

---

# BDC and Interval Fund Managers Can Stem Redemption Waves with Transparency, Not Reassurance



**Jeff Diehl**  
Managing Partner &  
Head of Investments

## KEY TAKEAWAYS

- Conceptually, BDCs and interval funds are structurally sound, but outcomes depend heavily on manager quality
- Rising redemptions currently appear to reflect uncertainty driven by limited transparency—not underlying fundamentals
- Greater, consistent disclosure can help investors differentiate managers and allocate with confidence

Recent headlines have cast a bearish tone on private credit. Scrutiny has focused on evergreen direct lending vehicles – business development companies (“BDC”s) and interval funds (“IV”s) – with reports of rising redemption requests and managers gating or capping repurchases.

At the same time, managers have offered reassurances, pointing to solid historical returns, strong income, and low default rates as evidence that portfolios remain healthy.

So, which is it?

In our view, this debate reflects less about the health of private credit as an asset class and the fitness and integrity of evergreen direct lending vehicles and more about dispersion in manager quality, which we argue is difficult to discern using the metrics that such vehicles currently disclose. Conceptually, BDCs and IVs are structurally sound vehicles that can provide efficient access to direct lending. However, investor outcomes in such vehicles are likely to be highly dependent on manager quality.

Yet, current disclosure standards are seen by some, including Adams Street, to be incomplete, making it difficult for investors to distinguish between top-tier managers and the rest. That leads to understandable “sell first, ask questions later” investor behavior.

For the benefit of investors and the health of the private credit industry, that needs to change. This article outlines what we believe is true about the category, how investors can use current information to flag poor managers, and how managers can shift from reassurance to transparency.



## **Should Investors Be Worried About Private Credit as a Broader Asset Class?**

No, not in our view. Direct lending, the largest segment of private credit,<sup>1</sup> remains healthy. A well-constructed portfolio of direct loans to middle-market buyout deals should continue to be well-positioned to deliver attractive yields and favorable downside protection. However, as we discussed in a [prior article](#), manager selection is critical as we believe top-quartile private credit managers are likely to materially outperform their peer set over the long-term.

## **Should Investors Be Worried about Rising Redemptions in BDCs and IVs?**

No, the majority of investors do not need to be worried, but that comes with two important exceptions discussed below.

BDCs and IVs generally remain structurally sound vehicles. They allow wealthy individuals and institutions to efficiently access direct lending with less complexities than traditional drawdown funds. But investor outcomes in BDCs and IVs are highly dependent on manager quality. A high-quality manager should be well-positioned to generate premium returns relative to liquid credit markets, at comparable or lower default risk, in exchange for illiquidity risk.

As a result, investors in BDCs or IVs should be mindful of two things. First, investors should only commit capital they don't expect to need for immediate liquidity. Second, manager selection should be regarded as the most important decision. The two investor groups we think should be most concerned about rising BDC and IV redemptions are those facing an immediate and unexpected liquidity issue or those invested in a low-quality manager.

We empathize with investors who face immediate personal liquidity needs due to an unexpected change in life circumstances. Fortunately, that doesn't usually happen contemporaneously with all other investors. In normal market environments, investors facing this situation should be able to redeem their shares since most BDC and IV managers offer to repurchase 5% of outstanding shares quarterly.

However, if many investors attempt to redeem at once, as we see today, independent boards will limit or "gate" repurchases. Gating is designed to protect all investors by avoiding forced asset sales at unfavorable prices, which is particularly important in a portfolio of illiquid private loans.

While gating can be frustrating for investors, it is a feature of the structure, not a flaw. Investors should view BDCs or IVs as a long-term investment, rather than a short-term trade, which makes manager selection the most important decision. Before outlining our suggestions for picking managers, let's review BDC and IV redemption trends.

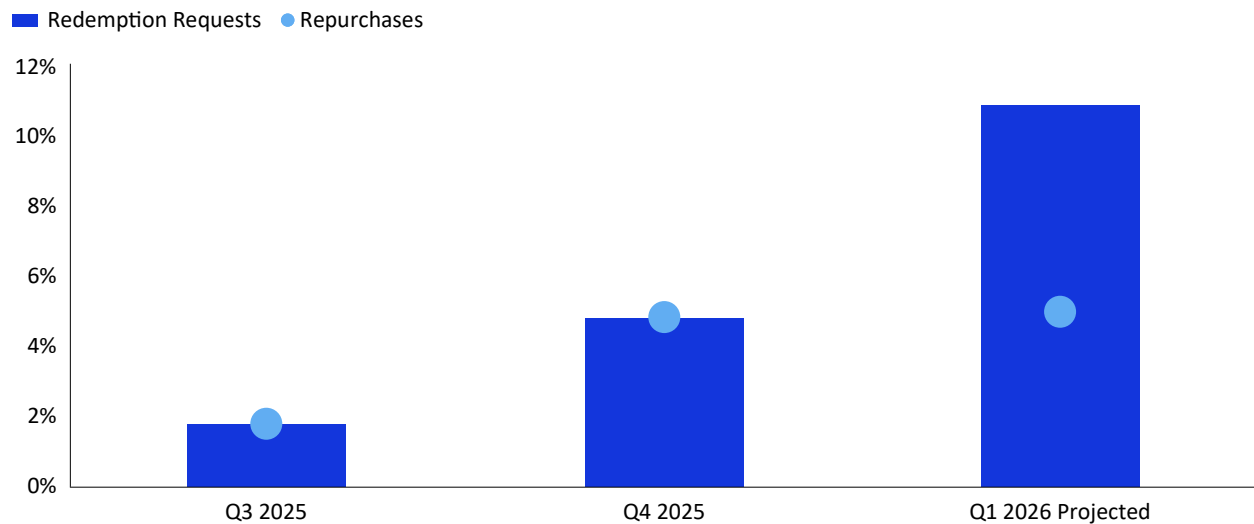
## Why are BDCs and IVs Facing Large and Rising Redemption Requests?

Redemption activity in BDCs and IVs can be driven by numerous factors. Some are investor-specific, such as portfolio rebalancing, tax considerations, or personal liquidity needs. Others are manager-specific, including concerns about **optimistic valuation marks**, problem loans or outsized industry exposure.

Given the breadth and magnitude of the current redemption wave, the primary factor appears to be concerns about the entire category. Category concerns can arise from high-profile bankruptcies (e.g., First Brands, Tricolor, MFS), rising payment-in-kind (“PIK”) interest, and growing uncertainty around AI’s impact on **software business models**.

Increased media attention on rising redemptions and gating has further amplified category-level concerns, with redemption activity itself contributing to further redemption requests. Recent category concerns have resulted in a meaningful increase in investor redemption requests across many BDCs and IVs, regardless of manager quality (Figure 1). In response, many of these managers have implemented repurchase gates.

**Figure 1: Median BDC/IV Quarterly Repurchases (% of NAV)<sup>2</sup>**



So, are investors right to be selling first and asking questions later? We think the answer depends on manager quality. Managers who consistently avoid loan losses should be able to continue generating attractive returns for investors while materially outperforming those who don’t.

In our experience, top-performing BDC and IV managers possess four characteristics:

- Edge in origination, underwriting, and winning the best deals to avoid loan losses,
- Disciplined deployment scaling,
- Aligned interests with investors, and
- Prudent management of liquidity

But how can investors assess the above, given most managers claim to possess these attributes? We suggest due diligence akin to what large institutions perform prior to making a commitment to a drawdown fund.

## How Investors Can Identify Lower Quality Managers

Assessing BDC and IV manager quality is challenging because current disclosures are insufficient. Public filings contain two material data points that may signal potential warning signs and can thereby help investors narrow the field.

Metric	Potential Warning Sign	Why it Matters
<b>Non-accrual rate</b>	5%+	Loans where a manager is not recording interest are at risk of capital loss
<b>Payment in Kind (“PIK”) interest as a % of total interest income</b>	10%+	An elevated share of non-cash income can signal borrower stress and risk of future capital loss

While these metrics are not definitive on their own, they can be useful in assessing manager underwriting discipline and portfolio quality. We encourage managers to disclose these metrics clearly and visibly, rather than requiring investors to be experts in financial analysis or footnotes.

## BDC and IV Managers Should Disclose These Additional Metrics to Investors

Investors are being asked to assess manager quality with incomplete information. We believe there is an opportunity for BDC and IV managers to strengthen investor confidence and decision-making by shifting from reassurance to transparency. If managers established a broader and consistent data-driven disclosure framework, it would enable investors, advisors, and third-party researchers to better differentiate between managers and allocate with greater confidence.

We believe this confidence can be achieved if managers consistently reported these additional metrics:

Metric	Potential Warning Sign	Why it Matters
% of total assets invested in loans with loan-to-value (“LTV”) >60%	10%+	A loan representing >60% of company enterprise value faces heightened risk of capital loss
% of total assets invested in loans with interest coverage (“ICR”) <1	5%+	A loan where interest costs exceed pre-tax cash flow is a payment default risk
% of total assets invested in loans with <b>Debt/EBITDA</b> > 6x	20%+	A loan that is more than 6x pre-tax cash flow is at heightened risk of capital loss
<b>Cumulative realized loss %</b> (since inception realized losses/NAV)	5%+	Realized losses are recorded quarterly but are difficult to track over time
<b>Industry sector concentration</b>	20%+	Outsized exposure to a single sector creates capital loss concentration risk
<b>Liquidity</b> = (cash + liquid loans + undrawn debt – 20% of unfunded commitments)/net assets	<15%	Managers operating with low liquidity have more risk of forced asset sales

Managers with material cushion to the “warning sign” levels are likely well-positioned to outperform their peers in the long-term. Managers tripping or nearing multiple warning signs are not, even if currently there is little visible evidence of loan markdowns or yield degradation. In our experience, lower quality managers tend to have more optimistic marks.

Along those lines, it is worth noting that daily NAV pricing is absent from our grid. While often perceived to be transparent, NAV relies on a number of subjective valuation assumptions and therefore does not reliably reflect underlying portfolio quality or protect investors from managers with optimistic valuation marks within a portfolio. The metrics outlined above provide a clearer view into credit risk, underwriting discipline, and any optimism in loan marks.

It is also worth noting that publicly listed managers can face heightened deployment pressure due to public shareholders demanding fee-earning asset growth. Deployment pressure can push even the best investment professionals to compromise underwriting standards, which can lead to lower returns. Evaluating the growth of a manager’s annual new deal activity across all direct lending capital pools can illuminate potential **deployment pressures**.

## **Treat BDC and IV Investors Like Sophisticated Institutions**

Large institutional investors investing in drawdown funds typically request and receive the metrics we suggest before selecting and allocating capital to private credit managers. Extending a similar level of transparency to BDC and IV investors, their advisors, and third-party researchers would enable more informed decisions and greater conviction in the category.

We believe the industry *must* move in this direction. Shifting from reassurance to data-driven transparency will strengthen trust, build investor confidence, and reduce category-level redemptions. As the adage goes, sunlight is said to be the best disinfectant. ■

1. [NAIC, Capital Markets Bureau, Private Credit Primer](#)
2. SEC filings; data represents the 11 largest registered, non-listed, perpetual direct lending funds (BDCs and IVs), representing ~79% of industry NAV

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](https://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. 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, and are provided for informational purposes only. 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. No forward-looking statements contained herein constitute a guarantee, promise, projection, forecast or prediction of, or representation as to, the future and actual events may differ materially. 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.