Marketing communication

Lendable

# A Return to Fundamentals **in Private Credit**

## Collateralized debt for the real economy

# Introduction

In the financial press, the term "private credit" has increasingly become synonymous with a singular segment of the market: corporate direct lending. What is happening in the direct lending space, and what does it mean for broader private credit?

The meteoric rise of “private credit" as an asset class in recent years was driven by post-financial crisis regulation, the subsequent credit vacuum, and a low-interest-rate environment. The industry is a sensible evolution towards serving middle-market corporate debt needs with non-deposit-taking lenders. However, rumblings of emerging risks have recently grown deafening as redemptions - and gating of those redemptions - have made headlines. This begs the question: what exactly is the news media referring to when it says "private credit"?

In the financial press, the term "private credit" has increasingly become synonymous with a singular segment of the market: corporate direct lending. As of late 2025, corporate direct lending represented approximately $1.1 trillion of the $1.5 trillion total U.S. private credit market (roughly 73-75%)[1]. **But a closer look at concerns surrounding the asset class reveals that other segments, such as asset-backed emerging market strategies, could offer a disciplined, uncorrelated alternative.**

As mainstream private credit in the U.S. has become increasingly financialized and focused on Enterprise Value (EV)-based lending, some argue that it has moved away from the fundamentals that helped it gain prominence: stringent covenants, strong structures, and cashflow-based logic.

Today, the asset class is characterized by high-leverage lending, race-to-the-bottom covenant dynamics, and an increasing reliance on financial engineering tools like Payment-in-Kind (PIK) and warrants.

These trends have led some institutional investors to ask whether U.S. private credit is holding true to the market principles of its origin or is it starting to resemble a more opaque and illiquid version of the corporate bond market.

There remain substantial pockets of the market that provide an alternative in the form of asset-backed debt to the real economy.

Behind the headlines of the acute liquidity crisis facing some large private credit funds lurk fears of credit deterioration in these portfolios. According to Fitch, the TTM U.S. Private Credit Default Rate reached an all-time high of 5.8% in January of 2026, and some speculate that the "shadow default" rate has reached 6.4%[2], as managers manage borrower distress by leaning heavily on PIK interest, which now accounts for ~8% of total interest income. These concerns are especially acute with respect to the software and SaaS sectors, where AI disruption has fundamentally and rapidly altered the landscape.

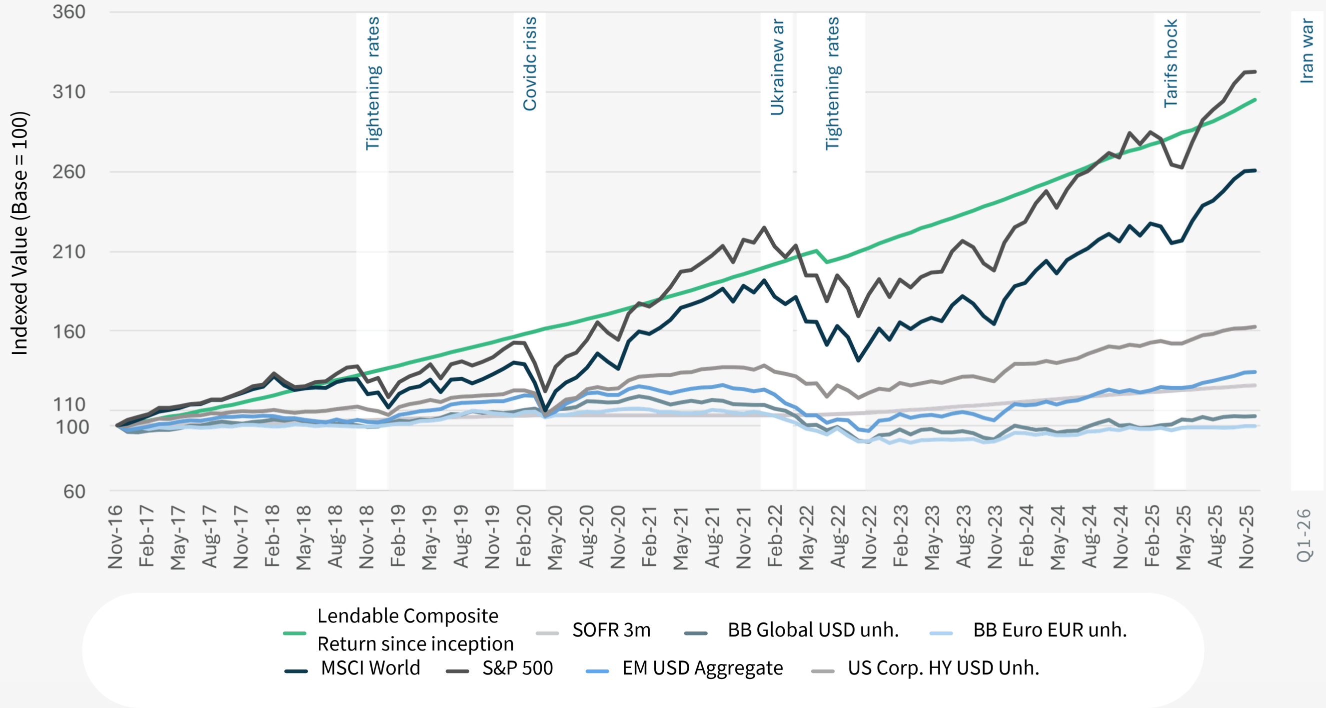
Whether this cycle ends up being a small or significant adjustment for U.S. direct lending, we hope that this moment of increased scrutiny will provide both an opportunity to differentiate between risk segments in the market and an impetus for private credit as a whole to return to its fundamentals.

1 Preqin 2025 and 2026 Global Private Debt Reports.
2 Lincoln International, Private Market Perspectives: U.S. Edition (Q4 2025)

## The Lendable  Approach

Lendable Performance Comparison (incl. equity indices)[3]

Returns are for the period 13 October 2016 to 31 December 2025




Here we examine how Lendable's approach to collateralized debt for the real economy in emerging markets is fundamentally different from U.S. direct lending along several key credit parameters.

Lendable's approach has historically had low correlation and generated alpha with low beta. The highly resilient portfolio is the result of a disciplined and consistent approach to real economy, collateralized lending.

Lendable's loans start with positive unit economics on the underlying use of proceeds. We then secure those assets with bespoke structures that are coupled with the unparalleled transparency provided by the firm's proprietary technology, Maestro.

***The strategies of specialized lenders like Lendable are characterized by productive uses of credit, tight covenants, low leverage, and cash-pay structures.***

Maestro transforms heterogeneous borrower data into standardised, verified, on-demand asset level data. This bottom-up approach to data and analytics enables stronger unit economic analysis, a clearer understanding of behaviour at the asset level, faster risk decisions, and superior outcomes.

**Asset-level data**
On demand access to loan, payments, customer and collateral data

→

**Integration**
Direct, automated ingestion of anonymised, granular borrower data

**Standardisation**
AI-supported transformation of heterogeneous data into a unified Maestro schema

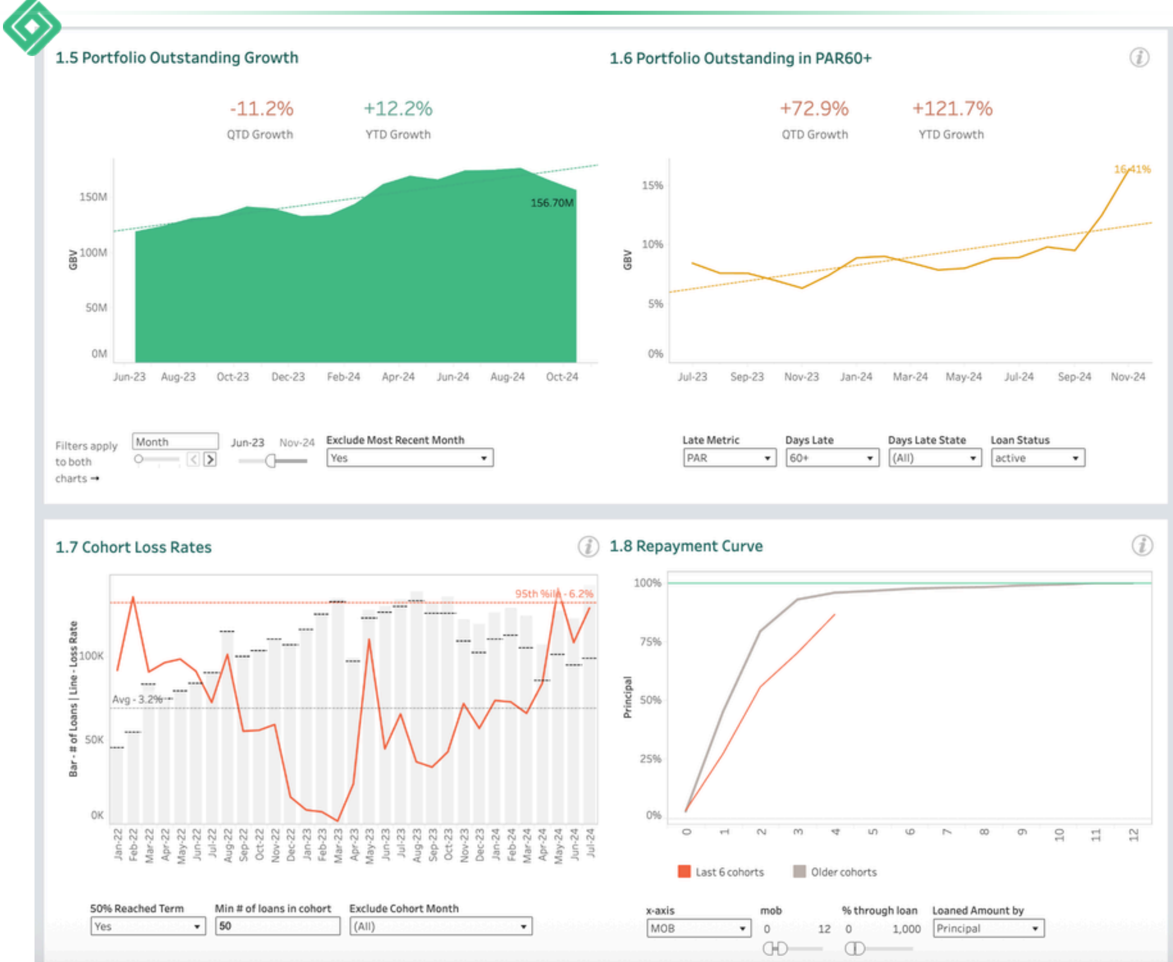
**Verification**
Cross-checks data againts bank statements, payment gateways, and third-party sources (AI-supported)

→

**Maestro**
Standardized, verified asset-level data on demand

3. All figures presented above have been rebased to 100.  a) All returns are calculated and presented in US dollars. Investments in foreign currencies may rise or fall as a result of exchange rate fluctuations. b) Lendable composite returns are reported net of fees (management, performance and transaction) expenses and withholding taxes. Advisory fees for LOF are 1.85%. Management fees for the SIV 1 vehicle are 1.5-1.85% for Noteholders with an expense ratio of 0.13%. A 20% performance fee is chargeable on excess interest returned over 6% p.a. In both LOF and SIV. Management fees for LMFCF are 1.75% and performance fee is chargeable on excess interest returned over 6% p.a. Management fees for LMFCF II are 2% on 1st $150m in Assets, 1.75% thereafter and performance fee is chargeable on excess interest returned over 6% p.a. c) Past performance is not indicative of future results or a guarantee of future returns. Future returns are not guaranteed and a total loss of principal may occur.
**See Important Information at the end of this report for further information.**

*Mestro: on-demand insight on portfolio performance and behaviour at the asset level*




## Covenants

**Direct lending and the U.S. market in particular have increasingly moved to a "covenant-lite" regime. Covenant-lite mid-market deals have grown from 5% in 2015 to 30% in 2025.**[4] This is even more pronounced in broadly syndicated loans, where over 90%[5] are now devoid of covenants. Even on those deals with covenants, it's typical to see only a single quarterly test on the leverage ratio. This leaves lenders to react only after a crisis has manifested.

As the lead arranger of our loans, our strategy operates on the opposite end of the spectrum with a data-integrated, covenant-heavy model coupled with monthly management calls and annual in-person visits. On asset-backed loans, Lendable features loan-to-value ratios designed for stress scenarios, not just historic performance.

This strategy entails conservative debt-to-equity ratios that seek to provide resilience in the face of unexpected shocks, behaviour-based early warning indicators such as 'repayments-to-zero', and dynamic collateral replenishing enabled through Maestro, the firm's proprietary technology.

This covenant package enables early warning indicators that trigger proactive decision making. **Rather than waiting for quarterly reports, Lendable utilizes Maestro to plug directly into borrowers' management systems for on-demand monitoring and risk management.**

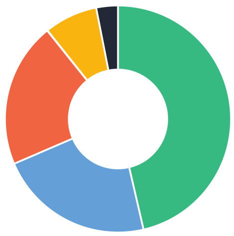
Additionally, Lendable verifies the portfolio and collateral level data through periodic audits of third-party payment gateways and collateral level data. This utilizes leading portfolio performance indicators to enable speedy intervention at the first sign of deviation long before it manifests as a payment default.

4 Chronograph, How Direct Lending Competition Is Impacting Private Credit Deal Terms, (Sept 2025)
5 Pitchbook Leverage Loan Primer, (Feb 2026)

## Exposure to Equity Markets and AI Disruptions

Over the last decade, direct lending has migrated considerably up market. In 2025, Blue Owl and Meta struck a deal for $27 billion[6], which was just one of 150 to 180 "megadeals" over $1 billion in U.S. direct lending[7]. As a result, direct lending has increasingly become intertwined with equity markets in the U.S., particularly given the rise of AI.

In the U.S., **AI is currently viewed as both an economic driver and a significant disruption threat, especially for the 25-35%[8] of BDC portfolios concentrated in legacy software and SaaS companies** whose "seat-based" revenue models are under threat. In contrast, Lendable does not finance SaaS providers and its portfolio is grounded in asset, MSME, consumer and embedded finance as well as payment platforms:




Lendable's primary business is providing productive loans to the real economy in rapidly growing markets. These include motorcycle taxi drivers in East Africa, Uber drivers in Mexico, and small businesses across South East Asia. As essential services and core growth drivers of emerging market economies, they have lower exposure to U.S. equity market fluctuations.

The emerging market nature of these businesses means they have significant operational footprints and vertical integration that insulate them from the impacts of AI. In fact, because many of the firms are digital native challengers, they stand to gain significantly from AI adoption as compared to their brick-and-mortar peers.

## PIK Income and Warrants

In the U.S. private credit industry, portfolios have increasingly come to include financial instruments outside of pure principal and interest. This has led to growing investor concern that returns on paper might not materialize into cash returns.

A particular worry in the U.S. private credit industry is the surge in PIK income, which now accounts for around 8% of the largest private credit funds[9]. PIK income is a tool used by direct lenders both as a proactive strategy — such as "Partial PIK" or a "PIK Toggle" — and as a defensive strategy. As part of a proactive strategy, PIK can give lenders a yield pick up, at least on paper. This is more common in software lending which, as discussed above, currently entails a high level of uncertainty.

The concern is that such instruments mask "shadow defaults" by capitalizing interest for borrowers who are already struggling with cashflow. This creates a compounding problem, as PIK interest in turn increases the interest burden on highly leveraged borrowers.

There has been a directional shift in recent years with warrants or pure equity becoming more prominent in private debt portfolios, which fundamentally changes the risk profile[10]. This poses a particular risk for open-ended funds that already face challenges in managing portfolio liquidity to meet client needs, even without the added exposure to unpredictable and illiquid equity holdings.

Lendable's model is built on amortizing, cash-pay structures. **The investment thesis directly ties to the liquidity offering, lending against receivables — including the underlying cashflows of diversified loan portfolios — and monitoring those with our purpose-built Maestro system.** Lendable does not build PIK features or warrants into our loans as a proactive strategy, relying on the mechanism only in defensive situations to mitigate the risk of loss in periods of short term disruption. The result is cash flow transparency and alignment from the end collateral all the way up to fund investors.

6 SeekingAlpha (March 2026).
7 HSBC Outlook (Q1 2026).
8 UBS Research, Matthew Mish (Jan 2026).
9 WithIntelligence, Private Market Outlook (Jan 2026).
10 MSCI Analysis (March 2026).

## Liquidity and Retail Investors

The liquidity challenge facing large funds is the most pressing issue in the U.S. private credit market today. Having discussed the structural risks around these investments, we now turn to who is investing in these vehicles.

Over the last decade, private credit went from an asset class nearly exclusively backed by institutional investors to increasingly allowing in retail money through BDCs and Interval Funds. This trend, driven by demand for asset aggregation at the big managers, can lead to quick growth — but can also create significant risks. Compared to their institutional counterparts, generally retail investors have less conviction for long term strategy holds as well as real and sometimes unpredictable cashflow needs.

As such, there is a fundamental mismatch of the underlying asset liquidity and the expected — or, at times, needed — retail cash flow requirements in semi-liquid private market structures. Further complicating matters is the fact that most retail investors are advised by wealth managers, which increases the likelihood of concentrated, systematic redemptions.

It should, however, provide comfort to investors that **roughly 80% of private credit investments are held by institutional investors**, limiting the effects of a possible retail run.[11]

# In Summary

While mainstream U.S. private credit faces growing scrutiny, we believe the opportunity for specialised, disciplined strategies that focus on underlying assets and associated cash flows remains strong. When combined with the utilization of asset-level data, a commitment to rigorous credit underwriting seeks to create a tight coupling between the real-world utility of assets and the targeting of an uncorrelated, low-beta financial outcome for investors.

11 J.P.Morgan Insights, Private Credit Under the Microscope (March 2026).

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**Important Information (as regards the Lendable composite returns):**

1. Within the Lendable Group, Dynolabs Asset Management Ltd is regulated and authorised by the Financial Conduct Authority, a financial regulatory body in the United Kingdom, as a MiFIDPRU Firm. As of 31 Dec 2025, Dynolabs Asset Management Ltd does not manage any client money. Dynolabs Asset Management Ltd is registered as an Exempt Reporting Advisor (ERA) with the U.S. Securities Exchange Commission (the "SEC")
2. The Lendable Group claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. The Lendable Group has not been independently verified.
3. The account minimum for the inclusion of a pooled vehicle in the composite is $2m while there is no de minimis monetary exceptions for individual loans. Up to 31 Dec 20 there was no de minimis monetary exceptions that would preclude a pooled vehicle from being included in Lendable's Debt Facility Composite.
4. The composite inception date was 13 Oct 2016 and the composite was created in October 2020.
5. Due to the niche and targeted nature of our investment strategy there are currently no available, appropriate benchmarks for our pooled funds or composite.
6. The money-weighted return calculation incorporates daily cash flows
7. The number of portfolios for each annual period is less than five, therefore do not report.
8. Lendable composite returns are presented in the money-weighted return (MWR) format. MWR is considered appropriate as Lendable invests exclusively in alternative investments and has control over the timing of cashflows into and out of standalone investments and pooled funds.
9. 100% of the total fair value of the composite assets have been valued using subjective unobservable inputs since inception of the composite. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request. A list of composite and pooled fund descriptions is available upon request.
10. Lendable's composite above is made up of individual loans and pooled investment vehicles that conform to the strategy of investing in senior secured debt facilities with fintech enabled companies who provide financial products and services to un- and underbanked consumers and MSMEs. Debt facilities are primarily in USD or where made in local currency can have increased collateral or a currency hedge in place to negate the increased risk. Investment in less regulated markets carries increased political, economic, and issuer risk. Inherent in debt facility investing is interest rate and duration risk, with facilities ranging from 6 months to 4 years in duration.
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