



2026 GLOBAL CONFERENCE

LEADING IN A NEW ERA



PRIVATE CREDIT IN THE INSTITUTIONAL PORTFOLIO

Announcer 00:00:01

Thank you for joining us. Please welcome the panel to the stage.

Ted Seides 00:00:11

Well, thanks everyone for being here. We're going to start with a round of introductions before we get into the good, the bad, and maybe the ugly. But to humanize this a little bit, why don't we do a quick—we'll just go down from Ted down—name, firm, area of focus, and what you wanted to be when you were growing up. Go ahead, Ted.

Ted Koenig 00:00:45

Ted Koenig, founder, CEO, chairman, Monroe Capital. We're a private credit firm, probably the largest in the US, focused on the lower middle market. So think about 40 million EBITDA size companies and below. A diversified platform, traditional buyout, real estate, asset-backed, independent sponsor. What do I want to be when I grew up? I thought I was going to be a professional basketball player. It just didn't quite work out the way I wanted.

Ted Seides 00:01:19

Jeff?

Jeff Levin 00:01:20

I'll start with that. Great minds think alike. Must be something in the water here. Same thing. I grew up in the suburbs of Boston, big Celtics fan. I think up through age 15, I truly believed I was going to be Larry Bird. It didn't work out so well, so here we are talking about private credit and AI and all that. But history's repeating itself. I was telling Ted before, my son the other day said to me, he said, "Dad, if I don't become an NBA player, it's fine. I'll just be a pro tennis player." But anyways, Jeff Levin. I run credit at Thoma Bravo, \$185 billion asset manager, private equity and private credit are the two lines of business. The private credit business has been investing since 2017. I joined about six months ago, but the team has deployed about \$30 billion of capital over the last decade, about \$10 billion through the funds, \$20 billion through coinvest partnering with big LPs. It's a sponsor finance strategy, lending to software and business services. And thanks all for your time today.

Megan Neuburger 00:02:28

Hi, everyone. I am Megan Neuburger, and I run the US Corporate Ratings Group at Fitch. I've been doing this job for about five years, but I've been at Fitch for 23 years, and I've been covering corporate credit since 2007. So I've had the very interesting seat since the GFC of watching private credit grow up through a credit lens. And my team really interacts with private credit in two ways. The first way is that we have a pretty large book of ratings on companies that have financed themselves through direct lending relationships. And then the other avenue—which is a growing one—is we're increasingly seeing investment-grade rated corporates access private capital for CapEx and for infrastructure funding needs. What I wanted to be when I grew up, I really wanted to be an anchor on the local news, and I used to sit and rehearse and plan for my big shot. And now, in a roundabout way, Fitch is owned by Hearst, owned by a media company, so you never know. I feel like my shot may still be coming. We'll see. But yeah, that was my—

Ted Seides 00:03:33

—Jeff, apparently the Celtics need some help. Maybe next year. Yeah. Rick?

Rick Miller 00:03:38

Hello, my name is Rick Miller. I'm the founder and the CIO of TCW Private Credit. We started the business back in 2001. The business was designed to be different, meaning that we're designed not to be like the banks, who actually roamed the earth at the time, in corporate lending. And we focus on companies in that core middle market. So think 25 to 75 million of EBITDA, all owner indifferent, and we manage three strategies totaling about 15 billion plus that are in the more conventional lane. That's a partnership we have with PNC, we call "Steel City." We have a specialty lending strategy that's a premium spread strategy. Think 6 to 800 off—that's the companies that can't get on the conventional conveyor belt, execution-style transactions. And, finally, we have a more distressed opportunistic fund we call Rescue, that's providing liquidity to those companies in need in our market.

Ted Seides 00:04:33

And?

Rick Miller 00:04:34

I wanted to be a teacher, and my father told me I couldn't be. So, I'm not.

Ted Seides 00:04:35

All right. Well, we'll take on daddy issues later.

Megan Neuburger 00:04:47

It's another panel.

Rick Miller 00:04:48

It's a lot deeper than that.

Bouk van Geloven 00:04:50

Yeah, sure, Ted. So, Bouk van Geloven. I'm with SVP for the last dozen years. Spent four years in the US. With us today, colead our European investment team, can give perhaps some perspectives on Europe as well. SVP, 22 billion under management, opportunistic credit manager. Internally, we call it the fun part of credit, where you can make good returns as we do it. And obviously, Ken can add that, too. When I was growing up, you wouldn't believe it if you see me now, but I wanted to be a firefighter. I feel that what I'm doing now would work out. I'm taking over difficult situations in credit, but there's a little bit of a nerd over there.

Ted Seides 00:05:33

Agree.

Bouk van Geloven 00:05:35

Thank you, Ted.

Ted Seides 00:05:37

Why don't we, before we dive into some of the key issues, why don't we set the stage? And Megan, take us through what you're seeing in the data on the fundamental underlying credit, I guess mostly US corporate, but okay.

Megan Neuburger 00:05:48

Yes, happy to do it. So I'll tell you a little bit about what we're seeing in our direct lend portfolio of ratings, which there's a caveat that obviously we only see what we see from a private credit perspective, but that book of ratings is pretty large, so at any given time, it's 300–350 issuers that we rate. And the characteristics of that group—first of all, it tends to be quite a low-rated group—I increasingly think of my portfolio as kind of bifurcated into three pieces. So, we have our investment-grade corporates, we have our publicly financed, leverage finance names, and then we have our private credit names. And you kind of think of how credit quality has evolved. You have your high-yield bond space positioned relatively higher than BSL, and then private credit at the lower end of the rating scale. So, at any given time, about half the issuers in that portfolio have an issuer level rating of B-minus, about 25 percent in the triple C bucket. Other characteristics of that group, as everyone in this room is probably quite familiar, direct lenders tend to avoid cyclical industries. So what we have in that portfolio is a lot of health care, a lot of business services, a lot of tech. Great in the face of macroeconomic headwinds, maybe not so great in the face of the disruption risk we're going to talk about—I know—in a little bit. And then rating trends in that portfolio, again, if we look at the private part of our high-yield coverage versus the publicly financed names, we have seen more deterioration in credit in the private part of the portfolio over the last, say, 12–18 months. So if we're just looking at upgrade-to-downgrade ratios. And I think what we've seen, we have seen EBITDA growth slow in that population of companies. I think a combination of companies came off of Liberation Day with a lot of pricing power. Maybe that started to erode. Also, a group that's really sensitive to higher rates, so we have less free cash flow generation and less capacity for deleveraging in that portfolio than we did 18 months ago. And then the other thing I'll just touch on really briefly is the experience with defaults. So again, the BSL part of the portfolio versus private credit, we are seeing defaults on the private credit side running about twice what we're seeing on BSL. So last year, we saw about 4.5 percent defaults in BSL, about 9 percent on private credit. But there's a big caveat with that in the sense that the nature of defaults in private credit is nuanced. So about three-quarters of the defaults we see come through that portfolio are PIK interests, are extension of maturities. So there's sort of these collaborative defaults that ultimately have been constructive for lender recoveries, but there's just some nuance there, I think, to appreciate. So that's a little flavor.

Ted Seides 00:08:36

Yeah. Ted, the universe that Megan's talking about, it's 300 names. Subset of that is private credit. When you get into the middle market, a lot more names. What's the experience you're seeing either in your portfolio companies or the broader market of where we are in fundamental deterioration, interest coverage, all the key metrics?

Ted Koenig 00:08:55

It's interesting. There's been a lot of noise, and if you read the papers and you listen to some of the people, you'd think that we were in a recession or we're back to the financial crisis. We've got 520 names in our portfolio. We do about 100 deals a year. So from a data standpoint, I'd argue that we probably have the best data in the marketplace in terms of what's happening. We've actually seen gross margins increase. We've seen companies do better on fixed charge. We don't have the default experience. Every deal we have, it has covenants, EBITDA, debt service, cash flow coverage. I think what we're seeing is the early stages of a bump in AI. AI, there's been a lot of discussion, good, bad, indifferent. AI has been good for most software companies. Software companies have taken advantage of AI and have increased margins generally. I talk about software in a box. There's good software and there's bad software. The good software are companies that have very high switching costs, both operationally and financially. Very, very high renewal rates, 95 percent plus. Companies that are directly plugged into operating systems. These are companies that can't be ripped out. Now, there's going to be a lot of displacement from software companies that can be ripped out, companies that are not high renewal rates or low switching costs. Those are the ones that are at risk. And from an AI standpoint, software's about 30 percent of the M&A market today. So you can't neglect it. It's in everybody's portfolio. Anybody in my business has software in it. It's a question of how you're doing the software lending. What are you looking at? What factors? And it's really not a default rate, because if you think about from a private credit standpoint, we're probably averaging somewhere between 20 and 25 percent loan-to-value in our software portfolio. So it's not a software private credit issue. This is a private equity issue, and no one's really talking about that. The big question's going to be five years from now is, are these companies going to be able to refinance themselves? Because the multiples that were paid for a lot of these businesses by some of the smartest, biggest software private equity firms are high. And a number of them have already handed the keys back or walked away. And the big question is not about whether there's going to be cash flow defaults today, but what's going to happen in three to four, or five years when the debt comes due, and how are those companies going to be refinanced? So overall, I'm bullish on the business. We're continuing to do what we do best, which is underwrite and manage companies. I will tell you that where I'm seeing a ton of growth is on alternative credit and asset-backed credit, real estate credit—areas where you don't have as much competition and where the banks have withdrawn as well—but the core middle market private credit business kind of goes up and down with M&A, and we're in a low M&A cycle right now because of lots of factors, not the least of which is happening in the Persian Gulf.

Ted Seides 00:12:25

Rick, would love to get a broad perspective. Agree, disagree, different things that you've seen in what you're looking at.

Rick Miller 00:12:34

Maybe a little bit of a different perspective. We're not a sponsor-driven shop. We actually don't have any software or tech. We invest in cyclicals, lend to industrials. As I said earlier, we were designed to be different, so we're the other guys. We typically are lending to lower enterprise value multiple businesses. We view that as a risk mitigant—we view that risk mitigant as being really two parts. One, we don't worry about a spike in interest rates, and that wasn't really smart for about 12 or 13 years, and it finally worked out. And two, we've always been very concerned around contraction of enterprise value multiples, and it feels like that here is on the horizon. So our portfolio's a little different. We have different metrics, premium spreads. And as a result, we're a high-touch lender in these names. I think I would agree with the overall assessment of the economic activity—it's fine—the US economy remains very resilient. I think if anything, we've seen challenges of companies that go onto our watch list or go on to underperform are probably having a harder time coming out of that, off that list or back into a normal operating performance. But in terms of the overall portfolio, we feel pretty good about it. I think opportunity-wise in the market, it feels like there's two areas here. One driven primarily by the headlines and the other not so much by the headlines, but certainly there. I think on the headline-driven opportunity set—you've had all of this discussion around AI and software—it's probably overdone, and I'm sure there's some panelist colleagues here that'll defend that, and it feels like it is. That led to exits, redemptions in the retail wealth channel vehicles—and it feels like for the first time, the dry powder issue—the too much capital chasing too few deals is being assessed or addressed, and you're starting to see that number decline. You're removing the indiscriminate lender. The marginal lender, the lender who really couldn't be selective has left the market, and I think there's an opportunity set here for new issue, new vintage loans, and I don't think this asset class should be vintage sensitive, but I think it's going to look that way because of the history of investing and what's available today—and without that marginal capital out there, feels like pricing should be better, terms should be better, documents should be better. So I think the new issue front is someplace that we're excited about. And secondly, this is not so much in the headlines, but I think certainly we're seeing a lot of evidence of it all is not well in private credit. You're seeing cracks in the ice. You're seeing underperformance. There's an opportunistic distressed investment opportunity out there that you're seeing evidence of the increase in the use of PIK, the number of amendments that are required, the fixed charge coverage ratios that you see a lot of the valuation firms publishing. There are opportunities out there to provide liquidity to those in need, and history will tell you that whenever you can do that, you can drive pretty good returns. So we think that that distressed opportunity may be the first time really since the GFC in this market that opportunity is there—and we feel that two things can be true at the same time—that new issue as well as that more distressed rescue opportunity set is where we're keeping our attention on. And I think it's just part of the evolution and maturation of this asset class that you can have both things.

Ted Seides 00:16:19

Bouk, how about a perspective on Europe?

Bouk van Geloven 00:16:22

Yeah, look, I think we're seeing a similar, really interesting dichotomy, right? Where we're not in a recession. Growth is obviously lower in Europe, but pockets of Europe are doing better, like Spain or Portugal. But at the same time, we are seeing an elevated in- and out-of-court default cycle developing over the last 24 months. And as you look at what we see and what's driving that, two fundamental reasons. One, look, the legacy private equity portfolios put in place in a zero interest rate environment are now coming up to maturity. You're seeing them extend runways with A&Es and LMEs. That's one area of it, and we're seeing that in real estate, too. But the other side is a true K-shaped economy, where anything AI-related over the last couple of years have done amazingly well, and obviously Europe is less exposed to that. But the businesses and the real economies, as you think about building products, packaging, construction-related, chemicals, are really struggling and over-levered at this stage. That's what's driving our pipeline today. And the pipeline we have—cloud-based system, we've had it for years—today indicates it's the largest we've seen since the GFC. And so that's what we're seeing. If you think about Europe specifically, it's probably more hybrid solutions in Spain, Portugal. You got 3 percent GDP growth. It's doing reasonably well. Where we're seeing kind of more real breakdowns of capital structures or private equities walking away from businesses is Germany, France, UK, that are each dealing with their own issues today.

Ted Seides 00:18:08

So Jeff, one of the big questions relates to the potential of the SaaSocalypse. Would love to hear, at least today, what you're seeing in the fundamentals of the companies that you look at in your sector.

Jeff Levin 00:18:21

Sure. And Ted mentioned this, and I agree with Koenig. Again, I agree with much of what he said, but the businesses across our portfolio, they're performing really well. So is the enterprise value discussion that we're all familiar with, but the underlying fabric of the company's performance and retention rates and growth rates are, generally speaking, really strong. I think that AI will accelerate the demise of certain software businesses that were already laggards, and it will accelerate the profitability and growth of a certain cohort of the market as well. And that's where Thoma Bravo has always been focused and continue to be. So businesses that have, for example, really deep domain expertise, there's oftentimes a regulatory overhang as well that serves as a real tailwind, where the cost of failure is really high. We think those types of businesses, and this is 100,000-foot view, will continue to be successful. But there will be a cohort of the market that suffers. The syndicated loan market, around 20 percent of the market's trading below 80. And that's based on a market environment where the data across the sector is still pretty strong. So if we fast-forward another six, nine, 12 months, it'll be interesting to see if some of those businesses get disrupted, where that market goes. I think now is just a fascinating time to deploy capital into the private credit space and frankly, public credit as well. I think understanding how to navigate software and AI, AI disruption not just in software, but across sectors as well. Now is an absolutely critical time to partner, and I'm biased, with a real sector specialist. And in the case of the team that's been running this firm for 25 years, they've been navigating several technological evolutionary periods over the last couple

decades. And so this is not really new news inside the firm. This is just a different set of issues to navigate. But I think it provides huge upside. On the credit side—which is where I spend my time, really leveraging all that data and resources and content across the firm—so we have about 60 portfolio companies on the credit side of the business. We own 77 companies within private equity. So really working closely with that cohort of professional-based operating partners, management teams of the businesses we own to go layers deep in terms of what's actually happening on the ground within these businesses, what companies across sectors are doing as it relates to AI. I think we have a unique lens on that. But today, as we sit here, the businesses are performing well, and I agree with what he just mentioned as well with regards to the next year to three, as the BDC noise plays out with redemption pressure, we'll see if banks pull back. Remember, banks are 50 percent of private credit capital, providing leverage to the BDC market. And then you have this maturity wall that's coming, and enterprise values across every sector are subject to debate right now, and so it's going to be a really interesting time. I think the risk-return over the next year to two are arguably the best in the 25 years I've been doing this. Now, those points in time have been so few and far between, and oftentimes a lot of capital gets raised quickly to monetize it as well. This one feels like it's going to last longer.

Ted Seides 00:21:54

So this is the big disconnect. The fundamentals everybody says are okay. Maybe there's some cracks, maybe there's some opportunities, as Rick and Bouk said. And Megan said 9 percent default rate. Not in your portfolios, everybody else's portfolios. I understand that. So the public markets are saying that there are problems. The BDCs, the BSLs. The private markets, maybe not so much. What's going on? Who's right?

Jeff Levin 00:22:29

Well, undoubtedly there's noise, right? The data doesn't lie, clearly. I do think a fair amount of weakness is—hidden is the wrong term—but harder to find because there's so many amendments, so many deals get extended. So that's all happening with the relationship lenders and the private equity ecosystem. And I do think that over the course of the next year to two, I think defaults will continue to rise. I think that cohort of deals from the '21 vintage that were levered extremely high with modest LTVs at the time, it's a different story today. I think peak income is going to increase as well. And so on the asset side, I think it's going to play out to the negative, and not to mention there's a war going on with the price of oil that's arguably not sustainable. And then what I find just as interesting, though, is this capital flows dynamic where you have all these non-traded structures in the BDC world that got raised when the market was completely risk on, and it's that cohort of vehicles drives a very high percentage of the marketplace, and there's real pressure there. So I don't necessarily think there's going to be forced selling over the next year or two, but I think there's going to be more motivated selling. So I think the combination of softness in the economy, higher price of oil for an extended period of time, interest rates higher for longer, potentially, some more softness, coupled with the capital flows, is going to make for a really interesting money to be made up and down the debt stack across sectors.

Rick Miller 00:24:06

Ted, I would say that the big change here is that we've left this anomaly of low interest rates, rising enterprise value multiples, no business cycle, no recessions, no defaults. If you could fog a mirror, you could raise money, you could lend it, you did well. And it was a great beta trade, really, since the GFC. It's been a great place. It's been a great time for investors, let alone lenders. And that time has ended, right? It started a little bit with COVID, with the disruption, the volatility, and the uncertainty around that. Then rates started to rise, economic volatility increased. There's a normal list of headlines that we can all worry about that's not unusual. But the environment, that benign environment that allowed a lot of what we think are bad habits in the credit market to be developed that would go unpunished, unexposed, are now being exposed not because it's new behavior, it's because the environment, the backdrop has shifted. And companies that had balance sheets established thinking rates would be low forever are being exposed. The pivot to the loan-to-value metric above cash flow is being questioned because that enterprise value, the denominator is coming down. And so I would argue that we're back in a much more normal environment, kind of pre-GFC than the one we had for 12 or 13 years, and what necessarily worked in that environment is not going to be the recipe that works going forward. You're going to have to underwrite to have defaults. We have defaults. We've never not had them. Investing in cyclicals, investing in industrials, you've got to deal with economic volatility. That muscle has not atrophied in our business. I think our market, I believe our market is ill-equipped to deal with that kind of volatility, that kind of uncertainty, and that kind of performance, hence the rescue opportunity set. But more than the headlines around redemptions, more the headlines around AI or software, which as I said I think are overdone, I really think the message or the lesson of this period is going to be much more to do with the decline in underwriting standards over the last seven or eight years, not anything else. And I think that's where the opportunity comes up, is when you get normal volatility, normal performance, normal rate environment, a business cycle, you're going to have normal problems. This is not unusual. That beta trade's over, and I think we're into a much more normal environment where a manager with a skill set to not only make loans but get it back becomes the thing you want to find.

Megan Neuburger 00:26:43

Rick, I think you're completely right. To see defaults in private credit, as we mentioned, this is a B-minus, triple C-rated space for the most part. So to see defaults is entirely normal in a normal part of the cycle. I think where we get concerned is, number one, you look at the nature at a lot of those defaults, and it is this behavior of kicking the can down the road. And then you pile on that these yellow signals flashing that there is—this is not Fitch's base case, and so I don't mean to be doom and gloom, but say we have a hard landing. War in Iran lasts much longer than we expect, inflation spikes, maybe the Fed makes a poor move, and all of a sudden, you have a situation where these companies who, in a lot of ways, to the point about SaaS and AI, they have a great opportunity in front of them, right? But they're going to need time and they're going to need capital in order to execute on that opportunity. So as you think about coming into the refinancing window and then that investment window, is the capital that's there going to be patient and is there going to be the additional capital that they need to be able to pivot and grow these business structures into something that looks more fit for purpose for a more AI-driven world.

Ted Koenig 00:27:59

I think that the business hasn't fundamentally changed. We've been doing this 26 years, so I can tell you that what we did 25 years ago is the same thing we do today. The big difference is the amount of money that's come into the space. So if you look at anything from a supply and demand standpoint, we're somewhere around a \$1.8 trillion private credit market today, depending upon who you believe, going to a \$5 trillion market. So there's a tremendous amount of competition among asset managers to put assets on the books—and those of us that have been lucky and successful have been able to raise more money. And we raise more money in the US from pension insurance companies. We raise money in Europe, we raise money in the Middle East, we raise money in Asia because there's a lot of appetite for current return around the world. If you're a pension fund and you're planning 50, 60 years of underwriting for life insurance policies, you need to reinvest that money. Insurance companies. So, the challenge is how do you do it in a way that generates alpha? Because that ultimately is the biggest question for us is, of the 560 private credit managers today, how do you generate alpha? Well, that means how are you different? How is Rick different than me? How is each of the panel members different? How are you different in Europe, where you're not energy independent and you have huge inflation and you have a lot of brain damage with different issues than we have here? So, what's exacerbated that, what people don't seem to really understand fully, is the last five years we've seen a tremendous amount of influx from the retail space, high-net-worth. High-net-worth investors have found private credit for the same reason institutional investors like private credit. So you take that money, we were zero high-net-worth dollars six years ago. Today it's almost a third of our pool of capital of \$26 billion. So, that's not changing, and if you believe what you read coming out of Washington with the guy that tweets a lot, you're going to see a lot more retirement accounts and a lot more 401(k) money come into the private asset space. So the real question for us and for the audience is what happens with all that money? And what happens when that money comes in? You can be the best underwriter in the world, but if you're told you got to do four times the volume in your portfolio than you have today, something's going to give. So that's what I'm concerned about. And I speak a lot of different places around the world, and I tend to be against the grain. Most asset managers want to see a lot of this retirement money come into the market because it increases AUMs, it increases fees, it's good for public company growth. I'm concerned about it. I don't know if it's the right thing to do because when all that money comes in, private credit, which should be an alpha product, becomes a beta product. It becomes no different than syndicated loan and fixed-income dollars. And that's the real distinction, and that's why institutional investors all over the world are concerned about this. Not private credit, not about defaults, not about underwriting. They're concerned about retail money coming into the funds that they invest with, and they do not want to see retail money invested side by side with them in institutional capital accounts because they're concerned about deterioration.

Bouk van Geloven 00:31:50

May I just add one point to the whole discussion here? I think the notion that pressures are building in the system, I think is accepted, and that's I think what you're hearing across the panel. If you look at triple-C spreads today, they're about 2,000 base points over. They're the same as what they were during COVID. Just a real helpful indicator to see what's going on. But the way we look at it is what drives differentiation is, hey, the platforms, the skill set that they have, ability to work out, ability to take operational measures in your own hand to drive the returns. And we believe that truly will differentiate some of these platforms that are in the market today as we move forward much more than over the last couple of years.

Ted Seides 00:32:34

I want to try to dig in a little bit. When you have capital come in, and money has to be put to work, and you develop excesses. After the fact, you look back and say, there were certain deals that either marked the top or, in retrospect, were not smart investments. I'd like each of you to talk about a deal that you passed on that could be problematic in the future or is a sign of maybe deteriorating underwriting standards.

Jeff Levin 00:33:08

Yeah. So, the structures where you take in money monthly, and you really can do two things with it, right? You can either pay down your credit line, or you deploy it immediately. In the private business, though, deal flow is episodic.

Ted Seides 00:33:29

Or you save it for next quarter's redemptions.

Jeff Levin 00:33:32

We don't have one of those products here, but I used to manage one like that, so no comment. But it's really hard because you've got—and I'll get to answer your question directly, but just for the audience's benefit, you've got a conundrum there, and I managed one of these funds for a while. If you pay your leverage line down, that impacts your ROE and your dividend, and you have a fixed dividend, and you want to be able to service that and cover that with a nice, healthy margin, and the competitive landscape is doing the same thing. So there's massive pressure in those structures to deploy. It is what it is, right? One could argue that retail capital 4.0 is a drawdown structure again maybe, the way it was 15 years ago when retail sort of got into the game. We'll see how it all plays out pending the redemption cycle. But the pressure's massive, and so what we saw in the height of the market was certain managers calling sponsors, looking to deploy capital at higher leverage and tighter spread than the market otherwise would provide, because the bet that they were making was if XYZ sponsor's going to buy this company for 15–20 times EBITDA, whether I offer them six times or seven times leverage or SOFR plus 525 or 500, I'm so insulated from an enterprise value perspective that the likelihood of default is so low and the short-term pain of not covering the dividend is so severe, and those inflows can go elsewhere. It's hard to judge any of the people that were doing that because at that point in time, the pressure was immense, right? The few things that we've always looked for, the businesses that I've run, have always been really to avoid the deeply cyclical sectors. So certain places like TCW Rick mentioned, he chases that type of end markets, and they've done it well over the years. We've generally avoided those. And then from a documentation standpoint, nine out of 10 deals that we've passed on over the years, it's typically been less about leverage and less about pricing. It's typically been about documentation because we've generally geared our business towards

businesses that are really resilient, generate good cash flows, enterprise value's very high, leverage multiple's full. But the way through my lens we could've really gotten hurt was through asset stripping, LMEs, and so on and so forth. So the documentation has always been what we've spent most of our time away from the diligence in terms of reasons for passing.

Ted Seides 00:36:13

So, Jeff, of the last 10, nine of which you passed on, which was the biggest no-brainer to pass on?

Ted Seides 00:36:26

You can think about it and let somebody else answer. Yeah. That's effectively the original question that you brilliantly avoided answering.

Jeff Levin 00:36:34

I like that.

Rick Miller 00:36:36

I would like to think that all the deals we reject go bad, and all the deals we do go well, and that doesn't happen. Most of the deals we say no to, I think end up doing fine. But I think the common theme is, I would agree, is typically in the document, a leverage—you're never going to meet the guys who do covenant light, it's the other guys. And so within the definition of EBITDA, within the document, you get all this room to navigate if you're the borrower. And things like a covenant that doesn't decline, doesn't step down, stays very close to maybe what that entry point enterprise value multiple was. It's kind of a non-starter for us—and so when you see those kind of grids that come out—we pretty much realize we're in the wrong room. We're not going to be competitive in this transaction because of the expectations or the demands around the document. You can get there. You can usually rationalize it's a smart market where people earn leverage profile or even pricing, which is, I think it feels like we're a little bit out of the woods on the pricing here in recent months. But it's really around the loan doc and those conditions. And maybe want to take a step back. I am extremely bullish around this asset class. I agree with some of the comments Ted made when he kicked this off. It's a great asset class. It's a safe harbor asset class. It's first lane, top of the structure, last to lose. You get treated better in bankruptcy. A lot of branches to grab as you're falling out if you get it wrong. You're not supposed to lose principal. This is why people like it. It's why institutions have gravitated to it, and it's why Wealth Channel gravitates to it and will continue to gravitate to it. You just have to invest it the way God intended. You've got to have protections, and you've got to be conservative, and you've got to realize that good debt deals aren't necessarily good equity deals,

and there's great equity deals and are good debt deals. There's one objective we have, minimize principal loss, and that's it. And so trying to manage that downside protection is really the only job we have.

Ted Seides 00:38:52

Megan, when you looked at your last run of defaults within those 300, which looks stupidest to you?

Megan Neuburger 00:39:04

One of the things, I can't name a particular one off the top of my head, but I think one of the things that we spend a lot of time thinking about and that some of the structures that looking at them now and thinking about, as I said, we've seen deterioration in the credit quality in that portfolio and the companies that haven't been able to realize that de-leveraging trajectory. There was a period, certainly in '22, '23, EBITDA add-backs became very aggressive. We've maybe seen that behavior recede a little bit, but those are the kinds of things that are red flags. But generally speaking around the documentation, the EBITDA add-backs are an interesting one because as a rating agency, we will sit and go through those line by line and think about as we put together our model, which ones are we going to include and give credit for and which ones are we not? Where something like a covenant package, we're given what we're given, and we rate to the terms that we see. As one of my colleagues is fond of saying, we sit in the cheap seats, and we're calling balls and strikes. So, that's sort of what we're trying to do.

Ted Seides 00:40:05

Bouk, anything in Europe look particularly offensive to you?

Bouk van Geloven 00:40:10

There's a lot. But no, maybe just to build on it. We have a hybrid solutions business where we do second lien prefs, and we buy secondary credit on the market. I think everything you talked about, looser documents, people getting themselves into trouble, that's driving our secondary pipeline that I kind of mentioned. I think on the hybrid solution side, Jeff, to your point, look, there's lots of capital out there. In particular, on the sponsor world, those things get priced extraordinarily tight with very loose documentation, very little appetite for us to do it, even though fundamentally you can see the value coverage in it. But over a five, six, seven-year period, God knows what happens, and if you can get assets stripped or anything else, that's perhaps where we've passed on deals on that side.

Jeff Levin 00:40:59

I do think, Ted, though, if we're backwards looking, the diligence, the documentation, the structure, the pricing of it all that had to work out—the market's coming our way right now across just the investable opportunity—and I think it's going to get better and better as every quarter that goes by, for some of the reasons we said earlier. But I do think the one nuance now that's brand new to the asset class, this goes for private equity as well, is really understanding AI in that lens and understanding, and this is a huge focus internally at our firm, is what are the management teams of these businesses doing to leverage AI, use AI, and are they doing it faster and better than their competitors? And not just in software, but I mean across all sectors. That's a new cohort of analysis that is going to need to get done by private equity and private credit, that the market is not accustomed to doing. So you have a lot of people with great track records who've been in this business a long time. This is a nuance that's brand new, and I think if we look over the next five years, or maybe it's 10 years, I think there's definitely going to be more dispersion among returns on that front because the winners and losers, as it relates to, call it Private Credit Investing 101, or 201, or 301, that's pretty proven. In this new AI-centric world, I think it's going to evolve pretty dramatically.

Ted Seides 00:42:23

Ted, you got a doozy for us? It's okay if you don't. Nobody else did.

Ted Koenig 00:42:26

Yeah, no, I'm going to go out and listen. The one thing I am is transparent. We did a deal, it was a s****y a*s deal, we never should have done it. It was called "First Brands," and we took a piece of it, and it was a bank-led deal. And we did it in a form where we didn't think we could get hurt. We did a letter of credit as opposed to a loan to the company. Well, the company had \$8 billion of credit. It was this massive company. We did a letter of credit investment, and it was to back a certain purpose of it, and not a huge investment, but we thought we were bulletproof on it. And the lesson is, we never should have done it because it was a massive credit, and it wasn't in our wheelhouse—and we stepped out of our wheelhouse to do something that we shouldn't have done—the company was a massive fraud, double pledged assets, the principals stole money, absconded with it. They're being sued. There's criminal investigations, all kinds of stuff. But, every once in a while we do a deal that is outside of our core, and that's where you get hurt. And that's a lesson that I've been doing this 25 years. We put \$50 billion, we do 100 deals a year, and we've got a top 10 decile performance in the industry. But it just goes to show you that we're not infallible. It happens. There's deals that are good equity deals and bad debt deals. We get a lot of brain damage from our private equity sponsors telling us we're idiots. "How can you not do this deal? It's going to be a 10X deal. It's going to run up. We're in this data-centered space or this AI space." And it's great, but it's all on the come, and it's all on future valuation, and it's all believing that the next raise of capital is going to be worth 10X what the current rate is. As a credit investor, you have to look at the company and decide whether there's consistent cash flow, whether it's defensible position, whether it's non-cyclical, all the things that the guys have talked about. And we look like idiots sometimes, but we say, "That's just not a good debt deal." It may be the best equity deal in the world, but we just can't do it because we can't put our money in, or we don't feel comfortable that if we don't get big valuations or the greater fool theory doesn't happen, or the next private equity firm doesn't pay double for the company what the current private equity firm paid, we're not going to get out. And that's one of the biggest issues today in the

market, is that it's backed up. The private equity business is backed up. We have the highest ownership period we've ever seen right now, and that's why you're seeing a big market in continuation vehicles and secondary vehicles because investors want their money out. Every Ivy League university has either sold off or reduced their exposure to private equity in secondaries. The biggest investors in the world, CalPERS, CalSTRS, have sold off private equity. And the challenge is a lot of these private equity firms, GPs, yours probably excluded, but they bought assets over the last cycle at multiples that are not defensible today. So you're sitting in a portfolio of private equity investments that are valued if you really have to value them at one level, and then you've paid at a higher level. So it's really hard to realize that and show that loss. So that's why there's a ton of pent-up demand right now that when the market opens, when the M&A market opens, we're going to see a lot more PE deals get done. The big challenge is, is it going to be enough to get the private equity firms out at their current valuations?

Ted Seides 00:46:30

I want to make sure we have time to do a round of most exciting opportunity. But Jeff, I'd be remiss if I didn't ask about that question. You, seemingly a smart and good-looking guy, joined Thoma Bravo this year.

Jeff Levin 00:46:44

Ted, your nose is growing, but thank you.

Ted Seides 00:46:49

What are you seeing on the private? Thoma Bravo, one of the big software players—

Jeff Levin 00:46:54

—Yeah.

Ted Seides 00:46:55

—Certainly, in the headlines at the SaaSocalypse. So as Ted's saying, "Well, those 2021 deals were at high valuations," how do you see that play through both on the equity and the credit side of your business?

Jeff Levin 00:47:05

Yeah, look, the firm's portfolio feels really strong. And Orlando's been really public, saying the businesses are really crushing it. So the businesses are performing really well. The firm is also, on the equity side, sitting on 30-ish billion dollars of dry powder. That is, I would argue, maybe a once-in-a-career opportunity over the next year, two, three. Specifically, this location is the epicenter of what Thoma Bravo knows best, and a lot of people have been investing in software private equity for the last 25 years. They've done it better than pretty much anyone else, both in terms of scale and performance. So the firm is really excited about the investing opportunity right now. On the credit side, we have the, I'll call it luxury of being able to chase complexity. So how many institutions can an LP give their money to today where they have real conviction that the counterparty can actually have the investment acumen and resources and data to tackle the next year or two, three, as it relates to software and AI across sectors? So where are the best opportunities going to come? I don't really know. Obviously, I don't have a crystal ball. However, I think it's going to be a combination of both the public and private markets. I think newly originated stuff is going to be significantly better than the prior several years. Today, the opportunity is pretty good, but deal volumes are light. I think over the course of the year into next year, it's going to get even better. Private equity will spend the money. They don't give it back to LPs. The money's going to get deployed, so they're going to need financing because there's this backlog, as Ted Koenig mentioned, that's going to provide a lot of deal flow. It's going to be at lower leverage, wider spreads, better terms. And then I mentioned this earlier, but this whole BDC dynamic I'm fascinated by because we haven't seen it. This hasn't happened before—we haven't had this monster asset class, as relates to private credit at least—with this supply-demand tension, and then if you're managing one of those vehicles, there's several counterparties that are applying pressure to create liquidity. It's internal risk committees, it's independent boards, it's rating agencies, it's bondholders. So it's just going to be a fascinating time to see this play out. I'm not overly bearish, meaning there's going to be a lot of forced selling, as I mentioned before. I don't necessarily see that unless things get really bad, and then we all have bigger problems. But I do think there's going to be motivated selling, and we are starting to see that. So interval fund or BDC manager XYZ has a deal marked at 99. It's a really nice asset. Will they sell it at 94, 95? Today, there's a few of those situations. They're few and far between. But I think over the course of this year and into next year, that opportunity's going to continue. And so not surprisingly, we've been going through pretty much everyone's book, looking at every investable deal, notably within software where we have the most edge. So I'm really excited about it.

Ted Seides 00:50:24

Bouk, love you to walk through maybe a recent investment or something in your portfolio you're particularly excited about.

Bouk van Geloven 00:50:31

Yeah, look, I think one thing we haven't touched on is bank debt. Okay? It's a huge source of our pipeline. And in an environment like this where there's pressures building, you're seeing banks, and particularly in Europe, larger bank market than perhaps in the United States as a percentage of the credit out there. Huge opportunity set for us. So since the Middle East war started, we bought out over two billion of bank debt in three different deals between 50 and 60 cents on the dollar. That didn't happen before. Internally, we say the sleeping giant has woken up. They're reducing exposure, and it's going at size—and look, that plays

to our theme—for our firm, over 80 percent of what we buy, we source directly. A true differentiator, the way we've built that over the years, and that correlates with the returns that have gotten better for us, too, over that period in time. But that opportunity set in bank debt, buying debt on the secondary, is something we're seeing playing out right now in the market. By the way, of those three deals, two were in the US, one was in Europe. But if I look at my pipeline, that's where I see a lot of the opportunity come from. And look, we're less sectorial, right? We're more situational, the way we attack the market. But that's interesting.

Ted Seides 00:52:07

Rick?

Rick Miller 00:52:11

I think some of this was mentioned earlier, but I think the opportunity lies in this two, three years out, this maturity profile. Now, a caveat here, the wall of maturity has never been a good investment strategy. It's been very disappointing over the years, but maturities do force a decision. We saw that in the real estate market. So as you get this maturity profile of these companies that people are questioning what that ultimate enterprise value multiple is or terminal value is, I think you have an opportunity, and I think this is to the question of what we find most exciting, this reset of decisions are going to have to be made. Does the equity want to play through? Do they want to put in some more capital? Is the lender comfortable with that leverage profile now that the enterprise value multiple has shifted downward? Someone's going to have to give some money, someone's going to have to take some money. And I think in a lot of those situations, there's going to be an opportunity for new capital to come in and reset a cost basis, reset a leverage profile—and I think that kind of activity level, there's got to be a catalyst for it. I think some of it is lack of DPI from the private equity world. I think it's impatience, as the average age of the typical private equity portfolio company now is at a record high of seven-plus years. So there's a lot of data that tells you it's not if, it's when, and that flywheel's going to start again of activity. It's going to start, though, at a lower multiple profile, and that dislocation is going to be painful. And I think as a firm, it feels like the market has come our way. We're not really tech, or we're industrials, we're cyclicals, we're onshore. We're more stressed or opportunistic, and so as all this reset occurs, we're getting a look at companies that have a very different multiple profile that we can invest in and drive interesting returns for folks.

Ted Seides 00:54:06

Is that happening yet? Or is it that you see or you think it's coming?

Rick Miller 00:54:12

That part of it, that multiple contraction is, I think, at the very beginning stage where I can't tell you it's here, you know, duck, it's about to get going. But listen, since '22, private equity activity has really declined. Right? When there was 750-some deals in the middle market from private equity in '21, there was 250 last year. I'm not sure 750 is the right sustainable number, but 250 is not. And so there's a lot not going on right now in the marketplace, and they're not sending the money back. There's a lot more dry powder in private equity than there is private credit. It's going to get spent, and it's just at what multiple. In the last four years or so, private equity's telling us they're not comfortable paying these multiples. They're not comfortable with the economic—they're telling us something, right? And what they're really telling us is they're not willing to buy at these multiples. That's information that I think both public and private credit markets have largely ignored, and I feel fairly confident that we're at the beginning of this, and you're going to have a reset, and that reset will have opportunities for distressed and stressed players—and it's going to have opportunity for new lending activities—and there's going to be some people getting dinged up that leaned in at the wrong time.

Ted Seides 00:55:31

Ted, you mentioned at the onset alt lending as an opportunity. I didn't realize alternative anything was actually alternative anymore, but what specifically are you thinking about?

Ted Koenig 00:55:43

Yeah, so think of private credit historically as kind of a box, a core box. Private equity, sponsored leverage finance, buyouts. Buyouts, recaps, dividends. That was 90 percent of the private credit box as time has gone on. Banks were in that space pre-GFC. After GFC, because of some regulations and capital requirements, banks pulled out of it. We went into it, the private credit industry. Over the last several years, because of the same dynamics of the GFC, because of regulations, just because banks' balance sheets are full, they pulled out of some areas, or got less aggressive, real estate being one of them, significantly. Because you guys look at office buildings, vacancy rates, Chicago, New York, San Francisco, banks have lots of real estate on their balance sheet, so they were less inclined to put more on, so it generated an opportunity for private credit. Our real estate private credit's increased probably five-fold over the last three years. That's one area. Alternative private credit. Second area is just good old-fashioned specialty finance, consumer finance, buying pools of receivables, health-care receivables, SPV lending. Litigation finance is a hot area that we've been in, where we'll do a warehouse loan against 1,000 small slip and fall litigation claims, lending 10 percent into an expected recovery. Royalty financing, drug financing, venture debt financing. Areas where it hasn't been core, but it was niche, and those niches are becoming core. And that's where, when I talked earlier about alpha generation, anybody can go on a Bloomberg terminal and buy credit. Push a button, you can do it in a fund, in an ETF, syndicated loans. Where investors expect to find excess return is in private credit, and it's our job as managers, whichever strategy we deploy, to find that excess return or alpha. And we think today one of the best areas for alpha is alternative credit because it's not mainstream. You don't have all the large Wall Street-based asset management firms rushing in. They're still chasing the big M&A deals. So we've been able to find a lot of value in those areas. But it's hard because it takes a lot of sourcing effort and a lot of origination effort. Those deals just don't fall out of the sky, so there's a cost associated with doing that.

Ted Seides 00:58:54

So, we've got about a minute and a half left. Only enough time for a hot take. Hot take could be something you're excited about, something you're worried about, something that we haven't said that we should've said, something that the other people in the other room are saying about you. Bouk, why don't you start? We'll go right down. You have about 15 seconds. That's it.

Bouk van Geloven 00:59:16

Yeah, no, I'll play to my strength. No, look, I think Europe for us, always in trouble. Areas of it always provides the opportunities that flow for us. Internally, again, we say it's the gift that keeps on giving towards us. Perfect.

Rick Miler 00:59:36

There's never a shortage of stumbling, bumbling middle market borrowers.

Ted Seides 00:59:42

I'm coming over to the middle market lending.

Megan Neuburger 00:59:46

I would say, we didn't talk at all about IG private credit and infrastructure financing. I think what's going on there is very cool, that companies are actually putting picks and shovels in the ground to build infrastructure that we're all excited about. But it's adding a lot of complexity and opacity to the capital structures of these companies, so also an opportunity for smart credit.

Jeff Levin 01:00:07

Two things quick. So the number one is—and I said this earlier—the whole AI ecosystem as it relates to diligence on managers' equity and debt is, I would argue, the number one diligence point today, which is, again, that's a new concept in a very established, mature market. And then two, this BDC whole dynamic I think is going to be just a fascinating movie to watch because, sort of like the AI dynamic, it's also unprecedented in our industry.

Ted Seides 01:00:35

Ted, bring us home.

Ted Koenig 01:00:37

Two things. One, data centers scare the s**t out of me. There's way too much money going in, and nobody knows how that's going to end. Number two, inflation. People do not understand what inflation is going to do to their portfolios and how it's going to continue. I think that's a huge underestimated risk today in the market.

Ted Seides 01:00:59

Great. With that, thank you all so much. Thank you.

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