

Europe's Place in a Global Private Credit Portfolio



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KEY TAKEAWAYS

- While requiring local expertise to navigate the added complexity, investors can diversify US-concentrated private credit portfolios across economies, sectors, sponsors and regulatory systems with an allocation to Europe
- Europe offers a large and regionally diverse opportunity set that can support a substantive allocation rather than a purely satellite position
- Wider spreads may create relative-value opportunities for global investors, but the outcome depends on underwriting, hedging costs, base currency and execution

Europe has evolved into a substantial and increasingly important part of the private credit market. For investors already familiar with private credit through predominantly US-focused allocations, Europe can provide access to a large and growing market, opportunities to capture attractive relative value, and meaningful diversification benefits relative to a US-only portfolio.

We believe there are three compelling reasons to consider a strategic allocation to European private credit.

1. Europe is a large and growing market

Direct lending, the dominant core of the global private credit market, has expanded dramatically over the past decade, reaching an estimated \$1.3 trillion.¹ European direct lending, which is growing faster than the US portion of that market, currently accounts for approximately \$400 billion,² or close to a third of the total, making it the second-largest regional market.

At this scale, the opportunity set for private credit in Europe can support a meaningful strategic allocation.³ The market spans a broad range of companies, sponsors, and sectors, creating the potential for a substantive and diverse portfolio.

Europe's evolution closely mirrors that of the US market, where companies historically depended on bank financing to fund operations. But as regulation and capital requirements increasingly constrain bank balance sheets, borrowers in both regions have been forced to seek alternative sources of capital. Private lenders are exceptionally well positioned to fill the growing financing gap.

For investors, this creates an opportunity to participate in the continued evolution and institutionalization of a large private credit market in Europe—one that is established, but still less mature and less saturated than its US counterpart.

2. European private credit can offer compelling relative value for global investors

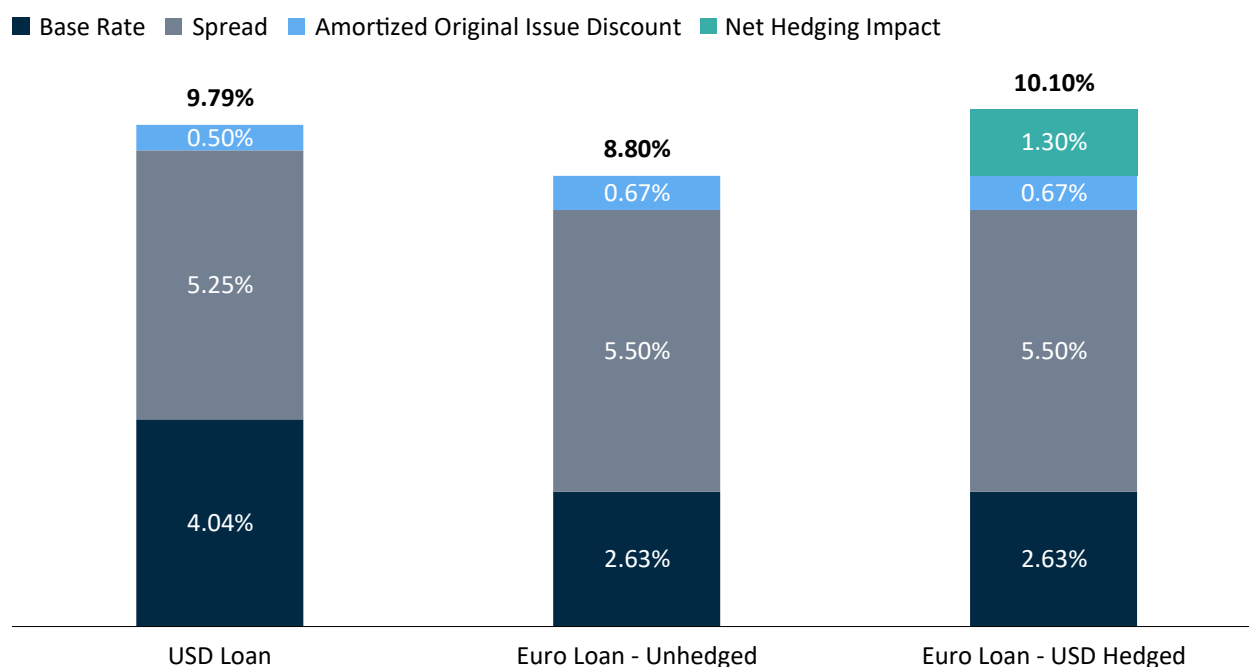
In addition to diversification, private credit opportunities in Europe can offer compelling relative value. European transactions frequently offer wider credit spreads as compared to the US, reflecting differences in market structure, competition, borrower characteristics and the complexity of lending across multiple European jurisdictions.⁴

For investors outside the euro area, Europe can potentially offer an attractive combination of local credit spreads and home-currency economics. Currency hedging can substantially reduce an investor's direct exposure to euro/USD or other currency movements,⁵ while the economics of the hedge can affect the resulting home-currency yield. In the case of US dollar investors, Europe can provide access to European credit spreads while maintaining exposure to the economics of the US dollar base rate and thus has the potential to generate a meaningful premium over US private credit yields.⁶

Of course, the economics vary by investor base currency and the ultimate price of the hedge, but when properly structured and accounted for, we believe currency should be viewed as a potential component of the overall relative-value equation rather than simply an additional source of risk.

Figure 1: Hypothetical Yield Premium From Dollar-Hedged European Private Credit⁷

The chart provides an illustrative example of how USD hedging can enhance the home-currency yield available to US-dollar investors in euro-denominated private credit. Under the assumptions shown, the dollar-hedged euro loan produces a 10.10% yield, compared with 9.79% for the USD loan and 8.80% for the unhedged euro loan.



3. Diversification—maybe the most important benefit

For investors with substantial private credit exposure, the most compelling reason to add Europe may be diversification.⁸ Attractive and consistent returns in private credit depend on minimizing losses. That often requires an experienced manager with a strong sourcing and underwriting advantage alongside a portfolio that is diversified across many dimensions.

Investors who have built their private credit allocations primarily in the US may unknowingly have created significant concentration in a single economic and financial system. Adding Europe can reduce that concentration without requiring an investor to move away from private credit as an asset class.

The diversification benefit operates at several levels.

- **Economic diversification.** European and US economies do not necessarily move in lockstep. Differences in monetary policy, fiscal policy, industrial structure, consumer behavior and economic growth can create different credit environments over time.
- **Sector and borrower diversification.** The composition of European economies differs from that of the US. A European private credit portfolio can therefore provide exposure to different industries, business models and borrower populations, reducing reliance on the performance of US-centric sectors.
- **Sponsor diversification.** Importantly, Europe also offers meaningful diversification in sponsor exposure. Many private equity sponsors active in Europe are highly experienced regional or pan-continental platforms with deep local expertise and long-standing operating histories in their respective markets. In addition, Europe provides access to regional and pan-European sponsors, many of whom focus primarily or exclusively on the region and bring deep local expertise and long-standing operating histories. US-centric investors may have fewer established relationships with these sponsors.
- **Regulatory and structural diversification.** Europe has multiple jurisdictions, legal systems and regulatory regimes. While this creates additional complexity, it also means that private credit investors are not exposed exclusively to a single regulatory and lending framework.

Conclusion

European private credit is a large and growing market, which we believe represents a compelling investment opportunity in its own right.

For investors seeking to build a genuinely diversified portfolio, adding exposure to the European private credit market can have many value-enhancing advantages. The market is large enough to provide scalable portfolio exposure, and its structural characteristics can create attractive relative-value opportunities. For US investors, proper FX hedging has the potential to pick up additional yield, while Europe's different economic, financing, sponsor and sector exposures can provide meaningful diversification that wouldn't be possible by investing exclusively in the US market.

The benefits of adding European exposure to a private credit portfolio are not automatic. Manager selection is also crucial. Having a manager with a demonstrable set of competitive advantages in sourcing and underwriting, as well as the local expertise to navigate the jurisdictional differences across Europe and the UK, is key to capitalizing on the attractive opportunities that can be obtained in the market. ■

1. Preqin and Houlihan Lokey data as of March 2026, comprising \$886 billion in North American direct lending unlevered AUM, \$367 billion in Europe, and \$56 billion in other countries
2. Preqin European direct lending unlevered AUM as of March 2026
3. There can be no guarantee that the size of any particular market will remain at historical levels, that the attractiveness of future opportunities will be similar to past opportunities or that any particular manager will be successful in closing such opportunities
4. Apollo, *The Continental Shift: Europe's Private Credit Moment*, June 2025; KBRA, *Private Credit: Across the Atlantic—Comparing U.S. and EU/UK Direct Lending*, September 18, 2026
5. Although hedging can seek to account for certain factors, some factors may be unpredictable, counterparties may refuse to honor contracts and there can be no guarantee against a loss
6. Represents anticipated outcome due to structuring; provided, however, that there can be no guarantee of future performance
7. Chart assumptions are based on three-month Term SOFR of 4.04% and three-month Term EURIBOR of 2.63%, prepared as of October 13, 2026, based on Global-Rates and the European Money Markets Institute, respectively. The illustrative USD Loan spread of 5.25% represents the midpoint of PitchBook | LCD's range for PE-backed direct lending spreads, reported in August 2026 U.S. Private Credit Monitor (p. 18). The illustrative Euro Loan spread of 5.50% represents the low end of Baird's 5.25% – 6.25% range for traditional European middle-market unitranche loans, reported in European Debt Markets Q2 2026: Looking Through the Noise (p. 2). The illustrative OID assumptions are 1.50% for a USD Loan and 2.00% for a Euro Loan, amortized over a three-year holding period, and are based on Adams Street investment-team market observations, which fall within the 1.0% – 2.0% current OID range shown in Adams Street's October 2026 deal-terms summary. The Euro Loan is assumed to be hedged into US dollars. The 1.30% net hedging impact reflects the 1.41% difference between SOFR and EURIBOR, less estimated hedging costs of 0.11%. For illustrative purposes only of potential yield associated with direct participation in three loans with different characteristics; provided, however, that yield represents one element of the structure of a debt investment and is not necessarily related to the internal rate of return or other typical fund performance metrics. This is not intended to be representative of any Adams Street investment or portfolio and even if Adams Street participated in such transaction, due to the effect of its fees, carried interest and expenses, no investor in such fund would have experienced this performance as returns would be decreased, potentially materially, as a result of such fees and expenses. There can be no guarantee that similarly attractive investments will be available in the future, that the assumptions associated with such presentation will not change and provided further that past performance is not necessarily indicative of future performance. The use of graphs, charts, formulas, or other devices are subject to inherent limitations and difficulties; investors should not make investment decisions, including whether to purchase or sell or the timing of such actions, based solely on the information presented in such devices.
8. Diversification does not ensure a profit or protect against loss in a declining market.

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