



ALTERNATIVE
CREDIT COUNCIL

Financing the Economy 2025



Houlihan
Lokey

AIMA

ALTERNATIVE
CREDIT COUNCIL



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Foreword

Welcome to the eleventh publication of the Alternative Credit Council's Financing the Economy research series. The 2025 edition, produced in partnership with Houlihan Lokey, marks an important evolution in the ACC's data and research capabilities and our efforts to provide greater transparency and insights on the growth of the private credit market.

Our Financing the Economy research series has been essential reading for those looking to understand the dynamics within the global private credit market. That population has increased significantly during 2025, with the asset class attracting greater scrutiny and attention from investors and policymakers.



Jiří Król
Global Head
Alternative Credit Council



Dr. Cindy Ma
Global Head of Portfolio Valuation
and Fund Advisory Services
Houlihan Lokey

The ACC and its members have responded by improving the standardisation and precision of our data collection process to enhance the findings and insights that make Financing the Economy such a useful resource. We believe this approach will benefit policymakers, investors and any other interested parties as they seek to understand how the growth of private credit fits within their policy and asset allocation priorities.

We estimate that the private credit market grew to ~US\$3.5 trillion in assets under management globally, with the market also seeing record levels of deployment during 2024. This continued growth highlights once again how private credit is now firmly established as a lender of first choice for corporates seeking finance, as well as an increasingly relevant part of the asset-backed, real estate and infrastructure debt finance markets.

We also see private credit continue to expand its footprint across the globe. While the primacy of the US market remains unchallenged, the continued rise of Europe and pockets of growth in Asia means that investors have greater opportunities to consider when deciding where to allocate their capital.

Our research hopefully provides assurance to those who worry about the sustainability of this growth during a period where elevated interest rates and increasing macroeconomic uncertainty present headwinds for significant parts of the economy. Our research suggests that firms are proving themselves capable of managing portfolios through these pressures. Core credit metrics have remained stable and there is a growing sense that the recent period of stress on portfolio companies is beginning to recede.

At the same time, it is encouraging to see that the structures used to invest in private credit assets are also demonstrating similar resilience. The stability of our findings on liquidity management practices and use of investment leverage offers further support for the view that private credit is growing for the right reasons.

This year's Financing the Economy report provides our most comprehensive assessment of the sector's growth to date. We hope the data and perspectives within this research offer insights to investors and policymakers on the current state of the market as well as the trends that will shape the next stage of the market's development.

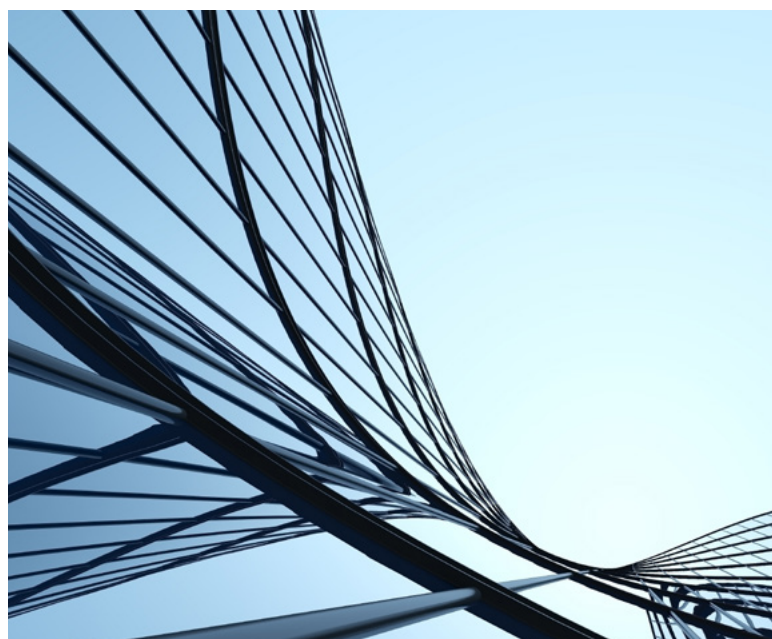
Executive Summary

Private credit shows uninterrupted and significant growth

- We estimate that global private credit AUM stood at approximately US\$3.5tn at the end of 2024, a 17% increase from our estimate of US\$3.0tn at the end of 2023.
- Corporate lending is the dominant segment of the private credit market, accounting for 60% of current investments. Other areas such as ABL, infrastructure debt and real estate debt are increasingly relevant and account for most of the remaining 40% of the market.
- In 2024, respondents to our survey deployed an estimated US\$592.8bn across private credit strategies. This represents a 78% year-on-year increase from the US\$333.4bn they deployed in 2023.
- Geographically, the US remains the largest market for private credit, accounting for 65% of AUM, but the European market is growing fast due to its strong relative value proposition and a renewed continent-wide focus on investment in energy, transport, digital infrastructure and defence.
- Competition between the private credit and Broadly Syndicated Loan ("BSL") markets continues to be a key driver of pricing and loan terms, although competitive pressure is expected to ease.
- 76% of private credit capital comes from institutional investors. Retail participation has grown considerably in the past decade to reach an estimated 24% of the investor base for private credit and is expected to grow further.
- Fundraising for private credit in 2025 has been strong, with investors continuing to value the risk-adjusted return, low dispersion rates between managers and the distribution profile of the asset class.

Stable and resilient fund structures

- Leverage levels in private credit continue to be modest. We estimate that aggregate leverage of the respondents to our survey is approximately 32% of their net private credit AUM.
- The weighted average fund level leverage for survey respondents' largest or flagship corporate lending funds is approximately 43% of NAV.
- 37% of survey respondents' largest or flagship corporate lending funds are unlevered, while nearly 87% of funds operate on either an unlevered basis or with leverage less than 100% of NAV.
- Banks continue to be the main providers of financing to private credit funds, but new entrants to the market have increased competition and improved borrowing terms for borrowers.
- 80% of private credit committed capital captured in our survey is held in closed-ended structures. Private credit funds that do offer some degree of liquidity to investors employ liquidity management tools to ensure that the liquidity available remains consistent with the underlying liquidity profile of the private credit assets and the fund's strategy.



Executive Summary (Cont.)

Key indicators reflect stable credit quality of investments and conservative financing

- Non-accrual rates for the flagship corporate lending funds surveyed were at 2.2% on average for corporate lending funds and 1.8% on a weighted AUM basis. Only 10% of respondents reported non-accrual rates above 5%.
- Despite the increase in portfolio stress in the past years, in 2024 core credit metrics remained stable. Other commonly used indicators of defaults and portfolio stress are also declining from recent peaks even if they remain slightly above historical averages.
- Only 10% of respondents reported LTV ratios in the highest range of 60-70% and 17% of companies financed by survey respondents had net debt/EBITDA multiples higher than 6x.
- Falling interest rates and the improving outlook for key sectors of the US and European economies are expected to mitigate portfolio stress and future defaults.
- Loan documentation is being impacted by downward pressures on loan terms, particularly in the US.



Research Methodology

Financing the Economy 2025 is based on data from several sources. The Alternative Credit Council (ACC) and Houlihan Lokey conducted a survey of private credit managers and received responses from 49 private credit managers. The ACC also conducted a series of one-on-one interviews with industry leaders.

Using data reported to the ACC by survey respondents, and other available data sources on firms who did not respond to our survey, we estimate global private credit AUM to be approximately US\$3.5tn (Figure 1).

This estimate uses the following definition of private credit - "investments in loans that you have originated or participated in as part of a club, private debt securities, mid-market CLOs and similar instruments across corporate lending, real estate debt, ABL and infrastructure debt strategies, but excluding broadly syndicated loans, publicly traded bonds or more liquid fixed income strategies".

We asked our members to provide their total private credit capital – this includes total committed capital (including both deployed capital and dry powder) plus any leverage facilities – using this definition. The 49 respondents to our survey reported total private credit capital of US\$2,090.5bn (Figure 2) as of the end of 2024. We then used Preqin data and publicly available information reported by private credit managers outside of our survey population to estimate their total private credit capital. Adding these assets under management to the total private credit capital reported by survey respondents is the basis for our estimate that the global private credit market is US\$3.5tn.

FIGURE 1

Estimate of the total size of the global private credit market



We estimated total global private credit AUM by using data reported to ACC and other available data sources for firms who did not respond to our survey.

FIGURE 2

Total private credit capital of survey respondents (US\$bn)



Total private credit capital consists of total committed capital (including both deployed capital and dry powder) plus any leverage facilities.

FIGURE 3

Total gross private credit AUM of survey respondents (US\$bn)



Gross private credit AUM consists of deployed capital plus drawn leverage facilities secured against assets, but excluding dry powder.

FIGURE 4

Net private credit AUM of survey respondents (US\$bn)



Net private credit AUM consists of deployed capital excluding leverage facilities secured against assets and excluding dry powder.



CHAPTER 1

Private Credit Shows Uninterrupted and Significant Growth

Key Takeaways



We estimate that global private credit AUM stood at approximately US\$3.5tn at the end of 2024, a 17% increase from our estimate of US\$3.0tn at the end of 2023.



Corporate lending is the dominant segment of the private credit market, accounting for 60% of current investments. Other areas such as ABL, infrastructure debt and real estate debt are increasingly relevant and account for most of the remaining 40% of the market.



In 2024, respondents to our survey deployed an estimated US\$592.8bn across private credit strategies. This represents a 78% year-on-year increase from the US\$333.4bn they deployed in 2023.



Geographically, the US remains the largest market for private credit, accounting for 65% of AUM, but the European market is growing fast due to its strong relative value proposition and a renewed continent-wide focus on investment in energy, transport, digital infrastructure and defence.



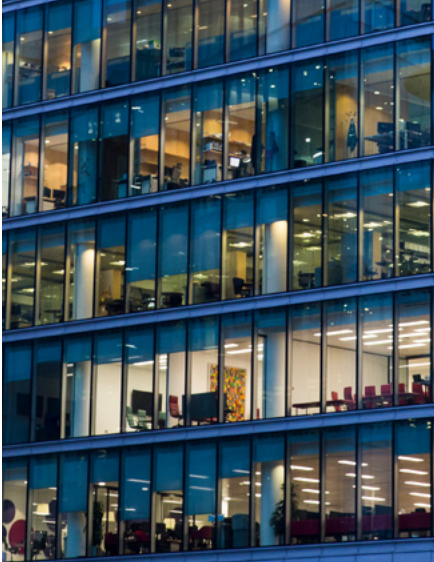
Competition between the private credit and Broadly Syndicated Loan ("BSL") markets continues to be a key driver of pricing and loan terms, although competitive pressure is expected to ease.



76% of private credit capital comes from institutional investors. Retail participation has grown considerably in the past decade to reach an estimated 24% of the investor base for private credit and is expected to grow further.



Fundraising for private credit in 2025 has been strong, with investors continuing to value the risk-adjusted return, low dispersion rates between managers and the distribution profile of the asset class.



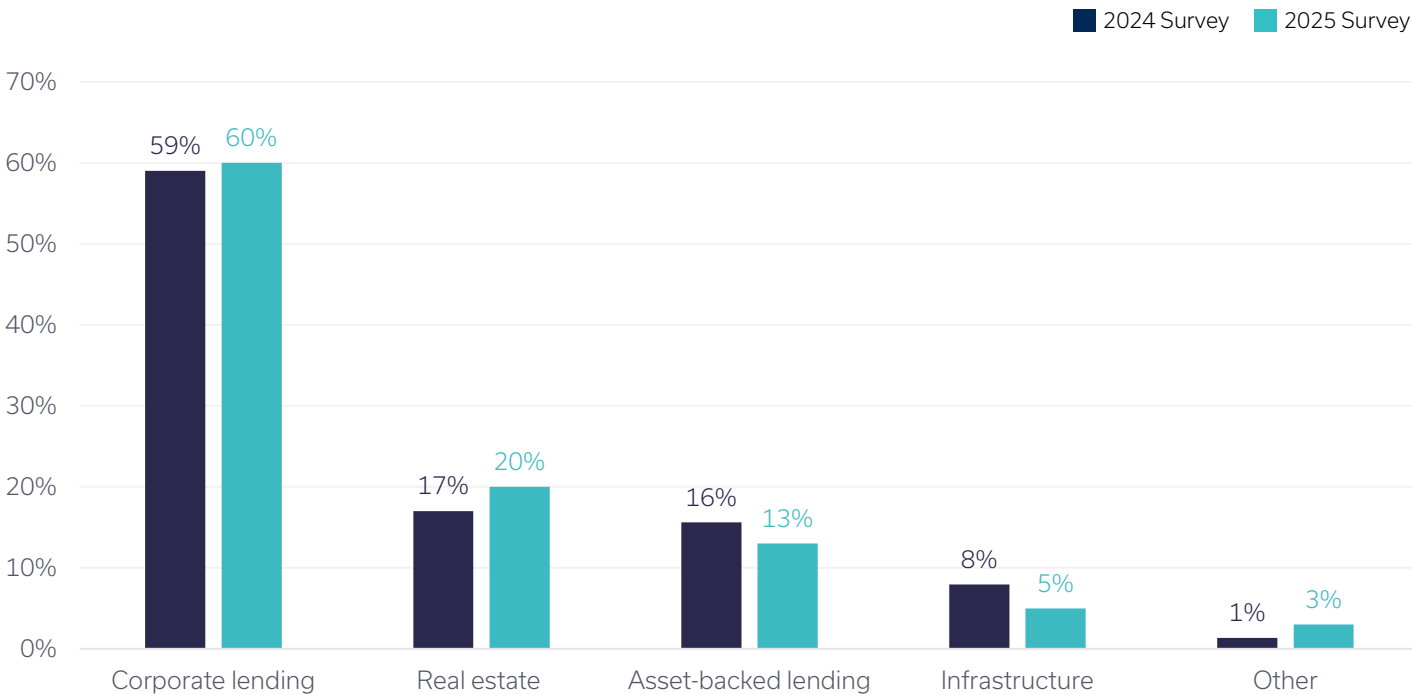
Growth and Diversification

Our data shows that the private credit industry has continued its steady expansion.

Using data from our latest Financing the Economy survey, and other available data sources for firms who did not respond to our survey, we estimate that the global private credit AUM stood at approximately US\$3.5tn at the end of 2024. This marks a 17% increase from our estimate of US\$3.0tn at the end of 2023 and continues the sector’s resilient growth trajectory of the past decade.

Corporate lending remains the dominant segment of the private credit market, accounting for approximately 60% of current investments. While there have been some changes in the relative exposure of our respondents to ABL, infrastructure debt and real estate debt strategies over the past twelve months, these segments continue to collectively account for around 40% of the private credit market (Figure 5).

FIGURE 5
Private credit capital (gross AUM) invested by strategy (US\$bn)



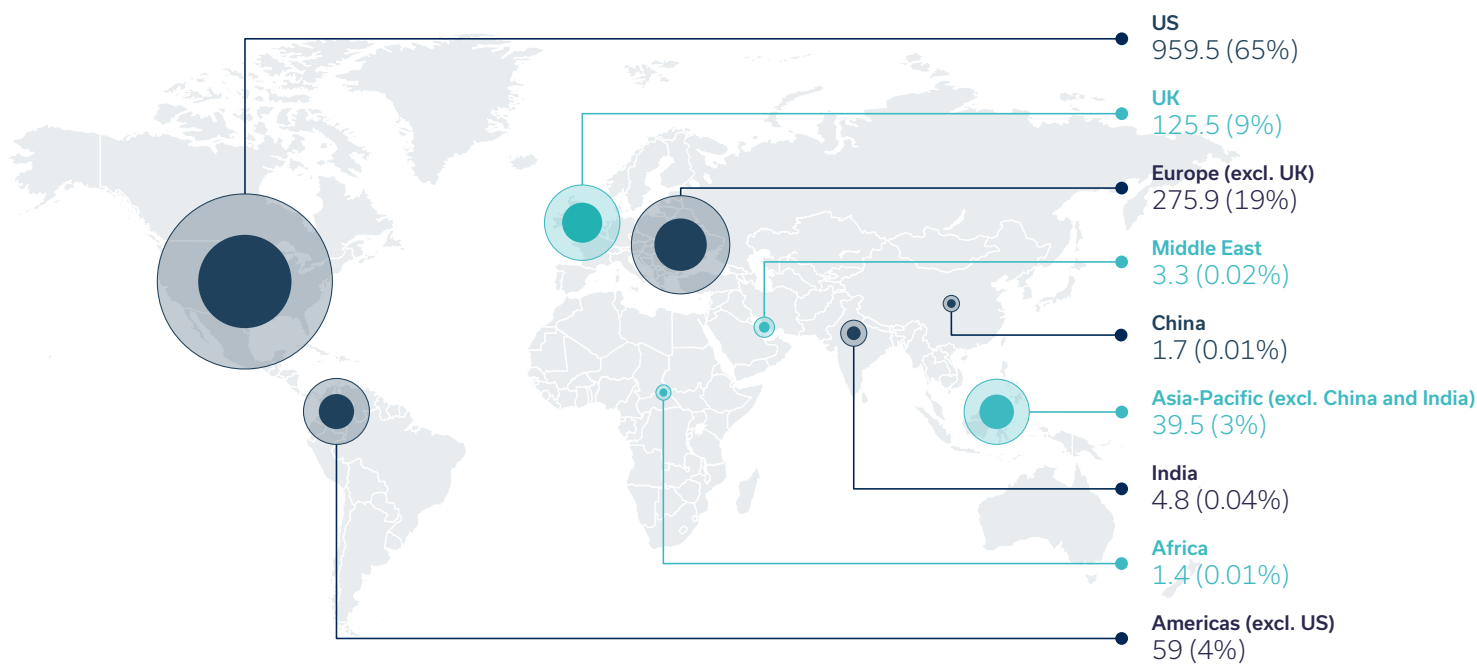
Percentages may not sum to 100% due to rounding. 2024/5 Financing the Economy survey.

Geographically, the US remains the largest market for private credit, accounting for 65% of AUM (Figure 6). When discussing this with interviewees, they highlighted the greater historical opportunities for private credit in the US market as well as relative ease of access.

Our data indicates that the European market (EU plus UK) represents 28% of private credit AUM. While the UK remains the largest single market within Europe, our interviewees highlighted how continental Europe now has multiple sources of growth across France, Germany/DACH region, the Nordics and Southern Europe. Demand for credit in these markets is growing, as is ease of market access following recent regulatory reforms, which are supportive for private credit fund managers.

Outside the US and Europe, private credit has maintained steady growth but still represents a small portion of the global market. The ACC’s recent report on Private Credit in Asia¹ provides an illustration of the dynamics shaping the development of emerging private credit markets. While there are strong economic tailwinds, such as the expansion of middle-class consumers, rapid urbanisation and a growing demand for infrastructure financing supporting the growth of private credit investment into these regions, fragmented regulatory regimes across different markets make it harder for investors to gain exposure to these tailwinds at scale. Opportunities in the US and Europe also make it harder for investors to justify additional private credit exposure to other markets.

FIGURE 6*
Private credit capital (gross AUM) invested by market (US\$bn)



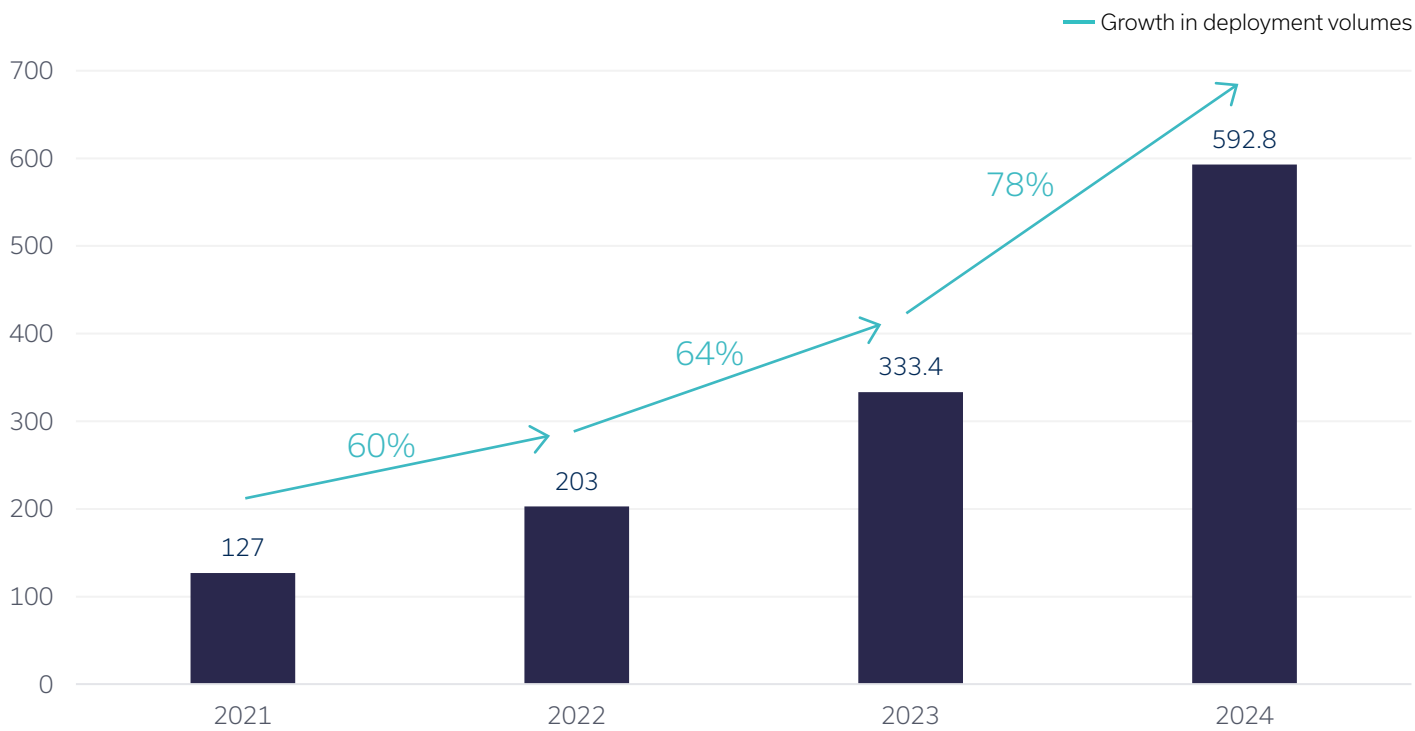
Percentages may not sum to 100% due to rounding.

Deployment Volumes Reach New Records

Our data shows that survey respondents deployed US\$592.8bn across private credit strategies in 2024.

This represents a 78% year-on-year increase in capital deployment (Figure 7), which is also higher than the year-on-year deployment growth rates recorded in previous years.

FIGURE 7*
Annual private credit deployment in US\$bn
(Gross deployment, including refinancing)



“

This could be one of the busiest years for loan markets in recent history and credit spreads are tight as a result. However, contrary to the public narrative, credit quality is strong and the picture is positive for the asset class.

Blair Jacobson
*Partner and Co-President,
Ares Management Corporation*

US\$592.8bn

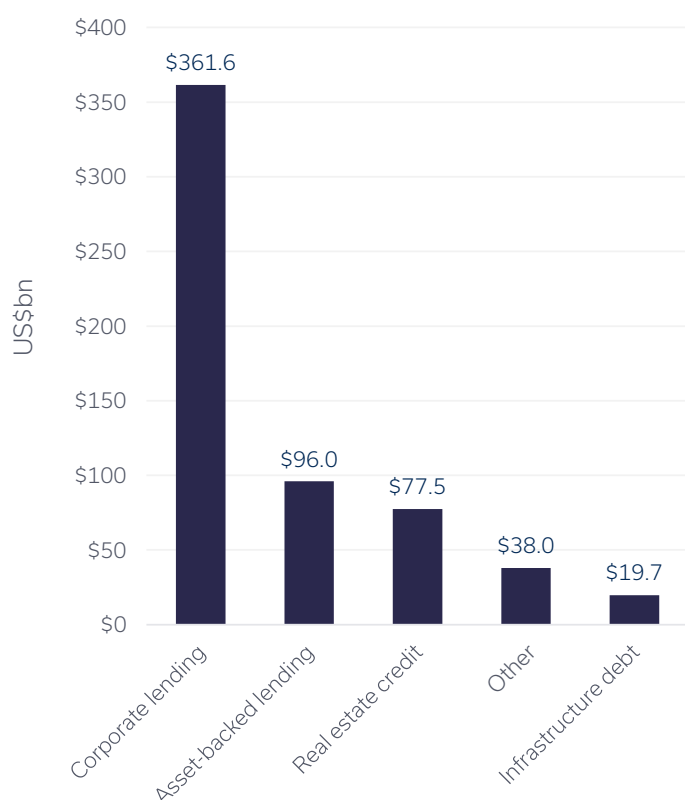
Private credit capital deployed in 2024

Refinancing and 'incumbent' lending activity have been key drivers of the growth in deployment volumes, with some interviewees stating that these activities constituted 40-60% of their deal activity in 2024. Existing relationships with borrowers played an important role in this deployment, with private credit firms often seen as a lender of first choice by firms looking to refinance. Existing lenders will have the most up-to-date information on the borrower's business and have a pre-existing relationship with management. These factors, alongside the speed, flexibility and certainty of execution, make private credit funds an attractive source of finance.

Further trends behind the deployment momentum of 2024-2025 can be observed in Figure 8, which shows that around 40% of the capital deployed by survey respondents was in strategies other than corporate lending, with ABL accounting for around 16% alone. Interviewees noted that realising opportunities in this market required the right underwriting and monitoring infrastructure to support deployment activity. Several firms have built specialised platforms capable of undertaking in-depth due diligence, hands-on audits and multi-layered credit reviews to support their ABL business.

FIGURE 8*

Private credit capital (gross AUM) deployment in 2024 by strategy (US\$bn)



“

I am concerned about some parts of the market getting into asset-backed finance when they don't really have the necessary infrastructure. ABL is such a heavy burden on monitoring, as well as on receivables and inventorying, so you need resources and people that have the right experience.

Peter Lockhead

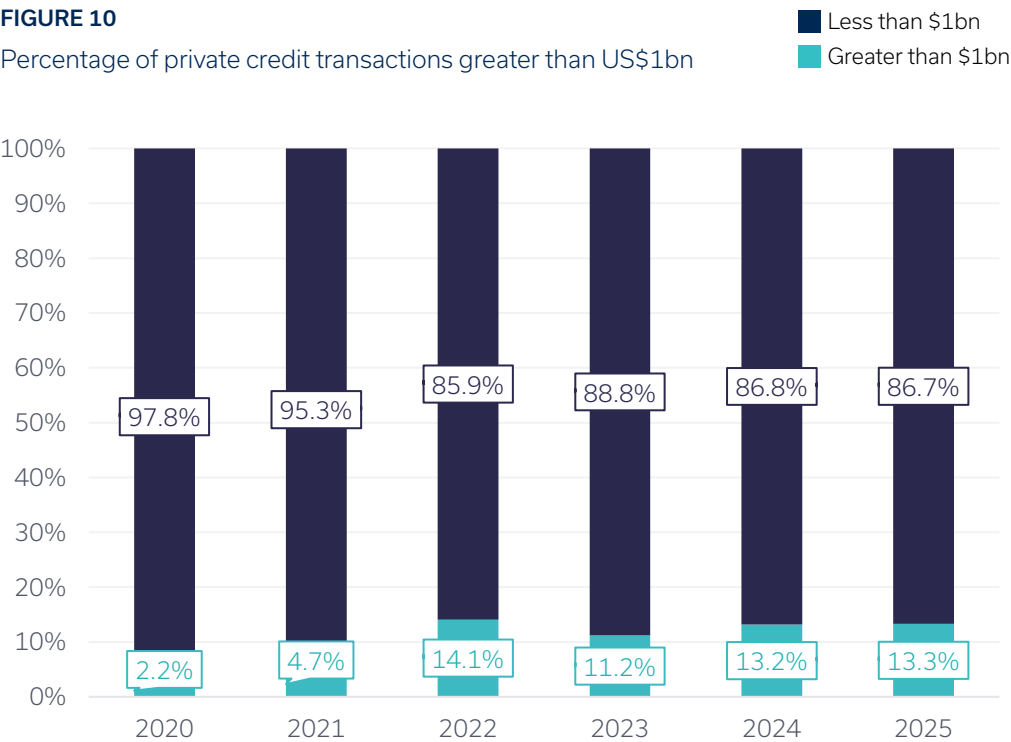
Managing Director and Portfolio Manager of the Senior Debt Partners Strategy, ICG

A further consideration when looking at deployment volumes is the role of private credit managers in financing larger deals. The ability of private credit lenders to underwrite loans in the billions – either alone or via club syndicates – means they were prominent financiers of large cap transactions in 2024. This can be seen when breaking down our data to show the share of deployment volumes attributable to the largest 20% of managers. These lenders, who have the necessary scale to support large cap deals, accounted for approximately 85% of deployment volumes reported in 2024 (Figure 9), suggesting that these transactions played an important role in the growth in deal volume. This is supported by data from the Houlihan Lokey Private Credit DataBank, which shows an increase in the share of US\$1bn+ transactions in the US during 2024 (Figure 10).

FIGURE 9*
The largest private credit managers deployed approximately 85% of capital in 2024
US\$ bn



FIGURE 10
Percentage of private credit transactions greater than US\$1bn



Source: Houlihan Lokey Private Credit DataBank (<https://hl.com/insights/private-credit-databank/>)

“

The opportunity set continues to expand, including to new asset classes and strategies where we now engage. For example, infrastructure debt has been an area where our business has seen strong organic growth. We are able to deploy higher volumes while maintaining our underwriting standards.

Leslie Mapondera
Partner and Co-Head of European Credit,
Apollo

Deployment Volumes Growing in Non-US Markets

“ The environment in Europe is very different to the US, where there is a serious prospect that capital charges for banks will be decreased. Regulation continues to restrict bank lending in Europe. This leaves a vast real-economy demand for credit that only private lenders can meet. The European defence build-up is also going to provide significant demand for supply chain finance.

Stuart Fiertz

Co-Founder, President, Head of Responsible Investment and Director of Research, Cheyne Capital

“ European governments are starting to spend more on defense and infrastructure, which is creating an inflection point for the European economy that will drive additional economic growth and deal flow. Europe also has less private credit competition, and capital markets are not as deep as in the US, which makes terms typically a bit better in Europe. In Asia, deployment has been slow because it is a smaller market. The biggest opportunities are in Australia, Japan and India. Overall, these markets remain ten years behind Europe and the US, but there are good reasons for their continued growth.

Brad Marshall

Global Head of Private Credit Strategies, Blackstone

“ Europe offers attractive spreads, strong terms and limited competition. Fragmentation here is a positive feature, not a flaw. European defence and infrastructure spending plans are going to have a positive impact on GDP and growth.

Stephan Caron

Head of EMEA Middle Market Private Debt, BlackRock

“ The strongest growth trend going forward is coming from the realisation by policymakers that in Europe we need independence in terms of digital and energy infrastructure.

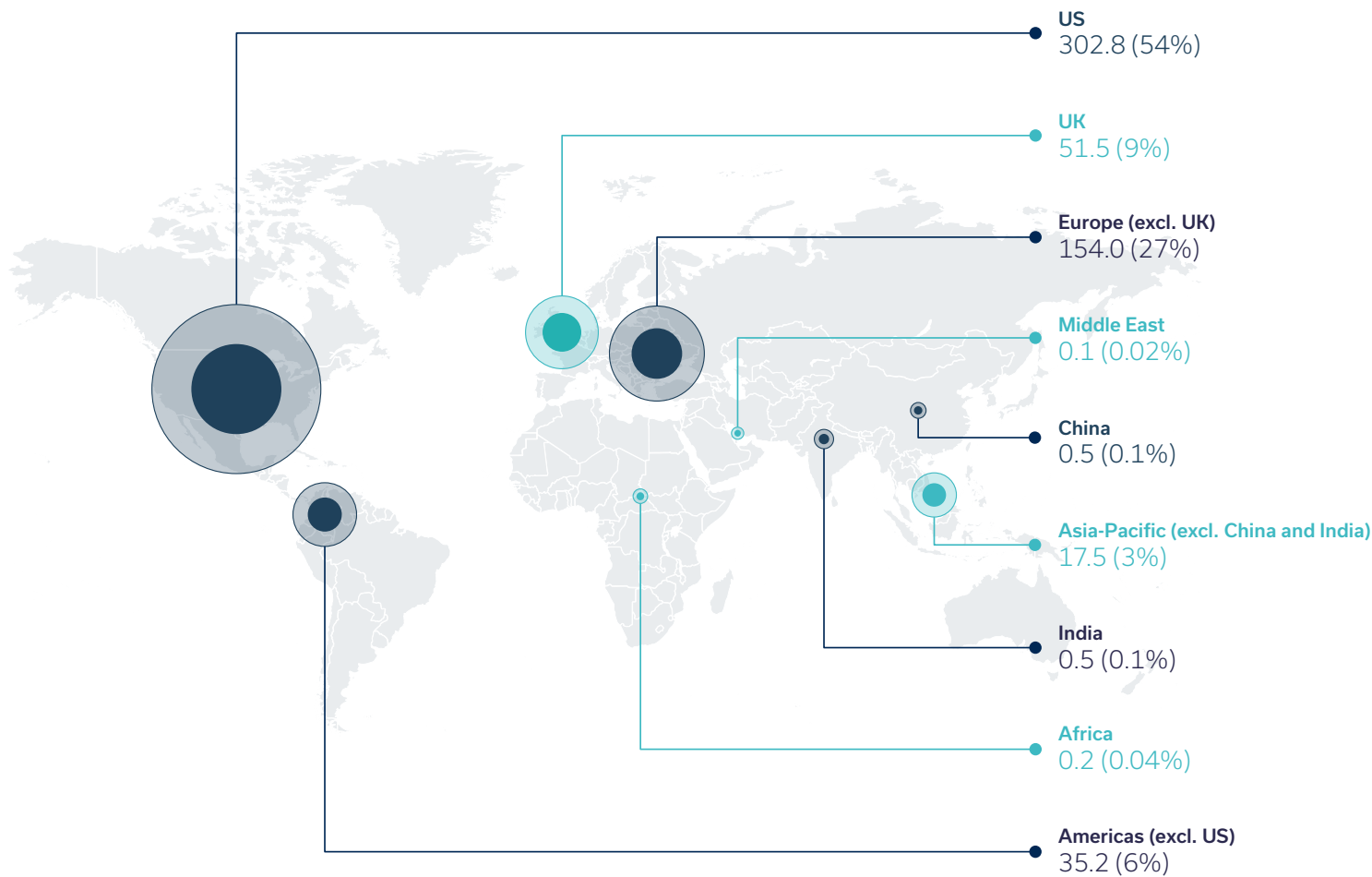
Edouard Jozan

Head of Private Markets, Allianz Global Investors



Our data suggests that while 65% of current assets under management are invested in the US (Figure 6), it accounted for 54% of deployment volumes in 2024 (Figure 11). This indicates that deployment volumes outside the US were higher than their current pro-rata market share, with Europe a key beneficiary. Interviewees repeatedly emphasised that investments in Europe had a strong relative value proposition and there was still considerable scope for further growth. It was also attractive to investors seeking greater diversification within their private credit exposure, as well as potentially offering more attractive risk-adjusted returns. This trend is also evident in PitchBook’s data which shows growth in European corporate lending deal volumes during 2024 (Figure 12).

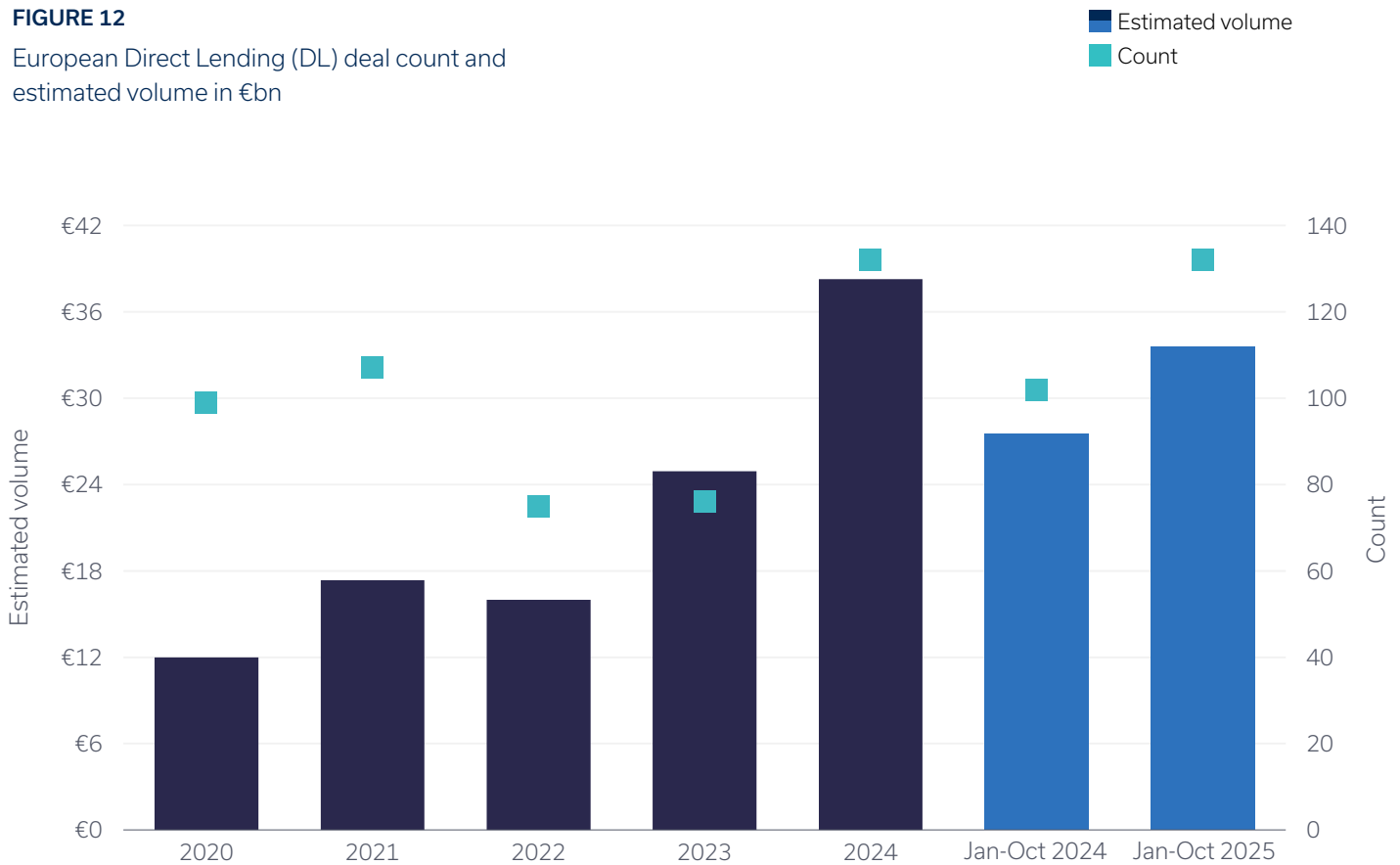
FIGURE 11*
Private credit capital (gross AUM)
deployment in 2024 by market
(US\$bn)



Percentages may not sum to 100% due to rounding.

FIGURE 12

European Direct Lending (DL) deal count and estimated volume in €bn



Source: PitchBook, October 2025 European Private Credit Monitor

When discussing this trend, interviewees noted that European deal volumes have benefitted from the market now having a longer track record, and European corporates being more familiar with private credit. Deal volumes also benefitted from the renewed focus in Europe on investment in energy, transport, digital infrastructure and defence, which presents multi-year opportunities for private credit investors, particularly as European governments actively seek to incentivise private capital investment into these public policy priorities.

The longer-term trend for bank lending to account for a smaller proportion of the European economy also continues to be a tailwind for private credit in the region. Market conditions in Europe are also seen as more favourable to lenders in some areas when compared to the US market. These factors are combining to create a strong growth dynamic for private credit in Europe over the coming years.

“

The required spending on infrastructure, energy and defence is in the trillions per year. Governments alone cannot satisfy this critical need, which presents a large opportunity for private capital to bridge the funding gap.

Blair Jacobson

Partner and Co-President,
Ares Management Corporation

Market Conditions, Sentiment and Outlook in 2025

A key dynamic influencing sentiment within private credit this year has been the competition and interplay between private credit and the BSL market (Figures 13 and 14). These dynamics are most apparent in the US, but they are also present in the European market albeit to a lesser extent.

While in 2022 and 2023 private credit was a beneficiary of BSL market dynamics that reduced the ability of BSL to provide borrowers with finance, these dynamics continue to evolve. Banks and investors in BSL have returned to the market, leading to more competition between lenders to deploy capital, sometimes leading to narrower pricing and more borrower-friendly terms. This is most apparent in the US sponsor-backed segment of the market and in the larger cap deal space.

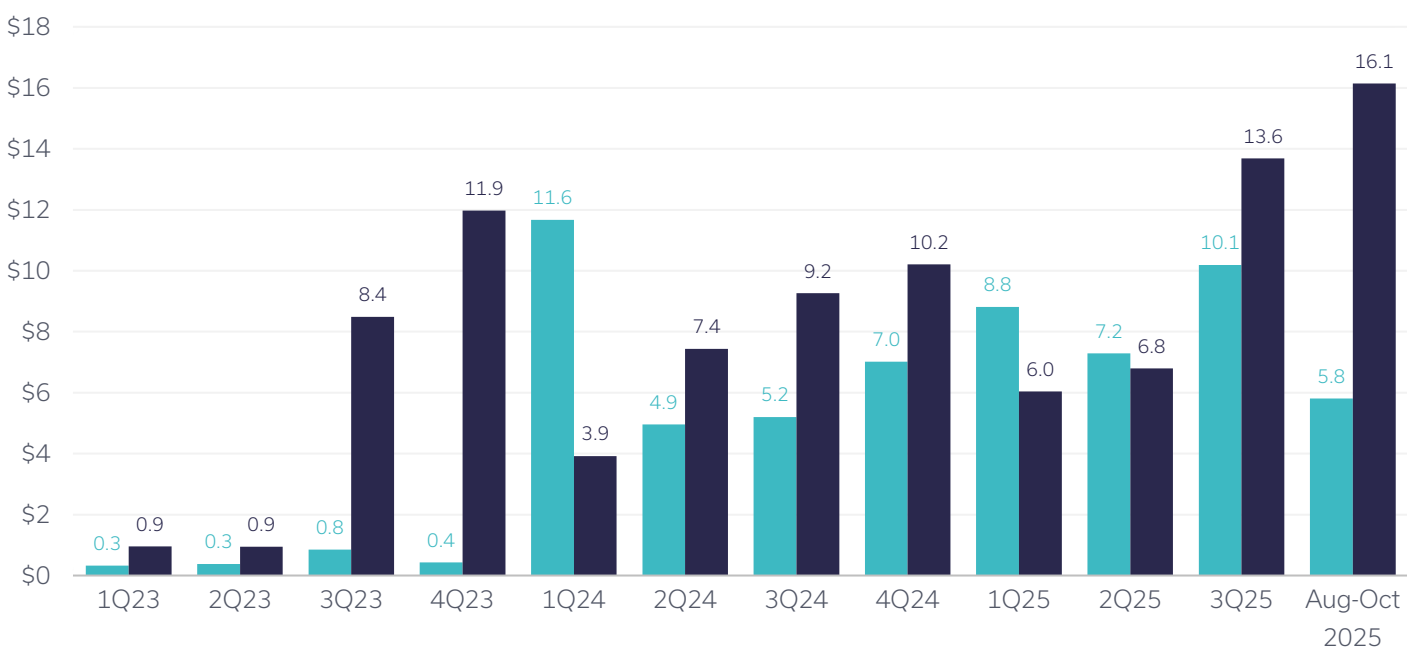
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It is important to have a functioning bank and BSL market. Refinancing activity of private credit transactions by banks and the BSL market is a healthy feature of private markets.

Rafael Calvo
Managing Director, Head of Private Credit Portfolio Management (Europe), Clearlake Capital

FIGURE 13
US syndicated loans and direct lending takeouts in US\$bn

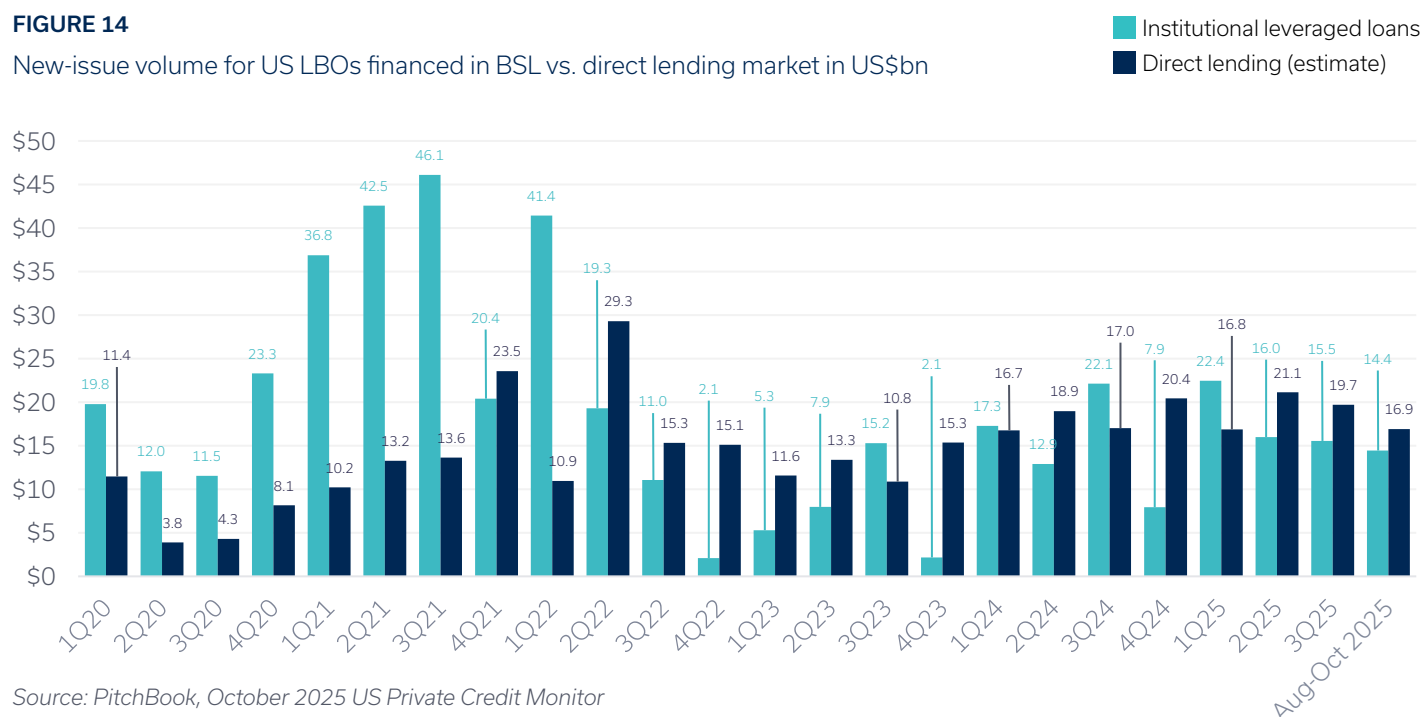
■ DL refinanced by BSL
■ BSL refinanced by DL



Source: PitchBook, October 2025 US Private Credit Monitor

FIGURE 14

New-issue volume for US LBOs financed in BSL vs. direct lending market in US\$bn

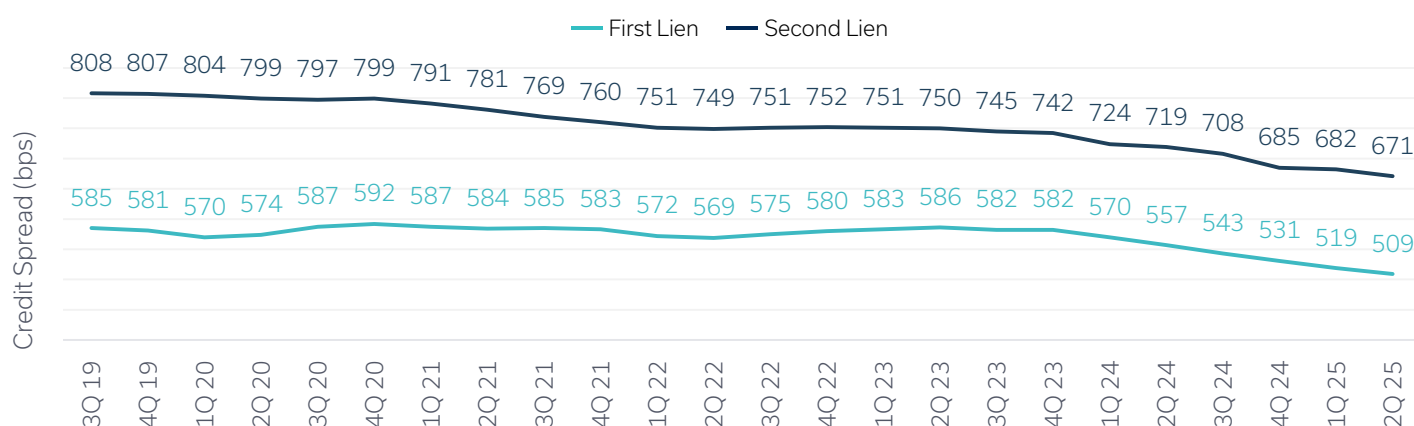


The beginning of 2025 saw lower credit spreads on some corporate loans, as sponsors were able to use competition among lenders to negotiate better rates. For example, according to our interviewees, typical unitranche loan spreads in the upper mid-market were 475–550 basis points (bps) over the base rate and only ~100-150 bps wider than comparable syndicated loans – a reduction in the traditional premium that private credit offers investors. Data

on BDC spreads confirms this trend, as evidenced in Figure 15, with average spread over SOFR being 509 basis points for first lien BDC loans in Q2 2025. The same is also true in private credit loans to middle market (MM) businesses (US\$20 million (mn) – US\$100 million adjusted EBITDA businesses), with pricing spreads in the 450-525 basis points range and all-in pricing in the 8.4%-9.2% range (assuming SOFR of 3.9%) in October 2025.²

FIGURE 15

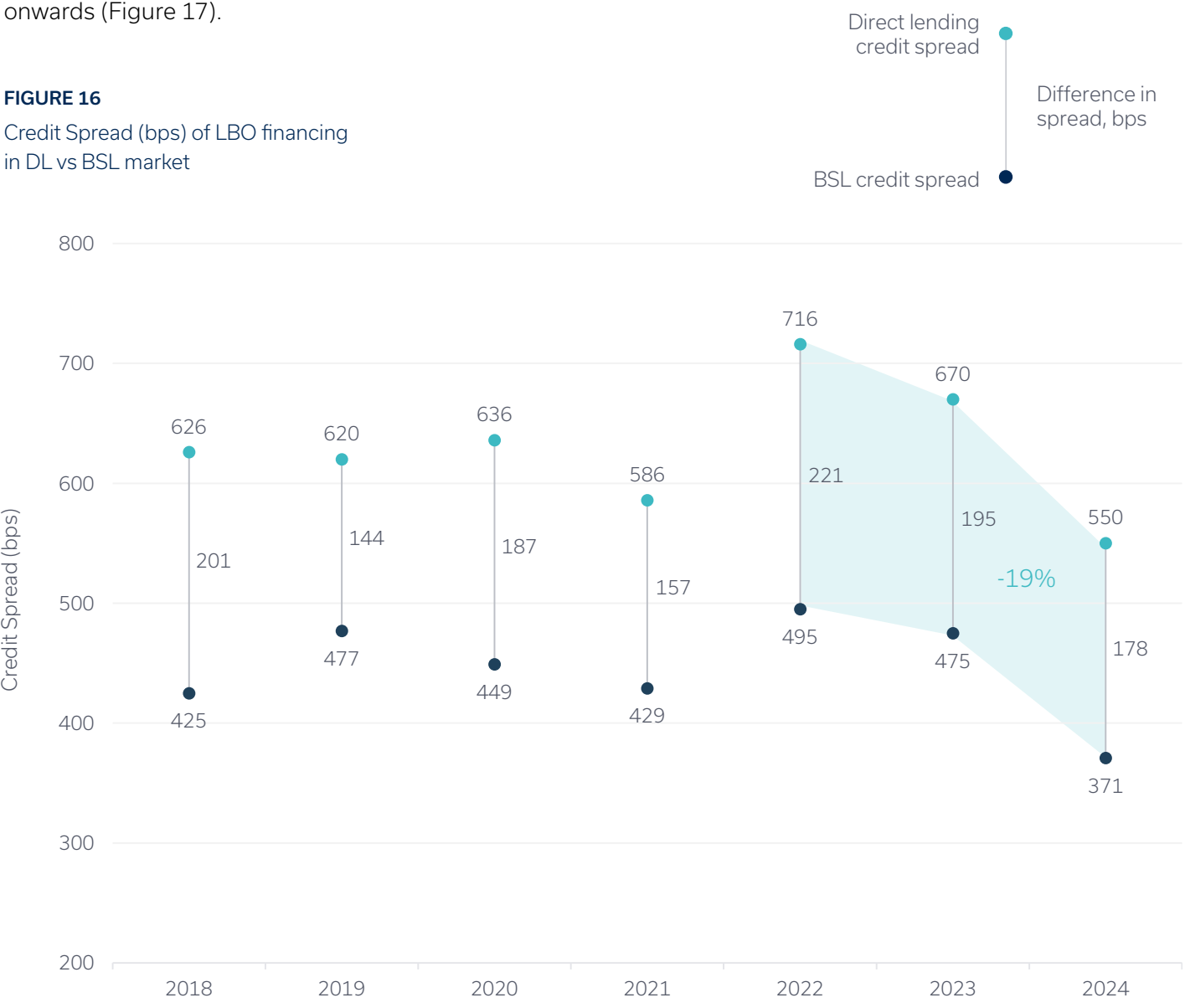
Average credit spread (bps) over SOFR for BDC portfolios



Source: Houlihan Lokey, BDC Monitor Fall 2025 (<https://hl.com/insights/bdc-monitor/>)

Figure 16 shows how this narrowing relates to typical spreads and premiums over the past few years. The growing convergence of pricing and terms between private and syndicated loans was also highlighted by several interviewees who noted that sponsors were also seeking more flexible loan terms. This can also be observed in the narrowing of AAA spreads between US middle market and BSL CLOs from 2022 onwards (Figure 17).

FIGURE 16
Credit Spread (bps) of LBO financing
in DL vs BSL market



Source: McKinsey, Global Private Markets Report 2025 (<https://www.mckinsey.com/~/media/mckinsey/industries/private%20equity%20and%20principal%20investors/our%20insights/mckinseys%20global%20private%20markets%20report/2025/global-private-markets-report-2025-braced-for-shifting-weather.pdf?shouldIndex=false>)

“
With M&A down for the past years and large inflows of capital coming into the asset class, pricing and documentation have been eroded. Spreads have compressed, but the overall cash coupon is still similar.

Kevin Griffin
Managing Partner, CEO and CIO, MGG

“

It has been a borrower's market this year - documentation has been borrower friendly and we have seen some of the lowest margins in a while. However, we do expect that over the next twelve months, as M&A increases, pricing and documentation terms will improve. We have already started to see this to some extent.

Rafael Calvo

Managing Director, Head of Private Credit Portfolio Management (Europe), Clearlake Capital

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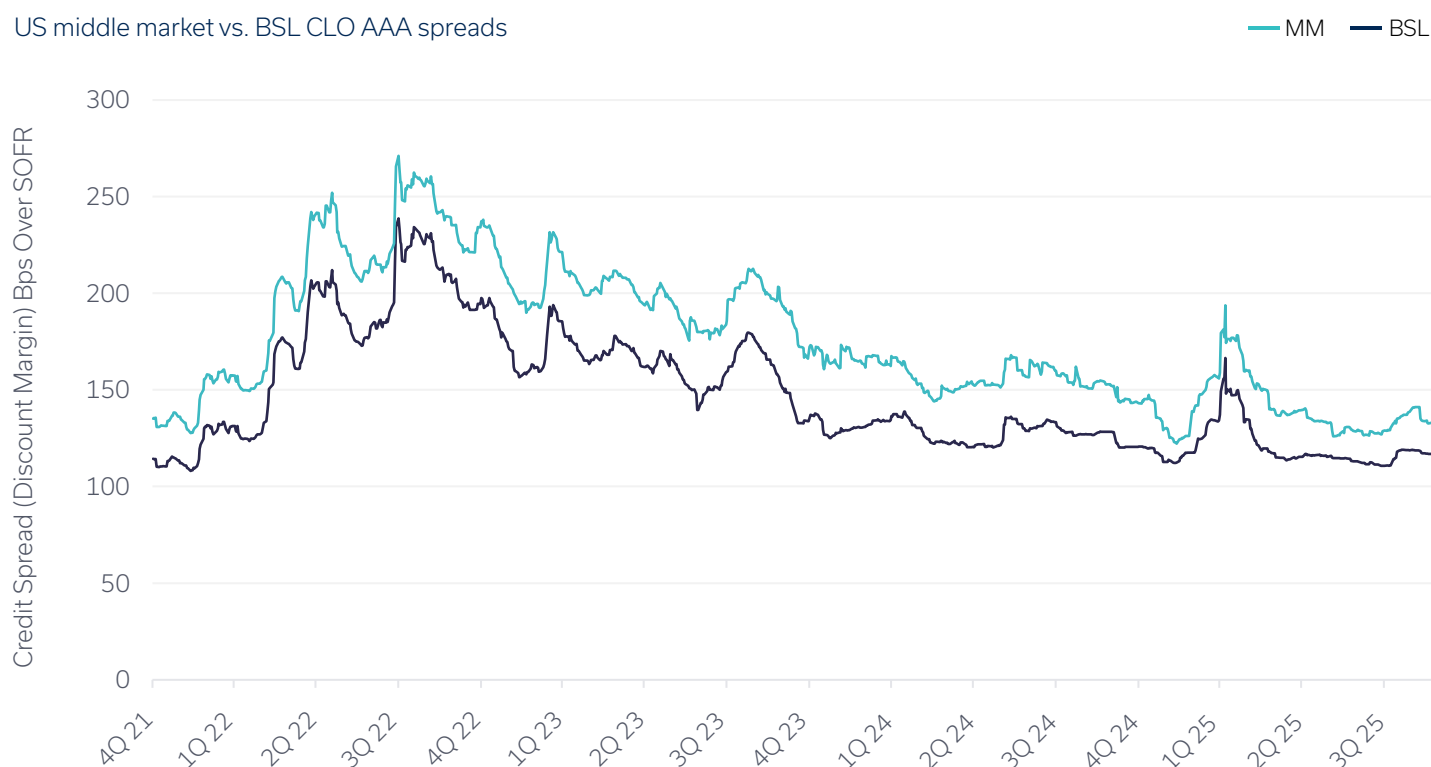
At the beginning of the year people were bullish about M&A, but that did not materialise in advance of Liberation Day. As we have been reaching Q3 the M&A pipeline has been picking up. We expect this to continue on the back of a positive macro environment.

Brian Marcus

Managing Director - Partner and Head of Cross Platform Investing for Global Credit, Carlyle

FIGURE 17

US middle market vs. BSL CLO AAA spreads



Source: Houlihan Lokey CLO Indices

M&A deal flow, which is commonly assumed to drive deployment opportunities, was relatively subdued in early 2025 (Figure 18). The US tariff regime announced in April 2025 significantly impacted deal activity, given the immediate level of uncertainty and the higher costs that companies were expected to incur. S&P 500 corporate earnings reportedly picked up in the third quarter³ and recent data suggests that private credit borrowers have averaged 8.1% EBITDA growth in the first three quarters of 2025 (Figure 19). While this is lower than the average 9.3% EBITDA growth for the same period last year (Figure 19), it has held up much better than anticipated, boosting confidence amongst lenders.

Interviewees also reported that a backlog of deals that had been in ‘wait-and-see’ mode have now been priced following the step down in interest rates and reduction in spreads. Analysts have highlighted the resilience of M&A deal flow despite headwinds and its steady recovery⁴ creating a more positive outlook. Interviewees also reported that private credit deal activity has accelerated significantly since the summer, with some managers reporting that pipelines are the busiest they have seen since 2022.

FIGURE 18
Global M&A deals by
value (US\$tn) and count

Source: LSEG

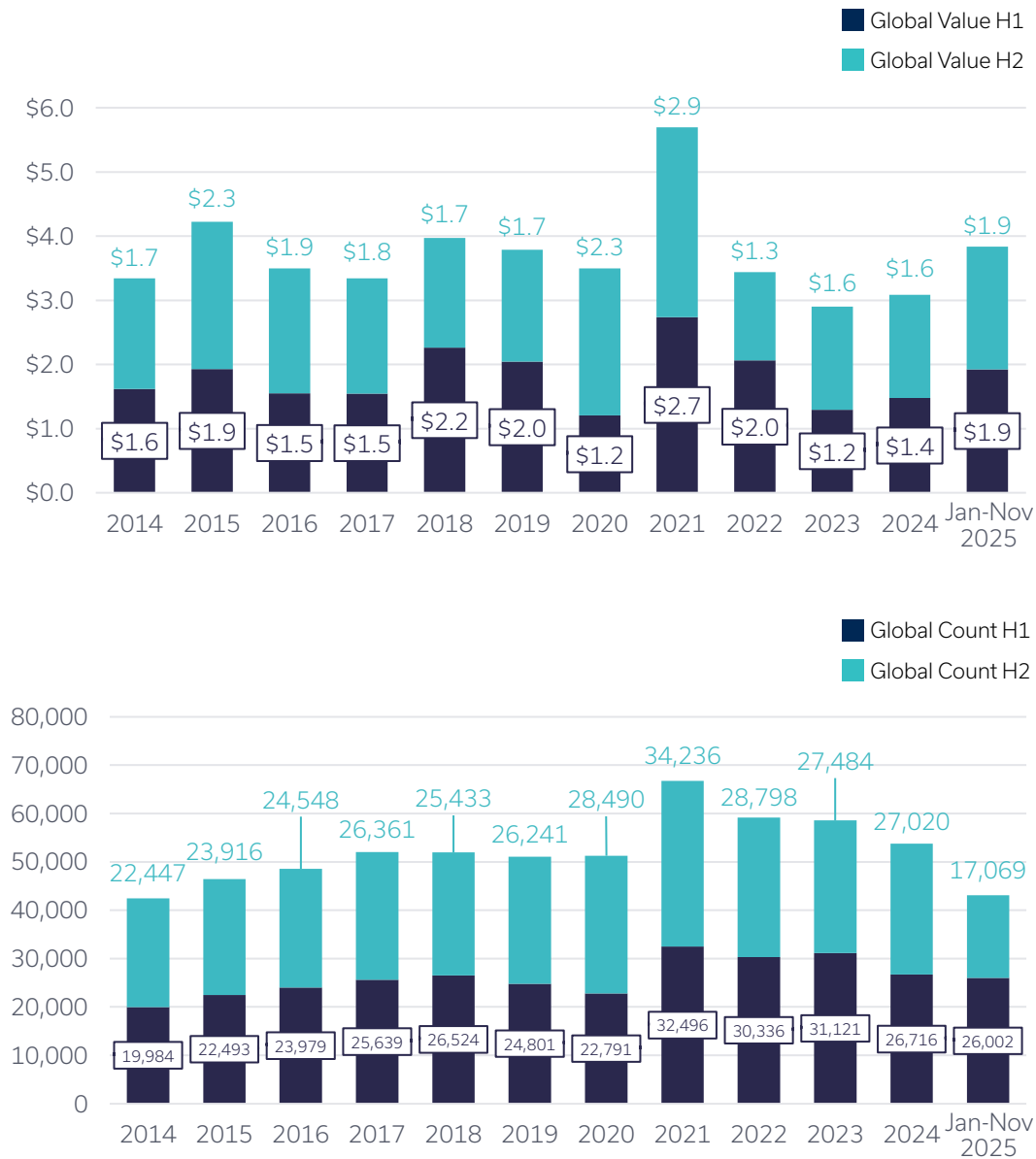
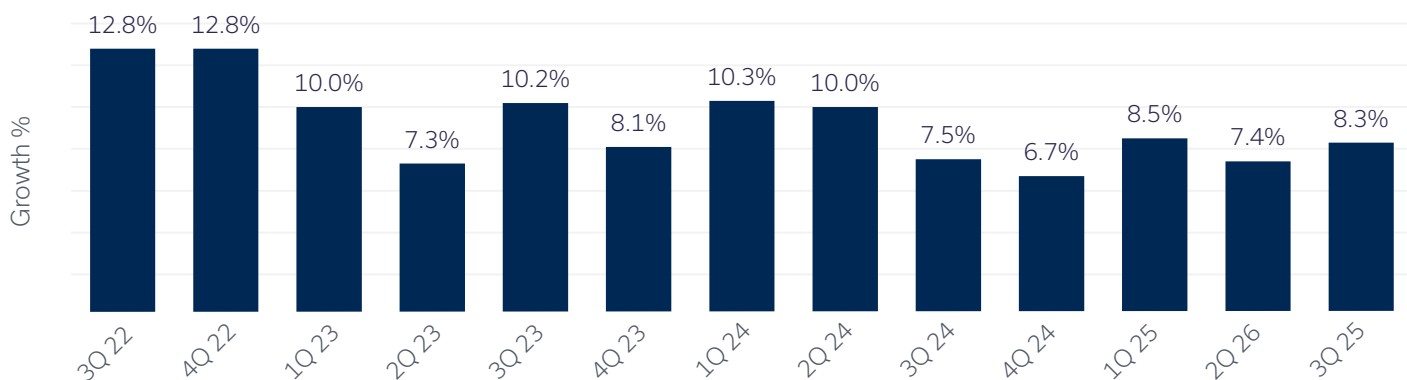




FIGURE 19

Portfolio Company EBITDA Growth Year-over-Year



Source: Houlihan Lokey Private Credit DataBank (<https://hl.com/insights/private-credit-databank/>)

Macroeconomic events in 2025 have also had an important impact on deal flow and deployment, with the boom in AI and digital infrastructure, transport and defence are providing tailwinds for the sector. Private credit managers have been an important source of finance for capital expenditures and acquisitions in sectors linked to these policy shifts, ranging from new digital infrastructure to mid-sized manufacturing businesses adjusting their business models in response to changes in global trade patterns. S&P estimates that over \$4 trillion in cleantech investment will be needed until 2030, and that private credit can offer more bespoke financing for cleantech developers, despite higher borrowing costs, than traditional bank lending.⁵ In November, JP Morgan put the global funding requirement for AI data centres at approximately US\$5 trillion over the next five years, anticipating that this will require capital from every debt market, including private credit.⁶

“

From a deployment perspective, it has been a more competitive and challenging environment to deploy capital. Demand has increased and the supply of deals has not grown proportionately, which has provided technical pressure on valuations. This has been the biggest challenge.

Patrick Linnemann

Senior Managing Director, Blue Owl

“

In the infrastructure space, banks have mandates that are complementary to those of asset managers. They go earlier into the projects and asset managers, on behalf of longer oriented investors, can come in with patient capital that is needed for the advanced, operational stages of the projects. The opportunity lies in finding commonalities in the structuring of the financing, as well as the sharing of the economies of the deals.

Edouard Jozan

*Head of Private Markets,
Allianz Global Investors*

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There has been significant capital raised in the US on the expectation of a very high volume of SRT issuance. This deal flow has been relatively slow to materialise, leading to significant competition, and therefore tight pricing, on US deals. We have seen better relative value in recent months on European transactions, where the market is more mature and where there is a greater depth of issuance.

Charis Edwards

*Portfolio Manager
(Significant Risk Transfer),
Orchard Global*

Focus on Significant Risk Transfer

The rapid growth of the Significant Risk Transfer (“SRT”) market in Europe over the past decade has created new deployment opportunities for private credit funds, which now constitute the key investor group in this market. 2025 saw EU SRT issuance grow to ~€15 billion, up from ~€11 billion in 2024, and from ~€6 billion to ~€7 billion in the US.⁷ This issuance included corporate loans, infrastructure and project finance, commercial real estate and renewables.

There are now estimated to be over 100 banks active in the SRT market globally. While these are mainly European and US issuers, the Asian market is beginning to emerge as a new source of deal flow. It was noted that the anticipated growth in US SRT transactions had not materialised due to ongoing uncertainty over the regulatory framework for SRT transactions, as well as an easing of the proposed banking reforms in the US.

Banks continue to develop their approach to SRT transactions. For example, some now prefer to work with smaller pools of core investors rather than larger syndicates. This can improve certainty and speed of execution for the bank and permit greater tailoring of the transaction to the issuer’s needs. Infrastructure finance is one example of this trend. The sector remains core to banks’ portfolios, but the use of SRT allows them to retain these exposures efficiently rather than being forced to reduce their overall exposure. Recent announcements by some banks that they expect to create funds which invest in SRTs, including their own, are not seen as consistent with this rationale, but such structures are not prevalent in the market today.

The prospects for the market are positive, and SRTs generally retain strong support from regulatory authorities and policymakers who see it as an efficient means of distributing risk outside of the banking sector without creating systemic vulnerabilities. This support has materialised in recent European Union proposals to fast-track the regulatory approval process for SRT transactions, although the overall regulatory framework remains burdensome, as the ACC has highlighted in its advocacy efforts around the EU review of the Securitisation Regulation. Finally, Basel IV implementation in Europe will also incentivise the market, as banks will need to increase their use of SRTs to manage their capital intensity.

“

US corporate bankruptcy levels in 2024 and H1 2025 have been at their highest pace since 2010, as elevated interest rates and sticky inflation led to pockets of stress. Auto-loan delinquencies in the US have been rising and are at record highs for subprime borrowers, in particular. These have not been sharp spikes but gradual increases. However, we are not seeing this impact in our SRT investments, and we are not observing weakness in bank reporting. Bank provisions are also in line with expectations. The data that we have been receiving from banks shows that the underlying assets are also performing within underwritten standards, highlighting the importance of working with high quality counterparties.

Charis Edwards

*Portfolio Manager (Significant Risk Transfer),
Orchard Global*

“

There are now over 100 banks issuing SRTs, and we expect that this year banks will buy protection for over \$450 billion worth of loans. The market is still growing and new types of loans are being used for collateral, including real estate and project finance loans. We see a reasonably good balance between investors and supply.

Stuart Fiertz

*Co-Founder, President, Head of Responsible Investment
and Director of Research, Cheyne Capital*

“

Some recent transactions, particularly coming from the US, have included aggressive structural features which we don't typically see in SRT transactions. We don't view these as part of the SRT universe, as they are more akin to risk hedges than risk sharing. We see potential reputational risk to the sector should these deals start to underperform.

Charis Edwards

*Portfolio Manager
(Significant Risk Transfer),
Orchard Global*

Private Credit Remains Attractive for Multiple Types of Investors

The investor base for private credit remains predominantly institutional, accounting for 76% of our respondents' private credit assets under management (Figure 20).

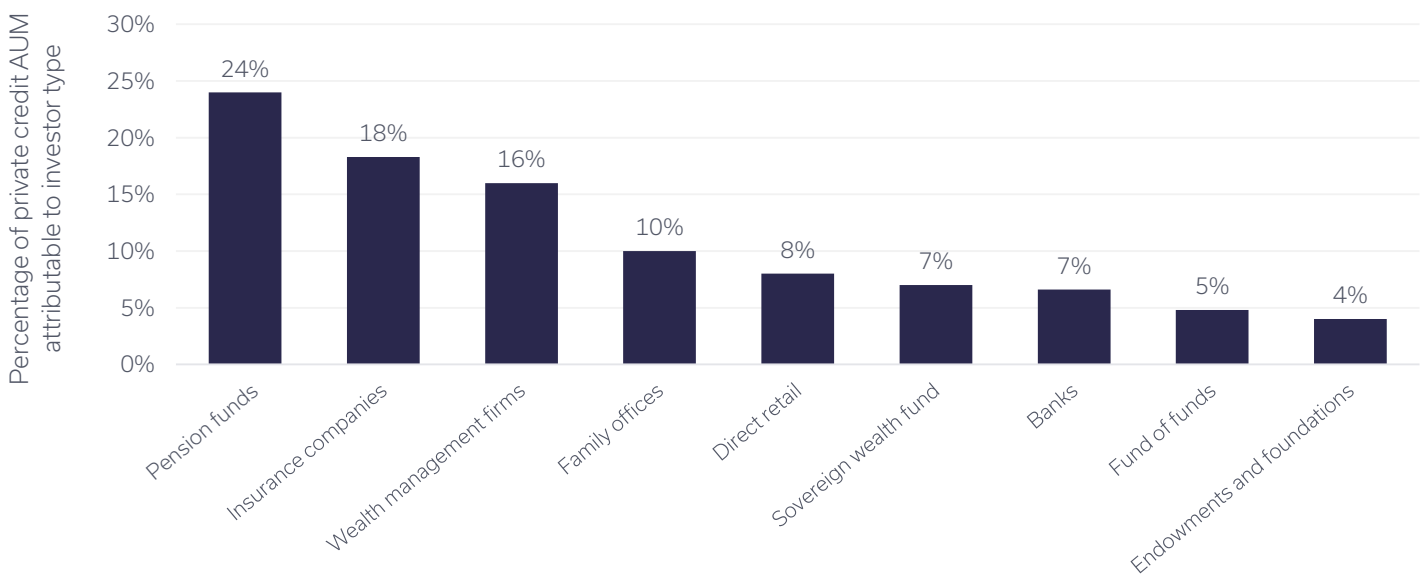
When comparing this to our 2015 data (Figure 21), we see that pension funds and insurers remain the two largest investors in the asset class, but there are also significant changes to the share for other institutional investor types, with endowments and foundations and fund of funds now comprising a smaller proportion of the investor base than a decade ago. Private credit managers have been building their platforms to support how multiple types of investor gain exposure to the asset class. This can include Separately Managed Accounts (SMAs) for pension funds, co-investment vehicles for sovereign wealth funds or rated note feeder structures for insurance clients.

“

Private credit is growing for good reasons. Investors appreciate the efficiency of a farm-to-table model, and they now have a 20-year performance history to underwrite the benefit of the asset class through market cycles.

Brad Marshall
Global Head of Private Credit Strategies, Blackstone

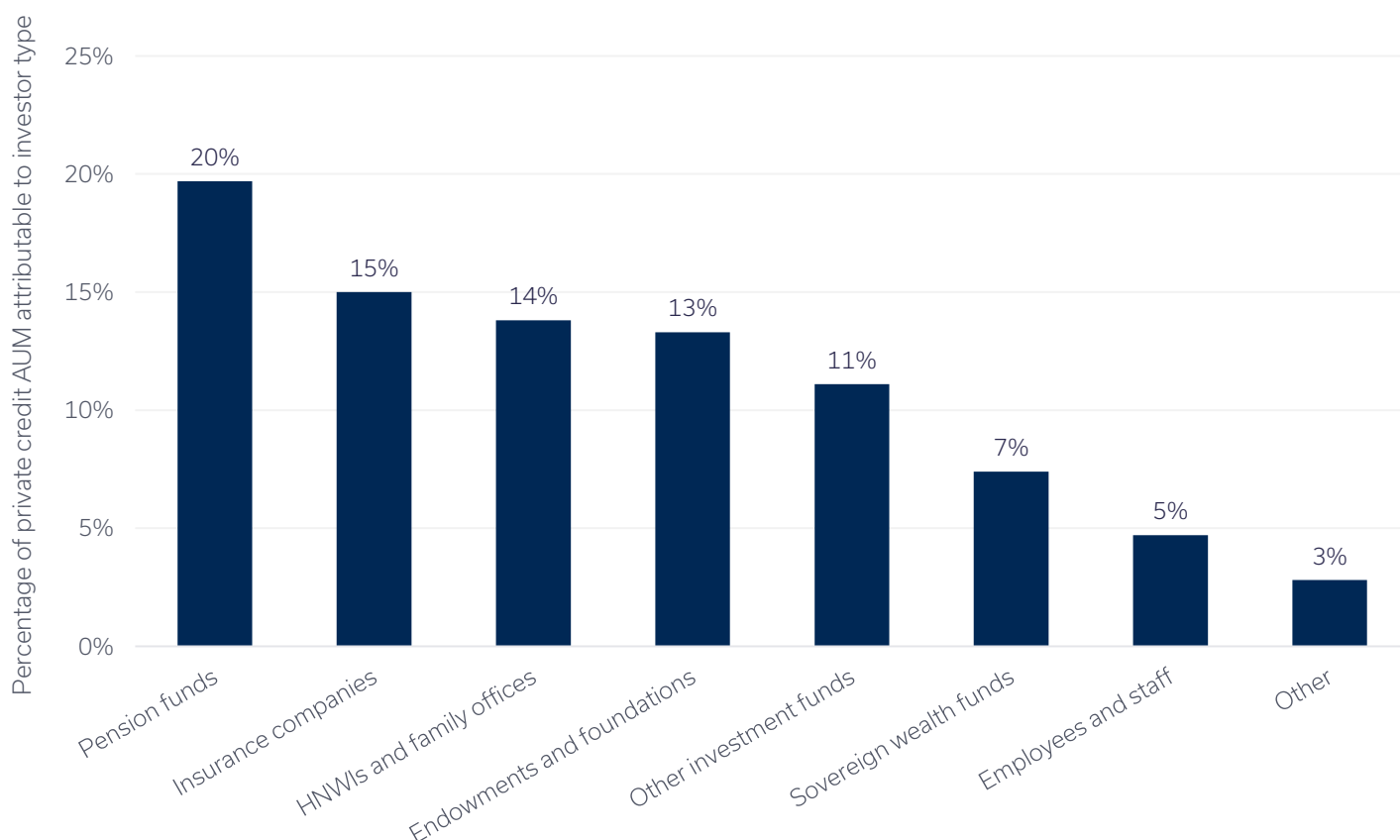
FIGURE 20*
Allocations to private credit by investor type in 2024



Percentages may not sum to 100% due to rounding.

FIGURE 21

Allocations to private credit by investor type in 2015



Percentages may not sum to 100% due to rounding.

Source: Financing the Economy 2015 (<https://acc.aima.org/static/uploaded/89856082-8b25-45ae-9ab52c2c509a3d91.pdf>)

Our data also suggests that retail investors (capital raised from wealth management firms or direct retail in our survey) now account for around 24% of the private credit sector's AUM.

While it is not possible to do a like-for-like comparison with our 2015 data, there has been a clear growth in the volume of capital allocated to private credit by retail investors over the past ten years. This is expected to accelerate in the US, following proposed changes to the retirement market that will increase the ability of 401(k) plans to invest in private credit. Similar efforts are underway in the UK and Europe to increase participation by retail investors and defined contribution pension schemes in capital markets.

'Retail' in this context typically means high-net-worth individuals, those with discretionary capital for investment or the retirement market as opposed to 'retail consumers'.

Any investment by retail investors is also subject to existing client categorisation, suitability and disclosure requirements. This means that retail investors will typically access private credit via dedicated vehicles such as business development companies ("BDCs"), European Long-Term Investment Funds or other wealth management products.

“

The 401(k) opportunity in the US is positive for private markets, but greater regulatory clarity and guardrails will help to facilitate adoption.

Blair Jacobson

*Partner and Co-President,
Ares Management Corporation*

The appeal of private credit to multiple investor types can be seen in recent fundraising data. According to Private Debt Investor, private debt funds globally raised US\$252.7 billion in the first nine months of 2025⁸. This is higher than the previous record set in the first three quarters of 2021, suggesting that 2025 could set a new annual fundraising record for the asset class.

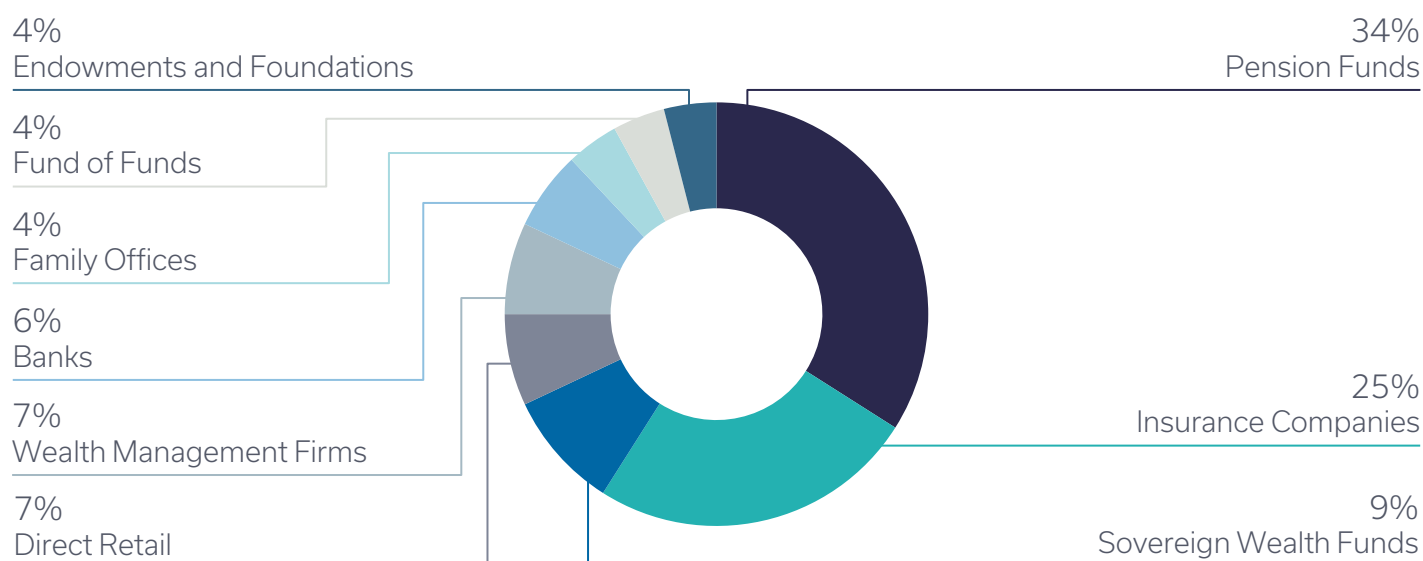
Europe-focused funds raised US\$46.2bn in H1 2025, nearly as much as the full-year totals for 2023 (US\$47.9bn) and 2024 (US\$51.4bn). Europe also accounted for 37% of all private credit fundraising in H1 2025, up from around 24% in each of 2023 and 2024.⁹ This suggests the deployment volumes in Europe will continue to grow.

The growth of assets raised by private credit managers is another area where the activity of larger managers is more pronounced. According to Private Debt Investor, average fund sizes are approaching US\$1 billion,¹⁰ while fund count has entered its third consecutive year in decline in 2025, as reported by PitchBook.¹¹ In 2024, Moody's Ratings data indicated that the six largest private credit firms accounted for 59% of all capital raised across private markets, triple their share in 2019.¹² Our data (Figure 22) shows an aspect of this trend, with pension funds and insurers accounting for a higher share of the investor base for the largest top 20% of respondents. This speaks to the desire of these investors to allocate larger sums of capital to firms with the scale to match their appetite.



FIGURE 22*

Allocations to private credit by investor type for the largest 20% of respondents



Percentages may not sum to 100% due to rounding.

Our interviewees emphasised that track record, scale, transparency and the ability to develop tailored products remain key for investors when it comes to manager selection. Investors are also seeking to consolidate their core private credit allocations between fewer managers. This is seen to reduce the costs and friction of managing the allocation for the investor while also lowering the costs associated with the investment. At the same time, there remain ongoing benefits to working with smaller firms who offer investors domain expertise in particular markets and exposure to a different return profile. This can be seen in the non-sponsored market and lower middle market, as well as in specific sectors or geographies around the world which do not lend themselves to scale. These markets are attractive diversifiers for investors who already have private credit exposure, as well as potentially offering a source of higher risk-adjusted returns.

“

The market is maturing very quickly, so the value of large platforms is increasing for investors.

Patrick Linnemann

Senior Managing Director, Blue Owl

“

Europe-focused private credit AUM is expected to almost double to over €800 billion by the end of the decade.

Stephan Caron

Head of EMEA Middle Market
Private Debt, BlackRock

“

Many LPs are consolidating their manager relationships. This is another way that we continue to deliver value, as we can offer broad, diversified exposure across the credit spectrum to address the private credit needs of LPs.

Brian Marcus

Managing Director – Partner and Head of Cross Platform Investing for Global Credit, Carlyle

When looking at returns and distributions to investors, the value of private credit for investors is also competitive on a relative basis to other private markets (Figure 23). In more recent years, private credit funds have continued to deliver lower dispersion of returns (Figure 24). The asset class's predictable distributions compared to private equity are a valuable benefit for investors, particularly for pensions and endowments, who see private credit as a steady income generator (Figure 25).

FIGURE 23

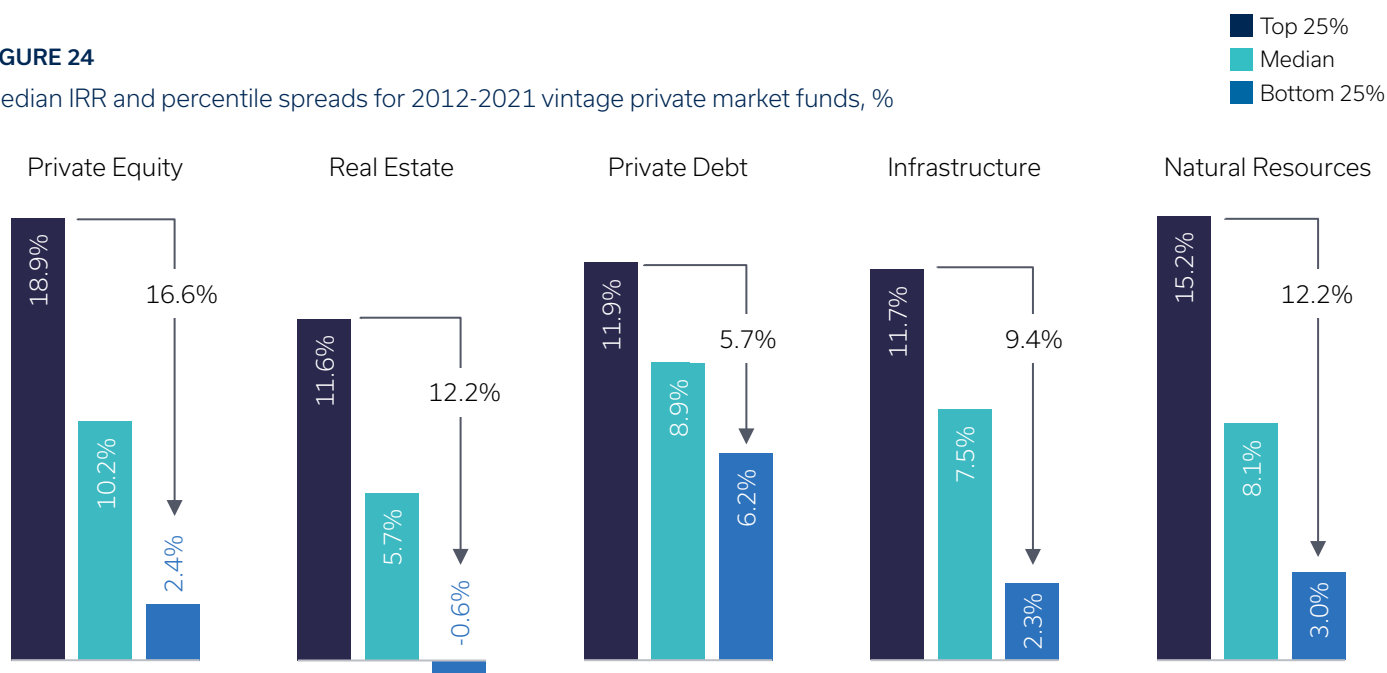
Returns in private markets

	Annual Return (%)				Quarterly Return (%)			
	2021	2022	2023	2024	3Q 24	4Q 24	1Q 25	2Q 25
MSCI Global Private Equity Closed-End Fund Index	40.2	-8.4	5.8	5.8	2.9	0.9	1.9	4.2
Venture Capital	49.8	-20.6	-2.1	5.5	1.9	2.6	2.1	5.0
Expansion Capital	29.5	-11.0	4.3	9.1	3.6	3.7	0.9	2.6
Buyout	37.4	-1.4	9.6	5.7	3.3	0.1	1.8	4.1
<i>MSCI ACWI IMI</i>	18.7	-18.0	22.2	16.9	6.0	-0.3	-0.9	11.1
<i>MSCI World Small Cap</i>	16.2	-18.4	16.4	8.6	9.1	-1.6	-3.2	12.0
MSCI Global Private Credit Closed-End Fund Index	15.4	3.8	10.2	7.2	2.7	0.6	2.1	3.4
Senior	7.9	3.2	12.1	6.1	3.5	-0.7	3.2	4.8
Mezzanine	16.0	4.9	10.6	8.5	2.7	0.7	2.4	4.1
Distressed	21.5	3.6	9.0	7.1	2.4	1.3	0.7	2.1
<i>MSCI USD High Yield Corporate Bond Index</i>	4.7	-11.8	12.8	8.3	5.5	0.1	1.3	3.4
<i>MSCI USD Investment Grade Corporate Bond Index</i>	-1.1	-15.3	8.3	2.5	6.6	-3.2	2.6	1.6
MSCI Global Private Real Asset Closed-End Fund Index	22.4	8.4	1.3	2.7	2.1	-1.1	1.7	3.2
Real Estate	26.1	2.0	-6.2	-2.7	0.6	-2.0	0.6	1.3
Natural Resources	32.1	21.5	1.6	3.8	-1.2	-1.1	0.8	1.3
Infrastructure	13.5	9.7	8.4	6.5	4.0	-0.5	2.9	4.8
<i>MSCI ACWI Natural Resources</i>	23.6	8.1	9.2	-2.4	4.3	-9.9	7.9	1.4
<i>MSCI ACWI Infrastructure</i>	6.0	-4.2	4.8	15.5	15.4	-5.6	9.7	6.5

Source: MSCI (<https://www.msci.com/research-and-insights/quick-take/private-capital-in-focus-equity-leads-credit-improves-in-q2>)

FIGURE 24

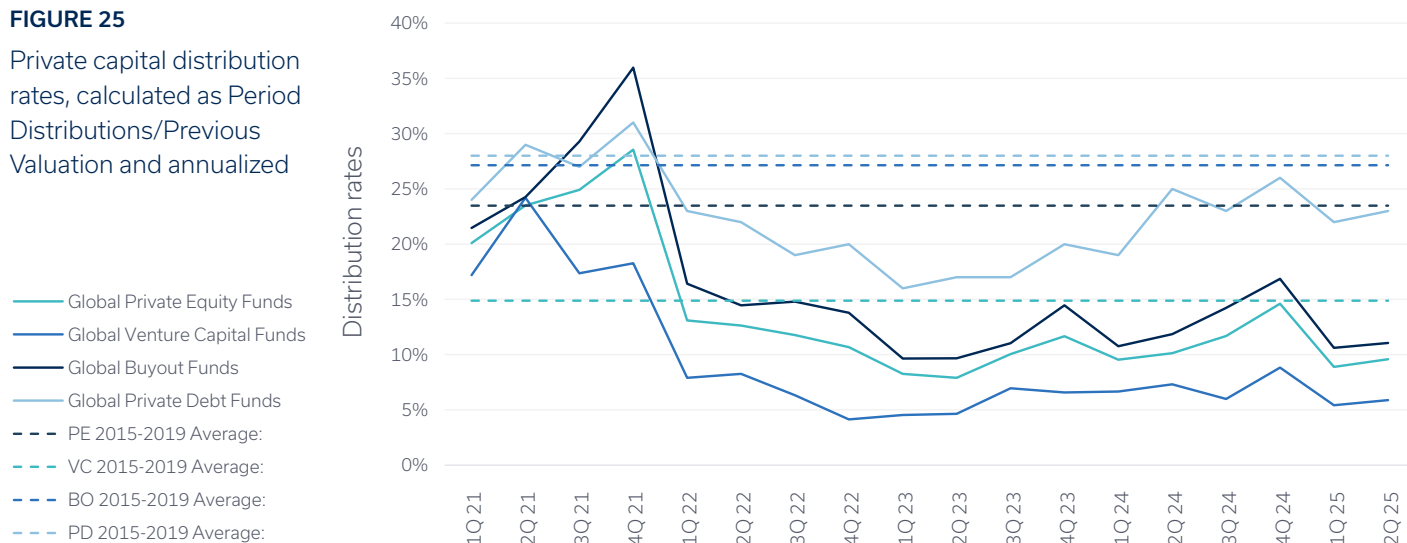
Median IRR and percentile spreads for 2012-2021 vintage private market funds, %



Source: MSCI, McKinsey

FIGURE 25

Private capital distribution rates, calculated as Period Distributions/Previous Valuation and annualized



Source: MSCI

“Private credit demand remains robust, despite lower rates and tighter spreads, as the spread premium over public credit has held steady at close to 200bps. Interestingly, given the cost of liabilities have come down, levered all-in yields remain very attractive.

Brad Marshall

Global Head of Private Credit Strategies, Blackstone



CHAPTER 2

Stable and Resilient Fund Structures

Key Takeaways



Leverage levels in private credit continue to be modest. We estimate that aggregate leverage of the respondents to our survey is approximately 32% of their net private credit AUM.



The weighted average fund level leverage for survey respondents' largest or flagship corporate lending funds is approximately 43% of NAV.



37% of survey respondents' largest or flagship corporate lending funds are unlevered, while nearly 87% of funds operate on either an unlevered basis or with leverage less than 100% of NAV.



Banks continue to be the main providers of financing to private credit funds, but new entrants to the market have increased competition and improved borrowing terms for borrowers.



80% of private credit committed capital captured in our survey is held in closed-ended structures. Private credit funds that do offer some degree of liquidity to investors employ liquidity management tools to ensure that the liquidity available remains consistent with the underlying liquidity profile of the private credit assets and the fund's strategy.

Private credit funds typically use modest levels of leverage, both in absolute terms and relative to other financial institutions.

Typical fund level leverage for the private credit market has remained broadly consistent for the past decade (Figure 26). For this year’s survey, we have sought to provide further clarity around this topic by looking at aggregate leverage for the respondents to our survey by comparing their cumulative gross and net private credit AUM.

Our survey data shows that respondents in aggregate have raised US\$397.7bn of borrowing against their private credit funds. This represents approximately 32% of net private credit AUM (Figure 27).

We also present data showing fund level leverage for survey respondents’ largest or flagship corporate lending funds by comparing the NAV and size of the balance sheets for those funds (Figure 28). This shows that leverage in their flagship corporate lending funds is slightly higher than our industry estimate, with a weighted average of 42.6%. Figure 28 also shows that 37% of these funds are unlevered, while nearly 87% of the funds operate either unlevered or with leverage less than 100% of NAV.

These figures corroborate how leverage levels remain broadly stable even while the industry is growing significantly. It also highlights a material difference between the leverage profile of private credit funds and banks. For example, our data indicates that the private credit sector has a ratio of debt to equity of 0.3:1 whereas the US and Eurozone banking sectors would have equivalent ratios of 8.6:1¹³ and 13.4:1,¹⁴ respectively.

FIGURE 26

How much investment leverage (borrowing against portfolio assets to finance additional lending) does your most levered private credit fund employ (debt:equity)?

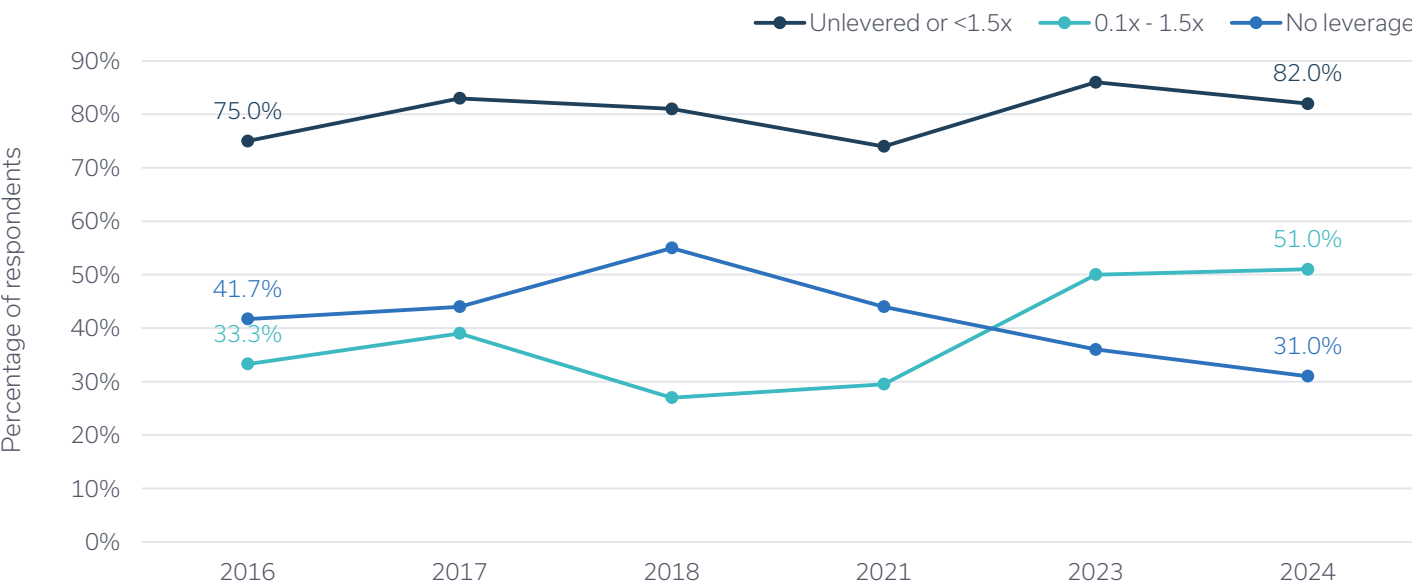


FIGURE 27*

How we estimate an aggregate leverage for the respondents to our survey

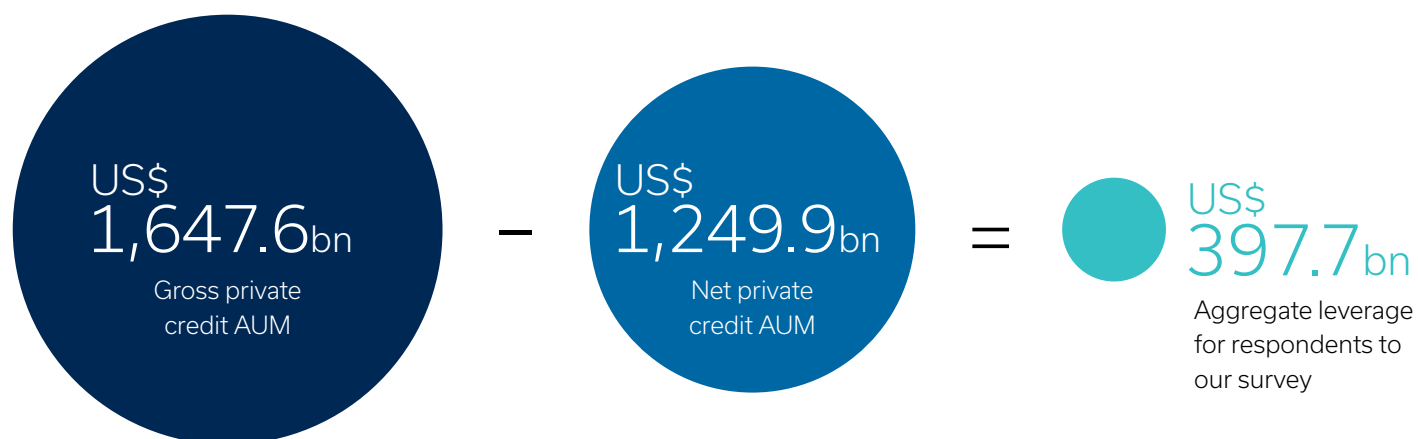
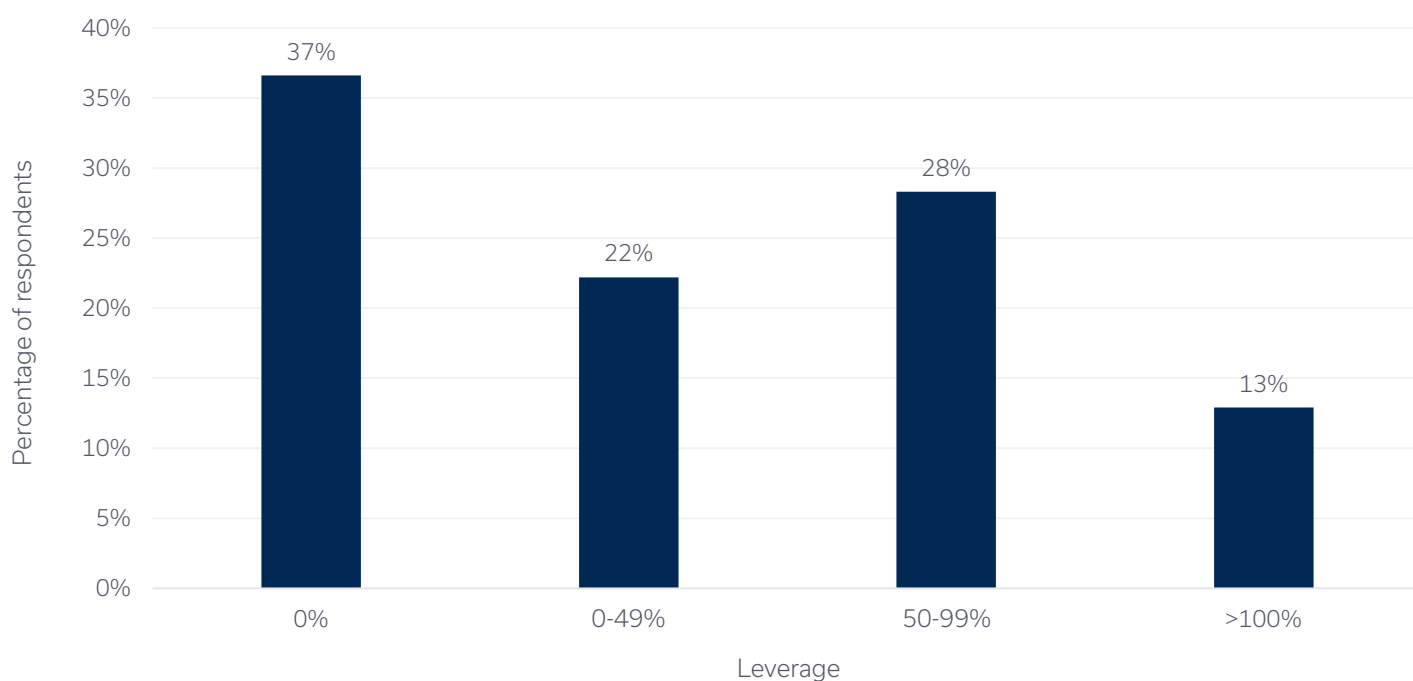


FIGURE 28

Leverage employed in largest or flagship private credit corporate lending fund or account reported by AUM.



Percentages may not sum to 100% due to rounding.

Our research highlights how fund and asset-level leverage remains a choice, not a necessity, for most private credit strategies.

Many managers emphasised that their funds could operate effectively with zero leverage and any leverage employed is incremental and can be adjusted or removed if conditions warrant it. The use of leverage varies across the industry because investors have different views on whether they want to invest in strategies using leverage. Managers cater to this by providing both unlevered and levered sleeves within the same fund or strategy.

Where leverage is used to enhance returns, it is generally backed by private credit assets at low Loan to Value ratios (LTV). Interviewees also noted that there is increasing diversification in the fund finance market. While banks remain the main leverage providers to private credit, institutional investors, other asset managers and bond market investors are increasingly providing finance to credit funds. Banks and newer entrants actively compete to provide these facilities to top-tier managers, as they are considered low-risk given how well collateralised both the underlying loans and funds are while generating steady fee and interest income. The growing depth of the fund finance market also improves the diversity and availability of finance for private credit funds, a factor which is likely to improve its resilience.

“

The availability of financing for private credit is as strong as ever since the GFC. This is manifesting itself in that managers can choose among the competition and focus on achieving flexibility around terms.

Leslie Mapondera

Partner and Co-Head of European Credit, Apollo



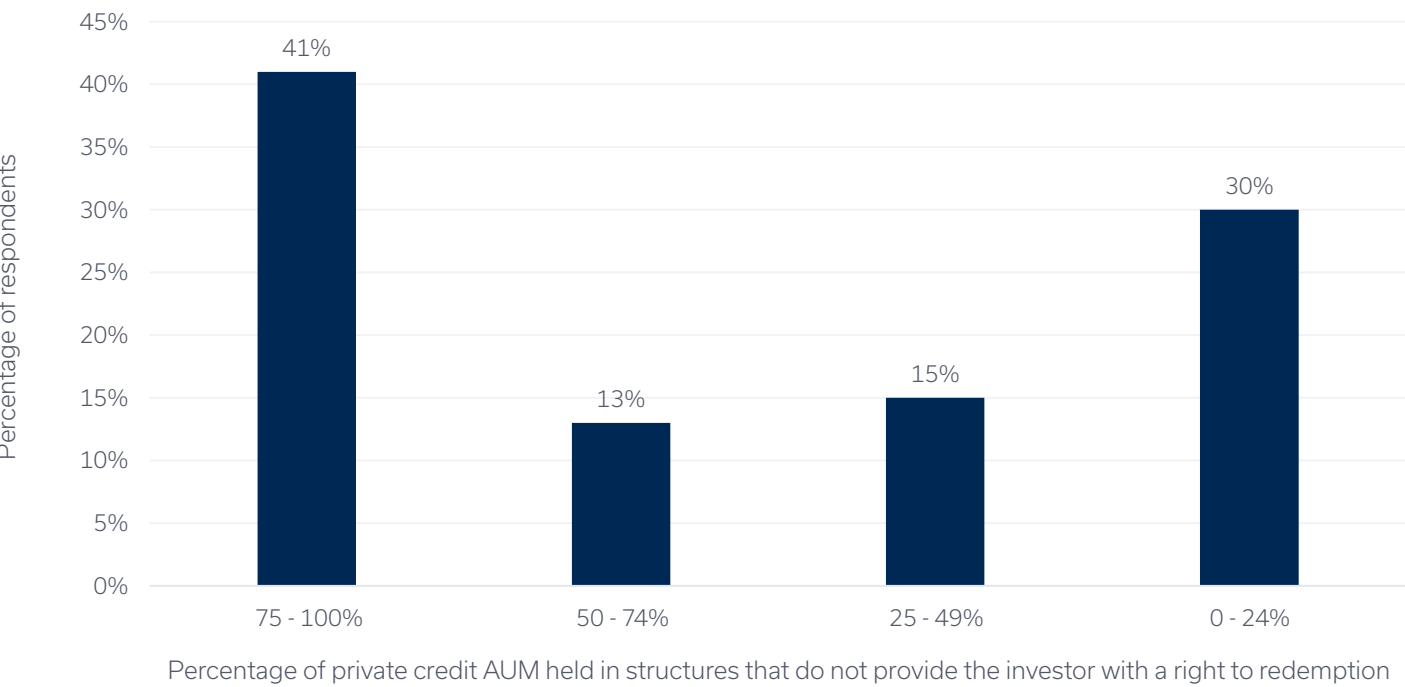
Private Credit Fund Structures Match Assets and Liabilities

Our survey data indicates that of the private credit committed capital¹⁵ captured in our survey, 80%, or US\$1.35 trillion, is held in fund structures that do not provide the investor with redemption rights. This is consistent with previous ACC research which found that the majority of private credit assets are managed in closed-ended structures.¹⁶

80%
of private credit
committed capital

is held in fund structures which
do not provide the investor with
redemption rights

FIGURE 29*
Proportion of private credit AUM held in structures
which do not offer a right to redemption



Percentages may not sum to 100% due to rounding.

The 20% of private credit assets that do offer some degree of liquidity to investors are mostly held in semi-liquid structures that offer investors limited rights to redemption. This is achieved using Liquidity Management Tools ("LMTs") (Figure 30) to ensure the liquidity available to investors is consistent with the underlying liquidity profile of the assets and strategy.

This alignment of fund term with loan maturity is fundamental to how private credit operates and its value proposition for investors. Generally speaking, investors in private credit are not seeking exposure to liquid credit, nor to private credit in overly liquid

structures that might present an asset-liability mismatch. This could force a private credit fund to liquidate assets prematurely to meet investor redemptions and potentially lead to lower returns from the fund.

A key finding from our recent Trends in Private Credit Fund Structuring research paper¹⁷ was the attraction of semi-liquid funds to investors. They improve the efficiency of the fund vehicle and reduce the costs of investing, while also providing investors with more means to manage their exposure than an equivalent closed-ended fund.

FIGURE 30

Typical liquidity risk management tools
employed by private credit fund managers

Lock-up periods	Preventing redemptions for a pre-determined period, typically at least a year from subscriptions.
Ex-ante investor ante	Pre-determined limitation on the amount of invested capital a given investor can redeem at one time.
Ex-ante fund level gates	Pre-determined limitation on the aggregate amount that all investors in a given fund can redeem.
Prescribed redemption windows	Investors may only redeem at pre-determined intervals, which can be monthly, quarterly, or semi-annually.
Notice period	Investor must provide minimum notice for redemption requests, typically at least 90 days.
Slow pay provisions	Segregating an investor's share of the asset from the fund and returning it in line with the natural maturity of the asset.
Side pockets	Arrangements that segregate assets from the main pool of assets in a fund until such time as they are realised.
Redemption fees	A charge paid by redeeming investors to the fund that takes account of the cost of liquidity.
Anti-dilution levy	An additional charge imposed on redeeming investors to reflect the fund's transaction costs for providing liquidity.
Swing pricing	A mechanism that adjusts a fund's net asset value (NAV) up or down by a percentage depending on net flows of subscribing or redeeming investors.
Dual pricing	A valuation method where separate prices are set for subscriptions (based on the offer price of underlying investments) and redemptions (based on the bid prices of underlying investments).
Suspensions	A temporary halt on redemptions to protect investor interests when markets are disrupted or the fund cannot accurately value its assets.

Investors increasingly expect managers to offer a certain degree of redemption solutions when deciding their allocations. Many managers we spoke with also stressed that investors expect transparent and proactive communications from managers regarding fund liquidity and use of LMTs. Moreover, the proven experience of the private credit sector in managing and addressing liquidity risk is a positive sign when considering the ability of private credit managers to integrate retail capital flows, which generally have a much greater expectation of liquidity than institutional investors.

Our research also highlights how the general approach towards semi-liquid funds is in keeping with the policy recommendations of the International Monetary Fund which, in its latest Global Financial Stability Report,¹⁸ emphasised that “To address liquidity mismatches in investment funds, it is key to further improve and expand the availability and usability of liquidity management tools.” Regulatory regimes in all key jurisdictions already impose investor transparency requirements on managers with respect to their liquidity risk management practices and approach.

“

Secondaries are no longer about distress — they’re about rebalancing. As the primary private credit market has grown, allocations have grown bigger, which has led some investors to rebalance their portfolio. Over the past years, wider macro trends, such as the denominator effect, have also contributed to the emergence of a secondary market. More broadly, investors have recognised that as the market has matured, secondary transactions are a natural evolution.

Edouard Jozan

*Head of Private Markets,
Allianz Global Investors*



CHAPTER 3

Key Indicators Reflect Stable Credit Quality of Investments and Conservative Financing

Key Takeaways



Non-accrual rates for the flagship corporate lending funds surveyed was at 2.2% on average for corporate lending funds and 1.8% on a weighted AUM basis. Only 10% of respondents reported non-accrual rates above 5%.



Despite the increase in portfolio stress in the past years, in 2024 core credit metrics remained stable. Other commonly used indicators of defaults and portfolio stress are also declining from recent peaks even if they remain slightly above historical averages.



Only 10% of respondents reported LTV ratios in the highest range of 60-70%. 17% of companies financed by survey respondents had net debt/EBITDA multiples higher than 6x.



Falling interest rates and the improving outlook for key sectors of the US and European economies are expected to mitigate portfolio stress and future defaults.



Loan documentation is being impacted by downward pressures on loan terms, particularly in the US.

Default Rates for Borrowers Have Remained Low and Stable

“

When something goes wrong, we start from the view that it is firstly an equity problem, so sponsors should put in more capital before we make any concessions.

Patrick Linnemann

Senior Managing Director, Blue Owl

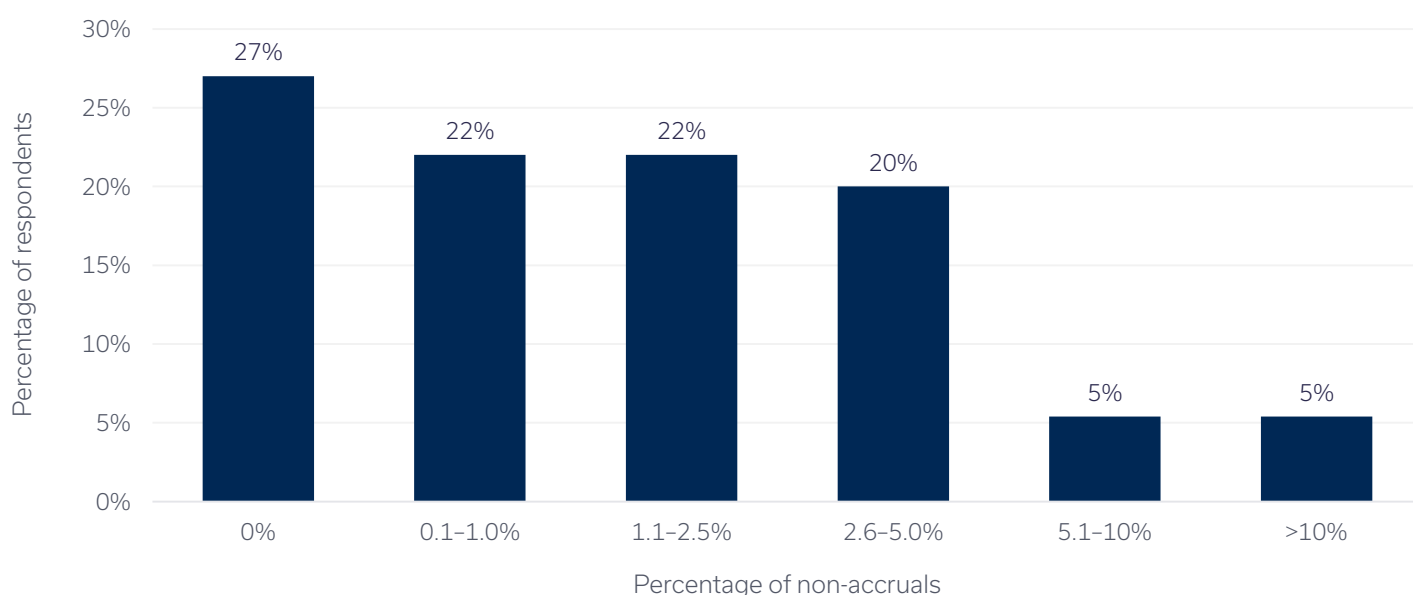
The non-accrual rate for the flagship corporate lending funds surveyed was at 2.2% on average and 1.8% on a weighted AUM basis (Figure 31).

49% of respondents reported that non-performing loans in their flagship corporate lending funds were at

less than 1%. 42% of respondents stated that between 1-5% of assets in their flagship corporate lending funds were non-accruing, while 10% of respondents reported non-accrual rates above 5%. These findings are consistent with the reported non-accrual rates for BDC loans, which have remained between 1-2% for the past four years and lower than the peaks recorded during the Covid pandemic (Figure 32).

FIGURE 31*

What proportion of your largest or flagship corporate lending fund or account is currently non-performing (on a non-accrual basis)? (unweighted)



Percentages may not sum to 100% due to rounding.

Non-accrual defined as loans or debt investments where the lender is no longer accruing interest income because the borrower is delinquent on payments (90 days past due), or the lender anticipates a default.

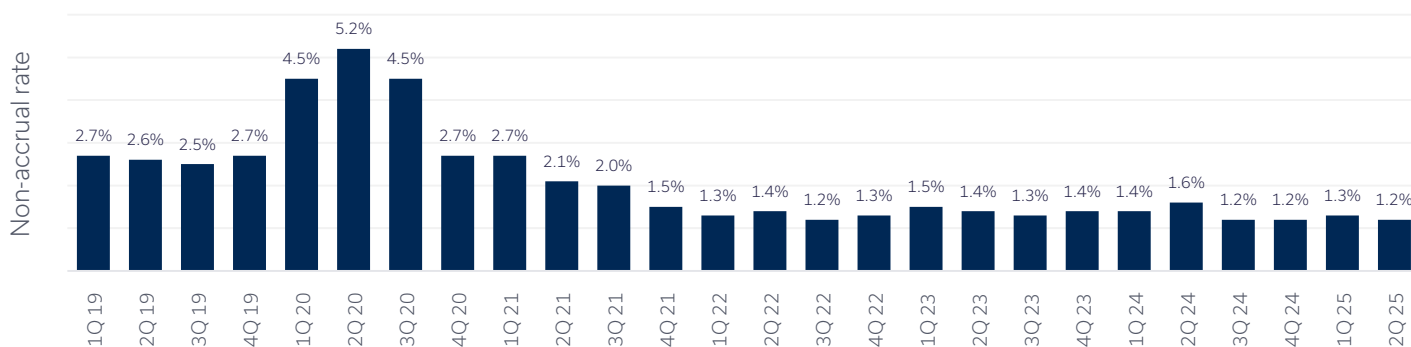
“ Defaults have stabilised, coverage ratios are up and earnings are stronger than expected. The stress we see is idiosyncratic, not systemic.

Brian Marcus

Managing Director, Partner and Head of Cross Platform Investing for Global Credit, Carlyle

FIGURE 32

Non-accrual investments as a percentage of BDC's total portfolio



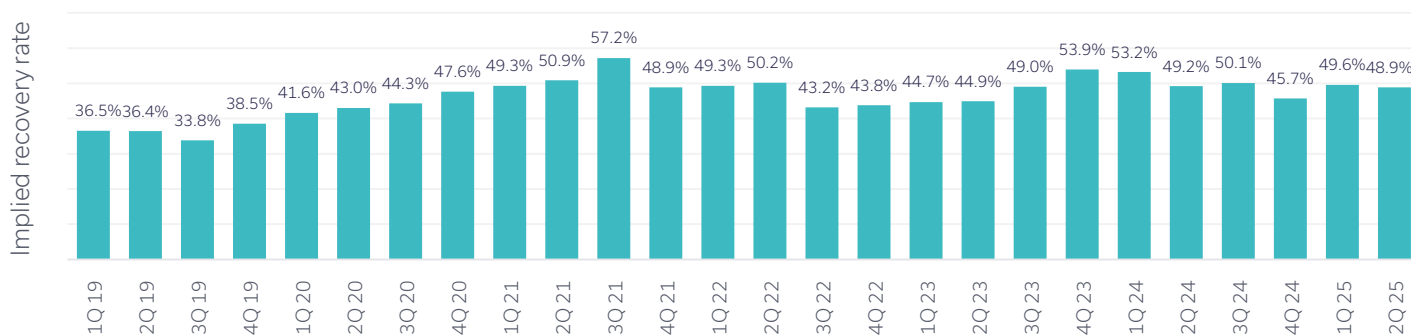
Source: Houlihan Lokey BDC Monitor Fall 2025 (<https://hl.com/insights/bdc-monitor>)

While this demonstrates that there is some dispersion in the market when it comes to non-accrual rates, this may also simply reflect the fact that some corporate lending investment strategies may seek exposure to riskier assets as opposed to a difference in underwriting standards. These non-accrual rates can be considered broadly consistent with what one might expect given the risk profile of private credit, borrower companies and current economic conditions.

The implied recovery rates of non-performing loans (“NPLs”) for BDCs have remained quite stable, at about 50% over the past five years (Figure 33). Taken together with the low level of non-accruing loans reported by our respondents, this data suggests that any NPLs should not have a high impact on the overall performance of private credit funds, as these tend to be strongly over-collateralised.

FIGURE 33

Non-accrual investments implied recovery rate

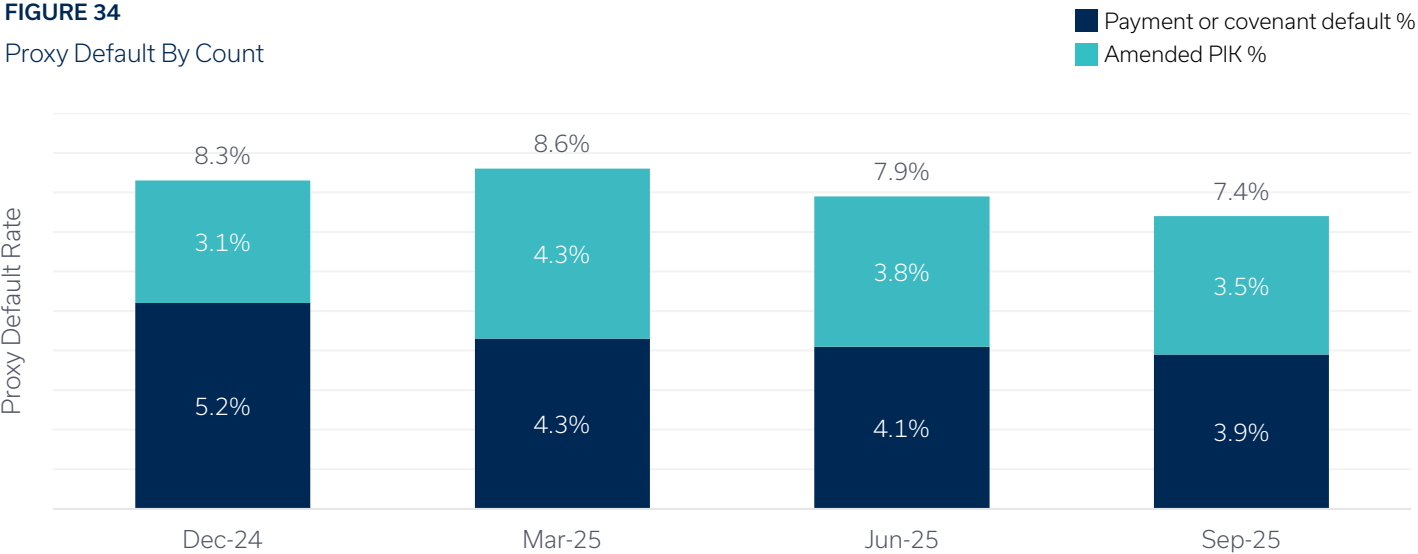


Source: Houlihan Lokey BDC Monitor Fall 2025 (<https://hl.com/insights/bdc-monitor>)

Alongside these headline non-accrual and recovery rates, it is also useful to consider Houlihan Lokey's "proxy default" rate which currently stands at 7.4%.¹⁹ This measures private credit investments that incurred a payment default, a covenant default or converted cash interest into paid-in-kind (PIK) interest (i.e. PIK interest added to a loan after its original agreement was made which is referred to as "Amended PIK") which is also counted here

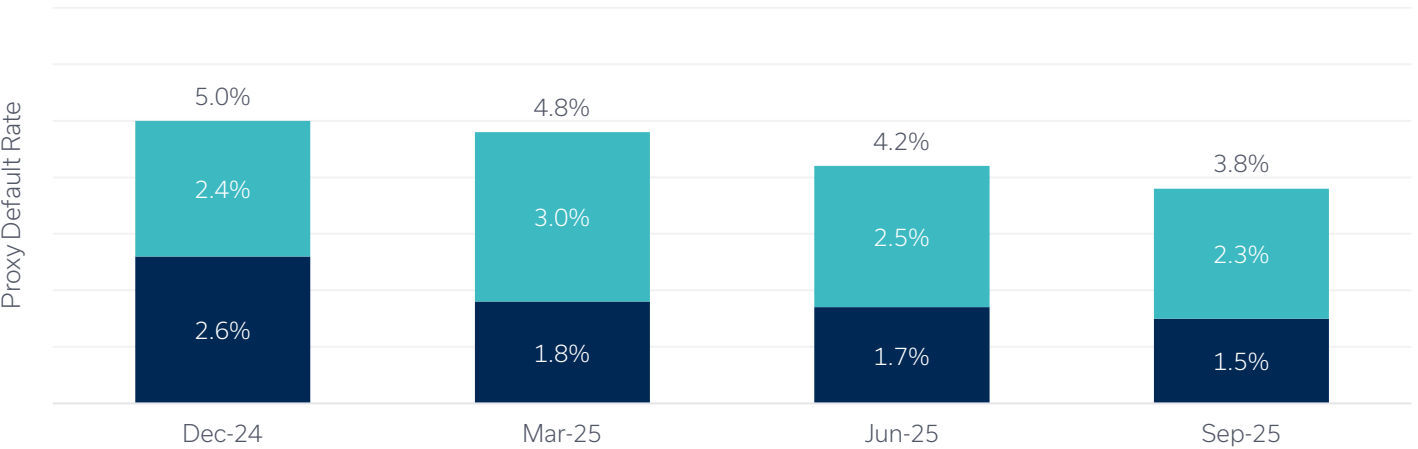
as a default. This rate is a useful metric because it indicates the number of borrowers struggling to make cash payments that are instead using PIK interest to service their loans. Such loans would not typically show up in non-accrual data. The percentage of loans with this Amended PIK component was 3.5%. If this is added to the loans in default of 3.9%, the total default rate was at 7.4% as of September 2025 (or 3.8% if weighted by loan size) (Figures 34 and 35).

FIGURE 34
Proxy Default By Count



Source: Houlihan Lokey Private Credit DataBank (<https://hl.com/insights/private-credit-databank>)

FIGURE 35
Proxy Default Size Weighted

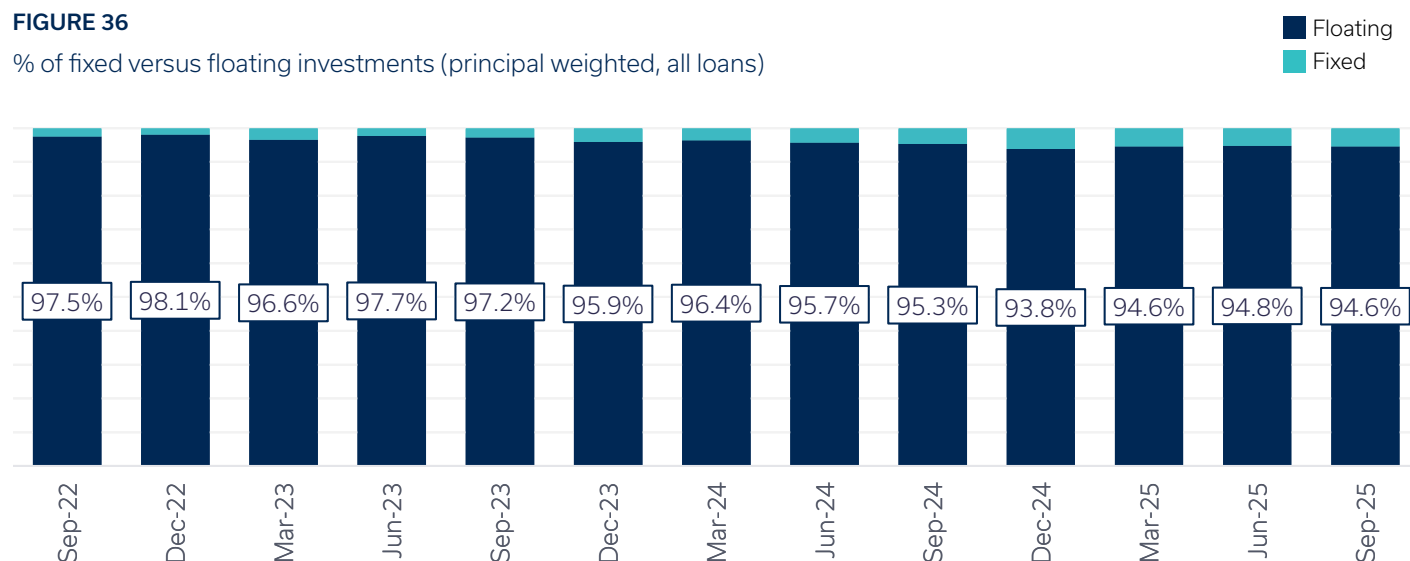


Source: Houlihan Lokey Private Credit DataBank (<https://hl.com/insights/private-credit-databank>)

When discussing non-accrual rates and other measures of credit stress with interviewees, there was a confidence that falling interest rates and the general pickup in key sectors of the US and European economies would ease pressures on portfolio companies and mitigate future default rates. The sensitivity of the industry to interest rates is reflected by the fact that over 90% of lending is at floating rates, and falling interest rates will benefit coverage ratios fairly rapidly (Figure 36). Interest rate movements will take longer to affect junior tranches, as the majority of these are fixed rate until refinanced, but these are only a small minority of overall lending (Figure 37).

FIGURE 36

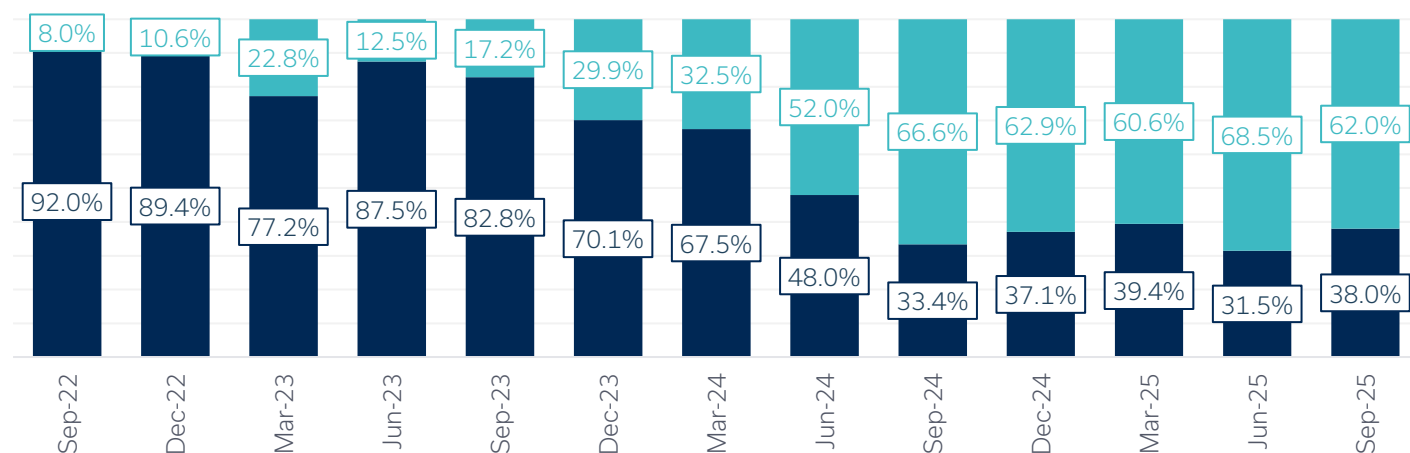
% of fixed versus floating investments (principal weighted, all loans)



Source: Houlihan Lokey Private Credit DataBank (<https://hl.com/insights/private-credit-databank>)

FIGURE 37

% of fixed versus floating investments (principal weighted, junior loans)



Source: Houlihan Lokey Private Credit DataBank (<https://hl.com/insights/private-credit-databank>)

The lending environment is reflected in ratings and actions for private credit borrowers. KBRA, for example, assessed 2,287 global middle market sponsored borrowers from 1 January to 30 September 2025 with over US\$1 trillion in borrowing. The data shows while the majority (73%) of its surveillance actions were affirmations in the last quarter, 17% were downgrades, versus 16% in Q2 and 19% in the previous two quarters. This exceeded the percentage of upgrades, which averaged 9% of total surveillance actions in the same four quarters

(Figure 38). To illustrate this, KBRA reports that the ratio of upgrades to downgrades within its surveillance actions was at 0.57x in the last quarter, marginally higher than the 0.52x average for the last twelve months (Figure 39). The agency notes that the relatively high share of recent downgrades in the Beverage, Food and Tobacco segment is due to shifting consumer behaviour and higher input costs. It further notes that some assessments reflected corporate restructuring activity.

FIGURE 38

Credit Assessment Surveillance Actions by Sector (by Count)

Sectors	Q2 2025				Q3 2025			
	Affirmed	Upgraded	Downgraded	Total	Affirmed	Upgraded	Downgraded	Total
Commercial and Professional Services	74%	6%	20%	100	80%	8%	12%	118
Software	81%	8%	11%	74	78%	8%	14%	87
Health Care Services and Technology	70%	14%	16%	50	69%	11%	20%	65
Aerospace, Industrials and Engineering	66%	14%	21%	29	78%	6%	16%	32
Chemicals, Containers, Metals, Material	59%	12%	29%	17	70%	10%	20%	20
Beverage, Food, Tobacco	67%	13%	20%	15	71%	6%	24%	17
Consumer Retail	67%	17%	17%	6	71%	18%	12%	17
Insurance	94%	6%	0%	17	88%	6%	6%	16
Other	76%	10%	14%	63	61%	13%	26%	112
Total	74%	9%	16%	371	73%	10%	17%	484

Source: KBRA, *Private Credit: Q2 2025 Middle Market Borrower Surveillance Compendium—Waiting for Godot*

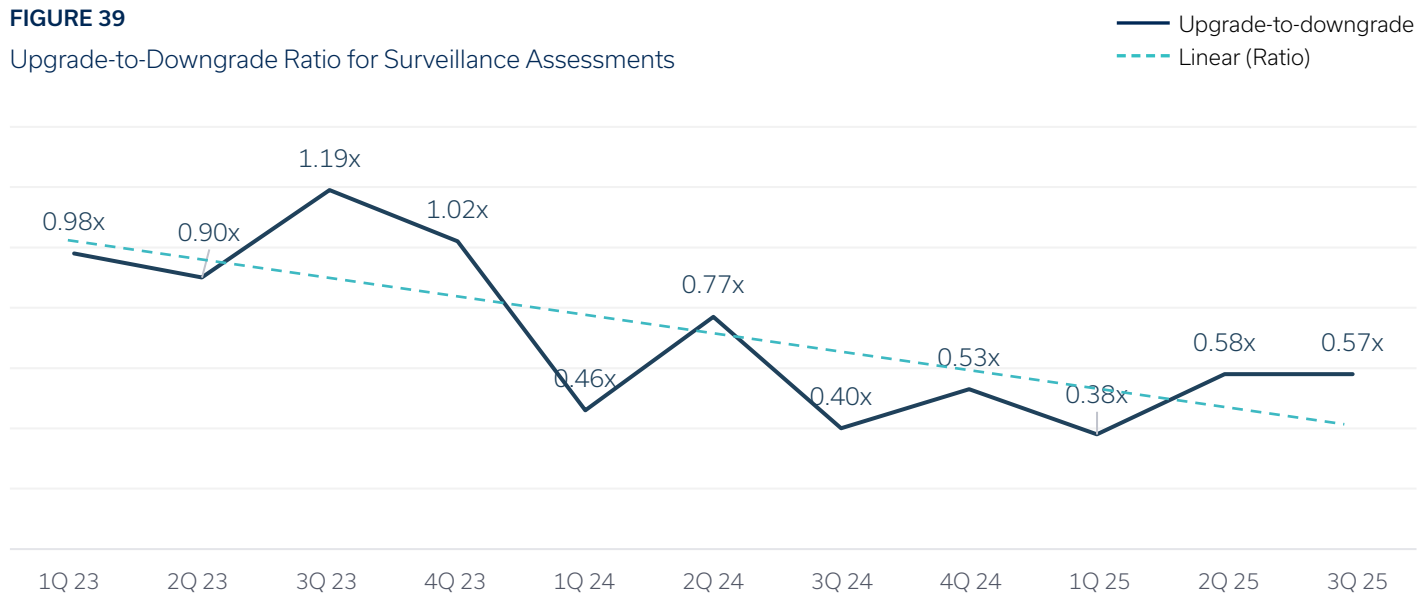
Data from Houlihan Lokey also shows that the US covenant default rate fell to 4.2% in Q3 2025 from 4.6% in Q2 2025.

We would emphasise, however, that a covenant breach does not necessarily represent a payment default or a loss to investors, and is often cured via an agreed solution, including a reset or covenant holiday. While these data points also reflect a shift in the composition of assessments, they collectively point to a potential stabilisation in overall credit quality.



FIGURE 39

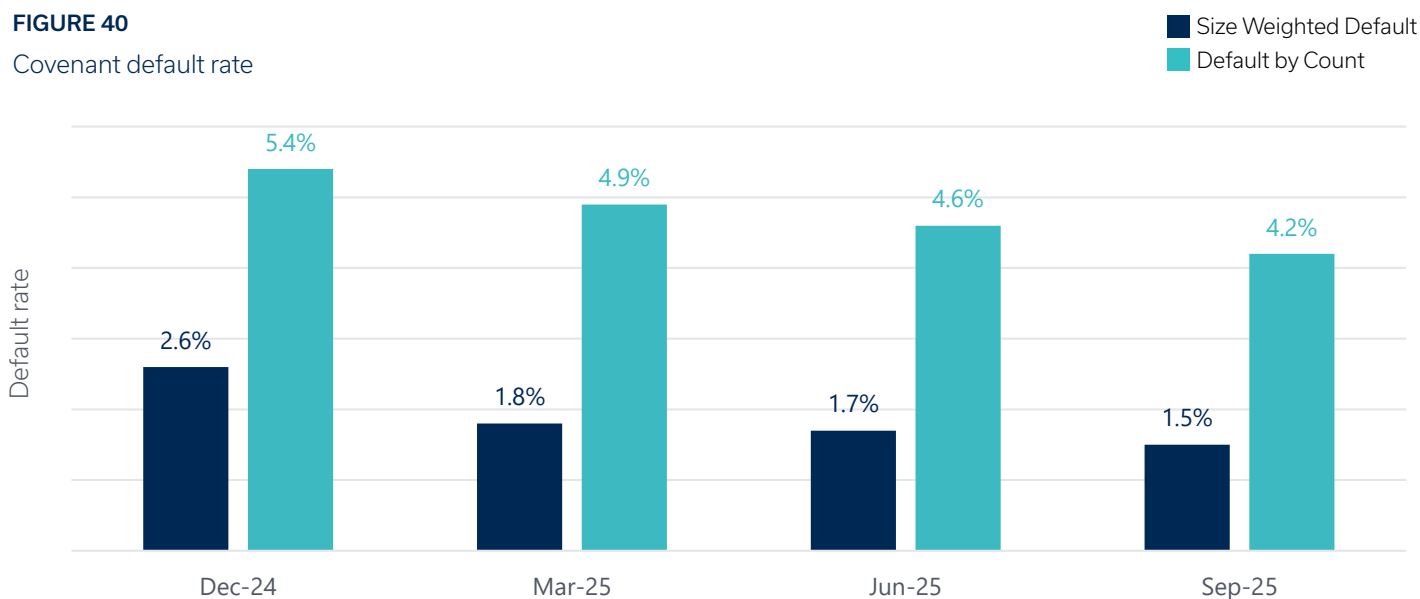
Upgrade-to-Downgrade Ratio for Surveillance Assessments



Source: KBRA

FIGURE 40

Covenant default rate



Source: Houlihan Lokey Private Credit DataBank (<https://hl.com/insights/private-credit-databank>)

“What stands out hasn't actually been credit quality or credit performance, but rather the persistent spread tightness of public bonds. It is difficult to find value right now in products that are off the shelf in bond format. Our structuring advantage is that we can make our own deals, starting with a company or situation and building a full capital solution from senior to junior, which is where the real value is.

Phil Aldis

Partner and Co-Head of Europe Asset-Backed Finance, Apollo

“ There are a few canaries that are dying here and there, but they are not all in the private credit coalmine. I reject the notion that private credit has never gone through a cycle, as we have lived a few lifetimes since the GFC. There will be losses, but the tools we have, including flexibility, longer-term capital and active management, will prevent the tail from overwhelming the asset class.

Stuart Fiertz

Co-Founder, President, Head of Responsible Investment and Director of Research, Cheyne Capital

“ We do not chase fads or sponsors. We stick to cash-flowing businesses, do our own underwriting, and rely on independent thinking, not someone else's due diligence.

Kevin Griffin

Managing Partner, CEO and CIO, MGG

“ We've been in a period of benign credit conditions for more than a decade, and a return to normalcy should not be interpreted as anything other than reversion to the mean. We welcome this environment where detailed underwriting and structuring is rewarded.

Stephan Caron

Head of EMEA Middle Market Private Debt, BlackRock

“ The next real test for the asset class will come from the erosion of documentation. Having loose documentation with accumulated stress in the portfolio could mean there is a big problem brewing.

Kevin Griffin

Managing Partner, CEO and CIO, MGG



Key Credit Metrics Remain Conservative and Stable

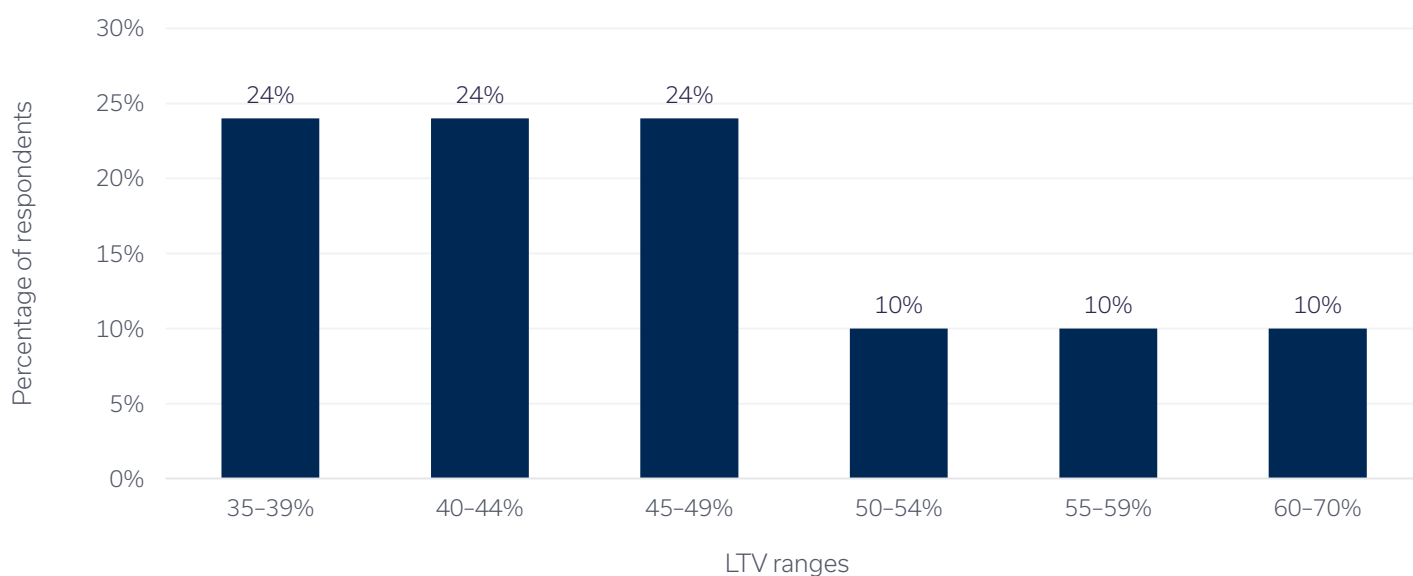
Responses to our survey suggest that the core credit metrics of private credit portfolios remain stable.

72% of respondents reported LTV ratios below 50%, with only 10% going as high as 60-70% (Figure 41). This is broadly similar to last year's report, when 63% of respondents to our survey stated that their most common LTVs were below 50% (Figure 42). Looking at LTVs for small to large borrowers, these typically range between 40% to 55% (Figure 43). Taken together, this suggests there are high levels of collateralisation for private credit loans.



FIGURE 41*

Average LTV ratios for largest or flagship corporate lending fund



Percentages may not sum to 100% due to rounding.

FIGURE 42²⁰
Most common LTV of borrowers (Financing the Economy 2024)

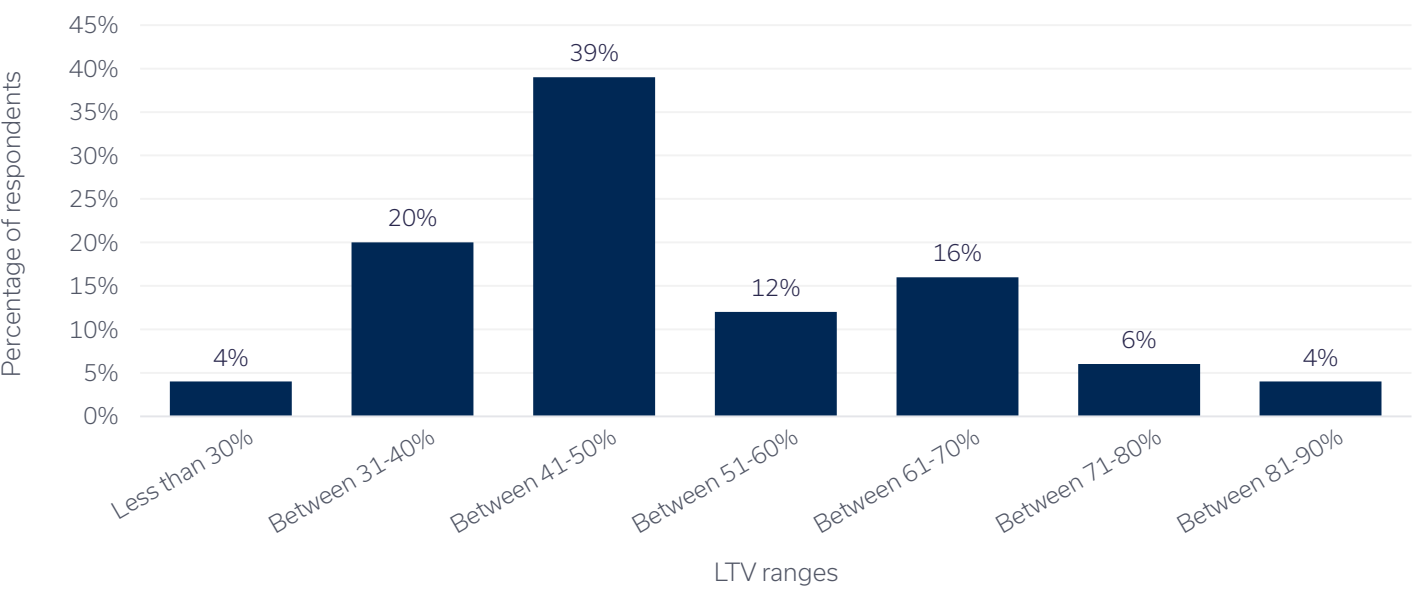


FIGURE 43
Most common LTV of borrowers

Typical LTV Ratios October 2025

Borrowers >\$100mn EBITDA	40%-55%
Borrowers \$20mn-\$100mn EBITDA	40%-50%
Borrowers <\$20mn EBITDA	40%-50%

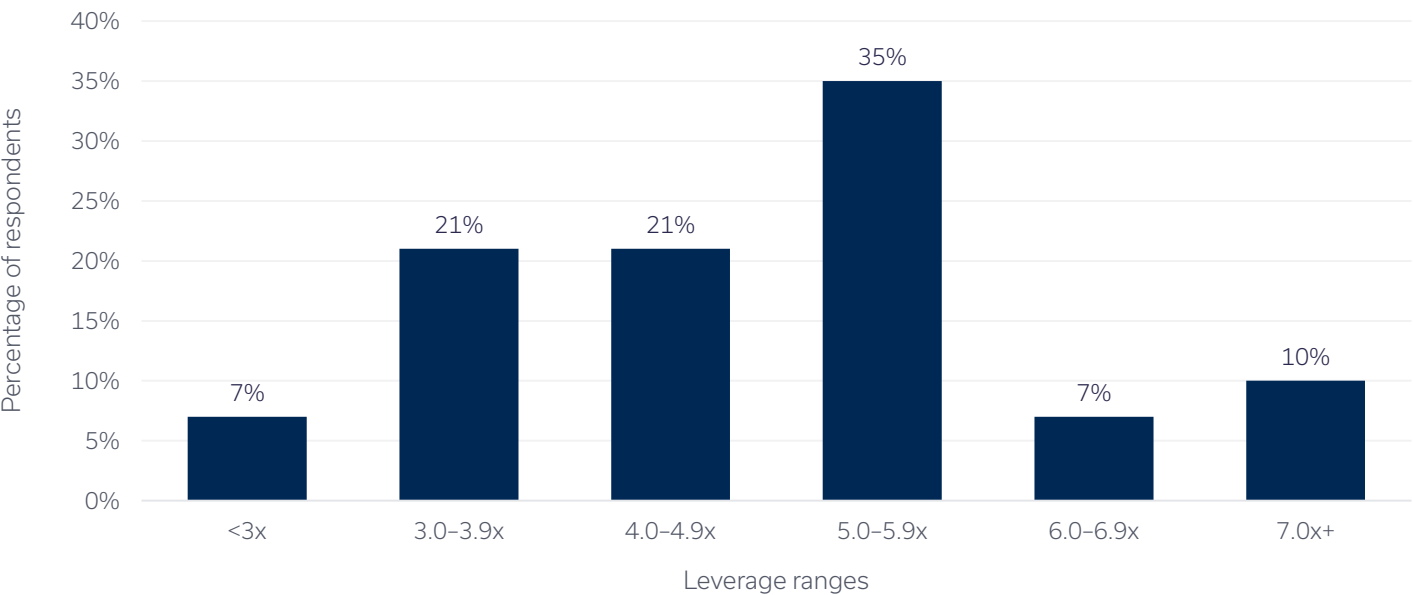
Source: Houlihan Lokey Private Credit Snapshot (October 2025)

56% of companies financed by respondents’ flagship funds have a net debt/EBITDA ratio between 4.0x-5.9x, with an overall average of 4.9x.

7% have net debt/EBITDA ratios below 3.0x – likely reflecting a higher proportion of financing to large cap or investment grade borrowers – while around 17% had net debt/EBITDA ratios in excess of 6.0x (Figure 44).

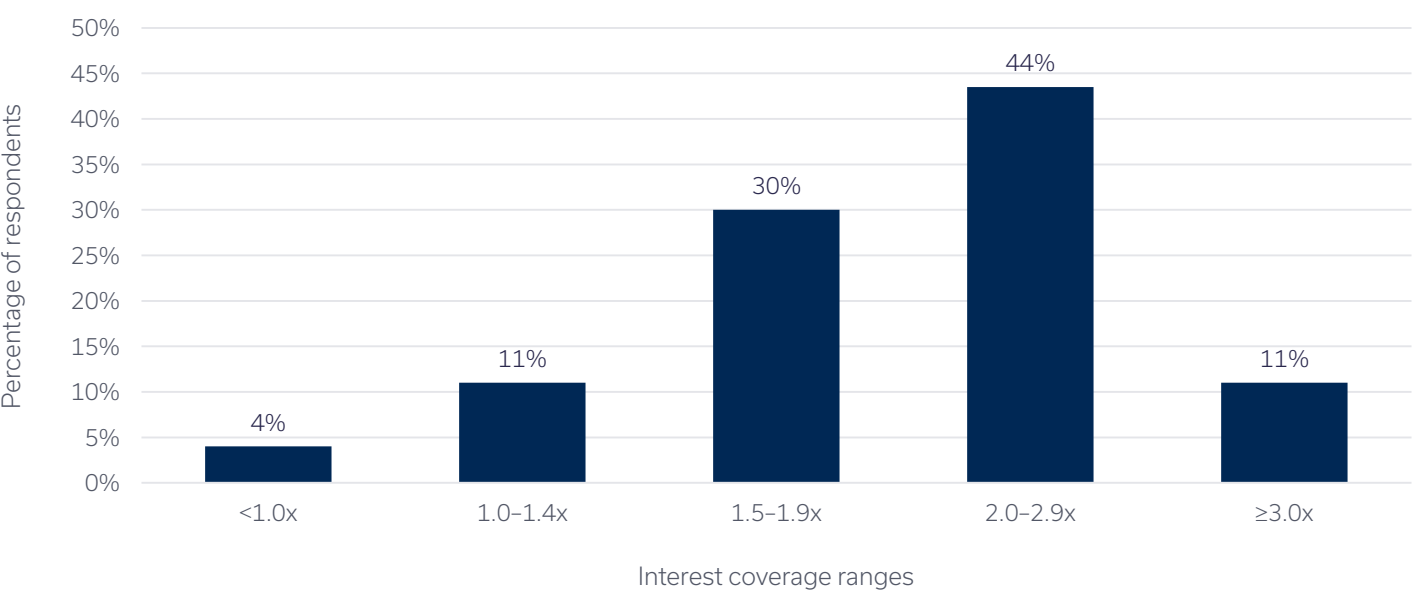
Falling interest rates are also easing the interest burden for companies, which is also more relevant for companies with weaker credit profiles or higher debt burdens. Our survey this year shows a weighted average interest coverage ratio (EBITDA/interest) of 2.1x for flagship accounts, with three quarters of respondents reporting between 1.5x and 2.9x (Figure 45). A small percentage report a coverage ratio of below 1x. As with non-accrual rates, this likely reflects that there is some dispersion in the performance of borrowers and that some strategies have sought exposure to riskier assets.

FIGURE 44*
Average net debt/EBITDA multiple of borrowers in
flagship corporate lending funds



Percentages may not sum to 100% due to rounding.

FIGURE 45*
Weighted average Interest Coverage Ratio (ICR) of
flagship corporate lending fund

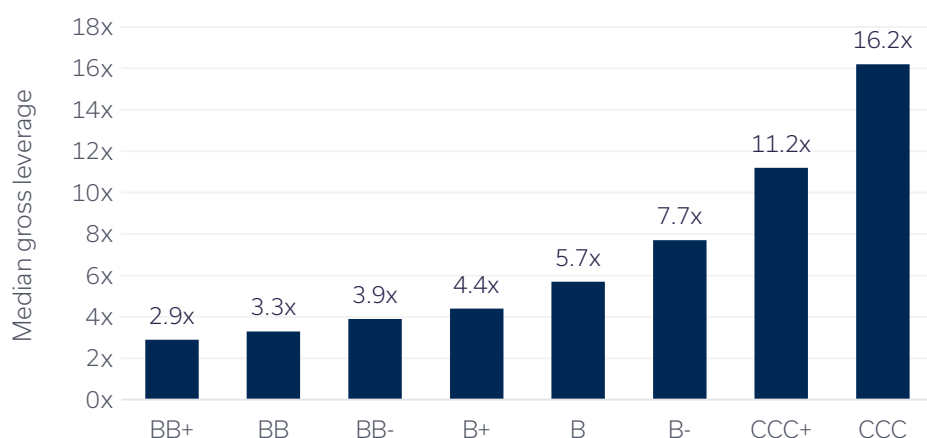


Percentages may not sum to 100% due to rounding.

To put these metrics into perspective, we compare them to the metrics reported by S&P for about 1,000 US-based speculative grade companies.²¹ The median gross leverage metric for companies rated in the single B category ranges from 4.4x to 7.7x, and between 1.4x and 2.9x for interest coverage ratios (Figures 46 and 47). Given that private credit loans are usually given to small and medium-sized companies, our data suggests that the majority of borrowers would be in single B equivalent territory.

FIGURE 46

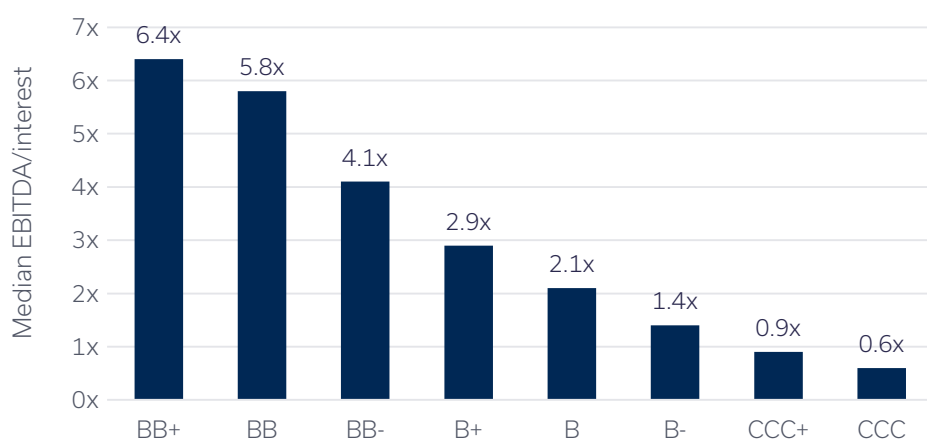
Median gross leverage for US leverage finance issuers
(As of 12 months ending June 2025)



Source: S&P Global (<https://www.spglobal.com/ratings/en/regulatory/article/us-leveraged-finance-q3-2025-update-issuers-adjust-to-slower-growth-s101652207>)

FIGURE 47

Median EBITDA/interest for US leverage finance companies (12 months ending June 2025)



Source: S&P Global (<https://www.spglobal.com/ratings/en/regulatory/article/us-leveraged-finance-q3-2025-update-issuers-adjust-to-slower-growth-s101652207>)

“

Monitoring is as important as credit selection. Having the right information to monitor the borrowers is key. Through monitoring you are able to identify the signals the companies give you which eventually will help to react and engage with the sponsor and management before potential trouble mounts.

Rafael Calvo

Managing Director, Head of Private Credit Portfolio Management (Europe),
Clearlake Capital



Loan Documentation A Key Consideration for Lenders

All interviewees for this research highlighted the importance of loan documentation to the ongoing success of their business.

This echoes findings from a survey conducted by Proskauer²² earlier this year which highlighted covenant lite transactions, as well as allowance of add backs to EBITDA, collateral leakage, flexibility to incur leverage and unrestricted subsidiaries as key risks for lenders. These risks are common to all types of loans, but underwriting prudence remains key given the nature of the borrowers that private credit typically finances.

S&P has reported that maintenance covenants for leverage are the most common for private credit agreements, and more common than those for BSLs, where around 90% of loans lack maintenance covenants that are tested on a regular basis. However, S&P also noted that the level of protection for lenders from these covenants has been weakened due to their significant headroom.²³



While private credit is not immune to downward pressures on loan terms, many firms reported that they continue to decline opportunities where lender protections are insufficient. Previous ACC data has shown that covenants and loan terms have held up more in most parts of the private credit market relative to other markets.²⁴ The bilateral nature of their relationship with borrowers was also seen to mitigate the potential for borrowers to restructure their debt obligations without a lender's consent – often described as liability management exercises – which has been seen in the broadly syndicated and public credit markets over recent years.

“

We have been highlighting some of the weak spots and dangers in the private credit market for some time. Default rates have been quite muted, though we continue to believe that this is a function of the combination of lack of covenants and longer-dated capital that allows managers to amend and extend and deal with potential defaults. Moreover, the rates are not coming down fast enough to offset the accumulated impact of what has been rolled up.

Stuart Fiertz

Co-Founder, President, Head of Responsible Investment and Director of Research, Cheyne Capital



“

I am most frustrated about the quality of documentation, particularly around LME and all of the innovation that the borrower's counsel can come up with. 99% of the time, the documentation does not get opened, but when it does it is very important there is no ambiguity and the lender is protected. We are not afraid to walk away from deals where we are not comfortable with the documentation. It is positive that in the European context, LMEs are harder to do.

Peter Lockhead

Managing Director and Portfolio Manager of the Senior Debt Partners strategy, ICG

Conclusion

The findings of Financing the Economy 2025 underline how profoundly private credit has transformed global finance. Growth in the asset class is no longer defined solely by its expanding headline AUM but by the breadth of the financing solutions that it now provides to the real economy. Private credit has evolved to meet the increasingly diverse financing needs of businesses and activities across a range of dimensions such as size, credit quality, revenue, profit generation or underlying collateral, to name a few. This combination of scale, customised structuring and certainty of execution has made it a lender of first resort for many borrowers.

This period of rapid evolution coincided with the most challenging macroeconomic conditions in over a decade. Covid, higher interest rates and slower growth predictably placed pressure on some private credit portfolios. Yet the stresses that emerged have been contained and, consistent with the data presented throughout this report, are gradually easing. Core credit metrics have remained stable, non-accrual levels modest and recent improvements in refinancing conditions, EBITDA growth and sectoral outlooks all point toward a normalisation rather than deterioration of credit quality. The resilience of fund structures and the modest, voluntary use of leverage further reinforce this picture.

Investors have also continued to increase their allocations to private credit for good reason. Over the past three years, the asset class has been the strongest performer within private markets, delivering attractive, steady returns with lower dispersion and a consistent pattern of distributions. This combination of consistent performance, reliability and structural adaptability explains why private credit remains a central pillar of institutional and increasingly retail portfolios. As the economy undergoes profound shifts—from reshoring to energy transition and digital infrastructure build-out—the role of private credit as a flexible, scalable partner in financing that transition will only continue to deepen.



Endnotes

All quotes included in this report are gathered from one-on-one interviews.

¹ (<https://www.aima.org/compass/insights/private-credit/private-credit-in-asia.html>)

² Houlihan Lokey Private Credit Snapshot (October 2025)

³ Factset; June 2025 Earnings Insight; November 2025 Earnings Insight

⁴ BCG (<https://www.bcg.com/publications/2025/the-brave-new-world-of-dealmaking-in-the-global-market>)

⁵ S&P, June 2025: ([Private capital will play a pivotal role funding the future of infrastructure](#))

⁶ (<https://www.edwardconard.com/macro-roundup/jpm-estimates-that-to-meet-an-irr-hurdle-of-10-on-their-forecast-ai-investment-through-2030-would-require-650b-in-annual-revenue-in-perpetuity-that-would-be-58bps-of-global-gdp-or-34-72-month-fro/?view=detail>)

⁷ AFME, Capital Markets Union Key Performance Indicators 8th Edition

⁸ PDI, Fundraising Report Q3 2025 (<https://www.privatedebtinvestor.com/download-debt-fundraising-rings-in-record-q3/>)

⁹ With Intelligence, Private Credit Fundraising Report H1 2025 (https://www.withintelligence.com/insights/private-credit-european-credit-fundraising-skyrockets-in-h1/?utm_source=crm_data&utm_medium=email&utm_campaign=pc_nurture_all_prospects_pc-fundraising-report-h1_aug25)

¹⁰ PDI, Fundraising Report Q3 2025 (<https://www.privatedebtinvestor.com/download-debt-fundraising-rings-in-record-q3/>)

¹¹ PitchBook, H1 2025 Global Private Debt Report (<https://pitchbook.com/news/reports/h1-2025-global-private-debt-report>)

¹² Moody's Ratings, Private Credit Insights – Global 3 September 2025 (<https://www.moody.com/web/en/us/insights/credit-risk/private-credit/private-credit-insights-sept-2025.html>)

¹³ (<https://fred.stlouisfed.org/graph/?g=l3hb>)

¹⁴ (<https://data.ecb.europa.eu/data/datasets/CBD2/CBD2.Q.U2.W0.11.Z.Z.A.A.I3400.Z.Z.Z.Z.Z.PN>)

¹⁵ Deployed capital plus dry powder but excluding leverage = US\$1.67 trillion.

¹⁶ (<https://www.aima.org/compass/insights/private-credit/financing-the-economy-2023.html>)

¹⁷ (<https://www.aima.org/compass/insights/private-credit/trends-in-private-credit-fund-structuring-2025.html>)

¹⁸ (<https://www.imf.org/en/-/media/files/publications/gfsr/2025/october/english/text.pdf>)

¹⁹ Houlihan Lokey Private Credit DataBank (<https://hl.com/insights/private-credit-databank>)

²⁰ Financing the Economy 2024 (<https://www.aima.org/compass/insights/private-credit/financing-the-economy-2024.html>)

²¹ S&P ([October 2025: U.S. Leveraged Finance Q3 2025 Update: Issuers Adjust To Slower Growth](#))

²² Proskauer, February 2025: ([Trends in Private Credit](#))

²³ S&P, 23 April 2025: ([Leveraged Finance: Loose Maintenance Covenants Permeate Private Credit](#))

²⁴ (<https://www.aima.org/compass/insights/private-credit/financing-the-economy-2024.htm>)

*Source: 2025 FTE Survey Respondents



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\$2 trillion 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 as 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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