

The Blue Owl OBDC II Saga

What Really Happened and What It Means for Private Credit

March 2026

- The recent Blue Owl episode stemmed from a controversial merger proposal and structural misunderstandings, not from systemic credit deterioration.
- The near-par sale of \$1.4 billion in senior secured loans to institutional buyers challenges the narrative of hidden portfolio stress.
- Redemption caps are designed to preserve portfolio stability, prevent forced asset sales, and ultimately protect investors.
- Floating-rate dividend adjustments reflected mechanical repricing, not structural problems or portfolio weakness.

Recent headlines surrounding Blue Owl's OBDC II fund have triggered anxiety across the private credit ecosystem. Share prices of public business development companies ("BDCs") declined sharply, retail investors questioned liquidity structures, and media narratives quickly morphed into broader concerns about credit quality.

A closer review of the facts, however, tells a more nuanced story.

The pressure on Blue Owl does not appear to be rooted in systemic credit deterioration. Rather, it stems from a controversial fund merger proposal, misunderstandings about redemption mechanics, and the predictable repricing of floating-rate income vehicles in a declining rate environment.

Understanding this distinction is critical when evaluating Blue Owl and assessing the health of the broader private credit market.

The Root of the Controversy: A Structural Decision, Not a Credit Event

At the center of the episode was Blue Owl's attempt to merge OBDC II (a non-traded private BDC) into OBDC (its publicly traded BDC). The proposed transaction was structured as a NAV-for-NAV exchange.

Investor and media backlash followed. The issue was straightforward:

- OBDC traded at a discount to NAV.
- A NAV-for-NAV merger would have effectively crystallized a market-based loss for OBDC II shareholders.
- Media coverage conflated this structural issue with broader portfolio concerns.

Following a failed merger vote, the transaction was ultimately terminated.

In the end, the controversy appears to have been both self-inflicted and isolated to Blue Owl. This was a governance and structuring dispute, not a credit collapse.

Asset Sales at Par Disprove Credit Deterioration Narratives

Shortly after the merger was terminated, Blue Owl announced the sale of approximately \$1.4 billion of loans across several vehicles, including OBDC II.

Importantly, those loans were reportedly sold at approximately 99.7 cents on the dollar to a group of sophisticated institutional buyers.

The transaction details matter:

- 128 portfolio companies were included.
- Roughly 97% of the assets were senior secured loans.
- Software exposure represented approximately 13% of the sold portfolio.
- The sale price was effectively at par.

Having been in this industry for decades, we are confident that there was no charity involved. If there were significant credit issues, institutional investors would not be acquiring strips of these loans at near-par valuations. The pricing strongly suggests that portfolio marks were reasonable and credit quality broadly intact.

That said, we remain structurally cautious on the upper middle market, where competitive pressure has driven tighter spreads, higher leverage, and looser documentation. We are particularly vigilant regarding software and technology businesses in the face of AI-driven disruption, as discussed in our [recent article](#). But this near-par asset sale serves as tangible evidence that the episode was not triggered by hidden credit deterioration.

Redemption Headlines Miss the Bigger Picture

The Wall Street Journal (“WSJ”) article that fueled much of the retail concern focused on Blue Owl “ending quarterly redemptions” for one of its older funds. That framing is technically accurate but contextually incomplete.

OBDC II is a fund with a contractual end date and a mandate to return capital. According to industry research, the fund had met 100% of investor redemption requests through the third quarter of 2025. The failed merger was likely an attempt to address the impending wind-down mandate. Instead, the fund will return capital to investors through the orderly harvest of its portfolio and, perhaps, additional asset sales.

In the broader context, redemption and subscription flows are a routine feature of private credit vehicles. Billions of dollars move in and out of funds every quarter as investors rebalance portfolios, raise liquidity for other commitments, or adjust strategic asset allocations. The fourth quarter is regularly a busy time for fund flows.

The WSJ itself noted that, despite the headlines, the largest private credit funds still took in more money than they paid out in the fourth quarter. That is hardly the profile of a sector facing systemic capital flight.

Fund flows are cyclical. Isolated redemption pressure does not equate to a credit event.

Non-Traded and Private BDCs: Functioning as Designed

Additional confusion may stem from misunderstanding how fund liquidity works.

Private and non-traded BDCs typically include quarterly redemption caps (often 5% of net asset value) to protect the integrity of the underlying loan portfolio. These gates are safeguards, not flaws.

Private credit funds engage in liquidity transformation: they invest in multi-year loans while offering limited, periodic liquidity. Without redemption caps, funds would risk forced asset sales during volatile markets, precisely the type of “run” dynamic that gated structures are designed to prevent.

The recent events illustrate the opposite of systemic weakness. The 5% quarterly redemption limit exists to preserve portfolio stability and ensure orderly capital return. That mechanism functioned as intended. And even in the face of elevated redemptions, most funds have not approached their 5% quarterly limit.

Floating Rate Loans and Dividend Adjustments: A Feature, Not a Bug

Another source of investor anxiety has been the prospect of dividend reductions as base rates decline. But this is not a surprise, and it is not a signal of structural weakness.

Floating-rate loans are designed to reset. When reference rates such as SOFR move lower, loan coupons move lower as well. A 100 basis point decline in SOFR translates into roughly a 100 basis point decline in loan yield. Over time, lower asset yields mean lower BDC net investment income and dividends adjust accordingly.

Importantly, while base rates fluctuate, credit spreads typically remain intact. The risk premium that lenders earn over the risk-free rate does not disappear simply because rates fall. Investors are still being compensated for credit risk; the benchmark just resets.

Moreover, nearly all fixed-income instruments reprice when rates move. Fixed-rate bonds adjust through price. Floating-rate loans adjust through income. One moves in mark-to-market value; the other moves in cash yield.

Interpreting dividend reductions in a falling rate environment as a credit problem misunderstands how floating-rate credit works. It is simply a mechanical repricing.

Conclusion: Noise vs. Signal

The pressure on Blue Owl was real, but it was driven primarily by a controversial merger attempt rather than portfolio implosion. Education and understanding are the best way for investors to sort through the noise.

The near-par sale of \$1.4 billion in loans to institutional investors argues against the notion of systemic credit distress.

And despite retail anxiety, net inflows into private credit remain positive and fund structures are largely functioning as intended.

This episode serves as a reminder that:

- Market volatility is not necessarily the same as credit deterioration.
- Headlines often amplify noise and obscure underlying fundamentals.
- Redemption caps are structural safeguards, not structural flaws.
- Floating-rate repricing is mechanical, not a warning signal.

In this case, the fundamentals appear considerably more stable than the headlines suggest.



We welcome a conversation; please contact invest@pennantpark.com or the professionals listed below.

About PennantPark:

PennantPark was founded in 2007 as an independent middle market credit platform. The firm was founded by Art Penn, a private credit industry veteran that previously co-founded Apollo Investment Management. We have invested over \$27 billion across multiple economic and credit cycles since inception, and we manage \$10 billion in AUM¹ today. PennantPark serves a broad range of sophisticated investors with product offerings that include business development companies, private capital funds, joint ventures, and other specialized funds.

Our highly experienced team primarily invests in the core middle market, targeting companies with earnings of \$10 million to \$50 million. These mid-sized companies are often overlooked by banks and large investment managers, resulting in senior secured loans that generally feature higher yields, lower leverage, and stronger lender protections when compared to the upper middle market and broadly syndicated loans. We focus on five key industry verticals where we have the most expertise and experience. These industries include healthcare, government services, business services, consumer, and software & technology.

¹ Assets under management (“AUM”) is defined as the sum of gross asset values, unfunded commitments, joint ventures and undrawn available leverage for active funds as of 12/31/2025. Invested capital represents the cumulative sum of capital invested across the PennantPark platform since inception through 12/31/2025. Figures are rounded to the nearest billion.

PennantPark Contacts:



Scott McCabe

Managing Director, Head of Private Wealth Solutions

mccabe@pennantpark.com



Tyler Anthony

Senior Vice President, Private Wealth Solutions

anthony@pennantpark.com



Brian Lee

Senior Vice President, Private Wealth Solutions

blee@pennantpark.com



Juan Ledezma

Vice President, Private Wealth Solutions

ledezma@pennantpark.com

Important Information:

©2026 PennantPark Investment Advisers, LLC (“PennantPark”) is an investment adviser registered with the US Securities and Exchange Commission (“SEC”). Registration is not an endorsement by the SEC nor an indication of any specific level of skill. Products or services referenced in this document may not be licensed in all jurisdictions, and unless otherwise indicated, no regulator or government authority has reviewed this document, or the merits of the products and services referenced herein. This document and the information contained herein has been made available in accordance with the restrictions and/or limitations implemented by applicable laws and regulations.

In considering the past performance information contained herein, recipients should bear in mind that past performance is not a guarantee, projection or prediction and it is not a guarantee or indication of future results. Invested capital is at risk. There can be no assurance that any product or service referenced herein will achieve comparable results, or that they will be able to implement their investment strategies or achieve their investment objectives.

An investment with PennantPark in any advised fund is suitable only for sophisticated investors and requires the financial ability and willingness to accept the risks and lack of liquidity that are characteristic of an investment in such funds. Investors must be prepared to bear such risks for an extended period. There can be no assurance that any investment will be profitable, not lose money, or achieve the other intended purposes for which they are made. Investing with PennantPark will expose the investor to various risks including, but not limited to, the following: 1) Lack of Liquidity Risks including lack of permitted withdrawals, lack of secondary market, and lack of transferability 2) Interest Rate Volatility Risks 3) Use of Leverage Risks 4) Securitization Risks 5) Credit Market Disruption Risks 6) Investing within a Highly Competitive Market Risks 7) Default by Borrowers Risks 8) Recovery on Bad Debt Risks including cost of recovery 9) International Market Exposure Risks 10) Inflation and Deflation Exposure Risks. This is not intended to be a complete description of the risks of investing with PennantPark. Investors should rely on their own examination of the potential risks and rewards. The firm brochure (Form ADV 2A) is available online at www.adviserinfo.sec.gov or upon request and discusses these and other important risk factors and considerations that should be carefully evaluated before making an investment.

This document is directed at and intended for sophisticated investors. The information contained here does not constitute, and is not intended to constitute, an offer of securities and accordingly should not be construed as such. Information in this document does not constitute legal, tax, or investment advice. Before acting on any information in this document, current and prospective investors should inform themselves of and observe all applicable laws, rules and regulations of any relevant jurisdictions or obtain independent tax, legal, or investment advice.

Statements in this document are made as of the date hereof unless stated otherwise herein, and neither the delivery of this Document at any time, nor any sale hereunder, shall under any circumstances create an implication that the information contained herein is correct as of any time after such date. Certain information contained herein concerning economic trends and performance is based on or derived from information provided by independent third-party sources. PennantPark believes that such information is accurate and that the sources from which it has been obtained are reliable. PennantPark cannot guarantee the accuracy of such information, however, and has not independently verified the assumptions on which such information is based. Certain statements contained in this Document, including without limitation, statements containing the words “believes,” “anticipates,” “intends,” “expects,” and words of similar import constitute “forward looking statements.” Additionally, any forecasts and estimates provided herein are forward-looking statements. Such statements and other forward-looking statements are based on available information and the views of PennantPark as of the date hereof. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties. Actual results and events may differ materially from those in any forward-looking statements. Further, any opinions expressed are the current opinions of PennantPark only and may be subject to change, without notice. There is no undertaking to update any of the information in this document. No person has been authorized in connection with this document to give any information or to make any representations other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorized by PennantPark Investment Advisers, LLC (“PennantPark”) or PennantPark’s affiliates.