## EXPERT Q&A

Investors are increasingly turning their attention towards evergreen structures and more opportunistic strategies as they prepare for a busier year, say Proskauer Rose partners Gary Creem, Michael Mezzacappa and Kelli Moll



# Shaping up for a busy 2025

Innovation continues to drive change across private credit. Here, Gary Creem and Michael Mezzacappa, co-heads of the Private Credit group at Proskauer Rose, and Kelli Moll, partner at the firm, which won Law Firm of the Year for Transactions in the global category of this year's Private Debt Investor Awards, consider what may lie ahead for the asset class over the coming 12 months.

#### How would you describe the state of private credit markets, and what is the outlook for activity levels through 2025?

**Gary Creem:** Despite hints of less activity due to policy uncertainty emanating from Washington DC, we expect that 2025 will be an active year for transactions. Financial conditions

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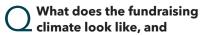
began to normalise at the end of 2024, as the interest rate environment stabilised amid a backdrop of lower inflation. Business optimism returned with the expectation of a more favourable business climate in 2025.

The normalisation of financial conditions translated into greater deal activity at the end of 2024, as sponsors returned to the market in the face of pent-up demand. Our expectation is that as conditions continue to normalise, we will see a strengthening M&A market with a more active buyout sector.

Mike Mezzacappa: While we are seeing increased private equity and

refinancing activity, interest rates remain elevated. Expectations for rate easing have been pushed further out, which is prolonging pressure on existing portfolios. Credits that previously relied on private credit solutions like payment-in-kind interest and amortisation deferrals to manage liquidity challenges may continue to face difficulties, leading to some restructurings in the near term.

That said, our default index currently tracks defaults at approximately 2.6 percent, indicating that distress remains contained to a small fraction of the market. While certain segments may experience increased restructuring activity, the broader private credit market remains fundamentally resilient.



#### what are investors prioritising when allocating to the asset class?

Kelli Moll: Sovereign wealth funds, institutional investors and retail highnet-worths are all displaying strong investment appetite and are increasingly looking beyond senior secured and unitranche into other flavours of private lending.

There is a lot of interest from managers in exploring evergreen options, including the possibility of inverting an existing fund into an evergreen product, launching an evergreen product alongside a closed-end fund, or tapping the retail investor market with a business development company (BDC).

One sub-asset class that we see a lot of demand for is asset-based lending (ABL). Several funds have listed ABL as their core – or even sole – strategy, and that is resonating with investors.

We also see growing appetite from insurance companies to invest in private credit. The rated feeder market is getting more bespoke, with not just vertical strips but also horizontal strips, and a push for different tranches to better match the risk-based capital requirements of insurers. We are also seeing new entrants team up with insurers as anchor investors.

#### There has been a lot of talk about special situations in the past few months. Why is that area gaining traction?

**GC:** Despite progress on inflation and interest rates, financial conditions are still difficult for some. Special situations investors and credit opportunities funds offer innovative financing solutions that can meet the demands of businesses without access to more traditional financing sources.

We represent many special situations investors and credit opportunities funds that are able to structure arrangements that offer their counterparties access to capital while maintaining downside protection and ensuring satisfactory risk-adjusted returns for their investors. Advising special situations funds on these types of arrangements plays to our firm's strengths as they require collaboration and innovative thinking across various practice groups at the firm.

**MM:** Lenders are increasingly turning to special situations strategies to diversify beyond traditional direct lending and offer investors a broader range of risk-adjusted return opportunities. These strategies allow them to capitalise on market dislocations, liquidity constraints and transitional credit needs.

We frequently collaborate with our distressed M&A and restructuring colleagues, who work closely with our private credit team to structure and execute these transactions, ensuring efficient resolutions for all stakeholders.

#### There has been much focus recently on liability management transactions and those remain a big concern for lenders. What are the latest developments, and what do they mean for credit funds?

**MM:** Liability management transactions (LMTs) remain a key focus, but they are less common in private credit than in broadly syndicated lending. Instead of executing LMTs, sponsors often use the flexibility embedded in private credit agreements to negotiate directly with lenders, shaping outcomes through contractual provisions rather than public market-driven processes.

This has led to heightened scrutiny of credit agreements, particularly regarding inter-lender rights, enforceability of protections, and priority of claims. Both lenders and sponsors continue to undertake extensive document reviews to assess restructuring options and ensure transactions align with their legal and economic expectations.

How do you see banks responding to the growth

## in private credit, and what developments can we expect?

GC: After years of retrenchment, banks are returning to the market, becoming both partners to, and competitors of, private credit. Having withdrawn from the mid-market as a result of the great recession and stricter regulation, banks are now back to lending in some areas, particularly the broadly syndicated loan market, where they can act as arrangers syndicating that debt. In this, they are functioning as competitors of the private credit industry.

At the same time, we are seeing more and more banks partner with private credit funds to provide a financing solution to the mid-market. Many of these funds target the non-sponsored market, taking advantage of the deep relationships banks possess with their corporate clients. Others are focused on the private equity industry.

We are actively involved in representing private credit firms in structuring and executing these relationships, having recently helped implement several of these arrangements. These relationships are complicated, requiring law firm expertise in fund formation, corporate matters, finance and tax, among other areas.

**MM:** Banks are increasingly forming strategic partnerships with private credit funds to adapt to the market's expansion. A key trend is the rise of joint ventures, particularly in non-sponsored transactions, where banks can leverage their deep relationships with private companies to originate deals, while credit funds provide additional capital and structuring flexibility.

Beyond joint ventures, banks are also exploring co-lending structures, risk-sharing arrangements and asset distribution strategies to optimise balance sheet efficiency while maintaining exposure to private credit. As regulatory frameworks evolve, we expect greater collaboration on capital solutions that blend traditional and private credit capabilities to better serve borrowers.