Alternative Views

Annual Private Credit Survey 2025

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Foreword

We offer a wide range of services both for debt capital markets and for non-bank lending. In the burgeoning private credit market, we free lenders and borrowers from the operational burden of arranging and managing loan deals, irrespective of size and complexity, staying on top of cash flows and communications between lenders and borrowers, and serving private equity sponsors, private debt funds, banks and borrowers alike across a whole range of sectors. Crucially we ensure secure restructuring and enforcement.
Our new annual survey asks key professionals across the European private credit industry for their views and insights on how the market is developing, where they see the best prospects for growth and how they judge the opportunities against the risks.

We conducted our survey between 28th March and 2nd April as speculation was intensifying about the potential severity of US trade policy. We then resurveyed our respondents at the end of April to see if their expectations for 2025 had changed.

Methodology

We surveyed 210 professionals from across Europe, with a particular focus on the UK and Ireland, Germany, Switzerland, Benelux and the Nordic region. They work across the industry, including borrowers, advisers, primary and secondary debt fund management professionals and, private equity managers using private credit.

Introduction

Global capital markets reeled in April as the US government's most punitive tariff regime seen since the 1930s threw the global economy into chaos. The trade intensity of the US economy is now almost three times larger than it was back then, however, at 25% of GDP in 2023[1], while for the whole world it has doubled to 30%[2]. This means the impact of the tariffs on the economy of the US and its main trading partners is likely to be much more significant. For example, in the US, the tariffs initially announced (then paused) were equivalent to a tax rise of 2.3% of GDP compared to 0.5% in the 1930s, a dramatic fiscal tightening that would pull significant demand from the economy. China clearly is the main focus, but Europe is also in the direct line of fire. Tariffs are inflationary, in the US at least, but with the odds on a recession having shortened dramatically, the bond markets are signalling the probability that interest rates will have to fall sharply to offset the contractionary forces. The US Federal Reserve is not yet convinced cuts would be wise. Separately a steepening yield curve reflects a damaging loss of confidence in policy stability, compounded by threats (now rescinded) to Fed independence - a salutary reminder to the US government that the bond markets can successfully intimidate everyone.

For the credit markets, lower policy rates mean cheaper financing, all other things being equal, but the steepening yield curve is bad news for loan pricing. Moreover, an economic shock of this magnitude directly impacts credit quality and is likely to lead to a tightening of credit conditions. We have already seen corporate bond spreads widening sharply compared to sovereign debt and in the midst of the early April market turmoil corporate bond issuance seized up altogether while investors and issuers waited to see if market conditions would calm down again. Certainly, investors will discriminate carefully between sectors more directly affected by the trade war. We should nevertheless remember that for credit investors, a weakening economy presents opportunities as well as threats, for example distressed debt and special situations tend to come to the fore more.

It is important to keep a cool head in turbulent times and remember that economic downturns and economic growth take place at the margin. Growth does not require everyone to do a lot more – it just needs some to invest, hire or spend more. Similarly, downturns do not signify an economy collapsing but usually relatively small reductions in activity in a few sectors that together can add up to lower GDP. In other words, most companies continue much as they intended to – planning projects for the future and financing them, often with loans.

Private credit is no different. We surveyed market participants just before "Liberation Day" and then checked in with them again a few weeks after to see if their opinions were changing. Our survey finds market participants optimistic about the year ahead, with growth expectations only trimmed slightly after April's turmoil though there are clear notes of caution too.

> "It is important to keep a cool head in turbulent times and remember that economic downturns and economic growth take place at the margin."

1 World Bank https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?locations=US

2 UNCTAD https://unctad.org/publication/global-trade-update-december-2024

Viewpoint
Seeing beyond the squall

by Cato Holmsen

CEO Nordic Trustee & Global Head of Ocorian Capital Markets

Since we began work on the research for this publication at the end of March, the tariff wars have ratcheted up and de-escalated, stock and bond markets have corrected and rebounded, and forecasts for economic growth in the US, Europe and around the world have changed with dizzying speed.

Yet the private credit market has stoically looked beyond all this turmoil. Our survey shows that expectations for lending volume growth across private credit professionals of all kinds have barely changed.

For those of us with daily insight to the corporate credit markets, this is expected, but for corporate borrowers and outside observes it might not be quite so intuitive. In volatile times it might be useful to reflect on the different nature of alternative sources of corporate credit.

Broadly speaking banks tend to be the first port of call for corporate borrowers. Finance can be structured according to the borrower's needs, and the cost of corporate debt is often lower than in the listed bond markets or private credit. However, banks tend to be more conservative lenders, often limiting leverage, requiring extensive security packages and demanding covenants to limit or shield the banks' risk from macro-economic downturns.

Listed bonds (secured and unsecured) are usually an efficient source of additional debt financing beyond the banks when capital market conditions are stable. Over time the bond markets have become a substantial and attractive source of corporate debt financing, but in volatile markets bond investors become fickle, credit spreads increase and the ability to raise or refinance debt may temporarily disappear.

Private credit, by contrast, tend to see through short-term capital market volatility. This is because private credit lenders tend to conduct deeper due diligence compared to banks and bond investors to better understand and price the specific borrowing company's exposure to various risks. This makes for very well-informed lending decisions, stress-tested for changing macro-economic scenarios. While private credit tends to price their credit risks somewhat higher than both banks and bond investors, they offer corporate borrowers a more flexible credit structure better tailored to the specific situation and needs of corporate borrowers.

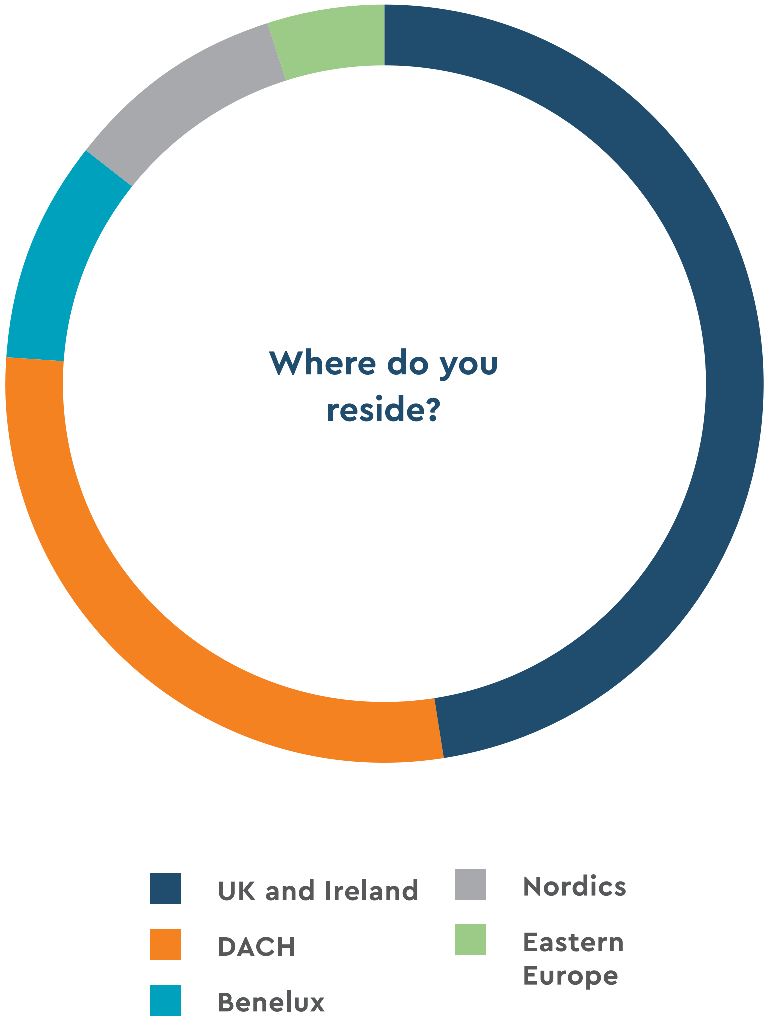
No wonder, therefore, that private credit has emerged as a significant and rapidly growing source of financing for European corporations, particularly for mid-sized and smaller companies, and for leveraged buyouts. Private credit funds have established themselves as a permanent and increasingly vital part of the European corporate financing landscape, offering tailored solutions and certainty of funding.

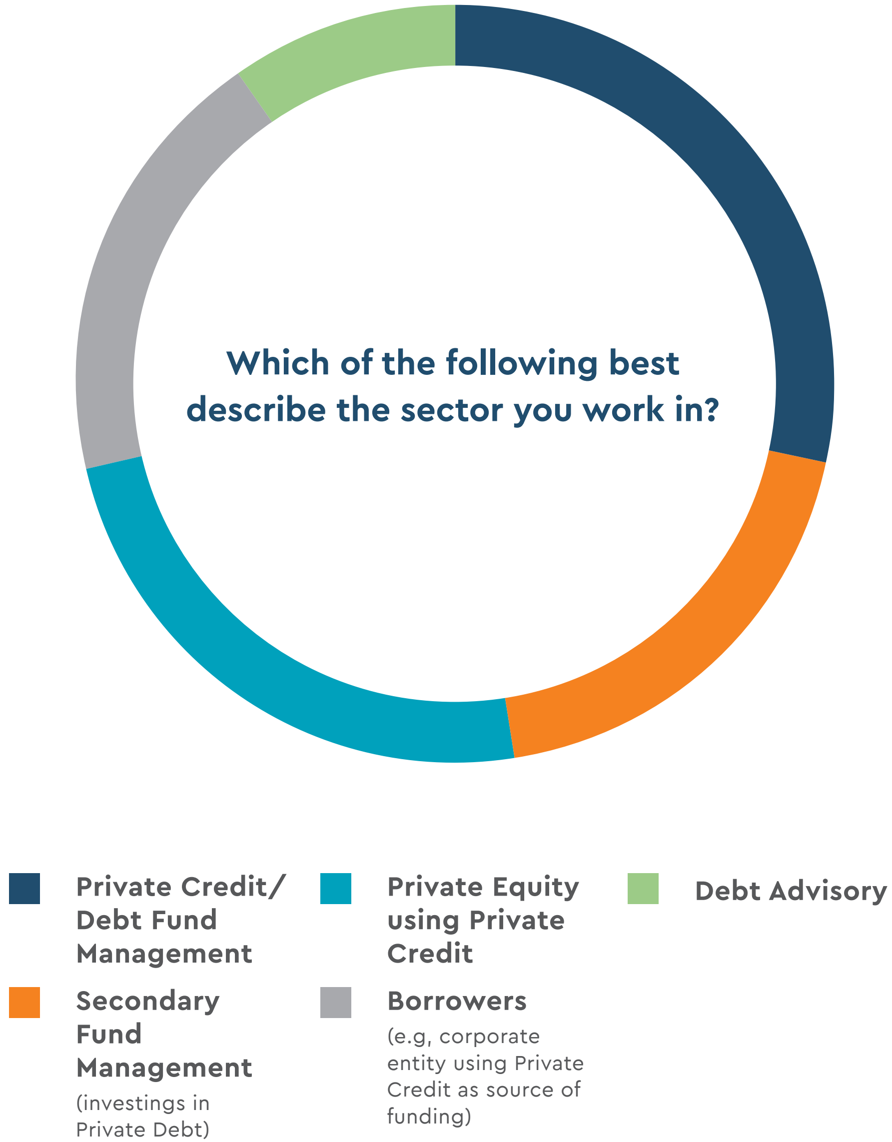
Of course, private credit is not entirely immune to economic recessions. If short-term disruption in public markets turned into a protracted tailspin or the real economy slid into a prolonged slump, private credit lenders will also increase their credit spreads, become more conservative with respect to leverage, and for a period probably reduce their lending volumes as well.

But this is not where we are today. Certainly, the trade wars have not been settled, though the signs are increasingly clear that the US administration does not have the stomach for a lengthy fight. Doubtless there is more upheaval to come, but private credit can see beyond the squalls.

> "Private credit funds have established themselves as a permanent and increasingly vital part of the European corporate financing landscape, offering tailored solutions and certainty of funding."

Our respondents





Overview

Momentum in private credit is strong, and growth is expected

Credit professionals began the second quarter of 2025 in an optimistic spirit, despite it being clear the US was about to impose a severe tariff regime. Momentum helps explain the positive sentiment – deal volumes are up 8.5% over the last 18 months and respondents were nearly unanimous (95%) in their expectation of further growth. When compared to the last three years, they expected volume growth of 5.8% this year. Compared to last year, they are more positive still – and borrowers were more bullish than lenders, though debt advisers showed greater caution. There were also some notable regional differences, with greater optimism in the UK and Ireland and greater caution in Germany and France.

We were surprised by how sanguine the industry remained in the face of disruption to the global economy and capital markets caused by US policy announcements throughout April. At the beginning of the month – just before "Liberation Day" the weighted average expected growth this year compared to last year was 11.0%. This only dropped to 9.9% when we asked the question again a few weeks later.

The manifold effects of April's trade conniptions are ricocheting around financial markets at breakneck speed. There is no point trying to predict what the US will do next, other than to note that Washington blinked the moment the bond markets stirred. That powerful discipline may yet lead to a restoration of sanity, in which case private credit's optimism will prove well founded. If, instead, the US and China drag the world into a recession then the industry's focus will change.

But uncertainty and risk aversion have risen

The increase in uncertainty did show in responses to our survey. Risk aversion has risen, with almost half (47%) seeing terms increasingly favouring lenders. Specialist lending such as distressed debt topped the league of strategies expected to grow fastest this year, while more than eight in ten expected an increase in loan default rates, with private credit fund managers most concerned.

Private credit to benefit from flow back from traditional lenders

One outcome of global turmoil could be lower interest rates. If bond markets settle and credit spreads narrow again, then private credit will benefit disproportionately compared to bank lending and bond issuance. 80% of respondents recognise that private credit will benefit from flow back from banks and bonds under these conditions.

"The manifold effects of April's trade conniptions are ricocheting around financial markets at breakneck speed. There is no point trying to predict what the US will do next, other than to note that Washington blinked the moment the bond markets stirred."

Despite short-term uncertainty, medium-term outlook is bullish

The short-term outlook may be unusually opaque, but industry professionals are clear-sighted about the medium term (up to five years hence). They see strong borrower demand for private credit driving volumes, with increased investor allocations providing the capital required, in particular noting the appetite of pension and sovereign wealth funds to become more involved. The overwhelming majority (82%) also believed integration with private equity would grow, as these investors partnered with private credit managers to finance deals. Certainly, they agree the private credit market is underserved, particularly in the crucial mid-market private-company segment. Equally, risk aversion was expected to abate and competitive pressures to build. Borrowers were most likely to benefit from less restrictive covenants due to this rising competition. All this could be expected to drive growth over the medium term, our survey showed.

Cross-border deals increasingly important

Integration of the European private credit market is a clear theme. 90% of professionals expected to see more cross-border activity, though borrowers tended to be a little more parochial in their view.

Technology, property and renewables leading growth

From a sector perspective, technology, property and renewables top the tables for medium-term growth, with supply-chain finance viewed the key candidate for more securitisation. Within the infrastructure sector, respondents mostly felt there was an adequate supply of finance but that private credit fund managers would nevertheless allocate more capital to the sector. Indeed, the private credit market was expected to be the second most important lender to green infrastructure projects over time, narrowly beaten by banks. Construction finance is currently the strongest segment within infrastructure, but industry professionals saw senior loans as likely to grow most robustly medium term.

Industry wants more effective regulation but expects greater volume of rules instead

Regulation does constitute a pain point for the industry, beating all the other major challenges it faces. A majority of professionals want to see better regulation, but they expected it simply to get tighter rather than necessarily reformed. Though confidence in compliance is good, there was thought to be room for improvement and that this might drive the need for more outsourced support. Considering retail investors, respondents thought HNW investors were adequately initiated on the complexity of private credit, but there is clear anxiety about the risk that the asset class could be mis-sold with the reputational fallout that would cause.

European ESG requirements rising, but borrowers expect unlikely payoff

Despite the trend to the contrary in the US, respondents expected ESG requirements in the European market to grow, with funds pushing borrowers to increase their ESG focus. Notably, borrowers do not seem to expect this pressure to the same extent. Borrowers were also significantly more likely, perhaps overoptimistically, to imagine that good ESG credentials would lower their cost of finance.

Data management is mission-critical – budgets rising

As the industry has grown, so too has its reliance on good data. But although most thought they managed their data well, there is a clear feeling that more investment is needed to keep pace with developments. Budgets are set to rise by almost a third over the next couple of years, with private credit funds investing particularly heavily. Digital platforms are proving a helpful addition, especially in functions such as credit risk assessment.

Loan agents increasingly supporting the industry, but clients want more transparency and sense of control

Loan agents are becoming increasingly important. One third of professionals already work with them but five out of six expected to do more business. The key barriers to greater adoption of loan agents were a perceived loss off transparency and control, while speed and responsiveness were considered the most valuable qualities loan agents could possess. All this suggests the development of digital platforms could help grow the role of loan agents significantly.

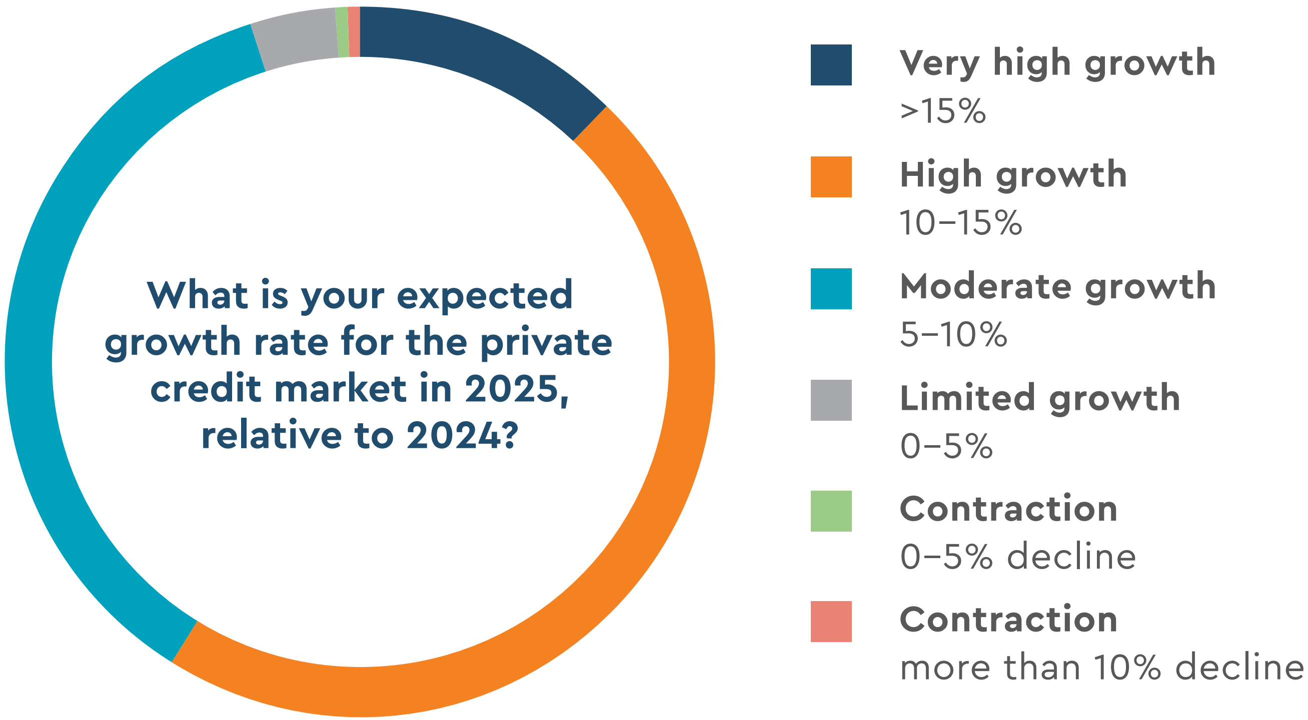
> "Loan agents are becoming increasingly important. One third of professionals already work with them but five out of six expected to do more business."

Findings and key themes

Market growth, the year ahead

2025 expected to be better than 2024

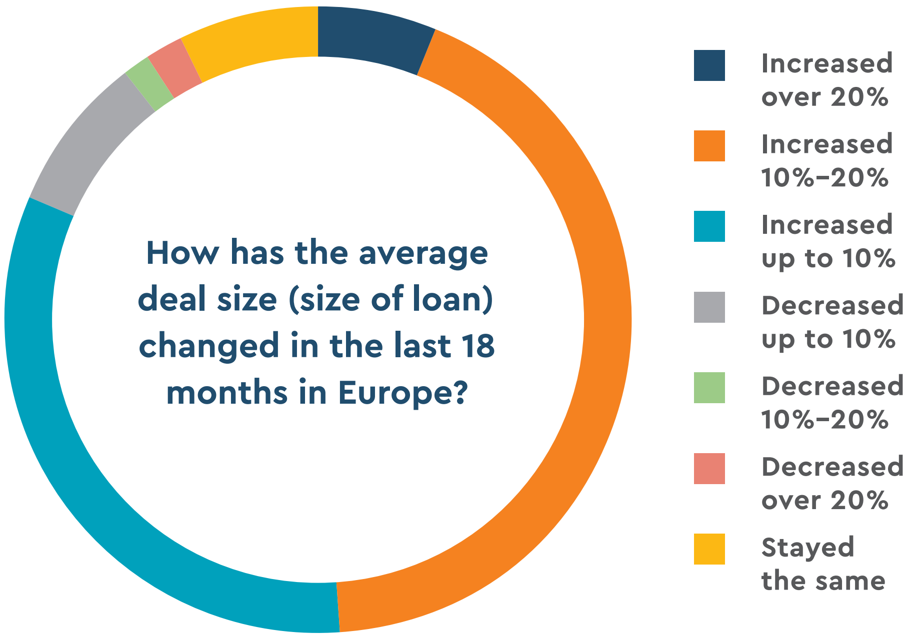
Credit professionals are optimistic about the market for 2025 compared to 2024,. More than nine-tenths (95%) expect growth of at least 5% this year on last year's levels with almost three fifths (59%) expecting more than 10%. Across the industry the average growth expectation was 11.0% for 2025 when questioned just before "Liberation Day's" tariff announcements. We checked in again with our respondents three weeks later and found that they remained optimistic. 95% still expected growth of at least 5%, with the average expansion pegged at 9.9%, just 1.1 percentage points lower.



Notably, borrowers were more optimistic than suppliers of credit. More than two thirds of borrowers (68%) expected high or very high growth this year (10% or more). Debt advisory professionals were the least optimistic, with just half expecting high or very high growth; it would be wrong to characterise them as pessimists, though – none expected contraction. Opinion was most divided among private equity investors. Although most expected growth, a small minority (4%) expected the market to shrink.

From a regional perspective, German professionals were the most pessimistic, doubtless reflecting the protracted recession in that country. 5% expected outright contraction, while a further one sixth thought growth would be 5% or less.

The UK & Ireland was the region expected to see most growth in lending volumes in 2025. This perhaps partly reflected the location of respondents, but it was still far ahead of France and Italy for expected growth, despite similar-sized economies.



Deal size up 8.5%

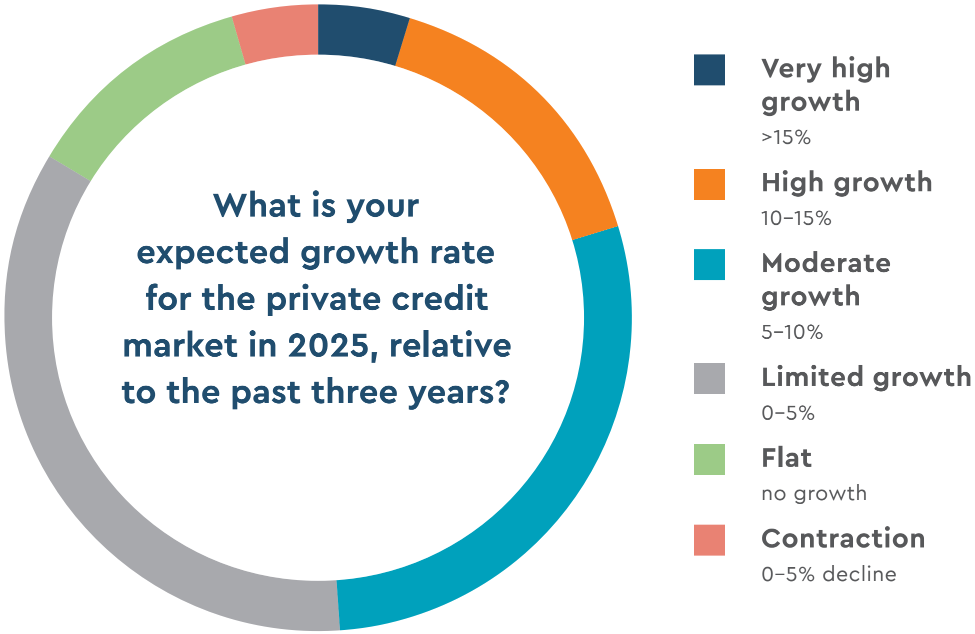
On average the professionals in our survey have seen deal size rise 8.5% over the last 18 months. Almost half (49%) have seen deal sizes rise more than 10% and only a handful (11%) have seen them fall. Those in private credit fund management and advisors have seen deal sizes grow more than private equity managers that use credit.

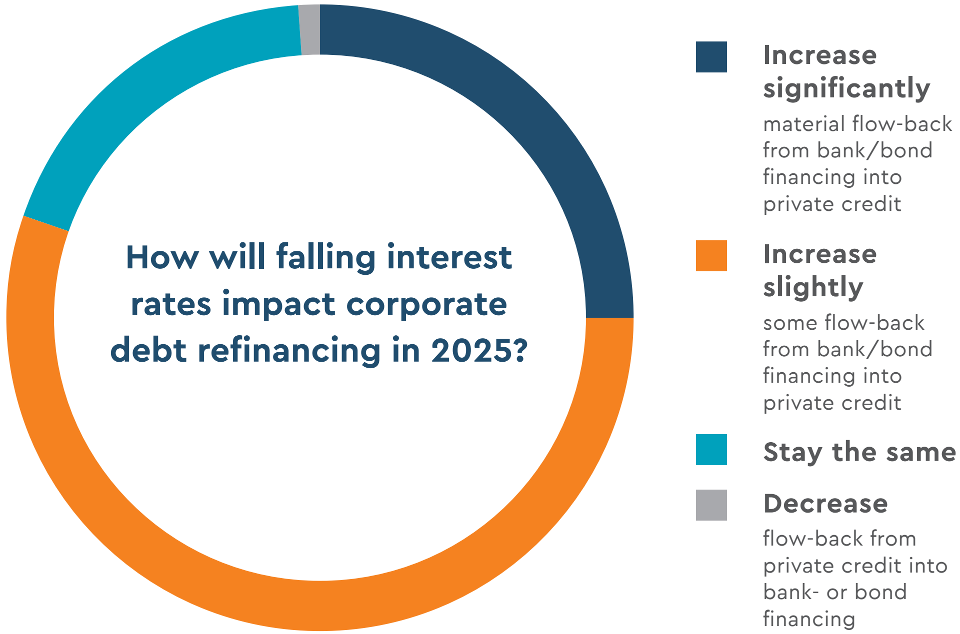
Investment strategies – specialty financing tops the growth league

Specialist lending such as distressed debt or project finance topped the league of strategies expected to grow fastest in the year ahead, closely followed by debt types such as senior or mezzanine debt. M&A finance notably ranked low, suggesting professionals did not have much confidence in corporate activity over the year ahead.

Which investment strategy do you expect to see growing the most in 2025?

1	**Specialty financing** (e.g. distressed debt, project finance, securitised structures, etc.) **or specialty finance**
2	**Debt types** (senior or super-senior debt, junior debt, mezzanine debt, unitranche debt, etc.)
3	**Sector-focused debt strategies** (industry sectors)
4	**Deal type strategies** (M&A financing)
5	**Opportunistic combinations of the above** (i.e. no clear strategy or focus)





Expectations for 2025 are more moderate when compared to the last three years rather than just 2024

When asked to compare conditions in 2025 to the last three years, rather than just to 2024, professionals were still positive, but markedly less so. Across the market, they expected 5.8% growth in 2025 compared to between 2022 and 2024. Just one fifth expected growth of at least 10%, while almost one sixth (16%) thought the market would be flat or smaller this year. Managers of private credit funds were the most optimistic, with 2025 expected to be 9.0% better. Managers of secondary debt funds and debt advisers were the least bullish, expecting growth of 3.5%. They were also more likely to expect the market to be smaller this year.

Default rates expected to rise

More than eight in ten (82%) of the professionals we surveyed expected an increase in default rates in the year ahead. One tenth expected this to be significant. Private credit funds were the most likely to be worried about a significant increase, while secondaries were last worried. Concern was greatest in Germany and Eastern Europe.

Lower interest rates benefit private credit disproportionately

Market participants believe that lower interest rates would prompt a switch of financing from bonds or bank lending to private credit. A quarter thought such a flow back would be significant.

The medium-term outlook

Technology sector shows brightest prospects

Technology is the sector set to see the strongest direct lending growth in the next 3–5 years in Europe. Property and energy & renewables are next in line, followed by infrastructure and healthcare. Consumer sectors and project finance are ranked least likely to see expansion. Notably the investor base was most likely to rank technology first for growth; advisors were more split across industry.

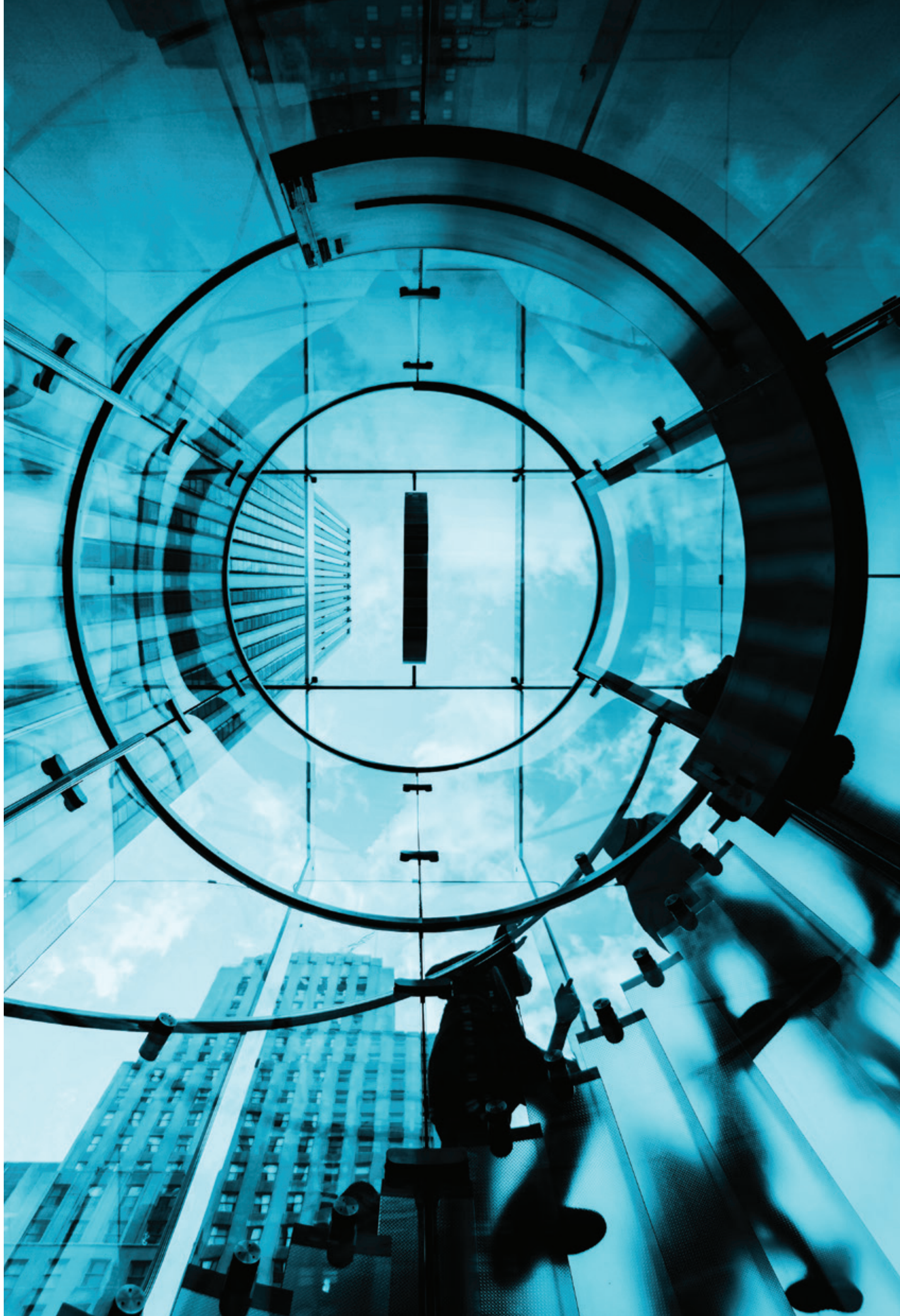
Which sectors do you expect to grow the most in direct lending over the next 3–5 years in Europe?	
1	Technology
2	Real Estate
3	Energy & Renewables
4	Infrastructure
5	Healthcare
6	Consumer Goods
7	Project/M&A Financing (across industries)
8	Other

Borrower appetite is driving growth

Demand for private direct lending was ranked the clear favourite driving growth, with professionals from different segments of the industry unanimously putting it first. Falling interest rates came a distant second, though price sensitivity clearly is a factor, as respondents noted that expensive bank lending along with a reduced appetite by banks to lend were almost equally important. There was more frustration among respondents in the UK about the appetite of traditional banks to supply credit than there was in most other markets in Europe.

What will be the top driver of direct lending growth in the next 3–5 years in Europe?

1	Increased demand for private capital
2	Falling interest rates
3	Uncompetitive pricing or reduced credit appetite in traditional bank lending
4	M&A activity
5	Regulatory changes
6	Increased risk appetite and/or more competitive terms from private credit lenders

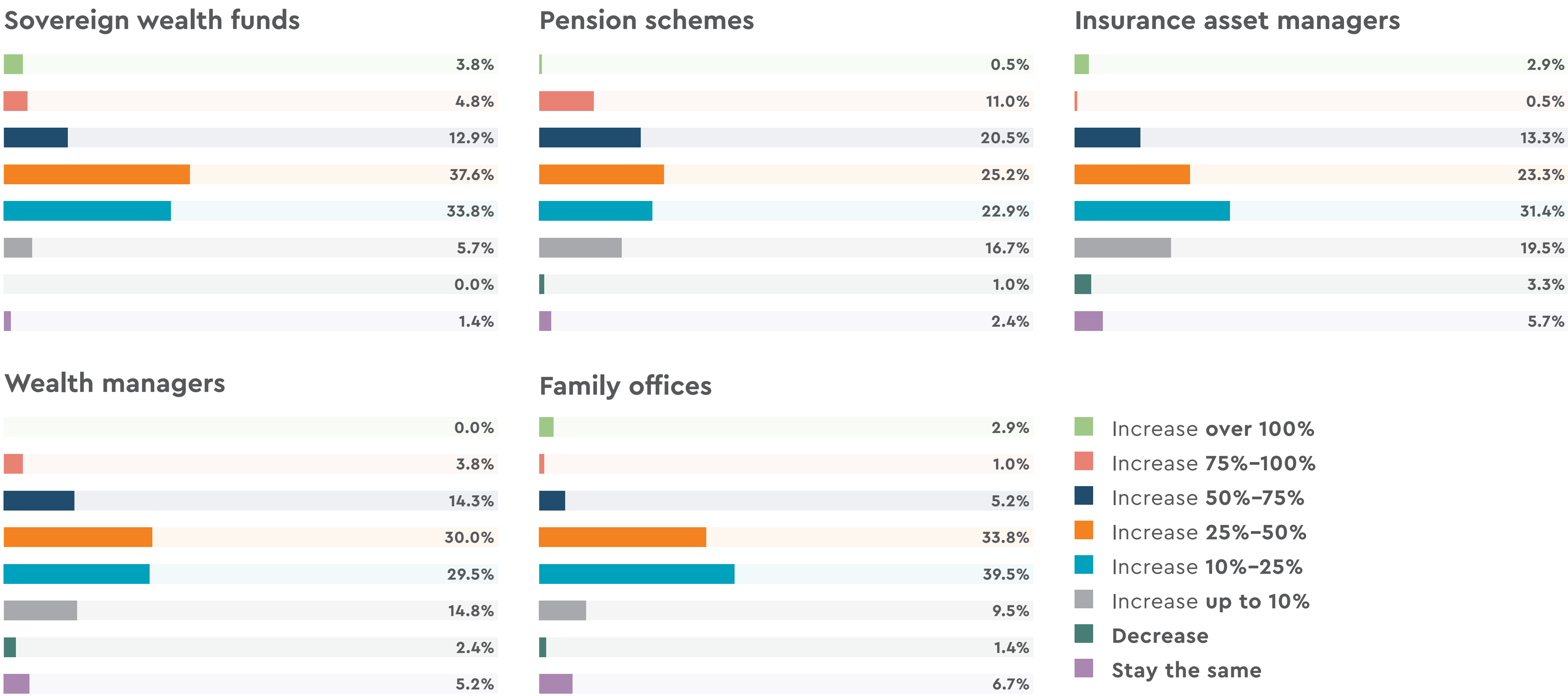


Investor allocations to private credit are rising from all investor groups

All categories of investor were expected to increase their allocations to private credit in the next two years, and by significant amounts. Industry professionals expected pension funds and sovereign wealth funds to make the largest allocation shifts – an average of 37% in each case. They expected a 29% shift from wealth managers and 27% from insurance companies and family offices.

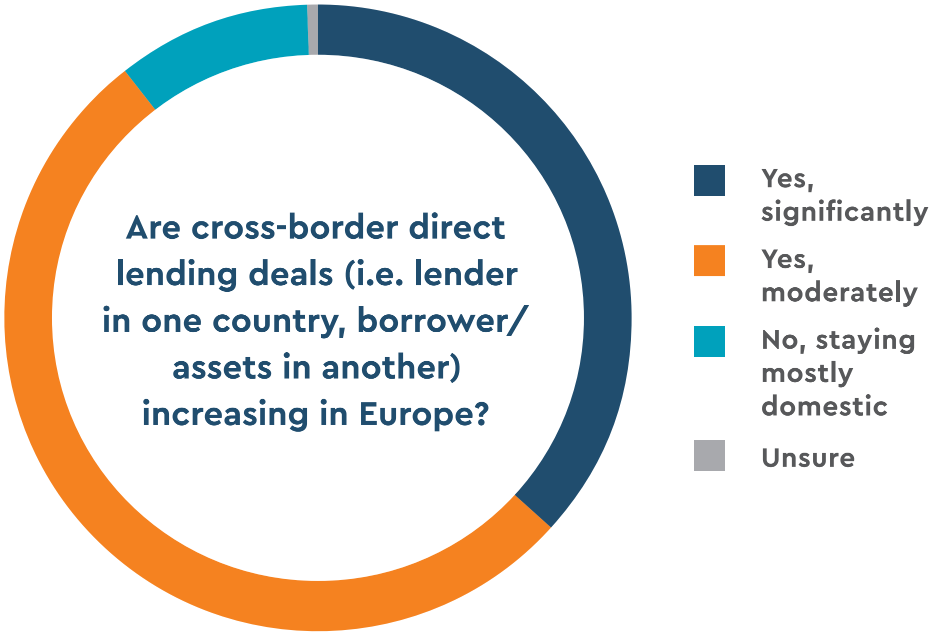
Private credit fund managers expected the biggest allocation shifts across different types of investors, while debt advisors tended to be more conservative.

How do you expect LPs and other funding providers to change their funding allocations to private credit in the next 24 months?



Cross-border finance is increasingly important

Nine in ten respondents (90%) see cross-border lending deals increasing in importance in Europe. Almost four in ten (37%) felt this was a very significant trend. There were differences of opinion around the region. For example, Swiss respondents were much more likely to see business remaining chiefly domestic, while Germans overwhelmingly saw cross-border deals increasing strongly. Borrowers were more likely to see the market as more domestic (18% v 8% among those with other roles), while secondary fund managers felt that importance of cross border deals was rising most significantly.



Supply chain finance tops the list for securitised non-bank lending

With global supply chains facing an even more dramatic reordering than they did at the time of Covid, industry professionals rank the securitisation of non-bank supply chain finance a clear winner over the next two years. Asset-backed finance and infrastructure are also considered good candidates for securitisation, while securitised commercial and residential property loans are considered least attractive; their association with the GFC has likely cast a long shadow.

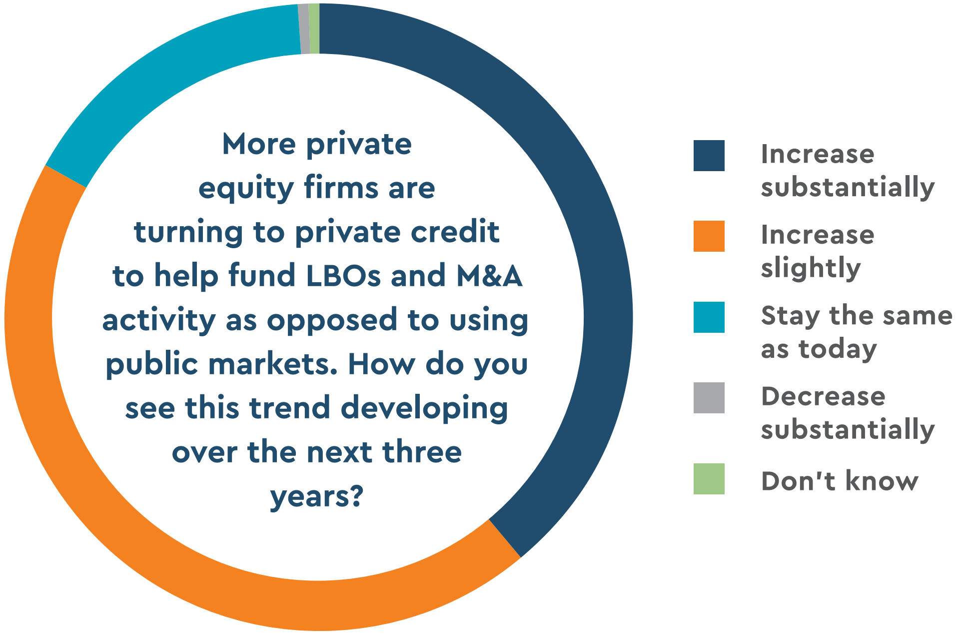
Lenders in private credit funds, private equity and secondary funds were most likely to favour supply chain finance, while borrowers and advisers ranked infrastructure finance and asset-backed finance top.

Which asset classes are expected to see the most significant shift in securitised non-bank lending over the next 24 months?

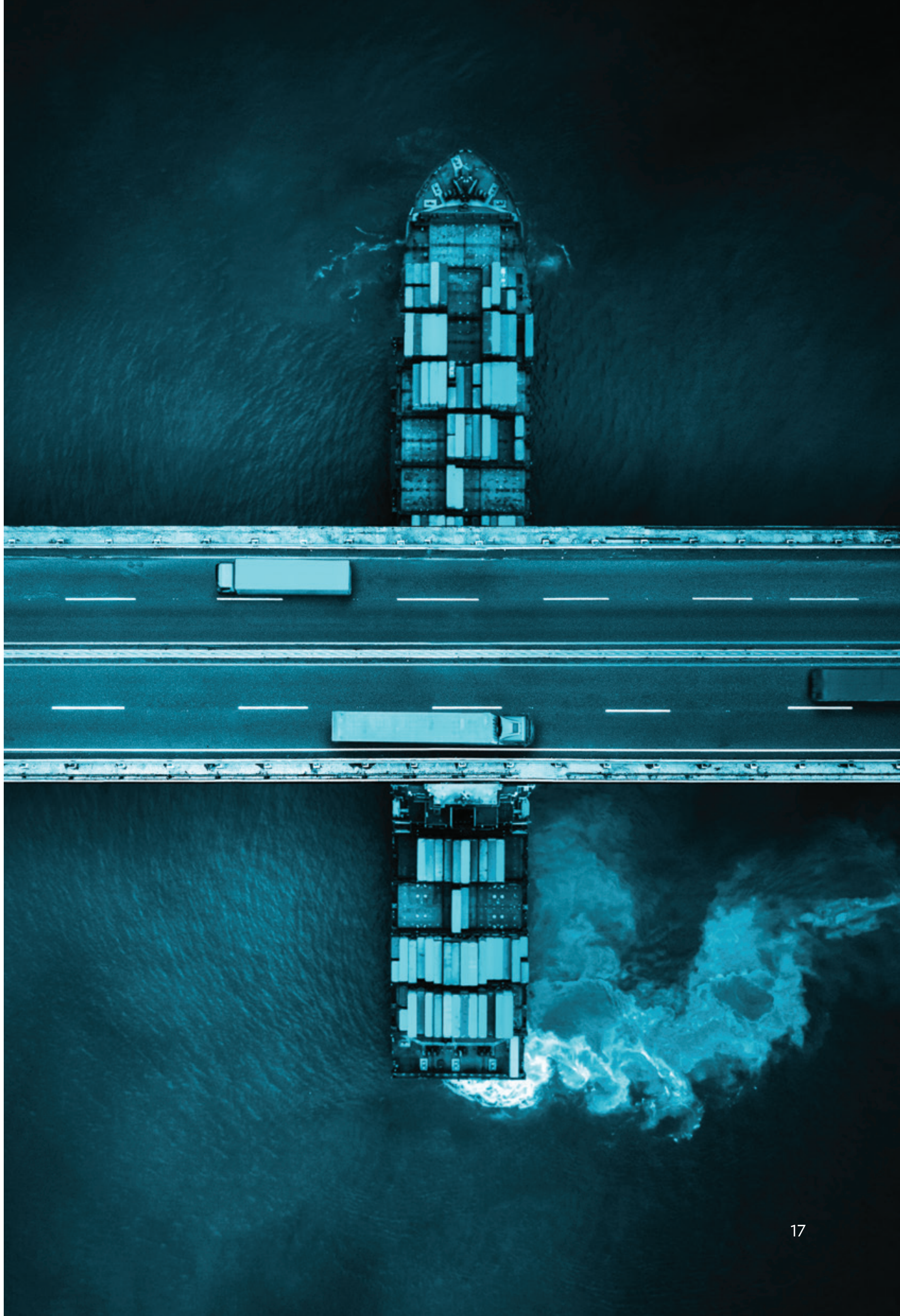
1	**Supply chain finance** (e.g. receivables financing)	4	**High-risk commercial real estate**
2	**Asset-backed finance** (e.g., aircraft loans, equipment leasing)	5	**Jumbo residential mortgages** (high LTV, nonconforming)
3	**Infrastructure/project finance** (5+ years' duration)		

Private equity firms expected to rely more on private credit to fund deals rather than public markets

83% of respondents agreed with this statement, with very little variation across professionals from different parts of the market.



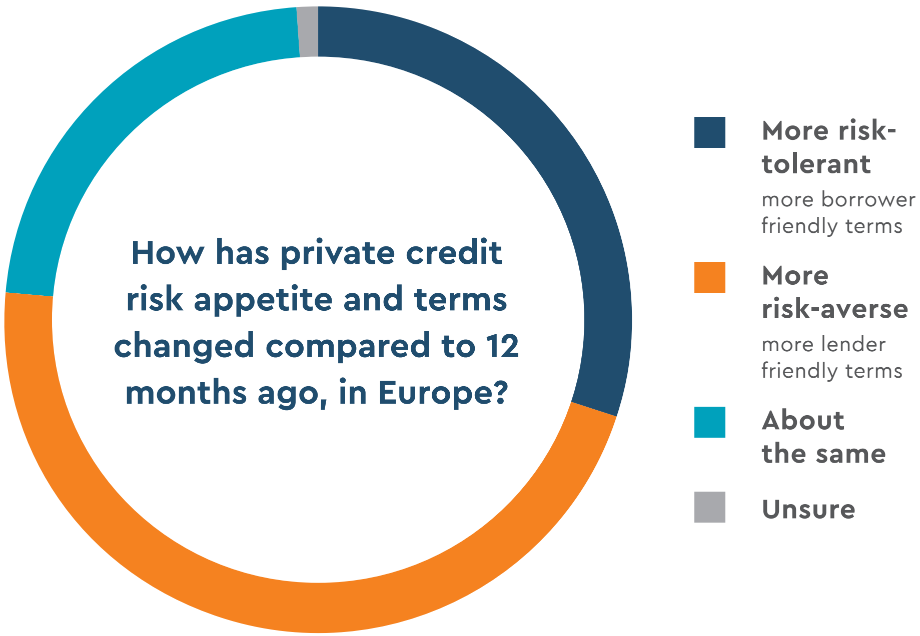
"Industry professionals rank the securitisation of non-bank supply chain finance a clear winner over the next two years."



Risk appetite

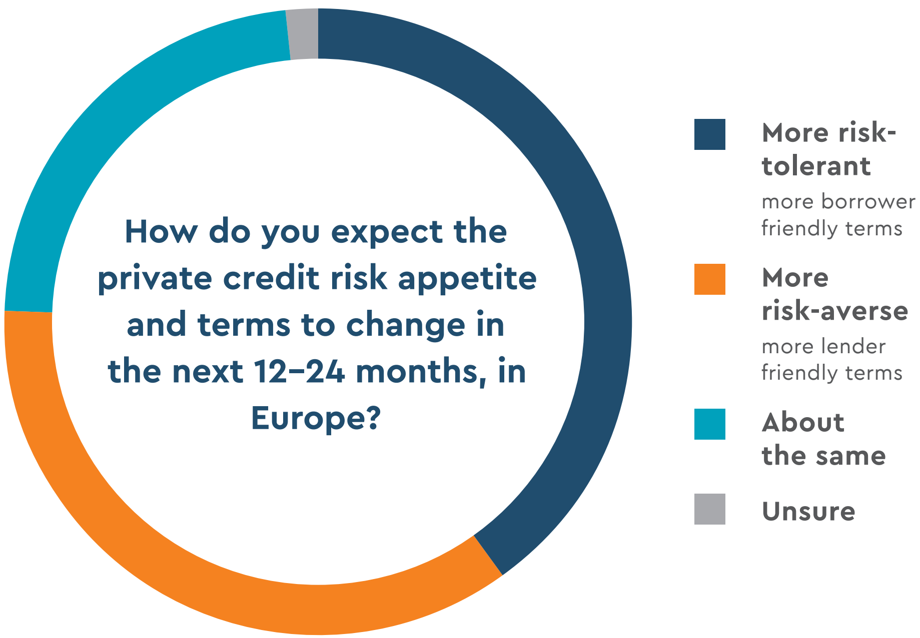
Risk aversion has risen over the last year

Respondents felt private credit risk aversion has risen over the last year, which on the face of it seems at odds with the expectation that growth will be strong. 47% thought terms were increasingly favouring lenders compared to 30% believing borrowers were being offered a better deal. This may mean wider margins for lenders, but it would typically squeeze volumes at the same time. Eastern Europe, Switzerland and the UK & Ireland were among the regions to feel risk aversion had risen, while in Germany respondents felt there was more tolerance of risk. Geography aside, however, there was broad agreement across different types of professional that risk aversion had risen in the last year.



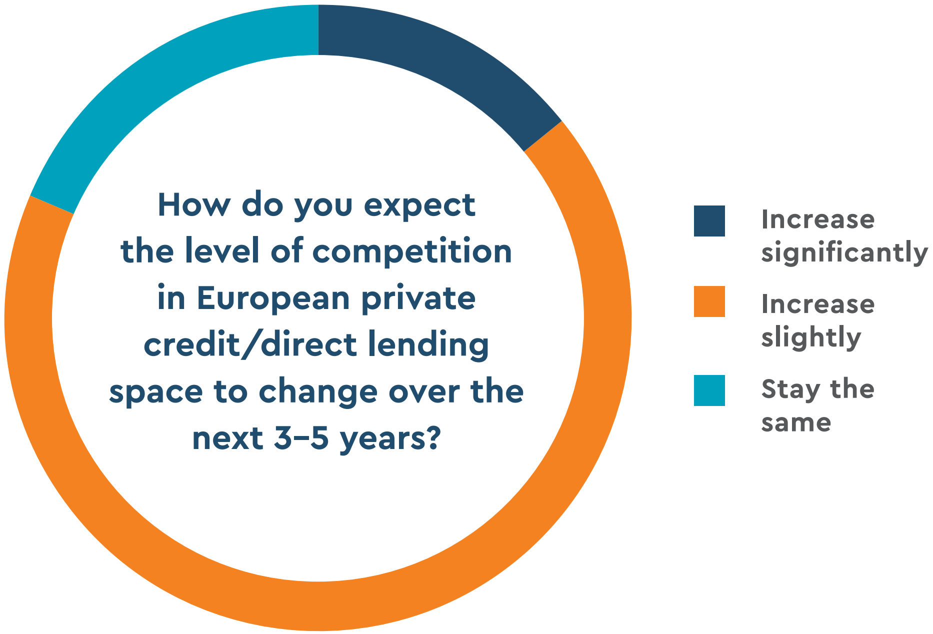
But is expected to abate

There was a general feeling that risk tolerance will decrease over the next two years. 40% believed this would transpire, outnumbering the 36% who saw risk aversion rising. Once again, Germans were among those most likely to expect attitudes to risk to relax. Borrowers and debt advisors were at odds with lenders over the likely progression. The former saw lender risk aversion rising, while the latter expected it to abate.



Competitive pressures

There is clearly doubt across the industry about how competitive it is. Almost three quarters (72%) thought the market was either relatively uncompetitive or only moderately so. Unsurprisingly private credit funds were the most likely to detect competitive pressures, but borrowers, perhaps unexpectedly, were no more likely than other groups to feel the lending market was uncompetitive.



Competitive pressure is expected to build over the next 3–5 years – one in seven even thought it would rise significantly. Only one fifth expected no change.

> "Unsurprisingly private credit funds were the most likely to detect competitive pressures."

By a wide margin, respondents believed that the headroom available on covenants was the most important competitive factor. Attractive duration and price followed behind.

What is the most important competitive factor in private credit among direct lenders in your region in Europe?

1	Substantial covenant headroom
2	Attractive duration
3	Lowest possible credit margin
4	Highest possible leverage
5	Tailor-made credit structure
6	Simple security package
7	No amortisation and/or PIK interest
8	No or limited dividend restrictions

Market structure

Privately owned mid-market companies are most active borrowers but are underserved

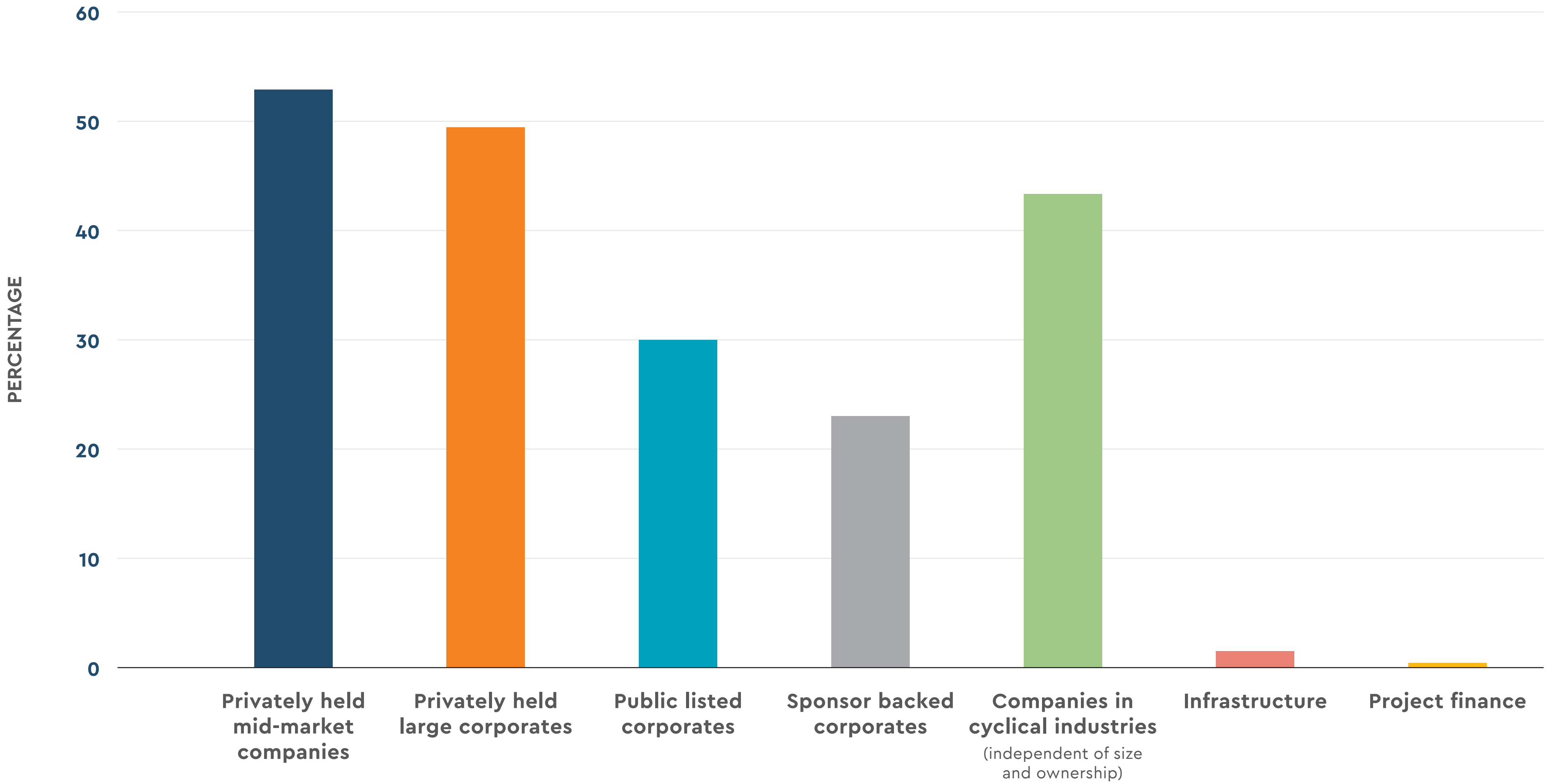
Unlisted mid-market firms are the most active borrowers according to our respondents, reflecting their lack of access to capital markets and ongoing difficulty for some in accessing bank finance. German respondents favoured them in particular, which fits with the prevalence of the Mittelstand in that country. Infrastructure projects are a key sector – not just traditional roads and bridges, but data centres and flexible power grids too; it is considered the second most active sector. Privately held large corporates firmly inhabit the private capital ecosystem, so they naturally also turn to private credit too. They came third in the rankings.

"Unlisted mid-market firms are the most active borrowers according to our respondents, reflecting their lack of access to capital markets."

Which market segments are most active in European direct lending?	
1	**Privately held mid-market companies**
2	**Infrastructure**
3	**Privately held large corporates**
4	**Project finance**
5	**Public listed corporates**
6	**Sponsor backed corporates**
7	**Companies in cyclical industries** (independent of size and ownership)

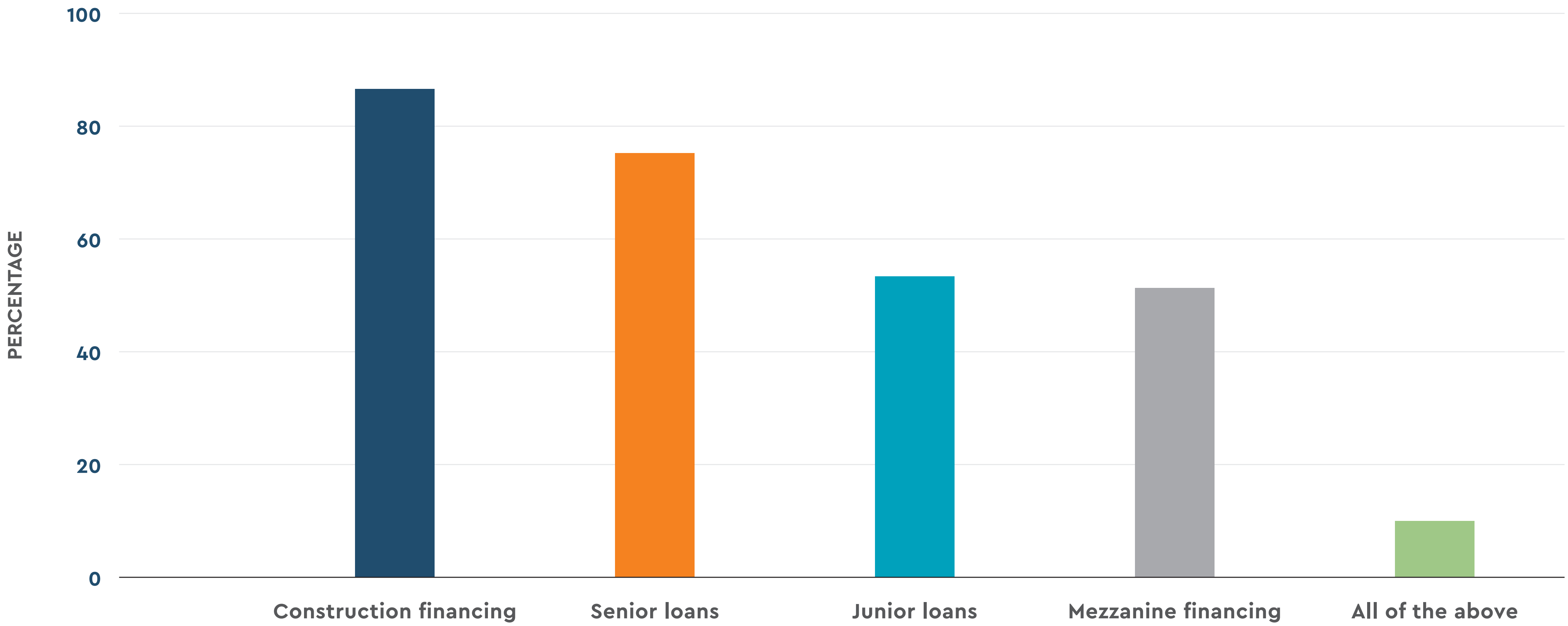
Despite their importance, mid-market private companies are underserved by private credit, according to more than half the respondents in our survey. 50% also thought large private companies were insufficiently covered by private creditors. This suggests there is ample room for the sector to grow – active appetite combined with insufficient market penetration is an attractive combination.

Which two borrower segments are most underserved by private debt providers in Europe?



Focus on infrastructure

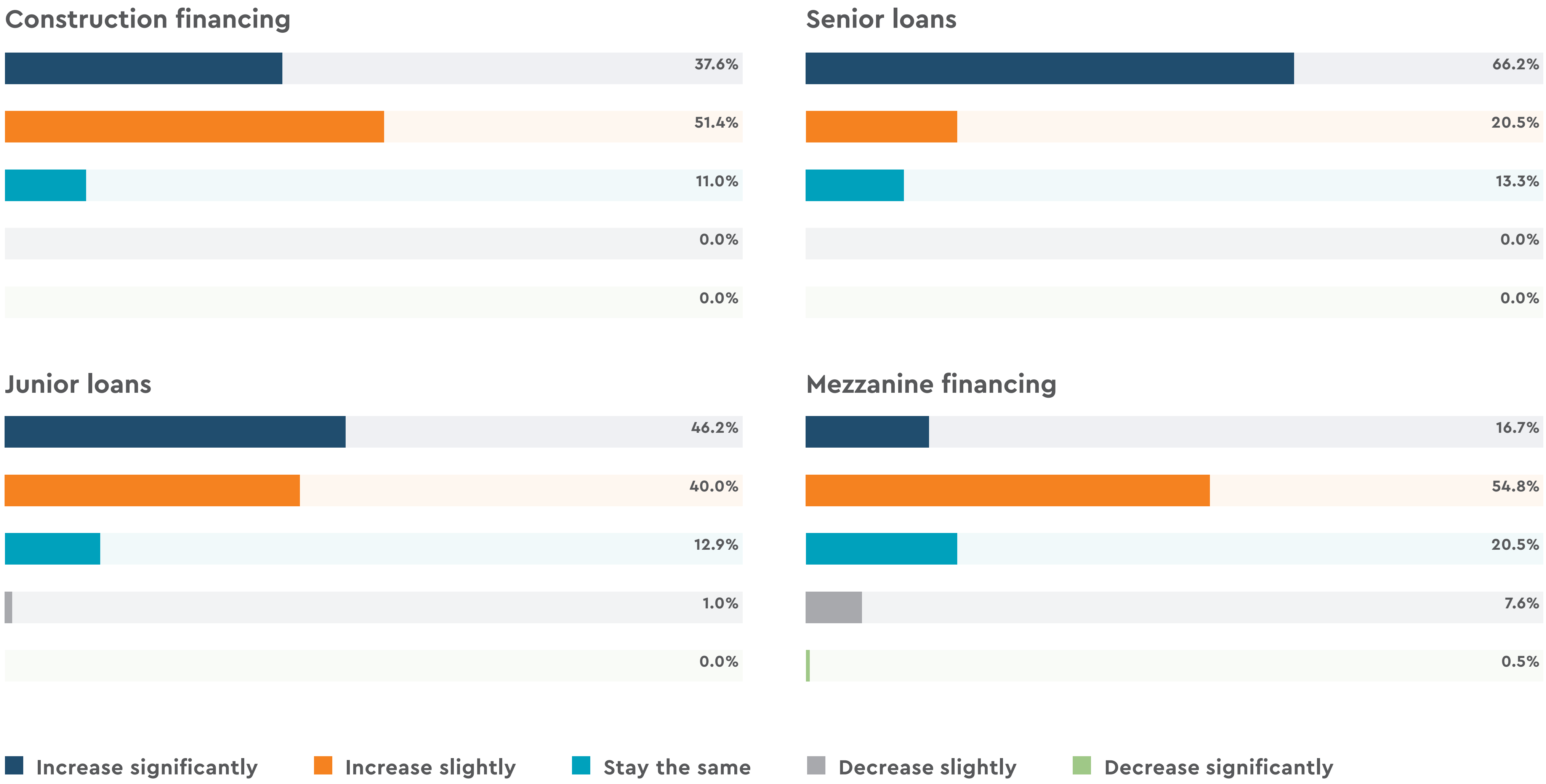
Thinking specifically about the infrastructure sector, from a lender's perspective, which three loan types are in highest demand today?

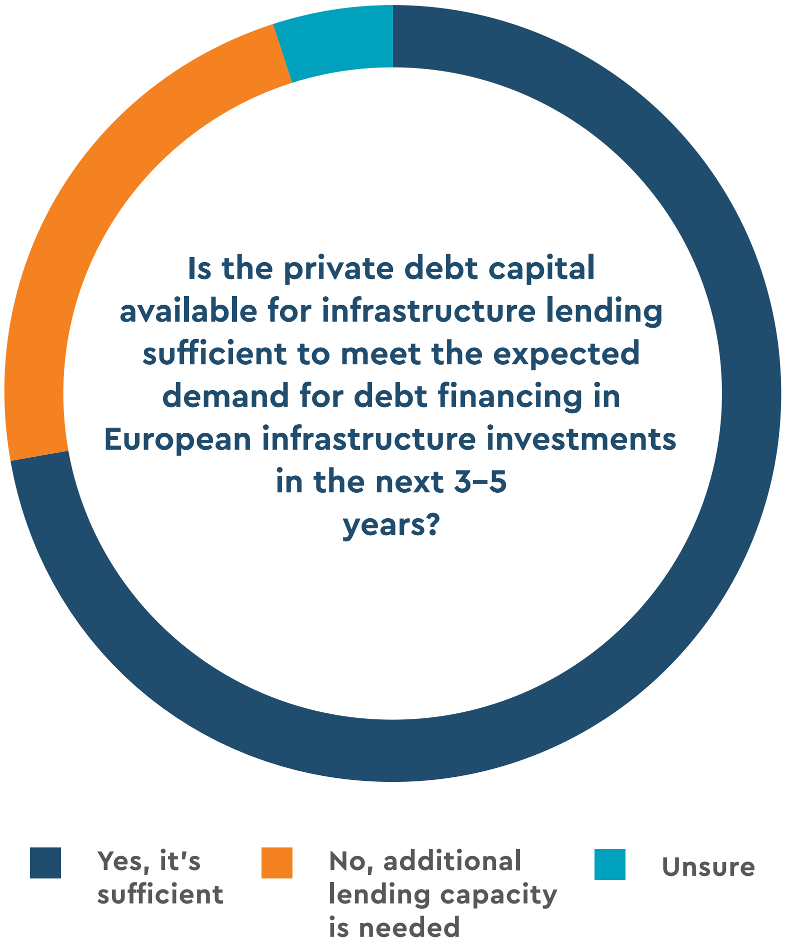


Finance for the construction phase shows the strongest demand at present, but it is the senior loan segment that is expected to show the strongest growth over the next two years. Although every segment is expected to grow, there was least confidence about mezzanine financing.

The industry is confident there is an adequate supply of credit for infrastructure projects over the next 3–5 years. Almost three quarters (72%) said this was the case. Borrowers and secondary investors were more likely to see a need for more finance.

Thinking specifically about the infrastructure sector, from a lender's perspective, how will demand for the following loans change in the next 24 months?





There was a strong feeling that private credit fund managers would increasingly look to finance infrastructure initiatives over the next three years.

Financing for green infrastructure projects is nevertheless expected to rely on a diverse mix of lenders. Banks were considered most likely to play the key role, with private credit funds ranked second and government finance third. Institutional investors, such as sovereign wealth or pension funds were perhaps surprisingly not considered core players, given their prominence in the industry conversation.

"Financing for green infrastructure projects is nevertheless expected to rely on a diverse mix of lenders."

Who do you believe will be the top 3 providers of "green financing" over the next five years?

1	**Traditional banks, as part of sustainable lending initiatives**
2	**Private credit funds, driven by ESG mandates and impact investing**
3	**Governments and public sector institutions through green bonds and subsidies**
4	**Private equity-backed infrastructure funds**
5	**Institutional investors** (e.g. pension funds, sovereign wealth funds)
6	**Corporate issuers using green bonds and sustainability-linked loans**
7	**No clear "leaders"—financing remains fragmented**

Focus on regulation

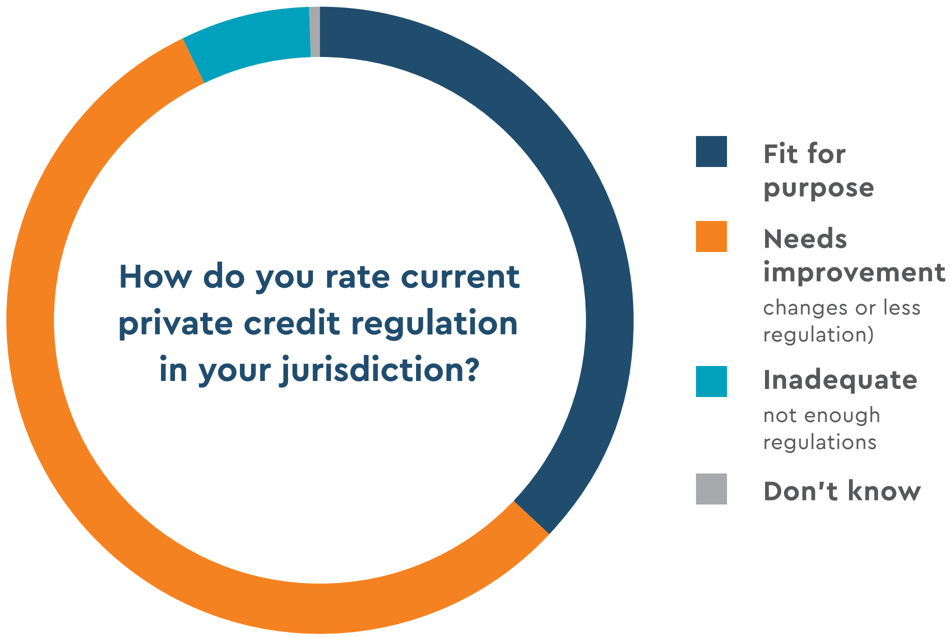
Regulatory constraints present the biggest challenge

Grappling with tight and changing regulation is the biggest challenge industry professionals face. Specialist private credit funds felt this most keenly. Access to high quality deal flow was a bigger issue for some other segments, particularly advisers, private equity funds and secondary funds, but regulation also ranked as very significant for most of these too, taking it to the top of the overall table.

There is still some work to be done to engage LPs with the asset class. As we showed above, investors are increasing allocations to the sector, but professionals, particularly the funds, feel there is some way to go to push the supply of capital to where they want it to be.

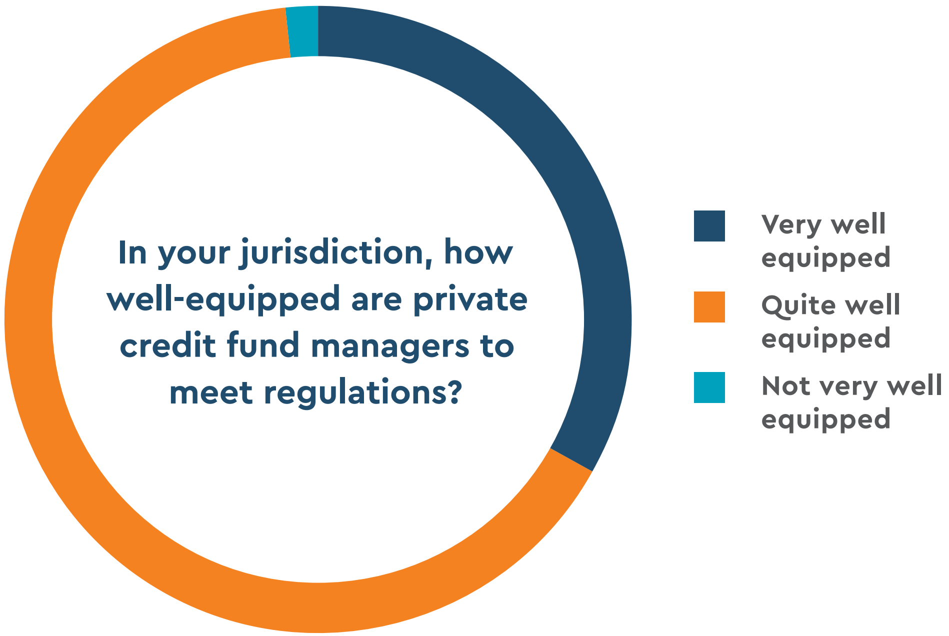
What are the top three operational or market challenges in direct lending today?

1	**Regulatory restrictions, regulatory changes or KYC/AML**
2	**Access to high-quality deal flow**
3	**Limited LP-/investor appetite**
4	**Deal origination/sourcing**
5	**Deal execution** (process efficiency or DD challenges)
6	**Credit risk management** (pricing and/or monitoring of credit risk)
7	**Opaque or complicated deal/syndicate structures**



Private credit regulation needs reform

A large majority (56%) of professionals want to see improvements in the regulatory framework, either in terms of less regulation or reform. Fund managers were most likely to want reform, while a majority of debt advisers felt the regulatory environment was working well. Professionals based in the UK or Ireland and Benelux were keen to see reform, while Germans were content that the system was working well. Swiss professionals were more evenly split. A small minority, clustered in the UK, Switzerland and Eastern Europe felt it should be tightened.



Confidence in compliance is good but there is room for improvement

Almost unanimously, the industry rated fund managers at least quite well equipped to meet regulations, but only a third thought they were very well equipped. Advisers had lower scores for fund managers, with only 25% saying they were very well equipped. The responses suggest there is possible room for improvement.

The industry expects regulation to increase

Despite already feeling the squeeze of regulatory burdens, four out of five professionals expect to see regulation increase in the next 12–18 months – one in seven significantly so. There is relatively little difference between professionals across various functions in the expectation for tighter rules, but borrowers and private credit funds expect greater stringency by regulators.

Increasing compliance and reporting driving need for specialist outsourced providers

To meet the challenge of growing regulation and client demand for more streamlined reporting, and perhaps in recognition that firms could be better equipped to handle the burden as we saw above, market participants expect reliance on specialist service providers to increase. Two thirds of respondents expected outsourcing to grow, and that firms would more likely rely on one key partner rather than engaging several specialist third parties. Only a very small minority, 7%, thought more would be handled in-house.

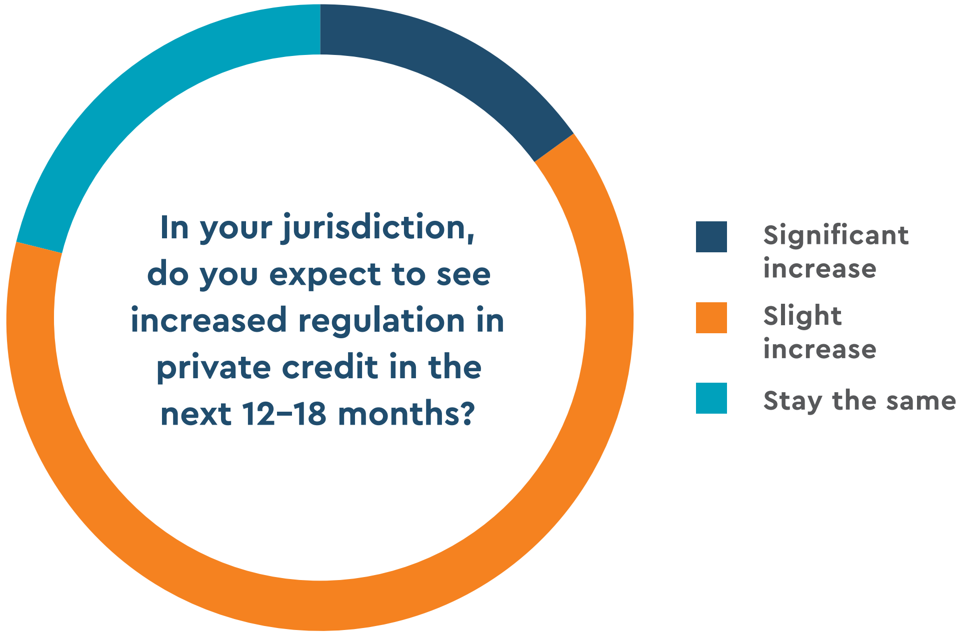
Perhaps surprisingly, those who thought the regulatory burden would only slightly increase were more likely to see a trend towards greater outsourcing (77%) compared to those who expected significant regulatory expansion (66%).

Private credit HNW investor base understands the asset class

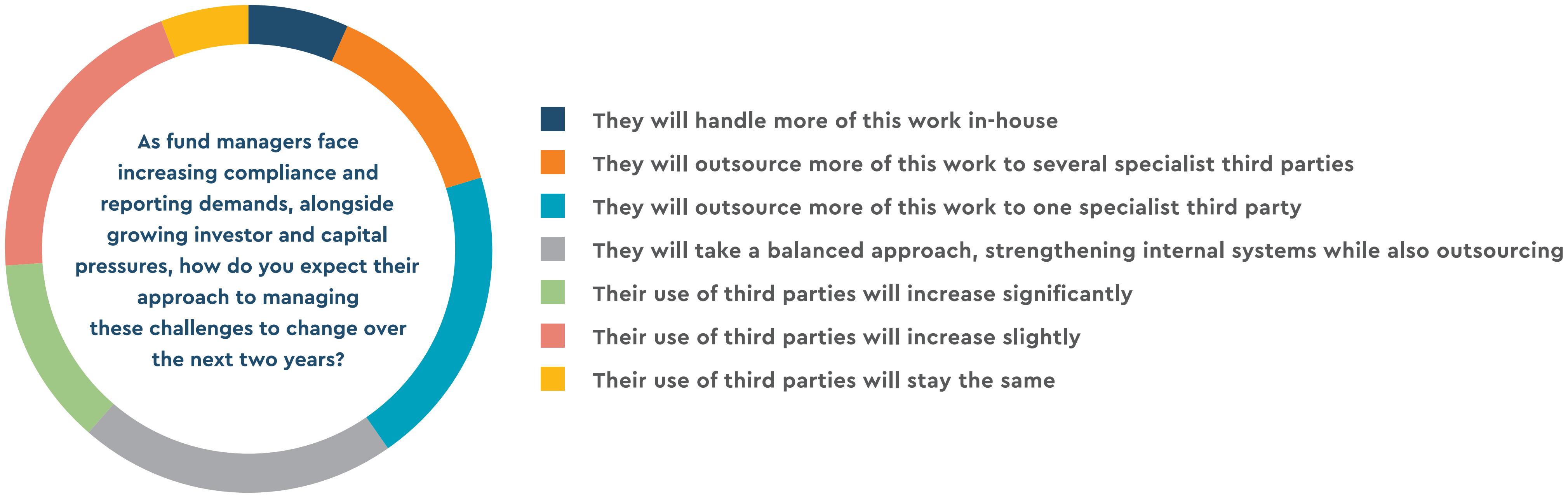
Professionals felt the investors were sufficiently initiated into the complexity of the asset class. 86% thought investors understood well or excellently. Debt advisers were the most the most doubtful about the level of HNW client knowledge.

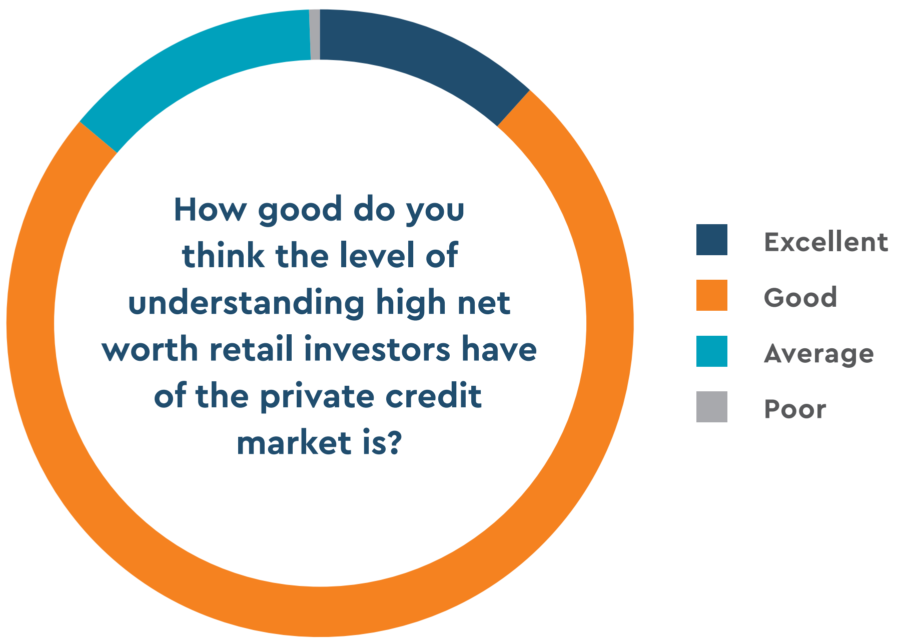
Nevertheless, the industry is anxious about future potential mis-selling accusations

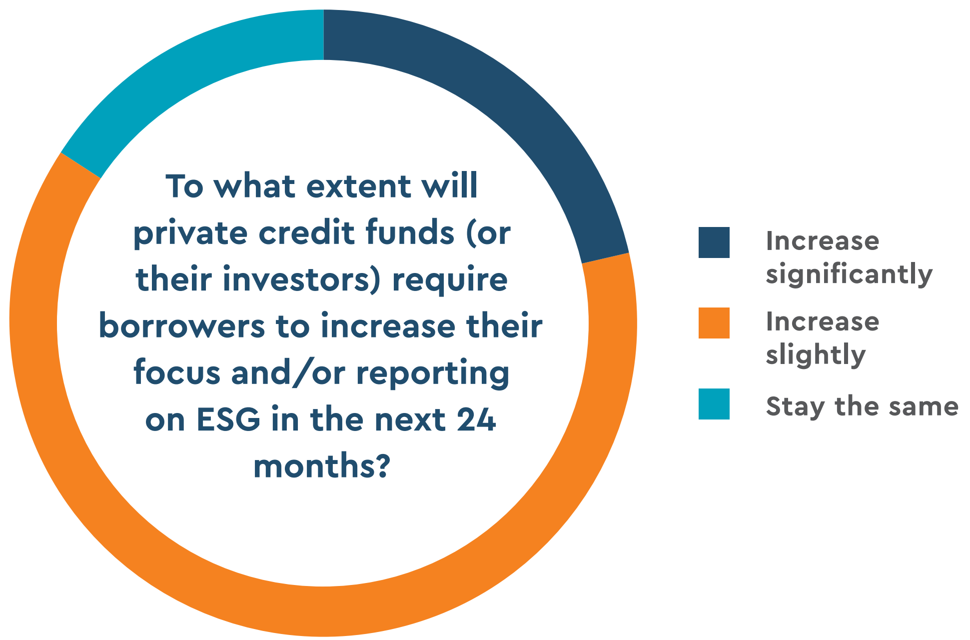
An astonishing 97% of respondents was either quite concerned or very concerned about the possibility that financial advisers could face future mis-selling accusations for distributing illiquid private credit funds to unsuspecting investors. There was no meaningful difference by function. Such unanimity suggests the industry has work to do to ensure there is adequate education among distributors and their clients and implies that democratisation to a wider client base should be approached cautiously.



"Fund managers were most likely to want reform, while a majority of debt advisers felt the regulatory environment was working well."


As fund managers face increasing compliance and reporting demands, alongside growing investor and capital pressures, how do you expect their approach to managing these challenges to change over the next two years?
They will handle more of this work in-house
They will outsource more of this work to several specialist third parties
They will outsource more of this work to one specialist third party
They will take a balanced approach, strengthening internal systems while also outsourcing
Their use of third parties will increase significantly
Their use of third parties will increase slightly
Their use of third parties will stay the same


How good do you think the level of understanding high net worth retail investors have of the private credit market is?
Excellent
Good
Average
Poor

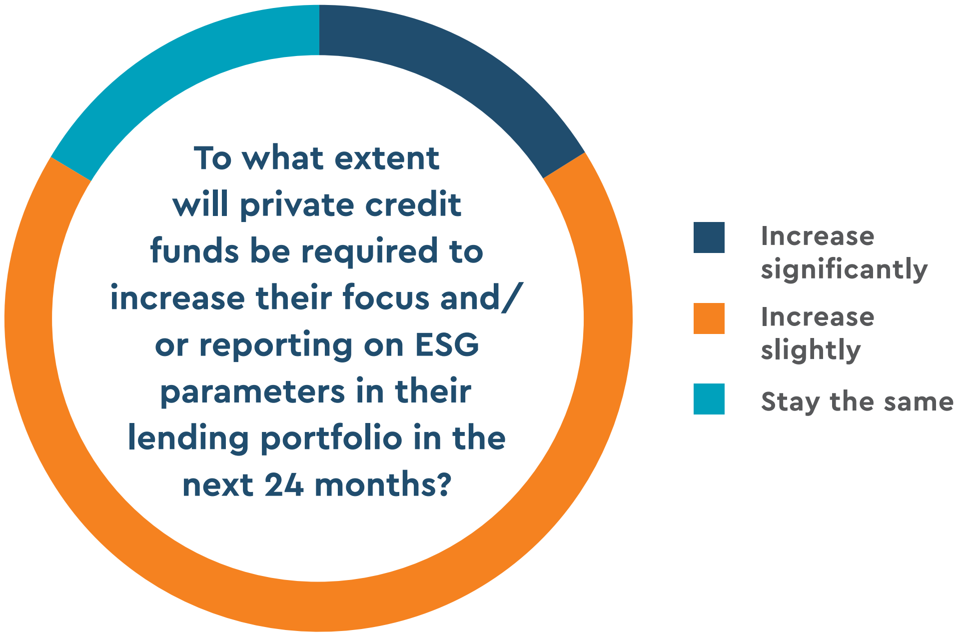

To what extent will private credit funds (or their investors) require borrowers to increase their focus and/or reporting on ESG in the next 24 months?
Increase significantly
Increase slightly
Stay the same

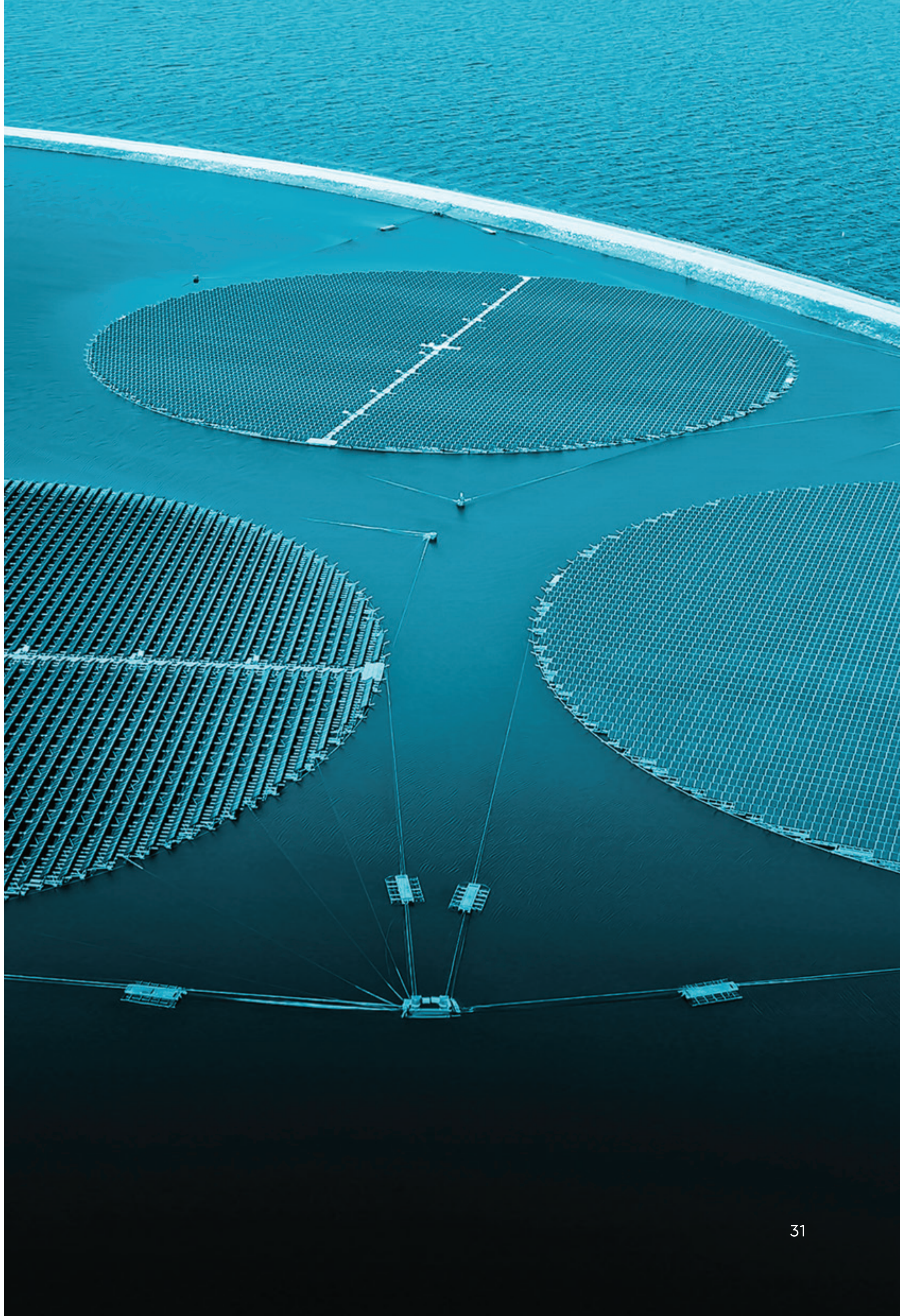
Focus on ESG

ESG requirement growing

More than eight in ten (83%) industry professionals expect funds to press borrowers to increase their ESG focus or to report more on their ESG activities. Notably funds expected to increase pressure more than borrowers expected it to increase.

By the same token, a similar number (84%) expected fund ESG reporting requirements to increase and therefore their focus on ESG.





And better credit terms follow

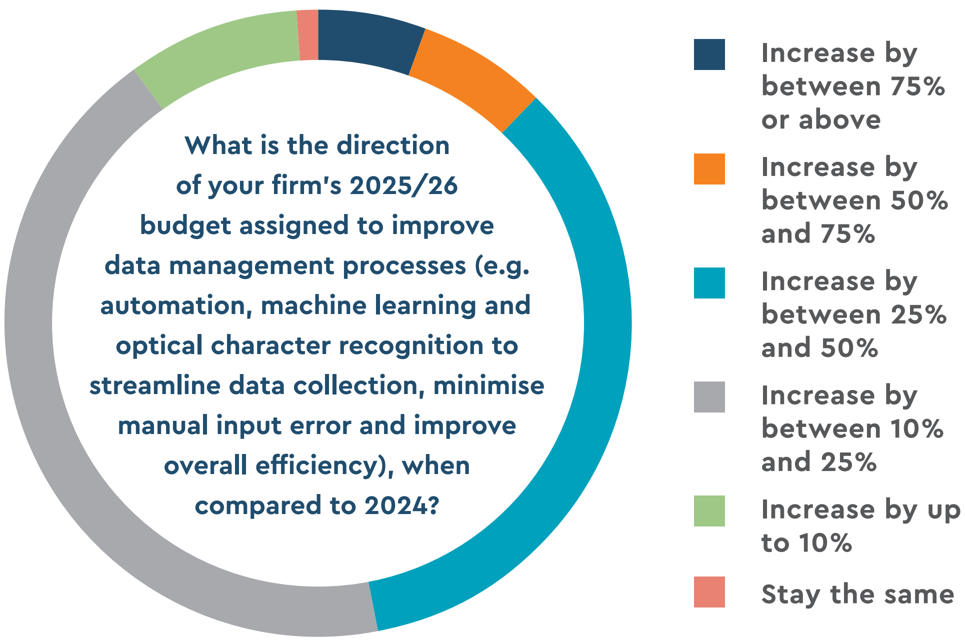
Nine in ten thought borrowers with good ESG credentials would get better credit terms. Borrowers were more likely to expect significantly better terms than lenders were to grant them, however. 60% of borrowers believed this, compared to just one third (33%) of private credit fund respondents.

- Significantly better credit terms than similar borrowers without ESG credentials
- Somewhat better credit terms than similar borrowers without ESG credentials
- No particular improvements in credit terms than similar borrowers without ESG credentials

Technology and automation

Data management budgets are rising significantly

Across the industry, data management budgets aimed broadly at streamlining processes were expected to rise by one third (31%) over the next two years. Private credit funds intended to invest most heavily in this area.

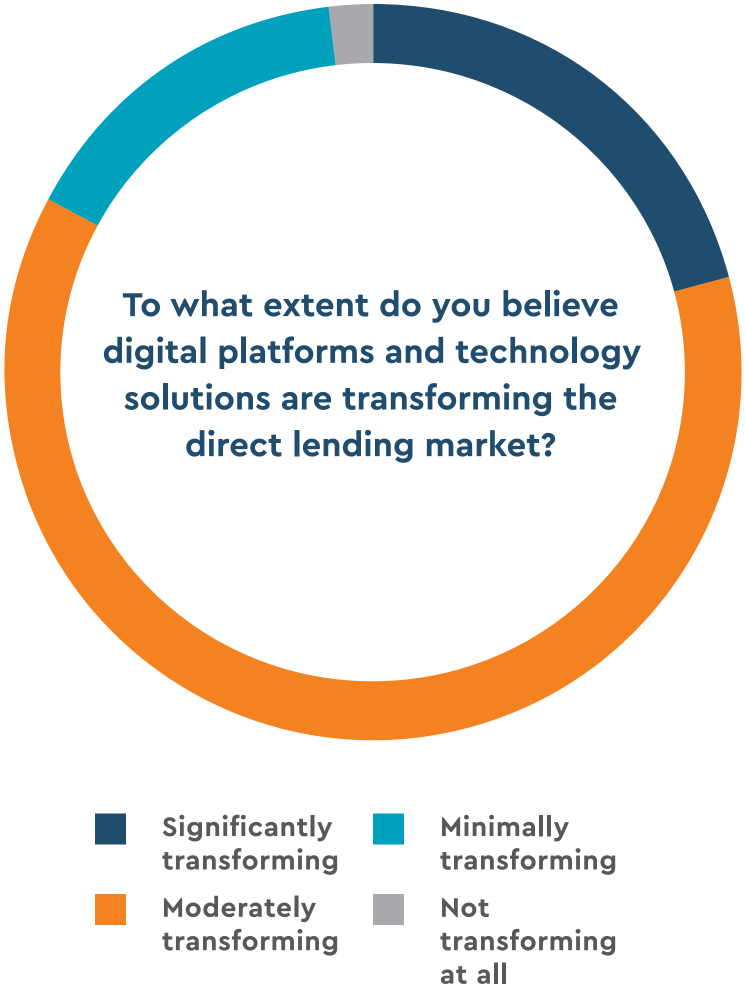


Industry is satisfied with its data management infrastructure

Despite recognising a need to keep investing, more than nine in ten respondents thought their data management infrastructure was good or excellent.

Digital platforms are changing the lending market

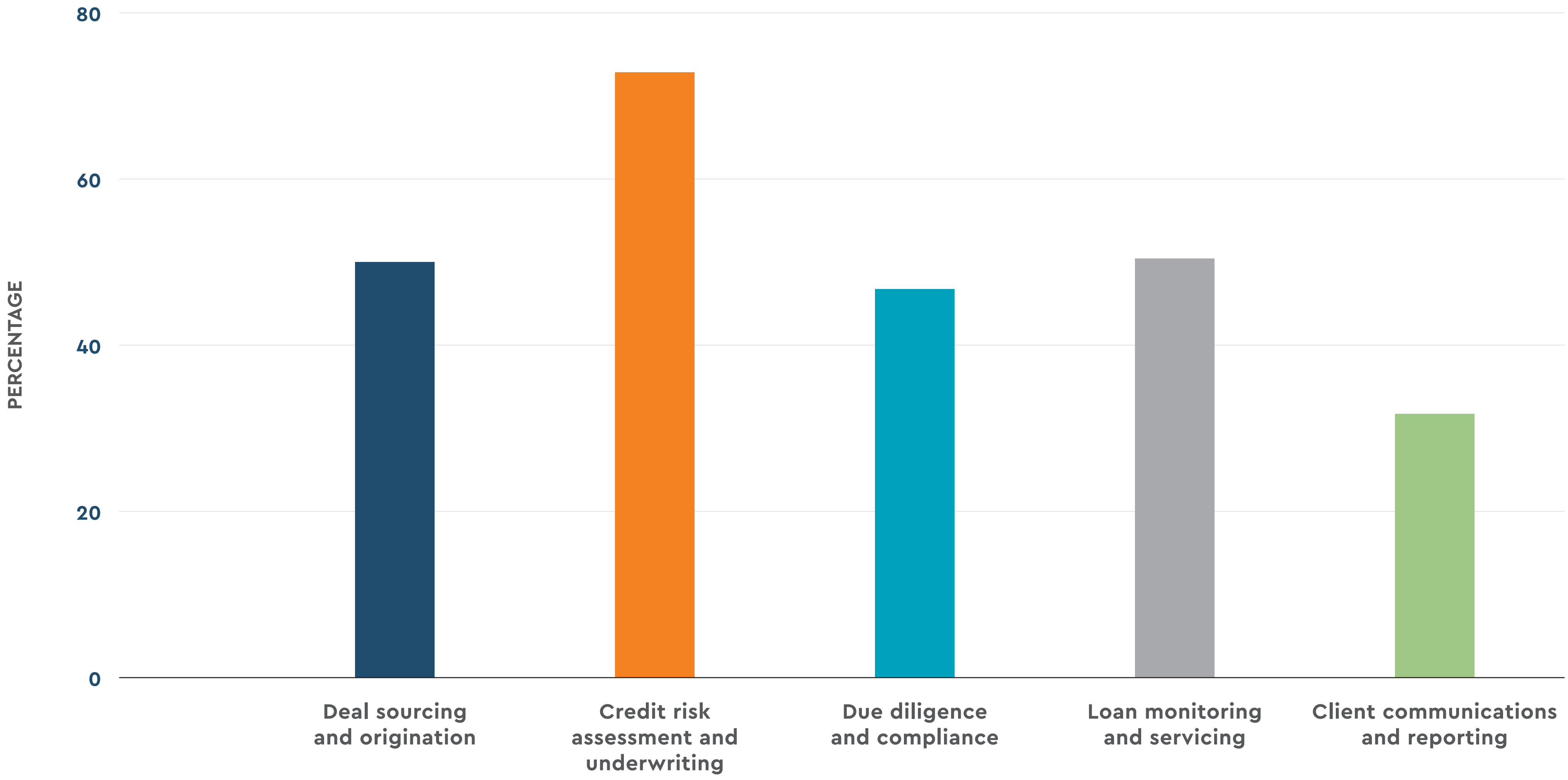
Eight in ten (83%) are seeing digital platforms transform the direct lending market, with broad agreement across different functions. Separately every respondent expected to see more use of machine learning in the next two to three years.



Underwriting and credit risk assessment are benefiting most from digital platforms

Three quarters of respondents (72%) found digital platforms most valuable in assessing risk. Half also found them useful in sourcing new deals.

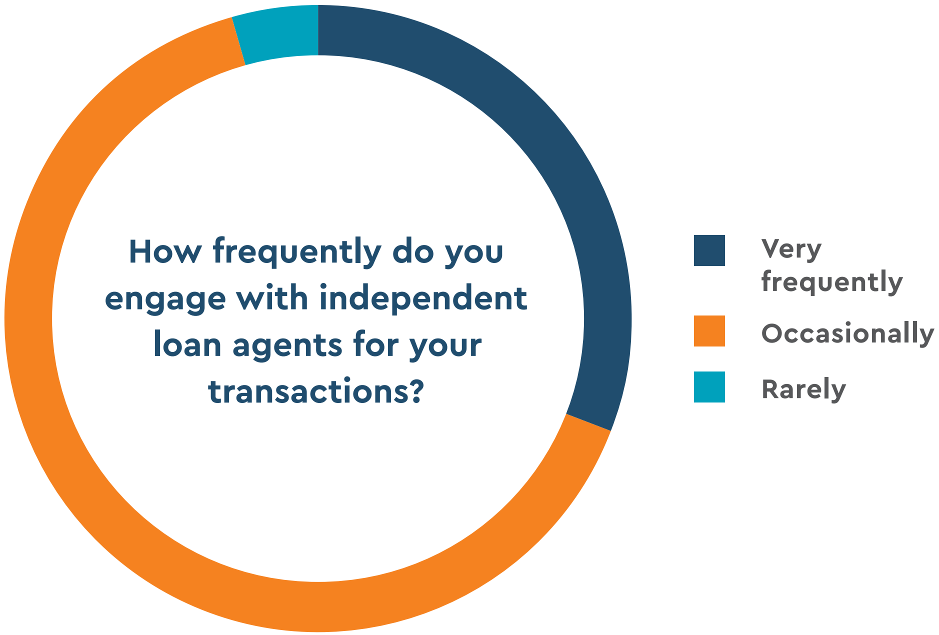
Which areas of the direct lending process have benefited most from the adoption of technology?



Loan agents

Role of loan agents set to rise

One third of professionals (31%) make very frequent use of loan agents, but their role is expected to rise. Five out of six thought they would be used more frequently, though most thought this increase would be moderate rather than significant.



Industry professionals perceive a lack of control when using loan agents

Lack of easy access to their own data and a lack of transparency were cited as the two key barriers to using loan agents, with costs following behind. This suggests there is more work to do by loan agents to develop digital platforms – greater access is likely to allow them to develop their market penetration further.

What challenges do you face when working with independent loan agents?	
1	Lack of easy access to own data
2	Lack of transparency
3	Cost considerations
4	Lack of accuracy
5	Quality of expertise
6	Slow responsiveness

Speed is key

Being quick and being readily accessible are the two key attributes professionals want from their third-party service providers, trumping cost considerations. Accuracy and consistency did not rank highly, but most likely because these are considered a basic sine qua non.

What are the top three factors you emphasise when engaging a third-party agency?	
1	Turnaround time
2	Responsiveness
3	Technological offering
4	Pricing
5	Consistency
6	Accuracy
7	Prior engagement experience

Key takeaways

Momentum in private credit is strong – deal volumes are up 8.5% over the last 18 months – and expectations are for further growth

- 2025: 95% expect at least 5% growth
  - Before "Liberation Day" 2025's expected growth v 2024 was 11.0%
  - Three weeks later, expected growth had only dropped 1.1 percentage points to 9.9%
- 2025: Specialty financing, including distressed debt has strongest prospects

2025: 82% expect higher defaults and increased uncertainty means higher risk aversion – 47% feel terms favour lenders at present

If market interest rates settle, 80% of professionals expect a flow-back to private credit from banks and the bond market

Regulation is a pain point – 56% of industry participants want better regulation, but 79% expect more of it instead

Despite short-term opacity, the medium-term is viewed favourably

- Borrower demand ranked top growth driver
- Investor allocations set to grow 27%-37% depending on investor segment
- 52% believe the crucial mid-market private company segment is underserved
- Growing competitive pressures will drive volumes – 81% expect competition to build
- Cross-border deals in Europe are a key driver – 90% see more pan-European integration in private credit
- Medium-term risk aversion expected to moderate by 40% of respondents

Data is growing in importance for the private credit industry and the need to manage it effectively is driving significant investment; budgets rising by 31% over two years

83% see the role of loan agents growing though clients want better transparency

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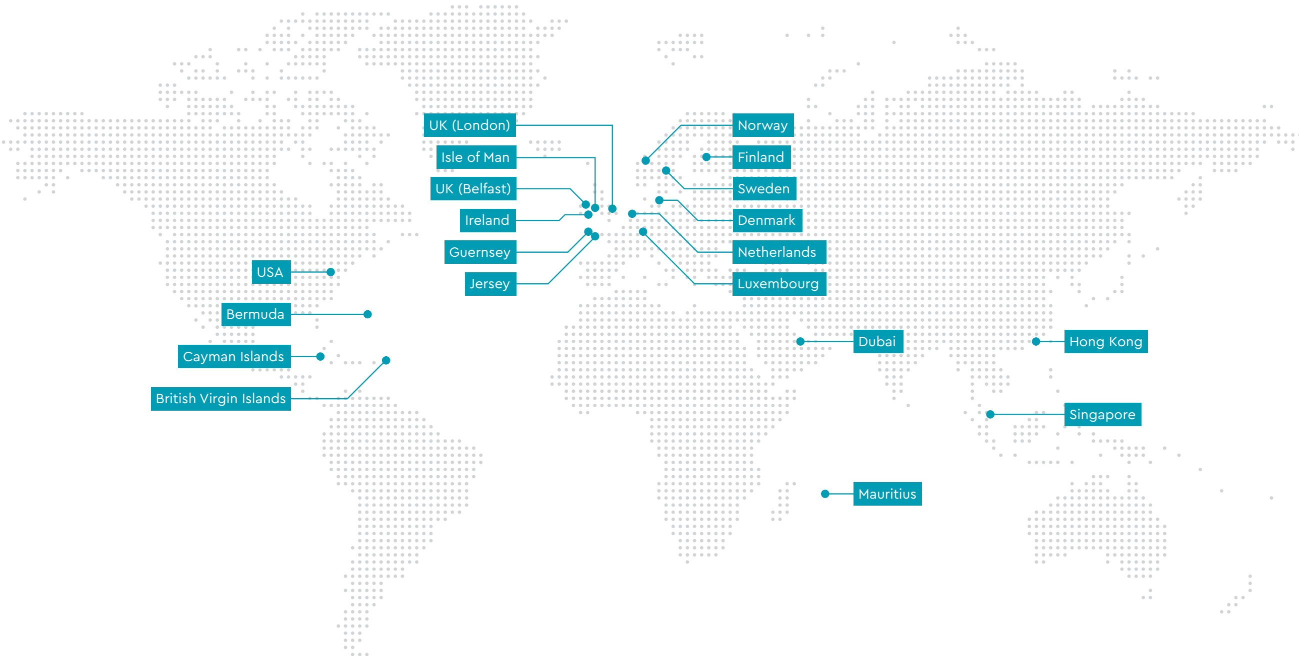

About Nordic Trustee

Nordic Trustee is the largest independent bond trustee and loan agent in Northern and Continental Europe. Nordic Trustee is also a provider of high-quality bond market data through its subsidiaries Stamdata and Nordic Bond Pricing. Nordic Trustee is part of the Ocorian Group – an award-winning global provider of corporate, fund admin and capital markets services.

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