REDWOOD | CREMX TICKER

When AI compresses time, credit must adapt

How accelerating innovation is redefining 'short-term'– and why extremely short-duration, asset-backed loans matter more than ever

AI Is compressing the meaning of time

Artificial intelligence is not simply accelerating innovation – it is compressing time itself. Competitive advantages that once lasted years are now measured in quarters.

For allocators, this shift has profound implications. Risk is no longer just about credit quality or valuation – it is also about **time exposure.** The longer capital is committed, the greater the reliance on assumptions that may no longer hold in an AI-driven economy.

Where the compression shows up first: Software

Nowhere is this more visible than in the software sector. In early 2026, markets began aggressively repricing software-as-a-service companies based on the possibility that AI will challenge their business model. Firms once viewed as durable suddenly faced questions around relevance, margins and capital intensity.

Following the release of autonomous AI agents capable of executing legal and research workflows end-to-end, several established software companies experienced abrupt repricing. During the first week of February 2026, Thomson Reuters and LegalZoom each lost roughly 15 percent to 20 percent of their market value in a matter of days not due to deteriorating fundamentals, but rather because investors questioned whether their subscription-based models could remain relevant in an AI-driven workflow environment. The episode illustrated how AI can compress what would traditionally be a multiyear competitive erosion into a single quarter or less.

While much of the attention is focused on equities, the implications for credit investors are equally important. Many software businesses are financed through cash flow–based lending that depends on assumptions about recurring revenue, customer stickiness and long-term growth.

AI disrupts those assumptions. Faster innovation cycles increase the risk that revenue models change, customer behavior shifts, or products become obsolete well before loan maturities are reached.

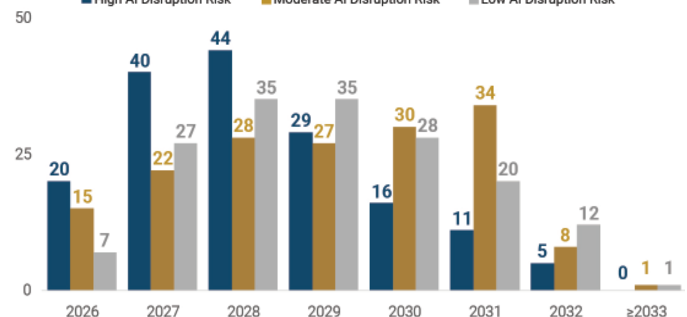
Private credit's hidden duration risk

Much of private credit's rapid growth has been concentrated in sponsor-backed corporate direct lending. These strategies often target attractive yields by extending longer-dated loans to middle-market companies, including a significant allocation to software and technology-enabled businesses.

While these loans are frequently described as "short-term" relative to public bonds, many still rely on multi-year forecasts of business stability. In an AI-driven environment, duration itself becomes a source of risk. KBRA's universe shows that many loans tied to software and technology companies with moderate to high AI disruption risk extend well beyond the near term, leaving lenders exposed to several years in which competitive dynamics, technology adoption and business fundamentals can shift.

Longer loan terms increase dependence on accurate predictions about markets, technology adoption and competitive positioning – precisely the variables AI makes harder to forecast. The farther out the maturity wall extends, the more lenders are relying on assumptions about business durability in sectors where change can happen quickly.

As innovation accelerates, the cost of being wrong rises



Source: KBRA, "Private Credit: Deep Dive on AI and Software"

Why asset-backed lending fits an accelerating world

Asset-backed lending offers a fundamentally different approach to private credit – one better aligned with an environment of rapid change. Instead of underwriting future growth or EBITDA expansion, these strategies are anchored in the value of tangible assets, often real estate.

Hard assets do not innovate, disrupt or become obsolete overnight. Their value is driven by income generation, replacement cost and physical utility rather than technological relevance. As a result, asset-backed loans are less sensitive to the accelerating innovation cycles reshaping operating businesses.

Key structural characteristics typically include:

- Senior secured positions
- Low loan-to-value ratios, often below 60 percent
- Clearly defined collateral recovery paths

These features help insulate lenders from sudden shifts in business models or market sentiment, as shown in the chart on the following page.

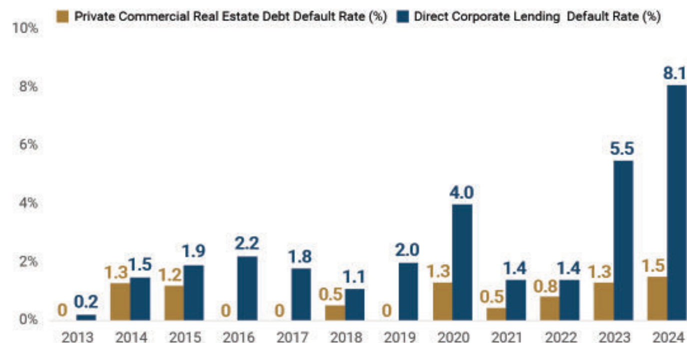
Extremely short duration as a risk control

Beyond collateral, duration plays a critical role. Asset-backed strategies often employ loan maturities of 12 to 24 months, with floating-rate structures tied to prevailing benchmarks. Short duration serves several important functions:

- **Limits forecasting risk** by shortening the period that capital is exposed
- **Preserves optionality,** allowing redeployment as conditions change
- **Reduces sensitivity to regime shifts,** whether technological or macroeconomic

In an AI-driven economy, the ability to reset capital frequently becomes a core risk-management tool rather than a tactical feature.

Default rate over time for loans backed by cash flows vs. those backed by real estate



Sources: Fitch Ratings, Giliberto-Levy, Redwood. Data as of 12/31/25.

Hard assets and risk velocity

One of the most important distinctions between asset-backed lending and private corporate credit is the **velocity of risk** – said another way, how quickly risk materializes as value destruction. For example, in late 2025, Blackrock marked down a roughly $25 million loan to Infinite Commercial Holdings from par to effectively worthless in a matter of several months. Compare this to commercial real estate values, where even during the worst of 2008/2009, transaction-based price indices showed declines of 15 percent to 20 percent during a six-month period. While this drawdown is meaningful, the velocity difference is considerable. And when combined with conservative debt structuring, loan values can withstand such an event.

With very short-duration loans, this velocity difference is further magnified. For cash flow–dependent credit, values can evaporate immediately. For asset-backed lending, repayment and recovery are driven by asset value, providing a level of protection over shorter timeframes.

This distinction matters more as AI increases dispersion across industries. Software companies may experience dramatic shifts in relevance within a single innovation cycle. Real estate assets, by contrast, tend to evolve more gradually, with values anchored in long-term demand for physical space and income generation.

For allocators, this creates diversification not just across asset classes, but across time horizons of risk.

Applying these principles in private credit

The Redwood Private Real Estate Debt Fund (CREMX) is designed to reflect this asset-backed, short-duration approach. The strategy focuses on first-lien bridge loans secured by real estate properties, emphasizing conservative underwriting and capital preservation.

Key characteristics include:

- **Underlying collateral:** Real estate
- **Loan structure:** Short-duration, floating-rate loans with conservative LTVs
- **Objective:** Current income with reduced volatility

By prioritizing extremely short duration and hard collateral, the approach seeks to align private credit exposure with the realities of an accelerating innovation environment.

Conclusion: Managing risk in a world that moves faster than forecasts

AI is redefining how quickly markets, industries, and business models can change. In this environment, risk management is no longer just about selecting the right borrowers, but rather about controlling exposure to time itself.

Extremely short-duration, asset-backed lending offers a way to adapt. By anchoring credit exposure to tangible assets and limiting reliance on long-term forecasts, these strategies can provide resilience in a world where innovation cycles are accelerating beyond easy comprehension.

As allocators reassess portfolio construction in the AI era, redefining what "short-term" truly means may be one of the most important decisions they make.

CONTRIBUTOR

Steve Kirschner
Senior Vice President – National Institutions

CORPORATE CONTACT

Steve Kirschner
skirschner@redwoodim.com
www.cremxfund.com

CORPORATE OVERVIEW

Redwood Investment Management brings institutional-grade investment processes to all individual investors through its **RiskFirst**® solutions. By prioritizing risk management, Redwood believes investment success naturally follows. These innovations include democratizing access to private debt secured by real estate with a single ticker symbol and offering turnkey asset allocation models that blend public and private investments. Redwood partners with financial advisers to deliver these solutions via Redwood mutual funds, **LeaderShares**® ETFs, and Engineered Risk-Budgeted Model portfolios. With no minimums, accreditation or paperwork, investors gain access to short-duration, first lien secured real estate loans – making sophisticated investing available to all.

Important Information

The Redwood Private Real Estate Debt Fund ("CREMX") is registered as a non-diversified, closed-end management investment company that is operated as an interval fund. **The Fund's investment program is speculative and entails substantial risks. There can be no assurance that the Fund's investment objective will be achieved or that its investment program will be successful.** The Fund is an appropriate investment only for those investors who can tolerate a high degree of risk and do not require a liquid investment. The Fund does not intend to list the Shares on any securities exchange and the Fund does not expect a secondary market in the Shares to develop. Because you will be unable to sell your Shares or have them repurchased immediately, you will find it difficult to reduce your exposure on a timely basis during a market downturn.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Redwood Private Real Estate Debt Fund. This and other important information about the Fund are contained in the prospectus, which can be obtained at redwoodmutualfunds.com or by calling 888.570.0805. The prospectus should be read carefully before investing.

The Fund invests in commercial mortgage loans subject to risks of delinquency, foreclosure, and loss. Additional risks include reliance on participation interests that depend on lead lenders' decisions, exposure to fixed-income market fluctuations and liquidity constraints, as well as sensitivity to inflation or deflation affecting property values and borrower repayment capacities. Secured debt is not guaranteed and may still be insufficient if collateral values decline. Holdings in subordinated debt may suffer greater losses during defaults. SOFR interest rate benchmarks are variable and may affect income and borrower costs. Operational challenges such as sourcing quality loans and competitive pressures can impact portfolio performance.

CREMX is distributed by PINE Distributors, LLC, which is not affiliated with Redwood Investment Management or any of their other products or individuals referenced within.

For investment professional use only. REDWD-5395402-04/26

Copyright © 2026 by Institutional Real Estate, Inc. Material may not be reproduced in whole or in part without the express written permission of the publisher.