EXPERT Q&A

European investor appetite is accelerating, strategies are diversifying and emerging managers are gaining ground as private credit enters a new phase of growth, says Michael Dempsey, JTC's global head of private credit



Changing of the guard

Q Is it fair to say that private credit has become a victim of its own success?

Private credit has, to an extent, become a victim of its own success. Rapid growth has brought greater scrutiny, but the fundamentals remain resilient. Default rates are around 2 percent and, while they may rise, I do not expect them to peak materially above 5 percent. The scale of capital flowing into the asset class should therefore support its continued development rather than undermine it.

There have been isolated defaults, but I do not see evidence of an immediate systemic issue. Some managers have introduced gates to manage liquidity, protect underlying borrowers and lenders, and maintain market confidence. Those measures should be viewed in the context of a maturing asset class. Private credit remains positioned for further growth.

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Q Is asset-backed finance set to overtake direct lending?

I expect asset-backed finance to become as significant as direct lending over the short to medium term. Moody's has projected that private credit AUM could exceed $4 trillion by 2040, and, in my view, asset-backed finance – spanning consumer, commercial and infrastructure collateral – will be an important driver of that expansion.

Q Meanwhile, what are your expectations for the future role of direct lending?

I believe direct lending will remain a core pillar of private credit. We continue to see strong demand and are working on a number of direct lending mandates.

I expect its growth to run alongside, rather than compete with, asset-backed finance. The two strategies address different financing needs and together broaden the opportunity set for investors.

Q Has NAV lending become a necessity or a risk?

For some private credit managers, I see NAV lending as an important portfolio-management tool because

it provides an additional source of liquidity. Its use is increasing from a relatively low base. I do not regard the structure as inherently risky to private credit, but, as with any leverage, it requires disciplined underwriting, clear governance and appropriate transparency.

Q Will artificial intelligence materially change underwriting decisions in a private credit context?

I believe AI can materially improve the way private credit managers originate, assess and monitor loans, particularly as regulatory and reporting expectations increase. It can help analyse information more efficiently, identify emerging risks and support ongoing covenant monitoring.

I expect that to reduce some of the additional operational burden carried by managers, advisers and administrators. In the near term, however, I see AI as more likely to strengthen established underwriting processes than to replace investment judgment or become a decisive source of competitive differentiation.

Q Can illiquid assets support liquid investor expectations?

I believe illiquid private credit assets can meet investor expectations, provided liquidity terms are aligned with the underlying portfolio. From what I am seeing, the more immediate demand is for greater transparency and more frequent information. While many closed-end managers operate at least annual valuation cycles, investors increasingly expect quarterly reporting, ad hoc updates and, in some cases, monthly data.

This is not a response to historic failings by managers. It reflects the changing profile of investors entering private credit and the institutional standards they bring with them. Managers that can provide timely, consistent and decision-useful data will be better placed to attract and retain that capital.

"I expect asset-backed finance to become as significant as direct lending over the short to medium term"

Q Are insurance companies also becoming a dominant force in private credit, and what impact is that having on the space?

I see insurance companies becoming increasingly influential in private credit, bringing scale and long-duration capital. They are attracted by predictable cashflows, but they also require rated structures and assets that satisfy their capital-treatment criteria. In my view, their participation is raising expectations around structuring, eligibility analysis and reporting.

I am seeing private credit managers respond with tailored mandates, including investment-grade and rated structures, alongside traditional direct lending strategies. We are encountering more of these requirements in the market, reinforcing the need for specialist operational capabilities and high-quality data.

Q To what extent do you consider private credit to be systemically important today, and how do you see the market evolving going forward?

I believe private credit is now an important component of the global financing system, and its next phase will be defined by continued growth and greater differentiation of capital. I expect the market to broaden beyond traditional direct lending and asset-backed finance, but managers will also face a more demanding credit cycle, tighter lender economics and closer regulatory scrutiny. Underwriting discipline, portfolio transparency, liquidity management and operational resilience will become even more important.

Q What type of managers do you believe are best positioned to succeed in that environment?

In my view, the managers best positioned to succeed will combine specialist origination with active asset management, scalable technology, high-quality data and institutional-grade governance. In a more selective market, I believe those capabilities will be central to protecting performance and meeting investor expectations.

I do not believe scale alone will guarantee success. I am seeing emerging managers gain a meaningful foothold in private credit, often through focused strategies, specialist sourcing and closer engagement with borrowers.

JTC supports a growing number of these firms, including managers that have operated evergreen products for one or two years and are raising between $150 million and $500 million. They are building robust administration, transparency and regulatory frameworks, giving them a credible platform from which to compete.

I am also seeing European private credit attract stronger investor appetite than the US, and I expect that momentum to continue as investors look more closely at Europe's emerging managers. This does not imply contraction in the US; I believe both markets can expand, with Europe potentially growing at a faster rate. Across both regions, future growth will be accompanied by a sharper focus on governance, transparency and operational substance. ■