Building a Private Credit Allocation

A Family Office Framework for Risk, Yield and Liquidity

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Abstract

Private credit has become one of the most sought-after asset classes for Gulf Cooperation Council (GCC) family offices, prized for a yield that public fixed income cannot match and for returns that diversify a portfolio away from public markets. Yet a private credit allocation is not a single decision but a programme, built across sub-strategies, managers, vintages and access structures, and balanced continuously across the three dimensions that define it: risk, yield and liquidity. This paper sets out a comprehensive framework for a family office to build a private credit allocation deliberately and well. It maps the opportunity set from senior direct lending through asset-based lending, unitranche, mezzanine and special situations to venture debt; develops a risk-yield-liquidity framework for selecting among them; addresses how large the allocation should be and how it should be sized to the family office stage and objectives; and examines the capabilities the programme requires, above all manager selection, which dominates outcomes given the wide dispersion between the best and worst managers. It treats the access structures through which capital is deployed, the liquidity management and commitment pacing that smooth a programme built on illiquid assets, the risk monitoring that sustains it, and the considerations specific to the GCC, including Shariah-compliant private credit. The analysis finds that a private credit allocation creates value when it is matched to the family office objective, diversified across sub-strategies and vintages, accessed through capable managers, and sized so that its illiquidity can be borne comfortably. Three family-office case studies, a sensitivity analysis, an international comparison and an implementation roadmap support the framework.

Keywords: Allocation, direct lending, family office, GCC, liquidity, manager selection, mezzanine, private credit, yield

1. Introduction

Of all the private alternatives into which Gulf family offices are now allocating, private credit has perhaps the broadest appeal. It offers a yield well above what public fixed income provides, a return that is largely uncorrelated with public equity markets, and a risk profile that, for the senior strategies at least, is conservative and asset-backed. For a family office seeking to preserve and grow wealth across generations, and to generate income along the way, private credit answers several needs at once, which is why it has moved from the periphery to the centre of many family office portfolios.

But the appeal of the asset class can obscure the difficulty of building an allocation to it well. Private credit is not one thing but a spectrum of sub-strategies with very different risk and return profiles; its returns depend heavily on the manager, with a wide gap between the best and the worst; it is illiquid, locking capital away for years; and it requires capabilities, in manager selection, liquidity management and portfolio construction, that a family office accustomed to public markets may not possess. A family office that allocates to private credit without building these capabilities, or without understanding the spectrum and its risks, can be disappointed even as the asset class as a whole performs well.

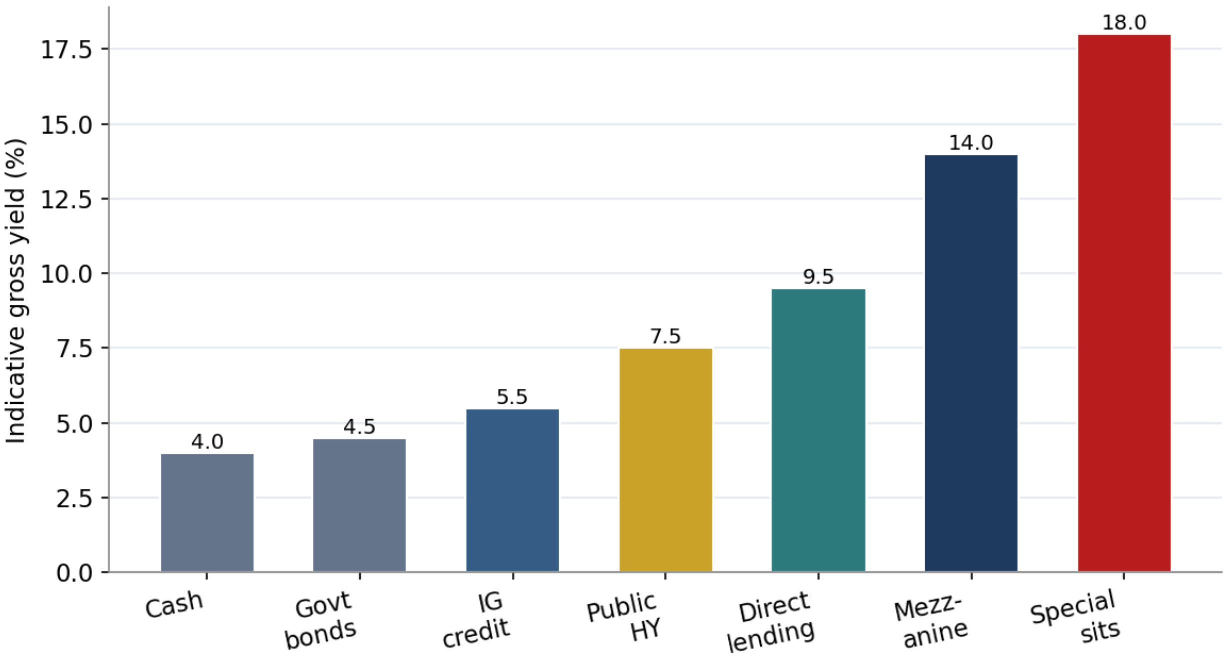
This paper sets out a comprehensive framework for building a private credit allocation deliberately. It treats the allocation as a programme to be constructed across sub-strategies, managers, vintages and access structures, and balanced continuously across the three dimensions that define private credit: the risk it bears, the yield it delivers, and the liquidity it sacrifices. The central argument is that a private credit allocation creates value when it is matched to the family office objective, diversified across sub-strategies and vintages, accessed through capable managers, and sized so that its illiquidity can be borne comfortably, and that the capability which most determines the outcome is manager selection.

The paper is written for the principal, the chief investment officer, or the head of alternatives at a GCC family office building or refining a private credit programme. It assumes familiarity with the broader allocation shift toward private markets, examined in a companion paper, and focuses specifically on how to construct the private credit sleeve within that shift. The figures used throughout are modelled to illustrate the frameworks and are calibrated to conditions observable in early 2026; they are indicative and not drawn from any specific programme. The paper proceeds from the case for the allocation (Section 2), through the conceptual foundations (Section 3), the opportunity set (Section 4), the risk-yield-liquidity framework (Section 5), the sizing of the allocation (Section 6), sub-strategy selection (Section 7), manager selection (Section 8), and deep dives into the principal sub-strategies (Sections 9 to 12), before turning in the second half to access structures, liquidity management, risk monitoring, regional considerations, the manager perspective, case studies, sensitivity analysis, an international comparison, common errors, an implementation roadmap, a strategic perspective and a conclusion.

2. The Case for a Private Credit Allocation

The case for private credit rests first on yield. Figure 1 places the indicative yield of the principal private credit sub-strategies alongside the public alternatives, and the gap is striking: where cash and government bonds offer low single-digit yields and even public high yield sits below eight percent, senior direct lending offers around nine to ten percent, and the subordinated strategies considerably more. This yield premium reflects genuine economic compensation, for the illiquidity of the asset, for the credit risk borne, and for the complexity and origination effort that private lending requires, rather than a free lunch, but it is a premium that a family office seeking income or total return can capture if it builds the allocation well.

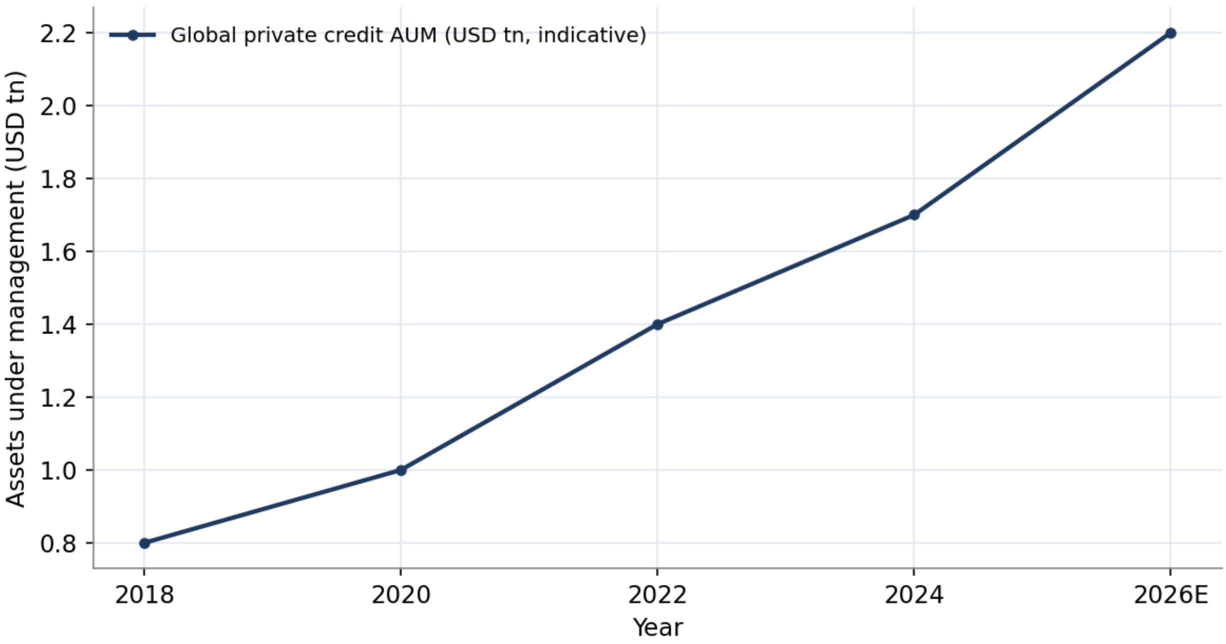
Figure 1. Indicative Yield Across the Fixed Income and Private Credit Spectrum



The case rests second on diversification. Private credit returns derive from contracted interest and principal payments on loans to private borrowers, and they are largely uncorrelated with the daily movements of public equity and bond markets. Adding private credit to a portfolio dominated by public assets therefore reduces the portfolio overall volatility and its sensitivity to public market cycles, which is valuable to a family office focused on preserving wealth through cycles. The diversification is genuine, though it should not be overstated: private credit is exposed to the credit cycle and to economic downturns that raise defaults, so it diversifies away from equity market volatility more than from economic risk itself.

The case rests third on the structural growth and maturation of the asset class, illustrated in Figure 2. Global private credit assets under management have grown several-fold over recent years, as banks have retreated from mid-market lending and institutional and private capital has filled the gap, and the asset class has matured into a deep, established part of the financing system with a wide range of managers and strategies. This maturation means a family office building an allocation today has a broad and deep opportunity set to construct from, and access to experienced managers, where an earlier generation of investors faced a narrower and less proven market.

Figure 2. Growth of the Global Private Credit Market



Against these attractions sit the genuine costs and risks: the illiquidity that locks capital away, the credit losses that erode returns particularly through a downturn, the dependence on manager skill, and the fees that consume part of the gross return. The case for a private credit allocation is therefore not unqualified; it is a case for a deliberately constructed allocation that captures the yield and diversification while managing the illiquidity, the credit risk, the manager dependence and the fees. The remainder of this paper is concerned with how that deliberate construction is done.

3. Conceptual Foundations: The Risk-Yield-Liquidity Triangle

Every private credit decision can be understood as a position within a triangle whose vertices are risk, yield and liquidity. These three are linked by an iron logic: higher yield is available only by accepting higher risk or lower liquidity, and greater liquidity or lower risk can be obtained only by accepting lower yield. A family office cannot maximise all three at once; it must choose where within the triangle its allocation sits, and that choice should follow from its objectives, its tolerance for risk, and its need for liquidity.

The risk dimension captures the probability and severity of credit losses, which vary enormously across the private credit spectrum, from the low loss rates of senior, asset-backed lending to the substantial potential losses of distressed and special situations. The yield dimension captures the return the strategy offers, which rises with the risk and the illiquidity accepted. The liquidity dimension captures how readily the capital can be recovered, which ranges from the multi-year lock-up of a closed-end fund to the periodic redemption windows of an evergreen vehicle. A position in the triangle is defined by where it sits on all three dimensions simultaneously.

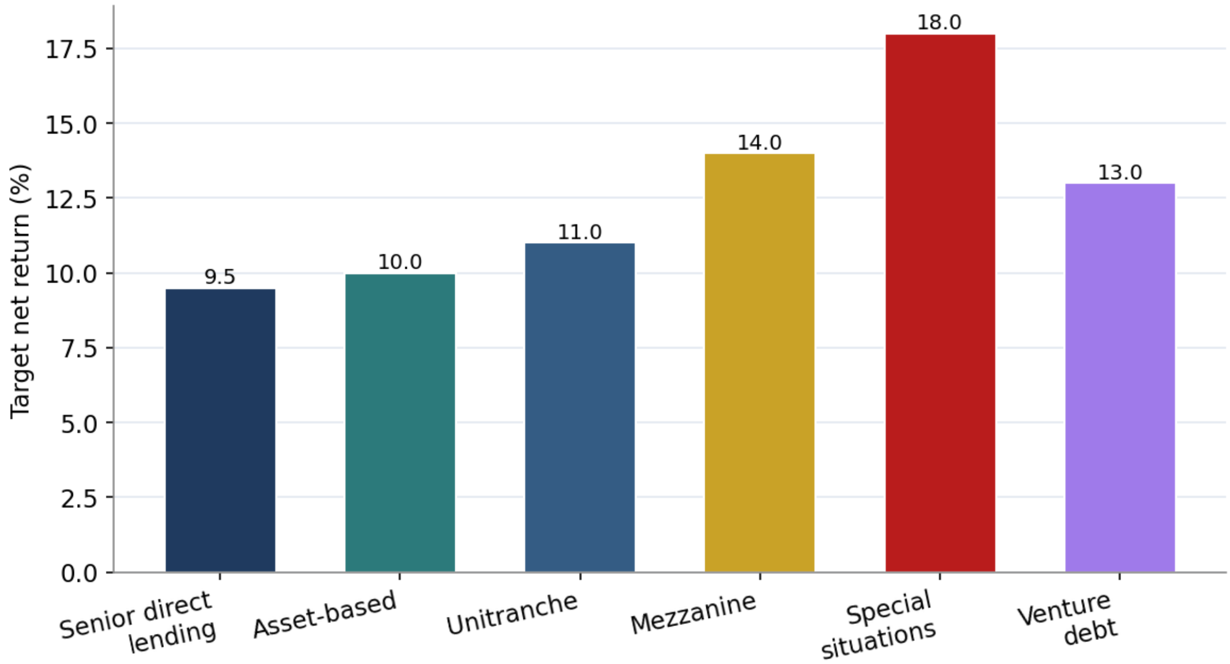
The conceptual value of the triangle is that it forces an explicit choice and prevents the common error of seeking yield without consciously accepting the risk or illiquidity that necessarily accompanies it. A family office that chases the highest available yield is, whether it acknowledges it or not, accepting the highest risk and the lowest liquidity, and if it has not consciously decided that this suits its objectives, it has made a poor decision by default. The triangle disciplines the allocation by making the trade-off visible, so that the family office chooses its position deliberately rather than drifting toward yield without regard to the cost.

The triangle also frames the construction of the allocation as a portfolio problem rather than a single choice. A family office need not pick one point in the triangle; it can build a portfolio of positions across it, combining low-risk, lower-yield senior strategies with a measured exposure to higher-yield, higher-risk subordinated and special situations strategies, to achieve a blended position that matches its objectives. The art of building the allocation is, in large part, the art of combining positions across the triangle into a coherent whole, which the framework in the following sections develops.

4. The Private Credit Opportunity Set

Private credit spans a spectrum of sub-strategies, illustrated in Figure 3 by their target net return, each occupying a different position in the risk-yield-liquidity triangle. Understanding the spectrum is the prerequisite to selecting among its strategies. Table 1 sets out the principal sub-strategies and their characteristics.

Figure 3. Target Net Return by Private Credit Sub-Strategy



Senior direct lending, the core of the asset class, provides senior secured loans to mid-market companies, ranking first in the capital structure and secured against the borrower assets and cash flows. It offers a moderate yield with low loss rates and is the foundation of most private credit allocations. Asset-based lending secures loans against specific assets, receivables, inventory, equipment, real estate, offering a similar conservative profile with the additional protection of identified collateral. Unitranche blends senior and subordinated debt into a single facility at a blended rate, offering a slightly higher yield for slightly more risk.

Mezzanine and subordinated lending rank behind senior debt and bear more risk, offering a substantially higher yield to compensate. Special situations and distressed strategies fund complex, stressed or distressed situations, offering the highest yield for the highest risk, as examined in a companion paper. Venture debt lends to growth and venture-backed companies, offering a high yield with equity-like features to compensate for the risk of lending to companies that are not yet profitable. Each sub-strategy is a distinct position in the triangle, and a family office allocation is built by selecting and combining among them.

Table 1. Private Credit Sub-Strategies Compared

Sub-strategy	Target net return	Loss profile	Role in allocation
Senior direct lending	~9-10%	Low	Core, income
Asset-based lending	~9-11%	Low (collateralised)	Core, diversifier
Unitranche	~10-12%	Low-moderate	Core-plus
Mezzanine	~13-15%	Moderate	Yield enhancement
Special situations	~16-20%	Higher, dispersed	Opportunistic
Venture debt	~12-14%	Equity-linked	Growth diversifier

Indicative ranges calibrated to GCC and global conditions in early 2026. Not transaction-specific.

5. The Risk-Yield-Liquidity Framework

The framework for building the allocation begins by mapping the family office objective to a position in the risk-yield-liquidity triangle, illustrated in the decision tree of Figure 4. A family office whose objective is capital preservation should weight its allocation toward the senior, asset-backed, low-loss strategies, accepting a more modest yield for the low risk. A family office whose objective is income should weight toward a balanced position, combining senior strategies with a measure of unitranche and mezzanine for yield. A family office whose objective is total return can bear more risk for more return, weighting toward mezzanine and special situations.

Figure 4. Private Credit Sub-Strategy Selection by Family Office Objective

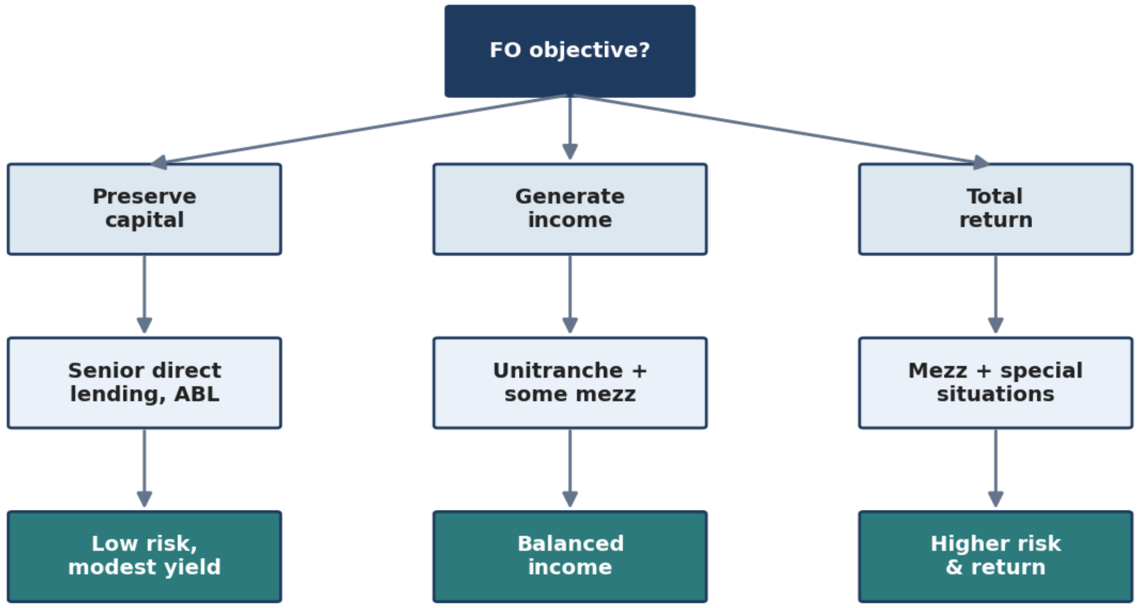
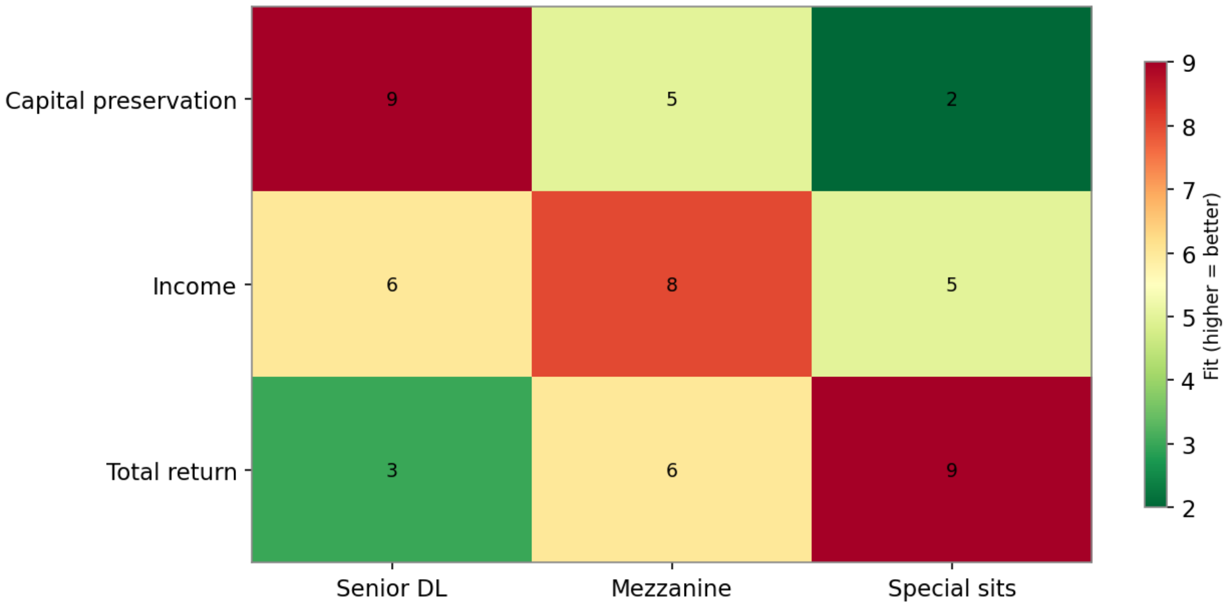


Figure 5 expresses the same logic as a fit matrix, scoring how well each principal sub-strategy serves each objective. Senior direct lending fits capital preservation best; mezzanine fits income; special situations fits total return. The matrix is a tool for translating the family office objective into a sub-strategy weighting, and it makes explicit that no single sub-strategy serves all objectives, so the allocation must be constructed to match the specific objective the family office holds.

Figure 5. Sub-Strategy Fit by Family Office Objective



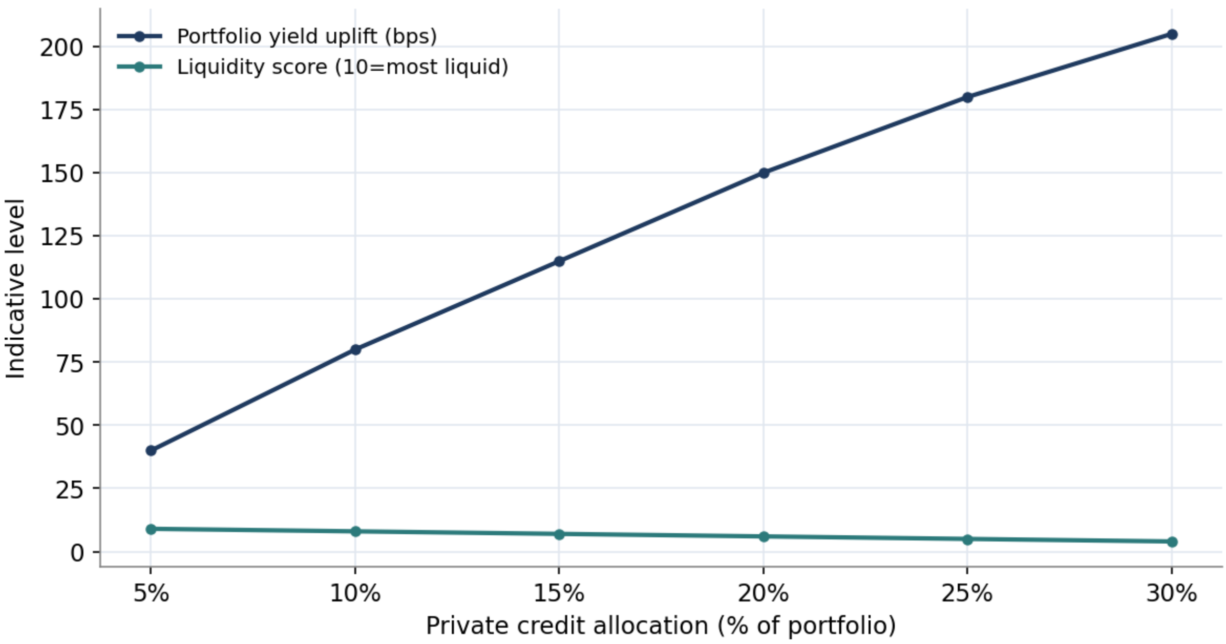
The framework also accounts for the liquidity dimension explicitly, because the family office liquidity needs constrain how much it can allocate to illiquid private credit and which structures it can use. A family office with substantial liquidity needs must limit its private credit allocation and favour more liquid access structures, while one with little near-term liquidity need can allocate more and accept longer lock-ups for higher yield. The liquidity dimension therefore interacts with the risk and yield dimensions to determine the family office position in the triangle, and the framework considers all three together rather than yield alone.

Applying the framework produces a target sub-strategy weighting that matches the family office objectives, risk tolerance and liquidity needs, which becomes the blueprint for constructing the allocation. The weighting is not static; it should be reviewed as the family office circumstances and the market conditions change, shifting toward more defensive strategies when the credit cycle turns and toward more opportunistic strategies when dislocations create opportunity. The framework is therefore a living one, producing a target weighting that evolves with the family office and the market, rather than a one-time decision.

6. Sizing the Allocation

How large should the private credit allocation be? The answer depends on the family office objectives, its liquidity needs, and its capacity to manage an illiquid programme, and Figure 6 illustrates the central trade-off. As the allocation rises, the yield uplift to the overall portfolio increases, but the portfolio liquidity declines, since a larger share of the portfolio is locked in illiquid private credit. The family office must choose the point on this trade-off that captures sufficient yield uplift while retaining the liquidity it needs.

Figure 6. Portfolio Yield Uplift and Liquidity Against Private Credit Allocation



A useful discipline is to size the allocation from the liquidity side: determine how much liquidity the family office needs to retain, for its spending, its commitments, and a prudent buffer, and allocate to private credit only the capital it can comfortably lock away beyond that. This liquidity-first approach prevents the common error of over-allocating to the attractive yield and then facing a liquidity strain when the locked capital is needed. The allocation should be sized so that even in a downturn, when distributions slow and liquidity needs may rise, the family office is not forced to seek liquidity it cannot readily obtain from an illiquid portfolio.

The appropriate size also varies with the family office stage and sophistication, as Table 2 sets out. An early-stage family office building its private markets capability should start with a modest allocation, perhaps ten percent, concentrated in the more accessible senior strategies, while a mature family office with full capabilities can run a substantial allocation, twenty percent or more, across the full spectrum. The size should grow as the family office builds its capabilities and its programme matures, rather than leaping to a large allocation before the capability to manage it exists.

Table 2. Indicative Private Credit Allocation by Family Office Stage

Stage	PC allocation	Sub-strategy focus	Access
Early	~10%	Senior DL, ABL	Pooled funds
Developing	~15%	Add unitranche, mezz	Funds + SMA
Mature	~20-25%	Full spectrum	SMA, co-invest, FoF

Indicative. Size should reflect liquidity needs and capability, not yield alone. Not advice.

Whatever the size, the allocation should be reached progressively rather than deployed all at once, for reasons of vintage diversification examined in the liquidity and pacing section. A family office that decides on a twenty percent target should build toward it over several years, committing steadily across vintages, rather than deploying the full twenty percent in a single year and concentrating its timing risk. The sizing decision therefore has two parts: the target allocation, and the pace at which it is reached, both of which the framework addresses.

7. Sub-Strategy Selection and Construction

With a target weighting and size determined, the family office constructs the allocation by selecting specific sub-strategies and combining them into a diversified portfolio. The construction should diversify across sub-strategies, so that the allocation is not concentrated in a single position in the triangle, and within each sub-strategy across managers, so that it is not dependent on a single manager. This double diversification, across sub-strategies and across managers, is the foundation of a robust private credit portfolio.

The core of most allocations is senior direct lending and asset-based lending, the low-loss, moderate-yield strategies that provide the stable foundation. Around this core, the family office adds measured exposure to higher-yielding strategies, unitranche, mezzanine, and a smaller allocation to special situations, according to its objective and risk tolerance. The core provides stability and income; the satellite strategies provide yield enhancement and, in the case of special situations, opportunistic return. The balance between core and satellite reflects the family office position in the triangle.

The construction should also consider the correlation between the sub-strategies and the rest of the family office portfolio, and the diversification each provides. Asset-based lending, secured against specific collateral, may behave differently from corporate direct lending in a downturn; venture debt is exposed to the technology and growth cycle; special situations may even perform well in a downturn when dislocations create opportunity. A thoughtfully constructed allocation combines sub-strategies whose risks are not perfectly correlated, building a portfolio that is more robust than any single sub-strategy.

Finally, the construction should be documented in an investment policy that sets the target weightings, the ranges within which they may vary, the diversification requirements, and the criteria for selecting managers and strategies. This policy disciplines the construction, prevents drift toward concentration or excessive risk, and provides a framework for the ongoing management of the allocation. A family office that constructs its allocation against a clear policy builds a more coherent and robust programme than one that allocates opportunistically without a guiding framework.

8. Manager Selection

Of all the capabilities a private credit programme requires, manager selection is the most important, because private credit returns depend heavily on the manager and the dispersion between the best and worst managers is wide. Figure 8, presented later in the sensitivity analysis, confirms that manager selection dominates the net return from the allocation. A family office that selects top managers can earn returns well above the average, while one that selects poorly can earn returns far below, even with the same sub-strategy weighting and the same market conditions. Manager selection is therefore the single most consequential decision in building the allocation.

What distinguishes a good private credit manager is, above all, origination and underwriting discipline: the ability to source good loans and to assess credit risk accurately, avoiding the losses that erode returns. A good manager has a rigorous, repeatable underwriting process, a strong track record through a cycle, deep sourcing relationships that provide access to good loans, and the discipline to decline poor loans even when capital must be deployed. A family office assessing a manager should scrutinise the underwriting process, the track record, the sourcing, and the discipline, not merely the headline returns, which may reflect a benign environment rather than skill.

The assessment is harder in a young market like the GCC, where many managers lack a track record through a full credit cycle and where the dispersion in underwriting quality is therefore difficult to observe. A family office cannot rely on a long history of realised losses to distinguish the disciplined manager from the undisciplined, and must instead assess the underwriting process, the experience of the team, often gained in more mature markets, and the alignment of the manager with its investors. This difficulty makes diversification across managers, and a preference for managers with cycle-tested experience, particularly important for a family office entering the asset class.

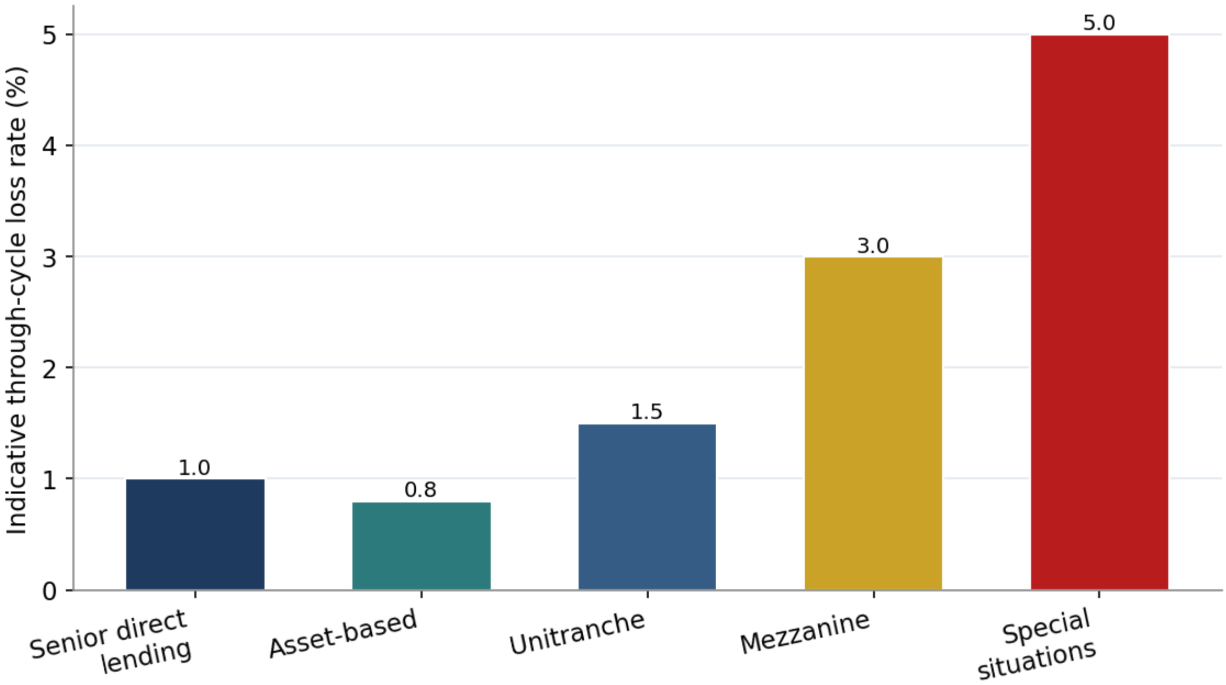
A family office should also assess the alignment between the manager and its investors, because a manager whose interests align with the investors is more likely to underwrite prudently and to manage losses well. Alignment is created by the manager co-investing its own capital, by a fee structure that rewards genuine performance rather than mere asset gathering, and by terms that protect the investors in a downturn. A family office should favour managers with strong alignment and be wary of those whose incentives are to gather assets and earn fees regardless of performance, because the latter may underwrite loosely to deploy capital. The manager selection, focused on underwriting discipline, track record, sourcing and alignment, is the foundation of a successful allocation, and it warrants the most careful attention.

9. Senior Direct Lending

Senior direct lending is the core of most private credit allocations, and it deserves a closer examination. It provides senior secured loans directly to mid-market companies, ranking first in the capital structure and secured against the borrower assets and cash flows, which gives it a low loss rate and a moderate, stable yield. For a family office seeking income with capital preservation, senior direct lending is the natural foundation of the allocation, offering a yield well above public fixed income with a conservative risk profile.

The return from senior direct lending derives from the interest margin over a base rate, plus fees, and because much senior direct lending is floating-rate, the yield rises with the base rate, providing some protection against rising rates. The loss rate, illustrated in Figure 7, is low, reflecting the senior, secured position and the diversification across many loans, though it rises in a downturn as defaults increase. The combination of a moderate, floating-rate yield and a low loss rate gives senior direct lending an attractive risk-adjusted return that anchors the allocation.

Figure 7. Indicative Through-Cycle Loss Rate by Sub-Strategy



The principal risk in senior direct lending is the credit risk of the borrowers, which rises in a downturn, and the quality of the manager underwriting is what most determines whether that risk translates into losses. A manager with disciplined underwriting and strong covenants can limit losses even in a downturn, recovering much of its capital through its senior, secured position, while a manager that has underwritten loosely or accepted weak covenants may suffer greater losses. The low average loss rate of the strategy therefore masks a wide dispersion across managers, which is why manager selection matters even in the most conservative sub-strategy.

10. Mezzanine and Subordinated Lending

Mezzanine and subordinated lending rank behind senior debt in the capital structure and bear more risk, offering a substantially higher yield to compensate. For a family office seeking yield enhancement beyond what senior strategies provide, a measured allocation to mezzanine can lift the blended yield of the programme, accepting the higher risk that subordination entails.

Mezzanine is examined in detail in a companion paper on the mezzanine gap; here the focus is on its role in a family office allocation.

The higher yield of mezzanine, illustrated in the sub-strategy comparison, compensates for its subordinated position, which means it absorbs losses before the senior debt in a downturn. Its loss rate is correspondingly higher than senior lending, and more dispersed, so the yield premium is genuine compensation for risk rather than a free enhancement. A family office allocating to mezzanine should size the allocation to reflect this higher risk, treating it as a yield-enhancing satellite around the senior core rather than as a core holding, and should diversify across mezzanine managers given the dispersion in outcomes.

Mezzanine returns often include equity-like features, warrants or a payment-in-kind element, that enhance the return and align the lender with the borrower success. These features add to the yield but also add complexity and risk, and a family office should understand them and the conditions under which they pay off. The equity-like features mean mezzanine returns can be more variable than senior lending, with the upside from the equity features in a strong outcome and the downside from the subordination in a weak one, which a family office should weigh in sizing its mezzanine allocation.

The role of mezzanine in the allocation is therefore as a measured yield enhancement, sized to the family office risk tolerance and objective, diversified across managers, and understood in its risks and its equity-like features. A family office seeking income or total return can use mezzanine to lift the blended yield of its programme, while one focused on capital preservation may hold little or none, preferring the lower-risk senior strategies. The mezzanine allocation, like the others, should follow from the family office position in the risk-yield-liquidity triangle.

11. Special Situations and Opportunistic Credit

Special situations and opportunistic credit fund complex, stressed or distressed situations, offering the highest yield in the private credit spectrum for the highest and most dispersed risk. Examined in detail in a companion paper, special situations in a family office allocation play the role of an opportunistic satellite, a small allocation that can deliver high returns and that may perform well precisely when other strategies struggle, because dislocations create opportunity. A family office with the risk tolerance and the manager access can use a measured special situations allocation to enhance its return and to diversify, counter-cyclically, against the rest of its programme.

The defining feature of special situations is the wide dispersion in outcomes, which depends heavily on the manager skill in selecting and resolving difficult situations. A skilled special situations manager can earn excellent returns by funding viable difficult situations and resolving them well, while an unskilled one can suffer losses by misjudging viability or mismanaging resolution. The dispersion is wider than in any other sub-strategy, which makes manager selection and diversification across managers especially important, and which means a family office should allocate to special situations only through managers it has assessed carefully.

The counter-cyclical character of special situations is a valuable portfolio feature. Because difficult and distressed situations multiply in a downturn, special situations strategies often find their best opportunities when the rest of the portfolio is under pressure, providing a return that diversifies against the credit cycle. A family office that holds a measured special situations allocation may find it cushions the programme in a downturn, capturing opportunities created by the same conditions that stress the senior strategies. This counter-cyclical diversification is part of the case for including a measured special situations allocation in a total-return-oriented programme.

The role of special situations in the allocation is therefore as a small, opportunistic, counter-cyclical satellite, accessed through carefully selected skilled managers and sized to reflect its high and dispersed risk. It is not a core holding and is unsuitable for a capital-preservation objective, but for a family office seeking total return and able to bear the risk, a measured special situations allocation can enhance the return and provide counter-cyclical diversification. As with the other satellites, the allocation should follow from the family office objective and risk tolerance.

12. Asset-Based and Specialty Lending

Asset-based and specialty lending secure loans against specific assets, receivables, inventory, equipment, real estate, or specialty cash flows such as royalties or litigation finance, offering a conservative profile with the additional protection of identified collateral and, often, a diversification from corporate credit risk. For a family office, asset-based lending can play a valuable role as a core diversifier, providing a yield comparable to senior corporate direct lending but with a different risk profile, secured against assets rather than corporate cash flows.

The protection of identified collateral gives asset-based lending a low loss rate, because the lender can recover against the specific assets if the borrower defaults, and the value of the collateral provides a floor on the recovery. This collateral protection makes asset-based lending attractive to a family office seeking capital preservation, offering a conservative profile that complements corporate senior lending. The diversification from corporate credit risk is also valuable, because asset-based loans may perform differently from corporate loans in a downturn, depending on the behaviour of the specific collateral.

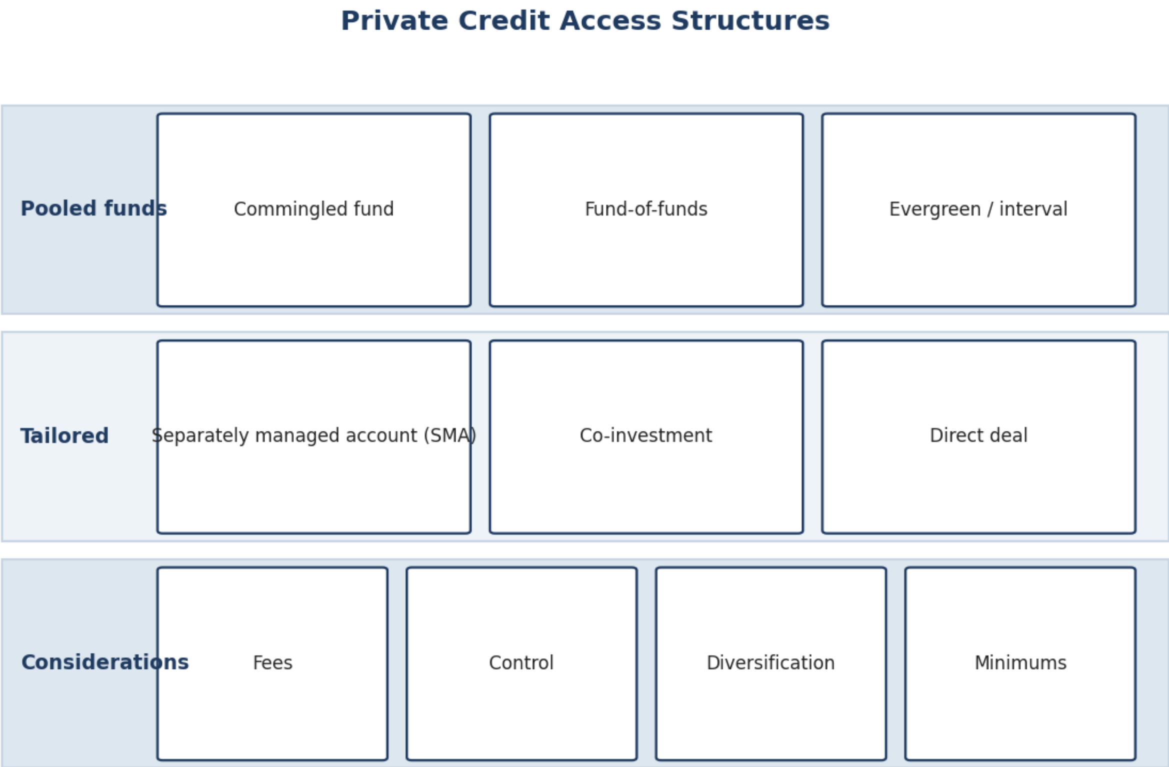
Specialty lending extends the asset-based concept to specialised cash flows and assets, royalties, litigation finance, insurance-linked, equipment leasing, offering yields that can exceed corporate lending and a diversification from both corporate credit and the broader economy, since these specialty cash flows may be uncorrelated with the economic cycle. A family office with the manager access and the sophistication can use specialty lending to enhance its yield and to diversify into uncorrelated cash flows, though the specialised nature of these strategies makes manager expertise and selection especially important.

The role of asset-based and specialty lending in the allocation is therefore as a core diversifier and, in the specialty case, a yield-enhancing diversifier into uncorrelated cash flows. For a family office seeking to build a robust, diversified private credit programme, asset-based lending complements corporate senior lending in the core, while specialty lending offers diversification and yield for those with the access and sophistication to pursue it. Both should be accessed through managers with specific expertise in the relevant assets, given the specialised underwriting they require.

13. Access Structures

Once the family office has determined its sub-strategy weighting and selected managers, it must decide how to access the strategies, through which structures to deploy its capital. Figure 9 sets out the principal access structures, which differ in their fees, control, diversification and minimum commitments. The choice of structure materially affects the cost and the character of the allocation, and it should follow from the family office scale, sophistication and objectives.

Figure 9. Private Credit Access Structures



Commingled funds, in which the family office invests alongside other investors in a manager pooled vehicle, are the most accessible structure, offering diversification across the manager loan book and professional management for a standard fee. They suit a family office early in its programme or seeking simple, diversified access. Funds-of-funds, which invest across multiple managers, offer further diversification and manager selection for an additional layer of fees, suiting a family office that wishes to delegate the manager selection but accepts the extra cost.

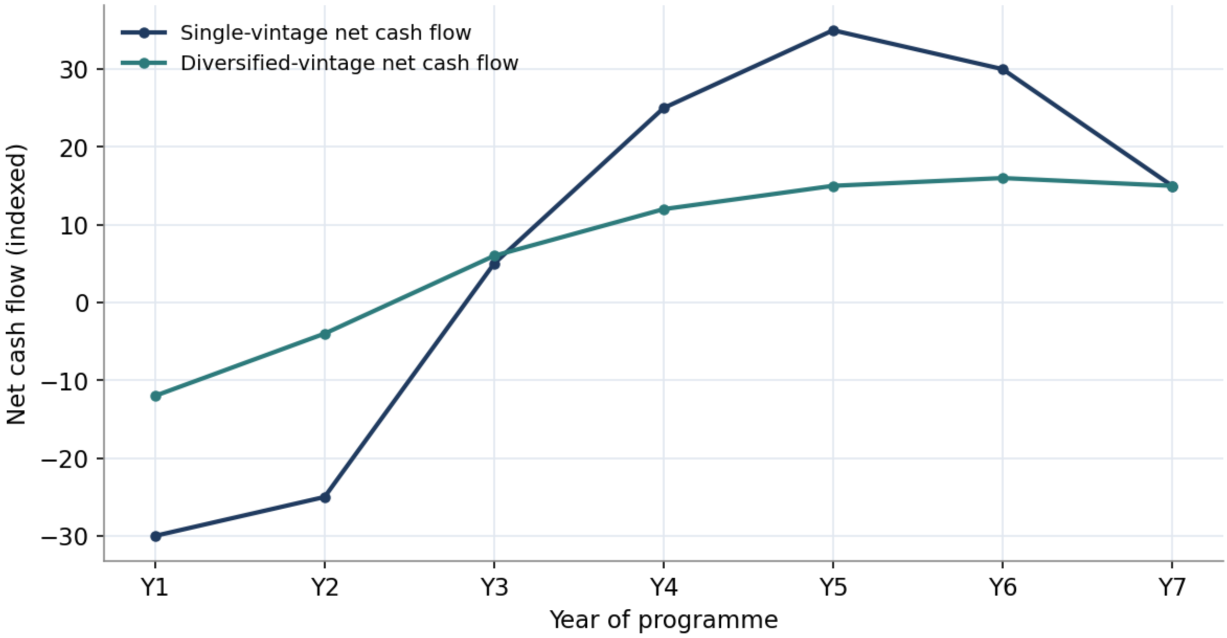
Separately managed accounts, in which the manager runs a dedicated portfolio for the family office, offer greater control, customisation and often lower fees, but require a larger commitment and more involvement, suiting a larger, more sophisticated family office. Co-investments, in which the family office invests directly alongside a manager in specific loans, offer the lowest fees and direct exposure to selected deals, enhancing the net return, but require the capability to assess individual deals and the relationships to access them. Direct deals, in which the family office lends directly without a manager, offer the lowest cost but require full in-house capability and are suitable only for the most sophisticated family offices.

Most family offices use a combination of structures that evolves with their programme: beginning with commingled funds for accessible, diversified exposure, adding separately managed accounts as they grow and seek control and lower fees, and adding co-investments as they build the capability to assess deals and the relationships to access them. This progression lowers the blended fee and increases the control as the programme matures, capturing more of the gross return over time. The access structure decision is therefore not a one-time choice but an evolving mix that develops with the family office capability.

14. Liquidity Management and Commitment Pacing

Private credit is illiquid, and managing the liquidity of a programme built on illiquid assets is one of its central challenges. The challenge has two parts: managing the cash flows of capital calls and distributions, which are uneven and partly unpredictable, and pacing the commitments so that the programme builds smoothly and diversifies across vintages. Figure 10 illustrates the J-curve problem that pacing addresses.

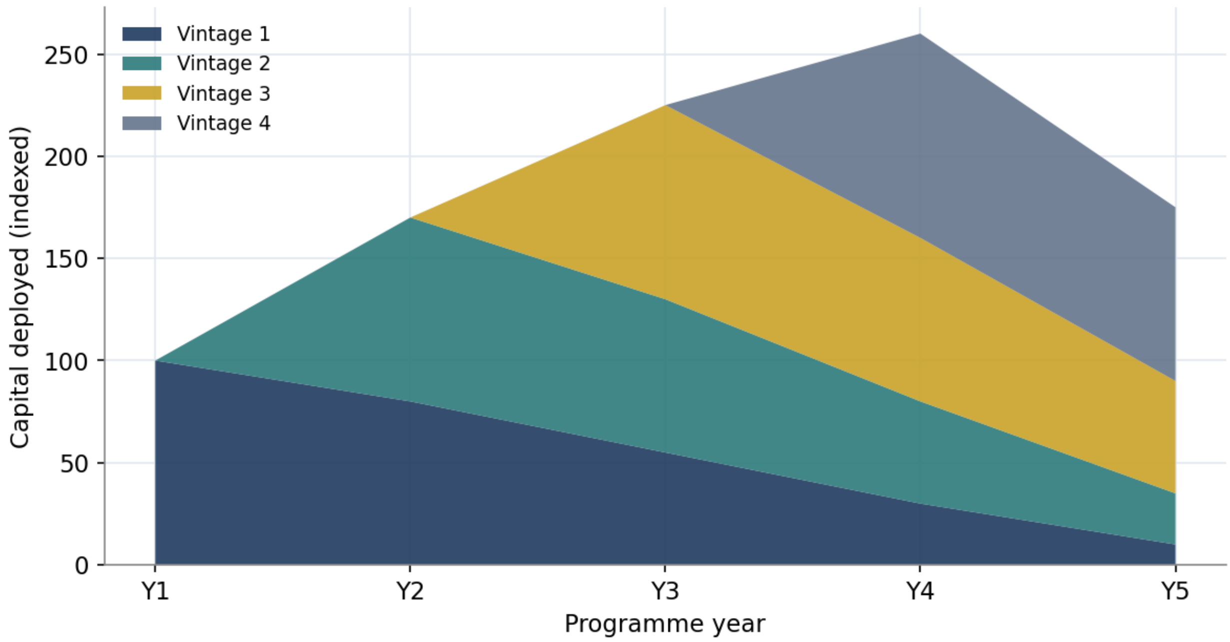
Figure 10. Net Cash Flow: Single Vintage versus Diversified Vintages



A single-vintage programme, in which the family office commits its whole allocation in one year, exhibits a pronounced J-curve: net cash flow is sharply negative early as capital is called and fees are paid before returns accrue, then turns positive as the loans pay interest and principal. This J-curve creates a liquidity strain early and concentrates the timing risk in a single vintage, exposing the programme to the conditions of that one year. A diversified-vintage programme, in which the family office commits steadily across several years, smooths the cash flow, reducing the early strain and the timing concentration, as the figure shows.

Commitment pacing is the discipline of committing steadily across vintages to achieve this smoothing, illustrated in Figure 11. By committing a portion of the target allocation each year, the family office builds the programme across vintages, so that as early vintages mature and distribute, later vintages are deploying, creating a rolling, self-smoothing programme. Pacing also diversifies the programme across the credit cycle, so that it is not concentrated in the loans originated in a single year, which may prove to be a poor vintage. The pacing discipline is central to building a robust, smooth private credit programme.

Figure 11. Commitment Pacing Across Vintages



The liquidity management also involves maintaining sufficient liquidity to meet capital calls, which are partly unpredictable, without holding so much idle cash that it drags the return, and tools such as the NAV-based facilities examined in a companion paper can help bridge calls and manage the liquidity efficiently. A family office running a private credit programme should model its expected cash flows, the calls and distributions across its vintages, maintain a liquidity buffer to meet the calls, and use financing tools where helpful to manage the liquidity without holding excessive idle cash. The liquidity management, well done, allows the family office to run a substantial illiquid programme without strain.

15. Risk Management and Monitoring

A private credit programme requires ongoing risk management and monitoring, because the credit risk it bears evolves with the borrowers, the managers, and the cycle. The family office should monitor the performance of its managers, the credit quality of the underlying loans, the diversification of the programme, and the macro conditions that affect the credit cycle, and it should act on what it observes, reallocating away from underperforming managers or toward more defensive strategies as conditions change. The monitoring is what allows the family office to manage the programme actively rather than holding it passively.

The monitoring should track, for each manager, the realised losses against the underwriting, the pace of deployment, the diversification of the loan book, and any signs of underwriting drift or stress, comparing the manager performance against its peers and its own track record. A manager whose losses exceed its underwriting, whose deployment is rushed, or whose loan book is concentrating may be drifting from the discipline that justified its selection, and the family office should engage with the manager and, if the concerns persist, reduce its allocation. The manager monitoring is the ongoing complement to the manager selection, sustaining the quality of the programme over time.

At the programme level, the family office should monitor the overall diversification, across sub-strategies, managers, vintages, sectors and geographies, ensuring that the programme has not drifted toward concentration in any dimension, and the overall risk profile, ensuring it remains aligned with the family office objective and risk tolerance. The programme-level monitoring guards against the gradual concentration and risk drift that can occur as a programme grows, and it ensures that the programme as a whole remains the deliberately constructed portfolio the framework intended.

The monitoring should also track the macro conditions that affect the credit cycle, the economic outlook, the default environment, the conditions in the sectors and geographies to which the programme is exposed, so that the family office can position the programme for the cycle, shifting toward more defensive strategies as the cycle turns and toward more opportunistic strategies as dislocations create opportunity. The macro monitoring allows the family office to manage the programme through the cycle, which is essential for a programme exposed to the credit cycle, and it distinguishes an actively managed programme from a passive one.

16. Considerations Specific to the GCC

A GCC family office building a private credit allocation faces considerations specific to the region. The first is the availability of Shariah-compliant private credit, which a portion of the region capital requires and which is increasingly available, structured to comply with the prohibition on interest and the requirements on the underlying assets and activities. A family office requiring compliant private credit can access a developing market of compliant strategies, and a manager able to offer compliant structures serves this demand. The compliant requirement shapes the manager and strategy selection for family offices that require it.

The second consideration is the regional opportunity set, the growing market of GCC private credit examined in a companion paper, which offers a family office the option to allocate to private credit in its home region as well as internationally. The regional market offers the familiarity of the home region and exposure to the regional economy, while the international market offers depth, diversification and access to experienced managers. A family office should consider both, allocating across the regional and international markets to balance familiarity and diversification, and recognising that the regional market, while growing, is younger and less cycle-tested than the international one.

The third consideration is the currency dimension. Much international private credit is dollar-denominated, and because the dirham and other GCC currencies are pegged to the dollar, a GCC family office can access dollar private credit without currency friction, which is an advantage. Allocations in other currencies introduce a currency exposure that the family office should consider and, where appropriate, hedge. The dollar peg makes dollar private credit a natural core for a GCC family office, with non-dollar allocations adding diversification at the cost of a currency exposure to be managed.

The fourth consideration is the regional family office context, the relative youth of many regional family offices and the capabilities they are still building, examined in the companion paper on the allocation shift. A regional family office building a private credit allocation is often building its private markets capability at the same time, and it should pace the build to its developing capability, starting with accessible strategies and structures and building toward the full programme as its capability matures. The regional context therefore reinforces the progressive, capability-led approach to building the allocation that the framework recommends.

17. The Manager Perspective

Understanding the perspective of the private credit manager helps a family office select and engage with managers effectively. The manager seeks to raise capital from investors, deploy it into loans it has originated and underwritten, and earn a return for its investors and a fee for itself. Its interests align with the family office when it underwrites prudently and manages losses well, earning genuine performance, but they can diverge when its incentive is to gather assets and earn fees regardless of performance, which may lead it to underwrite loosely to deploy capital. The family office should select managers whose interests align with its own.

The manager values investors who are reliable, sophisticated and aligned, who commit capital dependably, understand the asset class and its risks, and engage constructively, and it may offer such investors better access, terms and co-investment opportunities. A family office that establishes itself as a reliable, sophisticated, aligned investor can access better managers and better terms, including the co-investment opportunities that enhance the net return. Building a reputation as a quality investor is therefore valuable to a family office, opening access to the best managers and the best opportunities.

The manager also competes for capital, and a family office can use this competition to negotiate terms, fees, co-investment rights, and reporting, particularly if it commits at scale through a separately managed account or as an anchor investor. A family office with scale and reliability has negotiating leverage, and it should use it to secure favourable terms that enhance its net return and its access. The negotiation, conducted from a position of being a desirable investor, can materially improve the economics and the access of the allocation, which is part of building the programme well.

Understanding the manager perspective therefore tells the family office how to position itself: as a reliable, sophisticated, aligned investor that commits dependably, engages constructively, and negotiates from strength, accessing the best managers, the best terms, and the co-investment opportunities that enhance the return. A family office that positions itself this way builds a better programme than one that approaches managers passively, taking standard terms and standard access. The relationship with the managers, like the manager selection, is part of building the allocation well.

18. Case Studies

Three family-office cases illustrate the framework applied to different objectives. The figures are modelled for analytical clarity and are not drawn from any specific family office.

18.1 Case A: the income-led family office

Case A is a family office whose objective is income, to fund its spending from the yield of its portfolio. It builds a private credit allocation of around twenty percent, weighted toward senior direct lending and asset-based lending for stable income, with a measure of unitranche and mezzanine for yield enhancement, accessed through commingled funds and a separately managed account. The allocation delivers a high, stable yield that funds the family office spending, with a conservative risk profile that preserves the capital. The case illustrates an income-led allocation, weighted toward the stable, yield-generating strategies.

18.2 Case B: the balanced family office

Case B is a family office with a balanced objective, seeking income and growth. It builds an allocation of around fifteen percent, balanced across senior strategies for stability, unitranche and mezzanine for yield, and a measured special situations allocation for opportunistic return, accessed through funds and co-investments. The allocation delivers a balanced combination of income and total return, diversified across the spectrum, suiting the family office balanced objective. The case illustrates a balanced allocation, spread across the risk-yield-liquidity triangle.

18.3 Case C: the total-return family office

Case C is a family office whose objective is total return, able to bear more risk and illiquidity for higher return. It builds an allocation of around twelve percent, weighted toward the higher-yielding strategies, mezzanine and special situations, with a foundation of senior lending, accessed through funds, separately managed accounts and co-investments, and including a counter-cyclical special situations allocation. The allocation delivers a higher total return for the higher risk, with the special situations providing counter-cyclical diversification. The case illustrates a total-return allocation, weighted toward the higher-return strategies.

Figure 12. Allocation and Net Yield by Family Office Objective

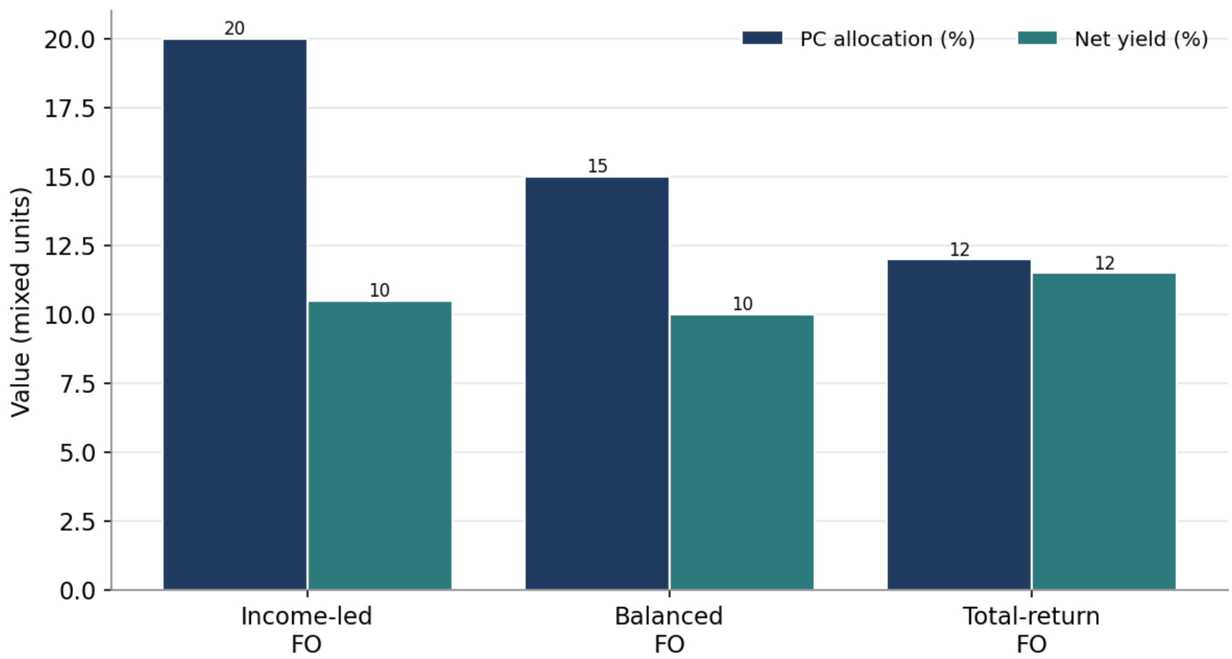
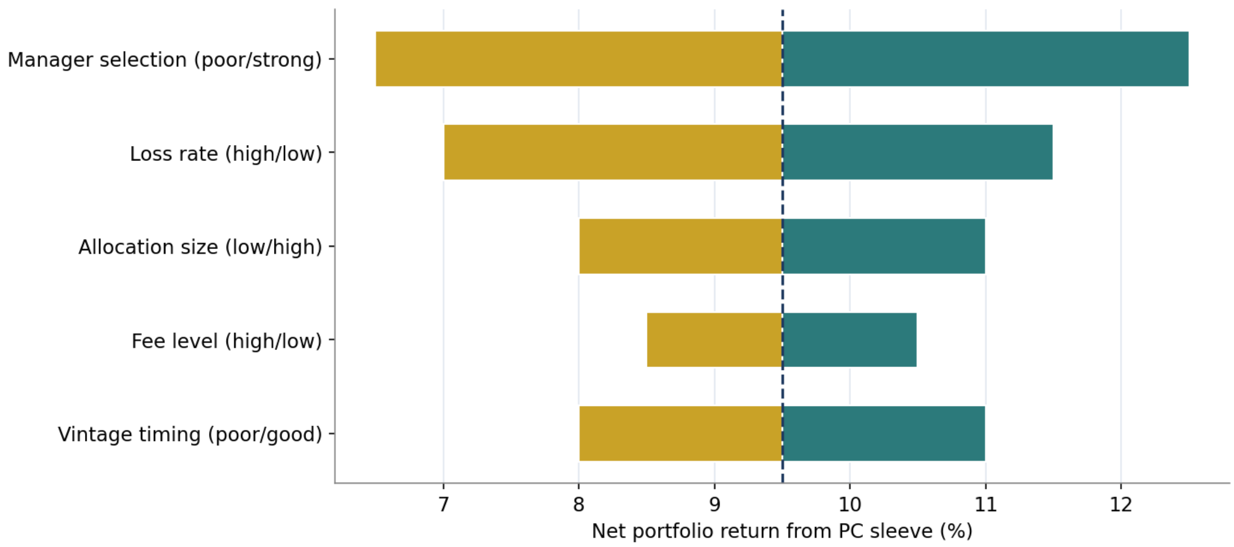


Figure 12 compares the three cases on the allocation size and the net yield. Each is matched to the family office objective, the income-led with a large, stable allocation, the balanced with a diversified one, the total-return with a higher-yielding one, and each delivers a net yield appropriate to its objective and risk. The comparison illustrates that the framework produces different allocations for different objectives, each coherent and matched to the family office needs, which is the point of building the allocation deliberately rather than by default.

19. Sensitivity and Scenario Analysis

A tornado analysis identifies the variables that most influence the net return from the private credit sleeve. Figure 13 presents the result.

Figure 13. Sensitivity of Net Return to Key Variables



The analysis confirms the central message: manager selection dominates the net return, with the loss rate, the allocation size, the fee level and the vintage timing also significant. The prominence of manager selection reflects the wide dispersion between the best and worst managers, which means the choice of manager moves the return more than any other variable. The loss rate matters because losses directly erode the return, and it is itself largely a function of the manager underwriting. The sensitivity confirms that the capabilities the framework emphasises, above all manager selection, are what most determine the outcome of the allocation.

Table 3. Scenario Matrix for Net Return from the Private Credit Sleeve

Scenario	Manager selection	Credit environment	Net return
Strong	Top managers	Benign	~12%
Base	Solid	Normal	~9.5%
Stress	Average	Downturn	~6%
Adverse	Weak	Severe downturn	~3% or loss

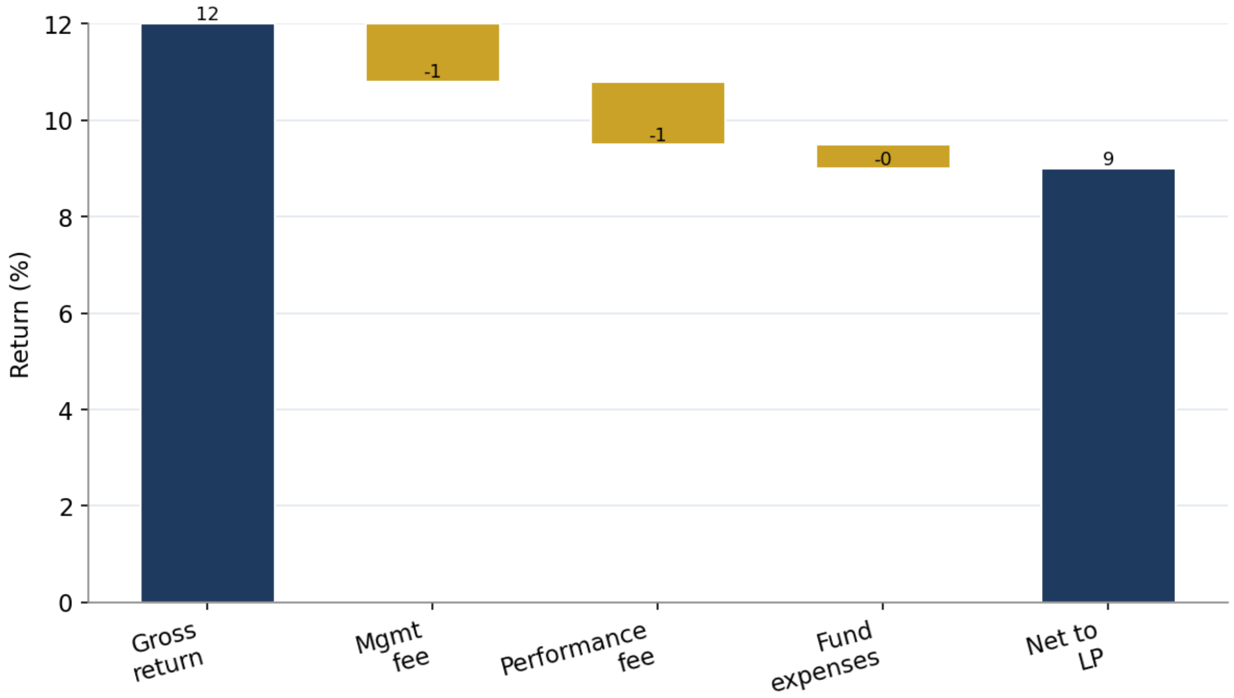
Modelled scenarios. Net return after losses and fees. Not a forecast.

The scenario matrix shows the range of outcomes, from the strong scenario with top managers in a benign environment to the adverse scenario with weak managers in a severe downturn. The difference depends heavily on the manager selection and the credit environment, and it underlines that the allocation can deliver an attractive return in normal and benign conditions but can suffer in a downturn, particularly with weak managers. The matrix reinforces the importance of manager selection and of building a programme robust to a downturn, through diversification, conservative sizing, and a weighting toward the lower-loss strategies for a family office that cannot bear a severe loss.

20. Fees and Net Returns

Fees consume a material part of the gross return in private credit, and a family office should understand and manage them to preserve its net return. Figure 14 decomposes a representative gross return into the management fee, the performance fee, the fund expenses, and the net return to the investor. The gap between the gross and net return is the cost of accessing the asset class through a manager, and while it is justified by the manager origination, underwriting and management, it is substantial and worth managing.

Figure 14. From Gross to Net Return: the Fee Drag



A family office can manage the fee drag through the access structures it chooses and the terms it negotiates. Commingled funds and funds-of-funds carry the highest fees, the latter adding a second layer; separately managed accounts and co-investments carry lower fees, and direct deals lowest of all. By progressing toward separately managed accounts and co-investments as its programme matures, and by negotiating terms from a position of scale and reliability, a family office can lower its blended fee and preserve more of the gross return, as examined in the access-structures and manager-perspective sections.

The family office should assess managers and strategies on their net return after fees, not their gross return, because the net return is what it actually earns and the fee drag varies across managers and structures. A manager with a slightly lower gross return but a lower fee may deliver a higher net return than a manager with a higher gross return but a higher fee, and a family office focused on the net return will select accordingly. The focus on net returns, and the management of the fee drag through structures and negotiation, is part of building the allocation efficiently, preserving the return the family office actually earns.

21. Common Errors and How to Avoid Them

A recognisable set of errors recurs in building private credit allocations.

- **Chasing yield blindly.** Chasing yield without consciously accepting the accompanying risk and illiquidity leads to an allocation riskier and less liquid than intended. The remedy is to choose the position in the risk-yield-liquidity triangle deliberately.
- **Weak manager selection.** Selecting managers on headline returns rather than underwriting discipline and track record risks poor outcomes given the wide dispersion. The remedy is rigorous manager selection focused on underwriting and alignment.

- **Single-vintage deployment.** Deploying the whole allocation in a single vintage concentrates the timing risk and creates a liquidity strain. The remedy is to pace commitments across vintages.
- **Over-allocating.** Over-sizing the allocation relative to liquidity needs risks a strain when the locked capital is needed. The remedy is to size from the liquidity side, allocating only what can be comfortably locked away.
- **Ignoring fees.** Ignoring the fee drag and assessing managers on gross returns overstates the return the family office actually earns. The remedy is to focus on net returns and manage fees through structures and negotiation.

Each of these errors is avoidable through the disciplined approach the framework encourages: choose the position in the triangle deliberately, select managers rigorously, pace commitments across vintages, size from the liquidity side, and manage the fees. The family office that does so builds a robust, coherent allocation, while the one that does not chases yield into excessive risk, selects poor managers, concentrates its vintages, over-allocates, or overpays in fees.

22. Implementation Roadmap

1. Determine the family office objective, capital preservation, income, or total return, and translate it into a target position in the risk-yield-liquidity triangle.
2. Size the allocation from the liquidity side, allocating only the capital that can be comfortably locked away beyond the family office liquidity needs.
3. Construct a diversified sub-strategy weighting around a senior core, with satellites in unitranche, mezzanine and a measured special situations allocation as the objective allows.
4. Select managers rigorously, focusing on underwriting discipline, track record through a cycle, sourcing and alignment, and diversify across managers.
5. Choose access structures that match the family office scale and capability, progressing toward separately managed accounts and co-investments to lower fees and increase control.
6. Pace commitments across vintages, manage the liquidity of calls and distributions, and use financing tools where helpful.
7. Monitor the managers, the programme diversification, and the macro conditions, and manage the programme actively through the cycle.

23. Strategic Perspective: Building a Credit Investment Capability

Building a private credit allocation well requires a family office to develop, in effect, a credit investment capability, with the skills, the processes and the relationships of a credit investor. This capability, in manager selection, sub-strategy construction, liquidity management, risk monitoring and manager relationships, is the deeper prize of building the allocation, because it is a durable asset that allows the family office to invest in private credit successfully across cycles and to capture the opportunities the asset class offers. The allocation is not just a set of investments but a capability the family office builds.

This capability takes time and investment to develop, and a family office should build it progressively, starting with accessible strategies and structures and building toward the full programme as the capability matures, as the framework recommends. The family offices that invest in building the capability will capture the benefits of the asset class across cycles, while those that allocate without building it will be more exposed to poor manager selection, mismanaged liquidity, and the other errors the framework warns against. The capability is the foundation of a successful, durable private credit programme.

The credit investment capability also connects to the family office broader private markets capability, examined in the companion paper on the allocation shift, of which it is a part. A family office building a private credit capability is building one component of the broader private markets institution it is becoming, and the skills it develops, manager selection, liquidity management, portfolio construction, transfer to the other private markets asset classes. The private credit allocation is therefore part of the broader transformation of the family office into a sophisticated private markets investor, and building it well advances that broader transformation.

24. Conclusion

Private credit offers GCC family offices a compelling combination of yield and diversification, but capturing it requires building an allocation deliberately, across sub-strategies, managers, vintages and access structures, and balancing it continuously across the risk, yield and liquidity dimensions that define the asset class. This paper has set out a comprehensive framework for that construction, from the case for the allocation, through the opportunity set and the risk-yield-liquidity framework, the sizing and sub-strategy selection, the manager selection that most determines the outcome, the access structures, the liquidity management, the risk monitoring, and the regional considerations, to the implementation roadmap.

The central conclusions are that a private credit allocation creates value when it is matched to the family office objective, diversified across sub-strategies and vintages, accessed through capable managers, and sized so that its illiquidity can be borne comfortably; that manager selection is the capability that most determines the outcome, given the wide dispersion between the best and worst managers; and that building the allocation well requires the family office to develop a credit investment capability that is a durable asset across cycles. The family office that internalises these conclusions and builds its allocation deliberately will capture the yield and diversification the asset class offers while managing its illiquidity, credit risk, manager dependence and fees, and the frameworks in this paper are intended to help it do so.

25. Limitations and Directions for Further Research

This paper is framework-oriented and relies on modelled figures, and its conclusions are directional rather than precise. The yields, loss rates, returns and allocation sizes are calibrated to observable conditions but are not empirical estimates, and they vary across managers, strategies, regions and points in the cycle. The private credit market, particularly in the GCC, is evolving, and the framework should be applied with current, specific information.

Several extensions would strengthen the analysis. An empirical study of realised private credit returns and losses by sub-strategy across managers and cycles would replace the modelled figures with data. An analysis of the dispersion between the best and worst managers would quantify the manager selection effect that the framework emphasises. And a study of how private credit allocations have performed through a downturn, when losses rise and liquidity tightens, would test the resilience of the framework in the conditions where its risks are greatest. Each is a natural subject for a later paper in this series.

Appendix A. Base Case Assumptions

Table 4. Base Case Assumptions

Parameter	Value	Parameter	Value
Senior direct lending net return	~9-10%	Mezzanine net return	~13-15%
Special situations net return	~16-20%	Senior loss rate	~1%
Special situations loss rate	~5%	Target allocation (mature FO)	~20-25%
Gross-to-net fee drag	~3%	Pacing	Across 4-5 vintages
Currency	USD (peg) core	Compliant option	Available
Key capability	Manager selection	Sizing basis	Liquidity-first

Modelled parameters used to generate the figures and cases. Not transaction-specific.

Appendix B. Manager Due Diligence Checklist

Table 5. Manager Due Diligence Checklist

Area	What to assess
Underwriting	Process rigour, credit discipline, covenant standards
Track record	Returns and losses through a full cycle, not just benign years
Sourcing	Origination relationships and access to quality loans
Team	Experience, stability, cycle-tested judgement
Alignment	Manager co-investment, fee structure, investor terms
Portfolio	Diversification, concentration, sector and geographic spread
Operations	Servicing, monitoring, workout capability
Reporting	Transparency, frequency, quality of information
Risk	Leverage at the fund level, liquidity terms, stress behaviour
Fees	Management and performance fees, expenses, net-of-fee returns

A practical checklist for assessing private credit managers.

Appendix C. Glossary of Terms

Table 6. Glossary of Key Terms

Term	Definition
Private credit	Lending by non-bank providers directly to borrowers.
Senior direct lending	Senior secured lending to mid-market companies.

Asset-based lending	Lending secured against specific assets.
Unitranche	A single facility blending senior and subordinated debt.
Mezzanine	Subordinated debt ranking between senior and equity.
Special situations	Capital for complex, stressed or distressed situations.
Vintage	The year a fund or programme begins deploying capital.
Commitment pacing	Committing across vintages to smooth and diversify.
J-curve	The early negative then positive net cash-flow profile.
Net return	Return after credit losses and fees.

Definitions provided for reference.

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