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# The OG of Private Credit: The Liquidity Mirage

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The word “private” in private credit signifies not just “non-public,” but “non-traded.” This is important from an investor perspective because it means you cannot readily buy or sell private assets the way you can stocks and bonds. These assets are called alternatives because they — like real estate and infrastructure — complement liquid assets. It is the foundational characteristic of the asset class.

Do homeowners expect daily valuations on their properties? No, because they know real estate value is proven over time.

Yet as larger managers focused on the wealth segment, they suggested the line between liquidity for public and private assets was “blurring.” This accompanied offering investors the ability to redeem their interests beyond the typical 5% per quarter — implying a degree of flexibility the underlying assets cannot support.

The deputy chief investment officer of an alts credit shop, said it plainly: “You cannot create liquidity from an illiquid asset class.” Another CIO was equally clear: “These products are designed to protect redeeming and remaining investors by allowing vehicle liquidity to match asset liquidity.” This includes both the investor who is leaving and the investor who is staying.

Middle market loans do not trade, so are illiquid. It is possible to package loans and sell them to an institutional buyer at or near par — a growing secondary credit market in private loans exists for exactly this purpose. But those transactions involve considerable due diligence on the part of sophisticated buyers with the capacity and understanding to manage the assets effectively.

In private credit, match funding means synching fund liquidity with asset liquidity. A fund can hold illiquid assets. A fund can hold liquid assets. What a fund cannot credibly do is hold illiquid assets and promise liquid benefits to its investors. If tested, this feature becomes a liability.

Institutional investors understood this from the start. Pension plans, insurance companies, and sovereign wealth funds have long-term liabilities that are well-suited to the illiquid, long-tenor nature of private credit. Their expectations were set correctly at the outset. The mismatch now being observed in retail channels is not a coincidence. It is a reminder that product complexity and investor transparency must move together. When they don’t, mismatches like this are inevitable.

This moment, when investor expectations are colliding with reality, is an inflection point. How the industry educates clients and manages expectations from here will be a major dynamic in restoring confidence in the asset class.