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ALTERNATIVE FIXED INCOME STRATEGIES



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INTRODUCTION

HedgeNordic is the leading media covering the Nordic alternative investment and hedge fund universe. The website brings daily news, research, analysis and background that is relevant to Nordic hedge fund professionals from the sell and buy side from all tiers.

HedgeNordic publishes monthly, quarterly and annual reports on recent developments in her core market as well as special, in-depth reports on "hot topics".

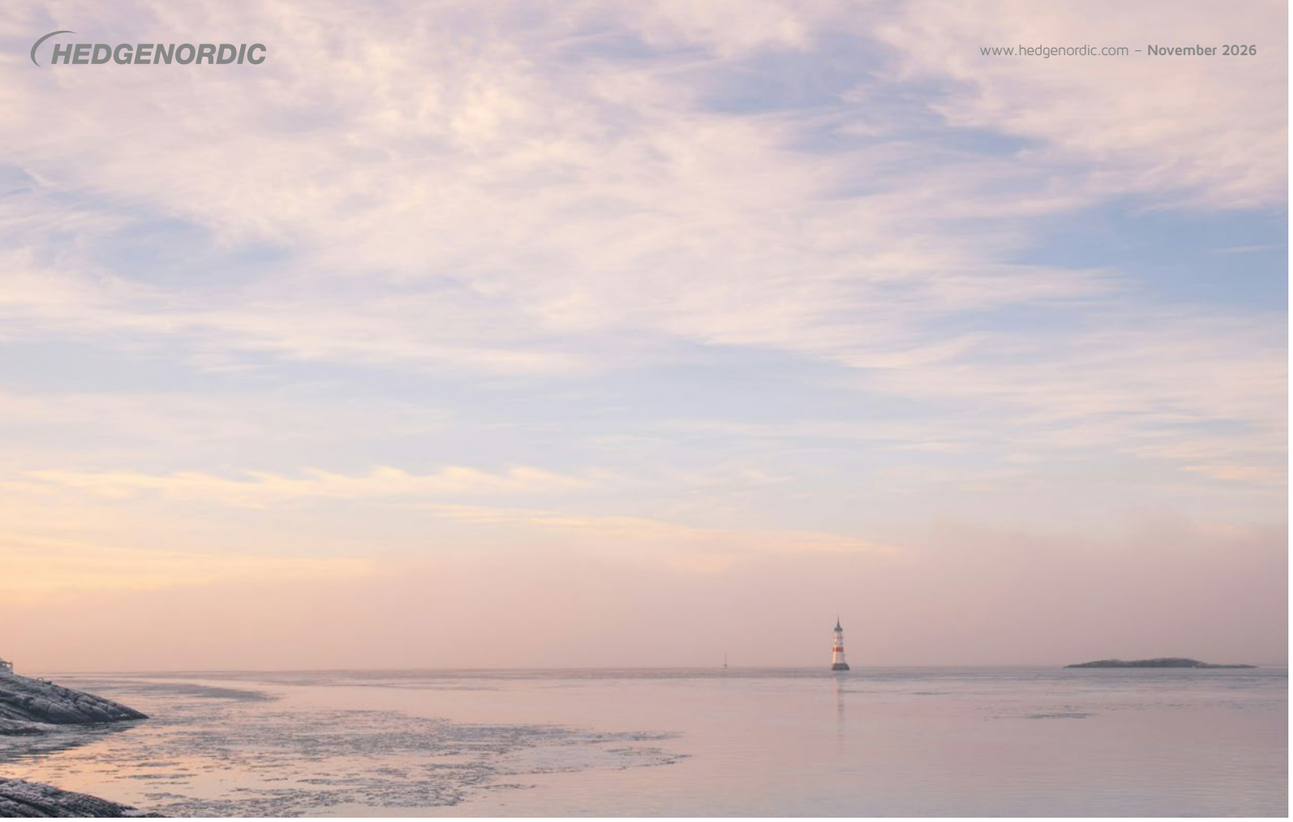
HedgeNordic also calculates and publishes the Nordic Hedge Index (NHX) and is host to the Nordic Hedge Award and organizes round tables and seminars.

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Editor´s Note…

Beyond the Familiar Sources of Income

After years in which investors struggled to find meaningful yields, higher interest rates brought income back to traditional fixed-income portfolios. Now, with monetary policy moving in different directions across economies, the challenges are changing once again. Credit spreads, duration risk, persistent fiscal pressures and geopolitical uncertainty all complicate the search for attractive risk-adjusted returns.

The return of yield has not eliminated the case for alternative fixed income. If anything, it has made the distinction between different sources of return more important. Flexible hedge fund strategies can respond to changing interest-rate expectations and exploit pricing discrepancies, while specialist credit managers can provide financing where traditional lenders are less active. Meanwhile, private credit has evolved far beyond corporate direct lending into a broad universe of asset-backed financing, fund finance, infrastructure debt and increasingly specialized structures.

For investors, the expanding opportunity set brings both possibilities and responsibilities. Higher yields are attractive, but liquidity, leverage, collateral quality and the ability to withstand difficult market conditions matter just as much. This year's Alternative Fixed Income report explores these considerations through the experiences of Nordic institutional investors and specialist managers.

We begin with “Afa Försäkring Seeks to Diversify Beyond Traditional Direct Lending,” where Marie Lindskog explains how the Swedish insurer is broadening its private credit exposure while maintaining a disciplined approach to manager selection and portfolio construction. “The Investment Case for European Infrastructure Debt” follows, with Sundeep Vyas of DWS examining opportunities linked to Europe's energy transition, digital infrastructure and demand for long-term financing.

In “Bliwa Balances Fixed Income Stability with Selective Risk-Taking,” CIO Fredrik Fors discusses how the insurer balances income generation with liquidity, liability matching and capital preservation. The focus then turns to a more specialized corner of the Nordic market. “An Invitation-Only Market: Evli’s Approach to Nordic Mid-Market Loans” explores how Jussi Hyyppä and Mikael Lundström navigate a lending market built around relationships, local knowledge and access to transactions.

Nordic corporate credit also features in “Beyond the Yield Premium: Finding Value in Nordic High Yield,” where Christoffer Malmström of Ridge Capital and institutional investor perspectives highlight the importance of credit selection and flexibility rather than simply pursuing the highest available yield.

The growing sophistication of private-market financing comes into focus in “P+ Looks Beyond Direct Lending to NAV and GP Financing.” Mikkel Loft explains how the Danish pension fund is exploring financing secured against private equity portfolios and fund managers. In “Securitized Credit, CLOs and Capital Call Financing Offer New Routes to Fixed Income Diversification,” Sid Chhabra of RBC BlueBay Asset Management examines opportunities across structured credit markets.

Aegon Asset Management's Bas Kragten takes a closer look at subscription-line lending in “Capital Call Financing: An Investment-Grade Opportunity in Private Credit,” while Matt Hansford of Barings provides a broader introduction to asset-backed portfolio financing in “Portfolio Finance 101: Understanding a Growing Corner of Private Markets.”

We conclude with an important question about how investors assess the asset class itself. In “Looking Behind the Headline Figure of the Private Credit Index,” Tero Pesonen of LocalTapiola Asset Management examines what private credit benchmarks actually measure and why comparisons with public markets deserve careful scrutiny.

Together, these contributions illustrate how alternative fixed income has become a collection of increasingly distinct strategies rather than a single asset class defined by higher yields and reduced liquidity. The opportunities are expanding, but so are the demands on investors to understand the underlying risks.

Ultimately, successful fixed-income investing is not simply about finding more income. It is about understanding where that income comes from, what risks support it and whether those risks are adequately rewarded.

Kamran Ghalitschi
PUBLISHER, HEDGENORDIC

Afa Försäkring Seeks to Diversify Beyond Traditional Direct Lending

By Eugeniu Guzun – HedgeNordic

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Marie Lindskog, Head of Alternative Investments – Afa Försäkring.

"Afa Försäkring has a large, fixed income portfolio, which provides liquidity and attractive risk-adjusted returns. The fixed income and private credit portfolios complement each other."

Direct lending has become a cornerstone of institutional private credit portfolios, but investors are increasingly looking to diversify beyond traditional lending to broaden their sources of return. For Afa Försäkring, the Swedish insurer that established its private credit programme in 2013, the next step is exploring opportunities that broaden its exposure beyond sponsor-backed direct lending. "There is room for us to expand the programme to look at more sources of return and different types of strategies," says Marie Lindskog, Head of Alternative Investments at Afa Försäkring.

"Our private credit programme was established in 2013 and has since become a growing part of the alternatives portfolio," says Lindskog. The allocation complements traditional fixed income by offering floating-rate income and an illiquidity premium, while extending the portfolio's exposure to borrowers that are less accessible through public debt markets. "For us, private credit provides a regular source of income as well as an illiquidity premium for investing in private markets," Lindskog explains. "The regular cash income is also valuable, as it helps support the liquidity needs of the broader portfolio."

However, Afa Försäkring does not view private credit as a substitute for traditional fixed income. "There is room for both. Afa Försäkring has a large, fixed income portfolio, which provides liquidity and attractive risk-adjusted returns. The fixed income and private credit portfolios complement each other," Lindskog explains. The illiquidity premium is essential to the investment case, compensating Afa Försäkring for committing capital over longer periods. "To justify committing capital for longer periods, we require additional expected returns, taking account of credit risk, fees and illiquidity," she adds.

The comparison extends beyond yields. Afa Försäkring assesses expected credit losses, fees, underwriting standards and lender protections, liquidity terms and managers' ability to handle distressed credits. Private lenders can also play a more active role in restructuring troubled exposures than investors in many public fixed-income instruments. "Direct relationships with borrowers can give private lenders scope to engage in restructurings when difficulties arise," Lindskog says. As more of Afa Försäkring's investments have progressed through a full fund life cycle, the insurer is placing greater emphasis on how managers handle setbacks and protect capital when borrowers run into difficulties.

THE CREDIT CYCLE TESTS UNDERWRITING DISCIPLINE

Recent turbulence in business development companies (BDCs), alongside concerns about software valuations, has brought the risks in private credit into sharper focus. Lindskog distinguishes between situations where managers need to adjust valuations to reflect market conditions and those where rising defaults indicate underlying credit stress.

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"There's some indication of stress, which is not unexpected at this point in the credit cycle," considers Lindskog. Afa Försäkring's investment framework accounts for an expected level of defaults, recognizing that credit returns must compensate investors for credit losses. Lindskog also suggests that historically low default rates may have understated the risks involved. "The returns we seek from private credit need to compensate us for credit risk, including an expected level of defaults and losses across the market cycle."

For Afa Försäkring, the key question is how managers respond to difficulties and how much capital they can recover from troubled investments, particularly in the senior direct lending market. "There will be important lessons to learn from how managers respond to these situations and how much they ultimately recover," emphasizes Lindskog.

EXPANDING THE OPPORTUNITY SET

While senior direct lending remains an important part of the portfolio, Afa Försäkring is also looking to diversify into other areas of private credit. Lindskog highlights opportunistic credit and capital solutions as particularly attractive strategies, especially for companies facing refinancing needs. "We see a lot of opportunities in opportunistic credit and capital solutions-type of strategies," she says. These strategies can allow lenders to step in when borrowers need fresh capital but their existing lenders are unwilling or unable to provide financing on the same terms.

Afa Försäkring is also exploring asset-backed strategies, which provide exposure to loans secured by specific assets or pools of collateral. "There are a lot of interesting opportunities there as well," Lindskog says. These strategies could help diversify Afa Försäkring's private credit portfolio and reduce its overlap with the private equity programme, given that a significant share of Afa Försäkring's direct lending portfolio has focused on lending to private equity-backed companies.

"The returns we seek from private credit need to compensate us for credit risk, including an expected level of defaults and losses across the market cycle."

RISKS AND LENDING STANDARDS

Years of strong inflows into direct lending intensified competition for deals and, in some cases, contributed to weaker lending standards. Lindskog points to instances where it seems as if lenders accepted less protective documentation, potentially limiting their ability to influence outcomes and recover capital when borrowers encounter difficulties. "If you don't have the right documentation in place, that might lead to a risk that you can't fully compensate for," she says.

Some of the earlier concerns have since eased. Leverage has declined from the elevated levels seen in previous years, while lending documentation has tightened again as competition has moderated in parts of the market. "Borrower leverage has come down from the elevated levels seen a few years ago, so it is less of a concern than it was, although it remains an important part of our assessment," Lindskog says. At the same time, there is a broader discussion across private markets around how quickly valuations reflect developments in underlying portfolios.

Payment-in-kind (PIK) interest is another area Lindskog monitors closely. Under PIK arrangements, borrowers defer interest payments and add them to the outstanding loan balance rather than paying in cash. While such arrangements can serve legitimate purposes, a rising share of PIK interest may signal financial stress among borrowers. "PIK can be used for perfectly valid reasons, but sometimes it can be an indication of stress," argues Lindskog.

For Afa Försäkring, this matters because direct lending is expected to generate regular cash income. "From our perspective, one of the reasons we invest in direct lending is to get that steady income, and PIK setups decrease that component," Lindskog says. "For our cash income levels to be sustainable, we therefore want to see a sustainable balance between cash interest and PIK across the portfolio."

WHAT AFA FÖRSÄKRING LOOKS FOR IN CREDIT MANAGERS

Manager selection remains centered on consistent underwriting, experienced teams and the ability to source attractive opportunities without compromising credit discipline. Afa Försäkring looks for managers who maintain their standards even when competitive pressures encourage looser lending terms. "We want to see a consistent underwriting culture throughout the organization, from the top down," says Lindskog. "Managers shouldn't simply follow the market. When documentation standards loosen across the industry, we want to work with teams that stay true to their investment philosophy and maintain their standards."

Experience in restructuring and recovering troubled loans is another key consideration. Managers with dedicated workout teams or integrated restructuring expertise may be better equipped to handle distressed credits, while strong origination capabilities allow them to remain selective rather than deploy capital simply to maintain investment pace. "If you see a lot, you can be selective," Lindskog says. Managers with broad market coverage and strong origination capabilities may be better positioned to turn down deals that do not meet their underwriting standards.

A BROADER ROLE FOR PRIVATE CREDIT

Lindskog expects private credit to remain an important part of the financing landscape, with banks' regulatory and balance-sheet constraints continuing to create opportunities for private lenders, particularly when borrowers need flexible financing or face challenging market conditions. "We expect to find good opportunities in direct lending, but also in capital solutions, special situations and asset-backed strategies," Lindskog concludes.

The Investment Case for European Infrastructure Debt

By Eugeniu Guzun – HedgeNordic

Europe's infrastructure needs are expanding as governments and businesses seek greater energy security, lower emissions and more resilient digital and electricity networks. For debt investors, this is widening the opportunity set beyond traditional assets to renewable energy, battery storage, energy efficiency and digital infrastructure. But a broader opportunity set also calls for careful credit selection. Sundeep Vyas, Head of Private Infrastructure Debt for Europe at Deutsche asset management, says investors should focus on essential services, relatively predictable cash flows and the protections of senior debt, while assessing risks across markets and sectors.

Europe's infrastructure investment needs are being shaped by four interconnected themes: energy security, energy efficiency, decarbonization and digitalization*. "Energy security is a major theme. It is about managing our resources as efficiently as possible and ensuring that we have the resources we need, rather than depending on others," Vyas says. He also identifies energy efficiency as a way to moderate energy demand as an important priority.

Decarbonization is closely linked to these objectives. Manufacturing, transport, power generation and chemicals have long relied on fossil fuels for cheap energy, but the economics and strategic risks are changing. "Fossil fuels are creating strategic problems, becoming too expensive and proving unreliable," Vyas argues. The shift is reinforced by the EU's emissions-reduction and net-zero targets for 2030, 2040 and 2050.

Digitalization is another key driver of infrastructure investment, although Vyas distinguishes established digital infrastructure from the less certain implications of hyperscale computing and artificial intelligence. "Fiber, towers and data centers serving local demand are already established parts of the infrastructure universe," says Vyas. He is more cautious about the wider implications of hyperscale computing and AI for infrastructure investing. "We recognize those developments, but their impact on infrastructure will largely depend on getting the scale, size and location of data center development in Europe right."

These themes are creating a growing range of potential investment opportunities across infrastructure sectors. "We are seeing opportunities in areas such as renewable energy, energy efficiency and waste-to-energy, as well as infrastructure supporting the electrification of transport, including battery storage and EV charging networks," Vyas

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Sundeep Vyas, Head of Private Infrastructure Debt for Europe – DWS.

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says. These developments are broadening the range of infrastructure assets that may be suitable for long-term debt financing, subject to the relevant investment criteria and underwriting requirements.

AN EXPANDING INFRASTRUCTURE INVESTMENT UNIVERSE

The infrastructure investment universe has grown alongside funding needs. Traditionally, it centered on public-private partnerships (PPPs) and contracted assets, where long-term agreements provided revenue visibility. Vyas says the defining features are less about sector labels and more about the underlying economics. "We look for services that are essential to the economy or society, with limited competition, strong market positions and predictable, long-term cash flows," he explains.

That framework can encompass transportation, power generation, battery storage and ferries, provided the assets meet the relevant criteria. "The question is whether the investment has the characteristics of infrastructure," Vyas says. The broader opportunity set has also coincided with more sophisticated investor demand. Investor demand has become more defined, with clearer expectations for risk and returns.

"For a long time, infrastructure debt was treated as an extension of infrastructure equity. The focus was on equity, with its low-teens returns, while debt played a supporting role," Vyas says. Today, investors distinguish between senior investment-grade debt, such as BBB- and single-A-rated exposure for liability matching, and BB-rated opportunities targeting higher returns. "Investors now know what they are looking for and have much more precise requirements."

INFRASTRUCTURE DEBT'S ROLE IN INSTITUTIONAL PORTFOLIOS

Infrastructure debt combines the characteristics of the underlying assets with the protections of lending. Essential services, contractual arrangements, regulated positions and predictable long-term cash flows can support the credit. Debt seniority adds another layer of protection, as equity generally absorbs losses before lenders. "You can break infrastructure debt into two parts: infrastructure and debt," Vyas explains. "Infrastructure brings essential services, contractual positions, regulatory monopolies and long-term cash-flow visibility. And because you invest in debt rather than equity, you benefit from seniority of capital."

"For a long time, infrastructure debt was treated as an extension of infrastructure equity. The focus was on equity, with its low-teens returns, while debt played a supporting role."

Vyas sees infrastructure debt as sitting between traditional fixed income and higher-returning private credit strategies such as direct lending. Infrastructure debt may offer certain structural protections while seeking to capture an illiquidity premium relative to publicly traded bonds. "It sits somewhere in the middle of the risk-return spectrum," he argues. "Infrastructure debt may offer certain structural protection alongside an illiquidity premium over publicly traded bonds."

Achieving this balance also requires broad diversification across countries, currencies, sectors, revenue profiles, maturities, credit quality, guarantors and fixed- or floating-rate exposure. Vyas cautions that apparent diversification can conceal common exposures, particularly where investments depend on the same regulatory framework. "Depending on a single regulatory framework, for instance, can be a major risk. If there is a political or regulatory change, you can find yourself in a difficult position."

LOCAL KNOWLEDGE AND PAN-EUROPEAN REACH

Sourcing private infrastructure debt takes more than capital. It also depends on local market knowledge and strong relationships with borrowers, banks and advisers. Vyas points to Deutsche asset management's presence across major European cities and its connection to the wider Deutsche Bank organization as a competitive advantage. "One major advantage is being part of the Deutsche Bank organization. We are present in almost every major European city, so when we have questions about a sector, regulation or government policy, we know who to turn to," he says. "That helps us understand what is happening in different markets."

Relationships matter, especially when transactions are complex or time-sensitive. Borrowers need lenders who can assess risk, complete the credit work and execute efficiently. "They are looking for investors and managers who understand risk, can do the credit work and complete transactions on time," Vyas says. "Over time, we have built that credibility, so when a difficult situation arises, we are among the managers they trust."

LOOKING AHEAD: DIGITAL INFRASTRUCTURE AND THE MODERNIZATION OF EUROPE'S ENERGY NETWORKS

Vyas expects the infrastructure debt market to grow significantly over the next five to ten years, driven largely by digital infrastructure and the energy transition. Data centers, fiber networks and telecommunications towers are likely to attract a growing share of investment. But the scale of the capital involved makes careful underwriting essential, particularly in Europe, where data center development has lagged behind the US.

"We have to make sure the fundamentals are sound before committing huge amounts of capital to these very large assets," he argues. Beyond digital infrastructure, Vyas sees opportunities in energy efficiency, energy security and grid modernization. Europe's electricity networks will need major upgrades to handle a changing mix of power generation, from offshore wind and solar farms to household solar. "How does that change the grid design? How do you make it more modern, efficient and resilient? This will require a lot of capital, and it will become a major investment theme over the next five to ten years."

Renewable energy is expected to remain an important source of opportunities, but the requirements differ across European markets. Spain and Portugal have developed substantial wind and solar capacity, yet need better interconnectors to transport surplus power to markets such as Germany, France and the UK. The UK, meanwhile, needs to expand transmission connections to support its large offshore wind capacity, while Germany faces the challenge of creating conditions that attract investment and offer investors appropriate returns.

"Different markets have different priorities for the next five to ten years," concludes Vyas. For debt investors, this points to a broad range of opportunities as Europe upgrades its infrastructure to meet changing needs.

*ACER Energy infrastructure development in Europe - 2026 Monitoring Report

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Bliwa Balances Fixed Income Stability with Selective Risk-Taking

By Eugeniu Guzun – HedgeNordic

> “Fixed income is supposed to provide the things you want from a risk perspective: diversification, stability, and a cushion or safety net for your portfolio.”

For insurers, fixed income must do more than generate returns. It needs to provide stability, preserve liquidity, and help match investments to liabilities. At Bliwa Livförsäkring, these considerations shape an approach that prioritizes diversification and capital preservation while leaving room for selective risk-taking. Fredrik Fors, CIO of the Swedish insurer, discusses how its liability profile influences portfolio construction, why Bliwa remains cautious about private credit, and how manager selection and transparency underpin its investment process.

Bliwa’s insurance liabilities play a central role in its asset allocation. Fixed income accounts for approximately 60 percent of the portfolio, providing income, stability, and diversification. “Fixed income is supposed to provide the things you want from a risk perspective: diversification, stability, and a cushion or safety net for your portfolio,” Fors explains.

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Fredrik Fors, Chief Investment Officer – Bliwa Livförsäkring.

The insurer's relatively short liability profile also limits its appetite for interest-rate risk. "We have a somewhat different situation from a typical insurance company, with a shorter liability profile. That puts certain constraints on how we construct the portfolio," says Fors, who joined Bliwa as CIO in 2025 after a long career in fixed income. "As a result, we maintain a shorter duration on the fixed-income side and try to minimize our interest-rate risk."

Bliwa's allocation reflects its preference for combining liquid, lower-risk investments with a broader range of fixed-income exposures. Around 25 percent of the portfolio is allocated to money market investments, while a further 30-35 percent sits in what Fors describes as the insurer's other fixed-income category. The allocation combines investment-grade credit with higher-yielding exposures, including high-yield bonds and selected private-market strategies such as direct lending.

Liquidity remains an important consideration within the money market allocation. Much of this exposure is held through short-term money market funds, providing flexibility given the relatively short duration of the insurer's liabilities and the need to manage its liquidity profile. "We need to maintain some liquidity, partly because of our short liability duration and partly because forecasting our liquidity needs can sometimes be challenging," Fors says.

Against this backdrop, Bliwa is considering whether a modest increase in credit risk could improve returns. Fors sees scope to adjust the allocation selectively rather than make a broad shift towards less liquid investments.

"We may adjust our allocation to seek somewhat higher returns rather than focusing primarily on minimizing risk," Fors says. "Within fixed income, we could move a little further along the risk spectrum to increase returns. That is something we may well do in the near term." He adds that Bliwa's overall approach remains similar to that of other insurance companies, although "we may maintain a somewhat shorter duration."

A SELECTIVE APPROACH TO PRIVATE CREDIT

Fors does not expect Bliwa to make a substantial move into private credit simply because the asset class has attracted greater attention from institutional investors. Fors recognizes the potential for additional income from private credit but does not see expanding the allocation as an objective in itself. "We have exposure to semi-direct lending within our fixed-income allocation, which provides more return attribution than our other, more traditional exposures," notes Fors.

> "We have exposure to semi-direct lending within our fixed-income allocation, which provides more return attribution than our other, more traditional exposures."

Bliwa is broadly satisfied with its current positioning and intends to remain selective when considering less liquid investments. "The private side of fixed income is an area where you need to be a little careful about where you step in," he says. Bliwa could instead introduce a dedicated high-yield fund with a clearly defined mandate. "What might change is that we could introduce more clearly defined strategies, perhaps a high-yield fund with a clear high-yield strategy," Fors says.

Fors is reluctant to make the asset class carry too much of the burden of generating additional returns. "If we are looking to take on more risk, we could do that in other parts of the portfolio, such as equities, through thematic investments or through other alternative strategies."

MANAGER SELECTION AND THE IMPORTANCE OF TRANSPARENCY

Bliwa invests in fixed income exclusively through funds rather than managing its own bond portfolio. With a relatively small investment team, external managers provide access to a range of strategies, but Bliwa retains responsibility for determining which exposures fit its portfolio requirements. Fors says the process begins by identifying the desired exposure before evaluating potential managers.

"We start from the top down, first deciding whether we want exposure to something like high yield," Fors explains. "We can then issue a request for proposals to see what is available, or screen the strategies offered by our existing managers to identify anything we might want to add."

The selection process combines internal expertise, investment committee discussions, quantitative analysis, track-record assessment and due diligence. Beyond performance, Fors emphasizes the importance of transparency and communication, especially when a strategy encounters difficult market conditions. "When everything is going well and returns are coming in, everyone is happy. But what happens when things go the other way?" Fors asks. "Do you stick to your profile? Do you stick to your strategy? It is important to understand how you communicate with each other."

For Fors, a manager's behavior under pressure matters as much as its stated investment approach. "Transparency is one of the main things I always emphasize and ask about," he says. Bliwa also favors managers with a local presence where possible, allowing for closer interaction and a better understanding of the insurer's needs. "We are a relatively small insurance company, although we are still growing, so our needs may differ from those of larger investors," Fors says.

A STRATEGIC ALLOCATION AMID CONTINUED MARKET VOLATILITY

Fors does not expect interest-rate expectations or continued market volatility to trigger major changes in Bliwa's strategic fixed-income allocation. "I don't think we will make any major changes in response to that," he says. "We trust our process: diversify, work with high-quality managers, and make sure the investments and strategies align with what we want to invest in and what we expect to get out of them."

A higher interest rate environment has nevertheless broadened the range of opportunities available to investors. "Today, it is a little easier to find good investments that generate returns or provide diversification without having to take on too much risk," Fors concludes.

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An Invitation-Only Market: Evli's Approach to Nordic Mid-Market Loans

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Jussi Hyyppä, Head of Loan Strategies at Evli, and Mikael Lundström, Chief Investment Officer at Evli.

By Eugeniu Guzun – HedgeNordic

The Nordic credit markets offer investors a distinctive combination of attractive yields, floating-rate instruments and access to high-quality mid-market companies. The region's established private equity industry also provides a source of lending opportunities. Evli's Senior Secured Loan strategy seeks to capture this opportunity through selective lending to Nordic corporate borrowers, with a focus on private equity-backed companies.

For Jussi Hyyppä, Head of Loan Strategies at Evli, the Nordic credit market stands out for its combination of attractive spreads, strong corporate governance and transparent reporting. "The region has a large pool of high-quality, primarily mid-market companies that typically remain unrated by S&P, Moody's, Fitch and other major agencies, offering investors attractive spreads," he says. "These companies are established, high-quality businesses with clear corporate governance structures and transparent reporting."

The predominantly floating-rate structure of Nordic loans is another distinguishing feature of the market. Despite these common characteristics, Hyyppä cautions against treating the Nordics as a single, uniform market. "Although we tend to think of the Nordics as a single region, it actually comprises four distinct markets, each with its own language, jurisdiction and currency," he explains. "Investing across the region requires a local presence and in-depth market knowledge."

The region's established private equity industry, with sponsors such as EQT, CVC, Nordic Capital and Triton Partners, strengthens the pipeline of lending opportunities. "The Nordic focus and the private equity flavor make Evli's Nordic Senior Secured Loan Fund a niche strategy among European senior loan strategies," emphasizes Hyyppä.

The fund invests across three segments: privately negotiated Nordic mid-market loans, broadly syndicated Nordic senior secured loans and, to a lesser extent, floating-rate Nordic high-yield bonds.

> "The Nordic focus and the private equity flavor make Evli's Nordic Senior Secured Loan Fund a niche strategy among European senior loan strategies."
>
> Jussi Hyyppä

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Hyyppä identifies privately negotiated mid-market loans as the most attractive segment on a risk-adjusted basis. These transactions allow Evli to invest alongside established Nordic commercial banks, which play an active role in arranging and financing loans to regional businesses.

"The leading Nordic commercial banks are very active in this space," Hyyppä says. "They retain significant portions of these loans on their own balance sheets, so they have a lot of skin in the game." A select group of institutional investors participates alongside the banks, with transactions often arranged through relatively small syndicates. This structure is complemented by strong lender protections in the loan documentation. As Mikael Lundström, Chief Investment Officer at Evli and a member of the loan strategy team, explains: "From our perspective, this segment offers excellent covenant protection, giving us a strong degree of protection when investing in these loans."

RELATIONSHIPS MATTER IN A SELECTIVE MARKET

Access to these transactions depends on established relationships with banks, private equity sponsors and other lenders. Hyyppä describes Nordic mid-market lending as a "bespoke, invitation-only type of market." Investor syndicates typically comprise five to ten institutions, sometimes fewer, making it difficult for newcomers to establish themselves without an existing network.

Evli's established presence in the region provides an advantage. Lundström highlights the firm's nearly 30-year track record in arranging and executing loan transactions, alongside its participation in European high-yield markets since 1999. "The private equity people know us, they know how we work, and they know what deals we like," he says.

Evli's role as a capital provider, rather than a full-service commercial bank, also helps reinforce these relationships. "We don't compete with banks in areas such as day-to-day banking, cash management or corporate finance services," Hyyppä explains. "Our strategy is very much complementary, anchored in this region."

> "We aim to deliver stable returns, and I think our track record shows that these have been very consistent."
>
> Mikael Lundström

BORROWER SELECTION AND DOWNSIDE PROTECTION

Evli Nordic Senior Secured Loan Fund operates as an open-ended evergreen vehicle, investing continuously rather than following traditional private debt vintages. Its portfolio comprises more than 50 individual credit positions across different borrowers and sectors. The strategy follows a predominantly buy-and-hold approach, with Evli generally holding loans to maturity rather than actively trading or rotating the portfolio.

Evli's approach to capital preservation starts with the characteristics of the businesses it finances. The firm focuses primarily on established companies in defensive, non-cyclical sectors, including business-to-business services, healthcare and information technology. Many are asset-light companies with strong cash generation and predictable operating performance, often backed by private equity sponsors. "From the credit investing perspective, all those components are very favorable," argues Hyyppä.

"We like the Nordic region because it consists of stable, open economies and operates within transparent, well-established jurisdictions," Hyyppä says. "When you combine that with private equity sponsor involvement, you almost automatically end up focusing on defensive, non-cyclical sectors and asset-light businesses." Evli avoids areas such as real estate and capital-intensive or cyclical businesses. Hyyppä estimates that excluding these sectors leaves the strategy with an investment universe roughly half the size of the broader Nordic high-yield market.

Hyyppä views private equity sponsors as active owners that can support business development while balancing growth with profitability. "They typically aim to grow their portfolio companies while maintaining a healthy balance between growth and profitability," argues Hyyppä. For lenders, private equity involvement helps mitigate risk.

Credit analysis focuses on the borrower's ability to generate free cash flow after interest expenses, capital expenditure and taxes. "We're very focused on free cash flow generation," Lundström stresses. "We stress-test the free cash flow after investments, interest costs, capital expenditure and taxes. We ask how we can make sure that, if something bad happens, we are still on a downward trend in terms of leverage."

FLOATING-RATE INCOME

All the fund's investments are floating-rate instruments, limiting its direct interest-rate duration. Lundström describes the fund as a traditional carry strategy, targeting returns of approximately Euribor plus 450 basis points depending on market conditions (gross of fees), running at a current yield of around seven percent. "We aim to deliver stable returns, and I think our track record shows that these have been extremely consistent."

Lundström also points to the importance of starting yield when assessing potential returns. "Historically, the starting yield is by far the best indicator of future potential returns. It's not something you can promise, but it's the best indicator."

EXTENDED HOLDING PERIODS AND THE OUTLOOK

The Nordic market has not been immune to the challenges facing private equity globally. Uncertainty and volatile public-market valuations have made it harder for buyers and sellers to agree on exit prices, extending holding periods for some portfolio companies. Hyyppä says sponsors have often chosen to retain businesses they believe still have development potential, continuing to grow them or pursue add-on acquisitions rather than sell into an uncertain market.

"For our loan fund, that has actually been a positive development because we have had the opportunity to hold on to these high-quality assets for longer," he says. Longer holding periods do not automatically improve credit quality, but they can allow lenders to continue earning interest from businesses that remain operationally sound while sponsors wait for more favorable exit conditions.

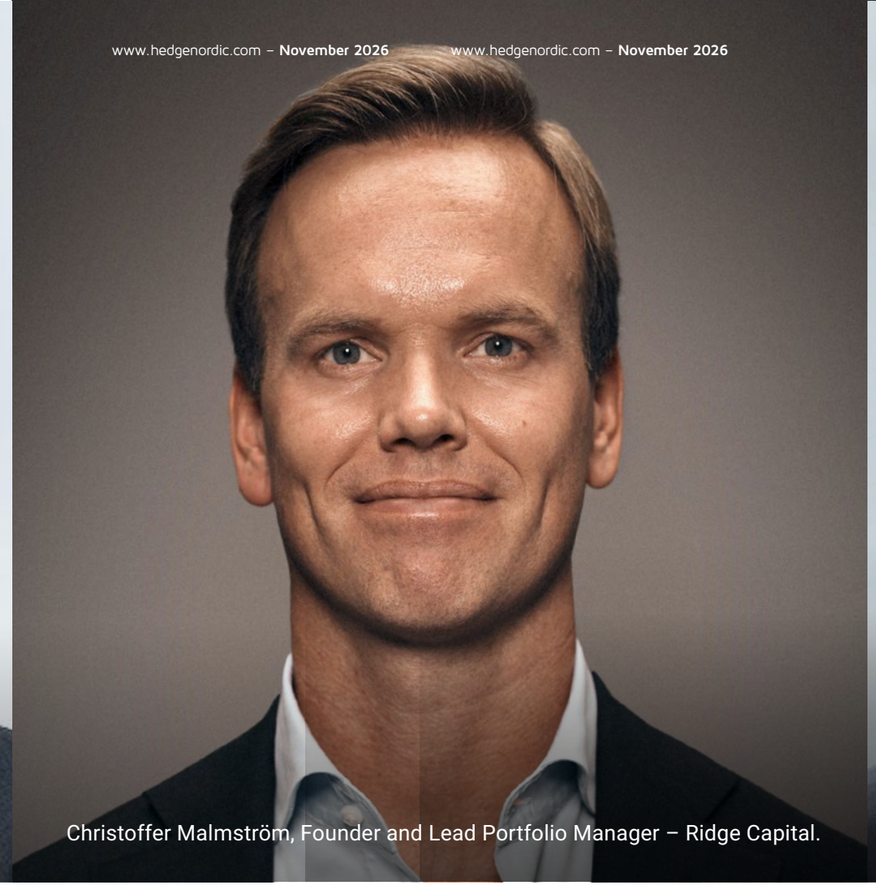
Lundström distinguishes between challenges in realizing private equity investments and deterioration in the underlying borrowers' businesses. "It's not that the companies are doing poorly; they're doing well. The issue is what the exit multiple is," he says. From a senior lender's perspective, pressure on equity valuations is different from an inability to service debt.

Despite an uncertain macroeconomic environment, Evli sees the resilience of Nordic corporate borrowers as a key source of confidence in the market's longer-term prospects. "We remain fundamentally optimistic about the outlook for Nordic corporate credit," Hyyppä concludes. "Despite ongoing geopolitical turbulence, uncertainty surrounding inflation and interest rates, and volatility in raw-material prices, credit quality across the Nordic region has remained very strong."

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Reto Ineichen, Chief Investment Officer – Alpinum Investment Management.


Christoffer Malmström, Founder and Lead Portfolio Manager – Ridge Capital.



Helmut Neumaier, Head of Investment – Munich-based foundation.

By Eugeniu Guzun – HedgeNordic

Beyond the Yield Premium: Finding Value in Nordic High Yield

The Nordic high-yield market combines shorter maturities, a high share of floating-rate bonds, stronger creditor protections in many transactions and a persistent yield premium over European and US counterparts. Capturing this premium, however, requires careful credit selection and flexibility. Christoffer Malmström, Co-Founder and Lead Portfolio Manager at Stockholm-based Ridge Capital, explains how the boutique seeks to exploit opportunities in this universe, while allocators and high-yield bond investors, Helmut Neumaier and Reto Ineichen, discuss the appeal of Nordic high yield and the role of active management.

RECORD ISSUANCE, GREATER VOLATILITY

The Nordic high-yield market has had a particularly strong year, with issuance approaching record levels amid robust investor demand. The investor base has also become more international, broadening participation and improving liquidity. “The investor

“Some bonds have seen their prices fall sharply without any deterioration in the underlying credit quality. That is rare and it has created clear opportunities. This is a very good market to be in.”

Christoffer Malmström

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> “The Nordic high-yield bond market offers a significant yield premium over European or global high-yield bonds, despite quite similar default risks, especially if you exclude oil and gas exposure.”
>
> Helmut Neumaier

base has grown significantly, becoming more diversified and international,” says Malmström. The changing investor mix is also reshaping market dynamics.

“Traditionally, the Nordic market was dominated by buy-and-hold investors. Now, we see more actively managed investors who are not hesitant to sell, creating greater volatility and more pronounced price movements,” he adds. Supply from non-Nordic first-time issuers also supports the yield premium, as these borrowers often need to offer higher spreads to attract investors. “We see a lot more supply coming from non-Nordic first-time issuers. They will pay up a bit, helping keep spreads at higher levels,” explains Malmström.

The recent widening in Nordic high-yield spreads has allowed Ridge Capital to buy bonds at better levels. “The spread widening has opened an entry window into the fund and let us invest in issuers from our watch list that were far too tight at the start of the year and are now accessible again at particularly attractive levels,” Malmström says. “Some bonds have seen their prices fall sharply without any deterioration in the underlying credit quality. That is rare and it has created clear opportunities,” he emphasizes. “This is a very good market to be in.”

A YIELD PREMIUM WITH STRUCTURAL ADVANTAGES

Malmström estimates that broad Nordic high-yield spreads have hovered around 500 basis points, with new issues priced in the mid-to-high 500s. This represents a premium of approximately 150-200 basis points over European single-B credit. The differential reflects structural characteristics of the Nordic market.

Helmut Neumaier, Head of Investment at a large Munich-based foundation, also highlights the compensation available to investors in Nordic high yield. “The Nordic high-yield bond market offers a significant yield premium over European or global high-yield bonds, despite quite similar default risks, especially if you exclude oil and gas exposure,” he says. The prevalence of floating-rate notes also limits interest-rate sensitivity, although lower market liquidity can amplify losses during periods of stress. “Drawdowns can be more severe during periods of market stress,” notes Neumaier. “However, a strong recovery typically follows once liquidity returns.”

Reto Ineichen, Chief Investment Officer at Swiss asset manager Alpinum Investment Management, which has invested in Nordic high yield for more than a decade, also sees structural advantages in the market. “For structural reasons, we continue to see a lot of value for credit investors,” he says, pointing to its multiple currencies, distinct issuer base, more limited rating-agency coverage and prevalence of floating-rate structures.

Although the market has matured, with broader international participation, more diversified issuance and larger deal sizes, Ineichen believes the market continues to offer attractive relative-value opportunities. “We still find many segments trading at a discount to comparable European and US names,” he says. He also highlights stronger creditor protections through bond documentation and trustee frameworks, with maintenance covenants and efficient bondholder decision-making giving investors greater influence when issuers face difficulties. “That is particularly valuable in an environment where defaults and distressed liability management exercises are rising.”

THE CASE FOR ACTIVE MANAGEMENT

In a market where many bonds lack formal credit ratings, assessing default risk and changes in credit quality places particular demands on managers. Neumaier sees specialist credit analysis as an important source of differentiation. “A manager skilled in credit analysis holds a distinct advantage over a passive investment approach,” he argues.

The market rewards managers who can act quickly when prices become dislocated. While “many follow more or less a ‘buy-and-hold’ strategy,” Neumaier sees an advantage for smaller managers in exploiting secondary-market opportunities. Limited liquidity can trigger sharp price swings, allowing nimble managers to buy fundamentally sound issuers at discounts. Ultimately, the choice between buy-and-hold and active trading depends on investors’ objectives and risk tolerance.

For Reto Ineichen, active management is valuable because avoiding permanent losses can be more important than capturing upside. “High yield is a market where active management makes a real difference. Unlike an index, an active manager is not forced to own the most indebted issuers,” he says. “For us, an absolute-return mindset and strict risk control are the main defenses against shifts in sentiment,” Ineichen emphasizes. “Protecting the downside matters far more over the long run than capturing the most upside in rising markets.”

For allocators, assessing these capabilities means looking beyond headline returns to understand how managers behave across market cycles. Neumaier favors established investment processes, experienced teams, fund sizes appropriate to their strategies and a willingness to act countercyclically by increasing exposure when spreads widen and reducing risk as valuations become less attractive. Such flexibility, he argues, must remain consistent with the investment philosophy communicated to investors. “Flexible thinking and acting are important, but only in the scope of the established approach.”

Ineichen similarly examines how managers have navigated periods of market stress, focusing on downside capture, defaults and realized losses, as well as whether they added or reduced risk at the right moments. “We also check that the portfolio is consistent with the stated philosophy and that returns come from deep and active credit selection rather than simply taking more duration, leverage or lower-quality risk,” says Ineichen.

RIDGE CAPITAL: FLEXIBILITY IN ACTION

For Ridge Capital, flexibility is central to how the fund allocates capital and manages risk. The team can concentrate on its strongest convictions, adjust leverage, hedge exposures and move beyond Nordic high yield when other markets offer better value.

This selectivity is particularly important as spread differentials between financially stronger companies and weaker borrowers narrow. “The real risk is the compression between the weaker credits and the better credits,” says Malmström. “Our job is to identify the discrepancy and try to avoid the losers.” Unlike

buy-and-hold funds that must maintain broad market exposure, Ridge Capital can avoid weaker credits as spreads compress. “That flexibility is what allows us to be able to outperform,” he adds.

Leverage provides additional investment capacity and flexibility around redemptions. Ridge Capital uses a credit line to avoid keeping excessive cash on hand, allowing it to remain invested while retaining “dry powder” to deploy when opportunities emerge. By investing in higher-quality Nordic credit yielding 500-600 basis points in the current environment, Ridge Capital can generate around 11 percent with the fund’s structural leverage of 1.5 times. “This allows us to achieve our target of more than 10 percent per year with significantly less risk than before. The base carry alone is enough,” notes Malmström.

Malmström argues that this benefit extends beyond the contribution of leverage to returns. “If you’re running a daily-traded fund with monthly liquidity, you may need to keep a double-digit percentage of the fund in cash to meet redemptions,” explains Malmström. “That capital earns you nothing. With our credit line, we can stay invested while retaining the flexibility to deploy capital when opportunities arise.”

THE ROLE OF HIGH YIELD IN PORTFOLIOS

Investors differ in how they position Nordic high yield within a broader portfolio, from a source of income and diversification within fixed income to a potential substitute for part of their equity exposure. For Ineichen, it is a core fixed-income allocation, particularly in the short-duration segment, where it offers attractive carry with less interest-rate sensitivity than investment-grade bonds.

Neumaier sees a broader role, including as an alternative to equities. “In the US, in particular, we have been reluctant to make new investments last year and have instead sought alternatives capable of delivering equity-like returns over the medium term, but with lower levels of risk. One of the alternatives found was Nordic high yield,” he says. “However, when high-yield investments go beyond a small, supplementary allocation, they belong in the ‘risk bucket’ of a portfolio.”

Ultimately, Nordic high yield offers more than an attractive yield premium. Its fragmented issuer base, structural inefficiencies and evolving investor landscape create opportunities for active managers to differentiate returns through selective credit exposure and flexible portfolio management.

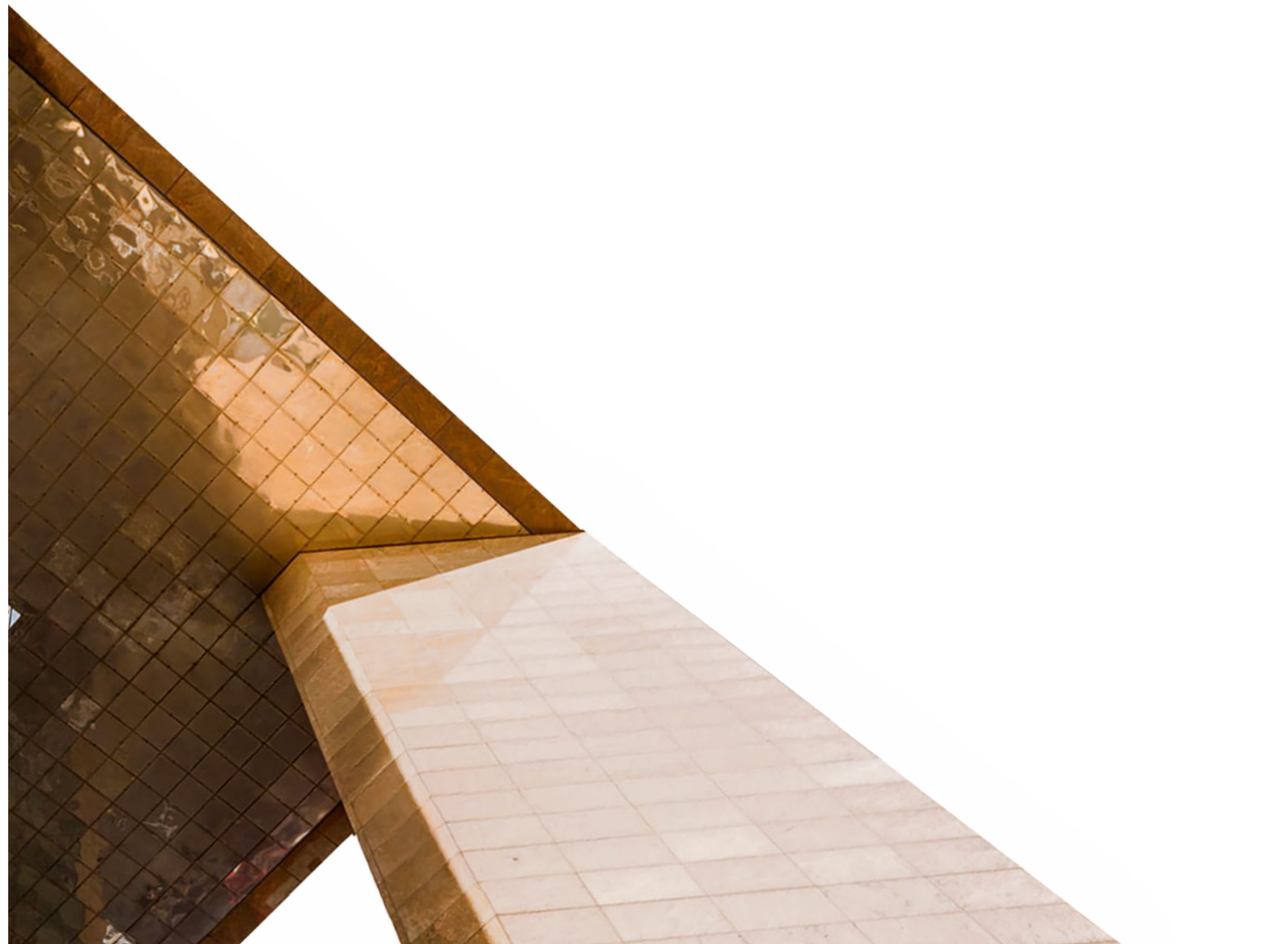
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P+ Looks Beyond Direct Lending to NAV and GP Financing

By Eugeniu Guzun – HedgeNordic

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Mikkel Loft, Director, Private Credit – P+, Pensionskassen for Akademikere.

"NAV loans would typically fall within the investment-grade bucket, but they can offer a premium over other investment-grade assets, which makes them particularly attractive."

Private credit has expanded well beyond traditional direct lending, with institutional investors increasingly exploring specialized financing strategies for diversification and additional sources of return. For Danish pension fund P+, traditional private credit remains an important portfolio component, but financing secured against private equity portfolios is attracting growing interest. Mikkel Loft, Director responsible for private credit investments at P+, sees opportunities in both net asset value (NAV) lending and general partner (GP) financing.

P+ allocates to private credit within its private investments portfolio, where the allocation serves two main purposes: generating recurring income and capturing an illiquidity premium relative to publicly traded credit markets. "The two main purposes are to act as a diversifier and to generate running income from the portfolio. At the same time, we want to capture an illiquidity premium compared with the liquid credit markets and achieve a higher yield," Loft says.

Within P+'s private credit portfolio, portfolio financing has emerged as an area of particular interest for Loft and his team. This includes NAV financing, where loans are secured against a fund's underlying investments, and GP financing, which provides liquidity to private equity managers against their future economic interests.

The growth of private equity and slower exit activity have helped drive demand for these solutions. "One of the key drivers is the significant growth of the private equity sector as a whole," Loft explains. "The other, less positive driver is the slowdown in exits, which means more capital is remaining locked within the ecosystem." He sees these structures as a natural evolution of private equity financing, moving beyond subscription lines towards financing at the portfolio level.

DIVERSIFICATION AND DOWNSIDE PROTECTION

One attraction of portfolio financing is the opportunity to diversify exposure across multiple underlying investments rather than rely on a single borrower. A NAV facility is secured against a portfolio of investments. "Even though some say it is leverage on leverage, a low LTV combined with the portfolio effect can more than make up for it," Loft says.

The lender's position in the capital structure provides another potential layer of protection. NAV financing generally ranks ahead of the fund's equity, giving lenders priority over equity investors in the repayment waterfall, subject to the transaction's terms and security arrangements. "You also come in ahead of

the equity," Loft explains. "When there are exits, the lenders are paid before the equity investors."

NAV FINANCING: INVESTMENT-GRADE RETURNS WITH A DIFFERENT CASH-FLOW PROFILE

P+ distinguishes between NAV and GP financing when assessing their place in the portfolio. NAV loans typically fall within its investment-grade bucket, which accounts for approximately one-third of P+'s private credit investments. The remaining two-thirds is allocated to higher-yielding strategies.

Loft sees NAV financing as an opportunity to earn an attractive premium over conventional investment-grade credit. "NAV loans would typically fall within the investment-grade bucket, but they can offer a premium over other investment-grade assets, which makes them particularly attractive," he says. "At +300 basis points, you are at the higher end of the investment-grade spectrum, so NAV loans offer a higher yield than many other investment-grade assets."

The return profile can also differ from conventional credit. Some NAV facilities are cash-pay, while others use payment-in-kind (PIK) interest, which accrues to the loan balance rather than being paid out regularly. "Where a facility is PIK, the return is more back-ended because the interest accrues rather than being paid in cash. Cash flow therefore depends more on exits in the underlying portfolio, with repayment typically coming through cash sweeps," Loft explains. "We look at the mix across the portfolio rather than at any one facility."

P+ also scrutinizes how borrowers use NAV facilities. Loft is wary of transactions designed primarily to distribute borrowed proceeds to investors. "What we do not like is when the financing is simply used to distribute money to investors. That is just money in, money out," he says. P+ instead favors financing with a clear economic rationale, such as giving a portfolio company more time to reach an exit or funding additional acquisitions.

NAV facilities can also help funds manage capital commitments more efficiently. "Normally, without NAV financing, you need to keep some capital available for hedging, costs and other requirements, so perhaps only 85 percent of commitments would be called," Loft explains. "With a NAV facility in place, you can potentially call 100 percent of the commitments, which can also be an advantage for limited partners."

GP FINANCING: HIGHER RETURNS AND MORE COMPLEX RISK

GP financing generally sits within P+'s higher-yielding credit allocation. Rather than lending against a fund's portfolio, the lender finances the general partner or management company, secured against assets such as management fees, carried interest, or stakes in existing and new funds. "The collateral can come from several sources, including carried interest from previous funds, management fees, and stakes in both existing and new funds," Loft says. Repayment is therefore tied more closely to the GP's business, future cash flows, and fund performance.

Loft sees several reasons why a GP might seek financing. A manager may have significant value tied up in carried interest but limited liquidity, making it difficult to commit capital to a new fund. GP financing can also support succession or provide an alternative to selling a stake to an external investor. "A manager may have funds that are growing rapidly but has not yet been able to realize the investments. They may have significant value on paper but limited liquidity, and can use collateral from previous funds to make a new commitment," he explains. "It can also be an alternative to selling a stake in the GP. We have seen managers use financing to buy back shares rather than bring in an outside investor," Loft adds.

Pricing reflects the risks involved. GP financing agreements commonly specify a minimum multiple on invested capital (MOIC), determining the minimum repayment relative to the original investment. A loan of €10 million with a 1.5x MOIC, for example, requires repayment of €15 million. A minimum internal rate of return (IRR) may apply if repayment takes longer than expected. "Normally, GP financing is structured with a minimum MOIC that needs to be repaid, as well as a minimum IRR. If the financing runs longer than expected, the IRR kicks in, and that can become really expensive for the GP. The rate is typically in the double digits," Loft explains.

UNDERWRITING, TRACK RECORDS AND DEAL SOURCING

P+ typically makes four to five credit investments a year, with relatively large individual commitments. This allows the team to conduct detailed due diligence, but Loft also stresses the importance of sourcing in a market where transactions are often bespoke and depend on relationships with private equity sponsors.

"When we make an investment, we work on it in great depth. We try to map the market and identify the best opportunities. What we believe is particularly important in fund financing is sourcing," he says. "These transactions are often bespoke, so you need to understand how managers actually access the underlying deals."

In NAV financing, P+ has worked with an asset manager affiliated with a bank that has an established subscription-line lending business, giving it access to an existing network of private equity relationships. "We saw NAV financing as a natural extension of subscription lines. We worked with an asset manager connected to a bank with a large subscription-line business, so we knew that as these facilities matured, opportunities to provide NAV financing would emerge," Loft explains.

For GP financing, P+ has relied on large managers with broad networks across direct lending and other private credit strategies. "We work with one of the larger managers, with a substantial direct lending business and other strategies, giving them a broad network of GPs they can engage with," he says.

For P+, the opportunity in NAV and GP financing rests on partnering with experienced managers capable of sourcing and structuring transactions with an appropriate balance of risk and return. As Loft emphasizes, "Sourcing is key, but you also need strong underwriting expertise and experience in the field."

Loft is nonetheless mindful that the portfolio financing strategies have yet to be properly tested. "It has been a long time since private credit went through a real default cycle," he says. "Prolonged benign conditions tend to mask risks until markets are stressed, and that is when manager selection and downside protection become the differentiators."

"Prolonged benign conditions tend to mask risks until markets are stressed, and that is when manager selection and downside protection become the differentiators."

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Securitized Credit, CLOs and Capital Call Financing Offer New Routes to Fixed Income Diversification



Sid Chhabra, Head of Securitized Credit, CLO Management and European High Yield – RBC BlueBay Asset Management

By Eugeniu Guzun – HedgeNordic

Institutional investors seeking to diversify their fixed income portfolios beyond government bonds and investment-grade credit may find opportunities in securitized credit and capital call financing. The former provides exposure to pools of assets, from consumer loans and mortgages to corporate lending, while the latter offers short-term loans to private market funds backed by investor commitments. For Sid Chhabra of RBC BlueBay Asset Management, both markets offer differentiated sources of credit exposure.

"The traditional institutional investor, particularly in Europe, remains underexposed to securitized credit," says Chhabra, Head of Securitized Credit, CLO Management and European High Yield. "In a world where sovereign balance sheets are deteriorating and investment-grade credit offers relatively little spread pickup, investors are looking for true diversification and different sources of risk."

SECURITIZED CREDIT OFFERS AN ALTERNATIVE TO TRADITIONAL FIXED INCOME

Securitized credit involves pooling loans or other financial assets and structuring their cash flows into tranches with different levels of seniority and risk. According to Chhabra, the combined US, UK and European market is worth nearly $5 trillion, excluding US agency mortgage-backed securities. "It's not a single asset class, but a multi-trillion-dollar market comprising numerous underlying sub-asset classes," he explains. "Even within a single segment, such as auto loans, securitizations can differ significantly across the US, UK and European markets. The market is highly diverse and dynamic, with a wide range of structures and underlying assets."

"What's interesting is that different markets are individually different, so it's hard to say that one is more or less interesting than another," Chhabra says. This diversity makes deal-level analysis central to investing in securitized credit. "There's a rich opportunity set in each of these segments, but capturing them requires a global and diversified team looking across all the transactions."

The market has expanded as banks and other originators have increasingly diversified their funding sources rather than retaining it on their balance sheets. For investors, this creates access to sources of credit risk. "What securitized credit offers, in my view, is true differentiation," Chhabra says. "You can access more consumer credit and different types of corporate credit, much of it in floating-rate formats, which typically means shorter spread duration and shorter duration overall."

CLO GROWTH CREATES OPPORTUNITIES ACROSS THE CAPITAL STRUCTURE

A key segment of this opportunity set is collateralized loan obligations (CLOs), whose growth has closely followed the expansion of the leveraged loan market.

"The underlying loan asset class has continued to grow, and over the last five to ten years, it has probably doubled or tripled in size," Chhabra says. "As a natural consequence, CLO structures have also grown because more managers and credit investors are using them to access the loan market."

CLOs offer different risk-return profiles across their capital structures. AAA-rated senior tranches appeal to investors seeking higher credit quality, while mezzanine and junior tranches offer greater return potential in exchange for additional risk. "Different investors access the underlying loan asset class in different ways, depending on their risk profile and the return they are looking for to compensate for that risk," argues Chhabra.

The steady supply of new CLOs creates opportunities across the capital structure, but RBC BlueBay sees better relative value in some segments than others. The firm currently favors senior, higher-rated tranches, particularly AAA-rated debt. Every CLO transaction must place its AAA tranche, which typically accounts for a substantial share of the deal. "On a relative basis, we like the higher-quality end of the CLO capital structure," Chhabra says. "In the mezzanine portion, there are a lot of investors, so we think pricing is a little tighter relative to AAA tranches and compared with historical levels."

Lower-rated debt and equity tranches can also offer attractive opportunities, but selection becomes increasingly deal-specific. As investors move down the capital structure, the quality of the underlying loan portfolio and the CLO manager's ability to select and manage those loans become more important. That selectivity is particularly important in an environment of growing dispersion in credit quality, according to Chhabra. Higher interest rates, energy costs and inflation have put pressure on some borrowers, while lower private equity valuations and upcoming loan maturities have added to the challenges facing certain businesses.

"The biggest trend is simply greater dispersion in credit markets," Chhabra confirms. "As you move lower down the capital structure, that dispersion matters much more. Understanding which portfolios you like and forming a view on the manager becomes critical." He believes opportunities remain, provided investors carefully assess the credit quality of individual borrowers, the capabilities of CLO managers and the structure of each transaction.

"Securitized credit is not a single asset class, but a multi-trillion-dollar market comprising numerous underlying sub-asset classes."

CAPITAL CALL FINANCING: HIGH-QUALITY CREDIT BEYOND TRADITIONAL MARKETS

Beyond securitized credit, Chhabra highlights capital call financing as another potential source of fixed income diversification. Private equity, private credit, infrastructure and real estate funds often use revolving credit facilities to cover investment costs before drawing capital from their limited partners (LPs). These facilities are backed by the LPs' legally binding commitments to provide capital when called. Once the fund calls that capital, the proceeds are used to repay the outstanding loan.

"It's a credit facility that banks have historically provided to private funds," Chhabra explains. "Rather than funding an investment immediately through the limited partners, the general partner draws on the facility, with the commitments of those investors standing behind it. The draws are then paid down periodically."

Although established in private markets, the asset class has received comparatively little direct allocation from institutional investors. Chhabra sees an opportunity to offer investors access to short-term, floating-rate loans backed by capital commitments. "It's a very high-quality asset class, backed by high-quality limited partners, and historically the loss rates have been almost nonexistent," he says. "It also tends to be shorter-duration and floating-rate, with draws typically paid down over three, six, nine or twelve months."

Chhabra estimates that capital call financing can offer a return premium of around 150 to 200 basis points, although actual returns depend on the terms and availability of financing. He views the strategy as a complement to investment-grade credit, offering a different risk profile rather than competing with higher-risk, higher-return strategies. "It's an excellent complement to the investment-grade part of a portfolio," Chhabra says. "It is less liquid than investment-grade credit, but it offers a different risk profile and a very low historical loss profile."

"The industry is now going through a shakeout, not only among investors but also among GPs, who need to be very clear about how they formulate a credit strategy, a credit policy, and how they differentiate themselves."

A GROWING MARKET FOR PORTFOLIO DIVERSIFICATION

Chhabra sees favorable supply-and-demand dynamics in securitized credit, as investors seek to diversify their credit exposures and banks and other originators expand lending. "There's a better understanding of the need to truly diversify risk exposure," he says. "Demand is developing in both the US and Europe, creating opportunities for banks and originators to extend more credit. It's a positive supply-demand dynamic for the asset class."

Capital call financing, meanwhile, remains an emerging allocation for institutional investors. "It's a very early stage in terms of the growth of this asset class for institutional investors," Chhabra says. "The opportunity is to offer them an investment with a genuinely different risk profile, while providing the underwriting expertise and access needed to invest in it."

For allocators, both markets broaden the range of instruments available beyond traditional fixed income. Securitized credit offers exposure to diverse underlying assets and positions in the capital structure, while capital call financing provides short-term lending backed by institutional commitments. Neither eliminates credit risk, but both offer potential routes to more diversified fixed income portfolios.



Bas Kragten, Head of Fund Finance – Aegon Asset Management

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Capital Call Financing: An Investment-Grade Opportunity in Private Credit

By Eugeniu Guzun – HedgeNordic

"Subscription line financing, or capital call financing, is one of the more stable parts of that market. It has been around for decades."

Capital call financing has traditionally been the domain of banks, providing private fund managers with short-term loans backed by investors' uncalled capital commitments. Institutional investors are now beginning to explore this space as a standalone investment strategy. This asset class offers exposure to investment-grade private credit, combining high credit quality with a premium over comparable public-market instruments. For Bas Kragten of Aegon Asset Management, the appeal lies in the combination of strong credit quality, attractive spreads, short maturities, and floating-rate exposure.

"The capital call financing market has been around for a number of decades, but it is still very much dominated by bank lenders," says Bas Kragten, Head of Fund Finance at Aegon Asset Management. However, institutional investors are increasingly recognizing the opportunity. The team made its first capital call financing loan in 2018. "We were one of the first, institutional investors to enter the market at that point in time," Kragten recalls.

The relatively limited institutional participation is striking given the size of the opportunity. Subscription line financing, the principal form of capital call financing, represents an estimated $1.3 trillion outstanding globally. Kragten sees growing awareness of the asset class as an encouraging development, particularly as more managers begin offering dedicated investment vehicles. Aegon launched its Luxembourg RAIF Capital Call Finance Fund in May 2025 and has since onboarded 22 investors. "What is interesting is that the composition of that investor base is actually quite diverse."

The expansion of fund finance has largely tracked the growth of private markets. As private equity, private debt, and infrastructure funds have increased in both number and size, so has their need for financing. "The market for financing these private market funds has essentially grown alongside the number and size of private market funds outstanding in total, although that relationship is obviously not one-to-one," explains Kragten.

As the private markets have matured, new fund financing strategies have emerged, including continuation vehicles and net asset value (NAV) financing, each serving different financing needs and relying on different sources of repayment. "With somewhat less fundraising in recent years, we have seen a much more rapid development of different forms of financing, including continuation vehicles and NAV financing in various shapes," Kragten explains. Despite this evolution, "subscription line financing, or capital call financing, is one of the more

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“The quality and diversity of the LP base, combined with the very strong economic incentives for LPs to fulfil their obligations, provide very strong backing for the loans we provide.”

stable parts of that market. It has been around for decades.”

RELATIVE VALUE, FLOATING RATES, AND SHORT MATURITIES

While the growth of fund finance has been driven by the expansion of private markets, investor demand for capital call financing reflects a different set of considerations. Capital call financing offers an opportunity to access investment-grade private credit with a yield premium over comparable public-market instruments. “The relative value of the asset class versus public comparables is one of the key considerations,” argues Kragten. He points to a credit spread premium of almost 150 basis points over comparable investment-grade instruments of similar maturity.

Kragten also points to a broader shift in institutional demand towards investment-grade private credit, contrasting with the predominantly sub-investment-grade direct lending strategies that attracted considerable attention from investors a decade ago. For insurers, the combination of yield and credit quality can be particularly attractive relative to regulatory capital requirements. Other investors value the short maturities and floating-rate structure, which limit sensitivity to changes in market interest rates.

“Despite the short maturities, many investors look at the allocation to this asset class from a strategic medium term perspective. They are invested for a number of years, benefiting from the the yield pick-up and attractive risk return profile,” Kragten says. More recently, however, he has also encountered investors seeking to reduce overall portfolio risk without sacrificing too much income. “They want to take some chips off the table and stabilize their portfolio, but not give up all the return.” In this context, the floating-rate structure, short maturity and high credit quality can offer a useful combination. “The sensitivity to interest rates is low, while the high credit quality also makes investors comfortable allocating to the market,” he adds. Capital call financing offers what Kragten describes as “one of the more scalable and transparent investment opportunities.”

“The key credit risk drivers are actually quite transparent,” Kragten says. The quality of the LP base is central to the analysis, as is the economic incentive for investors to honor their commitments. Failure to meet a capital call can have serious consequences for an LP’s position in the underlying fund, creating a strong incentive to fulfil its obligations. “The quality and diversity of the LP base, combined with the very strong economic incentives for LPs to fulfil their obligations, provide very strong backing for the loans we provide,” he explains. The relative homogeneity of transactions also helps managers assess and compare lending opportunities.

Liquidity is another consideration. Capital call loans are generally not traded in a liquid secondary market, potentially making it difficult for investors to exit positions before maturity. Their relatively short duration can help mitigate this constraint, however. “A lot of the loans we provide are inherently short, typically ranging from 12 months to a maximum of three years in the European market,” according to Kragten.

ORIGINATION AND SCALE AS COMPETITIVE ADVANTAGES

Successful investing in capital call financing also depends on a manager’s ability to source opportunities consistently and deploy capital at scale. Aegon has been active in capital call financing since 2018 and has developed what Kragten describes as a “proven and scalable origination platform.” The firm expects to originate up to €2 billion in loan volume this year, in line with the commitments raised following the launch of its Luxembourg fund.

Aegon’s broader private credit platform provides an additional advantage. With $65 billion managed across private credit, the firm can compare opportunities across markets and assess pricing against a wide range of alternative investments. “That gives you the depth of analysis and visibility into what the market is offering,” Kragten says. The platform also supports investor relations and fundraising, as prospective investors may already have experience with Aegon’s other strategies. “It helps to have established relationships with potential investors who have invested with Aegon before and know the name and the quality that we deliver,” he adds.

Uncertainty is a feature of today’s broader market environment. Yet Kragten believes capital call financing can continue to provide institutional investors with opportunities to deploy capital at the investment-grade end of private credit, including during periods of heightened volatility. “Capital call finance offers good, solid investment-grade opportunities to place money, even in events or situations where the market is more volatile,” Kragten concludes.



Matt Hansford, Head of Europe, Portfolio Finance – Barings

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Portfolio Finance 101: Understanding a Growing Corner of Private Markets

By Matt Hansford – Barings

As private markets have expanded, so too have the financing needs of asset managers and investors. That growth, combined with demand for alternative sources of capital and more flexible financing solutions, has helped portfolio finance develop into an estimated $200+ billion annual investment opportunity.

WHAT IS PORTFOLIO FINANCE?

Portfolio finance is financing backed by a diversified portfolio of assets or investments rather than a single company or asset. The underlying collateral can take a variety of forms, including private credit, real assets, secondary fund interests and other private market investments.

This breadth is central to understanding the market. Portfolio finance is not a single product or structure,

> “Whereas subscription lines are generally backed by the uncalled capital commitments of a fund’s investors, portfolio finance is backed by the assets or investments within a portfolio, giving it a distinct investment profile and set of risks.”

“For institutional investors, the appeal of portfolio finance comes from the potential to combine credit quality and structural protections with diversified, efficient access to private markets.”

but a range of solutions spanning asset classes, durations and risk-return profiles. Depending on the underlying collateral and structure, investments can be investment grade or sub-investment grade and may also offer fixed or floating-rate exposure.

Portfolio finance sits within the broader fund finance universe, between traditional subscription-line financing and higher-risk preferred or equity-like strategies. Whereas subscription lines are generally backed by the uncalled capital commitments of a fund’s investors, portfolio finance is backed by the assets or investments within a portfolio, giving it a distinct investment profile and set of risks.

LOOKING BEYOND NAV LENDING

Portfolio finance is often associated with private equity buyout NAV lending, but that represents only one part of the market. A broader set of established strategies extends across private credit and real assets, secondaries, and GP financing.

Although the structures and underlying assets differ, each involves financing backed by a diversified portfolio of private assets. For investors, these strategies can provide access to high-quality exposure across a broad range of private markets.

- Private credit and real assets: Financing against portfolios of private credit or real assets can help managers increase purchasing capacity, enhance returns or create customized exposures for investors. For example, financing may be used within a separately managed account to adjust its return profile without changing the underlying investment strategy.

- Secondaries: Portfolio finance can help fund diversified pools of private equity and private credit fund interests. It can also help bridge pricing differences between buyers and sellers in secondary transactions, manage distribution profiles, or provide liquidity to limited partners (LPs) that prefer to retain rather than sell their underlying portfolios.

- GP financing/GP stakes financing: Financing at the general partner level can provide asset managers with capital to invest alongside their LPs, seed new strategies or support the growth of their businesses. It can also be used to finance portfolios comprising multiple GP stakes investments.

Across these areas, different collateral types introduce different performance drivers, cash flow characteristics and risks. This make the structure and underwriting of each transaction particularly important.

WHAT CAN PORTFOLIO FINANCE OFFER INVESTORS?

For institutional investors, the appeal of portfolio finance comes from the potential to combine credit quality and structural protections with diversified, efficient access to private markets.

Capital Preservation: Senior positioning in the capital structure, strong lender protections and diversified collateral can provide control over cash flows and support investment grade risk profiles. Depending on the structure, these investments may also be rated, which can be particularly relevant for insurers and other capital-sensitive investors.

Diversification potential: Portfolio finance provides exposure to portfolios of private market assets that may span different strategies, sectors, vintages or geographies. Because performance is supported by a pool of underlying assets rather than a single borrower, this exposure can help diversify a broader private market or fixed income allocation.

Attractive Income: Investment grade portfolio finance typically delivers net returns of 7-9%, while expected returns for sub-investment grade portfolio finance are in the 10-13% range. Portfolio finance has also historically offered a spread premium over comparable public credit, which can vary from 250 bps to 500 bps depending on the exposure. That premium can help compensate investors for the private market’s illiquidity and structural complexity, while also reflecting the specialized expertise required to originate, structure and underwrite these transactions.

Efficient deployment: Because financing is provided against portfolios rather than individual assets, transactions can provide scalable exposure to existing pools of collateral, cash flows, or investment pipelines. This can help investors manage deployment pacing, liquidity and allocation targets.

WHY IS PORTFOLIO FINANCE GROWING?

The same expansion of private markets that has created demand for portfolio finance has also widened the gap between financing needs and available capital. Banks have historically been the primary providers of portfolio financing, but balance sheet and regulatory constraints have limited their ability to keep pace. At the same time, managers are seeking flexible capital to support new investment, distributions, and other portfolio management needs.

This imbalance has created a larger role for alternative capital providers. The potential need is significant: PE buyout NAV lending alone is estimated to represent a roughly $75 billion annual market, while private credit and real assets, secondaries, and GP financing could represent more than $100+ billion of additional annual financing needs.

As the market has grown, the investor base has broadened as well. Insurance companies, pensions, endowments and foundations, sovereign wealth funds and family offices are increasingly seeking private market exposure that combines attractive income with diversification, structural protections, and—in the case of insurers—greater capital efficiency.

The range of available structures helps portfolio finance serve those different objectives. Opportunities can extend from highly rated investment grade investments to below investment grade and preferred equity solutions.

EXPANDING THE PRIVATE MARKETS OPPORTUNITY SET

That combination of characteristics can make portfolio finance an alternative or complement

to traditional private credit strategies, but where it belongs within an institutional portfolio is not universally defined.

Depending on the investor's objectives and the nature of the financing, portfolio finance may fit within a private investment grade, core fixed income, private credit or absolute return allocation. Its "home" ultimately depends on the role the investment is expected to play, as well as the investor's return requirements, liquidity needs and regulatory considerations.

At the more conservative end of the spectrum, investment grade portfolio finance may benefit from tighter legal documentation, robust structures and broader credit controls than many unsecured or below investment grade markets. Direct origination may also give lenders greater influence over documentation, covenants, and structural protections, reinforcing the focus on credit quality and downside protection.

A DEVELOPING PART OF THE PRIVATE MARKET ECOSYSTEM

Portfolio finance ultimately connects two sides of a growing market: asset managers seeking flexible capital and institutional investors seeking differentiated private credit exposure. It can help managers address financing, liquidity and portfolio management needs while giving investors access to a broad range of private market assets, structures and risk-return profiles.

Although portfolio finance is not new, the forces supporting its growth are becoming more pronounced. As private markets expand, financing needs become more complex and traditional sources of capital remain constrained, portfolio finance is likely to play an increasingly important role in how capital moves through the private market ecosystem.

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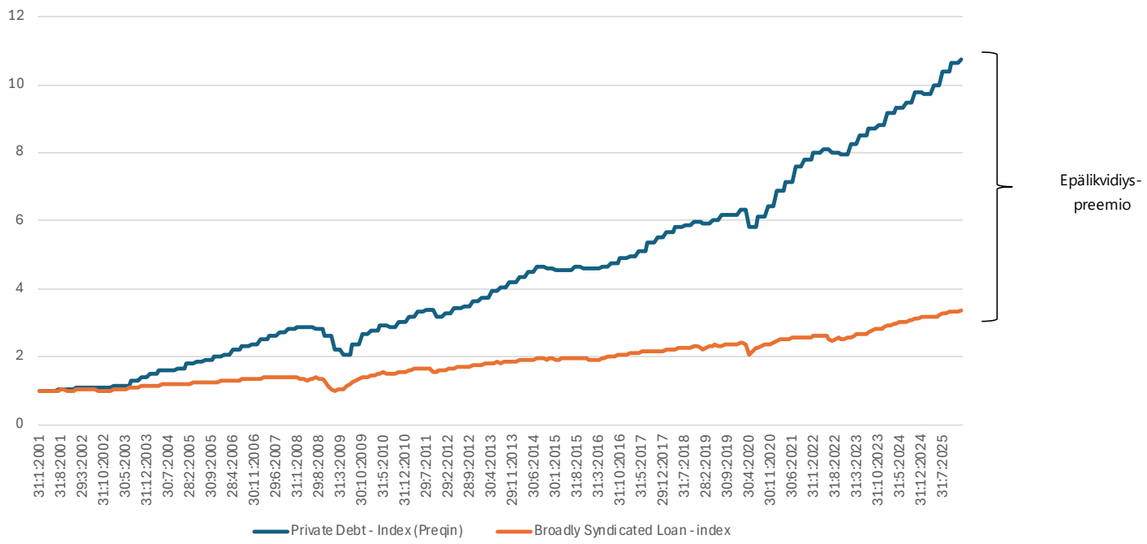
Looking Behind the Headline Figure of the Private Credit Index

Throughout its history, private credit as an asset class has operated primarily in the closed-end fund universe. As a result, performance comparisons have generally relied on the internal rate of return (IRR). Under this approach, funds that began investing in a given year are compared with one another based on their IRRs. However, numerous service providers have published private credit indices that allow investors to compare the asset class with relevant public-market benchmarks, particularly the high-yield bond market and the syndicated bank loan market.

The three most commonly used indices in the market come from Cliffwater (Cliffwater Direct Lending Index, or CDLI), Preqin, and Cambridge Associates.

By Tero Pesonen, Director, Private Equity and Private Credit, LocalTapiola Asset Management

BROALDY SYNDICATED LOAN - INDEX VS PRIVATE CREDIT INDEX



Cliffwater's index focuses exclusively on direct lending, as its name suggests, while the other two providers offer several indices covering different sub-asset classes. This article examines Preqin's broad, general-purpose index: the Preqin Private Debt Index.

PRIVATE CREDIT VS. PUBLIC MARKETS

Almost everyone active in the private credit market has encountered the chart below at some point. It is intended to demonstrate the excess returns that private credit offers relative to comparable risks in public markets. This excess return is commonly referred to as the illiquidity premium.

The chart above compares Preqin's broad private credit index with a US syndicated bank loan index. Over a 25-year period, private credit has delivered an annualized return of approximately 10 percent, compared with around 5 percent for the syndicated bank loan market. At first glance, this suggests that the illiquidity premium has been both substantial and persistent.

The picture would indeed be attractive and straightforward if the chart compared like with like. Unfortunately, it does not. The syndicated bank loan index shows the performance of a broadly diversified portfolio of bank loans. The underlying loans consist exclusively of syndicated bank loans, representing a relatively homogeneous collection of senior-risk exposures, primarily to private equity-owned companies. The index does not employ leverage. Preqin's Private Debt Index, by contrast, encompasses a much broader range of risks, from distressed strategies to direct lending. A substantial proportion of its direct lending exposure is also leveraged.

Consequently, presenting the chart above without explaining these differences suggests a relatively commercial approach to the comparison, unless the relevant caveats are disclosed at the point of sale.

THE STRATEGY COMPOSITION OF THE PRIVATE CREDIT INDEX

When people refer to private credit as an asset class, they unfortunately still often mean just one sub-asset class: direct lending. When investors see the chart above and hear that the asset class has delivered annualized returns of 10 percent over the long term, it is easy for the terminology and expectations

surrounding returns to become blurred. Below is the return history of the Preqin Private Debt Index since its inception.

Although private markets are often criticized for the discretionary nature of their valuations, the index has experienced negative quarters as well. Of course, when an asset class relies on mark-to-model rather than mark-to-market valuations, its return volatility will differ from that of public markets.

On the other hand, one could argue that private-market valuations are more closely tied to underlying fundamentals because the influence of public-market sentiment and irrational investor behavior is removed from the equation. This argument holds, however, only when valuations are based on genuine assessments rather than commercial interests.

PRIVATE CREDIT -INDEKSIN TUOTTOHISTORIA

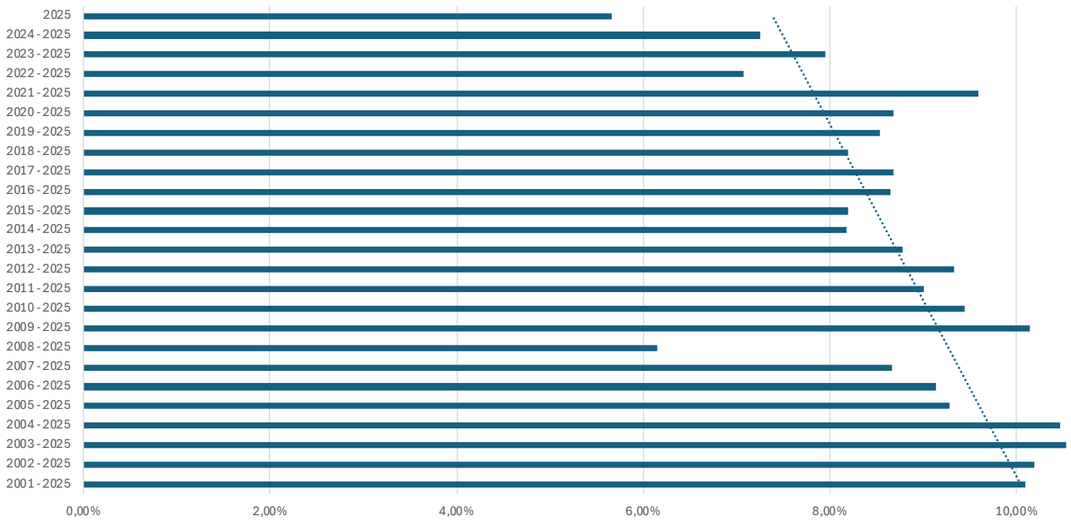
	Q1	Q2	Q3	Q4	YTD
2025	2,62%	4,26%	2,07%	1,21%	10,53%
2024	1,61%	1,80%	3,18%	-0,58%	6,11%
2023	2,94%	2,48%	1,21%	3,69%	10,71%
2022	1,24%	-1,75%	-0,61%	4,34%	3,15%
2021	3,97%	5,93%	2,89%	2,94%	16,65%
2020	-8,14%	5,04%	5,39%	6,63%	8,43%
2019	1,80%	1,81%	0,08%	3,02%	6,86%
2018	2,92%	0,40%	1,96%	-0,51%	4,82%
2017	3,37%	4,01%	3,36%	2,57%	13,98%
2016	1,37%	1,77%	3,49%	1,42%	8,28%
2015	-0,38%	2,17%	-0,90%	-0,58%	0,28%
2014	2,95%	3,25%	-1,00%	-0,29%	4,93%
2013	4,77%	2,50%	3,49%	4,21%	15,82%
2012	4,77%	1,11%	4,65%	3,30%	14,52%
2011	4,76%	1,56%	-6,67%	3,70%	2,97%
2010	4,21%	-0,72%	4,96%	5,08%	14,11%
2009	-5,31%	14,15%	11,41%	5,22%	26,71%
2008	-0,11%	-0,82%	-8,15%	-15,44%	-23,05%
2007	2,93%	5,36%	2,73%	1,52%	13,10%
2006	5,22%	5,42%	2,03%	7,28%	21,41%
2005	3,81%	2,81%	4,74%	3,34%	15,52%
2004	4,92%	1,95%	2,75%	8,93%	19,72%
2003	3,58%	12,47%	5,30%	8,68%	33,32%
2002	2,36%	0,80%	-0,67%	1,60%	4,13%
2001	2,07%	2,90%	1,76%	1,77%	8,77%

The next chart derives annualized index returns from different starting years using the annual returns shown in the accompanying table. The trend line indicates that returns have declined slightly as the measurement period moves closer to the present. During the seven years before the global financial crisis, from 2001 to 2007, the index delivered an annualized return of 16.2 percent. After the financial crisis subsided, the annualized return from 2011 onwards was 8.4 percent, while the return over the most recent four years was 7.6 percent.

This may seem surprising, particularly given that reference interest rates have been considerably higher over the past three years than they were during much of the 2010s. It is worth remembering, however, that private credit pricing is typically based on a reference rate plus a spread.

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PRIVATE CREDIT -INDEX: ANNUALIZED RETURN



The explanation can be found, in part, in the index's allocation across underlying strategies. A broad private credit index is by no means a straightforward representation of the average direct lending fund's returns over time. Its performance reflects a wide range of strategies, and the composition has changed considerably over the years. The chart below shows the strategy composition of the Preqin Private Debt Index throughout its 25-year history.

PRIVATE CREDIT -INDEX: STRATEGY EXPOSURE



In its early years, the index consisted exclusively of two sub-strategies: distressed debt and mezzanine. The reason is straightforward. Private credit had not yet emerged as a distinct asset class, the market was relatively small, and the universe of funds consisted entirely of these two strategies. Special situations gradually developed alongside the market and has accounted for approximately 10-15 percent of the index in recent years.

The most significant structural change, however, has been the substantial increase in direct lending's weight. The sub-asset class expanded following the global financial crisis and the tightening of banking regulation, growing from zero to around 50 percent of the Preqin Private Debt Index in just over 15 years.

The four main strategies differ significantly in their risk profiles, at least on the surface, and therefore naturally in their expected returns, since risk and return go hand in hand. Their realized returns also differ. If the four strategies are ranked along a risk-return spectrum, distressed debt occupies the highest position, followed by mezzanine and special situations, which are relatively similar, with direct lending coming last.

It is therefore only natural that the index's overall return declines as direct lending accounts for a larger share of its composition. The comparison between 2001–2007 and 2011–2025 illustrates this change in composition. During 2001–2007, distressed debt contributed 8.2 percentage points to the index's annualized return of 16.2 percent, while mezzanine contributed 8.0 percentage points. During 2011–2025, direct lending contributed 2.6 percentage points to the annualized return of 8.4 percent. Distressed debt contributed 2.9 percentage points, mezzanine 1.8 percentage points, and special situations 1.1 percentage points.

Notably, distressed debt has remained the single largest contributor to returns over the past 15 years. Leveraged direct lending also plays a role in this picture. Particularly in the United States, it performed well in a zero-interest-rate environment and delivered returns approaching those of opportunistic strategies. More on this later.

"For institutional investors, the appeal of portfolio finance comes from the potential to combine credit quality and structural protections with diversified, efficient access to private markets."

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	11	12	11	12	13	14	15	14	14	13	13	14	14	14	14	15	15	14	15	15	16	17	16	15	17
1987																									
1988																									
1989																									
1990																									
1991	0,20%	0,10%																							
1992	0,10%	0,00%																							
1993	2,40%	2,00%	1,00%	0,80%	0,60%	0,30%	0,10%																		
1994	2,40%	1,70%	0,90%	0,80%	0,60%	0,30%	0,10%																		
1995	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,10%	0,00%																	
1996	20,80%	17,80%	13,20%	9,90%	6,10%	2,10%	0,70%	0,30%	0,00%																
1997	9,30%	9,30%	8,90%	4,70%	2,50%	0,90%	0,30%	0,10%	0,10%																
1998	6,30%	6,70%	6,20%	5,00%	3,10%	1,20%	0,20%	0,10%	0,10%	0,10%															
1999	45,00%	29,50%	21,30%	16,20%	11,20%	4,70%	1,90%	1,10%	0,70%	0,30%	0,10%	0,10%													
2000	9,90%	11,90%	8,90%	7,40%	5,80%	3,50%	1,40%	0,50%	0,40%	0,20%	0,10%	0,00%	0,10%												
2001	3,60%	14,40%	18,10%	12,80%	7,90%	5,40%	2,30%	1,10%	0,50%	0,30%	0,20%	0,10%	0,10%	0,10%											
2002		6,60%	13,10%	7,40%	5,30%	3,60%	1,80%	1,00%	0,60%	0,50%	0,40%	0,30%	0,70%	0,10%	0,10%	0,10%									
2003			8,50%	25,90%	36,40%	28,60%	18,50%	10,60%	6,30%	4,50%	3,40%	2,10%	0,50%	0,70%	0,40%	0,20%	0,10%								
2004				9,20%	16,40%	15,70%	10,00%	4,00%	2,20%	1,70%	1,40%	0,90%	1,60%	0,50%	0,10%	0,10%	0,10%								
2005					4,20%	19,10%	18,70%	14,10%	9,00%	7,00%	6,10%	4,60%	12,10%	1,60%	0,60%	0,30%	0,20%	0,10%	0,10%						
2006						14,60%	28,50%	26,10%	22,80%	21,40%	21,70%	19,50%	12,20%	12,10%	7,00%	4,20%	2,80%	1,90%	1,20%	0,80%	0,30%	0,10%			
2007							15,40%	28,30%	31,80%	30,30%	24,10%	21,60%	8,50%	12,20%	7,90%	5,60%	3,90%	1,90%	1,10%	0,40%	0,10%	0,00%			
2008								12,70%	24,50%	26,30%	23,20%	18,50%	5,20%	8,50%	6,00%	4,20%	2,40%	1,40%	0,60%	0,40%	0,20%	0,10%	0,10%		
2009									1,40%	4,40%	7,60%	8,70%	13,50%	5,20%	3,40%	2,30%	1,40%	0,60%	0,30%	0,20%	0,10%	0,10%	0,00%		0,10%
2010										3,10%	9,80%	13,30%	12,20%	13,50%	10,20%	7,00%	4,50%	2,50%	1,70%	1,00%	0,70%	0,40%	0,20%	0,30%	0,10%
2011											1,90%	6,80%	15,80%	12,20%	12,50%	10,60%	8,10%	5,30%	3,30%	2,20%	1,50%	0,90%	0,60%	0,40%	0,30%
2012												3,50%	12,50%	15,80%	18,40%	15,80%	12,00%	7,40%	4,20%	2,50%	1,50%	0,80%	0,40%	0,30%	0,20%
2013													5,00%	12,50%	17,40%	17,90%	14,10%	9,30%	5,80%	3,90%	2,60%	1,80%	1,40%	0,80%	0,60%
2014														5,00%	12,10%	16,40%	16,80%	13,30%	9,70%	6,60%	4,40%	2,60%	1,80%	1,30%	1,00%
2015															3,90%	11,50%	19,20%	22,10%	17,60%	12,80%	8,90%	5,00%	3,40%	2,30%	1,60%
2016																4,00%	9,80%	12,50%	12,70%	10,90%	8,10%	5,30%	4,00%	3,00%	2,20%
2017																	4,60%	12,90%	17,20%	17,20%	12,90%	9,10%	6,80%	4,60%	3,10%
2018																		8,80%	20,70%	24,40%	21,30%	16,10%	13,30%	10,20%	7,70%
2019																			3,90%	10,80%	13,60%	13,40%	12,00%	9,70%	7,60%
2020																				5,90%	18,50%	23,80%	24,10%	21,60%	18,10%
2021																					5,30%	14,20%	16,70%	17,10%	17,10%
2022																						6,30%	13,00%	15,60%	17,20%
2023																							2,30%	9,10%	11,70%
2024																								3,70%	8,70%
2025																									2,70%
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
	7,52%	3,03%	11,78%	38,77%	12,00%	18,62%	18,38%	-20,80%	22,19%	16,22%	4,38%	16,87%	16,18%	7,99%	3,82%	8,38%	12,67%	5,82%	7,69%	4,24%	20,24%	4,46%	9,36%	8,88%	5,67%

VINTAGES AND THE INDEX

Since the private credit market still consists primarily of closed-end funds operating through capital calls and distributions, index construction has a particularly interesting characteristic. When examining a private credit index's return for a particular year, it is important to understand what lies behind the headline figure beyond the strategy weights.

The net asset value (NAV) underlying each annual return consists of funds raised and invested over the course of the index's history, rather than exclusively of investments made or funds raised during that particular year. The table below shows the percentage contribution of return data from funds raised in different years to the calculation of each year's index return.

In simple terms, each year's index return includes funds that began investing in that year, together with contributions from funds that began investing in earlier years, extending back an average of 14 years. For example, the index return for 2020 includes a small contribution from funds that began investing in 2006.

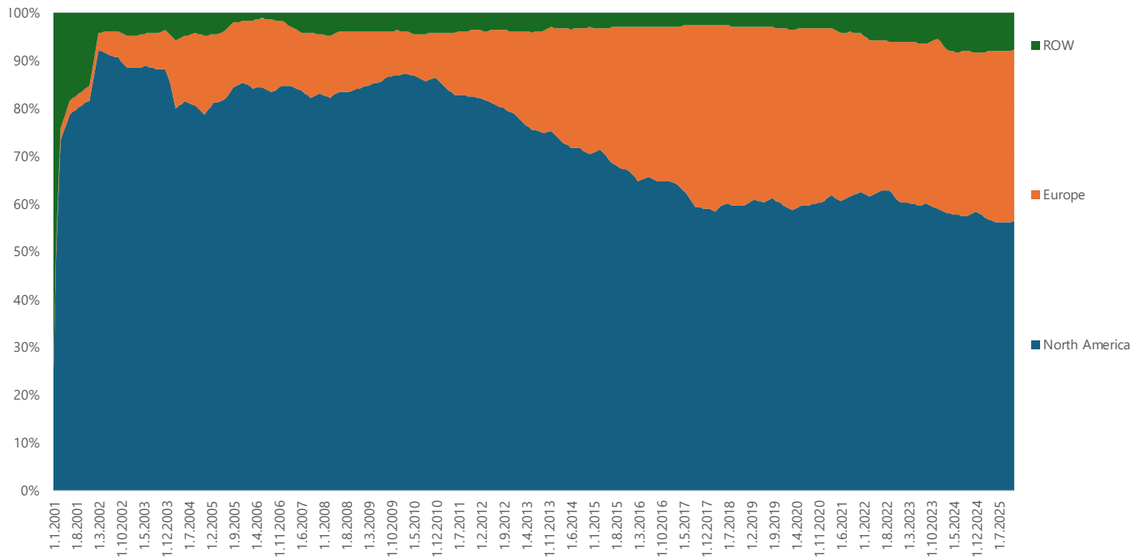
This composition has also changed over time. For annual returns from 2001 to 2005, funds from the year under review and the preceding three years accounted for 59 percent of the index, the following six years accounted for 41 percent, and the remaining older vintages contributed 1 percent. More recently, during 2021–2025, the year under review and the preceding three years accounted for only 52 percent, the following six years for 45 percent, and older vintages for 3 percent. Thus, the contribution of increasingly older vintages to each year's index return has grown over time.

This matters when interpreting index returns because the timing of investments has a significant impact on a fund's and ultimately its investments' final performance. For example, funds that invested at the height of the global financial crisis and immediately afterwards, during the 2008–2010 vintages, have performed exceptionally well. As long as these funds remain represented in the index, they continue to contribute positively to its returns, even though the underlying investments were made a long time ago.

GEOGRAPHY AND THE INDEX

It is hardly news that the Preqin Private Debt Index has a substantial North American weighting. Participants in the leveraged finance markets – including high-yield bonds, syndicated bank loans, and private credit – know that the market is divided approximately 75

PRIVATE CREDIT -INDEX: ANNUALIZED RETURN



percent North America and 25 percent Europe across these segments.

The chart above iillustrates the geographical composition of the Preqin Private Debt Index over time. Europe's share increased in the 2010s, mainly via growth in direct lending.

Geographical weights reflect differences in market size and activity. This is important to understand, particularly when considering currency exposure. For private credit investors, however, geographical allocation has an additional significance. Its importance has grown in recent years as direct lending has taken a substantial share of the index.

Traditionally, US direct lending investors have gained exposure to the asset class through a leveraged equity tranche, whereas European investors tend to be more risk-averse, partly because of regulatory constraints, and have generally accessed the strategy without leverage.

Leveraged direct lending performed well in a zero-interest-rate environment characterized by an absence of credit defaults. Consequently, when European investors examine the returns of the Preqin Private Debt Index, they should bear in mind that most of its direct lending exposure comes from North America and is leveraged. This means that the index reflects realized returns that are substantially higher than those of its European counterpart.

FINAL THOUGHTS

Indices are convenient and straightforward tools for presenting the historical performance of an asset class. They condense a great deal of information into a single chart and make it easier to compare different asset classes. Investors should nevertheless understand what is being compared and how. In private markets in particular, it is essential to look beyond the headline figures.

A commercially motivated – or uninformed – market participant can easily present a misleading picture, potentially leading investors to make poor investment decisions. As with all investing, the message is simple: keep a cool head, think clearly, and always look beyond the headline or top-level figure. There is likely to be far more information beneath the surface to support an investment decision than some market participants would like you to see.

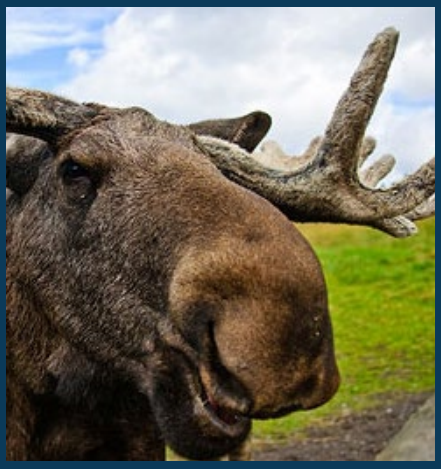
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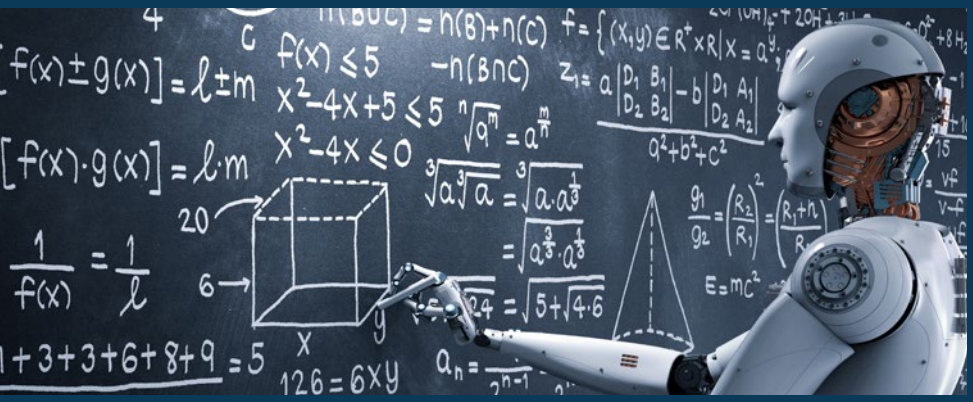


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