THE Lead Left

Your Tour Guide to Private Capital@

PDF | Insights | Week of Oct 20 2025

Quote of the Week

"I think what First Brands shows is you can't hide for long." - John Christmas, co-head of business development and investor relations, HPS Investment Partners (FundFire).

Private Capital Call Podcast

EP14: Francis Griffin on the evolving private credit landscape

Listen Now

First Brands and Private Credit

We were in the 4th grade when a food fight erupted in the cafeteria at the table next to us. The lunch monitor came over, looked at the offenders, then turned to us.

"This behavior is unacceptable," she said. "Report to detention in my class after school."

"What? But Mrs. Diaz," we protested, "*they* were the ones throwing food!"

"That may be," she answered, "but why would I want those hooligans in my classroom?"

A similarly absurd narrative is being spun around the First Brands and TriColor bankruptcies: Two private businesses, one in auto parts, the other sub-prime auto loans. No private equity sponsors. Financings for one in the bank market, the other in the ABS market. No direct lenders. Allegations of fraud and double-pledging of assets.

Private credit, report to detention!

The bank model for leveraged loans has always been a risk *distribution* one. Private credit instead exists to *hold* risk assets. This key difference has resulted in more effective alignment with owners of middle market companies and their lenders, providing resources and time to allow portfolio challenges to be addressed.

Also, it appears warning signs had previously surfaced with these credits. Risks concerning governance, liquidity and accounting had been raised, leading many lenders to pass on the financings. Having a private equity partner assess these risks would doubtless have helped lenders gain confidence, or short circuit the syndication.

Our friend Sonali Basak and her colleagues at [iCapital published an excellent piece] highlighting the takeaways from First Brands and TriColor. Despite critical concerns about systemic risk and BDCs, there's no evidence of a broader contagion. Of the roughly $500 billion in overall BDCs, only $237 million or 0.05% had primary exposure to First Brands.

Are these events signals of more defaults and losses to come? It depends on your origination strategy. If you are trafficking in the large end of the market where terms are already borrower-friendly or have stretched your underwriting standards to win deals, your portfolio may be showing signs of cracks. But experienced lenders whose credit selection has remained disciplined are benefiting from improved metrics for interest coverage and rating upgrades.

Make no mistake, banks see private credit's remarkable success disintermediating them from private equity sponsors for LBO financings as an existential threat. Expect blame shifting to continue. Even if the house they say cockroaches are infesting is their own.

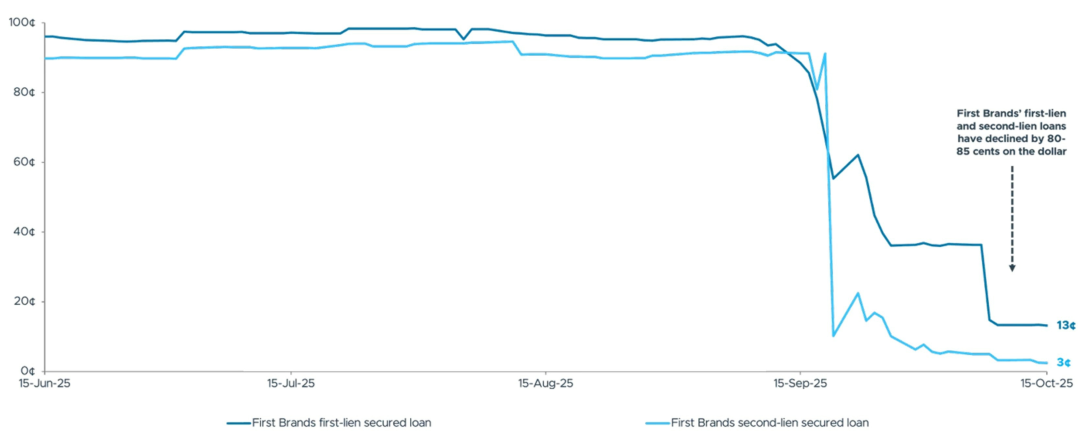
Visit our Website

Chart of the Week

Auto Correct

The value of First Brand loans was close to par – until it wasn't.

Price of First Brand first-lien and second-lien loans (cents on the dollar)



Source: Bloomberg, S&P Capital IQ, iCapital Investment Strategy

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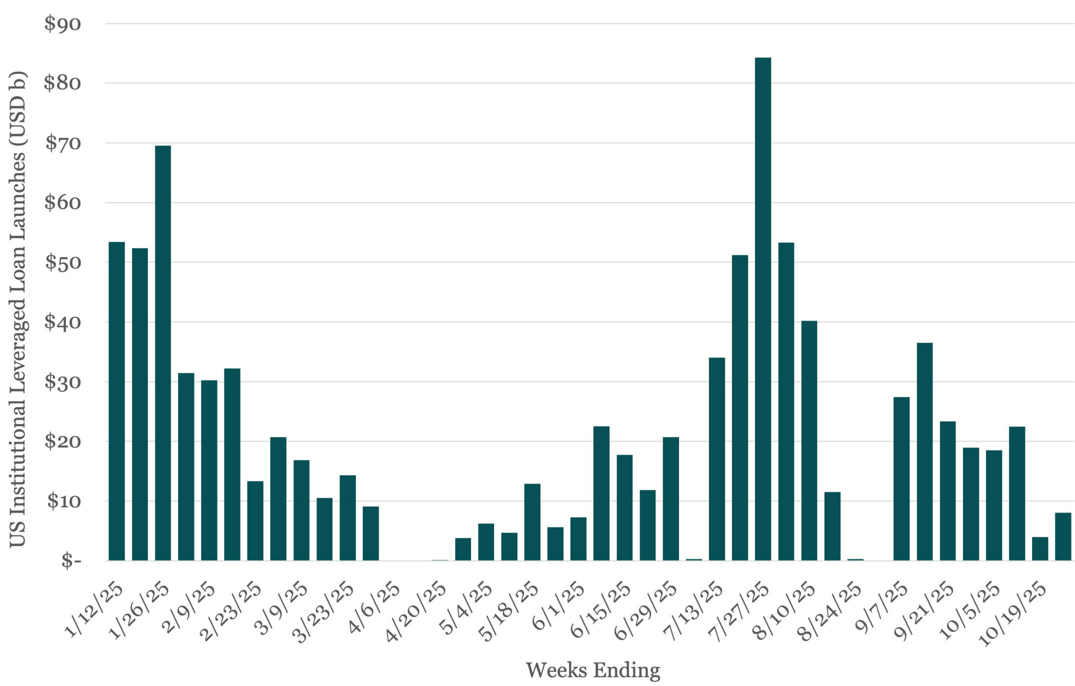
Bloomberg: Leveraged Lending Insights

Bloomberg

Leveraged Loan Launches Slow in October



At just $36.3b launched into the US institutional leveraged loan market this October through the 21st, it is shaping up to be the slowest month of primary market activity since May. This week has shown some improvement, with 10 deals totaling $8.1b launched so far, up from seven deals for $4.0b the previous week. However, both weeks rank among the softest since late August, reflecting a continued slowdown in market activity.

The largest transaction to enter the market this week is a $1.35b add-on Term Loan B supporting Xplor Technologies' acquisition of Clubessential. The deal also includes an extension of Xplor's existing $744m TLB.

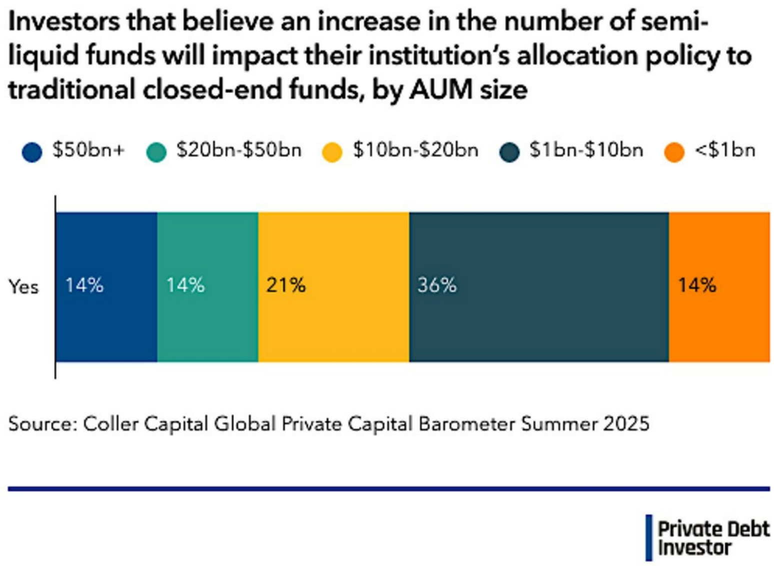
Secondary market prices fell to an average of 96.58 as of the 20th, declining 50 bps from the monthly high of 97.08 on October 1st according to Bloomberg US Leveraged Loan Index (Ticker: LOAN).

- Click here to access Bloomberg's *latest Global Leveraged Loan Index Report*

Contact: **Vincent Daigger**/ Bloomberg

PDI Picks

The rise of retail



Private credit is still having much success raising capital from institutions, but it doesn't stop the retail investor from taking the spotlight.

On the face of it, private credit fundraising from institutions is going strong. Our latest data shows such fundraising hit a record high for the first nine months of the year with $252.7 billion raised, just above the $251.6 billion raised in the same period in 2021.

If the momentum is maintained, then 2025 might set a new record for the asset class, driven partly by more challenging conditions in other parts of the private markets, such as private equity.

It may seem a strange time, therefore, to question whether the future of private credit fundraising rests not with institutions but with retail investors. Nonetheless, the rise of the retail investor is – and will continue to be - a huge talking point.

"I think it's going to be very hard for managers to resist the allure of retail capital if the opportunity is there," Jeffrey Griffiths, global head of private credit at placement agent Campbell Lutyens told valued and run will necessitate finding new sources of AUM so I think it will be very hard for any manager that has a credible retail opportunity not to go after it."

The *Hamilton Lane Market Overview 2025* said "our view is that evergreen structures will come to form a major part of the private markets landscape in a very short time frame" and expressed 100 percent confidence that such vehicles would grow faster than the overall rate of public markets over the next five years. The same survey was also 100 percent confident that closed-ended funds in certain strategies would decline and largely disappear.

Research from fund manager Coller Capital (see chart) is supportive of the theory that the growth of retail capital might have an impact on institutional fundraising. This is particularly the case for larger investors, with 36 percent of those sized between $1 billion and $10 billion saying an increase in semi-liquid

PDI.

“Particularly the publicly listed managers are going to find it virtually impossible to not do it because their shareholders will demand it - the way they’re business is

will impact their allocation policy towards traditional closed-ended funds.

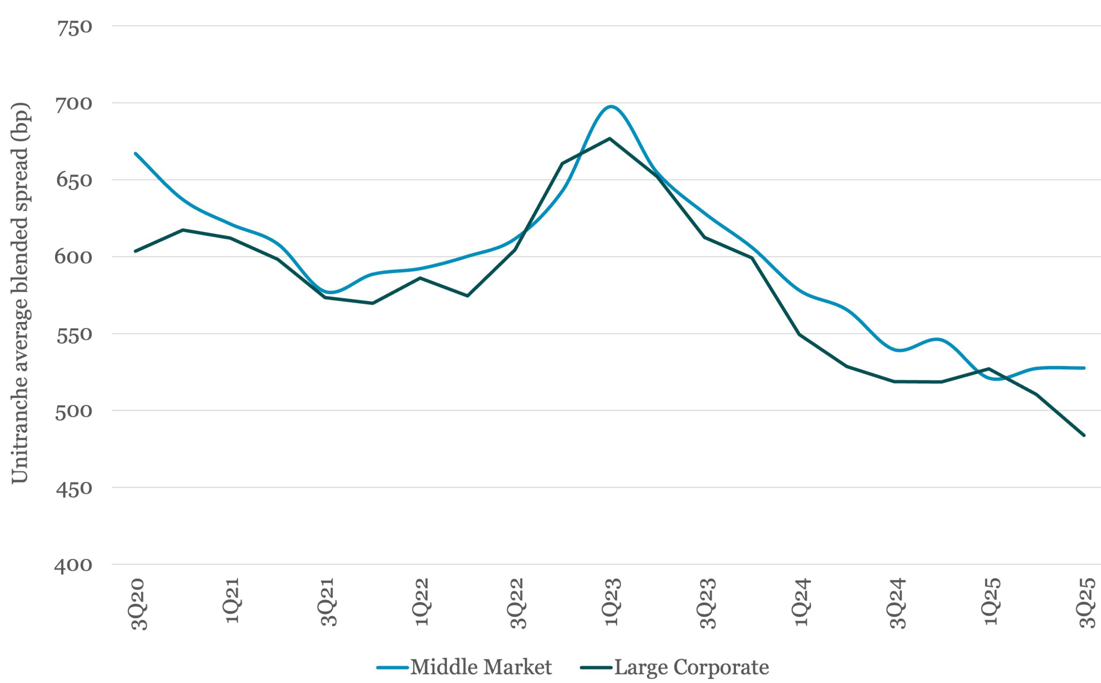
The era of widespread retail investment in private markets is upon us.

Contact: **[Andy Thomson](#)** / [Private Debt Investor](#)

Leveraged Loan Insight & Analysis

LSEG

Unitranche spreads tighten for large corporate issuers in 3Q25, while middle market spreads were flat QoQ



Source: LSEG LPC

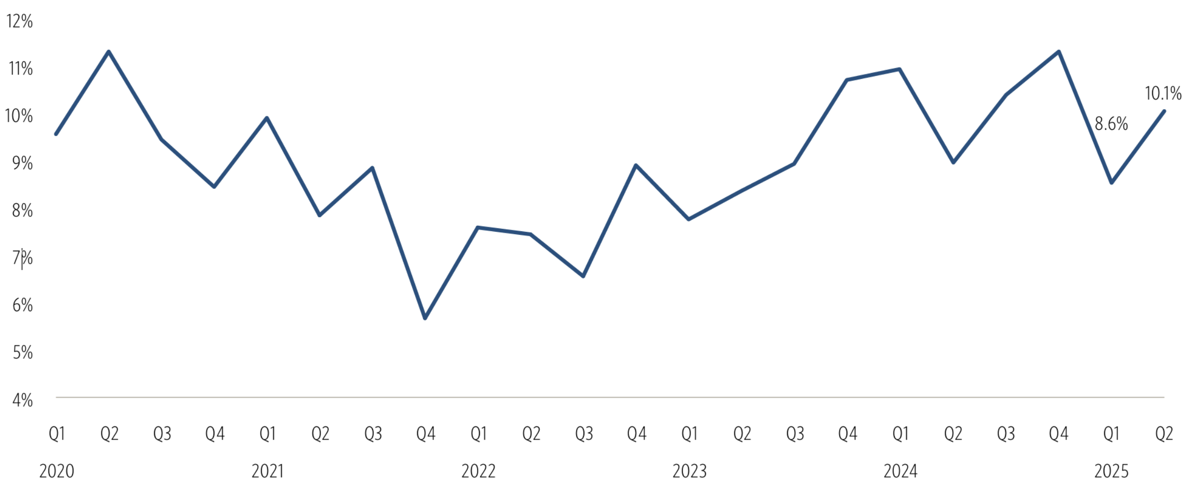
The most recent quarter continued to be marked by robust competition among direct lenders amid lower than hoped for deal flow, with 73% of direct lenders in LPC's recent Middle Market Outlook Survey saying they were not able to lend as much as they wanted in 3Q25. Highlighting these market conditions is the tighter pricing seen across the market this year. For unitranche transactions (large corporate and middle market), the average blended spread has averaged 521bp year-to-date, down from the full-year 2024 average of 548bp. Looking at unitranche spreads by borrower size in the most recent quarter, we see that spreads tightened sharply for large corporate issuers, while middle market spreads in contrast were flat Q-o-Q. The average spread on unitranches for large corporate issuers tightened 27bp in 3Q25 to 484bp, while middle market spreads were steady at 527bp but still down significantly from the 546bp posted in the final quarter of last year. At the beginning of this quarter, many direct lenders in the Outlook Survey pointed to lower minimum thresholds for unitranche transactions heading into 4Q25, with 46% of respondents saying their minimum unitranche spread is in the 450-475bp range, up from the 38% who said this in the prior quarter and far above the 21% of survey participants who pointed to this threshold a year-ago.

Contact: **CJ Doherty** / LSEG

The Pulse of Private Equity

PitchBook

Carveout/divestiture count as a share of all PE middle-market buyout count by quarter



Source: PitchBook • Geography: US • As of June 30, 2025

Carveouts remained a consistent feature of middle-market deal activity in Q2 2025. They accounted for 11.1% of deal value during the quarter, up from 10.9% in Q1 and broadly in line with the five-year annual average of 11.4%. On a transaction basis, carveouts represented 10.1% of deals, compared with 8.6% in the prior quarter and above the five-year annual average of 8.9%. While quarterly figures can fluctuate, annual trends provide a clearer benchmark. Industry participants note that many large companies are postponing spin-off activity until later in the year, awaiting greater policy clarity and more stable markets. These factors could drive stronger carveout activity in the second half of 2025. Carveouts provide compelling advantages for both buyers and sellers. For sellers, proceeds can be used to address maturing debt obligations or reinvest in higher-growth initiatives. For buyers, carveouts often involve established assets with robust financial histories, enabling more reliable due diligence. This transparency tends to attract a wider pool of bidders, reinforcing the appeal of carveouts in today's dealmaking environment.

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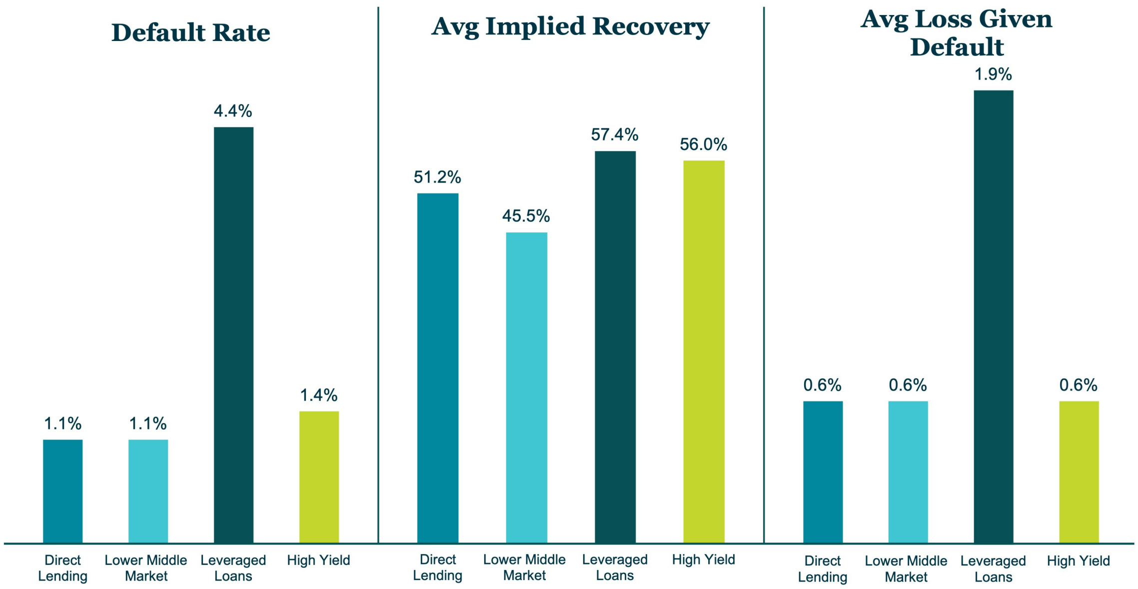
Contact: **Garrett Black** / PitchBook

KBRA Direct Lending Deals: News & Analysis

KBRA DLD Default Indices
(TTM 10/21/25)



Source: KBRA DLD, by volume. The Direct Lending Index comprises about $225 billion in total volume (2,800 borrowers); the LMM Index includes about $18 billion (750 borrowers). Shifts to PIK and covenant violations are excluded. The non-accrual direct lending and lower middle market rates are at 1.7% and 3.4%, respectively. The KBRA DLD Leveraged Loan Index represents over $1.5 trillion in outstanding volume, and the KBRA DLD High Yield Index totals $1.5 trillion in outstanding volume.

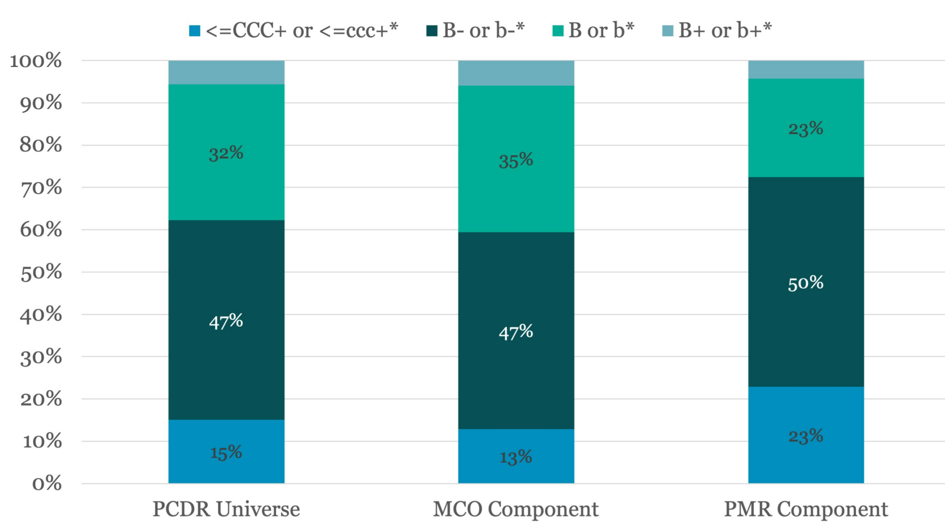
Contact: [Eric Rosenthal] / [KBRA DLD]

Middle Market & Private Credit

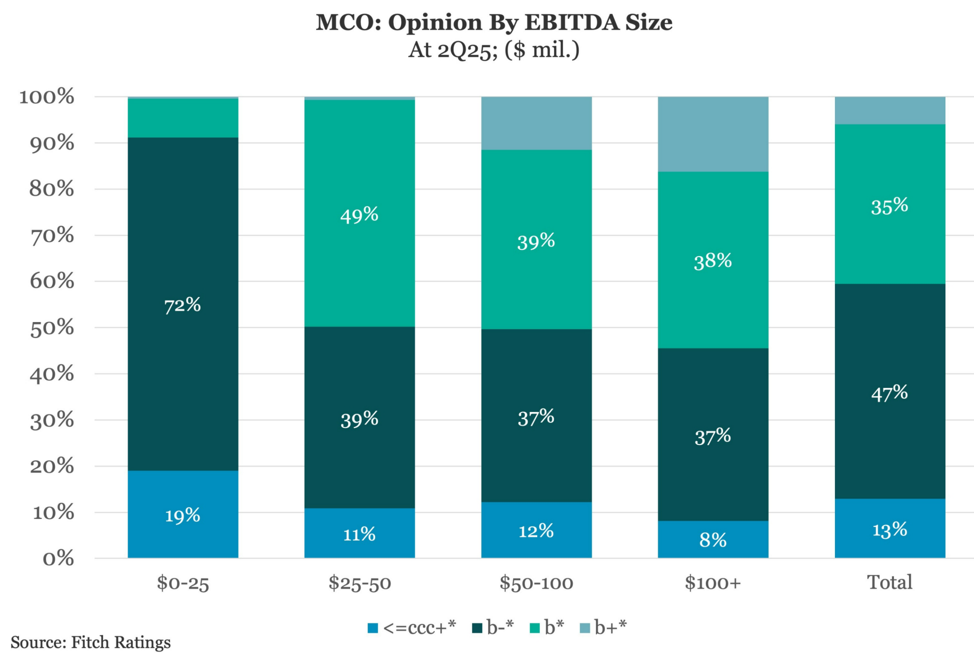
FitchRatings

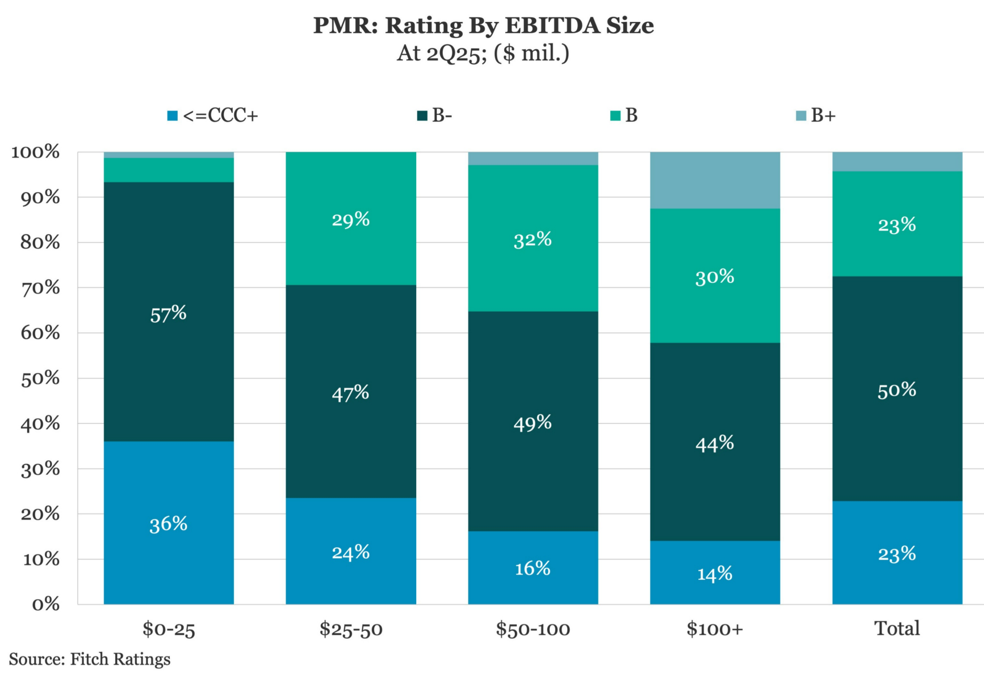
U.S. Private Credit: Sizing Up Defaults

PCDR Ratings/Opinion Distribution By Component
At 2Q25



Source: Fitch Ratings





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This report examines private credit defaulters by EBITDA size, compares default rates across the two component Model-based Credit Opinion (MCO) and Privately Monitored Ratings (PMR) portfolios, and details default reasons.

The MCO portfolio consistently demonstrates lower default rates than the PMR component in almost every EBITDA category. This outperformance reflects higher rating quality, the absence of serial defaulters due to CLO managers' substitution rights, and structural factors. The default rate gap is widest in the $0 to $25 million EBITDA segment, where the MCO portfolio's 6.1% default rate significantly outperforms the PMR's 17.2% rate.

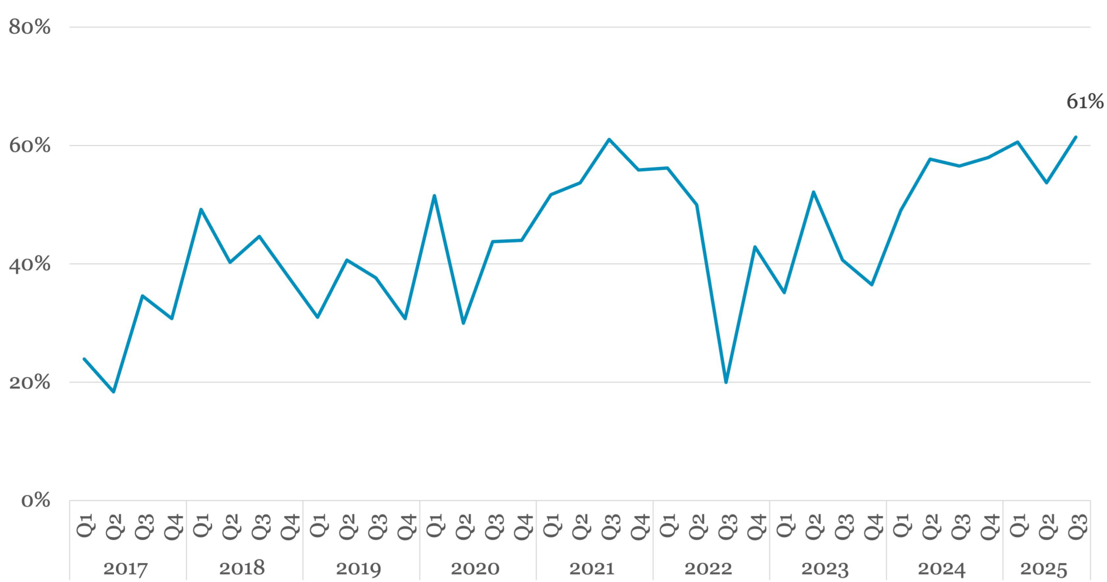
The MCO portfolio has significantly fewer high-risk credits, with only 13% rated 'CCC+'

or lower versus PMR's 23% exposure—a rating quality gap that aligns with lower default rates. This credit quality difference is most evident in smaller companies, where default rates are highest. In the $0 to $25 million EBTIDA segment, only 19% of issuers in the MCO portfolio are rated 'CCC+' or lower, compared with 36% in the PMR portfolio. While most pronounced in smallest EBITDA category, this 'CCC' rating gap between MCO and PMR portfolios appears across all EBITDA size categories.

Contacts: [Brad Hamner] / [FitchRatings]

Covenant Trends

Percentage of Loans with Asset Sale Sweep Step-downs



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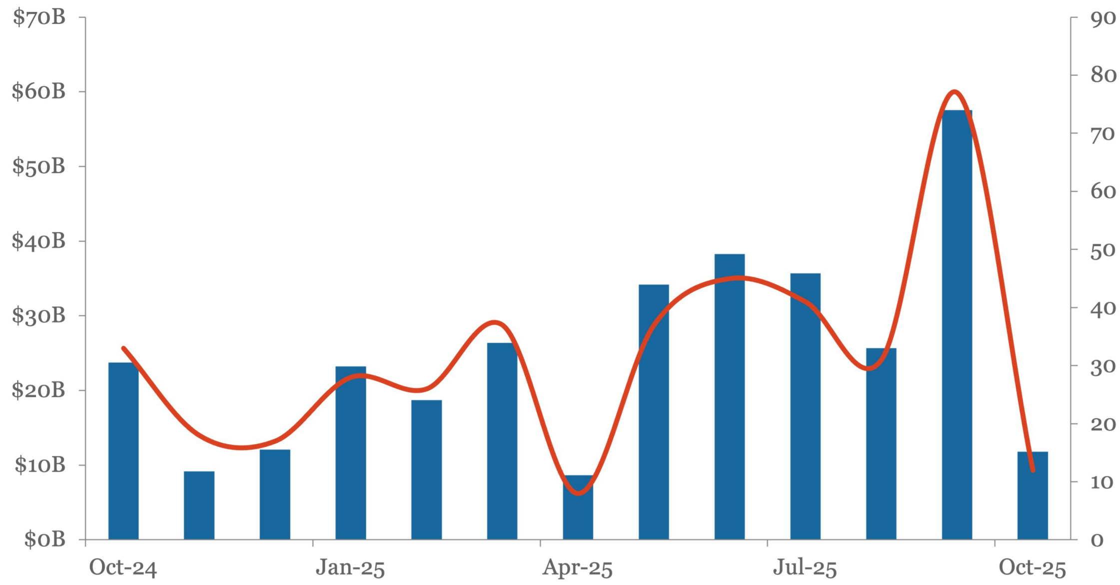
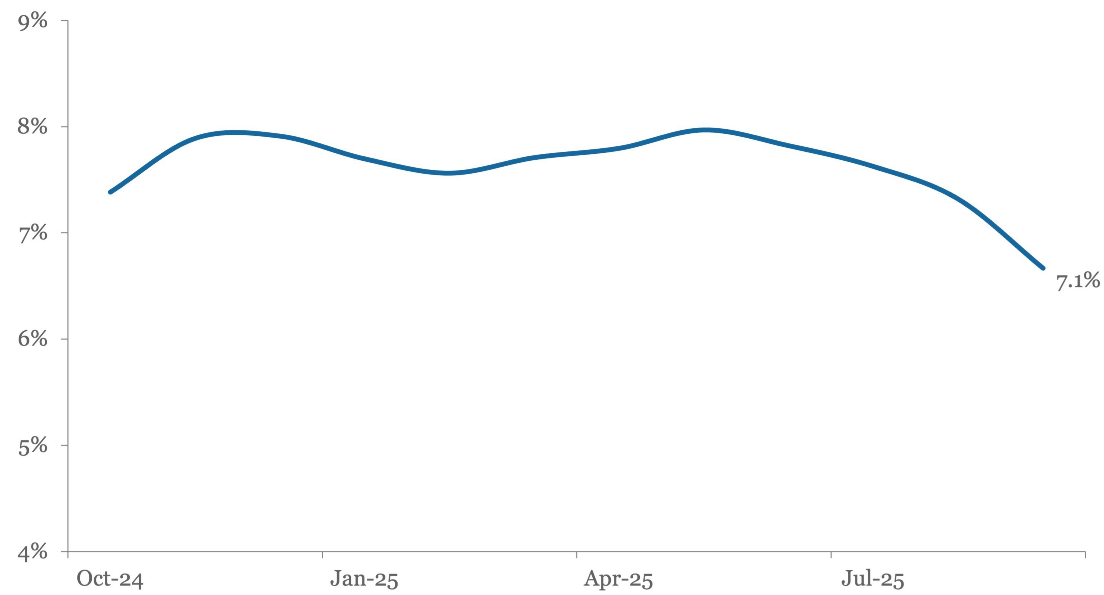
Contact: [Steven Miller] / [Covenant Review]

High-Yield Bond Statistics

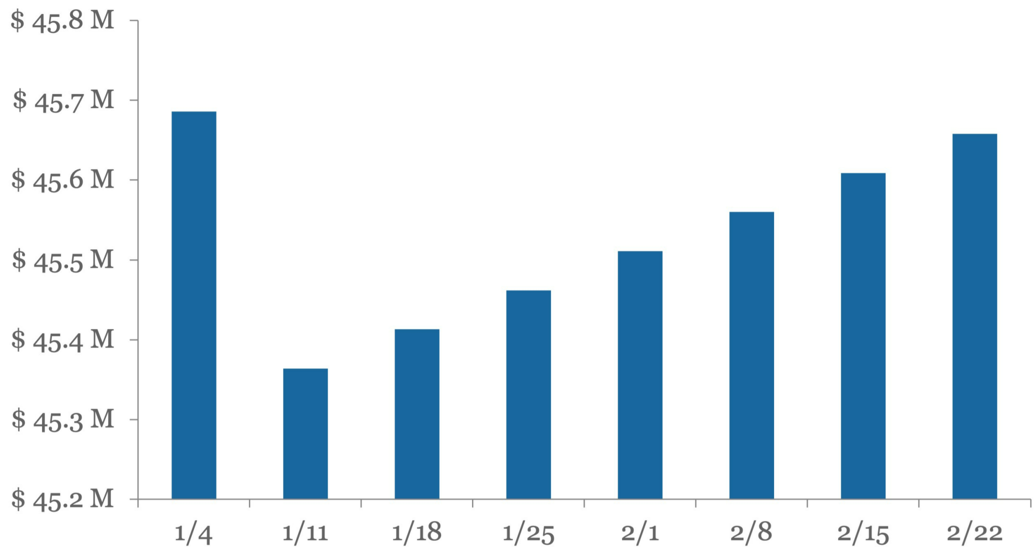
Launched Volume



New-issue Yields



Weekly Fund Flows



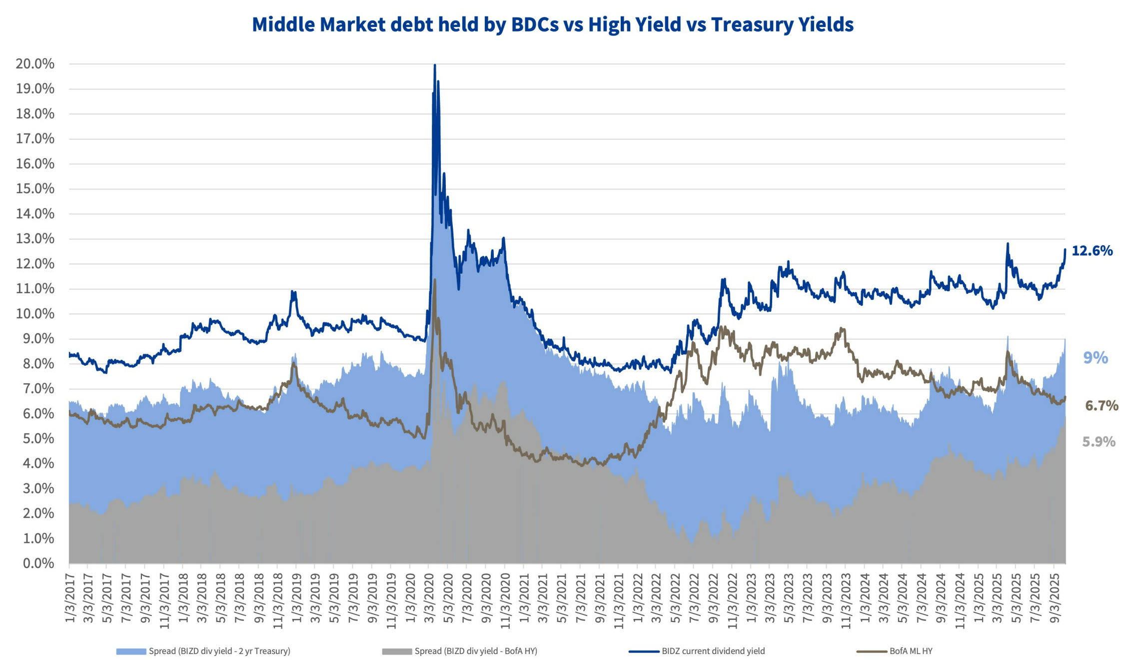
Weekly fund flows source: [Lipper]

[Download Data]

Contact: **[Robert Polenberg]** / [LevFin Insights]

Debtwire Middle-Market

Debtwire



The blue line in the chart is the current dividend yield of the *VanEck BDC Income ETF (currently at 12.6% as of 9 October, close to its five-year peak of 12.8% on 8 April) that tracks the overall performance of publicly traded business development companies (BDCs, are lenders to privately held middle-market businesses that tend to be below investment grade or not rated, with most lending comprising of senior secured loans). The brown line displays the BofA Merrill Lynch US High Yield (currently at 6.7% as of 9 October, down from its one-year peak of 8.5% on 7 April), which tracks the performance of USD denominated below investment grade corporate debt publicly issued in the US.

The Federal Reserve's 25bps rate cut in September to 4%–4.25%, coupled with guidance for two additional reductions by year-end, underscores a decisive pivot toward easing despite inflation remaining above target at 2.9% in August. While moderating price pressures offer some relief. The ongoing US government shutdown since 1 October has disrupted key data releases, leaving policymakers with limited visibility ahead of the late-October FOMC meeting. Markets, however, remain confident, pricing in a near-certain additional cut this month. The escalating US-China trade tensions, marked by impending 100% tariffs and rare earth export curbs, alongside energy market volatility from Russian refinery outages and OPEC+ supply adjustments, amplify uncertainty around inflation and growth. For BDCs, this environment presents a dual challenge: rate cuts threaten to compress net interest margins, while trade and energy shocks adds volatility.

The spread of BIZD dividend yield and the US High Yield (shaded area in gray) shows the premium/discount of middle-market loans over traditional high yield. On 9 October, BIZD's dividend yield was at a premium of 590bps over the US High Yield Index, versus its 12-month average of 408bps driven by resilient floating-rate income from BDCs portfolio loans and tighter spreads in the broader high-yield market. The spread between the BIZD dividend yield and the 2-year treasury yield (shaded area in light blue) has moved to 899bps as of 9 October, compared to a 12-month average of 717bps.

**As of 30 September 2025, BIZD's weighted average market cap stands at USD 5.9bn, with PE ratio of 9.99 and PB of 0.97, with the entire portfolio holdings in publicly traded BDCs.Click here for top holdings.*

Download Data

Contacts: **Suneet Chandvani** / Debtwire

October Update: Middle Market Deal Terms at a Glance

SPP CAPITAL PARTNERS

Deal Component	October 2025	October 2024
Leverage: **Senior Debt / EBITDA (x EBITDA)**	**Micro Cap** 2.00x-3.00x **Small Cap** 2.25x-3.75x **Midcap** 4.25x-5.25x	**Micro Cap** 1.50x-2.50x **Small Cap** 2.00x-3.50x **Midcap** 4.00x-5.00x
Leverage: **Total Debt / EBITDA**	**Micro Cap** 2.50x-4.00x **Small Cap** 4.00x-5.50x **Midcap** 5.00x-6.50x	**Micro Cap** 2.50x-4.00x **Small Cap** 3.50x-5.50x **Midcap** 5.00x-6.00x
Pricing: Senior Commercial Bank Cash Flow	**Micro Cap** S+3.25%-4.25% **Small Cap** <$10.0MM EBITDA S+3.00%-3.75% **Midcap** >$40.0MM EBITDA S+2.75%-3.50%	**Micro Cap** S+3.50%-4.00% **Small Cap** <$10.0MM EBITDA S+3.50%-4.00% **Midcap** >$40.0MM EBITDA S+3.50%-4.00%
Pricing: Senior Non-Bank / Unitranche	**Micro Cap** S+5.50%-7.00% **Small Cap** S+4.75%-6.50% **Midcap** S+4.25%-5.75%	**Micro Cap** S+7.50%-9.50% **Small Cap** S+5.25%-7.50% **Midcap** S+5.00%-6.50%
Pricing: Junior Capital (Cash + PIK)	**Micro Cap** 12.00%-15.00% **Small Cap** 11.00% - 13.00% (S+6.5%-8.0%) **Midcap** 11.00% - 12.00% (S+ 6.25%-7.5%)	**Micro Cap** 13.50%-16.00% **Small Cap** 12.00%-14.00% **Midcap** 11.00%-12.50%

*Micro Cap <$10mm EBITDA / *Small Cap >$10mm EBITDA / *Midcap >$25mm EBITDA / *Changes from last month are in red

Contact: Stefan Shaffer / SPP Capital Partners

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