



The Investment Conversation: Why Origination Matters in Private Credit Deals



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In this podcast, Lord Abbett Head of Origination Jonathan Pearl discusses his team's approach to sourcing and constructing direct lending transactions—including when to say “no.”

ANDY D'SOUZA: Welcome to *The Investment Conversation*. I'm Andy D'Souza, chief marketing officer here at Lord Abbett. Today, we're diving into how private credit deals begin with the firm's head of origination, Jonathan Pearl. Can I call you JP?

JONATHAN PEARL: Sure. Let's do it.

D'SOUZA: JP, tell me how you got started in your career in the business overall, and how that took you all the way to today, as head of origination at Lord Abbett.

PEARL: Yeah. Absolutely. I've been doing this now for over 20 years. But if I go way back when to my beginning, I started where a lot of people do, on the underwriting side of the business. So, I spent eight, nine, 10 years underwriting credit. I joined this industry before the Great Recession.

A lot of people in private credit have never really seen a recession, but I have. So, after a couple of years of underwriting training as an associate, I was asked to work in workouts, so looking at our most stressed investments. So, I really got a firsthand look at what happens when deals don't go to plan, and you're back at the table with a private equity sponsor, or other lenders.

Eventually, I became a deal team lead. And as I matured in my career, I really loved the intersection of pure credit and underwriting, and the realities of a market in the deal, which is where originating, negotiating partnership, creating balance between what your counterparty is looking for, and what the lender needs to get comfortable from a risk perspective. So, towards the end of my tenure at my first job, I ended up in origination. And then in 2015, I went over to another platform to run originations.

D'SOUZA: Gotcha. And back then, when you first started off in origination, I guess the market's evolved a lot since then and grown quite a bit since then. What are some key differences? What was it like back then versus today?

PEARL: Sure. The market has certainly evolved. It's of course grown really in lockstep with the growth overall in the private equity

industry. But there have been a few catalysts that have really propelled private credit's growth.

When I started my career, commercial banks were a real part of the lending ecosystem. In a lot of situations, you'd have a commercial bank providing the senior debt. And you'd have a private credit lender providing the junior debt. Over time, the unitranche product, which is one big senior loan, became more efficient for borrowers to use, and became the product of choice which it is today.

But over time, commercial banks became more regulated. They became more interested in actually financing other private credit lenders, as opposed to lending directly to companies. And if you fast forward to the [COVID-19] pandemic, as companies that historically had relied upon the broadly syndicated [loan, or BSL] markets for financing in conjunction with the fact that a lot of private lenders had become really big enough to finance some of these companies that historically had tapped the BSL market.

Larger and larger companies started to become financed with private credit. So, when I started, it was kind of a cozy little cottage industry, with banks and private credit lenders. And really over time, private credit has become really the channel of choice or the lender of choice for the core middle market. And then increasingly, larger companies are now choosing between broadly syndicated execution and private credit.

D'SOUZA: Gotcha. And you mentioned-- well, I should say we've had Steve Kuppenheimer [Lord Abbett Partner, Portfolio Manager, and Head of Private Credit] on the podcast before.

PEARL: Sure. I know Steve.

D'SOUZA: You know Steve. You know him well. Steve talked to us about just sort of the three different phases of steps in the overall process. It starts with origination, which we're talking about today. But for the listener out there, and the viewer, we're on video, what does origination mean to you? And how is it different than the syndicated markets in layman's terms?



PEARL: Yeah. So maybe I'll take the second one first. Historically, Lord Abbett has been involved primarily in liquid markets, and with sourcing deal flow from investment banks, or really trading on screens if there was a buy or a sell that the firm wanted to execute on. In a private strategy, we have to go source our risk.

And so, for me, as we think about developing, and architecting, and executing our origination strategy, it's all about finding deals that are right in line with our investment program. So, for us, that's core middle market [companies], in many cases private equity-backed, but not always, very high-quality middle market companies. And so, origination for Lord Abbett in the way that we think about it is really developing win-win partnerships with our counterparties.

D'SOUZA: Then it goes into underwriting, which you mentioned earlier as well. And then sort of ongoing portfolio management. But if you go back and let's talk about origination as it is today, you mentioned private equity being a big part of it. But there are other channels there you also talked about a little bit. So, what are the different sources, or I guess channels, or lanes involved in sourcing or originating private credit these days?

PEARL: Sure. Private equity is the largest channel that we source from, is the largest channel where the market tends to source from. And thinking back to my 20-year career, we've certainly seen a larger and larger percentage of the economy become owned by private equity.

So that channel is very important. But it's not the only place we go to source risk. We will work with intermediaries and investment banks that are often working with family-owned non-sponsored companies, a really interesting channel for us. But we're also seeing kind of a hybrid channel start to emerge, where you have family offices that may have historically invested in private equity through funds that are now themselves becoming the control owners of companies.

And you also have an increasing market or a growing market with pledge funds. These are private equity investors that are not investing from a dedicated pool of capital. But they're going out, finding companies, and then raising equity around those individual deals.

So, again, a growth area for us to lend into. But one thing we do certainly at Lord Abbett is we look across our platform for opportunities. We leverage the breadth of our platform, so whether it's trading counter-parties, large investment banks that will show us a middle market deal, or an analyst on our research desk that may identify a company that today is financed in the liquid markets, but may be better served in the private markets, we're looking across really the entire market to try to develop the largest pipeline that we can to maintain our selectivity.

D'SOUZA: JP, when we think about origination, a lot of it is not necessarily saying yes, right? You're going to see a lot of deal flow. You'll see a lot of deals you get to look at and then kick the tires in the beginning. But what about when you have to say "no"? How does that work? And why is that important?

PEARL: Yeah. Well, we do unfortunately have to say no. Not every deal is going to be a fit for us, for a variety of reasons. It's all about partnership, transparency, and trust. So, if we're going to say no to a deal, we try to say no to that deal as early in the process as possible.

The last thing you ever want to do is lead somebody on, because you want to avoid telling them no. It's much easier to just rip the Band-Aid off, and tell them no. We talk a lot about the industry depth across our platform and just the overall experience of our team.

So, we're not going to say no without giving them a rationale. We might be able to be helpful to somebody, even while saying no, by offering a perspective on the industry. But it's really all about transparency and trust. And then conversely, when we are saying yes, and we're telling someone that we're trending towards getting to yes, we have to be able to deliver on that promise. And so, it's all about repetition and building up that trust over time.

D'SOUZA: Got it. There's a lot of folks, as you mentioned, looking to the private markets for funding, a source of funding. Maybe remind us again why. What's the advantage of funding in the private markets, versus the syndicated markets?

PEARL: Sure. So, I think to answer that is that you'll have to break down the market by size. So, core middle market companies is an area where we spend a lot of our time. They really don't have the choice, meaning if you're under a certain size threshold, let's call it \$100,000,000 of EBITDA [earnings before interest, taxes, depreciation & amortization], to keep it simple, you really have one choice, which is to go to private credit to be financed, because companies that aren't big enough, really don't get attention from the syndicated markets.

For those companies that do have choice, you're big enough, and you're seeing pitches from the banks as well as private credit lenders, it's really a choice between certainty of execution and some structural features. So, you tend to get lower yields, better pricing in the syndicated market, but the execution tends to be more complex. It involves getting a rating [from a credit rating agency]. And you're at the mercy of the market. So, if in the process of preparing to be financed in the broadly syndicated market, market conditions change, or there's some negative news around your industry, the terms that you might've expected when you started that process may not be what you get in the end.

Or you may not actually successfully get your deal done in the markets. And that's why private credit has become such an important and reliable channel for larger borrowers. It's because you have bigger balance sheets, private credit lenders that are looking to hold that loan to maturity and can deliver you certainty up front.

D'SOUZA: Now, a lot of the traditional lenders in the [direct lending] space have kind of gone upmarket, if you will. Average EBITDA is no longer sub-100, [i.e., \$100,000,000] as you mentioned, maybe \$200,000,000, \$300,000,000.

PEARL: Sure.



D'SOUZA: And they're playing in a different-- what seems like a different part of the market right now. Some of those people who have the choice, to your point, to finance in the public markets, they're doing that now on the private side in some cases. Do you see this as a competition for you all? Is it something that helps you? How do you view the drift upwards in the market cap of a lot of these lenders?

PEARL: Yeah. I think it's a natural evolution in our market, in the sense that a lot of the big private credit platforms are taking in large inflows. And that capital has to be deployed. And they're looking to deploy capital in larger bite sizes per deal.

So, you're naturally going to evolve upmarket to do that. You've also seen, as I mentioned before, during COVID and other parts of the market, the syndicated markets have become less reliable. And so, you have lenders that just prefer-- excuse me, borrowers that just prefer to be financed on the private side.

As far as our strategy, we're really centered on the core middle market. So, we're looking to finance companies that are not quite big enough to be financed in the broadly syndicated market. So, for us, the strategy is really-- there's consistency to the strategy in the sense that if the broadly syndicated markets are on fire or they're not, we're looking day in and day out at companies that are between 25 [million dollars] and 75 [million dollars] of EBITDA, that are really always going to be financed with private credit.

D'SOUZA: Got it. There have been some headlines in the press recently on some of the stresses, maybe, in the credit markets and the private credit markets especially. Are these signs of a broader problem writ large in private credit? Or do you think of them more as isolated incidents?

PEARL: I think it's somewhere in between. I think each of these incidents is different and unique. But I don't think you can ignore them. And I think for me, it's a lesson of caution. It's a caution around the speed at which you transact. It's caution around the depth of your underwriting, for example, looking not just at the balance sheet, but assessing off-balance-sheet liabilities proved to be critical in [assessing] First Brands [auto parts supplier that defaulted in September 2025].

I think in the market overall, as the market has become more competitive, it's easy to become complacent, and move quickly. But I think for us, it's all about discipline, getting access to the right information, and making an informed assessment.

D'SOUZA: There's been talk of increased usage of PIK [payment-in-kind bonds] in the portfolios...

PEARL: Yeah. So, PIK is an interesting topic. And people talk about good PIK and bad PIK. What we've seen in terms of market reception, and what the market offers, is that PIK is most frequently offered to larger companies. So, if you're going to compete in the upper market, PIK is a feature that private credit lenders will offer a company to try to entice them potentially away from a competing bid they have to be financed in the syndicated market.

For the core middle market, PIK tends not to be a market term. Do you see it from time to time? You will. Somebody may offer it to try

to win a deal. But one of the features of the core middle market is that terms tend to be a bit more disciplined, a bit more conservative. And I think as the spotlight is shining brighter on PIK overall across private credit portfolios, we're seeing PIK being offered far less frequently.

D'SOUZA: At the beginning of our discussion, you talked about some time you spent doing workouts. And so that's sort of the other end of the spectrum from origination. What have you learned in your career from doing workouts that helps you now at the front of the spectrum here, in terms of origination?

PEARL: Yeah. I think it's funny. As maybe I've gotten older, I've realized that not that many people in our industry have actually lived through an actual recession. I learned a couple of pretty important lessons. One is that not all businesses perform to plan. And when they don't go to plan, you're much better off getting in front of that problem early. So, we're big believers in staying on top of the performance of our portfolio companies.

We're not afraid to ask a CFO for some time to just make sure that we're on top of the company performance. And then it goes back-- as you think about that question through the lens of origination, it goes back to partnership and transparency. We'll be asking questions that we want to know to inform ourselves. And we'll be looking. If we know we have a situation coming, we're going to try to get ahead of that situation, as opposed to just waiting for a default, for example.

D'SOUZA: Gotcha. And then looking at some of the tailwinds that are out there, there've been a few years now where people have been saying, "This is the year for M&A [mergers and acquisitions]. This is the year for M&A." How do you think about that?

PEARL: Yeah. Well, I think I was on record going into 2025 as saying that 2025 was the year for M&A. So, I was wrong. I don't think I was the only one that got that wrong. But I think for a lot of the same reasons that we believed that 2025 would be a great year for M&A, we continue to believe that 2026 should be a strong year.

I'll avoid using great, because I was wrong last time. But why do we believe that 2026 will be a good year for M&A? One, we saw some early signs of a pickup in M&A towards the back half of 2025. So, there's some momentum in the market. There is a lot of pressure on private equity firms to return capital back to their LPs [limited partner investors].

They may want to raise their next fund. And to get to that next fund, they have to show some return of capital. And I think some of the issues in 2025, whether it was noise around tariffs, or some of the geopolitical issues, not that those geopolitical issues have gone away, I think the market has maybe accepted a degree of uncertainty. And the core economy has remained quite resilient, which sets up well for robust M&A. I have to mention interest rates. We had another rate cut in December. So, all those things point to what should be a fairly robust year for 2026.

D'SOUZA: JP, when you think about the market today, and looking at it more from maybe a sector point of view, not individual names, but sectors, are there certain areas that may concern you, or certain areas where you see opportunity going forward?



PEARL: Certainly. So, I'll start with the second one first. From an opportunity perspective, we've been spending time in sectors that we think are going to be long term resilient through economic cycles. So if you look at our portfolio, we've spent a lot of time in areas like waste management, areas like aerospace and defense, where you have commercial production backlogs that should take us out into the next decade, some areas of financial services, such as insurance brokerage, and some areas of health care that are non-cyclical in nature.

I think where we've been more cautious is around software and technology. We have very limited exposure to the sector today. And I think the reason why we've backed off or have been conservative is with public valuations becoming more volatile, it's a little hard to assess loan-to-value [ratios]. You have AI in the news, which is a real threat to some software companies. So, we're taking a bit of a wait-and-see or a more cautious approach to the sector.

D'SOUZA: JP, since joining the firm in 2023, you've been in the market now for a couple of years and talked to a lot of clients and a lot of partners out in the field. What's been the biggest surprise you've received in the market?

PEARL: Yeah. It's a great question. I would say the single biggest surprise has been the strength of the brand. I have known Lord Abbett through my 20 years in private credit. But historically, up until we launched private credit, the firm had been focused really exclusively on liquid markets.

So, I've always known Lord Abbett as an active investor in the syndicated loan and bond markets. I've been really, really surprised, and I think my team would agree that the reputation the firm has built as a patient, long-term, sophisticated investor has really helped us gain very early credibility in private markets.

A lot of our private equity firms that may, on a given day, finance themselves in the private markets but also have portfolio companies financed in the syndicated markets, they've really recognized, A, I think our right to be on the private side of this market, and, B, the track record and reputation we've built.

D'SOUZA: And then, again, on the PowerPoint it would look great to have your team sitting with and working collaboratively with our liquid [fixed income investment] team. Have you seen that in action, actually take place? Have you seen the benefits of what we say, and the analysts, and all of that? So, have you seen that work out in real life?

PEARL: 100%. So, we sit side-by-side not physically but from an integration perspective. Our investment committee, of which I'm a member, expects our teams to come to committee having already spoken to the relevant sector analyst on that deal. We use the research breadth at Lord Abbett, both to play offense, and to play defense.

So defensively, I think it's fairly obvious. We're looking to that team to help us avoid mistakes, to help us understand risks inherent in a sector, an incredibly powerful tool. But we also use that team for offense. So, if we see a deal, we like it early, and we want to run towards it, and we're getting that additional conviction from our research team, that helps us to move quickly and deliver conviction to the marketplace.

On offense as well, as I mentioned earlier, that team will identify companies that may today be financed in the syndicated markets, but could be an opportunity for a private financing for that company. So, the research team for us has been integral to our success.

I'd also mention that the experience that our partners have working with us matters quite a bit. We're talking about origination, so that experience, when they think about, "Okay. I've got a deal. It needs to be financed. Who am I going to call?" The fact that we have sector depth, and they don't need to spend a week educating us on how this sub-sector works is a major advantage for us.

D'SOUZA: So, you've been in the market for over 20 years. You're still doing it, still loving it. Talk to me about why. What do you love about origination? What do you love about your job?

PEARL: So, I love the messiness of it. I love the sort of intersection of credit underwriting, due diligence. I'm a total deal nerd. I drive my family crazy, because any time we're going down the highway and we see a truck, and I know the brand, I know the company, whether or not I financed it or looked at it, I can't help myself. I try to explain the ins and outs of that company.

D'SOUZA: They must love that.

PEARL: They do. But I really-- in a lot of ways, I think middle market lending has been for me a 20-year education on how the world actually works. You have to understand how this coffee cup was made, where it was made, and who makes it. How do they sell it? And that, for me, being the nerd that I am, has been really a fascinating way to build a career.

As far as origination, I really love the art of the deal, and not just "I won and you lost," because that's not actually how this works. What I love is the negotiation and making sure that I have the protections that I need to protect my capital but also understand that I operate in a competitive and efficient market. And there are relationships on the other side.

And so, I like that balance and that challenge of finding the happy medium, where I have a deal that I support, the risk-return makes sense for my investors, and I'm delivering a financing solution that makes great sense for the private equity firm, or the company, or the founder.

D'SOUZA: I've always heard you were great at your job. Now I know why. And now I feel like I can call you a nerd, which I love.

PEARL: Feel free. You won't be the first, Andy.

D'SOUZA: Or the last, probably.

PEARL: Yes.

D'SOUZA: Anyway, JP, thank you for your time today. I really appreciate it.

PEARL: Thank you, Andy.

D'SOUZA: All right. Thanks for listening to *The Investment Conversation*. Find more episodes wherever you get your podcasts, or at LordAbbett.com. Thank you.



GLOSSARY OF TERMS USED IN THIS BROADCAST

Broadly syndicated loans are floating-rate loans made to corporate borrowers with generally greater than \$50 million in EBITDA and in most cases, at least \$100 million. They are senior in the capital structure and have a first claim on the assets of the borrower.

A **business development company (“BDC”)** is a domestic, closed-end investment companies¹ that are operated for the purpose of making investments in small and developing businesses and financially troubled businesses.

Direct lending is a private debt strategy where non-bank lenders provide loans directly to private companies, bypassing traditional intermediaries like banks. These loans are typically senior secured, privately negotiated, and often backed by covenants that can protect the interests of a lender.

EBITDA refers to a company’s earnings before interest, taxes, depreciation, and amortization.

Middle market lending: The middle market segment is typically considered to be credit for firms larger than small businesses but too small for large-scale commercial lending or syndicated credit.

Payment-in-kind (PIK) bonds are a type of debt instrument where the interest payments are made in the form of additional bonds rather than cash. This allows the issuer to defer cash interest payments, which can be attractive for companies in a cash-constrained situation.

A **pledge fund** is a form of private equity investment that allows members to pursue specific investment goals by contributing funds into a particular pool.

Private credit refers to loans and debt financing provided by non-bank lenders to businesses, typically outside of public markets. A private credit sponsor is typically a manager or general partner of a private equity or venture capital investment fund. The sponsor is typically run by one or more private equity or venture capital investment professionals

Risk-adjusted return measures how much risk is associated with producing a certain investment return.

Underwriting is the process by which the lender decides whether an applicant is creditworthy and should receive a loan.

A **workout** is a mutual agreement negotiated between a debtor and creditor to manage and resolve a debt without resorting to formal bankruptcy proceedings.

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment’s cost, current market value, or face value. The gross yield of an investment is its profit before taxes and expenses are deducted.

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