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WEALTH ADVISORS

# A Beginner's Guide to Private Credit

July 2025

# Introduction

Private Credit is a relatively new asset class, but one that is making its impact felt in many portfolios globally. As per Preqin's report in December 2024, private credit expanded to approximately \$1.6 trillion at the start of 2024, up from \$1 trillion in 2020, and is estimated to soar to \$2.6 trillion by 2029.

## Global Private Debt Assets Under Management

(USD Billions)

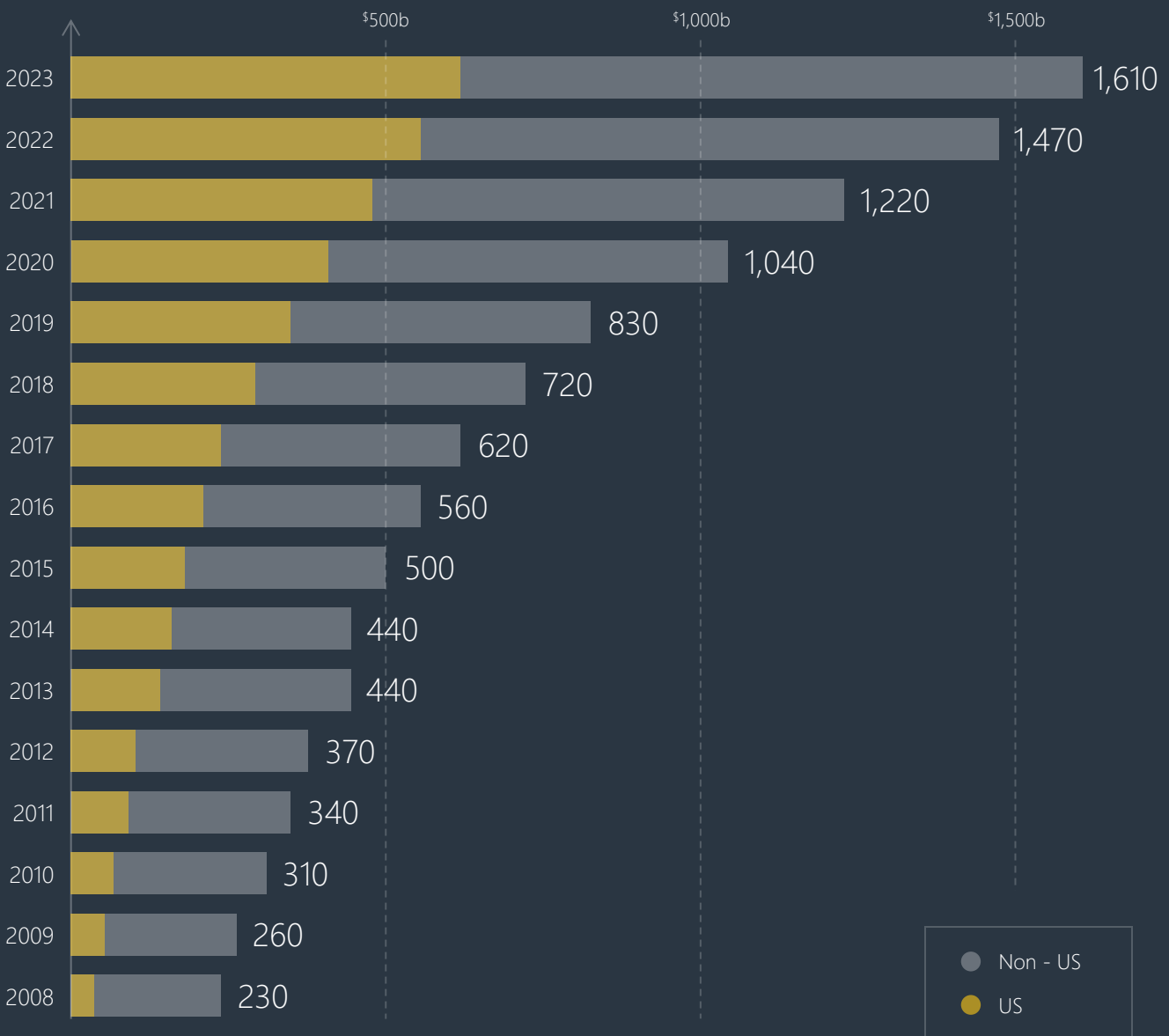


Chart: Bloomberg News & Preqin

Note: 2023 data is until March 2023. The geographic region designations refer to primary geographic focus of the fund: where the fund is looking to invest its capital.



The pivotal point in the evolution of private credit was the Global Financial Crisis of 2008. Banks, who dominated the corporate lending market at the time, went through a turbulent time of consolidation, regulatory reforms, and risk aversion. Many mid and small sized businesses started looking to private lenders around this time.

This led to the emergence of private credit. Today, the private credit market is estimated to be the size of USD 1.5 to 1.6 trillion, comprising of the U.S. market at ~ USD 1.1 trillion and European market accounting for ~USD 0.5 trillion.

Jupiter Wealth Advisors is proud to present this guide on private credit that is tailored to help you understand the unique opportunities and risks of this emerging and promising asset class.



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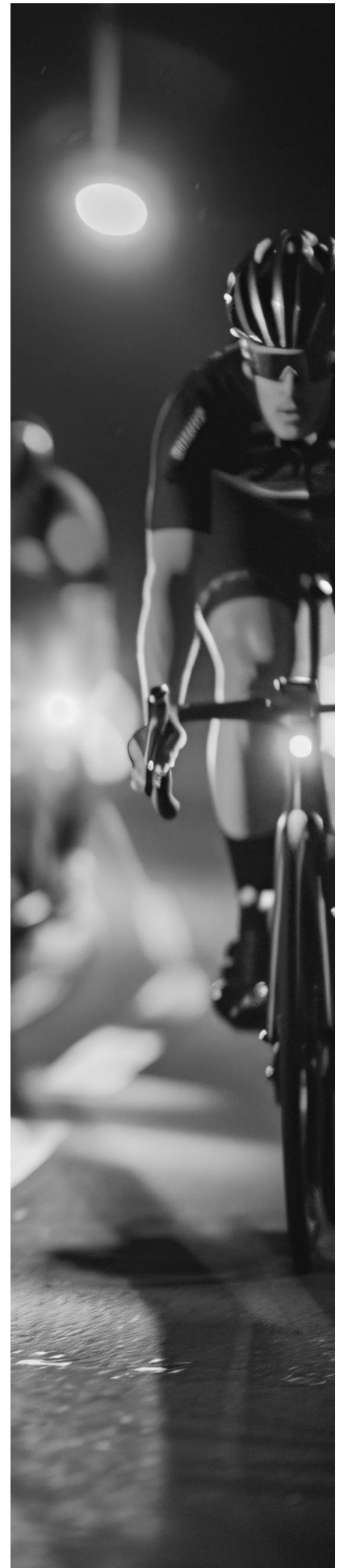
# What is Private Credit?

Private credit generally refers to lending by a non-bank (typically financial institutions such as private equity firms and alternatives asset managers) most often to small and mid-sized businesses who do not have access to corporate bond markets. It is a privately negotiated loan.

For borrowers, it is an alternative to bank loans. It offers more flexibility in terms of loan structuring and allows for bespoke terms tailor-made for its unique business requirements.

For lenders, it adds an interesting diversification opportunity to the portfolio, in terms of its risk-return profile.

There could be different types of underlying strategies within the broad umbrella of private credit: direct lending, special situations/distressed lending, asset-based lending (ABL), commercial real estate lending (CRE Lending), and collateralized loan obligations (CLOs) are some of the commonly used strategies.



# Who are the typical investors?

Traditionally, institutional investors such as pension funds, insurance companies, sovereign wealth funds have been large investors in private debt. Increasingly though, the asset class is seeing solid interest from private investors, especially from family offices and high net worth individuals.

## Investors in US Private Credit Funds

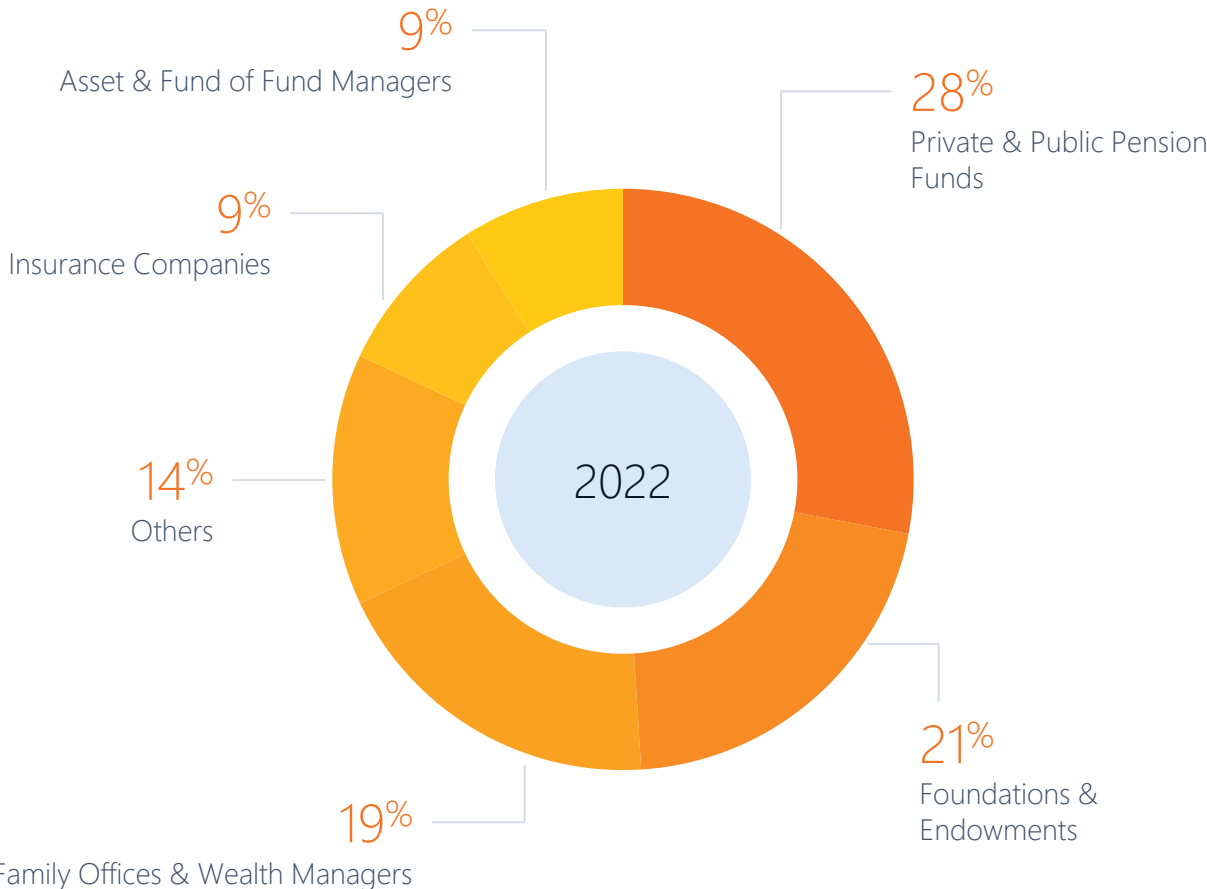


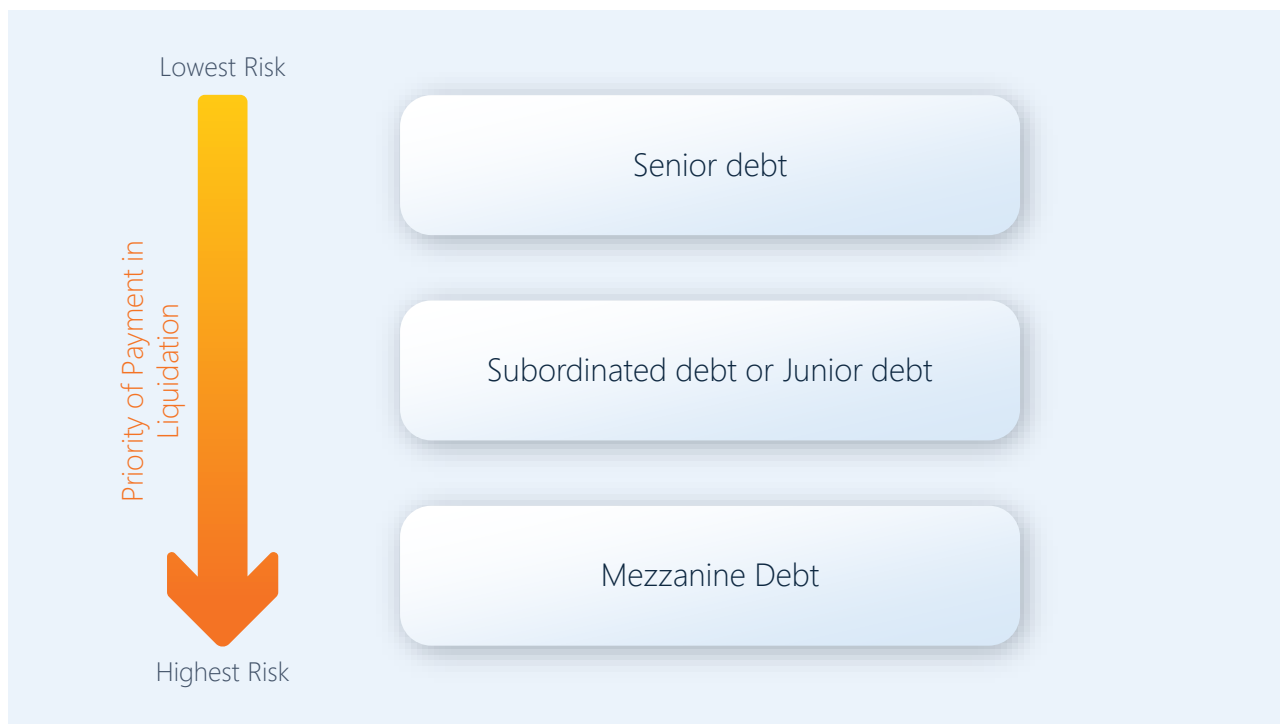
Chart: IMF

Note: Chart adapted from Figure 1.8 of the IMF's April 2023 Global Financial Stability Report



# What are the different types of debt?

The risk and return profile of a private credit portfolio depends on the kind of debt: whether it is senior debt, subordinated debt, or mezzanine debt. This will determine in what order capital is repaid in the event of bankruptcy or liquidation of the borrower.



**Senior debt** is at the top of the capital structure, which means, in the event of bankruptcy lenders of senior debt are repaid first, making it low risk.

**Subordinated debt or Junior debt** is positioned lower in the company's capital structure than senior debt. In a liquidation or bankruptcy scenario, senior debt holders are paid back in full before any payments are made to subordinated debt holders.

**Mezzanine Debt** is a hybrid form of debt and equity. It usually has embedded equity instruments, usually referred to as warrants. Warrants are a security that gives the lender the right (but not the obligation) to purchase equity in the borrower company at a specified price within a specific period of time. In terms of risk, mezzanine debt is usually riskier than pure debt, but is less risky compared to pure equity.



# What is Performing Credit?

A term often heard when discussing Private Debt funds is '**Performing Credit**'. In simple terms, performing credit refers to investments in loans or debt instruments where the borrower is expected to consistently meet their payment obligations and maintain a strong financial standing. Within the world of private credit funds, performing credit funds focus on stable returns and are more suitable for those looking to generate regular income.



# Reasons for the surge in popularity of Private Credit

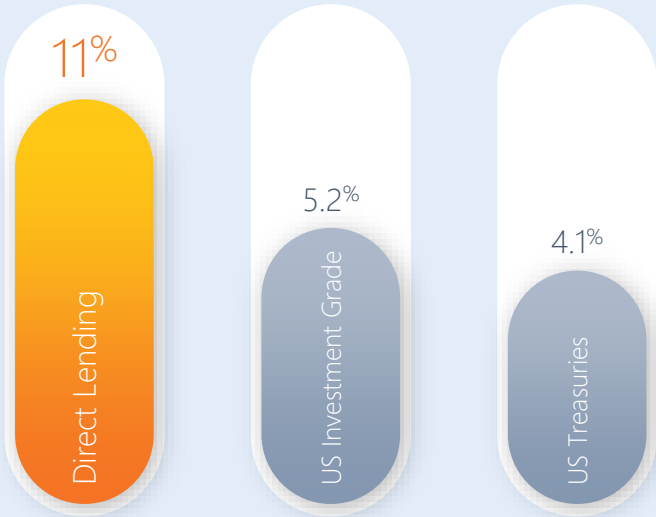
With the volatility in traditional asset classes in the recent months, alternatives in general have emerged as a great way to diversify portfolios. Within alternatives, private debt appeals to investors that have been investing in traditional fixed income instruments such as bonds, and are looking for ways to **boost income during the ongoing low interest rate period.**

Private Debt as an asset class tends to have a **low correlation to other asset classes**, and also acts as a sturdy **hedge to inflation**. This makes it an excellent addition to a traditional portfolio in times of volatility or uncertainty.

Access to private credit is typically via funds which are managed by specialist manager with expertise in credit analysis, risk management, financial modelling, and most importantly, in bespoke deal structuring.

Investors do need to be cognizant of the underlying strategies and their risks though. Yields on private credit loans are typically higher than yields on corporate bonds, reflecting the higher risk associated with the asset class.

## Comparison of Yield to Maturity of Private Credit and Traditional Fixed Income

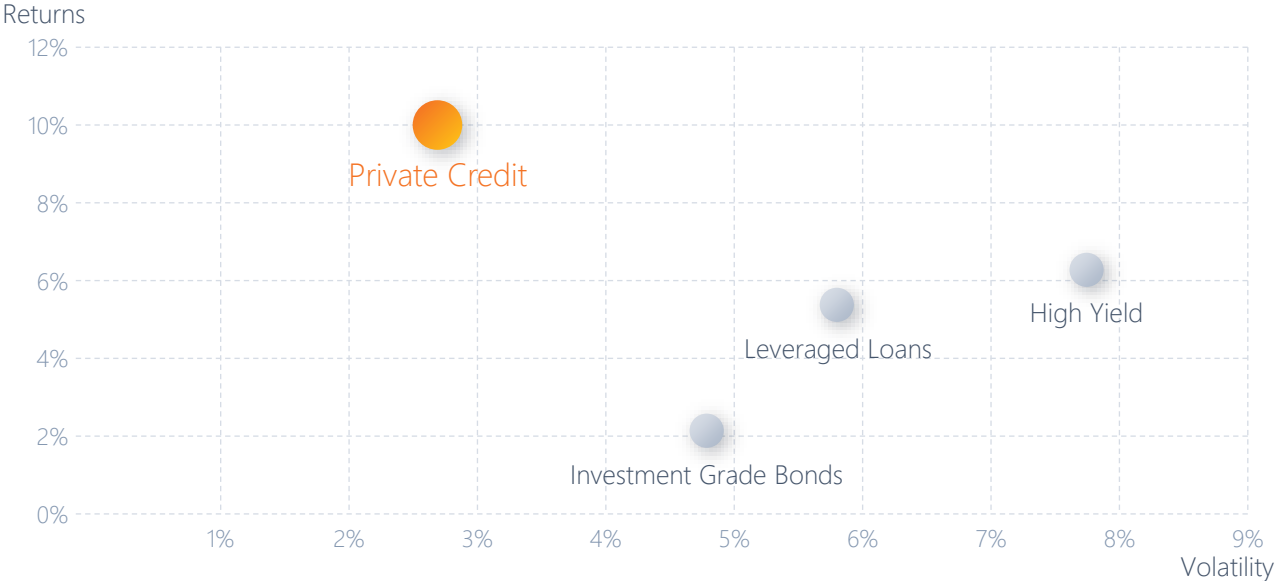


Source: Bloomberg, unless otherwise noted. US Treasuries represented by ICE BofA 10-year US Treasury Index. US Investment Grade represented by Bloomberg US Corporate Index. US Direct Lending represented by Cliffwater Direct Lending Index (Cliffwater as of 12/31/24, yield to maturity as of 3/31/25 unless otherwise noted)



# Private Credit has provided low historical volatility and strong relative returns

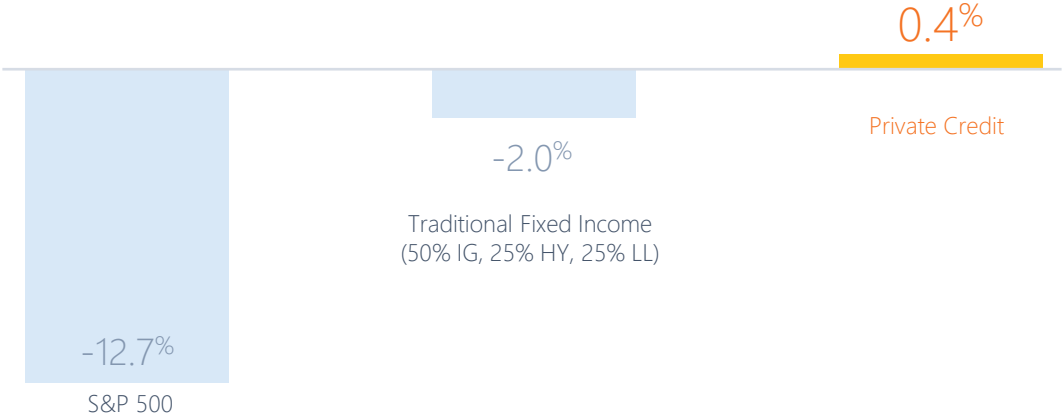
Risk Return (15 years annualized)



Source: Morningstar Direct, as of 31-Dec-2024. "Private Credit" represented by Cliffwater Direct Lending Index. "Leveraged Loans" represented by Morningstar LSTA US Leveraged Loans Index. "High Yield" represented by Bloomberg US Corporate High Yield Index. "Investment Grade Bonds" represented by Bloomberg US Aggregate Bond Index.

# Private Credit has historically protected more capital in market downturns compared to traditional fixed income

Average return during S&P 500's 5%+ Drawdown Quarters (since March 2010)



Source: S&P 500 and Traditional Fixed Income data until 31-Mar-2025. "Traditional Fixed Income" represented by 50% IG bonds, 25% HY bonds, 25% leveraged loans. Private Credit data until 31-Dec-2024.



# Types of Underlying Strategies

1

## Asset Backed Lending

Traditionally, Asset-backed lending involves short-term loans given to small and mid-sized businesses to cover working capital needs, typically backed by collateral such as inventory, equipment or other such assets. Of late, there are credit funds offering more bespoke ABL lines. For example, a private credit fund may lend to a fintech company, which in turn specialises in student loans that are disbursed digitally with the upcoming interest payments being offered as collateral.

2

## Special Situations Lending

This refers to credit given to companies facing distress, restructuring, bankruptcy, or other such dislocations. This is also referred to as Event-Driven Credit, as it is usually targeted at an event that is expected to unlock value. These could be corporate, market or regulatory events.

3

## Commercial Real Estate Lending

Many private debt funds are increasingly adopting a sector-focused approach. Amongst these, real estate funds have garnered significant interest. Focusing on specific sectors allows the fund manager to build industry networks & deep expertise.

4

## Collateralised Loan Obligations

CLO is a securitization product created to acquire and manage a pool of leveraged loans.

5

## Venture Debt

This refers to financing specifically designed for high-growth, VC-backed startups aiming to grow rapidly. It's typically used alongside equity funding, providing access to capital without further diluting existing ownership.



# The Interesting Proposition of Parallel Lending

Parallel Lending refers to a structure where multiple lenders, often including a **private credit fund manager** and a **traditional bank**, provide financing to the same borrower through separate but related loan tranches. Partnering with a bank as a co-lender allows the fund to leverage on the banks' wide reach in terms of access to quality deals. At the same time, partnering with a fund allows the bank to reduce exposure to a single lender. For investors in these kind of funds, the **pari-passu ranking with the banks** provides the security of first repayment in case of default. In markets such as Europe, where the central bank expects bank has put in place robust risk frameworks, parallel lending targeting debt to companies with low debt to EBITDA ratios, has demonstrated very **low average default rates**. The universe of eligible companies in this bucket (with Debt to EBITDA <4x) is massive, and allows for **rapid deployment into a high-quality yet diversified deal pipeline**.



# How are Private Credit Funds usually structured?

Private credit funds are often set up as limited partnerships. The Limited Partners ("LPs") are investors committing capital to the fund. The General Partner ("GP") is usually the fund manager.

As the names suggest, LPs have limited liability whereas the GPs have unlimited liability.

## Things to be mindful of when investing in a private debt fund:

### 01. Close ended vs. Evergreen Structures

Private credit funds are often managed as closed-end funds, i.e. there is limited liquidity. The reason for this is that fund managers usually deploy their capital over a set time horizon. These investments were therefore viewed as illiquid & long-term in nature.

Recently, few private credit funds have launched **evergreen** structures – these are **open-ended & semi-liquid**. Evergreen funds provide more **flexibility** than closed-end funds because there is no lock-in period, allowing investors to periodically redeem units. This makes them ideal for investments by individuals & family offices.

Speak to our advisors to know more about quality names in **evergreen funds**.



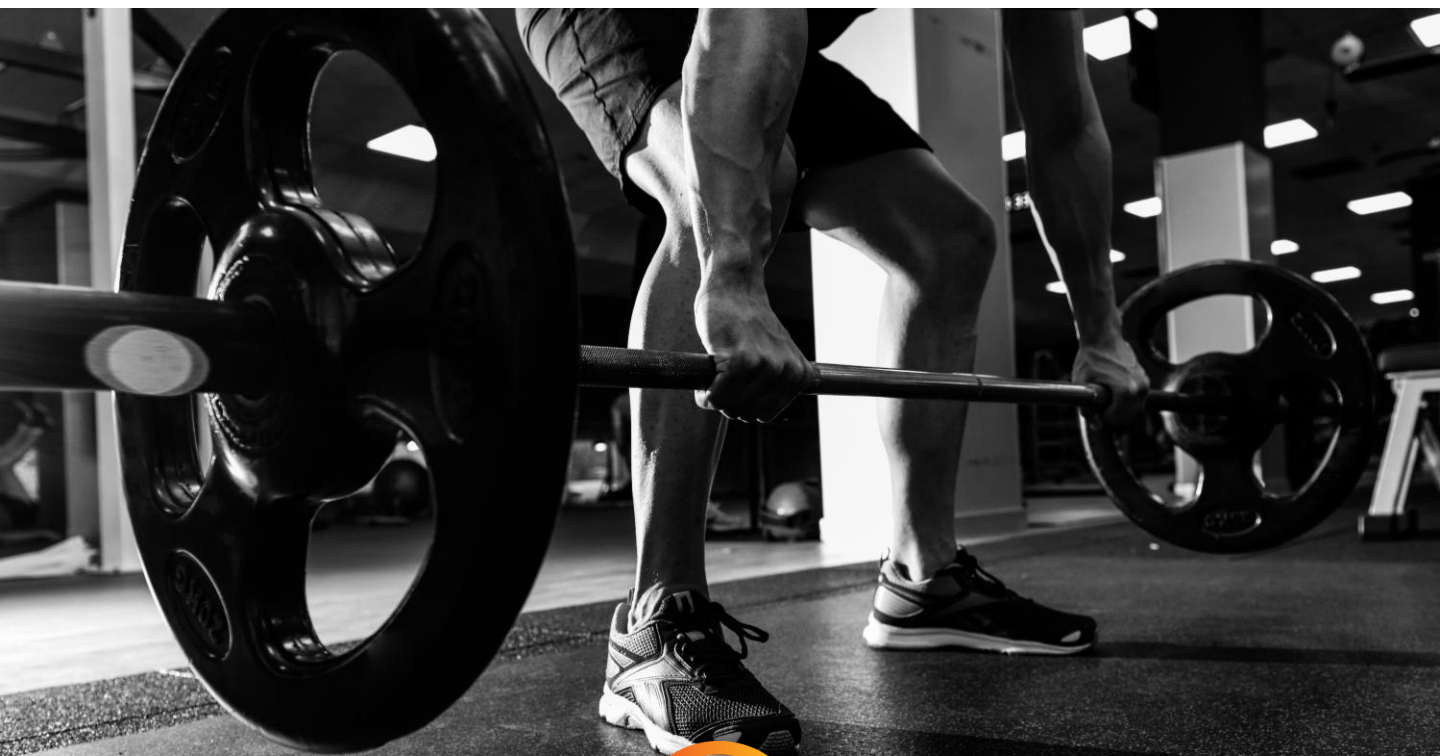
## 02. Dry powder

This refers to the uncalled capital that investors have committed to a fund but the fund manager hasn't yet drawn down for investment purposes. In simple terms, it refers to the undeployed capital commitments. When capital is waiting to be invested for long periods, this put pressure on future returns. As the private debt industry sees massive demand, dry powder within funds is on the rise.

Speak to our advisors to know more about funds that are deploying capital successfully, in high-quality & diverse companies

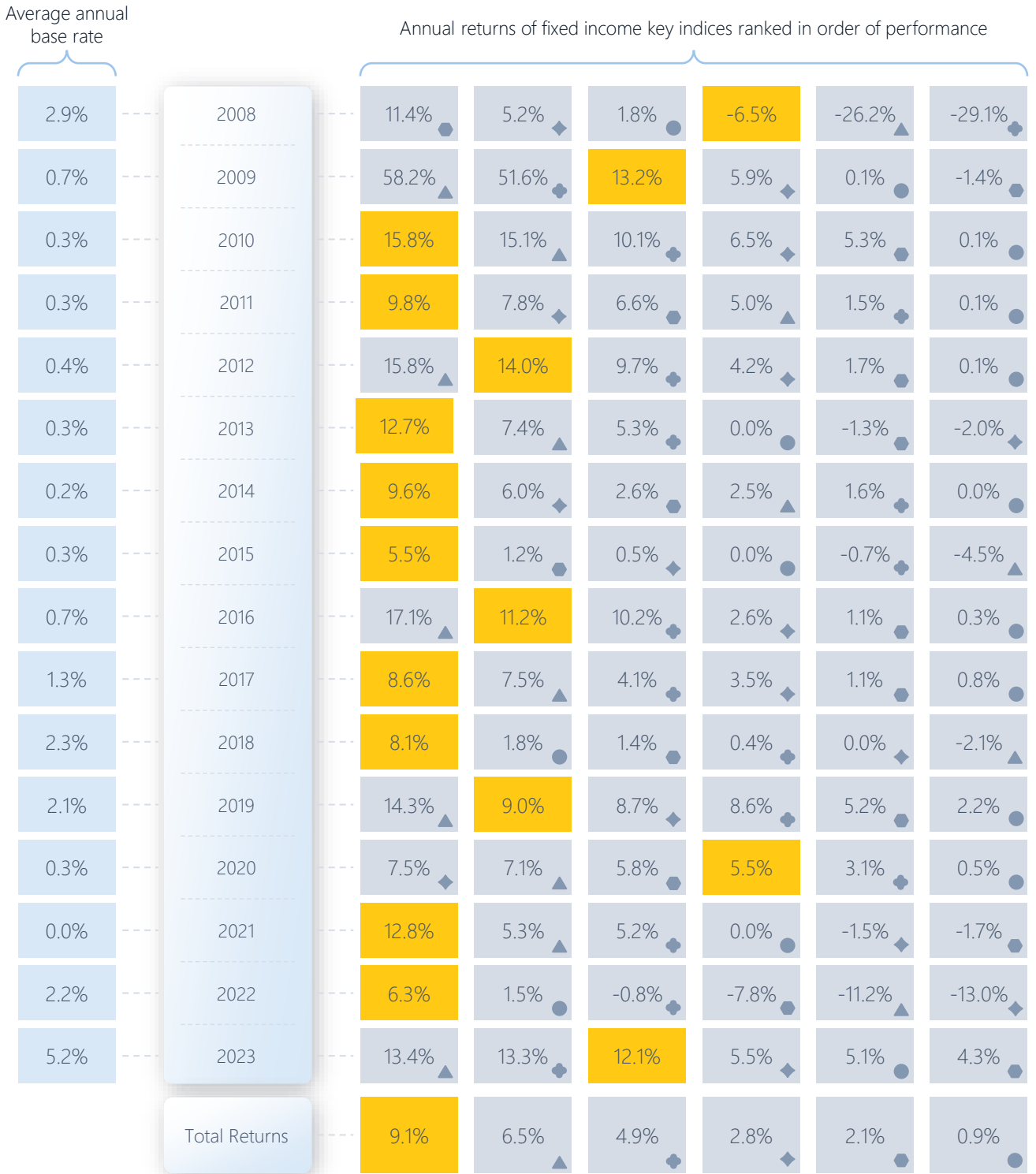
## 03. Carry in the fee structure

Private debt funds typically charge a combination of management and performance fees. The performance fee, usually referred to as "carry" is a percentage (typically 10-20%) of the profits generated by the fund, which is charged only if the performance crosses a hurdle rate.



# Track Record of Private Credit Funds

Private Credit has shown a history of outperformance across market cycles



■ Private Credit    
 ◆ Treasuries    
 ◆ Investment Grade bonds    
 ● 1-3 Month T-Bill    
 ▲ High Yield    
 ◆ Leveraged Loans

Source: Blackstone, dated 31-Dec-2023

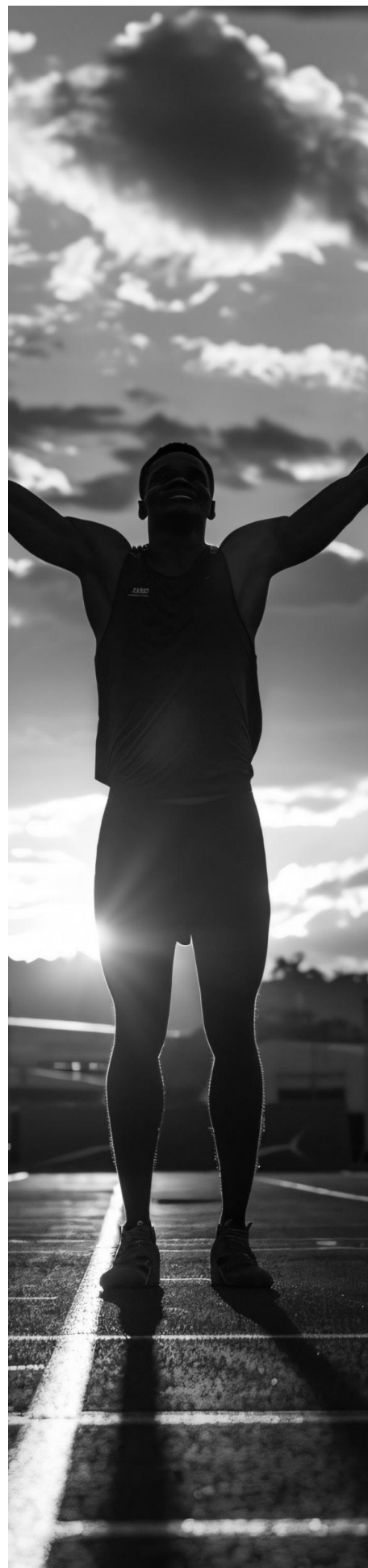


# Trends in Private Credit

The borrowers have traditionally been small to mid-sized private companies. However recent trends suggest that **larger companies** are increasingly looking at the private credit. The average **ticket sizes** too are, in some cases going up to USD 5 billion & upwards.

The deal terms for a private credit transaction typically have provisions meant to offer protection for lenders (e.g. maintaining thresholds for liquidity and leverage). As the private credit market evolves, these **covenants** are getting more and more sophisticated.

According to EY, private credit funds deployed US\$333.4 billion in new capital in 2023, a substantial increase from US\$203 billion in 2022. Continuing on this trend of assets and deployment volumes growing steadily, **corporate lending** is expected to continue to have about 58% of AUM. Within the balance, about 40% of strategies are in asset-backed lending, real estate credit and infrastructure credit.



# Selecting The Right Fund:

Investing in private credit assets requires strong analysis of not only the loan strategies and the covenants governing the loans, but also a proper due diligence on the manager itself.

At Jupiter Wealth Advisors, we follow a [disciplined due diligence process](#) when selecting a private debt fund. This includes:

- Detailed risk & return analysis of the investment strategy
- Thorough due diligence on the fund manager, its depth of expertise & track record
- Understanding & reviewing the deal structuring process, including clarity on exit strategies
- Reviewing the Fee structure
- Review and approval by our Investment committee
- Ongoing monitoring

[Speak to Jupiter advisors to know more about our recommendations in private credit.](#)

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