Private Markets

Figures current as of October 2026

The $16.7 trillion that trades nowhere: the buyout and its exit drought, private credit and the gates of 2026, the insurers and banks underneath, venture and real assets and the evergreen funds that sell them to individuals, the push into 401(k)s, the arguments on each, and the dates to watch, with the arithmetic worked at each step.

MODULE 1 — Foundations

Goal: Set the numbers and the vocabulary.

$16.7 trillion of private capital, a twentieth of public stocks and bonds, segment by segment with each source's measure; GP and LP, commitment and drawdown, NAV, IRR, multiple, and DPI, two-and-twenty and carry, the evergreen fund, the BDC, the gate, PIK, and dry powder.

MODULE 2 — The Players

Goal: Map who runs it and who funds it.

The eight platforms, from Blue Owl's $319 billion to Blackstone's $1.37 trillion; how buyout firms became lenders and insurers, with Apollo and Athene as the model; and the limited partners, from the pensions and endowments to the wealth channel and the 401(k).

MODULE 3 — Private Equity: The Machine

Goal: Understand the leveraged buyout and its returns.

The buyout's three sources of return, the fees, and the J-curve; one company bought in 2019 and again in 2021, from purchase to exit, worked through; and whether private equity beats the market, argued both ways.

MODULE 4 — Private Equity: The Exit Drought

Goal: Read what four years without exits did.

The fewest exits in more than a decade, holding periods of about seven years, and distributions at their 2008-09 level; continuation funds, secondaries, NAV loans, and dividend recaps; and what the drought means for the pensions.

MODULE 5 — Private Credit: How It Works

Goal: Understand the loan that never trades.

The direct loan and why the banks left it; the drawdown fund, the listed and non-traded BDC, the interval fund, and the insurer; unitranche, floating rates, covenant-lite, PIK, extensions, and the mark; and what changed in 2025-26.

MODULE 6 — Private Credit: The 2026 Stress

Goal: Follow the gates and weigh the two readings.

First Brands, Tricolor, and the software question; the gates fund by fund, with their dates and fill rates; a non-traded BDC's redemption arithmetic, worked through; whether it is a crisis or a mismatch, argued both ways; and the regulators' response.

MODULE 7 — The Plumbing: Insurers and Banks

Goal: Understand what sits underneath.

The insurer, the affiliated manager, and the offshore reinsurer; the run question and the private ratings; the banks' lines to the funds; and whether it is systemic, argued both ways.

MODULE 8 — Venture, Real Assets, and the Evergreen Structures

Goal: Read the other asset classes and the vehicle that carries them.

Venture's record AI year and the SpaceX listing; real estate after the office fall, and the BREIT precedent; infrastructure as the AI build's money; and the evergreen fund that carries all three to individuals.

MODULE 9 — The Retail and 401(k) Push

Goal: Weigh the largest question in the subject.

The $15 trillion in defined-contribution plans; the executive order, the Labor Department's proposed safe harbor, and Anderson v. Intel; a 10% private sleeve in a target-date fund, worked through; and whether savers should own private assets, argued both ways.

MODULE 10 — Where Things Stand, and What to Watch

Goal: Assemble the picture and name the dates.

Where things stand; five contradictions; four tests; a dated watch list from the Fed's October 27-28 meeting to the Anderson decision in 2027; and a last word.

A note on the sources and the ground: Sizes come from PitchBook, Preqin, Bain, and the Federal Reserve, the managers' figures from their own reports, the funds' redemptions from their filings and Robert A. Stanger, defaults from Fitch, Proskauer, and the Kroll Bond Rating Agency (KBRA), and returns from Cambridge Associates and the academic literature. Market prices are the close of Wednesday, October 14, 2026, and other figures are the latest release, with its date. Private markets are the part of finance with no daily price, so nearly every number in the course is a manager's mark, a survey, or an estimate, and the sources count differently. Where the ground is contested, the course makes each side's case as its advocates make it, then gives the evidence and its own reading, once. It explains how private markets work; it is not advice, and it does not forecast prices.

Market Snapshot

Prices and yields at the close of Wednesday, October 14, 2026, with the latest releases

Measure	Level	Source
Federal funds rate	3.75-4.00%, raised on September 16; the next meeting October 27-28	Federal Reserve
SOFR, the base rate for most private loans	3.88%	Federal Reserve Bank of New York
Ten-year Treasury yield	5.19% (5.31% on October 5)	US Treasury
Corporate bond spreads over Treasuries	Investment grade 84 basis points (yield 5.94%); high yield 325 (8.20%); CCC 1,282, a 2026 high	ICE (Intercontinental Exchange) BofA indexes
S&P 500	7,718.94 (record close 7,818.93 on October 6)	S&P Dow Jones Indices
The listed managers' shares	Blackstone $106.21 (against $149.32 on August 13); Apollo $113.39; Ares $112.49 (against $143.17 on August 31); Brookfield Corporation $35.95 (against $43.85 on August 14)	Exchange closes
Private capital	$16.7 trillion at the end of 2025, $4.0 trillion of it committed and not yet called	PitchBook
American private credit	About $1.4 trillion, a tenth of nonfinancial corporate debt	Federal Reserve, May 8
Private-credit default rate	6.3% in August, a record, most of it deferrals and extensions	Fitch, September 14
Redemption queue at the non-traded business development companies (BDCs)	$9.6 billion of requests unfilled in the second quarter; third-quarter fills from about 13% (OTIC) to about a half (BCRED)	Robert A. Stanger; fund filings
Secondaries	A record $118 billion traded in the first half; buyout stakes at 91% of net asset value (NAV)	Jefferies, July

Market prices are closes of October 14, 2026; the other figures are the latest releases, with their dates.

Module 1 — Foundations

The Numbers and the Vocabulary

Recommended Reading / Reference

Book: Ludovic Phalippou, *Private Equity Laid Bare* (2017, with later editions), the clearest account of the terms, the fees, and the arithmetic

Reference: PitchBook's *Global Private Market Fundraising Report* (second quarter of 2026, September 3, 2026), Bain's *Global Private Equity Report 2026* (February 22, 2026), and the *Capital Markets Fact Book* (2026) of the Securities Industry and Financial Markets Association (SIFMA), the sources for the sizes

1a. What Private Markets Are

Private markets are the investments that do not trade on an exchange. They are the companies bought and held by funds (private equity and venture capital), the loans made by funds rather than banks (private credit), and the buildings, pipelines, and power plants held by funds (real estate and infrastructure). PitchBook counts $16.7 trillion of private capital at the end of 2025, up from $6.1 trillion in 2016, a rise of about 12% a year. That is about a tenth of the world's public equity, and a twentieth of public stocks and bonds together (1b).

What they share is the absence of a price. A public share is valued every second by whoever will buy it. A private holding is valued each quarter by the manager who holds it, using models, comparable companies, and appraisals, and it is sold only when the manager decides to sell. That absence is the subject's whole character. It is the source of the stated advantages: patient capital, no forced selling, and a premium for giving up liquidity. It is also the source of the stated dangers: marks that lag, fees that compound, leverage that hides, and an exit that depends on someone else's willingness to buy. In 2026 the question of what the marks are worth moved from the academic literature to the redemption queue.

1b. The Numbers

Segment	Size, with the source's measure	What it is
All private capital	The total in 1a, of which $4.0 trillion is committed and not yet called (PitchBook)	The whole asset class, counted as fund assets plus uncalled commitments
Private equity (buyout and growth)	About 32,000 unsold portfolio companies, worth $3.8 trillion (Bain, end of 2025)	Funds that buy companies, usually with debt, and sell them years later (Modules 3 and 4)
Venture capital	The 992 American companies valued at $1 billion or more were worth $5.7 trillion at September 30, 2026, a company valuation rather than fund assets (PitchBook-NVCA)	Minority stakes in young companies (Module 8)
Private credit	About $2.3 trillion worldwide (Preqin, end of 2025); about $1.4 trillion in the United States, a tenth of nonfinancial corporate debt (Federal Reserve, May 8, 2026)	Loans made by funds and held to maturity (Modules 5-7)

Segment	Size, with the source's measure	What it is
Real estate	Fund assets fell in 2025 for the first time since 2009 (PitchBook); the 25 core funds in the Open-End Diversified Core Equity (ODCE) index of the National Council of Real Estate Investment Fiduciaries (NCREIF) hold $280 billion (June 30, 2026)	Funds holding property (Module 8)
Infrastructure and natural resources	A record $1.6 trillion in 2025 (PitchBook)	Energy, transport, digital, and utility assets (Module 8)
Secondaries	About $290 billion of capital available to buy other investors' stakes (Jefferies, July 2026)	The liquidity valve (Module 4)
For scale: public markets	$157.8 trillion of equities and $160.7 trillion of bonds at the end of 2025 (SIFMA)	Priced every trading day

Definitions overlap: credit funds hold real-asset loans and secondaries funds hold everything, so the rows do not sum. The sources count differently, so each figure names its source.

1c. The Vocabulary

Term	Meaning	Why it matters
General partner (GP) and limited partner (LP)	The manager that runs the fund, and the investors that commit capital to it	The GP decides everything; the LP's control is the decision to commit to the next fund
Commitment, drawdown, distribution	An LP commits capital; the GP calls it over years as deals are found and returns it as deals are sold	The LP's money is locked up for most of a fund's life (3a)
Net asset value (NAV)	The GP's quarterly valuation of what the fund holds	The number every return, fee, and redemption is calculated on: a mark, not a price
Internal rate of return (IRR) and multiple (MOIC)	The annual rate of return implied by the cash flows, and the total returned divided by the total invested	Timing can flatter an IRR; a multiple cannot be flattered that way
Distributions to paid-in capital (DPI)	Cash returned as a share of cash invested	The number LPs care about, and the one the exit drought starved (Module 4)
Two-and-twenty	A management fee of 1.5-2% a year on committed capital, plus 20% of the profits above a hurdle	The industry's revenue model (Module 3)
Carried interest	The GP's share of the profits, taxed as a capital gain	A tax break that reform plans keep listing; the 2025 tax law left it in place
Evergreen or semi-liquid fund	A fund with no end date that takes new money and offers periodic redemptions, usually capped at 5% a quarter	The vehicle that brought private markets to individuals (Module 8)
Business development company (BDC)	A registered vehicle for lending to companies, either listed on an exchange or sold privately as a non-traded fund	Private credit's retail form (Module 5)
Gate	A fund's use of its right to limit redemptions to the cap	Not a default and not a suspension: the design working as written, and the moment investors learn what they signed
Payment in kind (PIK)	Interest paid by adding it to the loan's principal rather than in cash	It lets a struggling borrower stay current and a lender book income it has not received (Module 5)
Dry powder	Capital committed by LPs and not yet called	The overhang that keeps the prices of deals high

Module 1 Key Points

Foundations

• Private capital reached $16.7 trillion at the end of 2025, about a tenth of public equity and a twentieth of public stocks and bonds.

• A private holding is valued quarterly by its manager and sold when the manager decides; the absence of a price is the subject's character.

• About $4.0 trillion, nearly a quarter of private capital, is committed and not yet called.

• DPI, cash returned as a share of cash invested, is the number that counts; NAV is a mark.

• The sources count the asset class differently, so every size in the course names its source.

Module 1 Quiz

Check Your Understanding

1. What distinguishes a private holding from a public share, in the module's account?

A) It pays no dividends to its owners
B) Its manager values it
C) It is open only to institutions, under the securities laws
D) It cannot use borrowed money of any kind

2. How large is private capital against the world's public equity?

A) About equal
B) About half
C) About a tenth of it
D) Larger, since most companies are private

3. What is DPI?

A) The annual fee
B) The manager's quarterly valuation of the fund's holdings
C) The fund's borrowing as a share of its net assets
D) Cash returned as a share of cash invested

4. What is a gate?

A) A fund's use of its right to limit redemptions to its cap
B) A fund's default on what it owes its lenders
C) A regulator's suspension of dealing in a fund's shares
D) The lock-up at a fund's launch, before redemptions begin

5. What share of private capital was dry powder at the end of 2025?

A) About half of it
B) Under 5%, since funds invest at once
C) About a quarter
D) Nearly all of it, after the exit drought

Module 2 — The Players

Who Runs It and Who Funds It

Recommended Reading / Reference

Reference: The managers' quarterly earnings releases (Blackstone, Apollo, KKR, Ares, Brookfield, Carlyle, Blue Owl, and TPG are listed companies), and the Institutional Limited Partners Association's surveys of the investors' side

2a. The Eight Platforms

Manager	Assets under management	Origin and what it is now	Its 2026 exposure
Blackstone	$1.37 trillion	Founded in 1985 as a buyout partnership; now the largest alternatives manager, with credit and insurance ($480 billion) its largest segment, ahead of private equity ($465 billion)	BCRED, the Blackstone Private Credit Fund (Module 5); BREIT, the Blackstone Real Estate Income Trust (Module 8); BXPE, the Blackstone Private Equity Strategies Fund, for individuals ($28.5 billion)
Apollo	$1.05 trillion	Founded in 1990 as a distressed-debt shop; merged with its annuity insurer, Athene, on January 1, 2022, and became a lender first and a buyout firm second	Athene (Module 7); Apollo Debt Solutions, its non-traded credit fund (Module 5)
Brookfield	Over $1 trillion; $672 billion fee-bearing	The Canadian real-assets manager: infrastructure, real estate, renewable power, and insurers of its own (American National, American Equity, and Britain's Just Group)	The data-center and power money (Module 8)
KKR	Nearly $800 billion	Founded in 1976 by the bankers who pioneered the leveraged buyout; owns the insurer Global Atlantic outright since 2024	K-Series, its funds for wealth clients ($42 billion); FS KKR Capital, a listed BDC it co-manages, cut to junk by Moody's in March 2026
Ares	About $670 billion	The credit specialist, one of the largest direct lenders, with a record $170 billion of capital committed and not yet invested	ASIF, the Ares Strategic Income Fund, its non-traded credit fund (Module 5)
Carlyle	$485 billion	The Washington buyout firm, founded in 1987, diversifying into credit, with a stake in the reinsurer Fortitude Re	Traditional private equity in an exit drought; $37 billion returned to clients in the year to June
TPG	$327 billion	Founded in 1992 in San Francisco and Fort Worth; into credit through Angelo Gordon (2023) and into climate investing	A $101 billion credit platform; assets up 25% in a year
Blue Owl	$319 billion	The 2021 merger of Owl Rock, a direct lender, and Dyal, which buys stakes in other managers	Its non-traded credit funds, among the most heavily redeemed in 2026 (Module 6)

Managers' reports: Blackstone's at September 30, 2026, the others' at June 30, 2026. BlackRock, after buying HPS on July 1, 2025, is a ninth platform in credit.

2b. The Evolution

Most of the firms in the table began as buyout partnerships and are something else now, and the change explains the year. A buyout firm raises a fund every few years, earns fees on it over its life (3a), and depends on the exit market to return capital and raise the next one. That business is lumpy, and the firms'

owners, public shareholders since the listings of 2007-22, wanted one that was not. The answer was to become a lender and an insurer. Lending earns fees on capital that is invested at once and returns cash every quarter. An insurer, an annuity writer whose policyholders' premiums must be invested for decades, is permanent capital that never asks for its money back.

Apollo's merger with Athene was the model. The insurer's annuities became the funding for the manager's loans, the loans became the insurer's assets, and the fees flowed to the manager's shareholders. At June 30, 2026 Athene held about $414 billion of investments against about $345 billion of annuity liabilities. KKR and Brookfield own insurers (2a), and Blackstone manages assets for insurers such as Corebridge. What the evolution built is the structure of Module 7, and what it changed is the risk: a buyout fund that fails loses its investors' money, while a lender-insurer that fails has policyholders.

2c. The Limited Partners

- **Public pensions**, the institutions that built the asset class: CalPERS and the other state and city funds, and the Canadian plans, which run much of their own private investing. The distribution drought of Module 4 is their problem first, because a pension pays benefits in cash every month and cannot pay them with a mark.
- **Endowments and foundations**, the model's inventors. Yale, under David Swensen from 1985, built the large private allocation that other institutions then copied. In 2025 Yale and Harvard sold private-equity stakes in the secondaries market to raise cash, as Harvard had tried to do with $1.5 billion of such stakes in 2008.
- **Sovereign wealth funds**: the Gulf funds, Singapore's GIC, and China's funds, the growth source of the 2010s and the anchor investors in the largest funds. Norway's government has repeatedly kept its fund out of private equity.
- **Insurers**, the annuity writers of 2b and Module 7.
- **The wealth channel**: wealthy individuals through private banks and platforms and, since about 2020, the mass-affluent through the evergreen funds of Module 8. It is the fastest-growing source and the one that asked for its money back in 2026 (Module 6).
- **Defined-contribution plans**: the 401(k)s and their peers, the pool every manager is now building products for (Module 9).

Module 2 Key Points

The Players

• The eight platforms run from Blue Owl's $319 billion to Blackstone's $1.37 trillion; three manage about $1 trillion or more.

• They became lenders and insurers because lending and annuities earn steady fees on permanent capital, while buyouts depend on exits.

• Apollo's Athene made annuities the funding for the manager's loans; KKR, Brookfield, and Blackstone followed with insurers or mandates of their own.

• A buyout fund that fails loses its investors' money; a lender-insurer that fails has policyholders.

• Pensions need cash while exits stall, the endowments that invented the model are selling, and every manager is building for the 401(k).

Module 2 Quiz

Check Your Understanding

1. Why did the buyout firms become lenders and insurers, in the module's account?

A) Regulators required it after 2008
B) Lending and annuities earn steady fees on capital that stays
C) Buyout returns fell below zero after the rate rise of 2022
D) Pensions demanded it as a condition of committing to the next buyout fund

2. What did Apollo's merger with Athene make of the insurer's annuities?

A) Deposits
B) A sovereign wealth fund for the policyholders
C) A hedge fund of the old kind, run for the partners
D) Funding for the manager's loans

3. What did Blackstone's segment figures show at September 30, 2026?

A) Credit and insurance had passed private equity as its largest segment
B) Real estate was larger than its other three segments combined
C) Private equity remained roughly double its credit arm
D) It had sold its insurance mandates after BREIT's 2022 gate

4. Which investors does the module call the model's inventors, now selling stakes?

A) Norway's fund
B) The university endowments
C) The Canadian pension plans that run their own deals
D) The insurers

5. What changes when a buyout firm becomes a lender-insurer, in the module's reading?

A) Its failure reaches policyholders
B) Its fees fall
C) Its funds stop using any borrowed money at all
D) Its investors can redeem daily at the fund's net asset value

Module 3 — Private Equity: The Machine

The Leveraged Buyout and Its Returns

Recommended Reading / Reference

Book: Sebastien Canderle, *The Debt Trap: How Leverage Impacts Private-Equity Performance* (2016), the critical account of the leverage

Reference: Steven Kaplan and Per Strömberg, 'Leveraged Buyouts and Private Equity' (*Journal of Economic Perspectives*, 2009), the standard account, and Ludovic Phalippou, 'An Inconvenient Fact: Private Equity Returns and the Billionaire Factory' (2020), the critique; Cambridge Associates' quarterly US private-equity benchmarks for the returns

3a. The Buyout

A leveraged buyout is the purchase of a company with borrowed money secured on the company itself. The fund puts in equity, a far larger share of the price than in the buyouts of the 1980s, and the company borrows the rest from banks, the syndicated loan market, or, more and more, private credit funds. The debt sits on the company's balance sheet and is serviced from its cash flow. If the plan works, the debt is repaid from the company's growth and from the proceeds of a sale years later.

The return has three sources. Leverage multiplies the equity's gain, and its loss, on any change in the company's value. Multiple expansion means selling at a higher ratio of price to earnings than the fund paid. Operational improvement is the growth in earnings from better management, cost cuts, bolted-on acquisitions, and pricing: the part the industry says it is paid for, and the part the academics say explains less of the return than the other two. The fund charges two-and-twenty (1c), with a hurdle of usually 8% a year before the carry is earned.

A fund lives about ten years. The LPs' money is called over the first four or five and returned over the last five or six. The return curve is shaped like a J: negative in the early years, as fees are paid on capital not yet earning, and positive later, as the exits arrive.

3b. One Buyout, From Purchase to Exit

Worked example — one buyout from purchase to exit

Take a business-services company, the industry's staple, with $100 million a year of earnings before interest, taxes, depreciation, and amortization (EBITDA), bought in 2019 at 11 times EBITDA, $1.1 billion. The fund puts in $500 million of equity, and the company borrows $600 million, six times EBITDA, at about 7% on a unitranche loan from a private credit fund (Module 5): $42 million a year of interest. The plan is to grow EBITDA 8% a year through two bolted-on acquisitions, a price increase, and a cost program, and to sell in year five at the same multiple.

The 2019 vintage. By 2024 EBITDA is $146.9 million, and the company's cash flow has paid the debt down to $500 million. At 11 times the company is worth $1.62 billion, so the equity is worth $1.12 billion against $500 million invested: 2.23 times the money, a gross internal rate of return of 17.4% a year. Of the $616 million gain, $516 million is earnings growth at an unchanged multiple and $100 million is debt repaid. Leverage shows in the rate rather than as a third slice of the gain: bought for $1.1 billion in cash, the same

company would have returned about 1.70 times, 11.2% a year, counting the interest it would not have paid, after the 21% federal corporate tax.

The fees. The LPs paid in $550 million, the $500 million of equity plus $50 million of management fees at 2% a year. Deal, monitoring, and transaction fees charged to the company take about $30 million of the proceeds, leaving $1.09 billion. The profit over what the LPs paid in is $536 million. The GP's carried interest, 20% of that profit once the 8% hurdle is cleared and the GP has caught up, is $107 million. The LPs receive $979 million, 1.78 times what they paid in: a net return of 12.6% a year against the deal's 17.4%.

The 2021 vintage. Now take the same company bought at the 2021 peak, at 13 times, $1.3 billion, with $700 million of equity and the same $600 million of debt at a floating rate. The rate went from about 5% to 9% after 2022, so interest rose from $30 million to $54 million, and the company could repay only $40 million of debt. EBITDA grew 5% a year, not 8%, because the price increases met resistance and one acquisition failed. And the sector's multiple fell to 10 times as the AI question hit anything with 'services' or 'software' in its description.

Five years on, in 2026, the company is worth $1.28 billion on $127.6 million of EBITDA, less $560 million of debt: equity of $716 million on $700 million invested, a gross return of 0.5% a year. After $70 million of management fees and $30 million of company fees, the LPs get back $686 million on the $770 million they paid in, 0.89 times, and no carry is due. The fund's mark says 1.4 times, because the manager values the company at 12 times its earnings, while a buyer valuing it at the sector's 10 times would pay about 1.0 times. The fund does not sell. A sale would fix the loss and end the fee stream, while holding lets the mark stand and the management fee run.

The two versions differ in three variables the manager does not control, the entry multiple, the rate, and the exit multiple, and the fees are paid in both.

3c. Does Private Equity Beat the Market?

The case that it does

Its advocates, the industry and its trade groups, start from the benchmarks. Cambridge Associates' index of US private-equity funds returned 12.9% a year to their investors over the 20 years to March 31, 2026, after fees, against 10.6% for the Russell 3000 measured the same way, and 12.8% against 10.0% over 25 years. They point to managers whose results have stayed at the top fund after fund, to an illiquidity that suits a pension with a thirty-year horizon, and to operational gains that can be measured company by company. On this view the critics choose benchmarks built to make private equity fail.

The case that it does not

Its advocates, most prominently Ludovic Phalippou of Oxford, make three arguments. The first is the benchmark: against small, cheap, levered public stocks, the kind buyout funds buy, the outperformance shrinks toward nothing, and Erik Stafford (2022) showed that a levered portfolio of such stocks would have matched the funds. The second is the fees. Phalippou and Oliver Gottschalg (2009) found the average fund about 3 points a year ahead of the S&P 500 before fees and 3 behind it after, so fees took about 6 points a year.

By Phalippou's 2020 estimate, North American funds raised in 2006-15 earned their managers about $230 billion of carried interest while matching the S&P 500 (a public market equivalent of 0.99). The third argument is the marks. Private valuations move a fraction as much as public prices, which flatters every measure of return against risk: 'volatility laundering', in the phrase of AQR's Cliff Asness.

The evidence

The record splits by period. Robert Harris, Tim Jenkinson, and Steven Kaplan (2014) found US buyout funds ahead of the S&P 500 by more than 3 points a year for vintages before 2006, and their 2016 follow-up found the later vintages about level with public markets. The benchmark matters as much as the period. Cambridge's index beats the Russell 3000 by 1.1 points a year over ten years, world stocks (MSCI's All Country World Index) by 2.8, and the small companies of the Russell 2000 by 5.0. Over the latest five years it trails the Russell 3000, 9.2% a year against 11.4%. Every comparison rests on the managers' own marks for the unsold portfolio.

The course's reading

The average private-equity fund raised since 2006 has delivered about a public-market return, with lower reported volatility and much higher fees. The gap between the best and the worst managers is wide, so the question for an investor is not whether private equity works but whether the investor can get into the funds for which it does.

Module 3 Key Points

Private Equity: The Machine

• A buyout's return comes from leverage, a higher exit multiple, and earnings growth; the industry says it is paid for the third.

• The same company bought at 11 times in 2019 paid its investors 12.6% a year; bought at 13 times in 2021, it lost money.

• The 2021 deal is marked at 1.4 times while a buyer would pay about 1.0; selling would fix the loss and end the fee.

• Fees take about 6 points a year on the academic estimates; the funds of 2006-15 matched the S&P 500 after fees.

• Over 20 years private equity beat the broad US market by about 2 points a year; over the latest five it trailed.

Module 3 Quiz

Check Your Understanding

1. What are the three sources of a buyout's return?

A) Dividends, interest, and rent from the portfolio
B) Fees, carried interest, and monitoring charges
C) Listings, trade sales, and secondary buyouts
D) Leverage, a higher exit multiple, and growth in earnings

2. In the worked example, what did the LPs earn a year on the 2019 deal after fees?

A) 17.4%, the same as the deal
B) About 6%, after the fees took half
C) 12.6%
D) Below zero, once the debt was repaid

3. Why does the fund in the example hold the 2021 company rather than sell it?

A) A sale would fix the loss and end the fee
B) Its LPs forbid sales
C) The company is growing fast
D) The secondaries market will not buy any stake in a buyout fund

4. What does 'volatility laundering' describe?

A) Illegal manipulation of a fund's marks
B) Hedging a portfolio's risk with options
C) Marks that lag prices
D) Smoothing the dividends paid by portfolio companies

5. How did US private equity compare with the Russell 3000 in Cambridge Associates' figures to March 2026?

A) Behind over every period from one year to twenty-five
B) Ahead by 3-5 points a year in every period measured
C) It was level with it in every one of the periods reported
D) Ahead by about 2 points a year over 20 years, behind over the last five

Module 4 — Private Equity: The Exit Drought

What Four Years Without Exits Did

Recommended Reading / Reference

Reference: Bain's *Global Private Equity Report 2026* (February 22, 2026), S&P Global Market Intelligence's quarterly exit data (most recently October 8, 2026), PitchBook's quarterly *US PE Breakdown*, and Jefferies' and Evercore's secondary market reviews (July 2026)

4a. The Drought

Private equity's machine depends on the exit: the sale of a company to a strategic buyer, to another fund, or to the public through a listing, which returns the capital and proves the mark. From 2022 the exits slowed, for the reason the worked example of Module 3 shows. 2025 brought a partial recovery: buyout-backed exits worldwide were worth $717 billion, up 47%, though their number fell 2% and seven deals of more than $10 billion made up 22% of the value (Bain).

2026 has gone the other way. Exits worldwide fell to 1,315 in the first half, worth $570 billion, the fewest in more than a decade (KPMG, on PitchBook's data). In the third quarter, exits backed by buyout and venture funds were 724, down 17.4% from a year earlier, as buyers and sellers stayed divided over valuations and the durability of earnings (S&P Global Market Intelligence). Listings opened only narrowly: twelve American private-equity-backed companies listed in the second quarter, valued at $27.6 billion in all, up 42% on the quarter (PitchBook).

The backlog grew. American funds held 13,509 companies at June 30 (PitchBook), part of the world's total (1b). Companies sold in 2025 had been held about seven years, against five to six in 2010-21, and almost 40% of those still held had been held more than five years, against 29% in 2019 (Bain). The drought's currency is DPI (1c). Distributions to investors have run below 15% of NAV a year for four years, a record run for the modern industry, at a level last seen in 2008-09 (Bain). McKinsey puts them at 6% of assets in 2025, against 16% a year in 2015-19.

4b. The Liquidity Toolkit

- **Continuation funds.** A GP sells a company from an old fund to a new fund it also runs, with secondaries funds buying in and the old LPs choosing to cash out or roll over. The manager keeps the asset, resets the fee clock, and books an exit at a price negotiated with itself, with the secondaries buyer as the only check. GP-led deals reached $115 billion in 2025 and $62 billion in the first half of 2026, 89% of them continuation funds, which made up 14% of sponsor-backed exit value (Jefferies). The Securities and Exchange Commission (SEC) adopted rules in 2023 that would have required a fairness or valuation opinion for these deals; the Fifth Circuit vacated them in June 2024.
- **Secondaries.** The market for LPs' stakes and GP-led deals traded a record $240 billion in 2025 and $118 billion in the first half of 2026 (Jefferies; Evercore counts $226 billion and $121 billion), with $260 billion or more expected for the year. Buyers paid about 87% of NAV on average in the first half: 91% for buyout and infrastructure stakes, 89% for credit, 79% for venture, and 68% for real estate (Jefferies). The discount is the market's opinion of the mark.
- **NAV loans.** A fund borrows against the value of its portfolio to pay distributions without selling anything: a distribution that is a loan, secured on marks, which the LPs count as DPI and the portfolio carries as leverage on leverage. The Institutional Limited Partners Association (ILPA) asked in 2024 for these loans

to be disclosed.

• **Dividend recapitalizations.** The company borrows more and pays the proceeds to the fund as a dividend: cash to the LPs and debt to the company. It is the oldest tool, and one the private credit funds of Module 5 finance; companies owned by buyout funds borrowed $94 billion in 2025 to fund such payouts (Bloomberg).

• **Financing for the managers themselves.** The GPs borrow against their own future carried interest to fund their commitments to their funds and to pay their partners: the drought reaching the managers' own balance sheets.

• **The listing.** The exit that proves the mark in public. The largest buyout-backed listing of 2025 was Medline's, at $7.2 billion (Bain), and the window of 2026 has opened for premium assets only.

4c. What It Means for the Pensions

A public pension with a quarter of its assets in private markets built its plan on the fund cadence of 3a as it ran in the 2010s, so that a mature program pays for itself, with this year's distributions meeting this year's capital calls. The drought broke the cadence. Distributions fell while capital calls continued, and the pensions funded the gap by selling public assets.

The responses came in order. First came the denominator effect: as public markets fell in 2022, private allocations rose above their targets without a single new commitment, and new commitments were cut. Then came the secondaries sales at discounts. In the first half of 2026 pensions and sovereign funds were 48% of the sellers of LP stakes, funds of funds and secondaries funds 27%, and endowments and foundations 16% (Jefferies). Then came the acceptance of NAV-loan distributions in place of exits (4b).

In 2026 came the quiet reallocation. Private-market fundraising fell 12.7% in the year to June, to $1.35 trillion, while private-debt funds raised $158.3 billion in the first half, up 27% (PitchBook). Of the LPs Bain surveyed, 53% say undrawn commitments limit what they can commit to private equity, up 15 points. The drought has not produced a crisis, because pensions can wait longer than most investors. It has produced lower returns for the vintages caught in it, a liquidity toolkit that layers debt on marks, and a demand for the marks to be tested (1a).

Module 4 Key Points

Private Equity: The Exit Drought

• Exits fell to 1,315 in the first half of 2026, the fewest in over a decade; third-quarter exits were 17% below a year earlier.

• Companies sold in 2025 had been held about seven years; American private-equity funds held 13,509 companies at midyear.

• Distributions have run below 15% of NAV a year for four years, a level last seen in 2008-09.

• Continuation funds, NAV loans, and dividend recaps return cash by layering debt on marks and let managers keep assets and fees.

• Secondaries traded a record $118 billion in the first half, with buyout stakes at 91% of NAV: the market's opinion of the marks.

Module 4 Quiz

Check Your Understanding

1. How long had the companies sold in 2025 been held, on Bain's figures?

A) Two years
B) About seven years
C) About four years, as in 2017-19
D) More than twelve years, past the life of the fund

2. What is a continuation fund?

A) A GP selling a company to a new fund it also runs
B) A fund that continues after its manager retires or is sold to a rival
C) A loan against a fund's net asset value used to pay distributions
D) A fund that lists on an exchange so that its investors can sell shares

3. What is a NAV loan?

A) A margin loan to an LP
B) A loan to buy a company at the start of a deal, secured on the company
C) A fund borrowing against its marks to pay distributions
D) A bank's credit line to a BDC, secured on the loans the BDC holds

4. Why has the drought not produced a crisis, in the module's reading?

A) Exits recovered fully in 2025 and 2026
B) The SEC stepped in with disclosure rules
C) Buyout funds carry almost no borrowing
D) Pensions can wait longer than most other investors

5. What did buyers pay for buyout stakes in the secondaries market in the first half of 2026?

A) Full NAV
B) About 91% of NAV
C) Half NAV
D) About 130% of NAV, a premium for scarce assets

Module 5 — Private Credit: How It Works

The Loan That Never Trades

Recommended Reading / Reference

Reference: The Federal Reserve's *Financial Stability Report* (May 8, 2026); a Bulletin of the Bank for International Settlements (BIS), 'AI disruption in private credit: exposure to software firms in BDCs' (July 14, 2026); and Fitch's, KBRA's, and Lincoln International's private-credit and BDC reports

5a. What Private Credit Is

Private credit is a loan negotiated directly between a fund and a borrower and held by the fund to maturity: no bank in the middle, no syndicate, no bond market, no trading. The borrowers are mostly middle-market companies, too large for a small-business loan and too small for the public bond market, and the typical one is owned by a private-equity fund. That is why private credit and private equity are one system. The buyout of Module 3 was financed by a loan of this module's kind.

The market is the size 1b gives, up from about half a trillion dollars in 2014, and it grew because the banks left. The capital rules written after 2008 made a leveraged middle-market loan expensive for a bank to hold. A fund could hold it at a higher spread than the public market paid, and the borrower preferred a single lender who could close in weeks to a syndicate that took months. What the fund earns is the spread plus a premium for illiquidity. What it gives up is the ability to sell.

5b. The Vehicles

Vehicle	What it is	Who invests	Liquidity
Drawdown fund	The institutional form: a fund of about ten years that calls capital as loans are made and returns it as they repay	Pensions, insurers, endowments	None until the loans repay
Listed BDC	A business development company, a vehicle Congress created in 1980 for lending to smaller companies, with shares traded on an exchange (Ares Capital, Blue Owl Capital Corporation, Blackstone Secured Lending)	Anyone, through a broker	Daily, at the market's price, often below NAV
Non-traded BDC	The same vehicle without a listing, sold through wealth advisers at NAV. The largest: Blackstone's BCRED ($41 billion of net assets, $93 billion with borrowing), OCIC, the Blue Owl Credit Income Corp. (a $35 billion portfolio), HLEND, the HPS Corporate Lending Fund ($26 billion), Apollo Debt Solutions (net assets of $15 billion, a portfolio above $25 billion), and Ares's ASIF ($22 billion)	Individuals, through advisers	Quarterly tender offers for up to 5% of shares, or 7% without extending the offer
Interval fund	A registered fund that repurchases shares at set intervals; the largest lender among them is CCLF, the Cliffwater Corporate Lending Fund ($33 billion)	Individuals	Quarterly, capped, usually at 5%
Insurer general account	Loans held directly by an annuity writer as assets against its policyholders' claims	The insurer, funded by annuities	None needed: the liabilities run for decades (Module 7)

Fund reports and filings, 2026, by the measure each fund reports. The Federal Reserve counts $425 billion of assets in the semi-liquid BDCs and interval funds, $241 billion net of their borrowing, about a fifth of private credit's net assets (May 8, 2026).

5c. The Loan

• **Unitranche.** A single loan that replaces the senior and junior layers a bank syndicate would have sold separately, at a blended rate. New loans priced at about SOFR plus 525 basis points in 2026, about 9% with SOFR at 3.88%, after spreads widened by 50-100 points from January; software borrowers paid 550-1,000 points over SOFR (Guggenheim, on PitchBook's leveraged-loan data).

• **Floating rate.** Nearly all private credit floats over SOFR, which is why the rate rise of 2022-23 raised borrowers' interest costs and the funds' income at once, and why the strain of Module 6 followed.

• **Covenant-lite.** Loans with few of the financial tests that would let a lender act early. The competition of 2019-22 stripped them from most large loans, so the first sign of trouble is often a missed payment rather than a breached test.

• **PIK.** The borrower's option, or the lender's concession, to pay interest by adding it to the loan (1c). PIK was 8.1% of BDCs' interest and dividend income on average in 2025, about double its level before 2020 (Fitch), and it was used on 11% of private loans in the second quarter of 2026 (Lincoln International). Lenders have begun to clamp down on the option.

• **Amend-and-extend and the distressed exchange.** When a borrower cannot pay, the lender extends the maturity, defers or capitalizes the interest, or exchanges the loan for one worth less. In the year to August 2026, 47% of the private-credit defaults Fitch counted were interest deferrals and PIK switches, 41% stressed maturity extensions, 8% uncured missed payments, and 4% bankruptcies, liquidations, and restructurings. That is how a record default rate (Module 6) can coexist with few bankruptcies, and with losses that arrive later.

• **The mark.** The fund values each loan quarterly, usually at par unless it is impaired, on a model or a third party's appraisal. The listed BDCs' share prices are the only daily opinion of what the marks are worth (Module 6).

• **Fund leverage.** BDCs borrow about one dollar for every dollar of equity, from banks and bond investors, to lever the spread: HLEND ran at 1.0 times in February and OCIC at 0.88 times in August. Leverage of one to one turns a 10% loss on the loans into a 20% loss on the shares.

5d. Why It Grew, and What Changed

The case for private credit through 2024 was strong and mostly true. The loans paid more than 11% at the peak of rates (Lincoln International), defaults ran at 2-3% on the lenders' own measure (Proskauer's index was 2.46% at the end of 2025), and the funds had first claim on the borrowers' assets. Nothing traded, so the reported volatility was near zero, and the retail funds could pass most of the yield to individual investors, which is why the semi-liquid funds grew to the size 5b gives.

What changed in 2025-26 was three things at once. Borrowers' costs rose with rates and stayed there while their earnings did not, which is where the PIK came from. The exit drought of Module 4 meant the private-equity owners could not sell the companies to repay the loans, so maturities extended and the loans aged. And about a fifth of BDC lending, some $115 billion, is to software companies (BIS, July 2026), whose recurring revenue, the collateral the model was built on, met the AI question. A customer who can replace a per-seat subscription with a model may not renew, and a lender who lent against the subscription is lending against a business that may shrink.

New lending slowed as the doubts grew. Direct-lending volume fell 55% in the second quarter of 2026, to $33.6 billion, and some borrowers refinanced their direct loans in the syndicated loan market instead (Guggenheim, on PitchBook's leveraged-loan data). That is the stress of Module 6.

Module 5 Key Points

Private Credit: How It Works

• Private credit is a loan a fund makes directly and holds to maturity; it grew because the post-2008 capital rules pushed banks out.

• The typical borrower is owned by a private-equity fund, so private credit and private equity are one system, and the exit drought aged the loans.

• The retail form is the non-traded BDC: sold at NAV through advisers, redeemable quarterly up to 5% of shares.

• PIK was 8.1% of BDC income in 2025, double its pre-2020 level; nearly nine in ten defaults are deferrals or extensions, not bankruptcies.

• About a fifth of BDC lending, some $115 billion, is to software companies whose subscriptions AI may not renew.

Module 5 Quiz

Check Your Understanding

1. Why did private credit grow after 2008?

A) Capital rules made such loans costly for banks to hold
B) Interest rates rose
C) The SEC required it
D) Private equity stopped using borrowed money and turned to equity-only deals

2. How much of their shares may the largest non-traded BDCs buy back each quarter?

A) Up to 25% of the fund
B) Any amount, at the manager's choice
C) All of them, once a year
D) Up to 5%, or 7% without extending the offer

3. What is a unitranche loan?

A) A loan from a single bank, syndicated later
B) A loan with only one covenant, tested once a year
C) One loan in place of layers
D) A fixed-rate loan sold to insurers and pensions

4. What were most of the private-credit defaults Fitch counted in the year to August 2026?

A) Bankruptcies
B) Deferrals, PIK switches, and extensions
C) Fraud cases like First Brands and Tricolor, chiefly
D) Missed payments on loans to software companies

5. Why does the AI question matter to private credit specifically?

A) About a fifth of BDC lending is to software companies
B) AI firms took most of the funds' 2026 lending
C) The lenders used AI models to underwrite the loans
D) AI raised rates via the 2025 data-center build

Module 6 — Private Credit: The 2026 Stress

The Gates, and the Two Readings

Recommended Reading / Reference

Reference: The Congressional Research Service's 'Private Credit Funds Redemption Restrictions: Market Context and Policy Issues' (IN12674, March 27, 2026, updated April 2), the funds' tender-offer filings, Robert A. Stanger's quarterly reports on non-traded BDCs, Fitch's monthly default reports, and the *Global Financial Stability Report* of the International Monetary Fund (IMF), October 13, 2026

6a. The Triggers

The stress had two triggers in the autumn of 2025 and one cause. First Brands, an auto-parts maker with more than $10 billion of debt (about $12 billion by the Financial Times' count), filed for bankruptcy in September 2025. Its lenders alleged that receivables had been pledged more than once, and its founder, Patrick James, was indicted with his brother on January 29, 2026; the case became a liquidation on September 1. Tricolor, a subprime auto lender accused of pledging the same loans to several lenders, collapsed the same month, with losses at JPMorgan and Fifth Third. Neither was a private credit loan in the strict sense, but both were the kind of borrower private credit's growth had reached: opaque, levered, and dependent on a lender's not looking too hard.

The warning of JPMorgan's chief executive, Jamie Dimon, on October 14, 2025, that when you see one cockroach there are probably more, became the year's frame. In February 2026 Market Financial Solutions, a British bridging lender, collapsed with a collateral shortfall of about £930 million, and HSBC took a $400 million charge. The cause underneath was the one 5d describes: the AI repricing of software. Blue Owl's listed technology fund took a $490 million markdown in the first quarter, its largest ever. The listed BDCs fell to a median of about 74% of forward NAV in late March, the widest discount since October 2020 (Reuters, on data from LSEG, the London Stock Exchange Group), and Moody's cut its outlook for the roughly $400 billion sector to negative in early April. Then the advisers whose clients held the non-traded funds began to ask for the money back.

6b. The Gates

Date	Fund	What happened
November 5, 2025	Blue Owl Capital Corporation II, a $1.6 billion non-traded BDC	Proposed a merger into its listed sister fund and blocked redemptions until it closed; called the merger off on November 19
February 18, 2026	The same fund	Ended its tender offers: it sold loans at 99.7% of par and planned to return up to about 30% of NAV by March 31 instead
March 3	Blackstone's BCRED	Record requests of 7.9% of shares met in full: the tender raised to 7%, and about $400 million from Blackstone and its employees covered the rest
About March 6	HPS's HLEND	Requests of 9.3%; 5% bought back, 54% of requests filled
March 11	Morgan Stanley's North Haven Private Income Fund	Requests of 10.9%; 5% bought back, 46% filled
About March 13	Cliffwater's CCLF, an interval fund	Repurchases raised to 7%, about half of requests
March 23	Apollo Debt Solutions	Requests of 11.2%; 5% bought back, about 45% filled

Date	Fund	What happened
March 24	Ares's ASIF	Requests of 11.6%; 5% bought back, 43% filled
April 2	Blue Owl's OCIC and OTIC, the Blue Owl Technology Income Corp.	Requests of 21.9% and 40.7%; both held to 5%
Second quarter	The same funds	Requests of 10-38%; fills from 13% (OTIC) to 49% (BCRED, now held to 5%); $9.6 billion of requests left unfilled across the non-traded BDCs (Stanger)
Third quarter	The same funds	Requests eased at most of them (OCIC 16.8%, Apollo 14.7%, HLEND 11.5%, BCRED about 10%), and fills rose to between about 30% (OCIC) and a half; OTIC's requests stayed near 39% and its fill near 13%

Fund letters and filings; Robert A. Stanger; AltsWire; Alternative Credit Investor. 'Bought back 5%' means the fund repurchased 5% of its shares and prorated the requests, as its documents allow; unfilled requests do not carry over and must be resubmitted. Funds with mostly newer or institutional investors, among them Goldman's, KKR's, and Oaktree's, met their requests.

The listed BDCs showed the strain in their results. In the first quarter of 2026, 28 of the 53 lost money, against 12 a year earlier, and the group was unprofitable for the first time since at least 2024 on S&P Global Market Intelligence's measure, which counts changes in loan values (Reuters, June 30).

6c. A Non-Traded BDC's Redemption Arithmetic

Worked example — a non-traded BDC's redemption arithmetic

Take a non-traded BDC with $20 billion of NAV and $18 billion of debt, 0.9 times its equity, so it holds $38 billion of loans, a fifth of them ($7.6 billion) to software companies. Run a quarter like those of 2026. Its documents let it buy back up to 5% of its shares each quarter: $1 billion. Requests arrive at 15% of NAV, $3 billion. The fund honors the cap and prorates, so each investor receives a third of the request: one who asked for $100,000 gets $33,333 and must ask again for the rest.

The cash. The fund must find $1 billion in a portfolio that does not trade. Its performing loans repay at about 10% a year as maturities extend, $760 million in the quarter, while the software loans are extended rather than repaid. New subscriptions bring in $300 million, since the large funds kept raising money in 2026. That covers the $1 billion with $60 million to spare, but NAV is now $19.3 billion against unchanged debt, so leverage rises from 0.90 to 0.93 times.

The ratchet. To hold 0.9 times, the fund must repay $630 million of debt, so it sells $570 million of performing loans at 99.7% of par, the price Blue Owl's funds got in February, for a loss of only $1.7 million. The loans that repay and the loans that sell are the performing ones, so the software book grows from 20.0% to 20.7% of the loans in one quarter, and to 23% after four such quarters, by which time NAV is 13% smaller. If every unfilled investor asks again and new requests run at 10% of NAV, the next quarter's requests reach $3.9 billion against a cap of $965 million, and the fill falls to a quarter.

Three lessons follow. The gate is not the crisis; it is the design (1c). The arithmetic is a ratchet: the cap holds the outflow, the performing loans leave first, the doubted loans stay and grow as a share of the book, and their marks are tested only if the fund sells them, which it avoids for the reason the buyout fund of Module 3 avoided selling. And the fill rate is the tell (6b): the funds are not in a run, because they cannot be. They are in a slow queue that turns 'quarterly liquidity' into a lock-up, 5% at a time.

6d. Crisis or Mismatch?

The case that it is a crisis

Its proponents point to the numbers that moved. Fitch's US private-credit default rate reached 6.3% in August, a record, and Morgan Stanley forecast in March that private-credit default rates could reach 8%. PIK is about double its level before 2020, and nearly nine in ten defaults are deferrals, PIK switches, or extensions, so the losses have been put off rather than avoided. A fifth of BDC lending is to software that AI may reprice, and the listed BDCs, the only daily price, lost money and traded at the widest discounts since 2020. Behind the same loans sit annuity holders and banks (Module 7). The parallel they draw is 2007: an asset class built on marks and sold to individuals on a promise of liquidity it did not have.

The case that it is a mismatch

Its proponents, the managers foremost, answer that what surged was requests, a measure of sentiment, not losses. 'Investors should never buy these products if they expect 100% liquidity', said Brad Marshall, Blackstone's head of private credit strategies, in March. The caps held outflows to 5% a quarter by design. Proskauer's index of senior-secured and unitranche loans was 2.51% in the second quarter. The BIS found in July that the revenue uncertainty generative AI poses for borrowers 'has not affected these loans yet', and software had the lowest default rate of Fitch's large sectors in August, 0.6%. The institutional funds that hold most of the market have no redemptions to meet, and when Blue Owl had to sell, performing loans fetched 99.7% of par.

The evidence

The measures disagree because they count different things. Fitch's rate counts the deferrals and extensions of 5c as defaults. The median non-accrual rate at the non-perpetual BDCs among the 35 that KBRA rates rose from 1.81% to 2.75% of investments at cost in the second quarter: a real deterioration, from a low base. Requests eased in the third quarter (6b). The IMF's October report, with no chapter on private credit this time, still warned that 'rising leverage and contingent liquidity risks in private credit could amplify stress'.

The course's reading

The stress is real in the retail wrappers and in the marks on the software book, and not yet real in realized losses at the institutional core. The test that decides between the two readings, whether 2026's deferrals become 2027's losses and whether the software loans are repaid or written down, has not yet been run.

6e. The Regulators' Response

- **The Treasury.** It announced on April 1-2 a series of meetings with American and foreign insurance regulators on four questions about insurers and private credit (7b). The series ended with Treasury Secretary Scott Bessent's meeting with state insurance commissioners and the National Association of Insurance Commissioners (NAIC) on May 7.
- **The Financial Stability Oversight Council (FSOC).** On March 25 it voted to propose guidance returning to an activities-based approach to designating nonbanks, with a higher bar for designation. The guidance is general, not aimed at private credit, and had not been made final by October 25.
- **The Office of the Comptroller of the Currency (OCC).** Its spring 2026 risk report found banks' exposures to private-credit funds generally performing, but saw signs that credit quality 'for some vintages, borrower types, and sectors' is weakening, and warned that restructurings and PIK 'may mask

underlying credit deterioration'.

• **The Federal Reserve.** Its May 8 report counted the semi-liquid funds' first quarter of net outflows, and on August 5 the New York and Dallas Reserve Banks announced a pilot survey of private-credit lending.

• **The SEC.** Its staff issued a statement in early October 2026 on how private assets should be valued and disclosed.

• **Congress.** Inquiries rather than hearings: Democratic members of the House Financial Services Committee sent questions to the largest managers in April, Senator Jack Reed wrote to SEC Chair Paul Atkins on May 6, and the Senate Banking Committee's minority opened an inquiry into private investment firms in insurance. No legislation followed.

Module 6 Key Points

Private Credit: The 2026 Stress

• First Brands and Tricolor triggered the stress in autumn 2025; the cause beneath it was AI's threat to the software loans.

• From March 2026 most of the largest non-traded credit funds bought back 5% a quarter against requests of 9-41%.

• Fitch's default rate hit a record 6.3% in August, but nearly nine in ten defaults were deferrals or extensions, with any losses later.

• A gated fund is a ratchet: performing loans repay or sell first, the doubted ones stay, and their marks go untested.

• Crisis or mismatch turns on a test not yet run: whether 2026's deferrals become 2027's losses.

• Regulators convened, proposed, and surveyed, and Congress sent letters; no rule or law has changed the funds' terms.

Module 6 Quiz

Check Your Understanding

1. What does the module identify as the cause beneath the 2026 stress?

A) Fraud at First Brands
B) A recession in 2026
C) Rising rates alone, which doubled borrowers' interest costs between 2022 and 2024
D) AI's threat to the software that backs a fifth of the loans

2. How did Blackstone's BCRED handle its record requests in the first quarter of 2026?

A) It gated at 1%
B) It met them in full by raising the tender to 7%
C) It suspended all redemptions until the end of the year
D) It merged into a listed fund and closed its doors to new money

3. In the worked example, what share of a request does an investor receive?

A) All of it
B) Half of it, the rest a year later
C) A third
D) Only what the fund's lenders release

4. What does the mismatch reading say surged in 2026?

A) Bankruptcies among software borrowers
B) Failures of the banks that lend to the funds
C) Leverage at the institutional drawdown funds
D) Requests, not losses

5. What test decides between the two readings, in the course's judgment?

A) The Fed's next rate decision
B) Whether Blackstone holds BCRED's cap at 5% through the end of 2027
C) Whether 2026's deferrals become 2027's losses
D) The midterm elections and the Labor Department's final rule on 401(k)s

Module 7 — The Plumbing: Insurers and Banks

What Sits Underneath

Recommended Reading / Reference

Reference: The Congressional Research Service's 'Private Investments and Insurance Companies' (IF13319, September 23, 2026); ALIRT's and AM Best's work on privately owned insurers and offshore reinsurance; and the Federal Reserve Bank of Boston's 'Bank Lending to Private Equity and Private Credit Funds: Insights from Regulatory Data' (February 5, 2025)

7a. The Bermuda Triangle

The structure the evolution of Module 2 built has three corners, and the trade press calls it the Bermuda Triangle. At the first is a life insurer that sells annuities to American savers and retirees: a promise of a fixed or indexed return. At the second is the asset manager that owns or is affiliated with the insurer and invests the premiums in its own private credit, rated for the insurer's capital rules by private letter ratings that the manager commissions. At the third is a reinsurer in Bermuda or the Cayman Islands, or a captive at home, to which the insurer cedes the liabilities. The reinsurer's capital rules are lighter, so the same promises need less capital behind them, and the capital freed writes more annuities.

The structure grew fast. At the end of 2025, 93 privately owned life insurers held nearly $1.2 trillion, 19.8% of the industry's invested assets, against 16 insurers with 2.5% in 2011 (ALIRT). Insurers owned by private-equity firms accounted for 18% of the American annuity market and 33% of the indexed-annuity market in 2024 (Chicago Fed). American life insurers' reserves ceded offshore passed $1.1 trillion by the end of 2024, Bermuda took more than 60% of new cessions in 2023-24, and nearly 70% of offshore reserves went to affiliated reinsurers (AM Best). Life insurers held $807 billion of private credit at the end of 2025, a fifth of their $4 trillion of bonds, against $685 billion a year earlier (Moody's).

The saver's protection rests on state regulators who cannot see the offshore books, a rating the manager paid for, and a mark the manager set. What the structure delivers in ordinary times is a higher annuity rate for the saver and a permanent funding base for the manager, which is why it grew.

7b. The Run Question

An annuity is not a bank deposit, and the difference is the industry's defense. Policyholders cannot withdraw on demand, surrender charges deter early exits, and the liabilities run for decades against assets held to maturity. A fall in the loans' value is therefore a question of solvency in the long run rather than of immediate liquidity. The counter-argument is the rate cycle. A rise in rates makes old annuities' rates uncompetitive and gives policyholders a reason to pay the charge and leave, and an insurer holding private loans at par could not sell them at par to pay them: the BDC's arithmetic on a slower clock.

The Treasury's spring questions were the run question in four parts (6e): how much leverage sits at the fund level below the insurer's assets, whether private ratings can be relied on, what the offshore reinsurers hold, and how liquid the assets are if surrenders rise with defaults. The ratings question has evidence behind it. Private ratings make up more than a fifth of the bond books of insurers backed by private equity, against 12% for the industry (Bloomberg, June 2026); a Columbia study reported in June found inflated private ratings masking credit risk; and the NAIC is weighing reforms. In July Bloomberg reported that federal

prosecutors were investigating insurers tied to Mark Walter, the Los Angeles Dodgers' owner, and Guggenheim.

7c. The Banks

The banks left the middle market (5a) and then lent to the people who took it over. Large banks' commitments to private-equity and private-credit funds reached about $300 billion in 2023, 14% of their commitments to nonbanks, from about $10 billion, or 1%, in 2013 (Boston Fed). Moody's put banks' backing of private credit at about $300 billion in October 2025. The Fed counted $2.6 trillion of bank commitments to nonbank financial firms at the end of 2025, with private equity, BDCs, and private credit the largest category, about a quarter, up 17% in the year. Banks' loans to nonbank financial firms reached $2.08 trillion on September 30, 2026.

The lines take four forms: subscription lines secured on the LPs' commitments, NAV facilities secured on marks, the credit lines that lever the BDCs, and warehouse lines that hold loans before they are sold into funds. What each is worth depends on its collateral. A subscription line is as good as the pension behind the commitment, a NAV line is as good as the marks, and a BDC's credit line is as good as the loans the BDC holds at par. The OCC's worry that restructurings and PIK may mask deterioration (6e) is about the second and third kinds. First Brands, Tricolor, and Market Financial Solutions were the banks' losses first.

7d. Is It Systemic?

The case that it is systemic

Its proponents see the pattern of 2007, in which the risk was everywhere and each holder thought it was elsewhere. Loans valued on marks are sold to individuals (6d), fund annuities for savers through offshore reinsurers, and are financed by the largest banks through lines secured on the same marks. The ratings are private, the offshore books are hard to see, and the leverage is stacked: on the companies, on the funds, on the funds' distributions, and on the managers' carry. The IMF's October report said liquidity mismatches among insurers and pension funds have increased.

The case that it is contained

Its proponents, the industry foremost, answer with proportions. American private credit is about a tenth of nonfinancial corporate debt (1b). The semi-liquid funds that can face redemptions hold $241 billion net (5b), and the institutional funds that hold the rest cannot be run. The loans are senior and secured, defaults so far are mostly deferrals and extensions, and the banks' lines are secured and, in the OCC's words, generally performing. In July Moody's said high equity cushions should protect BDCs' unsecured creditors in a severe downturn, and that most listed BDCs would keep adequate liquidity. No bank, insurer, or major fund has failed.

The evidence

The proportions favor the contained reading, and they are real: a market of that size, with that share of it in funds that can be redeemed, cannot by itself bring down the financial system. The case for concern rests on what cannot be measured, which is the connections. The same loans sit in BDCs, annuity books, bank collateral, and offshore reinsurers, valued by a manager in each place, and no supervisor sees them all. The failures so far, First Brands, Tricolor, and Market Financial Solutions, were borrowers and a lender outside the core, exposed through allegations of fraud rather than through the marks.

The course's reading

The loans are probably sound in the aggregate, and the structures around them are the thing no one can verify. Whether 2026 is a correction or the first act depends on the plumbing: the insurers' surrenders, the banks' NAV lines, and the offshore books. The crisis reading assumes the plumbing is fragile and the contained reading assumes it is fine, on evidence that neither has. An annuity holder in one of these platforms is, without knowing it, a lender of last resort to the asset class.

Module 7 Key Points

The Plumbing: Insurers and Banks

• The Bermuda Triangle turns an annuity into funding for a middle-market loan: insurer, affiliated manager, and offshore reinsurer under lighter capital rules.

• Privately owned insurers hold 19.8% of American life insurers' assets, from 2.5% in 2011; over $1.1 trillion of reserves sit offshore.

• An annuity's defense against a run is surrender charges and long liabilities; a rate rise tests it on a slower clock than a fund's.

• Large banks' commitments to private funds grew from about $10 billion in 2013 to about $300 billion in 2023.

• The loans are probably sound in aggregate; the plumbing, private ratings, offshore books, stacked leverage, untested marks, is what no one can verify.

Module 7 Quiz

Check Your Understanding

1. What are the three corners of the Bermuda Triangle?

A) An insurer, its affiliated manager, and an offshore reinsurer
B) Three banks
C) Three rating agencies
D) The SEC, the Federal Reserve, and the Office of the Comptroller of the Currency

2. What share of the American annuity market did insurers owned by private-equity firms account for in 2024, on the Chicago Fed's figures?

A) About half of all annuities sold
B) 18%, and a third of indexed annuities
C) Under 2%, as in 2011
D) Nearly all, after the deals of 2025

3. What did a Columbia study reported in June 2026 find about private letter ratings?

A) They matched
B) They were stricter than the public agencies' ratings
C) They were inflated, masking credit risk
D) They covered only government bonds held by insurers

4. How did large banks' commitments to private-equity and private-credit funds change from 2013 to 2023, per the Boston Fed?

A) From about $10 billion to about $300 billion
B) They fell to zero after the rules of 2010
C) From about $300 billion to $10 billion
D) They stayed near $50 billion throughout

5. What is the course's judgment on whether private credit is systemic?

A) It is a certain repeat of 2007, with the banks at the center this time
B) The loans are probably sound; the plumbing cannot be verified
C) It is entirely contained, since no bank, insurer, or major fund has failed
D) The question cannot be studied, because the funds publish no data on their loans

Module 8 — Venture, Real Assets, and the Evergreen Structures

The Other Asset Classes, and the Vehicle That Carries Them

Recommended Reading / Reference

Reference: PitchBook-NVCA's *Venture Monitor* (third quarter of 2026, October 8, 2026), NCREIF's quarterly ODCE releases, MSCI's commercial property price indexes, and Robert A. Stanger's data on non-traded funds

8a. Venture and the AI Wave

Venture capital is private equity without the leverage and without the cash flow: minority stakes in companies that lose money in the expectation that a few will be worth a hundred times the rest. A venture fund's returns come from two or three positions, and the fund depends on finding them. The AI wave has concentrated the asset class. AI took 82.7% of American venture deal value in the first nine months of 2026, and funds of $500 million or more took 78% of the money raised while making up 6% of funds; Andreessen Horowitz alone closed $23.8 billion (PitchBook-NVCA).

The sums are new. American venture deals reached $515.8 billion in January-September 2026, about 44% above the previous full-year record, and venture funds raised $108.5 billion, though only 211 emerging managers closed funds, against 927 in 2022 (PitchBook-NVCA). OpenAI closed a $122 billion round at an $852 billion valuation around April 1, with Amazon, Nvidia, and SoftBank among the investors, and OpenAI and Anthropic together raised more than $200 billion in the first half. The capital comes as much from cloud giants, chipmakers, sovereign funds, and mutual funds as from venture firms.

The year's liquidity came from the companies Elon Musk controls. On February 2 SpaceX agreed to acquire xAI in a share exchange valuing xAI at $250 billion and SpaceX at $1 trillion, the largest merger on record by LSEG's count, and it returned no cash to xAI's backers. The liquidity came with SpaceX's listing on Nasdaq on June 12: priced at $135 a share for a value of $1.77 trillion, it raised $75 billion, about $86 billion with the extra shares sold to meet demand, the largest initial public offering (IPO) ever. It gave xAI's backers a public price for shares they can sell as the lock-ups end. In the third quarter SpaceX's $60 billion all-stock purchase of Anysphere, the maker of the coding tool Cursor, was more than half of American venture exit value. Anthropic filed preliminary papers for a listing in June and is reported to be preparing one for November at a value of $1.8-2 trillion or more.

Beneath the AI layer the old problem persists. Shares of companies last funded in 2021 trade at a median discount of 59% on Forge Global, and Airtable, once valued at $11.7 billion, sold to Bending Spoons for $1.3 billion. The listings window of the third quarter opened mainly for health-care companies, 12 of the 18 venture-backed IPOs, and for none in AI. Venture secondaries, where employees and early investors sell stakes at a discount to funds built for the purpose, did about $5 billion in the first half (Evercore). The same models that reprice a lender's software collateral (Module 6) are the assets the venture funds are marking up.

8b. Real Estate

Real estate is the sector where the marks met the market first. Downtown office prices are still about 50% below their March 2022 peak on MSCI's index, though they have risen year on year since mid-2025. The listed real estate investment trusts (REITs) priced the fall within months in 2022, while the private funds marked it down over the following years; NCREIF's ODCE core funds returned 4.45% in the year to June 30, 2026, with leverage at 27%.

Blackstone's BREIT, the non-traded REIT that brought real estate to individuals at NAV, limited withdrawals from December 2022, when requests exceeded its caps of 2% of NAV a month and 5% a quarter. It prorated for fifteen months, with requests peaking at $5.3 billion in January 2023, and has paid every request in full since February 2024. It raised $1.2 billion in the first quarter of 2026, its most in three years, and $1.3 billion in the third, when Blackstone counted $57.7 billion of its assets under management: the precedent that a gate can be survived, which the credit funds of Module 6 are now testing.

8c. Infrastructure

Infrastructure (1b) is where the AI build's money goes: the data-center campuses, the power plants and transmission lines behind them, the fiber, the ports, and the pipelines, which offer pensions and insurers contracted cash flows that rise with inflation. Meta put its gigawatt-scale Hyperion campus in Louisiana into a $27 billion joint venture with Blue Owl's funds in October 2025. BlackRock's Global Infrastructure Partners, Abu Dhabi's MGX, and the AI Infrastructure Partnership closed their $40 billion purchase of Aligned Data Centers on July 21, 2026, and Brookfield announced a $100 billion plan in July for an AI campus at a federal site in Paducah, Kentucky. KKR closed its largest infrastructure fund, $19.2 billion, on August 3. The sector's risk is the one the electricity system itself faces: whether the demand the campuses are built for arrives.

8d. The Evergreen Structure

The evergreen fund (1c) carries all of it to individuals. It is priced at NAV monthly or quarterly, holds a liquidity sleeve of cash and public securities against redemption requests, and charges a private fund's fees on the whole. Such funds held about $500-600 billion across strategies by 2026, depending on the definition (Evercore; Morningstar and PitchBook). Non-traded alternatives raised $203.7 billion in 2025, up 35.5%, including $63 billion for non-traded BDCs and $39.8 billion for interval funds, with Blackstone raising the most, $28 billion (Stanger). Evergreen private-equity funds in the United States doubled to $99.3 billion between the end of 2024 and March 2026 (PitchBook).

Its design is the subject's tension in one product, a private asset with a retail promise of liquidity, and its cap is the gate (1c).

Module 8 Key Points

Venture, Real Assets, and the Evergreen Structures

• AI took 82.7% of American venture deal value in 2026's first nine months, as deals reached a record $515.8 billion.

• SpaceX's xAI deal was a share swap; the liquidity came with SpaceX's June listing, the largest IPO ever, at $1.77 trillion.

• Downtown offices remain about half below their 2022 peak; BREIT's fifteen months of proration showed that a gate can be survived.

• Infrastructure is where the AI build's money goes, and its risk is whether the demand the campuses are built for arrives.

• The evergreen fund, $500-600 billion by 2026, is a private asset with a retail liquidity promise whose cap is the gate.

Module 8 Quiz

Check Your Understanding

1. What share of American venture deal value went to AI in January-September 2026?

A) About a tenth
B) About half
C) Under a fifth, as the 2025 slump went on
D) 82.7%, on PitchBook-NVCA's count

2. How did SpaceX pay for xAI in February 2026?

A) In its own shares
B) In cash
C) With a loan from its banks secured on Starlink
D) With the proceeds of its June listing on Nasdaq

3. What did BREIT's experience of 2022-24 show, in the module's reading?

A) That non-traded REITs must be wound up after a gate
B) That the listed REITs had overstated the fall in values
C) That the SEC had to lift its caps so all could be paid
D) That a gate can be survived: it prorated, then paid in full

4. Why is infrastructure where much new private capital goes, in the module's account?

A) Tax credits
B) It is where the AI build's money goes
C) Falling rates
D) Governments now require pension funds to hold it under the 2025 law

5. What is the evergreen structure, in the module's phrase?

A) A tax shelter for the wealth channel, approved by the Treasury
B) A hedge fund by another name, with daily trading and no fees
C) A private asset with a retail liquidity promise
D) A bank deposit with a longer notice period and no deposit insurance

Module 9 — The Retail and 401(k) Push

The Largest Question in the Subject

Recommended Reading / Reference

Reference: Executive Order 14330, 'Democratizing Access to Alternative Assets for 401(k) Investors' (August 7, 2025); the Labor Department's proposed rule of March 30, 2026 and its comment file; the Supreme Court's docket in Anderson v. Intel Corp. Investment Policy Committee (No. 25-498); and the Investment Company Institute's quarterly retirement-market data

9a. The Push

The institutions have been in private markets for thirty years and individuals for about five, and the managers' growth plans depend on the second. The institutions are near or above their targets and among the sellers of stakes in the secondaries market (4c). The wealthy hold a far smaller share of their money in alternatives than the institutions do. And defined-contribution plans held $15.0 trillion at the end of June 2026, $10.8 trillion of it in 401(k)s (Investment Company Institute). Two points of all defined-contribution assets would be about $300 billion, more than the net assets the semi-liquid credit funds hold today (5b).

The push has three parts. The first is the evergreen products of Module 8, built for advisers. The second is partnerships between the alternatives managers and the retirement industry that package private assets inside the products savers already own: State Street's target-date funds added private-market exposure from Apollo in April 2025, Empower launched a private-market option for 401(k) savers, KKR has partnered with Capital Group, and Blackstone with Vanguard and Wellington. In May 2026 AllianceBernstein, Brookfield, and Carlyle unveiled a turnkey private-markets offering for defined-contribution plans. The third is the government's part, the subject of 9b.

9b. The Order, the Rule, and the Case

Executive Order 14330 of August 7, 2025 directed the Labor Department and the SEC to make it easier for 401(k) plans to include private equity, private credit, real estate, digital assets, and other alternatives, on the premise that savers were being denied returns institutions earned. The obstacle was never a prohibition, since plans could always include alternatives. It was litigation. Under ERISA, the law that governs private retirement plans, a plan's fiduciaries must act with an expert's prudence and are personally liable if they do not. A decade of class actions over fees and underperformance had taught plan committees that an illiquid, costly, hard-to-value fund was a lawsuit waiting for a bad year.

The Labor Department's proposed rule of March 30, 2026 answers with a safe harbor for choosing any of a plan's investment options: a fiduciary who follows a documented, prudent process earns a presumption that the duty of prudence was met. Comments closed on June 1, more than 47,000 of them, and no final rule had been scheduled by October 25.

The case is Anderson v. Intel (No. 25-498). Intel's employees sued over the company's target-date and diversified funds, which invested in hedge funds and other alternatives and, they alleged, cost more and returned less than cheaper funds. The lower courts dismissed the claims because the employees had not pleaded a 'meaningful benchmark' against which to judge the funds. The Supreme Court took the case in January 2026 and heard it on October 6, with the Solicitor General's office arguing on Intel's side. Several justices doubted that a comparison must be to an identical fund, and Justice Elena Kagan called the

employees' account of the lower court's rule a 'caricature'. The argument leaned toward keeping a benchmark requirement, and a decision is due by the end of the term, in June or early July 2027.

9c. A 10% Private Sleeve in a Target-Date Fund

Worked example — what a 10% private sleeve does to a target-date fund

Take a 30-year-old who puts $10,000 a year into a target-date fund for 40 years, at the end of each year. The public version, an index-based fund charging 0.10% a year, earns 6% a year after its fee and accumulates $1.55 million. The private version replaces 10% of the fund with a sleeve of private equity and private credit through an evergreen vehicle, whose all-in cost is about 3% a year, so the fund's blended cost rises from 0.10% to 0.39%. Before fees, the sleeve must out-earn the public assets it replaces by 2.9 points a year just to tie.

The outcomes. If the sleeve earns 2.5 points a year more than the public assets it replaces after its fees, as its advocates project, the fund earns 6.25% and the saver retires with $1.65 million, 6.5% more. If it earns the same after fees, as the academic evidence of Module 3 says the average fund since 2006 has, the saver ends with the same $1.55 million. A bottom-half manager 2.5 points behind leaves $1.45 million, 6.1% less, and the spread between a top-quartile and a bottom-quartile sleeve, 5 points either way, is $1.76 million against $1.37 million.

What the arithmetic leaves out. Liquidity: a target-date fund must price daily and pay withdrawals, while a 10% sleeve in a capped evergreen fund cannot, so the liquid 90% carries the sleeve's redemptions. In a quarter like those of 2026 the fund sells public assets to pay for private ones it cannot sell, and the sleeve's share drifts up: the denominator effect of Module 4 inside a retirement account. Valuation: the sleeve is marked quarterly by its manager, so the fund's daily price is 90% market and 10% opinion, and a saver who leaves in a bad quarter is paid on a mark that has not caught up, a transfer between savers.

9d. Should Retirement Savers Own Private Assets?

The case for the push

Its advocates, the managers and the administration among them, argue that institutions have earned the premium for illiquidity for thirty years while savers were kept out by rules meant to protect them. A diversified sleeve of private equity, credit, and infrastructure can lower a portfolio's volatility and raise its return, and the companies of the next decade grow up private: SpaceX listed at $1.77 trillion after most of its growth had accrued to private holders. A saver with a forty-year horizon is the ideal holder of an illiquid asset, since the money cannot be withdrawn before 59½ without a penalty anyway. The evergreen wrappers, target-date integration, and the safe harbor solve the operational and legal problems, and the 2026 gates show the caps working.

The case against

Its critics answer that the push arrives as the institutions retreat, with endowments and pensions selling stakes and exits stalled, and that the saver is cast as the buyer the marks need. The fees are ten to thirty times an index fund's, and the average return after them, on the evidence, is the public market's. The liquidity promise was tested in 2026 and the answer was the gate; the valuations are the manager's; and the saver cannot select managers when the dispersion is everything. The safe harbor protects the fiduciary's

process, not the saver's outcome. 'Democratization', on this view, is the word for selling an institution's leftovers to the public late in the cycle.

The evidence

The worked example gives a balance 6.5% larger on the advocates' projection and no gain on the academics' evidence, before the costs of liquidity and lagging marks. The 2026 record is mixed for the advocates: the caps held, but savers who asked for their money got only part of it each quarter (Module 6). The courts have not ruled (9b), and a benchmark requirement kept in Anderson would make claims of underperformance harder to bring.

The course's reading

For a saver in an average manager's sleeve, private assets in a 401(k) add cost and complexity for an expected return about equal to the public market's, and the case for them rests on a choice of manager that the plan committee must make and the saver cannot check. The push will be decided less by the arithmetic than by the law: whether the rule and the Anderson decision make fiduciaries comfortable enough to move the money.

Module 9 Key Points

The Retail and 401(k) Push

• Defined-contribution plans held $15.0 trillion in mid-2026, $10.8 trillion in 401(k)s; two points of it would be about $300 billion.

• The obstacle was never a ban but litigation; the Labor Department's proposed safe harbor protects a fiduciary's process, not a saver's outcome.

• Anderson v. Intel, argued October 6, 2026, turns on whether savers must plead a meaningful benchmark; a ruling is expected by early July 2027.

• A 10% sleeve lifts the fund's cost from 0.10% to 0.39%; the expected gain is about zero, and the outcome is the manager.

• The sleeve's hidden costs are liquidity, a daily price that is 10% opinion, and transfers between savers when the mark lags.

Module 9 Quiz

Check Your Understanding

1. What was the obstacle to alternatives in 401(k) plans, in the module's account?

A) A ban in federal law
B) Litigation
C) A rule of the SEC on fund holdings
D) A lack of products for plans to buy

2. What does the Labor Department's proposed rule of March 30, 2026 offer?

A) A guarantee of returns
B) A ban on private credit in the funds a plan offers to its savers
C) A presumption of prudence for a documented process
D) A cap of 5% on alternatives in any target-date fund that a plan offers

3. Where did Anderson v. Intel stand on October 25, 2026?

A) Decided for Intel
B) Dismissed in May
C) Sent back to the Ninth Circuit for a trial on the merits of the claims
D) Argued October 6; a decision is due by July 2027

4. In the worked example, what does the fund's blended cost become with a 10% private sleeve?

A) About 0.39% a year, from 0.10%
B) About 3% a year, from 0.10%
C) About 1% a year
D) Still 0.10% a year

5. Whom does the safe harbor protect, in the critics' case?

A) The SEC
B) The fiduciary
C) The saver who retires into a bad year
D) The managers whose funds the plans buy

Module 10 — Where Things Stand, and What to Watch

The Picture, the Contradictions, and the Dates

Recommended Reading / Reference

Reference: The managers' quarterly reports; Robert A. Stanger's redemption data; Fitch's, Proskauer's, and KBRA's default and non-accrual trackers; the Labor Department's rulemaking docket; and the Supreme Court's opinions page, which together will show whether the picture below holds

10a. Where Things Stand

Private markets in October 2026 are $16.7 trillion of assets with no price, in a year when the price was asked for. Private equity holds tens of thousands of companies it has been slow to sell, returns cash to its investors partly through debt on their marks, and has delivered, on the evidence, about a public return at private fees since 2006. Private credit, which grew because the banks left, has a retail wing that prorated redemptions in most of its largest funds, a record default rate that is mostly deferrals and extensions, a software book whose marks AI is testing, and an institutional core that has not been tested.

Underneath sit the insurers whose annuities fund the loans and the banks whose lines fund the funds, in structures the regulators questioned in the spring and cannot see whole. Venture had its largest year, concentrated in a few AI companies, with one listing as its main route to cash. The push to put all of it into retirement accounts has an executive order, a proposed rule with more than 47,000 comments, and a Supreme Court case argued on October 6, and it arrives as the institutions that built the asset class sell stakes. The course's opening question, what the marks are worth, has no answer yet, because the marks are tested only on a sale and the funds have avoided selling.

10b. Five Contradictions

- **Patient capital that wants to leave.** The asset class sells illiquidity to institutions as a virtue and liquidity to individuals as a feature, and 2026 tested the second promise first (Modules 6 and 8).
- **Marks no one will pay.** The 2021 deal held at 1.4 times, the continuation fund's price negotiated with itself, and the secondaries buyer's discount are three prices for one asset (Modules 3 and 4).
- **Buyout firms that became insurers.** Firms built to take risk for sophisticated investors now hold savers' annuities, so a loss sized for a fund can reach a policyholder (Modules 2 and 7).
- **A default rate that does not default.** The record rate is mostly deferrals and extensions, so the year's credit statistics measure postponement, not loss (Modules 5 and 6).
- **AI on both sides of the book.** The same models that threaten the software collateral behind a fifth of BDC lending are the assets venture funds mark up and the reason infrastructure funds build (Modules 5, 6, and 8).

10c. Four Tests

• **Losses.** Whether 2026's deferrals and extensions become 2027's write-downs, which decides between the crisis and the mismatch.

• **Sales.** Whether exits, listings, and secondaries prices test the marks before the funds' lives run out, which decides what the returns of the 2019-22 vintages were.

• **The queue.** Whether redemption requests keep easing, which decides whether the evergreen fund is a product that works through a cycle.

• **The law.** Whether the Labor Department's rule and the Anderson decision make fiduciaries comfortable enough to move 401(k) money, which decides how large the asset class's next buyer becomes.

10d. The Watch List

When	What	Why it matters
October 27-28, 2026	Federal Reserve meeting	The base rate on nearly every private loan; futures on October 16 gave about 1 in 6 for a rise on October 28 and about 9 in 10 by December
October 28 to November 6, 2026	Fourth-quarter tender offers close at several smaller non-traded BDCs	Whether requests keep easing beyond the largest funds
Late October and November 2026	KKR's, Ares's, Blue Owl's, Carlyle's, Brookfield's, and TPG's third-quarter results, on dates each has set	The redemption data and the marks, manager by manager
November 3, 2026	Apollo's third-quarter results; the midterm elections	Athene's flows and Apollo's credit fund; the Congress that would write any rule on retail access
November 14-17, 2026	The National Association of Insurance Commissioners' fall meeting	Whether the insurers' regulators move on private ratings and offshore reinsurance (Module 7)
November 2026 (reported)	Anthropic's listing, reported for before Thanksgiving at $1.8-2 trillion or more	The first public price for a standalone AI lab, and a mark for the funds that hold it
November 2026 (expected)	The Federal Reserve's Financial Stability Report	Its next reading of private credit and the semi-liquid funds
November and December 2026	The largest non-traded BDCs' fourth-quarter tenders, on dates not yet announced; OCIC's next window is expected in December	Whether the queue keeps shrinking at the funds that set the year's pattern
November to early December 2026	SpaceX's last lock-up releases of 2026: the largest after its November quarterly report and the 180-day release in early December; the rest, Elon Musk's shares included, about June 13, 2027	When the venture funds holding SpaceX, xAI's backers among them, can sell all they hold, and at what price
December 2026 (expected)	The OCC's fall risk report	Banks' exposures to private-credit funds
Monthly and quarterly, into 2027	Fitch's default rate (monthly); Proskauer's index and KBRA's non-accrual rates (quarterly)	Whether 2026's deferrals become 2027's losses
January to March 2027 (expected)	Jefferies' and Evercore's full-year secondaries reviews; Bain's and McKinsey's annual reports	The year's count of exits and distributions, and the discount buyers ask
By early July 2027	The Supreme Court's decision in Anderson v. Intel	Whether claims of underperformance need a meaningful benchmark: the litigation risk behind the 401(k) push

When	What	Why it matters
2027	The exit window: listings beyond premium assets; secondaries prices	Whether the marks are tested by sales
2027-28	The 2019-22 vintages' DPI; the pensions' new commitments	Whether the institutions come back
No date set	The Labor Department's final rule	Whether fiduciaries get their presumption of prudence
No date set	FSOC's final designation guidance; the NAIC's work on private ratings and offshore reinsurance	The plumbing under supervision, or not
Ongoing	Software borrowers' revenue against the AI models; the managers' share prices	The collateral question, and the market's mark on the managers

Dates as announced on October 25, 2026: 'reported' marks a date from press reports, and 'expected' a date not yet announced.

10e. The Last Word

The throughline of ten modules is this. Private markets are the $16.7 trillion that trades nowhere, valued by the people who hold it, sold when they choose, and financed, through buyouts, loans, annuities, and bank lines, by a chain in which each link's value is the mark of the link before. For decades the chain held because the exits came and proved the marks. For four years the exits have been scarce, the marks have been carried, and cash has been raised by borrowing against them. In 2026 the newest investors, individuals promised a liquidity the asset does not have, asked for the proof and received the gate.

The course ends where the evidence stands. Private markets are an asset class whose average delivers a public return at private fees and whose best deliver what they promise, whose stress is so far one of liquidity rather than solvency, and whose plumbing no one can see whole. Its next tests, the sale that proves the mark, the loss that follows the deferral, and the court that sets the bar for a saver's suit, are on a calendar the reader can now follow. A reader who has followed the buyout to its exit, the loan to its gate, the annuity to Bermuda, and the sleeve to the retirement account can read the next redemption data, default print, and mark for what they are: the price, arriving late, for the part of finance that agreed not to have one.

Module 10 Key Points

Where Things Stand, and What to Watch

• The marks have not been tested because the funds have not sold; 2026's stress was the retail investor asking and the gate answering.

• Private equity's average fund since 2006 delivered about a public return at private fees; its best managers delivered more.

• The stress is so far one of liquidity, not solvency; the test is whether 2026's deferrals become 2027's losses.

• The watch list runs from the Fed's October 27-28 meeting and the year-end tenders to the Anderson decision by July 2027.

• Every link in the chain, buyout, loan, annuity, and bank line, is valued at the mark of the link before.

Module 10 Quiz

Check Your Understanding

1. What does the module say the 2026 stress was, in one phrase?

A) Investors asking, the gate answering
B) A solvency crisis in the middle market that the banks absorbed
C) A failure of the SEC and the brokers' regulator that hearings exposed
D) A recession that began in software and spread to the rest of the economy

2. What does the module mean by 'a default rate that does not default'?

A) Fitch's rate is a forecast; the defaults have not happened yet
B) The defaults all sit in funds that have already closed
C) The record rate counts mostly deferrals and extensions, not losses
D) Borrowers defaulted, but the banks repaid the funds in full

3. What has to happen for the course's opening question, what the marks are worth, to be answered?

A) A rule on marks
B) An SEC audit
C) The managers must publish their valuation models in full each quarter
D) The assets have to be sold

4. When is the Supreme Court's decision in Anderson v. Intel due?

A) In 2026
B) Before the end of 2026, after the midterms
C) By early July 2027
D) Not before 2029, after a trial in the lower court

5. What does the last word call private markets?

A) The part of finance that agreed not to have a price
B) A bank by another name
C) The safest part of finance
D) The future of retirement saving for every household in the country

Answer Sheet

Answers to every module's Check Your Understanding quiz.

Module	Answers
Module 1 Quiz	1. B 2. C 3. D 4. A 5. C
Module 2 Quiz	1. B 2. D 3. A 4. B 5. A
Module 3 Quiz	1. D 2. C 3. A 4. C 5. D
Module 4 Quiz	1. B 2. A 3. C 4. D 5. B
Module 5 Quiz	1. A 2. D 3. C 4. B 5. A
Module 6 Quiz	1. D 2. B 3. C 4. D 5. C
Module 7 Quiz	1. A 2. B 3. C 4. A 5. B
Module 8 Quiz	1. D 2. A 3. D 4. B 5. C
Module 9 Quiz	1. B 2. C 3. D 4. A 5. B
Module 10 Quiz	1. A 2. C 3. D 4. C 5. A