



CVC

PRIVATE WEALTH

# Why European Private Credit Belongs In Your Portfolio

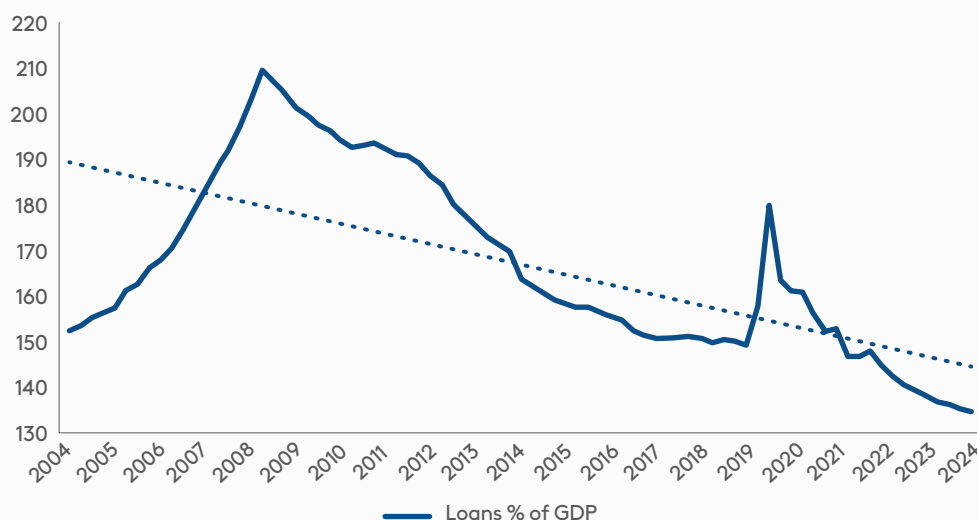


# Allocation To Private Credit Is No Longer The Question: Geography Is.

## From Alternative to Core:

- Private credit's **\$2.5 trillion<sup>+1</sup>** global scale ensures that today it is a core allocation for investors.
- Post-Global Financial Crisis (2008-2009) banking regulation left a **structural funding gap** for private lenders to fill.
- Risk-off volatile markets (e.g., in 2022–23) also create **cyclical opportunities** as traditional liquidity recedes.

Outstanding Bank Loans to Euro Area Non Financial Corporations (% of GDP)

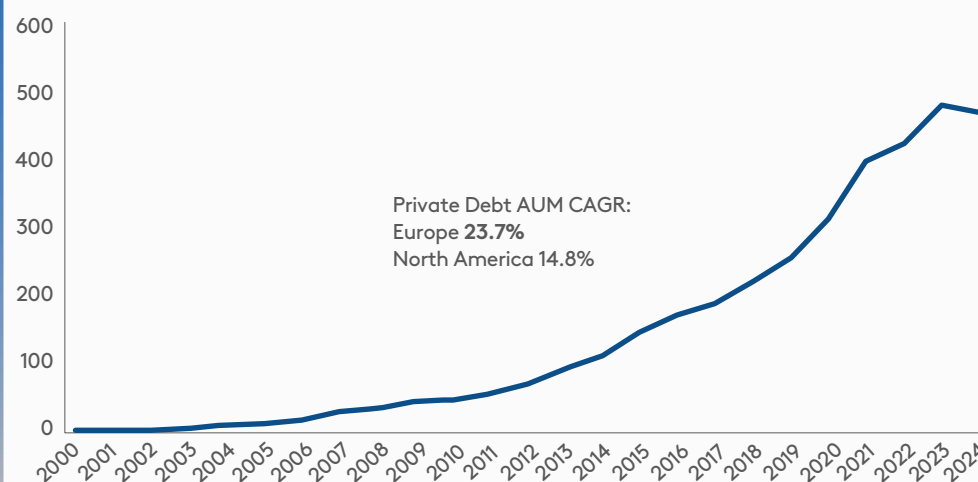


Source: European Central Bank Data Portal, 2025.

## Focus Shifts to Geography:

- **Europe** potentially offers more compelling bespoke **private lending opportunities** than the U.S.
- Banks supply 80%<sup>+2</sup> of corporate lending, but **Basel III/IV** curbs that capacity given tighter lending standards and balance sheet restrictions.
- However, this opportunity is not open for every private lender. **European fragmentation** raises barriers, favouring specialist local managers.

European Private Debt AUM (\$ billion)



Source: Preqin, 2024

# European Private Credit: Attractive Spreads & Downside Protection

## Attractive Spreads:

- Limited competition and local expertise keep European loan spreads persistently above U.S. levels.
- European fragmentation sustains this premium, offering investors durable yield pick-up.

European and U.S. Leveraged Loan Spreads

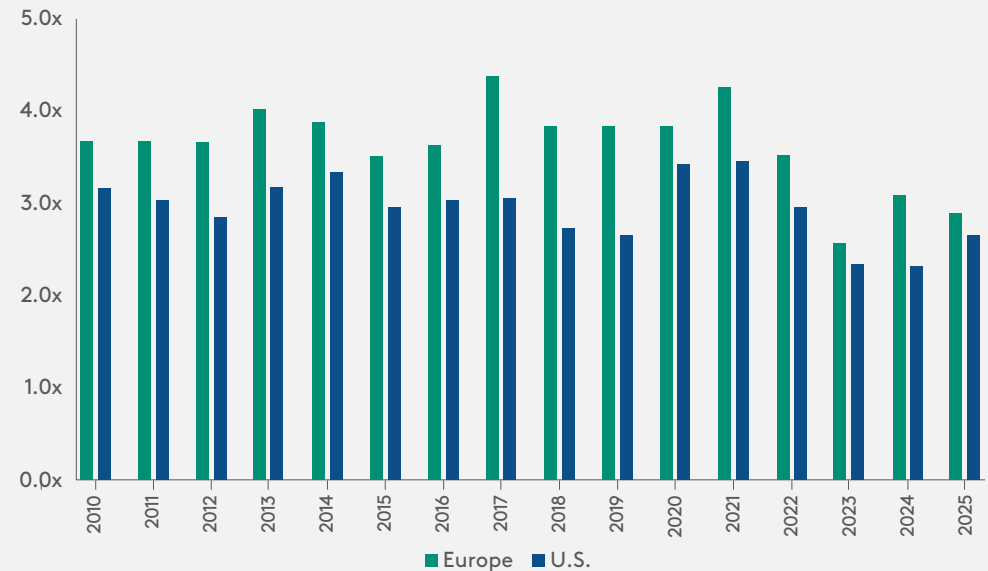


Sources: S&P LCD. U.S. Leveraged Loans represented by the Morningstar LSTA US Leveraged Loan Index. European Leveraged Loans represented by the Morningstar European Leveraged Loan Index. As at June 2025.

## Downside Protection:

- European leveraged buyout (LBO) loans have outperformed U.S. peers on interest coverage for over a decade.
- Conservative underwriting and lower leverage offer lenders greater downside protection.

European and U.S. LBO Interest Coverage Ratios Since 2010



Source: Pitchbook LCD, as at June 2025. Interest Coverage Ratios defined as EBITDA / Cash Interest. Note, U.S. data only includes issuers with EBITDA of more than \$50m. Prior to 2011 media and telecom loans are excluded.

# European Fragmentation: Europe's Enduring Edge

## Europe is Fragmented



Countries:

40+<sup>3</sup>



Political Parties:

1,000+<sup>5</sup>



Languages:

60+<sup>7</sup>



Currencies:

20+<sup>4</sup>



Cultural Groups:

150+<sup>6</sup>



Legislation:

100,000+<sup>8</sup>

- **Europe's Complexity:** Fragmented geography, regulatory regimes and languages create a challenging investment environment, limiting the number of lenders able to compete. In turn, this reduces capital available to high-quality borrowers.
- **Opportunities in Fragmentation:** For experienced local managers, these challenges can create rare opportunities to secure proprietary deal flow and strengthen negotiating power on covenants and pricing. For private equity sponsors and their portfolio companies, this means private credit that is highly customisable and quick to execute, providing reliable access to capital – with many sponsors leveraging this market throughout the cycle.
- **Performance through Deep Local Expertise:** Harnessing Europe's fragmentation for tighter terms and richer spreads makes investment skill and local presence, not size alone, a durable, repeatable advantage.

Europe's higher  
spreads are  
structural,  
not cyclical.

<sup>3</sup> The World Countries. <https://theworldcountries.com/geo/continent/Europe>

<sup>4</sup> List of Europe Currencies By Countries. <https://exchangerates.org/currency-use-in-europe>

<sup>5</sup> Parties and Elections in Europe. <http://www.parties-and-elections.eu/>

<sup>6</sup> Europe - Trade, Manufacturing, Services | Britannica. <https://www.britannica.com/place/Europe/Economy>

<sup>7</sup> Languages in Europe - Globe Language. <https://www.globelanguage.org/world-language-distribution/languages-in-europe/>

<sup>8</sup> Find legislation | European Union. [https://european-union.europa.eu/institutions-law-budget/law/find-legislation\\_en](https://european-union.europa.eu/institutions-law-budget/law/find-legislation_en)






# Manager Selection: A Critical Success Factor

## High Return Dispersion

- European private credit offers an appealing blend of structural yield premia, tighter covenants and generally lower leverage.
- However, not all managers have the platform to capitalise on Europe's fragmentation, making manager selection even more important.<sup>9</sup>

**In the right hands,  
Europe's fragmentation  
is not a hurdle, but  
potentially a reliable  
source of yield  
premium over  
comparable U.S. loans.**

## Why Manager Selection Matters

- To fully benefit from the European advantage, success rests on choosing a manager who can:
  -  Originate proprietary deal flow through deep local relationships, easing competitive pressure on terms and pricing.
  -  Apply a proven credit analysis framework, harnessing country and sector specific insight to set prudent leverage and drive resilient covenants.
  -  Execute disciplined post-investment monitoring to safeguard capital when cycles turn.

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<sup>9</sup> Returns Dispersion: Preqin data, 2025.