Swiss Army Knife of Capital (Part One)

THE LEAD | September 17, 2025

We recently joined several colleagues on an excellent PDI podcast – *"New Era of Private Credit"* – for a wide-ranging discussion of investment topics. We'll include a link to the final published version when available but thought it would be profitable to expand on the conversation.

Let's begin with this question: "What is driving the growing interest among advisors and direct contribution (DC) plans for private credit?"

There are many elements behind investor appetite. As we've covered in previous commentaries, private capital has served as a beneficial bulwark to a succession of macro risks over the past decade. Through zero interest rates, Covid, high interest rates, recession threat, and tariffs, the asset class has delivered consistent stable, premium returns.

We would point to this yield enhancement as an essential feature of private credit for institutional (and private wealth) investors. Traditional DC portfolios are generally weighted to the lower return 60/40 (fixed income/public equities) model. Over the past two decades, a period dominated by lower benchmark rates, private credit has delivered an illiquidity premium of 100-300 bps relative to liquid credit.

This yield comes from a broad array of opportunities, and at lower risk. The traditional US middle market, composed of over 200,000 companies with revenues between $50 million and $1 billion, offers many options for top-tier private equity firms. Buyout financings there are dominated by direct lenders who demand tight structures, full security, and financial maintenance covenants on behalf of their investors.

Only 5% – roughly 10,000 – of these midcap businesses are owned by PE sponsors. Sectors less exposed to the economic headwinds we've mentioned have gained in popularity. Resilient industries tend to include business services (vs. consumer-centric), healthcare (selectively), software (enterprise solutions), technology (business applications), and other niche arenas such as accounting firms and pest control (see our *Chart of the Week*).

Because value propositions of these companies were tested by macro forces, those with consistent track records of growth and profitability get the highest valuations. In some cases, purchase price multiples are *higher* than those in 2021, when volume peaked in global M&A.

This is important to investors because the resulting loan-to-value ratios in new LBO financings are coming in at record lows – 35-40%. This gives debt holders additional protection in the event of impairment to the borrower's cash flow generation and thus equity value.

Next week we look at two additional factors driving private credit appetite for advisors and retirement plan managers.