



Pemberton Viewpoint

Insights into European Private Credit

April 2026

Structural drivers and recent market events create a compelling relative value opportunity in European private credit

A data-driven examination of the structural growth case for European private credit.

The following article is based on Pemberton's understanding of the market at the time of publishing.

Introduction

Our previous Viewpoint, *Private Credit in the News*, examined the concerns driving headlines in private credit and explained why those concerns are, in the main, a US story. This paper turns to the structural drivers supporting growth for European direct lending, grounding the investment case in data.

The European market is at a structurally earlier stage of development than its US counterpart, characterised by an ongoing transition from bank to non-bank lending, sector consolidation that remains in its early phases and a growing inventory of undeployed private equity dry powder. These dynamics point to sustained, growing demand for private credit financing.

Recent market developments have resulted in a number of lenders becoming constrained as a result of software sector concentration, impacting their ability to deploy levered funds, and retail redemption pressure. In addition, banks are tightening balance sheets amid broader macroeconomic uncertainty, which is likely to further reduce competition in the European mid-market, creating better terms and stronger relative value for LPs.



1. Structural Growth Drivers

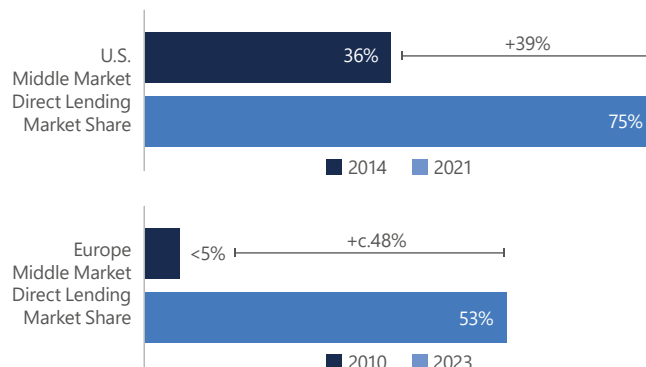
There is no single indicator that makes the case for the growth of European private credit on its own. Market maturity and scale, the structural retreat of banks and the weight of uninvested private equity dry powder are perhaps the three central factors, but they are part of a broader set of dynamics that together make a compelling argument.

1.1 Bank Retrenchment

The single most important structural driver of European private credit growth is the ongoing retreat of European banks from corporate lending to mid-market companies. Post-GFC regulatory reforms, most significantly Basel III and subsequently Basel IV, including its European implementation (CRR3), have materially raised capital requirements for corporate loans. The result has been a steady withdrawal from mid-market lending. The most acute pressure point is the core mid-market, which Pemberton defines as companies with EBITDA of €15m–€75m — too large for traditional business banking and too small to access public capital markets.

In Europe, middle market bank lending accounts for ~50% of European corporate credit compared to approximately 25% in the US. That gap reflects how much further the European transition has to run. In the US, where the shift from bank to non-bank lending is significantly more advanced, private credit has already filled much of the gap. In Europe, that process is ongoing.

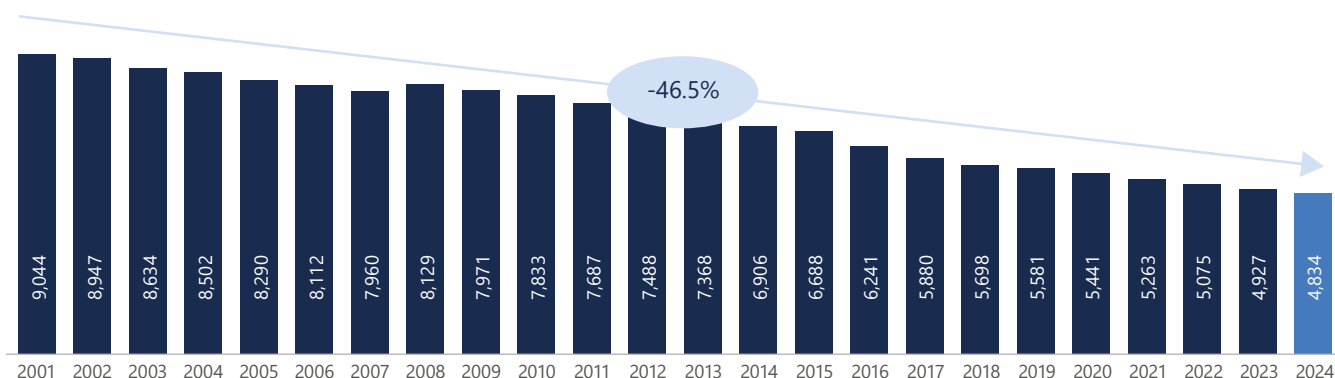
Figure 1: Middle Market Direct Lending Share



For illustrative purposes only. Source: Morgan Stanley Report 2025, European Private Credit: Why Now?, August 2025.

Another contributing factor in the provision of financing to middle market companies is the consolidation in the European bank market, resulting in a significant reduction in the number of credit institutions. Since 2001 the total number of credit institutions has shrunk from 9,044 to 4,834 in 2024, equivalent to a reduction of 46.5%¹. This reflects the transition of a fragmented market undergoing long-overdue consolidation driven by European economic integration and post-GFC regulatory reform which increased costs and compressed profitability for banks, specifically impacting smaller credit institutions. This is not a cyclical contraction but a structural shift which is forecasted to continue.

Figure 2: Total Number of Credit Institutions in the EU



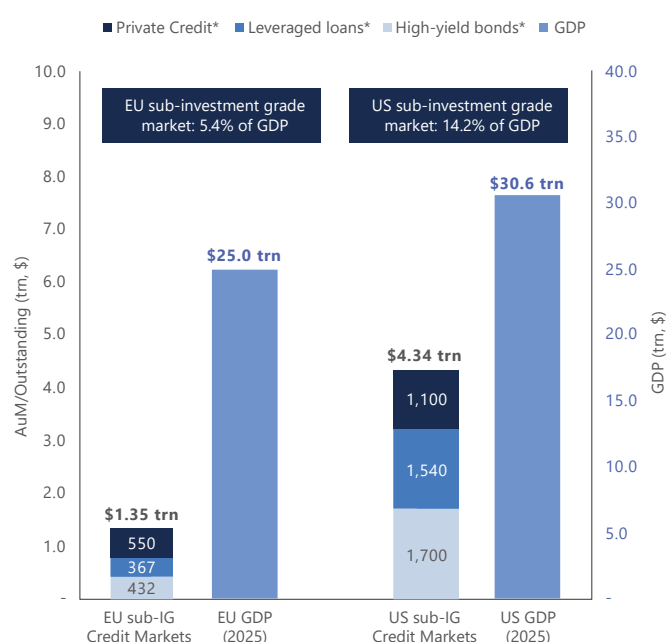
For illustrative purposes only. Source: European Banking Federation Reports - Banking in Europe: Facts and Figures 2025, December 2025.

¹European Banking Federation Reports - Banking in Europe: Facts and Figures 2025, December 2025.

1.2 Europe: An Underserved Market

To understand the scale of the European opportunity, it helps to look at market size relative to the underlying economy it serves. Global private credit AuM stood at approximately \$1.8 trillion as of H1 2025², of which North America accounts for approximately \$1.1 trillion, or 61% of the total. Europe accounts for approximately \$550 billion, or 31%, despite the EU and UK representing a combined GDP of \$25 trillion in 2025, not far short of the US at \$30.6 trillion. The economies are comparable in size, the credit markets that serve them are not. EU sub-investment grade credit markets represent just 5.4% of GDP, compared to 14.2% in the US (Figure 3).

Figure 3: European and US Sub-Investment Grade Credit Markets in Contrast to the Size of its Economies (GDP)



For illustrative purposes only. EU figures are inclusive of the UK. Sources: Private Credit (AUM): Preqin H1 2025. Leveraged Loan and High Yield Bond volumes (Outstanding): Pitchbook. GDP data: IMF WEO Oct 2025. All numbers in USD.

1.3 Sector Consolidation in Europe at an Early Stage

That Europe's mid-market is at an early stage of sector consolidation is widely acknowledged. Evidencing it with data is less straightforward as there is no central source, and the way businesses are categorised by size varies. A number of individual data points, however, when read together, paint a clear and consistent picture.

Europe's fragmented national markets have historically been the primary structural barrier to sector consolidation. Distinct legal frameworks, language barriers, and limited cross-border capital flows have confined consolidation largely to national rather than pan-European level. The EU's single market agenda is progressively lowering those barriers, creating the conditions for genuinely pan-European consolidation and supporting the private equity buy-and-build models that will likely produce the next generation of European sector champions.

The data reflects where Europe sits in this cycle. Approximately 70% of European mid-cap companies are family-owned³ and institutional ownership of European listed companies stands at just 38%, compared to 69% in the US⁴. The pool of businesses that have never been through an institutional transaction is, by any measure, vast. In 2024, 53%⁵ of all European PE-backed entry transactions were family-to-sponsor deals, representing first-time institutional ownership. Buy-and-build strategies are accelerating, with add-on acquisitions accounting for 66.7% of European PE buyouts in early 2025⁶.

- 70% of European mid-caps are family-owned
- 38% have institutional ownership vs. 69% in the US
- 53% of European PE-backed entries in 2024 were first-time family-to-sponsor transactions
- Buy-and-build add-ons account for 66.7% of European PE buyouts

Italy illustrates the opportunity in more concrete terms. Around 70% of Italian mid-market companies are family-owned⁷. Critically, 33% of leaders of Italian family businesses are over 70, which will likely drive a sustained wave of succession-led M&A activity. Direct lending has followed: approximately 20 PE-backed direct lending transactions exceeding €100m were signed in Italy in 2025, up from around a dozen in 2024 and fewer than 10 in prior years⁸.

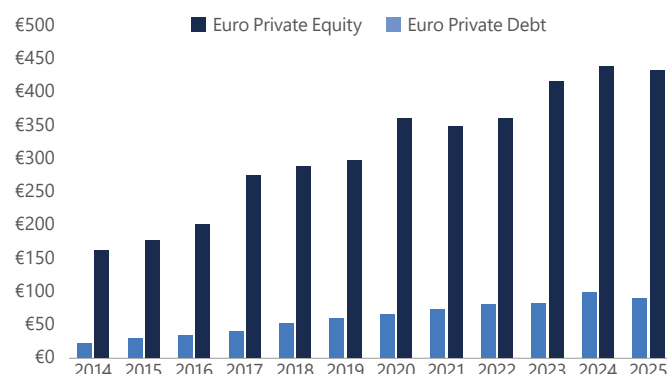
²Preqin, as of H1 2025. ³European Family Businesses / KPMG Private Enterprise, 2022. ⁴OECD Corporate Governance Fact Book, October 2025. ⁵Pitchbook.

⁶Pitchbook (March 2025). ⁷Università Bocconi AUB Observatory, 2025. ⁸Pemberton Research/Debtwire, 2025.

1.4 Private Equity Dry Powder and Deal Activity

Private equity activity is both a product of the broader demand story and a driver in its own right. European **PE dry powder stood at €434.8 billion in 2025⁹**. Assuming a typical loan-to-value ratio of approximately 50% on PE-sponsored transactions, this implies latent demand for approximately €435 billion in credit financing to deploy that capital. European private credit dry powder, by contrast, stood at €90.5 billion, a fraction of what would be needed to absorb the full PE pipeline.

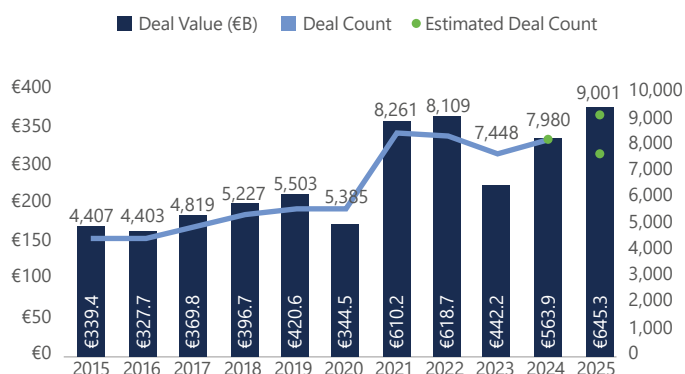
Figure 4: European Private Equity and Private Debt Dry Powder (€bn)



For illustrative purposes only. Dry powder refers to the amount of committed, but unallocated capital a firm has available. Data through 12/31/2025. Source: S&P Capital IQ Pro, Prequin; Chart VRC.

Deal activity has been increasing steadily. European PE transactions reached €645.3 billion in 2025, up 14.4% on 2024¹⁰. LBO volumes were particularly strong, accounting for 53.7% of total deal volume¹¹. As European businesses transition to institutional ownership, PE buy-and-build strategies will likely create pan-European sector champions, generating additional financing demand at each stage of that journey.

Figure 5: European Private Equity Deal Activity



For illustrative purposes only. Data through 12/31/2025. Source: Pitchbook 2025 Annual European PE Breakdown; Chart: VRC.

The combination of high dry powder, rising deal activity, and a growing PE ecosystem in Europe points to a sustained increase in demand for private credit financing.

⁹S&P Capital IQ Pro, December 2025. ¹⁰PitchBook, Q2 2025. ¹¹Valuations Research (VRC), Analysis of the European Deal Activity, Q4 2025.



2. The Current Market Environment

The structural growth drivers are well established. Importantly, however, the current market environment adds a further and more immediate dimension to the opportunity. **A number of market participants are impacted by the consequences of high software sector concentration, including bank markdowns of loan collateral that are particularly acute for levered funds,** and by retail-driven redemption pressure, both of which are likely to reduce their ability to deploy capital. Banks, meanwhile, are tightening balance sheets in response to broader macroeconomic uncertainty. Together, **these dynamics could potentially reduce competition in an already less competitive European mid-market further, where the top five lenders already account for 47% of direct lending loans by count¹²,** which may create better terms and stronger relative value for LPs and could favour managers with the necessary expertise, setup and dry powder to deploy.

2.1 Software Sector Exposure

Software sector exposure has dominated private credit headlines in early 2026 and warrants a data-driven assessment. Over the past decade, software companies and SaaS businesses in particular became the defining growth story. Predictable recurring revenues, high margins, and asset-light models made them attractive to lenders, driving the highest valuations and entry multiples in the market.

AI-driven concerns that software revenue models face structural disruption raised concerns over loan valuations and led to a sharp turn in sentiment, triggering a surge in redemption requests at non-traded US Business Development Companies (BDCs). BDCs are closed-end vehicles that provide direct lending to mid-market companies and carry software exposure ranging between 20% and 30%.¹³

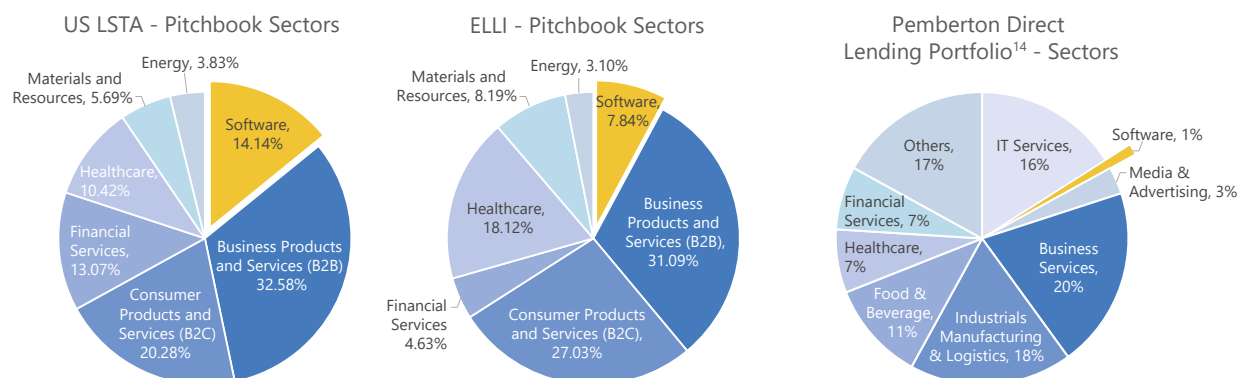
The data points in a clear direction. US exposure to the software sector is materially higher, as evidenced by non-traded BDCs carrying 20-30% and the US LSTA at 14.1%. European leveraged loan markets show lower aggregate exposure at 7.8%, consistent with a market that has historically been less concentrated in technology-driven lending.

Market	Exposure to Software Sector
US Non-traded BDCs	20-30%
US Leveraged Loans (US LSTA)	14.1%
Europe Leveraged Loans (ELLI)	7.8%
Pemberton Direct Lending Portfolio	1%

Sources: Houlihan Lokey BDC Monitor Q4 2025, Pitchbook/Morningstar April 2025 (Pitchbook Sectors), Pemberton AI Impact Assessment March 2026.

Pemberton's direct lending portfolio, with just 1% exposure to software reflects a consistently disciplined underwriting approach. One that led Pemberton to step back from software and SaaS transactions when entry valuations became extremely high and leverage levels moved well above 6x. However, Pemberton's position is not representative of European private credit managers more broadly. Software exposure across the market varies significantly and can be materially higher, a reminder that manager due diligence and selection is as important as it has always been.

Figure 6: Sector Breakdown of US and European Broadly Syndicated Loan Markets and Pemberton's Direct Lending Portfolio



For illustrative purposes only. Source: Pitchbook, data as of 14 April 2026. Pemberton data, as of 5 February 2026.

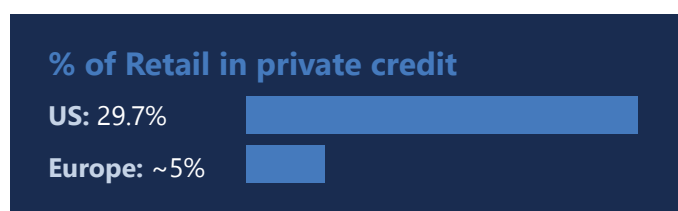
¹²Houlihan Lokey, FY 2025. ¹³Houlihan Lokey, BDC monitor, Summer 2025.

¹⁴Pemberton's Direct Lending strategies include Mid-Market Debt (MDF), Senior Loan (SLF), and Strategic Capital (SCF).

2.2 Retail Investor Share and Dynamics

The proportion of retail and wealth clients is substantially higher in the US. Non-traded BDCs stood at just \$21.5 billion in AuM in 2020. By Q3 2025, that figure had reached \$357 billion, equivalent to 70% of all BDC assets, representing a near 17-fold increase in five years driven by the democratisation of private markets through wealth channels¹⁵.

In Europe, the comparable vehicle is the European Long-Term Investment Fund (ELTIF), which stood at \$22.5 billion in AuM at end of 2024¹⁶, a fraction of the \$357 billion non-traded US BDC market. As a proportion of their respective total private credit markets, the contrast is stark: retail capital represents 29.7% of the US private credit market versus just ~5% in Europe. Critically, ELTIFs are not simply a smaller version of BDCs, they are structurally different by regulatory design. Unlike BDCs, ELTIFs do not offer quarterly redemption windows; under the ELTIF 2.0 framework, liquidity terms are strictly governed and must be aligned with the liquidity profile of underlying assets, specifically to prevent the kind of redemption mismatch that has generated stress in the US.



Source: US % based on H1 2025 AuM (Preqin) and H1 2025 non-traded BDC AuM (Houlihan Lokey). Europe % is based on H1 2025 Preqin AuM and an estimated \$27.5bn ELTIF AUM, which is the median level of Scope Ratings' 2024 ELTIF AuM (\$22.5bn) and its estimated market size of \$32bn at the end of 2026.

As a consequence, the retail-driven redemption pressure currently dominating private credit headlines is structurally confined to the US market. There is no direct European equivalent to the dynamics currently affecting US non-traded BDCs.

Conclusion

The structural case for European private credit is compelling and well-evidenced. Bank retrenchment, an underpenetrated market serving an economy of comparable scale to the US, and a growing private equity pipeline collectively point to sustained and expanding demand for private credit financing that is structural in nature and still in its early stages of being met.

The current market environment reinforces this further. Software-driven constraints, retail redemption pressure, and tightening bank balance sheets are reducing the deployment capacity of a number of market participants, deepening the supply gap in an already less competitive European mid-market.

While the broader market environment is showing considerable stress, managers with deep expertise in the European core mid-market, the footprint to navigate its distinct markets and sectors, and portfolios unconstrained by software concentration or retail redemption pressure appear well placed to deploy capital on attractive terms and unlock strong relative value for LPs.

¹⁵Houlihan Lokey, BDC Monitor, Winter 2025. ¹⁶Scope Ratings, ELTIF Market Study 2025.

Pemberton: Positioned for the Opportunity

- **A 10-office pan-European network generates proprietary deal flow** across Europe's distinct markets and supports both domestic origination and the cross-border buy-and-build strategies that are increasingly driving deal activity.
- With just 1% exposure to software in our Direct Lending portfolio, no retail client exposure or redemption risks, and significant dry powder, **Pemberton continues to deploy capital selectively into attractive opportunities.**
- **A consistently disciplined investment approach**, with predominantly first-lien, senior secured loans at 4.5–5.5x leverage and equity cushions of approximately 50% across cash-generative, defensive and non-cyclical sectors **helps protect LP capital and returns.**
- **A focus on the core mid-market** and companies with EBITDA of €15m–€75m, where reduced lender competition and Pemberton's local expertise and relationships helps **enable better terms and stronger protection for LPs.**



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