

Private Credit Perspectives: Addressing the Recent Market Headlines

Recent headlines suggest **broad stress across private credit**. A closer examination indicates that, in our view, concerns are far more **concentrated than the narrative implies** — what appears systemic is largely tied to a narrow segment of the market and specific fund structures.

What's Driving the Headlines



Software Sector Stress

Concern that private credit managers are overly exposed to software companies that may be highly levered.



Liquidity & Structural Terms

Recent BDC's adjusted redemption terms, prompting questions about liquidity across private credit vehicles.



High-Profile Write-Down

Large BDC announced troubled investments resulting in a **decline in NAV**, raising broader asset quality concerns.

What This Actually Means



Concerns Are Concentrated

Stress is isolated within a narrow market segment. This does not reflect the health of the broader private credit asset class.



Structure & Access Matters

Choose a structure that fits your needs. For lower risk tolerance, diversified portfolios are essential to reducing potential volatility.

The Scale of the Private Credit Market

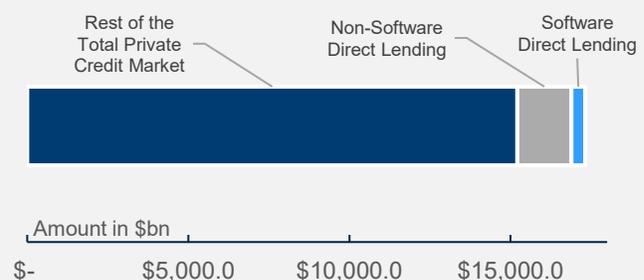
1–2%

Software's share of the ~\$17 trillion private credit market

The sector driving most of the negative headlines represents only a sliver of the overall private credit market and ~20% of the direct lending market—underscoring just how concentrated these concerns truly are within private credit.

Source: Prequin, Federal Reserve, New York Fed, Equipment Leasing and Finance Foundation, Houlihan Lokey, U.S. Small Business Loan Market

Private Credit Market Scale



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Concentration Risk vs. Asset Class Risk

Private credit is not monolithic. Some managers leaned heavily into specific sectors such as software lending, while others maintained diversified exposure across industries.



Concentrated portfolios

Experience sharper volatility when a specific sector faces pressure — as seen in situations when a manager holds overweight allocations.



Diversified portfolios

Experience more muted effects.



The parallel to public markets

Public fixed income and equities regularly see industry-specific weaknesses without undermining the entire asset class.

We believe this is a portfolio construction issue within private credit portfolios *and does not necessarily mean the entire private credit is impaired.*

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How You Access Private Credit Is Critical

Private credit is not one uniform investment. How you access it should be dictated by your individual needs and risk tolerance — not all structures are created equal.



Liquidity Requirements

Investors who need access to their capital should factor in how different vehicles handle redemptions. Some structures can lock up capital for extended periods. Interval funds typically offer **quarterly liquidity windows** with a fixed percentage of the fund's AUM available for redemption.



Concentration & Leverage Risk

Certain vehicles carry concentrated portfolios. When leverage is layered in, losses can be **significantly amplified**. Understand the leverage profile before investing.



Structure Serves Different Purposes

Interval funds and BDCs exist for distinct reasons and suit different investor profiles. Understanding the mechanics of each structure is essential before investing.



Fee Structures Differ Greatly

Most BDCs typically charge fees on **gross assets** — increasing effective fee burden when leverage is used. **Interval funds** typically charge fees on **net assets**.

We believe that private credit as an asset class has the potential to deliver strong risk adjusted returns and can be a diversifier in a portfolio holding to equity and traditional fixed income.

As with any higher-yielding segment of the markets, periods of market stress can lead to some volatility. Prudent portfolio construction with diversification across borrowers and sectors serves as a key tool in managing risk.

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BOTTOM LINE

Recent headlines are focused on a narrow segment of the private credit market. The broader private credit market remains large, diverse, and multi-faceted.

Key considerations for investors:

Diversification vs. Concentration	Liquidity Alignment	Leverage Levels	Underwriting Discipline
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Fund structure considerations (liquidity, fees, investment limits) remain equally important factors in manager and vehicle selection.



BDC Halts Redemptions

Client Concern: *Are all private credit vehicles restricting investor liquidity, including interval funds?*



Quick Response: This situation does **NOT** apply to the entire private credit universe. Private BDCs are structurally different from interval funds, which have mandated quarterly liquidity windows.

- Regulatory mandate: Interval funds are mandated by SEC Rule 23c-3 to provide limited, periodic liquidity. They must offer to repurchase a specific percentage of shares (usually 5% to 25%) at set intervals (typically quarterly) and maintain sufficient liquid assets to meet these redemptions.
- Liquidity can only be suspended under limited emergency circumstances.
- Any restriction requires board approval by a majority of independent board directors.
- Portfolio construction is aligned with quarterly redemption requirements.



Bottom Line: Interval fund liquidity framework is regulatory, structural, and ongoing.



AI Disruption Threatens Private Credit

Client Concern: *Is the entire private credit market exposed to concentrated technology or AI-sensitive credits?*



Quick Response: No. Many funds including interval funds maintain diversified exposure and limited concentration. The software exposure within direct lending is estimated to be around 1-2% of the entire ~\$17 trillion private credit market.

- Many BDCs primarily concentrate on corporate lending, often with significant exposure to sectors such as technology and software. In contrast, some investment vehicles operate with a flexible multi-sector mandate.
- These strategies can allocate to a broader set of private credit opportunities, including areas such as real estate credit, asset-based lending, and specialty finance.
- Portfolio allocations can be determined through relative value analysis, allowing capital to move toward the most attractive risk-adjusted opportunities rather than being limited by structural constraints.



Bottom Line: Many funds are diversified by design and not concentrated in AI-sensitive corporate technology lending.

 **BDC NAV Cuts**

Client Concern: *How can interval funds mitigate sharp NAV declines?*



Quick Response: Funds that have smaller individual loan sizes generally limit single-name impact, reducing concentration and volatility.

- Diversification reduces concentration risk by preventing any single sector from becoming the dominant exposure in a portfolio.
- **Spreading allocations across multiple private credit sectors further mitigates exposure to any one segment of the market.**
- A flexible mandate enables capital to shift among private credit segments based on relative value, risk-adjusted return opportunities, and evolving market conditions.



Bottom Line: Loan size discipline and multi-sector diversification reduce concentration-driven NAV shocks.



Concerns Around Excessive Leverage in Private Credit

Client Concern: *How much leverage do interval funds use and are incentives aligned to control it?*



Quick Response: Interval funds have a lower regulatory leverage cap and a more conservative fee structure than most BDCs.

- Interval fund regulatory leverage limits are **more conservative** than BDC structures (33.3% vs 66.7%).
- Fee structures are designed to align manager incentives with appropriate leverage management.

INTERVAL FUNDS vs BDC-STRUCTURAL LEVERAGE COMPARISON

Interval Funds	Private and Public BDCs
Maximum Leverage: 33.3% of total assets	Maximum Leverage: 66.7% of total assets
Management Fees: Typically charged on net assets	Management Fees: Typically, charged on gross assets. This structure can create an economic incentive to utilize leverage



Bottom Line: Interval funds combine structural leverage limits, incentive alignment, and diversified portfolio construction to mitigate the risks commonly associated with higher leverage BDC vehicles.

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