



Thinking Small

How Mizzen Capital Captures Premium Returns in Private Credit's Next Era



Executive Summary

As private credit reaches nearly \$2 trillion in assets under management¹ and expands beyond its traditional direct lending roots, a new opportunity is emerging in the market's often-overlooked smaller loan segment. While mega-funds compete for billion-dollar deals, Mizzen Management, LLC ("Mizzen") has identified a compelling investment thesis: smaller loans can offer superior risk-adjusted returns through enhanced pricing power and reduced competition.

Private Credit Landscape: Scale vs. Opportunity

Private credit has grown ten-fold since 2009, with the addressable market for private credit potentially exceeding \$30 trillion in the United States alone. This explosive growth has been driven primarily by banks' retreat from leveraged lending and the expansion of private equity, creating a massive opportunity for alternative lenders.

However, this growth has come with a significant shift in market dynamics. The industry has increasingly concentrated around mega-funds, with scale becoming a critical competitive advantage for the largest transactions. As McKinsey notes, "Only the largest lenders are likely to compete for multibillion-dollar financing of investment-grade companies, major infrastructure projects, and the largest commercial real estate financings."

This trend toward scale creates both challenges and opportunities. While large managers can write bigger checks and access institutional capital more easily, they face compressed spreads and intense competition in the upper-middle market and large corporate segments.

¹ McKinsey, 2024. "The Next Era of Private Credit." *McKinsey & Company*, September 24, 2024.
<https://www.mckinsey.com/industries/private-capital/our-insights/the-next-era-of-private-credit>





The Untapped Value in Smaller Loans

Mizzen has identified a compelling counter-narrative to the industry's scale obsession. By focusing on smaller loans typically in the \$2-\$50 million range, the firm can access a market segment that offers several distinct advantages:

1. Reduced Competition

Large private credit funds often have minimum deal sizes that exclude them from smaller transactions. This creates a natural competitive moat, as fewer sophisticated lenders compete for deals below their threshold, allowing for better terms and pricing.

2. Enhanced Pricing Power

Smaller borrowers typically have fewer financing options than large corporates. Banks may find smaller loans uneconomical due to fixed costs, while public markets are inaccessible. This supply-demand imbalance allows lenders like Mizzen to command premium spreads.

3. Relationship-Driven Origination

Smaller deals often come through relationship-based origination rather than auction processes. This allows for better due diligence, more favorable terms, and stronger borrower relationships, factors that become increasingly important in volatile markets.

Quantifying the Small Loan Premium

Mizzen's investment thesis centers on capturing what the firm calls the "small loan premium" the additional yield available to lenders willing to write smaller checks in less competitive segments of the market.

The Base Premium: 200 Basis Points Through its focus on smaller loans, Mizzen targets an additional 200 basis points of yield compared to traditional middle-market direct lending. This premium reflects several factors:

- **Complexity premium:** Smaller borrowers often have more complex capital structures or business models
- **Liquidity premium:** Limited secondary market liquidity for smaller loans
- **Origination premium:** Higher relative costs for large funds to source and execute smaller deals
- **Relationship premium:** Value of closer borrower relationships and enhanced monitoring
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Leverage Enhancement: 300 Basis Points Total - Mizzen's strategy incorporates prudent use of leverage, typically around 50%, to enhance returns for its limited partners. This measured approach to leverage amplifies the base premium from 200 to 300 basis points, while maintaining conservative risk management practices.





The mathematics are compelling: if traditional middle-market direct lending yields 550 basis points over base rates (as cited in recent McKinsey research)², Mizzen's approach targets 850 basis points over base rates on a levered basis a meaningful enhancement for institutional investors seeking yield in today's environment.

Strategic Positioning in the Evolving Ecosystem

McKinsey's research identifies four key trends defining private credit's next era:

1. **Expansion into broader asset arrays**
2. **Rise of ecosystem partnerships**
3. **Amplified advantages of scale**
4. **Increased focus on technology**

Mizzen's strategy aligns with these trends while carving out a differentiated positioning:

Asset Expansion: While mega-funds expand into infrastructure and commercial real estate, Mizzen focuses on the core corporate lending market where small and mid-size businesses continue to need flexible capital solutions.

Ecosystem Partnerships: Rather than competing with banks for large deals, Mizzen can partner with regional and community banks that originate smaller deals but lack balance sheet capacity.

Technology Focus: Mizzen leverages technology not for scale, but for efficiency using automated underwriting and portfolio monitoring tools to make smaller deals economically viable.

Anti-Scale Strategy: While others pursue scale, Mizzen's deliberately focused approach allows for nimble decision-making and personalized service that larger competitors cannot match.

Risk Management in the Small Loan Segment

The McKinsey research emphasizes that "elevated losses to some companies in a recessionary environment are likely," making risk management critical. Mizzen's smaller loan focus provides several risk management advantages:

Diversification: Writing smaller checks allows for broader portfolio diversification across industries, geographies, and borrower types.

Monitoring: Smaller companies comply with intensive borrower monitoring and earlier intervention when issues arise driven by restrictive covenants.

Flexibility: Smaller loans often provide more flexibility in workout situations including expedited sales through sales into PE platform businesses.

² McKinsey, 2024. "The Next Era of Private Credit." *McKinsey & Company*, September 24, 2024.
<https://www.mckinsey.com/industries/private-capital/our-insights/the-next-era-of-private-credit>



Enhanced Collateral: Unlike larger corporate loans, embedded collateral, including real estate and the owner's personal assets, often enhances credit quality.

Correlation: Smaller borrowers typically have lower correlations to broader economic cycles, potentially providing more stable returns through various market environments.

The LP Perspective: Why Small Loans Matter

For limited partners allocating capital to private credit, Mizzen's approach offers several compelling attributes:

Yield Enhancement: The 200-basis point premium provides meaningful portfolio yield enhancement in an era where institutional investors face significant return pressure.

Diversification: Exposure to smaller borrowers provides portfolio diversification relative to traditional middle-market strategies focused on larger, private equity-backed companies.

Market Access: Access to a segment of the credit markets that is underserved by large institutional players and offers significant credit quality enhancements.

Scalability: While individual loans are smaller, they often grow rapidly through a roll up strategy undertaken by the experienced management team so, over time, the aggregate opportunity remains substantial, allowing for meaningful capital deployment coupled with multiple expansion upon exit.

Conclusion

While the private credit industry increasingly focuses on scale and billion-dollar transactions, Mizzen's small loan strategy offers a compelling alternative path. By deliberately focusing on smaller checks in less competitive market segments, the firm captures meaningful risk premiums for its investors, 200 basis points unleveraged, growing with prudent leverage.

This approach represents more than just tactical positioning; it's a strategic recognition that in private credit's next era, differentiation and specialization may prove more valuable than scale. For limited partners seeking enhanced yields and portfolio diversification, the small loan premium offers an attractive risk-adjusted return opportunity in today's competitive private credit landscape.

As McKinsey notes, "institutions seeking to succeed in this new private credit ecosystem would do well to build additional capabilities to remain relevant and profitable throughout market cycles."³ For Mizzen, those capabilities center on the specialized expertise needed to originate,

³ McKinsey, 2024. "The Next Era of Private Credit." *McKinsey & Company*, September 24, 2024.
<https://www.mckinsey.com/industries/private-capital/our-insights/the-next-era-of-private-credit>



underwrite, and manage smaller loans—capabilities that larger competitors often cannot economically replicate.

In a market increasingly dominated by mega-funds writing mega-checks, sometimes the biggest opportunity lies in thinking small. - [Liddy Karter, Managing Partner](#)

Let's learn about your allocation goals:

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