

Mid-market direct lending: stable returns, strong protection

Mid-market direct lending remains a resilient, yield-enhancing, and ESG-driven opportunity in today's evolving private credit landscape. AllianzGI's Damien Guichard and Niels Kleijn discuss the reasons behind its success.

By our editorial team

From a market perspective, what makes direct lending an attractive investment opportunity today?

Damien Guichard: 'The European private debt market has been growing – and continues to grow steadily – providing interesting investment opportunities. The asset class has developed into a mature market with a proven track record of attractive returns, consistently exceeding the returns of debt in public markets with comparable risk, as well as those in equity markets. In addition, its return profile has demonstrated to be more stable than that of other asset classes.'

Niels Kleijn: 'An additional attractive element is that the asset class brings strong downside protection compared to other fixed income products. Both the default rates and loss rates after defaults have historically been lower than, for instance, the leveraged loans and high-yield markets. Some factors that influence this include the ability of asset selection with a broad range of potential investment opportunities, more modest leverage and interest cover levels, and financial covenants,

which we still see in mid-market direct lending, allowing investors to act more quickly if performance weakens.'

Why do you focus specifically on the mid-market segment?

Kleijn: 'From a deal origination perspective, this is a segment where we see ongoing deal flow providing a steady rate of deployment and the ability to select companies we consider having strong defensive characteristics. For example, in the Benelux we see an ongoing flow of potential transactions involving successful companies. These includes firms in traditional sectors like food production, or industrial companies that demonstrate steady growth, as well as strong innovative companies, for instance in healthcare or services with winning business models.'

The companies in the mid-market segment (€10-50m EBITDA) typically have developed a mature profile with strong market positions, a well-developed organization, and are generating positive cash flows which, in combination with our focus on businesses in growing markets and defensive business characteristics, provides a strong credit base.'

Guichard: 'Investors should appreciate that this segment does not face direct competition from the capital markets, resulting in a true illiquidity premium which is not that obvious for the large-cap segment where the higher return versus public markets can only be reached by offering more aggressive structures or addressing situations with some complexity. Furthermore, we focus on transactions with meaningful protection with strong security packages and financial covenants, which are triggered before the value breaks in the debt, allowing us to have a seat at table in time, reducing the loss rate. This is still possible in the traditional mid-market whilst it is no longer available in the large-cap market. We also see some competitors providing weaker covenant packages in certain cases at the higher mid-market.'

How have your funds and instrument mix evolved over time, and why have you chosen to concentrate on the senior segment? What makes this area particularly interesting?

Guichard: 'We have been a senior debt investor over the last 12 years. Over the

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last years, we have allocated a growing portion of our fund, alongside more traditional senior debt, to more stretched debt solutions where we believe there is a strong return but still a more than acceptable risk profile. The result of our strategy is that the overall leverage profile of our portfolio companies is lower than that of the typical unitranche lender, which typically focuses on stretched or highly stretched senior structures.

We see the market also developing in such a way that more funds have decided to allocate growing parts of their capital in subordinated debt and, in some cases, even to minority equity.

This is a strategy which clearly brings additional return perspective, but that comes with a different risk profile. We have decided to focus on senior debt, with an emphasis on a mix of senior and stretched senior. We believe this area provides in current markets a strong risk position at an attractive return.’

Could you tell us more about your broader activities in private markets — including your various direct lending solutions in Asia, impact, EPC, et cetera — and how your international presence has grown in recent years, particularly in Europe and in the Netherlands?

Guichard: ‘AllianzGI has € 94bn AuM (2Q2025) in private markets for both the Allianz group and third-party clients. Direct lending is an important area of our private markets business, and we continue growing our presence. As mentioned earlier, we have been active in European private credit for 12 years



CV

Damien Guichard

Damien Guichard is Head of European Private Credit for Allianz Global Investors. He joined the company in 2013 to develop the Allianz GI European Private Credit strategy which he has been heading since.

Guichard began his career at Citigroup investment banking division in 2000, focusing on capital markets and rating advisory. He then spent seven years at Barclays Capital where he originated and structured corporate loans and bonds.

Guichard was then named Director of the Debt Advisory Business at Oddo (now Oddo-BHF) between 2009 and 2013.

and continue to grow the team and portfolio. We also have an offering in Asian private credit and in developing markets debt, including blended strategies and a broad infrastructure debt offering across various risk categories. Last year, we set up a dedicated impact private credit strategy focusing on lower mid-market companies that have a positive impact on society or the environment through the products or services they provide.

Meanwhile, we continue developing our platform with growing assets under management and more portfolio companies, and we have expanded the team across the various regions to support the growth. We have also decided to establish local representation in the Benelux to grow our business in the region through the hire of Kleijn.’

Kleijn: ‘I joined the Benelux team in January, and we have recently expanded the local team. We already had a couple of Benelux-based portfolio companies originated from our office in Munich. Local representation has significantly increased our pipeline and also provides stronger insight into businesses where local knowledge is key. This growth in pipeline and local knowledge is difficult to develop if you are not based in the >

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region and do not speak the language. We have already been able to do several investments this year, with a well-developing pipeline proving that this strategy is paying off.’

How do you see ESG developing within the direct lending space, and how does having a dedicated impact/ESG team strengthen your approach?

Kleijn: ‘I am impressed with the knowledge within the organization on the ESG and impact side. Through the development of the impact strategy, and working with highly demanding investors in the space, we are a clear frontrunner in the market. In addition, we have the strong benefit of a dedicated impact and ESG team. We see our investors showing a lot of interest in the topic, with more and more focus on ESG frameworks, especially in certain regions, like the Netherlands. Private equity parties have also developed an understanding of this, partially driven by their investors. Companies are mostly open to jointly think about further development of their ESG strategies. As I originate transactions for both our impact private credit strategy and our senior European private credit strategy, we have insightful discussions with a broad group of stakeholders, which is a clear differentiator. The impact strategy is a clear contributor, but we strongly believe that, in addition to pure impact strategies, we can also significantly contribute to ESG development of the mid-market through our broader private debt fund.’



CV

Niels Kleijn

Niels Kleijn is Senior Portfolio Manager of European Private Credit for Allianz Global Investors. He joined the company at the start of the year to lead and further expand the private credit business in the Benelux with a base in the Rotterdam office. Kleijn started his career at ING in 2008 where he held several origination and execution roles in corporate and leveraged loan markets and thereafter worked at DWS as head of Benelux direct lending origination.

Guichard: ‘We have already demonstrated in our current vintage that, by including ESG KPIs in most of our transactions, mid-market companies can be incentivized to continue their ESG development. We expect to be able to continue this development and are considering how we can further develop our ESG framework in the next step or vintage of our senior mid-market private credit strategy. We continue to discuss this topic with our existing investors and prospective clients while we prepare for the next step in our strategy.’ ■

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