

Public BDC Credit Performance in the IVQ 2025. Second in a series

In a second article, we share our review of the 46 public BDCs credit standing as of the IVQ 2025. In this article, we focus on the sector's exposure to its most troubled portfolio companies and how that might translate into future credit performance.

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In our [prior article](#) reviewing IVQ 2025 public BDC credit performance, we began by looking at a series of metrics about the size of the sector; cost versus FMV etc. In this second article, we're going into dig into which companies in BDC portfolios are the most likely to cause credit damage in the form of further write-downs, write-offs and further non-accruals = i.e. the "Important Underperformers". For these purposes, we've identified for every BDC those portfolio companies whose aggregate investments (debt, preferred and equity) are valued below 80% of cost, whether performing or on non-accrual. However, to keep the focus on the material challenges, investments valued below \$5mn are excluded as has been our standard throughout.

Big Picture

As we noted in our earlier article, there are approximately 6,935 companies listed in the portfolios of the 46 public BDCs we track. Of those just 229 are Important Underperformers, or 3.3% of the total.

The dollar value of all portfolio assets amounts to \$171.9bn and the FMV of the Important Underperformers is \$5.3bn, or 3.1% of total BDC value.

Of the Important Underperformers, 58% are rated 4 on our 5-point scale and 42% are rated 5, which means that at least some portion of the investment is non-performing.

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The companies on non-accrual tend to get the most attention. However, one could argue that the entities rated 4 deserve the greater focus. These companies are still paying interest on their debt which, if interrupted, could materially impact earnings and distributions going forward. Moreover, companies rated 4 have - typically - not been written down as sharply as those on non-accrual and are susceptible to bigger unrealized depreciation. Finally, very few non-performing companies tend to ever get upgraded back to a normal status - 2 or or above - without undergoing some "realization event", such as bankruptcy, restructuring or asset sales. Occasionally, though compnies rated 4 are known to turn their performance around, resulting in unrealized appreciation for the BDCs involved.

Granular Picture

The number and value of Important Underperformers varies widely by BDC. To help with these comparisons we look at the value of these troubled investments as a percentage of every BDC's total portfolio size and of its net assets.

At the end of the IVQ 2025, 20 BDCs had very modest level of Important Underperformer assets - under 2.5% of their portfolio, and another 7 had between 2.5% - 5.0%. By our standards, that is the "normal" sort of level one should expect from a BDC investing both debt and equity in non-investment-grade companies. At the other end of the spectrum, 3 BDCs had Important Underperformer values greater than 10% and 6 with 7.5%-10% of their portfolio consisting of these stressed assets.

When we consider the percentage of Important Underperformer assets as a percentage of BDC capital we get a different - but broadly similar picture. There are 25 BDCs in the top two categories and 12 in the bottom 2, with the remainder in the middle.

Here is the table showing the individual metrics for every BDC:

https://docs.google.com/spreadsheets/d/e/2PACX-1vSCSC7SlhFBKAlAmYOpuHvjAPljkh_kSybH2WB6T9OqgekMtHAMDbWQoI71vQfhhEAtXOPxEO1oKQtg/pub?output=pdf

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A Few Comments

The usefulness of the data depends entirely on the accuracy of BDC valuations. If investments are - let's say - "generously" marked by their BDCs and associated valuation firms - the analysis will be skewed. In our experience, BDC valuations tend to be relatively fair but there have been instances in the past where wide variations have shown up between different BDCs invested in the same loan.

Also, venture-debt BDCs - due to the nature of their underlying portfolios - do not use the same criteria to value portfolio companies as do BDCs involved in the traditional leveraged buy-out market. Venture debt valuations - when done right - are based more on the prospects of new capital being available in the future to fund a new "round" of growth for the companies involved. Moreover, we've noticed at times in the past that certain venture-debt BDCs tend to fully value loans to portfolio companies all the way up till a default or other crisis occurs, with no regard for either underlying performance or new capital availability.

CONCLUSION

No one metric ever tells the whole story so we'll avoid any grandiose conclusions. Still, the data does suggest that many BDCs have relatively little exposure - measured both as a percentage of their total portfolio or their net assets - to their most troubled companies. Further losses - including new non-accruals - are slated to happen but should be limited to tolerable levels for all but a handful of companies. In many situations - as has been the case in the past, these potential losses are likely to be offset by gains elsewhere - from realized equity stakes, selling new shares at a premium and buying back shares at a discount. Only a few BDCs are at risk of significant losses to their capital, based on this data. Most of all, as reflected in both the metrics in this article and the prior one, there is no evidence of any major "crack-up" in credit performance like the one that accompanied the Great Financial Crisis (GFC) or even the downturn that occurred in 2023 following - ironically enough given today's headlines - the sharp drop in the price of oil. (Many BDCs were heavily invested in energy-related companies in a sort of dress rehearsal of the current concern about software companies and ended up absorbing material losses over a multi-year period). However, there is no doubt that the degree of risk in public BDC portfolios - as measured in a number of ways - varies widely among the market participants, with about a quarter of the BDC universe in what can only be called poor credit shape at the end of 2025.