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SEPTEMBER 2025



DIFFERENTIATED DEBT

INSIDE THE COMPETITIVE UNIVERSE OF PRIVATE CREDIT

EXECUTIVE SUMMARY

In a busy marketplace, firms can differentiate themselves on two fronts – what they offer and how they operate. This report investigates the merits of each, in one of the fastest growing, trillion-dollar, private market segments worldwide.

Pure-play direct lending continues its moment in the sun, offering healthy risk adjusted returns but strongly favouring the incumbents. Those with an active approach and stress resilience have even gatekept parts of the distressed opportunity set. Still, persistently challenging economic conditions could not only raise the curtain on the more dubious restructurings – they may also pave the way for opportunistic strategies.

We explore both sides of the coin in section one, as well as the range of lending specialisms capitalising on the widespread liquidity squeeze in private markets. Many have their eye on Europe, where the market is long overdue for diversification.

Competition for deals is fierce – another scenario that favours incumbents with large operations spanning multiple geographies. Scaling up is a matter of operational clout. And as investors demand more transparency on pricing and process, the race is well and truly on to develop a sophisticated spine – one of joined up data pools, advanced systems and AI-powered analytics.

Challengers that can kick off from such a foundation could hold their own in the market, particularly as a growing pool of wealth and retail investors demand a similar level of transparency as they do from public markets – what now looks like an inevitable direction of travel. Section two spotlights the operational imperative for the modern private credit firm.

AFTAB BOSE
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METHODOLOGY

The data presented in this report is based on a survey of 100+ private markets fund managers. Data was collected over the course of Q3 2025 from senior leadership and C-suite respondents across North America, Europe, Asia-Pacific and other key geographies.

Survey analysis is complemented with qualitative interviews with senior leadership at top-tier private credit firms, alongside knowledge and insight aggregated from a range of media, news and research resources – including Bloomberg, Reuters and the Financial Times.

65% Expect private credit default rates to increase over the next two quarters – 20% expect this increase will be significant

59% Cite data related challenges as their biggest operational pain points in private credit – including trouble with integrating various systems and sources as well as manual entry and reporting

53% View private credit as a long-term alternative to bank lending, while 43% say it's a critical solution for funding gaps

50% Each say that deal origination capabilities and speed of execution are currently key differentiators for private credit firms

40% Say high competition is the top challenge in private credit, while scarce deployment opportunities, subjective valuations and a lack of transparency are also pain points

FUTURE FINANCING

A look at where private credit sits within the global lending landscape as it continues to grow, specialise and diversify

Private credit is a progressively sophisticated pillar of financing. Where the asset class sits in relation to bank and broadly syndicated lending is debated – many pit them against each other, others see them as complementary (see Figure 1.1).

Patrick Marshall, Head of Private Credit at Federated Hermes, is of the latter persuasion. He says: ”Banks can provide a fuller package, such as cash management agency for instance. And in periods of stress, governments use banks to introduce liquidity into the economy. Direct lending plugs key financing gaps and can often be an enhancement to banks.”

Marshall suggests the underwriting and syndication practices underway in certain segments of the market mirror pre-2007 investment banking trends, which may bring a wave of private credit regulation.

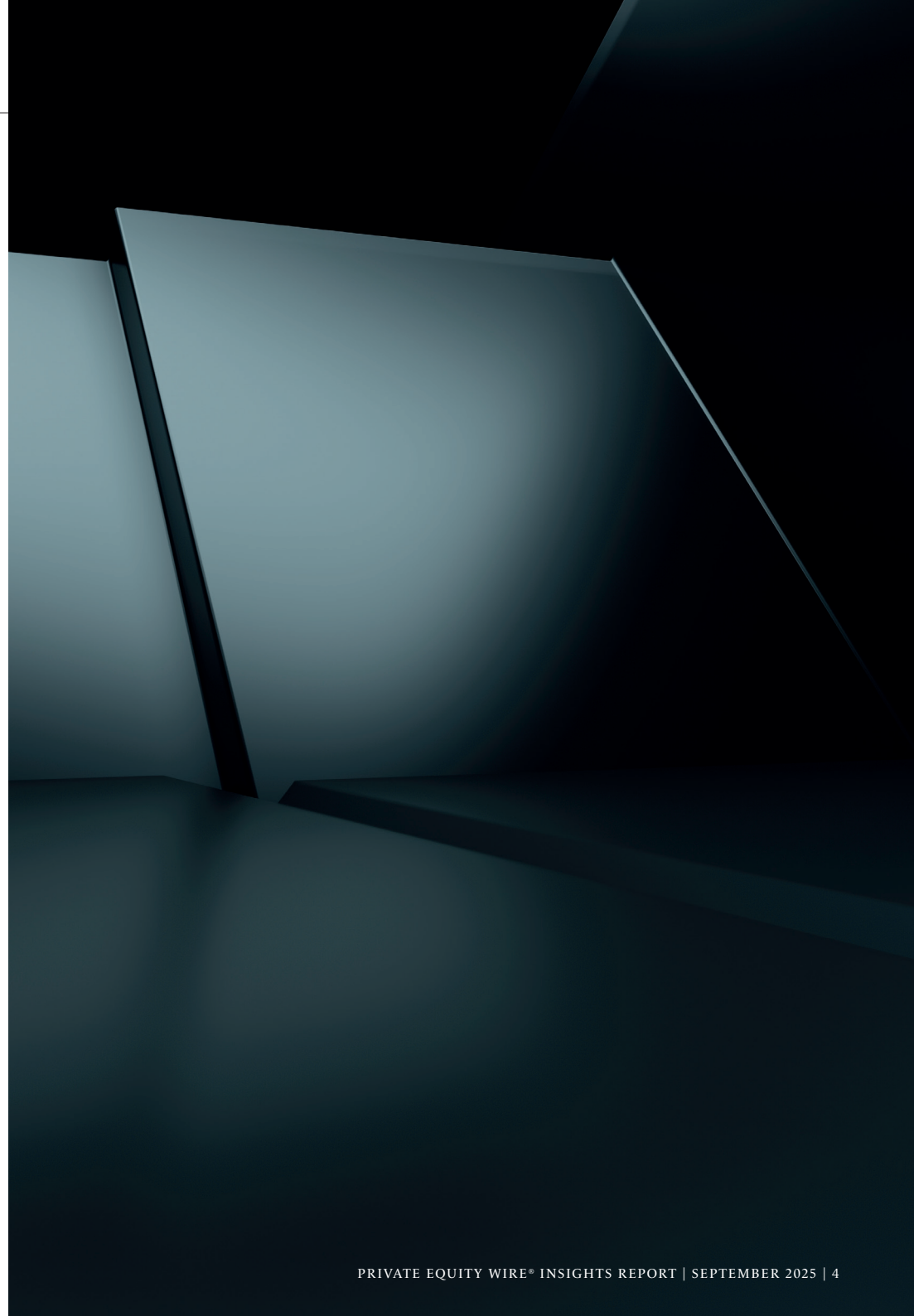


Figure 1.1. Perception of the private credit market



53%

A long-term alternative to bank lending



43%

A critical solution for financing gaps

Eventually, direct lenders are expected to be just another regulated player that provides loans against and alongside banks. The US has already matured considerably in this direction, with banks occupying a relatively smaller share of the lending market. Europe will likely present a similar picture in due course.

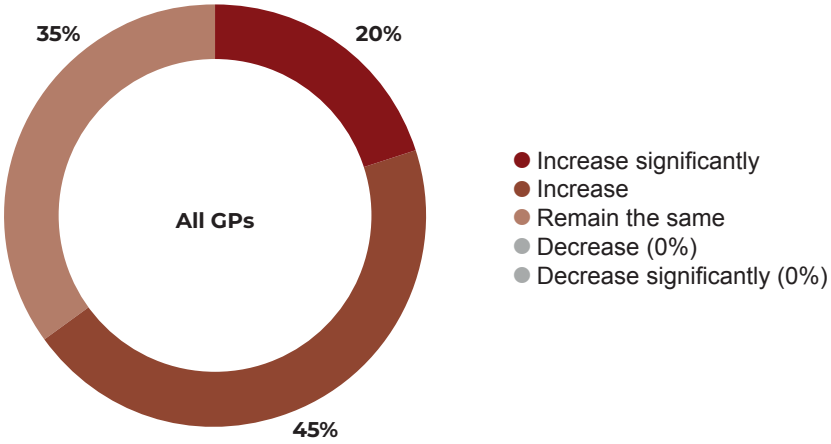
DEFAULTS TO RISK

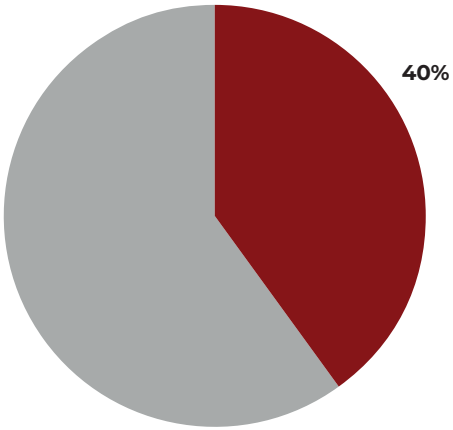
Regulation follows risk, and there is plenty of risk in private credit. The rise of 'Cov-loose' and 'Cov-lite' lending, fuelled by high capital flows and fierce competition, has many concerned about the long-term stability of private loan portfolios. Macro-economic volatility of an unprecedented intensity hasn't helped – putting even the robust loans in question.

Per our survey, 65% of firms expect private credit default rates to increase over the next two quarters. A fifth believe this increase will be significant. Asked to choose from a range of statements about the status quo in private credit, 40% chose the statement: "an increasingly risky house of cards".

According to Marshall, certain direct lenders applied aggressive loan structures to cyclical businesses in the years immediately after Covid, which should be manifesting in default rates now. "Unitranche lenders have so far delayed a wave of defaults largely thanks to amend-to-extend provisions and covenant resets. When companies ultimately run into their final problem, recoveries could be even lower as they will have been leaking cash for even longer."

Figure 1.2. Private credit default expectations over the next two quarters





When asked to choose from a range of statements about the status quo in private credit, the largest segment – 40% – chose **"an increasingly risky house of cards"**.

That said, many lenders have developed the structural capacity to absorb challenging periods and execute a turnaround. Eric Capp, Head of Origination at Pemberton, says it's important here to draw the distinction between defaults and losses.

"We are long-term holders of debt, so if something does go wrong with a company we play an active role in either helping the PE sponsor work it out or, if it's transferred over to us, to support with value generation within the asset. We've now been through several market shocks including Covid and high inflation without material losses. True performance will be evaluated when funds reach end-of-life and equity positions are sold in restructured assets."

SIGNS OF STRESS

Both trends – flexibility on covenants and a more active turnaround approach from lenders – could result in fewer opportunities for distressed strategies. The absence of insolvency triggers and other covenants has resulted in fewer attachment points for lenders.

Still, distressed lending emerged as the top strategy to watch per our survey – cited by a third of all respondents (see Figure 1.3.). James McFarlane, Porfolio Manager, Special Situations at Polus Capital Management, says: "We think stress and distress has been higher of late than most people appreciate and we certainly feel that this will continue if not accelerate over the coming quarters – both in terms of explicit defaults but also out-of-court "soft" restructurings.

"We are on the verge of entering a period with the highest amount of stress and distress in the system in over a decade, which bodes well for our special situations strategy."
In our past few private credit surveys, direct lending has far-and-away been the main focus for managers. McFarlane says this has created a significant opportunity: "The number of managers/teams specialising in workouts and restructurings has diminished over the past decade due to the rise of direct lending and the scalability of those business models in a low interest rate and low default rate environment.

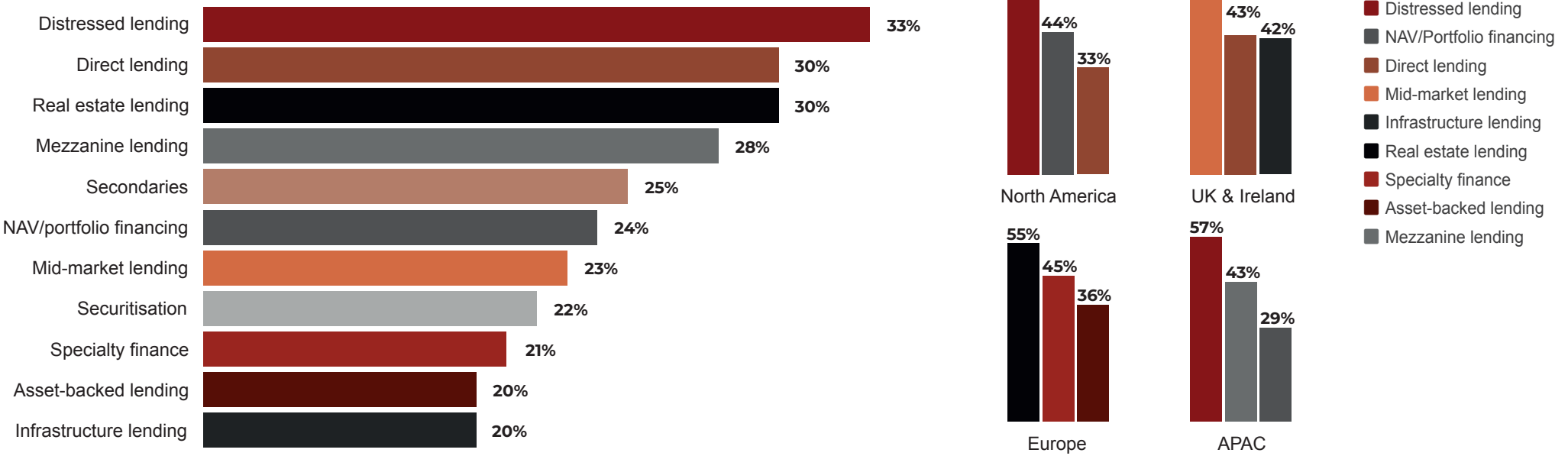
"Looking ahead, there will be a notable mismatch between the growing number of stress and distress opportunities and the

“

True performance will be evaluated when funds reach to end-of-life and equity positions are sold in restructured assets.

Eric Capp
Head of Origination, Pemberton

Figure 1.3. Private credit strategies to watch in the next 6-12 months



number of managers who can capably manage those situations to a value maximising outcome – extracting the legal, process, complexity, and illiquidity premia available in these situations.

He adds there is a dearth of capital ready to invest into stress and distress situations relative to the potential size of the opportunity set, which should translate into access to more opportunities, better pricing and more favourable expected returns.

SPANNING SPECIALISMS

Perhaps the most striking finding from our strategy roundup (Figure 1.3.) is the diversity of lending types that are now of comparable prominence. Mike Carruthers, European Head of Private Credit for Blackstone Credit and Insurance, says: "We continue to see direct lending and real estate financing as key areas of growth, driven by the advantages private credit can offer to finance key sectors of the economy, such as software, healthcare and business services.

"Looking ahead, we believe that another key growth area in private credit is asset-based finance. The need for financing the real economy, for example in infrastructure lending, is enormous, and presents compelling opportunities. We see the wider universe of private credit as a $30 trillion opportunity set."

According to Marshall, there are plenty of specialisms through which firms can differentiate themselves – the scope for growth and innovation being particularly high in Europe, where banks still occupy 90% of the lending market.

Capp highlights two specialist strategies in focus at Pemberton – a $1.5bn NAV Core strategy for investment grade fund financing and a $1bn GP Solutions strategy anchored by the ADIA.

KEY FINDINGS

0%

The share of firms that expect default rates to decrease over the next two quarters



Both are aimed at PE funds that have been struggling with longer holding periods and need a liquidity injection either for debt repayments or to scale their businesses further.

With respect to GP solutions, Capp says: "Many GPs are transitioning from being smaller, founder-led businesses to institutional players with a more professionalised management team. They have a growth mandate to double their AUM, for instance, and need different financing solutions from what they've accessed historically."

Also gaining momentum in the private credit space is securitisation. McFarlane highlights the opportunities here within his own strategy: "We have an advantage over some other managers in that our firm also has a large, long-standing par loan business through our European CLO management platform. Through this, we have seen how significantly the leveraged loan market has ballooned in recent years, and of late the CCC buckets of CLOs have been filling up, which can create an interesting forced seller dynamic that we can use to our advantage in sourcing new opportunities at potentially discounted prices."

Specialisms will proliferate as capital continues to flow into private credit. The next phase of growth for managers is to seek out and execute deployment opportunities with greater speed and accuracy, winning the edge in an increasingly crowded landscape. Section two explores competitiveness, differentiation and operational streamlining.

KEY TAKEAWAY

Lenders are increasingly equipped to absorb and manage stress, though specialist financing strategies are key to enabling this resilience, and may actually have ample opportunities when funds are winding down.

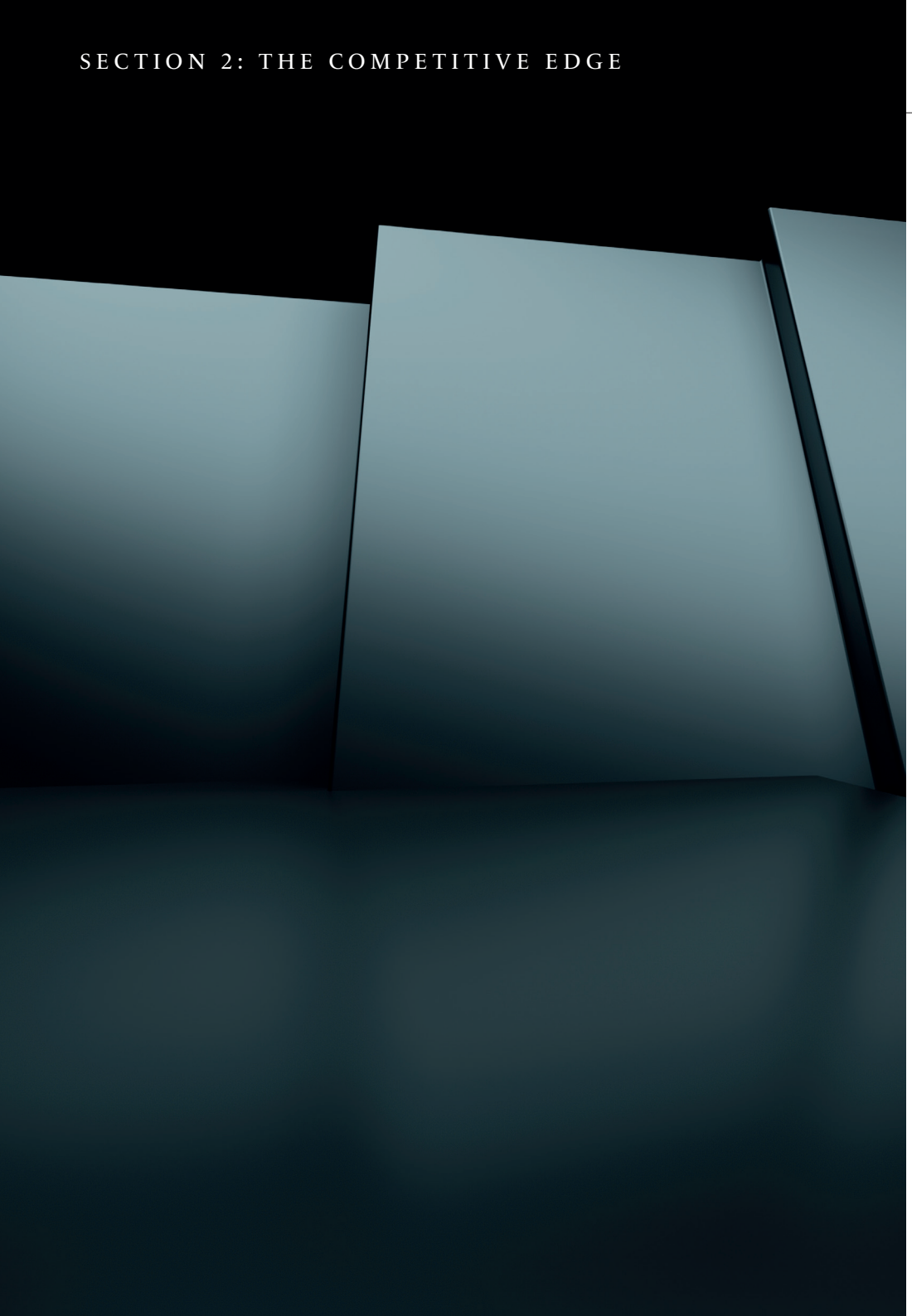
THE MARKET MAP

Private credit has evolved variably worldwide.

The US is a more mature private credit market than others, with the asset class painting a stratified picture and rivalling banks when it comes to market share. Other markets are in varying phases of development – evident from the variance in challenges being faced by each region (see Figure 2.1).

Europe is seen as the land of opportunity – historically risk averse and currently dominated by a handful of players, the landscape is rife for diversification. A September report from Moody's cited regulatory reforms, insurance inroads, easing securitisation and lowering capital charges – alongside the emergence of specialised lending strategies – as strong drivers of growth in the region.

As for APAC, ample demand drivers and diversification potential have long made it a promising market – though concerns around regulatory standardisation and economic stability have held it back. But private credit fundraising in the market has proliferated in recent years, while bank retrenchment continues to leave high-opportunity financing gaps.



DEPLOYMENT AT SCALE

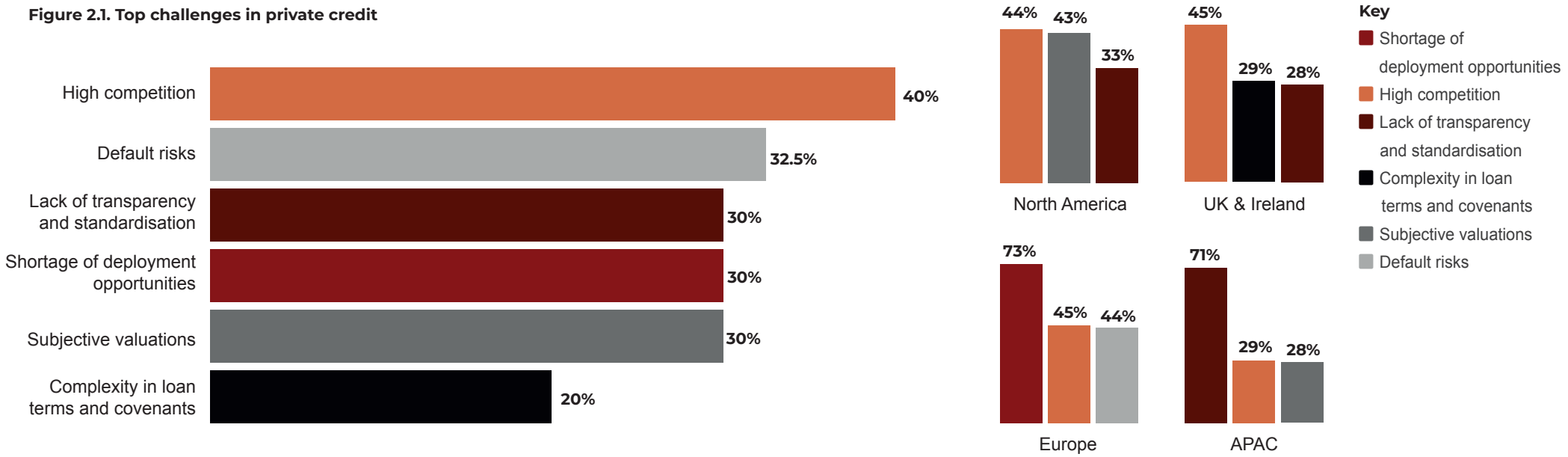
A deep dive into pricing, reporting and the operational infrastructure powering competitive private credit shops

Competition for capital and deals is high – our data confirms as much (see Figure 2.1.). The fact that large players continue to dominate their respective private credit segments signals that origination and deployment are games of scale.

Eric Capp of Pemberton says: "We mitigate against competition through the size of our investment team. We have offices in all major European markets, housing significant numbers of investment professionals – allowing us to cover all sponsors, management teams and advisers locally. Our aim is to generate as big a funnel of deal opportunities as possible, which reduces competitive pressure.

"We have always executed on 2-5% of our funnel and continue to do so, while the funnel itself keeps expanding considerably. When the M&A market is soft, 30-50% of our deal flow takes the form of add-ons and refinancings within our own portfolio of 110 companies – one of the largest portfolios in Europe."

Figure 2.1. Top challenges in private credit



This "built-in scale advantage" is mirrored across all big players in private credit according to Capp, highlighting the value of deal origination capabilities as a differentiating force (see Figure 2.2.). Blackstone Credit and Insurance has a similarly strong foothold, as highlighted by the firm's European Head of Private Credit Origination, Dominic Ashcroft: "Blackstone's leading origination platform is one of our key differentiators and a cornerstone of our success in this competitive market. "In Europe, we operate across all jurisdictions, with our regional HQ in London and dedicated teams on the ground in France, Ireland, Italy, and Germany, which is a real advantage and allows us to source deals we otherwise couldn't."

Patrick Marshall of Federated Hermes highlights the firm's own origination strategy – specifically an exclusive set of four partnerships with NatWest, Danske Bank, KBC Bank and DZ Bank. Within certain parameters, the banks are obligated to run senior-secured loan opportunities past Federated Hermes – which analyses and is involved in the structuring of the deal under an NDA and has first right of refusal.

The firm structures loans alongside the banks, which provide a revolving credit facility (RCF), with the important caveat that Federated Hermes remains senior in the capital structure rather than potentially being subordinated by a strong RCF.

The arrangement entails lending at the bank rate, which is below average direct lending terms. But it also comes with lower risk, while the double-due-diligence inspires investor confidence. Marshall says: "On a net return basis, we outperform many of our competitors because we don't have the same level of risk and, consequently, losses. We haven't actually had a single impairment or loss in 10 years.

> …despite being a relatively small team, we effectively boast one of the largest origination engines in Europe.

Patrick Marshall
Head of Private Credit, Federated Hermes

"It also means that, despite being a relatively small team, we effectively boast one of the largest origination engines in Europe. Our team simply structures and restructures the loans."

THE OPERATIONAL IMPERATIVE

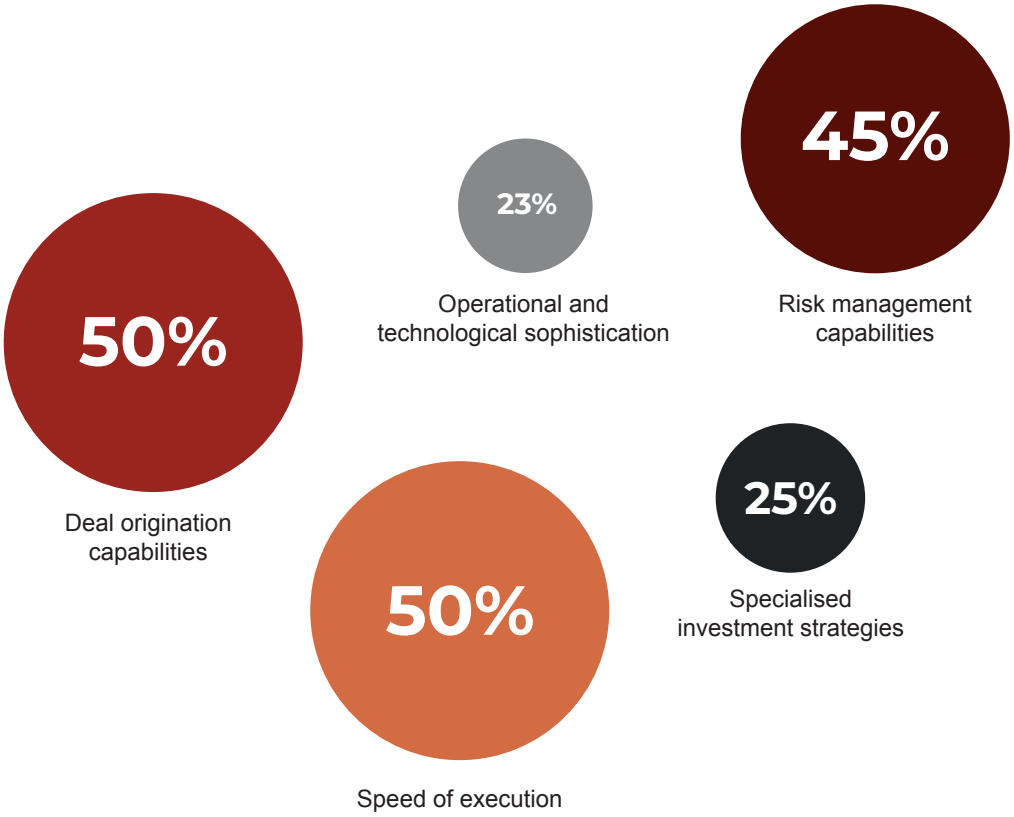
Speed and discipline in execution are crucial in today's market (see Figure 2.2.). Testament to this is the fact that the Federated Hermes private credit team of less than 20 investment professionals is backed up by an operational support staff with twice that headcount.

Marshall says: "The operational infrastructure required is massive: across compliance and risk management; guideline monitoring to ensure alignment with terms of the fund; ESG overlays; legal and financial execution; fund administration; investor queries and reporting, and much more."

With growing stress being widely acknowledged, investors are watching their private credit portfolios ever so closely – demanding valuations at a higher rate than ever. Our data shows that a quarter of all firms now mark their private credit valuations monthly, while 38% do so quarterly.

Capp says: "Larger institutional LPs have risk departments that scrutinise each mark and earnings valuation multiple employed in the valuations process. As they deploy more capital, this scrutiny is intensifying and managers need to have robust mechanisms in place – especially if they're looking to re-up every two years or so. Concerns around valuations could hinder long-term investor relationships."

Figure 2.2. Key differentiators for private credit firms





TOWARDS TRANSPARENCY

Anthony Catino of SS&C Technologies describes the operational building blocks of a more transparent private credit market

Private credit has surged into the mainstream, drawing billions in fresh capital and the attention of global regulators. With growth comes scrutiny. Investors demand greater clarity, while oversight bodies push for more robust reporting. At the core of both lies a simple truth: valuations must be faster, more reliable, and more transparent than ever before.

The challenge is the traditional valuation process, often stretched across weeks of data gathering, committee reviews, and manual checks, is straining under the weight of rising volumes. Operational bottlenecks are no longer just an efficiency issue. They risk undermining confidence in the market itself.

Anthony Catino, Managing Director and Head of Private Markets Americas at SS&C Technologies, believes the solution lies in rethinking the process end to end. “We’re at a point where the valuation process, from data collection to committee and eventually the end result, needs to be compressed significantly,” he explains.

“In the first instance, firms need a tight valuation governance model. The valuation committee should be independent of the investment or accounting teams and they should adopt a standard anchored in a consistent methodology around inputs, calculations and outputs. Comparing historical valuation data with exit rates can also reveal inconsistencies and help strengthen the governance model.”

Technology is the catalyst. AI-driven analytics can assess multiple macroeconomic indicators such as interest rates, unemployment, GDP, inflation, and fiscal balances to evaluate the health of assets underlying credit facilities. They can also benchmark private market valuations against public market comparables, bringing greater confidence and consistency to the process.

THE REPOSITORY

None of this is possible without a strong base of clean data, says Catino. “Building this foundation starts with a data collection mechanism. This could be in the form of an API into a data provider, be it an administrator, a market data vendor, a third-party loan service or any other source. Integrations ensure data automatically drops into a firm’s data lake.”

“Next comes data validation. Every source has a unique format, which creates disparate data sets. NLP and OCR technology, alongside data or system workflow tools, can collect, scrape and validate data, providing an overall confidence rating. The information can then flow into downstream applications such as loan accounting systems.”

This workflow helps with financial indicators, such as terms, interest rates, cash reconciliation or pricing. But firms also need a more rounded view of their investments – an investment book of record – which includes regional or vintage exposure, modelling for coming quarters, syndication status and sector trends, among other factors. When bringing it all together, ingestion and validation processes are key.

Catino recommends a data dictionary with a unified taxonomy across the data lake – so it can be queried with confidence – with an exception processing mechanism for entries not matching the format. Every data entry should be complete, as gaps can lead to disastrous errors.

THE EDGE

Catino says SS&C acts as a data lake of sorts for many firms, to be queried at their convenience. The more advanced firms use these insights to complement their own analytics. With the ideal end state being a coherent and query-able data repository, firms progressing along this roadmap will fast differentiate themselves in a crowded market.

“Larger firms clearly dominate at present, and this is unlikely to change. These firms are operational powerhouses using AI agents to query and validate their data multiple times over to ensure consistency. That’s the utopia, which currently characterises a small share of firms.”

“The majority, firms anywhere between $1bn to $10bn in AUM, have expanded tremendously and faster than expected in recent years and are now struggling to bring their operations up to speed. This is where the race is – improving the speed and accuracy of execution, freeing up time for value-add work by investment teams and thereby creating a competitive edge.”

Valuations require strict governance models and a sophisticated data infrastructure (see Boxout). Many struggle with integrating the array of systems and data sources involved – a challenge that only intensifies as firms scale up (see Figure 2.4.).

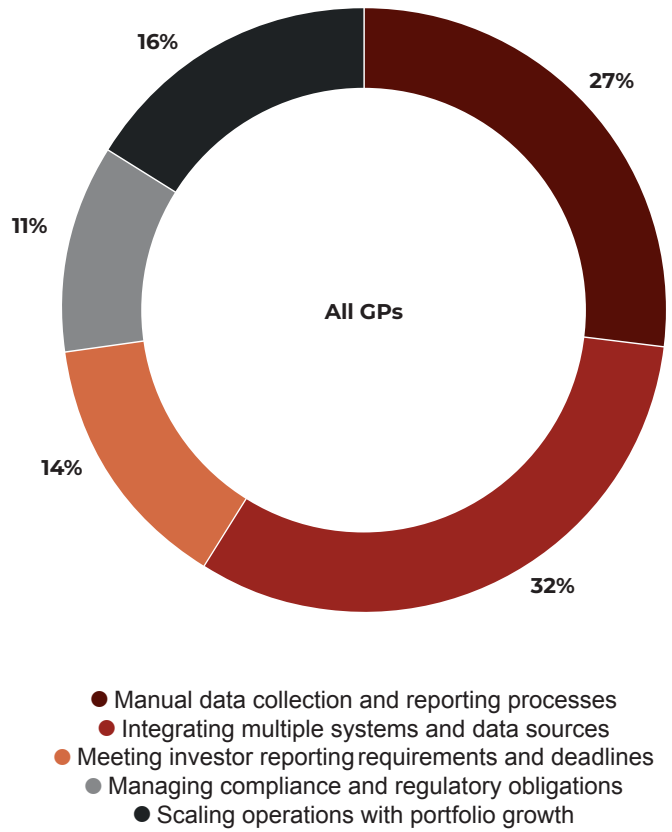
Technology will play a big role here. Marshall says: “With investor queries growing in volume and intensity, we’re interested in the role that AI and advanced analytics can play. There is real potential for AI to support with document reviews and trend mapping therein.

“This requires a significant data infrastructure, which needs to be built carefully in order to support the investment teams in a low-risk manner. But it can be a game-changer from a competitive advantage standpoint if leveraged correctly.”

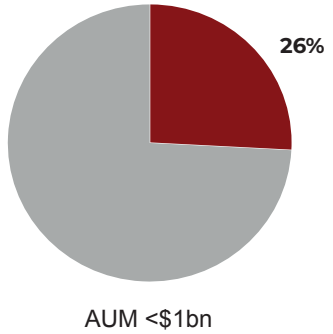
Capp highlights a new initiative at Pemberton: “We have a joint venture with Santander called Invensa focused on trade finance, for which we built a technology platform that can process thousands of invoices per day for accounts receivable, factoring and reverse factoring, and inventory financing.

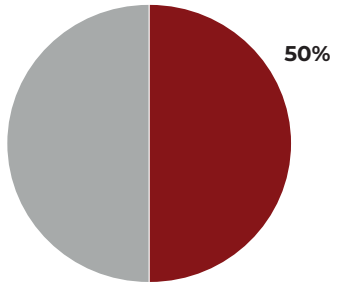
“Unlike private equity, where scalability comes from higher fees and carry, the ticket to expanding quickly in private credit is through a robust operational and technological infrastructure.”

Figure 2.4. Top operational challenges in private credit

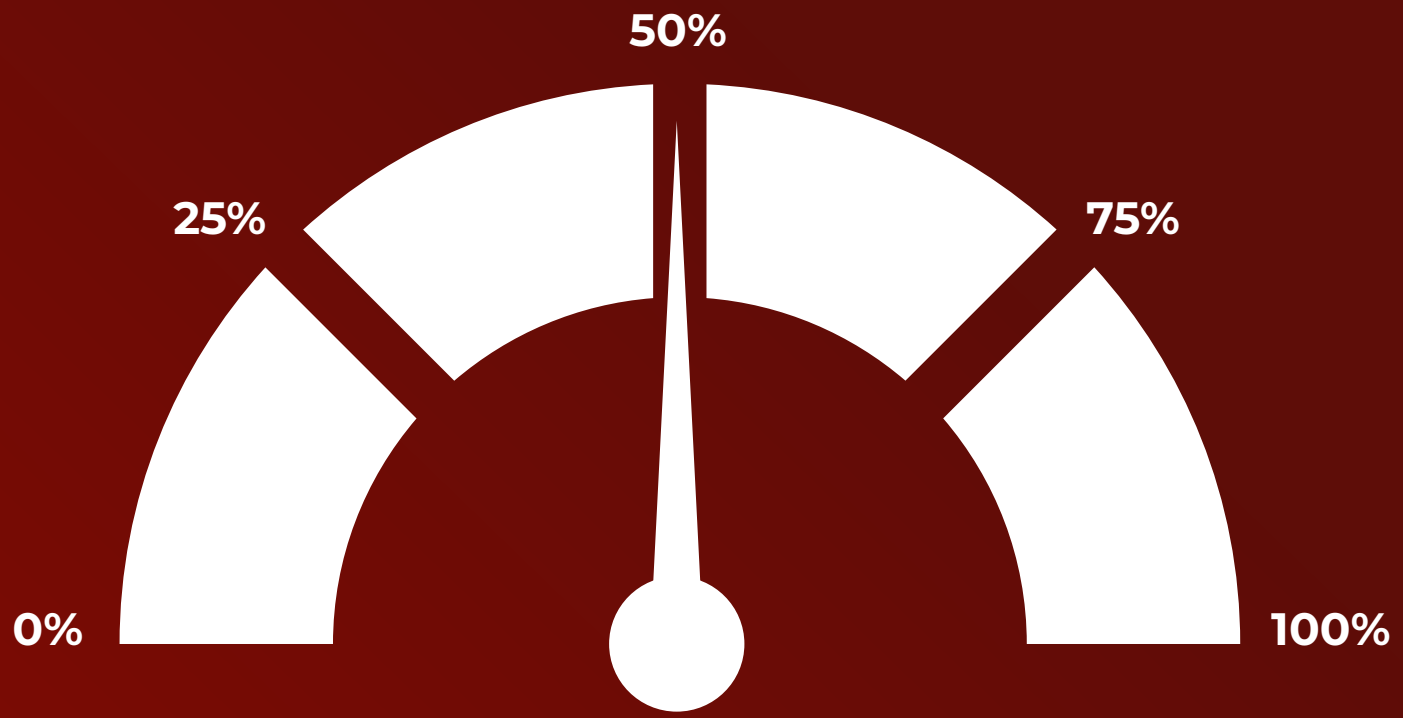


Share of firms that cite integration of multiple systems and data sources as a top challenge (by firm size)





Half of all firms say speed of execution is a key differentiator



FULL DISCLOSURE

The enduring problem is transparency in private credit – cited widely as one of the industry's top challenges (see Figure 2.3.). In due course, as the market advances towards retailisation and fund structures grow more liquid to match the modern investor profile, transparency will become all the more critical.

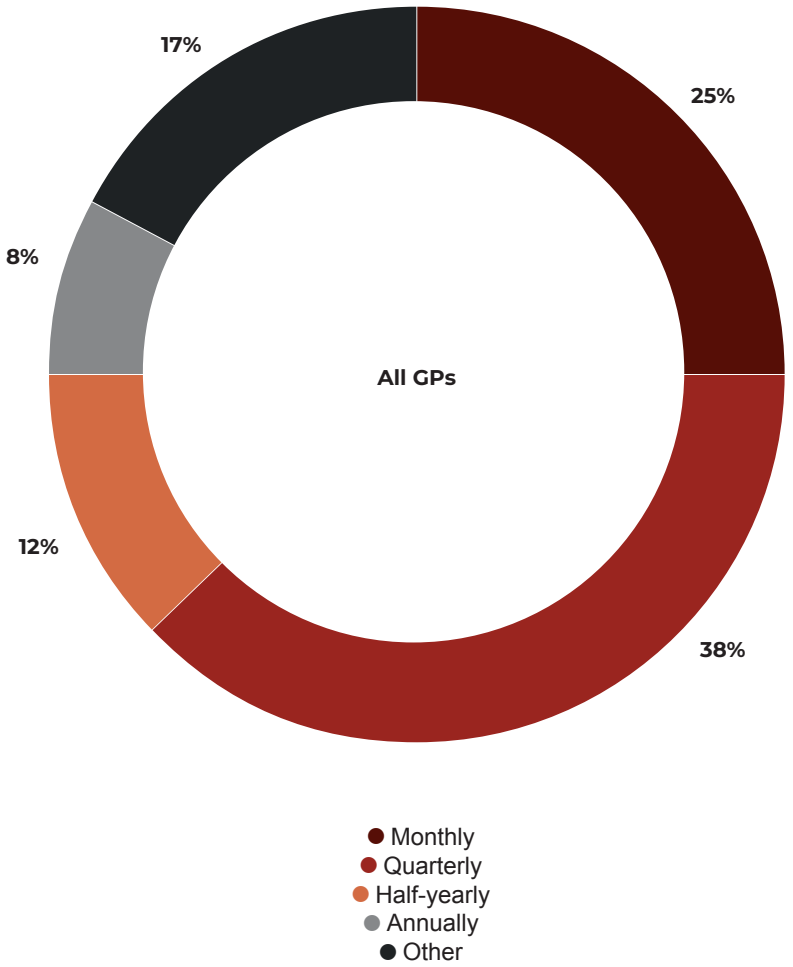
Retail investors may not necessarily have as stringent an approach to risk management and valuations as institutions. Still, as we've seen with the proliferation of semi-liquid and hybrid fund structures, the frequency with which wealth and retail investors demand pricing information is increasing – with the eventual expectation of daily marks to rival public market transparency.

Whether this is a realistic direction of travel for private markets remains to be seen, but there is certainly room for maturity before the retail floodgates open. From the range of strategies being marketed ambiguously – subject to varying terms and potential subordination – to the growing flexibility in covenants and risk management mechanisms, private credit in its entirety will need greater transparency as it moves down the wealth chain of investors.

KEY TAKEAWAY

Though private credit remains a game of scale, operational sophistication could prove a key competitive advantage for firms – enabling incumbents to consolidate and challengers to punch above their weight to capture a diversifying investor pool.

Figure 2.3. Frequency of marking private credit valuations



PRIVATE EQUITY WIRE®

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