

Pinnacle

Navigating the private credit landscape

Insights for
Institutional Investors

Contents

Introduction: navigating the private credit landscape

Private credit has become a cornerstone of institutional investment strategy, offering bespoke financing solutions and compelling returns in a shifting regulatory and macroeconomic environment. As traditional lending channels evolve, pension funds, insurers, and the full range of institutional investors are increasingly directing capital towards private credit funds - driven by regulatory reforms, innovative fund structures, and the pursuit of diversification.

This edition of *Pinnacle* brings together a series of articles that reflect what we are seeing across the private credit ecosystem. We begin by examining **origination and how private credit platforms build deal pipelines** and we contrast how the approach differs for large and mid-sized private credit providers.

We then delve into **risk and regulatory scrutiny**, offering institutional investors a clear view of the evolving landscape – particularly the divergence between the UK and EU approaches to the regulation of funds.

Finally, in our coverage of **distressed debt**, we explore the role of special situations credit and the shifting risk environment.

Drawing on our experience across M&A, lending, regulation, and restructuring, we offer institutional investors actionable insights to navigate this dynamic market with confidence.

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Private credit origination: the channels that matter



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“Private credit origination is, at its core, a relationship business powered by insight and won in execution.”

Origination is where private credit wins – or never gets to the starting line. This article distills the non-negotiable origination plays used by leading private credit platforms – how they build advantaged pipelines, screen faster and smarter, and convert with certainty – and contrasts the global-manager model with the mid-market specialists to reveal what builds pipeline, lifts hit rates, and gets deals closed.

CORE ORIGINATION CHANNELS

- **Sponsor-led (primary):** firms with deep relationships across private equity sponsors see a steady cadence of leveraged buyouts, add-ons, refinancings, and recapitalisations. The best firms institutionalise sponsor coverage, participate in reverse inquiries, and maintain “approved lender” status; accelerating timing and expanding market access.
- **Intermediated processes:** advisers and bank-run bilateral and mini-club mandates seeking speed, certainty, and tailored structures reward sector familiarity and fluency, underwriting capacity, and rapid, low conditionality commitments.
- **Direct-to-corporate origination (non-sponsor):** founder-owned and public SMEs seek discreet, certain financing for growth/M&A and capital structure solutions where sponsor ownership is not relevant or not imminent. Here, market timing, and certainty of deal execution can outweigh pricing.
- **Bank referrals and disintermediation:** arises when relationship banks face constraints, whether time-sensitive transaction windows, concentration limits, and/or capital-intensive profiles that do not fit hold models. Private credit steps in providing certainty, speed, and structural flexibility. Maintaining trust with bank partners is critical – speed, flexibility, a disciplined approach to confidentiality, process cleanliness and efficiency, and co-existence with RCFs underpins repeat referrals and unlocks flow.
- **Club deals and co-lending:** enables lenders to fit tickets, provide incremental delayed draw term loans (DDTL) or accordion capacity, and support sponsors in dynamic M&A roll-ups. Trusted partnerships grounded in documentation alignment, intercreditor pragmatism, and consistent underwriting philosophy can be decisive when timelines compress or the acquisition pipeline accelerates.
- **Existing portfolio:** often the richest vein of proprietary origination. Upsizes, add-ons, tack-ons, and cross-sell across sponsor platforms reward lenders who provide responsive aftercare, underscoring the importance of building a successful partnership with borrowers through responsiveness to amendments, waivers, and consents and a pragmatic approach to documentation breaches and other business challenges.
- **Opportunistic and special situations:** origination thrives near stress points: refinancing walls, liquidity squeezes, covenant pressure, or sponsor fatigue. Lenders source these through restructuring advisers, specialist law firms, and boutiques. Rescue financings, DIP/exit DIP structures, holdco PIK solutions, and covenant resets demand speed, credibility with stakeholders, and credible downside view.
- **Secondaries / NAV and GP solutions:** extend the origination map beyond company-level debt. Loan purchases provide entry into deals where timelines or syndicate dynamics preclude a primary role. NAV facilities offer fund-level liquidity against diversified asset bases, while GP financings address capital needs at the sponsor level. These are sourced through secondaries advisers and GP relationships and demand robust collateral analytics and alignment on long-term governance.
- **Cross-border:** increasing European flow favours lenders with a broad reach and are seasoned in multi-jurisdictional execution with local coverage and expertise.
- **Platforms and data:** CRM-driven coverage, proprietary screens, and market intelligence platforms such as PitchBook, LCD, and Debtwire/Reorg identify trigger events and coverage gaps. Conferences and curated syndication lists augment this by placing lenders at live intersections of capital and need, converting coverage into live opportunities.

LARGE VS MID-SIZED PRIVATE-CREDIT PROVIDERS: WHAT CHANGES IN ORIGINATION

- **Coverage and access:** diverge materially by platform scale. Large platforms maintain multi-tier sponsor coverage and enjoy frequent early looks, allowing them the opportunity to shape deal structure and terms at an early stage. Mid-sized platforms typically run a tighter target list and see a more diverse mix of adviser-led and direct-to-corporate opportunities where responsiveness, focus, and speed to execution trump breadth of coverage.
- **Ticket size and role:** large platforms can underwrite or anchor full capital stacks, acting as sole or lead arranger; attracting top sponsors looking for a single counterparty. Mid-sized platforms focus on the core mid-market, selective bilateral and club roles (e.g. structure or sector).
- **Speed, investment committee dynamics, and certainty:** differ between large and mid-sized platforms. Larger platforms often have more layers to the first “yes,” reflecting their scale and governance requirements. Once approved, however, there is a high degree of certainty of deal execution given their resources. Mid-sized platforms can deliver faster initial terms and often pre-wire trusted partners to right-size risk and hold levels; balancing speed and certainty.
- **Product breadth:** large platforms typically offer the full toolkit: unitranche facilities, first lien/second lien facilities, DDTL, RCF coordination, holdco PIK instruments, NAV facilities, and hedging. This enables integrated solutions and the single counterparty advantage. Mid-sized platforms win with their flexibility: bespoke structures tailored to unique business models and covenant packages, and pragmatic intercreditor approaches.
- **Pricing and terms:** reflect bargaining power and risk appetite. Large platforms can sharpen pricing for marquee sponsors and will demand tight documentation, granular reporting, and robust information rights. Mid-sized platforms tend to be more flexible on covenants and structure, often earning a premium for complexity, speed, or offering bespoke terms.
- **Sector and geography:** shape origination strategies. Large platforms field broad sector benches and can execute cross-border deals with in-house FX and hedging, tax, and regulatory capabilities. Mid-sized platforms build specialist and regional depth.
- **Aftercare and cross-sell:** complete the picture. Large platforms leverage cross-product and cross-vehicle capital for follow-ons, offering borrowers a continuum from senior debt to hybrid and NAV facilities. Mid-sized platforms differentiate themselves from competitors with borrower engagement and quick, pragmatic post-close decisions on amendments, waivers, consents, and incremental facilities, offering a frictionless service that builds long term relationships.
- **Practical takeaway:** for single-counterparty, full-stack, high-certainty execution, choose a mega-platform. For bespoke structures, niche sectors, and senior attention at speed with capacity to scale, choose a specialist or mid-sized platform with explicit growth optionality (for example, via pre-agreed accordion/DDTL, committed-but-undrawn tranches, and co-invest sleeves to a larger hold while preserving MFN and covenant consistency).

CONCLUSION AND NEXT STEPS

Private credit origination is, at its core, a relationship business powered by insight and won in execution. Lenders who lead earn sponsor trust, secure adviser mindshare, and inspire borrower advocacy, and then convert that confidence into disciplined underwriting and reliable, on time closings.

For questions or to discuss how regional legal frameworks, bank competition, and sponsor behaviour shape origination strategies, please reach out to **Jason Blick** and **Fiona Henderson**, who lead private credit in London.

Risk and regulatory scrutiny for private credit funds: what institutional investors need to know



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“in contrast to the EU, the UK approach is actually towards less prescription on the issues of credit risk management, liquidity risk management and valuation governance.”

Private credit funds have rapidly evolved from a niche strategy into a core allocation for many institutional investors. But as private credit scales, so does scrutiny. This article explores emerging key risks in private credit funds, the response in European Union (EU) and UK regulation, and the implications of this for institutional investors allocating to private credit funds.

KEY RISK TRENDS

Credit risk management and underwriting standards is an area of focus. Several well publicised cases of private credit providers facing significant losses (such as the bankruptcy of First Brands) have drawn increased focus to the topic. Many have pointed the finger at poor underwriting standards. The question therefore arises, are these examples “one-off”, or do they point to a more systemic issue?

The use of open-ended (evergreen) and semi-liquid private credit funds is another area drawing increased scrutiny. Investor demand, structural flexibility, and managerial advantages have caused increasing numbers of sponsors to launch such funds. These vehicles can offer clear benefits for institutional investors due to their greater liquidity, yet they bring distinctive risk management challenges that do not exist in closed-ended structures:

- **Redemption liquidity:** even with liquidity management tools, the mismatch between investors’ redemption rights and the underlying illiquidity of private credit assets has the potential to trigger forced sales at depressed prices or force the use of drastic liquidity management measures like suspensions of redemptions.
- **Valuation governance:** unlike closed-ended funds, these vehicles require frequent valuations that drive subscription and redemption prices. Where private credit positions are thinly traded, the governance around value marks becomes critical.

REGULATORY RESPONSES

Key questions that arise for institutional investors investing in private credit funds in the UK and EU are:

1. How is the UK and EU regulation of private credit managers responding to these trends?
2. How might this impact investments by institutional investors in private credit funds?

A potentially surprising fact is that the UK and EU are moving in opposite directions on this topic. Hence, institutional investors will face quite different considerations when assessing private credit funds regulated in each jurisdiction.

Until recently, both regimes, derived from the Alternative Investment Fund Managers Directive (AIFMD) remained virtually the same. But the EU is currently implementing “AIFMD II” changes which significantly increase the level of prescription in the rules for private credit fund managers. Meanwhile, the UK is exploring loosening the regulatory obligations for smaller or medium sized fund managers.



EU AIFMD II: PRESCRIPTIVE RULES FOR PRIVATE CREDIT FUNDS AND OPEN-ENDED STRUCTURES

EU AIFMD II is currently in the process of being implemented by EU member states, with most obligations starting to apply from 16 April 2026. It introduces new, prescriptive rules, addressing the risk trends around underwriting standards, and the use of open-ended structures discussed previously.

Central to the changes is a new specific regime for private credit funds. A new category of “loan-originating AIFs” has been introduced, covering funds which mainly originate loans and hence encompassing most private credit funds. These alternative investment funds (AIFs) are subject to new requirements, such as specified leverage limits, and are generally required to be closed-ended unless they can demonstrate to their home state regulators that their liquidity risk management aligns with their investment strategy and redemption policy. In addition, any AIF that originates loans, regardless of whether it is classified as a “loan-originating AIF,” must meet new requirements. These include diversification rules limiting the amount that may be lent to certain entity types, a 5% risk retention requirement for originated loans sold to third parties, and obligations to establish risk management policies and procedures related to lending. “Originate-to-distribute” strategies are also prohibited.

AIFMD II also sets new, detailed rules for liquidity management. Open-ended funds must choose at least two liquidity tools from an approved EU list and notify regulators when activating or deactivating them (unless routine). Regulators can also require changes to these tools if there are investor protection or financial stability risks.

Many of the amendments focus on credit risk management and underwriting standards. The updated requirements for internal policies and diversification are designed to establish more consistent practices in private credit funds. Additionally, risk retention requirements and the restriction of “originate-to-distribute” strategies are based on concerns that such strategies may reduce rigorous underwriting by not requiring private credit funds to retain a portion of the risk.

It is also clear that EU regulators are focussed on the liquidity risk management of open-ended structures – in particular introducing a new regulatory hurdle for private credit funds seeking to adopt the structure. It remains to be seen whether this will reverse or temper the trend towards increased use of these structures. However, the AIFMD II reforms largely do not address the issue of valuation governance in such structures.

UK REGULATORY REFORM: A TEST OF MORE PROPORTIONATE REGULATION

The current financial services policy mood in the United Kingdom emphasises a “pro-growth” agenda. Part of this trend is a move away from some of the more prescriptive frameworks inherited from the EU.

For private credit managers, the key proposed reform is the revision of the UK’s AIFMD-derived regime. The latest Financial Conduct Authority (FCA) consultation suggests the following:

Fund under management (NAV)	Proposed regime
> £5bn	Regime similar to the existing framework
£100m and £5bn	Principles-based approach with fewer detailed rules
< £100m	Limited set of baseline standards

Whilst further details on the rules are expected in 2026, it is clear that the overall direction of travel is towards removing many of the prescriptive obligations, particularly for smaller fund managers. This would be equally applicable to private credit funds as to other types of funds. So, in contrast to the EU, the UK approach is actually towards less prescription on the issues of credit risk management, liquidity risk management and valuation governance.

It is, however, notable that UK regulators have addressed some of these topics through various other approaches. For instance, the FCA conducted a multi-firm review of private market valuation practices, with findings released in March 2025; the FCA outlined examples of “good practices” and specified its expectations for firms. Likewise, while primarily focused on retail-facing funds, the FCA has in recent years evaluated liquidity management within the sector and articulated enhanced standards in this area. Ultimately, however, these initiatives do not constitute a targeted revision of regulations governing private credit funds.

CONCLUSION

Although concerns about particular aspects of risk management are increasing, regulatory strategies differ between the EU and UK, resulting in varied implications for institutional investors in UK and EU private credit funds.

For funds under the EU regime, institutional investors may observe positive changes as fund managers are subject to stricter rules regarding liquidity risk management and lending processes. At the same time, AIFMD II may restrict certain strategies within Europe, such as moderating the shift toward open-ended private credit structures

and limiting secondary loan stake sales. Hence, the impact on institutional investors will be mixed.

In the UK, institutional investors could encounter more variation among fund managers in the management of these risks due to a generally less prescriptive regulatory approach. As a result, due diligence by investors will become increasingly significant to establish their understanding and acceptance of the risk management and governance practices, particularly for smaller private credit fund managers.



The role of private credit in distressed debt



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“Companies in distress need to make decisions and access capital quickly. Private credit firms can usually advance funds without lengthy credit processes and capital constraints and so can act rapidly.”

Private credit has emerged as a central feature of today’s restructuring landscape, supplying capital and expertise required in situations that traditional banks may view as too risky. Private credit fills a structural gap, as it is not constrained by banking capital requirements and can therefore underwrite complex, time sensitive risk. For distressed companies and their stakeholders, this could mean the difference between a value-destructive insolvency and a credible turnaround.

This article outlines the core elements of private credit in distress, the opportunities and risks for borrowers and lenders, and the developments to watch.

PRIVATE CREDIT – WHAT IS IT, AND HOW DOES IT FIT DISTRESS?

Private credit is an overarching term used to refer to lending strategies outside of the traditional banking industry and other public syndicated debt markets. Capital is typically provided by private equity firms, private credit funds and alternative asset managers. In private credit, a single lender or a syndicate of lenders negotiate terms directly with the borrower, which, when combined with the fact that private credit is not traded on the public market, allows for bespoke terms that align with the interests of both borrower and lender.

Private credit includes direct lending, senior secured/performing loans, mezzanine and other subordinated instruments, ABL facilities and distressed/special situations investments. In the distressed context, private credit funds frequently operate across the capital structure, purchasing existing debt at a discount, extending new money or effecting liability management transactions that re rank claims to create a runway for a restructuring. Investors in this area often take on a higher level of risk in exchange for higher pricing and better returns.

Private credit is uniquely suited for distressed companies for several reasons, including:

- **Risk appetite:** Traditional bank lenders are often unable to lend to companies with a lower credit rating and a higher risk of default, or at least unable to do so quickly.
- **Strategy:** Due to the lack of regulation and no public market involvement, there is an opportunity to create precise strategies and avail expertise to rescue the company in distress using options that may not otherwise be available.
- **Speed:** Companies in distress need to make decisions and access capital quickly. Private credit firms can usually advance funds without lengthy credit processes and capital constraints and so can act rapidly.

IMPLICATIONS FOR BORROWERS

For distressed borrowers, private credit offers a path to liquidity and an investor with aligned incentives to preserve enterprise value, but at a price. Floating interest rates often coupled with tighter covenants and enhanced information rights increase ongoing obligations on borrowers. However, where the alternative is an uncontrolled default or no access to liquidity, these features can be a rational trade off, particularly when private credit providers bring operational expertise, oversight, and access to follow on capital that are often absent in syndicated markets.

It is also true, however, that some borrowers are not interested in this trade off and so, mindful of opportunistic distressed investors, will tighten transfer provisions in their facility agreements to limit assignments to non-bank institutions and prevent a fractured lender group in which private credit funds may lead a loan-to-own strategy or other methods of enforcement.

IMPLICATIONS FOR LENDERS

For lenders, distressed situations combine high interest rates with negotiated control. The ability of investors to set their own interest rate can shield them from wider market interest rate fluctuations. However, underwriting distressed debt entails greater lender due diligence, an internal expertise to manage the ongoing lender involvement and keep close scrutiny on the borrower because there is, by its very nature, usually a heightened legal risk.

TRENDS AND LOOKING FORWARD

Private credit and its use in distressed situations is now fairly entrenched and looks set to stay. In our view, some of the specific trends in this area going forward include:

- **The Rise of Liability Management Exercises (LMEs):** LMEs are out-of-court debt restructuring tools that borrowers use to incur new debt or restructure existing indebtedness without involving all lenders or using formal insolvency proceedings. This usually means borrowers working with a set group of creditors and the exercise is done within the parameters of the existing finance documents. We've seen their prevalence in the US and their rise in Europe, largely due to the dilution of previously non-negotiable creditor protections in finance documents, perhaps because the rise in private credit has provided liquidity into the market and allowed borrowers to negotiate such provisions.
- **Macro backdrop:** Credits with exposure to geopolitical risks and cyclical revenues are at a higher risk of default. Similarly, the impact of inflation and high public debt is providing an uneven, but noticeable impact, across Europe. Private credit is proving to be, and will continue to be, well positioned to supply bespoke capital in this regard.
- **The Boom in the Middle East:** The growth of private credit is global, but the Middle East is notable for the scale and speed of its development. Traditional lenders in the region allocate a small share of funding to SMEs compared to globally, which reflects the substantial capital demands of large-scale public infrastructure initiatives, particularly in Saudi Arabia and the UAE. This creates a financing gap for growth companies that private credit is increasingly filling. Legal reforms are reinforcing this evolution: new bankruptcy and insolvency frameworks came into effect in 2018 in Saudi Arabia and in 2024 in the UAE, for instance, which have provided clearer enforcement and restructuring pathways, encouraging institutional debt investors and strengthening the flow of debt financing across the region.

CONCLUSION

For distressed borrowers, engaging early with private credit can expand the number of options available to them, provided the borrower is well advised on the risks which come with private credit.

For private credit lenders, tailored documentation, especially around transfer baskets and intercreditor mechanics can preserve value and reduce litigation risk if stress deepens.

For both sides, transparency and speed are paramount.

Private credit's growing role in distressed debt reflects a re allocation of risk away from regulated banks towards specialised managers with flexible capital. As market norms and supervisory frameworks evolve, private credit is likely to remain a pivotal force in restructurings, by delivering liquidity and, in many cases, enabling second chances for viable businesses.

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