Market Outlook | February 2026

Private Credit Insights: Cut the SaaS

The software sector is high yield private credit's largest borrower by debt outstanding. As some software companies grapple with the specter of AI-driven obsolescence and slowing growth, it's worth taking a closer look at your direct lending investments.

Justin Stach
Head of Private Credit

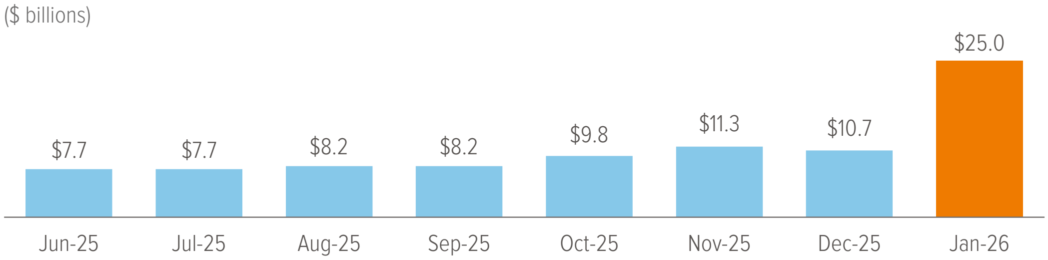
Key takeaways

- **Private credit's exposure to software companies is estimated at $226 billion;** it also the most levered sector in all of core and upper middle market direct lending.
- While often labeled "senior secured," **these software loans are likely to have very low recovery rates** in times of trouble (or transformational tech sector change) due to their lack of tangible collateral.
- The distress already visible in software leveraged loans is likely to show up in high yield private credit portfolios too, although the **high preponderance of software private placements with payment-in-kind (PIK) toggles** may allow some managers to delay formal acknowledgement of loan issues.
- **Voya is structurally insulated from software credit risk,** with 0% of its primarily project finance-based high yield private credit portfolio in software loans, and only 2% of its investment grade private credit portfolio in technology of any sort.

Going soft

Recent headlines have raised concerns about AI's impact on software companies, prompting many private credit managers to revisit their exposure to these vulnerable segments. Should you be worried about software loans in private credit? Yes, and we'll get into why in a moment.

Exhibit 1: The volume of software leveraged loans trading below 80% of par jumped last month
($ billions)



As of 02/05/26. Source: Reuters, Pitchbook. January's number implies that 13% of the estimated $194 bn in outstanding software leveraged loans are distressed.

Voya's private credit portfolios contain zero software company loans.

Voya's private credit platform, however, is structurally insulated from these pressures—a side-effect of longstanding discipline in sector selection and collateral focus, and caution around technology's obsolescence risk. As a result, we enter this period from a position of strength rather than defense.

Few software companies qualify as investment grade. Similarly, few software companies have the sort of collateral that would allow them to tap private markets for investment grade asset-backed debt.[1] This means most direct lending to software companies (and their occasional alter ego, "business services") is unrated high yield credit. In other words, look to your core and upper middle market direct lending investments.

Over the decade long track record of Voya's **Private Credit High Yield Strategy,** we've built the portfolio to be structurally defensive and anchored in tangible asset businesses: 0% of our historical production has been in technology, and only 5% has been in health care (another low collateral area).

Contrast this with the broader direct lending market, where technology and healthcare were among the top sectors in 2025, each accounting for 18% of direct lending new issuance, per Pitchbook LCD. As peers were leaning into low collateral business models, we maintained discipline and avoided the concentrations that are now facing repricing pressure.

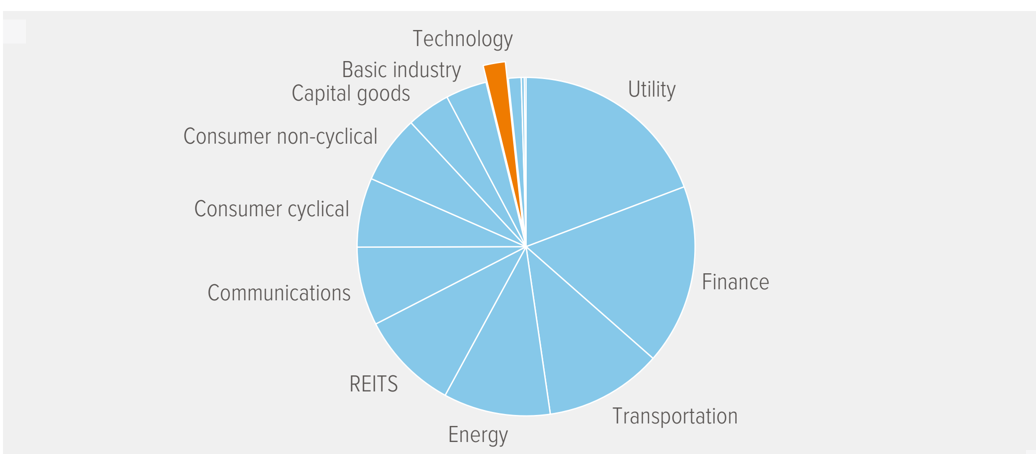
We've been worried about the middle market's collateral crunch for years, particularly in software and certain health care verticals where businesses lack hard assets and exhibit low recovery values.

When comparing our portfolio to the $425 billion Cliffwater Direct Lending Index:

- 56% of Voya's assets were invested in higher collateral industries, vs. only 26% for the broader market.
- 0% of the portfolio is invested in software and tech, whereas the index had nearly a 25% allocation to software & IT services.

Voya's **Private Credit Investment Grade Strategy** also carries limited technology exposure—less than 2% of the total portfolio—all of it fundamentally different from traditional software risk (Exhibit 2). These investments are generally manufacturing companies in tech (such as chip factories) and Credit Tenant Lease-like structures (such as data centers) tied to the Mag 7, supported by balance sheet strength and durable credit fundamentals.

Exhibit 2: Voya's tech exposure is minimal—and it's all investment grade

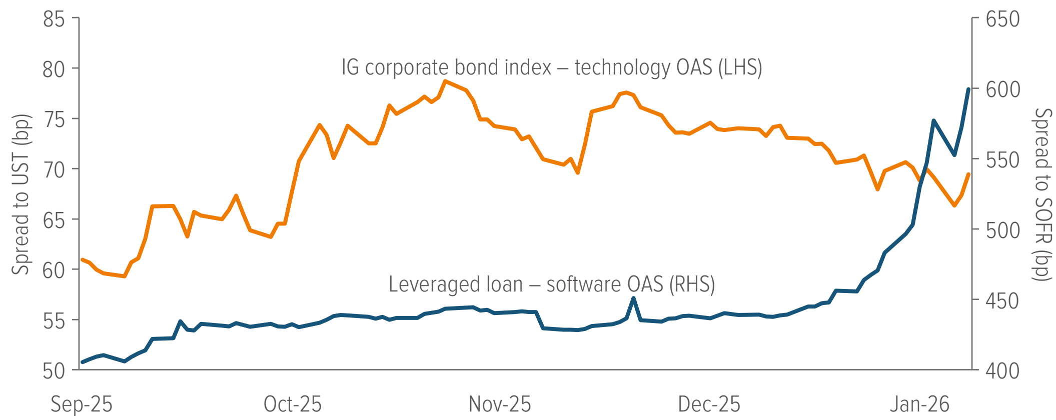


As of 12/31/25. Source: Voya IM. Average rating of Voya's technology private credit portfolio is BBB+.

[1] The Venn diagram here is almost a perfect circle.

Positioning within the private credit teams' portfolios directly limits exposure to the business models now facing competitive uncertainty due to AI—particularly software companies whose products are more easily replicated, automated, or replaced by emerging AI tools.

Exhibit 3: IG tech credit spreads have narrowed as software leveraged loan spreads blow out



As of 02/04/26. Source: Morningstar; Bloomberg; Voya IM.

Bugs in the system

The current sentiment shift regarding software companies has been largely instigated by AI's rapid adoption as a coding engine and agent, but it's not limited to that. There are a couple other overhanging issues.

The first is a general frustration with the high cost and middling utility of many software-as-a-service (SaaS) products. Think of it this way: How many software platforms is your firm currently looking at replacing, or at least cutting down on? It's not zero, is it?

It's not just AI; it's structures based on overly-aggressive growth forecasts meeting buyer fatigue.

The second is the long tail of the post-pandemic software M&A boom. 2021 was the biggest buyout year ever in the U.S., with $1.1 trillion closing—and $256 billion of that was software. These were done on average at EV/EBITDAs of over 20x and carried debt of around 10x EBITDA—versus more recent years' still-chunky 7-8x EBITDA.[2] Deal structures were often priced to maximize private equity returns, based on aggressive growth forecasts that never came to pass.

Technological transformation and buyer fatigue are now forcing a rather overdue re-evaluation of these companies' growth potential, at a time when a lot of PE-backed software companies already have debt coverage ratios on the razor's edge (Exhibit 4).

Exhibit 4: Some 2025 financial metrics of PE-owned software companies

	Privately monitored below investment grade	Publicly rated below investment grade	Investment grade
Revenue growth (%)	12.2	5	13
Free cash flow margin (%)	2.2	1.5	22.7
Leverage (x)	7.8	6.5	1.1
EBITDA interest cover (x)	1.3	1.7	20.2

As of 10/31/25. Source: Fitch Ratings. Metrics are taken from a basket of 60 software companies with monitored ratings.

[2] Bain & Company, Global Private Equity Report 2022, accessed 02/06/26.

The era of insecurity

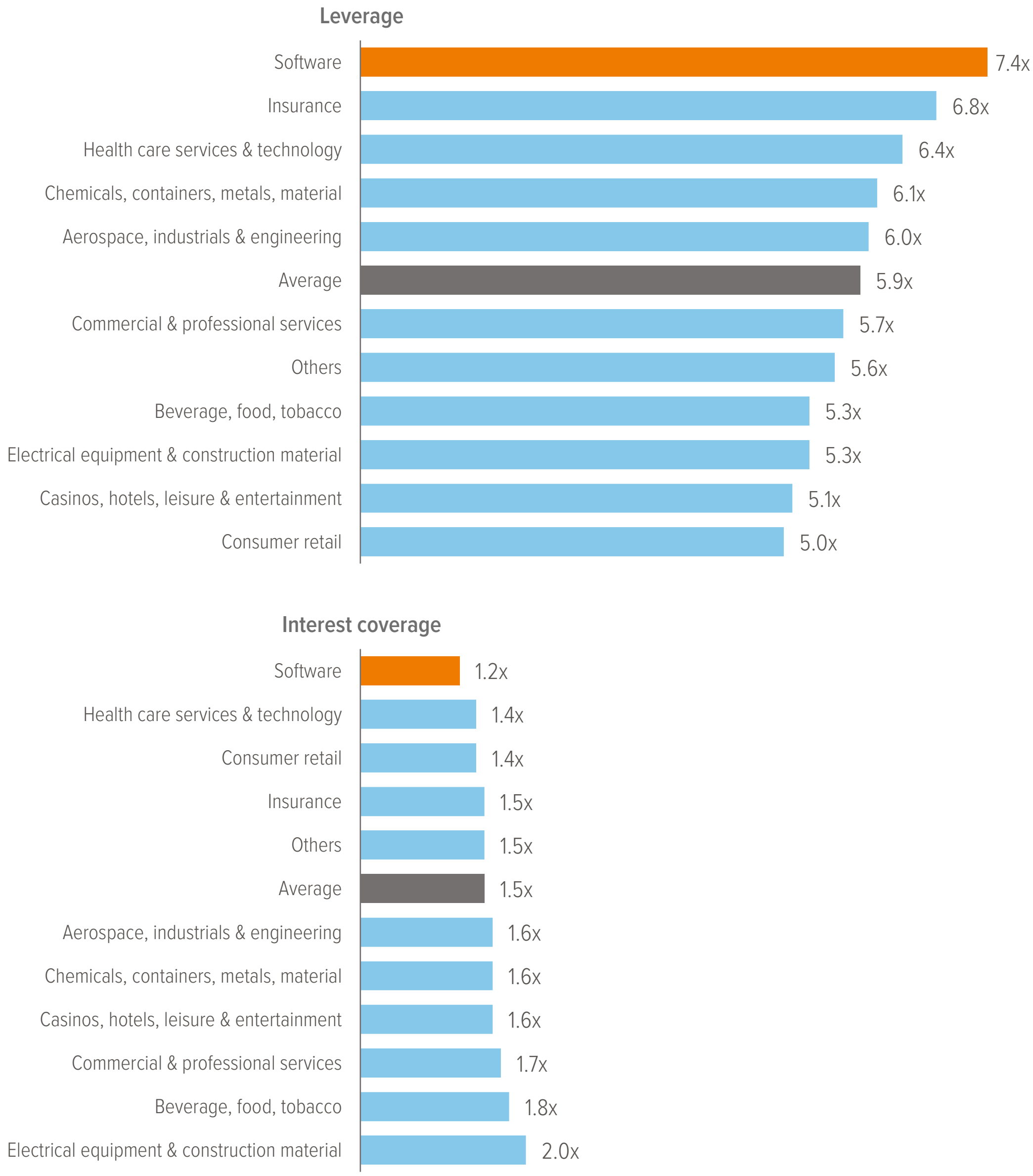
KBRA estimates that private credit's exposure to software loans is $224 bn, across 415 borrowers, making it the single largest borrower sector by debt outstanding.[3] These loans have an average leverage ratio of 7.4x and an interest coverage ratio of 1.2x—the most leveraged, with the lowest interest cover, in all of private credit (Exhibit 5).[4]

Existing debt levels leave little room for adaptive capex—or any loss of pricing power.

By and large, many of these companies will struggle through the next couple of years just fine thanks to aggressive action from their PE sponsors, though likely at lower valuations than previously hoped.

But not all of them.

Exhibit 5: Software has the highest leverage and lowest interest cover in high yield private credit



As at 02/05/26. Source: KBRA.

[3] KBRA, "Private Credit: Framing AI and Software Risk," 02/05/26.
[4] Ibid. KBRA helpfully tells us that these figures do not include the 16% of software companies monitored which have negative EBITDA.

There's little to recover when a low-collateral business model breaks.

Importantly, many private credit managers rely heavily on covenants to manage downside risk. But today's environment underscores a fundamental truth: All the covenants in the world won't help when a software company goes under. **Covenants alone cannot protect a lender when a low collateral borrower fails.**

The emerging AI driven disruption in software is proving that point: recovery rates in software are inherently limited because there is little to recover when the business model breaks.

Unsurprisingly, some of our peers with large software loan books have been dismissive of trouble in their portfolios, suggesting that this is purely a leveraged lending problem. We are not so sure. Of course, leveraged loans are more liquid and transparent than private credit portfolios so trouble becomes visible there first.

Already, 48% of large BDCs' software loan interest is PIK rather than cash.

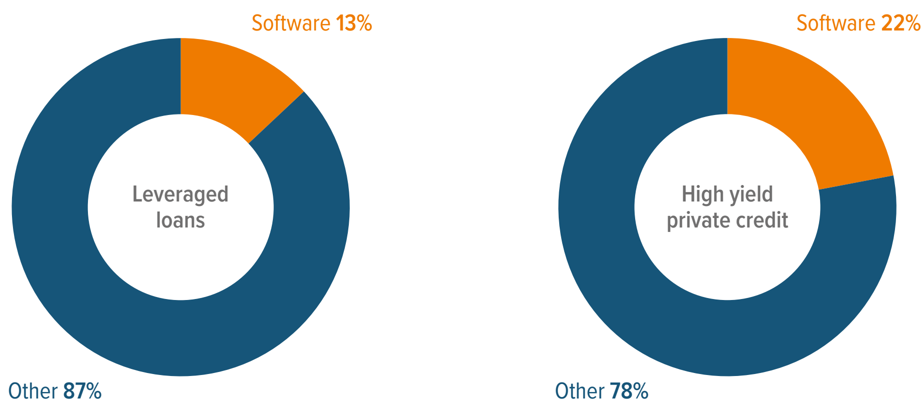
But we find it unlikely that credit trouble exists in leveraged lending alone—especially given private credit's larger exposure to software loans (Exhibit 6).

It's useful to recall that on average, leveraged loan financing is 100-150 bp cheaper than middle market private credit and, until 4Q25's relaxations in leverage guidelines, banks' loan leverage has been effectively capped at 6x EBITDA. In other words, banks' underwriting criteria is often stricter than many high yield private credit lenders, and leveraged loans tend to be less burdensome on borrowers.

Looking specifically at private credit, we have talked a lot recently about ways high yield private credit portfolios can delay acknowledgement of loan issues, and much of that is germane to this conversation, too. Covenants can't be breached if they don't exist! Or if they're so loose they functionally don't do their job.

Software loans also tend to come with PIK toggles, and those toggles are currently in heavy use. Among the top 15 business development corporations (BDCs), 48% of private credit software loan interest is currently being paid via PIK—pulling cash yields down from 10.54% to 5.52%.[5] Not a covenant breach if it's a PIK toggle!

Exhibit 6: High yield private credit portfolios have greater software exposure than leveraged loans



As of 02/06/25. Source: Morningstar; KBRA.

[5] Pitchbook, "PIK interest income at BDCs falls for 3rd straight quarter as schism appears," 11/11/25.

Slow and steady wins the race

Unlike peers who must now rapidly adjust, Voya is not forced into reactive portfolio repositioning in response to AI driven volatility. Our decades-long track record of sector selection and collateral discipline already provide meaningful downside mitigation.

We strive to allocate to borrowers that offer:

- Strong asset backing.
- Stable demand across cycles.
- Low susceptibility to technological disruption.
- More predictable recovery dynamics.

Disciplined, collateral-focused underwriting is especially critical in times of high credit demand.

This consistent approach, not a recent pivot, is what now differentiates Voya in a market reassessing credit quality and sector risk through an AI lens.

In addition, Voya also maintains a highly selective approach to data center related opportunities. Voya approaches the data center ecosystem with strict discipline. While AI is transformational, tech cycles move far faster than infrastructure life cycles, creating meaningful renewal and obsolescence risk—particularly in single site, single tenant, or GPU dependent projects.

Voya favors infrastructure adjacent, contract backed opportunities with durable tenants and strong structural protections. We avoid speculative development, transactions dependent on optimistic growth assumptions, and projects where technology cycle risk outweighs contractual durability.

Our overarching philosophy remains simple: demand may be large, but disciplined underwriting is essential to avoid repeating the overbuild and bust patterns seen in earlier tech booms.

Learn more: Energy & Infrastructure Insight: Data Centers

A note about risk

All investing involves risks of fluctuating prices and uncertainties of rates of return and yield. All security transactions involve substantial risk of loss.

Private credit: Foreign investing does pose special risks, including currency fluctuation, economic, and political risks not found in investments that are solely domestic. As interest rates rise, bond prices may fall, reducing the value of the share price. Debt securities with longer durations tend to be more sensitive to interest rate changes. High yield securities, or “junk bonds,” are rated lower than investment grade bonds because there is a greater possibility that the issuer may be unable to make interest and principal payments on those securities. Other risks of private credit include, but are not limited to: credit risks, other investment companies risks, price volatility risks, inability to sell securities risks, and securities lending risks.

Index definition: The Cliffwater Direct Lending Index is an asset-weighted index of approximately 17,300 directly originated middle market loans totaling $425 billion. it is calculated quarterly and seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of including both exchange-traded and unlisted Business Development Companies, subject to certain eligibility criteria.

Past performance does not guarantee future results. This market insight has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing, or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain statements contained herein may represent future expectations or other forward-looking statements that are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in such statements. Actual results, performance, or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) interest rate levels, (4) increasing levels of loan defaults, (5) changes in laws and regulations, and (6) changes in the policies of governments and/or regulatory authorities. The opinions, views, and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Fund holdings are fluid and are subject to daily change based on market conditions and other factors.

Notice to qualified Canadian recipients: Voya Investment Management Co. LLC (“Voya IM”) is relying on an exemption from the adviser registration requirement contained in section 8.26 of NI 31-103 in the provinces of Ontario, Québec, and Nova Scotia. Please note that: (i) Voya IM is not registered in Ontario, Québec, or Nova Scotia to act as an adviser, (ii) Voya IM’s principal place of business is located in the City of New York, NY, USA, (iii) all or substantially all of Voya IM’s assets may be situated outside of Canada, (iv) there may be difficulty enforcing legal rights against Voya IM because of the above, and (v) Voya IM has appointed McMillan LLP as agent for service of process in Ontario (c/o Leila Rafi, Brookfield Place, 181 Bay Street, Suite 4400, Toronto, Ontario M5J 2T3) and Québec (c/o Enda Wong, 1000 Sherbrooke Street West, Suite 2700, Montreal, Québec H3A 3G4), and Stewart McKelvey as agent for service of process in Nova Scotia (c/o Marc Reardon, Queen’s Marque, 600-1741 Lower Water Street, Halifax, Nova Scotia B3J 0J2).

For use by qualified institutional investors and financial professionals only.
Not for inspection by, distribution to, or quotation to the general public.

IM5200926 • 222977 • 021026 • 2026-2-5545700

Investment Management