

Market Insights

The newsletter of the Investment Fund Legal Directory · **Issue 3**

FEATURE

Asset-Based Finance: Complexity as a Competitive Moat

With Laura Hirst of Ropes & Gray and Dan Paulos of EY.

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WORD FROM OUR DIRECTOR

Dear **Reader,**

Charles Leffler Director & Chief Editor, IFLD

"Now, more than ever, the funds law world deserves granular, detailed, dedicated reporting all in one place."

As you can probably imagine the recent industry shaking events at Weil have left me and my team with somewhat of a conundrum: Do we poleax all of our plans and cover the dramatic events on the lips of every attorney in America, or do we proceed as planned, firm in the knowledge of our insight-packed edition?

After weeks of hearing talk of nothing much else, it may come as a relief for you to hear that we're sticking with the latter, as I believe that our latest edition, along with our brilliant contributors, is simply too good to postpone. Needless to say, however, we will be releasing a mid-month special on Weil. Not only because it certainly deserves the time and space, but also because it offers us the opportunity to speak to you all again, sooner rather than later.

This all being said, the events at Weil may be the second most important news in the Investment Funds Legal Market at the moment...the IFL Directory News Site is now LIVE! Our News Site will continue building on our core mission: bringing you insights and intel from inside the industry, directly from some of the practice's leading experts, on the problems, solutions and predictions that all of your colleagues and competitors are debating.

This month, our edition focuses on ABF credit funds, with analysis from two leading practitioners in the space; Dan Paulos from EY and Laura Hirst from Ropes & Gray. We discuss how the market for private credit is changing and the tangible consequences for the attorneys who serve these funds, in both the near term and beyond. We also discuss how Credit Funds as a practice serves as a salient reminder of the growing demands for inter-practice connectivity and specialization diversity.

Readers, if the dramatic events of recent weeks have shown us anything, it's that we live in exciting but tumultuous times. Now, more than ever, the funds law world deserves granular, detailed, dedicated reporting all in one place. That is what we aim to achieve at IFL Directory News.

Welcome, again, reader, to the journey.



CHARLES LEFFLER

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This edition delves into the evolving market for private credit funds. As private credit capital gravitates toward asset-based finance strategies, the associated fund formation work is less uniform, the structuring more complex, and the capabilities required sit less neatly within a single practice group than they once did. We'll examine the driving factors behind this reallocation, what it may mean for credit fund practices, and how industry leaders are working to adjust.

Now, more than ever, those in the investment funds space and BigLaw will recognize the importance of anticipation and adaptation. Amid the dissolution of established institutions, the continued consolidation of capital toward mega-fund managers, and managers toward a small number of law firms, the opportunities for growth are often best captured by those with the foresight to service the market as it emerges.

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FEATURE

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Asset-Based Finance: Complexity as a Competitive Moat

As private credit capital gravitates toward asset-based finance strategies, the associated fund formation work is less uniform, the structuring more complex, and the capabilities required sit less neatly within a single practice group than they once did.

As direct lending has matured, its underwriting methodology has converged. Analysis anchored on EBITDA multiples, leverage ratios and covenant packages applied to a single corporate borrower is portable across managers and deals. This portability naturally allows managers to scale efficiently, though it also increases the number of managers arriving at similar risk evaluations. Where methodology is standardized, barriers to entry fall, and the last decade has seen sustained manager entry into a field that now bids competitively for substantially similar assets. The predictable consequence has been spread compression as the market moves toward a clearing rate: McKinsey reports median direct lending spreads falling from a peak of 716 basis points in early 2023 to 544 by year-end 2025[1]. Direct lending accounted for 58.4% of all private debt capital raised in 2024, while by the first quarter of 2026 PitchBook data placed that figure at around 31%. Meanwhile, through the first three quarters of 2025, specialty finance overtook direct lending in new fund launches for the first time, at 84 against 71[2].

> "Our clients are constantly innovating and evolving their strategies and products to keep pace with a constantly changing market."
>
> LAURA HIRST · ROPES & GRAY

Asset-based finance has been a key beneficiary of that reallocation within the private credit market. Pool-level underwriting rests on capability that does not transfer readily from corporate credit analysis, including loss curve modeling, prepayment behavior analysis, servicer quality assessment and collateral valuation, alongside the origination relationships through which proprietary flow is sourced. As Laura Hirst, a distinguished Partner at the forefront of Ropes & Gray's pioneering Credit Funds practice, notes, "where the underlying types of assets themselves vary; for example, consumer loans, trade receivables, equipment leases, royalties and digital infrastructure, each carries its own regulatory, servicing and risk profile and as a result potentially different market terms". From a fund manager's perspective, this heterogeneity creates a stronger complexity premium for managers able to serve the market effectively. Invesco reports that ABF lending can offer a premium of 150 to 400bps over direct lending, and while a proportion of this can be attributed to risk, underwriting complexity and constrained origination access are also contributory factors[3].

There is a similar appetite for reallocation from the LP side. While direct lending remains the core focus, around 70% of institutional LPs forecast greater private credit diversification over the next 12 months, just 6% indicate an intention to increase exposure to upper- and mid-market direct lending, and 58% anticipate rising portfolio issues for direct lenders[4]. As intent to diversify grows, ABF lending becomes a particularly attractive option, since repayment depends on the contractual performance of a large and diversified body of underlying obligors rather than on a single borrower's operating results, placing ABF exposure at a meaningful remove from the corporate credit cycle. For institutions already carrying substantial concentration in leveraged corporate credit, that decorrelation is attractive irrespective of any spread advantage. The fundraising data bears this out. Specialty finance accounted for 5% of private credit fundraising in 2023 and 3.6% in 2024, but raised $37 billion in 2025, more than the previous two years combined and second only to direct lending at $79 billion. McKinsey, working from Preqin data, arrives at a comparable conclusion

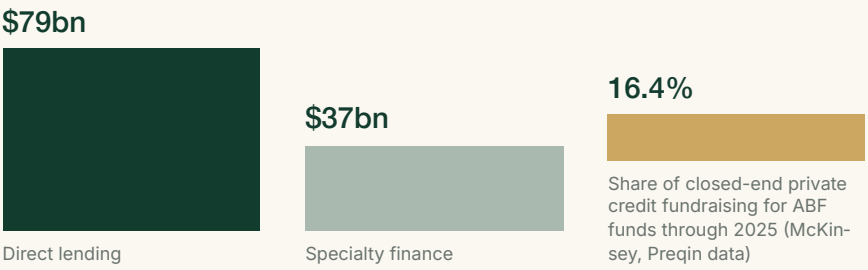
SOURCES

1 Kroll, via McKinsey (2025)
2 With Intelligence (2026)
3 Invesco (2025)
4 Rede Partners
5 With Intelligence
6 Preqin, via McKinsey

by a different route, estimating that closed-end funds pursuing ABF opportunities raised approximately $27.1 billion through 2025 to capture 16.4% of all closed-end private credit fundraising[5,6].

Private credit fundraising, 2025

Specialty finance raised $37bn in 2025, more than the previous two years combined, when it took 5% (2023) and 3.6% (2024) of private credit fundraising. Figures as stated in the feature.



> “Asset-based finance funds do not introduce fundamentally new tax issues for credit strategies.”
>
> DAN PAULOS · EY

On a day-to-day level, the most focused impact of this trend may be felt by credit funds tax practitioners. As Dan Paulos, a leading figure in EY’s global Credit Funds team and the industry at large, articulates, “Asset-based finance funds do not introduce fundamentally new tax issues for credit strategies. Instead, they amplify a familiar set of challenges that credit funds have long navigated”.

One component of this is that the heterogeneous income characteristics of ABF funds can require more granular evaluation to determine tax-optimal structuring and whether blocking properly belongs at asset or fund level. For example, an equipment lease pool may generate fully taxable UBTI where an economically comparable receivables pool generates none. Collateral type and other commonly varying characteristics of ABF lending, such as the type of warehouse leverage, the intensity of any servicing role and the retention of residual or equity strips in securitization structures, each bear on the trade-or-business analysis differently.

Paulos notes, however, that the bigger challenge comes from the heightened risk of loan-origination taint posed by ABF funds: “The growing reliance on forward-flow arrangements in the ABF space brings particular focus to questions of whether an originator’s activities should be imputed to the buyer”.

When no single structuring solution ports cleanly across collateral types, clients require bespoke solutions to cater to unique needs. As Paulos puts it, “while these issues are not novel, the current market emphasis on ABF structures is prompting both managers and originators to pursue more tailored and innovative approaches to managing the associated tax considerations”. The immediate consequence is a heightened premium on attorneys with sufficient practice depth across both tax and credit fund formation. While the constituent disciplines are not rare, the intersection is, and the relative newness of the sub-practice, combined with a previously more siloed approach to these questions, means the population of attorneys able to meet both requirements remains thin.

"To advise our clients on their fund structures and terms, we have to understand their business and what sits underneath the fund."

LAURA HIRST · ROPES & GRAY

From a fund formation perspective, Hirst observes, "Our clients are constantly innovating and evolving their strategies and products to keep pace with a constantly changing market. The growth in asset-based finance (ABF) credit funds is a good example of that". But practice leaders may need to consider that practitioners with genuine depth in ABF will remain scarce for as long as the work resists standardization, and that retention and the ability to develop these practice capabilities in junior associates will be critical. As Hirst explains, "to advise our clients on their fund structures and terms, we have to understand their business and what sits underneath the fund. This understanding is important not only for partners, but also for our associates". Experience in this sub-practice may be less easily learned through repetition of the most basic tasks, since successive matters do not necessarily strongly resemble one another. For leaders like Hirst, this places increased emphasis on a development strategy that prioritizes equipping associates with a broad foundational knowledge base and an ability to understand the nuance of client needs. "We train associates on the fundamentals of a wide range of fund structures, both open-end and closed-end and we also teach them about the underlying asset classes and how they shape a fund's structure and key terms. We're deliberate about how we use technology and AI. Junior lawyers now spend less time on the routine mechanics of launching a fund, which frees them to focus on substance: the structuring choices, the commercial drivers and the conversations with clients are where they learn the most and can add the most value".

In other words, complexity cuts both ways; the resistance to standardization that lets ABF managers defend their margins also shapes the market for the attorneys who advise them. Firms whose credit platform capabilities do not extend beyond direct lending may find that the expertise ABF requires is hard to hire and slow to train. The practices that come out ahead are likely to be those that recognize early that a credit funds tax partner with real ABF depth is worth competing for in the lateral market, and that the associates they develop and retain are, for the same reasons, similarly valuable, both to the firm and its competitors.

Private Credit **in Figures**

FEATURE · ASSET-BASED FINANCE

DIRECT LENDING SPREAD COMPRESSION

716 → 544 bps

Median direct lending spread fell from a peak of 716 basis points in early 2023 to 544 by year-end 2025.

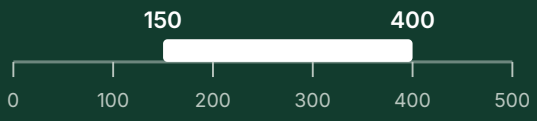


Source: Kroll, via McKinsey (2025)

ABF PREMIUM

150–400 bps

ABF lending can offer a premium of 150 to 400bps over direct lending.



Source: Invesco (2025)

DIRECT LENDING SHARE

58.4% → 31%

Direct lending's share of private debt capital raised: 58.4% in 2024, around 31% in Q1 2026.

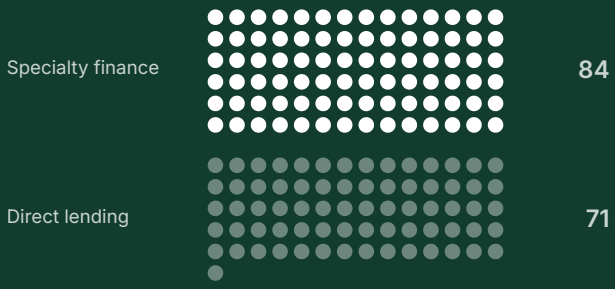


Source: PitchBook, via Wellington Management (2026)

FUND LAUNCHES

84 vs 71

Specialty finance overtook direct lending in new fund launches in the first three quarters of 2025.

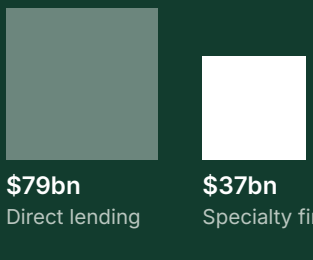


Source: With Intelligence (2026)

FUNDRAISING 2025

$37bn

Raised by specialty finance in 2025, more than 2023 and 2024 combined; second only to direct lending at $79bn.

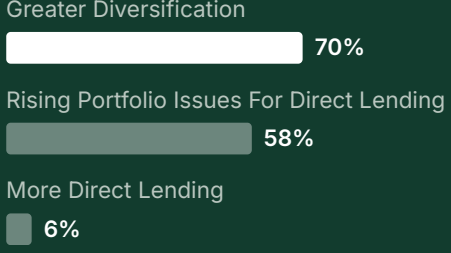


Source: With Intelligence (2026)

LP INTENTIONS & SENTIMENT

70%

of institutional LPs forecast greater private credit diversification over the next 12 months.



Source: Rede Partners (2026)

Figures as stated in the feature. LP Intentions & Sentiment: 58% anticipate rising portfolio issues for direct lenders; 6% intend to increase exposure to upper- and mid-market direct lending.

OPINION

Charles Leffler
Chief Editor, IFLD

Intersections The Future of Funds as an Interconnected Practice

"Some of the most 'valuable' funds work (in more ways than one) sits at the intersection of disciplines."

After many years of working in this industry, one can start to recognize overarching trends that define the market and its future trajectory. Hiring cycles peak and trough, the popularity of different strategies come and go, and the notoriety of once mainstay practices rise and fall. However, there are interconnected themes and commonalities that link every lawyer, practice and firm and it pays to know what those trends are.

Allow me to elaborate.

Every few years a corner of the funds market gets 'hot', and somewhere a fourth-year associate wonders whether they should jump into the frying pan. Credit Funds (and certainly ABFs) are one such example.

The demand is visible, the work is interesting, the business case is certainly logical and the people who specialize in the area are in short supply. However, unlike other previously passing fads, what separates credit funds is its inherent interconnectivity with other practice areas, which brings a wealth of opportunities; both from a business development and talent acquisition perspective.

While I am fully aware that none of the above is unique to credit funds, I use them as an example, not because of the rise in its popularity as a strategy with clients, nor because of the resulting growth in the popularity of the sub-practice, but rather because the example epitomizes a common trajectory that deserves particular attention.

Simply put, credit funds are a clear example of a much broader pattern, in which some of the most 'valuable' funds work (in more ways than one) sits at the intersection of disciplines.

The business case of such interconnected funds work is obvious. Partners and firms are able to bring in expertise from across practice lines, bringing in talent from across securitization, fund finance, funds tax, regulatory (etc) all bringing their own talents, insights (and billables). Likewise, if a firm is truly able to offer their clients a 'full-service' capability on these matters then their partners can go out to the market and sell on just that. We have seen time and time again clients' desire for everything to be done under one roof, providing clarity, speed and efficiency. If you ever wondered how mega-practices can be just so successful when their billing rates are going up and up every year, this is it. For a lot of GCs, speed and accuracy trumps the need for cost saving solutions. Lastly, it provides brilliant Business Development opportunities, in that firms are able to draw in clients and work from a myriad of different practices, taking advantage of the relationships and skills of a much broader range of Partners with a much wider range of services.

There are of course recent use cases in the market that demonstrate the benefits of such interconnected

practices perfectly. We've seen this with the emergence of BDCs in recent years, pioneered by Rajib Chanda at Simpson Thacher, pulling in clients from across their market leading private funds practice. We have also spoken before in this publication about the rise of secondaries as a practice area, giving firms the ability to provide their clients with liquidity options, reset disbursement timelines and roll over flagship assets. Every practice group leader and their dog has been looking for Secondaries support and, with the need far outstripping supply, Secondaries partners have found themselves in high demand.

"Who's the real owner of my client's business?"

However, herein lies the inevitable cautionary tale.

As we all saw all too recently, with great opportunity comes great risk. We have all watched in amazement as the events at Weil have unfolded, marking one of the most spectacular falls of a seemingly healthy 'Big Law' firm in a decade. Prior to the stunning departure of its most senior executives, Weil had already seen a number of PE and M/A attorneys begin departing the firm. Weil's PE co-head Christopher Machera (plus a small accompanying group) walked out the door in late August, and a number of private funds and secondaries practitioners weren't far behind.

Weil as a case study underscores the critical importance of understanding your practices as a web of interconnected talent within the broader platform. It's a sobering reminder for all Partners and Heads of Practice to reflect and consider; 'who's the real owner of my client's business'?

After all, a secondaries practitioner (for example) might reasonably surmise that if a firm is losing prominent funds talent and potentially some important clients, they might not be left with many primary funds to work on in the first place.

(There - that was my obligatory mention of the events at Weil, which deserve far more attention than I have time or space to give here. However, you will be hearing more on this from me very soon....).

As clients' needs become more and more diverse, so does every firm's need for practice diversification, practitioner specialization and inter-practice cooperation. What's also almost a certainty, is that the lawyers and firms that read that early, and build for it deliberately, will be the ones clients call when the next corner of the market catches fire. While the interconnectivity of funds practices with their surrounding complementary practices is certainly not a new trend, the recent popularity and growth of such practices stand as a reminder of the profits and growth of those that get on board sooner rather than later.

Regardless of whatever the pros and cons are, the growing trend of interconnectivity among funds related practices, is the way the river is flowing. And you know what they say: you can't stop progress.



1.2.3

As ever, in our 1.2.3. we close with our selection of some of the standout happenings from around the funds legal world. In this edition we'll take a look at this edition's 1 rising star attorney, 2 landmark fund raises, and 3 of funds law's most impactful talent moves.

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01

Rising Star



Sijia Cai · Davis Polk

Since making partner in 2023, just eighteen months after being promoted to counsel, Sijia Cai has been quickly becoming a central name in Davis Polk's investment management practice, building a reputation as a go-to advisor for fund formation matters. Cai specializes particularly in secondary funds where advises sponsors and investors on continuation vehicles, portfolio sales, tender offers, and structured and synthetic secondaries, and has become a familiar name on the sub-practice redefining how GPs manage liquidity. Some of the most prominent deals she has worked on include Antares Capital's second continuation vehicle, which closed above $1.7bn, and TruArc Partners' $1.2bn fundraise for TruArc Fund V.

Outside of secondaries her practice spans the full lifecycle of a fund, from organizing and marketing private equity, hedge, real estate, "hybrid" and debt vehicles to advising on the fund-related mechanics of M/A, including deal structuring and co-investment arrangements.

Her range and versatility across strategies and asset classes, covering everything from a primary close to complex GP-led restructuring, has made her a natural fit for sponsors whose needs increasingly span both worlds. Others in the funds space have also taken notice of Cai's marked rise. She was named a 2024 Law360 "Rising Star" in fund formation and, the same year, made Secondaries Investor's list of "Next Gen Leaders of Secondaries." She has also become a regular on industry panels, discussing the private credit secondaries boom at the Debtwire Private Credit Forum New York and appearing at SuperReturn North America. As her profile continues to rise Cai is poised to be a prominent name in one of the highest growth sub-practices in all of funds law for years to come.

2023
Made partner

2024
Law360 Rising Star, fund formation

$1.7bn+
Antares Capital continuation vehicle

02

Fund Closures

ASSET-BASED FINANCE

$8.5bn



Ares Pathfinder Fund III · Kirkland & Ellis

Reaching back to the summer, Ares Management closed Ares Pathfinder Fund III in June, with Kirkland & Ellis advising on the formation of what is now the largest global asset-based finance fund in the market. The vehicle closed at $8.5 billion in LP commitments, well above its $6.5 billion target and its $6.6 billion 2023-vintage predecessor, having gone from launch to hard cap in under six months. Including roughly $4 billion of Pathfinder II commitments extended through a longer reinvestment period, Ares' Alternative Credit platform raised approximately $12.7 billion for the ABF strategy in the nine months to June alone. For Kirkland, the mandate extends an already dominant position in credit fund formation into the ABF subsector specifically, at a moment when that subsector is drawing the kind of scale and repeat-vintage velocity historically reserved for flagship buyout funds. The fund formation team was led by partners Stephanie Berdik, Shreyas Jhaveri, and Camille Mott, with funds regulatory partner Melissa Gainor also staffed on the matter. As ABF continues its transition from a niche credit strategy into a core allocation for institutional LPs, the firms that can service that scale and velocity across successive vintages stand to consolidate an outsized share of a segment that, as discussed in this newsletter, is becoming one of the most active strategies in the fund formation market.

STRUCTURED CAPITAL

€12bn



ICG Europe Fund IX · Debevoise & Plimpton

ICG closed ICG Europe Fund IX in September at €12 billion, with Debevoise & Plimpton advising on the formation of what is now the largest dedicated structured capital fund raised globally. The ninth vintage of ICG's flagship European Corporate strategy came in 50% larger than its predecessor and well above its €10 billion target. The strategy provides flexible, directly originated capital to European corporates, backing family owners, founders and management teams through shareholder realignments and long-term growth, with downside protection built into the structures. That positioning has drawn capital as owners increasingly look for solutions that sit between a refinancing and an outright sale, and as LPs concentrate allocations among fewer, proven managers. Existing investors re-upped at a 77% rate by commitment, around 90 new LPs joined, and the fund was already 22% deployed across six investments at final close.

For Debevoise, the mandate came five weeks after it advised KKR as primary fund counsel on the $19.2 billion close of KKR Global Infrastructure Investors V, the largest infrastructure fund KKR has raised. Acting on two of the year's largest closes, each a record for its sponsor's strategy, for different sponsors on either side of the Atlantic, reinforces Debevoise's standing as one of the few firms with the bench depth to serve as primary counsel on flagship vehicles at this scale across asset classes. The ICG team was led by partner Shawn

D'Aguiar, with partners Tom Berry and John Rife. Christopher Dortschy advised on Luxembourg law, Matthew Saronson and Jennifer Wheater on tax, and Jin-Hyuk Jang, Sheena Paul and Patricia Volhard on regulatory matters, with all three having also worked on the KKR fund earlier in the year.

03

Talent Moves



From **EY**
To **DLA Piper**
April

David Lasker

David Lasker joined DLA Piper from EY in April, as a Partner in their Investment Funds team. Lasker specializes in funds tax with an emphasis on complex domestic, international, and cross-border multijurisdictional tax issues. He brings extensive experience advising on tax considerations for funds through the full lifecycle as well as experience on transactional tax support and tax dispute resolution matters. Lasker's standing as an industry leader in developing tax-efficient strategies for private equity, private credit, and hedge funds significantly bolsters DLA's capacity to meet sponsor-side client needs.

As funds continue to raise capital from an increasingly diverse array of LPs and seek greater versatility in capital deployment strategies, the growing multijurisdictional nature of fund structures places a premium on practitioners capable of delivering integrated fund and transactional tax advice that maintains compliance while maximizing after-tax returns. Against this backdrop, DLA's decision to recruit a senior funds tax partner from EY reflects a strategic recognition that some of the market's deepest expertise resides within the Big Four. While senior lateral hires from accounting firms remain less common than law firm-to-law firm moves, increasing demand for highly specialized cross-border tax expertise may encourage more firms to view the Big Four as a valuable source of partner-level talent.



From **Kirkland & Ellis**
To **Sidley Austin**
Los Angeles
October

Justin Solomon

Justin Solomon joined Sidley Austin from Kirkland in mid-October as a partner in its Los Angeles office. Solomon joins to co-lead the firm's Private Equity Funds group alongside John Muno who also joined from Kirkland back in 2025. Solomon's practice covers funds ranging from under $100 million to more than $20 billion. Most recently, he advised Francisco Partners on its $21 billion close across its flagship and Agility funds, announced in July. A large share of his work also sits at the management company level. He advises teams spinning out of existing platforms to launch their own firms and raise first-time funds. For established sponsors, he counsels on succession planning and long-term strategy, as well as on transactions in the GP it-

self, such as seed investments and minority stake sales.

As capital concentrates toward a smaller number of large managers, and those managers correspondingly concentrate the legal work toward a smaller number of law firms, hiring people who led formation work at one of the market's largest funds practices and built relationships with some of its biggest clients gives Sidley a greater vantage point from which to capture market share in the funds space. Echoing this value, Sidley M&A global co-leader Mehdi Khodad praised Solomon's "significant practice and longstanding relationships with private equity sponsors throughout the West Coast".

Sidley Executive Committee chair Brian Fahrney has called expanding the firm's private equity fund formation capabilities "a key strategic priority" and Solomon is one of three Kirkland private equity funds partners to join Muno at Sidley in just a five-week period. Ryan McNish arrived in Chicago a week before Solomon, and Arman Zadeh followed in Los Angeles in November.



To **Paul Hastings**
Boston
July

Chidi Oteh

In July, Paul Hastings added Chidi Oteh as a partner in the firm's Boston office, strengthening its Investment Funds & Private Capital platform. He regularly advises sponsors of private equity and hedge funds as well as institutional investors on fund formation, governance, and transactional matters. Oteh is particularly adept at advising managers on fund activities related to sports assets and the sports sector more broadly.

For private capital managers, investment in sports assets is increasingly being seen as a way of achieving greater portfolio diversity and stability, with returns that are often highly predictable due to long-term fixed revenue sources. As capital allocation in this sector increases, the arrival of premier practitioners like Oteh helps position Paul Hastings as a leading advisor in the space and complements its recently launched global Sports practice.

The hire also continues Paul Hastings' aggressive expansion and diversification of their Investment Funds & Private Capital platform. The firm notes Oteh is the seventh partner addition to its global funds team this year and that their platform as a whole has recorded 70% revenue growth since the start of 2023.



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WEIL SPECIAL EDITION

A special edition on Weil follows mid-month.

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