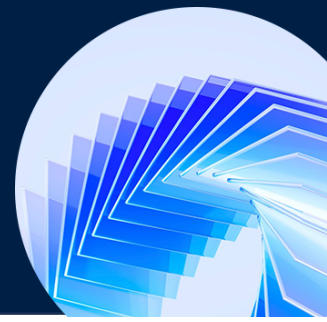


PRIVATE CREDIT IS NOT ONE MARKET



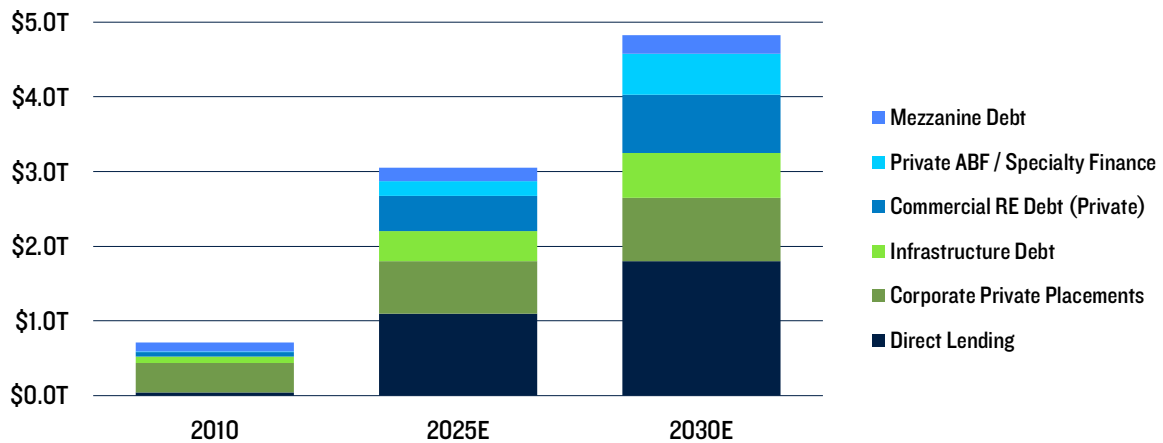
- Private credit is moving beyond its traditional core, creating a broader and more differentiated opportunity set for investors
- Direct lending headlines reflect cyclical repricing rather than systemic stress in the asset class
- Outcomes are driven by how exposures are structured and combined, rather than labels
- The allocator challenge is shifting from access to deploying capital with greater precision across a broader opportunity set

Private credit has transitioned from a niche allocation to a structural component of institutional portfolios. Over the last 15 years, the market has more than tripled in size, far outpacing the growth of the public credit universe.

As a result, how private credit is framed – and understood – is becoming increasingly important for allocation decisions. This first article in a six-part series sets out a simple premise: *Private credit is not one market*. Treating it as such risks obscuring where risk is concentrated and where resilience sits.

STRUCTURAL RISE

Private Credit Has More Than Tripled Since 2010 - Now Over \$3 Trillion Globally



Sources: Preqin, PitchBook, Macquarie, MetLife/HIMCO, ACC/AIMA, Deloitte, PGIM, As of April 15, 2026

HEADLINE FOG

Private credit is often discussed through the lens of direct lending, and [recent headlines are shaping perceptions](#) of the asset class more broadly, despite being concentrated in a relatively narrow segment.

Middle Market Direct Lending (MMDL) represents around 30% of the global market, with evergreen and semi-liquid vehicles accounting for only around 15% of that segment, according to industry estimates. This means little more than 5% of the [total global private credit market is directly impacted](#) by these

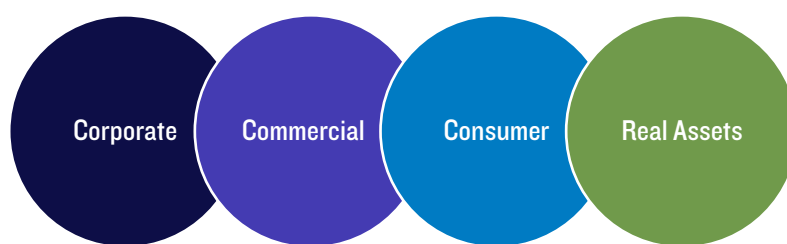
headlines.¹ Whilst valuation quality, concentration risks and liquidity are important, the industry has done a poor job of distinguishing between its many segments in ways that can be meaningful for investors. This risks overstating challenges in some areas and overlooking resilience in others.

The opportunity therefore lies in navigating a differentiated opportunity set, from established, lower-levered segments of the markets for Corporate Private Placements, Commercial Real Estate Debt and Infrastructure Debt, through to riskier strategies such as Mezzanine Debt and newer areas like Asset Based Finance.

Collectively, these segments offer the full set of characteristics that investors have historically sought from their credit allocations: fixed or floating income, varying maturities and duration, bullet and amortising structures and principal protection.

PRIVATE MARKETS SCOPE

Private Credit Risk Buckets



Types of Instruments / Investments / Collateral

Active Participants Across the Capital Structure of the Full Spectrum of Asset/Instrument Types

Middle Market Lending	Infrastructure Debt	Core Mortgages	Consumer Loans	Sports Stadia	Agriculture / Timber	Manufactured Housing
Unitranche Debt	Second Lien Debt	Construction Loans	Credit Cards / POS	Trade Receivables	Private Credit Secondaries	Land Banking
Whole Business Securitizations	REITs	Student Loans	Digital Infrastructure	Aviation Finance	Mezzanine Debt	Credit Tenant Leases
Private Placements	BDCs	Fund Finance	Mortgage Servicing Rights	Land Banking	Residential Whole Loans	Auto / Equipment Finance

CHANGING COMPOSITION

The global, non-bank, non-government private credit market has tripled to more than \$3 trillion since 2010. But growth has been uneven across segments. Traditional areas such as corporate private placements and mezzanine finance have grown more slowly, while MMDL and asset-based finance (ABF) have driven aggregate expansion. As a result, the composition of the market – not just its size – is increasingly relevant for investors.

[Broad categories can mask meaningful differences in how capital is deployed and how risk behaves within each segment.](#) For example, private real estate credit markets are comparable in scale to major fixed income markets offering different strategies and performance profiles to investors. These segments are not simply different labels – they perform different roles in the portfolio.

Core strategies seek investment grade-equivalent returns while providing duration and demonstrating a general bias toward positive credit migration. Core plus or transitional exposure targets higher spreads

¹ Estimates from Prequin & PGIM

and yields through a predominantly floating-rate structure, driven by actively supported business plans and improving asset-level cash flows.

Structured real estate credit is deployed more tactically, providing solutions across the capital stack, encompassing mezzanine and preferred equity, participating mortgages and full capital structures, with a higher risk-return profile.

ABF has followed a related but distinct path. Banks remain meaningful originators even though institutional capital access has expanded. Consumer asset-based finance sectors have seen especially rapid growth from a relatively small base. Hard or real ABF has also expanded, but here the growth is in areas that are less standardised and priced to reflect that complexity.

Infrastructure debt growth is perhaps, the most “organic” of all the sectors. While commercial and development banks remain heavily invested, the scope of global infrastructure financing needs, after years of underinvestment, is too big for any single pool of capital. McKinsey estimates that a cumulative \$106 trillion in infrastructure investment will be necessary through 2040.²

[Within direct lending, core Middle Market Direct Lending led growth early in the last decade](#), while upper MMDL has been a recent growth driver. Sponsor-backed direct lending grew faster prior to the pandemic, while [non-sponsor-backed direct lending has grown more steadily](#) since 2022. The latter trend is buttressed by the reduction in sponsor-backed deals as PE deal making activity has been slower to recover from the post-pandemic boom bust cycle.

Taken together, this highlights how private credit is less of a single allocation and more a toolkit – where different segments can be combined to shape income, duration and downside protection:

A VARIED LANDSCAPE

Hypothetical. For illustrative purposes only. Target returns are not guaranteed.

Market	Return	Quality	Duration	Structure = Callable	Structure = Floating/Fixed
Direct Lending	High	HY	Intermediate	Yes	Floating
Real Estate Debt					
Core/Core +	Low	IG	Long	No	Fixed/Floating
Enhanced/Structured Credit	High	HY	Short	Yes	Floating
Corporate Private Placements	Low	IG	Long	No*	Fixed
Private ABF					
Senior Tranches	Low	IG	Short	Yes	Floating
Junior Tranches	High	HY	Short	Yes	Floating
Infrastructure Debt	Low/High	IG/HY	Long	No*	Fixed/Floating
Mezzanine Finance	High	HY	Intermediate	Yes	Fixed
Agriculture Loans	Low	IG	Long	No*	Fixed

**makewhole call
Source: PGIM*

In assessing the landscape, it becomes clear that private credit markets are as heterogeneous as their public peers, if not more so, requiring headlines and commentary to be read through the lens of each asset class’s specific features.

² McKinsey, The Infrastructure Moment (Report 09/09/2025), Accessed April 2026

FROM OPPORTUNITY TO ALLOCATION

Private credit markets provide both long-term structural pathways, to earn complexity and illiquidity premia, as well as short-term opportunities. In the short term, possibilities are created by an imbalance in supply and demand for credit, usually related to a credit or economic event. For instance, direct lending is squarely in the headlines amid pressures ranging from software loans and private BDC redemption queues to stagnant portfolios and lengthening average lives. The resulting widening of spreads and tightening of underwriting terms reflect a predictable market adjustment.

Current market conditions may offer improved entry points relative to recent periods. While some existing portfolios, many of which were formed in 2021-22, may not perform as well as expected, current underwriting conditions may support more attractive outcomes for direct lending in 2026.

Likewise, in private real estate credit, the market downdraft in commercial real estate values after the pandemic means the sector has undergone a material repricing. Underwriting standards are now tighter, and investors can lend against suppressed property values that are 20% below peak on average. Fundamentals in most markets are now more supportive, with development pipelines lower and rental demand resilient. This underpins cash flows and downside protection, making many real estate investments more attractive.

Crucially, the opportunity set continues to broaden, enabling more tailored portfolio construction. Insurers have long used private credit, including core commercial mortgages and private placements, to match long-dated liabilities while enhancing yield. More recently, rated feeder structures have supported allocations to higher spread segments by improving capital efficiency. Pension plans have similarly evolved from small direct lending sleeves towards a wider toolkit, viewing the illiquidity premia as attractive for long-dated high-quality bonds that plans already hold for actuarial reasons.

The expanding asset class offers investors the ability to create custom solutions using multiple private credit strategies to meet specific long- or intermediate-term objectives.

Private credit is moving from a benign period into a more challenging phase of the cycle. Macro uncertainty and geopolitical shocks can raise rates and funding costs, benefiting floating rate structures while increasing borrower strain, particularly in lower-quality and cyclical credits. This places [a premium on disciplined origination](#), thoughtful liquidity management, concentration controls and [rigorous risk frameworks, complemented by stress testing](#) to set guardrails and avoid reaching for yield as competition intensifies and more institutional capital enters lending markets.

CASE STUDY: REFRAMING PRIVATE CREDIT AHEAD OF PRT

A medium-sized pension plan targeting a potential pension risk transfer within eight to twelve years faced growing tension between legacy positioning and future objectives. The portfolio carried a significant private equity allocation and a smaller but well-performing exposure to direct lending.

While trustees remained comfortable with existing private credit allocations, they were unwilling to add significantly to direct lending and increasingly concerned about the steady compression of private equity returns in recent years. The priority was to improve portfolio cash flows, reduce reliance on private equity and maintain overall return expectations.

The solution was to recycle future private equity distributions into a diversified private credit strategy encompassing asset-based finance, infrastructure debt, commercial real estate debt and selective direct lending. Targeting returns of SONIA plus 4–6 percent, the allocation was designed to deliver direct-lending-like outcomes with greater diversification, improved income visibility and lower cyclicality. Expected portfolio returns remained close to 10 percent, while cash flows became more predictable and controllable, allowing capital to be returned in an orderly manner as the PRT optionality horizon moved closer.

CASE STUDY: PENSION FUND PREPARING FOR PRT EVENT

Hypothetical. For illustrative purposes only.

	Current State	Future State
ASSET CLASS		
Private Equity	65%	40%
Private Credit		
Direct Lending	35%	40%
Infrastructure	0%	7%
CRE Debt	0%	7%
ABF	0%	7%
STATISTICS		
Target Return	~12%	~10%
Average Life	9 years	6 years
Overall Risk	High	Medium
J-Curve	Long	Short

This case study and our broader assessment demonstrate a shift in how the private credit allocation is evolving. It is playing a more nuanced role within portfolios – shaped by how exposures are selected, structured and combined. Against this backdrop, the next article in our series explores how these shifts are influencing underwriting – particularly the role of sponsors and the reassessment of non-sponsored lending.

This case study is hypothetical and for illustrative purposes only. No investor has received these returns. Hypothetical performance has inherent limitations and does not reflect actual trading. Actual results will vary. Target returns are not guaranteed.

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