AFR Intelligence

La Trobe financial

Investment alternatives

Navigating private credit's 'golden age'

In partnership with La Trobe Financial

Table of contents

Foreword 1

About this project 2

Executive summary 3

Introduction: Private credit's 'golden age' 4

Box out: What is private credit? 5

The evolution of private credit 6

A market transition 12

Box out: Investment comparisons 13

Private credit eyes retail growth 16

Box out: Mitigating private credit risk 17

Navigating private credit's future 18

Conclusion 20

End Notes 22

Foreword

Private credit – One part of a complete retirement solution

Australians are getting older. In 1993 the average Australian could expect to live for 77 years and only 12% of the population was aged 65 and over. Fast forward to today and average life expectancy is 84 years and 17% of the population is 65 and over.

This surge in longevity is a miracle of the modern world. But it brings its own challenges. People are living longer in retirement. They need to ensure that their retirement savings are working hard for them.

Given that background, it's no surprise that people are taking a careful look at private credit. It's been around for over 4,000 years. And—when done properly—it can be a powerful part of any investor's portfolio. After all, it offers:

- Higher returns than many traditional fixed-income investments – helping portfolios support investors well into their golden years;
- Diversification into an asset class that performs differently to public markets like stocks and bonds – reducing overall portfolio volatility, which is a critical issue for people approaching or in retirement;
- Regular interest payments – a steady income stream that is especially appealing for investors seeking retirement income; and
- Inflation protection – with many offerings built on variable rate assets that adjust in response to inflationary environments.

However, these benefits will only be captured if investors are careful in selecting their private credit manager. There are many new entrants in the sector and that can make manager selection confusing. Which is why we have commissioned this paper to ensure investors are asking these questions when making an investment decision:

- Does your manager have the demonstrated experience to navigate credit markets across the economic cycle?
- Does your manager have complete transparency about the underlying assets in their portfolio, their valuation practices and how they are dealing with borrower defaults?
- Are the underlying assets in the fund in line with your own risk / return profile, or is the manager taking on additional risk to 'juice' their returns?
- And do you understand the liquidity structure that will govern when you can get access to your money?

These are the same questions that investors should be asking about any investment in any fund. And if these answers are right, it will be the foundation to investment success.

Chris Andrews
CEO
La Trobe Financial

About this project

Investment alternatives: Navigating private credit's 'golden age' is an AFR Intelligence report published by the thought leadership division of The Australian Financial Review in March 2025. Commissioned by La Trobe Financial, the report consists of independent research and content. Sponsors do not have approval rights over the editorial content of AFR Intelligence reports.

The Action Exchange, a thought leadership and stakeholder engagement agency, authored this report. AFR Intelligence, La Trobe Financial and The Action Exchange thank the following people (listed alphabetically by surname) interviewed for this research.

- **Keith Cullen**, founder and Managing Director, WT Financial Group Limited
- **Anton Gaudry**, Australian entrepreneur, founder of Give52 and investor
- **Dr Narine Lalafaryan**, Assistant Professor of Corporate Law, Faculty of Law, University of Cambridge and Fellow, Cambridge Endowment for Research in Finance
- **Alexander Schlosser**, Partner, Clayton Utz
- **Rodney Sebire**, Head of Alternatives and Global Fixed Income, Zenith Investment Partners

Written by The Action Exchange

Executive summary

Private credit is not a new investment class, but as increased regulation has forced banks to restrict their lending, the private credit market has grown rapidly to fill the lending gap. For borrowers, private credit offers more flexible lending options and the ability to tailor loans to the unique needs of a company or individual. For investors, well-managed private credit funds provide strong, uncorrelated regular returns and can increase diversity in an investment portfolio.

However, as the market grows and funds eye retail investors, some experts warn that the risks inherent in any private credit investment are becoming more complicated. Whether from untested structures and emerging funds that may lack the experience to manage the risks associated with complex debt portfolios, to those managers who fail to offer deep portfolio reporting, wholesale and retail investors are being warned to do their research and seek advice so they can make well-informed decisions.

Other key findings from the research include:

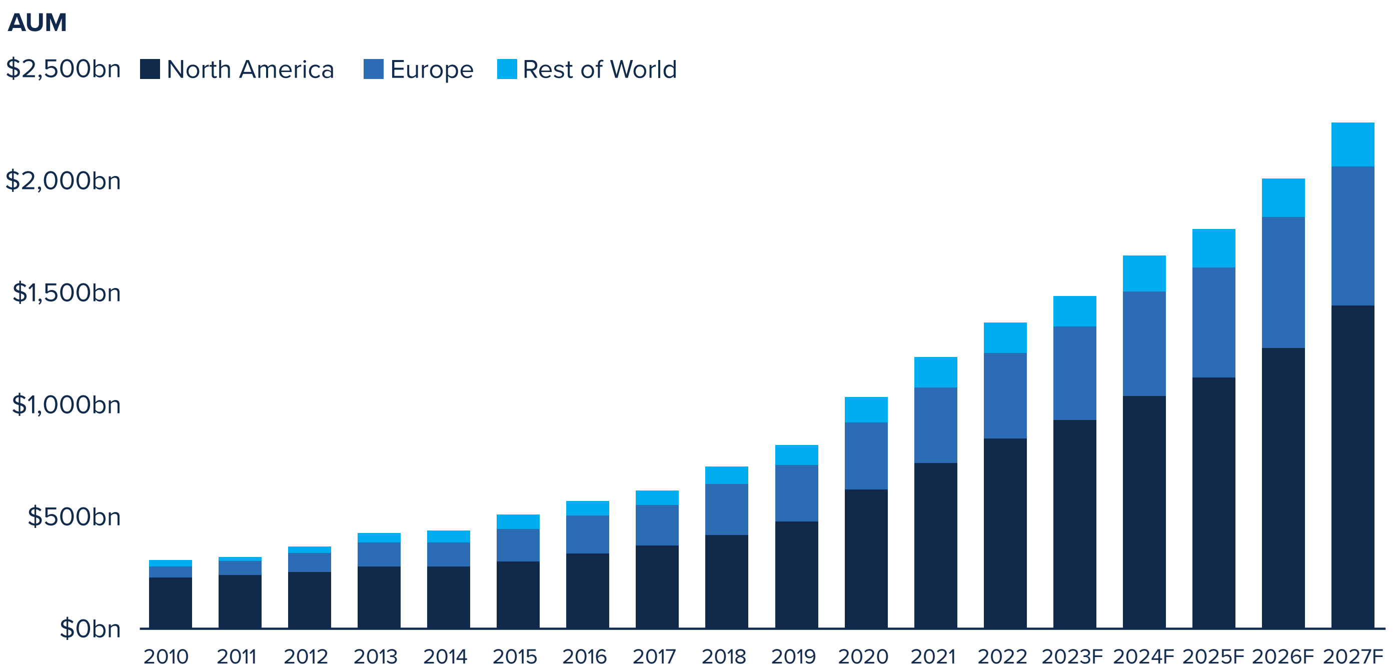
- The size of the global private credit market is expanding rapidly, along with the number of funds providing private debt. Global private credit assets-under-management (AUM) grew to US$2.1 trillion in 2023—ten times the 2009 value—with some projections suggesting that the addressable market in the US alone could be worth as much as US$34 trillion.[1]
- The breadth of the investors in those funds is expanding. Traditionally conservative investment organisations like superannuation and pension funds are now growing their investments in private credit. Traditional banks that have been cut out of this part of the market are also investing in private credit funds.
- As the market grows, so too are the types of private credit loans and structures being offered. These range from the simple to the more sophisticated. This is highlighted by the emergence of hybrid funds that provide the returns of private credit, but which are based on a combination of underlying equity and debt securities.
- As the market has grown, barriers to retail growth are being reduced, and many funds are now targeting high-net-worth and retail investors.
- Concerns have been raised about the risks retail investors face when investing in any unfamiliar investment class. To mitigate these risks, experts recommend that investors seek reputable and independent investment advice and limit investments to well-rated funds and managers that offer quality assets, structures and management teams, and regular, detailed portfolio reporting.
- Australia's private credit market is smaller and less sophisticated than its US, UK and European counterparts. However, as regulatory changes that target the riskier end of the market are explored, and overseas funds eye Australia's market stability, future growth is expected.

Introduction: Private credit's 'golden age'

As retail bank lending regulations and capital requirements have tightened, and interest rates have risen, global investors have turned their focus to corporate private credit. Once a relatively small part of the debt market, this investment class is rapidly expanding, leading some to describe it as "a golden age of private credit"[2].

Global private credit assets-under-management (AUM) grew to US$2.1 trillion in 2023—ten times the 2009 value—with some projections suggesting that the addressable market in the US alone could be worth as much as US$34 trillion.[3 4] Although Australia is a much smaller market, private credit growth has also grown domestically at a rapid pace, with an estimated $188 billion in private corporate credit AUM in Australia at the end of 2023.[5]

Figure 1: Real and estimated global direct lending growth



Source: Morgan Stanley

What is private credit?

Although commercial transactions can be complex, at its heart private credit is the lending of money from one private individual or company to another. As an investment class, it is a broad category that encompasses any lending activities performed by non-bank financial institutions like private credit funds, private equity (PE) firms and alternative asset managers. These financial organisations raise capital from investors seeking returns on their investments by loaning money directly to borrowers via strategies like direct lending, mezzanine financing and distressed debt.[6]

Given the potential breadth and complexity of private credit products, it is critical for investors to do their research. They need to understand the composition of any potential private credit portfolio investment, the structures that are being used, and how skilful the manager is in operating the asset classes across an economic cycle.

The roots of the global private credit boom can be traced back to a confluence of factors, but regulations introduced in the wake of the 2008 Global Financial Crisis (GFC) were key drivers. As markets including the US, the UK, Europe and Australia introduced new rules that imposed stricter capital and lending restrictions on banks, middle-market lending by banks declined.[7,8,9]

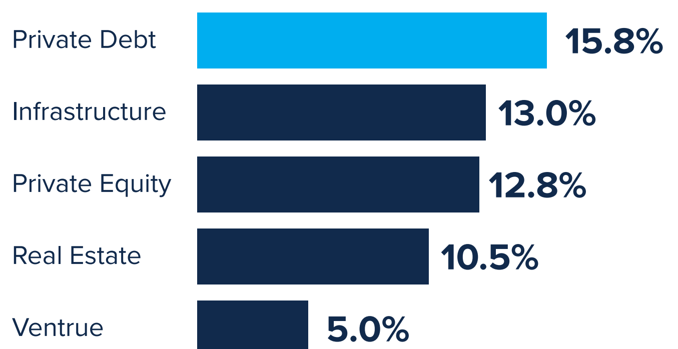
Private credit grew to fill the traditional bank lending hole, and has increasingly become an important source of capital for economic growth and corporate financing across a range of sectors, including real estate and public infrastructure.[10] "The US is a lot more advanced than Australia, but 50% of corporate lending there is now met by non-bank lenders," explains Rodney Sebire, Head of Alternatives and Global Fixed Income at research consultancy Zenith Investment Partners.

In Australia, the private corporate credit market is still relatively small and currently represents only 2.5% of total outstanding business debt. Yet it has racked up faster growth than any other fixed income segment, and firms are collectively on track to manage AU$200 billion in capital.[11] [12] Mr Sebire says as more lenders in Australia extend finance to corporates, those lenders are also building out the origination functions that enable them to lend that money, so future growth is expected. "It becomes a bit of a self-fulfilling prophecy," he says.

As the number of funds providing private lending has grown, so too have the number of external investors. Well-managed private credit portfolios can deliver strong, consistent returns, and private credit has emerged as the best performing private market asset class over the past decade. In Australia, real estate private credit strategies developed using underlying mortgage security also have a long history.

As investors have flocked to private credit, the investment class has claimed market share from other leveraged finance segments.[13] [14] A new ecosystem across asset managers, banks and insurers is also emerging as the organisations seeking out private credit exposure diversifies.[15]

Figure 2: Three year horizon IRR for private markets asset classes (2020-23)



Source: Pitchbook

However, as investment in private credit has grown, particularly in corporate lending, concern about the risks to less sophisticated investors have increased. Until recently, significant barriers to entry such as high investment thresholds, limited liquidity and information asymmetry meant that that private corporate credit market was dominated by institutional investors and ultra-high-net-worth individuals. As the market matures and continues to deliver strong returns, regulated private credit investment products geared towards retail investors are growing in popularity.[16]

Although default rates in private credit markets are lower than leveraged loan or high-yield bond markets, it is the lack of transparency in private credit transactions that has attracted regulatory attention. Parts of the private credit sector can be opaque, and may lack the levels of oversight and transparency currently in traditional lending.[17]

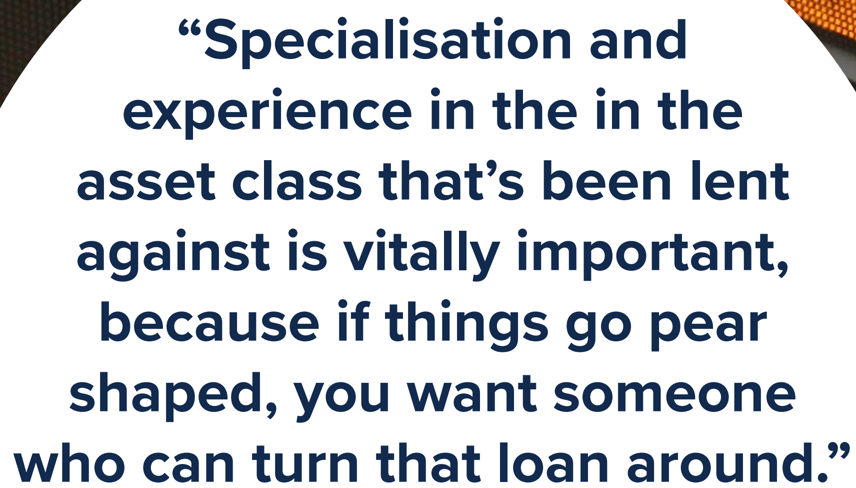
This is reflected in a 2024 private credit bulletin from the Reserve Bank of Australia, which noted that "globally, the growth in private credit has raised concerns related to a lack of visibility over leverage and interlinkages, with regulators taking steps to strengthen oversight of the market."[18] Private credit investments are also illiquid, while most jurisdictions outside of the US lack a secondary market, which restricts the ability to easily trade private loans.

Anton Gaudry, an Australian entrepreneur, philanthropist and investor, says there is always a risk/reward trade-off, but that this equation is amplified in the private credit space because private credit is largely unregulated.

"Any unregulated industry, particularly where large sums are involved, will attract market participants of varying levels of competency, and strategies with varying levels of quality," he says.

As with any investment, these risks are compensated by healthy, consistent yields and diversification.[19] However, as Australia's private credit market grows and more asset managers turn their attention to retail investors, balancing the risks and rewards will become increasingly critical to mitigate potential systemic risks.

"One of the biggest risks in the sector at the moment is because people are chasing yield, and because there's an enormous opportunity where borrowers are looking for money, anyone thinks they can run a private credit fund," says Keith Cullen, founder and Managing Director of WT Financial Group. "Specialisation and experience in the asset class that's been lent against is vitally important, because if things go pear shaped, you want someone who can turn that loan around."



“Specialisation and experience in the in the asset class that’s been lent against is vitally important, because if things go pear shaped, you want someone who can turn that loan around.”

Keith Cullen, founder and Managing Director, WT Financial Group Limited

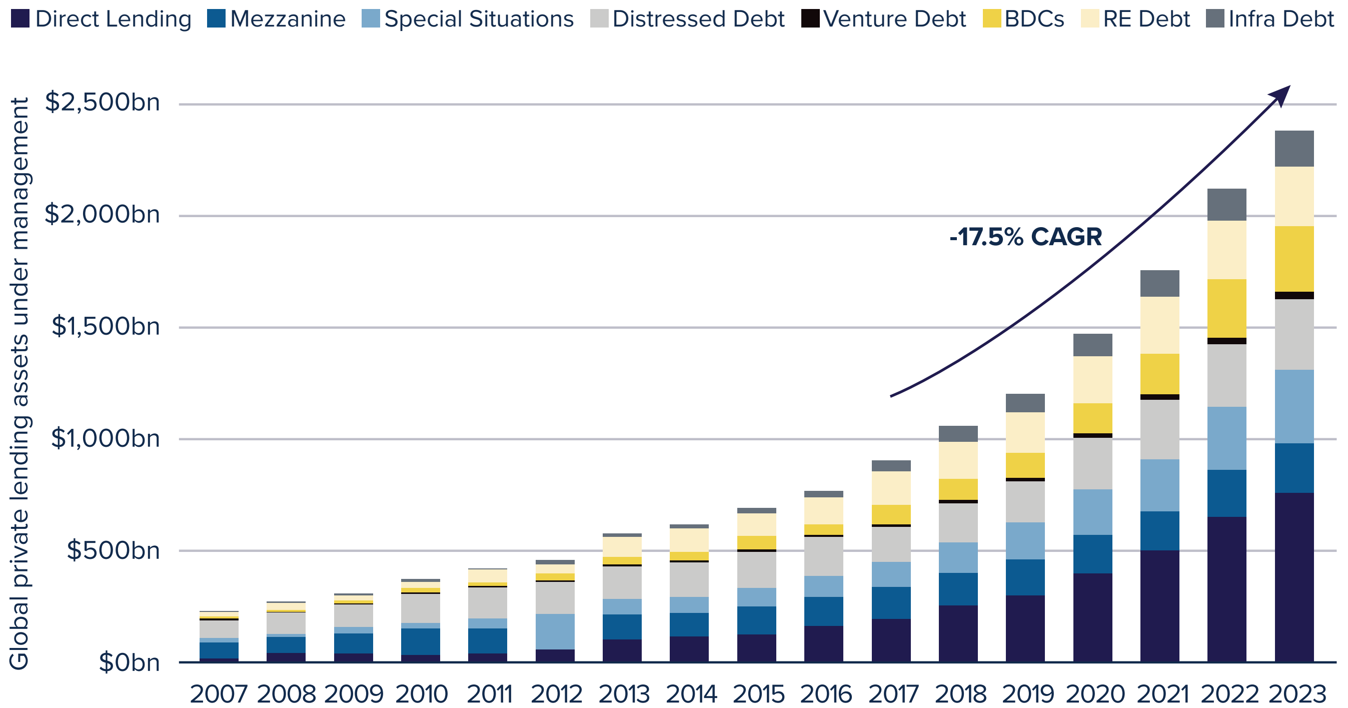
The evolution of private credit

Private credit may be entering a golden age, but as an investment class it has existed for decades. The roots of modern private credit extend to the 1970s, according to Dr Narine Lalafaryan, Assistant Professor of Corporate Law at the University of Cambridge, when relational finance was strong. During this period, most lenders and borrowers knew each other well, and transactions were based on trust rather than regulation.[20]

Although the private credit market in the US and UK became more sophisticated on the back of this type of lending, the growth in the market was cemented by the 2008 global financial crisis (GFC). Aiming to prevent future banking collapses, global financial regulators introduced reforms like Basel III and the Dodd-Frank Act in the USA to impose capital requirements and lending restrictions on banks.[21 22 23 24]

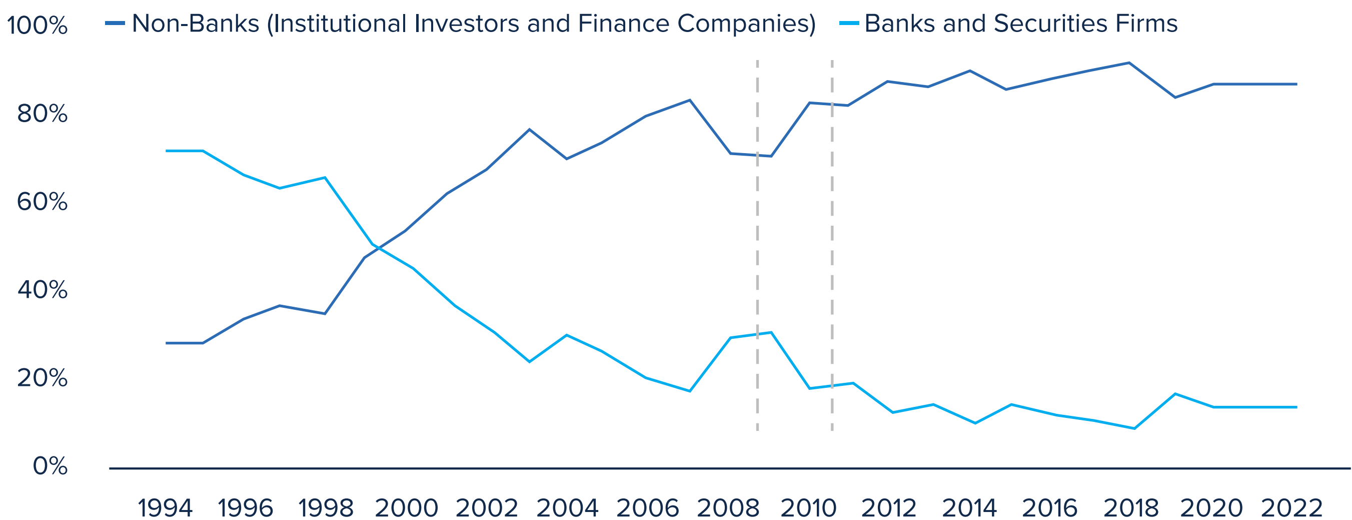
As regulation required the banks to carry larger amounts of capital to support loans, this in turn made lending to certain segments expensive and unprofitable. Many banks retreated from mid-market lending and sectors such as commercial real estate as result.[25 26] Private credit funds recognised the opportunity to fill the gap left by traditional financial institutions and began lending in earnest.

Figure 3: Global private credit AUM has grown approximately tenfold since the Global Financial Crisis



Source: Preqin, Goldman Sachs Global Investment Research, as of December 31, 2023

Figure 4: : Rise of private credit in the wake of the Dodd-Frank Act



Source: Pitchbook[27]

"Banking regulations played an important role in market growth. Private credit funds are not subject to the same capital regulations as banks, so these rules fuelled competition between the banks and private credit funds," explains Dr Lalafaryan, who says that competition has only intensified with the entry of direct financing from institutional investors like sovereign wealth funds.[28]

In Australia, the post-GFC banking regulations imposed new capital requirements on traditional banks that constrained their lending. This laid the groundwork for funds to begin investing in higher yielding debt on the riskier end of the credit spectrum, or non-performing loans. Alexander Schlosser, a partner at Clayton Utz, says the credit fund market at that time was predominantly in the distressed investing space and a number of these funds were able to purchase non-performing loans from the banks at a discount to face value. The funds would then either work through a turnaround of the underlying businesses or, where that was not possible, enforce security or implement a "loan-to-own" strategy.

Changes in market dynamics and the economy have also had an impact. Low interest rates in response to the 2008 financial crisis, followed by further aggressive cuts during the Covid-19 pandemic, created an environment where debt was cheap, and the number of loans grew rapidly. "There is more corporate debt today than ever before, so there's more demand for debt financing, whether we're talking about leveraged buyouts, working capital, capital expenditure or refinancing," says Dr Lalafaryan.

Rising interest rates have further reshaped recent lending dynamics. Although default risks rise, private credit can generate attractive returns in a high-interest rate environment. As the demand for debt has shifted toward even further towards private credit and alternative financing, investors are seeing equity-like returns with fixed income characteristics, according to Dr Lalafaryan.

"In the UK, for example, the Bank of England's rate was 0.1% in December 2021 but that went all the way up to 5.25% in August 2023, where it's remained static before going down to the current rate of 4.5%," she explains. "This 'higher for longer' interest rate environment translates into very attractive nominal returns that are luring investors to private credit."

The emergence of hybrid or multi-strategy funds is also generating greater interest in private credit assets, according to Dr Lalafaryan. These funds, which typically promise to pay a fixed rate of return, integrate liquid and illiquid assets and rely on a portfolio of complex hybrid securities that combine elements of debt securities and equity securities.[29]

The equity-like features of the hybrid securities make these funds higher-risk, but they provide flexibility and enable informed investors to rely on managers to deploy invested capital when unique opportunities or solutions arise.[30] Often managed through partnerships, Dr Lalafaryan says "hybrid funds herald a blurring between equity and debt investments, as well as investor groups, with funds both competing and partnering with one another".

“The emergence of hybrid or multi-strategy funds is also generating greater interest in private credit assets”

Dr Narine Lalafaryan, Assistant Professor of Corporate Law, Faculty of Law, University of Cambridge and Fellow, Cambridge Endowment for Research in Finance

Market transition

These partnerships mark a distinct shift in the private credit market, and highlight the growing involvement of a diverse range of investors, from private equity firms to large institutional investors, which are further growing demand for private credit.[31]

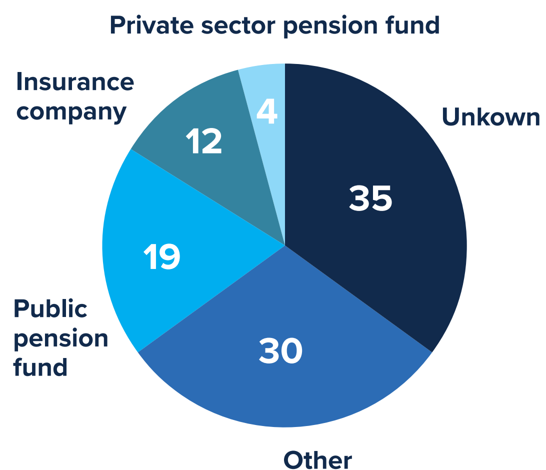
Already comfortable with alternatives, and facing challenges with equity market IPOs, private equity firms have increasingly turned to private credit for yield, both investing in and utilising private credit. In 2021, for example, around 45% of private equity funds reported having used private credit to finance buyouts over the previous three years.[32]

The appetite for private credit has also soared among large institutional investors such as domestic pension funds, insurance companies and superannuation. Globally private sector pension funds, insurance companies and public pension funds currently hold 35% of private credit fund investments.[33]

Domestically, IFM Inventors, an entity owned by 16 Australian super funds, has expanded its private debt portfolio by an annual 20% over the last two years, while Queensland government-owned QIC aims to double its AU$1.5 billion private debt business in the short term.[34] Even Australia's more traditional superannuation funds are rapidly growing their private credit investments.[35]

Part of the appeal for asset managers and pension funds is the greater security private credit investments offer, as they generally comprise senior secured loans that rank highly in the corporate capital structure, above even high-yield bonds. "There's a lot of equity protection," explains Mr Sebire. "For a residential property development or a corporate loan, you generally expect to see an equity cushion in excess of 35%, which is a lot of value destruction before private debt holders are impacted."

Figure 5: Share of private credit fund investment (%)



Source: The Australian Financial Review[36]

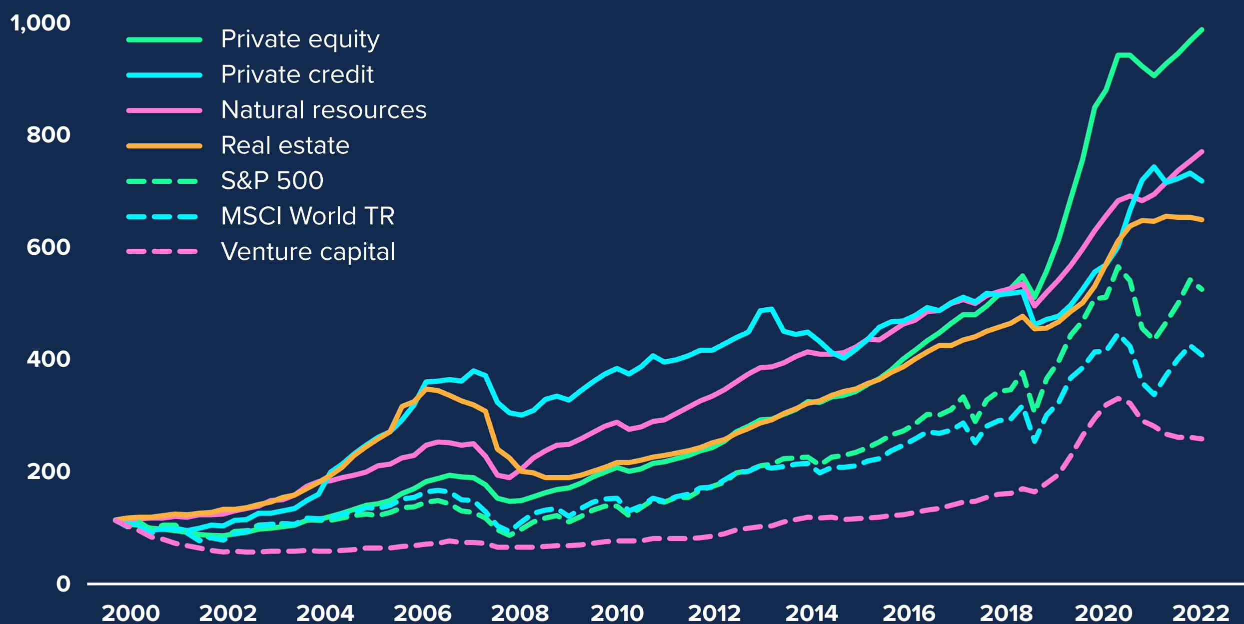
This security, as well as the consistent returns, provides investors in private credit assets with an incentive to forgo the need to easily access their capital. "You give up liquidity, but you get higher returns," Mr Sebire adds.

Even banks themselves are starting to see something special in private credit. Between 2021-2023, bank lending to private credit funds increased by an annual average of 18%, with much of the expansion concentrated in North America (23%).[37] Apollo and Citigroup, for example, announced an agreement to form a US$25 billion private credit direct lending program in North America, with the potential for global expansion, in September 2024.[38] However, given the relatively conservative risk appetites among banks, their lending has so far mostly been limited to large, well-established private credit funds.

Investment comparisons

Private credit has historically demonstrated attractive returns with relatively low volatility, making it a compelling option for investors.[39]

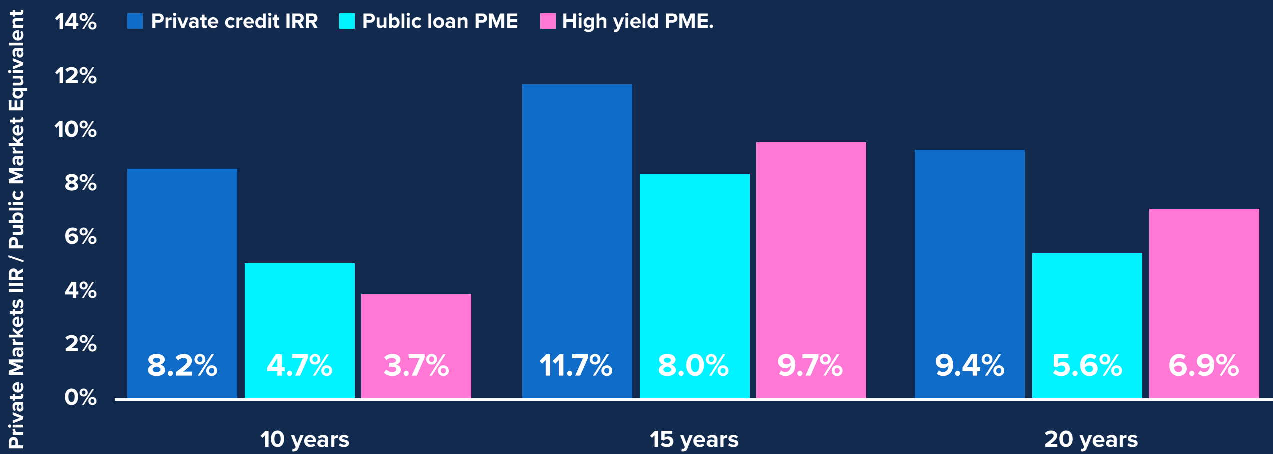
Figure 6: Returns of Private Equity, Private Credit, and Other Asset Classes
(Indices rebased to 100 as of December 2000)



Source: International Monetary Fund

Over the last decade, private credit yields were 3-6% higher than public high yield and broadly syndicated loans.[40] The asset class's "illiquid" premium and resilience has also enabled it to outperform public loans, delivering 10% in annualised returns versus 5% for public loans. [41]

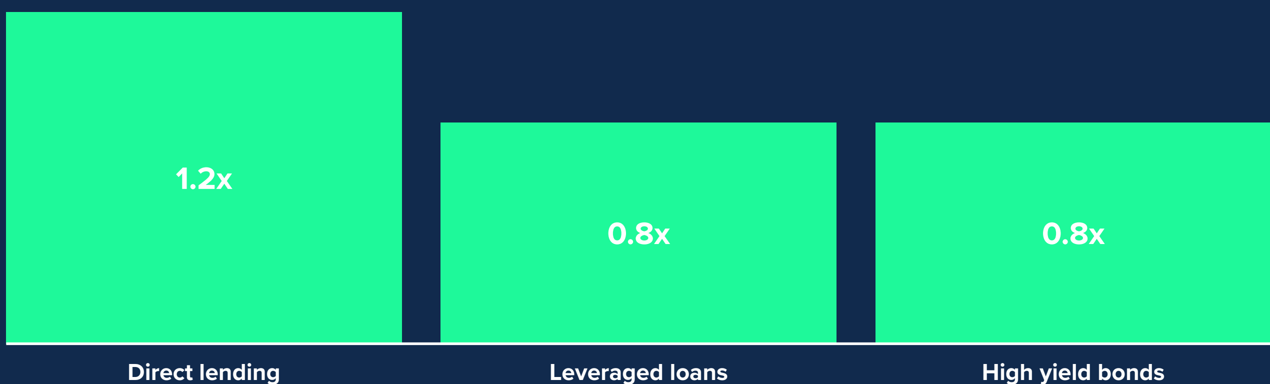
Figure 7: Comparison of overall performance



Source: https://am.gs.com/en-us/institutions/insights/article/2024/understanding-private-credit

While other parts of the financial system have struggled amid high and rising interest rates and inflation, private credit has thrived. As private credit loans are extended at a floating rate, returns generally rise in-line with interest rates, leading to returns that often outperform other fixed-income assets.[42] According to a Morgan Stanley analysis, between 2008-2023, direct lending yielded an average return of 11.6%, roughly twice that of leveraged loans and high-yield bonds.[43]

Figure 8: High returns relative to volatility



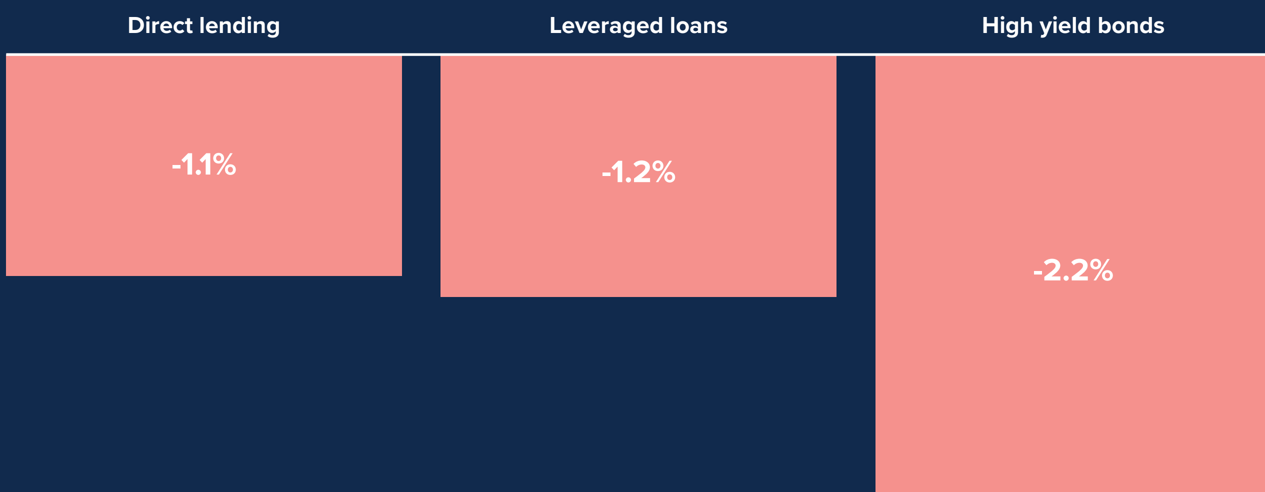
Source: https://www.morganstanley.com/ideas/private-credit-outlook-considerations

A closer examination of the global bonds sell-off in 2022 illustrates how growing disenchantment with government bond markets and strong returns on private credit helped spur investor interest these assets, says Mr Sebire.

“In Australia, the Aggregate Bond Index was down 9.76% while the global equivalent was down 12.3%, but at the same time, private debt funds wren ticking away, giving you cash plus 4-5%,” he says. “That accrual of regular income is what’s driven a lot of growth on the demand side—investors aren’t getting that unit price volatility.”

Even in environments characterised by significant volatility and uncertainty, private credit has remained resilient. Following the COVID-19 pandemic, for example, the asset class sustained much lower losses than other fixed-income assets and experienced heightened demand amid the ensuing economic turmoil and banks’ reluctance (or inability) to provide funding.[44]

Figure 8: Direct lending’s fewer losses during COVID-19



Source: https://www.morganstanley.com/ideas/private-credit-outlook-considerations

However, while the data paints a rosy picture, Professor Lalafaryan advises investors to proceed with caution, as the lack of comprehensive data available from the opaque private markets can make it difficult to obtain true comparisons of performance.

“A lot depends on the private credit strategy, with the returns for distressed investments being higher than direct lending, because they’re riskier,” she says. “But we just don’t have enough data to compare their performance against equities or bonds. It all depends on the situation—the interest rates, market conditions and competition.”

Private credit eyes retail growth

As Australia's private credit market continues to mature, funds are starting to widen their nets to capture a key customer segment: the retail investor. Historically, corporate private credit funds have been largely inaccessible to most retail investors and even some high-net worth Australian investors due to high barriers to entry and scarce investment options for individuals.[45, 46]

However, private credit loans are relatively illiquid in Australia, making it harder for credit funds to exit a loan that is underperforming. "In the US and UK, by comparison, there's far more liquidity in the debt markets and secondary trading is more prevalent. The private credit market is still relatively small in Australia and there is no deep secondary market for resale," says Mr Schlosser. This adds a structural risk element for investors in Australian private credit loans, as the relevant credit fund may not be in a position to manage its downside exposure by easily trading out of a position.

On the supply side, retail investors offer private credit lenders a source of relatively untapped funding.[47] In response, barriers to entry such as minimum investment sizes are lowering, and the market is expanding to a broader clientele of investor. Although most retail growth is occurring in the US and Europe, private credit is also expanding its reach in Australia and retail investors now have the option of allocating to high-quality global private credit assets via online term accounts, through retail asset and investment managers, or through ASX-listed investment trusts.[48, 49]

Understanding the private credit opportunity

The expansion of private credit into retail markets is understandable. Where retail investors have traditionally been locked out of private markets, the "democratisation of investment" is dismantling some of the traditional barriers to entry, making alternative investments like private equity and private credit more widely available. Retail investors also potentially stand to gain diversification benefits and healthy returns from private credit investments.

However, private credit loans are relatively illiquid in Australia, making it harder for credit funds to exit a loan that is underperforming. "In the US and UK, by comparison, there's far more liquidity in the debt markets and secondary trading is more prevalent. The private credit market is still relatively small in Australia and there is no deep secondary market for resale," says Mr Schlosser. This adds a structural risk element for investors in Australian private credit loans, as the relevant credit fund may not be in a position to manage its downside exposure by easily trading out of a position.

Depending on the asset, sector or classification of the investor, private market investments can lack the transparency that public markets offer. This means disclosure requirements can be limited, depending on the classification of the investors buying the assets. This in turn has contributed to concerns regarding the opacity of loan valuations and management fees, and makes it harder to identify the potential risks with the management of the funds themselves.[50]

"The risks are that the people running the funds don't understand what they're doing," Mr Cullen says, with an emphasis on the newer, less experienced funds that are emerging as the private credit market expands. "Track record is really important."

Ultimately, unlike wholesale or institutional organisations, the risks to retail investors are typically higher. Retail investors typically invest their own capital and operate with fewer resources and less information than institutional investors. This has led to warnings for retail investors to do their homework and seek advice before putting their money into private credit.[51]

"For all investors, getting proper advice around private credit is essential. You need to carefully consider what your risk appetite is, and how private credit balances with the rest of your portfolio and assets more broadly," adds Mr Cullen. "Just because you've got experience in one asset or security class doesn't mean it's going to apply to private credit."

Mitigating private credit risk

The risk elements in the private credit market mean that any investor needs to be meticulous in their own research and the advice they seek to mitigate their risks, according to Mr Gaudry.

Firstly, he says it is critical to understand the borrower's underlying business and its feasibility. "There is real exposure to how the funds will be used by the borrower, so understanding their business model and risks is vitally important," Mr Gaudry says.

Secondly, Mr Gaudry says if a manager is lending through an intermediary or broker, they should only deal with reputable, professional organisations. "In an unregulated sector such as private credit broking, there will be a wide range of service offerings, competency and professionalism," he warns.

Finally, any investor needs to ensure that the lending risks are being actively managed, otherwise any shortfall in the lending chain will come back to hurt the investment. This requires an investor to invest their time, and their money, as they will need to continually monitor due process.

"The lender really needs to understand the borrower's business and risks, engage a competent broker, and obtain professional legal services," Mr Gaudry says. "Whilst this may seem obvious and easy, there can be many potholes in a private credit market."

Navigating private credit's future

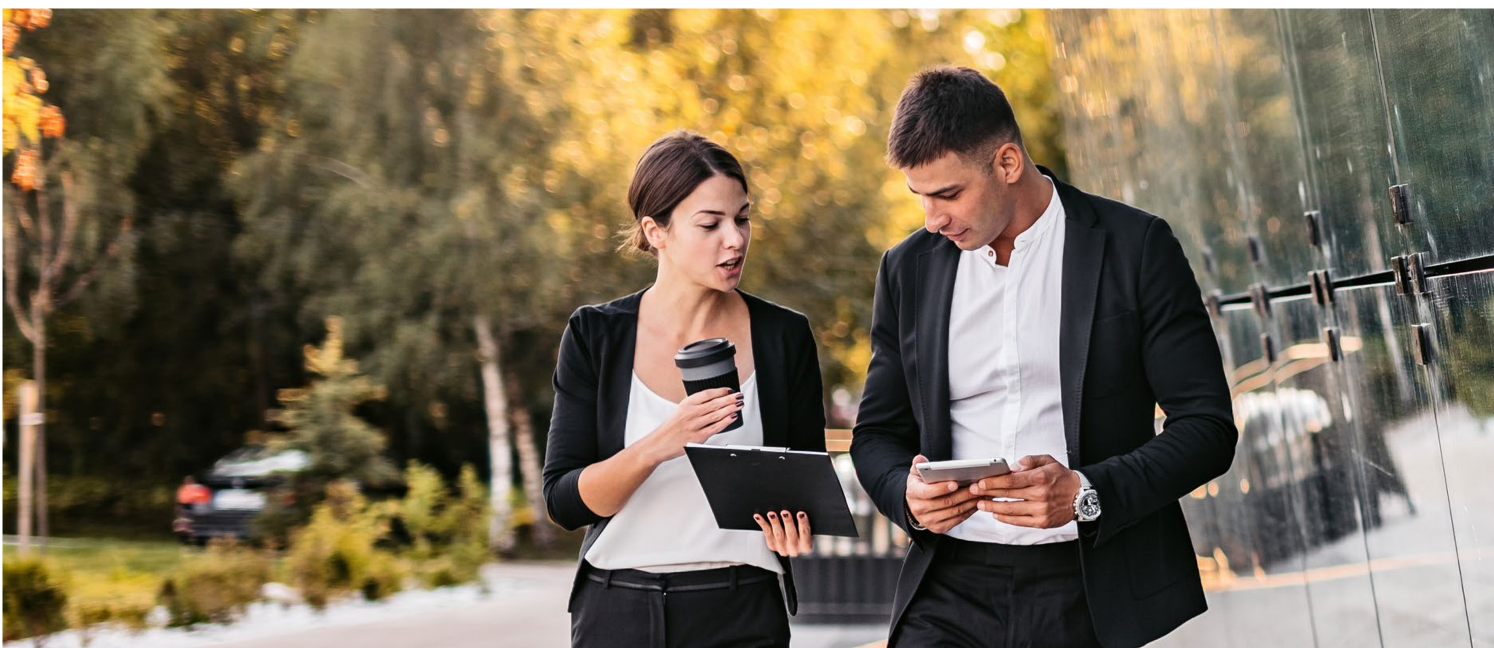
After a relatively sluggish 2024 for private credit markets, analysts are predicting a return to growth as banks tighten lending standards and private equity funds and investment managers look to deploy their accumulated dry powder.[52] By 2029, the private credit sector is estimated to expand to US$2.6 trillion as borrowers look to explore the potential rewards of these asset classes, with growth set to extend to Australia.[53]

"We've had great growth in Australia, and we'll only get more sophisticated," says Mr Sebire. "The way I see it, we're going to have a lot of global private debt complementing domestic exposures, and there's plenty of scope for growth."

Mr Schlosser agrees, and predicts that there may be greater interest from offshore funds in Australian private credit given the country's established track record with robust credit documentation, its creditor-friendly jurisdiction, the rule of law and relative ease of enforcement. "The Australian debt market is not going to be able to compete with the US, Europe and the UK in terms of liquidity, because we just don't have the same level of volume. But I think that a greater number of funds will continue to be attracted to this jurisdiction," he says.

Several factors are contributing to these growth predictions, including increased demand for borrowing from SMEs, and the expanding market with new funds and retail investors.[54][55] Improving economic conditions, such as waning inflation and anticipated interest rate cuts, are also expected to bolster private credit investments.[56]

The private markets are also undergoing a shift, with novel assets, structures and solutions emerging from funds that are looking for new sources of yield. Alternative investment funds, for example, are attempting to import mechanisms from other financing sectors like structured finance.[57] There is also a sense that private credit is spilling over into new sectors, such as climate technology and frontier economies, where financing can be an issue.[58]



"I think the private credit market will continue to grow. It may be all the buzz in the market now, but private lending has been around for decades, and debt is inherently more conservative an investment than shares," says Mr Schlosser. "The risk depends on the fund."

To this end, a key consideration for market evolution will be regulation. International regulators in Europe, China and India have taken steps to enhance transparency and competition and increase oversight of private credit funds. In 2024, the EU published its Alternative Investment Fund Managers Directive II, which imposes restrictions on funds being redistributed into a secondary market as well as new disclosure requirements.[59]

In Australia, private credit funds must comply with anti-money laundering and counter-terrorism (AML/CTF) obligations, and register with APRA and ASIC.[60] However, scrutiny of private credit lending is expected to intensify, especially as the retail market grows. In December 2024, the Australian Securities and Investments Commission (ASIC) kickstarted a two-year review into the market, signalling the regulator's growing concern.[61]

"[Private] credit growth on aggregate is good…but we watch all the risks," the Australian Securities and Investment Commission's chairman, Joe Longo, told The Australian Financial Review in July 2024.

Most experts welcome ASIC's consultation around private credit growth in Australia, and believe any changes will target the edges of the market that need increased scrutiny. "Private credit is definitely on ASIC's radar, but I think they're focused on product disclosure statement (PDS) issuers and genuine mum-and-dads, not so much wholesale or sophisticated investors who should know the risks they're taking on," says Mr Sebire.

Professor Lalafaryan says this careful approach is necessary, as too much regulation could stymie growth. "Private credit funds are not banks and have a different function in society, so require a different approach to regulation. The rule of law and regulation should help this asset class grow organically and dynamically, enabling it to stabilise this need for financing," she says.

However, Dr Lalafaryan also emphasises the need for the legal frameworks that underpin the financial system to evolve to accommodate the changes being wrought by private credit funds.[62] "These funds are operating globally, but the legal frameworks they operate in are not the same. Much of this growth is coming from the US, but the question is whether the legal systems in Australia, the UK, Europe and the Middle East can have an adequate response," she explains.

"I think the private credit market will continue to grow."

Alexander Schlosser, Partner, Clayton Utz

Conclusion

As traditional lending from banks has restricted in response to increased regulation, private credit now provides a fundamental role in a modern economy. By funding emerging companies, sectors, and economies that banks can no longer carry, private credit has become fundamental to modern economic growth.

"The availability of credit is critical from an economic perspective, whether it's for housing, small to medium businesses or larger businesses. It's imperative for economic growth," says Mr Cullen.

As an adjunct to traditional finance, private credit also ensures that debt can be tailored to such growth through the flexibility it offers. Loans can be tailored to any given situation or need, ensuring that private credit can fill the funding gaps faced by borrowers that are under-served by conventional bank loans.[63]

It provides borrowers, such as those in PE firms, with greater leeway to negotiate more favourable terms and covenants that align with their stage or type of business, says Mr Sebire.

From a demand perspective, Mr Cullen says this flexibility also enables investors to choose their levels of risk and return, and plan for monthly, quarterly or annual income distribution.

Any investor needs to be aware of the risks in a market, and that the risks from private credit can differ from public market investments. Mr Schlosser says the overall systemic risk to the average Australian retiree because of pension funds or super funds investing in private credit is probably smaller than their exposure to equities. This is because private credit funds usually have security over the underlying assets, meaning that there is a realisable value should things go wrong.

However, Mr Cullen says no one should go into this market blind. Investors need to fully understand what they are investing in, and ensure that any individual manager they work with can produce the data and transparency to help them achieve this. Disclosures on asset quality, asset diversification, fund structure, performance, and the skill of the individual managers must also be considered.

To achieve this, Mr Cullen says retail investors should seek independent advice and ideally invest with a reputable retail fund, preferably one with a solid rating from a recognised ratings agency, to mitigate these risks. Wholesale investors should also ensure they understand the underlying market or sector the fund is lending to, and that the managers of the fund are experienced.

"You need to understand what you're doing and the risks you're taking in this space," Mr Cullen emphasises.

“It provides borrowers, such as those in PE firms, with greater leeway to negotiate more favourable terms and covenants that align with their stage or type of business”

Rodney Sebire, Head of Alternatives and Global Fixed Income, Zenith Investment Partners

End notes

1. McKinsey & Company, “The next era of private credit,” 24 September 2024, https://www.mckinsey.com/industries/private-capital/our-insights/the-next-era-of-private-credit, accessed 25 February 2025.
2. Michael Bleby, “It’s a bit of a golden age of private credit,” The Australian Financial Review, 5 December 2024, https://www.afr.com/property/commercial/it-s-a-bit-of-a-golden-age-of-private-credit-20241203-p5kvf1, accessed 25 February 2025.
3. McKinsey & Company, “The next era of private credit,” 24 September 2024, https://www.mckinsey.com/industries/private-capital/our-insights/the-next-era-of-private-credit, accessed 25 February 2025.
4. Chinnery, A. et al., “Growth in Global Private Credit,” Reserve Bank of Australia, 17 October 2024, https://www.rba.gov.au/publications/bulletin/2024/oct/growth-in-global-private-credit.html, accessed 25 February 2025.
5. EY, “Annual Australian private debt market update for 2024,” February 2024, https://investmentcouncil.com.au/common/Uploaded%20files/Special%20Reports/EY_2024_Australian_Private_Debt_Update.pdf, accessed 25 February 2025.
6. ARC Ratings, “Factors driving the boom in private credit,” 24 June 2024, https://arcratings.com/researches/factors-driving-the-boom-in-private-credit/, accessed 25 February 2025.
7. Finexia, “Why Private Credit is Growing So Fast,” 20 August 2024, https://www.finexia.com.au/blog/private-credit-growth-factors, accessed 25 February 2025.
8. Aaron Weinman and Jonathan Shapiro, “Marking their own homework: Inside Australia’s $200b unregulated private credit boom,” The Australian Financial Review, 1 July 2024, https://www.afr.com/companies/financial-services/investors-realise-private-credit-is-a-two-way-street-right-20240621-p5jnm2, accessed 25 February 2025.
9. Narine Lalafaryan, “How Debt Investors Are Influencing Corporate Governance,” Columbia Law School, 30 May 2024, https://clsbluesky.law.columbia.edu/2024/05/30/how-debt-investors-are-influencing-corporate-governance/, accessed 25 February 2025.
10. Stephen Cork, “Role of Private Credit in Shaping the Economy,” Cork Gully, 16 July 2024, https://corkgully.com/private-credit-funds-in-the-spotlight/, accessed 25 February 2025.
11. Chinnery, A. et al., “Growth in Global Private Credit,” Reserve Bank of Australia, 17 October 2024, https://www.rba.gov.au/publications/bulletin/2024/oct/growth-in-global-private-credit.html, accessed 25 February 2025.
12. Aaron Weinman and Jonathan Shapiro, “Marking their own homework: Inside Australia’s $200b unregulated private credit boom,” The Australian Financial Review, 1 July 2024, https://www.afr.com/companies/financial-services/investors-realise-private-credit-is-a-two-way-street-right-20240621-p5jnm2, accessed 25 February 2025.
13. Thomas V. Kennedy, Chris Seter and Brian McDonald, “Four reasons to consider private credit despite the headlines,” J.P. Morgan, 17 April 2024, https://privatebank.jpmorgan.com/apac/en/insights/markets-and-investing/ideas-and-insights/four-reasons-to-consider-private-credit-despite-the-headlines, accessed 25 February 2025.
14. Reji Vettasseri, “Evolution in private credit’s golden age,” Decalia, 8 October 2024, https://www.decalia.com/en/evolution-in-private-credits-golden-age/, accessed 25 February 2025.
15. McKinsey & Company, “The next era of private credit,” 24 September 2024. https://www.mckinsey.com/industries/private-capital/our-insights/the-next-era-of-private-credit, accessed 25 February 2025.
16. Blake West, “How to Invest in Private Credit Funds for Retail Investors,” Heron, 30 May 2024, https://heronfinance.com/blog/how-to-invest-in-private-credit-funds-for-retail-investors/, accessed 25 February 2025.
17. https://www.federalreserve.gov/econres/notes/feds-notes/private-credit-characteristics-and-risks-20240223.html
18. Chinnery, A. et al., “Growth in Global Private Credit,” Reserve Bank of Australia, 17 October 2024. https://www.rba.gov.au/publications/bulletin/2024/oct/growth-in-global-private-credit.html, accessed 25 February 2025.
19. Morgan Stanley, “Understanding private credit,” 20 June 2024, https://www.morganstanley.com/ideas/private-credit-outlook-considerations, accessed 25 February 2025.
20. Narine Lalafaryan, “Private credit: a renaissance in corporate finance,” Journal of Corporate Law Studies, Volume 24, 2024 – Issue 1, https://www.tandfonline.com/doi/full/10.1080/14735970.2024.2351230, accessed 25 February 2025.
21. Ankur Kohli, Toshita Mukherjee and Rushabh Tallur, “Banks warm up to private credit,” Crisil, 29 October 2024, https://www.crisil.com/en/home/our-analysis/crisil-blogs/2024/10/banks-warm-up-to-private-credit.html, accessed 25 February 2025.
22. Frank Danieli, “Why private credit in this new era of investing?” MA Financial Group, 27 May 2024, https://mafinancial.com/insights/why-private-credit-in-this-new-era-of-investing, accessed 25 February 2025.
23. Bank of International Settlements, “Basel III: international regulatory framework for banks,” https://www.bis.org/bcbs/basel3.htm, accessed 25 February 2025.
24. Congress.gov, “Dodd-Frank Wall Street Reform and Consumer Protection Act,” https://www.congress.gov/bill/111th-congress/house-bill/4173/text, accessed 25 February 2025.
25. Finexia, “Why Private Credit is Growing So Fast,” 20 August 2024, https://www.finexia.com.au/blog/private-credit-growth-factors, accessed 25 February 2025.
26. Aaron Weinman and Jonathan Shapiro, “Marking their own homework: Inside Australia’s $200b unregulated private credit boom,” The Australian Financial Review, 1 July 2024, https://www.afr.com/companies/financial-services/investors-realise-private-credit-is-a-two-way-street-right-20240621-p5jnm2, accessed 25 February 2025.
27. Karan Malhotra, “The Unfolding Saga of Private Credit,” Reso, 19 July 2024, https://www.resoinsights.com/insight/the-unfolding-saga-of-private-credit-is-a-turbulent-descent-on-the-horizon/, accessed 25 February 2025.
28. Narine Lalafaryan, “How Debt Investors are Influencing Corporate Governance,” Columbia Law School, 30 May 2024, https://clsbluesky.law.columbia.edu/2024/05/30/how-debt-investors-are-influencing-corporate-governance/, accessed 25 February 2025.
29. Australian Stock Exchange, “Understanding Hybrid Securities: An attractive alternative for income,” https://www.asx.com.au/content/dam/asx/participants/cash-market/hybrids/understanding-hybrid-securities.pdf, accessed 25 February 2025.
30. Narine Lalafaryan, “The Era of Chameleon Capital,” ECGI, 11 November 2024, https://www.ecgi.global/publications/blog/the-era-of-chameleon-capital, accessed 25 February 2025. Narine Lalafaryan, “Private credit: a renaissance in corporate finance,” Journal of Corporate Law Studies, Volume 24, 2024 – Issue 1, https://www.tandfonline.com/doi/full/10.1080/14735970.2024.2351230, accessed 25 February 2025.
31. Amy Bainbridge and Sharon Klyne, “Private Credit Set to Jump on Higher Interest Rates in Australia,” BNN Bloomberg, 21 October 2024, https://www.bnnbloomberg.ca/business/international/2024/10/21/private-credit-thrives-amid-australias-elevated-interest-rates/, accessed 25 February 2025.
32. Himanshu D. Sharma, “Private Credit’s Increasing Role in Private Equity Industry,” Evalueserve, https://www.evalueserve.com/blog/private-credits-increasing-role-in-private-equity-industry/, accessed 25 February 2025.
33. Jonathan Shapiro, “Fortunes to be made as the private credit boom is going public,” The Australian Financial Review, 7 June 2024, https://www.afr.com/companies/financial-services/fortunes-to-be-made-as-the-private-credit-boom-is-going-public-20240603-p5jiyh, accessed 25 February 2025.
34. Amy Bainbridge and Sharon Klyne, “Private credit set to jump on higher interest rates in Australia, Bloomberg, 22 October 2024, https://www.bloomberg.com/news/articles/2024-10-21/private-credit-thrives-amid-australia-s-elevated-interest-rates?embedded-checkout=true, accessed 25 February 2025.
35. Hannah Wootton, “How super funds are tapping the private credit boom,” The Australian Financial Review, 3 December 2024, https://www.afr.com/markets/debt-markets/how-super-funds-are-tapping-the-private-credit-boom-20241127-p5ktx0, accessed 25 February 2025.

36. Jonathan Shapiro, “Fortunes to be made as the private credit boom is going public,” The Australian Financial Review, 7 June 2024. https://www.afr.com/companies/financial-services/fortunes-to-be-made-as-the-private-credit-boom-is-going-public-20240603-p5jiyh, accessed 25 February 2025.
37. Moody’s, “Bank funding of private credit grows rapidly, in step with sector’s capital-raising,” 15 October 2024, https://www.moodys.com/web/en/us/private-credit/bank-survey.html, accessed 25 February 2025.
38. Citi, “Citi and Apollo Announce $25 Billion Private Credit, Direct Lending Program,” 26 September 2024, https://www.citigroup.com/global/news/press-release/2024/citi-and-apollo-announce-25-billion-private-credit-direct-lending-program, accessed 25 February 2025.
39. International Monetary Fund, “Chapter 2: The rise and risks of private credit,” April 2024, https://www.imf.org/-/media/Files/Publications/GFSR/2024/April/English/ch2.ashx, accessed 25 February 2025.
40. Goldman Sachs, “Understanding private credit,” 30 July 2024, https://am.gs.com/en-us/institutions/insights/article/2024/understanding-private-credit, accessed 25 February 2025.
41. Goldman Sachs, “Understanding private credit,” 30 July 2024, https://am.gs.com/en-us/institutions/insights/article/2024/understanding-private-credit, accessed 25 February 2025.
42. Morgan Stanley, “Understanding Private Credit,” 20 June 2024, https://www.morganstanley.com/ideas/private-credit-outlook-considerations, accessed 25 February 2025.
43. Goldman Sachs, “Understanding private credit,” 30 July 2024, https://am.gs.com/en-us/institutions/insights/article/2024/understanding-private-credit, accessed 25 February 2025.
44. Peter Madigan, “The inexorable rise of private credit,” BNY, 26 June 2024, https://www.bny.com/corporate/global/en/insights/rise-of-private-credit.html, accessed 25 February 2025.
45. Nehemiah Richardson, “Four things investors must know before leaping into private credit,” The Australian Financial Review, 24 October 2024, https://www.afr.com/wealth/investing/four-things-investors-must-know-before-leaping-into-private-credit-20241023-p5kkj0, accessed 25 February 2025.
46. Michelle Bowes, “How to spot a good – or bad – private credit fund,” The Australian Financial Review, 22 July 2024, https://www.afr.com/wealth/personal-finance/how-to-spot-a-good-or-bad-private-credit-fund-20240709-p5js5s, accessed 25 February 2025.
47. Peter Madigan, “The inexorable rise of private credit,” BNY, 26 June 2024, https://www.bny.com/corporate/global/en/insights/rise-of-private-credit.html, accessed 25 February 2025.
48. Nehemiah Richardson, “Four things investors must know before leaping into private credit,” The Australian Financial Review, 24 October 2024, https://www.afr.com/wealth/investing/four-things-investors-must-know-before-leaping-into-private-credit-20241023-p5kkj0, accessed 25 February 2025.
49. Michelle Bowes, “How to spot a good – or bad – private credit fund,” The Australian Financial Review, 22 July 2024, https://www.afr.com/wealth/personal-finance/how-to-spot-a-good-or-bad-private-credit-fund-20240709-p5js5s, accessed 25 February 2025.
50. Nehemiah Richardson, “Four things investors must know before leaping into private credit,” The Australian Financial Review, 24 October 2024, https://www.afr.com/wealth/investing/four-things-investors-must-know-before-leaping-into-private-credit-20241023-p5kkj0, accessed 25 February 2025.
51. JTC, “Is private credit poised for a rebound?” 14 November 2024, http://www.jtcgroup.com/insights/is-private-credit-poised-for-a-rebound, accessed 25 February 2025.
52. Morgan Stanley, “2025 Private Credit Outlook,” 18 December 2024, https://www.morganstanley.com/im/it-it/intermediary-investor/insights/articles/private-credit-outlook-2025-opportunity-growth.html, accessed 25 February 2025.
53. Tammy Duong, “6 reasons why private credit is the future,” Evalueserve, https://www.evalueserve.com/blog/6-reasons-why-private-credit-is-the-future/, accessed 25 February 2025.
54. BlackRock, “Global Credit Outlook: 1Q2025,” December 2024, https://www.blackrock.com/institutions/en-us/literature/market-commentary/global-credit-outlook-q1-2025.pdf, accessed 25 February 2025.
55. Dechert LLP, “2024 Election - Implications on Private Equity & Private Credit,” 6 November 2024, https://www.dechert.com/knowledge/onpoint/2024/10/2024-election-implications-on-private-equity-and-private-credit.html, accessed 25 February 2025.
56. S&P Global, “Private Markets Monthly, December 2024: Private Credit Trends To Watch In 2025,” 20 December 2024, https://www.spglobal.com/ratings/en/research/articles/241220-private-markets-monthly-december-2024-private-credit-trends-to-watch-in-2025-13334713, accessed 25 February 2025.
57. Kristen McDuffy, Vikas Agrawal and Christian Schaefer, “Private Credit: Funding the Climate Transition,” Goldman Sachs, 22 October 2024, https://am.gs.com/en-no/advisors/insights/article/2024/private-credit-funding-the-climate-transition, accessed 25 February 2025.
58. International Capital Market Association, “Alternative Investment Fund Managers Directive (AIFMD) – Level 2,” https://www.icmagroup.org/market-practice-and-regulatory-policy/asset-management/icma-amic-initiatives/alternative-investment-fund-managers-directive-aifmd-level-2/, accessed 25 February 2025.
59. Alice Molan Fiona Smedley Paul Apathy Li-Lian Yeo, “Private credit in Australia – the regulated ‘unregulated’,” Herbert Smith Freehills, 6 September 2024, https://www.herbertsmithfreehills.com/insights/2024-09/private-credit-in-australia-the-regulated-unregulated, accessed 25 February 2025.
60. Sharon Klyne, “Australian Private Credit Probe Faces Hurdles From Trading, Fees,” Bloomberg, 17 December 2024, https://www.bloomberg.com/news/articles/2024-12-16/australian-private-credit-probe-faces-hurdles-from-trading-fees?embedded-checkout=true, accessed 25 February 2025.
61. Aaron Weinman and Jonathan Shapiro, “Marking their own homework: Inside Australia’s $200b unregulated private credit boom,” The Australian Financial Review, 1 July 2024, https://www.afr.com/companies/financial-services/investors-realise-private-credit-is-a-two-way-street-right-20240621-p5jnm2, accessed 25 February 2025.
62. Narine Lalafaryan, “The Era of Chameleon Capital,” ECGI, 11 November 2024, https://www.ecgi.global/publications/blog/the-era-of-chameleon-capital, accessed 25 February 2025. Narine Lalafaryan, “How debt investors are influencing corporate governance,” Columbia Law School, 30 May 2024, https://clsbluesky.law.columbia.edu/2024/05/30/how-debt-investors-are-influencing-corporate-governance/, accessed 25 February 2025.
63. Stephen Cork, “Role of Private Credit in Shaping the Economy,” Cork Gully, 16 July 2024, https://corkgully.com/private-credit-funds-in-the-spotlight/, accessed 25 February 2025.

AFRIntelligence

Copyright 2024 The Australian Financial Review