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## *Finding Meaningful Income through Fintech Lending Opportunities*

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Today's interest rate environment is challenging because nominal interest rates are historically low, and due to rising inflation, negative real interest rates extend to 30-year U.S. Treasury bonds. While interest rates have fallen, investor demand for income has not. Bond investors are being forced to materially increase duration and credit risks for only a marginal pickup in yield. From a risk management standpoint, this trade-off is not ideal. Preserver believes that searching through less efficient markets for income opportunities with acceptable risks can be a better way to find higher yields.

In recent years, Preserver has found attractive lending opportunities in less efficient markets served by Fintech and Internet companies, including the YouTube ecosystem.

YouTube generates most of its revenue through advertising from pop-up ads that appear before and after video content and text and display ads on its pages. In the fourth quarter of 2020, YouTube realized \$6.8 billion in worldwide advertising revenues. YouTube splits their advertising revenue with video creators on a basis of 55% to YouTube / 45% to video creators. The total advertising revenue is driven by the number of views per month and the rate at which third party marketers are willing to pay for online ads. Recently, YouTube noted that 2.3 billion people access the site per month.

Within the broad YouTube ecosystem, there are a select number of video creators who professionally create content to participate in the large advertising revenues of YouTube. Professional content creators will build YouTube channels that hold a vast number of videos. Successful creators have been able to achieve a high total viewership and maintain a stable viewership trend overtime, creating stable advertising cashflows. In 2020, the Top 10 largest YouTube channels realized advertising revenues ranging from \$15.0 million to \$29.5 million.



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Mick Clowers joined Preserver in 2018 as Senior Investment Associate. He works with the Chief Investment Officer and Operational Due Diligence team to conduct investment research on new and existing investments. Prior to joining Preserver, Mick served as a Portfolio Manager (2011-2017) and the Director of Portfolio Management (2017-2018) at Legacy Wealth Management. He graduated from the University of Memphis with a B.B.A. in Finance. He obtained his Certified Financial Planner certification in 2014. He is also a CFA charterholder.

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With the help of YouTube's large database of analytics and viewership data, there are now Fintech aggregators that can effectively underwrite professional content creators and project the future advertising revenues of their YouTube channels. Aggregators can then approach the content creators to see if they are interested in selling their video libraries to monetize their advertising revenues. Since purchasing video libraries is relatively new, there are limited options for content creators to monetize future revenues. This allows aggregators to purchase the video libraries at an attractive price while the content creator can monetize their future cashflows.

The investment opportunity for Preserver is to provide short-term debt financing to a Fintech aggregator that is purchasing video libraries from professional content creators. The financing has been provided with solid underwriting, strong credit covenants, and a double-digit interest rate. Relative to what investors can find in major U.S. bond markets, we think this Fintech lending vertical is an attractive opportunity to earn an attractive yield through the monetization of stable digital assets and through partnering with an experienced originator.

