

Why Capital Solutions: Framing the Picture

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Stand in front of a Jackson Pollock long enough and you'll hear someone mutter, "My kid could have done that." However, the person next to them might call it a masterpiece. Same canvas, two very different verdicts. That's the thing about art. It has never had a universal definition. It can be a chapel ceiling, a can of soup, or even a canvas covered in drips. Pretty much anything goes.

Capital Solutions has the same problem. As we noted [last week](#), there's no universal definition, and each manager draws the lines a little differently. For us, it means staying senior in the capital structure. For others, it means going further down the stack into mezzanine and even equity. Think special situations.

Wherever managers land on the definition, we think four categories frame the strategy. They also show how you can earn a complexity premium without giving up seniority.

First, strained or complicated balance sheets. These are convoluted structures that need optimizing. With hold periods stretching (more on that in the coming weeks), many of these businesses need to refinance. Tariffs, rate hikes, rate cuts, COVID, the inflation shock, and geopolitical uncertainty haven't made the exit door any wider. And the maturity wall is closing in, with 24% of leveraged credit due within two years, the highest share in 20 years (see our Chart of the Week). By our math, about \$66 billion of middle market PE-backed debt is either facing a complex refinancing or simply stuck. The maturity wall has been a threat for two decades, only to fade each time. This time, it's arriving in a rising rate environment, which could potentially change the outcome.

Second, complex buyouts and add-ons. This could range from a profitable first-time issuer with no existing debt that needs capital to expand, to an add-on acquisition during a period of market disruption. Different situations, but the same need for financing. Go further out the spectrum and you find niche or hard-to-understand business models whose complexity can also shut them out of capital markets.

Third, out-of-favor sectors. This is the most straightforward, with countless examples throughout history. A sector runs hot, then it doesn't. Today, think software and logistics. Deal activity has slowed broadly but is bifurcated. In Q2, tech deal volume fell 65.7% year-over-year and sits 90% below its Q3 2025 peak. There are good businesses in these industries facing headwinds that may be temporary. But sentiment also has a way of throwing the baby out with the bathwater.

Fourth, flexible financing. Like any strategy, flexibility matters. We view this as senior risk, but select junior opportunities do come up, largely from knowing a sponsor, industry, and company for a long time. As these borrowers mature and operating momentum improves, middle of the balance sheet solutions, such as second lien, subordinated payment priority, previously unencumbered collateral, and PIK, could start to look more compelling.

Art means different things depending on who you ask, especially when talking about Pollock. Capital Solutions is no different. That can make it hard for investors to know where the strategy fits relative to other parts of private credit. Stay tuned, because that's where we're headed next week.