

An Intro to Capital Solutions: First of Series

THE LEAD | October 21, 2026

Walking down Park Ave., we've noticed a fashion trend gaining steam: baggy pants. What was once a staple of the late '90s and early 2000s seems to be making a comeback. A friendly reminder that things can go in and out of style.

This is no different for private credit. One day a sector is in vogue, the next day it isn't. Take software this year – once untouchable, now unloved. The problem is that many of these “unloved” companies are still high-quality businesses; they just need capital. Fashion may be fickle, but balance sheets aren't.

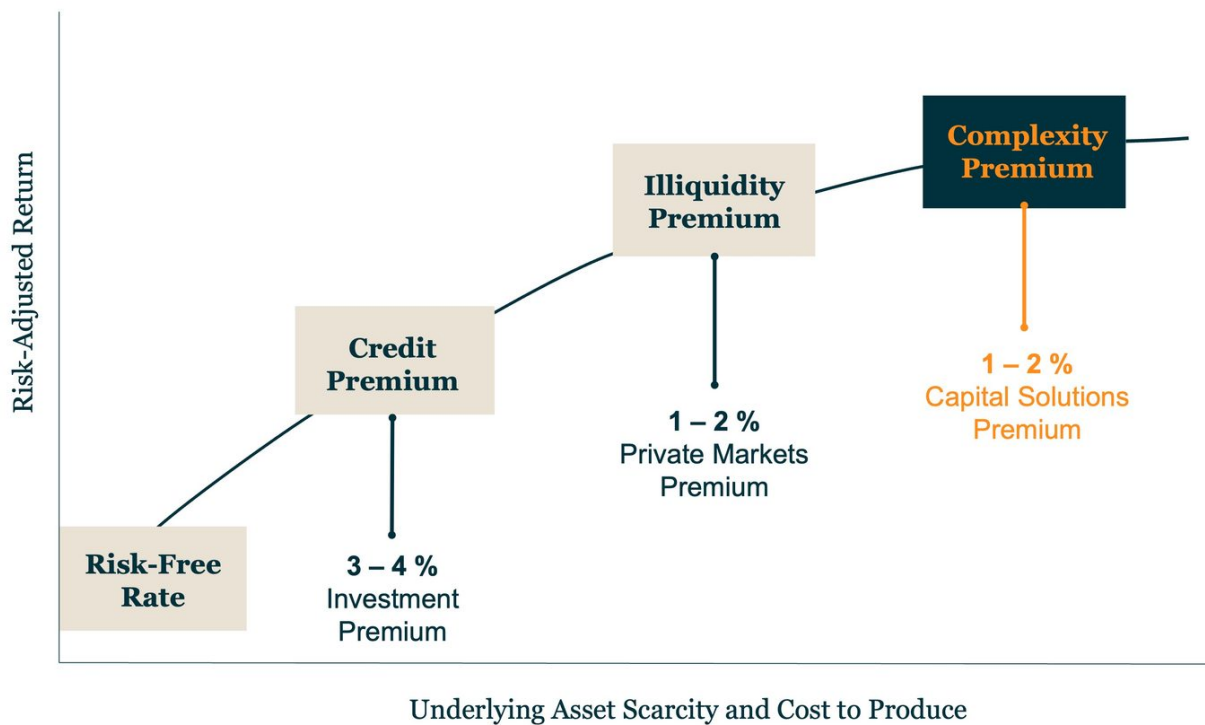
Enter capital solutions. This strategy is built to provide creative financing to companies where traditional capital is otherwise unavailable. It may be industry headwinds, business model complexity, or even a complex buy-out or add-on. Often, these pressures can be temporary, and that's exactly where the opportunity lies. Throughout this series, we'll unpack what makes this corner of private credit tick.

First, the definition. Some will go all the way down the capital stack to equity and preferred. Others, like us, focus on the top of the capital stack, where there's an adequate equity cushion and a company isn't overly levered. A business may have looked pristine at underwriting. But things change. These are still good businesses where the thesis hasn't played out as planned. Whether strained or complicated balance sheets, or convoluted capital structures in need of a rework. This strategy steps in with flexible financing that traditional senior lending would dismiss.

But where does capital solutions sit relative to other strategies? Much like middle market direct lending, capital solutions is an all-weather strategy – having a distinct countercyclical focus. When an industry or company falls out of favor, that's exactly when the strategy leans in, capitalizing on the dislocation. But unlike going complete bargain hunting for distressed paper which may have to be restructured, this strategy can offer senior-level risk with the potential for junior-like returns. Call it a complexity premium – see [chart](#).

Capital Solutions Complexity Premium

Risk Premium By Asset Class



Knowing the definition and the positioning is one thing; understanding the opportunity set is another matter entirely. There's no shortage of tailwinds right now, but two really stand. First, there is real stress building in the 2021 and 2022 vintages, which together account for about 50% of trailing 12-month non-accruals. Second, the slowing exit environment has left private equity sitting on portfolio companies well past their intended shelf life – call it PE's zombie problem. Currently, there's \$520 billion of U.S. middle market PE deals sitting in the 3-to-8-year range. Roughly 20% of the 3-to-5-year cohort is facing a complex refinancing, and about half of the 6-to-8-year cohort is effectively stuck. That's a lot of portfolio companies that need financing just to get to the exit.

Before you head to your closet to toss out that questionable item in your wardrobe, you might want to hang on to it. You never know when it'll be back in vogue. That is exactly why you want a strategy built to capitalize when something falls out of favor. Enter capital solutions.