FINANCIAL SERVICES INDUSTRY GROUP

Beyond Yield:
The Emerging Risk Challenge in Private Credit

01 Executive Summary

Private credit assets under management have grown at an annualized rate of approximately 14% over the past decade, reflecting the asset class's rapid transition from a specialist allocation to a scaled component of global credit markets[1]. Since Covid, this trend has accelerated, with capital flooding into the asset class, the launch of various product structures, and investor appetite showing no sign of abating. What has not kept pace is the risk and operational infrastructure underpinning it all.

Managers are deploying investments at scale while operating with monitoring capabilities that were designed for a far smaller, simpler market. The result is a widening gap between credit underwriting standards/due-diligence, portfolio complexity, and risk visibility; one that is now materializing in the form of credit deterioration, fraud exposure, covenant drift, collateral opacity, and fragmented operational controls. Closing that gap is no longer a back-office concern. It is a strategic imperative that is driving investment performance and manager reputation in the industry.

02 Market Observations

- Private credit operates at institutional scale but still runs on bilateral, relationship-era infrastructure
- Deployment pressure from evergreen structures is intensifying as risk visibility deteriorates, a combination that historically precedes credit cycle stress
- Risk monitoring across the industry remains overwhelmingly manual, reliant on inconsistent data and periodic reporting cycles that were never designed for portfolios of this complexity
- Sustaining growth through the next phase of the cycle will require a step-change in risk infrastructure, not incremental process improvement

[1] "Private Credit Under the Microscope – Separating Headlines from Fundamentals," J.P. Morgan Private Bank U.S., March 12, 2026

03 The Evolution of Private Credit Risk

The industry is at an inflection point. Risk management practices that served managers well in a smaller, slower-moving market are straining under the weight of scaled portfolios and more complex credit structures. The progression below reflects where the market has been, where leading firms are today, and what genuinely institutional-grade capability looks like.

Capability	Traditional	Emerging	Institutional Grade
Underwriting	Relationship based	Scaled portfolios	Continuous risk intelligence
Monitoring	Manual reviews	Semi-automated surveillance	AI-enabled monitoring
Data	Bilateral reporting	Enhanced enrichment	Real-time visibility
Controls	Fragmented tracking	Improved transparency	Shared infrastructure and utilities

04 The Emerging Risk Layer

Sourcing capital is no longer one of the industry's greatest challenges. Increasingly, the focus is on managing risk at scale. Four interconnected risk themes are becoming increasingly difficult to ignore as portfolios grow in leverage and structural complexity. Taken individually, each is manageable. Together, they represent a systemic vulnerability that is only likely to become more visible as credit conditions tighten.

	Risk Area	Market Challenge	Potential Impact
01	**Credit Deterioration**	Sustained deployment pressure is eroding underwriting discipline, with managers accepting thinner covenants and less scrutiny to win deals in a competitive market.	Higher default rates and materially lower recovery outcomes, particularly in portfolios where collateral positions have not been rigorously validated.
02	**Fraud and Transparency**	Concentrated ownership structures, double pledging of collateral, and beneficial ownership arrangements that are deliberately difficult to trace are creating material blind spots in due diligence.	Unexpected credit losses that are difficult to explain to investors, combined with reputational consequences that can be severe and lasting.
03	**Covenant Monitoring**	Most managers still rely on quarterly borrower reporting reviewed by hand, a process that is too slow, too inconsistent, and too dependent on individual analyst judgment to catch early deterioration signals reliably.	Deteriorating credits that are not identified until it is too late to exercise meaningful remedies or restructure positions on favorable terms.
04	**Operational Controls**	Servicing and reconciliation functions are spread across multiple administrators and platforms, with limited standardization, inconsistent data hand-offs, and accountability gaps that are difficult to audit.	Operational failures that compound credit risk, create regulatory exposure, and undermine investor confidence in the manager's ability to govern a scaled portfolio.

05 What the Industry Needs Next

Periodic reporting worked when private credit was a relationship-driven business with smaller portfolios and simpler structures. Today's market demands a more proactive and continuous approach to risk management. The firms pulling ahead are those investing in continuous risk intelligence, technology-enabled monitoring, and the data infrastructure needed to make sound decisions at speed. The capability areas below represent where that investment needs to go.

Capability Area	Future State Investment
 **Enhanced Underwriting**	Structured ownership analysis, affiliate mapping, collateral validation, and rigorous pre- and post-deal review processes that go well beyond traditional credit memos
 **Fit-for-purpose Technology and data with AI Enabled Surveillance**	Automated covenant monitoring with real-time exception detection and predictive indicators that surface risk well ahead of standard reporting cycles
 **Data Enrichment**	Comprehensive borrower relationship mapping, entity-level intelligence, and cross-portfolio exposure aggregation that gives portfolio managers a complete picture of their risk positions
 **Infrastructure Evolution**	Shared collateral registries, utility-style monitoring platforms, and standardized data exchange protocols that reduce duplication, improve transparency, and create defensible audit trails

06 Questions Management Teams Should Be Asking

- Can we map every borrower's collateral position and beneficial ownership structure with confidence, or are we relying on representations we have not independently verified?
- How much of our covenant monitoring still depends on manual review of borrower-supplied financials, and what is the realistic lag between a covenant breach occurring and our team identifying it?
- How consistent are our covenant packages, reporting requirements, and audit/inspection rights across our portfolio?
- Do our current agreements provide sufficient transparency to independently validate borrower performance and collateral quality throughout the life of the investment?
- If a line of credit began deteriorating today, at what point would we know, and would we have enough time to exercise meaningful remedies before the position became impaired?
- Is our operating model consistent across all administrators and servicers, or are we managing to different standards depending on the counterparty, and what does that inconsistency cost us in visibility and control?
- Are we genuinely using AI and data enrichment to improve how we detect and respond to risk, or are we adding technology at the margins of a process that still relies on the same manual judgments it always has?
- Are we augmenting borrower-reported data with external intelligence and market signals to create a more complete view of portfolio risk?

07 Why This Matters Now

The investor base for private credit has shifted materially. Retail capital is flowing into the asset class through interval funds and evergreen structures, bringing with it a different set of expectations around transparency, liquidity, and governance. Meanwhile, institutional LPs are asking harder questions than they were three years ago, and regulators in several key markets are paying attention to an asset class that has grown outside the perimeter of bank-style prudential oversight. Against this backdrop, operational gaps that managers once absorbed quietly are becoming visible to investors, to counterparties, and to the market. What was tolerated as an inefficiency in a rising rate environment will not be forgiven in a more challenging one. The window to get ahead of this is now, not after the first significant loss event, which forces the conversation.

08 Conclusion

The managers who will define the next chapter of private credit are not necessarily those with the most capital to deploy. They are those who have built the infrastructure to know what is happening across their portfolios in real time, to act before problems become losses, and to demonstrate to investors that scale has not come at the expense of rigor. Risk infrastructure is no longer a supporting function. For the firms that get it right, it is a source of competitive advantage. For those that do not, it is a compounding liability.

09 How A&M Can Help

A&M Capability	Representative Services
RISK AND CONTROLS	Credit risk framework design, governance model build-out, covenant monitoring program development, fraud risk assessment, and control remediation
OPERATING MODEL DESIGN AND IMPLEMENTATION	Scalable operating model design for private credit, end-to-end workflow build-out, third-party selection and oversight, and technology and data architecture development to enable portfolio management, monitoring, and reporting
AI, DATA, AND TECHNOLOGY	Data governance design, AI-enabled risk monitoring implementation, platform integration and rationalization, analytics capability build-out and tactical data pipeline development across the investment lifecycle
INVESTIGATIONS AND CAPITAL RECOVERY	Independent verification of borrower and collateral representations, forensic investigation of suspected misconduct, data and network analytics to uncover concealed ownership structures, and governance support to protect lender rights

Key Contacts:

Gautham Ratnakar
Managing Director
Gratnakar@alvarezandmarsal.com

Jeremy Tilsner
Managing Director
jtilsner@alvarezandmarsal.com

Peter Kwan
Senior Director
pkwan@alvarezandmarsal.com

Kevin Murphy
Director
k.murphy@alvarezandmarsal.com

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