White Paper

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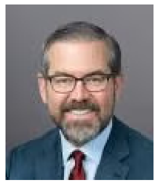
Accessing the next layer of private credit

How specialization can provide an investment edge in private credit

Craig Noble

Executive Chair

Credit



Robert O'Leary

Co-CEO

Credit

Armen Panossian

Co-CEO

Credit

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Key takeaways

- The expansion in private credit has increased the need for specialized expertise to fully understand asset-level and structural credit risk.
- The private credit evolution mirrors the path seen in early days of public markets, where initial beta strategies laid the foundation for a broader set of differentiated opportunities.
- The modern opportunity set extends beyond direct lending into structured, cash flow-based lending across real assets, including infrastructure and real estate, as well as specialty areas with distinct risk and return profiles.
- Successful investing in these sectors often depends on underwriting capabilities that require years of experience and data, which are difficult to replicate.

Introduction

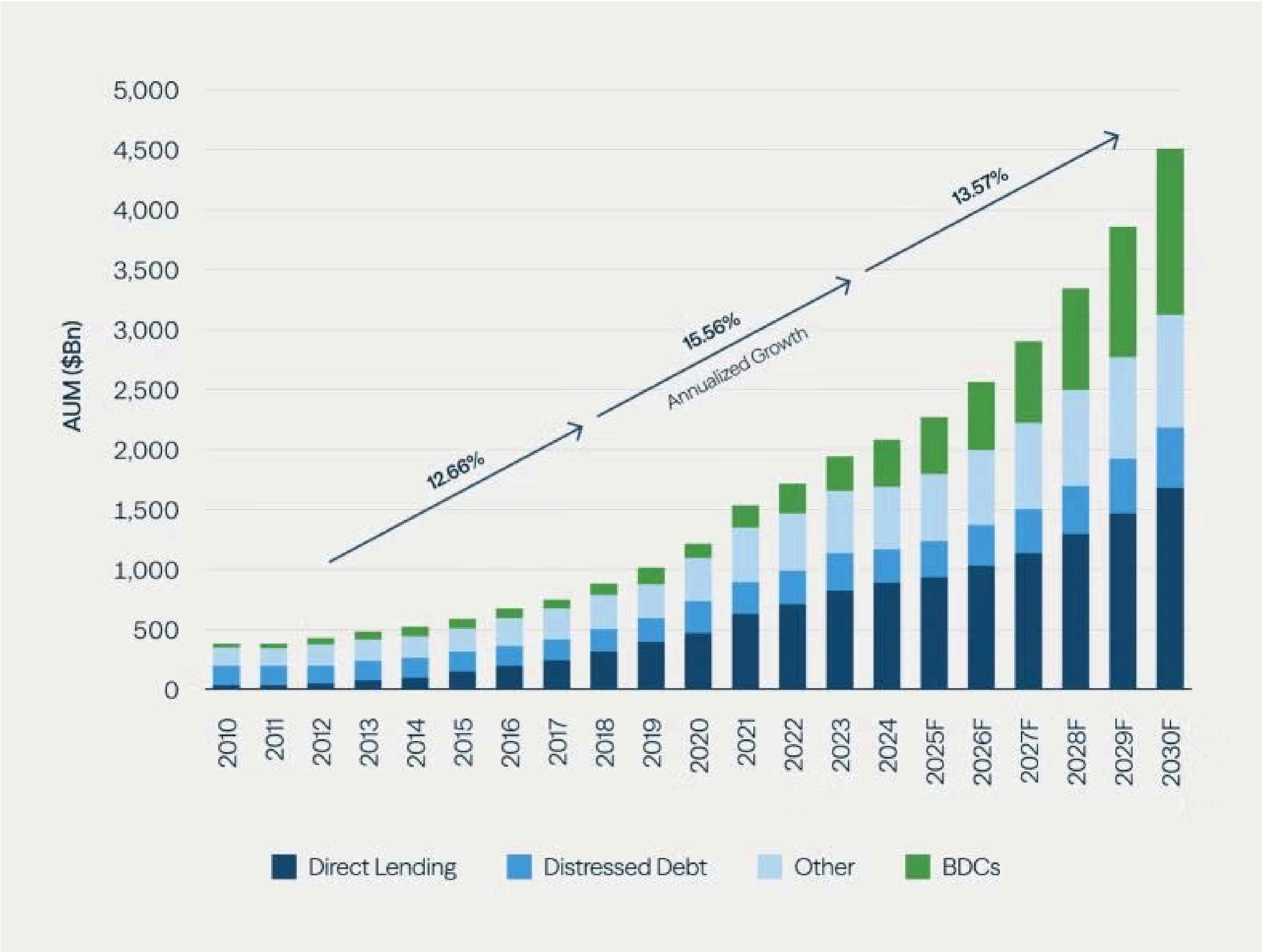
Private credit has evolved into a broader and more complex market. Today, even as direct lending remains a core allocation in private credit portfolios, there is increasing interest in the expanded private credit spectrum that includes opportunistic credit, real-asset credit and asset-backed finance. Specialty finance accounted for roughly 20% of all private credit fundraising in 2025, up from 4% in 2024.[1]

As the market has evolved, increased complexity has amplified the need for deep specialization and experience. In our view, the combination of specialization and expertise is an important differentiator that can help investors better identify risks, recognize opportunities and navigate market conditions with greater precision.

The move toward specialization in private credit has historical precedent. The market's development closely resembles the evolution of public credit, which began with investment grade bonds and expanded into more specialized segments such as high yield bonds, senior loans and collateralized loan obligations. In both public and private markets, what started as a relatively homogeneous market offering standardized risk-return profiles evolved into a more diverse landscape where returns are driven by expertise, structuring and credit selection.

The growth of private credit assets under management over the past decade has been attributed to not only investor demand but also the continued shift in lending activity from traditional financial institutions to private lenders. The underlying assets themselves remain familiar, for example, corporate loans, real estate debt and asset-backed financing. The notable change has been the breadth of the market and the growth of the borrower and investor base. Today, institutional investors continue to maintain or expand allocations to the asset class.

Figure 1: The continued growth of private credit AUM reflects the asset class's durability



Source: Preqin[2]

Evolving risks

As private credit becomes more embedded in institutional portfolios, investors are increasingly looking beyond direct lending and targeting more specialized exposures. At the same time, market volatility and greater dispersion in borrower performance have increased the importance of underwriting and manager selection.

Several areas of risk have come into sharper focus. Payment-in-kind structures, for example, can provide borrowers with flexibility but often signal financial stress if used to compensate for weakened cash flows. Concentrated exposure to individual sectors can leave portfolios vulnerable to industry-specific disruptions, particularly in areas undergoing rapid technological change. Elsewhere, liquidity mismatches between long-term private assets and investor redemption expectations have drawn increased scrutiny, while competitive pressures in some segments have contributed to looser underwriting standards and more aggressive deal structures.

These risks are not unique to private credit, but they underscore a broader point: as the market expands and diversifies, successful underwriting increasingly depends on evaluating assets, structures and borrower fundamentals at a granular level. This dynamic is helping drive a greater emphasis on specialization.

Moving to a specialized market

As private credit expands, excess return can stem from understanding risks that are difficult to analyze, service or structure. From understanding property-level cash flows, to understanding the complex regulatory framework around infrastructure assets, to understanding borrower profiles of the non-qualified residential mortgage market, we believe that managing risk at its source provides an edge.

Opportunistic credit: Opportunistic credit seeks to identify opportunities wherever idiosyncratic stress or market dislocation can potentially create attractive risk-adjusted returns. Rooted in distressed investing and restructuring, the strategy focuses on situations where borrowers require capital solutions that offer certainty, speed and structuring flexibility. By investing across a broad opportunity set—including distressed debt, rescue financings and bespoke capital solutions—opportunistic credit can provide diversified sources of return.

In opportunistic credit, the investment edge often comes from the ability to navigate complex situations where traditional sources of capital are unavailable or unwilling to participate. These opportunities may involve stressed borrowers, capital structure complexity, legal or restructuring considerations, or financing needs that require tailored solutions. Successfully underwriting these investments demands expertise in credit analysis, restructuring, asset valuation and recovery assessment, as well as the ability to negotiate strong structural protections. In many cases, outcomes are determined less by market direction than by the manager's ability to assess downside scenarios, structure transactions effectively and provide capital where flexibility and certainty are most valued.

Real estate debt: Real estate credit involves providing debt capital secured by real estate assets, typically through senior loans, whole loans, mezzanine financing or other structured credit solutions. The strategy seeks to generate attractive income and risk-adjusted returns while benefiting from the security of hard-asset collateral and contractual cash flows. Unlike traditional fixed income, real estate credit is often sourced through privately negotiated transactions, allowing investors to structure bespoke solutions and target opportunities across property sectors, geographies and market cycles.

In real estate debt, understanding credit risk requires more than evaluating the borrower—it also requires assessing the underlying asset. Investors must analyze property-level cash flows, market fundamentals, lease dynamics, development risks, sponsor quality and collateral value, often across multiple property types and geographies. As a result, investment outcomes are increasingly tied to asset-level expertise and the ability to identify relative value within specific sectors. Managers with experience owning, operating and investing in real estate may have an advantage in evaluating risk, sourcing opportunities and structuring investments to preserve capital through changing market conditions.

Infrastructure debt: Infrastructure debt provides financing to essential infrastructure assets and businesses that deliver critical services, such as renewable power, utilities, data centers, transportation networks and energy infrastructure. As capital requirements in infrastructure continue to grow—with an estimated $10 trillion needed globally by 2040[3]—specialization and operating experience may become increasingly important differentiators in identifying attractive opportunities and managing risk.

Infrastructure debt, like real estate debt, highlights the growing importance of combining credit expertise with operational insight. Many infrastructure assets operate within complex regulatory frameworks, rely on long-term contractual arrangements and require a detailed understanding of sector-specific dynamics. Underwriting these opportunities involves evaluating cash-flow durability, asset quality, leverage, regulatory risk and contractual protections across areas such as renewable power, utilities, transportation and digital infrastructure.

Asset-backed finance: Asset-backed finance may be one of the clearest examples of specialization creating a competitive advantage. Rather than relying primarily on corporate creditworthiness, these investments are underwritten against pools of underlying assets and their associated cash flows. Each segment can have its own legal frameworks, servicing requirements, collateral characteristics and performance drivers, requiring dedicated expertise that is often difficult to replicate. As a result, investment outcomes are frequently driven by asset-level analysis, data, servicing capabilities and structural protections.

Figure 2: ABF strategies represent niche opportunities that require specialized knowledge

ABF Strategies	Market Opportunity	Nuances Driving Specialization
Non-QM Residential Mortgage	The non-qualified residential mortgage market continues to expand as self-employed borrowers and small business owners fall outside traditional bank underwriting framework.	Deep understanding of borrower profiles, the ability to source loans through various channels (e.g., in-house origination, third party origination or open-market purchases) and having a robust database built over multiple cycles will provide differentiated insight.
Consumer Credit	Consumer credit opportunities are driven in part by reduced willingness of banks to lend to select consumer segments.	Platforms that rely on sector expertise, proprietary servicing and analytics to track performance across millions of datapoints should be better positioned to manage risk through market cycles.
Aviation Lending	This is a sector that requires the ability not only to underwrite aircraft values, but to repossess and operate them in distressed scenarios.	Managers with operational capabilities, scale and structuring skills matter in this space.
Music Royalties	The global music market totaled $113 billion in 2025 and is projected to reach close to $200 billion by 2035.[4] While performing rights and streaming remain the predominant forms of income in the music IP space, leveraging ancillary rights can potentially increase overall cash flow.	Specialized managers with expertise across licensing, digital distribution, content development and brand extension capabilities can enhance catalog value and boost investment returns.
NAV Finance	This segment of private credit has grown alongside the expansion of the private equity industry. NAV finance provides flexible capital solutions to private equity managers and buyout funds.	Deep structuring and underwriting expertise across preferred equity, GP financing, and NAV loans backed by diversified private equity portfolios can help drive success.

Understanding credit at its source

As private credit continues to expand, the range of potential outcomes across sectors and structures may also widen. In this environment, manager selection requires close attention, particularly as strategies become more intertwined with operational knowledge and as structural complexity increases. Evaluating managers, therefore, requires the same level of rigor applied to underwriting investments themselves, including due diligence around sourcing capabilities, underwriting discipline, structuring expertise and risk management.

In our view, investment outcomes will be driven by underwriting precision, operational insight and the ability to assess risks at the asset level. An integrated framework that combines deep investment experience with operational expertise can provide a differentiated view into borrower behavior, credit demand and capital flows at the source, helping investors navigate an increasingly complex private credit landscape.

Endnotes

1. With Intelligence S&P Global. Private Credit Fundraising Report 2025, published April 2026. Specialty finance includes predominantly asset-based finance and fund finance, but also includes aviation finance, royalties, significant risk transfer and life settlements.

2. All figures are nominal. Global private credit AUM* ($BN) by sub-strategy. AUM figures exclude funds denominated in yuan renminbi. Values relate to end of year. The degree of incline for the annualized growth line is not proportional to the rate of growth. To avoid double-counting, total column excludes funds of funds. Total includes BDCs but excludes all other semi-liquid funds.

3. Global Infrastructure Outlook – A G20 Initiative.

4. Goldman Sachs Music in the Air report (2025).
