

What Kind of Private Credit Do You Own?

In the Age of AI, Own What Can't Be Deleted

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Over the past few weeks, private credit has moved from a quiet compounding story to a front-page conversation.

Headlines around open-ended funds managing redemption pressure. Legendary finance leaders debating whether “cockroaches” are hiding in private markets. Government regulators warning about leverage and opacity. At the same time, a parallel debate is accelerating: what happens to software companies — and the debt backed by their recurring revenue — in a world where AI writes code? And, what does that disruption mean for employees, companies, and the economy overall?

It's tempting to treat these as separate stories, but I believe they are not, especially in the private credit markets. They are variations of the same underlying issue: *durability*.

Let's start with market structure, and [last week's headlines](#). Open-ended funds, whether daily liquidity mutual funds or quarterly liquidity non-traded BDCs, are not inherently problematic. After all, liquidity is a sought-after attribute. But finance has always required that the liquidity structure of your assets and liabilities match. If you promise periodic liquidity against assets that are not naturally liquid, you introduce fragility into the system which will manifest as stress in times of high volatility.

This is one of the oldest lessons in markets¹. When redemptions occur, managers need to meet those redemptions and can be tempted to sell what they can sell easiest — the most liquid positions — leaving a portfolio that is incrementally less liquid for the remaining investors. Even if marks hold, the composition changes. The risk profile shifts.

We have seen this movie before. It doesn't require bad actors — in many cases the funds were designed thoughtfully (with limits on liquidity that matched the then-available liquidity in the markets) and managed professionally. It only requires a structural mismatch between what liquidity the investors can demand and what the markets can deliver, and the latter is subject to change without notice.

But structure is only half the conversation. The other question today is what, exactly, much of the private credit market is underwriting.



A meaningful portion of direct lending exposure — estimates range from 10% to 30%² — sits in software and SaaS businesses. Those loans are typically underwritten against recurring revenue and EBITDA stability. That model has worked well for the past decade. Subscription software proved sticky, multiples expanded, as cash flows felt predictable. Banks ended up shying away from SaaS with the private credit markets as rates rose in 2022 and bank credit underwriting tightened; and the borrowing shifted more to the BDC and BSL markets which saw increases in SaaS loan origination percentage³ with BSLs peaking in 2021 and BDCs last year.³

Now we are entering a moment where the core assumption behind that underwriting, the persistence of enterprise software spend, is being openly challenged. The explicit promise of AI is productivity through automation. If AI can write code, automate workflows, and compress the need for expensive enterprise software licenses, then the “recurring” in recurring revenue deserves fresh scrutiny.

That certainly does not mean I believe all software businesses will disappear; nor does it mean I believe all SaaS businesses will either. But it does mean that underwriting solely against revenue continuity in a period of technological discontinuity requires significant thoughtfulness, diligence, and a good bit of humility.

1. We refrain from citing Frank Capra's *It's a Wonderful Life* (1946), because his own *American Madness* (1932) predates it.

2. Sourced from CoPilot — who identified sources of Morningstar, Goldman Sachs, Pitchbook and the St. Louis Fed

3. Source from Co-Pilot who points to USNews and Bloomberg

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At their core, the bank loan markets are debt-to-EBITDA markets. How much leverage can a company sustain relative to its annual earnings? That framework works until the earnings themselves become the variable.

When revenue durability is the question, the nature of collateral matters.

Debt supported by contractual cash flows and hard assets behaves differently from debt supported primarily by a multiple of EBITDA. I believe when loans are backed by physical infrastructure, essential services, or contracted offtake agreements, there is an additional layer of resilience beyond top-line growth.

This is particularly relevant in the context of AI. But... what about the durability of the collateral?

We have yet to see a credible thesis suggesting AI eliminates the need for electricity generation, transmission infrastructure, pipelines, battery storage, or critical materials. If anything, the opposite appears true: intelligence is becoming more electrified and data centers run on power. We may not know which companies strike gold in the AI boom. But we do know this: electricity is the substrate through which intelligence moves from code into action. The electrification of intelligence may become one of the defining economic forces of the coming era.

In that sense, there is a distinction emerging within private credit that deserves attention. On one side: revenue-based lending to business models whose economics may evolve alongside rapid technological change. On the other: revenue and asset-backed lending to physical systems that remain necessary regardless of the path technical innovation takes us.

At Galvanize Credit and Capital Solutions, we focus on the latter.

It is our view that resilience comes from an underwriting framework grounded in both cash flow durability and observable asset value. Revenues can come from sources that are more resilient to disruption, loans are supported by hard collateral that can be restructured, refinanced, or repositioned if needed.

In a world where code can be rewritten quickly, it is prudent to lend against the tangible. Put more simply: in the age of AI, own what can't be deleted.

There is also a broader macro dimension to consider. Some argue AI will be deeply deflationary, reducing labor demand and compressing margins across industries. Others worry about persistent inflation driven by supply constraints and fiscal expansion⁴. We do not pretend to resolve that debate.

But we can observe that [hard infrastructure assets tied to physical demand have historically behaved differently](#) from high-multiple, intangible businesses in both inflationary and deflationary shocks. When volatility rises, lenders and investors rediscover the value of security, priority, and asset coverage.

None of this suggests that private credit, as a category, is fragile. It suggests that private credit is not monolithic. Structure matters, asset backing matters, revenue quality matters, and liquidity terms matter.

In periods of rapid technological change, capital markets often extrapolate stability too far in one direction. For years, recurring software revenue was treated as bond-like. Today, we are being reminded that no revenue stream is immune to disruption.

For allocators, performance will increasingly depend on the type of private credit they hold, and what kind of assumptions sit beneath it.

In periods of rapid change, the temptation is to forecast the endpoint: the singularity, the collapse, the boom. But investing has never been about clairvoyance. It has always been about discipline.

We believe discipline in the debt world means underwriting to resilience rather than optimism; favoring essential systems over discretionary demand, and assuming that technological change will arrive unevenly... And if you do that in a form and structure that aligns the liquidity of your assets you have a fighting chance of not allowing the uncertainty we are experiencing today to become permanent capital loss tomorrow. That is durability.

Headlines will come and go. Sound underwriting endures.

4. This was quite starkly – and some, including this author, may say comically – illustrated in the FT graph from 11/5/25 (<https://www.ft.com/content/60dfa917-c5e6-4b9b-9cdb-a30692a29527>).

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