GOLUB CAPITAL

Dispersion and Persistence of Manager Performance in Direct Lending

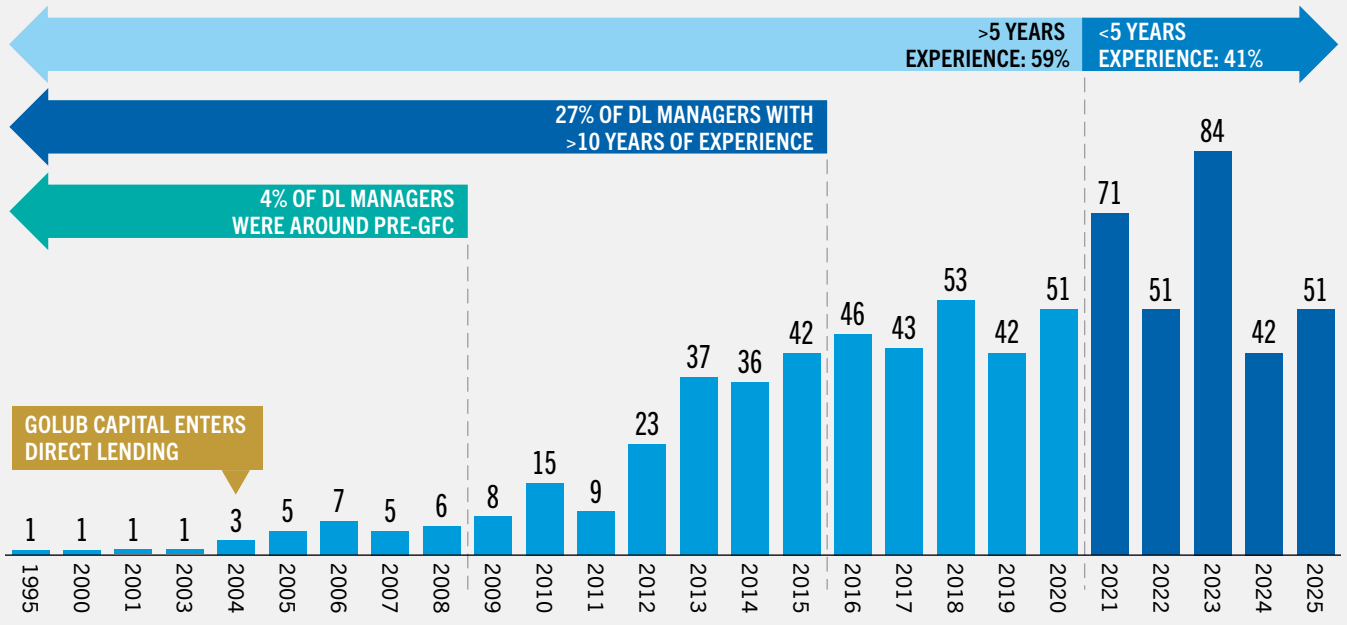
The long-term performance history of the direct lending market shows a striking dispersion between investor returns delivered by top-quartile and bottom-quartile managers—a performance gap that has persisted over time. In our view, this is because successful managers have built resilient franchise businesses with enduring competitive advantages that have historically enabled them to maintain consistently low credit losses.

It's no surprise some investors struggle to differentiate among managers in the private credit market today. We've seen a steady flow of new direct lending funds enter the market, with nearly half of all managers in the category today representing funds newly minted over the last five years (Exhibit 1). One telling statistic leaps out: In the last five years, one new direct lending manager entered the market approximately every six days.

Exhibit 1

Stampeding In: Many Direct Lenders Have Limited Experience

Number of New Managers Entering Direct Lending



In the last five years, a new manager entered the DL market every six days.

Source: Golub Capital internal analysis and Preqin. Utilizes Preqin's database of first-time direct lending funds launched by an asset manager globally. The data set includes 734 first-time direct lending funds launched from 1995–2025. Data as of December 31, 2025.

Amid such rapid expansion, we think manager selection has gotten more difficult. Not only has the number of managers risen exponentially, but we believe the vast majority are relatively untested: Only 27% of managers have more than 10 years of experience. And just 30 individual managers today, out of hundreds, were in existence during the global financial crisis from 2007 to 2009. How do you appraise the untested?

The volume of new direct lending names has led some investors to see the entire direct lending space as a "beta" play, where all managers—and their returns—look more or less the same.

We beg to differ.

Not a Bet on Beta: A Business, Not an Index

Benjamin Graham once said that fixed income investing was a "negative art," where performance depends more on what you keep out of the portfolio (that is, losses) than what you put into it. We believe this applies well to direct lending.

When you consider the main drivers of manager performance in direct lending, a number of factors stand out. We believe sourcing the best deals from high-quality sponsor-partners is key, as is expert "credit-first" underwriting and strong loan documentation. But managing through unforeseen turbulence in a borrower and avoiding value "leakage" is, in our view, the truest test of manager quality.

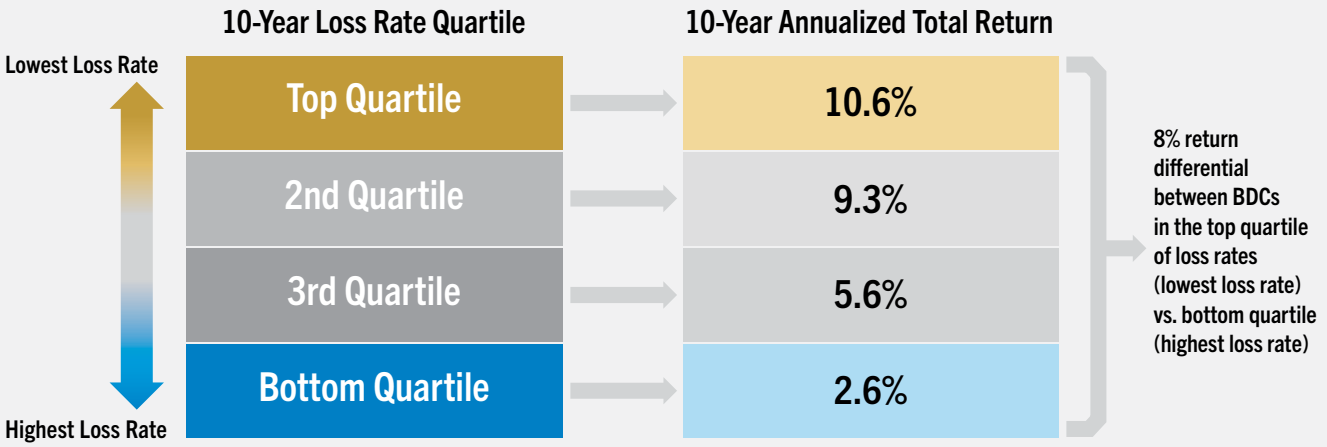
It turns out that historical loss rate is one of the most consequential factors in determining the level of return a direct lending fund will generate. This does not mean that other elements, such as the level of interest rates, spreads, leverage and other components, are NOT important performance drivers. These play a role, but our observation is that their impact declines in relevance if loss rates are not kept in check.

To illustrate this point, we have divided direct lending funds (as represented by public BDCs, where information is more readily available) into quartiles based on historic loss rates. In Exhibit 2, we calculate the average annualized return generated by funds in each quartile. Managers who historically have been best at avoiding losses come out on top, with nearly 11% returns annually; those with the worst historical loss rate have annualized performance in the low single digits. There is about an eight-percentage-point return difference, or "dispersion," between these quartiles. We believe the connection is meaningful and that loss rates help drive the level of return.

Exhibit 2

Separating Wheat from Chaff in Direct Lending: Loss Rates Are True North

Historical Loss Rate Compared to Total Return



Source: Golub Capital internal analysis utilizing data provided by KBW Research. Utilizes KBW's BDC research database of tracked return performance data covering the 10-year period from Q1 2016–Q4 2025. Loss rate is calculated as the BDC's cumulative difference between Net Investment Income per share and Net Income per share over the 10-year period divided by beginning period Net Asset Value (NAV) per share. BDC total return is calculated as the BDC's change in NAV per share plus total dividends per share received over the period divided by beginning period NAV per share. Return and loss rate calculations cover the 10-year period of Q1 2016–Q4 2025. The data set excludes internally managed BDCs and BDCs with 25% or more equity investment exposure. In total, three BDCs were excluded. The data set in the charts totals 24 BDCs. Past performance does not guarantee future results.

This gulf in performance across managers may recall some important differences between public and private market investments. We typically see a modest spread of one to two percentage points separating top- and bottom-quartile public credit managers.[1] Private markets function differently: The percentage gap between the top and bottom performers widens more dramatically. So, choosing the right manager has real consequences, now and going forward.

The Manager Matters: Enduring Performance across Cycles

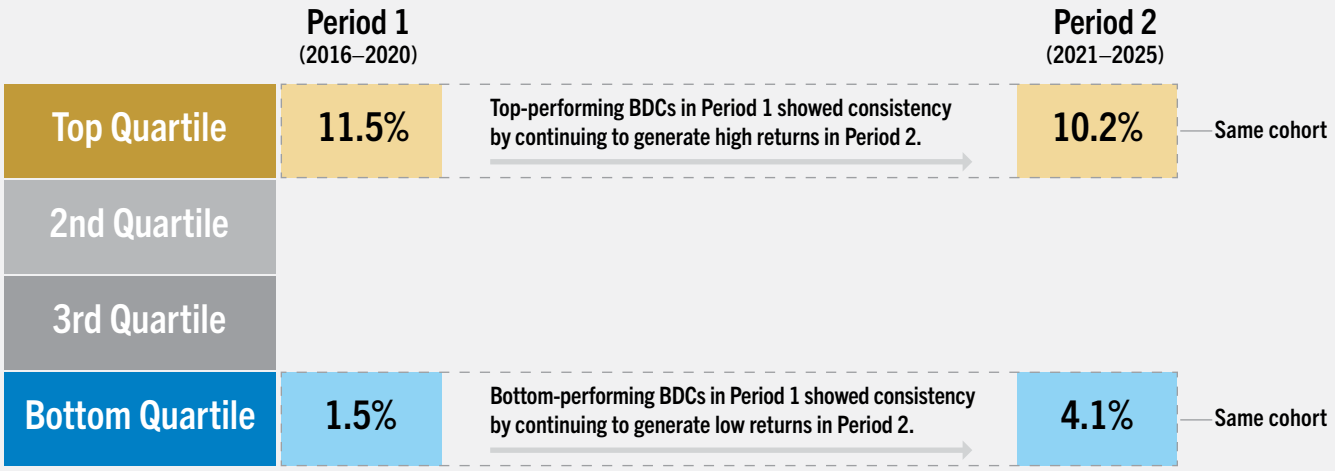
We believe there's another difference between public and private market funds: Evidence of continued outperformance by public market fund managers over any length of time is slight at best. We call this a lack of persistence. But private market managers tend to show a much higher degree of repeat performance, which holds for both good and less good managers.

To illustrate this phenomenon in private credit, we studied direct lending returns over two sequential time periods, each five years in length. The first period ran from Q1 2016 to Q4 2020 and the second from Q1 2021 to Q4 2025. We divided the managers from Period 1 into four performance quartiles and then calculated return performance for Period 2. Funds in the top quartile from Q1 2016 to Q4 2020 generated more than a 10% annualized return during the second period, from Q1 2021 to Q4 2025. Managers in the bottom quartile from Period 1 generated a 4% annualized return during Period 2. Half of top-quartile managers in Period 1 persisted in the same top-quartile group in Period 2. This persistence of performance was notable—and, we believe, not a coincidence.

Exhibit 3

Where Alpha Endures: Direct Lending Manager Returns Tend to Be Persistent

Annualized Five-Year Total Return



Source: Golub Capital internal analysis utilizing data provided by KBW Research. Utilizes KBW's BDC research database of tracked return performance data covering the 10-year period from Q1 2016–Q4 2025. BDC total return is calculated as the BDC's change in NAV per share plus total dividends per share received over the period divided by beginning period NAV per share. Performance Period 1 is the five-year period from Q1 2016–Q4 2020, and performance Period 2 is the five-year period from Q1 2021–Q4 2025. The data set excludes internally managed BDCs and BDCs with 25% or more equity investment exposure. In total, three BDCs were excluded. The data set in the chart totals 26 BDCs. Past performance does not guarantee future results.

1. Nasdaq. "Asset Manager Selection Guide." Data as of March 3, 2026.

Caveat Emptor: Seek Competitive Advantage

If manager selection is important—if direct lending strategies aren't all about market beta—then how do you find managers who achieve and sustain that alpha? We believe the long-term winners in this business have similar characteristics to the long-term winners in any other business—they have enduring competitive advantages.

The power of competitive advantage is the ability to deliver consistent, premium returns to investors. We believe that return history should be evident in a track record that is consistent across different vintages, time periods and market environments.

This level of performance in direct lending, we believe, will only be sustained by a firm with enduring competitive advantages—extensive partnerships across the sponsor community, strong origination and underwriting teams, along with expertise in restructuring and workouts. We observe that these are the characteristics that impact manager dispersion and can deliver high performance alpha over time.

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