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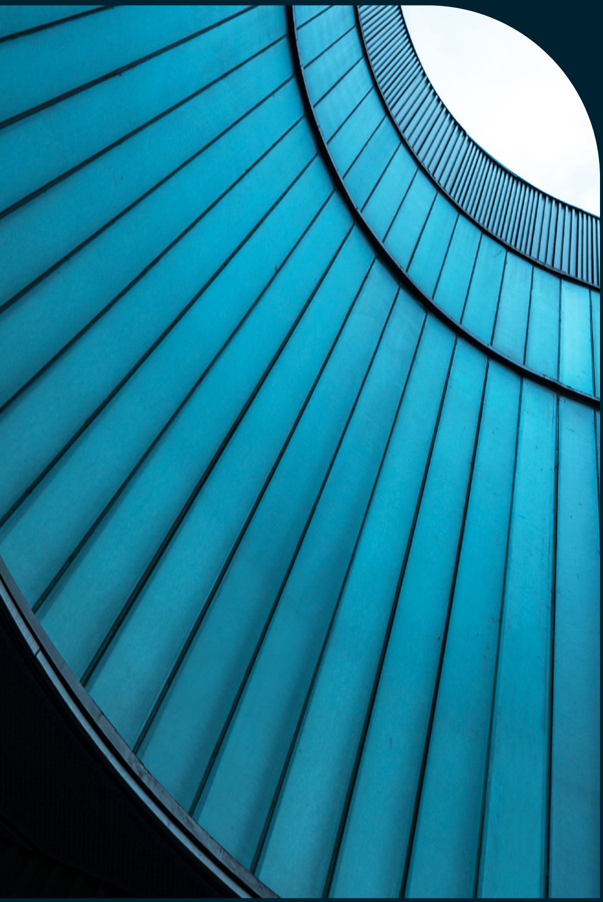
PRIVATE MARKETS

Q3 2026

An investor's guide to alternative credit

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

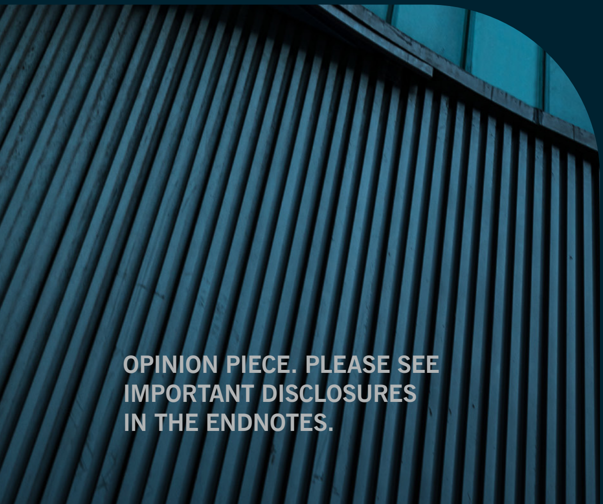


Alternative credit is not new

The roots of today's private lending landscape trace back nearly a century — but decades of structural change, culminating in the Global Financial Crisis (GFC), transformed alternative credit from a niche institutional tool into an essential source of capital for the companies, infrastructure, and communities that drive economic growth.

Private lending in the United States began in earnest in the 1930s, when financial companies originated direct mortgage loans and private placements for corporations unable to access public markets. In the United States, postwar expansion drew pension funds and insurers into long-duration infrastructure debt and private corporate placements. In Europe, relationship-based bank lending dominated for longer, but institutional lenders similarly financed utilities, pipelines, and industrial facilities through bilateral arrangements sitting well outside public bond markets. Through each era, private lenders stepped in where banks and public markets could not or would not go — and built track records doing it.

The GFC was the inflection point that changed the scale of the opportunity permanently. In the United States, Basel III capital requirements and the Dodd-Frank Act forced large banks to retreat structurally from middle market corporate loans, commercial real estate bridge financing, and infrastructure project debt. The U.S. Federal Reserve leveraged lending guidelines further constrained bank participation in higher-yield credit. In Europe, the effect was equally consequential: European banks, many of which had been the dominant providers of leveraged and mid-market credit, sharply contracted their lending books under the dual pressure of Basel III and European Banking Authority stress testing. Banks that had historically provided the majority of European corporate financing pulled back, creating a structural vacuum that non-bank lenders began to fill. In Asia Pacific, similar dynamics unfolded as regional regulatory reform and bank deleveraging opened space for private credit platforms to emerge in markets including Australia, Japan, and Southeast Asia. This was not a temporary dislocation — it was a structural reordering. Non-bank lenders filled the gap, and the gap has grown only wider since.



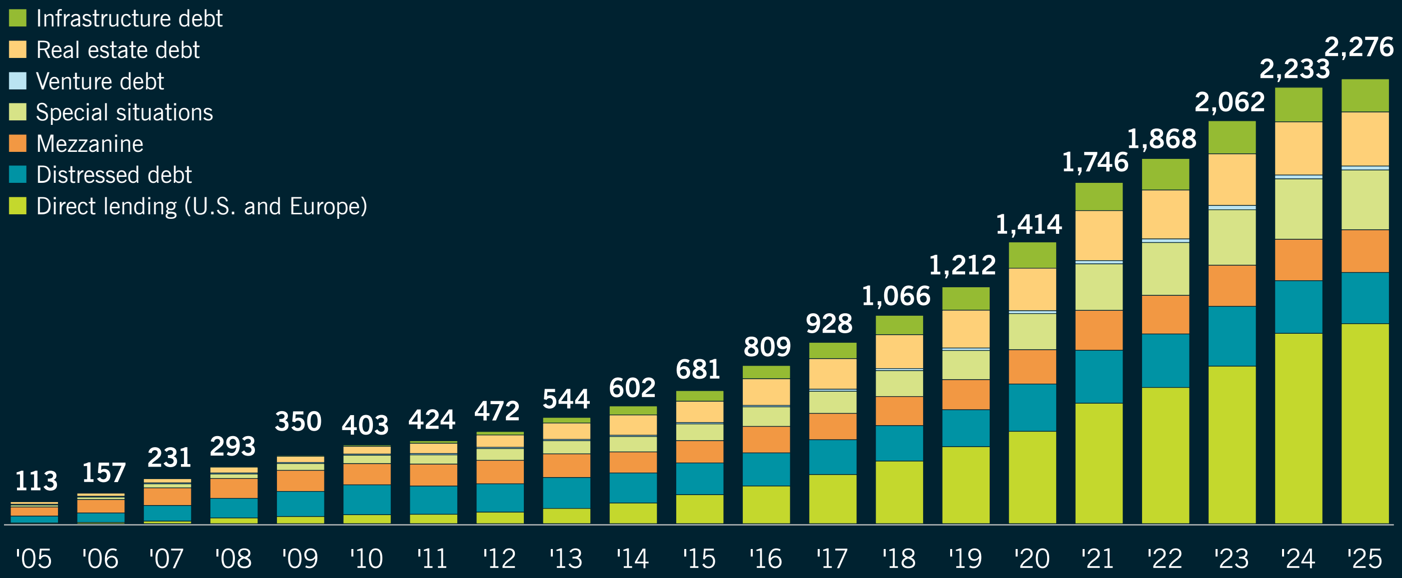
Multiple forces now reinforce and extend the opportunity

After a decade of near-zero interest rates, which compressed yields across all fixed income, the floor for risk-adjusted income in private credit is now materially higher than it was five years ago. Lower interest rates lead to lower base rates and yields on floating rate investments, including for middle market loans. However, private credit has historically demonstrated value in rising and declining rate environments, thanks to interest rate floors.

The real economy needs capital public markets cannot supply alone. Under increasing regulatory pressure and capital constraints, banks are restricted in their capacity to fund credit needs at scale, especially within the decarbonization and power generation build-out. One of the critical themes driving the opportunity is the global energy transition, which is expected to require investment rising from $1.8 trillion in 2023 toward $4.5 trillion annually by 2030.[1] AI infrastructure, data center construction, and digital grid modernization add further demand. U.S. private infrastructure debt investments across energy, power, and digitalization climbed from approximately $120 billion in 2021 to nearly $350 billion in 2025.[2]

Institutional conviction is broad and growing. Today, 81% of global institutional investors plan to increase private market allocations over the next five years, with private credit ranking as the second most sought-after private asset class.[3] Global private credit AUM exceeded $2.2 trillion by 2025, with projections to surpass $2.8 trillion by 2028.[4]

Figure 1: Global private debt AUM by strategy ($ billions)



Source: Preqin as of 31 December 2025.

What is alternative credit and what does it do for a portfolio?

Alternative credit refers to private, non-traded credit arrangements made outside conventional public bond markets. These are loans, notes, and structured financing solutions negotiated directly between lenders and borrowers, held to maturity rather than traded on exchanges, and typically secured by specific assets or cash flows.

Two organizing frameworks help investors navigate the landscape

Figure 2: Multiple paths to diversify portfolios and help meet investor objectives

CORPORATE LENDING
based on business performance, cash flow, and enterprise value

Direct lending	Collateralized loan obligations (CLOs)	Investment grade private corporates
including junior capital and capital solutions		
Senior loans are typically floating rate, which can buffer against interest rate changes and inflation while generating income. Junior loans are typically fixed rate.	Leveraged, diversified loan market exposure through a stable long-term structure that avoids forced selling. Highly liquid underlying loans allow active risk management during market volatility.	Non-public debt offerings issued by private firms or small- to mid-sized companies.

PRIVATE ASSET-BACKED FINANCE (ABF)
secured by specific, readily valued assets with advance rates determined by the liquidation value of those collateral assets, regardless of overall profitability

Private ABS	Commercial real estate debt	Infrastructure debt	NAV lending
including commercial property assessed clean energy (C-PACE) and credit tenant loans (CTLs)		including investment grade and non-investment grade	
Non-recourse debt backed by pools of loans, leases, or receivables. C-PACE finances sustainable commercial real estate improvements through senior tax liens, offering investment grade yield with measurable positive impact. CTLs are non-recourse debt secured by real estate, equipment, or single-tenant lease payment streams.	Secured position in property capital stack with modest correlation to other credit areas, providing downside protection.	Financing for essential, long-lived assets, spanning energy, transportation, utilities, and digital infrastructure, that typically benefit from regulated or contracted revenue streams, offering investors stable, predictable cash flows with strong covenant protections and historically low default rates.	Provides secure, flexible capital at the fund level to middle market private equity sponsors who are seeking enhanced value creation and increased equity returns.

The following factors play an important role in constructing a thoughtful allocation to alternative credit:

Yield enhancement without sacrificing quality

Alternative credit instruments generally carry an illiquidity premium above comparable public securities. The magnitude of that premium varies by strategy, duration, and market conditions, but the principle is durable: Investors who can commit capital for the long term are compensated for doing so. More conservative strategies at the senior secured end of the spectrum carry more modest premiums. More complex specialty finance strategies offer wider spreads that reflect structural complexity rather than credit deterioration. That premium is more compelling in practice today: The rate reset that ended a decade of near-zero yields has materially raised the floor for risk-adjusted income across the spectrum, rewarding investors who can commit capital for the long term.

Genuine diversification through a different borrower universe

The U.S. middle market — approximately 200,000 companies with revenues between $10 million and $1 billion — represents a significant share of GDP and employment, yet the vast majority do not issue public bonds. Infrastructure projects, specialty finance platforms, and real estate borrowers similarly access private rather than public capital. Alternative credit does not merely provide access to assets that can be uncorrelated with public markets — each sector and company has structurally different cash flow drivers, covenant structures, and recovery profiles. As an example, private real estate debt portfolios have historically exhibited negative or near-zero correlation with U.S. and global equities.

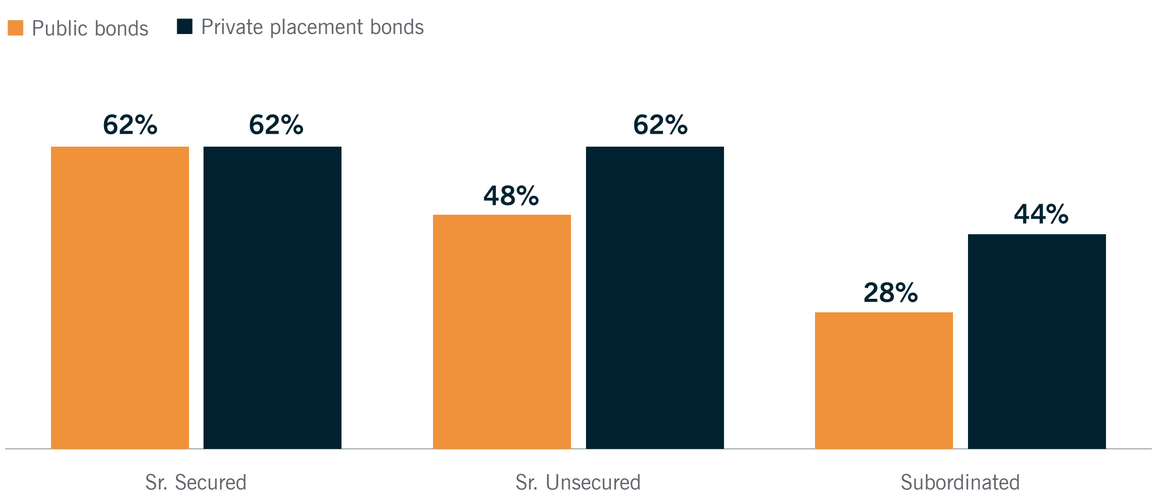
Direct lending, in particular, offers investors meaningful diversification not only across the capital structure but across the breadth of the economy itself. Because middle market borrowers operate across an expansive range of industries — from healthcare services and technology-enabled businesses to manufacturing, consumer brands, and business services — a well-constructed direct lending portfolio can achieve genuine sector diversification that is difficult to replicate through public credit markets alone.

Structural downside protection

Most alternative credit transactions include seniority in the capital structure, financial covenants, and collateral backing — protections largely absent from public high yield bonds, where covenant quality has eroded significantly over two decades. Covenants require borrowers to maintain financial metrics — leverage ratios, interest coverage ratios, minimum liquidity levels — and trigger lender rights before an actual default occurs, enabling early intervention.

Default rates in alternative credit have historically been modest, and losses have been significantly cushioned

Figure 3: Private versus public recovery rate by seniority



Source: Moody's Ultimate Recovery, 1987 – 2017. SoA Private Placements Study, 2003 – 2015. Recovery as a % of par – 1988 – 2025.

by recovery performance. Recovery rates reinforce this picture: Private loans have historically averaged higher recoveries than similarly rated public bonds, according to Moody's data. The differential reflects structural advantages that private lenders negotiate at origination — first-lien seniority, maintenance covenants, and direct lender relationships that enable earlier and more constructive workout engagement.

Alternative credit positions mature at par regardless of market conditions

Unlike equity-based assets, where realized returns are ultimately captive to market timing and exit valuations, alternative credit anchors its investment framework to the underwriting process. These loans carry contractually mandated principal repayments, meaning the return profile is driven by compounding yield and the predictable reclamation of capital at par. Absent an actual default, the position simply matures at its original value. That structural certainty is easy to overlook, but for investors building durable income streams, it is one of the more compelling features of the asset class.

Liability and longevity risk management

Long-duration alternative credit instruments — infrastructure debt, investment grade private placements, long-term real estate mortgages — carry maturities of 2 – 20+ years, providing the duration matching that public markets increasingly struggle to deliver at attractive yields.

Reliable income with inflation sensitivity

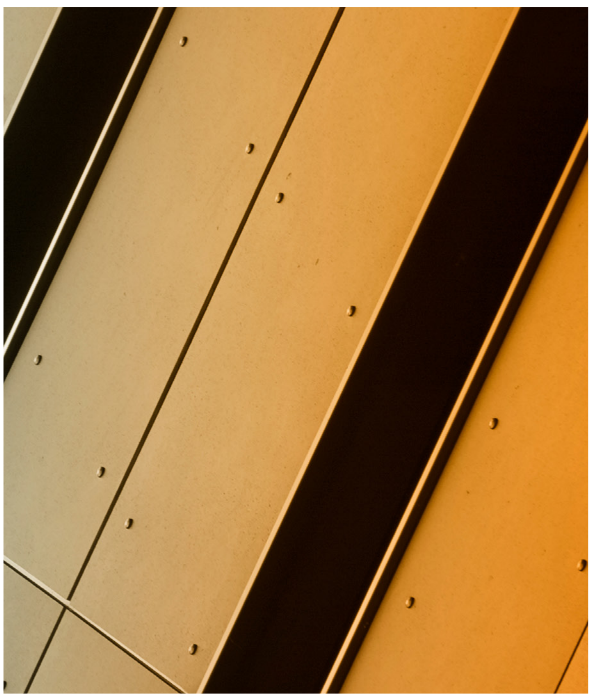
Many alternative credit instruments are floating rate, providing a natural hedge against inflationary environments. The contractual, non-mark-to-market nature of private credit cash flows provides income stability that publicly traded instruments, subject to daily price fluctuation, cannot reliably replicate.

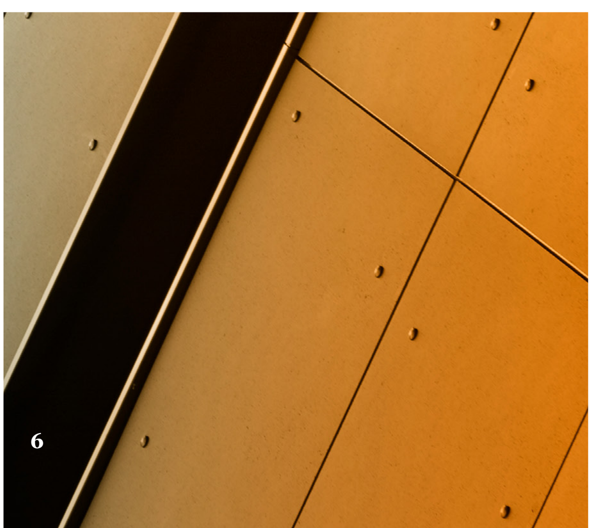
Figure 4: Navigating the spectrum: six core alternative credit asset classes

STRATEGY	KEY COLLATERAL / PROTECTION	TYPICAL YIELD RANGE	DURATION	TYPICAL CREDIT RATING
Investment grade private credit	Senior unsecured or secured corporate obligations; negotiated covenants; lender protections exceeding public market equivalents	5.0% – 7.0%	Medium (3 – 7 years)	BBB- to A
Infrastructure credit (project finance)	Long-duration contracted or regulated cash flows; essential-use assets; concession agreements or government-backed frameworks	5.5% – 7.5%	Long (7 – 20+ years)	BBB- to A
Real estate lending (CRE debt)	First-mortgage lien on income-producing real property; loan-to-value and debt service coverage constraints; property cash flow support	6.5% – 9.5%	Short-to-medium (2 – 7 years)	BBB- to BB+ (senior); BB and below (subordinate)
C-PACE financing	Statutory senior lien on real property superior to mortgage; repayment via property tax assessment; land value as ultimate backstop	7.0% – 10.0%	Medium-to-long (5 – 25 years)	Typically unrated; structurally senior lien considered IG-equivalent by many investors
Direct lending (middle market)	First-lien or senior secured position on borrower assets; covenant package; lender control rights in distress	8.5% – 12.0%	Short-to-medium (3 – 6 years)	B+ to BB- (borrower level); often unrated
CLOs — investment grade debt tranches	Senior tranching within diversified leveraged loan pool; overcollateralization and interest coverage tests; active manager reinvestment discipline	5.5% – 8.5%	Medium (3 – 6 years weighted average life)	AAA to BBB- (tranche-specific)

Typical yield ranges are illustrative estimates based on prevailing market conditions at time of publication and are provided for informational purposes only. Yields reflect a higher base rate environment and will fluctuate with changes in benchmark rates, credit spreads, and market conditions. Actual target returns will differ and are not guaranteed.

Who should consider alternative credit?





Investor fit by type

Alternative credit is not appropriate for every investor in every circumstance — but it may be relevant to a wider range of investors than is commonly assumed. Three characteristics define a good fit: a longer investment horizon profile; limited near-term liquidity requirements; and access to credit analysis capabilities, either internally or through a skilled external manager.

The breadth of the investor universe that meets these criteria is wider than it might first appear — and the right entry point on the alternative credit spectrum differs meaningfully depending on an investor's liability structure, return objectives, and liquidity profile.

At the most conservative end, insurance companies and defined benefit pension plans are among the most natural buyers in the universe. Both manage long-dated obligations against which they need reliable, long-duration income — and both find in investment grade private placements, infrastructure debt, and C-PACE exactly what public markets increasingly struggle to deliver: fixed-rate instruments with illiquidity premiums that compensate for the liquidity constraint rather than for additional credit risk, and covenant structures superior to those available in public bonds. For these investors, alternative credit is not a diversifying satellite — it is a core liability-matching tool.

Endowments, foundations, and sovereign wealth funds bring a different set of advantages: perpetual or very long-horizon capital with limited near-term distribution requirements. That profile unlocks the full range of the asset class, including direct lending and CLO equity — strategies that reward patient capital with the time horizon to capture a full cash flow cycle. For these investors, real estate credit across the senior mortgage, bridge lending, and mezzanine tiers rounds out a total return-oriented allocation, and geographic diversification into European private credit adds return profiles that complement rather than replicate U.S. exposure.

Retirement plans and DC platforms represent a newer but rapidly growing participant in this market. Vehicle innovation — evergreen structures, interval funds, and target-date-adjacent vehicles — has resolved the practical incompatibility between traditional closed-end fund structures and the daily valuation and liquidity requirements of plan administration. For participants with a decade or more until retirement, the income stability, low public market correlation, and yield premium of alternative credit are genuine long-term return enhancers. The illiquidity that once made the asset class inaccessible to this channel is, for long-horizon participants, not a penalty at all — it is the source of the premium.

The retail and high-net-worth wealth channel has similarly been transformed by the same vehicle innovation. BDCs, interval funds, and hybrid evergreen vehicles now bring institutional-quality strategies to qualified individual investors whose profile — long horizon, income orientation, tolerance for limited liquidity — mirrors the institutional profile in miniature. The caveat here is important: Vehicle selection, fee transparency, and manager quality matter more in this channel than in any other, where marketing sophistication can outpace the quality of the underlying loans.

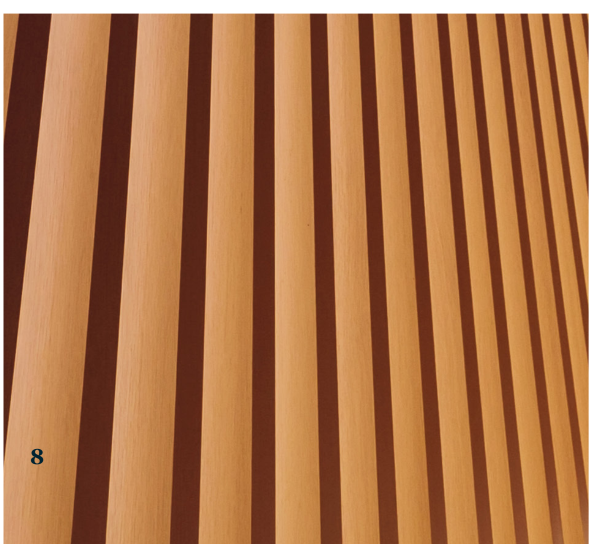
The assumption that alternative credit requires the scale and infrastructure of the largest endowments or pension plans no longer holds. Commingled fund structures and evergreen vehicles — where the manager provides origination, underwriting, and monitoring — have made the asset class accessible to mid-sized institutions that lack internal credit infrastructure. A combination of a diversified direct lending fund and an infrastructure or real estate credit fund provides income, duration, and diversification without requiring a large internal team to manage it.

The common thread across all of these investor types is not size or sophistication — it is time horizon. Alternative credit has the potential to reward investors who can stay invested through full cycles.

Figure 5: Alternative credit fit by investor type

INVESTOR TYPE	FIT AND RATIONALE
Insurance companies	**Strong fit for long-dated infrastructure and investment grade private credit,** driven by liability-matching mandates and favorable capital treatment (e.g., NAIC (U.S.) and European Solvency II (Europe)). Selectively allocate to CRE senior debt and CLO IG tranches where capital charges are manageable. Limited appetite for subordinated or unrated positions given surplus volatility and mark-to-market sensitivity.
Defined benefit pension funds	**Strong fit across conservative and core income strategies** — infrastructure credit, CRE debt, C-PACE, and CLO tranches support liability-driven investing and funded status improvement. Tactically allocate to direct lending and opportunistic credit where funded status and investment policy permit higher risk tolerance.
Defined contribution plans	**Emerging and selective fit** — IG private credit within stable value structures aligns naturally, but daily valuation and participant liquidity rights remain the primary barriers. Semi-liquid structures within target date funds are gaining traction, with broader adoption expected as product innovation and regulation evolve.
Endowments and foundations	**Strong total return and core income fit** given perpetual capital, high illiquidity tolerance, and long time horizons. Annual spending requirements (typically 4% – 5%) support diversified income allocations across CRE debt, C-PACE, and CLO tranches, while direct lending and opportunistic credit drive total return objectives.
Retail and wealth management	**Growing fit primarily through semi-liquid vehicles** — interval funds, non-traded BDCs, and evergreen structures are expanding access for high-net-worth investors. Yield premium over public bonds is a key draw. Long-dated conservative strategies remain poorly suited to retail liquidity expectations. Suitability and fee transparency are ongoing considerations.
Sovereign wealth funds	**Broad and strong fit across all strategies** — perpetual capital, liability-light structures, and institutional scale enable full participation in long-dated infrastructure credit, diversified core income, and opportunistic total return strategies. Scale supports direct sourcing, co-investment, and the ability to absorb complexity and large ticket sizes at a competitive advantage.

Putting it all together



Building a portfolio

Before turning to portfolio construction, misconceptions about alternative credit are worth confronting directly — because they shape how investors and advisors approach the asset class in ways that can lead them either to avoid it unnecessarily or to enter it without appropriate framing.

Misconceptions

1. **Alternative credit is inherently high risk.** Senior secured direct loans and investment grade infrastructure debt, for example, are conservative instruments by any reasonable definition, and the risk profile of any allocation depends entirely on where an investor chooses to operate within the spectrum.

2. **The asset class is only for the largest institutions.** The growth of commingled funds, BDCs, interval funds, and evergreen structures has meaningfully democratized access — removing the infrastructure barrier that once made private credit the exclusive domain of the largest endowments and pension plans.

3. **Alternative credit is a recent innovation born of unusual market conditions.** It is a tested approach with roots going back nearly a century and a track record across multiple severe economic cycles, including the GFC.

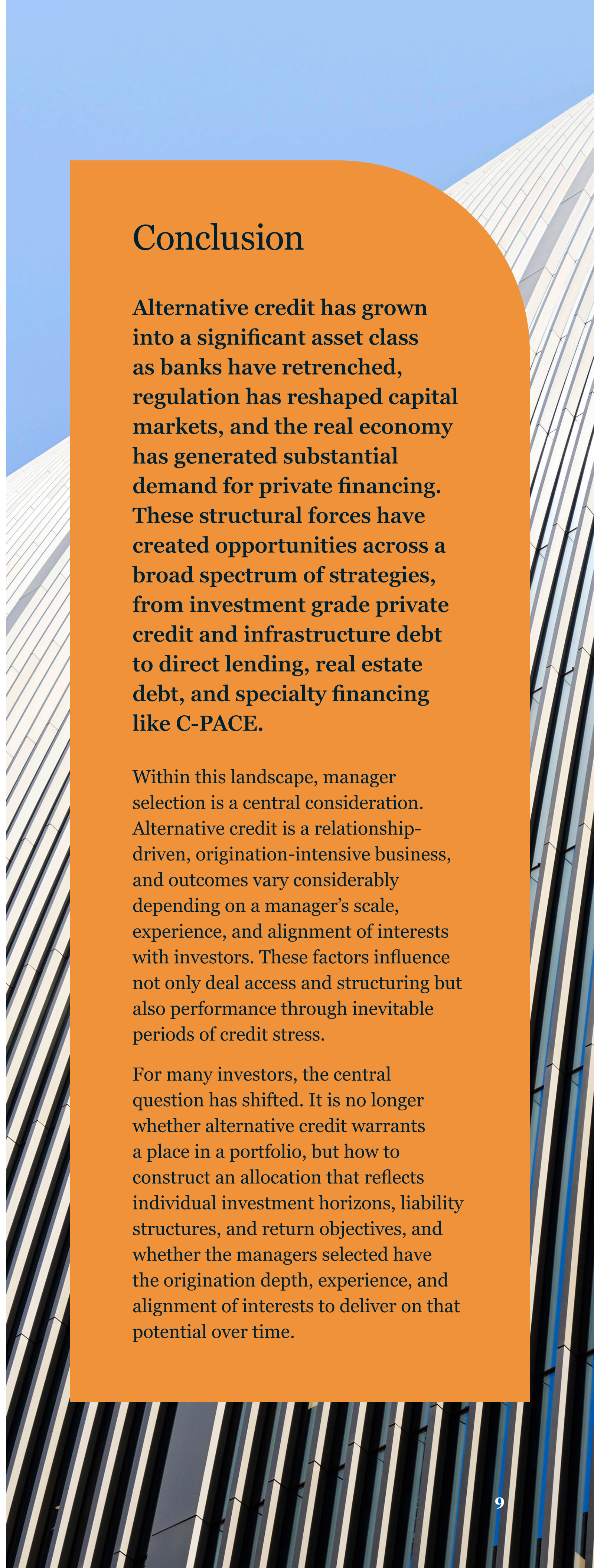
A practical framework for building an allocation starts with the investor's primary objective and builds the portfolio construction framework around it. Investors anchoring around income stability and liability matching should weight toward investment grade private placements, infrastructure credit, C-PACE, and senior real estate mortgages — instruments with long fixed-rate profiles, strong structural protections, and low correlation to public equities. From that foundation, investors seeking to enhance yield while maintaining structural discipline can layer in senior direct lending, transitional real estate debt, and investment grade CLO tranches. Those with explicit total return targets and a genuine long horizon can extend further into CLO equity, mezzanine real estate, and subordinated infrastructure debt — where long-term historical return profiles are compelling but require both patience and active manager expertise to realize.

Geography adds a further dimension that is easy to overlook. Blending U.S. scale and resilience with European private credit — where direct lending, infrastructure, and real estate credit each offer return profiles that complement rather than replicate their U.S. counterparts — produces a more resilient portfolio than U.S.-only concentration and can reduce exposure to economic cycles or policy environment.

Ultimately, the right allocation is not the same for every investor. The following questions provide a disciplined framework for determining where on the spectrum to invest, how much to allocate, and what type of vehicle and manager relationship best fits a given institution's needs

- What income level is required to meet my distribution or liability obligations?
- How much correlation to public equity and fixed income am I already carrying? What credit quality range aligns with my risk framework and regulatory environment?
- Do I have internal credit capabilities, or do I need a manager with deep origination and underwriting expertise?
- Am I diversified across multiple sub-strategies, or concentrated in a single approach?
- And have I considered geographic diversification across U.S. and European private credit?

The answers to these questions will not lead every investor to the same allocation — but they will lead to a more educated one.



Conclusion

Alternative credit has grown into a significant asset class as banks have retrenched, regulation has reshaped capital markets, and the real economy has generated substantial demand for private financing. These structural forces have created opportunities across a broad spectrum of strategies, from investment grade private credit and infrastructure debt to direct lending, real estate debt, and specialty financing like C-PACE.

Within this landscape, manager selection is a central consideration. Alternative credit is a relationship-driven, origination-intensive business, and outcomes vary considerably depending on a manager's scale, experience, and alignment of interests with investors. These factors influence not only deal access and structuring but also performance through inevitable periods of credit stress.

For many investors, the central question has shifted. It is no longer whether alternative credit warrants a place in a portfolio, but how to construct an allocation that reflects individual investment horizons, liability structures, and return objectives, and whether the managers selected have the origination depth, experience, and alignment of interests to deliver on that potential over time.

For more information about investing in alternative credit, please visit
nuveen.com/alternativecredit

Endnotes

1 BloombergNEF.

2 Infralogic.

3 Nuveen 2026 Equilibrium survey.

4 Preqin.

Risks and other important considerations

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