



Private credit: Spreading fact from fiction Trending Conversations

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Key takeaways

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- 1 We believe private credit (and private markets broadly) is functioning as intended**

Headlines surrounding private credit have raised concerns amongst investors. While capital has grown in private markets, semi-liquid vehicles are only 14% of all assets under management*, with the vast majority being time-tested drawdown funds.
 - 2 We believe private market education is critical – know what you own**

Fundamentals within private credit are generally healthy and the vehicles are operating as expected. There are underlying risks and liquidity constraints when it comes to investing in private markets.
 - 3 Implementation and manager selection are key for private markets**

Private credit has delivered on average relative to public markets. Within private markets, there is dispersion within strategies – showcasing the importance of manager selection.
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Source: Pitchbook, as of Mar. 3, 2026.

We believe private credit is functioning as intended
While capital has grown in private markets, semi-liquid vehicles are only 14% of all AUM

What is actually going on in private credit?

We believe the picture is more nuanced than the headlines

Recent private credit headlines tell conflicting stories

Bloomberg.com
BlackRock Faces 100% Loss on Private Loan, Adding to Credit Market Pain

Reuters
First Brands, Tricolor collapses raise fears of credit stress, with Dimon warning of 'more cockroaches'
The twin collapses of First Brands and Tricolor in September have affected some pockets of Wall Street's multitrillion-dollar credit machinery,...

Bloomberg.com
Jeffrey Gundlach Warns of 'Garbage Lending' as Private Credit Booms
In markets awash in "garbage lending," Gundlach is keeping his strategy simple: load up on high-quality assets.

Wealth Management
Apollo CEO Rejects Private Credit Systemic Risk Fear
Apollo's Marc Rowan dismisses concerns about private assets in retirement portfolios, calling them overblown amid scrutiny of PE-insurer...

Blue Owl's Woes Expose Private Credit Risks for Retail Investors

- Recent headlines, such as the defaults of First Brands and Tricolor, or the recent pressure on listed business development companies (BDC's) and private asset manager stock prices, have made this fear evident. We have also seen significant pushback from proponents of private credit. Any signs of potential stress are viewed as a chance to reignite the debate.
- We believe there is a middle ground here. Credit risks exist in both public and private markets. While we don't believe what is occurring in private credit is a systematic risk, there will always be challenges in parts of private markets. Investors must remain diligent when it comes to strategy, vehicle, and manager selection.

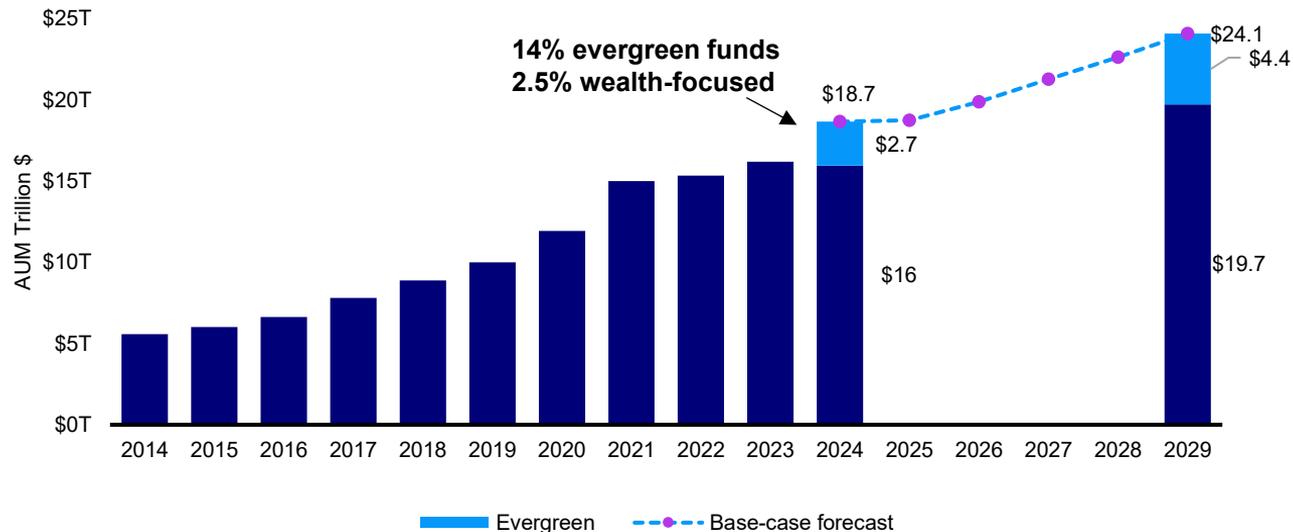
Source: Bloomberg, Cliffwater BDC total return index, as of Mar. 3, 2026. For illustrative purposes only.

How big are private markets and has too much capital entered too fast?

“Evergreen” is a small portion of private markets, with around 2.5% in wealth funds

- Private capital has raised trillions of dollars over the past decade, the major asset classes being; private equity (\$6.0T), venture capital (\$3.4T), private credit (\$3.3T), real estate (\$2.2T), and infrastructure (\$1.9T)*.
- Evergreen funds, which are a newer type of vehicle with more liquidity than drawdown funds, are only around 14% of total private markets AUM. Most of these funds to-date are institutional (\$2.3T), but wealth-focused evergreen funds are expected to continue to grow their share over time, from \$500B in 2025 to \$1.1T in 2029.

Private markets and evergreen AUM



Source: Morningstar Pitchbook, as of Feb. 22, 2026. *Co-investments (\$0.4T), secondaries (\$0.6T) and fund of funds (\$1.0T), round out the AUM total of \$18.7T. Evergreen funds, as defined by Morningstar Pitchbook, are semi-liquid fund vehicles that invest in private assets and securities, both institutional (\$2.3T) and wealth-focused (\$500B). These funds raise capital continuously and invest it over an indefinite period while providing some liquidity periodically. Unlike traditional “drawdown” private asset funds that have a fixed lifespan and deploy capital from commitments over time, evergreen funds operate on a perpetual basis, allowing them to accept new investments and make distributions to investors without a predetermined end date. There is no guarantee the forecasts provided will come to pass.

We believe private market education is critical – know what you own

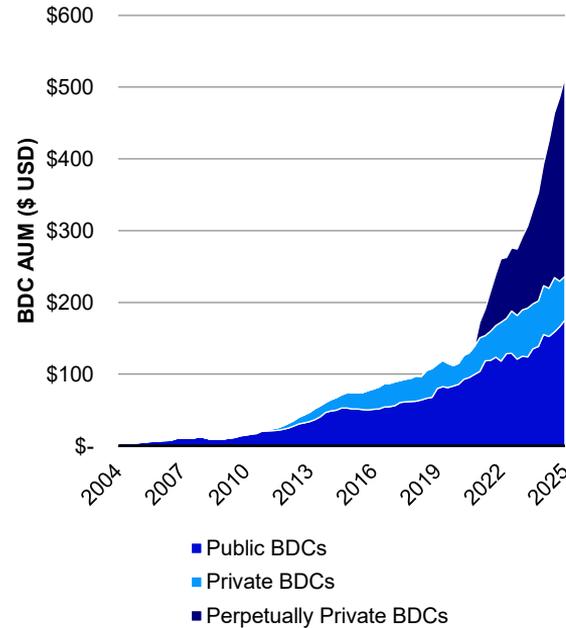
Fundamentals within private credit are generally healthy
and the vehicles are operating as expected

ABC's of Business Development Companies (BDCs)

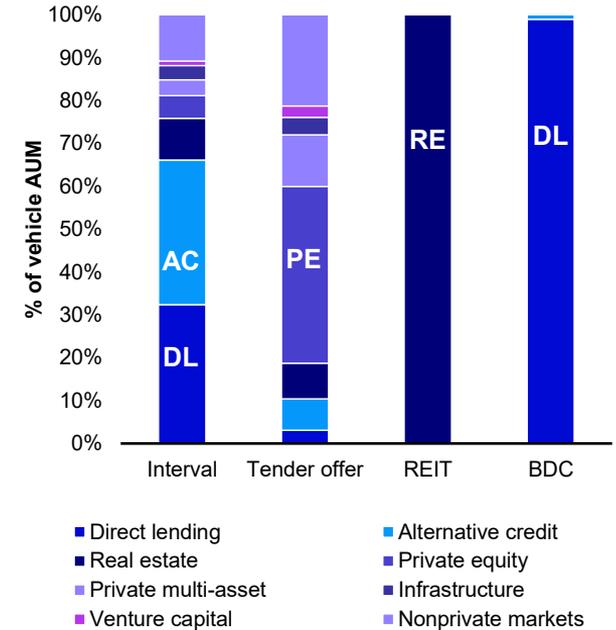
Evergreen BDCs have become very popular since '21 and are mostly direct lending

- BDCs have been around since the 1980s but have grown in popularity as a means of investing in private credit since the mid-2000s.
- There are three types of BDCs, the newest of which are evergreen, perpetual BDCs. They offer liquidity on a regular basis, usually 5% of NAV per quarter. There are other types of evergreen vehicles like non-traded REITs, which are real estate focused; tender offers that house private equity; and interval funds, which are mostly credit focused as well.
- Public (listed) BDCs trade on exchanges, have the highest liquidity, and are often pressured by market volatility. Private (finite-life) BDCs draw down invested capital over a set period of time before they list or are merged.

Direct lending BDC AUM by vehicle



Private strategies by evergreen vehicle

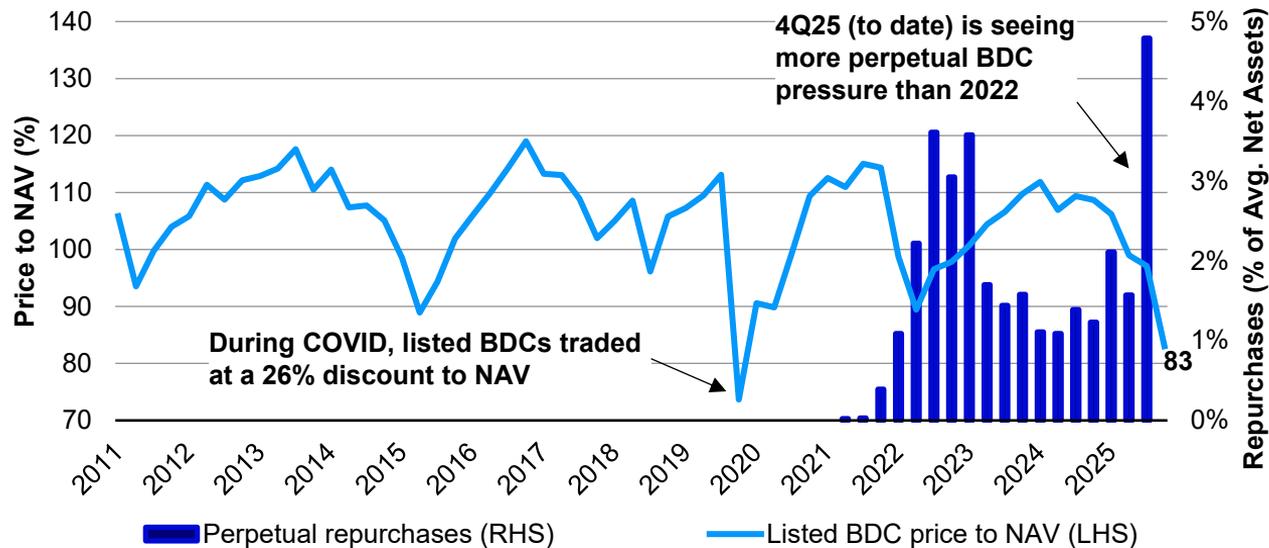


Source: Cliffwater and Pitchbook, as of Feb. 22, 2026.

How are BDCs (and perpetual private credit funds) holding up?

Listed BDCs are trading 17% below NAV and perpetual BDCs are repurchasing

Listed BDC price to NAV and perpetual BDC repurchases as a % of NAV



- In 4Q25 we saw an increase in repurchase requests for perpetual BDCs, to roughly 5%. That's more than any quarter since this data became available, even more than during the sell-off and non-recession of 2022.
- Listed BDCs, however, have been around a lot longer, and we have seen moments of pressure come and go, such as in 2020 and 2015. As of writing on March 2, 2026, the listed BDC price to NAV ratio is estimated at a 17% discount, placing the current period of stress between the two most recent sell-offs over the past 5 years.

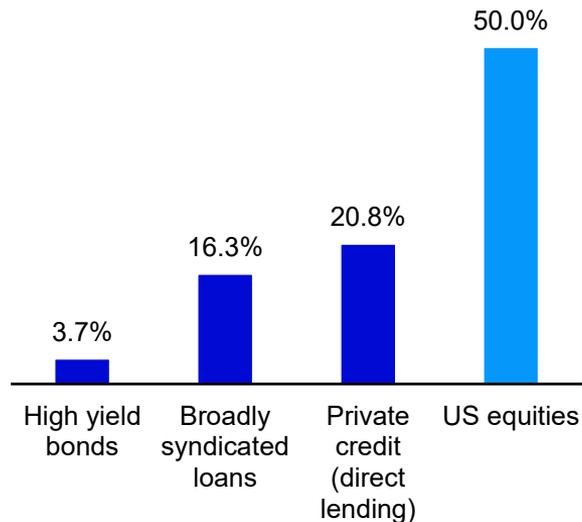
Source: Bloomberg and Cliffwater, as of Feb. 22, 2026. The latest data point for repurchases cover the period from Dec. 2025 – Jan. 2026 and are based on announcements from perpetual BDCs so far in 2026. Listed BDC price to NAV generated by Bloomberg Intelligence using a market cap weighted analysis of all listed BDCs. Latest datapoint (Mar. 2, 2026, 83 price, or 17% discount) uses the Cliffwater BDC index to estimate the current price. **Past performance does not guarantee future results.**

What is worrying investors? Tech exposure and credit quality

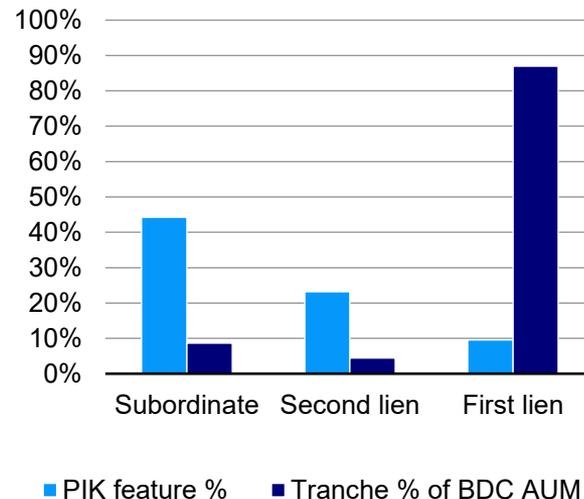
Some bad deals, not a bad market. ~90% are first lien loans with little “PIK”

- Generally, there are two concerns within the private credit market: the types of borrowers and the quality of the debt.
- Starting with the types of borrowers, recent anxiety surrounds software companies and the threat of artificial intelligence (AI) disruption to those businesses (and their ability to pay back loans). More broadly, the AI trend (such as data center loans) has been funded by both public and private credit, with \$1.2T in AI-related investment grade* issuance in 2025. Public equity is also exposed to this trend, with technology representing 50%+ of US equities**.
- Credit quality is one of the key fundamentals of both public and private credit investing. We have seen an increase in the usage of payment in kind (PIK), which loosens payment terms, particularly within second lien or subordinate private credit. Luckily, 90% of BDC AUM is first lien, senior secured debt, with only around 10% using a PIK facility.

Software/tech exposure of credit asset classes compared to equities



PIK usage by direct lending tranche and tranche AUM



Source: *JP Morgan estimates \$1.2T in AI related global investment grade issuance. LHS: Data as of Feb 13, 2026. High yield bonds are represented by the Bloomberg US High Yield 2% Issuer Capped Index. Broadly syndicated loans are represented by the Bloomberg US Leveraged Loan Index. Private credit data provided by JP Morgan using the KBRA direct lending index for private credit as of Sept. 30, 2025, latest data available. Software defined by BICS Industry Group. S&P 500 for US equities (**exposure is an estimate that considers the size of the technology sector, communication services, and technology-adjacent consumer discretionary companies). PIK and Tranche AUM statistics from Cliffwater direct lending index as of Sept. 30, 2025, latest data available. First lien loans are senior debt, which is the highest level of priority within the capital stack in the event of default. Second lien is mezzanine or junior debt, second in line, and subordinate debt, made up of preferred equity, is third in line, before common equity.

Implementation and manager selection are key for private markets

Private credit has delivered on average relative to public markets. Manager selection is key as dispersion within private markets can be wide.

Not all private assets are created equal – manager selection is key

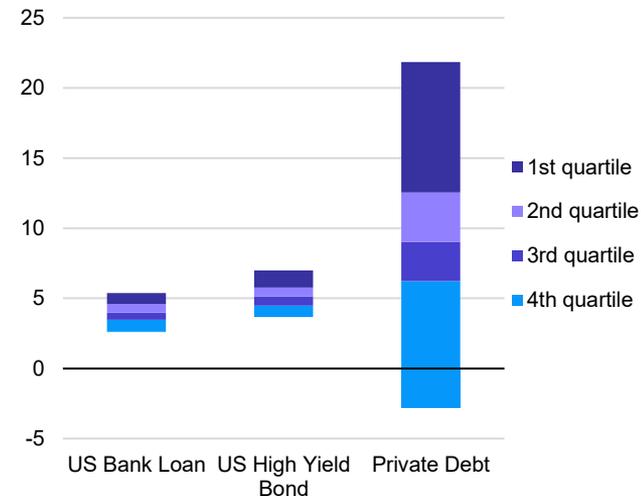
Private credit has outperformed public credit over major time periods; however, performance is not uniform

- Private credit (direct lending) has outperformed their public counterpart, broadly syndicated loans, over the past 1, 5 and 10 years. Going forward, we are keeping watch for late cycle dynamics such as tighter spreads and declining base rates, however, we still find the asset class attractive due to senior covenants and the potential for the illiquidity premium provided alternative lenders.
- Private markets have historically had a wider range of return outcomes than in public markets, which is why we emphasize the importance of due diligence and manager selection when approaching these strategies. Be mindful of a manager's track record, risk exposures, as well as the implementation and vehicle type when selecting a private investment strategy.

Direct lending total returns vs. public proxy (ended Sept. 2025)

Trailing index total returns (%)	1-Y	5-Y	10-Y
Private credit: direct lending	9.8	10.7	9.1
Broadly syndicated loans	7.1	6.9	5.4
Difference (private – public)	+2.7	+3.8	+3.7

Dispersion of public and private market fund returns (5-Y ended Sep. 2025)



Source: Cliffwater, Burgiss and Morningstar as of Feb. 22, 2026. Direct lending represented by the Cliffwater direct lending index. Broadly syndicated loans by the S&P leveraged loan index. RHS: Data is based on 5-year annualized total returns for public assets and internal rate of return (IRR) to date for private assets. The quartiles represent realized fund universe performance for the 5 years ending Sept. 30, 2025. The quartiles are labeled by color on the right side of the chart in the legend. 1st is highest, 4th is lowest. Private Debt is represented by the Burgiss MSCI Time-Weighted Global Private Debt Funds Index, US Bank Loan is the Morningstar US Bank Loan category, US High Yield Bond is the Morningstar US High Yield Bond category. Data as of Sept. 30, 2025, latest data available. All returns are net of fees. Spreads are the difference between base rates and quoted yields and are typically considered a compensation for credit risk. Illiquidity premium is the compensation in return for committing capital over a period of time. **Past performance does not guarantee future results.** An investment cannot be made into an index.

The spectrum of private credit is vast and diversified, with various liquidity profiles and roles within a portfolio

- Private credit consists a variety of strategies; direct lending, alternative credit, opportunistic credit, structured credit and broadly syndicated loans (BSLs).
- Common traits of private credit include high income potential* and total return potential due to illiquidity, seniority in the capital structure to recoup value, a secured claim on assets to support capital preservation, and floating rate coupons with low interest rate sensitivity.
- Where these assets differ is their underlying lending strategies, collateral (ie. company cash flows or real estate), liquidity and risk profiles, resulting in vastly different investor experiences and potential levels of expected returns, offering the potential to diversify each other and traditional investments.

Liquidity spectrum and characteristics of private credit investment strategies

	Direct lending	Alternative credit	Opportunistic credit	Structured credit	Broadly syndicated loans
Role	Seeks attractive income potential above public market levels	A diversified asset class that supports the everyday financing needs of businesses and consumers	Seeks attractive return potential with credit-like risk	Potentially offering attractive returns during dislocations	Seeks attractive yield potential with liquidity
Description	Directly originated loans issued to middle market companies	Composed of hard-asset lending, such as commercial real estate debt, or financial asset lending, examples include consumer receivables (auto loans) or fund finance	Investing in the senior debt of companies at significant discounts to par due to disconnect between market's perceived risk and actual risk	CLO note investments in CLO debt tranches that can be indiscriminately punished without fundamental cause during periods of market volatility	Investments in floating-rate senior secured loans of non-investment grade companies around the globe

Source: Invesco Private Markets as of Feb. 22, 2026. Total return potential illustrated on slide 11. Income in private credit is 100% (or more) of total return, net of credit loss. As of Sept. 30, 2025, the most recent yield-to maturity (3-Y takeout yield) for the Cliffwater direct lending index is 10.1%, compared to 7.4% for the Morningstar LSTA US leveraged loan 100 index. Diversification does not guarantee a profit or eliminate the risk of loss. **Past performance does not guarantee future results.** An investment cannot be made into an index.

Definitions

Bloomberg U.S. High Yield 2% Issuer Capped Index: An index that measures the performance of U.S. dollar-denominated, non-investment-grade corporate bonds, with exposure to any single issuer capped at 2% to limit concentration risk.

KBRA Direct Lending Index: An index representing the performance of privately originated, middle-market direct loans, primarily senior secured, based on data reported by private credit managers.

Bloomberg Leveraged Loan Index: An index tracking the performance of the U.S. broadly syndicated leveraged loan market, consisting mainly of senior secured, floating-rate loans.

S&P Leveraged Loan Index: An index tracking the performance of the U.S. broadly syndicated leveraged loan market, consisting mainly of senior secured, floating-rate loans.

Morningstar LSTA U.S. Leveraged Loan 100 Index: An index that tracks the performance of the 100 largest, most liquid U.S. dollar-denominated, broadly syndicated leveraged loans, consisting primarily of senior secured, floating-rate loans issued by below-investment-grade corporate borrowers.

Cliffwater Direct Lending Index (CDLI): An index measuring performance of U.S. middle-market direct lending funds, based on business development company disclosures.

Cliffwater BDC Index: An index that tracks the total return performance of publicly traded U.S. business development companies (BDCs), which primarily invest in middle-market private credit.

PIK (Payment-in-Kind) refers to a feature of a debt instrument where interest is paid by adding it to the loan principal rather than paying cash.

IRR (Internal Rate of Return) is the annualized discount rate that makes the net present value (NPV) of an investment's cash flows equal to zero.

Yield to Maturity (YTM): The annualized rate of return an investor would earn if a bond or loan is held to its final maturity, assuming all payments are made as scheduled and reinvested at the same rate. 3-Year

Takeout Yield (3Y Takeout Yield): An annualized return estimate that assumes the investment is refinanced, repaid, or exited after three years, rather than held to maturity, based on expected cash flows through that takeout date.

MSCI Burgiss Time-Weighted Global Private Debt Index: The MSCI Global Private Debt Index is based on data compiled from historical performance records of various Global

Private Debt funds tracked via Burgiss since 1980.

Morningstar U.S. High Yield Bond Category: A Morningstar peer group that includes U.S.-domiciled mutual funds and ETFs primarily investing in below-investment-grade (high yield) corporate bonds, typically rated BB+/Ba1 or lower.

Morningstar U.S. Bank Loans Category: A Morningstar peer group consisting of U.S.-domiciled mutual funds and ETFs that primarily invest in floating-rate, senior secured leveraged loans (also referred to as bank loans) issued by below-investment-grade borrowers.

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About Risk

Many products and services offered in technology related industries are subject to rapid obsolescence, which may lower the value of the issuers in this sector.

Direct lending involves providing loans to private companies, often without the same level of transparency or regulatory oversight as public markets. Borrowers may experience financial distress or default on their obligations, leading to potential loss of principal and interest for investors. Additionally, these loans are typically illiquid, making it difficult to exit positions quickly, especially during adverse market conditions.

Investments in private credit and private debt—including leveraged loans, middle market loans, mezzanine debt, and second liens—are speculative and involve significant risks. These securities are generally illiquid, lack a secondary market, and may need to be held to maturity, which can result in liquidity constraints and difficulty exiting positions. Borrowers often have high leverage, increasing default risk, particularly in adverse economic or interest rate environments. Competitive pressures and excess capital may lead to weaker underwriting standards, raising credit risk and reducing potential recoveries. Private market investments also carry risks related to limited transparency, higher fees and expenses, longer investment horizons, and regulatory considerations. Additionally, these securities may be sold or redeemed at values different from the original investment amount and are considered to have speculative characteristics similar to high-yield securities. Issuers are more vulnerable to changes in economic conditions than higher-grade issuers, and investors may face liquidity strain from capital calls during periods of market stress. These factors can materially impact investment performance and principal value.

Broadly syndicated loans involve significant risks. These loans are typically made to highly leveraged corporate borrowers, increasing the likelihood of financial distress or default, which may result in loss of principal and interest. The secondary market for these loans can be illiquid, particularly during periods of volatility, limiting the ability to sell positions at favorable prices. Although most loans bear floating interest rates, changes in benchmark rates can affect returns. Additionally, covenant-lite structures or reduced lender protections may further increase risk if borrower credit quality deteriorates.

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