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Private Credit Whitepaper: Looking beyond the noise

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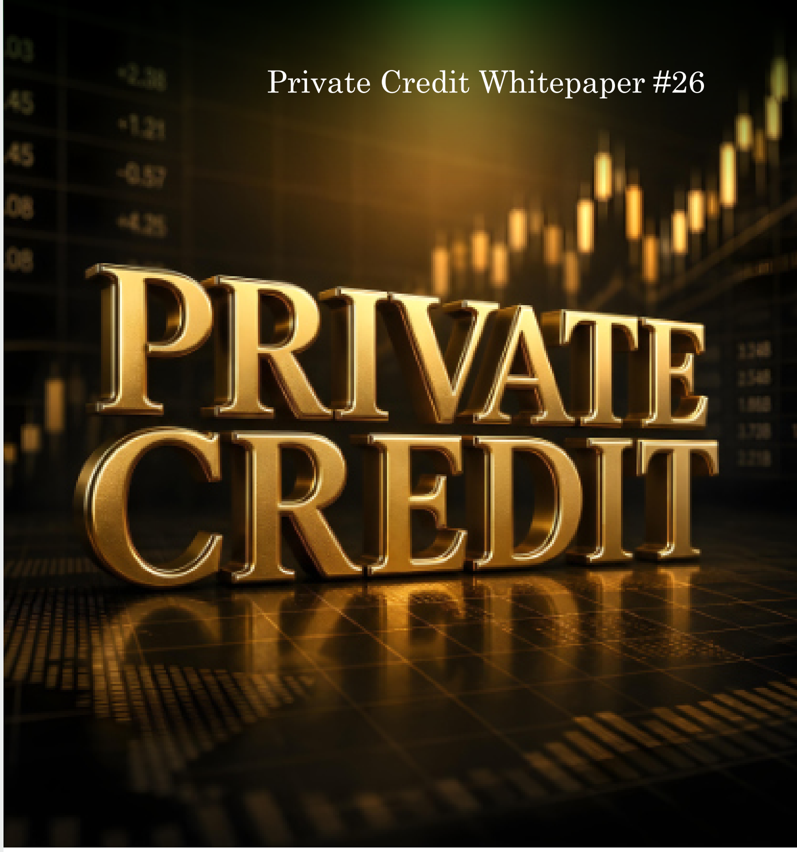

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sean.thompson@cioinvestmentclub.com
chloe.irapah@cioinvestmentclub.com
www.cioinvestmentclub.com
cio-investment-club

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Private Credit Whitepaper: Looking beyond the noise

Demand for private credit has soared in the years since the financial crisis as asset managers have stepped into banks' shoes in the lending space and investors continue to seek higher yields.

While the asset class continues to evolve, concerns over transparency and the potential for systemic contagion have come to the fore recently following a spate of defaults in the software sector and broader private credit space.

Private credit funds often have a high exposure to software businesses, which has proved problematic in 2026 as rapid advancements in AI pose a growing threat to some areas of the market, such as SaaS companies.

Investors – concerned about the potential overvaluation of assets and loan defaults in the software sector – have sought to withdraw their capital from private credit funds, which in turn has propelled fears about liquidity risk in the asset class.

Where the risks lie in software

Jay Ramakrishnan, senior managing director, founding member, and head of originations and growth initiatives at AB Private Credit Investors, says their business invests in software in a portion of its portfolio. She suggests the market has indiscriminately put all software into one big bucket without understanding the nuances of different types of software.

“Enterprise software is changing, but I don't think it's dead,” Ramakrishnan says.

“There are software companies in the B2B space that are mission critical with high switching costs, serving as true systems of record where a corporates’ core information and workflows are running through this entrenched platform.

“It’s quite hard to immediately shake that with GenAI with the level of reliability required. That’s not to say GenAI doesn’t pose a risk, but we see these players actually spending on R-D and investing in AI themselves and believe they are well positioned.”

Ramakrishnan sees risks in software that is a single point application without real entrenchment, or an analytics tool, and software more in the B2C application software space.

“For example, if all the software does is aggregate data, scrape data off websites, and put it into a dashboard, there are AI vulnerabilities. Some content creation would also likely fall in this category, and there are other examples.”

A key factor in the assessment is the criticality of the software to the customer and what type of need the end user has, Ramakrishnan says.

“AI is probabilistic. It uses pattern recognition, deriving an outcome that it thinks is right. In government-regulated industries, like healthcare for example, you can't afford that. You need it to be deterministic and absolutely correct. In these cases, AI complements and sits alongside the software as opposed to replacing it. It may replace some labour, but not the software itself.”

She adds: “Some of the core incumbent software businesses will survive and thrive, as they themselves develop AI tools to enhance their product offerings – over time we will see the winners and laggards shake out.”

Todd Isaac, group chief investment and treasury officer at Hiscox, is pragmatic on the outlook for software.

“Many software loans are included in direct lending and can be a credible investment if combined as part of a larger portfolio,” he says. “But when earning 10% on a diversified portfolio that covers quite a bit of trouble on a relatively small exposure, especially if it lasts for four or five years.”

While concerns over AI disruption in the software sector are valid to some extent it is unlikely they would have led to the level of liquidity issues in the Business Development Companies (BDCs) market if retail investors had not been invested in such funds.

> *“Many software loans are included in direct lending and can be a credible investment if combined as part of a larger portfolio...”*

A liquidity mismatch

The democratisation of private credit has seen perpetual BDCs or open-ended funds rapidly grow in popularity among yield-hungry retail investors thanks to their semi-liquid, open-ended characteristics. But whether retail investors and private credit are compatible is a contentious dilemma.

Isaac says P&C companies have relatively small allocations to private credit, but he is clear that retail investors should avoid the asset class if they expect liquidity.

Ramakrishnan adds that the problem with redemptions from evergreen – or perpetual – semi-liquid funds is that retail investors expectations have been misaligned.

“In the US there's been a lot of media noise around retail vehicles and there’s been a lack of understanding and misaligned expectations regarding liquidity within the retail investor base. The 5% redemption limits were designed to protect the investor and ensure an orderly liquidity mechanism,” she says.

> *The 5% redemption limits were designed to protect the investor and ensure an orderly liquidity mechanism…*

“I don't think people truly appreciated the illiquidity of the asset class until they put in their redemption notices.”

Ramakrishnan suggests the numerous redemption requests submitted to the likes of Blackstone and Blue Owl were driven by retail investor uncertainty and sentiment regarding Gen AI risk on software and the private credit space more broadly based on headlines.

Another issue with evergreen funds, Isaac says, is that managers are under pressure to deploy capital from their subscription base swiftly to avoid cash drag, even in an unfavourable climate.

“If a client were to put £100m in an open-ended fund, the manager could be incentivised to spend that quickly to mitigate cash drag,” he says. “But if we invest into a closed end fund deployment is spread out over the investment period of three-to-four years, we can then include the deployment time into our overall investment thesis.”

Peter Martin, investment officer of the MDU, posits that evergreen funds may potentially have issues and may work best when they are attracting flows.

“Evergreens do not cope well with redemptions, especially when they're material in my experience,” he says.

“In some respects, evergreens work best when there is capital flowing into the fund and they can allocate to new areas or take relative value decisions with the allocation from cash. When it becomes stabilised, they become more turgid and less flexible in allocation and approach and in responding to market conditions because it's too costly to sell, even if they know there's a headwind coming from a particular sector.

“In addition, on material redemptions it is difficult to maintain the integrity of the fund and keep it appropriately risk managed and diversified.”

Looking under the bonnet

Ramakrishnan counters that evergreen funds or perpetual funds have many shades, and evergreen funds have their place among limited partners (LPs).

"We have private evergreen funds – we refer to them as 'hybrid perpetual' – that are not for the public retail market," she says. "These have a three-year commitment period when assets are deployed in a drawdown format, then once every year thereafter, investors have the right to choose whether to stay in or redeem.

"If they choose to redeem, they get repaid when the loans get repaid in their normal course, not immediately, and we do not sell assets to redeem investors. So it can take another couple of years to get their capital back in full."

Ramakrishnan says the reason LPs like this structure is because it is capital efficient- their capital stays deployed, compared to investing in closed-ended funds when capital is not being used in between investment periods.

"In a perpetual fund, as long as your manager is performing, and you have an annual right to get out, it can be pretty capital efficient. The institutional and private wealth base in the US has adopted these types of evergreen structures. The exact fund mechanics are important to understand as not all evergreen is the same."

The underlying collateral can differentiate evergreen funds, Bob Sharma, senior vice president, managing director and global head of insurance client group for AB, points out.

"Property is probably not a good fit, but other asset types – such as asset-based finance, pools of granular loans – they have a weighted average life of around two years. They self-amortize. That's a much better fit for the perpetual structure because when they pay down, that income or cash can be accumulated and give people the redemptions they might want," he says.

> *In a perpetual fund, as long as your manager is performing, and you have an annual right to get out, it can be pretty capital efficient.*

However, Adam Grimsley, private markets investment adviser at Apex Group, warns that institutional assets are depleting and the largest driver of flows is going to be from retail investors.

"The majority of net new asset growth and revenue opportunity for asset managers over the next five-ten years is expected to come from retail and wealth channels, which are growing materially faster than traditional institutional flows," he says. "That shift is something I see consistently across investor behaviour and allocation patterns, and it's increasingly shaping where future AUM is likely to be generated and how it is invested."

The onus is on the industry to educate individuals and ensure products created are suitable, Grimsley adds.

"It is possible to have a closed-end structure that is more suited to institutional investors but also have products that have some liquidity or an evergreen structure; the two can exist in parallel," he says.

"There is a persistent misconception that evergreen or open-ended vehicles are synonymous with liquidity. In reality, these structures do not alter the underlying liquidity of the assets; their value lies in enabling ongoing capital flows, reinvestment, and continuous portfolio management, not in manufacturing liquidity."


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The evolution of NAV loans

The discussion turns to a more nascent part of the private credit market – NAV financing. While NAV loans have existed for over a decade as a tool for private equity funds to secure debt rather than tapping into uncalled capital, private credit investors have been drawn to the sub sector in the past couple of years, replacing banks as the primary lenders.

Gareth Russell, group CIO at Canopius Group, voices his concerns about the leverage risks of borrowing against portfolio company equity.

“From an investment perspective, we're told NAV financing promises returns and there’s no risk, but the collateral is equity, which is already levered,” he says.

Dupe Adeyemo, head of PE fund and manager finance at AB Private Credit Investors, highlights that to quantify the risk of a NAV loan, investors must first understand the equity value of the collateral.

“It is extremely important for investors to value each asset independently and be sure the assets don’t all have the same inherent risk,” he says.

“When we think about deploying capital in the NAV lending space, the core element is still the same, fundamental credit principles.

“In the case of NAV lending, those credit principles are ensuring that diversification of idiosyncratic risk and a low LTV are maintained through the life of the loan.”

When you're lending at 10 pence on the pound there’s a significant amount of cushion to protect you before you get to a default…

It’s also important to think about how the loan is structured for protecting against defaults, Adeyemo continues.

“When you're lending at 10 pence on the pound there’s a significant amount of cushion to protect you before you get to a default,” he says. “If it gets to 10 pence on 80 pence, that's when I want to have a conversation. I don't want to have a conversation when it's 50% of loan to value.”

> *How do the borrowers use the proceeds? Because if they create liquidity for investments in the assets, I can see the rationale...*

Isaac describes the asset class as “a bit of a niche” but understands its appeal to private equity firms who are struggling to shift their assets and may want to increase investment to generate more value to LP’s.

In terms of investing in the asset class, he adds: “There are a relatively small number of lenders that receive first calls from PE houses and those are who we would want to focus our attention on,” he says.

Isaac says that loan documentation and structure are paramount with these investments to ensure NAV loan repayments are the priority when realisations are made from PE portfolio sales.

“The loan documentation in NAV finance is extraordinarily important, because that cash waterfall is the difference between you getting paid back and you finding a new job as a CIO somewhere else,” Isaac muses.

“We have instilled in our search process that if we don't understand how the loans should be structured and how the manager says they're structuring them, we don't want to be involved, because those 10 assets don’t each make up a tenth of the portfolio. There’s probably one that is 60% of the value and the rest are somewhere in between,” he adds.

Another scenario to be aware of in NAV finance is whether the proceeds are being used for the more controversial reason of paying distributions, instead of being put to work funding follow-on investments, add-on acquisitions, or providing working capital to portfolio companies.

Michela Bariletti, head of global investment research and chief credit officer at Standard Life plc, says this is her primary consideration.

“How do the borrowers use the proceeds? Because if they create liquidity for investments in the assets, I can see the rationale,” she says. “And we have been active for the past couple of years in providing conservative leverage to alternatives firms that fits the balance sheet of matching adjustments portfolios.

“We also question whether there is transparency in NAV lending. Do the people who thought they were first in the line to get the proceeds know about the loan?”

Isaac agrees, adding the fund’s limited partner advisory committee (LPAC) should be notified of any changes in the loan structure or use of financing.

“That was an important part of selecting managers, that they would tell the LPAC they were going to put in a NAV loan and what it was going to be used for. The LPAC has to agree, because of the headline risk and the fact it can all go wrong.”

Adeyemo concludes by reiterating the importance of transparency in fundraising and deal structures.

“Every deal we do has to be transparent. You have to be able to go to LPs and say, ‘this is what we're doing. It makes sense’, and a rational investor needs to be able to look at it and say, I agree.”

Participants

Adam Grimsley

Private & Alternative Markets Consultant, Apex Investment Advisory

Adam Grimsley, CFA, is a London-based private markets specialist with experience across both investment advisory and fund platform environments. He advises family offices, sovereign wealth funds and pension schemes on the design, structuring and positioning of private and alternative markets programmes, integrating manager selection and access within broader portfolio construction and investor requirements. He specialises in private markets with a focus on portfolio design, product structuring, commitment pacing and liquidity management, bringing a strong understanding of institutional investor requirements to the development of investable products aligned with demand, deployment needs and governance frameworks.

Prior to his current role, Adam was Investment Director, Private Markets at Aberdeen. He previously served as COO and Head of Investment Solutions at Prime Factor Capital, and began his career as an Investment Specialist at BlackRock.

Adam is a CFA Charterholder and a Chartered Accountant. He holds a BA from the University of Warwick and studied Economics at the University of Bologna.

Todd Isaac

Chief Investment and Treasury Officer, Hiscox

Todd is an investment, treasury, and accounting professional with over 30 years' experience in the Insurance industry. He has worked in a range of markets including North America, Europe, the UK, and Bermuda and is currently the CITO of Hiscox.

His experience covers investing in public and private markets, financial systems debt capital markets and joined Hiscox from Monument Re, where he was Deputy Chief Investment Officer for Europe and oversaw portfolio construction, manager selection and Committee and Board contributions for the reinsurer's European subsidiaries.

Prior to Monument Re, Todd spent time at Blackrock, where he focused on business development for the Bermuda and UK P&C sector; Hyperion, where he served as Global Treasurer; Endurance, where he was Treasurer and VP Investments, Zurich as VP of Investments and Ernst and Young.

Gareth Russell

Group Chief Investment Officer, Canopius

Gareth is currently Group Chief Investment Officer at Canopius, a global speciality lines (re)insurer.

Gareth leads the in-house investment team which is responsible for managing a $4.5bn largely outsourced investment infrastructure.

Previously, lead investment consultant on fiduciary and advisory aspects of Willis Towers Watson's investment business.

Gareth has over 20 Years of Consultancy and Investment experience with a particular focus on asset research, portfolio construction, manager selection and operations. He is a qualified Actuary, holds an Executive MBA from Cass Business School and has a BSc in Mathematics from the University of Nottingham.

Peter Martin

Chief Investment Officer, Medical Defence Union

Peter is the Chief Investment Officer for The Medical Defence Union and has been with the MDU since 2016. He has over 30 years' experience as a senior investment professional.

Prior to joining the MDU, Peter was head of manager research at JLT Employee Benefits and before this at Aon Consulting. Peter's investment research specialisms have included bonds, LDI and property.

He is currently a member of the Investor Committee of the Association of Real Estate Funds. Peter was also a member of the Society of Pension Professionals (SPP) Investment Committee for many years and in addition was a member of the Investment Committee to the Pensions Board of the Institute of Actuaries. More recently, Peter was a member of the Management Committee for the Association of Member Nominated Trustees and a Trustee for the MDU Pension & Life Assurance Scheme.

He is a Fellow of the Institute and Faculty of Actuaries and also holds the Investment Management Certificate (IMC).

Standard Life

Michela Bariletti

Chief Credit Officer, Standard Life

Michela is Head of Global Investment Research and Chief Credit Officer at Standard Life plc, long-term savings and retirement business with over £300 Billion of assets under administration. In this role, Michela leads a team that provides, credit, macro and sustainability analysis and fundamental research for all asset strategies pursued by Standard Life encompassing public and private markets.

Michela joined Standard Life in 2021 from Pension Insurance Corporation where she served as Head of Ratings and Credit Research. Prior to that, Michela spent 14 years at S&P Global Ratings, London, most recently as Senior Director, Infrastructure Ratings – EMEA Analytical Head, managing a team of 20 analysts and a portfolio of over 150 issuers in the infrastructure sector. The portfolio included corporate and project finance transactions covering social infrastructure, road, transport and renewables.

Michela started her career at Goldman Sachs within the Equities Division.

She holds a DEA in Analyse andt Politique Economique (Master in Economics) from EHESS, Paris and a Specialization in Finance as a Ph.D. candidate from HEC, Paris.

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Jay Ramakrishnan

Senior Managing Director, Founding Member, and Head of Originations and Growth Initiatives, AB Private Credit Investors

Jay Ramakrishnan joined AB in 2014 and is a Senior Managing Director, founding member, and Head of Originations and Growth Initiatives for AB Private Credit Investors, as well as a member of the investment committee. In addition, she is responsible for business initiatives such as technology-focused capital solutions, oversees investments in the healthcare/HCIT sectors, and covers select East Coast financial sponsors with an emphasis on technology, healthcare and business services.

Previously, Ramakrishnan was a managing director with Barclays Private Credit Partners, and as a founding member of the business was involved in various aspects of business launch, transaction sourcing and execution. Prior to joining Barclays, she was a vice president at Goldman Sachs, in the Specialty Lending Group in New York, and in London, where she oversaw a European leveraged-loan portfolio and managed restructurings. Before that, Ramakrishnan was in investment banking at Goldman Sachs and Bear Stearns, and she started her career as an associate consultant for Bain & Company.

She holds a BA (Hons) in economics from the University of Cambridge, England, and an MBA from the Wharton School at the University of Pennsylvania. Location: New York

Dupe Adeyemo

Managing Director and Head, AB Private Credit Investors

Dupe Adeyemo is a Managing Director and Head of AB Private Credit Investors' PE Fund & Manager Finance platform, where he is involved in establishing the net asset value (NAV) and manager (GP) finance strategies, including deal sourcing, structuring, underwriting, execution and portfolio management.

Prior to joining AB in 2023, he was a managing director at Barclays Bank, where he focused on providing capital and liquidity to private equity funds. Adeyemo began his career at Barclays in 2007, where he was responsible for providing financing secured by alternative investments and the creation of quantitative investment strategies.

He holds a BS in civil engineering from Cornell University.

In attendance

Beth Brearley (Moderator)

Freelance Writer

Beth Brearley is a freelance writer specialising in asset management, institutional investing and private equity.

A former editor of several prominent B2B titles, Beth has spent almost two decades covering the financial services sector.

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Bob Sharma

Senior Vice president, Managing Director and Head – EMEA and APAC Insurance, AllianceBernstein

Bob Sharma is a Senior Vice President, Managing Director, and Head of EMEA and APAC Insurance for AB, where he is responsible for leading the insurance initiative across Europe, the Middle East and Africa (EMEA) and Asia-Pacific (APAC). In this role Sharma advises insurance clients on portfolio strategy, strategic asset-allocation topics, developments in the investment market and insurance industry dynamics. He joined AB in 2024 and has been working in the investment industry since 1999.

Previously, Sharma held the role of managing director and head of EMEA Insurance at Wellington Management, where he led the insurance business for many years.

Sharma holds a BSC (Hons) in economics from the University of Manchester. He is a CFA charterholder and holds the Sustainability and Climate Risk (SCR) Certificate from the Global Association of Risk Professionals.

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Sean Thompson

Founder & Director, cio investment club

Sean has nearly 40 years of experience working in London's financial services sector and the insurance market. After 10 years as Managing Director of CAMRADATA, Sean launched the cio investment club on 1st January 2024.

The cio investment club's mission is to become the voice of chief investment officers and investment professionals at institutional firms. To help achieve this the club hosts events throughout the year that educate and inform, whilst providing thought-provoking content to its members.

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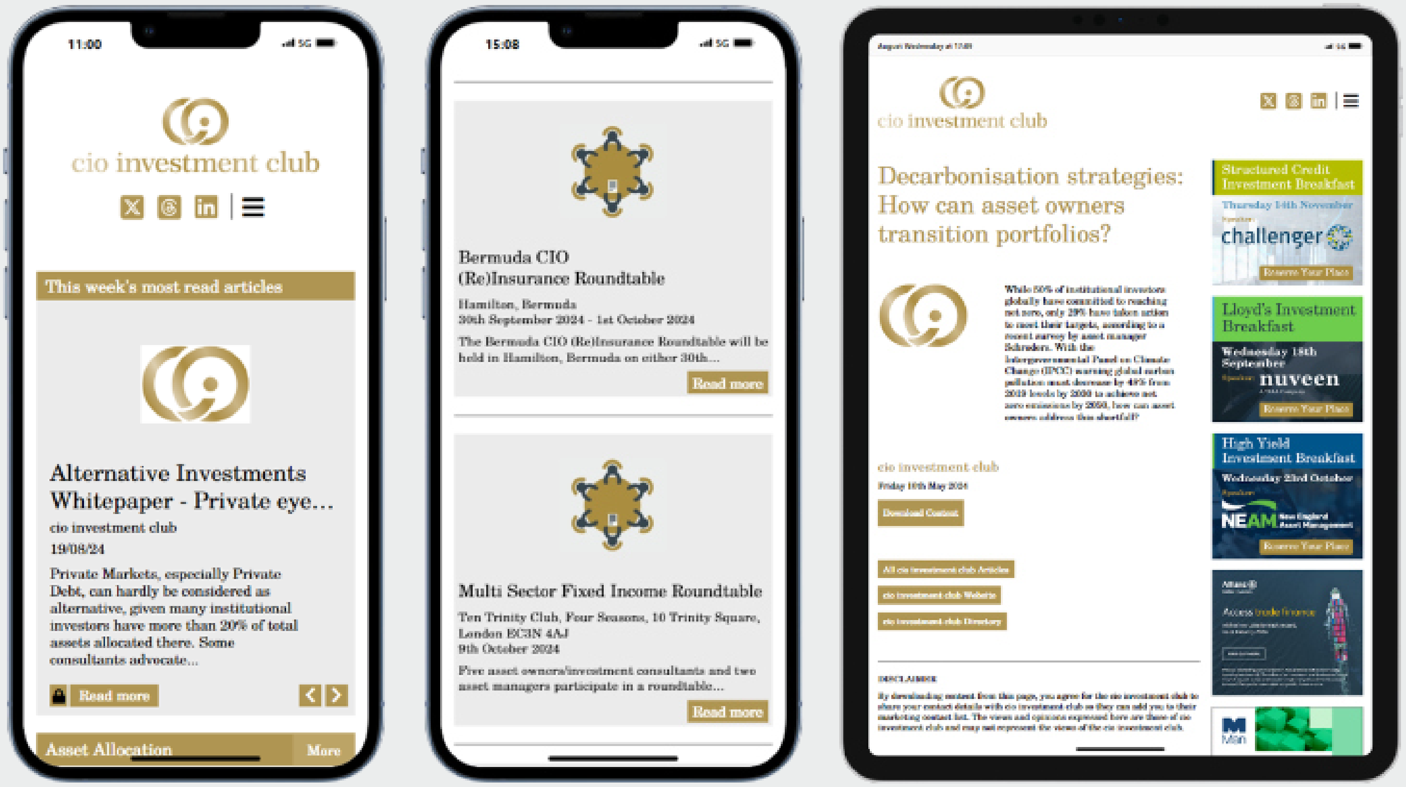

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