PRIVATE CREDIT CONNECTIONS

From The Insider's View

Curtis Hartman of Genesis Park shares his thoughts on how the private credit markets are poised for further growth in 2025, given some of the macroeconomic and geopolitical events that have occurred over the past few months.


Curtis Hartman

Company & Title: *Managing Partner at Genesis Park*
Education: *BBA in Accounting from the University of Texas at Austin*
Current City: *Houston, TX*
Fun Fact: *I'm a fifth-generation Texan and grew up on a cattle ranch that's been in our family for almost 140 years.*

The past year has been filled with a number of macroeconomic and geopolitical events that have impacted the economy and deal flow. In hindsight, which do you think had the biggest impact on the private credit market and which will have the longest lasting implications?

The election uncertainty and eventual results were, in my view, the most significant events impacting 2024. The Republicans "sweep" of the presidency, House and Senate will likely have lasting impacts on regulation, taxes, interest rates, and antitrust oversight. I expect that this will all combine to produce a pro-business political environment and promote capital formation and M&A activity in the coming years. The private credit markets will play an increasingly important role in this economy and are poised to benefit from increased activity and investment opportunities.

How will the recent and further anticipated interest rate cuts affect the private credit space?

Recent and further anticipated rate cuts could have a mixed impact on private credit. While cuts will reduce risk-free and base rates potentially driving down returns, it should spur economic activity, M&A, refinancings, and overall deal flow for private lenders. This is more pronounced in the middle-market where floating rate structures are prevalent, while returns in the lower middle-market tend to be more stable and less correlated to prevailing interest rates. Further, most of the lower middle-market companies we work with are seeking a holistic solution that balances not only cost of capital, but also structure, flexibility, and the desire for a strategic partner.

As we kick off 2025, how do you view the outlook for private credit compared to other asset classes?

I believe the outlook for private credit continues to be very strong. With equity markets near all-time-high valuation metrics, capital continues to pour into private credit markets as institutional investors seek stable and attractive risk-adjusted returns. While public and private equity strategies can generate higher returns, they also come with greater volatility and risk. Private credit, on the other hand, benefits from seniority in the capital stack and more stable, contractual returns. Top-performing private credit managers have generated equity-like returns with far less risk and volatility. These factors, combined with strong expected deal flow, bode well for private credit in 2025.

What are the key considerations or terms that you will be looking for in private credit deals as we move into 2025?

We deploy a consistent underwriting strategy focused on management, industry fundamentals, stability, growth, profitability, diversification,

and liquidity. At Genesis Park, we have an intense focus on people, relationships, partnership dynamics, and alignment of interests. While we seek to invest in good businesses with strong industry fundamentals, people come first. There is an adage that great management teams can be successful in a mediocre business while poor management teams can screw up even a great business. This is particularly true in the lower middle-market where you tend to see less management depth than larger businesses. With respect to 2025 and beyond, given the Trump Administration's "America First" and technology priorities, we will be focused on international trade exposure, including both exports and potential supply chain disruption, and the impact of AI on certain industries.

Are you expecting private credit firms to focus more on new deal origination or portfolio maintenance in 2025? How do you think firms can best manage the sometimes competing interests of having to deploy committed capital versus managing existing portfolios?

After a year where we saw a tepid LBO market and an increased focus on portfolio management and add-on acquisition activity, I expect there to be a greater emphasis on new originations in 2025 in connection with strong economic fundamentals and a post-election pro-business political environment. With limited human resources, there is often a competing interest between deploying capital and portfolio management. At Genesis Park, we seek to mitigate this by adhering to strict underwriting standards and avoiding turnaround situations, seeking strong management teams and investment partners, and right-sizing the team and adding additional resources as we grow. Further, we often partner with other smart, value-added investors to help spread portfolio management responsibility and scale the platform.

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> *– Curtis Hartman*

There have been a lot of new entrants into the private credit market in recent years. Do you see that trend continuing, and what can firms do to differentiate themselves?

I expect the private credit market to continue to expand, albeit possibly at a slower rate following the explosion we've seen over the last 10-20 years. While it is difficult to differentiate in the broader private credit market, we see opportunities to do so in the lower middle-market and with our hybrid debt and equity strategy. At Genesis Park, we seek to be a valued-added partner beyond just providing capital. Our deals have a high level of managing partner focus throughout the life cycle of the investment, and we strive to be highly accessible and responsive. We take a partner-first approach to everything we do. Sometimes that means rolling up our sleeves and working alongside management teams, providing our experience, network, and guidance to help them achieve or exceed their goals. Other times, we may serve as a sounding board for management teams, refer commercial relationships and human talent, or share best practices and insights developed over 25-plus years of investing in and operating private companies. Our managing partners have sat in the CEO/chairman seat, worked in portfolio company operating roles, and served on numerous public and private boards. We strive to engage at the right time and at the right level in ways that build trust and credibility with our portfolio companies and investment partners.

What do you see as the most promising opportunities for growth for private credit in 2025?

I think 2025 activity will be driven by the probability of further rate cuts, an increase in private equity LBO and M&A activity, and corporate strategic initiatives. The increase in private equity activity is partially due to investor demand to return capital after a sluggish exit market the last couple of years. Further, private credit continues to target and gain market share from the lower end of the broadly syndicated loan market, and upcoming maturities will provide deal flow.

One of the key drivers of the demand for private credit over the last few years has been private equity sponsors. Do you expect that those firms' demand for private credit solutions will change significantly in 2025?

I expect private equity activity will be up in 2025 due to a combination of significant dry powder from newer

vintage funds and investor pressure to return capital from older vintage funds after a sluggish exit market the last couple of years. Additionally, there should be some pent-up demand, as many deals were put on hold given market instability, geopolitical unrest, and election uncertainty in 2024. The prospect of further interest rate cuts should drive valuations and greater debt capitalization. Overall, I expect increased market confidence that will drive private equity activity and opportunities for private credit.

Genesis Park
Genesis Park is a Texas-based private investment firm targeting privately held companies in the lower middle-market. Our hybrid debt and equity strategy allows us to invest across the capital structure and provide flexible capital solutions to our partners. We support emerging teams, established enterprises, family/founder-owned businesses, and sponsor-backed companies across diversified industries. We invest directly in self-originated opportunities with privately owned companies as well as alongside other equity sponsors, both funded and independent. While our current SBIC funds are credit-centric, we have meaningful minority equity exposure in most of our companies and seek to provide strategic guidance, make commercial introductions, and refer human talent. Our partners have decades of experience as investors, lenders, operators, advisors, and community leaders. The leadership team is uniquely positioned to provide value to our partners beyond capital alone.

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Our team is comprised of lawyers based in key financial centers throughout the U.S. and abroad, including Charlotte, Dallas, Houston, London and New York.

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