



Capital Solutions, Explained: A Perspective for European Insurers

For insurance investors, capital solutions is an increasingly important segment within the capital efficient private credit universe, combining enhanced return potential with the contractual cash flows, downside protection and capital efficiency that come with debt investment.



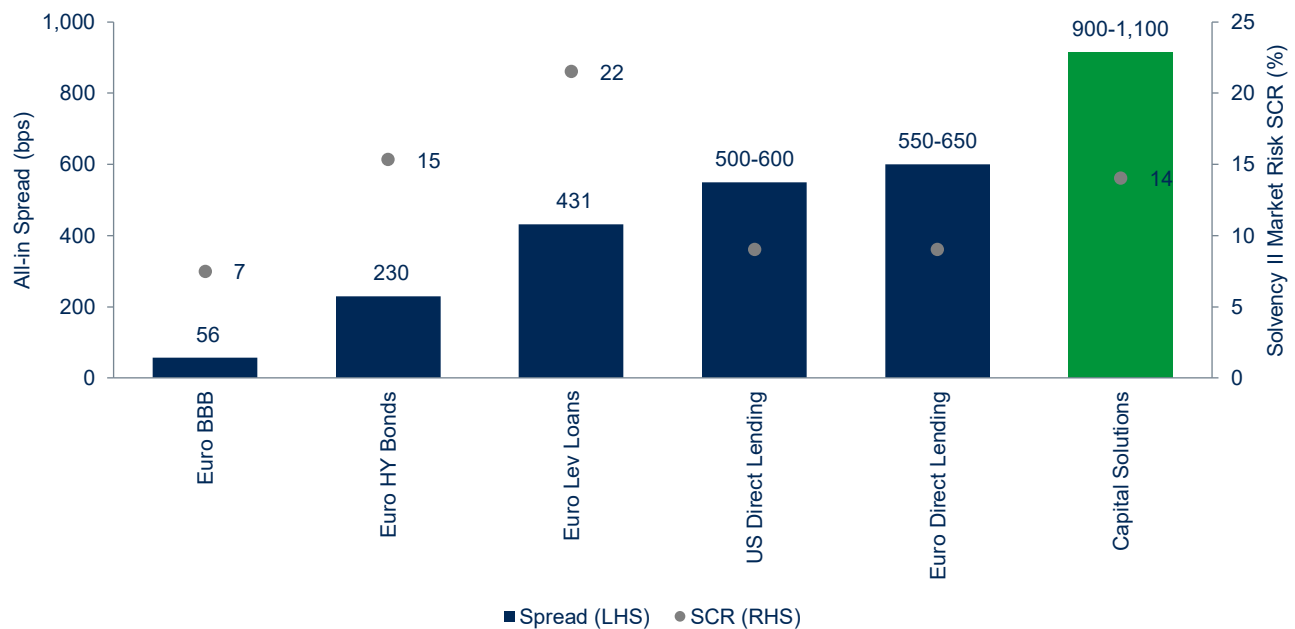
Michael Searles
Head of North America,
Capital Solutions



Ruolin Wang
Director,
Insurance Solutions

The prolonged low-yield environment of the last decade pushed many insurers toward private credit as they sought to enhance returns. Since then, yields have risen significantly, but spreads remain tight, and private credit – particularly middle market lending – has become a permanent allocation for many insurers. As demand has put some downward pressure on traditional middle market loan spreads, more insurers are looking to further broaden their investment universe, seeking to enhance risk-adjusted returns, improve diversification, and increase capital efficiency. Within this context, capital solutions is emerging as an important step in that evolution.

CAPITAL SOLUTIONS PROVIDES INSURERS WITH A CAPITAL-EFFICIENT WAY TO ENHANCE SPREAD



Source: Barings, ICE, UBS, EIOPA, PRA. As of June 9, 2026. Barings' interpretation of Solvency II standard formula. SCR excludes interest rate risk, FX risk and symmetric adjustment. Euro corporates based on corresponding ICE indices filtered for 1-5-year maturity. Direct lending assuming 3-year spread duration. Capital solutions assuming 85% debt exposure with 3-year spread duration, and 15% equity exposure. Spreads shown in local currency due to relatively low cross currency basis at short end of curve.

What is capital solutions?

Capital solutions began in distressed debt and opportunistic credit investing, but has since evolved into a broad, largely private and often bilateral ecosystem. The defining feature is **customization**. Managers start with a counterparty's objectives—timing, flexibility, or other constraints that traditional markets can't meet—and design terms (collateral, covenants, liquidity controls, maturities) that directly address those needs. This toolkit applies across both corporate situations and specialized asset-based financing (ABF) needs, where bespoke structures are often required to unlock value from complex or diversified collateral pools.

A few elements distinguish the strategy:

- **A problem-solving orientation:** This is not product-first underwriting. Fit and flexibility come first, with terms tailored to specific business constraints.

- **Diversity of approach:** Investment teams' varied backgrounds shape how they source opportunities and structure deals, broadening the overall opportunity set.

For insurers, the result is access to **differentiated exposures and return profiles** that sit outside of traditional credit markets while maintaining cash yields and enhancing capital efficiency.

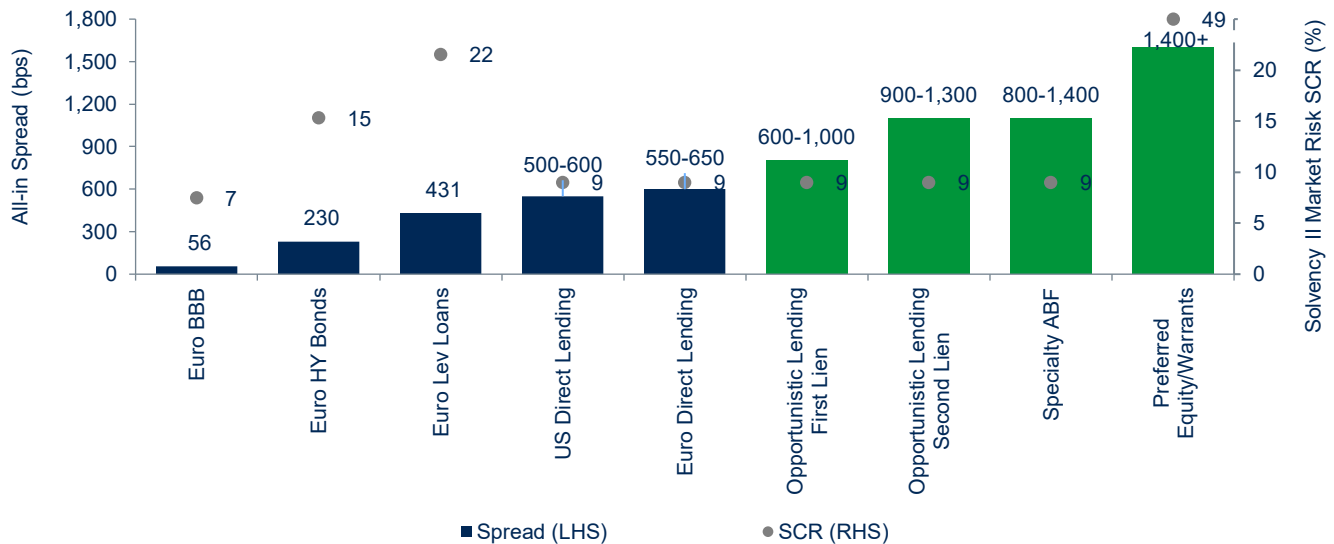
The Case for Insurance Investors

Insurers and other institutional investors allocate to capital solutions for its potential to deliver differentiated return drivers beyond what is typically available in traditional private credit. The strategy emphasizes **idiosyncratic situations, structural protections**, and a **true complexity premium**, which can provide:

- **Incremental returns over traditional private credit**, with cash yield from senior secured positions combined with structured upside
- **Lower correlation to direct lending**, as performance depends on asset-level underwriting and terms negotiated in bilateral or smaller lender group settings
- **Enhanced loss mitigation**, with collateral and protections directly calibrated to identified risks
- **Diversified exposures**, often across industries or situations that fall outside direct lending or liquid credit “buy boxes,” including specialty ABF tied to diversified collateral pools
- **Consistent return potential through cycles**, due to steady demand for customized capital regardless of macro conditions

For insurers, capital solutions can offer many of the more attractive features of both direct lending and private equity. It typically offers a return profile above traditional direct lending with access to equity upside and the potential to deliver private equity-like returns. At the same time, it maintains many of the core characteristics of debt: attractive cash yield supported by contractual cash flows, downside protection leading to greater certainty of outcome, and significantly lower capital charges.

CAPITAL SOLUTIONS IS A DIVERSE OPPORTUNITY SET WITH A RANGE OF EXPECTED RETURNS



Source: Barings, ICE, UBS, EIOPA, PRA. As of June 9, 2026. Barings' interpretation of Solvency II standard formula. SCR excludes interest rate risk, FX risk and symmetric adjustment. Euro corporates based on corresponding ICE indices filtered for 1-5-year maturity. Direct lending and capital solutions debt exposures assuming 3-year spread duration. Spreads shown in local currency due to relatively low cross currency basis at short end of curve.

For insurers seeking differentiated credit exposures or a complement to direct lending, capital solutions can be a compelling component within the surplus allocation toolkit. In addition to its minimal interest rate duration, which helps support balance sheet resilience, it can also help diversify exposures beyond traditional allocations while offering potential spread pick-up and improved capital efficiency.

The Case for Borrowers

Borrowers often turn to capital solutions when their needs fall outside standardized lending parameters. These are typically established businesses with identifiable earnings, durable cash flows, and actionable business plans—not early-stage ventures or highly speculative turnaround situations.

Common drivers include:

- **Speed and certainty of execution**, especially during acquisitions, market volatility, or refinancing windows
- **Flexibility**, such as bespoke covenants, liquidity mechanics, or amortization schedules that traditional lenders may not be able to accommodate
- **Underwriting expertise** to provide capital against assets that may be undervalued in traditional ABF markets
- **Non-standard metrics or industry dynamics** that make syndicated markets less efficient
- **One-off corporate events**, like leadership transitions, carve-outs, or complex balance-sheet actions

Typical situations can include acquisition financing where a business needs speed and certainty to close a transaction. Founder or family buyouts are another example, particularly those requiring discretion and flexible structuring. Capital structure resets are typical as well, where a borrower needs customized or tailored mechanics not available in traditional markets. While

the borrower ecosystem is largely private, **public companies also turn to capital solutions**, often when seeking flexible, short-dated bridges or bespoke capital in place of issuing equity, particularly in volatile or dilutive markets.

Specialty ABF

In addition to corporate situations, many borrowers seek capital solutions for specialized, asset-based financing needs that do not fit traditional ABL frameworks. These situations often involve heterogeneous, high-diversity collateral pools—such as aviation leasing platforms, pharma royalty streams, consumer or equipment loan portfolios, or litigation-related receivables—where deep domain expertise and asset-level underwriting are essential. Capital solutions providers can finance these assets on a look-through basis, calibrating advance rates, covenants, and structural protections to the underlying risk drivers. This enables borrowers to unlock liquidity from assets that conventional lenders may misprice or decline to finance altogether.

Across these scenarios, the common thread is a willingness to pay a modest premium for **speed, flexibility, and custom terms** that address underlying business constraints and operational realities—and that premium is what ultimately drives the investor value proposition.

Returns & Leverage: What to Expect

Target Returns

Return expectations generally sit between traditional direct lending and private equity. Most strategies aim for **low to mid double-digit outcomes**, delivered through structures with negotiated upside mechanics. Actual returns vary based on seniority, complexity and structure and there are no guarantees that targets will be achieved. Consistency is supported by lender protections and a focus on situations where underwriting, covenants, and collateral alignment help preserve cash yield and limit downside risk.

Some managers pursue higher returns by going deeper in the capital structure through higher-risk preferred equity or junior instruments, typically referred to as opportunistic credit. Others focus on “enhanced lending” or “direct lending plus,” which emphasizes senior secured positions with additional structuring levers. This area seeks to maintain the steady, interest-paying profile of direct lending while capturing modest additional return through bespoke terms, tighter documentation, or exposure to situations that benefit from flexible capital rather than increased credit risk. It remains fundamentally debt-like, supporting capital efficiency for insurance balance sheets, but with more room for structuring nuance and value creation, with terms uniquely defined to help meet a company’s objectives.

How Leverage Fits In

Leverage use has grown alongside the rise of private assets. Advance rates (the percentage of asset value a lender will finance) and investor preferences generally determine how much is applied. The intent is not to amplify returns artificially, but to **match leverage to asset durability** without taking on undue risk.

Some investors prefer unlevered exposure; others accept moderate leverage to enhance net returns, provided it stays within prudent loan-to-value (LTV) guardrails. For insurers, levered exposure can affect capital efficiency, as capital requirements typically increase faster than net returns after financing costs. However, rated notes and similar structures could provide a more capital efficient way to tailor risk and return profiles, depending on the capital regime.

Risk & Portfolio Construction

How Risk is Managed

Capital solutions is fundamentally bottom-up and asset-first. Underwriting resembles private equity, with granular analysis of business quality, cash flow drivers, competitive position and downside scenarios.

Structure serves as the next layer of protection. Identified risks—liquidity pressure, cash leakage, execution uncertainty—are addressed directly through covenants, cash controls, amortization or priority claims. Terms are designed so that, in times of stress, risk shifts to the borrower's equity before the lender's principal.

Portfolio Construction

- **Broad diversification and lower macro sensitivity:** portfolios are intentionally diversified and constructed to withstand a range of environments
- **Stress testing at the asset level,** rather than reliance on macro forecasts
- **Opportunity types shift with market cycles:** capital relief trades during banking stress, liability management financings during market dislocations, private bridges when equity market volatility spikes
- **Robust structures, with covenants** and collateral sized to withstand shocks to revenue, margins and liquidity

Loss Mitigation

The objective is to be compensated for complexity while maintaining tight downside control. Idiosyncratic, well-protected deals help preserve returns across cycles.

Crowding, Competition & Alpha

Some segments have become more competitive, but overall, capital solutions remains less standardized and less “beta-driven” than traditional private credit.

Where Does the “Alpha” Come From?

- **Effective loss mitigation,** not just higher coupons: doing fewer, more idiosyncratic deals with robust protective structures helps keep realized losses low and net returns above private credit beta through cycles
- **The ability to see more opportunities,** pass on more, and select deals where structure and price align precisely with risk
- **Using breadth to enhance selectivity,** not to pursue every deal

Ultimately, “alpha” in capital solutions is less about chasing volatility and more about delivering stable, consistent returns with cash yield and lower volatility than equity.

What’s Ahead

Innovation

As financial technology and structuring techniques advance, managers are finding new ways to finance assets and portfolios that aren't well served by traditional markets—often with stronger alignment and controls. This includes continued expansion in specialty ABF, where new data sources, underwriting models, and platform capabilities are opening markets historically out of reach for traditional lenders.

Outlook

- Borrowers will increasingly prioritize **speed, customization, and execution certainty** over one-size-fits-all capital
- **Investors will continue to support** thoughtfully constructed strategies, especially those with an established track record
- The **market will keep expanding and evolving**, with more tools, broader applicability, and deeper integration of borrower needs and investor protections
- The opportunity for managers will lie in **meeting innovation with discipline**, scaling only what is repeatable, efficient and risk-appropriate as the ecosystem matures

Bottom line

Capital solutions ultimately brings two sides of the market together:

- **Borrowers** gain tailored capital that addresses underlying business considerations and operational realities
- **Investors** are positioned to gain differentiated returns built on disciplined underwriting, strong structures and downside protection.

As the ecosystem expands, capital solutions is increasingly positioned as a durable bridge between **corporate complexity** and institutional demand for **consistent, risk-adjusted outcomes**. For insurers, it can serve as a valuable surplus allocation, with the potential to enhance returns with equity upside while maintaining the downside protection and capital efficiency associated with debt investments.

Barings Capital Solutions Platform

2008

STRATEGY
INCEPTION

\$6 B+

ASSETS UNDER
MANAGEMENT

375+

GLOBAL
INVESTMENTS

300–600

TARGET RETURN
PREMIUM OVER
DIRECT LENDING

12.5%

STRATEGY NET
IRR SINCE
INCEPTION

Source: Barings. As of December 31, 2025.

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