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## Quarterly Asset Class Report Private Credit

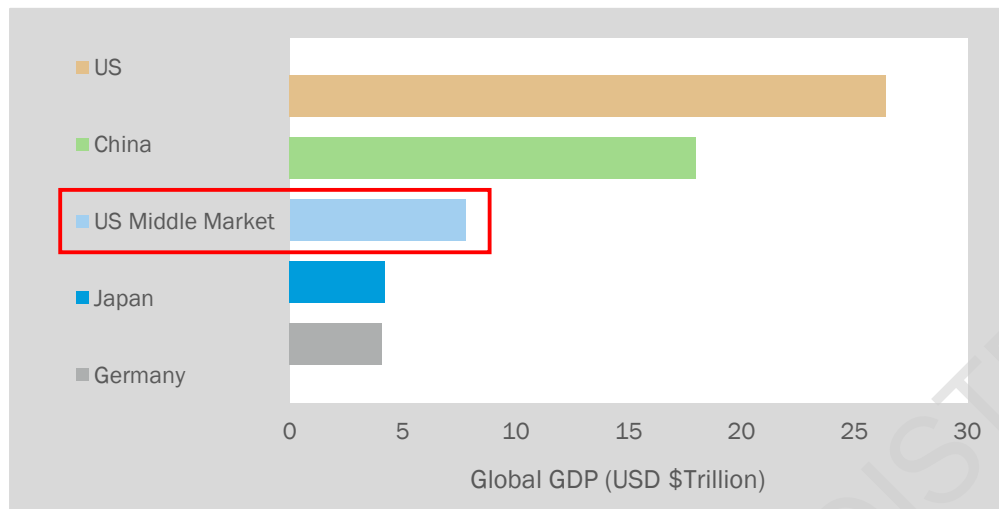
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September 30, 2025

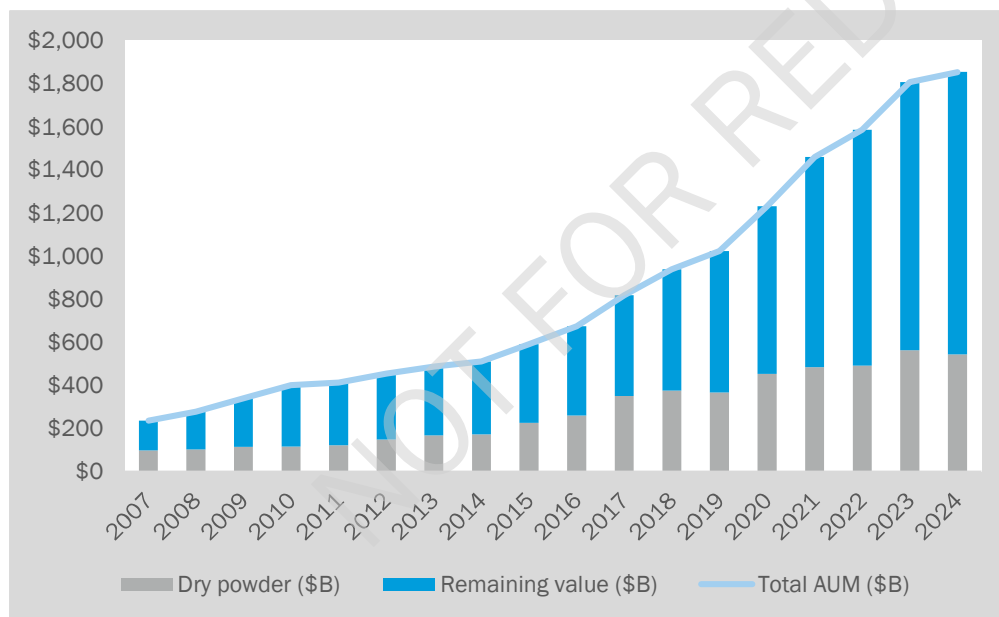
# The Private Credit Opportunity

## Private Credit

Size of Global Economies (GDP)<sup>1</sup>



Size of Private Credit Market (\$B)<sup>2</sup>

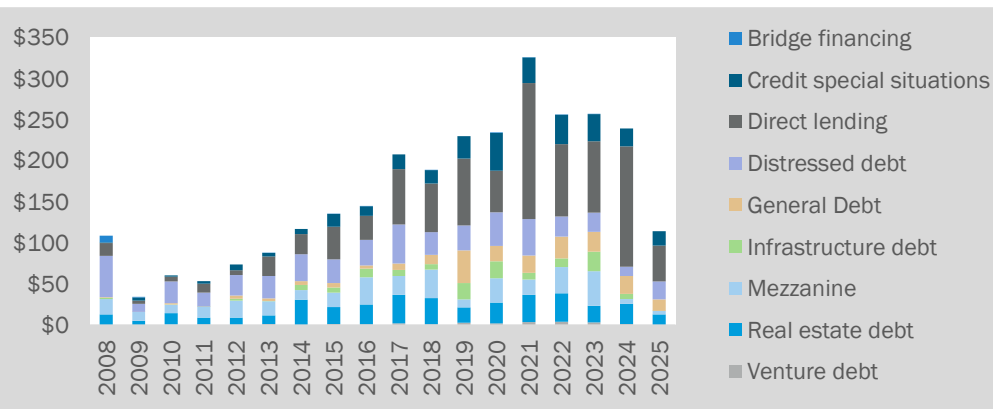


- From a GDP perspective, the U.S. middle market segment ranks as the third-largest economy in the world.
- Approximately 200,000 businesses classified in the middle market contribute to one-third of the private sector GDP.
- The private credit asset class has grown considerably since the Global Financial Crisis, approaching \$1.9 trillion through the fourth quarter of 2024, up from \$300 billion in 2008.
- Over the last four years, total dry powder has approached and now eclipsed over \$500 billion, compared to approximately \$200 billion a decade ago. Total dry powder reached an all-time-high in the second quarter of 2024 and was further depleted through the fourth quarter.
- The asset class has continued to grow as banks have scaled back lending activity due to changes in capital ratio requirements, which continue to be worked through and finalized — also known as the Basel III Endgame — allowing non-bank lenders to step in and fill the gap.

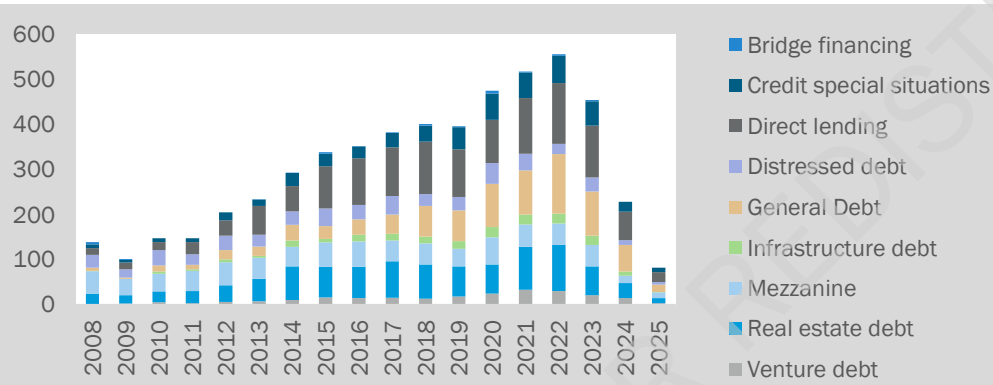
Source: 1) National Center for the Middle Market and World Bank Data as of 12/31/2022. 2) Pitchbook Data as of 12/31/2024.

## Private Credit Activity

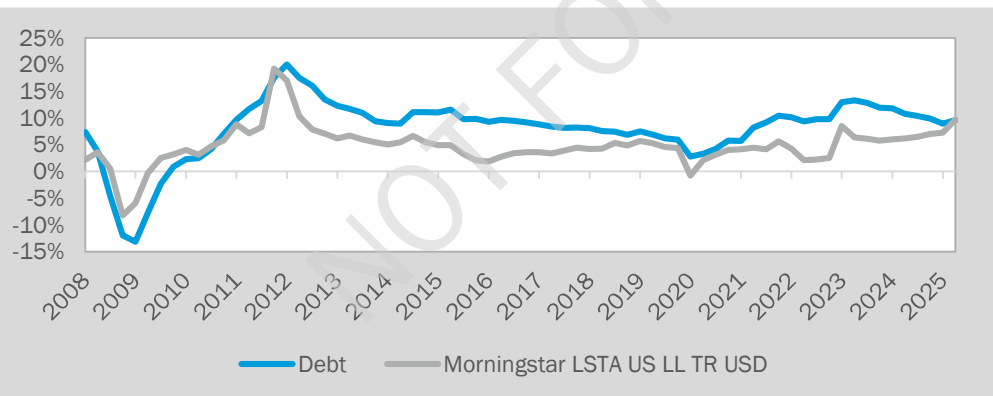
Fundraising by Strategy<sup>1</sup>



# of Funds Launched by Strategy<sup>1</sup>



Rolling 3-Year Pooled IRR (%)<sup>2</sup>



## Private Credit

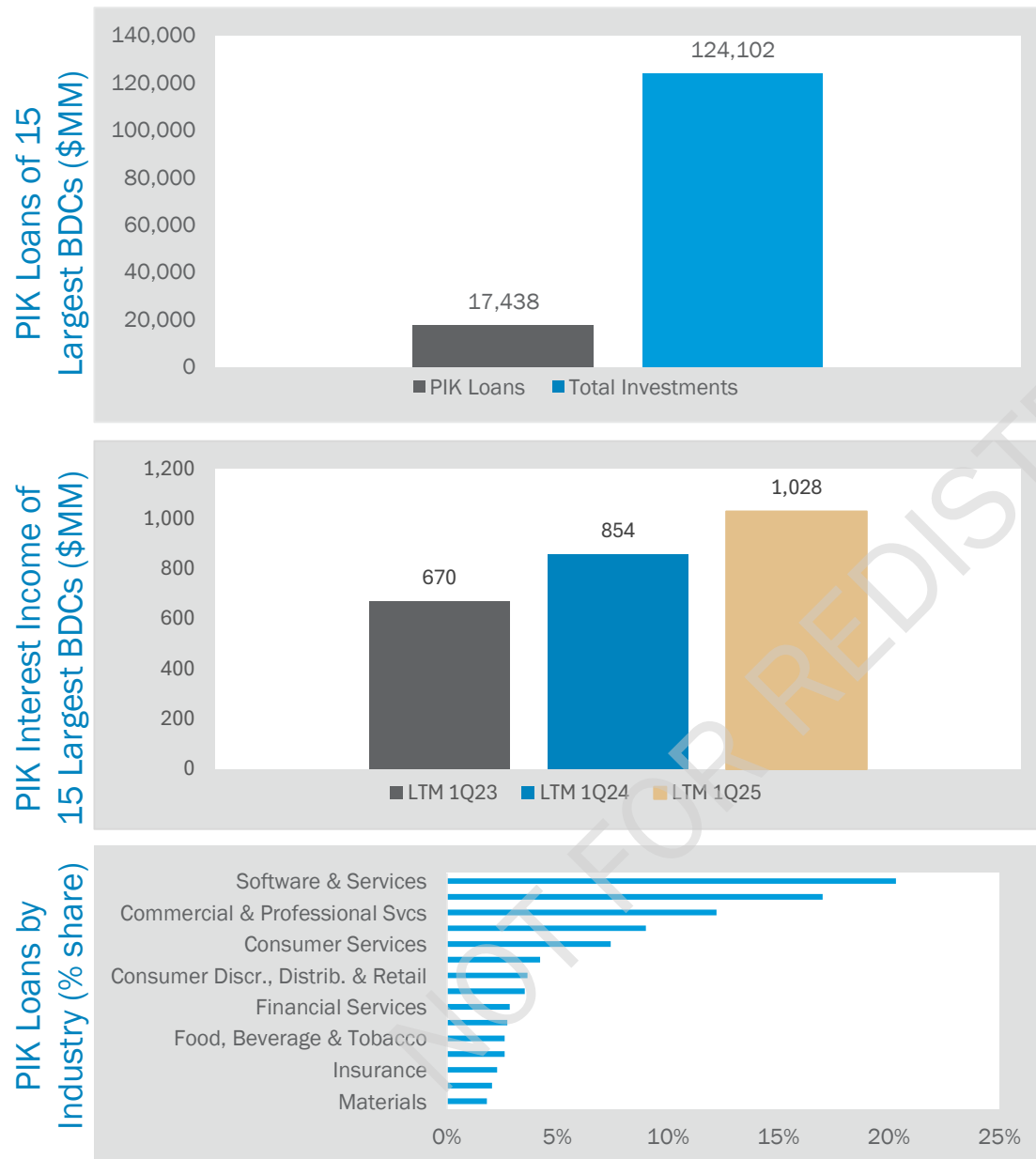
- Direct lending has led private debt fundraising in 2025 with \$43.7 billion in capital raised through the first half, falling meaningfully behind the pace of fundraising through the same period in 2024 (\$64.0 billion).
- Distressed debt strategies have raised the second-most capital year-to-date at \$21.6 billion, relative to just \$1.2 billion through the first half of 2024.
- Additionally, distressed debt strategies have exhibited the largest average fund size raised with an average size of \$3.6 billion per fund.
- The private debt rolling 3-year IRR fell from 2023 levels due to a combination of lower base rates and weaker performance within distressed and venture debt strategies. Prolonged elevated base rates have continued to create stress on the balance sheets of companies that were optimized for a low-rate environment.

Source: Pitchbook

1) Private AUM and fund count data as of 6/30/2025.

2) Rolling 3-Year IRR data as of 6/30/2025. Debt includes the aggregation of general debt, venture debt, infrastructure debt, real estate debt, bridge financing, mezzanine debt, credit special situations, direct lending, and distressed debt as defined by Pitchbook.

## Private Credit PIK Activity



## Private Credit

- Payment-in-kind (PIK) features allow private credit borrowers to defer regular interest payments, generally by adding interest payments to the loan principal.
- PIK loans held by the 15 largest Business Development Companies (BDCs) account for approximately 14% of total loans outstanding.
- PIK interest income (the amount of deferred interest added to loan principal) for these BDCs has increased by 53% over the past two years (as of 1Q25) and by 20% year-over-year.
- The software & services sector represents the largest share of PIK loans, followed by commercial & professional services.
- With base rates remaining elevated over the past two years, corporate borrowers have faced rising interest costs, prompting negotiations with lenders to pay a portion of interest in the form of PIK loans.
- PIK loans are often viewed as a way to extend the runway for borrowers who are cash-constrained or waiting for an opportunity to refinance at lower costs.

Sources: Pitchbook LCD Data as of 3/31/2025