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# focus

# Private Credit: Not All Credit is Created Equal

Global private credit has attracted a wave of negative headlines in recent months. Some of the concern is warranted, but it is important to understand what is really driving the pressure — and why New Zealand looks different.

FORSYTH BARR

**...The global private credit market has grown rapidly and is now estimated to be worth more than US$3 trillion...**


In our view, the recent global concerns are less about a broad collapse in credit quality, and more about liquidity. In simple terms, some investors have wanted to withdraw money from private credit funds faster than the funds can reasonably return it. That is not surprising: private credit funds invest in loans, and loans are not as easy to sell as shares or bonds.

That does not mean there are no credit issues. Some cracks are appearing in parts of the global market, particularly where lending standards became too loose, leverage increased, or managers competed aggressively for deals. These are exactly the types of issues that have made us cautious, and they are a key reason why we have remained wary of offshore private credit so far.

New Zealand private credit is different. It is smaller, less crowded, and generally more conservative. While investors still need to understand the risks, we believe the local market is better placed than many offshore markets.

Private credit is not going away. Over time, we expect investors will have more private credit options available to them. Our approach will remain selective, focused on quality managers, sound lending discipline, and opportunities where we believe the expected return is attractive for the investment on offer.

## What has happened in global private credit?

The global private credit market has grown rapidly and is now estimated to be worth more than US$3 trillion. As the market has grown, it has also attracted more scrutiny.

Recent bankruptcies in the United States, including subprime auto lender Tricolor and auto parts manufacturer First Brands Group, have raised concerns about whether problems may be building beneath the surface. Investors have also become more cautious about private credit exposure to software companies, particularly given the uncertainty created by artificial intelligence and the potential impact on some business models.

These concerns have led to a rise in redemption requests from investors wanting to exit private credit funds. However, many private credit funds only allow a limited amount of money to be withdrawn each quarter. This is known as a liquidity gate. It exists because the underlying loans are illiquid and cannot always be repaid or sold quickly.

That mismatch – investors wanting liquidity from an asset class that is inherently illiquid – has been the main source of recent stress. It has generated uncomfortable headlines, but it does not necessarily mean the underlying loans are all performing poorly.

## Are credit fundamentals deteriorating?

There are some signs of pressure in global private credit, and they should not be ignored.

In recent years, abundant capital and strong competition for deals allowed some borrowers to obtain funding on easier terms. In some cases, lenders accepted weaker protections, higher leverage, or more borrower-friendly structures. Concerns have also increased around valuation practices, refinancing risk, the use of fund-level leverage, and payment-in-kind interest, where borrowers add interest to the loan balance rather than paying it in cash.

These issues matter. Private credit relies heavily on disciplined lending, sensible valuations, and careful manager selection. When those disciplines weaken, future returns can disappoint. These are also the types of risks we have been wary of in offshore private credit, particularly where rapid growth and intensifying competition have made it harder to find opportunities to effectively deploy capital.

Australia provides a useful nearby example of these issues receiving closer scrutiny. The Australian Securities and Investments Commission (ASIC) has raised concerns around governance, valuations, disclosure, conflicts of interest, and signs of credit deterioration in parts of the Australian private credit market. That does not mean private credit is broken, but it does reinforce the importance of realistic valuations, strong governance, transparent reporting, and disciplined manager selection as the asset class matures.

That said, we do not think the current issues point to broad-based failure across the entire global private credit market. Default rates have not surged, corporate earnings have generally held up, and many borrowers remain in reasonable shape. The more likely outcome is greater dispersion: stronger managers and better-quality portfolios should continue to perform, while weaker parts of the market may come under pressure.

## Why New Zealand looks different

New Zealand's private credit market has grown in recent years, helped in part by capital flowing through the Active Investor Plus (AIP) visa scheme. However, the local market remains quite different from the large global private credit markets that have attracted the most negative headlines.

Private credit is still a relatively small part of the overall New Zealand lending market. Corporate lending remains heavily concentrated among the major banks, and non-bank lending options are more limited than in larger offshore markets.

That means there is less pressure on private credit managers to compete aggressively for deals, helping support lending discipline.

**The private credit funds we have used for clients also have features that give us comfort. They generally have:**

- Limited exposure to sectors facing disruption from artificial intelligence
- Limited exposure to property development
- A focus on senior secured lending, with conservative debt structures, appropriate covenants, and relatively simple and transparent loan documentation
- No fund-level leverage to boost returns, which reduces one source of risk seen in parts of the global market

These factors do not remove risk. Private credit is still lending to businesses, and businesses can face unexpected challenges. But they do mean the New Zealand opportunity set appears more conservative than some of the offshore markets currently under pressure.

## Liquidity still needs to be understood

> *The main similarity between New Zealand and global private credit is liquidity. Private loans are illiquid by nature. They are not designed to be sold overnight.*

Most New Zealand private credit funds are open-ended, meaning investors can usually redeem after an initial lock-up period, often around 12 to 24 months. Redemptions are typically funded from loan repayments, interest payments, liquidity facilities, or undrawn investor commitments. This structure helps manage liquidity, but it does not eliminate liquidity risk.

> *The Active Investor Plus visa scheme creates an additional consideration. AIP investors generally have a defined minimum investment period. If a large number of investors seek to redeem around the same time, managers could face pressure, particularly if new inflows slow or if the scheme settings change. This does not mean redemptions cannot be managed, but it does mean expectations need to be realistic.*

Investors should not think of private credit as a term deposit or a daily liquidity bond fund. The return opportunity comes partly from accepting that capital may be tied up for longer.

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## The outlook for private credit

We remain constructive on the outlook for private credit, but not complacent.

Private credit can play a useful role in portfolios by providing income and exposure to a different part of the lending market. When structured well and managed carefully, it can be an attractive asset class for investors.

Importantly, private credit is not inherently riskier than public credit. There is credit across the risk spectrum in both public and private markets – from conservative, senior secured lending through to higher-risk, more leveraged or subordinated structures. The key is not whether the credit is public or private, but the quality of the borrower, the strength of the loan terms, the level of security, the discipline of the manager, and whether investors are being appropriately compensated for the risks they are taking.

That said, private credit does have some distinct characteristics that need to be understood. Private loans are typically less liquid than publicly traded bonds, and investors rely heavily on the manager's underwriting, monitoring, valuation discipline, and ability to manage problem loans.

Private credit is here to stay, and over time we expect investors will have access to a broader range of opportunities. The recent global headlines are not a reason to avoid private credit altogether, but they do reinforce the importance of caution, discipline, and selectivity.

Our approach will remain measured. We will continue to assess each opportunity on its merits, with a focus on manager quality, lending discipline, appropriate diversification, robust valuation processes, sensible liquidity management, and whether investors are being appropriately rewarded for the risks they are taking.

**If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide advice and assistance.**

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