The case for Canadian private credit: A differentiated opportunity for institutional investors

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Gino Di Censo, *Vice-President, Fixed Income, CIBC Asset Management*

Canadian private credit is emerging as a compelling allocation for institutional investors seeking differentiated returns and enhanced portfolio resilience. While the United States and Europe dominate the private credit landscape, Canada's market offers unique advantages rooted in its financial system, sector composition, and underwriting culture.[1] This article explores the distinct features and benefits of Canadian private credit, underscoring its value as a strategic complement to global credit portfolios.

Key reasons to invest in Canadian private credit

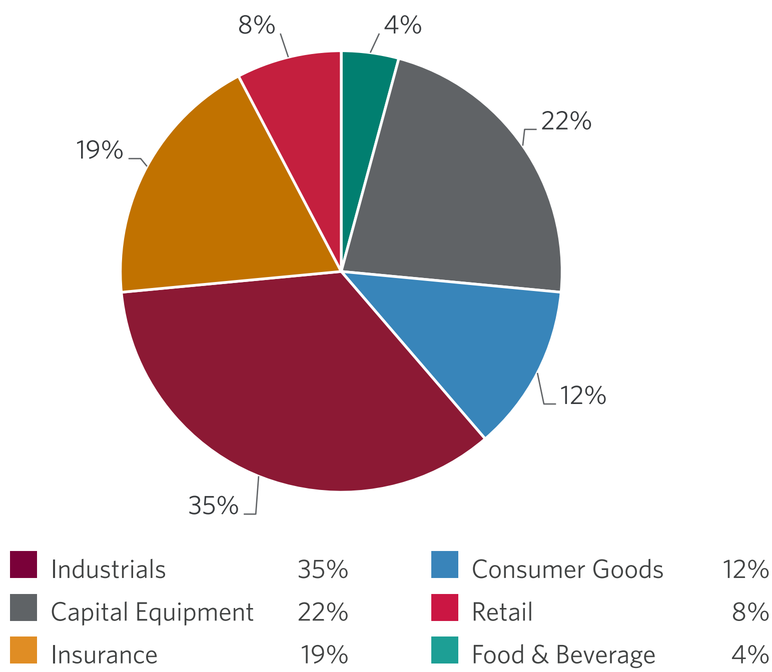
- Strong regulatory environment ensures disciplined lending and robust protections
- Underserved mid-market borrowers drive attractive deal flow
- CAD exposure and asynchronous credit cycles diversify portfolio risk
- Conservative underwriting culture supports downside protection
- Bank partnerships offer scale, stability, and market access advantages

Market structure advantages

The Canadian private credit market is dominated by middle-market borrowers, with sector exposures that closely resemble global direct-lending markets, though Canada has a slightly higher tilt towards specialty industrials.

Compared to the Canadian private credit market, the public credit market is primarily dominated by banks, utilities, telecommunications companies, and pipelines, offering complementary exposure for investors.

Figure 1: Illustrative Canadian private credit sector mix



Source: CIBC Asset Management as at 30 September 2025.

The market is characterized by fewer managers compared to the US and Europe, enabling investors to retain pricing power and discipline. While the Canadian private credit market is significantly smaller in scale (estimated at $20–$30 billion versus $1.5 trillion in the US), it remains underrepresented in terms of global assets under management, resulting in lower saturation and stronger pricing discipline.

Regulatory advantages

Canada's strong regulatory system is a further advantage. Canada's strong regulatory oversight ensures strong underwriting standards and because banks anchor most lending, and highly regulated, the banking discipline bleeds into the private markets too. Stable banks create a more stable opportunity set for private lenders.

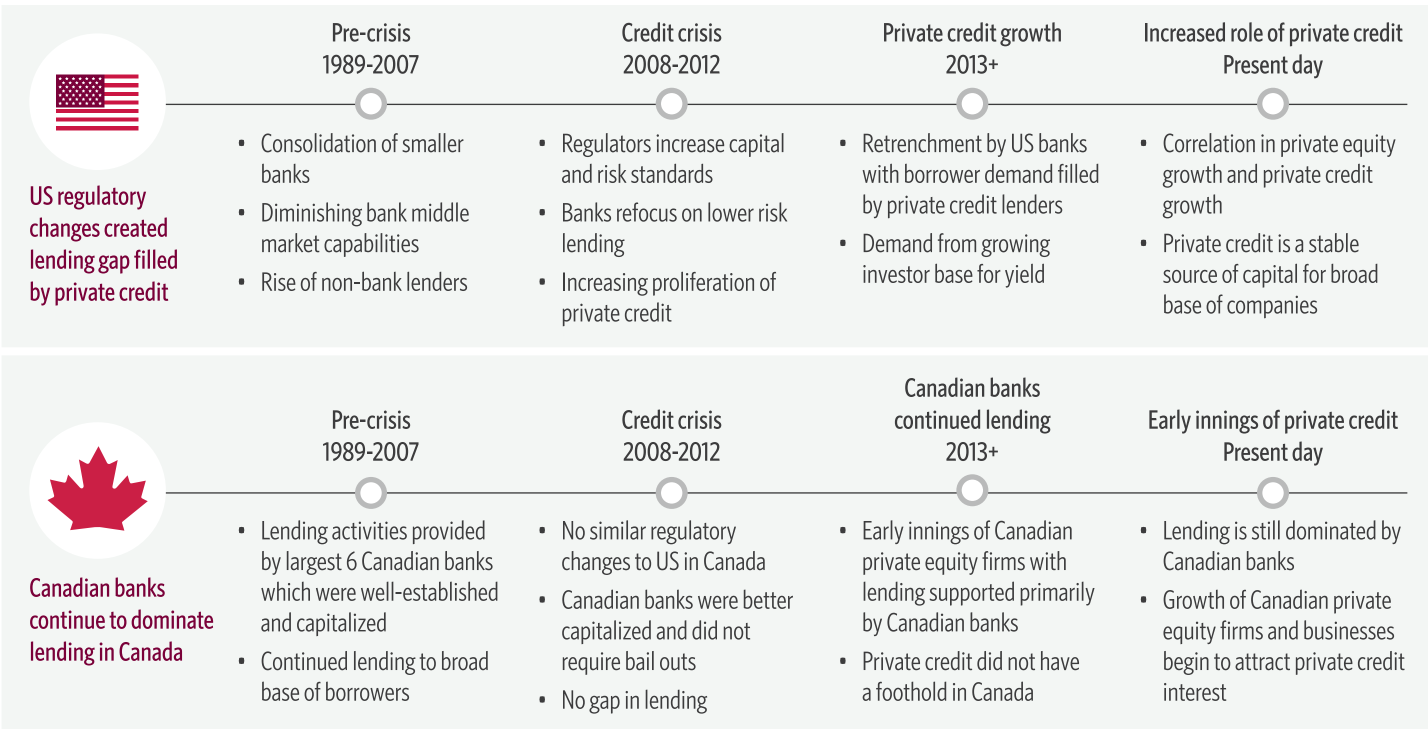
Bank lending and strong regulatory oversight ensure a high-quality borrower universe and raises the floor on credit quality through regulated underwriting, ongoing monitoring and capital requirements that force discipline.

Furthermore, Canada's legal framework provides a strong foundation for private credit investing. Canada's secured lending regime offers clear rules, while restructuring processes under the Bankruptcy and Insolvency Act (BIA) and Companies' Creditors Arrangement Act (CCAA) are transparent, efficient, and supportive of creditor rights.

How Canada's banks drive credibility and opportunity

Canada's highly concentrated banking system, led by the Big Five banks, underpins a disciplined credit culture with historically low loss rates.[2] Post-financial crisis reforms have further strengthened regulatory oversight and conservative lending standards. Banks have deep client relationships and early insight into financing opportunities – including syndicated structures – which often translates into deal flow access for investors. They possess underwriting expertise combined with rigorous due diligence and institutional governance framework, and risk-sharing models that enable investors to participate alongside bank lending, creating significant risk alignment. In short, partnerships with banks enhance credibility and ensure access to long-term, relationship-driven opportunities.

Figure 2: Canadian banks continue to dominate the lending space



Source: CIBC Asset Management as at December 31, 2024.

Return and risk profile

Canadian mid-market loans provide comparable yield premiums to US and European deals.[3] Additionally, the dominance of banks and conservative underwriting practices contribute to low default rates, supporting downside protection.

Canadian dollar allocations introduce currency diversification, and the market's lower correlation with US and European credit further enhances portfolio resilience.

Given the market size, deploying capital can be a challenge for mega-funds. The dominance of Canadian banks in the lending space can create sourcing challenges for non-bank lenders, and while Canada's sectors offer diversification benefits to global investors, investors should be mindful of sector concentration risks when deploying capital.

The Canadian edge: strong yield premiums, safety, and portfolio diversification

Canadian private credit offers institutional investors:

- Yield advantage without sacrificing lender protections
- Diversification through currency, economic cycles, and sector exposure
- Conservative underwriting that enhances downside resilience
- Partnership synergies with banks, deepening origination channels, and credit discipline

For investors willing to look beyond the larger US and European markets, Canada stands out as a strategic complement to global private credit portfolios, anchored by disciplined, scalable, and sustainable credit investing.

CIBC's suite of private credit offerings provide unique exposure to the Canadian marketplace, access to unique, differentiated loans, with the capabilities to lend alongside the bank balance creating significant alignment with investors.

About the author

Gino Di Censo
Vice-President, Fixed Income,
CIBC Asset Management

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Across a spectrum of investment solutions, we commit to robust research. Dedicated sector and regional analysts focus on industry research and security-specific idea generation. Our investment professionals leverage deep and diverse expertise by sharing proprietary research across asset class teams. By sharing insight across asset class teams, we maximize opportunities to add value to our client portfolios.

We provide our clients with our research insights and expertise on industry issues and themes that matter most to them.

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[1] CIBC AM, Barings, *Direct Lending: Why Global & Why Now?*

[2] CIBC AM. Utilizing CIBC Leveraged Finance Group 10-year average of 0.22% vs industry average of 1.1% for leveraged loans and 0.4% for direct lending; source: Morgan Stanley Investment Management: Understanding Private Credit's Rapid Growth, PitchBook LCD, Cliffwater, Moody's, S&P Global.

[3] CIBC AM, Barings, *Direct Lending: Why Global & Why Now?*

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