
Private Credit Under Scrutiny: What Matters—and What Doesn't

**Bill Sacher**

Partner & Head
of Private Credit

Fred Chung

Partner & Head of
Credit Underwriting

James Charalambides

Partner & Head of
European Private Credit

KEY TAKEAWAYS

- Headline risks are overstated: recent bankruptcies were driven by non-core lending and fraud—not systemic weakness in private credit
- The real risk is manager-specific: concentration (e.g., software exposure) and underwriting discipline matter more than the asset class itself
- Fundamentals remain attractive: stable spreads, strong yields, and more conservative structures support a compelling risk/return profile

In recent years, the rapid growth of private credit has been widely celebrated across the financial press. More recently, however, sentiment has shifted. A growing number of headlines now question whether the “golden age” of private credit is coming to an end. High-profile bankruptcies, concerns about exposure to a “toxic” software sector, warnings of rising stress across the asset class, and increasingly colorful metaphors have all contributed to a more pessimistic narrative.

Sensational headlines attract attention, but they rarely capture the full picture. It is worth stepping back from the noise to assess the current state of the private credit market with greater perspective.

High-Profile Bankruptcies: Separating Signal from Noise

Recent concerns were sparked by a series of well-publicized bankruptcies, including First Brands, Tricolor, and UK-based Mortgage Financial Solutions (MFS). Because each case involved non-bank lending, they were broadly categorized as private credit and cited as evidence of emerging systemic risk. That conclusion does not hold up under closer scrutiny.

In both First Brands and Tricolor, the primary debt consisted of broadly syndicated loans and/or bank financing, and not traditional private credit financing. While these companies also utilized off-balance sheet factoring, those financings were provided by specialized asset-based lenders rather than direct lending institutions.



MFS followed a similar pattern, relying on secured, asset-based facilities to support its lending activities. These structures fall within asset-based finance, which sits at the periphery of traditional private credit. In all three cases, what are generally considered core private credit strategies were not involved. Therefore, we think drawing a direct link between these situations and the broader private credit market overstates the connection.

Fraud, Not Systemic Credit Deterioration

Some have suggested these bankruptcies signal broader credit deterioration. We see a different dynamic at work. Each of these situations involved allegations of fraud, specifically the double pledging of collateral across multiple facilities. Once uncovered, liquidity evaporated and the businesses collapsed.

While repeated instances of misconduct may warrant closer scrutiny of underwriting practices in parts of the asset-based finance market, they do not constitute evidence of systemic weakness in private credit. The primary driver in these cases was fraud, not a broad deterioration in credit quality.

Software, AI, and a Shift in Sentiment

Investor unease has also been driven by a rapid shift in sentiment toward the software sector. Advances in artificial intelligence have prompted a reassessment of valuation levels and competitive positioning, leading to a broad repricing across both public and private markets.

In liquid markets, this has resulted in declining prices for software-related debt and meaningful outflows from vehicles with concentrated exposure. The repricing has been swift and largely indiscriminate, with little differentiation across business quality or strategy.

We believe this reaction has been excessive and insufficiently differentiated. Some software companies that lack clear moats are undoubtedly at risk of AI disruption. But many incumbent software providers possess material competitive barriers and are benefiting from incorporating AI into their platforms. This places a premium on disciplined underwriting at the sector and sub-sector level.

In addition, major technological shifts have historically expanded IT spending overall rather than diminished it. We expect AI to follow a similar pattern given its potential for step-change productivity improvements that can reduce future headcount needs. This creates tangible ROI that justifies incremental technology spending.

The Real Issue: Concentration Risk

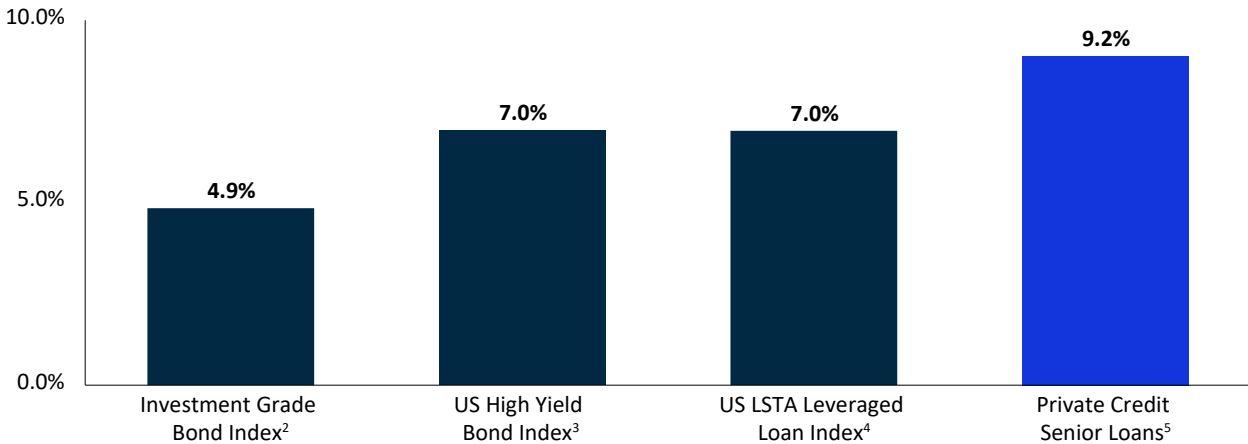
While the market's reaction appears overextended, it does highlight a legitimate concern: concentration risk. Software has been a favored sector in recent years, and some managers may have overindulged, including in loans reliant on annual recurring revenue ("ARR") rather than cash flow. In the top 10 largest BDCs, software allocations approach or exceed 20% of portfolios,¹ including material software ARR loans with payment-in-kind ("PIK") interest. In any sector, high levels of concentration introduce risk.

Portfolio construction discipline matters. Across Adams Street’s broader private credit portfolio, for instance, software exposure remains below 10%, with no single sector exceeding 13%. From our perspective, software is not a systemic issue for private credit, but a manager-specific issue. The risk lies less in the sector itself and more in how some firms have managed their exposure and PIK interest levels.

Current Market Conditions: Attractive Fundamentals

Despite negative headlines, the underlying fundamentals of private credit, in our opinion, remain compelling, particularly in the core middle market. Spreads in this segment have remained stable, generally running in the range of 475 to 525 basis points over SOFR, with recent risk aversion leading to modest widening. While off their peaks, all-in yields remain attractive by historical standards and continue to compare favorably with liquid credit alternatives.

Credit Alternatives Yield Comparison



At the same time, deal structures across the industry have generally become more conservative. Leverage levels across recent deals we have seen recently are moderate, equity contributions are elevated, loan-to-value ratios are low relative to prior periods, and there are fewer ARR PIK loans. This combination makes for an attractive overall risk profile. From a risk/return standpoint, we believe many of today’s deals offer a compelling combination of premium yields, conservative structures, and unusually strong downside protections.

A More Challenging Backdrop

With all that said, the environment is not without its risks. Persistent inflation, high interest rates, elevated energy costs, geopolitical uncertainty, trade tensions, and AI disruption risk are contributing to a more challenging backdrop.

After a prolonged period of benign conditions, signs of strain in some outstanding portfolios are beginning to emerge. Default and non-accrual rates are rising, interest coverage ratios are under pressure, PIK structures have become more prevalent, and loan-to-value ratios are increasing. This is not a period for complacency. It is a period in which skillful credit underwriting and manager selection are paramount.

Manager Selection Will Drive Outcomes

In stronger markets, it can be difficult to distinguish manager skill from favorable conditions. In more challenging environments, differences in underwriting discipline, portfolio construction, and sourcing capability become much more apparent. As conditions become less forgiving, dispersion in manager performance is likely to widen. Managers with a consistent, time-tested approach, prudent risk management, and a differentiated sourcing edge are likely to be best positioned to navigate the current environment and capitalize on emerging opportunities.

Conclusion

We believe the core private credit market remains fundamentally sound. The concerns being raised are, in our view, less about systemic risk and more about manager selection.

Contrary to the worries expressed in the headlines, today's market largely continues to offer attractive yields and conservative capital structures, which can provide strong downside protections. A retrenchment across the broader market is healthy, lessening competition and opening the door to what may prove to be a particularly attractive period for those in a position to capitalize on it. ■

1. S&P Global, [BDCs' Exposure To Software Stays High, Steady](#), March 17, 2026
2. US Investment Grade from S&P 500 Investment Grade Corporate Bond Index as of December 31, 2025
3. High Yield Bonds from S&P U.S. High Yield Corporate Bond Index as of December 31, 2025
4. Leveraged Loans from MorningStar LSTA U.S. Leveraged Loan 100 Index as of December 31, 2025
5. Private Credit Senior Loans yield calculated based on observed market spreads of 475-500bps, 365bps SOFR as of December 31, 2025 and upfront fees of 1.0–1.5% amortized over 2.5 years

LEADING WITH FORESIGHT™

Adams Street Partners is a global investment firm managing a comprehensive suite of private markets investment solutions. The firm provides private equity and private credit strategies to institutional investors, growth capital to innovative companies, and evergreen funds that offer access to multiple strategies through a single, investor-friendly commitment. The firm also supports wealth advisors with private markets solutions structured to be more flexible and accessible than traditional closed-end funds. With over 50 years of experience, Adams Street leverages deep market insights, global relationships, and proprietary data as it seeks to help investors achieve long-term investment goals. The firm is 100% employee-owned, manages \$65 billion in assets, and operates out of 15 offices globally. Visit adamsstreetpartners.com

Important Considerations: This communication (the "Communication") is provided for educational purposes only and is not investment advice or an offer or sale of any security or investment product or investment advice. Offerings are made only pursuant to a private offering memorandum containing important information. Statements in this Communication are made as of the date of this Communication unless stated otherwise, and there is no implication that the information contained herein is correct as of any time subsequent to such date. All information has been obtained from sources believed to be reliable and current, but accuracy cannot be guaranteed. References herein to specific sectors, general partners, companies, or investments are not to be considered a recommendation or solicitation for any such sector, general partner, company, or investment. This Communication is not intended to be relied upon as investment advice as the investment situation of individuals is highly dependent on circumstances, which necessarily differ and are subject to change. The contents herein are not to be construed as legal, business, or tax advice, and individuals should consult their own attorney, business advisor, and tax advisor as to legal, business, and tax advice. Past performance is not a guarantee of future results and there can be no guarantee against a loss, including a complete loss, of capital. There can be no guarantee that any Adams Street-managed investment vehicle has exposure to particular existing investments or categories described herein or that the portfolio of such vehicle is consistent with the descriptions provided herein as the level of concentration and overall exposure to existing investments may vary. Existing investors should review statements of their portfolio for more detailed information. Certain information contained herein constitutes "forward-looking statements" that may be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "estimate," "intend," "continue," or "believe" or the negatives thereof or other variations thereon or comparable terminology. Any forward-looking statements included herein are based on Adams Street's current opinions, assumptions, expectations, beliefs, intentions, estimates or strategies regarding future events, are subject to risks and uncertainties, are provided for informational purposes only and do not constitute a guarantee, promise, projection, forecast or prediction of, or representation as to, the future. Actual and future results and trends could differ materially, positively or negatively, from those described or contemplated in such forward-looking statements. Moreover, actual events are difficult to project and often depend upon factors that are beyond the control of Adams Street. Adams Street neither (i) assumes responsibility for the accuracy or completeness of any forward-looking statements, nor (ii) undertakes any obligation to update or revise any forward-looking statements for any reason after the date hereof. Also, general economic factors, which are not predictable, can have a material impact on the reliability of projections or forward-looking statements. Adams Street Partners, LLC is a US investment adviser governed by applicable US laws, which differ from laws in other jurisdictions.