



**THE LOCKE
GROUP**

Capital Solutions Market Intelligence 2026

RETAINED SEARCH

ALTERNATIVE INVESTMENTS

PRIVATE CREDIT

COMPENSATION

TALENT STRATEGY

A Letter From the Founder

Capital solutions is one of the most important growth verticals in private credit and the broader investment industry. As an executive search firm, we keep hearing the same questions:

What is a capital solutions strategy? Where does the best talent come from? How should we compensate and retain these professionals? What motivates them?

We conducted this study to bring greater clarity to those questions. Through interviews with more than 30 senior capital solutions investors — spanning leading boutiques to some of the largest alternative investment platforms — we gathered firsthand perspectives on how firms define their strategies to LPs, approach talent and retention, identify areas of opportunity, and view the forces shaping the market in the years ahead.

We wanted to produce more than a compensation survey. We wanted to create a practical resource that leaders could use to evaluate their own strategies, talent needs, and opportunities within capital solutions.

This study reflects the experience and candor of the leaders who participated. I am grateful for the time they gave us and for their willingness to share their perspectives.

I also want to thank Cristina Figler and Mica Chenault of The Locke Group, without whom this report would not have been possible.

My hope is that these findings provide useful benchmarks and a starting point for further discussion. If something in these pages sparks a thought or raises a question, I'd genuinely welcome a conversation with you.

Sean Locke

Founder & Managing Partner

The Locke Group

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How to Read This Report

This report combines quantitative findings like compensation averages with qualitative findings from open-ended questions. Sample sizes are noted on each table or chart. Where participants could select more than one answer, response totals may exceed the number of participants. Percentages are rounded to the nearest whole number.

HEADLINE FINDINGS

Headline Findings

32

Investors Surveyed

H1 2026

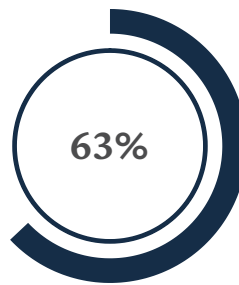
Survey Period

24

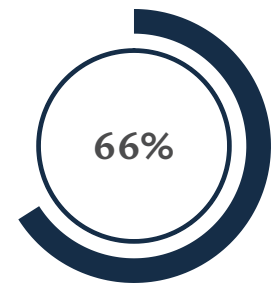
Unique Companies



Think replacing a senior investor is difficult



Report no clear internal successor



Rank originations as a primary driver of premium compensation

We conducted 32 primary interviews with senior capital solutions investors in the first half of 2026, including Partners, Managing Directors, and Principals. Their employers are a diverse set of investment companies and their strategies range in maturity. Companies represented include a sub-\$1B emerging private credit manager, an alternative investment platform with greater than \$100B AUM, and 22 other firms in between. Strategies represented include one in its incubation period and more than 10 on their fourth fund or later.

Many participants were eager to talk about market dynamics, talent, and compensation. It's clear that recruiting a qualified capital solutions investor is hard - whether they are an experienced investor or a junior underwriter - but it's also clear the industry is poised to grow.

Headline Findings — Talent & Compensation

"You kind of need to know both the equity and debt side. You need to take a view on valuation and have a private equity mindset. It's very difficult to find the right person."

— *Managing Director, ~\$5B strategy*

1. Senior investors are hard to replace, and most teams have no clear successor.

70% of participants rate replacing a senior capital solutions investor as extremely or moderately difficult. Only 27% (8 of 30) have a clear internal successor, and 63% report none or an unclear one. Key-person risk is highest at smaller, founder-led platforms.

2. Almost everyone is hiring, especially junior investment staff.

91% of participants plan to hire in the next 12 months. Associate-level underwriting is the top need (14 of 32, or 44%), followed by VP-level execution (6). Participants felt good about the origination environment and cited the need for more support in executing deals.

3. The strongest performers have experience on both sides of the capital structure.

Participants most often linked strong performance to cross-capital structure investing (12 mentions) and restructuring/distressed backgrounds (8). Direct lending (5) and sponsor finance (2) trailed. The ideal profile is a skeptical credit investor who can handle complexity and also underwrite equity.

4. Origination drives premium pay.

Nearly 2/3 of participants ranked origination and sponsor relationships as a top-2 reason for premium pay, ahead of track record (50%). Management and team leadership ranked last (16%).

5. Cash leads, but pay alone doesn't keep top performers.

Managing Directors average \$1.15M in total cash compensation and Principals/Directors average \$749K. 81% receive carry, yet participants favor cash because credit carry is long-dated, uncertain and taxed as ordinary income. Still, only 31% named high cash as the single most important factor in hiring, and just 17% call compensation very effective for retention. A good culture and a balanced mix of cash and carry is the right recipe.

HEADLINE FINDINGS

Headline Findings — The Market

"There's going to be a fair amount of defaults and pain from AI disruption. It won't initially be felt because this industry is inherently opaque and the marks are kind of just made up."

— *Managing Director, ~\$10B strategy*

1. Stress and stalled exits are driving an active deal market.

Participants described a busy, target-rich environment. Sponsors need balance sheets repaired without new equity, stalled sales need exit bridges, and struggling borrowers need rescue payment-in-kind (PIK) financing. AI disruption of software companies will start to present opportunities as recent vintages reach maturity. In all, several called 2026 the most active origination environment of their careers.

2. There is no common name for the strategy.

Only 13 of 32 participants (41%) call their strategy "capital solutions," and the rest used 6 other labels. That makes it harder for firms to explain themselves to LPs, and harder for candidates and hiring teams to find each other.

3. Fundraising is the binding constraint for smaller funds.

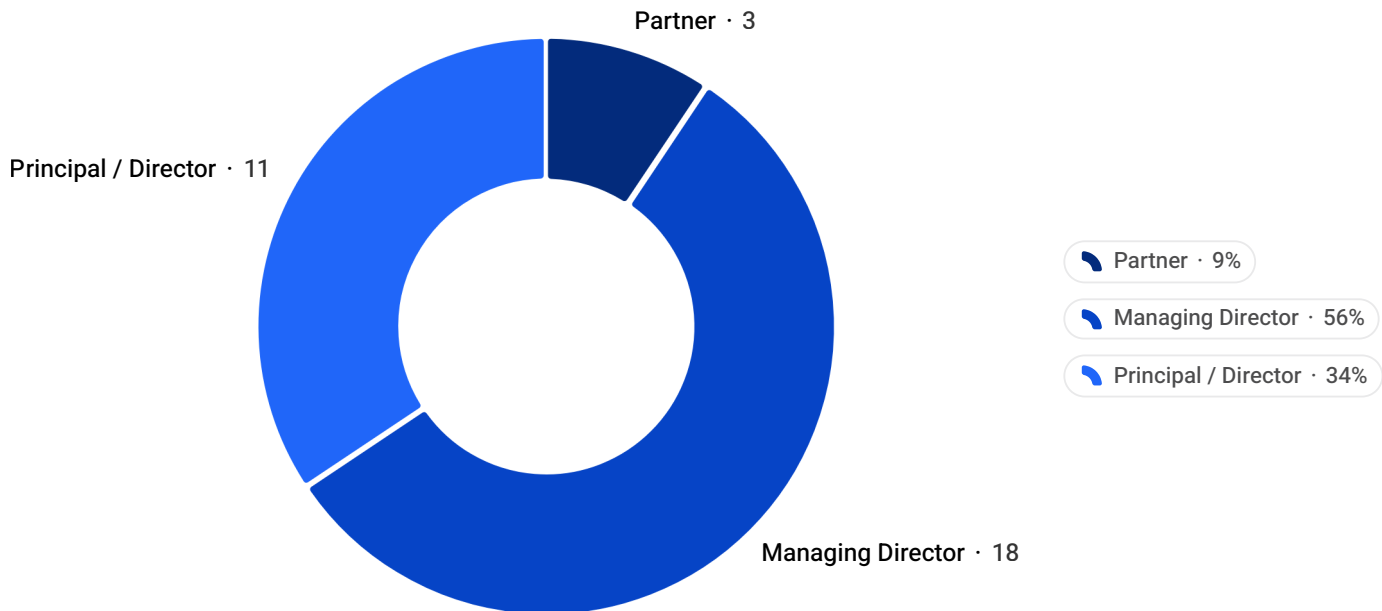
Larger platforms are optimistic about fundraising. Smaller funds are more cautious, and participants cited timelines stretching to 18–24 months. Several expect recent entrants, especially direct lenders, to pull back.

SECTION I

About Our Participants

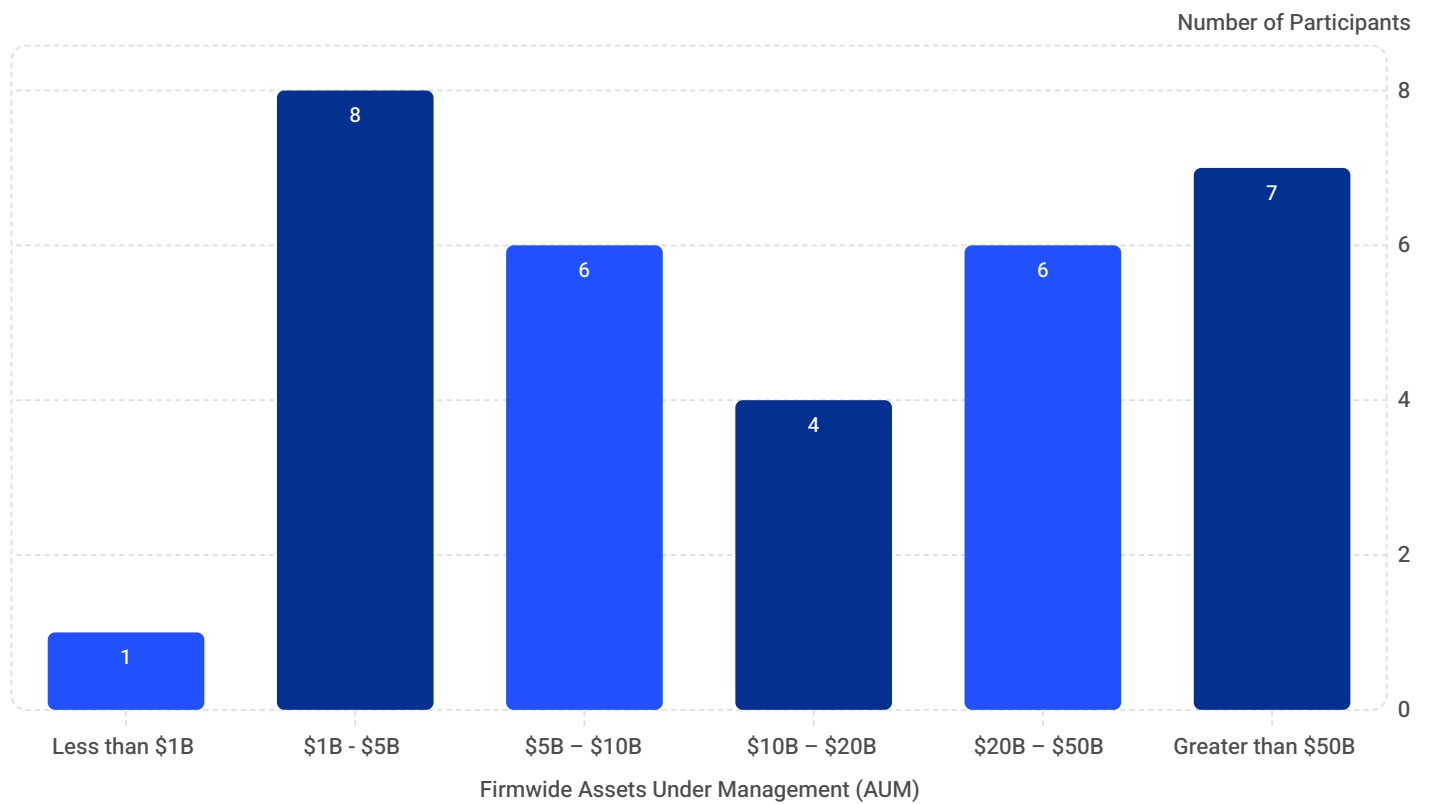
Participants are senior capital solutions investors. Their employers are investment companies and their investment strategies vary in scale and maturity. The graphics below detail their distribution.

Seniority Distribution (n = 32)

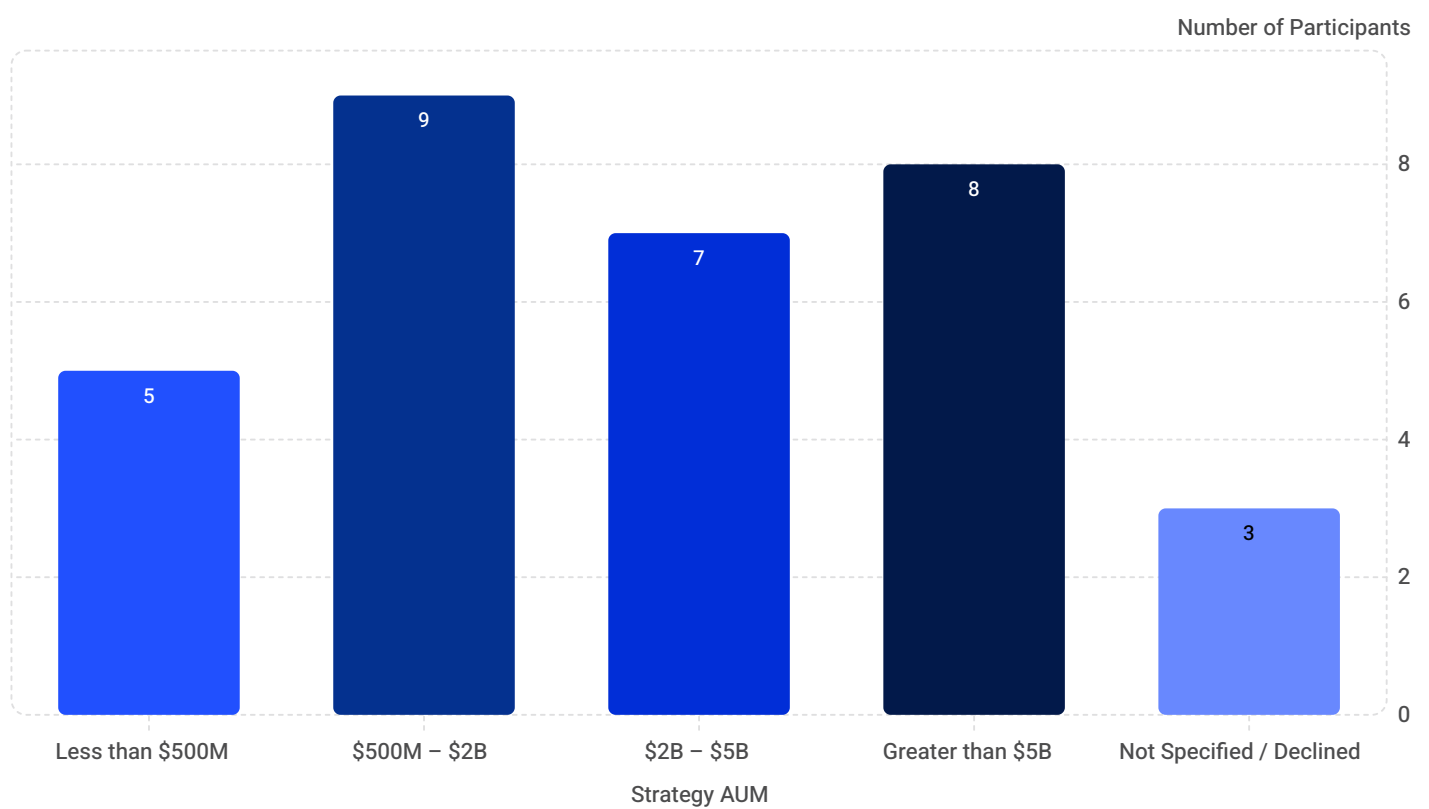


SECTION I - ABOUT OUR PARTICIPANTS

Firmwide AUM (n = 32)



Capital Solutions Strategy AUM (n = 32)

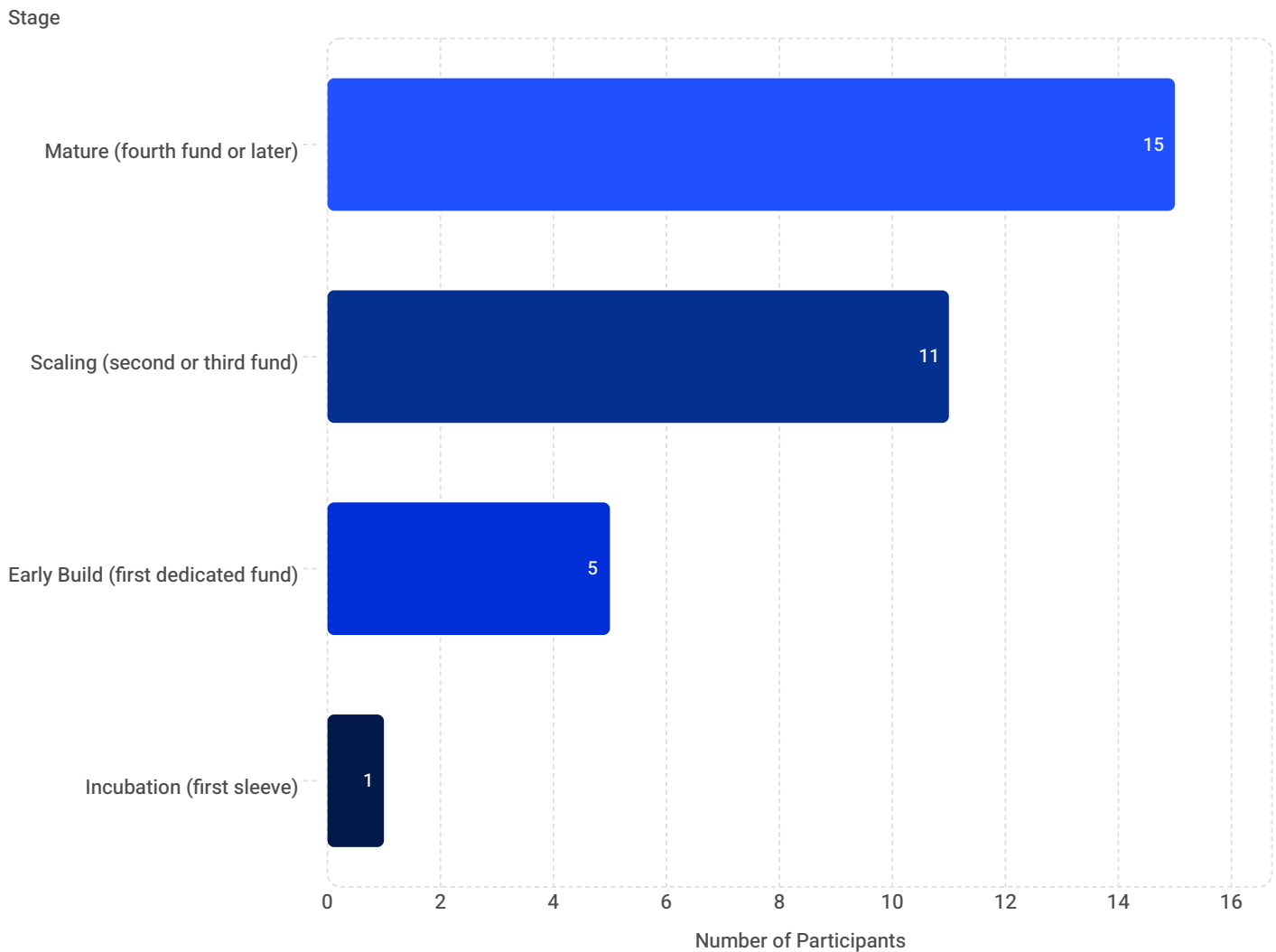


SECTION I - ABOUT OUR PARTICIPANTS

"There's really only 4 or 5 players that have done capital solutions consistently for a long time. PE funds pop in every now and then and go back to doing control stuff. Direct lenders dabble and get burned."

— *Senior Managing Director, ~\$4B strategy*

Strategy Maturity (n = 32)



Capital Solutions in 2026

"Capital solutions is everything now. Pre-2025 it was hybrid capital. Now people use it to mean any junior capital that isn't common equity."

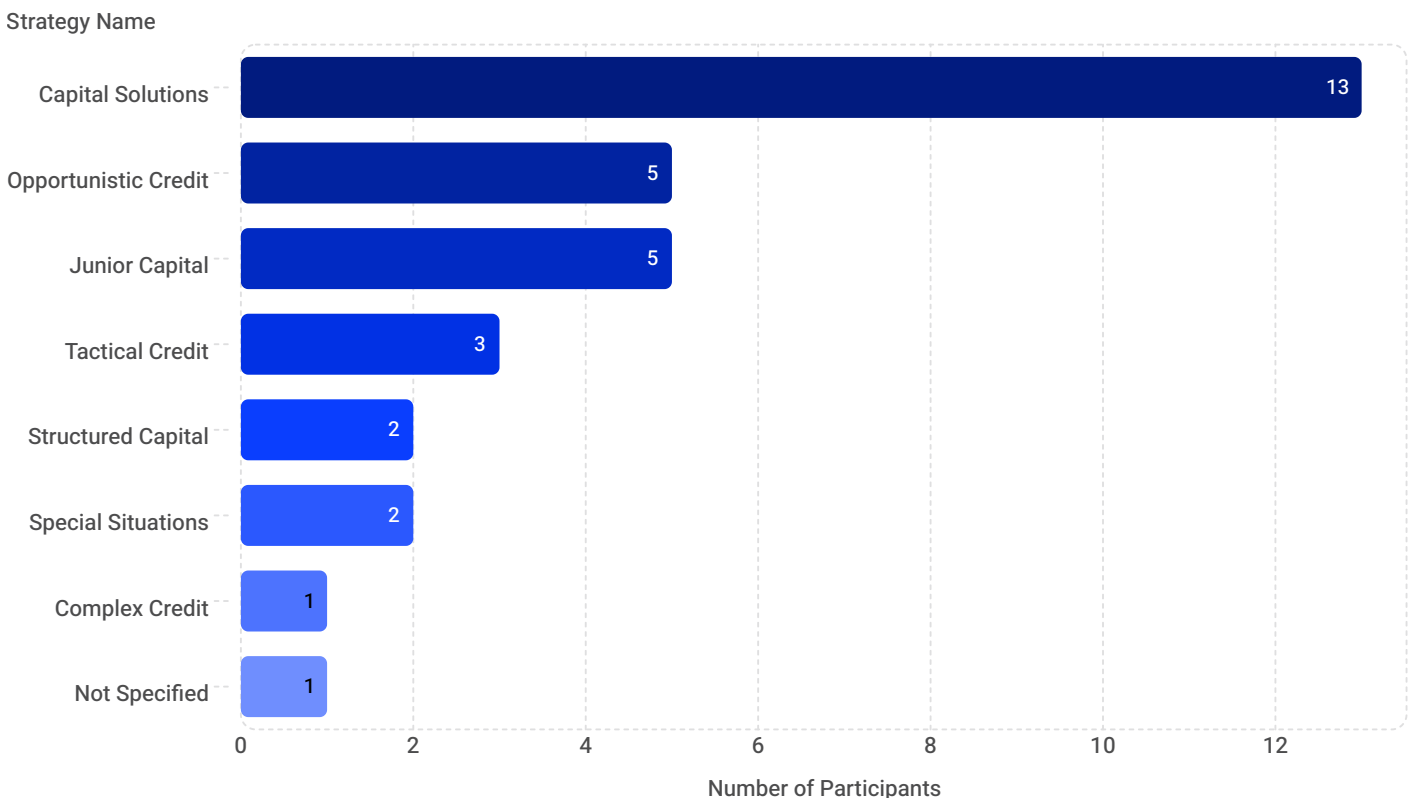
— **Managing Director, ~\$10B strategy**

Strategy Names: The Fragmentation Problem

Capital solutions lives between senior lending and common equity. Investors provide solution-driven financing for companies and sponsors with complex needs.

Participants used 7 distinct strategy names for overlapping mandates. For hiring, that creates a 2-sided challenge: firms may struggle to identify the right talent when similar experience sits under different labels, while candidates may overlook relevant opportunities when a firm's strategy is not clearly defined or easily recognizable.

Strategy Labels Used (n = 32)



How Participants Describe Their Strategy to LPs

We specifically asked each participant how they describe their strategy to LPs. While strategy names vary, participants often pointed to complexity, flexible solutions, and their approach across the capital structure when describing their strategy. They highlighted how they operate down in the capital structure and use PIK and structured equity solutions to achieve higher rates of return.

Director, ~\$1B strategy

"Capital solutions with a highly flexible mandate — we can go up and down the capital structure. We're looking for a clear reason why a bank or BDC could not do the opportunity."

Managing Director, ~\$3B strategy

"We play at the intersection of debt and equity — expensive debt or cheap equity, depending on your view. Our last dollar typically tops out around 70% to value."

Senior Managing Director, ~\$4B strategy

"Junior capital with a private equity flair — warrants, equity co-investments, flexible structure. High-octane mezz."

Managing Director, ~\$10B strategy

"First lien to companies that have some element of complexity to them — distressed situations, carve-outs, legal overhangs, anything that's not just up and to the right."

Managing Director, ~\$2B strategy

"Any kind of junior security in control LBO situations — PIK, HoldCo PIK, some preferred — adjacent to but not our go-to for pref equity."

Counter to the narrative on flexibility, one participant thought specialism was the key to fundraising - many firms pitch flexibility, but LPs reward focus.

12-Month Outlook

Participants were asked what trends they believe will define capital solutions over the next 12 months. Their open-ended responses were grouped into five themes. Participants described a market with strong demand for capital solutions, but also meaningful constraints to fundraising and growth.

Active Origination Environment

Participants universally described an active, target-rich investment environment driven primarily by demand from capital-constrained sponsors and levered borrowers.

Fundraising Optimism, but Longer Timelines

There was broad optimism about fundraising, especially for the largest funds in the market. Professionals from smaller funds were more cautious, and all cited longer fundraising timelines (18–24 months).

Macro and Geopolitical Volatility

Interest rates, inflation, energy-market volatility, geopolitical conflict, and even AI regulation were each cited as potential headwinds or tailwinds, depending on upcoming real-world events.

Some Funds Backing Out?

At the company level, several participants predicted that many new entrants to the space - especially direct lenders - will withdraw over the next few years as they fail to raise capital or tolerate risk.

Competition with Credit Secondaries

Growing demand for portfolio liquidity is creating more overlap between credit secondaries and capital solutions strategies. Liquidity products are both a complement and a competitor.

Where Participants See Investment Opportunity

"Capital solutions funds are going to be a lot busier this year. There's going to be a lot of borrowers that just aren't going to fit into that neat, low-leverage, low-risk BDC bucket anymore."

— *Director, ~\$1B strategy*

Deleveraging

Over-levered 2020–2022 vintages have become costly with higher rates. Sponsors need balance sheet repair without common equity dilution. Preferred equity finances a paydown without raising new equity.

Exit Bridges

Sales processes have stalled as sponsors and buyers disagree on valuation. Together with continuation vehicles and net asset value (NAV) loans, structured equity finances longer holds.

Rescue PIK Financing

New loans to businesses with operational challenges that cannot service full current interest.

Software & Technology Stress

Select opportunities in struggling software companies owned by private equity sponsors, including 2020–2022 vintages. This opportunity set may be on the horizon given maturity dates.

Power & Data Centers

Select development capital opportunities as well as rescue financing opportunities. Developers facing cost overruns, delays, or political hurdles will need rescue capital.

Asset-Based Finance

Insurance capital's demand for senior, asset-based debt is creating room for lenders who operate down in the capital structure. Capital solutions providers can take the mezzanine piece or structure hybrid solutions for earlier-stage asset originators.

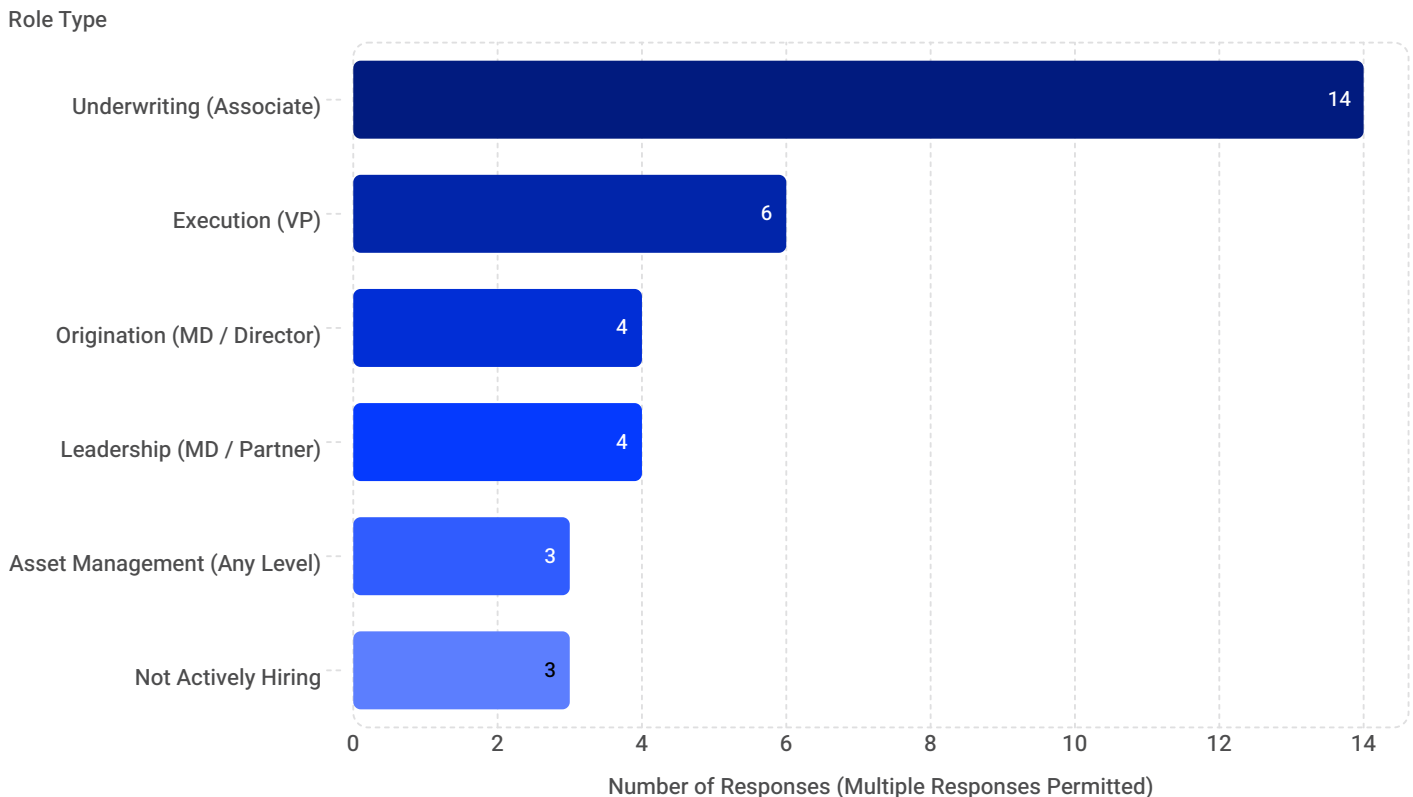
Talent & Succession

We asked our participants whether they plan to hire, whom, and which backgrounds they associate with the strong performers. 91% plan to hire in the next 12 months and the focus is clearly on underwriting and execution talent. That said, many described difficulties in identifying qualified senior investors.

Near-Term Hiring Priorities

Adding underwriting and execution capacity was our participants' first priority. Associate-level underwriting talent took the top spot, followed by VPs experienced in executing transactions. Participants felt good about their business development funnel and, despite concerns over succession planning, were less likely to add senior originations or leadership talent in the short term.

Roles Likely to Be Added in the Next 12 Months (n = 32)



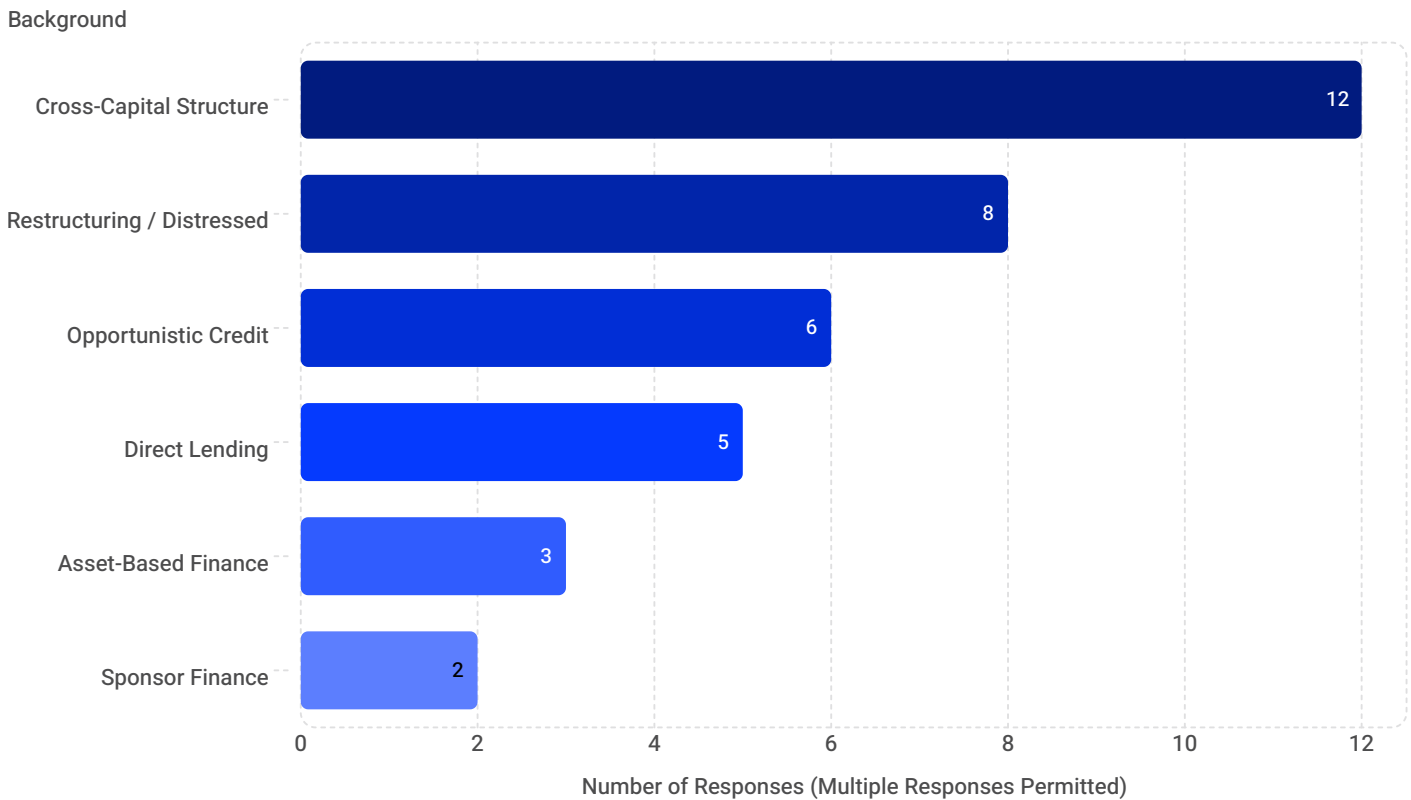
Backgrounds Associated with Strong Performers

"My left eyeball is debt and my right eyeball is equity – this has been our natural habitat for a long time."

– *Senior Managing Director, ~\$4B strategy*

Participants often associated strong performance with backgrounds that combine debt and equity experience, and especially those with exposure to complex situations.

Backgrounds Most Often Cited for Strong Performers (n = 32)



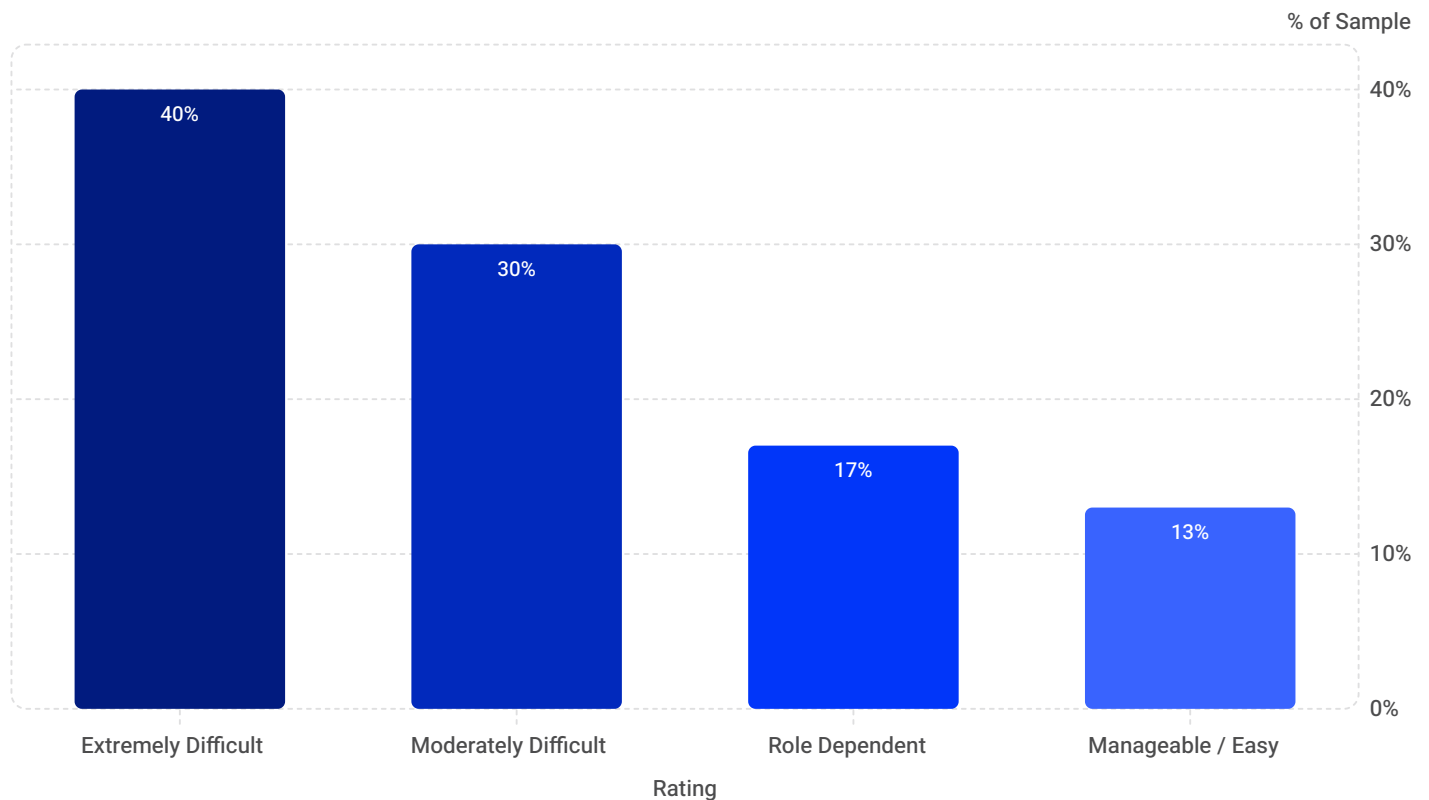
Replacing a Senior Investor Is Difficult

"Capital solutions is extremely difficult to replace at the senior level. Direct lending? You take one and replace them with another. This is different. The diligence angle, the ability to underwrite what you're actually getting into, the equity component — that's not interchangeable."

— *Partner, ~\$8B strategy*

70% of participants rated replacing a senior capital solutions investor as extremely or moderately difficult. Participants attributed that difficulty to the breadth of experience required, rather than a lack of interested candidates. The difficulty is more pronounced for smaller teams, where losing a senior investor puts a larger dent in originations and investment capacity.

Difficulty Replacing a Senior Capital Solutions Investor (n = 30)



2 participants declined to respond.

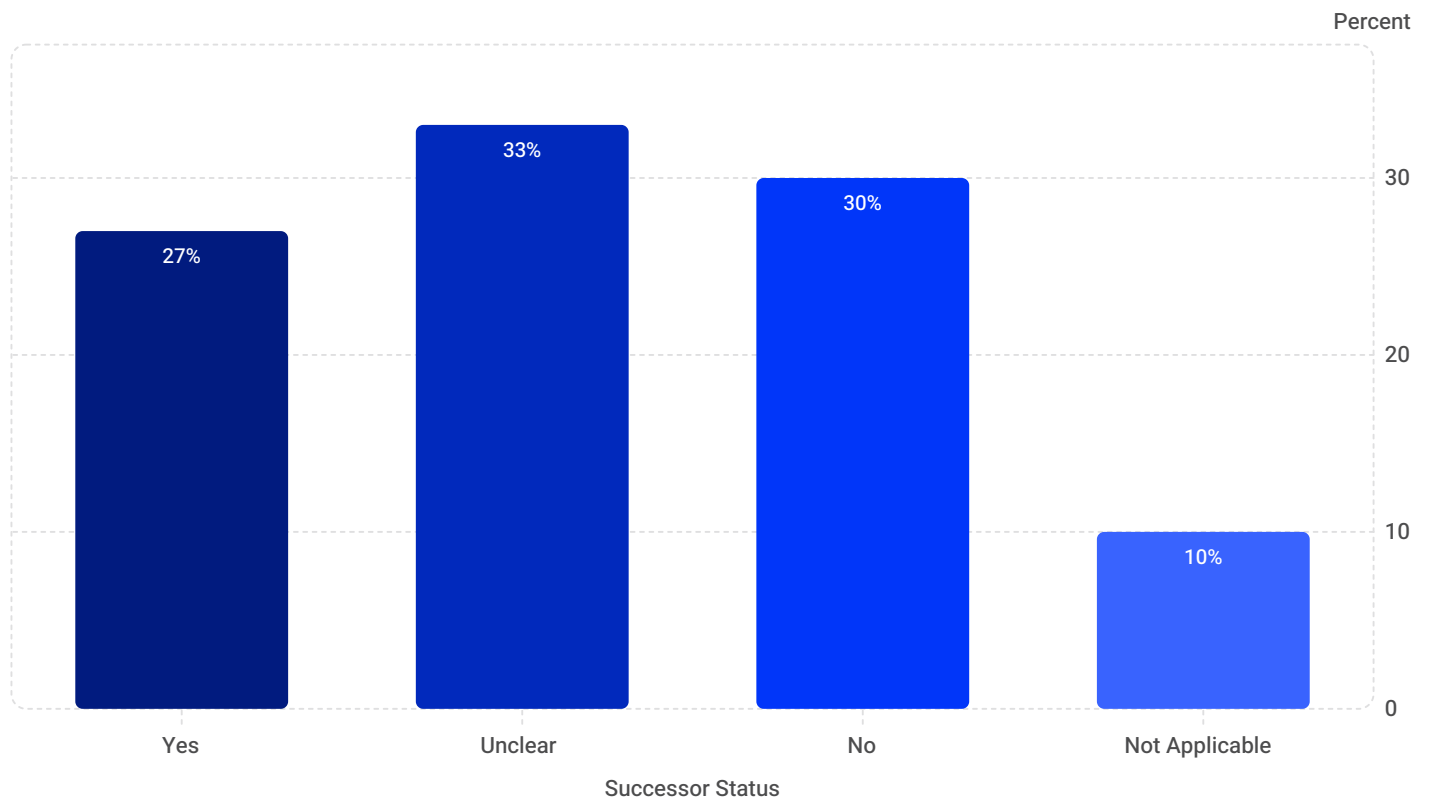
And Most Businesses Lack a Clear Successor

"If one of us got hit by a bus tomorrow, is there a successor? If you force me to answer right now, I'd say probably not."

— *Managing Director, ~\$2B strategy*

Nearly 2/3 of participants - 63% - reported no successor or no clear internal successor. Just over a quarter (8/30) have a clear internal successor. Beyond the numbers, there was general anxiety around succession planning, and it was pronounced in small and mid-sized teams, which tend to be founder-led. Replacing senior investors is viewed as difficult, and the same is true for senior leaders.

Presence of an Internal Successor (n = 30)



2 participants declined to respond.

SECTION IV

Compensation — Cash & Carry

MDs and Principals earn \$1.15M and \$749K in total cash compensation, respectively. 81% receive additional carried interest, and a small number reported additional payments via business development company (BDC) or evergreen incentive fees.

With respect to preferences, participants expressed a clear preference for current cash compensation over long-dated carry, especially in the context of hiring. Compensation - in all forms - is seen as the most important retention lever, but not sufficient alone to retain senior talent. Originations ability stood out (66%) when we asked participants what they believe drives premium compensation.

Cash Compensation Benchmarks

Base Salary by Seniority Level (n = 29)

Seniority Level	Range	Average	n =
Managing Director	\$250K - \$500K	\$345K	18
Principal / Director	\$215K - \$475K	\$283K	11

Partner-level data excluded (n = 3)

Total Cash Compensation (n = 29)

Seniority Level	Range	Average	n =
Managing Director	\$712K - \$1.5M	\$1.15M	18
Principal / Director	\$515K - \$1.12M	\$749K	11

Total cash compensation is the sum of base salary and annualized cash bonuses.

Carry Structure & Economics

"You're over-indexed to this fund already. Now I have to take my after-tax dollars and put more in because the LPs need to see skin in the game. By the time you get to the carry, maybe it's worth something, maybe it's not."

— *Managing Director, ~\$1B strategy*

- **Carry prevalence:** 26 of 32 participants receive carry (81%)
- **Allocation method:** Fund basis ~85% | Deal basis ~10% | Other ~5%
- **MD-level allocation:** 100 - 500+ bps; MDs at larger funds receive smaller, more valuable awards
- **Principal / Director-level allocation:** 50 - 250 bps; highly variable by platform
- **Distribution timing:** Harvest period; some quarterly/annual payments via BDC or evergreen incentives
- **GP co-invest requirement:** ubiquitous given the fundraising environment; funded with after-tax dollars

Cash versus Carry: The Preference Shift

Across seniority levels and strategy sizes, participants consistently expressed a preference for current cash over long-dated carry.

- Carry in credit is generally taxed as ordinary income rather than capital gains, reducing one of the key economic advantages associated with carry in private equity.
- Long fund cycles can push out realizations nearly 10 years, making carry less relevant to near-term career and financial decisions.
- Uncertainty around fund performance, GP co-invest requirements, and any structural changes to the business can make the eventual value of carry difficult to assess.
- One participant offered a counterpoint: professionals who place greater value on carry may also have a longer-term orientation toward the firm, making that preference a potential indicator of retention.

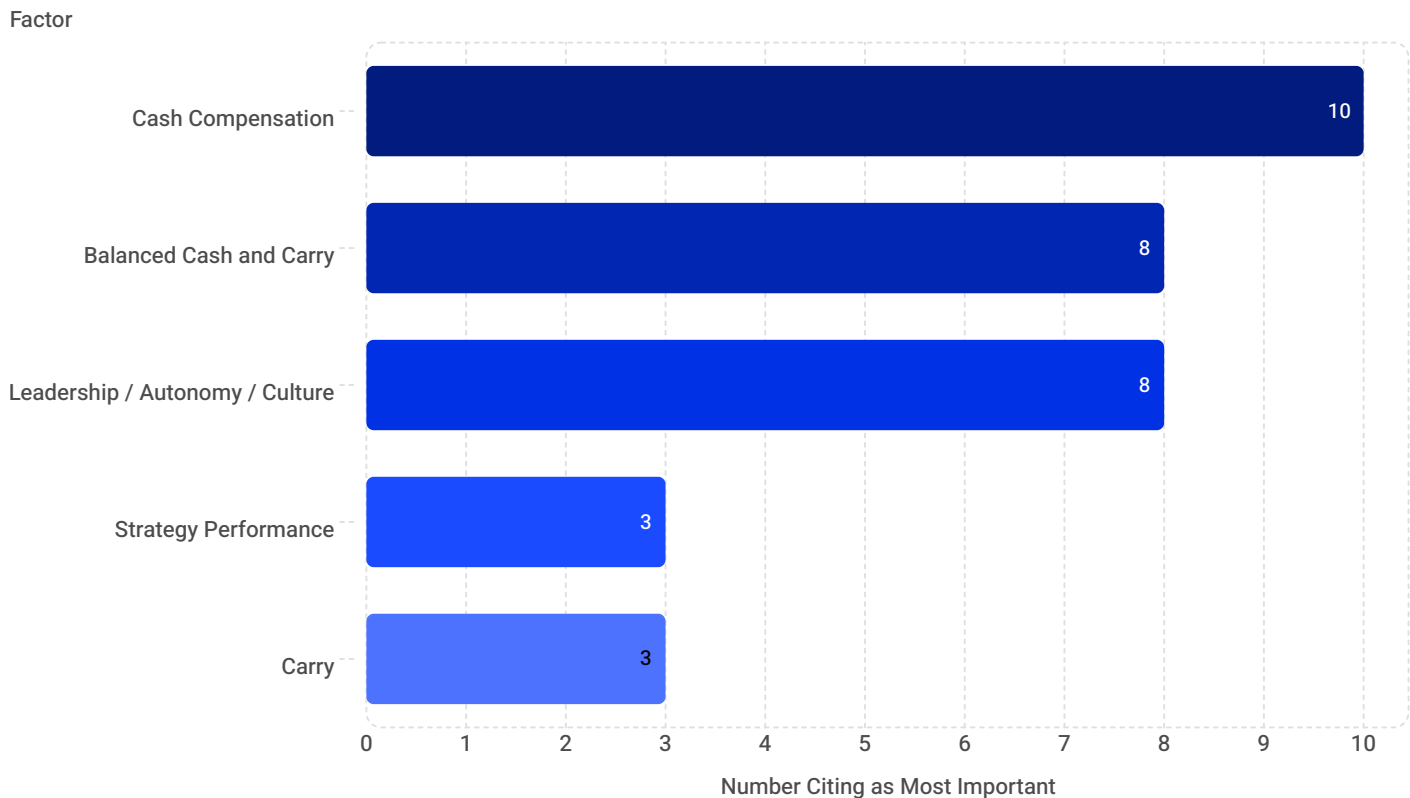
What Matters Most to Top Talent

"I do think cash compensation actually outweighs everything in terms of compensation. Carry is great and it is necessary. But there was a time when that was the crux of everything – the problem is, in this day and age, returns on funds are just not the robber baron days like they used to be, and things get pushed out so much. You hear that time and again about the lack of liquidity. So that puts a premium on cash compensation as being the top thing."

– *Partner, ~\$2B strategy*

When hiring top talent, participants ranked cash highest, but not by a wide margin. Participants also placed significant weight on leadership, autonomy, culture, and a balanced mix of cash and carry.

Factors Most Important When Hiring Top Talent (n = 32)

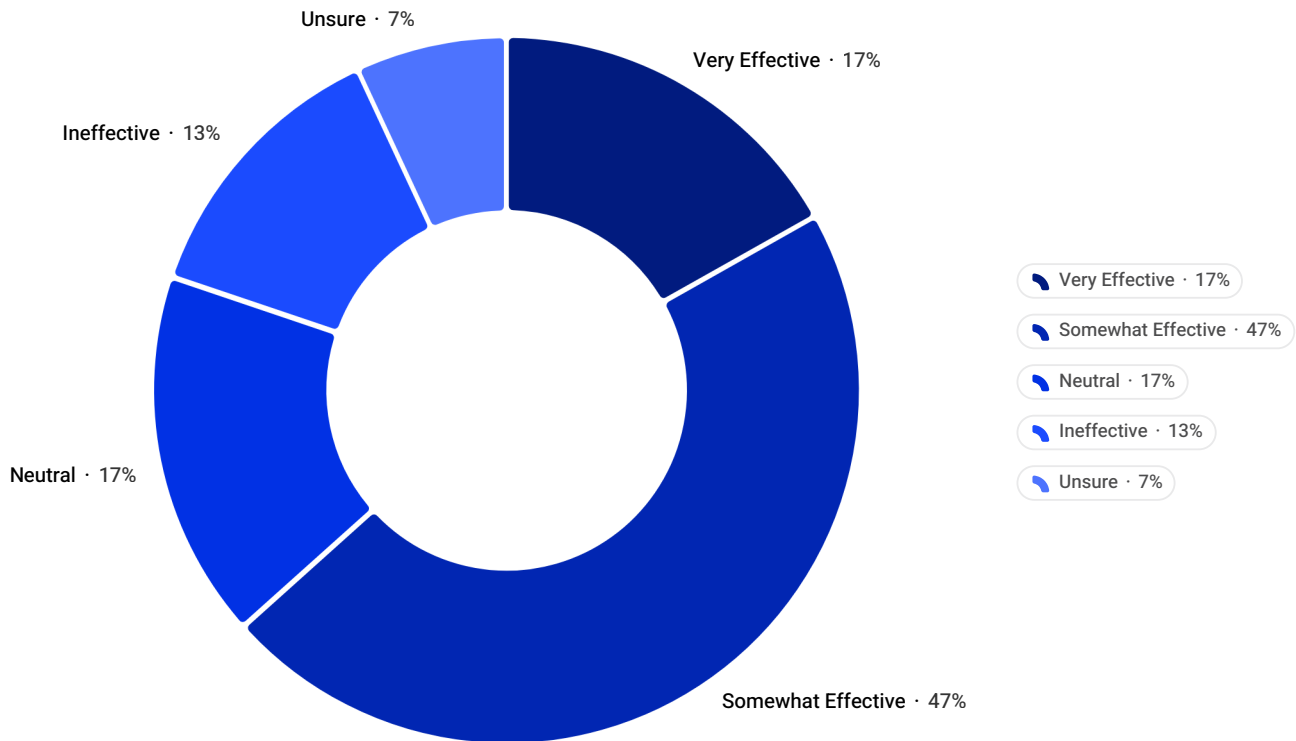


SECTION IV - COMPENSATION

Compensation as a Retention Tool

Compensation was generally viewed as helpful but not sufficient on its own to retain senior talent. Nearly half of participants rated it as somewhat effective, while only 17% rated it very effective.

Compensation Effectiveness as a Retention Tool (n = 30)

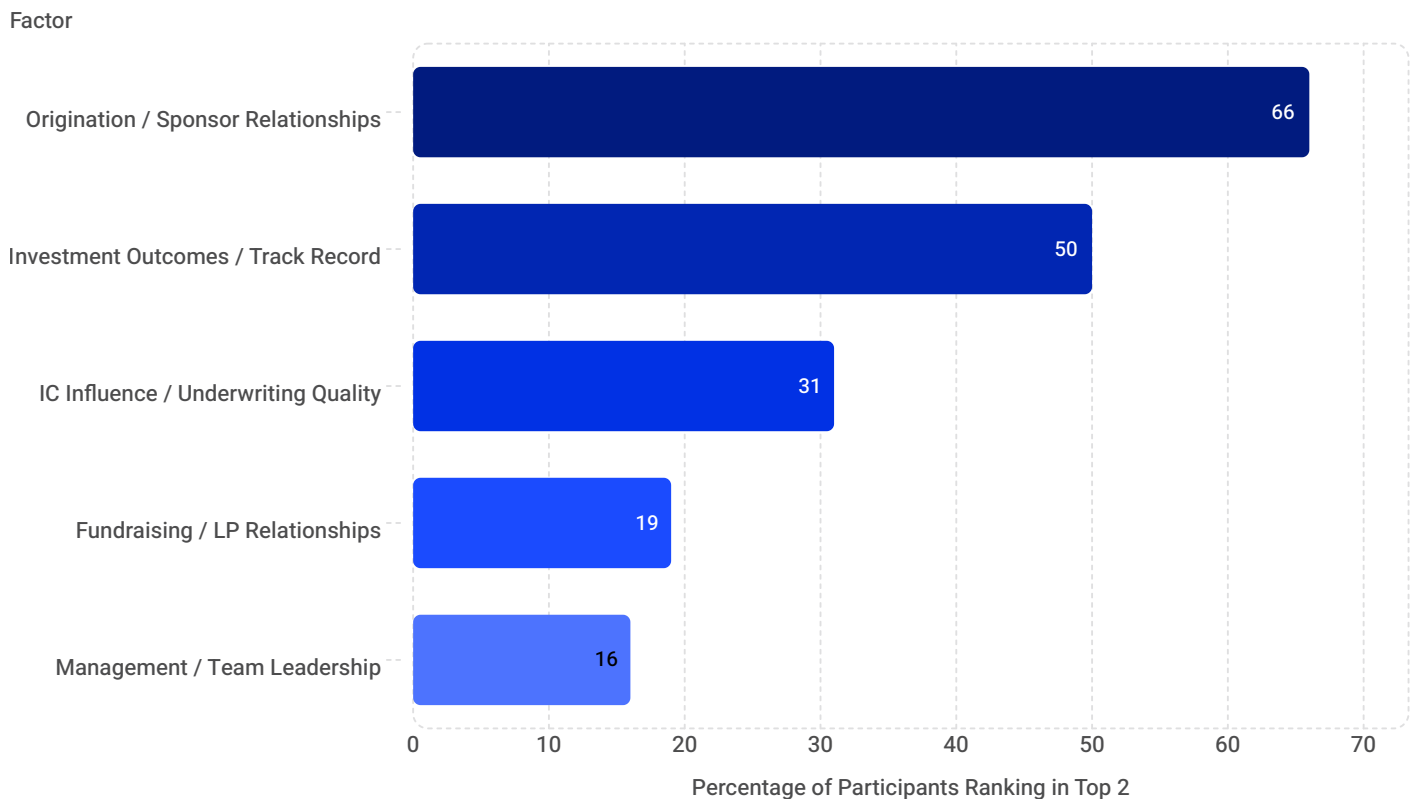


2 participants declined to respond.

What Justifies Premium Compensation

Participants were asked to rank the factors most associated with premium compensation and there was a clear winner: the ability to bring in business matters most. In some cases, that's sponsor relationships. In other cases, it's relationships with executives and intermediaries. Nearly 2/3 of our participants ranked origination #1 or #2 on their list.

Factors Associated with Above-Market Compensation (n = 32)



Surprisingly, only a few participants ranked management or team leadership as a top justification for premium compensation. Fundraising abilities, underwriting abilities, and influence in investment committee meetings also lagged behind investment outcomes, which ranked second. The ability to produce - to bring in deals and especially deals that generate strong performance - is the most rewarded factor.

Takeaways for Hiring Managers

"There's almost no one with both. The people with the right backgrounds will leave if they can't get promoted, but don't bet on that."

— *Managing Director, ~\$6B strategy*

Build Relationships with Relevant Investment Talent Now

Pre-qualified capital solutions talent is difficult to find and hire. Capable senior investors are rare and, in the junior ranks, talent has flowed toward scaled private equity and direct lending businesses over the past 5 years. The junior trend will take time to unwind. Spend time identifying, qualifying, and cultivating relationships with both senior and junior investment talent in anticipation of future hires. It will save you time and money.

Market Your Brand to Your Talent Pools

Market your brand to talent. The capital solutions industry is fragmented and at the same time, set to become more crowded. Do not rely on your name or reputation to attract candidates. As you would with prospective LPs, spend time advertising or marketing your strategy and your wins to feeder talent. We suggest LinkedIn as a free marketing tool: post wins to your company page and personal LinkedIn feeds.

Build Senior Depth to Give Your Strategy a Long Life

LPs want to see a clear succession plan. Promote key contributors at the Principal or Managing Director level and, as above, proactively build relationships with external candidates before urgency dictates terms to you. Boutique firms and smaller teams risk stalling future fundraises and atrophying their business without a clear succession plan.

Balance Cash, Carry, and Culture Levers for Retention

Participants generally favored high cash compensation over carry, given the tax treatment and uncertain realization of the latter. That said, we recommend providing a balanced mix of cash, carry and cultural factors like autonomy to retain talent.

Bridging Talent Gaps

As we have underscored, qualified capital solutions talent can be difficult to identify and hire. Are you experiencing a gap?

Participants identified underwriting, execution and, to a lesser extent, asset management talent as their greatest needs. If lateral recruitment is not working, we recommend these talent pools to bridge the gap.

Entry-Level Underwriters - Leveraged Finance or Restructuring

If you need a trainee for the deal team, don't overthink it. Junior Lev Fin and RX bankers want to move into complex credit investing. 2nd-year analysts on a summer bonus cycle make sense.

Experienced Investment Associates - Distressed Hedge Funds

Need an experienced associate but can't identify a strong candidate in private capital? Look at distressed hedge funds. Many credit research analysts are interested in private capital solutions and will be comfortable with recovery analysis and equity valuation.

Experienced VPs - Private Equity

If you need an experienced VP or deal captain, consider private equity. PE VPs may lack credit skills, but they may be motivated to move given private equity's current challenges.

Asset Management - Turnaround & Restructuring Consulting

Consider turnaround and restructuring consulting professionals with strong lender-side engagement experience for asset management roles. Their career motivations and capabilities align well with asset management and workout-oriented investment roles.

Appendix: Methodology & Limitations

Data Collection

- We conducted live phone interviews during H1 2026 using a consistent set of interview questions.
- Participation was voluntary, uncompensated, and fully anonymous.

Sample Representation

- 32 total investment professionals at the Partner, Managing Director, and Principal/Director levels.
- All participants are U.S.-based.
- Employers are fund management companies with various investment strategies and firmwide AUM ranging from sub-\$1B < > \$100B. AUM of participants' capital solutions strategies, when identifiable, is smaller than firmwide AUM. For a small number of specialist funds, firmwide AUM equals strategy AUM.

Limitations

- The small sample may not reflect the broader industry.
- The findings reflect market views during H1 2026.
- Compensation data is self-reported and was not independently verified.
- Some supplementary questions were asked only where interview time permitted; those findings are reported anecdotally.

The Search Partners Behind Leading Alternative Investment Teams



23

Years in Alternative Investments

97%

Search Execution Rate

4

Market Verticals

100%

Partner-Led Engagements

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