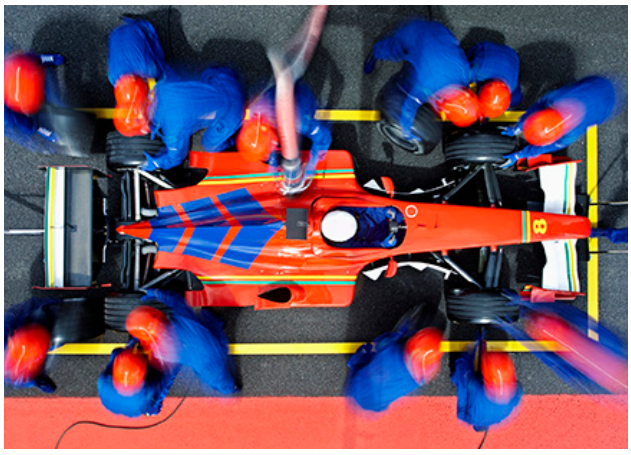
Structured Equity: Separating Fact from Fiction

Jérôme Kamm, Principal, Direct Equity Investments &
Kyle McGinnis, Principal, Direct Equity Investments

EXECUTIVE SUMMARY

- Structured equity is often misunderstood as expensive debt, but its combination of downside protection and upside participation makes it a distinct form of private markets capital.
- A financing need is not a verdict on business quality. Structured equity can support high-quality companies and sponsors pursuing a variety of strategic objectives across market cycles.
- By offering differentiated return drivers, flexible deployment opportunities and the potential for consistent yield generation while preserving equity upside, structured equity can play a complementary role alongside private equity and private credit.

Private markets are often presented as a two-lane road: investors choose between equity and credit exposure. In practice, however, investors have access to a broader range of solutions designed to meet specific investment objectives.



Motorsport offers a useful parallel. Success is rarely determined by a single component or strategy. Teams configure their cars differently for different circuits, balancing speed, durability and control based on the conditions they expect to face. The goal is not to optimize for one environment, but to create a platform capable of performing across many.

Structured equity serves a similar purpose in private markets. If equity and credit represent two established forms of capital, structured equity combines elements of both, pairing contractual downside protection with participation in equity value creation in a single instrument. The result is a flexible financing solution that can be tailored to a range of investment opportunities and market environments.

Despite its growing role in private markets, structured equity remains widely misunderstood. It is often viewed as expensive debt, a strategy reserved for stressed markets or a financing tool used only by challenged companies. In reality, its applications are far broader. Across four common myths, we explore what structured equity is, when it is most effective and why it may deserve a place in a diversified private markets portfolio.

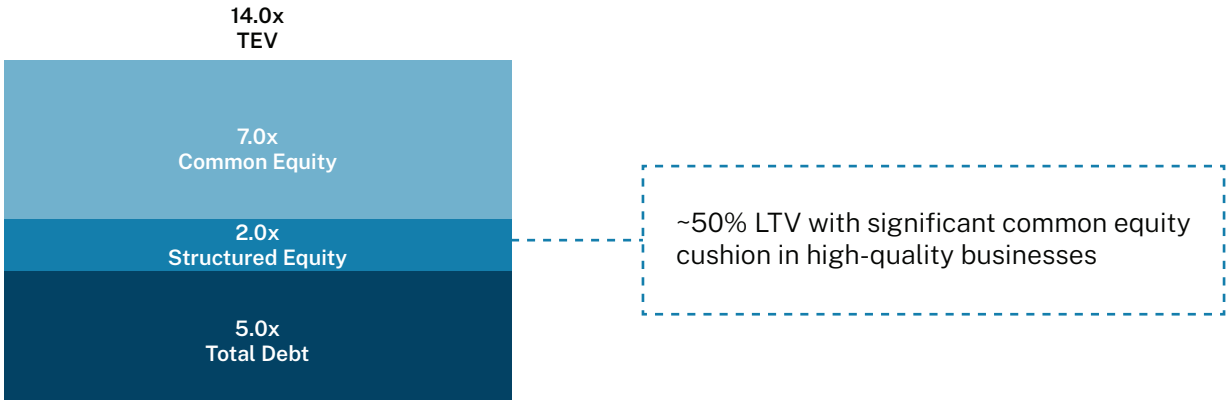
Myth 1: Structured equity is just expensive debt.

Reality: It is fit-for-purpose capital. Plus, the potential protection is not paid for by surrendering the upside.

At first glance, the comparison is understandable. Structured equity typically carries a contractual return, sits ahead of common equity, and may include minority shareholder protections. For investors, those features can provide considerably more downside protection than common equity.

Stopping there, however, misses the point. While structured equity shares certain characteristics with traditional debt and equity instruments, it is designed to achieve a distinct risk-return profile and address financing needs that conventional capital solutions may not fully solve. Just as motorsport engineers select different components to achieve a specific performance objective, sponsors often turn to structured equity when traditional debt or common equity cannot efficiently achieve the desired outcome.

Illustrative Capital Structure



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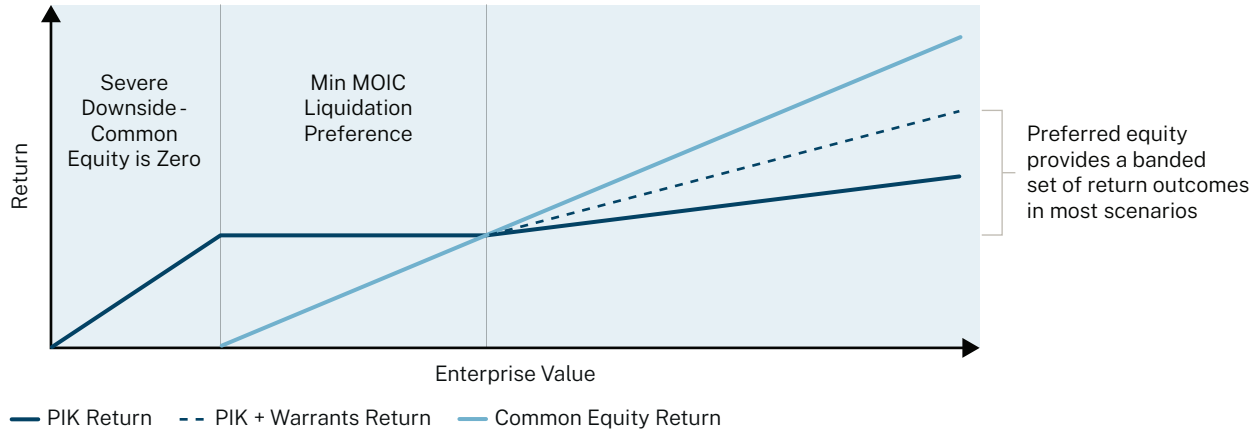
Consider a dividend recapitalization. A sponsor may wish to return capital to LPs but has limited senior debt capacity, or little appetite for inviting a competing GP into the boardroom. Structured equity can provide minority liquidity while allowing the sponsor to retain control. Or consider an M&A opportunity. Structured equity can provide the incremental capital without requiring the sponsor to raise additional common equity or over-lever the business.

There is a second objection buried inside the first: surely all that potential protection must be paid for by giving up the upside? In practice, structured equity structures can be designed to balance downside protection and upside participation.

Preferred equity securities typically include a liquidation preference, meaning preferred shareholders receive proceeds before common shareholders, often structured to include a minimum MOIC. Meanwhile, PIK accrues over time and can eventually exceed the value of the liquidation preference. If the security includes warrants, the slope of the upside opportunity can steepen as preferred holders participate in common equity value creation.

By adjusting key structural features, including minimum return thresholds, PIK accruals, warrants and conversion rights, investors can tailor the balance between downside protection and upside participation.

Illustrative Return Profile of a Preferred Instrument



For illustrative purposes only. Actual results may vary.

The bottom line: Structured equity is not about paying more for debt; it is about using the right capital for the job. For LPs, that can mean downside protection with meaningful participation in the upside.

Myth 2: Structured equity only works in stressed or dislocated markets.

Reality: It is cycle-aware, not cycle-dependent.

Indeed, when debt markets tighten, sale processes break down and valuations become harder to bridge, flexible capital becomes especially valuable. Market stress is not, however, a prerequisite.

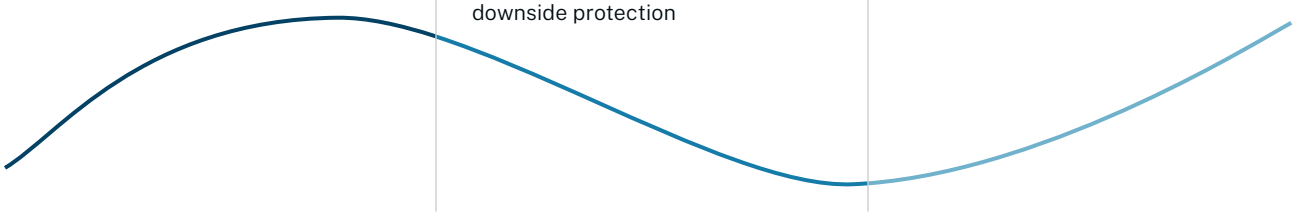
In racing, adjustments are made throughout an event rather than only when conditions deteriorate. Similarly, structured equity addresses financing needs that arise across market cycles, not just during periods of market stress.

Underlying structured equity use cases are durable. Businesses and sponsors regularly need capital for a variety of reasons, while seeking to preserve control and avoid excess leverage or dilution. A market cycle changes the shape of that need, not its existence.

Opportunities Across Market Cycles

Structured Equity can offer solution-oriented capital to businesses across varied market cycles

Market Highs	Declining Market	Market Upswing
• Partial exits for sponsor-backed companies • Founders / families seeking to retain control or averse to debt	• Liquidity or refinancing solution • Opportunities emerging from broken sale processes • Bridging bid / ask spread or validating existing owner's mark in exchange for downside protection	• Funding for transformational M&A or growth capex for businesses with no incremental debt capacity



The bottom line: A strategy that only works in dislocation can sit idle in your portfolio for years at a time. Structured equity does not require you to call the cycle correctly: it has valuable use cases in all market stages.

Myth 3: If a company needs structured equity, the underlying business is probably flawed.

Reality: A financing need is not a verdict on business quality.

This assumption often stems from a belief that healthy companies would not willingly accept a financing instrument carrying both a contractual return and equity upside participation. Simply put, a financing objective is not a diagnosis. In most cases the company is not in trouble; there is simply opportunity that cannot, or should not, be funded with conventional debt and common equity.

For example, the best performing asset in a GP's fund has a transformational M&A opportunity. The company has limited incremental debt capacity given recent tuck-in M&A activity. The GP's fund has a large position in the asset, limiting its ability to invest further and prospective co-investors are cautious to invest in the common equity given the mid-life nature of the deal. Structured equity is a great use case in this situation that enables the GP to quickly raise flexible capital to capitalize on a strategically compelling and accretive acquisition while retaining majority control and not over levering the business.



In motor racing, the "racing line" is described as the most efficient route around a circuit. While most drivers follow it, the most accomplished may take different lines to pass their rivals, defend their position, or set themselves up for higher speeds on an upcoming stretch of the track. Financing decisions can be similar. Choosing a less traditional instrument does not necessarily signal weakness; it may simply reflect a different objective.

Nonetheless, a manager creating an attractive security cannot compensate for unattractive business fundamentals any more than a skilled driver can overcome an engine failure.

Investors must still underwrite the equity story: business quality, organic growth, value creation levers and exit optionality. While structured equity adds contracted return, minority protections and common equity cushion beneath the investment, the base case is not for preferred holders to win by taking value from common. Think of that downside protection as an insurance policy: a prudent feature, not the goal itself. The best investors avoid this "structure trap".

The bottom line: Structured equity is not a verdict on business quality; it is a response to a financing objective. Align with investors that distinguish companies with attractive fundamentals and value creation plans from those merely presenting an attractive structure.

Myth 4: Structured equity does not provide meaningful diversification beyond private equity and private credit.

Reality: It can help address portfolio challenges that neither equity nor credit fully solve.

The role of structured equity may be most clearly understood through a portfolio construction lens. While equity and credit remain core components of most private markets portfolios, structured equity may help address two concerns frequently raised by LPs today.

1. **Attaching lower: Valuations**

   Marks are contested, the bid/ask spread has been slow to close, and few LPs relish underwriting another asset at the top of its valuation range.

   Structured equity helps to mitigate the risk of exit multiple compression in an investor's portfolio. A meaningful portion of returns are contractual – coupons and min MOIC protections – which are insulated from movements in exit multiple. To bridge to equity like returns, structured equity must include equity features such as warrants or convertibility which will be impacted by changes in exit multiple, but importantly, these features only drive a portion of total value creation. The result is a banded set of outcomes in most exit multiple scenarios.

   In this regard, structured equity may present an attractive means to invest in high flying multiple sectors at risk of multiple compression – creating a compelling risk-adjusted return in those sectors that can't be replicated by a combination of credit and common equity alone.

   In the event of a severe multiple compression scenario, the liquidation preference and security detach point in the middle of the capital structure provide protection. See Exhibit 1's illustrative structure detaching at 7.0x EBITDA against a 14.0x enterprise value. The business must lose roughly half its value before the instrument is impaired.

In racing, one of the most effective ways to improve a car's composure is rarely to add power or stiffen suspension. It is to lower its center of gravity. Similarly, lower attachment points can help investors maintain exposure to the same underlying asset while providing a greater margin of protection across a range of valuation outcomes.

2. Smoother liquidity profile: DPI

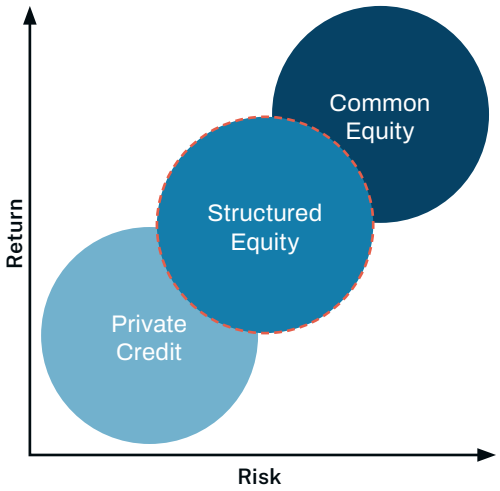
The distribution drought has been a defining LP frustration for years. Exit markets have reopened unevenly, and pacing models are challenged.

Structured equity generates return through different mechanisms. Yield accrues or is paid out from day one rather than waiting on an exit event. Securities often include liquidity rights to force a sale of the business or transfer your security after a certain number of years, creating contractual paths to liquidity. As these transactions can be deliberately designed as shorter-duration deals (typically three to five years versus five-plus for common equity), DPI is often quicker overall.

Structured equity harvests return throughout the hold, rather than relying solely on full exits. Yield accrual mechanisms may help mitigate the J-curve in a portfolio, producing smoother NAV appreciation than a conventional one, while retaining equity appreciation potential.

The Role of Structured Equity Alongside Common Equity and Private Credit

	Common Equity	Structured Equity	Private Credit
Target Returns	• IRR: 20%+ • MOIC: 2.0x – 3.0x	• IRR: 15-20% • MOIC: 1.5x – 2.25x	• IRR: 8-12% • MOIC: 1.2x – 1.5x
Term/Duration	• Average hold period of 5+ years	• Average hold period of 3-5 years	• Loan maturity: 5-7 years • Average life: 3-5 years
Role in Portfolio	• Core return enhancer • Full participation in value-creation and multiple expansion • Key allocator to sponsor, sector, and geography tilts	• Contractual returns with equity upside • Downside protection • Shorter duration • Mitigates valuation risk	• Income and capital-preservation anchor • Diversifies equity risk and smooths portfolio volatility • Senior, collateralized exposure with stable cash yield



For illustrative purposes only. Target returns are not guaranteed and actual results may differ materially. Target returns are presented gross of fees and expenses.

The bottom line: Valuations and DPI are valid concerns in any portfolio, in any market. Structured equity can help your portfolio address both.



Conclusion

Motorsport teams do not build cars for a single circuit. They build adaptable platforms capable of performing across varying conditions and race formats. Likewise, structured equity is not designed for a single point in the market cycle. It provides issuers with a flexible form of capital that can adapt to different transaction needs and market environments.

Similarly, structured equity can help investors balance downside protection with participation in equity value creation while providing potential liquidity benefits. For investors navigating today's private markets, that flexibility is not a compromise between equity and credit. It is a distinct advantage.

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