March 2025

Private Credit

Further confirmation of its staying power

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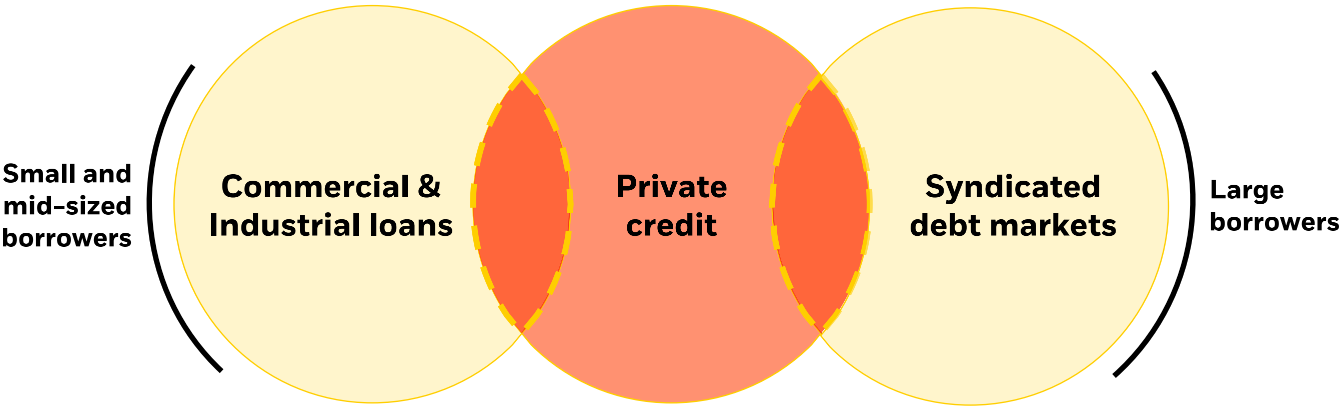
Key takeaways

- As the private credit market has grown into a sizable, scalable, stand-alone asset class, it has broadened its addressable markets of investors *and* borrowers. This has meant that private credit is no longer reserved for niche financing solutions, or exclusively for lending to smaller, middle market corporate borrowers. Rather, it now reaches areas it previously did not. We also believe the definition of 'private credit' has broadened in recent years, to essentially include any financing that is originated, structured, and held directly by a lender. As private credit has grown, its addressable market of borrowers is increasingly overlapping with two distinct financing areas historically serviced by banks: (1) for smaller borrowers: commercial & industrial (C&I) loans, and (2) for larger borrowers: syndicated corporate credit markets (leveraged loans, HY bonds, and even IG bonds).
- A wide range of global banks have recently announced plans to participate more actively in the private credit market. We have identified four general types of activity: (1) using balance sheet capital to make direct loans; (2) announcing origination partnerships with private credit lenders; (3) extending private credit loans through in-house asset management arms (using LP/investor capital); and (4) sales of loan blocks to private credit lenders. Some banks have also highlighted their role in providing fund financing services to private credit lenders – further underscoring their desire to participate in the growth of this asset class, even if somewhat 'indirectly'. On net, we expect these various forms of partnership to result in broader choice (across a range of market conditions) for borrowers.
- We believe these developments provide further confirmation of private credit's 'staying power' as a viable funding option for a wide range of companies, in a variety of market conditions. We expect this will drive additional expansion of private credit's addressable market and see high-level benefits across banks (client retention, product capabilities), private credit lenders (origination, market expansion), and the financial system (broadening customized and efficient financing access for a range of borrowers).
- Going forward, we expect banks will increasingly seek to offer a holistic financing solution to clients, with a product-agnostic approach. Such a client-tailored tool kit will likely have three elements, in our view: (1) C&I lending; (2) syndicated financing; and (3) private credit financing to a range of borrowers (sponsored and non-sponsored) across various strategies (senior direct lending, junior capital, and asset-based lending, among others).

Exhibit 1: The addressable market for private credit overlaps with other financing channels



Source: BlackRock. For illustrative purposes only.

An evolving funding 'ecosystem'

As the private credit market has grown into a sizable, scalable, stand-alone asset class, it has broadened its addressable markets of investors *and* borrowers. This has meant that private credit is no longer reserved for niche financing solutions, or exclusively for lending to smaller, middle market corporate borrowers. Rather, it can now reach areas where it previously could not – including financing larger borrowers, such as those with demonstrated access to the liquid (public) corporate debt markets (i.e., broadly syndicated leveraged loans, high yield (HY) bonds, and even investment grade (IG) debt markets).

We also believe the definition of 'private credit' has broadened in recent years – especially since the 2023 U.S. regional banking disruption – to essentially include any financing that is originated, structured, and held directly by a lender. This includes asset-based lending, which consists of a wide range of financing activities to businesses and consumers. We view the disruptions among some U.S. regional banks in March 2023 as a catalyst for this shift, as it illustrated the asset-liability matching (ALM) 'mismatch' which can exist in parts of the banking system. By contrast, this ALM mismatch does not exist in private credit funds, which benefit from using long-term capital to fund long-term loans.

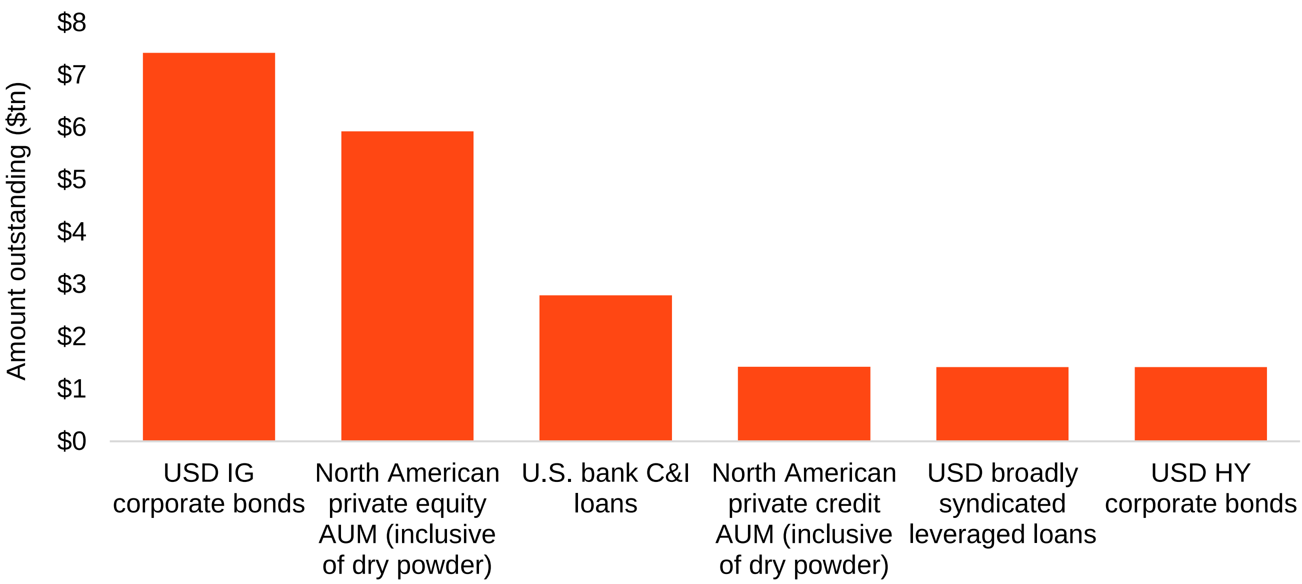
At the same time, a wide range of global banks have publicly announced plans to participate more actively in the private credit market. This has largely taken four forms:

1. Using their own balance sheet capital to make direct loans;
2. Announcing origination/client service partnerships (or joint ventures) with private credit lenders;
3. Extending private credit loans through in-house asset management arms (using LP/investor capital);
4. Sales of blocks of loans to private credit lenders, as well as significant risk transfers (SRTs)

Beyond these arrangements, many banks have also highlighted their role in providing fund financing services to private credit lenders – further underscoring their desire to participate in the growth of this asset class, even if somewhat 'indirectly'.

Exhibit 2: Placing the size of North American private credit in context, relative to other financing markets

Amount outstanding (or assets under management, where applicable) for select North American corporate financing markets, in $ trillions



Source: Preqin, Cliffwater, Bloomberg, Morningstar/LSTA, Board of Governors of the Federal Reserve System, BlackRock. Private credit AUM in North America captures two universes: (1) the Preqin universe of closed-end funds across direct lending, mezzanine, special situations, distressed debt, fund of funds, and venture debt as of June 2024 (most recent), and (2) the Cliffwater U.S. business development company (BDC) universe, as of September 2024 (most recent). Private equity AUM is as of June 2024. We use the Bloomberg Corporate Indices for USD IG and USD HY, and we use the Morningstar/LSTA Index for USD leveraged loans; these index-level amounts will not capture bonds and loans which are not index eligible. Indexes are unmanaged and one cannot invest directly in an index.

Further confirmation of private credit's staying power

Some market commentators have expressed concerns around perceived heightened competition between banks and private credit lenders, and whether this could fuel a deterioration of lending standards, pricing, and ultimately, fundamental performance.

But our analysis of a wide range of banks' comments on the subject reveals a different takeaway, in our view. As banks recognize that the various subsets of their financing businesses are becoming increasingly connected, we believe they will seek to offer a holistic solution to clients, with a product-agnostic approach.

Such a client-tailored tool kit will likely have **three fundamental components**, in our view:

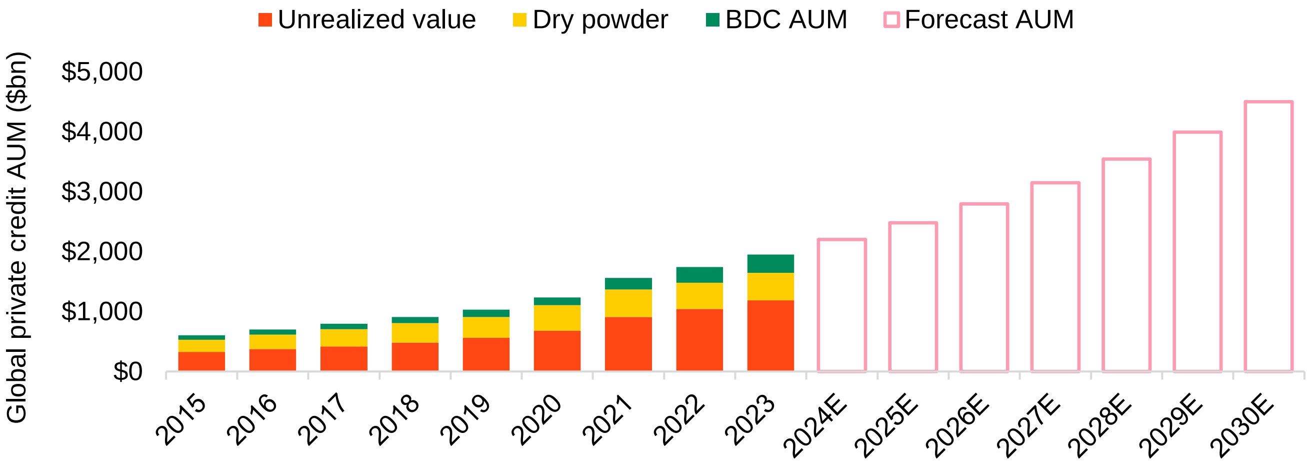
- **Commercial and industrial (C&I)** lending to small and mid-sized borrowers;
- **Syndicated financing** to larger borrowers via debt capital markets (IG, HY, leveraged loans, and convertible bonds); and
- **Private credit financing** to borrowers affiliated with private equity sponsors, as well as non-sponsored firms; this could include a wide range of strategies under the umbrella term of "private credit," such as senior direct lending, junior capital, and asset-based lending (among others).

In our view, banks' increased focus on bolstering their ability to offer a private credit solution (whether directly or via partnerships) provides further confirmation of private credit's staying power as a viable funding option for a wide range of companies, in a variety of market conditions. We expect more partnerships to emerge over time, given that this dynamic is in its early stages (and based on public commentary from a range of banks and other market participants).

We expect this will drive additional expansion of private credit's addressable markets of investors and borrowers. And as we outline in more detail in the following section, we see three high-level benefits across banks, private credit lenders, and the financial system (more broadly):

- **Banks** gain the ability to provide clients with a well-rounded and comprehensive product offering and increase their chances of maintaining a client relationship even when they may not have in-house expertise or capabilities to provide a specific private financing solution;
- **Private credit** lenders gain access to new sources of potential investment origination opportunities;
- From a **financial system** perspective, a wider range of corporate borrowers should gain access to funding options that can be more efficiently tailored to their specific needs.

Exhibit 3: We expect private credit AUM to reach $4.5 trillion by 2030
Private credit global assets under management ($ in billions)



Source: Preqin, Cliffwater, BlackRock. Historical (actual) data from Preqin and Cliffwater as of each calendar year-end. 2024E to 2028E are BlackRock estimates. **There is no guarantee any forecasts may come to pass.** As of February 13, 2025.

Multi-faceted benefits

For banks: an opportunity to remain at the center of the lending 'ecosystem'

Our analysis of public commentary from a wide range of global banks over the past several quarters suggests they realize the importance of incorporating private financing into their client service 'tool kit.' Through partnerships with private credit lenders, banks can provide a wide range of financing solutions to more effectively serve their clients, including offerings that don't align with their lending appetite due to requirements in Europe (such as prudential regulation) and the U.S. (such as the 2013 leveraged lending guidelines). As such, banks can still provide financing within their core focus areas, while using partnerships to expand their 'toolkit' and allow borrowers to receive financing more tailored to their needs.

For example, such partnerships enable banks to offer their borrower clients more bespoke or innovative financing solutions where they may not have the lending appetite, in-house expertise, or capabilities, sometimes even fine-tuning their underwriting expertise through collaboration. Other banks noted that such partnerships allow them to be more "relevant" and effective in supporting growth capital needs to current (and prospective) clients, across a wide range of market conditions – resulting in better outcomes for borrowers.

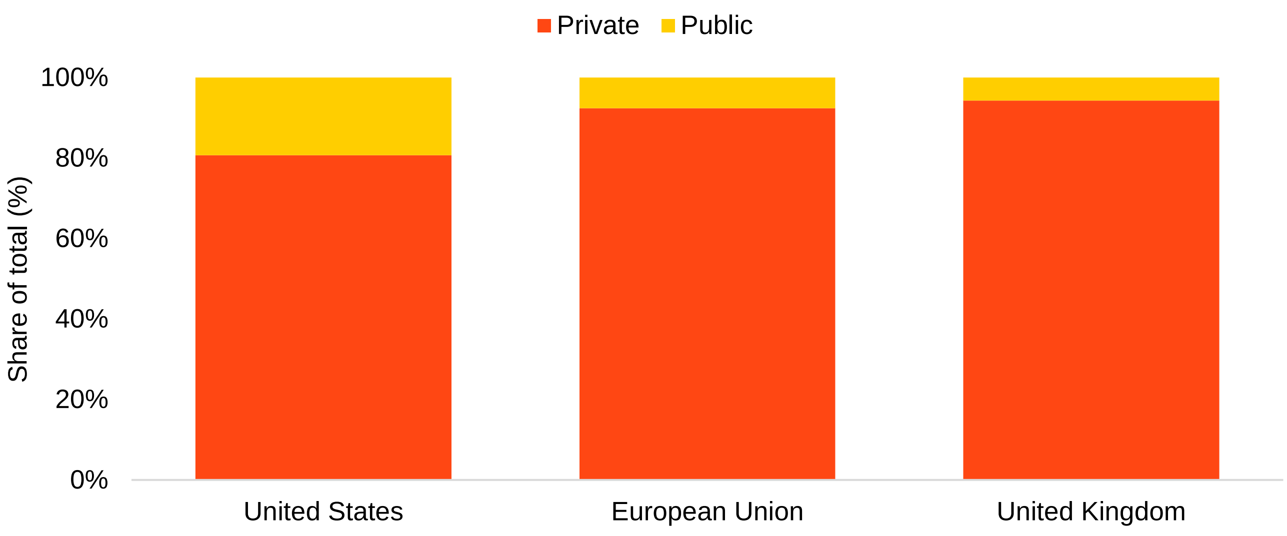
Importantly, these partnerships also allow the banks to retain a broader customer relationship, which may include services beyond lending, such as payments, custody, cash management, deposits, and foreign exchange. In this way, the focus areas of banks and private credit lenders become largely complementary. While there is occasional overlap, banks have noted it is either limited in scope or the opportunity set is large enough not to be considered a "winner-take-all" situation.

Other banks have referenced a desire to remain "disciplined" in how they deploy their balance sheet capital, which also underscores separate motivations for such partnerships, in our view.

For private credit: new origination channels and broader market expansion

Private credit lenders also benefit, as they can potentially tap another source of origination opportunities, depending on the area of focus. Asset-based lending is especially well-positioned for partnerships, in our view. This is because many banks already have the origination capabilities required, which can be challenging and laborious to replicate. And more broadly, such partnerships should also support continued growth in the private credit asset class, globally – alongside the four structural growth drivers we have already identified in previous research.

Exhibit 4: Most companies in the U.S., E.U. and U.K. are private
Distribution of public vs. private companies in each region (for firms with last twelve months' revenue greater than or equal to $100 million, or equivalent)



Source: S&P Capital IQ, BlackRock. As of February 24, 2025.

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Our above-consensus growth forecast for the "traditional" universe of private credit is outlined in Exhibit 3. That said, these figures only capture the corporate middle market lending segments (using a universe tracked by Preqin) and do not capture two additional larger market opportunities: (1) private asset-backed finance, which we have discussed in a separate deep-dive report, and (2) lending to investment-grade firms, which we addressed in our *1Q2025 Global Credit Outlook*.

For the financial system: efficiently funding durable growth and broadening financing access for a wide range of borrowers

In our view, the growth of private credit into a third and viable funding option, alongside the banking channel and the syndicated debt capital markets, has broadened a wide range of borrowers' access to consistent funding, allowing them to choose financing based on what is most efficient for their situation.

Importantly, private credit allows for patient lending throughout the different stages of an economic cycle, whereas bank lending standards, as we discuss later in this paper, tend to exhibit cyclicality – tightening during periods of weakness, when lending is sometimes most needed. This suggests that private credit and bank lending can often be complementary within the financial system.

At the same time, the public debt markets are serving larger and larger borrowers (Exhibit 10, page 8). As a result, a financing 'void' may be present for a middle market company in search of a modest amount of financing, which finds itself too small for the syndicated debt markets. Private credit can help fill this funding gap, in our view.

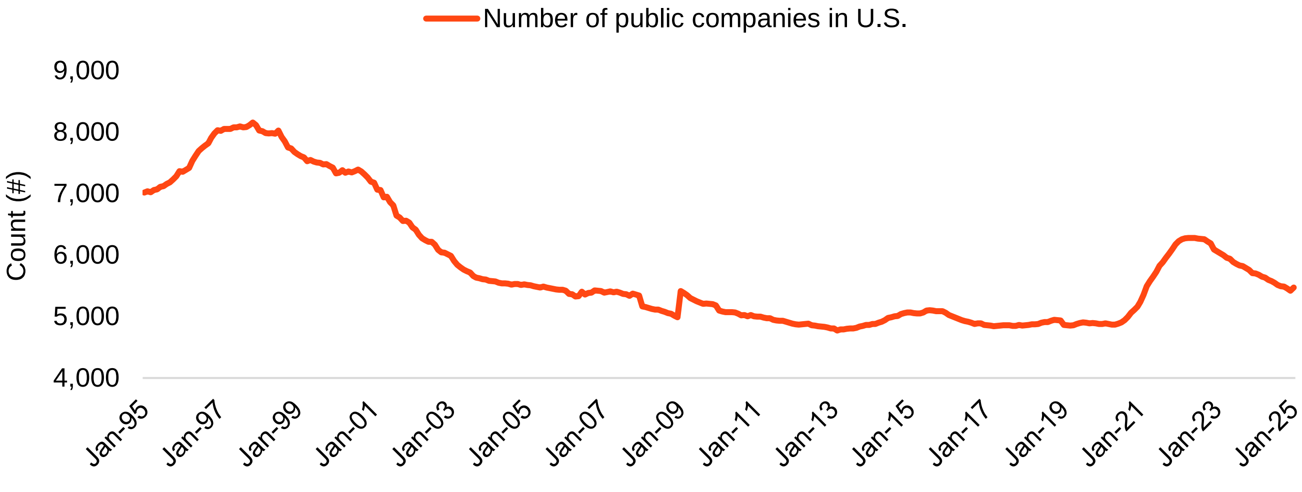
Moreover, as Exhibit 4 shows, most firms in the United States, European Union, and United Kingdom are private (unlisted). In the U.S., the number of public companies has declined over time (Exhibit 5). Private markets are, therefore, an important avenue for funding the early stages of companies' growth journeys.

Additionally, various structural, global growth trends – including the buildout of artificial intelligence-related capabilities – will require financing volumes that will likely exceed the capacity of traditional lenders. As a result, we believe markets will increasingly look to private capital as a funding solution.

Indeed, market forces, technology, and regulation are consistently moving financial activity to where it can be done most efficiently, making private credit a structural growth segment. We expect the private credit market to more than double to $4.5 trillion by 2030 (again, Exhibit 3).

For investors, we believe this presents an opportunity in fixed income to build public and private portfolios to optimize liquidity, yield, and diversification. Indeed, the duration, returns, and yield characteristics of private credit match the needs of clients with long-dated capital, including insurance companies, pensions, sovereign wealth funds, wealth managers, and investors saving for retirement.

Exhibit 5: Companies are staying "private for longer" in the U.S. equity market
Number of public companies in the U.S. based on NASDAQ and NYSE



Source: BlackRock, World Federation of Exchanges, Haver Analytics. As of January 31, 2025 (most recent for both as of March 3, 2025).

A financing 'continuum'

We see two specific areas where private credit's addressable market of borrowers is increasingly overlapping with lending activities historically completed in the banking sector (Exhibit 1):

1. **For larger borrowers:** between private credit and banks' syndicated debt capital market activities (i.e., banks' role in arranging, underwriting, and then distributing new sales of leveraged loans, HY bonds, and IG bonds to a wide range of investors); and
2. **For smaller and mid-sized borrowers:** between private credit and banks' commercial & industrial (C&I) loan activities (i.e., banks' role in using their own balance sheet to extend financing to firms).

Still, instances of cyclicality in both syndicated markets activity and bank C&I lending (which we discuss later) suggest that despite overlap, private credit can be complementary to these two financing channels.

#1: Convergence between private credit and syndicated credit markets

As private credit AUM has grown, two themes have been noteworthy. First, experienced managers (those with four or more funds) have raised the lion's share of capital. This trend has been further accelerated in the high-interest rate environment of the past few years, as investors become more discerning with where they allocate capital – favoring managers with restructuring expertise and workout experience, as well as seeking to do more with fewer counterparties (Exhibit 6). New entrants in private credit, by contrast, have raised only minimal amounts of capital (Exhibit 7).

Second, and related to the success of the most experienced (and largest) managers, average fund sizes have grown significantly (Exhibit 8). Larger fund sizes have allowed private credit lenders to finance larger borrowers and compete with syndicated markets (as mentioned in point #1, above). This is seen in Exhibit 9, which shows the growth of "jumbo" private credit loans in recent years. Exhibit 10 illustrates the average size of new deals in the USD syndicated leveraged loan and HY bond markets, for reference.

Exhibit 6: Experienced private credit managers have raised the lion's share of capital
Fourth fund or later private credit fundraising as a share of total funds and aggregate capital raised, RHS

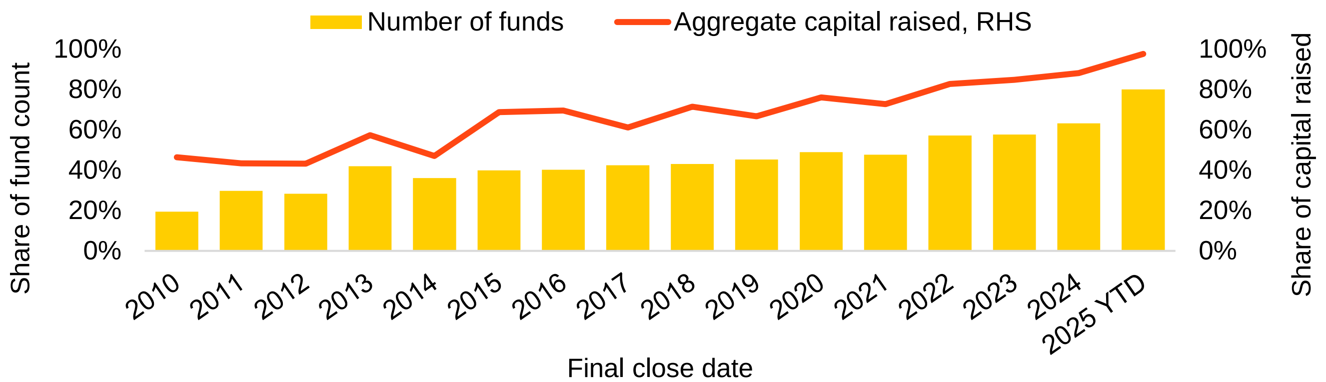
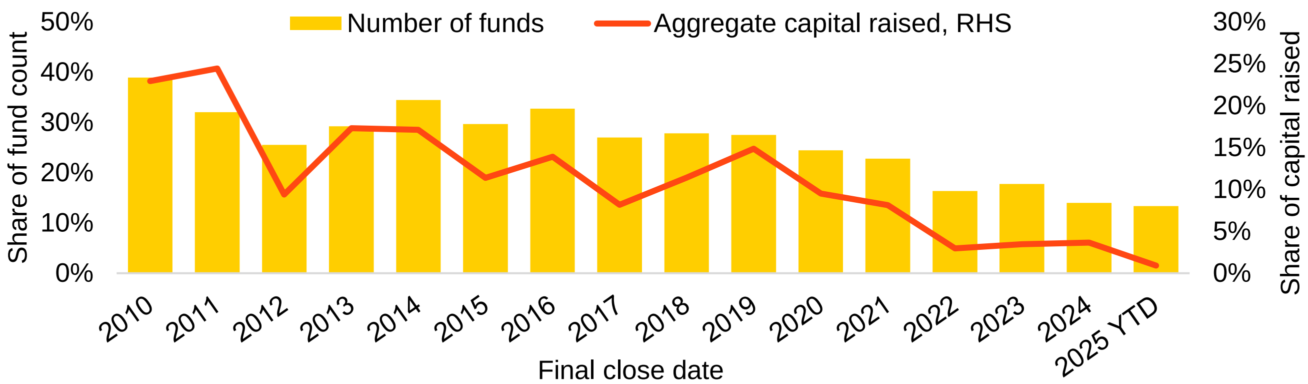


Exhibit 7: First-time private credit funds have raised only minimal amounts of capital
First-time private credit fundraising as a proportion of total funds and aggregate capital raised, RHS



For both charts: Source: Preqin, BlackRock. Captures data as of February 26, 2025.

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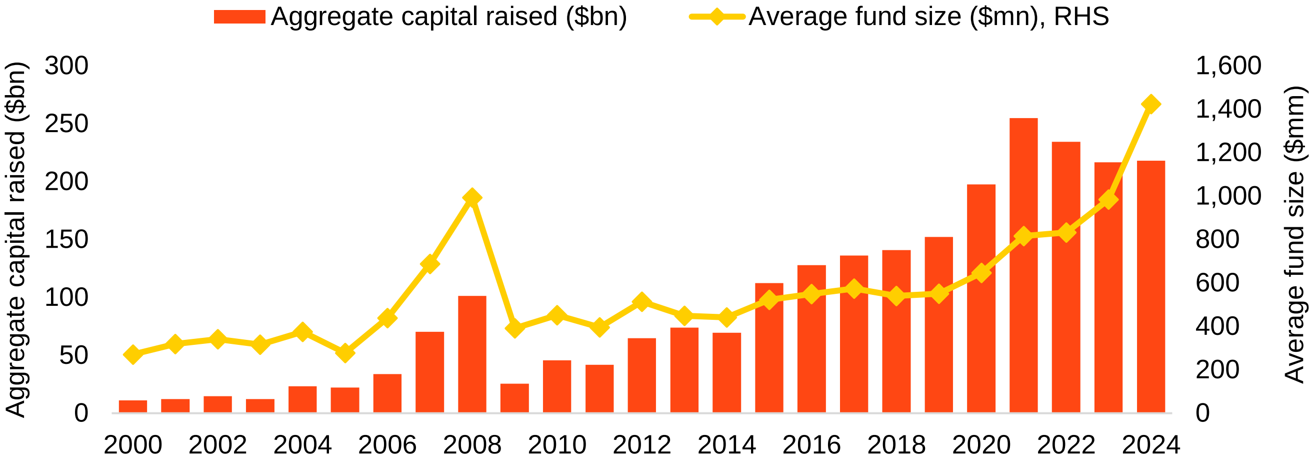
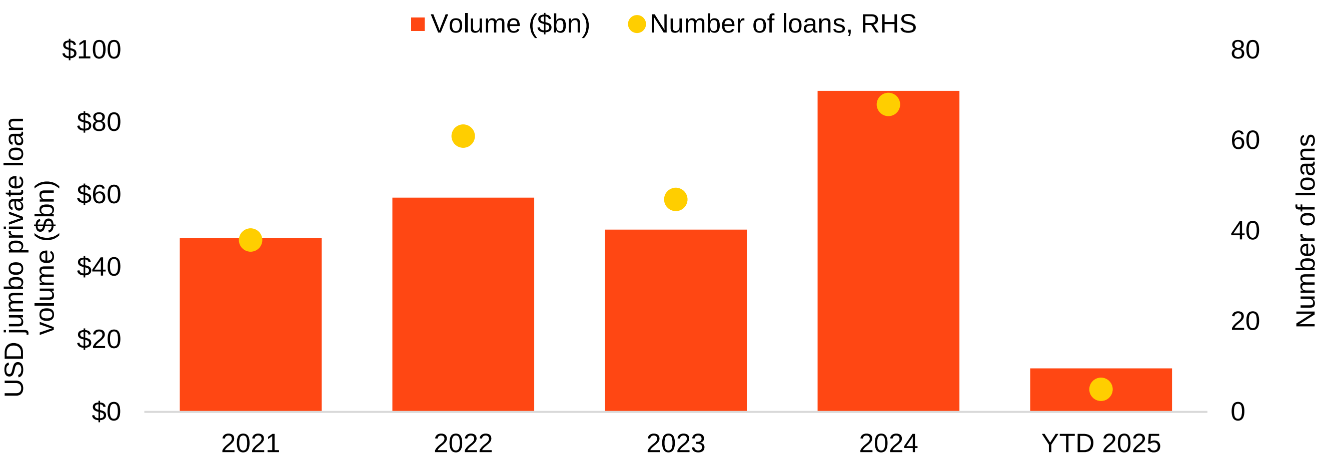
Exhibit 8: Private credit fund sizes have grown, over time
Global private credit aggregate capital raised annually (in $ billions), and average fund size (in $ millions), RHS. Captures the "final close date" for each fund.



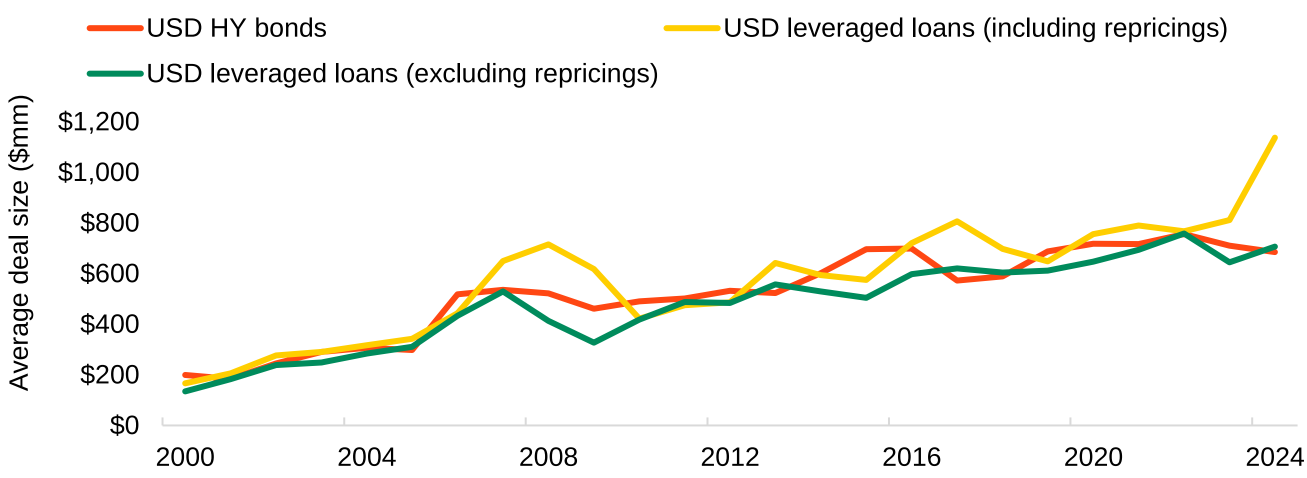
Source: Preqin, BlackRock. As of YE2024. YTD2025 values excluded due to limited observations.

Exhibit 9: "Jumbo" private credit loans are becoming more frequent
Issuance of private ("jumbo") loans greater than $1 billion in the USD market, and by number, RHS



Source: KBRA DLD, BlackRock. As of February 5, 2025 (most recent as of February 23, 2025). Includes incremental amounts to existing financings that total >=$1bn.

Exhibit 10: Larger average deal sizes in the public debt market
Average deal sizes (in $ millions), in the USD HY and USD leveraged loan primary markets



Source: Dealogic (ION Analytics), Pitchbook LCD, BlackRock. Captures issuance through year-end 2024, and as of February 25, 2025. For loans, we capture institutional issuance only (and exclude pro-rata).

Exhibits 12 and 13 illustrate the overlap between the broadly syndicated leveraged loan and private credit (direct lending) markets by demonstrating refinancing activity between the two asset classes. Exhibit 12 uses data from Pitchbook LCD and highlights how the 'mix shift' varies over time (in both directions), based on market conditions and investor risk appetite. And Exhibit 13 uses KBRA DLD data to show the aggregate number and amount of "private market steals," over a multi-year period.

The impact of technicals in the syndicated loan market

Importantly, unique technicals in the broadly syndicated leveraged loan market play a large role in the 'ebb and flow' of the private vs. public financing mix shift, in our view. We believe this point is often underappreciated by some market participants.

For context, approximately two-thirds of leveraged loans in the primary market are purchased by collateralized loan obligations (CLOs), which are rating sensitive structures. Most CLOs have limits on CCC-rated loan holdings (usually 7.5%). In periods of market volatility or when recession risks are elevated, CLO managers not only shy away from purchasing CCCs, but also tend to avoid B- loans, for fear of downgrade *into* CCC territory.

Given this significant concentration of the syndicated leveraged loan market buyer base (among CLOs), and their rating sensitivity, this has meaningful implications for the liquid credit market's receptivity to lower rated borrowers in times of volatility. This can be seen in Exhibit 11, which shows the very low amount of CCC-rated leveraged loan issuance in 2022 and 2023. We have previously documented a similar aversion to the lowest-quality segments of the HY credit market during periods of volatility.

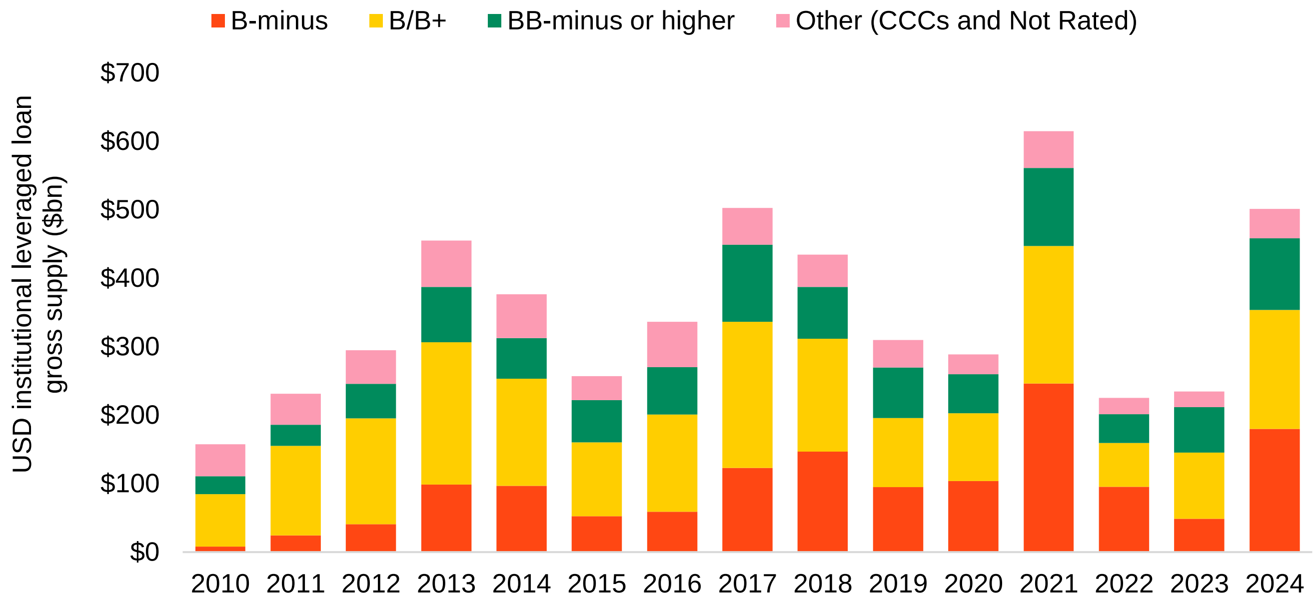
Indeed, borrowers may choose to tap the private credit markets for new financing (or refinancing existing public debt into private) when capital is less available (or access is more uncertain) in public markets.

More broadly, market conditions in syndicated markets are just one of many reasons a borrower may choose to refinance public debt into private credit (or vice versa). Indeed, as Exhibits 12 and 13 again illustrate, the private credit market captured financing from the syndicated markets in 2024 and in the early months of 2025, even as liquid credit market conditions were quite accommodative.

We believe considerations such as flexibility, customization, and desiring a long-term financing partner are playing a role. Exhibits 14 through 17 provide additional context on issuance trends for LBOs and PE-backed borrowers, as well as the syndicated leveraged loan "takeout" activity in 2023 and 2024.

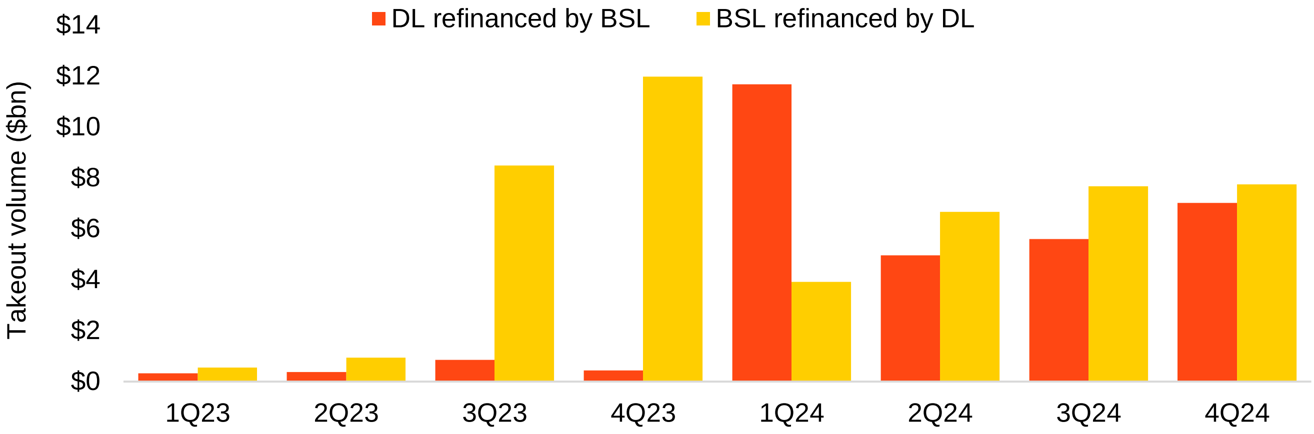
Exhibit 11: The syndicated leveraged loan markets were not receptive to lower-rated issuers for much of 2022 and 2023

USD institutional leveraged loan issuance, by year and rating ($ in billions)



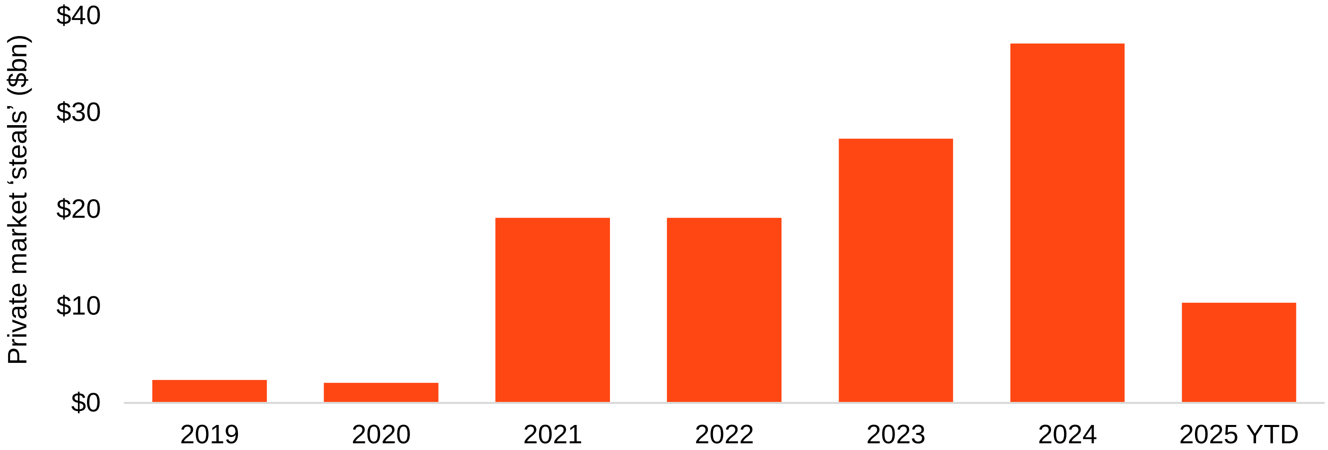
Source: Pitchbook LCD, BlackRock. Captures data through year-end 2024.

Exhibit 12: The private vs. public 'mix-shift' will ebb and flow with market conditions
New issue broadly syndicated loans (BSL) and direct lending (DL) 'takeouts' ($ in billions)



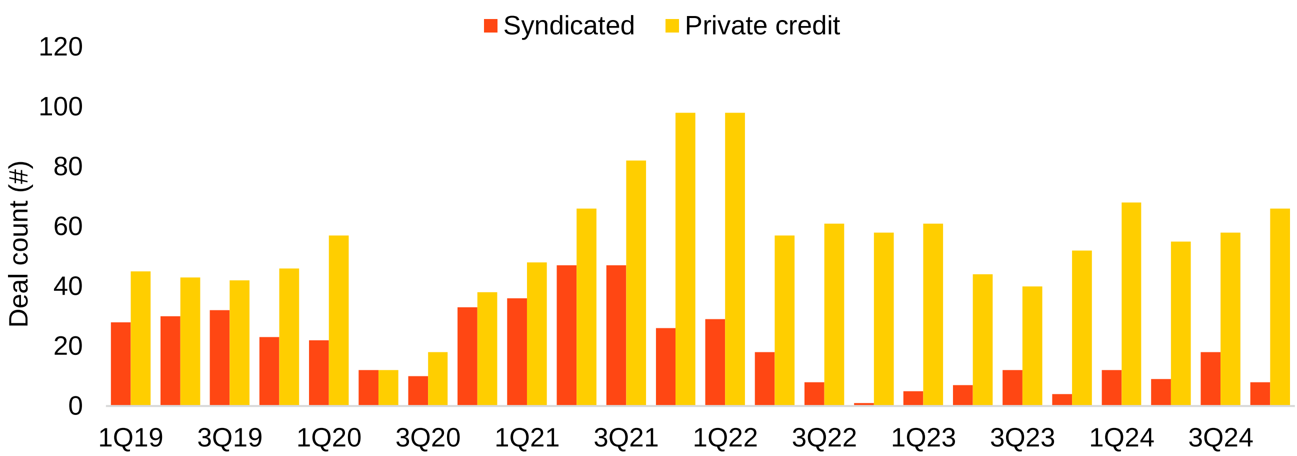
Source: Pitchbook LCD, BlackRock. As of 4Q2024 (most recent available). Historical data is subject to change as LCD collects more information.

Exhibit 13: The private market is refinancing syndicated loans, even as syndicated markets are wide open in 2024 and 2025
Private market 'steals,' which represent the volume of debt refinanced from the USD broadly syndicated loan market into the USD private credit market ($ in billions)



Source: KBRA DLD, BlackRock. As of February 4, 2025 (most recent as of February 23, 2025). Includes incremental amounts to existing financings that total >=$1bn. Excludes refinancings into private credit from USD HY bonds.

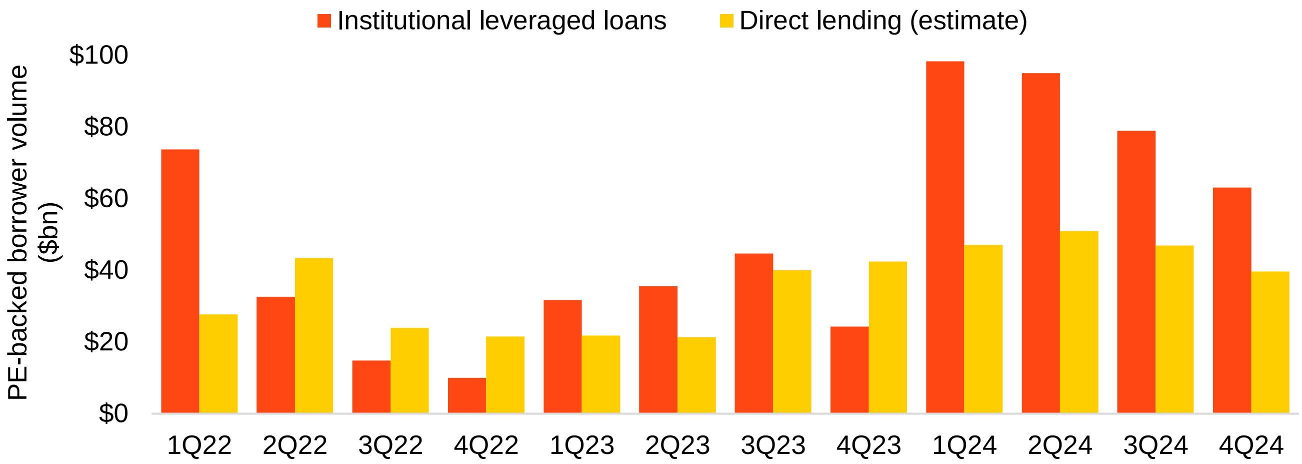
Exhibit 14: The majority of LBOs sought funding in the private credit market
Count of LBOs financed in the USD broadly syndicated loan and USD private credit markets



Source: Pitchbook LCD, BlackRock. Captures data through December 31, 2024 (most recent as of February 23, 2025). Private credit count is based on transactions covered by LCD News.

Exhibit 15: Private equity (PE) backed borrowers are utilizing both markets, based on market conditions and other considerations

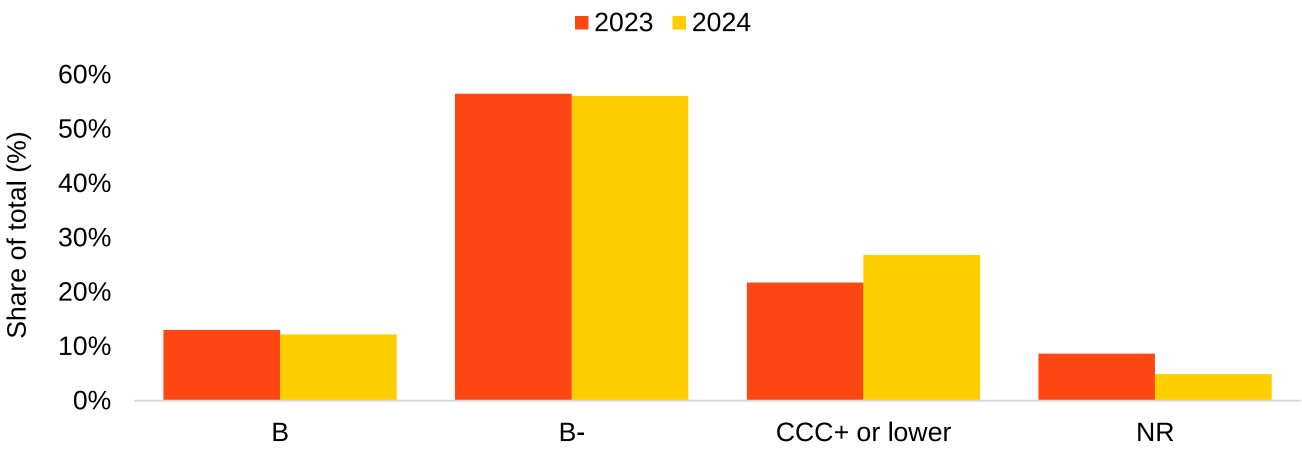
New-issue volume for private equity backed borrowers, financed in the USD broadly syndicated institutional loan and USD private credit (direct lending) markets ($ in billions)



Source: Pitchbook LCD, BlackRock. Captures data through December 31, 2024 (most recent as of February 23, 2025). Direct lending analysis is based on transactions covered by LCD News.

Exhibit 16: The ratings distribution of syndicated loan takeouts has been steady between 2023 and 2024…

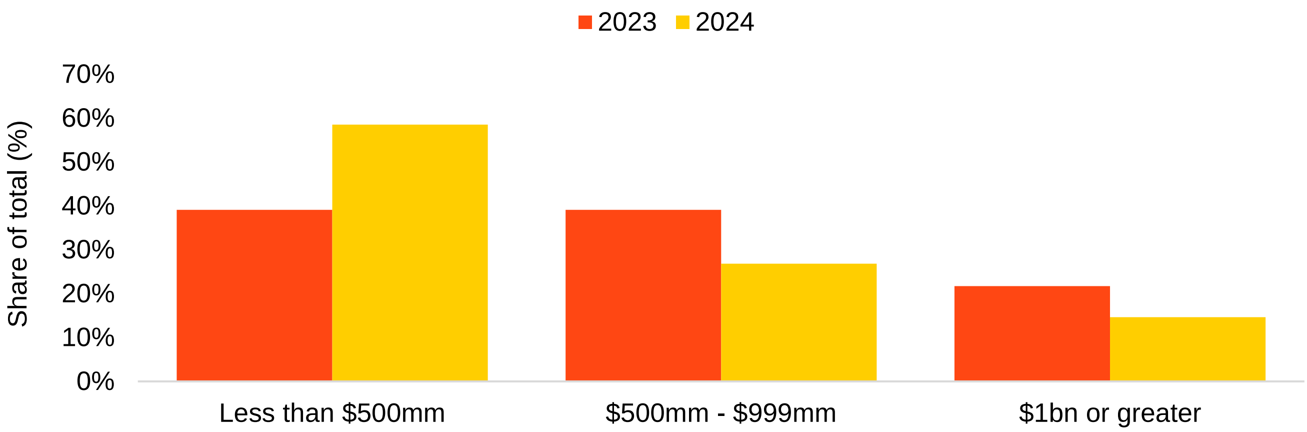
Syndicated loans taken out with a direct lending deal: distribution by borrower rating



Source: Pitchbook LCD, BlackRock. Captures data through December 31, 2024 (most recent as of February 23, 2025).

Exhibit 17: …while the size distribution shifted slightly smaller in 2024

Syndicated loans taken out with a direct lending deal: distribution by loan size



Source: Pitchbook LCD, BlackRock. Captures data through December 31, 2024 (most recent as of February 23, 2025).

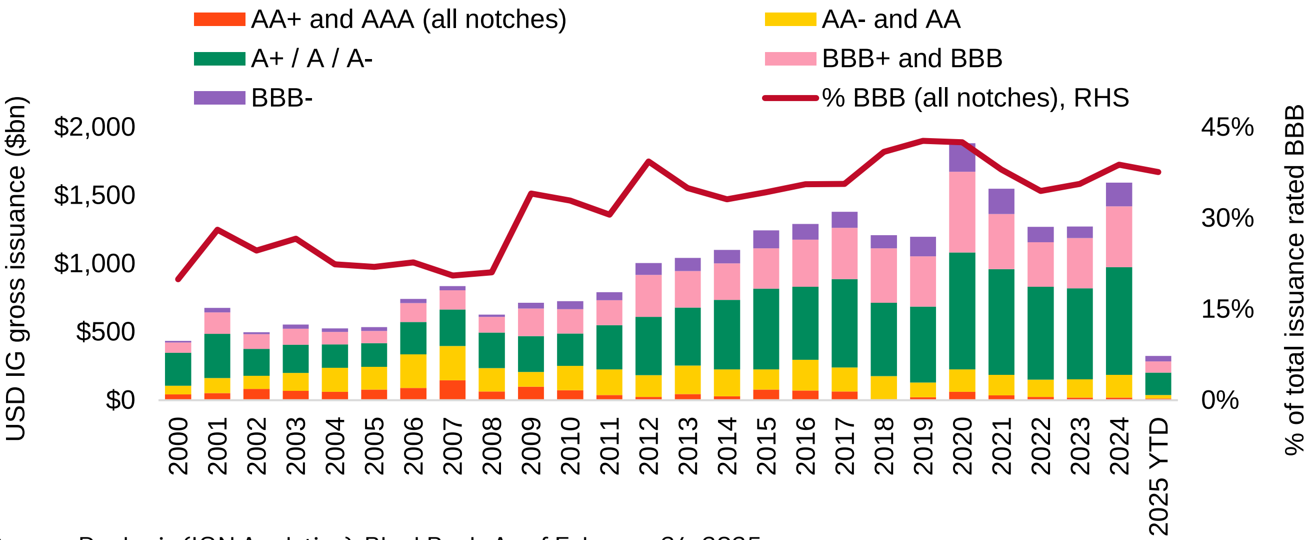
The public vs. private credit continuum should also extend to IG

We also see a use case for *IG-rated* borrowers to incorporate more private financing into their capital structures. As we discussed in our *1Q2025 Global Credit Outlook*, the USD IG universe has shifted lower in ratings, and higher in leverage, as it has grown (Exhibit 18). We believe this pattern reflects corporate CFOs' views that the cost of debt capital was likely better optimized at a higher leverage level, so long as the rating remained comfortably within IG territory (at BBB). Some of the outstanding USD BBB capital structures are quite large (Exhibit 19). Many of these issuers have already tapped global IG debt markets (EUR, CHF, GBP, JPY) to diversify funding sources. With such a large amount of publicly traded debt outstanding, these borrowers risk pushing market capacity limits and/or the 'upper bound' for IG-rated leverage at the holding company level.

In such instances, the use of private credit for future financing may provide a more optimal and customized solution, especially for IG-rated borrowers with asset-rich or cash flow-rich subsidiaries (where value may be unlocked with secured financing). These capital solutions can often be 'ratings efficient', as well. For example: structured as debt for the investor, but with potentially beneficial equity-like treatment from the rating agencies. Such financings can be structured bilaterally or via intermediaries (including banks), and can be sizable ($5 to $10 billion, for example). While the decision to access such private financing solutions is nuanced, we see the potential for this opportunity set to continue to grow, over time.

Exhibit 18: BBB-rated debt has captured a larger share of USD IG new issue activity

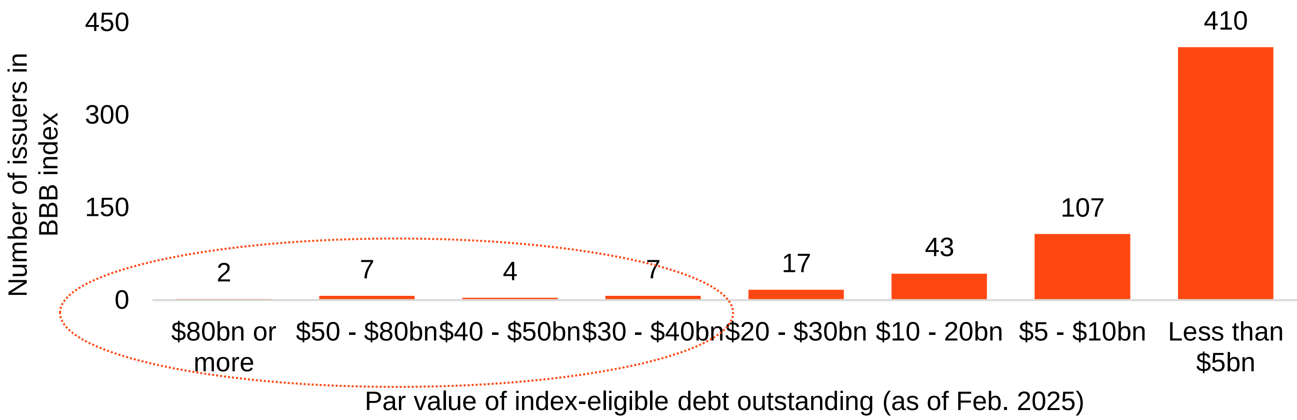
USD IG gross issuance by Dealogic "Effective Rating at Launch," ($ in billions), and the share rated BBB (across all three notches), RHS



Source: Dealogic (ION Analytics), BlackRock. As of February 24, 2025.

Exhibit 19: Some USD BBB debt structures are now very large

Number of issuers in the Bloomberg USD BBB Corporate Index by index-eligible debt outstanding



Source: Bloomberg (LCB1TRUU), BlackRock. As of February 21, 2025. Excludes issuers that are not index-eligible.

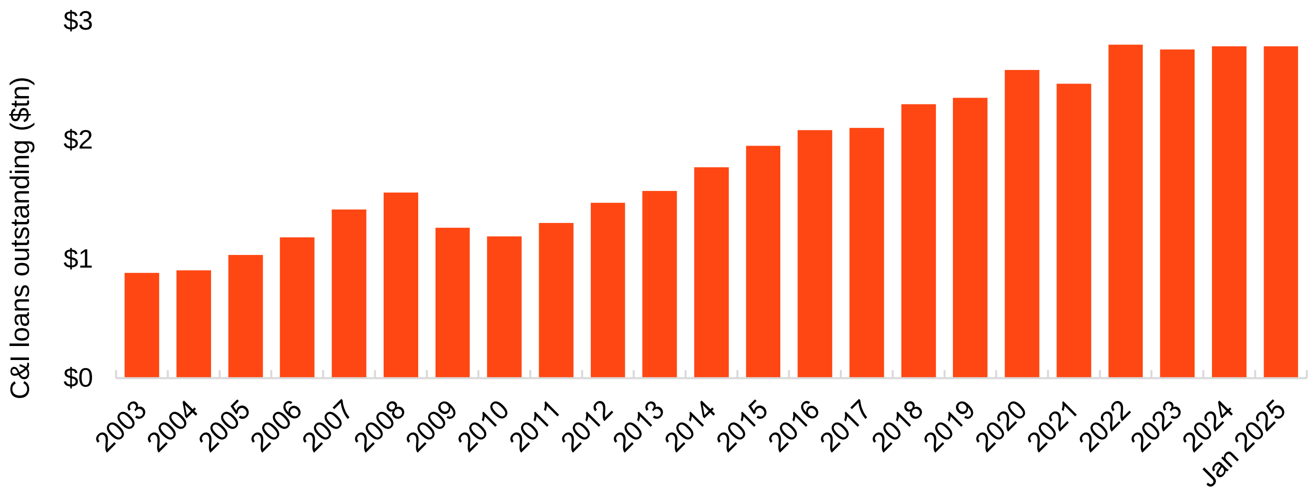
#2: Convergence between private credit and traditional bank lending (via C&I loans)

In addition to their role as arrangers of *syndicated* financings, banks also directly lend and hold loans on their balance sheet – often referred to as commercial and industrial (C&I) loans. C&I lending includes secured or unsecured credits to business enterprises for commercial and industrial purposes and can include working capital advances, term loans, and loans to individuals for business purposes. C&I loans are typically extended to small and mid-sized borrowers.

In recent years, however, the amount of C&I loans outstanding by U.S. commercial banks has been somewhat stagnant (Exhibit 20). A longer-term view of data captured by the Federal Reserve's Senior Loan Officer Opinion Survey illustrates how bank lending standards exhibit a cyclical trend – tightening during periods of economic weakness and market volatility. A similar trend is visible among lending standards in the Euro Area, as the ECB's Bank Lending Survey has shown over past cycles.

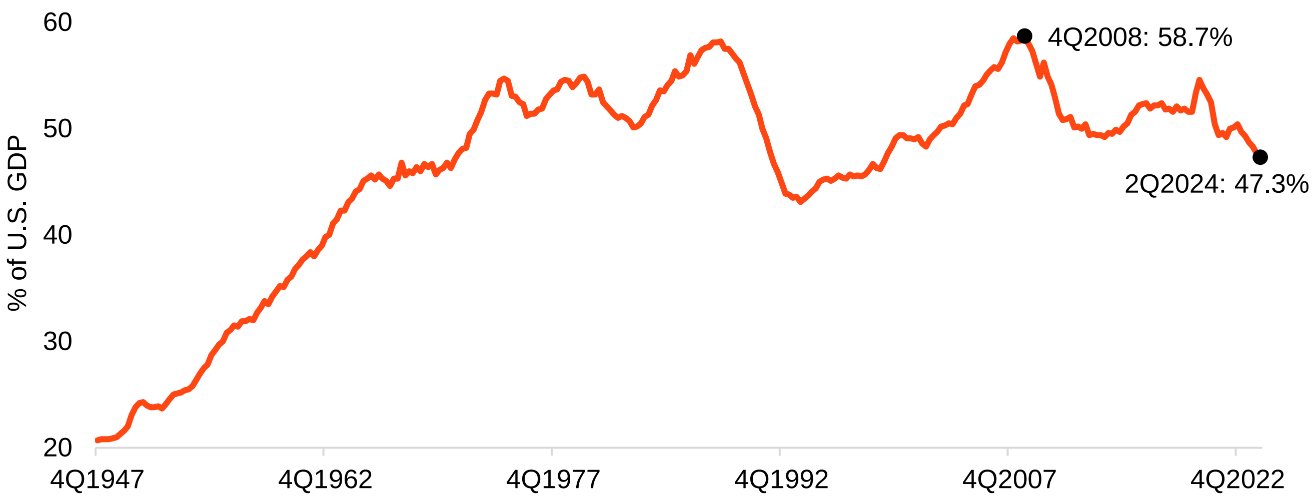
Exhibit 21 demonstrates how U.S. bank lending as a share of overall U.S. GDP has declined over time from its peak in 4Q2008, in part due to post-financial crisis regulations such as the 2013 leveraged lending guidelines.

Exhibit 20: C&I loan value outstanding by U.S. banks has been roughly flat in recent years
Commercial and Industrial (C&I) loans outstanding for all U.S. commercial banks, at the end of each calendar year (2003-2024), and as of January 2025 ($ in trillions)



Source: Board of Governors of the Federal Reserve System, BlackRock. Captures data through January 31, 2025 (most recent available as of March 3, 2025).

Exhibit 21: U.S. banks' share of lending to the broader economy has declined since the financial crisis
U.S. bank lending to the domestic private non-financial sector (at market value) as a share of U.S. GDP



Source: BlackRock, Bank for International Settlements. As of 2Q2024 (most recent as of March 3, 2025).

The U.S. has a considerably well-diversified financing landscape, relying less on banks to finance the economy than peers. Exhibit 22 demonstrates this, with only 32% of total credit extended in the U.S. coming from banks (vs. 52% in the Euro Area, for example). We believe this directly reflects North America's well-developed capital markets (inclusive of debt and equity) as well as the region's private financing markets (inclusive of private credit, private equity, etc.).

Significant risk transfers

An important caveat is the significant risk transfer (SRT) market, which is more mature among European banks than other geographies.

SRTs are distinct from origination-focused partnerships because they tend to be 'one-off' in nature and involve 'transferring' risk (most often, synthetically) on a reference pool of balance sheet assets for regulatory capital relief, rather than as a proactive approach to origination or capability development (Exhibit 23). SRTs can be used by banks (which 'buy protection') to manage and optimize capital and risk. Institutional investors can 'sell protection' on the other side of the transaction. Similar to the private credit industry's interest in purchasing blocks of loans sold by banks, private credit has also had interest in SRT transactions.

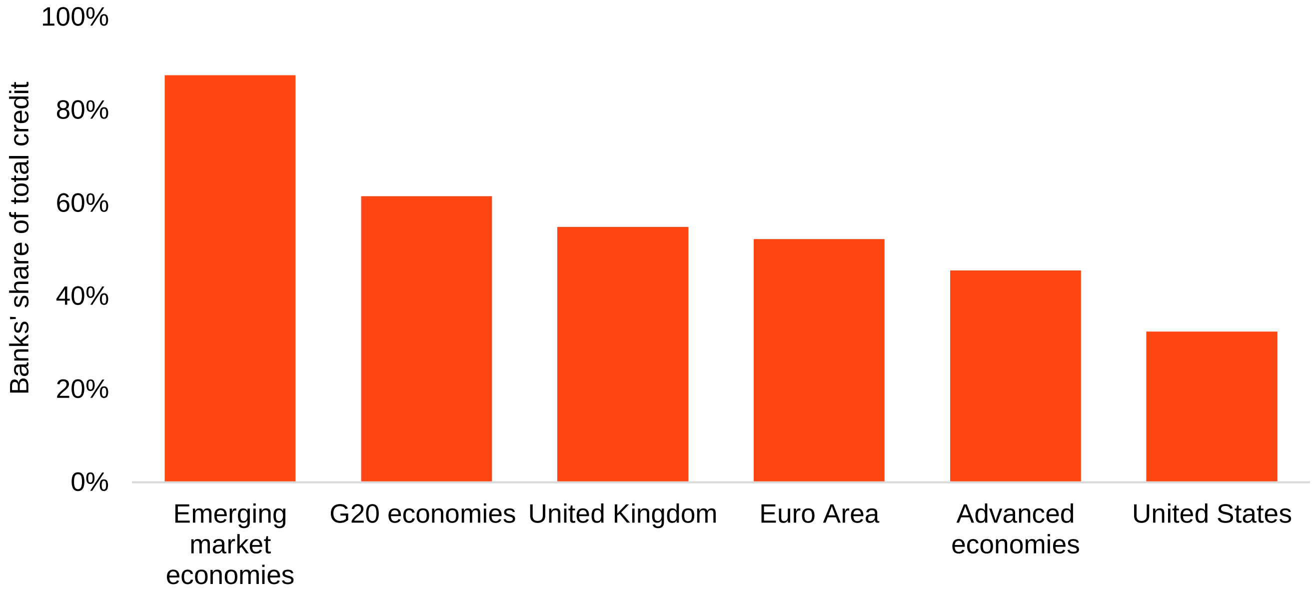
SRT activity in Europe was originally fueled by anticipated tightening of capital requirements under the Basel III international regulatory framework. Morgan Stanley, using data from Structured Credit Investor, estimates that 75% of 2023 SRT transactions were completed in Europe, vs. only 19% in the U.S.

That said, activity in the U.S. has been increasing over the past 18-24 months, among large and regional banks in the U.S. , after the Federal Reserve (in September 2023) provided additional clarification on regulatory capital treatment. Here too, the anticipated shift of higher capital requirements (via Basel III "endgame") was one driver (alongside broad diversification of risk), as banks anticipated an increase to their risk-weighted asset calculations. As of the time of this writing, the next steps of the Basel III "endgame" proposal are uncertain.

While not directly comparable, we view the SRT market as directionally consistent with the insurance industry's use of reinsurance – and the reinsurance industry's use of retrocession coverage – to manage capital and risk.

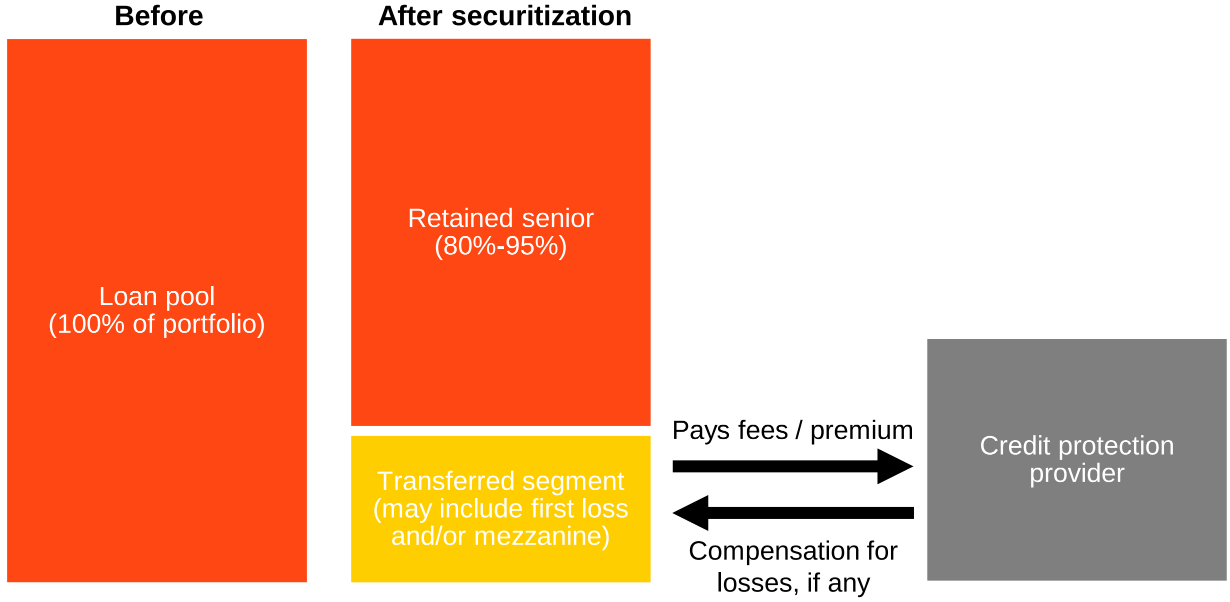
Exhibit 22: Reliance on bank lending varies across regions

Banks' share of total credit provided to the private non-financial sector - select regions



Source: Bank for International Settlements, BlackRock. As of 2Q2024 (most recent available as of March 3, 2025). The "private non-financial sector" includes non-financial corporations (both private-owned and public-owned), households and non-profit institutions serving households as defined in the System of National Accounts 2008.

Exhibit 23: Illustrative example of synthetic SRT securitization transaction



Source: European Systemic Risk Board, "Occasional Paper Series, No. 23" (October 2023), BlackRock. For illustrative purposes only.

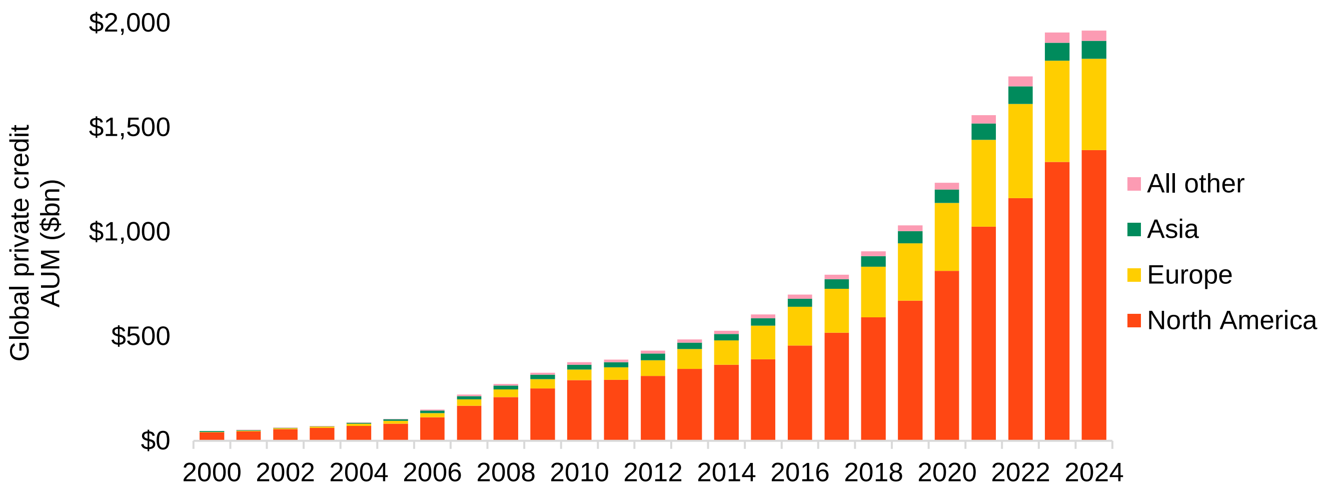
As private financing options become an increasingly utilized aspect of banks' offerings to borrowers, we expect banks may move away from a model whereby they originate, lend, and hold a loan on their balance sheet to a model of origination and connection – where the bank originates the loan and places it with a lender that is better suited from an asset-liability matching perspective.

We also see potential for banks to play a larger role in arranging, connecting and structuring larger private markets transactions between asset managers and corporates – leveraging their expertise and relationship networks, without directly using their own balance sheet. In this way, banks and non-banks are working together, to provide a range of financing solutions, across liquid and private credit.

For context, Exhibit 24 demonstrates how global private credit AUM is distributed across different regions. While North America has historically been the largest share of AUM (and continues to be), other geographies have grown as the asset class has developed. Looking ahead, we see scope for growth outside of North America to continue. That said, the North American market is far from saturated, in our view.

Exhibit 24: North America represents 71% of global private credit AUM

Total global private credit assets under management by region, in $ billions



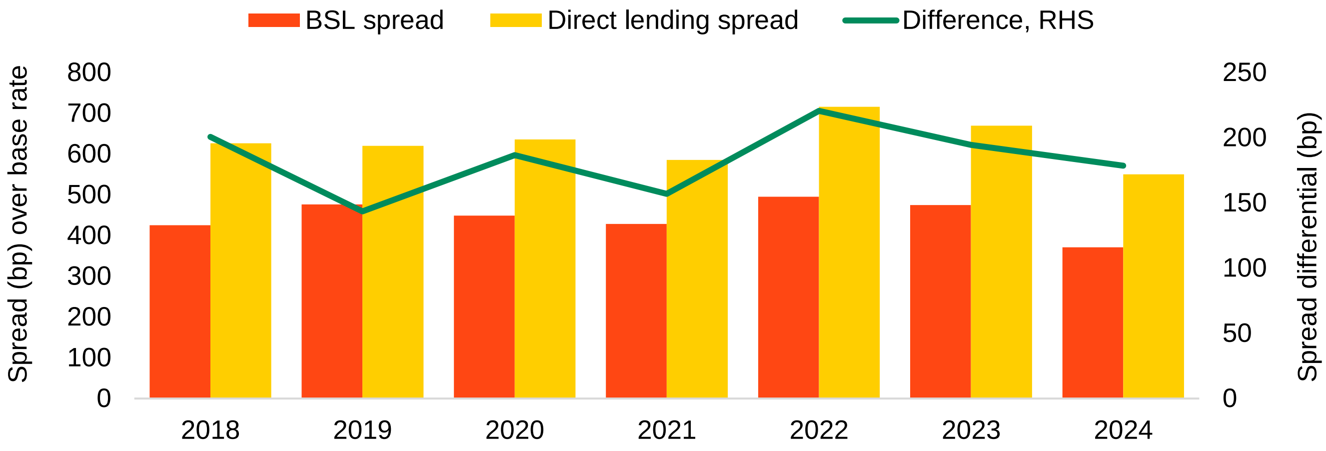
Source: Preqin, Cliffwater, BlackRock. As of June 30, 2024 (most recent available as of February 20, 2025). Excludes Real Estate and Infrastructure lending. "All other" includes Latin America / Caribbean, Africa, Australia / New Zealand, Middle East & Israel, and Diversified / Multi-Regional. North America includes BDCs.

Pricing and fundamentals haven't shown *material* shifts

Notably, the spread differential between direct lending loans and broadly syndicated loans (using data from Pitchbook LCD) has persisted, as shown in Exhibit 25. While tighter vs. 2022, it remained meaningful at 178bp, on average, for 2024. A range of factors can contribute to private credit risk premiums, including borrower and deal-specific exposures. But more broadly, we view this extra spread premium as primarily compensating direct lenders for the risks inherent in their plan to own the loan until maturity (often for years, through an economic cycle), as well as for the value of certainty, flexibility, and customization provided. As a reminder, broadly syndicated leveraged loans and IG/HY bond financings are typically arranged by banks and distributed ('syndicated') to a wide range of investors immediately after pricing. As such, banks generally do not plan on holding this financing for an extended period.

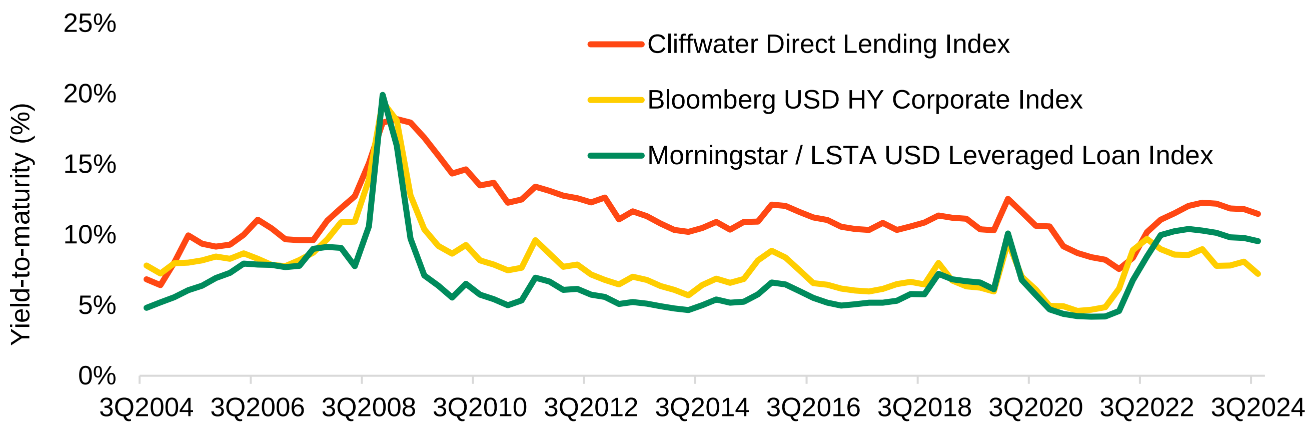
This yield differential is also consistent with the pattern highlighted by the Cliffwater Direct Lending Index (CDLI) – an asset-weighted index of approximately 17,000 directly originated middle market loans totaling $393 billion – which we use as a proxy for U.S. middle market lending. As Exhibit 26 highlights, the CDLI yield as of 3Q2024 was 11.5%, compared to 9.5% for the USD leveraged loan index.

Exhibit 25: Average direct lending spreads remain elevated vs. the BSL market
Spread of LBOs financed in the USD broadly syndicated loan (BSL) and direct lending markets, and average spread differential, RHS



Source: PitchBook LCD, BlackRock. Captures data through December 31, 2024 (most recent available as of February 23, 2025). Direct lending spread data reflects senior secured first-lien loans and unitranche facilities. BSL data reflects loans issued to borrowers rated B-minus.

Exhibit 26: Direct lending has historically offered a yield 'pick-up' vs. public markets
Average index yield-to-maturity levels



Source: Cliffwater LLC, Bloomberg, Morningstar / LSTA, Pitchbook LCD, BlackRock. As of 3Q2024 (most recent for CDLI). **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

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Additionally, fundamentals – in aggregate – have remained relatively resilient based on a wide variety of third-party data (loss rates, covenant defaults, fixed charge coverage ratios), as we recently discussed. Exhibit 27 highlights how the CDLI income compares to its modest loss rates over the past two years, despite the higher cost of capital for borrowers. We attribute much of this fundamental resilience to the supportive growth backdrop in the U.S., which has tracked at an above-trend pace for the past several quarters. (*Note: in its earlier years, the CDLI had a greater share of subordinated loans. As of September 2024, 85% of the CDLI was senior loans, vs. 38% as of December 2009*).

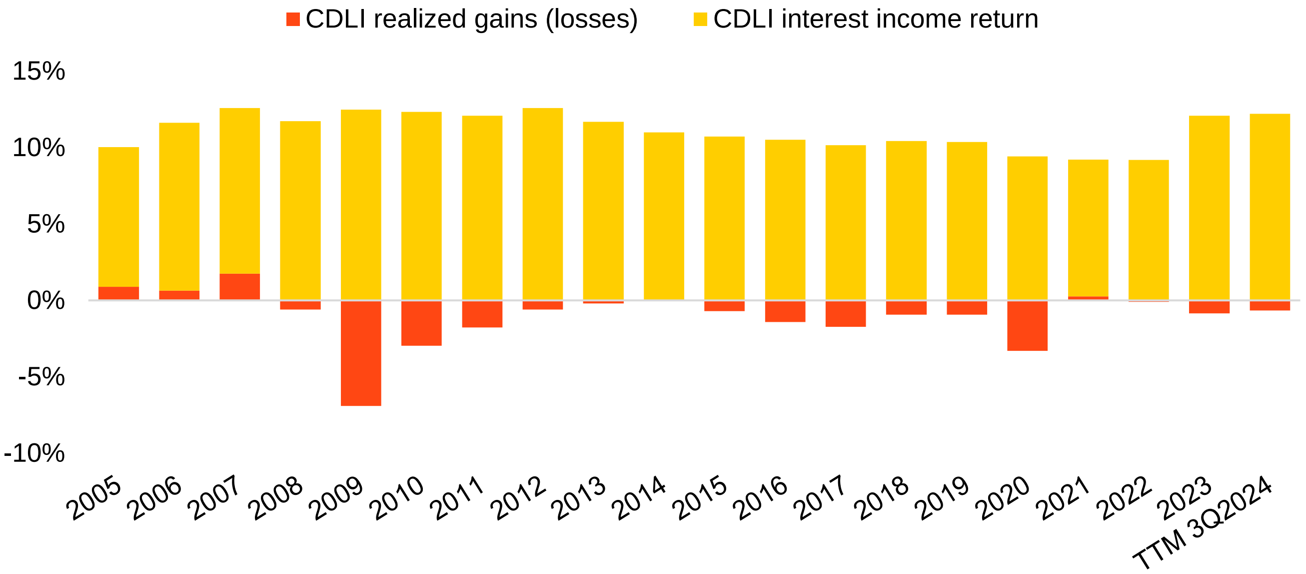
Dispersion, not disruption

That said, the trend of dispersion – which we have been highlighting across a range of areas (consumer, commercial real estate, liquid corporate credit, private credit) – remains firmly in place. We expect dispersion to remain a key theme in 2025 – especially given the significant policy shifts anticipated following the U.S. presidential election.

This is evident by Exhibit 28, which shows the divergence between the *size-weighted* and *issuer-weighted* covenant default rates. For example, the size-weighted covenant default rate (which is influenced by the largest borrowers) for the U.S. portfolio companies in the Lincoln International Proprietary Private Market Database declined for six consecutive quarters through 3Q2024 (Exhibit 6). And while it increased slightly (to 2.4%) in 4Q2024, it remains well below the longer-term average of 3.4%.

By contrast, the equal-weighted covenant default rate (which is influenced more heavily by smaller sized firms) has been more elevated, indicating smaller companies are defaulting more frequently. Indeed, the companies on the smallest end of the size spectrum – those with less than $10 million in annual EBITDA – have the highest rate of covenant defaults, according to Lincoln International (Exhibit 29). That said, a higher number of covenant defaults does not necessarily imply higher losses – this is because deals involving larger companies are more likely to have fewer covenants (and therefore *fever covenants on which to default*).

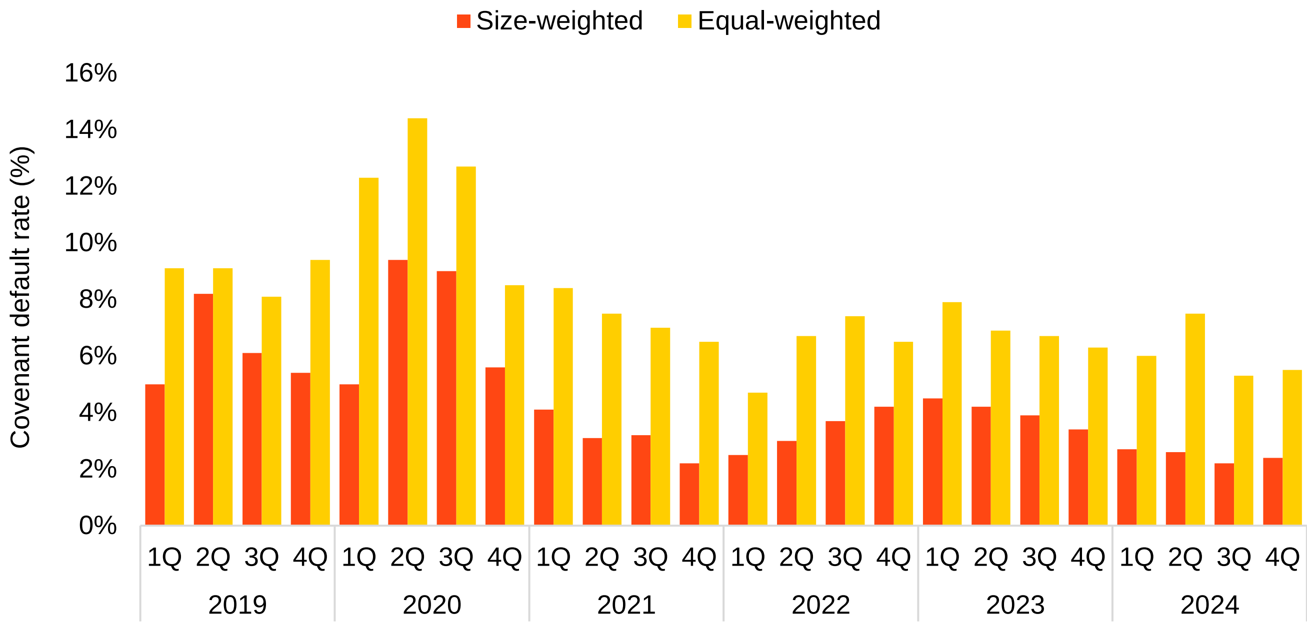
Exhibit 27: Realized losses for the CDLI remain modest despite elevated rates
Trailing 12-month income return and realized gains (losses)



Source: Cliffwater Direct Lending Index, BlackRock. As of September 30, 2024. Realized gains can be driven by equity stubs, warrants, and gains on exited investments. These were more common in 2005-2007, when second lien and mezzanine loans were a greater portion of the CDLI. We exclude unrealized gains and losses in this chart. Long-term unrealized gains (losses) are approximately zero, as they either convert to net realized losses upon a credit default, or are reversed when principal is fully repaid. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Exhibit 28: Dispersion is evident in covenant default rates between small and large firms

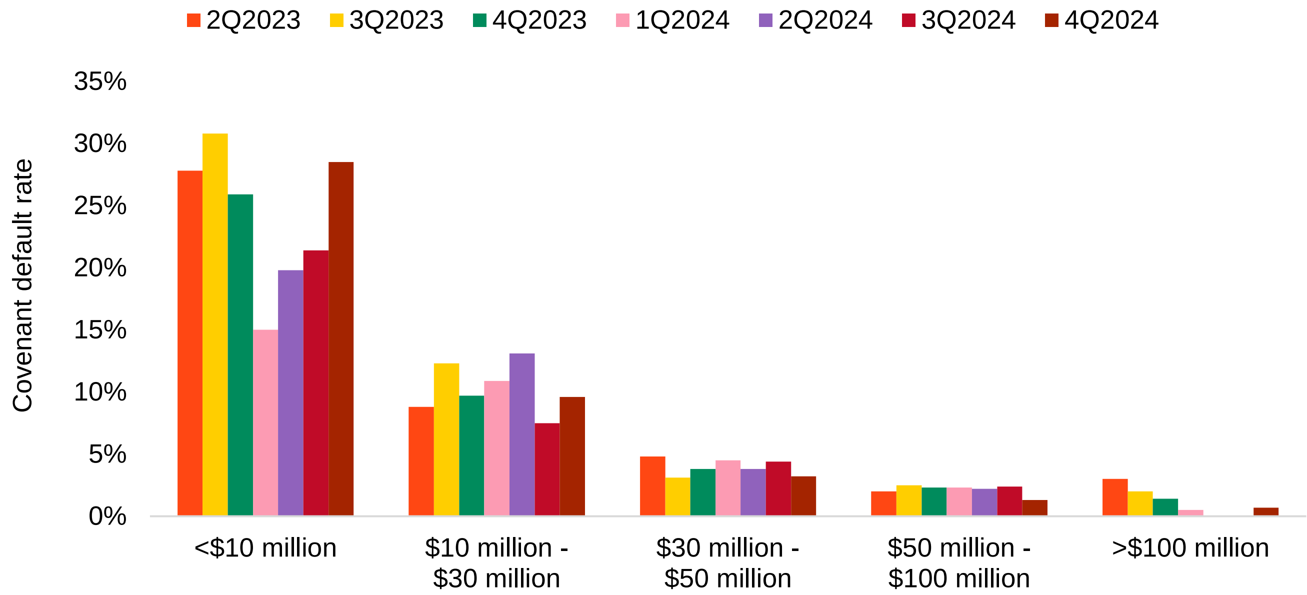
Aggregate covenant default rate, including size-weighted and instance-weighted, for the U.S. portfolio companies included in the Lincoln International Proprietary Private Market Database



Source: Lincoln International Valuations & Opinions Group Proprietary Private Market Database, BlackRock. As of 4Q2024 (most recent as of February 26, 2025). A default is defined by Lincoln as a covenant default (not necessarily a monetary default). The size-weighted calculation considered the total net debt balance for each of the portfolio companies that had a defaulting security in the respective quarter.

Exhibit 29: Borrowers with very small EBITDA bases are experiencing higher rates of covenant defaults

Covenant default rates (size-weighted, by annual EBITDA) for U.S. portfolio companies in the Lincoln International Proprietary Private Market Database



Source: Lincoln International Valuations & Opinions Group Proprietary Private Market Database, BlackRock. As of 4Q2024 (most recent available as of February 26, 2025). A default is defined by Lincoln as a covenant default (not necessarily a monetary default). The size-weighted calculation considered the total net debt balance for each of the portfolio companies that had a defaulting security in the respective quarter.

Some context on fund-level financing

We now turn our attention away from private credit's *lending*, to private credit's *fund-level borrowing*.

New disclosure requirements (call report data) among U.S. banks have provided some additional granularity on the lending to the various categories of non-banks – a broad universe that includes private credit lenders, as well as investment funds, pensions, insurance companies, broker-dealers, and government-sponsored enterprises.

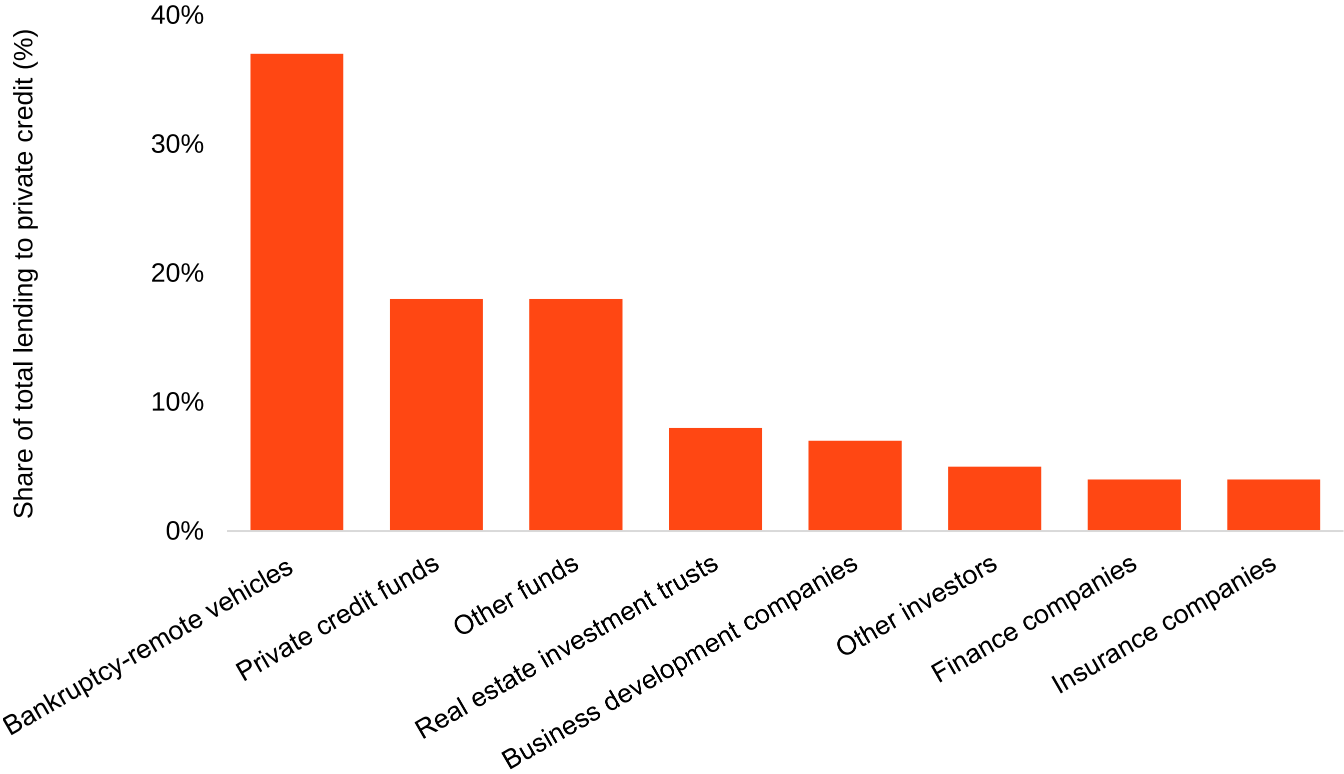
A February 2025 analysis conducted by Fitch Ratings found that U.S. banks had $158 billion in loans to private credit at year-end 2024, as well as $104 billion in unused commitments. (Fitch's analysis focused on the U.S. banks with the largest balances to non-banks and included the important caveat that exposure figures may be revised as more banks report under the new framework, which was only recently implemented).

The rating agency noted that the exposure was considered manageable and that the financial stability risks were "currently limited" given the structure of private credit lending (which includes low fund-level leverage and closed-end funds with committed capital). Fitch also noted that the 10 largest banks had $148 billion in loans to private equity funds and $51 billion in unused commitments.

A separate February 2025 analysis published by the Federal Reserve Bank of Boston – and focused on large U.S. banks subject to Federal Reserve stress tests – estimated these banks' total loan commitments to private credit *and private equity sponsors* (at the fund-level) was approximately $300 billion. This represents roughly 14% of large banks' total lending to non-banks (as of 2023).

These loans represent just 1.8% of the total fund assets held by private equity and private credit funds. And as the Boston Fed analysis highlights, the combined private equity and private credit fund-level leverage is well below the leverage inherent in the U.S. banking system.

Exhibit 30: A 2024 Moody's survey of global banks highlighted a variety of lending forms
Lending commitments of 32 surveyed global banks to private credit institutions by type of lending, as a percentage of $525 billion in total loan commitments



Source: Moody's, BlackRock. As of October 15, 2024. Bankruptcy remote vehicles are collateralized by middle market loans, per Moody's.

In October 2024, Moody's published the results of an anonymized survey of 32 *global* banks (collectively holding $30 trillion in balance sheet assets) "actively engaged with private credit." The survey showed $525 billion in outstanding loan commitments (includes drawn and undrawn) as of year-end 2023 across various lending forms (Exhibit 30), representing 3.8% of total loan commitments, on average.

The survey found that lending to that ecosystem increased 18% from 2021-2023, compared to 6% annual growth in total loans. Growth in loans to private credit was the fastest among banks with $100 billion to $500 billion in total assets. Moody's also found that most of the growth occurred from 2021 to 2022, with a slowdown in 2023 owing to funding strains on U.S. regional banks and anticipation of heightened bank capital requirements globally.

The survey showed that "nearly all respondents" lend directly to private credit-focused funds and business development companies (BDCs; relevant for the U.S. only), but the BDC category represents a smaller portion of their loan books. BDCs are also active issuers of public debt instruments in the U.S., and revolving corporate credit facilities are often used as relationship lending to drive banks' involvement in future debt capital market activities, in Moody's view.

The Moody's bank survey also found that most of the lending exposures to the private credit industry were in asset-based lending (with loan-to-values in the range of 55% to 65%) and, to a lesser extent, subscription credit facilities (which are overcollateralized). Moody's added that the lending is largely focused on secured, first-lien loans to "large, well-established" private credit managers (with baseline credit assessment ratings of A and Baa). Unsecured lending accounted for less than 10% of total commitments and was generally extended to "high credit quality borrowers." Net asset value facilities were a "small part" of survey respondents' lending activity, per Moody's.

Anecdotally, we find that banks engaged in fund level financing are becoming increasingly involved in syndicating those facilities to other investors (such as pension funds and insurers). An October 2024 report by Moody's echoed this, noting that insurers and other alternative lenders participate in fund level financing, either directly or through bank syndications. From a financial perspective, this could further diversify exposure across the financial system.

Continued on next page

Select examples of partnership structures

To better understand the scope of bank participation, we analyzed public commentary (such as earnings calls, investor presentations, and press releases) from over 30 financial institutions. From this analysis, we identified 41 instances of banks participating in the private credit market (including via the four forms we detailed on page 3 of this report; Exhibit 31).

This participation has skewed toward middle market lending and North America – consistent with the most developed segments of private credit, today. Still, participation was considerably diversified in target private credit strategy and region. This suggests, in our view, that there is further scope for expansion in participation, especially as other segments of the private credit space mature.

Below are a few illustrative examples of how a partnership may be structured:

Example 1: A bank and an alternative asset manager partner to capture middle market corporate lending opportunities. The asset manager forms a private credit vehicle, and the bank contributes equity. The bank leverages its extensive client network to provide sourcing and origination capabilities, and the asset manager leverages its underwriting and investment expertise to deploy the capital.

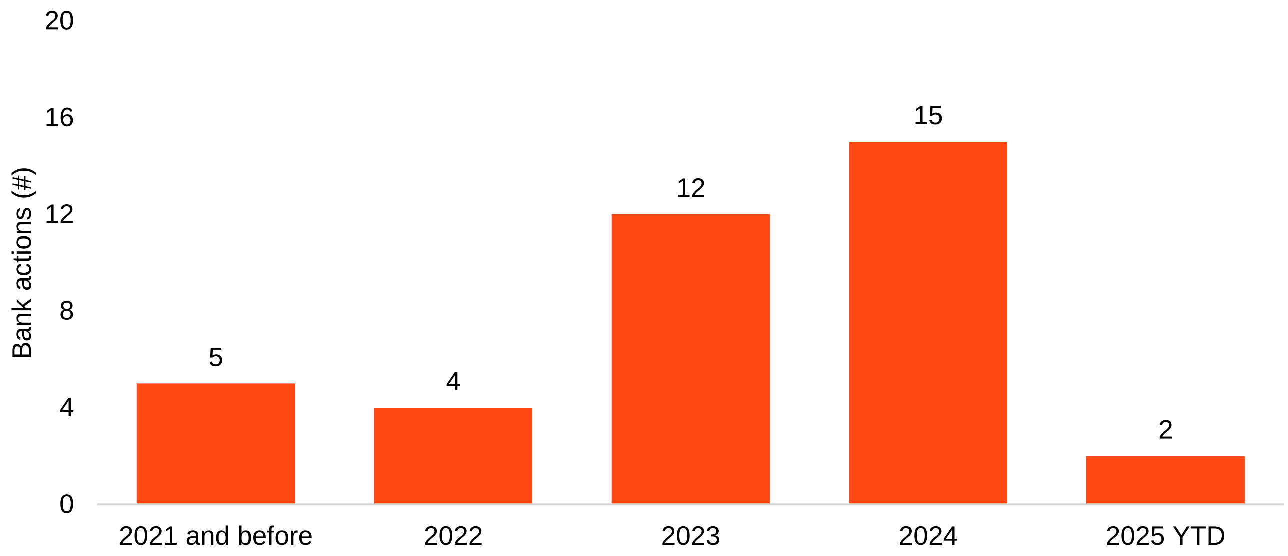
Example 2: A bank and an alternative asset manager partner to establish a private investment-grade debt fund designed to meet certain investment criteria for insurance investors (for example, rating or duration profiles). Both partners contribute origination capabilities, operating expertise, and client and borrower relationships. Both benefit from gaining access to a broader origination network, providing tailored investing and financing solutions for clients, and earning fees on the investment vehicle.

The level of detail around these partnerships varies. While high-level details are often available, the underlying operations are less frequently detailed in public communications. In some cases, participants also acknowledged that the details are still being defined.

While we believe partnerships have important benefits, they can also present potential risks that need to be managed. For example, supply (of capital for investment) and demand (investment opportunities) capacity imbalances can strain the partnership. Casting a wide net – in terms of potential investing opportunities and sources of capital – will likely be key to mitigating this risk, in our view.

Exhibit 31: Bank participation in private credit is increasing

Instances of banks* participating more actively in the private credit market



Source: Company disclosures, BlackRock. As of March 3, 2025. *Includes two instances of FinTech companies. Excludes synthetic risk transfer (SRT) transactions.

Unless otherwise stated, all reference to $ are in USD.

Risk Warnings:

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. You may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Cliffwater Direct Lending Index (CDLI) is an index that assists investors to better understand private credit as an asset class. The CDLI seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility criteria. The CDLI is an asset-weighted index that is calculated on a quarterly basis using financial statements and other information contained in the U.S. Securities and Exchange Commission ("SEC") filings of all eligible BDCs. Eligibility is set as all assets held by BDCs that (1) are regulated by the SEC as a BDC under the Investment Company Act of 1940; (2) have a substantial majority (approximately 75%) of reported total assets represented by direct loans made to corporate borrowers, as categorized by each BDC and subject to Cliffwater's discretion, and (3) file SEC form 10-Q (or 10-K, as applicable) within 75 (or 90) calendar days following the current Valuation Date. If a BDC meets the eligibility criteria, but has not filed its report on Form 10-K or 10-Q with the SEC at the time the index is reconstituted, asset information from its report will be included in the index at the time of the next reconstitution. This information is derived from sources that are considered reliable, but BlackRock does not guarantee the veracity, currency, completeness or accuracy of this information.

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