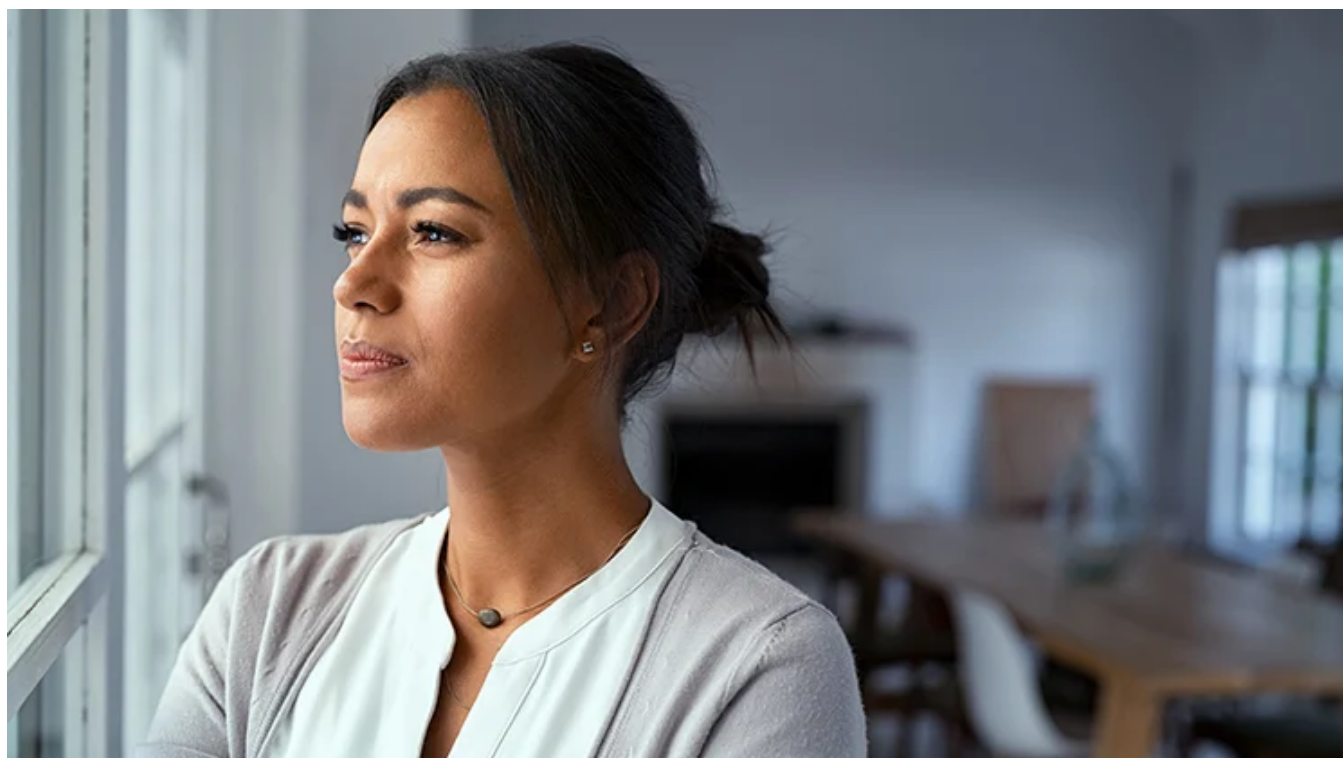


Private credit: how to invest safely and what to watch for

By Perpetual Asset Management

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Private credit works best when managers value assets honestly, manage liquidity carefully and avoid conflicts of interest. Perpetual's MICHAEL MURPHY explains

- Private credit offers diversity for fixed-income investors
- But not all opportunities are equal
- Find out about [Perpetual Pure Credit Alpha Fund](#), [Perpetual Diversified Private Debt Fund](#) and [Perpetual Credit Income Trust \(ASX:PCI\)](#).

PRIVATE credit is growing fast in Australia – offering a compelling combination of income and capital protection.

But not every private credit manager has kept pace with the standards investors deserve.

Poor valuation practices, opaque fee structures and liquidity problems have tarnished reputations and drawn scrutiny from the Australian Securities and Investments Commission.

These failings are real – especially among funds that make aggressive yield promises or have high exposure to property development.

But they are not inherent to private credit as an investment class.

Instead, they reflect uneven practice across managers in a fast-growing, nascent asset class.

Done with discipline and care, private credit can deliver steady income, genuine diversification and stability for long-term portfolios.

In its latest update on Australia's public and private markets, the corporate regulator ASIC called for higher standards across Australia's private credit sector.

"The areas ASIC focuses on in its *REP814 – Private Credit in Australia* report have been central to our view of best practice for many years," says Perpetual portfolio manager Michael Murphy.

"We build portfolios around quality, diversification and transparent valuations – the same safeguards that ASIC is encouraging investors to look for."

Why private credit belongs in portfolios

Private credit has become an important asset class by delivering attributes that investors value: reliable income, diversification beyond equities and government bonds, and capital stability through different market cycles.

For long-term investors, it can provide a steady, defensive allocation that helps smooth portfolio returns and generates attractive monthly income.

Part of the appeal is the diversity within the asset class.

“Having an unconstrained mandate across credit classes allows us to pick off the highest-quality assets in that class,” says Murphy.

“That means there’s an attractive risk-reward in finding the best, highest quality assets.”

But not all opportunities are equal.

Private credit spans a vast range of assets – from loans to blue-chip companies with durable business models down to speculative bets on small property developers – with an equally wide variation in potential returns and risks.

The variation means careful selection matters.

Investors need managers with the discipline to value assets transparently, manage liquidity prudently and diversify exposures across industries and maturities.

What ASIC is flagging – and why it matters

The regulator is pushing private credit managers to lift their standards to protect investors from risks they may not fully understand.

ASIC’s report highlights several recurring problems in the market:

- **Fees:** fees can misalign manager and investor interests. Some managers retain fees paid by borrowers, which means they may prioritise earning fees over maximising investor returns.
- **Valuations:** valuation practices are inconsistent. Some funds don’t do quarterly revaluations, and many rely on internal valuations with no independent oversight.
- **Property concentration:** ASIC estimates around half of the \$200 billion Australian private credit market is tied to real estate, much of it in construction and development. This segment has historically accounted for the bulk of credit losses in downturns.
- **Liquidity:** funds can promise access to money that does not match the liquidity of the underlying loans.
- **Reporting:** information is mixed and inconsistent. Some funds are reporting no impairments despite high-risk exposures, which is statistically unlikely.
- **Terminology and ratings:** labels are used loosely. Ratings like “investment grade” are used without ratings agency involvement, while terms like “senior debt” or “security” have inconsistent definitions.

ASIC REP814’s message is clear: these weaknesses don’t discredit private credit as an asset class, but they do highlight the importance of transparency, diversification and discipline in how it is managed.

How we work

Focus on high-quality corporates

Perpetual has been investing in private credit for more than a decade and has managed through multiple credit cycles.

The team – led by Michael Korber, Vivek Prabhu and Greg Stock – have worked together for around 20 years.

The philosophy has been consistent from the start: focus on quality first and avoid the temptation to chase yield at the expense of capital stability.

“What they found was the risk reward of private credit is attractive, but as you go up the risk spectrum, your risks rise exponentially – in nine periods out of 10, higher risk investments are rewarded with a higher coupon, but in the 10th year, you’ll have a credit event and more than give up those incremental gains,” says Murphy

“That means there is a private credit sweet spot in high quality assets where the risk reward is most attractive.”

The result is a process that focuses on large Australian corporates with strong competitive positions and robust cash flows, avoiding property development and SME lending where borrower quality is lower.

Discipline on fees and incentives

Perpetual charges a single transparent management fee – and never retains borrower-paid upfront fees.

This ensures investment decisions are based purely on risk and return for investors.

“We’re picking the deals that we think are best risk reward, not the ones that are the most attractive for us financially,” says Murphy.

Independent valuations and full disclosure

Perpetual’s loans are valued quarterly or more often if market conditions change, using independent market-based inputs.

When repayment is in doubt, revaluations are conducted swiftly, and any impairment is disclosed.

“It’s never a nice thing to have those conversations with investors – but it builds trust that if anything goes wrong, we’re not going to shy away from it,” says Murphy.



Michael Murphy, Perpetual portfolio manager and senior high-yield analyst

Conservative liquidity management

Perpetual funds are run on a true mark-to-market basis, adjusting spreads to reflect real liquidity in stressed conditions.

This approach, developed through experience in prior market downturns, ensures investors have an opportunity to redeem during downturns and those who stay are not disadvantaged by those who leave.

“Inflated NTA can trigger a run – it gives you an incentive to get out before the fund is shuttered,” says Murphy.

Clear use of ratings

Perpetual does not self-award “investment grade” labels. Where loans are unrated by agencies, they are classified as “not rated” and investors are encouraged to treat them as sub-investment grade.

“Self-estimating ratings is a bit like marking your own homework, and subject to conflict,” says Murphy.

No leverage

Perpetual avoids fund-level borrowing to enhance returns. Leverage can boost results in benign markets, but it also magnifies losses in downturns.

“It’s often not well-disclosed that funds are leveraging to improve returns. We’re focused on capital stability, so leverage is something we avoid,” says Murphy.

Bottom line

Private credit has become a core part of Australia’s investment landscape, argues Murphy.

“It can offer reliable income and diversification when managed with discipline, transparency and a focus on quality.

“ASIC’s *Private Credit in Australia* report reinforces what thoughtful investors already know – private credit works best when managers value assets honestly, manage liquidity carefully and avoid conflicts of interest.

“Investors should view this as an opportunity to demand higher standards of their managers – and partner with managers who have proven experience in delivering them.”

About Michael Murphy and Perpetual's Credit and Fixed Income team

Michael is a portfolio manager and senior high-yield analyst with Perpetual’s credit and fixed income team.

Michael manages Perpetual Loan Fund – a portfolio of private and syndicated loans that forms a crucial component of the ASX-listed [Perpetual Credit Income Trust \(ASX: PCI\)](#) and [Perpetual Pure Credit Alpha Fund](#).

Perpetual offers a range of cash, credit and fixed-income solutions.

Our credit and fixed income team are specialists in investing in quality debt.

They take a highly active approach to buying and selling credit and fixed income securities and invest extensively across industries, maturities and the capital structure.

Learn more about [Perpetual’s Credit and Fixed Income capabilities](#)

Questions? [Contact a Perpetual account manager](#)



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This article has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426.

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The Perpetual Diversified Private Debt Fund's Information Memorandum (IM), issued by PIML, should be considered before deciding whether to acquire, dispose, or hold units in the Fund.

Before making any investment decisions you should consider the PDS for PCI issued by PTSL and PCI's other periodic and continuous disclosure announcements lodged with the lodged with the Australian Securities Exchange (ASX), which are available at www.perpetualincome.com.au or can be obtained by calling 1800 022 033.

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