

E X P E R T Q & A

Sustainability should not be treated as a sub-segment of private debt, but as something that can fundamentally transform the entire asset class, maintains Johnny Brom, chief investment officer and founder, SAIL Investments



Rethinking global private credit: What's next?

Q When leading asset managers are forecasting continued expansive growth in private credit, where should institutional investors expect this to come from? And how relevant is that growth to the institutional portfolio asset allocation?

That's a good question and maybe the most important question in private credit today. If private credit has space to double or triple in scale over the coming years, where is that growth going to materialise?

Most allocations today still reflect 'Private Credit 1.0', which was concentrated in the US, and to a lesser extent

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Europe, and was structured around sponsor-backed transactions, broadly syndicated loans and collateralised loan obligations. But that model covers a very narrow slice of the global corporate landscape. At least 80 per cent of mid-market businesses worldwide are privately owned and de facto non-sponsored. They rarely intersect with traditional leveraged buyouts and have long depended on local or regional bank financing.

The potential for private credit expansion lies in this overlooked global

middle. A staple sector for banks, but one crying out for more innovative and strategic lending solutions. A large group of these corporates are enterprises operating in core industries that need to transition to sustainable modes of production. They often cannot yet access capital markets, but are central to real-world supply chains. They are too mature to stay bank financed, too complex to be commoditised and too strategic to ignore.

If the next phase of private credit is about scale in order to match institutional asset owners' portfolio fit, then perhaps we need to look further afield, not just geographically, but also structurally.

Q Most institutional asset owners are also navigating growing pressure to align their portfolios with sustainability goals to manage material physical and transition risks. Can private credit really serve both needs?

Let's consider what is at stake. More than half of global GDP is moderate-to-highly dependent on nature and the services it provides. At the same time, climate volatility and ecosystem degradation are already disrupting core asset classes, from agriculture to infrastructure and insurance liabilities.

When one overlays this with regulatory developments, from International Financial Reporting Standards and International Accounting Standards to the stress-testing exercises of central banks, a clear imperative emerges: physical risks can no longer just be considered an externality. They must be priced, mitigated and, at the very least, properly understood.

Yet, how much of today's private credit pipeline would be able to actively address this? If portfolios are to grow in this asset class, allocators will need to ask not just 'where can I find yield', but also, 'where can I find resilience?'

This reframes the opportunity. In segments of the global economy where

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physical systems like land use, water, biodiversity and climate-sensitive supply chains are critical, credit serves not just as an efficient financing tool, but as a structuring mechanism for mitigation and adaptation.

Through strategic design of lending itself, rather than relying merely on labels or overlays, credit can fully incorporate physical risk management of the underlying borrower's business. Such an approach can therefore materially derisk credit exposure, driving alpha in these portfolios.

Q So, why hasn't more of the asset management industry moved into this space? If the opportunity is compelling and the need is evident, what's holding things back?

Asset managers tend to scale where industry infrastructure already exists: credit ratings, syndication pathways, consultant buy-in and so on. Yet, many emerging opportunities, by contrast, require more ground-up work. They involve self-origination capabilities and longer timelines to embed value creation plans into a borrower's growth plans and link them to clear covenants. They also call for deep due diligence pre-loan disbursement and sector-specific academic knowledge that doesn't

Q Are these issues not already being solved by carbon markets, nature-based credits or thematic ESG debt?

Those are important tools, but they are mainly fragmented, small in scale and regulatory oversight remains patchy. More importantly, many of these treat climate change and nature as an externality to be compensated for rather than as a source of alpha, with hidden economic value to be unlocked.

What if we treated nature and climate risk as core to enterprise value? In sectors like land use and food production, this is no longer hypothetical. For example, companies that can verify deforestation-free supply chains or meet traceability mandates are increasingly favoured by global buyers. Their products command price premiums. Their access to regulated markets

improves. Their operational stability in the face of climate risk increases.

These are not offsets. They are embedded improvements in business and hence credit quality. When lending is designed to reinforce these dynamics – whether that involves tracking hectares of protected forest, emissions reductions, supplier traceability or smallholder integration – then what we're really tracking is resilience. That resilience can reduce credit risk. It can increase enterprise value. And it can unlock growth paths such as public listings or international bond issuances that would otherwise remain closed. This is what we mean by sustainability as a financial alpha play.

always sit within traditional investment teams.

Moreover, the industry has often treated sustainability as a marketing feature, not a financial lever. When strategies are built around retrofitting frameworks like the Sustainable Finance Disclosure Regulation or ticking ESG boxes ex-post, the unlocking of real economic value drivers for the underlying borrowers are overlooked. That means things like market optionality, margin optimisation and resilience built in combination with emerging trade rules gets missed.

What if we flipped the lens? What if sustainability wasn't a screening tool, but a proxy for unlocking economic value captured in core industry sectors? SAIL's value creation plan embeds a sustainability transition strategy into the borrower's growth plans, out of which flow hard commitments that are captured in sustainability maintenance and transition covenants in the transaction.

The opportunity isn't about being more virtuous – it's about looking where others aren't for real economic logic and thinking on a medium- and long-term scale, in line with the majority of the institutional asset owners' timelines. It's about structuring credit strategically and aligning with long-term operational resilience, particularly in sectors undergoing transition or exposed to external shocks.

Q But for an asset owner managing billions in liabilities and cashflow matching, what does this mean in practice? How does this translate into portfolio-level requirements?

Here's where it gets interesting. Across geographies that produce much of the world's physical commodities – agriculture, forestry, food systems and mining assets – many of the borrowers are exporting in US dollars, but are based in jurisdictions dominated nearly entirely by bank lending. That

creates a gap in medium- to long-term growth finance.

Most of these family owned companies are not looking to sell all or part of their business, but they are looking for strategic, long-term financing. An international direct lender delivering real strategic value has a huge opportunity to access these attractive companies. Loans can be structured in hard currency, senior secured and underwritten to heavy financial maintenance covenants. They are looking for a strategic partner and smartly structured private credit is the answer.

More importantly, their economics can be strengthened by embedding forward-looking sustainability criteria, not only because it's increasingly required by regulators around the world, but also because it directly affects their economic resilience and thus success.

As asset owners will need to keep pace with the growing private credit market by reflecting allocation growth in their private credit sleeves, the question to answer will be how much more concentration of traditional senior loans they can add and whether meaningful diversification can make their private credit allocations more efficient. We believe that longer-dated, senior, secured, non-sponsor-driven global private credit can provide the solution here.

At the same time, asset owners need to step up in finding solutions to the impending physical and transition risks threatening their assets and reputation. Sustainable global private credit when embedding value creation plans in borrower's growth plans, pre-loan disbursement, is probably better placed than any other asset class to address these challenges. The scalability of credit to all corners of the world is just that much more significant compared with all other asset classes.

Q In a world of rising capital flows into private credit, how should asset owners

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think about this type of exposure alongside traditional allocations?

We think they should start by asking what's missing. If the bulk of current private credit sits in the same jurisdictions, the same sectors and often the same risk factors, where is the improved diversification actually coming from?

The answer may lie in parts of the global economy that have been strategic capital-starved, not because they are riskier, but because they are harder to reach, model or scale by international non-bank lenders. But that's changing.

As institutional standards on data, documentation and verification move into these sectors, the ability to construct robust, long-duration, risk-adjusted credit portfolios beyond the core markets becomes increasingly tangible.

The challenge for allocators is no longer about willingness. It's about readiness and finding partners who can execute.

But the upside is clear. When you can access credit that is structurally derisked, fundamentally resilient and economically essential, you're not just allocating differently. You're future-proofing the role that private credit plays in your portfolio. ■