table 1: Number of Holders for Underlying Constituents of PRIV, JAAA, and PCMM

Metric	PRIV	JAAA	PCMM
Average (median) number of holders of underlying securities	110	3	4
Percentage of securities with fewer than 10 other holders	11%	78%	88%

Note: Fixed income data sourced from SOLVE. Data as of March 3, 2025.
Source: CFRA, SOLVE analysis.

On average (median), the constituents in PRIV were held by 110 other mutual funds, ETFs, or insurance firms. Only 11% of the constituents were held by fewer than 10 other investment vehicles. This indicates that PRIV's holdings, on average, are widely owned and traded. In contrast, there were three other holders for the constituents of JAAA and four for PCMM, on average (median). Of the holdings in JAAA, 78% were held by fewer than 10 other mutual funds, ETFs, or insurance firms. The corresponding number for PCMM was 88%. This ownership data indicates that PRIV's current holdings are liquid, but also less differentiated.

It is important to note that PRIV is an active ETF and could change its portfolio over time in favor of private credit instruments sourced by Apollo. That would change the liquidity profile of the ETF over time.

Alternative Options for ETF Investors in Private Credit

Prior to the launch of PRIV, investors had two options for exposure to private credit via ETFs. The first option included ETFs that hold CLOs of private loans and the second option included those that hold BDCs. Table 2 compares PRIV to PCMM and to the VanEck BDC Income ETF (BIZD 17 *****). ETF buyers invest in these ETFs to generate yields that are higher than in traditional debt ETFs. BIZD and PCMM had 30-day SEC yields of 9.02% and 7.44%, respectively, as of March 3, 2025. PRIV has only been trading since February 26, 2025, so it has not yet published a 30-day SEC yield. Its published yield to maturity as of March 3, 2025, was 5.44%. If it continues to hold primarily liquid investment grade public debt, its yield will be lower than that of BIZD and PCMM, but this could change if its portfolio composition evolves to holding more private debt.

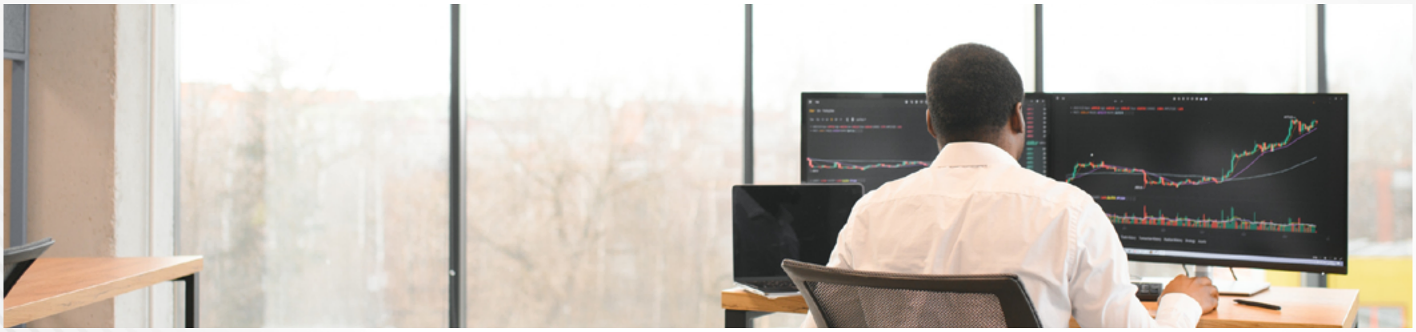
Table 2: Comparison of PRIV to Other Leading Private Credit Focused ETFs

	PRIV	BIZD	PCMM
Instruments Held	Mix of public and private credit, with latter targeted to be 10-35% of portfolio.	BDCs, which in turn invest in debt and equity of private companies.	CLOs, comprising a pool of non-syndicated loans to private companies.
Listing Date	February 26, 2025	February 11, 2013	December 2, 2024
Expense Ratio	0.70%	13.33%	0.68%
30-Day SEC Yield	-	9.02%	7.44%
Credit Quality	Investment Grade	Investment Grade & High Yield	Investment Grade
Net Assets	$55 million	$1,538 million	$63 million

Note: Fixed income data sourced from SOLVE. Data as of March 3, 2025.
Source: CFRA, SOLVE analysis.

Both PRIV and PCMM hold investment grade securities and have significantly lower expense ratios than BIZD. BDCs can be expensive to own, resulting in an extremely high expense ratio of 13.33% for BIZD. BDCs are specialty finance firms that primarily invest in the debt and equity of small- to mid-sized U.S. companies. Their debt investments include senior secured, subordinated, and unsecured loans, while their equity investments include preferred and common stock. The low liquidity of the underlying loans poses a challenge, making them riskier than traditional debt instruments. Leveraging SOLVE's crowdsourced data, we found that only 5.5% of BDC-held loans have pre-trade observable data, amounting to a $21.5 billion cost basis. These loans were primarily broadly syndicated loans. Given that total BDC asset under management (AUM) at cost stood at $387.6 billion on March 3, 2025, this means that a vast majority of senior secured portfolios, primarily First Lien and Second Lien loans, remain unquoted.

While evaluating these three categories of private credit ETFs, investors will need to trade off these cost, yield, liquidity, and credit risk considerations.



Looking Ahead

PRIV was launched with significant investor anticipation due to its unique approach to making private credit available to ETF investors. Its liquidity arrangement with Apollo is viewed as an innovative way to address the 15% limit on illiquid securities as stipulated by Rule 22e-4 of the Investment Company Act of 1940. However, as of March 3, 2025, the fund only had 5% of its portfolio in private credit. While this ensures that its portfolio is liquid, it also makes it less differentiated relative to other fixed-income funds, since its constituents are widely held by mutual funds and other ETFs. Going forward, it seems likely that this actively managed ETF will start to take on more private credit that is sourced from Apollo. This will be important for investors to monitor since a future tilt in the portfolio to more private debt will change the credit quality and liquidity profile of the ETF over time.

About

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