



Pemberton Viewpoint

Insights into European Private Credit

March 2026

Private Credit in the News – Separating Signal from Noise and Why European Private is Credit Different

A factual analysis of recent media coverage, the issues driving it, and why the concerns raised are largely specific to US markets.

The following article is based on Pemberton’s understanding of the market at the time of publishing.

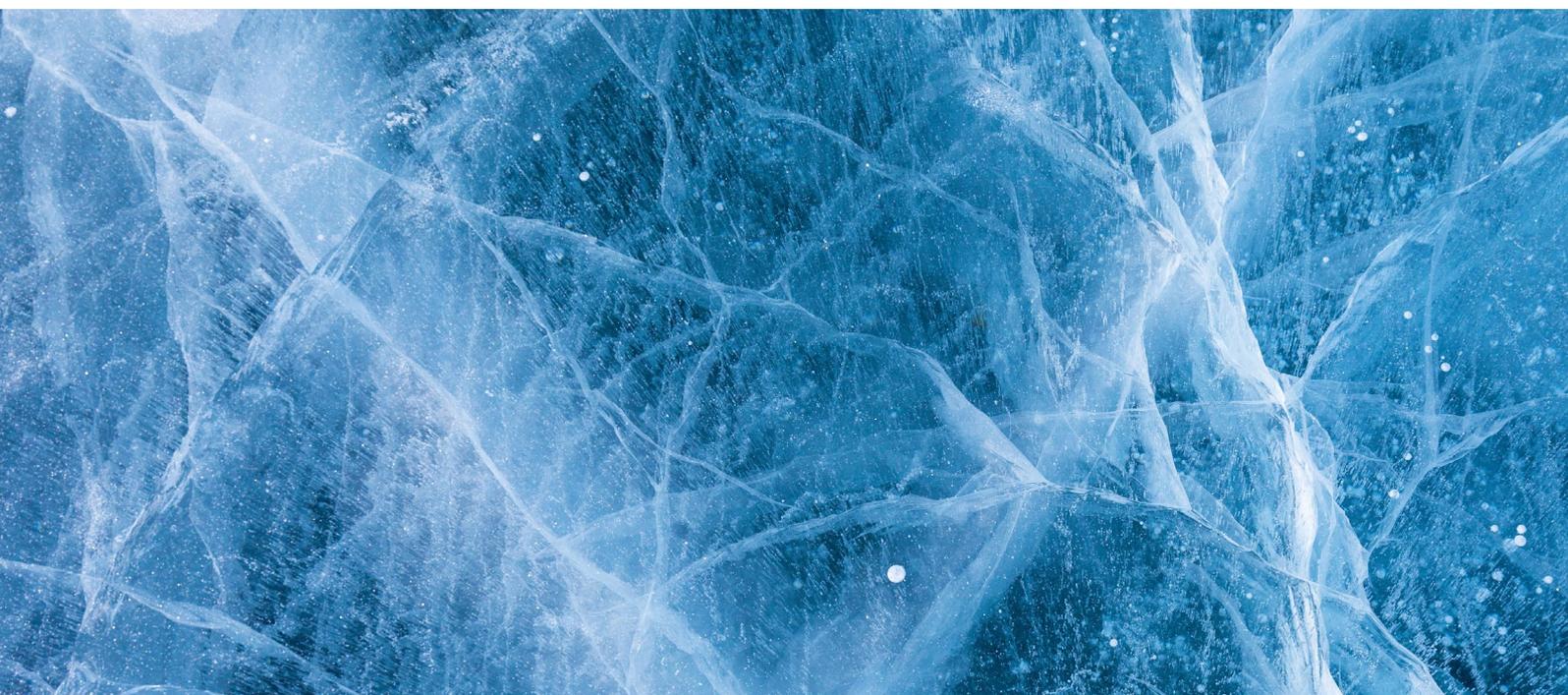
Introduction

There has been no shortage of headlines on private credit in recent months. As the asset class grows and begins to represent an increasingly meaningful share of broader debt markets, scrutiny is a natural and healthy part of the process. However, understanding where challenges genuinely exist, and where the market remains fundamentally and structurally sound, requires clear distinctions to be drawn between its different parts.

Much of the current media coverage fails to distinguish between several distinct issues including among

other factors the rapid growth of non-traded Business Development Companies (BDCs) through retail capital inflows, concentrated BDC exposure to software companies and data centres and broader questions about underwriting standards and portfolio valuations and the health of private credit as an asset class.

This paper seeks to unpick these topics and explain why European private credit is largely unaffected by these dynamics.



1. Business Development Companies (BDCs): A US Market Concern

What are BDCs?

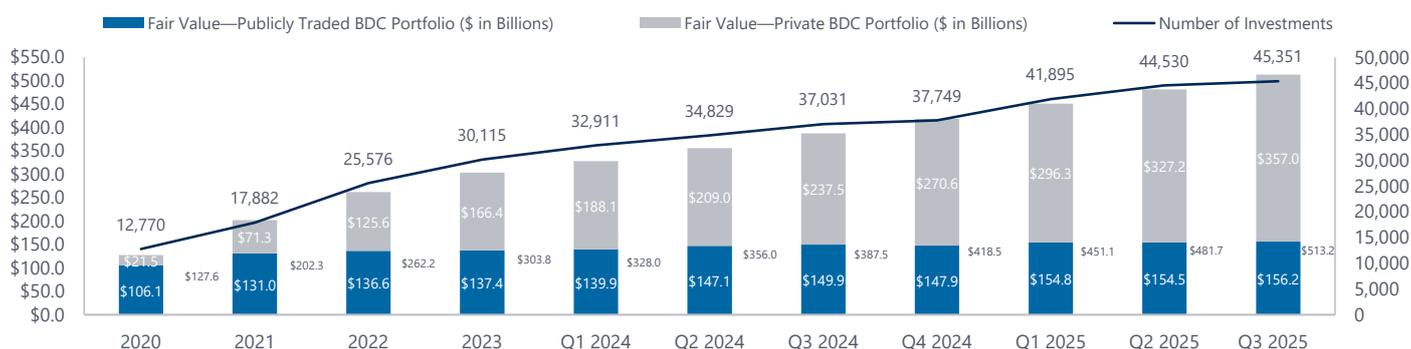
BDCs are US-regulated investment vehicles designed to hold illiquid assets, including private loans. Both listed and unlisted varieties exist. The issues generating headlines are linked to non-traded, open-ended BDCs, which are accessible to US retail investors and have grown explosively over the past five years.

At end-2020, non-traded BDCs held USD 21.5 billion in assets, representing 17% of the total BDC market.

By Q3 2025, that figure had reached USD 357 billion equivalent to 70% of all BDC assets, representing a near 17x increase in five years driven primarily by retail distribution channels (Figure 1).

Non-traded BDCs offer investors limited periodic liquidity, typically via quarterly tender offers capped at 5% of fund NAV. These are discretionary; BDCs are not obligated to honour redemption requests.

Figure 1: Growth of US BDC Market (2020–Q3 2025)



For illustrative purposes only. Source: Houlihan Lokey, BDC Monitor, Winter 2025, Advantage Data, SEC Filings, and S&P Capital IQ
 Notes: Represents data for all BDCs tracked by Advantage Data that were filed as of January 15, 2026. Excludes outliers. The data is meant to reflect performing loans only. 45,351 number of investments represents crossheld investments across BDCs

Concentrated Exposure to Software: The Impact of AI and Data Centres

The catalyst for the rise in redemption requests is retail investor concern over portfolio concentration. Specifically, BDC exposure to software companies and the threat that AI poses to their business models. SaaS companies operating on Annual Recurring Revenue (ARR) models are particularly exposed, as AI-driven automation risks undermining the recurring revenue streams that underpin their valuations and creditworthiness.

Estimates suggest that approximately 20% to 30% of BDC loan portfolios are exposed to software companies.¹

This exposure has become a focal point as sentiment towards the sector has deteriorated, mainly due to the potential threat that AI poses to software companies.

BDCs have also accumulated material exposures to data centre financing, another area now subject to significant investor scepticism. The combination of these two concentrated sector positions, built up during a period of rapid capital deployment, has raised legitimate questions.

¹ Houlihan Lokey, BDC Monitor, Winter 2025

Retail, Structure, Liquidity Mismatch and Gating

The BDC stress is in part a story about what happens when retail capital flows rapidly into a fundamentally illiquid asset class through structures that offer the appearance of liquidity.

Non-traded BDCs offer retail investors periodic liquidity over assets that are fundamentally illiquid (long-term loans to corporate borrowers that are held to maturity). When sentiment turns, redemption requests build. When they exceed the discretionary 5% quarterly cap, managers must choose between sourcing additional liquidity or gating redemptions, a step several BDC managers have already taken. As Blackstone's BREIT fund (Blackstone's Real Estate Income Trust) demonstrated in late 2022, however, gating rarely resolves the problem. On the contrary, it can accelerate it, as restricted withdrawals erode investor confidence further and compound the very pressure they were intended to contain.

This dynamic is now unfolding across the BDC market. High-profile managers including Blue Owl, BlackRock, and Blackstone have all seen redemption pressures in their non-traded retail products. In certain cases, managers have sought to get ahead of the trend by permitting redemptions above the 5% discretionary cap, funded from internal resources.

Why This Is Not a European Story

BDCs are a US regulatory construct with no direct European equivalent. The structural features driving current stress including retail investor access, discretionary periodic liquidity, software and data centre concentrations and minimal regulatory liquidity requirements are absent from the European institutional private credit market.

Pemberton's funds are managed almost exclusively for institutional investors and carry no redemption rights. With only 1% of our direct lending portfolio exposed to the software sector, we have no meaningful exposure, and our funds continue to benefit from high diversification across sectors and regions.

The pressures currently affecting Blue Owl, BlackRock, and Blackstone are a direct consequence of retail-facing fund structures offering periodic liquidity over illiquid assets, combined with concentrated sector exposures. Neither condition applies to Pemberton.



2. High-Profile Corporate Defaults: Idiosyncratic Risk Events Which Are Not Representative of Underwriting Standards or Credit Quality

The Facts

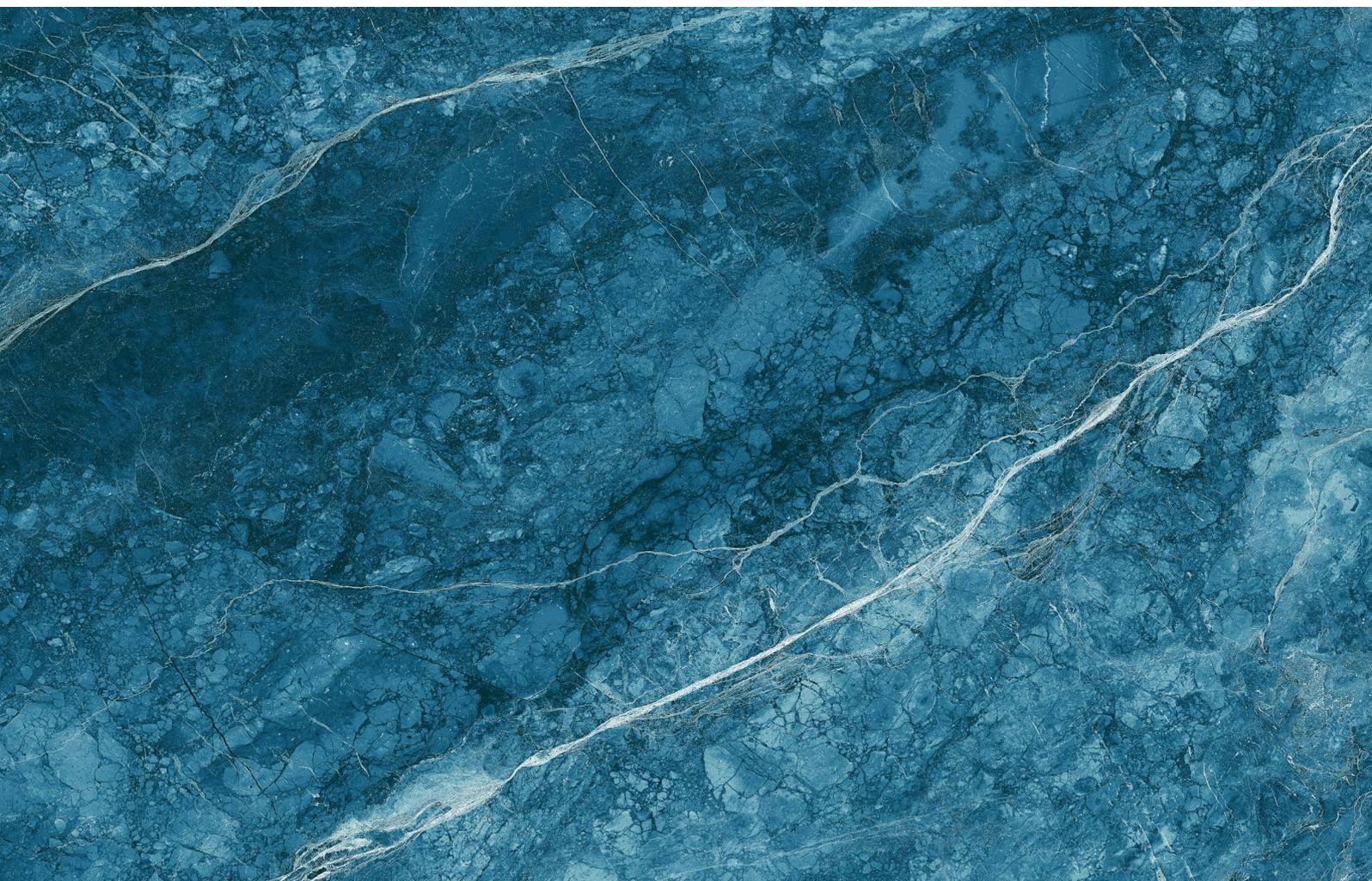
Two recent high-profile corporate bankruptcies, First Brands Group (FBG) and Tricolor, have been cited extensively as evidence of deteriorating underwriting standards and credit quality in private credit. These cases prompted JPMorgan CEO, Jamie Dimon to invoke the “cockroach theory”, the idea that where there is one, there are likely more. However, on closer examination, it becomes clear that these are isolated cases and not a broader indicator of risk across the asset class.

- **Idiosyncratic, not systemic:** Both cases are idiosyncratic risk events, specific to the governance and management of these companies, rather than indicators of a broader deterioration in credit conditions or underwriting discipline across the asset class.
- **Fraud and governance failure are the root causes:** In both instances, the driving factors behind financial distress were poor corporate governance and fraud. Fraud is extremely difficult to underwrite against; its presence does not constitute evidence of inadequate credit analysis.

- **Primarily bank-funded:** Contrary to widespread perception, the majority of debt in both cases was provided by banks, including JP Morgan, not private credit funds. The characterisation of these failures as private credit events is factually inaccurate.

The US Business Culture Context

It is also worth noting that many high-profile corporate failures have occurred in the US. We believe the highly entrepreneurial culture that characterises the US is a contributing factor. While that culture has been a driver of historically stronger economic growth, it can also produce more aggressive business models and higher risk tolerance at the corporate level, both of which carry higher default risk. This is also reflected in the data with US corporate default rates consistently tracking above European equivalents across both public and private credit markets. By contrast, European corporate culture has a lower tolerance for failure and tends to foster more conservative management styles.



3. Market Size, Growth and Systemic Risk

Recent coverage has questioned whether private credit's rapid growth to approximately USD 2 trillion poses systemic risk and represents a bubble waiting to burst. To assess this fairly, it is important to understand what has driven that growth, to distinguish between US and European market dynamics, and to consider the size of the market in its proper context.

Market Size

Global private credit AUM stands at approximately USD 2 trillion.² While this represents substantial growth from the post-GFC period, it must be assessed relative to the scale of the financial system within which it operates:

Market	Outstanding / AUM
Global fixed income outstanding	~EUR 128 trillion
Global banking balance sheets	~EUR 91 trillion
Global equity market capitalisation	~EUR 105 trillion
Global private credit AUM	~USD 1.8–2.0 trillion
of which: US (c.60% of global)	~USD 1.1–1.2 trillion
of which: Europe (c.25% of global)	~USD 450–500 billion

For illustrative purposes only. Sources: ECB, June 2025; Preqin Ltd, June 2025

In this context, private credit represents a fraction of global debt finance. It is not a dominant or potentially destabilising force within the financial system.

European Private Credit Growth: Driven by Structural Change Not Speculation

The growth of private credit is the result of a structural transformation in credit intermediation, not investment speculation. This is in large parts driven by regulation. Post-GFC regulatory reforms, principally Basel III, substantially increased capital requirements for bank lending, particularly to mid-market borrowers. As banks retrenched, a structural financing gap emerged. Private credit stepped in, providing the stable, flexible, long-term financing that mid-market companies require but could no longer reliably access from traditional lenders.

In Europe, this transformation is at an earlier stage than in the US, by some estimates 20 to 30 years behind in terms of market maturity. The market evolution that took place in the US over recent decades is now underway in Europe, and with it comes significant and growing demand for mid-market financing for companies that are too large for business banking but too small for the capital markets. The defining dynamic is the transition of family-owned European businesses into institutional ownership, with private equity firms deploying buy-and-build strategies to create pan-European sector champions. This generates recurring, structural demand for private credit financing across geographies and sectors. Added to this, significant fiscal stimulus, including Germany's €500 billion defence and infrastructure package and the EU's Agenda 2030, is supporting broader economic growth and investment across the continent, creating additional financing opportunities for private credit lenders.

The Institutional Investor Base: Aligned with the Asset Class

While the growth drivers above are predominantly European, private credit is a global asset class, with total AUM of approximately USD 2 trillion, of which the US represents around 60% and Europe approximately 25%.³ It is worth distinguishing, therefore, between what is driving growth in European private credit specifically and the broader global market context.

What is consistent across both markets is the nature of the investor base. The majority of global private credit AUM is held by sophisticated institutional investors such as pension funds, insurance companies, sovereign wealth funds, and endowments who are investing through closed-end fund structures with fixed terms of typically seven to ten years and no redemption rights. This is a fundamentally different dynamic from the retail-facing BDC market. Institutional investors cannot redeem early, do not react to short-term sentiment shifts, and are not subject to the feedback loops driving current BDC stress. Their long-term capital commitment is not merely a structural feature, it is the foundation of the asset class's stability. This is especially true in Europe, where retail participation in private credit remains minimal and the market is predominantly characterised by institutional capital.

² Preqin Ltd, June 2025

³ European Central Bank (ECB) Private Markets Report, June 2025

4. European Private Credit Fundamentals

With the volume of news flow circulating on private credit and the lack of distinction that characterises much of it, it is easy to lose sight of what matters. European private credit remains fundamentally sound, and the following investment characteristics serve as a reminder of why it remains a compelling investment case:

Relative Value and the Illiquidity Premium

European direct lending offers investors an illiquidity premium in exchange for committing capital to a closed-end structure for a fixed term of typically six to eight years. This is the structural return for providing stable, long-term financing. Supply/Demand dynamics support attractive relative value: the European market is less competitive than the US, with the top eight lenders providing over 50% of direct lending loans. Asset margins of 5.25–6.00% in EUR, fees of 2.25–3.00%, and a cross-currency pick-up of approximately 2% into USD compare favourably with public credit markets at equivalent credit quality. The prevalence of primary and secondary buyout transactions also provides more levers for performance improvement in underlying assets, further supporting returns.

Downside Protection

European direct lending is structurally defensive. Loans are predominantly senior secured first-lien, with equity cushions of typically 50% and above of enterprise value and leverage multiples in the range of 4x–5x EBITDA. Portfolios are highly diversified across borrowers, sectors and geographies. Covenant protections in the European mid-market remain stronger than in comparable US markets, providing opportunities for earlier intervention when borrower performance deteriorates.

Low Default Rates

European private credit has a strong track record. European BSL defaults stand at 1.2%, below the US rate of 1.5%.⁴

A Durable Growth Opportunity

European private credit continues to benefit from structural growth drivers. Family-owned businesses are transitioning to institutional ownership, and private equity buy-and-build strategies are driving sector consolidation to create pan-European champions, both generating increased and recurring demand for mid-market financing. The ongoing shift from bank to private credit lending in Europe also has further to run with bank lending still accounting for over 50% of European corporate credit versus approximately 25% in the US.

⁴ Pitchbook, January 2025

Sources

ECB Private Markets Report, June 2025 | Preqin Private Debt Data, June 2025 | Houlihan Lokey BDC Monitor, Winter 2025 | Scope Fund Analysis, European ELTIF Study 2025 | Scope Ratings, Private Credit: Singular Risks but also Opportunities for Europe with Capital-Markets Reform, 2025 | Pitchbook Morningstar European Leveraged Loan Index, January 2025 | Goldman Sachs Private Credit Research | Pemberton Capital Advisors LLP, May 2025 | Debtwire, 2024 European Direct Lender Rankings



Contact Us

investorrelations@pembertonam.com
www.pembertonam.com
5 Howick Place, London SW1P 1WG
+44 (0) 20 7993 9300

Disclaimer

This document is intended only for the person to whom it has been delivered and is solely for discussion / information purposes.

Past performance is not a reliable indicator of future results.

Any third-party information (including any statements of opinion and/or belief) contained has not been independently verified.

Statements of opinion, market or performance information and any forecasts or estimates contained in this report are prepared on the basis of assumptions and conclusions reached and are believed to be reasonable by the authors at the time.

No representation, warranty, assurance or undertaking (express or implied) is given (and can therefore not be relied upon as such), and no responsibility or liability is or will be accepted by us or any of our affiliates or our respective officers, employees or agents as to the adequacy, accuracy, completeness or reasonableness of the information, statements and opinions expressed in this document. Any opinions expressed in this report do not constitute legal, tax or investment advice and can therefore not be relied upon as such. Please consult your own legal or tax advisor concerning such matters.

The information contained in this report (which does not purport to be comprehensive) is believed to be accurate only at the date of this document and does not imply that the information herein is correct

at any time subsequent to the date hereof and such information is subject to change at any time without notice. The views expressed herein are subject to change based on market and other conditions and we give no undertaking to update the information, to reflect actual events, circumstances or changes in expectations or to provide additional information after its distribution, even in the event that the information becomes materially inaccurate.

The recipient acknowledges and agrees that no person has, nor is held out as having, any authority to give any statement, warranty, representation, assurance or undertaking on our behalf. No part of this report may be reproduced in any manner without our written permission.

Pemberton Capital Advisors LLP is authorised and regulated by the Financial Conduct Authority ('FCA') and entered on the FCA Register with the firm reference number 561640 and is registered in England and Wales at 5 Howick Place, London SW1P 1WG, United Kingdom. Registered with the US Securities and Exchange Commission as an investment adviser under the U.S. Investment Advisers Act of 1940 with CRD No. 282621 and SEC File No. 801-107757.

www.pembertonam.com

Pemberton is a registered trademark. © Pemberton