How direct lending took off in Europe

In the first of a two-part history, we look at direct lending's origins in US junk bonds, its leap across the Atlantic and the rise of the huge firms that now dominate the European industry

by **Lisa Lee**

One of the hottest plays in finance is burning bright in Europe. Private credit is having a year for the record books: the biggest single European deal ever, the largest fundraising and the busiest quarter have all come in 2025.

These impressive figures have been in direct lending, the biggest segment of private credit and thus far its poster child, where asset managers provide debt to private equity firms' leveraged buyout deals or to their portfolio companies. And as the European market breaks one record after another, it makes sense to look at its history to understand its path forward.

"Investors are excited about the opportunity set in Europe," says Michael Dennis, co-head of European credit at Ares Management. "When we started our European business, many investors didn't think institutional direct lending was even available."

Early adopters dominate the market

Europe is dominated by home-grown players, barring a few standout US shops. Those established in the early days of modern private credit, in the aftermath of the Great Financial Crisis (GFC), not only maintain a commanding presence but continue to grab greater market share.

"Take the four founders of European direct lending — Ares, ICG, Hayfin and Arcmont — and add Goldman Sachs, then the top five players now account for almost 50% of the capital raised in the European direct lending market. Twelve months ago, these firms accounted for 33%. This consolidation trend is continuing," says Anthony Fobel, founder and CEO of Arcmont.

"Direct lending is often private equity's first port of call. You have this virtuous circle of investors wanting to invest more in the asset class and private equity firms wanting to use private credit more and more, ensuring strong deployment and further increasing interest from investors," says Fobel.

You have this virtuous circle
Anthony Fobel
Founder and CEO
Arcmont

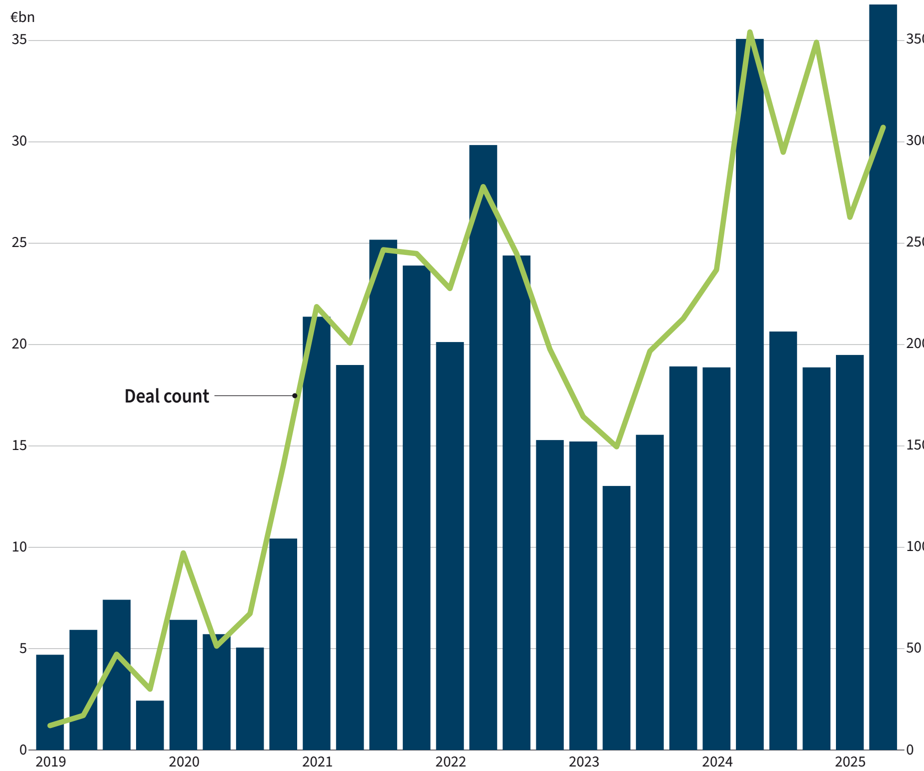
Before the astounding EUR 17.1bn raised by Ares for European direct lending in its ACE VI fund, before blockbuster lending deals such as the EUR 6.5bn refinancing for online classified group Adevinta, and even before private credit shops lent a combined EUR 36.7bn in the second quarter of 2025, we go back to Los Angeles in the twilight of the 20th century.

Both the US and European direct lending markets trace their origins to the 'junk' bond revolution started by Michael Milken in the 1980s. Milken's seminal research showed weak companies were sounder than the conventional wisdom held at the time — so their debt could make for a good investment as long as yields were high enough. Milken and his bankers at Drexel Burnham Lambert began to create and sell high-yield bonds. And those high-yield bonds were then used to back leveraged buyouts, transforming the private equity industry.

Soon, Jimmy Lee and his group at Chemical Bank ushered in the leveraged loan market. In 1989, Peter Gleysteen— who was then Lee's second in command and is now the founder and CEO of AGL Credit Management — pioneered the structure that turned LBO loans held by banks into non-amortising, bullet-payment loans attractive to insurance firms.

In the meantime, a proto-private credit market was forming. This strategy, which was then called merchant banking or sponsored finance, saw financial firms such as GE Capital (where your correspondent once worked) and Heller Financial provide financing for modest-sized LBOs and lending to small- and medium-sized sponsor-backed companies. Already the 'middle market' was swinging along — and in competition with commercial banks.

European direct lending volume



Hopping across the pond

It wasn't long before the junk bond innovation crossed the Atlantic. For private credit, the entry into Europe came in the form of mezzanine debt, a layer of capital between fixed income and equity.

Among the new entrants was one of the most storied names in finance: US-based investment bank Goldman Sachs, which had gambled on a foray into the US and Europe.

There was a very attractive pricing

Stephan Caron
Head of private credit
BlackRock

"Our private credit business started in 1996. This is when we raised our first Mezzanine Partners strategy, which is effectively junior direct lending," says James Reynolds, global co-head of private credit at Goldman Sachs' asset management arm.

"It started both in the US and in Europe. We called it Mezzanine Partners because mezzanine is a European term for junior debt and it was set up in Europe. In the US, it was mostly private high yield."

Goldman Sachs was hardly alone. ICG, then Intermediate Capital Group, was founded in 1989 in the UK to enter the emergent mezzanine debt market. GE Capital had also journeyed to Europe to set up shop. Others littered the landscape, mostly under the radar. But while mezzanine debt counts as private credit, it's not direct lending.

Beginning of the modern era

Direct lending in its modern iteration began in the aftermath of the GFC. For almost two years there was no leveraged buyout in the US and Europe. The industry was frozen.

When the deal spigot turned back on, the landscape had radically shifted. Regulators were now on the prowl, determined to keep banks safe. They commenced a decades-long endeavour, which is still ongoing, to de-risk the banking system and maintain financial stability. As banks pulled back from lending to companies that would earn a sub-investment grade credit score were they rated, direct lenders stepped in.

"Pre-GFC, the direct lending market in Europe was centred on mezzanine debt. It's really post-GFC, as the banks started to face significant balance sheet constraints, that this asset class started to take off," says Stephan Caron, head of private credit at BlackRock, who once worked at GE Capital.

Direct lenders began hawking a new financing structure, another import from the US: the unitranche, a blend of senior and subordinated debt.

"We saw the success of unitranche debt in the US and we felt there's no reason why this product could not take off in Europe as well. There was very attractive pricing on these transactions, not a lot of competition and it was highly differentiated," says Caron.

US credit focused shop Ares saw its opportunity. The firm opened an office in London in September 2007 and hired a team from Barclays Leveraged Finance Group to start a European direct lending business.

"The direct lending model was already working really well in the US. You could see a market in the US that had started to institutionalise, and some of that bank consolidation and bank retrenchment had happened already," says Ares' Dennis.

Home-grown firms were being founded,

You can't cover France out of London

Mark Bickerstaffe
Co-head of direct lending
Hayfin

We did the first unitranche in Europe
Cécile Mayer-Lévi
Head of private debt
Tikehau Capital

Investors are excited about the opportunity here
Michael Dennis
Co-head of European credit
Ares Management

It was difficult to raise those first-time funds
Matthew Theodorakis
Co-head of European direct lending
Ares

too, many of which lead the market today. Alcentra was formed in 2002. Hayfin was created in 2009. Arcmont was established in 2011. In 2012, ICG launched its inaugural direct lending strategy in response to the lack of capital provision by traditional lenders. And it found it had a real advantage in being local.

"Our view is, you can't cover France or Germany out of London. And it's a less deep BSL market, which means it's more prone to periods where there isn't liquidity or there are kind of gaps in the market that private credit can step into," says Mark Bickerstaffe, co-head of direct lending for private credit at Hayfin. "As we think about our business, that's what gives us and the other European players a real moat. It's those reputations and that track record."

As well as spreading to the continent, direct lending began to appeal to more firms.

"In 2010, we did what I consider the first unitranche in Europe for Biomnis. It was EUR 100m, which now seems low. But price-wise, that was really based and inspired from mezzanine, so it was with cash and PIK and warrants," says Cécile Mayer-Lévi, head of private debt at France-based Tikehau Capital. "I'm a bit biased... but I'm quite confident that was really the first unitranche in Europe."

Around 2015 growth took off

Direct lending started out small. The funds founded after the GFC were all of a similar vintage — 2010, 2011, 2012. Because there wasn't wide acceptance of private credit among the investor base at the time, they tended to be in the EUR 500m to EUR 2bn range, says Matthew Theodorakis, co-head of European direct lending at Ares.

"Although this was an important step, the private credit market was still pretty small at this stage. It was very difficult to raise those first-time funds as direct lending was a new asset class," says Theodorakis.

ACE: fundraising for Ares' flagship European direct lending funds

Fund	Year	Total raised (€)
ACE II	2013	~1.0bn
ACE III	2016	2.5bn
ACE IV	2018	6.5bn
ACE V	2021	11.0bn
ACE VI	2024	17.1bn

Even up until 2013, European direct lending was only a EUR 5bn market. It really started growing very rapidly from 2015, says Caron.

"The private equity firms were quite hesitant to use us back in those days," says Fobel. "They didn't know, firstly, whether we were going to be around for a long time. Secondly, they didn't know how we would behave if things went wrong in their portfolio companies. In many senses, if you speak to private equity firms, they will tell you in the early days that we were the source of finance they went to if they couldn't get finance elsewhere."

Back then, Goldman Sachs was a bit of an outlier. It had raised USD 10.5bn for a direct lending fund in 2008, and Loan Partners I in 2008 invested nearly USD 1bn in Allianz Boots, which was backed by KKR Private Equity and billionaire Stefano Pessina. For the rest, it would be years before a billion-dollar deal was in the purview of private credit shops.

The second part of this story, which will cover the past decade in European direct lending, will appear next month.