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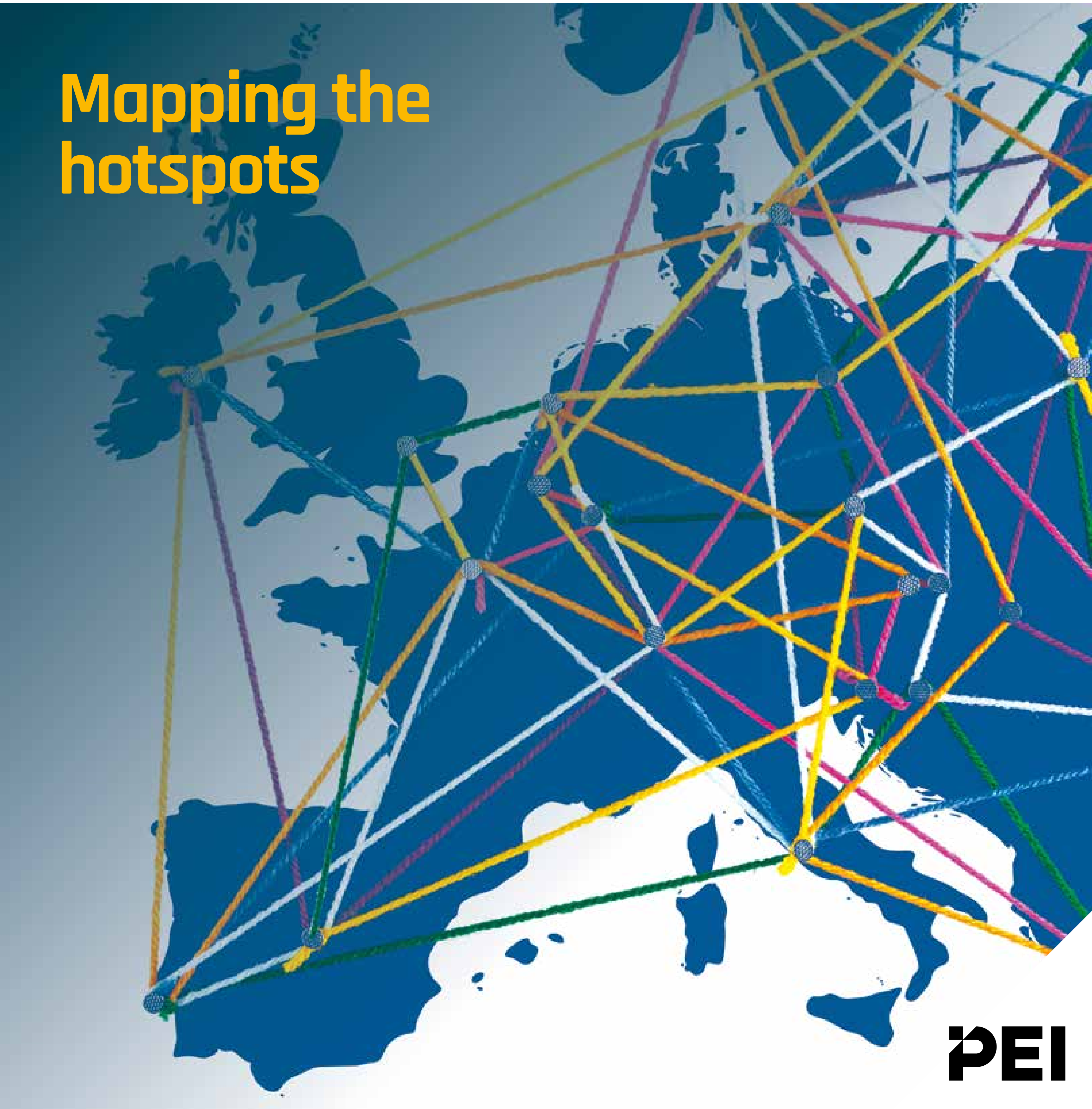

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How to contact us

Senior Editor
Andy Thomson
andy.t@pei.group, +44 20 7566 5435

Director, Commercial Content
Graeme Kerr
graeme.k@pei.group, +44 20 3862 7491

Special Projects Editor
Hannah Roberts
hannah.r@pei.group, +44 20 4549 1771

Americas Editor
Robin Blumenthal
robin.b@pei.group, +1 646 970 3804

News Editor
John Bakie
john.b@pei.group, +44 20 7566 5442

Reporters
Christopher Faille
christopher.f@pei.group, + 1 860 849 1808

Sergio Padilla
sergio.padilla@pei.group, +1 210 957 9307

Contributors
Amy Carroll, Claire Coe Smith, Edward Cleaver, Oliver Wilmott, Jon Yarker

Managing Editor, Production: **Mike Simlett**

Production Manager: **David Sharman**

Senior Production Editors: **Tim Kimber, Adam Koppeser**

Production Editors: **Helen Burch, Christine DeLuca, Nicholas Manderson, Khai Ojehomon, Jeff Perlah**

Copy Editors: **Adam Campbell, Ana Martinez, Louise Squire-Crawford**

Art Director: **Mike Scorer**

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Art Editor: **Lee Southey**

Art Director – Americas: **Allison Brown**

Senior Visual Designer: **Denise Berjak**

New Media Designer: **Ellie Dowsett**

Designer: **Shanzeh Adnan**

Global Business Development Director – Private Debt: **Beth Piercy**
beth.p@pei.group, +44 20 7566 5464

Subscriptions and Reprints
subscriptions@pei.group

Customer Services
customerservices@pei.group

Editorial Director, US: **Rich Melville**

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Europe

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Insight

All eyes on Europe **The key trends driving growth upwards in a booming market**

Data from *Private Debt Investor's LP Perspectives 2026 Study* shows global LPs are increasingly likely to allocate to funds focused on Western Europe over the coming year, ***writes Hannah Roberts***. But the volume of allocations – as well as record-breaking fundraising figures for Western Europe in 2025 – only tell part of the story of private credit growth in the region.

Managers increasingly recognise that making market forecasts based on outdated LP appetites is no longer the path to growth in Europe, with many investors looking to expand into new strategies and sector specialisms across the continent.

We run through three key ways that GPs are finding the best diversification opportunities and reaping the benefits of a renewed focus on Europe's private credit landscape.

1 Switching up on strategies

Credit investors are ramping up their commitments to strategies that were once seen as the remit of European specialists, including NAV lending and capital solutions strategies. Capital solutions looks to satisfy growing demand for more flexible capital for complex borrowers, while NAV lending seeks to offer loans backed by diversified pools of financial assets – an increasingly popular offering across all markets, given fluctuations in macroeconomic conditions.

Cassandra Fahy, co-head of NAV financing and GP solutions origination at Pemberton Asset Management, says the firm's pipeline for NAV financing deals has "significantly strengthened" in the first three months of 2026.

"The key driver [of the heightened activity] is the volatile macroeconomic backdrop for private equity over the last five years," she says. "It is harder to create value than it was, hold periods have extended and LPs are looking for liquidity."

As the European market grows in sophistication and LPs become more comfortable with their GPs using new innovations to deliver returns, adoption looks set to increase. "In 10 years from now most, if not all, funds will use NAV loans," says Fokke Lucas, a partner at 17Capital.

42%

Proportion of LPs that have a greater interest in investing in Western Europe in 2026 than in 2025

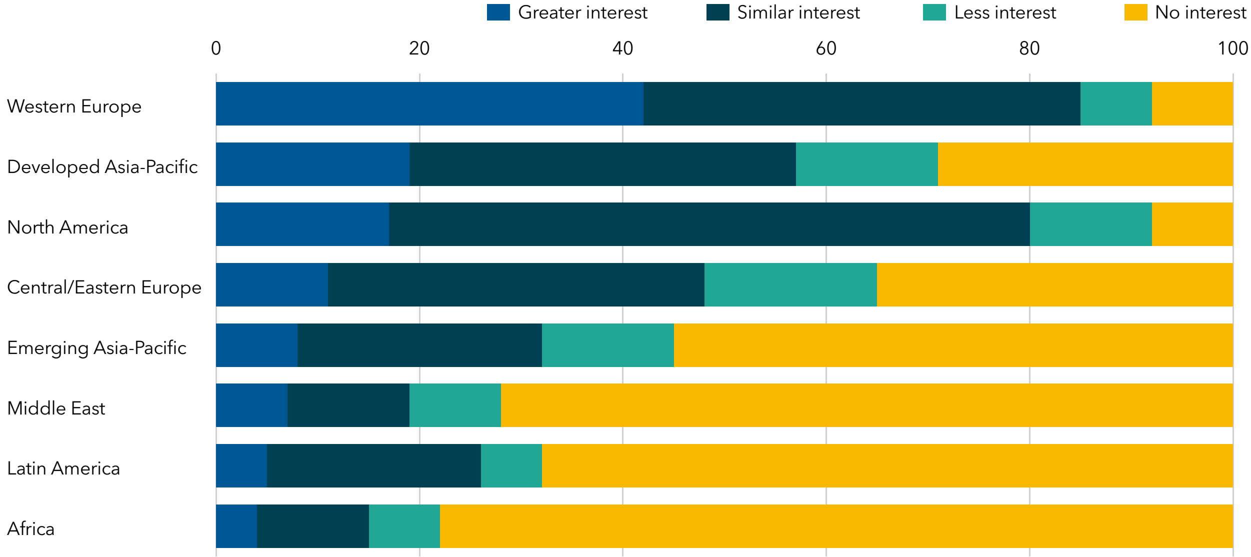
Source: Private Debt Investor's LP Perspectives 2026 Study

2 Retail becomes a reality

The democratisation of private markets has been a growing – if slightly contentious – topic of conversation across the industry in recent years, but recent changes to the European Long-Term Investment Fund (ELTIF) structure have renewed enthusiasm about the benefits of individual investors entering the asset class.

According to a report from data provider Scope, 113 ELTIFs were launched in 2025 – nearly twice as many as in 2024 – and assets under

LPs' regional debt investment appetites for 2026 (%)



Source: Private Debt Investor's LP Perspectives 2026 Study

management also rose by 55 percent on 2024 to hit $34 billion.

There is still plenty of room for the strategy to run, though many in the market note that individual investor education on the latest updates to regulatory structures will be crucial going forward.

Owen Lysak, a partner at Simpson Thacher & Bartlett, predicts that the shift in education will emphasise the specific risks and limitations of private debt investing for individuals.

"That's why you really will see a move away from the use of the term 'semi-liquid'," he says. "There's a concern that this suggests to end investors that these products have a different type of liquidity profile than they do in practice. It's nothing like a daily traded fund."

The differing regulatory frameworks of each individual European country may deter some managers from engaging with retail capital as much as they may like, points out Anant Kumar, head of research and portfolio manager at Benefit Street Partners.

> "Clarity on [ELTIF] suitability standards would unlock additional activity"
>
> Anant Kumar
> Benefit Street Partners

"Today, an ELTIF that is straightforward to distribute in France may face different requirements in Germany or the Netherlands, which creates friction and increases costs for managers trying to build pan-European distribution. Clarity on suitability standards would also unlock additional activity."

3 Magnifying the mid-market

The specific market dynamics widely associated with mid-market investing in Europe are leading many managers to consider the region a stable environment for investment, regardless of ongoing geopolitical turmoil.

Tikehau Capital's co-head of credit and head of private debt Cécile Mayer-Lévi says the region's complexity was a key driver behind private credit's initial mass entry into the European market. "A key merit of private debt has been diversified portfolios, and in the European mid-market you have many different jurisdictions with slightly different growth dynamics that make it quite appealing."

The enterprise value of European mid-market privately held companies grew by approximately 6.7 percent in 2025, according to advisory firm Lincoln International's European Private Market Index, which noted that the private sector outperformed its public sector counterparts.

While default rates will no doubt be closely watched across Europe, the region's resilience for mid-market investing is certainly not going unnoticed. ■

Editor's letter

Europe's private credit renaissance

Hannah Roberts
hannah.r@pei.group

Much has already been written about the private credit sector's push to diversify as a hedge against the impact of geopolitical uncertainty, but nowhere is this more visible than in LP allocations to Europe-focused vehicles. *Private Debt Investor* data shows that 2025 was the strongest year for European private debt fundraising on record, marking a 20 percent increase year-on-year to hit $190 billion.

Meanwhile, attendees at *PDI*'s Seoul and Tokyo Forums in mid-April heard a raft of arguments for greater diversification towards Europe's well established private credit markets. Several panellists noted that the potential impacts of outflows from BDC upheaval in the US may also mean that LPs intend to allocate less to US-focused strategies.

"There is a sea change in what Europe-focused managers can offer"

That's not to say that the European market won't face challenges, of course. The impact of developing AI tools on business services and software-heavy portfolios is likely to cause consternation for managers, while there are global concerns about retail capital integrating into private credit vehicles.

But investors' increasing willingness to broaden their scope beyond the US and direct lending is creating a sea change in what Europe-focused managers can comfortably offer. Capital solutions and speciality finance strategies are growing in popularity, while expansions into related cross-asset class areas – such as real estate and infrastructure debt – are breaking new ground for LPs around the globe.

All the while, European managers, investors and regulators alike are continuing to push the boundaries of what is possible in this market, creating a roadmap for success that will take European lending from strength to strength.

Hannah Roberts

PEI

New York
530 Fifth Avenue,
14th floor
New York,
NY 10036
T: +1 212 633 1919

London
100 Wood Street
London
EC2V 7AN
T: +44 20 7566 5445

Hong Kong
Room 1501-2, Level 15,
Nexxus Building,
No. 41 Connaught Road, Central,
Hong Kong
T: +852 3704 4635

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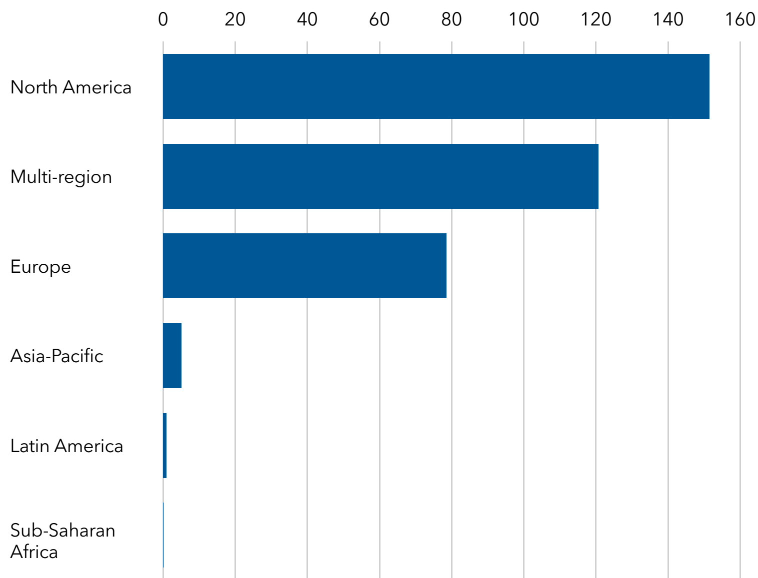
Europe bounces back

Private debt fundraising in Europe has reached new heights, with investors committing significant capital after a period of relative stagnation. Edward Cleaver reports

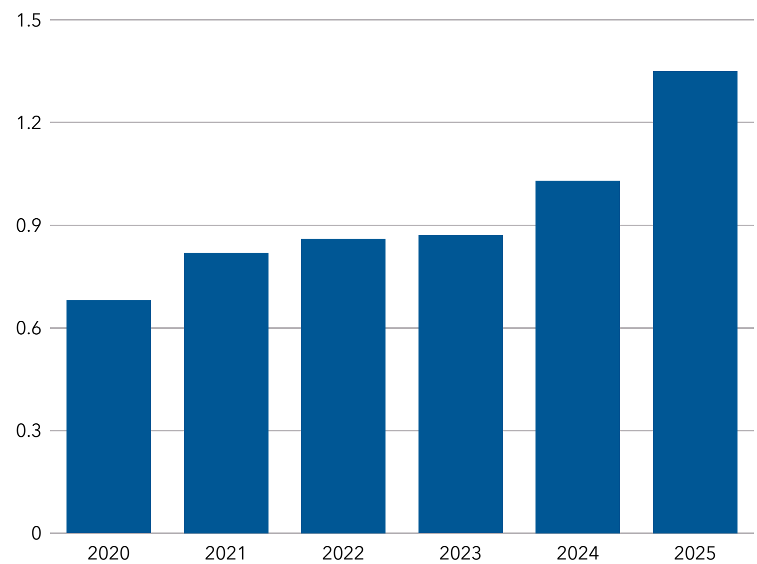
Private debt funds raised by target region 2025 ($bn)

After a few years of limited growth, European private credit experienced one of its most successful years of fundraising ever in 2025. Vehicles with a total or partial focus on European private credit raised nearly $79 billion in 2025, an 89 percent year-on-year increase against the $41.7 billion raised in 2024. While North America continues to dominate global fundraising totals, vehicles targeting European and multi-regions are growing in popularity with investors, suggesting that the European market may have benefited from LP appetites to diversify away from the US due to economic volatility.



Average size of closed-end private debt funds focused on Europe by close year ($bn)

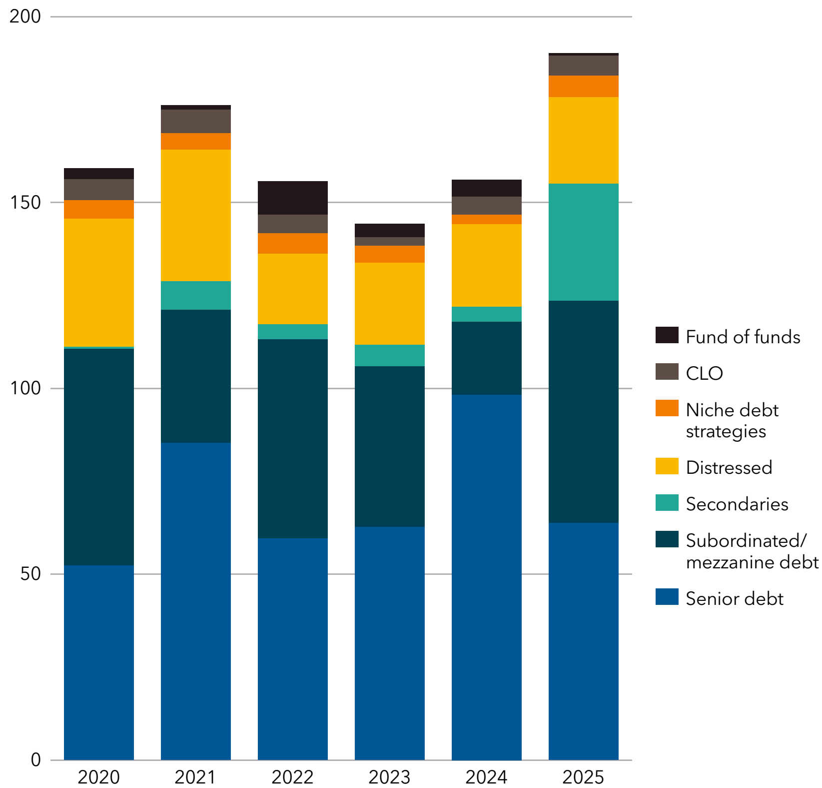
Last year, sustained growth took place in private debt fund sizes exclusively invested in Europe, surpassing the record levels set in 2024. The figure jumped to $1.35 billion in 2025, up from $1.03 billion the year before – the first time that the average fund size had crossed the $1 billion threshold. Average fund sizes have almost doubled since 2020, when the corresponding figure stood at around $680 million. This trend, which has accelerated over the past two years, indicates that investors favour larger, established managers.



Capital raised by closed-end funds with a total or partial focus on Europe by strategy ($bn)

In a year when fundraising levels rose considerably, investors recalibrated their commitments to different debt strategies. Credit secondaries received a pronounced uptick in support as its influence within the broader secondaries market expanded, raising $31.6 billion in 2025, a substantial increase from $4.1 billion in 2024.

After a significant jump in senior debt commitments in 2024, the strategy experienced a 35 percent decrease, returning to similar levels to 2022 and 2023. This came alongside a sharp rise in subordinated/mezzanine debt, suggesting private debt investors are looking to broaden their exposure across debt categories. However, senior debt still took first place as the largest strategy, as for every year since 2022.



89%

Year-on-year increase in private debt capital commitments for vehicles with a European focus in 2025

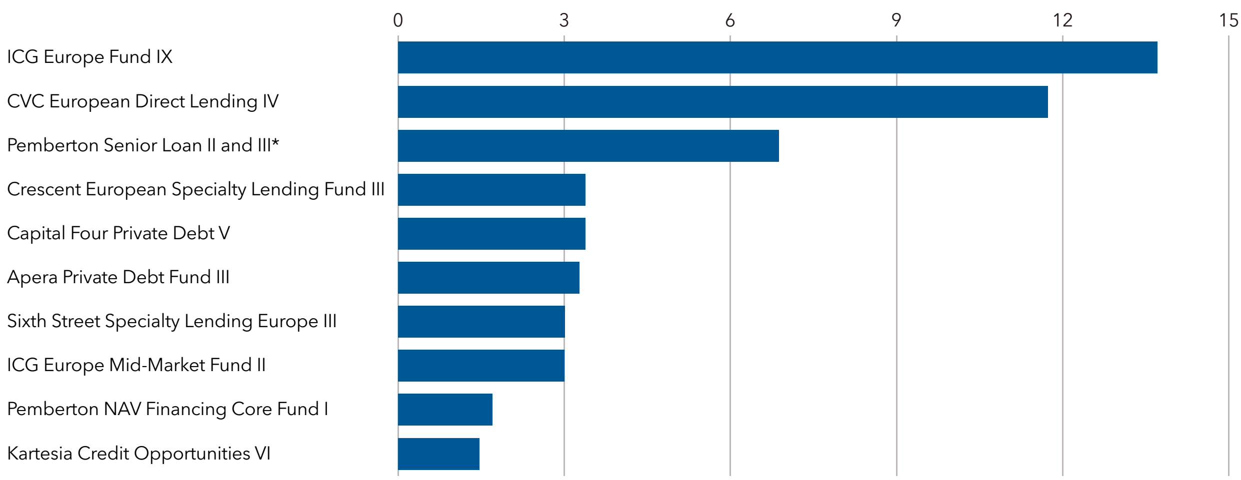
$79bn

Fundraising total for private debt vehicles with a focus on Europe in 2025

$320m

Rise in the average fund size of Europe-focused private debt vehicles

The largest private credit corporate fund closes focused on Europe in 2025



*Pemberton listed senior lending funds as one entity
Source for all data: Private Debt Investor

EXPERT Q&A

The disruptive influence of artificial intelligence means sector knowledge in private credit has never been more important, say Permira Credit's David Hirschmann and Benoit Vauchy

AI advances: Avoiding structural losers with sector expertise

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Q How have competitive dynamics in the European direct lending space evolved in recent years?

David Hirschmann: The direct lending market has grown significantly over the past two decades on both sides of the Atlantic, but the drivers have been quite different. In the US, growth has largely been propelled by a high number of new entrants. In Europe, by contrast, a relatively stable group of managers has continued to finance the majority of mid-market transactions, preserving a relationship-driven market.

More recently, some managers have scaled very quickly. In certain cases, that has led to capital being deployed more aggressively, with some loosening of underwriting discipline.

We have taken a different approach. Permira Credit has been active for nearly 20 years, with a consistent focus on measured growth. In direct lending, we prioritise originating a strong pipeline of high-quality opportunities over raising excess capital. That discipline, in our view, is critical to delivering performance, and will become even more important in the coming cycle.

Q How are firms differentiating themselves against this backdrop in the direct lending space?

Benoit Vauchy: Deep, bottom-up credit expertise and restructuring capabilities remain incredibly important. Direct lending is now such a large part of the overall credit landscape that it is impossible to entirely avoid defaults. Problems are inevitably going to arise, and managers need to be able to respond to those challenges by providing access to operational and strategic resources – such as in-house restructuring and value creation teams – that are valuable in these more complex situations.

But our strong view is that the most critical differentiator in the market today is sector expertise. Most lenders held a fairly simplistic view on sectors until just a few years ago; in order to avoid the big defaults, they stayed away from certain sectors perceived as too risky or cyclical, such as chemicals, automotive and retail, while leaning heavily into software as a perceived safe haven. The advent of artificial intelligence, however, fundamentally questioned that logic.

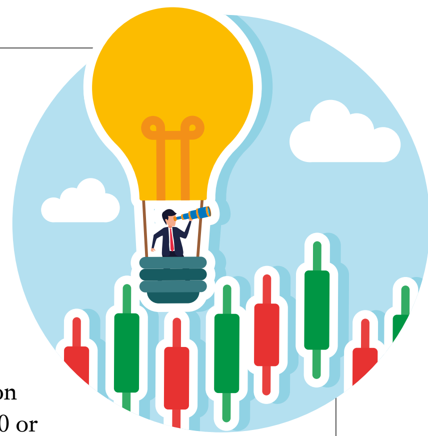
Sweeping statements can no longer be made about lending into entire sectors. It's crucial to be able to identify which individual software credits are good and bad, and understand why, for example.

Some players in the European mid-market initially responded to negative headlines by stating their intention to avoid AI risk. That is easier said than done; in fact, our opinion is that you cannot escape AI risk, regardless of which sector you are lending into. You must embrace it, and that is where having deep, embedded sector expertise really makes the difference.

Generalist private credit providers have to rely on the due diligence done by their clients. In our case, that will always be a sponsor, but in the general credit world it could also mean a corporate or an entrepreneur. The idea of outsourcing your sector perspectives to a third party, in particular today, feels dangerous. No matter how good that third party is, we believe a lender should always be able to form their own opinion on whether a business is an AI winner or an AI loser.

To form that view, that lender would either need to be extremely scaled to

> *"Our opinion is that you cannot escape AI risk, regardless of which sector you are lending into"*
>
> **BENOIT VAUCHY**



Q Diversification matters in private credit where the focus is on risk management and capital preservation. How does that marry up with a trend towards greater sector specialisation?

DH: Diversification is of course extremely important, but diversification and sector expertise are not in conflict; in fact, they are both essential.

As Benoit mentioned, the emphasis of sector expertise used to be on avoiding certain sectors perceived as too risky, but the environment is evolving. Increasingly, the challenge is to differentiate between strong and weak businesses within the same sector. That is difficult to do without genuine depth of expertise.

Meanwhile, our focus remains firmly on downside protection and capital preservation. In private credit, returns are contractual and there is no equity upside, so avoiding losses is the absolute priority. We are not chasing innovation, we are backing resilient businesses.

For us, effective diversification is about limiting the impact of individual credit outcomes. Even where a default occurs, it should not materially affect overall fund performance. That requires disciplined portfolio construction and the ability to diversify underlying credit risk, not simply exposure across sectors.

BV: I would add that it is important to remember that diversification doesn't provide complete protection. I have heard so many lenders say that their investors have no need to worry about AI because software only represents a certain percentage of their portfolio. We strongly disagree, because AI is ubiquitous. It is impacting just about every sector out there. You can provide some protection by making sure you have 50 or 60 names in your fund, but the most important thing is to avoid the big structural losers.

I actually believe that credit underwriting in these circumstances is easier than in equity underwriting, because in credit you don't take nearly as much terminal value risk. You still need to avoid those big structural losers, however, regardless of whether their failures are caused by tech disruption, competitive pressure, regulation or changing consumer trends.

Sometimes we see examples of lenders simply upping the price if they are uncertain of the impact of those factors, but that isn't the solution to this specific problem. The fact is that there are companies that you just shouldn't be lending to at all. There is a fundamental threshold question that needs to be considered and if the answer is that a business is structurally challenged, it is imperative that the lender walks away from the deal.

have real breadth across sectors or be genuinely embedded within a private equity platform with that depth of sector knowledge – the latter is true for us.

DH: Our edge comes from the depth of insight within our PE platform. Over more than 40 years, Permira has built sector expertise that feeds directly into our credit underwriting and investment decisions. Through close collaboration with dedicated, sector-focused teams, we are equipped to navigate complex situations and actively support portfolio companies through periods of change.

In a market where outcomes are increasingly driven by sector-specific dynamics, particularly with the impact of AI, we believe this level of integration and depth of understanding is not just a differentiator, but increasingly a requirement to deliver consistent performance.

Q Given that the next cycle is set to test managers' capabilities more than ever, how should LPs approach underwriting managers in this period of constant volatility?

BV: Private credit performance was fairly homogeneous for a long period of time. Default rates were low and so, by definition, the performance of credit providers with similar strategies has fallen within a fairly narrow range. It has been a low-alpha, high-beta environment.

LPs are now starting to worry about increased defaults and are therefore thinking more carefully about how various credit platforms are differentiated. From our point of view, there are a number of ways in which investors can approach this question. The first is to make sure that a GP has not raised too much capital for the opportunity set it seeks to target. It is important that the managers don't feel obliged to do every deal that comes across their desk. This is particularly relevant at a time when some managers are raising large sums of money from private wealth channels.

Second, investors should consider whether the manager has deep sector expertise in order to avoid backing structurally challenged businesses. Third, they should consider whether the manager has a real track record of dealing with difficult situations because there is no doubt that more of those situations will arise going forward.

DH: My advice for an LP would be to back managers that have prioritised performance over asset-gathering. The so-called golden age of private credit rewarded deployment. The next cycle will reward discipline.

Q Do you think that a creeping misalignment of interest could cause problems for the private credit industry?

"The so-called golden age of private credit rewarded deployment – the next cycle will reward discipline"

DAVID HIRSCHMANN

BV: LPs want managers to have a critical mass in order to be successful but they don't want their managers to have so much capital that they are under pressure to deploy at all costs. That is inevitably when mistakes get made. Over the past two to three years, some of the big platforms have raised very large amounts of capital from the wealth and retail channels – in some cases, hundreds of millions of dollars every month.

There are only three possible outcomes of this trend: either the manager will start to lend more money against any given credit, they will lower their prices and loosen terms to take market share from competitors, or they will start taking risks that their competitors won't. In other words, it leads to a compression on margins, a compression on terms, higher leverage and higher defaults. That is basic supply and demand dynamics.

The good news from an investor standpoint, however, is that this situation is starting to reverse and some managers that were experiencing hundreds of millions of incremental capital growth each month now see that capital flowing in the other direction. That should lead to better pricing, better terms and more discipline.

For our part, alignment with our investors has always been a priority. Permira has chosen to remain a private partnership and we only invest in two asset classes – private equity and credit – and the firm's partners have committed significant capital to both.

That means our incentives are tied to long-term performance in a way that other firms with different business models simply are not. The mindset this creates within the firm shapes every decision we make on deployment and pricing, and should lead to strong outcomes, particularly in the next cycle. ■

David Hirschmann is co-head of Permira Credit and Benoit Vauchy is a partner at Permira and an investment committee member at Permira Credit

What makes the European mid-market so resilient?

A confluence of macroeconomic tailwinds and cleverly structured portfolios means that the European mid-market is well placed to endure a challenging credit cycle, writes Claire Coe Smith

Despite geopolitical uncertainty and global trade wars, European mid-market and lower mid-market companies continue to show strong resilience, with enterprise values still growing and limited defaults.

Advisory firm Lincoln International's European Private Market Index notes that the European mid-market demonstrated strong growth in 2025, despite global economic volatility, with privately held enterprise values growing approximately 6.7 percent and outperforming public benchmarks. That growth was mainly driven by earnings expansion rather than multiple expansion, the report notes, as businesses proved capable of navigating pressures.

With default rates still low in the mid-market, several factors underpin the ongoing resilience. One key defining factor of that resilience is the complexity of the European private investment landscape – a "challenge" that Tikehau Capital's co-head of credit and head of private debt, Cécile Mayer-Lévi, says was one of the main reasons for private credit's initial mass entry into the European market.

"A key merit of private debt has been diversified portfolios, and in the European mid-market you have many different jurisdictions with slightly different growth dynamics that make it quite appealing," she says.

Geographical pull

Boris Harmsen, head of origination for Europe at Pemberton Asset Management, agrees that Europe's geography favours the mid-market. "You have local European heroes that have built strong positions in their home markets and can expand into other geographies to take advantage of synergies," he says.

"Mid-market private credit players can build strong portfolios that are well diversified across sectors and countries, with less correlation than you see in US portfolios. Diversification and complexity underpin those value-add propositions."

Nael Khatoun, a portfolio manager in Oaktree Capital Management's European private debt group, says that competitive dynamics also support resilience in the mid-market. "Europe's geography causes quite a lot of market inertia, as differences in labour laws, languages and regulations provide incumbent businesses with a bit more protection and higher barriers to entry," says Khatoun. "That favours national mid-market champions, unlike the US market, which is much more fluid and competitive."

Differences between the US and European market further help with the ways in which deals are structured, which Khatoun attributes to the smaller number of lenders that act on deals in Europe. "Documents tend to be tighter in Europe than the US, and covenant-lite is usually confined to the large-cap space," he says. "Generally, the mid-market has maintenance covenants and pretty tight incurrence covenants that serve well to help protect lenders."

Harmsen adds that mid-market borrowers in Europe are used to tighter documentation than is seen in the US and that covenant-lite deals are only necessary in Europe "if you are competing against the broadly syndicated loan market when it is open, and even then, it is only really open for businesses generating €80 million to €100 million EBITDA".

The structural features of the market are another reason why mid-market direct lenders have fared well so far. Jakob Schramm, head of private credit at Golding Capital Partners, says that deals on the continent "tend to be more conservatively financed, leverage levels tend to be favourable and capital structures are not maxed out".

"That buffer provides room for manoeuvre if there is macro-volatility or company-level challenges," he adds.

Growth mindsets

Meanwhile, Marcus Maier-Krug, partner and co-head of portfolio management at Arcmont Asset Management, says the resilience of European mid-market borrowers is supported by their growth trajectories.

"Unlike larger issuers, the investment theses in the European mid-market are not driven by financial engineering," he says. "Instead, you see a lot more traditional buy-and-build, ownership transition and professionalisation, so a sponsor can bring a lot more value-add.

"That favours the private credit proposition because, while we are never going to be the cheapest source of capital, when the primary driver of sponsor returns is growth, our flexible, relationship-driven capital becomes attractive."

6.7%

Approximate growth of European mid-market privately held enterprise values in 2025, outperforming public benchmarks

Source: Lincoln International European Private Market Index

Andreas Klein, head of private debt at Pictet Asset Management, argues that European mid-market companies are an ideal size to withstand many external pressures. "Geopolitical volatility, reflected in trade barriers, FX volatility and supply chain disruption, affects larger companies with complex supply chains more than smaller, regional players."

Sector exposures in Europe also bolster the mid-market's resilience – a particularly timely differentiator, given the ongoing uncertainty about private credit's exposure to software companies in the US in the face of AI. Nicolaus Loos, managing partner, founder and CIO at Deutsche Credit, says software exposure is significantly more benign in Europe.

"European mid-market private credit portfolios in jurisdictions such as DACH, Benelux and the Nordics tend to be more diversified across sectors, with lower average leverage levels and more defensive deal structuring."

Keeping a level head

However, the mid-market's continued resilience is not a surefire thing, given daily headlines coming out of the Middle East. Elad Shraga, CIO and founding partner at European investment fund Signal, which focuses on special situations opportunities, says: "The longer the Iran crisis continues, the more likely it is to impact mid-market companies across Europe. Europe is not energy self-sufficient like the US, and mid-market players typically have far less control over their purchasing and their pricing, which means they risk getting squeezed.

"That said, while there will be stress on margins and there could be some credit concerns in situations where margins were already challenged, we think the outlook is generally positive. We are constructive on the credit space and believe recent growth is sustainable."

Golding's Schramm is also positive about the outlook: "It is easy to look at global volatility and be concerned. In our portfolio, there is no uptick in realised losses, which always show a lag, and our watchlists are stable as well.

"Yes, there is the odd company not growing as fast as it should, or tripping covenants because those are stricter in the mid-market, but when you look at significant liquidity issues or a need for restructuring, there is no uptick and I see no significant indications that will change."

Emma Bewley, partner and head of credit at Partners Capital, thinks the European mid-market is particularly attractive to LPs when compared with the US. "We are at the back end of 10 years of relatively freely available capital and a mostly benign operating environment," she says.

"Europe has probably been more heterogenous than the US, with some pockets of stress, particularly during covid. For the most part, Europe has benefited from less capital flowing into the mid-market, so spreads have not tightened quite as much and leverage is not so high as we have seen in the US."

With the European mid-market profiting from high barriers to entry, solid covenants and more conservative lending, it has all the characteristics of an industry that should be relatively well positioned for some time to come. ■

EXPERT Q&A

Asset-backed strategies and managers prioritising local origination are best positioned to succeed in Europe as the market grapples with testing macro conditions, says Adam Baghdadi, managing director at Arrow Global

Local origination and asset backing will determine Europe's winners

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Q Private credit has grown dramatically since the global financial crisis, but is the market now entering its first real credit test?

There is truth in that statement. Differences in origination strategies and underwriting standards are becoming increasingly clear. Widely syndicated, on-market deals have become highly competitive.

Pricing has compressed, terms have been driven towards the lowest common denominator and covenant protection has eroded. That is likely to result in weaker credit outcomes in those highly competitive segments.

We are also starting to see a bifurcation between corporate-backed direct lending strategies and asset-backed lending. In the current geopolitical environment, with heightened macro uncertainty and disruption to international trade, underwriting an SME's ability to generate EBITDA on a forward-looking basis is, in my view, considerably more challenging than assessing whether an asset will hold its value. There will certainly be winners and losers in the current environment. The headwinds are clear, but much will depend on the details of a lender's underlying strategy.

Q How can managers deploy capital in a market that is awash with dry powder without compromising underwriting discipline?

First, I would highlight the importance of local origination strategies. We are not interested in widely syndicated deals circulated to 20 managers, where the winner is the one with the most optimistic assumptions or the lowest pricing. Because we originate locally, our underwriting is grounded in local market knowledge. If we are underwriting a bridge loan in Madrid, for example, our Spanish team provides the insight that shapes our view of the collateral.

Second, there is a real advantage in focusing exclusively on asset-backed strategies. We are not taking a directional view on the sustainability of corporate earnings in an increasingly challenging international environment. We are taking a view only on whether asset values will remain sufficiently stable to protect our credit position. Those two pillars give us the confidence to maintain underwriting discipline while ensuring adequate downside protection.

Q How are allocators responding to the change in market environment?

Given the geopolitical uncertainty and the erratic policymaking that has become evident in the US, we are seeing many non-US allocators that have historically maintained large exposures to the US market, including Canadian institutions, seek to diversify geographically. This has resulted in a marked increase in appetite for Europe since the start of the Trump administration.

In addition, as the corporate direct lending market has become increasingly crowded, investors have started to look for alternatives, including traditional real estate financing and other opportunities across the broader asset-backed lending universe. There is clear momentum behind allocators seeking out areas of private credit beyond straightforward sponsor-backed direct lending.

Q What lessons should allocators take from scenarios such as the recent collapse of little-known UK mortgage provider Market Financial Solutions when it comes to these sorts of asset classes?

I think situations such as the one we have seen with MFS highlight the importance of selectivity. You need to ensure you are working with high-quality, high-integrity managers. In particular, you need to ensure that the managers you invest with own their origination channels and have the in-house expertise required to underwrite credits appropriately. You do not want to invest with a manager that is simply passing your capital on to an institution it cannot properly oversee.

Underwriting real estate and infrastructure loans is not straightforward and cannot be done effectively on an arm's-length basis in the way that might be possible with a corporate lending facility. In the case of MFS, I think the episode illustrates what can happen when capital moves from one platform to another without sufficient institutional oversight. That needs to be avoided at all costs.

Q What parts of the real estate debt market do you think are particularly interesting in the context of everything that is going on in the world right now?

We focus on two key asset classes. The first is the living sector, which includes residential and residential-adjacent segments such as student housing. The second is hospitality.

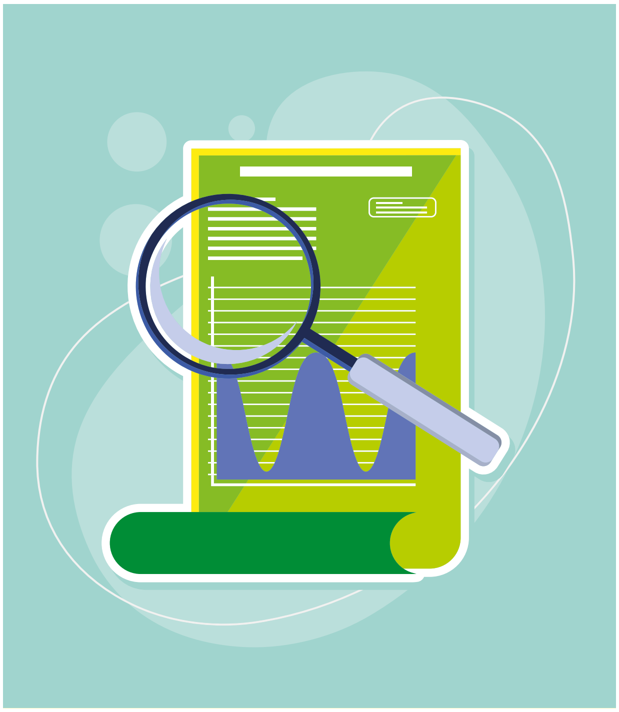
Residential is being supported by a persistent structural undersupply of high-quality assets across Europe. Every government in the eight western European countries in which we operate has reported a housing delivery shortfall in each of the past five years. That makes this a materially undersupplied asset class and one that is clearly socially important. Certain European cities may also benefit from individuals relocating from the Middle East.

"There is clear momentum behind allocators seeking out areas of private credit beyond straightforward sponsor-backed direct lending"

Meanwhile, hospitality in southern Europe has enjoyed significant tailwinds as international travel has normalised post-covid. Europe accounts for 60 percent of global travel by visitor numbers, according to the European Commission, and 45 percent of that relates to hospitality travel in southern Europe. That trend could strengthen further in light of recent conflict in the Gulf. Travellers who might previously have considered destinations such as Dubai or Abu Dhabi may now reassess their options, with southern Europe likely to benefit.

Q Beyond the immediacy of a desire to diversify away from the volatility of US politics, what makes European mid-market private credit particularly attractive?

Europe has historically been far more bank-focused than the US, where private credit penetration has been much broader. European banking assets represent around 200-300 percent



Q How do you balance environmental, social and governance (ESG) intent with the realities of credit risk and collateral quality?

ESG is a central component of our underwriting. We review every asset to ensure it is modern and energy efficient. Where assets are being built, we also review the developer's policies to ensure they are ESG-compliant. We complete an extensive questionnaire for every deal, which results in a composite ESG risk score that allows us to compare transactions side by side from an ESG perspective. That information is then set out in detail in our investment committee memoranda.

That said, strong ESG credentials alone are not enough to justify proceeding with a transaction. The deal also has to make sense from an investment and credit perspective. If a high-quality credit opportunity has poor ESG characteristics, it would not be of interest to us. Equally, if a deal is highly ESG-compliant but has weak credit characteristics, we would walk away. Both boxes need to be ticked.

of GDP, compared with around 100 percent in the US. In other words, Europe's banking sector is two to three times the size of the US system relative to GDP.

That dynamic is, of course, starting to change as the regulatory burden has increased. This means banks are pulling back from certain lending segments, such as development finance, which is increasingly being left to local lending platforms. Even so, the future opportunity set, in terms of the under-penetration of private credit in Europe, remains much larger than in the US.

That is not to say that European private credit is without its challenges. Europe is made up of 45 countries, 24 official languages and a range of currencies and cultures. As a result, capital flows tend to be highly local. German banks lend to German borrowers, Italian banks lend to Italian borrowers, and so on. That is very different from the US, where it is possible to establish one or two offices and claim to cover the whole market. To be successful in Europe, you need teams on the ground in each jurisdiction, because more than 90 percent of deals will not leave the country.

Q What does the next phase of market maturity look like for European private credit?

We expect to see continued platform aggregation. It makes sense to have a centralised capital formation function serving institutional investors. That is far more efficient for large investors, which often prefer to allocate to a single pan-European manager rather than source different managers in each country. However, the sourcing model will remain local, which means the emphasis will be on partnering with high-quality local platforms. That is precisely what we have been doing for the past 20 years.

Q If you were to predict the most investable structural themes for the next five years, what would they be, and why?

There is currently a strong focus on liquidity, given how liquidity-challenged corporate direct lending has proved to be. This is particularly true of structures with synthetic liquidity or liquidity gates. Investors are therefore increasingly focused on understanding upfront how they will get their money back and when that is likely to happen.

As a result, we are finding that short-duration bridge lending is becoming increasingly popular with our investors. We are also investing significantly in real estate opportunistic credit and receivables. Those instruments tend to offer high near-term liquidity velocity. You can see cash yields of more than 25 percent in the first year after acquisition, which means we can distribute partial proceeds to investors relatively early. We expect both short-duration lending and real estate opportunistic credit to remain important investment themes in the years ahead. ■

The five hottest opportunities shaping European private credit

LP interest in European opportunities against a challenging geopolitical backdrop has been well publicised, but how can lenders differentiate their offerings in an increasingly crowded market? Claire Coe Smith reports

Capital solutions

Volatile global markets are spurring a wide range of borrowers to seek flexible, tailored financing from private credit funds

1

All-weather capital solutions strategies that deliver more flexible, tailored financing to complex borrowers are attracting attention in Europe. After several years of volatile markets involving the pandemic, geopolitical tensions, supply chain disruption and rising inflation and interest rates, an opportunity is being sensed by lenders able to support borrowers that would otherwise struggle to raise funds.

Alice Cavalier, partner and co-head of capital solutions at Arcmont Asset Management, says the strategy falls into three buckets; the first involves lending to good businesses with no performance issues but an element of complexity. “In Europe, banks and direct lenders tend to focus on a small number of sectors that they consider resilient, but those comprise a small proportion of the economy. Outside of that, borrowers can be seen as too complex or too volatile.”

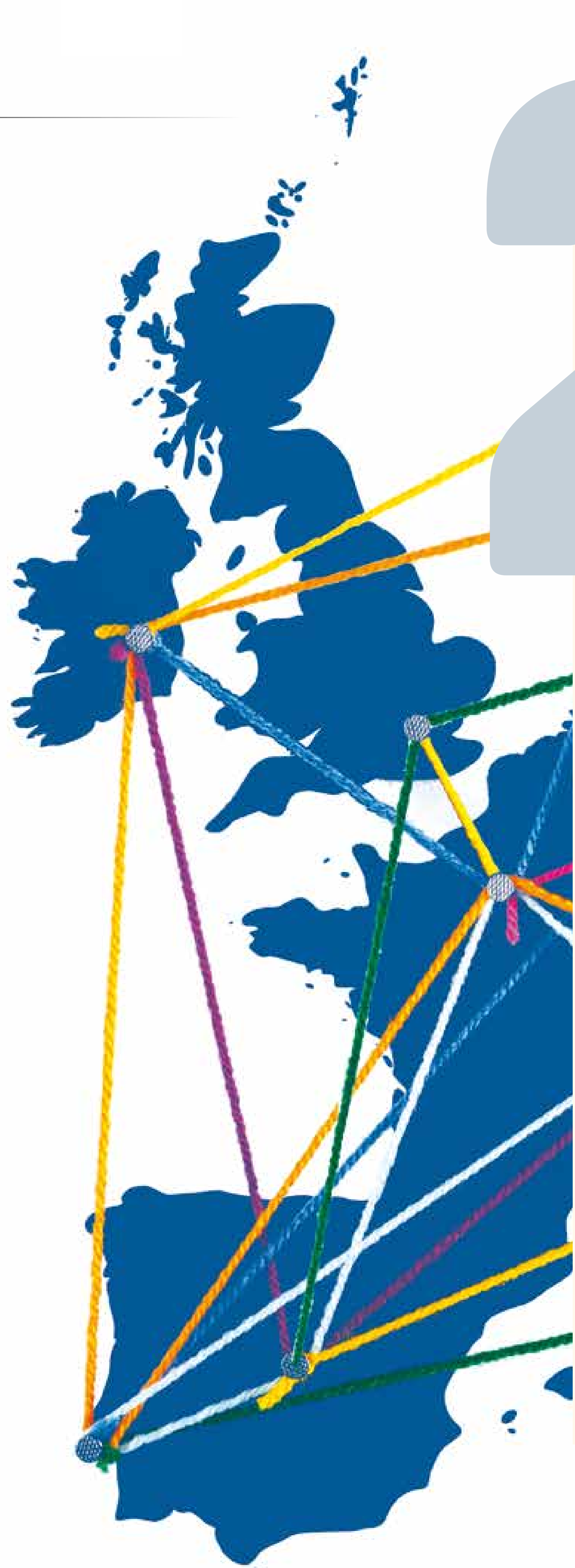
Other strong borrowers may need subordinated instruments and seek access to holdco payment-in-kind, mezzanine finance or preferred equity loans.

The second bucket is refinancing, where figures show Europe has a fast-growing need. Refinancings made up 60 percent of European deals in the third quarter of 2025 alone, according to research by DC Advisory.

The third includes opportunities to purchase loans and bonds in the secondary market at a discount, from either banks or collateralised loan obligations. “All three of those buckets are interesting to us all at once right now, which is not often the case,” says Cavalier.

At CVC Credit, Caroline Benton, managing partner and chair of the private credit investment committee, says the firm is investing its third capital solutions fund. “This is flexible capital with generally a mid-teens-plus cost, and the biggest opportunity we see today is supporting private equity sponsors who are looking to return distributions to investors.”

She adds there has been less margin compression in Europe than in the US, due to the more fragmented European market. “The borrower demand is the same but the competitive landscape is a bit different, enhancing our ability to achieve those mid-teen returns and execute with high-quality European businesses.”



2

Speciality finance

NAV lending is forecast to enjoy more strong growth as adoption increases, while litigation finance is having a moment

Strategies that offer exposure to credit backed by diversified pools of financial assets are increasingly capturing attention in Europe as opportunities open up for specialist lenders in areas like royalties, consumer lending and trade finance.

One strategy that has seen strong growth is NAV lending, or senior credit backed by the unrealised value held within private equity funds. It seems PE managers are increasingly keen to borrow against the collective value of portfolio companies held within funds or at GP level against their balance sheets.

Specialist NAV lending shop17Capital forecasts that $150 billion will be deployed in NAV finance strategies annually by private equity buyout firms by 2030. Fokke Lucas, a partner at 17Capital, says: "There continue to be lots of assets that are proving difficult to sell at the moment and one of the best ways managers can keep building value for their investors is via buy-and-build. In situations where there are still M&A opportunities but limited unfunded capital commitments, private equity managers either need to turn to a continuation vehicle or finance through a NAV loan."

He sees the European market continuing its strong growth pattern as adoption escalates. "In 10 years from now, most, if not all, funds will use NAV loans. We are currently just scratching the surface."

Another speciality financing tool benefiting from European adoption is litigation finance, funding lawsuits in return for strong returns in the event of successful outcomes. Zachary Krug, managing director in the legal assets team at NorthWall Capital, says: "We lend to law firms or other platforms against large, diversified portfolios of litigation cases, where we gain downside protection, returns in the high-teens to low twenties, and we get the benefit of an exposure that is significantly uncorrelated to the broader market."

He says cases concerning GDPR violations, competition claims and environmental litigation are all proving ripe for litigation finance investment. "In Europe, the main driver has been – and increasingly will be – the European Collective Redress Directive that essentially mandates that member states provide or facilitate some kind of structure to allow for collective redress."

3

Real assets

The stable, long-term contractual cashflows and lower competition in some areas are proving attractive to investors

In volatile markets, limited partners are showing increasing appetite for lower-risk strategies that provide the additional downside protection of hard assets. Whether that is infrastructure, real estate or transport assets, strategies that offer investors stable, long-term contractual cashflows are having a moment.

Nabil Aquedim, head of real estate and asset-backed strategies at Arini, agrees: "The market opportunity for European asset-backed lending is compelling thanks to a meaningful supply-demand imbalance. Bank retrenchment is accelerating in asset-backed lending now and there is a less competitive landscape compared to direct lending."

He says the European real estate sector has gone through a meaningful price correction since 2022, often creating capital structure gaps and a need for refinancing solutions. "We have been very active in the UK and in western continental Europe, where we see both a good cyclical entry point and a durable trend in the ongoing shift to private capital."

$150bn

Projected annual deployment into NAV financing strategies by private equity buyout firms by 2030

Source: 17Capital

45bps

Basis point spread between European and US direct lending in Q1 2025

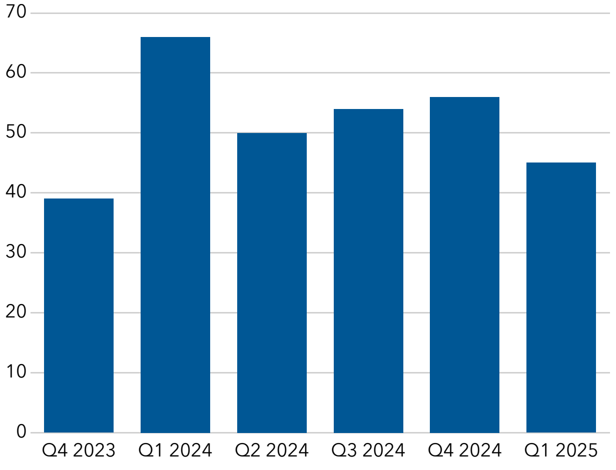
Source: Arini

60%

Refinancings or recapitalisations as a proportion of total European deal volumes in Q3 2025

Source: DC Advisory

European direct lending provides an average of 50 basis points higher spread than US direct lending



Source: Arini, Mind the Gap: The Private Credit Premium in the European Non-Sponsor Middle Market

Southern Europe

Spain and Italy present fast-growing opportunities, particularly for those that have boots on the ground

"In Italy, there has been an acceptance at last from private equity firms of the so-called dematerialisation of shares and giving those as security via Luxembourg law," says Nicola Falcinelli, partner and deputy head of European private credit at Carlyle. "That has made a number of players, including ourselves, increasingly comfortable with lending to Italian borrowers while still benefiting from a security package based in Luxembourg."

Nael Khatoun, portfolio manager in Oaktree Capital Management's European private debt strategy, agrees the market has shifted. "Some of the fastest growing opportunities over the past year have been in the Netherlands, Spain and Italy, which are all growing close to 50 percent year-on-year. In Southern Europe, the banks have had a much stronger sphere of influence and as that erodes, we see meaningful growth."

Adam Baghdadi, managing director for lending investments at Arrow Global, says Europe remains more bank-dominated than the US, with smaller capital markets. "Southern Europe adds another layer of complexity and opportunity because it is still relationship-driven, legally fragmented and harder to underwrite remotely," he says, adding it still carries a complexity premium for on-the-ground managers.

Sponsorless lending

Lenders can gain a hefty premium for supporting non-sponsored borrowers, but it is not for the faint-hearted

The final – but no less significant – piece of the European private credit puzzle is the opportunity opening up in non-sponsored lending. It is a strategy that has long excited debt funds but proved challenging to execute – the prospect of bank tie-ups and an overly competed sponsor market means return premiums look highly attractive.

Nicolaus Loos, managing partner, founder and CIO at Deutsche Credit, says there is a premium of at least 150 basis points on offer to lenders supporting non-sponsored borrowers. "In the mid-market, capital structures are significantly less aggressive in non-sponsored lending.

"In private equity, every dollar you are not spending on leverage you need to put in as equity, which drives private equity's appetite for aggressive leverage. In non-sponsored, we see deals that are typically only two or three times levered, rather than five or six times in private equity deals as corporate CFOs and family-owned companies are usually conservative and highly reluctant to maximise leverage."

This, Loos says, "makes equity cushions significantly higher and means the non-sponsored space is particularly resilient.

"At the same time, yield per turn of leverage is far superior in non-sponsored lending, and that is what LPs are looking for in this market environment."

Andreas Klein, head of private debt at Pictet Asset Management, says the sponsorless opportunity is compelling but not for the faint-hearted in that it "requires a very different skill set from the GP in terms of origination, due diligence and structuring.

"If you are able to build and capitalise on networks to source those non-sponsored transactions, and structure them in the right way, then the benefits are quite significant, with higher pricing, generally lower leverage and better documentation protections."

Khatoun at Oaktree believes bank partnerships can unlock exciting sourcing channels. Oaktree has a bank partnership with Lloyds in the UK to source and execute opportunities outside the typical sponsor-led route. "We expect we will see more of those partnerships in the UK and across Europe. Private credit is not just replacing banks but also working with them to increase the opportunity set for both sides." ■

EXPERT Q&A

Amyn Pesnani and Matthew Turner at Triton Partners explain why thorough due diligence and risk underwriting are so crucial to offering a differentiated approach to European credit investing


Avoiding a herd mentality

In a market increasingly inundated with data and external noise, it can be difficult for even the most fundamentals-focused investors to reach their own conclusions on a potential deal. Triton Partners' credit team has vowed to stick to a few simple rules of investing: focus on core sectors, a strong understanding of a business's cash position and being truly aligned with the management team involved.

To find out more about the firm's approach, and the role played by risk underwriting in heading off challenges at the outset of a deal, *Private Debt Investor* spoke to Amyn Pesnani, managing partner and head of Triton Debt Opportunities, and Matthew Turner, head of the London investment team.

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Q What would you consider to be best practice when assessing an investment in today's climate? What are some red flags that investors need to be aware of?

Amyn Pesnani: The biggest fallacy of the last few years is the concept of buying and selling companies based on pro forma EBITDA. We've learned the hard way about convincing ourselves that it's the right valuation metric, as have many of our peers. We've since realised that cash is the only thing that matters: a company that hasn't generated cash for a few years is the biggest red flag.

In terms of best practices, our advice would be to focus on the sectors you know. Some of our biggest mistakes in the past have occurred when we've convinced ourselves we were comfortable with investing in sectors that were somewhat alien to the firm.

We know now that enough high-quality companies exist within our core sectors of industrial technology, business services and healthcare that we no longer feel the need to deviate from them. When it comes to investing in new sectors, you don't even know what you don't know, so we like to stick to our fundamentals.

Finally, loan documentation is key to assessing investments in an uncertain environment.

Ultimately, you have to think to yourself that, if things were to go wrong, would this be a company you would be comfortable owning, and are you even capable of owning it?

Matthew Turner: It's important to understand that virtually every business that you see is prepped for sale to within an inch of its life. Our advice would be to look back at the company's history to see what it has achieved and what it has forecast. There are always 'hockey stick' growth curves to be found in these businesses. Adjusted EBITDA is nowhere near EBITDA, and beware of the difference.

You also need to appreciate that you're essentially getting into bed with a specific management team. If they're a great team, you know you will come out of the investment looking great. If they're a bad team, they will knock your CV.

There's no perfect way to manage this dynamic because every manager is different, but it's very much a soft skill that can be honed. You have to look for people who are really motivated by success, then make sure they have the capability to achieve their goals. You only get to know that by spending time with these people.

"Everyone using AI will be getting the same data, but what will really differentiate firms is how humans use the extra time this technology affords them"

AMYN PESNANI

Q How crucial is it to effectively underwrite the risk of an investment in the current market environment?

AP: We've always been very focused on downside protection, but underwriting has become even more important in an environment where the margin for error is so limited.

Our biggest advantage is that we can benefit from other strategies across the business – our private equity colleagues have often previously looked at or even bid on a lot of the deals that cross our desk, and as such we have access to thousands of pages of due diligence on those companies.

We also lean on the experiences of our operating partners to gauge the health of a specific industry, as well as the dedicated expertise of our Accelerator Unit, an in-house management services provider with around 50 industry and functional experts, to give us unique insights into the market. The more teams you have on a deal, the more effective the underwriting process will be.

Q What are some of the most useful metrics to monitor when carrying out due diligence? And, conversely, what data points carry too much weight/can be distracting?

AP: Ultimately, we want companies in growing sectors and subsectors. That means if you're in a sector that has long-term structural tailwinds, sector trends will bail you out even if you get your timing wrong. It really pays to look at the macro picture.

MT: We dig deeply into a company's economic model to understand why its balance sheet looks a certain way. A lot of people take the numbers as a given but we get right into the weeds of it. Where are the sector tailwinds likely to take this company? Will it still be here in 15 years? Sometimes it's too easy to take the numbers, run them past the professional advisers and call it a job well done. In this lending environment, that approach is no longer fit for purpose.

Q With the rise of artificial intelligence integration in investment analysis processes, to what degree is experience and human instinct still a deciding factor?

AP: The conversation around this is evolving every day, but AI has fundamentally changed the speed at which you can access key data. What used to take me four hours to locate, I can now find in 30 minutes. But AI is only trained on the data that is publicly available. In a way, this accentuates the kind of herd mentality that is already present in the private markets.

Some of our best investments, however, have been realised by taking a contradictory view. Granted, this contrarian mentality doesn't always pay off, and it certainly wouldn't make sense to a computer.

But if we look more closely at the very best deals from our Triton Debt Opportunities Fund (TDO), around 80 percent of the alpha has come from proprietary or unique sourcing methods or finding a deal that no one else in the market is seeing. AI certainly frees up more time for sourcing and gives my analysts the data they need in a much quicker way – that translates to several more hours a day to think critically about the data they are seeing. They have more time to read and study.

Overall, I don't see AI replacing anyone in the team. Everyone using AI will be getting the same data, but what will really differentiate firms is how humans use the extra time this technology affords them.

MT: I agree. AI can point you in the right direction, but it can't give you all the answers. AI can't tell you how capable or otherwise a management team will be, for example. AI is a facilitator, and data is incredibly important, but don't become a slave to it. At the end of the day, it all comes down to making balanced judgments.

"Cash is the only thing that matters: a company that hasn't generated cash for a few years is the biggest red flag"

AMYN PESNANI

"It's important to understand that virtually every business that you see is prepped for sale to within an inch of its life"

MATTHEW TURNER

Q What kinds of opportunities are likely to emerge as credit markets evolve in the next few years?

AP: It's tough trying to predict where the markets will go, but I've always told investors that volatility is our friend. We have locked up capital and long-term horizons, and our dedication to investing in our core sectors means that we can see through the noise a lot of the time.

Volatility is our friend for two key reasons. First, if you look at some markets like the Nordics and segments of the US, you have illiquid investments sitting in liquid vehicles. This means when you get volatility and those vehicles get redemptions, the par loans will be sold first. That could obviously represent an opportunity for the wider market.

Second, if you have a fund where one manager is responsible for overseeing 60 companies, it is difficult to be across all of the sectors simultaneously and views may change based on the headlines of the day. At Triton, we have a much more focused view. That's not to say we don't react to news or update our views, but when we look at companies, daily noise doesn't influence our views as it might for other market participants.

MT: In terms of knowing your sectors, the key challenge is to get off the investment train at just the right time. That is, frankly speaking, both the challenge and the opportunity that exists in this line of work. ■

European lenders prepare for influx of retail investment

European managers say that changes to fund structures are only the beginning of the continent's retailisation trend. Jon Yarker reports

The democratisation of alternatives is a trend that has been gaining momentum for some time, with more and more firms looking to actively target retail or non-institutional investor bases.

This has, in large part, been driven by a combination of regulatory developments, industry innovations and a growing willingness among investors to invest beyond public markets, but questions remain as to how this phenomenon will continue to unfold in the European private credit market.

In one respect, there has been growth, albeit from a low base. The Bank of International Settlements reports that the share of AUM accounted for by retail investors in private credit has climbed from almost zero to 13 percent in 2025. However, growth has not matched some expectations held by European lenders.

"In Europe, retail capital is emerging, but it's progressing more slowly," says Charles-Henri Clappier, partner and head of KSO France and business development at Kartesia. "There has been some acceleration but it remains relatively limited."

Anant Kumar, head of research and portfolio manager at Benefit Street Partners, says progress has been slower and more uneven than the most "optimistic projects suggest", with some European countries developing faster than others.

"Markets like France and Italy, where regulatory frameworks and distribution culture were already more accommodating, have moved faster," says Kumar. "But if you look at the global picture, the gap between intent and deployed capital remains significant.

"The main reason is distribution infrastructure has lagged product innovation. Forecasters were right about the direction of travel, but too aggressive on the timeline."

ELTIF 2.0

A major factor in the democratisation of private assets in Europe has been the European Long-Term Investment Fund. The structure has existed since 2015 but was revamped in 2024 to include lower minimum thresholds, a wider base of eligible assets and allowance for redemption and liquidity events. The revamp has led to more launches and, according to ESMA, there are 286 ELTIFs in Europe. "It's

still early days but as the ELTIF 2.0 market matures, it is likely to be a significant part of the wider access of individual investors to private credit," says James Wallace, financial services regulation partner at Simmons & Simmons. "Importantly, there are still some aspects of the regime where regulatory guidance is pending; the result of those clarifications will be meaningful."

However, the current ELTIF structure isn't a panacea for success. James Board, partner at Simpson Thacher & Bartlett, sees them as a "useful tool in the toolbox" for managers but recognises their limitations.

"[The ELTIF is] a different wrapper through which you can distribute in various European countries, but it comes with additional restrictions that you don't get with other vehicles," says Board. "With their rules on leverage and liquidity, it means that they may not be able to generate quite the same performance as other products that are out there."

This places the onus on what needs to happen next with the ELTIF structure. Clappier agrees the ELTIF has "certainly opened doors" but adds that more could be done.

"There is a need to further refine the ELTIF 2.0 framework, which is helpful but still allows for some discrepancy. If the objective is to deepen engagement with retail investors, greater standardisation and more clarity is needed, with stronger valuation standards."

> *"A common theme for firms to be successful is to have… a cornerstone distributor with reach"*
>
> **OWEN LYSAK**
> **Simpson, Thacher & Bartlett**

Getting distribution right

A private debt firm may be able to launch an ELTIF, but this is one part of an effective distribution strategy. Joanne McEnteggart, global head of debt, capital markets and corporate at IQ-EQ, argues that putting the right systems and processes around the fund itself is going to be critical going forward due to the inherently illiquid and complex nature of private debt.

"From an operational perspective, it's essential to establish a dedicated model for ELTIF funds – supported by robust technology – that delivers the flexibility, scalability and regulatory rigour required to operate a long-term, open-end private markets vehicle," says McEnteggart.

The economics of developing a retail investor base are also inherently different to what private debt firms will have been used to. Instead of signing up a multimillion-euro institutional client, achieving the same asset capture via individuals requires greater scale and resources.

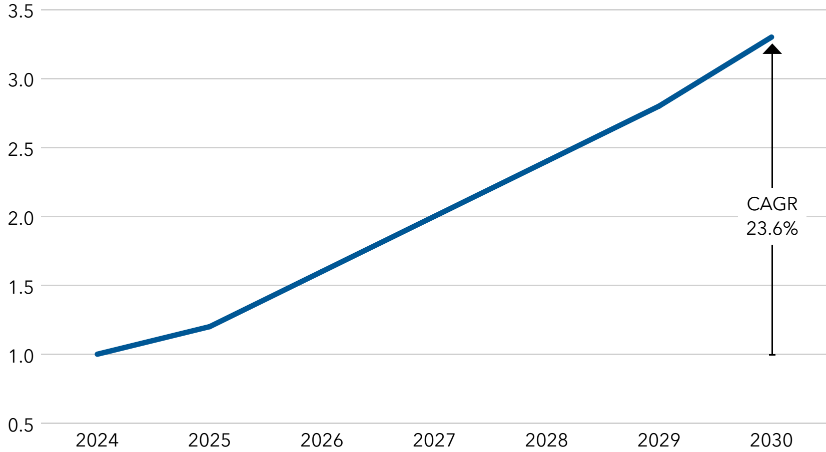
"A common theme for firms to be successful is to have, at least at the start, a cornerstone distributor with reach," says Owen Lysak, partner at Simpson, Thacher & Bartlett. "They can bring the brand and resources required to initiate allocations. There is a recognition from distributors that they need to focus more on education."

Education is seen as vital to help retail investors understand the risks of private debt. Lysak argues that this clarity is crucial, especially when the narrative around retail investors in general can be prone to confusion. "That's why you really will see a move away from the use of term 'semi-liquid'," he adds. "There's a concern that this suggests to end investors that these products have a different type of liquidity profile than they do in practice. It's nothing like a daily traded fund."

Nicholas Pont, partner and head of capital formation at OneIM, points out that investor relationships are built on trust and transparency. To be successful with retail investors, Pont argues that private debt firms need to repeat the hard work they did with their institutional core markets.

"The firms that will succeed in this channel are those that treat transparency not as a regulatory requirement, but as a competitive advantage," says Pont. "Trust is earned through consistency of message, alignment of interests, and a willingness to be honest and clear about what private credit can – and cannot – deliver."

European retail investor investment in private capital is forecast to triple from 2024-30 (€trn)



Source: Deloitte Center for Financial Analysis

Benefit Street Partners is building out its wealth channel with partner Franklin Templeton, and Kumar has already learned some valuable lessons about what is required to successfully penetrate the retail market. This includes accessing the right performance data for advisers in order for them to answer clients' questions, and tackling the complexities of the asset class.

"Subscription documents, capital call mechanics, K-1 tax reporting – all of these create friction that institutional investors tolerate but retail and wealth investors will not," says Kumar. "The more you can simplify the investor experience without compromising the integrity of the underlying strategy, the better your results will be."

Building momentum

Private debt's democratisation has begun in Europe, but it's clear more is required to accelerate this trend. Changes to the ELTIF regime have been identified as an area of potential work but not everyone is convinced this is an issue for regulators to amend. Lysak argues regulators have been very supportive so far, and instead the narrative about democratisation must evolve.

"The term 'retail investors' tends to carry this meaning of regular people in the high street," he says. "More often they are high-net-worth individuals with high levels of sophistication, usually represented by private banks. Some nuance is needed.

"Without a proper understanding [of the market], you can get overreactions and incorrect regulation, which can hamper product development."

However, some still see space for further refinement of rules to take into account the diversified nature of Europe's geography. Here, Kumar points to further harmonisation of ELTIF rules and suitability frameworks.

"Today, an ELTIF that is straightforward to distribute in France may face different requirements in Germany or the Netherlands, which creates friction and increases costs for managers trying to build pan-European distribution.

"Clarity on suitability standards would also unlock additional activity. Some advisers steer away from the asset class not because they doubt its merits, but because they are uncertain about how regulators will evaluate suitability in hindsight."

Ultimately, there is only so much private debt firms, distributors and regulators can do to encourage retail investors to engage with the asset class. The fund structures are available and the education materials are distributed, but retail investors themselves will have to decide whether they want to commit. As Simpson Thacher's Board says, "the proof is now in the pudding". ■

EXPERT Q&A

As European private credit continues its growth trajectory, Michael Massarano of Arcmont Asset Management digs into what is required to stay ahead of competitors against a volatile macroeconomic backdrop

Opportunities amid the noise

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Q Going into 2026, how have large amounts of dry powder from previous years' fundraising impacted European direct lending?

Private credit has been one of the fastest growing alternative asset classes in Europe, but the huge increase in dry powder has been driven by a fundamental supply-demand imbalance as banks retreated from mid-market lending just as the market saw a demand for credit grow.

Private credit has successfully filled that gap, and it's important to be clear that this is not excess capital distorting the market, it's structural demand being met. According to market data, dry powder in the asset class remains materially lower than the sums held in private equity.

Established lenders with deep relationship networks can continue to access high-quality opportunities. Strong fundraising activity for some of the larger players has been well earned and reflects successful historical vintages where capital was deployed with discipline, and robust portfolios held up through stress.

A decade ago, private credit was still a relatively niche play. Today, it is a fixed and enduring mainstay in the European financing market. For institutional investors, it's becoming a perennial and almost ubiquitous allocation – one that is structural, rather than tactical.

On the deal side, it now has a seat at the table for a significant proportion of European M&A, regardless of size.

The market has matured but, most importantly, the opportunity set has not been arbitraged away.

Q Within European direct lending, what trends are you seeing emerge? And which areas are investors particularly keen to access?

On fundraising, Europe has firmly re-established itself as a core allocation for global investors. In 2022-23, following the outbreak of the Russia-Ukraine war, it was easy to step back from the market. Frankly, why take the risk? But with ongoing US policy volatility and a more complex geopolitical backdrop, we believe that Europe is now relatively better positioned.

In volatile markets, capital

gravitates towards relative stability, and diversification matters more. We saw a significant uptick in global allocations last year and that momentum is continuing.

At the manager level, there's been a clear bifurcation. According to market data, over half of all capital in Europe is now held by the top five largest managers, from around a third just a couple of years ago. Deal volume is consolidating in the same way. It becomes a virtuous circle; the scale and availability of capital drives greater reliability, strengthening relationships and reinforcing access to quality opportunities and that in turn makes capital raising easier.

The other shift is recognition that private credit is not a monolith, and there is a redefining of capabilities under a broadening umbrella. While direct lending will always be the biggest contributor to overall market expansion, the rate of growth of new strategies – NAV lending, capital solutions, and asset-backed – is expanding what private credit can offer to borrowers.

Q Which markets are becoming increasingly influential in Europe?

Building a truly scaled pan-European platform isn't straightforward. Unlike the US, Europe is structurally heterogeneous and fragmented. Separate languages, cultures and credit regimes require expertise and boots on the ground in each, which acts as a barrier to scaling.

In terms of market maturity, the UK, Germany and France provide the consistent 'engine' that drive European volumes. Spain and Italy sit in the next bracket down in terms of maturity, but while deal volumes are generally lower, there can be less competition for some impressive assets. Then you have what I see as growth markets, such as Benelux and the Nordics, where the volume of opportunity is high, but penetration of private credit is more nascent.

We don't build our portfolio specifically around regions, but a pan-European offering allows you to lean into opportunity and step back from risk as conditions shift, which is critical in more volatile markets.

"For managers with the scale and expertise to navigate the cycle, the market's next phase could be just as attractive as the last"

Q How can direct lenders ensure they don't compromise on standards when they're balancing this with the sheer amount of capital to deploy?

Not all lenders have access to the same opportunities. Access is typically driven by scale and depth of relationships.

Sponsors and borrowers do not call 100 lenders on every opportunity. They rely on a handful of key relationships that have demonstrated reliability, creativity, execution certainty and discretion over many years. Breaking into that circle as a new entrant is far harder than most appreciate.

At the larger end of the market, the competitive set reduces further. It's the same 5-10 firms vying for quality assets. It can be fierce, but it's competition with the discipline of experienced investment firms already operating at scale.

Ultimately, avoiding compromise on standards is a combination of expertise and experience, and should be applied with rigour. That becomes much harder when you're under pressure to deploy capital.

We believe that established managers have an advantage here. They can generate opportunity from existing portfolios, reducing the need to chase deals at aggressive terms. They also understand the importance of patience over cycles.

Not every quarter needs to be a new deployment record. On the capital raising side, a consistent and long-term track record is critical and always beats short-term momentum. The key is knowing when not to do a deal. Discipline in credit selection and terms is what ultimately defines performance across cycles.

From a sector perspective, private credit in Europe has typically favoured defensively positioned businesses, which most people would describe as operating in generally resilient, non-cyclical industries with higher margins and good cash generation.

But subsector expertise is the key to unlocking value and opportunity. Not all healthcare is 'good' healthcare – some areas have been more challenged than expected. Some software assets are still exceptionally robust and resilient, despite recent headlines, while industrial subsectors produce high margin products that service critical applications on set maintenance cycles regardless of the relatively volatile end-market.

Managers who have the expertise and experience to underwrite to that level of detail, rather than relying on broad sector views, will materially outperform.

"AI will widen the gap between the winners and the losers – being unprepared isn't an option"

Q Looking ahead to the rest of the year, what opportunities and challenges do you see as most significant?

The key challenges broadly fall into three camps right now. First, the macro environment. The conflict in the Middle East adds to broader geopolitical uncertainty. A return of inflation and rising rates, and second order effects like consumer-led slowdown, are front of mind. That puts a premium on disciplined portfolio management and credit selection. That said, private credit has been operating under similar pressures since 2020, and most portfolios have held up well, helped by defensive sector exposure and senior positioning in capital structures. But caution remains essential.

Second, artificial intelligence will have a significant impact on the real-world economy. The current narrative is that the impact of AI will be contained largely to software, but the real effects will be far more widely felt because this represents a structural shift across industries. Investors need a genuine understanding of how the technology works – rather than just looking at the headlines – to assess risk properly in the portfolio and embed that knowledge into future investment decisions.

There's a lot of hype to cut through, but one thing is clear, and it's something that many in the market are underestimating; AI will widen the gap between the winners and the losers. Being unprepared isn't an option.

Third, the repercussions from retail capital being funnelled into the market – as ever, this represents a challenge for some and an opportunity for others. There is a fundamental structural liquidity mismatch in parts of the market, and managers heavily reliant on retail capital may be under pressure to perform. Others, however, that have a stable and stickier institutional base, remain well positioned, and now with less competition.

The trend towards democratisation will continue and we believe that accessibility to a broader set of investors is a positive development, but it increases the responsibility on managers. Democratisation is an opportunity but it comes with obligations. Product structuring must be fit for purpose, investor education must be genuine and rigorous, and transparency must be enhanced. Ultimately, the long-term credibility of the asset class depends on maintaining the standards that built it.

There is an important counterbalance to all of this. Every recent period of elevated volatility has helped to drive abnormally strong private credit returns in subsequent years. As banks retrench and liquid markets become less reliable, borrowers increasingly value certainty of execution. That opens access to larger, higher-quality opportunities, often at better pricing. We're not at the widening levels we saw during covid, but the direction of travel in Europe is already positive.

Another opportunity is the growing complexity of financing needs. Capital becomes more scarce in volatile markets, but demand doesn't disappear, it evolves. With private equity hold periods now exceeding six years in Europe, solutions like NAV financing and capital solutions are becoming increasingly more relevant. What we're seeing is not just growth in private credit, but a broadening of what it can actually do.

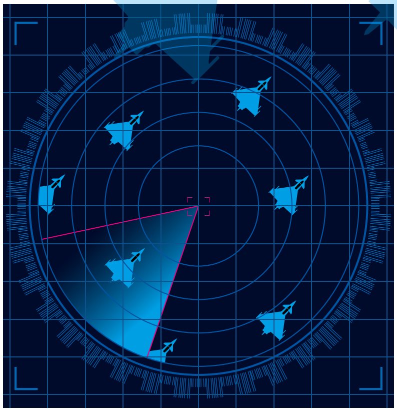
We're operating in a more complex world technologically, financially and macroeconomically. That makes discipline, experience and rigour more important than ever. But despite recent headlines, the fundamentals of private credit remain strong, and the opportunity set continues to expand.

Put simply, this is when the asset class proves its value. For managers with the scale and expertise to navigate the cycle, the market's next phase could be just as attractive as the last. ■

Michael Massarano is a partner and deputy CIO at Arcmont Asset Management

Defence moves to the frontline

A huge increase in government spending, increasingly positive investor sentiment and a shift from the new economy to the old – all reasons why European defence is a lender target, writes Andy Thomson



> *"Today, investors are much more likely to embrace the role of defence in helping to secure a democratic Europe"*

In Europe, the scale of the defence opportunity for private debt providers is associated with some very big numbers. The EU has said it plans €800 billion of defence spending by 2030 under its Rearm Europe/Readiness 2030 plan. In Germany, which has the biggest ambitions of any individual European nation, €150 billion of spending is expected by 2029.

Given the size of this need, expectations should be tempered about how much of this finance can be provided by private debt. But what is not in doubt is the availability of opportunities to put money to work, ranging from the front-end manufacturers of defence-related products to the whole supply chain and defence-related infrastructure that those front-end businesses require.

Much of this opportunity relates not to defence per se, but rather to commercial aerospace companies with some sort of sideline serving the defence industry. "Lenders who want to open up more to defence may have an opportunity as these aerospace companies add defence components," one advisory source told *Private Debt Investor*.

An example of this type of investment was Mecachrome, a French company that is essentially a commercial aerospace firm but which, among other things, provides precision components for fighter aircraft. Carlyle backed the firm with a €290 million financing package in December 2025.

The scale of governmental spending is one supporting factor for GPs interested in defence. Another is something of a 180-degree turn by investors in the region in sentiment towards the sector.

One source said that after the covid pandemic there was "hyper-sensitivity" from investors to anything not considered highly ESG positive and – in a tough fundraising environment – many managers had stepped away from anything defence-related as a result. Today, investors are much more likely to embrace the role of defence in helping to secure a democratic Europe – in a notable transformation, it has become 'ESG positive' in some LPs' eyes.

Change in approach

The defence sector has another tailwind: the woes afflicting the software sector may cause capital to flow out of this once-fashionable investment area and look for an alternative home. Sources told us a noticeable shift is under way as lenders move towards more traditional, old economy businesses, away from the 'asset-light' sectors most likely to be disrupted by the growing capabilities of AI.

With its seemingly certain promise of a ramp-up in funding, and with consolidation of the supply chain presenting exit opportunities, the defence sector appears well placed to benefit. ■

> "Secondaries are a growth market that's really inspiring us [and] we feel like an entity that is welcome at the table"
>
> **MARC SMID**

Inside Allianz's push into private debt secondaries, co-investments

Marc Smid, who oversees the German insurance giant's private debt fund of funds, sets out his expectations and concerns with respect to GPs. Joe Marsh reports

Allianz Global Investors' private debt fund of funds is ramping up its push into secondaries and co-investments, according to senior portfolio manager Marc Smid.

In conversation with *Private Debt Investor*, Smid outlines what he expects from external asset managers, touching on issues including style drift and the rise of retail investment in private markets.

Germany's AllianzGI – part of insurance giant Allianz, the biggest private debt investor globally in 2025, according to *PDI* data – first-closed its sophomore private debt secondaries fund on €1.2 billion in December. The first in the series had raised €1.5 billion, three times its €500 million target.

Moreover, the asset manager's second global private debt fund – currently in the market – has a dedicated bucket for secondaries, unlike its predecessor, says Smid. He oversees funds and segregated accounts amounting to "several billion euros" of assets.

Munich-based AllianzGI manages private debt investments on behalf of both the in-house insurance business and third-party clients, with its parent accounting for most of the portfolio.

Secondaries strategy

"Secondaries are a growth market that's really inspiring us," says Smid. "[And] we generally feel like an entity that is welcome at the table," thanks to AllianzGI's market heft and stability.

The institution looks at both GP- and LP-led transactions. With the former, GPs like to work with a sizeable and reliable partner, Smid says, while managers often know which LPs are selling and are willing to provide hints as to what is happening.

"The [large] tickets we write are very interesting for GPs," he adds. "We see this well reflected in the terms in agreements we make – but we would also like to see that reflected in our access to co-investments and secondaries."

What's more, "there's plenty of room for private debt secondaries to catch up with volumes on the private equity side. They are becoming more and more established as tools for managing portfolios."

AllianzGI has long been a big investor in primaries, but it is now looking to use its scale and expertise to further expand its investments into private debt secondaries and co-investments, Smid says.

Secondaries accounted for 11 percent of the $356.77 billion of total private debt fundraising last year, a huge leap from 1 percent in 2024, per *PDI* data. Similarly, data from affiliate title *Secondaries Investor* shows private debt accounting for one-quarter of a record $165.88 billion of secondaries fundraising last year, sharply up from 11 percent in 2024.

And new entrants are eyeing or moving into private debt secondaries from different segments and geographies, from insurers such as Munich Re to family offices like Lithuania's Willgrow.

Positioned for co-investments

Good news for GPs. But what managers don't like is to see LPs turning down co-investments after indicating they wanted access to them, Smid says. That may be because they aren't able to conduct analysis either in time or in a certain sector, he adds.

"We're equipped, prepared and positioned to proceed [on deals]. We try to play our market position in a way that we get access to these co-investments and work our GPs systematically in this regard."

Continuation funds, a growing subset of the secondaries market in private credit, are also of interest, given AllianzGI is keen to acquire diversified portfolios across issuers and sectors, Smid says. "Continuation vehicles… give us access to seasoned loan portfolios, where we have good visibility on the underlying company performance, often at attractive terms."

Regional preferences

Asked about the fund of funds' current regional preferences, Smid says: "Right now, Europe looks a bit more interesting; spreads are a little wider. It's much smaller than the US [private debt] market, but the momentum in 2025… was strong in Europe.

"[Overall,] our investments are focused on North America and Europe, with North America currently accounting for slightly more than half of the portfolio."

Meanwhile, Smid is alert to the ramp-up of private wealth and even retail capital pouring into private debt, and the proliferation of semi-liquid and evergreen products catering to such clients. Concerns are growing among institutional allocators about the potential implications of these new clients' liquidity expectations and investment horizons.

"It's true that institutional money is often considered very stable, while other sources of capital can be more volatile," Smid says. "We're monitoring how investment supply and demand is developing in light of the evolving sources of capital. We assume both sides will be able handle the strong growth rate of the private debt market.

"But it's important for an institution to consider whether an investment vehicle matches its profile. Evergreen vehicles offer certain liquidity tools and mechanisms, yet the underlying assets remain illiquid in nature and thus best fit portfolios with a long-term investment approach." ■

Style drift concerns

Smid raises other potential concerns and issues in relation to the GPs AllianzGI employs

"We don't like style drift," AllianzGI's Marc Smid says. That has become more of a concern in recent years, he adds, as the private debt market has been slower – like the private equity market, on which much private debt transaction volume depends. That means GPs may be more tempted to eye different strategies.

"There is this temptation, if everybody has pressure to deploy, to deviate," he says. "We like our managers to be disciplined… to stay within their strategy and their range of experience."

For example, "if a manager who had previously done only sponsored transactions suddenly does a non-sponsored transaction, it's odd. Or if a mid-market fund suddenly participates in a much larger deal, which has lower yield – that is not what we have underwritten".

Iran conflict drives rise in real estate lender caution

Margins remained stable during Q1, but Chatham Financial has observed growing nerves around agreeing loan terms, writes Lucy Scott

10-15bps

Spread increase for commercial mortgage-backed securities loans during Q1 2026

Source: Chatham Financial

Real estate lenders and borrowers in Europe are taking a more cautious approach as the Iran conflict continues to unsettle the financial markets and the interest rate outlook remains uncertain, risk management firm Chatham Financial has said.

In the firm's *Lending Market Overview Q1 2026*, published on 13 April, it reported that while liquidity and lender appetite – across banks, debt funds and public markets – had been strong in recent months, the willingness to agree loan terms had been impacted in the weeks since the conflict began on 28 February.

"At the end of Q4 [2025], many sponsors were lining up transactions for completion in Q1 2026, and many were expecting a continued pick-up in acquisition levels as they had begun to gain equal footing with refinancings in Q4," Chatham Financial said. "However, this supportive backdrop is increasingly tempered by macroeconomic and geopolitical uncertainty leading to a more cautious approach from lenders and sponsors alike in the near term."

It said the recent volatility in financial markets linked to the conflict in Iran had caused some lenders to pause or withdraw quotes for loans and adopt a "wait-and-see" approach instead.

Meanwhile, sponsors have expressed increased uncertainty when bringing projects before investment committees, it added, saying speculative development schemes were particularly vulnerable to delays given the increase in reference rates, intensified by the likely increase in costs given oil prices and the disruption in the Strait of Hormuz.

Chatham said swap rates, which influence the cost of fixed-rate deals, had risen during Q1 in continental Europe and the UK; with the five-year Euribor reference rate increasing by 8 basis points and the five-year Sonia rate increasing by 17bps during that time.

Chatham said while lenders across the spectrum were seeking to deploy capital and structure flexible solutions for borrowers with covenant-lite deals, and while margins had held steady during the first quarter of the year, CMBS spreads have widened by 10-15bps.

"It remains to be seen whether this will translate into upward pressure on [margin] pricing in the near term," the firm added.

Margins holding

Despite the wary lender attitude noted by Chatham, the firm reported lenders are still competitive in parts of the market. The firm said debt funds and insurance companies were currently continuing to offer competitive margins, in the low-to-mid 3 percent range for good-quality properties, and in the low-to-mid 4 percent range for more complex or riskier assets.

Insurance capital remains a key source of financing for core and core-plus assets, with margins typically in the high 1 percent to low 2 percent range and average leverage levels around 65 percent, though leverage can reach 70 percent for the best deals.

Margins across sectors have so far remained stable between Q4 2025 and the first quarter of 2026, with no change in pricing in the logistics, residential, hotel, retail and office sectors, according to the firm. ■