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## Red Flags in Booming Private Credit Sector: What Investors Must Learn from the Metrics Case

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Australia's private credit market is undergoing explosive growth, driven largely by the retreat of traditional banks from high-risk lending. Non-bank lenders are stepping in, offering capital to sectors often overlooked by major institutions such as commercial real estate, small-to-medium enterprises (SMEs), and distressed borrowers. While this shift is hailed by some as a welcome alternative to rigid bank regulation, the rapid expansion has prompted deeper scrutiny from regulators. The ongoing probe into Metrics Credit Partners, a \$30 billion

private credit fund manager, underscores the potential pitfalls facing investors drawn to this opaque and largely unregulated asset class.

At the heart of regulatory concern is governance. The Australian Securities and Investments Commission (ASIC) has launched investigations into how firms like Metrics manage conflicts of interest, value illiquid assets, and disclose financial risks to retail and wholesale investors. In markets where transparency is thin, even seasoned investors can find themselves exposed. The Metrics probe shines a spotlight on the need for stringent internal controls, especially when investment managers are both originating loans and marketing them to retail investors via listed and unlisted vehicles.

Valuation practices have emerged as a particularly sensitive issue. Unlike equities or bonds, many private credit assets are not traded on open markets. This means valuations are often subjective, relying on internal models rather than transparent price discovery. If poorly managed or misrepresented, these valuations can mislead investors about the health of the fund and its underlying assets. When asset prices are inflated, capital can be misallocated, and returns distorted, heightening the risk of painful corrections should market conditions sour.



The private credit boom reflects broader market failures, including excessive regulation and limited bank lending flexibility. While the sector plays a valuable role in funding productive business ventures, oversight must keep pace with innovation. As non-bank lenders capture a growing share of Australia's credit markets, the emphasis should be on integrity, transparency, and risk management, not expanding regulation for its own sake. The Metrics case is a reminder: market discipline and robust investor due diligence are essential to safeguarding capital. For those drawn to high yields and alternative financing, the message is clear: scrutiny must go beyond surface returns.