

Private Market Talks:

Navigating Policy, Private Markets and AI with Barings' David Mihalick

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Barings is one of the world's leading investment managers, with a platform that spans public and private markets, fixed income, real assets and capital solutions. In this episode, we sit down with David Mihalick, Co-Head of Global Investments at Barings, to explore how the firm is navigating today's complex investment landscape.

David shares insights on Barings' multi-asset investment strategy, the knock-on effects of tariffs and current U.S. policy decisions and how middle-market companies are adapting to economic headwinds. We also discuss the evolving role of AI in private markets and its implications for human capital.

**Peter Antoszyk:** Welcome back to Private Market Talks. I'm your host Peter Antoszyk. Barings, a subsidiary of Mass Mutual, is a global asset management firm with approximately \$442 billion of assets under management. David Mihalick has served in various roles at Barings and is currently co-head of global investments, responsible for the oversight of Barings global investment platform, spanning public and private markets and fixed income, real assets and capital solutions. Prior to entering the financial services industry, he served as an officer in the United States Air Force and worked in the telecommunications industry for seven years. David holds a BS from the United States Air Force Academy, an MS from the University of Washington and an MBA from Wake Forest University. During our conversation today, we discuss Barings' investment strategies, the impact of tariffs and other policies of the current administration, how middle market companies are managing under current economic conditions and the impact of AI on human capital and private markets. As with all our episodes, you can get a full transcript of this episode and other helpful information at [privatemarkettalks.com](https://privatemarkettalks.com). And if you enjoyed this episode, drop us a note. We'd love to hear from you.

And now, my conversation with David Mihalick, co-head of global investments at Barings. David, welcome to Private Market Talks.

**David Mihalick:** Thank you very much for having me.

**Peter Antoszyk:** And thank you for your service.

**David Mihalick:** Well, thank you. It was a great way to start my career. It seems at this point, like it was a long, long time ago, but definitely a foundational part of who I am as a professional and helps shape the way you think about the world.

**Peter Antoszyk:** What did you take from being an officer in the Air Force that you've brought to your professional life?

**David Mihalick:** The leadership things you learn at an early age, graduating — I went to, as you mentioned, undergrad at the Air Force Academy — so, I graduated and was commissioned as a second lieutenant and, at 22 years old, you've got people working for you dealing with real life problems, not just work problems in the military. You get involved in all aspects of someone's life to ensure readiness. And so, I think it forces you to mature pretty early on, think dynamically, learn how to work with people from different backgrounds. So, it's a great way, just, you know, not, obviously not financial services, but just kind of being a professional, being flexible, being thoughtful in your approach and learning how to work with different people.

**Peter Antoszyk:** For the benefit of our listeners, can you give us a snapshot of Barings' investment strategies?

**David Mihalick:** Sure. Barings is a \$440 billion asset manager. We are 100% owned by Mass Mutual Life Insurance Company. You break down our AUM into big buckets, we've got public fixed income, which is about 215 billion of AUM, a bucket I would call private fixed income and capital solutions, which is about 137 billion of AUM, and then a real assets business that is about 70 billion of AUM and that would include our real estate debt and equity businesses, as well as an infrastructure debt business. So, that's sort of the pie, if you will, of everything that we do. As I mentioned, we're owned by Mass Mutual. So, we're a private company owned by a mutual company. So, I think what that leads in terms of philosophy and how we think very long term so we're not reporting quarterly earnings. Mass Mutual has been around for 170 years. Mass is invested in — I always hesitate to say everything or 100% — but 99% of what we do, Mass Mutual is invested in as well typically. So, we have that alignment with our third-party clients, and they know that we're thinking very long term, and we're thinking about investing. So, that at a high level sort of summarizes to me how I think about our platform.

**Peter Antoszyk:** And can you break that down a little bit in fixed income? What are you, what are you doing?

**David Mihalick:** Sure. So, in our public fixed income business, we have traditional investment grade corporate bonds that's for a life insurance company, obviously our parent company, that's a big part of their portfolio. We've got a very big liquid high yield platform, that would include loans and bonds in the U.S. and Europe as well as structured credit. We put our CLO platform, we put in our high yield and structure credit business, so under the public fixed income business. So, those are the big buckets. We've also got an emerging market sovereign and emerging market business that we manage within that. So, that's the bulk of that franchise.

**Peter Antoszyk:** And the private strategy?

**David Mihalick:** In our private business, we have traditional private placement. So, if you think about it, the way the markets have evolved, a lot of those things you mentioned on the public side, you can sort of get access to very similar risk on the private side. So, we have a large private placement business, for example, which is very similar in terms of risk exposure to our investment grade corporate bond book. It's just you pick up an illiquidity premium in the private markets. Similarly, we've got a large direct lending business, so providing capital to middle market, leveraged buyout. So, the risk there is very much like our, our high yield loan and bond business just in private form. So, you get a bit of a spread premium in that market. We've also got an asset-backed finance business. I mentioned an infrastructure debt business. And then, something we call "Capital Solutions," which is a term that I think people use a lot, but I think anytime someone says that you have to ask, "What do you mean by that?" It's a very generic term. That business for us grew out of our distressed lending business back 15-20 years ago, and as there's been sort of episodic default issues but not really a large corporate default cycle over the last — really, since the financial crisis. Again, there's been things that have happened in specific sectors or you had COVID, of course, but not a traditional deep recession that resulted in broad based defaults. But that business evolved from focusing on sort of workouts in the financial crisis to really being a flexible source of capital. So, think about potentially non-sponsored deals or anything that doesn't fit in a traditional bucket that we described earlier is something that that team may look at. We also have a small private equity business, think lower middle market private equity business, that does co-investment alongside some sponsors as well as fund investing, and in terms of capabilities, we tend to call that "Capital Solutions" as well, which I think is an interesting area when you think about the ability to provide continuation vehicle capital to sponsors and some of the things going on in private equity now. So, "Capital solutions," it's a label we put that's pretty broad, but it really is those flexible situations where it doesn't fit neatly into one of the traditional buckets that someone might think about.

**Peter Antoszyk:** And just to round it out, the real asset component of your investment strategy would include what?

**David Mihalick:** We have real estate equity capabilities globally. So, we have a team in the U.S., a team in Europe and a team in Asia PAC. The team in Asia PAC was a business we acquired a couple of years ago called Altus Property Partners, based in Sydney, so we're excited about that added capability. And then just a few months ago, we augmented our U.S. equity capability with the acquisition of a firm called Artemis Property Partners. So, real estate in general is an asset class we're excited about and investing in. So, that's our equity platform. We also have a large real estate debt platform. Obviously, Mass Mutual as the life insurance company has always had appetite for real estate debt. We've got a really nice growing third-party business there as well. We're seeing a lot of interest in real estate debt as an alternative to private credit, and I'm sure we can get into some of those market trends we're seeing. And then, we've got an infrastructure debt platform that's the business we've been in a little over 10 years, it was originally Mass Mutual acquired a portfolio out of a bank. We have a team, and we've now over the last several years been investing in that team and adding third-party AUM as well.

**Peter Antoszyk:** When you look back over the last say five or 10 years, what has been the driver of growth for Barings?

**David Mihalick:** I'd say the biggest organic growth we've seen was in our direct lending business. I mean, at least the last couple of years, a headline every day about the private credit market and whatever it is — 1.7 trillion, and however people bucket it, that's a business we grew organically starting in the 2012-2013 time frame. And so, we've seen really nice momentum that's 35 plus billion of AUM and close to 45 or 50 billion of commitments. Our core high yield franchise has grown as well very nicely over the last 10 years and that's really been about evolving the product offering there from single sleeve strategies to more multi-asset strategies. I think we were early on in that, so recognizing that when you're looking at corporate credit risk in developed markets, it's very similar in terms of the U.S. investing versus European investing, but there are nuances and technicals of the market that can create opportunities to get outsized return in one market or the other. So, we had a big platform in each area and we're able to bring those capabilities together in a global platform and that was appealing to our clients over the years. And then more recently, I'd point to real estate as something where we've seen nice organic growth in our debt business. And then we've augmented our equity platform with a couple of acquisitions where we see it's obviously a big river asset class. We had the disruption in the office market associated with COVID and the rate move, but long-term, we think there's a lot of opportunity there, and so it was an area we wanted to invest in. Again, we've seen organic growth, but we knew to really position ourselves for where we wanted to be longer term, we needed to augment our capabilities with a couple of acquisitions we did. So, we've seen growth there. I'm really excited about the potential for that platform over the next five to 10 years. We've been in that business for decades.

**Peter Antoszyk:** Looking forward now over the next five to 10 years, where do you see the greatest opportunities for growth?

**David Mihalick:** If I look across our platforms, I would expect what I would call our sort of core franchises, leverage finance franchises, so our high yield and structured credit teams and our private credit teams to continue to grow. So, we feel good about those; they're scaled capabilities today, and we should continue to hopefully capture market share, so we're continuing to invest in those. Then beyond that I look at our real estate platform, talked about that a bit earlier, good size there. But I think we can get a lot bigger and those acquisitions that I mentioned that we made, we're really excited about those. So, we're in the process of integrating the more recent one, the agent pack deal with smaller — but it's been integrated at this point and then they're looking at some organic build out opportunities outside of their core markets in Australia. So, real estate overall, I'm excited about. As I mentioned real estate debt with some of the issues that have gone on with banks, we've seen a lot of interest, a lot of opportunities from an investment standpoint there and a lot of interest from clients as a diversifier away from traditional corporate credit. So, you get a similar risk premium in that market to what you might get on a private credit deal but you're exposed to a different underlying risk. Similar story with infrastructure. So, all of that real assets bucket that we talked about earlier, we've got a lot of exciting growth opportunities there and then probably an emerging area, and you're hearing a lot about it in the last couple of years is asset backed finance. And so that's an area where we're spending a lot of time right now thinking about, I think about like we've got all the ingredients in the cupboard, if you will, and that all the things that people talk about in ABF we do, and we spent a lot of time over the last year and over the next year or two thinking about how we organize, how we create product around that. There's some unique origination that you need to invest in associated with that so that's a big focus area for us, but something that I think has really big long term growth tailwinds and again, we're not unique in that, you're seeing a lot of headlines around that, but like I said, we've got all the capabilities that you hear about in the market. They're at different sort of levels of readiness, if you will, today, but we're really focused on making sure we have that platform right. I think it will be a big growth driver for us over the next five to 10 years.

**Peter Antoszyk:** So David, as a global platform how are you thinking about allocation of capital geographically?

**David Mihalick:** I would say it varies by strategy. And I think that's a really good question for a strategy, right? Like we don't have that as a firm but I would say on average, if you think about the U.S. markets being, on average, traditionally the biggest, most liquid developed markets in the world, which is great for access to capital, but they tend to be a little more efficient. And so, as I mentioned earlier, like in our leveraged finance business, when you can get exposure to comparable risk in a market that maybe is not as liquid or as deep, so Europe versus the U.S. and the syndicated loan market, you tend to get a bit of a risk premium, and I would say similar when you go into Asia PAC, as we're investing there, very similar risk, maybe not as big or as deep of a market, but you can get a return premium because of that. And so, I would say if you if you look just sort of thematically how we think about things, having that global scaled capability, and if you take the U.S. as sort of the baseline market, when you can find very similar risk outside the U.S. market and either less efficient markets, again this is painting with a really broad brush, but on average, you can pick up a risk premium. So, we would tend to look for those opportunities as differentiators in our clients' portfolios that give us that global mandate.

**Peter Antoszyk:** When you're looking at the U.S., how do you think about the economic headwinds facing the U.S. in terms of the impact of tariffs and geopolitical considerations and conflicts, inflation, supply chain change, general economics or all of those things that we read in the headlines.



**David Milhalick:** I'm co-head of investments at Barings with my colleague, Martin Horne, in London, and we've worked together for 15 years and so let's go pre- the current administration, and when we would have talks around relative value in the economy, whatever was going on in the U.S., Martin would say, "You guys are a little too dour compared to what's happening in Europe." So having that perspective matters. Now you get into 2025, and, of course, we've got these acute headlines and a lot of uncertainty that's come in over the last couple years: rates, inflation, and the resetting of the real estate market, now tariffs' impacts on trade, and then headlines versus what's actually happening. I would say, like everyone else, when we get into these periods of uncertainty, my instinct at least as a historical credit investor is to focus on the fundamentals. And so, when we've got a large team of analysts across the platform, when you get into these periods of uncertainty, it's really important, it's too late to make a lot of adjustments to your portfolio, particularly in private markets, you sort of own what you own, so you need to be thinking about this kind of stuff early and often. And the example I'd give of that on our platform is our private credit team, as soon as the tariffs were announced, had a full robust analysis of our entire portfolio expected impact on tariffs, and the reason is because they started that work in January, and that's because part of the president's campaign or platform was tariffs. Now, did we anticipate the way that he did it, the amplitude of some of the things that were announced? No. But we had done a ton of work heading into April in anticipation of some change in tariff policy. And so, that sort of bottom-up approach, if you will, is just foundational to how we think about investing at Barings. And so, in terms of your question around the economic outlook, I mean when we look at our portfolio, we still feel pretty good about how companies are performing but recognize there's more stress in the system today than there was three or four years ago. The combination of higher rates, potentially a little bit weaker economy driven by all the different policy changes, it's really a time to, like I said, buckle down, focus on fundamentals, make sure you have a theme to how you've built the portfolio and then trust that that the hard work you'll do through any volatility will deliver good returns for your investors.

**Peter Antoszyk:** In terms of looking at new investments, however, how do these factors factor into your underwriting strategy and also risk tolerances?

**David Mihalick:** I think it's funny. Risk tolerance, I think, is the right word to always keep in mind, right? Because, you know, history would tell you that when things look the worst is when the best returns are to be had. Right now, you have to take measured risk. You have to be thoughtful. But when times are bad, the deals that are getting done, particularly if you're on the credit side, right, someone still wants to do that deal. Someone's probably writing a bigger equity check maybe than they would have before, and they're going to pay a bigger premium for the debt. It means they've got a lot of conviction on the deal. So, the ability to partner with people you've been in business with for a long time through those uncertain periods, I think is a hallmark of how we think about being a solutions provider to our clients, whether that's our investor clients or our sponsor clients we may be doing deals with. And that's where I had mentioned earlier in the conversation that alignment with Mass Mutual. Ingrained in our DNA is not thinking about the next six months. I mean, you got to get through the next six months to live for the next five years, but we're thinking about that longer term model so that that to me is a foundational part of how Barings as an institution thinks about investing.

**Peter Antoszyk:** And how do you think about just general levels of debt?

**David Mihalick:** It's the lifeblood of the economy, right? In general, everyone that buys a house or most people that buy a car, they're using some form of financing and, hopefully, they're doing it responsibly. I think when you look at aggregate, there are headlines around a bit of stress with consumers and things like that. And we're watching that. We've got a big book of residential mortgage exposure. So, we have insight into some of those things. When I look at corporates, I feel like we've been in this higher rate environment for a number of years now. If you have a good company with a reasonable amount of leverage and a strong sponsor, they can figure out a higher rate environment. We've seen that in our portfolio. As rates rose, you saw interest coverage come down. Maybe there's some decisions made on capital expenditures or M&A because a little bit more had to go to service debt. But that's largely stabilized, and we've been in a relatively stable rate environment for a period of time now. And back to what I said earlier, the deals that you're seeing get done in this rate environment, in this economic period of uncertainty, are generally good deals, and so we've we feel pretty good about the opportunities that we're seeing in the market and feel like debt in general is at a reasonable level in most deals. When you get into bigger picture macro discussions around the deficit and national issues, that's probably a different conversation and that has an impact on rates over time and things like that. But when we look at the investing environment that we're operating in today, we feel reasonably good about it.

**Peter Antoszyk:** To your point, David, debt is the lifeblood of our economy, and has been particularly for private equity, but there is some concern that private equity has lost steam. How do you think about the state of private equity as it impacts your strategy for growth and direct lending?

**David Mihalick:** That pressure to return capital for private equity sponsors is there. I think we have seen that increase just anecdotally through dialogue with some of our partners, and I think you'll continue to see it increase. I think the market for secondary opportunities is going to continue to grow as a result of that. The benefit we've seen in terms of having the big book of business we have and the partnerships we have with sponsors from an origination standpoint has really fueled our business the last few years in terms of add-on activity. You're maybe seeing a little bit less of that more recently, but still pretty robust in a diverse portfolio. But offsetting that, you have more corporate buyers coming into the market, strategic buyers versus financial buyers. The headlines are real. But again, I think for good companies, there's an option. It's whether the seller likes the level or not. But a lot of them again have spent three or four years doing out on acquisitions, working on cost efficiency in the business. And so, if they've owned an otherwise good business, even though they may have bought it for 15 and it's only worth 12 today, the things they've done to do both on acquisitions and improve operationally, still can generate a good return. And if they think there's a longer-term story there that the availability of capital, those continuation vehicles and things like that. So, it's taking longer to achieve the return; there's more pressure from LPs to get dollars back. They've got to execute on that to get to that next round of fundraising, to your point. But good sponsors with good companies will figure out a way to generate good returns, and we want to be partners with those types of sponsors.

**Peter Antoszyk:** One of the things you talked about is that you have a fairly extensive and substantial portfolio of middle market companies, and you touched upon a little bit of their resiliency in the current economic environment. I'd like to drill down in that a little bit more and get a sense of — and this goes to your comment earlier, which is what are you hearing versus what is actually happening — I'm kind of curious as to how you see these companies navigating the current economic environment.

**David Mihalick:** I'd say if I think back, there's sort of the current administration and policy and then there's to me what's happened sort of post-COVID with rates and inflation, which they're both interesting stories. And so, the rate increase — I think we got a lot of questions around could companies adjust, and we saw companies adjust. We would underwrite, say, in the lower rate environment, three times interest coverage, maybe two point something coverage after CapEx, capital structures that had flexibility to deal with higher rates. Now, as I mentioned earlier, as rates increased, that three times went to two times, but still, the ability to service that and make capital expenditures to invest in the business. Now, that higher rate, though, impacted valuations as well. So, back to the ability to exit, I think our portfolio weathered that and where we've seen stress, it was around companies that have that and something else happening. They had an operational issue or they had some other variable that then was a tripping point for them.

**Peter Antoszyk:** Or and tariffs hit or—

**David Mihalick:** And now more recently, and tariffs, right? And so, they've sort of done what they can to pass prices through. They've done what they can to run their businesses as efficiently as they can. And now they're dealing with tariffs.

**Peter Antoszyk:** Yeah, but I guess I'm curious. Are you finding that your middle market borrowers are able to pass on these cost increases?

**David Mihalick:** They have some ability, right? They have the ability to sort of manage their cost effectively and, if it's a critical business service or software solution for a company or they're making a part for a bigger company that's critical to what they're doing, they have some ability. They can't get egregious, but people all understand. And if you're a critical vendor, you're able to do some of that. There are limits to that, but we definitely saw companies do that, but there are limits to it. And then you put tariffs on top of it. Now the tariff issue, that's one of the benefits to me of investing in middle market companies in general. They tend to be more domestically focused. Again, on average. There are some that import all of their costs, and those are challenged. But when you go back to services businesses, software businesses, light manufacturing, that imported piece of the cost can be on the lower end compared to a larger international company. So, they're a little bit more insulated on average than maybe bigger companies from the tariffs. They're not immune to the second-order effects of the impact on the economy. But we've certainly seen that. And then the other thing about middle market companies, for sponsors to exit, there's a lot more options to exit a \$30 million dollar EBITDA business than a \$300 million EBITDA business, right? Like you can be a lot more nimble in terms of what you do with it. And so, I think the middle market, relative to larger cap private equity or being a lender to those types of companies, I think there's a lot more flexibility in what the sponsors can do with those companies.

**Peter Antoszyk:** There's been reported by some of the credit agencies that there has been, across private credit, a deterioration of interest coverage ratio and net profits among some businesses. Broadly speaking, I'm curious from your perspective what you're seeing in terms of default rates in your portfolio relative to historical, and what you're anticipating going forward.

**David Mihalick:** I would say today it's still very manageable, and where we've seen issues, it's not as much rates, it's rates and something else happening. And if rates were still at zero, those something elses may have been more manageable, but cash flow is a bit tighter. There's some challenge in the business, and there's just not as much financial flexibility to deal with it as the sponsor thought when they underwrote it in a zero-rate environment.

**Peter Antoszyk:** Certainly, a zero-rate environment is a very forgiving environment.

**David Mihalick:** Yes, very forgiving. Still more it's one-offs versus a broad base issue. Now, and as I mentioned, I think we've seen interest coverage come from three down to two and sort of stabilize there. If you get another uptick in rates, that would be a concern and a challenge. So, if inflation and rates continue higher — most people are calling for rate cuts this year, I'm not in the business of forecasting rates. Whether it's the consumer, corporates, I'm not sure that rates can go a whole lot higher before you have probably real challenges in the economy.

**Peter Antoszyk:** What kind of questions are you getting from your LPs?

**David Mihalick:** I mean, certainly now it's around tariffs, right? And that's where, again, we started answering that question in January. Thankfully, to the credit of our team, it wasn't a directive of David Mihalick to go do that. That's just how our teams wired. It's like, "Okay, new year. What are the risks for facing this year? Let's start looking at them." So, that's probably the top question. And people love to talk about, "Where's the 10 year going? How many times is the Fed going to cut?" We have tended to say — look, if we had that figured out, we'd probably be doing something different for a living. We answer that question by going back to saying, "We've underwritten these portfolios for a range of possibilities. We're partners with these sponsors. We would partner through any stress in the portfolio." But we always get asked about the health of the portfolio. So, tariffs, what's going on with rates in the economy and then what are you seeing in the specific portfolio are probably the three thematic things that I can think of that we talk about a lot. And then for more strategic conversations, that then becomes, "What are other things I can invest in that achieve the same objective but diversify my underlying risk?" And then, that's back to things like infrastructure, real estate, our CAP solutions business. When people say they're stressed, a sophisticated investor would say that's the time to increase my risk tolerance a bit, not the time to get conservative, and maybe I should look at your alternative strategies because it could be a great time to deploy into some unique situations and drive outsized returns.

**Peter Antoszyk:** There was a period of time where distress funds were raising significant portions of capital expecting a downturn, which never quite never quite materialized.

**David Mihalick:** You've seen a lot of the larger cap stress issues and all the issues with documentation and how creditors have turned against each other and all that kind of stuff. In my former world in the liquid part of our business, we were involved in some of those types of situations. And that's one of the advantages people point to in the middle market, that even if you have a club group of lenders, everyone's aligned. Now again, you've still got the, "You're equity, and we're debt, and you're fiduciaries," and you got to look out for your investors first and foremost, but for shorter term things you can have a much more solutions-oriented approach. If the company is broken and the cap structure doesn't work, then you have to ultimately protect your investors, first and foremost. But if you've got a six- or twelve-month liquidity crunch that you can work together to see the other side of, then you can be flexible in the capital structure. You may pick some interest. You do things to help, you do that in conjunction with maybe the sponsor putting in more equity, things like that. So, you work together to achieve the optimal outcome for the enterprise and for both of your respective investors.

**Peter Antoszyk:** And you presumably in your deals hold all or a very significant portion of the debt and that is a very different dynamic than in a large cap, almost syndication style.

**David Mihalick:** And those syndicated deals, the challenge you run into is you could have a billion-dollar deal and there's 20 or 30 million of it that gets traded and takes the mark down 20 points because there's no marginal buyer and it gaps down. Doesn't mean that's fair value. I guess it's fair on that trade, but it doesn't mean you can't underwrite to something that's worth a lot more than where that's trading, and that's what our liquid team does every day. It looks for opportunities in those types of situations. But, in the private space and in Europe in most cases, we're the sole lender or one of two. In the U.S., it's a mix of club deals, sole lender deals, just depending on the size of it, but it's usually a bank group that all sort of have experience with the sponsor. And again, I would emphasize, we're still looking out for our investors first and foremost. There's sort of that collegial nature, but if there's truly a stress situation and the fundamentals of the businesses have changed in a way that was not anticipated at underwrite, sponsors, I think, understand that you got to look out for your investors first and foremost. And like I said, when it's that sort of temporary thing, you can work in partnership, and you get through that together.



**Peter Antoszyk:** One of the mega trends in the industry is developing products and the means to access the private wealth channel. What is your strategy?

**David Mihalick:** I think we are definitely looking at it. As you say, that's in the interest and retail wealth channel getting exposure to privates is there, and we have the manufacturing capability, if you will. And so, we're looking to bring that into other — we're mostly in the institutional insurance channels. We certainly want to grow in the wealth channel. We announced the partnership with Invesco recently where we'll be developing products together, multi-asset credit products to distribute through their network.

**Peter Antoszyk:** How will retail investors evaluate managers? They're going to be relying upon the advice of financial advisors who may not fully understand the private markets and may not have the ability to effectively vet asset managers. That may lead them to default to the largest asset managers. And wouldn't that lead to a potential convergence of returns?

**David Mihalick:** You see that in the space already. And we, with our BDC, tracked this, which is overlapping portfolios, and you look at the biggest scaled ones, and there's like 50% overlap. Now, offsetting that, those guys are able to put the money to work because the other issue for the smaller managers is, "Okay, I give you my money because I think you're unique." And if they raise a lot of money, then they can't put it to work in the same type of deals that actually drove you to invest with them, right?

**Peter Antoszyk:** And I actually think that the core issue becomes when you're evaluating managers, how do you distinguish among managers when it has been a momentum market?

**David Mihalick:** Well, and the issue is, you have that exact same dynamic which I live with forever in liquid markets. When spreads are tight and everything's great, you can't outperform. You outperform when you go through some sort of spread widening event. And either your portfolio performs, and what we would tend to find is our portfolios frequently would underperform on the downside because we tended to have a little more risk in it, but the active portfolio management during that time, when you came out of it, that's where you could buy mispriced assets. Now, the issue in the private markets is you don't have that daily feedback. You don't have that opportunity to reposition. You live with what you've got and it takes time. And back to the partnership approach of you're going to work with the sponsor up and to a point, and so it could take several years of they put in an equity, you maybe pick a little interest, but you don't know until ultimately it goes bad. And the problem is if you wait too long, when it goes bad, it can go really bad.

**Peter Antoszyk:** Absolutely, and then you've got a whole issue of owning it and running it, and now you have a PE portfolio of troubled credits, which are incredibly time consuming, forget about capital.

**David Mihalick:** And that's back to small managers tend to not have the professionals to deal with that and they would tend to maybe do a second — they just got to get out of it.

**Peter Antoszyk:** So, David, assuming the private credit industry successfully taps into the private wealth channel, are you at all concerned about the ability of the industry to effectively deploy this additional capital, or do you think they'll see a race to the bottom in terms of structure and pricing?

**David Mihalick:** Origination is key. And everybody would say they have proprietary or unique origination, and we would say that, but we need to continue as we grow to invest in that and grow that. Partnership with sponsors is key. So, I'd say this. You see two things. You see spread compression for the good deals, because everyone wants those. And then you see a deterioration in credit quality because the bad deals are still getting done. Someone's doing them. And so, they come with more spread premium, and they may have a higher yielding portfolio out of the gates, but it's probably a riskier portfolio that's not going to fare well when we get to economic stress. This is a hard business. It's the type of business that sounds good in headlines. It sounds simple. You give me money, I achieve a liquidity premium. I put your money to work and give it back to you. That the headline. But doing it is hard. That's where, again, having scale, having the institutional approach that we have — we think we've got the right toolkit to be able to deliver it.

**Peter Antoszyk:** Well, thanks, David. I just have two final questions for you. As an employee at Barings — and it could be any one of the functions of analyst, underwriting, origination, portfolio manager, investor relations, risk management, compliance, legal, pick one — which function will be replaced by AI first?

**David Mihalick:** Me, the talking head. I don't know, man. You had to know I'm not going to answer that question. It's a great question. You know, there was my miss on the whole interview when you asked what are the topics we get asked about most, I can't believe I didn't mention AI, so I'll go back, and we'll edit that out, maybe, but certainly AI is evolving and incredibly interesting. Our CEO was traveling, doing some client meetings, and he came back last week and one of the clients mentioned they have an AI bot that is in their investment committee now. And so, it's not voting yet, but they intend to train it to the point where it's a voting member of the investment committee. That's interesting, right? We're, of course, looking at RFPs and mundane tasks and how can we use AI to do it. And the other example — maybe I'll say your job. There's a tool that we've seen and use, and you've probably seen this, where you can take an annual report from a company and you upload it and it creates a podcast. And it sounds like two people talking and says, you know, "Hey, Bob. How was the drive in today?" And like, "Oh, let's talk about the Mass Mutual annual report," and it's a real podcast, and it sounds super credible. But, if everyone does that, they'll all have the same podcast, so, I don't know how interesting that will be over time. I know you know I wasn't going to answer that question. So, no. That's my ramble about AI.

**Peter Antoszyk:** So, final question. Given the impact that AI could have in the various areas, without identifying which one it would be first, what advice would you give to young professionals, either in your organization or elsewhere, looking to have a long-term career in this industry?

**David Mihalick:** Be part of it. Embrace it. If you can see my whiteboard, literally on the bottom it says, “AI intern project.” So, one of the things we’re talking about with AI is I’m 52 years old, I can understand, I think, where it’s going, but I’m — it’s like the kids being digital natives, right? This generation, at some point, they’ll be AI natives. So, don’t be so proud as a leader or someone with experience that you can’t embrace young people that come into your organization and have no idea what you do and say, “How would you solve this problem?” I mean, it’s literally written on my whiteboard over there is how do we get our interns plugged into AI? And so, people have to embrace it. I believe, and you’ve probably heard this analogy before, when Excel came out, people thought, you don’t need accountants anymore. There’s more accounts than ever, right? Excel works, it does the math, now what do you do with it? And I think AI probably goes somewhere around that, right? Like it can put together the underwriting memo, you can upload all the information you have and say give me 15 pages of why I should do this investment or not, but then someone has to decide to do the investment. I’m sure people will have AI—

**Peter Antoszyk:** Maybe. Maybe not. Because you have the AI agent on the investment committee. I don’t know.

**David Mihalick:** Maybe not. Maybe not. But then someone, I guess someone has to train it over time. And maybe we all just work 25 hours a week and life gets easier. Who knows where it will go.

**Peter Antoszyk:** That would be a beautiful thing.

**David Mihalick:** So, yeah. To a young person, certainly you have to — I mean, frankly, at any age, right? I think anyone with a with a sense of what’s happening, even if you’re later in your career, you need to embrace it because it’s not just changing your professional life, it’s changing your personal life. If you have kids, it’s changing their lives. So, I think you have to embrace it and be a part of it and think about how it can be done responsibly.

**Peter Antoszyk:** Well, David, this has been a great conversation, and I very much appreciate you being on Private Market Talks.

**David Mihalick:** I’ve enjoyed it. Thank you for the time.

**Peter Antoszyk:** And thank you, listeners to listening to this episode of Private Market Talks.

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