

Alternative Managers & Private Credit: 2026 Update

MARCH 2026

Back in October 2024, this author published a whitepaper titled “Can Private Credit and Traditional Banking Coexist?” With all the noise surrounding the private credit industry, which totals roughly \$1.2 trillion in size, now is an opportune time to revisit the topic. In late January, Anthropic released a set of open-source Claude plug-ins on GitHub. These plug-ins enabled Claude to perform workflow tasks such as legal documents review, compliance checks, data analysis, and customer support automation to name a few. Market reaction to the release was swift, with software stocks coming under significant pressure. During the week of Claude’s release, the iShares Expanded Tech Software Sector ETF (IGV), which tracks software companies in the United States and Canada, declined by more than 13%, versus a decline of just over 2% for the S&P 500.¹

As software stocks sold off, alternative managers with notable software exposure including KKR, Blackstone, Apollo, Ares, Carlyle, and Blue Owl came under pressure and investor outflows picked up across several retail private credit products. Blue Owl, in particular, executed roughly \$1.4bn in loan sales across OBDC II, OTIC, and OBDC after the planned merger between OBDC II and OBDC collapsed.² The failed merger created a need to provide liquidity to OBDC II investors, driving the loan sales as OWL sold portions of its largest loans to meet those obligations and prepare for elevated redemptions.³ This led to many other investors wanting to pull money out of BDCs (business development companies) from the likes of Blackstone within its BCRED fund that was hit with record-high redemption requests of 7.9%, or roughly \$3.8B. Blackrock wasn’t immune to redemption requests either, with its recently acquired HPS business (received 9.3% of shares in redemption requests of \$1.2B, exceeding its 5% quarterly limit.⁴ Ultimately, BlackRock capped withdrawals at 5%, paying out ~\$620M and gating the rest.⁵ Since late February and early March, many other firms have experienced a pronounced uptick in redemptions. What follows is an analysis of how the private credit market reached this inflection point, who bears the most risk, and whether differences in software exposure and underwriting discipline meaningfully separate one alternative manager from another.

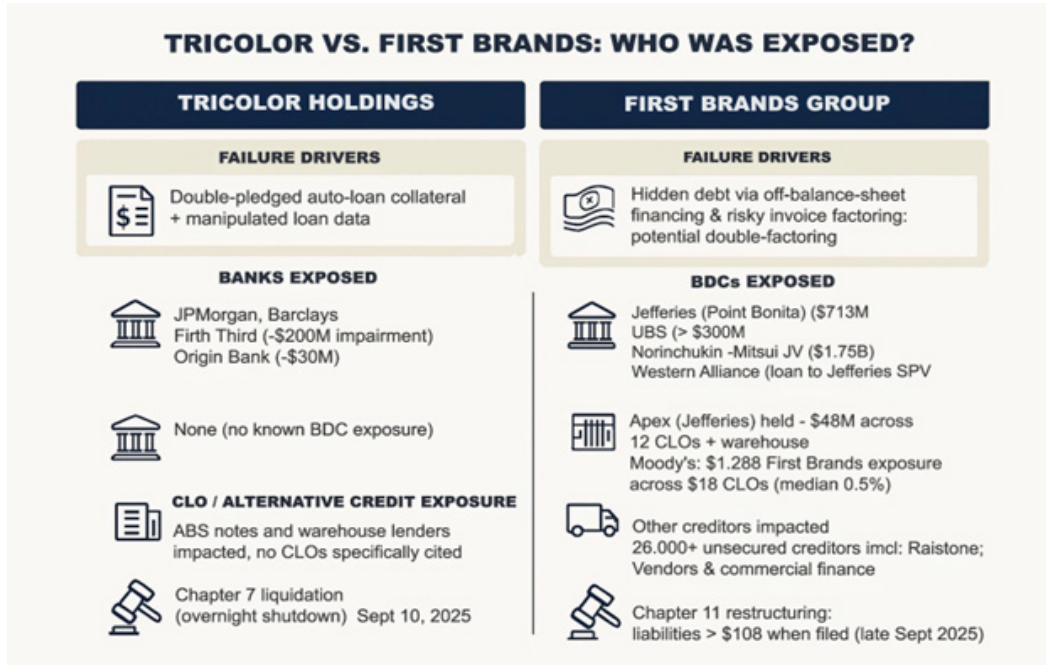
Selected Private Credit Funds — Redemption Requests and Caps

Manager	Fund AUM	Requested Redemptions	Capped Redemptions
North Haven / Morgan Stanley	\$8bn	\$880mm (11% of AUM)	\$169mm (5% of AUM)
Cliffwater	\$33bn	\$4.6bn (14%)	\$2.3bn (7%)
HPS / BlackRock	\$13bn	\$1.2bn (9.3%)	\$620mm (5%)
Ares	\$11bn	\$1.2bn (11.6%)	\$535mm (5%)
Apollo	\$25bn	\$2.8bn (11.2%)	\$1.25bn (5%)
Blackstone BCRED	\$48bn	\$3.8bn (7.9%)	No cap imposed

Source:FactSet⁶

How Did We Get Here

Last September, investors got their first real hint of distress in the private credit space with the bankruptcies of Tricolor and First Brands. Tricolor, a subprime auto lender and used car dealer, had allegedly been misrepresenting the collateral behind its loans, pledging the same customer auto loans to multiple banks at once. Shortly afterward, First Brands, a large auto parts manufacturer, collapsed under the weight of debt it kept hidden through complex off-balance-sheet financing that misrepresented its true financial condition. In the wake of the Tricolor and First Brands failures, JPMorgan Chase’s CEO Jamie Dimon said “when you see one cockroach, there are probably more.”⁷ In both cases, the issue wasn’t broad credit deterioration but rather fraud and a lack of transparency. Still, these bankruptcies were the first cracks in the private credit story and offered an early look at which players (e.g., banks, alternative managers, BDCs) were exposed to these risks.



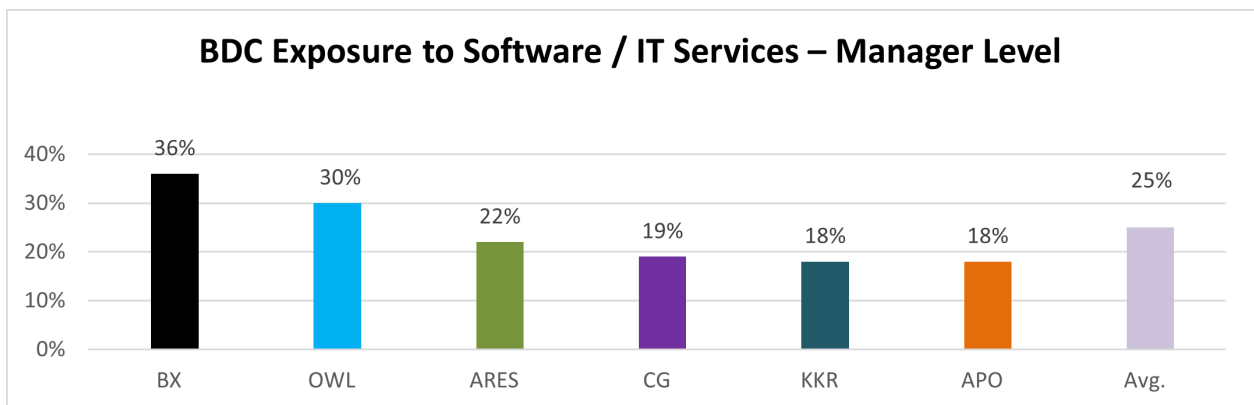
Source: US News⁸

Software & IT Services Exposure (and Why It's Hard to See)

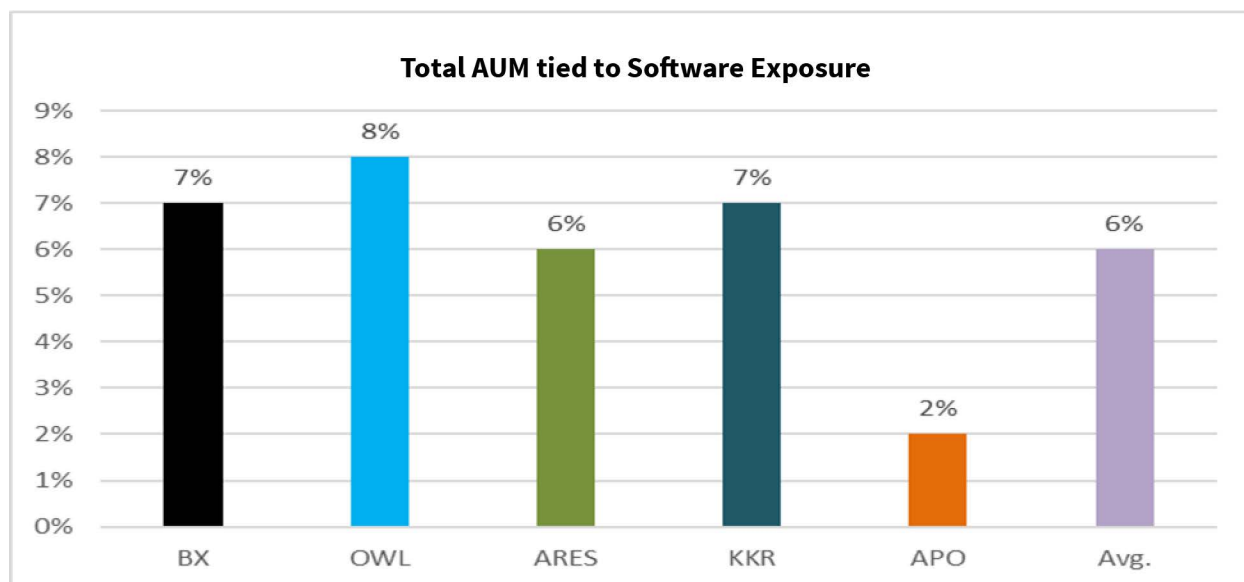
The next logical question as an investor would be: who actually holds software risk? Therein lies the problem, as it's difficult to assess software loan and private equity exposure because alternative asset managers don't disclose position level details, are contractually restricted from sharing borrower information, and by design, limit the transparency for competitive and risk management reasons. Wide-ranging reporting categories further obscure the true composition of their portfolios.

One workaround for these murky disclosures is to look at the publicly traded BDCs (business development companies). These companies must disclose their holdings because they are regulated under the Investment Act of 1940, and because they file as registered investment companies, which are required to publish 10-K, 10-Q, and N-PORT-P (public version of their portfolio holdings). But there are a few important caveats, even though publicly traded BDCs disclose their holdings, investors still can struggle to grasp whether a company is a software company, technology, information technology, IT services company, etc. due to how the BDCs classify the same borrower or exposure differently. BDCs typically only feature their 10 largest positions which doesn't reveal the concentration risk of software exposure that can be spread across multiple smaller loans, small equity positions, and/or structured financings. Another caveat is only the public BDC discloses, not the full manager's platform. This limitation becomes especially clear when looking beyond public vehicles. These challenges are evident in Cliffwater's Corporate Lending Fund, which manages approximately \$42 billion in total assets, making it the largest SEC registered private credit interval fund, according to Interval Fund Tracker.⁹ The Cliffwater fund's most recent quarterly report listed more than 3,600 individual holdings, including direct loans to middle-market corporate borrowers and ownership stakes in other private credit funds.¹⁰

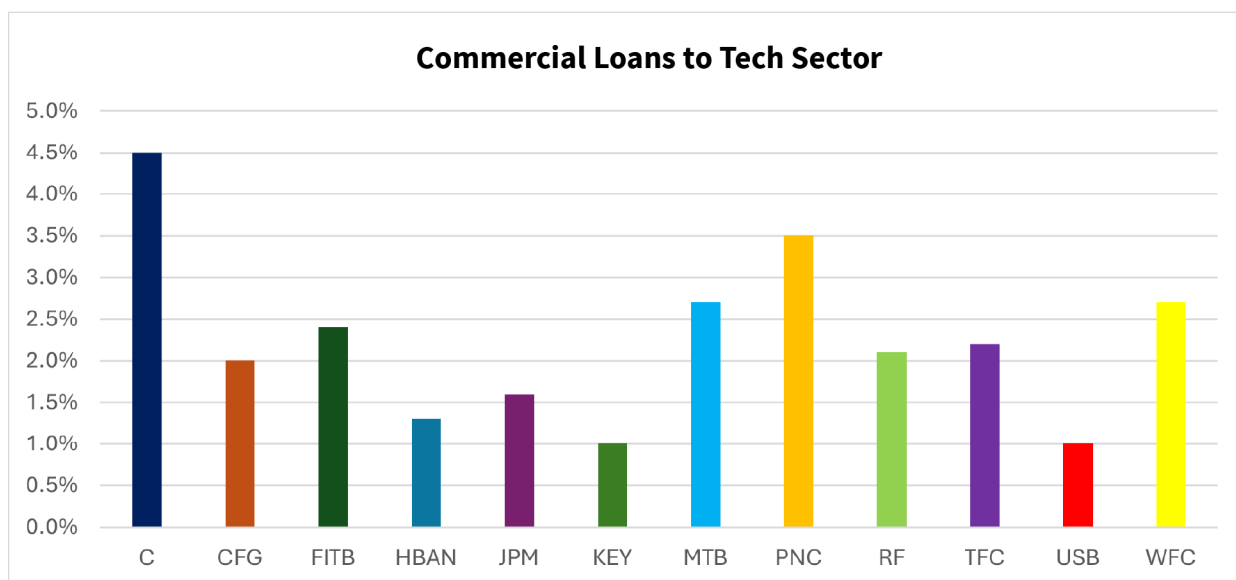
Despite these constraints, disclosures across a sample of publicly traded BDCs indicate that software and IT services represent one of the largest sector exposures by both loan count and invested capital. Using BDC filings as of quarter-end Q3 2025, managers with affiliated platforms linked to Blackstone and Blue Owl were at the higher end of the observed exposure range, based on the percentage of BDC assets allocated to software and IT services.¹¹



Source: BDC Filings, Wolfe Research, 2/03/2026, "The AI-ceman Cometh for Software; Reassessing Exposure Across our Alts. Coverage"¹¹



Source: 4Q25 Earnings Transcripts¹²



Source: JPM Research¹³

Banks' Response to Private-Credit Companies

Major banks have begun to adjust their stance. In early March, JPMorgan remarked portions of private credit collateral tied to software exposures and curtailed certain back leverage facilities, underscoring a shift toward tighter loan-to-value standards and more conservative collateral haircuts when valuations are in flux.¹⁴ Any meaningful pullback in back leverage could compress returns, disrupt capital recycling, and raise the risk of forced asset sales or reduced lending activity among bank dependent platforms.¹⁵

At the beginning of March, Western Alliance filed a lawsuit against Jefferies in New York, claiming breach of contract and fraud related to \$126.4 million in unpaid financing tied to First Brands receivables.¹⁶ The bank said it would fully charge off the exposure, arguing that Jefferies failed to honor the terms of a prior forbearance agreement after earlier payments were made. Jefferies pushed back, maintaining that the facility was non-recourse to the firm and its affiliates and that the claims would be vigorously contested.¹⁷ Shares of both companies sold off following the announcement. Regardless of the outcome, the case underscores how confidence between counterparties can deteriorate quickly when questions arise regarding collateral quality, documentation, and payment obligations collide with fraud allegations.

Private credit shops that run interval funds and business development companies also draw on credit lines extended by banks to cover the outflows. Banks that provide this type of financing place a strong emphasis on diversification within a borrower's portfolio. They also closely monitor risk metrics like nonaccrual rates, loans that are no longer performing, and loan to value ratios. According to a Moody's private credit report released in October, banks have provided nearly \$300 billion in financing to nonbank lenders since 2016, spanning private credit funds, direct lenders, BDCs, and CLO issuers. Large banks account for a significant share of that total, with Wells Fargo contributing about \$59.7 billion and JPMorgan Chase roughly \$22.2 billion.¹⁸

Below is a table showing bank loan exposure to non-bank financial institutions. What muddies the data is that some banks list loans as “other”, however, of the banks that do fully disclose lending exposure, the table gives the reader an idea of what banks have the exposure to both private-credit (business credit intermediaries) and private equity.

Mix of Loans to Non-bank Financial Institutions, as of 6/30/2025

Mix	BAC	C	CFG	FITB	HBAN	JPM	KEY	MTB	PNC	RF	TFC	USB	WFC
Mortgage Credit Intermediaries	14.4%	14.8%	2.6%	31.5%	11.5%	28.0%	3.4%	45.9%	4.0%	0.1%	10.2%	16.7%	20.3%
Business Credit Intermediaries	18.5%	24.7%	27.2%	16.3%	13.6%	10.8%	49.1%	17.7%	47.2%	5.9%	56.3%	23.8%	34.3%
Private Equity Funds	16.5%	1.2%	45.3%	18.3%	25.3%	23.0%	21.4%	27.2%	34.2%	9.4%	8.5%	24.3%	23.9%
Consumer Credit Intermediaries	11.0%	29.9%	3.3%	3.9%	3.7%	12.6%	0.1%	4.4%	0.5%	3.6%	9.7%	22.6%	11.3%
Other	39.6%	29.3%	21.6%	30.0%	45.9%	25.6%	25.9%	4.9%	14.1%	81.1%	15.2%	12.6%	10.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: JPM Research¹⁹

Moving Forward

The current environment bears similarities to late 2022, when Blackstone’s BREIT (Blackstone Real Estate Income Trust) began gating redemptions following a surge of investor withdrawal requests. What triggered the barrage of requests was rising interest rates which sharply reduced commercial real estate valuations. BREIT regularly fulfilled less than 100% of redemption requests during the gating period which lasted from November 2022 through February 2024.²⁰

Private credit is now going through its own version of a liquidity stress test. Where most private credit firms are seeing elevated redemption requests across funds, managers are increasing tender offers to absorb outflows, and in some cases gating. Earlier in the paper, I mentioned the contrast between Blackstone’s BCRED, which met its 7.9% quarterly redemption by upsizing its tender and bringing in sponsor capital, while others (e.g. Blue Owl, HPS, and Cliffwater) have faced tighter constraints on redemptions.

Looking ahead, we believe there could be some AI disintermediation challenges for parts of the software universe. Many investors believe software as a whole is suddenly uninvestable in the near term. However, enterprise software tends to be sticky, ripping systems out is costly and slow, and many vendors are actively integrating AI to reinforce their position in customer workflows. Investors will distinguish between software businesses with real moats and valuable AI offerings versus those proposing commoditized products. Some disintermediation risk is real, but not at the scale current public market multiples seem to imply across the entire sector.

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