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Hello, and welcome to the Dividend Cafe. I am your host, David Boson. I'm recording on the last Friday of February in New York City, where the last Monday saw a nasty blizzard, but it is now just utterly beautiful—still very cold, but a world of difference from where we were just four days ago.

But speaking of blizzards, we are going to talk today about some of the distress—and I will call it hysteria—existing right now in the media and in different components of public sentiment around what I'm going to call private asset markets. You could look at it as alternative asset managers, but that might sound a little too niche. That might sound a little bit like something that doesn't impact a lot of people. What we're talking about impacts everybody.

There is this broader concern that one of the things I think has been one of the most innovative and productive and helpful capital-market innovations in my lifetime—to de-risk systemically our financial system—is right now in the midst of this sort of crossfire of hysteria, in a lot of cases extremely uninformed critique, but in all things a sort of sentimental shift to the downside that I think needs to be unpacked and understood. That is what the Dividend Cafe exists to do: to unpack and provide further illumination.

With that said, let's jump in, Dividend Cafe, and talk a little bit today about the current conversation in private asset markets. How do I say this? I do this for a living. My job involves understanding nuances in things that often are not readily or easily discernible. Nobody should expect most people off the street to be able to compartmentalize and differentiate some of the things we're going to go through. But it is my job, and I ought to be able to do it. I happen to think a lot of people in financial media should be able to do it as well—probably for a different reason.

What I think you have going on right now is a pile-on where a lot of different things are being conflated together. I'm going to make a few statements here and read from my own Dividend Cafe because I want to capture what I believe is about ten different stories that all are being pulled in as if they are one and the same.

First of all, I'll be clear: I think there is a story about where AI may or may not impact certain software companies. I think there is a story about how particular loans to software companies will perform given the potential AI disruption. I believe there is a story around the liquidity dynamics of investment products made up of direct lending loans that are private—loans extended outside the banking system. I believe there is a story about the quality of loans outside

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the banking system and the demand for those loans by borrowers. I actually think those are all separate things from one another.

I believe there is a story about how limited partners—the investors in private asset managers' investment products, whether private equity or private credit—do. I believe there is a story about investors in the management company of a private asset manager and how they do. I believe there is a story about the wisdom, nuances, and ramifications of making private market investments available to retail investors. I believe there's a story right now around capital-markets indigestion as it pertains to the imbalance of sponsors looking to sell companies versus the capacity for strategic buyers or other financial sponsors to buy them. Those are ten different stories, not one.

The desire of the financial media to treat all of this together is doing a huge disservice to the investing public: it blurs categories, fuses issues, and fails to deliver truth in a discernible and actionable manner. My burden and my goal—this is a passion of mine—is to deliver truth in a discernible and actionable manner in this Dividend Cafe. So this subject requires some clarifications.

Here's the catchall version of the media coverage right now: a lot of private market companies have lent money to software companies, and AI might make people not need those software companies anymore. If that happens, loans may not be paid back. Private credit companies raised money and made loans, but if investors ask for their money back and those loans are impaired, investors may receive less than they put in. Managers are making these investments available to regular people; insurance companies and pension funds have long timelines, but regular people might buy boats on a whim, so liquidity might not be there. Two companies that high-profile asset managers didn't lend to went bankrupt. There might be more bad actors. Competitors say investments might be in trouble without naming them. Companies have equity positions they haven't sold yet. Sponsors keep raising money while there are more sellers than buyers. And then there's AI and software again. Illiquid strategies might be illiquid. It's a stew, and the media is blending it into one big scary narrative.

That narrative is inaccurate. The fundamental nature of loans made to software companies, the business prospects of those companies, and the threats they may or may not face from AI—all of that matters. But before I get to that, I want to make something abundantly clear: there is no world in which the liquidity profile of private direct loans, private real-estate investments, or private equity investments should be treated as if they are real-time liquid assets. Expecting that is a major disservice. Some wealth advisors have done a poor job communicating that reality. Some investors did understand the illiquidity and had a long-term horizon; then life happens, or headlines change, and suddenly they want liquidity. That's fine—it's an expectation issue, distinct from a comment on the investment's underlying quality.

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So let me say three compatible things. One: an investor who needs liquidity—by which I mean an easy ability to buy and sell at current market prices—should not buy assets that don't offer such assured liquidity. Two: if an investor was told there would be liquidity when there may not be, that's unacceptable. Three: many investors with patient timelines are excellent lenders for private market needs; the liquidity profile works for both borrower and lender.

Lending to productive companies is beneficial. It employs people, builds profits, creates goods and services—this is not rocket science. There's another benefit: it is sometimes appropriate for riskier lending to occur outside the bank-depository system. Depositor money is inherently short-duration and withdrawable on demand. Banks match that with appropriate lending, collateral, and regulatory risk weights. Private credit, by contrast, is capital from risk takers—investors who accept loss risk. That's not systemic in the way deposit risk is. When we talk about private credit, we are not talking about systemic risk; we are talking about risk to the investors who chose to be risk takers. That's a very good thing in principle, and overall private credit has proven viable. It's not without losses or distress events, but that's expected—no lending is default-free.

Default rates are presumed and priced into yields. Different loans carry different collateral, recovery prospects, and yields. Diversification is how risk takers manage default risk—public equity investors have always done it. In macro distress, default rates can be higher; that's logical. But taking a couple of bad loan examples and declaring the whole asset class broken is as absurd as seeing a bad mortgage and saying we should stop mortgages.

A few specifics: there were cases—linked in Dividend Cafe—related to First Brands and Tricolor. Many high-profile private credit managers we spoke to did not lend to those firms, though some syndicated bank loans did. One case involved fraud; the other is a busted event. Using these anecdotes to poison the well and imply pervasive private-credit failure is misleading.

Liquidity risk should be understood by the investor. Many LPs—insurance companies, pension funds, and high-net-worth investors—understand illiquidity and are appropriate allocators. If a retail investor is presented a product they don't understand, the intermediary should be held accountable. But that mis-selling problem isn't the same as a structural condemnation of private markets as an asset class.

On software and AI: some software companies will be disrupted, some will adapt and thrive, and some will still pay loans because those loans are senior and underwritten with protections and loan-to-value cushions. Many companies will use AI as a feature, not a death knell—the value may be in service, implementation, and integration rather than raw code. The notion that “software is dead” is one of the dumbest takes since the AI moment began.

Loans are typically senior to equity and have recovery options. It's a non sequitur to leap from AI disruption to wholesale private-credit collapse. The narrative moved quickly from concerns

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about a few loans to conflating liquidity, bad loans, listed vehicles, and retail access into one fear-driven story—and the media amplified that.

There are also business-development companies (BDCs)—baskets of loans that pass interest to investors and can be publicly traded. These products vary widely: different leverage, sector exposures, underwriting quality, manager skill, and recovery processes. Underlying companies can range from \$10–50 million in EBITDA to \$300–500 million. You might be talking about a \$100 million company versus a \$4 billion company. It's not monolithic.

There is prudence in being cautious about these spaces. At our firm, we are relentless about caution. We treat investors placed in these strategies as risk takers and mitigate risk primarily via diversification. There will likely be some bad investments coming out of this period; that doesn't invalidate the broader private-market ecosystem of debt or equity that productively deploys capital.

What's being missed amid the conflation is alignment of incentives. Creditors look out for their best interest. Borrowers look out for theirs. LPs and general partners do too. When a general partner plans to be around for years, their incentives to steward LP capital align with long-term investors' interests. If a GP doesn't plan to stay in business, incentive alignment breaks down.

The current media-driven sentiment shift has created dislocation and hysteria. Those dislocations can create opportunity for disciplined, long-term investors—provided they appreciate that timing may be longer than expected. Out of this moment, we should have a constructive conversation about underwriting standards, recovery mechanisms, and structures that better align managers and investors.

In short: the conflation of separate narratives—AI risk to software, loan quality, liquidity mechanics, retail access, public BDC volatility, and capital-markets supply-demand imbalances—into one scare story is inaccurate and unhelpful. It creates sentiment-driven dislocations that can be opportunistic for patient, informed investors, but it also risks mis-selling and policy overreactions.

Thank you, as always, for listening, watching, and reading the Dividend Cafe. Please go to DividendCafe.com to read the quotes of the week from Michael Milken about capital structure—the essence of today's topic. Have a wonderful weekend, and I look forward to being back next week as we go into March. Take care.
