BainCapital

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Capital that Fits: Understanding Private Market Hybrid Strategies

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Key takeaways

- Hybrid capital is flexible private capital that sits in the gap between private debt and private equity. It combines a contractual or asset-based return with participation in upside, structured so the two elements stack rather than offset.
- The opportunity is persistent, not cyclical. Many companies and asset owners need capital that is more flexible than a loan and less dilutive than selling common equity, while few managers are organized to deliver it at scale.
- Returns come from two sources that compound rather than compete. A protected component limits the cost of being wrong, and an upside component preserves the payoff when things go right.
- Hybrid capital fits in more than one allocation bucket. It can serve as a credit diversifier, an equity complement with shorter duration than traditional private equity, or an opportunistic solution. The right question is what role the strategy is being asked to play.
- Manager capability is the binding constraint. Protections only matter if they hold under stress, and upside only matters if the manager can shape outcomes after closing. Structuring expertise, operating partnership, sourcing reach, and a broader private-markets platform are what separate a hybrid strategy from a collection of one-off deals.

Introduction: Flexible capital for complex situations

A useful way to think about hybrid capital is to begin with the problem it solves. Many companies, sponsors, founders, and asset owners may need capital that is more flexible than a standard loan and less dilutive than a sale of common equity. They may be growing, transitioning, refinancing, looking to retain control or trying to unlock value in an asset whose cash flows are durable but not easily financed through traditional channels. In many cases, they are also looking for more than passive borrowing; they want a capital partner that can provide operating partnership, strategic perspective, and practical guidance to help create value over time.

Hybrid capital exists for those situations. It is not a single instrument. It may include preferred equity, structured equity, debt with equity participation, convertibles, asset-backed financings, and direct asset investments with structured economics.[1] What these approaches have in common is the combination of two ideas: some form of contractual or asset-based return, and some form of participation in upside. **In many strategies, protection and upside involve a clear tradeoff. In hybrid capital, deals are structured so they stack rather than simply offset**.

That combination matters because it creates a different risk and return dynamic. A conventional lender is paid mostly for avoiding loss. A common equity investor is paid mostly for owning the upside after everyone else has been paid. **Hybrid capital asks whether the investor can negotiate enough protection to reduce the cost of being wrong, while preserving enough participation to be paid when things go right.**

The answer depends less on the label and more on the structure, the counterparty, the documentation and the investment manager’s ability to execute. This memo explores where hybrid capital can fit in a portfolio, why the opportunity exists, how returns are generated, what risks deserve attention, and what capabilities are required to execute the strategy well.

1

Where does hybrid capital fit?

Investment committees often begin with allocation buckets, which is understandable because buckets create discipline, benchmarks, and governance. However, some strategies are defined less by a single asset-class label than by the role they play in a portfolio. Hybrid capital is one of those strategies.

The important point is not that hybrid capital is hard to categorize. We believe the better point is that it can be useful in several categories, provided the allocator is clear about what role it is expected to play. In a Private Credit portfolio, the strategy may be valued for contractual return, seniority, collateral or downside-oriented underwriting. In a Private Equity portfolio, it may be valued for equity participation, value-creation engagement, and exposure to growth, often with shorter duration investments than traditional private equity. In an Opportunistic portfolio, it may be valued for the ability to provide flexible solution capital in complex situations.

	Private Credit	Private Equity	Opportunistic
Why the fit makes sense	The strategy can include current income, negotiated covenants, collateral, seniority, and other structural downside protections as well as low loss rates and defined exit paths	The strategy can participate in equity upside through ownership economics and involves deep diligence and operational engagement with counterparties	The strategy offers flexible capital across asset types and a differentiated return profile
How to evaluate it	Compare predictable cash returns against credit alternatives, but recognize that upside features can potentially add return beyond a loan	Compare against PE return objectives, but adjust for risk mitigation through structural protections, contractual cash flows that can limit J-curve, and structured exits that can shorten duration	Evaluate absolute return potential, ability to invest across market cycles, and scalability

Descriptions are representative of typical characteristics and may not apply to all traditional private credit or private equity strategies.

This is why the same investment strategy can be a credit diversifier, an equity complement, and an opportunistic solution at the same time. We believe the allocation decision should therefore begin with the portfolio objective, not with a debate over taxonomy. What risk is being introduced? What return is being sought? What liquidity is being accepted? What existing exposure is being complemented or reduced? **When those questions are answered clearly, hybrid capital can support a permanent allocation rather than a tactical or residual one.**

For investors using a Total Portfolio Approach, the language is even more direct. Hybrid capital can be assessed by its contribution to total portfolio outcomes, such as income, downside protection, equity participation, liquidity profile, cyclicality, and manager skill. The strategy does not need to be forced into one box in order to be understood. We believe its ability to contribute across multiple portfolio objectives may support what can justify a durable, deliberate allocation to hybrid strategies.

2

Why the opportunity exists

At its core, hybrid capital consists of private, negotiated transactions that fill the gap between private debt and private equity. We believe that gap is widening, creating a large and persistent need for flexible capital. Many companies and asset owners require capital that is more flexible than a standard loan and less dilutive than a sale of common equity, while relatively few capital providers are organized to deliver that capital consistently and at scale.[2]

We believe the demand side has both structural and cyclical drivers. Structurally, founder and family-owned businesses continue to face succession and growth questions. Corporates continue to need bespoke capital for M&A, carve-outs, and strategic transitions. Capital needs in areas such as digital infrastructure, aviation, hospitality, industrial real estate, and royalties often require financing that is more customized than a standard credit product. Meanwhile, US bank lending as a percentage of GDP has structurally declined since the 2008 Global Financial Crisis.[3] **These are not one-cycle phenomena; instead, we believe they reflect the recurring need for capital that sits between rigid debt and full equity control.**

The supply side is equally important. Not every capital provider can respond. Banks tend to prefer standardized, lower-complexity credit. Direct lenders often focus on sponsor-backed loans with familiar documentation and leverage frameworks. Private equity funds usually require control, a larger common-equity check or a longer hold period. Even among alternative managers, we believe many participate only opportunistically or in narrow pockets of the market, rather than maintaining a dedicated, scaled hybrid capability across both corporate and asset-backed opportunities.

The result is a space where tailored capital can be valuable because the counterparty is not simply buying money; it is buying a solution. That solution-oriented alignment helps unlock the asset class's differentiated return profile, in which the investor is being compensated not only for illiquidity, but also for complexity. **Because companies and asset owners face challenges across cycles, there is a persistent need for solution-oriented capital.** Recurring demand, combined with limited scaled supply, supports the long-term case for hybrid capital.

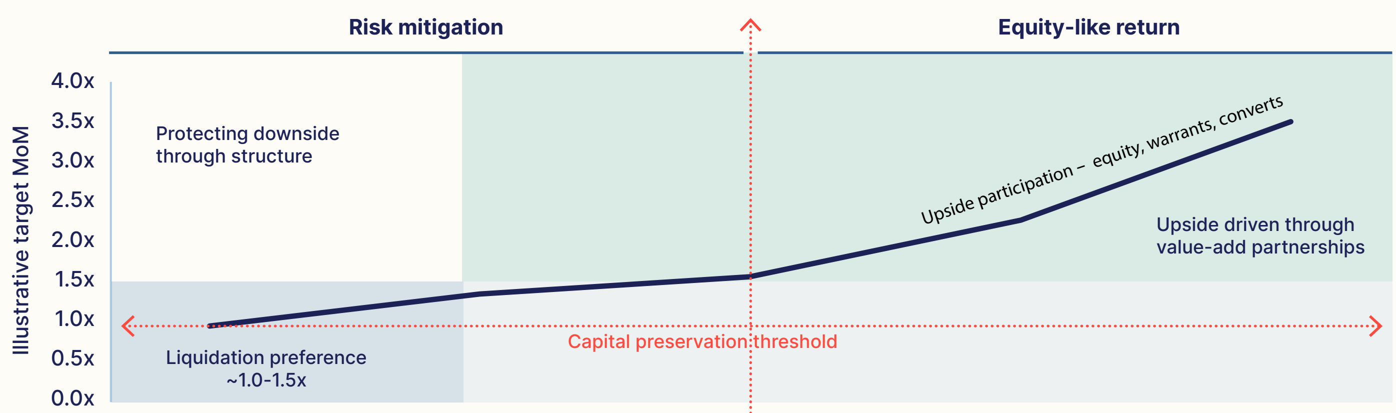
3

How returns are earned

Hybrid capital returns are earned through a structural combination of protection and upside participation, which is a different payoff pattern than traditional credit or private equity. The protected component is intended to limit downside, create a path to return capital and, help shorten duration relative to traditional private equity. The participation component is intended to preserve exposure to upside if the company or asset performs well.

EXHIBIT 1 / How returns are earned

We aim to create convexity through structured protection and upside participation



Downside scenario		Upside scenario	
Contractual target return	9-13%	Incremental target return	6-10%
Seniority	<60% LTV	Diluted ownership	10-30%

For illustrative purposes only and represents Bain Capital Special Situations' analysis of characteristics of the hybrid capital asset class. Prospective investors should also bear in mind that past or targeted investment characteristics or portfolio construction may not be indicative of future investment characteristics or portfolio construction. Prospective investors should not place undue reliance on any such hypothetical information. Targeted returns may not be achieved. Actual results may vary.

The attraction is that these components can stack in the same investment. The floor may reduce the severity of a bad outcome, while the participation component may prevent the investment from being capped at a lending return when things go right. That is why hybrid capital is not simply "higher-yielding credit" or "safer private equity." Its value depends on whether the protected return is real, the upside is material, and the documentation keeps both elements intact when conditions change.

In practice, we believe hybrid capital can offer elements that private equity and direct lending typically do not provide on their own. It tends to involve more structure and shorter duration than traditional private equity, and more upside participation and operating engagement than direct lending.

A useful simplification is that hybrid capital has two return engines: corporate and asset-backed. They are related, but they are not identical. The corporate engine begins with the business itself, including its quality, cash flows, capital structure, management alignment, governance rights, and exit path. The asset-backed engine begins with the underlying asset, including its quality, contracted or durable cash flows, collateral value, the level of cushion below the investment (often called the attachment point), seniority, and the plan for managing the asset over time.

Return engine	Corporate	Asset-backed
Typical counterparties	Family- and founder-owned businesses in transition; public companies and conglomerates facing complexity; sponsors needing solutions outside standard credit boxes	Hard-asset platforms requiring structured capital; asset owners with a mismatch between capital supply and demand; direct asset acquisitions where cash-flow durability and structure underpin returns
Primary underwriting question	Is the business good enough, the structure protected enough, and the upside significant enough to justify the risk?	Is the asset base durable enough, the attachment point conservative enough, and the structure strong enough to protect capital while preserving upside?

Descriptions are representative of typical characteristics and may not apply to all traditional special situations strategies. For illustrative purposes only.

The combination of the two engines matters. They diversify each other through different counterparty pools, different dislocations, and different return profiles. Across both engines, however, the return architecture is similar. The protected component may come from a coupon, preferred dividend, yield against asset cash flows, original issue discount, seniority, collateral, or discounted entry. The upside component may come from warrants, conversion rights, ownership stakes, profit participation, or asset appreciation.

4

The market moments: growth, inflection and defense

In our view, hybrid capital tends to appear in three broad market moments. These moments are not rigid categories, but they are useful for understanding why counterparties seek this form of capital and why manager capability matters.

Some managers are generally built to address only one or two of these moments. Others have the broader toolkit, sourcing reach, structuring experience, and operating capability to invest across all three.

	Growth	Inflection	Defense
How the capital is used	Capital to expand, acquire, or scale without the dilution of a buyout or the constraints of conventional debt	Capital for a transition such as a carve-out, take-private, or pre-IPO financing	Capital for constrained balance sheets, refinancing pressure, or liquidity needs
Illustrative corporate examples from Bain Capital Special Situations	MRO Holdings: High-quality, founder-led business that needed capital to expand capacity without taking on debt service or giving up control	Power Home: Provide capital to generate sponsor liquidity in one of the largest exterior home remodeling platforms in the US	Virgin Australia: Distressed control acquisition of attractive business in administration; implemented turnaround business plan
Illustrative asset-backed examples from Bain Capital Special Situations	Bridge Data Centres: Patient capital and operating execution to consolidate players within a fragmented regional market into a pan-Asia platform	Warner Music Group: JV partnership with an industry leader to pursue higher-margin catalogue acquisitions in a capital-efficient manner	Les Hôtels de Paris: Provided a solution for an owner and operator of French hotels facing challenged capital structure

These are selected transactions shown for illustrative purposes only. Bain Capital's Special Situations investments may differ materially from those discussed here. These investments are not necessarily indicative of any investments that Bain Capital Special Situations will or could make in the future. The companies identified above do not represent all of the investments made by Bain Capital Special Situations, and it should not be assumed that the investments identified were or will be profitable.

The point of the framework is not classification. It's to show how the strategy can operate across a cycle. In benign markets, growth and inflection opportunities may dominate, as companies seek capital to expand, pursue strategic transactions, or reduce dilution. In more constrained markets, defense and liquidity solutions may become more important, as companies, sponsors, and asset owners navigate refinancing pressure, balance-sheet stress, or market dislocation. A broad hybrid platform should be able to move among these moments as the opportunity set changes, without changing the basic discipline of protecting capital first and then seeking participation in upside.

5

What investors should worry about

No strategy should be evaluated only by what can go right. The more useful exercise is to ask what can go wrong, how often it might happen, and whether the structure materially changes the outcome. For hybrid capital, several concerns come up repeatedly. While reasonable, each applies most directly to an adjacent strategy that shares surface features with hybrid capital while differing structurally underneath. The risks are worth examining. In each case, an important consideration is whether the manager has stayed within the disciplines that mitigate them.

Documentation. Investors in broadly syndicated loans have increasingly faced situations in which borrowers move collateral or restructure debt in ways that disadvantage existing lenders, a practice often called a liability management exercise. These outcomes are most common in loans with weak protections or covenant-lite loans. Privately negotiated hybrid investments can reduce that exposure when protections and governance rights are written carefully. Because these transactions are generally sourced outside of competitive processes, we believe managers may also have greater ability to insist on documentation that reflects the risk being underwritten.

Many hybrid capital counterparties avoid traditional leveraged capital structures altogether, which further reduces the strategy's exposure to the dynamics that create these risks.

Manager dispersion. Hybrid capital benefits from a structural feature that many adjacent strategies lack, which is the potential to reduce the severity of adverse outcomes relative to strategies that rely primarily on common-equity appreciation. That said, the presence of a contractual floor does not eliminate bad underwriting. It only helps if the floor is enforceable, properly attached, and supported by a business or asset that can carry the obligation. Outcomes may also depend on how effectively the manager works with the company or asset owner over time to shape strategy, improve operations, strengthen governance, and plan for exit.

Liquidity. Hybrid investments are private and illiquid. That is not a defect if the vehicle structure matches the asset structure. In our view, it becomes a problem if illiquid assets are placed inside vehicles that promise more liquidity than the assets can reasonably provide.

Duration. Hybrid investments typically have shorter hold periods than traditional private equity because capital can be returned through contractual cash components, structured exits, and refinancing dates built into the documentation.

Shorter duration can improve exit certainty at the investment level. Compared with secondaries, which depend on a market-clearing function, hybrid duration is often more contractually anchored and less dependent on third-party liquidity.

Competition. If a large amount of capital were to move into the strategy without a corresponding increase in attractive opportunities, pricing could tighten and documentation could weaken.

The counterpoint is that investing in hybrid capital at scale requires capabilities that are difficult to assemble quickly, such as structuring experience, operating expertise, a global sourcing funnel, legal discipline, and sector knowledge. We believe a key test for any manager is whether they have practical experience structuring and enforcing a wide spectrum of contractual protections across different markets, counterparties, and asset types, not just describing those protections in theory.

The lesson is not that hybrid capital avoids risk. The lesson is that the relevant risks are often different from the risks embedded in adjacent strategies. Underwriting hybrid strategies should therefore focus on the specific protections, the path to liquidity, the role of upside, and the manager's potential to drive outcomes after closing.

6

What it takes to execute well

Hybrid capital is a discipline-heavy strategy. We believe a manager must be willing to walk away if the downside protections are insufficient, if the upside is too small, if the counterparty alignment is weak, or if the legal structure does not survive stress. The four capabilities presented in the chart below are central to execution.

Capability	Why it matters
Structuring and asset-class expertise	Protections exist only if they are negotiated at signing and enforceable under stress. The craft lies in knowing what to draft, where to insist, where to trade, and how protections perform across structures, counterparties and cycles.
Operating partnership	Documentation can protect the downside, but value creation often depends on what happens after closing. Counterparties value a hybrid capital provider that can bring active engagement and practical support, not just capital.
Private-markets platform	Diligence resources, sector knowledge, counterparty relationships, and value-creation capabilities can be amplified when they reside within a broader private markets ecosystem.
Global funnel and investment patience	Attractive hybrid opportunities can shift across regions, sectors, and structures. A broad funnel allows a manager to compare opportunities, remain selective, and adjust deployment as conditions change.

This combination is what separates a hybrid strategy from a collection of one-off structured investments. Relationships matter, but so do the documents. The coupon matters, but so does the business plan. The collateral matters, but so does the entry price. Upside matters, but only if it is not purchased by giving up too much protection.

7

Bain Capital Special Situations

Bain Capital's Special Situations team is positioned as a global provider of hybrid capital across corporate and asset-backed opportunities. The platform combines investment professionals across North America, Europe, and Asia with operating resources, including Special Situations' large, dedicated Portfolio Group of operating professionals, as well as the broader Bain Capital private-markets ecosystem.[4]

Hybrid capital strategies are typically designed to provide flexible capital to founders, sponsors, corporates, and asset owners while preserving alignment. For counterparties, this can mean access to capital and active value-creation support with less dilution than a control equity transaction. Operating resources can work alongside management teams and asset owners to help create value, bringing experience to areas such as growth initiatives, margin improvement, commercial execution, governance, and exit preparation. We believe institutional interest in hybrid capital has grown in part because these structures can provide exposure to contractual or asset-based return components alongside potential upside participation.

Conclusion: The role of hybrid capital in a private markets portfolio

Hybrid capital is best understood as flexible private capital that seeks to combine protection and participation. Because of this combination, it can fit naturally within private credit, private equity, and opportunistic allocations Each bucket sees a different part of the same strategy: the contractual or asset-based floor, the equity-linked upside, and the ability to solve complex capital needs.

Hybrid capital's distinguishing feature, that the contractual floor and equity upside stack rather than offset, becomes most visible when allocators look at the portfolio level, rather than evaluating each asset class in isolation. Viewed this way, **hybrid capital can potentially capture illiquidity and complexity premia in a structurally protected way that neither private equity nor private credit typically delivers on its own**.

Endnotes

1 List of instrument types is non-exhaustive and provided for illustrative purposes only.

2 Source: Preqin. Data as of June 2, 2026. Represents closed-end, commingled funds raised between 2018 and 2025 with at least $100M in commitments through the final close.

3 Source: Bank for International Settlements. US bank lending to domestic private non-financial sector as % of GDP, quarterly.

4 While Bain Capital Special Situations intends to collaborate with Bain Capital and its affiliates, there is no guarantee that Bain Capital Special Situations will be successful in doing so.

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200 Clarendon St, Boston, MA 02116

+ 1 (617) 516-2000

baincapitalspecialsituations.com