Semi-liquid stress for private credit – what it means for you

The private credit market has entered its most turbulent phase in more than a decade. After years of rapid expansion and steady returns, cracks in confidence have started to appear. The bankruptcy of First Brands last fall set off what commentators jokingly – but tellingly – called the hunt for "credit cockroaches": the idea that if one borrower defaults, more may be lurking in the shadows. Combined with falling interest rates, which have eroded the appeal of floating-rate yields, perception has quickly shifted.

Yet while the reaction has been sharp, it's important to maintain some perspective: the asset class as a whole remains fundamentally sound, with most managers reporting stable credit performance and robust underwriting discipline.

But sentiment matters, particularly for retail investors who have entered the private credit space more recently. A combination of market noise, falling interest rates and headline-driven concern has prompted some to redeem first and analyze later. And this instinct has collided with the rapid rise of semi-liquid fund structures, which provide periodic redemption opportunities but invest in assets that cannot be sold on the same timetable.

The result: a handful of high-profile cases where semi-liquid funds have experienced redemption requests beyond what their structures are designed to accommodate. These are not signs of deep structural weakness in private credit. Rather, they highlight the well-known tension between investor expectations and asset-level liquidity – a tension observed in other asset classes before.

A perfect storm — but not a structural failure

Several forces have combined to create today's pressures:

1. A confidence shock at an awkward moment

First Brands' collapse generated a wave of questions across the industry, even for managers with minimal to no exposure. Investors, particularly those less familiar with private markets, reacted strongly to *perceived* rather than *actual* risk.

Importantly, many managers continue to report stable portfolio performance and no material deterioration in credit fundamentals.

2. Falling rates and changing return dynamics

The easing of base rates has reduced the elevated yields enjoyed during the recent peak. Yet while income levels have normalized, relative value remains compelling versus public credit, and many allocators view this recalibration as a healthy return to long-term norms rather than a reason for alarm.

3. Retail behaviour amplifying short-term volatility

Most retail investors come from a world of daily-priced, daily-liquid products. When negative headlines emerge, redemption activity can spike regardless of underlying asset performance. This behavioral pattern – as opposed to systemic credit deterioration – has intensified pressures on the semi-liquid segment.

Crucially, these dynamics are not unique to private credit. The real estate segment has been here before, too. Several high-profile real estate funds have faced liquidity crunches and gating during previous market swings. In those cases, asset level fundamentals often remained solid, but the mismatch between redemption terms and underlying liquidity proved destabilising. The lessons from those episodes – transparency on liquidity limits, robust stress-testing, clear investor education and careful expectation management – apply directly to today's environment.

Why retail-sold private credit carries predictable tension

The challenges facing semi-liquid private credit funds were not unforeseeable. Private credit's strengths have historically relied on two pillars:

- **The illiquidity premium**, which rewards investors for holding assets outside public markets
- **Limited mark-to-market volatility**, allowing managers and investors to look through short-term noise.

Once private credit is packaged into products designed for retail distribution, some degree of liquidity must be offered – and that immediately introduces a

structural contradiction:

- The appeal of private credit stems partly from *not* being priced daily
- Yet periodic liquidity windows create the perception of daily-liquid pressures.

This contradiction played a major role in past real estate gating events – investors rushed for the exit not because assets were collapsing, but because they feared being the last ones left inside the gate. The same psychology is visible in private credit today.

Semi-liquid funds remain private-market vehicles

The current environment reinforces a central truth: semi-liquid funds are still fundamentally illiquid private market structures, even if they offer periodic access. Four realities stand out:

1. **Liquidity is conditional, not guaranteed** as private credit assets cannot be sold instantly without discounts. Liquidity windows are designed for most scenarios, not all.
2. **Valuations lag fast-moving sentiment** because NAVs are estimates, not real-time prices.
3. **Redemption controls protect investors**, just as they did in real estate funds during stress. Gates preserve value.
4. **These vehicles belong in the illiquid bucket**, even with quarterly liquidity.

These are features, not flaws, and they mirror the experience of other asset classes that have navigated similar tensions. The real estate examples of the past make clear that when liquidity expectations run ahead of asset realities, even well-managed portfolios face short-term pressure.

The industry’s real challenge is expectation management

The recent wobble is less about credit risk and more about bridging the gap between investor expectations and private market reality. As with the real estate gating instances, the underlying portfolios did not suddenly deteriorate;

sentiment shifted faster than liquidity measures could be implemented.

Managers who embrace clearer communication, transparent liquidity frameworks and more proactive investor education will be better positioned to weather these cycles.

Why this matters for managers

Periods of market stress place significant pressure on operating models. Semi-liquid funds in particular demand precision in liquidity oversight, valuation governance and investor servicing. Outsourced fund administrators can help managers navigate this environment through:

1. Liquidity and redemption operations

Cash-flow modelling, redemption-queue management and scenario analysis help managers anticipate pressure and avoid forced asset sales.

2. Independent valuation governance

External oversight provides discipline and credibility during periods of heightened investor scrutiny, a key lesson from past real estate gating events.

3. Scalable investor servicing

Stress periods see surges in investor queries and processing demands; outsourced support prevents operational bottlenecks and maintains confidence.

4. Structuring and design expertise

Cross-cycle experience helps refine liquidity frameworks, disclosures and distribution practices, exactly the kind of refinements real estate funds implemented after their own gating episodes.

5. Practical insight into semi-liquid fund behaviour

Administrators with real-world experience across market cycles can help anticipate friction points and guide managers through them.

A long-foreseen test arrives

The private credit industry was always going to be stress-tested once retail distribution reached scale. Many predicted the issues we are seeing today. The case studies we've seen to this point didn't create the problem; they revealed them, clearly, publicly, and in real time.

Semi-liquid structures still have a powerful role to play in broadening access to private markets. But their sustainability hinges on aligning expectations with reality. That requires clarity, transparency, strong operational foundations and ongoing education. Additionally, if retail investors aim to construct a well-balanced, diversified portfolio, they can meet their liquidity requirements from other more liquid assets including cash positions, interest-bearing debt, and periodic, systematic drawdowns from long-term investments, easing the burden on their private credit holdings.



