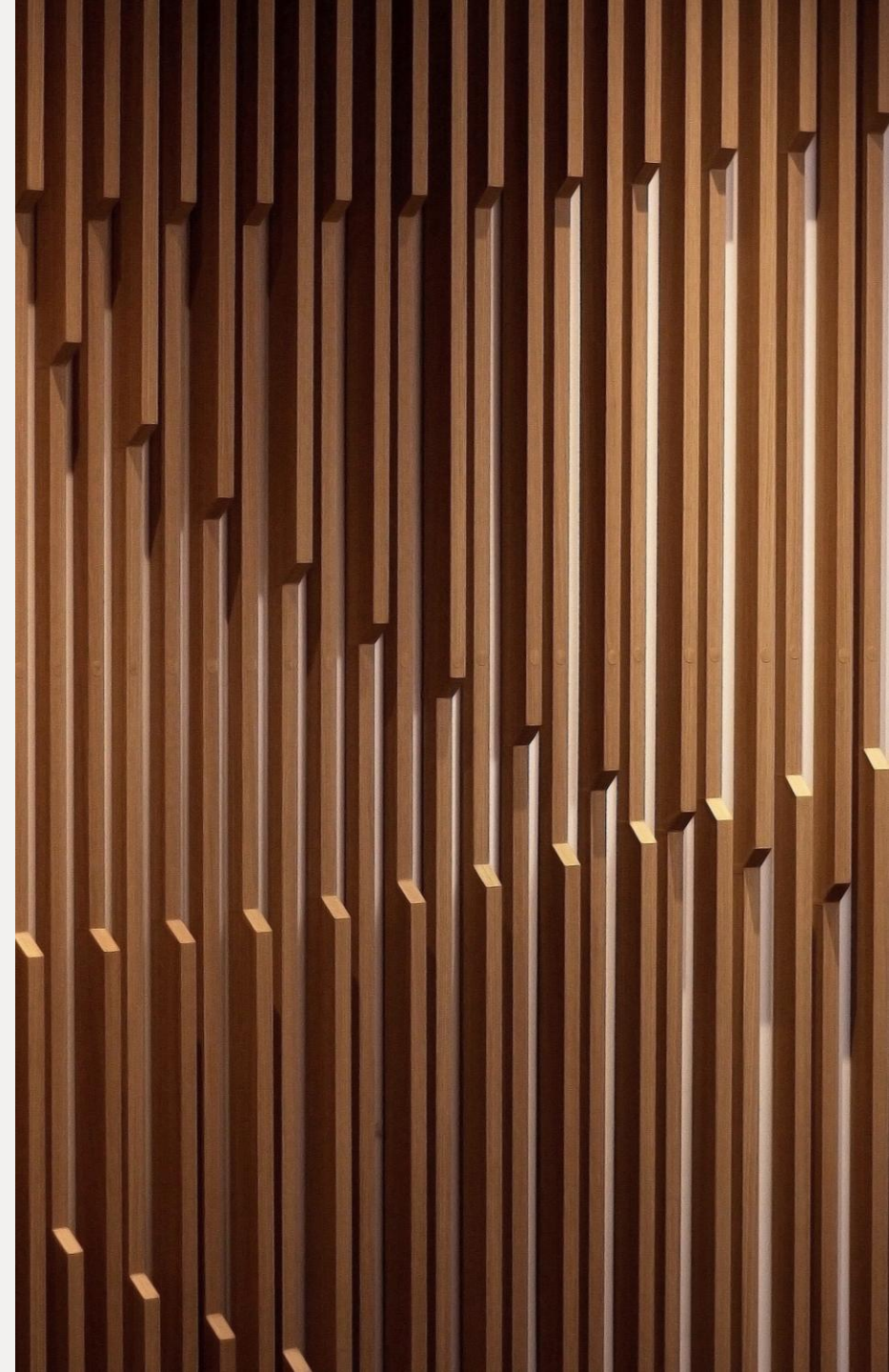




8 Big Questions About Private Credit

April 2026

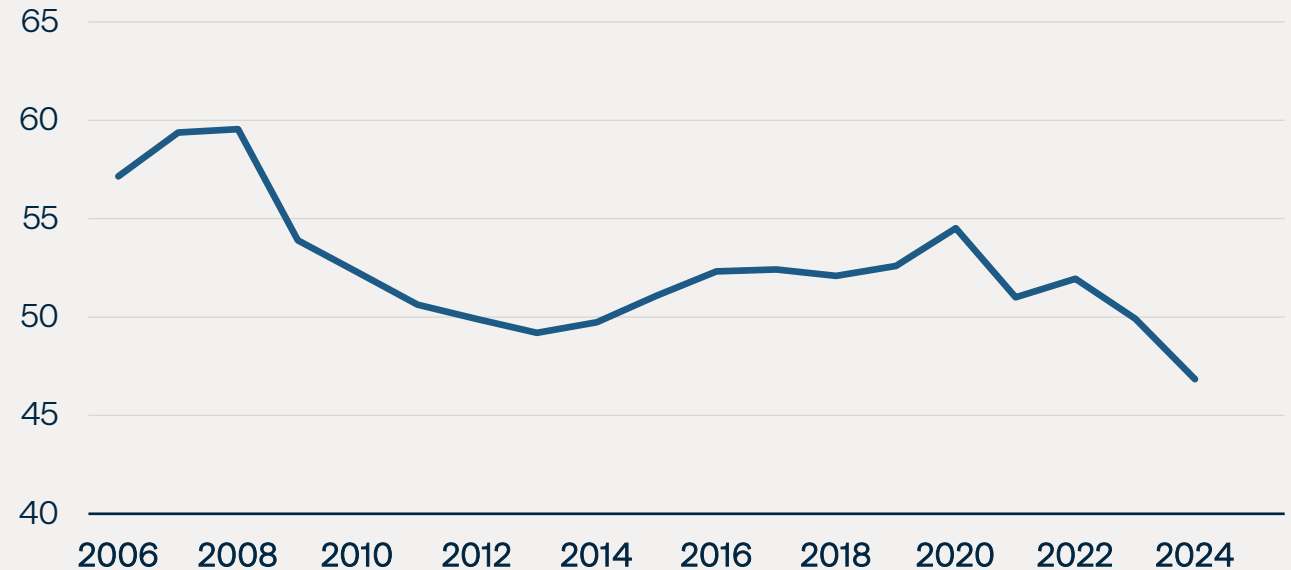


1: Does private credit present systemic risk?

While recent credit issues highlight risks, we do not believe they signal systemic stress in private credit

- Regulators have shifted direct lending risk from banks to alternative lenders
- Alternative lenders typically operate with lower leverage and more flexible capital
- Banks retain exposure via BDC financing, which is senior, secured, and supported by junior capital beneath it

Domestic Credit to Private Sector
by Banks as % of GDP (U.S.)



Source: World Bank, as of December 31, 2024.

Business Development Companies (BDC) A type of closed-end investment company that is regulated by the Securities and Exchange Commission under the Investment Company Act of 1940 and primarily invests in small and mid-sized companies (often privately held or founder-owned).

2: Is private credit infested with interlinked credit issues?

Recent credit issues are mostly isolated and driven by higher rates, not broad contagion



Rates

Higher interest rates are increasing pressure on weaker borrowers



Dispersion

Weaker underwriting during the “easy money” era of rapid growth is leading to bifurcated credit outcomes



Disruption

AI-driven changes in sectors like software are accelerating divergence between stronger and weaker companies

Outcomes increasingly depend on manager selection and disciplined underwriting

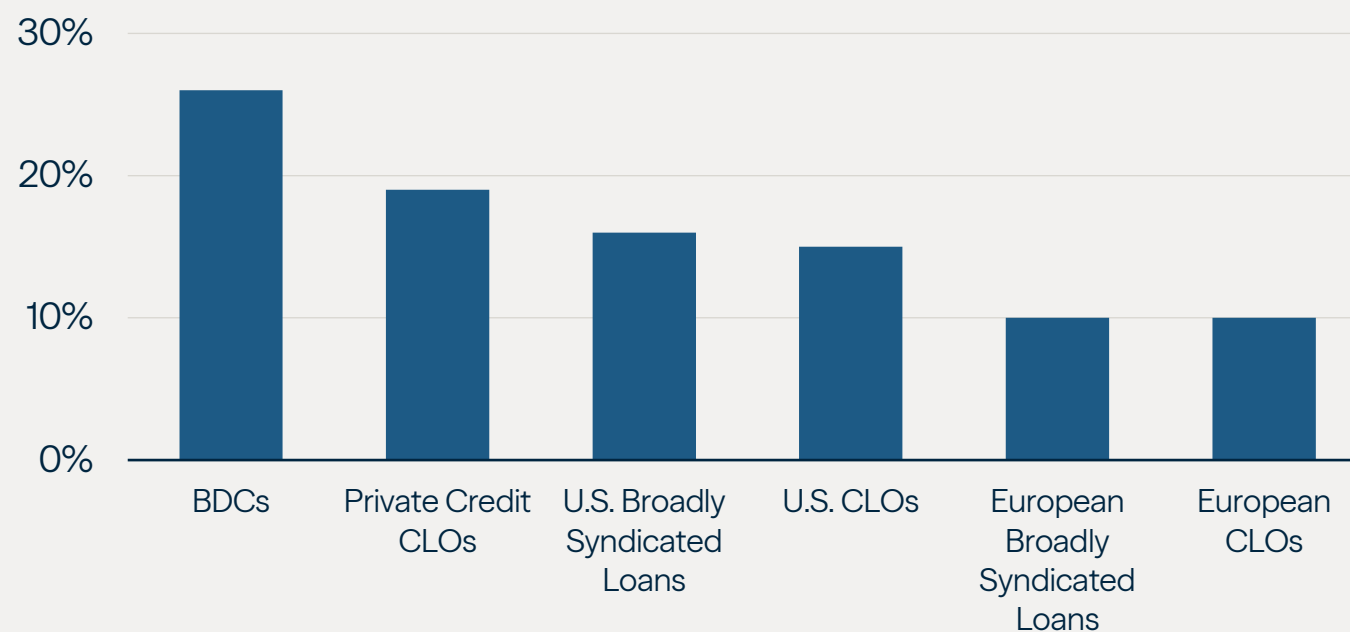
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3: Is private credit overexposed to loans to AI-vulnerable software companies?

Software exposure requires selectivity as AI is increasing dispersion between stronger and weaker borrowers

- AI is lowering barriers to entry in software, increasing performance divergence across companies
- Public markets are reacting with wider spreads and lower valuations, especially for pre-ChatGPT deals

Software Exposure Across Private and Liquid Loans



Source: Morgan Stanley, as of February 9, 2026.

4: How should investors interpret the recent rise in redemption requests in perpetual BDC structures?

Rising redemptions reflect market conditions, while limits are designed to best serve the interests of long-term shareholders

Redemption requests have increased due to:

- Headlines
- Lower yields

Redemption limits are a structural feature designed to align investor capital with illiquid assets and help reduce the risk of forced selling



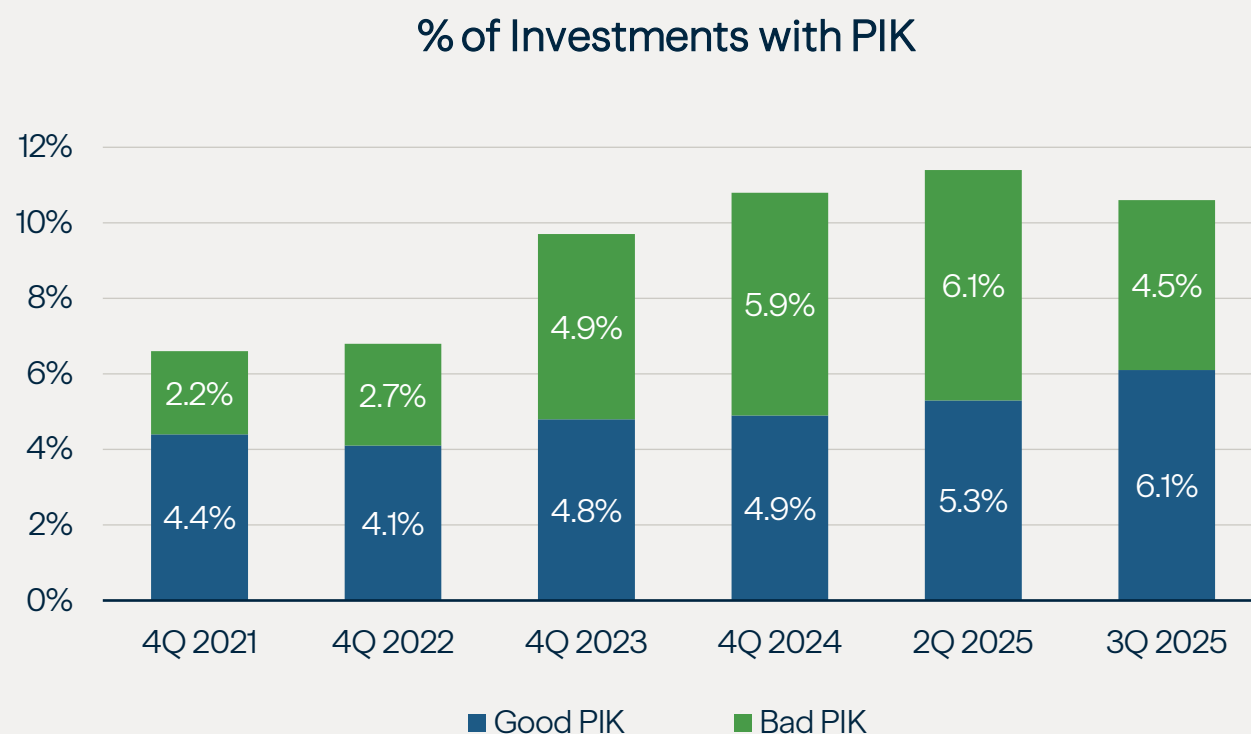
Funds that receive redemption requests above 7% have several options:

1. Limit redemptions to 5-7%. Redeeming investors receive their pro rata share and unfulfilled requests may be resubmitted in future tender offer periods.
2. GP/employee support.
3. Increase the tender limit through an amendment.

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5: What role is PIK playing in the current environment and what are the key implications?

PIK usage is a concern, but levels are stabilizing and non-accrual rates remain low



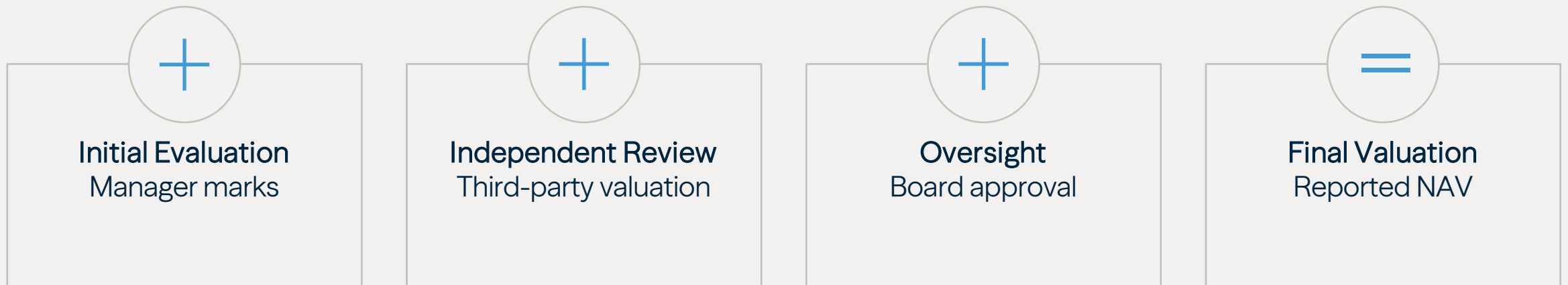
PIK can mask stress, but usage remains moderate and cash-pay is improving

As of September 30, 2025.

Source: Morgan Stanley Research. PIK data reflects Lincoln International's Senior Debt Index universe.

6: What about private credit marks?

Valuations are regularly checked by independent third parties, though variation reflects uncertainty and differing assumptions



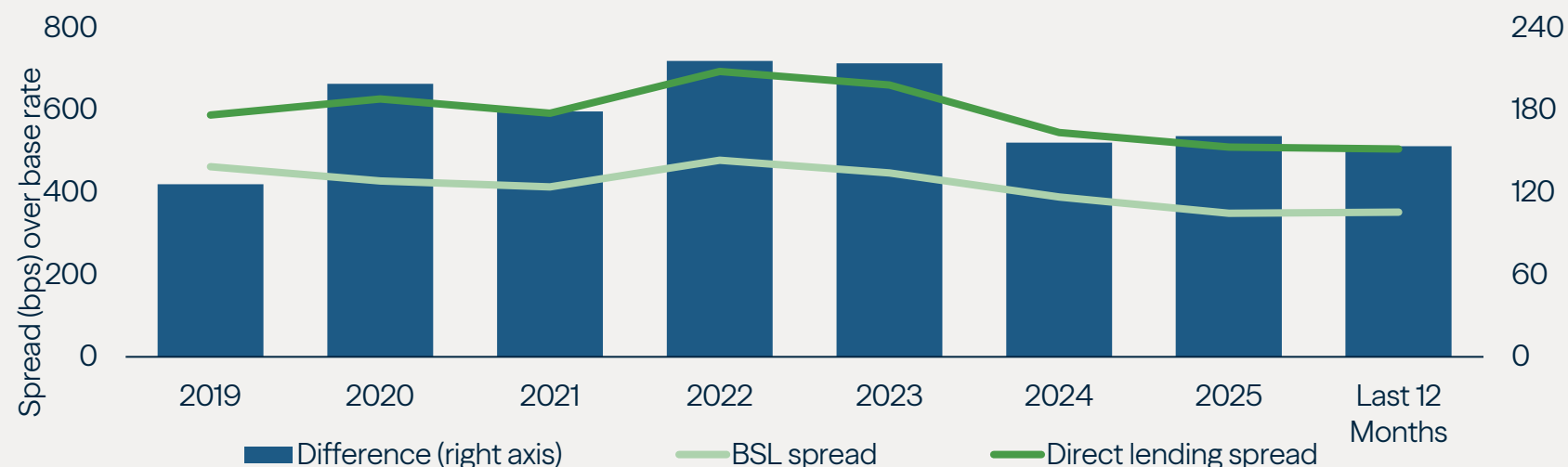
Differences in valuations often reflect judgment amid uncertainty

7: What opportunities do recent credit issues create for private credit investors?

Dispersion is creating a more favorable environment for selective deployment

Strong underwriting helps preserve the contractual yield that underpins the asset class, while market volatility may also lead to wider spreads on future new issuance

Spread of LBOs financed in BSL (all borrowers) vs direct lending market



Investors may benefit from manager selection, diversification and opportunistic allocations

Source: Pitchbook LCD. As of February 28, 2025. **Past performance is not indicative of future results.** Direct lending spread data reflects senior secured first-lien loans and unitranche facilities. Broadly Syndicated Loan (BSL) data reflects loans issued to all leveraged borrowers.

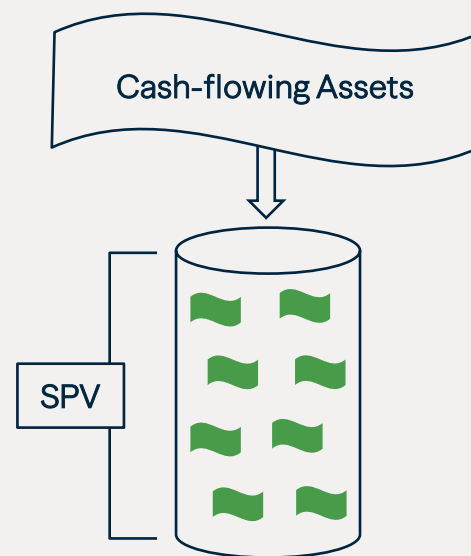
8: What about recent headlines in the ABF market?

ABF outcomes depend on underwriting, structuring and ongoing monitoring

ABF headlines reflect bad actors, not the asset class

Evaluating the originator is just as important as evaluating the assets

Strong analysis matters—using both data and experience, and **knowing when to walk away**



Bankruptcy-remote **special purpose vehicles (SPVs)** isolate assets and cash flows, making structuring critical to investment outcomes

ABF may offer relatively higher spreads in a less crowded market, but it requires specialized expertise

Asset-backed finance (ABF) A form of private credit, backed by pools of contractual assets (e.g., loans, leases and mortgages), as opposed to individual companies. Unlike standard corporate lending, ABF pays back principal continuously, rather than providing a large principal repayment at maturity. Underlying assets in the ABF universe reflect the breadth of the global economy, ranging from aircraft leases to credit card receivables to music royalties.

Disclosures

A WORD ABOUT RISK

As an asset class, private credit comprises a large variety of different debt instruments. While each has its own risk and return profile, private credit assets generally have increased risk of default, due to their typical opportunistic focus on companies with limited funding options, in comparison with their public equivalents.

Because private credit usually involves lending to below-investment-grade or non-rated issuers, yield on private credit assets is increased in return for taking on increased risk.

Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. High-yield bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

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