I Was There, and - To Paraphrase a Taylor Swift Line - I Remember It (2008) All Too Well

The Headline: “TPG Collects $6.2 Billion for Bespoke Private-Credit Deals”

TPG has raised $6.2 billion to deploy into the opaque corners of the credit market, stepping in where regulated banks can no longer tread. The fund focuses on "rescuing" private equity portfolio companies hitting maturity walls—borrowers deemed too risky for the traditional banking system. By utilizing bespoke structures that can mask leverage (sometimes keeping debt off-balance-sheet), TPG is aggregating risks that are invisible to the broader market. The resulting assets are impossible to accurately analyze or price in the secondary market. **These characteristics make this and other private credit vehicles fundamentally unsuitable for retail investors, whether in taxable accounts, 401(k)s, or IRAs, unsuitable for any KCM managed accounts.**

A History Lesson

The Spark: Owning the Future

Fifty years ago, when Wall Street still smelled of cigarette smoke and carbon paper, a small circle of restless young bankers began to whisper about owning the future instead of just underwriting it. They were clever enough to realize that the real fortunes would not be made by trading yesterday’s blue chips, but by quietly buying tomorrow’s champions long before the public markets knew their names.

Most had learned their craft at big banks and brokerage houses, watching industrial titans shuffle paper. Frustrated by bureaucratic rules, committees, and the small commissions earned on giant deals, they felt like well-paid spectators rather than true owners.

The Structure: General and Limited Partners

In the late 1960s and 1970s, these financiers began slipping away from marble lobbies to cramped offices on side streets and, eventually, to a dusty stretch of California that would become Sand Hill Road. Their concept was simple yet radical: raise pools of private capital to buy stakes in promising companies, then reshape those businesses until Wall Street begged to take them public.

To achieve this, they created a new vehicle: the **Limited Partnership**.

- **The General Partners (GPs):** The entrepreneurs who brought judgment, hustle, and a willingness to sit on boards, rewrite strategies, and fire CEOs if necessary.
- **The Limited Partners (LPs):** Wealthy families, institutions, and pension funds that provided the capital.

The "2 and 20" Bargain

A compact quickly emerged that defined the industry's economics.

1. **Management Fee (2%):** Funds charged roughly 2% of the capital committed annually to cover overhead, salaries, and research.
2. **Carried Interest (20%):** The real prize. GPs kept roughly 20% of the profits, but only if the investments flourished and were sold or taken public. This created a powerful psychological engine: steady fees to keep the lights on, but massive fortunes only if they succeeded.

The Exit: Turning Private Bets into Public Stories

Deal by deal, they refined the playbook. Venture funds seeded startup tech firms; buyout partnerships acquired sleepy industrial companies, using the fund's equity to absorb volatility that public shareholders would never tolerate.

When the timing was right, they returned to their old colleagues on Wall Street—not as beggars, but as owners offering polished companies for **Initial Public Offerings (IPOs)**. The public markets provided the exit, converting years of patient work into liquid stock and monetizing the 20% carry. Within a generation, a handful of cramped offices had evolved into the global venture capital and private equity industry.

The Shift to Credit and Leverage

As competition intensified and deal prices rose, the industry evolved. Private equity sponsors began layering on massive amounts of debt to maintain target returns. This demand for leverage, combined with regulatory changes, birthed a new giant: **Private Credit**.

The Regulatory Catalyst (Dodd-Frank)

Following the 2008 crisis, the **Dodd-Frank Act** and the **Volcker Rule** fundamentally changed banking behavior, creating a vacuum that non-bank lenders filled.

- **Capital Requirements:** New rules raised the cost for banks to hold non-investment-grade and leveraged loans.
- **The Volcker Rule:** Section 619 limited banks' proprietary trading and restricted their ability to invest in private equity and hedge funds.
- **Leveraged Lending Guidance:** Regulators discouraged banks from financing highly levered buyouts, pushing risky borrowers toward direct lenders.

The Rise of Private Credit

Banks, constrained by these rules, retreated from warehousing risky credit. In their place, non-bank lenders—private funds and intermediaries—stepped in. Private credit assets ballooned from tens of billions around the year 2000 to over **$1.5 trillion today**. This sector now functions as a massive "gap filler," funding the majority of recent leveraged buyouts (LBOs).

The Global Carry Machine

This expansion was fueled by cheap money abroad, specifically the "Yen Carry Trade."

- **The Mechanism:** Investors borrowed in Japanese Yen (where interest rates were near zero or negative), converted it to Dollars, and invested in higher-yielding U.S. assets.
- **The Risk:** This trade relies on a weak Yen and stable spreads. As Japanese rates edge up, the economics of this trade can flip, exposing the fragility of leverage that was assumed to be "free."

Systemic Risks and The New "Subprime"

Current market structures share uncomfortable parallels with the pre-2008 mortgage machine. Just as layers of leverage were once piled atop "safe" mortgage pools, they are now piled atop opaque private companies.

Comparison: 2008 Subprime vs. Today's Private Credit-Bloomberg Data

Feature	Pre-2008 Subprime Mortgage Market	Today's Private Credit Market
Size	~$2 Trillion (at peak)	~$1.5 – $2.1 Trillion
Borrower Profile	Weak household borrowers	Weak/Highly levered corporate borrowers
Risk Factors	High leverage, weak documentation	"Covenant-lite" loans, floating rates
Funding Model	Runnable short-term wholesale funding	Committed fund capital (mostly locked up)
Primary Risk Holder	Banks and Broker-Dealers	Pensions, Insurers, Retail Funds

The Liquidity Illusion

Rising default rates and "selective defaults" (such as Payment-in-Kind, or PIK, where interest is paid with more debt rather than cash) suggest embedded stress. While banks are better capitalized today, the risk has migrated. If a downturn hits, the damage may not land on bank balance sheets, but in **pension funds, individual retirement accounts, and insurance portfolios**.

Securitization Redux

Wall Street's answer to liquidity constraints remains unchanged: **securitize and distribute**. Asset managers are increasingly packaging slices of private credit into **vehicles aimed at retail investors and 401(k) plans. This shifts risk from concentrated institutional pools to households and long-horizon savers.**

The Insurance Nexus

Another critical and emerging risk involves the growing ties between private equity firms and the **Life Insurance Industry**, particularly U.S. insurers that are relocating to jurisdictions such as the Cayman Islands and Bermuda. Apollo's Marc Rowan has likened these offshore moves to the rapid failure of Silicon Valley Bank, warning that Cayman-based insurers often manage risk poorly and fail to hold sufficient assets to back their liabilities.

The "Shadow" Funding Base

Private equity firms have increasingly acquired or partnered with life insurers, treating them as sources of "permanent capital."

- **Scale:** Private placements now account for roughly **14%** of U.S. life insurers' general account assets. Private Equity-owned insurers hold significantly higher concentrations of illiquid assets than their traditional peers.
- **Conflict of Interest:** There is a risk of "affiliated lending," where an insurer is steered into buying the debt of its parent private equity firm's portfolio companies.

The CLO Loop

Private equity-owned insurers have become aggressive buyers of **Collateralized Loan Obligations (CLOs)**.

- **Riskier Tranches:** Unlike traditional insurers who buy the safest (AAA) slices of debt, private equity-owned insurers often buy mezzanine and junior tranches to boost yield.
- **Capital Arbitrage:** They utilize these structures to reduce regulatory capital charges while holding riskier underlying loans.

The Systemic Threat

Apollo's Marc Rowan—whose life insurer Athene owns a Bermuda-based reinsurer—along with Goldman Sachs, the IMF, the Federal Reserve, and the BIS, has warned that while insurers are broadly stable, this particular web of exposures represents a "macro-critical" vulnerability. In a severe downturn, the combination of rising corporate defaults, losses in private equity portfolios, and pressure on insurers' balance sheets could reinforce one another, creating a feedback loop that propagates stress throughout the financial system.

I am not forecasting an imminent repeat of the 2008-style collapse of the global financial system; in fact, I remain positive on the outlook for the U.S. economy in 2026. Rather, I am calling attention to investments that both we and you should avoid so we can better protect ourselves when the next inevitable economic downturn arrives.

Jay Kellett

Founder & CEO