Invesco

White Paper

The case for the European upper middle market



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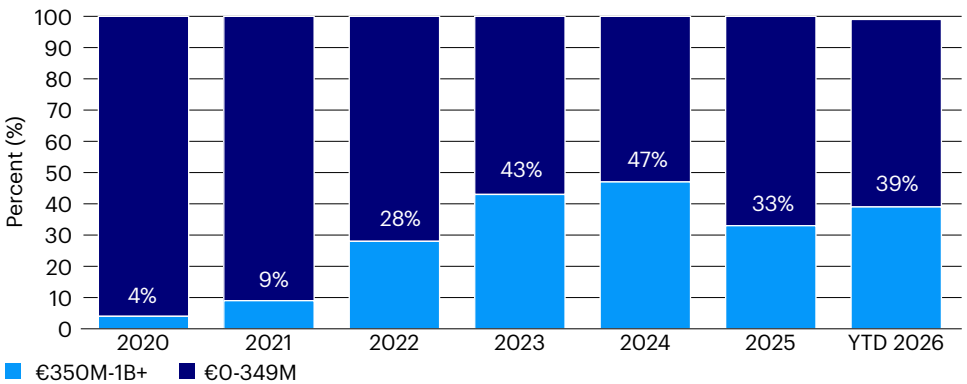
A strategic synergy: Why leverage both directly originated and syndicated loans

In the roughly twenty years following the Global Financial Crisis, private credit has emerged as a pivotal asset class, filling a void left by banks in corporate lending. Within Europe we believe debt provisioned to larger, well-capitalized companies, known as the upper middle market, is a particularly attractive space given the strength and stability of these corporate balance sheets. Increasingly, borrowing by companies in this segment has become more flexible between bank-arranged debt facilities (syndicated loans or 'BSL') and directly originated loans (direct lending). From our perspective, investors focused on lending to these companies increasingly should incorporate both access points in their approach given that borrowers will regularly toggle between each type of financing. In developing a portfolio focused on European upper middle market companies, we believe the approach going forward will be favorably achieved by combining both these markets into what we term the upper middle market — the direct lending market offering the benefit of spread premium and the syndicated market offering the benefits of consistent deployment and liquidity. From our perspective, this is particularly well suited to investors looking for evergreen solutions which focus on larger, established European companies that have the potential to deliver high amounts of floating-rate income on a stable asset base. Investors can simultaneously benefit from the direct lending spread premium of undertaking credit risk to these larger, more stable European companies while remaining fully deployed.

The changing landscape of private credit

Post-Global Financial Crisis, regulatory changes and capital requirements constrained banks' lending capacities, creating a vacuum to be occupied by non-bank lenders. Historically, the corporate private credit market could be divided into two segments: the syndicated loan market for larger companies and the direct lending market for smaller firms. Despite different access points, both markets focus on senior secured floating rate debt. Their key distinction lies in the technical nature of lender participation. The syndicated market involves loans originated by banks and then shortly thereafter distributed to institutional investors—given the broad market awareness and borrower size, syndicated loans thereafter maintain a strong secondary market and regular liquidity. The direct lending market features loans made directly by non-bank lenders to borrowers. These direct loans offer a spread premium to syndicated loans but with the consideration that minimal secondary market or liquidity exists, and lenders generally hold the loan until repayment or maturity.

Growth of upper middle market deals
Deal size diversification of European direct lending deals, by count

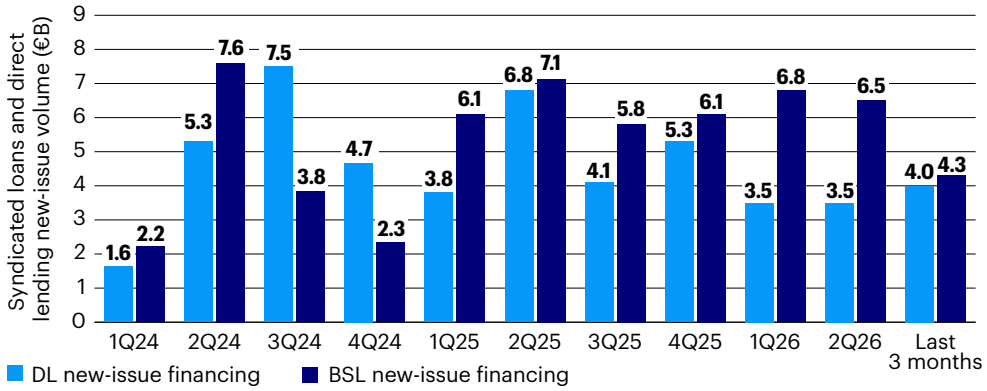


Sources: PitchBook | LCD. Data through 31 October, 2025. Analysis based on transactions covered by LCD News; share calculated based on deals where size information is disclosed.

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As direct lending dry powder grew over time, a meaningful portion was deployed towards larger and larger companies, and the distinctions between the syndicated and direct lending markets became increasingly artificial. The differences were primarily driven by fund constraints rather than credit risk (i.e. investor vehicles often singularly focusing on either syndicated or direct lending, but minimal flexibility between the two). Today, European upper middle market borrowers consider debt solutions from both markets. For some borrowers, direct origination is preferable given the speed, certainty, and flexibility of these facilities. For others, the scale of the syndicated loan market and pricing make it the preferred solution. And for many, they may toggle between the two based on pricing/spread differentials at any given moment in time. In times of weak issuance in syndicated loan markets, spreads for new deals widen (as was the case in 2022), and consequently, direct lending deal activity increases. Conversely, in times when the BSL new issue market is strong and spreads are dropping (as observed in 2024), many upper middle market borrowers shift away from direct lending market in favor of syndicated markets.

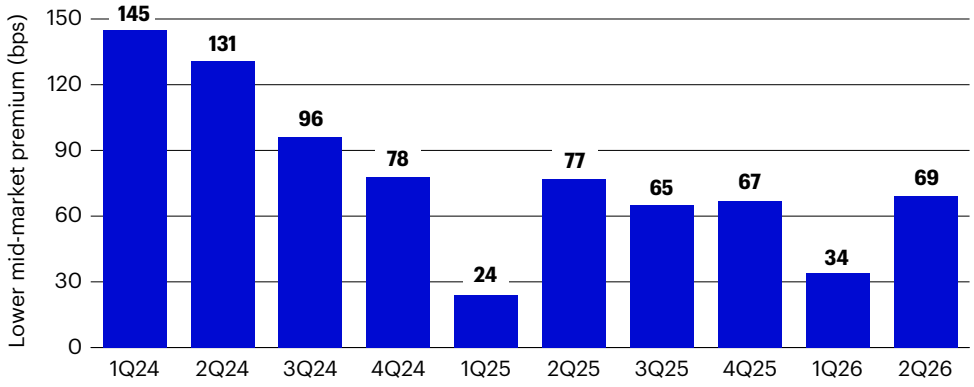
Shifts in borrowing
Borrowers alternate between BSL and DL



Source: PitchBook LCD as at 31 August, 2026.

In our view, senior secured floating rate loans to upper middle market European borrowers offer high income from stable companies. Upper middle market companies, those with €50 million or more in EBITDA, are generally regarded as stronger borrowers with more resilient cash flows. We see the risk-return profile of European upper middle market companies as favourable when compared to lower middle market companies, where you can earn similar spreads through exposure to more robust borrowers. To ensure consistent deployment, investors will increasingly need to be flexible in utilizing both syndicated and direct lending loans within their portfolios, as larger borrowers will continue to move between these markets. Despite the differences in capital access from the borrowers' perspective, we believe that from a client perspective, the portfolio management and credit risk considerations for this exposure should be viewed uniformly as European upper middle market corporate, senior secured floating rate debt.

Small premium for smaller deals (<€20M of EBITDA)
Larger deals can offer better risk-adjusted spreads



Source: KBRA DLD Research as of Q2'26: 1L term loans only; Unitranche is based on leverage: >4.0x for an all-senior structure; Lower mid-market defined as <€20M EBITDA.

Invesco has lent

€26B+

to companies backed by Private Equity firms

Invesco's experience and expertise in European upper middle market lending

Critical value drivers in lending capital to European upper middle market companies relates to sourcing and diligence. From a sourcing perspective, we believe the most important consideration relates to the scale of relationships with the largest deal sponsors in the market, as these are the entities which own firms in the upper middle market. As of September 2026, Invesco is one of the largest financiers of global private equity with €26b+ in loans outstanding to the largest sponsors in the market. Additionally, Invesco has decades-long relationships with some of the largest European banks who are playing an increasingly bigger role in the private credit market. We're observing a realignment where banks are looking to direct lenders for partnership rather than as competition. The scale of these partnerships alongside our ability to support companies, both in the direct lending and syndicated formats, is a differentiator in sourcing access. However, more important than our ability to see European upper middle market lending deals is our expertise in conducting due diligence on these businesses. Invesco leverages deep sector expertise to thoroughly evaluate potential investments, ensuring we understand the unique dynamics and risks of each industry. Our extensive familiarity with borrowers enhances our ability to assess creditworthiness, drawing on long-standing relationships and historical performance data. Additionally, Invesco's robust credit research capabilities ensure meticulous analysis and informed decision-making, allowing us to identify and capitalize on favorable opportunities in the syndicated and direct lending markets. Our European business has been actively lending capital to these borrowers over the last 20 years.

Given our extensive and established infrastructure in European upper middle market lending, Invesco is positioned to provide investors the benefits of increased access to private credit without significant incremental cost. Since our team is already actively monitoring the universe of European upper middle market companies, we remain impartial between providing syndicated or direct lending facilities. This allows us to allocate capital optimally based on relative value.

Invesco's upper middle market strategy is designed for diversified exposure to large European corporate loans through both direct lending and BSL. This flexible structure enables consistent deployment without capital calls, optimizing returns across market cycles. Direct lending offers an illiquidity premium of 100–300 bps, while syndicated loans provide scale and liquidity[1]. By investing across both formats, our strategy can capture high income, regular liquidity intervals, and access to stable, well-capitalized companies.

As private credit evolves, integrating direct and syndicated lending is key along with varying exposure via Europe within a portfolio. Considering the proliferation of the U.S private credit market, allocating to Europe can be complementary both to existing credit investments and across a broader portfolio. Invesco's upper middle market strategy is built to meet these needs — delivering efficient access, tactical flexibility, and potential long-term value for investors through exposure to the European upper middle market.

1. PitchBook LCD as at 31 August 2026.

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Data as at August 2026 unless otherwise stated.

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