

EY-Parthenon Annual Australian Private Debt Market Overview

March 2026



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Foreword

We are delighted to launch the EY-Parthenon Annual Australian Private Debt Market Overview, where we review the events of the 2025 calendar year and provide insights into what we expect to see in 2026.

Australia's financial landscape is shifting as private credit moves from a niche product to a mainstream funding source. With banks retreating from higher-risk and complex lending under tighter regulatory settings, private credit has grown rapidly to fill emerging financing gaps, with Assets Under Management (AUM) rising to [A\\$234.5b in 2025](#).

The expansion of private credit presents significant opportunities for borrowers looking to finance their next phase of growth, given lenders' ability to respond to borrower demand through flexible underwriting for companies of all sizes and credit ratings.

The private market is expanding in Australia, reinforcing its role as a key component of the financing landscape. Lenders are increasingly differentiating from traditional providers through sector specialisation, bespoke underwriting capabilities and diversified portfolios, positioning them to capture growth while managing borrower distress risk.

However, there is no such thing as a free lunch. Indeed, the same features that have enabled private credit's growth also expose the sector to heightened risks, particularly during periods of economic uncertainty.

In particular, middle-market borrowers, a major share of the private credit universe, often have limited alternative funding options and the lack of daily pricing as compared with public debt markets can mask underlying volatility.

In a prolonged tightening cycle, refinancing pressures and weaker earnings have the potential to expose vulnerabilities that haven't yet surfaced.

Compounding potential headwinds and the relative lack of transparency across the asset class compared with bank lending, rendering it more difficult for regulators to monitor systemic risks as the market grows.

To mitigate any potential risks, the asset class requires sophisticated governance frameworks, advanced data capabilities and proactive management teams capabilities that not all market participants have mastered.

As our publication illustrates, Australia is experiencing elevated formal restructuring levels across sectors such as construction, hospitality and retail where delays, cost blowouts and inflationary pressures have intensified stress for borrowers.

These sectors are also among the most heavily funded by private credit providers. This creates a direct and important interplay between the growth of private credit and restructuring situations, a dynamic that investors and regulators alike will need to be on high alert with.

Moving forward, how borrowers, lenders and regulators respond to today's evolving macroeconomic landscape will define the resilience and maturity of Australia's private credit sector in the years ahead.

EY-Parthenon is here to help you navigate whatever 2026 brings. Our multidisciplinary EY-Parthenon teams help businesses refine strategies across transactions and capital management to strengthen resilience, innovation and profitability.

If you'd like to understand more about the 2026 outlook, how your business may be affected and where opportunities may emerge, our EY professionals would be pleased to support you, feel free to reach out.

Authors



David Kennedy
Partner, Turnaround and Restructuring
Strategy
Ernst & Young, Australia
P. +61 2 9248 5864
E. david.a.kennedy@parthenon.ey.com



Morgan Kelly
Partner, Turnaround and Restructuring
Strategy
Ernst & Young, Australia
P. +61 2 8295 6533
E. morgan.kelly@parthenon.ey.com



Martie Tziotis
Director, Turnaround and Restructuring
Strategy
Ernst & Young, Australia
P. +61 2 9248 4834
E. martie.tziotis@parthenon.ey.com



Manesh Redhi
Director, Audit
Ernst & Young, Australia
P. +61 2 9248 5362
E. manesh.redhi@au.ey.com



Edward Lyons
Assistant Director, EY Insights Private Equity
Ernst & Young, Australia
P. +61 2 8295 6754
E. edward.lyons@au.ey.com

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Executive summary

Australia's economy is growing modestly, supported by domestic demand but weighed down by global uncertainty, inflation and cautious investment. These conditions, combined with reduced bank lending and rising demand for alternative financing, are accelerating the rise of private credit as a key part of Australia's funding landscape.

Key highlights

1 Remarkable growth of the global private credit market

The global private credit market continues to expand at a remarkable pace, with total AUM held by investment funds increasing from A\$0.4t in 2010 to A\$5.4t today, equivalent to a Compound Annual Growth Rate (CAGR) of 18.1%. This expansion is set to continue, with the global private credit market forecast to rise to A\$7.8t in AUM by 2029, driven by structural changes to debt capital markets and a multi-trillion-dollar opportunity for expansion to meet unmet borrower demand.

2 Increasing importance of private credit to Australian capital markets

Private credit has rapidly expanded in Australia, moving from a niche option to a significant growing source of corporate and commercial financing with an estimated CAGR of 21.0% between 2015 to 2025.

Our annual Private Debt Market review estimates that Australia's credit market has grown to A\$234.5b in 2025, with the number of private credit funds increasing significantly since 2017, intensifying competition for new transactions.

3 Elevated due diligence required by private credit as the sector continues to operate in higher-risk segments

Credit risk remains a central focus in private credit as the sector globally operates in higher-risk segments. Formal restructuring processes reached record highs in Australia in 2025, as reported by ASIC, with new companies entering external administrations rising to 14,650 in 2025, an 8.2% increase from 2024.

The top three industries affected were construction, hospitality and retail, which comprised 24.3%, 15.6% and 6.9% of the total external administrations in 2025, respectively.

Recent high-profile collapses of leveraged groups, such as First Brands Group, Tricolor Holdings and the Adgemis Public Hospitality group in Australia, which impacted loans across bank, syndicated and private credit markets, indicate that lenders must remain vigilant as higher funding costs and macro uncertainty test portfolio robustness.

4 The regulatory landscape is changing

The Australian Securities and Investments Commission (ASIC) has indicated that it does not intend to introduce new regulation

specific to private credit in the near term. However, throughout 2026 ASIC expects to maintain close supervisory attention on the sector as it continues to expand. This ongoing focus is expected to include:

- industry-led standards development, with ASIC encouraging industry associations
- enhanced data collection, including a pilot program focused on wholesale private market funds, to improve ASIC's visibility over market size, risk and investor exposure
- targeted surveillance and thematic reviews of private credit lenders and fund managers, and potential further policy consideration

5 Headwinds abound, but opportunities for growth remain in abundance

Global growth is slowing as supply shocks, trade tensions and policy uncertainty reshape costs, risks and strategic choices for 2026. The private credit outlook for 2026 is shaped by the intersection of rapid market growth, regulatory intervention and emerging credit risks. Continued expansion of private credit is anticipated, but the sector's trajectory will depend on its ability to address regulatory concerns, maintain credit quality and innovate responsibly.

In brief

- Globally, private credit AUM has increased to A\$5.4t, with the market forecast to grow to A\$7.8t by 2029.
- The Australian private credit market continues to expand, estimated at \$234.5b in 2025 with the top 10 private credit funds totalling 38.3% of total AUM.
- We anticipate the trend of rising informal and formal restructuring processes will likely continue and credit risk remains a central focus as private credit continues to capture market share in higher risk segments.
- Market participants should expect continued regulatory scrutiny and are encouraged to proactively assess and uplift their governance, disclosure and risk management frameworks in line with ASIC's stated expectations.

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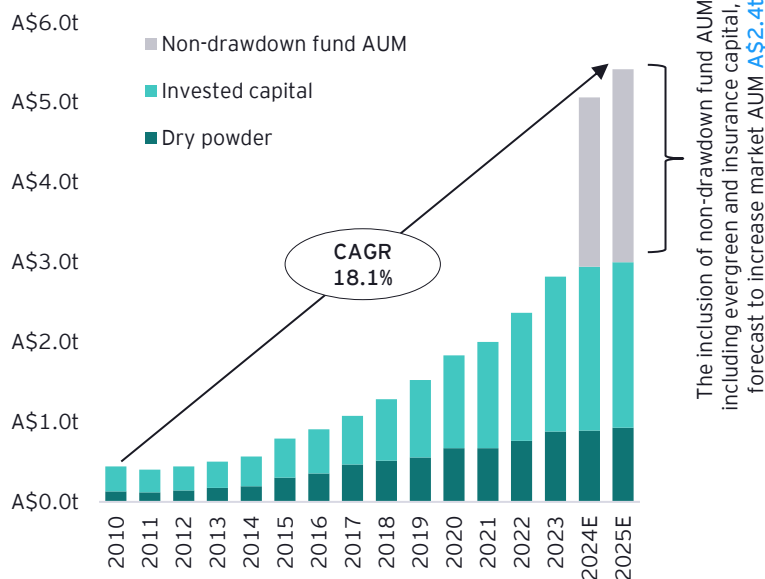
Global market review

The global private credit market continues to expand at a remarkable pace with 3,375 managers globally responsible for A\$5.4 trillion in AUM today. Driven by reduced bank lending, shifting borrower preferences, and the expanding capabilities of private credit managers, the industry is forecast to grow to a A\$7.8 trillion asset class by 2029.

Historical global market growth

The global private credit market continues to expand at a remarkable pace, with total AUM held by institutional investment funds increasing from A\$0.4t in 2010 to A\$5.4t today, equivalent to an annualised growth rate of 18.1%. However, this aggregate figure may underrepresent the true size of the private credit market as a range of market participants with private credit lending arms are excluded from the total.

Chart 2.1: Global private credit AUM market growth since 2010, A\$t¹



Source: EY-Parthenon, EY Insights, Pitchbook

Forecast global market growth

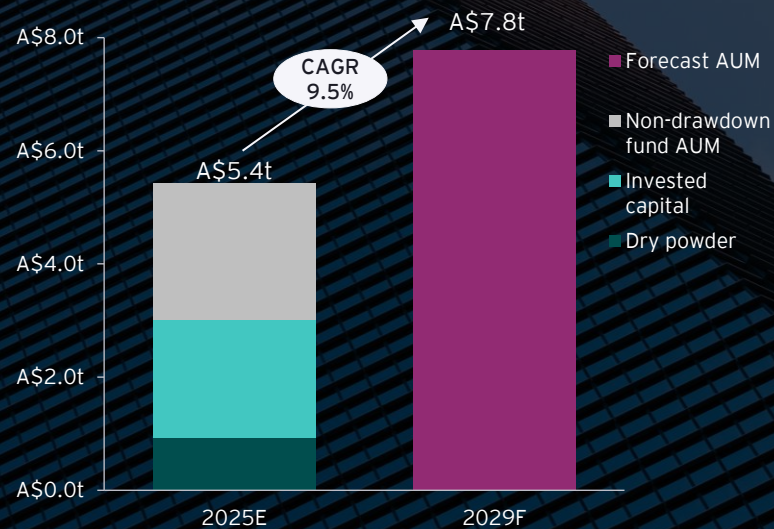
Despite the remarkable growth observed to date, there is little indication that growth will plateau over the coming year. Driven by a combination of structural and cyclical factors, the compelling fundamentals of private credit from the perspective of both corporate borrowers and capital allocators is forecast to fuel private credit's growth to a A\$7.8t industry by 2029. Underlying this growth outlook are the continued scaling of direct lending drawdown funds, the expansion of evergreen structures targeting retail capital, and insurers' deepening commitment to private credit as a strategic solution for duration matching and capital-efficient yield generation.

Market growth and allocation drivers:

The main drivers for growth, historically and in the forecast period, are summarised below and detailed over the page:

1. Supply gap in traditional loan market
2. Loan term flexibility
3. Structural resilience
4. Broadening lending capabilities
5. Scaling origination capabilities via public-private partnerships

Chart 2.2: Forecast growth of global private credit market by fund type (A\$t)^{2,3}



Source: EY-Parthenon, EY Insights, Pitchbook 2029 Private Market Horizons

Private credit has expanded into critical sectors that require long-duration and flexible structures.

1. Supply gap in traditional loan market

Private credit has become a key catalyst for growth as post-Global Financial Crisis (GFC), regulatory reforms have constrained banks' ability to extend credit, significantly reducing financing access particularly for mid-sized corporates and non-investment grade issuers.

This has contributed to a substantial structural funding gap for corporate borrowers seeking to finance their next stage of growth, with non-bank lenders increasingly seeking to fill this gap while simultaneously expanding their origination network to compete further upstream.

2. Loan term flexibility

Private credit's growth reflects more than structural supply gaps in the syndicated loan market. Its appeal is driven by the bilateral nature of the asset class, in which the absence of syndication enables greater underwriting flexibility and higher execution certainty. Direct lender-borrower relationships allow non-bank lenders to structure bespoke financing solutions that are often better aligned with borrowers' strategic objectives.

3. Structural resilience

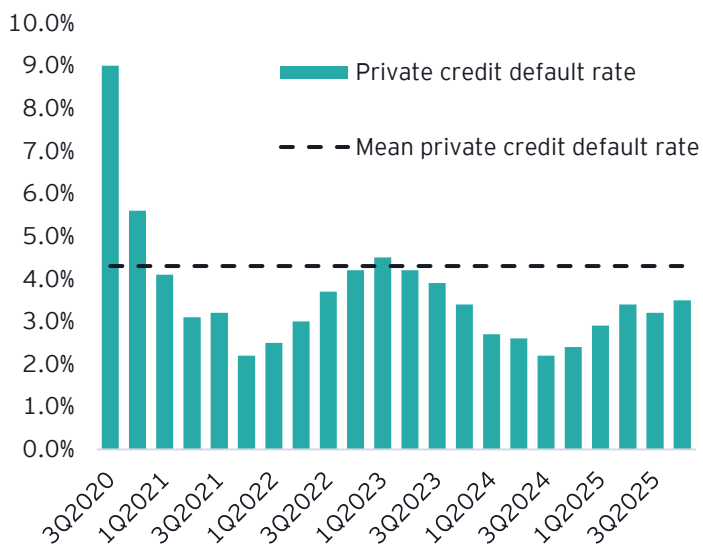
Unlike syndicated loans, private credit loans are typically held to maturity by closed-end lenders, insulating borrowers from short-term market and syndication pressures, thereby allowing management teams to focus on executing long-term strategies rather than managing near-term covenant volatility.

This structure also creates stronger incentive alignment than in public markets, because credit managers realise returns over time only if the investment performs. This encourages deeper borrower relationships, increased information sharing and active lender and borrower engagement throughout the credit cycle.

Reinforced by conservative Loan-to-Value (LTV) structures, seniority in the capital stack, and strong covenant enforcement, these features have translated into default and recovery outcomes comparable with fixed income asset classes spanning high-grade credits to leveraged loans.

And while private credit managers have more scope than public fixed income investors to mitigate outright defaults through early, covenant driven interventions, covenant default rates themselves remain below long-term averages, which highlights the robustness of borrowers.

Chart 2.3: Private credit covenant default rates⁴



Source: Lincoln International

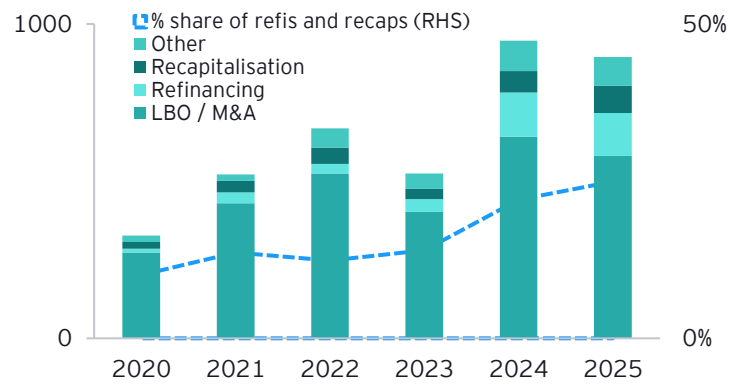
4. Broadening lending capabilities

What was once a market focused on opportunistic credit and direct lending to leveraged middle-market companies has grown into a broad financing solution for higher performing credits spanning corporates across all sizes.

Over the last 12 months alone, private credit has provided an estimated A\$250b of financing to investment grade corporates, primarily via private placements⁵, while simultaneously increasing its share of US\$1b+ buyouts financed from 9.2% in 2015 to 36.4% through 2025.⁶

Crucially, credit originators are diversifying not only who they lend to, but also what purposes those loans are used for. Whereas, acquisition financing has historically accounted for the bulk of private credit proceeds, recapitalisations and refinancings accounted for 24.9% of credits issued through 2025 compared to 10.1% in 2020 - with a significant proportion of these loans coming from Broadly Syndicated Loan (BSL) takeouts.

Chart 2.4: New issue private credits by use of proceeds⁷



Source: EY-Parthenon, EY Insights, Pitchbook

5. Scaling origination capabilities via public-private partnerships

Historically, public and private debt markets have competed head-on, a new era of collaboration between traditional banks and private credit funds is beginning to reshape debt capital markets.

While not yet widespread across the broader market, recent partnerships signal a growing convergence between banks and private capital. Strategic collaborations such as Apollo Global Management with Citigroup, Ares Management with Barclays, and Blackstone with Wells Fargo highlight the increasing tendency for these groups to work together across origination, distribution and financing of lending exposures.

For private credit managers, these partnerships can help credit funds leverage banks' origination capabilities, underwriting platforms and long-standing corporate relationships to unlock repeatable access to larger, diversifiable and complex deal flows.

At the same time, banks are able to continue generating origination and structuring fees while simultaneously using private credit balance sheets to distribute risk, manage capital buffers more efficiently and improve regulatory capital - all while retaining selective upside through co-investment opportunities.

The result for borrowers is a more integrated financing ecosystem that combines the flexibility and increased execution offered by private capital with the reach, market access and relationship depth of traditional lenders.

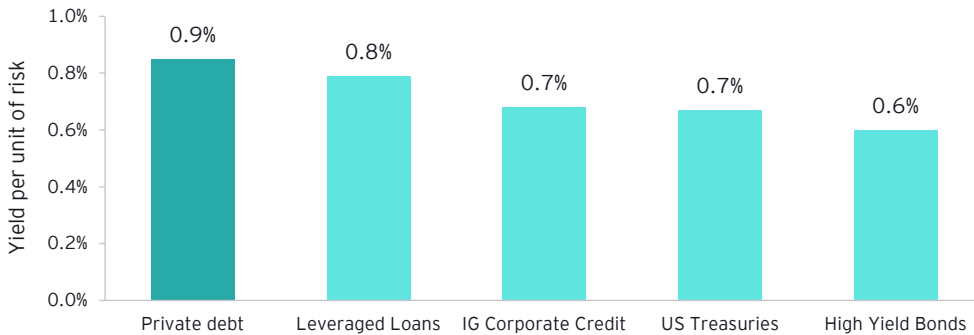
As these collaborative structures mature and expand across both direct lending and syndicated markets, they are likely to accelerate private credit's penetration of corporate lending and provide a durable tailwind for long-term market growth.

Long runway for further expansion

Given the increasing breadth of the asset class coupled with its ability to generate outsized returns, private credit has successfully established itself as a core allocation for investors seeking a durable, long-term source of both income and portfolio resilience.

Unlike traditional fixed-income allocations that face duration risk and public-market volatility, private credit offers interest risk protection owing to floating rate coupons, yield premia, and enhanced diversification characteristics that make it an increasingly attractive core component of portfolio construction for investors willing to sacrifice liquidity for potentially elevated returns - a dynamic set to sustain asset class growth.

Chart 2.5: Historical risk/return profile of select fixed income assets (2000-2025)⁸



Source: EY-Parthenon, EY Insights, Pitchbook "Q1 2025 Private Capital Indexes"

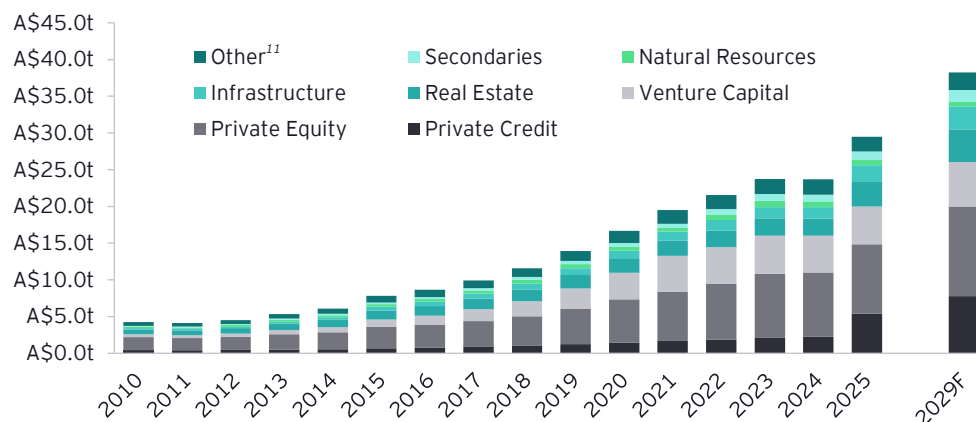
The new capital across the market will be critical to driving further penetration of the leveraged loan and broader corporate lending market, where origination opportunities remain robust. While today, most of the capital in private credit funds is deployed in the form of direct lending to corporate borrowers, the opportunity set is greatest across other sub-strategies under the private credit umbrella, including private real estate debt, asset-based lending and structured products, that have also grown and come into their own.

Industry estimates approximate a total addressable market (TAM) amounting to A\$40.0-\$70.0t⁹ for private credit funds to serve, suggesting that current penetration sits between just 2.5-4.0%. As private credit scales, this breadth of underdeveloped segments underscores a substantial and enduring opportunity for continued market expansion across each debt strategy.

To unlock this opportunity, we are seeing a clear trend toward consolidation, with major global private credit platforms bolstering their capabilities across each debt strategy through bolt-on acquisitions. Recent examples include acquisitions involving BlackRock and HPS Investment Partners, Brookfield and Oaktree, TPG and Angelo Gordon and CVC and Marathon. We expect this consolidation to continue as private credit platforms build global scale and develop more diversified, multi-strategy businesses.

Due to the amalgamation of robust capital formation and elongated runway for further expansion, private credit's forecast growth exceeds that of all other alternative asset classes, with private credit on track to establish itself as the second largest asset class across private markets by 2029.

Chart 2.6: Forecast growth of global private credit market relative to other alternative assets (A\$)¹⁰



Source: EY-Parthenon, EY Insights, Pitchbook "2029 Private Market Horizons"

The breadth of private credit debt strategies

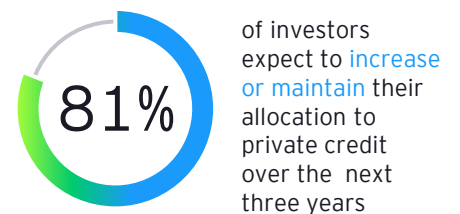
Direct lending strategies primarily lend to middle-market, non-investment-grade private companies, typically in first-lien and unitranche debt, focusing on generating current income.

Asset-based finance targets assets as opposed to operating companies, including loans secured by real estate, infrastructure, equipment pools and financial assets like student loans, accounts receivables, credit card loans, etc.

Distressed debt lends to companies in financial trouble, aiming for gains after turnaround. Its risk-return profile resembles equity, as issuer-specific factors heavily influence performance.

Mezzanine lending combines debt & equity features, including conversion rights or embedded options for upside potential while limiting downside risk. It is subordinated to first-lien debt.

Special situations is flexible financing for planned events like expansion or unplanned situations such as restructuring typically start with performing credits, though some may become distressed.



Source: Ernst & Young "2025 Global Alternatives Fund Survey"¹²

A\$40 to \$70t Estimated global total addressable market (TAM) for private credit to serve

Source: Apollo Global Management and Oxane Partners

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Australian market review

Private credit has rapidly expanded in Australia, moving from a niche option to a significant growing source of corporate and commercial financing with an estimated CAGR of 21.0% between 2015 and 2025. Our annual private debt market review estimates that Australia's credit market has grown to **A\$234.5b in 2025** with the number of private credit funds tripling since 2017, intensifying competition for new transactions.

The increasing importance of private credit

Against a challenging global backdrop, credit growth remained resilient through 2025, supported by accommodative monetary policy and heightened competition among lenders, with these factors providing sufficient tailwinds to encourage businesses to continue investing, innovating and pursuing expansion opportunities.

Central to this robust growth in business lending has been the sustained rise in Australia's private credit market, which has evolved from a niche alternative into a rapidly expanding and increasingly important source of corporate and commercial finance.

Although private credit still represents a smaller share of total lending than traditional financing sources, its growth has significantly outpaced both commercial bank lending and bond markets. Private credit has grown at a CAGR of 21.0%, compared with just 5.5% for commercial bank lending.

Looking ahead, private credit's role within the broader corporate debt landscape is expected to strengthen further. EY-Parthenon analysis forecasts that the private credit market is on track to grow to A\$0.3t by 2029 - equivalent to 15.6% of the overall corporate lending market, cementing its position as a core pillar of Australia's financing landscape.

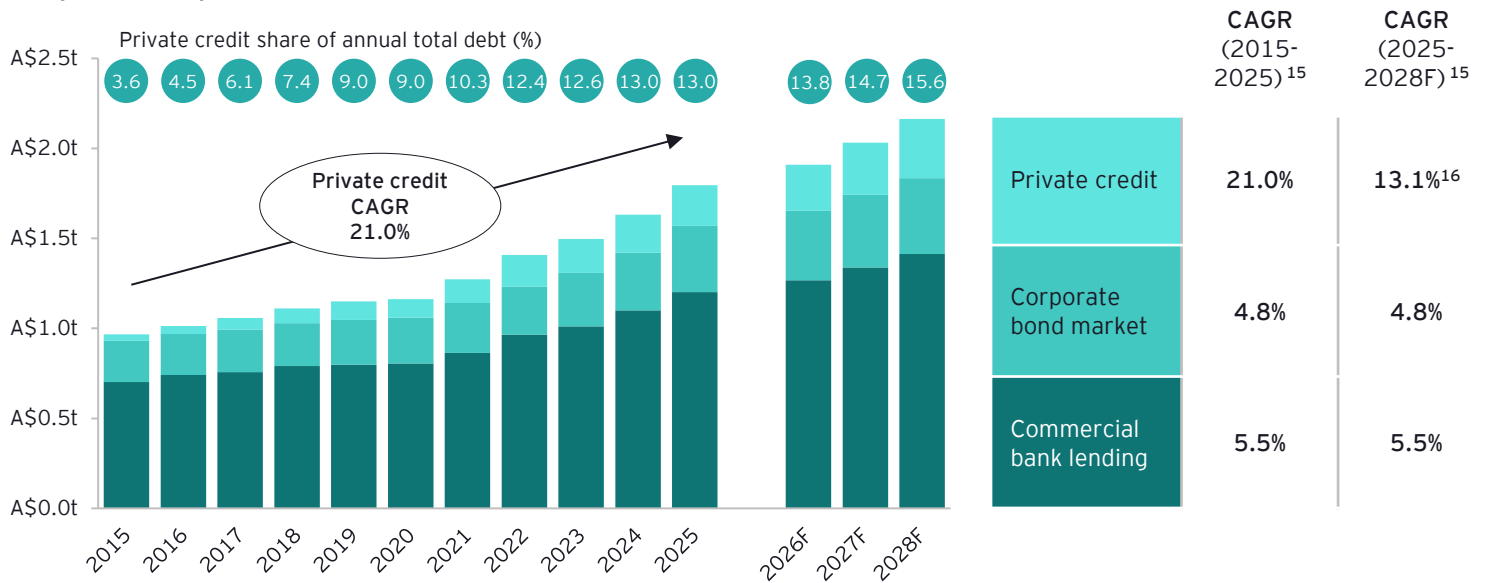
21.0%

Private credit CAGR between 2015 to 2025 compared to commercial bank lending CAGR of 5.5%

Source: EY-Parthenon

As global platforms scale local operations and domestic managers broaden their origination capabilities, the depth and sophistication of available capital solutions will increase, enabling private lenders to capture a larger share of transactions that have historically landed on bank balance sheets. This trend in recent years is expected to continue, likely to reinforce greater competition, tighter deal selectivity and disciplined structuring standards as the market matures.

Chart 3.1: Value of private credit, corporate bond market and commercial bank lending outstanding, A\$t^{13, 14}



Sources: EY-Parthenon, EY Insights, ABS, APRA, Reserve Bank of Australia

Annual private debt market survey

Our EY-Parthenon team has been conducting its annual private debt market review for the past 11 years, publishing the inaugural piece in 2015. Our initial survey in 2015 concluded that AUM was A\$34.8b. In 2025, the size of the private credit market had reached new highs of A\$234.5b, representing a CAGR of 21.0% from 2015 to 2025.

Our survey deviates from Pitchbook data and other industry sources with respect to AUM size in Australia and is not comparable to the global AUM outlined in this publication. This is attributed to the inclusion of non-institutional fund investors with private credit lending capabilities, which are not measured or quantified by other sources. Therefore, our publication presents a more comprehensive coverage of the domestic private credit market.¹⁷

Our recent survey identified three times more private credit funds since our review in 2017, indicating intensifying competition for new transactions. In response, funds are diversifying the types of deals they pursue to maintain a consistent pipeline of opportunities. We anticipate continued growth in the sector as borrowers and sponsors increasingly recognise the benefits of private credit, including flexibility and faster execution.

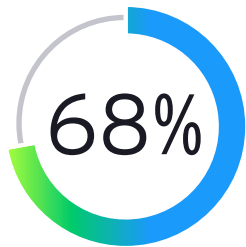
To date, the growth of the domestic market has been primarily driven by a robust base of domestic lenders. However, as the global private credit market has expanded, so has the supply of capital from overseas, with offshore debt specialists and multi-asset managers now responsible for contributing 31.9% to the overall market.

While Australia's private credit market has grown in lockstep with the global market, the domestic market continues to differentiate itself in multiple ways, least not in terms of its structure, as well as its unique and varied borrower base including, but not limited to small and medium enterprises (SMEs), real estate developers, large corporates, start-ups and distressed companies.

Some interesting trends we have observed over the last five years include:

- Australian pension and super funds have reduced their exposure to private credit following a notable surge in 2022. However, investments are expected to increase in the future, driven by the legislated increase in the superannuation guarantee from 11.5% to 12.0% effective 1 July 2025
- Australian private debt fund managers, global multi-asset and private debt fund managers' AUM experienced a surge in 2022 and continues to grow as a result of an increase in global participation entering the Australian market
- Expanding pools of private wealth, including family offices are contributing to demand for private credit strategies and bespoke structures

Another defining feature of the Australian private credit landscape is the high allocation to commercial real estate-backed lending. Although commercial real estate is a fundamental pillar of the Australian economy, banks' appetite for development and commercial real estate has tightened due to greater risk in the sector, creating space for private credit to step in as a major capital provider.



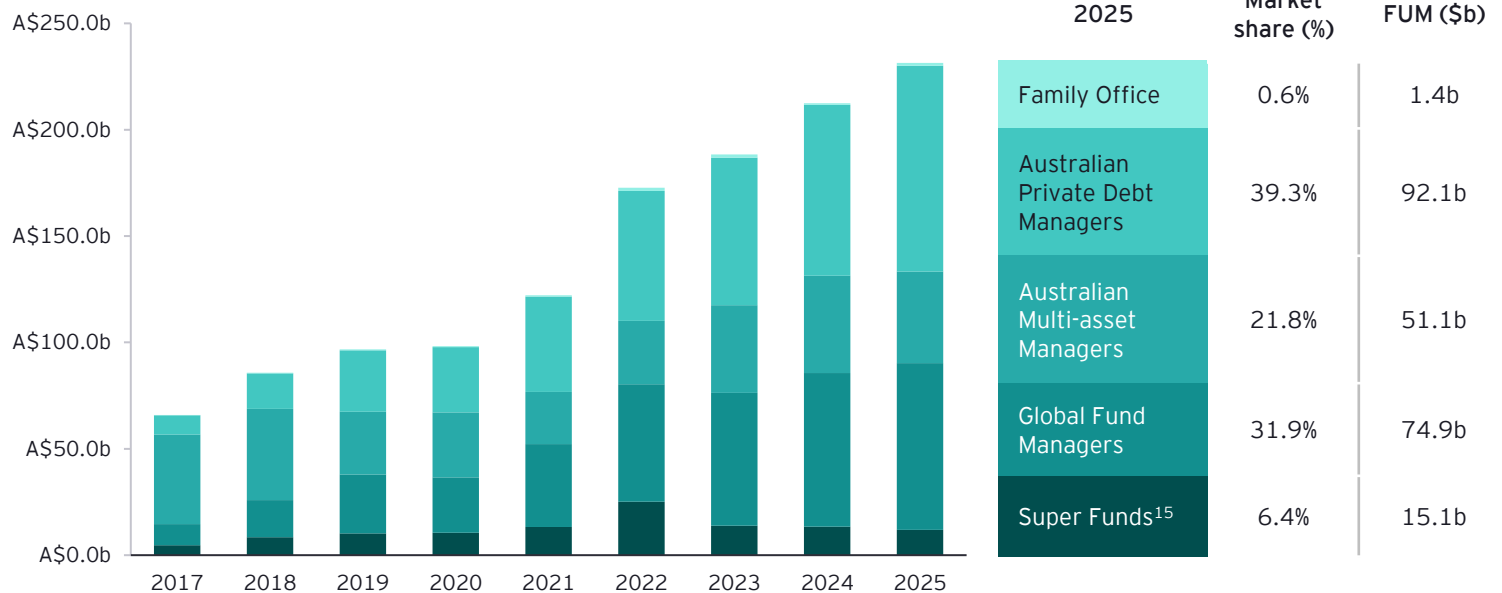
68% of Australian private credit AUM is managed by domestic institutions

Source: EY-Parthenon

Global private credit is heavily concentrated with the top 10 private credit funds globally accounting for 36.8% of total market AUM while in Australia, the top 10 private credit funds account for 38.3% of the Australian market, indicating a highly bifurcated market comprising a handful of mega-funds and long-tail of middle-market specialists.

Source: EY-Parthenon & EY Insights analysis

Chart 3.2: Market share by manager type, A\$b



Source: EY-Parthenon

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Regulatory landscape

There has been a high level of interest and regulatory focus from ASIC on private markets and private credit in particular, over the past 12 months. This reflects the rapid growth in market activity within this sector, and the increasingly important role private credit is playing in the Australian funding landscape.

Regulatory update

The traditional banking sector operates within a well-established prudential framework overseen by the Australian Prudential Regulation Authority (APRA). As capital has increasingly flowed into private credit, ASIC has turned its attention to whether existing regulatory settings, market practices and disclosure standards are sufficient to support investor protection and market integrity in this growing segment.

The Reserve Bank of Australia has similarly highlighted in its Financial Stability Review that private credit funds are becoming an important alternative source of financing for businesses and a potential source of returns for investors. However, it noted that limited transparency and data gaps make it difficult for regulators to fully monitor private credit vehicles and assess associated risks.¹⁸

In February 2025, ASIC released a discussion paper titled *Australia's Evolving Capital Markets*,¹⁹ which explored the increasing redirection of funding from public to private markets. The paper highlighted both the scale of this shift and the relative lack of transparency and consistent data to accurately quantify the size, composition and risk characteristics of private markets, including private credit.

Following more than 90 industry submissions and a series of targeted surveillance reviews, ASIC released a suite of reports throughout the second half of 2025, including ASIC Reports 814, 820, 821, 822 and 823. Together, these reports set out ASIC's observations of current practices across the private market's ecosystem, identifying examples of better practice as well as areas where ASIC considered a clear uplift was required to meet regulatory expectations.

Across its surveillance work, ASIC identified several recurring themes and focus areas for private credit participants, including:

- **Governance and oversight**
The adequacy of board and senior management oversight, accountability for credit decision-making and frameworks supporting investor outcomes.
- **Credit assessment and risk management**
The strength of underwriting standards, borrower monitoring, stress testing and management of liquidity, concentration and refinancing risks.
- **Valuation practices**
The consistency, independence and transparency of valuation methodologies, particularly for illiquid private credit assets.

- **Disclosure to investors**
The quality and balance of disclosures relating to risk, fees, conflicts, liquidity profiles and performance assumptions, particularly for funds offered to non-institutional investors.
- **Conflicts of interest and controls**
Identification and management of conflicts arising from related-party arrangements, fee structures and multi-role entities, supported by fit-for-purpose compliance and operational frameworks.

While ASIC observed relatively stronger practices among more established participants, it noted that a number of entities would need to materially uplift their arrangements to align with regulatory expectations.

Future outlook

ASIC has indicated that it does not intend to introduce new regulation specific to private credit in the near term. However, throughout 2026 ASIC expects to maintain close supervisory attention on the sector as it continues to expand. This ongoing focus is expected to include:

- **Industry-led standards development**, with ASIC encouraging industry associations such as the Alternative Investment Management Association (AIMA), the Financial Services Council (FSC) and the Australian Investment Council (AIC) to progress industry standards and guidance during 2026.
- **Enhanced data collection**, including a pilot program focused on wholesale private market funds to improve ASIC's visibility over market size, risk and investor exposure.
- **Targeted surveillance and thematic reviews** of private credit lenders and fund managers.
- **Potential further policy consideration**, as ASIC made recommendations for law reform around wholesale client thresholds and whether certain retail fund requirements – such as audit obligations and aspects of responsible entity statutory duties – should be extended to wholesale fund structures.

Market participants should therefore expect continued regulatory scrutiny and are encouraged to proactively assess and uplift their governance, disclosure and risk management frameworks in line with ASIC's stated expectations.



5

Private credit restructuring

Formal restructuring processes reached record highs in 2025, as reported by ASIC, with new companies entering external administrations hitting 14,650 in 2025 (8.2% increase from 2024). With the increase in market share and often higher-risk borrower characteristics, private credit lenders have been involved in many of these situations.

Key restructuring themes for 2025

- 1 Interest rate cuts provide temporary relief.** Rising energy costs, increasing wages and global trade challenges are likely to keep insolvency rates elevated. While lower interest rates may offer some relief, it is likely insufficient to address underlying financial pressures persistent across sectors.
- 2 Discretionary industries are under pressure.** Hospitality and Retail are facing high growing insolvency rates, reflecting sensitivity to fluctuations in consumer spending. Emerging weaknesses in transport and professional services highlight a shifting landscape of financial distress.
- 3 Construction sector still facing headwinds.** The rate of increasing insolvencies has eased, albeit higher than historical rates. The sector still faces long term pressures with elevated construction costs, labour shortages, salaries growth and reducing productivity.
- 4 Persistent, high insolvency rates are expected.** The outlook suggests that insolvency rates will continue to remain higher than pre-pandemic levels as a result of inflation, elevated costs, ATO's intensified enforcement position and global uncertainty.

2025 Australian restructuring update

The surge of insolvencies that occurred in 2024 showed no signs of stopping in 2025. The majority of impacted businesses were SMEs, with 64% of reports involving businesses with fewer than 5 full-time employees and over 77% having less than 20 FTEs.

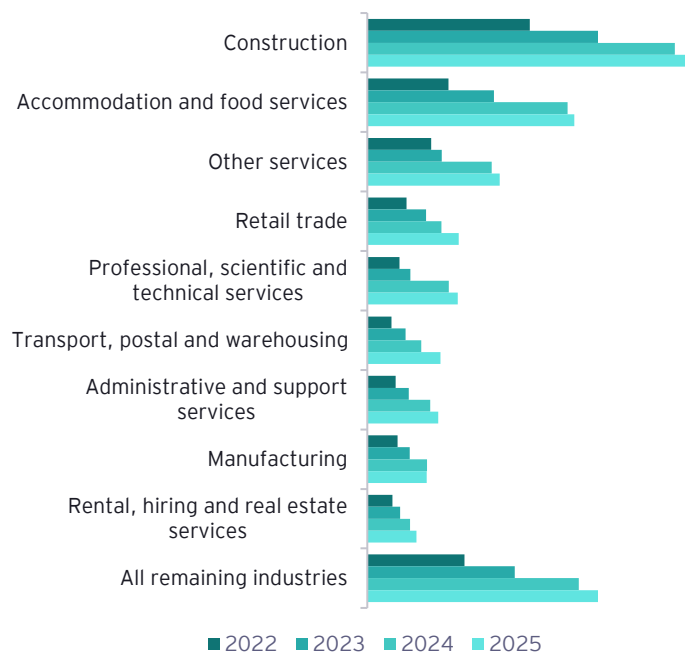
Aggregate insolvencies over the calendar year increased, primarily as a result of the following:

- Continued "catch-up" of small company appointments from the COVID-19 pandemic
- Increased Australian Taxation Office (ATO) enforcement and Director Penalty Notices (DPNs)
- Increase in cost pressures
- Tight credit conditions and higher interest rates

Despite aggregate insolvencies increasing, we have also observed an increase in companies relying on regimes outside of formal insolvency processes including:

- Safe harbour protection:** Increasingly used by boards and directors, this is a regime that protects directors from personal liability for insolvent trading and enables boards to retain control whilst undertaking a restructure that is likely to result in a better outcome for stakeholders than in an external administration.
- Small business restructuring:** This has become a mainstream tool, increasing from only 209 appointments in 2022 to a peak of 2,446 in 2024. 2025 saw 2,388 appointments, reinforcing a shift toward earlier intervention.

Chart 5.1: Australian corporate insolvencies by industry*



*By calendar year, Source: ASIC Insolvency Statistics

136%

increase in DPNs issued in FY24/25

16%

increase in ATO Business debt in FY24/25

Source: Commissioner of Taxation annual report 2024-25



Key trends in restructuring activity

With the increase in market share and often higher-risk borrower characteristics, private credit lenders have been involved in many restructuring situations. Recent trends observed from private credit funds in restructuring activity include:

1. Greater flexibility in negotiations

Private credit lenders have the ability to offer faster and tailored solutions in part due to the reduced complexity and delay associated with large syndicated bank groups or dispersed bondholders. Amend-and-extend solutions can therefore be agreed quickly, reducing execution risk for distressed companies.

2. Strong incentives to preserve value rather than enforce

Unlike banks, private credit funds do not face regulatory capital charges for holding non-performing loans and therefore typically originate loans that are held until maturity. As a result, they are generally motivated to work with the borrower to restore enterprise value rather than crystallise losses through enforcement. This typically leads to more collaborative workouts and a higher willingness to restructure lending terms, including the use of covenant holidays, loan extensions and debt restructurings.

3. Willingness to convert to equity and take control

Private credit lenders often take a more hands-on role in distressed situations. They may:

- convert debt into equity
- install or influence director appointments
- actively shape turnaround plans and accelerate operational restructuring
- employ structures such as DIP-style financing (even outside formal insolvency) or Holdco loans

These tools can stabilise liquidity while aligning stakeholders during a turnaround.

4. Refinancing troubled files

As banks increasingly tighten lending standards, private credit funds often refinance distressed or near-distressed bank exposures. This provides banks with an exit while offering borrowers a more flexible lender capable of managing through volatility and complex capital-structure needs.

5. More active portfolio management and early-warning engagement

Private credit lenders typically monitor portfolios closely and engage early when risks emerge due to the incentive models inherent to private credit & equity versus that of the broadly syndicated market. This proactive approach can lead to earlier interventions, smoother restructures and better preservation of stakeholder value.

6. Acting as the post-restructuring capital provider

Private credit funds frequently step in as the go-forward lender for companies emerging from restructuring or turnaround processes. Their ability to underwrite bespoke capital structures (e.g., super-senior, unitranche, Holdco, Payment-in-Kind (PIK)) allows them to support businesses that banks may view outside of the traditional risk appetite.

6.1 PIK Trends

Data shows that the value of loans outstanding with PIK agreements globally, being agreements allowing borrowers to manage cash-flow volatility by capitalising interest instead of paying it in cash, have increased markedly since 2021. This indicates that lenders, in particular private credit, globally can offer flexibility, helping issuers navigate investment phases or temporary liquidity swings.

**+480
bps**

11.4% of private credit loans outstanding globally have PIK agreements in place compared to 6.6% of loans in 2021

Source: Lincoln International

6.2 Recent private credit restructuring situations

We are starting to see examples of how the rapidly growing private credit market responds to restructuring situations. Some of these cases have attracted media attention, in particular:

- Accolade Wines, a consortium of private capital funds took control of Accolade Wines after purchasing debt, executing a debt for equity swap as part of a broader turnaround strategy which led to a merger supported by an Australian Bank.
- Genesis Care, a refinance by a "take-back debt" with a traditional corporate debt structure, following the acquisition of GenesisCare through a debt-for-equity swap.

In these cases, private credit has explored and pursued innovative strategies to drive value in a restructuring situation.

Credit risk remains a central focus in private credit as the sector globally often operates in higher-risk segments. Recent media releases indicate an increase in write-downs across parts of the private credit, more recently:

- Global Private Credit Fund A writing down a significant loss on \$170m asset-backed financing, for Amazon brand aggregator Perch, that was written off to zero.
- Global Private Asset Manager B reported a 19% decline in its Net Asset Value per share, primarily driven by issuer-specific developments. It's filing stated that 10.9% of its net investment income per share came from PIK income.

Recent high-profile collapses, First Brands Group, Tricolor Holdings and the Adgemis Public Hospitality Group in Australia indicate that lenders must remain vigilant as higher funding costs and macro uncertainty test portfolio robustness.

Advisor engagement in private credit: key support areas

1. **Common platform diligence and shared advisory support** - Private credit funds can rely on the company's existing advisors, obtaining reliance where appropriate and avoiding duplicative advisory processes.
2. **Ongoing monitoring and covenant oversight** - Monitoring reviews and covenant compliance checks that help maintain transparency and protect lender interests.
3. **Pre-lending due diligence focused on downside risk** - Deep diligence on downside outcomes, exit scenarios and targeted commercial risks, particularly important in bilateral private credit facilities where traditional due diligence or sponsor-led due diligence packages may not be available.



6

Future outlook

Global growth is slowing as supply shocks, trade tensions and policy uncertainty reshape costs, risks and strategic choices for 2026. The outlook for 2026 is shaped by the intersection of rapid market growth, regulatory intervention and emerging credit risks. Continued expansion is anticipated, but the sector's trajectory will depend on its ability to address regulatory concerns, maintain credit quality and innovate responsibly.

Private credit outlook

As outlined in [EY Global Economic Outlook](#), global economic activity is projected to slow modestly in 2026. Australia's economy continues to accelerate but faces headwinds from poor productivity and inflation risks, despite solid business investment and household consumption supported by lower interest rates and greater disposable income.

Real Gross Domestic Product (GDP) growth is expected to accelerate to 2.2% in 2026 from 1.8% in 2025. The labour market remains strong, with unemployment around 4.4% and participation near record highs. Inflation has reaccelerated, driven by housing and food costs, keeping headline Consumer Price Index (CPI) inflation above the Reserve Bank of Australia (RBA) 2.0%-3.0% target range. As a result, the RBA is unlikely to cut rates further and may consider a hike in early 2026 if inflation persists, reversing its recent easing stance.

While we have observed a noticeable increase in business sentiment and confidence, we acknowledge the existence of new, persisting headwinds driving lenders and borrowers to remain selective and cautious. The outlook for 2026 is not defined by a return to stability but by a need for strategic agility. Organisations that invest in supply side capacity, embrace technology and plan for a more volatile global environment will be positioned to capture competitive advantage as the next phase of global restructuring unfolds.

The private credit market's growth trajectory is not without headwinds, particularly amidst growing sectoral vulnerabilities, such as construction and real estate, the emerging existential impact of artificial intelligence (AI) on software companies and greater regulatory scrutiny. Key challenges facing the private debt market include:

1. Heightened regulatory scrutiny

ASIC has made private credit a priority for 2026, following critical findings in their recent releases. Key areas of concern include:

- Valuation independence
- Liquidity management
- Fee and conflict disclosure
- Related-party transactions
- Governance standards

2. Crowding and intensified competition

The rapid growth in the number of private credit funds has led to greater competition, margin compression and weaker structures in the market.

3. Credit quality risks as the cycle matures

While non-bank lender enforcement has increased, soft economic growth may pressure cashflows and borrowers may face greater refinancing risk as leverage resets.

4. Yield compression and return expectations

As competition increases, return generation will depend on structure innovation, security and selectivity. Net returns may be impacted by higher operating and compliance costs.

The sector's trajectory will be shaped by its response to regulatory scrutiny, ability to successfully underwrite bespoke structures that maximise resilience through credit cycles and originator's ability to remain proactive in engaging with borrowers to mitigate downside risks and protect upside potential.

The outlook for 2026 is shaped by the intersection of **rapid market growth, regulatory intervention and emerging credit risks**. Continued expansion is anticipated, but the sector's trajectory will depend on its ability to **address regulatory concerns, maintain credit quality and innovate responsibly**.

Reference List

¹ For years preceding 2025, the data included reflects actual AUM of institutional drawdown fund structures only and excludes direct credit investments by pensions and other non-fund investors. From 2025 onwards, actual AUM of institutional drawdown funds are used again, however evergreen and insurance assets are also factored into the overall market estimate, providing an additional A\$2.4t to the overall market. Insurance and evergreen assets are forecast, based on externally published analysis sourced from Pitchbook. "Dry Powder" refers to the uncalled capital that investors have pledged to private credit funds but have not yet been deployed for investments. Data sourced from: *2029 Private Market Horizons - PitchBook*.

² These figures have been converted from USD to AUD. For 2025 figures, an exchange rate of 1USD:1.55 has been used. For 2029, a forecast exchange rate of 1USD:1.587 has been used.

³ Data sourced from: *2029 Private Market Horizons - PitchBook*.

⁴ Lincoln International defines "default" based on covenant breaches rather than solely on payment (monetary) defaults. In private credit, covenant violations are typically the earliest objective indicator of borrower distress and often trigger lender remedies such as pricing step-ups, additional reporting, amendments, or restructurings before an actual missed interest or principal payment occurs. Because private credit loans are generally actively monitored, covenant-based defaults provide a more timely and economically meaningful measure of credit deterioration than payment defaults alone, which may understate underlying stress due to amendment flexibility and proactive lender intervention that typically avoids outright defaults. Data sourced from: *Q3 2025 Lincoln Senior Debt Index - Lincoln International LLC*.

⁵ Data sourced from: *Guide to Investment Grade Private Credit - Voya; Investment-grade private credit market deep dive - Wellington Ireland Intermediary*.

⁶ Data sourced from Pitchbook LCD.

⁷ Other includes pre-placed second-lien facility, high-yield bonds or other types of debt issued alongside BSL deals that are backed but not originated by private credit funds.

⁸ Yield per unit of risk is derived by dividing the annualised return of each asset class by their respective annualised standard deviation. Data sourced from: *Q1 2025 Private Capital Indexes - PitchBook*.

⁹ Data sourced from: *Demystifying the Opportunity in Investment Grade Private Credit - Apollo Global; Private Credit Plus - Oxane Partners*.

¹⁰ Data sourced from: *2029 Private Market Horizons - PitchBook*.

¹¹ Other' includes fund of funds, feeder funds and co-investment vehicles.

¹² Data sourced from: *2025 EY Global Alternative Fund Survey - AI Simulation Edition*.

¹³ Commercial bank lending relates to the RBA classification of "Commercial lending; Business sector excluding financial businesses". Data sourced from: *Statistical Tables - RBA*.

¹⁴ In the absence of complete data, syndicated loans, including leveraged loans, that are distributed to institutional investors and traded in secondary loan markets are excluded from this analysis.

¹⁵ CAGR (2015-2025) is calculated by dividing the 2025 market size by the 2015 market size and raising the result to the power of 1/10 (reflecting the 10-year period) and subtracting 1.

$$CAGR = \left(\frac{2025 \text{ market size}}{2015 \text{ market size}} \right)^{\frac{1}{10}} - 1$$

The CAGR (2015-2025) was carried forward as the 'Corporate bond market' and 'Commercial bank lending' forecast growth rates.

¹⁶ Sourced from Foresight Analytics and EY-Parthenon analysis.

¹⁷ The assumptions with respect to super fund allocations (direct vs via other funds) has been refined in 2025 compared with prior years where further information has become available.

¹⁸ Sourced from the RBA's *Financial Stability Review*.

¹⁹ ASIC defines private credit as lending provided by non-licensed institutions, including non-bank lenders that rely primarily on warehouse financing from banks or corporate institutions. While such lenders are within ASIC's broader private credit focus, particular attention has been directed toward entities funded by retail investors and/or sophisticated or wholesale investors.

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SCORE 111303-26-AUNZ
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