

Emerging Firms Burst Bubble On Private Credit Concerns

Private credit and the perceived “bubble” the asset class may be in has captured headlines of late, but managers in the space continue to stress the soundness of the asset class despite the noise.

In recent weeks, news organizations have reported widely on larger private credit managers like Apollo Global Management, Ares Management, Blackstone and Blue Owl Capital having made heavily concentrated bets in software companies, a sector now facing disruption by artificial intelligence.

Investor concerns have led to redemption requests and funds gating withdrawals, making the asset class appear vulnerable. However, managers and others involved with the space continue to argue that private credit despite having a worsened risk profile, remains structurally sound.

In its [2026 Market Overview](#) published last month, private markets firm Hamilton Lane emphasized that private credit fundamentals remain solid, stating that “in a year where the cockroach became synonymous with private credit and the threat of a credit bubble became the prevalent force, we say think again.”

“It is difficult for anyone who has been in this asset class for less than 10 or 15 years to imagine what private credit was like before that. It was a cottage industry with primarily mezzanine and distressed managers. Only 466 funds as recently as 20 years ago,” the firm said, in its overview. “Now, 10 times that number and about 24 times the market size. This is just the closed-end world and, in our view, doesn’t capture what’s really going on here.”

The private credit market has been resilient with spreads rewarding investors in the space, and while overall deal pricing has continued to rise, “the rise in credit contribution has been more constrained, leaving a huge equity cushion to protect those credits,” Hamilton Lane Co-Head of Investments and Head of EMEA Richard Hope said, in [a video reviewing the state of private credit](#).

He indicated that the private credit market is in fact changing, in two broad ways.

“Number one, the big guys are getting bigger and if you don’t have scale today in private credit, you maybe never will. And number two, we may finally have found a part of the market which is truly disruptive,” Hope said, referring to evergreen structures.

“During the past year, capital flows to private credit were more commonly into evergreens than any other structure,” he continued. “Will regulators chase private credit away under the current de-



regulatory environment? We don’t think so. GPs must simply know that governments, regulators and market commentators are looking harder than ever before.”

“Private credit is and will remain an important part of your portfolio. And if it’s not, start planning how to incorporate it,” Hope added.

Global asset manager TCW [expressed similar sentiments](#) in its Beyond Cockroaches and Canaries: A Clearer View of Private Credit paper, noting that recent credit events reflect underwriting drift and not necessarily structural weakness in the asset class.

“Private credit means a lot of different things today. Twenty-five years ago, private credit meant middle market direct lending. Today, private credit covers a far broader universe of possible strategies. So, whenever someone says, ‘private credit did X,’ the questions should be: Which part of private credit? Who in private credit actually made this investment? Some have invoked metaphors. Jamie Dimon talked about cockroaches, others about canaries. While we believe there’s truth in these comments, they don’t completely capture what’s happening,” the TCW paper states.

“The core issue isn’t that these specific companies failed. The message is that aggressive, careless underwriting has been creeping into the market for the past seven or eight years,” TCW’s paper continued. “During that time, we had near zero base rates, expanding enterprise value multiples, abundant capital and no recessions. This environment fostered, and hid, a lot of bad lender behavior – looser

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documentation, shortcuts in diligence, increasingly more borrower friendly terms. Now that rates are normalizing and economic volatility is back, we expect this aggressive behavior will be exposed. By no means is this the end of private credit. Far from it. These events are reminders that many lenders haven't been as prudent as they should have been. We expect to see more mistakes."

Bursting The Bubble Myth

For Shundrawn Thomas, founder and managing partner of The Copia Group, the concept of there being a bubble in the private credit market suggests that the asset class is a monolith.

"I think that when you have a period of time like we've had, where you've seen a significant shift of lending go from what historically was banks to non-bank lenders and you have a lot more capital come in, you're going to have a significant shift in the market," Thomas said.

"Now, we've read things in the press about some particular issues, and so could there be an instance, for example, when you talk about software companies and the issues around that where you've seen extensive credit extended to some of those companies. It could be. Time will tell," he said. "But the thing that I want to point out, which is very important, there are many private credit providers like ourselves that don't even focus on that particular end market. So, we have preferred industry segments that we focus on, and interestingly enough, by way of example, software or technology would not be one of those sectors."

Chicago-based Copia focuses on "what people refer to as private credit or direct lending, but specifically what we're providing is what we describe as customized capital solutions to lower-middle market firms," Thomas explained.

"And this is an important distinction as you talk about this broader dialogue because when people talk about providing capital or when they're talking about private credit in the middle market, it's a very wide array of prospective companies," he continued. "So, you can think about companies everywhere from \$5 million in revenue all the way up to over \$1 billion. So, our specific focus would be companies that are really in that range of revenue up to \$150 million and EBITDA up to \$30 million. So, we're very much focused on what I would refer to as that lower echelon of companies in the lower middle market."

Many of the direct lending managers, and more broadly the private credit business, focus on sponsor-backed lending, where they provide capital to private equity-backed firms, which presents another point of distinction for Copia, according to Thomas.

"If you look at us, we have a broader way. We talk about expanding the aperture of who we invest in. And so, we do work at times with private equity sponsor firms, but it's more curated relationships of firms that we build deep relationships with and we partner together," he said. "And that would be maybe targeted around up to 50% of what we do. But 50% or more of what we do is working



Shundrawn Thomas

directly with businesses that are led by entrepreneurs with family-owned businesses, and then finally with what's referred to as independent sponsors. So, people who have deep experience in the area that are looking for a business to buy and run."

Keri Findley, founder, ceo and cio of Tacora Capital, believes her firm has managed to stay out of the so-called bubble.

"As private credit firms have gotten bigger and attracted more capital, they've actually just gotten farther away from our sandbox," which tends to be \$10 million to \$30 million deals, Findley said.

Findley launched Austin, Texas-based Tacora in 2021 and focuses on providing loans and partnering with emerging companies to enable them to strategically leverage and grow their assets without utilizing sharply dilutive structures.

"Overall, we've seen the subscale, as I like to call it, part of the market remain undervalued," she said. "We help people who aren't buttoned up; that's kind of our value add. And so, the companies that we find ourselves with, we try to have good, honest, ethical operators who are masters in their sector without being buttoned-up, because if they were, they'd be able to get debt from an Ares [or] Apollo soon, and we're trying to keep them for a few years. Sometimes the buttoned-up works better than others, but for the most part, it works pretty well!"

Saba Ahmad, founding partner of Turning Rock Partners, sees

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private credit as an asset class that is here to stay and will continue to grow, despite the headlines.

“Clearly, the private credit industry is facing certain headwinds right now. Turning Rock believes that private credit merits an established place in institutional portfolios,” Ahmad said, in written responses to questions from EMM.

She noted that the main issues are “structural in nature” and primarily involve business development companies.

“Growth in the BDC market has been driven by retail investors, who own close to 80% of BDCs, and BDCs have been structured to offer periodic liquidity and quarterly dividends,” she explained.

“Additionally, BDCs regularly utilize leverage (or debt) to support their investments and liquidity needs. While BDCs offer liquidity, underlying portfolios are often longer duration loans (7-10 years) and some portfolios became particularly concentrated in asset-lite and highly cyclical sectors which have underperformed. Software is the sector we have heard the most about, making up close to 20% of BDC exposure. As underperforming loans have extended in maturity and current cash interest has declined, redemptions primarily driven by retail investors have put BDCs under pressure, leading them to limit redemptions and reduce dividends.”

Despite the headwinds facing the asset class, Turning Rock manages an all-weather investment strategy that allows the firm to continue business as usual.

“Our approach to investing in the middle and lower middle market has always been consistent providing founder owned and led business with growth capital over an intermediate period, generally 3-5 years,” Ahmad said. “We build diversified portfolios with a focus on asset heavy industries like transportation, communications, essential business services and industrials. We conduct robust diligence and structure our investments with several covenants or financial guardrails to provide additional downside protection. We also invest via fund structures where there are no asset/liability mismatches. So, while there are larger headwinds for the private credit industry, we are going to continue doing what have always done and what we have built a successful track record in executing”

Impacts On Fundraising, Investor Interest

The continuing discussions and speculation of the private credit market does not come without its impact, especially when it comes

to fundraising and investor interest for managers.

“If ever you’re in the marketplace, certainly in the private markets, if you have hiccups particularly with large established players, whether that be on the banking side or whether it be on the private investing side, if there’s a sneeze, there could be a code among other investors, particularly sometimes medium and smaller size,” Thomas said, noting that “some of the things that have come up in the news have created a higher degree of scrutiny across the board, and that’s not necessarily inherently bad.”

“I think that being entrusted to manage the assets of institutional and high-net-worth investors, as we are, that’s a deep privilege, and it comes with a high level of fiduciary responsibility,” he continued.

“What I do believe is happening in some areas, though, is that there is not a distinction in how the different approaches and the different strategies are different. And I would tell you that there is, at times, a reflexive belief that emerging managers or smaller managers are riskier. The irony of all ironies, and there’s great research on this, you may have seen some of this research by, say, groups like the [National Association of Investment Companies] that show substantial outperformance by emerging managers over periods of time, interestingly enough.”

That same sentiment rings true for Copia’s focus on small companies.

“A little-known fact in our business is that if you were to look at size of a company, it is not the primary predictor of default risk,” Thomas explained. “In fact, larger companies, like what we call the upper end of the

middle market, are four times more likely to default on their loans than smaller companies. And not only that, if in fact you do have a default, which is much lower in the segment where we are, we have what’s called much higher recoveries. The perspective that people often have in terms of where risk is often doesn’t play out in the actual empirical facts.”

With [last year’s close](#) of Tacora Capital Management Fund II, the firm’s asset-based private credit strategy focused on providing bespoke, founder-friendly financing solutions to high-growth tech-enabled companies, the firm is not actively fundraising at the moment.

“Fundraising, I’m just praying that it gets better and people forget the sting by the time we go out for our next fund, which will be in a year and change,” Findley said. “But for us, we don’t know because we’re not in market right now with a traditional private credit



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strategy. We did just raise an SPV for a private credit deal that went relatively well, but I do expect there'll be, hopefully it'll only last the rest of this year, some pain in fundraising"

In the meantime, the Tacora team continues to maintain its strategy and process.

"We're avoiding the same things we've always avoided. We don't do general obligation lending, we don't lend against [annual recurring revenue], we didn't do Amazon roll-ups and now we're not doing GPUs and overall, we're not doing equipment," she said. "We had an equipment deal that we have not had a good experience with. I used to put a little bit of a line between small budget equipment and big budget equipment, and big budget equipment being tractors, trailers, cars. I just don't think we do any of that right now.

And we would do a portfolio of auto loans to consumers or companies, but the idea of actually having the collateral and having to track down the car or truck if there was a problem is probably not something we would do again. And again, GPUs, that's the hot sector right now. We just can't get comfortable with the depreciation curve so we are staying away."

Echoing Findley's insights, Thomas emphasized that "when you have an investment strategy or approach, it should be designed to manage through varied environments or cycles."

"And so, the good thing is we haven't had to change any of the core elements of what we do because some of the things that we do fundamentally prepare us for these different times of the cycle," he said. "One of the things that we do, for example, is when we do our underwriting, what we say is we underwrite to a downside case. And so, we're projecting and saying, 'If there was an environment, for example, where the economy turned down, what might that look like in the impact of the business? How might that impact the cash flows?' And in a sense, from a risk management standpoint, that's what we're underwriting to [in order] to make sure that there's cushion there."

"One of the things we tend to avoid is we look for businesses that have proven consistent cash flow over time," he continued. "And so, if we see something where there's a huge spike up in the revenue and cash flow, we're very reticent to say we're going to underwrite at those high levels. We tend to avoid concentrations, so if you think about the risk that you take, if you have a business that has a high concentration among a single customer, for example, one of the things that is just true in our business concentration is what we call an uncompensated risk. It's hard when you're taking that risk on



Keri Findley

average over time to get paid for that. So, we avoid that."

Turning Rock's Ahmad acknowledged that "short term fund flows could moderate as investors pull out of more liquid or publicly traded formats of private credit."

"Longer-term patient allocators recognize that alternative credit offers favorable yields versus long-only fixed-income strategies and plays an important role in meeting the demands of long term returns for capital goals," she said.

When there is any sort of disruption in the market, "the opportunity that's created is for differentiation in the dialogue around that," according to Thomas.

"From our perspective, one of the opportunities is that for many people who have been investors in private

credit, particularly strategies that they might refer to as direct lending, I would say there's a lot of commonalities among the strategies," he said. "Even if you look at where the fundraising has gone, you've probably seen these statistics particularly over the last couple years, high concentrations among really a handful of providers or managers, and actually, in some instances, a few very large funds. So, what happens in these types of market environments causes people to kind of revisit some of those assumptions. And so, for us, we have a strategy that we are confident can provide what we call various forms of alpha. When we talk about alpha, we talk about excess return."

Ahmad said that "we believe the volatility and pullback within private credit is already creating opportunities for Turning Rock."

"With reduced supply of BDC capital, that makes groups like Turning Rock critical for businesses that need structured capital to continue to support their growth objectives," she said.

Institutional Investors React To Private Credit Scrutiny

Various public pension boards and investment committees have raised the private credit topic at recent meetings, with most taking a cautious approach to the headlines with advice from their respective consultants.

During the \$83.7 billion Pennsylvania Public School Employees' Retirement System's March investment committee meeting, Senior Consultant Mark Brubaker of general investment consultant Verus responded to a question from a committee member on the topic.

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“Private credit is especially the hot topic these days, and as we’ve seen, credit spreads in general are at historically low levels,” he said, during the meeting.

Brubaker acknowledged that there is “probably a lot more risk” on the downside in not only private credit but publicly traded high-yield and bank loans, but “the headlines that you’re seeing now are really driven not so much by any major credit issues or systemic credit issues. They’re more driven by an asset/liability mismatch or a liquidity mismatch.”

As a result, there has been a rise of interval funds, or private and public BDCs “where they’re generally private investments, but the manager provides liquidity to investors on a regular basis,” he explained.

“And so, we saw it with BlackRock, you saw it with a firm called Cliffwater, where there have been significant redemption queues and I think that could continue; that’s primarily individual investors, retail investors,” he added.

But for investors like PSERS or anyone investing in private credit within a private credit structure, “I think there’s going to be buying opportunities that result from what you’re seeing in the press, with some of these interval funds and BDCs,” Brubaker said.

PSERS CIO Benjamin Cotton noted during the meeting that the plan’s investment committee recently reviewed Bain Capital’s Special Situations Asia III strategy before ultimately deciding to “hold back on that.”

“Because of the environment and the headlines, we just want to take the time that we have to look a little deeper,” Cotton said, noting that the plan has a strong opinion of Bain, which is an existing manager relationship, and that “the circumstances in Asia are much different than here.”

“We agree with Mark that most of this is liquidity driven, but given the headlines and how late we are in the cycle, it’s worth just stepping back a little bit and taking the time that we do have to look at those things,” he said.

“For long-term investors, there’s not a lot of stress at this moment, but it is a good time to be cautious,” Cotton added.

Verus representatives also discussed the topic at the North Dakota State Investment Board’s March 20 meeting. Verus serves as the performance consultant for the SIB’s \$9.1 billion Pension Funds, \$13.1 billion Legacy Fund and \$3.6 billion Insurance Trust.

“What you’re hearing in the press, and I think it is important to level set, is we’re seeing signs of stress in segments of the pri-

vate credit market” primarily driven by the companies that are software-based or are a significant component of their revenues are driven by software products, Verus Senior Consultant Eileen Neill said, during the meeting.

“Some funds that were very heavily exposed to that sector are the ones where you’re hearing stories about redemptions and write downs, but those funds are primarily retail oriented,” she said, pointing to the fact that institutional investors entered the private credit space over a decade ago, but the “spigot has been opened” for retail investors to participate over the last few years.

Neill reiterated that Verus is seeing the most negative impact in those retail-oriented products, whereas for the consulting firm’s base of institutional clients, “we’re not seeing those drawdowns and that distress in their portfolios, because your portfolios tend to be

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much more diversified and not so overexposed to a single industry segment.”

NDSIB CIO Scott Anderson finds there are two main issues with which the private credit market is grappling.

“One is AI potentially impacting software as a service companies. That’s happening in the public markets and that’s happening in the private markets – private equity and private credit,” he said, noting that there is no direct evidence that it has impacted SIB’s portfolio, however, “we certainly are concerned both in the private equity side and the private debt side as well.”

Ares and Cerberus Capital Management represent the board’s largest holdings of private debt and “both hold very small portions of each loan in our portfolio, so they’re very diversified.”

The second issue raised by Anderson are “some high-profile fraud cases.”

“Of course, when you have retail money and they all see a Wall Street Journal article about fraud and private credit, you’re going to have many retail investors run for the doors,” he said. “That’s why it’s always difficult to have retail investors investing in these riskier

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types of vehicles.”

Anderson underscored the due diligence and vetting process that goes into screening their managers, noting “I believe we have the types of managers that are doing the right sorts of things initially, and then even responding with another layer of protection around this.”

“So, in the short term, it’s the headlines around the high profile cases of fraudulent practice across \$2 trillion of assets and then the other is this AI impact, which it can help and it can hurt, so we don’t know how that’s going to unfold as we go forward,” he said,

Justin Maistrow, cio of the Employees Retirement System of Rhode Island, addressed the headlines and pressures surrounding private credit observed by his team during a March 25 board meeting.

“Obviously there’s been a material shift in sentiment. There have been a number of headlines related to fraud, double pledging of collateral, but a lot of the sentiment shift has been driven by AI disruption software. There’s a fair amount of software exposure in the private credit market,” he said.

The plan first formally allocated to private credit in 2016 and since then the asset class has “ballooned, and a ton of capital has flooded in,” however, RSIC has remained constant in its exposure, slightly decreasing its target allocation to 3% from 3.2% over the years, according to Maistrow.

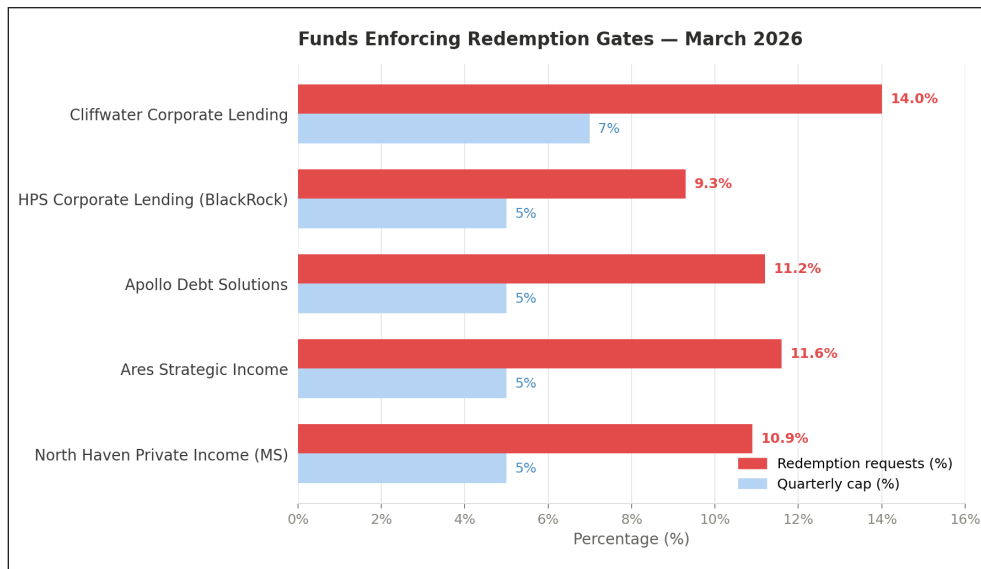
“Of course we have a diversified portfolio beyond just corporate direct lending, but that doesn’t mean that we’re ignoring the market,” he said.

Elsewhere, the Vermont Pension Investment Committee received a private credit update from plan staff at its March 24 board meeting, with an initial focus on the VPIC’s strategic asset allocation being built on “prudent diversification.”

Specifically, the plan’s private credit portfolio spans structure, lending type, geography, company size and manager expertise, with direct lending to corporate borrowers representing approximately half of its 11% target allocation to the asset class.

“While VPIC’s portfolio is built for resilience, we continue to monitor evolving market narratives to distinguish between genuine systemic signals and media sensationalism,” the plan said, in a memo to the board, which outlined three emerging areas of risk – the use of payment-in-kind interest, the impact of AI on software lending and investment vehicle liquidity.

“VPIC has intentionally constructed its private credit allocation to withstand the specific pressures of the current market environment and be best positioned to assist existing borrowers that be-



come stressed by emerging risks such as AI-driven margin compression or the shadow defaults of PIK interest,” the memo stated. “Going forward, Staff will continue to prioritize structural protections and downside risk mitigation in recommending private credit managers. We remain confident that the disciplined diversification and seasoned manager selection within this allocation continue to provide attractive risk-adjusted returns within prudent levels of risk.”

The Alameda County (Calif.) Employees’ Retirement Association also received an update on the private debt market environment from its general investment consultant NEPC at an April 1 investment committee meeting.

NEPC emphasized in their presentation materials that “defaults are part of credit investing, both in public and private debt.”

While the Boston-based consulting firm highlighted the potential issues within the current private credit landscape, which ranges from liquidity mismatch and valuations to concentration in the software sector, the firm does not see systemic risk in the asset class as headlines are limited to select cases, sectors and semi-liquid structures.

NEPC also pointed out that there is an opportunity to take advantage of the dislocation as “skilled managers can extract value through loan structuring, sector expertise, and opportunistic financing.”

Long-Term Outlook Remains Positive

Despite near-term concerns regarding private credit, managers and investors are maintaining a positive long-term outlook for the asset class.

Thomas finds nothing happens in a straight line over the long-

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term, however, “if you think about it as a sub-asset class, what you’re seeing is more investors are becoming familiar with it.”

“I think on average, over time, when you look at people’s portfolios, when I talk about private markets, because of what private markets can add, I think you’ll see private markets continue to grow both in institutional portfolios, particularly with small and medium-sized institutions that haven’t been as allocated as larger institutions and also increasingly with high-net-worth individuals and families,” he said. “And because of that, I think on a relative basis, on average over time, a higher share of that will go to private credit because of their return characteristics. You can get attractive private market returns, but there’s a concept called drawdown, so how much is a financial asset down in a down market? The nature of fixed-income or credit means that it’s going to generally have less drawdowns than, say, equity. That’s just a thing that helps in a portfolio, so I think you’re going to see that.”

Further, as the asset class matures, “you’ll see people coming back to what I call a more ‘hub and satellite’ approach,” according to Thomas.

“We’ve had in the last couple of years what I would call a ‘flight to familiarity,’ a lot of dollars being concentrated with similar names and similar strategies,” he explained. “I think as people become more adept and more familiar with the space, and underwriting, and diligence deepens, you’re going to see people looking for strategies that are not just center-cut, not more commoditized. And I think that will help firms like ourselves because we believe strongly that we can add value to portfolios. And I would say for your broader base, I think that is a positive sign for emerging managers, because generally speaking, that’s where emerging managers usually add a lot of value.”

Tacora’s Findley finds people will continue to start companies in the small underbanked sectors in financial services and insurance.

“What we’re seeing as the biggest headwind is actually our normal venture capital partners spending more of their time on AI instead of fintech. I would say that that’s been frustrating for us because our normal kind of venture funds that we engage with often, their attention has been pulled away from what we like to engage with them on to things that they think will make them more money. And I get it, that’s the business in life,” she said. “But, if that continues, it means we’ll have to start really pounding the pavement and building new relationships with people who are funding insurance and financial services businesses. But I hope it reverts and maybe a couple of these AI companies aren’t as exciting as people think and maybe they don’t change the world and maybe our typical partners are more focused. I think private credit space overall will be less retail, will probably shrink. The tide comes out, you’ll kind of see some issues, and that’s what you expect and that’s just fine. And from there we hope to be able to see more small companies getting started in financial services and insurance that we can do business with.”

Findley also acknowledged that Tacora has seen a shift in focus to evergreen funds, where she sees a mismatch.

“I tell this story that in 2024, when we were thinking about raising Tacora Fund II, many investors said to us, ‘I’m very interested, but we need you to do an evergreen fund.’ And I resisted because I believe ... that there’s a mismatch,” she said. “One of the reasons is that we take warrants in every single business we do, and it’s very hard to value a warrant quarterly and if people are coming into your fund quarterly, that would be something where you just know the marks are going to be either high or low and we do the best we can. We have a third-party marking service, but a lot of times these high growth companies, anyone can guess kind of where they are. We think that mismatch will go away, which again means more institutions and less retail in the space, because I think the retail really values that evergreen structure, which I see as a little bit of an issue.”

Turning Rock’s Ahmad expects that the redemption cycle for BDCs and similar private credit vehicles “will continue for the intermediate future.”

“This will force many to have to rebalance their portfolios to generate liquidity and manage portfolio concentrations. We will continue to see secondary activity to manage this,” she said. “This will also lead to BDCs pulling back on new loans, leading to a gap in financing needs for companies. In the grand scheme, market dislocations present unique buying opportunities and these trends can benefit Turning Rock.”

Ahmad noted that she is “long term positive on the private credit space.”

“There may be adjustments in liquidity features or fund structures, but the capital need from private businesses continues to grow,” she said. “Private credit is an essential tool to support and drive growth objectives for middle market and lower middle market businesses which are the primary drivers of economic growth and employment. Groups with established track records and processes to manage portfolios will likely see increased opportunities through this period. It makes me proud that firms like Turning Rock can be consistent providers of capital for founder led businesses across all market cycles.”

Overall, Thomas highlighted that “this is an environment where investors or LPs can really double down to expand the aperture of what they look at.”

“I think it’s easy to reflexively respond to general or generic headlines, but I think that upon investigation, I think what people will find is a lot of distinction among the strategies that are out there,” he said. “I think also what people will find is a lot of the innovation that we see brought to the investment management space is driven by emerging managers. I think it’s both by design, a lot of times, the strategy. It’s also bred by necessity to really distinguish yourself in a very competitive marketplace. But I think it accrues to the benefit of investors. So, I actually hope that there’s an opportunity for a deeper and a different level of engagement with potential asset allocators or institutional investors, and talented and innovative emerging managers.”