CAPITAL SOLUTIONS

AN ALL-WEATHER OPPORTUNITY SET

OCTOBER 2023

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Introduction

The global economic landscape has undergone significant shifts over the past few years, presenting both daunting challenges and some compelling opportunities for investors.

As traditional lenders and public markets have retreated in the face of market volatility, this has created a window for flexible capital providers to deliver solutions tailored to the complex needs of borrowers today. This white paper will explore how well-positioned, versatile strategies can navigate these evolving dynamics with the potential to generate strong risk-adjusted returns across market cycles.

Over the past three years, financial markets have been unsettled by the Covid-19 pandemic, geopolitical tensions, supply chain disruption, rising inflation, and the consequential tightening of central bank monetary policies. A multi-pronged, flexible investment approach enables capital solutions providers to pivot between opportunities as the market environment shifts, and can help the strategy bear fruit regardless of the prevailing market conditions.

By examining the major shocks and growth phases over this period, this paper will highlight the 'all-weather' nature of a well-positioned capital solutions strategy, illustrating how the opportunity set evolves through the economic cycle and how strong investment teams can capitalise on attractive investment opportunities in each market phase.

With traditional capital remaining constrained today, this paper highlights the broad scope of opportunities available for flexible investors as borrowers grapple with high leverage, rising rates, looming maturities and limited financing alternatives. We believe that the confluence of these factors has created a highly attractive investment environment for capital solutions today.

Capital solutions: an all-weather opportunity set

We break down the relevant opportunity set into three segments (as defined further below):

1. ▶ Liquidity and refinancing solutions
2. ▶ Complex private lending
3. ▶ Secondary debt purchases & hung deals

A mandate that encompasses these three related opportunities is positioned to invest throughout the economic cycle, shifting emphasis between these complementary segments based on the prevailing investment landscape in that period. Each phase of the cycle may present opportunities in one or more of these underlying areas.

Note that we exclude from this opportunity set “loan-to-own” or distressed investing. Whilst such a strategy can deliver high returns at low points in the cycle, it carries with it several important differences. It is a private equity strategy, requiring active ownership and turnaround of the underlying businesses, and therefore carries equity risk. The risk is further increased because the target businesses have underperformed to the extent that a change of control has arisen and a turnaround is required, which is inherently challenging and uncertain, and can take many years to realise. Furthermore, an effect of large portions of the loan and bond market being “covenant lite” today is that lender enforcement action can often only be taken following a payment default, and the condition of the target business may have deteriorated very far by this point. Finally, a loan-to-own strategy can bring dis-synergies versus other special situations sub-strategies: sourcing private loan opportunities with private equity-backed borrowers, as well as entering secondary debt purchases as a whitelist lender, require a trusted partnership with private equity sponsors who, for obvious reasons, are threatened by loan-to-own activities.

A THREE-PRONGED INVESTMENT APPROACH

▶ Liquidity and refinancing solutions

These types of investments involve sponsor-friendly refinancing and liquidity solutions for companies needing to re-balance their existing capital structures. This type of flexible capital can help borrowers to solve complex financing challenges by, for example, providing new senior debt to refinance existing lenders (such as where the market environment has led to the financing falling outside of existing lending mandates) or alternatively providing junior capital to de-lever senior tranches.

▶ Complex private lending

This is the provision of private credit to healthy companies but involves more complex lending that cannot be served by traditional lending strategies due to risk or return limitations, such as unloved or cyclical industries, complex credits and transaction dynamics, subordinated lending, and equity co-investment opportunities.

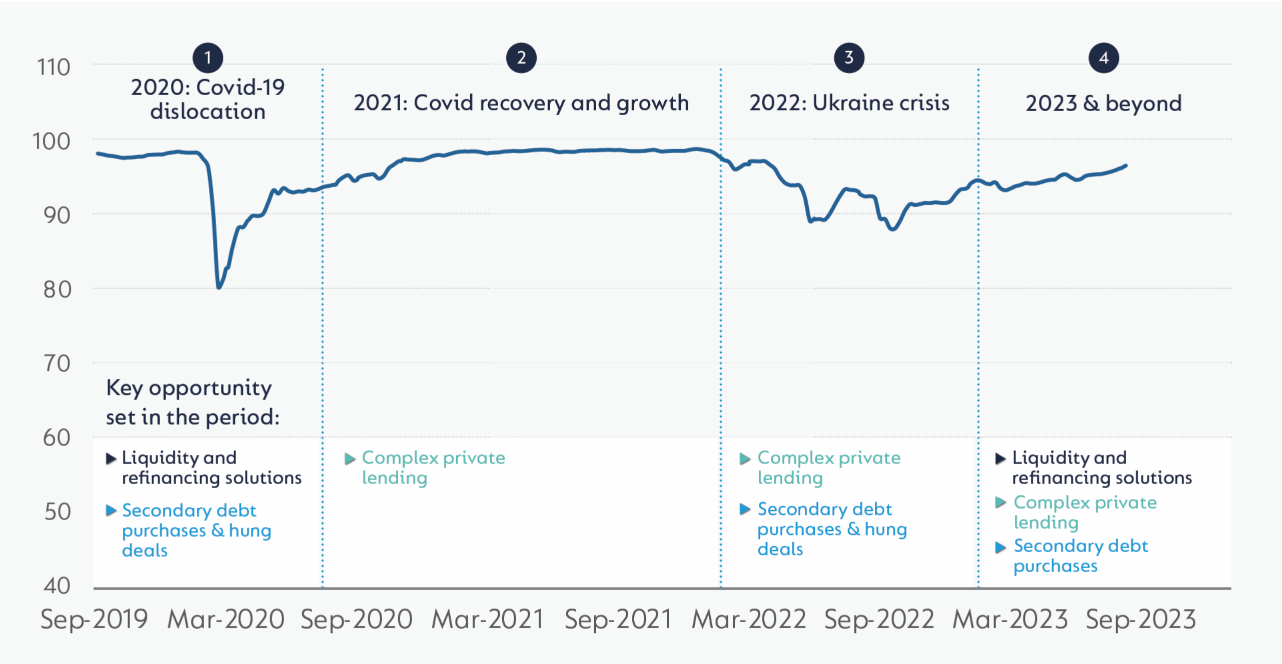
▶ Secondary debt purchases & hung deals

In periods of market dislocation, many existing leveraged loans and bonds come under pressure and are available at a discount. Investors who can take a patient approach may therefore be able to realise the intrinsic value of these businesses once the market conditions normalise. New debt issuances can also be available at a discount in “hung syndications”. These are situations in which an underwriter or group of underwriters (usually banks) is unable to sell all of their offering to investors at the originally agreed terms. The bank which arranged the transaction is left holding the unsold portion of the debt, enabling a well-positioned special situations investor (that has a relationship with both the sponsor and the underwriting banks) to purchase them at a discount to intrinsic value. This ‘pull to par’ strategy offers incremental returns beyond interest income, through capital appreciation.

A strategy playing across all three of these areas can, we believe, deliver customised and adaptable financing solutions in all economic environments. An experienced team with the right sourcing network, differentiated relationships, and a local presence in key European markets can be well-positioned to help borrowers navigate complexity, acting as a key partner in providing capital to a wide range of businesses.

Capital solutions opportunity set[1]

Weekly weighted average bids of the European Leveraged Loan Index (ELLI)



The four distinct periods of time above represent the various economic environments that have prevailed in this decade so far, and are discussed individually in each of the next four chapters of this paper.

1 PitchBook / LCD, Morningstar European Leveraged Loan Index - Data as of Sep-23

1 2020: COVID-19 dislocation

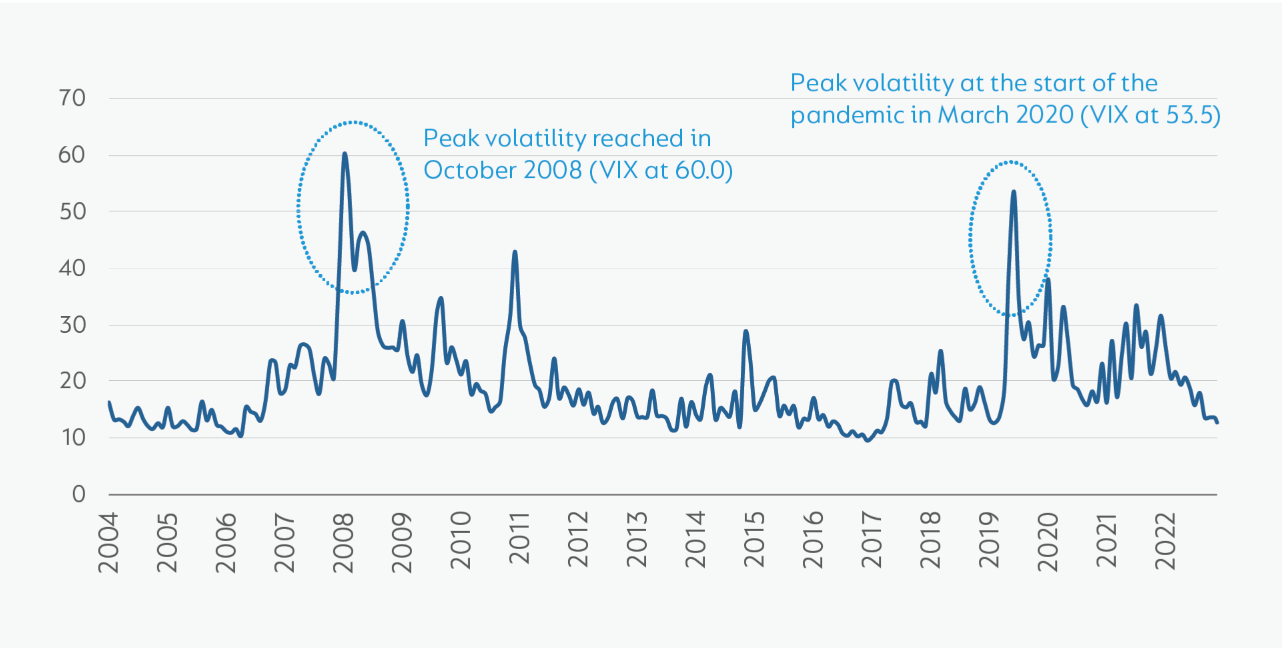
Rapid deterioration in capital markets

Early in 2020, as Covid-19 began to sweep across the globe, capital solutions players quickly recognised the opportunity emerging from the unfolding crisis.

The pandemic started to have a profound impact on economies and capital markets globally. Early in the year, the world witnessed an unprecedented lockdown of economies, resulting in massive dislocation. As the pandemic unfolded, global equity markets began to plummet in February, with investors growing increasingly concerned about the potential impact of the virus on economic growth and corporate earnings.

Within weeks, capital markets were engulfed in extreme volatility. Sub investment grade credit markets experienced soaring spreads, surging from 4% to almost 10% in Europe, while secondary market bids plummeted to below 80% of par value, levels not seen since the Global Financial Crisis and Eurozone debt crisis starting in the late 2000s.

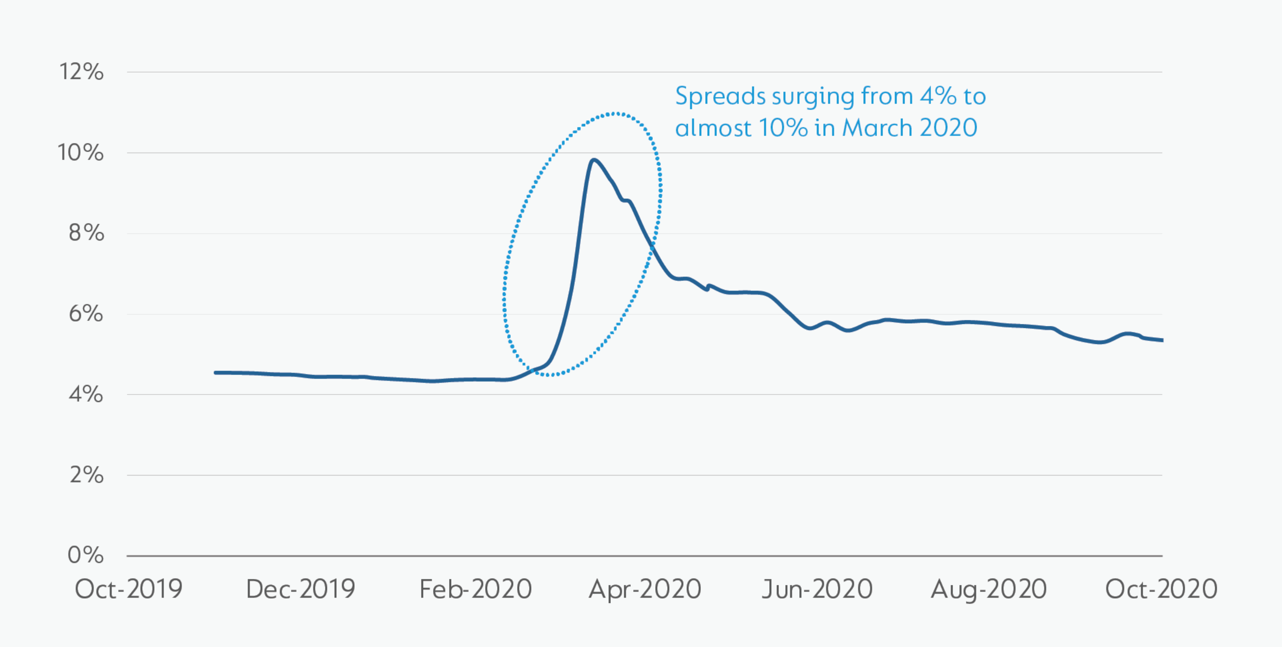
Unprecedented market dislocation rivalled only by the Global Financial Crisis[2]
Monthly US Stock market volatility (VIX index)



2 Chicago Board Options Exchange Volatility Index - Monthly average index value - Data from Bloomberg as of Sep-23

Soaring spreads in secondary markets[3]

Weekly weighted average spread to maturity of the European Leveraged Loan Index (ELLI)



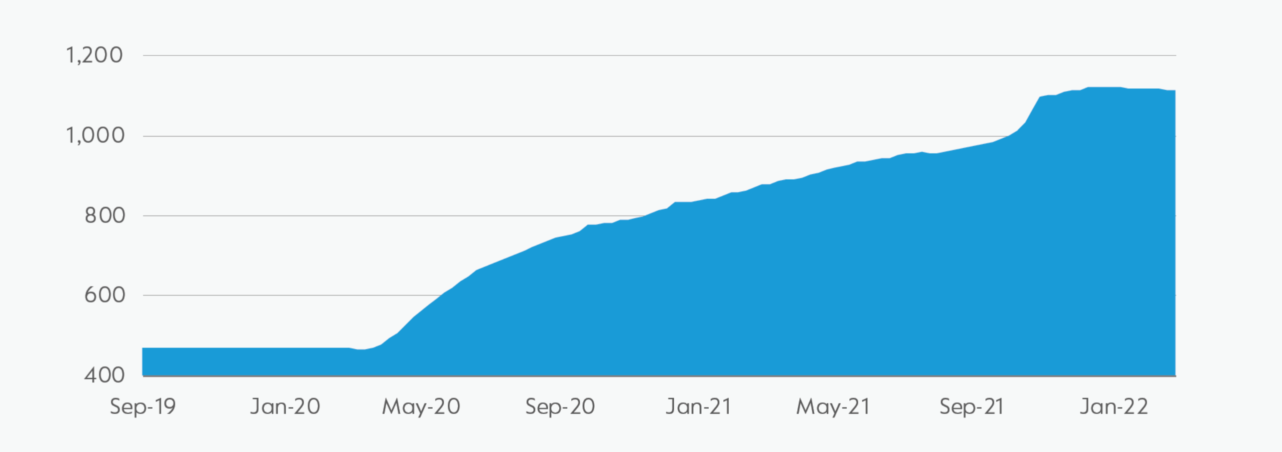
Stimulus measures

As countries started implementing lockdown measures in March 2020, economic activity took a nosedive, with businesses shutting their doors and entire industries paralysed by the unprecedented restrictions. In the face of this sudden shock, central banks around the world, including the European Central Bank ("ECB") and the Bank of England ("BOE"), sprang into action, unveiling a series of monetary stimulus measures to prop up their ailing economies.

In the United Kingdom, the BOE's balance sheet experienced a dramatic expansion as the institution rolled out its rescue plan. Over the course of 2020 alone, its balance sheet ballooned by more than 50%, soaring from less than £500 billion pre-lockdown to over £800 billion as a direct result of the monetary policy measures undertaken. This sharp increase underscored the extraordinary efforts to stabilise the economy and provide a lifeline to businesses and households grappling with the fallout from the pandemic.

3 PitchBook / LCD, Morningstar European Leveraged Loan Index - Data as of Sep-23

Extraordinary monetary stimulus measures to support European economies[4]
Bank of England balance sheet size (£bn)

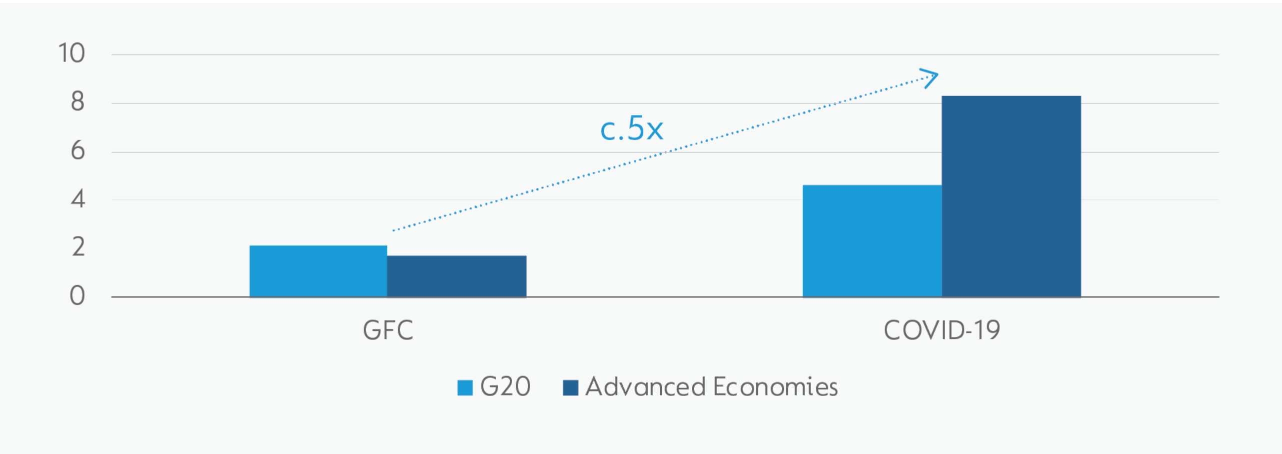


Governments worldwide unveiled ambitious fiscal stimulus packages to support businesses and households, with government spending in Germany, for example, increasing from 45% of GDP in 2019 to over 50% in 2020 and 2021. This increase was emblematic of the unprecedented efforts made by nations across the G20 to provide vital assistance in the face of a global crisis.

Extraordinary levels of government spending were aimed at above-the-line support measures in response to the pandemic. These measures included direct cash payments to households via stimulus cheques, unemployment benefits, payroll support and wage subsidies, small business grants, sector-specific support (such as for aviation, hospitality and tourism), and widespread tax relief.

The governments of many large European countries each provided more than 10% of GDP in support, playing a crucial role in helping businesses and households to counter the effects of widespread business closures, job losses and reduced consumer spending. Crucially, compared with the GFC, the size of fiscal stimulus offered by governments was significantly greater than in 2008, with advanced economies spending c. 5x more on budgetary support measures than what was provided in the GFC (8.3% of GDP by May 2020).

Budgetary fiscal response by country group, May 2020 vs 2009 (% of GDP)[5]



4 Bank of England | Database - Consolidated balance sheet - Data as of Sep-23

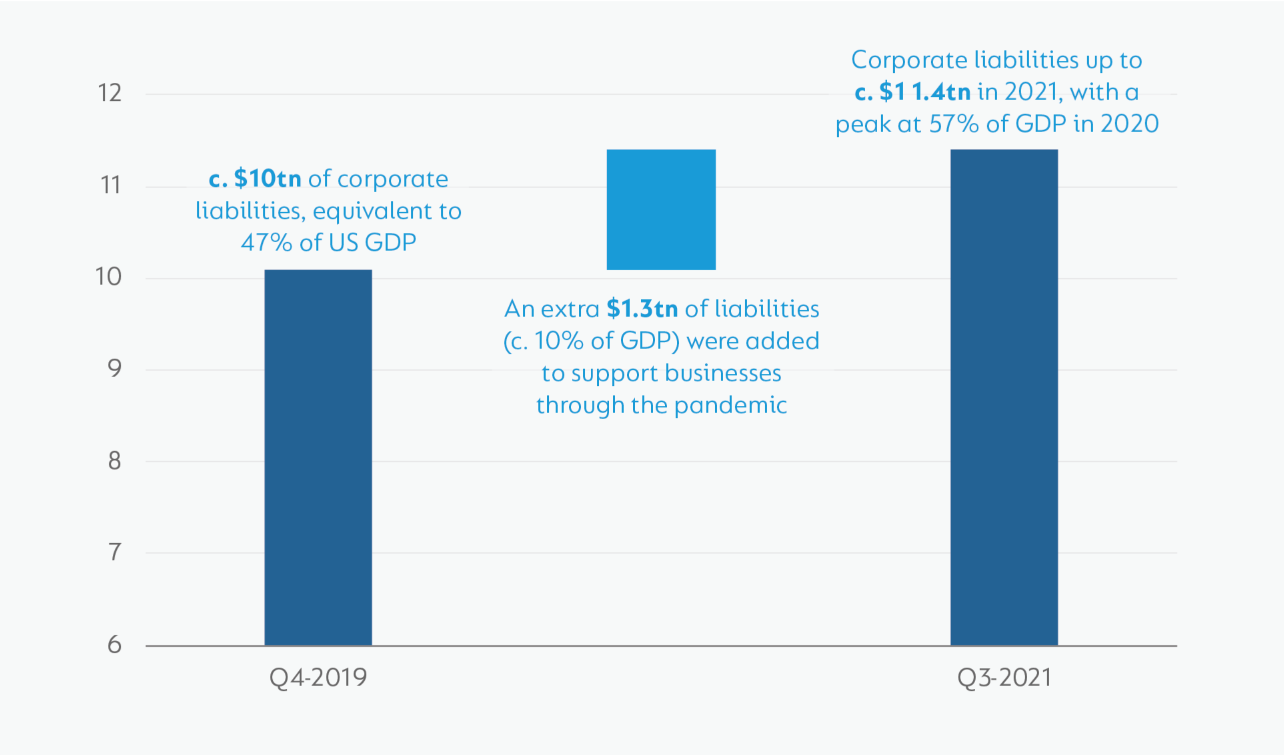
5 Fiscal response to the COVID-19 crisis in advanced and emerging market economies - Alberola - 2021 - Pacific Economic Review - Wiley Online Library

The seeds are sown: increased debt burden in the aftermath of the pandemic.

The immediate crisis was relatively short-lived. By early summer 2020, markets began to rally, spurred by the combined effects of monetary and fiscal stimulus measures and the gradual easing of lockdown restrictions. Despite some volatility during this period, markets generally maintained an upward trajectory, further bolstered by the promising early results of vaccine development.

Nonetheless, the influx of liquidity and government support did not come without costs. In order to resolve immediate financial concerns, medium and long-term leverage was increased, often with the backing of government-guaranteed funds. While initially successful in stabilising the market, these measures effectively sowed the seeds for future challenges as businesses and governments faced the prospect of managing increased debt burdens in the aftermath of the pandemic. Although many government-guaranteed loans were granted on favourable terms, the future prospect of higher debt amortisation and refinancing loomed large, casting a shadow over many businesses' financial health.

Government support measures had an undesired consequence: an increase in leverage.[6]
Cumulated liabilities of the US financial corporate sector ($tn)



6 Corporate net debt seen rising as companies spend pandemic cash piles | Reuters – July 2021

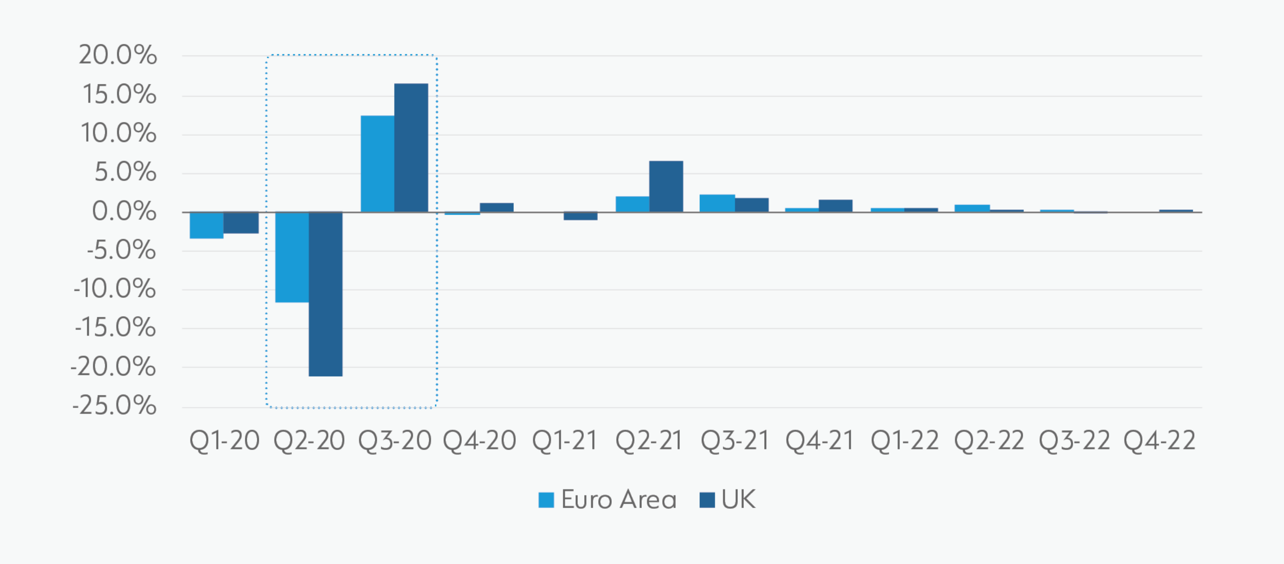
2 2021: COVID recovery and growth

The strength of the post-Covid recovery presents challenges, as well as opportunity.

As lockdown restrictions were lifted, economic activity gradually resumed, breathing life back into economies that the pandemic had severely impacted. This led to a sharp recovery in GDP in the second half of 2020, although uneven depending on sector, region, and the extent of virus containment efforts. However, the lockdown measures, though effective in slowing the spread of the virus, also sowed further seeds of future disruption.

Sharp recovery in economic activity from the second half of 2020, but growth otherwise anaemic[7]

Quarter-on-quarter real GDP growth (UK and Euro Area)



The impact of the lockdowns on global supply chains during the pandemic was unparalleled. Widespread factory closures, travel restrictions, and border controls disrupted the flow of goods and services, exposing the fragility of modern supply chains. Companies faced difficulties in sourcing raw materials, components, and finished products, leading to production delays, inventory shortages, and increased costs.

The massive government and central bank stimulus measures along with monetary policy helped to stabilise economies and boost consumer spending. But, as economies began to recover, pent-up consumer demand further strained supply chains, with some businesses struggling to keep up with the sudden surge in orders. The combination of supply chain disruptions, elevated demand, and unprecedented fiscal and monetary stimulus measures led to inflationary pressures, including higher consumer prices, increased wage and input costs for businesses, and rising asset prices.

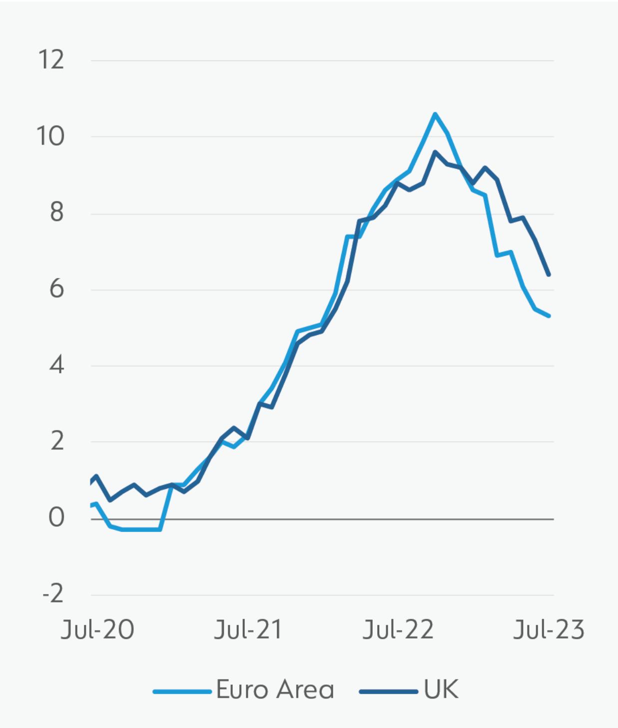
In some cases, the increased costs were passed on to consumers, leading to higher inflation rates. In other instances, businesses absorbed the costs, which impacted their profit margins and, ultimately, economic growth. A key challenge for investors was to identify and focus on businesses that would be effective in passing on these costs and achieve profitable growth.

As economies around the world grapple with the rising tide of inflation, central banks have significantly tightened monetary policies

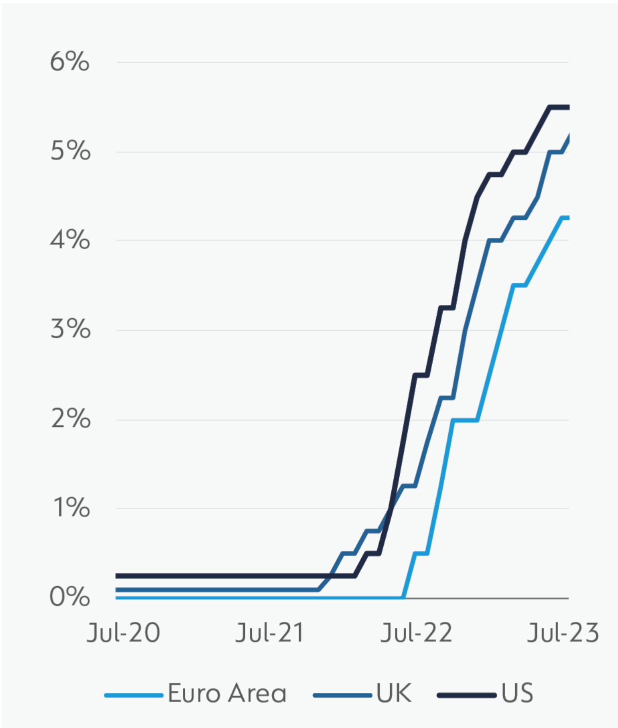
7 OECD Data - Quarterly GDP and spending – Data as of Sep-23

through higher policy interest rates and the gradual scale back of their asset purchase programs. Monetary tightening came late, however, as policymakers had not anticipated the degree of inflationary pressures, forcing them to engage in severe and coordinated tightening.

Soaring inflation in the aftermath of the pandemic[8]
Annual inflation rate in the UK and Euro Area



Coordinated monetary policy tightening in Western economies[9]
Policy interest rates of the US, UK, and European central banks



A weakening macro outlook

With inflation rising in the aftermath of the Covid pandemic, businesses who were not able to fully pass costs onto customers found themselves under increased pressure. The tightening of monetary policies starting from 2022 put further stress on companies that drew on increased leverage to navigate Covid-related disruptions.

As profit margins compressed and interest burden maintained its upward trajectory, investors' confidence tumbled in the first quarter of 2022. The broadly unexpected invasion of Ukraine in February 2022, together with its consequences on global energy and food supplies, amplified the crisis. Markets nose-dived from May 2022,[10] creating a new window of opportunity for capital solutions players.

8 Bank of England Database - Bank Rate history and data – Data as of Sep-23; European Central Bank - Key ECB interest rates – Data as of Sep-23; Board of Governors of the Federal Reserve Federal - Selected Interest Rates – Data as of Sep-23

9 European Central Bank - Inflation and consumer prices – Data as of Sep-23; OECD Data - Inflation (CPI) – Data as of Sep-23

10 PitchBook / LCD, Morningstar European Leveraged Loan Index - Data as of Sep-23

3 2022: Ukraine crisis

Market volatility returns

Early 2022 saw the return of volatility to markets, this time in the context of a year of post-Covid rebound leading to supply-demand imbalances, as businesses struggled to keep up with the surge in consumer demand and grappled with lingering supply chain disruptions.

These imbalances not only contributed to inflationary pressures but also introduced an element of uncertainty into the markets.

Significant increases in liquidity in 2020 and 2021 facilitated by the unprecedented monetary and fiscal stimulus measures implemented by central banks and governments during the pandemic played a major role in buoying asset values across a wide range of asset classes.[11] As a result, equities, bonds, real estate, and other assets, such as cryptocurrencies, experienced inflated valuations, creating concerns about potential market bubbles and their subsequent correction.

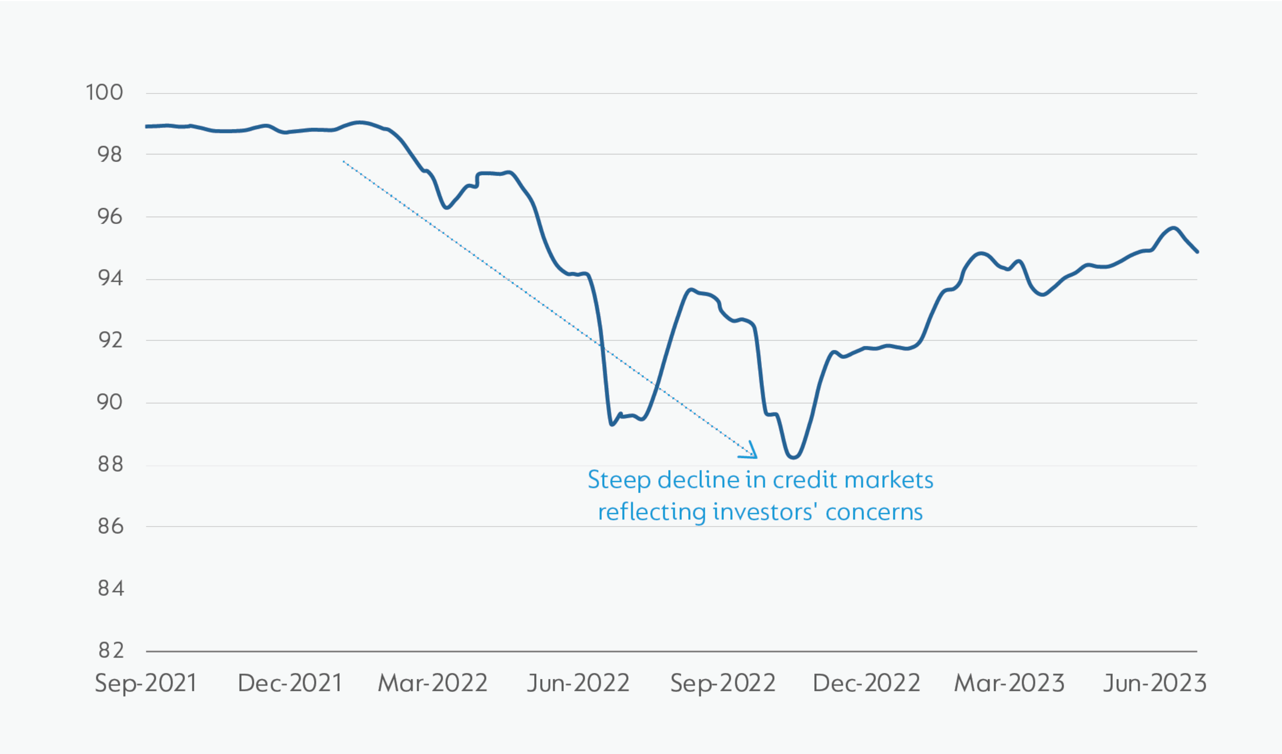
Heightened leverage at both corporate and sovereign levels, a further consequence of the pandemic support measures, added to the market's volatility. Companies and governments had taken on substantial debt to weather the economic downturn, leaving them more vulnerable to rising interest rates and changes in market sentiment. This increased debt burden raised concerns about the long-term sustainability of such leverage and the potential for financial instability in the event of sudden market shifts or deteriorating economic conditions.

Russia's invasion of Ukraine in February 2022 sent shockwaves through the global political and economic landscape, serving as a catalyst for a broad-based 'risk-off' posture in capital markets. Investors, concerned about the potential for escalating geopolitical tensions and its implications for global trade and economic stability, began to retreat from riskier assets in favour of safer alternatives.[12] This shift in investor sentiment led to a sell-off in both equities and credit. The heightened perception of risk associated with high-yield bonds and leveraged loans, coupled with the general flight to safety, caused credit spreads to widen and prices to fall.[13] This created a challenging environment for borrowers, who faced higher borrowing costs and restricted access to capital and again opened the door for opportunistic, discounted debt investors to assess their buying opportunities.

11 Central Banks Are Creating Bubbles Everywhere in the Pandemic - Bloomberg Article – January 2021
12 Why Markets Bounced Back After the Ukraine Invasion | Time Article – March 2022
13 PitchBook / LCD, Morningstar European Leveraged Loan Index - Data as of Sep-23

Broad market sell-off in 2022 reflecting investors' concerns[14]

Weekly weighted average bids of European Leveraged Loan Index (ELLI)



Inflation experienced a significant acceleration as a direct consequence of the war, which had far-reaching effects on various sectors of the global economy. One of the most notable impacts was on key commodities, particularly those related to food and energy, which saw dramatic price increases in response to the conflict. The Russian sanctions, as well as the disruption in the production, transportation, and distribution of certain commodities, led to intensifying supply chain bottlenecks, exacerbating inflationary pressures.

For instance, wheat, a staple food crop for a large portion of the world's population, experienced price surges due to disruptions in major wheat-producing regions affected by the war.[15] The consequences of this price increase rippled through the global food supply chain, resulting in higher costs for consumers and threatening exacerbated food insecurity in vulnerable populations.

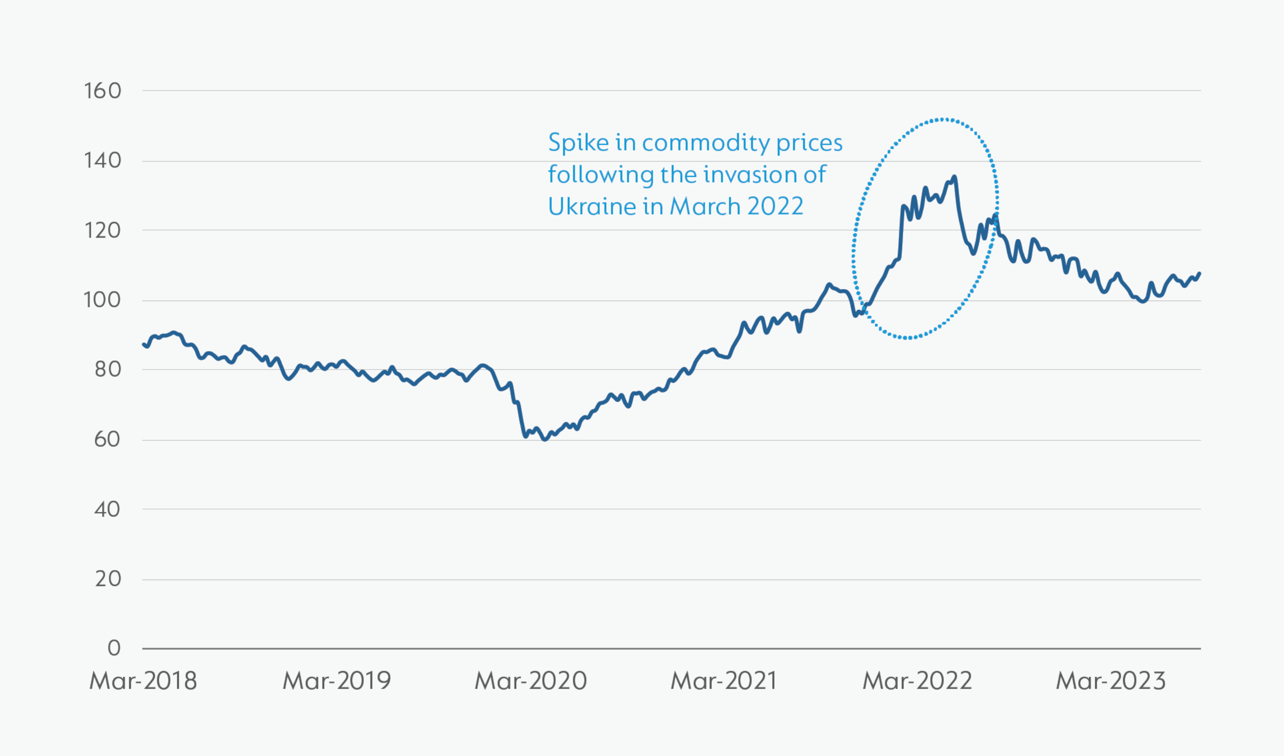
14 PitchBook / LCD, Morningstar European Leveraged Loan Index - Data as of Sep-23

15 Wheat prices hit record highs as war halts exports from Ukraine and Russia | Financial Times Article - March 2022

Similarly, energy markets, including oil, natural gas, and coal, witnessed significant price hikes as the war unfolded. The higher energy prices, in turn, translated into increased production costs for businesses and higher utility bills for households, further fueling inflation.

These increases in key input prices fueled inflation more broadly and fed directly into the financial well-being of businesses, leading to margin pressures where companies could not pass cost increases onto customers.

Increases in commodity prices accelerated by the Ukraine conflict[16]
Weekly average Bloomberg commodity index



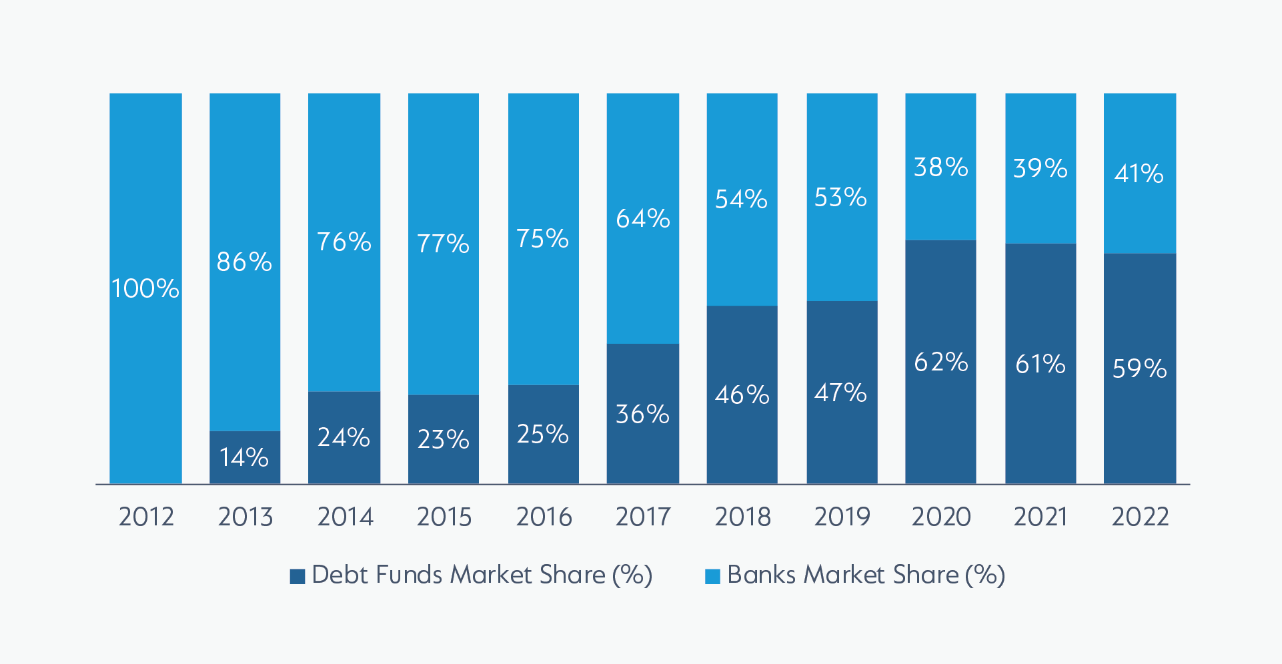
Liquid debt market new issue volumes dry up and banks retrench from the market.

The increase in volatility and deterioration in market fundamentals in 2022 led to a sharp drop in leveraged loan and high-yield new issuance volumes, effectively closing this part of the capital market to companies and sponsors looking to finance transactions[17].

As a result, private equity sponsors frequently turned to private debt managers as reliable debt-financing partners for LBO and M&A deal activity.

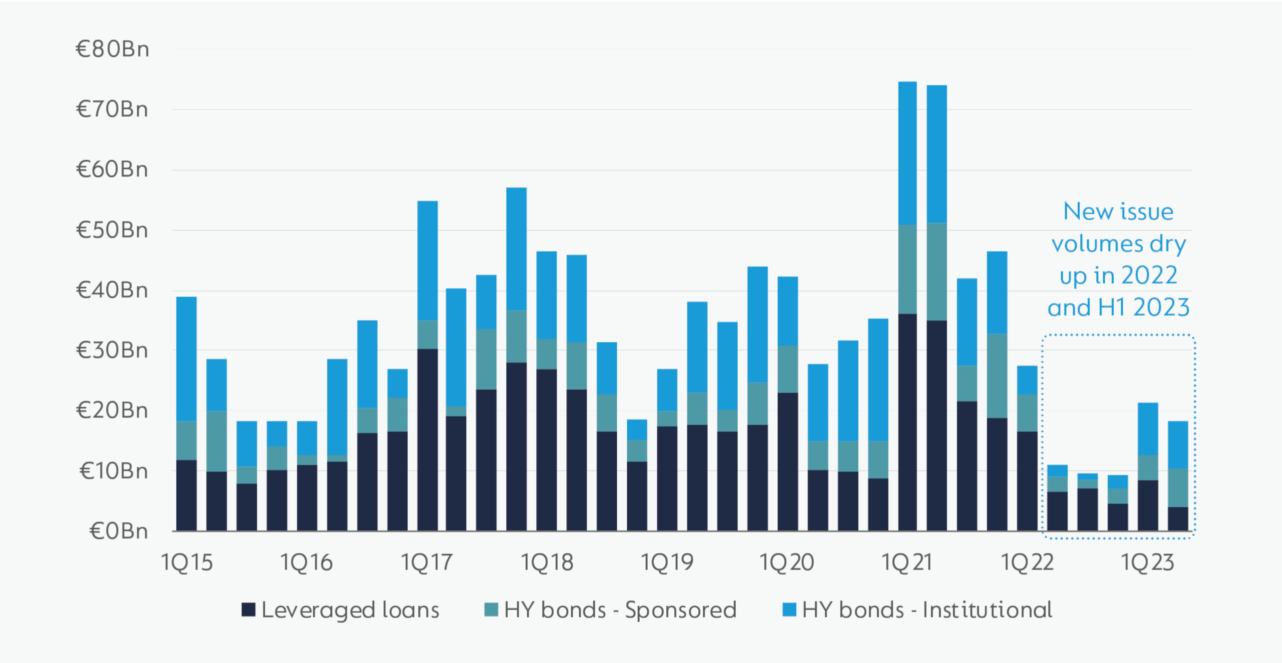
16 Bloomberg Commodity Index (BCOM), weekly average Index level - Data from Bloomberg as of Sep-23
17 PitchBook / LCD, Quarterly Update Data - Data as of Jun-23

Banks had continued to retreat from the buyout loan market pre-2022[18]
Proportion of buyout financings provided by private debt vs banks (by number)



The structural shift towards private debt was cemented in this volatile market environment due to the unreliability of the liquid debt markets, particularly for private debt managers with the size and scale to finance 'large-cap' deals, which historically would have been almost exclusively financed in the liquid markets.

Liquid markets effectively shut in 2022[19]
Quarterly European leveraged finance new issue volume



18 PitchBook / LCD, Quarterly European Leveraged Lending Review - Data as of Jun-23
19 PitchBook / LCD, Quarterly European Leveraged Lending Review - Data as of Jun-23

The turmoil in markets also resulted in a large quantity of hung debt clogging the balance sheets of underwriting banks. These institutions, having mispriced several large, high-profile Europe transactions, such as those involving Morrison's supermarkets and Ekaterra, found themselves in a precarious risk position when a swift rise in interest rates and economic uncertainty caused funding markets to collapse.[20] The adverse market conditions caught banks off-guard, leading to substantial losses on these and other deals as they worked to offload the debt to opportunistic investors at significantly improved terms.[21]

By the end of 2022, an estimated $40 billion worth of hung sub investment grade debt remained on the banks' balance sheets globally, creating significant challenges for these institutions. This predicament left banks with limited capacity to absorb additional risk, for example in underwriting new transactions, leaving companies and their sponsors further struggling to secure financing for acquisitions.[22]

Yet this challenging headwind for banks, companies and shareholders is a tailwind for those credit investors who are able to take advantage of the dislocation and invest in this debt at significant discounts.

Challenged capital structures

The volatile market environment experienced in 2022 was very positive for capital solutions investors in terms of deal flow and quality of borrowers. In several instances, financing options in the liquid markets fell away, forcing companies to seek support from a reduced group of private lenders, who could offer certainty of execution and flexibility in structuring, against improved economic terms and legal protections.

Whilst secondary debt markets partially recovered in the first half of 2023[23] (creating opportunities to realise gains in some positions), new issuance remains at low levels, reflecting the concerns of banks and investors on weaker macroeconomic outlook as well as the difficulties in restarting the European CLO market as the key buyer of syndicated credit. In this context, alternative lenders such as capital solutions investors remain a preferred financing route for sponsors looking for certainty of execution.

With interest rates now climbing to mid-single digits and above in Western economies, borrowers are facing rising interest burdens. While the most robust businesses are able to secure capital from investors looking for safer allocations, a growing number of borrowers find themselves struggling with the financing structures inherited from the era of low interest rates. In our view, capital solutions strategies are ideally positioned with sponsors to provide friendly and customised financing solutions to help borrowers rebalance their capital structures.

20 How the Morrisons buyout turned into a nightmare for Goldman Sachs | Financial Times Article – July 2022
21 Why Banks Face Billions in 'Hung Debt' as Deals Cool: QuickTake - Bloomberg Article – July 2022
22 Banks Offload Millions in Hung Debt as Sale Restrictions Expire - Bloomberg Article – January 2023
23 PitchBook / LCD, Morningstar European Leveraged Loan Index - Data as of Sep-23

4 2023 and beyond

Rich opportunity set

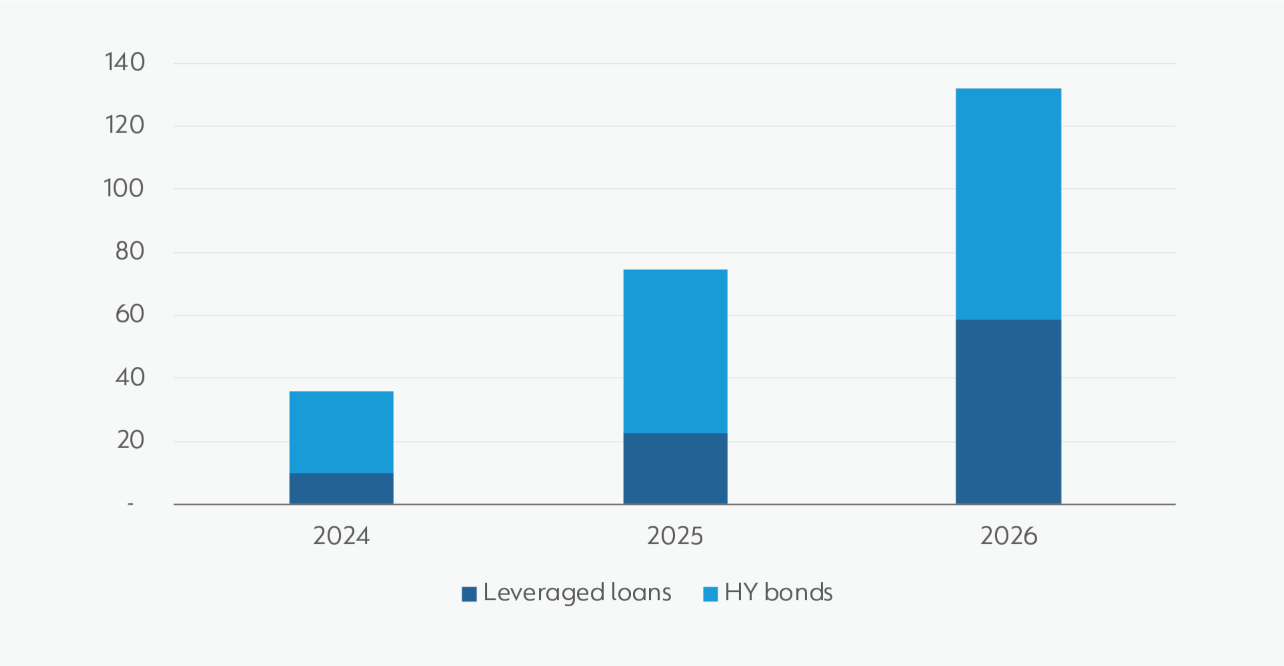
We have demonstrated how different phases in the economic cycle have consistently presented opportunities to invest from a well-positioned capital solutions strategy.

At times of severe volatility and dislocation, discounted debt purchases and liquidity / refinancing solutions become more compelling. In contrast, when the market is fully priced, specialist lending may be a more effective means of generating compelling returns.

In 2023, however, we find ourselves in a distinctive moment where all the strands of the capital solutions opportunity set are simultaneously attractive. Whilst some businesses continue to perform (those with pricing power, manageable leverage, and hedged interest rate exposure), other companies are grappling with an array of challenges that have accumulated over the last few phases of the cycle.

The retrenchment of traditional lenders has left a significant supply gap in the market, which private debt investors are able to fill with flexible capital. A strong driver of the demand for credit is the more than €100 billion[24] wall of debt maturities still set to come due in the next two years. The market has digested approximately €30 billion of institutional loan extensions in 2023 through August, including with the support of flexible capital providers. The maturity profile of the market continues to be upward sloping. A significant supply-demand imbalance risk continues, presenting a prime opportunity on which special situations investors can capitalise.

Growing volumes of loan and bond maturities in Europe in the next 3 years (€bn)[25]



In the face of these market dynamics, special situations investors are well-positioned to step in and address the financing needs left unmet by traditional lenders, leveraging their expertise to help borrowers and sponsors navigate the complexities of the current market.

This environment, marked by the withdrawal

24 Barclays Research - Data as of Sep-23
25 Barclays Research - Data as of Sep-23

of traditional lenders and the upcoming wave of maturities, offers special situations investors a chance to make a meaningful impact on the market landscape and unlock value for businesses and investors alike. This sizable opportunity set creates the potential to generate strong returns while also helping companies to manage their maturing debt obligations during a time of heightened economic uncertainty.

▶ LIQUIDITY AND REFINANCING SOLUTIONS

Investments in this category are helping companies to re-balance their existing capital structures. 3+ years of challenges have built up through the previous phases of the cycle and many companies will require private capital solutions funds to assist with one or more of the following issues:

- Elevated leverage
- Challenging affordability of cash interest given high base rates
- Impending maturities
- Lack of liquid market alternatives, with syndicated market closed to more complex borrowers

Examples of the types of transactions that a well-positioned capital solutions strategy can address includes the following:

1. Full refinancing, resulting in a fresh capital structure
2. Lending new pari passu senior debt to repay certain lenders who choose not to roll their investments
3. Providing junior debt to de-lever senior tranches

Successful strategies need to be able to underwrite alternatives to classic all-cash interest instruments, providing borrowers with valuable flexibility to navigate the current stretched environment (for example Payment-In-Kind (PIK) margins, exit fees, and warrants).

▶ SECONDARY DEBT PURCHASES

A multitude of leveraged loans and bonds are presently facing mounting pressure, as they grapple with a difficult mix of high leverage, steep interest costs, constrained cash flows, and fast-approaching maturities. Many market observers still see high recession risk in the short to medium term, and this could lead to a surge of forced sellers.

These sellers, often compelled to offload credits that continue to have value as they seek liquidity and manage their ratings exposure, may increasingly need to offer them at discounted prices, creating opportunities for well-positioned investors. In this dynamic landscape, investors can capitalise on the mounting challenges faced by leveraged businesses amid market turbulence to uncover investment prospects that can offer attractive returns.

Not all opportunistic investors, however, are on loan “whitelists”. The whitelist is negotiated by a borrower as part of the original finance documents and lists the pre-approved parties that are permitted to become lenders of record. This enables sponsors and companies to limit the lender group to parties they know and trust and exclude more aggressive special situations and loan-to-own funds. Increasingly, we are also seeing borrowers and their sponsors limit access even to the initial information for evaluating a potential secondary purchase to approved lenders only. Since a great number of logical buyers of discounted loans are not on the whitelist, this creates a supply-demand imbalance for the loans that experience some underperformance or a risk of downgrade.

COMPLEX PRIVATE LENDING

In today's challenging landscape, characterised by limited financing supply and numerous market headwinds, many borrowers face an uphill battle to secure funding for more complex credits, both from direct lending funds as well as traditional banks.

In our experience, lenders' decision-making has become increasingly binary in this environment, often resulting in the swift rejection of more intricate credits, which are deemed as falling into the 'too difficult' category.

This context presents a prime opportunity for resourceful investors and special situations lenders to step in, offering innovative financing solutions to those borrowers struggling to navigate the complexities of the current market. By doing so, they can tap into a relatively more niche segment of the credit market that has been overlooked by more risk-averse lenders, potentially unlocking valuable investment opportunities.

Capital solutions strategies that are integrated with a scale direct lending business have a particular advantage, in our view. Such players have access to a significant amount of all market opportunities. They can leverage their expertise and market understanding to evaluate those opportunities that may not align with their direct lending criteria and determine if they are suitable for their capital solutions strategy. Such an integrated approach maximises the potential of every opportunity sourced, offering tailored financing solutions to borrowers while enhancing the potential to generate strong returns for investors.

Capital solutions deal matrix[26]

26 Arcmont - Capital Solutions opportunity set

Conclusion

With so much market volatility since 2020 in such a short space of time, we have explained how a well-defined capital solutions strategy has the potential to successfully navigate major shocks and market dislocations, as well as invest through more buoyant economic environments.

An ability to invest across market environments and to pivot between segments of the investable universe is in high demand from investors seeking consistent and high returns.

A flexible investment mandate, ranging from tailored private capital solutions to secondary debt purchases and hung syndications, allows consistent capital deployment, seeking out strong opportunities in many different guises. By maintaining a diversified toolkit and presence across the capital structure, such a mandate can pivot to the most appealing opportunities as cycles evolve. A seasoned team will use its experience to generate a premium from complex special situations whilst maintaining rigorous risk management.

This paper has revealed the broad scope of potential transactions available today. In our view, the opportunity set for capital solutions is very significant in 2023: we find ourselves in an unusual moment, when multiple strands of the capital solutions opportunity set have become appealing simultaneously.

With traditional capital expected to remain constrained for the foreseeable future, more borrowers struggling with unbalanced capital structures and volatility persisting in secondary markets, the capital solutions pipeline is expected to remain both deep and broad. Seasoned teams will be able to adapt appropriately and maximise the opportunities created by evolving conditions. By maintaining strict standards around structure, documentation and covenants, experienced credit investors can deliver downside protection alongside upside potential. High quality and well-established firms, which can leverage large and experienced teams with integrated capabilities, will be best positioned to navigate the cycle whilst delivering tailored financing solutions with attractive potential returns and other important features, such as ESG, for investors.

For all these reasons we believe that the current market conditions will remain highly attractive for capital solutions strategies for the foreseeable future.

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