

PRIVATE MARKETS PERSPECTIVES

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European Senior Direct Lending: Resilient Income and Protection

European private credit has become a central source of financing for the real economy, supported by tighter bank lending standards and persistent corporate funding needs. Within this universe, senior direct lending continues to stand out as a conservative strategy for investors focused on contractual income generation and downside protection.

In an environment characterised by economic uncertainty and increased dispersion across credit strategies, senior direct lending's emphasis on seniority, security, and disciplined underwriting remains a key differentiator.

Market transformation and current context

Over the past fifteen years, regulatory reform and balance-sheet constraints have materially reduced banks' participation in mid-market corporate lending. Private lenders have increasingly filled this gap, providing financing for organic growth, acquisitions, and refinancing activity. At the same time, the continuous rise of private equity-owned companies has further accelerated demand for private credit, with private equity sponsors seeing a strong value proposition in private credit compared with traditional bank financing: agility, speed, and certainty of execution.

This structural shift has reinforced the importance of loan structure and lender protection. Senior direct lending strategies typically prioritise:

- First-ranking positions in the capital structure
- Security over assets and cash flows
- Conservative leverage and covenant packages

Recent press articles have highlighted stress in certain areas of private credit, including isolated defaults and valuation concerns. What is often misunderstood is that very different strategies sit under the common name of private credit. It appears that most developments reported in the press have affected more aggressive or structurally subordinated strategies, as well as bank-originated syndicated loans. By contrast, privately originated senior secured direct lending has remained relatively resilient, reflecting its focus on priority of claims and recoverability in downside scenarios.

Why senior direct lending?

Senior direct lending involves loans that rank first in the borrower's capital structure and are typically secured against assets and cash flows. This positioning provides priority in interest payments and, historically, higher recovery prospects in the event of borrower distress.

Returns are primarily cash-flow driven, generated through contractually agreed interest payments rather than changes in market pricing. Floating-rate structures further reduce duration risk and help align returns with prevailing monetary conditions.

From a portfolio perspective, senior direct lending has historically exhibited low correlation with public equities and traditional fixed income, reflecting its private, negotiated nature and limited exposure to mark-to-market volatility.

While credit risk remains inherent, the strategy's focus on seniority, security, and underwriting discipline is designed to deliver attractive risk-adjusted returns across the credit cycle, with an emphasis on delivering regular income and preserving capital.

There is no doubt private credit is no longer a niche product and has become a structural asset class to be included in any global portfolio. In an environment of lower base rates, where total returns adjust in absolute terms, the private credit premium remains attractive.

Broadening access: semi-liquid evergreen structures

Private credit has traditionally been accessed through closed-ended vehicles with long investment horizons and limited liquidity. In recent years, semi-liquid evergreen structures have emerged, offering subscriptions over time and periodic liquidity subject to predefined conditions.

These structures aim to balance flexibility with the long-term nature of private credit assets. Their effectiveness depends on disciplined portfolio construction, diversification, and conservative liquidity management to ensure alignment between investor expectations and underlying asset characteristics.

The revised ELTIF II framework represents a meaningful regulatory development, facilitating access to long-term investment strategies such as private credit while reinforcing governance and investor protection standards. This framework supports capital formation for European companies without altering the fundamental long-term nature of the underlying assets.

Senior direct lending at Tiera Capital

Tiera Capital experts believe that exposure to European senior direct lending, using a diversified approach through best-in-class specialist managers, is more efficient than direct loan origination. This flight to quality strategy is designed to maximise portfolio diversification and granularity and to bring selectivity to a universe marked by significant dispersion in underwriting quality across managers.

By allocating across experienced specialist managers, geographies, sectors, and underwriting styles, our specialists seek to:

- Reduce concentration risk
- Enhance portfolio resilience across market environments
- Maintain consistent exposure to senior secured lending

The approach emphasises rigorous due diligence, disciplined allocation, and continuous monitoring. The objective is to deliver institutional-grade exposure to senior direct lending, prioritising capital preservation and recurring income through diversified manager selection and active portfolio oversight.

Conclusion

In a more selective and heterogeneous credit environment, European senior direct lending continues to offer a compelling combination of durable income, structural protection, and diversification. Its senior secured positioning and cash-flow-driven return profile distinguish it from both public credit and higher-risk private lending strategies.

When implemented through disciplined underwriting, diversified manager exposure, and robust governance, senior direct lending remains well positioned to deliver resilient outcomes across market cycles, supporting long-term capital allocation to the European real economy.



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About Tiera Capital, the Indosuez Wealth Management offering on private markets



As a leading player in these markets, Tiera Capital manages or advises on over 10 billion euros in assets and has made more than 500 investments since its inception nearly 25 years ago.

Its distinctive and innovative offering stands out due to:

- Access to a diverse range of investment funds: including multi-strategy vintage funds (primary, secondary, co-investment), feeder funds (including Tiera Capital Innovation), and semi-liquid Private Equity and Private Credit funds.
- A comprehensive offering in terms of assets, strategies, and geographies: covering Private Equity, private debt, infrastructure, and real estate; strategies such as primary, secondary, and co-investment; and regions including Europe, North America, and Asia-Pacific.

- Tailored support services: to build and manage unlisted asset portfolios, including discretionary management and investment advisory services.

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