



ALTERNATIVE
CREDIT COUNCIL

Financing the Economy 2024

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Foreword



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Welcome to the tenth edition of the Alternative Credit Council's *Financing the Economy* research series, produced in collaboration with Ernst & Young (EY).

Over the past decade, *Financing the Economy* has become a cornerstone for data and insights, guiding investors, managers and policymakers worldwide. The private credit market has transformed radically in this period, yet its core tenets remain steadfast. One enduring truth is that private credit represents a structural revolution in global credit and capital markets. In 2014, we anticipated that asset managers as direct lenders represented a permanent shift, not a passing trend. Today, with private credit emerging as a US\$3tn* asset class—a robust vertical for both corporate and asset-backed financing—the industry has achieved a remarkable milestone that deserves celebration.

* The methodology behind this figure can be found on page 8.

A consistent theme throughout this journey is the power of flexible, tailored capital delivered with speed and certainty. Private credit managers continue to support diverse borrowers, from high-growth innovators to companies expanding into new markets or those requiring liquidity. Regardless of economic shifts, private credit has proven to be a resilient and trusted source of financing. This trust will be a formidable asset in the years to come.

Equally noteworthy is private credit's capacity to deliver steady returns to investors. Expanding from US\$440bn to over US\$3tn amid a global pandemic, geopolitical unrest, high inflation and economic uncertainty is a feat few other asset classes or investment strategies can claim. Investors have not only fuelled this growth but also actively shaped market standards, influencing transparency, product design and governance practices across the sector.

Finally, private credit's rapid rise has implications for regulatory frameworks. Policymakers recognise the sector's potential to enhance economic resilience, but also consider the financial stability risks that accompany such remarkable growth. Given their mandate, these concerns are valid, as regulators often lack the direct access to data enjoyed by private credit investors. The ACC takes pride in our role bridging this gap, facilitating open dialogue between the industry and regulators to foster understanding. We extend our gratitude to the members and individuals who have supported our efforts to engage constructively with policymakers.

This year's *Financing the Economy* report is our most extensive and insightful look at the private credit market to date. We hope the data and perspectives within offer valuable guidance on the sector's current landscape and its potential over the next decade.

Executive Summary

Significant but stable growth

- We estimate that the total private credit market is now likely to be more US\$3tn worldwide.
- In the past year alone, respondents to our research survey deployed an estimated US\$333.4bn of new capital, a significant rise from the US\$203bn invested in 2022.
- The rise in deployment volumes has been driven primarily by larger firms, with 20% of the largest private credit managers accounting for nearly 80% of the overall volume of capital.
- This achievement underscores the sector's expanding role in global finance and its continued resilience, despite the regular shocks and persistent economic uncertainty that has affected the market during the past five years.
- Corporate lending, including middle market CLOs, remains the core of the asset class, representing 58% of our respondents' private credit assets under management.
- The private credit market continues to consolidate through mergers and acquisitions within the asset management sector, as well as through the formalisation of partnerships with banks.

Resilience across multiple measures

- Recent periods of high interest rates, inflation and the long-term impact of the pandemic continue to affect private credit portfolio companies. This stress is being reflected in valuations, but adjustments remain modest and consistent with the broader economic environment.
- There has been a rise in significant loan term adjustments, with the average reported by our respondents increasing from 8.07% in 2023 to 11.65% in 2024.
- 74% of respondents report growing or rapidly growing EBITDA in their portfolio companies, while around 24% report broadly stable EBITDA. 63% state

that their most common LTVs are below 50%.

- Comparing and contrasting ACC data with other industry sources indicates that this market stress is within forecast scenarios, and not at a level which would significantly harm returns to investors or pose risks to financial stability.

Expanding the frontiers of private credit

- A majority of private credit managers expect to grow their business across both established and developing private credit strategies and markets.
- ABL, real estate debt and infrastructure debt are now a substantial part of the market, collectively accounting for 40% of private credit AuM.
- Europe and the APAC region are expected to grow significantly, with further bank retrenchment, increased familiarity amongst borrowers and greater regulatory certainty combining to make these markets more attractive to lenders.
- Demand amongst investors for private credit assets that can provide them with diversification and alternative sources of returns remains strong.
- Government policy objectives to secure additional investment into public energy and infrastructure projects are likely to be a significant source of opportunity for private credit funds.

Risk management remains a top priority

- The majority of loan agreements in respondents' portfolios retain two financial covenants. The share of cov-lite loans in the private credit market remains significantly lower than in the BSL market, with cov-lite loans also more likely to be found in private credit loans to larger corporates.
- Leverage levels in private credit funds remain modest, with 51% of survey respondents using investment leverage between 0.1x and 1.5x of equity, while 31% report that they are unlevered.
- ACC data shows that these leverage levels are

consistent with those reported over the past decade, despite the tremendous growth in the size of the industry over that period.

- Banks are the most common providers of finance to private credit funds but there has been some growth in insurance companies, other asset managers and the bond market as alternative providers of finance.
- ACC data shows that refinancing maturities are staggered for the next few years and that refinancing opportunities remain a key source of future capital deployment for lenders.

Private credit is a core and growing part of investor portfolios

- LPs continue to be more sophisticated in how they gain exposure to the asset class and their expectations with respect to product design and risk management practices.
- Transparency remains a key differentiator for investors when assessing managers. 74% of managers report on their portfolios on a quarterly basis, with 24% doing so on a monthly basis. 90% of respondents report valuing their loans either quarterly or more frequently, and the majority of respondents report using external valuation expertise on a regular basis.
- Fundraising has begun to stabilise and improve in 2024 after the relative slowdown of the past few years. Industry data suggests that many investors remain under-allocated to private credit and that concerns regarding the performance of private credit are receding.
- Retail clients are a growing source of capital for private credit funds, but progress is slow outside the US. Regulatory certainty over new investment vehicles in Europe should accelerate interest in the asset class by retail investors.
- Investors continue to evaluate how the growth and consolidation of the market might impact incentives to managers and their overall performance.

Research Methodology

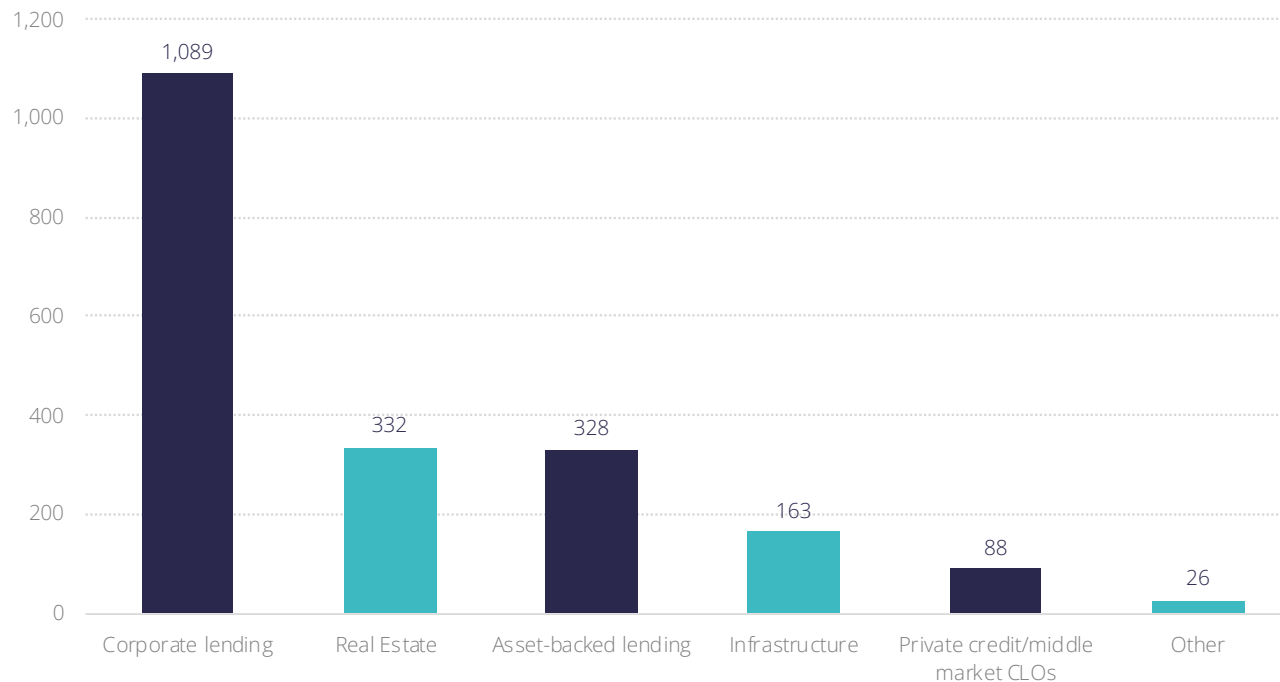
Financing the Economy 2024 is based on data from several sources. The Alternative Credit Council (ACC) and EY conducted a survey of private credit managers and received responses from 53 private credit managers and investors. The survey data was then explored by the ACC and EY in a series of one-on-one interviews with industry leaders.

Respondents to this survey collectively manage an estimated US\$2.012tn in private credit assets, and deployed an estimated US\$333.4bn in 2023.

Our definition of private credit for the purposes of this research includes corporate lending, real estate debt, infrastructure debt, asset-backed lending and middle-market CLOs. Figure 1 provides an estimated breakdown of the private credit assets under management across these different strategies, and Figure 2 provides an estimated breakdown of how this capital is invested across different markets globally.

Figure 1:

How much of your total private credit AuM is currently invested across these private credit strategies? (US\$bn)*



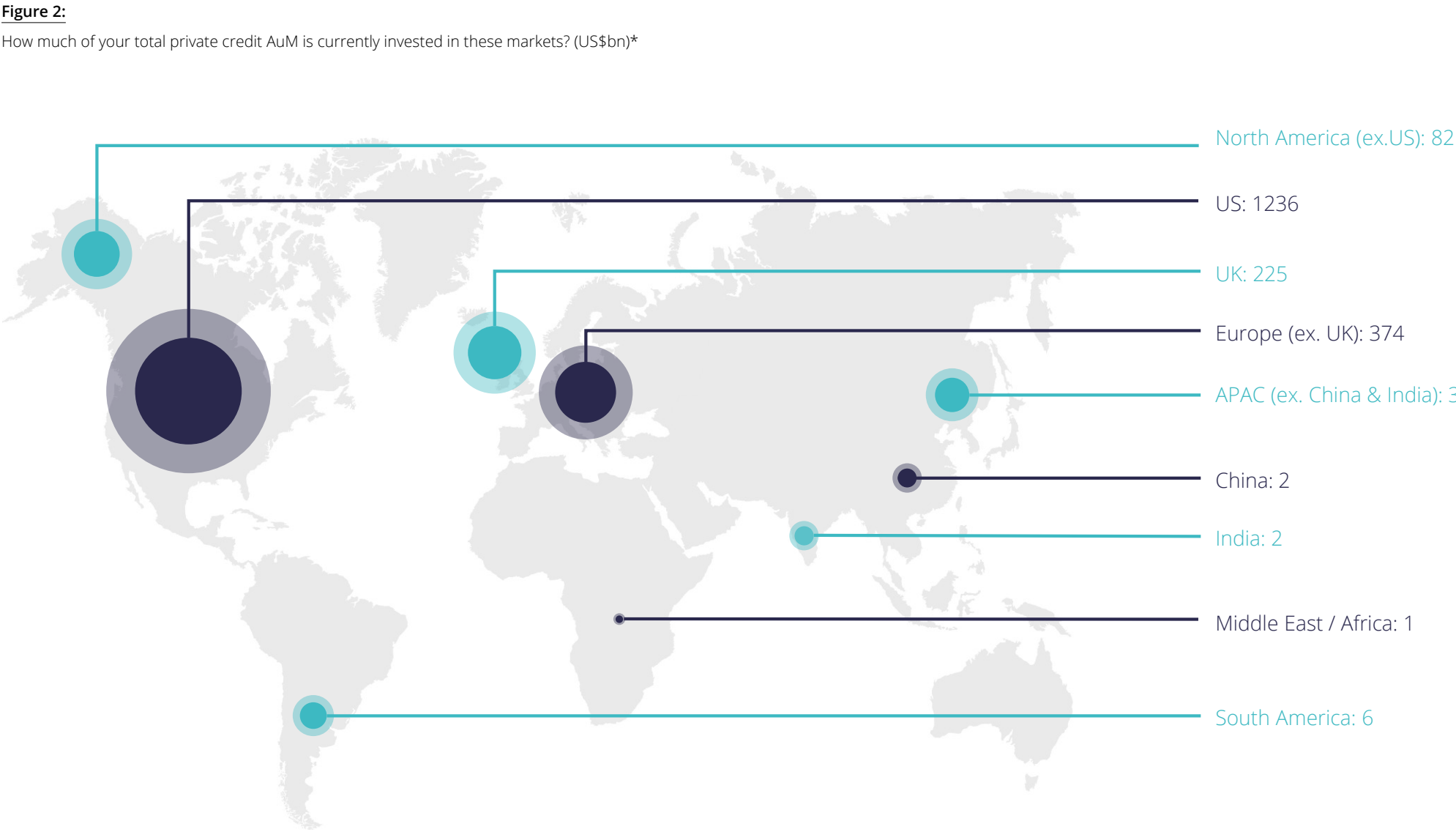
* Figures based on reported business activity

**Estimated private credit
AuM of survey respondents**



**Estimated capital deployed by
survey respondents in 2023**





* Figures based on reported business activity

Chapter 1:

2024 -
significant
but stable
growth

Key takeaways

- We estimate that the total private credit market is now likely to be more US\$3tn worldwide.
- In the past year alone, respondents to our research survey deployed an estimated US\$333.4bn of new capital, a significant rise from the US\$203bn invested in 2022.
- The rise in deployment volumes has been driven primarily by larger firms, with 20% of the largest private credit managers accounting for nearly 80% of the overall volume of capital.
- This achievement underscores the sector's expanding role in global finance and its continued resilience, despite the regular shocks and persistent economic uncertainty that has affected the market during the past 5 years.
- Corporate lending, including middle market CLOs, remains the core of the asset class, representing 58% of our respondent's private credit assets under management.
- The private credit market continues to consolidate through mergers and acquisitions within the asset management sector, as well as through the formalisation of partnerships with banks.

This year's edition of our Financing the Economy research draws on a sample size of more than US\$2tn of private credit assets under management. This suggests that the global private credit market is larger than many industry estimates, which put the global size of private credit between US\$1.5-2tn. To arrive at our estimate, we used data from leading industry providers to identify the largest private credit managers who did not respond to our survey. By combining this data with the survey responses, we estimate that the private credit industry could hold up to an additional \$1tn in assets, bringing the total industry size to as much as \$3tn. While there are differences in how we and other industry commentators define private credit assets and strategies, we believe this to be a credible estimate. This is likely to be a conservative estimate as it is focusing primarily on the direct lending activity of the asset management sector and does not include pension funds, insurers or other institutional investors who are also active in this space.

Over the past year, the growth of private credit has once again proved resilient, with assets under management

“European institutional investors are increasingly creating their dedicated internal private credit teams and no longer by default carve out the credit from either the PE bucket or the fixed income.”

Cécile Mayer-Lévi, Head of Private Debt, Tikehau Capital

and capital deployment continuing to grow despite considerable rises in central bank rates and significant exogenous shocks during the past 12-24 months.

As shown in Figure 3, the estimated deployment of capital in 2023 by our respondents was US\$333.4bn. This is a significant increase on the US\$203bn respondents invested in 2022 and in line with the longer-term trend of deployment growth that this research series has tracked. ACC data (Figure 4) highlights that the larger private credit firms continue to be responsible for the lion's share of deployment volumes. This continues a pattern whereby lending by private credit managers grows consistently despite challenges in the broader economy (see Figure 5).

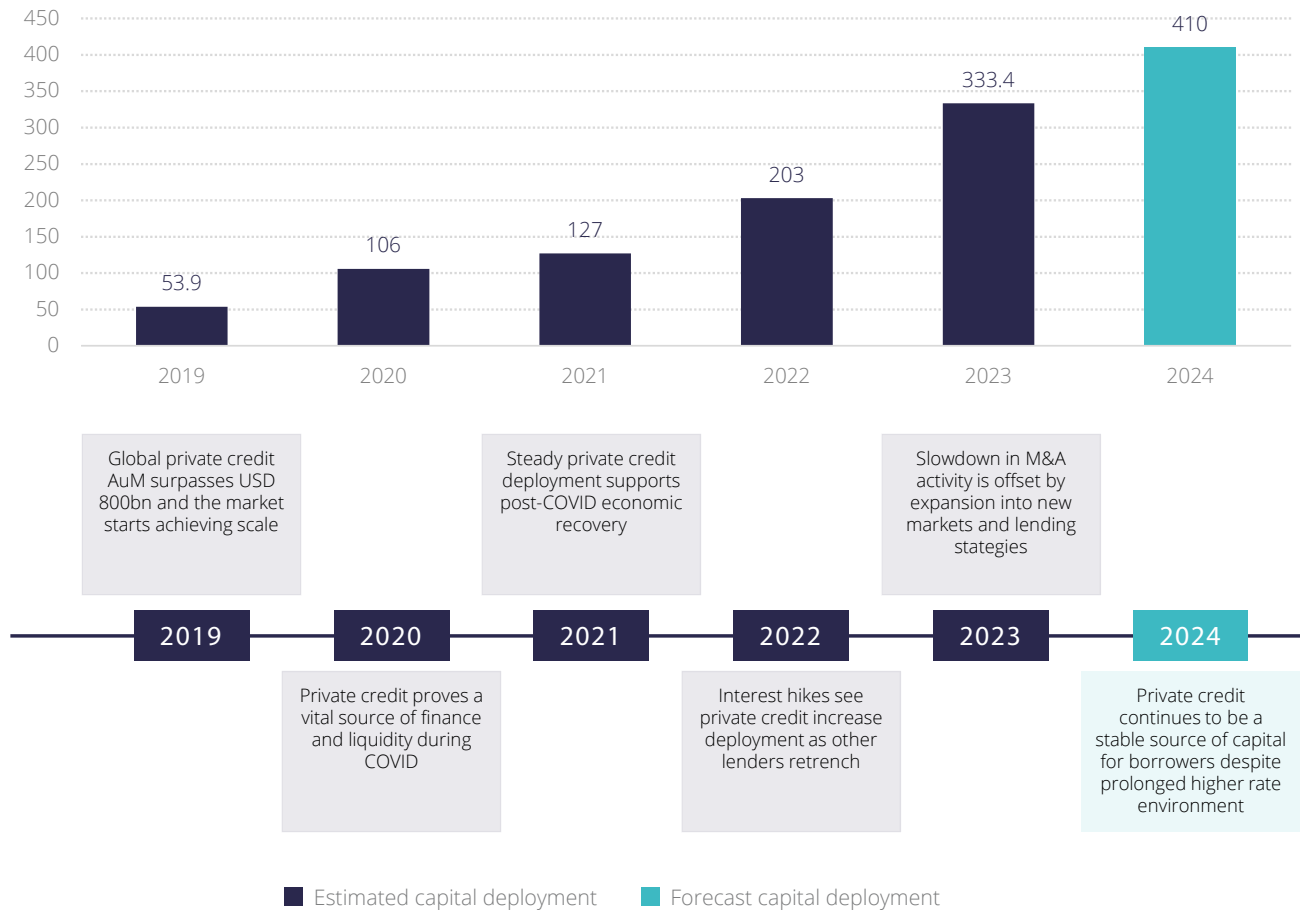
When the ACC began this research series in 2015, investors would commonly ask how private credit would perform during periods of stress across the economic cycle. ACC data confirms that private credit continues to pass this test and provides further support to our view that the foundations underpinning the growth of the asset class are structurally sound.

“The volume and scale of deals during 2022 and 2023 greatly helped to demystify the asset class as a financing tool.”

Fernando Martínez, Managing Director Private Credit, Investment Management Corporation of Ontario

Figure 3:

Six years of financing growth despite severe economic and political challenges (US\$bn capital deployment by Financing the Economy survey participants)



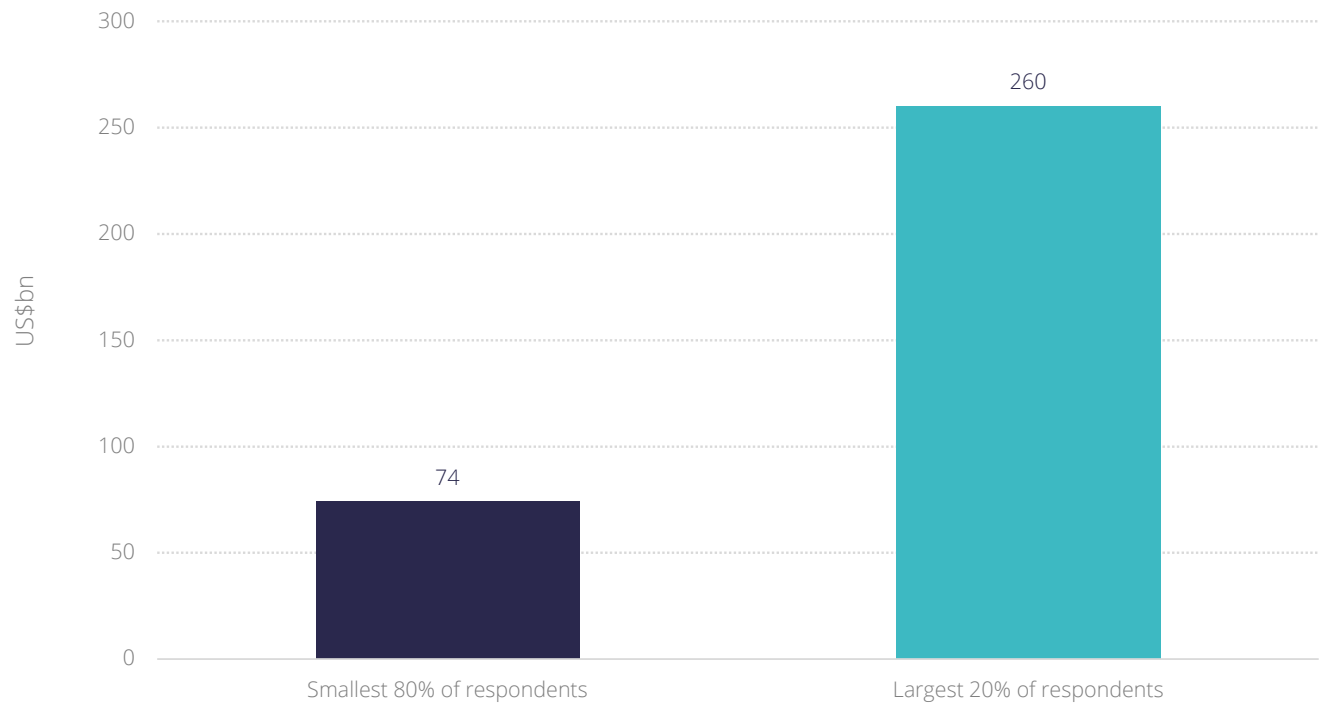
Despite the growth in deal volumes, private credit managers have continued to uphold their lending standards. Interviewees consistently reported that they ultimately invest in only a small percentage of the deals analysed. Some managers reported being more cautious and stepping back somewhat during 2023, while other interviewees highlighted the growth in opportunistic deals over the past year as firms under stress from higher rates seek capital solutions. The outlook for many investors is also becoming more positive, as recent reductions in interest rates lower the risk of a recession and reduce the costs of debt to existing portfolio companies.

“We generally pull back when we think that we are entering a borrower friendly market, as is the current case.”

Kirsten Hagen, Co-Founder and Partner, Brinley Partners

Figure 4:

Estimated capital deployment by Financing the Economy survey participants in 2023 (US\$bn)*



* Figures based on reported business activity

Figure 5:

Key economic considerations 2019-2024

Year	Major economic and political shocks
2019	US-China trade war and Brexit uncertainty create periodic spikes in market volatility and global growth concerns.
2020	COVID-19 pandemic led to historic sell-offs in global markets. Significant drop in global GDP; global equity markets fell by approximately 30%.
2021	Post-COVID recovery. Supply chain disruptions, inflation fears and central bank policies led to episodic volatility.
2022	Invasion of Ukraine leads to major shock in energy prices. Central banks aggressively rate hikes to curb inflation. 20%-30% declines in major equity and bond prices. Almost 40% drop in M&A volumes. BSL market shut.
2023	Regional bank failures in the US and failure of Credit Suisse in Europe. Attack on Israel adds to economic instability. Persistent inflation, significant rate hikes by central banks alongside continued drop in M&A volumes.
2024	Fears over potential recession. Uncertainty around US elections and central bank policy. Geopolitical tension continues to affect energy prices.

Corporate lending, including middle-market CLOs, remains the core of the asset class, accounting for US\$1089bn or 58% of our respondents' private credit assets (see Figure 6). Interviewees providing senior debt in the US and European middle-markets reported that they are still generally achieving double digit yields, and that loan documentation offers sufficient protection for lenders. Similar sentiments were echoed by managers operating in the non-sponsored and lower-mid market sectors, with all citing that borrowers in these markets remain amenable to working with private credit fund managers over other lenders.

“In the non-sponsored space, the covenant package continues to be very favourable, with fixed charge coverage ratio, interest coverage ratio and minimum EBITDAs being the most common covenants. These negotiations have been more straightforward in this environment, and the cushions have been even tighter than before.”

Daniel Leger, Managing Director and Head of Marketing and Investor Relations, MGG Investment Group

“When you are operating in an environment where capital is scarce and liquidity is at a premium then you are able to tailor your structures accordingly and you don’t have to compete by loosening covenants.”

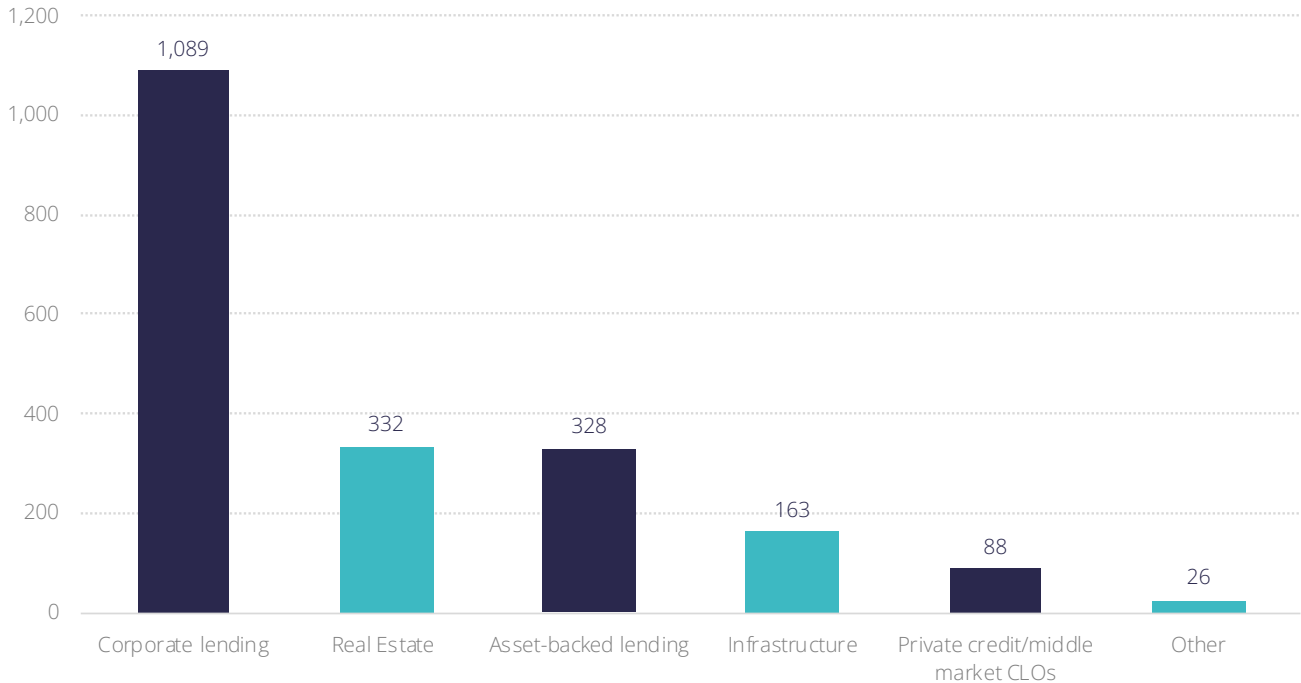
Thomas Lloyd-Jones, Managing Partner, Zenzic Capital

“At the larger end of the market there is a borrower-friendly market for upper middle market borrowers. However, for firms focused on the core middle and low middle markets it continues to be a goldilocks period that combines attractive yield and solid borrower performance.”

Putri Pascualy, Senior Managing Director and Client Portfolio Manager for Private Credit, Man Varagon

Figure 6:

How much of your total private credit AuM is currently invested across these private credit strategies? (US\$bn)*



* Figures based on calculations according to reported business activity

Some firms reported a different picture in the upper middle market and large cap sector where competition between lenders is creating more pressure on terms and pricing. A key factor in this competition is the rebound in the BSL and HY markets, as borrowers and investors return to the market. While there has been more deal activity in 2024, global deployment continues to be slow

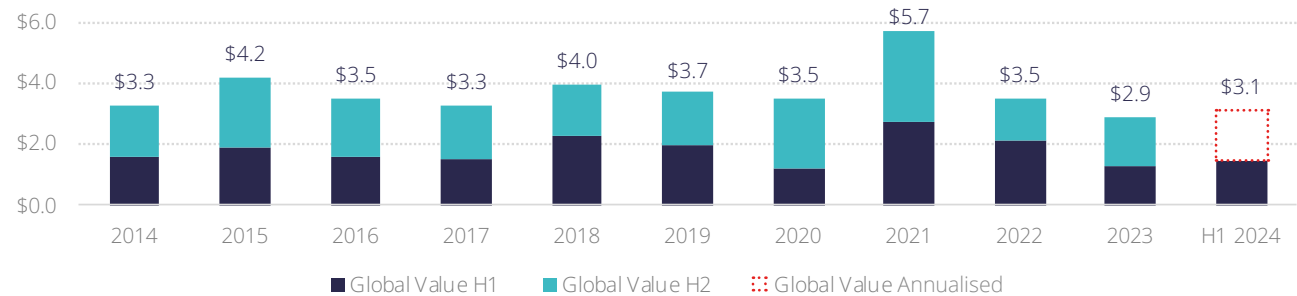
compared to previous years as M&A levels continue to be restrained. This is reflected in Kirkland & Ellis' July-August 2024 report, which records an increase in global M&A value in H1 2024, even though it is still below 2022 levels (see Figure 7). In the European market, Deloitte has recorded a sharp rebound in Q2 2024, compared to Q1 and 2023, with volumes returning to 2022 levels.ⁱ

With more certainty on the macroeconomic outlook, managers report that they are expecting higher M&A volumes and deal volumes in the near future.

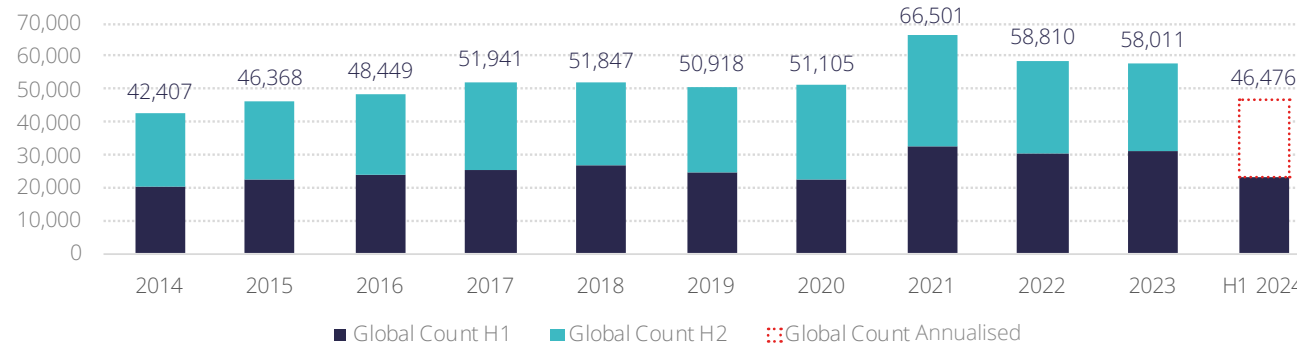
Figure 7:

Global M&A deals by value and countⁱⁱ

Global M&A deals by value (US\$tn)



Global M&A deals by count



“The deal flow floodgates are not going to open in 2024 since macro uncertainty persists and it is an election year, but we expect transaction levels to pick up in 2025.”

Kirsten Hagen, Co-Founder and Partner, Brinley Partners

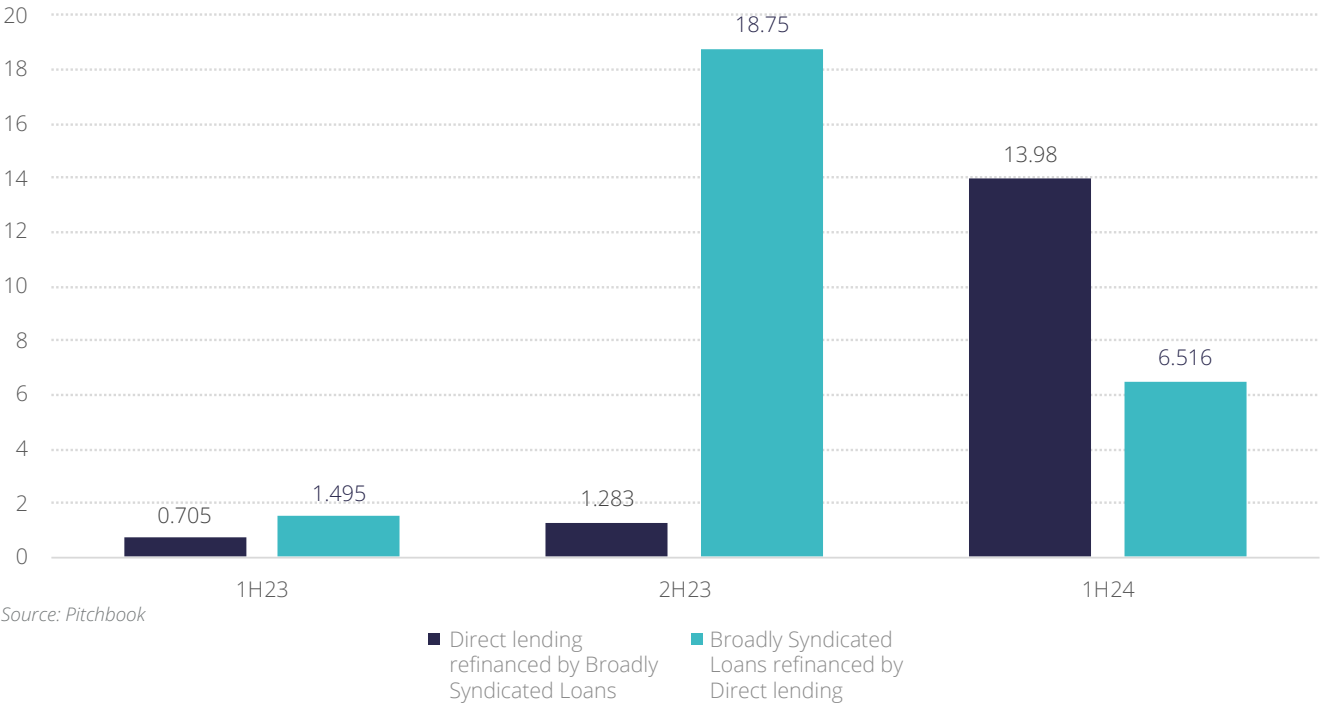
Source: LSEG (formerly Refinitiv), Kirkland & Ellis

During the past 12 months borrowers have been opportunistically swapping private credit in favour of cheaper syndicated loans where possible. As outlined in Carlyle's 2024 *Credit Market Outlook*ⁱⁱⁱ, much of the BSL (64%) and HY (88%) activity over the first months of 2024 involved refinancing of loans originated by private credit

firms. Interviewees regarded this as part of the normal market ebb and flow, with borrowers and private equity sponsors understandably taking advantage of improved financing conditions. This 'give and take' dynamic between the direct lending and BSL markets over the past 18 months is illustrated in Figure 8.

Figure 8:

Syndicated loans and direct lending takeouts (US\$bn)^v



Source: Pitchbook

“We have seen this evolution where more managed accounts or dedicated vehicles for some insurance and pension funds are looking to have a full spectrum of credit solutions, covering broadly syndicated loans, direct lending, unitranche or PIK notes with a wide range in terms of size of companies. That’s the reason behind combining our various credit strategies into a single, comprehensive credit business unit.”

Cécile Mayer-Lévi, Head of Private Debt, Tikehau Capital

Another prominent trend in 2024 has been the growth in partnerships between private credit funds and banks, with the latter acting as partners and leads (see Figure 9). The Financial Times reported that in 2024, 13 major banks have formalised partnerships with private credit

managers to distribute their loans, compared to two such partnerships in 2023.^v While banks and private credit have always co-operated as much as they have funds competed with one another, the formalisation of these relationships offers further evidence of

how private credit funds continue to expand their deployment capacity in line with the growth of their assets under management.

“There are signs of uplift in the UK real estate market. Rents and asset values are up and the lack of construction in the past three years has left the market undersupplied. The situation in Europe, however, is more complicated.”

Stuart Fiertz, Co-Founder, President & Head of Responsible Investment, Cheyne Capital

“We actually want the two asset classes to coexist. A functioning syndicated loan and bond market is good for overall M&A in Europe, which is good for everyone.”

Marc Chowrimootoo, Portfolio Manager and Co-Head of Direct Lending for Private Credit, Hayfin

Figure 9:
Examples of private credit partnerships with banks

Date	Partnership
September 2024	Citigroup and Apollo launch US\$25bn private credit venture
July 2024	Lloyds Banking Group partners with Oaktree to finance UK buyouts
April 2024	Barclays and AGL Credit launch a partnership with backing from Abu Dhabi Investment Authority
February 2024	Blackstone partners with BNP Paribas to target French retail investors
February 2024	Blackstone buys US\$1.1bn in US credit card debt from Barclays
September 2023	Wells Fargo partners with Centerbridge on US\$5bn private credit fund to lend to mid-sized US companies
September 2023	Société Générale partners with Brookfield for €10bn private credit fund

A further trend that has continued from 2023 into 2024 has been the consolidation of the private credit market. As noted above, ACC data confirms that the larger private credit managers account for the majority of capital deployment. Similar trends of market consolidation can be seen in fundraising. While there will always be economies of scale, this is part of a broader trend towards consolidation across asset management, with investors presently favouring larger managers who can deploy capital at scale when it comes to capital allocations.

Larger managers interviewed for this research highlighted their capacity to provide investors with a wider range of investment strategies and use their resources and infrastructure to offer tailored products. Further evidence of market consolidation can be found when looking at mergers between private credit fund managers, or where specialist private credit lenders have been acquired by a larger asset manager (see Figure 10) to boost their footprint in the asset class.

“To maintain a competitive edge in the core mid-market, it is crucial to have established and experienced investment teams on the ground.”

Sonia Rocher, Head of Research for European Middle Market Private Debt, BlackRock

Nevertheless, some LPs have reported that they are somewhat cautious about consolidation in the market, with some concerned that acquisitions and mergers may change the incentives between management and LPs or potentially lead to disruption within investment teams. Some also highlighted how the dash for scale may create incentives which run counter to those which have supported the organic growth that has characterised the private credit market to date – particularly if managers expand rapidly to retain their competitive position in the market.

“Despite increasing concentration in the upper middle market, below £50m the universe of private credit funds thins out quite a lot. Banks are in retrenchment mode from this segment of the market, so capital is scarce.”

Thomas Lloyd-Jones, Managing Partner, Zenzic Capital





Figure 10:

Examples of private credit market consolidation in recent years

Year	Operation
2024	Clearlake Capital acquires MV Credit
2024	Blue Owl acquires Atalaya Capital Management
2024	AXA Investment Managers acquires CAPZA
2024	Manulife acquires CQS
2023	First Sentier acquires AlbaCore
2023	FS Investment and Portfolio Advisors combine
2023	Nuveen acquires Arcmont
2023	PGIM acquires Deerpath Capital Management
2022	Investcorp acquires Marble Point
2021	T. Rowe Price acquires Oak Hill Advisors
2020	Bridgepoint acquires EQT Credit
2019	Franklin Templeton acquired Benefit Street Partners
2019	Brookfield acquires Oaktree

"Our LPs are consolidating their relationships and looking to deploy more money with fewer GPs, which is a trend we are increasingly seeing in the wider market. What becomes important in this context is not only the track record and credibility of the manager, but also their ability to deploy large quantities of capital."

Bashak-Julianna Demir, Global Head of Client Relations and European Head of Marketing, ICG

"Our strategy is to expand the range of our offerings and capture larger mandates that encompass all of our different areas of expertise... this push towards scaling up is partly driven by investor demand, as larger investors are looking for comprehensive solutions and prefer to work with managers who can meet all their credit needs under one roof."

Cécile Mayer-Lévi, Head of Private Debt, Tikehau Capital



Chapter 2:

Resilience across multiple measures

Key takeaways

- Recent periods of high interest rates, inflation and the long-term impact of the pandemic continue to affect private credit portfolio companies. This stress is being reflected in valuations, but adjustments remain modest and consistent with the broader economic environment.
- There has been a rise in significant loan term adjustments, with the average reported by our respondents increasing from 8.07% in 2023 to 11.65% in 2024.
- 74% of respondents report growing or rapidly growing EBITDA in their portfolio companies, while around 24% report broadly stable EBITDA. 63% state that their most common LTVs are below 50%.
- Comparing and contrasting ACC data with other industry sources indicates that this market stress is within forecast scenarios, and not at a level which would significantly harm returns to investors or pose risks to financial stability.

There has undoubtedly been greater stress on borrowers during the past two years, but this has not translated into significant losses or reductions in the returns private credit funds provide to their investors. Interviewees noted that while losses from individual loan defaults may increase during the next twelve to eighteen months, they do not expect the number of identified problem credits to materially increase. This suggests that the full impact of higher rates and other factors has largely washed through the system, with managers having good visibility on the stress within their portfolios and taking appropriate remedial action.

The private nature of private credit means that there are fewer sources of market data to test this sentiment. Our research seeks to measure that stress by comparing data on risk metrics obtained from the survey against others that are publicly available.

Figure 11 shows the downward adjustments to par values of existing senior debt between 2023 and 2024 reported by our respondents. The growth in downward adjustments year on year indicates that stress has increased over that period and that firms are reflecting this in their valuations. Figure 12 data on downward adjustments to the valuation on debt of other seniorities within respondents' portfolios shows a similar pattern.

“Our portfolios have managed a pandemic, wars, supply chain issues and inflation. The portfolios have seen all of that and been remarkably resilient.”

Neale Broadhead, Partner, CVC Credit Partners

“Private debt has proven resilient and attractive in a high-rate environment. Private credit did not dry up during macro headwinds, unlike high-yield bond and leveraged-loan issuance. Despite high global inflation, both loss and default rates compared favourably to public market peers. The new regime implies a more normalised level of defaults, however manager performance will be driven by disciplined underwriting, diversified portfolio construction, as well as well-equipped teams to manage any underperformance. Now, the expected monetary policy shift should also bode well for private credit portfolios risk-wise. In an environment of slow rate cuts, direct lending will continue to be an attractive option for investors and companies alike: it will remain a durable asset class, with attractive returns relative to public credit.”

Sonia Rocher, Head of Research for European Middle Market Private Debt, BlackRock

Figure 11:

What, if any, downward adjustments or estimated downward adjustments to par value have you made on loans within your portfolio during the last two valuation periods? – Senior debt

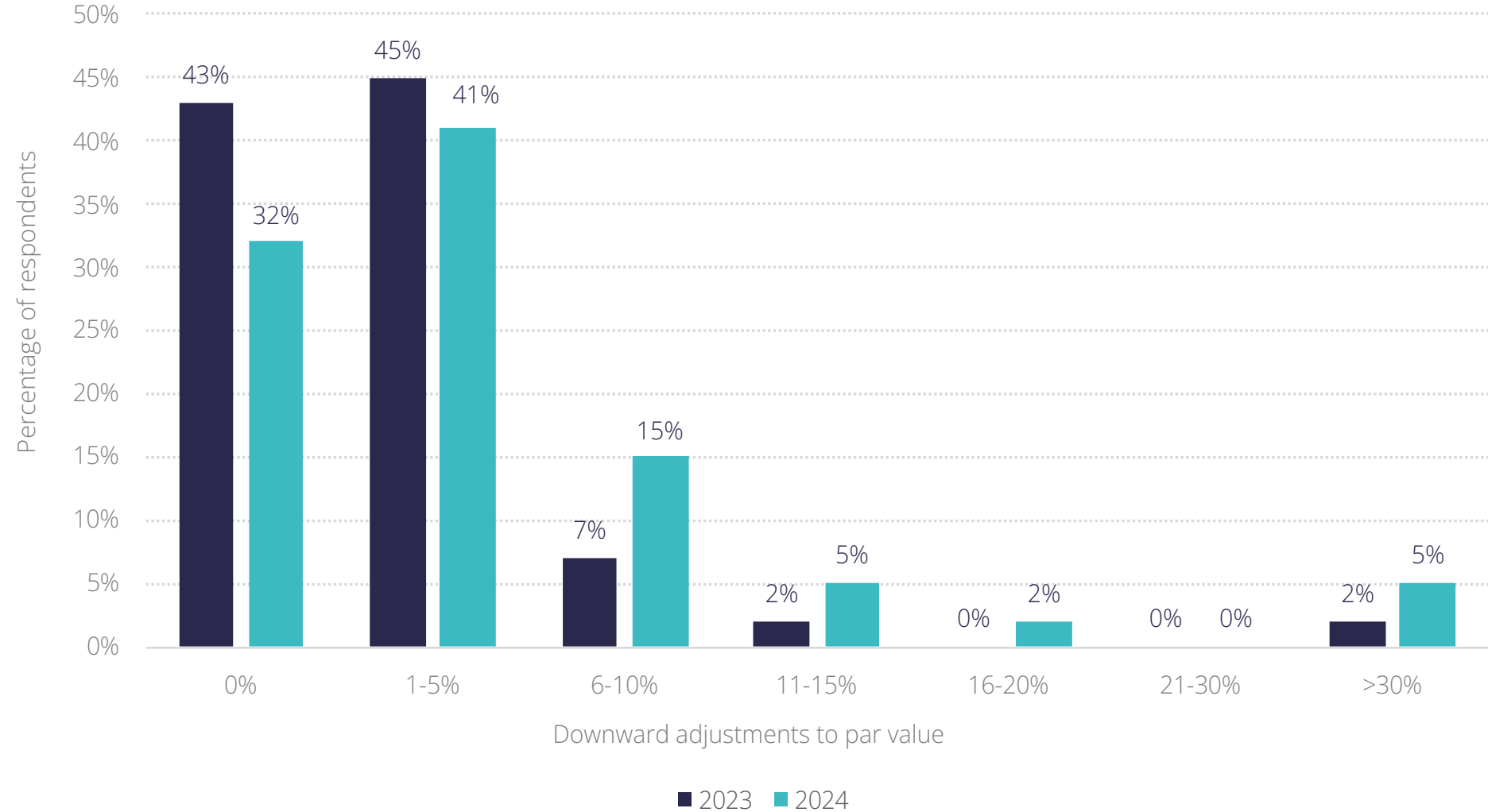
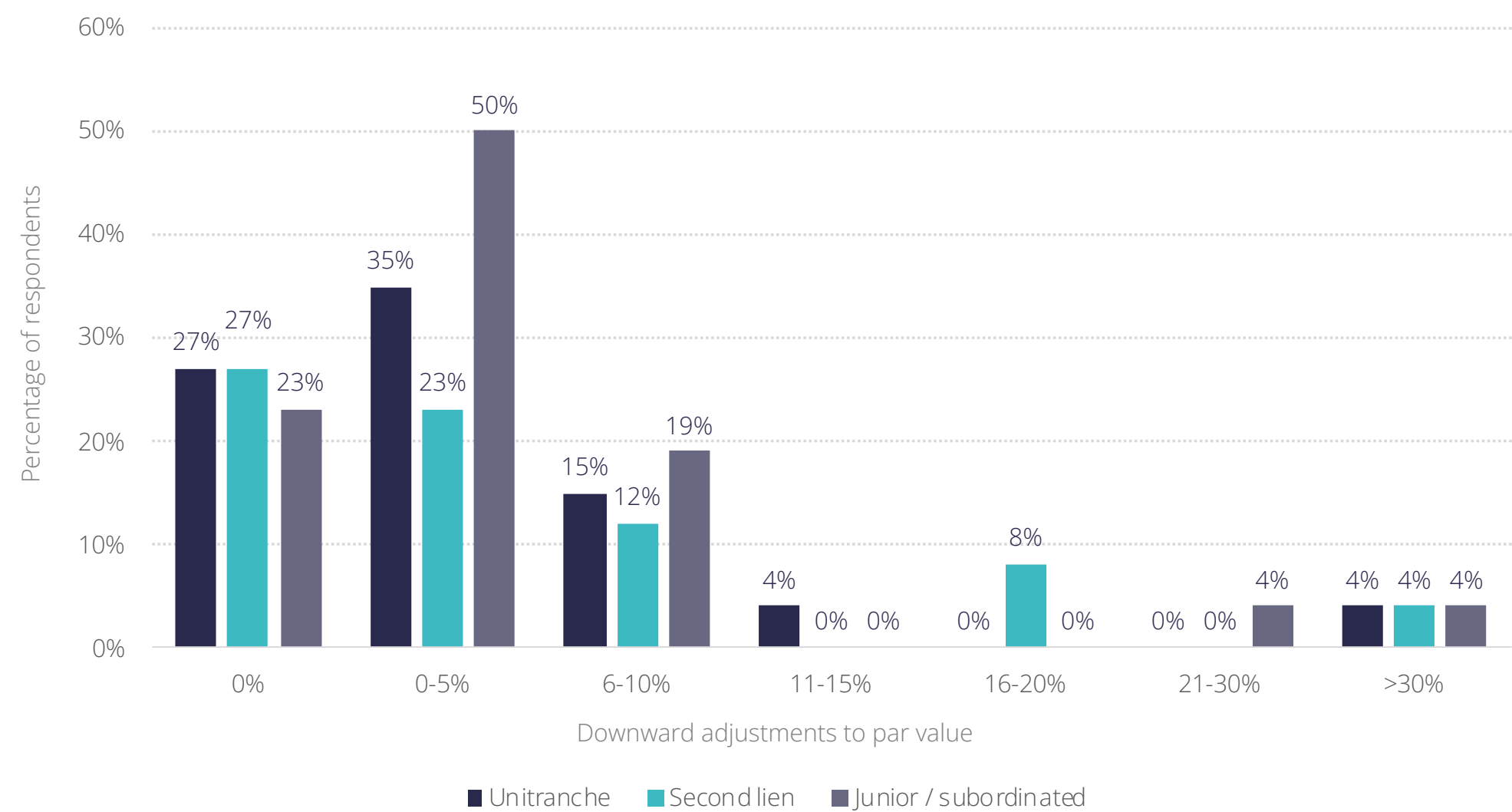


Figure 12:

What, if any, downward adjustments or estimated downward adjustments to par value have you made on loans within your portfolio during the last two valuation periods? – Unitranche, second lien, junior / subordinated



While stress is having an impact on valuations, managers also reported that the identified problem credits within their portfolio are not expected to materially reduce their returns. Recoveries from problem credits are expected to be within historic norms rather than more adverse scenarios, while yields from performing credits remain close to 12% in the US (see Figure 13), providing a decent level of compensation against expected losses.

While borrowers face liquidity challenges at these yields - KBRA data finds that in H1 2024, 25% of borrowers had an EBITDA-to-interest coverage less than 1.0x (see Figure 14) - we are seeing increasing borrower tailwinds in the form of decreasing spreads, base rates and increasing EBITDA in Q2 and Q3 of 2024.

“High interest rates have been a double-edged sword. The moderation that we are starting to see will impact returns, but it will be good for the health of borrowers.”

Robin Doumar, Founder and Managing Partner, Park Square Capital

“Higher rates have presented an opportunity for managers with strong risk management to differentiate themselves.”

Kirsten Hagen, Co-Founder and Partner, Brinley Partners



Figure 13:
US middle-market unitranche spreads and yields (in percentages)^{vi}

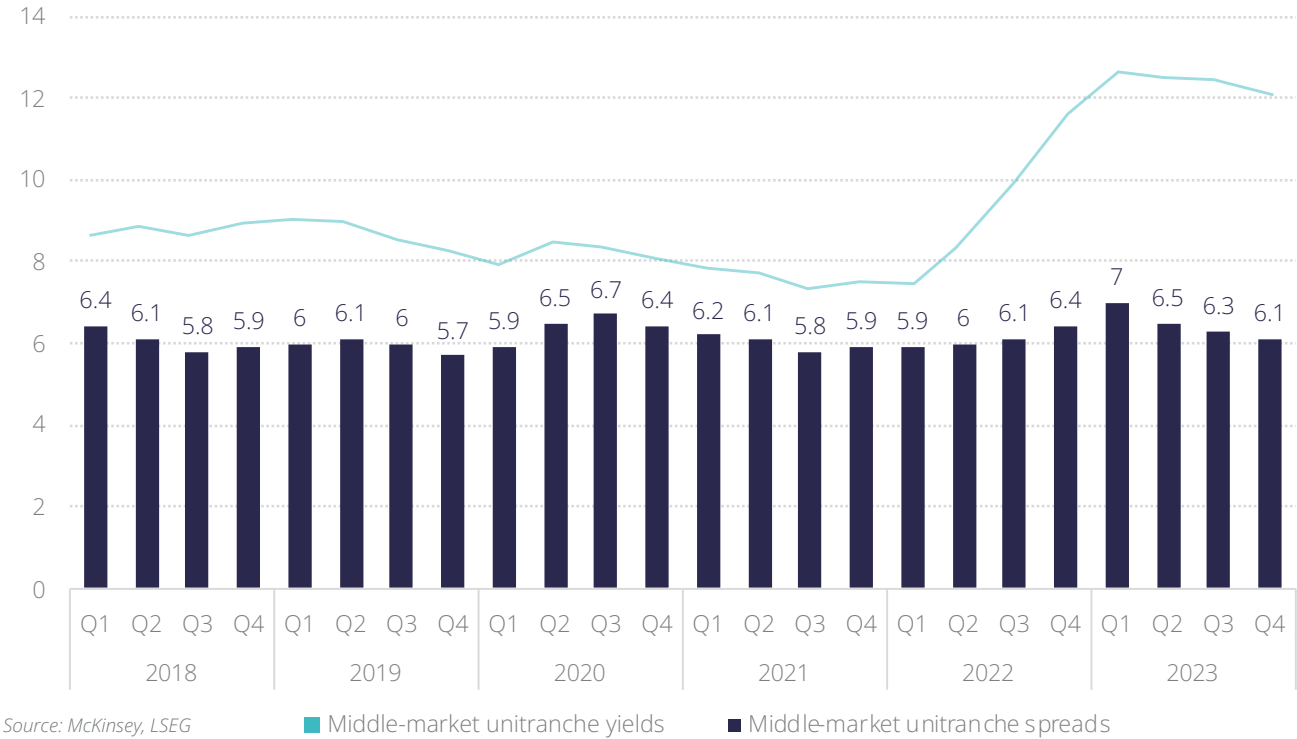




Figure 14:

Latest period Interest Coverage Ratio (ICR) by revenue quartile^{vii}

Revenue Quartiles	Count & Percentage of Obligors with ICR < 1.0x		Count & Percentage of Obligors with ICR > 1.0x	
	Count	Percentage	Count	Percentage
First	82	31%	185	69%
Second	59	22%	208	78%
Third	69	26%	198	74%
Fourth	58	22%	208	78%
All	268	25%	799	75%

Source: KBRA Private Credit: Q2 2024 Middle Market Borrower Surveillance Compendium

“We are in a very delicate equilibrium; central banks are easing monetary policy because the economy is quite fragile and there are pockets of recession in Europe and the US. We do believe that private credit offers tremendous advantages to navigate this fragile landscape.”

Fernando Martínez, Managing Director Private Credit,
Investment Management Corporation of Ontario

“Our portfolio has remained resilient over a number of years and provided attractive returns thanks to very careful credit selection, asset and process management, diversification and sizing.”

Katherine Abrat, Chief Operating Officer, Arkkan Capital

Another means by which we can assess portfolio quality is by looking at loan term adjustments. ACC data indicates there has been a rise in significant loan term adjustments across the market (Figure 15), with the average reported by our respondents increasing from 8.07% in 2023 to 11.65% in 2024 (Figure 16). This suggests that firms are taking a proactive approach to risk management when needed. Our definition of loan term adjustments includes covenant waivers, payment holidays and cash to PIK, as well as other forms of

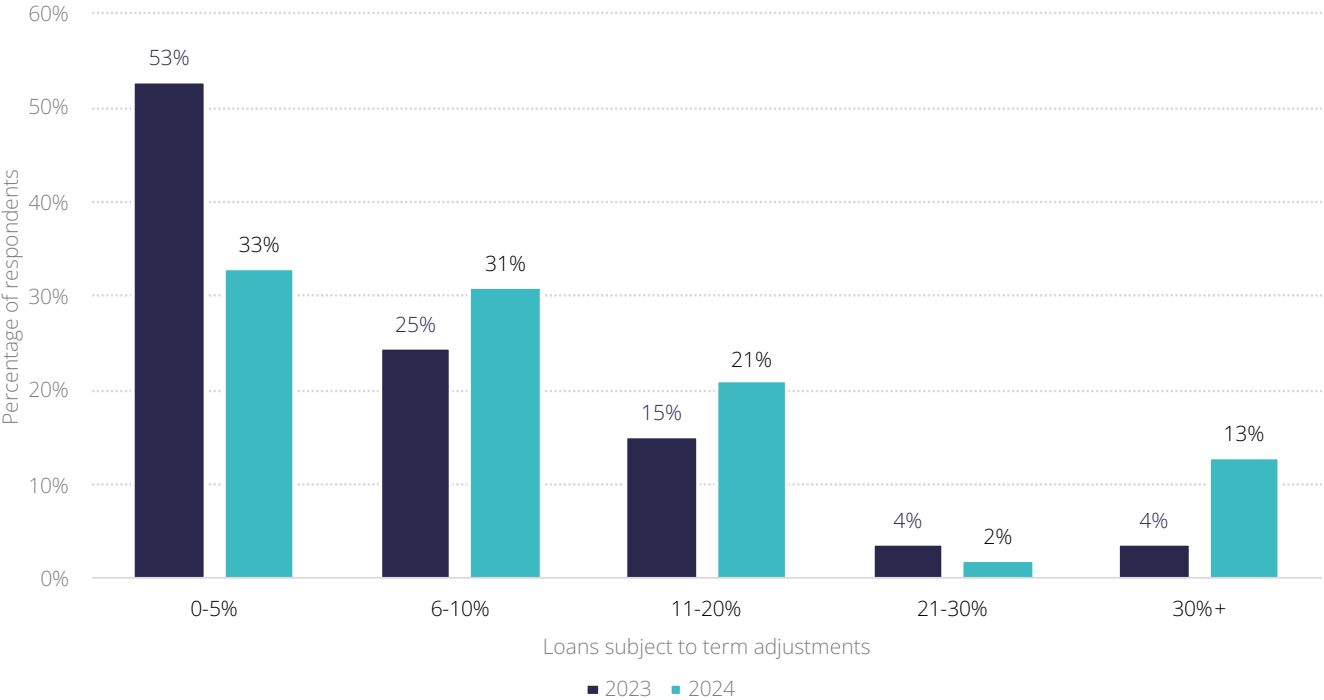
adjustments. Investors are increasingly interested in how managers identify which of these might be the most appropriate adjustment for any given situation, how the impact of the adjustment is measured and the transparency provided to investors on the use of tools such as PIK.

Interviewees emphasised that the use of PIK is typically not a tool of first resort and that many alternatives are considered first in stressed situations. It was also noted that some managers prefer to act conservatively,

providing early relief and flexibility to the borrower through measures such as PIK or covenant relief. This was seen as a better means to prevent the build-up of problems within the business, for example to ease liquidity challenges during the interest rate hikes. There was a consensus across several interviewees that lenders should generally seek economic improvement in the borrower through changes to operating practices or equity injections by the sponsor when considering such adjustments.

Figure 15:

What proportion of loans in your corporate lending portfolio have been subject to significant loan term adjustments (e.g. covenant waivers, payment holidays, cash to PIK or other adjustments) in the past year?



“Historically, if you had a borrower that was under some sort of stress, PIKs might have been a way to give them a bit of runway. But you had to be careful and make sure to address the borrower’s underlying issues. But PIK loans represent only a small part of our higher-return strategies, rarely on a stand-alone basis. We see better relative value elsewhere, for example in diversified pools of assets on bank balance sheets (SRT) or diversified CLO notes.”

Douglass Welch, Portfolio Management Conducting Officer, Pemberton Asset Management

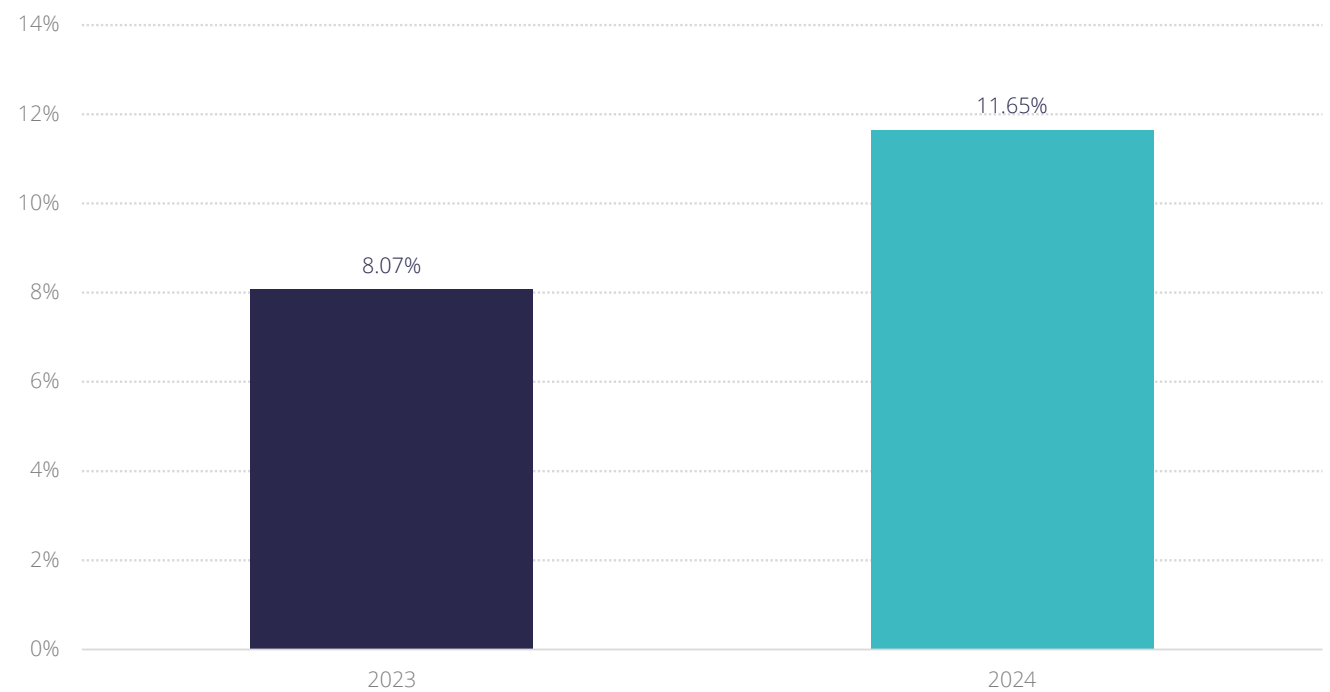


“Decisions to PIK are based on conversations and monitoring that are undertaken far in advance.”

Helene Barikmo, Vice President Deal Team, MV Credit

Figure 16:

Estimated total proportion of loans in corporate loan portfolios that have been subject to term adjustments in 2023 and 2024

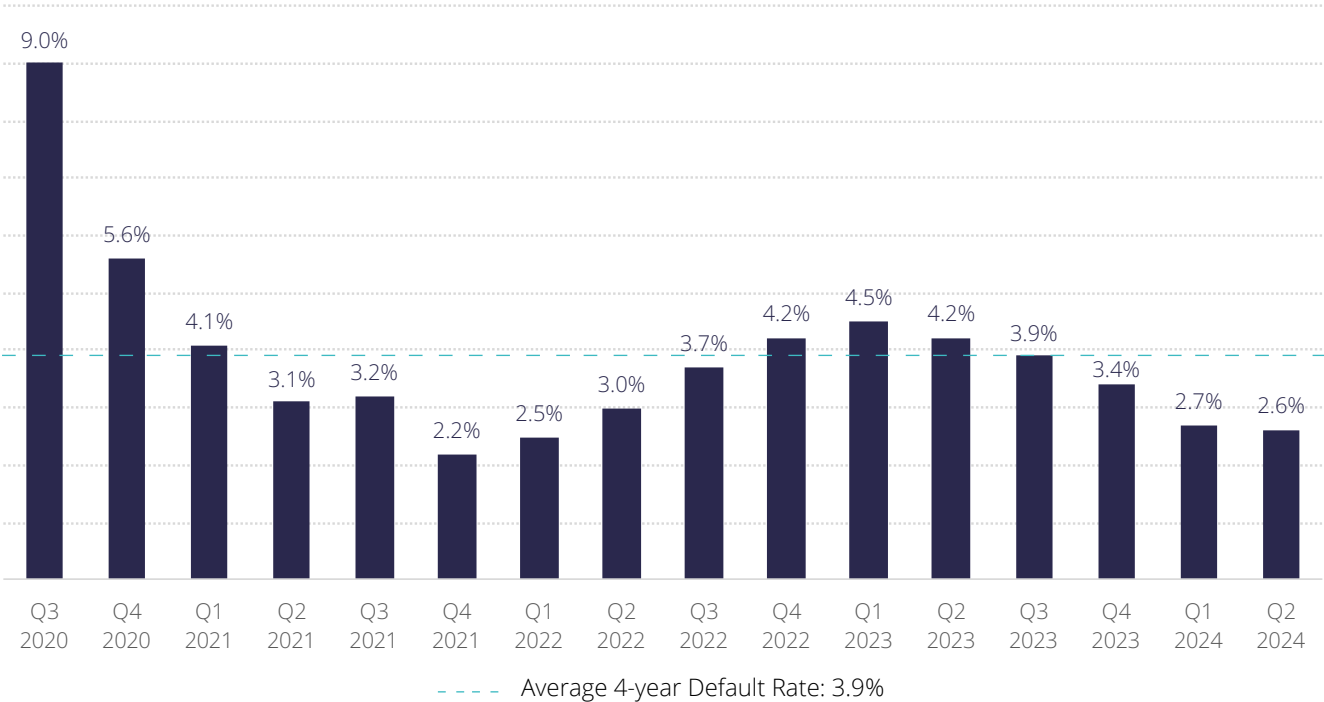


We can also assess the relative health of portfolios by looking at the available data on different types of defaults seen in private credit loans. KBRA identified eight payment defaults out of 450 reviews in Q1 2024,

or a 1.77% default rate.^{viii} Lincoln data which looks at covenant default rates (as opposed to payment defaults) shows a reduction from 3.9% to 2.6% during the last twelve months, well below the four year average of 3.9%

(see Figure 17). This decrease in covenant defaults is also likely to reflect the rise in loan term adjustments highlighted above in our survey sample.

Figure 17:
Private credit covenant default rate^{ix}



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“It seems to be the golden age of private credit when you look at total returns, but not when you look at spread levels.”

Sven Gralla, Fund Manager Private Debt & Infrastructure Equity, LBBW Asset Management

“The best performing credit managers are the people that can be the most selective and nimble, that can adapt to changing credit conditions and exploit the dislocations in the market that happen periodically.”

Robin Doumar, Founder and Managing Partner, Park Square Capital

“Our roots are in distressed debt, so when problems start to happen we have the ability to be flexible and offer solutions that will help the company to get through that time and will improve our risk-return profile.”

Todd Molz, Chief Operating Officer, Oaktree



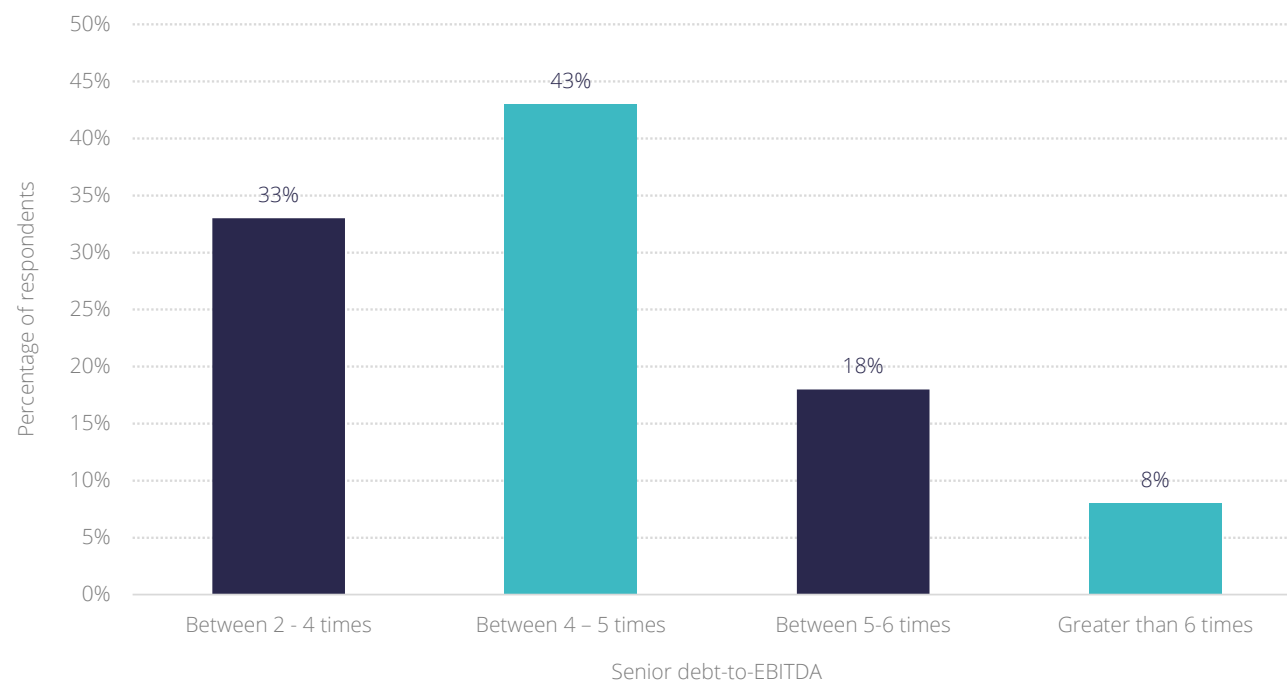
ACC data also shows that total debt-to-EBITDA levels have increased year on year for newly originated loans (see Figures 18, 19 and 20). Interviewees highlighted that this data partially reflects the increased competition with the BSL market and therefore a more borrower-friendly market for large cap

financing and that leverage levels in the core or the lower middle market tend to be stable or declining. Interviewees reported that the number of firms on their watchlists due to high debt-to EBITDA ratios is closer to 10% of their portfolio and much lower than the previous peak of 20% experienced during

the COVID period. Lincoln data (see Figure 21) also provides further support for the view that company leverage in the core middle market is lower than in recent periods of peak borrower-friendly years.

Figure 18:

What is the most common ratio of senior debt-to-EBITDA* of the borrowers (at the time the loan was provided) for your direct lending to corporates?

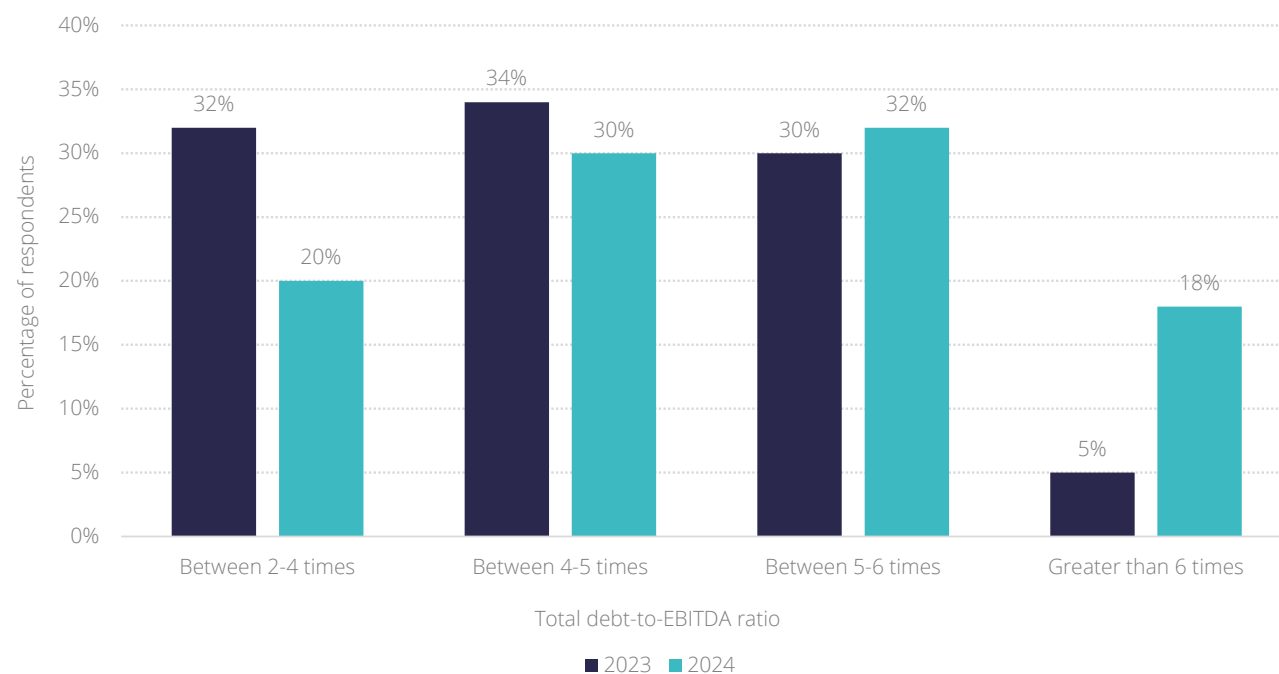


**EBITDA based on either GAAP or IFRS accounting standards and excluding any addbacks*



Figure 19:

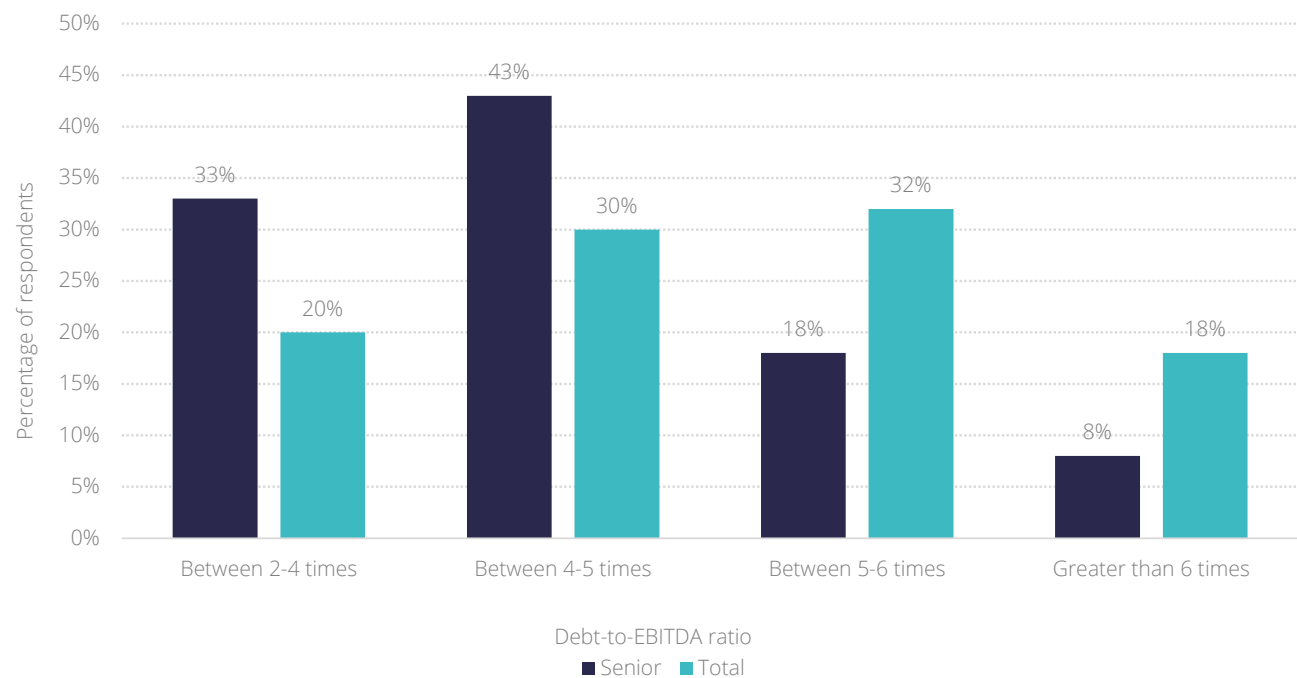
What is the most common ratio of total debt-to-EBITDA* of the borrowers (at the time the loan was provided) for your direct lending to corporates? 2023 vs 2024



*EBITDA based on either GAAP or IFRS accounting standards and excluding any addbacks

Figure 20:

What is the most common ratio of debt-to-EBITDA of the borrowers (at the time the loan was provided) for your direct lending to corporates? Total vs. Senior



**EBITDA based on either GAAP or IFRS accounting standards and excluding any addbacks*



Figure 21:

Historical financing terms from funds*

	Market Peak (2021)	Dislocation (Q3 2022)	Q4 2023	July 2024
Leverage (EU)	4.00x to 6.50x min to max	3.75x to 5.75x min to max	4.50x to 5.50x min to max	4.50x to 5.75x min to max
Margin (EU)	5.50% to 8.00% min to max	6.00% to 8.00% min to max	5.75% to 6.75% min to max	5.25% to 6.50% min to max
Leverage (UK)	5.00x to 6.50x min to max	4.00x to 5.50x min to max	4.50x to 5.50x min to max	4.50x to 5.75x min to max
Margin (UK)	5.75% to 6.50% min to max	6.50% to 8.00% min to max	5.75% to 6.75% min to max	5.25% to 6.50% min to max
Leverage (USA)	5.00x to 6.50x min to max	4.50x to 5.50x min to max	4.50x to 5.50x min to max	4.50x to 5.50x min to max
Margin (USA)	5.00% to 6.00% min to max	6.50% to 7.50% min to max	6.00% to 6.75% min to max	5.25% to 6.25% min to max

Another factor highlighted by interviewees in relation to how they assess the resilience of their loan book is EBITDA growth within their portfolio companies. ACC data (Figure 22) shows that 74% of respondents report growing or rapidly growing EBITDA in their portfolio companies, while around 24% report broadly stable EBITDA. As mentioned above, KBRA previously found that EBITDA growth mitigated the impact of higher interest costs for private credit borrowers, with median EBITDA growth of 46% during the last three quarters across borrowers analysed.^{xi}

A similar picture emerges when looking at other data sources analysing the financial performance of middle market companies. For example, Golub Capital's Altman Index reports EBITDA growth in excess of 10% for the last four of the five quarters beginning with Q3 2023 (Figure 23).

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Figure 22:

Which of these statements best describes EBITDA growth at your current portfolio companies?

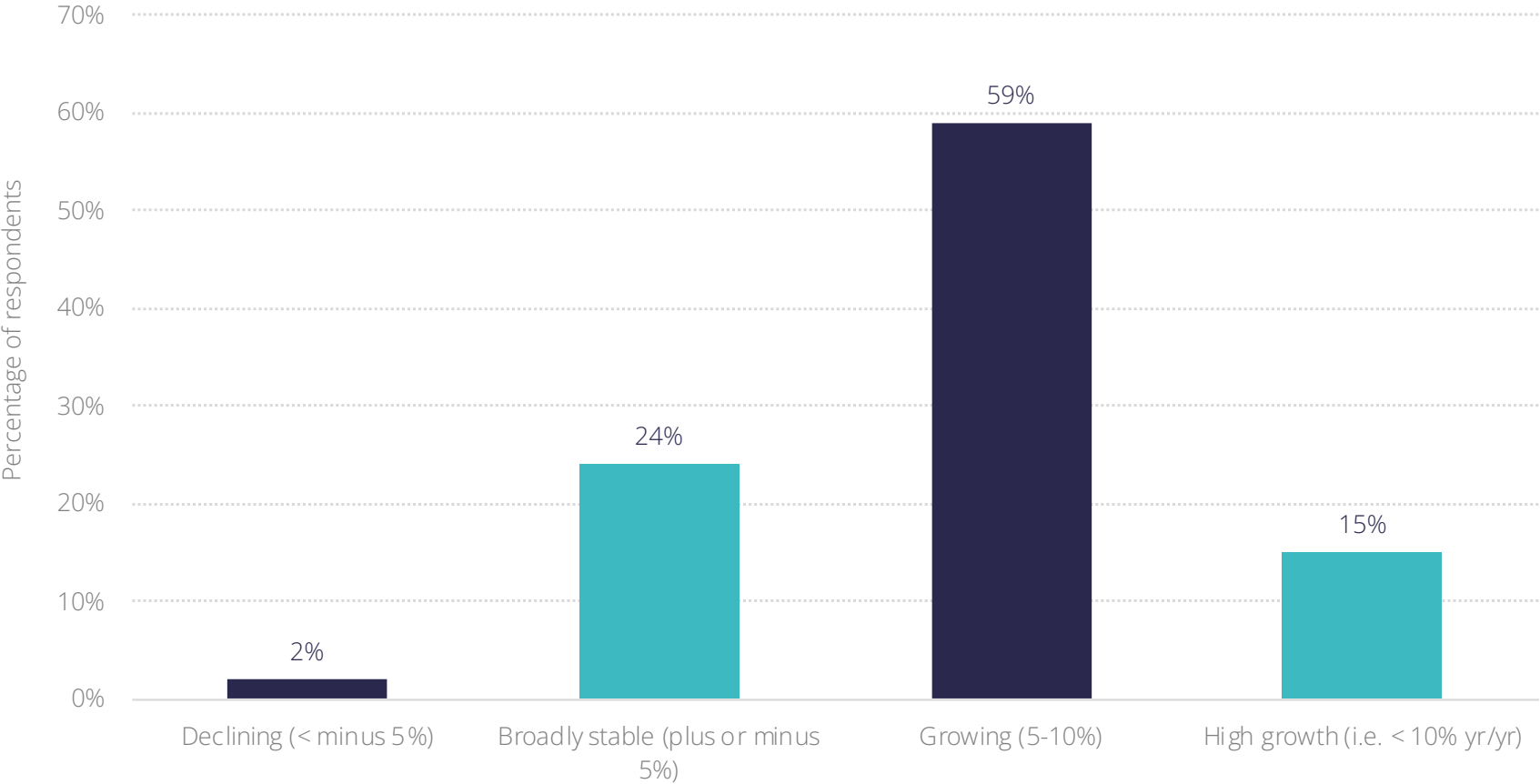
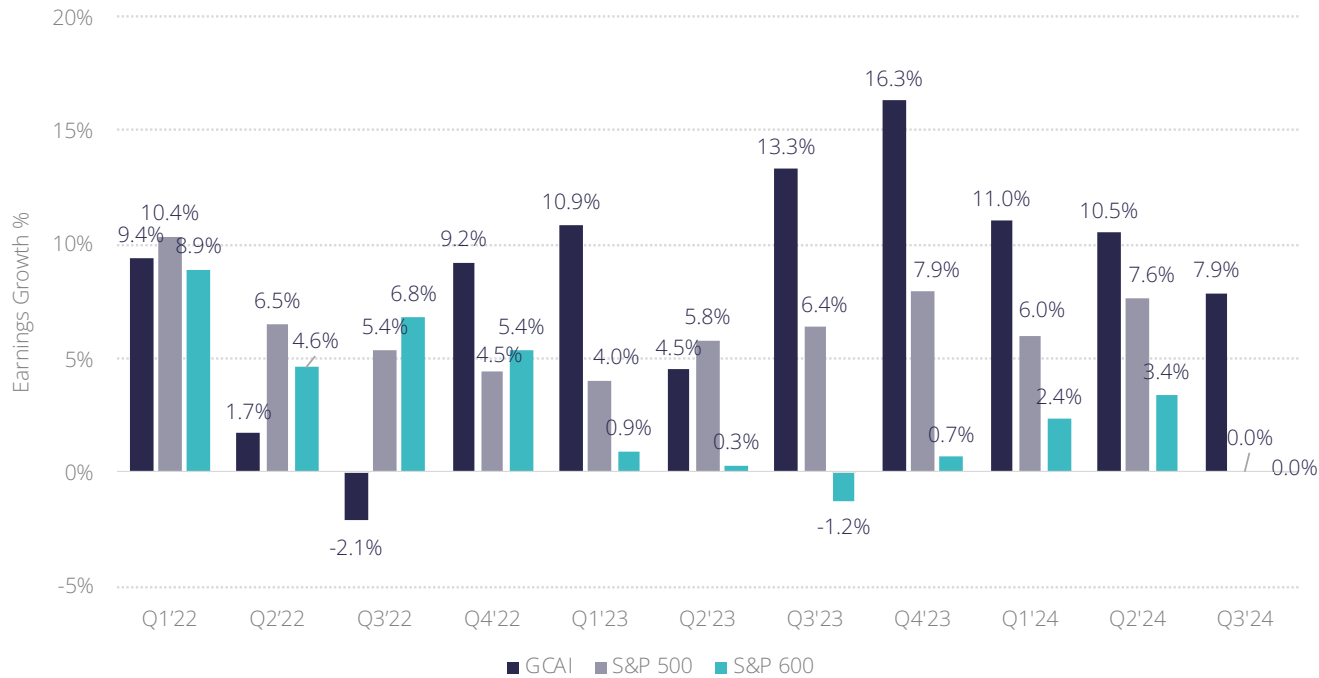


Figure 23:

Earnings growth in US middle market companies^{xii}



Source: Golub Capital, S&P Capital IQ

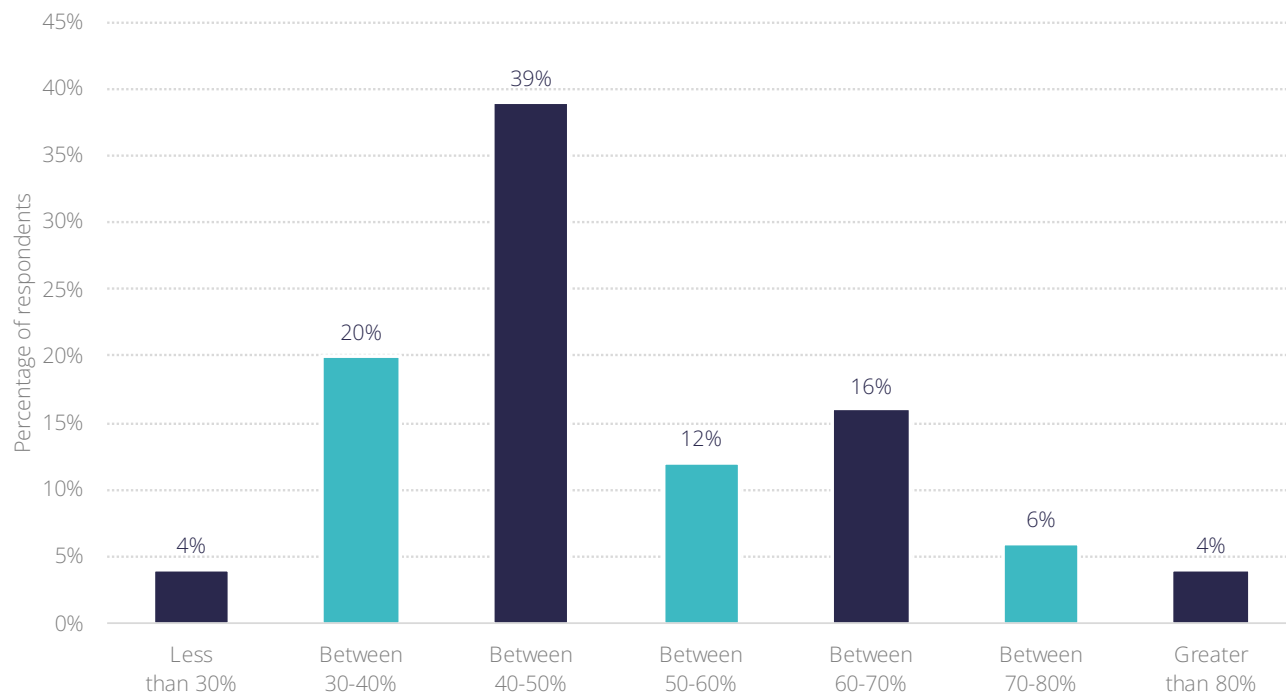
“We have seen that European companies in our target sectors have weathered the difficulties in the region over the past few years very well, including volatility caused by geopolitical events.”

Mike Carruthers, Senior Managing Director and European Head of Private Credit, Blackstone Credit and Insurance



Figure 24:

What is the most common loan-to-value of the borrowers (at the time the loan was provided) for your private credit lending? (ex. N/A)



Lastly, data on loan to value (LTV) ratios offers further evidence that managers continue to employ sound underwriting practices, with 63% of respondents to our survey stating that their most common LTVs are below 50% (Figure 24).

While each of the metrics and data discussed in this research have individual limitations and drawbacks, comparing and contrasting them paints a fairly consistent picture that stress is real but not at a level which would significantly disrupt the returns private credit funds provide to their investors, let alone pose risks to financial stability.

Moreover, as mentioned above, we have most likely seen peak stress conditions with both costs of financing and earnings growth going in the direction favourable to the borrowers. In the absence of more consistent and comprehensive market data, drawing together data from multiple sources is likely to be the best means for investors in the asset class to assess how the market is performing overall, hold managers to account for their performance and inform future allocation decisions.

“There is a large equity cushion when lending to sponsor-backed portfolio companies. A lot of value has to be lost before lenders get impaired.”

Patrick Linnemann, Managing Director, Blue Owl Capital

“If you do your credit underwriting right you should be able to price and underwrite a loan for the downside risks that might materialise and still get your money back.”

Stephen O’Neill, Head of Private Markets & Investment Proposition, NEST

“When selecting potential investments, private debt investors look for companies with a clear strategy and considering their resilience in the face of possible market disruptions during underwriting is key.”

Sonia Rocher, Head of Research for European Middle Market Private Debt, BlackRock

Chapter 3:

Expanding the frontiers of private credit



Key takeaways

- A majority of private credit managers expect to grow their business across both established and developing private credit strategies and markets.
- ABL, real estate debt and infrastructure debt are now a substantial part of the market, collectively accounting for 40% of private credit AuM.
- Europe and the APAC region are expected to grow significantly, with further bank retrenchment, increased familiarity amongst borrowers and greater regulatory certainty combining to make these markets more attractive to lenders.
- Demand amongst investors for private credit assets that can provide them with diversification and alternative sources of returns remains strong.
- Government policy objectives to secure additional investment into public energy and infrastructure projects are likely to be a significant source of opportunity for private credit funds.

Private credit is a mainstream source of finance for borrowers of all types and a core asset allocation for most institutional investors. ACC data indicates that it remains

a growth asset class and there is significant headroom for the market to develop further. This is reflected in Figures 25 and 26, which show how survey respondents expect

to grow their business across the different private credit strategies and markets.

“We are still confident about the asset class and expect to allocate more in absolute and relative terms over the coming 24 months.”

Stephen O'Neill, Head of Private Markets & Investment Proposition, NEST

“Private credit is stepping in to lend in the broader real economy, which is much broader than direct lending, inclusive of businesses, consumer lending, asset-based lending and the list goes on.”

John Golden, Partner and Global Head of Insurance Regulation, Apollo Global Management

Figure 25:

How do you see your investment in these private credit markets changing over the next three years?

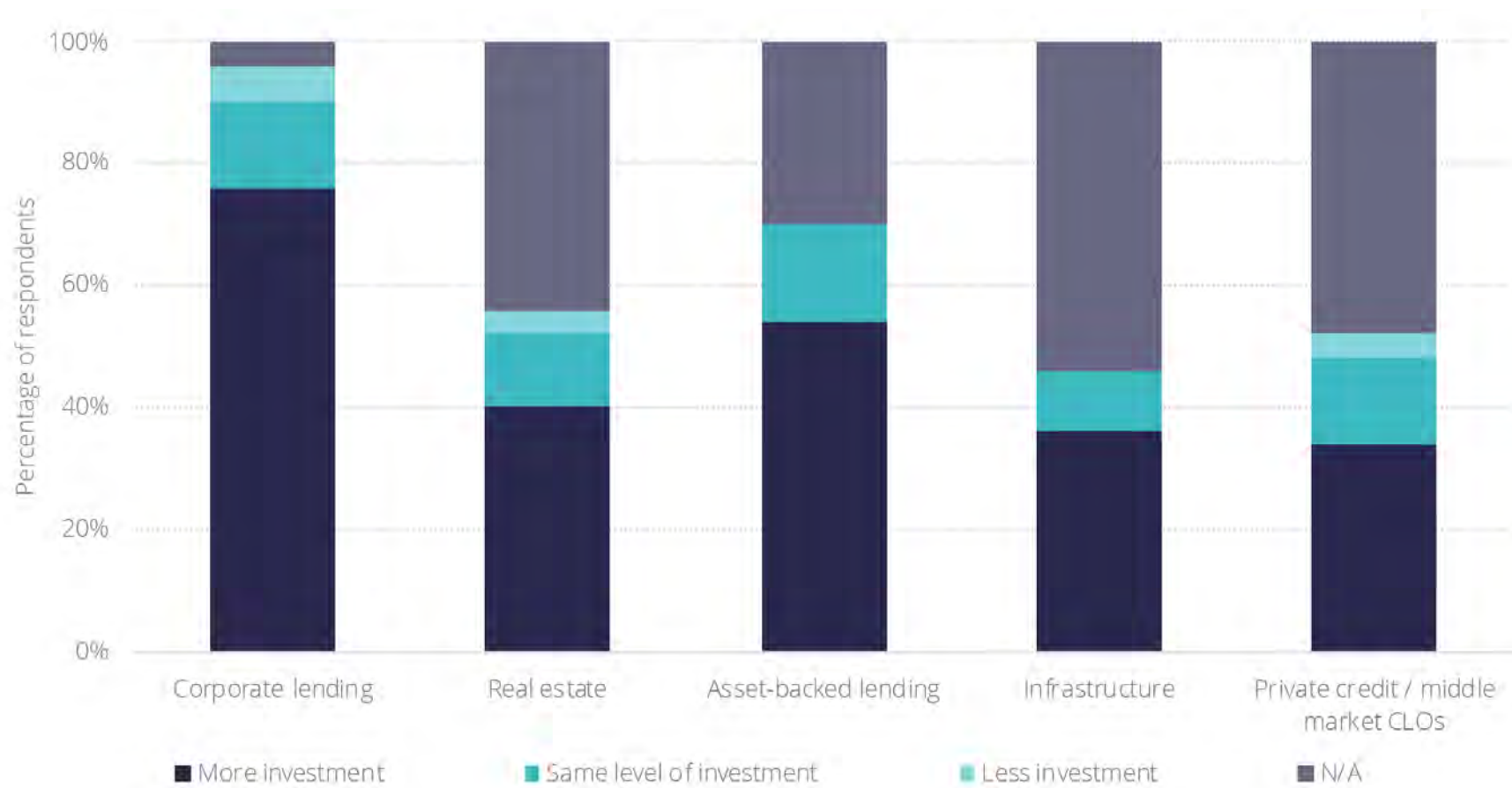
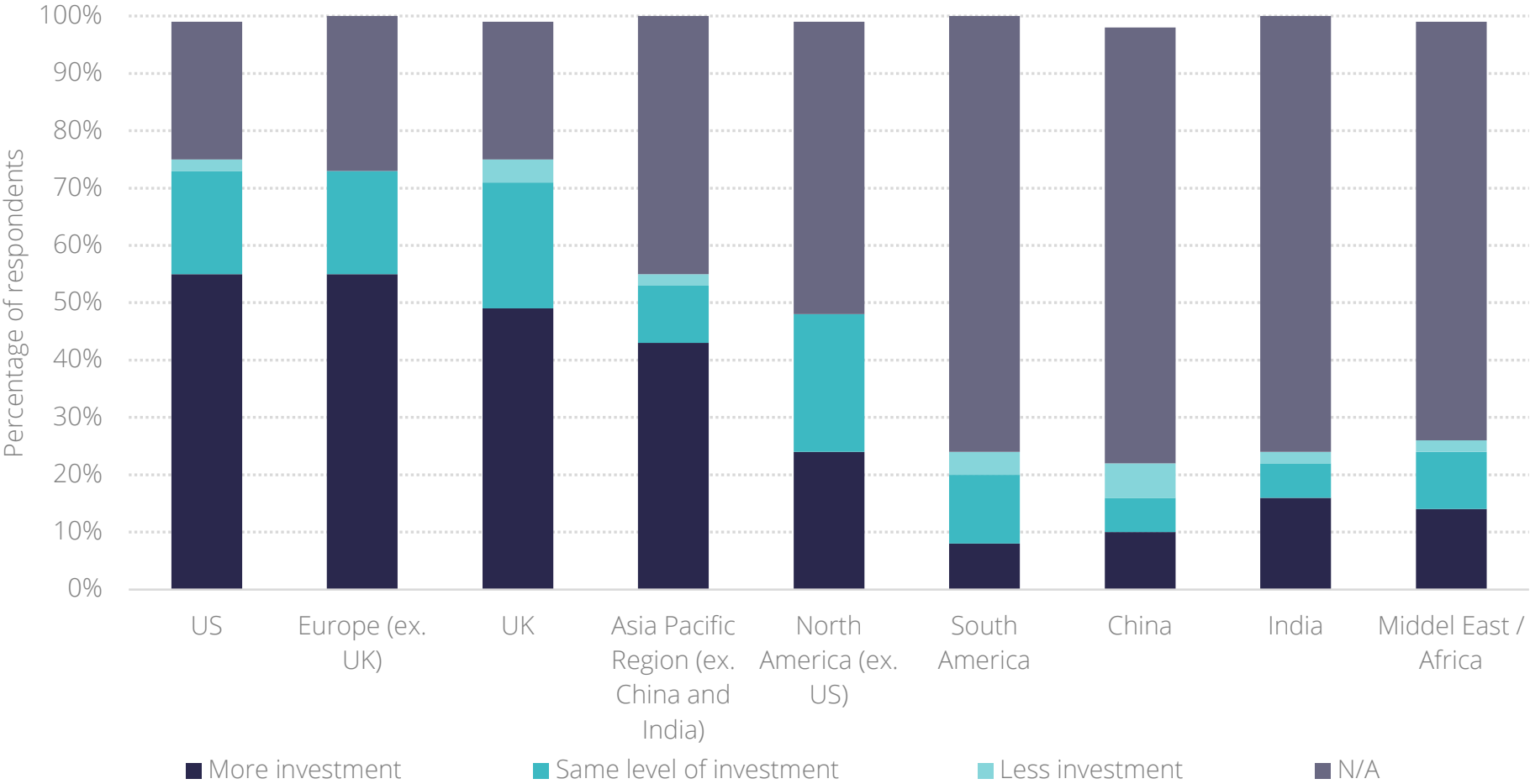


Figure 26:

How do you see your investment in these private credit markets changing over the next three years?



“Our view is that the secular shift is going to continue from public to private, even though public markets are not going away and both will continue to coexist.”

Kirsten Hagen, Co-Founder and Partner, Brinley Partners

There are differing definitions of private credit, with some actors expanding the scope of private credit assets to encompass assets that have been traditionally non-traded on bank or institutional investor balance sheets. A broad application of this definition would suggest that the addressable market for private credit could surpass US\$40tn – a figure significantly higher than our estimate of the market's current size.

While interviewees for this research had different views on the size of the current and addressable market for private credit, their outlook for growth was uniformly positive. A common view is that secular trends that have underpinned the growth of the secular private credit over the past decade are likely to continue, with the implementation of Basel IV/Endgame rules expected to create new impetus to the decade-long trend of bank retrenchment from credit markets.

Another core tailwind for private credit is the demand amongst investors for assets that can provide them with diversification and alternative sources of returns. Interviewees also noted that some investors with existing allocations are increasingly seeking diversification away from the US and private market companies within their private credit portfolios.

The European market is becoming increasingly attractive for these types of investors who note its deep pool of mid-market companies that lack access to the same financing as their US peers. The scale that the European market has achieved during the past decade means that borrowers in Europe are more familiar with private credit, which is now seen as a mainstream financing solution in the main European markets.

Recent regulatory reforms to the AIFMD and ELTIF Regulation will provide greater legal certainty on cross-border lending activity for private credit managers, making it easier for firms to scale their operational footprint and invest on a pan-European basis. This is expected to be a particular boon for businesses in European countries outside of the larger economies. Crucially, the reforms open up the mass-affluent and retail markets to private credit with a spate of new funds being launched in the recent future.

The APAC region is also expected to benefit from the desire for diversification and further bank retrenchment. Capital markets in the APAC region remain underdeveloped, meaning there is less competition from public markets and there is not the same downward pressures on terms. As with Europe, there is growing

recognition of the benefits that private credit can provide to borrowers within the region.

Key differences remain within APAC particularly between China, where ACC data suggests that interest in the Chinese market has decreased sharply, and other countries. This can be explained by the challenging macroeconomic and political outlook, as well as tensions in the trade and diplomatic relationships between China, the US and Europe. While lenders continue to take this backdrop into account when considering investment in the region, the operation of creditor protection frameworks in the region is generating positive sentiment. Recent examples include the conduct of Chinese courts, which have generally not permitted debtors to avoid repayments and restructurings, and a recent ruling by the Indonesian courts in favour of internationally based creditors. Interviewees highlighted that developments such as these were encouraging greater interest in the region amongst investors, and that countries like India, Vietnam, Indonesia and Australia are increasingly seen as offering significant growth opportunities for private credit.

“At present, pertinent Asian high yield public indices remain underpriced. Dislocation in public markets has created a rich investing set for our strategy and favourable buying conditions for credit lenders in region, who are able to move quickly to capitalise on that opportunity. The contraction in public market issuance, combined with risk pull back from banks, has further enhanced an already growing private credit lending market in Asia.”

Katherine Abrat, Chief Operating Officer, Arkkan Capital

“Private markets are largely investment grade markets, reflecting the real economy; we are seeing a growing recognition of this feature, both for equity and debt investments.”

John Golden, Partner and Global Head of Insurance Regulation, Apollo Global Management

Investor appetite for diversification is also driving the market's expansion beyond corporate lending into ABL, real estate debt, infrastructure debt and other strategies. Collectively these strategies already account for around 40% of respondents' private credit assets under management. Both the absolute and relative size of these strategies is expected to grow significantly as investors look for ways in which they can maintain diversification while still growing their overall exposure to private credit assets. The growth of the NAV lending sub-strategy, private credit secondaries and investment grade private credit are additional examples, while some managers have also developed products offering working capital and cash management solutions.

Private credit managers have been a key buy-side driver of the growth of the Significant Risk Transfers (SRT) market in Europe and are now looking to expand their activity in the US. In the European SRT market, the volume of instruments backed by performing loans and originated by banks under direct ECB supervision was €153bn in 2023, which represents 0.575% of the assets in the European banking sector. If the SRT market reaches a similar scale within the US, the market size would be US\$135bn.

A further driver for the sector's growth is the role that private credit is expected to play in financing the global green transition, for which it is estimated that between US\$100tn and US\$300tn of capital will be needed until 2050.^{xiv} There is wide recognition among policymakers

and the market that governments will not be able to finance those investments on their own and partnerships with capital markets are critical to achieving political objectives around energy and infrastructure. ACC data suggests that the market agrees with this sentiment, with 36% of respondents expecting to invest more capital in infrastructure debt (See Figure 25).

“The SRT market has seen tremendous growth as banks continue to de-risk their portfolios and a new round of Basel requirements is implemented. For institutional investors, this asset class is fast emerging from the shadows.”

Douglass Welch, Portfolio Management Conducting Officer, Pemberton Asset Management

“Particularly appealing SRT portfolios are those where we see very high regulatory capital relative to the actual economic risk of the portfolio. Those really allow us to unlock compelling risk adjusted returns as we are effectively solving a capital challenge for the banks.”

Charis Edwards, Portfolio Manager (Significant Risk Transfer), Orchard Global

“SRTs are essentially investments into banks' origination platforms, they allow us to gain exposure to bank loans that otherwise we wouldn't be able to access in the market. These are core clients of top tier banks and often they are very high-quality borrowers that are carefully originated and underwritten by the banks over multiple years.”

Charis Edwards, Portfolio Manager (Significant Risk Transfer), Orchard Global

Chapter 4:

Risk
management
remains a
top priority

Key takeaways

- The majority of loan agreements in respondents' portfolios retain two financial covenants. The share of cov-lite loans in the private credit market remains significantly lower than in the BSL market, with cov-lite loans also more likely to be found in private credit loans to larger corporates.
- Leverage levels in private credit funds remain modest, with 51% of survey respondents using investment leverage between 0.1x and 1.5x of equity, while 31% report that they are unlevered.
- ACC data shows that these leverage levels are consistent with those reported over the past decade, despite the tremendous growth in size of the industry over that period.
- Banks are the most common providers of finance to private credit funds but there has been some growth in insurance companies, other asset managers and the bond market as alternative providers of finance.
- ACC data shows that refinancing maturities are staggered for the next few years and that refinancing opportunities remain a key source of future capital deployment for lenders.

“The move to private credit from bank lending should be viewed as a stabilising factor in the financial system. Private credit is much better placed for risk to be held because it has long-term outlooks.”

Justin Plouffe, Deputy Chief Investment Officer for Global Credit, The Carlyle Group

“We believe in portfolio diversification by company size, sponsor, and vintage, yet thematic focus on higher conviction sectors, where we see sustainable earnings growth, economic resilience, and lower defaults.”

Mike Carruthers, Senior Managing Director and European Head of Private Credit, Blackstone Credit and Insurance

“If you run a book of 80 to 90 names there are going to be some elements of stress in the portfolio at any given point whether it is thematic or idiosyncratic. It is normal to have some companies that endure some stress in uncertain times as we are experiencing today.”

Marc Chowrimootoo, Portfolio Manager and Co-Head of Direct Lending for Private Credit, Hayfin

Independently of the credit cycle, and even if managers undertake the best underwriting and credit analysis, portfolios can still be subject to idiosyncratic issues or external shocks. As part of their investment mandate, managers are expected to be able to address such problems as and when they arise. Investors expect GPs to excel in risk management and this is always a key feature of the due diligence process when allocating capital.

Loan documentation remains a central risk management consideration for lenders. As highlighted in previous

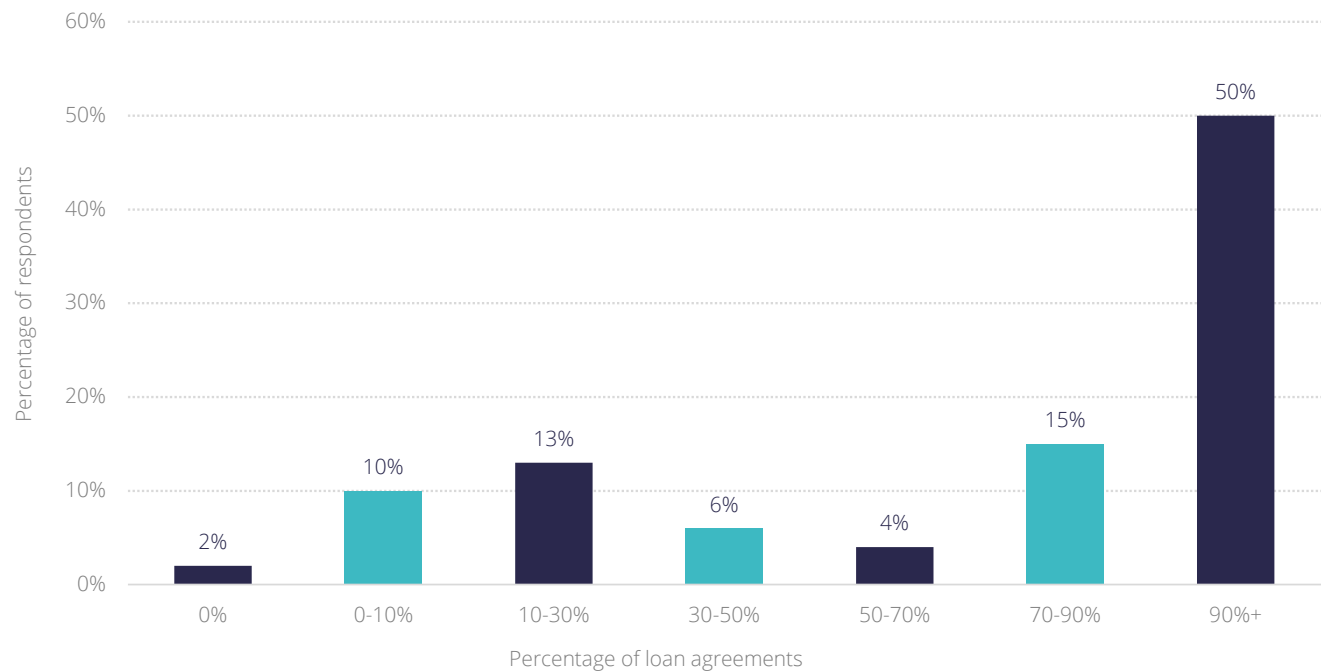
editions of this research, being the sole lender and having a strong relationship with the borrower has been a supportive factor in private credit loan documents generally retaining more lender protections than other credit markets over the past decade. As shown in Figure 27, the majority of loan agreements in respondents' portfolios retain two financial covenants. Covenants do not by themselves guarantee a good outcome, but they are an important risk management tool for lenders. While the share of cov-lite loans in the private credit market remains lower than in the BSL market (see Figure

28), these loans are more likely to be found in the part of the private credit market focused on larger corporates that competes with its more liquid counterparts.

As reported by Kirkland & Ellis (Figure 29), for loans sized below US\$250m, there has been continued decline in the share of cov-lite loans which now stands at only around 5% of the total. This is also reflected in ACC data (Figure 30) which shows significant differences between the largest 20% of managers and the rest when it comes to the proportion of their loan agreements with two financial covenants.

Figure 27:

What proportion of loan agreements in your corporate lending portfolio have at least two financial covenants? (ex. N/A)



“You cannot get all the things you want in the documents, but it is a balance. If you back quality credit, the documentation will not be as important because it will never be tested. You have to get your credit analysis right first and then the loan documents. Saying you have a covenant does not really mean that you have terms and a deal that work.”

Neale Broadhead, Partner, CVC Credit Partners



Figure 28:

Covenant-lite share of new-issue private credit vs. Broadly Syndicated first lien loans^{xv}

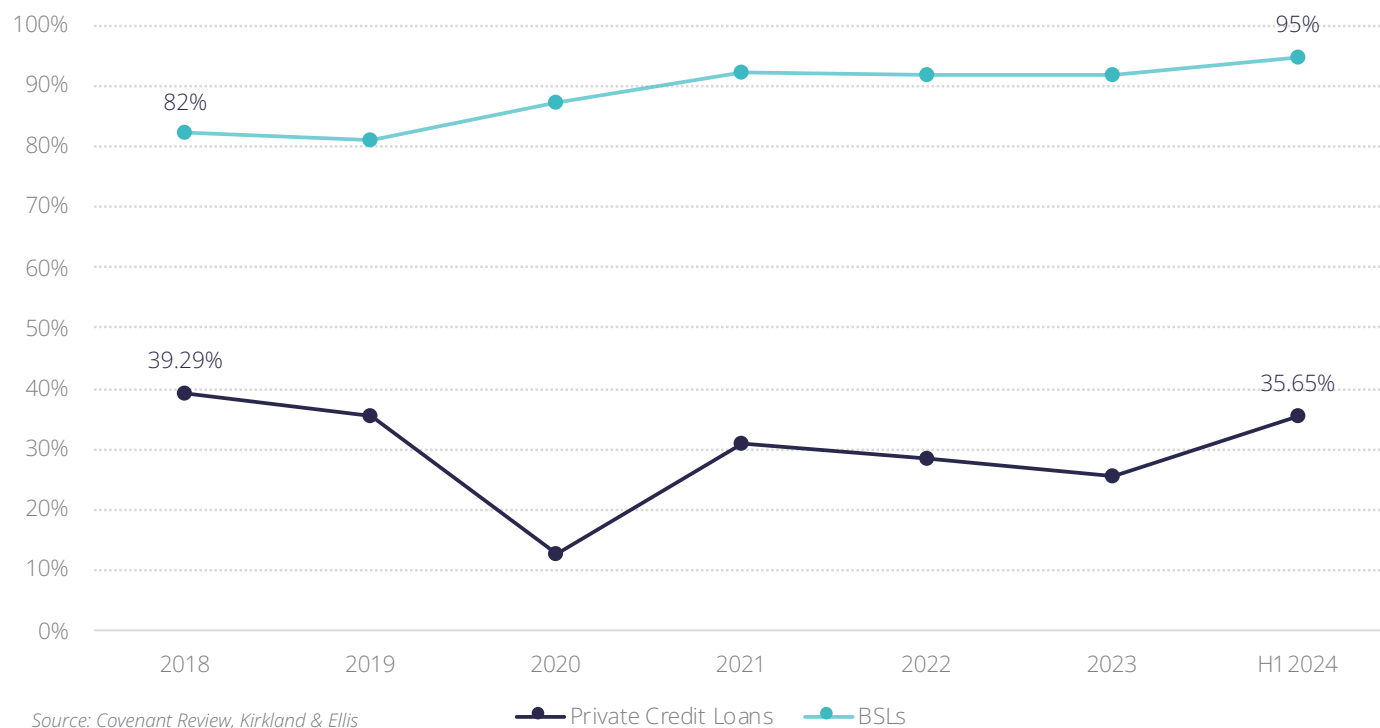
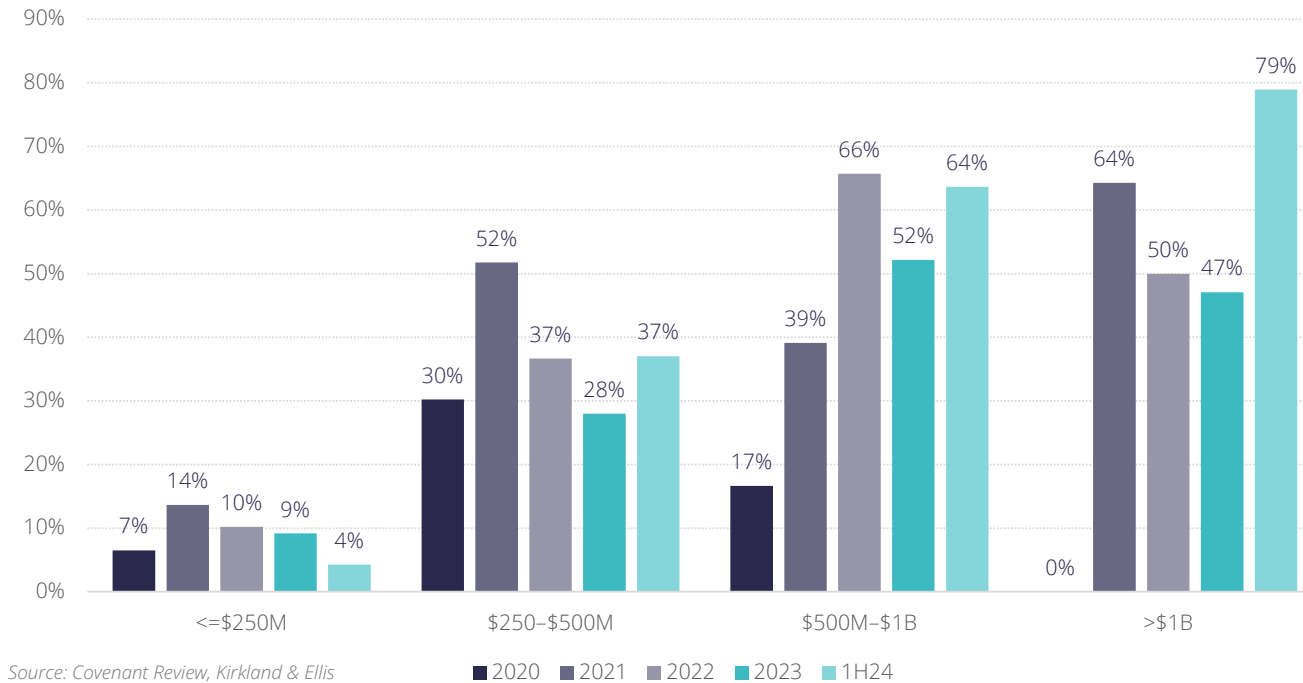


Figure 29:

Covenant-lite share of new issue private credit loans by initial loan amount, 2020 -YTD 2024



Source: Covenant Review, Kirkland & Ellis

“You really need to focus on workout capabilities. It doesn’t happen a lot but when it does happen it’s important to have the capabilities and be able to make money in those situations.”

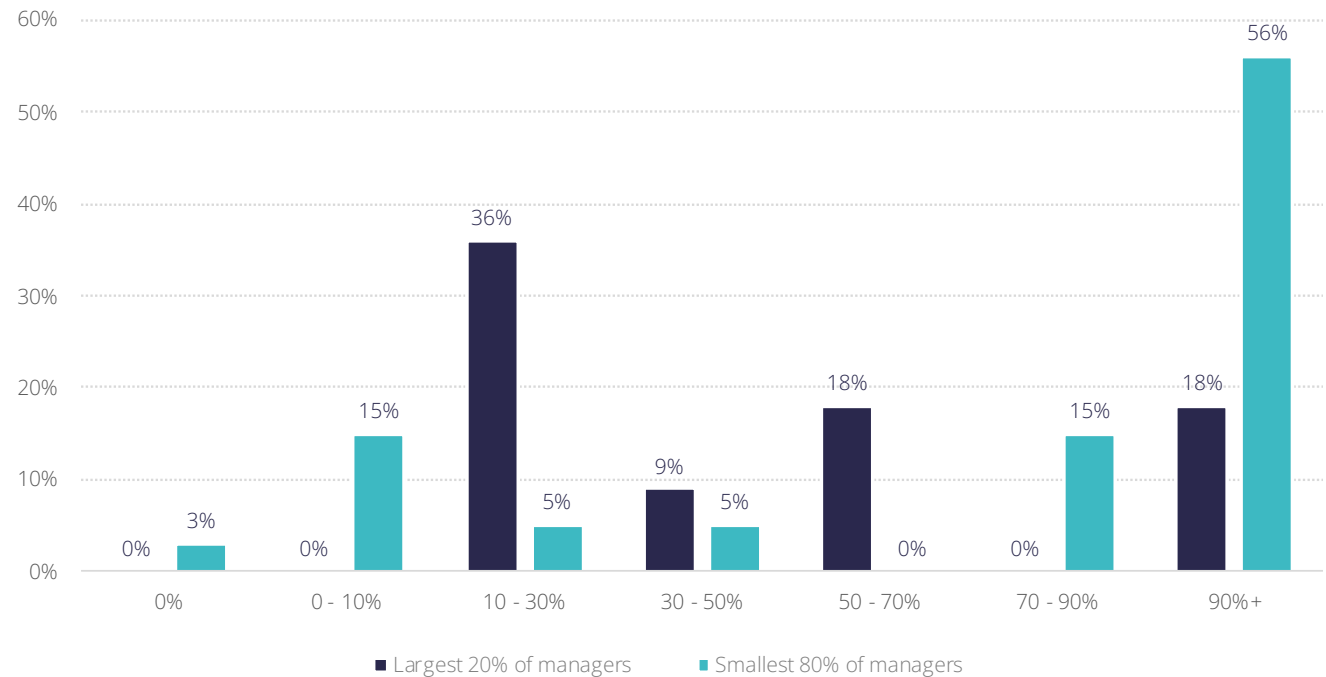
Daniel Leger, Managing Director and Head of Marketing and Investor Relations, MGG Investment Group

“As long as you have the right staff and expertise, an underperforming private credit deal doesn’t have to lead to an invariably bad outcome for us as lenders. Managers should be able to deliver value to their investors by realising recovery through restructuring.”

Blair Jacobson, Partner, Co-Head of European Credit, Ares

Figure 30:

Proportion of loan agreements in corporate lending portfolios that have at least two financial covenants, split by largest 20% and smallest 80% of managers^{xvi}



“Private credit lenders have a better ability than banks to convert a debt position into an equity position if the company gets into trouble.”

Stuart Fiertz, Co-Founder, President & Head of Responsible Investment, Cheyne Capital

“The larger players, who last year were focused on mid to large cap transactions, are now turning back to mid-market and lower mid-market transactions due to the limited large cap opportunities. This has led to heightened competition in these segments, with spreads and leverage levels becoming more aggressive as everyone chases the same deal.”

Cécile Mayer-Lévi, Head of Private Debt, Tikehau Capital

The prevalence of covenants in the market also means that the potential for Liability Management Exercise (LME) activity is typically seen as lower risk in private

credit. While club deals are on the rise, many private credit funds remain the sole lender which, alongside stronger documentation, means there are fewer

opportunities for some of the activity seen in other credit markets.

“I would be surprised if documentation in Europe’s core mid-market allowed moving company assets around. The average deal in Europe is much smaller vs. the US with tighter documentation, so we have not seen any creditor-on-creditor violence happen in Europe.”

Blair Jacobson, Partner, Co-Head of European Credit, Ares

“We just don’t see a lot of opportunities in the mid-market for LME because there is not a lot of room to move assets around. You cannot ‘M the L’ in the core- and lower-middle markets, because the terms and covenants are very tight. Managers are working hard to preserve their ability to have covenants in place and that lenders come in under the same terms.”

Putri Pascualy, Senior Managing Director and Client Portfolio Manager for Private Credit, Man Varagon

“I think Europe is different in this regard in that the structure of loan documents is different and typically contains an intercreditor deed. Directors’ duties in Europe also make things harder and a number of European jurisdictions actually create an environment where if directors don’t do the right thing, there can be serious repercussions.”

Robin Doumar, Founder and Managing Partner, Park Square Capital



Focus on leverage

Our survey data and interviews indicate that leverage levels in private credit funds have increased mildly in the past year but remain modest overall. As per Figure 31, 51% of survey respondents still report using between 0.1x and 1.5x of investment leverage, while 31% report using no leverage at all.

Comparing this data with prior years illustrates how leverage levels in private credit have remained broadly consistent for nearly a decade (see Figure 32), with around 80% of the market being unlevered or using

less than 1.5x of the fund equity, and between a third and half of corporate lending funds operating on an unlevered basis over that period.

The consistency of this picture over time suggests that the structure and dynamics of the market does not incentivise managers to use increasing amounts of leverage – despite the tremendous growth in size of the industry. Investor appetite is the primary constraint in this respect, with many LPs continuing to allocate capital to unlevered or modestly levered strategies.

When discussing this finding with managers, many noted that even though investors have become more familiar with the value that leverage can provide, as well as the operational and risk management considerations associated with it, using large levels of leverage is not seen as compatible with the types of returns investors are seeking. The pattern of ACC data over such a long period also suggests that it is unlikely that leverage levels will increase substantially in the future.

Figure 31:
How much investment leverage (borrowing against portfolio assets to finance additional lending) does your most levered private credit fund employ (unit of debt per unit of equity)? 2023 vs. 2024

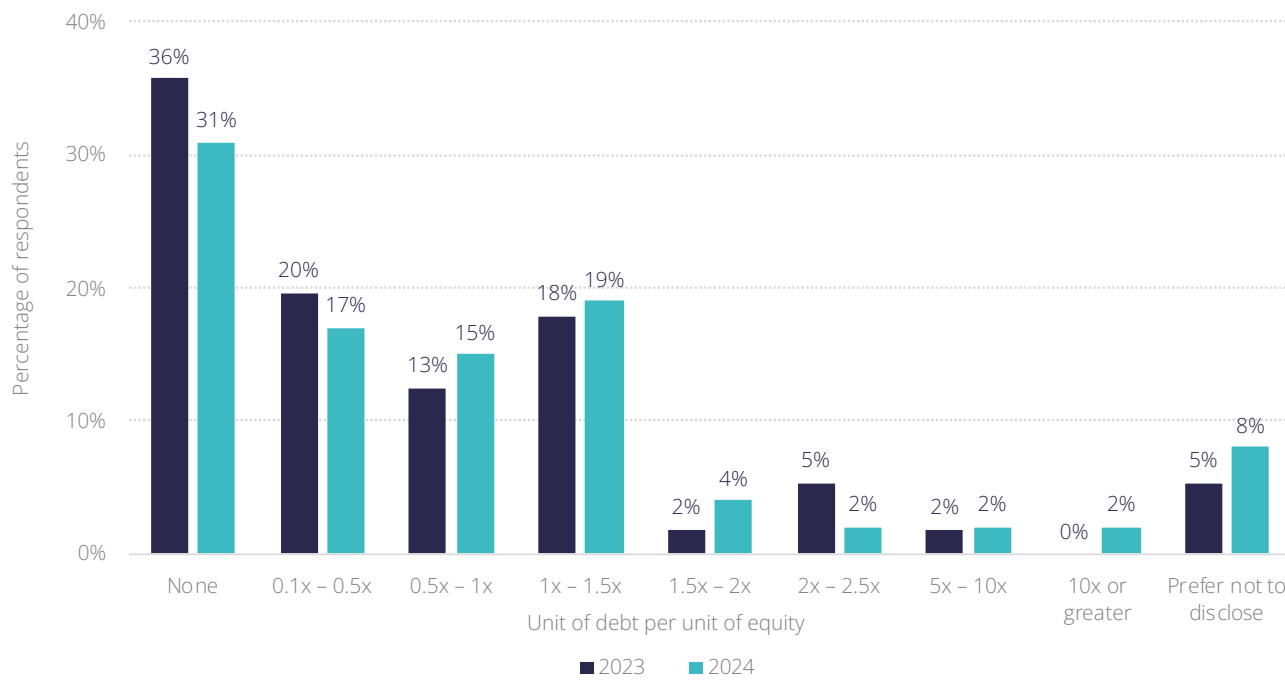
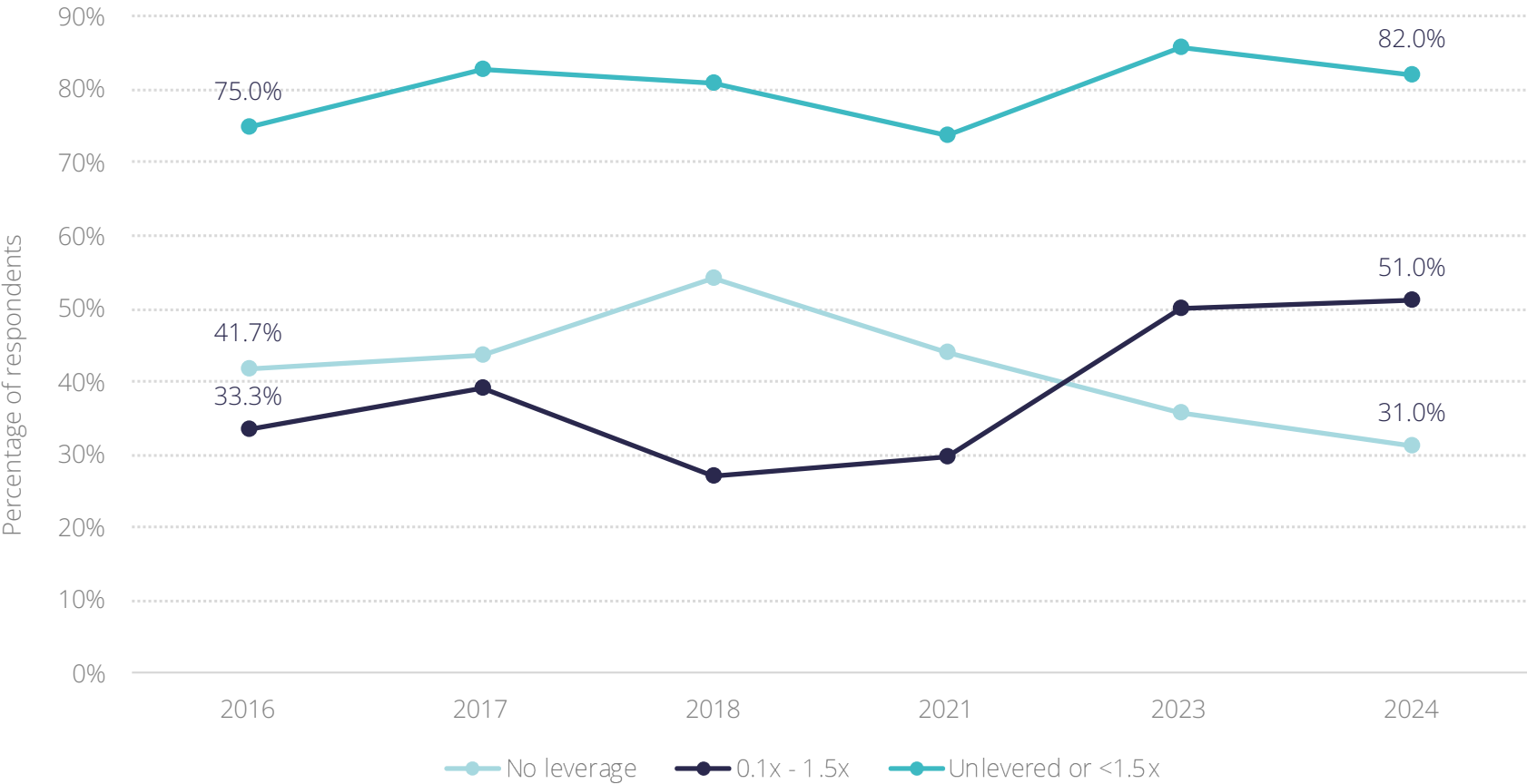


Figure 32:

Time series of leverage levels in the private credit market, based on responses to historic FTE surveys



ACC data shows that subscription lines remain the most common use of financing ahead of investment leverage (see Figure 33). Banks continue to be the main provider of finance (see Figure 34). Some interviewees reported banks being more selective about their client base or looking to use a financing relationship as a means to sell other products, or develop a broader relationship with the manager. Interviewees also noted that banks demand regular reporting as well as various triggers in the documentation that can lead to additional reporting or requirements for the private credit manager to take remedial action.

“At the working level, banks and private credit are one ecosystem. We are their clients and work hand in hand with them, and they very much understand what is happening and where they can provide value. It really is a symbiotic relationship.”

Justin Plouffe, Deputy Chief Investment Officer for Global Credit, The Carlyle Group

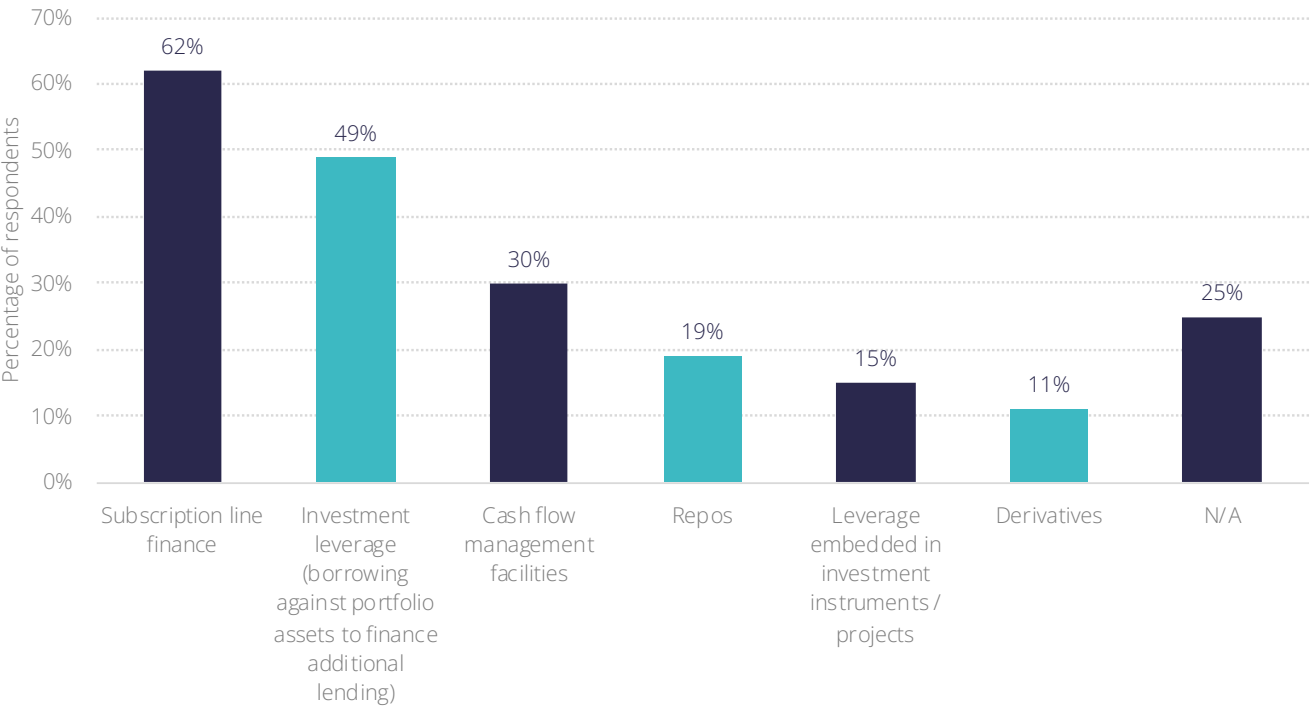
“We want our leverage providers to be educated and know what they are doing. Banks are not running blindly into this asset class.”

Neale Broadhead, Partner, CVC Credit Partners

As discussed in more detail in *Financing the Economy 2023*, whether lending against LP commitments or fund assets, banks’ exposure to funds remains a lower risk form of lending for the bank compared to lending to the underlying borrowers directly. The seniority and significant over-collateralisation of their positions means there is a significant financial cushion that must be depleted before they are exposed to any risk of losses. Managers also generally arrange the borrowing facilities in a way that matches the profile of the assets and minimises potential liquidity mismatches.

While banks remain the main provider of finance to private credit funds, other alternatives are emerging. This includes insurance companies and the bond market, both of which are more prominent providers of finance to survey respondents than in previous years.

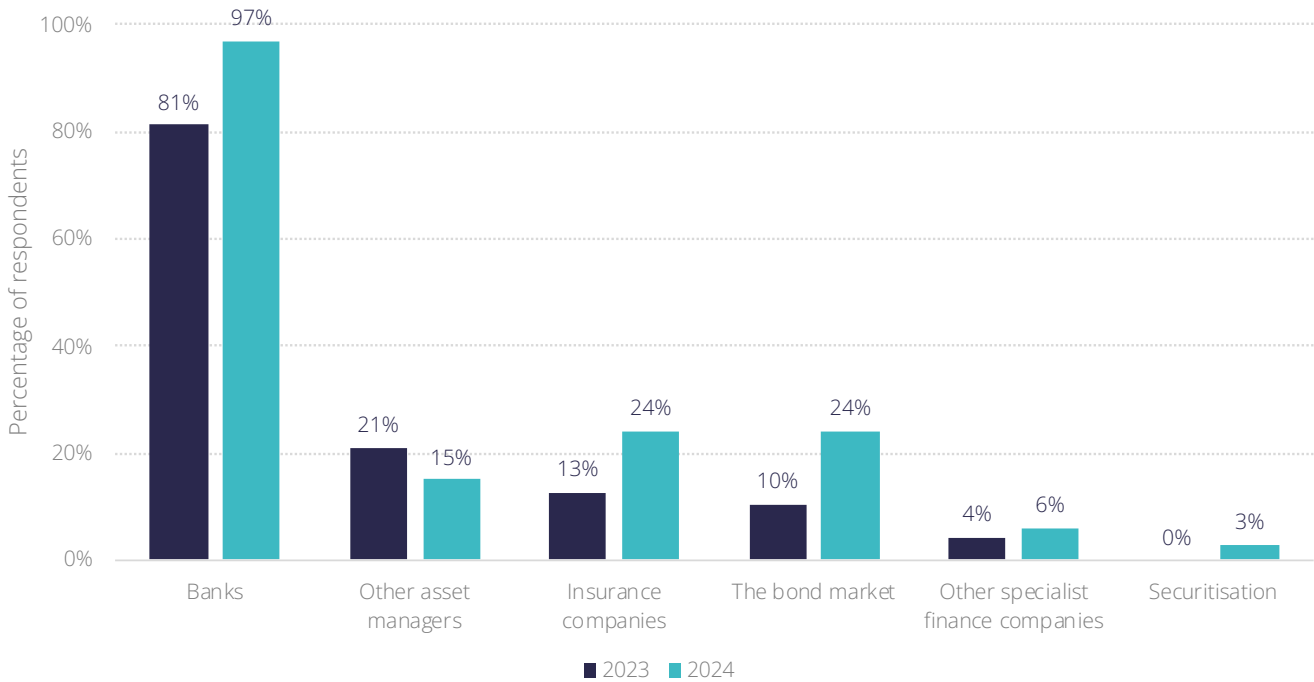
Figure 33:
Which of the following types of financing/leverage does your firm use with respect to your private credit strategies? (select all that apply)



“For banks, financing a portfolio of senior loans is a much more attractive use of regulatory capital than holding the assets directly.”

Blair Jacobson, Partner, Co-Head of European Credit, Ares

Figure 34:
Who do you use as providers of leverage/financing to your funds (select all that apply)? 2023 vs. 2024

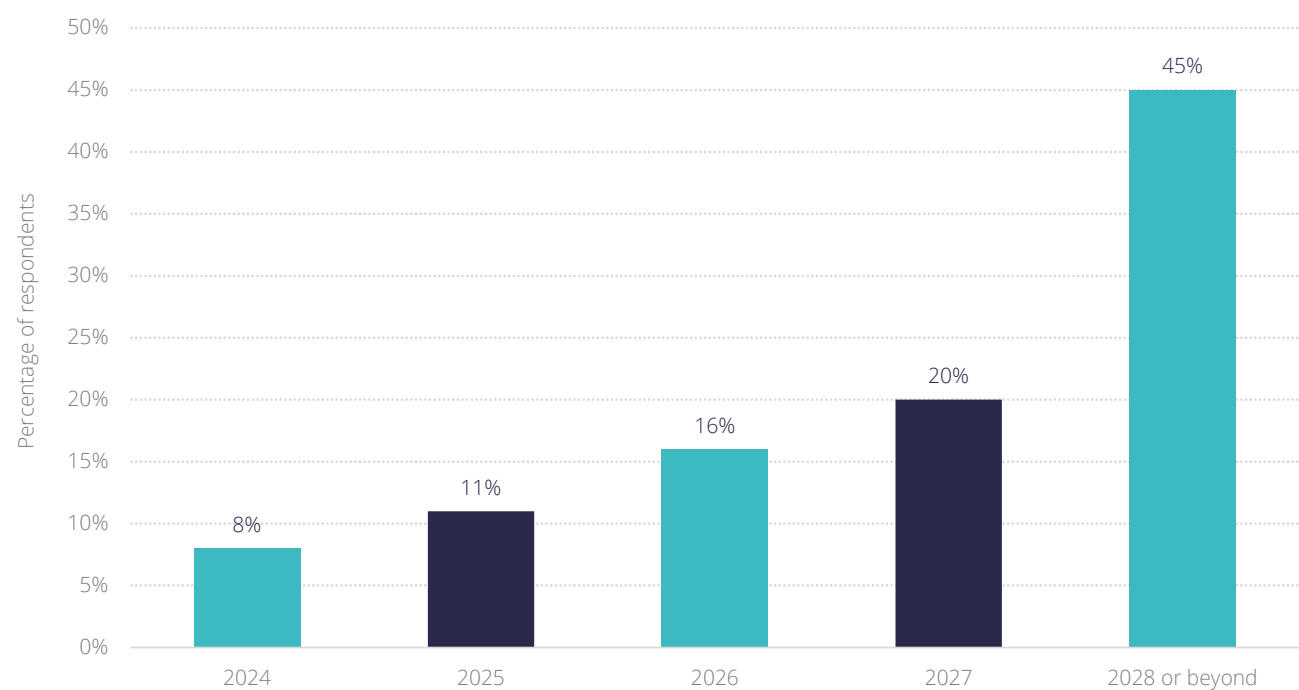


Refinancing and the maturity staircase

While some investors and policymakers have expressed concerns over the potential for a maturity wall to create challenges for borrowers and lenders, ACC data (see Figure 35), shows that the ‘maturity wall’ is more akin to a staircase. While this data does not illustrate the potential ease or difficulties associated with the refinancing needs, it does seem clear that there is unlikely to be a refinancing cliff edge or potential liquidity crunch for borrowers in coming years.

When discussing this point, private credit lenders highlighted how future refinancings are also a key source of deployment opportunities.

Figure 35:
Weighted average percentage of respondents’ corporate lending portfolio maturing each year (weighted by manager AuM; ex. N/A)



Chapter 5:

Private credit
is a core and
growing part
of investor
portfolios



Key takeaways

- LPs continue to be more sophisticated in how they gain exposure to the asset class and their expectations with respect to product design and risk management practices.
- Transparency remains a key differentiator for investors when assessing managers. 74% of managers report on their portfolios on a quarterly basis, with 24% doing so on a monthly basis. 90% of respondents report valuing their loans either quarterly or more frequently, and the majority of respondents report using external valuation expertise on a regular basis.
- Fundraising has begun to stabilise and improve in 2024 after the relative slowdown of the past few years. Industry data suggests that many investors remain under-allocated to private credit and that concerns regarding the performance of private credit are receding.
- Retail clients are a growing source of capital for private credit funds, but progress is slow outside the US. Regulatory certainty over new investment vehicles in Europe should accelerate interest in the asset class by retail investors.
- Investors continue to evaluate how the growth and consolidation of the market might impact incentives to managers and their overall performance.

Private credit has now become a core allocation in the portfolios of most investors. LPs continue to be more sophisticated in how they gain exposure to the asset class and expect more from their relationship with GPs with respect to product design, risk management practices and transparency. While many of these are perennial comments, interviewees highlighted some key trends that investors are monitoring closely:

- The ownership structure of managers and their succession plans to ensure that the dynamics and incentives which have helped managers to perform well do not change.

“When it comes to prospective investors, we spend a lot of time in differentiation. Five years ago, the work was about educating investors about private credit, now it’s about differentiating yourself from competitors.”

Patrick Linneman, Managing Director, Blue Owl Capital

“We are perfectly happy with LPs’ desire to co-invest because it is good for everybody, but there are institutional challenges to the ability of LPs to co-invest because they are not organised the way that managers are.”

Peter Lockhead, Co-Head of Senior Debt Partners, ICG

- The impact of new managers entering the market, particularly those that come from outside of existing private credit firms, now that the asset class has a higher profile.
- The growth of specialised or niche strategies within existing corporate lenders targeting specific industrial sectors or markets.
- How the concentration of the market within a relatively small group of managers may affect the incentives for managers and the overall growth of the market.

“Co-investment is becoming increasingly prominent, especially with sophisticated investors who have already established their presence in the market. Now they are looking for opportunities to co-invest alongside us, leveraging our expertise while having more control over specific allocations. This trend has really intensified over the last couple of years.”

Cécile Mayer-Lévi, Head of Private Debt, Tikehau Capital

Fundraising outlook is positive

2023 was a slower year for fundraising due to a tougher macroeconomic environment and lack of exits by private equity funds, but the outlook for 2024 is somewhat brighter. Some managers reported that they had adjusted their fundraising schedules in response to the challenges, for example by extending timelines or reducing capital raising targets accordingly, albeit some firms notably have continued to raise large volumes of capital during the past twelve months.

More recent data suggests that the fundraising challenges of the past few years are now easing and

investors are once again increasing their allocations to private credit strategies. PDI reports that the downward trend in fundraising from 2021-23 is on track to reverse with the capital raised between Q1-3 during 2024 being slightly up on the same period during the prior year (see Figure 36). While many investors have a core allocation to the asset class, here PDI data highlights that several investors in the US and Europe remain under allocated to private credit.^{xviii} Preqin also finds that most investors still have appetite for more private credit,^{xix} with insurers in particular looking to increase allocations to sub-investment grade and investment-grade private credit.^{xx}

“Private credit fundraising has shown significant improvement compared to 2023, with some specific strategies like infrastructure investments and European impact funds attracting more capital than others. As private credit’s investable universe continues to expand, I expect we will see new opportunities arise particularly in these areas, as well as in secondaries and thematic private credit.”

Deborah Zurkow, Global Head of Investments, Allianz Global Investors

“We are now in an interest rate environment closer to historic norms than we have been in the past ten years, which allows us to demonstrate our differentiated skill set.”

Todd Molz, Chief Operating Officer, Oaktree

“There are downward pressures not just on the quality of assets in some segments of the market, but also on the resources given by investors to managers. Investors keep insisting on lower fees, which reduces the staff, resources, infrastructure and ultimately the alpha generated by the company.”

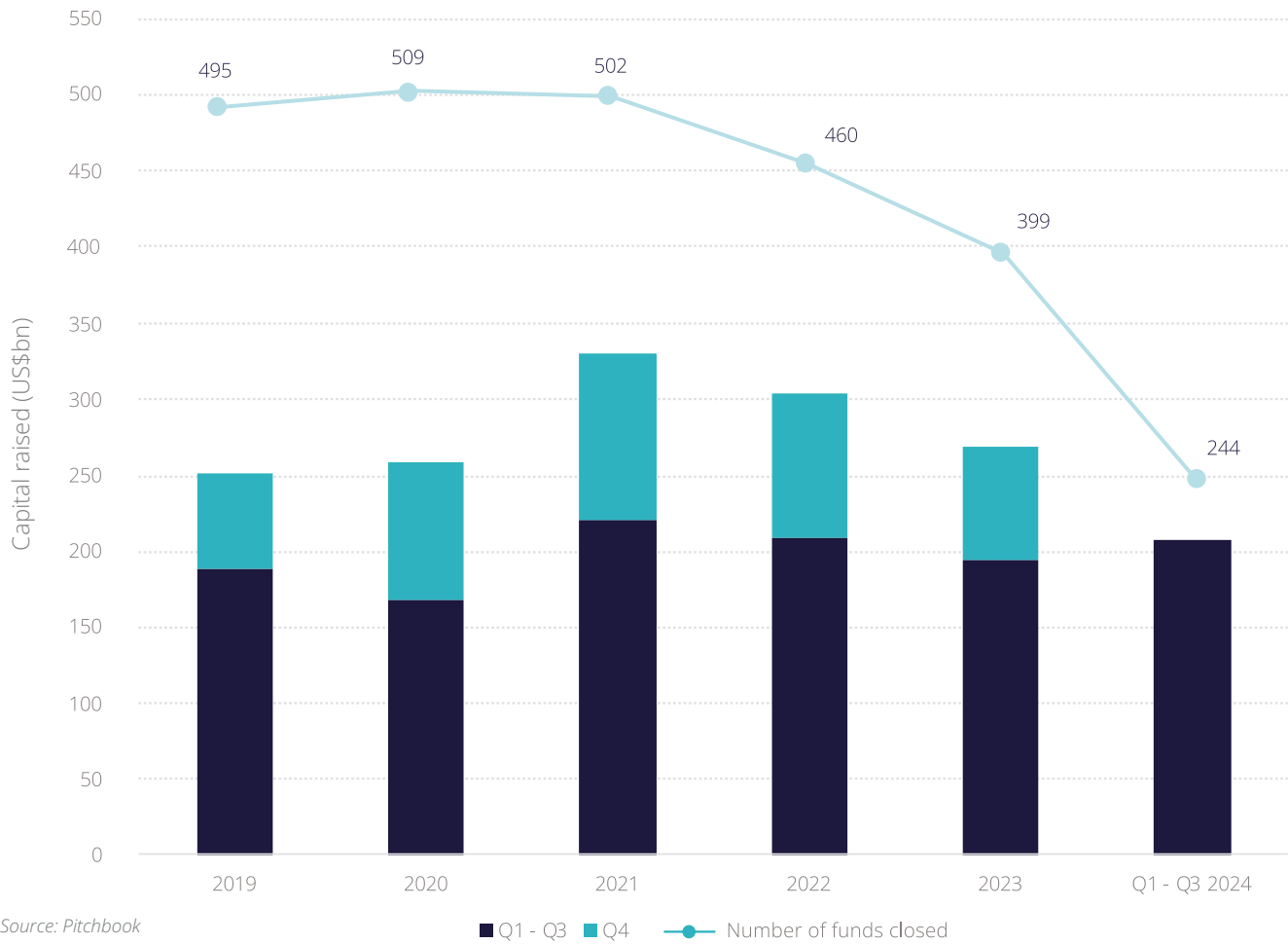
Stuart Fiertz, Co-Founder, President & Head of Responsible Investment, Cheyne Capital

“I have spent much less time during the last fund raise explaining what private credit is. LPs are now much more sophisticated.”

Peter Lockhead, Co-Head of Senior Debt Partners, ICG

Figure 36:

Private credit historical fundraising^{xvii}



“Direct lenders must be able to play in a group alongside others. Compared to five years ago this is much more acceptable and requested by borrowers and investors now.”

Helene Barikmo, Vice President Deal Team, MV Credit

“For us, performance has been as expected and private credit has been a great allocation. However, I do believe that this is a market with a lot of new investors that may not fully grasp the risk-benefit profile of the asset class.”

Fernando Martínez, Managing Director Private Credit, Investment Management Corporation of Ontario

Private credit and retail capital

Outside of the US, retail investors continue to be a relatively nascent client type for private credit managers. For example, one interviewee estimated that private credit only has a 2%-3% penetration in private wealth, but firms are increasingly targeting wealth channels across the globe.

In Europe, regulatory certainty around ELTIF and LTAF should aid the sector's growth amongst retail clients. Outside of these dedicated fund types, managers are also finding innovative ways of accessing retail capital, for example through public-private credit ETFs or in partnership with other asset managers.^{xxi}

In our interviews, managers were cautiously optimistic about the potential of retail capital, but they also provided some important caveats to that view particularly around the opportunity cost when marketing to retail clients. To attract retail capital, marketing efforts need to bear in mind that the key competitors are traditional 60/40 strategies and firms

need the right operational structures and processes in place to deal with retail investors at scale. Operational challenges around valuations must also be managed, particularly in liquid or semi-liquid funds where there is monthly or more frequent liquidity, but valuations are carried out on a quarterly basis in line with the standards of the asset class.

Vehicles suitable for retail investors are also more complicated than professional private credit funds when raising and investing capital. For example, retail capital gets raised right away but the timing might not be right for deployment, which creates cash management problems. These pressures and different incentives need to be managed to avoid undermining the quality of deals and underwriting. Ensuring retail clients have adequate information and disclosure of redemption practices also remains a challenge, given their liquidity needs will differ from many institutional investors.

“Europe’s multiple jurisdictions and regulatory frameworks make capital formation more complex compared to the US. We believe managers with strong local footprints, powerful origination engines, and optimal vehicle structures are well-positioned to capitalize on the significant demand from institutional and, increasingly, individual investors for private credit. We expect our activity in the region to scale meaningfully in the coming years.”

Mike Carruthers, Senior Managing Director and European Head of Private Credit, Blackstone Credit and Insurance

“Democratisation is a positive move for investors and for the markets, but we must not ignore its challenges - it is critical that every asset manager acts responsibly, especially during the formative stages, when regulatory frameworks are still developing and investor education is crucial.”

Deborah Zurkow, Global Head of Investments, Allianz Global Investors

“Unit linked products with underlying private debt investment have been a catalyst to open the investors’ universe to retail market. The fast evolving shift to semi illiquid (or semi liquid) structures and to evergreen vehicles highlight a major transition to private credit considered as mainstream.”

Cécile Mayer-Lévi, Head of Private Debt, Tikehau Capital



“The operations of these retail products are different to drawdown vehicles or separate accounts. You have monthly inflows, including daily subscriptions, you have the prospect of quarterly redemptions up to 5% of NAV and you are also typically paying a monthly distribution. Operationally you have more movements and more investors.”

Eric Muller, Partner, Oak Hill Advisors

“The underlying asset class is less liquid than the vehicles. As a manager you do not want to be in a position where you are a forced seller to meet redemptions. You have to manage these vehicles with liquidity in mind in order to meet redemption needs, whether this is through anticipating inflows, through notional turnover in the book in terms of repayments, or managing through credit facilities.”

Eric Muller, Partner, Oak Hill Advisors

“There is a risk of negative headlines if redemption gates are used and investors are limited in their redemptions, even if the vehicles are functioning as they are supposed to.”

Eric Muller, Partner, Oak Hill Advisors

Transparency

The growth of the industry has increased interest amongst policymakers who, in parallel with investors, are seeking more transparency about the asset class. Regulators have added this to their list of concerns about private credit, which includes interconnectedness with the financial system, the use of leverage, potential liquidity mismatches and valuations.

While regulators already have considerable transparency into private credit from the reporting that asset managers in their respective jurisdictions provide to them on a regular basis, a common refrain is that they lack a global view or at least a consolidated view of private credit activity in their own jurisdiction.

The shortcomings of the current regulatory frameworks in this respect mean that policymakers only see part of the market – specifically that related to managers established or regulated in their jurisdiction. This limits the usefulness of this data for the purposes of financial stability monitoring because the industry deploys significant amounts of capital on a cross-border basis. This issue cannot be resolved with ever increasing detail being asked of asset managers by their respective regulatory authorities but by regulators improving convergence in reporting standards and data exchange.

For example, a UK asset manager with loans and investments in the UK, EU and US might only report on its portfolio to the UK FCA. Similarly, a US-based manager lending into the UK and the EU is likely to report only to the SEC. The fact that it is difficult for

individual jurisdictional regulators to share data on individual funds and managers means that while the overall data is reported to one regulator or another, the picture for each individual jurisdiction remains fragmented and incomplete. This is worsened by the fact that, as reforms in the US and the EU on fund manager reporting indicate, we are likely to see further divergence in the type of data requested of asset managers, further worsening the situation as regards comparability and the ability to conduct a global analysis even in an environment of better information exchange.

When it comes to investor transparency, our survey and conversations with industry participants shows that the data managers receive from borrowers and make available to investors is comprehensive and detailed. The majority of respondents to our survey receive monthly reports (see Figure 37) and generally have regular dialogue with their borrowers. Receiving monthly information contrasts favourably with the quarterly frequency of public company reporting. As per Figure 38, we see that three quarters of lenders report to investors on a quarterly basis with a quarter of respondents doing so even more frequently. Both data points undermine the narrative that investors in private credit suffer from poor oversight of their investment or that there is an inherent opacity to the market.

Increased familiarity with the asset class and sharing of best practice amongst investors is also driving reporting standards across the market. This extends to ESG data that investors need for regulatory purposes or to satisfy

their beneficiaries, particularly in Europe. Furthermore, transparency is increasingly a key consideration within investor due diligence processes and ultimately their capital allocations.

“Some managers PIKing loans might be hiding issues in the portfolio, so we spend a lot of time monitoring that to make sure that the portfolio is as good as it looks.”

Sven Gralla, Fund Manager Private Debt & Infrastructure Equity, LBBW Asset Management

“Our independent valuations firms are aggressive in taking marks down if something goes sideways. Over time, this earns credibility with the LPs because they can trust the marks.”

Daniel Leger, Managing Director and Head of Marketing and Investor Relations, MGG Investment Group

“Private markets are not inherently opaque, there is a lot of information out there and these markets are not new. The structure of regulatory reporting may be different among banks, insurance companies and asset managers, but that does not mean that the data is not there, it may just not have been accessed in a way that is understood.”

John Golden, Partner and Global Head of Insurance Regulation, Apollo Global Management

“Just because you have pricing transparency in the public market, that does not necessarily transfer into transparency into the day-to-day performance of the borrowers. In private markets there is less pricing transparency, but lenders often have great degrees of transparency into the health and performance of the borrowers in the portfolio.”

Putri Pascualy, Senior Managing Director and Client Portfolio Manager for Private Credit, Man Varagon

“Quarterly reports are important to get a broad idea of the portfolio, but you don’t get an actual feeling of how the manager is doing by just reading the quarterly updates, you need to go straight into the company level data.”

Sven Gralla, Fund Manager Private Debt & Infrastructure Equity, LBBW Asset Management





“Even the most sceptical investors on the ESG front are now experiencing their own pressures to care about ESG, including from regulators.”

Helene Barikmo, Vice President Deal Team, MV Credit

“There are a few different levers to influence the adoption of ESG criteria, for example through the relationship we have with managers, as well as engaging with banks and aligning our efforts with what they are already doing.”

Katharina Lindmeier, Head of Sustainability Strategy, NEST

“LPs are asking for more and more reporting, particularly ESG. We also expect more regulatory reporting. Digitalisation allows us to filter ever growing data-sets, enabling better and more detailed reporting.”

Douglass Welch, Portfolio Management Conducting Officer, Pemberton Asset Management

Figure 37:

How often do you receive financial data from borrowers on their business?

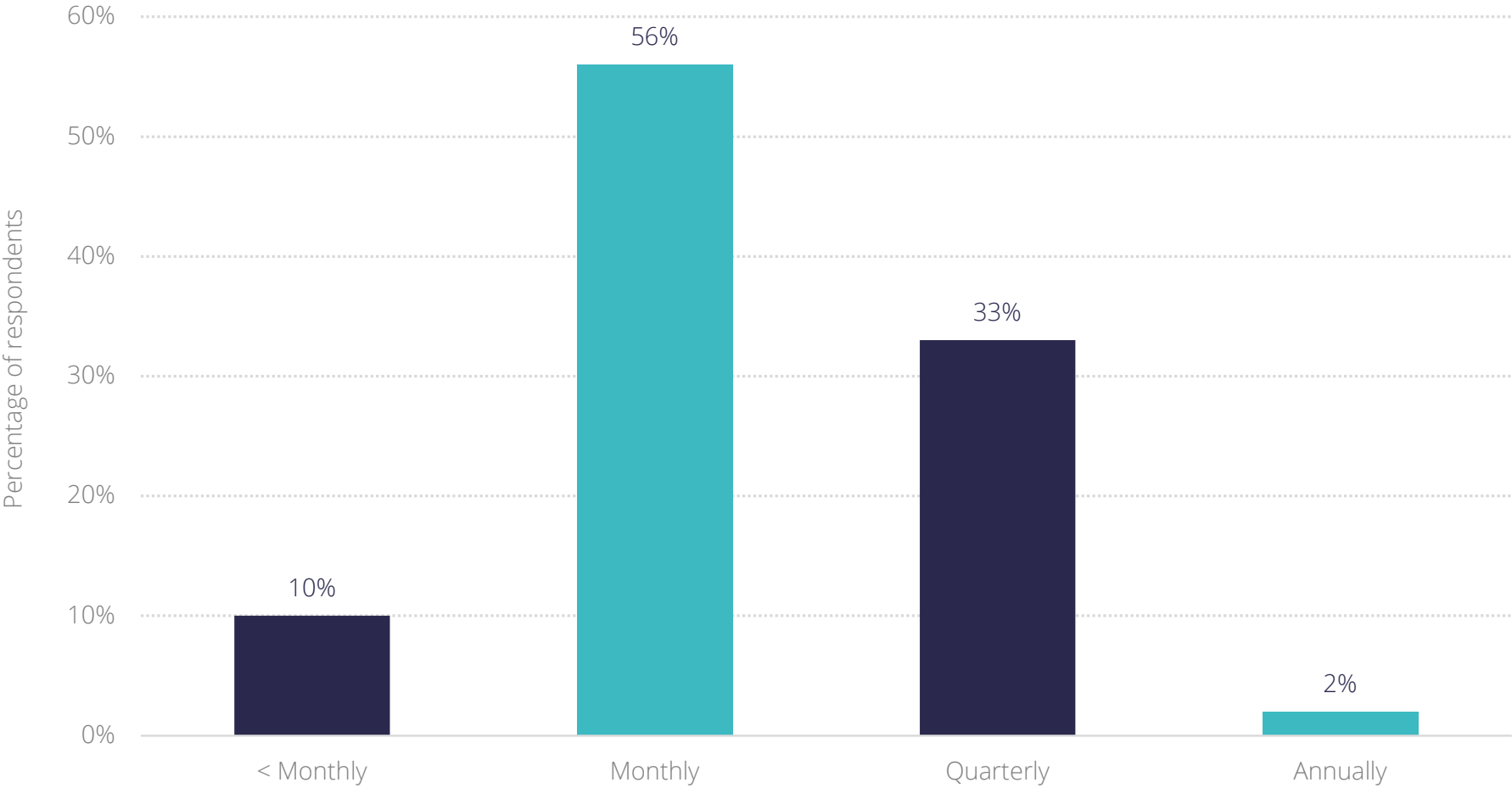
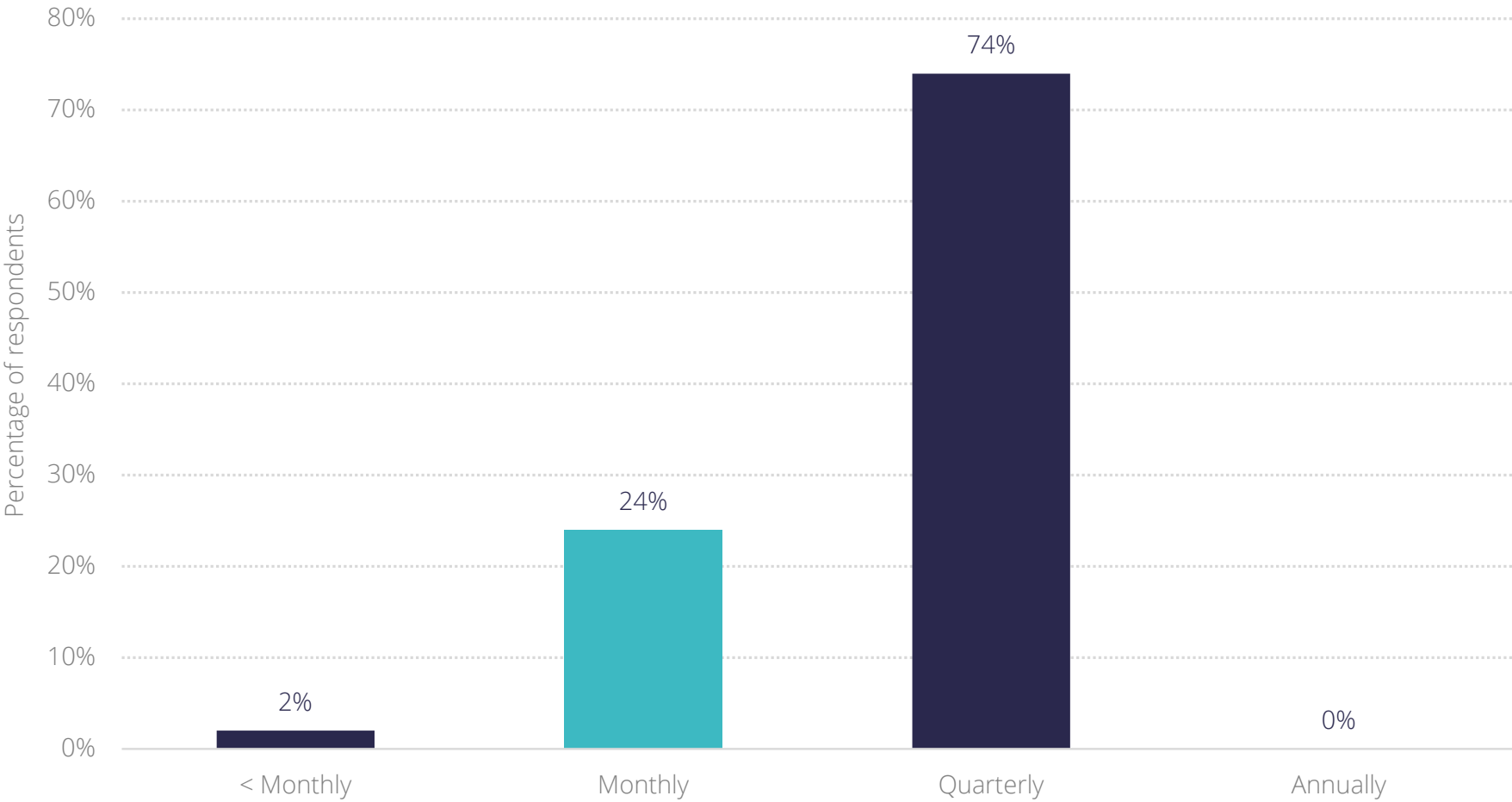


Figure 38:

How often do you report on your portfolio to your investors?



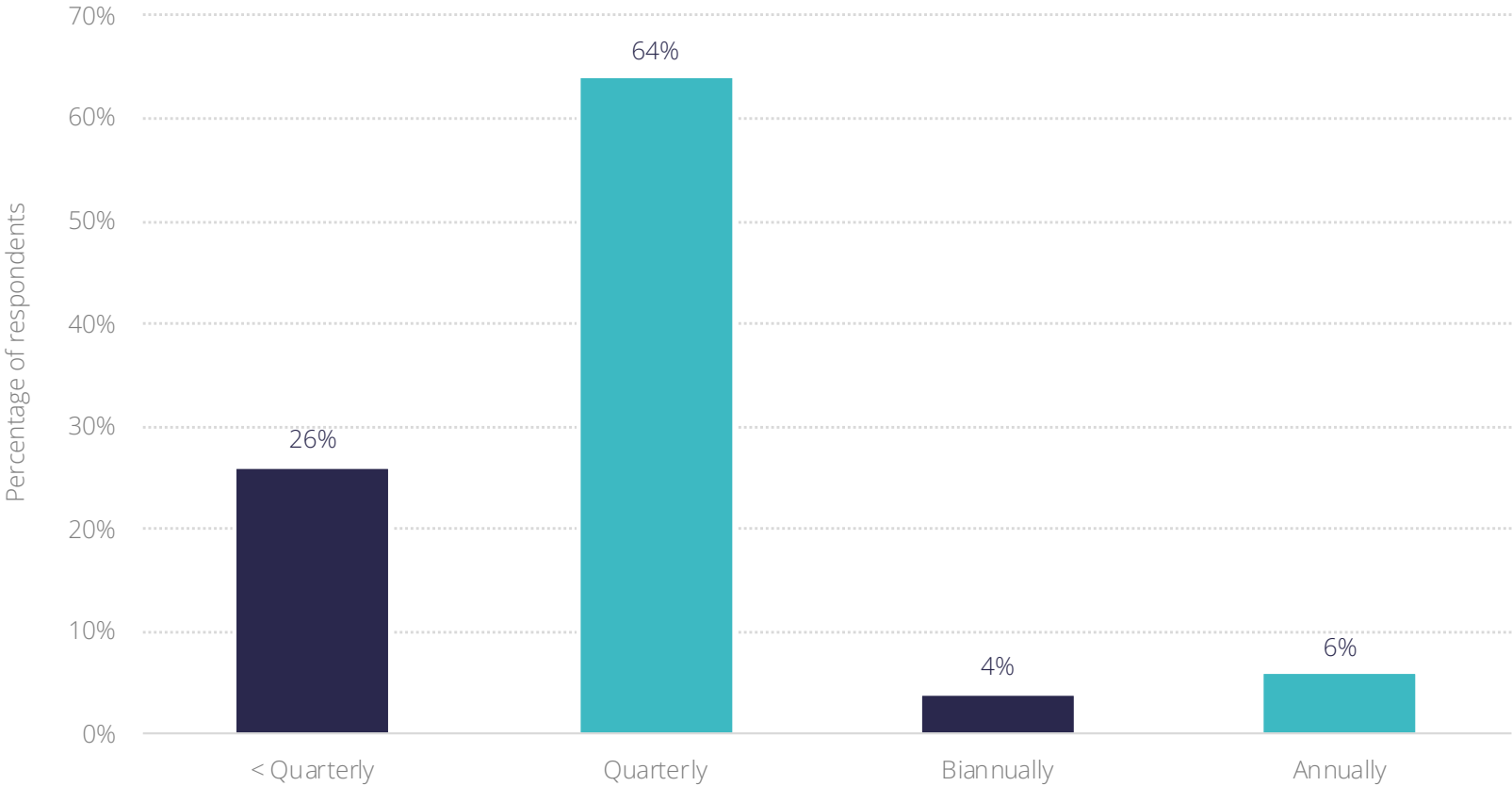
The focus on transparency also extends to valuation. LPs are spending more time assessing managers' valuation processes as part of their initial and ongoing due diligence. 90% of respondents report valuing their loans

either quarterly or more frequently (Figure 39) and the majority of respondents report using external valuation expertise on a regular basis (Figure 40).

“We work hard to ensure we do not end up in a position where we disagree with our external valuation agents.”

Todd Molz, Chief Operating Officer, Oaktree

Figure 39:
How often are loans in your portfolio valued?

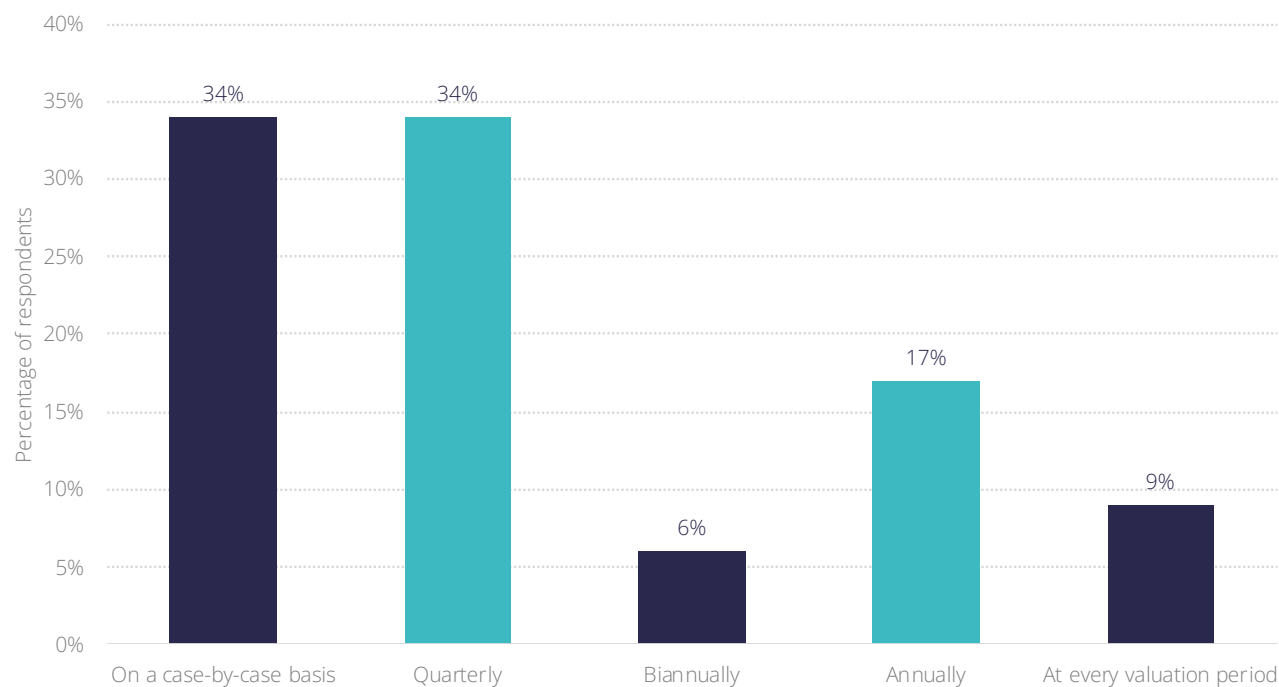


“We run a very rigorous valuation protocol. We conduct a quarterly valuation exercise that is crossed checked by third party assessments and then communicated to investors. We also run more regular valuation exercises for internal purposes.”

Marc Chowrimootoo, Portfolio Manager and Co-Head of Direct Lending for Private Credit, Hayfin

Figure 40:

How often do you employ external valuation expertise?



Concluding Remarks

The private credit market has firmly established itself as a global asset class, supporting businesses across sectors while delivering diverse and steady income streams to investors. With assets now exceeding \$3tn, private credit continues to meet the financing needs of a wide range of borrowers, from consumers and small businesses through middle-market enterprises to large-cap firms, real estate or infrastructure, reinforcing its critical role in the broader financial landscape.

A core strength of private credit is its resilience. Unlike other areas of finance, its rapid growth has not led to an increase in systemic risks through excessive leverage or liquidity mismatches. Counterparty risk to banks remains low, with loans typically supported by high levels of over-collateralisation, offering an extra layer of security. While higher interest rates have increased credit stress, leading to more defaults and restructurings, the impact appears manageable.

That said, the future is not without risks. A return of higher inflation or a spike in interest rates could place further strain on borrowers, potentially increasing defaults and eroding investor returns. Escalating geopolitical tensions could disrupt markets, impacting borrower performance. Finally, a severe economic downturn would test the resilience of even the most carefully structured portfolios.

Despite the existing and potential challenges, private credit remains attractive to investors for its consistent track record of predictable income and strong capital protection. As a mature asset class, it has shown the capacity to weather economic cycles, positioning it as a preferred choice for those seeking stable and attractive returns. As the market moves forward, vigilance and transparency to key stakeholders will be key in navigating potential headwinds.



Endnotes

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- ii Kirkland & Ellis, *The Bring Down Market Update July / August 2024*
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- vi [McKinsey Global Private Markets Review 2024](#)
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- xix <https://www.preqin.com/insights/research/trending-data/institutions-strive-to-reach-private-debt-ambitions>
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About ACC

The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US\$2tn of private credit assets.

The ACC is an affiliate of AIMA and is governed by its own board which ultimately reports to the AIMA Council.

ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure as well the trade and receivables business.

The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits.

Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.



About AIMA

The Alternative Investment Management Association (AIMA) is the global representative of the alternative investment industry, with around 2,100 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than US\$4tn in hedge fund and private credit assets.

AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry.

AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. The ACC currently represents over 250 members that manage over US\$2tn of private credit assets globally.

AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors).

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