Opportunities in Volatility

Private Credit Investing Amidst Geopolitical and Economic Headwinds

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As an increasingly critical component of global financing, the private credit asset class continues to expand. However, in the face of significant geopolitical and economic headwinds, investors are prioritising established, local lenders with robust and disciplined approaches to underwriting and risk management.

"The current moment of ripe opportunity and nuanced risk creates a particularly favourable environment for agile, local lenders with a tenured team and wide breadth of existing borrower relationships."

Mark Bickerstaffe

From the perspective of portfolio construction, an expanding pool of investors around the world has come to view private credit as an important tool for lower volatility returns and downside protection. At the same time high interest rates have enabled higher returns in the asset class. Recent early signs of M&A recovery and growth in private credit funded LBO activity is supporting the growing demand for these assets, whilst historically high dry powder levels indicate a long runway for deployment of capital within the space.

Alongside this expansion, geopolitical and macro-economic factors shaping global markets are having a diverse impact across regions and creating a nuanced environment for sourcing and executing deals. Localised political instability, combined with trade and tariff uncertainty and macro economic challenges, present complex and multifaceted risks that lenders must consider when underwriting, structuring and managing credit assets.

In our view this unique combination of ripe opportunity and nuanced risk creates a particularly favourable environment for agile, longstanding lenders like Hayfin, with a regional presence and an established underwriting and risk management track record. In this paper we explore the current private credit landscape, recent risk factors and provide specific examples of how these have influenced our strategies for capital deployment.

As the examples provided highlight, a broad range of existing relationships along with a tenured private credit team is required to deploy capital in a manner well suited to downside protection.

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1.

The Private Credit Landscape in 2025

Continuing trends driving private credit asset class expansion

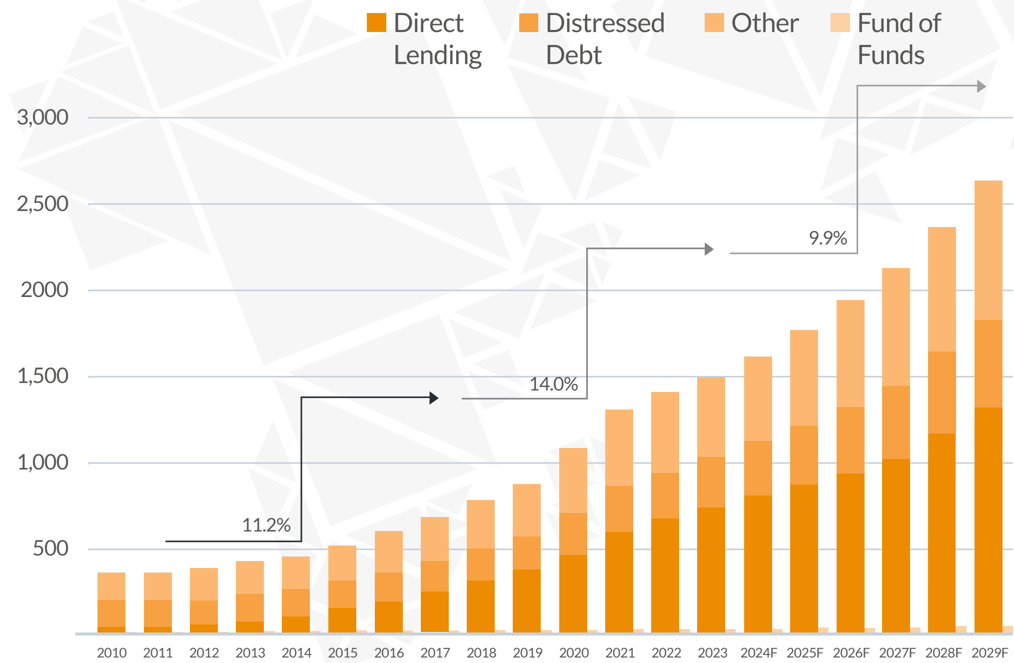
Despite geopolitical and economic headwinds, demand for private credit continues to grow through multiple channels. For borrowers, private credit lenders can offer flexible capital solutions in a more reliable and speedier fashion than traditional banks. For investors, including those from institutional, retail, and insurance channels, private credit offers a stable return profile and enhanced downside protection.

Following more than a decade of growing AUM, private credit is further projected to increase from $1.5 trillion in 2023 to $2.6 trillion by 2029, with direct lending accounting for approximately half of those assets. Even amidst the syndicated loan market reopening in 2024, private credit has continued to flourish. This does not come as a surprise given private credit plays an important role in supporting market activity as a key source of non-investment grade financing, and, more recently, as a significant source of investment grade financing.

Within the broader private markets, direct lending is essential to private equity (PE) players searching for deal flow to absorb recent record levels of dry powder. Whether M&A activity is now experiencing an upswing or not, financing deals tend to flow to established lenders with a broad existing portfolio. In the case of subdued M&A activity, lenders with a broad existing portfolio are best placed to access a narrower PE-led opportunity set where sponsors tend to focus on bolt-ons for existing portfolio companies.

Projected rise in private credit assets

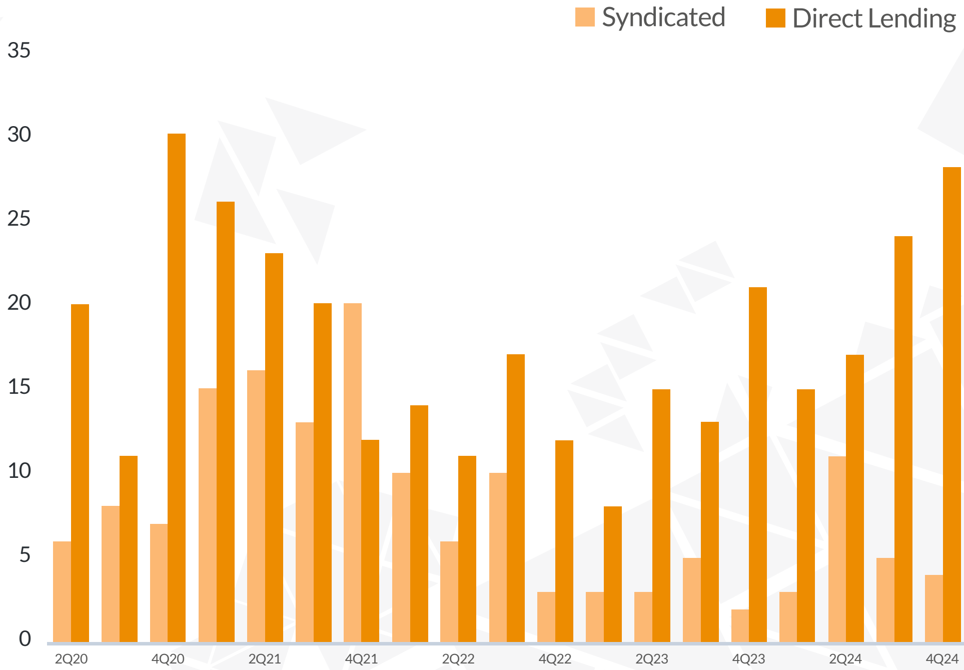
Global AUM by strategy ($B)



Source:
Preqin

Growth in private credit funded LBO activity

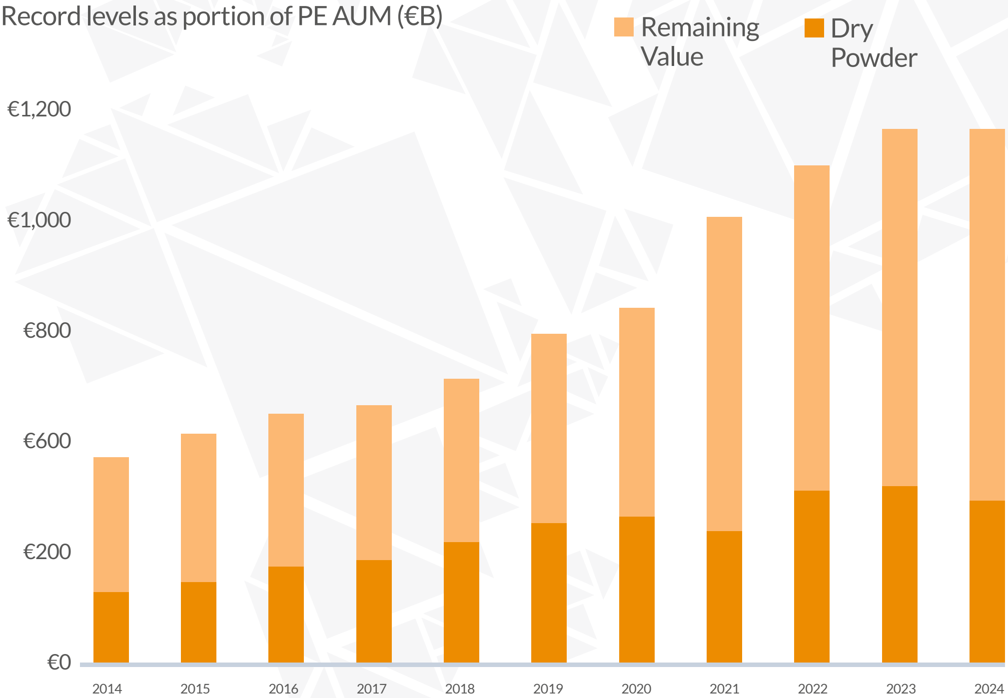
European count of LBOs financed via broadly syndicated loans vs direct lending



Source:
PitchBook / LCD. Data through Dec. 31, 2024. BSL refers to broadly syndicated loan market; direct lending count based on deals covered by LCD News

European PE dry powder

Record levels as portion of PE AUM (€B)



Source:
Pitchbook

2.

Geopolitical and economic headwinds

Political instability in regional markets

Private credit lenders with a longstanding local presence in the UK and Europe* understand the patchwork, heterogeneous nature of the regional 'sub-markets,' each operating under a separate legal jurisdiction with their own cultural, political and economic framework. This understanding is key to navigating the nuanced and multifaceted risks embedded in underwriting, structuring, and managing private credit.

In recent years these sub-markets have experienced political and economic instability driven by multiple factors, including the increasing cost of living, deteriorating quality of public services and infrastructure and high levels of government borrowing. The path and focus of government spending is hard to predict given the current economic dynamics and when combined with the current lack of political stability, lead to heightened uncertainty for companies with high levels of government expenditures.

"These examples highlight our risk management focus and represent our ability to quickly evaluate deals, provide early, transparent feedback, and maintain deep relationships with borrowers."

Marc Chowrimootoo

In anticipation of, and in response to, these geopolitical headwinds Hayfin's experienced team has leaned on its robust approach to risk management. During our 2024 underwriting, we passed on several potential opportunities to finance otherwise attractive deals where companies had significant exposure to government budgets. For example, in the UK we declined an opportunity to finance the LBO of a water utility services business despite the company's strong market position and track record. We declined, in part, due to the political uncertainty surrounding the sector and the public funding risk faced by the company's utility customer base. In another example, we declined a French deal to provide acquisition financing for a private higher education and vocational training company, due to concerns about regulations and the combination of direct and indirect exposure to public funding. In both cases, our ability to provide early, transparent feedback to sponsors was an important feature of maintaining our longstanding relationships.

Trade policy and tariff uncertainty

Another important aspect of understanding companies that operate within the diverse UK and European sub-markets and their relationship to global economies, is the role that imports and exports play throughout supply chains and product sale pipelines. Lenders have become accustomed to assessing the potential impact of supply chain disruptions after recent periods of market stress, including COVID-19 and Russia's invasion of Ukraine. However, more recently, announcements about tariffs between the United States and global trade partners and the related impacts on supply chains have moved to the forefront.

In this environment of uncertainty, robust underwriting by an established, regional team is critical to the process of identifying companies potentially impacted by supply chain disruptions or price changes and assessing their growth forecasts accordingly factoring in the long tail of risk. Within our direct lending portfolio we are focused on proactively assessing both the first order impacts of potential tariffs on portfolio companies themselves, as well as the second order impacts from broader market structure changes.

*Hayfin's report, 'Why Europe? Market Considerations for Private Credit' discusses how an established local presence across Europe provides access to differentiated deal flow where the competitive dynamics are more in the lender's favour.

Click here to access the white paper

Wherever there is change, we believe there can also be opportunity, and we are constantly looking for attractive opportunities with the right combination of lender, sponsor, company and situation.

Additional economic headwinds

Beyond geopolitical factors, there is a wide range of macroeconomic factors our team considers throughout the direct lending process. For example, we believe a prudent approach to risk management requires lenders to assume a continued high-interest rate environment when underwriting, structuring, and managing credit assets, given stubborn inflation and the Federal Reserve and other central banks' lack of clarity on timelines for potential rate cuts. Importantly, this view requires lenders to ensure the companies and sponsors they partner with are equipped to handle prolonged, higher costs of borrowing. Further considerations include how borrower fundamentals may be impacted by prolonged inflation and how changes in market liquidity can impact refinancing risks for highly leveraged companies.

Ultimately, to pursue the goals of providing downside protection and preservation of capital amidst uncertainty, we look at capital deployment through the lens of quality. To find the most attractive risk-adjusted opportunities we seek to prioritise quality, lower risk deals with favourable terms.

"Amidst complex geopolitical and economic headwinds we lean on our regional expertise and broad-based relationships during the sourcing and underwriting process to prioritise high quality deals with lower risk profiles and favourable terms."

Mark Bickerstaffe

3.

Strategies for effectively deploying capital

Against the backdrop of these geopolitical and economic challenges Hayfin is uniquely suited to continue sourcing and executing deals with a focused approach on risk management and preservation of capital.

Key factors in Hayfin's positioning for success include the breadth of our regional presence, with over 80 private credit professionals operating across the UK, Europe, and our dedicated healthcare team in the US. We recognise the importance of broad-based and sophisticated relationships for sourcing deals, negotiating terms, and maintaining robust risk management practices.

"Our niche sector expertise provides Hayfin with additional opportunities beyond the generalist market where our unique resources and skill set can be rewarded with better deal terms."

Marc Chowrimootoo

Since inception in 2009, Hayfin has leveraged this local network to build long-term, deep relationships with top tier sponsors. Our track record in private credit reflects our experience of sitting at the table with sponsors and companies and working together to find solutions, especially in cases where companies' business plans shift or encounter unforeseen challenges. In these scenarios, the sponsors we work with are often open to finding collaborative solutions, including reinvesting in the deal or supporting the transaction for a longer period than originally expected.

As an additional approach to risk management, and a factor in Hayfin's positioning for success in the direct lending space, we take a keen focus on structuring our investments for downside protection with robust legal tools including covenants. We recognise that effective covenants must be tailored to fit the company's unique jurisdiction and circumstances and, in many cases, be designed to trigger deal term renegotiation in cases of borrower underperformance.

These aspects of our direct lending process are crucial to effectively navigating uncertainty in global markets and to maintaining a flow of opportunities from the widest possible range of sources. With the size and widespread location of our team, we have developed significant expertise in a variety of niche sectors that has allowed us to capture opportunities on better terms. The following case studies demonstrate how this niche expertise has led to effective deployment of capital over the past year despite mounting headwinds.

The following case studies highlight how Hayfin's expertise in niche sectors, deep relationships with top tier, collaborative sponsors, and ability to quickly and effectively finance large scale transactions uniquely positions our firm to deploy capital amidst geopolitical and economic uncertainties in the broader markets.

Case Study: Eurofeu Group

In February 2024, our Paris office led a senior-secured debt financing to support IK Partners' acquisition of the French fire safety company, Eurofeu Group (Eurofeu).

Founded in 1972, Eurofeu installs and maintains fire protection equipment, as well as fire protection systems, predominantly for business-to-business (B2B) clients. Eurofeu's integrated manufacturing capabilities enable the company to provide a highly differentiated offering to its competitors. The company benefits from reoccurring revenues driven by a significant installed base of fire extinguishers and fire protection systems across France.

The Paris team identified the asset in late 2023 as a potential M&A candidate and engaged early with market participants. Given their in-depth knowledge of the French market, the team believed there was a high likelihood of the process being pre-empted in early 2024 and therefore began the underwriting process early while leveraging previous due diligence work on similar fire safety businesses across Europe.

Ultimately, IK Partners was seeking a lender able to commit to financing the full transaction with certainly of execution in a relatively tight timeframe. Given Hayfin's experience and precedent transactions with them, IK Partners had a high level of confidence that we could deliver on the financing with speed. We were also confident in IK Partners' ability to operate and support the business given our previous experience working together.

Case study: Easyfairs

In June 2024, Hayfin acted as the lead lender providing debt financing to support the acquisition of international events company, Easyfairs, by Cobepa, Inflexion, and the founder.

Easyfairs is one of the world's leading events companies, welcoming more than one million visitors annually and 23,000 exhibitors to its events. Easyfairs organises 110 event titles in 12 countries across 12 industry verticals. It also manages eight event venues in Belgium, the Netherlands, and Sweden. Hayfin believes Easyfairs' growth potential is supported by a strong pipeline of organic and inorganic opportunities.

The deal was sourced through Hayfin's extensive network and experience in the European events sector, combined with our local presence in the Benelux market. The team was able to identify the deal in 2023 before it came to market in 2024 and start the due diligence process early. The team was keen to partner with sponsors Cobepa and Inflexion who both have strong track records, including successful recent exits from primary investments demonstrating their experience in stepping into family or founder-owned businesses.

We quickly identified positive nuances compared to Hayfin's existing events investments and an overall favourable business profile, allowing us to position early with key bidders and send a strong signal to the market with terms, key due diligence points, and ability to underwrite the full financing package, including super senior facilities. The speed and strength of the financing package allowed Hayfin to ultimately provide a significant majority of the total debt.

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Whilst periods of geopolitical and economic uncertainty can be challenging, they can also present unique opportunities for agile lenders with an established, local presence, a wide network of diverse relationships from which to share insights and source deals, and a focus on downside protection through disciplined risk management.

We believe Hayfin is particularly well positioned to take advantage of high-quality opportunities in the current environment and can continue effectively and prudently deploying capital apace with growing investor demand for credit assets and record levels of dry powder. In 2024 we continued deploying significant volumes of capital through our flagship direct lending strategy and based on our robust origination platform and deep relationships with existing borrowers we expect to continue this trend in 2025 and thereafter.

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