

Private Credit Concerns: A Catalyst for Dispersion Opportunities.

Credit Portfolio Management Team

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For Professional Investors Only

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Against a backdrop of heightened geopolitical tension in the Middle East and renewed focus on oil-market dynamics, investor attention has recently begun to shift toward the resilience of private credit.

- **Credit Stress is Resurfacing, Starting in the Less Transparent Corners of the Market**

This shift has been reinforced by a recent run of defaults among companies financed, at least in part, through private credit. At the same time, investors are weighing whether advances in artificial intelligence could reshape parts of the software industry, pressure borrowers' cash flows, and ultimately contribute to higher default rates. Reflecting this change in sentiment, the share of loans trading below a cash price of 90 has risen materially—an indication that markets are assigning greater probability to adverse outcomes.

- **Liquidity Terms Matter Most When Everyone Wants it at Once**

As questions have intensified, redemption requests have increased in parts of the private credit market. Some managers have met those requests, while others have been forced to slow the pace of outflows; notably, a Blue Owl fund announced that it will suspend quarterly redemptions until it is able to sell assets. For investors, these mechanics matter because liquidity terms can become a binding constraint precisely when markets are under stress.

At the same time, pockets of deterioration in loans held by both private lenders and banks have prompted a broader discussion about where losses could ultimately surface within wider credit markets. As risk appetite softened, many investors chose to trim exposure and rotate toward more liquid positions.

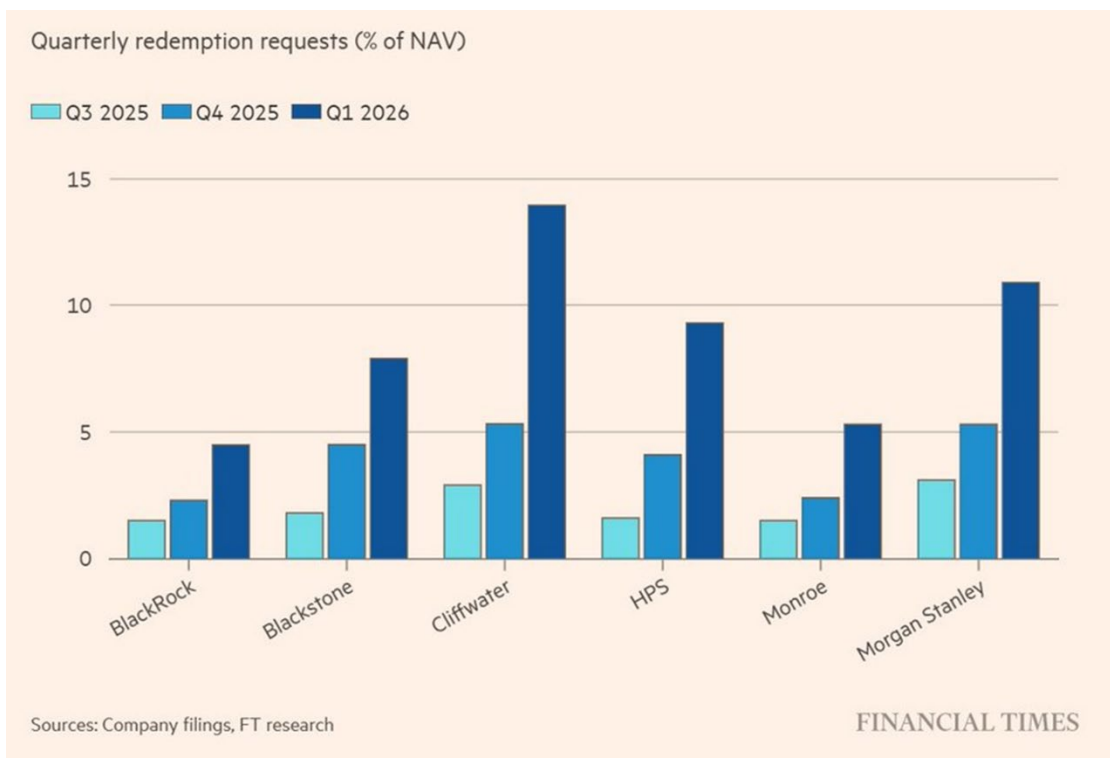


Figure 1. Source: Financial Times, data as of 15th March 2026

- **When Outflows Rise, Structures are Tested**

This environment is putting liquidity structures under the spotlight. Unlike mutual funds or bank deposits, many private credit vehicles are designed with limited redemption windows and caps on the amount investors can withdraw each quarter. A common structure allows quarterly redemptions of up to 5% of net asset value, which can help managers avoid forced selling and protect remaining investors. However, when redemption demand rises quickly, these limits can be tested, and managers may apply ‘gates’—temporary restrictions on withdrawals.

- **AI is a New Variable in an Old Credit Question: How Durable are Cash Flows?**

Beyond near-term technical pressures, investors are also considering a more structural question: how could AI affect the earnings durability of certain borrowers, particularly in software? Historically, software businesses have been attractive credit counterparts: they are asset-light, can generate high margins, and are often sold through subscription models.

If AI meaningfully erodes those cash-flow streams, lenders may have limited hard collateral to fall back on in a downside scenario. This matters because software represents a meaningful portion of many private credit portfolios. Software exposure (using S&P’s industry classification for software and services) averages approximately 8% in European CLOs and 10% in U.S. CLOs, compared with around 20% in U.S. private credit.* And software may not be the only area affected. Other sectors—including media, business services, and cybersecurity—could also face competitive pressure as AI-enabled tools lower barriers to entry and change how value is created.

Looking ahead, we expect downgrades and defaults in leveraged loans to rise, particularly among more highly levered 2021-vintage issuers. Within that group, software stands out—alongside chemicals—as an area where refinancing may become more challenging. The broader maturity profile appears manageable in the near term (with limited maturities in 2026 and less than 10% of CLO portfolios maturing in 2027), but a larger proportion of software loans mature in 2028, when refinancing risk could translate into a higher likelihood of downgrades.*

*Data as of 31st March 2026.

Software: 2028 maturity wall approaching

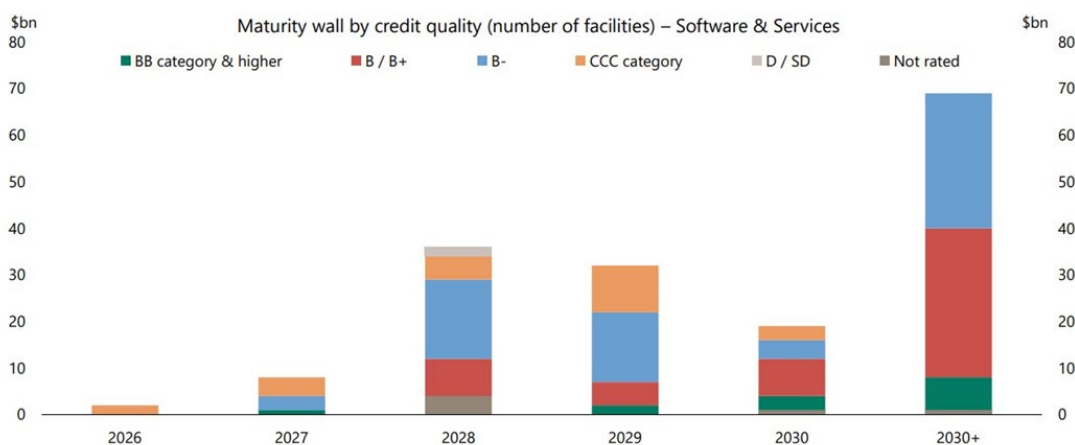


Figure 2. Source: Data through February 2026. Sources: Pitchbook, LCD, Morningstar LSTA US Leveraged Loan Index, Apollo Chief Economist

- **STRATA: Maintaining Selectivity and Prioritising Liquidity**

The practical takeaway of this market backdrop is straightforward: in a market where liquidity can disappear quickly and valuations may be slow to adjust; we prefer to stay selective and keep liquidity readily available. This approach is intended to preserve flexibility today and position the portfolio to take advantage of opportunities if dispersion widens.

From our perspective, market valuations do not yet fully reflect these risks, and we believe the potential for spillovers from a private credit induced volatility is underappreciated. Ongoing geopolitical volatility and persistently elevated commodity prices further complicate the near-term backdrop for credit. In response, we have increased cash levels materially and have taken a more conservative stance.

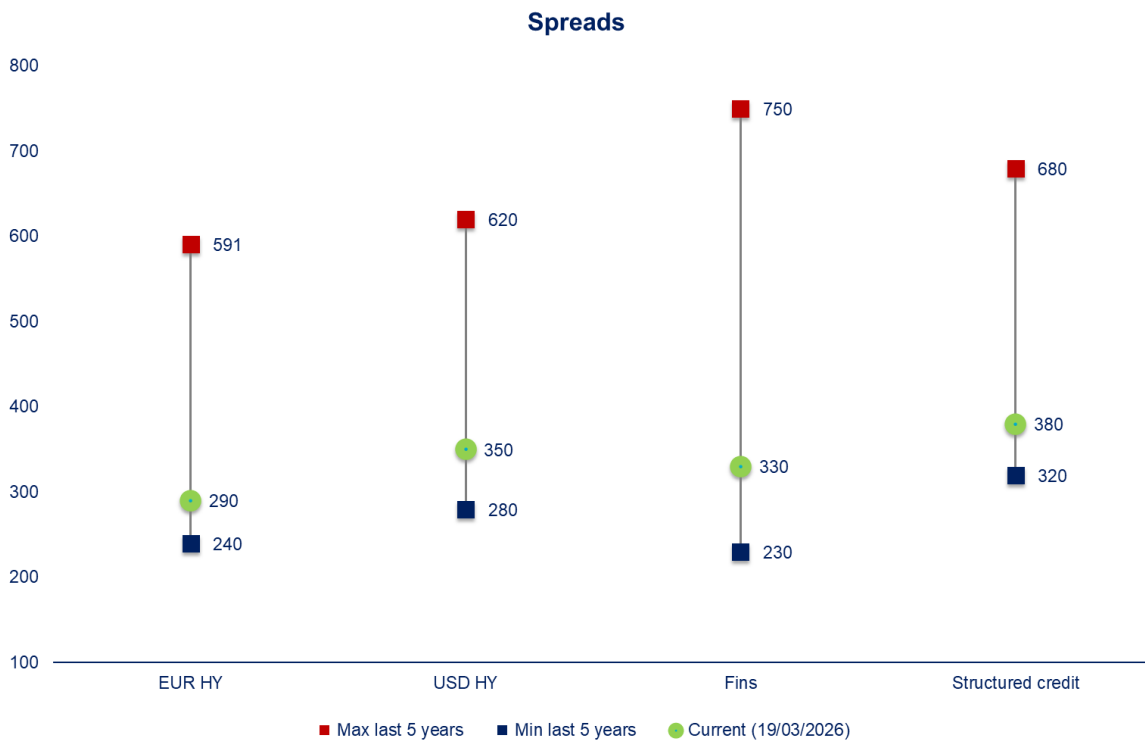


Figure 3. Source: RAM AI, data as of 19th March 2026

- **Positioning for Volatility: Keeping Dry Powder, Staying Selective**

The portfolio remains deliberately barbelled, with an above-average allocation to cash alongside short-dated risk exposures. Over the quarter we continued to reduce overall risk, while maintaining hedges designed to help cushion the portfolio in periods of market stress. In practice, that means we aim to scale back exposure when spreads are tight and selectively add risk if markets dislocate. Throughout, we continue to emphasise fundamental credit work and active risk management, with the goal of delivering attractive risk-adjusted returns over the medium term.

Within corporate credit, we continue to prefer BBB and BB opportunities where spreads have room to reprice, rather than reaching into B risk. Higher-quality issuers can offer better downside protection while still allowing participation if conditions improve. We also maintain a short-duration bias to help limit interest-rate sensitivity in an environment where central bank policy paths remain uncertain and global yields may remain volatile.

While we are not concerned about the underlying fundamentals in the banking sector—and we believe most lenders can absorb a higher cost of risk and higher provisions while remaining profitable—we have chosen to move up the capital structure. Specifically, we have reduced exposure to AT1 instruments.

In structured credit, we are running one of the lowest overall risk levels we have held over the last five years, reflecting our assessment that spillover risk from private credit remains elevated.

Overall, we see credit fundamentals as broadly constructive, but we believe near-term risks are more likely to be driven by macroeconomic and geopolitical developments than by issuer-specific stories. Until clearer catalysts for sustained spread tightening emerge, we view defensive positioning and disciplined liquidity management as especially important.

Appendix

- **Liquid Credit vs. Private Credit: Understanding the Core Differences**

In today’s fixed income landscape, investors often ask how liquid credit and private credit compare, and, more importantly, when each may be appropriate in a portfolio. While both aim to generate income by lending to companies, the investor experience can differ significantly because the underlying market structure is not the same.

In our experience, the differences typically come down to three pillars that shape both day-to-day portfolio management and behaviour during periods of stress: **liquidity, transparency, and valuation.**

The table below provides a concise overview of the practical differences investors typically encounter.

- **The Comparison at a Glance**

Feature	Liquid Credit (e.g., High Yield Bonds, Broadly Syndicated Loans)	Private Credit (e.g., Direct Lending, Mezzanine Debt)
1. Liquidity & Execution	High: Active secondary market supported by market makers. Easy to enter and exit positions.	Low: No formal secondary market. Exiting a position requires directly sourcing a buyer.
2. Due Diligence & Reporting	Standardised: Publicly available financials (quarterly/annually). Contracts use standard market documentation.	Bespoke: Financials are private and closely guarded. Loan contracts are highly customised to the borrower.
3. Valuation Methodology	Market-to-Market: Valued based on frequent, real-time trading. Continuous price discovery.	Market-to-Model: Valued periodically based on fundamentals and appraisals. Lacks real-time market pricing.



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