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Volume 7:

Why BDC headlines have the story backwards

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Private credit has been a frequent focus of recent market commentary, from software exposure and defaults to redemption pressure in BDCs and other semi-liquid vehicles.

Against this backdrop, many have suggested that the so-called "golden era" for private credit is coming to an end. But this narrative has the story backwards: the past few years were a golden era of private credit fundraising, not necessarily for private credit investing.

The next phase of private credit will be shaped less by the amount of capital flowing into the market, and more by whether managers can re-establish discipline as supply-demand dynamics become more favourable.

Recent headlines have focused on redemption pressures and fundraising challenges, but those very same forces may help to restore a more attractive environment for disciplined lenders by reducing excess competition for assets and giving managers greater scope to be selective.

A broader lesson from BDCs

BDCs have become an important conduit for new capital entering private credit. While they represent only one segment of a much larger market, they have accounted for a significant share of fundraising in recent years, helping to broaden access to the asset class beyond traditional institutional investors.

As a result, their influence on market dynamics has been disproportionate to their size. When a vehicle type becomes a meaningful source of capital flows, it starts to affect conditions across the wider market. That is why the BDC story is bigger than redemptions themselves: it is really a story about market technicals, competition for assets, and the conditions under which underwriting discipline is tested.

At the same time, a more uncertain economic and geopolitical backdrop has contributed to slower deal activity and a weaker M&A environment, reducing the number of financing opportunities available to lenders. When large amounts of capital compete for a smaller pool of transactions, spreads tighten, documentation softens, and pressure to deploy increases. In that environment, the key question is no longer simply who has capital, but who can afford to remain patient with it.

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Redemptions are a structural signal, not a verdict on credit

Recent episodes of elevated redemptions are better understood first as a reflection of market structure than as a broad judgment on private credit fundamentals. The key question is not whether the asset class remains attractive, but how different fund structures perform as investor demand becomes more selective and capital flows moderate. The underlying fundamentals have not changed materially. Rather, capital is becoming more discerning, reshaping the competitive balance across the market.

That distinction matters. If a meaningful source of capital becomes constrained, particularly one that has been an important provider of incremental capital, underwriting dynamics can shift quickly. More difficult fundraising conditions may reduce competitive pressure for assets, creating a more favourable backdrop for disciplined lenders. The significance of recent BDC activity therefore lies less in the redemptions themselves than in what they may indicate about the future availability, cost, and terms of capital. As these conditions evolve, we believe the ability to remain patient and selective will become an increasingly important point of differentiation.

These developments also highlight the importance of fund structure and liquidity management within private credit strategies.

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Evergreen investing starts with realistic expectations

At its core, evergreen investing offers compelling advantages, providing access to a fully ramped portfolio with no J-curve and significantly lower operational costs. But those benefits depend on liquidity expectations being aligned with the underlying assets. A portfolio of private loans cannot realistically offer meaningful liquidity in all market environments, and the absence of observable market prices across much of the portfolio can create tremendous challenges when subscriptions and redemptions occur frequently.

By contrast, a portfolio composed predominantly of syndicated loans, where market prices are readily observable, is better positioned to provide both investor liquidity and greater confidence in the valuations used for redemptions and subscriptions.

The key is alignment: fund structures should reflect the liquidity and valuation characteristics of the underlying portfolio, and those realities should be communicated clearly and candidly to investors.

At Park Square Capital, we believe open-ended private credit strategies work best when investor liquidity expectations are matched to portfolio liquidity, and sufficient valuation transparency exists to support fair dealing.

Portfolio construction is key

For that reason, we believe successful evergreen investing depends as much on the fund structure, as on the composition of the underlying portfolio. That is why our approach combines private credit investments with a meaningful allocation to broadly syndicated loans.

Alongside diversification, broadly syndicated loans provide transparent third-party pricing and a source of portfolio liquidity that is not typically available in private credit portfolios alone. This can provide greater flexibility in managing liquidity through different market environments while preserving access to the benefits of private credit.

Just as importantly, this approach supports a disciplined investment process, helping ensure deployment decisions are driven by underwriting opportunities rather than liquidity demands.

> *Selectivity has always been central to Park Square Capital's approach*

The power of fund structure and selectivity

The broader lesson is that private credit may be entering a phase in which manager discipline, liquidity management, fund structure, and portfolio construction matter more than ever. The BDC debate may recede, but the issues it has brought to the fore will remain relevant.

Selectivity has always been central to Park Square Capital's approach. As capital flows and market conditions evolve, we believe the managers best placed to deliver compelling risk-adjusted outcomes will be those whose structure allows them the patience to wait, the discipline to underwrite rigorously, and the flexibility to deploy capital selectively when the right opportunities arise.

Let's discuss.

To find out more, see how we can help or discuss a mandate, please get in touch.

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