Proskauer

Private Market Talks:

Navigating Headwinds in Private Credit with KKR's Dan Pietrzak

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In the first episode of *Private Market Talks,* host Peter Antoszyk sits down with Dan Pietrzak, co-head of Private Credit at KKR. Peter and Dan talk about their journeys in private credit, the importance of culture in building and scaling a successful team, and navigating opportunities and headwinds in private credit.

Peter Antoszyk: Private credit has exploded over the last ten years. It's up about 2% of aggregate capital that leveraged companies borrowed in 2012. Now it's more than 20% according to Bank of America analysts. It's grown to over $1.3 trillion of assets under management, outpacing the syndicated market.

I'm Peter Antoszyk, host of Private Market Talks.

Joining us today is Dan Pietrzak, who is the co-head of Private Credit and a portfolio manager for KKR's Private Credit Funds and Portfolios. With over $186 billion of assets under management in credit, and $76 billion in private credit, KKR is one of the world's largest players in this industry. Dan is Chief Investment Officer of the KKR FS Investments Joint Venture and Co-President and Chief Investment Officer for FS KKR Capital Corp, which trades on the New York Stock Exchange. Dan talks to us about his career, the importance of culture in building an investment team, and the challenges of deploying capital in these uncertain times. He'll also give us a peek into the future, and his predictions for 2023. And now, Private Market Talks, with Dan Pietrzak.

Dan, thanks, thanks for being here.

Dan Pietrzak: Peter, thank you for having me.

Peter Antoszyk: Andy Roddick and Patrick McEnroe and two other tennis players are supposed to play a pickle ball tournament. For a million dollars.

Dan Pietrzak: So I think Tom Brady and LeBron were one of those who were buying pickle ball teams.

Peter Antoszyk: They're investors. We need to do a KKR-Proskauer pickle ball team.

Dan Pietrzak: We'll take you up on that for sure.

Peter Antoszyk: You have too many athletes over at KKR. Everybody seems to be really good at tennis and really good at golf!

I'm really so glad that you're our first guest on this podcast, so thank you for doing this. Before we get started, I wanted to ask you the following question. *Business Insider* recently recognized you as a power broker in the private credit industry – one of the top 20 power brokers in the industry. They recognized you as one of the most influential private credit executives and top deal maker to watch. I'm wondering what special powers come with that?

Dan Pietrzak: Sadly, I think not a lot. No, it was a nice recognition, to be honest. I think it's a big testament to how we've grown and built our team out, over the last seven plus years I've been at KKR. So I think it's a good recognition for the business. But sadly, no real special powers.

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Peter Antoszyk: I think it is an amazing accomplishment and it certainly didn't come without a lot of work and effort. So I'm curious – what your journey has been to end up as private credit at KKR.

Dan Pietrzak: I am probably a little bit nontraditional in some ways. I grew up in southern New Jersey, not that far away from Philadelphia, from a family of plumbers and carpenters. Nobody had actually gone to college in my family. I went to Lehigh and was fortunate to go there. I studied accounting and then got a job at Price Waterhouse. I felt like that was a great way to go. It was a good experience. Those accounting firms are great training grounds. They let you do things at a young age that you probably shouldn't be doing in terms of work and meeting folks and company executives. In that short of time there, I got exposed to banks and financial companies. It was natural for me to want to go work in that. So I left PwC, went to CIBC in the late 90s, early 2000s. It was a very good entrepreneurial sort of flat investment bank, really driven by a lot of senior executives who used to be at Drexel. It was part of a group that was a structured finance group, but we were doing a lot of senior-secured transactions for single B, double B, names who might have been sort of asset heavy. So that was really the start of a liquid credit.

So I've been doing a liquid credit now for 20 plus years, from CIBC and ultimately making my way to Deutsche Bank, where I was for ten years. My career had a little bit of a twist: ten years in New York, ten years in London, and now five years back in New York. I left Deutsche Bank in the middle of 2015, started at KKR in the beginning of 2016 and then we've had a growth story at KKR, which has been great.

Peter Antoszyk: You hit it right at the right time, when private credit was really taking off. And you've built a team of 120 professionals. How did you go about building that team? What do you look for in people?

Dan Pietrzak: When I joined, it was 20 people to put that in context. Some of it was new business lines, so we only used to do private debt or corporate private credit. We've now got an asset-backed business doing mortgages, consumer and other things. It’s still private credit but that's 35, 40 people.

We spent a lot of time thinking about ‘how do we institutionalize the platform?’ Getting higher-quality folks on the origination side and getting high-quality, seasoned, experienced folks on the structuring, execution and underwriting side. We hired a couple of folks with a legal background to be on the investment team to help drive documents and negotiating terms, which is extremely important. We built a workout team, we built a portfolio monitoring team and we have 22 people today who actually have no new deal responsibility, who are focused on the portfolio. I think they're as important as anybody doing a new deal.

It's a true team environment. I think you need the standard things. You want people with good experience, and you'd like people who come out of probably high-tier, high-quality firms. I think if you go beyond that, we're looking for people who are good athletes. Not in the sense of true athletics but in the sense that they can do different things or have grown up doing different things.

Peter Antoszyk: Sort of like the Bill Belichick model. They can fit anywhere.

Dan Pietrzak: That didn't work that well for this year. But yes. I think they're more dynamic and I think we're looking for people – specifically myself – who are going to roll up their sleeves. I think this business has a lot to do with hard work, dedication and focus. I think we're – all in a lot of ways – lucky to have these jobs. My path was not traditional. Right? So I think there are folks who are going to be thankful to be in the role and work as hard as they can to make sure they're successful.

Peter Antoszyk: I think there's a grittiness to it. I know that because we've spoken about how culture plays an important role. I know it does for our institution at Proskauer.

Culture is, we think, one of our secret sauces that distinguishes us. And I know that it's important to you and maybe you could describe what you value in the culture and how you've built that.

Dan Pietrzak: Honestly the culture of KKR was probably the biggest reason that I ended up joining KKR. It really is run as one firm. We talk about one P&L. That was very important to Henry and George from the time they started it, and that has continued even as the firm has grown. So I think that's been great. I do think that is our secret sauce. If you think about just the private debt business, to be good in the private debt business you need good people, you need good process and you need to make good decisions.

But, what else do we have? I think we have some unique sourcing channels from using the overall firm. We can call the private equity team on any deal and help on diligence. The management team allows us to move faster and maybe win a deal or allows us to maybe avoid a mistake. If a deal does go wrong, which is bound to happen, in private debt, we don't outsource that to our private equity folks, because we have our own team to do that.

But again, who should we hire? Good management team, industry lessons, et cetera. So I think the culture of the firm is paramount to us. Obviously that flows into the team itself, and then I think if you dropped it down a little bit to the team level, all of the partners in the credit business have been focused on making it feel like a real team. Everything kind of has to work, right? You want your market position to be well or to be in a good spot.

You want investment performance which is well beyond any one deal. You need and want the information sharing. So I think we've taken the principles that have been at the core and the foundation of KKR, and just made those part of the team's everyday fabric.

Peter Antoszyk: Turning to the private credit market itself. One of the things I want to talk about with you and sort of the core of our conversation is how you are managing in the current market environment.

To put in perspective where we are today. Could you take a – a few minutes and just describe for our listeners the private credit market, generally speaking, its size, and what have been the drivers of its growth up until this point?

Dan Pietrzak: Well, maybe even forgetting the size point for a second. Just think a little bit about a journey. Private debt has been around for a long time. There were BDCs around since probably the early 2000's and they were lending money but it never had the kind of size and sort of scale. Right?

Peter Antoszyk: Yeah, I actually think of it as even earlier than that. When I was doing this, I was representing alternative lenders in commercial finance companies.

Dan Pietrzak: Right. I don't think that concept is new in that sense. What I do think you had that was new was on the other side of the financial crisis, you needed alternative forms of capital to come in and fill the voids from some of the things the banks were doing and the regulatory changes that had happened. But I think the big driver in many ways was that there's just been a lot of capital raised for middle market private equity and more and more dollars going to that.

These companies were getting acquired, they needed financing and the size of those companies, generally, would not allow them to get rated and go to the syndicated loan market or go to the bond market. So, I think that was a big driver. Then I think the other thing was a market acceptance of the product.

We started a direct lending business at DB and post the financial crisis. And you would have viewed it as a trade at that point. It was going to put a lot of money to work in ‘09 and ‘10 and then it wouldn't be there. But that obviously didn't happen.

Peter Antoszyk: Right.

Dan Pietrzak: It became a real solid business. You know, Covid was probably a good stress test. Covid itself in the financial markets lasted about 17 days and everything kind of rallied.

But it was real stress on borrowers and lenders, and how you were going to fund things and how are you managing liquidity. And then, very good companies went from a lot of revenue to no revenue. Where it’s gotten to today is companies need to finance themselves. The syndicated loan market and the high yield bond market are never going to go away. But private debt is just another choice.

There are pros and cons to it. Pros being certainty of execution, knowing your lender, and I think it's becoming available for larger companies now because on the private debt side itself, a lot more money has been raised. Either institutional or in the various kind of wealth channels. Five years ago, if there was a 300-million-dollar deal that somebody held, it was a big deal.

Peter Antoszyk: Yeah, sure.

Dan Pietrzak: Now you read about billion-dollar unit tranches.

Peter Antoszyk: Right, but it also occurred at a time of growth for the market. The development of the market occurred at a very unique, almost Goldilocks moment – low interest rates, low inflation, high growth, high liquidity in all asset classes were rising.

But today the world has changed. Inflation has gone up. There are rising interest rates, a recession and there's a significant debate right now about how high the inflation rate is. Is it tempering? How high will rates go? How deep and how long the recession will be? I haven't even mentioned labor, supply, the war, the geopolitical risk with China and the debt ceiling crisis.

It seems like every day there's a new challenge in this environment, and I think no one under 35 has lived through a market like this. So I'm kind of curious, when you think about the market today – when you are deploying capital and managing your portfolio – how are these factors influencing you?

Dan Pietrzak: Well, I think they're all real points and there were a bunch of points in there.

Inflation is one of these things that impacts everybody, right? It impacts the consumer and it impacts companies. They're obviously not the same thing, but you know, inflation, supply chain, wage are all in the same bucket of headwinds.

At least on our side, we do think about it in two different pieces. There are new deals getting done today. We're deploying capital. I actually think it's one of the best lending environments that I've ever seen sitting in a private debt seat. So, I think that's positive. The absolute yields that you can earn are very high. They're probably 400 to 500 basis points higher than they were a year and change ago.

Peter Antoszyk: That's with your existing portfolio?

Dan Pietrzak: Yes, that's just for existing funds. But I'm talking about doing new deals. In a market like this, we're going to be cautious and or conservative. It's our job to be defensive. We're focused on capital preservation. I think the bar for any new deal, while it is always high, is just probably a little bit higher today because you're asking more questions. And you're more focused on those things.

All the points you mentioned are going to be as important, maybe more important, for your existing portfolio. Those are loans you've made. I think we feel quite good about our existing portfolio. I think we positioned ourselves in defensive industries and sectors. I think over the years, we've gone up on the private-debt-side size of company from an EBITDA perspective. I think in our last flagship fund, the average EBITDA was $100 to $102 million dollars. So these are bigger sort of names. I think we've seen those bigger names have more levers to pull if there is sort of a challenge. And obviously, we don't have to invest in the market. We've got a big origination funnel and we're trying to pick and choose the deals we do. So we feel good about that portfolio. But that said, there's going to be pressure on revenue.

Any company that has not been able to pass through prices is in a pretty difficult spot right now. I don't know that there should be a debate about whether we are in a recession or is there a recession coming? I think the answer to one of those questions, or both of them, might be yes. So you have probably a bumpy ‘23 kind of staring you in the face and then what is key, or what is king, when you're a lender, is cash flow. Cash flow has to be tighter because everyone's borrowing costs are up 350 to 400 basepoints.

Undoubtedly you're going to see some stress in some names. You're going to see more defaults.

I think what the market does have going for us and thankfully to folks like you, I think the documents of the private credit deals are quite strong.

I don't think we're going to have challenges with things like collateral stripping, or the old lender-on-lender violence situations that are out there.

Peter Antoszyk: Why do you say that?

Peter Antoszyk: For our listeners’ purpose, when we talk about collateral stripping, what we're talking about is as a lender, you have a collateral package. Your documents have certain covenants that permit certain transactions that the borrower can do and allow your collateral, your security, to leave your loan party group.

Some of the documentation today is more liberal and may allow more what we call collateral leakage than other documentation. We've seen in the syndicated market where some of that flexibility has been used by both sponsors and co-lenders to permit the infusion of liquidity in a manner that strips collateral from existing lenders and may elevate debt, *i.e.,* a roll-up of existing debt in a manner senior to existing lenders. So that's what we mean by lender-on-lender violence.

And your premise is that, that's really a syndicated market issue, not so much private credit.

Dan Pietrzak: Well, yes and that's a much better summary than I would have done. I think there are two reasons, though, and they're pretty rational in some ways. If you are investing in a loan in the syndicated market or a bond, there is liquidity there. So if you don't like how that credit is necessarily trending, you can sell that.

There have probably been times out there where liquidity becomes pretty thin. But I think those loans or those bonds, because of that liquidity, can probably accept a little bit more of what I'm going to call these – "aggressive terms."

And then I do think you have the dynamic of how their issue is a bit different. You have a company getting bought, an investment bank is usually getting hired – to underwrite that debt deal. Their job is to get probably the most aggressive deal that they can get – for their borrower. It gets sold into the market, but again, they're looking for relative value.

I mean, I look at our own leveraged credit team, and their track record is tremendous. But they have liquidity if they don't like it to risk management.

On the private debt side, the people doing the deals are the ones setting the terms, and they're going to own the deals. So I think there's just a different dynamic upfront. And you have to view the private debt market as not having any liquidity.

Our investors invest with us to get additional yield or additional premium and for the fact that it is liquid. So they've made the decision to invest in that. But we have a view when we make a loan, we're going to own it until it repays. And if it doesn't repay, and it defaults, we'll have to deal with it.

So you have those two different sort of pieces which has put a line in the sand where – you know what? – if a deal came in – even if we like the company, even if we had great faith in the owner of that company – if those terms were there, we probably just wouldn't do it. We see a lot of deals. We're going to do the deals we want to do.

Peter Antoszyk: So coming back to your view on your existing portfolio. You think it's resilient. Are there particular sectors where you are seeing some cracks in the armor? Or that you are particularly focused on? Or have a higher propensity for – risk of default?

Dan Pietrzak: Yeah, well, I think – the companies that are the most challenged now are the ones who were not able to pass prices along. Maybe you should have known that when you underwrote the deal. Maybe you thought you did when you underwrote the deal and it hasn't played out. But that's where I think we've seen the – most challenges. We've seen other companies that have – had a bunch of challenges for a quarter or two, but put through seven, eight, nine price increases – and have now gotten through to the other side.

So I think that's number one, almost whatever business you're in, people should be worried about consumer discretionary income now. Unemployment is at all-time lows, people are employed. So that's why I think the world feels okay right now. But you have to believe that that is going to change. There seems to be a news article every day about some company. A lot of them have been tech companies laying off a lot of people. How will that run through? And then you do know clearly – going in – what companies are cyclical. Those generally have lower leverage points up front. So you just have to manage through that.

But I think between the pricing power, between thinking about where do you have risk on the consumer and then where did you always expect it to cycle? That's where you're focused.

Peter Antoszyk: And, you know, the public markets are very quick to recognize valuation – compression. The private markets lag naturally.

So my question is, has the private market priced in the decline in value that must have occurred, if it follows at all, the public market? Or maybe you'll say, no, that's not necessarily true. It doesn't have to follow.

Dan Pietrzak: Well, there's probably a couple of different answers there. So, one, I think leverage levels are lower today than they were six or nine months ago. Because I do think valuations have gone down. But they're not down as much as you would think. But I think they are a bit lower. So, on one hand, kind of yes. I think, interestingly, as I said before, there are deals getting done. And remember, private credit, private debt, is generally catalyst driven. So there needs to be a company who's getting sold and that's why it needs financing.

I think in an environment where valuation multiples all over the map, it is sometimes hard to find the willing buyer and the willing seller to find terms. But you know companies – that is happening. In some ways it's actually the better companies. Because people always want to own these sort of crown jewels. And the valuation multiples haven't changed that much on those.

But yet I think even there, the debt multiples are probably a little bit lower, but it'll flow through.

Peter Antoszyk: All right. So now, turning to the new investment opportunities. Where do you see growth opportunities in private credit?

Dan Pietrzak: I think the private debt businesses will continue to grow, but I think that they're mature. And there will continue to be private equity dollars raised.

I think there will continue to be some people who prefer private debt versus the syndicated market. Again, those markets never go away, but that'll be the blend.

You know, we have spent a fair amount of time probably in two spaces that we like the growth story. One has been, I mentioned it before, our asset-based finance business.

So this has the same premise, privately-originated, privately-negotiated deals. You know this was really the concept founded on the other side of the financial crisis. Banks used to own asset portfolios or originate those, securitize those, tranche those. Volcker eliminated that, risk retention rules eliminated that. They're still very active in the space of providing financing, but not in the way they used to. So you needed people to come in and kind of fill that void.

There's also been more and more non-bank lenders out there, who need capital from folks like us. So that's been a growth space, our asset-back businesses.

Peter Antoszyk: So you're financing other assets?

Dan Pietrzak: Well, let’s say an auto lender started – because the banks don't do auto lending as much because of CECL or bank regulatory concerns. They're going to need capital to fund that. So, they might be able to get senior capital, but they're going to need junior capital from people like us. So that's been a big driver. I mean, we had no dedicated business attached to that in 2016. We've now got almost 35, 40 people. We've probably got $37 billion of AUM there.

It's up and down the capital structure. Some of it is senior risk, some of it is more junior risk, but it's all collateral heavy.

These are generally portfolios of financial or hard assets. So it runs the gamut of consumer mortgage, transportation, finance, aviation, risk transfer trades or transactions out of the banks, even esoteric, down to some royalties-type streams.

So a very broad market, maybe broader or bigger than corporate market. I think we would estimate that sort of market size today, probably $5, $6 trillion, going to 7, 8.

Now a lot of those things aren't for us, but think about how big the mortgage market is as an example. So that's been a real growth area for us. We've raised a dedicated flagship fund for that. We’ve got a bunch of other estimates of other money. But like that a lot and we're going to continue to grow that. I think we've got a really good team there to drive that forward.

Then you know, the other piece has been sort of international, right? We've got a full-blown and very well built-out European business. Europe is always probably five years plus behind the US. You continue to see, in Europe, the number of banks who are holding loans going down. So people like us will need to come in and sort of fill that void.

Peter Antoszyk: And that's been an explosive market for private credit. It's been even faster than the US in the time that it's developed there.

Dan Pietrzak: I think that's right. And we've been there for a while. So in our mind it's just continuing that growth there.

The bigger growth story for us has been Asia. We've developed an Asia credit business. We've raised a flagship fund for that.

Peter Antoszyk: I think you just closed a fund for that.

Dan Pietrzak: Just focused on private credit. A senior person on the US team moved out there. Just to have a partner in charge of a business out there who knows the home firm is a great thing. And you know, KKR as a firm has been very successful in Asia. So it wasn't sending out a person to go do something new.

Peter Antoszyk: I think we could do a whole podcast on just investing in Asia. How you structure those deals, etc.

Dan Pietrzak: We can get Brian Dillard for you. He'll definitely do it for you.

Peter Antoszyk: I think it is a massive growth area and I don't think it's well understood at all.

Dan Pietrzak: No, it's early days. And I we always kind of joke in some ways. Europe is probably five years plus behind the US and Asia is behind that. But I think it's a bank-dominated market. Think about the populations there, think about how it will evolve. It feels like a natural home for growth. So I think between the asset-backed space and that, it's two pretty big areas of growth.

Peter Antoszyk: And are there any sectors that you're avoiding?

Dan Pietrzak: Inside of the private credit business? We're not focused on what I would call traditional energy credit. It's commodity-type risk.

Peter Antoszyk: Got it.

Dan Pietrzak: It's hard, you know, to be in a liquid lender for something that's that volatile. It feels like if you're going to invest in that space, you want to be in a high-yield bond where you can trade in and out of it or you actually want to be in the equity so you can capture the upside.

I think we haven't done that for several years now. That's quite frankly important to us. You know, something on the asset backside. We're pretty focused on the consumer, but we're not going to do deep subprime, aggressive lending product…something that's kind of usury rates. That's just not in our playbook.

It’s not like we’re trying to stay away from things where we don't like the risk. I'm not sure we like the risk in that subprime stuff, either, but where you wouldn't like the kind of the usury rate-type risk.

So, those are some of the key no-fly zones, and there'd be a handful of others, but that's probably the two big ones.

Peter Antoszyk: Well, we're in a period where I would think from an investor standpoint with someone like you deploying capital, this can be full of opportunity but full of risk. My question to you, is this is going to be a challenging two years for you? And in the world of private credit, what do you think will separate the winners from the losers? Other than just making bad investment decisions.

Dan Pietrzak: I'm excited about the next two years. More than concerned. If you think about the kind of capital that we manage, it's longer term, locked-up capital. The funds are private equity-style, the BDC’s are sort of permanent capital. We don't do things that have asset liability mismatches. So when markets are volatile, that's a good time for us. So I’m excited about that. Obviously we need to be very focused and concerned about the portfolio. I mean, that's the most important thing you have.

And we always joke on the corporate side. Sometimes it's easy to make a loan, sometimes it's hard to get the money back.

Peter Antoszyk: Yes. I always say the workout begins the day after the closing.

Dan Pietrzak: Yes. I mean it at least it has to start conceptually.

So because of the team that we have, folks who are focused on either the portfolio or otherwise, the team is laser-focused on that. Nobody can just do a deal and go away. People own risk cradles. I think we'll have that covered. Clearly, we'll have some mistakes. You can't be in this business and not.

Peter Antoszyk: It’s like skiing, if you don't fall down, you're not skiing.

Dan Pietrzak: Yeah, well, me and skiing don't like each other. That's a longer conversation.

But I think the two areas where people have a chance to get hurt: did they have a large enough or broad enough origination funnel up front? So they had the ability to just select the deals they wanted to do versus all kind of being forced in some ways, and I use that word loosely. But where they didn't have the choice that they would want. Or the selectivity. So I think, ironically, the best way to protect against workout is to pick the right credit. If you have 100 deals to look at a month versus 40 – I think you have a chance of making better decisions.

And then the second one – do people have built out teams? I keep on talking about the team on our side because that's how important it is and how critical it is. But you know, these more challenged situations take a long time.

I think one of the things that was always hard for banks is they never wanted to make the hard decision. They never wanted to own the company. It was always kicking the can down the road. You can't do that. You know, you need to maximize your recovery.

But do you have the people to do that? Do you have the people who are doing that, who are experienced in doing that?

I think those two points are going to be a little bit of the separators. And then the third thing would be, did people spend enough time on portfolio construction upfront?

You know, direct lending is a capped return business. I think the loans are really attractive at 11% or 12% today total.

In terms of total yield. If you have a low recovery rate on a loan that defaulted, it’s not great. If you have several of those, it's not great. But if you had one for a larger position, it's really not great.

So are you diversified in your funds both by position size and by industry?

I view private credit, private debt, as “this is about protecting principle.” It's about capital preservation. It's about trying to make outsized returns versus what a traditional market-traded credit product would be. But you really need to focus on that downside, and portfolio construction is a big part of that.

Peter Antoszyk: And as you said, the workout piece is very time consuming. But one of the advantages that I think private credit as an industry has is that it has flexible capital.

I think one of the things that might separate winners from losers is the capacity to deploy follow-on capital. I think that is one of the aspects to be able to provide that rescue financing to protect your position.

And if you have to take over the business and recapitalize it, those funds that have that available capital to do that will maximize their recoveries. Others, very difficult position.

Dan Pietrzak: I think that's a really good point. I mean there are some technicals out there which are not private credit, where pools of capital alone get downgraded and they're almost forced to sell it. That's not great, or if you're not able to put in that new money or own it, that's not great.

You want to be able to do just the right thing to create the best economics of outcome. The other thing I do think where private credit has a bit of an advantage is generally on these deals, we're the sole lender. Or we're one of just a few lenders in a deal. It makes it much easier to get to a rational outcome.

It doesn't always have to mean you pound the table. I think we actually want to be a fair, commercial and responsible lender. But it's not an 80-person lender group with people potentially who bought in at different prices.

These are people who were there from the beginning. Everybody wants the right and fair outcome and it's just more commercial.

Peter Antoszyk: I always like to say in that type of situation, it's much more likely that the resolution will occur in the conference room versus a court room.

Dan Pietrzak: For sure. And that's a big deal. That's a big deal as it relates to a fair amount of sunk costs that just relate to a bankruptcy. And then the publicity of a bankruptcy can't be good for a company. And just disruptive. Right?

So if you take those kind of two things away and it's in a conference room and not in the courtroom, almost by definition you'll get a better outcome.

Peter Antoszyk: Well, this is going to be an exciting two years, as you said, for private credit.

Just to wrap up a couple of questions.

I'm going to ask you to project yourself into the future five years and look back at the industry with perfect hindsight. What development in the private credit industry would surprise you?

Dan Pietrzak: I think it would surprise me if people tried to raise capital that would have asset liability mismatches in there. In the most basic point, if you raised a pool of capital, the entire thing could be redeemed and you'd have to pay back your investors after one year. But your loans are five years...and your loans are not that liquid or saleable. I think the markets learn that, but in times of market frothiness those things kind of pop up.

But it would surprise me if that changed or evolved. I think that's very different from just having a pool of capital that has 5% maybe per quarter. You can manage, that's orderly. I think that's perfectly fine.

It would actually surprise me if the market shrank. I mean, I believe that the annual growth rate on average has been 13%, 14%, 15%. Maybe it doesn't grow at that level, because just overall capital formation is lower. But I would be surprised if it didn't grow. Because I think it's just becoming a more and more accepted product.

Peter Antoszyk: Right, and as you said earlier on, the ability to continually move up market and deploy capital on larger chunks, as well as deploying capital on a more global basis in new markets like Asia, et cetera, just creates tremendous growth opportunities, if anything.

Dan Pietrzak: For sure.

Peter Antoszyk: Dan, thanks so much for sharing your thoughts. I really appreciate this. It's been a good talk.

And to our listeners, thanks for investing your time with us. Appreciate it.

Dan Pietrzak: Great. Thank you for having me.

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