Calculating Credit

A study of how private debt analysts make investment decisions

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Abstract

Private debt has grown rapidly over the past two decades, in the wake of the Global Financial Crisis and the simultaneous growth of the private equity sector, making it an important source of financing for growth companies. Despite this development, existing research on how private debt buy-side analysts operate, how investment decisions are made and how these transactions shape the market is limited. To address this empirical gap, this thesis applies the framework of markets as calculative collective devices (Callon & Muniesa, 2005), with roots in actor-network theory (ANT). Drawing on empirical findings from a cross-sectional, qualitative study we find that investment decisions are collectively calculated through a socio-material process and ultimately negotiated in bilateral economic encounters that reinforce relational dynamics. This study contributes to analyst literature in two ways. Firstly, we demonstrate how relationships between buy-side and sell-side debt analysts influence investment decisions, extending previous literature by showing how relationships not only support deal generation but shape deal terms and market dynamics. Secondly, we extend prior literature on analysts as frame-makers, suggesting that private debt analysts engage in performative frame-making to actively reconfigure risks through deal structure and term sheet, influencing their investment decisions.

Keywords:
Private debt, decision-making, analysts, ANT, calculations

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1. Introduction

The Global Financial Crisis (GFC) that hit nearly two decades ago was a catastrophe for the world economy with severe effects for both consumers and companies throughout the world. The causes and effects of the GFC is a topic which is constantly revisited in academic literature, where one clear motive appears to be: how can we prevent this from happening again? One answer was tighter regulation for banks. So, in the wake of the GFC, a multitude of new regulation followed. For banks, the answer was Basel III, with the explicit motive to respond to the flaws illuminated by the past crisis and improve system resilience going forward. With the higher capital requirements and recalibrated risk management demands of Basel III, some lending activities could no longer be justified from the perspective of maintaining an efficient capital structure. Consequently, banks were motivated to be more restrictive in giving loans to companies with lower credit quality (Block et al. 2024, Erel & Inozemtsev 2025), thus retreating from certain areas of the capital market. Simultaneously, the private equity sector continued to grow, with an average annual growth in assets under management (AUM) of approximately 12% from 2008 until 2024 (McKinsey & Company, 2025), representing an ever-increasing demand for the possibility of holding high leverage among portfolio companies (Axelson et al., 2009). These two streams of ripple effects following the GFC jointly created a void on the market for debt financing of growth companies, and this void was eventually filled by non-banks, such as private debt (PD) funds.

The PD market has, since then, been a fast-growing subsegment of the private capital market for the past 20 years reaching AUM levels of USD 1.6 trillion in June 2024, averaging annual growth rates of 15,8% over that period (Pemberton Capital Advisors LLP, 2025). Out of the PD deals being made in Europe during 2024, 85-90% were private equity sponsored (Deloitte, 2025). In recent years, the phenomenon of private credit has received increasing attention in the media, being subject to both praise and criticism. On the one hand, it is being painted as a "black swan" with low transparency and receiving criticism for the limited degree of control and regulation (Dagens Industri, 2025a; Dagens Industri, 2025b). On the other hand, this relatively new asset class is praised for its rapid growth and ability to provide high yields to investors at relatively low risk, as well as providing a good financing alternative to banks (Dagens Industri, 2025b; Dagens Industri, 2025c).

However, despite the hefty growth of the PD market, it remains a relatively understudied field in academia, as highlighted in both academic and investor contexts (Block et al., 2024; Böni & Manigart, 2022; Erel & Inozemtsev, 2025; Pemberton Capital Advisors LLP, 2025). Literature addressing the field adopts quantitative approaches and have, thus far for example investigated the characteristics of borrowers, historical returns net and gross of fees and persistence in fund returns (Böni & Magnart, 2022; Chernenko et al.,

2022; Munday et al., 2018). Moreover, a survey-based quantitative study has also been conducted to better understand how PD fund managers view their own investment practices (Block et al., 2024).

Although the private debt profession specifically remains qualitatively unexplored, there is a long-standing interest within accounting research to understand sell-side (SS) equity analysts, and more recently also buy-side (BS) equity analysts. The literature covering equity analysts therefore provides the foundation for our understanding of the analyst profession in general, which we will build upon as we seek to understand analysts in the private debt context. In this literature, the term *analyst* denotes individuals across seniority levels, irrespective of their formal professional titles.

The field of analyst literature is extensively researched and has evolved over time. More recently, analyst literature has focused on the activities that equity sell-side analysts perform, how they combine qualitative and quantitative reasoning in their decision making (Abhayawansa et al., 2015; Barker & Imam, 2008; Coleman, 2015; Brown et al., 2016; Graaf & Johed, 2020; Imam & Spence, 2016; Pflueger & Mouritsen, 2025; Spence et al. 2019) and how they act as frame-makers (Beunza & Garud 2007; Callon, 1998; Graaf, 2023; Pflueger & Mouritsen, 2025). Another strand of analyst literature focuses instead on how the relationships between equity sell-side analysts and equity buy-side analysts influence their respective activities (Brown et al., 2016; Imam & Spence, 2016; Millo et al., 2023; Spence et al., 2019). Literature investigating debt analysts is scarce in general, and existing strands are primarily focused on quantitative approaches (Call et al., 2022; Clare et al, 2021; De Franco et al., 2014; Hallman et al., 2023; Wittenberg-Moerman, 2008). The exception to this rule is research by Kalthoff (2005), where he qualitatively studies how debt analysts at banks conduct credit and risk assessments, prior to the GFC.

The existing analyst literature is therefore primarily centered on equity analysts and remains heavily weighted toward the sell-side (Spence et al., 2019). While emerging work has begun to broaden this focus by incorporating the perspective of buy-side analysts, their role, activities and market interactions – both as key users of sell-side outputs and as market actors – research on the buy-side profession is still relatively limited. When combined with the scarce scholarship on debt analysts in general, and the complete lack of research on private debt buy-side analysts specifically, an empirical gap becomes evident.

Even though academic literature on the private debt industry in general is slowly emerging, in depth understanding of the practices of and work by PD professionals is lacking. The extant analyst literature indicates that equity analysts are frame-makers, assessing their investments both quantitatively and qualitatively, relying on accounting inscriptions as well as personal judgments and social networks to inform their decisions.

Therefore, we want to understand how this dynamic takes shape in the context of PD. What inscriptions and processes are critical for assessing new investment opportunities, and their potential risks? How do these tools impact the decision-making? How are risks assessed in this process, provided that the PD analysts operate in a context with fixed upside? These questions are growing increasingly relevant to further our understanding of the field, which is relevant for institutional investors, borrowers and regulators alike. To gain a deeper understanding of this, and the related challenges, this study aims to answer the following research question: *How are investment decisions made by private debt professionals and how do these transactions shape the market?*

We answer this research question by conducting a qualitative, cross-sectional study with the purpose of understanding how private debt investors make their investment decisions. Our study comprised of 20 semi-structured interviews with 18 private debt professionals (GPs), from 15 different funds, and 2 private debt investors (LPs), representing 2 different investor organizations. Through this research design, we were able to identify patterns across firms and gain a broad understanding of how investment decisions, and their close ties to risk assessments, are made in the industry and how these in turn shape the market. Hereinafter, our interviewees may be collectively referred to as PD professionals or analysts, interchangeably and synonymously.

This thesis adopts a framework developed by Callon and Muniesa (2005) conceptualizing economic markets as calculative collective devices to structure our empirical analysis and answer our research question. The framework is grounded in actor-network theory and provides a foundation for analysing how the potential investment is converted and calculated into a market object, how the decision is structured and what actors – encompassing professionals, financial models and inscriptions – are involved in the process and how these interact in market encounters. As a framework with sociological roots, it provides a robust structure for analysis which moves beyond purely economic explanations to also capture the relational, material and organizational arrangements and context in which the investment decision is made, and the market is constructed.

The empirical findings of this paper are structured around the three themes of Callon and Muniesa's (2005) framework: making goods calculable, distributed calculative agencies and calculated encounters. We find that making goods calculable, through objectification and singularization, is an important component of the calculative process for private debt, as the debt requested by the borrower is not by default a comparable product but rather a tailored solution, affecting the worlds of both the borrower and the lender. Furthermore, we find that several socio-material actors, both internal and external to the private debt fund, exert agency in the decision-making process. We also present our findings on economic encounters where debt sell-side analysts and debt buy-side analysts negotiate the terms of the customized transaction bilaterally and privately, fortifying their relationships and mutual trust, favouring long-term symbiotic relationships.

This thesis contributes to the analyst literature in two ways. Firstly, we contribute by demonstrating how relationships between buy-side and sell-side debt analysts shape investment decisions, influencing both deal origination and deal terms. This extends analyst literature by demonstrating that sell-side analysts not only support in but largely replace in-house deal sourcing, operating as an outsourced extension of the PD fund. We nuance prior assumptions about information hierarchies by suggesting that PD analysts prefer curated sell-side inscriptions over direct company engagement. We also broaden the concept of social inertia by showing how trust-based expectations of future sponsor support reduce perceived default risk and thereby actively shape deal terms. Secondly, we contribute by highlighting how analysts frame risks in their investment decisions. We demonstrate that risks are framed via the use of both quantitative and qualitative assessments to capture a multifaceted view of the investment case. This broadens existing research by demonstrating that frame-making occurs internally within buy-side teams, not only between sell-side and buy-side analysts, as previously suggested. We also nuance prior research by arguing that PD analysts are not only frame-makers but rather performative frame-makers, who actively reconfigure risks through deal structure and term sheet.

The remainder of this thesis is dived into five sections as follows. Chapter two reviews prior analyst literature and outlines the method theory. Chapter three describes the methodology of our research, in terms of design, data collection and analysis. Chapter four presents and analyses the empirical findings using the theoretical framework. The fifth chapter discusses our empirical findings in relation to prior research, ultimately presenting the contributions from our study. Lastly, chapter 6 concludes the paper by summarizing our findings, providing practical implications as well as reflecting on limitations and potential avenues for future research.

2. Literature review and theoretical framework

Turning to prior research, the practice of PD professionals' investment decision-making, including valuation and risk assessment, has received little to no attention. As such, unpacking this realm of research, the wider field of analyst literature forms the basis of our understanding. This research, encompassing perspectives on sell-side and buy-side equity analysts as well as debt analysts, will be described in section 2.1. Section 2.1 will be concluded by highlighting the identified gap in the extant literature, which we aim to address with our study. Our theoretical framework is the concept of markets as calculative collective devices (Callon & Muniesa, 2005), which will be presented in section 2.2.

2.1.Literature review

In this section, previous research on analysts will be reviewed. Academic analyst literature focuses on how financial investment professionals such as Sell-side analysts (SS), Buy-side analysts (BS) and Fund Managers (FM) operate and what they do to create value. First, we will conduct a review of extant analyst literature focused on equity valuation, where three key themes will be highlighted: analysts as frame-makers, how analysts use a combination of quantitative and qualitative analysis to inform their decisions and the role of relationships. Secondly, we will present prior research conducted on debt analysts. Lastly, we synthesize this prior research on equity and debt analysts to identify the gap we aim to address with the present study of private debt professionals.

2.1.1.Analyst literature for equity valuation

Within the field of analyst literature for equity valuation, sell-side analysts are the most extensively researched profession (Bradshaw, 2011). SS analysts are equity analysts employed by investment banks or brokerage agencies, where they are responsible for analyzing companies within a designated sector, producing forecasts, making valuations, setting target prices and providing relative recommendations, typically to buy, hold or sell. SS reports are generally both distributed to FMs and BS analysts as well as made available through various databases (Spence et al., 2019). On the other side of a transaction are the buy-side analysts, or in-house analysts, who have received significantly less attention in academic research than their counterparts. They are normally employed at different types of investment firms and are responsible for providing investment recommendations to their FMs. However, as FMs and BS analysts operate together with the same objectives (Imam & Spence, 2016) the terms will hereinafter be used synonymously. The fact that BS recommendations and analyses are produced for the purpose of their firm's own investment decisions highlights a key difference between SS and BS, where SS recommendations are intended for public distribution (Spence et al., 2019).

The role and value added by the SS analysts is widely debated in prior research (Abhayawansa et al., 2015; Barker, 1998; Barker, 2011; Beunza & Garud, 2007; Brown et al., 2015; Graaf & Johed, 2020; Graaf, 2023; Imam & Spence, 2016; Millo et al. 2023; Spence et al., 2019). As the research field has grown, the view of their contributions to investment decisions and transactions has evolved. Beunza and Garud (2007) conceptualized this development as the formation of three clear streams of analyst literature, further adopted by Imam and Spence (2016), to understand the purpose and value created by SS analysts.

The first stream of research depicts SS analysts primarily as information processors (Beunza & Garud, 2007). This view is described in mainstream accounting and finance literature and assumes that sell-side analysts are valuation experts, basing their work on a rational calculative foundation, whose recommendations lead to associated market reactions (Bradshaw, 2011; Imam & Spence, 2016; Ramnath et al., 2008;). Although this stream considers analysts to be valuation experts whose expertise is reflected in their forecast outputs, it has been questioned why their recommendations do not consistently succeed (Beunza & Garud, 2007). A continuance of this stream hence diverts focus biases, such as personal job security (see e.g. Hong & Kubik, 2003) and commercial conflicts of interest to the investment banking departments underwriting of public initial offerings (see e.g. Lin & McNichols, 1998), investigating how it inflicts on the accuracy of sell-side analysts' recommendations. This stream of research is criticized by Imam and Spence (2016) for relying on the presumption, directly stated or indirectly, that the primary contribution of sell-side analysts are their forecasting practices to determine a target price and associated recommendation.

The second stream of SS analyst literature alludes to this critique and addresses it by incorporating behavioral perspectives influenced by neo-institutional sociology (Beunza & Garud, 2007). This stream of literature focuses instead on the behavioral aspects of why sell-side analysts develop certain recommendations and forecasts. This stream suggests that sell-side analysts conform to institutional pressures and engage in herding behavior for self-preservation, rather than trusting calculative practices (see e.g. Hong et al., 2000). Despite that this stream of literature takes a sociological perspective on SS analysts, it remains focused on analyst's output in terms of recommendations and forecasts. Imam and Spence (2016) point out that this discourse may overemphasize the role of pressures and biases in influencing SS analyst output, thus crowding out and giving less attention to the calculative practices that the SS analysts evidently spend time on.

The third stream of SS analyst literature combines the calculative practices emphasized in the first stream of literature with the sociological perspective of the second stream, without devoting full explanatory power to either of them (Beunza & Garud, 2007). In doing so, this third stream of literature abandons the previous preconception that the main purpose of SS analysts is to produce forecasting outputs, such as target price and a

buy/hold/sell recommendation. Instead, Beunza and Garud describe the role of analysts, especially in settings where the future is uncertain and difficult to predict, as to predominantly frame or give meaning to underlying arguments supporting a certain valuation.

This view of SS analysts can be traced back to research by Barker (1998). He suggests that while analysts play an important role in effectively disseminating company information and providing benchmarks for consensus valuation, their output rarely drives core valuation work. He finds that fund managers prefer to receive information directly from company management, over processed information produced by sell-side analysts (Barker, 1998). Thereby, SS analysts are reframed not as key valuation agents, fundamentally shaping investment decisions and dominating price formation, but as mechanisms enabling information efficiency, in terms of processing and conveying information to the market. At the same time, Callon introduced the concept of framing (1998), which indicates defining boundaries of exclusion (inclusion) in a way that defines the scope of the task, calculation or decision at hand. He argues that framing is necessary to isolate an economic event from the broader environment, but that it is always evolving and never static (Callon, 1998).

Recent research has united these views into a more explicitly articulated concept of analysts as frame-makers (Beunza & Garud, 2007; Graaf, 2023), who engage in "framing" of investment cases by shaping and setting boundaries for how a certain context or company is to be understood and analyzed, which they subsequently convey to the market. Graaf (2023) further extends this notion by concluding that frame-making influences how SS analysts compete, especially in an environment where access to private information is limited. He demonstrates that they derive their competitive advantage not from exclusive insights but from their ability to interpret and frame public information, such as quarterly earnings presentations. SS analysts engage in ongoing interpretive work, that encourages continuous adjustments of their calculative frames, as prior assumptions are challenged (Graaf, 2023). This third stream of research thus shows that SS analysts' value lies in their interpretation and communication of information – or in their frame-making as we will hereinafter refer to it. Through this, recent analyst literature highlights a shift from the two first streams, which indicated either that the role has a purely calculative focus or that they are passive subjects to normative pressures, to a more experience-based and active contribution.

Where the concept of frame-making helps explain the purpose of the analyst profession, another area of analyst literature instead focuses more on understanding how analysts work in practice. This includes research on understanding the details of their processes, specifically how investment decisions or recommendations are derived, and how accounting information as well as qualitative assessments are being used in this process.

The dominating conclusions within analyst literature challenge the traditional view of SS analysts' valuation as a purely technical exercise, revealing it instead as a socially and cognitively bounded process that extends the notion of value relevance beyond the purely quantitative (Abhayawansa et al., 2015; Beunza & Garud, 2007; Spence et al., 2019). This includes actively incorporating intellectual capital information (ICI) into their valuation processes (Abhayawansa et al., 2015), even though much of it cannot be easily quantified, as well as analysts' personal perceptions of firm's earnings quality (Barker & Imam, 2008). This research has shown that ICI, referring to human, structural and relational capital, contributes to shaping SS analysts' perceptions of firm quality and therefore informs adjustments to valuation inputs and underpins their investment recommendations (Abhayawansa et al., 2015). The authors further suggest that there is a hierarchical order in how ICI is used, where quantifiable elements influence model parameters while softer, qualitative aspects guide judgment and narrative justification. Similarly, Barker and Imam (2008) found that SS analysts' perceptions of earnings quality shapes their stock recommendations, price targets, and forecasts, and that their perceptions are informed both by accounting-based indicators and non-accounting information such as management credibility, business models, and industry context. These two studies show that analyst literature predominantly suspends the socio-technical dichotomy of how analysts operate, suggesting that their valuation process blends quantitative valuation and financial statement analysis with interpretation, personal perceptions and informal heuristics (Abhayawansa et al., 2015; Barker & Imam, 2008).

While SS analysts make external recommendations, BS analysts are accountable and responsible internally for the recommendations that they make as they are intended to inform their own investment decisions (Brown et al., 2016). Although the intended receivers of the recommendation differ, researchers have identified similar approaches to how they are derived by BS analysts, as for SS analysts discussed above. Existing analyst literature suggests fund managers' use of neoclassical finance theory is limited. Instead, they also rely on complementing qualitative information, subjective assessments, heuristics and social networks to make their investment decisions, structure processes and conduct risk management (Coleman, 2015; Henningsson, 2009; Imam et al., 2008). Similarly, Svetlova, (2018), studying financial market professionals working with contingent convertible bonds, identified two regimes of valuation as a base for investment decisions: calculative and consumptive. These two approaches offer different orientations towards quantification, where one seeks assessment through calculations and modelling and the other favors interpretation and judgment. However, she argues that the two regimes coexist and that actors can oscillate between the two modes depending on the context. The study therefore suggests that valuation and financial decision-making are shaped not only by technical and calculative devices, but also by social and interpretive factors (Svetlova, 2018).

Previous analyst literature has also investigated the use of accounting to inform investment decisions, both by SS and BS analysts. On the SS, Graaf and Johed (2020) investigate brokers' practices to determine how accounting is consumed to influence investment decisions and find that accounting can operate as a communicative and strategic resource in market interactions. The notion of consumption captures that the use of accounting is continuously adapted to suit the context and audience of the situated investment cases. Moreover, both SS and BS analysts continue to emphasize the importance of quantitative analysis, such as DCF modelling and PE multiples, for valuation. However, as technical limitations are encountered, analysts resort to subjective judgments as a complement to the financial information (Imam et al., 2008). On the BS, Pflueger and Mouritsen (2025) study how accounting is used by venture capital (VC) analysts to inform their investment decisions. Similarly to Graaf and Johed (2020), they find that analysts, rather than treating accounting as a neutral instrument for objective evaluation, accounting practices are intertwined with the social processes of building trust, negotiating expectations, and coordinating action in uncertain investment contexts, or in the presence of 'Knightian uncertainty' as their study specifies (Plueger & Mouritsen, 2025). Accounting figures and forecasts are used by VC analysts to structure dialogue, signal competence, and legitimize decisions, rather than to solely produce definitive valuations (ibid.). By conceptualizing accounting as relational and communicative work, the authors demonstrate how it is used by analysts in their roles as frame-makers to conduct both quantitative and qualitative assessments, as well as to sustain and manage relationships amid uncertainty (Graaf & Johed, 2020; Pflueger & Mourtisen, 2025).

Analyst literature has established that social networks and the social processes of building trust and negotiating have an impact on investment decisions (Coleman, 2015; Henningsson, 2009; Imam et al., 2008; Plueger & Mouritsen, 2025; Spence et al., 2019). This has been further explored in later streams of research, especially in terms of the interaction and co-dependency between sell-side and buy-side analysts. As BS are receivers of the information produced by SS, with the former acting as a client to the latter and maintaining frequent communication, there is an important relational interplay between the two. Brown et al. (2016) highlight that SS analysts create value for BS analysts by supplying knowledge about other investor's opinions and holdings, and by helping BS analysts, who typically cover multiple sectors, to get up to speed on a specific industry. Where Brown et al. (2016) mostly look at how the two opposing sides of analysts interact, and what value they create for one another, Millo et al. (2023) take a different perspective in their endeavor to understand why the relationships between analysts take form in a certain way. They set out to understand the economic conditions under which SS analysts give investment recommendations, and especially the social forces and context upholding this position, by conducting a qualitative, cross-sectional study taking on a sociological perspective. Their results stress how social ties influence analyst activities, and especially that the relationship between BS analysts and SS analysts

is characterized by social inertia. This inertia, they argue, arises because of interdependence between analysts. This interdependency can be illustrated by the fact that BS and SS analysts see the main contribution of SS as providing the BS with information, investment insights and business opportunities (Millo et al, 2023).

2.1.2.Analyst literature for debt security valuation and risk assessment

When it comes to debt valuation, traditional analyst literature is significantly more limited than on the equity side. In part, this could be because there is less publicly available information for researchers to study. Similarly to the equity analyst side, debt analysts can also be categorized into SS, working for investment banks or brokerage firms to provide credit ratings and recommendations on obligations and loans, and BS, typically working for funds or institutional investors and supporting investment decisions. However, the differentiation between SS and BS debt analysts seems less nuanced and refined by research. Ultimately, a debt analyst, or fixed-income analyst, will assess the ability and willingness of a borrower to meet its debt obligations and thereby analyze the potential credit risk.

Studies suggest that SS debt analysts, like on the equity side, are instrumental information intermediaries in their market because they create investor reactions to their recommendations (De Franco et al., 2014; Wittenberg-Moerman, 2008). However, much of the prior research on debt analysts has deployed a quantitative angle, examining, among other things, correlations between bid-ask spreads and information asymmetry (Wittenberg-Moerman, 2008), the effects of analyst coverage on syndicated lending outcomes (Hallman et al., 2023), how analyst earnings forecasts correlate with debt covenant thresholds (Call et al., 2022) or the performance of fixed-income managers (Clare et al, 2021). Moreover, qualitative research streams on fixed-income managers found that they rely more on financial numbers and are more mathematically driven in their assessments compared to equity investors (Arjaliés & Bansal, 2018). Although this study was conducted in relation to ESG criteria, it gives a perspective on how debt analysts incorporate factors that are more difficult to quantify into their investment decision. Disproportionate attention to the quantitative research angle on debt analysts risks overlooking a more detailed understanding of their analysis processes, their investment rationales as well as the sociological factors motivating and upholding this profession.

There has also been research conducted on debt analysts in the context of banks. Kalthoff (2005) explores how economic calculations and technical devices are used by professionals in banking practices of credit assessments and risk management. Outlining the process that banking employees systematically conduct to assess a potential client's economic performance, he concludes that, as a complement to accounting figures, personal visits and observations at the company are important to provide a 'sensory

certainty' regarding the investment. Furthermore, Kalthoff argues that, in the credit process, numbers simplify the decision-making process of an investment but are not considered absolute facts. As such, the purpose of risk management departments in banks is to record potential risks and make sure that the bank can monetize on them, rather than shying away from risks altogether (ibid.). Lastly, he suggests that risk management practices in banks encompass both an objectivist and a relativist perspective, where the validity of economic calculations are achieved, not because they are objective truths, but through the institutional arrangements and social practices around how they are created and disseminated. Notably, this research by Kalthoff was conducted on international banks prior to the GFC of 2008. As such, this raises the question of whether the conclusions of his research are equally true after the crisis, and whether they apply to debt contexts in nonbanks.

As opposed to most of the research on debt analysts, Kalthoff conducted a qualitative study and from a sociological perspective. Through this, he highlights how risk is a fundamental aspect of decision-making in a credit process, which is highly relevant and applicable to the setting of this study. Besedovsky (2025) further elaborated on this topic, inspired by Kalthoff among others, concluding that theories of risk share much of the same considerations as traditional valuation. She highlights risk as a "central mechanism for assessing future events", often conceptualized through quantification and calculability but in practice subject to bias and judgment.

A hitherto unexplored subsection analyst literature with a debt focus, in qualitative academic research, pertains to the target of the current study namely that of private debt. PD is a subset of the larger and growing field within the nonbank corporate lending space (Erel & Inozemtsev, 2025). The growth of PD surged after the GFC in 2008 as traditional banks retreated from certain areas of corporate lending, which created a gap in financing solutions. In this thesis, we lean on the definition of private debt provided by Block et al. (2024), stating that PD funds are "investors that raise capital commitments through closed-end funds (like private equity) and make senior loans (like banks) directly to, mostly, middle market". In this paper, the terms private debt and private credit will be used synonymously and interchangeably.

Literature on private credit is scarce in general and the limited literature that exists is to our knowledge exclusively quantitative studies. Existing quantitative literature can be categorized into three categories, the first focuses on historical returns (Böni & Manigart, 2022; Munday et al., 2018), the second focuses on characteristics of firms borrowing money from private debt funds (Chernenko et al.; 2022; Davydiuk et al., 2024) and the third stream of literature describes the characteristics of private debt investors often in relation to banks (Block et al., 2024). Nevertheless, to further understand how private debt fund managers make investment decisions, qualitative literature on the topic is

needed. This points to an empirical gap within the domain of analyst literature which we aim to address with our study.

2.1.3.The contribution of our study

The extant analyst literature reviewed in this chapter points to empirical gaps within the field of analyst literature. Firstly, this is characterized by the fact that it insufficiently addresses debt analysts in general, and more specifically in that it does not encompass professionals from the private debt sector at all. Moreover, to the best of our knowledge, existing research on debt analysts was mainly conducted prior to the GFC. This points to a second empirical gap in addressing if, and how, the role of a debt analyst may have evolved after this shift. Provided that it reshaped market dynamics, it presents itself as a new area on which debt analyst evidence is understudied.

Furthermore, certain phenomena and roles are insufficiently explained by existing research and theories within the realm of analyst literature, which points to conceptual gaps to be addressed. Primarily, literature addressing individual analysts' decision-making has been described as "hidden in a black box" (Ramnath et al., 2008, p. 35). While research on this has been extended and received additional attention, particularly on equity sell-side analysts, since this statement was published (see e.g. Brown et al., 2015), it remains relatively understudied particularly in the context of buy-side analysts and debt. Moreover, the role of risk assessment in any investment decision, which we argue, is a central aspect regardless of the asset class analysts focus on, has also received limited attention in the extant analyst literature.

In summary, we aim to address the empirical and conceptual gaps in the existing analyst literature, by studying the investment decisions of PD analysts. We will specifically address the "black box" of their process for taking investment decisions and how risk is assessed in this process, in a previously understudied niche of the capital market – private debt. Our findings will contribute to understanding the role of buy-side debt analysts, an important group of professionals in today's financing landscape, who have largely been overlooked by the academic literature so far. To capture the process of how investment decisions are made, what tools and inscriptions that are incorporated in the process as well as the broader market context in which the decisions are made, we have chosen to adopt Callon and Muniesa's (2005) framework for economic markets as calculative collective devices, with roots in ANT. The method theory, as well as adaptations made to our study, will be presented further in section 2.2.

2.2.Method theory

In this section, Callon and Muniesa's (2005) framework for economic markets as calculative collective devices, which we will use to structure our empirical analysis, will

be presented. The aim is to construct a setting for understanding how investment decisions in PD are calculated, through socio-material arrangements, as well as how the investment decisions shape and uphold the market. Prior to this, to gain a deeper understanding of this framework, its roots in actor-network theory will be reviewed and discussed.

2.2.1.Actor-network theory

The framework developed by Callon and Muniesa (2005) builds on the actor-network theory (ANT). ANT emerged from sociological research in the 1980s and has largely been developed on the foundation of work by Bruno Latour, Michel Callon, and John Law (see e.g. Callon, 1986; Latour, 2005; Law, 1992). In accounting research, ANT has gained increasing relevance since its inception and has been applied to contexts of accounting change, implementation, performativity and markets, to name a few (Justesen & Mouritsen, 2011).

Originally developed to explain how scientific knowledge and technological innovations are produced, ANT proposes a relational and material understanding of phenomena. At its foundation, ANT relies on an ontologically constructivist approach, meaning that reality is seen as constructed through a combination of interactions, practices and relations. This suggests that order, knowledge and facts are not purely products of underlying truths or structures, nor solely of social interactions or human intentions, but emerge through dynamic and contingent associations among actors, including both humans and non-humans. The latter is of particular importance in ANT, as it assumes material agency, where non-humans are not passive objects but rather actors that shape and transform action (Callon, 1986; Law, 1992). Non-human agency is carried by vehicles such as inscriptions, documents and material traces like graphs, reports or accounting figures, that within the network contribute to stabilize and mobilize knowledge (Latour, 2005b).

As such, ANT diverges from other streams of sociological research, in that it rejects the conventional separation between social and material concepts. Instead, it conceptualizes the world as composed of networks of heterogeneous actors, both human and non-human, that together produce stability, knowledge, and action (Latour, 2005a; Law, 1992). Such socio-material arrangements are what is theorized as actor-networks. These actor-networks demonstrate distributed agency across the actors within it, including people, technologies, artefacts and rules. Agency, therefore, is distributed rather than concentrated in human subjects alone.

ANT also introduces a set of analytical concepts that describe how networks form and act. The notion of translation refers to the processes through which actors negotiate, align, and enroll others to form coherent network (Callon, 1986; Law, 1992). Emphasizing relationality, material agency and the contingency of order, ANT is framed as an approach

where stability, power and organization is an ongoing accomplishment rather than a fixed property (Law, 1992). Centers of calculation describe the locations where dispersed information is gathered, standardized, and transformed into actionable representations, or "sites where literal and not simply metaphorical *calculations* are made possible by the mathematical or at least arithmetic format of the documents being brought back and forth" (Latour, 2005b, pp. 191). Together, these concepts enable the study of how practices of calculation, control, and knowledge production are socially and materially constructed and maintained within the network.

This set of concepts and ideas, introduced by the actor-network theory, provides a useful foundation when studying accounting in general, especially in highlighting the role of calculation as a socio-material arrangement. Specifically, it is the basis for the later work conducted by Callon and Muniesa (2005) which we will apply as a method theory for our empirical analysis in this thesis, to understand how calculation is performed in a private debt setting to make investment decisions and shape the market. We will further elaborate on this in the next section.

2.2.2.Economic markets as calculative collective devices

In their article, Callon and Muniesa (2005) place the theoretical concept of ANT in a practical setting suggesting that economic markets enact as calculative collective devices. By studying an intersection of economics and sociology, they exemplify that calculation, or calculative devices in a broader sense, is useful evidence of socio-material arrangements as suggested by the actor-network theory. Their framework proposes that economic markets consist of three main components, which are economic goods ("what"), economic agents ("who") and economic exchanges ("how"), where the goods are subject to exchanges between the agents. For such exchanging of goods to take place between agents, they must first be assigned a value, which is achieved by calculations across the economic market. By their definition, such calculations are not separate from but incorporating judgment. Callon and Muniesa (2005, p.1229) conclude that economic markets are "collective organized devices that calculate compromises on the values of goods", based on three key elements; 1) making goods calculable, 2) distributed calculative agencies and 3) calculated encounters. These three parts will each be described in further detail in this section.

Firstly, making goods calculable is the element of the framework which defines the *economic good,* referring to "what" is exchanged in the transaction. The framework outlines that for a good to be calculable, it must be objectified and singularized. The two processes take place simultaneously and are both equally essential aspects of making goods calculable (Callon & Muniesa, 2005). Objectification, on the one hand, relates to the defining, detaching and delimiting of a thing, understanding its properties in such a way that it allows for a subsequent transfer of the rights to it, from seller to buyer.

Furthermore, the definition of attributes of a thing enables comparability. Singularization, on the other hand, is the process through which said object is transformed to be meaningfully valued by a customer or potential buyer of the good. This is the process in which the defined objects are qualified and presented in such a way that they can be categorized and compared in the calculative space, being the market, and thereby creating value for the economic agents which can circulate beyond the calculative space. Singularization is the process which allows any good to be qualified, manipulated or calculated so that it can eventually be processed in the economic market, and attached to the buyer, by being adjusted to the buyer's world (Callon & Muniesa, 2005).

Secondly, distributed calculative agencies is the element of the framework which outlines the *economic agents,* and refers to "who" exerts agency in the transaction. This is where ANT proves especially useful in explaining the calculative market dynamics, as it explains calculation not as an individual cognitive activity, but a collective and materially mediated process. In contrast to the assumption that calculations are conducted autonomously by designated agents, they argue that calculative capacity and power emerge from socio-material arrangements composed of human and non-human actors alike. Calculation, by their account, is a relational achievement that depends on the configuration of elements such as humans, technical devices, models, inscriptions and rules across the network. The notion of distributed calculative agencies thus highlights calculation as a performed and situated capacity, produced through the alignment of people, technologies, and organizational structures rather than residing inherently within individuals.

Thirdly, calculated encounters explain the characteristics of the *economic exchanges* and refers to "how" the transactions take place and shape the market. This refers to the organized situations in which economic agents meet and exchange goods. In contrast to viewing market transactions as spontaneous interactions between autonomous decision-makers, Callon and Muniesa (2005) conceptualize encounters as structured events that are technically and institutionally configured to enable comparison, negotiation and exchange. Each encounter is made possible by an underlying algorithmic configuration that determines who can participate, what can be exchanged, and how equilibrium between goods and values is established. These configurations ensure that transactions unfold as calculable and comparable interactions. The term calculated encounter thus emphasizes that market interactions are performed within networks of calculation, where agents, rules, and artefacts collectively enact the conditions of the transaction.

The view on calculative practices and powers that this theoretical framework adopts resonates with the concept of *qualculation* (Callon & Law, 2005), which is described as the process through which a decision is made, using quantitative, qualitative or hybrid information, to sort and manipulate information to extract a result or produce an outcome. Qualculation is, by Callon and Law (2005), described as a conjunction, or continuum, of

qualitative judgment and quantitative calculation. As such, they are not viewed as two separate processes but as one integrated. This shares similarities with how calculative processes using hybrid information are approached by SS analysts, as concluded in prior literature. This shared view on calculative practices between our domain literature and this theoretical framework contributed to motivating our choice of method theory. Hereinafter, any reference to calculation will assume this combination of qualitative and quantitative perspectives.

For the purpose of this study, where investment decisions and the linked "transaction" of the loan are examined on a cross-sectional basis, the framework will be considered in its entirety in our analysis, i.e. no isolated part will be in focus. The reason for this is that private debt can be construed as a market where both the economic goods, agents and exchanges play important roles in making investment decisions and shaping the market conditions.

When studying Callon and Muniesa's framework and analysing its implications for our study, several considerations become apparent. The first, and perhaps most prominent one is the notion of determining who is the buyer and who is the seller of the transaction. This relationship is something which is continuously emphasised throughout the framework. In the setting of PD, the borrower can, on the one hand, be seen as the agent acquiring credit, being the economic good, at the cost of paying interest and fees. On the other hand, the PD funds can also be regarded as a buyer, demanding a return on their capital and thus acquiring a credit for a pre-determined time, by paying a face value to the borrower who in turn supplies them with the returns. In this case, the PD fund is the buyer of a coupon from the company by paying them a face value. This notion of dual buyers is especially important for the first component *making goods calculable*, through singularization, where the good is adapted to and affects the world of the buyer. Having dual buyers will require the good to be customized and adapted not only to the world of one party but to the world of both parties to be assigned a value. Our empirical analysis will discuss and consider this relationship from both sides.

The second consideration relates to the perspective captured by the distributed calculative agencies in the theoretical framework. By illustrating that calculation is an activity which is distributed across actors in the network, it enables us to capture the role that accounting inscriptions and financial models have in this capital market. These actors can, in our context, render specific attributes of investment cases explicit and thereby enable comparability to support investment decisions. This consideration contributed specifically to our choice of method theory, as we wanted to sufficiently capture the nature of the socio-material arrangements in the PD industry.

The third consideration relates to the notion of the buyer and seller being "quits", having nothing owed by either side, or "aliens" after a transaction is concluded (Callon &

Muniesa, 2005). Regardless of which party is considered the buyer of the good, this outcome is not the case upon settlement of an exchange in the PD setting. Conversely, reaching an agreement of loan terms, term sheets, interest rates and covenant structures between buyer and seller in PD, marks the inception of a longer relationship up until the maturity of the loan, and often beyond. Hence, this notion of being quits can be extended to include the moment a contract of a future business relationship is signed, at which both parties agree to the specified terms and neither one of the parties have an intention to violate it, postulating a transaction, a finalized commitment of future services and compensation. However, Callon and Muniesa (2005) further indicate that the concepts of "quits" and "aliens" can sometimes be misleading, as there may be a transfer of ownership between parties without marking the end of contact between them. As such, the framework recognises relations of different nature extending beyond the completion of the transaction. In the setting of PD this is exemplified with the long-term relationships enabling additional transactions e.g. loan refinancing or extension of new loans.

To summarize, Callon and Muniesa's framework economic markets as calculative collective devices will be adopted as the theoretical framework in our study. The framework will be used to make sense of how the loan provided, or bond purchased, by the PD funds is calculated to be assigned a value. The considerations of this calculative device, determining the value of the loan, include the conditions entailed in terms of risk assessment, term sheets, interest rates and covenants, to name a few. This chapter has summarized the prior literature, which forms the basis of our understanding and lays the foundation for our thesis, as well as introduced the theoretical framework that we will apply in our analysis. In the next section, we will elaborate on the methodology applied in terms of research design, data collection and analysis, which will also encompass a more detailed motivation to our choice of method theory.

3. Methodology

In this section, we will describe the method applied to answer our research question. The section will first outline our research design, followed by how the data was collected and eventually analyzed.

3.1.Research design

This study originated in a genuine interest in the private debt industry in general, which emerged from the rapid growth of the field as well as recent media coverage on the topic. The specific research interest, regarding how investment decisions are made and how risk is assessed in this process, surfaced after doing some initial reading and having a first, exploratory conversation with one of our interviewees (Interviewee P). Subsequently, the research design was iteratively adapted as we refined our research focus during our first couple of pilot interviews and literature discovery. This process led us to eventually identify three key themes – qualculation, relationships and analysts as frame-makers – that we wanted to capture in our empirical analysis, through our choice of theoretical framework (see section 3.3.1).

To answer our research question, we performed a cross-sectional qualitative study of the Northern Europe private debt industry. Through our qualitative methodology, we explored how analysts make investment decisions and how these transactions shape the market. With risks being a key element for PD, we specifically endeavored to investigate how risk assessment practices are constructed as part of the wider valuation work, and how these inform investment decisions in the industry.

The methodological framework developed by Edmondson and McManus (2007) suggests that, for research fields where maturity of prior research is nascent, collecting qualitative data coupled with an open-ended research question is a suitable approach. This is further supported by Bradshaw (2011), stating that to understand the activities and unveil the black box of what a profession does, qualitative studies are necessary complements. Edmondson and McManus (2007) further suggest that the data analysis should be conducted through thematic content coding, to construct evidence and eventually identify patterns within the empirical data. Because the topic of private credit remains relatively understudied, or nascent, as described in more detail in section 2, this research design was deemed appropriate for our setting.

We believe this research design serves the purpose of understanding how the profession of private debt analysts makes investment decisions, capturing multiple perspectives and practices across firms, enabling us to identify patterns as well as contrasts between them. Conversely, it could be argued that such an approach provides less contextual depth,

where the processes of each organization are analyzed in less detail than in a single case study. Here, however, we prioritized breadth over depth to identify field-level trends of the profession rather than individual examples. We believe a broader empirical basis was useful in our setting, given the lack of prior research on the industry, as it may to a greater extent support comparability to other, similar contexts within analyst literature rather than depicting the operations of a specific fund.

Furthermore, the number of PD funds present in this region, and their sizes presented another key consideration for our research design. While the turnover of the industry has grown immensely over the past 15 years, many of these funds are still run by a small number of people. As such, conducting a case study on only one or a couple of funds could have proven difficult, both in terms of maintaining interviewee anonymity as well as accessing a sufficient empirical dataset.

3.2.Data collection

The data collection was conducted through semi-structured interviews, complemented by research via media coverage about the industry and the interviewees. In total, twenty 60-minute interviews were conducted over a period of approximately ten weeks. A full, anonymized list of interviews is presented in Appendix A. The interviewees were represented by professionals, of varying degrees of seniority and from 17 different organizations across the industry. Our interview subjects were primarily represented by general partners ("GPs") at the PD funds (17 out of the total 20 interviews). We also held contextual interviews with two limited partners ("LPs"), working for funds that in turn invest in other PD funds, as well as a previous GP at a PD fund. These provided a different perspective which increased our understanding of the setting in which private debt funds operate. The interviewees were sampled using different methods. Out of the 20 interviews, 9 were identified through our own research, based on their professional background and prominence within their respective firms. These were then "cold-called" through unsolicited contacts via email. Three of the interviewees were prior contacts or acquaintances, and we could therefore get in touch directly with them to arrange an interview. Following these initial 12 outreaches, another 8 interviewees were subsequently identified through snowball sampling, and conveyed to us via the first 12 interviewees. They were either colleagues within the same firm that we were put in touch with, or contacts within the industry at different firms that were deemed to be appropriate and useful additions to our study. What all interview subjects had in common is that they are directly involved in the analysis process and risk assessment as well as the investment decisions they lead to.

After the interviews, follow-up questions were sometimes covered via email correspondence, along with any complementary material such as company presentations or industry reports. The organizations are similar and comparable in terms of character,

for the purpose of this study, in that they provide similar loans and face the same type of investment decisions and risks. However, they have varying characteristics and investment strategies in terms of e.g. size of AUM, sector focus, ticket size, target EBITDA and market breadth. For instance, where some focus only on the Swedish market, others may work with a broader scope of the Nordics in combination with other parts of Northern Europe.

Ahead of the interviews, an interview guide had been prepared with the purpose of providing guidelines for the interviews and to ensure that all the key areas of interest would be covered. Due to the exploratory and iterative nature of the research, the interview schedule was continuously adapted throughout the process, to capture new nuances and details of interest that emerged. As such, the interview guide did not remain the same across all interviews conducted. A sample interview guide, reflecting its most recent format, is disclosed in Appendix B. The interview schedule consisted of five blocks. The first block aimed at covering introductions and practicalities of the interviews. The content of this block was always covered at the beginning of each interview. Here, we made sure to commence all interviews by highlighting the interviewees', as well as their respective funds', anonymity in our study to increase the probability of receiving more honest and less biased or censored answers. The following four blocks were covered in no particular order and, due to the semi-structured format, answers to certain questions were sometimes given before the question had been asked. The purpose of the second block was to get to know the interviewee, their background and some personal reflections about the PD industry. The third block addressed firm and industry specific questions, with the purpose of understanding the particular focus of each company and how they operate in the wider landscape. The fourth section zoomed in especially on the investment decision, leaning towards the early stages of the process with an emphasis on investment analyses, risk assessments, pricing and loan customization. The firth and last section centered around the broader investment strategies of the interviewees' firms, with the purpose of understanding their own risk perceptions, measures of success, portfolio composition and planning, views on relationships and recovery plans in case of failure. Even though the blocks were designed to cover more ground than the focus of our research question, the adjacent blocks helped to indirectly confirm or emphasize certain activities and roles of the calculative devices in the investment decision process.

By adopting a semi-structured interview format, we were able to construct relevant follow-up questions and thereby explore topics beyond those in the predetermined interview schedule, as well as adapting some of the questions around interviewees' specific experiences and expertise. The semi-structured format also allowed us to alter the order of the questions based on the natural flow of the conversations. Furthermore, it allowed the interviewees to freely elaborate and reflect around topics that arose

throughout the course of the interviews. This added interesting nuance to the topic and enabled us to explore avenues which we had not foreseen when commencing our research.

The interviews were conducted via a mix of physical and digital meetings. Physical meetings were favored and eventually 60% of the interviews were carried out in this manner. Digital meetings took precedence where physical meetings were not possible, due to the geographic location of the participants. All interviews were recorded with permission from the interviewees, and GDPR consent forms were distributed for signing, to allow us both to be fully present in the interviews and avoiding fragmented focus on notetaking. All interviews were transcribed using Microsoft Word's built-in transcription function, using our designated SSE OneDrive accounts, as approved by the SSE library. However, due to varying quality of the transcriptions, especially the ones conducted in Swedish, we also went back, checked and corrected all the transcriptions manually, in parallel to listening to the recordings, as part of our data analysis.

3.3.Data analysis

The data was collected in an exploratory, iterative process. As such our research focus, interview schedule, literature domain and theoretical framework were adapted throughout the research process, in light of the empirical data we discovered along the way. Consequently, a continuous analysis of our data was key for our research process. Firstly, both authors were present at all interviews, to support more reliable and accurate interpretations of the empirics (Bryman & Bell, 2015). This allowed us to jointly discuss and analyze the answers we received in the interviews, in an endeavor to reduce potential bias. After each interview, we discussed our perceptions and key takeaways from the interview, in close time proximity to when the interview was held to ensure accuracy in our reflections. Secondly, when listening back at the recordings, to check and correct the transcriptions, we coded the empirics with personal comments, highlighting useful quotes and making reflections around what each quote contributed with to our study. This allowed us to analyse the empirics and identify and categorize themes and patterns across the dataset. Finally, the data was coded and mapped according to the three key concepts of the theoretical framework, as introduced in section 2. These concepts will constitute the structure of our empirical analysis in chapter 4.

3.3.1.Choice of theoretical framework for data analysis

Our choice of theoretical framework was iteratively explored, based on a first handful of pilot interviews, combined with our literature discovery. As such, the decision to apply Callon and Muniesa's framework was informed in part by the themes we identified in our data analysis, as well as by some key takeaways from our literature review, which we endeavoured to capture through our choice of method theory for the data analysis.

Firstly, and perhaps most prominent across the literature discovery, was the fact that investment decisions emerge as a product of various kinds of knowledge. This resonates with most of the research strands we have studied, where calculation and valuation take on the role of a communicative or framing device (Beunza & Garud, 2007; Coleman, 2015; Graaf & Johed, 2020; Graaf, 2023; Pflueger & Mouritsen, 2025; Svetlova, 2018) to shape and guide investment decisions, combining calculative practices with a sociological perspective, in a process of qualculation (Callon & Law, 2005). The same pattern was detected in risk literature where Kalthoff (2005) and Besedovsky (2025) both highlight that risk valuation is, rather than an objective truth, a mechanism for framing and conceptualizing calculations, which in practice are largely affected by personal judgments and bias. This sociological perspective on calculative practices resonated well with that which the theoretical framework adopts, which motivated our choice.

Similarly to Millo et al. (2023) we not only wanted to capture the process, tools and outcomes of the analysts' work, but the wider network within which they operate, and the interplay between different roles and relationships, to understand how investment decisions are made and how these shape the market. We believe that an understanding of the context and actors that interact with, shape and reinforce the role of the PD analyst, from a sociological perspective, can deepen the understanding of this analyst role. To capture the aspects of interaction between actors and combination of knowledge in shaping investment decisions, we decided to adopt the concept of economic markets as calculative collective devices, developed by Callon and Muniesa (2005). Similarly to the literature reviewed chapter 2, and to the concept of qualculation, Callon and Muniesa describe calculation as something that is not separate from but including judgment: "Calculating does not necessarily mean performing mathematical or even numerical operations. Calculation starts by establishing distinctions between things or states of the world, and by imagining and estimating courses of action associated with those things or with those states as well as their consequences." (Callon & Muniesa, 2005, p.1231). This, in combination with the perspective of ANT, which the framework builds upon, embedding the analyst in the distributed agency of the network, contributed to motivating our choice of method theory, to capture the wider context of the present study.

3.3.2.Generalized symmetry

Applying a method theory with roots in ANT also had implications for our data analysis. Influenced by the foundational research by Michel Callon on the scallops of St Brieuc from 1986, we endeavoured to adopt an approach of generalized symmetry. This principle implies to treat the social and the technical actors and market arrangements equally. In adopting the same perspectives and language in the analysis of all actors within the network, they are attributed equal value. We sought to apply the principle of generalized symmetry, both in terms of perspective and wording, in our empirical analysis.

4. Empirical analysis

In the following section, the empirical findings from our study will be presented and analyzed through the lens of the theoretical framework. Firstly, some background and context to the interviews conducted and the industry will be provided. Subsequently, our cross-sectional empirical findings will be presented, following the structure of the three components of the theoretical framework; making goods calculable, distributed calculative agencies and calculated encounters.

4.1. Background and context to interviews conducted

All interviewees unanimously state that the rise of the PD industry, as a more clearly defined asset class, stems from dual reasons, reiterating much of what prior research has stated as well as the background we provided in the introduction of this thesis. They all agreed that the eruption of the Global Financial Crisis (GFC) in 2008, and the aftermath that followed of increased regulation and banks retreating from certain lending spaces, created a void, which PD funds have since helped fill. This standpoint can be exemplified by the following quote:

> ”After the GFC, capital requirement on banks increased and also the rules for risk-weighing of assets. The type of loans that we do received a significantly higher risk-weight in their [the banks’] capital models, [...] which made these loans more expensive for the banks from an equity perspective. [...] As a result, they have retracted a lot of their commitments, creating a gap in the market, presenting an opportunity for institutional investors to deploy their capital in new kinds of investments.” – Interviewee E

Moreover, they concluded that the continued growth of private equity has further fuelled a demand for credit, since the context requires leveraged financing solutions to maximise their returns:

> “Their focus is to increase the enterprise value while maintaining a good balance on the financing side of the balance sheet. If they can do that at a lower cost of capital than equity, through a solution that the banks don’t even provide, this enables a massive kicker for the owners.” – Interviewee P

Some proceeded to explain these market dynamics as rather opportunistic, building on regulatory arbitrage opportunities:

> “It [the growth of the industry] is also driven by the capital requirement regulations for the banks. You could say that much of the activities within private credit is built on regulatory arbitrage.” – Interviewee J

They also foresee that this trend is likely to continue with the further increasing regulations on banks, for example with the recent introduction of Basel IV:

> "Now with Basel IV […] there will be even higher capital requirements for the banks. […] I think they [Nordea] estimated that they will have to increase their capital reserves by 20%. In other words, they would have to increase their prices further and take less risk and will, as a result, have an even harder time competing with us." – Interviewee N

Among private debt professionals the nomenclature private debt and private credit are used interchangeably, and the important separation is instead that of subclasses. Direct lending, entailing first lien secured cash flow lending, is the largest subcategory of the asset class within the overarching umbrella of private debt. Secured cash flow lending implies that loans are secured primarily by cash flows via a share pledge, implying that equity and company ownership is used as primary collateral rather than a tangible asset. Apart from direct lending, filling the immediate void of banks retreating from cash flow lending, there are a wide variety of strategies pursued within private credit.

> "I saw someone who tried to make a map over all possible strategies within private credit […] and there are currently roughly 100 different strategies" – Interviewee J

Some investors focus only on senior direct lending while others also offer unitranche debt, which is a combination of senior and junior debt into one instrument. Others diversify further to include equity components such as pure equity or derivatives such as warrants, synthetic options etc., as a way to give them as lenders a potential equity upside if the borrower performs well. Certain interviewees underline their funds' abilities to structure the returns and terms of their loans, using different components, to make the loan work for them.

When sharing their personal reflections on the risks taken within the industry, and by their respective firms, consensus among the interviewees is that they consistently anticipate extremely low loss rates across their funds, as these are detrimental to investing activities with limited upside. Our interviewees also consistently acknowledge that lending from them comes at a higher interest rate than what banks offer. This higher interest rate, they argue, is compensated for by their quick evaluation time, and therefore access to capital for their borrowers, higher leverage and a more tailored loan structure. Ultimately, the borrowers that turn to PD are ones that either require more leverage than the bank can provide, or don't pass their, according to our interviewees, more mechanical and procedural credit process.

With this background understanding of the purpose and growth of PD, as well as the lending strategies they operate and risks they take, we will now proceed to analyze our empirics through the lens of the theoretical framework.

4.2.Making goods calculable

The first component of markets as calculative collective devices relates to the defining and framing of the economic good. For a good to be exchanged by agents in the market, it must first be calculated. For a good to be calculated, it must first be made calculable. Making goods calculable consists of two simultaneous activities: objectification and singularization. In combination, these two activities lead to the extraction of a result in the form of e.g. a price. A more detailed theoretical review of the theoretical framework is provided in chapter 2 of this thesis.

4.2.1.Objectification

Objectification constitutes a cornerstone in the extended definition of calculation. Without clear objectification, neither calculation in its narrower definition, nor judgement is applicable. In our empirical dataset, objectification is associated with the first steps of the general investment processes of PD funds, where the request for credit by a potential customer is analyzed on a high level. This relates to the stages of sourcing deals, conducting initial analyses and categorizing risks. At this stage, the private debt funds are trying to render something complex and unstable, or wide enough to account for several financing solutions, into a defined "thing" with objectifiable properties and characteristics that would, or not, fit within their investment strategy.

Firstly, an indirect form of objectification is conducted as part of the initial deal sourcing. Oftentimes, deals are sourced via the extensive network of investment professionals at the private debt fund and external professionals such as sell-side analysts and private equity investors. While private equity professionals are traditionally referred to as buy-side analysts and fund managers, their role in relation to private debt funds is that of a sell-side analyst, presenting information that is supposed to motivate private debt investors to making a credit investment in said company. This process of relationship building for marketing purposes is an integral part of the indirect objectification process.

> "We try to work with many sponsors. This provides us with a better deal flow, and that's how we can make better investments." – Interviewee B

Private debt investors start their objectification process by encouraging their extended network to recommend potential investment opportunities which align with their fund's preferences and certain criteria. Hence, deals are, to some extent, already objectified before reaching the fund as a credit request. This distributed and outsourced sourcing structure is exemplified by the following quotes, showing the importance of the market knowing both what potential deals may fit a certain funds investment strategy, or not:

> ”Most deals come from inbound request via our network. PE sponsors that we have worked with before know what we like and do well and return to us […]. It’s all about network and relationship-building.” – Interviewee K

The outsourced and distributed sourcing process constitutes a fundamental contextual difference between equity investors and private debt investors. While equity buy-side analysts spend much of their time actively sourcing new investment opportunities in-house, private debt-side analysts spend time on reviewing incoming cases which are externally sourced or organically generated via their network:

> “That [our sourcing process] is very different from how it’s done in private equity. As a junior [employee] in PE you do a lot of screening and sourcing. We do none of that in-house here.” – Interviewee K

Next, the funds themselves conduct a form of objectification of potential deals, by verifying whether they are a strategic fit for their fund and are aligned with LP agreements. At this stage, properties and characteristics of the deal are outlined, to understand whether the potential investment opportunity fits their boundary conditions. Such characteristics include industry categorization, regional presence, company size, lending structure and ticket size, to name a few.

After the initial screening, the process of objectification continues throughout the initial dialogues and due diligence (DD) processes, between the PD professionals and their SS counterparts. At this stage, investment components are defined separately. The objects to be defined for calculation are, at the highest level, categorized as upside or downside. Aside from the fact that PD funds can enter more complex lending structures which can serve to provide them as loan-givers with additional upside, such as equity kickers, debt investments by nature entail a greater focus on downside risks. Where the upside is mostly fixed and limited to interests and fees, understanding the dynamic and complex nature of the downside, composed of risks, becomes an integral part of PD objectification:

> ”We make a similar investment analysis to what private equity does. However, we look more at the downside, because our upside is fixed.” – Interviewee N

Essentially, it is through detachment of risk components that investments can be understood and compared relative other investment opportunities. For private debt funds, the objective is clear – it boils down to avoiding losing money to the greatest extent possible.

> ”In our world [private debt funds] it is all about not making mistakes and not losing money, getting a return and eventually your money back.” – Interviewee Q

To navigate this landscape and avoid losing money on their investments, PD funds' assessment of risks is an important part of their investment decisions. In doing so, risks are identified and detached to be described separately. Detachment and objectification of risk components can later be re-attached and negotiated via the term sheet, further discussed in section 4.2.2 Singularization. To enable a transaction, any goods or services need to have objectively, delimited and describable properties. However, the properties of companies, seeking to finance their operations by loans from private debt funds, are complex and therefore require simplifications to be objectifiable and comparable.

Throughout the interviews conducted, it became apparent that the analyses and due diligence performed on the potential investment culminate in several key risk categories, of which understanding is instrumental to the subsequent investment decision. At the highest level, the risks that PD funds take as the lender could be classified as credit risk, i.e. the likelihood that a borrower fails to meet their financial obligations, such as their interest payments or repayment of the principal. At a more granular level, the origin of this risk, within the borrower company, can be of different character. For instance, distress or even default could be caused by either operational risks or financial risks. Hence, the detaching of operational and financial risks is an important part of the objectification process for PD funds' investment decisions:

> "A good starting point when you assess the risk of a company is to look at the operational risk of the company and the financial risk, it is pretty good to separate those two; where financial risk is e.g. the level of leverage and operational risk is more like the stability of the business model." – Interviewee R

Financial risks are at a high level described by the interviewees using various multiples and KPIs, based on forecasted financial statements up until loan maturity. One set of multiples pertains to illustrate debt levels, such as Leverage to EBITDA, as a measurement of the borrower's ability to service debt in relation to a proxy for cash flow, and Loan-to-Value (LTV), as an indicator of the financing structure's balance between equity and debt. Another set of KPIs relates to assessing the borrower's ability to pay interest, such as Interest Coverage Ratio (ICR), or the interest and amortization on their loan, using Debt Service Coverage Ratio (DSCR). While financial risks constitute an important consideration for the funds, it is generally described as less of a determining factor for eventually making the investment or not, i.e. less binary, and more of a consideration for the size of the loan that they are willing to offer. Although, the level of financial risk the fund may be willing to accept is often affected by the underlying types and levels of operational risks:

> "The financial risk you determine yourself, depending on the level of leverage you are willing to provide to the company. If you have high operational risks, you may want to have lower financial risks and vice versa." – Interviewee R

The same interviewee further develops this line of reasoning to clarify that for PD funds, oftentimes, operational risks are ones they consistently want to avoid while financial risks are ones they are willing to take, and can even be a deciding factor where they can compete for deals between funds:

> "I think we have good credit quality, and by that I mean very low operational risk, on the investments in our portfolio. But in saying that, I'm sure we probably have higher financial risks too, because otherwise we wouldn't win any deals, we would have nobody to lend money to. There must be a reason for someone to borrow from my fund. If I say that I don't take operational risks and only offer low leverage multiples and at a high price point, then I wouldn't be doing any business." – Interviewee R

Operational risks are, by our interviewees, not intended according to the strict frameworks for financial institutions such as Basel III, but instead as any factors apart from financial risk which affect the stability and resilience of the company's operational business model. Although there is no consensus on risk classification throughout our interviews, all interviewees, implicitly or explicitly, mentioned various sub-categorizations of operational risk as key considerations of their objectification, and thus their investment decisions. Such sub-categories include e.g. market risk, risk of competition and substitution. The assessment of these risks is based on information received either directly from the target company or the SS counterparts as well as through analysis of the financial statements of the company. For instance, PD analysts may determine the pricing power of the company through their margins, the customer concentration from revenue figures or demand trends from growth numbers or annual recurring revenue (ARR). In essence, assessing these risks boils down to the endeavor to objectify the predictability and stability of the borrowing company's cash generation ability.

> "A good investment is one […] where you can forecast that the cash flows in the future are close to guaranteed." – Interviewee M

Objectification is significantly aided by the vast DD material, which the PD analysts either receive or produce, described by our interviewees as multiple, extensive reports covering topics such as financial, legal and commercial information. The DD material is either provided directly by the PE partner, if the fund is working on a sponsored deal, or produced in-house by the PD analysts in non-sponsored deals. The DD material is instrumental for the objectification process, as it provides analysts with detailed yet condensed reports containing the most important information about the company and industry. This helps them grasp and categorize risks in the early stages of their investment process. Our interviewees highlight that receiving this material from their PE counterparts simplifies their own analysis process, and is therefore preferred, as they don't need to compile the material themselves. While they clarify that the DD is complemented by their own analyses and overlay, having this information supplied does allow for a short-cut in

the analysis process. The role of DD material will be further elaborated on in section 4.3, regarding distributed calculative agencies.

To summarize, objectification is an instrumental stage of the calculative process of PD funds' investment decisions, It is primarily constituted by the sourcing of deals, internally within the firm and externally within the network, as well as in the initial analyses and DD process conducted on the potential investment, to understand the credit risk in general and the financial and operational risks in particular.

4.2.2.Singularization

Singularization refers to the process through which a product or service is shaped into an economic good that can be meaningfully valued by a particular buyer (Callon & Muniesa, 2005). Through singularization, the mutual adjustment of the thing's qualities and the buyer's preferences, a generic item becomes a distinctive and comparable good, which makes it possible for market actors to evaluate and choose between alternatives. Objectification and singularization are simultaneous processes.

In our empirical dataset, singularization occurs in the continued analysis of potential loans and the subsequent processing of the case in the Investment Committee (IC) or Credit Committee (CC). Through singularization, PD funds continue to analyze the defined properties, identified via objectification, both quantitatively and qualitatively combining numbers with judgment. The goal of this process is to extract a result in the form of a loan offer, which appeals to both the buyer and the seller. The PD fund investor must understand the associated risk of lending out money and be willing to accept a certain level of risk at the given price point, under the negotiated conditions. Simultaneously, the borrower must assess whether they find the terms attractive, whether they are granted sufficient credit to a reasonable interest cost.

Firstly, the continued analysis of the defined properties identified via objectification is an essential part of singularization. As previously mentioned, this is mainly focused on risks, as the downside scenarios are given much attention in PD investment decisions. Our empirical sample emphasizes that risks are assessed individually, exemplified by one manager stating:

> "[In our analysis phase] we identify maybe 4-7 key risks that we dive deeper into. Normally we make 3-5 slides about each risk [in our investment material]." – Interviewee N

However, our empirical sample also highlights that which risks, and what levels of risk, that are worth considering and eventually acceptable in an investment decision is highly individual between PD professionals:

> "How do you assess if a company is good [in terms of riskiness]? It is up to everyone to find their style." – Interviewee O

The general perception seems to be that all investment decisions are preceded by rigorous risk analyses, both quantitative and qualitative, and that the potential success or failure of the outcomes is rather a matter of either lacking judgment by individuals or of the unforeseen events which are difficult – if not impossible – to forecast:

> "Even within our investment committee, sure people will have different opinions about how big is this risk. What is the probability of this risk? […] For every case that doesn't go as planned someone put in the work [to analyze the company] and thought that the risk was worth taking or that it was not likely to happen. And then things happen." – Interviewee Q

To ensure that individual professional's potential errors in judgment of risk don't affect the success of the company in general, PD funds set a clear direction and alignment of shared investment beliefs, for the IC or CC to adhere to, as exemplified by one firm:

> "It's predominantly a *[Company T]* view. We're trying to limit people having their own particular views and then having a portfolio of assets which have vastly different risks. So even if one particular deal team member views a retail business, for example, and really likes it, we wouldn't do it because it just doesn't fit our house view." – Interviewee T

Several interviewees highlight the heterogeneity of opinions within their fund and thus the importance of fundamental analysis to determine the quality of a potential investment, to extract its value. This analysis entails both adjustments of adapting the loan to the lender's and the borrower's world. From the PD fund's perspective, the essence of this analysis is to further understand the risks from various angles; the likelihood that they materialize, the recovery plan to escalate if they do, having the structure in place and mandates to support the necessary action and lastly ensuring that they get paid for the risk that they take. This line of reasoning resonates as a consensus across the interviews, and is clearly supported by the following quote:

> "There are four key parts. Number one is to conduct a solid cash flow forecast, based on good historical data, like any investor. We model different scenarios and probabilities, and build our analyses from macro trends, drivers and margins. [Based on these forecasts] – are they able to pay their interest and at what rates? And then number two is to see how we could potentially realize or accelerate the credit if they fail to pay interest or amortize on their loan. In extension, as a next step, [...] we look at what the company could be worth. If we have to take over the company, what could it be worth in three or four years? What multiple could we sell it at? [...] Number three is the documentation and security package. Number four is the pricing." – Interviewee P

Other considerations include, but are not limited to, determining covenant trajectories, warrants, ratchets and estimating various forms of payment options, such as Payment-in-

Kind (PIK), as different ways to tailor the debt. The purpose of covenant trajectories is to agree on a set of boundary conditions which, if the borrower fails to comply with, gives the lender the right to remedies as specified in the loan agreement, such as demanding immediate repayment (accelerate credit), increasing interest rates or taking control of pledged equity. Ratchets can also be negotiated in the loan terms and can e.g. allow the borrower to increase (decrease) interest margin if performance worsens (improves), based on predetermined thresholds. PIK allows for interest to be capitalized and added to the principal amount rather than forcing the borrower to pay it in cash. This can serve to improve short-term liquidity for the borrower. These considerations are part of the singularization process for PD funds, to make the loan a calculable good, adapted to the worlds of both borrower and lender. Such terms can be beneficial solutions for both parties. For the lender, terms like these can be applied to address and mitigate specific risks. For example, if a PD analyst fears that the borrower's customer concentration is too high, a term can be negotiated stating that in the event of a large customer cancelling a contract, the loan may be renegotiated or (partly) repaid. For the borrower, the terms can allow them the possibility of reduced interest rate or access to additional capital if they perform according to plan.

> ”We often add ratchets to the loan terms. These can state that, based on various milestones or the [borrower's] performance, they get a lower price over time. This is an important term for negotiation. For us it comes down to control and getting paid for the risk that we take.” – Interviewee K

Ultimately, PD funds will, in the process of singularization, want to ensure that they structure their returns in an attractive way while also making it appeal to the potential borrower, to secure the deal.

> “We are flexible [in terms of structure] as we can work with a floating rate or fixed rate. We can have cash pay on both floating rates and without floating rates. We can have Pay-In-Kind interest, and we can have warrants. All these things enable us to find a way to reach our target return, there is flexibility in how to structure the return” – Interviewee C

The interviewees reflect a singularization process underpinned by a solid quantitative foundation, but which ultimately requires a final layer of qualitative judgment, of experience-based assessment and a more holistic view of the investment case as a whole:

> **Interviewee**:” We look at it [the potential investment] on a case-by-case basis. [...] We discuss internally what we think is reasonable. You compare it to other business you have done, to analyze what is similar or not.”
>
> **Interviewer**:” So, if I interpret you correctly, you don't price the investments based on e.g. risk buckets with threshold values, but rather as combined, holistic assessment?”
>
> **Interviewee**:” Yes absolutely, exactly like that.” – Interviewee B

Reiterating this narrative, another interviewee further emphasized the role of experience among investment professionals as a way of prioritizing among potential risks, boiling down to two questions: 1) What is the probability that a certain risk materializes? 2) What is the magnitude if that risk materializes? However, the outcome that they may wish to see, from these fundamental analyses, diverges from equity investment activities. Provided that their biggest concern is if the borrowing company will be able to pay their interest and principal back, the criteria for what is a good investment are less rigid.

> "The difference between here, if you compare it [private debt fund] with a private equity fund, they want the profits to go up. We don't need that, for us it is sufficient if a company is good enough, and it can be good if it is stable and flat [in terms of revenue development]". – Interviewee O

Provided that private debt funds generally have a fixed upside, a "good enough" investment can even be the best type of investment. This highlights another risk which private debt funds consider in their singularization process – refinancing risk. As the lender, PD analysts want their borrowers to perform well enough to pay their interest. However, if they perform too well, they may be incentivized to refinance the loan with cheaper alternatives. While getting the loan repaid sounds like a desirable outcome, it also indicates that the PD fund has their money deployed for a shorter time, in turn reducing their money multiple of invested capital.

> "The best investments for us can be in companies with mediocre performance. If they do too well, our loan will be refinanced immediately. […] We don't want to have our loan outstanding for too short of a time. If we put a lot of work into an investment, we don't just want it repaid right away. We want to hold it for a several years and get sufficient returns. So, it's a balance." – Interviewee B

Our interviewees suggest that refinancing risk can be managed in different ways. Some analysts indicate that this is considered in the evaluation of individual companies, while most argue that this is impossible to forecast and that it is instead managed through prepayment penalties, where the borrower is obliged to pay additional fees if they wish to refinance within an early time window. From a portfolio point of view, earlier refinancing of one loan can allow the fund to recycle the capital and give out a new loan, thus getting the associated arrangement fees twice during the fund's life cycle. Considering the refinancing risks and ways to handle these outcomes is part of the singularization process, for reaching an investment decision.

In summary, the calculative process for PD rarely leads up to the extraction of a result in the form of a single data point as an objective truth of the valuation. Contrarily, the outcome is a multifaceted bottom-line of all the above-mentioned aspects, which holistically constitute the value of the loan for the fund. Much of the prevailing analyst literature discusses the role of sell-side analysts' recommendations in terms of sell, hold

or buy indications (see e.g. Brown et al., 2016; Imam & Spence, 2019). In that context, the calculative process derives a single-bottom line in the form of an equity value, which is then compared with the market equity value to determine the recommendation. Conversely, the outcome of PD's calculative process is a more complex and dynamic reality, both because it incorporates all the different aspects previously mentioned, and because there are no public market values for them to be compared in relation to.

To simplify this complex reality, all defined and calculated properties, emerging from the objectification and singularization processes, are combined into a more binary decision – a go or no-go, a yes or a no, a good or a bad. However, the underlying rationale of the multifaceted reality of the investment, and the holistic assessment that supports it, remains the key ingredient for ultimately making the investment decision.

4.3.Distributed calculative agencies

Building of the view of ANT, the agents involved in the calculation are not limited to the investment team consisting of humans nor non-human actors alone such as inscriptions and models but distributed through hybrid collectives of humans and non-humans. Determining "who" performs the calculation can hence not be isolated to a certain agent but is rather an iteration of cognition and action forming the final output. Throughout this section, empirical results regarding the second component of markets as calculative collective devices will be discussed in the context of private debt. The empirical analysis in this section will be structured as follows: first, agencies involved in the deal sourcing process are discussed, secondly, the internal build-up of knowledge is analyzed and lastly, agencies that convert accumulated knowledge into action, formulating the investment decision of go-/ no-go, are discussed.

4.3.1.Calculative agencies

Before an investment opportunity appears on the radar of a private debt analyst, there are inscriptions and knowledge in place among private equity firms and advisors, about the investment interests and requirements of specific funds, which determine who they approach with their pitch for a debt request. Once a request reaches the fund, it is typically the senior private debt investor who receives the request for a loan and is often also the one who takes the initial decision whether the deal is worth spending time considering and researching. This is typically based on parameters constituting boundary criteria, as discussed in the section on objectification above. Nevertheless, the senior professional exerts agency in using their personal experience together with perceived fit with the investment strategy to decide whether the investment opportunity is to be pursued or not. If the investment opportunity passes through the initial screening made by senior private debt buy-side analysts, a team of investment analysts is assigned to the case. Since most private debt funds focus on private equity-sponsored deals, the DD material is made

available for the private debt analysts to interpret and form a view of themselves. The DD material conveys stories about the market and investment opportunity's legal, financial and often operational and sustainability situation, and hence serves as a platform for information, guiding the private debt investors in their analysis going forward.

> ”We basically do the same thing [analysis] as private equity, but it is faster. Why is it faster? It is because we receive a lot of the information from the private equity firm. They have made their analysis by themselves, we piggyback on theirs. – Interviewee S

These inscriptions form the analysis of the investment opportunity by suggesting which risks and opportunities the private debt analyst should take notice of. However, since the inscriptions are initially made by and for private equity firms, private debt analysts must navigate what holds true to their view of what constitutes elements of risk. Imam and Spence (2016) indicate that equity sell-side analysts tend to be overly optimistic in their recommendations, and the same characteristic is indicated to exist in the PD context, as illustrated by one interviewee.

> ”All the reports [that we receive from the PE firm] basically state that every company is fantastic. So, what do we read between the lines?” – Interviewee Q

To critically review the conclusions drawn in the inscriptions circulated by the private equity fund, the private debt analyst revisits the findings and creates an overlay of information that he or she can approve of, forming the initial version of an investment report. The overlay of information that the private debt analyst works on producing is not limited to confirmation of inscriptions provided by the sell-side analysts. Databases tracking the development of both liquid debt, e.g. publicly traded bonds, and EV multiples of comparables exert agency through suggesting which entities an investment opportunity should be compared to and evaluated against. Debt comparables provide guidance on the market sentiment and pricing levels by illustrating how comparable debt is priced on the liquid market. The explicit agency of debt comparables lies in its ability to frame a certain price range that is deemed competitive.

> “We also track the bond market quite tightly. So, every single bond that's made, we track the pricing on that. If there's a bond in Sweden, where it was at 650, five-year tenure, same-ish business and outlook, and […] the books on that bond is filled quite quickly, then we know we can be quite similar on pricing to that because that's what the company is happy with, their investors are happy with that, and then that's sort of the market pricing. So, it's a combination of market data, and of course industry experience.” – Interviewee M

EV multiples of how similar companies develop over a business cycle, can provide guidance on recovery value during tough times. The agency imposed on the investment decision is twofold, firstly by suggesting that the investment opportunity may be valued similarly to the comparables group, secondly, by (de)stressing the importance of having a more detailed recovery plan.

> "The recovery [analysis] is then, what is the value of the company, how is the value over a business cycle? And the value over the cycle, the low point is here […] then we have to take over the company and run it ourselves to a point where we can sell it" – Interviewee Q

Despite that the investment team is not formally responsible for making investment decisions themselves, they are an agent exerting influence in determining how to portray analyses and findings to the IC. The investment team has an impact in two ways, one direct and one more indirect. The indirect agency is exercised through the creation of the investment report, aimed at disseminating knowledge about the investment opportunity, and as such directing attention towards or away from certain risks.

> "The [investment] team has already in the [initial] send-out, drafted before the initial IC meeting, […] that they will look more deeply on in the next step" – Interviewee N

The direct agency is exercised through performing the analysis and identifying input assumptions for the financial model to work with.

> We always build some form of financial model based on the information we have. […] Sometimes there is a very structured and well-prepared financial model to begin with, where you can almost just go in an apply your own assumptions or reorganize it a bit and do a layover. […] We always create our own scenario with our assumptions of how things are expected to develop." - Interviewee L

All PD analysts use financial models, e.g. leveraged buyout models (LBOs) or cash flow models, to make financial forecasts of the investments and credit KPIs up to maturity. Although all firms use financial models to forecast different scenarios, the degree of model standardization varies. Some interviewees explained that their firm employs a standardized model that is populated with case specific input, while others state that they use different models, either developed from scratch or provided by the SS, varying from case to case. In both instances, the financial models function as agents that direct attention towards certain risks and away from others. Standardized models explicitly enact agency by suggesting which inputs are required, thereby shaping which risks and analyses are considered relevant. In contrast, when models alternate between cases, whether created internally or supplied by sell-side analysts, the model exerts agency by foregrounding the risks and assumptions favored by the buy-side analyst constructing it or the sell-side providing it. Nevertheless, financial models enacts agency in evaluation impacting which risks (and which levels) that are considered and in turn which risk profile is deemed appropriate for the specific case, indirectly influencing both leverage ratio and interest rate margin.

> "So, whereas the sponsor might send us a model with 10% [revenue drop] downside scenario, we'll stress test it so it falls by 25% and [simultaneously assume that] the sponsor

> doesn't inject any equity […] So we'll always take it to the next level to see how the company might perform in our models." Interviewee T

It is also up to the investment team to develop the deal structure including interest levels and indicative term sheet components. Even though it is the IC who takes the formal investment decision, details and specific solutions are developed by the investment team suggesting a solution to the IC.

All of these components are aggregated in an extensive investment report, however, internal investment reports are not as static as the final product might proclaim. Instead, the creation of the final investment report is an iterative process, where the investment team reconfigures the investment report through several iterations with the IC, that acts as a sounding board, guiding on which questions that should be addressed by the investment team going forward.

> "A big discussion point [on an initial IC meeting] is what the [investment] team should focus on in the next step, in other words DD items." – Interviewee N

Although it is the IC that imposes agency through posing questions to be investigated further, it is the investment report through circulation between the teams that presents white spaces in need of further analysis, to foster critical reflection amongst IC members. Our interviewees emphasize the importance of experience as a key characteristic to be able to ask the right questions and engage in critical evaluation.

> "Every opinion I have is always based on facts, but there is an emotional part to it as well. […] Very much of what we do is based on experience. And what is experience? It is that you have observed something several times before"- Interviewee Q

It is furthermore highlighted that data-driven analyses influence decision making but are not always accurate, making it sometimes necessary to look behind the data. Hence, historical data might suggest that a risk is (present) absent even though there is a risk that has simply not materialized historically.

> "We had 100 years of data saying that people will never stop going to the theaters [etc. …], even during the Blitz-war in London […], when the Germans threw bombs over London, people still went to the theatre. What would change that? It took a Chinese virus two days and showed us we were in the wrong." – Interviewee Q

To conclude, several agents impact which investment opportunities are deemed attractive or not – whether by selectively presenting investment opportunities, assessing which ones to pursue and analyze, suggesting which analyses should be conducted, influencing how those analyses are performed or narrating the summarized investment rationale for or against an investment.

4.3.2.Asymmetries

Asymmetries explain the concept that different agents have different degrees of calculative power. The uneven distribution of calculative power can be present between agents both within the fund but also in terms of market formation between competitors and customers. In this section, asymmetries will be discussed from the perspective of market formation, between borrower and lender, as well as how calculative powers differentiate between private debt firms. Power of calculation is inherently derived from the ability to list evaluative criteria, such as factors and elements of analysis constituting the calculative frame, to identify similarities and connections between listed characteristics, and the ability to convert that into a decision.

Some interviewees emphasize the importance of having large amounts of accumulated experience in the IC as a differentiating capability. Experience enables comparison of similarities and differences to other past cases, which in turn facilitates the process of identifying and assessing essential risks for the investment case. This is highlighted as a competitive advantage compared to other private debt funds:

> "Much of what we do is experience based. […] Someone in our IC may have a different view on something because they experienced something 30 years ago. […] Competitors who hasn't existed for 20 years have a completely different view on a risk that we identify [as severe]." – Interviewee Q

The ability to manage an investment going into distress and potentially default varies among private debt professionals, signaling an asymmetry of calculative power. This differing ability is not limited to effectively managing an investment facing default, but equally important for evaluating the potential risk of distress. Interviewees state that analyzing potential default scenarios are important components for the overall risk assessment and the formation of the term sheet. The term sheet and other legal documentation are highlighted by private debt buy-side analysts as key inscriptions that frame and govern the procedure and rights through which each stakeholder is positioned in situations of distress or default.

Furthermore, interviewees highlight the importance of encouraging buy-side analysts to adopt the mindset of an equity investor across scenarios, especially default scenarios. To feel comfortable with a credit investment, feeling comfortable with the holistic view of the investment, including what to do in case of failure, is described as essential. This, our interviewees say, includes having extensive industry knowledge and a defined recovery plan, with predetermined levers that can be utilized to improve cash-flow and other credit metrics, that can be set in motion in case of failure.

> **Interviewer:** What was most important for you to feel confident in your investment?

> **Interviewee:** That I could take over as an owner. […] I knew that I could remove a lot of overhead costs and sell it to their competitors who I knew were interested in entering the market. […] I only took the profitable business units as collateral so I wouldn't risk taking over operations that required additional capital" – Interviewee P

Although, having a plan on how to turn around an investment facing interest payment default is described as important, it is described as equally important for the private debt firm to have gone through a debt-for-equity-swap, a situation where the private debt firm takes over pledged equity, in the past. It is also perceived to be a strength in future negotiations if the private debt fund, although it is not their preferred alternative, has historically acted by enforcing equity control when needed.

> "If you have never done it [taking over a company's equity at default], then the threat may not feel very real. But if you have done it – gone all the way and actually taken over a company yourself, being prepared to roll up your sleeves and run it – then that's a good thing, because you know what it is all about". – Interviewee S

Asymmetries of calculative powers also depend on the relationships forming calculated encounters, which we will elaborate further on in the final section of the empirical analysis. Depending on whether the private debt fund receives a loosely formulated request for debt from a trusted sell-side sponsor opening for dialogue to a select few or if it is a specified request distributed among several private debt funds, the distribution of calculative power will differ. If it is a debt request only distributed to a select few advisors, the calculative power is shifted to the private debt fund, who balances the risk and reward for a specific investment opportunity with the long-term relationship with the sell-side sponsor. In the event of a specified request to many private debt funds, the calculative power is shifted towards the borrower and the sell-side sponsor. For unsponsored investment opportunities, the private debt funds typically hold calculative power over the borrower since there are fewer alternatives available or "at display" for the unsponsored company to choose from.

> "If I were a sponsor looking to finance something, I would start by approaching maybe three managers [private debt funds]. […] with whom I have a good relationship, and I would test the waters with them […]. If those three are not interested, then I would send out my term sheet to 30 other [private debt funds] and say "here are my terms - who wants this?". At that point there is no real negotiation anymore. […] because the lender has lost their bargaining power in that dialogue" – Interview J

Asymmetries arise because different actors operate within socio-material arrangements that provide different capacities. These differentiating capacities may derive from industry knowledge – such as personal experience, inscriptions and structures – but also from being prepared to assume ownership, supported by a robust term-sheet and legal documentation. Although interviewees emphasize the importance of having the ability to

turn a company around following a default, this is not the preferred route for most private debt funds, which rather focus on the core business of lending.

4.4.Calculated encounters

The third component of markets as calculative collective devices relates to the calculated encounters, the "how" of the transaction. This stage describes how calculative agencies and calculable goods meet, that is how markets are organized to enable economic exchanges to take place and how prices are formed. Callon and Muniesa (2005) abandon the traditional macro perspective of markets, as aggregates of supply and demand, and instead take the perspective of the market's microstructure originating from each single transaction. Consequently, the algorithmic configurations of markets can be rendered explicit and thereby also an understanding of the aggregated market. The perspective of calculated encounters proves interesting in understanding how the PD professional is embedded within the distributed agency, and thus for understanding the analyst in a broader context.

4.4.1.Calculating and calculated algorithmic configurations

Algorithmic configurations are the web of interactions and settings through which the distributed agents, described in the previous section of the empirical analysis, meet and conduct the economic transaction. Encompassing the involved agents, both human and non-human, the algorithmic configuration is the sociotechnical arrangements of which the market is constituted. Algorithmic configurations outline how their encounter is organized and eventually how the aggregated market price is established. How these encounters take shape and which actors are involved in its design and negotiation affects the outcome of the market as a calculative device.

A key component of this theory by Callon and Muniesa is that the algorithmic configurations in the microstructure can eventually be aggregated into abstract markets to form the macro perspective. However, they do point out that the aggregate market cannot be deduced from the configuration of microstructures without "statistical analysis, simulation and experimentation" (Callon & Muniesa, 2005, p. 1244). However, we believe that by studying the microstructures of the encounters that occur in PD – the characteristics of transactions as qualitatively described by individual professionals, from specific settings, we can shed light on how the architecture of the market contributes to the calculative device. The aim is to contribute with an indication of how the market functions, and thus the setting in which the PD analysts operate.

A preconception we held about PD, before commencing this study, was that the level of risk would be directly compensated for by price in the investment transaction. While this is true in a sense – balancing risk and return is, as previously discussed, essential for any

type of investment – price is a critical component for assessing a case holistically, but not the product of the calculative device itself. They affect the investment decisions, of go or no-go, but are weighed together with numerous other factors and not the outcome of the actual investment analysis.

So how, then, are the market prices formed? Our empirical findings suggest that an accepted price range is almost a part of a PD firms' strategy by signalling to institutional investors what returns they can expect coupled with the level of risk the fund takes, e.g. communicating a relatively low price range tells the market that this is a fund that doesn't engage in risky investment activities. As such, it seems like the accepted interest range acts as more of a boundary condition for the investment strategy, in determining which targets they are willing to partner with at the given price level. This can be exemplified by one manager, stating the following:

> **Interviewee**: "You cannot look at the credit market in the same way as the equity market. In equity, you always want to maximize the returns. But in credit, you want to achieve the target return you set from the start. There is no such thing as a free lunch, right? If you can charge a higher interest rate, they [the loan-taker] will want something in return. A higher yield will be in direct correlation with having taken greater risks or allowed a higher leverage ratio. Therefore, our goal is always to reach our target returns, but never to exceed it. That is a difference between the credit and equity market."
>
> **Interviewer**: "So, the risks you see in the investment are not factored into the price?"
>
> **Interviewee**: "No. Our strategy is simply to not takes risks. We only aim for the low-risk segment, and the price range is pretty slim there. We take similar risks in all our investments, to similar price levels. That is how we avoid losses."
>
> **Interviewer**: "So they [PE firms you work with] know what levels to expect from you? "
>
> **Interviewee**: "Yes, we often say no to the sponsor and ask them to turn elsewhere. I did it just before entering this meeting. Sometimes we are just not the right partner." – Interviewee E

Price instead becomes factor on which PD firms can compete against each other to win deals. Over time, as allocations to private debt as an asset class have increased significantly, the market dynamics have shifted and competition has increased.

> "There used to be lower competition for these deals. There was a lot of capital chasing these returns. Today, there is already so much capital in the market and the competition between funds has increased a lot." – Interviewee Q

The higher degree of competition, and thereby also professionalism of this financing solution, has resulted in a stabilized market standard, or "status quo", of what price levels the PD firms expect their competition to offer on a certain deal and consequently also

what the counterpart will expect – be that a PE firm or a debt broker acting on behalf of a family-owned business. Even though there is no publicly available information on the exact levels these private deals are traded, there is an implicit market transparency and inherent knowledge of where these lie. As a result, if a PD firm wants to ensure that they secure a deal and they have a perception of how competitors will price it, they can attempt to go lower to ensure that they place the most competitive offer:

> "In the end, the market price will be the lowest someone […] is willing to offer for the loan. I talk to my contacts at the PE firms and they give me an indication of the offers they are receiving, they say: 'everyone is giving us a 5% margin'. Then maybe I will try to go 4,75%. If I want the deal, I can lower my margin" – Interviewee Q

This competitive landscape contributes to what the authors refer to as the "convergence of traders towards predicted prices" (Callon & Muniesa, 2005, p.1241), in this case not the result of an experimental double auction in its true form, but rather the pressure of competition over time. This view on price by the PD industry establishes a set of conventions for the network of actors to consider in their encounters, and frames the expression of supply and demand, which moving from a micro to a macro perspective contribute to the formation of the market at a greater scale.

Another important part of the algorithmic configuration of the market is how PD firms compete against each other based on the leverage ratio they are willing to accept. This is evident from an industry report (Deloitte, 2025), showing that the development of the market points towards lower interest margins but higher leverage ratios on average. While this may not resonate with how the individual PD firms view their own performance or strategy, this paints the picture of an industry which, as a whole, is taking greater risks.

> "We try to handle risks by lowering the leverage ratio rather than increasing the interest margin, it is a trade-off. " – Interviewee R

Another determining component for the economic transactions in PD is the element of loyalty, which is established between the PD funds and PE players backing the sponsored deals. This was discussed in different terms by many of our interviewees, but in combination paints an interesting picture of how the role of relationships for the algorithmic configurations in the market. One interviewee clearly highlights that established relationships and trust can directly contribute to better terms or even interest rates:

> "Our IC has a lot of respect for certain sponsors. To them, we might give more leverage or better terms because we trust them. Then there's others […] that we don't trust where we might charge more and give less leverage, but we still lend to them, just with a different structure. Then there's some that have behaved badly enough that we will never work with them again." – Interviewee N

Similarly, another interviewee states that this presents itself similarly when comparing a deal with an established sponsor compared to a new sponsor, where the trust has not been built up yet. This clearly points to the role of relationship lending in determining the price:

> "We might have, for example, […] five sponsors that we do a lot of deals with and they know our pricing. We potentially might charge those sponsors a little bit less than a new sponsor, even if they come to us with the same deal. That's partly because we know how that sponsor operates, we've got a good relationship with them. Whereas with a new sponsor, you're taking a bit of risk." – Interviewee T

So, what is this loyalty and trust based on? Some argue that the sponsor, being a professional owner, has the capabilities and expertise to produce more structured and sophisticated material, such as DD reports, as previously discussed, which supports the PD firms in their analysis. Our interviewees emphasize that this builds a more transparent information environment, which instills a feeling of security for them in the transaction. Conversely, some interviewees argue that this social inertia on the PD market creates more favourable conditions for lending to non-sponsored deals. On the one hand, they share the view that the lack of structure and transparent information may signal an increased risk. On the other hand, this increased risk is also something they can charge their counterpart for.

> "In family-owned businesses [which we focus on] […], we have had to create the reporting structure for them. I would say this creates a higher risk for us. But this is also why we are more expensive than many other financing solutions. And we lend to the type of companies that may not access capital quite as easily, so they just have to pay more for it." – Interviewee K

Lastly, some interviewees also point to the belief that a PE sponsor may be more likely to inject additional capital in case of distress. However, some argue that this may be a false safety, which is not necessarily anchored in reality.

> "There has been this discussion around why you get paid so well to do non-sponsored deals? You charge a risk premium on the interest but also provide lower leverage in these transactions. [...] This goes against all logic. I think many GPs resonate that if you lend money to a sponsored deal, if something goes south you have a PE company with deep pockets backing the transaction. I think this is completely wrong. In a situation like that, the PE firm has no incentives to keep the creditors happy, they need to keep their own investors happy and see how they can negotiate their debt to protect their money. On the non-sponsored side, you often lend to family-owned businesses. They might have their entire inheritance in that business, so they are desperate for it not to fail. I think there is a general over estimation around the extent to which PE firms are willing to back failing transactions." – Interviewee J

Interviewees also indicate that which partners they prefer doing business with is something that the PD funds build up in their corporate memory. They suggest that

whether or not a sponsor is supportive or not in times of distress will directly influence if this is a partner they would do business with, in the future:

> "We don't want to be working with a sponsor where, if times get tough, they don't inject any more equity and effectively just want to wash their hands off the business. It's quite a collaborative approach between private debt and private equity. We see it as a teamwork […]. We want to find a sponsor that we can work with who will also work in a difficult scenario." – Interviewee T

Similarly, the interviewees also highlight that sponsors who continuously seek to refinance their loans early during the loan term runs the risk of burning bridges.

> "If you're doing a deal with a sponsor and they're looking to refinance that deal within 12 to 18 months, if that keeps happening, then people would just stop working with that sponsor because they know it's not a long-term relationship. So again, it's about trust between the private credit firms and the sponsor, to be honest " – Interviewee T

The role of loyalty and trust, or lack thereof, is an essential element in the price formation on the PD market. This may be the result of implicit risk premiums being charged to less established counterparts, or it may be a fair discount given to partners with proven track records of support both before an investment is finalized and especially in times of distress. In any case, the role of relationships contributes significantly to the character of the calculated encounters and the formation of price.

An inscription playing a role in the economic transaction is the term sheet. It is on the basis of the term sheet, and its indicative terms of leverage multiples, covenants and interest rate levels, that negotiations are often held.

> "We send over our suggested term sheets and ask the loan-taker if they can accept these indicative terms. Often, they don't accept it right away, so there is usually a bit of negotiation there. [Once the term sheet is accepted] That's when it starts costing them money. So that's good for us, because it shows that the loan-taker is committed to the whole thing." – Interviewee S

Reiterating some of the points made within the section on singularization in this thesis, the logic around a more multifaceted bottom-line permeates the term sheet negotiations and eventually the concluding of the transaction. In comparing their loan-giving operations to that of banks, PD analysts generally put more emphasis on the customization and tailoring of a loan, depending on the conditions in that specific encounter, to adapt it to their own as well as the loan-takers world:

> "You could, a little bit critically, say that the banks […] will be looking for reasons not to do the deal. The bank will try to fit it through a certain grid and then there's a standard price coming out of it. On our end, […] you try to find a solution. You want to price risk in a differentiated way. Can you do that mathematically or scientifically? Maybe not. But […]

> our customers appreciate that we can always find a solution. They can come with a credit that might not tick all the boxes, but we can structure it so [that] it works." – Interviewee A

To conclude, the calculated encounters in the PD market are signified by bilateral transactions in which the two counterparts, lender and borrower, negotiate the terms of the customized transaction privately. Because the trades are private, there is less information transparency. While no deal will be directly comparable to another, it is evident that increased competition has led to a convergence towards similar prices, where players have clear expectations of what to expect from each other and what a reasonable market price is for a certain target. Instead, PD firms have diverted to competing on other factors, such as leverage. Lastly, although price ranges are often fairly predetermined by many players, variations within the accepted interval is evidently guided by loyalty and relationships to a great extent, especially in determining the price between sponsored and non-sponsored deals.

5. Discussion

The focus of our research was to understand how investment decisions are made by private debt professionals and how these transactions shape the market. In favor of breadth, we decided to adopt a cross-sectional, qualitative study to capture different perspectives across the industry, although specifically delimited towards the Northern European market. By applying an analysis framework with sociological roots, we set out to highlight the wider context within which these analysts operate, to understand what shapes and upholds their role. Our empirical findings suggest that investment decisions in PD, in alignment with much prior analyst research and the roots of ANT, discards the suspension between the social and the material and acknowledge that they are derived from a combination of quantitative calculations coupled with social constructs, judgment and qualitative assessments. We have found that the calculations – or qualculations – are distributed across the diverse agencies present in this economic market.

We argue that our thesis overarchingly brings an empirical contribution to the field of analyst literature, by extending the perspectives to a new, emerging subsection of the field. Where equity sell-side analysts have been the focus of academic research, debt analysts and especially private debt have received little to no attention. Moreover, we have answered the call of Ramnath et al. (2008) by unpacking the black box of buy-side analysts' decision-making, in a private debt setting. Studying analysts in this empirically new setting further allows us to identify two main theoretical contributions of our study. These will be presented in the following two sections, 5.1. and 5.2.

5.1.The effect of relationships and network on investment decisions

Prior literature emphasizes the relational role between sell-side and buy-side analysts as critical for understanding their respective professions. For example, sell-side analysts contribute with sector expertise, investment rationales, curated information and business opportunities (Barker, 1998; Brown et al., 2016; Imam & Spence, 2016; Millo et al., 2023; Spence et al., 2019). Moreover, in the context of buy-side analysts, accounting information is interlaced with social processes of forming, negotiating and communicating relationships, especially amid uncertainty (Pflueger & Mouritsen, 2025).

We contribute to this line of research by *demonstrating that long-term relationships between buy-side and sell-side analysts impact investment decisions through both business generation and risk mitigation.* We extend and nuance existing literature by arguing that sell-side analysts not only contribute to deal generation but also operate as an outsourced extension of the private debt fund, accounting for most, if not all, of the deal flow. We further argue that curated information and inscriptions provided by sell-side analysts are preferred over relying solely on private dialogues with management, as

these inscriptions form the foundation of subsequent analysis. Finally, we contend that social inertia extends beyond business generation to directly shaping the deal terms, because of trust in future action by the sponsor, in case of distress, which in turn reduces the perceived default risk.

In our endeavor to not only uncover the internal processes for making investment decisions but also understanding the wider context within which the PD professionals operate, we have highlighted the importance of relationships and networks to guide the process. We argue that a key activity, within the private debt buy-side profession, is represented by their interactions with stakeholders within their network. This has been highlighted from two important perspectives. The first perspective relates to how an adequate deal flow is ensured and how investment opportunities are analyzed while progressing in the investment process, while the other relates to how relationships shape the market and final deal terms.

The first relational perspective, ensuring a deal flow and supporting the analysis during the process, is characterized by the interaction between private debt buy-side analysts and intermediary functions, most often the sell-side analyst, enacted either by the private equity sponsor or advisors. The empirical analysis illustrates how private debt buy-side analysts emphasize the importance of having solid relationships with their respective extended network of advisors and private equity firms throughout the investment process. The interviews state that the intermediary functions are not limited to providing information and expertise to an ongoing company analysis but also emphasize the purpose of sell-side analysts for securing an adequate and solid deal flow of incoming debt requests. This extends the findings of Millo et al. (2023) concluding that sell-side analysts are critical in generating businesses to buy-side analysts. In the context of private debt, deal sourcing is ascribed entirely to the function of sell-side analysts to the extent that private debt analysts rarely, if at all, engage in direct deal sourcing themselves. Building on the exclusively distributed deal sourcing function, the relationship with sell-side analysts becomes an integral part of the analysis process through formal and informal guidance towards which investment opportunities fit the risk profile of the PD fund.

Apart from sell-side analysts being an integral component of the deal sourcing function, they also provide the private debt fund with significant industry and company expertise in the context of a sponsored investment opportunity. For sponsored deals, this information is primarily shared through extensive material and inscriptions like DD reports, accounting information and financial models which the private debt buy-side analysts verify and incorporate in their internal assessments. This finding confirms existing academic literature stating that sell-side analysts contribute with industry and company information that buy-side analysts develop further. Although, prior literature also states that information produced by analysts is secondary to the information received directly from the company (Barker, 1998). Our findings contradict this notion, as PD

analysts prefer curated and processed information received from their sell-side counterparts, creating the foundation which they build their subsequent analyses on, over information received directly from the company. However, an important note is that, in the context of PD, the roles are also somewhat different to that of listed equity. In sponsored deals, sell-side analysts are not neutral intermediaries but rather stakeholders with ownership interests, effectively acting as an extension of the company's management. Thus, our study contributes to analyst literature by challenging the plausibility of this conclusion, or its applicability in different analyst settings where the roles are constructed differently.

The second relational perspective relates to how analysts' relationships shape the market. In studying the calculated encounters, and the algorithmic configurations of the market, it became evident that investment decisions are influenced by components such as competition, negotiation, loyalty and trust. Hence, our findings contribute by broadening the concept of social inertia as portrayed by Millo et al. (2023). We argue that social inertia is not limited to business generation but also extended to deal execution through trust in future action. The private debt buy-side analysts hold confidence, although not expressed contractually, that trusted sell-side sponsors will inject additional equity into investments experiencing distress. By reducing the risk of distress through silent promises of future action, the private debt buy-side analysts repay the loyalty of sell-side analysts by offering lower interest rates, more leverage, or in general more favorable term sheets. Hence, mutual trust leads to more favorable loan terms, whereas past breaches of cooperation make private debt funds more reluctant to engage with a certain sponsor for future deals. The symbiotic dynamic present in the context of private debt, hence, reinforces and broadens the notion of social inertia in analyst literature.

In summary, we have elucidated how relationships and network impact several steps of the investment decision process; from securing sufficient deal flow, to subsequent analyses, price setting and market formation. Through this, we have highlighted how relationships guide investment decisions and shape the market, thereby contributing to analyst literature.

5.2.The foregrounding and framing of risks in investment decisions

Prior literature has analyzed the activities of analysts, focusing particularly on sell-side analysts, showing how both accounting information and qualitative assessments influence their holistic interpretation of companies, in a process of qualculation (Abhayawansa et al., 2015; Barker & Imam, 2008; Brown et al., 2015; Callon & Law, 2005; Coleman, 2015; Pflueger & Mouritsen, 2025; Svetlova, 2018). Furthermore, existing literature discusses how analysts create narratives and act as frame-markers to guide interpretation (Barker, 1998; Beunza & Garud, 2007; Callon, 1998; Graaf, 2023).

We contribute to this line of analyst literature by *highlighting how risks are foregrounded and framed in the investment decision process of private debt*. This study has shown that minimizing losses is an essential element in the PD investment strategy and that risks therefore play the key role in the analysis leading up to an investment decision. Building on our findings, we argue that PD analysts qualculate risks and, taking on the role of frame-makers, use this narrative to frame the risks for interpretation to guide investment decisions. We further extend the findings of Beunza and Garud (2007) and Graaf (2023) arguing that private debt analysts are not only frame-makers but rather performative frame-makers continuously reconfiguring the risk profile of an investment through alterations of the deal structure and term sheet.

Analyst literature has shown that SS equity analysts, similarly to what this study has illustrated for buy-side PD analysts, analyze a wide range of information, qualitative as well as quantitative, to inform their investment decisions. These sources of information collectively tell a multifaceted story of the underlying investment rationale. However, in a listed equity setting, this can be numerically aggregated into a target price which is, in turn, compared with the market price to form a recommendation. If the target price exceeds the market price with sufficient margins, a buy recommendation is issued and vice versa. However, in private debt, no such publicly traded price is available for comparison. Instead, their final investment decisions are dependent on what we argue to be a multifaceted bottom line, consisting of the qualculated components defined in the analysis process. Similarly to equity, the final decision will be binary – a go or a no-go – but what it is based on is not a comparison of target and market price but relying on a nuanced and holistic view of the entire case, where risks are the key component to be considered. The investment case is communicated as an assessment of both accounting information and financial modelling as well as judgment, experience and interpretation, thereby highlighting the underlying rationale of the investment. The lack of comparable benchmarks in terms of analyst consensus conceals the risks and underlines the importance for PD analysts to render them explicit in their investment process. Our findings suggest that this is where the subjective lens and articulation of the underlying, qualculated rationale is especially crucial. This confirms previous conclusions in analyst literature, emphasizing the importance of combining quantitative and qualitative assessments, but in an empirically new setting (Abhayawansa et al., 2015; Barker & Imam, 2008; Brown et al., 2015; Callon & Law, 2005; Coleman, 2015; Pflueger & Mouritsen, 2025; Svetlova, 2018).

We argue that this process of qualculating the risks and generating a multifaceted bottom line, to facilitate the investment decision, is a process of frame-making which the PD analysts perform. In essence, the process entails evaluating a wide range of complex information and translating it into an interpretive frame, for how the organization should understand the risks associated with the investment. Previous research on analysts as frame-makers suggests that this process is something of a decoding or deciphering device

which, depending on the lens applied may change the character of the output (Barker, 1998; Beunza & Garud, 2007; Graaf, 2023). Our findings confirm this stream of prior research, portraying analysts as frame-makers. However, we further extend this notion by ascribing this characteristic also to BS analysts, and used internally, where traditional analyst literature has primarily drawn this conclusion for SS analysts in how they publicly frame investments.

Moreover, we argue that frame-making not only acts as a decoding device, to interpret and motivate arguments and assumptions that convey the overarching investment hypothesis but also becomes an active performative device that reconfigures and adapts the value of the risks, through structuring of the entire investment case. In the context of PD, contrary to our preconceptions before commencing this study, the interest margin charged by the PD funds is not necessarily a direct product of the risks identified. Instead, the risks identified are not static, to be discovered and assessed, but rather dynamic, and something which the PD analysts actively work to mitigate. The third and performative step, mitigation, is, as our empirical findings have demonstrated, handled via tailored term sheets and contractual agreements, including covenant trajectories, ratchets, payment schemes and more. We argue that all these levers, in the structuring of a deal, are part of the performative frame-making that the PD buy-side analysts conduct. By tailoring and altering these levers, PD analysts can frame the risks associated with a specific investment case, not only to interpret them but to actively alter them. Hence, we argue that our findings contribute to nuancing the analyst literature by conceptualizing private debt buy-side analysts as performative frame-makers that actively reconfigure the risks they frame.

In summary, we have contributed to analyst literature by demonstrating that risks are foregrounded in the investment decisions of private debt. We have shown that this is conducted by analysts in a frame-making process for packaging and interpreting the risks, combining quantitative and qualitative assessments to form the underlying investment rationale. Moreover, we have nuanced this notion by showing that frame-making is not limited to the communication between SS and BS, but also internally within the BS (Barker, 1998; Beunza & Garud, 2007; Brown et al., 2016; Graaf, 2023). Lastly, we have nuanced existing literature by suggesting that frame-making is a performative process, through which analysts can both interpret, motivate and actively alter the risks via negotiations of term sheet and contract.

6. Conclusion

To summarize, the purpose of this thesis was to understand how investment decisions are made in private debt and how these transactions shape the market. We have answered our research question by conducting a qualitative, cross-sectional study and applying the theoretical framework by Callon and Muniesa (2005). Through this, we have empirically explained the process for taking the decision, the actors involved in it as well as the context of the market in which they take place. To the domain of analyst literature, our study has contributed with a new empirical perspective, which was hitherto unstudied. Moreover, our findings suggest two important theoretical contributions to the field of analyst literature. Firstly, we extend the existing knowledge about the effect of relationships and network on investment decisions. Secondly, we suggest that risks are foregrounded and performatively framed by analysts – to interpret, motivate and alter risks – and thereby nuance the concept of frame-making.

6.1.Practical implications

The findings from our study may have implications for practice and policy alike. From a practical perspective, we believe that our study can provide insights for both GPs at the private debt funds, as well as for the LPs investing in private debt funds. Conducting a cross-sectional study enables us identify patterns across the industry. Thus, our study may in general be practically useful for professionals within the industry, encompassing GPs and LPs alike, to identify where they are aligned and where they differ from industry consensus.

Firstly, our thesis suggests that the framing of risk, plays a key role in the investment decision. A recurring theme observed on this topic was that this process is significantly influenced by judgment and previous experience of the PD professionals. This inherently implies that risk assessment is mostly influenced by historical data or experience in a backward-looking manner. While this presents an important perspective for avoiding known risks that have materialized in the past, it does not suggest how the funds endeavour to avoid future new or unknown risks. From a practical perspective, our findings may therefore suggest that PD funds may benefit from applying a more forward-looking perspective on risk framing.

Moreover, our findings suggest that risk assessments in part rely on experience and heuristics. Lacking a transparent structure and guidelines as to what these are based on, junior employees may face difficulties acquiring these capabilities. Therefore, firms may benefit from an improved understanding of this dynamic and attempting to make certain parts of the process more explicit, structured and thoroughly documented to improve onboarding of new employees in practice.

For LPs, this study may contribute with an increased understanding of the private debt funds that they invest in. By providing new and nuancing insights on the black box of buy-side debt analysts decision-making, our thesis may provide deeper knowledge about how private debt funds operate. This could have practical implications for LPs in helping to guide and shape their investment decisions.

From a policy perspective, our thesis offers numerous practical implications. The industry, having emerged from the shadows of capital requirements for banks following the GFC, has recently been criticised for a lack of transparency and regulation. Most of the money from private debt is deployed in private equity sponsored companies, with equity pledges serving as the ultimate security for lenders. In the event of a severe economic downturn, these portfolio companies, characterized by higher leverage, may default, resulting in equity rights being transferred from private equity funds to private debt funds. For policymakers, an improved understanding of this dynamic and how institutional capital is distributed, between private equity and private debt, could help support informed policy decisions. Hopefully, this study can provide new insights on the context which private debt funds operate in, and the interplay between private debt and private equity sponsored companies.

6.2.Limitations and future research

This thesis is based on a cross-sectional study, of interviews with 18 PD professionals and 2 LPs, working towards the Northern European region. This approach was chosen in favor of breadth and deemed appropriate due to the nascent nature of the research field. However, the chosen research method also presents certain limitations of our study.

Firstly, our geographic delimitation of the Northern European market does not guarantee that our conclusions can be applied more broadly to other markets which, it can be argued, is also not the purpose of a qualitative study. Secondly, the nature of a cross-sectional study implies that generalizations have been made when detecting patterns across the empirics, which may not be applicable to all PD funds individually. Moreover, the limited number of interviewees also presents a potential limitation of our research design. Lastly, our study was based solely on interviewees with industry professionals and thus did not include a study of the material devices and inscriptions involved in the investment process, such as DD material, financial models or investment reports. Despite these potential limitations, we argue that the method and scope was relevant for this new field of research and has shed light on how private debt professionals make investment decisions and the agents influencing the decision-making.

To address these limitations, and to strengthen this empirically new sub-section of analyst literature, we encourage further research. Future studies can, for example, conduct similar studies to ours but with a larger interview sample, conducted on other geographic markets

or with other private debt funds. This way, researchers could for example identify how differences in risk cultures affect risk framing in investment contexts.

Furthermore, for more depth in understanding of certain phenomena, future research could conduct either single or comparative case studies. This would enable verification of whether the patterns observed for the industry at large are in fact accurate for each fund on a more granular level. Such a study could benefit from complementing the interviews with analysis of the underlying inscriptions and material devices supporting the investment decisions or potentially delimiting the scope of the study to focus on certain select parts of the investment process, for a deeper understanding.

Moreover, we have applied a relatively wide definition of PD in our thesis, studying funds employing a range of investment strategies. Future research could potentially benefit from delimiting this by focusing on the investment decisions for one specific strategy, e.g. distressed lending, senior direct lending or asset backed lending to name a few. This could potentially highlight characteristics especially relevant or challenging in each specific context, which are not as apparent in a study encompassing several lending strategies.

Future research could also adopt a different angle compared to ours and for instance study the relational aspect from the angle of the sell-side debt analysts, or sponsors in this context, and their role as an intermediary function in these investment decisions. Another avenue of future research could be to explore how much of the non-sponsored risk premiums on charged interest margins that derive from either the absence of sell-side support, information asymmetries or professional ownership.

Finally, future research could comparatively study the credit processes and risk management procedure of PD funds and banks, to gain an understanding of their differences and thereby the potential need for increased transparency or regulation of PD.

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8. Appendices

Appendix A.
List of interviews

Interview					
ID	**Type**	**Title**	**Length**	**Date (2025)**	**Context**
A	GP	Managing Director	60min	2nd of September	In person
B	GP	Founding Partner	60min	9th of September	In person
C	GP	Founding Partner	60min	9th of September	In person
D	GP	Partner	60min	10th of September	Online
E	GP	CEO & Founder	60min	18th of September	In person
F	GP	Associate	60min	29th of September	In person
G	GP	Founding Partner	60min	30th of September	Online
H	LP	Head of Private Debt	60min	1st of October	Online
I	GP	Credit Investment Analyst	60min	2nd of October	In person
J	LP	Head of Private Debt	60min	14th of October	Online
K	GP	Investment Associate	60min	15th of October	In person
L	GP	Senior Investment Associate	60min	15th of October	In person
M	GP	Investment professional	60min	21st of October	Online
N	GP	Partner	60min	21st of October	Online
O	GP	Investment Director	60min	22nd of October	In person
P	GP	Partner	60min	23rd of October	In person
Q	GP	Partner	60min	23rd of October	Online
R	GP	Managing Director	60min	24th of October	In person
S	GP	Portfolio Manager & Partner	60min	27th of October	In person
T	GP	Client Portfolio Manager	60min	12th of November	Online

Appendix B.
Semi-structured interview guide

Introduction

- Thanking the interviewee for his/her time and participation
- Explanation about the thesis and research topic
- Asking whether the interviewee approves of us recording the interview
- Consent form signature
- Presentation of interviewers

Background and general questions

- Could you tell us a little bit about your professional background?
- Could you tell us about your role at [YOUR COPANY]?

- Private credit, private debt and direct lending are concepts that are sometimes used interchangeably and sometimes differentiated. What is your perception of these definitions and in what category would you classify the focus of [YOUR COPANY]?
- What is your view on why the private credit market has grown fast for the past 15 years or so?
- In your view, what is driving the continued growth of the industry (structural/cyclical)?

Firm and industry

- Can you tell us briefly about some background about [YOUR FUND]?
- How is an investment team typically set up? How are responsibilities divided?
- What types of companies do you mainly invest in (ticket size, industries, sponsor-backed)?
- What types of loans do you typically focus on (seniority, security)?
- What are your main sources of funding? Who are your investors?
- How many funds are currently active?
- Do you use debt to leverage your portfolio?
- What is the main USP with borrowing from your firm compared to; 1) banks, and 2) other private credit companies? 3) High yield bonds?

The investment process: analysis and risk assessment

- How does your deal-funnel look like?
- What are the most important criteria for you when evaluating new investments (hard factors/soft factors)?
- Can you explain, at a high level, what your process for taking investment decisions looks like?
- How do you determine which companies to give loans to?
- What models and KPI:s do you use to conduct your analysis (standardized/case-by-case)? How do you retrieve relevant information?
- How do your models/assessments account for downside risk in distressed scenarios?
- How do you identify and assess risks? Do you assess risk categories separately (e.g. thresholds)?
- How are “soft factors” incorporated in your investment analyses and risk assessments (e.g. trust in management team, PE sponsor, ESG)?
- How do you derive the final offer to a potential borrower? Does your model calculate an interest rate based on the risk profile? Do you typically deviate from the calculated values to secure the deal?

- To what degree do you offer flexible and customizable terms (e.g. covenant structures, convertibles)? How do you assess the risk associated with customized structures?
- How has the interest rate environment affected borrower behavior?
- How has the interest rate environment affected your own risk appetite or your reasoning about investments? Have you adapted your models to account for this?

Overall investment strategy

- How do you assess the overall risk profile that you hold?
- How do you think about diversification of your funds?
- Do you assess and monitor risk on a portfolio level of your funds? If yes, what models, KPIs or reported information are used for this?
- How do you determine if an investment proved successful or not?
- What is your view of pros and cons of sponsor-backed lending? If pro, do you consistently work with a select few?
- If you do work with PE sponsored deals – can you briefly explain the character of these relations? Can you elaborate on the role of relationships in your industry?
- What happens if a company you have loaned money to fails or is in distress?
- Has this happened in any of your investments to date? Can you give an (anonymized) example?

Appendix C.

AI disclaimer

AI is a tool that has impacted, and will continue to have an impact on, our everyday life and work, including how academic papers are produced. Our thesis is no exception to this. To support us in this thesis writing process, we have used AI tools in various ways and for different purposes to improve our thesis. It has been used for transcribing interviews, improving wording and grammar, for brainstorming ideas or questions and to summarize texts.

Firstly, we have transcribed all our interview recordings using Microsoft Co-pilot available via Microsoft Word. We chose this specific AI tool as it is approved as per Stockholm School of Economics' AI guidelines. However, the quality of the transcriptions was of varying quality, especially pertaining to the interviews conducted in Swedish or when audio quality was not perfect. Hence, interviews were also edited and corrected manually, in parallel to listening to the original recordings, to ensure our

interpretations would not be inaccurately affected by any mistranscription by the AI. Listening to the recordings was also an integral part of coding our empirical result.

Secondly, we have also utilized AI for improving wording and grammar, for example for finding synonyms, translating words between Swedish and English and increasing coherence within paragraphs. We only submitted sections of text that we had written ourselves to ChatGPT, and selectively incorporated improvements that we saw fit. An example of a prompt used is: “Can you please provide feedback on grammar [and coherence] for this sentence [paragraph]?”.

Thirdly, we used ChatGPT as a sounding board for brainstorming certain questions and themes we came across in our research, to get another perspective on them. For example, one prompt we asked was: “Is the nomenclature “buyer” typically assigned to the borrower or the lender in a debt setting?”, as we were discussing and exploring this topic during our research process.

Lastly, AI in general and Chat GPT specifically have also been used to provide additional perspectives and summaries of academic articles through prompts such as: “Can you please provide a synthesis of article [Article name] section [Section Title]?”. However, this has always been either preceded or followed by reading said articles thoroughly without the use of AI. This was needed to avoid blindly trusting AI hallucinations, which are occurring. The interpretations of articles referred to throughout this thesis are our own, as the authors of this text.

For everything but the transcription of interview recordings, we predominantly used ChatGPT 5.0 and 5.1 paid subscription accounts (Plus & Business), and we have actively opted out of having the model train on our data. Nevertheless, we have only shared anonymized content with ChatGPT, to remain coherent with GDPR. Feedback from ChatGPT has never been incorporated through copy and paste of suggested improvements. Instead, feedback has been incorporated manually and selectively.