CAPITAL MARKETS

REPORT

CFA Institute Research & Policy Center

Private Credit: Market Structure, Fund Design, and Retail Access

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Executive Summary

Private credit has evolved from a niche lending strategy into a central component of modern capital formation. As part of the broader expansion of private markets (Preece and Wilson 2026),[1] its growth reflects a structural shift in how capital is intermediated away from traditional bank balance sheets and public markets toward non-bank, privately negotiated channels. Within this transformation, retailization represents a critical inflection point: not only expanding the investor base but also reshaping fund structures, liquidity design, and risk distribution across the financial system.

Once the preserve of institutional allocators and bespoke direct lending structures, the asset class now spans an estimated $2.6 trillion[2] global market (Hinds, Choi, and Walters 2026). It is anchored in non-bank financing and increasingly marketed to high-net-worth and mass-affluent investors. This report examines how that expansion is occurring—through changes in market structure, fund design, and capital flows—and its implications for investors, intermediaries, and market functioning.

At the center of this expansion is the development of retail-accessible vehicles, including semi-liquid funds, non-traded business development companies, tokenized vehicles, and digital distribution platforms. These structures are broadening access while introducing new complexities around liquidity management, valuation practices, governance, and investor protection. Retail participation in private credit is therefore not simply a question of access but of

[1]In "Understanding the Growth of Private Markets: Structural Shifts in the Investment Industry," Preece and Wilson (2026) provide an overarching framework for subsequent CFA Institute publications in this area. The paper employs a stakeholder ecosystem framework to examine the structural and distributional tensions arising from the growth of private markets. The term "private markets" includes private equity, private credit, real estate, infrastructure, and venture capital.

[2]Total assets under management include institutional, retail, and insurance channels.

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how institutional strategies are adapted—and potentially transformed—when extended to a wider investor base.

This report is intended for financial intermediaries and sophisticated retail investors seeking a structural understanding of private credit markets. Its three objectives—structural analysis, market diagnostics, and practical guidance—are designed to support informed product design and distribution, enhance investor evaluation of private credit exposures, and provide a foundation for the policy considerations addressed in our affiliated report, "Private Credit Funds and the Retail Shift: Structural Vulnerabilities and Policy Responses" (Wilson, forthcoming 2026).

The analysis proceeds through three interconnected lenses: structural evolution, fund architecture, and retail market access. We find that while private credit offers compelling features—such as floating-rate income, portfolio diversification, and downside protection—these benefits are rooted in structural features, such as illiquidity, complexity, and bespoke contracting. These same features complicate risk monitoring, valuation, and alignment of investor interests, particularly as the asset class scales into semi-retail channels.

A recurring theme is information asymmetry. Institutional investors often benefit from direct negotiations, full disclosure, and access to intercreditor protections. Retail participants, by contrast, engage in the private credit market through intermediated platforms, depend on generalized disclosures, and could face redemption or valuation frictions in periods of market stress. Although many retail investors participating in private credit today are sophisticated (including advised professionals, **accredited investors**,[3] and clients of private banks), they remain structurally disadvantaged relative to institutional peers.

[3]An **accredited investor** is an individual or entity that meets SEC criteria to invest in private offerings, based on income, net worth, or professional credentials (e.g., FINRA Series 7, 65, or 82). By contrast, a **non-accredited investor** does not meet these thresholds and is generally limited to publicly registered or retail-regulated investment products.

Our findings underscore that retail market access is not a wholesale democratization of private markets; it is essentially a calibrated expansion into the upper tiers of the retail wealth pyramid. Participation is rising, but it remains bounded by income, net worth, and product eligibility constraints. Yet even within this constrained inclusion, the consequences are potentially significant. As retail assets flow into semi-liquid or lightly regulated vehicles, the potential grows for liquidity mismatches, valuation opacity, and redemption shocks with spillovers to other markets, particularly in a market downturn.

The research is organized into three main sections. It begins with a historical and structural overview of private credit, charting its evolution from a post-2008 Global Financial Crisis (GFC) substitute for bank lending to a mature pillar of non-bank financial intermediation. It then examines fund structures and capital flows, mapping the architecture of closed-end, semi-liquid, and tokenized vehicles and the alignment, or misalignment, of incentives they create. The core of the report explores the retailization of private credit, focusing on product innovation, distribution channels, and investor segmentation. Throughout, the analysis emphasizes how structural design influences market behavior and risk transmission.

While much of the public discourse around retail private markets emphasizes the benefits of "democratization," this report offers a more cautious and calibrated perspective. It affirms the importance of access and emphasizes that access must be paired with appropriate governance, investor understanding, and structural safeguards. Merely transplanting institutional strategies into semi-retail wrappers without appropriate adjustments to liquidity design, valuation practices, and oversight might compromise long-term investor outcomes (including confidence in capital markets) and market resilience.

Private credit retailization is not an isolated development. It is part of a broader reconfiguration of capital markets in which private structures play an increasingly prominent role in financing economic activity. Understanding how these markets are built—how capital flows, how funds are structured, and how investors participate—is essential for evaluating both investment opportunities and the risks that rise as the system evolves.

Key Takeaways

- **Structural Evolution**

  Private credit has become a $2.6 trillion asset class, driven by post-GFC bank retrenchment, regulatory arbitrage, and demand for yield. Strategies now include direct lending, net asset value (NAV)-based lending, and special situations.

- **Fund Architecture**

  Traditional closed-end funds remain dominant, but semi-liquid formats—evergreen funds, **interval funds**,[4] and **non-traded (or private) business development companies (BDCs)**[5]—are expanding rapidly. These vary in liquidity terms, leverage, and valuation rigor.

- **Market Foundations**

  Private credit operates outside public markets through bilateral, negotiated lending arrangements. Its illiquidity, customization, and limited transparency distinguish it from syndicated loans and public fixed income.

- **Strategy Segmentation**

  Direct lending represents the largest share of private credit capital raised globally. Other strategies, including special situations and NAV lending, play more specialized roles with distinct return and liquidity profiles.

- **Capital Flows and Fund Life Cycles**

  Private credit capital is raised through long-term commitments and recycled over multi-year fund life cycles. Investment periods, reinvestment policies, and distribution mechanics shape how capital is deployed and returned.

- **Investor Base**

  Institutional investors remain the primary source of private credit capital. Participation has broadened to include high-net-worth investors through feeder funds, interval funds, and private wealth platforms.

[4]**Interval fund:** A registered closed-end fund that offers periodic (typically quarterly) share repurchases at NAV and is available to non-accredited retail investors.

[5]**Non-traded BDC:** A business development company registered with the SEC but not listed on public exchanges. Shares are priced at NAV and offer limited liquidity through periodic redemptions.

- **Private Credit versus Private Equity**

  Private credit (PC) and private equity (PE) differ in their use of leverage, governance roles, and return drivers. Credit strategies emphasize contractual income and downside protection, while equity strategies rely on ownership and capital appreciation.

- **Retailization**

  Access has broadened via digital platforms (e.g., iCapital), tokenized feeders, long-term asset funds (LTAFs), and European long-term investment fund (ELTIF) 2.0 structures. Most participation remains concentrated in affluent, advised retail segments, not mass-market investors.

- **Investor Suitability**

  Retail investors gaining access are typically mass-affluent or high-net-worth (HNW) individuals. Although they are financially capable, many rely on intermediaries and might misunderstand the risks of illiquidity, gating, or valuation lag.

Introduction

PC occupies an increasingly prominent role in global capital markets. Over the past 15 years, it has expanded from a specialized alternative to bank lending into a large and diversified segment of non-bank financial intermediation. This transformation has been shaped by post-GFC regulatory reforms, bank balance sheet retrenchment, and institutional investor demand for income-producing assets in a low-rate environment. More broadly, it reflects a shift in how credit is originated, structured, and distributed within an evolving capital market architecture.

Why Are We Launching This Report?

Although a growing body of literature on PE and PC markets exists (Avalos, Doerr, and Pinter 2025; Bhardwaj, Gupta, and Howell 2025; Clayton and de Fontenay 2026; Levin and Malfroy-Camine 2025), the structural evolution of PC—particularly the expansion of retail-oriented investment formats—remains comparatively underexplored. This report addresses that gap through a non-ideological, empirically grounded analysis of how PC markets are structured, how capital flows through them, and how access is expanding beyond institutional investors.

Motivated by questions around market structure, investor access, and product design, we pursue three primary objectives:

Structural analysis: To examine the evolution of PC markets, including their development as a form of non-bank financial intermediation and their position within corporate credit markets.

Market diagnostics: To analyze fund structures, capital flows, and investor segmentation, with particular attention to semi-liquid, evergreen, and other retail-oriented formats.

Practical guidance: To provide a framework for investment professionals and market participants to evaluate PC exposures in light of liquidity, valuation, and structural design considerations.

The analysis is grounded in academic literature, market data, and CFA Institute education in private markets, including professional learning resources.[6]

Whom Is This Report For?

This report is intended for stakeholders engaged in, or affected by, the expansion of PC into retail and semi-retail investment channels. These stakeholders include the following:

- **Financial intermediaries:** Including asset managers, financial advisers, private banks, and distribution platforms seeking a structural understanding of how PC products, fund architectures, and distribution models are evolving beyond institutional markets
- **Sophisticated retail and HNW investors:** Individuals accessing PC through semi-liquid funds, feeder vehicles, or digital platforms who require clarity on how income, liquidity, and downside risk are shaped by product structure, valuation practices, and governance arrangements

What Do We Cover in This Report?

CFA Institute Research Foundation has produced several publications that lay the groundwork for this report. For example, *Alternative Investments: A Primer for Investment Professionals* established a foundational understanding of alternative assets, emphasizing differences in structure, liquidity, and valuation relative to traditional securities (Chambers, Black, and Lacey 2018). In *An Introduction to Alternative Credit*, Ricciardelli and Clements (2024) explored the defining features of direct lending, distressed credit, and structured credit instruments. More recently, “Private Markets: Governance Issues Rise to the Fore” highlighted governance and regulatory considerations across private markets (Deane 2024).

[6]CFA Institute offers a suite of certificate programs for professionals seeking to enhance their understanding of private markets. For more information, please visit www.cfainstitute.org/programs/private-markets.

The foundational work, *Understanding the Growth of Private Markets: Structural Shifts in the Investment Industry* (Preece and Wilson 2026), provides an overarching ecosystem analysis of private markets. This report builds on the foundational work by focusing specifically on PC as a distinct and rapidly evolving segment of non-bank financial intermediation. In the process, it distinguishes private credit from adjacent markets, such as syndicated loans, high-yield bonds, and PE financing. By establishing this structural framework, the report sets the stage for the subsequent examination of risk dynamics and policy considerations addressed in the companion report by Wilson (forthcoming 2026).

Structural Evolution and Market Foundations

Distinguished by its bilateral structure, negotiated terms, and illiquidity premium, PC has carved out a distinct position between traditional banking and public markets. This section establishes a conceptual and empirical framework to understand the asset class by (1) defining its structural characteristics, (2) tracing the macro-financial and regulatory forces shaping its expansion, (3) comparing it with alternative debt markets, and (4) analyzing risk implications in light of historical financial crises and ongoing regulatory debate.

Definition and Scope of Private Credit

The terms *private credit* and *private debt* are often used interchangeably in financial literature, yet many experts draw a subtle but important distinction. PC typically refers to the broader market or asset class encompassing non-bank, non-public debt origination, while private debt often denotes specific instruments or strategies within that market (PitchBook 2025). This distinction mirrors usage in industry research and regulatory contexts, where PC contrasts with public credit markets with respect to its bilateral nature, illiquidity, and bespoke structuring (Cai and Haque 2024).

The private credit umbrella encompasses a diverse array of strategies. These include direct lending, mezzanine and unitranche financing, special situations, commercial real estate credit, and structured credit vehicles, such as collateralized loan obligations (CLOs) and credit funds (Davidow and Thakur 2026; Lalafaryan 2024). Key defining features include the following:

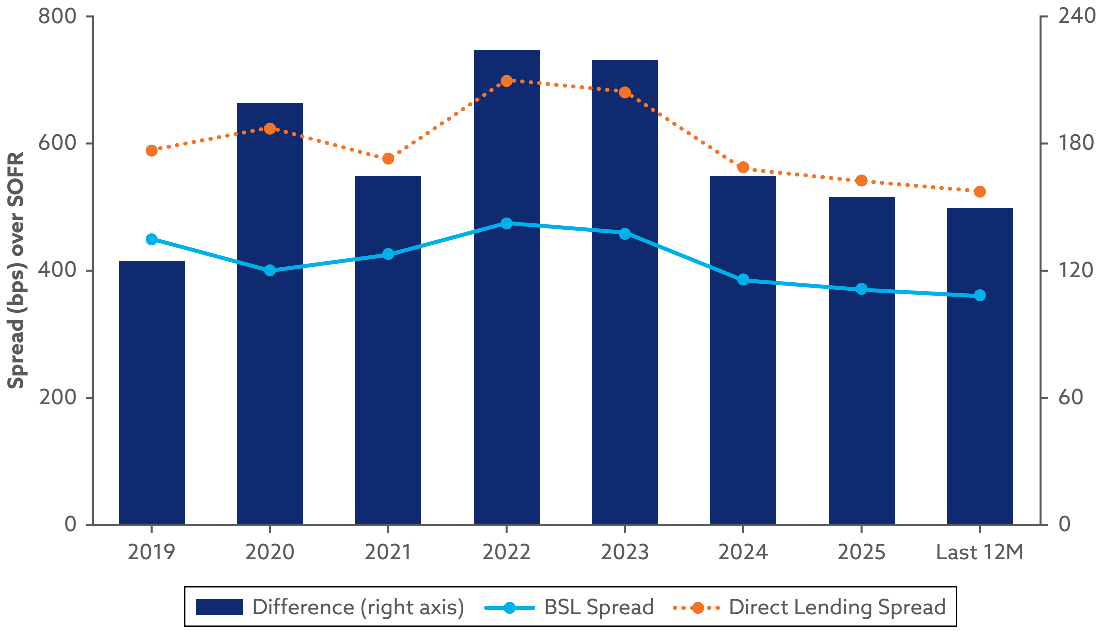
- **Bilateral origination**: Loans are privately negotiated and not syndicated via public markets.
- **Illiquidity premium**: Investors expect to be compensated for long lock-up periods and limited secondary market liquidity.
- **Customization**: Loan terms, covenants, and repayment structures are typically tailored to borrower risk and cash flow profiles (Lalafaryan 2024).

These features differentiate PC from broadly syndicated loans (BSLs) and public fixed-income instruments, which are more standardized and liquid.

BSLs occupy a hybrid position in the credit landscape. Although these loans are privately originated and do not trade on a formal exchange, they are actively traded on over-the-counter secondary markets with daily pricing. They also typically carry credit ratings. While PC historically offered a 200–400 basis point premium over public fixed-income benchmarks, such as investment-grade and high-yield bonds, spread compression has occurred as institutional capital crowded into the space (Aggarwal 2024). The premium relative to BSL—a more direct comparison given that both are floating-rate, senior-secured leveraged loans—has also narrowed.

Exhibit 1 compares US credit spreads on leveraged buyout (LBO) loans in the BSL and direct lending (DL) markets. Spreads are quoted over SOFR (the Secured Overnight Financing Rate), the standard floating reference rate for US leveraged loans. The exhibit illustrates how the spread gap[7] had narrowed from its 2022 peak of approximately 230 basis points (bps) to roughly 150 bps by 2025. The persistent premium of DL spreads over BSL spreads does not primarily reflect higher credit risk; rather, it represents compensation for illiquidity, underwriting complexity, and borrower size (Cambridge Associates 2023; Man Group 2024; Chernenko, Erel, and Prilmeier 2022). The narrowing of this differential since 2022 reflects increased competition among direct lenders as capital inflows into PC have accelerated.

Exhibit 1. Spread Differential Between the BSL and DL US Markets, 2019–2025



Notes: DL spread data reflect senior secured first-lien loans and unitranche facilities. BSL data reflect loans issued to all leveraged borrowers.
Source: PitchBook.

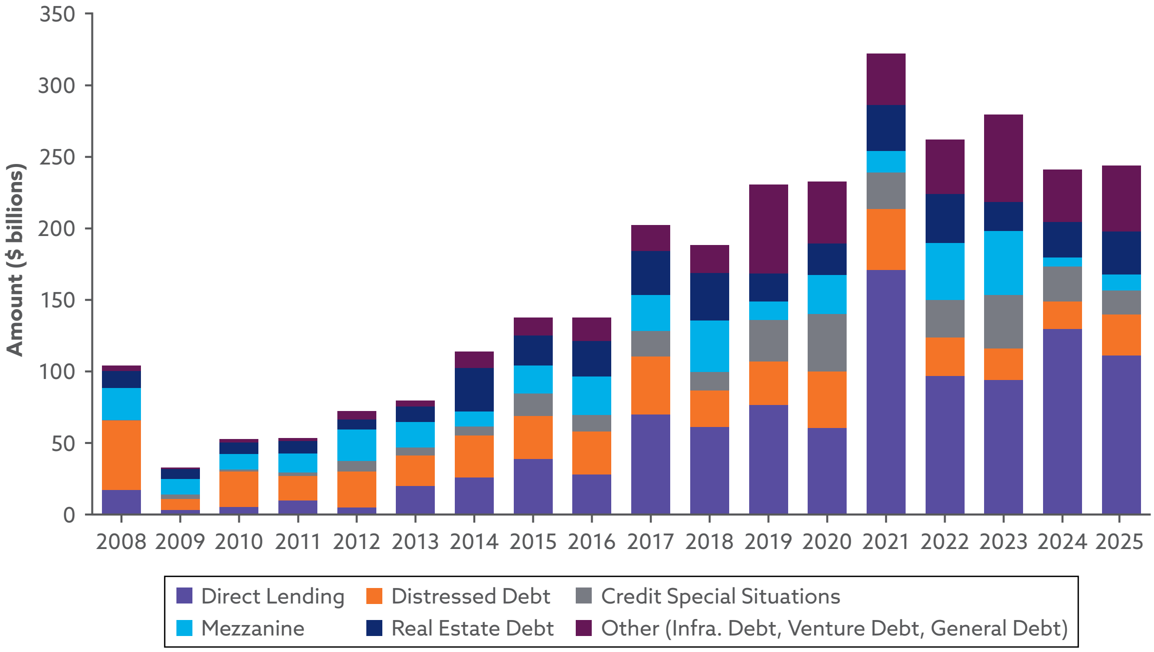
[7]The bars in Exhibit 1 represent the spread gap, which is quantified on the right *y*-axis.

Historical Context and Market Growth

Reforms implemented after the 2008 GFC changed lender behavior. Before the GFC, traditional banks dominated corporate lending, particularly to middle-market firms, which are defined here as companies with annual revenues between $10 million and $1 billion (Cai and Haque 2024). Post-crisis regulatory reforms, including Basel III and the Dodd–Frank Act, imposed stricter capital and liquidity requirements, raising the cost of holding leveraged and illiquid loans (Kroszner and Strahan 2014; Lalafaryan 2024). These reforms constrained banks' appetite for certain risk exposures and effectively created an opportunity for the entry of non-bank lenders. From 2010 to mid-2025, the PC market expanded from approximately $250 billion to $2.6 trillion, outpacing growth in traditional leveraged loan and high-yield bond markets (Avalos et al. 2025; Lalafaryan 2024; Hinds et al. 2026). Growth initially reflected borrower demand amid bank retrenchment but increasingly became supply-driven as institutional investors sought yield in a low-rate environment (Avalos et al. 2025).

Direct lending became the dominant strategy within private credit (see **Exhibit 2**). **BDCs (or publicly traded BDCs)**[8] and private debt funds issued

Exhibit 2. Global Private Debt Capital Raised by Type, 2008–2025



Notes: Exhibit was made with data provided to Claude.ai. "Other" includes infrastructure debt, venture debt, and general debt.

Source: PitchBook.

[8]**BDC:** A type of closed-end investment company established under the Investment Company Act of 1940 to provide capital to small and mid-sized US businesses, primarily through private debt and equity investments. Publicly traded BDCs are listed on national exchanges, offer daily liquidity, and are accessible to retail investors. They must distribute at least 90% of taxable income to shareholders to retain pass-through tax status.

floating-rate loans, often backed by recurring cash flows rather than **hard collateral**.[9] These loans frequently include **maintenance covenants**[10] and borrower-specific conditions that offer enhanced downside protection and enable lenders to proactively manage credit risk. Meanwhile, net median internal rates of return for DL funds increased by approximately 280 bps between 2017 and 2023 (from 8.00% to 10.83%), and preliminary 2025 data suggest further increases to 13.79% (based on 12 funds).[11] These gains were driven primarily by rising base rates (SOFR increased from near zero in 2020 to over 5% by 2023[12]), which more than offset the credit spread compression resulting from intensifying competition for deals.

Sidebar: What Caused the 2008 Global Financial Crisis?

The 2008 **Global Financial Crisis** emerged from a convergence of excessive housing market risk, structural fragility, and regulatory shortfalls. At its core were **subprime mortgages**,[13] which were aggressively originated and bundled into mortgage-backed securities (MBS), asset-backed commercial paper (ABCP), and collateralized debt obligations (CDOs). These securities were often priced using opaque, mark-to-model valuations and rated investment grade (AAA) by credit rating agencies as a result of credit structuring and tranching, despite the poor quality of the underlying assets (Schwartz 2012). The lack of transparency in these valuation methodologies meant that investors were uncertain about which assets (and asset quality) were included in security bundles.

[9]**Hard collateral** refers to tangible, high-value assets pledged to secure a loan, such as real estate, equipment, or inventory. Hard collateral contrasts with soft collateral, such as intellectual property or goodwill.

[10]**Maintenance covenants:** Financial tests, such as minimum interest coverage or maximum leverage ratios, embedded in loan agreements that borrowers must meet on an ongoing (e.g., quarterly) basis. Breaching a maintenance covenant typically triggers lenders' rights to renegotiate terms, charge fees, or accelerate repayment.

[11]Preqin Pro, "Private Debt – Direct Lending – All, Benchmark Performance Data," accessed 27 March 2026, https://pro.preqin.com/discoverAnalysis/benchmarks/privateCapital/market.

[12]Federal Reserve Bank of New York, "Secured Overnight Financing Rate (SOFR)," retrieved from FRED (Federal Reserve Economic Data) on 8 January 2026, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/SOFR.

[13]**Subprime mortgages:** Home loans issued to borrowers who do not meet the credit or income standards required for prime loans. These borrowers typically have low credit scores, high debt-to-income ratios, and/or irregular income. To offset the higher risk, subprime loans often carry higher interest rates, adjustable terms, and less favorable conditions.

The securities were often held in off-balance-sheet vehicles, such as **structured investment vehicles (SIVs)**,[14] which relied on short-term borrowing to finance long-term, illiquid, highly leveraged assets. This created significant maturity mismatches and made the financial system vulnerable to liquidity shocks (Schwartz 2012). As housing prices declined and defaults spiked, these securities experienced widespread devaluation.

The crisis deepened as it became clear that the risks had migrated well beyond subprime loans. Once liquidity dried up and defaults surged, banks and non-bank financial institutions holding these assets were forced into fire sales. These triggered mark-to-market losses across the global financial system (Schwartz 2012). Investor and counterparty confidence evaporated, interbank lending froze, liquidity dried up, and losses rapidly propagated. It culminated in the collapse of Lehman Brothers, the US government bailout of AIG, and the launch of the $700 billion Troubled Asset Relief Program (TARP) to stabilize the US banking system.

The shockwaves reached far beyond US borders. Global credit markets seized, equity markets plunged, and major international institutions either failed or were bailed out by their governments. World trade contracted, unemployment surged, and the crisis triggered deep recessions across advanced economies and capital flight from emerging markets. All of these effects demonstrated the tightly interconnected nature of modern finance (Schwartz 2012).

As Kroszner and Strahan (2014) explain, regulatory capital constraints encouraged banks to restructure their activities in ways that shifted risk outside the formal supervisory perimeter, while maintaining economic exposure to the same credit risks. It allowed leverage to accumulate in the shadow banking system, often masked by off-balance-sheet accounting, securitization layering, and credit arbitrage mechanisms (Kroszner and Strahan 2014). The shadow banking system—comprising non-bank lenders, structured investment vehicles, and complex securitization conduits—grew large and opaque enough to pose significant systemic risks (Corrigan, forthcoming 2027; Schwartz 2012).

[14]A **structured investment vehicle** is a type of off-balance-sheet entity designed to earn profits by borrowing short term at low interest rates (typically through commercial paper) and investing in long-term, higher-yielding assets, such as MBS or other structured credit instruments. Structured investment vehicles were often sponsored by banks but structured to operate independently, avoiding capital requirements. Their reliance on short-term funding and exposure to illiquid assets made them especially vulnerable to market freezes, and they played a major role in the GFC.

Bank Disintermediation and Supervisory Arbitrage

Private credit's post-GFC expansion is often described as the result of **regulatory capital arbitrage**,[15] yet recent research suggests a more nuanced dynamic. Banks are not necessarily unable to hold illiquid loans. Instead, they increasingly choose to reduce capital intensity by shifting lending exposure off balance sheet, while preserving economic exposure to the same underlying credit risks (Chernenko, Ialenti, and Scharfstein 2025; Corrigan, forthcoming 2027). This process, better described as supervisory arbitrage, reflects strategic repositioning rather than forced withdrawal from lending markets. Rather than exiting the market, banks have configured their roles by:

- lending to PC funds and BDCs (see **Exhibit 3**);
- sponsoring or managing those funds through affiliated asset managers; and/or
- holding equity stakes in non-bank vehicles that conduct lending, thereby retaining economic upside.

This shift aligns with a longer-term decline of bank participation in private lending. From 1970 to 2023, the share of private lending held by US banks declined from 55% to just 33% (Buchak, Matvos, Piskorski, and Seru 2024). PC funds—more flexible and less encumbered by regulation—have become dominant financiers in middle-market, sponsor-backed transactions.

Corrigan (forthcoming 2027) provides empirical evidence of this integration. Before the GFC, bank equity investments in non-bank entities were concentrated primarily in non-financial operating companies. Over time, however, banks increasingly redirected equity exposure toward non-bank financial vehicles, such as joint ventures, real estate investment structures, and credit funds. This development drove total non-bank equity exposure above $125 billion by the mid-2020s. According to Corrigan (forthcoming 2027), as of mid-2024, these exposures manifested over several overlapping channels:

- Over $80 billion was held in equity interests in unconsolidated joint ventures and affiliated investment vehicles.
- Credit exposure to CLOs and other **variable interest entities (VIEs)**[16] exceeded $60 billion, reflecting lending and guarantee exposures rather than direct equity ownership.

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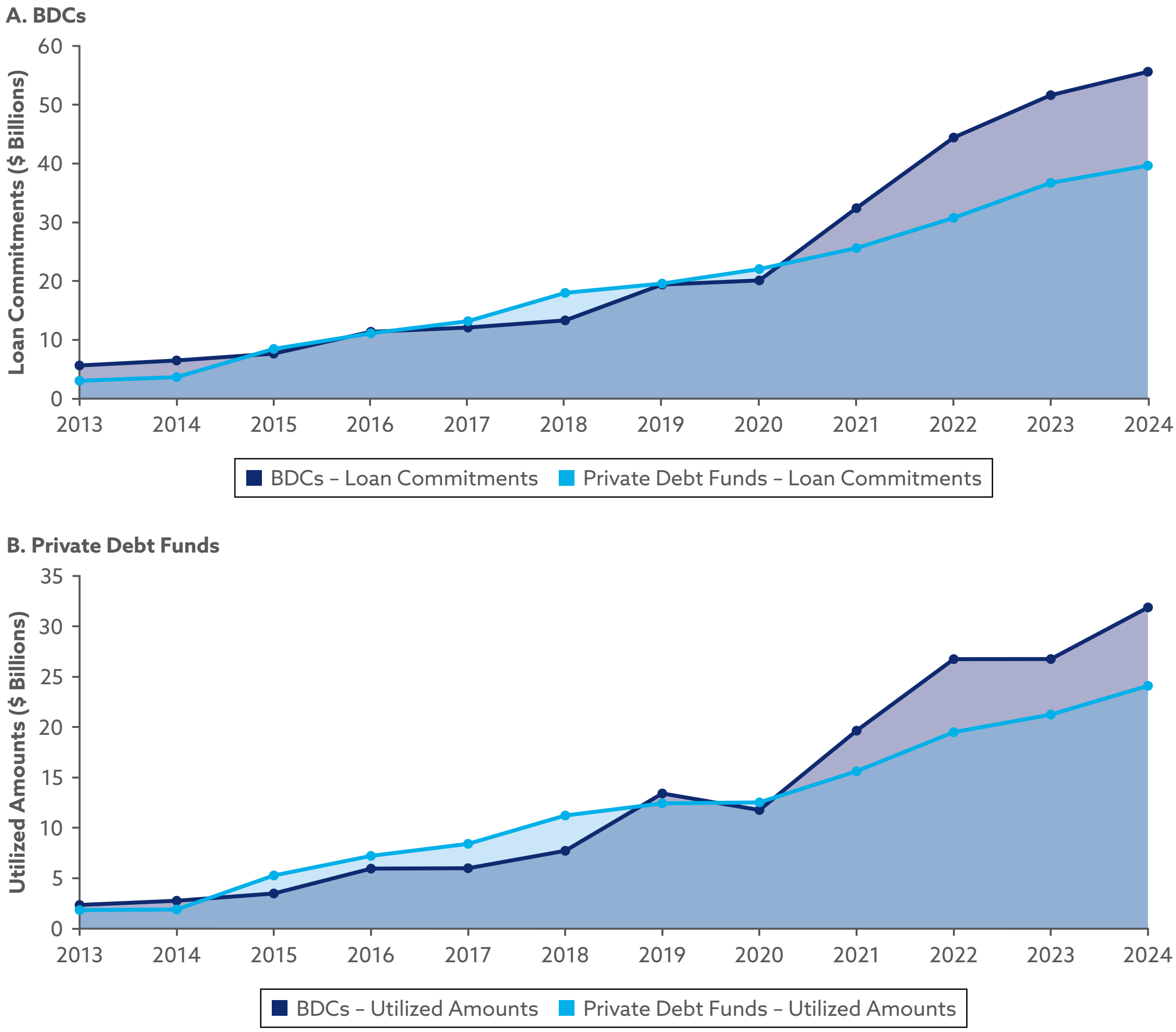
[15] **Regulatory capital arbitrage:** Refers to strategies used by financial institutions to reduce the amount of capital they are required to hold under risk-based capital rules—regulations that link capital requirements to asset risk—by structuring exposures to appear lower risk. Regulatory capital arbitrage usually involves repackaging or partially offloading risky assets in ways that reduce capital requirements without significantly reducing actual credit risk.

[16] A **VIE** is a structure where control and risk exposure are held through financial or contractual arrangements, rather than voting equity. VIEs often issue instruments—such as guarantees or subordinated debt—that absorb gains or losses, making them functionally equivalent to equity. They are commonly used in securitizations, including CLOs and MBS. This information was adapted from Corrigan (forthcoming 2027).

Exhibit 3. US Bank Lending to Private Credit Vehicles—Loan Commitments versus Utilized Amounts, 2013–2024



Note: Exhibit was made with data provided to Claude.ai.

Source: Berrospide, Cai, Lewis-Hayre, and Zikes (2025).

- Aggregate equity investments in non-bank entities represented 12%–17% of common equity Tier 1 capital across the largest US global systemically important banks.

These exposures are opaque, largely involving nonpublic entities valued using internal models. Corrigan (forthcoming 2027) warns that these vehicles share features with pre-crisis structures: opaque intermediation, hard-to-value assets, complex models, and misaligned incentives. Section 4(k) of the US Bank Holding

Company Act permits banks to make equity investments in PC funds, CLOs, and structured credit vehicles that primarily hold bank-permissible assets (Corrigan, forthcoming 2027), reinforcing the shift from direct lending to indirect participation.

This evolution reflects what Kroszner and Strahan (2014) term "market adaptation"—that is, institutions restructuring activities in response to regulation in ways that *relocate rather than eliminate* risk. Today's integration of banks and PC replicates aspects of pre-crisis shadow-banking structures. These include risk migration, model-based valuations, and pro-cyclical exposures.

Recent developments indicate that the **Volcker Rule**,[17] while designed to limit proprietary trading and prevent banks from sponsoring private funds, has become increasingly misaligned with how risk now migrates between banks and private markets. As Corrigan (forthcoming 2027) shows, banks have dramatically expanded their equity ownership in non-bank financial intermediaries (including PC funds, real-estate vehicles, and securitization structures) using statutory and regulatory exclusions that place these vehicles outside the Volcker Rule's "covered fund" prohibitions.

Private Credit in the Capital Stack

From the borrower's perspective, private credit occupies the space between senior bank debt and equity. Its position depends on structure, for instance:

- **Senior secured private loans** may rank *pari passu* with bank facilities.
- **Unitranche loans** blend senior and mezzanine components into one tranche.
- **Subordinated/mezzanine debt** ranks below secured obligations.

PC often plays a pivotal role in leveraged sponsor-backed transactions in the \$50–\$500 million enterprise value range, too small for public bond markets yet often too complex for traditional underwriting. Its appeal lies in offering leverage without dilution for sponsors and floating-rate, covenant-controlled income for investors. PC thus competes directly with syndicated leveraged loans and high-yield bonds in the sub-investment-grade segment.

[17]The **Volcker Rule**, a component of the Dodd–Frank Act of 2010, prohibits banks from engaging in proprietary trading and limits investments in hedge funds and private equity funds. However, exemptions and clarifications introduced in 2014 and 2020 allow banks to sponsor or invest in private credit funds and loan-backed CLOs under certain conditions—especially when the fund assets are permissible for bank investment, the bank does not control the vehicle, and exposures are booked through unconsolidated affiliates.

Feedback Loops and the Return of Risk

PC's rapid growth has revived systemic questions long associated with shadow-banking structures. Many contemporary practices, including **NAV-based lending**,[18] **continuation funds**,[19] **structured joint ventures**,[20] and **affiliated credit platforms**,[21] echo elements of the pre-2008 architecture. These elements include valuation opacity, layered intermediation, and reliance on short-term or bank-linked funding. For example, the following are similar vulnerabilities visible today:

- NAV-based lending and continuation funds resemble pre-crisis structured finance models.
- Bank-sponsored platforms reintroduce economic exposure without consolidated oversight.
- Investor protections have weakened amid covenant-lite trends and aggressive underwriting (Schwartz 2012).

PC vehicles operate outside consolidated supervision yet maintain deep connections to banks, which may own stakes in managers, provide warehousing lines, or extend balance-sheet support during stress. These linkages create feedback loops whereby losses in private vehicles—driven by mark-to-model adjustments, liquidity mismatches, or concentration risk—can reverberate back to sponsoring institutions. Corrigan (forthcoming 2027) identifies four vulnerabilities in the modern convergence of banks and PC:

1. **Valuation opacity** due to model-based pricing
2. **Cross-ownership and pyramiding** through layered affiliates
3. **Moral hazard** via implicit support and "moral recourse"
4. **Regulatory blind spots**, as many vehicles fall outside Volcker and bank-holding-company oversight

As the asset class expands into retail channels, the systemic architecture is likely to increasingly resemble earlier cycles of innovation, opacity, and adaptation that preceded episodes of financial instability. Absent meaningful oversight, the PC ecosystem could be laying the foundations for the next episode of

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[18]**NAV-based lending**—also known as NAV lending—is a form of fund-level financing in which a private investment fund borrows against the value of its portfolio holdings. The loan is typically secured by the fund's net asset value rather than specific companies or assets. This financing strategy is commonly used by PE and PC funds to manage liquidity, support follow-on investments, or fund limited partner distributions.

[19]A **continuation fund** is a new investment vehicle created by a private equity sponsor to acquire portfolio companies from an older fund managed by the same sponsor. The structure allows the sponsor to extend ownership of key assets while providing liquidity to existing limited partners, often through a general partner–led secondary transaction.

[20]A **structured joint venture** is a custom investment partnership between two or more parties—often a PC manager and a large institutional investor—with pre-agreed capital, governance, and return-sharing terms.

[21]An **affiliated credit platform** is a lending arm of a PE firm that might finance its own portfolio companies. It enables integrated (i.e., both debt and equity) financing but can raise conflict of interest concerns.

systemic stress. As noted in the introduction, these issues are the subject of our affiliated report by Wilson (forthcoming 2026).

Section Summary Box: What Defines Private Credit, and How Is It Evolving?

1. *What distinguishes PC from public and private market peers?*
    - **Private market structure:** PC is a bilateral, negotiated financing channel outside public exchanges; it is originated by funds, not banks or syndicates.
    - **Customized terms:** Loan covenants, repayment schedules, and risk protections are tailored to borrower-specific characteristics, unlike the standardized format of public debt markets.
    - **Illiquidity and pricing:** Investments are typically illiquid and valued infrequently using model-based approaches, rather than continuous market pricing.
    - **Position in the capital stack:** PC occupies a flexible space between bank lending and equity, spanning senior secured, unitranche, and subordinated structures.
    - **Portfolio role:** It provides income-oriented returns, contractual downside protection, and diversification relative to traditional fixed income.
2. *What forces have accelerated PC's expansion?*
    - **Post-GFC regulatory overhaul:** Basel III and Dodd–Frank increased the cost of holding leveraged and illiquid loans on bank balance sheets, opening space for non-bank lenders.
    - **Bank disintermediation:** US banks' share of private lending fell from 55% in 1970 to 33% in 2023, as lending shifted to BDCs and PC funds.
    - **Supervisory arbitrage:** Banks adapted to regulation by shifting certain lending activities off balance sheet rather than exiting them entirely, in the process facilitating the growth of PC as an alternative channel for credit intermediation.
    - **Investor demand for yield:** Institutional capital flowed into PC in search of higher yields and floating-rate income.
    - **Structural adaptability:** PC offers speed, flexibility, and bespoke structuring that appeal to both sponsors and borrowers.

3. *How is PC embedded in the broader financial system?*
   - **Interconnectedness with banks:** Banks maintain economic exposure to PC markets through lending to funds, providing credit facilities, sponsoring affiliated vehicles, and holding equity stakes.
   - **Migration of risk:** Credit risk is redistributed across balance sheets, often outside traditional supervisory frameworks.
   - **Market adaptation:** Financial institutions restructure activities in response to regulation, reinforcing the role of non-bank intermediaries in credit provision.
4. *What structural vulnerabilities are emerging?*
   - **Valuation opacity:** Model-based pricing and infrequent valuations could delay the recognition of credit deterioration.
   - **Layered intermediation:** Such structures as NAV lending, continuation funds, and affiliated platforms introduce complexity and leverage across multiple levels.
   - **Regulatory blind spots:** Many PC vehicles fall outside consolidated supervision, complicating risk monitoring.
   - **Feedback loops:** Losses in PC vehicles might transmit through bank exposures, funding channels, and investor behavior.

Fund Structures and Capital Flows

This section delineates how PC funds are structured, who participates in them, and how they compare to PE models in governance and alignment. Exhibits 4–7 provide detailed overviews of the topics outlined in the first four subsections below. See Deane (2024) for a comprehensive treatment of governance issues, including conflicts of interest between PE and PC funds.

Market Segmentation: Direct Lending, Special Situations, NAV Lending

Private credit spans a range of lending strategies, each with distinct borrower profiles, risk–return characteristics, and use cases. Among these, direct lending, special situations, and NAV lending have emerged as the most prominent and differentiated segments. **Exhibit 4** provides an overview of these lending strategies.

Direct lending is the dominant strategy in PC, comprising over 46% of global private debt capital raised in 2025 (see Exhibit 2 in Hinds et al. 2026). It involves

Exhibit 4. Market Segmentation: Overview of Private Credit Market Segments

Segment	Direct Lending	Special Situations	NAV Lending
Borrower Type	Private mid-market companies, often backed by PE sponsors	Distressed companies or borrowers with idiosyncratic financing needs	PE funds or vehicles, borrowing at the fund level based on the NAV of underlying assets
Loan Purpose	Buyouts, growth capital, refinancing	Rescue capital, debtor-in-possession loans, capital for turnarounds or workouts	Liquidity for add-on acquisitions, debt refinancing, or GP distributions from older funds
Collateral	Typically senior secured loans backed by company assets	Varies; could include minimal or bespoke collateral, sometimes equity participation rights	Secured by NAV of diversified fund portfolios rather than operating company assets
Risk–Return Profile	Moderate risk with strong downside protection; steady cash yields	High risk but potential equity-like returns; returns are cyclical and highly idiosyncratic	Moderate risk, but with layered leverage; governance sensitive due to limited partner – fund dynamics
Notable Features	Floating interest rates; strong covenant packages, a core allocation for pension and insurance funds	Often structured with PIK interest, equity kickers (e.g., warrants); thrives during downturns	Described as "leverage on leverage"; lender sits senior to limited partners in fund cash flows; use of proceeds can be controversial
Market Size/Growth	Assets under management reached $751 billion by mid-2025 (22.5% compound annual growth rate since 2014), representing 46% of private debt capital raised	Opportunistic and countercyclical; spikes in distressed cycles	~$50–$100bn outstanding by 2025, with ~20% projected compound annual growth rate; expected to reach ~$150bn by 2030

Sources: PitchBook (2025); Callan (www.callan.com/); Rede Partners (www.rede-partners.com/); 17Capital (www.17capital.com/).

senior secured loans to private mid-market companies—often to finance PE-sponsored buyouts or growth investments—filling a gap left by banks. These loans typically offer floating rates, strong covenants, and reliable income, making them attractive to institutional investors seeking yield with moderate risk. Funds in this segment might focus on **sponsor-backed**[22] or **non-sponsor borrowers**.[23]

Special situations PC strategies target distressed or unconventional borrowers with bespoke, higher-risk financings. These strategies often include

[22]**Sponsor-backed borrower:** A company that receives debt financing and is majority owned or controlled by a PE fund sponsor, which provides equity capital (primarily via the limited partner [LP] investors in a PE fund) and strategic oversight (via the general partners).

[23]**Non-sponsor borrower:** A company that borrows directly from the PC fund without being backed by a PE sponsor.

equity-like features, such as warrants or **payment-in-kind (PIK)**[24] interest. This segment is typically riskier and more cyclical than other PC segments.

NAV lending provides loans to PE funds secured against their portfolio NAVs (Barreras 2024). Although controversial when used for distributions to **general partners (GPs)**[25] (With Intelligence 2024), NAV lending is growing rapidly and increasingly seen as a strategic liquidity tool for fund managers.

Closed-End versus Semi-Liquid Structures

The structure of PC funds is evolving rapidly, reshaping how investors access the asset class and how managers deploy capital. Historically, closed-end funds have dominated the PC market (Reid 2024), offering long-term, locked-up capital aligned with the illiquidity of private loans. In this traditional model, **limited partners (LPs)**[26] commit capital up front, which the GP deploys over a multi-year investment period and repays during a harvest phase. The structure offers stability and flexibility for the GP, particularly in handling loan workouts or distressed assets without short-term redemption pressure.

A wave of innovation has introduced semi-liquid or **evergreen fund structures**[27] aimed at attracting a broader range of investors, particularly HNW individuals and retail channels. Semi-liquid funds offer infrequent, periodic redemption windows (such as quarterly). Evergreen funds operate with no defined end date. They accept investor subscriptions on a rolling basis and recycle capital into new deals rather than liquidating after a set investment period. This allows managers to continuously grow assets under management (AUM) while offering investors intermittent redemption windows. Some key liquidity issues associated with semi-liquid fund structures are discussed in the next section and in our companion report.[28] **Exhibit 5** provides a comparative analysis of closed-end versus semi-liquid fund structures.

Fee Structures and Fund Life Cycles

The fee model in closed-end PC funds differs from that in semi-liquid or evergreen PC funds. The fee model for closed-end emphasizes long-term realized returns and aligns the GP's incentives with loan performance over the full life of the fund. In contrast, semi-liquid or evergreen PC funds—designed

[24]**PIK:** A financing feature that allows interest or dividends to be paid in the form of additional debt or equity, rather than cash.

[25]**GP:** The manager of a private investment fund, responsible for making investment decisions and overseeing the portfolio. The GP typically earns management fees and a share of the profits (carried interest). In a limited partnership structure, the GP holds unlimited liability.

[26]**LP:** An investor in a private fund who provides capital but does not manage the fund. LPs have limited liability, with losses capped at their investment. Typical LPs include pension funds, endowments, and HNW individuals.

[27]**Evergreen fund structure:** A private investment fund that allows ongoing investor subscriptions and periodic redemptions. Often used in private credit, evergreen funds provide long-term access to private markets with more flexibility than traditional closed-end structures. For additional information on evergreen fund structures, please see the Appendix (pp. 39–41) in Deane and Robinson (2025).

[28]See the section "Risk Dynamics in Private Credit" in Wilson (forthcoming 2026).

Exhibit 5. Closed-End vs. Semi-Liquid Fund Structures: Comparative Analysis of Characteristics

Feature	Closed-End Fund	Semi-Liquid/Evergreen Fund
Structure	Finite lifespan (e.g., 8–10 years)	Perpetual/no fixed end date
Capital Commitment	Committed upfront, called over investment period	Subscriptions accepted on a rolling basis
Redemptions	No investor redemptions; capital locked until fund winds down	Periodic redemptions (e.g., quarterly), subject to limits or gates
Liquidity Management	No fund-level liquidity; relies on loan maturities	Uses cash flows, capital raises, and redemption gates
Investor Type	Institutional LPs	High-net-worth and retail investors (via BDCs, interval funds)
Regulatory Framework	Private placement model, LP agreements	Regulated vehicles (e.g., Investment Company Act of 1940)
Leverage	Typically deal-level only	May use fund-level leverage/credit lines
Transparency	Custom LP reporting	NAV reporting, board oversight, regulatory disclosures
Liquidity Risk	Low redemption pressure	Higher redemption sensitivity in stress scenarios
Manager Benefits	Long-term stability, ability to manage workouts	Permanent capital, fee scalability, broader investor access

for ongoing subscriptions and redemptions—feature a different cadence (see **Exhibit 6**). Because the performance of these semi-liquid funds is measured more frequently and capital flows are ongoing, incentive alignment must be carefully structured to avoid encouraging short-termism or **valuation smoothing**.[29]

Investor Base: Institutional, HNW, Retail

PC has expanded far beyond its origins as a niche domain for large institutional allocators, such as pension funds. Today, the investor base is highly diversified—spanning public pensions, insurers, endowments, HNW/mass-affluent individuals, and other retail investors. Each has distinct risk appetites, liquidity preferences, and regulatory constraints. This broadening participation has not only fueled the growth of the asset class but also driven meaningful changes in fund design, structure, and distribution strategy.

[29]**Valuation smoothing:** A portfolio management practice in which reported asset values—especially for illiquid or infrequently traded investments—are adjusted gradually over time rather than marked to volatile market conditions immediately. Rather than observable market prices, valuations are based on appraisals or model-driven inputs—smoothing techniques that reduce short-term fluctuations in reported performance and NAVs.

Exhibit 6. Fee Structures and Fund Life Cycles: Comparative Analysis of Private Credit Fee Models

Feature	Closed-End Funds	Semi-Liquid/Evergreen Funds
Management Fee Basis	Typically 1% on committed capital (investment period), then on invested cost	Typically 0.5%–1.5% on invested capital or NAV
Performance Fee (Carry)	Commonly 10% (can reach 15%–20% in higher-return strategies)	Often 10%–20% of net interest income above hurdle
Hurdle Rate	Preferred return: usually 5%–8%, with a catch-up mechanism	Similar hurdles apply; focus on yield, not capital gains
Fee Timing	Carry paid at realization (typically post-harvest)	Incentive fees often paid quarterly/annually from income
Distributions	Interest income distributed early; principal repaid post-investment period	Income and NAV-based redemptions; limited liquidity windows
Incentive Alignment	Long term, tied to realized performance; "skin in the game" via GP co-investment	Ongoing performance metrics can shift GP focus to short-term results
Governance Mechanisms	LP advisory committees, life-cycle discipline, carry deferral until final returns	NAV reporting, redemption gates, regulator oversight; valuation is more complex
Risk of Misalignment	Risk of over-deployment or chasing yield near end of fund life	Risk of smoothing valuations, fee gaming, or delayed markdowns

At the top of the investor pyramid remain the institutions that built the foundation of PC: pensions, sovereign wealth funds, and insurance companies. These entities allocate strategically, valuing PC for its stable income, floating-rate protection, and portfolio diversification. The fastest growth is coming from HNW and retail channels, facilitated by innovations in fund structuring (such as feeder funds, private [non-traded] BDCs, and interval funds) and distribution platforms such as iCapital and CAIS. We discuss retailization in greater depth in the next section. **Exhibit 7** provides an overview of investor segments and market access models.

Comparison with Private Equity Structures

PC and PE are frequently grouped under the private markets umbrella, but this association can obscure the deeper structural, financial, and behavioral distinctions that define them. The two asset classes diverge in their mechanisms of value creation, governance, liquidity dynamics, and leverage profiles. Understanding these distinctions is critical for investors, regulators, and allocators, because PE and PC represent fundamentally distinct risk–return engines with different responses to macroeconomic cycles. In the PE ecosystem, PC plays an important supporting role, particularly in the financing of middle-market buyouts. In most direct lending transactions, the borrower

Exhibit 7. Evolving PC Investor Base: Overview of Investor Segments and Market Access Models

Investor Segment	Fund Access Models	Influence on Fund Design
Pensions, insurers, sovereign wealth funds, endowments; long-term liabilities	Closed-end funds, **separately managed accounts**,[a] co-investments	Favor illiquid structures; credit ratings on tranches, high governance standards, tailored structures
Family offices, private banks, accredited investors	Feeder funds, private BDCs, interval/tender-offer funds	Seek quarterly liquidity, simplified structures, tax efficiency
Mass-affluent individuals, 401(k) plan participants (via regulated products)	Registered closed-end funds, non-traded BDCs, tokenized vehicles	Require liquidity features, lower minimums, increased disclosures, and regulatory oversight
Foundations, multi-family offices, registered investment advisors	Fund-of-funds, multi-manager platforms	Prefer diversification, outsourced diligence, moderate liquidity

[a] Separately managed account (SMA): A PC investment account set up and managed by the GP or investment manager on behalf of a single LP, such as a pension fund, endowment, or insurance company. The GP manages the account according to that investor's specific preferences. Unlike in pooled funds, in an SMA, the investor directly owns the assets and has greater control, transparency, and flexibility.

is a PE-sponsored **portfolio company**.[30] While the PE firm assumes the equity risk and controls governance, the PC lender provides debt capital with protections, such as maintenance covenants, **equity kickers**,[31] board observation rights, or **warrants**[32]—blurring traditional boundaries between debt and equity (Lalafaryan 2024).

Balance Sheet Structure and Governance

Although both PE and PC funds commonly adopt a closed-end limited partnership format with capital commitments from LPs, their internal balance sheets and fund operations differ significantly. As **Exhibit 8** illustrates, a traditional PE fund is a pure equity vehicle—it does not employ leverage at the fund level, and partnership agreements often prohibit GPs from borrowing against the fund (Axelson, Jenkinson, Strömberg, and Weisbach 2013). At first glance, the capital structure appears clean: All risk is borne by equity holders, and returns are generated through capital appreciation and eventual portfolio exit events. However, as discussed later in this section, PE funds may undertake significant (indirect) leverage in LBO transactions.

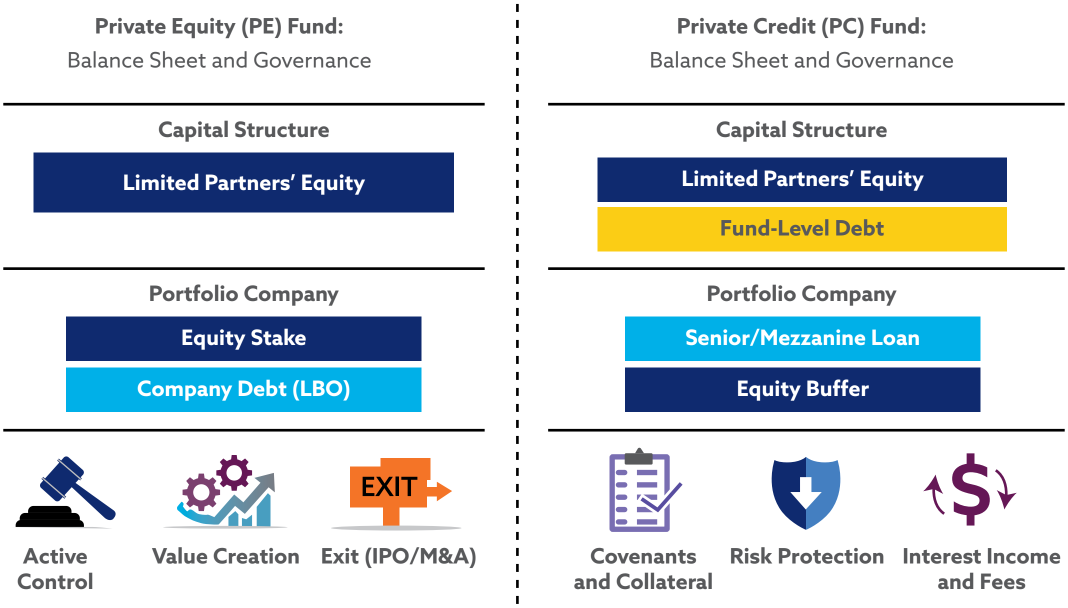
By contrast, PC funds typically blend equity and debt on their balance sheets (see Exhibit 8). Many direct lending strategies use credit lines or subscription

[30] **Portfolio company:** A business entity that is owned, controlled, or financed by a private investment fund. In PE, the portfolio company is typically acquired through equity investment; in PC, the borrower receives financing.

[31] **Equity kickers:** A provision that gives a lender extra upside through equity participation—typically via warrants or conversion rights—if the borrower's equity value increases. Common in mezzanine and venture debt deals.

[32] **Warrants:** Securities that give the holder the right, but not the obligation, to purchase equity (usually common shares) in a company at a fixed price within a specified time frame. In PC, warrants are often issued to lenders as an equity kicker to enhance return potential beyond the loan's interest income.

Exhibit 8. Balance Sheet and Governance Structures: Private Credit vs. Private Equity



facilities to finance loans in advance of capital calls, introducing moderate fund-level leverage (Reid 2024; Ricciardelli and Clements 2024). In the case of BDCs, leverage is subject to statutory asset-coverage requirements under US regulation. In some cases, PC funds further securitize loans (e.g., through CLOs), embedding additional leverage into their structures.

At the portfolio company level, this asymmetry persists. PE funds acquire controlling equity stakes in companies typically structured with 60%–70% debt financing in LBOs. The debt enhances returns on equity but elevates risk (Axelson et al. 2013). Conversely, PC funds lend to companies that already have a meaningful equity buffer—often provided by PE sponsors—ensuring that the lender's position is senior and protected. A typical direct lending transaction might result in a capital structure of 50% debt and 50% equity, reflecting a more conservative underwriting approach (Deane 2024).

Governance structures further reflect the divide in roles and risk appetites. PE funds exercise active control: They appoint board members, shape strategy, and often replace management to drive value. PC funds, as creditors, typically take a more passive governance stance. They intervene only through covenants, collateral rights, or board observation when the borrower breaches agreed terms or faces distress. This reactive form of governance is especially critical in workouts and restructuring scenarios, where credit GPs must have deep expertise in enforcement and recovery processes (Ricciardelli and Clements 2024).

Fund-level valuation practices also diverge. PE funds typically report unrealized valuations infrequently and crystallize returns only at exits. PC funds, particularly open-end structures, produce mark-to-market statements quarterly and report NAVs regularly. However, such NAVs may be subjective during stressed periods and raise concerns over delayed loss recognition (Reid 2024). This valuation opacity in PC can mask risks, especially when embedded leverage or weak covenants are involved.

From a regulatory standpoint, both asset classes benefit from lighter oversight because of their private status and investor base. Still, PC has drawn increasing scrutiny for its role as a non-bank credit provider. Policymakers have raised concerns over systemic risk with PC, especially when strategies are synchronized and levered across funds (Boyarchenko and Elias 2024). PE is viewed as less problematic, given its focus on equity ownership and fewer lending relationships with banks.

Private credit frequently imposes minimum interest coverage ratios, maximum leverage covenants, and reporting triggers (Lalafaryan 2024) that allow lenders to intervene earlier in the credit deterioration process. This feature has made PC particularly attractive in volatile environments, where public markets might freeze or misprice risk. Notably, heightened competition for deal flow in PC (particularly in the direct lending segment) could serve to erode covenant protections. This issue is discussed further in the companion report.[33]

Use of Leverage versus Equity in Value Creation

The most consequential structural divergence between PE and PC lies in how they engage with leverage and equity. PE traditionally employs leverage at the portfolio company level to enhance equity returns. Leverage involves buying companies with borrowed money that sits on the balance sheet of the investee (portfolio) company and banking on operational improvements and multiple expansion. As Axelson et al. (2013) show, this strategy generates asymmetric payoffs: limited downside for the equity holder (thanks to limited liability) and amplified upside through leverage. PC, in contrast, provides the leverage to corporate borrowers. Capital is deployed primarily as senior or mezzanine loans with embedded protections. At the fund level, PC vehicles may use limited leverage—relative to banks and LBO structures—to support portfolio construction or liquidity management. However, equity capital provided by PC investors remains the primary buffer against losses (Peirce 2024; Reid 2024; Ricciardelli and Clements 2024). The return profile is generally capped (via contractual interest income), while downside risk is contained through structural protections and conservative underwriting.

Recent fund structures further illustrate this distinction between the use of leverage in PE and PC. Fund-level leverage in PC is increasingly introduced

[33]See the section on "Covenant Erosion and Credit Quality" in Wilson (forthcoming 2026).

through highly structured instruments, such as **rated note feeders**,[34] designed to meet regulatory capital requirements of institutional investors rather than to amplify returns. These arrangements subordinate equity, constrain GP discretion, and reinforce the role of investor equity as the ultimate absorber of risk (Nguyen and Stewart 2024).

The opposing orientation between PC and PE vehicles shapes portfolio construction. PE funds are typically concentrated (10–20 portfolio companies), with GPs accepting occasional write-offs in exchange for outsized returns from a few holdings. PC funds are broadly diversified (30–100 loans per fund), with little room for defaults; each loss erodes predictable yield and can impair the entire fund's return. *This reflects a fundamental contrast: PE targets capital appreciation while PC targets income and capital preservation.*

GP incentives further underscore this contrast. PE GPs are rewarded via carried interest on realized equity gains, encouraging risk-taking and leverage. PC GPs earn **carry**[35] on net interest income, creating a stronger incentive to avoid defaults (Axelson et al. 2013). **Clawback provisions**[36] exist in both models, but their timing and enforcement can differ, potentially distorting behavior during credit booms or downturns (Bhardwaj et al. 2025).

Liquidity, Exit, and Cyclicality

The liquidity mechanics and cash flow timing of PE and PC funds diverge sharply. PE funds operate on a back-end cash flow model: LPs commit capital, wait through a multi-year investment period, and receive distributions primarily upon exit events (e.g., initial public offerings [IPOs], mergers and acquisitions [M&A]). PC funds, especially direct lending vehicles, generate regular income via loan amortization and interest payments, enabling quarterly distributions and capital recycling.

This structural liquidity affects their behavior in different market cycles. PE capital floods in during booms—when debt is cheap and exits are abundant—but dries up during downturns, as seen post-2008. PC funds also grow in booms (as a result of yield compression in public markets), but they might face investor redemptions in open-end structures during downturns. These redemptions could force them to consider gating withdrawals, implementing other liquidity risk management policies, or potentially selling assets at unfavorable prices (Hidalgo and Ramnarayan 2025; Peirce 2024).

[34]**Rated note feeders** are PC fund structures in which a feeder vehicle raises capital through both senior debt instruments (notes) and traditional equity interests, typically to accommodate institutional investors such as insurance companies. The notes pay fixed interest, rank senior to equity, and are often rated by credit rating agencies, allowing investors to treat them as debt for regulatory or accounting purposes. Equity investors absorb residual risk and variability in returns. Both debt and equity capital raised through the feeder are invested into a master PC fund, which remains responsible for loan origination, borrower selection, and portfolio management.

[35]**Carry (or carried interest)** is a share of a private fund's profits—typically 20%—allocated to the GP as performance-based compensation, above and beyond management fees. Carry is usually earned only after LPs have received full return of capital plus a preferred return (the hurdle rate, often 6%–8%).

[36]**Clawback provision:** A contractual term in a private fund agreement that allows LPs to reclaim excess carried interest from the GP if, at the end of the fund, the GP has received more than its fair share of profits. It ensures GP compensation reflects total fund performance, not just early gains.

PE's risks are localized to LPs and portfolio companies. PC's risks extend to bank lenders (via fund credit lines) and broader credit markets, especially if many PC funds hold similar exposures and suffer correlated defaults (Boyarchenko and Elias 2024).

While some argue that PC's locked-up capital structure could act as a stabilizer in crises (Peirce 2024), others warn that its opacity and embedded leverage could exacerbate financial stress (Ricciardelli and Clements 2024).

Synthesis

In essence, PE uses portfolio leverage to magnify equity gains; PC uses equity to offer moderate leverage. As fund structures, they offer different liquidity profiles, incentive dynamics, and exposure to business cycles. While PE can generate superior returns over long horizons, its outcomes are less predictable and more exit dependent. PC offers more stable cash flows but limited upside. Both structures bring agency risks. PE managers might over-leverage companies or accelerate distributions through dividend recapitalizations (Bhardwaj et al. 2025). PC managers might chase yield, extend credit too freely, or delay recognizing losses. Such mitigants as LP oversight, clawbacks, and increasingly sophisticated governance tools (e.g., covenants, intercreditor agreements) help—but do not eliminate—the tension.

From a portfolio construction perspective, the two can be complementary. Some institutional investors might even blend PE and PC allocations, using PC for downside mitigation and steady income, and PE for growth and inflation protection. As alternative assets intermediate an ever-larger share of corporate finance, the alignment of these two forces—owner and lender—will shape how resilient the private markets are in the face of future shocks. **Exhibit A1** in the Appendix summarizes the key features of, and differences between, PC and PE.

Retailization of Private Credit

This section highlights the emergence of retail-accessible PC products. It also dissects the structural, regulatory, and suitability challenges they raise.

Emergence and Growth of Retail-Oriented Formats

The retailization of PC reflects a fundamental shift in capital markets: the migration of traditionally institutional-only strategies into vehicles accessible to HNW and mass-affluent investors. This expansion is largely driven by three forces: (1) a growing appetite for yield in a persistent low-rate environment, (2) evolving fund structures that support partial liquidity, and (3) strategic shifts by asset managers to tap into the estimated $80 trillion in global private wealth (Kapoor 2026).

Historically, PC—primarily direct lending to middle-market firms—was dominated by institutional investors via closed-end drawdown funds. These funds had high minimums (often $5 million or more) and long lock-up periods (8–10 years), and they were structured to accommodate complex underwriting and monitoring processes. However, since the mid-2010s, PC has increasingly migrated into evergreen, interval fund, and non-traded BDC structures that offer more flexible terms for non-institutional capital (PitchBook 2024). The primary PC vehicles made available to retail investors are outlined next.

Evergreen Funds. Evergreen funds—open-end vehicles with no fixed term (see also Ricciardelli and Clements 2024; Deane and Robinson 2025)—have emerged as a preferred structure for PC retailization. These funds provide continuous subscription access and periodic redemptions (typically quarterly), offering greater flexibility than traditional closed-end private vehicles. Net PC AUM across US evergreen funds reached almost $400 billion by the end of 2025 (Hinds et al. 2026). Growth has been rapid, with assets almost double the 2022 figure of approximately $167 billion (Hinds et al. 2026).

Non-Traded BDCs. As noted earlier, traditional BDCs were created in 1980 under the US Investment Company Act of 1940 ("Investment Company Act") to promote small business lending while allowing public investment. A key distinction between publicly traded and non-traded BDCs is their pricing mechanism: The former is market based, while the latter is NAV based (iCapital 2023). Modern non-traded BDCs, such as Blackstone's BCRED and Blue Owl Credit Income Corp., operate as evergreen structures (Blue Owl Credit Income Corp. 2023; Blackstone n.d.). By early 2026, BCRED had surpassed $82 billion in AUM, consolidating its position as the largest PC fund globally (Blackstone 2026). These vehicles typically provide quarterly liquidity (subject to caps), issue simplified tax documents (1099s), and pay consistent income (iCapital 2023; SEC 2025).

Interval and Tender-Offer Funds. Registered under the US Investment Company Act, these vehicles offer structured liquidity through repurchase offers. Funds such as Cliffwater Corporate Lending Fund (CCLFX) and Apollo Diversified Credit Fund allow for redemptions of 5%–25% of NAV quarterly. Because they are registered, interval funds come with stricter transparency and governance requirements, including board oversight, daily NAV calculations, and public reporting of holdings and fees (SEC 2025). As of late 2023, such funds had approximately $137 billion in combined NAV across PC, real estate debt, and secondary markets (PitchBook and Morningstar 2025).

Long-Term Asset Funds (UK). Introduced by the UK Financial Conduct Authority (FCA) in 2021, long-term asset funds (LTAFs) are open-end authorized vehicles designed to facilitate retail and defined contribution (DC) pension access to such illiquid assets as PC, infrastructure, and PE. LTAFs permit periodic liquidity matched to asset duration and are subject to enhanced governance, valuation, and liquidity oversight requirements. By 2023, the FCA had expanded LTAF eligibility to include a broader segment of retail investors subject to appropriateness assessments, investment limits, and enhanced risk disclosures.

The expansion in eligibility further positions the vehicle as a cornerstone of the UK's long-term capital agenda (Financial Conduct Authority 2023).

ELTIFs (EU). In the European Union, the European Long-Term Investment Fund (ELTIF) regime serves a similar function. Originally launched in 2015 and substantially revised under "ELTIF 2.0" in 2024, these funds are structured to invest in long-term illiquid assets while providing access to both professional and retail investors across EU jurisdictions. ELTIFs can hold PC, real assets, and infrastructure loans. They benefit from EU passporting rules that allow for cross-border marketing. Their design makes them one of the most scalable semi-liquid, retail-oriented private fund structures in Europe (European Commission 2024; Coraggio, Pantaleo, and Gambula 2023).

Variable Capital Companies (VCCs) (Singapore). Singapore's VCCs, introduced in 2020, offer an umbrella fund framework that can accommodate both open- and closed-end sub-funds. While originally focused on institutional and accredited investors, recent Monetary Authority of Singapore (MAS) consultations propose adapting VCCs for broader retail access through the development of long-term investment funds (LIFs). VCCs are increasingly being used to house PC strategies, especially in tokenized or semi-liquid formats supported by Singapore's Project Guardian initiative (Monetary Authority of Singapore 2024).

Tokenized Vehicles. A frontier innovation in retailization is the tokenization of PC assets. Tokenization has emerged as a transformative development in financial market infrastructure, enabling the representation and transfer of real-world assets on programmable platforms (BIS 2025). By early 2025, tokenized PC represented the largest segment of tokenized real-world assets (RWAs), with over $14 billion in assets issued across blockchain platforms (RedStone, Gauntlet, and RWA.xyz 2025). Such platforms as Figure Technology Solutions (formerly Figure Technologies) and Securitize[37] and such managers as Apollo and Hamilton Lane have pioneered tokenized feeders. Such innovations have reduced investment minimums to as low as $20,000. Tokenized feeder funds are discussed in more detail in "Feeder Funds and Access Vehicles" later in this section.

Tokenization purports to lower barriers to entry, democratize access, and potentially enable price discovery through digital exchanges. In theory, a token representing an interest in a PC fund could trade daily, even if its NAV is only marked quarterly, similar to closed-end funds on public markets. However, regulatory constraints remain a bottleneck. In the United States, accredited investor rules restrict most tokenized private offerings to the wealthiest households[38] (Crabb 2025). Industry participants are pressing for reform. Robinhood executives, for example, have questioned the logic of accredited

[37]In a CFA Institute research report by Soni, Fines, and Sun (2025), the authors present a comprehensive case study on Securitize, a digital platform that enables issuers and investors to trade in tokenized PC and equity funds.

[38]This issue is discussed further in the sections "Distribution Channels and Market Access" and "Investor Profiles: The Upper Tier of Retail".

investor rules that restrict fractional investment in private assets such as real estate, despite broader access to speculative crypto assets (Crabb 2025).

Regulatory differences may have influenced the rate of adoption of tokenized PC vehicles in US, EU, and Asian markets. While the SEC has begun exploring changes—including expanding the accredited investor definition and allowing exam-based qualifications (Donachie 2025)—wide-scale retail access to tokenized PC remains a frontier. In contrast, jurisdictions such as the EU or certain markets in Asia might be able to move faster by incorporating tokenized funds under crowdfunding or alternative investment frameworks. These are spurred by regulatory initiatives, such as the EU's Markets in Crypto-Assets Regulation (MiCAR) and Distributed Ledger Technology (DLT) Pilot Regime, Singapore's Project Guardian, Hong Kong SAR's tokenization guidance, and Japan's legal reforms on security tokens (Monetary Authority of Singapore 2024; Securities and Futures Commission 2023, 2024; Ochiai, Tanizaki, and Matsuda 2025; European Securities and Markets Authority 2023a; Coraggio et al. 2023). For example, Hong Kong's Securities and Futures Commission (SFC) applies a **"same business, same risks, same rules" framework**[39] to tokenized investment products, requires incremental disclosures and operational safeguards to address tokenization-specific risks, and exercises caution with respect to secondary trading (Securities and Futures Commission 2023, 2024). Japan's revised Financial Instruments and Exchange Act clarifies that certain collective investment schemes and real-estate-related investment rights may be tokenized and distributed through regulated digital platforms, provided they fall within the Act's definition of securities and comply with applicable disclosure, licensing, and intermediary requirements (Ochiai et al. 2025).

Exhibit 9 compares semi-liquid fund structures across global jurisdictions.

Distribution Channels and Market Access

As retail appetite for PC has grown, so too has the infrastructure designed to deliver it. A decade ago, most individuals lacked any feasible pathway into private market funds. Today, an expanding architecture of digital platforms, broker–dealer networks, structured access vehicles, and even retirement pipelines is weaving PC into the broader fabric of personal investing.

Digital Wealth Platforms

One of the most transformative developments has been the rise of digital wealth platforms: technology-enabled intermediaries that aggregate retail and adviser demand into institutional-scale investment allocations. Firms such as iCapital, CAIS, Moonfare, and Securitize act as "feeder marketplaces," bundling smaller investor commitments into a single LP stake in PC funds.

[39]**"Same business, same risks, same rules" framework:** This means that a tokenized fund is subject to the existing legal framework (i.e., authorization, disclosure, and intermediary conduct requirements) as non-tokenized funds. Tokenization is thus treated as a technical wrapper, not a new product category.

Exhibit 9. Comparison of Global Semi-Liquid Fund Structures

Structure/ Jurisdiction	Liquidity Mechanism	Eligible Investors	Regulatory Features	Trends/Usage
LTAF (United Kingdom)	Infrequent redemptions (e.g., quarterly); liquidity matched to asset duration	DC pension schemes; professional investors; restricted retail access	FCA regulated; enhanced governance and valuation; retail marketing restrictions	Designed for illiquid assets (infrastructure, PE, credit); **retail access expanding**
VCC (Singapore)	Highly flexible (open- or closed-end); redemption terms defined at sub-fund level	Institutional, accredited, some retail (subject to fund terms)	VCC Act of 2020; can use umbrella structures; fund manager must be licensed	Used for PE, RE, hedge, and tokenized funds; **retail expanding under MAS LIF reforms**
OFC/Tokenized Funds (Hong Kong)	Liquidity defined by product terms; tokenization can enable transfer or secondary trading, subject to regulatory safeguards	Retail only for SFC-authorized products; otherwise restricted to professional investors	SFC tokenization circulars (SFC 2023); authorization and offering rules apply; "same business, same risks, same rules"	**Early but growing adoption**; activity concentrated in professional investor-restricted funds and tokenized bonds; strong focus on investor protection
ELTIF 2.0 (European Union)	Semi-liquid or illiquid; redemptions subject to gates and notice periods	Institutional and retail investors across EU (subject to thresholds)	ELTIF 2.0 reforms (2024); passporting across EU; suitability, diversification, liquidity rules	Used to channel savings into PC, infrastructure, and other real assets; **increasingly popular for retail wealth platforms**
Interval/Tender/ Evergreen (United States)	Periodic repurchase offers or tenders (5%–25% quarterly); evergreen capital base; liquidity managed via gates	Accredited and retail investors (depending on registration)	Registered under Investment Company Act; daily NAVs and transparency requirements	**Dominant retail structure for PC**; $160 bn+ AUM across credit, RE, secondaries

Notes: RE = real estate; OFC = Open-End Fund Company. Data represent regulatory frameworks as of Q4 2024. Investor eligibility and marketing restrictions vary by jurisdiction and product registration.

These platforms reduce the operational friction that once kept non-institutional investors out. They handle onboarding, subscription processing, custody, reporting, and compliance across hundreds or even thousands of individual clients (PitchBook 2024).

These platforms are now central to how alternative asset managers reach the private wealth channel. In particular, they allow global GPs to tap into the $80 trillion-plus pool of individual investor capital (Kapoor 2026) without building a retail-facing infrastructure themselves. While brand-name managers such as Blackstone and Apollo dominate total inflows, digital platforms have been essential in enabling smaller and mid-sized managers to access the same channel, potentially leveling the playing field for boutique GPs seeking semi-retail capital (PitchBook 2025).

In short, wealth tech is making PC "clickable." A financial adviser or accredited investor can now browse curated alternatives on a dashboard, complete subscription paperwork digitally, and allocate capital with relative ease (Bendtsen 2024; Davis 2025). This streamlined interface lowers barriers to entry—operational, psychological, and financial. It also positions digital aggregators as gatekeepers in the emerging retail credit ecosystem.

Financial Advisers and Broker–Dealers

Traditional financial intermediaries—broker–dealers, private banks, and registered investment advisers (RIAs)—continue to play a pivotal role. This is especially true in markets such as that of the United States, where advisory channels dominate wealth management. Retail-accessible credit funds, such as non-traded BDCs and interval funds, are typically distributed via these intermediaries, with brokers earning commissions and RIAs charging asset-based fees.

Importantly, these intermediaries not only serve as sales channels but also operate as suitability filters. Best interest standards or suitability requirements are important investor protection features common to major markets. For example, the EU Markets in Financial Instruments Directive II (MiFID II) requires advisory or brokerage firms to assess investment suitability for the client, including their financial situation, risk tolerance, objectives, knowledge, and experience (European Securities and Markets Authority 2022). US regulations, including Financial Industry Regulatory Authority (FINRA) rules and Regulation Best Interest (Reg BI), require brokers to match products to a client's financial profile and risk tolerance (FINRA n.d.; SEC 2019).

US broker–dealers also apply internal diligence standards before allowing products on their platforms. Dedicated committees evaluate a fund's manager, strategy, liquidity terms, and fee structure before granting approval. This vetting process influences product design itself: Many PC offerings feature multiple share classes with distinct fee levels tailored to different distribution models. For example, one share class might include a 5% commission for brokerage sale, while another is designed as a no-load option for fee-based RIAs. As a result, product architecture has evolved to accommodate both the legacy commission model and the growing fee-based advisory model—a hallmark of what could be described as the "institutionalization" of retail distribution.

Advisers themselves are also evolving. As PC products become a staple in HNW portfolios, industry groups such as CFA Institute and others have introduced education programs, accreditation paths, and dedicated alternative investment training to ensure informed investment decision-making and ethical practice.

This helps ensure that financial professionals stay up to date with evolving industry dynamics and remain knowledgeable and ethical participants in the PC landscape.

Feeder Funds and Access Vehicles

Perhaps the most critical tool for expanding retail market access has been the feeder fund. These pooled vehicles lower the investment minimums of flagship private funds, making them attainable for affluent individuals who might not meet institutional ticket sizes. Feeder funds come in several forms. Some are private LLCs or LPs established by banks or platforms, while others are registered under the Investment Company Act as interval or closed-end funds.

There are several examples of innovation in this space. Through a tokenized feeder, the threshold for direct investment in Hamilton Lane's Senior Credit Opportunities Fund drops from $2 million to just $10,000, dramatically broadening the eligible investor base (Hamilton Lane 2023). Similarly, Apollo's ACRED feeder vehicle allows accredited investors to access a diversified credit portfolio in tokenized form, reducing both minimums and administrative friction (Securitize 2025). Further, ELTIF 2.0 reforms in 2024 removed the €10,000 minimum and the 10% cap on portfolio exposure for smaller investors (AFG and Morgan Lewis 2025), allowing managers to offer retail-accessible alternatives with minimums as low as €1,000. As a result, ELTIFs are increasingly being used as vehicles to package PC strategies for the mass affluent under a regulated wrapper that includes diversification, disclosure, and liquidity safeguards (European Commission 2024). Collectively, these structured access mechanisms are bridging the gap between institutional capital formation and private wealth demand.

Retirement Channels (Early Stage)

One of the most significant (if still largely untapped) frontiers for retail PC distribution lies in DC retirement plans. Following a 2020 US Department of Labor information letter, plan sponsors were permitted to include PE in **401(k) lineups**[40] as part of diversified multi-asset vehicles, such as target-date funds (US Department of Labor 2020). While PC was not specifically named, many asset managers started to explore similar applications, given PC's yield-oriented profile, periodic cash flows, and increasing interest from regulators in allowing alternative assets in DC plan investment menus (Clifford Chance 2020).

Still, adoption remains limited. Plan fiduciaries are cautious,[41] and issues around valuation, liquidity, and fee transparency must be addressed to satisfy ERISA standards (US Department of Labor 2021). Regulatory shifts in 2025 included a Presidential Executive Order encouraging access to alternative assets and the rescission of the 2021 supplement statement that had advised restraint.

[40] A **401(k) lineup** is a curated selection of investment options available to DC plan participants.

[41] See "Private-Credit Investors Are Cashing Out in Droves" by Wirz (2026).

These strengthen the precedent for including illiquid alternatives in diversified DC plan structures (US Department of Labor 2025).

Over time, retirement savings vehicles could become a major distribution channel, bringing household pension capital into private markets at scale. Developments are happening in this area in the United Kingdom. In September 2025, UK investment platform Hargreaves Lansdown, in collaboration with Schroders Capital, launched two LTAFs to provide retail investors with exposure to global PE and energy transition infrastructure (Dunkley and Heal 2025). Sophisticated or HNW investors can invest as little as £10,000 through either self-invested personal pensions or general investment accounts (Hargreaves Lansdown n.d.).

Investor Profiles: The Upper Tier of Retail

The global retailization of PC is not so much a mass-market revolution as a strategic expansion into the upper echelons of the retail investor landscape.

Across the United States, Europe, and Asia-Pacific, participation remains concentrated among the mass-affluent and emerging HNW individuals—households with above-average income and net worth but still outside the institutional sphere. While structural innovations have broadened access beyond the traditional ultra-wealthy elite, the defining characteristic of this trend is its **selective inclusivity**: retail in name, but affluent in substance.

United States: Targeting the Mass Affluent

In the United States, PC's retail-facing expansion has centered on such vehicles as non-traded BDCs and interval funds, as previously noted. Categorized broadly as those with $100,000 to $1 million in investable assets and household incomes in the six-figure range, mass-affluent investors are financially secure but not necessarily sophisticated in the institutional sense (iCapital 2023; SEC 2023).

In practice, the typical participant falls toward the upper end of this spectrum, with annual incomes between $150,000 and $300,000 and net worth (excluding primary residence) in the $250,000 to $2 million range (SEC 2023). They are neither institutional investors, nor are they representative of the average US household. These semi-sophisticated investors often rely on financial intermediaries—**wirehouse advisers**,[42] independent broker–dealer networks, and, increasingly, fintech platforms such as iCapital and CAIS—to guide allocations. These developments reflect the growing importance of non-institutional capital in private markets (McKinsey & Company 2023).

[42]**Wirehouse adviser:** A financial adviser who works for a large, full-service brokerage firm. Typically national or global in scope, these firms offer a wide range of financial services, including investment management, wealth planning, and brokerage services.

The most exclusive offerings, such as **506(c) Regulation D private placements**[43] and feeder funds into institutional strategies, remain the domain of accredited investors. Here, eligibility hinges on stringent wealth criteria: individual income exceeding $200,000 (or $300,000 jointly) or net assets over $1 million, excluding the primary residence (SEC 2023). Investors in this segment often include doctors, lawyers, business owners, and senior executives; these are high-income professionals who, while technically retail, behave more like private banking clients. As a result, the democratization of PC in the United States is more accurately defined as a calibrated expansion into the top decile of the retail market, rather than a wholesale opening to average investors (PitchBook 2024).

Europe: ELTIFs and the Rise of Advised Affluence

Europe's retail market for PC has undergone a parallel evolution, shaped largely by regulatory reform. Introduced in 2015, the ELTIF aimed to facilitate retail access to illiquid assets, including PE, via a regulated fund wrapper. High minimums and allocation caps appeared to stymie the initial uptake and led to reforms of the original framework in favor of MiFID II–mandated suitability assessments (European Commission 2024; European Securities and Markets Authority 2022). ELTIF 2.0 eliminated the prior €10,000 minimum for smaller portfolios, allowing asset managers to offer products with entry thresholds as low as €1,000 (European Commission 2024; McCann FitzGerald 2023). Funds such as Amundi Investment Solutions' PRIMA private markets ELTIF now mimic mutual fund accessibility, at least in principle. Amundi's fund aims to attract retail savers across the EU by setting a €1,000 entry point and providing periodic (quarterly) liquidity windows (Amundi 2024).

In practice, the demographic remains distinctly affluent. The core investor base includes households with incomes in the €75,000–€200,000 range and liquid net worth above €250,000. These clients, typically served by private banks or independent financial advisers, are subject to rigorous MiFID II suitability requirements (AFG and Morgan Lewis 2025; European Securities and Markets Authority 2022). As a result, most ELTIF investments occur with advisory support, filtering out less-experienced or lower-income participants. National-level regulations impose additional constraints—ranging from knowledge tests to formal risk warnings—that reinforce this high bar for entry.

In parallel, PC exposure is also offered via feeder funds designed for HNW clients, often through private bank channels. These vehicles, typically requiring minimum investments of €125,000 or more, maintain a bifurcated system: ELTIFs move down-market to the affluent, while traditional feeders remain parked in the millionaire tier (McCann FitzGerald 2023). European policymakers continue to promote long-term savings into private markets, but the reality is a **controlled opening**. The "retail" inflows to PC remain confined to the

[43]**506(c) Regulation D private placement:** An exemption under US Regulation D that allows private funds—including PC vehicles—to publicly market to accredited investors, provided they take reasonable steps to verify investor eligibility. Rule 506(c) was introduced in 2013 to modernize fundraising by permitting general solicitation, such as digital marketing, social media, and public events.

financially secure and professionally advised (European Securities and Markets Authority 2023b).

Asia-Pacific: Qualified Investors and the Limits of Retail

In the Asia-Pacific region, retail access to PC is more aspirational than realized: Regulatory definitions of "retail" effectively exclude the broader public. Markets such as Hong Kong and Singapore restrict PC offerings to "professional" or "accredited" investors—that is, those holding portfolios of at least HK$8 million in Hong Kong (Securities and Futures Commission 2018) or meeting MAS standards, such as S$300,000 in joint income or over S$1 million in net financial assets/S$2 million in net personal assets (Attorney-General's Chambers of Singapore 2026). Such thresholds ensure that participation is limited to the upper income bracket of the population. Investors are typically clients of private banks or digital wealth platforms that offer curated PC products. For example, UBS's private markets offerings for wealth clients in Asia often start at US$1–$2 million (Heng 2024). Even where minimums are lowered, regulatory safeguards, such as capabilities assessments and opt-in accreditation procedures, mean less-experienced and lower-wealth individuals are excluded by design.

One noteworthy trend in Asia is the growing use of discretionary portfolios and family offices to gain exposure to PC. This model, by which affluent households delegate investment decisions to advisers or multi-family office structures, represents an indirect form of retailization (Gooch 2024; PwC Hong Kong 2024). It shifts participation further up the wealth pyramid while avoiding direct product distribution to average households. Global asset managers such as Blackstone increasingly cite Asia-Pacific, particularly Hong Kong and Singapore, as hubs of private wealth inflows into PC (Blackstone 2023). However, these flows are concentrated, not broad-based (Accenture 2024; Hubbis 2025).

Takeaway: A Partial Opening, Not a Full Democratization

Across regions, the emerging profile of the retail PC investor is remarkably consistent: relatively wealthy, often advised, and just outside the institutional core. The products offered—interval funds, non-traded BDCs, ELTIFs, and feeder vehicles—are engineered to offer periodic liquidity and lower minimums without compromising the fundamental illiquidity of the underlying loans. Yet these structures, while innovative, have not brought PC to the middle of the retail pyramid. Typical mass-market investors (i.e., those with less than $100,000 in annual income or modest net worth) remain effectively excluded as a result of regulatory suitability standards, wealth thresholds, and product complexity. **Exhibit 10** summarizes the typical income and net worth profiles of global retail investors accessing PC, by product channel.

Exhibit 10. Global PC Market Access: Investor Segmentation and Distribution

Region/ Product	Investor Segment	Annual Income	Net Worth (Liquid)	Min. Investment	Distribution Channel	Access Characterization
United States Semi-Liquid & Platform-Based PC	Mass-Affluent & Emerging HNW Retail Investors	~$150K–$300K	~$250K–$2M (ex-primary residence)	$1K–$10K (platforms); ~$25K direct	Wirehouse advisers, independent BDs, fintech platforms (e.g., iCapital, CAIS)	*Selective democratization—access concentrated in top decile of retail market*
United States Reg D PC Funds	Accredited HNW Individuals	$200K+ (SEC income threshold)	$1M+ (SEC net worth threshold)	$25K–$250K+	Private banks, RIAs, feeder vehicles	*Formally retail-adjacent, substantively professional*
Europe ELTIF 2.0	Affluent Retail (Advised)	€75K–€200K	€250K+	€1K+ (post-reform)	Private banks, independent advisers, ELTIF platforms	*Controlled opening—retail in form, affluent in substance*
Europe Private Bank Feeder Funds	Upper-Affluent & HNW Investors	€150K+	€500K–€2M+	€125K+	Private banks, discretionary mandates	*Advisory-mediated retailization*
Asia-Pacific Professional/ Accredited Investors	HNW/ Qualified Investors	S$300K+ (SG); varies regionally	S$1M–$2M+ (SG); HK$8M+ portfolio (HK)	$1M–$2M+	Private banks, family office platforms, digital wealth	*Restricted retailization—access limited to upper wealth tiers*

Notes: Data represent typical market characteristics as of Q4 2024. Actual thresholds and requirements might vary by jurisdiction, product structure, and distribution partner. BD = Broker–Dealer; RIA = Registered Investment Adviser; SG = Singapore; HK = Hong Kong.

Conclusion

Private credit is no longer the exclusive domain of institutional allocators; it is rapidly becoming a fixture in the portfolios of HNW individuals and mass-affluent investors. This transformation, while still selective and bounded, signals a foundational shift in how PC is accessed, structured, and governed. The retailization of PC stands as the defining inflection point of the asset class's next chapter.

Yet the central insight of this report is that retailization is not synonymous with democratization. Access remains filtered through wealth thresholds, regulatory eligibility, and platform-based distribution models that prioritize advised or accredited segments. What is emerging is a two-tiered architecture of inclusion: one that opens the door to retail capital but only under carefully designed conditions of limited liquidity, reduced minimums, and suitability controls.

The shift to retailization is being facilitated by a convergence of forces: fund innovation, digital distribution infrastructure, regulatory reform, and investor appetite for yield-bearing alternatives. Semi-liquid vehicles are positioned as bridges between institutional strategies and retail portfolios. At the same time, these structures embed distinct assumptions about liquidity, valuation, and investor behavior that differentiate them from traditional closed-end private market formats.

This report has examined PC as a form of non-bank financial intermediation, focusing on how markets are structured, how capital flows through different fund vehicles, and how investor participation is evolving. By analyzing fund architecture, capital deployment, and distribution channels, the report highlights how structural design shapes both investment outcomes and market behavior. Understanding these structural dynamics is essential. As private credit continues to expand across investor segments, the interaction between fund design, liquidity features, and investor expectations will play an increasingly important role in determining how the asset class performs across market cycles.

This report provides a framework for understanding how PC markets are built and how access is evolving. These structural insights provide the basis for examining how retail-oriented PC might behave under stress and for evaluating the risk dynamics, governance challenges, and policy responses addressed in the companion report, "Private Credit Funds and the Retail Shift: Structural Vulnerabilities and Policy Responses" (Wilson, forthcoming 2026).

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Appendix

Exhibit A1. PE vs. PC: Summary of Key Features

Category	Dimension	PE	PC
Capital and Leverage	Fund Structure	Closed-end funds, funded primarily with LP equity; little/no fund-level debt	Closed-end funds, sometimes employing fund-level financing arrangements (e.g., credit lines); securitization structures might introduce leverage elsewhere in the credit chain
	Use of Leverage	Leverage portfolio companies heavily (60%–70% debt typical in LBOs)	Leverage provided to borrowers with equity support; limited fund-level leverage relative to banks and LBO structures
	Leverage Objective	Amplify equity returns via company-level debt	Generate income via contractual interest versus leverage-driven upside
	Market Exposure	Losses concentrated at portfolio company and LP level; limited spillovers to broader credit markets	Embedded leverage and synchronized redemptions could amplify market risk
Portfolio Design	Core Holdings	Equity stakes in operating companies	Senior or mezzanine loans to operating companies
	Portfolio Size and Focus	Fewer holdings (10–20), targeting “home runs”	Broader portfolios (30–100 loans), focused on stability and diversification
	Value Creation	Operational improvements, strategic exits, growth	Contractual income from interest and principal repayments
	Return Profile	High-risk/high-reward: equity upside, possible total loss	Lower-risk: steady income, downside on default, capped upside
Governance and Control	Day-to-Day Control	Active control: board seats, strategy, and management	Indirect influence via covenants, collateral rights, and loan terms
	Role in Distress	Sponsor might inject equity or restructure company	Can enforce collateral rights or convert debt to equity in default scenarios
	GP Skill Sets	Company builders and value enhancers	Underwriters and risk monitors
Incentives and Fees	GP Compensation	Carried interest based on exit profits; upside-aligned	Fees tied to interest income or NAV; focuses on capital preservation
	Risk Appetite	Incentivized to seek upside (even with risk of total loss)	Incentivized to avoid losses and maintain cash flow discipline

(*continued*)

Exhibit A1. PE vs. PC: Summary of Key Features *(continued)*

Category	Dimension	PE	PC
Liquidity and Reporting	Cash Flow Pattern	Illiquid until exit; distributions back-loaded	Self-liquidating loans provide steady inflows and distributions
	Valuation Frequency	Infrequent and exit-dependent valuations	Quarterly NAVs; subject to internal models
	Redemption Options	No LP redemption during fund life	Semi-liquid funds could face redemption stress during downturns
Regulatory Outlook	Oversight Level	Light touch; mostly focused on governance and conflicts	Increasing scrutiny as part of "**shadow banking**"[44] because of lending and liquidity promises
	Market Role	Growth and capital appreciation	Yield, downside protection, and potential liquidity transformation risk

[44]**Shadow banking:** Financial activities and entities that perform bank-like functions—such as lending, maturity transformation, and credit intermediation—outside the traditional, regulated banking system. In the context of PC, shadow banking refers to non-bank lenders (e.g., DL funds, BDCs, private debt SMAs) that provide loans to businesses without taking deposits or accessing central bank liquidity. Alternative terms—"non-bank financial intermediation" and "market-based finance"—refer to this concept.

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