Blackstone

MAY 2026

Private Credit: Myth vs. Fact

There's been a lot of overheated headlines and misinformation on private credit. It's important to understand the facts.

What is true in the noise about non-investment grade private credit?

1. Like with high yield bonds and leveraged loans, there will be defaults (particularly off of historic lows)
2. There is exposure to software and there will be disruption, but private credit loans are senior in the capital structure, supported by meaningful equity cushions, typically ~60%
3. Returns were elevated during the "golden moment" of private credit, and have since normalized as interest rates declined. But the premium to non-investment grade liquid credit has persisted for 20+ years[1]
4. Both institutional and individual investors' capital in the space has grown considerably over the last decade. That growth is the result of a lower cost direct to customer model and a better experience for borrowers. But it's worth noting, it is still only ~1/3 of the sub-investment grade credit market and approximately 80% of the capital comes from institutions[2]

Where is the noise coming from?

It is natural for a growing asset class to face scrutiny, particularly when those losing share have every incentive to discredit the shift. The result is a cycle of grossly exaggerated claims and misleading comparisons.

The myths below may be widely repeated, but facts tell a very different story.

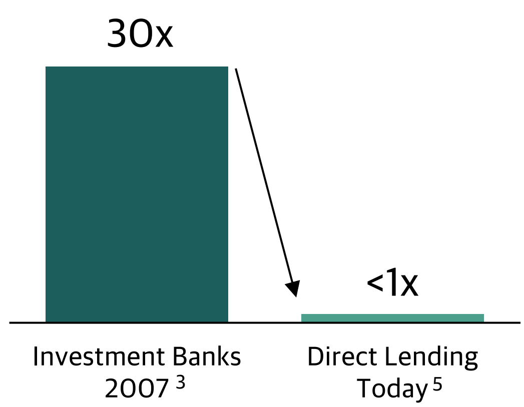
Myth: Private Credit Will Create the Next GFC

Fact: Today's market looks nothing like 2008

Banks then were levered 25 to 40 times,[3] primarily funded by short-term deposits and commercial paper, and heavily exposed to subprime housing. The underlying assets were 90%+ loan-to-value and layered on top were highly complex derivatives that obscured the risk.[4] Put simply: risky loans in extremely levered vehicles that were backed by money that could disappear overnight.

This is nothing like what is happening today. Business development companies (BDCs) typically operate with less than 1x leverage,[5] lend at roughly 40% loan-to-value to corporate borrowers,[6] and use structures that don't rely on deposits or overnight capital. Liquidity across the space is significant, with vehicles that have multiple levers to pull rather than dependence on any single source.[7]

Leverage Utilized
(GFC vs. today)



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Myth: Private Credit Lacks Oversight and Transparency

Fact: Private credit funds are transparent and regulated

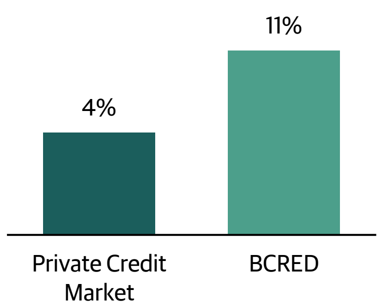
Most individual investors access private credit through SEC-registered BDCs, a structure that has existed for decades. Loan valuations go through multiple layers of oversight, valuation committees, third-party appraisals and independent audits. Every single loan and detail is disclosed every quarter. Loans are marked down as facts change. That means if there is credit stress it is visible, not hidden. Traditional bank lenders provide no such underlying loan detail.

Myth: Credit Quality Is Collapsing

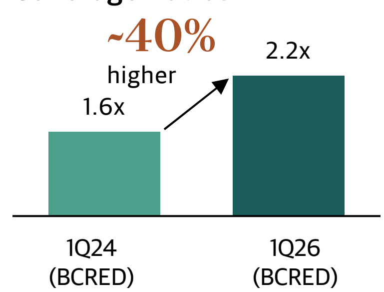
Fact: Credit metrics are resilient

BCRED's companies grew earnings by 11% on average last year.[8] The cushion between what they earn and the interest they owe on their loans has grown by approximately 40% over the last two years[9] — meaning they're in a stronger position to repay their debt today. History tells us that large default cycles do not occur outside of recessions — and right now the economy remains healthy and resilient.

Solid EBITDA Growth[8,10]



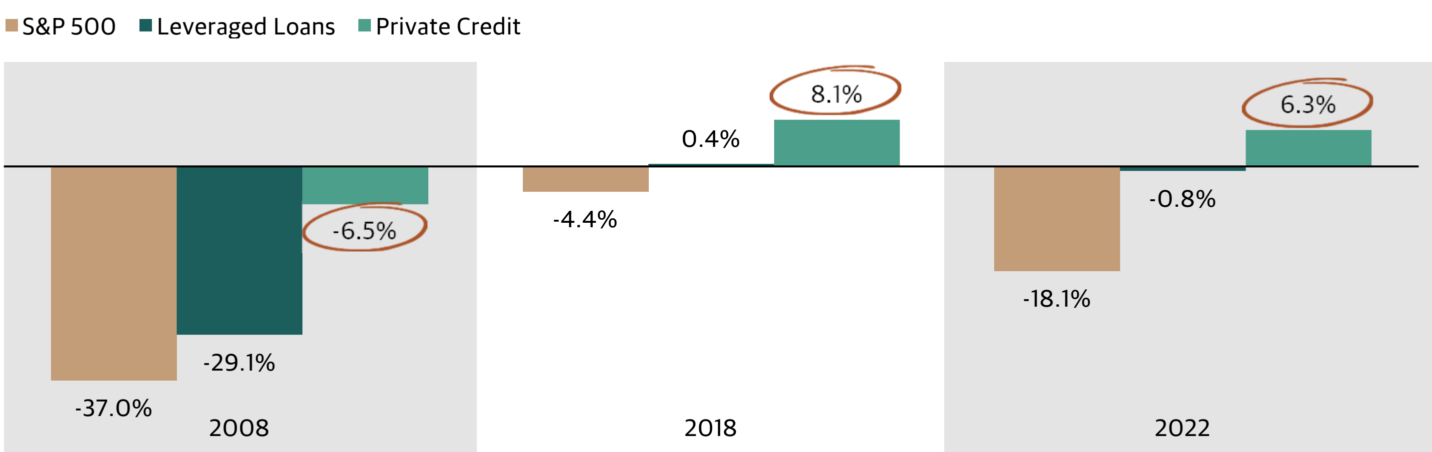
Improving Interest Coverage Ratios[9]



When individual loans do face stress, the structure can provide meaningful risk mitigation. Private credit loans sit at the top of the capital structure with around a 60% equity cushion — think of it like a mortgage, but with 60% down instead of 20%. That limits losses, though it does not eliminate them. As senior secured lenders, we are first in line to restructure terms or take control of a company, backed by over 100 operating professionals working directly with borrowers to protect value. History reinforces the case — private credit has consistently protected capital through periods of uncertainty, with a ~1% industry realized loss rate over the last 20 years.[11]

Private Credit's Resilience

(Full year total return, years where the S&P experienced negative returns over the last 20 years)[(12)(13)]



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Myth: The "SaaS-pocalypse" Is Coming for Private Credit

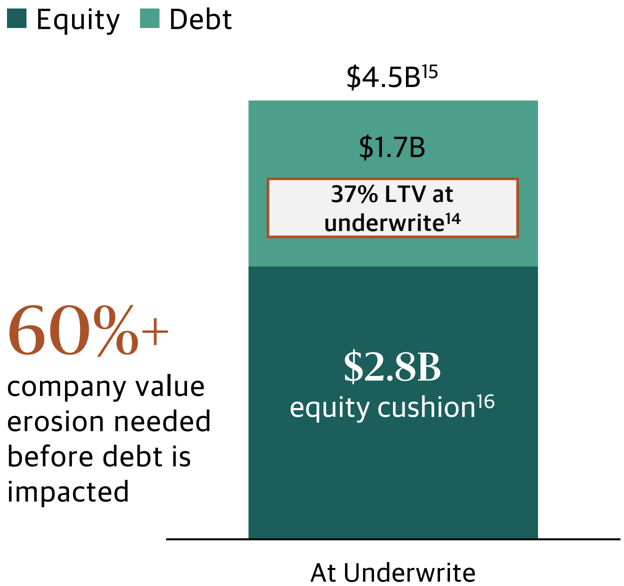
Fact: Software firms will be hit, but credits are generally well protected

Software companies will face real challenges. We have been earlier and louder than many on this risk and where we see it in our portfolio.

Not all software is created equal — much of it is deeply embedded, mission-critical, and not easily replaced by AI. In cases where portfolio companies are facing AI-related headwinds, we believe we have appropriately reflected this in our marks. More importantly, the average software loan in BCRED was made at 37% loan-to-value, meaning more than 60% of a company's value would need to erode before the debt is impaired.[14] We focus on larger software borrowers, with an average enterprise value of over $4.5 billion,[15] with nearly $3 billion of borrower equity subordinate to our position.[16] These companies actually grew cash flows faster than the overall portfolio last year.[17]

Even if a broad wave of disruption were to materialize, private credit's structure can help limit the downside. Consider an extreme stress scenario with a 10% default rate, which is higher than the GFC, and a 50% recovery rate.[13] The impact to realized returns is estimated at just 300bps over two years.[18]

BXCI's Software Portfolio
(BCRED)



Myth: These Products Are Not Appropriate for Individual Investors

Fact: Private credit products are working as expected and can be an effective wealth creation tool

The semi-liquid structure is a feature, not a bug. Repurchase limits are designed to prevent forced asset sales, protecting returns for all investors. That liquidity trade-off is why private credit can deliver higher income than traditional fixed income, and it is fully disclosed from day one. These funds are purchased by sophisticated end investors, guided by their financial advisors, and tend to be just a slice of a broader portfolio of liquid traditional holdings.

The model has been tested. BREIT navigated elevated redemptions during a historic rate spike — investors were substantially redeemed within four months,[19] and the guardrails helped protect performance. Since inception, BREIT has outperformed publicly traded REITs by ~60% on an annualized basis.[20]

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Endnotes

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1. Source: Morningstar, from December 31, 2005 through December 31, 2025. "Public Credit" is represented by **Morningstar LSTA US Leveraged Loan Index**. "Private Credit" is represented by **Cliffwater Direct Lending Index**. Total return reflects the sum of annualized income return, annualized realized gain / loss, and annualized unrealized gain / loss during the period.
2. The sub-investment grade credit market is composed of high yield bonds, leveraged loans and private credit. Allocations to private credit by investor type in 2024, published in "Financing the Economy 2025."
3. Financial Markets Regulation, GAO report, published on July 2009.
4. JP Morgan "The Credit Tracker: Subprime Mortgages & Large Cap Banks: Some Earnings Pressure But Manageable," published on March 16, 2007.
5. Blackstone Credit & Insurance views for typical direct lending vehicle.
6. As of Q4 2025, Lincoln Direct Lending data.
7. Measured as the reported redemptions for Q4'25 per SEC filings as of March 18, 2026 for the following: Apollo Debt Solutions BDC (ADS), Ares Strategic Income Fund (ASIF), Barings Private Credit Corp (BPCC), BCRED, Blue Owl Credit Income Corp. (OCIC), Blue Owl Technology Income Corp. (OTIC), CliffwaterCorporate Lending Fund (CCLFX), CliffwaterEnhanced Lending Fund (CELFX), Golub Capital Private Credit Fund (GCRED), HPS Corporate Lending Fund (HLEND), Oaktree Strategic Credit Fund (OSCF), and North Haven Private Income Fund (NHPIF). **Sources liquidity include: Reported Liquidity / Cash on Balance Sheets:** Reported cash and revolving capacity available, and includes debt issuance subsequent to year-end. **Liquid Loans:** Adjusted for secured borrowings.
8. As of March 31, 2026, represents LTM EBITDA Growth year-over-year where data is available and relevant. Includes all debt investments for which fair value is determined by the Board in conjunction with a third-party valuation firm and excludes both asset-based investments and quoted investments. BCRED amounts are weighted on fair market value of each respective investment. BCRED amounts were derived from portfolio company financial statements that are continuously received and may be updated; accordingly, growth figures may be based on prior period EBITDA amounts that were not available or, in the case of recently funded deals, not applicable in the prior period. Third-party figures (and corresponding BCRED amounts) have not been independently verified by BCRED and may reflect a normalized or adjusted amount. EBITDA is a non-GAAP financial measure. For a particular portfolio company, EBITDA is generally defined as net income before net interest expense, income tax expense, depreciation, and amortization over the LTM. EBITDA growth year-over-year may reflect some inorganic growth due to mergers and acquisitions (M&A).
9. Interest coverage ratio ("ICR") is estimated as the ratio of average LTM EBITDA, to cash interest paid over the last 12 months for each respective portfolio company. Includes all debt investments (excluding ARR loans) for which fair value is determined by the Board in conjunction with a third-party valuation firm and excludes both asset-based investments and quoted investments. Amounts derived from the most recently available portfolio company financial statements, have not been independently verified by BCRED, may reflect a normalized or adjusted amount, and are generally about 90 days in arrears. EBITDA is a non-GAAP financial measure. For a particular portfolio company, LTM EBITDA is generally defined as net income before net interest expense, income tax expense, depreciation and amortization over the preceding 12-month period. Currency fluctuations may have an adverse effect on the value, price or income and costs of our portfolio companies and investments which may increase or decrease as a result of changes in exchange rates. As of March 31, 2026, approximately 7% of the above defined debt investments (including ARR loans) and approximately 6% of the above defined debt investments (excluding ARR loans) have less than 1.0x interest coverage ratio. Q1'24 reflects a more normalized environment and accurate depiction of portfolio companies' ICRs following volatility and peak rates in 2023.
10. Private credit market exhibited average LTM EBITDA Growth of 4%, based on issuer companies of loans in the Lincoln International Private Market Database as of December 31, 2025, which is latest available data.
11. Source: Morningstar. "Private Credit" is represented by **Cliffwater Direct Lending Index**.
12. Represents the yearly return of the S&P 500, Traditional Fixed Income, and Private Credit during the years in which the **S&P 500 Index ("S&P 500")** exhibited negative performance from 2000 to 2025.
13. Source: Morningstar, Bloomberg, Blackstone Credit & Insurance as of December 31, 2025. "Leveraged Loans" is represented by **Morningstar LSTA U.S. Leveraged Loan Index**. "Private Credit" is represented by **Cliffwater Direct Lending Index**.
14. Average loan-to-value represents the net ratio of loan-to-value for each portfolio company in BCRED's software portfolio (as classified under the GICS Industry level) weighted based on the fair value of total applicable investments as of March 31, 2026. Includes all debt investments within BCRED's software portfolio for which fair value is determined by the Board in conjunction with a third-party valuation firm and excludes both asset-based investments and quoted investments. Loan-to-value is calculated as the total net debt through each respective loan divided by the estimated enterprise value of the portfolio company at time of underwrite. Amounts have not been independently verified by BCRED and may reflect a normalized or adjusted amount.
15. Based on the enterprise value at close for each applicable investment. Includes all debt investments within BCRED's software portfolio (as classified under the GICS Industry level) for which fair value is determined by the Board in conjunction with a third-party valuation firm and excludes both asset-based investments and quoted investments. Average enterprise value is weighted based on the fair value of total applicable investments as of March 31, 2026. The number is presented for illustrative purposes and does not reflect actual realized proceeds to BCRED or to the equity sponsor or the company, and there can be no assurance that realized proceeds received by Blackstone or any investor in a Blackstone fund will be increased as a result. Currency fluctuations may have an adverse effect on the value, price or income and costs of our portfolio companies and investments which may increase or decrease as a result of changes in exchange rates. Databricks reflects BCRED's largest software issuer based on enterprise value as of March 31, 2026.

Endnotes

16. Based on the subordinated capital at close for each applicable investment. Includes all debt investments within BCRED's software portfolio (as classified under the GICS Industry level) for which fair value is determined by the Board in conjunction with a third-party valuation firm and excludes both asset-based investments and quoted investments. Average subordinated capital is weighted based on the fair value of total applicable investments as of March 31, 2026.
17. BCRED's software portfolio (as classified under the GICS Industry level) has exhibited low double-digit growth which outpaced the broader portfolio.
18. Represents the expected impact, assuming a 100% default rate for the bottom 10% of the portfolio marked at 79.6, and a 50% recovery rate over a 2-year timeframe with a 1x leverage assumption. The illustrative example is for information purposes only to illustrate potential impacts to BCRED's business assuming no other changes.
19. Reflects the average number of months for an investor to receive ~80% of their initial repurchase request assuming an investor submitted full repurchase requests monthly between November 30, 2022 and January 31, 2024.
20. Reflects annualized BREIT Class I share performance since inception. Publicly traded REITs reflect the MSCI U.S. REIT Index total return as of March 31, 2026. Private real estate reflects the NFI-ODCE preliminary net total return as of March 31, 2026. BREIT's Class I inception date is January 1, 2017. During the period from January 1, 2017 to March 31, 2026, BREIT's Class I annualized total net returns of 9.3% was 60% higher than the MSCI U.S. REIT Index annualized total return of 5.8%. During the period from January 1, 2017 to March 31, 2026, BREIT Class I's annualized total return of 9.3% was 2.6x the NFI-ODCE preliminary annualized total net return of 3.6%. BREIT does not trade on a national securities exchange, and therefore, is generally illiquid. The volatility and risk profile of the indices presented are likely to be materially different from that of BREIT including that BREIT's fees and expenses may be higher and BREIT shares are significantly less liquid than publicly traded REITs.