

# Direct lending: Why the lower and core middle market?

When it comes to direct lending, smaller is usually better. Learn why company size matters and where to find the best income opportunities today.

## Middle market direct lending is...

Loans made to companies at the smaller end of the middle market, where yields are higher and the investment pool is deeper. There are fewer lenders focused on the “lower” and “core” segments as large lenders focus on the “upper” segment and beyond in order to deploy the substantial capital they have accumulated. The less competitive nature of the “lower” and “core” segments allows for lenders to realize better safeguards and rates for investors.

## Comparing opportunities in the middle market

Middle market companies fall into one of three categories, based on their size. Those in the “lower” and “core” segments tend to have fewer borrowing options and less negotiating leverage, resulting in better rates and safeguards for investors.

	Lower middle market	Core middle market	Upper middle market
<b>EBITDA</b>	\$5-15 million	\$15-50 million	\$50-100 million
<b>Number of lenders</b>	Lower	Medium	Higher
<b>Investor protections</b>	Higher	Medium	Lower
<b>Expected default rate</b>	Under 2.5%	Under 2.5%	Under 2.5%
<b>Expected yield</b>	9.25-11.5%	8.5-10.5%	7.25-9%

Source: Market observations and industry data as of 2025. Ranges shown are for first-lien, senior-secured positions. Expected returns and default rates are based on historical observations and forward-looking estimates.

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## “Aren’t smaller companies riskier”

Not necessarily. Smaller companies tend to carry less debt, which may make them safer borrowers. With most direct loans, they are also contractually obligated to pass certain tests (covenants) designed to ensure they remain financially healthy over the life of the loan.

## Put middle market direct lending to work for you



### Increase income potential

Direct loans typically pay more income than high yield U.S. bonds, with lower default risk.



### Enhance diversification

Middle market companies span a diverse range of industries, geographies, and business models to further round out portfolios.



### Weather-proof portfolios

Direct lending has historically delivered durable income and attractive risk-adjusted returns in volatile markets. Loans are at the top of the capital structure and secured by assets of the company.



### Reduce interest rate risks

While traditional bonds fall in value when interest rates rise, most direct loans increase income payments as they are floating rate.

## Ready to take action?

Talk to your financial professional. Together, you can determine which private investments might be right for your portfolio.

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