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GLOBAL PRIVATE CREDIT IN A CHANGING CAPITAL MARKET

Why It Belongs in Portfolios - and How to Access It Well

A structural case for private credit: why it matters in modern portfolios, why its role should persist, and why outcomes depend on how it is built.

By Nehemiah Richardson, *CEO of Pengana Credit, part of the Pengana Capital Group.*

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EXECUTIVE SUMMARY

Private credit is attracting more scrutiny. This is understandable given that redemption headlines, concerns about semi-liquid structures, pressure in parts of the software ecosystem, and signs of later-cycle underwriting stress have placed the asset class squarely in the spotlight. While each raises an issue worthy of consideration, they should not obscure the larger point. Headlines come and go. The underlying role of the asset class in investment portfolios remains.

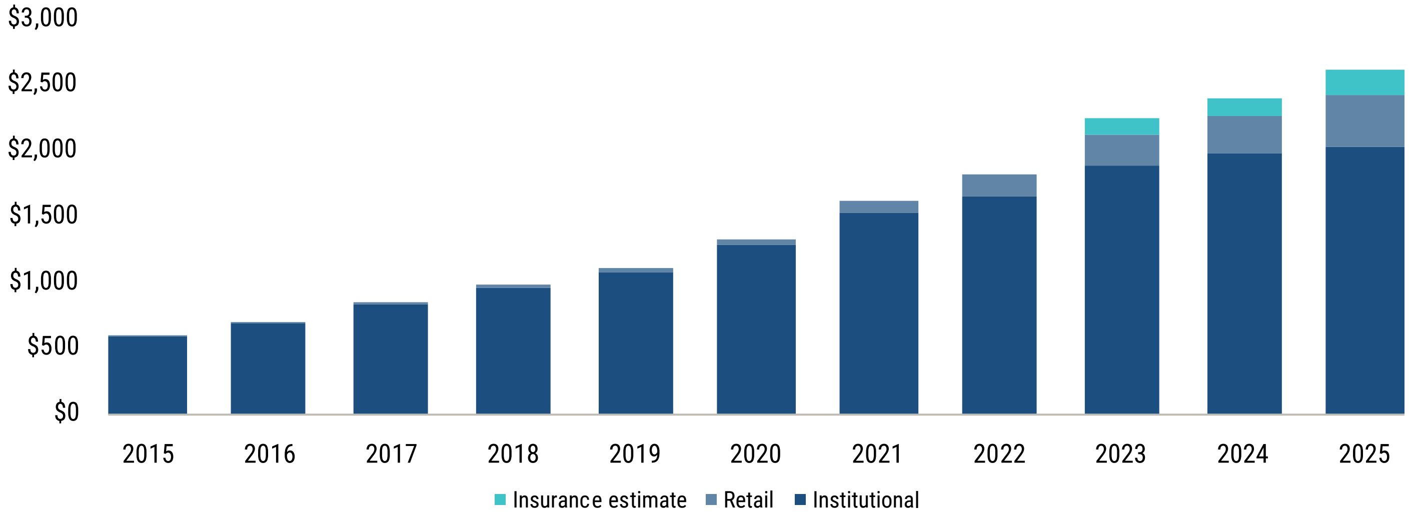
The growth of private credit and its attractiveness to investors is structural, not tactical. This growth is driven by two long-term trends. The first is a sequencing problem. Over the next 20 to 30 years, ageing populations, longer retirements, and the growing importance of self-funded savings will increase demand for investments that can contribute both growth and income resilience, coupled with capital preservation. The second is a capital markets problem. Public markets remain essential, and banks remain central to the financial system, but neither provides a complete answer to the full range of corporate financing needs or the full range of investor objectives.

Private credit sits at the intersection of these two shifts. It is not a temporary yield trade. It is a structural funding channel that has grown because the financing system has changed and investors recognise the value that contractual income, seniority, negotiated protections, and selective access to illiquidity can provide to portfolios.

The scale and trajectory of the asset class reflect this structural shift.

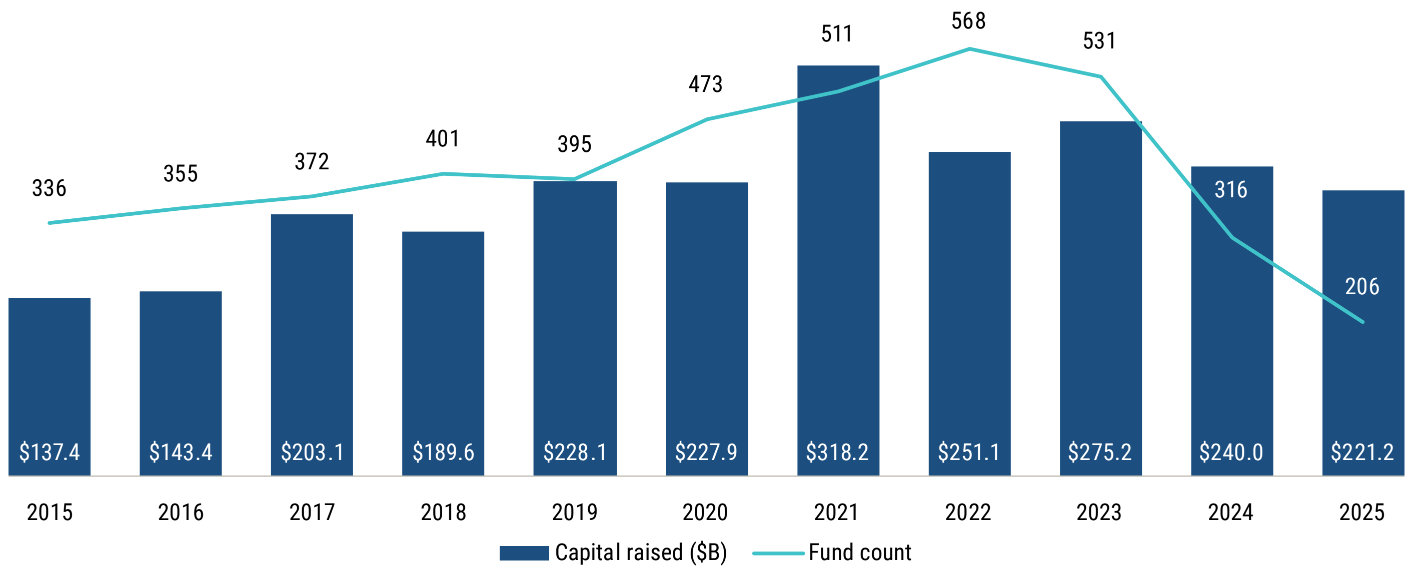
Nehemiah Richardson
CEO - Pengana Credit

Exhibit 1: Private debt AUM ($B) by channel, 2015-2025



Source: Pitchbook, Global. As of June 30, 2025 (Retail and Insurance figures are as of December 31, 2025)

Exhibit 2: Private debt fundraising activity showing capital raised and fund count



Source: Pitchbook, Global. As of December 31, 2025

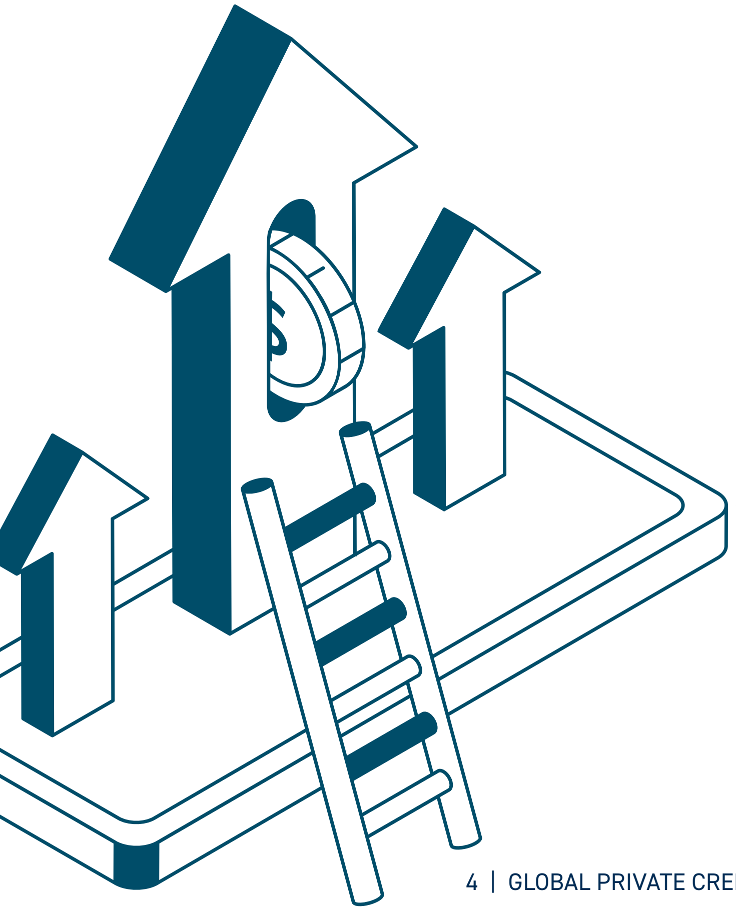
That is the strategic case for the inclusion of global private credit in a diversified portfolio. The more difficult question is how to access it well. Private credit is heterogeneous, manager-driven, and illiquid asset class. Outcomes depend on strategy selection, manager quality, portfolio construction, and liquidity alignment. In this market, access matters as much as allocation. That is why a global diversified private credit portfolio construction is more durable than a single-sleeve exposure, and why execution sits at the centre of the asset class.

1

THE 20-30 YEAR PORTFOLIO PROBLEM

The long-horizon portfolio problem is becoming more complex. For many investors, the task is no longer simply to maximise long-run growth and rely on traditional fixed income for ballast. Increasingly, portfolios are being asked to do several jobs at once: compound growth, generate usable income, remain resilient through volatility, and preserve capital over longer retirement horizons.

This shift changes what makes an asset useful. In a simpler framework, portfolios could be divided more neatly between growth assets and defensive assets. In practice, many investors now need something more demanding: assets that can still support return objectives, but that also offer greater reliability of cash flow with a stronger emphasis on downside protection.



This is one reason private markets matter more than they once did. A broader opportunity set becomes more valuable when the job of the portfolio becomes more demanding. When the requirement is growth plus income plus durability, the logic of looking beyond a purely listed-market toolkit becomes stronger.

Global private credit is highly relevant within that broader shift because it addresses the income and durability needs more directly than many other private market strategies. It offers the opportunity for income and resilient returns without giving up the disciplines of credit analysis, structural protection, and capital preservation.

2

WHY CAPITAL MARKETS ARE CHANGING

At the same time as investor needs are changing, the structure of capital markets has evolved.

Public markets remain vast, liquid, and indispensable. Banks remain core institutions. But together they are less complete than many portfolio frameworks still assume. Companies are staying private longer and their financing needs are becoming more varied. The need for speed, flexibility, confidentiality, or structural tailoring is often not available in syndicated or public channels. Banks, meanwhile, operate within shifting capital, regulatory, and balance-sheet constraints that shape what they are willing to hold and on what terms.

Cross-country evidence from the Bank for International Settlements confirms these dynamics empirically. Private credit's footprint is statistically larger in countries with lower policy rates, more stringent banking regulation, and less efficient banking systems. The growth of private credit has been driven, at least in part, by a relative improvement in its cost of funding compared to banks, as well as by the genuine ability of private lenders to serve firms underserved by traditional channels.

The conclusion is that capital markets have become more diverse and the options relevant for both the suppliers and users of capital have expanded. Public markets, banks, and private capital increasingly operate as complements rather than substitutes. Private markets are now embedded in how the financing system works. They play a critical role financing the parts of the economy, and the parts of the corporate lifecycle, that are less naturally served by standardised public channels or banks. This structural role will persist.

3

WHY PRIVATE CREDIT MATTERS WITHIN THAT SHIFT

Private credit provides a clear and important bridge between changing capital markets and changing portfolio needs.

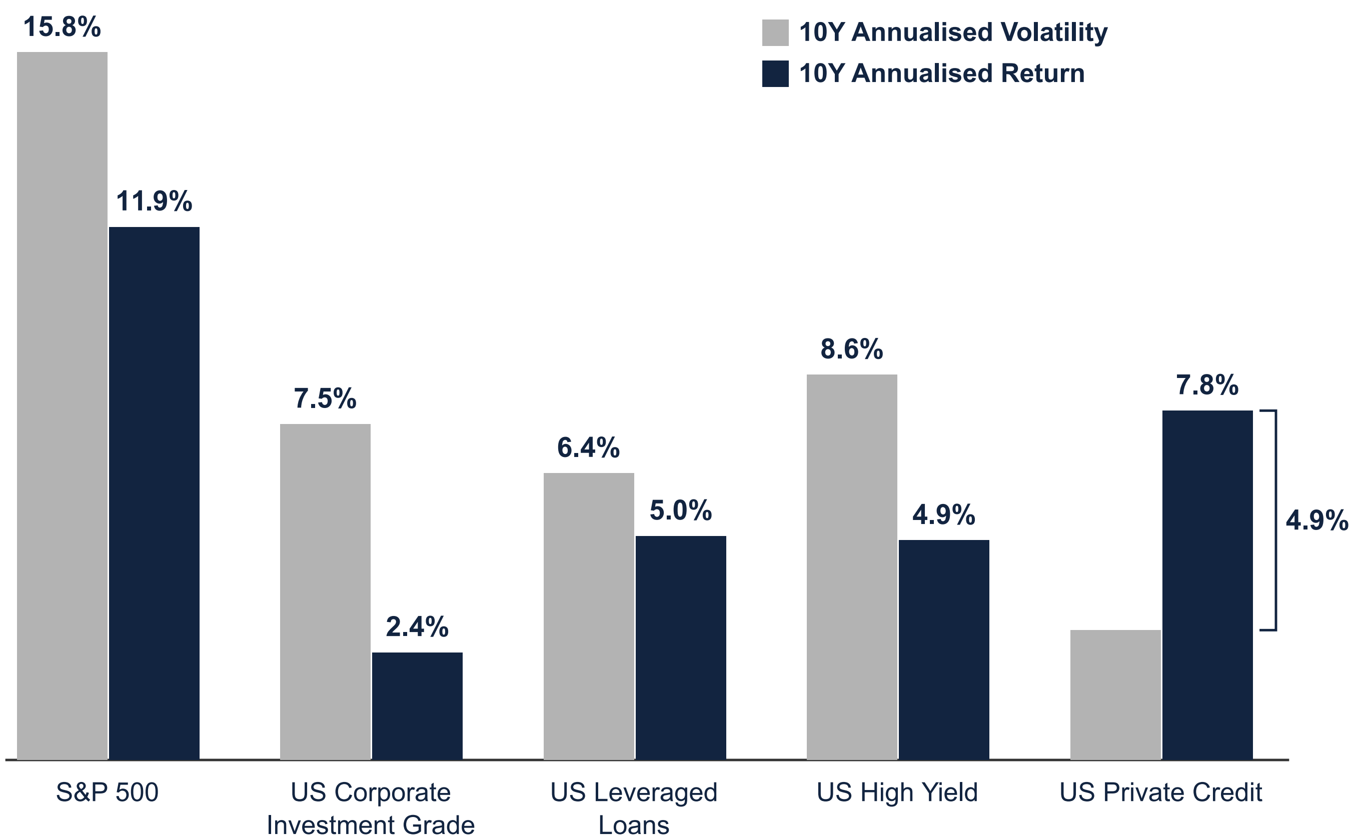
On the financing side, private credit has become a persistent source of capital for businesses that sit between traditional bank lending and public debt markets, or that require something more flexible than either channel naturally provides. On the portfolio side, it offers a combination that remains scarce: contractual income, negotiated protections, seniority in the capital structure, and stronger downside protection than equity-led strategies. It also occupies a useful place within the broader income allocation framework. For investors looking beyond traditional fixed income, private credit can offer an asset less correlated to traditional portfolio risk factors, and a source of income that is less dependent on the pricing conventions and liquidity conditions of public bond markets.

The scale of the market now reflects this structural role. Global private debt assets under management reached US$2 trillion by mid-2025, and surpassed US$2.6 trillion when including perpetual capital vehicles in the wealth and insurance channels.[1] The broader private credit ecosystem, including structured credit, asset-backed finance, specialty finance, and the private investment-grade market, is estimated at approximately US$40 trillion.[2] Capital comes from pensions, insurers, sovereign investors, private wealth vehicles, and other long-duration pools of capital. Of total private debt AUM, institutional investors account for 77.6%, with retail and insurance representing 15.1% and 7.2% respectively.[3]

The market itself has also broadened considerably. What was once concentrated mainly in sponsor-backed direct lending now extends across asset-backed finance, specialty finance, opportunistic credit, capital solutions, secondaries, and other forms of private lending. That breadth is important because it provides the opportunity to build robust, diversified portfolios relevant through economic cycles, rather than relying on a single product or risk driver.

The long-term performance and volatility record supports the case. Over the 10 years to March 2025, US Private Credit has delivered an annualised return of 7.8%, with volatility of returns of 4.9%. This equates to a return-to-risk ratio of 1.59, compared to 0.57 for US corporate high yield, 0.78 for US leveraged loans, 0.32 for US corporate investment grade and 0.75 for the S&P 500 equity index.

Exhibit 3: Asset class performance and volatility comparison graph



Returns in USD for the 10-year period ending 31 March 2025. Sources: S&P (S&P 500 Total Return Index), Bloomberg (Bloomberg US Corporate Total Return Value Unhedged USD), Burgiss (Burgiss - Private Debt (North America)), and Thomson Reuters Datastream (ICE BofAML US High Yield Master II, S&P Leveraged Loan). S&P, Bloomberg, Burgiss and Thomson Reuters have not provided consent to the inclusion of statements utilising their data.

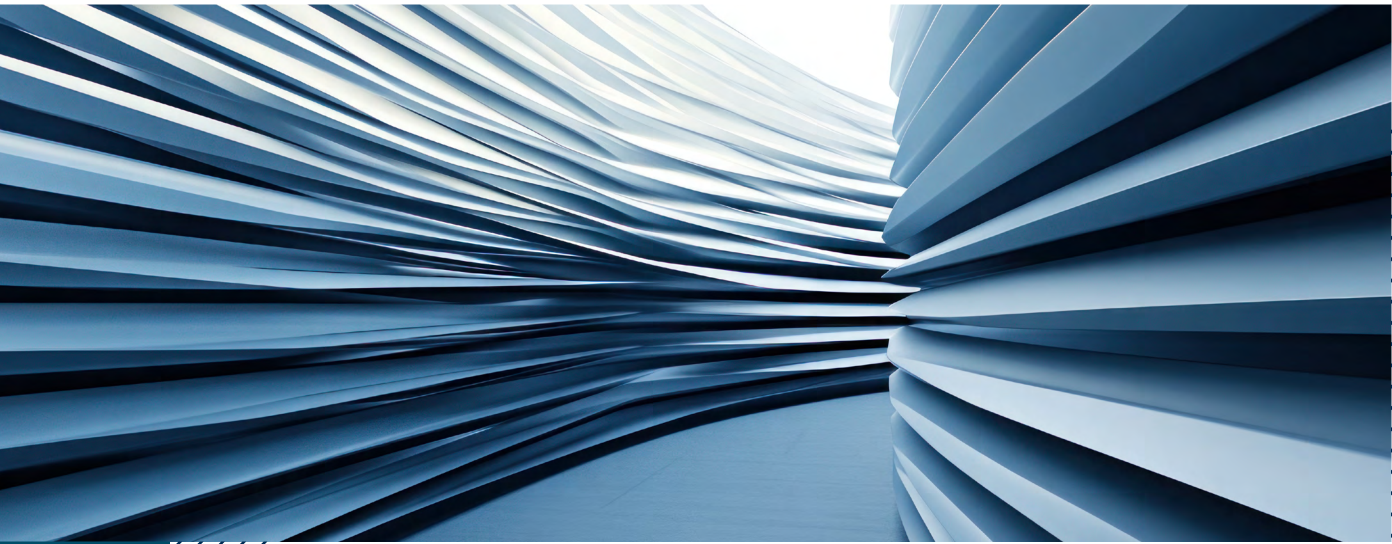
Just as important is the structure of the lending relationship itself. In private credit, the manager is typically lending with the expectation of being repaid at maturity, rather than relying on the secondary market as the primary exit strategy. That creates an alignment of incentives with investors. It encourages selectivity at entry, detailed due diligence, tighter documentation, and stronger structural protections. It also means the lender often has access to confidential information and direct borrower dialogue that does not exist in the same way in broader public markets.

This means the underwriting process is built around a different question: whether a loan should be made in the first place and under what terms it can be repaid.

This is also why the structural opportunity will persist. If businesses continue to require bespoke, negotiated, and more reliable forms of financing, then investors willing to provide that capital selectively should continue to be compensated for doing so. The existence of that opportunity does not reduce the need for selectivity. It is precisely what makes selectivity worthwhile.

4

WHAT THE CURRENT NOISE IS AND IS NOT TELLING INVESTORS



Part of what makes the present environment feel more acute is the speed with which liquid markets now process uncertainty. Geopolitics, energy prices, rates volatility, and AI-driven questions around software have all contributed to a faster and more reactive repricing of risk. Public markets absorb those shifts in real time. Private credit is assessed over longer intervals. But sentiment and allocation decisions are not insulated from listed-market moves. Confidence can change faster than underlying loan performance, and that can create a feedback loop in which headlines run ahead of fundamentals.

The most important conclusion is that while dispersion is rising, the attractive attributes of the asset class remain. It is not broken.

Credit losses are rarely distributed evenly. They tend to concentrate by sector, by vintage, by underwriting quality, and by strategy. In that sense, the current environment is less a verdict on the existence of private credit than a test of how private credit has been built.

This is where the distinction between signal and noise becomes useful. A sensible discipline is to ask four questions after every headline:

Question	What to assess	Why it matters
What actually happened?	Leverage, business model, governance, or structural issue?	Distinguishes fundamental weakness from isolated events
Where was the exposure?	Manager, structure, or specific segment?	Identifies whether risk is concentrated or contained
Is the issue in the assets or the vehicle?	Underlying loan quality vs fund structure and flows?	Separates credit impairment from liquidity dynamics
Does it spread?	Transmission across borrowers, sectors, or markets?	Determines whether the issue is idiosyncratic or systemic

Source: Pengana Credit

Those questions help separate a concentrated problem from a systemic one. A fraud, an aggressive underwriting vintage, a software-heavy portfolio, a listed BDC price dislocation, and a broad deterioration in private-company cash flows are not the same thing. They may coexist in the same period, but they do not carry the same implications, and they are not necessarily related.

4.1

FUND STRUCTURES

The distinction between vehicle and assets is especially important. Listed price moves, discounts to net asset value, or redemption caps in semi-liquid vehicles can be meaningful signals about sentiment, liability management, and investor confidence. They are not automatically evidence of rising impairments in underlying loan books. Public BDCs are currently trading at approximately 0.83x price-to-NAV, compared to a five-year average of 0.97x, a dislocation driven more by technical factors and sentiment than by fundamental credit deterioration outside of software.[4] Notably, public BDCs show a higher correlation to the S&P 500 (generally 0.5 to 0.75) than to leveraged loans (less than 0.25 in trailing one-to-three-year periods), reinforcing that their listed prices reflect equity market dynamics rather than underlying loan quality.[5]

In structures designed to hold less liquid assets, redemption caps, pro-ration, and board discretion can serve a protective purpose: preventing a liquidity mismatch from turning into forced selling that disadvantages remaining investors. Offering daily or unrestricted liquidity against inherently illiquid loans would require one of three things: holding large cash buffers that dilute returns, relying more heavily on leverage or credit lines, or selling assets at unfavourable prices when sentiment is weakest. None of those outcomes is demonstrably better for investors who remain. Liquidity limits, when well designed and well governed, are mechanisms intended to align the promises made to investors with the assets being held.

Importantly, institutional capital continues to flow into private credit even as parts of the retail-oriented market experience outflows. Non-traded BDCs attracted US$43 billion over 2025, 23% higher than the prior year and well in excess of redemptions. More recent data shows this pace has since slowed: BDC quarterly net flows turned sharply downward in early 2026 as outflow pressure spread to private-credit strategies. The structural point still holds-institutional, closed-end capital carries no redemption risk, and BDC boards retain discretion to pause repurchases, a mechanism several major sponsors exercised through the 5% cap in the first half of 2026. Flows into other private credit vehicles across strategy types were US$234 billion over 2025.[6] Wealth-focused vehicles, which have attracted much of the headline attention, represent approximately 25% of the private credit market by assets. The remaining 75% sits predominantly in institutional structures with patient, long-duration capital and no redemption risk.[7]

Exhibit 4: Unlisted evergreen fund net AUM ($B) by structure

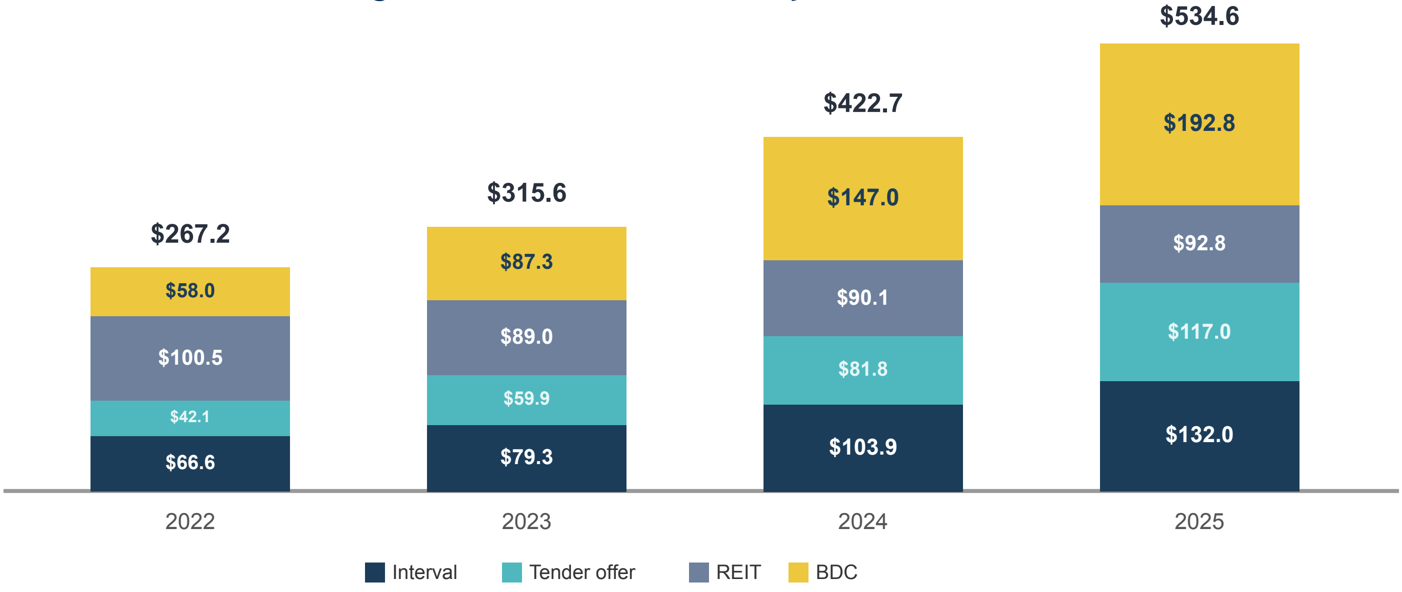
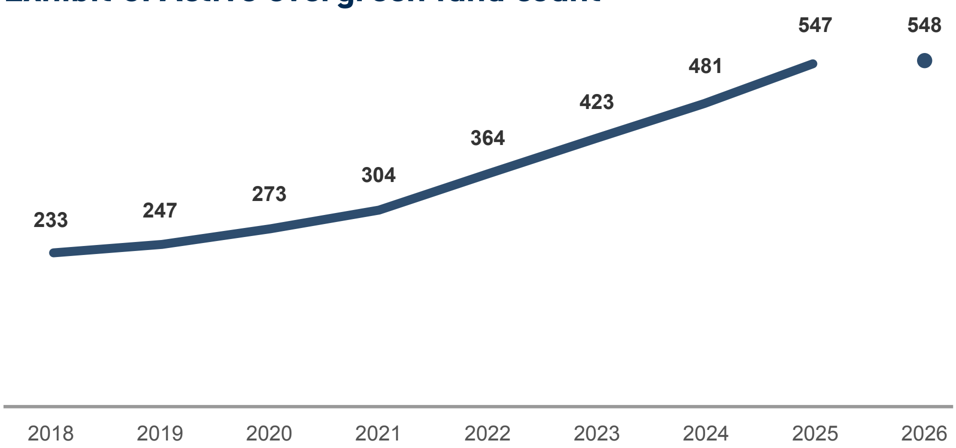


Exhibit 5: Active evergreen fund count



Source: Morningstar and Pitchbook. Geography US. As of June 1, 2026

The growth of these vehicles, from US$267 billion in 2022 to US$534.6 billion by year-end 2025, across 547 active funds, explains why scrutiny has intensified. The issue is not whether these structures exist. It is that they are now large enough that fit, governance, and liquidity alignment matter more than they once did.

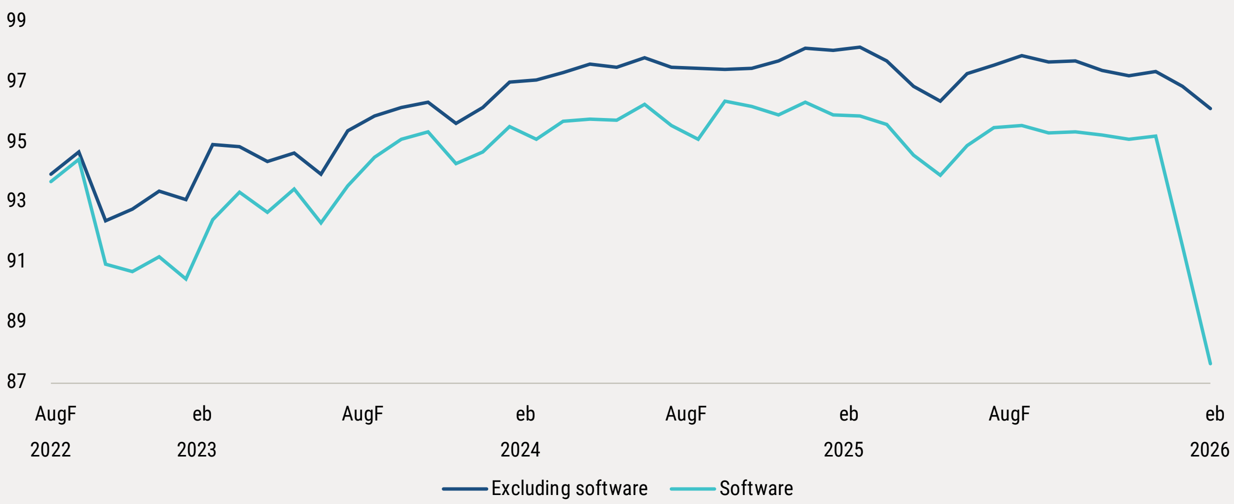
So, when considering private credit investments, investors should ask whether redemption terms, cash buffers, financing arrangements, governance, and communication are genuinely matched to the liquidity of the underlying assets, and assess this against their specific liquidity tolerance.

4.2

SOFTWARE AND AI

Software is another area where nuance matters. Performing software loans in the US leveraged loan market fell 756 basis points in the first two months of 2026, compared with a 124 basis point decline for the rest of the index.[8] Software borrowers skew toward the lower end of the credit spectrum: 47% carry a B-minus rating, more than double the share in the broader index. Software companies account for approximately 18% of BDC investment holdings by count and 20% by fair value, with concentration highest among the largest vehicles.[9]

Exhibit 6: Weighted average bid price of performing loans



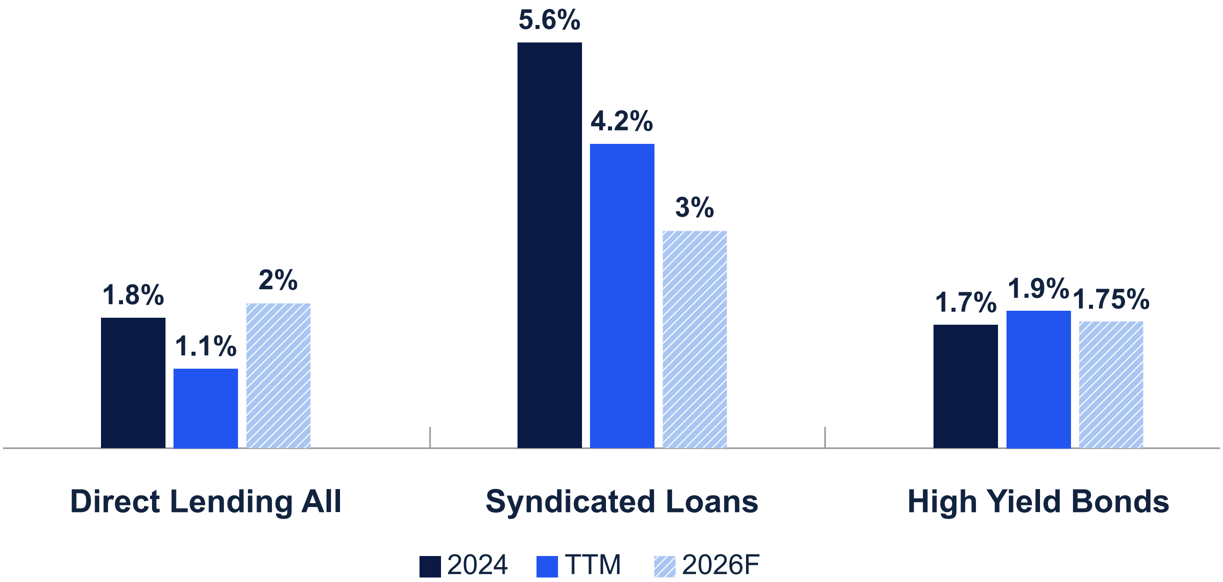
Source: Pitchbook, Geography US, LCD and Morningstar. As of February 28, 2026

AI changes how lenders should think about pricing power, customer retention, margins, reinvestment burdens, and refinancing risk. In some cases, AI will prove manageable or even beneficial. In others it will not. High-quality private credit managers have been assessing AI risk well before the headlines and will continue to evolve their assessments as the technology develops. So what is important is how managers underwrite software and manage their portfolio construction to avoid concentration rather than having a blanket indictment of the asset class.

4.3
DEFAULT RATES

Default context is important. Despite the headlines, trailing twelve-month defaults for direct lending remain at 1.1%, compared to 4.2% for syndicated loans and 1.9% for high yield bonds. Forecasts suggest a modest increase in direct lending defaults to 2.0% in 2026, with software loans expected at approximately 2.5%. These levels are consistent with 2024 rather than representing an outlier.[10] Underlying company fundamentals remain broadly healthy: median year-on-year EBITDA growth for private-market companies came in at 8.2% as of September 2025.[11] Defaults and credit stress are features of all credit markets, public and private. Direct loans continue to offer meaningful spread compensation relative to public counterparts, despite exhibiting similar or better credit quality.

Exhibit 7: Default rates and forecasts by volume



Source: KBRA DLD Default Research TTM through February 16, 2026. Direct Lending results pending 4Q BDC holdings. F=Forecast

There is also increasing focus on late-cycle spread tightening and underwriting concerns among market commentators. The former is a natural market development as perceived risk falls and the demand for yield increases. The latter reflects weaker documentation and broader use of lender concessions by some managers in this environment. Neither invalidates the asset class, but they make selectivity more important. In a crowded market, manager quality matters more, not less. In 2025, 93% of all institutional private debt capital was raised by managers on their fourth fund or later, a record.[12] Capital is consolidating toward experience and scale for good reason.

Investors should not ignore the noise, nor should they allow it to define the asset class. The question should be how to invest in private credit to achieve the benefits while mitigating the associated risks.

5

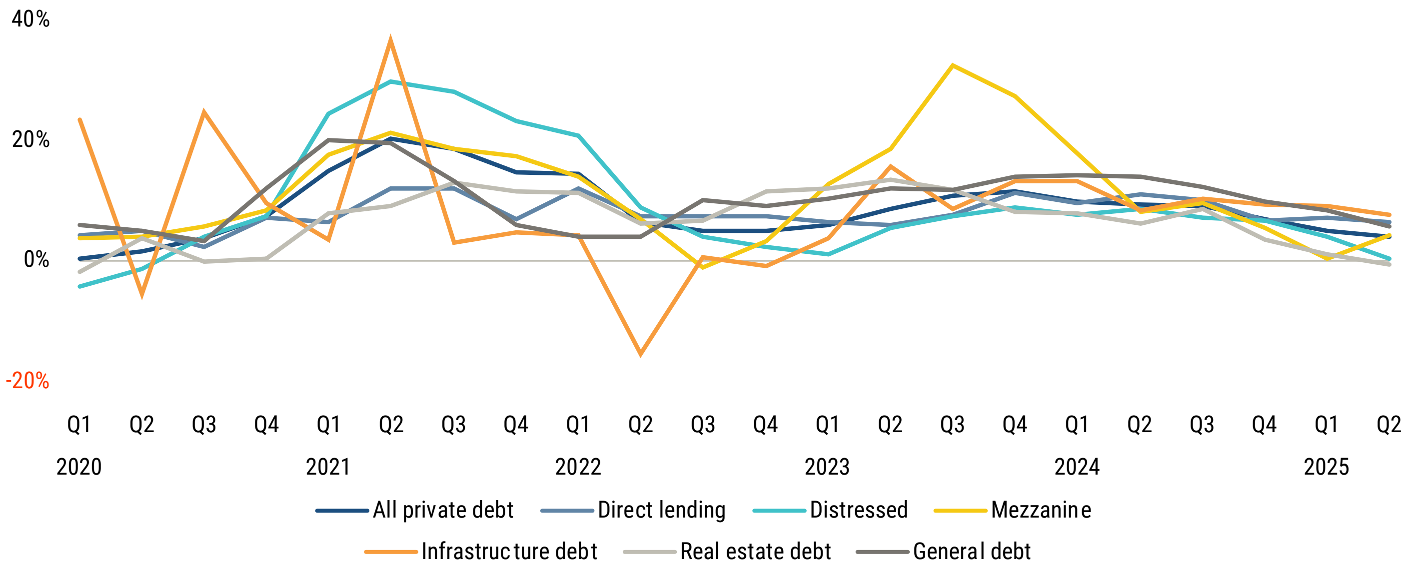
WHY DIVERSIFIED GLOBAL PRIVATE CREDIT PORTFOLIOS ARE MORE DURABLE

Private credit is heterogeneous, and diversification within it has to be understood more deeply than simply counting managers or loans.

The first step is to distinguish between two kinds of diversification. One is statistical: looking at how return series have behaved historically. The other is structural: looking through to the underlying drivers of loss, recovery, cash-flow interruption, and liquidity risk. In private credit, the second matters more.

The data illustrates why. Through the first half of 2025, rolling one-year returns across private debt strategies ranged from 7.5% for infrastructure debt to -0.7% for real estate debt. Direct lending stabilised at 6.3%. Within evergreen fund structures, the gap between top and bottom performers in alternative credit exceeded 25 percentage points over a single year.[13] These are not small differences. They represent fundamentally different investor outcomes driven by strategy selection, sector exposure, and manager skill.

Exhibit 8: Private debt rolling one-year horizon IRR by strategy type



Source: Pitchbook, Geography Global. As of June 30, 2025

Portfolios can appear diversified while still being exposed to the same underlying vulnerabilities. A group of funds may be spread across managers and still be heavily concentrated in the same sector, the same sponsor ecosystem, the same refinancing wall, or the same underwriting culture. A portfolio that looks diversified on paper can still behave like a single bet when conditions worsen.

A more durable global private credit allocation is usually built across three dimensions.

i. Strategy diversification

Different strategy sleeves are compensated for underwriting different risks.

Question	Core Direct Lending	Asset-backed/ Specialty Finance	Opportunistic/ Flexible
Role	Income anchor	Structural diversifier	Selective return enhancer
Return Drivers	Carry, underwriting, lender protections, active monitoring	Collateral, eligibility criteria, servicing, active monitoring, amortisation, structure	Entry price, dislocation, complexity, timing
Main Risks	Sector concentration/ refinancing / documentation weakness	Collateral/ servicing/ monitoring/ legal complexity	Timing/ workout/ higher dispersion
Why it Diversifies	Core corporate exposure	Less tied to EBITDA cycle	Different cycle entry points and price paths

A well-built portfolio does not need to own everything, but it should avoid dependence on a single return engine.

ii. Geographic diversification

Diversifying away from a single market and across other developed economies does not eliminate macro risk, but it does reduce dependence on one legal system, one bank-competition dynamic, one sponsor market, one refinancing environment, and one regulatory policy setting. In 2025, European private debt funds raised US$79.4 billion, accounting for 35.9% of global debt capital raised, up from 23.2% the prior year. Geography changes the structure of risk.[14]

iii. Manager diversification

Manager diversification may matter most of all. In private credit, a manager is not simply an access point. A manager is a significant driver of the risk itself. Sourcing, underwriting discipline, covenant negotiation, monitoring, amendment behaviour, and workout capability all influence outcomes. Multiple managers can still be crowded into similar exposures, so diversification must be based on genuine differences in process, not only on manager count.

This is also why diversification matters more in illiquid credit than many investors realise. In public markets, concentration errors can sometimes be reduced quickly. In private credit, they usually have to be designed out in advance. Trading is slower, secondary liquidity is episodic, and vehicle terms may ration exits when investors most want flexibility. Ex-ante diversification is therefore one of the main defences against portfolio-level disappointment.

6

HOW TO BUILD A PRIVATE CREDIT ALLOCATION WELL

A well-built private credit allocation begins with role clarity. Investors should decide what job private credit is meant to perform. Is it primarily an income allocation? A resilient credit sleeve? A diversifier within fixed income? A broader total-return exposure? That decision should shape everything that follows: strategy mix, vehicle selection, and liquidity tolerance.

Quality in private credit is a system. It is created by the interaction of manager quality, portfolio construction, diversification, and liquidity alignment. It becomes most visible under stress, which is precisely why current conditions are so revealing.

The starting point is recognising that good implementation requires two distinct forms of diligence. A strong underlying loan portfolio can sit inside a vehicle with poor liquidity alignment. A well-designed structure can still hold crowded or weakly underwritten assets. Both the assets and the vehicle must be assessed independently. That dual lens is the foundation on which the following disciplines rest.

1

What role is global private credit meant to play? Without a clear role, allocations drift toward product labels rather than portfolio logic. Different private credit sectors provide different risk and return profiles and liquidity. Investors should know whether they are buying corporate cash-flow risk, asset-backed cash flows, opportunistic dislocation risk, or some blend.

2

Build in strategies, not in one sleeve. A practical architecture is often a core direct-lending allocation for contractual income, complemented by asset-backed or specialty-finance exposure for differentiated cash-flow drivers, and a smaller opportunistic sleeve for dislocations, restructurings, secondaries, or capital-solutions opportunities. The portfolio should avoid dependence on one environment, one borrower type, or one underwriting regime.

3

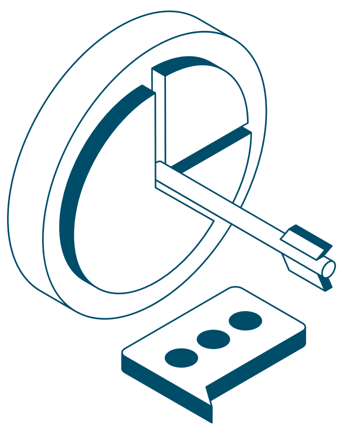
Focus on behaviour under stress. Manager selection should focus less on polished return tables and more on how managers behave when conditions deteriorate. How do they negotiate terms when competition is intense? How do they monitor weaker credits? What does their real history of amendments, restructurings, and recoveries look like?

4

Look through labels to hidden overlap. A portfolio can be diversified across funds or managers and still be concentrated beneath the surface. Multiple managers can own the same software cohort, the same sponsor ecosystem, the same maturity wall, or the same refinancing assumptions. Good construction requires looking through the wrapper to the true sources of overlap.

5

Assess whether the liquidity promise is credible. Liquidity alignment is part of the investment case. Cash buffers, financing lines, portfolio income, asset sales assumptions, and board discretion all matter. The relevant question is whether the liquidity offered is achievable relative to the assets and the structure supporting it.



CONCLUSION

Global private credit belongs in portfolios because it addresses two long-horizon realities at once. Investors need income, resilience, reduced correlation to public securities, and capital preservation alongside growth. The financial system needs bespoke, negotiated, and reliable forms of financing that public markets and banks alone cannot consistently provide. Private credit bridges both gaps.

The current environment, while noisy, is improving the opportunity set for disciplined allocators. Capital is becoming more selective. Spreads are adjusting from historically tight levels. Competition has eased in segments where weaker participants are pulling back. Banks continue to face constraints in lending to middle-market and sponsor-backed transactions, sustaining demand for private capital. Software repricing, while painful for concentrated portfolios, is a healthy reset that will create opportunities for lenders with liquidity and a long-term horizon.

These are favourable conditions for investors who approach private credit as it should be approached: as a heterogeneous, execution-driven market in which diversification, manager quality, and liquidity alignment determine whether the asset class works in practice as well as it does in theory.

Owning private credit is not enough. Owning it well is the real task.

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IMPORTANT INFORMATION

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