Perspectives on Private Credit Risk, Part 2

June 2026

- Credit loss frequency and loss ratio are backward-looking, so it is important to look at other credit metrics to assess current risk
- Credit losses do change across market cycles, and older vintages may have higher loss metrics than younger, more unrealized cohorts as each vintage matures
- Recent credit performance metrics may indicate some stabilization in overall credit conditions

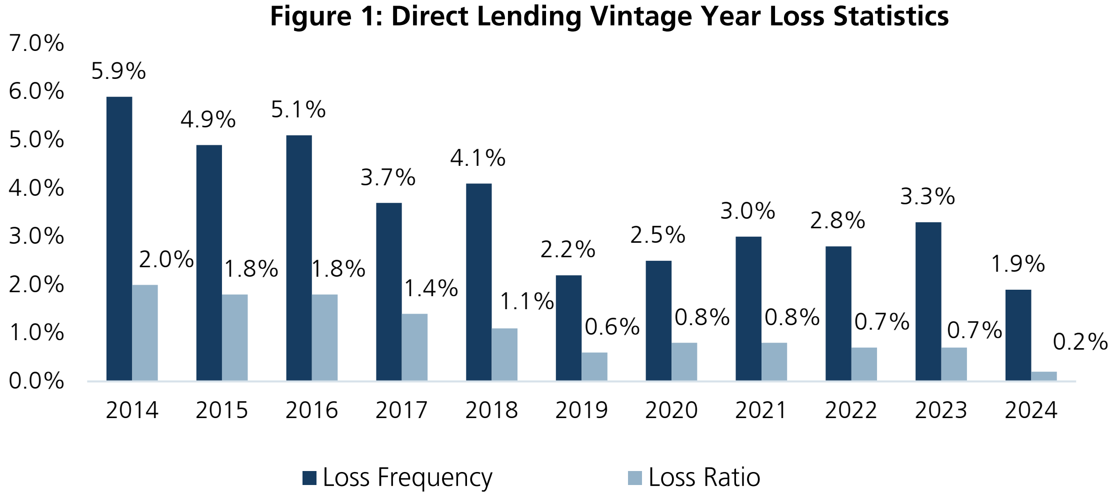
Loss Frequency and Loss Ratio

Our prior article on private credit risk defined two important credit metrics: **loss frequency** is the percentage of realized private credit loans which return less than par and **loss ratio** is the total dollar loss on those deals divided by all capital invested into a credit cohort.

While these are important risk metrics to understand, they are necessarily backward-looking. Our research included historical data covering more than 21,000 realized private credit transactions from 2013 to 2025 and showed the loss frequency and loss ratio for direct lending of approximately 4% and 1%, respectively, across this sample.

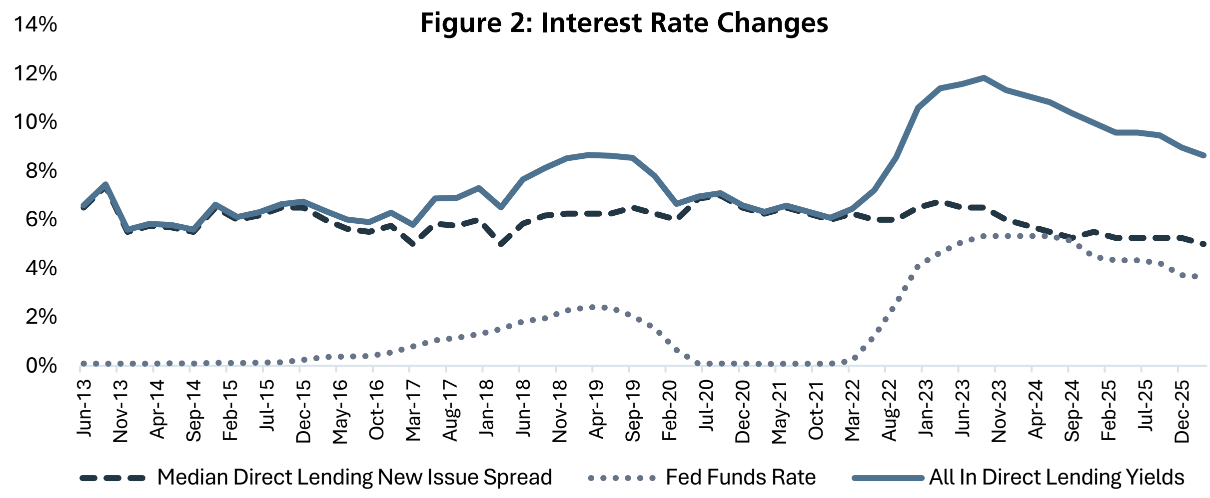
However, credit – even private credit! – is admittedly cyclical, and investigating how these ratios change across time and market conditions is also important. Analyzing this same direct lending data by vintage year cohort provides additional insights.

Figure 1: Direct Lending Vintage Year Loss Statistics



*Aksia PC sector-level databases, data as of Q1 2025. **Past performance is not indicative of future results**.*

First, the cyclicality of credit losses is apparent in the chart above. Different vintages experience different loss scenarios. For example, the 2019 and 2020 vintages benefitted from the Fed's campaign to reduce Fed Funds rate from 2.4% to nearly zero. 2021 to 2023 vintages have experienced the headwinds of rising rates and have higher losses already. Since then, both rates and direct lending spreads have moderated somewhat, resulting in lower borrowing costs.



Aksia deal database and Federal Reserve data, as of December 31, 2025. ***Past performance is not indicative of future results.***

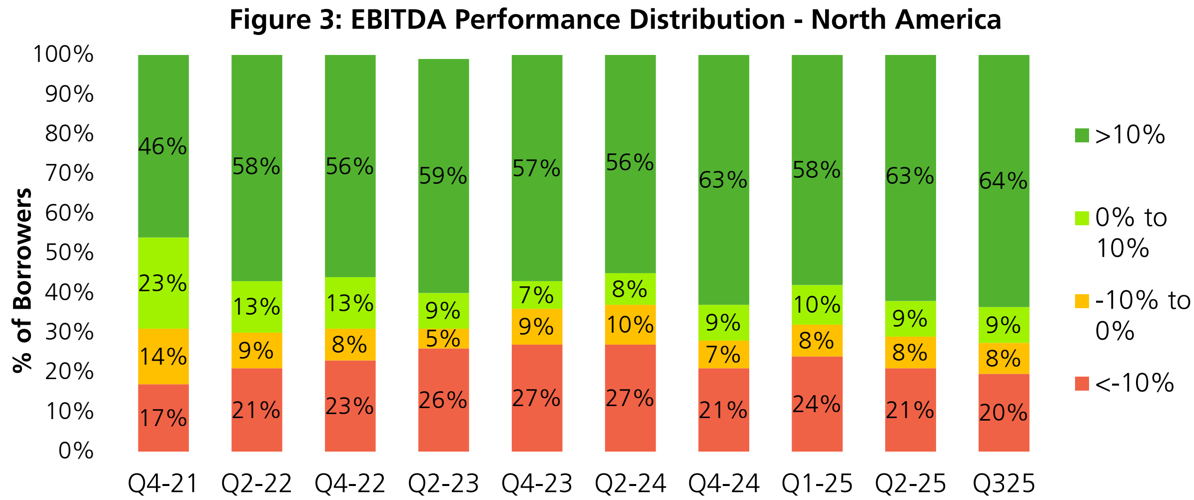
Secondly, these loss metrics are cumulative, and older cohorts are more likely to experience higher losses than younger cohorts. In more recent vintages, exits are skewed towards positive performers, whereas older portfolios will have more stressed credits that have catalyzed a loss, likely after a long process.

To better assess current credit risk and forward-looking loss assumptions, other metrics are important to consider.

Credit Performance

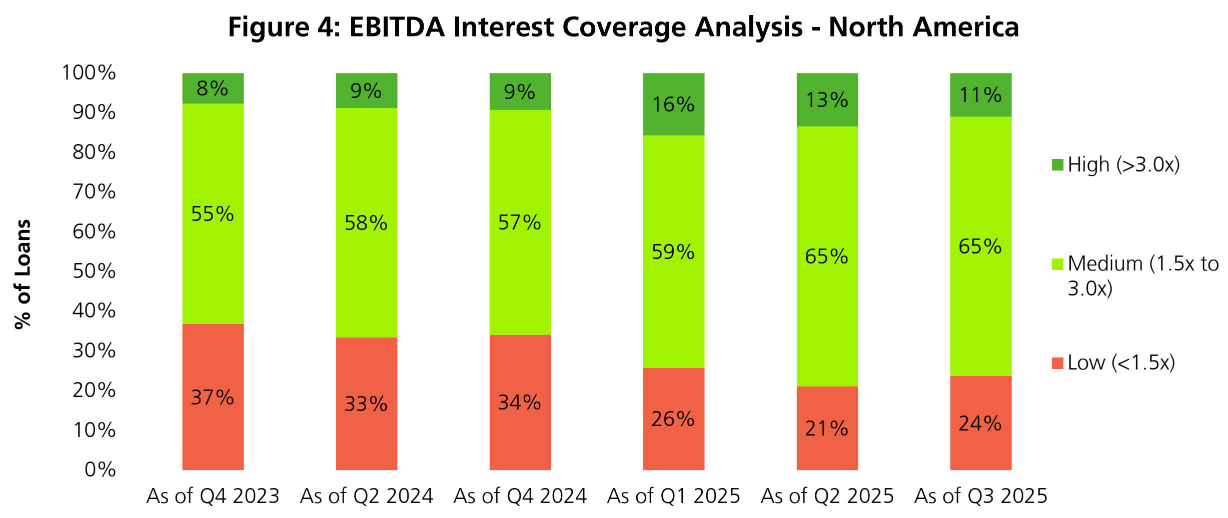
Aksia monitors 15,000 investments on a quarterly basis which allows us to track changes in metrics such as revenue, EBITDA, and leverage. Across the dataset of active credits, 75% of borrowers have grown EBITDA since issuance, and roughly two-thirds have grown it by more than double digits.

It's worth noting that while the percentage of strong EBITDA performers has increased over the last five years, there is still a meaningful percentage of borrowers with declining EBITDA.



Aksia MM Database. Data as of Q3 2025. Past performance is not indicative of future results.

Increasing earnings provides greater cash flow to service interest payments. Interest coverage ratio compares the cost of servicing a firm's debt to EBITDA; the greater the ratio, the greater the cash flow cushion. Since Q4 2023, Aksia has tracked interest coverage ratios across direct lending loans, bucketing borrowers into high coverage (> 3.0x), medium coverage (1.5x to 3.0x), and low coverage (<1.5x). The dataset changes, as loans are paid off and new loans are issued. However, it serves as a reasonable proxy for the health of the direct lending market over time.



Aksia MM Database. Data as of Q3 2025.

Rising base rates in 2022 and 2023 meant an increasing number of borrowers fell into the lower coverage ratio bracket, as their cost of debt service went up. Since then, the combination of both moderating rates and EBITDA growth has resulted in more borrowers moving back to the medium and high coverage bucket. In the most recent look-through period, 76% of borrowers had coverage ratios north of 1.5 times.

Credit losses are cyclical and market conditions certainly change over time. Although rising rates have created stress for some borrowers, relatively strong EBITDA growth and increasing interest coverage ratios present a picture of overall credit market stabilization over the last few years.

– Chris Schelling & Jim Vos

Disclaimers

AKSIA® is a registered trademark of Aksia LLC. These materials are the exclusive property of Aksia LLC and/or its affiliates ("Aksia") and protected by applicable U.S. and foreign copyright and intellectual property laws.

They are provided for general informational and educational purposes only and should not be construed as investment, legal, tax, or regulatory advice. They are not tailored to the objectives or circumstances of any individual or entity. Materials may be shared with attribution to Aksia but may not be modified or presented in a way that implies endorsement or affiliation.

These materials do not in any way constitute an offer or a solicitation of an offer to buy or sell any financial instrument whatsoever. Any references to specific strategies are for illustrative purposes only and do not constitute a recommendation by Aksia. Information herein reflects Aksia's views as of the date indicated and is subject to change without notice. Certain statements, including forecasts and expectations, are based on assumptions that may not hold and should not be relied upon as guarantees of future results. There is no assurance that expected returns or risk levels will be achieved.

Aksia relies on information from third parties it reasonably believes to be reliable but does not independently verify such information and makes no representation as to its accuracy, completeness, or timeliness. These materials may contain errors or omissions, and Aksia disclaims all liability for losses arising from their use.

Past performance is not indicative of future results. Aksia Monitored Fund Strategy Composites are equal-weighted averages of reported net returns for funds Aksia monitors, intended to represent institutional hedge fund strategy performance while limiting common index biases. Funds are included from the month monitoring begins, the universe changes over time, and no backfill is used. Composites are for informational purposes only and are not benchmarks.

Alternative investments are intended only for sophisticated investors who are able to bear the risk of losses. Prospective investors should carefully review all offering materials and consult their legal, tax, and compliance advisors before making any investment decision.