ALTERNATIVE CREDIT COUNCIL

DECHERT

Trends in Private Credit Fund Structuring 2025

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ALTERNATIVE CREDIT COUNCIL

Contents

Foreword

The Alternative Credit Council and Dechert LLP are pleased to share the findings of our latest research exploring current fund structuring and product design trends in private credit. This builds on the findings of our initial 2023 paper, providing a time series of data on product design trends as well as new insights on investor preferences.

Private credit has become one of the most dynamic and influential segments of global capital markets. As the industry matures, so too does the need for clear insights into how funds are structured, governed and accessed by investors. This report provides timely and practical analysis that will benefit investors, asset managers and policymakers alike.

For investors, the findings offer a unique window into how managers are responding to their evolving demands. Our research highlights how the needs of investors are reshaping fund structuring across multiple dimensions – liquidity, leverage, customisation, retail participation and the specific needs of insurers, as well as the need for tax neutrality and fee structures which align interests. These insights will enable investors to better evaluate fund offerings, assess alignment of interests and make informed decisions that match their portfolio objectives.

For asset managers, the report highlights the tools and structuring solutions that their peers are deploying to remain competitive. The research captures both the opportunities and the operational complexities that managers must navigate when serving their clients. This is particularly true in the way that firms are developing products aimed at retail clients and investing in 'retail grade' product, operations and marketing teams. This allows firms to integrate retail investors into their investment strategies alongside institutional clients.

We see a similar pattern for firms with insurance clients who require a specific combination of structuring and transparency from private credit fund managers. The experience of US managers using rated note feeders provides valuable insights for non-US managers and investors into the specific benefits and complexities of these structures.

The paper also provides regulators and policymakers with data and insights into a sector that is often accused of opacity. The research shares valuable insights into how private credit funds are tailored to serve the specific needs of their clients, and how the sector is successfully overcoming operational challenges and building sustainable ways for investors to manage their exposures. The findings also shed light on how managers and investors adapt their structuring considerations to different regulatory frameworks, as well as lessons on global practices that can assist policymakers seeking to support capital formation and boost investor confidence in private markets.

We would like to thank the firms and individuals who supported this research and contributed their time and expertise. We hope that investors, private credit managers and policymakers will find our data and insights useful.

Jiří Król
Global Head of the Alternative Credit Council

Executive Summary

Increased demand for liquidity, customisation and co-investments

- 64% of survey respondents report rising investor demand for liquidity, up from 49% two years ago. 66% now operate at least one vehicle allowing investors periodic redemptions, with private credit fund managers using a broad range of liquidity management tools in their funds to offer a limited degree of liquidity.
- LP demand for co-investment has surged from 70% to 92% between 2023 and 2025. Investors are seeking tailored solutions, which is driving widespread use of SMAs, side letters and co-investments vehicles.
- The prevalence of small bespoke vehicles is declining, with far fewer managers (6% in 2025 v. 23% in 2023) willing to offer SMAs below US$50 million commitments than in prior years.
- The use of leverage in fund structures remains moderate and stable overall. 72% of respondents employ leverage in their private credit strategy either at the fund or asset level, a proportion largely unchanged from recent surveys.

Retail investors need retail-grade infrastructure

- 57% of surveyed managers have retail clients, with 64% considering targeting retail capital in upcoming funds. The biggest growth is in the HNW and “semi-professional” investor segments rather than mass retail, though managers are increasingly interested in the latter.
- Private credit fund managers are growing this client base through a mixture of feeder funds, partnerships with wealth management platforms and private banks, as well as through regulated vehicles that can be marketed to retail clients.
- Firms are making considerable investments in their operational infrastructure, as well as their marketing and educational materials to support retail clients’ understanding of the market.

Structuring and transparency paramount for insurance investors

- While many insurers participate in the market via traditional funds or simple feeders, rated note feeders have emerged as a critical structuring tool for insurance companies investing in private credit – 63% of respondents have considered setting them up for US clients, while 35% have considered setting them up for European and Asian insurers.
- Rated feeders can be resource intensive and have structuring challenges that may not always make them suitable for investors. Insurers are also gaining indirect exposure to private credit by acting as lenders to private credit funds.
- Regulatory capital treatment for private credit assets remains a key consideration for European investors, with hope that reforms under consideration in the UK and EU will provide more certainty.

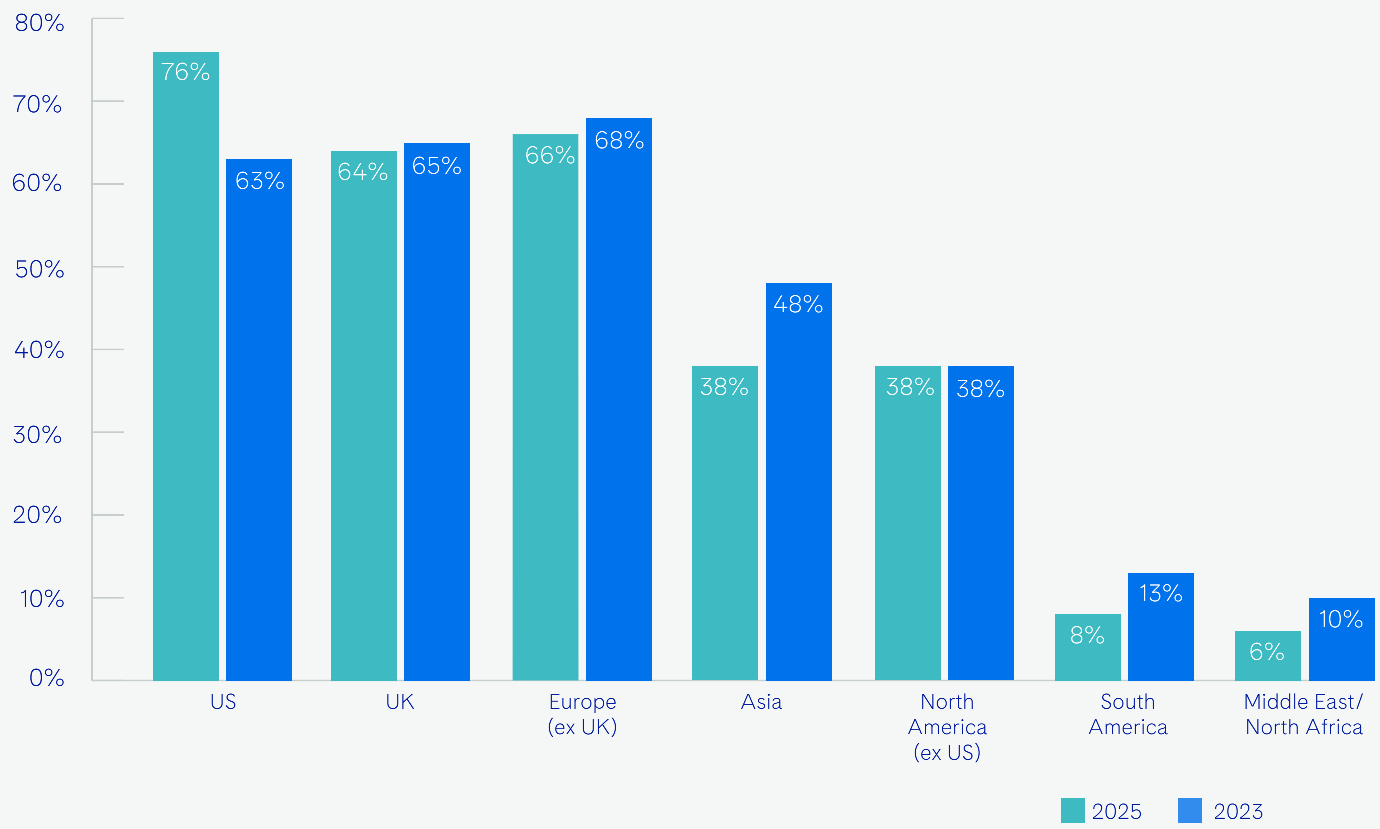
Certainty and transparency driving fund formation

- Investors retain a preference for a handful of established fund domiciles. Luxembourg, the Cayman Islands, the US, Ireland and the UK remain the top five domiciles for private credit funds.
- US tax considerations are an integral part of fund structuring discussions for any fund with exposure to US private credit assets. 33% of respondents now use double tax treaty-based vehicles and there has been an uptick in respondents that rely on treaty and blocked structures compared to prior years. Alternative strategies like ‘season and sell’ are also being employed, though there is no one-size-fits-all solution.
- 66% of respondents now use tiered management fee schedules, often taking in several variables. Investors continue to seek transparency beyond headline management and performance fee rates when assessing how remuneration structures align private credit managers’ interests with their own.

Research Methodology

This research paper is based on data from several sources. The Alternative Credit Council ("ACC") and Dechert conducted a survey that received responses from 50 private credit managers. Respondents collectively manage an estimated US$1.5 trillion in private credit investments and invest across a broad cross-section of jurisdictions. The survey data was then explored by the ACC and Dechert in a series of one-on-one interviews.

Figure 1: In which markets do you currently invest? (Select all that apply)



Chapter 1
Product design

Key findings

- Demand for liquidity is being met by supply:
  A modest uptick is evident in the liquidity features of private credit funds, which is expected to continue as nearly two-thirds of survey respondents report rising investor demand for liquidity in their funds. GPs are addressing this demand by exploring evergreen or hybrid fund structures and other tools to provide limited liquidity while managing asset-liability mismatches.

- Leverage usage is stable and targeted:
  The use of leverage in fund structures remains moderate and stable overall. Around two-thirds of managers employ some leverage in their private credit strategy either at the fund or asset level, a proportion largely unchanged from recent surveys. Levered sleeves or share classes are becoming slightly more common. Notable regional differences persist: European investors tend to be cautious about leverage, whereas US investors are more comfortable with it, leading to a gradual uptick in leverage use for European funds attracting US LPs.

- Customisation via SMAs and co-investments:
  Managers are increasingly offering separately managed accounts ("SMAs") or single-investor funds alongside commingled funds, as well as other types of customisation options. While the majority of private credit AUM remains in commingled flagship funds, investors are seeking tailored solutions, driving widespread use of SMAs, side letters and co-investments vehicles, with demand expected to continue to grow. That said, the prevalence of small bespoke vehicles is declining, with far fewer managers willing to offer SMAs below US$50 million commitments than in prior years.

> "Agility is crucial, and we aim to ensure that our structuring supports portfolio managers in delivering the alpha they are capable of achieving. We strive to avoid creating any obstacles that could impact the performance that our portfolio managers generate through their asset selection process."

Greg Beauchamps
Head of Fund Structuring, Tikehau Capital

Liquidity management in private credit

Liquidity management is one aspect of product design that continues to evolve. While a large share of private credit capital is still managed in closed-ended drawdown funds with no liquidity for investors (see Figure 2), the demand for and supply of liquidity in private credit has been steadily increasing over the past few years. Indeed, in 2025 we observe a modest increase in liquidity available to investors compared to prior years. More than two-thirds of managers surveyed now have at least one fund that allows some form of periodic redemptions or investor exits, whereas in 2023 only around half offered any such liquidity. Furthermore, investor appetite for liquidity has grown (see Figure 3): nearly two-thirds of respondents report that net demand for liquidity from their LPs is rising, a notable jump from roughly 49% who anticipated increased demand in our last survey in 2023.

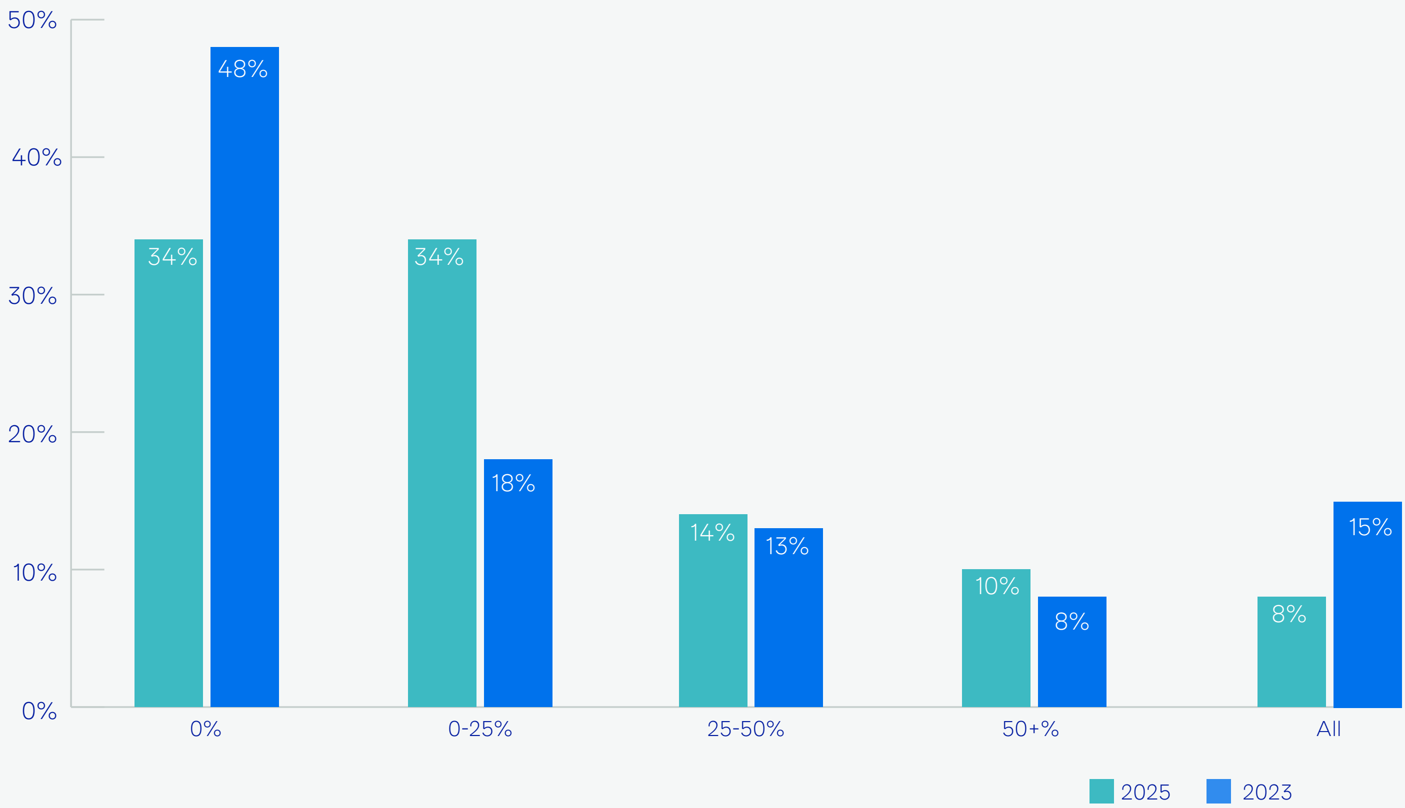
"Our open-ended fund is one of the first of its kind in the market. We launched it before any talk of retailisation. The main reason for us at that time was to give investors the option to place capital in this open-ended fund in between our closed-ended fundraises."

Arunas Jakumavicius
Head of Tax, Park Square Capital

"Evergreen structures with built-in liquidity are gaining traction. The key issue is the interplay between structure and the ability to offer liquidity, which most investors want."

John Convery
Managing Director, Oak Hill Advisors

Figure 2: What proportion of your private credit funds provide some type of liquidity to investors by allowing a right to redemption?



Credit is customisable. The Broadly Syndicated Market has some liquidity, so you can play with that and use both BSL and private credit to make sure that the product is suitable for investors that demand liquidity."

European-focused private credit fund manager

There are multiple and interrelated explanations for this ongoing trend. There is an increasing demand from institutional investors for structures that provide them with the ability to rebalance their private credit exposure, which can be a useful complement to their overall portfolio management toolkit. The growth of more liquid structures also reflects a desire to reduce the operational costs associated with investing in successive funds with the same manager.

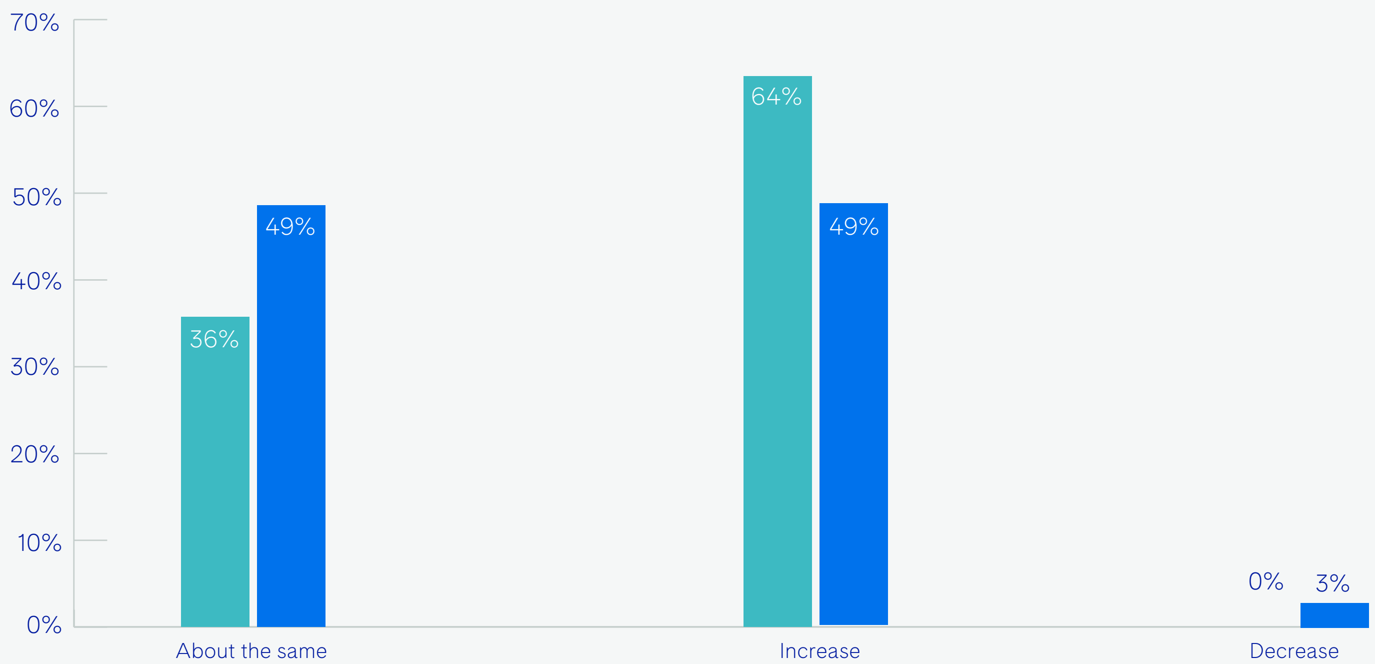
Having gained more experience with the asset class, investors are also seeking more customised solutions to private credit than they may have done in previous years. It is also clear that the drive for retailisation, which will be explored in more detail below, is a key factor as more survey respondents are now seeking to cater for retail clients who are more likely to expect liquidity. Several interviewees also highlighted that the proliferation of semi-liquid private credit funds has begun to reshape investor expectations. Newer investors are less likely to want structures that see their capital locked up for seven years or more. To accommodate this growing demand, managers are expanding the use of evergreen and hybrid fund structures that offer a level of limited liquidity.

In practice, most of these vehicles offer regular subscriptions alongside periodic or limited redemption opportunities. Interviewees emphasised that structuring redemption opportunities in this manner is necessary to align with the natural liquidity of the underlying loans and investment strategy. Figure 4 highlights the typical Liquidity Management Tools ("LMTs") that private credit fund managers may use.

There are many institutional investors who tend to not want to receive monthly liquidity, as this can create more work for them and they are usually comfortable with the existing systems and arrangements of a closed-ended fund."

Luke Varley
General Counsel, Park Square Capital

Figure 3: Do you expect net investor demand for liquidity in your private credit funds will increase or decrease in 2025?*



* Percentages may not sum to 100% due to rounding

Figure 4: Typical liquidity risk management tools employed by private credit fund managers

Lock-up periods	Preventing redemptions for a pre-determined period, typically at least a year from subscriptions.
Ex-ante investor gates	Pre-determined limitation on the amount of invested capital a given investor can redeem at one time.
Ex-ante fund level gates	Pre-determined limitation on the aggregate amount that all investors in a given fund can redeem.
Prescribed redemption windows	Investors may only redeem at pre-determined intervals, which can be monthly, quarterly or semi-annually.
Notice period	Investors must provide minimum notice for redemption requests, typically at least 90 days.
Slow pay provisions	Segregating an investor's share of the asset from the fund and returning it in line with the natural maturity of the asset.
Side pockets	Arrangements that segregate assets from the main pool of assets in a fund until such time as they are realised.
Redemption fees	A charge paid by redeeming investors to the fund that takes account of the cost of liquidity.
Anti-dilution levy	An additional charge imposed on redeeming investors to reflect the fund's transaction costs for providing liquidity.
Swing pricing	A mechanism that adjusts a fund's net asset value (NAV) up or down by a percentage depending on net flows of subscribing or redeeming investors.
Dual pricing	A valuation method where separate prices are set for subscriptions (based on the offer prices of underlying investments) and redemptions (based on the bid prices of underlying investments).
Suspensions	A temporary halt on redemptions to protect investor interests when markets are disrupted or the fund cannot accurately value its assets.

Another finding from our research was that the concept of 'liquidity' encompassed a much broader set of options than simply providing a redemption of interests to investors in the traditional sense. Figure 5 summarises some of the liquidity solutions that may be available as an alternative to redemptions. While traditional redemptions for cash are often the preferred option for investors, these alternative liquidity options provide private credit managers and their investors with greater choice and flexibility for generating liquidity.

In addition to the above, managers also have the option to include more liquid assets such as broadly syndicated loans in the underlying fund's portfolio. This is sometimes referred to as a liquid asset sleeve, which ensures there is a base level of liquid assets that can be used to satisfy redemptions. Such approaches may have a detrimental effect on the overall returns of the fund or investors may not want exposure to liquid assets in this format.

"We aim to avoid becoming forced sellers of our illiquid products, so it is important to develop thoughtful solutions to address this risk. The portfolio mix remains the primary source of liquidity, and having a clear strategy for managing those proceeds is essential."

Greg Beauchamps
Head of Fund Structuring, Tikehau Capital

"Investors who have been investing in private credit for a long time have established capital commitment strategies. They know how much they wish to deploy and manage their liquidity risk through these. They tend to be shy of the ever-green, open-ended approach."

Conor Dempsey
Head of EMEA Business Development, Institutional Client Group, PGIM

As noted in Figure 5, the use of borrowing facilities to provide liquidity is another option available to managers. While this is not typically the first choice when structuring for liquidity, some interviewees noted it was gaining prominence as a complement to other approaches. Other interviewees were more cautious, noting that an overreliance on this approach could disadvantage non-redeeming investors.

Several managers noted in our interviews that they design liquidity features conservatively and communicate them clearly to investors, emphasising that there are some limits to the liquidity that can be provided to investors given the illiquid nature of the underlying assets. Therefore, communication and expectation-setting about redemption processes through all types of market performance are now a paramount consideration for investor relations, especially for managers catering to high-net-worth ("HNW") or retail investors.

When discussing liquidity, a key point made by our interviewees was that the majority of their private credit AUM was still managed through closed-ended structures. Many GPs and institutional LPs still prefer these structures and do not see the need for semi-liquid structures. Even as hybrid semi-liquid structures gain traction amongst investors a 'closed-ended' mindset still prevails when it comes to the design of such structures. Or put another way the emphasis is on 'semi' rather than 'liquid'. The result is a gradual increase in flexibility and control for investors, yet the core principle of asset-liability matching remains intact.

> "You can create structures that generate a reasonable amount of liquidity, but ultimately you are dealing with an illiquid asset class, so you have to balance that. We generally rely on repayments to create the lion's share of liquidity rather than looking to asset sales, but you have to be very clear with investors as to what liquidity they can reasonably expect from any offering."

Shomick Bhattacharya
Managing Director, Head of Product Strategy and Development, Pemberton Asset Management

Figure 5: Alternative liquidity solutions

Redemption in specie	Fund distributes a *pro rata* portion of its assets, instead of cash, to meet the redemption request of an investor.
In specie withdrawal / SPV	Fund effects a full or partial redemption in specie whereby illiquid assets are transferred to an SPV (or liquidating share class / sub-fund), with interests therein being issued to inves-tors. Allows a complete 'redemption' from the main fund without asset liquidity and enables asset value realisation / preservation.
Secondary transfer	Traditional sale of LP interest to a secondary purchaser.
Run-off / Slow pay	Investor moved to a 'run-off' share class, with the fund ceasing to invest its commitment. Liquidity generated when existing assets are realised/repaid in the ordinary course.
Continuation vehicle	Fund coming to the end of its term transfers one or more assets to a new vehicle or "continuation fund", giving existing investors the option to "roll over" into the continuation fund or sell their interests. Secondary commitments are raised, providing liquidity to those existing investors electing to exit.
Tender offer	Secondary fund offers to acquire a portion of fund interests from existing investors, with investors given the option to take up the offer or remain in the fund.
Strip sale	A partial sale of a fund's investment in all or certain assets within the fund's portfolio, the proceeds of which are used to provide investors with liquidity.
NAV financing / Asset backed loans	Loans secured over the underlying assets of the fund, which may be used to fund distributions to investors and, in some cases, redemptions of interests.
Preferred equity transaction	Preferred equity provider injects cash into the structure in return for an equity interest with a preferred return over all or certain assets within the fund's portfolio, the proceeds of which may be used to provide liquidity to investors.

Leverage

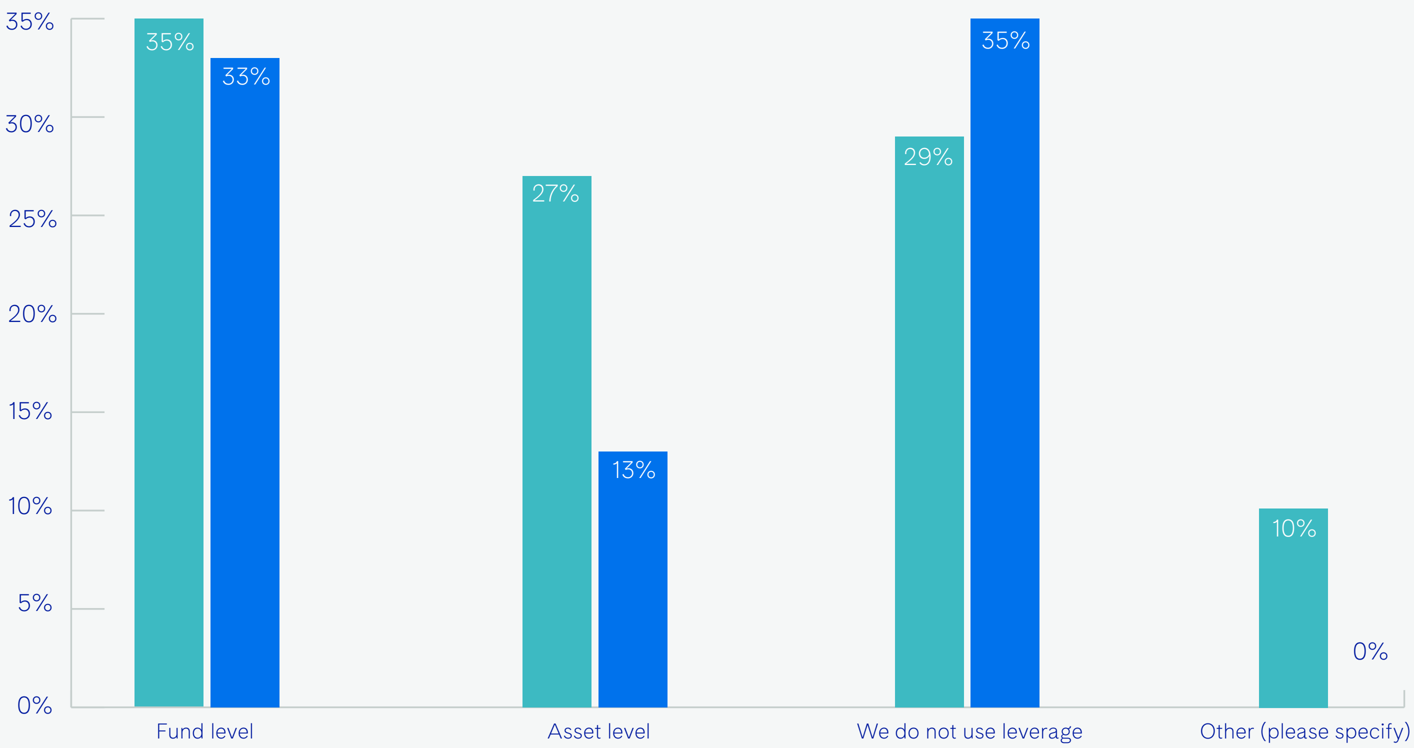
Leverage in private credit funds continues to be used in a measured and strategic manner, with overall industry practices showing continuity rather than a dramatic increase. As seen in Figure 6, the overall picture is one of stability when we compare our 2023 and 2025 findings. In general, using borrowed capital to enhance returns is common in private credit but typically stays within conservative bounds. For most private credit GPs, fund-level leverage (if used at all) remains relatively low, with strategies that employ leverage typically doing so around the 1.0 - 1.5× NAV range.[1]

Our survey data indicates that approximately two-thirds of managers employ leverage as part of their investment strategy, whether at the fund level or at the asset level, a proportion that remains essentially unchanged from our 2023 survey. Our data also indicates an increase in the deployment of leverage at the asset level. Such approaches can allow for more customised terms and asset matching for the finance providers, as well as improving transparency on an initial and ongoing basis. Tax and regulatory requirements are also a key driver for managers, investors and leverage providers when determining how asset-level borrowing arrangements should be structured (see Figure 7). In terms of the evolution of leverage providers, banks remain the largest providers of finance to private credit funds, but we see increasing competition from asset managers, insurers and even some CLOs who see such lending opportunities as offering an attractive risk return profile relative to other credit investments.

> We try to offer both levered and unlevered options within a strategy, often using asset-based leverage with recourse limited to the assets, which helps investors get comfortable."

Jeffrey Arek
Managing Director, Apollo Global Management

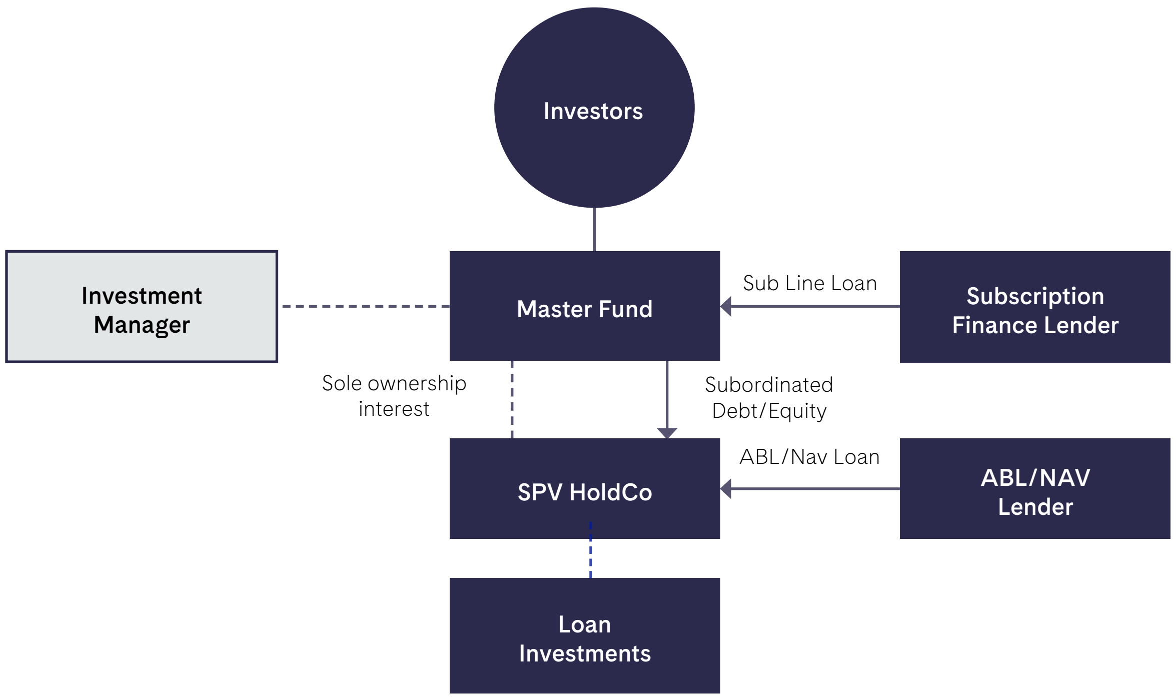
Figure 6: At which structural level do you typically deploy leverage as part your private credit investment strategy?* **



*Percentages may not sum to 100% due to rounding
** 'Other' responses predominately referenced using both asset and fund level leverage

[1] See Financing the Economy 2024

Figure 7: Illustrative example of asset level leverage in a typical private credit structure



Many managers now provide both unlevered and levered sleeves within the same fund or strategy (see Figure 8), allowing them to cater for investors with different risk appetites. In our 2023 survey, 40% of respondents offered such structures (unlevered and modestly levered classes) and an additional 13% were considering introducing them. While our data shows a slight decrease in the number of respondents considering this for future fundraises, the overall picture is broadly stable.

Our interviewees also highlighted how it is common for the main commingled fund and most SMAs to be unlevered or only lightly levered using subscription lines for operational and deployment purposes, keeping the base strategy conservative for risk-averse investors. For return-seeking or more yield-focused investors, the levered sleeve will often take the form of a parallel fund or share class.

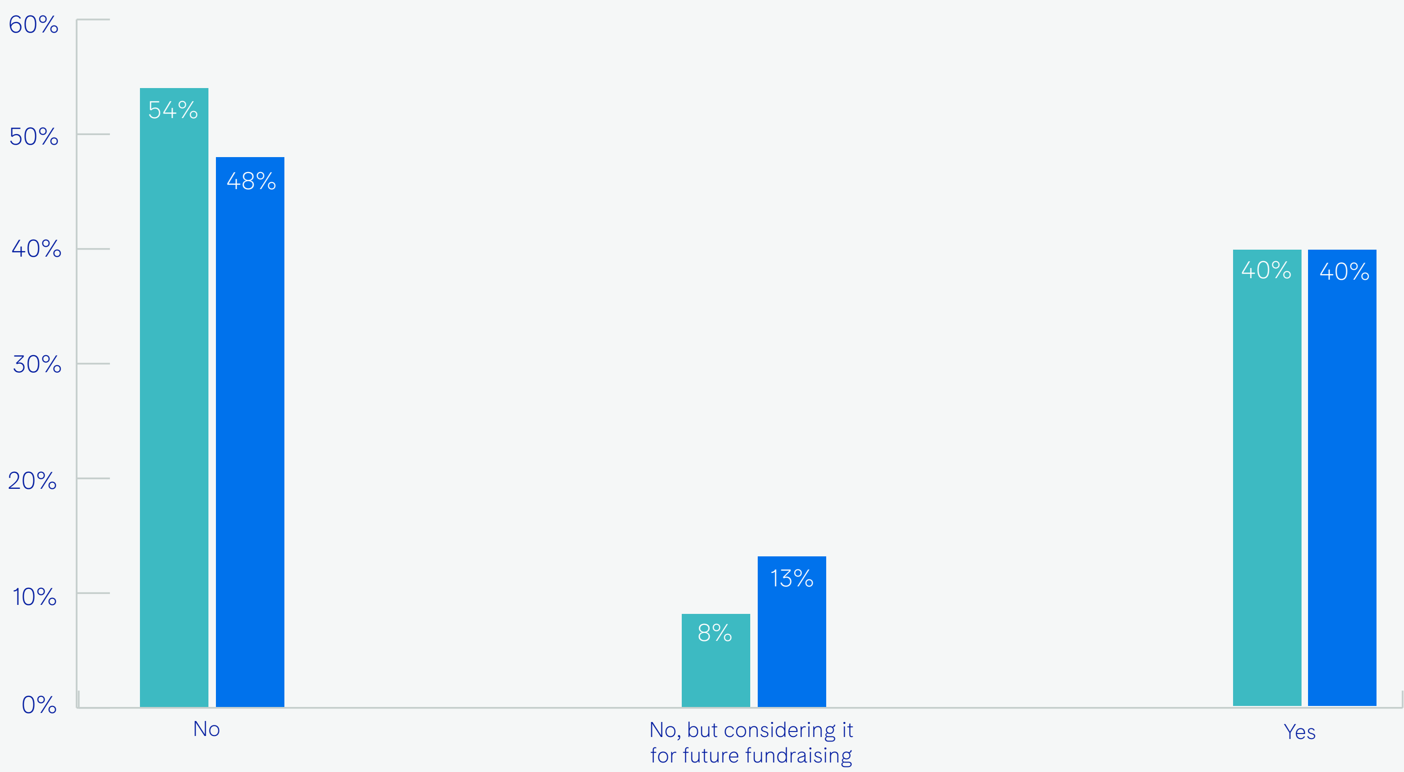
> The availability of leverage is abundant and increasing, both in terms of scale and size. Terms and conditions for managers are becoming very competitive as a lot of new players are coming into this space.”

Walter Owens
CEO, Man Varagon

> Historically, European investors have used very limited leverage, among other reasons due to Solvency II rules encouraging investments in direct lending on an unlevered basis. We are now seeing a growth in use of leverage because of the growth of the US investor base in European credit.”

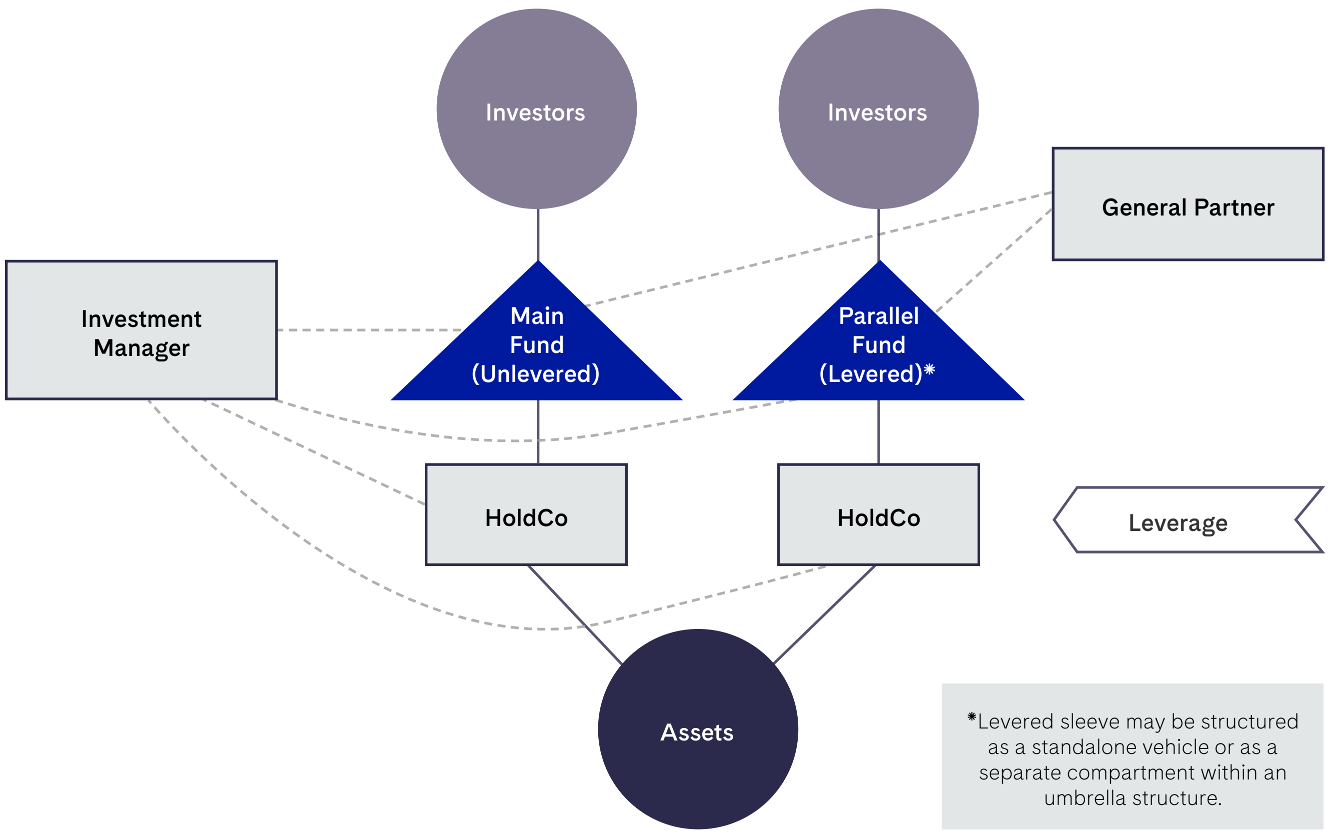
Shomick Bhattacharya
Managing Director, Head of Product Strategy and Development, Pemberton Asset Management

Figure 8: Do you include levered and unlevered sleeves in your private credit funds?*



* Percentages may not sum to 100% due to rounding

Figure 9: Illustrative example of a private credit fund with levered and unlevered sleeves



The increased availability of levered sleeves is another facet of investor-driven customisation within private credit funds. Nevertheless, even where these personalised options exist, the terms and actual deployment of leverage are generally constrained by different layers of risk management, through investor preferences, terms set by the lender and the prudent approach to minimise losses that guides private credit managers. Interviewees consistently emphasised their cautious approach to leverage.

Regional differences also continue to shape the use of leverage. Most institutional investors in Europe, particularly insurance companies governed by Solvency II Regulations, have historically shunned fund-level leverage due to punitive capital charges on levered investments, or have simply taken a more conservative approach to their private credit allocations. Some asset managers are seeking to cater for European insurers by structuring leverage facilities so that investments are eligible for the Solvency II matching adjustment. While initiatives like the UK Matching Adjustment Investor Accelerator – a proposal from the Bank of England to streamline the process by which insurance companies claim Matching Adjustment benefit on certain assets – may ease the operational aspects around matching adjustment eligibility for insurance clients, this remains an area where there is little existing practice or precedent for insurance companies or asset managers to draw on.

By contrast, US investors continue to prefer levered credit strategies. Historically, this has been reflected in the vast majority of US middle-market direct lending funds employing leverage to some degree. This was confirmed by our interviewees, with several noting an uptick in interest from US investors asking GPs to incorporate fund leverage or to set up a levered sleeve for them when investing in European private credit. Still, our interviews showed that most European managers are accommodating these requests outside their flagship fund by using the options outlined above. As a consequence, European focused strategies are likely to continue offering multiple entry points in the capital structure, for example through unlevered and levered classes, to suit different investor risk appetites, reinforcing that leverage in private credit remains a flexible tool rather than a universal mandate.

> "We've seen rising demand for SMAs and funds-of-one, but they need to come with a large enough ticket size to justify the setup and operational effort."
>
> **Jeffrey Arek**
> Managing Director, Apollo Global Management

Customising access to private credit assets

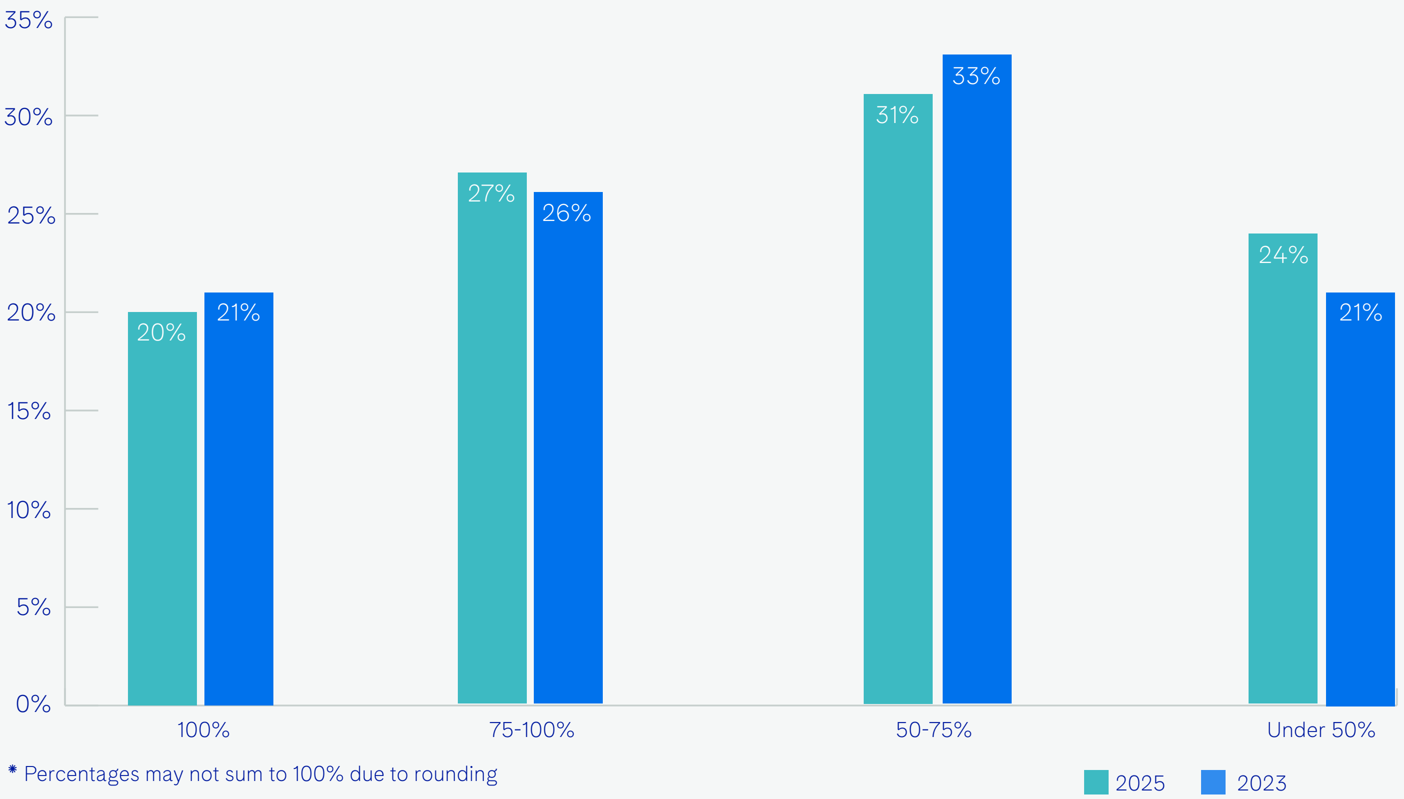
Investor desire for customisation, namely the ability to access private credit assets through bespoke arrangements rather than commingled funds, has grown even stronger in 2025. Our research finds that most managers are now concurrently managing capital through a mix of commingled fund structures alongside SMAs, funds-of-one, co-investment vehicles and other custom setups (see Figure 10). Over 90% of managers offer some type of managed account structure to their clients and our interviewees highlighted a similar trend with respect to co-investments.

One notable survey insight in Figure 11 is that while the availability of SMAs is high, fewer firms are willing to entertain very small managed accounts. Half of the firms that provide SMAs do so only for commitment sizes above US$100 million, and many interviewees indicated that US$100–200 million is the common minimum ticket size for an SMA. Several managers reported that they have effectively raised their SMA thresholds compared to a few years ago due to the operational complexity and cost of running parallel vehicles. In 2023, a slight majority of managers were willing to set up managed accounts for less than US$100 million; in 2025 that proportion has shrunk to 40%.

One interviewee noted that there has been a considerable decrease in the availability of SMAs for sub-US$50 million commitments as firms reassess the economics of bespoke funds. In practice, large institutional investors, namely those with US$100+ million to deploy, continue to enjoy a wide range of customisable structures whereas side letters may be a more realistic option for investors committing smaller sums of capital to obtain any modification of fund terms, albeit with limits as to what can be achieved here.

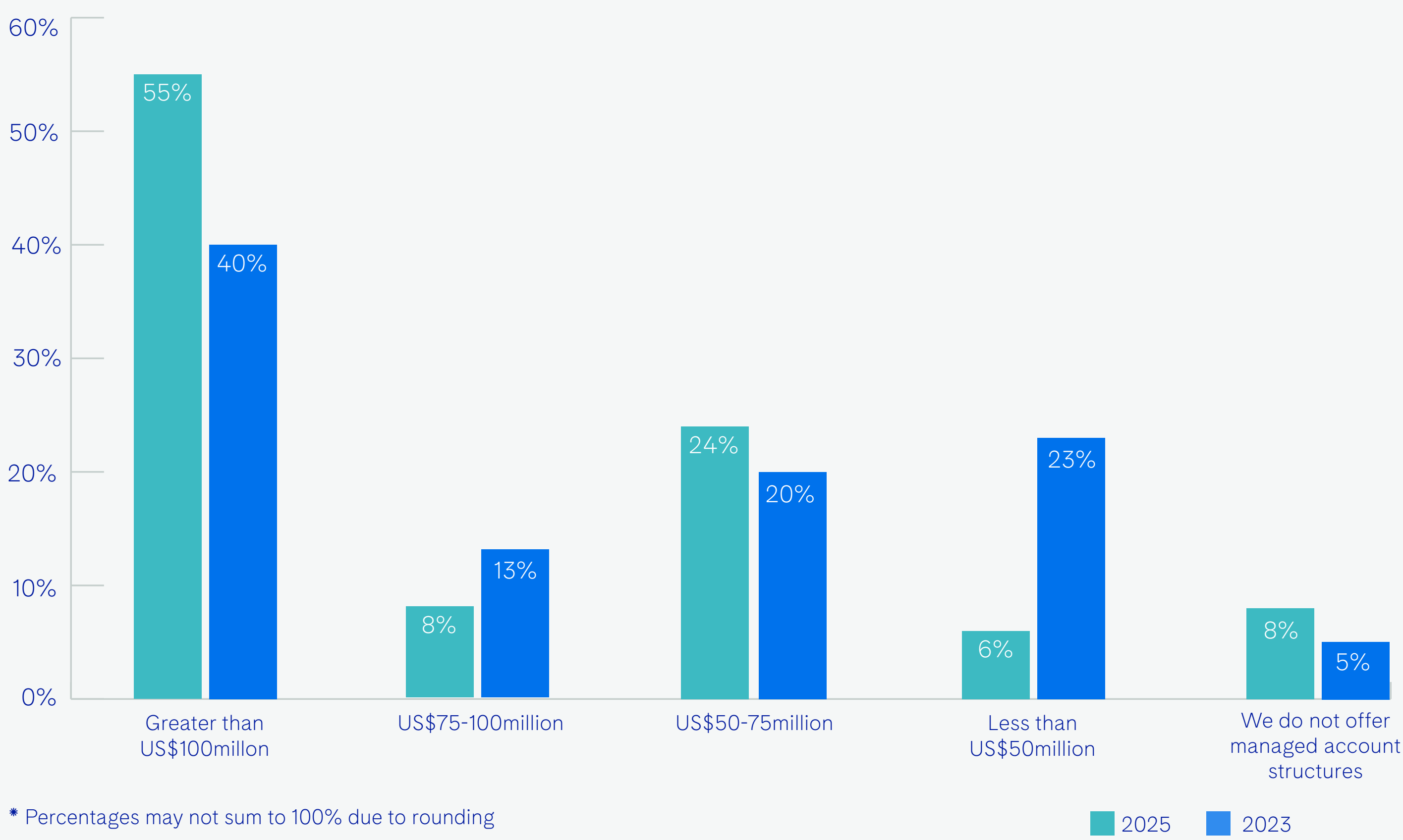
> "Generally, in Europe, even where the leverage is provided on an asset level, investors tend to not like it. It's much better received in the US, but in continental Europe, we find it a bit of a struggle."
>
> **Conor Dempsey**
> Head of EMEA Business Development, Institutional Client Group, PGIM

Figure 10: What proportion of your private credit assets are managed within commingled funds (as opposed to an SMA or fund of one structure)?*



* Percentages may not sum to 100% due to rounding

Figure 11: At what level are you able to offer managed account structures for single investors?*



* Percentages may not sum to 100% due to rounding

"The purpose of structuring is to accommodate investor needs. It could be the desire to transform the return profile of an asset class through tranching, or the regulatory treatment of an investment; so it depends on what the end investor is looking for."

John Convery
Managing Director, Oak Hill Advisors

"The impact to private credit from Defined Contribution schemes is going to be significant. Managers need to get savvy and build solutions that work for these investors."

European-focused private credit manager

When discussing this data, interviewees highlighted broader market trends around fundraising, with large institutional investors concentrating their allocations into a smaller number of private credit fund managers.

This has increased the focus on flexibility and responsiveness to investor preferences when competing for mandates. This often means tailoring products for different investor segments within the same fundraising programme.

For example, a private credit platform might launch a flagship commingled fund and simultaneously offer that strategy within an SMA to large investors seeking more control, while also setting up a levered sleeve and/or local feeder fund for specific jurisdictions. This can also include catering to specific ESG-oriented requirements, bespoke fee terms as well as different deployment schedules.

"We are witnessing a significant increase in both the number and scale of co-investments. Most investors are not primarily seeking co-investments to reduce fees, rather, they view them as an opportunity to access specific deals, or to structure dedicated exposures alongside their fund commitments."

Esther Boujard
Head of Asset Management Legal, Tikehau Capital

"Ultimately, it comes down to the scale and strategic value these customised arrangements bring to the firm. This isn't just about cash economics, but also about the doors such arrangements can open for the GP."

Arunas Jakumavicius
Head of Tax, Park Square Capital

"Many people I see that want co-investments seek to bring their fees down, whether that is in a co-invest vehicle or deal-by-deal co-invest structure."

Conor Dempsey
Head of EMEA Business Development, Institutional Client Group, PGIM

> We have noticed a material uptick in the interest for co-investments in the last 18 months, which has prompted us to further evolve internal processes and the way we communicate to co-investors during live deals.”

Luke Varley
General Counsel, Park Square Capital

> Co-investment is top of mind for lots of people in terms of managing overall fees. It’s alive and well in many conversations with investors, although the degree to which they are serious varies, particularly when exploring lower middle-market deals. The flip side is that sponsors are quite selective on who they are comfortable with.”

Walter Owens
CEO, Man Varagon

> There is a range of possible co-investments. On one extreme you have an investor that gives you some parameters but otherwise gives you full discretion to invest on their behalf. That’s ideal from our standpoint, because we know that we can manage it and deliver. At the other end of the scale are investors that want to co-underwrite with you. These are going to be more sophisticated people or institutions with a whole investment team and they can typically write significant tickets and come in early. This can add value to us, but at the same time makes it more challenging operationally and structurally, particularly if these investors are offshore.”

Eric Muller
Partner, Oak Hill Advisors

Our research also highlights the extent to which co-investment opportunities have become a more common expectation amongst institutional investors. In 2023, about 70% of respondents anticipated increasing demand for co-investments, with this rising to 92% of respondents in 2025 (see Figure 12). This trend was confirmed in our interviews in 2025, with many GPs reporting that not only do key investors and larger LPs routinely negotiate co-investment rights as part of their commitment, but the nature of any co-investment rights they are seeking has become more developed. Investor expectations about the certainty and volume of co-investment opportunities have increased substantially.

Typically, an LP committing to a private credit fund might ask for the option to invest additional capital directly into some of the fund’s portfolio loans, usually with no or lower fees or carry on the co-invest. This trend is driven partly by the LP’s desire to boost returns and concentrate more capital into their highest-conviction deals. While fee sensitivity is often a key driver, interviewees emphasised that for many investors this is as much about strategic allocation control as it is about fee minimisation.

Our interviews highlighted that co-investment requests have surged in the past one to two years, with some LPs even requesting co-investment allocations matching their fund commitment size. These requests can present operational challenges for GPs when accommodating such large inflows of capital.

Managers are adapting to the influx by formalising their co-investment processes. Several large platforms have set up programmatic co-investment pools or opt-in funds that sit alongside their main fund. For example, a firm might establish a co-investment fund in which select LPs participate and deals are offered either on a discretionary basis or an opt-in basis. This allows managers to balance investor oversight against their need to confirm commitments quickly and remain a trusted partner to their borrowers.

These arrangements are resource-intensive in terms of organisation, structuring and management, which can place some strain on legal, compliance and investor relations teams. Interviewees highlighted that there is a limit to how many bespoke arrangements GPs can accommodate. It also places a commensurate need on investors to have processes in place to be able to make decisions at the same pace as market opportunities present themselves.

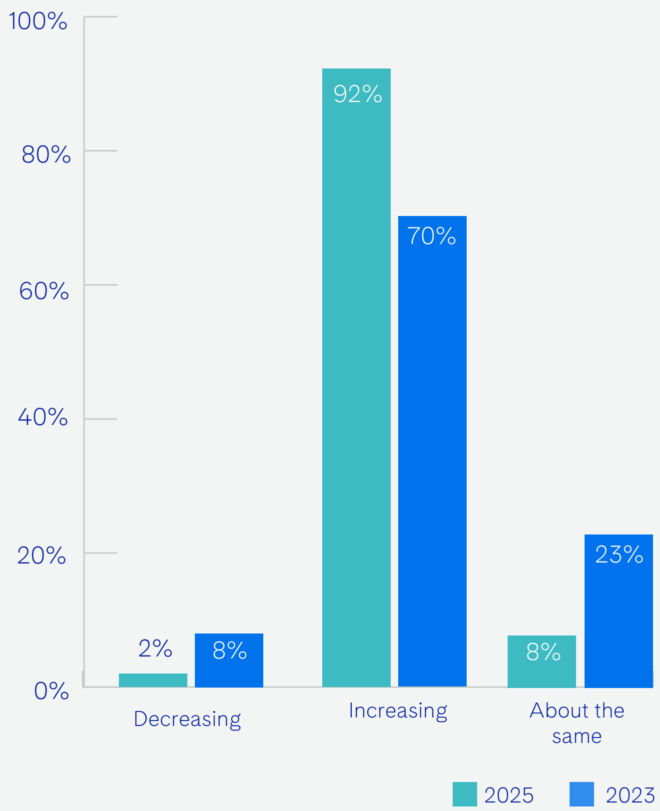
Some also highlighted that co-investments can mean that investors are more direct market participants and, in addition to having processes in place to authorise and sign off deals, they need the capability to manage those deals through the life of the loan, including where adjustments or restructuring may need to take place.

While such co-investment deals will typically be structured through a vehicle managed by the private credit fund manager (see Figure 13), the resource demands on investors of these arrangements are a consideration that should be assessed when determining the nature and structure of any co-investment arrangements.

To keep things manageable, many GPs are seeking to streamline and simplify customisation, for example by limiting it to separate vehicles or share classes instead of accepting numerous side letter provisions within one fund. Nevertheless, side letters are still very common, as they remain a convenient way to customise at the margin. These typically cover fee rebates, tailored reporting, ESG exclusions or other investor-specific provisions.

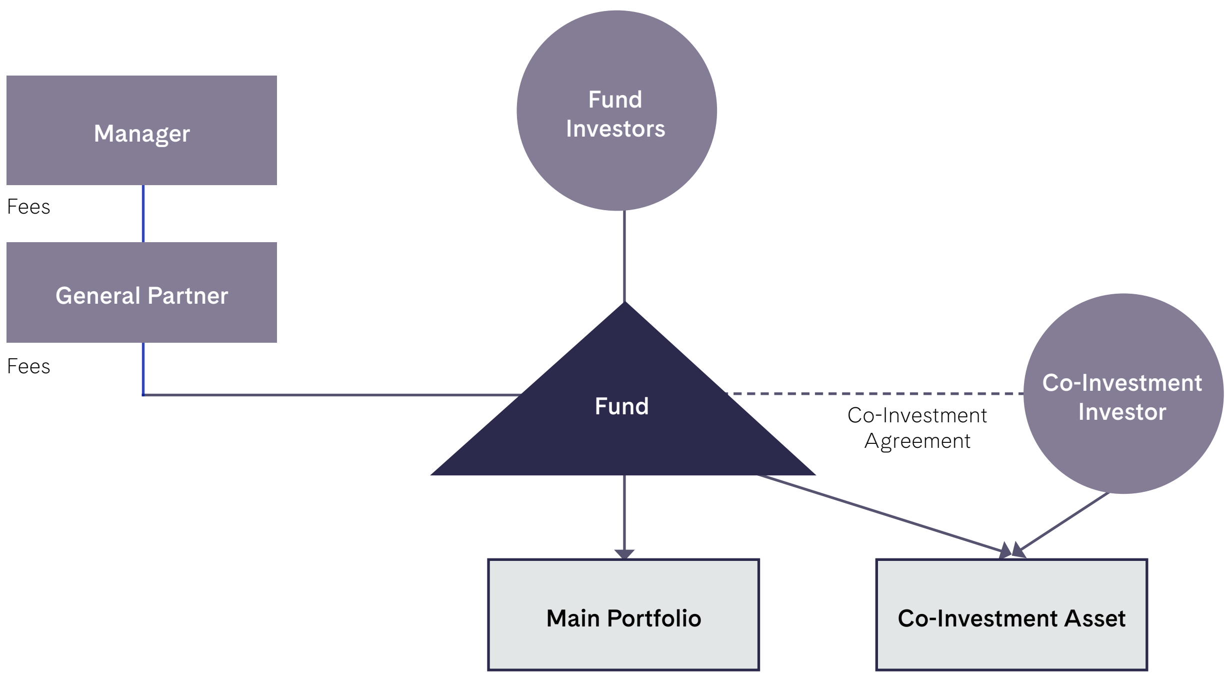
The matrix of product design options available to investors is now more comprehensive than ever as managers respond to investor demand. This requires greater investment in operating and reporting systems for both asset managers and investors seeking to take full advantage of the benefits of more customised solutions.

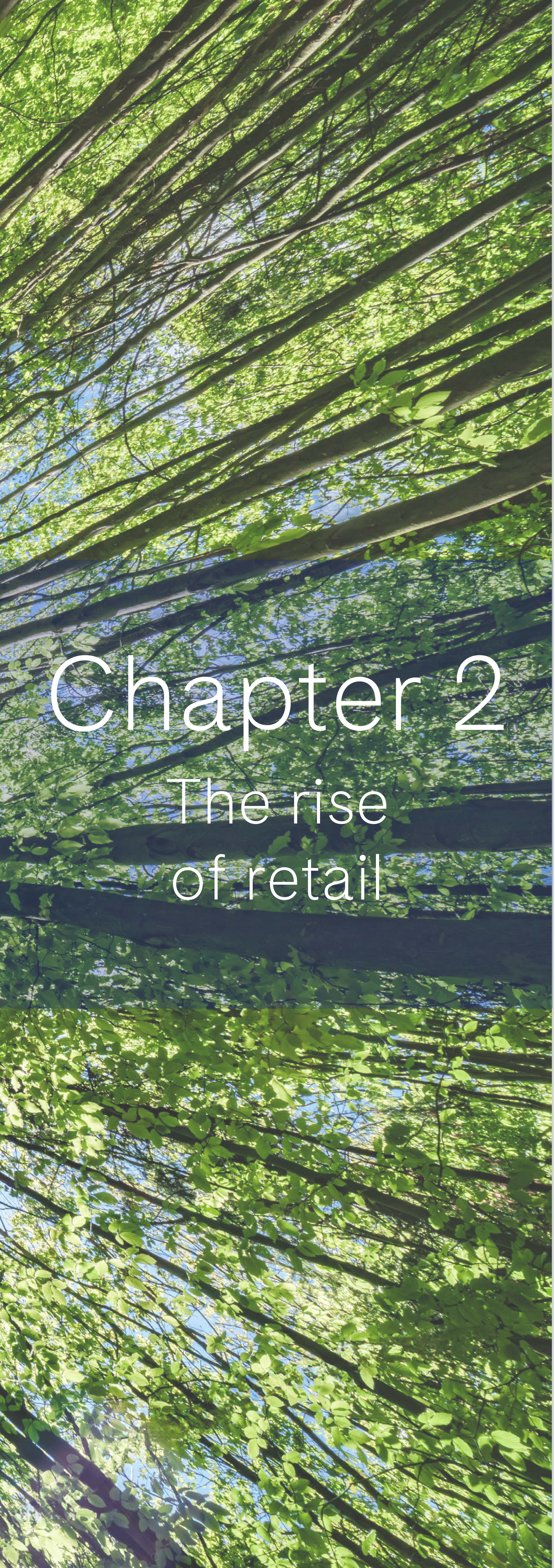
Figure 12: Do you see demand for co-invests and direct investment in private credit assets increasing or decreasing?*



* Percentages may not sum to 100% due to rounding

Figure 13: Illustrative example of a co-investment structure





Chapter 2

The rise of retail

Key findings

- More than one type of retail client: Non-institutional investors from the wealth and mass retail channels are playing a larger role in private credit fundraising. Over half of surveyed managers have HNW or other retail clients in their LP base, while approximately two-thirds of managers are actively targeting or considering retail capital for new funds. The biggest growth is in the HNW and “semi-professional” investor segments, rather than mass retail, though managers are increasingly interested in this segment as well.

- Retail capital requires ‘retail grade’ infrastructure: Building a retail client base requires firms to accommodate different product types and have the necessary operating infrastructure to support those products. Private credit fund managers are growing this part of their client base through a mixture of feeder funds, partnerships with wealth management platforms and private banks, as well as through regulated vehicles that can be marketed to retail clients. Alongside the operational requirements, firms are also making considerable investment in their marketing and educational materials to support retail clients’ understanding of the market.

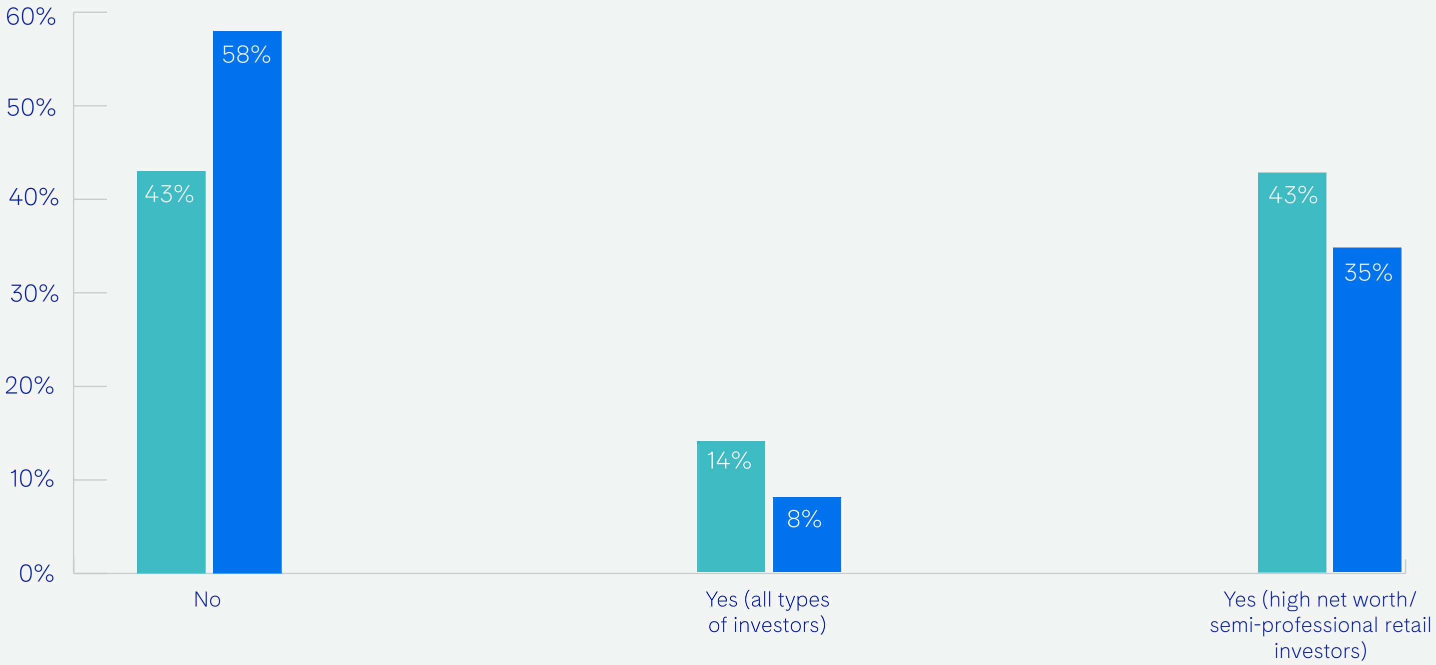
Private credit remains primarily an institutional asset class, but the retailisation of private credit is well underway. While it began in the uppermost tiers of retail, namely ultra-HNW individuals, managers have now started to target all types of wealth clients and even the mass affluent. Our interviews showed that retail investors are not a monolithic market and managers are tailoring their strategies and products to the demands of the different segments that fall within the retail category. For example, HNW clients may have more interest in specific sectors and markets within private credit such as AI or infrastructure.

In contrast, mass affluent and consumer investors may be seeking a broad exposure to the private credit asset class or corporate lending strategies. While we are still far away from private credit becoming a global product for the masses, this is a real possibility that may emerge in the coming years, particularly considering the success that US Business Development Companies (“BDCs”) have had both privately and in public markets.

In this regard, the emergence of private credit Exchange Traded Funds (“ETFs”) is a significant development that indicates the potential for mass participation in the market, albeit these ETF products tend to combine both liquid and illiquid credit.

Our research found a clear increase in the presence of retail money, with more managers reporting having retail investors in their funds than ever before. In the latest survey, 57% of managers said they currently have retail/hybrid clients (such as HNW individuals or clients accessed via private banks and wealth managers). This is up from 43% in 2023, confirming that the retail base has expanded (see Figure 14). Correspondingly, managers' intentions to raise capital from retail have also strengthened, with over 60% of respondents either raising or planning to raise capital from retail channels in upcoming fund offerings and a further 10% considering it (see Figure 15).

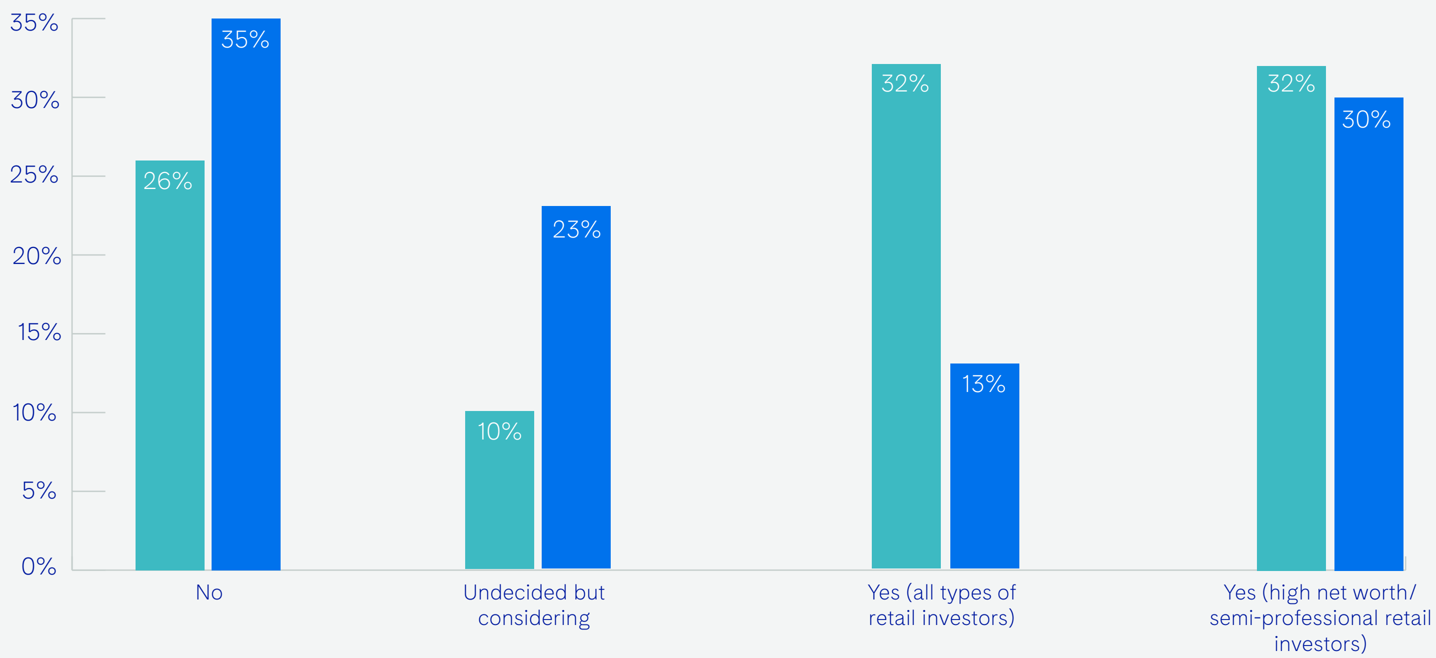
Figure 14: Do you currently have retail clients?*



* Percentages may not sum to 100% due to rounding

2025 2023

Figure 15: Do you intend to raise capital from retail clients in upcoming fund offerings?*



* Percentages may not sum to 100% due to rounding

2025 2023

> Retail is not only a regulatory consideration, but also presents operational aspects. It requires a solid infrastructure to manage onboarding, distribution, client enquiries, and ongoing relationships which differs from the approach taken with institutional LPs."

Esther Boujard
Head of Asset Management Legal, Tikehau Capital

As with institutional clients seeking more liquid structures, funds targeting retail capital will need to balance investor needs around liquidity with the nature of the assets and strategy. This will be achieved by considering how best to employ LMTs and liquidity sleeves to ensure an appropriate liquidity profile for the fund while remaining attractive to retail clients.

Managers are pursuing retail capital in a measured and strategic way. Several interviewees stressed that targeting retail is not simply an extension of institutional fundraising, but requires new dedicated structures and partnerships, as well as overcoming significant operational and regulatory challenges including onboarding, client servicing and distribution.

A common strategy is to work through wealth management platforms or private banks that are already set up to manage retail client investments. For instance, instead of signing up thousands of individual investors directly, which would not be operationally viable, a GP might partner with a private bank or a fintech platform that aggregates HNW retail subscriptions into a feeder vehicle. This approach permits private credit managers to reach smaller investors at scale and channel retail capital in a manner closer to their existing set-ups, with the wealth manager or private bank being akin to an institutional client. Another approach is to create a vehicle specifically designed for retail clients. These vehicles provide access to private credit portfolios with limited liquidity features built into the terms. In this regard, the push towards retail has deepened the trend towards offering liquidity. In the US, these vehicles can be BDCs and interval funds and are typically sold to retail investors through brokerage accounts or financial advisors.

In Europe, regulatory fragmentation complicates the development of retail products. In this regard, new structures like the European Long-Term Investment Fund ("ELTIF") offer solutions to cross-European marketing and distribution. ELTIFs have been specifically designed to facilitate pan-European retail investment in illiquid assets and recent reforms to its rules have made this structure more attractive.

Multiple private credit ELTIFs are now in the pipeline, though it may take a while until the ELTIF is a widely used vehicle. Nevertheless, the ELTIF offers managers a single, flexible umbrella vehicle that can be sold in multiple jurisdictions and is suitable for multiple investor channels. Operationally, ELTIFs should be able to help managers contain costs and reduce the complexity of accepting commitments from retail investors.

However, managers are also overcoming these European challenges by forming locally domiciled vehicles and partnering with local distributors and administrators. National regulators and investors tend to prefer their domestic structures, which means that the traditional approaches used for cross-European marketing to institutional investors, such as domiciling a fund in Luxembourg and distributing it across Europe, do not work as well for retail capital. While this approach is somewhat more expensive and resource-intensive, managers are rolling out these local structures successfully. For example, French managers are making use of the local regime of unit-linked insurance plans. Where firms have set up dedicated fund vehicles for retail clients these typically run in parallel to their institutional funds, rather than directly mixing retail investors with the institutional investors of existing funds. This parallel approach ensures that the unique requirements of retail investors around liquidity, regulatory oversight and suitability checks can be properly managed without disrupting institutional fund operations. It also allows institutional and retail investors to have exposure to the same assets despite not being within the same vehicle.

Our data highlights that some firms in the market are not targeting retail clients or seeking to do so. Our interviews showed that the level of interest in retail distribution differs among managers depending on their size and the relationships they have with different distributors, administrators and private banks, suggesting that this can be a relatively resource intensive area for managers. It is therefore unsurprising that some firms are choosing to focus on growing other areas of their business.

> There's been a fundamental shift, the democratisation of private credit is now driving sponsors with smaller AUMs to launch retail-accessible strategies. It's no longer just the domain of the mega-firms."

Jeffrey Arek
Managing Director, Apollo Global Management

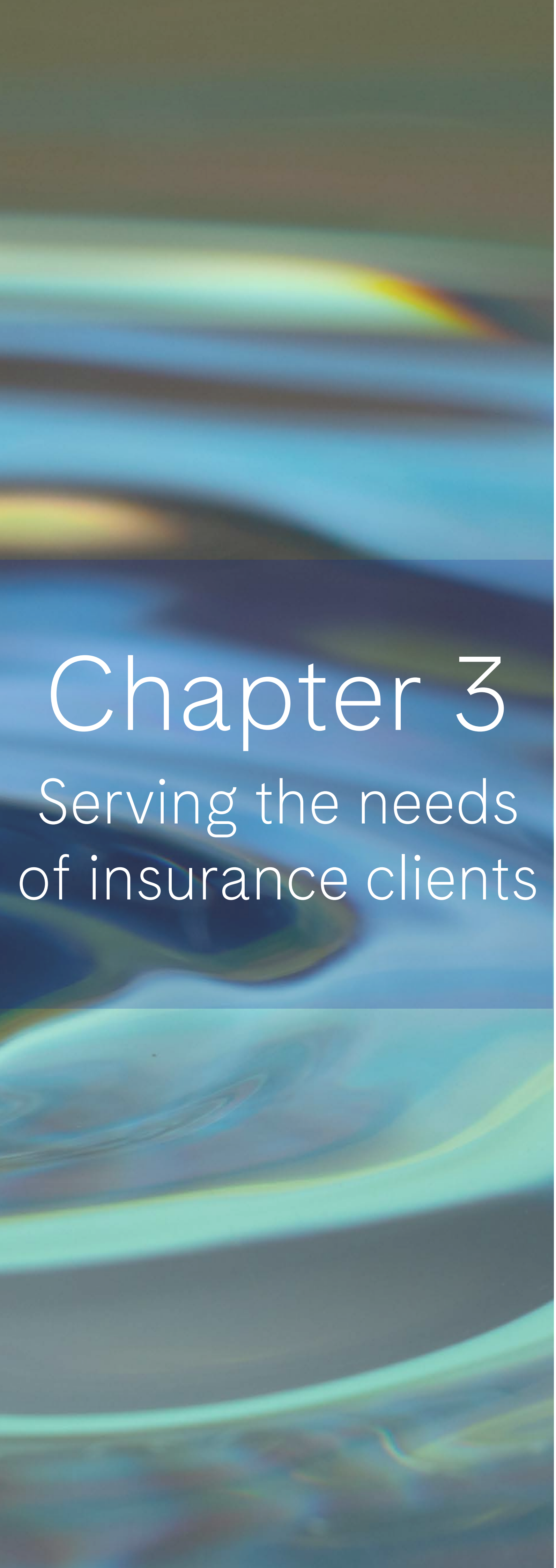
> Accessing retail in Europe is difficult, it's not enough to just passport a Luxembourg fund. You really need local partners and local domiciled vehicles to comply with different national rules. Given this market fragmentation, the largest managers putting significant investment and resources behind it should continue to have a real advantage in Europe."

Jeffrey Arek
Managing Director, Apollo Global Management

While the influx of retail capital holds great promise for GPs, all of our interviewees urged caution in approaching retail investors and encouraged careful product design. Private credit's appeal to individual investors lies in its yield and diversification benefits relative to other credit or fixed income type assets. However, the illiquidity and complexity premia associated with the asset class present natural challenges to retail clients that are used to more liquid products and credit markets with different dynamics. It is therefore essential that fund products and distribution networks mitigate potential issues with respect to liquidity and asset performance. In practice, this requires a focus on investor education and communication to ensure expectations are aligned.

> There is tremendous scope for this to be a very valuable asset class for wealth investors, who have historically had difficulties accessing private markets. But there needs to be a very clear education about what it means. When retail vehicles are set up with a 5% quarterly liquidity limit and a 20% annual liquidity limit, it really means that investors should expect that it will take the better part of five years to get their money out from the moment they decide they want to redeem."

Shomick Bhattacharya
Managing Director, Head of Product Strategy and Development, Pemberton Asset Management



Chapter 3
Serving the needs of insurance clients

Key findings

- Insurers are an increasingly relevant group of investors in private credit: Insurance capital continues to flow into private credit, as insurers increasingly identify that private credit assets are a very attractive match for their liabilities. However, insurers have specific needs that must be catered to by managers in order to accommodate their investments in the respective insurance regulatory framework. For example, European insurers often prefer straightforward fund investments that are unlevered, offer transparent reporting and fit Solvency II constraints. These specific requirements are also leading insurers to indirectly gain exposure to private credit by acting as lenders to private credit funds. Overall, insurance investors are highly important to the asset class, but the structuring tends to be customised and on a case-by-case basis rather than following a universal approach.

- Rated note feeders can facilitate insurance allocations: Rated note feeders have emerged as an important structure to manage insurance capital. These, however, have penetrated the market at different rates across the globe and present significant complexities, costs and challenges that GPs do not underestimate, despite the overall interest that can be seen in our survey results. However, many insurance investors still prefer to participate via traditional equity fund units or simpler feeder structures. Resource-intensive setup and maintenance, uncertain ratings economics and lack of sufficient scale or demand are commonly cited as reasons why rated note feeders may not always be suitable.

Insurance companies have become major allocators to private credit in recent years, drawn by the long-term, stable cash flows of private loans which can be a natural match for their liabilities. While insurance clients make up an important segment of the investor base for private credit, the way managers structure their funds to accommodate insurers has not converged on a single model.

How insurance clients themselves allocate capital to private credit is also one area where we find divergence across regions. European insurers may invest via their own managed accounts or joint ventures with managers. This allows them to keep assets on their balance sheet but ring-fenced from their broader portfolio. By contrast, Asian insurers in Japan or Korea may invest in offshore feeder funds with certain tax considerations. In the UK, insurers have grown as an investor group as they have increasingly acquired Defined Benefit pension schemes. This is a market that many expect to grow significantly through consolidation within the pension sector and the natural growth of UK Defined Contribution pension funds.

The use of rated note structures has been discussed as the best structuring solution to optimise capital treatment for insurers and they have become common globally, particularly in the US (see Figure 16). These are feeder vehicles where the fund issues notes to the insurance investor, structured in tranches with a credit rating (see Figure 17). These ratings are often an NAIC-approved rating in the US. The insurer holds the rated note, typically rated A or BBB, which qualifies for a lower risk capital charge. The remaining fund returns above the note's coupon are usually captured by an equity tranche, often held by the manager or another investor to absorb risk, thus making the note safer. This type of structure can significantly improve an insurer's regulatory capital efficiency, allowing them to invest more in private credit for the same balance sheet impact.

Figure 16: Have you considered setting up rated note feeder structures? (Select all that apply)

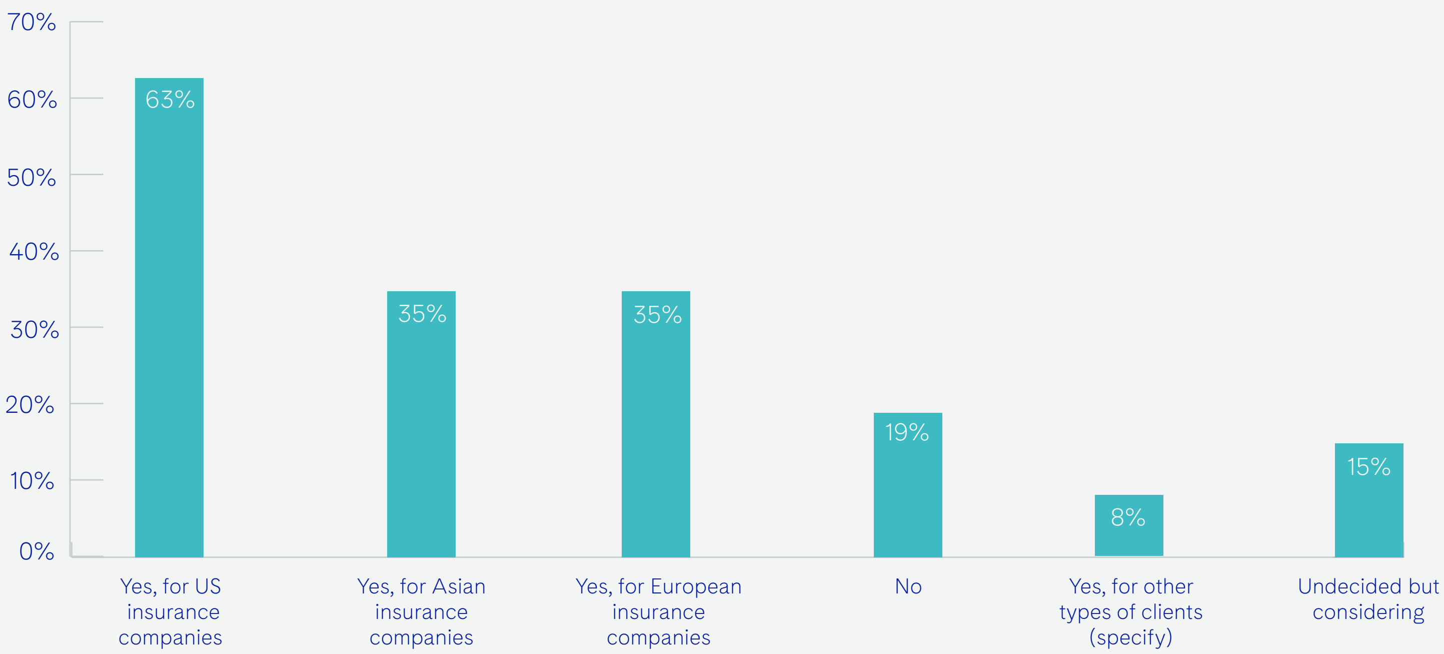
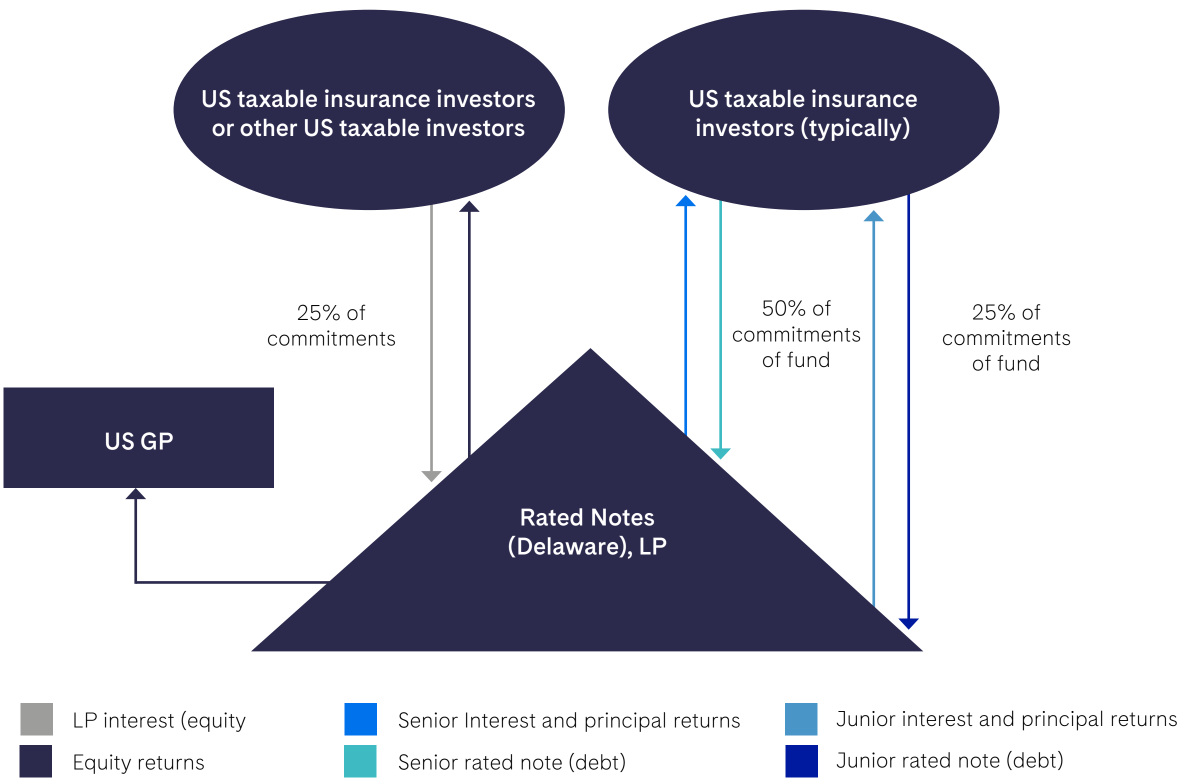


Figure 17: Illustrative example of US rated note feeder structure



Depending on investor preferences, these feeders can incorporate features like fixed quarterly coupons, reserve accounts and scheduled amortisation to secure an investment-grade rating on the notes. In Europe, rated feeders are less common due to the complexity of the rating process and the fact that the typical US feeder fund structure cannot be used to address EU regulatory capital rules. In the US and Europe managers generally design portfolios for these vehicles that are tailored to rating agencies' requirements.

Managers highlighted that the ability to structure rated note feeders has become a necessary element in their toolkit. While these structures can be more resource intensive than other funds and accounts, they are often vital for insurance investors. A number of US insurance companies also invest in private credit by buying notes issued out of a feeder that holds the loans, achieving a look-through rating (e.g., NAIC-1 or NAIC-2 quality) that substantially lowers their capital charge.

By contrast, there are more options available to investors in Europe and Asia. For example, many European insurers are content with a standard fund limited partnership interest, as long as it is transparent and unlevered. Under Solvency II, holding an equity interest in a private credit fund can be manageable if the fund's risk profile is clear, so some insurers value simplicity and transparency above technical and sophisticated structuring solutions. In this context, most European insurers investing in private credit prefer a straightforward fund or account, possibly with some look-through reporting to allow them to apply their internal models.

These approaches are also valid in the US for insurance investors who are content with structures that accommodate their demands for transparency, data and fee reductions. Managers across Europe and the US are also able to set up simple note issuance structures without ratings, for example, privately placing a note to an insurer from an SPV that holds the loans.

Overall, managers in Europe often rely on simpler methods to accommodate insurers, such as side pockets for qualifying assets or ensuring the fund is eligible for regulatory benefits like the Matching Adjustment ("MA"), which may mean structuring certain long-term loans to be MA-compliant. However, there remains a degree of uncertainty around approvals for MA relating to private credit assets in the UK.

It is hoped that the Matching Adjustment Investment Accelerator will reduce some of this uncertainty once implemented. Another alternative to rated feeders in Europe are middle-market CLOs, which have started to emerge in part due to investor demand for the senior tranches. This underscores that bespoke solutions are increasingly common, in line with the push towards customisation explored above.

> "Rated feeders are required tools in your structuring toolbox. If you don't have that capacity, reaching certain investor segments can become challenging."
>
> **Greg Beauchamps**
> Head of Fund Structuring, Tikehau Capital

> "Rated note feeders are a great tool in the US, where you can create the note, tranche it and market it to insurers that will buy a piece of each tranche pro rata, so you do not have to find an equity investor on its own, which can be difficult."
>
> **European-focused private credit fund manager**

> "The goal from our perspective in Europe, in order to meet the needs of our insurance clients, is simplicity and transparent reporting. In the US, there are significant benefits for insurers investing through a rated structure rather than investing directly."
>
> **Shomick Bhattacharya**
> Managing Director, Head of Product Strategy and Development, Pemberton Asset Management

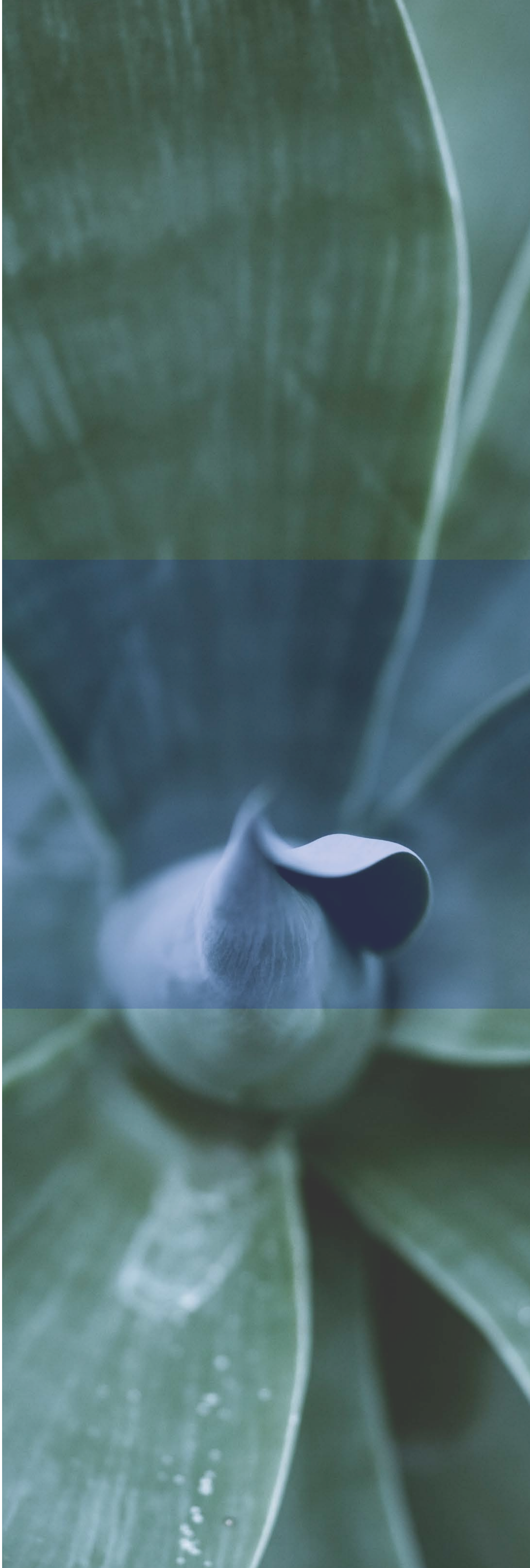
> "We've spent a lot of time on rated note structures. While there's clear interest, achieving a rating on acceptable terms requires careful thought and consideration."
>
> **Arunas Jakumavicius**
> Head of Tax, Park Square Capital

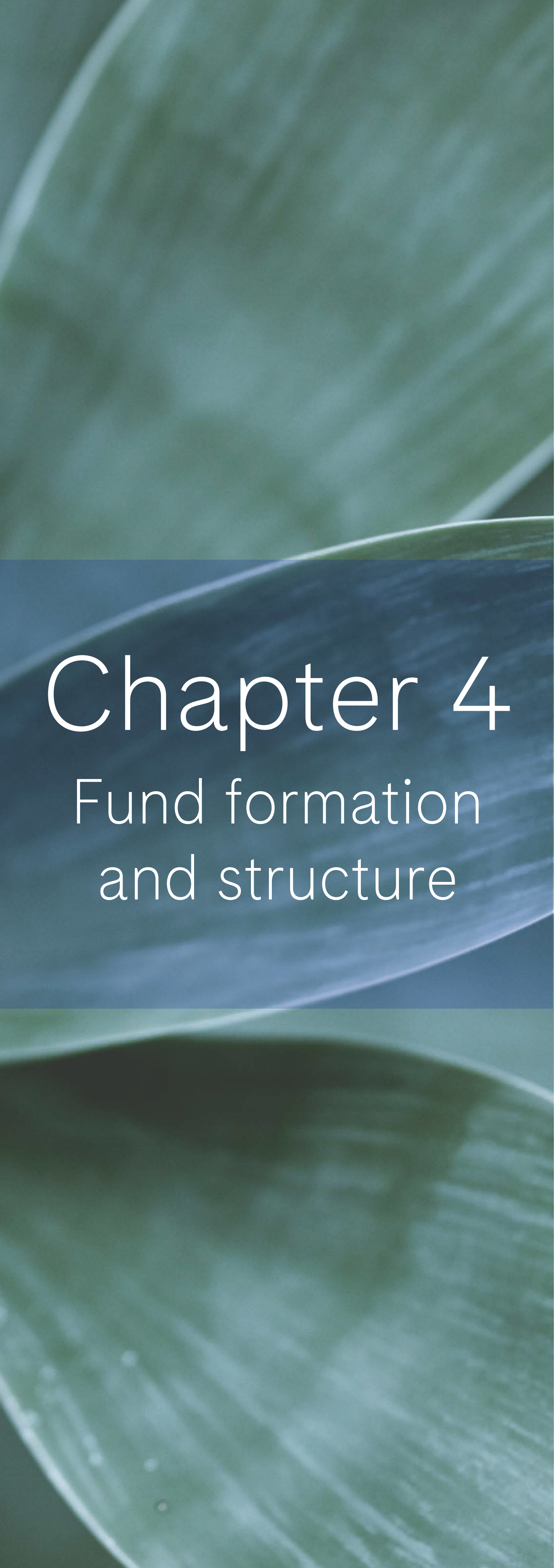
Key challenges around structuring rated note feeders beyond their cost and operational intensity include regulatory hurdles, for example 'vertical slice' rules around risk retention in the US, as well as the challenge of finding third-party equity investors to support a rated structure. Without a willing equity tranche holder to take the first-loss position, a rated note feeder generally cannot be executed, as many managers are reluctant to use their own balance sheet for this purpose. Managers also showed some reticence due to the low follow-through rate on the part of insurers and the complex economics of these structures. Moreover, achieving the target rating often means sacrificing a considerable part of the return, which can make the remaining equity slice's return too low to attract an equity investor. This is what interviewees described as a 'structural Catch-22'.

Given these challenges, most GPs view rated note structures as a useful tool, but only viable with sufficient scale and commitment and in specific contexts. The majority of managers follow a wait-and-see approach, standing ready to execute a rated note feeder if an investor firmly commits to it, but are unwilling to build them speculatively. A final insight from our interviews is that rated note feeders also have the potential to be employed in new asset classes, including real estate credit.

"Capital efficiency and operational simplicity is why rated feeder structures exist. They are particularly useful for smaller insurance companies that don't have sufficient resources to manage SMAs."

Thomas Meyers
Head of Product Development for Direct Lending, Man Varagon





Chapter 4
Fund formation and structure

Key findings

- Trusted domiciles and vehicles continue to dominate: Private credit funds overwhelmingly continue to be formed in a handful of established fund domiciles, and Luxembourg and the Cayman Islands remain the top choices globally. Delaware is the standard for US-domiciled funds, while Ireland and the UK are also used for specific feeders or regional funds. This pattern reflects the industry's preference for familiarity, tax neutrality and robust legal frameworks. In Europe, the Luxembourg Reserved Alternative Investment Fund ("RAIF") has solidified its status as the vehicle of choice for private credit funds targeting EU assets and is prized for its flexibility and speed to market. Managers have also begun to use new fund structures like the ELTIF.

- Navigating US tax on 'Effectively Connected Income' ("ECI"): US tax considerations are now an integral part of fund structuring discussions for any fund with exposure to US private credit assets. A growing number of managers now use double tax treaty-based vehicles, for example in Ireland or Luxembourg, to mitigate ECI risk. Survey responses indicate an uptick in those relying on treaty and blocked structures compared to prior years. Blocked structures generally offer more certainty but can be less tax efficient. At the same time, some managers are pursuing alternative strategies like 'season and sell', but the consensus in the market is that there is no one-size-fits-all solution.

- Fee structures under pressure and innovative solutions: Management fee models are evolving in response to investor pressure and industry maturation. A majority of managers now employ tiered management fee schedules, offering fee breaks for larger commitment sizes. This volume-based pricing has become an expected market practice, especially as fund and ticket sizes grow. Additionally, managers are introducing creative fee terms to stay competitive. Some firms have also adopted cornerstone investor discounts instead of broad early-bird discounts. In some circumstances, GPs have accepted LP requests for zero carried interest in exchange for a higher flat management fee. The backdrop to these changes is a highly competitive fundraising environment and some consolidation of capital with larger LPs and larger managers which is tilting negotiating leverage toward investors.

Fund domicile and vehicle selection

Figure 18: In which of the following jurisdictions are your private credit funds domiciled? (Select all that apply)

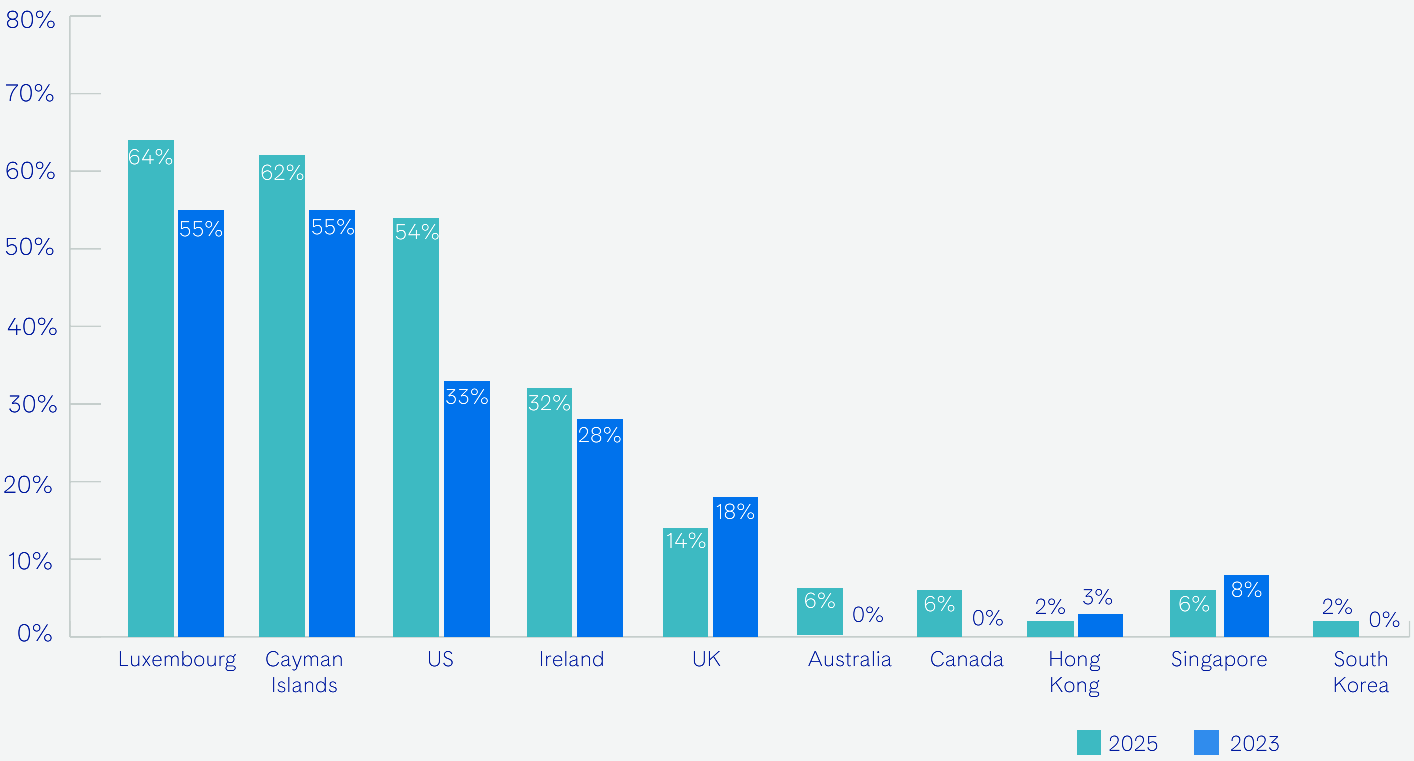
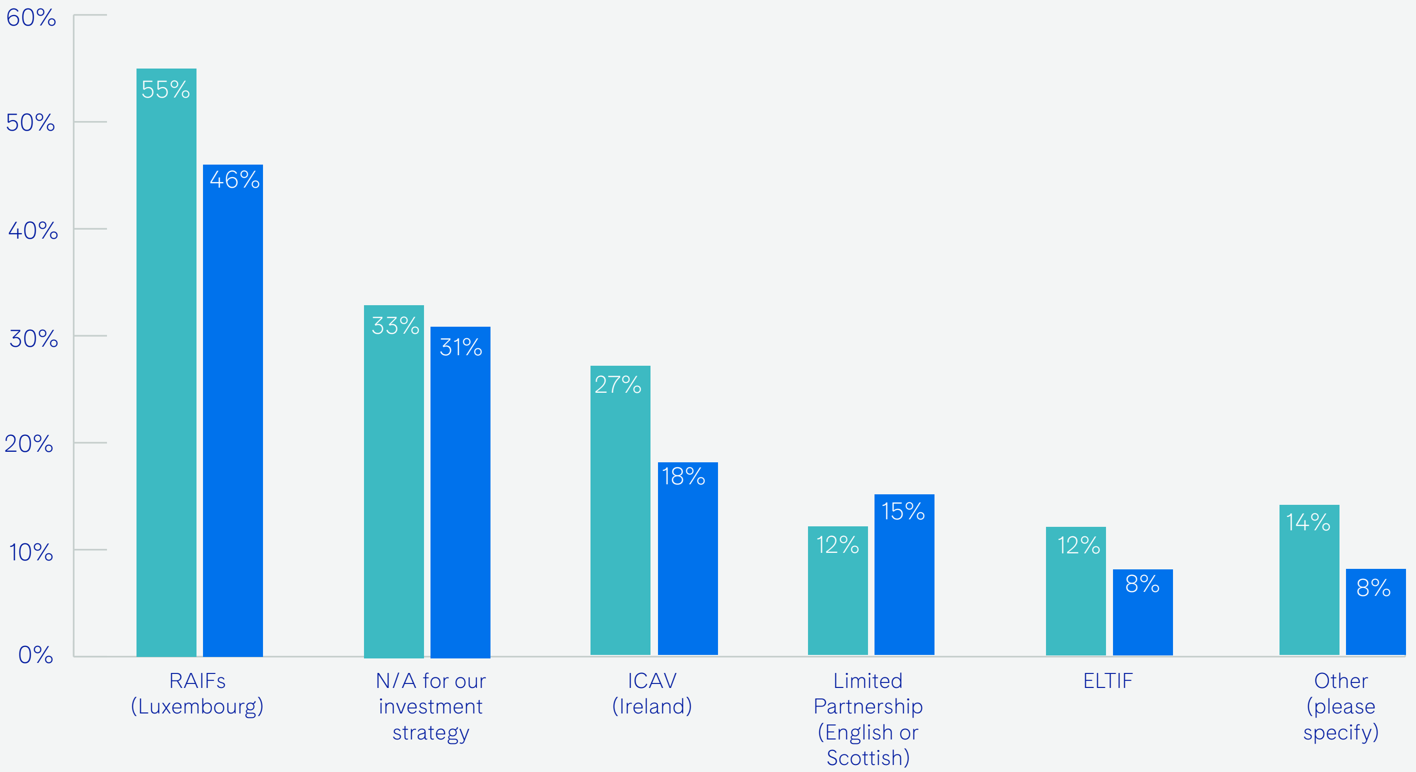


Figure 19: What fund structures do you use to invest in EU based private credit assets? (select all that apply)*



* 'Other' responses included Delaware and Cayman vehicles, Luxembourg Part II UCI and Irish Section 110 vehicles

Fund domicile choices in private credit have shown remarkable consistency, even as the industry expands. Managers continue to prefer jurisdictions that offer a blend of investor familiarity, efficient regulation, flexible structuring options and strong tax treaty networks. In practice, this means that Luxembourg and Cayman sit at the top of the list for global private credit funds, with an increase in their popularity among managers from 2023 to 2025 (see Figure 18).

Luxembourg maintains its position as the most popular domicile for European corporate lending strategies, especially with the widespread adoption of the RAIF structure. According to our interviewees, RAIFs offer speed to launch, since they do not need direct regulatory approval, and benefit from Luxembourg's extensive tax treaty network. The Cayman Islands remain a key domicile for funds with global or Asian investor pools and for US managers raising offshore money. Cayman's exempted limited partnerships are straightforward, lack entity-level taxes and are well understood by institutional investors worldwide.

We note continued growth in the use of Ireland as a fund domicile, with just under one-third of private credit managers now using this jurisdiction for fund structuring. Recent enhancements to the funds regulatory framework there are likely to drive continued interest.

Many large managers run parallel fund vehicles to optimise tax and regulatory outcomes for each group of investors, for example a Delaware limited partnership for US taxable investors and a Cayman limited partnership for non-US or tax-exempt investors. When new investor segments or requirements come into play, managers tend to layer on additional vehicles rather than change the primary domicile. A clear example is the rise of ELTIFs and other retail-oriented vehicles in Europe.

ELTIFs are particularly attractive because they enable distribution to retail investors in the EU under a passport which helps overcome marketing and distribution challenges across the 27 Member States that make up the EU. While it is still early days since the new reforms were introduced, our data shows ELTIF usage has increased slightly (see Figure 19).

In the UK, Long-Term Asset Funds are being increasingly used as insurance wrappers for investors such as Defined Contribution pension schemes, or used as feeders into Luxembourg RAIFs.

The same pattern holds in the US, where a manager might launch a BDC or an interval fund for retail, which then co-invests or feeds in alongside the institutional fund. A 'back to the future' example of this trend is the continued use of 'feeder-stack' structures in global funds, for example a Cayman master fund with Delaware feeders for US ERISA plans and a Cayman or Luxembourg feeder for other non-US investors.

> "The ELTIF has definitely improved under the 2.0 Regulation, but it could still be improved further. A key limitation is that it cannot act as a feeder into other fund structures. Nevertheless, the ELTIF is very useful across Europe, particularly in jurisdictions like Spain."
>
> **European-focused private credit fund manager**

Focus on ECI

As private credit funds expand globally, cross-border tax considerations have become more prominent in structuring. A critical issue for many investors is the risk of US tax that can apply to foreign investors if a fund is deemed to be engaged in a US trade or business. For example, if a non-US investor engages in US loan origination, they risk being taxed as if they conducted US business, which is typically undesirable. Historically, some non-US investors avoided this simply by not investing in US credit funds, or managers avoided including US assets for offshore feeders.

As more non-US investors are seeking exposure to US private credit, mitigation of ECI has become a significant structuring consideration. We identify this trend in Figure 20 in the drop from 47% to 27% of survey respondents that do not consider ECI relevant for their investment strategy.

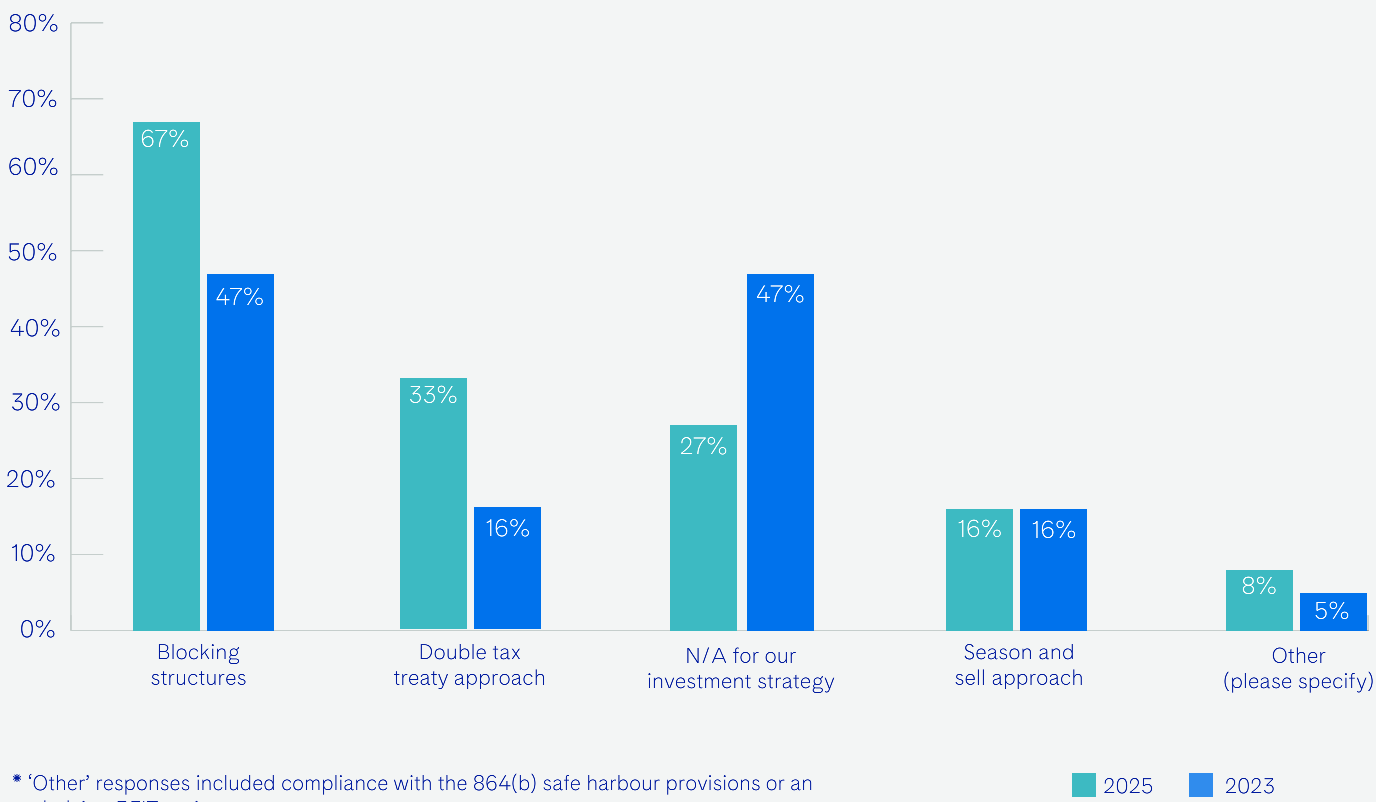
A potential solution to the ECI problem is using a blocked structure. Large managers often use Delaware corporations to hold the fund's US loan portfolio. These structures pay US corporate income tax but shield foreign investors from direct ECI-related tax filing obligations. While it is a blunt tool and can be less efficient due to US corporate tax leakage, it is the most conservative approach and offers certainty to investors.

Our data also indicates an increase in the use of treaty-based structures to address ECI. For example, many managers now utilise an Irish Section 110 company, Irish ILP feeder or a Luxembourg Sarl that may be able to take advantage of the US's tax treaties with Ireland or Luxembourg to tackle ECI risk. Under certain treaties, interest, and sometimes capital gains, may be received by a foreign entity without US tax leakage when structured in compliance with the relevant treaty provisions. While this is attractive for many investors that are eligible, treaty funds are subject to stringent anti-treaty shopping provisions.

'Season-and-sell' continues to be a secondary option but is generally more difficult for managers to pursue. Hybrid strategies are also emerging, combining various options across the structure and lifespan of the fund.

Interviewees highlighted that there is not a unanimous approach or gold standard for ECI mitigation, as different managers, investors and lawyers will have distinct preferences and will assess the trade-offs differently. The complexity of these issues usually means tax advisors are heavily involved in fund structuring, and managers often need to explain their ECI approach to prospective investors during fundraising, as investors become increasingly sophisticated.

Figure 20: What structures do you use to ensure compliance with the Effectively Connected Income rule when investing in the US? (where appropriate, select all that apply)*



* 'Other' responses included compliance with the 864(b) safe harbour provisions or an underlying REIT option.

Figure 21: Illustrative example of a leveraged blocked structure

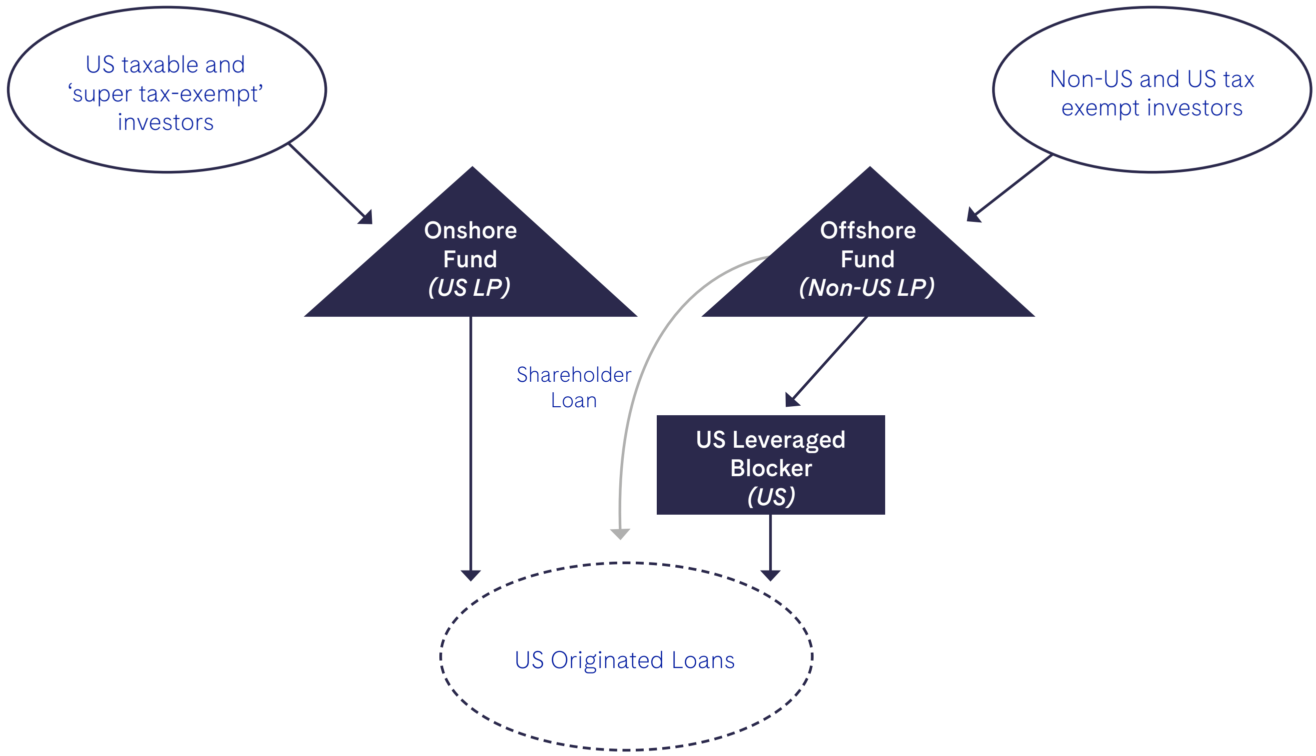


Figure 22: Illustrative example of a double-tax treaty structure

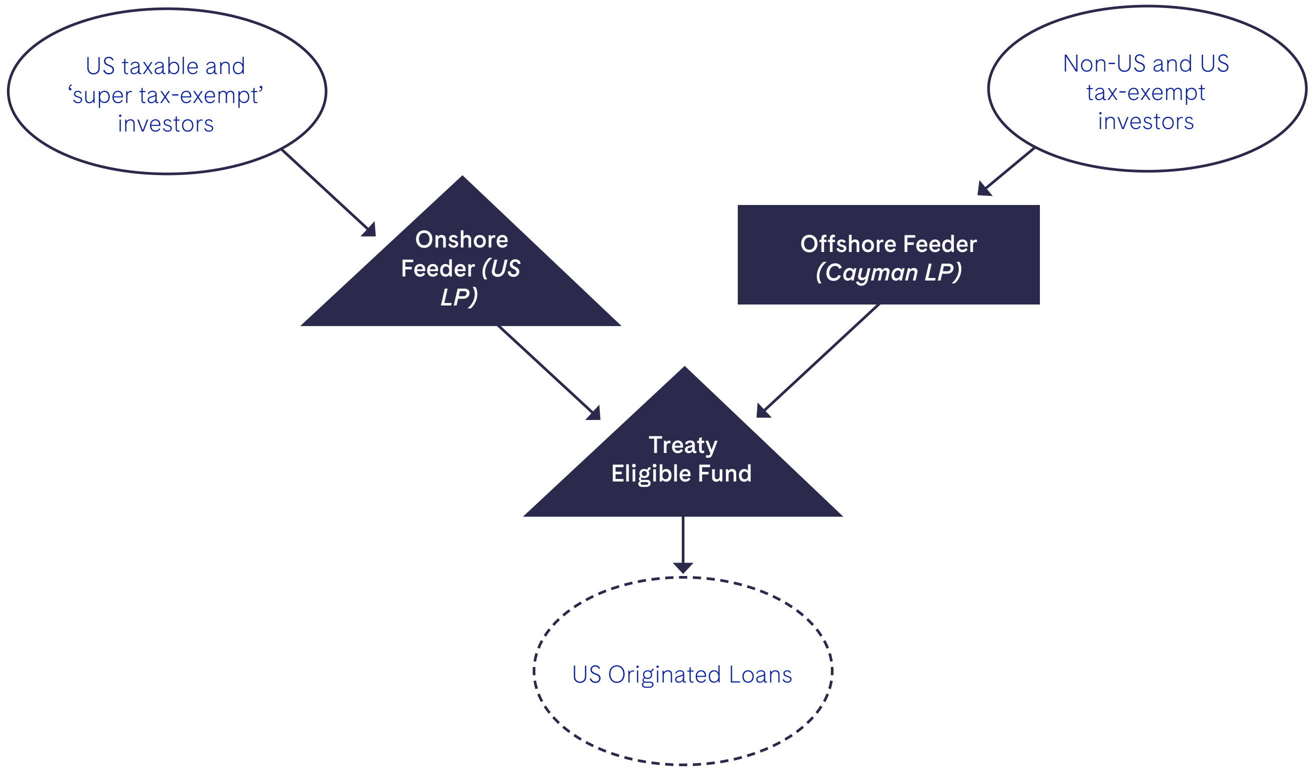
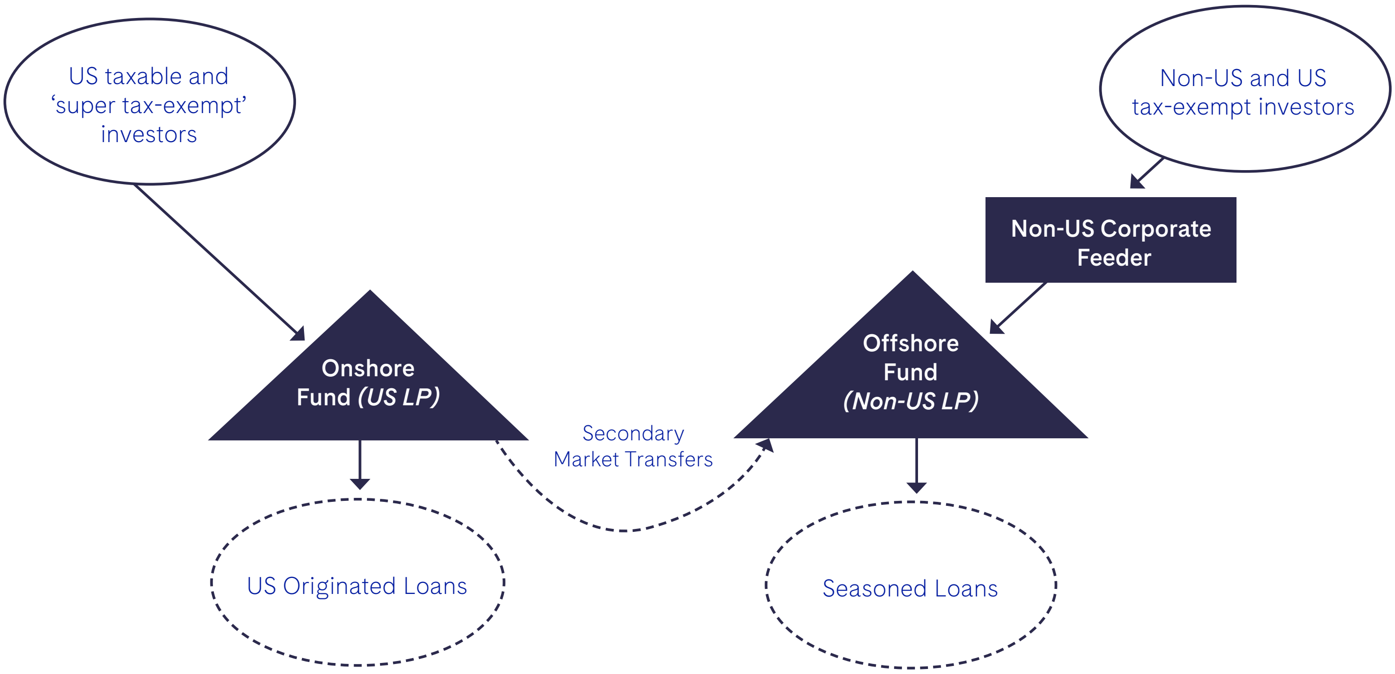


Figure 23: Illustrative example of a season and sell structure



Fee structures and aligning interests

Our 2025 research reflects a maturing market where investors are seeking tailored fee structures and managers are responding with innovative solutions. One clear development is the broad adoption of tiered management fees (see Figure 24). Two-thirds of managers now use a tiered fee schedule that adjusts the annual management fee rate based on the size of an investor's commitment.

For example, a fund might charge a 1% management fee on commitments up to US$50 million, but only 0.85% on commitments higher than US$50 million (or on the portion of a commitment in excess of US$50 million). These volume discounts have become more common as fund sizes grow and large institutional LPs seek fees that reflect the economies of scale that can be achieved.

Furthermore, the consolidation of capital among a smaller set of large investors has also resulted in tougher fee conversations. Many managers have introduced 'early bird' or cornerstone discounts to incentivise first-close commitments, though managers generally prefer the latter as a reward for an investor who anchors the fund with a sizeable ticket. This ensures the reward is tied to the scale of commitment. Such innovations reflect a pragmatic approach to fundraising and fees in a competitive market.

Fee pressure is also evident in the performance fee, or carry, element. LPs are negotiating more aggressive terms and, in some cases, large investors have even proposed zero carry in exchange for a higher management fee or other considerations. While not many deals end up at zero carry, it signals that some key investors believe they have the leverage to demand a bespoke fee deal where the manager's upside participation is curtailed.

Managers, for their part, are cautious about agreeing to such terms since performance fees are meant to align the interests of LPs and GPs and typically play an important role in overall remuneration packages. However, in a competitive fundraising environment, some managers might accept a low fee mandate from a strategic client to secure the capital, essentially viewing it as a managed account or a partnership rather than a typical fund LP.

Despite the fee compression, managers are finding ways to preserve economics and alignment. Managers are, for example, focusing on more efficient operations and cost management. Interviewees highlighted that open-ended structures are generally easier to run without carry or performance fees.

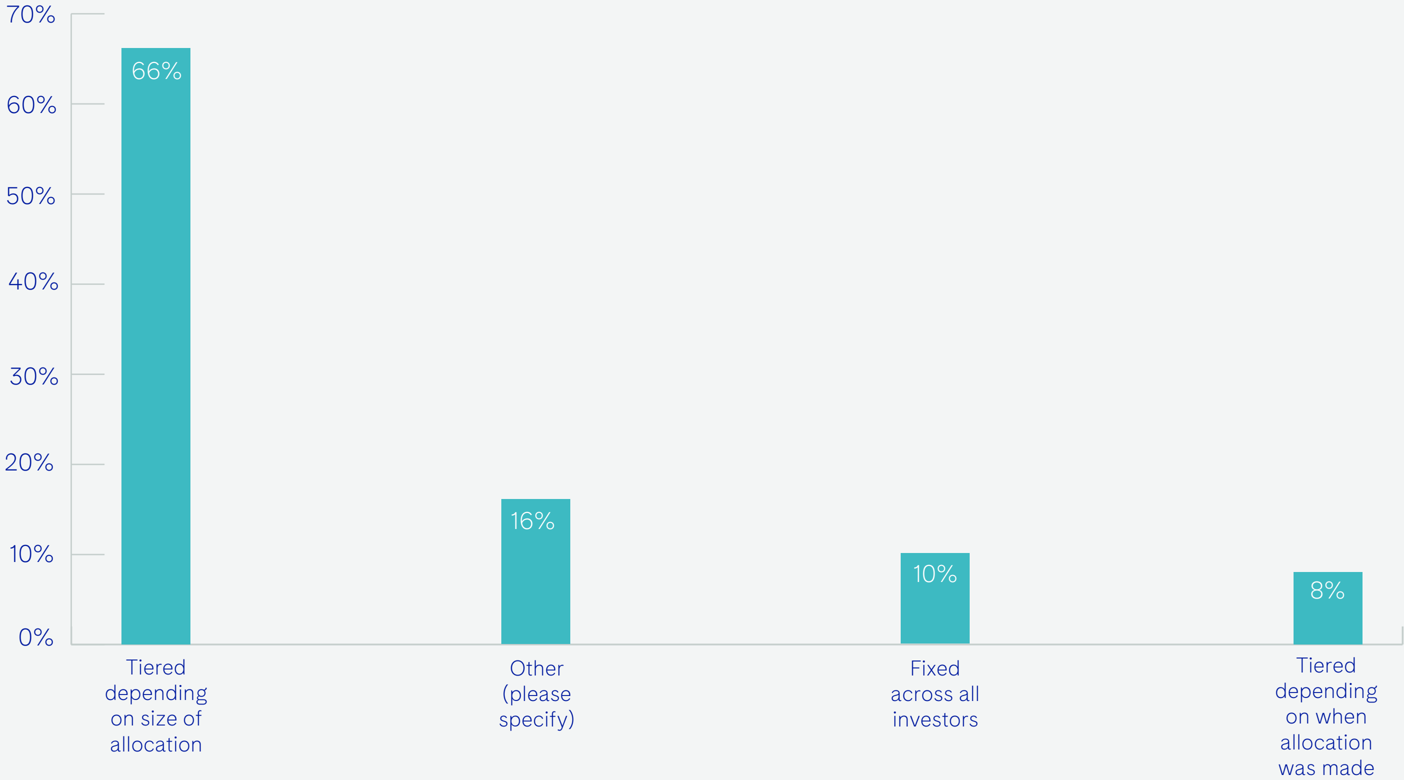
This may also be a consequence of the operational difficulties that performance fee structures present in semi-liquid funds, particularly around valuation and what an appropriate hurdle rate might be. Instead, investors in semi-liquid funds may opt for a recurring charge based on NAV, an approach which provides a stable fee stream to the manager even if headline rates are lower than they might be under a closed-ended structure.

While headline fee rates often attract initial attention from investors, interviewees highlighted how important transparency around fee recharges or expense pass-through arrangements has become to investors. A final consideration that was discussed during our interviews is the issue of floating hurdles, which are sometimes offered by GPs but generally disliked. When offered, they are usually constrained by a floor and a ceiling. Other interviewees emphasised that hurdles in private credit tend to be quite tight and closer to the target returns.

> The BDC is perhaps the most efficient structure for non-US investors from a tax perspective, but it is also one of the least utilised."

Thomas Meyers
Head of Product Development for Direct Lending, Man Varagon

Figure 24: How do you structure management fees for your private credit funds?*



* 'Other' responses predominantly referenced structuring fees tiered by both timing and size of allocation

> Offering co-investments on a fee-free basis, whether through a commingled fund, bespoke vehicle or on a deal-by-deal basis, has become a competitive advantage, especially when we extend it across different geographic regions."

European-focused private credit fund manager

About

ACC

The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US$2 trillion of private credit assets.

The ACC is an affiliate of AIMA and is governed by its own board which ultimately reports to the AIMA Council.

ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure as well the trade and receivables business.

The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits.

Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

AIMA

AIMA is the world's largest membership association for alternative investment managers. Its membership has more firms, managing more assets than any other industry body, and through our 10 offices located around the world, we serve over 2,000 members in 60 different countries.

AIMA's mission, which includes that of its private credit affiliate, the Alternative Credit Council (ACC), is to ensure that our industry of hedge funds, private market funds and digital asset funds is always best positioned for success. Success in our industry is defined by its contribution to capital formation, economic growth, and positive outcomes for investors while being able to operate efficiently within appropriate and proportionate regulatory frameworks. AIMA's many peer groups, events, educational sessions, publications and practical tools like its Due Diligence Questionnaires and industry sound practice guidance available exclusively to members, enable firms to actively refine their business practices, policies, and processes to secure their place in that success.

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