



Private Credit Risk Disclosure

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Introduction

This Private Credit Risk Disclosure should be read together with our [General Risk Disclosures](#) and the [Altify Regulatory Status Disclosure](#).

Before using any of Altify's services, you should ensure that you fully understand and can afford to undertake the risks involved in investing in private credit and ensure that these are within your risk tolerance and financial goals.

This Private Credit Risk Disclosure overview lists some but not all of the risks involved in private credit investments in general. This disclosure is intended to provide you with a general outline of the risks involved but can not capture all such risks. The risks listed below, therefore, do not constitute an exhaustive list, and additional significant risks may be applicable. You should always do your own research and speak to the necessary advisors before engaging with any private credit product.

Additionally, each private credit product offered on the Altify platform carries its own specific risks. You should carefully evaluate the individual risk profile of the product you are considering before making any investment.

Private Credit Specific Risks

Private credit investments offer the potential for higher yields than traditional investments such as bonds or stocks, but they come with distinctive risks.

Private credit investments typically involve lending to small or mid-sized businesses, which may have limited access to traditional financing due to their credit profile. Default risk arises when a borrower is unable to repay the loan as agreed. If the borrower defaults, investors may lose part or all of their investment, especially if the loan is unsecured* or subordinated*.

**Unsecured loan: a loan that is not backed by assets that the lender can claim if the borrower fails to repay the loan. As a result, if the borrower defaults on an unsecured loan, the lender has no direct claim to any specific assets, making it harder to recover the loaned amount. This increases the likelihood that investors may lose their entire investment if the borrower is unable to repay.*

**Subordinated loan: A subordinated loan is one where the lender's claim on the borrower's assets is ranked lower than other creditors in case of bankruptcy or liquidation. In the event of a default, senior creditors (those with higher-ranked claims) will be paid first. If there are insufficient assets left after paying these higher-priority creditors, subordinated lenders may receive little to no repayment, potentially resulting in a complete loss of the investment.*

Even secured loans carry the risk that the collateral value may not fully cover the outstanding loan amount.

Private credit products are typically illiquid as they are not traded on public markets. This means that investors may not be able to easily sell or transfer their holdings before the maturity of the loan. There is a possibility that your investment may be locked up for a longer period than anticipated. Even in cases where redemptions are allowed, such as in open-ended private credit funds, there are often restrictions or penalties that can limit access to your capital.

During times of financial stress or market disruptions, liquidity may completely dry up, leaving investors unable to access their funds when needed. This risk makes private credit less suitable for those needing immediate liquidity.

Private credit is less transparent than public debt markets. These loans are not traded on public exchanges, and valuations often rely on internal models rather than market prices. This reliance on models can result in inaccurate valuations, particularly in volatile or distressed markets. Investors should be cautious of valuation discrepancies and understand that reported valuations may not reflect the actual market value of the investment.

Private credit investments often rely on subjective judgments by fund managers regarding the creditworthiness of borrowers and the value of underlying collateral. This increases the risk that valuations may be overstated, especially in a downturn when borrower performance may deteriorate rapidly.

Private credit markets are generally less regulated than public markets. This lack of regulation can mean fewer legal protections for investors. Additionally, changes in regulations, such as heightened capital requirements or restrictions on lending, may negatively affect the performance of private credit investments. Investors should also consider the legal environment in which the private credit product is issued, especially for cross-border investments.

Private credit funds and platforms may face operational risks, including technology failures, cyberattacks, and inadequate controls, which could lead to disruptions or financial losses.

A special note for private credit products structured as digital asset securities

Certain private credit products on the Altify platform are structured as digital asset securities, either in tokenized or non-tokenized formats. These types of products come with additional risks compared to traditional private credit investments, due to their reliance on blockchain technology, smart contracts, and the evolving regulatory landscape. Below are the specific risks associated with such structures.

Digital asset securities depend heavily on blockchain technology, which is inherently subject to risks such as hacking, fraud, and technical failures. If the underlying blockchain network

experiences a breach or attack, investors may lose access to their digital assets or suffer permanent financial losses. Moreover, issues such as smart contract bugs or vulnerabilities could lead to unintended outcomes, including misallocation or loss of funds.

For tokenized private credit products, smart contracts automate various functions, such as loan repayments and ownership transfers. However, smart contracts are immutable once deployed, meaning that any errors or bugs in the code could result in irreversible consequences. These could include incorrect executions of loan terms or the inability to claim assets as per the contract, leading to potential financial losses for investors.

The regulatory environment for digital asset securities is still evolving. Regulatory bodies in different jurisdictions may impose varying rules, restrictions, or obligations on the issuance and trading of digital assets. These changes could impact the tradability, valuation, or even legality of the digital asset securities. Investors need to stay informed about these changes and understand that regulatory shifts may pose significant risks to their investments.

While tokenization of private credit products aims to increase liquidity, the reality is that secondary markets for digital asset securities are still developing. This means that even tokenized products may face significant liquidity constraints, making it difficult for investors to sell or transfer their holdings. This risk is similar to traditional private credit products but can be amplified by the nature of digital asset exchanges.

Digital asset securities are typically held in digital wallets that require careful management of private keys. Loss or theft of these private keys could result in the permanent loss of the asset, as there is no central authority capable of restoring access. Investors must also be aware of custody risks when using third-party platforms to store their digital asset securities, as these platforms may be vulnerable to security breaches or operational failures.

The value of digital asset securities may be more volatile than traditional private credit products due to their exposure to the broader cryptocurrency and digital asset markets. Factors such as market sentiment, regulatory changes, and technology developments can cause significant price swings in tokenized private credit products, even if the underlying credit quality remains stable.

Private credit is a relatively new and evolving market that comes with various risks that investors should carefully understand. Before using Altify's services, we encourage you to thoroughly educate yourself about the risks involved in private credit investments, as well as digital asset securities (if applicable). Importantly, you should only invest money that you can afford to lose.

Key Risks

We have highlighted some further key risks below:

1. Private credit investments are typically illiquid, meaning they may not be suitable for investors who require quick access to their capital. These investments may be locked up for extended periods without the ability to sell or transfer them easily.
2. Investors should closely monitor interest rate movements, as changes can affect the performance and risk profile of their investments. Rising interest rates can increase borrowing costs for companies, potentially increasing default risks.
3. Private credit investments may not be marked to market, meaning valuations are often based on internal models rather than observable market prices. This can lead to discrepancies between reported valuations and actual market conditions, particularly during times of economic stress or market volatility.
4. It is your responsibility to ensure that all account details and payment instructions are accurate before making any transfers. Assets or fiat currencies transferred to incorrect accounts are generally irrevocable. However, if the error occurs in an account controlled by Altify, we will, at our discretion, attempt to return the funds (less handling fees) if they remain in the account.
5. Buying and selling private credit products may trigger tax liabilities. You are solely responsible for ensuring compliance with your tax obligations, including reporting and payment.

In the unlikely event Altify is unable to carry out (or ceases) its operations in one or more of our locations, Altify has robust business continuity arrangements in place to ensure minimal impact on our customers. Having regard to the severity of the situation and the services which may be affected, the following measures may apply (where appropriate):

- Activation of a dedicated response plan;
- Notification to relevant regulatory authorities and compliance with any regulatory instructions issued; and
- Provision of regular updates to customers by way of a status page.

The preservation of customer funds will take utmost priority in the event that Altify becomes unable to carry out its operations or ceases business. Altify currently holds private credit products on its balance sheet, which presents a risk in the event of insolvency or the cessation of business operations. If Altify were to become insolvent, the investments may not be fully protected, and there is a possibility that this could lead to losses for investors. However, we are in the process of setting up a bankruptcy remote structure to custody these private credit products which will significantly mitigate this risk by separating these assets from Altify's operational risks, ensuring greater protection for investors.

If you have any questions on the above please do not hesitate to reach out to us at support@altify.app.