

# Rethinking the Size Debate

## Finding Value Across the Middle Market Spectrum

Imagine sitting through your 20th private credit panel this year. Manager A takes the mic and declares that the large borrower market is the only place to be—citing its scale and stability. Moments later, Manager B counters with a passionate defense of the lower middle market, praising its wider spreads and tighter covenants. So, who’s right? Neither. We regard the fixation on borrower size as a distraction. A truer north star in credit investing involves identifying resilient businesses, maintaining strict documentation and pricing risk correctly—none of which has to do with check size.

### Tunnel Vision Limits Opportunity

One question has come to dominate recent discussions around private credit: Is it better to invest with lenders who focus more exclusively on large borrowers or those who limit themselves to smaller companies occupying the so-called “lower middle market” (LMM), or some other sub-category of the “middle market”?

Proponents on either side of this debate often cite selective data to support their claims—some touting the presumed stability of larger borrowers, others emphasizing reduced competition in smaller deals. Both arguments appear tendentious, aimed at marketing a manager’s chosen strategy rather

than a meaningful effort to address fundamental questions about the asset class.

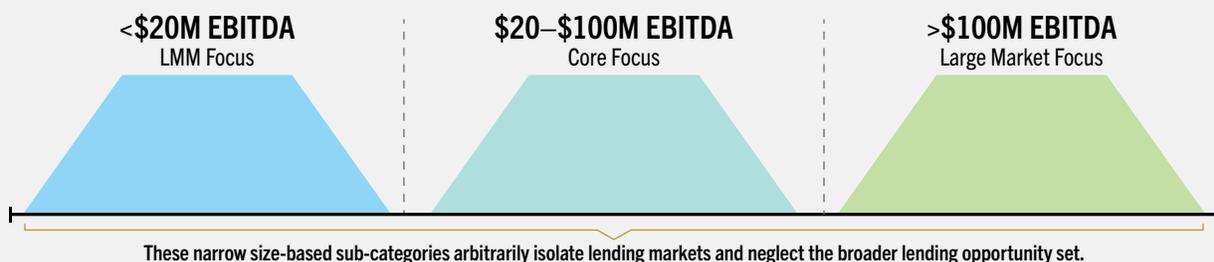
We reject the premise that any arbitrarily determined segment of the borrower size spectrum consistently delivers superior risk-adjusted returns across all market and economic environments.

That’s a form of tunnel vision (see Exhibit 1). Borrower size is just one of many variables that matter in private credit. It follows that decisions around manager selection should not be based on company size alone.

Exhibit 1

### Borrower Size Blinders

#### Tunnel Vision Limits Opportunity



Golub Capital internal analysis. For illustrative purposes only.

# A Flawed Dichotomy: Large vs. Small

Borrower size is not a static or reliable proxy for risk or return in direct lending. Each of the size segments referenced by managers—large market, core middle market and LMM—offers distinct characteristics that shift with market conditions. Rigidly focusing on a single sub-category of the middle market simply limits a manager’s potential access to higher-quality businesses across the segments.

That’s not to say that there are no relevant trade-offs between borrower size segments—there are. Large market loans are typically made to more mature businesses with greater management depth and stability. But these virtues come with some corresponding drawbacks: tighter spreads, higher borrower leverage and looser documentation.

In contrast, LMM loans typically feature wider spreads, lower borrower leverage and stronger documentation. But these loans are often made to businesses with a greater reliance on a small group of executives, more customer concentration and a narrower product line (see Exhibit 2).

These trade-offs highlight why borrower size alone should not dictate one’s investment strategy. A more flexible approach, prioritizing best-in-class businesses and being responsive to changes in market conditions, can unlock value across the size spectrum.

Exhibit 2

## The Middle Market Continuum



Source: Lincoln International, S&P Global Ratings and Golub Capital Internal Analysis. For illustrative purposes only. The spread and leverage analysis is based on spread and leverage terms from a data set consisting of more than 1,600 private credit transactions tracked by Lincoln International from 2018 through 2024. The covenant analysis is based on the presence of maintenance covenants across different size loan tranches from a data set consisting of more than 1,200 private credit agreements reviewed by S&P Global. As of December 31, 2024.

1. EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

# Where Size Matters: Investment Team

When a private credit manager emphasizes the size range of the borrowers they serve, it says more about the firm itself (its origin, relationships and platform constraints) than about its distinction as a lender. In fact, building the scale and infrastructure to lend across the size spectrum is not easily done.

It demands a robust platform—deep sponsor relationships, experienced underwriting teams and sophisticated portfolio monitoring. In the core middle market and LMM, deal flow is relationship-driven, built over years of consistent engagement with sponsors, advisors and borrowers. Success in this space requires significant investment in people, infrastructure and reputation. The commitment to resourcing is unavoidable (and costly) for those few managers intent on sourcing borrowers from across the broad middle market landscape.

By contrast, large market lending can be more transactional—often driven by capital availability and check size—and have far leaner staffing requirements given its narrower scope and emphasis on borrower scale. Managers oriented more exclusively to larger borrowers tend to be themselves large, publicly traded and multi-asset in nature, with substantial fundraising goals and corresponding deployment needs (see Exhibit 3).

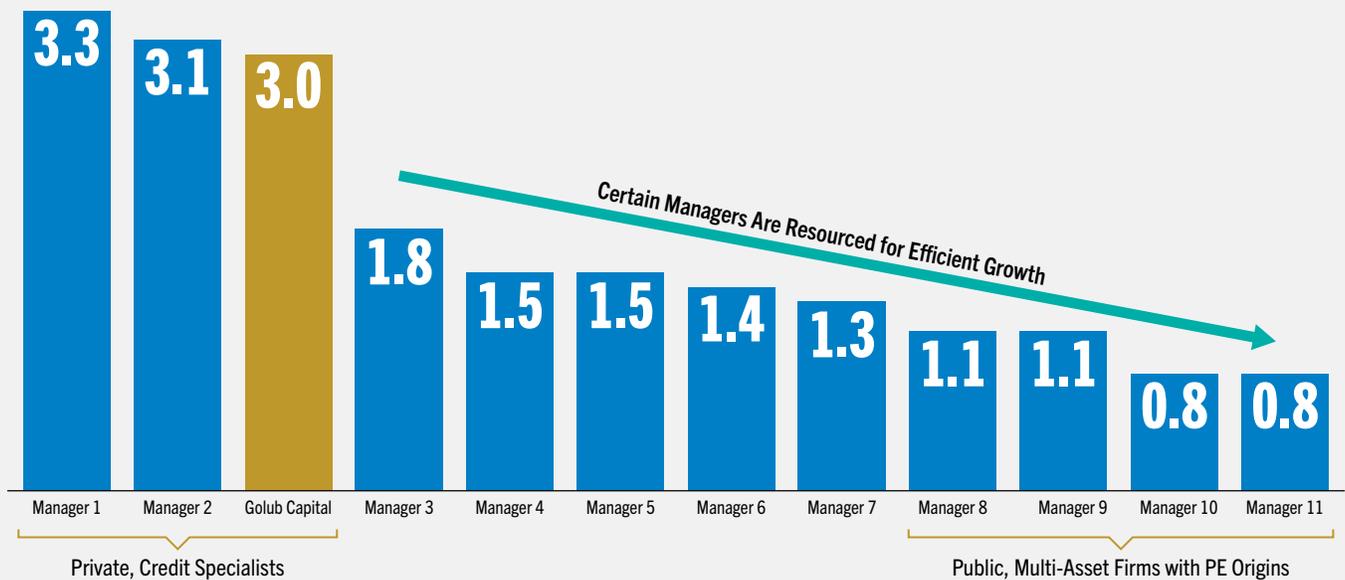
We believe the payoff for investing across the size spectrum consists of more than just reach—it diversifies portfolio construction and can strengthen risk management. Managers who limit themselves to a single borrower segment may face a narrower opportunity set, which in some cases could lead to “trading down” within that segment, simply to meet deployment goals. In contrast, those with the flexibility to lend across the size spectrum can dynamically pursue top-tier businesses wherever they reside. This broader aperture not only expands manager access to a larger number of higher-quality deals but also enables managers to be more responsive to changing market conditions, as the relative appeal of certain sectors or businesses can vary over time.

There’s another perspective to consider as well—the private equity sponsor’s. Maintaining a core group of trusted lending partners is essential for a private equity sponsor’s business model. These sponsors cannot sustain close alliances with an unlimited number of lenders, so they naturally prioritize those with the strongest capabilities and a track record of repeat collaboration. A private credit provider that can execute across a wide range of deal sizes, not just a narrow slice of the middle market, offers a more compelling and strategic partnership. This flexibility not only enhances the lender’s platform but also deepens relationships with sponsors, positioning the lender as a preferred partner to the broader private equity ecosystem.

Exhibit 3

## Resourcing (or Its Lack Thereof) Can Dictate Strategy Focus

Number of Credit Investment Professionals per Billion of Credit AUM



Source: Company filings, company websites and press releases. Credit manager cohort consists of publicly traded alternative asset managers, top-five largest non-traded business development companies (BDCs) managers and top-five managers in Pitchbook’s “Q2 2024 U.S. PE Middle-Market Lending League Tables.” Based on market data as of September 30, 2024.

# Sidebar: The Advantage of Incumbency

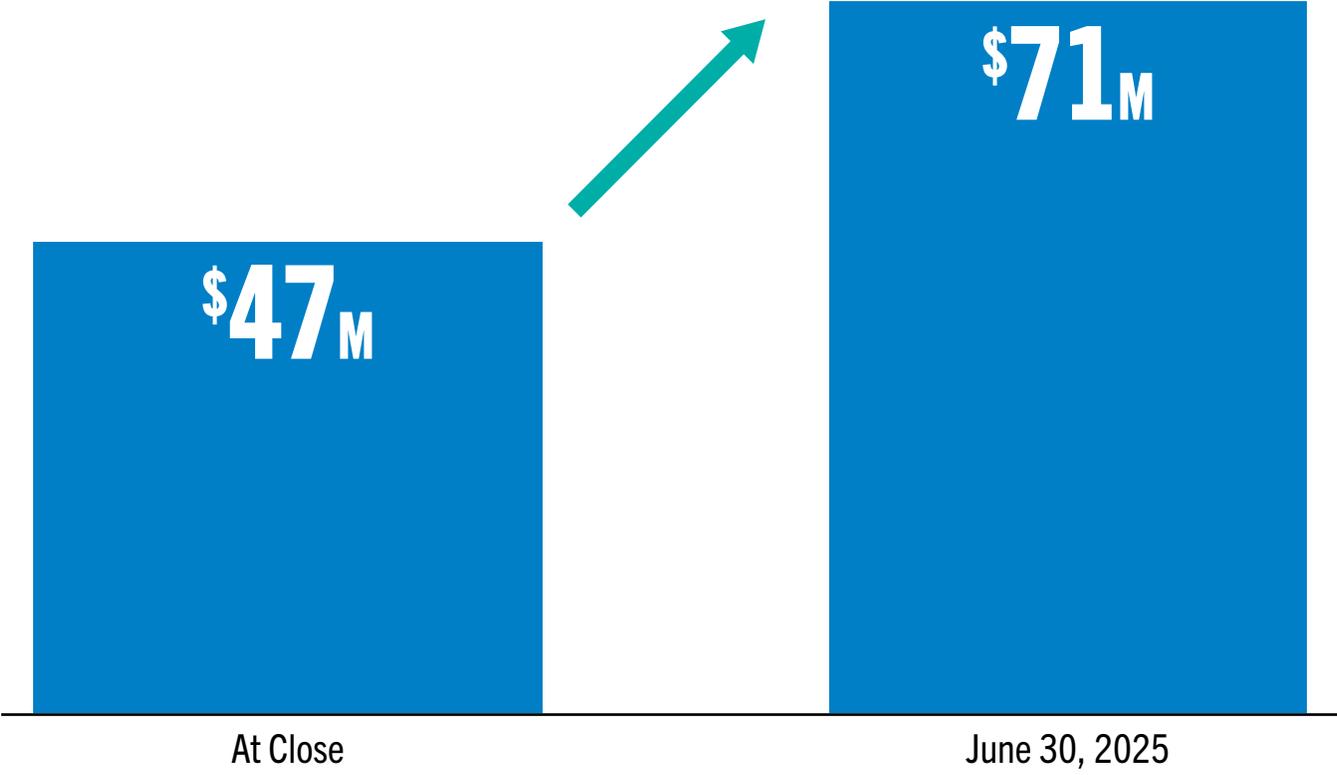
The ability to lend across the full borrower size continuum offers a less frequently discussed but highly valuable benefit to select managers: incumbency. Providing capital to lower or core middle market companies with strong growth potential allows lenders to build deep relationships and institutional knowledge early in a company’s lifecycle. As these businesses grow into core middle market or even large market borrowers, their original lenders, armed with years of insight and alignment, are uniquely positioned to support their next phase of growth. This relationship can extend even further: As some borrowers

transition into the public markets, their long-time private credit partners may continue to participate as holders of syndicated debt, benefiting from a meaningful informational edge over other market participants.

The ability to scale alongside portfolio companies, supporting them through multiple stages of growth and across market cycles, is a rare and powerful advantage of a broad middle market lending strategy.

## Scaling with Our Borrowers

Golub Capital’s Direct Lending Median Borrower EBITDA at Initial Transaction Close and June 30, 2025



Source: Golub Capital internal analysis as of June 30, 2025. The median EBITDA are based on our portfolio of debt investments and exclude investments designated as recurring revenue and broadly syndicated loans.

## Conclusion: Broader Is Better

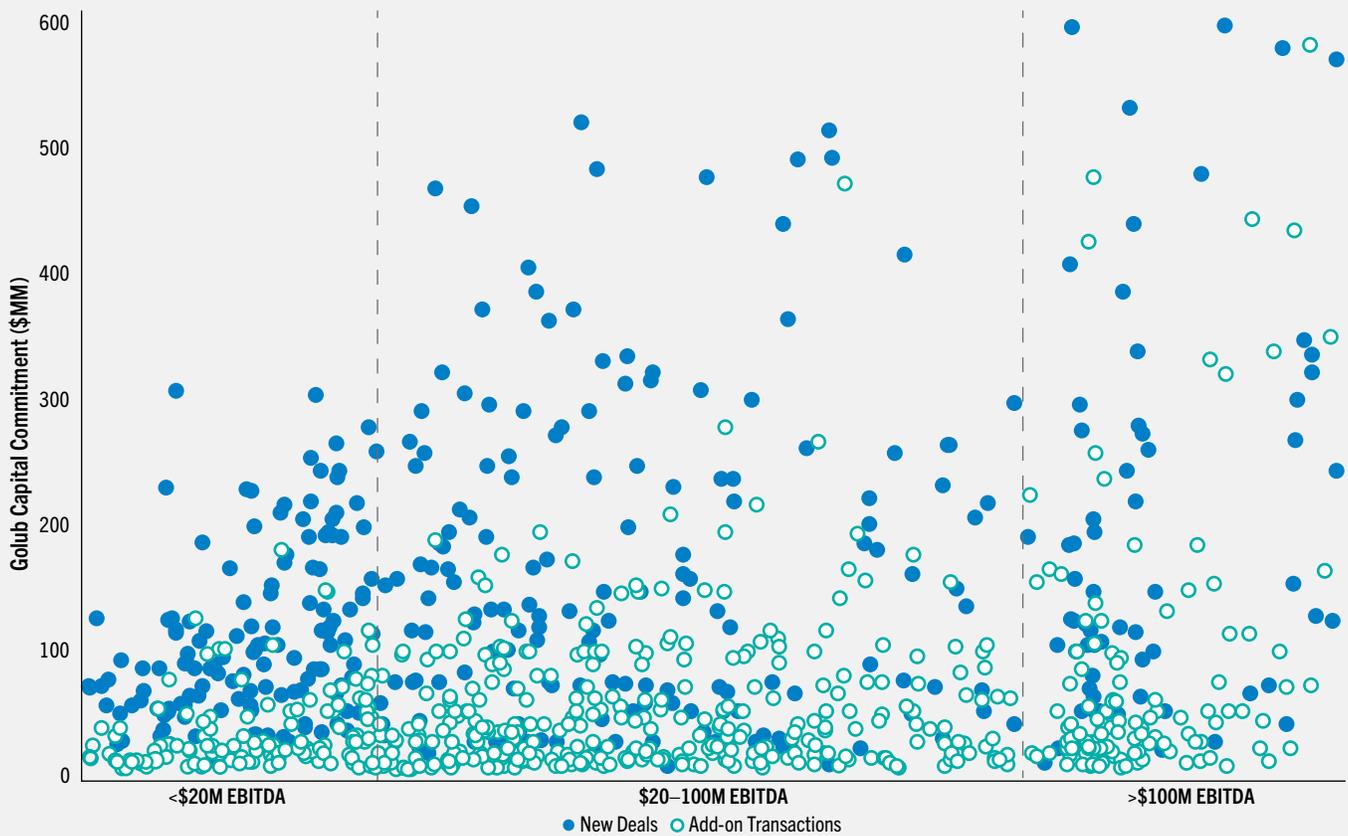
Borrower size is a variable, not a strategy. Allocating capital dynamically across the size spectrum, rather than adhering to a single segment, provides a competitive edge. Lenders can capitalize on large market opportunities during favorable conditions there or shift to the core middle market when structural advantages in that range better align with market dynamics. This flexibility is more likely to result in well-balanced portfolios and consistent risk-adjusted returns across cycles.

Rejecting the false dichotomy of “large vs. small” enables a renewed emphasis on credit discipline, focusing on resilient business and long-term alignment. In a market defined by crowding and compression, a strategy rooted in a broad opportunity set and rigorous selectivity may deliver superior outcomes for investors, capturing high-quality deals regardless of where they may lie on the borrower size spectrum.

Exhibit 4

### Working with Borrowers Across the Middle Market

Distribution of Golub Capital Originations: January 1, 2019–December 31, 2024



1. Based on dollar value of debt financing commitments to middle market companies within each EBITDA range at underwriting. The scatterplot excludes 52 deals that we believe are not representative of a typical Golub Capital middle market origination.

2. Includes the deals excluded in the scatterplot.

3. Based on count of new deals and add-on transactions.

Note: Past performance does not guarantee future results.

Source: Golub Capital. As of December 31, 2024.

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