

2025 Private Credit Market Report

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Campbell Lutyens' 2025 private credit market report

This report provides insights into the market dynamics that are shaping the industry. Campbell Lutyens' ("CL") analysis is based on proprietary data gathered from active, institutional investors in the private credit market.

Methodology
Over 115 institutional investors participated in this survey.
37% of survey respondents are based in EMEA,
34% in North America and 29% in Asia[1].

1. Survey period from 7th October to 14th November

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Foreword

2025 was a year of contending predictions for private credit. It was a record year for allocations, as existing investors maintained or increased commitments while new entrants joined the community, attracted by diversified sub-asset classes and differentiated returns. Private credit has firmly established its footing in the mainstream and expanded its reach into family offices, HNW individuals, endowments and foundations.

However, with increased volumes came increased scrutiny. As the market has matured – particularly in North America and increasingly in Europe – concerns have emerged around tightening spreads and loose covenants in large-cap direct lending. Also, growing interest in asset-based lending has been tempered by enhanced due diligence of more opaque strategies such as supply-chain and receivables finance.

Despite some mixed views of private credit's broader risk profile in the market, CL has yet to see any negative impact in terms of capital-raising volumes and investor appetite. LPs continue to prioritize relationships with high-quality managers and compelling risk-adjusted returns. Liquidity trends are improving broadly across private markets, and, despite a falling interest rate environment, the benefit of enhanced cash distributions generally outweighs a lower total return profile due to base rate contraction.

In this year's Private Credit Market Report, we see these competing predictions from 2025 continue to play out in investor expectations for 2026. There is momentum to increase private credit exposure, especially new relationships, as the asset class continues to mature and become more widely understood by the market.

Overall, we expect to see continued growth in 2026, with LPs looking for new manager relationships to provide high-quality, derisked exposure.

Jeffrey Griffiths – Global Head of Private Credit

1 | Highlights: Top themes observed looking into 2026

1 | Appetite for private credit holds steady for 2026, with a focus on new, high-quality relationships

Appetite for private credit is stable and continues to provide record-breaking capital into the market. Over two-thirds of investors are seeking to allocate more than half of their exposure to new relationships. This is driven by investors expecting to increase their private credit allocations while also carefully scrutinizing the re-ups in their existing portfolio.

2 | However, investors have quality-related concerns with larger-cap direct lending seen to be most impacted

Although allocations hold steady, investor concerns are focused on quality-related themes, particularly aggressive lending standards in the upper middle market (61%) and portfolio deterioration related to PIK (52%). 51% report concern that increased defaults could lead to lower returns. In line with this, investors are diversifying away from UMM direct lending, which is a relevant strategy for only 38% of LPs surveyed.

3 | Falling interest rates shift investor demand to higher-returning strategies in corporate credit

As we enter a lower interest rate environment, investor demand is focused on higher returning strategies, in particular opportunistic credit, special situations, flexible capital and structured equity. Investors prepared to assume the associated risk profile will seek premium returns through more bespoke structuring solutions amid economic volatility.

4 | Growing interest in asset-based finance (ABF) strategies

Interest in ABF continues to grow, with about 85% of investors indicating plans to deploy capital into the space over the next 12 months, with diversified ABF exposure as the most attractive. As we saw during the nascent years of corporate credit, the initial entry point for many investors will be through diversified larger cap exposure.

5 | Closed-ended structures still dominate, while demand for evergreen vehicles increases

Traditional commingled drawdown remains the favoured structure, but a notable 10% increase is observed for preference for evergreen structures compared to 2025. The growing interest reflects increased demand for continuous deployment, reduced reinvestment friction, and long-term exposure without the constraints of fixed fund life cycles as well as the continued demand coming from retail channels.

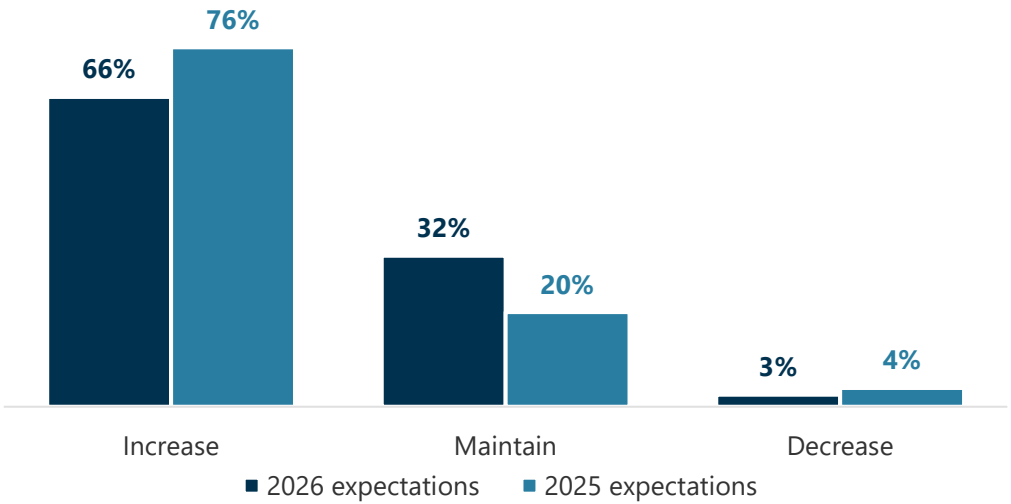
6 | Primary investors are yet to significantly increase their activity in private credit secondaries

While growth in the private credit secondaries market continues to outpace the broader secondary market, only 38% of surveyed primary investors are currently active in the space. As the market matures, we expect to see continued interest with investors drawn to an earlier return on investment and reduced blind pool risk through access to seasoned portfolios.

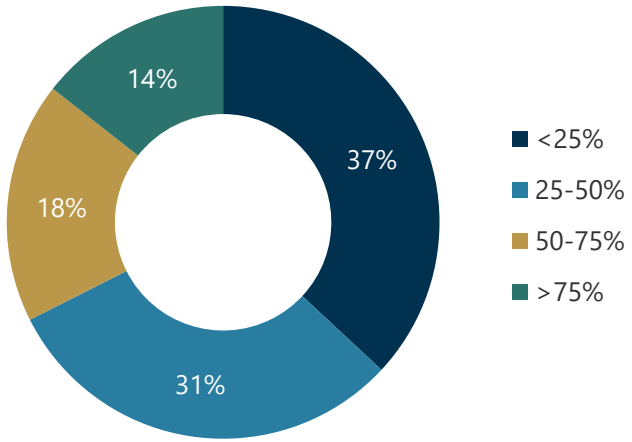
2a | Private credit allocation outlook

Private credit appetite remains steady in 2026, with over two-thirds of investors allocating more than half of their exposure to new relationships

Do you expect your institution to increase, maintain or decrease its private credit exposure over the next 12 months?



What proportion of your private credit allocation over the next 12 months will be dedicated to re-ups?



Appetite for private credit holds steady in 2026.

There has been a reduction in investors looking to increase their allocations in 2026 with the delta largely being seen in an uptick of investors maintaining their allocations. Notably, >75% of European investors expect to increase in 2026, compared to c.66% of North American LPs.

A de minimis change has been seen in investors looking to decrease allocations. This is roughly in line with the fundraising market data over the last few years which has remained flat across 2025 and 2024 with $356bn and $355bn raised respectively[1].

Over two thirds of investors expect to dedicate more than 50% of their private credit allocation to new relationships in 2026.

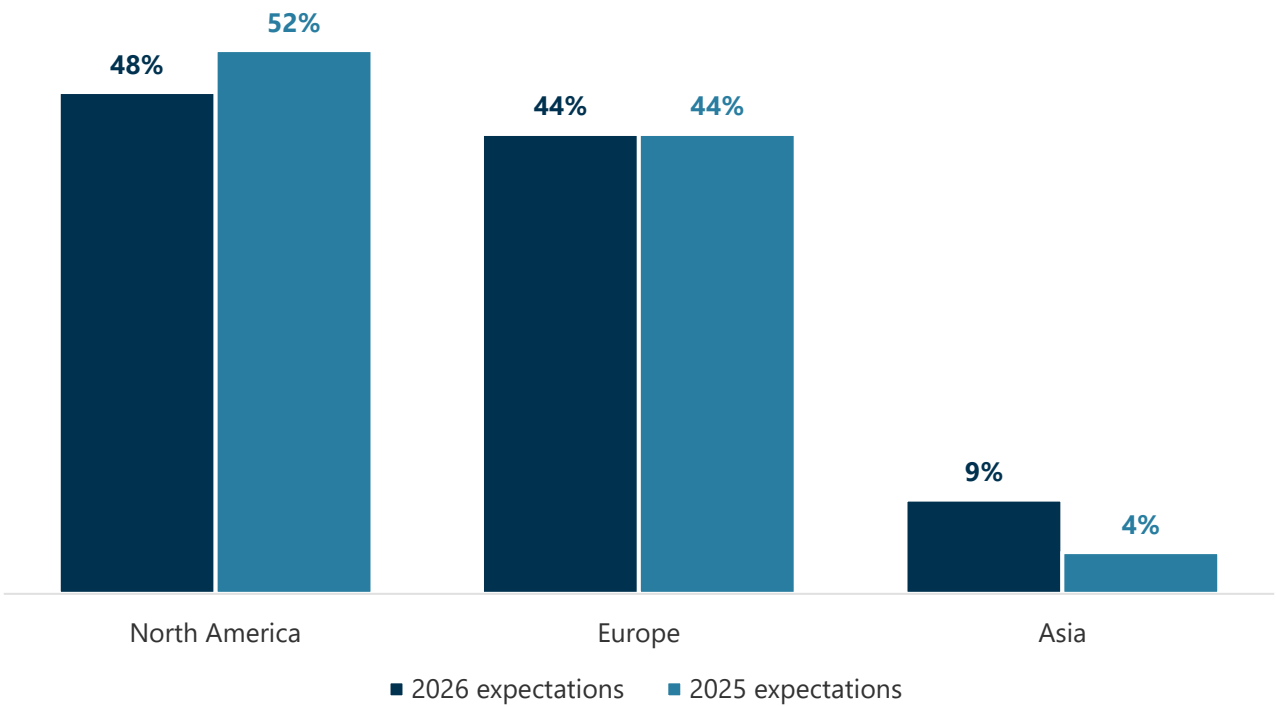
The data suggests a strong focus on building new manager relationships. We expect the majority of these commitments to come from investors increasing their private credit exposure. Furthermore, investor concerns (see pages 7 and 8) are largely centred on underwriting quality across their portfolios. As a result, investors are closely scrutinizing their existing books, a process that is likely to create opportunities for new relationships.

Source: CL Research
1. PDI Fundraising Report 2025

2b | Geographic outlook

Marginal shifts in geographical demand preference in the context of wider geopolitical uncertainty

What geographies are relevant for your private credit allocation over the next 12 months?[1]



We observe marginal shifts in geographical demand: North America and Europe remain the primary markets, but a notable uptick is observed in Asia.

While still dominant, the decrease in appetite for North American private credit likely reflects competitive dynamics, and concerns around political instability, prompting investors to explore other regions for better risk-adjusted returns.

Europe's steady share suggests the continued appeal of a developed private credit market with further bank retrenchment still expected. Furthermore, lower defaults and leverage with consistently higher pricing make it an attractive destination for investors.

The shift at the margin towards Asia is driven by diversification benefits. Fundraising data supports this trend with the number of Asia-focused credit funds over $150 million with 2025 vintages (33) double that of 2024 (16) and 2023 (17)[2]. Nonetheless, allocations remain cautious due to regulatory complexities, and the relatively less developed market opportunity.

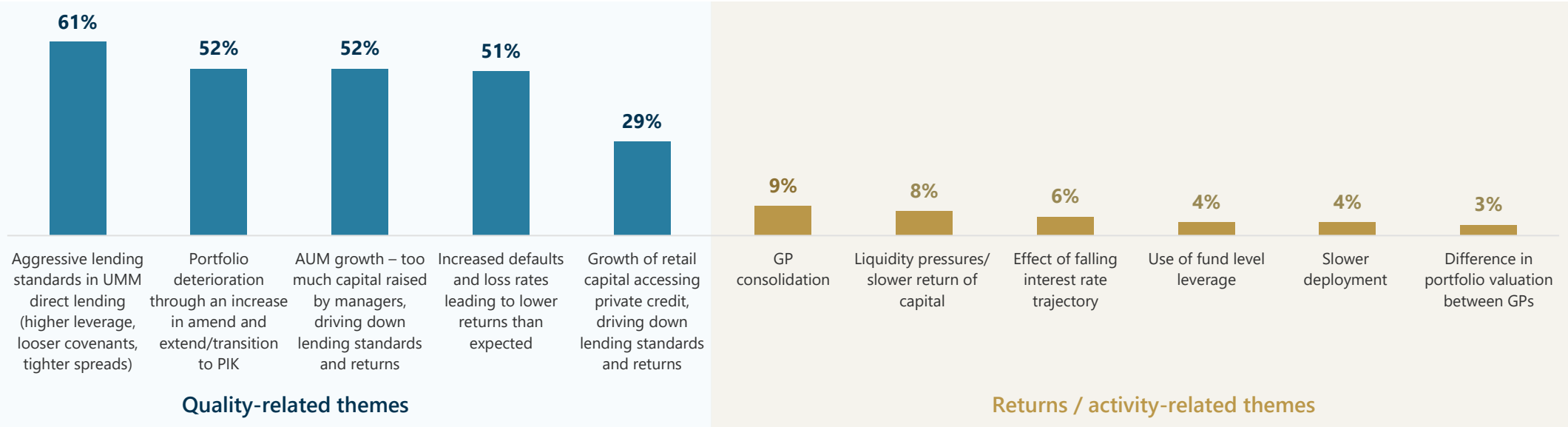
> *Asia is undeniably emerging as a significant private credit growth hotspot.*
>
> **Global Head of Private Markets at Private Bank**

Source: CL Research
1. Survey respondents able to select multiple options
2. Preqin

3a | Areas for concern

Investor concerns are overwhelmingly focused on underlying credit quality and underwriting standards

What worries you most about private credit markets in the next five years?[1]



Although allocations are stable, investors surveyed are concerned with underlying credit quality and underwriting standards in the medium term with the multitude of different forms this takes: aggressive lending standards in the UMM, deferred payment strategies masking underlying borrower stress, and AUM growth more widely, including retails inflows and increased defaults potentially leading to higher losses and lower returns.

Factors like GP consolidation, slower deployment and falling interest rates are less pressing.

> *The influx of retail money in vehicles that require rapid deployment will inflame situations where demand is outstripping supply, in a market that already has more than $4.2 trillion in dry powder sitting in drawdown vehicles, which must be invested.*
>
> **Moody's Ratings**

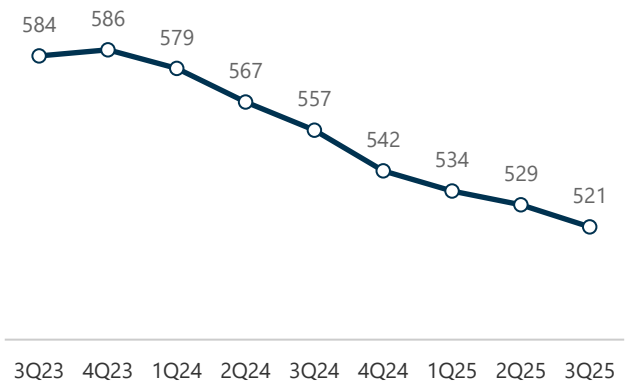
Source: CL Research
1. Survey respondents asked to select their top 3 concerns

3b | Market sentiment – deep dive

Market data supports key investor concerns

Spreads have tightened over the past 24 months[1]

Weighted average spreads (bps) for BDC senior secured first-lien loans

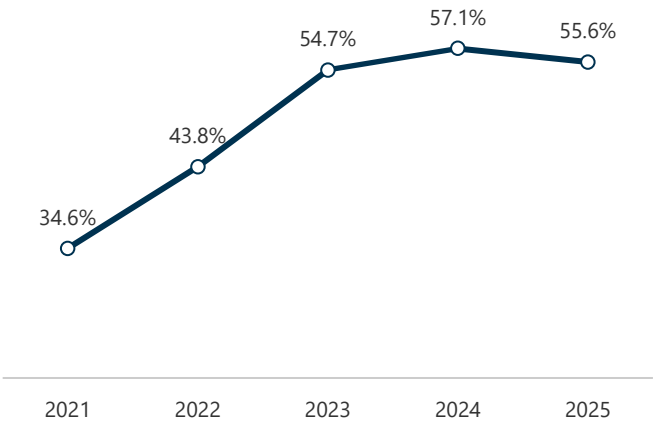


Over the last 24 months, business development company (BDC) spreads have tightened by c.65bps. The trend has been driven largely driven by a demand-supply imbalance with an oversupply of capital (retail channels only exacerbating this issue) for a relatively limited deal flow.

The dynamic means we are now seeing UMM deal flow somewhat resemble the broadly syndicated loan market with its aggressive documentation, higher leverage levels and covenant-lite features.

Investments without PIK at close but have PIK now ("bad PIK")[2]

% universe of loans valued that include some PIK interest



Amid higher interest rates and an increasingly competitive underwriting landscape, the use of structured PIK arrangements has grown, allowing borrowers short-term relief from cash interest payments.

PIK features can postpone the recognition of inevitable losses and underperforming companies may seek extensions while rates remain elevated.

'Bad PIK' has increased significantly over the last 4 years.

Elevated default rates in the last 6 months[3]

US leveraged loan default rates (%) based on principal amount



As an active indicator on quality of existing direct lending portfolios, the rising percentage of defaults in private loans validates investor concerns.

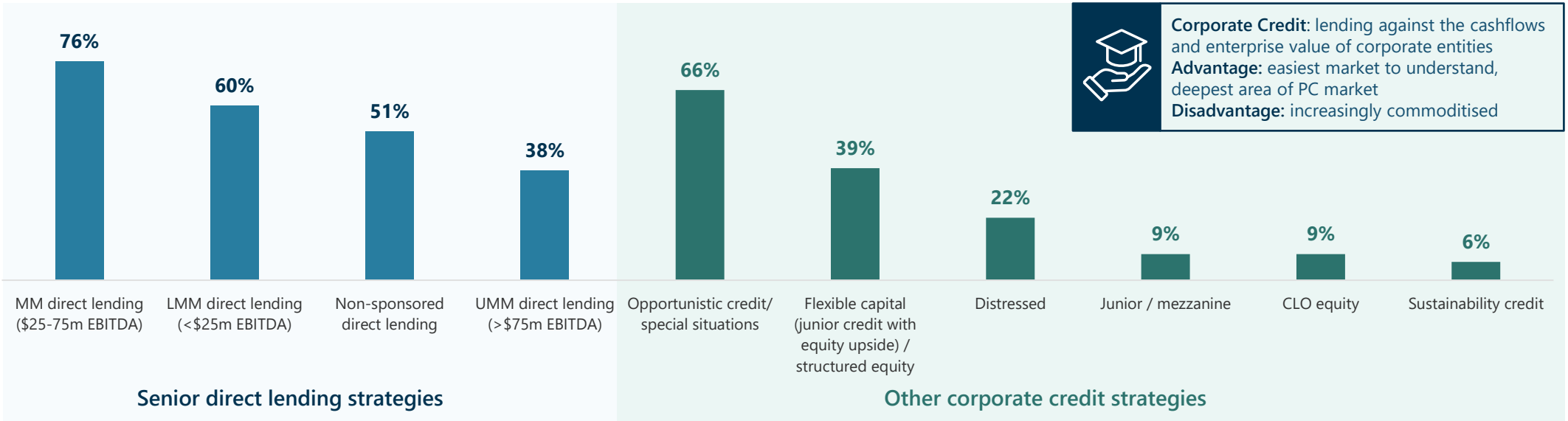
Following a respite in Q2 2025, defaults re-intensified in H2 2025.

1. PitchBook (LCD) US data as of Q3'25, midpoints applied throughout. 375 bps assumed for <400 bps range and 675 bps for >650 bps
2. Lincoln International, July 2025
3. Morningstar LSTA: US LL Index; Lagging 12-Month loan default rate: Based on principal amount

4a | Corporate credit investor preferences

Mid and lower mid-market direct lending strategies are now strongly preferred to the upper mid-market. Opportunistic credit and flexible capital solutions are increasing in relevance in higher returning corporate credit

Which corporate credit strategies are relevant for your private credit allocation over next 12 months?[1]



UMM is the least relevant senior direct lending strategy for investors over the next 12 months.

Investors are looking to diversify away from UMM exposure with the attraction of wider spreads, tighter documentation and non-overlapping deal flow in the MM and LMM space. This diversification is further highlighted with more than 50% of respondents looking at the non-sponsored space. This is in line with investor concerns on lending standards in the UMM, highlighted on page 7.

Demand is focused on select higher returning strategies as the market shifts towards a lower interest rate environment.

Two thirds of respondents expressed interest in opportunistic credit as investors seek premium returns through bespoke solutions amid economic volatility.

Flexible capital structures are increasingly favoured for their ability to deliver equity upside with credit downside protection, offering an enhanced risk-return profile as spreads tighten.

Junior/mezzanine strategies remain less attractive due to subordination risk, while sustainability credit continues to be niche.

Source: CL Research. 1. Survey respondents able to select multiple options

4a | Corporate credit – deep dive

Despite potential misalignment of long-term interest between GPs and LPs, investors broadly support the trend to remove incentive fees in upper mid market (UMM) direct lending vehicles aimed at institutional investors

Do you welcome the current trend towards the removal of incentive fees from UMM direct lending vehicles?



Source: CL Research

The majority of investors support the ongoing trend to remove incentive fees in the commoditised UMM.

There is a wider consensus that the UMM senior direct lending space is now offering a beta product more akin to the broadly syndicated market in terms of returns, documentation and deployment.

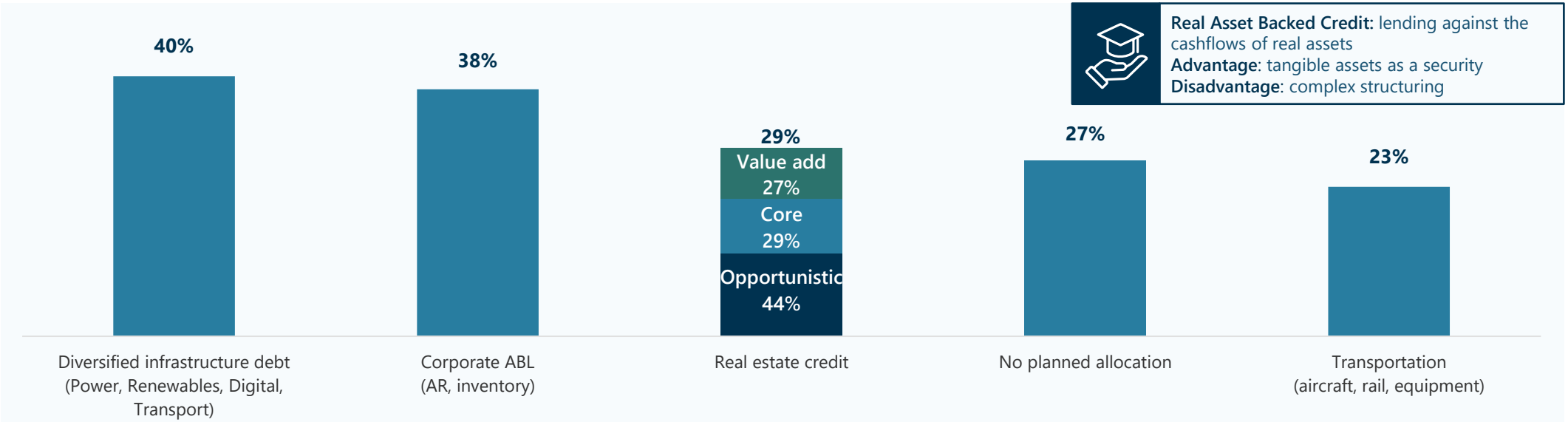
With only 14% against the removal of incentive fees, it further suggests that few investors believe these help with alignment and motivate UMM managers to outperform and manage more challenging situations in portfolios.

> *As competition intensifies in private credit, fee structures are becoming increasingly flexible, with growing pressure on both management and performance fees.*
>
> **Macfarlanes - The Evolution of Direct Lending Fund Fee Structures**

4b | Real asset backed credit investor preferences

Strong interest in diversified infrastructure debt, while nearly a third of respondents do not view real asset backed credit as relevant for their portfolio over the next 12 months

Which real asset backed credit strategies are relevant for your private credit allocation over next 12 months?[1]



40% of those allocating to real asset backed credit over the next 12 months will opt for diversified infrastructure debt. Corporate asset-based lending (ABL) is the second most relevant sub-strategy, with real estate strategies and transportation the least popular. Within real estate credit, opportunistic is the most relevant strategy.

Infrastructure debt remains highly attractive due to its essential nature, inflation-linked cash flows and strong collateral.

Corporate ABL continues to grow as a sub-asset class and is increasingly viewed as a key diversifier within private credit portfolios. Conservative advance rates provide meaningful first-loss protection, while asset appraisals, liquidation timelines, and eligibility tests enhance underwriting transparency. Performance is driven by liquidation value, borrowing bases, and asset turnover, allowing for uncorrelated return-profile.

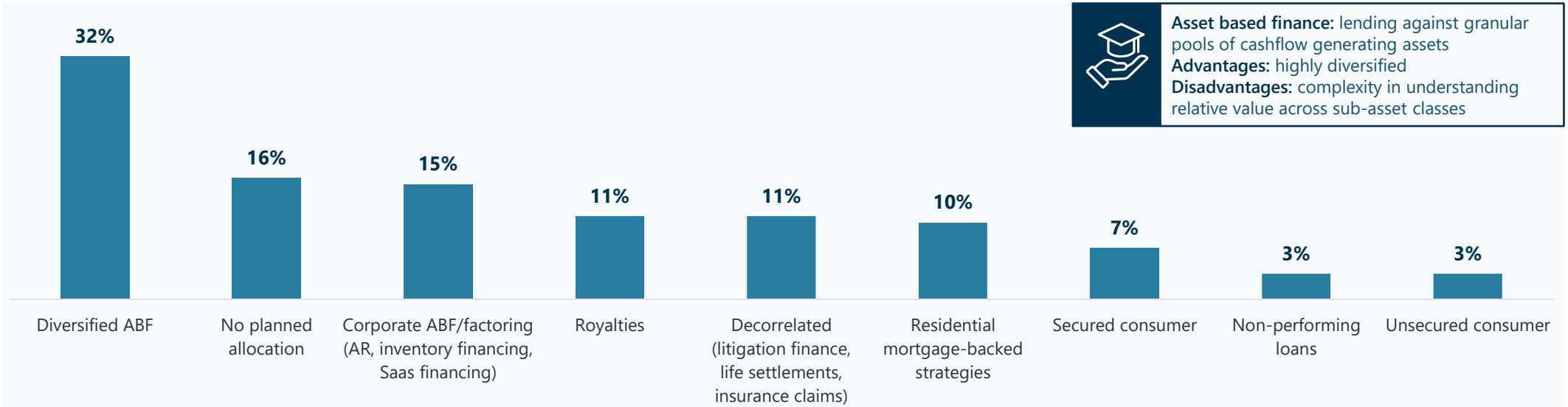
Investors continue to be interested in real estate credit as property values stabilize and transaction volumes rise, but the asset class continues to face sector-specific risk.

Source: CL Research
1. Survey respondents able to select multiple.

4c | Asset based finance (ABF) investor preferences

Within ABF strategies, investors' focus is on diversified ABF exposure

Which ABF credit strategies are relevant for your private credit allocation over next 12 months?



Interest in asset-based finance continues to grow, with c.85% of investors indicating plans to deploy capital into the space over the next 12 months. For many, as we saw during the nascent years of corporate credit, the initial entry point will be through diversified larger cap exposure.

Diversified ABF is particularly attractive to new entrants as it helps mitigate concentration risk and serves as a practical starting point for deeper engagement in the space over time.

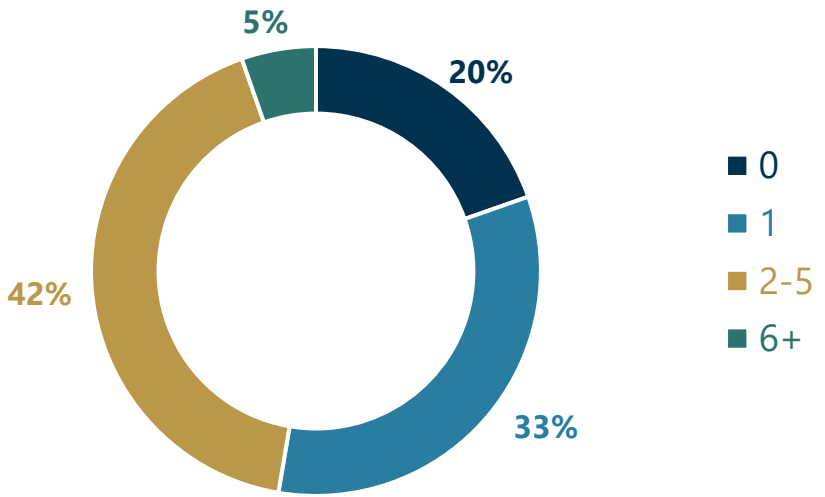
Further education is needed in the space to convince the 16% with no planned ABF allocation. This is due to perceived complexity in the sub-asset class and the required underwriting skillset. Relatively immature institutional programmes are more likely to focus their initial commitments into corporate credit.

Source: CL Research
1. Survey respondents able to select multiple.

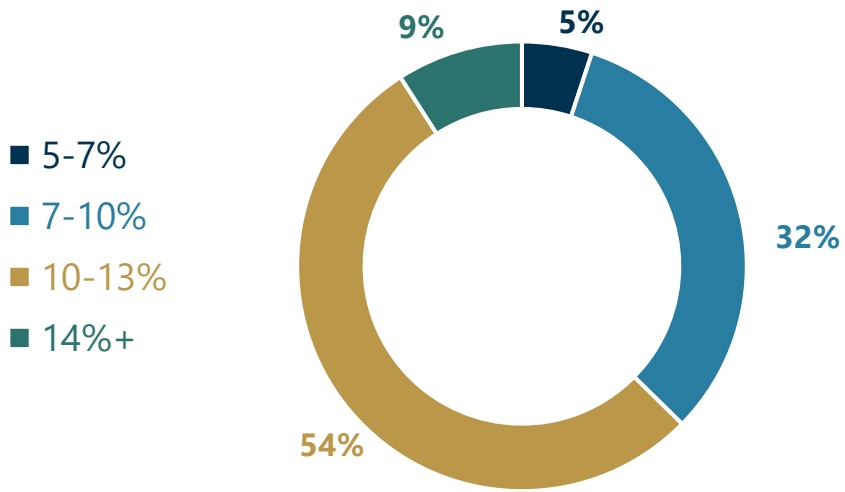
4c | Asset based finance – deep dive

Over 80% expect to make at least one commitment in the next three years, while nearly two-thirds seek double-digit net returns

How many ABF funds will you invest in over the next 3 years?



What net returns are you looking for from your ABF allocation?



Asset based finance (ABF) has been an area of steadily growing interest among private credit allocators in recent years. While large institutional investors have been active in the space for some time, the data suggests that commitments are becoming more widespread, with over 80% of investors planning to make at least one investment and nearly 50% planning multiple investments over the next three years.

Approximately one-third of investors intend to make a single commitment, likely reflecting an initial entry into ABF as they test the strategy before deciding whether to scale exposure. Only a small proportion of investors plan to make six or more investments, indicating a limited appetite at this stage for fulsome allocations.

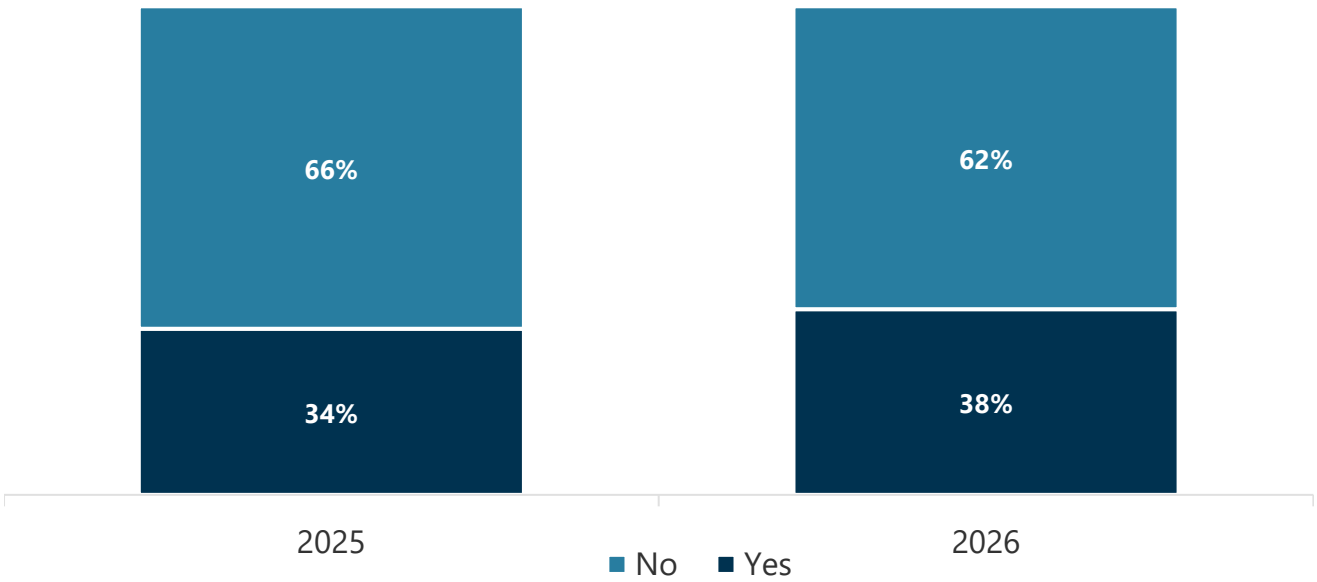
From a risk-return perspective, net IRRs of 10% to 13% represent the preferred range, while returns of 14% or higher are viewed as too aggressive by the vast majority of investors. 95% of investors agree that ABF funds must target a minimum net IRR of 7%.

Source: CL Research

4d | Private credit secondaries

Marginal increase in investor appetite for private credit secondaries although we expect this to accelerate significantly in 2026

Are you actively investing into PC secondaries?



CL expects the private credit secondary volume to reach $14.1bn in 2025, nearly 5x the volume observed in 2020. CL expects wider secondary volume to surpass $200bn in 2025, up from $60bn in 2020.[1]

While growth in the private credit secondaries market continues to outpace the broader secondary market, only 38% of surveyed primary investors are currently active in the space.

A modest increase from last year suggests interest is gradually growing in this ever-maturing market with investors increasingly drawn to an earlier return on investment and reduced blind pool risk through access to seasoned portfolios. Over 60% of investors remain on the sidelines, likely due to uncertainty about pricing, limited institutional skillset and resource constraints.

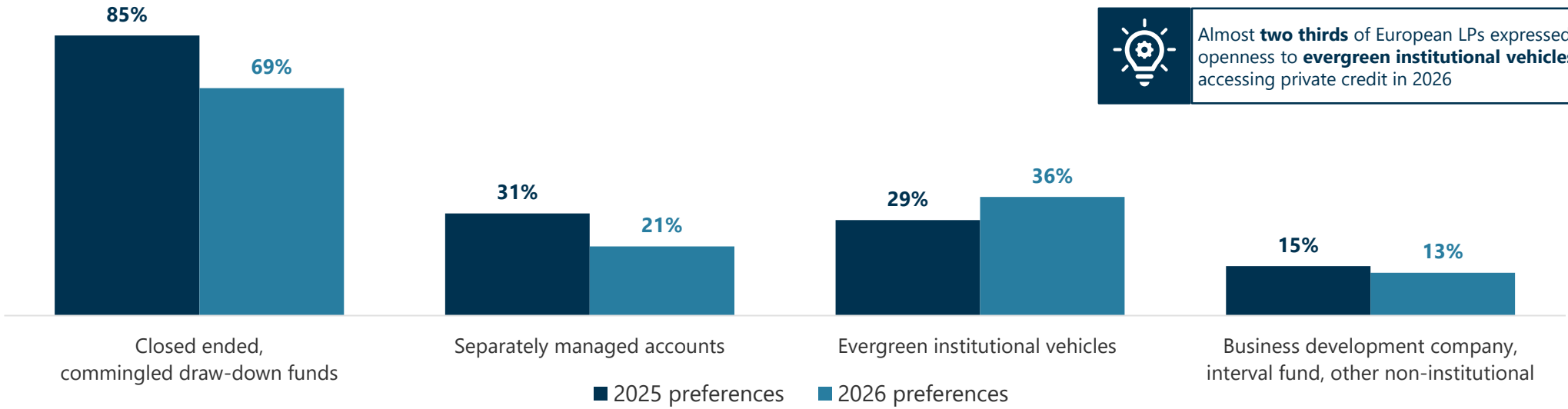
> *"The ratio of credit secondaries to the primary market is around a quarter of a percentage point. In contrast, other asset classes have ratios closer to two points. This leads us to believe the credit secondary space has huge room to grow."*
>
> **Head of Credit Research at GCM Grosvenor**

Source: 1. CL Research

5 | Structural considerations

Closed-ended fund structures remain dominant while demand for evergreen vehicles continues to increase

Do you have a fund structure preference?[1]



Almost **two thirds** of European LPs expressed an openness to **evergreen institutional vehicles** for accessing private credit in 2026

Investors are increasingly receptive to a broader range of investment structures for accessing private credit.

Interest in evergreen structures has risen from 29% in 2025 to 36% in 2026. The growing interest reflects increased demand for continuous deployment, reduced reinvestment friction, and long-term exposure without the constraints of fixed fund life cycles as well as the continued demand from retail channels.

While preference has decreased compared to 2025, closed-ended funds continue to be the preferred structure.

Source: CL Research
1. 7% of investors highlighted rated note structure. Not included within 2025 survey and hence not comparable. Survey respondents able to select multiple.

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