

## A WORD FROM BARINGS

# Capital solutions: Flexible financing

**Describe what a “capital solutions” strategy is and how it differs from traditional sponsored finance.**

The term “capital solutions” has become an increasingly popular way to describe flexible, often credit-focused strategies that provide investors access to unique or bespoke deal flow and sponsors and borrowers access to customized financing packages. In particular, a capital solutions strategy aims to create a tailored solution for those sponsors and borrowers that may be in complex situations and are seeking an alternative to traditional capital markets financing. At Barings, our Capital Solutions platform sits at the intersection of public and private credit markets, where we are positioned to leverage the firm’s deep industry knowledge, sector coverage, and cycle-tested experience structuring unique or complex financings.

From a borrower or sponsor’s perspective, it’s important to note the difference between traditional sponsored finance and capital solutions strategies. The former is typically more akin to assembly lines producing standardized products (typically first-lien loans with covenants) while the latter may be more appropriately thought of as “custom builds” that depend greatly on the unique needs, sensitivities, and objectives of borrowers and sponsors in very specific situations.

**Exactly how flexible are “flexible capital solutions” strategies?**

Capital solutions strategies can be flexible in a number of ways. At Barings, we have visibility into a wide variety of investment instruments up and down the capital structure—from debt through to equity. Our solutions can take on several different forms, from opportunistic lending to structured asset financing to structured/preferred equity. Some of these financing solutions are more appropriate at distinct parts of the economic cycle, while others can be leveraged throughout the entire business cycle and/or may be more idiosyncratic.

Given that we are unconstrained by investment instrument, we take a solutions-focused rather than “product first” approach to create a customized financing package. This gives us the flexibility to support our borrowers as their financing needs evolve throughout the market cycle.

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For example, when a large, well-established family business was seeking a solution after management had taken some missteps and was required to refinance, we partnered with them to simplify their balance sheet—and introduced some equity financing, which is not something they had previously considered. In this case, taking a more creative approach allowed them to continue their growth trajectory while making their financing obligations more manageable. Deals like this are often outside the remit of traditional direct lenders, but we’ve found that they can form the foundation of long-term financing relationships that can be fruitful for all involved.

**What trends are you seeing across the market today?**

On the deal origination front, one of the main trends that we’re seeing is managers making strategic platform investments that themselves act as origination engines. For example, at Barings, we have ownership interests in Eclipse Business Capital, a non-bank asset-based lending platform, and Rocade, a litigation finance platform. In our view, these platforms can act as origination channels for unique deal flow in a growing area of the private credit market. From a solutions perspective, this gives us additional tools in our toolkit, enabling us to offer more creative financing solutions to the market. We expect to see this trend continue to gain steam in the industry.

Another trend we're seeing, in part related to the much-discussed "denominator effect," is pressure from LPs on their managers to return capital. This has led to traditional private credit lenders, in many cases, being less flexible with sponsors and borrowers who may see attractive growth opportunities but need financing support to pursue them. This is where we've seen opportunities for capital solutions platforms to step into the void that has been created, and to get creative by putting together sometimes non-traditional packages that help borrowers, sponsors, and investors stay aligned for the long term and potentially exit investments at a later time when conditions may be more favorable.

A final trend we're seeing is a rise in the number of stressed situations emerging across the market, which is creating investment opportunities in the opportunistic lending space. In our view, opportunistic lending is the core of a capital solutions portfolio. In most cases, bilateral senior loans are made to companies facing economic challenges or those in illiquid situations that are unable to access traditional capital markets. For instance, some companies have holdover issues from the pandemic, while other companies may have had strategic missteps and/or have been hit hard by the rapid rise in base rates. These companies are seeking solutions—and again, by taking a creative approach, we believe it is possible to structure financing packages that help businesses continue to grow even through difficult times and do so while ensuring stakeholder alignment.

### **What are the potential benefits of partnering with a large investment platform?**

In the capital solutions space, there are a number of important considerations to be aware of when considering partnering with an investment platform. In our view, large, well-established platforms offer a range of benefits—especially when the emphasis is on forming a long-term relationship, rather than simply focusing on an individual transaction.

In particular, a larger investment platform has the ability to be a one-stop financing shop for a company as its business evolves. At Barings, for instance, our Capital Solutions team may initially work with a borrower on a debt financing. As the company delivers on its performance targets and its financing needs evolve, we have the ability to work with our middle market, direct lending team. Subsequently, if the business continues to grow and mature, we can seamlessly transition it to our broadly syndicated credit group, which is one of the largest in the industry.

Coastal Marinas (CMH), an owner and operator of marinas in Charleston, South Carolina, is a good example of a capital solution in action. Barings partnered with CMH to creatively structure a long-term financing package that incentivizes growth and reinvestment—including providing CMH a delayed-draw term loan in 2021 followed by structuring a common equity line in 2022. In our view, this has given CMH the flexibility to pursue growth at its own pace while maintaining a strong balance sheet and financial flexibility.

Managers that have broad and deep experience crafting solutions over an entire market cycle are well placed to provide stability through evolving markets. Barings is a subsidiary of a Fortune 100 insurance company in MassMutual, which brings with it a long history of stability through the ups and downs of market cycles. This positions us to truly take a long-term approach and be a supportive and strategic financing partner.

Ultimately, capital solutions are about creativity and long-term partnerships. As the financing landscape continues to evolve in areas of the market such as private credit, we expect demand to continue to grow for bespoke, customized financing packages, and we believe capital solutions strategies will be a big part of filling that void.