TELLARO CAPITAL PARTNERS

Investment Committee Insights

August 2026

Institutional Private Credit | Senior Secured Lending

Abundant Capital, Scarce Conviction

The Federal Reserve spent the month threatening to raise rates, and private-credit spreads fell anyway. When there is more capital than there are loans to make, price stops describing risk, and the only scarce input left is the discipline to decline.

Reporting period: calendar month ended 31 August 2026. Data and transaction information are derived from publicly available sources. Estimates and approximations are identified where applicable.

~60%	$16.25bn	S+450-650	~$2.1tn
ODDS OF A SEPT HIKE	**Q2 DIRECT-LENDING RAISE**	**UNITRANCHE SPREAD**	**PRIVATE CREDIT AUM**
Fed funds futures after a hawkish Jackson Hole. The base rate may rise, not fall.	Up from $1.3bn in Q1, the strongest quarter in two years. It must find a home.	Compressed toward multiyear lows as capital, not risk, sets the price.	Up from about $1.5tn a year earlier. Abundance is the defining condition

MARKET THESIS

August closed with the Federal Reserve threatening to move the wrong way. At Jackson Hole on 28 August the chair delivered an unexpectedly hawkish address, renewed an inflation-fighting stance and opened the door to a rate increase, and by month-end fed funds futures priced roughly a sixty per cent chance of a hike in September. Yet in the same month private-credit spreads did not widen to reflect the risk; they compressed, pushed down by a wall of capital that has to be put to work.

Tellaro underwrites every credit against three principles: that the attachment point, not the headline multiple, determines the risk; that defensible cash flow, not yield, determines repayment; and that structure, not price, is where return is made. Abundant capital attacks all three at once. It lifts attachment points, it compresses the spread until only the reach for yield is left, and it erodes the documentation that turns a loan into a protected position. When money is this plentiful, the three things a lender should never trade are precisely the three the market is paying it to surrender.

The implication is that the edge has moved from access to restraint. Anyone can deploy in this market; the question is who holds the line on attachment, on cash flow and on structure while the crowd gives all three away for a spread that means less each month. Spread is compensation, not repayment, and it is the first thing abundance competes away; cash flow and structure are what the lender still controls. A market that offers both more spread and more equity beneath the loan is offering the second for free; a market that offers neither is asking the lender to supply the conviction it lacks.

CREDIT SIGNALS

Three patterns in the month's transactions, read not as events but as evidence of where conviction is concentrating.

Signal 1: Capital abundance is overwhelming the rate signal.

Evidence. Direct-lending funds raised roughly $16.25bn in the second quarter, up from $1.3bn in the first and the strongest quarter in two years, and new vehicles kept closing, including a first tranche above $1bn toward a $2bn target. Even as the chair turned hawkish at Jackson Hole and futures moved to price a September hike, unitranche spreads drifted toward multiyear lows, while banks reclaimed roughly half of the large-buyout financing market from direct lenders, intensifying the competition.

Interpretation. When committed, fee-earning capital chases too few deals, the price of a loan is set by the supply of money rather than by the risk of the borrower or the level of the rate. Spread compression in a month the Federal Reserve threatened to tighten is the clearest possible sign that abundance, not credit, is setting terms. Spread is the least informative term in a loan, and in August it was also the most contested.

Read-through: *do not mistake a tight spread for a safe loan; in an oversupplied market, price is the last thing to tell you about risk.*

Signal 2: The deployment gap is turning into documentation erosion.

Evidence. The gap between capital raised and capital deployed stayed wide, and the fees charged on committed capital continued to reward putting money to work. Documentation deterioration and payment-in-kind proliferation persisted, software borrowers refinanced into facilities struck against recurring revenue, and a large manager's semi-liquid vehicle curbed withdrawals after redemption requests reached about seventeen per cent.

Interpretation. Fee pressure to deploy is the mechanism by which abundance becomes lax underwriting: covenants loosen, payment-in-kind toggles multiply, and attachment points drift upward, none of it visible in the headline coupon. The redemption strain is the other face of the same abundance, a reminder that some of the new capital is hot and can ask to leave at the worst moment. The discipline to hold standards runs directly against the incentive to deploy.

Read-through: *read loosening documentation as the price of abundance; the covenant a lender gives up in a hot market is the recovery it forfeits in a cold one.*

Signal 3: Real prices and disciplined exits still exist, for quality.

Evidence. Even in a crowded market, arm's-length prices were struck for quality and hard assets: a strategic paid $4.1bn for a sponsor-owned thermal-management business, private capital backed a $4.43bn midstream acquisition in the Permian, and the record $55bn take-private of Electronic Arts completed on 4 August. The largest funds and family offices concentrated capital in fewer, higher-conviction deals while the exit bottleneck persisted for the rest.

Interpretation. Abundance is not uniform; it is a two-speed market. Capital is genuinely selective at the top, where quality clears at real prices, and close to indiscriminate in the scramble to deploy elsewhere. That dispersion is the opportunity, because conviction is rewarded precisely where it is scarce, and the month's cleanest transactions were those in which a real buyer set a real price for a real asset.

Read-through: *let the market's own selectivity guide you; underwrite where quality clears at a tested price, and decline where capital is merely desperate to move.*

WHAT CHANGED IN UNDERWRITING

Nominal terms moved against the lender in August, quietly. Unitranche spreads drifted toward the lower end of the roughly 450 to 650 basis point range, all-in first-lien yields sat in the low-to-mid eight per cent range as the base rate held, and the softening was not in headline price alone but in the terms beneath it: looser covenants, wider add-back baskets, more room for payment-in-kind. The competition of abundant capital is paid first in spread and then, when spread has no more to give, in documentation.

The teaching point is that spread and conviction move in opposite directions in a crowded market. A lender who must deploy will accept a lower spread, and once the spread floor is reached will keep the loan by conceding the covenant, the attachment point, the add-back. Consider the arithmetic of giving up half a turn of attachment: on a business worth ten times earnings, moving the debt from five turns to five and a half lifts the loan by five per cent of the enterprise and thins the equity cushion beneath it by the same, in exchange for a spread that abundance has already compressed. The lender is paid less to stand behind more. Spread is paid annually and consumed once; the attachment point given away is given away for the life of the loan.

The behavioral response is to treat deployment pressure as the risk it is, an incentive that belongs to the manager and not to the loan. It is too early to say whether the current vintage's looser terms will cost anything; in a benign market they will not, and the market has been benign. But underwriting is protection against the benign assumption being wrong, and the terms conceded in August will be tested in a month that looks nothing like it.

> **TELLARO READ-THROUGH**
> The discipline is to price conviction, not capital, and to refuse the three trades abundance is offering: a higher attachment for a thinner cushion, a looser covenant for a faster close, and a compressed spread in place of defensible cash flow. In an oversupplied market the spread describes the competition among lenders, not the risk of the borrower; the attachment point, the cash flow and the structure are the only terms that still describe it. The lender's edge in August is not what it can deploy; it is what it can decline.

SECTOR ROTATION

Read through the lens of capital abundance, the month's sectors sort by how far the weight of money has pushed price away from risk.

Software

Software drew the most cautious capital and, in places, the most opportunistic. Buyout volume stayed near a decade low and sentiment remained heavy on artificial-intelligence disruption, yet lenders with dry powder circled the sector's dislocations, and some argued that recovery assumptions on software defaults had grown too pessimistic. Recurring revenue is not recurring cash flow, and abundance is most dangerous where it funds a revenue multiple; the discipline is to let the crowd reprice the equity and to lend only where cash coverage, not the recurring-revenue line, carries the loan.

Healthcare services

Healthcare stayed the busiest deployment ground, with sponsors extending physician roll-ups into procedure-based specialties. The abundance of capital chasing the same consolidation thesis is precisely what erodes it: paying up for the next practice with debt raised on the platform's blended multiple is how a roll-up outruns its own cash flow. Local density and payer diversification separate the platforms that earn their multiple from those that merely accumulate it.

Industrials and energy infrastructure

The month's cleanest prices were struck for hard assets: a strategic paid $4.1bn for a sponsor-owned thermal-management business, and private capital backed a $4.43bn midstream acquisition in the Permian. Tangible, cash-generative assets clear at real prices even in a crowded market, because their value can be tested against something other than a model. These are the credits where abundance does the least damage.

Sports, media and trophy assets

Capital continued to flow into scarce trophy assets, including a minority stake in a storied football club at a valuation above $7bn. Scarcity value is real, and it is also the purest expression of abundance: when there is more capital than there are things to buy, the price of the irreplaceable rises fastest. For a lender, a trophy asset is an equity story, not a credit; the cash flow rarely justifies the price, and the recovery rarely justifies the loan.

> **TELLARO READ-THROUGH**
> Abundance distorts unevenly, and the three principles are the map through it. Lend where the attachment point rests on real value, the cash flow services the debt from operations, and structure can still be written, tangible industrials, energy infrastructure, the durable core of a franchise. Stand aside where the weight of money has lifted the price above any recovery, asset-light roll-ups bid on blended multiples and trophy assets bid on scarcity. Enterprise value is not collateral, and in a crowded market it is enterprise value that abundance inflates first.

INVESTMENT COMMITTEE CASE STUDY

Each issue examines one transaction as Tellaro's investment committee would, using public information only. This month: the completion, on 4 August 2026, of the $55bn take-private of Electronic Arts by a consortium of Saudi Arabia's Public Investment Fund, Silver Lake and Affinity Partners, the largest leveraged buyout on record. On closing, the company carried roughly $18bn of debt accruing about $1.8bn of interest a year, and management set out to cut roughly $700m of annual operating cost. The financing was led by the banks rather than private credit, but the credit question is the one the three principles pose everywhere: where does the loan attach, does defensible cash flow service it, and can structure protect it?

Business quality. Electronic Arts is a premier interactive-entertainment business with franchises of genuine durability, sports titles with annual releases and recurring in-game spending chief among them. It is a very good business, and, as with the software cases before it, that quality is what makes it instructive: quality is what persuades abundant capital to overlook the price it is paying.

Revenue durability. The recurring layer, live services and annual sports franchises, is durable and high-margin; the hit-driven layer, major new releases, is not. Revenue is a blend of an annuity and a lottery, and a lender must underwrite the annuity and give no credit to the lottery. The durable core is real, but it is a smaller number than the headline revenue, and it is the only number that services $18bn of debt.

Cash conversion. Interactive entertainment converts well in good years, but development is expensive and lumpy, and a delayed or disappointing release can move a year. Against roughly $1.8bn of annual interest, the margin for a weak release cycle is thin, which is why management's first move is to cut $700m of cost: deleveraging by subtraction, because the top line cannot be relied upon to do it. Defensible cash flow, not the headline top line, is what repays the loan.

Customer concentration. Customer concentration is low, a global base of players, but title concentration is high: a handful of franchises carry the economics, and the decline of one is a material event. The relevant concentration is creative, not commercial.

Capital structure and purchase multiple. At $55bn the deal is levered with roughly $18bn of debt, a little under a third of the purchase price, beneath a large sovereign-anchored equity cheque. The attachment point is the first principle in action: the equity cushion is deep, which protects a senior lender well. The concern is not the amount of debt relative to the price but the amount of cash interest relative to the cash flow, about $1.8bn a year against a business whose cash flow swings with its release calendar.

Collateral. The collateral is intangible: franchises, code, and the enterprise value of a going concern. There is no hard-asset floor, so recovery depends on the franchises holding their value in a stress that, by definition, would coincide with weak releases or falling engagement. Enterprise value is not collateral, and here it is most of what there is, which is exactly why structure has to carry the credit.

Sponsor. The consortium pairs a sovereign fund with one of the most experienced technology investors in the market, a strong ownership group with deep pockets and a long horizon, which improves the odds that the business is given time to grow into its debt. Sponsorship quality is a genuine mitigant; it does not change the interest bill.

Recovery analysis. Recovery turns on the durable core. A senior lender attaching beneath a deep equity cheque is well protected on the enterprise as a whole, but poorly protected against the specific risk that matters, a run of weak releases that compresses cash flow while $1.8bn of interest accrues regardless. Recovery is not an output of underwriting; it is the product of it, and here it must be built by lending against the recurring, live-services annuity, because defensible cash flow and not headline revenue is what services the debt, and by taking the documentation a business without hard-asset collateral requires.

Primary risks. First, a weak release cycle meeting a fixed and large interest burden. Second, the base rate rising further, on the month's own signals, against floating debt. Third, execution of a $700m cost program in a creative business where talent is the asset. Fourth, the ordinary risk that scale and prestige persuaded the financing to be larger than the durable cash flow warrants. Fifth, the intangibility of the collateral if the going concern falters.

Structural mitigants. Structure is where this credit is won or lost. Debt sized to the recurring, live-services cash flow rather than blended revenue; a cash-coverage covenant tested against a conservative release schedule; a low attachment beneath the sovereign-anchored equity; limits on further leverage and on payment-in-kind; and information rights on engagement and bookings, the metrics that turn before the income statement.

> **INVESTMENT COMMITTEE VERDICT**
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> Would Tellaro lend? Only senior, only low, and only against the durable core, and the three principles give the reasons. On attachment, the sovereign-anchored equity is deep enough to protect a conservative senior position. On cash flow, the loan must be sized to the recurring live-services annuity and given no credit for the hit-driven lottery, because spread is compensation and cash flow is repayment. On structure, a business with no hard-asset floor must be lent on covenants, a cash-coverage test and information rights, because structure is the only alpha here. Lent that way, against the annuity, low and well documented, it is a credit. Lent on the headline and the name, it is a bet on the next release.

DOCUMENTATION WATCH

August's documentation lesson is the third principle stated plainly: structure is alpha, and abundance is competing it away.

When spread has compressed as far as competition will take it, the next concession is structural: a covenant loosened, an add-back widened, a payment-in-kind toggle granted, an attachment point lifted half a turn. Each is invisible in the coupon and decisive in the recovery. Value covenants as options, as always; the difference in August is that the lender is writing those options cheaply, granting the borrower the right to defer, to add back, to lever further, in exchange for a spread that abundance has already competed away. The option surrendered is the return foregone, because structure is the alpha a lender writes for itself in the documents.

The connection to recovery is exact. A maintenance covenant is what converts a lender's early concern into an early seat at the table; an attachment point is the recovery computed in advance. Concede them for deployment and a lender has swapped a protection it can enforce for a spread it will consume within the year. Recovery is not improved by a tight spread; it is improved by a low attachment and a covenant with teeth, and those are exactly the terms abundance erodes.

The honest qualification is that loose terms cost nothing in a market that keeps rising, and this market has kept rising for a long time. The bill for August's documentation will not arrive in August.

> **TELLARO READ-THROUGH**
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> Structure is the alpha that spread cannot supply and competition cannot easily copy, because it is the return a lender writes for itself in the documents. We believe the lenders who hold the attachment point and the covenant while the crowd competes them away will own the recoveries when the cycle turns, and that this discipline, not any edge in sourcing or price, is what separates the vintages that survive. The attachment point is recovery computed in advance; it is the one term a lender should never sell for spread.

TELLARO UNDERWRITING VIEW

August does not change Tellaro's method; it raises the price of practising it. The three principles that govern every Tellaro credit, that attachment determines risk, that defensible cash flow determines repayment, and that structure is where return is made, are precisely the three that abundant capital is pressing every lender to abandon, because holding each one costs a deal. That is why they are worth holding now.

The first principle governs risk. The attachment point, not the headline multiple or the leverage, is where downside is measured, and sponsor equity is the lender's margin of safety; the discipline is to attach low beneath real equity and refuse the half-turn abundance asks for in exchange for spread it has already taken. The second governs repayment. Defensible cash flow, not yield, is what returns capital, and the emphasis of the month follows from it: favour durable, cash-generative businesses whose debt service comes from operations rather than refinancing, and treat a compressed spread as the compensation it is, never as a reason to lend. The third governs return. Structure is alpha; excess return in this asset class comes from documentation, maintenance covenants, information rights, collateral quality and cash sweeps, not from reaching for a spread the crowd has already bid away.

One further discipline follows from the month. Measure a manager by what it declines. In a market that pays fees to deploy, the loans not made are the clearest evidence that the three principles are being held, and holding them is the scarce input this cycle rewards. The lender who deploys because the capital is there has confused activity with underwriting; the lender who declines because the attachment is too high, the cash flow too thin, or the structure too loose is doing the job.

In a crowded market, spread is what a lender is offered; attachment, cash flow and structure are what it keeps, and only what it keeps is ever repaid.

CONCLUDING OBSERVATIONS

August was the month the Federal Reserve threatened to raise rates and private credit lowered its spreads anyway. That is the year's condition in a single contradiction: there is so much capital that it no longer waits for the price to be right, and so little conviction that the three things a lender should never trade, a low attachment point, defensible cash flow and hard structure, are being surrendered for a spread that means less each month. The businesses are sound and defaults are low, and none of that is the point. The point is that abundance has made deployment easy and discipline expensive, and it is competing away exactly the terms that make a loan a loan rather than a bet. Attachment determines the risk, cash flow determines the repayment, and structure determines the return; spread determines none of them. Hold the three while the crowd gives them away, and let it have the loans that only a surplus of capital could explain. Conviction is the scarce asset, and in the end it is the only one that compounds.

MARKET DASHBOARD

The dashboard is arranged to read as evidence for the issue's thesis rather than as a data table. Figures are drawn from public market data and, where a precise monthly reading is unavailable, from the latest reported period; such cases are estimates.

Metric	Current	Prior	Signal
Odds of a September rate hike	~60%	Cuts priced earlier	Jackson Hole turned hawkish; the base rate may rise
Fed funds target range	3.50-3.75%	3.50-3.75%	Held all year; the next move may be up
SOFR (overnight)	~3.6%	~3.6%	The floating base is not falling
Unitranche spread	S+450-650	Wider a year ago	Compressed by capital, not by risk
All-in first-lien yield	~8.0-8.5%	Similar	High income; spread is the competition, not the risk
Q2 direct-lending fundraise	$16.25bn	$1.3bn (Q1)	Strongest quarter in two years; it must deploy
Private credit AUM	~$2.1tn	~$1.5tn a year ago	Abundance is the defining condition
Dry-powder deployment gap	Wide, persistent	Wide	Fee pressure pushes capital to deploy
Bank share of large buyout finance	~50%	39% (2023)	Banks back in the fight; competition rising
Documentation and PIK trend	Loosening	Loosening	The concession after spread runs out
Semi-liquid vehicle redemptions	A fund capped exits	Lower	Some of the new capital is hot
Payment default rate	~1.1%	~1.1%	Low; the risk is priced-away discipline, not default
Software buyout volume	~Decade low	Low	Disciplined capital where sentiment is worst
Est. recovery (private credit)	~50c	~70c assumed	Set by attachment and documents, not spread