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Investing for a
world of change

A less-crowded market moving into focus



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How concerning is risk in private markets?

The US private credit market came into the spotlight for all the wrong reasons last year, as high-profile bankruptcies revealed the perils of weaker investor protections in this increasingly crowded market. Renewed scrutiny of regional concentration risk gave rise to a search for greater diversification in private credit, while growing awareness of the shortcomings of covenant-lite¹ structures prompted a questioning of the status quo. Against this backdrop, opportunities in Europe captured the interest of a rising number of private credit investors.

Those turning their attention to the region will have found stark contrasts to the US market. Europe's relatively scarce supply of capital allows lenders to be highly selective over the deals they make, the pricing they can achieve, and the protections they stipulate. In particular, Europe's non-sponsored mid-market² stands out: facing limited or no competition, lenders can often negotiate compelling returns while targeting enhanced downside protection by insisting on strong covenants in loans that are secured and asset-based. In short: while signs of overcrowding and pressure on pricing have made US mid-market direct lending a borrower's market, the European non-sponsored mid-market is a lender's market – characterised by limited competition, lender pricing power and a greater ability to embed risk mitigants in deals.

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1. Structures that typically lack maintenance covenants (financial metrics tested every quarter); instead, they rely on incurrence covenants (if any), which only restrict the borrower if they choose to take a new action, e.g., make an acquisition. This lack of early warning system means – as a recent high-profile failure has shown – that a borrower's core financial health can degrade over multiple months (layering billions of dollars of complex, opaque off-balance-sheet financing) without triggering a covenant breach, preventing lenders from intervening until it is too late.
 2. Small to mid-sized borrowers owned by entrepreneurs, families and shareholders other than private equity funds.

The content of this communication is intended for readers with existing knowledge of financial markets.

How is demand for the asset class evolving?

A decade ago, when private credit really started to take off, the asset class was viewed as an effective diversifier to public credit market exposure – but today, diversification **within** this US\$1.6 trillion asset class has become a key priority for asset allocators.

Related to the points outlined earlier, the pursuit of strategies with a low correlation to the US market is driving investor interest towards Europe. The findings of a recent Preqin investor survey³, in which a rising proportion of respondents say they believe Europe offers the best private market opportunities, align with our anecdotal observations based on conversations with asset allocators across the globe last year. As the search for both yield and downside protection intensifies, the potential to achieve an estimated spread pick-up in excess of 6%⁴ relative to US-sponsored direct lending – while lending against tangible or financial assets, maintaining stronger covenants, and negotiating bespoke deal terms – is likely to continue to support demand for this underpenetrated market.

More broadly, we believe this shifting focus marks a more mature phase in the evolution of private credit, with investors moving beyond a blanket allocation to the asset class and instead distinguishing between regions, structures, and underlying risk drivers.

Is the investment landscape shifting?

Over recent years, increased regulation in Europe has driven traditional lenders such as banks to retreat from lending. For Europe's mid-market, non-sponsored borrowers – typically entrepreneur or family-owned businesses not backed by private equity – this creates a fundamental mismatch: demand for capital is rising, while bank supply is falling. Would-be borrowers in this market are typically high quality, profitable, and asset-rich businesses that are often unable to access credit easily due to size, complexity, or the absence of a sponsor.

Ongoing drivers of this supply/demand imbalance include the continued tightening of regulatory capital requirements, increased risk aversion, and supervisory scrutiny – all of which are weighing on traditional lending institutions' appetite for risk. Private lenders with the right expertise and origination network can step into this funding gap and can afford to be both selective and demanding. We see an ever-expanding pipeline of potential deals in this space.

3. Source: Preqin Global Investor Surveys, November 2024–June 2025. Investors were asked: Which developed markets offer the best opportunities?

4. Source: Ninety One estimates of indicative target unlevered returns in euro currency.

Where are you seeing the best opportunities?

There is a healthy pipeline of potential deals across a range of sectors where fundamentals remain resilient, and asset backing is strong – opportunities that offer a compelling risk/return profile. For example, we have seen interesting deals across real estate, infrastructure, healthcare, industrial and renewable energy sectors.

From a regional perspective, we remain focused on Western Europe, with a particular emphasis on Northern European markets. These include Germany, the UK, the Nordics, and the Benelux, where we continue to see high-quality businesses, strong legal frameworks and consistent deal flow.

General risks. The value of investments, and any income generated from them, can fall as well as rise. Past performance is not a reliable indicator of future results. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations. Investment objectives and performance targets are subject to change and may not necessarily be achieved, losses may be made. Prospective Investors should read the Private Placement Memorandum in its entirety and should conduct their own due diligence and obtain such professional advice including, without limitation, advice on the legal, tax and regulatory consequences to them of an investment, as they deem necessary before deciding whether to invest.

Specific risks. **Currency exchange:** Changes in the relative values of different currencies may adversely affect the value of investments and any related income. **Default:** There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss. **Derivatives:** The use of derivatives may increase overall risk by magnifying the effect of both gains and losses leading to large changes in value and potentially large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. **Interest rate:** The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise. **Concentrated portfolio:** The portfolio invests in a relatively small number of individual holdings. This may mean wider fluctuations in value than more broadly invested portfolios. **Credit risk:** Where the value of an investment depends on a party (which could be a company, government or other institution) fulfilling an obligation to pay, there exists a risk that the obligation will not be satisfied. This risk is greater the weaker the financial strength of the party. The Net Asset Value the portfolio could be affected by any actual or feared breach of the party's obligations, while the income of the portfolio would be affected only by an actual failure to pay, which is known as a default. **Borrowing/Leverage:** Borrowing additional money to invest increases the exposure of the portfolio above and beyond its total net asset value. This can help to increase the rate of growth of the portfolio but also cause losses to be magnified.

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