Antares Capital

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Of Principal Interest

What the Headlines Miss

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Key Points

Perpetual BDC redemptions have grabbed the headlines but allocations to private credit in the larger institutional market continue to rise.

Recent direct loan spread widening has improved the economics of capital deployment. A more hawkish Fed may also lift base rates/yields with the SOFR curve now rising through 1Q27.

AI disruption concerns and elevated non-accrual dispersion among lenders underscore the importance of manager selection, underwriting discipline, and portfolio construction.

Bottom Line

The recent wave of BDC redemption activity and AI disruption concerns does not suggest that the long-term investment case for private credit has been undermined. In fact, private credit deployment prospects appear to be improving and institutional allocations continue to rise. However, manager quality matters more than it has in some time, with differentiation likely to be driven by disciplined underwriting, selective origination, strong work-out capabilities, and extensive experience managing through credit cycles.

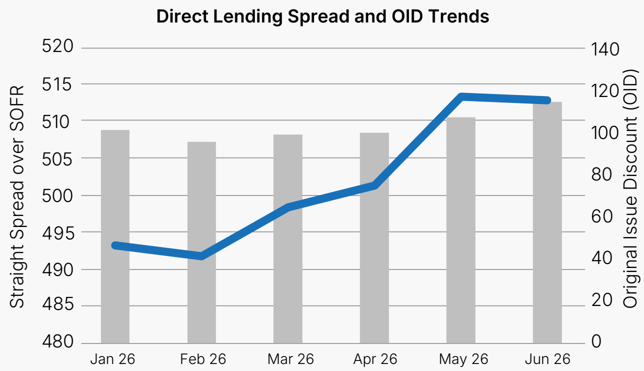
Performance Remained Positive Despite Headwinds in 1Q26; Deployment Economics Improving

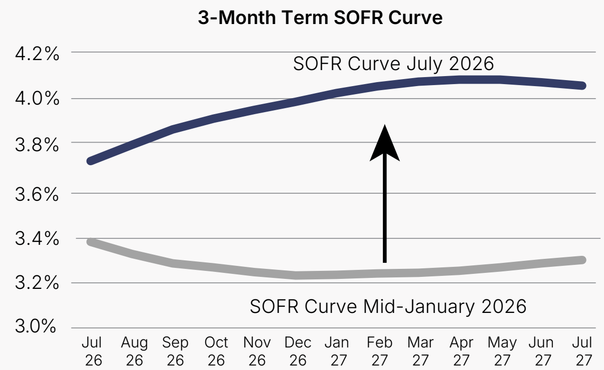
After outperforming leveraged loans, high-yield bonds, and aggregate bond indices in 2025, the Cliffwater Direct Lending Index (CDLI) returned 1.1% in 1Q26. While below the 2%+ pace of recent quarters, the moderation was driven primarily by unrealized valuation marks, particularly among certain software credits affected by AI-related concerns and broader spread widening. Income generation remained stable, contributing approximately 2.3% of quarterly return, while realized losses remained limited.[1]

Importantly, spread widening presents both challenges and opportunities. While wider spreads can reduce the marked value of existing loans, they also improve the economics of new investments. Direct lending spreads for quality borrowers have widened by approximately 25–50 basis points in recent months, and OIDs have widened (see Exhibit 1), representing a meaningful improvement in lender economics and prospective returns.

The capital deployment environment is improving more broadly as well. Documentation has strengthened, financial covenants are returning in select transactions, and collateral protections have tightened.

Exhibit 1: Spreads and SOFR Base Rates Move Higher[1]

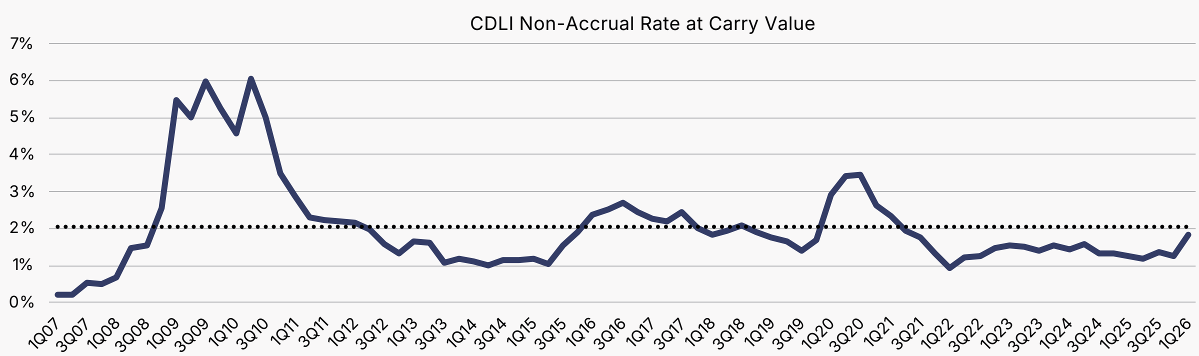


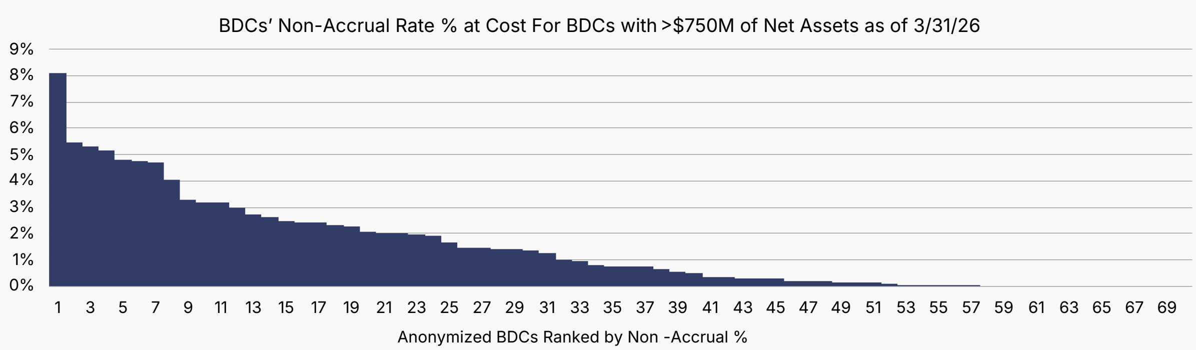


Although defaults in direct lending may move moderately higher in the coming quarters as forecast by KBRA DLD[2], the average BDC non-accrual rate remains broadly in line with its long-term average[3] and historical experience suggests that unrealized losses will only partially translate into realized losses.[4] Meanwhile, underlying borrower fundamentals have generally proven resilient. Revenue growth has moderated, but many borrowers have shifted their focus toward profitability management, contributing to improving coverage ratios and stronger credit profiles.

As we have seen repeatedly across prior cycles, periods of market caution often create some of the most attractive lending vintages. The combination of wider spreads, stronger structures, and disciplined deployment conditions is increasingly constructive for lenders positioned to capitalize on the opportunity.

Exhibit 2: 1Q26 Averaged Non-Accrual Rate Trend and Dispersion[2]





“Democratization” Growing Pains, But Limited Liquidity Risk; Institutional Allocations Rising

Perpetual BDC redemptions remain the focus of negative headlines. Recent reporting indicates that investors requested approximately $15.6 billion of withdrawals during 2Q26, up from approximately $13.9 billion in 1Q26, reflecting continued pressure in portions of the wealth channel.[5]

Those figures are noteworthy, but we believe they should be viewed in context.

First, the redemption caps embedded in perpetual BDC structures are functioning largely as designed. The quarterly 5% redemption limit is not a bug—it is a purposefully designed feature that helps balance the interests of redeeming and remaining investors while recognizing the inherently illiquid nature of the underlying assets. While redemption requests have increased, most large funds continue to operate within the framework investors agreed to when they invested.

Second, available liquidity sources—including bank facilities, liquid broadly syndicated loan holdings, portfolio repayments, and credit secondary markets—appear sufficient to manage elevated redemption activity. Rating agencies have similarly concluded that current liquidity and asset coverage cushions should support issuers’ ability to manage increased tender activity without material pressure on credit profiles.[6]

Perhaps more importantly, the wealth channel tells only part of the story. Institutional demand remains robust. According to PwC’s 2026 Global Private Credit Survey, more than 80% of portfolio managers expect to increase allocations to private credit over the next year. While respondents anticipate somewhat higher defaults and credit losses than recent years, they also emphasized the growing importance of investment selection, governance, downside protection, and manager quality.[7]

The recent redemption cycle therefore appears less like a referendum on private credit itself and more like a reminder that vehicle structure and manager quality matter. While perpetual, non-listed BDC fundraising conditions may remain challenging in the near term, we continue to believe the probability of a broader liquidity or systemic-risk event remains low.

Exhibit 3: Non-Listed BDC Net Flows ($B)[3]

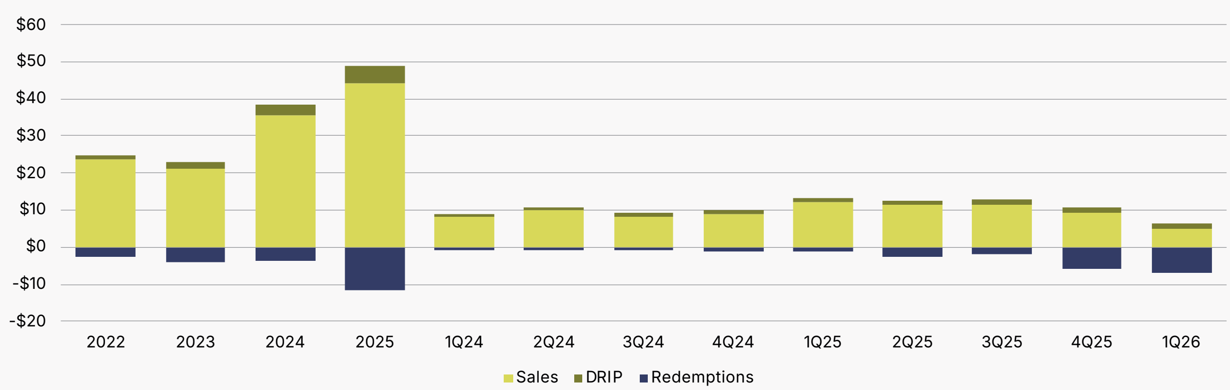
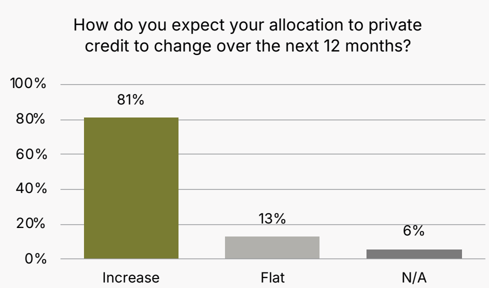
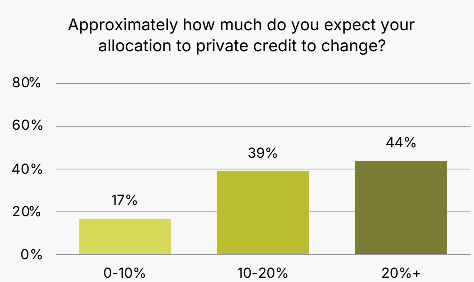


Exhibit 4: Institutional Private Credit Allocation Outlook - PwC Global Private Credit Survey[4]





AI, Software Credit, and the Importance of Selectivity

No topic has generated more investor discussion over the past year than artificial intelligence and its potential impact on software credits.

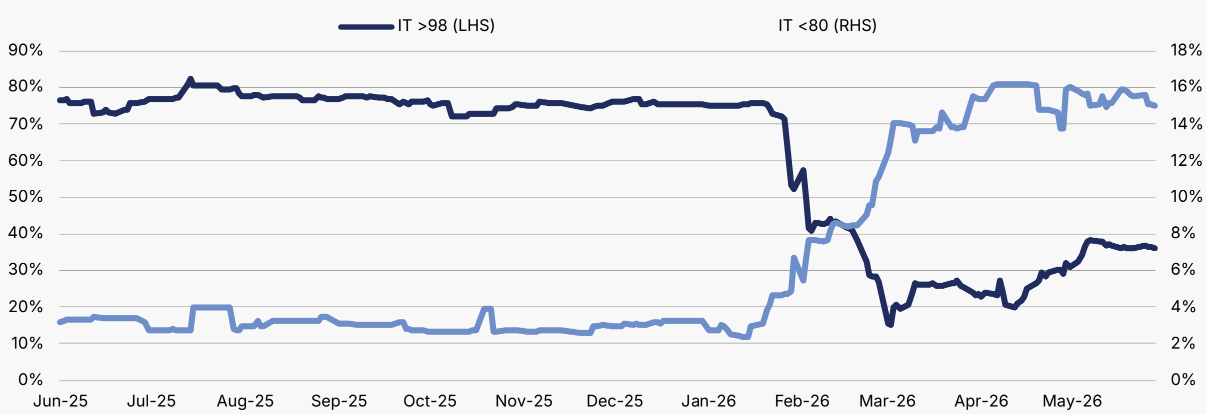
Assessing AI-related disruption requires a nuanced approach. Not all software companies face the same risks, and the key question is how technological change may affect individual borrowers and business models. As a result, software underwriting increasingly focuses on several critical considerations:

- How susceptible is the product to displacement by AI-native competitors?
- Have barriers to entry meaningfully declined?
- Does the company possess proprietary data, regulatory advantages, or workflow integration that create durable competitive moats?
- How deep are customer switching costs?
- Is the company positioned to leverage AI to strengthen its business, or must it fundamentally adapt its model to remain competitive?

These distinctions are increasingly reflected in software loan price performance. Mission-critical platforms embedded within complex workflows—particularly in regulated or vertically specialized markets—generally face different risk profiles than narrowly focused applications with limited differentiation.

As a result, many lenders have become more selective toward software exposure. However, for investors with deep sector expertise, rigorous underwriting frameworks, and a clear understanding of competitive positioning, the current environment may create opportunities to differentiate between durable businesses and those more vulnerable to disruption.

Exhibit 5: Information Technology Companies Seeing Loan Price Bifurcation[5]



An Era of Differentiation

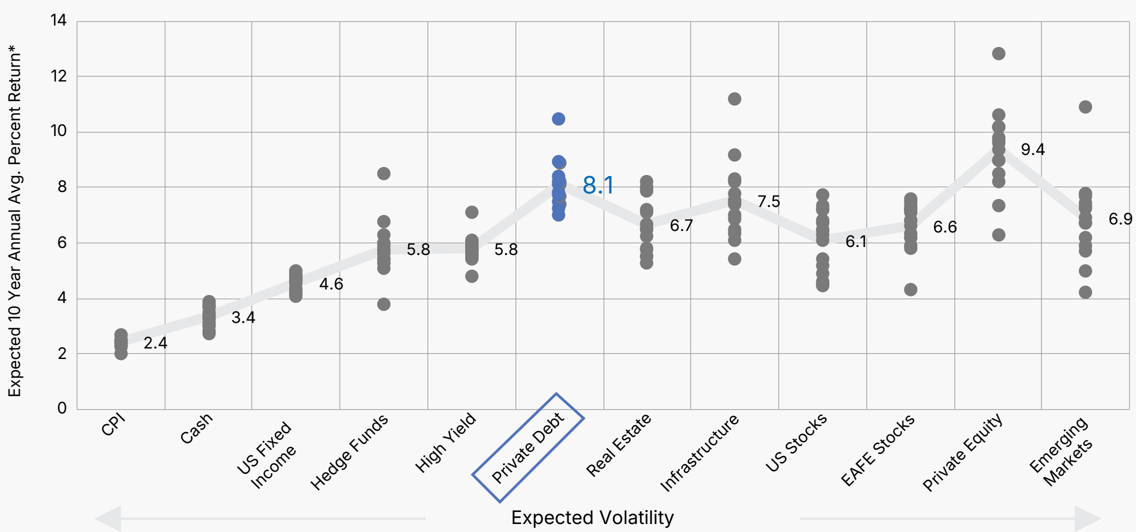
As Antares celebrates its 30th anniversary, it is instructive to reflect on what has changed and what endures. The firm's experience spans multiple market cycles, including the dot-com downturn, the Global Financial Crisis, COVID-19, supply-chain disruptions, geopolitical volatility, and the rapid rise in interest rates. While each cycle has presented unique challenges, the core principles of successful credit investing have remained remarkably consistent: understanding how risks affect individual borrowers, maintaining disciplined underwriting standards, constructing diversified portfolios, and actively managing credits as conditions evolve.

Today, private credit continues to benefit from a constructive long-term outlook. Capital deployment conditions are improving, non-accrual rates remain relatively low, interest coverage has been generally strengthened, and institutional demand for the asset class remains robust. At the same time, AI-related disruption, geopolitical uncertainty, inflation, and elevated energy prices remain important sources of risk that require careful underwriting and portfolio management.

Against this backdrop, we believe private credit is entering a period where manager quality matters more than it has in some time. Outcomes are becoming increasingly differentiated across managers, vintages, and sectors, with performance driven less by broad market tailwinds and more by underwriting discipline, portfolio construction, sector expertise, and the depth of resources supporting credit selection and management.

While results will inevitably vary across lenders, we believe private credit remains well positioned to deliver resilient performance in the years ahead. In an increasingly differentiated market, managers with disciplined underwriting, selective origination, strong restructuring capabilities, and extensive experience navigating credit cycles should be best positioned to capitalize on the opportunities ahead.

Exhibit 6: Top Allocator Expected Return by Asset Class[6]



* Expected returns sourced from public disclosures for 15 large allocators: AON; Blackrock; Callan; Cliffwater; Goldman; JPM, Marquette; Meketa; NEPC; Northern Trust; RVK; Segal, Vanguard, Verus and Wilshire

Footnotes

Text Sources

1) Cliffwater Direct Lending Index

2) KBRA DLD US Direct Lending Default Research, May 26, 2026

3) LSEG LPC BDC Collateral 1Q26

4) Cliffwater Direct Lending Index 1st Quarter, 2026 Webinar: https://www.youtube.com/watch?v=WmeRIv6VuSw

5) Wall Street Journal "Investors In Private Funds Seek To Pull $16 Billion" article, July 3rd, 2026.

6) Fitch Ratings, June 1, 2026: https://www.fitchratings.com/research/corporate-finance/perpetually-non-traded-bdcs-positioned-to-withstand-near-term-redemptions-01-06-2026

7) PwC, Global Private Credit Survey 2026; Private credit's next phase – growth under pressure: https://www.pwc.com/gx/en/industries/private-equity/private-credit-survey.html?WT.mc_id=GMO-BMR-NA-FY26-INDF-TRNSIC-T81-PERA-XLOS-ART-GMOTR00097-EN-CASURV-T3

Exhibit Sources

1) KBRA DLD North American Insights & Outlook June 2026 for spreads; Chatham Financial for SOFR Curves

2) CDLI for historical average non-accrual rate; LSEG LPC BDC Collateral for 1Q26 BDC non-accrual ranking

3) The Stanger Market Pulse April 2026

4) PwC Private Credit Survey May 26, 2026

5) S&P, UBS

6) Cliffwater 2Q26 Asset Allocation Webinar

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Reflects Antares' beliefs unless otherwise cited with a source

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