



ASIC

Australian Securities &
Investments Commission

Australia's public and
private markets

Private credit surveillance: retail and wholesale funds

Report 820 | November 2025

About this report

This report summarises observations from our review of private credit funds offered to retail and wholesale investors. It highlights areas of better and poorer practices.

This report will interest responsible entities and trustees of managed funds, investment management firms, portfolio managers, investment advisers and consultants, financial advisers, industry bodies, service providers and other regulators. It will also interest those considering investing in private credit markets, including retail, wholesale and institutional investors.

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About ASIC regulatory documents

In administering legislation, ASIC issues the following types of regulatory documents: consultation papers, regulatory guides, information sheets and reports.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the *Corporations Act 2001* (Cth) and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Executive summary

Australia has experienced rapid expansion in its private credit market over the past 18 months. The market is estimated at \$200 billion in assets under management (AUM) and continues to grow, driven by factors such as the increasing size of Australian superannuation savings focused on seeking investment diversification and yield; moderation in bank lending to higher-risk real estate ventures; and increased retail investor participation through 'evergreen' and exchange-traded investment products.¹

Private credit broadly refers to non-bank lending, where loan assets are not traded on public markets or widely issued publicly. Operating alongside bank lending, private credit enhances financial market efficiency and economic growth by supplying capital in areas where traditional bank lending may be constrained. This flexibility enables borrowers to finance complex or innovative projects while offering investors an alternative asset class with diversification benefits and low correlation to public equity markets.

Today, domestic private credit funds mainly drive growth in private credit lending, accounting for about 70% of loans outstanding.² Report 814 *Private Credit in Australia* ([REP 814](#)) published in September 2025 highlights the observation that with this growth, some new entrants into the market lack experience in good and bad credit cycles and the diversification benefits that should come with size and scale. As the market grows, more global private credit managers are entering the Australian market alongside a rising number of domestic managers, intensifying competition for both funds and assets.

The notable rise in private credit as a source of new financing (especially for domestic real estate assets) and increased direct and indirect participation by Australian investors both emphasise the importance of a well-functioning private credit market.

Private credit is good for Australia's economy, borrowers and investors, but only if done well. Alongside [REP 814](#), ASIC's recent thematic surveillance of private credit funds has identified that private credit fund practices are inconsistent and not always executed well.

What we did

From October 2024 to August 2025, ASIC conducted a surveillance reviewing 28 private credit funds, including listed, unlisted, retail and wholesale funds. The funds ranged in size, scale and complexity, and spanned large Australian investment managers such as Metrics Credit Partners and La Trobe Financial, which together have more than \$50 billion in AUM; new global entrants such as KKR, which manages a fund in Australia that has attracted \$265 million in AUM since its inception in mid-2024; and smaller domestic managers such as RELI Capital Limited, which has approximately \$50 million in AUM.

The purpose of our surveillance was to assess how these funds manage key risks that are critical to investor confidence and market operation. We focused on:

- › fund disclosures and transparency
- › marketing and distribution
- › fee and income transparency
- › governance and conflict management
- › valuation
- › liquidity management, and
- › credit risk management.

¹ See Williams and Timbs [REP 814 Private credit in Australia](#)

² Chinnery, Maher, May and Spiller [Growth in Global Private Credit | Bulletin - October 2024 | RBA](#)

What we observed

The Australian private credit market is growing rapidly, but there are some areas where improvement is needed – and in some cases, materially so. These areas span industry practices related to governance and transparency; fees and interest rates; the use of structuring – in particular special purpose vehicles (SPVs); valuation methodologies; liquidity; credit management; and various other factors.

We observe that some private credit operators and investment managers demonstrate strong practices that set a benchmark for the rest of the market. However, ASIC's surveillance and [REP 814](#) also reveal there are failings in the sector, highlighting opportunities for improvements that would ultimately benefit investors.

The better practices we identified build trust, integrity and sustainable growth in the Australian private credit market, while the poorer practices we saw may harm investors, erode trust and confidence, and hinder the market's development.

Examples of poorer practices



Inconsistent and unclear reporting and terms, masking portfolio risks and challenging investor decisions

- › The retail and wholesale funds in our review reported low levels of default, generally ranging from 0% to 6% of the loan book.³ Funds defined the term 'default' differently and described 'loan security' inconsistently. We are concerned that private credit fund reporting may not provide investors with a true reflection of non-performing and distressed fund assets.



Opaque interest margins and fee structures, obscuring the risk and cost to investors

- › Only four of the 28 funds published information about the interest rates or ranges charged to borrowers (such as the weighted average interest rate charged to borrowers).
- › Only two retail funds quantified the interest earned from their assets and borrower fees, and disclosed the retained amounts as part of their wider management fee in the product disclosure statement (PDS).
- › Only one wholesale fund passed on the full economic benefits of interest earned from its assets and other borrower fees (e.g. origination, default and restructure fees). In a contrasting example, the manager took a substantial interest margin of 7.5%.



Weak governance and poorly managed conflicts of interest, risking harm to investors and confidence

- › Less than half of the funds (seven retail and five wholesale) had detailed, written credit or impairment and default management policies in place, prompting concerns that credit risk is not properly managed across the market, which exposes investors to risk.
- › Half of the wholesale funds did not have a policy governing the fair allocation of investment opportunities across multiple funds and co-investment vehicles managed by an investment manager with overlapping investment strategies.



Poor valuation practices, impacting entry and exit prices, performance and fees

- › Most funds we reviewed did not have effective separation between the investment committee approving loans and the representatives responsible for monitoring loan assets' performance and value after allocation into a fund, or for overseeing independent third-party valuation of loans.



Inadequate practices in key risk areas, indicating poor preparedness for stress scenarios

- › Of the wholesale funds, only two performed stress testing as part of their liquidity risk management.

Some of the poorer practices identified in our review are inconsistent with ASIC guidance and potentially contravene financial services laws – including the Australian financial services (AFS) licensee obligation to

³ One fund reported that 20% of its loans were in default, but the definition of 'default' was very wide and included minor breaches of covenants. Another fund reported that most of its loans were in default.

provide financial services efficiently, honestly and fairly, as well as prohibitions against misleading or deceptive conduct.

ASIC will use its regulatory and enforcement tools when we identify misconduct. We have already issued stop orders on several target market determinations (TMDs) due to poor disclosure and distribution of retail private credit funds. We have also commenced enforcement investigations in instances of more egregious conduct.

Improvements required



ASIC's surveillance highlights the need for significant improvement in practices in the private credit sector, consistent with issues identified in REP 814.

Private credit participants (including responsible entities (REs), trustees and investment managers) in the private credit market should adopt strong industry practices that align with the following guiding principles for doing private credit well. Individual fund operations should be benchmarked against the principles and better practices in this report and REP 814, and funds should take collective responsibility for building trust and confidence. This will improve the overall functioning of the market.

Table A: Principles for private credit done well

Principles	Why it matters	Considerations for private credit participants
1. Stewards of other people's money REs and trustees act as stewards of investor capital, ensuring that their decisions are fair and in investors' best interests.	Safeguards assets, promotes fairness, and maintains trust in the system.	RE and trustee boards should actively oversee fund operations, including valuations, conflicts, liquidity and impaired assets, to ensure fair and proper conduct.
2. Organisational capability Human, financial and technological resources are adequate. REs and trustees operate efficiently, honestly and fairly.	Supports operational resilience, investor protection and regulatory compliance.	Maintain adequate staffing, systems and capital, with regular reviews as fund size and complexity grow. Ensure appropriate expertise and experience, including in credit, risk, compliance, systems support, valuation, reporting, liquidity and conflict management. Undertake appropriate monitoring and supervision, including of corporate authorised representatives.
3. Transparency Investors have access to timely, transparent information on investment strategy, exposures, valuations, risks and fees.	Supports comparability and informed decision-making by investors.	Adopt consistent reporting practices and terminology, including timing, form and substance.
4. Design and distribution Design and distribution practices are fair, transparent and appropriately targeted for investors.	Ensures investors receive clear, accurate information to make informed decisions, and mitigates against mis-selling of unsuitable products.	Determine an appropriate target market, taking care that it reflects any high-risk or complex fund structures or features. . Strengthen distribution oversight to ensure product suitability (including via platforms). Platforms provide clear and accessible information.

5. Fees and costs Fees and costs are fair and transparent, giving investors and borrowers a clear view of total costs.	Enables informed decision making and promotes trust.	Disclose all fees and income streams (e.g. management and performance fees, borrower-paid fees, origination margins, default interest). Be clear about the manager's total remuneration. Avoid complex fee and margin structures that obscure true cost to investors.
6. Conflicts of interest Conflicts of interest are identified, disclosed, and effectively managed or avoided.	Promotes trust and fair treatment of investors, borrowers and other parties.	Avoid arrangements (e.g. fees, interest, co-investment, loan structuring) that unduly favour one party. Ensure clear and fair allocation across funds. Disclose related party transactions and multiple exposures to the same borrower with independent oversight.
7. Governance Structures, processes and people promote sound decision-making, compliance and accountability.	Drives responsible decisions, supports ethical conduct, and fosters a risk-aware and compliant culture.	Establish well-defined, documented roles, decision-making and escalation processes, with clear accountability. Embed a culture of risk-awareness, compliance and transparency. Empower staff to challenge poor practices. Ensure independent oversight, with REs and trustee boards independent of the business. Avoid overly complex structures that heighten the risks of conflicts and unfair treatment of investors and borrowers.
8. Valuations Valuations are fair, timely and transparent, with robust governance	Determines transaction, entry and exit prices, and can influence management and performance fees.	Implement clear and consistent valuation methodologies, policies and processes that produce fair valuations. Undertake valuations regularly (monthly or quarterly), with appropriate independence. Include periodic external audits.
9. Liquidity Liquidity risk is effectively disclosed and managed, avoiding structural mismatches, with fair redemption terms aligned to portfolio liquidity.	Minimises disruption during stress, and ensures fair treatment of exiting and remaining investors.	Disclose redemption terms, liquidity gates and stress-testing practices to investors. Ensure the source of funds for distributions is sustainable and stems predominantly from cashflows generated by underlying assets. Avoid paying distributions from investor capital or that of new investors.
10. Credit risk Credit risk is effectively managed across loan origination, portfolio construction, monitoring, impairment, default and repayment.	Ensures disciplined lending, aims to preserve investor capital, supports long-term portfolio performance, and enables effective impairment and default management.	Apply standardised credit assessment and monitoring frameworks as part of a well-governed and documented risk management framework. Document credit decisions and risk ratings, and regularly review borrower performance. Establish escalation protocols for early signs of distress. Use portfolio stress tests. Apply a consistent approach to impairments, and ensure independent oversight of credit and default and impairment processes.

Roadmap of ASIC actions

We are responding with a range of regulatory actions, including ongoing monitoring of the private credit market (through enhanced data collection, analysis and surveillance), and further compliance and enforcement action to protect consumers, as appropriate. These actions aim to deter misconduct, promote market integrity, and support trust and confidence in Australia's private credit market as it continues to grow and mature.

In 2026, the focus of ASIC's surveillance of the private credit market will include:

- › fees, margin structures and conflict-of-interest management in wholesale private credit funds, including those with a focus on real estate lending, and
- › distribution of private credit funds to retail clients through direct and advised channels.

In due course, we will also seek to address areas of identified poorer practices within wholesale private credit funds by updating our regulatory guidance to make it more clearly applicable to wholesale funds.

We will also continue using our surveillance work to highlight the need for key legislative reforms for managed investment schemes – to strengthen investor protection, address data gaps, promote transparency and competition in the sector, and better align with international standards.

How this work relates to [REP 814](#)



In September 2025, ASIC released Report 814 *Private credit in Australia* ([REP 814](#)) by Nigel Williams and Richard Timbs. Commissioned by ASIC, this report focused on operating practices in Australia's private credit market. It identified four key areas of operation that require improvement: conflicts of interest; fees and remuneration; portfolio transparency and valuation; and terminology. We have indicated in this report where our surveillance observations are consistent with the identified areas for improvement.

Through ASIC's review of private credit funds, we have identified poorer practices that could harm investors, the growing private credit sector and the broader financial system in Australia. Our surveillance and research have also identified better practices that should strengthen the sector if implemented.

Our surveillance focus

Overview of the private credit funds we reviewed

ASIC reviewed fund operators and investment managers engaged in offering private credit funds to retail or wholesale investors (see Note 1). We reviewed:

- › eight private credit funds available to wholesale clients only as non-registered funds (wholesale funds) with assets under management (AUM) totalling approximately \$3 billion, and
- › 20 registered private credit funds (retail funds) with AUM totalling \$26.6 billion, a few of which were directly available to wholesale clients only (see Note 2).

A list of the funds included in our surveillance is set out in **Appendix 1**.

Note 1: Throughout this report, 'fund operator' means the entity responsible for operating a fund: the RE for a retail fund or the trustee of a wholesale fund.

Note 2: Retail investors can only invest in registered managed investment schemes (i.e. schemes registered under s601EB of the *Corporations Act 2001* (Cth)), although these schemes can be made available to both retail and wholesale investors. In this report, we refer to registered managed investment schemes as 'retail funds' and unregistered managed investment schemes as 'wholesale funds'. Unless otherwise indicated, any reference to a fund in this report relates to a private credit fund.

The funds varied in size, scale and complexity, ranging in:⁴

- › size – from \$11 million to \$12 billion AUM⁵
- › number of direct investors – from fewer than 30 to more than 20,000
- › private credit strategies – including direct lending⁶ to businesses and property developments, and indirect lending through warehouse-type structures that provide an indirect or synthetic exposure to the warehouse's pool of underlying loans, noting that the wholesale funds we reviewed provide significant funding to real estate, and
- › structures – including either direct or indirect investment exposure via intermediary funds such as feeder funds, underlying funds, sub-trusts or SPVs.

There was a broad mix of wholesale investors in the eight wholesale funds, ranging from individuals meeting the sophisticated investor or individual wealth tests in s761G and s761GA of the *Corporations Act*, to self-managed super funds, corporates and larger superannuation funds.

⁴ Figures are point-in-time estimates, calculated around October/November 2024 for retail funds, and around April/May 2025 for wholesale funds.

⁵ Approximately half of the retail funds and all of the wholesale funds are part of a much larger group that operates other private credit funds.

⁶ By 'direct lending', we mean that the trustee or the investment manager (or related party of either) originates the loans that the fund invests in.

Table B: Characteristics of the funds we reviewed⁷

	<i>RETAIL FUNDS</i>	<i>WHOLESALE FUNDS</i>
Average number of underlying borrowers per fund	3,274	47
Average number of investors per fund	3,421	378
Total AUM	\$26.8 billion	\$3 billion
Average number of loans written per fund	3,373	67
Total principal amount of all outstanding loans (range across funds)	\$13.7 million - \$112.2 billion	\$46.8 million - \$2.7 billion
Interest rates charged to borrowers (range)⁸	2.50-33.51%	8.00-41.66%
Target return (range)⁹	4.00-10.00%	5.00-12.00%

Focus areas

Our surveillance covered retail and wholesale private credit fund practices. We reviewed information obtained from REs, trustees and investment managers, and conducted on-site engagements with 10 entities between June and August 2025.

The themes covered in our review focused on the key risks of investing in private capital funds identified in ASIC's [Discussion Paper](#) on public and private markets, published in February 2025. These focus areas included:

- › fund disclosures and transparency
- › marketing and distribution
- › fee and income transparency
- › governance and conflict management
- › valuation practices
- › liquidity management practices, and
- › credit risk management practices.

⁷ Figures are point-in-time estimates, calculated around October/November 2024 for retail funds, and around April/May 2025 for wholesale funds.

⁸ Higher interest rates were attributed to penalty rates for loans in default, or for 'riskier' types of loans such as equipment financing and lines of credit. The figures here were not an average or median figure, but represent the range of interest rates the funds charged to individual borrowers for specific loans in their portfolio across the retail or wholesale funds reviewed during a particular time.

⁹ These figures are point-in-time estimates, noting that many target returns were benchmarked to the fluctuating Reserve Bank of Australia (RBA) or bank bill swap (BBSW) rate.

ASIC's role in regulating private credit funds

ASIC is the primary regulator of private credit funds and investment management services.

Private credit funds operate as managed investment schemes, pooling investors' money to loan to borrowers. These borrowers, in turn, pay interest on the loan, which the fund can distribute back to investors after extracting its management fees and operating costs.

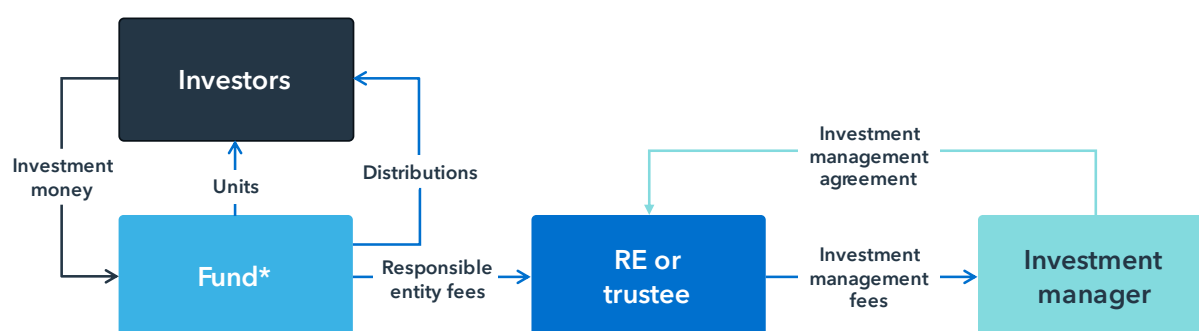
Borrowers include companies, property developers, and securitisation vehicles that package up hundreds of small loans (such as car loans). Most of the wholesale funds we reviewed made loans to the real estate sector.

Funds operate as either:

- › registered schemes, with REs that hold a financial services licence to make these schemes available to retail investors,¹⁰ or
- › unregistered schemes, with trustees that issue units in the scheme and may hold a financial services licence to make these schemes available to wholesale investors only.¹¹

Investment managers are typically responsible for executing investment strategies and managing risk in a fund's loan portfolio. They are usually appointed through an 'investment management agreement' between the manager and the fund's RE or trustee. They provide services to funds that may require a financial services licence (or be authorised on behalf of a licensee). Investment managers may engage in activities related to the underlying assets, such as sourcing and approving loans for a fund to invest in, managing the credit risk of the portfolio of loans, allocating loans between different funds and managing the fund's liquidity needs.

Figure A: Organisational structure of a fund manager



Note 1: Fund assets are held by the custodian. This chart may not represent the full range of third-party services.

Note 2: Fund manager refers to the fund operator, investment manager and/or related entity, as applicable.

Note 3: Investment manager refers to a person or entity which is responsible for buying and selling assets of the fund, subject to an investment management agreement with the fund operator.

We assessed compliance with the existing legal and policy framework that applies to retail and wholesale funds, and identified better and poorer practices among the reviewed fund operators and investment managers. Table C sets out the key obligations that apply at a high level to those who operate or manage the assets of a private credit fund in Australia.

¹⁰ Due to the exemption in s601ED(2) of the Corporations Act, wholesale funds are not generally required to be registered in accordance with Chapter 5C. Accordingly, obligations for REs, including the duties in s601FC of the Corporations Act, do not apply.

¹¹ For unregistered managed investment schemes, not all issuers are required to hold an Australian financial services (AFS) licence due to certain exemptions in s911A of the Corporations Act. See Information Sheet 251 *AFS licensing requirement for trustees of unregistered managed investment schemes* ([INFO 251](#)), though note that this information sheet is under review following the Full Federal Court decision in *Australian Securities and Investments Commission v BPS Financial Pty Ltd* [2025] FCA 74, and we plan to update INFO 251 in early 2026.

Table C: Summary of key obligations applying to operators and managers of private credit funds

Legislative obligations ¹²	RE, registered scheme (retail fund) ¹³	Licensed trustee, unregistered scheme (wholesale fund)	Licensed investment manager
General licensee obligations in s912A: › Act efficiently, honestly and fairly. › Adequate arrangements to manage conflicts of interest. › Have adequate risk management systems.	Y	Y	Y
Prohibitions against misleading or deceptive conduct and false or misleading statements in s1041E/H and s12DA/DB of the ASIC Act: › Do not engage in misleading or deceptive conduct. › Do not make false or misleading statements or representations.	Y	Y	Y
Product design and distribution obligations in Part 7.8A: › The target market determination (TMD) defines target market and product features, and the product is distributed accordingly. › Reasonable steps are taken to distribute the product in accordance with the TMD.	Y	N	N ¹⁴
Statutory duties in Chapter 5C, including s601FC: › Act in the best interests of fund members. › In the event of a conflict of interest, prioritise members. › Exercise the requisite degree of care and diligence. › Value scheme property at regular intervals. › Manage related party transactions. › Have liquidity provisions in place.	Y	N	N
Disclosure on fees, costs, other key information in the product disclosure statement (PDS) and periodic statements, in Part 7.9: › Make requisite disclosures in the PDS and periodic statements.	Y	N	N

As part of ASIC's response to Australia's evolving capital markets, we will issue a regulatory catalogue that summarises key legal obligations and related ASIC regulatory guidance for the broader funds management sector. See Report 823: *Advancing Australia's evolving capital markets: Discussion paper response report* for more information.

¹² Unless otherwise stated, sections in this table refer to sections of the Corporations Act.

¹³ Certain obligations only apply to REs of managed investment schemes that are registered under s601EB of the Corporations Act (i.e. retail funds).

¹⁴ The investment manager must comply with Part 7.8A only to the extent that it is involved in the distribution of a retail fund (i.e. a registered scheme) to retail investors.

ROLE OF RESEARCH HOUSES IN THE PRIVATE CREDIT SECTOR

External research houses serve an important function in the funds management sector. Their assessments and the general advice they provide can significantly influence financial advisers, investment platforms and investors, who use their ratings to evaluate the merits of investing in specific funds, including private credit funds. Research houses are expected to undertake rigorous due diligence to substantiate any ratings they issue.

- › ASIC engaged with research houses to understand their approach and insights into Australia's private credit sector. We observed that private credit researchers rely heavily on fund operators and investment managers to provide data and information, and have limited capacity for independent verification. Researchers' assessments tend to prioritise governance structures and investment strategy over direct credit risk analysis. Furthermore, the researchers we engaged with highlighted a lack of standardisation in valuation and provisioning practices across the Australian market, raising concerns about transparency and consistency. Additional information about the role of research houses, their fee structures and their rating processes is contained in Report 702 *Competition in funds management* ([REP 702](#)).
- › As part of our surveillance, we identified that many retail private credit funds rely on fund ratings from external research houses to support marketing efforts, regardless of whether the fund adopts a direct or indirect marketing approach. In the next section of this report, we highlight how the inconsistent use of key terms relating to private credit investments makes it difficult for investors to compare funds and make investment decisions.
- › Given the considerable influence a rating can have on a fund's distribution and an investor's decision, research houses hold a unique position within the market. This role enables them to potentially drive improvements across critical areas such as fund governance, valuation practices, risk management practices and disclosure standards. It is therefore important for research houses to ensure the robustness of their ratings processes in the private credit market, to help influence industry practices and support trust and confidence in this market.

1. Fund disclosures and transparency



When done well

Investors have access to timely, transparent information about portfolio strategy, exposures, risks and fees, enabling comparisons.



Considerations for private credit funds

Ensure upfront fund disclosures and periodic fund reports adequately define key terms about a fund's strategy and credit risk practices, providing clear and effective disclosure to investors.

Improve regular portfolio performance reporting to support fund comparisons and informed decision making.

Adopt consistent reporting practices and terminology, including timing, form and substance.

Fund disclosures and transparency help the market price and value funds, enabling investors to understand how their money is invested (or how unallocated application money will be invested), as well as the risks and fees involved. Clear and effective disclosure supports informed decision making and comparability; builds trust and reinforces accountability; and helps protect against hidden risks or misconduct that could undermine investor confidence and market integrity.

1.1 Investment information and reporting

Even experienced investors find it difficult and time-consuming to compare private credit funds.

In our review, we assessed the information on investment strategies that funds provided, and compared risk- and return-related terminology used across marketing, disclosure documents and investor reporting. We observed that funds were inconsistent in their approach to informing investors about the fund, and were yet to develop sector-wide terminology and reporting standards.

Better practices

- › **Clear and effective disclosure of fund strategies and loans:** Private credit investment strategies and key terms were clearly defined and explained (e.g. referencing the nature of the loan assets, the nature and seniority of security, and default actions). For example, one fund disclosed that it invested in asset-backed securities and detailed the relevant tranche (the junior debt tranche), and the associated ranking and risk implications.
- › **Comprehensive reporting to investors:** Better reporting provided comprehensive information in quarterly investor reports, including relevant portfolio composition, industry segmentation, location, term, type, ranking, exposure and movement in asset valuations. The reporting also disclosed a summary of the health of the portfolio, indicating maturity dates, weighted average loan-to-valuation ratio (LVR), default statistics, monitoring and loans under workout/enforcement action. These statistics serve as risk indicators for investors.
- › **Clear explanation of key terms (e.g. LVR):** Where the LVR was disclosed, the method of calculation was clearly explained in the upfront disclosure as being based on an 'as if complete' basis only.¹⁵ This was an effective disclosure because the loan portfolio included a mix of real estate financing loan types (land, pre-construction and construction loans) in which the manager accepted a mix of 'as is' and 'as if complete' valuations, but consistently reported to investors against the 'as if complete' valuation only. In

¹⁵ An 'as is' valuation is an estimate of the market value of a property in its current state (i.e. without any further improvements), whereas an 'as if complete' valuation is an estimate of the market value of a property assuming certain specified improvements are made. A higher LVR generally indicates higher risk for lenders, as it is an indicator that in the event of a lender defaulting on a loan there is a higher risk of the borrower not repaying the loan principal. Some private credit funds will disclose a 'target weighted average LVR' as an indication of the risk in the fund's portfolio of loan assets.

the absence of a clear disclosure of the basis of the valuation in the LVR reported to investors, the reported LVR may not provide useful information and could potentially be misleading.

Poorer practices

- › **Unclear investment strategies:** We identified weaknesses in the PDS of 10 retail funds. For these funds, there was room to improve disclosures about the investment strategy and intended portfolio arrangements, including details of the underlying assets and related party transactions. For example, two funds did not provide the names of the investment managers and details of the investment strategy or the nature of the underlying funds they invested in. Another fund did not provide enough details on the types of loans it invests in (e.g. equipment finance for small to medium-sized enterprises) for its pooled investment class. Omitting this information can obscure the associated risk of a fund's investments.
- › **Vague descriptions of fund assets:** The nature of the underlying assets was unclear for a number of funds investing via interposed vehicles (e.g. through feeder funds or SPVs, meaning it was unclear what investors were ultimately exposed to. For example, one fund did not clearly disclose that it invested in the junior tranche of an asset-backed security.
- › **Poor quality and variability in reporting to investors:** While most funds issued monthly or quarterly reports, the quality and detail of reporting varied – as referenced in case studies 1.1 and 1.2, in the observations below on Report 814 *Private credit in Australia* ([REP 814](#)) and in Table 1.1.

CASE STUDY 1.1: DIFFERENTIAL ACCESS TO FUND INFORMATION (POORER PRACTICE)

One responsible entity of a feeder fund, being a fund that invests most of its assets into an underlying fund, provided monthly updates to its investors. The investors of the fund included direct wholesale investors and indirect wholesale investors (via distributors who are platforms or intermediaries). These updates contained high-level information that included a summary of the underlying fund's performance over the period, and a list of the top 10 holdings of the underlying fund by net asset value.

In addition, the investment manager of the underlying fund provided certain direct investors and platforms or intermediaries – those who entered into non-disclosure agreements – with access to an online portal with detailed information about the loans within the underlying fund's portfolio. This included credit risk scores and internal loan ratings that were not publicly available.

Access to the portal was not generally available to all investors, as the investment manager of the underlying fund provided access to certain direct investors and distributors only when requested for due diligence purposes, or to answer more complex data-related inquiries. Those direct investors and distributors granted access by the investment manager and holding an interest in the fund were able to maintain access to this information, as well as other underlying fund information.

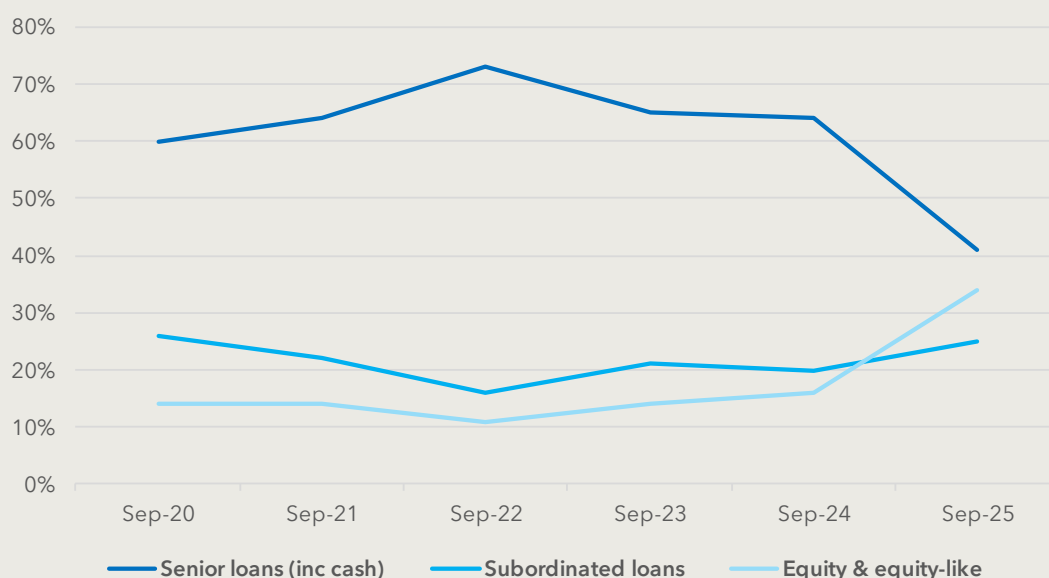
The ongoing access to the portal gave certain direct investors and distributors access to more comprehensive information about the risk and performance of the underlying fund to inform investment decisions.

CASE STUDY 1.2: IMPROVEMENT TO DISCLOSURE OF MATERIAL CHANGE TO ASSET ALLOCATIONS

A private credit investment manager offered a diversified private credit strategy to investors. The offer documents gave the manager a broad remit, without target allocations or ranges for different types of credit, and broadly specified the type of instruments the manager could use. The product was promoted as providing income and preserving capital, with the investment strategy being disclosed as having exposures to loans, notes and bonds, and equity and equity-like investments.

Although it was marketed as a fund providing exposure to private credit, the fund's allocation to equity and equity-like investments grew significantly, as set out in Figure 1.1.

Figure 1.1: Fund portfolio composition 2020-2025



The fund's periodic reporting to investors included portfolio composition and its exposure to equity and equity-like investments. During the course of our review, the fund improved its reporting by introducing more granular and detailed statistics on:

- › portfolio composition (e.g. credit quality, industry diversification and leverage), and
- › default and impairment statistics (e.g. arrears, loans on watchlist or enforcement action, and actual losses).

Notwithstanding these improvements to reporting, we consider there is still room for all private credit funds to improve the overall effectiveness of portfolio disclosures and reporting, by:

- › providing commentary to explain significant changes in the nature of fund exposures (e.g. increased equity exposure) and the risks those changes may represent for investors in the fund. This could be done, for example, by:
 - providing context about changes in portfolio allocation, (e.g. context for a significant increase or decrease in an asset class); and
 - explaining how the change (e.g. a decreased exposure to senior loans and increased allocation to equity instruments) may have altered the risk and performance profile of the fund for investors, and
- › identifying other significant changes in the underlying portfolio or investments, such as an increase in loan arrears or defaults.

Investors should be kept informed of the reasons for material portfolio changes over time, especially where allocation decisions could be introducing heightened risks that may not be clear from statistical portfolio composition reporting. Heightened risks should be clearly explained to investors as they occur.



[REP 814](#) set out some key information that private credit issuers should consider disclosing as part of good periodic fund reporting. A potential working template could include disclosure of:

- › investment returns – one month, three months, rolling 12 months and since inception (before and after fees)
- › number of loans in the portfolio
- › number of loans that are greater than 5% of the portfolio value
- › summary of the geographic spread of loans
- › number of loans in arrears
- › time period in arrears
- › number of loans using payment in kind, and the proportion of the portfolio by value
- › proportion of distributions paid from (a) cash income from investments and (b) other sources, and
- › fund gearing.

In addition, private credit issuers should consider existing disclosure principles in [RG 45](#) Mortgage schemes: Improving disclosure for retail investors and [RG 46](#) Unlisted property schemes: Improving disclosure for retail investors as applicable. ASIC also considers that funds should provide commentary in their reporting, where appropriate, to provide clear and effective disclosure to investors about major changes to the risk and performance profile of the fund (see Case Study 1.2).

[REP 814](#) also highlighted:

- › different circumstances where payment-in-kind arrangements may be used, noting the potential risk of larger losses for investors when these arrangements are used to restructure debt to avoid a payment default, and
- › the importance of effectively disclosing an LVR in real estate development funds, and the basis for calculating the LVR, as funds may state an LVR in marketing materials based on ‘as if complete’ valuations rather than ‘as is’ valuations, which could obscure the true risk of the loan.

What we observed:

Currently, no fund in our review disclosed all the information in the suggested reporting template (above) in its periodic fund reports.¹⁶ While some funds offered useful supplementary information, all fund reports omitted information on the source of distributions paid to investors (cash or otherwise). Further, no fund in our review provided statistics in relation to loans using payment in kind where payment in kind appeared to be offered.



[REP 814](#) suggests that as part of good disclosure practice, a fund using credit ratings or terms such as ‘investment grade’ should clearly articulate whether ratings are internal or from an accredited third-party rating agency. REP 814 also outlines the problem of definitions, with funds using a number of key investment terms differently in various investment materials. The report noted the problem of common terms being used inconsistently or vaguely, which could cause confusion and be misleading.

What we observed:

- › **Use of credit ratings:** Seven funds we reviewed used credit ratings to describe their portfolio in periodic fund reporting. Most of these funds provided investors with a short disclaimer on how they derived the credit ratings (e.g. internally or externally), but could do more to provide investors with details about the methodology behind internal ratings.
- › **Market-wide inconsistencies:** Alongside the better and poorer practices we observed among different private credit funds, we found market-wide inconsistencies that make it difficult for investors to compare the nature and risks of private credit funds.

- › **Definition of key terms:** Fund operators and investment managers defined and applied terms such as 'default' (see Table 7.1 in section 7.3), 'investment grade' and 'secured loans' differently. For example, funds used the term 'investment grade' and credit ratings (e.g. A, AA and BB) to explain their ratings or to describe the composition of their portfolios, and applied different methodologies to justify the labels. For example one fund might internally apply the published methodology of a licensed credit rating agency, another may use an external rating by a third party and another may have an internally developed credit risk rating methodology.
- › **Description of underlying assets.** Some funds primarily categorised their assets using terms that describe the ranking or seniority of the security (e.g. 'first mortgage' and 'mezzanine'), while other funds categorised their assets with reference to direct lending, securitised loans or the use of funding (e.g. 'commercial real estate development').
- › **Table 1.1** demonstrates the variability in how different wholesale private credit funds describe underlying assets and securities typical to real estate finance – in communications with ASIC or in information memorandums – making it difficult for investors (or their advisers) to compare funds. Asset descriptions sometimes fail to include clear information that would help investors understand the risks of the assets held by a fund, such as a clear disclosure that loans will fund higher-risk real estate and development financing, or of the nature of the security when terms such as 'senior' ranking are used. Developing a consistent nomenclature to better describe the specific features of private credit funds would help the market become more transparent as it continues to grow and mature.

Table 1.1: Wholesale private credit fund asset category descriptions¹⁷

Wholesale fund manager	Description of asset category	Description of asset subcategory
Ark Capital Funds Limited	First mortgage First mortgage – junior Second mortgage Preferred equity	› Pooled fund › Land/construction
CVS Lane Capital Partners Pty Ltd	First mortgage loan Subordinated debt	Land/construction/investment
Gemi Asset Management Pty Ltd	First mortgage loan facility Mezzanine loan facility	Did not subcategorise its assets
Pallas Funds Pty Ltd	First mortgage Second mortgage loan	› Construction/non-construction › Warehouse › Financial leasing corporation loan
MaxCap Investment Management Pty Ltd	Commercial real estate debt	› Senior loan/first mortgage loan › Junior loan/subordinated loan › Subordinated debt
Qualitas Securities Pty Ltd	Commercial real estate loan Private credit loan	› Investment loan › Pre-development land loan › Residual stock loan › Construction loan

¹⁶ Some funds did not provide periodic fund reporting that was publicly available for all investors. Of the funds that did provide periodic fund reporting, no fund fully satisfied the reporting template suggested in [REP 814](#).

¹⁷ Note: Information in this table is based on information provided to ASIC in response to a s912C notice request for information about the underlying assets of the private credit fund in the surveillance and/or the information memorandum. This table references the entity that responded to ASIC's information request on fund descriptions, provided under notice.

Remara Investment Management Pty Ltd	Direct Lending (bi-lateral) Syndication Securitisation	› Corporate loans › Project finance - mezzanine › Leveraged buyouts › Securitised loan structures › Mezzanine loans › Real estate loans › Asset-backed securities (ABS) › Corporate bonds › Convertible notes › Collateralised loan obligations (CLO) › Mortgage-backed securities (MBS)
Revolution Asset Management Pty Ltd	Direct lending Securitised assets	› Direct lending: leveraged buyout capital structure › Warehouse pools of auto loans, credit card receivables, mortgages and business loans › Originators: specialty finance companies

2. Marketing and distribution



When done well

Design and distribution practices are fair, transparent and appropriately targeted for investors.



Considerations for private credit funds

Fund marketing does not mislead investors; for example, by playing down investment risks.

REs determine an appropriate target market, taking care that it reflects any high-risk or complex fund structures or features, and takes reasonable steps and monitors distribution so that distribution is consistent with the TMD.

Investment platform operators provide clear and accessible information about funds on their platform.

Wholesale fund operators have adequate compliance arrangements and resources in place to ensure fund units are marketed and distributed only to wholesale clients.

Sound marketing and distribution practices ensure investors receive clear and accurate information on which to base informed decisions. They also protect against mis-selling. Private credit funds often employ complex arrangements and concepts, making it important for investors to be well informed and appropriately targeted.

2.1 Marketing and distribution practices

Private credit funds are distributed as either:

- › **direct to investor**, where funds attract investors using active, multi-channel campaigns including direct email, websites, social media, and flyers or brochures, or
- › **indirect to investor**, where funds rely predominantly on financial advisers and/or investment platforms to attract investors.

Figure 2.1 shows the distribution channels used by wholesale and retail funds in the ASIC review. Distribution methods varied depending on whether the fund was offered to retail or wholesale clients.

- › **Wholesale funds:** The global investment managers and larger wholesale funds primarily relied on administrative platforms for distribution. Smaller local funds primarily used their own distribution channels.
- › **Retail funds:** Few retail private credit funds required, as part of the distribution conditions in their TMDs, that investors receive financial advice prior to investing – although, as set out in Figure 2.1, financial advisers were a key distribution channel for many retail funds.

Figure 2.1: Distribution channels used by retail and wholesale funds¹⁸

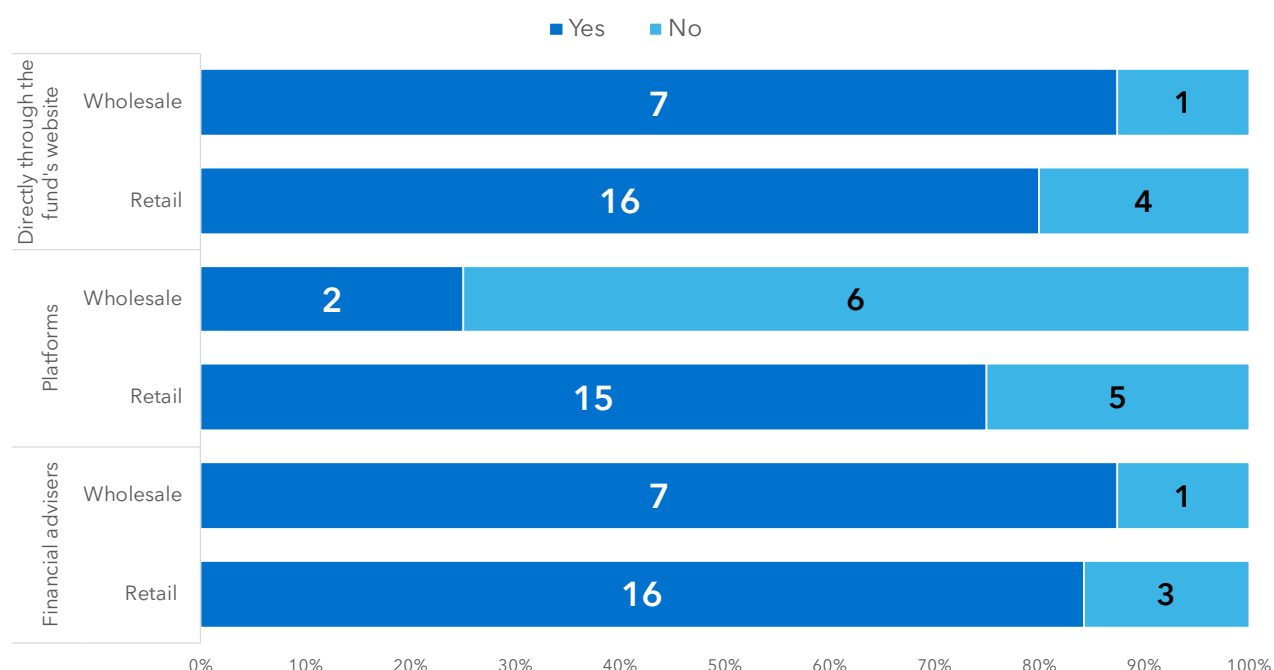


Figure 2.1 underscores the important role of platforms and financial advisers in the private credit sector. It is important for REs, platform operators and distributors to ensure they are taking reasonable steps when distributing private credit products as applicable under the design and distribution obligations (DDO) regime.¹⁹

TMDs are part of a broader framework to ensure retail funds take an investor-centric approach. We observed that retail private credit fund issuers have an inconsistent approach to TMDs.

Better practices

- › **Effective disclosure of investment risks:** Half of all retail funds rated themselves as being medium or higher risk in their TMDs, and their marketing material appropriately disclosed key and heightened areas of risk associated with liquidity, valuation and credit.
- › **Portfolio allocation:** Half of all retail funds also provided a more conservative portfolio allocation in their TMDs (e.g. satellite or minor allocation), appropriate for their potentially higher-risk investment strategies.
- › **Tailored distribution conditions:** Some retail funds tailored their distribution conditions to ensure distribution was directed towards the target market. As part of the distribution conditions, two retail funds specified that clients should receive personal advice, while seven retail funds required unadvised retail investors to fill out a questionnaire prior to investing. Another retail fund banned the use of mass communication channels as it considered these inappropriate.

¹⁸ Distribution channels are not mutually exclusive - i.e. one fund can potentially rely on all three distribution channels. Some funds only rely on distribution channels to a very limited extent (e.g. below 3% of inflows based on assets under management (AUM)) and for the purposes of Figure 2.1 they have not been counted as relying on that distribution channel. One retail fund was unable to track whether its clients were advised, so it was excluded from the last statistic as to whether the retail fund used financial advisers for distribution.

¹⁹ DDO obligations refer to the product design and distribution obligations in Part 7.8A of the *Corporations Act 2001* (Cth); see Regulatory Guide 274 *Product design and distribution obligations* ([RG 274](#)) for more information.

Poorer practices

Marketing

- › **Aggressive marketing:** Two retail funds used strong and sometimes aggressive direct marketing tactics (e.g. mass communication channels, or incentives such as offering bonuses for new investors or referral bonuses) to increase investor uptake.
- › **Unbalanced risk descriptions:** One retail fund may have exaggerated the benefits of the fund (e.g. the stable nature of the returns) without fully disclosing the risks in its PDSs or marketing materials. Seven retail funds assigned in-house ratings such as 'investment grade' to describe loans, despite the loans not being rated by external credit rating agencies – although they used disclaimers when mentioning 'investment grade' in public-facing documents.
- › **Potentially misleading marketing:** In one case, the fund operator may have underplayed the risk of capital loss in its representations. In another case, ASIC was concerned the fund was mislabelled and likely to mislead consumers into thinking it was a bank product.

Distribution practices

- › **Frozen fund continued distribution:** One wholesale fund continued to directly distribute its product even though a substantial proportion of its loans were in default and investor redemptions had been frozen.
- › **Inadequate wholesale client classification:** Two wholesale funds did not have adequate arrangements to ensure they were providing financial services only to wholesale clients, consistent with their licence authorisations. These funds failed to verify the wholesale client status through the income and asset test accountants' certificate.
- › **Characterisation of risk:** Many retail funds described themselves in TMDs as being suitable for investors with a 'low risk tolerance', and stated that investors with a capital preservation investment objective were in the target market. ASIC was concerned that the low-risk characterisation was not accurate for some funds.
- › **Portfolio allocation:** In their TMDs, some retail funds described the fund as suitable for 'core' allocation (inconsistently defined as 25% to 75%, or up to 50%) or 'major' allocation (up to 75%) in an investor's overall portfolio. In ASIC's view, this allocation may not be appropriate for some funds, given their potentially higher-risk investment strategies.²⁰
- › **Distribution conditions:** When issuing interim TMD stop orders against REs RELI Capital Limited and La Trobe Financial Asset Management Limited in September 2025,²¹ ASIC was concerned that (among other things) one retail fund did not include appropriate distribution conditions and another did not include any distribution conditions.²²

²⁰ For example, refer to [25-205MR ASIC issues DDO stop order against La Trobe US Private Credit Fund](#) and [MR 25-208 ASIC issues DDO stop order against RELI Capital Mortgage](#). Among other things, ASIC was concerned about potentially inappropriate portfolio allocations in the TMDs for these funds. The interim stop orders have since been revoked after the REs took immediate steps and made amendments to the TMDs, addressing ASIC's concerns.

²¹ See footnote above.

²² La Trobe Australian Credit Fund (in respect of the 12-month term account and two-year account products) and RELI Capital Mortgage Fund, respectively.

CASE STUDY 2.1: CHARACTERISATION OF THE TARGET MARKET IN THE TMD (RELI INTERIM STOP ORDER) (POORER PRACTICE)

On 19 September 2025, ASIC issued an interim stop order to RELI Capital Ltd due to concerns ASIC held as to potential deficiencies in the TMD for the RELI Capital Mortgage Fund – a contributory mortgage scheme offering fixed-term investments to retail consumers. The order was made because, in ASIC’s view, the TMD may have exposed the fund to retail investors for whom it was not suitable. Among other things, ASIC was concerned that:

- › the TMD inaccurately stated the fund was suitable for investors who intended to hold the fund as a core component (25% to 75%) of their total investment portfolio
- › the risk level of the fund in the TMD had a ‘low to medium’ risk level on the basis that it was likely to experience one or fewer than two years of negative annual returns, when the risks associated with the fund may have been higher
- › the TMD stated the fund was suitable for investors seeking capital preservation, when the risks did not ensure capital preservation, and
- › the TMD specified that no distribution conditions were necessary for the fund.

RELI Capital Ltd took immediate steps to revise the TMD to address ASIC’s concerns, and the interim stop order was revoked.

3. Fee and income transparency



When done well

Fees and income structures are fair and transparent, giving investors and borrowers a clear view of total costs.



Considerations for private credit funds

All fees and income streams are clearly disclosed to investors, giving a true representation of the manager's total remuneration and costs to investors.

Interest rates charged to borrowers (which directly impact fund returns and investor outcomes) are fully and transparently disclosed.

Funds avoid complex fee and margin structures that may obscure the true costs to investors.

Clear and accurate disclosure of all fees and costs enables investors to understand what they are paying for and to better judge whether they are being appropriately compensated for the associated risk. Clear fee, cost and income disclosure also enables investors to compare funds, supports informed decision making and promotes trust. Clear disclosure of fees and costs includes both qualitative explanations of what the fees represent and quantitative details of their amounts.

The fee structures and arrangements of private credit funds can be complex and opaque. The fund operator and/or investment manager may have wide discretion to determine what is a fair split of income from loans under management. Misaligned incentives can result in fee structures that favour fund managers over investors. For example, the fee structures of some private credit funds permit the fund manager to retain potentially lucrative revenue streams, even though investors bear the risk associated with the generation of that income stream.

Income received by the fund and/or fund manager may include:

- › loan fees paid by borrowers, including origination, line, re-structure and/or default fees (i.e. borrower fees), and
- › net interest margins – essentially the income received from interest payments made by the borrower, less distributions payable to fund investors.²³

3.1 Transparency and treatment of borrower fees

Fee structures vary significantly across different private credit funds. While some funds advertise relatively low management fees, they may retain undisclosed additional fees or income streams related to the operation of the fund. Our surveillance identified a range of fee and cost structures with inherent or potential conflicts between borrower fee incentives on the one hand, and net asset value (NAV) and gross asset value (GAV) management or fund operator fees on the other.

²³ Increased interest from instances of default also forms part of net interest margin but not default fees.



In relation to fee and income disclosure, [REP 814](#) highlights that it is reasonable to ask whether information is not being disclosed – and if not, why.

The report identified that total cost comparisons across funds is difficult when fees such as 100% upfront fees paid by borrowers are excluded from management fee disclosures. It identified that good practice involves full disclosure of all fees and remuneration received by the fund manager in connection with the fund, including quantification of amounts.

This disclosure should also include fees and remuneration the fund manager (including affiliated entities) earns indirectly (such as borrower fees), including through SPVs and other structures.

What we observed:

- › Many funds receive income from borrowers additional to the ordinary interest rates charged to the underlying borrower and received by the fund under the respective loan arrangements. These are referred to as 'borrower fees'.
- › Borrower fees may be paid to the fund manager. They include origination fees, loan establishment fees, early repayment fees, extension fees and additional default fees.
- › Not all forms of borrower fees are passed on to investors. Most wholesale funds we reviewed retained all or a portion of the borrower fees, and only one passed on all borrower fees to investors. Generally, wholesale funds did disclose borrower fees as an additional source of income, but only three provided a detailed description of the types of fees (including percentage ranges). One wholesale fund that retained borrower fees did not disclose this to investors.
- › Half of the retail funds (10 funds) disclosed in the PDS the possibility of the fund manager receiving borrower fees.²⁴ However, there was no consistency in how borrower fees were disclosed, treated (i.e. how much is passed on to investors) and quantified in these disclosures.

Better practices

- › **Passing on income:** One wholesale fund passed on to investors the entirety of any 'excess' income from underlying investments generated above the target return (including borrower fees) as a distribution or increase to the fund's overall NAV.
- › **Fee and income transparency:** Three retail funds clearly disclosed in the PDS all sources of loan fees received by the RE/trustee or investment manager and, for the income not passed on to investors but retained by the fund or fund manager,²⁵ quantified it and framed it as a fee. Two funds presented the quantified fee as part of the 'management fee', while one fund framed the fee as an 'indirect fee'.

Poorer practices

- › **Retention of loan origination and other fees (e.g. loan extension, restructure or roll-over fees):** For three wholesale funds, the fund managers retained up to 100% of the origination fees paid by borrowers without disclosing the quantum, rate or range of fees – or the proportion of management income – generated by these fees gained from assets under management (AUM).
- › **Failure to pass on default fees:** When a borrower defaulted, they may have been subject to default fees or higher default interest rates. Some fund managers retained all or part of the resulting additional default income without formally classifying it as fees attributable to investors. One wholesale fund retained the additional default income in full, without passing it on to the investors who bear the credit risk of non-payment.
- › **Failure to disclose substantial fees and income:** One wholesale fund failed to disclose that it received more than the flat fee of 0.5% GAV associated with the fund. It did not disclose to investors the types of

²⁴ For funds that did not reference such fees in their PDSs, it is possible that the fund operator and/or investment manager does not receive such income.

²⁵ The retained amounts factored in net interest margin and borrower fees.

fees or quantum of income it received from sizeable net interest margins, loan fees, and default fees and interest.

3.2 Transparency and treatment of interest charged to borrowers

The interest rates charged to borrowers directly impact fund returns and investor outcomes. However, we observed limited transparency in relation to these interest rates, and it was difficult to identify the net interest margins retained by the fund manager.²⁶ This compromised investors' ability to:

- › assess risk, as higher interest rates charged to borrowers may indicate riskier loan assets, and
- › determine whether they were being appropriately compensated for the level of risk incurred.

REP 814 Interest rates and net interest margins



REP 814 observed that many funds do not quantify total manager remuneration – particularly from borrower fees and net interest margins – as a proportion of AUM. Non-disclosed remuneration can be a multiple of three to five times the publicly disclosed fund management fee.

The report highlights the possibility of the fund managers²⁷ achieving higher net interest margins, enabled by certain fee structures involving SPVs or other intermediary structures interposed between the investor and borrower.

What we observed:

- › Interest rates that funds charge borrowers ranged from 2.50% to 41.66%. The higher interest rates we observed were generally the result of unsecured loans or penalty rates being applied for loans in default. See **Table 3.1**.
- › Not all fund managers passed on to fund investors all the interest received from borrowers but retained a net interest margin as an additional source of income. At times, this included additional interest earned on loans in default. Half of the wholesale fund managers purported to retain no net interest margins (i.e. they passed on all ordinary interest income to investors). Three of the four managers of wholesale funds that retained a net interest margin disclosed the additional income, but only one of these fund managers quantified the amount. One wholesale fund manager that retained a net interest margin did not disclose this to investors.
- › Most funds did not disclose interest rate statistics to investors. Based on the limited information provided to us, it appeared that three funds had sizable net interest margins.²⁸
- › Net interest margins are not always quantified and disclosed as part of the management fee or costs.

We plan to conduct future surveillance focusing on private credit fund fees, and will include an assessment of how the use of structures such as SPVs and other intermediaries could obscure the transparency of the incentives to operators of private credit funds.

²⁶ Net interest margin, as referenced in REP 814, is the difference between the rate of interest charged to borrowers less the rate of interest paid to investors. Net interest margin includes default interest but not the default fees. For the purposes of this report, net interest margin does not include additional income that the investment manager and/or fund operator (or related party) may receive from borrowers, including via indirect means, such as origination fees, loan establishment fees or default fees (collectively, borrower fees). The interest from the borrower fee may be collected from the fund's investment manager or fund operator, or a related entity of either; see next footnote.

²⁷ As observed in REP 814, the fund's appointed investment manager or an interposed entity (such as an SPV) may be a related entity of the investment manager and may collect interest from the borrower. Alternatively, the fund operator may collect the interest from the borrower.

²⁸ It appeared that the effective net interest margin for these funds could potentially exceed 5.00% of the fund's AUM. However, our surveillance did not involve an audit of the financials for each fund, and we did not deeply interrogate the actual net interest margin.

Table 3.1: Spread of management fees, interest rates and target returns across 28 funds

	Retail private credit funds	Wholesale private credit funds
Management fees	0.38–6.00%	0.00–2.89%
Interest rates charged to borrowers ²⁹	2.50–33.51%	8.00–41.66%
Target return of fund ³⁰	4.00–10.00%	5.00–12.00%

Better practices

- › **Loan-level interest rate transparency:** Two funds disclosed to investors for each loan the interest rate payable by the borrower and the rate payable to the investor. Two other funds disclosed either the weighted average interest rate charged to borrowers or the range of interest rates charged to borrowers.
- › **Portfolio-level transparency:** One wholesale fund disclosed to investors in its fund reporting the weighted average interest rate charged to borrowers.
- › **Interest margin treatment:** Four wholesale funds did not retain a net interest margin.

Poorer practices

- › **Interest rate transparency:** Most funds did not disclose to investors information about the interest rates charged to borrowers within the loan portfolio, including the range of interest rates, weighted average interest rate or net interest margins. Only two wholesale funds and two retail funds disclosed this information.

CASE STUDY 3.1: INADEQUATE FEE, INCOME AND DISTRIBUTION FUNDING DISCLOSURE (POORER PRACTICE)

The fund operator did not adequately disclose to investors the nature and extent of the fees it earned, or that distributions were funded substantially by investor capital due to the practice of capitalising interest repayments in a loan.

The fund operator disclosed generally to investors that any income exceeding the target distributions to investors was paid to the principals of the investment manager. However, this disclosure did not mention the following amounts.

- › **Origination (line) fees:** The fund manager charged a line fee at origination of approximately 2.2%, which it retained instead of passing it on to the fund. The fund's strategy was real estate financing, and this generally resulted in new line fees for each stage of a property development, including land purchase, finance to development approval, construction and pre-sale. Each stage required a new loan, and therefore new line fees.
- › **Default fees and default interest:** Loan default terms and the definition of 'default' were drafted narrowly (i.e. 'default' was defined as a failure to meet an interest payment or repay the loan when due). When a loan was in default, the fund manager charged a default fee of 2.2% and a higher interest rate. This increased the margin on the loan that the investment manager retained and did not pass on (or disclose) to investors. The highest interest rate in the fund was a substantial 40% charged on a loan in default.

²⁹ Higher interest rates were attributed to penalty rates for loans in default, or for 'riskier' types of loans such as equipment financing and lines of credit. The figures here were not an average or median figure but represent the range of interest rates the sampled funds charged to individual borrowers for specific loans in their portfolio.

³⁰ A point-in-time estimate, noting that many target returns were benchmarked to the fluctuating Reserve Bank of Australia (RBA) or bank bill swap (BBSW) rate.

- › **Interest rate margins:** For the period 1 January 2024 to 31 December 2024, interest rates payable on loans under management ranged from 8% to 17.5%, with a median average interest rate of 15.5%. The fund manager retained the interest rate margin, typically at 4-5% per loan unless it was in default.
- › **Interest capitalised to the loan, and distributions paid to investors from these borrowings:** Borrowers were able to fund interest payments through the loan principal. For example, a developer requiring \$80 million could borrow \$100 million, with \$20 million placed into a separate account to make interest payments back to the fund manager, who then distributed it to the fund (and to the fund's investors) and retained the interest margin. In this way, the investor's capital was used to fund distributions back to investors and the manager, rather than cash flows from the portfolio of loans funding these distributions.

The investment manager earned a significant amount from these borrower interest margins. Over a two-year period from 30 April 2023 to 30 April 2025, the fund paid approximately \$15.6 million in distributions to members of the fund (approximately 53% of the \$29.3 million in net income generated over the period), while the principals of the investment manager received \$12.5 million in distributions from interest margins above the target distribution paid to investors (approximately 43% of the fund's net income over the period).

4. Governance and conflict management



When done well

REs and trustees act as stewards of investor capital, ensuring that their decisions are fair and in investors' best interests.

Structures, processes and people promote sound decision making, compliance and accountability.

Conflicts of interest (COIs) are identified, disclosed and effectively managed or avoided.



Considerations for private credit funds

REs and trustee boards actively oversee fund operations – including valuations, COIs, liquidity and treatment of impaired assets – to ensure fair and proper conduct.

There is adequate staffing (including appropriate expertise and experience in areas including credit, risk, valuation, liquidity and COI management), with regular reviews as funds grow and become more complex.

REs and trustees undertake appropriate monitoring and supervision, including of corporate authorised representatives.

RE and trustee boards are independent of the business. Avoid overly complex structures that heighten the risks of conflicts and unfair treatment of investors and borrowers.

Roles, decision-making and escalation processes are well-defined and documented, with clear accountability structures in place.

Avoid arrangements that unduly favour one party (e.g. fees, interest, co-investment, loan structuring), and systems are in place to ensure clear and fair allocation of assets across funds.

Related party transactions and instances of multiple exposures to the same borrower are subject to independent oversight and clearly disclosed to investors.

Fee and income structures are fair and appropriately manage any COIs.

Strong governance drives responsible decisions, supports ethical conduct and fosters a risk-aware and compliant culture. Effective fund governance arrangements also promote greater transparency and accountability, to ultimately safeguard the interests of fund members. These arrangements include systems, policies and oversight structures to ensure the fund is managed with due care and diligence. Weak governance often stems from the absence of formal policies and independent oversight of investment decision making and fund operations.

COIs are a key risk for private credit funds, including those arising from related party transactions, fund structures such as SPVs, and fee and distribution arrangements. Effective management of COIs is essential to promote trust and fair treatment of investors, borrowers and other parties. This includes clear and effective disclosure of fund structures as well as borrower and investor fees earned by managers and their related parties, to prevent conflicts that may give rise to unfair treatment of investors.

Our review observed five retail funds that issued loans to related parties of the RE or investment manager.³¹ While related party transactions are not inherently problematic, they can be a source of potential misconduct and can have adverse outcomes for market efficiency and investor fairness. Although the Chapter 5C obligations – referred to in Table C on page 11 – do not apply to wholesale funds, transactions with related entities of the trustee or investment manager give rise to conflicts that need to be managed. Our review identified potential COIs arising between different types of related entities and the interests of the fund's investors. These included

³¹ The related party loans were issued during the period designated for observation in our review. While other retail funds may also engage in related party lending, they did not do so during the review period.

instances where members of the investment manager's committee, which was responsible for making fund allocation decisions, held an ownership interest in:

- › a development services company that provided services to borrowers of loan assets held by the fund, so these committee members earned income from the development services provided to borrowers in addition to income earned from asset-based management fees generated by the fund
- › a company that originated loans held by the securitisation warehouse that the fund allocates money to, so these committee members earned income from the loan origination company in addition to income earned from asset-based management fees generated by the fund, and
- › SPVs that enter into agreements with borrowers and to which the fund allocates money, so these committee members earned income from the net interest margins earned from the loan held by the special purpose company, in addition to income from the asset-based management fees generated by the fund.

4.1 Stewardship: oversight mechanisms

Having an RE or trustee board that is independent of the investment manager's investment committee in a fund helps ensure that any COIs that arise between the investment managers and the fund's investors are adequately managed, and that the fund continues to serve the best interests of investors. For example, members of the investment committee may have commercial interests that conflict with the interests of fund members – such as generating fee revenue from investment decisions, or holding equity interests in projects that are being funded by loans managed by the fund.

The funds we reviewed had various oversight arrangements in place. These included funds where:

- › the RE/trustee and investment manager were part of the same group, with different approaches to appointing independent directors on the board of the manager and the related RE/trustee
- › there was an independent RE/trustee, or
- › the trustee was an appointed authorised representative of a third-party licensee.

Regardless of the size and structure of these private credit funds, we also observed examples of inadequate oversight arrangements, including a lack of independence between the functions and composition of key forums, including the investment committee, valuation committee and trustee board.

Although inadequate oversight arrangements are not unique to private credit funds, the associated risks appear to be amplified in this industry, considering that our other observations included a general lack of transparency and potential for COIs.

Better practices

- › **Active communication with fund trustees:** For a few retail and wholesale funds, there was regular and active contact between the investment manager and the RE/trustee, including where the RE/trustee received periodic reports on the portfolio holdings. For example, an investment manager of one wholesale fund prepared regular reporting to the board of the external trustee, supporting independent oversight. This included reporting updates for each fund, with a focus on performance, financial position, liquidity and the investment portfolio. The investment manager also provided memoranda to the board of the trustee, containing updates of any changes to loan facilities.
- › **RE committee oversight of performance and liquidity:** For one retail fund, the RE established its own internal committee to oversee the processes in place for monitoring investment performance and liquidity, in addition to the compliance and investment committees established by the investment manager.

Poorer practices

- › **Minimal RE oversight:** REs for several retail funds had minimal oversight of fund transactions and actions taken by the investment manager. In some cases, the RE relied heavily on the investment manager to self-report any issues, including investment performance.

- › **Limited RE engagement with underlying funds:** The RE for four retail feeder funds appeared to have limited engagement with the underlying transactions of the underlying fund, including related party transactions.
- › **Weak oversight by a related trustee:** Oversight was weak among most of the wholesale funds that appointed a trustee within the same corporate group as the investment manager. For two wholesale funds, the trustee did not receive reporting from the investment manager about the management or performance of the fund, and did not have active oversight arrangements in place. For another wholesale fund, the majority of the trustee's board comprised members of the investment manager's investment committee. Two wholesale funds did not have policies governing the internal management or responsibilities of the trustee and/or investment manager, including in relation to liquidity, valuations, investment allocations and credit risk management.

4.2 Managing conflicts of interest

The opaque nature of private credit and the complexity of certain indirect investment structures may give rise to more serious COIs. Difficulties can arise when investment managers manage funds that hold an equity interest in one fund and a debt interest in another, or have different funds with different ranking security interests (e.g. junior or senior ranking security). Managing these assets can also give rise to a COI between fund members, particularly in times of stress. For example, debt owners may want to protect their position as the lender by enforcing covenants, while equity owners may want to preserve asset values by being more lenient.

Fees based on net asset value (NAV) or gross asset value (GAV) can create a COI. A manager may be incentivised to invest in higher-risk and/or shorter-term loans, or to delay the impairment of a loan asset, so the manager receives a higher monthly management fee.

Better practices

- › **Clearly documented COI arrangements:** One retail fund maintained comprehensive COI policies and controls. For each proposed transaction involving a COI, the fund required written confirmation from the investment manager that the transaction was in the best interests of investors, along with documented reasoning to support this assessment.
- › **Independent committees:** To manage the conflicts arising from NAV-based fees, one wholesale fund established a committee separate from the investment committee, with independent oversight and decision-making capacity regarding loan impairments that would impact the value of a loan asset held by the fund.
- › **Related party transactions and COI approvals:** For one retail fund, its COI policy stated that a governance committee may need to give unanimous approval to proceed with any transaction that triggered related party or COI concerns. For another retail fund, related party transactions were executed through a third party or internal compliance function, and there was independent assurance that the transaction would be conducted by external parties, at arm's length and fair value.
- › **Disclosure of related party transactions:** Two retail funds set an expectation that all arrangements involving related party COIs would be disclosed to investors, unless otherwise justified. These funds provided investors with sufficient information to help them understand and assess the risks, seek legal advice and make inquiries where appropriate. Another retail fund disclosed all related party transactions to investors in periodic public reports, in accordance with [RG 45](#) principles.

CASE STUDY 4.1: INVESTMENTS IN DEBT AND EQUITY OF AN ASSET (BETTER PRACTICE)

One fund had in place the following controls for managing COIs that could arise when investing in debt and equity of an asset that was held by different funds or accounts. To appropriately address COIs:

- › the COI was fully disclosed to prospective and existing investors
- › a separate SPV was established to hold the equity interest
- › protocols were implemented to separate the investment committees of the fund holding the debt interest and the fund holding the equity interest, and
- › a limited partnership agreement was implemented to govern the arrangements for the equity transaction, so that in the event of misaligned interests, the investment manager would not hold a decision-making role.

Poorer practices

- › **Retention and non-disclosure of revenue from loans under management:** Many fund managers retained additional income rather than passing it on to investors, and did not disclose this to investors. (See section 3.1 and 3.2.)
- › **NAV- and GAV-based management fees:** One wholesale fund did not maintain a policy or register for identifying and managing COIs in respect of NAV- or GAV-based fee arrangements.
- › **Non-disclosure of related party transactions:** Many funds did not fully inform investors of related party transactions or arrangements, including instances where the fund invested in loans made to a related party of the investment manager or RE/trustee. Of the funds that did inform investors, one wholesale fund did not provide sufficient detail about the value of the transaction or justification of the loan purpose.
- › **Conflicted allocation decisions:** For one wholesale fund, decisions to allocate investments into securitised warehouse facilities were made by members of the investment committee who held ownership interests in the originator of the loans in the warehouse. For a period of eight years through to 2025, this fund did not have an allocation policy to govern the fair allocation of loan opportunities and did not have adequate arrangements to manage the conflicts that could arise when members of the investment committee have financial interests in the outcome of the allocation decisions.
- › **Debt and equity investments overseen by the same investment committee:** For three retail funds, the decision to invest in the equity and debt of an asset were made by the same investment committee.
- › **Poor COI record-keeping:** Two retail funds and two wholesale funds failed to follow governance procedures to manage COI and related party transactions. This included failing to maintain adequate documentation to demonstrate how conflicts were identified, assessed and managed, such as a register of related party transactions the fund entered into.

CASE STUDY 4.2: ARM'S-LENGTH ARRANGEMENTS (POORER PRACTICE)

A wholesale fund did not implement specific conflict controls and procedures to manage certain transactions with related party entities at arm's length.

The fund had some structures that gave rise to inherent COIs. For instance:

- › the investment manager and trustee were part of the same corporate group
- › the investment committee's members included executives and employees of the group, and
- › the fund invested in SPVs that made loans to borrowers for real estate investments. The borrowers then used some of these loans to engage a development manager that was owned by the founders of the corporate group, allowing the corporate group to earn additional revenue.

In some instances, we did not observe adequate arm's-length practices in place. For example:

- › potential and actual COIs were not clearly and adequately documented in day-to-day practices such as investment committee meetings, trustee decisions and investment decisions, or in conflicts registers or related party registers to record how conflicts were managed, and

- › although conflicted decision makers could recuse themselves from meetings, this had not been recorded in the minutes. Further, if conflicted decision makers did recuse themselves, the remaining decision makers of the trustee board were direct reports of a conflicted decision maker (i.e. they were not independent).

CASE STUDY 4.3: ARM'S-LENGTH ARRANGEMENTS (BETTER PRACTICE)

We observed that one fund:

- › prepared specific documentation in relation to proposed related party transactions to identify each conflict and the proposed controls
- › implemented information barriers to separate relevant parties
- › engaged independent legal and commercial advisers to represent each of the relevant parties involved in the transactions, and to obtain assurance that COIs were managed appropriately
- › ensured frequent engagement between the trustee and investment manager to discuss the proposed transactions and conflict management procedures, and
- › sought approval from the members of that underlying fund for the transactions to proceed, despite there being no need for member approval within the fund's trust deed.

However, there was limited disclosure to investors at a master fund level in relation to these transactions. Although the fund appeared to manage COIs well in relation to the underlying fund, funds should also proactively disclose sufficient information to investors.

REP 814 Related party transactions



REP 814 notes that good practice means:

- › there are no related party transactions, or
- › where these do occur, an independent third party reviews and signs off on pricing and terms.

4.3 Governance: operational policies

Sound and sufficiently detailed policies relevant to fund operations are an important component of governance arrangements supporting the fair operation of private credit funds. Investment managers often oversee several private credit funds offered by a group, with the same RE/trustees in place.

Allocations of investment opportunities can give rise to a COI, such as when there are different fees payable to the manager for an asset that aligns with the investment strategy across different funds under management, separately managed accounts and co-investment vehicles. Clear policies and governance arrangements should set out the parameters and rules for the allocation of opportunities to each fund, as a mechanism to control this conflict.

Other important policies and procedures include those relating to valuations, liquidity, credit management and conflict management.

CASE STUDY 4.4: ALLOCATIONS (BETTER PRACTICE)

A wholesale fund's allocation policy employed a tiered allocation system beginning with 'Qualifying Mandates', which included institutional mandates and specific funds. The portfolio management team assigned pro-forma allocations based on the mandate type (e.g. private credit or private equity).

Unallocated investments were then offered to 'Non-Qualifying Mandates', followed by 'Co-Investments' and finally to 'Employees'.

After pro-forma allocation, each investment was evaluated against portfolio guidelines, liquidity, availability of unallocated application money, return profile and impact on performance metrics. The application of this policy and criteria was overseen by the investment committee when it made decisions on how to allocate investment opportunities.

Poorer practices

- › **Underdeveloped operational policies:** Only seven retail funds maintained detailed policies in relation to default management practices.
- › **Inadequate allocation policies:** Half of the wholesale funds had inadequate policies governing the fair allocation of investment opportunities across multiple funds managed by an investment manager. Three had no policy, and one had a policy that was very abstract and did not describe a process for allocating opportunities for investments made through its fund and other private credit funds that it manages. Each of these managers had a fund trustee in the same group and offered funds or co-investment opportunities with overlapping strategies.
- › **Conflicted allocation decisions:** For two wholesale funds, decisions to allocate investments into securitised warehouse facilities were made by members of the investment committee who held ownership interests in the originator of the loans in the warehouse. Additionally, these funds either did not have allocation policies in place, or failed to identify and have adequate arrangements for managing COIs that could arise when members of the investment committee have financial interests in the outcome of the allocation decisions.

5. Valuation practices



When done well

Valuations are fair, timely and transparent, with robust governance.



Considerations for private credit funds

Funds have clear and consistent methodologies, policies and processes that produce fair valuations.

The frequency of valuations supports fair entry and exit prices for investors.

The fund clearly and effectively discloses its valuation policy to investors.

Fund valuation practices apply appropriate independence mechanisms and are subject to periodic external audit.

Valuations determine transaction, entry and exit prices, and can influence management and performance fees. Investors rely on fair valuations to assess performance and make informed investment decisions. Poor valuation practices can have significant implications for investors and overall market integrity.

In our surveillance we observed that private assets were subject to heightened valuation risks, due to infrequent trading and price discovery. Many of the private credit funds we reviewed were open-ended funds, with regular monthly or quarterly redemption periods. For open-ended funds in times of stress, failure to adjust valuations in a timely manner could allow some fund members to exit at a higher price, at the expense of the remaining investors.

Valuation methodologies applicable to private assets can rest on accounting concepts – such as fair value – that involve subjective judgement. Our surveillance assessed private credit funds' valuation arrangements and practices, including governance and independence, but did not assess or validate the valuations given to specific fund assets or the methodologies they used. Funds should have robust governance processes in place to ensure timely and accurate valuations and support fair pricing. Valuation policies and procedures should be well documented, covering key elements such as methodology, frequency, governance processes and revaluation triggers. Poor valuation practices – especially in relation to methodology, accuracy, timeliness and governance processes – can have significant implications for investors and the financial system.

5.1 Valuation governance and independence

Valuations should be unbiased. This is essential to support fair entry and exit prices for fund members, and the accuracy of management and performance fees payable by reference to fund assets (see Regulatory Guide 94 *Unit pricing: Guide to good practice* ([RG 94](#))).

Conflicts of interest can arise in the valuations of fund assets, for example, when:

- › an investment manager derives management fees based on the fund's net asset value (NAV) or gross asset value (GAV)
- › representatives responsible for selecting and monitoring asset performance have remuneration incentives linked to asset valuations, and
- › one committee (e.g. an investment committee) is responsible for approving investment in loan assets, deciding the credit risk rating of loans under management and determining the valuation (and impairments) of loan assets it approved.

In our surveillance, we observed that many funds did not separate the investment committee approving the loan from the committee charged with overseeing the loan's value after its allocation into a fund or the independent third-party valuation of loans.

Independence is internationally recognised as a core component of robust valuation; see, for example, the 2025 report [Private market valuation practices](#). In this report, the UK Financial Conduct Authority observed that firms with committees dedicated to making valuation decisions tended to demonstrate greater independence and oversight of the valuation process.

CASE STUDY 5.1: VALUATION AND IMPAIRMENT ARRANGEMENTS

Fund operators and investment managers should maintain robust arrangements to ensure timely valuations, remain alert to signs of financial stress and act promptly to revalue loans at risk of impairment.

In 2024-25, an Australian business was reportedly in financial stress. Certain investment managers in our review were members of a lending syndicate that held tranches of the business' commercial loans.

For each of these funds holding the business' debt, the fund operator was ultimately responsible for the periodic valuation of all assets of the fund. Our surveillance identified that the arrangements for valuing the funds' assets differed in key respects.

Fund 1

- › The fund operator appointed an independent third-party valuation firm (Valuer 1) to conduct an asset-by-asset review each month, analysing relevant information for each asset, financial results, movements in key credit metrics and other risk factors.
- › The fund operator of the fund received an opinion from Valuer 1 assigning a recovery value to the business' debt that was less than 100c/\$ and took steps to mark down the value of this asset, in line with the opinion on the portfolio of loans held by the fund.

Fund 2

- › The Investment Committee of the investment manager was responsible for approving fund investments and was also responsible for approving each proposed internal credit rating change and impairment provision for each asset held by the fund. A separate team within the investment manager provided reporting about individual assets.
- › The fund operator appointed an independent third-party valuation firm (Valuer 2) to conduct a periodic, sample-based review of the credit portfolio, credit impairment and market pricing for the funds.
- › In its reviews, Valuer 2 relied on information provided by the investment manager, including information on impairments on select loan assets and credit rating changes applied by the investment manager. In the engagement terms, Valuer 2 was able to request additional information.
- › The investment manager, along with others in the lending syndicate, received a valuation opinion from a third-party valuation firm assigning a recovery value to the business' debt that was less than 100c/\$. Around three months later, following a publicly reported transaction relating to the business' debt, the Investment Committee of the investment manager determined to mark down the value of the debt.
- › Valuer 2 did not obtain the third-party valuation advice about the business' debt until three months after the report was issued. At this time, it reviewed the value of the debt and confirmed it agreed with the impairment applied by the investment manager.

5.2 Valuation policies, frequency and disclosures

Policies should be in place to support asset valuation for unit pricing, and unit prices should generally be struck at the same frequency that asset values are determined (see [RG 94](#)). Reporting on valuation policies and fund performance enables investors to compare products and make more informed decisions. Valuation practices should support and help ensure fair, timely and transparent valuations.

Better practices

- › **Monthly valuations and unit pricing:** An open-ended wholesale master fund had quarterly applications and half-yearly redemptions, and the wholesale feeder fund was also open-ended with monthly applications and quarterly redemptions. Valuations were obtained monthly to align with unit pricing and support fair entry and exit prices for investors.
- › **Transparent valuation policies:** Several funds made their valuation policy or key parts of it available to investors so they could better understand the fund's policies. In particular, some retail mortgage funds and hedge funds provided useful details on valuation in their PDSs and other reports, in accordance with ASIC guidance.
- › **Valuation and impairment disclosures:** Two wholesale funds disclosed, in monthly reports to investors, the markdown of impaired loans in a reporting period as a proportion of the portfolio, along with a rationale for the markdown, or the proportion of the loan book subject to enhanced monitoring or workout.

Poorer practices

- › **Absent or incomplete valuation policies:** Three wholesale funds had no valuation policies and two retail funds had incomplete valuation policies that didn't adequately cover important information in detail, including governance arrangements; valuation frequency, methodology (tailored to relevant private credit assets), inputs and limitations; when independent valuers were involved; and relevant triggers for fresh valuations. One other wholesale fund that invested in securitised assets did not have policies covering that asset class, only policies covering other forms of credit.
- › **'As if complete' construction loan valuations and loan-to-valuation ratio (LVR):** Funds that invested in real estate construction loans adopted differing approaches to valuing the collateral. Five wholesale funds valued the collateral for a number of loans on an 'as if complete' basis rather than 'as is'. For example, the loan portfolio in a private credit fund may have included a mix of real estate financing loan types (land, pre-construction and construction loans) in which the manager accepted a mix of 'as is complete' and 'as if complete' valuations. As a result, the LVR may not have provided sufficient information to investors about the basis of valuation across the loan portfolio.
- › **Opaque valuation practices:** Many funds provided limited information on valuation procedures and methodologies that would help investors assess whether the fund had reliable controls to mitigate the risk of inaccurate valuations. One wholesale fund did not disclose monthly fund values to investors.
- › **Processes not addressing provisioning and impairments:** One fund relied on credit risk management processes to govern circumstances that could impact the value of a loan asset. However, this credit risk management process did not have a clear connection to the impact on valuation outcomes, such as provisioning and impairments that may affect unit price outcomes.
- › **Infrequent valuations:** One retail fund only conducted valuations on the collateral (real estate) very infrequently: once every 42 months in ordinary circumstances.
- › **Valuation review only in response to credit triggers:** Two funds only conducted valuations of fund assets in response to credit risk triggers such as default, non-performance, covenant breach or another significant economic event. Some of the fund operators justified this on the basis that loan assets were otherwise carried at cost/at par plus accrued interest.
- › **Misaligned valuation frequency for master and feeder funds:** In a feeder fund, the integrity of the valuation of the master fund may have been compromised by the valuation processes of the underlying funds, as there appeared to be a timing mismatch between the frequency of the valuations of the underlying funds and those of the master fund.



[REP 814](#) sets out various good valuation governance practices and identifies certain poorer practices. In real estate lending, for example, it observes that:

- › quoting LVR on completion value rather than cost can understate risk throughout the construction period
- › outdated valuations can distort metrics
- › valuations can be inflated when conducted on a gross rent rather than a net effective rent basis, and
- › it can be unclear who the valuation was prepared for – the borrower, the lender or the security holder.

The report sets out good practice as involving:

- › quarterly independent valuations, or at least valuations reviewed by an independent third party, and
- › valuations made for the benefit of the lender or security holder.

In relation to impairments, the report notes that recognition of impairments is inconsistent across the sector, with some managers feeling reluctant to impair loans based on market information.

6. Liquidity management practices



When done well

Liquidity risk is effectively disclosed and managed, avoiding structural mismatches, with fair redemption terms aligned with portfolio liquidity.



Considerations for private credit funds

Redemption terms, liquidity gates and stress-testing practices are effectively disclosed to investors.

There is a sustainable source of funds for distributions to investors, stemming predominantly from cashflows generated by underlying assets. Avoid paying distributions from investor capital or that of new investors.

Good liquidity risk management and disclosure help align fund operations and strategy with investor expectations of investment horizons and redemptions. These practices help avoid a liquidity mismatch, minimise disruption during times of stress, support fair treatment of exiting and remaining investors, and promote confidence in the fund and the broader financial system (see [REP 814](#)).

Noting that the private credit sector in Australia has not witnessed a prolonged downward credit environment, [REP 814](#) states it is not clear whether there is a match between the liquidity arrangements of private credit fund operators and investor expectations of these arrangements. Sound liquidity risk management systems, including stress-testing arrangements, should ensure the financial obligations and needs of the funds are being met, including in relation to investor redemptions, payment of distributions, changes in operational needs and unexpected expenses.³²

6.1 Liquidity management

Private credit funds typically invest in illiquid assets. This creates challenges that fund operators need to carefully manage using appropriate liquidity management tools, particularly in the event of significant fund outflows or market turbulence. These challenges are often exacerbated in open-ended funds.

- › **Open-ended:** In our review, most wholesale private credit funds and some retail private credit funds were open-ended.³³ These open-ended funds also offered monthly or quarterly redemption windows. Several retail private credit funds used a two-tier investment process, which allowed the fund to be simultaneously liquid/open-ended and illiquid/closed-ended. Monies were held in a liquid cash account (referred to as 'unallocated application money') until an investment opportunity arose and for cash management/operational purposes. The open-ended nature of these private credit funds, coupled with frequent redemption windows, requires fund operators to maintain sound liquidity risk management systems, including stress testing arrangements, given that liquidity may be challenged in times of a market downturn and volatility (as highlighted in [REP 814](#)).
- › **Liquidity management tools:** We observed that fund operators and investment managers use various liquidity management tools, including:
 - RE or trustee discretion to refuse, pro rate or freeze redemptions
 - lines of credit to draw upon when liquid assets are insufficient to meet redemption requests
 - cash buffers (e.g. maintaining 5% of assets in cash for meeting redemptions)

³² See further Regulatory Guide 259 Risk management systems of fund operators ([RG 259](#)).

³³ An open-ended fund means that the number of units on issue in a fund may increase (through applications) or decrease (through redemptions) depending on investor demand.

- for wholesale funds, initial lock-up periods or side letters for significant investors to match specific loan durations, and
 - redemption caps (e.g. up to 5% of assets under management) for a given period.
- › **Stress testing:** For retail private credit funds with members who could withdraw positively, all appeared to conduct liquidity stress tests, although the scenarios tested varied and the frequency of liquidity stress tests ranged from weekly to annually.
- › **Disclosures:** All retail private credit funds appropriately described their funds as not providing daily liquidity in their PDS and marketing materials. Illiquidity was noted in TMDs, in relation to investors' need to access capital.

To fund regular distributions to investors, managers should also ensure that the source of funds is sustainable and stems predominantly from cash flows generated by underlying assets, rather than from investor capital or contributions from new investors. This is of particular importance when funds engage in construction and development financing, due to the lack of cash flow generated. As outlined in section 1.1, the proportion of distributions paid from cash income from investments and from other sources is important information that private credit issuers should consider disclosing as part of good periodic fund reporting.

Better practices

- › **Liquidity plans and frequent stress testing:** Many funds implemented responsible and appropriate liquidity management plans, including frequent stress testing and contingency planning. For example, one fund carried out weekly stress tests for all its loan investments.
- › **Clear explanation of potential liquidity risk impact:** Some funds clearly disclosed liquidity challenges and how these could affect the fund's value and redemptions. One fund comprehensively explained the risks of illiquidity associated with private credit and open-ended versus closed-ended funds, along with the implications for investors.

Poorer practices

- › **Absent stress testing:** Of the wholesale funds, only two performed stress testing. A rationale for not performing stress testing was the short-term duration of the loans under management. Across retail and wholesale funds, more frequent redemption periods did not result in more frequent stress testing. Promoting regular redemption windows for investors to access invested capital at intervals inconsistent with the average loan term gave rise to a greater risk of liquidity mismatch and risks that needed to be managed.
- › **No liquidity policy:** One wholesale fund did not have a liquidity policy in place and did not describe liquidity risk (or the implications for redemptions) in detail in its offer document, nor did it articulate its liquidity policies for managing such risks.
- › **Side letters with unequal redemption rights and distribution rates:** One wholesale fund used side letters with redemption terms and distribution rates negotiated with some investors to ensure it had sufficient liquidity to take on new loan opportunities. It explained this approach as necessary for finding capital to deploy for new loan opportunities as they arose. However, this gave rise to potential unfairness, since some investors obtained better distribution rates or redemption terms than others who invested under the terms of the information memorandum.

7. Credit risk management practices



When done well

Credit risk is effectively managed across loan origination, portfolio construction, monitoring, impairment, default and repayment.



Considerations for private credit funds

Fund managers apply standardised credit assessment and monitoring frameworks, and document credit decisions and risk ratings.

Fund managers regularly review borrower performance and establish escalation protocols for early signs of distress.

Fund managers adopt a consistent and well-documented approach to impairments.

Fund portfolios are regularly stress tested.

There is independent oversight of credit, impairment and default processes.

Effective credit risk management ensures disciplined lending, protects investor capital, supports long-term portfolio performance, and enables effective impairment and default management. It also supports accurate valuation, stable returns and overall fund resilience. Good credit risk management requires effective documentation that can bolster security and support recovery during periods of distress.

Good credit risk management is especially important for private credit funds because they tend to lend to borrowers with higher risk profiles and potentially limited liquidity, increasing the risk of default. Funds that hold illiquid assets with a risk of default must have robust credit risk management practices in place to ensure they select appropriate credit investments and appropriately manage impairments and defaults, to minimise any investor losses.

Where default risk exists, funds should consider when they will recognise impairments and communicate this to investors. For example, a loan trading at a significant discount indicates impairment that should be recognised, even if full repayment is expected. Clear policies on impairment recognition are essential to ensure unit pricing accurately reflects known potential losses.

Our surveillance found varied arrangements for originating loans.³⁴ Depending on the fund structure, the originator may be independent of the RE/trustee or the investment manager, even if the RE/trustee is ultimately responsible for ensuring adequate due diligence around the fund's investments.³⁵

All funds in our review purported to undertake appropriate loan selection and vetting processes, irrespective of the origination structure. However, we identified a range of practices in relation to borrower due diligence, loan selection and loan oversight. Some funds adopted more sophisticated practices than others, including creating pre-investment guidelines (e.g. loan-to-valuation ratio (LVR) and concentration limits); preparing extensive investment papers to assess commercial feasibility; and adopting more robust impairment/default management and portfolio monitoring processes.

³⁴ Loan origination is the process through which financial institutions (in the case of private credit, non-bank lenders) create, evaluate and approve loan applications from borrowers.

³⁵ For retail funds, see s601FB(4) of the *Corporations Act 2001* (Cth) regarding responsibility for agents. For wholesale funds, see 'Australian financial services licensing obligations' (s912A of the *Corporations Act*), where the trustee is typically authorised to deal in units in unregistered schemes that are financial products.

7.1 Borrower due diligence and credit assessments

We observed differing levels of rigour in assessing borrower credit risk. Generally, due diligence processes for loan selections involved assessing borrowers and their creditworthiness.

- › **Assessing borrowers:** For funds engaged in direct lending, borrower due diligence and credit assessment processes varied depending on the fund's investment strategy, loan types and structure. One fund adopted a '5Cs of credit' framework in its credit policy (character, capacity, capital, collateral and conditions) to assess each loan made to borrowers. Other funds described similar approaches but demonstrated varying levels of sophistication, with some incorporating extensive qualitative and quantitative analysis.
- › **Internal credit ratings:** Several funds developed proprietary credit rating models to assess borrower creditworthiness, assigning internal ratings to reflect the likelihood of default and recovery. Most of these funds purported to have incorporated licensed credit rating agency methodologies in their internal ratings, although the application of these methodologies had not been independently tested by a third party.

Better practices

- › **Detailed credit assessments:** Nine funds had investment managers that prepared credit memos for each proposed lending arrangement, including analysis of the borrower's financials (such as assessments of the business and industry); revenue projections and sensitivity analysis; proposed covenants; and outlines of key risks relevant to the borrower. Some larger pooled schemes evaluated each investment in a credit arrangement individually and against the portfolio, as part of their credit risk governance arrangements. This involved well-resourced teams responsible for assessing and monitoring the credit risk of investments at the asset, portfolio and operational level, with weekly portfolio risk reporting through to the investment committee.
- › **Enhanced due diligence for development loans:** For property development loans, lender due diligence included builder due diligence, construction risk analysis and credit risk analysis. The investment committee, which included the chief risk officer, gave final approval for each loan.
- › **Ongoing credit monitoring:** For some retail funds, due diligence and monitoring of borrower risk continued throughout the life of a loan. For example, borrowers were required to provide documentation, representations and warranties demonstrating that their position had not changed – and if it had, they needed to provide updated material. Following loan approvals, the investment committee oversaw all developments material to the loan, including weakening credit or a change in a borrower's position. Some managers of real estate finance funds conducted regular site visits and obtained third-party quantity surveyor reports throughout the life cycle of the loan to ensure projects were being managed within the borrower's cost and time commitments.

Poorer practices

- › **Limited credit assessments:** Two funds conducted limited borrower due diligence. One wholesale fund did not request, obtain or analyse the assets and liabilities of borrowers as a usual practice. Another retail fund elected not to use financial ratios (e.g. debt-to-income ratios) when assessing serviceability, using instead a 'common sense' approach to borrower assessment.
- › **No internal credit risk rating or scoring process:** One wholesale fund did not apply any internal credit risk rating or scoring to guide the ongoing monitoring of loans in its portfolio. This could compromise the fund's ability to detect a deterioration in the loan's performance for its duration through to maturity.
- › **Poor recording-keeping:** Three wholesale funds did not formally record descriptions of their credit assessment process in their credit risk and lending policies, or failed to record regular reviews of credit assessments conducted after the initial loan origination.

7.2 Security and LVR transparency

Most of the wholesale and retail private credit funds we reviewed held some form of security for most of their loan book. This security was predominately through first or second mortgages over the underlying assets, usually backed by personal guarantees from the borrower.

- › **Nature of security:** For private credit funds investing in secured loans, the type of security interest and collateral varied. Most of the wholesale private credit funds invested in loans secured by a registered mortgage over real property, typically a first-ranking mortgage.

- › **Securitised assets:** Among funds that invested in securitised assets, some opted to invest exclusively in senior tranches of debt. This provided a form of credit enhancement and helped manage the risk of capital loss. Other funds allowed investments in junior tranches, aiming to achieve higher returns. It was good practice for private credit funds to clearly disclose the specific tranches of their investments in securitisations, to enable investors to properly assess the associated risk.

Better practices

- › **Exposure and LVR limits:** One retail fund had internal policies that set out the LVR limits for each type of asset class, and also defined exposures to different subsectors, geographies, counterparties and loan purposes.
- › **LVR benchmark disclosure:** In line with [RG 45](#), all retail contributory mortgage schemes we reviewed had disclosed in their PDS or [RG 45](#) disclosure statement if their loans were above certain LVR benchmarks (an LVR of 70% for property development loans on as 'as if complete' basis, or 80% for other types).³⁶

Poorer practices

- › **Poor disclosure of unsecured lending risks:** One retail fund did not clearly disclose that a substantial proportion of the loan book was unsecured, nor did it discuss in adequate detail the associated implications for recovery on default.
- › **Nature of security unclear:** Several retail funds did not provide details about the nature of the security interest and/or the type of collateral used.

7.3 Default management and portfolio monitoring

The retail private credit funds in our surveillance reported relatively low levels of default, generally ranging from 0% to around 4% of the loan book.³⁷ Wholesale funds reported marginally higher levels of loans in default, generally ranging from 0% to around 6%, although one fund reported that the majority of its loans were in default.

Importantly, the private credit funds we reviewed did not have a uniform definition of 'default', with some funds adopting a broad and subjective definition and others a more objective approach (see Table 7.1 and discussion below). While there may be sound reasons for different definitions, this inconsistency makes it difficult for investors to meaningfully compare loan default or arrears levels across funds, and to assess the associated performance and risk exposure.

This can also give rise to the risk of funds downplaying loan default levels and describing their loan book as having minimal historical 'defaults'. [REP 814](#) provides insights on expected default rates for sub-investment-grade credit, which much of the private credit funds are invested in,³⁸. It concludes that transparent fund reporting practices should involve disclosing loans in default and arrears across the portfolio of loans.

³⁶ This guidance does not apply to wholesale funds.

³⁷ One fund reported that 20% of the loans it had written were in default, but its definition of 'default' was very wide and included minor breaches of covenants.

³⁸ REP 814 suggests that sub-investment grade credit should attract yields of Bank Bill + 2.5-5.0% with expected 1-year probability of default rates in the range of 0.5% to 15%.

Table 7.1: Examples of how some different funds define 'default'

Fund	Definition of 'default'
Ares Diversified Credit Fund	When principal or interest payments are overdue by 30 days or more, or where there is reasonable doubt that the principal or interest will be collected in full
Ark Wholesale Mortgage Fund	A 'material event of default' is a default that has or is likely to have a material impact on a loan (and therefore investment) performance. The most obvious material event of default is a default in payment, but can include other breaches where the trustee considers that full loan repayment could be impacted. This material event of default is to be contrasted with a 'technical default', which is capable of cure and is unlikely to impact repayment
Corval Avenue Select Credit Fund	If overdue payments or arrears are not remediated within 30 days of the initial missed payment, or if there is a breach of any documented loan condition
La Trobe Australia Credit Fund	30 days in arrears and/or breach of covenant
MaxCap Investment Trust	'Financial default' is a failure to meet a monetary obligation (as defined in relevant transaction documents)
Metrics Master Income Trust and Metrics Income Opportunities Trust	Where a formal default process has been initiated and an enforcement action commenced to enforce the underlying security, as opposed to minor or technical breaches of a facility agreement
Remara Credit Opportunities Fund	Once a contractual requirement is breached and not remedied within the contracted timeframe.

Funds described a wide range of practices for monitoring and managing impairment and default,³⁹ depending on the structure and type of loan, the nature of the fund and the associated security. In general, all funds tracked upcoming loan maturities and defaults within portfolios. As distinct from loan default, loan impairment recognises a reduction in the expected recoverable value of a loan asset, even if the borrower has not defaulted. Funds often adopted watchlists for at-risk loans or borrowers, held regular dialogue with borrowers and stakeholders, and monitored financial and other information provided by borrowers under covenants. Pooled schemes had implemented more sophisticated processes to monitor their portfolios.⁴⁰

Better practices

- › **Proactive portfolio monitoring:** One wholesale fund established default management protocols prior to investment, identifying and monitoring key risk indicators on a monthly basis. The fund used these metrics to proactively detect early signs of stress and enable timely intervention with the borrower.
- › **Internal ratings review:** Most wholesale funds and some retail funds assigned internally determined credit ratings to borrowers from loan origination, and monitored these periodically for deterioration. The funds

³⁹ Default management is a formalised management of a loan in duress, with a triage list maintained for all loans in default. There are daily discussions on the progress of loans in default, and a formal fortnightly meeting is convened for the default triage list.

⁴⁰ As opposed to (for example) contributory mortgage schemes where there is less incentive to track and monitor the portfolio as a whole due to its structure and nature. Instead, these schemes may monitor loans on an individual basis.

upgraded or downgraded these ratings depending on the actual and projected financial performance of the borrower.

- › **Daily default management meetings:** One wholesale fund held a daily discussion on the progress of loans in default, with a formal fortnightly meeting for loans on the default list. The Head of Credit was a member of the loan valuation committee, which decided if an impairment loan needed to be recognised when valuing the fund's assets.
- › **Reporting to investors:** Several funds periodically provided investors with default and loss statistics, including investments on internal credit watchlists.

Poorer practices

- › **Default reporting not comparable:** Many funds did not periodically report default and loss statistics to investors. In our review, only one fund clearly defined 'default' for the purposes of its reporting and explained its default monitoring purposes within its periodic reports to investors. In the absence of a clear definition of 'default' or the use of a market-wide definition of the term, default statistics may not be meaningful to investors.
- › **No default management policy:** Many funds in our review did not have a formal policy documenting their default management processes, so it was unclear when a loan may be placed into default or restructure, and what a trigger for potential provisioning or impairment was. This means there was an absence of clear guidelines for the investment manager's personnel to apply when a loan was at or nearing default.
- › **Potentially misleading 'protection' mechanisms:** Some retail funds adopted certain 'protection' mechanisms to support investors in the event of default. These included substituting investors out of a defaulting loan using related party funds at the discretion of the RE/trustee, and the fund maintaining loss or investor reserves to help top up investments where there may be distributions below the target rate or where the investor redemption amount is below the initial investment. While this may benefit current investors, it may mislead prospective investors about the true default rates, performance and risk of the funds. It was also unclear if these actions were sustainable or how often they would be used.

Appendix 1: List of private credit funds reviewed in our surveillance

Retail funds⁴¹

#	Fund name	Responsible entity name
1	Metrics Direct Income Fund (ARSN: 641 620 331)	Equity Trustees Limited
2	Woodbridge Secured Income Fund (ARSN: 675 031 268)	Equity Trustees Limited
3	Balmain Discreet Mortgage Income Trusts (ARSN: 155 909 176)	Balmain Fund Administration Limited
4	Challenger IM Multi-Sector Private Lending Fund (ARSN: 620 882 019)	Fidante Partners Limited
5	Ares Diversified Credit Fund (ARSN 644 797 599)	Fidante Partners Limited
6	MA Priority Income Fund (ARSN: 648 809 849)	MAAM RE Ltd
7	La Trobe Australia Credit Fund (ARSN: 088 178 321)	La Trobe Financial Asset Management Limited
8	La Trobe US Private Credit Trust - Class B Retail Units (ARSN: 677 174 382)	La Trobe Financial Asset Management Limited
9	Alceon Debt Income Fund (ARSN: 650 960 820)	Melbourne Securities Corporation Limited
10	RAM Private Credit Income Fund (ARSN: 672 829 499)	Melbourne Securities Corporation Limited
11	TermPlus (ARSN: 668 902 323)	Pengana Capital Ltd
12	Pengana Global Private Credit Trust (ARSN: 673 024 489)	Pengana Investment Management Limited
13	Metrics Master Income Trust (ARSN: 620 465 090)	The Trust Company (RE Services) Limited
14	Metrics Income Opportunities Trust (ARSN: 631 320 628)	The Trust Company (RE Services) Limited
15	Hamilton Lane Senior Credit Opportunities Fund (ARSN: 661 336 385)	The Trust Company (RE Services) Limited
16	RELI Capital Mortgage Fund (ARSN: 091 849 482)	RELI Capital Ltd
17	Corval Avenue Select Credit Fund (ARSN: 090 994 326)	Corval Avenue Limited
18	Truepillars Investment Trust (ARSN: 611 843 317)	T.P.R.E. Ltd

⁴¹ Note: These 20 funds are registered managed investment schemes, which means that they are available to retail investors. However, a few purport to be made directly available to wholesale clients only, including Ares Diversified Credit Fund, Challenger IM Multi-Sector Private Lending Fund, Hamilton Lane Senior Credit Opportunities Fund and KKR Global Private Credit Fund. It may be possible that retail investors could still access these fund indirectly, such as via platforms. For the purposes of this report, we refer to all registered funds as 'retail funds'.

19	Aura Core Income Fund (ARSN: 658 462 652)	One Managed Investment Funds Limited
20	KKR Global Private Credit Fund (KIT AUD) (ARSN: 677 217 668)	Channel Investment Management Limited

Wholesale funds

#	Fund name	Trustee and investment manager (IM) name
1	Ark Wholesale Mortgage Fund	Trustee: Ark Capital Funds Limited IM: Ark Capital Funds Management Pty Ltd
2	CVS Lane First Mortgage Fund	Trustee: CVS Lane Capital Partners Pty Ltd IM: CVS Lane Investment Manager Pty Ltd
3	Gemi First Mortgage Fund	Trustee: Gemi Asset Management Pty Ltd IM: Gemi Investments Pty Ltd
4	MaxCap Investment Trust (MIT) (First Mortgage fund and High Yield fund)	Trustee: MaxCap Master Fund Nominee Pty Ltd IM: MaxCap Investment Management Pty Ltd
5	Pallas Capital High Yield Fund 2	Trustee: Pallas Funds Pty Ltd IM: Pallas Capital Pty Ltd
6	Qualitas Private Income Credit Fund	Trustee: Qualitas Securities Pty Ltd IM: Qualitas Funds Management Pty Ltd
7	Remara Credit Opportunities Fund	Trustee: AMAL Trustees Pty Limited IM: Remara Investment Management Pty Ltd
8	Revolution Wholesale Private Debt Fund II	Trustee: Channel Investment Management Limited IM: Revolution Asset Management Pty Ltd

Appendix 2: Key terms and related information

Key terms

AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries on a financial services business to provide financial services
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i> (Cth)
'As if complete' valuation	An estimate of the market value of a property, assuming certain specified improvements are made
'As is' valuation	An estimate of the market value of a property in its current state (i.e. without any further improvements)
AUM	Assets under management
Borrower fees	Fees paid by borrowers in relation to a loan under management of a fund, including origination fees, loan establishment fees, early repayment fees and default fees; does not include the ordinary interest charged to borrowers as part of the loan arrangement
COI	Conflict of interest
Corporations Act	<i>Corporations Act 2001</i> (Cth), including regulations made for the purposes of that Act
DDO	Design and distribution obligations, referring to the product design and distribution obligations in Part 7.8A of the Corporations Act
Feeder fund	A managed investment scheme that invests all or most of its assets in other schemes
Fund	Has the same meaning as 'managed investment scheme' in s9 of the Corporations Act
Fund manager	The fund operator, investment manager, and/or related party of either, as applicable.
Fund operator	The entity responsible for operating a fund, being either: › the responsible entity for a retail fund, or › the trustee of a wholesale fund
Investment manager	A person or entity which is responsible for buying and selling assets of the fund, subject to an investment management agreement with the fund operator
Loan origination	The process of creating and initiating a loan to a borrower, including assessing and approving a borrower's application for credit
LVR	Loan-to-valuation ratio
Managed investment scheme	Has the meaning given in s9 of the Corporations Act
Net interest margin	The difference between the rate of interest charged to borrowers and the rate of interest paid to investors as a distribution; excludes 'borrower fees' (i.e. the additional income a fund manager may receive from borrowers)
Payment in kind	When a private credit fund provides a loan, and the borrower can choose to add interest payments to the loan principal instead of paying in cash, increasing the loan balance over time
Private credit	Non-bank lending where the debt is not publicly traded or widely issued publicly
Private credit fund	A fund (i.e. managed investment scheme) that has or is likely to have a majority of its non-cash assets invested in private credit

Product disclosure statement (PDS)	A document that must be given to a retail client in relation to the offer or issue of a financial product in accordance with Div 2 of Pt 7.9 of the Corporations Act. See s9 of the Corporations Act for the exact definition
Regulatory Guide (RG)	An ASIC regulatory guide
REP 814	An ASIC report (in this example, we reference Report 814 <i>Private credit in Australia</i> (REP 814))
Responsible entity (RE)	Responsible entity of a retail fund; has the same meaning as 'responsible entity' in s9 of the Corporations Act
Retail client	A client as defined in s761G and s761GA of the Corporations Act and Div 2 of Pt 7.1 of the <i>Corporations Regulations 2001</i>
Retail fund	A fund that is registered; that is, a managed investment scheme (fund) that is registered under s601EB of the Corporations Act
SPV	Special purpose vehicle
TMD	Target market determination
Wholesale client	A client who is not a retail client
Wholesale fund	A fund that is not a retail fund (i.e. an unregistered managed investment scheme, that is not required to be registered because of s601ED(2) of the Corporations Act)

Appendix 3: Accessible versions of figures

Table D: Distribution channels used by retail and wholesale funds

Distribution channel	Fund type	Yes	No
Financial advisers	Retail	16	3
	Wholesale	7	1
Platforms	Retail	15	5
	Wholesale	2	6
Directly through the Fund's website	Retail	16	4
	Wholesale	7	1

Note 1: this is the data shown in Figure 2.1

Note 2: Some funds only rely on distribution channels to a very limited extent (e.g. below 3% of inflows based on AUM) and for the purposes of this Table and Figure 2.1 the funds were not counted as relying on that distribution channel. One retail fund was unable to track whether its clients were advised, so it was excluded from the statistic as to whether the retail fund used financial advisers for distribution.

Table E: Fund portfolio composition 2020-25

Asset Class	Sep-20	Sep-21	Sep-22	Sep-23	Sep-24	Sep-25
Senior loans (inc. cash)	60%	64%	73%	65%	64%	41%
Subordinated loans	26%	22%	16%	21%	20%	25%
Equity & equity-like	14%	14%	11%	14%	16%	34%

Note: this is the data shown in Figure 1.1 of Case Study 1.2