LBPAM
EUROPEAN PRIVATE MARKETS

Tribune

September 2026

Infrastructure and corporate debt in Europe's lower mid-market: the diversification investors are missing

A less travelled corner of private markets, Europe's lower mid-market is in fact where the deepest diversification lives – across resilient, founder-led corporates and the local infrastructure powering the energy, generational and digital transitions. As credit cycles mature, it is emerging as a strategic building block of private debt portfolios.

Peter Arnold
Head of LBP AM
European Private Markets

Bérénice Arbona
Head of
Infrastructure Debt

Isabelle Luy-Landès
Head of
Corporate Direct Lending

Europe's lower mid-market is vast, fragmented… and largely under appreciated. It spans a multitude of companies across countries, sectors, and business models, from long-established family businesses and entrepreneur-led firms to companies backed by minority or majority private equity sponsors. That breadth lets private debt investors build portfolios with far more granular position sizes across a wider set of sectors than the large-cap segment allows.

Family-owned businesses represent more than 70% of all European companies, and generational succession is set to be one of the defining themes of the next decade. Many of these firms are highly profitable and durable but need flexible capital to navigate ownership transitions, fund buy-and-build strategies, finance international expansion, or invest in digital transformation and the environmental transition. Local banks often cannot provide this kind of bespoke financing, leaving a persistent funding gap that private credit is well placed to fill.

This is not simply a story of banks retreating: though they remain liquid, banks are recalibrating which risk profiles they will hold on their own balance sheets, increasingly partnering with private lenders to serve clients outside that profile. The result is growing acceptance of private debt as a structural complement to bank financing, rather than a substitute for it.

The European market also differs meaningfully from its American counterpart. US direct lending carries a much higher concentration of retail capital, which can amplify volatility when confidence wavers. European private debt remains predominantly institutional, with longer investment horizons and more patient capital: this gives managers time to work through problems with portfolio companies rather than facing forced exits. Companies in this segment have, repeatedly weathered past crises well, helped by smaller, more responsive lender groups able to act early and support businesses through difficult periods.

"Family-owned businesses represent more than 70% of all European companies"

RISK DISPERSION AND RESILIENCE

→ **The case for the lower mid-market hinges on more than access to underserved companies, however: it changes the shape of a portfolio's risk**.

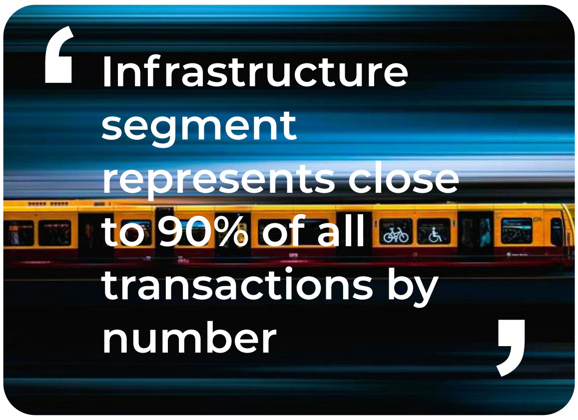
Lenders can negotiate tighter covenants, stronger protections, and financing structures genuinely tailored to a company's risk profile – rather than accepting the looser terms that often prevail when many lenders compete for single very large deals.

- **Many of these companies are also leaders within their own sectors**: regional or national champions with pricing power, deep client relationships, and high barriers to entry protecting their markets. Because portfolios can be built around company quality rather than chasing sector trends, they tend to be less exposed to crowded themes such as software or AI, for instance, where large amounts of capital compete for the same assets.

- **As credit cycles mature, this part of the market becomes increasingly attractive.** Indeed, problems tend to surface first in large-cap deals, where looser documentation and higher leverage offer less protection. Here, tighter documentation, closer lender-borrower relationships, and smaller, more manageable lender groups create more room to work through issues over time. Building a corporate direct lending allocation across large, mid, and lower-cap segments, addresses manager dispersion and produces a more balanced, all-weather portfolio. This is very relevant today as we the credit cycle matures.

LOWER MID-MARKET INFRASTRUCTURE: AN ADDITIONAL LEVER

Infrastructure adds a further dimension, opening access to a different universe of assets and risk drivers than corporate or real estate lending. This segment is, in fact, the most active and varied part of the European infrastructure market: it represents close to 90% of all transactions by number, spanning renewable energy, digital infrastructure, utilities, transport, environmental services, and social infrastructure across a wide range of geographies. Because larger managers gravitate toward jumbo deals, it remains structurally overlooked in institutional portfolios.



Adding infrastructure debt to a private debt allocation does more than broaden the pool of names: it alters the portfolio's default and recovery profile, since infrastructure typically exhibits lower defaults and higher recoveries per unit of credit than corporate lending. For insurers operating under Solvency II, this three-layered effect – across assets, defaults, and recoveries – is also rewarded in capital treatment.

Much of this infrastructure operates at a local or regional level: fibre broadband networks, local renewable energy projects, EV charging networks, district heating systems, water and waste treatment facilities... Though often smaller individually, these assets benefit from long-term contracts, regulatory frameworks, or essential-service characteristics that provide strong revenue visibility, while also delivering tangible local economic impact.

Against the scale of Europe's long-term investment needs, from energy transition to digital connectivity and infrastructure modernisation, public funding alone will not be sufficient, and private capital will play an increasingly essential role in closing that gap. Combined with its inherent granularity, this positions lower mid-market infrastructure not as a niche allocation, but as an increasingly strategic component of a diversified private markets portfolio.

Disclaimer

These opinions are subject to change at any time and should not be construed as investment advice on the part of LBP AM. No forecast can be guaranteed.

This document has been prepared by LBP AM for information purposes only. It does not create any obligation on the part on the part of LBP AM. The information contained in this document does not constitute a solicitation or an offer to anyone to subscribe, buy or sell securities, options, units of funds or any other financial instruments or services, nor a recommendation to make an investment or a transaction. It does not take into account the investment objectives or financial needs of the recipient. No action should be taken or omitted on the basis of this document.

This document does not constitute advice on legal, tax or investment matters, and recipients should rely on their own examination of such matters or on the advice of a professional advisor.

Before making any investment (new or continuing), please consult a professional and/or an investment adviser as to its suitability. LBP AM cannot be held responsible for any decision taken on the basis of this document. The statements contained in this document are made as at the date of the document, unless otherwise stated, and the delivery of this document does not imply that the information contained herein is correct as of any subsequent date.

LBPAM
EUROPEAN PRIVATE MARKETS

LBP AM
SA, a public limited company (société anonyme) with a Management Board and a Supervisory Board with share capital of €12 138 931,20
Registered office: 36, quai Henri IV 75004 Paris.
Registered under no. 879 553 857 RCS Paris
Approved as a portfolio management company by the AMF under no. GP-20000031
Code APE 6630Z / Intracommunity VAT no. : FR 71 879 553857