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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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Contents

4	Editor's Note ...Funding the Future	28	Financing the Energy Buildout: The Growing Role of Infrastructure Credit
.....			
6	More Unknowns, More Dispersion in Private Equity	32	Litigation Finance Emerges as an Uncorrelated Corner of Private Markets
.....			
12	Private Equity No Longer Optional as Value Creation Moves Behind Closed Doors	36	A Rebound with a Bottleneck
.....			
16	A Decade of Thematic Private Equity: Summa Equity Sees Stronger Tailwinds Than Ever	40	Private Markets Are Not the Problem
.....			
20	Direct Lending Goes Through First Proper Credit Cycle		
.....			
24	Beyond Traditional Fixed Income: Why Aegon AM Sees Opportunity Across ABS and CLO Markets		
.....			



Editor's Note ...

Funding the Future

Innovation may be glamorous. Financing innovation rarely is. Yet without it, very little happens.

Over the past few years, we have watched some of the world's most ambitious private companies reach valuations that would once have seemed almost unimaginable. Companies such as SpaceX and Anthropic are now discussed in the same breath as some of the largest publicly listed corporations on the planet, despite remaining private far longer than previous generations of transformative businesses ever did. That alone says something interesting about how both innovation and capital markets have evolved.

For decades, public markets were where companies came to raise capital for growth. A promising business would mature privately, eventually list, and then continue much of its expansion in front of public investors. Increasingly, however, many of today's most innovative companies appear to spend much longer behind private doors, raising extraordinary amounts of capital before ever approaching a stock exchange. In many cases, by the time public investors finally arrive, much of the explosive growth, or at least that phantasy, has already taken place.

This shift has quietly transformed the role private markets now play within the broader financial system. Private equity, venture capital and private credit are no longer merely alternative corners of finance reserved for institutions and ultra-wealthy investors. Increasingly, they have become part of the infrastructure supporting innovation itself.

While the headlines naturally (?) focus on rockets, artificial intelligence, robotics, defence systems, breakthrough therapies or advanced semiconductor technologies, the reality behind many of these businesses is considerably less glamorous. Building globally competitive companies in these industries requires vast amounts of patient capital, operational resilience and a willingness to fund uncertainty for very long periods of time.

Particularly in Europe, that journey has not always been straightforward. The continent has never lacked engineering talent, research capabilities or entrepreneurial ambition. The Nordics alone continue to produce highly innovative businesses across software, healthcare, industrial technology, energy systems and defence-related industries. Yet, one of the recurring concerns surrounding Europe's innovation landscape next to bureaucracy, high costs and wages, has been access to sufficiently deep pools of growth capital capable of supporting companies as they scale internationally.

Historically, many European businesses reached a certain point and either slowed down, sold too early or eventually looked elsewhere for larger capital partners. In recent years, however, that picture has gradually begun to change. Geopolitical realities, technological sovereignty, energy security and renewed defence spending have all accelerated

interest in sectors that until not long ago attracted far less mainstream investor attention.

At the same time, banks operating under tighter regulatory frameworks have become more selective lenders, creating growing demand for private credit and alternative financing solutions capable of supporting companies through different stages of growth.

The result is an investment landscape where private markets increasingly sit much closer to the real economy than many perhaps appreciate. Behind many of today's most discussed technologies and companies sits not only entrepreneurial brilliance, but also complex networks of investors, lenders and long-term capital providers willing to finance projects whose outcomes are often uncertain, timelines extended and capital requirements enormous.

And uncertainty, after all, is often where innovation lives.

In this publication, we explore some of the themes shaping today's private markets environment, from private equity and venture capital to private credit, infrastructure and real assets. We speak with investors, allocators and managers operating across a landscape where capital increasingly does more than simply seek returns. It helps determine which technologies are developed, which businesses survive long enough to scale and, ultimately, which ideas shape the future economy. While innovation may capture the imagination, somebody still has to finance the future.

More Unknowns, More Dispersion in Private Equity

By Eugeniu Guzun – HedgeNordic

Private credit managers with exposure to software companies recently faced investor withdrawals as concerns mounted over how artificial intelligence could disrupt parts of the sector. Annika Henriksson, Head of Private Equity and Private Credit at Finland's fourth-largest bank, S-Bank, finds it somewhat ironic that concerns have focused primarily on private credit exposure without first questioning what similar risks could mean for private equity investors backing the same businesses. While Henriksson acknowledges that artificial intelligence represents a significant disruptive force, she argues that AI is only one of several major uncertainties currently shaping private equity markets.

"I believe this applies to investing broadly at the moment, not just private markets," says Henriksson



Annika Henriksson, Portfolio Manager, Head of Private Equity and Private Credit Funds – S-Bank Fund Management.

when discussing the current environment for private equity investing. “The amount of uncertainty stemming from geopolitical developments, politics, and AI means that, to be completely honest, none of us really know what the next 12 to 24 months look like, let alone five years from now.” While uncertainty itself is nothing new, Henriksson argues that multiple large uncertainties are emerging simultaneously. “There have always been unknowns,” she says, “but the combination of geopolitical risks, political uncertainty, and AI creates a heightened level of uncertainty in the current market environment.”

UNCERTAINTY CLOUDS FUNDRAISING AND DEAL ACTIVITY

According to Henriksson, this heightened uncertainty is having tangible consequences for both fundraising activity and private equity dealmaking. She believes a more meaningful recovery in fundraising and M&A activity will require at least some easing of current uncertainties, particularly from geopolitical and political developments, given that AI is likely to remain an unresolved question for years. “For fundraising activity to improve or for M&A markets to recover further, we probably need some easing of these uncertainties,” she explains. “Most logically, this would need to come from geopolitical or political developments because AI will remain an unknown for quite some time.”

Private equity dealmaking recovered meaningfully during 2025, partly because the tariff-related shock proved shorter-lived than many initially feared. However, Henriksson argues that the recovery has once again lost momentum during early 2026 amid renewed geopolitical tensions, uncertainty surrounding the conflict involving Iran, and concerns about energy markets. “There was already a slight pickup after the post-COVID period with exceptionally high deal volumes in 2021 and 2022,” says Henriksson. “There has definitely been a hangover following that period.” Despite slower transaction activity, Henriksson continues to observe strong assets changing hands. “If you have a high-quality manager operating in attractive parts of the market and owning high-quality businesses, those deals are still getting done and investors are still able to create value.”

WHY MANAGER SELECTION MATTERS MORE THAN EVER

The importance of manager selection extends well beyond the current slowdown in deal activity. According to Henriksson, the end of the low-interest-rate era fundamentally changed what separates successful private equity managers from weaker ones. “Higher financing costs have shifted the emphasis away from financial engineering and much more toward operational execution and discipline,” says Henriksson, who oversees approximately €150 million allocated to private equity and private credit managers. “The current environment has really highlighted that manager selection is more crucial than ever,” she says.

As a result, S-Bank’s due diligence process increasingly focuses on understanding how managers actually create value within portfolio companies rather than simply optimizing capital structures. “We focus much more on how managers actually grow businesses, improve operational efficiency, and create value in ways beyond simply engineering the balance sheet,” says Henriksson. This shift toward operational capabilities has become particularly important as private equity managers simultaneously navigate higher financing costs, slower exit markets, and technological disruption.

AI CREATES WINNERS AND LOSERS

If higher interest rates have already made life more difficult for private equity managers, rapid developments within artificial intelligence have introduced yet another layer of complexity. Henriksson believes AI is likely to increase dispersion between both managers and portfolio companies, although she cautions against broad assumptions about which businesses will ultimately benefit or suffer.

“If you look at the big picture, it is very difficult to know which companies will use AI as a tailwind and which will experience it as a headwind,” she explains. Importantly, she warns investors against assuming software companies automatically face negative outcomes simply because AI is reshaping the sector.

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“I wouldn’t assume every software company is going to suffer from AI, particularly because private equity owners tend to be innovative and quick to adopt new technologies.”

Henriksson expects outcomes to vary substantially across sectors, managers, and portfolio companies, making diversification increasingly important. “There will most likely be cases where money will be lost, but there will also be many success stories where AI actually becomes part of the growth story,” she says. “I don’t think this is a uniform playing field.” The most sensible approach remains relatively straightforward: diversify sufficiently, work with high-quality managers, and maintain discipline around manager selection.

LARGE CAPS VERSUS MID- MARKET

When discussing where investors may find the most attractive opportunities within private equity, Henriksson notes that uncertainty has naturally pushed many investors toward larger managers. “Large-cap managers are often viewed as a safe haven, and for understandable reasons,” she explains. “They are more established and generally have greater resources to navigate uncertainty.”

This preference is reflected in deal activity as well, with large-cap transactions recovering more visibly due to ongoing mega-trends, take-private transactions, and larger companies continuing to attract significant investor attention. “It is human nature during uncertain periods to gravitate toward the most established players,” says Henriksson.

At the same time, Henriksson believes mid-market managers may ultimately offer stronger opportunities for investors capable of selecting the right managers. She points to research suggesting larger managers generally deliver more consistent outcomes, while mid-market investing offers significantly greater dispersion. “If you are able to identify the high-quality managers in mid-market, you may be able to generate stronger risk-adjusted returns,” she says. “But achieving that requires even more skill in the current environment.”



“Higher financing costs have shifted the emphasis away from financial engineering and much more toward operational execution and discipline.”

Despite the more challenging environment, however, she remains constructive about the long-term outlook for investors capable of identifying strong managers. “The best managers will continue delivering good risk-adjusted returns over the long run,” she says. In periods of heightened uncertainty, Henriksson emphasizes that investors must remain focused on the longer-term nature of the asset class rather than short-term market noise. “You really need to understand that this is a long-term game, not something you can trade in and out of, and not something you can try to time the market with.”

According to Henriksson, investors should place greater emphasis on robust due diligence processes, independent valuations, and understanding the characteristics of illiquid assets. “Investors should understand the illiquid features of the market and not concentrate too much on the illiquidity itself, but rather focus on asset quality and manager quality instead.”

EVERGREEN STRUCTURES AND RETAIL ACCESS

Despite the inherently illiquid nature of private markets, Henriksson welcomes the continued evolution of fund structures designed to improve accessibility. As companies remain private for longer periods, she argues that investors limited solely to public markets risk missing increasingly large parts of the investable universe. “More companies are remaining private for longer periods, meaning investors limited to listed markets are naturally missing exposure to many growth opportunities and diversification sources available in private markets,” she says.

While acknowledging that evergreen structures are not yet a perfect solution, Henriksson views their rise as a natural evolution rather than a problematic development. “The current evergreen trend is simply a natural stage in the development of private markets,” she says. “Every industry goes through periods of change, and evergreen structures represent the next major evolution in private markets.” Henriksson believes experimentation and innovation are healthy developments for the industry.



“Chance favors the prepared mind.”

Louis Pasteur

Private Equity No Longer Optional as Value Creation Moves Behind Closed Doors

By Eugeniu Guzun – HedgeNordic



Rachael Callaghan, Investment Specialist within Growth Equity – Baillie Gifford

“You need less capital to build better businesses, but at the same time you have more capital available. That created a very supportive environment for this asset class to grow.”

As businesses stay private for longer, an increasing share of value creation now happens away from public exchanges, forcing investors to rethink where they access growth opportunities. For asset managers such as Baillie Gifford, however, private investing is not simply about gaining access to these companies. The firm’s private growth business sits alongside a large global public equity platform, allowing it not only to support businesses through their private growth stages but also throughout their eventual transition into public markets.

“The shape of companies and where value creation happens has changed dramatically,” says Rachael Callaghan, Investment Specialist within Growth Equity at Baillie Gifford. “Private growth equity as an asset class is simply impossible to ignore from a scale perspective.” The private growth equity market is estimated to be worth approximately \$9 trillion, roughly equivalent to the combined market capitalization of the London Stock Exchange, Swiss stock market, and Deutsche Börse.

Beyond its sheer scale, however, Callaghan argues that the increasing economic importance of private companies and the role they play in driving innovation has fundamentally altered how investors should think about equity exposure. There is still an enormous amount of growth to be had in public markets, however today your growth portfolio is incomplete without both public and private exposure. As with any investment, the value can fall as well as rise, and investors may not get back the amount originally invested.

WHERE VALUE CREATION HAS SHIFTED

Historically, companies generated most of their value creation after listing. “Many of the largest businesses historically started in private markets, but most of the growth happened in public markets,” explains Callaghan. That dynamic, however, has shifted materially in recent years, with companies staying private for longer and building significant scale before reaching public markets. The clearest comparison comes from two companies founded by Elon Musk.

Tesla listed in 2010 with a valuation of around \$1 billion, allowing public market investors to participate in virtually all of its subsequent growth into a company worth more than \$1 trillion. “All of that value accrual happened in public markets,” says Callaghan. SpaceX, however, represents the opposite dynamic. Founded in 2002 and still private, the company is now estimated to be worth between \$1.5 trillion and \$2 trillion before a public listing has even occurred. “All of that value has accrued to private shareholders.”

While investors such as Baillie Gifford managed to capture that value creation through private investments in SpaceX, traditional public market investors largely missed one of the most significant growth stories of recent decades.

WHY BUSINESSES STAY PRIVATE LONGER

Callaghan points to several structural reasons companies remain private longer. Regulation has played a role, with the JOBS Act making it easier to remain private through broader employee ownership

programs, while Sarbanes-Oxley simultaneously increased the burden of operating as a public company. “You effectively had two developments happening simultaneously: one making it easier to stay private and the other making public markets more burdensome,” she says. Together, these forces have reinforced the broader trend of companies remaining private for longer.

At the same time, businesses have become less capital intensive. Software, cloud computing, and digital business models allow companies to scale with lower funding requirements, while the low-rate environment created unprecedented flows of private capital. “You need less capital to build better businesses, but at the same time you have more capital available,” explains Callaghan. “That created a very supportive environment for this asset class to grow.”

There is also a more human element. Public companies operate under quarterly reporting cycles, requiring management teams to continuously communicate progress to shareholders, analysts, and competitors alike. While this transparency serves an important governance function, it also creates challenges. “You’re telling competitors exactly how things are going. Either things are going great or they’re not going great, and you have to tell everybody that,” explains Callaghan.

Private companies, by contrast, can navigate temporary setbacks or invest heavily for future growth with less scrutiny and fewer immediate market reactions. This, according to Callaghan, allows founders and management teams to think more strategically. “You can make longer-term decisions by remaining private because you don’t face immediate share price corrections if the market doesn’t approve.”

ACCESS IS INCREASINGLY BECOMING THE COMPETITIVE ADVANTAGE

As value creation moves deeper into private markets, access itself becomes increasingly important. “Private markets are undemocratic in nature. Founders hold all the power. They choose who their shareholders

“Some of the next generation of growth companies that we will own probably don’t exist yet, or they are still in the idea phase somewhere in Silicon Valley, Berlin, London, Paris, Stockholm, Helsinki, or elsewhere. Our job is to be ready when those businesses reach product-market fit.”

are and, quite rightly, they are very selective about that,” she explains. Founders increasingly prioritize long-term shareholders capable of supporting companies across multiple growth phases.

Baillie Gifford believes its reputation as a long-term public equity investor has become a meaningful advantage when competing for access. “Reputation is a huge factor in that choice,” she argues. “We are fortunate to stand on the shoulders of our public equity colleagues who, over more than a century, have demonstrated that we are the type of shareholder we say we are.”

Importantly, Baillie Gifford argues that its integrated public and private approach differentiates it from many competitors. “A lot of early-stage venture investors do a great job helping businesses reach growth stage and maybe through an IPO. You also have crossover investors looking for IPO arbitrage,” says Callaghan. “But there are relatively few shareholders willing to own that business for the long term in both the private and public markets.” This continuity of capital can be valuable for founders.

For Callaghan, this integrated approach represents Baillie Gifford’s key competitive advantage. “Our unfair advantage is that we are fully integrated across public and private markets,” she argues. “That makes us better across every part of the private equity process.”

AI: WAITING FOR BUSINESS MODELS RATHER THAN HEADLINES

Anthropic represents one example of how Baillie Gifford applies this philosophy in practice. Despite excitement surrounding artificial intelligence, Callaghan explains the firm remained patient initially because it was unclear where competitive advantage and value might accrue across the AI landscape.

“While they were large businesses in terms of valuation, they were still early stage in terms of product development and their evolution as businesses.”

According to Callaghan, Baillie Gifford prefers investing when a strong product begins transitioning

into a scalable business model. This is ultimately what attracted the firm to Anthropic last year.

The rapid appreciation in AI valuations naturally raises questions about whether investors are arriving too late. Callaghan argues that transformational businesses rarely appear inexpensive when viewed through traditional valuation frameworks. “Transformational businesses, whether that was Tesla in the 2010s, Nvidia over the past few years or even today, or high growth private businesses like Stripe, never really feel cheap on a spot multiple basis,” she says. Focusing excessively on current multiples risks missing the bigger picture, according to Callaghan.

While Baillie Gifford applies rigorous underwriting standards and remains disciplined with client capital, Callaghan argues that investors must also recognize when traditional valuation approaches may underappreciate the scale of future opportunities. “If you obsess about spot multiples, you will probably miss these opportunities and miss them every time,” she says. “We try to understand when to lean into transformational companies because they can become intergenerational businesses.”

Even as artificial intelligence dominates headlines and investor attention, Callaghan argues investors should avoid becoming too narrowly focused on today’s winners. “Growth can come from anywhere,” she says. While AI remains an important technological shift, she believes many future winners have yet to emerge. “Some of the next generation of growth companies that we will own probably don’t exist yet, or they are still in the idea phase somewhere in Silicon Valley, Berlin, London, Paris, Stockholm, Helsinki, or elsewhere,” concludes Callaghan. “Our job is to be ready when those businesses reach product-market fit.”

A Decade of Thematic Private Equity: Summa Equity Sees Stronger Tailwinds Than Ever

By Eugeniu Guzun – HedgeNordic

While parts of the private equity industry have faced a challenging dealmaking environment in recent years, Nordic mid-market buyout manager Summa Equity has navigated with resilience, underpinned by its thematic focus across four investment areas backed by strong, secular tailwinds: Circularity, Sustainable Food, Energy Transition, and Tech-Enabled Resilience. As Summa Equity celebrates its 10-year anniversary this year, founder Reynir Indahl believes those tailwinds will be stronger than ever in the years to come.

“The areas that we are focusing on are even more attractive today,” says Indahl, founder and managing partner of Summa Equity. “If you look at the problems we face around waste, our broken food system, energy dependence, and fragile infrastructure, it is surprising that anyone could doubt that investing in

companies solving these challenges is a powerful investment strategy.” Over the past decade, Summa Equity has grown into a firm of 80 professionals, raised close to €4 billion across three funds and a co-investment vehicle, and established itself as one of the leading thematic private equity investors in the Nordics and Europe.

When Summa Equity was founded in 2016, impact investing was still viewed with a considerable degree of skepticism. Many investors associated sustainability-focused strategies with lower returns, believing that generating positive environmental or social outcomes required sacrificing financial performance.

“The whole sustainability field became much more popular a few years after we started,” recalls Indahl.

Reynir Indahl, Founder and Managing Director – Summa Equity.

While investor interest in sustainable investing has grown significantly since then, expectations have also evolved. Investors remain keen to allocate capital to businesses addressing societal challenges, but they are no longer willing to sacrifice returns in the process. “Sustainability was never viewed as a compromise on returns, but rather as a source of long-term competitive advantage. This was the premise from the day Summa Equity was launched,” says Indahl.

INVESTMENT PROCESS: STARTING WITH THE PROBLEM

Unlike many private equity firms that begin by screening companies, Summa Equity starts by identifying large-scale societal and economic challenges. “Within each of our themes, we always start with what’s the problem we’re trying to solve,” explains Indahl.

In the area of circularity, for example, the team examines the scale of waste generation and the transition toward a more circular economy across Europe. “Once we have developed that thesis, it informs where the opportunity set is, where we can pursue consolidation through buy-and-build strategies, and where we see strong organic growth.”

This top-down approach allows Summa Equity to identify sectors well-positioned to benefit from long-term megatrends before narrowing its focus to individual companies capable of capitalizing on those opportunities.

Through the current higher interest-rate environment, Summa Equity remained active on both acquisitions and exits. “We have found the market attractive again over the last few years and have completed several exits at very strong outcomes and deployed more than €1 billion since 2024,” says Indahl.

Geopolitical developments, including Russia’s invasion of Ukraine and the broader push for European self-sufficiency, have only reinforced the relevance of the firm’s investment themes. “The four areas that we invest in have become increasingly critical as Europe strives for greater self-sufficiency and sovereignty,” argues Indahl. “We have seen a lot

“The areas that we are focusing on – circularity and waste, sustainable food, energy transition, and tech-enabled resilience – are even more attractive today.”

of attractive opportunities in our sectors. It has not been a constraining market for us.”

OPERATIONAL VALUE CREATION AT THE CORE

While higher interest rates have weighed on transaction activity, they have also highlighted the importance of operational value creation. As financing costs have increased and leverage has become less powerful as a return driver, firms across the industry have been forced to place greater emphasis on operational value creation. For Summa Equity, however, this shift represents more of a validation of an approach it has followed from the outset.

“We are very strategic and operational in how we create value in our companies. This has been a cornerstone from the start,” says Indahl. The firm’s investment model has always been built around identifying businesses with strong structural growth prospects and then helping management teams accelerate growth, improve operations, and strengthen market positions.

Indahl does, however, observe a broader shift among private equity peers. “Those that have relied more heavily on debt and balance-sheet engineering to generate returns are realizing that this has become more difficult and are now having to focus on other levers for value creation.”

ENERGY TRANSITION EMERGING AS A LARGER OPPORTUNITY

Despite energy transition being one of the most significant long-term trends globally, it has historically represented the smallest area of capital deployment within the firm’s portfolio. “For good reason,” acknowledges Indahl. “Much of the sector was still emerging, unprofitable, heavily subsidized, and we are not infrastructure investors.”

Rather than investing directly in renewable energy projects, Summa Equity focused on businesses helping customers improve energy efficiency and strengthen critical infrastructure. “We have invested in suppliers to the European grid, particularly on the

software, components, and data side.”

As renewable technologies have matured and economics have improved, the energy transition has become increasingly attractive from a private equity perspective. “Now that much of the renewable energy space has shifted toward profitability, largely because of how significantly costs have come down, we see many more interesting opportunities across the energy sector,” says Indahl. “We expect to invest considerably more in energy going forward because it has become much more attractive over the past few years.”

BUILDING AN ANTI-FRAGILE PORTFOLIO

Despite ongoing uncertainty driven by artificial intelligence, geopolitical tensions, inflationary pressures, and shifting trade relationships, Indahl remains optimistic about the outlook for Summa Equity’s investment strategy. In fact, he believes the current environment reinforces the rationale behind the firm’s thematic approach.

“We live in an incredibly uncertain world,” he says. “The reason I am even more excited about our investment strategy today is that we focus on anti-fragility.” The concept is central to how Summa Equity thinks about portfolio construction. While some sectors may struggle as new sources of uncertainty emerge, Indahl believes companies addressing essential challenges in waste management, food systems, energy security, and critical infrastructure are positioned to remain relevant and grow regardless of market conditions. “We need to address these issues irrespective of how the world around us evolves,” he concludes. “If you invest in profitable companies providing solutions to real-world problems, they are likely to outperform in a more challenging world. That is what our portfolio has demonstrated these last 10 years and we have only just begun.”



Tero Pesonen, Director for Private Equity and Private Credit – LocalTapiola Asset Management

Direct Lending Goes Through First Proper Credit Cycle

By Eugeniu Guzun – HedgeNordic

“Direct lending is going through its first proper credit cycle. Many things are coming together at the same time.”

After years of explosive growth and strong returns, private credit is facing its first meaningful stress test, particularly within direct lending, which has become the dominant segment of the asset class over the past decade. The market has attracted growing scrutiny, with concerns ranging from rising bankruptcies and liquidity pressures in semi-liquid vehicles to the disruptive impact of AI on software companies once considered stable and predictable borrowers. For Tero Pesonen, Director for Private Equity and Private Credit at LocalTapiola Asset Management, the current environment is less a systemic crisis and more a long-awaited normalization process for direct lending.

“Direct lending is going through its first proper credit cycle,” says Pesonen. “Many things are coming together at the same time.” While he acknowledges the challenges facing the asset class, he believes the current environment could ultimately strengthen private credit over the longer term.

THE LEGACY OF EASY MONEY

A significant portion of today’s concerns can be traced back to the exceptionally aggressive deployment environment before and during 2022. That period combined ultra-low interest rates, abundant liquidity, intense competition among lenders, and strong demand from private equity sponsors. The result was a large vintage of loans originated on highly borrower-friendly terms and increasingly stretched capital structures. “Prior to 2022, and during the rate-hike cycle itself, huge amounts of capital were raised across private markets and deployed very aggressively,” recalls Pesonen. “Looking back now, there were many deals with unsustainable capital structures.” Because most direct lending loans are floating rate, the sharp increase in interest rates after 2022 materially changed the financing environment for borrowers. Companies underwritten at near-zero base rates suddenly faced much higher debt servicing costs.

On top of the higher-rate environment, Pesonen sees another important source of pressure: software exposure and the rapid rise of artificial intelligence.

“There is a strong software and AI loop tied into this,” he explains. Private credit managers heavily financed sponsor-backed software and technology-enabled service businesses under the assumption of stable recurring revenues, high margins, and durable growth. Many of these companies were valued and leveraged at elevated multiples. “Buyout funds loved software because of the growth profile and the market’s positive experience with the sector,” says Pesonen. “But many of these smaller firms needed significant leverage for the buyout math to work.” Because the leverage levels were often too high for the broadly syndicated loan market, many of these transactions ended up in direct lending portfolios instead.

In hindsight, Pesonen believes the concentration toward software now looks problematic, although largely unforeseen. “No one expected AI to arrive with this kind of force,” he says. “Defaults will rise, and they will become meaningful over the next two to three years.” For private credit lenders, the concern is not necessarily immediate defaults, but rather declining enterprise values, weaker refinancing

“No one expected AI to arrive with this kind of force. Defaults will rise, and they will become meaningful over the next two to three years.”

conditions, and highly levered companies struggling in a slower-growth environment.

Another major concern stems from the rapid growth of semi-liquid evergreen structures, particularly in U.S. private credit markets. Much of the recent negative media attention has focused on these vehicles and the tension between investor liquidity expectations and the inherently illiquid nature of private credit assets. “All the bad publicity has really centered around open-ended evergreen structures with some form of liquidity promise,” says Pesonen.

Over the past six to seven years, an estimated \$600 billion has flowed into semi-liquid structures, particularly private business development companies (BDCs). Most of these vehicles offer quarterly liquidity, typically capped at five percent of net asset value. “These funds usually have liquid buckets within the portfolio, such as broadly syndicated loans, and if you do the math on the coupons and maturities, under normal circumstances they can meet that five percent liquidity,” explains Pesonen. “But now retail investors are asking for money back and not getting it, which naturally creates headlines.” Still, he argues that the current issues reflect the intended structure of these products rather than a hidden flaw. “This is ultimately what investors signed up for.”

A LONG-AWAITED CREDIT CYCLE

Private credit has delivered strong returns over the past decade, particularly in direct lending. From 2011 to 2020, direct lending experienced exceptionally favorable conditions: low defaults, near-zero base rates, and spreads of 600 to 700 basis points. The subsequent rise in base rates temporarily pushed all-in yields into double digits, creating what many viewed as the “golden era” of private credit. “In the U.S., people suddenly saw five percent base rates plus six percent spreads and thought this was an incredible business,” says Pesonen. “It was a very attractive period.”

For Pesonen, the current environment represents a necessary step in the maturation of direct lending as an asset class. “I’ve been waiting for this test for quite a while,” he says. “We just never knew what the trigger would be.” According to him, excessive leverage, aggressive deal activity, AI-related uncertainty, and

the evergreen liquidity mismatch all combined to create the current situation.

Pesonen has long argued that direct lending should not be viewed as fundamentally different from broadly syndicated loans or high yield. “It’s all part of the leveraged finance universe,” he explains. According to Pesonen, the same economic principles apply to direct lending as to the broader leveraged finance market, with smaller companies typically carrying higher leverage. “The default rate should be something more than three percent annualized, whereas in the past they have shown pretty much zero,” he says. “We need to go through a cycle, get to a more solid footing, and understand that this is just part of that bigger market. But the path there will be painful, and no one really knows how things will unfold or how the direct lenders will deal with it.”

At the same time, Pesonen believes the adjustment process may create attractive opportunities elsewhere in private credit. Going forward, he believes opportunities may increasingly shift toward distressed and opportunistic strategies rather than traditional sponsor-backed direct lending.

LOWER RETURNS, BETTER DISCIPLINE

Pesonen expects return expectations for direct lending to moderate over time. Comparing the asset class to the broadly syndicated loan market, he argues that the economics should ultimately converge, although direct lending will continue to command a premium because it finances smaller and more leveraged companies. “Unlevered direct lending should probably settle somewhere in the five to seven percent range,” he says. “With leverage, you can still reach double-digit returns, but the idea of generating 10 percent annually with no volatility and no losses is over.”

Higher interest rates, if sustained, would likely push default rates higher and compress spreads over time. “No economy functions properly when senior debt consistently costs double digits. No corporate can function that way over the long term,” says Pesonen. If higher base rates persist, he expects default rates to rise, while spreads will eventually compress as markets adjust to more sustainable financing

conditions. “If money costs too much for too long, it simply doesn’t work,” he explains.

Looking ahead, Pesonen expects a more mature and selective private credit universe, with greater differentiation between managers and strategies. “There will be a playoff round among managers,” he says. “Not everyone will survive the next five years.” Still, he believes the ongoing correction is ultimately healthy for the market. “This cycle is for the better,” concludes Pesonen. “The market became far too hot, and now we’re finally seeing a necessary cooling period.”

Beyond Traditional Fixed Income: Why Aegon AM Sees Opportunity Across ABS and CLO Markets

By Eugeniu Guzun – HedgeNordic



Frank Meijer, Head of Alternative Fixed Income and Structured Finance – Aegon Asset Management

“European ABS is largely floating rate, meaning duration is extremely short. Traditional fixed income generally carries significantly more interest rate sensitivity.”

Every day, households borrow money to buy homes, finance cars, pay for education, or fund everyday consumption. These mortgages, auto loans, consumer loans, and other receivables create large pools of cash flows that can also serve as an investable asset class. Asset-backed securities (ABS) provide investors with exposure to these underlying financial assets, offering an alternative source of return beyond traditional corporate and sovereign credit. While ABS has historically occupied a more specialized corner of alternative fixed income markets, investors can view the asset class as a source of diversification, short-duration exposure, and yield enhancement.

Dutch asset manager Aegon Asset Management (Aegon AM) has spent the better part of two decades building a broad ABS platform spanning traditional ABS strategies, more flexible mandates, and increasingly dedicated CLO solutions. The firm currently manages approximately €25 billion in ABS assets supported by a dedicated team of around 25

professionals, offering investors exposure across multiple risk-return profiles ranging from highly defensive cash-management solutions to more opportunistic ABS mandates.

The flagship investment-grade ABS strategy, launched in 2016 and now managing approximately €9 billion, focuses primarily on opportunities across European ABS markets. “The investment-grade strategy delivers Euribor plus 140 basis points with an average double-A rating,” explains Frank Meijer, Head of Alternative Fixed Income and ABS at Aegon AM.

At the more conservative end of the spectrum sits Aegon AM’s AAA ABS strategy, designed as an alternative to traditional money market solutions and lower-risk fixed income products. Despite investing exclusively in AAA-rated tranches, Meijer argues that investors can still achieve meaningful yield pickup compared with traditional cash alternatives. “The AAA strategy can still deliver Euribor plus 106 basis points or somewhat higher,” says Meijer. “For

investors looking for safety and low volatility, this presents a strong alternative to traditional money market funds.”

At the opposite end of the risk spectrum, Aegon AM also manages an ABS Opportunities strategy investing primarily across BB and single-B ABS tranches and CLOs. According to Meijer, investors in this strategy should expect yields closer to seven or eight percent while benefiting from diversification away from traditional high-yield bonds or equity markets. Taken together, the strategies provide investors with exposure across multiple risk-return profiles depending on portfolio objectives and risk appetite.

DIVERSIFICATION BEYOND CORPORATE CREDIT

One of the primary reasons investors allocate to ABS is that the underlying risk drivers differ materially from

“There’s a perception that ABS is complex or a black box. But today we receive loan-level information on every underlying exposure. From a transparency perspective, this is arguably among the most transparent segments of fixed income.”

traditional fixed income markets. Rather than lending directly to corporates or governments, investors gain exposure to diversified pools of underlying financial assets. “Most ABS bonds are backed by pools of consumer credit: mortgages, auto loans, student loans, or unsecured consumer lending,” explains Meijer. “That’s fundamentally different from buying corporate bonds or equities, where you are taking corporate risk or government risk.” This distinction becomes particularly relevant from a portfolio construction perspective because the performance drivers behind household borrowing behavior differ significantly from corporate earnings, balance sheet strength, or sovereign fiscal conditions.

The diversification characteristics become even more apparent when considering the duration profile of European ABS markets. Unlike traditional fixed income, where investors often face substantial interest rate risk, much of the European ABS market consists of floating-rate securities. “The second important difference is duration,” explains Meijer. “European ABS is largely floating rate, meaning duration is extremely short. Traditional fixed income generally carries significantly more interest rate sensitivity.”

Combined with underlying exposure to consumer credit rather than corporate balance sheets, this creates an asset class that historically has displayed relatively low correlation with investment-grade credit, high-yield bonds, and equities. For investors seeking diversification within fixed income rather than simply increasing exposure to additional corporate risk, these characteristics make ABS increasingly attractive.

WHY ABS CONTINUES TO OFFER YIELD PICKUP

Beyond diversification and duration characteristics, ABS also offers a meaningful spread premium relative to similarly rated corporate bonds. According to Meijer, this premium persists because of several structural factors rather than because the underlying risk profile is fundamentally worse. One explanation relates to central bank intervention over the past decade. “The ECB bought enormous amounts of government bonds, corporate credit, and covered

bonds, but they were much less active in ABS markets,” says Meijer. “When somebody buys a large part of the market, spreads compress. That simply happened less in ABS.”

Regulation provides another explanation. Insurance regulations historically favored traditional fixed income products such as government bonds or covered bonds through lower capital requirements, while ABS often faced less favorable treatment. According to Meijer, investor behavior itself also reinforces these spread premiums. “If ABS doesn’t provide more return within a Solvency II environment than corporate credit, investors simply move elsewhere,” he says. “The market structurally demands additional compensation.”

ABS continues to carry a reputation for complexity, something Meijer believes is increasingly outdated. Post-financial crisis regulation has significantly increased transparency requirements, giving investors access to detailed information about underlying collateral pools and individual loans. “There’s a perception that ABS is complex or a black box,” argues Meijer. “But today we receive loan-level information on every underlying exposure. From a transparency perspective, this is arguably among the most transparent segments of fixed income.” According to Meijer, investors today often have more visibility into the underlying assets within ABS markets than they do when buying traditional corporate bonds, where analysis typically relies primarily on company disclosures and financial statements.

CLOS OFFER ATTRACTIVE RELATIVE VALUE

Within the broader ABS universe, Aegon AM currently sees particularly attractive opportunities within collateralized loan obligations, or CLOs. These securitizations, backed primarily by diversified pools of corporate loans, account for roughly one quarter of the broader ABS market and continue growing in importance. According to Meijer, many of the same structural factors that support spreads in ABS markets also apply to CLOs. Unlike traditional fixed income markets, CLOs have benefited less from years of central bank intervention and continue to

offer significant spread premiums relative to their underlying risk profiles.

“For the last several years, CLOs have offered some of the strongest relative spread opportunities compared with risk,” argues Meijer. According to him, attractive opportunities currently exist across much of the rating spectrum. BBB CLO tranches currently offer spreads around cash plus three percent, while even highly rated AAA CLO tranches continue providing meaningful premiums over traditional fixed income instruments. “Across ratings, we continue to see attractive relative value.”

While Aegon AM’s existing ABS strategies already allocate to CLOs, the firm intends to further expand its dedicated product range with planned launches covering high-grade CLO portfolios focused primarily on AAA exposures, investment-grade solutions targeting single-A and BBB tranches, and more opportunistic products focused primarily on lower-rated securities.

Risk management remains central to the investment thesis. A typical CLO portfolio contains roughly 150 underlying borrowers, creating substantial diversification at the underlying level. “A BBB CLO tranche can typically withstand around half of the underlying portfolio defaulting before becoming impaired,” explains Meijer. “There will always be defaults, but the level required before these structures become problematic is extremely high.”

With approximately €25 billion managed across ABS strategies and a dedicated investment team focused exclusively on ABS markets, Aegon AM believes it remains well positioned to capitalize on growing investor demand for alternatives to traditional fixed income. For investors navigating compressed spreads, uncertain interest rate trajectories, and elevated equity valuations, ABS and CLO markets increasingly offer a combination of characteristics that remain difficult to replicate elsewhere: floating-rate exposure, diversification benefits, short duration, and meaningful yield pickup.



Don Dimitrievich, Senior Managing Director and Portfolio Manager for Energy Infrastructure Credit – Nuveen

Financing the Energy Buildout: The Growing Role of Infrastructure Credit

By Eugeniu Guzun – HedgeNordic

Infrastructure has traditionally been viewed as one of the more defensive corners of private markets, characterized by essential services, stable cash flows, and hard-asset backing. Increasingly, however, investors are paying attention for a different reason: growth. Rising electricity demand, changing geopolitical realities, and the rapidly growing need for digital infrastructure are creating what many investors believe could become one of the largest investment opportunities across private markets.

According to Don Dimitrievich, Senior Managing Director and Portfolio Manager for Energy Infrastructure Credit (EIC) at Nuveen, three powerful secular trends are simultaneously driving demand for energy infrastructure and reshaping the opportunity set for infrastructure credit investors: artificial intelligence, electrification, and geopolitical realignment. “These three drivers are creating what we believe is a step-function change in the size of the addressable market,” argues Dimitrievich. “The amount of capital required runs into hundreds of billions annually and ultimately into trillions over time.”

The first major driver is the rapid expansion of artificial intelligence infrastructure and computing capacity, which is creating unprecedented demand for electricity and power infrastructure. “There are a couple of key trends that are taking place, starting with the whole buildout of AI and compute capacity, or data processing if you will,” says Dimitrievich. Importantly, the investment requirements extend well beyond the data centers themselves. Supporting the expansion of artificial intelligence requires substantial investment across power generation, transmission, and broader energy infrastructure. “A ChatGPT search takes roughly ten times as much power as a Google search,” says Dimitrievich. “You start to extrapolate what that means into the economy, and it becomes a huge step-function change in energy demand.”

Alongside AI, Dimitrievich points to the broader electrification trend unfolding across economies. While policy drivers may differ across regions, the underlying trend remains consistent. “You’re seeing increased heat pump adoption, greater electrification in industrial applications, and

increased electric vehicle transportation,” he says. “This is not necessarily about ESG targets or net-zero commitments. It is simply a secular trend that requires incremental investment in energy and power infrastructure.”

The third major driver is the reshoring of manufacturing supply chains and the growing emphasis on energy security. According to Dimitrievich, decades of globalization optimized supply chains around the lowest-cost manufacturing locations, but national security concerns are increasingly influencing investment decisions. Russia’s invasion of Ukraine exposed Europe’s dependence on imported energy, while the recent conflict involving Iran has once again highlighted the vulnerability of global energy supply chains and critical transit routes such as the Strait of Hormuz. Together with rising geopolitical tensions between major economic blocs, these developments have reinforced the importance of resilient domestic infrastructure, energy security, and diversified sources of power. This shift requires significant incremental investments in industrial infrastructure, energy systems, and domestic manufacturing capacity.

As one example, Dimitrievich points to semiconductor manufacturing facilities currently being developed in the United States. One large facility under construction in New York is expected to require power consumption equivalent to the combined electricity usage of New Hampshire and Vermont. “Just one facility,” he notes. “And this dynamic is playing out in Europe as well.” Together, these trends are creating what Dimitrievich believes is a structural expansion in the addressable market for infrastructure investors.

FILLING THE INFRASTRUCTURE FINANCING GAP

While infrastructure investment itself is not new, Dimitrievich argues that traditional financing channels alone are increasingly insufficient to support the growing opportunity set. Historically, infrastructure projects relied primarily on project finance markets, bank lending, and infrastructure equity, all of which remain important today. However, many infrastructure businesses no longer fit neatly into those traditional frameworks. “We often get asked why infrastructure credit is needed when project

finance and infrastructure equity have existed for decades,” says Dimitrievich. “The answer is similar to what happened in private credit generally. Traditional financing markets worked very well historically, but the opportunity set has expanded significantly.”

According to Dimitrievich, infrastructure credit increasingly fills the financing gap between highly standardized project-finance structures and expensive equity capital. Many infrastructure businesses have proven technologies, established operations, and predictable cash flows, but require additional capital to support expansion. “The issue is that many infrastructure businesses sit somewhere in between,” explains Dimitrievich. “They have proven technologies, operating cash flows, and established businesses, but require additional capital to scale.”

Infrastructure credit provides that growth capital while offering greater flexibility than traditional project finance and avoiding the dilution or higher cost associated with equity financing. At the same time, commercial banks face increasing regulatory capital constraints that limit how much balance-sheet capacity they can dedicate to a rapidly expanding market. “Banks continue to play an important role, but regulatory capital constraints limit how much balance sheet they can commit,” says Dimitrievich. “As the opportunity set grows, additional sources of capital become necessary.”

DEFENSIVE CHARACTERISTICS WITHOUT SACRIFICING RETURNS

Despite the strong growth narrative, Dimitrievich emphasizes that infrastructure credit retains many of the defensive characteristics traditionally associated with infrastructure investing. “Infrastructure is one of the more defensive investment strategies in this type of environment,” he argues. Unlike traditional corporate credit exposures, infrastructure assets typically provide essential services that remain necessary regardless of economic conditions. “People still need electricity, heating, and critical infrastructure during a recession.”

Infrastructure credit also benefits from hard-asset backing, inflation-linked cash flows, and long-term contracted revenues. “Many infrastructure investments have inflation protection embedded

“We believe you can achieve similar return profiles to certain infrastructure equity strategies, but from a more defensive position in the capital structure.”

in their contracts,” explains Dimitrievich. “Because cash flows are often contracted, you generally have greater visibility that is less dependent on market conditions.”

Importantly, Dimitrievich argues that investors are not necessarily sacrificing returns in exchange for greater defensiveness. For higher-yielding, non-investment-grade infrastructure credit opportunities, he suggests the segment has historically offered return potential that may compare favourably with certain core-plus infrastructure equity strategies. “We believe you can achieve similar return profiles to certain infrastructure equity strategies, but from a more defensive position in the capital structure,” he says. Unlike equity investors, infrastructure credit investors benefit from structural protections including covenants, hard-asset backing, and meaningful junior capital beneath them, helping to mitigate downside risk while maintaining attractive return potential.

A PRAGMATIC ENERGY TRANSITION

Demand for infrastructure credit is increasingly coming from multiple directions. Private credit investors are seeking diversification beyond traditional corporate direct lending, while infrastructure equity investors are evaluating whether infrastructure credit can provide similar return potential with greater downside protection and more current income. “We’re

seeing capital coming from both sides,” explains Dimitrievich. “Private credit investors are looking for diversification, while infrastructure equity investors are asking whether they can achieve similar returns with greater downside risk mitigation and more current income.”

Although much of the discussion around energy infrastructure centers on renewable energy, Dimitrievich argues investors need to adopt a more pragmatic approach. “We take a pragmatic approach because the reality is that we are not yet at a point where the world can rely entirely on sustainable energy sources,” he says. “You need to think about the entire energy value chain.” While sustainable investments are expected to represent an increasingly larger share of portfolios over time, conventional energy infrastructure continues to play an important role in supporting rising power demand and maintaining energy security. “We believe sustainable investments will continue becoming a bigger portion of the portfolio over time,” says Dimitrievich. “But given the growth in energy demand we expect, we still need an all-of-the-above approach today.”

Looking ahead, he believes energy infrastructure credit could emerge as one of the key growth segments within private markets. As electricity demand accelerates, digital infrastructure expands, and energy systems continue evolving, infrastructure itself may increasingly transition from a purely defensive allocation toward a structural growth opportunity.

Litigation Finance Emerges as an Uncorrelated Corner of Private Markets

By Eugeniu Guzun – HedgeNordic

Private markets have expanded far beyond traditional private equity, private credit, and infrastructure investing. Among the more specialized corners of the alternatives universe sits litigation finance, an asset class where investors provide capital to fund legal disputes in exchange for a share of potential settlements or damages.

Seeking to capitalize on this niche segment, French independent asset management firm IVO Capital Partners has established since 2014 a dedicated litigation finance strategy focused on providing third-party funding across legal disputes. While still relatively unknown among many institutional investors, litigation finance offers exposure to a distinct return stream driven by legal outcomes rather than traditional market forces.

UNDERSTANDING LITIGATION FINANCE

The principle behind litigation finance is relatively straightforward: investors finance the costs associated with pursuing a claim, while returns depend on the successful outcome of the litigation. "As a fund, we take charge of all the costs of litigation: lawyers, experts, and everything related to the dispute," explains Alexandre Lercher, Litigation Finance Fund Manager at IVO Capital Partners. "If the claim succeeds, then we receive a part of the damages recovered by the claimant. But if the dispute is lost, then we lose our investment." Because litigation finance investments are generally structured on a non-recourse basis, downside is limited to invested capital, while successful cases can generate significant upside.

Alexandre Lercher, Litigation Finance Fund Manager – IVO Capital Partners

“Our return is typically defined as either a multiple of the capital invested or a share of the proceeds recovered, with the funding agreement specifying how the final amount is calculated following a successful outcome.”

Although legal expenses can generally be estimated with reasonable confidence, returns are ultimately determined by the success and scale of legal claims. “Our economic return is driven by an option embedded in the funding agreement,” explains Lercher. “The economics are agreed from day one. Our return is typically defined as either a multiple of the capital invested or a share of the proceeds recovered, with the funding agreement specifying how the final amount is calculated following a successful outcome.” IVO Capital targets gross returns of roughly three to four times invested capital on successful cases.

This creates a risk-return profile that, in some respects, resembles venture capital or private equity, where a limited number of large winners compensate for unsuccessful investments. “You can have unicorn outcomes,” argues Lercher. “A case costing €2 million could generate €20 million, €30 million, or potentially much more because the amount invested does not directly determine the size of the damages.”

For institutional investors, the appeal extends beyond return potential. Litigation finance offers exposure to risk factors largely disconnected from traditional financial markets, with outcomes primarily driven by legal processes rather than economic growth, interest rates, or market sentiment. “This is probably one of the least correlated asset classes available today,” says Lercher. “The value driver is the amount of damages claimed in the dispute and that amount is not directly influenced by markets or spreads.”

BUILDING A PAN-EUROPEAN LITIGATION PLATFORM

IVO Capital Partners launched its fourth litigation finance vintage during 2025 and predominantly focuses on continental Europe, covering nearly ten jurisdictions across countries including Sweden, Portugal, Switzerland, Belgium, France, and Germany. “We are the only truly pan-European litigation funder with meaningful exposure across multiple jurisdictions,” says Lercher.

The team applies a highly selective approach to geographic exposure, avoiding jurisdictions where litigation timelines become excessively long or institutional frameworks create additional

uncertainty. “Italy is a jurisdiction where we tend to be more cautious because litigation durations may be long,” explains Lercher. “And there are some jurisdictions in Eastern Europe where corruption concerns may become relevant.” Building a diversified portfolio across jurisdictions is therefore seen as an important part of risk management.

Given that litigation finance vehicles are typically structured as closed-ended funds with seven-year lifespans, managing duration risk becomes an important consideration. To mitigate both duration risk and potential capital losses, IVO Capital utilizes insurance solutions designed to protect investors if cases extend materially beyond expectations. “We use insurance to balance the two main risks: duration and loss of capital,” says Lercher. “Invested capital is covered through insurance if cases extend beyond the expected lifetime of the fund.” While legal outcomes remain uncertain, these structures are designed to reduce some of the risks associated with long and unpredictable litigation timelines.

SOURCING, DIVERSIFICATION, AND SCALING THE STRATEGY

With four litigation finance vehicles already launched and 12 years of experience in the asset class, sourcing new opportunities has gradually become easier. “The first step was simply becoming known among law firms,” explains Lercher. “Initially, a lot of the work involved raising awareness among lawyers about litigation funding is and how it could be used in practice.” Today, the situation has changed considerably, with the firm increasingly receiving inbound opportunities. Since the beginning of this year alone, the team has reviewed more than 80 funding opportunities while selecting only around ten percent. “We are highly selective on the cases we fund, a discipline made possible by the strong volume of opportunities in the market,” says Lercher.

The current litigation finance fund consists of approximately 50 separate cases, providing diversification across industries, geographies, and legal processes. “What is interesting is that each case is independent from another,” notes Lercher. “There is diversification not only versus financial markets but also between industries and cases themselves.” The team targets a success rate of approximately 60

percent while seeking returns of three to four times invested capital on successful cases. Combined, this translates into an expected internal rate of return of roughly 14 percent.

AN ASSET CLASS STILL IN ITS EARLY DAYS

Despite increasing adoption, litigation finance remains relatively underdeveloped in Europe, which Lercher believes creates opportunities both for funders and investors. “We are seeing more and more demand from law firms,” he concludes. A major reason for this growth remains education, as many legal professionals and institutional investors are still unfamiliar with the financing model. “At the moment, litigation funding is still new in Europe,” says Lercher. “Most people simply don’t know about it. Once lawyers and general counsels discover that this tool exists, they often want to use it.” For institutional investors, understanding litigation finance increasingly means understanding not only its unique risk-return profile, but also how an uncorrelated asset class such as litigation finance can fit within broader portfolio construction.



Alexandra Voss, CFA - Senior Manager Selector, SEB

A Rebound with a Bottleneck

Private markets are no longer in retreat, but the rebound is selective and unevenly distributed. Returns were positive across most strategies in 2025, although lower than in the previous year. Dealmaking rebounded and fundraising may well have troughed yet distributions remain well below historical averages and capital continues to concentrate in fewer managers. This article is a brief excerpt from the annual edition of SEB Manager Selection's Private Markets Report, where we review each strategy, reflect on 2025, and share perspectives on navigating the uncertainties of 2026.

By Alexandra Voss, CFA
Senior Manager Selector, SEB

2025 IN REVIEW

We begin by comparing our 2025 expectations with actual outcomes, this time with some help from AI. Claude AI reviewed our calls against the year's outcomes and awarded us a highly dubious 75% accurate.

On the right side of the ledger: broadly positive though more muted performance; overall declines in fundraising; and the relative resilience of geographies and sectors insulated from global supply chains. Our suggestion that the middle market would prove more attractive than mega-cap buyouts, and that manager dispersion would increase meaningfully, also held up well.

Where we fell short was primarily underestimating the market's resilience. As we noted in last year's report "Spring's Promise, Broken by a Late Frost," the tariff-driven volatility of early 2025 led us to anticipate a more prolonged period of market disruption. The snapback from the "late frost" of tariff volatility in early 2025 was faster than we anticipated, leaving us too pessimistic on deal making, too optimistic on spread widening in direct lending, and expecting a more favourable environment for distressed debt than 2025 delivered.

HIGHLIGHT: THE RECOVERY IS REAL BUT UNGLAMOROUS

Rolling returns, though slightly down from a year ago, were positive across core asset classes. No blow-out numbers, but consistent positive performance across a diverse set of strategies. The catch is that headline returns mask dispersion, and the illiquidity premium is increasingly earned (or lost) through manager selection.

HIGHLIGHT: DEALMAKING IS BACK; DISTRIBUTIONS ARE NOT

To Manager Selection's surprise, global buyout M&A exceeded USD 900bn in 2025, nearing the USD 975bn all-time high set in 2021. The headline was supported by a smaller number of very large transactions, but sentiment has improved. Distributions, however, have not. Until exits reopen meaningfully, secondaries will provide a release valve.

HIGHLIGHT: INFRASTRUCTURE, THE 2025 STANDOUT

In a year when fundraising was a grind for most managers, infrastructure shined. The asset class raised nearly USD 200bn, a record, as the stable performance and consistent distributions of recent years continued to attract capital. The asset class benefited from a structural tailwind that shows no sign of reversing: the intersection of AI-driven data centre demand, energy transition investment, and constrained public sector balance sheets. Yet periods of heavy fundraising can dilute forward returns by intensifying competition and pushing entry pricing higher.

HIGHLIGHT: DEMOCRATISATION OF PRIVATE MARKETS IS TESTED

The expansion of private markets into wealth, retail, and insurance channels continued in 2025, with US evergreen AUM reaching USD 500bn, double 2022 levels. Growth in Business Development Companies or BDCs (a US-specific structure widely used by retail investors due to favourable tax treatment) is particularly notable. The segment has faced several negative headlines in early 2026. Overall we expect evergreen structures to continue to grow, but 2026 will likely produce both winners and losers in the BDC space, along with useful lessons for the broader semi-liquid market.

HIGHLIGHT: AI EVERYWHERE

AI has moved from a discrete theme to a driver embedded across public and private markets, reshaping what gets funded, what gets built, and how risk is priced. In venture, it is the dominant deal driver and a major source of mark-ups.

In real estate and infrastructure, AI translated into demand for data centres, power, grid connectivity, and fibre. In public credit, it is changing the nature of the investment grade indices as hyperscalers issue bonds. In private credit, AI places a spotlight on industry concentration in an era of structural change.

The takeaway for allocators is uncomfortable but clear: AI exposure is everywhere.

2026 OUTLOOK

Should the war in Iran and the subsequent oil price shock resolve swiftly, the impact on private markets is likely to be contained. If not, higher energy prices will almost certainly lead to higher inflation, and higher rate expectations. This would have negative performance implications for most asset classes in this report, as well as result in slower exits and lower distributions, with knock-on effects for fundraising.

Overall, we have tried to learn from last year's errors and prioritise slower-moving data over fast-moving headlines, but once again the range of outcomes remains wide. We continue to favour the middle market over large-cap private equity and to prioritise regions that are relatively insulated from global volatility. In direct lending, we see scope for spreads to widen modestly if negative headlines weigh on fundraising, particularly in the US where spreads are tighter.

Our base case is top-level fundraising stabilises around 2025 levels, consistent with a trough, unless distributions pick up in earnest. That, in turn, depends on dealmaking, which began strongly but now appears to be slowing due to ongoing geopolitical uncertainty (similar to last year). Semi-liquid vehicles should remain in focus and may emerge stronger once the 2026 issues in BDCs help right-size parts of the market. Manager dispersion, meanwhile, is likely to remain high.

We hold these views with conviction, but not with certainty and reserve the right to be wrong. Ideally by no more than 25%.



Christian Dahl, CEO – Formue

Private Markets Are Not the Problem

By Eugeniu Guzun – HedgeNordic

“The majority of value creation takes place in private markets. When the world’s leading investors allocate capital to private markets over time, it is because they know where value is created.”

Formue is the largest privately owned wealth management firm in the Nordics, overseeing and advising on a total of NOK 250 billion with 425 employees across offices in Norway, Sweden and Denmark. The firm provides institutional-grade investment solutions to high-net-worth individuals, with private markets forming part of its broader approach to tailored portfolio construction. Against the backdrop of the growing debate around illiquid investments, Christian Dahl, CEO of Formue, highlights that scrutiny is both healthy and necessary, but argues that the discussion misses the mark when private markets are portrayed as a problem in themselves.

A CENTRAL PART OF FUNCTIONING CAPITAL MARKETS

“The majority of value creation takes place in private markets,” says Dahl. To illustrate, he points to unlisted companies, family-owned businesses, real estate and growth capital as areas where value is created before a potential listing or entirely outside public markets.

“When the world’s leading investors allocate capital to private markets over time, it is because they know where value is created,” Dahl explains.

Dahl links private markets to the broader functioning of capital markets. “Efficient capital markets must provide access to capital for more than companies listed on a stock exchange,” he notes. In that context, Dahl sees private markets as essential for entrepreneurs, growth companies and active ownership environments, and thereby for value creation, innovation and job creation. At the same time, he underlines that this does not make private investments suitable for everyone.

ILLIQUIDITY IS NEITHER GOOD NOR BAD

The debate around private markets requires a more precise understanding of illiquidity, according to Dahl. “Illiquidity in itself is neither good nor bad,” he notes. For investors with the right time horizon, financial capacity and understanding of the risks involved,

illiquidity can support long-term ownership and a less short-term-driven approach to capital allocation, Dahl explains. The key question is not whether an investment is illiquid, but whether the investor is able to hold it on the terms it requires.

The debate also requires a clear distinction between actual risk and the way private investments are valued and reported. “Private investments are not necessarily less volatile than listed investments,” Dahl says. He points out that the difference is often that private investments are reported less frequently, with valuations based more on underlying accounts and operational development than on short-term market sentiment. Mistaking this reporting pattern for lower risk would be misleading, but using it as an argument against private markets would be equally misleading, according to Dahl. “When illiquid investments become problematic, it is rarely about the markets themselves, but rather because of poor individual products or poor advice,” he explains.

QUALITY DEFINES BOTH PRODUCT AND ADVICE

Dahl does not dismiss concerns around alternative investments and their potential disadvantages. "Some alternative investments are unnecessarily complex, have excessive fees, or are structured in ways that benefit the provider more than the investor," he notes. Such products deserve scrutiny, as does advice that is driven more by distribution and its own incentives than by the client's needs and situation, Dahl argues. This, he says, underscores the importance of an independent, competent and professional adviser.

At Formue, selectivity has defined its approach to private markets for more than two decades. The firm has focused on choosing managers carefully, structuring products with discipline and being clear about risks, costs and lock-up periods. "That often means saying no to products marketed as exclusive," Dahl explains.

That selectivity also extends to the question of suitability. Formue works with clients ranging from households with significant wealth to some of the wealthiest families in the Nordics, as well as professional foundations and institutions. "Private equity is generally more suitable for our larger clients," Dahl says, noting that these clients typically invest only part of their portfolios in alternative investments. At the same time, Formue has sought to make such solutions available to clients with smaller portfolios, provided the characteristics of the investment fit the client's situation and preferences. Dahl emphasizes that such investments should always represent a smaller part of a broader portfolio that also includes liquid assets.

PRIVATE MARKETS ARE NOT THE PROBLEM

For Dahl, the point is not to shield private markets from criticism, but to direct criticism at the real issues. Framing private markets themselves as the problem risks shifting attention away from what matters most: the quality of the products, the incentives behind the advice, and respect for each client's capital and time horizon.

"Private markets are not the problem," Dahl says. "Used correctly, private markets are a necessary and value-creating part of an efficient capital market. Used incorrectly, they undermine trust," he explains. His conclusion is clear: "The responsibility to know the difference lies with competent advisers."

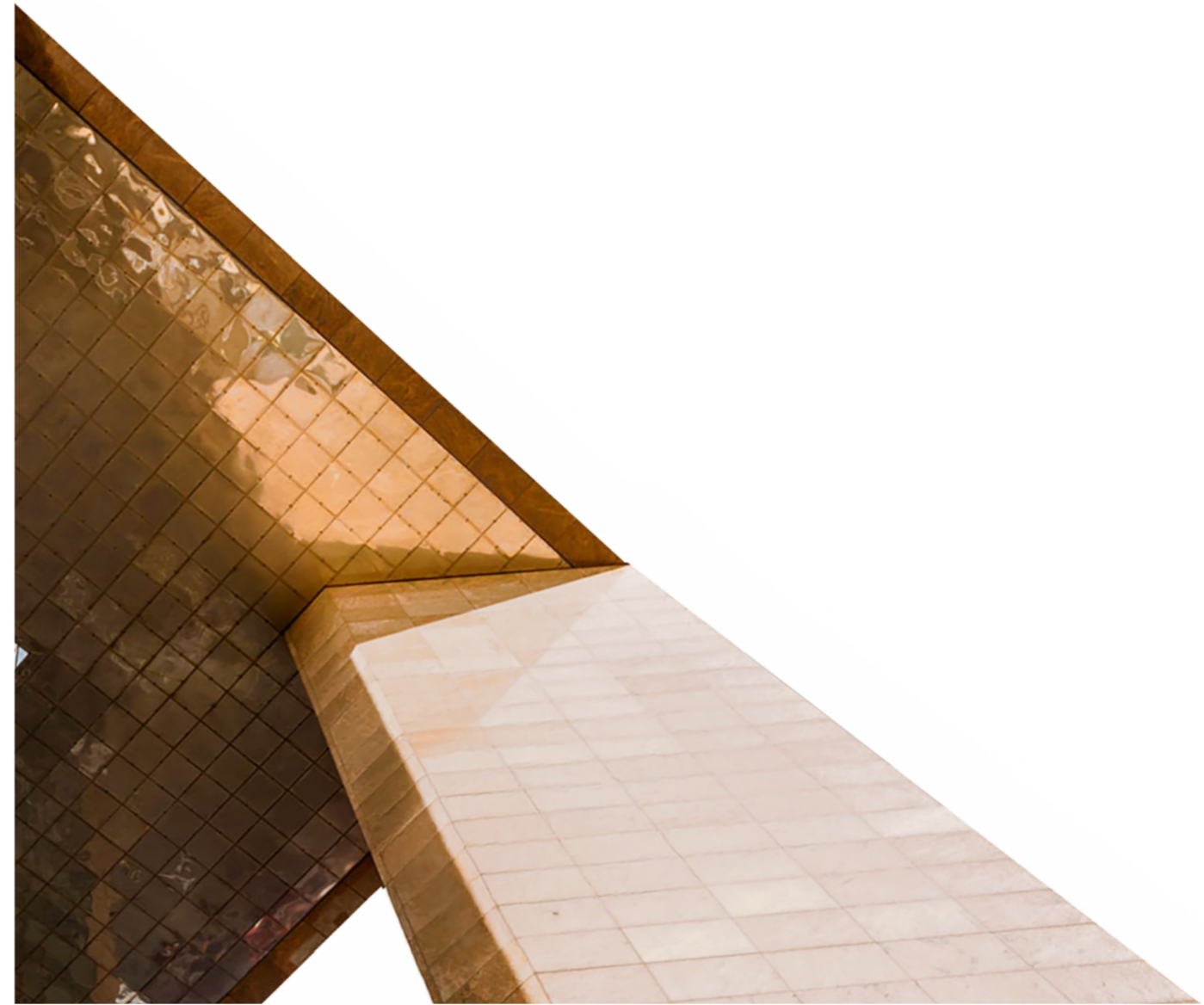
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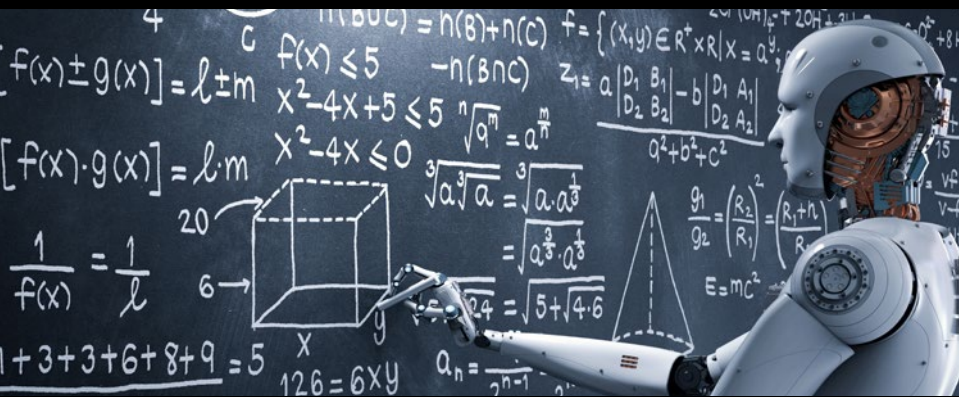
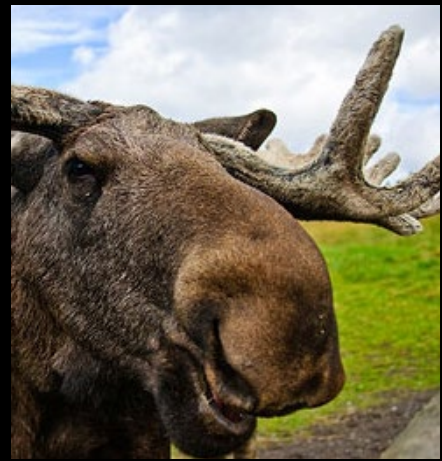
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