

E X P E R T Q & A

Private credit managers are expanding the menu of products and structures they offer as borrowers seek out further flexibility and creativity, say Latham & Watkins' Stelios Saffos, Dan Seale, Alfred Xue and Peter Sluka

Private credit moves from depth to breadth

Q What are you seeing with respect to the diversity of asset classes that private credit providers are financing? How is private credit meeting the needs of the artificial intelligence infrastructure boom?

Peter Sluka: For a long time, the market has focused on the depth of private credit as an asset class; namely, the scale of the transactions and the ability of private credit to compete with the liquid credit markets. That has now shifted and the market focus is on breadth, with a wide menu of different products and strategies now available within private credit that make it even more competitive with other sources of financing.

Alfred Xue: There is growing recognition that a manager's alpha versus their competition's is now associated with how much capability a manager can bring to bear across different structures, strategies and asset classes. In addition to focusing on scale and AUM, successful managers provide borrowers with a diverse and comprehensive set of capital solutions. Large asset managers now have access to more insurance money and increasingly permanent capital that enables them to offer

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borrowers a much wider array of flexible funding sources. They can calibrate to client needs with leverage, tenure, bigger revolvers, different types of call protections, better funding and, thus, better rates – all areas of innovation in the asset class.

In areas like artificial intelligence and digital infrastructure, we have seen private credit move beyond lending to traditional software companies; private credit now builds the capabilities to support some of the biggest names in AI in their primary business and in their essential infrastructure. Managers are not just lending to them on the infrastructure side, but on the cashflow side too, with everything from pre-IPO funding to financing data centres.

We were pioneers in helping asset managers design the emerging GPU-backed private credit financings and structuring complex asset-level transactions for data centres. Private credit has stepped in with its leadership and flexibility to address the needs of this fast-growing market.

Q What innovations are emerging in junior and hybrid capital?

Stelios Saffos: We continue to see a move towards growing complexity

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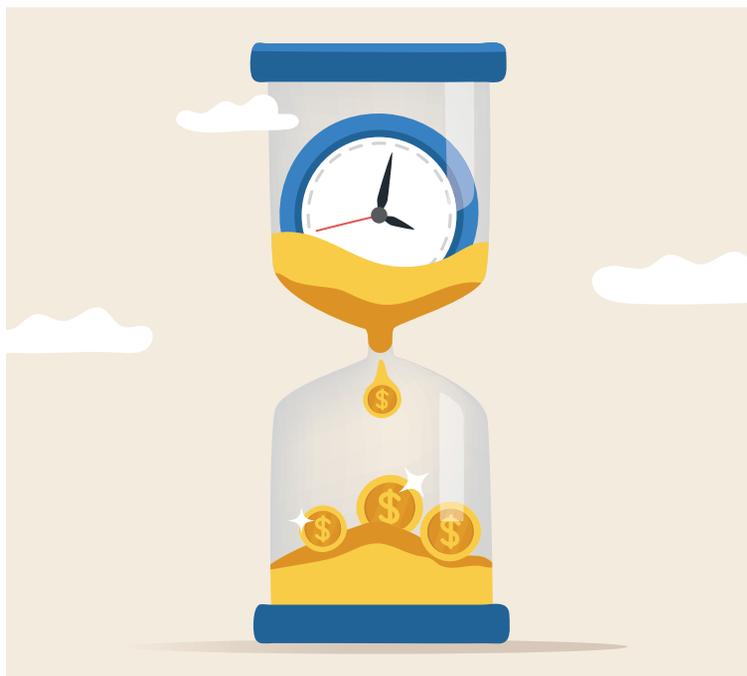
STELIOS SAFFOS

and increased flexibility, driven by high levels of dry powder, larger funds competing to partner with borrowers and issuers, and borrowers becoming more sophisticated in what they are looking for from financing partners.

Asset managers want to deliver on larger deals with more structure, and they are trying to create a differentiated offering from competing capital. Unlike the unitranche world where borrowers look at similar products from fund to fund, in junior and hybrid capital there is a big expanse from common equity to junior debt, all with different use cases. The ability to execute deals in different tranches with different terms and return expectations is now paramount.

We expect this to continue and to be one of the big growth agendas for the asset class overall. The compelling angle is that in private credit, you can continue to innovate in these areas, unlike in syndicated and high-yield markets.

Last year, we saw increasing structuring flexibility on the senior side, with some of the larger unitranche lenders getting to an all-in blended rate that is competitive with the syndicated market, while still achieving private credit returns.



Q Why are we seeing a rise in the use of continuation funds in private credit?

AX: That opportunity has presented itself in part because of the rise of continuation vehicles in private equity, where assets have taken longer to realise. The typical unitranche direct lending fund has a seven- to eight-year life cycle, and in the past those funds had really good distributions to paid-in capital (DPI). The current vintages are not quite there on median DPI, as longer hold periods in private equity translate into private credit.

Some of those assets are high quality and throwing off plenty of cashflow. The lengthening of the weighted average lifespans is not necessarily a negative indicator of the underlying strength of the assets. These continuation deals enable managers to move with some agility and provide additional liquidity and flexibility.

Dan Seale: Often the decision is really between a sale to a third party or a longer hold period to see if the valuation will improve to achieve a more favourable exit. If the private credit lender loves the deal and wants to stay in, it may make a lot of sense to use a continuation fund rather than execute on a deal too early.

PS: The broader use cases that we have seen for junior and hybrid capital have shifted over time, but all continue to hold up. In 2020 and 2021, the focus was on acquisition finance. Then since 2022 and 2023, these instruments were also increasingly deployed for distressed situations, providing liquidity and helping to stabilise capital structures.

In the last few years, with stalled private equity sale processes, these tools are helping private equity firms monetise investments in a way unachievable through the exit markets. The next phase of growth will likely see private credit stepping up to provide funding to companies that would have gone public but now need

capital to keep growing their businesses. The AI space has such a need for capital that adding an extra layer of hybrid instruments on some of those structures is becoming more appealing; the same is true in energy and infrastructure.

We increasingly see opportunities to slot junior and hybrid instruments into a lot of situations that otherwise would have involved control investments or minority equity, or in place of other sources of capital that may not be available right now.

Q How is the private credit market growing and evolving in the UK and Europe?

AX: We continue to see growth in Europe, with recent data suggesting a

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rapidly expanding marketplace. A lot of funds continue to build out their European presence and scale across multiple jurisdictions, with those well established in the US now looking to grow in the less-developed European and Asian markets.

We also see managers developing new structures for various European jurisdictions – for example, we’ve seen a lot of activity in Italy and Northern Europe. Data suggests some private lenders expect the European market opportunity to double in size by 2030.

The UK is experiencing quite a bit of activity, but we are also witnessing a trend towards more flexibility, more products, and more depth in the market, particularly when you consider how relatively shallow the syndicated market is in Europe and the UK.

SS: The breadth of our practice across both London and continental Europe deeply resonates with our clients. Having offices in every major global financial centre, plus the size and scale of our US presence and the depth of our relationships with large private credit funds and sophisticated borrowers, positions us to deliver consistent advice and support them in making cross-Atlantic connections.

As their investment theses evolve and they move from one product and one jurisdiction to another, funds see a real benefit from long-standing relationships with strategic partners.

Q What other growth drivers would you point to for private credit providers this year?

DS: The menu of products that managers are providing, and the different areas they are moving into as they look at capital solutions more broadly across their platforms and internationally, will continue to drive growth. That is how we have built our private credit

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DAN SEALE

practice, so asset managers can come to us for advice across products, asset classes, and jurisdictions.

AX: When we started our involvement in private credit two decades ago, the market was roughly \$150 billion. Now the market is close to \$3 trillion and expected to approach around \$5 trillion by 2030. That growth is driven by consistent innovation, not only in fundraising, but also in product capabilities up and down the capital structure in different markets and evolving into new opportunities like AI infrastructure.

Managers are applying the same strategies that have served them well in the US and getting behind the structural drivers that underpin private credit’s growth elsewhere. We have built our business to align with those growth trends and act as strategic partners as funds continue to expand. ■

Stelios Saffos, Dan Seale, Alfred Xue and Peter Sluka are partners at Latham & Watkins, Private Debt Investor’s 2025 Global Law Firm of the Year for Transactions