



OWNERSHIP Capital Lab

Inside a conversation with institutional investors on employee ownership and private credit

Key takeaways from the March 17, 2026 Roundtable: Deep dive into private credit opportunities in employee ownership

The [Employee Ownership \(EO\) Capital Roadmap Roadshow](#) is a 2026 initiative of [Ownership Capital Lab](#) to bring the Employee Ownership Capital Roadmap into direct conversation with investors, fund managers and ecosystem partners. The [Predistribution Initiative \(PDI\)](#) supports institutional investors and their stakeholders in identifying investment structures and practices that build broad-based prosperity and reduce economic inequality. In March 2026, the two organizations co-hosted a roundtable for institutional investors targeting risk-adjusted rates of return to discuss private credit structures used to finance EO transitions, particularly in lower-middle-market companies.

The meeting was timed to coincide with [PEI's Responsible Investment Forum](#) taking place the following day (where we also spoke to investors about EO on a panel that included [Apis & Heritage](#) and [Capricorn](#)). Participants included public pension and insurance funds, family offices, wealth managers, and advisors and consultants. Key takeaways from the roundtable are below.

Why institutional investors are paying attention

Institutional investors are increasingly engaging with EO in the context of several converging dynamics: the Great Ownership Transfer (see below for further context), the rapid growth of private markets, increased awareness about the opportunity to align workforce incentives with those of investors, and rising attention to the systemic risks of inequality to portfolio financial performance.

While EO in private equity structures is more familiar to institutional investors, the tone of the discussion regarding private credit was exploratory. Most investors in the room were not there because they had already allocated capital to the strategy (though some were). They were there because they wanted to better understand it.

As context, millions of small and mid-sized businesses will transition ownership in the coming decade, yet only a small fraction currently convert to EO. At the same

time, private credit has expanded significantly, reflecting demand for differentiated strategies tied to stable, cash-flowing businesses.

Recent research from the McKinsey Institute for Economic Mobility estimates that roughly six million U.S. small businesses representing about \$5 trillion in enterprise value will need to transition ownership by 2035 due to the retirement of founding owners, a level of private business succession that the firm describes as the “[Great Ownership Transfer](#).” This demographic transition raises significant questions about ownership continuity, workforce stability and financing pathways for the next generation of business stewardship. There are significant opportunities for retiring owners to transition ownership of their businesses to their employees, thereby rewarding workers for the value they create and risk that they take with equity ownership. This is notable since returns to capital have been significantly higher than returns to labor over recent decades. Transform Finance has [sized the overall EO opportunity at \\$1 trillion](#).

Today, approximately 7,000 to 10,000 M&A transactions occur annually, yet only roughly 250 of these are EO transactions. A number of factors contribute to this outcome, including lack of awareness about these opportunities by selling owners and their advisors. Equally as important, this gap highlights a structurally undercapitalized market that remains heavily reliant on seller financing from mission-aligned owners paired with minority bank financing rather than institutional capital.

At the same time, a growing number of institutional investors are examining: 1) how to better value, account for, and incentivize human capital and 2) how rising economic inequality may present long-term portfolio risks. These risks can manifest at a macro-economic and market-level through weakened aggregate demand, consumption financed through debt, workforce instability, political and regulatory volatility, and asset bubbles and credit crises. Ownership structures that concentrate returns across a few executives and investors amplify these dynamics. Notably, approximately [90% of stock market wealth in the US is owned by the top 10% of households](#), and the bottom 50% of households hold a mere 1% of stocks and mutual funds. More distributed equity ownership models—even in the lower middle market—have the potential to support more stable economic participation over time.

Taken together, these dynamics are prompting investors to explore whether EO may offer not only access to a large and undercapitalized segment of the market, but also exposure to businesses whose ownership structures may contribute to more durable operating performance and long-term economic stability.

How these transactions are structured

EO transactions are typically financed through structured credit and mezzanine capital supporting profitable, mature companies. Increasingly, private credit funds are replacing traditional seller notes with institutional capital, introducing disciplined underwriting, covenant structures and defined exit pathways through debt repayment and refinancing.

These strategies often focus on businesses with stable revenues, predictable cash flows and long operating histories. The existence of ESOP-related tax advantages in US tax code can materially strengthen free cash flow, and some structures include warrants that provide additional upside participation.

Managers active in the space—representatives from [Apis & Heritage](#), [Monarch Investment Partners](#) and [Nine Dean](#) (a holding company structure)—shared perspectives on how these transactions are structured and how they compare to traditional direct lending opportunities.

Underwriting and risk management

A central focus of the discussion was how managers approach underwriting and risk. Across strategies, a consistent theme was the application of traditional private credit discipline combined with active ownership practices.

Transactions are underwritten as cash flow loans, with emphasis on free cash flow generation, coverage ratios and covenant protections such as fixed charge coverage. Refinancing is typically the primary exit, with underwriting assumptions built around the ability to transition to senior bank financing (or for the holding company model, could also include recapitalization).

Managers also emphasized active portfolio management—this is where EO funds take on aspects of a sponsor role in the private credit market. Many take multiple board seats, participate in governance and plan for leadership transitions, including structured CEO succession. Relationships with senior lenders are often established during underwriting to support future refinancing.

Importantly, underwriting is approached with a downside orientation. Managers assess how businesses perform under stress scenarios and prioritize capital structures that can withstand volatility without relying on aggressive growth assumptions.

Distinctiveness within private credit

From an allocator perspective, EO credit strategies are being evaluated within existing private credit frameworks. Some investors view these strategies as complementary to portfolios that are heavily weighted toward technology or growth-oriented investments, offering exposure to more stable, cash-flowing businesses, and at the lower-to-middle end of the market. It was observed that such distinctions may support the resilience of EO strategies when it comes to overall challenges currently facing the private credit asset class.

Participants noted that employee-owned companies often demonstrate strong retention and workforce stability, which can contribute to more consistent operating performance. For investors, this can translate into differentiated risk characteristics relative to highly leveraged or growth-dependent transactions.

While EO credit strategies share similarities with traditional direct lending, several additional distinguishing features emerged. These include the replacement of seller financing with institutional capital, the impact of ESOP (Employee Stock Ownership Plan) tax structures on cash flow and the integration of ownership culture as a driver of performance.

Participants also noted increasing discomfort with certain segments of sponsored lending and auction-driven transactions, creating interest in opportunities that offer downside protection and differentiated sourcing.

Policy as market infrastructure

Policy was discussed as a critical lever for scaling the market. The proposed [American Ownership and Resilience Act \(AORA\)](#) aims to replicate elements of the SBIC program by providing matched federal capital to investment vehicles focused on employee ownership. Such mechanisms could help scale EO in private credit by reducing the cost of capital and increasing deployment capacity.

State-level initiatives are also emerging, including efforts to allocate dedicated [treasury capital](#) to employee ownership strategies as a way to signal demand and accelerate market development.

How does AI affect these strategies?

Investors asked whether AI changes the long-term outlook for EO investing—specifically, whether widespread job displacement or industry declines (i.e., as per

current concerns about the software industry) could undermine the relevance of the model. Participants discussed how, in the context of AI, EO helps support workers in capturing the value of technological advancements in productivity. Regarding industry declines, participants also noted the exposure of the presenting managers to industries that are anticipated to be more resilient to AI and automation (often called “essential businesses”).

At the same time, the ownership transfer wave is also a technology adoption moment. Transitions create a natural opportunity to update how businesses operate. Without alternatives, many of these companies risk being consolidated into models that adopt new technologies while concentrating the gains. EO offers a path that allows businesses to evolve while maintaining broad-based participation in the value created. This underscores the importance of the “sponsor-like” roles that EO funds take, and their ability to influence the operational decisions and investments these companies make after their ownership transition through strong stewardship.

What EO ultimately changes is the distribution of gains. In conventional ownership models, productivity gains tend to concentrate with capital. In employee-owned firms, they are shared more broadly with workers, creating stronger alignment and potentially more resilient businesses, economies and markets over time.

For investors, this positions EO not as a bet against technological change, but as a way to invest in durable sectors while shaping how the benefits of that change are distributed.

Outstanding diligence questions

Institutional investors identified several areas for diligence. These include how EO structures are treated in default scenarios, how refinancing risk is managed in tighter credit environments, understanding the empirical evidence that exists regarding job retention and operating resilience, and ensuring strong protections for workers across models.

Additional questions focused on measurement, including whether workforce outcomes and diversity can be systematically captured at the portfolio level and incorporated into investment frameworks.

What this means for the field

A key takeaway from the discussion was the pragmatic lens through which institutional investors are approaching EO. Rather than focusing on philosophical arguments, investors are evaluating the strategy through

familiar frameworks such as underwriting discipline, risk-adjusted returns and portfolio construction.

For the EO field, this underscores the importance of translating the value proposition into the language of capital markets. Clear articulation of credit structures, performance data and downside scenarios will be essential to attracting institutional capital.

A conversation just beginning

The roundtable reflected an early but meaningful step. Institutional investors are beginning to explore EO not as a niche or thematic strategy, but as a potential component of private credit portfolios. Continued engagement between investors and practitioners will be critical to building the infrastructure, data and track record required to scale the market.