PennantPark

Education Starts at the Point of Sale

The Truth About Liquidity in Private Credit

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- **Liquidity outcomes in private credit are largely determined at the point of sale, where fund structure, redemption terms, and investor expectations are initially set.**
- **Not all evergreen vehicles are the same. Differences across public BDCs, non-traded BDCs, perpetual private BDCs, and interval funds meaningfully impact liquidity, governance, and investor experience.**
- **When liquidity challenges arise, they often reflect structural design and communication gaps rather than underlying credit performance.**

When a private credit fund limits redemptions, the headlines can be unforgiving. Investors feel trapped, and the manager absorbs blame for a problem that began long before the first redemption request was submitted, at the point of sale. In this article, we explain how private credit fund structures actually work, why redemption limits exist, who they protect, and what a realistic liquidity timeline looks like.

Understanding the Differences Across Evergreen Structures

Private credit is often offered in a wide range of fund vehicles with meaningfully different liquidity profiles and regulatory frameworks. Treating them as interchangeable is the industry's first and most costly mistake.

Publicly Traded BDCs

Listed on NYSE or NASDAQ, these offer genuine daily liquidity. The trade-off: market price is driven by both investor sentiment and portfolio performance. Discounts to NAV are common, especially in risk-off environments. Best suited for investors who need flexibility and accept mark-to-market volatility.

Non-Traded BDCs

SEC-registered, not exchange-listed. Quarterly redemption windows, typically capped at 5% of NAV per quarter, but these limits are subject to Board discretion, not regulatory mandate. Stable NAV orientation.

Perpetual Private BDCs

The most misunderstood structure. Built for institutional and sophisticated investors, including Accredited Investors and Qualified Purchasers, with elevated minimums and access requirements. No fixed end date. Liquidity is provided through periodic tender offers at the discretion of the Board.

Interval Funds

A mandated exception within private credit structures, interval funds are registered under the Investment Company Act and governed by Rule 23c-3. Unlike non-traded or perpetual private BDCs, they are legally required to repurchase a minimum of 5% and no more than 25% of outstanding shares. This is not Board discretion. Rather, it is a regulatory floor the fund cannot waive without SEC relief. It makes interval funds the most appropriate structure for retail investors who need a contractual baseline of periodic liquidity.

Structure Comparison

Feature	Public BDC	Non-Traded BDC	Perpetual Private BDC	Interval Fund
Exchange Listed	Yes	No	No	No
Daily Liquidity	Yes	No	No	No
Redemption Frequency	Continuous	Quarterly	Quarterly tender	Quarterly, Semi-Annual, or Annual
Redemption Cap	N/A	Board discretion	Board discretion	5% minimum mandated by SEC
Liquidity Obligation	Market-driven	Board discretion	Board discretion	Legally required
Historical Volatility	Higher	Lower	Lower	Higher
Typical Investor	All	Retail / HNW	Inst. / HNW	Retail / HNW

The Real Failure Was Investor Suitability, Not Structure

The root cause of most investor dissatisfaction with private credit was not structure failure. It was suitability failure at the point of sale.

Before any allocation, advisors must answer honestly:

- When might this investor need this capital? If the answer is within two years, no non-traded or perpetual vehicle is appropriate.
- Does the investor have sufficient liquidity outside this allocation to meet near-term obligations?
- Does the investor genuinely understand that redemptions are not guaranteed and may take multiple quarters?

The yield on private credit is partially compensation for illiquidity. If an investor is unwilling to accept the illiquidity, they are not entitled to the yield premium.

Why Redemption Limits Exist

Private credit assets such as direct loans, mezzanine instruments, and structured credit do not trade on exchanges. Selling them quickly means accepting unfavorable pricing. A Fund Manager that promises full liquidity on illiquid assets is not offering a feature. It is creating a liability mismatch that will harm investors when it matters most.

Redemption limits are in place to avoid a scenario where early investors exit at full value while the fund is forced to sell assets at unfavorable prices, leaving remaining investors to absorb the impact. By capping redemption volume, limits ensure no cohort is advantaged at the expense of another. When requests exceed the quarterly cap, redemptions are handled on a pro rata basis so each investor receives a proportional share, without preferential treatment.

For non-traded and perpetual private BDCs, the Board of Directors holds broad discretion over redemption policy, including the authority to reduce or increase caps or suspend redemptions temporarily. A Board that limits redemptions in a dislocated credit market is protecting remaining investors from a forced liquidation at the worst possible time. Interval funds, by

contrast, cannot exercise this discretion at the floor. The 5% minimum mandate is legally binding under Rule 23c-3.

Losing Investor Trust at the Point of Sale

The growth of non-traded and perpetual private BDCs over the past years was fueled by yield-seeking investors and aggressive distribution. In that environment, education became a casualty. Wholesalers led with headline yield and monthly distributions. The liquidity discussion became a compliance disclosure that was signed but not understood.

When concerns around software exposure, alongside elevated redemption requests at Blue Owl's OBDC II surfaced in the news, many investors sought liquidity across evergreen products and, in the process, discovered for the first time that redemption was not guaranteed. The frustration was understandable. The structure, however, was not the problem.

A Realistic Liquidity Timeline

To help put this into context, the table below outlines how these structures typically operate in practice. Keep in mind, it is not a guarantee, but rather a planning framework.

Scenario	Timeline	What to Expect
Orientation	**Day 0**	Learn your structure, window dates, and submission deadlines. No action required.
Orderly Exit	**1-2 quarters**	Requests within cap: expect 1–2 quarters to exit fully at NAV.
Elevated Redemptions	**1-2 years**	If gates trigger: pro-rata partial fills may extend exit to 4–8 quarters.
Stress Environment	**2+ Years**	Widespread redemption pressure (rate shock, credit event) may require a multi-year runway. This is by design — it prevents forced sales at unfavorable prices.

Think of it like a CD: it does not penalize you for having a maturity date. It simply requires you to plan around it. Private credit funds require the same discipline.

Setting Investor Expectations at the Point of Sale

Private credit itself has not changed, but expectations around it often have. Redemption limits are built into the structure to help preserve portfolio integrity and treat investors equitably during periods of stress. The interval fund's mandated quarterly floor establishes a regulatory

baseline of access. And the Board's discretion in non-traded and perpetual vehicles is a fiduciary tool used to manage liquidity in the best interest of investors.

What drove the headlines was not the structure, it was what got lost in the conversation at the point of sale. For advisors, the liquidity discussion cannot be an afterthought. Instead, it needs to be part of setting expectations up front with the client. That means matching the structure to the client's actual time horizon, documenting the conversation, and leading with the constraint before the yield.

For investors who approach this asset class with a clear understanding of the time horizon, redemption limits are not the issue. They are simply part of how the structure is designed to help protect capital when the market turns.

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 AUM[1] 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.

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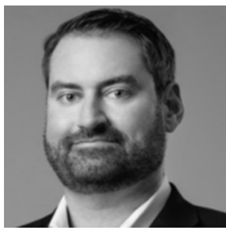
PennantPark Contacts:

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

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