

# TREASURY ESSENTIALS

Need to know for treasurers and their teams

## DECEMBER 2025 / INTRODUCTION

Welcome to this edition of Treasury Essentials, our bi-annual insight into topical issues of relevance to finance and treasury teams.

In a departure from our usual format, this edition is dedicated to non-bank sources of debt funding. Against a backdrop of persistent macroeconomic uncertainty and market volatility, diversification of funding sources has become a priority for many corporate treasurers, bringing a number of products that offer an alternative to, or complement, traditional bank lending and capital markets issuance, into sharper focus.

In this edition, we take a closer look at [private credit](#), which continues to expand into new markets. Private credit funds are increasingly in direct competition with bank and capital markets funding. With fund capacity deepening and the range of debt products non-banks are able to offer widening, we explain why corporate treasurers should take notice.

We go on to examine how [direct lending \(the largest sub-class of private credit focussed on funding acquisitions and refinancings\) compares with bank-led syndicated lending](#), alongside a refresher on [US private placements](#), a long-standing alternative funding source that continues to play an important role in many treasurers' funding strategies.

I hope you enjoy this edition of Treasury Essentials. If you would like to explore any of the topics covered in more detail, or if you have any thoughts/feedback on this or previous editions of Treasury Essentials, please get in touch with your usual Slaughter and May contact or a member of the Treasury Essentials team.

If any of your colleagues or contacts would like to receive this publication, please click [here](#).



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## PRIVATE CREDIT: NOT JUST FOR LBOs

### In brief – private credit has grown up

Prior to the 2008 global financial crisis (GFC), private credit (PC) was considered a niche asset class. It is now a US\$2.5 trillion (plus) global industry operating both competitively and collaboratively alongside traditional bank syndicated lending (BSL), recognised by both the UK Government and the FCA as having a significant role to play in the UK's agenda for growth<sup>1</sup>.

PC's track record, including during periods of geopolitically driven market volatility, is now well established. PC has demonstrated its ability to offer flexible, tailored and efficiently executed funding solutions to a diverse range of borrowers, from innovative companies in sectors such as technology and healthcare to entities in distress who need access to higher leverage. The market has also increased in capacity, with a range of tools being employed to deepen the capital pool.

To date, PC has operated mostly in the sponsor-backed universe. More recently, PC has been positively targeting non-sponsor backed corporates, including some of the largest investment grade entities, aiming to compete directly with traditional bank and capital markets funding<sup>2</sup>. This expansion beyond PC's core customer base, coupled with an increasingly diverse product offering, suggests PC is poised for further growth.

**The growth of private credit beyond its traditional audience, as well as the increasing depth in terms both of lending capacity and product range, offers an opportunity to treasurers looking to diversify their funding sources.**

### What is driving growth?

- **Evolving bank/PC relationships** – Many PE portfolio companies will be familiar with co-investment structures, where PC funds provide term debt and banks provide the working capital, cash management and other banking services; or even banks and PC joining together to provide term debt. More recently, banks have been establishing their own PC platforms or entering partnerships with established PC funds to strengthen co-investment capabilities<sup>3</sup>. Banks are also co-investing indirectly by lending to PC funds, so-called “back-leverage” structures, in the form of NAV financing or subscription lines.

<sup>1</sup> [Shining a light on private credit – FCA; Chancellor of the Exchequer Mansion House Speech July 2025.](#)

<sup>2</sup> For example, major PC fund Apollo has been reported as offering financing solutions to highly rated companies like Intel, AT&T, AB InBev, and Sony Music – companies that typically rely on bonds or standard credit facilities.

<sup>3</sup> Those setting up or expanding their own competing PC offerings include HSBC, Deutsche Bank and JP Morgan. Those taking the partnership route include UBS with General Atlantic in North America and Western Europe and Lloyds Bank with Oaktree Capital to support UK middle-market sponsor-backed deals.

- **Diversification beyond core direct lending** – The deployment of PC beyond core direct lending and acquisition finance, for example, into asset-backed finance (particularly areas featuring higher-risk-adjusted yields, including aircraft and equipment leasing), infrastructure (with longer hold durations), higher risk commercial real estate and special situations, has been an increasingly hot topic.

These trends have been going on for at least a year, longer in many cases. In the US, several PC funds have launched asset-based financing (ABF) or asset-based loan (ABL) strategies with dedicated funds, whilst others have partnered with or purchased ABF/ABL portfolios from other financial institutions. This is also anticipated as a growth area in Europe – with yield premiums, asset collateralisation and scalability opportunities being attractive features to a widening investor pool (see below).

- **Increased lending capacity** – Back-leverage structures are a tool for increasing the lending capacity of PC funds. PC funds are also starting to utilise securitisation structures and look to develop a secondary trading market as additional means of increasing liquidity and depth. Collateralised loan obligation (CLO) structures are already a well-established means of securitising bank-originated loan exposures. In the US, PC funds have started to utilise them as a means of financing their loan portfolios and the expectation is that this practice will develop in Europe (albeit more slowly due to the smaller pool of assets and greater regulatory restraints). In May, Apollo announced that it was joining forces with five banks, including JP Morgan and Goldman Sachs, to syndicate and trade investment-grade private debt on a wider scale, with the banks serving as broker-dealers – a significant step towards the development of a secondary market.

There is some concern that the secondary trading of PC debt could remove some features that make the asset class attractive, in particular its focus on long term value creation, reduced value volatility risk and higher yields. However, secondary liquidity has the potential to build a more resilient market as general partners initiate secondary transactions to restructure funds, extend fund life or satisfy the liquidity of limited partners.

- **Expanding investor base** – Historically, PC investors were dominated by specialist investment funds and insurance firms, but PC now attracts a much broader spectrum of investor, including reinsurance firms, pensions funds, sovereign wealth funds, endowments and increasingly even family offices. PC funds have traditionally adopted closed-end structures to match the long term and illiquid nature of their assets, but the desire to open the asset class to a broader investor base has led to the launch of a number of open-ended funds that permit more flexible investment strategies. A number of PC firms have also themselves established or acquired (re)insurance vehicles, creating platforms covering buy- and sell-side interest and manufacturing fund products tailored to those vehicles' investment demands.



### Why corporate treasurers should be interested in the growth of PC

The growth of PC beyond its traditional audience, as well as the increasing depth in terms both of lending capacity and product range, offers an opportunity to treasurers looking to diversify their funding sources (whether to reinforce financial resilience or as a means of increasing competition amongst funding providers).

- “Tie-ups” between traditional banks and PC should offer treasurers greater access to joined-up, flexible, innovative funding strategies under one roof, enhancing their agility to respond to market opportunities and challenges.
- Innovations in fund structures and finance will free up capital, extend the life of funds and make more funding available for a larger and more diverse borrower base.

- A wider, more varied investor base should enable PC to support larger financings; and with different investors come varying risk appetites, allowing funds to diversify in terms of structure and the types of bespoke solutions they can offer to borrowers.
- Diversification of PC into ABL is good news for those corporate treasurers looking to leverage their accounts receivable, inventory, equipment, or real estate outside the traditional banking sphere. A wider range of providers of this type of financing should drive competition both on terms and execution capabilities as experienced in other areas of PC-provided financing.

In summary, the growth of PC could offer treasurers potential new avenues to optimise funding, support growth and enhance risk management, alongside or in collaboration with more traditional solutions.

### What next for private credit – a regulatory perspective

The regulatory landscape for the PC sector is also evolving, reflecting its rapid growth and increasing interconnectedness within the broader financial system. Unlike traditional banking, PC funds operate under a less prescriptive regulatory regime, often benefitting from lighter-touch supervision compared to bank counterparts. This has enabled greater flexibility in structuring and deploying capital but is also drawing scrutiny from regulators.

Looking ahead, we can expect increasing engagement from regulators with the PC sector. In the EU, for example, the Alternative Investment Fund Managers Directive II will introduce more robust regulatory standards for managers of PC vehicles. IOSCO is focusing on improving transparency and valuation practices for private markets as part of its 2025 work agenda, and the FCA has recently reported its findings from a review on the same. The Bank of England plans to conduct a voluntary stress test (the System-Wide Exploratory Scenario) next year with a spotlight on private debt and equity, recognising its significant role in the economy and with a view to ensuring that the sector is resilient to economic shocks and well-positioned to play an important role in the wider financial system.

Regulatory oversight will also extend to investor groups and other market participants. In the UK, for example, banks were recently required by the PRA to fill any gaps in the management of their PC exposures by adjusting their stress-testing and strengthening board-level oversight. The International Association of Insurance Supervisors’ recent paper on “alternative assets” may lead to stricter requirements for insurers investing in private credit, particularly where complex instruments are involved, thereby supporting prudent investment growth.

The participation of a number of large PC funds at the current House of Lords Financial Select Committee inquiry into the growth of the PC market, and the recent announcement that several large funds have agreed to participate in the Bank of England’s voluntary stress test next year (discussed further above), seems to indicate that PC is keen to engage with policymakers with a view to striking the right balance between encouraging innovation and access to alternative sources of capital, while ensuring that the risks associated with less regulated lending do not compromise financial stability. This constructive and proactive engagement should ensure that regulatory interventions are appropriately calibrated to support further development of a PC market that is robust, transparent and well-respected for the benefit of the wider economy.

## BANK SYNDICATED LOANS AND DIRECT LENDING: HOW DO THEY STACK UP?

Private credit has transformed from a niche asset class into a well-established and credible alternative source of funding to traditional bank lending. Direct lending (DL) has emerged as the largest sub-class of private credit, accounting for approximately 50% of all assets under management (AUM). The growth of DL has involved both collaboration and competition with traditional banks - see [Private Credit: not just for LBOs](#) for more in-depth analysis of the relationship between private credit and bank-led syndicated lending (BSL).

This has led to documentation terms becoming more closely aligned, particularly on larger transactions where DL has more recently become a player. For the moment, however, some key distinctions between the products persist.

Below is a high-level overview of where the BSL and DL markets in Europe have converged and where they continue to differ, designed to support corporate treasurers as they consider the role for DL, if any, in their funding strategies.

	Bank Syndicated Loans	Direct Lending <sup>1</sup>
Borrower Base	Bank syndicated loans are used by listed/unlisted corporates including PE-owned companies. Primary focus is on upper-middle to larger end of the market (£500m plus).	Historical growth came from stepping in to provide funding primarily to SMEs and mid-market sub-investment grade borrowers (often PE-owned), following the 2008 financial crisis. More recently DL capacity has expanded to enable facilities of increasing size (£1bn+) providing competition to the BSL market in the larger-cap PE-backed/sub-investment grade space. Larger direct lenders are now also targeting investment grade corporates and non-PE-backed entities, although announced deals remain limited.
Average Facility Size	European leveraged loans - average facility size of €265.5m. European investment grade loans - average facility size of €801m. <sup>2</sup>	Overall average facility size of €235m. <sup>3</sup> Some 'super-funds' or multiple funds clubbing together can support larger deals and the upper end of the market is a growth area. Deals above €250m accounted for almost 27% of DL in the first nine months of 2025, including at the larger end, a €6.25 billion club loan to Adevinata in Q2.

<sup>1</sup> Direct lending data points in this table have been taken from Octus' European Direct Lending Analytics 9M 2025 Report, unless otherwise indicated.

<sup>2</sup> Bloomberg data for year to 21 November 2025, for European leveraged loans and investment grade loans (as applicable), across all currencies and all industries (excluding Government, Central Banks and Supranationals).

<sup>3</sup> Pitchbook HI July 2025 report

	Bank Syndicated Loans	Direct Lending
Purpose	RCFs for general corporate purposes or term loans for acquisitions/capex.	DL products do not generally comprise RCFs. Term loans for acquisitions are the primary focus, although capex is possible. In 2025, funding for bolt-on acquisitions and buyouts made up more than half of the DL deals in the first nine months - 32.1% and 27.9% of the market respectively.
Average Tenor	5 - 5.5 years for leveraged loans. 4.16 years for investment grade loans.	5 - 6 years.
Average Pricing	Floating reference rate, plus a margin. Average margin for European leveraged loans - 420bps. Average margin for European investment grade loans - 120bps. <sup>4</sup>	Floating reference rate, plus a margin. Average margins are 525bps. Exceptionally in-demand deals have priced with margins as low as 500bps. Margin averages in this market should be considered in the context of current deal flow being mostly in the sub-investment grade space.
Currencies	Multi, although euro dominates.	Multi, although euro dominates.
Average Leverage <sup>5</sup>	4.94x – This figure is the average for leveraged loans only to provide a clearer comparator to DL. Leverage levels in the investment grade space are obviously generally lower, often significantly so.	6.07x – Greater appetite for leverage is often mentioned as an advantage of the DL product.
Covenant Package	Hybrid approach - traditional European-style maintenance covenants continue in RCFs with US-style incurrence covenants in TLBs for PE-backed deals and filtering into sub-investment grade corporate loans.	DL terms are shifting away from maintenance covenants towards an incurrence covenant package. This is particularly apparent in the upper end of the market where the competition with BSL is most acute but is also filtering into mid-market deals outside cyclical sectors and industrials.

DL is increasingly competing with bank syndicated loans, now supporting larger deals and targeting a broader range of corporates, including investment grade entities. DL loans are growing in size whilst continuing to offer higher leverage levels than the BSL market. Although there has been some convergence in pricing this year, DL loans do remain more expensive than BSL but this is somewhat offset by the recent shift towards a looser covenant package, as well as the product flexibility and efficiency of execution that DL continues to offer, all of which may appeal to corporate treasurers seeking alternative funding solutions.

The fact that ancillary business is not a fundamental component of the borrower-DL relationship, in the same way as it is in BSL, is also a potential advantage for corporate treasurers to keep in mind – a point that is also relevant when assessing various other sources of alternative funding including US private placements (discussed at [US Private Placements: A flexible alternative for corporate treasurers?](#) below).

<sup>4</sup> Bloomberg data for year to 21 November 2025, for European leveraged loans and investment grade loans (as applicable), across all currencies and all industries (excluding Government, Central Banks and Supranationals).

<sup>5</sup> Pitchbook European Private Credit Monitor YTD 31 October 2025 – for PE-backed leveraged deals.



## US PRIVATE PLACEMENTS: A FLEXIBLE ALTERNATIVE FOR CORPORATE TREASURERS?

The US private placement (USPP) market is a well-established and mature source of capital that has been serving issuers for decades. Long valued by both US and non-US companies, it offers an attractive alternative, or supplement, to traditional funding channels – particularly for those seeking medium- to long-term financing solutions.

Over the years, the USPP market has become an increasingly important source of capital for European corporates looking to diversify their funding strategies. Today, European issuers represent a significant and growing share of the overall market, with UK issuers alone responsible for around 10% of USPP volume in H1 2025.

Against a backdrop of ongoing geopolitical and macroeconomic uncertainty, USPPs are once again gaining prominence. The market is experiencing a dynamic phase of growth, increasing from around US\$110 billion in total volume in 2023 to over US\$155 billion just a year later. For many European corporate treasurers – especially those revisiting their funding strategies – USPPs are re-emerging as a compelling option.

Set out below is an overview of the USPP product, some of its key advantages and some of the practical considerations treasurers should bear in mind when exploring this funding option for the first time.

### What is a USPP?

A USPP is a private offering of notes to a select group of investors, without the need for public registration. In this way, the product is often described as a hybrid between a public bond offering and a syndicated loan.

USPPs are a form of term debt, usually (although not always) issued on a fixed-rate basis, with maturities ranging from a few years to over 30 years. The market is generally geared towards large and mid-sized corporates with investment grade profiles, although a formal public credit rating is not required.

**Long valued by both US and non-US companies, USPPs offer an attractive alternative, or supplement, to traditional funding channels – particularly for those seeking medium- to long-term financing solutions.**

Investors in USPPs are typically pension funds and insurance companies, although the investor base has broadened over the years. These investors tend to adopt a “buy-and-hold” strategy, seeking to invest on a long-term basis. Although a limited secondary market exists, most USPPs are held to maturity.

### What are the advantages of a USPP?

USPPs offer a number of compelling well-documented benefits for corporate issuers, including:

- **Longer tenor** – USPPs typically offer longer maturities than traditional bank debt. While bank loans often have tenors of 3 to 5 years (perhaps with a one- or two-year extension option), USPPs can extend well beyond ten years and, in some cases, up to 30 years or more. This makes them particularly attractive for companies with medium- to long-term funding needs.
- **Flexible issuance size** – The USPP market accommodates a range of issuance sizes, with no minimum threshold, making it accessible to a broader range of corporates and allowing issuers to tailor the size of the issuance to meet specific strategic or operational needs. Additionally, funds can be raised in multiple currencies and tranching as necessary.

- **No public credit rating required** – While the USPP market is typically accessed by companies with strong credit profiles, there is no requirement for a public credit rating or stock exchange listing. Instead, the notes may be assigned a designation by the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC), as required by US insurance company investors for regulatory capital purposes, which can have a significant impact on the eventual placement and pricing of the notes.
- **Standardised documentation** – Transactions are governed by a Note Purchase Agreement (NPA), which outlines the terms under which the investors agree to subscribe for the notes. The American College of Investment Counsel (ACIC) maintains model forms of NPAs which are used across the market as a starting point in negotiations, in the same way as the Loan Market Association's recommended forms for syndicated loans. Non-US issuers use the "Model X Form", of which there are two variants depending on the borrower's credit profile and transaction complexity.

### What are the key considerations for corporates entering the USPP market?

For corporates contemplating issuing a USPP for the first time, there are several important points to keep in mind. These include, but are not limited to, the following:

- **Investor relationship management** – USPP investors are sophisticated institutional parties, each with distinct investment objectives. Unlike syndicated bank loans, there is no facility agent appointed to act on behalf of the investor group. This means issuers must manage investor relationships directly – both at issuance and throughout the term of the notes. This dynamic becomes particularly relevant when seeking amendments or waivers.

As such, proactive and ongoing engagement is essential. In the absence of ancillary business and/or frequent refinancing discussions, maintaining these relationships can require greater effort than a traditional banking relationship. This extra effort can, however, yield significant benefits as USPP investors tend to support issuers over cycles (provided engaged early) – often proving invaluable during periods of market stress compared to more transactional markets.

- **Alignment with bank financing terms** – The ACIC model forms contain representations and undertakings that are significantly more extensive than those found in a typical investment grade bond issuance. They are more akin to the level of terms usually seen in an LMA-based facility agreement, though a number of differences exist.

To reduce the compliance burden and risks resulting from inconsistencies across financing products, many European issuers seek substantive alignment of the NPA terms with those of their existing bank facilities. Investors are generally amenable to such amendments, although they may request most favoured nation (MFN) protection as a quid pro quo to ensure they receive the benefit of any enhancements granted to other lenders. This is typically acceptable to issuers, provided the scope of the MFN clause is clearly defined and appropriately limited.



- **Preserving operational flexibility** – Even where alignment with bank terms is achieved, certain provisions of the NPA may not have direct equivalents in bank documentation (for example those reflecting the longer tenor of USPPs or specific investor expectations). Issuers should carefully assess the impact of these provisions and negotiate appropriate carve-outs and/or amendments to preserve operational flexibility over the life of the notes. Given the long-dated nature of USPPs and the buy-and-hold nature of many USPP investors, it is especially important to ensure that the terms do not unduly constrain the issuer's ability to conduct its business and respond to future strategic or financial developments.
- **Early redemption charges** – Unlike bank loans, which typically allow voluntary prepayments at par (subject to break costs where applicable), USPPs are structured for long-term buy-and-hold investors. As a result, voluntary early redemption is generally permitted only with the payment of a "make-whole" amount – designed to compensate investors for lost yield through to maturity.

The make-whole calculation can be complex and, depending on prevailing interest rates and the remaining term, potentially expensive. Issuers should factor this into their liquidity and refinancing planning, particularly if there is a possibility of early repayment.

## Concluding remarks

In times of market volatility - such as those we are currently experiencing - diversification of funding sources often becomes a top priority for corporate treasurers. USPPs – a well-established and reliable financing option – offer a compelling solution, providing an alternative source of long-term debt for investment grade corporates of all sizes, execution of which is not at the mercy of potentially narrow issuance windows.

While USPPs may not be quite as advantageous today as they were during the low-interest rate era – those who secured fixed-rate USPP funding are now in a rather enviable position – they remain a viable and attractive alternative, or more often complement, to more traditional financing arrangements. As such, USPPs should not be overlooked in any well-rounded treasury strategy.

## KEY CONTACTS

If you would like to discuss any of the above in more detail, please contact your [relationship partner](#) or email one of our Treasury Essentials team.

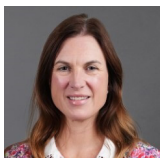
You can find previous editions of Treasury Essentials [here](#).



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