

# Private credit: Where it fits – and what to watch

By Perpetual Asset Management

11 June 2026



The reasons to own private credit have not changed despite negative headlines. GREG STOCK and MICHAEL MURPHY explain what to watch and where to invest

- Private credit offers stability and income
- Careful management needed
- Find out about [Perpetual Pure Credit Alpha Fund](#) and [Perpetual Credit Income Trust \(ASX:PCI\)](#).

PRIVATE credit plays an important role adding income and capital stability to a portfolio, but investors need to spend time to understand the underlying investments they own.

That's the message from Perpetual's Greg Stock and Michael Murphy in their latest [on-demand webinar Private Credit: What to watch, where to invest](#).

Private credit covers a wide spread of borrowers and risk – and credit investors need to think differently to equity investors because the payoff is different.

That means carefully assessing each borrower's business profile, industry structure, revenues, costs, margins and funding costs across the life of the loan.

“The main focus is to manage risk – and manage risk well,” says Stock, who manages Perpetual's unconstrained credit and long duration strategies.

“Return of capital is more important than return on capital.”

Recent headlines are testing the reputation of private credit.

Overseas lender failures, freezes on redemptions and valuation concerns are raising real questions about whether investors know the risks they are taking.

But Perpetual's Greg Stock says the underlying reasons to own credit have not changed.

“With a high cash rate of 4.35 per cent and the outlook for possibly a further increase ... the returns and the outlook for investors [from credit] looks really strong.”

Stock, alongside portfolio manager and senior high-yield analyst Michael Murphy, was speaking at the [on-demand webinar Private Credit: What to watch, where to invest](#).

## **Borrower quality**

Private credit covers a wide spread of borrowers and risk.

“It can range from Woolworths or Qantas – a large corporate can issue a private credit loan – through to your local coffee shop,” says Murphy.

“So, there's a really broad spread of risk in that market.

“We're focused on the high-quality end of the market. That's where we think the best risk reward is – quality large corporates that have strong economic moats and that are in industries that are resilient.”

## **Start with the downside**

Murphy says credit investors need to think differently to equity investors because the payoff is different.

“It’s the opposite of equities,” he says. “Your upside’s capped and your downside’s uncapped, so it’s really about avoiding losers more than it is picking winners.”

Stock says Perpetual looks at each borrower’s business profile, industry structure, revenues, costs, margins and funding costs across the life of the loan.

Murphy says this work matters because private credit investments are usually less liquid.

“We’re always thinking, are we comfortable being in this deal until maturity?” he says.

“What happens if rates go higher? What happens if input costs, like energy, go up – and are we comfortable given the structure of the industry, the borrowers in that they’re going to be able to pass through those costs?”

## **Avoid weak spots**

“We don’t do any property developer lending,” Murphy says.

“It makes up about half the private credit market in Australia, a big part of the market, and during downturns it tends to lead the losses as well.”

There are also risks in areas like software as the industry faces AI disruption.

“We think AI disruption is a real risk and something that requires a lot of deep diligence on before getting comfortable on software names,” he says.

## **Stay diversified**

Stock says Perpetual’s unconstrained approach gives the team room to step away from private loans when they are not paying enough for the risk.

Last year, when prices were tight, Perpetual moved allocations to other parts of the credit market instead.

“We were probably saying yes to maybe one or two out of five,” Stock says.

“Whereas now we’re saying yes to more deals than we were last year.

“There’s always someone willing to sell you overpriced risk,” Stock says.

## **Check fees and valuations**

Murphy says investors should pay close attention to the structure of fees and how managers value the assets they hold.

Some managers charge performance fees or keep a share of fees charged on loans.

“We think that’s not the best structure to have,” he says. “That can create conflicts.”

Perpetual charges a single, flat management fee.

Ratings are another concern, he says.

“For us, all of our ratings are from S&P and Moody’s,” Murphy says. “If they’re not rated, we put them in the not-rated bucket.

“Some managers have their own internal ratings, which we think is a bit like marking your own homework.”



**ASX:PCI**

Find out about  
**Perpetual Credit  
Income Trust**

[Learn more](#)

**Greg Stock**  
Head of Credit Research,  
Perpetual

A promotional graphic for ASX:PCI Perpetual Credit Income Trust. It features a dark blue background with a subtle pattern of white lines. On the right side, there is a portrait of Greg Stock, a man with short brown hair, wearing a dark suit, white shirt, and an orange patterned tie. To the left of the portrait, the text 'ASX:PCI' is written in large, bold, yellow letters. Below that, 'Find out about' is in light blue, and 'Perpetual Credit Income Trust' is in large, bold, white letters. At the bottom left, there is a white rectangular button with the text 'Learn more'. To the right of the button, the name 'Greg Stock' is written in bold white, followed by his title 'Head of Credit Research, Perpetual' in a smaller white font.

## About Greg Stock and Michael Murphy

Greg Stock is a senior portfolio manager and head of credit research with Perpetual’s credit and fixed income team.

Greg has more than 30 years of investing experience, including over 20 at Perpetual. He has researched and analysed credit markets on the buy side and sell side for more than a decade, through multiple cycles.

Greg is portfolio manager for several of Perpetual's credit and fixed income funds, including Perpetual Credit Income Trust (ASX:PCI).

Michael Murphy 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](#).

Want to know more? [Contact a Perpetual account manager](#)

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## Portfolio Managers



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