

# Private Credit – Seeing the Wood for the Trees



April 2026



## Executive summary

This paper is designed to assist Australian investors and financial advisers in articulating the role of secured private credit in portfolios during a period of elevated macroeconomic volatility. In the current environment, the central portfolio construction question is not whether credit stress increases, but whether lender protections—including seniority, asset security, covenant strength and conservative leverage—can convert uncertainty into more durable capital and income outcomes.

### Key takeaways

- **Macro backdrop:** Geopolitical escalation and energy-price instability increase the risk of renewed inflation pressure and higher-for-longer rates, with flow-on effects to confidence, capex and credit conditions.
- **Base case credit view:** Defaults are expected to rise from 2025 levels, but (given available indicators) remain within historical ranges rather than implying a GFC-style systemic event. In this setting, structure matters more than forecasts.
- **Australia remains relatively well placed:** Australian private credit deals typically exhibit tighter documentation and, in many cases, more conservative leverage metrics versus offshore equivalents, supporting lower loss severity for senior secured lending.
- **Private credit portfolio role:** Best framed as a defensive income allocation for suitable clients—aiming to deliver income above traditional investment grade fixed income, with a focus on capital preservation through security and covenants. It is not a cash substitute.
- **Liquidity is the headline risk to manage:** Recent offshore redemption pressures underscore the importance of aligning liquidity needs with the investor. While limits are required to protect the majority of investors, those that understand the benefits of private markets and illiquidity premia are at an advantage through the cycle.
- **“Default” ≠ “loss”:** Tighter covenants can trigger earlier remediation through renegotiation, additional security, amortisation and/ or enforcement before enterprise value erodes. While this may increase reported/ technical defaults, it could also enhance investor outcomes.

### Practical implications for advisers and wealth managers

- **Client fit and time horizon:** Position private credit for clients who can tolerate limited liquidity and who prioritise income stability over daily price visibility.
- **Vehicle structure and liquidity terms:** Assess withdrawal rights, notice periods, gates or suspensions, side pockets (where applicable) and how these mechanisms operate during periods of market stress. They are designed to protect remaining investors from forced sell downs and capital destruction.

- **Underwriting and protections:** Focus on seniority within the capital structure, robustness of the security package, covenant design and headroom, sponsor alignment and the lender's capacity to intervene early.
- **Leverage and serviceability:** Favour conservative loan-to-value ratios and strong interest coverage metrics, supported by cashflow assumptions that account for higher costs and softer demand conditions.
- **Sector risk:** Monitor exposure to sectors more sensitive to input-cost inflation and demand volatility, such as construction, retail and hospitality, and assess how risks are mitigated through diversification and concentration limits.
- **Valuation and reporting:** Understand valuation methodologies, frequency of repricing and the degree of independent oversight, particularly for retail-oriented strategies.
- **Portfolio construction:** Consider appropriate sizing within the defensive or income allocation, interactions with fixed income duration exposure and diversification across managers and vintages where relevant.

### Suggested client-ready framing (in plain English)

- Q What is private credit?
- A Private credit involves lending to businesses outside the public bond market, usually with tailored terms and security over assets.
- Q Why private credit is relevant now?
- A In an uncertain market, we're prioritising reliable income and built in protections, rather than relying on market prices remaining stable.
- Q What is the main trade-off?
- A Higher income typically comes with reduced liquidity. This is due to the assets being valued in line with the loan maturity, backed by predictable cash flows and not traded on a secondary market or exchange. The media, momentum and market sentiment have no day-to-day impact on pricing. The key is matching the investment's access terms to your time horizon.
- Q How is risk managed?
- A Loans are structured to be senior (ranking above equities and other lenders) and secured (against assets), with conservative borrowing levels and covenants that allow lenders to step in early if loan performance weakens.
- Q What are the benefits of the private credit provider structuring the loan i.e. controlling the lend?
- A Controlling the loan means the private credit manager is sifting, structuring and actively managing the loans in the portfolio. The advantages are that they have greater control over the:
- quality of the borrower they partner with
  - terms and covenants they structure into the loan
  - monitoring of the health of the loan over its life, allowing early intervention when needed.

The benefit to investors is greater capital protections and for the borrower it means tailored lending that better supports their growth journey.

*Note:* This paper is general in nature and is intended to support adviser research and client discussions. Any portfolio use of private credit should be assessed against client objectives, risk tolerance, liquidity needs and product disclosure, noting ongoing regulatory focus on valuation, transparency and liquidity management in private markets.

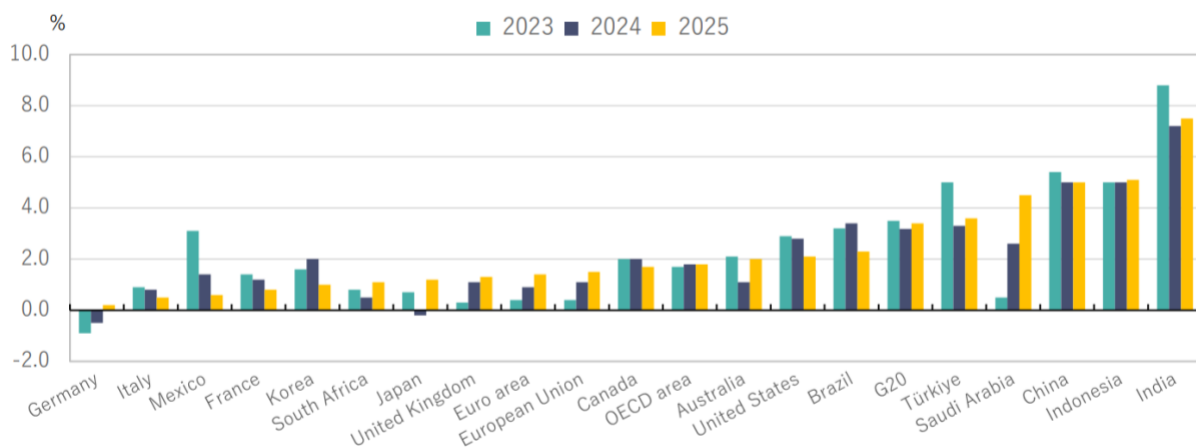
# Private Credit: Seeing the Wood for the Trees

How does one make sense of a fast-changing world – politically, economically and financially – when the old order is giving way to a new paradigm? This paper offers a practical toolkit for understanding the structural shifts underway. More importantly, it sets out the key risks and opportunities created by this transition, specifically for private credit.

## 1. The 35,000 foot view

**Figure 1. Gross Domestic Product (Annual growth)**

Percentage change on the previous year



Source: OECD (2026). G20 GDP Growth. Statistics News Release.

By December 2025, the ground under nation states was shifting quickly:

- a move from a hegemon-led to a multipolar world;
- contained interventions to open-ended conflicts (Ukraine);
- a disorderly energy transition (renewables, then back to fossil fuels);
- concentrated trade relationships giving way to rapid diversification; and
- a turn from quantitative easing to renewed monetary and fiscal discipline.

After decades of low rates and rising asset values, yield curves re-steepened and valuations reset. The constant was change.

By late February 2026, escalation in the Middle East reasserted the link between geopolitics and economics and challenged the post-GFC quantitative easing playbook. It also inducted highly volatile transmission mechanisms:

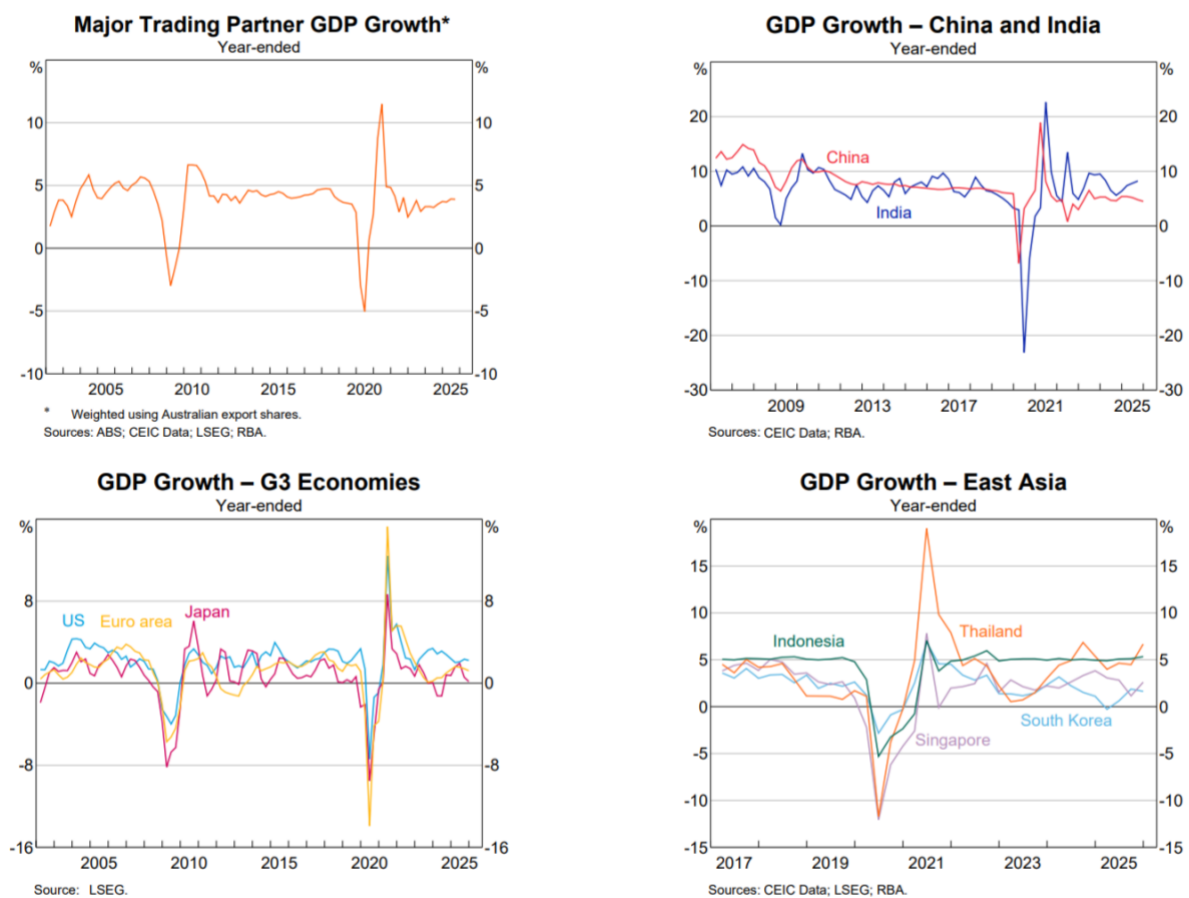
- energy security concerns;
- higher oil and LNG prices;
- disruption to petrochemical supply chains;
- renewed inflation pressure; and
- the prospect of higher rates alongside greater downside risk to growth.

## 2. Direction of travel, long term tailwinds vs short term headwinds.

There is broad agreement on the long-term direction of travel among macro economists. What has become harder is short-to-medium-term scenario planning, reflected in frequent revisions from S&P, Moody's and other risk calibration institutions.

- Australia's major trading partners broadly tracked expected growth paths into 2025. Over the long run, growth momentum remains concentrated in China, India and South-East Asia.

**Figure 2. World Economy**



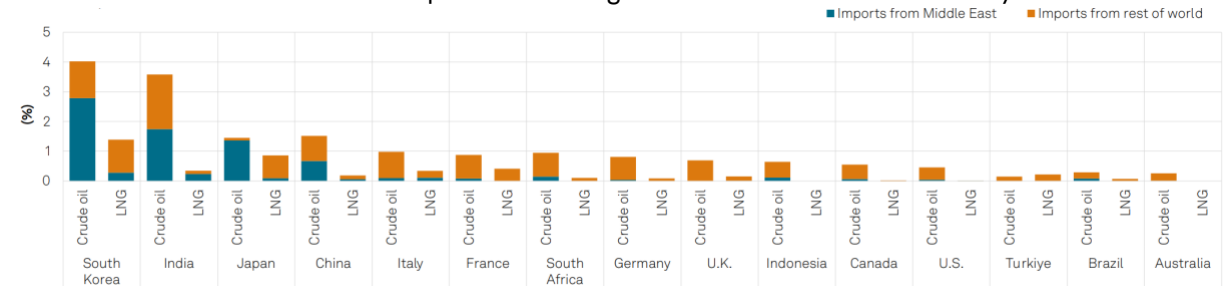
- US and Western European capital markets remain deeper and more mature. APAC markets continue to scale, supported by middle-class growth, urbanisation and a large infrastructure build requirement (which is estimated at US\$26 trillion through to 2030<sup>1</sup>). However, since February 2026, many APAC economies face short-term headwinds from energy import dependence, with higher energy prices feeding into inflation and weaker growth.

<sup>1</sup> Asian Development Bank "Meeting Asia's Infrastructure Needs" (p9) (<https://ppp.worldbank.org/sites/default/files/2022-03/special-report-infrastructure.pdf>)

Australia is less vulnerable than many Asian peers but remains exposed to near-term (3–12 month) supply shocks. These can dent confidence, leading households and businesses to pull back on discretionary spending and capex.

**Figure 3. Gross imports as a share of GDP**

The share of crude oil and LNG imports in the largest economies differs materially



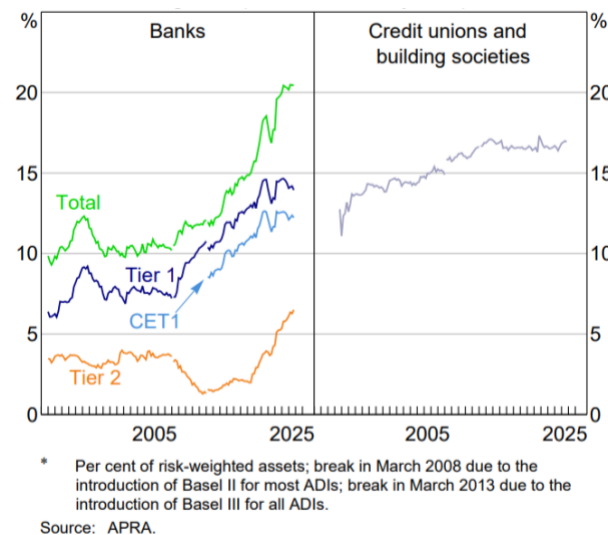
Sources: S&P Global Market Intelligence, CEIC.

Source: S&P Global Ratings – Global Credit Conditions (Q2 2026)

- The rotation of capital from public to private markets continues, despite short-term setbacks such as slower private equity exits, private debt liquidity concerns and a more difficult venture capital environment.
- The financial system, particularly the banking system, is in stronger health than in 2008, reducing the risk of broad contagion. In Australia, bank capital ratios remain sound.

**Figure 4. Capital Ratios\***

Consolidated global operations of locally incorporated ADIs

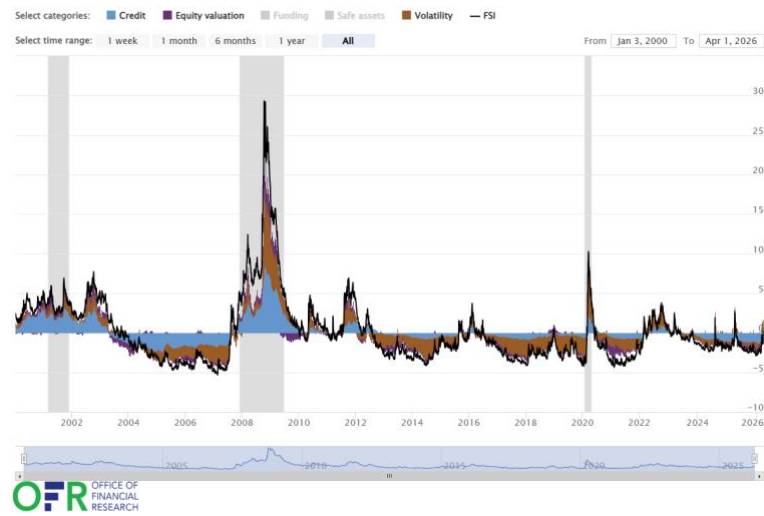


Source: RBA – The Australian Economy and Financial Markets (March 2026)

- Global credit markets held up through the third week of February 2026 (OFR; S&P/Moody’s). US default indicators were marginally above our referenced base-case projections, while Europe tracked below the base case we outlined in our 2025 private credit outlook paper (available [here](#)). Worst-case forecasts for December 2026 remain below our prior worst-case assumptions. However, the impact grade of the current geopolitical situation is off the grid, meaning the risk transmission through supply

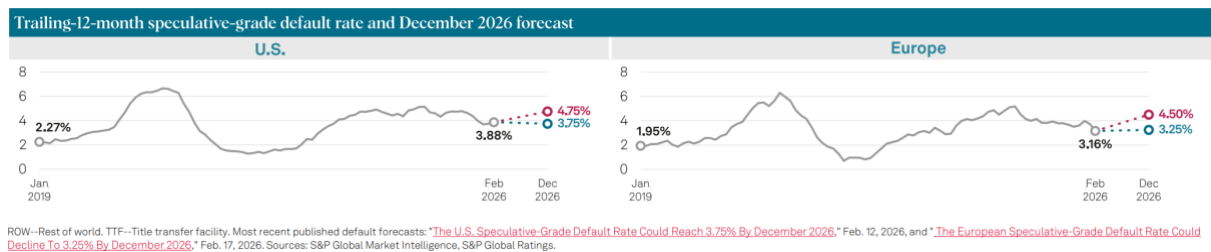
chains and price shocks may translate into worst case limits being reset at a higher level.

**Figure 5. Office of Financial Research – FSI Indicator**



Source: Office of Financial Research (April 2026)

**Figure 6. Credit Defaults for B-Rated Corporates in the US & Europe**

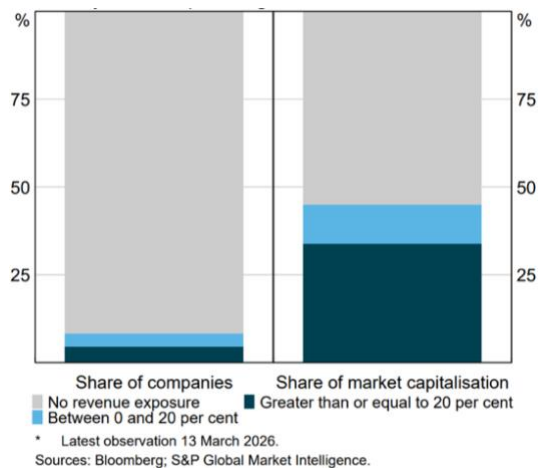


Source: S&P Global Ratings – Global Credit Conditions (Q2 2026)

- AI and technology disruption will have broad, long-term implications for business models across sectors. SaaS is an early test case. This topic warrants deeper analysis and is not addressed in this paper. For now, Privity has zero SaaS exposure.

**Figure 7. S&P 500 Exposure to AI\***

By estimated percentage of revenue related to AI



Source: RBA – Financial Stability Review (March 2026)

- In the near term, two developments are worth watching:
  - (a) A flight to quality—financial assets flight to safety is emerging as investors globally pull US\$2bn a week from junk bonds and US\$887m from syndicated leverage loans, while pouring US\$5.2bn into investment grade bonds.<sup>2</sup> ; and
  - (b) Disruptions to petrochemical by-products such as naphtha (key inputs for products ranging from fertilisers to plastics) are signalling stress, with tighter supply, rising prices and, in some cases, halted production.

The severity of both is closely linked to the duration of the Middle East conflict and any sustained disruption to shipping through the Strait of Hormuz.

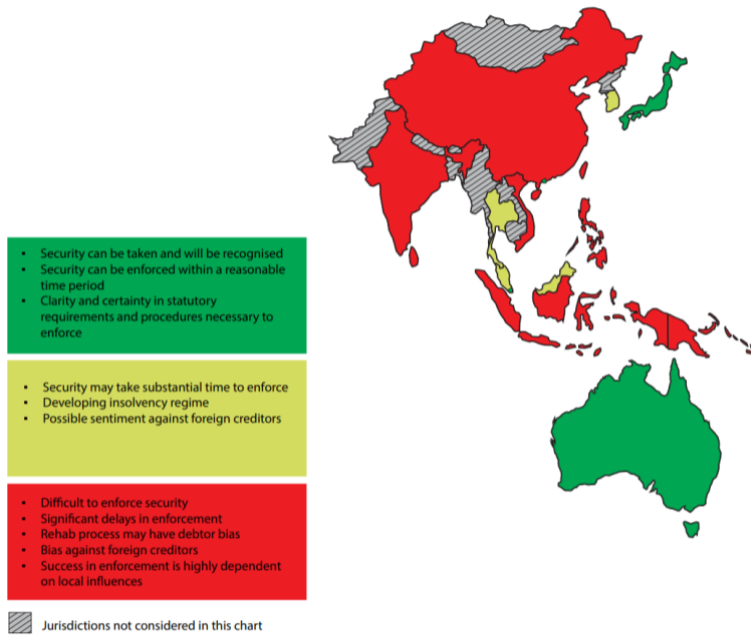
- As asset valuations normalise over the long term, we expect investors to place greater value on the structural features of secured private credit i.e. seniority and direct recourse to enterprise cashflows and assets.
- Over time, credit funding is likely to see the continuing gradual erosion of bank dominance and the rise of multiple funding options across banks, private credit, insurers and wealth platforms. We expect more collaborative models between capital providers and originators.
- The RBA’s March 2026 Financial Stability Review highlights several potential sources of volatility for Australian markets: divergence in global monetary policy, increased sovereign issuance at shorter maturities, leveraged hedge funds increasing exposure to government bonds, and marked escalation in Middle East tensions.<sup>3</sup>
- Private credit regulation remains less harmonised globally than bank regulation. We expect near-term regulatory attention to focus on retail investor protections, including liquidity, valuation, disclosure and governance. Within APAC, Australia remains an

<sup>2</sup> Chan, M., Platt, E. (3 April 2026), Credit investors flee to safety, pulling nearly \$14bn from junk bonds this year, Financial Times. <https://www.ft.com/content/45c12697-4d59-4027-80b7-b0c565020d43>.

<sup>3</sup> Reserve Bank of Australia (March 2026), Financial Stability Review. <https://www.rba.gov.au/publications/fsr/2026/mar/pdf/financial-stability-review-2026-03.pdf>.

attractive lending market and is at the forefront of the transparency and governance debate.

**Figure 8. Levels of enforcement certainty across key APAC jurisdictions**



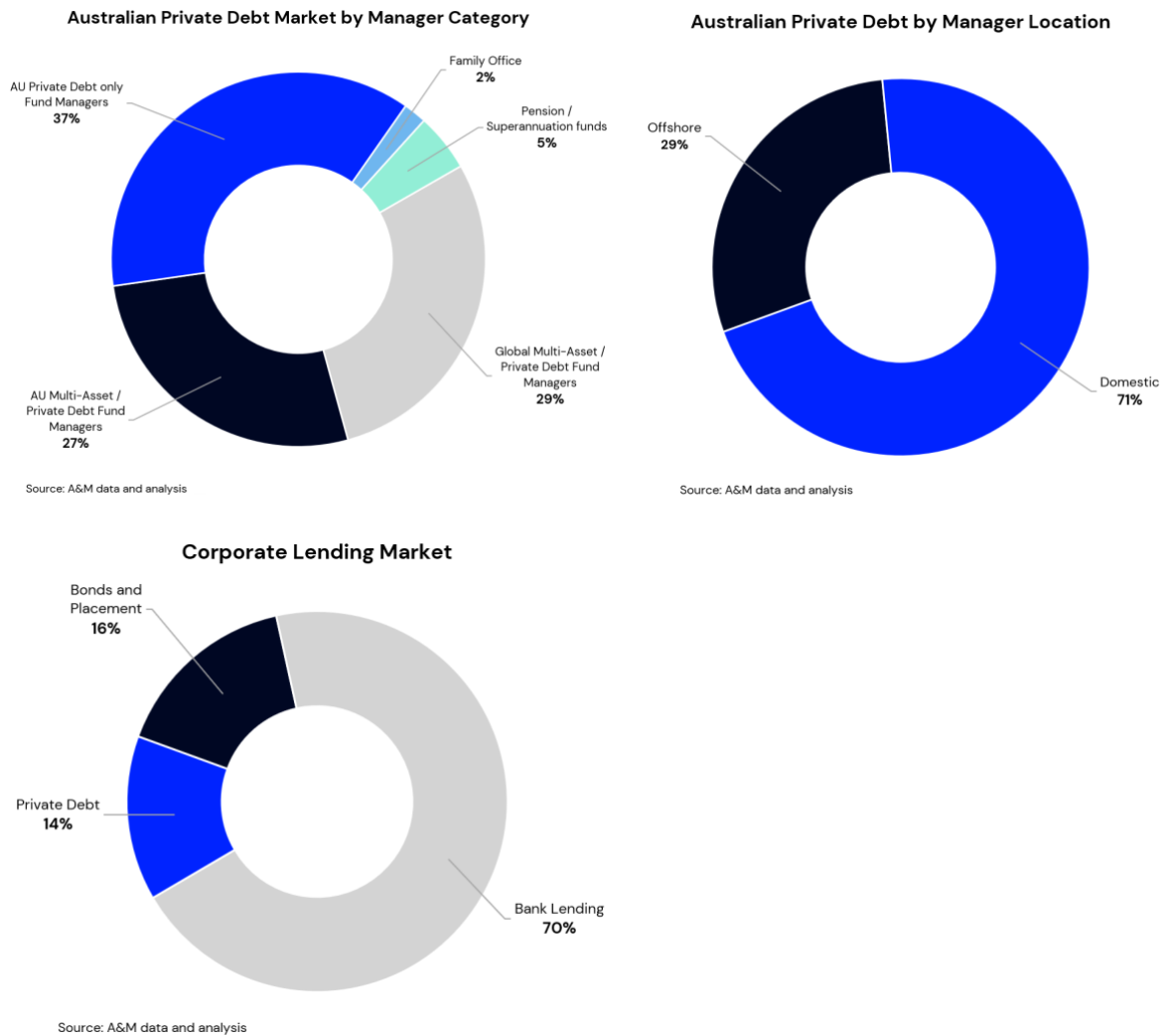
Source: ACC, Broadridge, EY, Simmons & Simmons (2025)

### 3. Trends for private credit in Australia in 2026.

- **Private credit continues to cement its role in Australia’s lending ecosystem.** According to Alvarez & Marsal<sup>4</sup>, private credit AUM in 2025 was around A\$224b. Of this, around A\$132bn (or ~14%) was allocated to corporate and business-related lending.

<sup>4</sup> Alvarez & Marsal “Australian Private Debt Review 2025” ([https://www.alvarezandmarsal.com/sites/default/files/2025-11/A%26M%20Australian%20Private%20Debt%20Report%202025\\_0.pdf](https://www.alvarezandmarsal.com/sites/default/files/2025-11/A%26M%20Australian%20Private%20Debt%20Report%202025_0.pdf))

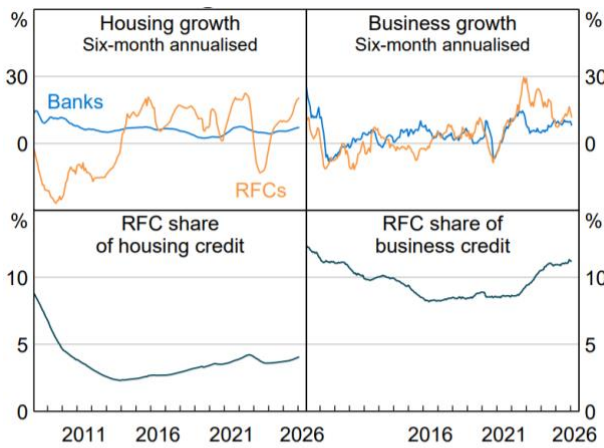
**Figure 9. Australian Private Debt Market**



Source: Alvarez & Marsal – Australian Private Debt Market Review 2025

RBA reporting indicates that growth in non-bank lending (business and housing) remained strong to February 2026 (Figure 10). Funding conditions tightened somewhat in March 2026 as market volatility rose following conflict escalation in the Middle East. Private credit continued to grow from a small base, representing less than 2% of total financial system assets.

**Figure 10. Housing and Business Credit\***

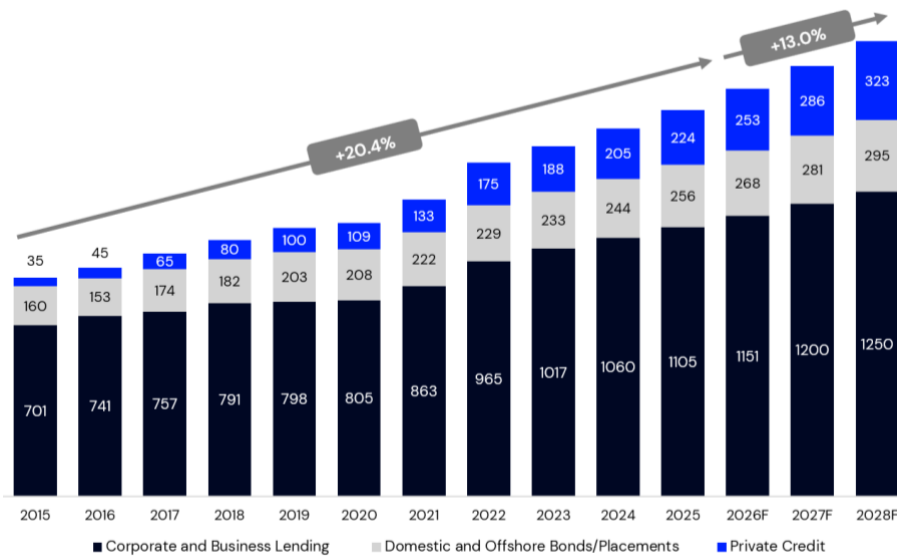


\* The Registered Financial Corporations (RFCs) series includes non-bank lenders with more than \$50 million in assets (including lenders consolidated within banking groups), and does not include superannuation funds or insurers. Earliest observation January 2008. Latest observation January 2026.  
Sources: APRA; RBA.

Source: RBA – Financial Stability Review (March 2026)

Against the long-term structural drivers we discussed in our 2025 outlook, we expect private credit to maintain a strong growth trajectory. Within that, private credit lending to Australian mid-cap corporates is growing at even a faster rate of 30%+.

**Figure 11. Corporate and Business Lending vs Bonds vs Private Debt (A\$bn)**



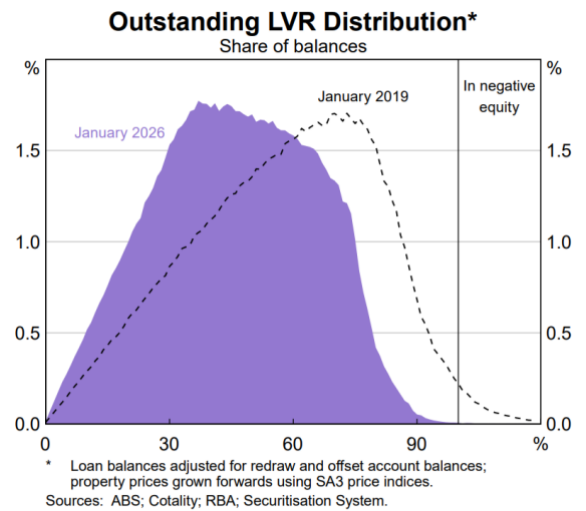
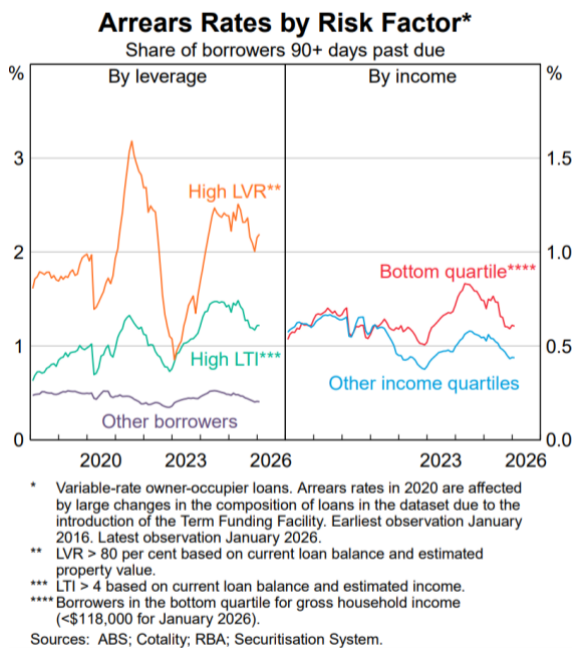
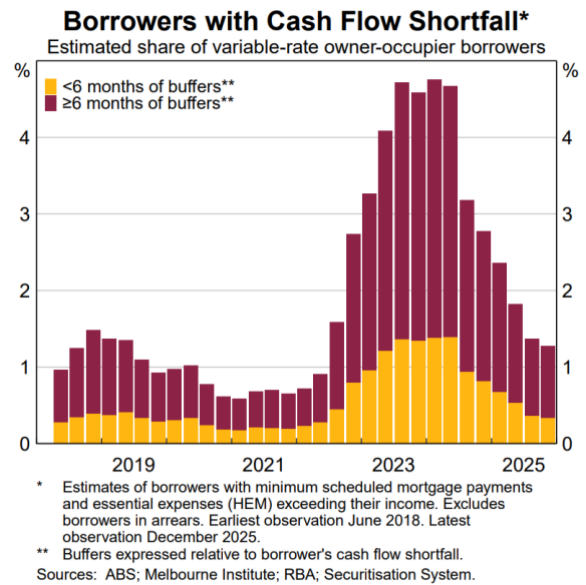
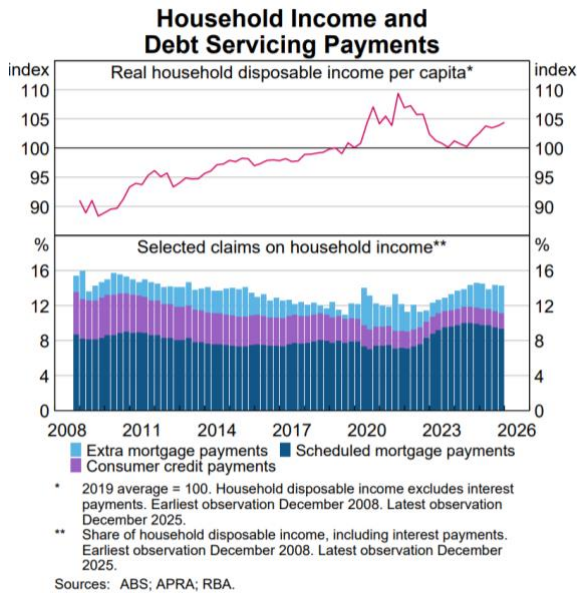
Source: A&M data and analysis, APRA, ABS and Prequin and Blackrock Forecast Global Growth

Source: Alvarez & Marsal – Australian Private Debt Market Review 2025

- **The credit core remains stable, but stress is emerging in selected sectors as costs rise and demand softens.**

The RBA's March 2026 Financial Stability Review<sup>5</sup> notes that the financial position of most Australian households remained sound through February 2026, with cashflows improving as earlier cash-rate reductions flowed through to mortgage payments. However, lower-income households (many of whom rent) are more likely to experience stress. Personal loan arrears have held around pre-pandemic levels.

Figure 12. Australian Households



Source: RBA – Financial Stability Review (March 2026)

That resilience could be tested if inflation expectations re-accelerate and rates rise in response to worsening Middle East tensions. The risk is most acute in sectors exposed

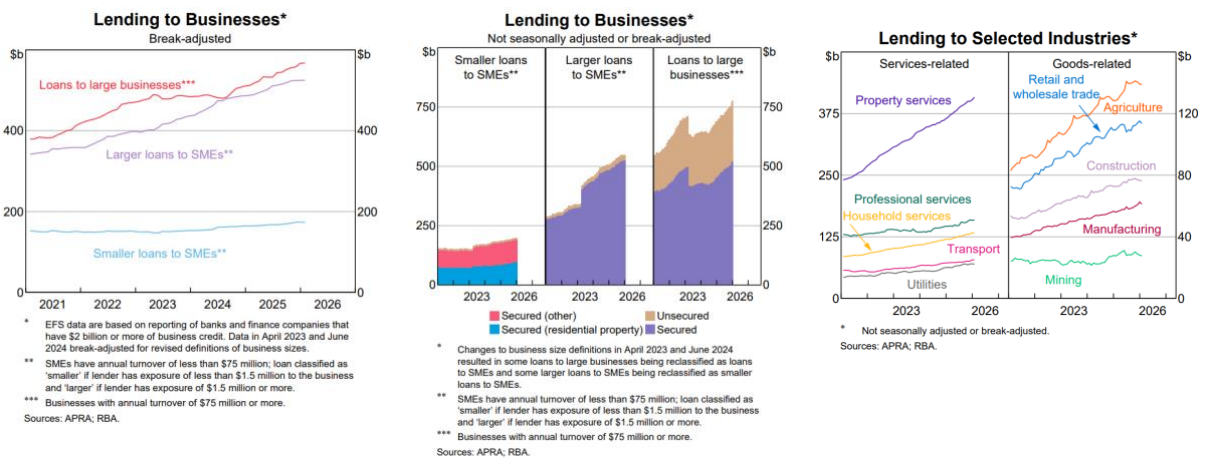
<sup>5</sup> Reserve Bank of Australia “Financial Stability Review” (18 March 2026) (<https://www.rba.gov.au/publications/fsr/2026/mar/financial-stability-assessment.html>)

to discretionary spending such as hospitality and retail where weaker confidence and tighter budgets can pressure business cashflows. We also expect lenders (banks and private credit) to tighten both credit quantum and deal structure.

Despite pockets of weakness, S&P and Moody's are not forecasting a GFC-style crisis across OECD markets (including Australia) or a broad-based dislocation in consumer or business credit. We agree with the assessment and expect overall credit defaults in 2026 to climb over 2025 levels, but stay contained within the long term default curve.

On the business side, bank balance sheet data suggests Australian credit provision has not yet shown a knee-jerk contraction in response to the evolving macro and Middle East developments.

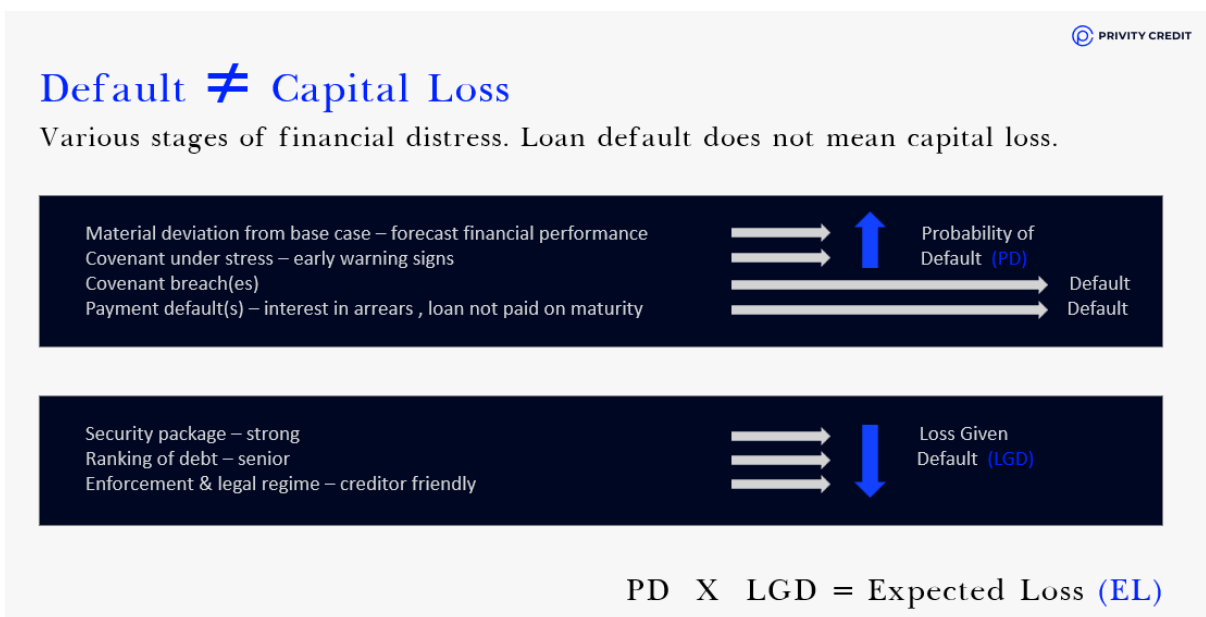
**Figure 13. Lending in Business Sector**



Source: RBA The Australian Economy and Financial Markets (March 2026)

- **Rising defaults do not automatically translate into realised losses.**

**Figure 14. Default ≠ Capital Loss**



Source: Privity Credit

Two features of mid-market private credit are important:

- (i) Mid-cap lending deals typically include more (and tighter) covenants than large-cap deals, whether in the private syndicated loan market or in public bond issuance. While these tighter covenants and lower headroom for mid-cap companies reflect stronger loan structure, they can also lead to a higher incidence of technical defaults but do not always indicate erosion in the underlying business value or financial strength.
- (ii) On a limited sample, Australian deals often show lower loan-to-value ratios (LVRs) and higher interest coverage than comparable US and European deals thereby supporting a lower probability of default and stronger recoveries, particularly for senior secured exposures.

This distinction matters given recent adverse coverage of private credit in parts of the Northern Hemisphere (e.g., First Brand, Tri-Color and MFS in the UK). These high-profile cases reinforce the need for rigorous due diligence across bank and non-bank lending, including scrutiny of multiple borrowing arrangements over the same security. In Australia, cases such as First Guardian and Shield have prompted a broader ASIC review to specially protect retail investors pointing to closer monitoring and stronger governance expectations.

Given limited private market default data, we use bank business non-performing loans (NPLs) as a proxy. The RBA reported in March 2026 that business NPLs have risen over the past three years, but remain well below GFC peaks.

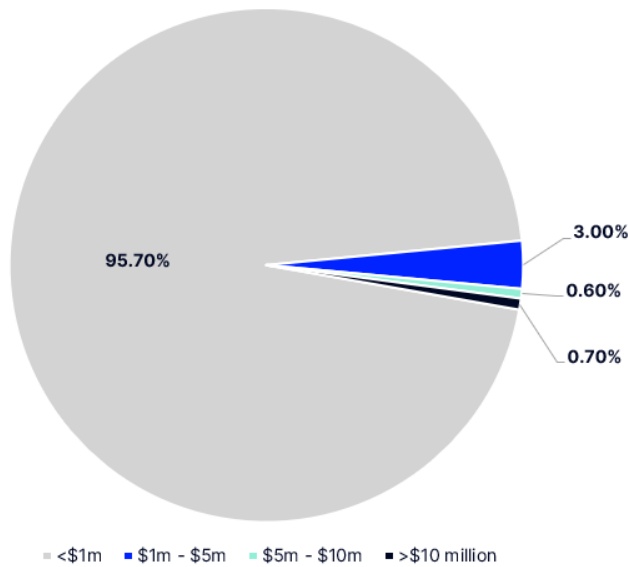
Company insolvencies as a share of operating companies have stabilised over the past year around the long-run average. More than 90% of insolvencies (by count) remain in the micro segment (loans up to \$1m).

**Figure 15. Australian Insolvencies by Year**



Source: ASIC Australian Insolvency Statistics (April 2026) – First time a company enters external administration or has a controller appointed

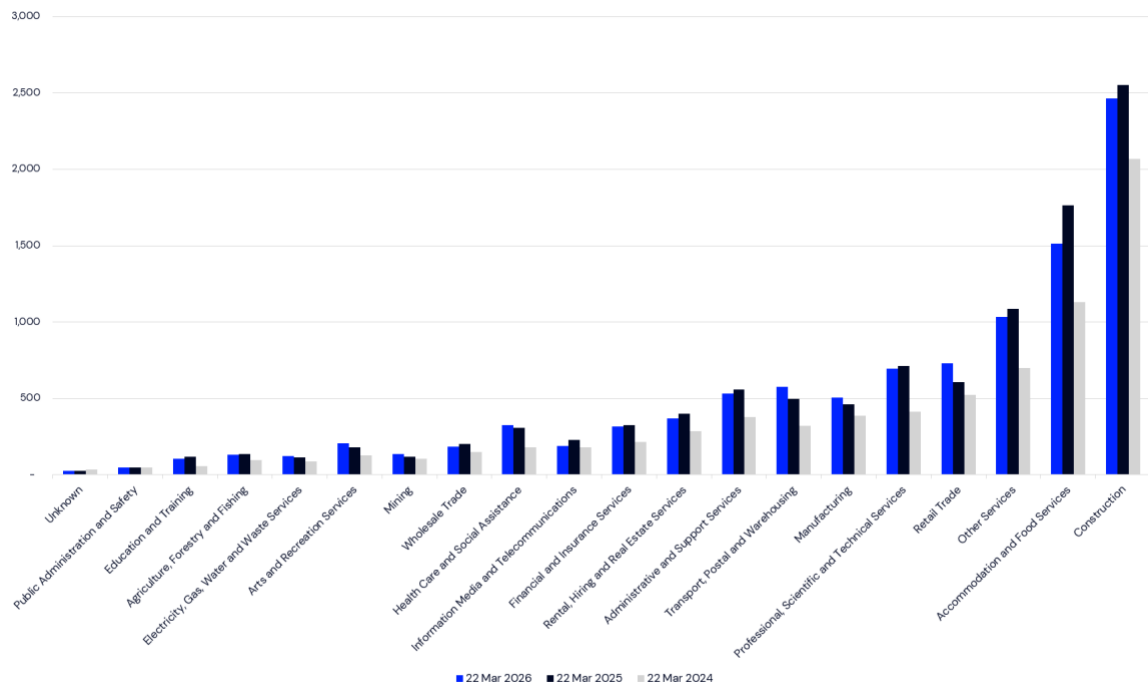
**Figure 16. Australian Insolvencies by Business Size**



Source: ASIC Australian Insolvency Statistics (October 2025) – First time a company enters external administration or has a controller appointed

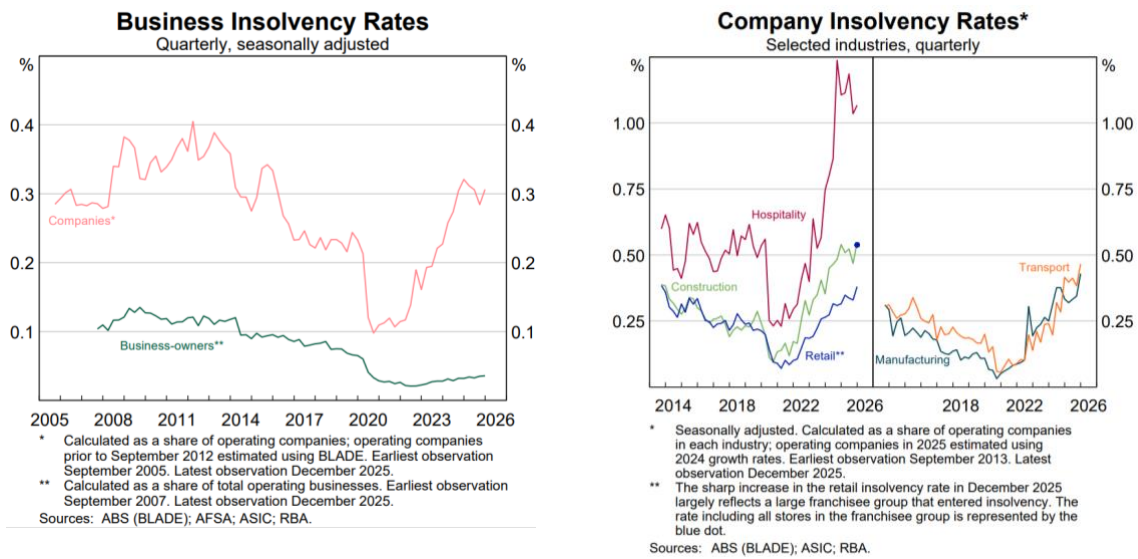
Insolvencies remain elevated in construction, retail, hospitality and parts of manufacturing, reflecting ongoing wage and input cost pressures. The ATO accelerated debt collection through 2024–25 but indicated in March 2026 that it may soften its stance given emerging external shocks from the Middle East developments.

**Figure 17. Australian Insolvencies by Sector**



Source: ASIC Australian Insolvency Statistics (April 2026) – First time a company enters external administration or has a controller appointed

**Figure 18. Australian Businesses**



Source: RBA – Financial Stability Review (March 2026)

- **Liquidity story could spill over and deepen credit trough**

Redemptions in US private credit vehicles managed by Blue Owl, KKR, BlackRock and Ares have drawn a lot of press attention. The initial trigger among private credit players in general in the US was concern that AI-driven efficiency gains could pressure some SaaS business models, increasing risk in portfolios with higher SaaS exposure (often via Business Development Companies, or BDCs). Because BDC loan holdings are largely illiquid and typically held to maturity, managers can meet redemptions only up to available cash or secondary liquidity, based on their product features. Most vehicles therefore include structural ‘brakes’ to protect all investors from a “run” where redemption requests overwhelm the fund.

As managers in the US attempted to manage liquidity, sector-specific concerns broadened into a more generalised risk narrative and accelerating redemption momentum. Rating agencies and other risk platforms broadly assess that, aside from the incremental geopolitical risks, underlying credit fundamentals remain intact.

Some commentators are drawing parallels with the GFC in terms of shock transmission, where questions about asset quality can morph into a liquidity event. The key distinction is that today’s issue is concentrated in specific vehicles and liquidity structures, rather than being system-wide across bank balance sheets.

- **Technology implications for private credit**

Current commentary on AI’s impact on SaaS businesses has skewed negative, with concerns that large models and platforms may lower barriers to entry and compress pricing power. In this context, lending frameworks for SaaS exposures will

need to evolve to reflect changing revenue visibility, margin dynamics and competitive intensity.

We take a broader perspective, assessing the consumers of SaaS products. We expect significant infiltration of AI's various use cases within the operating models of businesses across sectors. This is expected to increase the competitiveness of early adopters through lifting operational efficiency and lowering cost. However, the key is to put sufficient guard rails in place to mitigate model hallucinations, biases and rouge errors.

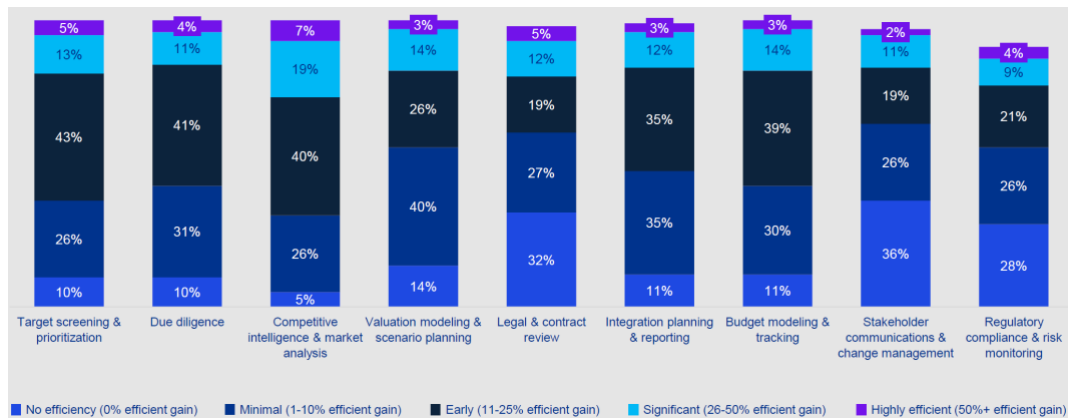
The implications for private credit **deals** are:

- Tech/AI and its application, adoption speed and related risk management is now becoming a standard due diligence point for businesses being assessed for lending.
- The overall transaction cost (legals *et al.*) is expected to decrease while execution speed increases as the market moves to system generated documents at external law firms.
- Portfolio companies' reporting periods could potentially shorten, with early adopters becoming more transparent about business and financial KPIs. Consequently, such borrowers may be able to command lower risk premium and better pricing.

The implications for the private credit **sector** are as follows:

- As businesses, private credit managers will need to drive process efficiency through inducting better tech/AI solutions. Amongst banks in general (including Australia), there has been bottom-up resistance to move at speed to introduce AI/streamlined processes. We expect private credit players to be different as most are not as constrained by historical and dated systems.
- The introduction of customised investor servicing models and reporting regimes.
- Increased focus on constantly updating the internal controls to protect against fraud enabled by tech/AI.

**Figure 19. Use and Effectiveness of AI Across the M&A Lifecycle**



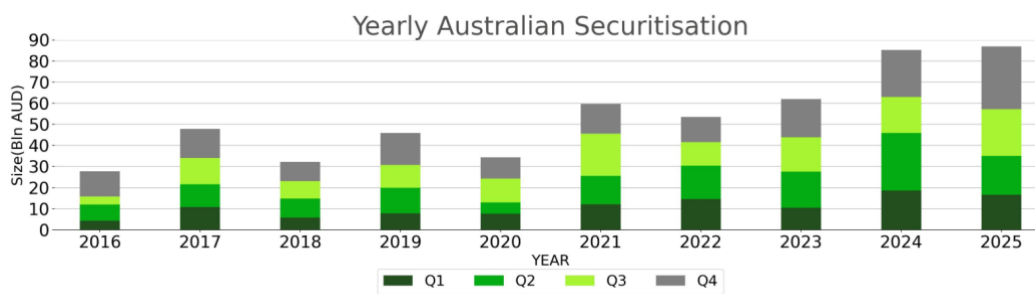
Source: KPMG – 2026 Global M&A Outlook

- **Market upheaval and volatility typically throw up opportunities as well.**

This can be seen in assets acquired during and following the GFC, as well as during the COVID-driven commodity boom, where pricing and performance were shaped by atypical market conditions.

It is no different within the private credit ecosystem. Australia has seen its securitisation market grow from A\$30+bn in 2000 to A\$80+bn in 2025, with growth expected to continue at 10%–15% p.a. over the next 3 years.

**Figure 20. Yearly Australian Securitisation**

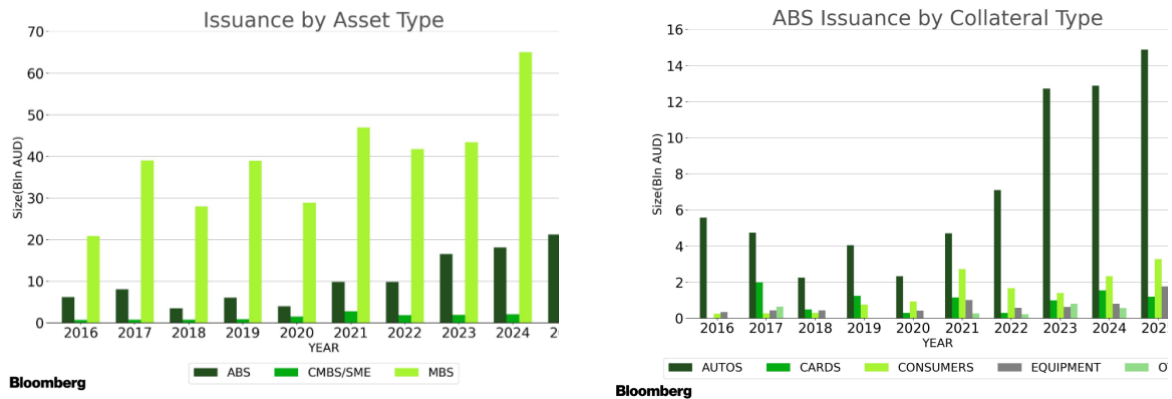


**Bloomberg**

Source: Australian Securitisation Forum – Market Statistics (January 2026)

Within the broader ABS (asset backed securities) market, we are particularly interested in early-stage lending structures (“warehouses”) that finance pools of loans backed by non-property assets such as cars, agricultural equipment (not farm property) and specialised machinery. This is one of the fastest growing segments of private credit, as shown in the figures below.

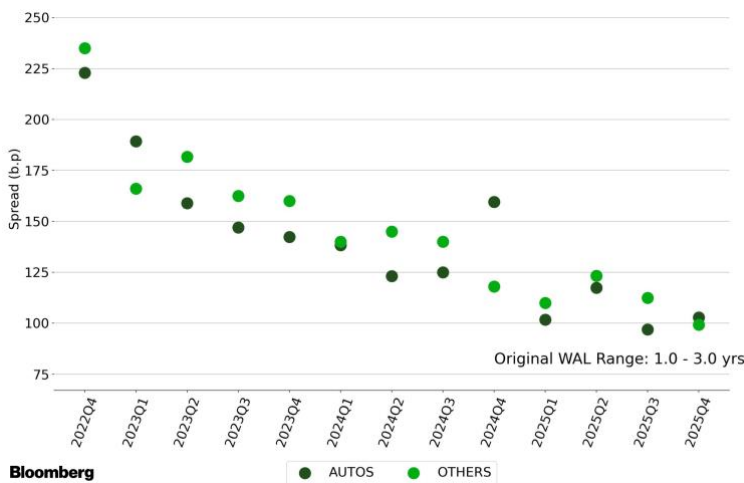
**Figure 21. Australian Securitised Issuance**



Source: Australian Securitisation Forum – Market Statistics (January 2026)

The larger end of the market has gone through considerable yield contraction over the last 2-3 years.

**Figure 22. ABS Senior Tranche Average Spread by Collateral Type**



Source: Australian Securitisation Forum – Market Statistics (January 2026)

However, the early stage and mid-size market (A\$50-A\$300m deal size) is offering attractive risk adjusted returns. We will be sharing more about this opportunity set in our updates and webinars later in the year.

- **Market dispersion among private credit players**

We maintain the view that a key driver of performance across private credit strategies is the through-the-cycle experience of the investment team. Managers with deep credit expertise and hands-on restructuring capability are better positioned to navigate periods of volatility and liquidity stress than newer entrants.

We expect this dynamic to drive ongoing consolidation within the asset management industry globally, including increased M&A activity. Recent examples, such as Nuveen’s

approach to Schrodgers and Trian's bid for Janus Henderson in 2025, point to a continuation of this trend.

Locally, the Australian market continues to benefit from a deep and active ecosystem, supporting both origination and capital deployment. Just as is the case offshore, we expect consolidation in the Australian market through M&A and alliances with international players.

## Conclusion.

The current geopolitical instability and economic environment has broad implications for private credit investors:

- Macro backdrop: expect more volatility and potential inflation re-acceleration; plan for higher-for-longer rates and tighter credit conditions.
- Base-case credit view: defaults may rise from 2025 but appear more consistent with historical ranges than a systemic crisis; individual deal structure matters more than macro forecasts.
- Australia vs offshore: many Australian deals exhibit tighter documentation and more conservative leverage metrics, supporting recoveries for senior secured lenders.
- Portfolio role: position secured private credit as a defensive income allocation for suitable clients and not a cash substitute.
- Liquidity is the key governance issue: match vehicle terms (notice periods, gates/suspensions, side pockets) to investment horizons and stress-test how liquidity is managed.
- "Default" ≠ "loss": covenant packages can trigger earlier intervention and improve outcomes; focus due diligence on underwriting discipline, documentation, valuation/reporting, and workout capability.

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