

Private Credit Investing

Private credit is the fastest-growing private asset class — and the one most allocators still can't size.

The fastest-growing asset class

Private credit investing is the practice of lending to companies through privately negotiated loans rather than through banks or public bond markets, with the lender holding the loan to maturity and earning a yield for taking on the credit and illiquidity. It is the part of the alternatives universe that has scaled fastest, and the part you cannot buy on an exchange. That single fact is why allocators are paying attention: the return comes from sourcing and underwriting a loan, not from a quoted price on a screen.

IMS Group, a private markets investment group and partnership of family offices, reads this asset class through an allocator's lens rather than a manager's. The question that matters for a family office is not whether private credit is growing, which is settled, but how to size, select and underwrite an allocation to it. Most manager explainers stop at the first question; the sizing, selection and underwriting that follow are what this page works through.

What is private credit investing?

Private credit investing means providing debt finance directly to a borrower, usually a private mid-sized company, outside the public markets and outside the traditional banking channel. The lender is the lender of record: it negotiates the loan, holds it on its own book, and is repaid by the borrower, never selling the exposure on to anyone else. That is the structural difference from public or syndicated debt, where a loan is arranged by a bank and then distributed to many holders who can buy and sell it.

The asset class exists because of a gap. After the post-2008 reforms tightened bank capital rules, banks pulled back from lending to the middle market, and non-bank lenders stepped into the space they vacated. This bank disintermediation is the core story of private credit: capital that once flowed through a bank balance sheet now flows through funds that lend directly. For the investor, that means a return stream sourced from underwriting rather than from market sentiment.

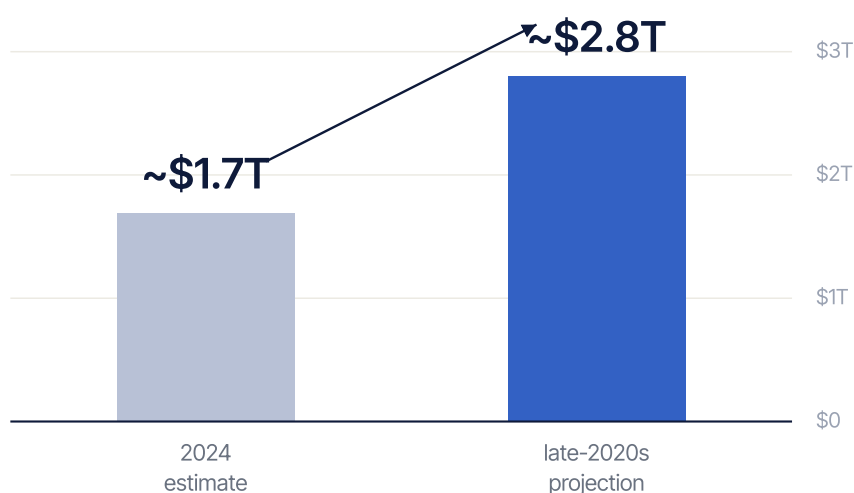
How does private credit work?

A private credit loan is originated directly: the lender finds the borrower, often through a relationship or a sponsor, and negotiates the terms bilaterally. There is no pre-packaged deal to buy into. The result is a bespoke instrument, an agreed amount, maturity, coupon and covenant package written for that specific borrower.

Three features define how the return behaves. First, most private credit loans carry a floating-rate coupon, so income rises and falls with the reference rate instead of sitting fixed. Second, the loans typically include covenants, the contractual conditions a borrower must meet, which give the lender protection if performance slips. Third, the lender generally holds to maturity, so the return is earned through the contracted cash flows, not by trading. Because the loan is not quoted on an exchange, its value is marked periodically rather than priced continuously, which is part of what the investor is compensated for.

EXHIBIT 1

Private credit: a now-substantial income engine



Source: industry estimates (e.g. Preqin, 2024); figures are point-in-time projections.

The main private credit strategies

Private credit is not a single strategy but a family of them, distinguished by where they sit in the capital structure and what kind of borrower they serve. The four below are the ones allocators encounter most.

Direct lending

Direct lending is the core of the asset class: senior, secured loans made directly to mid-sized companies, usually backing a private-equity sponsor's acquisition or a company's growth. It sits at the top of the capital structure, which means it is first in line to be repaid, and it is where most private credit capital is deployed today.

Mezzanine and subordinated debt

Mezzanine sits below senior debt and above equity. It is subordinated, so it is repaid after senior lenders, and it carries a higher coupon to compensate for that lower priority. Allocators use it to reach for a higher yield while still holding a debt instrument rather than equity.

Asset-based lending

Asset-based lending is secured against specific collateral, such as receivables, inventory or equipment, rather than against a company's cash flows alone. The collateral is the primary source of repayment, which gives the strategy a different risk profile and a degree of protection independent of the borrower's earnings.

Distressed and special situations

Distressed and special-situations strategies lend to, or buy the debt of, companies under financial stress, aiming to earn a return through a turnaround, a restructuring or a recovery. It is the most specialised corner of the asset class, demanding legal and operational expertise, and its returns are the least correlated with the rest of the credit market.

How investors gain exposure

Few investors originate loans themselves; most reach private credit through a fund. The traditional route is a closed-end, drawdown fund: capital is committed, called over time as the manager finds deals, and returned as loans mature, with a multi-year lock-up in exchange for the illiquidity premium. Business development companies (BDCs) offer a more accessible structure, pooling private credit exposure into a vehicle that can be publicly traded or non-traded. Interval funds sit between the two, opening periodic, limited liquidity windows in place of daily dealing. More recently, the first private credit ETFs have emerged, attempting to wrap an inherently illiquid asset in a liquid structure. The route chosen trades off liquidity, cost and access, and follows the size and capability of the investor.

Why allocators consider private credit

The case for private credit is structural, not tactical. It offers a yield premium over comparable public credit, partly as compensation for illiquidity and partly because the lender is paid for sourcing a deal others cannot access. Its floating-rate coupons provide a measure of protection when reference rates move, and its returns have historically shown limited correlation with public equity and credit, which is the diversification an allocator is buying.

For a family office, though, the question is how to hold it well, and the allocator's job is threefold. Sizing comes first: private credit is an illiquid, hold-to-maturity exposure, so the allocation has to fit the office's liquidity needs and its tolerance for capital locked up across a cycle. Selecting matters more here than in public markets, because manager dispersion, the gap between the best and worst managers, is wide in an asset class where returns depend on underwriting skill rather than a market index. Underwriting is the third discipline: understanding what a manager lends against, how its covenants are structured and how it marks its book, not the headline yield alone. That is the lens an allocator brings, and it is where [AI is changing credit underwriting](#) for allocators able to bring better data to the question. Within IMS Group, this discipline is the work of [IMS Capital Management](#), the division through which the Group deploys institutional capital into private credit and alternatives.

The risks

Private credit carries real risks that sit alongside its return, and an allocator weighs them soberly instead of discounting them. Illiquidity is the first: capital is committed for years, with no exchange to sell into if circumstances change. Credit-cycle sensitivity is the second, because direct lending is exposed to the health of mid-market borrowers, and a downturn tests both defaults and recoveries in a market that has grown largely through a benign credit environment. Valuation complexity is a third: because loans are marked periodically rather than priced continuously, reported values can lag reality, and the mark cadence itself becomes something to scrutinise. Manager dispersion compounds all of this, since the difference between a disciplined underwriter and a careless one shows up only when conditions deteriorate. Balanced commentary from bodies such as the Brookings Institution has examined these features as the asset class has scaled; the right reading is measured caution, not a bearish thesis. They are the characteristics of a maturing market, and the reason selection and underwriting matter as much as the allocation decision.

How large is the private credit market?

The private credit market size is large and growing, though the precise figure depends on the source and the definition. Industry estimates from data providers and asset managers place global private credit assets under management at roughly \$1.5 trillion on a narrow definition to about \$3.5 trillion on the broadest measure as of the mid-2020s (IMF; AIMA/Alternative Credit Council, 2024), with a range of projections pointing toward materially higher levels by the end of the decade. Those are projections, best held as a range rather than anchored on the largest available number: the direction of travel is clear while the magnitude is contested, which is the right way to treat any market-sizing figure a portfolio leans on. New lending can also soften cyclically when rates and spreads move, and a single year's slowdown is better read as cyclical than as a structural reversal of a market that has compounded across cycles.

Where this sits in the bigger picture

Private credit does not stand alone. It is the leading edge of a widening investable universe, set out in the Group's view on [alternative asset classes](#), and the demand beneath it is driven by [how family offices are re-weighting toward alternatives](#) as a structural choice rather than a tactical tilt. The asset is now being reshaped by infrastructure, as [tokenised private credit](#) begins to change how these loans are accessed and verified. For an allocator, the through-line is consistent: private credit rewards sourcing and underwriting over market timing. For IMS Group, it sits within the institutional discipline of [IMS Capital Management](#) and its sibling site imscapitalmanagement.com.

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Frequently asked questions

What is private credit investing?

Private credit investing is lending to companies through privately negotiated loans, outside banks and public bond markets, with the lender holding the loan to maturity and earning a yield. The lender is the lender of record, negotiating terms directly with the borrower rather than trading a distributed instrument. Allocators value it for its yield premium and low correlation with public markets.

How does private credit work?

A private credit loan is originated directly between lender and borrower and negotiated bilaterally, producing a bespoke instrument with an agreed amount, maturity, coupon and covenants. Most loans carry floating-rate coupons, so income moves with reference rates, and the lender typically holds to maturity rather than trading the exposure on an exchange.

What are the main private credit strategies?

The four main strategies are direct lending, senior secured loans to mid-sized companies; mezzanine or subordinated debt, ranking below senior debt for a higher coupon; asset-based lending, secured against specific collateral such as receivables or equipment; and distressed or special situations, which lends to companies under stress for a turnaround return. Direct lending accounts for most capital deployed.

How do investors gain exposure to private credit?

Investors usually gain exposure through funds rather than by originating loans. Closed-end drawdown funds commit capital over a multi-year lock-up; business development companies (BDCs) offer a more accessible, sometimes traded structure; interval funds provide periodic limited liquidity; and newer private credit ETFs attempt a liquid wrapper. Each route trades off liquidity, cost and access.

What are the risks of private credit investing?

The principal risks are illiquidity, as capital is locked up for years with no exchange to exit through; credit-cycle sensitivity, since direct lending depends on the health of mid-market borrowers in a downturn; valuation complexity, because periodic marks can lag reality; and manager dispersion, the wide gap between strong and weak underwriters. They warrant measured caution rather than alarm.

How large is the private credit market?

Estimates place global private credit assets under management at roughly \$1.5 trillion on a narrow definition to about \$3.5 trillion on the broadest measure in the mid-2020s (IMF; AIMA/Alternative Credit Council, 2024), with projections pointing higher by the end of the decade. These are best held as a range, not anchored on a single number, and re-verified at publication.

Sources & important information

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Point-in-time figures are volatile and should be re-verified on the date of publication.

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Alternatives, read from
the buy-side —
uncorrelated,
contractual or scarce.

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