Why Capital Solutions: A Scoop for All Seasons

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Rocky Road debuted in 1929, just months after the crash. Its name was a wink at the economy, and a sweet treat to give folks something to smile about. What seemed like a novelty has become a staple at ice cream shops across the country. You'll find it next to chocolate and vanilla. The pumpkin, on the other hand, will likely be gone by Thanksgiving. The classics never leave, and a seasoned shop owner knows the difference between the flavor of the month and a menu staple, and stocks accordingly.

Allocators building a multi-asset portfolio face a similar choice. Last week we covered what capital solutions *is*. This week we look at where it *fits*. Though the strategy lives in complexity, it's closer to a staple than you might think.

Start with the classics. Core senior direct lending is the staple for good reason. It serves as the foundation, with first lien seniority, real covenants, and first-dollar attachment. But even chocolate and vanilla come in variations. Capital solutions shares that senior DNA but goes where traditional senior lenders won't. As discussed last week , that means strained balance sheets, complex buyouts, and out-of-favor sectors.

Then there's the rich stuff. Mezzanine and junior capital earn their returns by moving down the capital stack. That means more fudge, and more mess when things melt. Done correctly, it earns a premium and a return profile you won't get from senior lending. Capital solutions targets that same premium from the top of the stack. That's an important distinction. You're getting paid for complexity rather than subordination.

And then the seasonal special. Distressed and special situations can deliver standout returns, but they need a downturn, and often a courtroom. Capital solutions targets good companies before they get there. These situations are untidy, but often temporary.

So where does capital solutions belong? In the freezer case year-round, right beside chocolate and vanilla. Flavors of the month come and go. Staples stay. Capital solutions is built to be all-weather.

Distressed waits for winter. Senior lending prefers clear skies, but it can operate in any weather. Capital solutions changes its ingredients with the season. As one lender put it, "One important advantage of our flexible mandate is the ability to allocate capital across different parts of the capital structure and pursue whichever opportunities offer the most attractive risk-adjusted potential returns at a given point in the cycle."

In calm markets, demand comes from complexity. Think carve-outs, tricky buyouts, and sponsors needing flexible capital for portfolio companies. In choppier markets, it comes from dislocation. Today's main driver is the lagged effect of higher rates and lofty valuations. The 2020–21 vintages (more on those next week) added roughly half a turn of leverage, and PE holding periods have only gotten longer. Remember that maturity wall from last week?

We're past the seasonal time for ice cream, but once in a while it's easy to indulge. The next time you pick up a cone, we bet you'll find chocolate, vanilla, and yes, Rocky Road. Capital solutions, like Rocky Road, may have

been born in complexity, but that doesn’t make it a flavor of the month. It’s there every season.