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Private Credit: Myth vs. Fact

There's been a lot of overheated headlines and misinformation on private credit. It's important to understand the facts.

What is true in the noise about non-investment grade private credit?

- Like with high yield bonds and leveraged loans, there will be defaults (particularly off of historic lows)
- There is exposure to software and there will be disruption, but private credit loans are senior in the capital structure, supported by meaningful equity cushions, typically ~60%
- Returns were elevated during the "golden moment" of private credit, and have since normalized as interest rates declined. But the premium to non-investment grade liquid credit has persisted for 20+ years[1]
- Both institutional and individual investors' capital in the space has grown considerably over the last decade. That growth is the result of a lower cost direct to customer model and a better experience for borrowers. But it's worth noting, it is still only ~1/3 of the sub-investment grade credit market and approximately 80% of the capital comes from institutions[2]

Where is the noise coming from?

It is natural for a growing asset class to face scrutiny, particularly when those losing share have every incentive to discredit the shift. The result is a cycle of grossly exaggerated claims and misleading comparisons.

The myths below may be widely repeated, but facts tell a very different story.

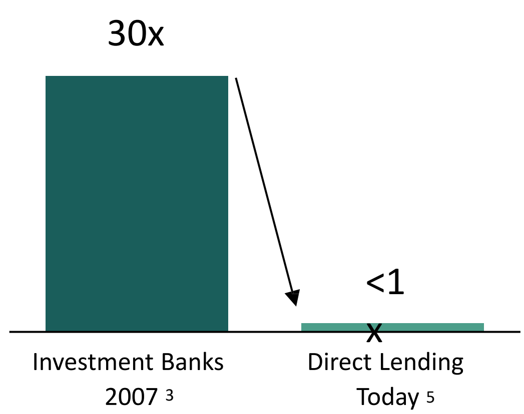
Myth: Private Credit Will Create the Next GFC

Fact: Today's market looks nothing like 2008

Banks then were levered 25 to 40 times,[3] primarily funded by short- term deposits and commercial paper, and heavily exposed to subprime housing. The underlying assets were 90%+ loan-to-value and layered on top were highly complex derivatives that obscured the risk.[4] Put simply: risky loans in extremely levered vehicles that were backed by money that could disappear overnight.

This is nothing like what is happening today. Business development companies (BDCs) typically operate with less than 1x leverage,[5] lend at roughly 40% loan-to-value to corporate borrowers,[6] and use structures that don't rely on deposits or overnight capital. Liquidity across the space is significant, with vehicles that have multiple levers to pull rather than dependence on any single source.[7]

Leverage Utilized (GFC vs. today)



Myth: Private Credit Lacks Oversight and Transparency

Fact: Private credit funds are transparent and regulated

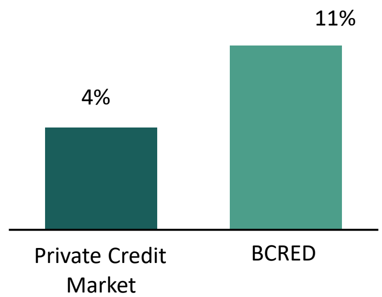
Most individual investors access private credit through SEC-registered BDCs, a structure that has existed for decades. Loan valuations go through multiple layers of oversight, valuation committees, third-party appraisals and independent audits. Every single loan and detail is disclosed every quarter. Loans are marked down as facts change. That means if there is credit stress it is visible, not hidden. Traditional bank lenders provide no such underlying loan detail.

Myth: Credit Quality Is Collapsing

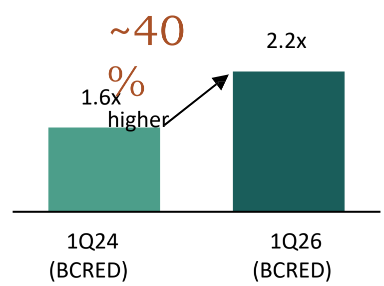
Fact: Credit metrics are resilient

BCRED's companies grew earnings by 11% on average last year.[8] The cushion between what they earn and the interest they owe on their loans has grown by approximately 40% over the last two years[9] — meaning they're in a stronger position to repay their debt today. History tells us that large default cycles do not occur outside of recessions — and right now the economy remains healthy and resilient.

Solid EBITDA Growth[8,10]



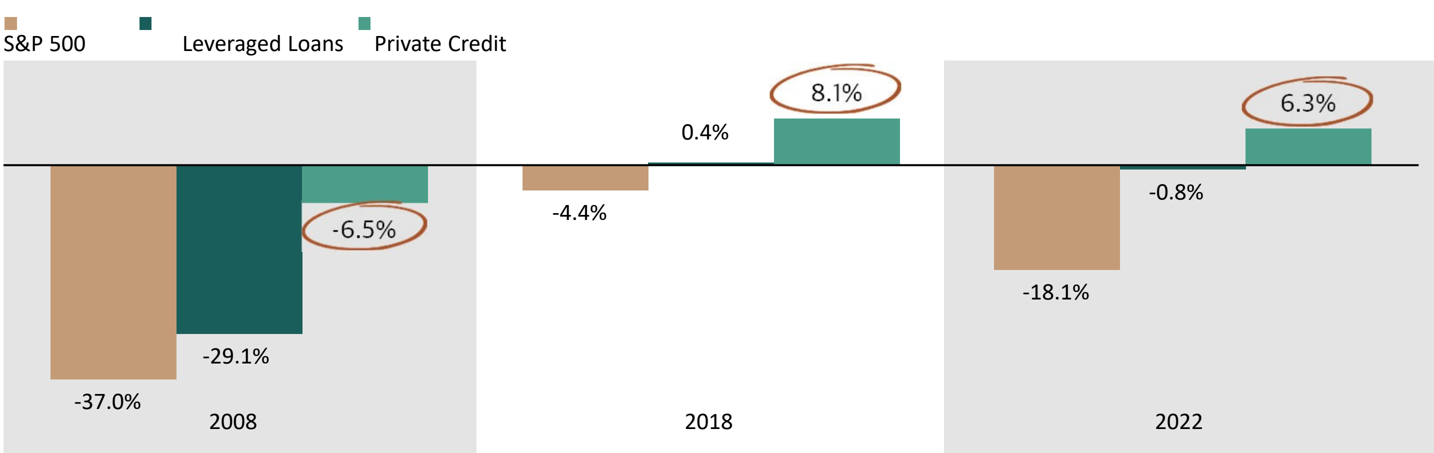
Improving Interest Coverage Ratios[9]



When individual loans do face stress, the structure can provide meaningful risk mitigation. Private credit loans sit at the top of the capital structure with around a 60% equity cushion — think of it like a mortgage, but with 60% down instead of 20%. That limits losses, though it does not eliminate them. As senior secured lenders, we are first in line to restructure terms or take control of a company, backed by over 100 operating professionals working directly with borrowers to protect value. History reinforces the case — private credit has consistently protected capital through periods of uncertainty, with a ~1% industry realized loss rate over the last 20 years.[11]

Private Credit's Resilience

(Full year total return, years where the S&P experienced negative returns over the last 20 years)[12][13]



Myth: The "SaaS-pocalypse" Is Coming for Private Credit

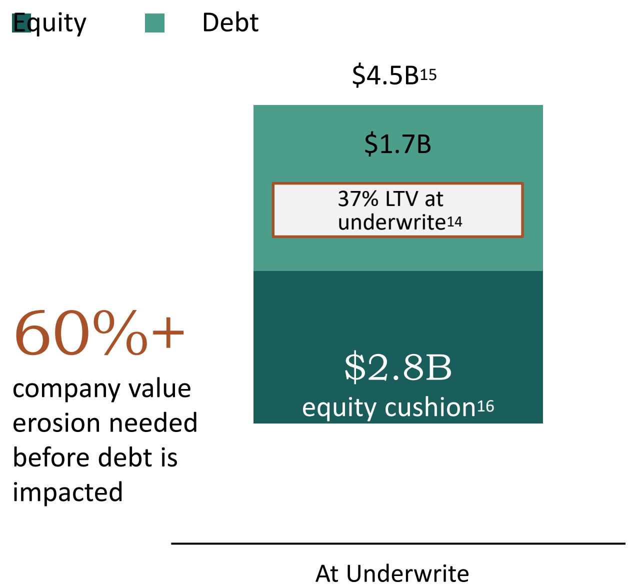
Fact: Software firms will be hit, but credits are generally well protected

Software companies will face real challenges. We have been earlier and louder than many on this risk and where we see it in our portfolio.

Not all software is created equal — much of it is deeply embedded, mission-critical, and not easily replaced by AI. In cases where portfolio companies are facing AI-related headwinds, we believe we have appropriately reflected this in our marks. More importantly, the average software loan in BCRED was made at 37% loan-to-value, meaning more than 60% of a company's value would need to erode before the debt is impaired.[14] We focus on larger software borrowers, with an average enterprise value of over $4.5 billion,[15] with nearly $3 billion of borrower equity subordinate to our position.[16] These companies actually grew cash flows faster than the overall portfolio last year.[17]

Even if a broad wave of disruption were to materialize, private credit's structure can help limit the downside. Consider an extreme stress scenario with a 10% default rate, which is higher than the GFC, and a 50% recovery rate.[13] The impact to realized returns is estimated at just 300bps over two years.[18]

BXCI's Software Portfolio (BCRED)



Myth: These Products Are Not Appropriate for Individual Investors

Fact: Private credit products are working as expected and can be an effective wealth creation tool

The semi-liquid structure is a feature, not a bug. Repurchase limits are designed to prevent forced asset sales, protecting returns for all investors. That liquidity trade-off is why private credit can deliver higher income than traditional fixed income, and it is fully disclosed from day one. These funds are purchased by sophisticated end investors, guided by their financial advisors, and tend to be just a slice of a broader portfolio of liquid traditional holdings.

The model has been tested. BREIT navigated elevated redemptions during a historic rate spike — investors were substantially redeemed within four months,[19] and the guardrails helped protect performance. Since inception, BREIT has outperformed publicly traded REITs by ~60% on an annualized basis.[20]

 See Page 4 for "Endnotes."