



2025 Private Credit Market Outlook

A Tripartite Series

Part III
Private Credit: Spotlight on
Fundraising and Retail



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Private Credit Fundraising

Private Credit Fundraising

MARKET TRENDS IN FUNDRAISING VOLUME

- ▶ As of 2024, the **global private credit market reached \$1.5 trillion** in AUM, with analysts projecting growth to **\$3.5 trillion by 2028**.¹
- ▶ In response to a challenging fundraising environment, **credit managers continue to innovate and differentiate** their offerings to maintain LP interest.
- ▶ Key market trends and developments include:
 - **Origination optimization, capital markets services and balance sheet capabilities.**
 - Strategic deployment of **evergreen products for illiquid assets**.
 - Evolution away from traditional BDCs and “40 Act funds”.
 - Enhanced permanent capital structure optimized for illiquid credit investments.
 - Bank partnership opportunities driving market expansion.
 - Broader credit manager business development.
 - **Growth in continuation vehicles and secondaries funds.**

Over **1,400** private credit managers in the U.S.²

\$25-\$40 trillion estimated total of asset-based finance in the economy.³

Non-bank financial institutions account for nearly **50%** of global financial assets.⁴

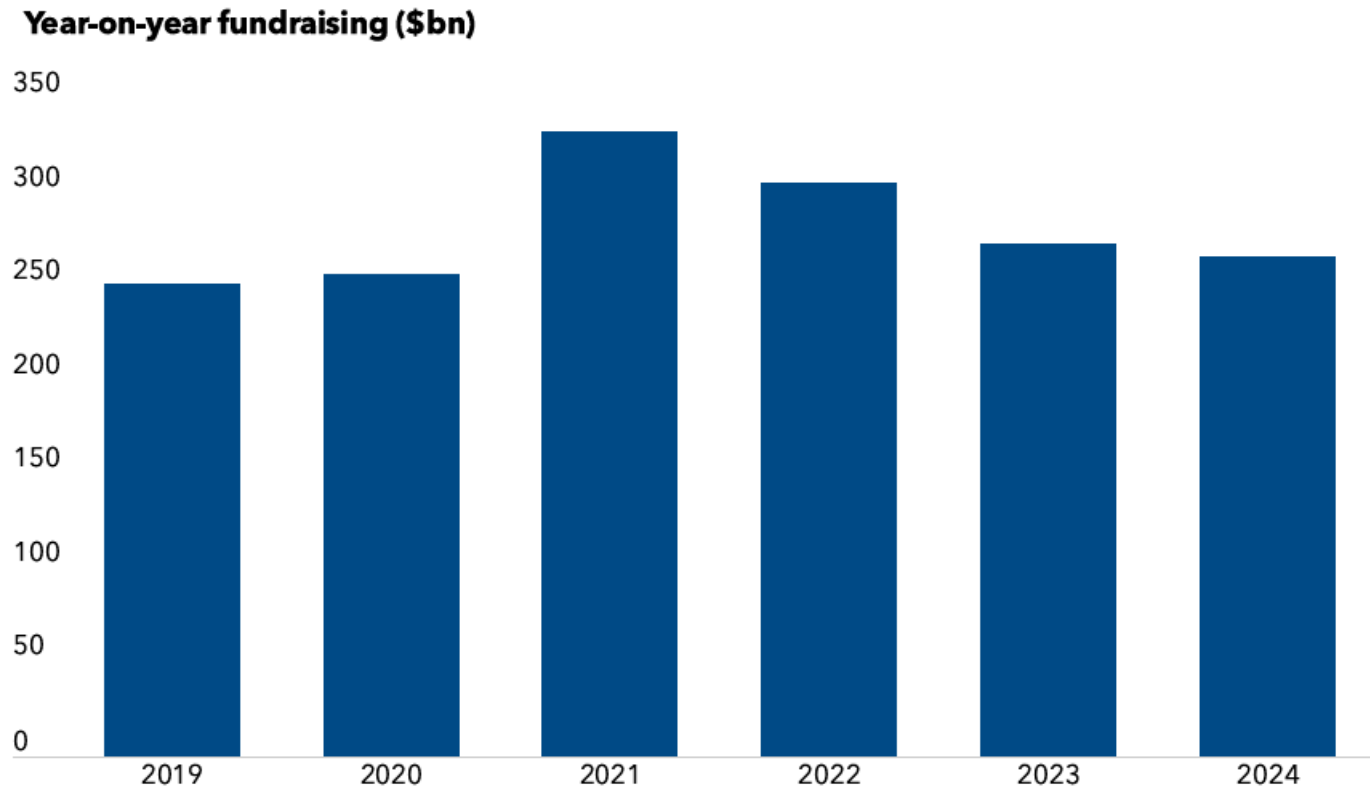
An estimated **85%** of LBOs are funded by private credit.⁵

Source:

1. Richard Rosenthal, et al., *How Can Banks Adapt to the Growth of Private Credit*, DELOITTE (Aug. 13, 2024).
2. *The Next Era of Private Credit*, MCKINSEY & COMPANY (Sept. 24, 2024).
3. Matt Wirz, *The New Kings of Wall Street Aren't Banks. Private Funds Fuel Corporate America*, THE WALL STREET JOURNAL (Oct. 8, 2023).
4. Antonio Garcia Pascual, et al., *Nonbank Financial Sector Vulnerabilities Surface as Financial Conditions Tighten*, IMF BLOG (Apr. 4, 2023).
5. Daniel I. Fisher, et al., *Trends in Special Situations & Private Credit 2024*, AKIN (Mar. 7, 2024).

Private Credit Fundraising

PRIVATE CREDIT FUNDRAISING REMAINS STEADY



Source:

6. *Private Debt Investor Fundraising Report 2024*

Private Credit Fundraising

STRUCTURE OPTIONS FOR THE RE-EMERGENCE OF EVERGREEN PRODUCTS FOR CREDIT ASSETS

Launching an evergreen vehicle to invest in certain illiquid opportunities

OPTION 1:

A Committed Evergreen Single Portfolio Fund and Private Equity-Like Economics

- ▶ A single portfolio (but may have the ability to “side pocket” for hard-to-value investments)
- ▶ Investors are subject to rolling commitments (~3-4 initial; ~2-year rolling). They can “raise their hand” to get liquidity
- ▶ Investors “raising their hand” will be treated as LPs in a dissolution of a private equity fund, although payout for liquid/non-side-pocketed investments may be funded sooner (by leverage, new capital, etc.)
- ▶ Economics are American or European waterfall
- ▶ If American, clawback calculation will be made periodically (e.g., every 4-5 years) and upon full return of capital to an LP

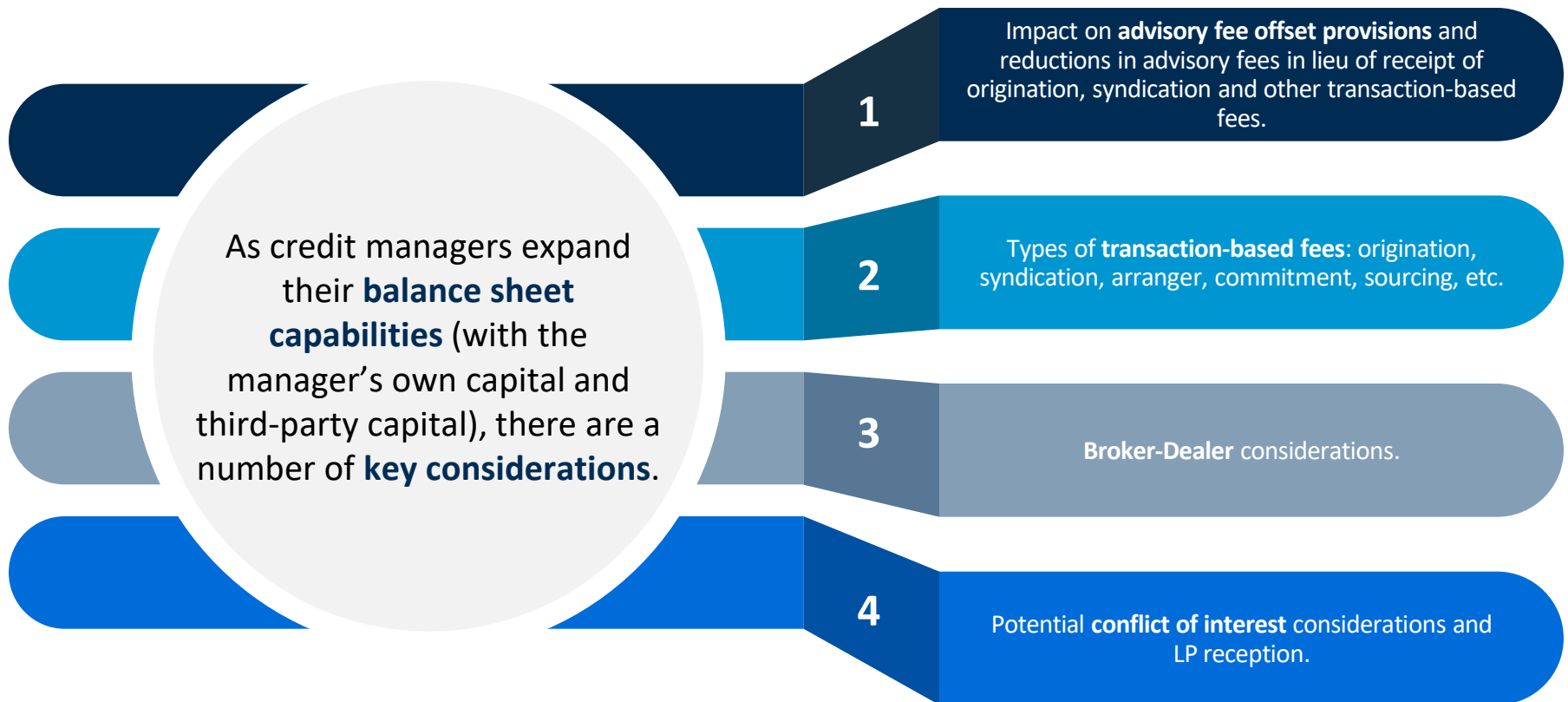
OPTION 2:

A Committed Evergreen Single Portfolio Fund with No “Side Pockets” and Hedge Fund-like Economics

- ▶ A single portfolio, (but ability to “side pocket” hard-to-value investments)
- ▶ Participation percentages in investments are not static (incoming capital dilutes existing investments)
- ▶ Investors are subject to an infinite commitment but can “raise their hand” to get liquidity after initial lock-up period (~3-4 years)
- ▶ Investor may elect to recycle or not to recycle
- ▶ Investors deciding to “raise their hand” or not to reinvest will be treated as LPs in a dissolution of a private equity fund, although payout may be funded sooner (by leverage, new capital, etc.)
- ▶ Economics calculated as one aggregated waterfall
- ▶ Waterfall on a mark-to-market basis, i.e., hedge fund-like economics

Private Credit Fundraising

ORIGINATION, CAPITAL MARKETS SERVICES & BALANCE SHEET CAPABILITIES



Private Credit Fundraising

PROLIFERATION OF CREDIT CONTINUATION VEHICLES AND SECONDARIES FUNDS

Credit managers are seeking to **accelerate distributions** and provide new investors with **access to credit portfolios** comprising assets such as capital solutions assets, CLOs and CBOs.



Given the nature of the assets, continuation vehicles are structured as **medium term (3-5 years) products** aligned with the main fund.



Typically for these deals, existing investors are offered a **“status quo” rollover option**.



In the context of a European waterfall (as is typical for credit funds), **continuation funds are also being considered** by managers that are not yet “in the carry.” The GP rolls 100% of its exposure to the portfolio for further alignment on **go-forward performance**.



Fundraising for **credit secondaries funds** has also gained momentum, as managers are able to effectively deploy capital and demonstrate increasing deal activity.

Retail and the Private Credit Market

Retail and the Private Credit Market

WHY ARE SPONSORS LOOKING TOWARDS RETAIL CAPITAL?

Accessing Non-Institutional Capital

- ▶ The size of private credit assets globally is estimated to be **\$1.5 trillion**.
- ▶ Sponsors are increasingly seeking out **non-institutional capital** in order to continue to drive growth.
- ▶ Individual investors are estimated to account for **~\$300 trillion of AUM globally**, with HNW and “mass affluent” representing over \$100 trillion.

Increasing Retail Access

- ▶ In the U.S., the SEC leadership has expressed openness to **increasing retail access** to alternative asset classes.
- ▶ The rise of ETFs and other index products has led to **increased fee pressure for managers** of traditional mutual fund platforms.
- ▶ Rise in **partnership opportunities** between alternative asset managers (investment expertise) and traditional fund shops (leverage existing distribution relationships).

European Structures to Access Retail

- ▶ In Europe, the advent of new and revised structures for retail investment have provided sponsors with improved frameworks **to access non-institutional or retail capital**.
- ▶ Introduction of **“ELTIF 2.0” in the European Union** sought to address some of the perceived shortcomings of the previous “ELTIF 1.0” structure.

Diversified Investor Base

- ▶ Non-institutional capital also helps **sponsors diversify their investor base**, especially in an increasingly competitive institutional fundraising landscape.
- ▶ Retail investors are more likely to buy and hold long term, and retail-focused evergreen vehicles can provide access to **perpetual life AUM and reliable management fees**.

Investor Appetite for Alternative Assets

- ▶ The drive is also partly investor-led, with **high-net-worth individuals** seeking to diversify their portfolios, and access the higher returns typically associated with alternative assets.

Retail and the Private Credit Market

FUND STRUCTURES USED IN EUROPE AND THE U.S.

U.S.

Interval Funds and Tender Offer Funds

- ▶ Can either be (1) registered under Securities Act or (2) offered under Reg D.
- ▶ Continuously offered, usually with monthly fully-funded subscriptions.

Business Development Companies (BDCs)

- ▶ Can either be (1) registered under 1933 Act or (2) offered under Reg D.
- ▶ Mostly used for credit strategies – significant simplification of tax structuring.

Evergreen Private Funds

- ▶ Sold only to qualified purchasers (relying on 3(c)(7) under 1940 Act) that are also accredited investors (relying on Reg D under 1933 Act).
- ▶ Continuously offered, usually with monthly fully funded subscriptions.

Europe

ELTIF 2.0 – European Long-Term Investment Fund

- ▶ The fund must be authorized by a European regulator and must be managed by an authorized European manager.
- ▶ An open-ended fund structure is permitted with some conditions on liquidity management and a redemption policy.

LTAF – United Kingdom's 'Long-Term Asset Fund'

- ▶ The fund must be authorized by the UK Financial Conduct Authority and must be managed by an authorized UK based manager.
- ▶ The fund cannot be fully closed-ended and redemptions are subject to restrictions.

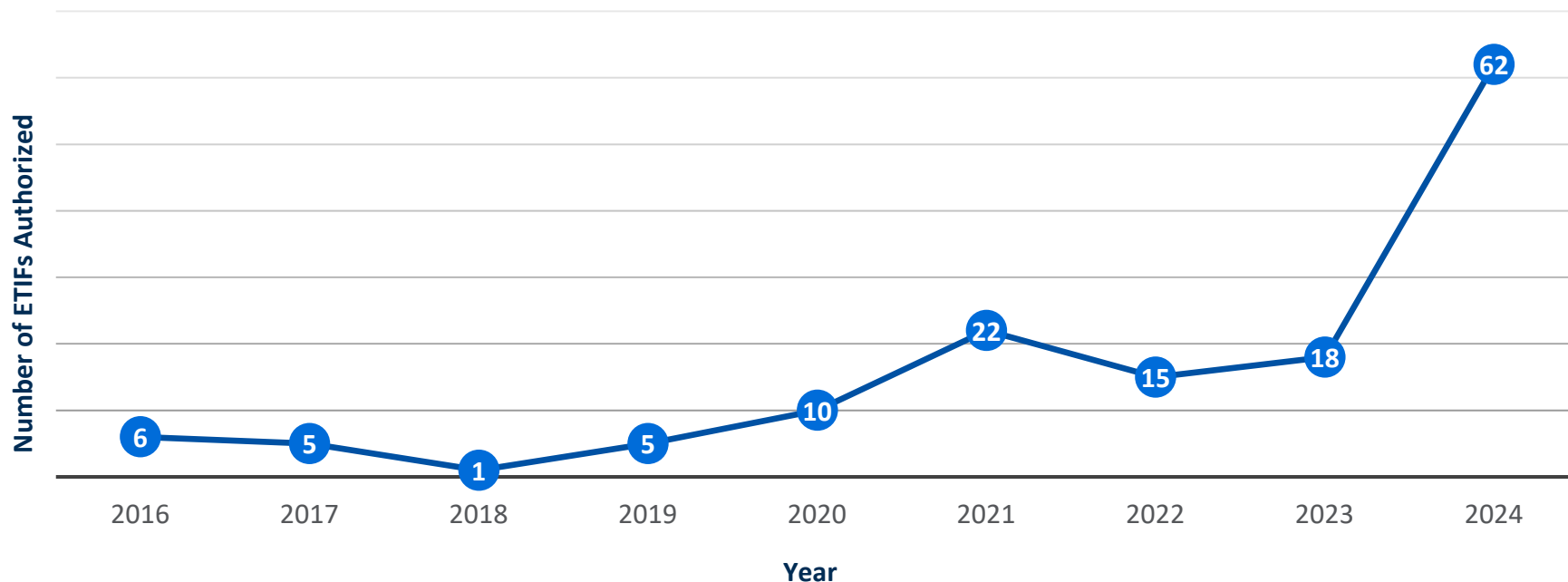
UCI Part II – a form of Luxembourg Alternative Investment Fund associated with retail access

- ▶ The fund must be authorized by Luxembourg's financial regulator, the CSSF, and must be managed by an authorized European manager.
- ▶ An open-ended fund structure is permitted, and quarterly redemptions are common.

Retail and the Private Credit Market

ELTIFS AND LTAFs IN NUMBERS

Number of ELTIFs by Year ⁷



LTAFs in Numbers

8

Carlyle and Arcmont Asset Management are among 8 sponsors that have launched a total of 24 LTAFs to date (including sub-funds).

Sources:

7. Data excludes ELTIFs without a publicly available authorization date.

Retail and the Private Credit Market

SCANNING THE HORIZON – WHAT TO EXPECT FROM 2025 AND BEYOND?

1

More sponsors considering and evaluating **retail structures for a variety of strategies**, including private credit. A leading example is the recently launched Private Credit ETF, giving retail investors access to private credit.

2

Key regulators in the U.S. and Europe view access to **alternative assets for retail investors as a priority**, and are considering mechanisms to reduce compliance burden, while ensuring appropriate investor protection.

3

While expected to ease in the U.S., the **spotlight on non-bank lending from global regulators continues** to grow, with the European Central Bank warning of hidden risks in the private credit market in October 2024, and it is possible that increased regulatory scrutiny will persist.

4

AIFMD II will be implemented from April 2026 and with it, new rules that impact credit funds, particularly those with direct lending strategies. AIFMD II rules will include restrictions in relation to diversification, risk retention and leverage. **Additional restrictions on liquidity management policies may have to be considered.**

Private Credit at Paul, Weiss

Paul, Weiss stands at the leading edge of the rapidly growing private credit industry, with extensive experience representing alternative asset managers, sponsors and investors in some of their most complex private credit matters. Our elite private credit team is multidisciplinary and led by partners with decades of experience developing creative solutions across a range of structures and transactions to meet our client's objectives, including financings, acquisitions, fund formations, new platforms and other strategic transactions utilizing private credit.

Learn more about our practice [here](#).

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