

The Transparency Gap: Why Information Shapes Confidence in Private Credit

I. EXECUTIVE SUMMARY

Private credit has become an essential component of modern capital markets, expanding financing alternatives for borrowers and investment opportunities for institutional investors. As the asset class has grown in size, complexity, and importance, however, the analytical infrastructure available to outside investors has not always evolved at the same pace.

Limited transparency is not evidence of lower credit quality. A private loan can be sound, just as a publicly traded or syndicated credit can deteriorate. Opacity, by itself, does not tell an investor which is which. What it affects is the ability to tell them apart independently.

Transparency therefore should not be judged simply by the volume of information disclosed. Meaningful transparency serves four related analytical purposes: it provides **visibility** into underlying risk, **comparability** across exposures and managers, **verifiability** of the conclusions being presented, and **timeliness** sufficient to identify changes in risk before they become realized losses.

Those distinctions matter because the transparency gap often does not sit between the borrower and the direct lender. Private lenders can possess extensive information, close borrower access, and substantial monitoring rights. The gap may instead emerge one level higher, between the manager that possesses the primary information and the investor that ultimately supplies the capital.

For insurance companies, the information chain can extend further still. Regulators and other stakeholders may rely on statutory filings, regulatory designations, private ratings, and information provided by investment managers rather than the underlying borrower information used to make the investment decision. The analytical challenge can become more significant when the asset manager and capital provider are affiliated because independence, reporting, and identification of related-party exposures become additional considerations. In one anonymized review of statutory filings, for example, exposures associated with an affiliated manager but not identified as affiliated in the relevant reporting field exceeded the portfolio explicitly reported as affiliated.

The same issue arises in comparing different forms of rated and unrated credit. A publicly available rating supported by a published methodology, analytical rationale, and ongoing surveillance provides an external framework against which conclusions can be assessed. An internal assessment may be equally rigorous, but an outside investor may have less ability to understand its assumptions, compare it consistently, or

MARKET COMMENT

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independently challenge the result. Private letter ratings introduce an important middle ground: the security may be rated for regulatory purposes while much of the analytical rationale supporting that conclusion remains unavailable to the broader market.

Our view is straightforward:

**Transparency does not determine credit quality.
It influences the confidence with which credit quality can be assessed.**

As private credit becomes a larger component of institutional portfolios, meaningful transparency should increasingly be judged by whether information is sufficiently visible, comparable, verifiable, and timely to support an independent view of risk.

II. TRANSPARENCY IS ABOUT MORE THAN INFORMATION

Credit markets function most effectively when risk can be understood, measured, compared, and priced. That requires visibility into cash-flow durability, leverage, liquidity, structural protections, concentrations, and how those factors may behave under stress.

But not all information performs the same analytical function. Some information tells an investor about a borrower or portfolio. Other information allows the investor to check, contextualize, or challenge what has been reported. Both matter, but the second function is particularly important to confidence.

A portfolio report containing hundreds of individual data points may still leave important questions unanswered if investors cannot determine how credit conclusions were reached, compare risk consistently across exposures, evaluate the assumptions supporting valuations and internal risk assessments, or determine whether those assessments reflect current information.

Meaningful transparency can therefore be evaluated through four tests:

- **Visibility**: Can the investor see enough of the underlying exposures, performance, concentrations, structural features, and material changes to understand the risk?
- **Comparability**: Can those risks be evaluated consistently across borrowers, managers, vintages, strategies, and time?
- **Verifiability**: Is sufficient information available for an investor or other independent party to test, benchmark, and challenge the analytical conclusions being presented?
- **Timeliness**: Does the information reflect the current condition of the exposure, and are material changes in credit quality, valuation, structure, or performance identified with sufficient speed to remain decision-useful?

Timeliness deserves particular attention. Information may be visible and consistently reported but still provide limited analytical value when it is stale. In portfolio reviews, for example, positions can remain at unchanged valuations across numerous reporting periods even as other indicators suggest that the borrower's circumstances are evolving. The problem in that situation is not necessarily a lack of information. It is that the information may no longer adequately describe current risk.

These four tests move the transparency debate away from the simple question of how much information is provided and toward the more useful question:

Does the information enable independent credit judgment?

III. WHAT THE TRANSPARENCY GAP ACTUALLY LOOKS LIKE

1. Syndicated Lending vs. Direct Lending

Consider an investor evaluating a broadly syndicated leveraged loan. Depending on the transaction and the investor's position, the information set may include audited financial statements, periodic borrower reporting, compliance and amendment materials, third-party credit opinions in rated transactions, and observable secondary-market indications. Those inputs help an investor not only understand the credit but also compare its own assessment with external signals.

A comparable borrower financed through a private direct-lending structure presents a more nuanced picture. The direct lender itself may actually be better informed than participants in a broadly syndicated transaction. Bilateral negotiation can provide extensive information rights, close borrower access, and tighter covenant monitoring. The lender's understanding of the individual credit may therefore be highly developed.

Yet an outside investor in the fund holding that loan does not necessarily inherit the lender's informational advantage.

The investor may receive periodic NAV reporting, portfolio summaries, manager risk classifications, and commentary without equivalent visibility into borrower performance, covenant developments, amendments, assumptions supporting valuations, or changes in underlying credit quality.

And some of the most informative signals can sit precisely within that blind spot.

2. What the Gap Can Hide

Anonymized portfolio observations illustrate why trajectory matters as much as a point-in-time risk classification.

In one case, the principal balance of a private loan remained essentially unchanged while its reported fair value declined to a small fraction of cost. In another, a position remained outstanding through an extended period before ultimately being restructured into a different legal entity. In a third, the balance of one tranche increased materially while another tranche was extended and repriced before the borrower ultimately entered bankruptcy.

No single indicator necessarily establishes deterioration on its own. But patterns such as growing principal, PIK accumulation, repeated extensions, restructuring activity, declining valuations, and changes in cash interest can become considerably more informative when evaluated together and through time.

That is the fundamental transparency question. It is not simply whether information exists. It is who can see it, when they can see it, how consistently it is presented, and whether the capital provider can use it to reach an independent conclusion.

Two borrowers could present similar underlying credit risks while investors' ability to observe and independently evaluate those risks differs materially. That is one form of the transparency gap.

3. Rated, Unrated, and Privately Rated Credit

A second comparison illustrates a different dimension.

In public rated credit markets, investors often have access to an independent credit opinion supported by published methodologies, analytical rationales, and ongoing surveillance. Investors do not have to agree with a rating for that independent viewpoint to be useful. Part of its analytical value lies in providing an external framework against which an investor's own conclusions can be compared and challenged.

But "rated" and "transparent" should not automatically be treated as synonymous.

Private letter ratings are an important example. A transaction may carry a rating used in an insurer's regulatory treatment while the analysis supporting that rating is not publicly available. The rating symbol provides information about the credit conclusion, but outside investors and other market participants may have limited access to the underlying rationale, assumptions, peer comparisons, or subsequent surveillance supporting it.

That distinction matters because a rating conclusion and transparency into the basis for that conclusion are two different things.

Private-credit managers may likewise employ sophisticated underwriting models, proprietary scores, stress testing, borrower surveillance, and detailed valuation processes. The issue is not whether those processes are rigorous. It is whether the methodologies, assumptions, inputs, and changes in those inputs are sufficiently visible and consistently presented for an outside investor to understand, test, compare, and challenge the resulting conclusion.

Valuation provides a particularly useful illustration. The same private loan can appear at different valuations when held by different reporting entities. That does not necessarily mean one valuation is wrong. Valuation methodologies, assumptions, reporting dates, or information sets may legitimately differ.

But dispersion itself is information. Where similar or identical exposures produce materially different conclusions, transparency into the methodology and assumptions becomes more important, not less.

Likewise, a mark that remains unchanged over multiple reporting periods may represent genuine stability. Or it may represent the absence of new information or reassessment. Without insight into the valuation process and the timing of that assessment, an outside investor may have difficulty determining which explanation applies.

IV. THE INSURER DIMENSION

The transparency issue takes on additional importance for insurance-company investors because private-credit exposures can sit at the intersection of asset management, credit assessment, statutory reporting, and regulatory capital.

An insurer may hold an exposure directly, through a fund or special-purpose vehicle, or through an affiliated asset manager. The credit may have an external public rating, a private letter rating, an internal assessment, or a regulatory designation derived from one of those sources. Each additional layer can increase the distance between the underlying borrower information and the party ultimately evaluating the insurer's risk.

Affiliation deserves particular scrutiny in this context.

Affiliated asset management is not inherently problematic. An affiliated manager may possess considerable expertise, scale, and access to information. But where the manager originating, managing, valuing, or monitoring an investment is

associated with the capital provider, transparency around that relationship becomes analytically relevant.

Anonymized statutory-filing reviews demonstrate why. In some portfolios, identifying economic affiliations has required looking beyond the explicit affiliate designation and consolidating exposures across related vehicles and manager structures. In other cases, grouping related investment vehicles has materially changed the apparent concentration to an individual manager, sponsor, or issuer family.

The analytical principle is straightforward: Economic exposure should not disappear because legal entities or reporting classifications change.

For an investor, regulator, or risk manager attempting to understand portfolio concentrations, the relevant question is therefore not only "What securities do I own?" It is also "To whom am I economically exposed?"

V. FROM AN INFORMATION GAP TO A CONFIDENCE GAP

Credit risk and confidence in a credit assessment are related, but they are not the same thing.

Imagine two loans with comparable underlying credit characteristics. If one is supported by information that is current, comparable, and independently testable while the other is supported by information that is limited, stale, or difficult to verify, their fundamental credit risk could nevertheless be similar.

But the confidence surrounding the two assessments should not necessarily be the same.

That distinction has potentially important consequences for institutional portfolios because regulatory or internal risk classifications may not fully capture differences in analytical verifiability. Two investments assigned the same credit category may receive similar treatment even though investors have substantially different abilities to evaluate the underlying evidence supporting those classifications.

The confidence gap does not necessarily mean the less transparent investment deserves a lower credit assessment. It means the range of uncertainty around that assessment may be wider. And that is an important distinction.

From an investor's perspective, meaningful transparency should enable four fundamental questions to be answered:

Exhibit 1
Four Questions Meaningful Transparency Should Answer

What do I own?	Underlying exposures, concentrations, structural characteristics, and material sources of risk.
How is it performing?	The trajectory of borrower fundamentals, leverage, liquidity, covenant performance, and other indicators through time.
How is the risk being assessed?	The framework, assumptions, and measures behind internal credit conclusions, and whether they can be compared consistently.
What happens if conditions deteriorate?	How exposures and portfolios could behave outside the expected case, including under adverse economic, operating, liquidity, or market conditions.

The less visibility investors have into these questions, the more difficult it becomes to distinguish temporary volatility from fundamental deterioration, validate valuations, compare risks across managers, identify migration in credit quality, or recognize emerging stress before it becomes a realized loss.

Greater uncertainty is therefore **not** merely a reporting inconvenience. It is an analytical consideration.

Importantly, more information does not eliminate uncertainty. Even analysis supported by extensive borrower and manager information remains subject to uncertainty regarding economic conditions, collateral realization, correlations, recovery timing, and borrower behavior.

The transparency objective is not perfect foresight. It is to narrow the range around the answer.

VI. MORE DISCLOSURE IS NOT NECESSARILY THE ANSWER

A legitimate objection is that private-credit information is private for a reason.

Borrower confidentiality agreements matter. Competitive information matters. Proprietary underwriting methods matter. Publicly exposing individual positions or valuations could potentially create commercial consequences, affect negotiations, or reveal information the lender is contractually prohibited from disclosing.

Those concerns should not be dismissed. But confidentiality and analytical transparency are not mutually exclusive.

The objective should not be disclosure for disclosure's sake. A longer quarterly report or hundreds of additional data fields do not necessarily create better analysis. The better objective is decision-useful transparency: enough relevant, consistent, and timely information to allow investors to form their own view and reconcile that view with the manager's.

That can be achieved without publishing confidential borrower-level documents. Standardized definitions, aggregated information, anonymized performance data, consistent migration statistics, comparable valuation measures, and common reporting of deterioration indicators can improve analytical transparency while preserving legitimate confidentiality.

Private lending exists in part because it offers flexibility public markets cannot always provide, including customization, speed, negotiated terms, and direct borrower relationships.

Meaningful transparency need not eliminate those advantages. Flexibility in transaction structure and consistency in how risk is measured are not mutually exclusive.

VII. WHAT CLOSING THE GAP REQUIRES

Greater consistency, rather than simply greater volume, around a focused set of credit information could materially improve analytical visibility.

That includes:

- **Portfolio composition and concentrations:** sufficient information to identify material borrower, sponsor, sector, strategy, geographic, and issuer-family exposures.
- **Credit migration:** internal credit classifications presented consistently enough to show changes in risk through time.

- **Fundamental credit measures:** leverage, coverage, liquidity, cash generation, and other relevant measures presented on reasonably comparable terms.
- **Indicators of deterioration:** non-accruals, PIK income and PIK toggles, covenant amendments, maturity extensions, restructurings, principal increases, and other material developments.
- **Valuation information:** the methodology and principal drivers of valuation, explanations for material changes, independent review where applicable, and the length of time significant marks have remained unchanged.
- **Realized and unrealized performance:** information sufficient to distinguish income generation from changes in principal value and ultimately realized credit outcomes.
- **Stress sensitivity:** information about how exposures or portfolios may behave under relevant downside scenarios.
- **Affiliated and related-party exposures:** positions originated, managed, financed, or valued by related parties presented in a manner that allows the economic relationship to be understood.
- **Missing information:** material fields that are unavailable should be identified as unavailable rather than simply left blank. The absence of decision-useful information can itself be analytically relevant.

These elements reinforce the four tests.

Visibility tells investors what is there.

Comparability allows them to understand differences.

Verifiability provides a basis for challenging conclusions.

Timeliness tells them whether the information still describes the risk that exists today.

None of this requires publishing proprietary lending models or confidential borrower information. The objective is sufficient analytical consistency to allow an investor's analysis and the manager's conclusions to be placed side by side, understood, and where necessary reconciled.

VIII. FROM TRANSPARENCY TO CREDIT INTELLIGENCE

Closing the transparency gap ultimately requires more than reporting.

Private-credit information is fragmented across borrowers, transactions, managers, strategies, vintages, legal entities, definitions, and analytical methodologies. Even when significant information exists, inconsistency can make meaningful comparison difficult.

The next stage in the market's development is therefore not simply more data. It is the ability to transform available information into credit intelligence. Credit intelligence requires information to be sufficiently structured and comparable to normalize key measures, benchmark risks, identify concentrations, observe credit migration, evaluate valuation changes, recognize emerging deterioration, and examine portfolio behavior under stress.

Transparency makes information available. Credit intelligence makes it useful.

This distinction becomes particularly important at the portfolio level. An institution allocating capital across multiple private-credit managers may receive extensive reporting from each one and still struggle to compare exposures consistently if definitions, internal risk scales, valuation conventions, legal structures, and performance measures differ.

A common analytical framework can help convert manager-specific information into a portfolio-wide view of risk. It can also reveal exposures that may be difficult to observe in legal-entity-level reporting.

An investor may appear to hold numerous unrelated positions when several are ultimately associated with a common sponsor, manager, borrower family, or economic exposure. Conversely, similar names or surface classifications can sometimes imply relationships that do not actually exist.

That makes normalization more than a data exercise. Classification itself requires credit judgment.

IX. WHY THIS MATTERS MORE AS PRIVATE CREDIT GROWS

Private credit is no longer a specialized allocation in institutional portfolios as it has grown to more than \$2 trillion globally (IMF, April 2024 GFSR; Federal Reserve Board, 2025). Furthermore, business development companies account for about 14% of the market (IMF, 2024), and life insurers' private placement holdings reached \$849 billion, or 14% of general account assets, in 2024 (Federal Reserve Bank of Chicago, 2025). As those allocations grow, the consequences of limited comparability and independent analytical visibility grow with them.

The implication is not that private credit is inherently riskier because it is private. Nor is it that private markets should be required to mimic public-market disclosure. The implication is that larger and more interconnected markets require analytical infrastructure capable of keeping pace with them.

An investor that cannot distinguish temporary volatility from fundamental deterioration, compare risk consistently across managers and vintages, or identify economic concentration across multiple structures faces greater uncertainty about the nature, magnitude, and direction of portfolio risk.

At the market level, inconsistent analytical visibility can also make it harder to distinguish underwriting discipline, compare relative value, understand valuation dispersion, and direct capital toward stronger risk-adjusted opportunities. This should be viewed as part of market maturation rather than as a rejection of the private-market model.

As markets deepen, their supporting analytical infrastructure tends to evolve with them. For private credit, that evolution is likely to place increasing value on common risk measures, timely surveillance, comparable performance information, transparent analytical frameworks, and independent mechanisms for testing credit conclusions.

X. CONCLUSION: FROM MORE INFORMATION TO BETTER QUESTIONS

Private credit has earned an important and increasingly permanent place in institutional portfolios. The next stage of its development should include analytical infrastructure capable of keeping pace with that growth.

That does not require private markets to become public markets.

It does require investors to have sufficient information to understand what they own, evaluate how exposures are performing, compare risk consistently, determine whether information remains current, and independently challenge the conclusions on which investment decisions depend.

Transparency does not determine credit quality.

It determines the confidence with which credit quality can be assessed.

And that suggests that investors should judge transparency not simply by the length of a manager's report, but by the quality of the questions that report allows them to answer.

Among them:

- How is PIK exposure changing, and which positions have migrated from cash-pay to PIK?
- Which borrowers have received maturity extensions, amendments, restructurings, or material increases in principal?
- How long have individual valuations remained unchanged, and what information would cause them to change?
- Who performs or independently reviews those valuations, and how are differences in valuation resolved?
- Where do affiliated, related-party, sponsor, manager, or issuer-family exposures create concentrations that may not be apparent from individual legal entities?
- What information is unavailable, stale, or not independently verifiable?
- What does the portfolio look like when those risks are evaluated under stress rather than under the expected case?

The purpose of those questions is not to presume that something is wrong. It is to provide enough information to determine independently whether something is right.

That is the difference between disclosure and transparency. And it is how closing an information gap can help narrow the confidence gap.