

# PRIVATE CREDIT: DATA, DISCIPLINE, AND DIVERSIFICATION

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Over the past week, media coverage surrounding private credit has intensified. Several articles and opinion pieces have suggested emerging liquidity concerns, excessive leverage in semi-liquid vehicles, growing payment-in-kind (PIK) exposure, valuation opacity, and heightened risk in software-related lending.

Recently, Cliffwater, LLC ("Cliffwater"), an independent manager with whom Omnia Family Wealth ("Omnia") works closely, informed us that *The New York Times* published an article, mentioning their fund and referring to a confidential hedge fund letter. The article asserts that private debt vehicles offered to the public may be contributing to a coming liquidity problem.

As institutional investors, Omnia has been investing in this landscape for many years. Rather than reacting to headlines, we chose to engage directly with the data. Over the last three days, I spent extensive time with the Cliffwater team reviewing portfolio construction, liquidity positioning, underwriting standards, sector exposures, and forward stress scenarios across our allocations, including the Cliffwater Corporate Lending Fund (CCLFX). These were detailed, transparent discussions grounded in portfolio analytics, not narratives.

## PRIVATE CREDIT AND OMNIA PORTFOLIOS

Before continuing, it is important for investors to understand private credit is a core part of our portfolios. It is a \$3 trillion market, and we believe it is the backbone of the US economy. We feel it would be detrimental to look at this large of an asset class as a niche investment, and try to time it. This market, just like others, works in cycles. Just like

equities, when risks are growing we plan to adjust our exposure; but, we do not plan to terminate our holdings completely. We can't time markets. History shows that can be a disastrous action to take. We do see spreads widen, which is normal at this stage of the cycle. Non-accruals are still below average, but **the biggest risk we see** is the growing narrative around the asset class, fueled by the media, that will bring small investors to **panic and run for the exit**. I want to remind the families we work with that risk management is an ongoing process and performed at the portfolio level. This allows us more flexibility in times of distress.

## WHAT WE SEE DOES NOT RESEMBLE DISTRESS

Newly originated loans continue to price at levels consistent with historical norms relative to base rates. In a genuinely stressed market, spreads widen meaningfully and repricing accelerates. That dynamic is not present. Instead, we are observing disciplined capital deployment. Private equity sponsors, particularly in technology, are transacting less frequently, largely because they are waiting for improved valuation clarity and more attractive equity terms. This reflects capital discipline rather than credit contraction.

Liquidity management has also been proactive, rather than reactive. CCLFX maintains revolvers and is expanding available facilities in anticipation of potential volatility. Available balance sheet liquidity represents approximately 20% of net asset value (NAV), roughly equivalent to a full year of historical redemption activity. Leverage remains modest at approximately 0.25% at the fund level, materially lower than traditional business development company (BDC) structures. December redemption requests were honored in full.

It is also important to emphasize the degree of diversification within CCLFX. The fund holds exposure across thousands of middle-market borrowers diversified by industry, sponsor, geography, capital structure, and vintage. Its composition closely tracks the Cliffwater Direct Lending Index (CDLI), effectively making it a broad representation of the private direct lending market. In practical terms, we are not assuming concentrated risk in a handful of issuers. We are participating in the market itself.

## THE DISTINCTION MATTERS, PARTICULARLY IN FIXED INCOME

When investing in credit, the maximum return is largely known at the time of underwriting. Unlike equity, there is no unlimited upside. You lend at a negotiated spread, collect coupons, and expect repayment at par. Because upside is capped, long-term performance is determined not by chasing incremental yield, but by minimizing loss frequency and severity. The primary risk is default; the primary tool is diversification. Broad exposure across hundreds of first-lien senior secured positions materially lowers the probability that isolated borrower challenges impair overall portfolio returns.

## RECENT EVENTS: WHAT ACTUALLY HAPPENED

### Blue Owl OBDC II

The recent attention surrounding Blue Owl's OBDC II provides an instructive example. Media coverage characterized the situation as a warning sign for private credit. Our assessment differs. We believe OBDC II's challenges stemmed from structural design: a legacy BDC 2.0 model, rather than underlying credit performance. The loan portfolio itself generated annualized returns generally in line with the CDLI. A recent secondary sale priced near net asset value, and institutional buyers, provided liquidity. In a distressed credit environment, such transactions would clear at deep discounts. They did not. We believe this was an orderly structural resolution, not a credit event.

### BlackRock TCPC<sup>1</sup>

Similarly, the BlackRock TCPC NAV decline -- driven primarily by six (6) concentrated positions with meaningful second-lien, equity exposure, and significant consumer risk -- is being framed by some commentators as evidence of systemic stress. Concentration, capital structure positioning, and equity exposure can explain the volatility. TCPC is a concentrated portfolio with substantial consumer risk. TCPC's six (6) challenged assets accounted for 15.6% of TCPC NAV. Focusing on these assets, approximately 43% of exposure is to first-lien loans, and 57% to second-lien loans and equity. TCPC had previously "written-up" one equity name over 1250%. We don't yet know how much of the position contributed to the 19% loss, but this illustrates the propensity for valuation volatility in equity vs. debt.

### Software Scare and Artificial Intelligence (AI)

Finally, the "software exposure" concern warrants nuance. Recent public market dislocation in enterprise software has fueled anxiety that direct lending portfolios are exposed to AI-driven disruption. Our discussions with Cliffwater and leading private equity sponsors, including Thoma Bravo, suggest a more measured reality. Artificial intelligence appears to be evolving within enterprise systems rather than immediately displacing mission-critical platforms. Risk is more likely concentrated in commoditized, rules-based, or non-mission-critical segments. Since 2023, direct lenders have incorporated AI-related operational and competitive analysis directly into their diligence framework. From a credit standpoint, sponsor quality, capital structure discipline, and recurring revenue characteristics matter more than headlines.

## LOOKING AHEAD

None of this implies complacency. We continue to stress-test liquidity assumptions, monitor sponsor behavior, evaluate sector concentrations, and track secondary pricing. Private credit is not immune to macro cycles, falling short-term rates, or credit normalization. But normalization

is not crisis. We observe a divergence in behavior: the wealth channel tends to react to headlines; the institutional channel tends to react to pricing and data. Institutions continue to allocate capital to private credit and, in several recent transactions, have been the liquidity providers.

Our framework remains consistent. We favor diversified first-lien exposure, modest leverage, proactive liquidity management, and disciplined underwriting. In fixed income, where returns are capped, risk control is paramount. Broad diversification reduces the probability that any single borrower or sector disrupts portfolio stability. The objective is steady compounding, not episodic excitement.

The current media cycle may be attempting to extrapolate isolated structural events and concentrate portfolio outcomes into a systemic narrative. The data, in our view, does not support that conclusion. **We will continue to monitor developments closely and communicate transparently.** As always, we welcome your questions and are happy to discuss any specific concerns in detail.

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