

**iLLUminate Blog Transcript: Daniel Pietrzak on Why Private Credit Matters**

Recorded October 8, 2024. Listen to it [here](#).

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- JACK CROFT: 00:14      Welcome. I'm Jack Croft, host of the Illuminate Podcast for Lehigh University's College of Business. Today is October 8th, 2024. And we're talking with Dan Pietrzak '97, Partner and Global Head of Private Credit at KKR, a global investment company that manages multiple alternative asset classes, including private equity, energy, infrastructure, real estate, credit, and through its strategic partners, hedge funds. Dan is back on Lehigh's campus today to deliver the 2024 Donald M. Gruhn '49 Distinguished Finance Speaker Series lecture. The topic is Financial Market Evolution Post the Global Financial Crisis, and he will discuss how the 2008 financial crisis has reshaped global markets. Welcome back to Lehigh, Dan. And thanks for being with us on the Illuminate podcast today.
- DAN PIETRZAK: 01:10      Well, thank you, Jack. It's great to be here.
- CROFT: 01:12      Now you earned your undergraduate degree in accounting here at Lehigh. And I'd like to start there. What was it that drew you to Lehigh's College of Business initially? And what were the most important ways your Lehigh Business education prepared you for the successes you've achieved in your career so far?
- PIETRZAK: 01:30      Yeah, we'll start with the first question. I think in some ways, I stumbled upon Lehigh, right? I was the first person in my family to go to college. I didn't actually look at as many schools as most kids probably did or anywhere near what kids would look at today. I ended up stumbling upon it as a good friend of mine's brother had sort of gone here. But when I did sort of get to look at it, it had sort of that classic sort of college feel. I didn't want something that was too small. I didn't want something that was too big. I grew up in southern New Jersey. So it was actually a pretty attractive distance away, a couple hours sort of drive. So I think it had a lot of what I was looking for. I was also fortunate enough to play golf here for Lehigh. That was an important sort of thing for me at that sort of period. I do think when I came here, I was probably a little bit tactical in thinking about my sort of education. I kind of started in the-- actually, I was originally a political science minor-- or major. And then I kind of pivoted into the business school kind of middle of freshman year. At that time, the accounting degrees were a little bit different. It was four years, not five years. That was something that Lehigh was known tremendously for. If you had an appropriate GPA, you were pretty much well-positioned to get a job at one of the Big Six of the time sort of firms. So I think that was attractive to me, right? If I say anything to kids these days, it's probably be a little bit more of a curious learner, kind of that broader kind of educational footprint. But I was drawn to the accounting, I think, for that kind of maybe specific reason. I was always good with numbers. I kind of liked sort of the piece of that.
- PIETRZAK: 03:08      The thing that Lehigh was very good at, and I think it's very good at it today, let alone it's now 25-plus years ago, I think it had a very, we'll call it, hands-on sort of practical approach to sort of education. The kids at the time came out well-prepared. The kids that I started with at PwC in '97, I felt like I was more than well-prepared kind of versus them. I think the school's doing the same stuff today. I think you can see that

in the Wall Street Journal sort of rankings that sort of come out. Which arguably, outcomes are sort of ROI-based. But I think the classic statement about the Lehigh kid then, which I think is a lot of the classic statement of Lehigh kid now, is you're very well prepared for that job, which I think has a lot of value as you hit the ground running in your career.

CROFT: 03:58

And what were some of the main things that you learned at Lehigh or the experiences that you had here that when you got that first job at PwC served you in good stead?

PIETRZAK: 04:12

Yeah, I mean, I think it was an interesting balance of-- let's call it high-quality technical skills, right? The coursework was hard. The accounting degree at the time was arguably especially hard. I mean, I'm still a little bit scarred by some of the professors from back then about the challenges of some of the class. So I think you were well prepared from what I'll call the learning perspective. I think the environment was have fun, but you have to kind of work hard, right, so that sort of work hard, sort of play hard environment. I think that mixture sort of served me well. I was part of the Greek system here. I lived in my fraternity house for sophomore, junior, and senior year. I was president of my fraternity. Honestly, most of my best friends today are still from my fraternity. So you had a real sense of community, a real sense of kind of belonging and kind of fitting in. So I think when you put those together about the social aspects that you arguably needed to succeed here or sort of enjoy here coupled with that kind of educational component where you did have to work hard to get good grades, you did need good grades to kind of get that job, it was a nice balance. And I think that set you up well.

CROFT: 05:24

Now you also met your wife, Mariela, while you were both first-year accounting majors in the class of '97. So how did you first meet?

PIETRZAK: 05:34

Yeah. No, that's probably one of my biggest successes or sort of benefits of being at Lehigh. I mean, in some ways, it's as boring as her maiden name was Obregon, my last name is Pietrzak. A lot of the classes were done in alphabetical order. I remember being in certain either classes or labs kind of freshman year. I think we ended up being fortunate that we shared a tremendous amount of the same friend group. She was active in her sorority here. Her sorority and my fraternity kind of knew each other well. A bunch of people kind of within that friend group ended up sort of dating or ended up getting married on the other side of sort of Lehigh. So honestly, it's been a great story. I mean, we had this benefit of being really good friends for a really long time. We started dating really kind of at the end of Lehigh or sort of right after sort of Lehigh. I've been married now 24 years. So that's something that brings a smile to my face.

CROFT: 06:38

And those friends from the fraternity and sorority, you're still in touch with them?

PIETRZAK: 06:43

For sure. We have the benefit of probably a fairly large get-together on an every-other-year basis. We see each other kind of monthly, quarterly. We see each other at different events. We've been going to kids' birthday parties or bar mitzvahs or other things kind of along the way. We obviously all went to each other's weddings sort of out of the gate. So it's a really, I think, great friend group. It's people who studied a bunch of different things besides just in the business school, people who have had different experiences, whether they were in more engineering or whether they've gone into pharmaceutical sales, whether they've gone to law school, whether they've gone to marketing. But I think both Mariela and I have been very kind of blessed to

have that friend group kind of be such a large part of our lives even again 27 years after Lehigh.

CROFT: 07:35

You and your wife have also endowed the Pietrzak Family Endowed Scholarship. And as I understand it, both of you actually had scholarships that helped make it possible for the two of you to wind up at Lehigh together. So if you could, talk about what scholarships meant to both of you and why you decided that route to pass on to the next generation of students.

PIETRZAK: 08:00

Yeah. Well, you're right. It was both very important to Mariela and I to be able to afford to go here, right? We were both on fairly significant financial aid or scholarship packages. I think these endowed scholarships, it was very unique to us at the time. Not only the people were generous enough to donate that, but you were actually sort of assigned a person. Like you knew who had given your scholarship. They would either write a letter, or you'd meet them on an annual or semi-annual basis at some sort of scholarship dinner. It brought up a bit of a personal touch or connectivity to that. Because it meant so much for us to be able to go here, it definitely had a real impact on us. And I think when we were early, sort of after getting married, we're always of the opinion, if we're able to do this, we're going to want to kind of copy this, right? We were fortunate enough for others to donate to allow us to be able to afford to go here. We wanted to kind of do the same. Honestly, that was on the bucket list early, not just because Lehigh kind of meant a lot to us. Obviously, it's given us, in many ways, most of the things we have in sort of our personal life. But the fact of being able to provide that scholarship really meant something.

CROFT: 09:15

And the scholarship that you and your wife have created, have you followed that same pattern? I mean, will you be in touch with the students who benefit from that?

PIETRZAK: 09:26

You will be. I mean, the Lehigh team, I think, does a great job. I think it's probably a little bit fancier today. We got a bio on the person who's involved in our scholarship sort of today. We will look to attend these dinners and kind of meet the person when available. The person actually wasn't on campus last semester. So that sort of didn't happen. But yeah, same exact idea. And to be honest, I think that made it even more appealing, right, just to, again, have some level of connectivity. I think it's really important that Lehigh kind of continues its tradition of its alumni being very active and involved. I think that's one of the unique parts of this university. This is just one way to do it.

CROFT: 10:10

Now kind of continuing with the family theme here, you and Mariela were both first-generation college students, as you said. And your daughter, Sophie, is now a second-generation Lehigh student with the class of 2028. So what does that mean to you?

PIETRZAK: 10:28

Yeah, it's great to see. I mean, it's a podcast, so you can't see it. But it's bringing a smile to my face as we're saying it. I mean, Sophie's a really smart, dynamic kid. Honestly, I think when she started on her college journey, she was a little bit sort of uninterested in Lehigh because we both went here. We call her a little headstrong at times. But we did our work. We did the college tours. She applied to a bunch of places. She got into a bunch of places. I think at the end of the day, for her, Lehigh just kind of fit a lot of what she was looking for, right? She's mainly grown up in cities most of her life. Most of it was London. The rest of it was New York. This is arguably a quintessential college campus sort of college experience. I think she liked the size. I think she liked the, we'll call it, the school spirit sort of aspect. So knock on wood, it's

six weeks in, but it seems it seems like she's quite happy. She's got a great friend group. And she's excited about her time here.

CROFT: 11:28

Now you were also a founding member of [Lehigh's Finance Mentorship Program](#). And I think I have this right, that you didn't actually know any of the other alumni from Lehigh, or before you met out in your professional careers. So how did you meet the other founding members, Greg Geiling '94, Paul Knollmeyer '87, and Rob Camacho, '04? And how does the program work?

PIETRZAK: 11:58

Yeah. Well, it is correct. We didn't know each other at our sort of time here, obviously, sort of different graduation sort of dates. This goes a little bit to probably the Lehigh connections either work or they sort of matter. In some ways, it's kind of ironic. We're all generally involved in the alts, or sort of private credit space. But I got to know them all through work, right? Paul's a CFO at a large asset management firm. Rob, when we first met, was actually at Goldman Sachs. Greg was at Blackstone sort of at the time. But we're all kind of in and around the same industry. And we kind of, we'll call it, put those pieces of the puzzle together. So I do think one thing you see with Lehigh grads is the moment you find out the other person's a Lehigh grad, you're a little bit drawn to them, right, in a good and sort of positive way. So that friendship hit it off kind of immediately. I think we've become even kind of closer over the years. One of the things we would sort of talk about is Lehigh for such a great school, such its proximity to kind of New York, was probably underachieving in some ways of getting kids kind of the Wall Street sort of jobs. It wasn't a natural place for these Wall Street firms to recruit from. That wasn't its kind of legacy or sort of its history.

PIETRZAK: 13:16

But we thought we were all fortunate that we had good jobs. We had good roles. So we wanted to establish something to kind of bridge that gap. We connected at the time with Georgette [Chapman Phillips], the former dean of the Business School. I think she was quite interested in the idea. We tried to be fairly, let's call it, simple and pragmatic about it. We knew that we're probably too old to mentor kids who are in college today. So we were targeting, let's call it, young alumni three to 10 years out who were involved in the financial kind of markets or the finance kind of business, probably by definition, in and around New York City. The view was we would mentor them, right? So we all had three, four, five sort of at a time. And this really started kind of the, let's call it, the early kind of '19. But the quid pro quo would be if they wanted to kind of join that, they'd have to mentor kids in college, right? So how could we create a pyramid effect? How could we kind of expand the reach beyond what just the four of us could sort of do? We've since added to the four of us. We've added Chris Scott. We've added Charlie Buston, which has been great. And just if you use the numbers, if we could each kind of get four young alumni, if they each kind of do five, right now, you're up to 24 kids, and they're doing roughly another 100.

PIETRZAK: 14:36

It got off to a pretty good start. I think COVID probably delayed it a bit. But we've got great support from the university. I think we want this to continue to grow and expand. We had an event in September in New York where we get anyone who's kind of involved in this program, the young alumni, as well as kind of Lehigh officials, and get together for these networking events. And it's been rewarding for us. Hopefully, we're adding some value to the folks that we're mentoring. And hopefully, they're providing some guidance to the individuals in school.

- CROFT: 15:12      And what experiences and insights did you gain on mentorship from mentors that you've known over the course of your career?
- PIETRZAK: 15:21      Yeah, I think I probably underestimated its value out of the gate. I think there's something to be said for aligning yourself kind of early to people who are hopefully high performers, hopefully have great vision. I think you want them to have sort of good integrity, good values. I think you want them to be available to bounce ideas off. I think you want them to be available to kind of push you. Obviously, I think one of the biggest challenges for kind of younger folks coming out, especially in probably finance or financial services, you almost don't know what you don't know, right? And that can be sort of a bit of sort of a hindrance, right? So I think having access to mentors can really impact kind of one's forward trajectory, people's career, how they're performing in their current roles.
- CROFT: 16:16      Now your current position at KKR is as Partner and Global Head of Private Credit. Can you give our listeners an idea of some of your main responsibilities in that position?
- PIETRZAK: 16:28      Sure. I mean, to level set, KKR itself was founded in 1976. It's probably historically or predominantly been known as a private equity firm. It's much broader than that today. It's north of \$500 billion of assets under management. You'll really invest-- or really kind of operates across a private equity vertical, an infrastructure vertical, real estate vertical, a credit vertical. And insurance is a big sort of focus for us. It's almost sort of that fifth vertical. So I look after the private credit business. That's part of the overall kind of credit platform. If you think about a credit business, it's generally kind of lending money to companies or being involved in some one of these credit markets. I think when we think about our credit business in totality, it's well north of \$200 billion of AUM [Assets Under Management] now. So it's actually the largest investing vertical at the firm, which is a big step for us. I think I'd split it almost simplicity into sort of two areas. One is more liquid or sort of traded markets where we're trading loans, we're trading bonds. And then the other piece of the puzzle would be more the private creditor, the illiquid markets, where we are not relying on people to originate deals for us. We have teams out there kind of originating transactions. If you think about our private credit business today, roughly \$100 billion of AUM with really two main activities. Number one is we lend money to companies, right? So those could be private equity-owned companies by other private equity sponsors. It could be family-owned businesses. It could be just corporates that we have kind of general access to. We would lend them money on a direct basis, sort of up and down the capital structure, whether it's first lien, second lien, or sort of mezzanine. That business has grown materially over the last several years, both on the other side of the financial crisis, but as more money has come into the market.
- PIETRZAK: 18:25      The other part of our private credit business, we call asset-based finance. So this is kind of financing more of the real world economy, right, everything that's a credit sort of instrument, but it's not corporate. So think about auto loans, student loans, equipment leases, residential mortgages, aviation sort of leases, all the way out to more esoteric things, like music royalties. So that kind of broader set of that real-world economy, we think that's a really big sort of opportunity set. And I think we've been very focused on that business because it is a direct origination business, because you need scale to compete. You need a scaled team to compete about kind of growing that sort of footprint. And I think we've been happy with what we've seen there. When you ask about responsibilities, I mean, first and foremost, it's a very, I

think, high-quality, impactful team. The team's north of 125 people across these businesses. Most of the team, kind of New York and sort of London, but a big team that we can sort of bring to bear. I think I'm really lucky to work with colleagues like that. So there's just a business management aspect of it. Obviously, I think most of my responsibilities would center around kind of risk-taking, right? We're in the business of deploying capital. We're in the business of putting on transactions that we believe are good either risk-adjusted or relative value investments for our investors, right? We're managing different sort of pools of capital from regular-way flagship funds to even something like a BDC [Business Development Company] that's publicly traded on the New York Stock Exchange, right? So it is a team. I think we talk a lot about it as it needs to operate as a team. My main sort of job is probably around the management of that and then working with the other folks on the investment committee to put on kind of the right types of deals for our investors.

CROFT: 20:20

In your Gruhn lecture this afternoon-- and we will be posting video of that in its entirety later, so we don't want to make you give it twice today. Your topic is Financial Market Evolution Post the Global Financial Crisis. And one of the specific areas you're going to be discussing is the dramatic increase in private credit over recent years. Do you see continued growth in the future? And are there any potential warning signs we should be on the outlook for?

PIETRZAK: 20:55

No. And yeah, we definitely will touch on that a bit later today. I think private credit has become an area or a sector that either has become in vogue or become sort of pretty popular in the financial media. I've been doing sort of credit for a long time. Probably credit's never been the cool asset class. It's been that way a little bit for the past couple of years, which has been nice to see. I think there are a couple misnomers out there. I think there's this misnomer on one hand that private credit's new, right? I don't believe that to be true. You had the likes of GE or CIT or others making loans kind of pre-financial crisis. You had BDC's kind of pre-financial crisis. You could argue that a lot of the stuff the banks were doing, because it wasn't traded or wasn't in any kind of capital markets activity, you could argue that was private credit, right? So this is not a new thing.

PIETRZAK: 21:46

I think the evolution has been-- the financial crisis was an extremely difficult time in financial markets globally. It was a very difficult time in the U.S. kind of generally. I think you saw a system at the time that was sort of over-levered. I think you saw a bunch of complex financial products out there. I think you saw a mortgage bubble and a housing crisis really cause a bunch of bank failures for big-name banks that we all kind of knew. I mean, it was more than an interesting time to be front and center at that, working at Deutsche Bank. I think that was the first step, we'll call it, to create capital that was sort of outside of the banking system, right? I think that was initially done to fill the void for where banks weren't lending. I think it was initially done as banks were selling assets as part of that for people to come in and sort of buy those assets. Remember, this just wasn't a U.S. issue. It was probably as big of an issue in kind of Europe. I think what did happen on the other side of it though is some of the regulatory changes that went into play not just impacted the banks, but impacted sort of broader things, right? Things like Dodd-Frank also made companies want to stay private for longer. Or maybe it wasn't as attractive to be a public company. I think that drove more and more middle-market private equity to be raised, so not the big firms. Like the KKR and the Blackstones were the ones who were in there early, but who were buying some of these smaller to medium-sized companies. I mean, think

about the amount of small businesses that are owned in the U.S. that are even below the level of that. But this kind of onslaught or expanded reach of middle market private equity, all of a sudden somebody had to finance them, right? The banks were never really in the storage business, right? They were usually in the business of underwriting to kind of distribute. It was never arguably capital-efficient for them to kind of do that, right?

PIETRZAK: 23:43

So then more and more pools of capital, like the direct lending dollars that we manage as part of our private credit business, had to be raised. And it had to serve kind of the needs of those companies. I think what you saw on the other side of that is the large institutional investors who were out there wanted to, let's call it, either expand or enhance their own asset allocation models. It used to be a pretty simple 60/40 model, 60 in public equity, 40 in sort of public fixed income. That was a nice balanced portfolio. But how did you take that down a level, right? So more and more people started getting dedicated allocations to private credit, people who raised money in kind of the wealth channels, that has made more capital available. Now it's able to finance not just that \$20, \$25 million or \$50 million sort of EBITDA [earnings before interest, taxes, depreciation, and amortization] business. But most of the large lenders in the space can hold half a billion dollars, three-quarters of a billion dollars sort of plus of these loans. And a lot of borrowers are attracted to kind of use that market, right? So I think it's been a-- even though the growth seems, let's call it, pretty rapid, I think it's played out over a long period of time. I think it's been driven by the fact, as I said, I think there's more sort of private equity dollars there. I don't view that this is the banks versus the private credit lenders. I think those markets will sort of coexist. But we're believers it'll continue to grow, right? You could argue that the direct lending piece of it, which that is the piece that most people have equated to what private credit means, but the reality is it's more than that. You could say that the direct lending part of that market is in the middle innings or maybe even kind of the late middle innings. I think we just see other areas of growth. The main piece for that is our asset-based finance business, which is doing something different. But I think my numbers-- as we've probably seen a 15% kind of annual growth rate in private credit since 2010, I think you're going to see kind of similar kind of numbers, but probably just from different spots.

CROFT: 25:42

Now kind of stepping back and taking the broader view, and this is more of the top line, maybe the key takeaways for the main areas of risk that face global markets today, what would be the top things that come to mind?

PIETRZAK: 25:59

Maybe I'll answer that in sort of two ways. I think we do get the question a lot of what kind of risks is private credit bringing to bear. I think the industry has been set up in a good way to where we have long-term capital, long-dated capital, no kind of redemptions, no run-on-the-bank-type risk against the loans we're making, right? So asset-liability mismatch is a key part of that because if you do think about some of the bank failures that happened in '23, they weren't credit issues, right? They were confidence issues, which caused this run on the bank. And then there was kind of this major kind of liquidity challenges. So I think we've kind of isolated that. I think you've got your traditional kind of risk factors that are out there. I mean, you've had an extremely volatile five years kind of in the markets, right? Most people were waiting on this recession in kind of '18, '19. It kind of didn't happen. You had COVID, which hopefully, is a once-in-a-lifetime experience that we would have all seen. You arguably had a tremendous amount of euphoria in '21 really on the back of monetary

policy and the stimulus kind of dollars that were out there. And then you had this extremely meaningful rate move, like one that none of us have really seen at least in our sort of sort of careers. You had rates go from effectively zero to 5-plus percent on sort of the short end. The Fed seems to have done an incredible job in kind of bringing inflation down, doing that, and not triggering kind of a recession. I think there's still a question out there for how will the plane really land. I think we're believers that they've taken the kind of significant recession risk or that hard landing off the table.

PIETRZAK: 27:37

I think we do worry that the higher rates does impact corporate credit because there's less free cash flow for them to service their debt. I think we do worry a little bit about the U.S. consumer. If you think about it, the U.S. consumer was probably more liquid or flush with cash on the other side of all that stimulus money for a while. But as we're watching kind of the credit card data, we're seeing balances go up, maybe delinquencies go up. Sort of how does that play out? I think, again, we're still pretty optimistic about how that sort of goes. But I think that's kind of a risk factor that we're all mindful about. And then, yeah, you've got a pretty volatile, I think, geopolitical environment globally, right. You've got multiple wars going on. You've got a presidential election that is probably, let's call it, volatile. Or the country's on various sort of different sides of things like that. So I think most of the world's having elections this year, right? So I'm not a big believer that elections impact kind of near-term markets. I think that's more of a long-term sort of piece. But there's a lot of, I think, points out there that people have to be mindful about. The market's been immune to it thus far. I mean, you're hitting kind of record highs constantly. On the credit side, the loan and the bond markets are both up and pretty active. But I think it's an environment where people need to be pretty focused on downside protection and need to be pretty focused on, "If this happens, how am I going to be protected?"

CROFT: 29:12

That just about is our time for this. So I want to thank you again for being with us today, Dan.

PIETRZAK: 29:18

Thank you, Jack.

CROFT: 29:19

Prior to joining KKR, Dan Pietrzak '97 was a managing director and co-head of Deutsche Bank's structured finance business across the Americas and Europe. Previously, Dan held various roles in the credit businesses of the Societe Generale and CIBC World Markets. He started his career, as he mentioned, at Pricewaterhouse[Coopers] in New York. Dan is an exemplar of how Lehigh's College of Business helps prepare students to go out into the world after graduation and become successful global leaders in business. This podcast is brought to you by Illuminate, the Lehigh Business blog. To hear more podcasts featuring Lehigh Business thought leaders, please visit us at [business.lehigh.edu/news](http://business.lehigh.edu/news). You'll also find links there to follow us on your favorite social media platforms. This is Jack Croft, host of the Illuminate podcast. Thanks for listening.