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Private Credit

What is **Private Credit?**

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PRIVATE CREDIT 101

Private credit (or private debt, from the borrower's perspective) refers to direct lending (loans and credit) provided to businesses that may not have easy access to credit from banks or are looking to supplement funding from their traditional sources of financing. These private credit facilities provided by non-bank lenders are typically structured through direct negotiations between the lender and borrower, allowing for highly customised financing terms, covenants and collateral structures to be tailored to the borrower's specific needs. From an investor's perspective, it offers a compelling alternative to traditional fixed income, providing access to differentiated yield, enhanced structural protections, and often, a lower correlation to public market volatility.

Private credit funds, typically managed by specialised asset managers, offer different types of debt financing to businesses by allocating capital raised from investors. Investors include: retirement funds, insurance companies, family offices, high net worth individuals and retail investors.

Origins of private credit

Private lending has existed informally for centuries, but the modern private debt market began to take shape in 1980 and rapidly evolved after the 2008 global financial crisis. Tighter regulations and stricter lending rules like Basel III, forced traditional banks to withdraw from certain lending markets, resulting in a significant funding gap, particularly in the small and mid-market segment.

This created opportunity for non-bank intermediaries and private credit specialists to step in to fill the financing void, offering loans and loan-related products to companies outside of the traditional financing sphere.

At the same time, institutional investors such as pension funds, sovereign wealth funds and insurance companies began allocating capital to private credit in search of higher, more predictable returns.

Etymology

The term "credit" was first used in English in the 1520s. The term came "from Middle French crédit (15c.) "belief, trust," from Italian credito, from Latin creditum "a loan, thing entrusted to another," from past participle of credere "to trust, entrust, believe".

Private credit borrowers

Private credit supports mainly midmarket companies, which typically include:

- **Growth oriented mid-market corporates**

These businesses have solid revenue and growth potential but lack the credit rating or collateral for bank loans. Funds are typically required for business expansion, equipment purchases, working capital, acquisitions and refinancing existing debt. Private credit provides the speed, flexibility, and tailored structures needed to unlock these opportunities, enabling companies to act decisively and drive sustainable growth.

- **Private equity-backed companies (leveraged buyouts)**

When private equity firms acquire companies, they often use private debt to fund the transaction (e.g. leveraged buyouts), to fuel post-acquisition growth, restructuring, or recapitalisation.

- **Infrastructure & renewable energy projects**

These projects are very capital-intensive and require patient, long-term capital with loans often extended for periods of 5 to 15 years or more. While traditional financiers like banks typically provide the majority of the funding requirements there is space for private credit funds to participate in the funding structure. Financing is typically required for renewable energy projects, digital infrastructure assets, water infrastructure, healthcare facilities, education institutions, student accommodation, etc.

- **Real estate developments**

Property developers often use private debt (e.g. mezzanine financing or bridge loans) to fund the initial acquisition of land and/ or the construction phase of a project. Banks typically prefer to provide longer-term funding once the development phase is completed and would often refinance the acquisition and construction bridge loans, especially when banks are risk averse. Financing is typically required for development loans, refinancing, or for acquisition bridging.

The role of asset managers

Asset managers act as intermediaries between investors and borrowers. They establish private credit funds or other investment vehicles and raise capital from various sources, including institutional investors, family offices, high-net-worth individuals, and retail investors.

Asset managers are responsible for setting the fund’s strategic direction and managing the fund's portfolio by monitoring its performance, overseeing its day-to-day operations, and ensure compliance with investment guidelines.

It is also the role of the asset manager to identify and assess potential borrowers, conduct due diligence, structure loan agreements and ultimately deploying that capital into the various private debt investments.

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Private credit as an asset class

Private credit is a fast-growing asset class in the alternative investments space.Originally considered a niche investment strategy, private credit has steadily moved into the mainstream, especially among institutional and high-net-worth investors.

Private credit generally offers more direct control over risk than what is typically offered by traditional bonds, fixed income, or other alternatives like private equity and venture capital.

Benefits and drawbacks of private credit

Private credit is less affected by stock market fluctuations as loans and deal structures are negotiated directly between lenders and borrowers – its value is not directly tied to market sentiment or trading activity as with publicly traded stocks or bonds.

The asset class typically offers investors steady, predictable cash flows at regular intervals (typically quarterly or 6-monthly after an initial lock-in period). Private credit is therefore a valuable addition to a diversified and balanced portfolio, especially during uncertain times. Most private credit deals have floating interest rates, which means the returns can increase as inflation rises, offering investors protection against rising costs as South Africa's primary monetary policy mechanism to curb inflation is to adjust interest rates.

Another major advantage of private credit is its flexible structures. Lenders follow a tailored approach when negotiating terms directly with borrowers, based on each borrower's unique requirements and potential. This allows lenders to build in greater protection, securing stronger covenants and collateral, and integrating ESG-linked conditions to support purposeful investment, where required.

A primary concern with private credit is its limited liquidity compared to stocks or bonds. Investors can however reduce this risk by mixing private credit with more easily tradeable investments such as listed bonds, creating a balanced portfolio that offers both stability and access to cash when needed.

Investing and increasing liquidity in private credit

Accessing private credit is not limited to fund-based structures. It can also be accessed through listed vehicles such as listed notes, ETFs, and other tradeable products that offer more flexibility and transparency. These instruments have grown in prominence in recent years, notably for their ability to increase liquidity by allowing investors to trade their holdings on public markets.

While most of this growth has been taking place in developed markets, South African non-bank financial institutions are catching up. A few listed structures are already available, with many institutions working on developing more.

Private credit as a sustainable solution to fill SMMEs funding gap

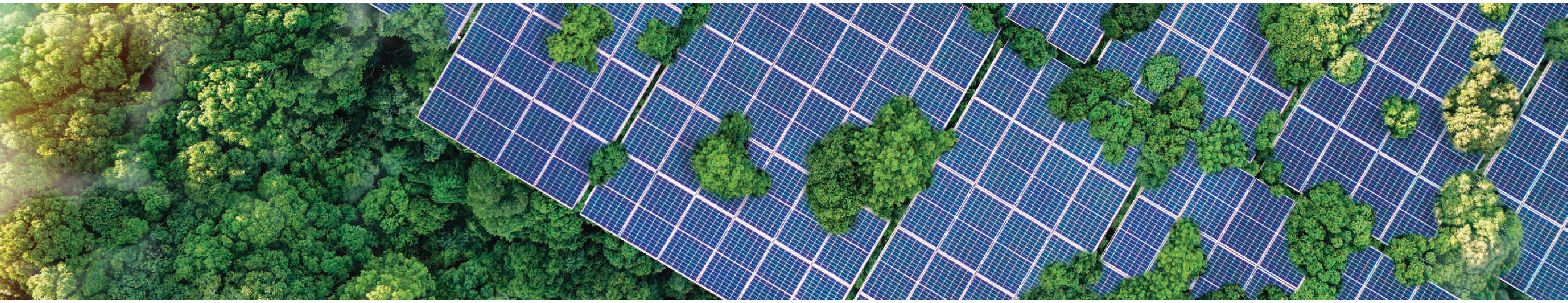
According to a 2025 report by Finfind, there is a R350 billion funding gap facing South Africa's small, medium, and micro enterprises (SMMEs). This is especially concerning, given how vital these businesses are to our economy.

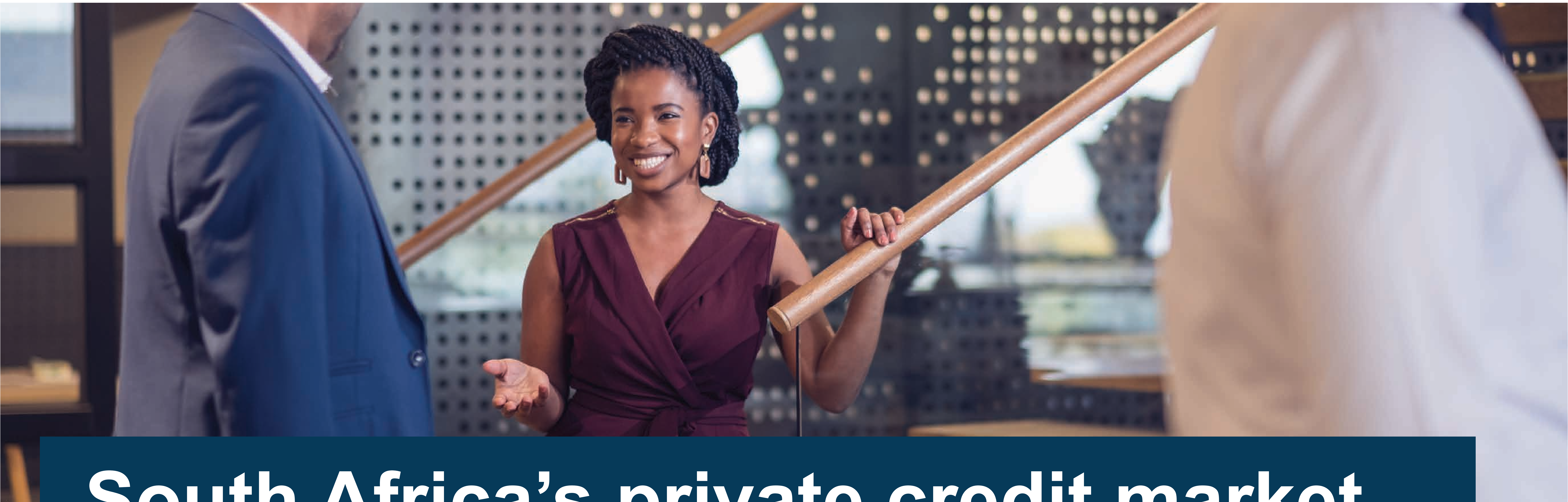
Currently SMMEs make up 91% of formal businesses, employ 60% of the workforce, and contribute up to 40% of the country's GDP, as highlighted by the Banking Association of South Africa.

Despite their importance, many SMMEs struggle to access traditional bank funding. Strict lending criteria and limited flexibility often leave them without the financial support they need to grow.

This is where private credit steps in, by offering an alternative, more adaptable form of financing. Private lenders can structure deals innovatively, considering the unique needs and potential of each business. This ensures a flexible and sustainable financing solution.

Private credit is not only helping SMMEs grow and thrive but is also playing a role in job creation, economic development, and social upliftment. Coupled with its strong return potential and meaningful impact, private credit is fast becoming a preferred, sustainable financing solution that offers both profit and purpose.





South Africa’s private credit market

Some of South Africa’s largest institutional investors made their first allocations to private credit in the 1990’s. Today, private credit is one of the fastest-growing classes within the alternative investment landscape. Globally, assets under management in the private credit space have surpassed USD1.7 trillion.

South Africa’s private credit market is an equally vibrant and high-growth market. The ongoing growth in private credit is driven by its role in supporting entrepreneurship, private equity transactions, and infrastructure development, especially in regions where traditional bank lending remains limited.

For retirement funds, the 2023 amendments to Regulation 28 of the Pension Funds Act provided additional clarity on the categorisation of private credit, which falls under the broader “unlisted debt instrument” category that carries a limit of 15%.

In conclusion, private credit is no longer a peripheral investment. For sophisticated investors seeking diversified, yield-enhancing, and impactful strategies, it offers a compelling blend of strong return potential, predictable cash flows. structural downside protection, and the ability to contribute directly to economic growth and development in South Africa. It represents a strategic and sustainable solution for both profit and purpose.