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PRIVATE CREDIT

Direct Lending: Why Global & Why Now?

INSIGHTS

For investors looking to generate income, preserve capital, and achieve diversification—particularly at a time when macroeconomic and geopolitical uncertainties are high—taking a global approach to direct lending markets can be part of the solution.

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This piece was adapted from a recent Streaming Income podcast.

Evolution of the Market

The dynamic growth of direct lending over the last 10+ years has captivated investors and captured a fair share of headlines. North America, the largest and most mature market, tripled in size between 2010 and 2024. Estimated to be around $1.5 trillion today, expectations are for it to reach nearly $2 trillion by the end of the decade. The European direct lending market is about half that size, estimated to be between $500 billion and $1 trillion—and growing. Developed Asia Pacific is the smallest market by AUM but arguably has the longest runway for growth, standing at around $28 billion today.[1]

The impressive growth across these markets is not in size alone. **Particularly over the last five years, direct lending has seen a proliferation of growth across different investor channels.** Once limited primarily to institutional investors like insurance companies and pension funds, direct lending today has a meaningful weath investor base. In North America, the recent rise of perpetual business development companies (BDCs) has been a significant contributor to that expansion. According to LSEG, BDC AUM surpassed $300 billion in 2024, with roughly half of that coming from publicly traded vehicles—of which there are about 50 in North America—and the rest coming from non-traded BDCs.[2]

Global Direct Lending Markets at a Glance

North America	Europe	Developed APAC
$1.5–$1.7 T	$500 B–$1 T	$28 B
Club	Sole Lender/Club	Sole Lender/Club
10.5% Yield (LTM)	9.5% Yield (LTM)	11% Yield (LTM)
250 bps*	250–300 bps*	250–400 bps*

Source: Barings, Credit Suisse, Preqin. As of March 2025. *Average premium vs. broadly syndicated markets.
The referenced currencies for quoted yields are U.S. dollars (NA, Developed APAC) and Euros (Europe).

No Signs of Slowing

Investors' allocations to direct lending have evolved as well. Five to 10 years ago, private credit was largely considered a satellite strategy, with most institutional investors concentrated in North America and allocating around 1% to the asset class—and that 1% was primarily in traditional, middle market direct lending. **Today, many LPs have increased their private credit allocations to upward of 20%, often comprising a wide variety of sub-strategies and spanning multiple regions.** Rather than a narrower focus on North America or Europe alone, for example, global strategies focused on capturing relative value across geographies are garnering more interest.

1. Source: Preqin. As of March 2025.
2. Source: LSEG LPC. As of December 2024.

Indeed, there are several advantages to a global approach, particularly as LPs look to map their broader corporate exposure. For one, it increases the opportunity set of potential investments and, by extension, allows private credit managers to invest more selectively. **Because competitive dynamics ebb and flow (and differ) by geographic region, a global approach also allows managers to efficiently ramp a well-diversified portfolio without the pressure to invest in assets from a given region at a point in time when relative value is less attractive.**

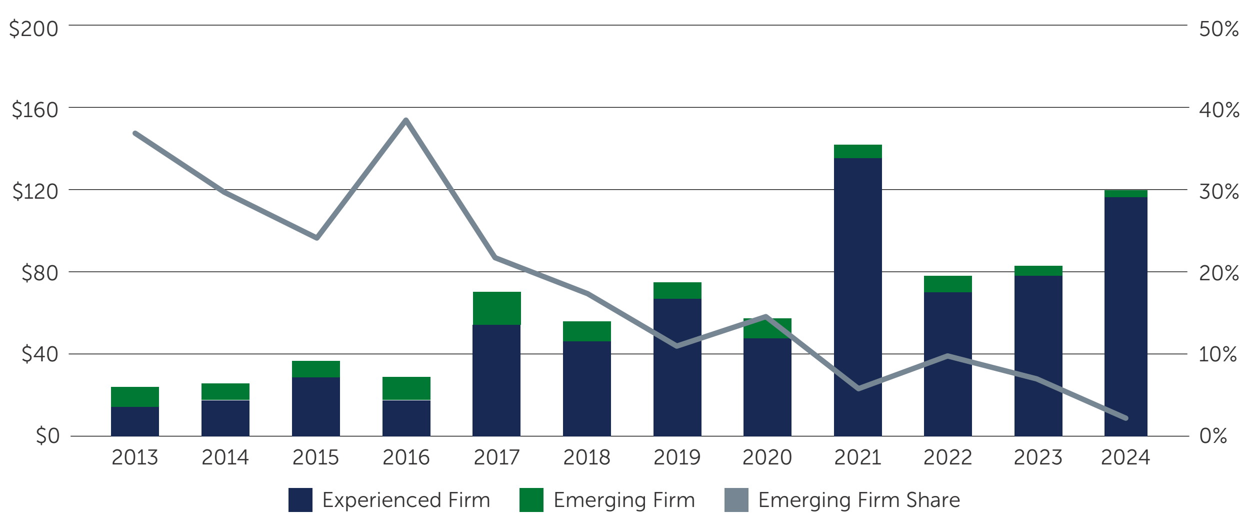
But global strategies, by nature, are complex, requiring investors to partner with managers that have a presence in different regions and a thorough understanding of the dynamics that drive each market.

North America: Largest & Most Mature

In addition to being the largest and most mature direct lending market, North America is highly competitive, having seen an estimated 500 new entrants over the past five years. That being said, deal flow continues to consolidate around fewer, larger and more stable managers (Figure 1). **Five years ago, for instance, the top 20 managers raised 35% of the capital in the market; in 2024, the top 20 private credit managers raised more than 65% of the capital.**[3] In other words, competition is high, but access points—particularly in the traditional or true middle market—have narrowed. Fundraising data shows a similar trend, with new entrants accounting for just 2% of the total fundraising share in 2024.[4]

In terms of market structure, North America is more of a "club" market relative to Europe and developed APAC, meaning there are often multiple lenders working together to fund a loan to one borrower. The club aspect is most pronounced in the upper middle market where transaction sizes can be very large and there are sometimes upward of 25+ managers. These transactions warrant caution as they can become susceptible to adverse scenarios, losing some of the traditional benefits of direct lending like the ability to privately negotiate and restructure transaction terms as conditions change. Even in smaller

Figure 1: Direct Lending Capital Raised by Manager Type ($B)



Source: Pitchbook. As of December 31, 2024.

3. Source: Preqin. As of September 2024.
4. Source: Pitchbook. As of December 31, 2024.

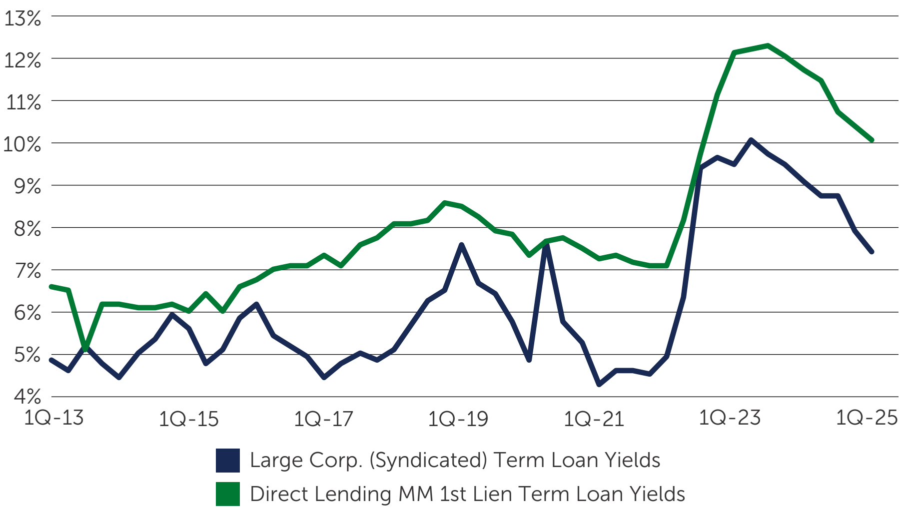
transactions with fewer lenders, however, serving as lead or co-lead is critical and helps managers ensure consistency across their portfolios in terms of approach, documentation and structural protections—all of which factor into long-term performance.

Core Middle Market

Deal terms and pricing structures in North America depend largely on the part of the market where a manager is transacting. Broadly speaking, deal flow in the market remains somewhat limited given the dearth of M&A activity in recent years. For new platform deals, in particular, there is a meaningful supply/demand imbalance. While that has driven pricing tighter overall, margin compression is more pronounced in the upper part of the market. **Muted deal flow has also been less of an issue for established platforms with large existing portfolios and the ability to source differentiated opportunities and deploy capital via off-market origination or add-on transactions.**

Terms for traditional, first lien senior debt in the core middle market have remained relatively favorable. Despite recent spread compression, all-in first lien yields continue to look attractive, at roughly 10.5% for the last 12 months through March.[5] The spread premium that the middle market has historically offered over broadly syndicated loans has remained compelling as well. Historically, for Barings' North America direct lending strategy, the premium has ranged from 200–400 bps, averaging 250 bps over the last five years.[6]

Figure 2: Historical Illiquidity Premium vs. Broadly Syndicated Markets (North America)



Source: LSEG LPC. As of March 31, 2025.

In 2024, the

top 20 managers

IN NORTH AMERICA RAISED

>65%

of the capital

5. Source: Barings. As of March 31, 2025.
6. Source: Barings, Credit Suisse. As of March 31, 2025.

In 2024, the

top 5 managers

IN EUROPE, REPRESENTED

~50%

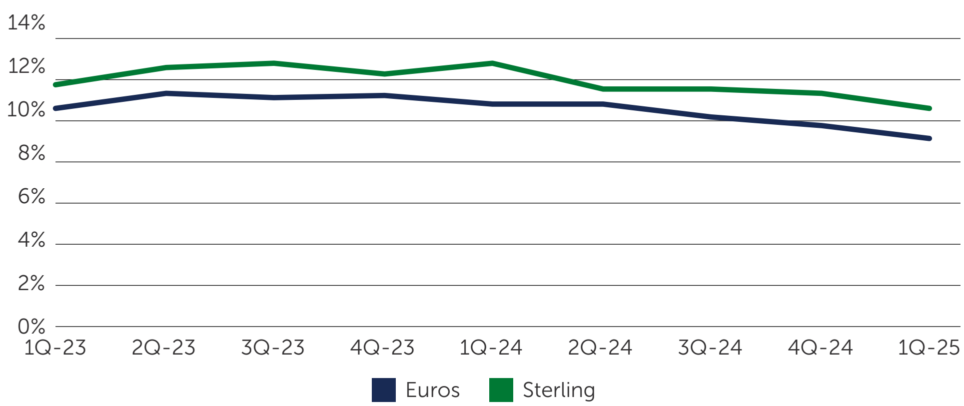
of all transactions completed

Europe: Growth & Diversification

The European direct lending market has undergone significant evolution over the past decade, drawing parallels with the North American market but with its own unique dynamics. While some estimates put European private credit five to ten years behind the U.S. in terms of development, our view is that gap has narrowed, particularly since Covid.

Similar to North America, this growth has been driven primarily by the retrenchment of banks. As leveraged lending guidelines and other regulations have continued to curtail bank lending, opportunities have emerged for non-bank lenders to step in and finance the transactions that banks can no longer support. **The last five years, in particular, have seen an influx of new entrants. But like North America, there has been a flight to top-tier managers that have both scale and incumbency.** Underscoring this trend, in 2024, the top five managers represented roughly half of all transactions completed in Europe.[7]

Figure 3: Private Yields (Europe) Remain Robust Given Still-Elevated Base Rates



Source: KBRA DLD. As of March 31, 2025.

From a pricing and all-in yield perspective, spreads have compressed in Europe more recently, hovering around 620 bps for the last 12 months through March.[8] However, origination yields have remained robust due to still-elevated base rates, at roughly 9.5% for the last 12 months through March, compared to 7% in 2021 and 10.9% in 2023.[9] The market also continues to offer a premium over the broadly syndicated market, to the tune of 250–300 bps.[10] What this suggests, and what we continue to observe, is that **private equity (PE) sponsors remain willing to pay a premium in exchange for resilience, reliability, and certainty of execution—something that arguably becomes even more valuable during periods of market volatility.**

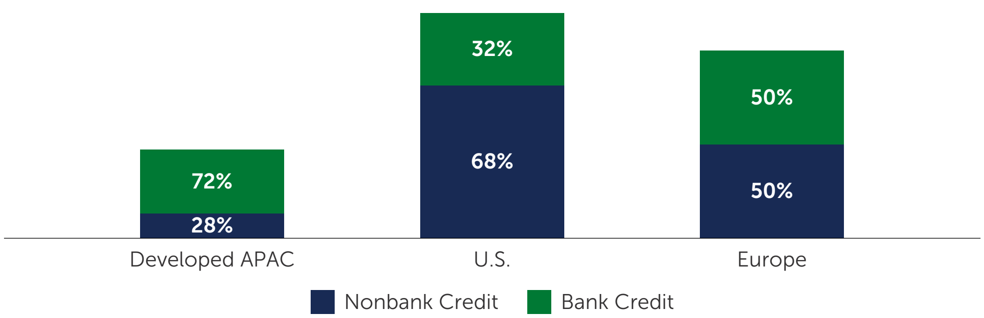
7. Source: Houlihan Lokey. As of December 2024.
8. Source: Barings. As of March 2025.
9. Source: Barings. As of March 2025.
10. Source: Barings, Credit Suisse. As of March 31, 2025.

One key difference between Europe and North America stems from Europe's many regional idiosyncrasies and regulatory complexities. Geographically, the U.K. was the first to adopt direct lending on a significant scale, and even up to five years ago, 70%–80% of the volume or loan issuance in the European market was happening in the U.K., France, Germany, and the Benelux countries were next, followed more recently by southern European countries like Spain and Italy. Each of these markets and jurisdictions has its own legal systems and tax regimes, further underscoring the need for large and highly specialized teams with local expertise and linguistic skills.

Developed APAC: Long Runway for Growth

The APAC direct lending market has experienced notable growth and transformation over the past decade but remains relatively nascent compared to its North American and European counterparts. This evolution is partly due to the growth of the APAC middle market, which has accelerated the funding needs of APAC-based businesses and increased the demand for innovative, flexible and efficient financing solutions. At the same time, banks, the traditional source of middle market funding, have been tightening their lending criteria and scaling back, similar to what we have seen in North America and Europe. **While the increase in non-bank lenders has resulted in more competition, the overall effect of that has been positive, contributing to increased supply and a more efficient market with a much deeper opportunity set.** Additionally, even with banks scaling back, they still provide 70% of the financing today, suggesting there is a long runway for growth as the market continues to mature (Figure 4).

Figure 4: Bank Credit vs. Non-Bank Credit by Region



Source: Bank of International Settlements. As of September 30, 2024. Calculated as bank credit divided by total credit to the private non-financial sector. Developed APAC region refers to Australia, New Zealand, Hong Kong, Singapore, Korea and Japan.

Further supporting the growth story in the region, a number of global PE sponsors have entered the market in recent years and raised region-focused funds. Many of these sponsors have experience in the North American and European direct lending markets and are looking for the familiar benefits—like flexible structures and speed and certainty of execution—that non-banks can offer. The amount of dedicated PE capital raised by sponsors in the region has risen sharply as a result, with dry powder currently exceeding $650 billion.[11] And this trend looks likely to continue as more funds targeting the growing private debt market are raised. Whereas credit funds in APAC have historically looked primarily at special situations and opportunistic credit, this has perpetuated a shift toward traditional senior direct lending, supporting the demands of the sponsors and looking to fill the gap created by the increasing funding requirement. This has led to a rise in both global and local credit funds raising capital.

11. Source: Preqin, Bain & Company. Asia Pacific Private Equity Report 2024. As of December 2023.

Developed vs. Emerging

APAC is perhaps best known for its geographic diversity, with significant variations in the attractiveness and legal frameworks of different countries. **We see the most value in developed APAC, particularly Australia and New Zealand, as well as Singapore and Hong Kong. These markets exhibit similar risk and return profiles as core direct lending strategies in the U.S. and Europe.** Notably, the regulations and bankruptcy laws in these countries are comparable with those in other developed markets, and the sovereign credit ratings are similar to, or in some cases better than, those in the U.S. and Europe. Taiwan, South Korea, and Japan also present growing opportunity sets. In contrast, we do not invest directly in emerging economies like China, India, Indonesia and Thailand, which are seen as more challenging given the greater potential for idiosyncratic jurisdictional risk.

Across developed APAC, middle market companies tend to be industry leaders and often have dominant market shares. EBITDA profiles, typically in the range of $15 million to $100-plus million, are similar to the U.S. and Europe. Leverage levels tend to be consistent with transactions in those markets as well, and in some cases are slightly lower. Pricing, too, has historically been less volatile—while non-bank lenders are a growing presence in APAC, there are still fewer participants chasing deals relative to the U.S. and European markets. Documentation is relatively conservative as well, with maintenance covenants and other structural protections present in almost all transactions, particularly in the middle market.

A Global Strategy Can Offer:

EXPOSURE TO AN INCREASED OPPORTUNITY SET

GREATER INVESTMENT SELECTIVELY

ACCESS TO WELL-DIVERSIFIED PORTFOLIOS

NATURAL HEDGE AGAINST REGION-SPECIFIC RISKS

... and the flexibility to capitalize on relative value as it shifts from region to region.

Why Global?

North America, Europe and developed APAC embody their own unique set of characteristics, but there are also benefits to considering a strategy that looks across all three markets. For investors, **a global strategy can provide access to a diversified portfolio with the potential to achieve consistent long-term returns.** Because countries differ in terms of where they are in their respective economic, interest rate and business cycles, the relative attractiveness of their direct lending markets can change—sometimes significantly—over the course of a typical four-year investment period. Diversification across North America, Europe and developed APAC puts managers in a position to opportunistically pivot between geographies depending on where the most attractive relative value is at a particular point in time.

Supply and demand factors also differ from region to region, which can lead to further differences in how transactions are priced and structured. If one region is experiencing a slowdown in deal flow, for instance, managers can pivot to another where the market conditions may be more favorable. Covid was an example of this—following the initial onset, during which most markets slowed, North America was the first direct lending market to open back up in terms of transaction volume, and the dislocation (and resulting opportunity) was significant. Europe followed, and while the dislocation was less pronounced it remained outstanding longer, providing an opportunity to pivot between the two regions as the relative value shifted.

The ability to shift allocations based on market conditions can also provide a natural hedge against region-specific risks. In a highly uncertain environment like today, this flexibility can be particularly beneficial. Tariffs are a big unknown today, for example, and a key issue to watch, particularly to the extent they start to impact trade flows and inflation. Similarly, there is much speculation around base rates—and while the forward curve serves as an indicator, it is impossible to predict precise rate changes with any degree of certainty. A global strategy with the ability to pivot between regions can not only help managers navigate these challenges more effectively, but also—and in doing so—help ensure that their portfolio remains resilient and well-positioned for further growth.

Flexible Financing Solutions

A global manager can also provide tangible benefits to borrowers—which, by extension, positions investors to benefit from access to opportunities as they are sourced across different regions and markets. **Increasingly, sponsors are expressing an interest in transacting with fewer managers and looking for strategic ways to add value and reduce their cost basis over time.** For many, this means partnering with managers that have the ability to provide tailored solutions to support companies' long-term growth trajectories, even as financing needs evolve. In some cases, this means working with a global lender that can provide financing solutions in multiple currencies and across different jurisdictions. If a sponsor based in North America is interested in pursuing a new platform acquisition in London, Paris or APAC, for example, there is a material advantage to working with an existing manager who can also fund in dollars, pounds and euros, and who has deep knowledge of the relevant legal landscapes.

Ultimately, lenders with the capabilities and breadth to support these requirements are in a good position to serve as strategic partners to sponsors and source differentiated and resilient opportunities for investors.

BARINGS

BARINGS GLOBAL DIRECT LENDING PLATFORM:

Experienced & Active Across Regions

North America

840+
Platform Investments

$35.3
Billion Invested

0.03%
Senior Loan Realized Loss Rate Since Inception[1]

2012
Senior Loan Strategy Inception

Europe

325+
Platform Investments

€35.3
Billion Invested

<0.01%
Senior Loan Realized Loss Rate Since Inception[1]

2013
Senior Loan Strategy Inception

Developed APAC

110+
Platform Investments

$4.2
Billion Invested

0.00%
Zero Senior Loan Realized Losses Rate Since Inception[1]

2011
Senior Loan Strategy Inception

2 bps
annualized loss rate across global senior lending platform

30+ year
track record investing in middle market companies

$50+ B
in commitments across the globe

350+
unique issuers in global portfolio facilitating "off-market" origination

30+
unique portfolios, including commingled funds, CLOs, permanent capital & SMAs

As of March 31, 2025.

1. Loss Rate is calculated as total losses on realized investments as a percentage of total invested capital since inception, divided by number of years since inception. Includes interest, fees, principal proceeds, and related expenses.

Past performance is not indicative of future results and there can be no assurances the stated objectives will be achieved.

Barings is a $442+ billion global asset management firm that partners with institutional, insurance, and intermediary clients, and supports leading businesses with flexible financing solutions. The firm, a subsidiary of MassMutual, seeks to deliver excess returns by leveraging its global scale and capabilities across public and private markets in fixed income, real assets and capital solutions.*

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