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Park Square *Perspectives*



Volume 6:

Investing without alignment
is a losing game

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Park Square Perspectives

Investing without alignment is a losing game

Before entrusting someone with their capital, every investor should ask themselves: are our interests truly aligned?

Alignment is often assumed, yet too rarely tested. But it's fundamental to success for investors.

In the simplest terms, you should never invest in a setup where the manager wins while you lose. Instead, their success must depend on yours.

This is especially true in private credit where LPs, lenders, sponsors and the companies being backed all must row together.

Alignment at the core

At Park Square, alignment has always been foundational. From the beginning, our institutional backers insisted on it. They wanted to know: were we investing our own capital alongside theirs? Were we compensated in a way that depended on performance? The answer always was yes.

That philosophy still defines us today. It's a principle which we believe differentiates us from much of the broader private credit landscape. And across market conditions, it gives us the discipline to act decisively when conditions are right — or to step back when they are not.

What alignment really means

At its core, alignment is about the “win-win”. But it's not just a slogan. It is structural and is reflected in loan documentation and covenants that close gaps where interests might otherwise diverge. It is also visible in sponsor behaviour — how much of their own capital they have riding on a transaction, whether they reinvest to strengthen a company or extract value prematurely. We police this sort of alignment relentlessly to ensure we're all focused on the same outcome, and it something we ensure is in place very early on in our conversations with sponsors.

The results are clear. Across the broader market, the average equity contribution in deals is about 50%. In Park Square's portfolio, the figure is closer to 65%.¹ When two-thirds of the capital is equity, sponsors are deeply invested in success, their incentives are tied directly to the company's performance.

By contrast, thinly capitalised deals create space for sponsors to extract value long before lenders are repaid. That is misalignment in practice — and exactly what we work to avoid.

Creating true alignment goes beyond structures. A key factor is having skin in the game.

Skin in the game

Creating true alignment goes beyond structures. A key factor is having skin in the game. That means putting substantial amounts of our own capital into the transactions we support and facing the same risks alongside our investors.

At Park Square that requirement isn't just limited to an investment on behalf of the firm or to a few people at the top. That personal involvement runs deeper, to the people working on the deals. The success and benefit of a performing transaction is shared widely but if an outcome were to disappoint, the impact would be felt equally broadly.

This fosters a strong sense of teamwork and a culture where people can, and are encouraged to, call out any issues they see with deals. They know that as much as they are working for success, perhaps they are working even harder to avoid failure because its impact will be felt directly. This “eating our own cooking” creates a very powerful sense of alignment running right through Park Square, one that shapes everything we do.

1. Third party data publications are sourced from European market statistics in LCD reports. Publications: European Leveraged Finance Quarterly Trend Lines and European LBO Debt Quarterly Trend Lines, published by PitchBook. Data are as of 30 September 2025 for the period 2020 - Q3 2025. Park Square multiples reflect actual Park Square metrics for all primary deals completed during the period. All third party data remain the property of their respective owners. Park Square Capital does not guarantee the accuracy, completeness, or suitability of such data, and no third party has endorsed this material.



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Alignment in compensation

Compensation is another tool to embed alignment. In an ideal world, managers' compensation would be heavily weighted towards results. Private credit, while not perfect, comes closer to this model than many other traditional asset classes.

Contrast this philosophy with managers which are increasingly weighting their compensation models to deployment. That structure rewards asset gathering regardless of performance, creating pressure to originate and deploy capital even when deal quality is weak. It incentivises scale over discipline. That is misalignment in action and will likely end badly.

At Park Square we believe in the model where compensation is heavily weighted to performance.

Alignment as discipline

We believe saying “no” is the most powerful word in investing. Most opportunities should be rejected, and our team is empowered to veto poor transactions quickly. Given our important private equity relationships, it is in no one's interest to “ring the doorbell and run away”.

Sometimes discipline must extend further. Markets move in cycles, and when deals no longer compensate adequately for risk, the right choice is to pause altogether. Before the global financial crisis, we captured our stance with a simple phrase at a Paris conference: “Let's go to the beach”. Alignment provides the courage not only to say no to bad transactions, but also to put pens down when conditions turn unfavourable. That decision-making protects our investors - and ourselves.

The cost of misalignment

Sceptics might argue that an intense focus on alignment is costly. It potentially requires more lawyers, more experienced

teams, more diligence and is unpopular when markets are exuberant. That's true. But the cost of misalignment outweighs these expenses.

In credit investing, returns on offer are broadly similar. Pricing between a good deal and a riskier one is not too different. The greater danger is not missing out on a slightly higher yield, it's losing principal. Catastrophic losses, or “zeros,” can devastate portfolios. Another risk is adverse selection: building a portfolio full of mediocre deals because managers are pressured to deploy capital quickly, regardless of quality. Both risks multiply when alignment breaks down.

The math is simple. A handful of poor-quality deals can wipe out years of good performance. Avoiding them by insisting on alignment is far cheaper.

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A non-negotiable

We believe alignment should not be a “nice-to-have”. It's a hygiene factor, and not optional for long-term success. But investors can overlook it. It ensures that everyone rows in the same direction, that risks are managed properly, and that value is created.

In investing, as in life, you want partners who succeed only if you succeed. That's the real test of alignment — and the question every investor should ask.

Let's discuss.

To find out more, see how we can help or discuss a mandate, please get in touch.

Contact us →

