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## Private Credit's Retail Reality Check

If you are a reader of financial publications, likely you have seen increased reporting on the perceived challenges of private credit, an area of the financial markets that has long been considered an allocation for pension funds, insurance companies, and other institutional portfolios. Over the last several years, we have seen private credit start to find its way into the portfolio of individuals on the promise of attractive income and differentiated returns. An area that historically would not have garnered much headline attention is now front-page news. The recent headlines sound alarming: redemption requests, gates, software exposure, valuation questions, and concerns about semi-liquid funds. Some of the concern is valid. However, we believe it is also narrower than it sounds and in this letter we aim to explore what Private Credit really is and how investors should think about it as an asset class.

### 1. What Is Private Credit?

Private credit broadly refers to lending outside the traditional bank and public bond markets. It is not one market, but a diverse group of strategies and exposures. Some strategies make loans directly to companies. Some lend against pools of receivables, leases, royalties, or other assets. Some buy structured securities backed by collateral pools. Others focus on distressed companies, rescue financing, or niche areas that look very different from traditional corporate lending. The breadth matters because “private credit” is not one return stream, one risk profile, or one liquidity experience. A loan to a private software company is not the same thing as financing a pool of equipment leases. The label may be the same, but the underwriting is not.

### 2. News vs. Reality

Given the recent headlines and the broad nature of the term private credit, what is actually taking place? On the positive side, many loans remain senior secured, and many borrowers continue to service debt. And about the concerns being raised regarding redemption limits, those limits are functioning as designed to allow for orderly redemptions and avoid fire sales. The news is not that every private credit loan is impaired; the news is that this is the first real test of the semi-liquid vehicle firms are using to provide private credit exposure for clients. Morningstar has described the current period as private credit's first redemption cycle for these products, and when too many investors ask for money back at the same time, it can be uncomfortable. Funds may limit repurchases, prorate requests, or rely on their stated liquidity framework, but it is not a surprise hidden in the fine print, it is how the products were designed to work. The issue is many investors did not understand the structure in which they were investing.

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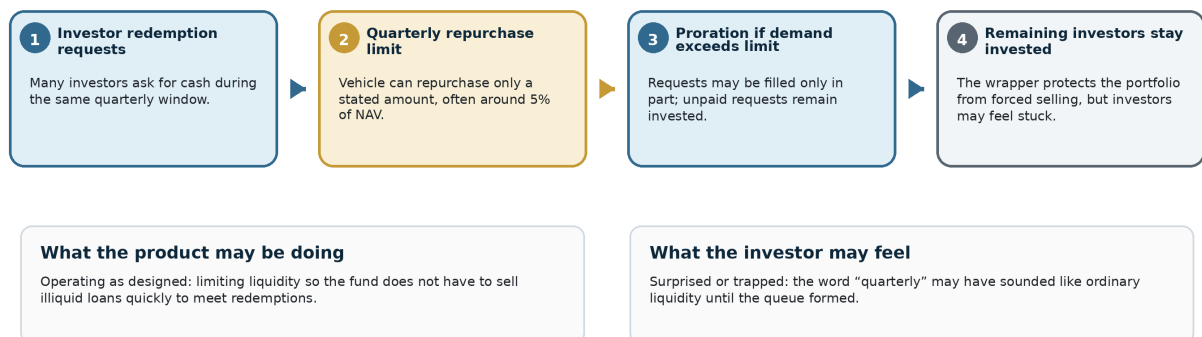
## 3. Understanding the Structure

Over the last several years, private credit has moved from an institutional allocation to a much more widely distributed product for individual investors. According to Morningstar, assets in semi-liquid funds surpassed \$530 billion by the end of 2025, with credit-focused strategies among the largest drivers of inflows. The growth itself is not the problem. The problem is that access expanded faster than understanding. Many retail-oriented private credit products invest in assets that do not trade daily, yet investors may be accustomed to mutual funds, ETFs, and public bonds where selling is simple and visible. This creates a mismatch between the behavior investors expect and the liquidity the vehicle can responsibly provide. A 5% quarterly repurchase limit may sound reasonable in normal markets. It feels very different to an investor whose redemption request is only partially filled. This is where investor psychology matters. Institutions usually plan for illiquidity before they invest. Individual investors may discover it only when they want out. The product can work exactly as drafted and still feel broken to the person waiting in the redemption queue.

## The Liquidity Funnel

Why periodic liquidity may become partial liquidity when many investors ask for cash at once

Semi-liquid private credit vehicles may offer periodic repurchases, but those repurchases are usually capped. If redemption requests exceed the cap, investors may receive only a prorated portion of what they requested.



Sources: Morningstar, “Private Credit Faces Its First Redemption Cycle,” March 20, 2026; SEC Office of Investor Education and Advocacy, “Investor Bulletin: Interval Funds,” Sept. 25, 2020. Illustrative only. Actual terms vary by vehicle and offering documents.

## 4. Due Diligence Required

This is where due diligence becomes the central issue. Investors do not need a simple yes-or-no answer to whether private credit is good or bad. They need a disciplined way to separate what they are actually being asked to own. Due diligence must go beyond

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headline yield and focus on the vehicle, the manager, the liquidity terms, the use of leverage, the valuation process, the source of distributions, the borrower mix, sector concentrations, and the manager's experience through stressed credit cycles. Investors should understand exactly what happens if redemption requests exceed available liquidity and whether they are comfortable owning the vehicle through that period.

**Private credit does not need blanket defense, and it does not deserve blanket condemnation. The opportunity set may still be attractive in the right hands and the right structures, but the label alone is not enough. In a market this broad, investors should not ask whether they own private credit. They should ask which private credit they own, why they own it, and whether the vehicle matches the risk they are actually willing to take.**

## *Professional Sources*

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