The Yield Illusion

Why Family Offices Should Ask What Protects the Income,
Not Only What Produces It

MIRAI CAPITAL PARTNERS

Dr. Ralph Welpe | Chairman & CEO, Mirai Capital Partners
August 2026 | Mirai Strategic Insights Series | Issue No. 8
ralph.welpe@miraicapitalpartners.com | www.miraicapitalpartners.com

I am writing this from Japan, after several days in Hong Kong, and one question has followed me through conversations with families, advisers and investment managers. It is usually asked in a practical way. Where can we earn an attractive yield? How much income can we generate without taking equity-like risk? And which credit strategies genuinely protect the income, rather than simply offering a higher coupon?

I understand why the question is being asked. After many years in which income was either scarce or artificially suppressed, yield has become visible again. A family office that once had to stretch uncomfortably to earn 5% can now be shown opportunities offering 8%, 10% or more. For families that think in terms of cash flow, distributions and intergenerational spending needs, that feels appealing. It also feels sensible. Income sounds more conservative than capital gain. A coupon sounds more tangible than a mark-up. A secured loan sounds less speculative than a growth equity position.

But I think the better question is not simply, "What is the yield?" The better question is, "What protects the yield?"

This memo is my attempt to examine that distinction. Not because yield is unattractive. I think yield can be very attractive. But because the income investors see is often much easier to measure than the protections that stand behind it.

The visible number is the coupon. The invisible question is the structure.

The Return You See and the Risk You Do Not

I want to start with some numbers, because I think they are useful precisely because they do not all say the same thing.

Proskauer's Private Credit Default Index reported a 2.51% default rate for Q2 2026, down from 2.73% in Q1 2026, based on 716 senior-secured and unitranche loans representing USD 195.6bn of original principal in the United States.[1]

Fitch, by contrast, reported that its trailing 12-month US private-credit default rate reached 6.0% in Q2 2026, the highest level in its dataset, across roughly 1,300 US private-debt borrowers.[2]

In Europe, PitchBook LCD data cited for the Morningstar European Leveraged Loan Index showed a 12-month default rate of 1.47% by issuer count and 1.23% by outstanding amount as of 30 June 2026, while the broader combined default rate including distressed exchanges and liability management exercises was 2.06%.[3]

The numbers are not directly comparable. The Proskauer index is US private credit. The Fitch figure is also US private credit but based on a different universe and default methodology. The European numbers relate to leveraged loans, not direct lending. That distinction matters. In private credit, default rates are not just facts; they are also products of definitions, reporting practices and the composition of the loans being measured.

But I find the difference itself instructive. Depending on which market, definition and sample one uses, the same broad conversation about credit risk can sound benign, deteriorating or somewhere in between. That is not a reason to dismiss the data. It is a reason to ask better questions.

A 10% coupon is visible, while a missing covenant is not. A quarterly distribution is visible, while a manager's discretion to amend terms is not. A stable NAV is visible, while an infrequent valuation model is not. A senior-secured label is visible, while the actual enforcement path in a restructuring is often much harder to see.

That, to me, is the yield illusion. It is not that the income is fake. It is that the income is easier to see than the fragility underneath it.

Why Yield Feels Safer Than It Is

Income has a psychological advantage over capital appreciation. It arrives in instalments. It appears on statements. It feels earned.

I have seen this affect how families discuss investments. A private equity investment that is marked up 20% may be treated with scepticism. A private-credit investment that pays a 10% coupon may be treated with comfort. The first feels dependent on valuation. The second feels contractual.

But a contract is only as strong as the protections inside it. A lender's outcome is not determined by the coupon alone. It is determined by documentation, covenants, collateral, information rights, amendment thresholds, intercreditor terms, sponsor behaviour and the ability to act before value has moved away from the lender.

Norton Rose Fulbright has warned that family offices entering private credit should pay close attention to covenant-light structures, reduced reporting, borrower-friendly amendment mechanics, limited information rights and valuation practices based on manager-generated models rather than observable market prices.[4]

I think that is a fair list. I would add one more point: families should ask whether they have the internal expertise to understand those terms before they rely on the comfort of the yield.

This is where I think many discussions become too polite. An investment committee may spend a long time debating whether a yield is attractive relative to public markets. It may spend less time debating what happens if the borrower misses budget, asks for covenant relief, needs an amendment, or faces a refinancing wall. Yet those are often the questions that decide the outcome.

Yield is not a substitute for control. Income is not a substitute for underwriting. Seniority is not a substitute for enforcement.

The Market Has Changed, but Some Habits Have Not

Private credit has moved from a specialist allocation to a mainstream part of institutional and family-office portfolios. Norton Rose Fulbright notes that typical family office allocations to private credit are now around 4-6% of total portfolio assets and that approximately 40% of family offices have some exposure to the asset class.[4]

The same article cites its 2026 Global M&A trends and risks survey, in which 86% of respondents identified private credit as a mainstay of deal financing over the next two years and 22% said it would be the most important source of deal financing over that period.[4]

That is not a niche market. That is a market that now matters.

The issue is that some investors still talk about private credit as if it were a simpler version of bank lending. In some cases it may be. In other cases it is highly negotiated, structurally complex and dependent on manager judgement. There are direct loans, asset-backed loans, opportunistic credit strategies, NAV loans, fund finance, hybrid capital, preferred equity and structured solutions. Some are conservative. Some are not. Some deserve a premium. Some simply dress complexity as yield.

The number alone cannot tell you which one it is.

I think the same principle applies to credit. The question is not only whether the borrower can pay today. It is whether the structure gives the lender enough protection if the environment changes tomorrow.

What I Would Ask First

When I look at income opportunities for families, I would start with five questions.

1. **What exactly produces the yield?** Is it ordinary operating cash flow, asset coverage, financial engineering, leverage, illiquidity, complexity, scarcity of capital, or a temporary market dislocation? These are very different answers. A high yield caused by illiquidity is not the same as a high yield caused by borrower weakness.

2. **What protects the income if the borrower performs slightly worse than expected?** I would not start by modelling default. I would start by modelling disappointment. What happens if EBITDA is 10% lower, refinancing markets remain closed, valuations fall, or the sponsor wants more flexibility? Good credit structures are not designed only for failure. They are designed for ordinary disappointment.
3. **Who controls the decision when the investment begins to go wrong?** This is often the most important question and the least discussed. Can the lender act independently? Does the manager control the vote? Are there other creditors ahead, beside or behind the family? Can terms be amended without meaningful consent? A family may think it owns a credit exposure. In practice, it may own a minority economic interest in someone else's negotiation.
4. **How often is the value tested by the market?** A stable quarterly NAV may be comforting, but it may also reflect infrequent valuation. Public bonds can look volatile because they are priced every day. Private loans can look stable because they are not. I am not saying one is better than the other. I am saying the difference should not be confused with lower risk.
5. **What is the exit if everyone wants liquidity at the same time?** Some private-credit vehicles are long-term and clearly illiquid. That can be appropriate. Others offer periodic liquidity, but with gates, suspension rights, extended notice periods or manager discretion. Families should understand not only the stated liquidity terms, but the practical liquidity terms under stress.

These questions do not make a family pessimistic. They make the family honest.

What Would Actually Help

I do not think family offices need to avoid private credit. In many cases, I think they should do the opposite. Credit can be a useful part of a family portfolio, especially for families that value income, capital preservation and reduced dependence on public equity markets.

But I think the underwriting discipline needs to change. Too many discussions still start with the yield and then move backwards to justify it. I would rather start with the protection and then ask whether the yield is adequate compensation. In private credit, the asset-class label matters less than the manager, the documents and the workout discipline.

For a family office, that means a few practical habits.

Documentation before distribution. I would want the investment team to understand the covenants, amendment rights, collateral package, reporting obligations and enforcement mechanics before celebrating the expected distribution. If those terms cannot be explained clearly, the yield has not yet been understood.

Downside path before base case. I would want to know what happens in the first 90 days after stress appears. Who receives information? Who calls the borrower? Who can block amendments? Who decides whether to waive, restructure or enforce? In credit, the path from early warning to recovery often matters more than the initial model.

Manager behaviour before manager brand. A well-known manager can still run a vehicle whose incentives are not perfectly aligned with the family. I would ask how the manager behaved in prior restructurings, how valuations are governed, whether fees depend on marks, and how conflicts are managed across funds.

Portfolio context before standalone yield. An 11% yielding asset may look attractive in isolation. But if it is correlated with the family's operating business, private equity exposure, real estate portfolio or banking relationships, it may not diversify as much as expected. Families are often economically less diversified than their asset-allocation reports suggest, because operating-company wealth, real estate, banking exposure and private-market funds may all be tied to the same cycle.

Liquidity terms before liquidity comfort. I would distinguish between investments that are honestly illiquid and investments that appear liquid until liquidity is needed. I prefer the former. At least the risk is named.

The broader point is simple. The family should not ask, "Is this a good yield?" until it has asked, "What would have to be true for this yield to be protected?"

The Illusion of Seniority

One phrase I hear often is "senior secured." It is meant to reassure. Sometimes it should. But I do not think the phrase is enough.

Seniority is a legal position. Recovery is an economic outcome. The two are related, but they are not identical.

A lender can be senior and still recover poorly if the collateral is overvalued, the documentation is weak, the borrower has too much flexibility, enforcement takes too long, or other creditors control the process. A lender can be secured and still discover that the security is difficult to realise. A lender can sit high in the capital structure and still be dependent on sponsor behaviour, market liquidity and restructuring dynamics.

This is where family offices need to be especially careful. Institutions have credit teams, workout specialists, legal resources and long memories of cycles. Some families have those capabilities. Many do not. Yet the documents they are being asked to sign are often no simpler than those signed by institutions.

I have no objection to families investing alongside sophisticated credit managers. But I would be cautious when a family is offered institutional complexity without institutional infrastructure. That is where yield can become a poor teacher. It rewards patience until it suddenly demands expertise.

The family does not need to become a bank. But it should know when it is taking bank-like risk.

A Final Thought

Howard Marks has often reminded investors that risk is not the same as volatility. I think that distinction is particularly important in private credit. The absence of price movement is not the same as the absence of risk.

In public markets, investors are reminded of risk every day. Prices move. Screens flash red. Discomfort is visible. In private markets, risk can be quieter. It can sit inside a document, a valuation policy, an amendment clause, a refinancing assumption or a manager's discretion. It may not appear until the moment when there are fewer choices left.

That is why I think families should be careful with the word "income." Income sounds safe. It may be safe. But it is only as safe as the structure that protects it.

The next time a family office is shown an attractive yield, I would not begin by asking whether the number is high enough. I would begin by asking whether the protection is strong enough.

That is the difference between earning income and buying the illusion of it.

1. Proskauer, "Private Credit Default Index Reveals Rate of 2.51% for Q2 2026",
https://www.proskauer.com/report/proskauers-private-credit-default-index-reveals-rate-of-251-for-q2-2026

2. Bloomberg, "Fitch's Private Credit Default Rate Hit Record in Second Quarter",
https://www.bloomberg.com/news/articles/2026-07-30/fitch-s-private-credit-default-rate-hit-record-in-second-quarter

3. Paperjam / PitchBook LCD, "Europe's Loan Market Buys Time, Not Safety",
https://en.paperjam.lu/article/europes-loan-market-buys-time-not-safety

4. Norton Rose Fulbright, "Family Offices and Private Credit",
https://www.nortonrosefulbright.com/en-middle-east/knowledge/publications/c5a8baec/family-offices-and-private-credit

About the Author

Dr. Ralph Welpe is Chairman and CEO of Mirai Capital Partners, a London-based boutique advisory firm working with some of the world's most influential families and entrepreneurs. With over 25 years of experience spanning investment banking, private banking, and alternative investments across Europe, Asia, and the Middle East, he advises family principals on strategy, governance, and cross-border investment structuring.

Contact: ralph.welpe@miraicapitalpartners.com | www.miraicapitalpartners.com | London, United Kingdom