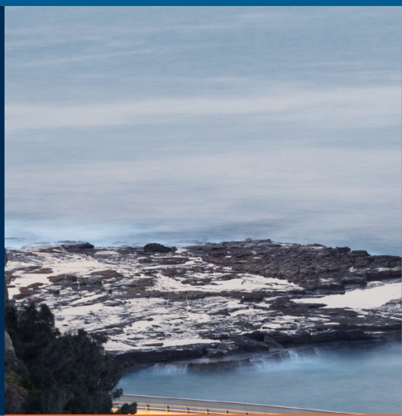
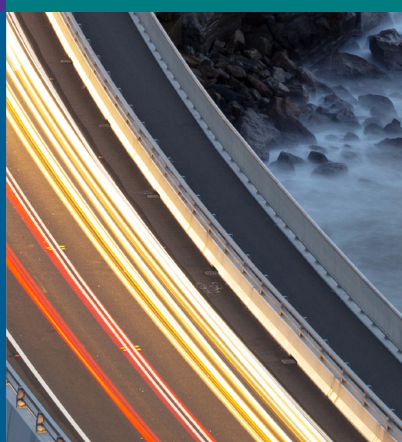
Morgan Stanley
INVESTMENT MANAGEMENT

European Private Credit: Why Now?

Growth, Resilience, Returns

MARKETING COMMUNICATION | EUROPEAN PRIVATE CREDIT | 2025





Introduction

Private credit has seen substantial growth over the past decade, establishing itself as an important and expanding part of investor portfolios, with global private credit assets under management ("AUM") growing to c.$1.7Tn in 2024 from c.$260Bn in 2008.[1]

As a sub-segment, European private credit has firmly established itself as a compelling and potentially attractive market in its own right, with AUM now approaching $500Bn. Growing nearly 2x faster than its U.S. counterpart, it has now expanded to represent approximately 30% of the global private credit market.[1]

In an environment of elevated macroeconomic and geopolitical uncertainty, ever increasing banking regulations, and a possible end to "American Exceptionalism," European private credit offers a compelling diversification opportunity.

U.S. investors allocating to European private credit are not required to sacrifice return potential. Capital deployed in European private credit could offer higher average credit spreads while retaining the benefits of the U.S. dollar ("USD") base rate through currency hedging. Moreover, European investors can allocate to their domestic markets and protect themselves from potential USD depreciation.

Through a comparative lens of European and U.S. private credit markets, this publication seeks to highlight how combining U.S. and European private credit allocations enhances diversification, resilience and return potential for investors.

KEY TERM

Private Credit and Direct Lending

Private credit loans are privately negotiated between a company and a private credit fund. The funds used for the loan are raised from investors, including pension funds, insurance companies, and high net-worth/retail investors.

Direct lending is often synonymous with private credit, however, technically 'direct lending' typically refers to the provision of senior secured loans to private equity-owned businesses. Direct lending makes up the largest portion of overall private credit AUM. Other types of private credit include mezzanine lending, distressed debt, special situations, and venture debt.

Why Europe, Why Now?

1 Growth

The European private credit market has grown nearly 2x faster than U.S. private credit, supported by increasing mid-market financing needs and regulatory changes favouring alternative lenders

2 Resilience

The market in Europe typically exhibits lower defaults and similar recoveries due to:

- Lower leverage
- Bilateral nature of transactions
- Higher equity cushions
- Higher share of defensive sectors
- Stronger legal protections

3 Returns

European private credit offers a c.100bps yield (spread/OID) premium over the U.S.

With currency hedging, investors may achieve better risk-adjusted returns

[1] Preqin – Global Private Credit Assets Under Management ("AUM"). Private Credit AUM encompasses the following strategies: (i) Direct Lending; (ii) Mezzanine; (iii) Special Situations; (iv) Distressed; (v) Fund of Funds; and (vi) Venture Debt. AUM is calculated as the sum of total dry powder and unrealised value. Data through to September 2024 (accessed June 2025).

Growth

European private credit is growing ~2x faster than U.S. private credit

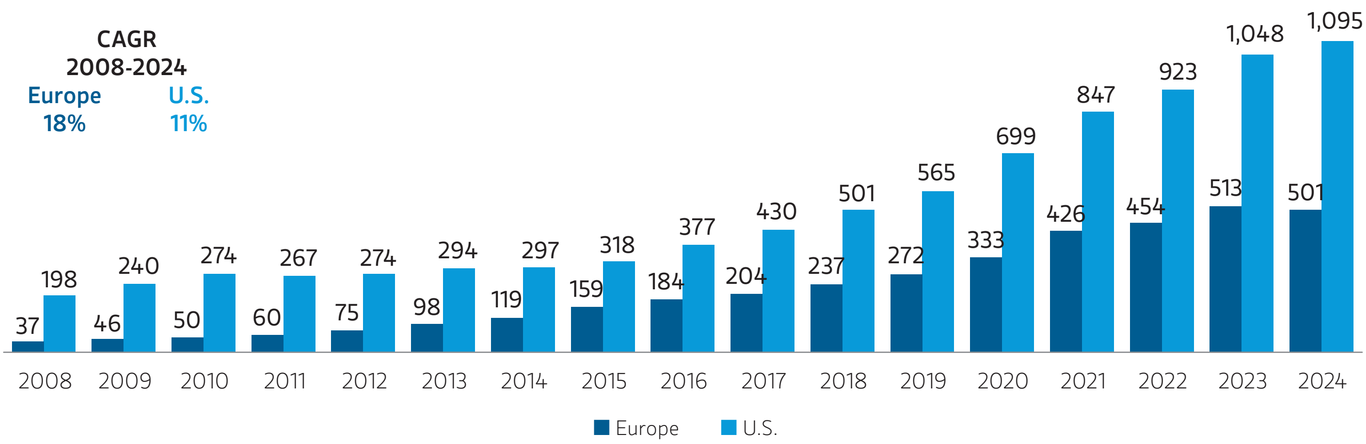
European private credit has grown significantly over the past decade, with assets under management reaching $500Bn in 2024, up from $50Bn in 2010.[2] This reflects a steady and structural shift in the financing landscape which is driven by a number of long-term structural drivers, outlined in this section.

CONTINUED REGULATORY-DRIVEN BANK RETRENCHMENT

Historically, traditional savings banks (often with local presence) were the prominent suppliers of loans to middle market companies in Europe relative to the U.S. However, post the global financial crisis, increased regulation, enhanced capital requirements, and waning risk appetites have combined to constrain their lending ability.

DISPLAY 1

Private Credit Assets Under Management ("AUM") in Europe and the U.S. ($Bn)[3]

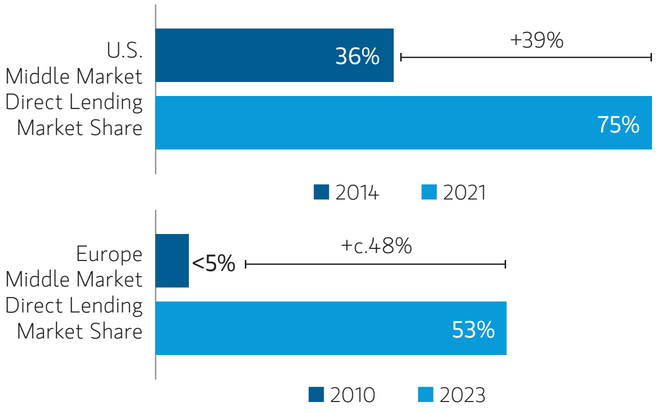


[2] Prequin, July 2025 – European Private Credit Assets Under Management ("AUM"). Private Credit AUM encompasses the following strategies: (i) Direct Lending; (ii) Mezzanine; (iii) Special Situations; (iv) Distressed; (v) Fund of Funds; and (vi) Venture Debt. AUM is calculated as the sum of total dry powder and unrealised value.

[3] Prequin, July 2025 – European and U.S. Private Credit Assets Under Management ("AUM"). Private Credit AUM encompasses the following strategies: (i) Direct Lending; (ii) Mezzanine; (iii) Special Situations; (iv) Distressed; (v) Fund of Funds; and (vi) Venture Debt. AUM is calculated as the sum of total dry powder and unrealised value.

DISPLAY 2

Middle Market Direct Lending Market Share[7]



The regulatory environment for banks is expected to become more punitive. Implementation of Basel III/IV (also known as Basel "Endgame") rules across Europe will impose more stringent requirements on bank capital, moderating leverage, and restricting balance sheets.[4] This could significantly impact a bank's cost of capital, pricing and treatment of loans, especially to small-medium enterprises.[5]

Furthermore, recent global events in the banking sector, such as the collapse of Credit Suisse, are prompting regulators to monitor large and small banks alike for contagion risk.[6] This is likely to reduce overall bank financing appetite. In combination, we believe these factors will continue to create a favourable environment for European private credit.

SIGNIFICANT WHITE SPACE RELATIVE TO THE U.S.

Although private credit is increasingly favoured by borrowers in Europe, there is significant potential for growth relative to the U.S. Approximately 50% of all middle market transactions are financed by private credit in Europe compared to over 75% in the U.S.

Private credit middle market share has expanded significantly since the global financial crisis. In addition, European private credit is increasingly becoming a credible alternative to the broadly syndicated loan ("BSL") markets. What was once a market dominated by sub €100MM financings now frequently sees deals in excess of €500MM. As an indication, 47% of European private credit transactions tracked by PitchBook LCD in 2024 were €350MM or higher, compared to just 10% in 2021.[8]

Similar to the U.S., European private credit is increasingly supporting larger, more sophisticated borrowers at an attractive commercial, legal and pricing premium relative to syndicated markets. While the U.S. outpaces Europe with respect to the sheer number and volume of "jumbo" unitranches (i.e., transactions and/or incremental transactions typically totaling c.$1Bn+), the European market is increasingly able to demonstrate its ability to cater to larger deal sizes, albeit significant growth potential remains.

We believe the private equity market will continue to grow the addressable market for private credit given the intrinsic linkage between both asset classes. This is because private equity-owned borrowers make up the majority of private credit financings and European private equity dry powder remains more than 3x higher than private credit dry powder, indicating a sizeable demand/supply imbalance across both regions.

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[4] Bank for International Settlements ("BIS"), European Central Bank ("ECB").

[5] McFarlanes: "Basel 3.1: Fuel to further accelerate the growth of private credit?", September 2024. Bloomberg Law: Simpson Thatcher – Basel IV is a Dramatic Shift for Private Credit Markets, April 2024.

[6] European Banking Authority.

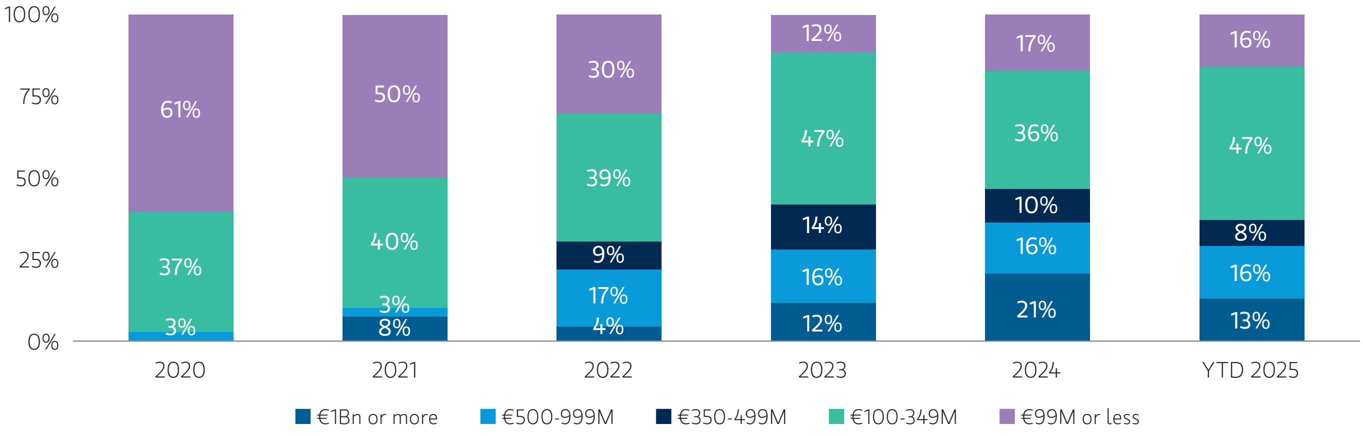
[7] U.S. data sourced from Bain Global Private Equity Report 2023. Data reflects the proportion of financing for middle-market buyouts provided by direct lenders, where 'middle-market' is defined as issuers with revenue less than $500 million and total loan packages less than $500 million. European market share for 2023 was derived from the Houlihan Lokey MidCapMonitor for Q3 2023. The market share for 2010 is based on the European Investment Team's experience and knowledge of the private credit market but has not been independently validated.

[8] PitchBook LCD: Deal size diversification of European Direct Lending transactions, by 2024 and 2021 deal count.

DISPLAY 3

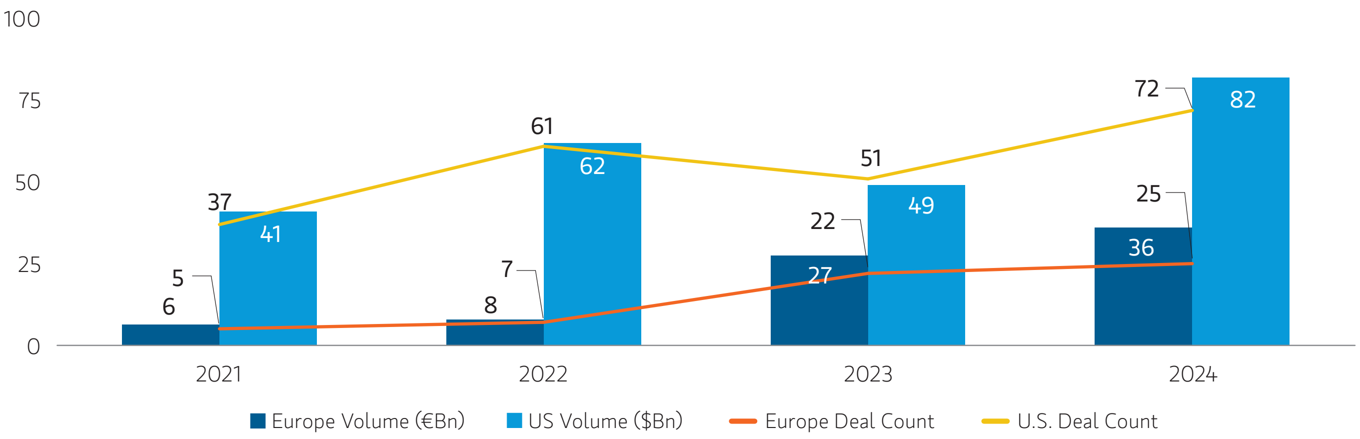
Deal Size Diversification of European Private Credit Deals Tracked by LCD, by Count[9]

Europe



DISPLAY 4

European and U.S. Jumbo Unitranche Estimated Deal Count and Volume (€/$Bn), 2021-2024[10]



DISPLAY 5

Select Recent Large/Jumbo Unitranche Issuance in Europe, 2025[11]

ISSUER	DATE OF ANNOUNCEMENT	PURPOSE	APPROXIMATE DEAL AMOUNT (€MM)
Nutrisens	June 2025	LBO	650MM
Diot Siaci	June 2025	LBO	2,000-2,500MM
Fortnox	June 2025	LBO	1,100MM
Karo Healthcare	May 2025	LBO	1,200MM
Adevinta	May 2025	Refinancing	6,200MM
BPP Education Group	May 2025	Refinancing	940MM
Softway Medical	April 2025	LBO	700MM
Azets	March 2025	Refinancing	1,100MM

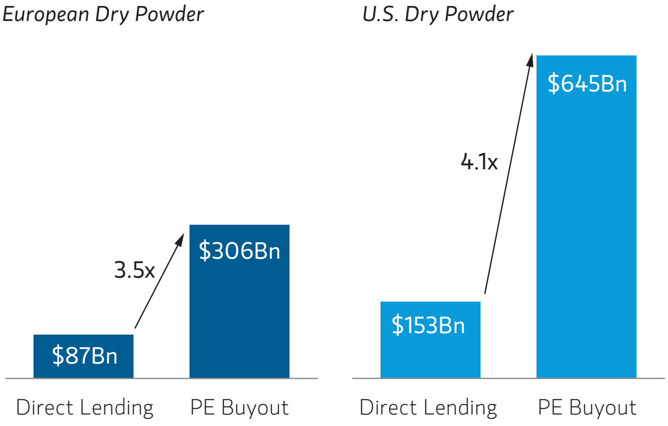
[9] PitchBook LCD, European Private Credit Monitor: Deal size diversification of European Direct Lending deals – data through 30 May 2025.

[10] KBRA DLD statistical data: European and U.S. jumbo sponsored loan statistics (including incremental amounts to existing financings).

[11] Public reports / articles from PitchBook LCD, Debtwire, and 9Fin.

DISPLAY 6

European Direct Lending and Private Equity Buyout Dry Powder, as of September 2024 ($Bn)[12]



DISPLAY 7

GDP, Bank Assets and Key Capital Markets Comparison

EUROPEAN UNION AND UK		U.S.
c.$23.7Tn	GDP[15]	c.$30.5Tn
c.$28.2Tn	Bank Assets[16]	c.$22.7Tn
c.$324Bn	Leveraged Loan Market[17]	c.$1.5Tn
c.$415Bn	High Yield Market[18]	c.$1.3Tn
c.$492Bn	Private Credit Market[19]	c.$1.1Tn

LIMITED FINANCING ALTERNATIVES COMPARED TO THE U.S.

Whilst the U.S. private credit market is deeper, it is significantly more competitive, supported by a larger number of active institutional lenders and a sizable BDC[13] market, comprising c.156 BDCs with $434Bn AUM as of Q4 24.[14] This fragmentation creates greater competition and can impact commercial and legal terms.

Furthermore, the single language, currency and jurisdictional nature of the geography allows certain middle market companies to access the loan, bond and private placement markets despite their relative size.

In Europe, the leveraged loan and high-yield markets are smaller and not as accessible to mid-market or unrated borrowers, therefore leading to shallower pools of capital for European middle-market companies.

Europe's heterogenous and multijurisdictional landscape, with varied regional nuances, creates structural complexities that favour private credit solutions, providing more opportunity for managers to drive commercial and legal negotiations with borrowers.

KEY TERM

Business Development Company (BDC)

Business Development Companies, or BDCs, are entities registered under the Investment Company Act of 1940, with the specialized focus of making investments in small to medium sized U.S. companies.

[12] Preqin: Total dry powder across U.S. / European Direct Lending and Private Equity Buyout strategies. Data as of September 2024.

[13] A Business Development Company ("BDC") is a form of unregistered closed-end investment company in the United States that invests in small and mid-sized business. BDCs are typically listed on national exchanges.

[14] Small Business Investor Alliance.

[15] International Monetary Fund, GDP of the European Union and United Kingdom, at current prices ($Tn), accessed July 2025.

[16] U.S. Federal Reserve Statistical Release: Insured U.S.-Chartered commercial banks that have consolidated assets of $300MM or more, as of 21 March 2025. European Banking authority, total assets of EU/EEA banks, as of December 2024.

[17] European and U.S. Leveraged Loan Index, total par amount outstanding, as of June 2025.

[18] BAML ICE HY Index.

[19] Preqin.

Resilience

A comparative analysis of defaults, recoveries and lender protections

EUROPE LEVERAGED LOANS EXHIBIT LOWER AVERAGE DEFAULT RATES

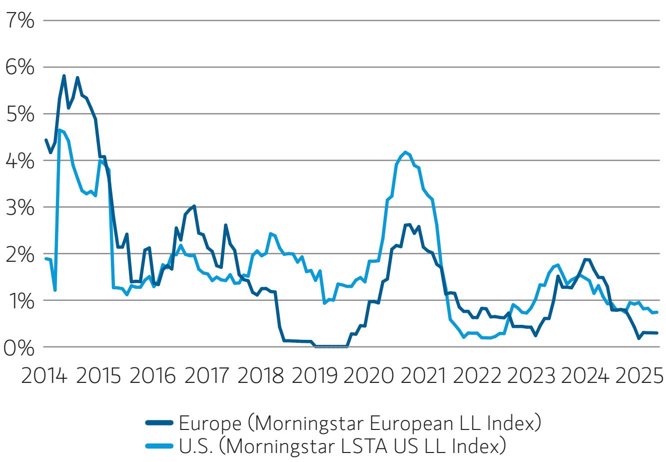
European leveraged loan default rates have generally outperformed the U.S. over the last seven years including during recent downturns driven by COVID-19 and the Russo-Ukrainian war.

LOAN RECOVERY RATES ARE SOMEWHAT HIGHER IN EUROPE

Long-term First Lien loan recoveries have averaged 70% (c.73%/c.71% for Europe/US, respectively) for both geographies over long time periods despite differences in legal and restructuring regimes.[21] This is likely explained by a greater prevalence of bilateral transactions allowing European private credit providers more structural control over legal documentation, and a similar overall mix of companies by sector and size in the default pool. Recent enhancements to EU-wide creditor regimes should only strengthen future recovery rates in Europe.

DISPLAY 8

Leveraged Loan Default Rates 2014-2025 YTD (%)[20]



DISPLAY 9

Loan Recovery Rates (%)

	INSTRUMENT	DATE RANGE	AVERAGE	MEDIAN	STD. DEVIATION
EUROPE	First Lien Term Loan	2003-2022	c.73%	c.81%	c.30%
U.S.	First Lien Term Loan	1987-2024	c.71%	c.80%	c.30%

[20] PitchBook LDD: Morningstar European and U.S. Leveraged Loan Index.

[21] S&P Global Ratings Europe Recovery Study, July 2023. S&P Global Ratings, U.S. Loan Recovery Study, December 2024.

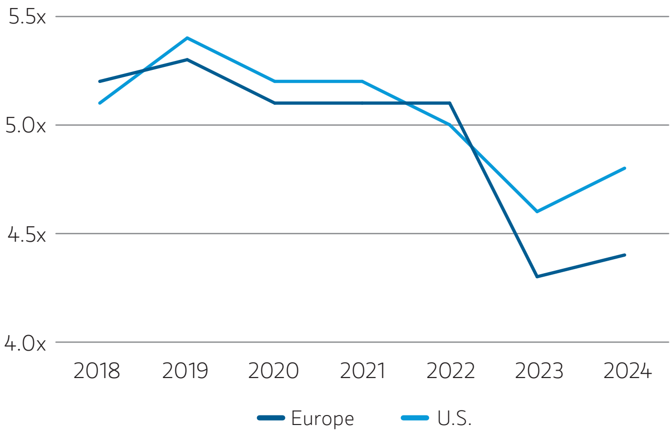
SIMILAR MIX OF DEFENSIVE SECTORS WITH LOWER LEVERAGE AND HIGHER EQUITY CUSHIONS IN EUROPE

Private credit managers typically target more defensive industries including technology, health care, financial services and business services and therefore both Europe and U.S. private credit markets compare favourably to syndicated loan markets. However, Europe tends to see lower leverage on average, whilst equity contributions are higher.

DISPLAY 10

Private Credit Leverage Statistics: Europe and U.S.[22]

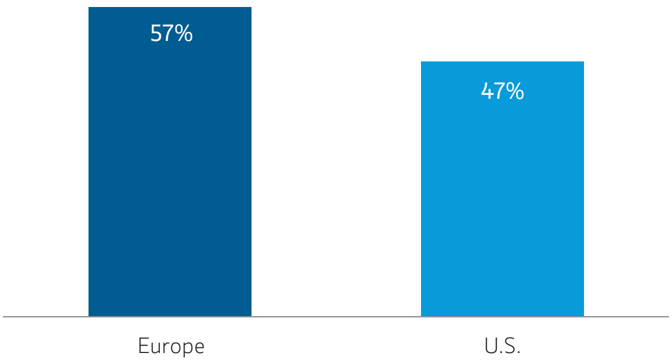
While marginal, average closing leverage has typically been lower in European private credit transactions.



DISPLAY 11

Private Equity Contributions – Europe and U.S.[23]

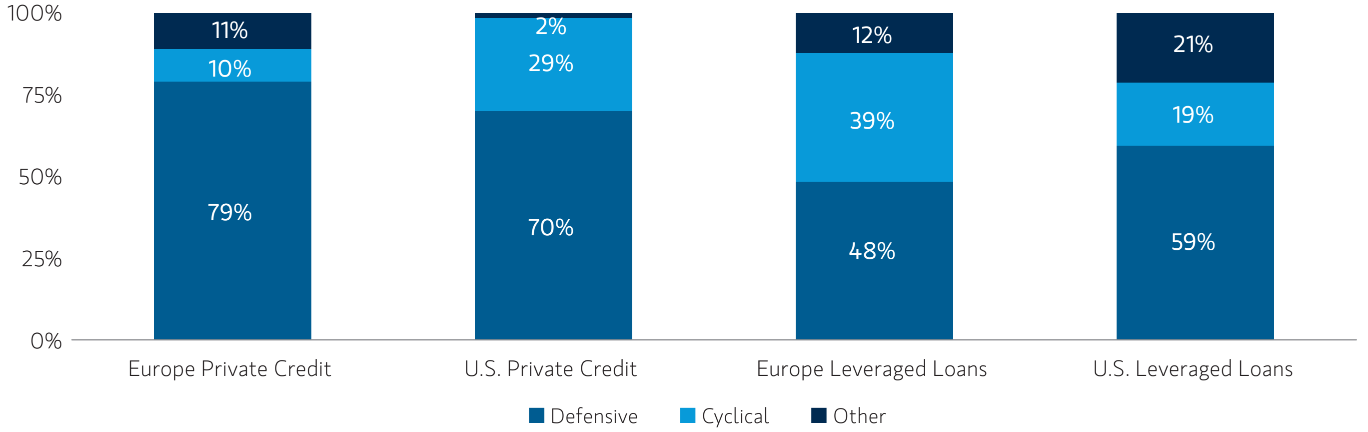
Average equity contributions in Europe averaged 57% in 2024, compared to 47% in the U.S.



DISPLAY 12

Sector Mix – Private Credit vs. Syndicated Loans[24]

Around 70-80% of European and U.S. private credit transactions are invested in defensive sectors, versus c.50-60% for the European and U.S. broadly syndicated loan markets. This suggests private credit default and recovery rates should outperform broadly syndicated loans.



[22] Proskauer 2024 Private Credit Insights Report. Data represents the average closing leverage by year for both European and U.S. private credit across the total representative deal count for each market compiled by Proskauer.

[23] Proskauer 2024 Private Credit Insights Report, 2024.

[24] Industry composition that makes up each respective section (i.e., "Defensible," "Cyclical" and "Others") is based on Morgan Stanley Investment Management sector experience and knowledge of the market, in line with typical industry classifications, but have not been independently validated.

Data sources: **European Private Credit**: Proskauer 2024 Private Credit Insights Report. **U.S. Private Credit**: Cliffwater Direct Lending Index ("CDLI") – Total Industry Composition as of March 2025. **European Leveraged Loan Market**: PitchBook LCD 2024. **U.S. Leveraged Loan Market**: PitchBook LCD 2024.

Returns

European private credit continues to offer a c.100 bps yield (spread/OID)[25] premium over U.S. transactions

While competitive dynamics have compressed spreads globally in recent years, Europe has consistently priced wider, reflecting lower market saturation, fewer lender participants, and greater complexity in deal structuring.

Furthermore, private credit in Europe exhibits a higher return premium vs. broadly syndicated loans relative to the U.S.

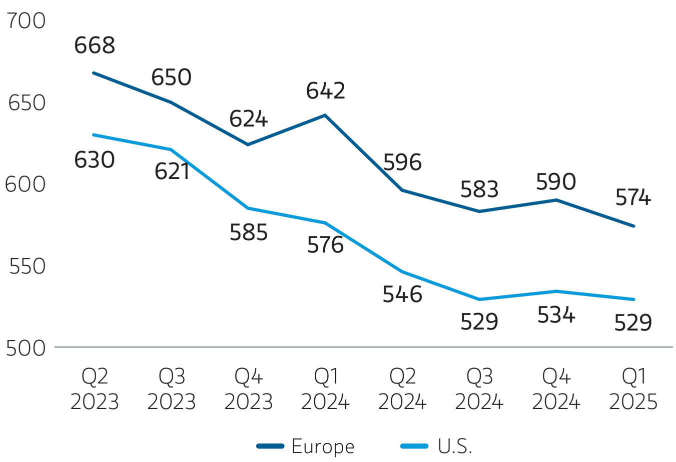
ENHANCED RISK-ADJUSTED RETURNS FOR USD INVESTORS VIA HEDGING

For USD focused investors, allocating to European private credit offers an opportunity to diversify and potentially generate better risk-adjusted returns in combination with currency hedging. Currency hedging may allow USD-focused investors to benefit from both the higher U.S. base rate, and higher European spreads.

However, for EUR-focused investors, given the wider geopolitical dynamics, European private credit allows for an investment into domestic markets and protection against potential USD depreciation.

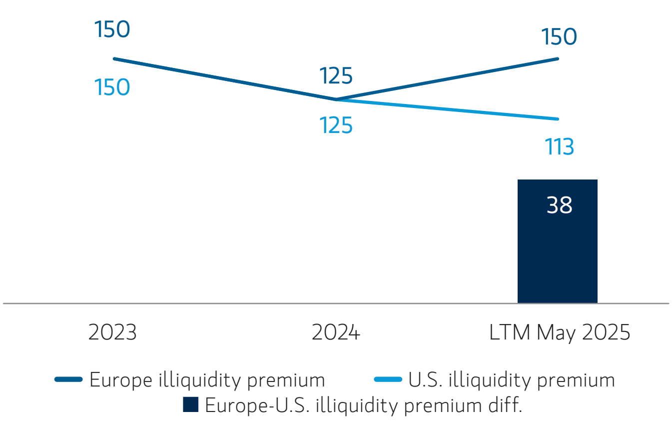
DISPLAY 13

Average Private Credit Spread Comparison (bps)[26]



DISPLAY 14

Illustrative private credit illiquidity premium versus broadly syndicated loans (bps)[27]



[25] Proskauer 2024 Private Equity Insights

[26] KBRA DLD.

[27] PitchBook LCD.

Conclusion

We believe the time is now for European private credit due to a unique mix of macroeconomic and geopolitical uncertainties in the U.S., strong growth dynamics in Europe, robust lender protections across key European jurisdictions, and better risk-adjusted returns.

While the above factors are dynamic, selecting the right private credit manager is key to ensuring investors into private credit are able to navigate the opportunities and challenges presented and capitalise on varying market conditions across regions.

Private credit managers that are present in both geographies, who understand local regulatory regimes and outlooks, who are able to capitalise on evolving trends, and who have an institutional presence across all parts of the corporate ecosystem are best placed to succeed in this environment.

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