TELLARO CAPITAL PARTNERS

Investment Committee Insights

July 2026

Institutional Private Credit | Senior Secured Lending

From Lending to Owning

The month's most important transactions were not new. They were old loans coming due, old owners cashing out, and old assumptions being tested. Private credit is maturing from a business of originating loans into a business of stewarding them, and the discipline that follows is simple to state and hard to practise: underwrite the loan you might have to own.

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

~44%	~$120bn	~0.85x	~1.1%
LBO SHARE OF VOLUME	**2026 ISSUANCE (EST.)**	**BDC PRICE / NAV**	**PAYMENT DEFAULT RATE**
Most new private credit refinances the past, not the future.	Down ~15% on the year. Deployment slows; patience becomes the discipline.	The market's standing discount on private marks.	Near cycle lows, even as lenders build plans to take the keys.

MARKET THESIS

The defining transactions of July were not new. They were old loans coming due, old owners cashing out, and old assumptions being tested. Deployment was slow and new platform buyouts were scarce, yet the market was busy: refinancing the 2021 vintage, recapitalising portfolio companies, and returning capital to sellers who had waited three years for an exit.

Tellaro begins every credit with the same three questions: where a loan attaches, what it would recover, and what its documentation is worth. This month the second and third did the work. With most new credit refinancing existing structures rather than funding new enterprise value, and with lenders openly preparing to take control of the businesses they financed, the asset class is completing a transition years in the making. It is maturing from a business of originating loans into a business of stewarding them.

The implication is uncomfortable for a market raised on origination. The edge is migrating from sourcing and pricing, where capital is abundant and undifferentiated, to control and operation, where it is neither. Recovery, on this view, is not negotiated in a restructuring; it is prepared for at underwriting. The discipline that follows is simple to state and hard to practise: underwrite the loan you might have to own.

CREDIT SIGNALS

Three patterns in the month's transactions, read not as events but as evidence of where the asset class is heading.

Signal 1: The new-money market has narrowed to refinancing.

Evidence. New private-credit issuance is forecast to fall roughly 15 per cent this year, to about $120bn, and by mid-year only around 44 per cent of volume supported leveraged buyouts, the majority funding add-ons, refinancings and recapitalisations. July fit the pattern: a surgeon-led recapitalisation at Paradigm Oral Health, a run of add-on roll-ups in roofing, garage doors and infusion care, and few genuinely new platforms.

Interpretation. Most credit written in 2026 is not financing new enterprise value; it is re-papering capital structures assembled in 2021 as they approach a 2028 maturity wall. The distinction matters because a refinancing is a new decision, not a continuation. The business has aged, the vintage's documentation may not survive a downturn, and the sponsor's original cost basis is no longer the lender's concern. To roll a loan on its existing terms is to inherit another underwriter's mistakes at par.

Read-through: *re-underwrite every refinancing as if originating it today; never inherit a legacy credit on legacy terms.*

Signal 2: Execution risk has migrated from the balance sheet to the state.

Evidence. The largest buyout in history made the point in the negative. Electronic Arts had its financing committed since 2025, roughly $20bn of debt led by JPMorgan against $36bn of equity, yet the transaction spent July in regulatory limbo, missing its 30 June outside date and clearing its final national-security review only on 30 July.

Interpretation. For the largest and most cross-border transactions, the binding constraint is no longer whether capital is available but whether the transaction is permitted. The scarce approval has moved from the credit committee to the regulator. For a lender this creates a duration few models capture: the cost of capital committed but undrawn while a deal waits on a government. Committed financing is a written option on the lender's balance sheet, and its tenor is now set in Washington, not the market.

Read-through: *price regulatory duration; set commitment fees, outside dates and ticking economics for a world where the state sets the timetable.*

Signal 3: Lenders are preparing to own what they financed.

Evidence. Advisers report a rise in mandates to build hundred-day plans for change-of-control situations, modelled on the transition playbooks used in corporate carve-outs. Liability management remains a permanent feature of the market rather than an episodic one, and manager consolidation continued, with PGIM taking full control of the lower-middle-market lender Deerpath. Defaults, meanwhile, held near cycle lows.

Interpretation. The maturation of private credit is visible not in distress, which remains muted, but in preparation. Recovery is being reconceived as an operating outcome rather than a legal one, and the capability to run a business, not merely to foreclose on it, is becoming the differentiator. Consolidation is the same story told at the level of the firm: scale is being acquired to fund the workout benches, operating partners and systems that stewardship requires. The quiet lesson is that the next cycle's winners are building their restructuring capability while the sun is still out.

Read-through: *value operational capability as part of expected recovery; a control right is worth only as much as the plan and the people behind it.*

WHAT CHANGED IN UNDERWRITING

The terms of a middle-market loan moved little in July. Unitranche coupons of roughly SOFR plus 475 to 550 basis points and original issue discounts near 99 are broadly where they sat at the start of the summer. What moved was the balance of what lenders demand, away from yield and towards control.

The clearest change is in how refinancings are treated. In an origination market a refinancing is a light-touch exercise: the credit is known, the relationship exists, and the temptation is to roll it forward. In a stewardship market that habit is a liability. A loan first written in 2021 was underwritten to a different rate, a different multiple and a different set of assumptions about demand; three years on, the only honest approach is to re-underwrite it from a blank sheet, as though the borrower had walked in the door for the first time. The passage of time is not a covenant. It does not reduce risk; it merely obscures it.

Attachment point remains the first question, and its logic is unchanged: what protects a lender is the capital that must be lost before it is, not the multiple paid above it. July added a second emphasis. Where recovery depends on continuing to operate a business rather than liquidating it, documentation must reach beyond financial covenants into control, information rights that reveal deterioration early, the ability to change management, protection around key people, and governance that functions even when the lender is deliberately a minority. It is too early to conclude that the market has absorbed this. Much of the documentation being written today will be tested only when a benign default rate finally turns.

TELLARO READ-THROUGH

The discipline is to treat every refinancing as a new loan, and every loan as a business one might have to run. Legacy credits are re-underwritten from a blank sheet, not rolled, and control rights, information, key-person protection and governance are paid for with the same seriousness as spread. In a maturing market the cheapest protection is the covenant that lets a lender act early, and the most expensive mistake is the loan that can only be foreclosed, never operated.

SECTOR ROTATION

Read through the lens of ownership, the month's activity sorts less by growth than by ownability: how much of a business a lender could actually run if it had to.

Healthcare services

The most active and the most instructive sector. July's surgeon-led recapitalisation at Paradigm Oral Health, alongside sponsor activity in infusion and dental care, confirms that resilient, non-cyclical demand still commands premium capital. It also exposes the sector's defining credit question. In a physician-owned roll-up the collateral has a pulse: value is produced by clinicians who can resign, compete or retire. Recovery is a function of retention, not of assets, and the binding terms are employment agreements, non-competes and economic alignment, not advance rates. A DSO's collateral is its retained surgeons, and no lien attaches to a person.

Consumer and industrial services

The roll-up remained the dominant structure, with add-ons in roofing, garage doors and cold-chain distribution. These are ownable businesses, route density, recurring maintenance demand and real equipment, but the credit risk sits in integration and in the quality of the cash flows being bolted on. The discipline is to underwrite the platform's standalone cash conversion and to size an excess-cash-flow sweep, because a roll-up levered on acquisition multiples deleverages only if the synergies are real.

Software

Little changed, and the change already made is decisive. Recurring revenue is not recurring cash flow, and in a stewardship frame software is the least ownable collateral of all: a lender cannot operate its way out of a churning subscription base whose value rests on a retention assumption that artificial intelligence has called into question. Advance rates against recurring revenue remain under pressure, and cash-flow coverage has replaced revenue multiples as the relevant test.

Insurance and specialty finance

July's take-private of Safety Insurance and the continued weight of capital into specialty finance point to appetite for regulated, balance-sheet businesses. These are among the most ownable assets in the market, backed by reserves and receivables that survive a change of control, but they carry the duration risk the second signal described: their transactions clear on the regulator's timetable, not the lender's.

TELLARO READ-THROUGH

Ownability is the organising question. The discipline is to underwrite each sector to what a lender could recover by operating it: retained clinicians in healthcare, integrated cash flows in services, almost nothing in asset-light software, and regulated balance sheets in insurance, subject to the state's permission. Where the collateral can resign, structure must substitute for security; where it cannot be operated at all, spread is a substitute for neither.

INVESTMENT COMMITTEE CASE STUDY

Each issue examines one transaction as Tellaro's investment committee would, using public information only. This month: the surgeon-led recapitalisation of Paradigm Oral Health, announced on 23 July 2026, in which the company repurchased BlackRock Long Term Private Capital's stake and returned majority control to its surgeons, financed by a structured investment led by Warburg Pincus alongside Goldman Sachs Alternatives and Sixth Street. Terms were not disclosed. Tellaro is not the hybrid-capital provider in such a structure; the exercise below asks the narrower question a senior secured lender must answer, namely whether, and how, to sit at the top of this capital structure.

Business quality. Paradigm, founded in 2018, is a leading oral surgery and digital dentistry platform operating across 34 states. It is a physician-services roll-up: a management and capital platform above practices whose economics are generated by individual oral surgeons. Demand for oral and maxillofacial surgery is largely non-discretionary and insulated from the cycle, and the platform has genuine scale. Quality, however, is inseparable from the surgeons who produce it.

Revenue durability. Procedure demand is durable, but durability of demand is not durability of the platform's cash flow. The platform earns by retaining surgeons and their patient relationships; a surgeon who leaves takes a book of business, and often a local reputation, with them. Revenue is only as recurring as the clinicians are retained, which is the sharpest version of the principle that recurring revenue is not recurring cash flow.

Cash conversion. Mature clinics convert well, with limited fixed capital. A platform still expanding through de-novo clinics and acquisitions consumes cash to grow, and this recapitalisation is explicitly intended to fund further expansion. A lender must separate the cash the existing network produces from the cash the growth plan absorbs, and lend only against the former.

Customer concentration. Patient concentration is negligible. The concentration that matters is clinical: dependence on key surgeons, on referral relationships, and on the continued alignment of a partner group that has just increased its ownership. The buyback is, in credit terms, a re-alignment of the people who are the collateral, which is a positive, but it also means the equity beneath any loan belongs to the very individuals whose departure would impair it.

Capital structure and purchase multiple. Terms are undisclosed, and the structure is itself the signal. Capital came from hybrid and structured providers rather than a straightforward unitranche, and control returned to surgeons rather than to a financial sponsor. That configuration describes a business where investors deliberately do not hold operating control and where the solution is built around alignment rather than command. Enterprise value is not collateral here in any sense: there are few assets to attach, and the equity value is a capitalisation of retained clinical talent.

Collateral. For a senior lender the collateral is close to intangible, contracts, brand, and the enterprise value of a going concern that exists only while its surgeons remain. There is no hard-asset floor. Recovery in a downside is not a liquidation; it is a retention exercise conducted in the middle of a crisis, which is the least favourable moment to ask a surgeon to stay.

Sponsor. The investor group is of the highest calibre, and the surgeon-led model aligns owners with operators. For a lender this is reassuring on alignment and unhelpful on control: the parties best able to run the business are the ones a lender cannot replace.

Recovery analysis. This is where the case turns. In distress a lender cannot foreclose on a surgeon. Value is preserved only by keeping clinicians in their chairs, which requires the very economics a defaulted structure has impaired. Recovery therefore depends on employment agreements, non-competes and retention incentives holding at the precise moment their beneficiaries have the most reason to leave. Absent enforceable, well-designed key-person protection, recovery on an asset-light, people-dependent platform can fall well below the levels a healthy-market model would assume. Recovery is not an output of underwriting; it is the product of it, and in this business it must be engineered into the documents.

Primary risks. First, key-person and retention risk, which is very nearly the whole of the credit. Second, a growth plan that consumes more cash than the base network produces. Third, reimbursement and payer mix. Fourth, the ordinary hazard of a physician roll-up, that decentralised clinical autonomy resists central control exactly when control is needed. Fifth, the sector's own maturity, this being a later chapter of ownership for many DSO assets, each recapitalisation resetting the clock without resetting the business.

Structural mitigants. A fixed-charge coverage covenant tested on the base network rather than the growth plan; an excess-cash-flow sweep; hard caps on debt-funded de-novo and acquisition activity; and, above all, a contractual key-person architecture, long-dated employment and non-compete agreements for the senior surgeon cohort, retention pools that vest through a downside, and information rights granular enough to reveal clinician attrition before it reaches the financial statements.

> **INVESTMENT COMMITTEE VERDICT**
> Would Tellaro lend? Only narrowly, and only at the very top of the structure. The business is genuinely resilient in demand, but its collateral can resign, and a senior lender's recovery depends on people it cannot compel and does not control. The discipline is to attach low, against the cash conversion of the mature network alone, with a fixed-charge covenant, a cash sweep, tight limits on debt-funded growth, and a key-person architecture that treats surgeon retention as the security it in fact is. Absent that architecture this is a loan to decline regardless of spread, because there is nothing to own if it breaks. The relevant question is not what the platform earns, but what a lender would hold the morning after its surgeons resigned.

DOCUMENTATION WATCH

In a stewardship market, documentation stops being a legal appendix and becomes the operating manual for a business a lender may have to run.

The last cycle taught the cost of thin documentation through liability management: cooperative agreements, drop-downs and uptier exchanges that redistributed value among creditors who had signed loose papers. Those exercises are now a permanent feature, and the lesson has been absorbed unevenly. The first-generation response was defensive, tighter baskets and blockers against collateral leakage. The July emphasis is more ambitious: documentation that not only prevents value from leaving but enables the lender to act, to see deterioration early, to change management, to protect key people, and to convert a claim into control before value is lost.

The way to value these terms is unchanged, as options. A maintenance covenant is a call on early intervention; an information right is a call on early knowledge; a key-person protection is a call on the collateral itself when the collateral can walk. Each is worth most in the states of the world where spread protects least. What July adds is the recognition that, for people-dependent and asset-light businesses, these control terms are not enhancements to a recovery otherwise secured by assets; they are the recovery.

The honest qualification is that control rights are easier to draft than to exercise, and their value will be revealed only when a benign default rate turns and lenders discover, one credit at a time, whether they wrote the right to act or merely the right to complain.

> **TELLARO READ-THROUGH**
> Documentation is not protection against loss; in an asset-light market it is the mechanism of recovery. The market still prices spread carefully and control loosely. We believe the ability to act early, through information, governance and key-person terms, will prove one of the few durable edges in private credit as the asset class shifts from lending to owning. The covenant that lets a lender operate is worth more than the spread that merely pays it to wait.

TELLARO UNDERWRITING VIEW

July does not change Tellaro's method; it changes which of its questions carries the weight. In a market maturing from lending to owning, the same three questions, where a loan attaches, what it would recover, and what its documentation is worth, are asked in the same order, but the second and third now dominate the first.

On attachment, the principle holds: lend where the equity beneath the loan is real and large, and prefer the business whose cash flow predates its owner. On recovery, the emphasis sharpens: favour cash flows a lender could actually operate or sell, hard-asset and contracted businesses, regulated balance sheets, franchised and fee-based models, and treat with caution any credit whose value would resign in a crisis, the physician roll-up, the asset-light software platform, the people business dressed as a recurring-revenue business. On documentation, insist on the terms that convert a claim into control: information rights, key-person protection, governance that functions from a minority position, and covenants that permit action before value leaks.

Two further disciplines follow from the month. Treat every refinancing as a new loan; the maturing 2021 vintage will offer many chances to inherit another underwriter's risk at par, and each should be re-priced or declined, never rolled. And prize, in a partner and in ourselves, the operational capability stewardship now requires, because in the cycle ahead the lender who can run a business will recover more than the lender who can only lend to one.

Spread is what a lender is paid to wait; recovery is what it is paid to have underwritten well. This is the environment in which the second matters more than the first.

CONCLUDING OBSERVATIONS

July described a market that has quietly changed its nature. The transactions that mattered were not new bets but old ones being managed: loans refinanced, stakes bought back, control returned, capital sent home. Beneath a default rate near cycle lows, the most telling activity was preparation, for extensions, for workouts, for the day a lender must do more than lend. Private credit spent a decade learning to originate. It will spend the next learning to own, and the discipline that separates the two is not fresh capital or finer pricing but the willingness to underwrite every loan as though the keys might one day change hands, and to build, in advance, the capability to use them. Capital can be raised in a quarter; the ability to steward what it buys cannot, and that, in the end, is the edge the coming cycle will reward.

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
Private-credit issuance (2026E)	~$120bn (-15% YoY)	2025 higher	Deployment slows; patience becomes discipline
LBO share of PC volume	~44%	Higher pre-2024	Most new credit refinances the past
Global LBO volume (quarterly)	~$287bn (Q2p)	~$447bn (Q1)	Five-year low; origination is scarce
Avg. purchase multiple (MM)	7.3x	7.2x (FY25)	Firm pricing, solved with equity
Avg. total leverage (MM)	~3.6x	~4.0x (2021 peak)	Attachment remains conservative
Unitranche spread (MM)	SOFR + 475-550	Broadly flat	Price steady; the contest has moved to terms
Payment default rate	~1.1%	~1.1%	The calm surface
Distress incl. liability mgmt	~3%	Higher a year ago	Preparation, not distress, defines the month
PIK and amend-and-extend	Elevated; record A&E	Rising	Time bought, risk deferred
SOFR (overnight)	~3.6%	Higher a year ago	Falling base rate ends the funding trade
Fed funds target range	3.50-3.75%	Higher	Easing cycle under way
BDC price / NAV	~0.85x	Deeper discount early 2026	Standing discount on private marks
Est. recovery (private credit)	~50c	~70c assumed	Recovery, not spread, defines the vintage
Manager consolidation	Ongoing (PGIM/Deerpath)	Active all year	Scale acquired for stewardship