MUTUAL TRUST

# Wealth matters

## Beyond traditional: Spotlight on private credit

Recent headlines have put private credit under the spotlight – from ASIC's reports on governance and valuation practices in Australia to high-profile borrower defaults in the U.S. For investors, these developments raise an important question: *is private credit still an attractive asset class?*

We believe exposure to private credit remains compelling – but it is not risk-free.

ASIC's scrutiny reinforces the importance of Mutual Trust's due-diligence process and highly selective approach. By partnering with fund managers who demonstrate discipline, transparency and robust risk management practices, private credit offers portfolios a valuable source of income, stability and diversification benefits. This will now be underpinned by stronger Australian standards and oversight. Fund managers must improve their practices, ultimately creating a more resilient asset class for investors.

> "ASIC's focus on private credit underscores its growing significance within the broader economy and investment landscape. We welcome the regulator's recommendations and view its oversight as a catalyst for strengthening the resilience of the asset class, ultimately enhancing its long-term benefits for diversified portfolios."
>
> DOUGLAS TAN, SENIOR MANAGER RESEARCH & PORTFOLIO MANAGEMENT, MUTUAL TRUST

### Why ASIC's scrutiny matters

**ASIC's message is clear: private credit plays a vital role in Australia's financial landscape, but it must be governed with transparency, fairness, and investor protection in mind.**

Private credit has grown rapidly in Australia, now exceeding A$200 billion in assets under management. However, its unlisted nature and relative infancy (compared to other asset classes such as listed equities and government bonds) means practices around valuation methodology, fee transparency, conflicts of interest and terminology vary widely across the Australian private credit market.

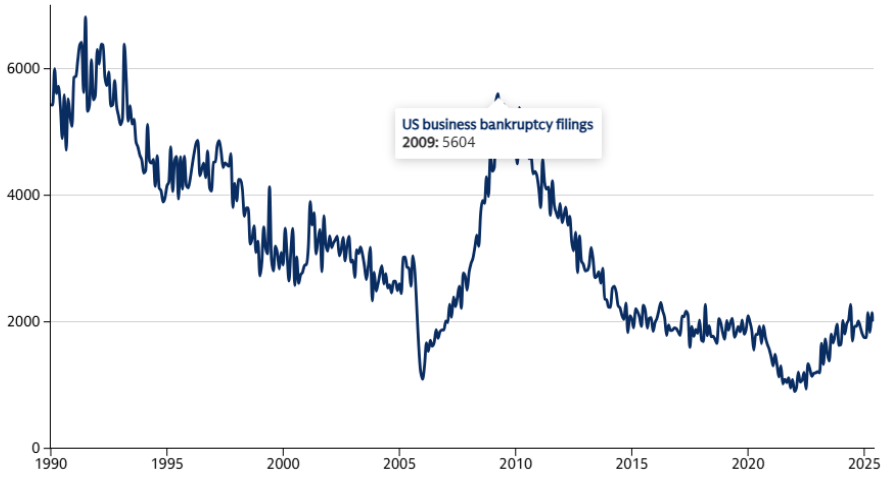
ASIC's recent Reports 814 and 820 reflect the regulator's growing concern over the rapid expansion of the asset class, and whether existing oversight frameworks are keeping pace with this growth. It identified systemic risks and areas of poor practice. Significant improvements are required.

The regulator's recommendations – independent valuations, full fee transparency, board-level oversight and liquidity stress testing – address the vulnerabilities and risks within the asset class. This constructive intervention will align Australia with global best practice and ultimately enhance investor protection. It provides a roadmap for improvement, fortifying the asset class for long-term growth.

## U.S. defaults: cause for concern?

Recent borrower defaults by First Brands and Tricolor in the U.S. have sparked fears of a broader reckoning in private credit globally. To our knowledge, these cases were driven by company-specific governance failures, including alleged fraud and misappropriation of funds and breakdowns in internal controls – not by structural weaknesses in the asset class. Corporate bankruptcies have normalised, supported by strong fundamentals and a relatively healthy U.S. economy.

**U.S. business bankruptcies remain around their pre-pandemic normal levels**
Monthly bankruptcy filings




Source: U.S. Courts, Haver Analytics, Goldman Sachs

Nonetheless, like most asset classes, investing in private credit comes with risks. Defaults do occur, and risks such as illiquidity, credit quality and valuation challenges are inherent. For an asset class that targets high single-digit returns, disciplined underwriting and robust governance are essential to manage these risks effectively.

## Mutual Trust's approach to private credit

We welcome ASIC's focus on the Australian private credit market. Its recommendations reinforce our consistent, active approach of undertaking investment due diligence to select experienced fund managers who embrace industry-leading practice.

At Mutual Trust, we partner with fund managers offering strong governance frameworks and a depth of experience in negotiation of terms and protective covenants, due diligence in assessing creditworthiness, proven workout experience across various market cycles and disciplined deployment of capital. They are committed to becoming aligned with ASIC's recommendations for best-practice.

Attention from the media and regulators on private credit is unlikely to dissipate over the near-term, and we continue to closely monitor these developments and progress by fund managers. While increased regulation will improve disclosure and practice by fund managers, innate risks (credit, illiquidity) will remain. Private credit aims to provide portfolios with recurring income, stability and low correlation to listed markets – the optimal portfolio allocation is driven by factors such as risk tolerance, liquidity requirements and performance expectations.

**For more details on the market dynamics of private credit, including the benefits and risks, and Mutual Trust's approach to building private credit into portfolios, please refer to our article: Pulling back the curtain on Private Credit.**

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