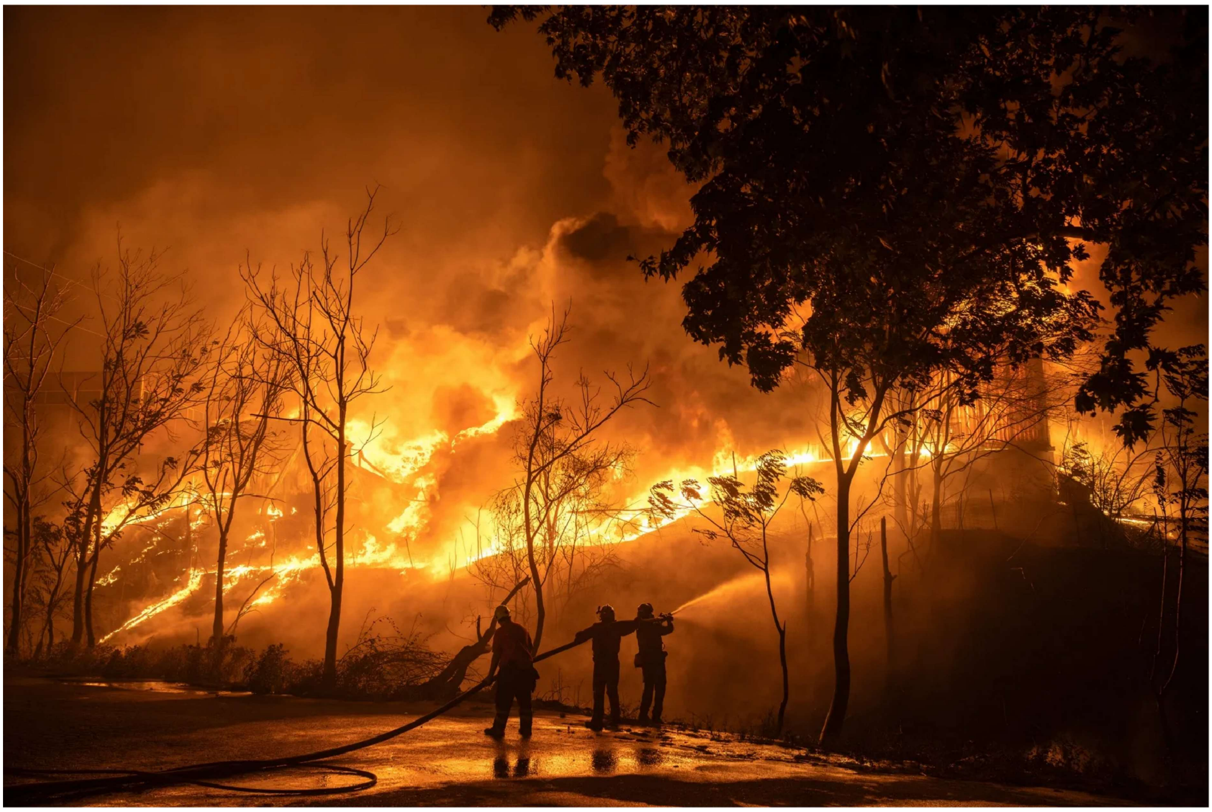
Newsletter | Going Private

# Climate Chaos Forces Private Equity Risk Rethink

Investment firms step up due diligence as heatwaves and floods pose fresh threats to returns



Firefighters try to contain a fire at a warehouse facility during a wildfire in Thessaloniki, Greece, on July 4. *Photographer: Konstantinos Tsakalidis/Bloomberg via Konstantinos Tsakalidis / SOOC*

By Sinead Cruise

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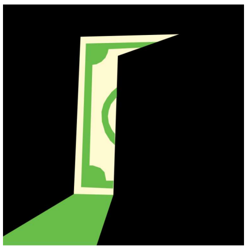


*Welcome to Going Private, I'm Sinead Cruise and this is Bloomberg's twice-weekly newsletter about private markets and the forces moving capital away from the public eye. Today, we look at* ***Apollo's*** *surprise civil aviation swoop, one hedge fund's optimistic approach to riskier markets and predictions for bumper lending growth that imply a new golden era for private credit might be just over the horizon. But first, we look at the special measures some private equity firms are taking to protect returns from wild weather. If you're not already on our list, sign up here. Have feedback? Email us at goingprivate@bloomberg.net*

## Hot and Bothered

Mother Nature is giving private equity yet more cause to fret about returns, as freak heatwaves, floods and storm seasons force costly changes to the way they assess risk.

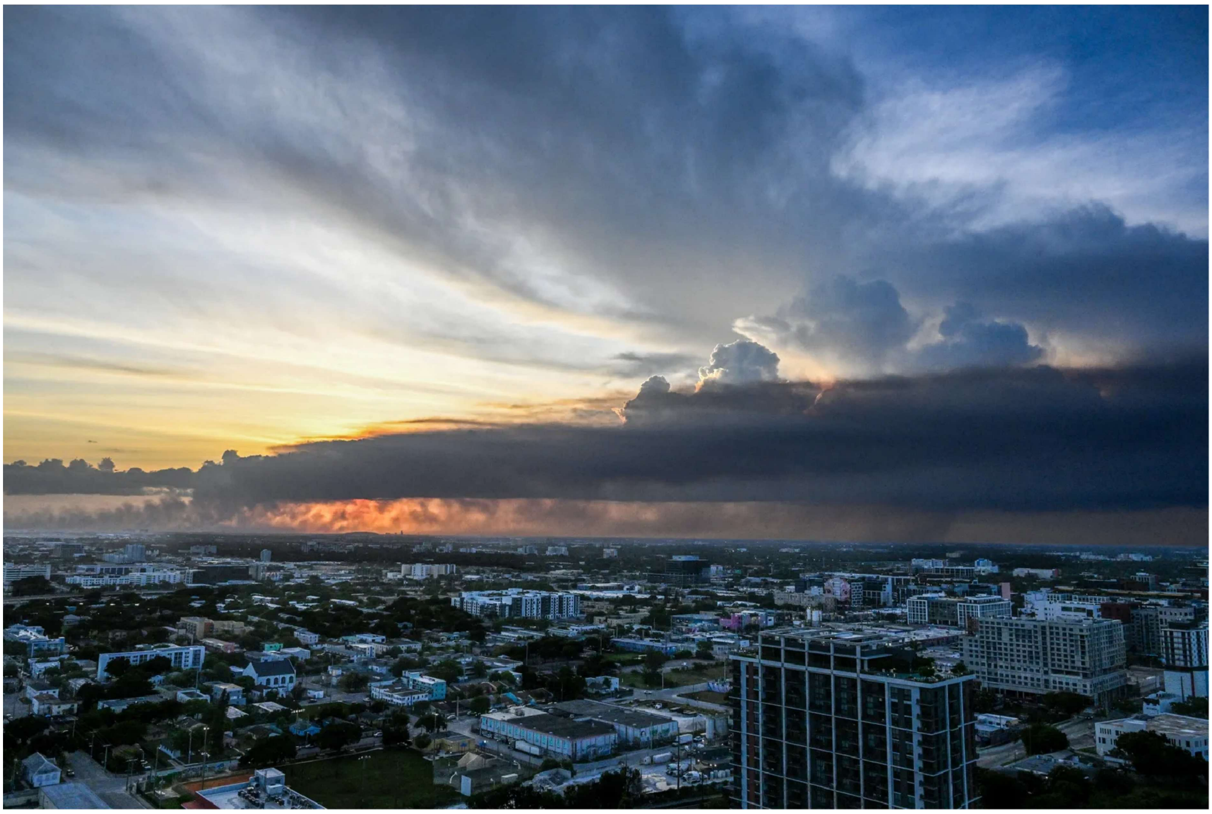
Global warming has upended relatively stable historical data on climate and investors are now shelling out millions of dollars to better understand which of their assets are most vulnerable to the world's increasingly erratic weather.

Europe is presently wilting under its third major heatwave of the summer, with unusually high temperatures straining grid networks, transport systems and triggering deadly wildfires in Spain, Portugal, France and Greece.

"“What we are seeing is a shift from climate risk as a disclosure exercise to climate risk as a core due-diligence and valuation question,” **Rémy Estran-Fraioli**, CEO of **Scientific Climate Ratings,** told *Going Private*.

“For infrastructure and private markets in particular, investors are getting more practical. Maps of exposure to floods, storms, heatwaves or wildfires are useful, but the real question is how those hazards translate into downtime, repair costs, revenues, insurance, cost of capital and ultimately net asset value.”

Venture capital spent $245 million in the first quarter of 2026 on climate monitoring technologies such as satellites, according to deal data compiled by *BloombergNEF*. That puts the first-half total on track to be the best since at least 2022, the data shows.



Smoke rises from a wildfire in west Miami-Dade County near Miami, Florida, on June 16. *Photographer: CHANDAN KHANNA/AFP via Getty Images*

Funds have typically identified floods and cyclones as the most immediate risks to their portfolios but most are now also treating extreme heat as a long-term, chronic risk, my colleague *Ishika Mookerjee* reports.

Europe is particularly exposed to extreme heat over the next five years, a stress test conducted by **Allianz SE** found, with potential combined economic losses of $638 billion across France, Italy, Germany and Spain due to declines in fixed capital formation and reduced consumption.

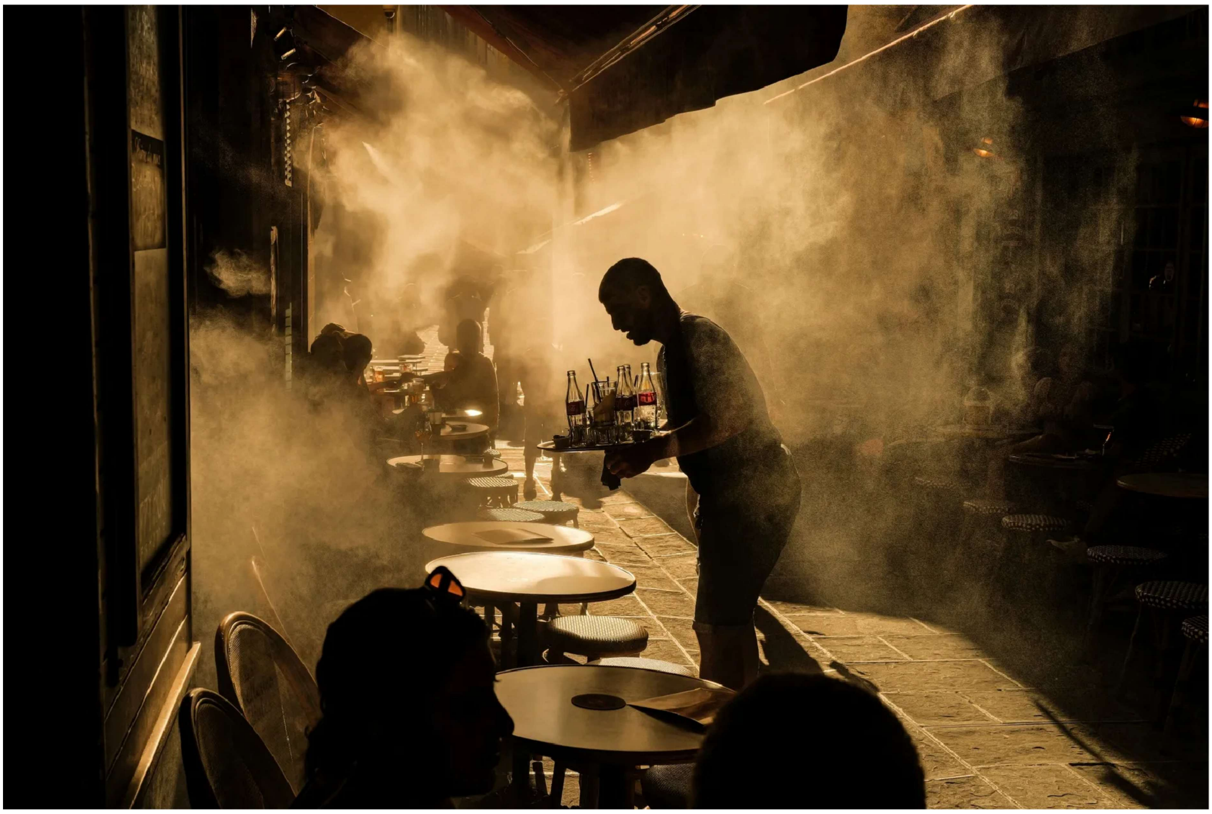
A *Bloomberg Green* analysis of the latest sustainability reports published by 12 of the largest alternative asset managers show overall mentions of physical climate risks and related terms nearly doubled from a year before, with **Carlyle, General Atlantic**, **KKR** and **Partners Group** seeing large increases.

Sweden's **EQT**, one of Europe's largest private markets firms with 270 billion euros in assets ($309 billion), has used third-party analytics to farm data on more than 23,000 infrastructure assets in its portfolio.

In one example of enhanced due diligence, EQT discovered a South Korean waste management company was at risk of extreme snowfall and typhoons. It then set aside extra cash to improve the company's roofs.

**Zoe Haseman**, the company's head of sustainability for infrastructure, said assessments help the firm to grasp what it is "actually buying into" and to plan for future operating and capital expenditure as well as insurability costs.

Los Angeles-based **Baringa Partners** LLP advises more than 50 private equity funds on their investments and recently sold a climate scenario model to **BlackRock** for its *Aladdin* Climate platform.



A waiter works during a heatwave in the French Riviera city of Nice on July 6. *Photographer: Valery Hache/AFP via Getty Images*

"It's more about identifying any of the risks that would cause an investment to fall over or present a big bill halfway through the investment period," partner **Chetan Chhatwal** said.

Artificial intelligence has boosted data gathering that will help **Temasek International** integrate physical risk scenarios into economic models, according to **Franziska Zimmermann**, managing director for sustainability.

"For example, if a heat wave hits, are the consumers actually demanding more or less," she said at a recent briefing in Singapore. "What happens to inflation? Is the capacity of people purchasing certain products still there?"

Parent company **Temasek Holdings**, which has a net portfolio value of S$518 billion ($401 billion), is stress-testing for physical risks over a 20-year horizon, and is now using a baseline climate scenario of 2.4C of warming by 2100. It has also engaged insurance companies on pricing some policies differently for companies that take weather-protection measures.

The climate forecasting and risk assessment industry — which includes anywhere between 150 to 400 environmental analytics, catastrophe modeling and hazard warning firms - could double by 2030 to about $13 billion in value, according to the **Boston Consulting Group**.

While firms are demonstrating a more conscientious approach to risk analysis, prospective buyers or investors may not reap the benefits of those insights, with some firms fearful that disclosures could harm valuations or make those assets tougher to exit.

"It's good that private equity is waking up to it, but a lot of money has already been tied up, with no way to properly measure or gauge the risk," said **Gautam Ramdurai**, founder and principal of corporate advisory firm **snowbird global.**

### Golden Era 2.0

Surprisingly shallow direct lending volumes in the half of 2026 had added weight to claims a golden era for private credit is officially over.

Still, landmark research from the **Loan Market Association** this week suggests a bigger boom is coming that will see non-banks poach even more market share from mainstream lenders into the next decade and beyond.

"There's a huge need for financing in the next 10 years. Everybody's got to look at their own way of doing it," LMA CEO **Scott McMunn** told *Going Private*.

Surveying 234 senior decision-makers in the EMEA loan markets between February 25 and April 15, the LMA found 43% of respondents expect private credit and direct lending to increase as a share of overall lending, while just 9% anticipate a decline. Some 36% expect bank activity to decrease as a share of overall volumes.

When the LMA was founded, the annual volume of EMEA syndicated loans was around $300bn, by 2020 it was $1.2 trillion and today it represents around $1.8 trillion of a global market worth $6.5 trillion. Today, LMA's buyside and sell-side membership hold around $29 trillion in assets in aggregate.

Europe's leveraged loan markets shifted materially toward non-bank lenders, with private credit's share rising from 27% in 2020 to 56% in 2023, compared with a drop from 73% to 44% in the syndicated bank market.

"Our research suggests that the long-term structural shift will continue, away from a market dominated by traditional bank intermediation and toward one where credit risk is distributed across a broader set of institutional balance sheets," the report said.

The challenges for NBFIs who command a larger share of the market are manifold. Some are likely to face greater pressure to develop more sophisticated operational capabilities and infrastructure, and increased competition could see some accepting compressed returns.

That leaner earnings potential might explain the less than buoyant mood among almost a quarter of those polled who expressed 'quite negative' or 'very negative' expectations for the year ahead.

In contrast, 64% said they were positive about the outlook over a one-to-five year timeframe, as demand to borrow accelerates and governments direct public debt into boosting energy security and protecting business.

Respondents also identified growing risk of defaults and refinancing stress in several industries. Some 54% of those polled said consumer and retail borrowers were most vulnerable, followed by the automotive, commercial real estate and technology sectors.

Despite the rapid expansion of non-bank lenders, banks remain "essential" to healthy EMEA loan markets and will remain key providers of large-scale underwriting capacity and certain forms of credit such as revolving credit facilities. These are roles that NBFIs are less suited to perform, the LMA said.

“Our research suggests the future will be one of coexistence rather than displacement,” McMunn added. “By 2040, the EMEA loan markets will be larger, more diverse, more digital and more interconnected than at any point in its history.”

### Happy Go Lucky

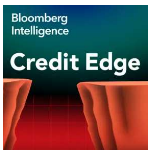
**Sona Asset Management** CEO **Henrik Johnsson** is the archetypal ‘glass half full’ opportunistic investor who can find reasons to be excited while others despair.

Speaking on the latest *Credit Edge* podcast, the London-based hedge fund executive shrugged off wider worries about systemic upset in global credit markets that some participants say have become too complacent about risk.

“Stress where everyone is positive? I’m not sure that actually is stress,” he said. “The opportunity set that’s there for a fund like us is enormous. And that is there because we’re seeing so many different trends that are driving the credit markets, some of which are genuinely transformational.”

Perhaps there’s nothing surprising about hearing such optimism from the leader of a firm which takes its name from the Irish word for ‘lucky’ or ‘fortunate’.

Still, like any serious hedge fund, Johnsson said his team were tracking market segments where credit discipline has softened and trouble is brewing. In those areas, firms like Sona are seeking to cash in via short positions or by providing profitable rescues to capital structures about to buckle.




**Credit Edge: Sona CEO Eyes Asset-Based, SRT Expansion**

45:00

Private credit "is a victim of its own success", he told my colleagues *James Crombie* and *Aidan Cheslin,* pointing to broad deployment pressures that followed massive inflows.

"The easiest way to deploy was in large software deals. Boom. So if you've ended up with a lot of that in your portfolio, you're going to be scratching your head a little bit now and thinking, how do I get out of this?"

"It's very much in your interest to believe that these credits are all performing and there's nothing wrong. Time will tell."

Johnsson said he believed a notable number of "quiet debt restructurings" were taking place in certain corners of the market, the results of which would inevitably show up in lower returns over the coming years.

"The trend is going to be down in terms of price, either because of sector reasons or idiosyncratic credit reasons. And in those cases, obviously you want to try to express that by just staying away from it or by going short if you can."

Some credit positions are however tougher to short than others, and the high costs of those trades can undermine the investment case, he warned.

A lack of private credit fire sales is similarly frustrating, he said, notwithstanding elevated redemption levels at several US business development companies.

"There is not a lot of sales of private credit assets or even portfolios. And the portfolios that are trading are trading actually at pretty high prices. That is a little bit hard to square."

SRTs and asset-backed finance opportunities are the apple of Johnsson's eye right now, as the capital markets take on greater responsibility in financing the global economy.

"We really like SRTs, although spreads have obviously come in a lot over the last couple of years," he said. "European banks in particular have realized that the way that they can get the best returns for their shareholders is to develop more into an origination to originate to distribute model.”

“The flexible mandate that we have allows us to look at everything and anything on a bank balance sheet and try to price that appropriately – that is a big advantage for us.”

Analyzing the opportunities presented by AI is occupying plenty of brain-power at Sona, but there are ample ways to play the mega-trend that don’t require binary bets on whether one hyper-scaler will succeed over another.

“Those of us that have been in the market for a long time know that it comes and fits and starts. There’ll be some rumor a hyper-scaler is slowing down its capex spending and everyone will panic and sell everything. And then in two weeks’ time, they’ll buy everything again.”

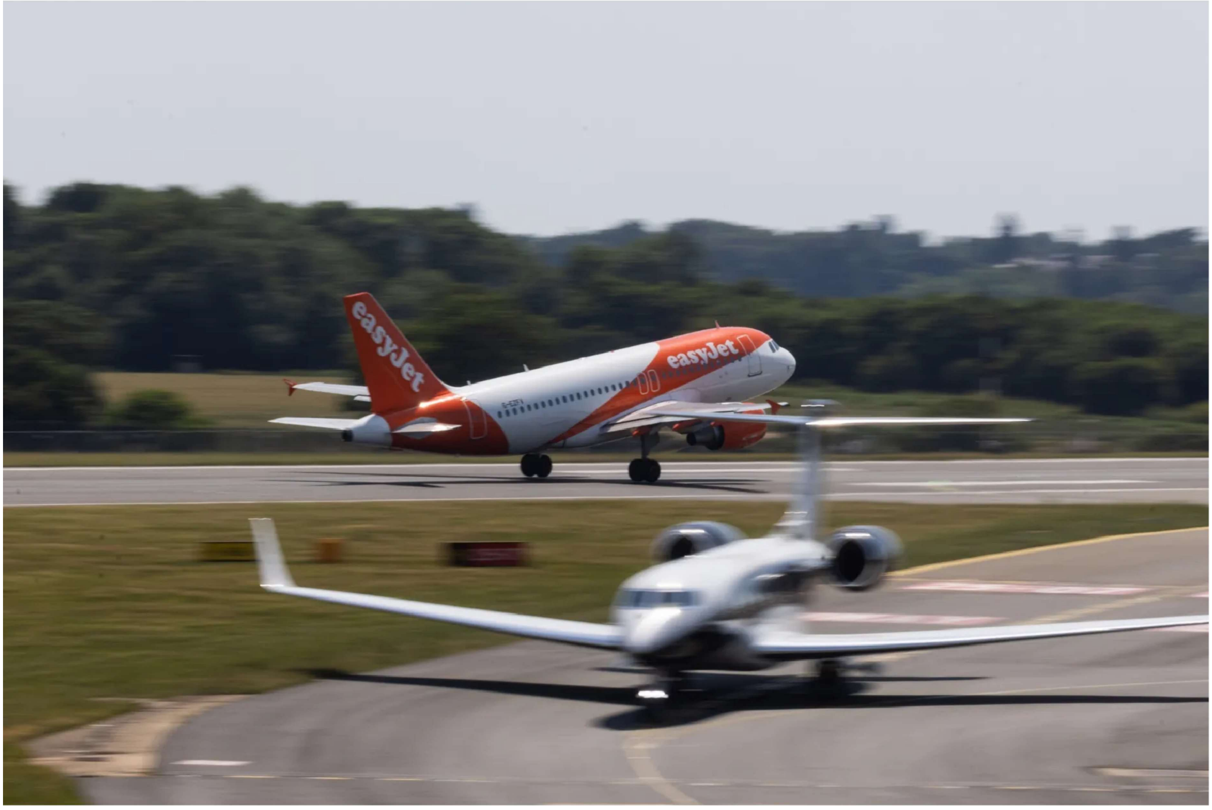
“We really live off of the rates of change, seeing things go up and down. That’s what creates opportunities for us rather than saying, ‘AI is the thing. We’re going to put all our money and go long on this’.”

**Brace, Brace**

The takeover tussle for **EasyJet** suddenly got a lot more interesting, after **Marc Rowan’s Apollo Global Management** landed a £5.7 billion bid on Friday that leaves jilted suitor **Castlelake** staring down a possible bidding war.

Just days ago, the US investment firm thought it had finally captured its prize at the fifth time of asking, after its £6.90 a share cash offer won round EasyJet skeptics who had earlier accused Castlelake of trying to buy the low-cost carrier “on the cheap.”

The airline’s board has now shredded that agreement in principle, shifting its recommendation to Apollo’s £7.15 offer.




A passenger aircraft, operated by Easyjet Plc, takes off from London Luton Airport *Photographer: Chris Ratcliffe/Bloomberg*

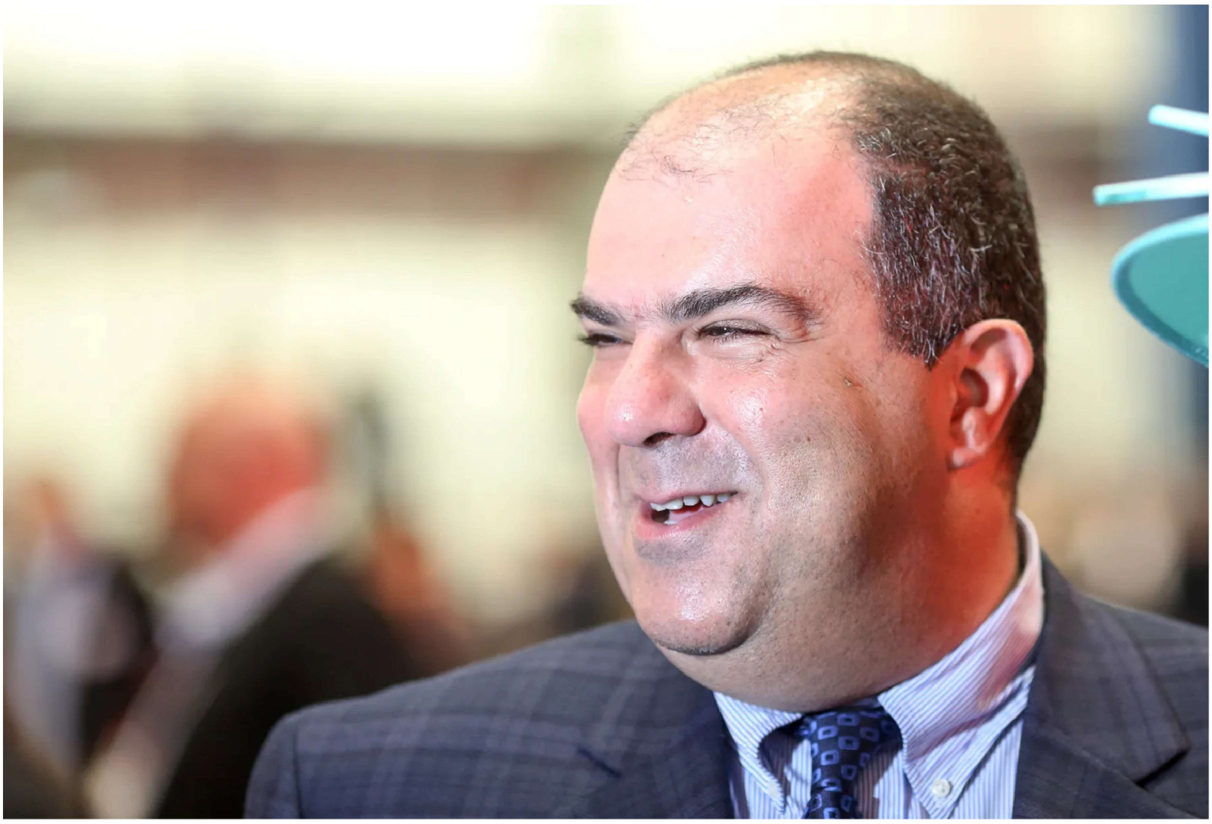
EasyJet, one of Britain's best-known consumer brands, went public in November 2000 at £3.10, according to data compiled by Bloomberg. Shares reached an all-time high of £15.84 in early 2007 amid an aggressive expansion across Europe.

Its shareholders, including the family of founder **Stelios Haji-Ioannou**, have however swallowed more sluggish returns of late due to surging jet fuel prices, tighter consumer spending and competition from rival low-cost airlines.

Apollo believes it can help management achieve a turnaround away from the glare of a hostile stock market.

"EasyJet management's operational and commercial ambitions can be substantially accelerated via the access to incremental capital and longer-term business and strategic planning that a private company setting affords," Apollo said in a statement.

Although financially superior, the success of Apollo's bid is contingent on finding a European partner, given restrictions on overseas investors seeking control of European airlines.


Stelios Haji-Ioannou, founder of EasyJet *Photographer: Chris Ratcliffe/Bloomberg*

Castlelake has already satisfied that requirement, after teaming up with former EasyJet executive **Peter Bellew** in a bidding group that also includes **Brookfield Asset Management Ltd.**

It now needs to determine if it can come back with an even higher figure to outrun Apollo, though some analysts are already questioning the math.

At the level that Apollo is now offering, “a heroic cost restructuring and earnings inflection, far above what we currently forecast, would be required for the deal to make sense at this price,” said **Alex Irving**, an aviation analyst at **Bernstein**.

Both Castlelake and Apollo have experience in the aviation industry. Castlelake has financed aircraft leases and was previously a co-investor in **Air France KLM’s** takeover of Scandinavian carrier **SAS**. Apollo runs an aircraft and aviation financing business that includes a leasing, management, and finance company operating out of New York, Dublin and Singapore.

Combined, the Apollo aviation platform finances more than 360 commercial aircraft and more than 60 engines, according to the company.

### In Their Words

"For venture investors, knowing whether a company will exit has always been only half the question – the harder part is knowing when. Exit timing has become one of the most pressing questions across the industry, shaping everything from fund returns to how LPs plan for liquidity. "

Andrew Akers

Associate Director, Quantitative Research at **PitchBook**

The firm has launched an AI-powered predictive tool to help investors gauge when an investment might be ready for sale. The daily estimates update as a company's profile evolves, and tie in intelligence on market conditions, employee data, and fundraising metrics among other factors.

### The Number

# ~400

The number of miles of fiber cable already under management at newly-launched **Blue Owl Capital** venture, **Kirkwood Infrastructure Group**. The company, wholly owned by Blue Owl funds, will develop, own and operate fiber networks critical to the AI buildout.

### Movers and Shakers

**Rest Super**, one of Australia's biggest pension funds with A$105 billion of assets, is reducing senior executive roles in finance, member service and strategy departments, according to people familiar with the matter.

The pension fund is set to lose chief financial officer **John O'Sullivan**, chief strategy and corporate affairs officer **Tyrone O'Neill**, as well as chief service officer **Brendan Daly**, the people said.

**Cantor** is beefing up its presence in the Middle East and other locations, hiring 16 people to expand its fixed-income business outside of the US.

The majority of the team will be based in Abu Dhabi, where Cantor opened an office in December, while others will be in London and Singapore, according to a person familiar with the matter.

The group will be led by **Tom Goodale**, who previously worked at **Stifel Financial Corp.** Goodale is among at least 10 people who left Stifel for Cantor, the people said.

He'll report directly to **Christian Wall**, Cantor's co-CEO and global head of fixed income, and work closely with **Ali Khalpey**, the head of investment banking and capital markets for the Middle East, one of the people said.

Representatives at Stifel didn't respond to requests for comment. Goodale didn't reply to a request for comment made via **LinkedIn**.

### What's Keeping Us Busy

- **BlackRock's Global Infrastructure Partners** and **Stonepeak** are among companies evaluating bids for a $5 billion port in Brazil owned by **Trafigura Group** and **Mubadala Capital**
- The Delaware judge handling litigation over **Apollo's** $570 million payout to its founders has stepped aside from the case, over her ties to a white-shoe law firm that advised Apollo on a transaction related to the dispute
- Commitments for AI spending should sustain the investment theme for two to three years, even as tech giants turn cash-flow negative and start raising debt to fund buildouts, according to **BlackRock's Helen Jewell**
- **Bank of America** is investing in niche German private debt as part of a push to win mid-cap clients in Europe. BofA has participated in two deals in the *Schuldschein* market since last year. The market is typically used by smaller firms which might not have traditional bank lending facilities

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