BSP
BENEFIT STREET PARTNERS
by Franklin Templeton

20 July 2026

# BSP Credit Insights

## Making sense of AI disruption for credit managers

# The AI disruption trade in credit: it's dispersion, not destruction

AI is repricing "moats" in leveraged finance; there will be winners and losers inside every sector, not sector-wide extinction

## WINNERS

**Systems of record:**
ERPs, ledgers, core CRMs: proprietary data, deep embedding, regulatory switching costs

**AI deployers:**
Incumbents using AI to compress cost-to-serve and take share from slower rivals

**Physical-moat borrowers:**
Asset-heavy, regulated, local: infrastructure services, logistics, waste

**Picks & shovels, with discipline:**
Power, data centres, compute finance: real demand, but underwrite oversupply

## UNDER PRESSURE

**Narrow workflow software:**
Expense tools, contract review, data entry: the revenue is the automation target

**Labour-arbitrage services:**
BPO, offshore IT, call centres: pricing power erodes first

**Seat-based pricing:**
Headcount-linked revenue shrinks even when the customer is healthy

**Levered legacy tech:**
2021-vintage LBOs priced off moats that no longer exist

**$500bn+**
US direct loans to software (~19% of the market), up from <$8bn in 2015

**-30%**
software equity drawdown Oct '25 - Feb '26 as AI moat risk repriced

**2028-29**
the software maturity wall: AI risk turns from monitoring issue to refinancing event (Moody's)

US vs Europe: same repricing, different transmission — US books concentrate the software exposure; Europe's runs through labour-intensive business services.
Sources: Market data, UBS, FSB (May 2026).

**Prepared for Professional Investor Use Only. Not for Distribution to Retail Investors. Please See Key Risks in Appendix.**

# Broadly Syndicated Loans

Software risk is being priced differently to the rest of the market

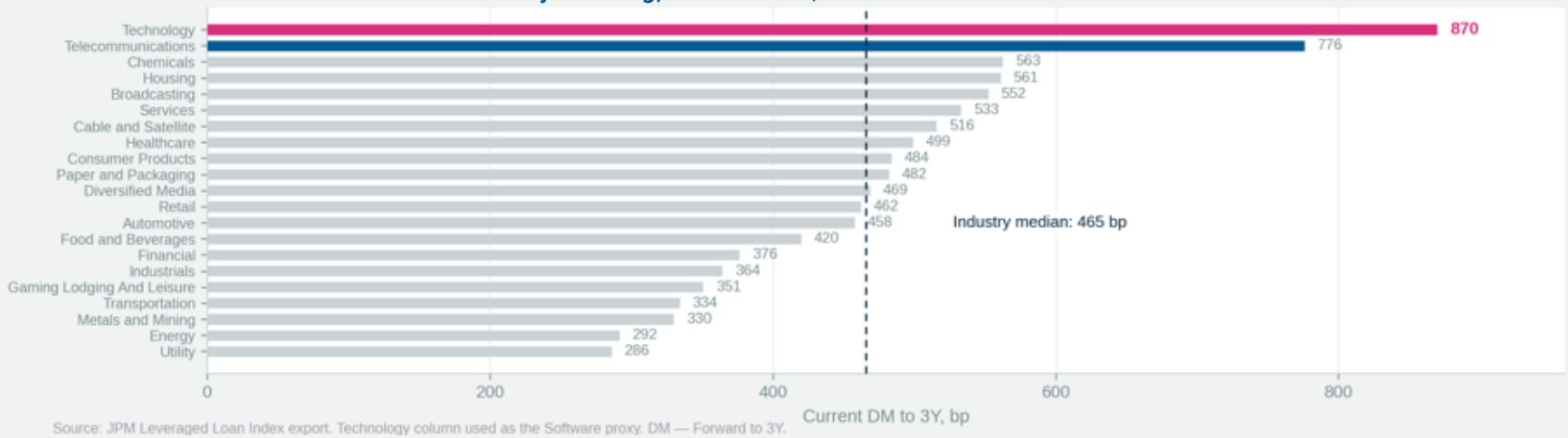
01

# Software loan spreads are at crisis levels

Spreads have only been this wide on nine days in the past seven years, during the depths of Covid!

**Software / Technology DM to 3Y* versus Historical Stress Bands**

**Current Industry Ranking,** as of Jul 02, 2026




Source: JPM Leveraged Loan Index export. Technology column used as the Software proxy. DM — Forward to 3Y.

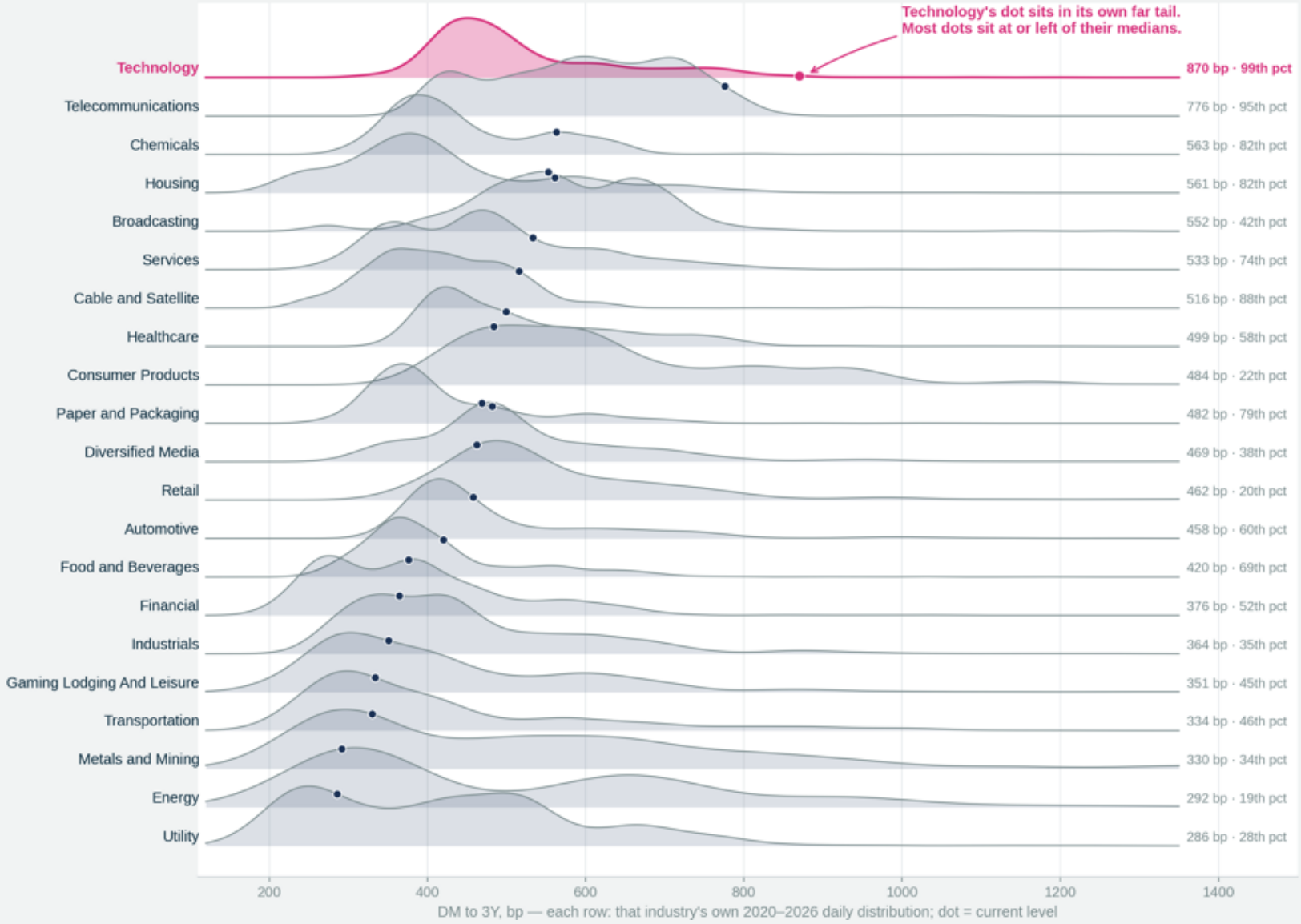
* The effective spread earned over the base rate assuming the loan is repaid in 3 years rather than held to maturity. It captures both the loan's coupon and the pull-to-par effect of its current price.

Source: JPM Leveraged Loan Index export. 'Technology' column used as the Software proxy. DM – Forward to 3Y.

**Prepared for Professional Investor Use Only. Not for Distribution to Retail Investors. Please See Key Risks in Appendix.**

# Software is the clear outlier - most sectors are trading near normal levels

Each industry's full 2020-26 distribution of DM to 3Y* - with a dot marking the current level and its percentile within that industry's own history



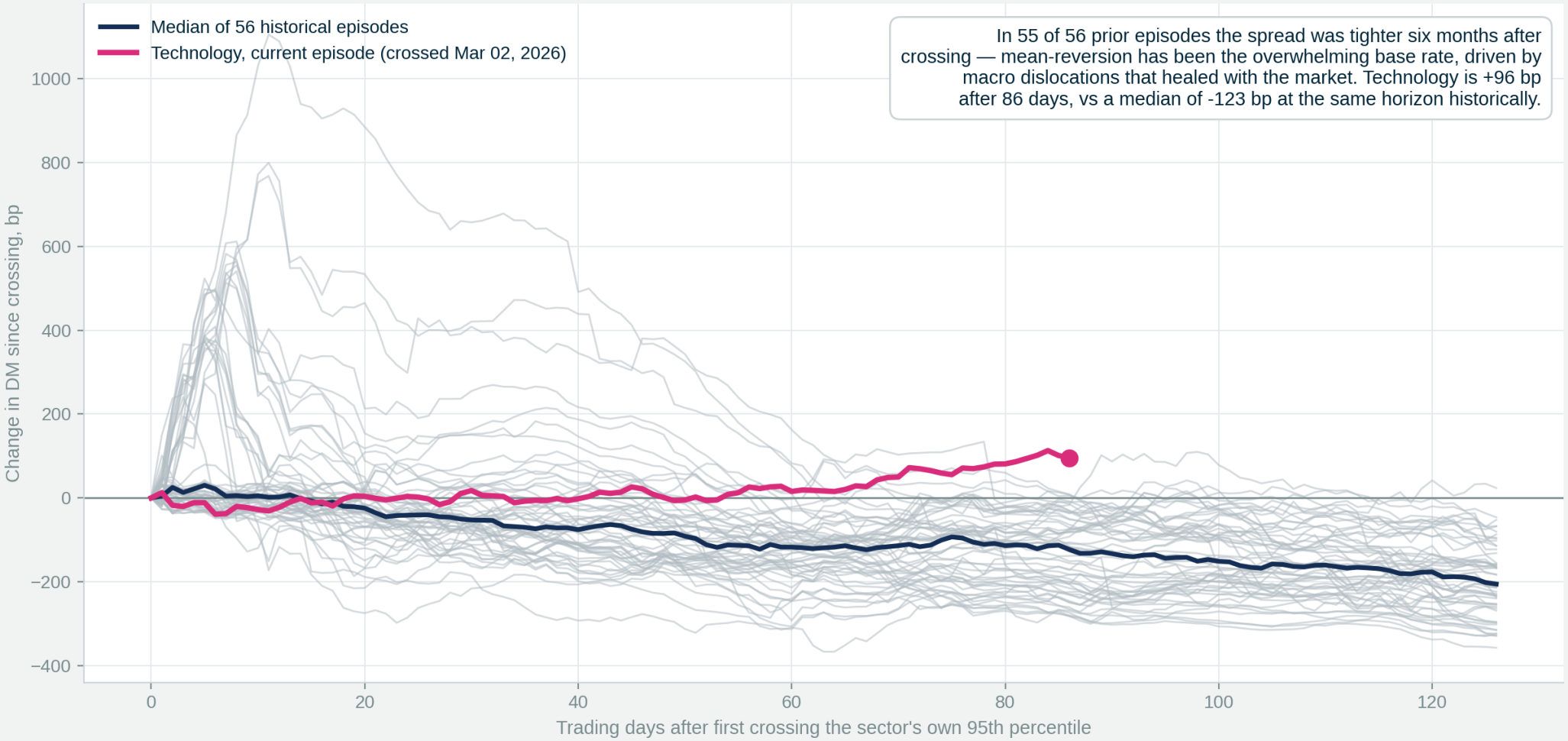

* The effective spread earned over the base rate assuming the loan is repaid in 3 years rather than held to maturity. It captures both the loan's coupon and the pull-to-par effect of its current price.

Source: JPM Leveraged Loan Index export. 'Technology' column used as the Software proxy. DM – Forward to 3Y. Rows sorted by current DM.

**Prepared for Professional Investor Use Only. Not for Distribution to Retail Investors. Please See Key Risks in Appendix.**

# Spreads usually tighten after reaching these wide levels; not this time

For every prior instance (any industry between 2020-26) of a sector crossing its own 95th-percentile spread, we see a reversion and tightening during the next six months. This is something very different, it's not happening with tech.




Source: JPM Leveraged Loan Index export. 'Technology' column used as the Software proxy. DM – Forward to 3Y. Episodes require 20 prior days below the threshold and 6 months of forward data.

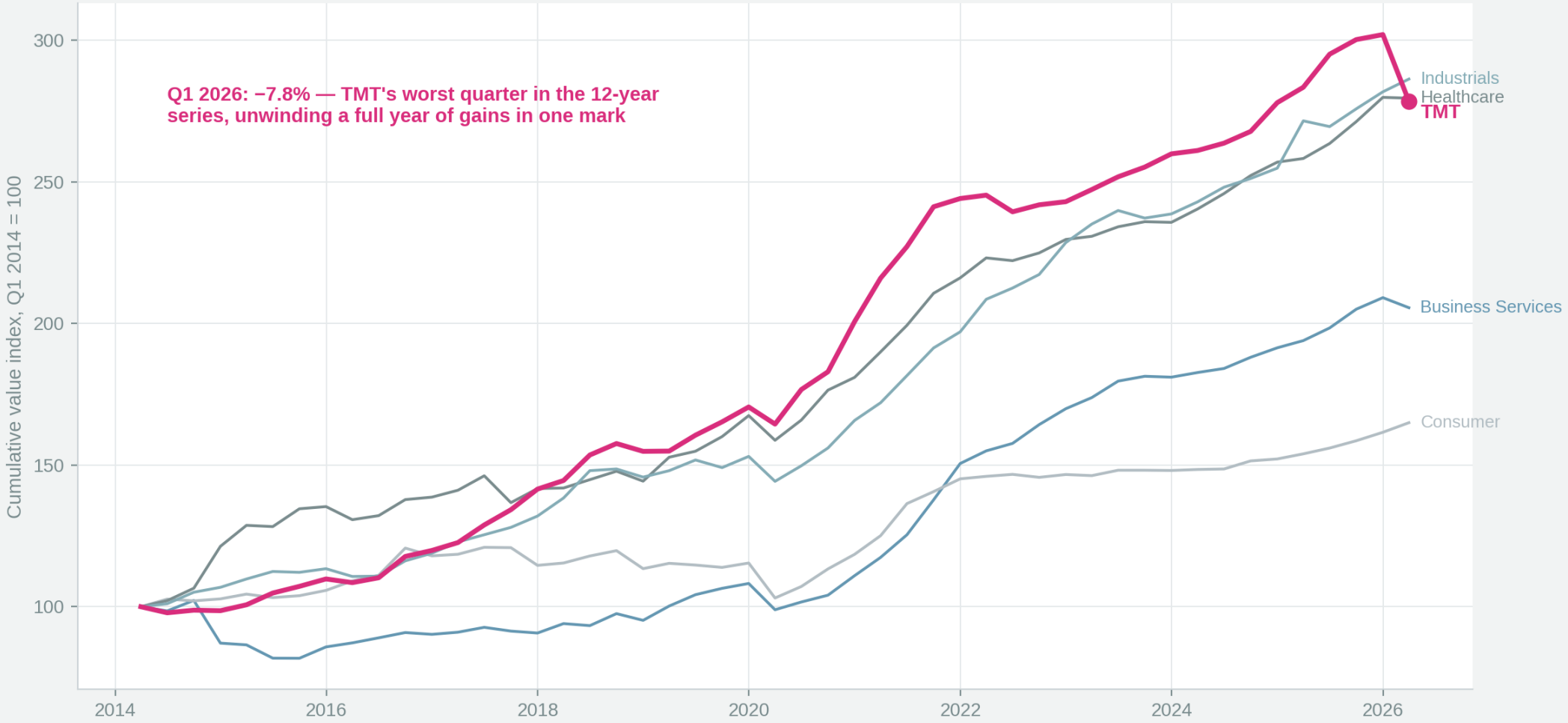
# Private Credit

The same pressure is appearing in private valuations and software loan yields

02

# Private market tech values have shown their first cracks

Cumulative compounded quarterly change in value by industry. TMT tracked the leaders for a decade, then broke ranks in Q1 2026

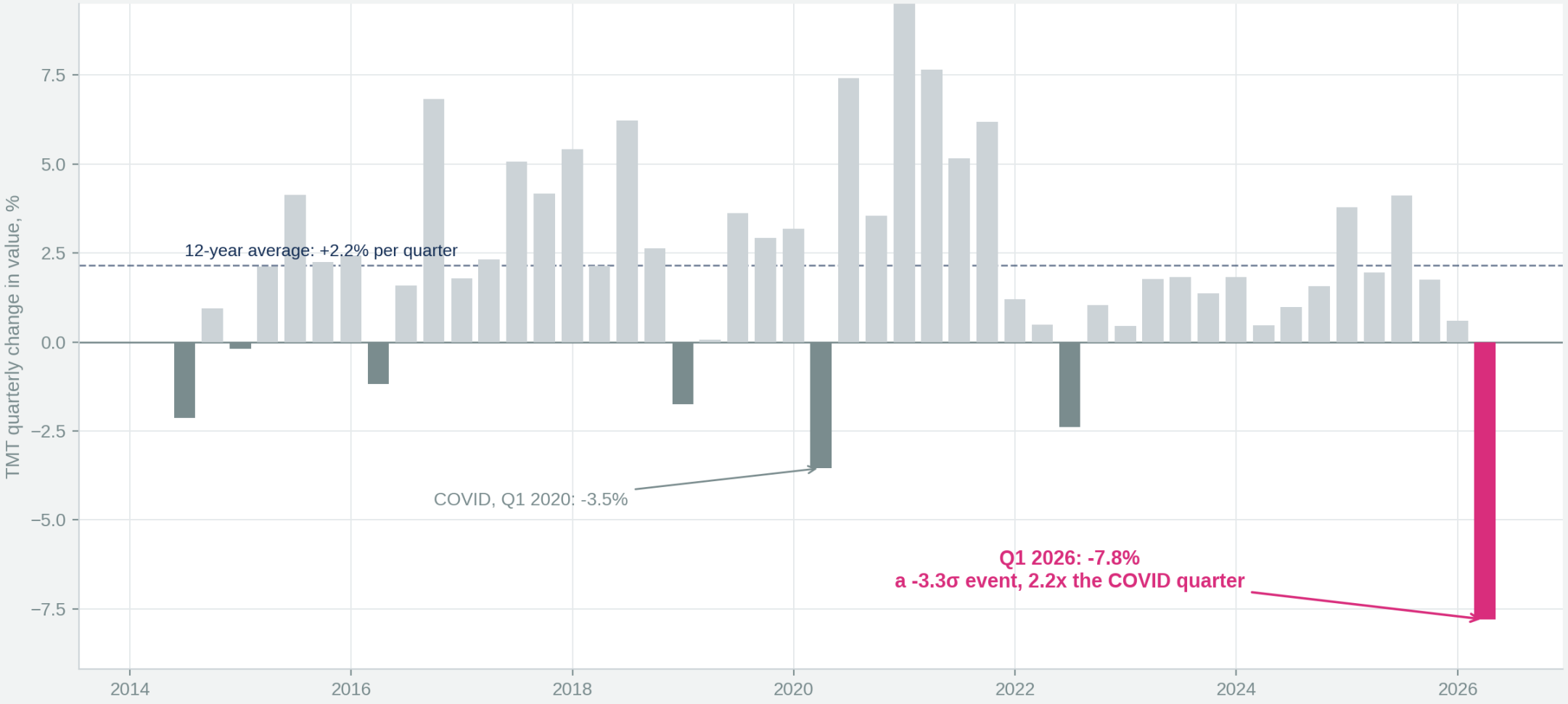



Source: Lincoln International, Quarterly Returns by Industry (average quarterly change in value,, Q1 2014 – Q1 2026. TMT used as the Technology proxy

**Prepared for Professional Investor Use Only. Not for Distribution to Retail Investors. Please See Key Risks in Appendix.**

# Q1 2026 was more than twice as bad as the worst COVID quarter

Quarterly change in TMT value across 49 quarters. In 12 years, the sector had never lost more than 3.5% in a quarter. Then Q1 2026 printed a staggering -7.8%

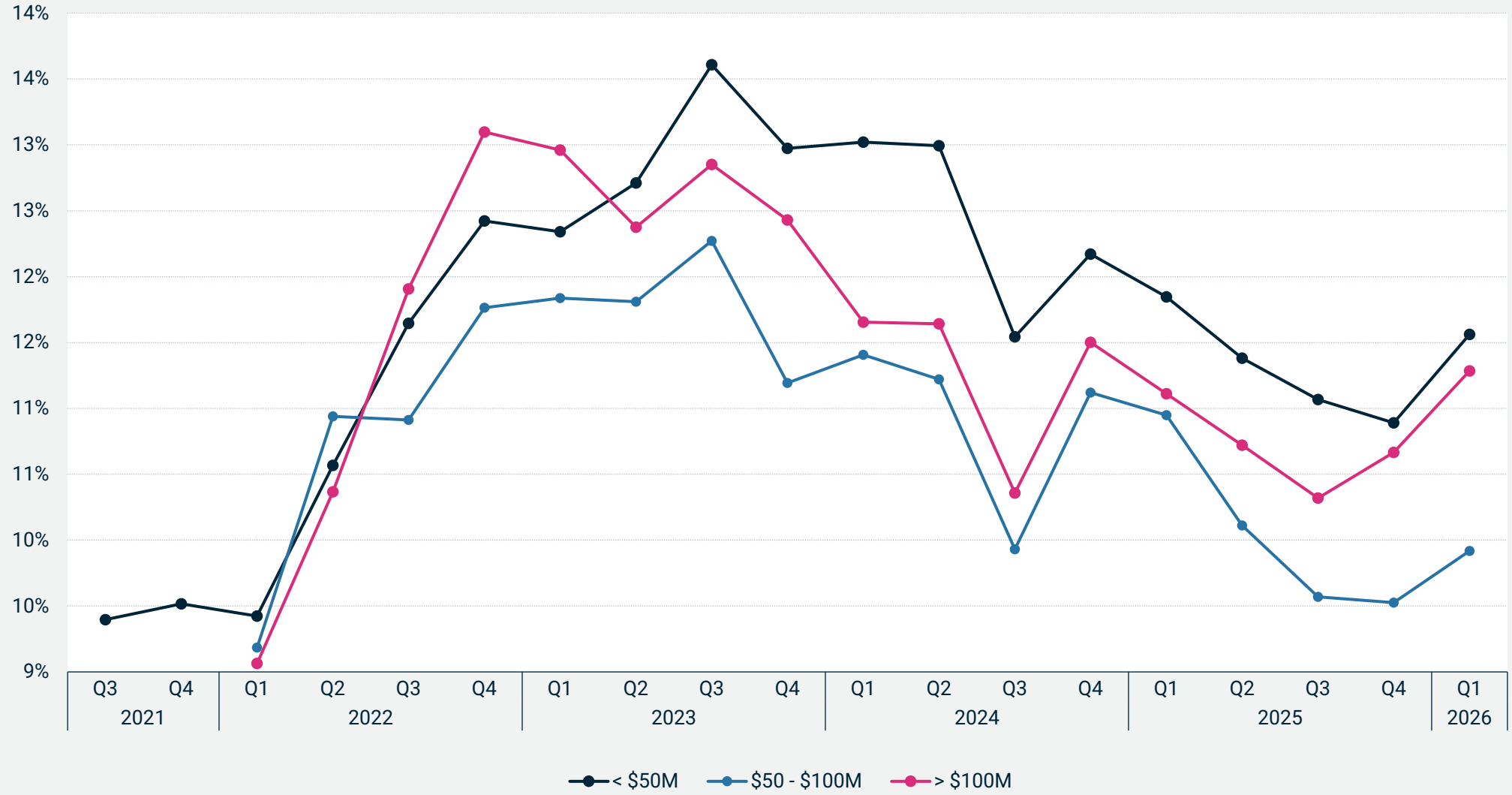



Source: Lincoln International, Quarterly Returns by Industry (average quarterly change in value,, Q1 2014 – Q1 2026. TMT used as the Technology proxy

# Larger private credit software deals are being impacted hardest

Upper middle market software deals have seen more widening than core or lower middle market deals in the same sector

**Implied Yield to Maturity for Software Direct Lending Deals** (Average)[1]




1. Dataset: All debt securities valued by Lincoln in the Software Sector, in the U.S.

# What does this mean for managers?

## It’s a credit picker’s market

03

# Quality managers and underwriting will shine through

Wide dispersion creates opportunity for managers that can distinguish durable borrowers from exposed ones

## Private Credit: Portfolio construction when the moat itself is the variable

### Triage every borrower

Beneficiary, deployer or target? Score automatable revenue, proprietary data and switching costs - recurring revenue alone is no longer a moat.

### Respect the hold period

A 4-5 year illiquid underwrite against 12-month AI capability cycles. Price moat duration into spread - and take the tighter docs and covenants.

### Monitor faster than the quarter

Par marks hide deterioration until a hard event forces it. Close the gap with usage telemetry, hiring signals, web traffic and card spend.

***Dispersion this wide is the credit selector's opportunity - and the index-hugger's penalty***

## BSL: Relative value when the moat is marked to market daily

### Trade names, not labels

An 870 bp sector DM averages durable systems-of-record with exposed workflow tools. The sector label is uninformative - score moats name by name and own the mispriced winners.

### Use liquidity early

Unlike a private direct lender, a BSL manager can reposition - but stressed-loan liquidity thins fast. Selling after the downgrade means selling into forced flows, at the wides.

### Don't underwrite mean reversion

Every prior 95th-percentile episode since 2020 retraced; this one isn't (slide 6). A moat repricing is not a liquidity shock - underwrite the fundamentals, not the historical base rate.

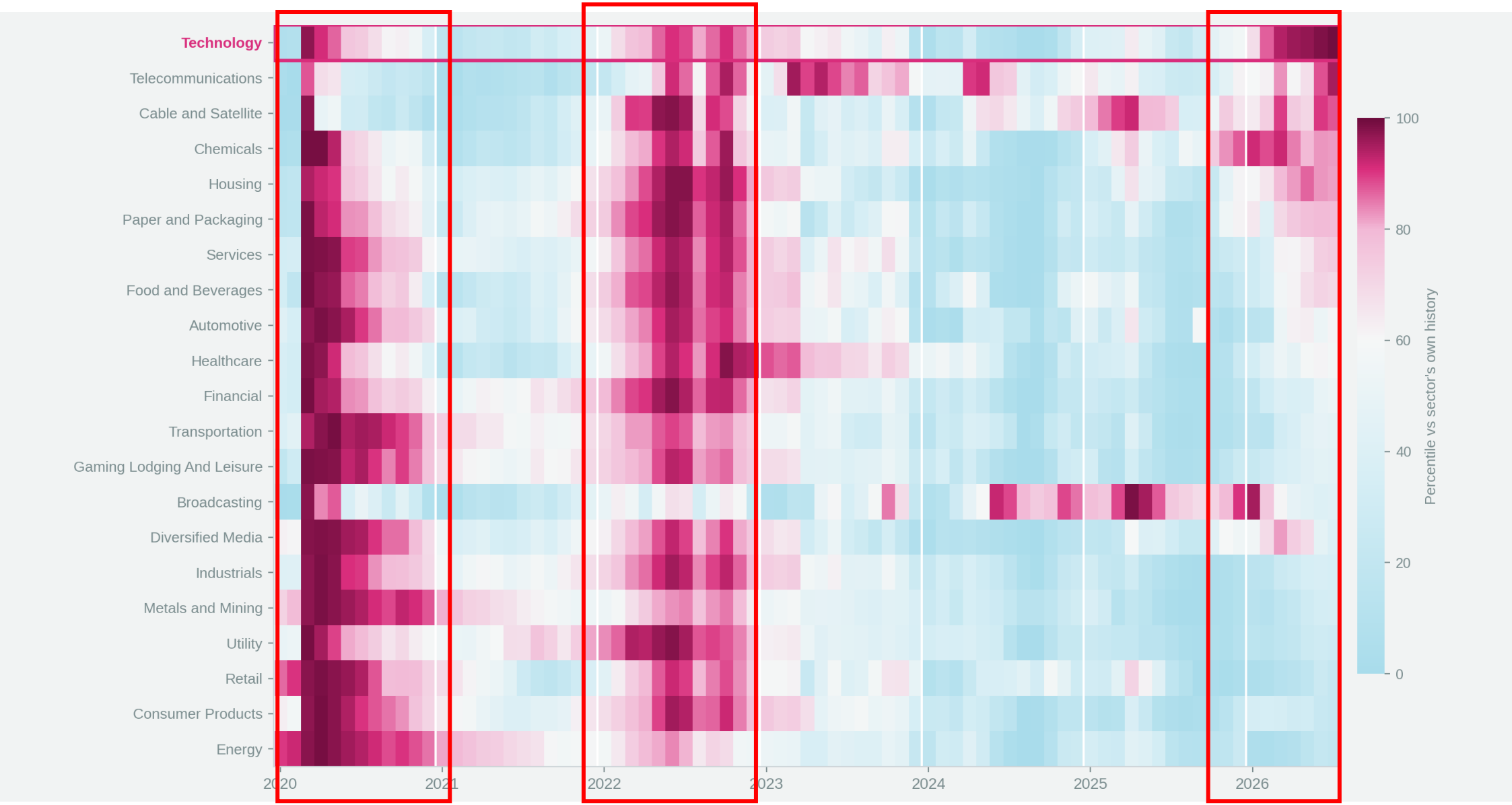
***The market has already repriced the sector - the returns are in repricing the names***

Appendix

# 04

# The state of the BSL market in one grid – tech is the outlier

In prior episodes of spread widening (COVID; 2022), nearly all sectors widened in lockstep. That is not the case now.
Each cell: that industry's monthly average DM as a percentile of its own six-year history. Blue = tights, magenta = wides.

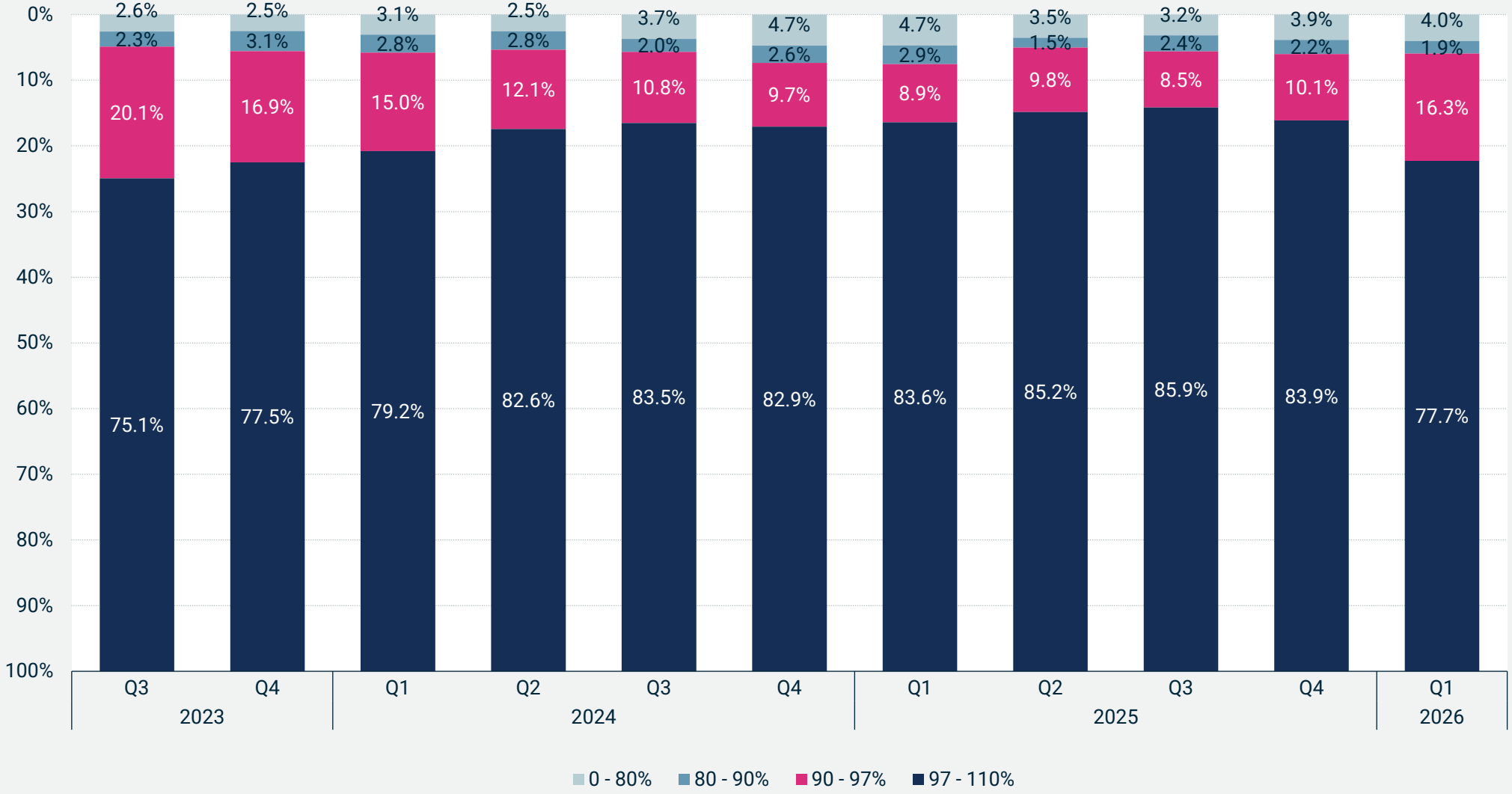



Source: JPM Leveraged Loan Index export. 'Technology' column used as the Software proxy. DM – Forward to 3Y. Rows sorted by current percentile.

**Prepared for Professional Investor Use Only. Not for Distribution to Retail Investors. Please See Key Risks in Appendix.**

# Private software loan marks are moving lower

The share of software direct lending deals with marks in the 90-97 area has nearly doubled over the last two quarters



# Disclaimer

This event and the information provided therein is prepared for professional investor use only. Not be distribution to retail investors.

The contents of this presentation do not purport to be, and should not be construed as, investment advice of any type or kind, and the contents of this presentation are not intended to be, nor should be construed as, statements or opinions about the merits of investing in any BSP Group product, fund or account, including but not limited to the past performance or potential future performance of any BSP Group fund or account.

Investing in any BSP Group product, fund or account has substantial risks, none of which are described in this presentation. The contents of this presentation are not intended to serve as, and should not be construed as, the basis for any person or entity to make an investment decision with respect to any BSP Group fund or account.

## New York

One Madison Avenue
Suite 1600
New York
NY 10010
USA

## London

Cannon Place
78 Cannon Street
London
EC4N 6HL
UK

## Boston

100 Federal Street
22nd Floor
Boston
MA 02110
USA

## West Palm Beach

360 South Rosemary Avenue
Suite 1510
West Palm Beach
FL 33401
USA