THE LEAD
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The New Order: Leverage Finance in an Asset Management World (Third of a Series)

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Readers of *The Lead Left* will be familiar with our impatience for the "sky-is-falling" brand of financial industry reporting (*"risky loans!"*). Recent news articles have further tested us. There's plenty of room for well-researched pieces about real risks associated with leveraged lending and sponsor buyouts. Indeed, these can be valuable by highlighting managers whose practices aren't in line with the best performers in the business.

However, recent stories contain such a dizzying blend of inaccuracies and wild speculation, we want to highlight issues demonstrating almost willful ignorance of the role private credit plays in today's asset management world. Or the less excusable desire to simply knock a fast-growing and popular sector.

Systemic risk! The kind of thing people throw around when they can't identify specific concerns but want to grab headlines. Factually, direct lenders' long-term liabilities match asset tenors. Investors are sophisticated institutions with deep experience in a variety of credit strategies, public and private. None of the leading managers are funded by customer deposits.

Valuations! Direct loans are not marked to market but based on fundamental performance. Deterioration of one borrower, or even of an entire portfolio, doesn't spread to other firms. Third-party firms review those valuations, as do managers' boards. This provides further stability to financial markets.

Competition! CLOs with cash are refinancing more expensive large cap private deals. Loan spreads go up, and loans spreads go down. Some agencies treat this as a shocking disclosure (*"Breaking news!"*). Outsized private returns have always been recognized as transitory ("*the Golden Era!*"). Instead of "putting pressure on private returns," as one reported, this should be viewed as a natural consequence of public capital being absent from financing markets for the past two years.

This is particularly true of middle market loans, a segment KBRA DLD estimates to be about two-thirds of direct lending volume. Mid cap managers, with a decades-long history generating premium spreads over liquid loans, are less susceptible to bank poaching. Yes, first-lien spreads have compressed 25-50 bps since the peak last year. But to get some perspective, see our *Chart of the Week.* They are still producing a 12% all-in yield!

Regulation! Private credit managers are all registered with the SEC, particularly those with BDCs, a large portion of the private market. Insurance companies, major investors in private capital, are heavily regulated by the NAIC. And issuers are benefiting from capital returning to the system. The media should highlight this post-Fed QT development as a natural and positive thing for the economy and capital markets.

We understand the temptation of attention-grabbing headlines. But they do a disservice to investors exploring alternatives in a world that's punished the usual options. Getting them accurate information on private credit would be a great step in the right direction.