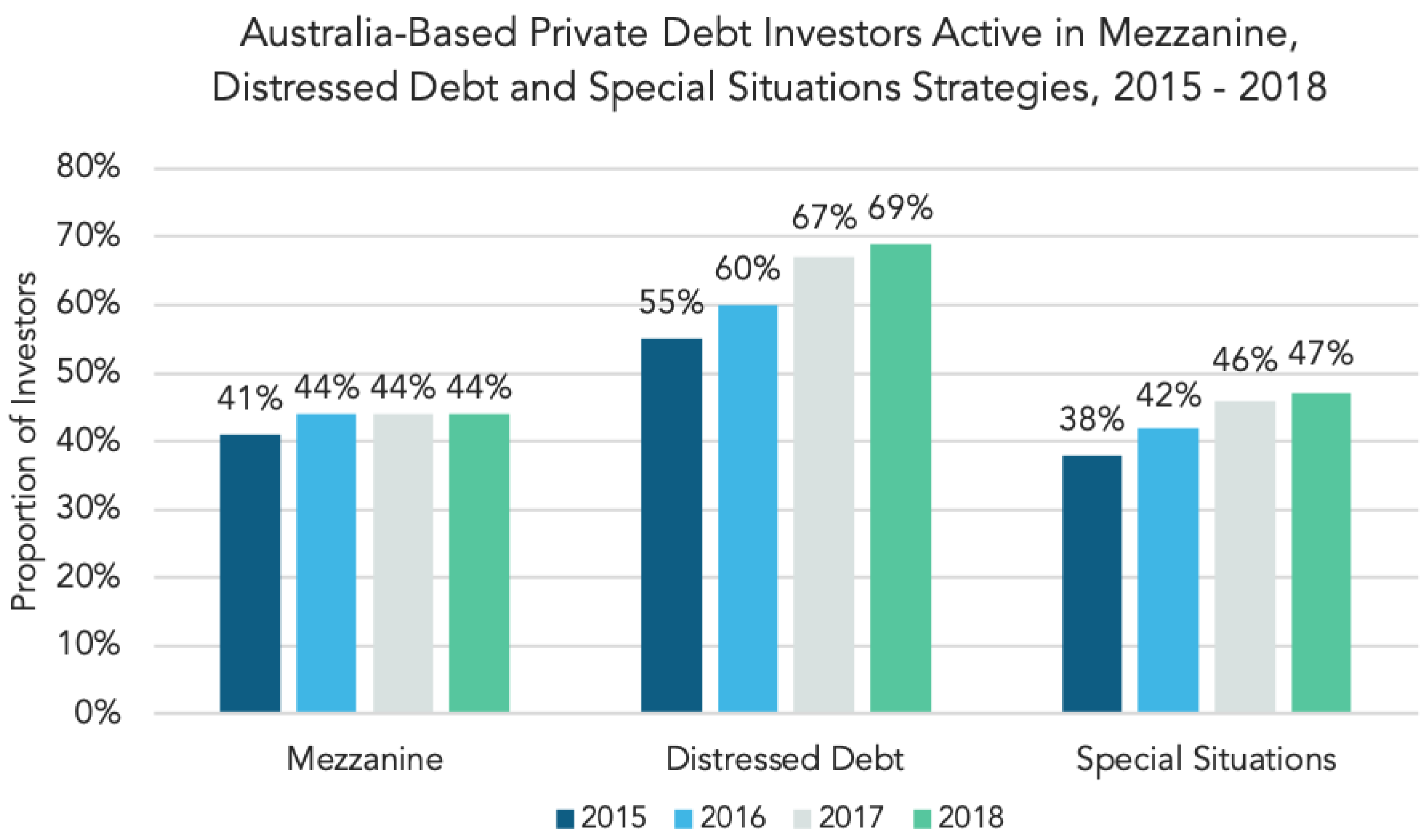
Private Debt Intelligence – 12/3/2018

THE LEAD | December 4, 2018

Australia-Based Private Debt Investors Look to Distressed Debt

Chart



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The pace of growth of the Australia's private debt market has trailed behind other regions, most notably the US and Europe, but it is finally seeing an uptick. After a year-on-year decline in assets from 2013 to 2015, Australia-based assets has seen its private debt industry grow once more. As at March 2018 – the latest data available – Australia-based private debt assets under management stands at $920mn. This includes $400mn in dry powder, which is in fact, the largest amount of dry powder that Australia-based private debt firms have held since the end of 2009, when dry powder stood at $470mn.

Australia could see its private debt market grow further, as the proportion of active investors in distressed debt and mezzanine private debt strategies has grown. In 2015, 38% of Australia-based private debt investors were actively allocating to special situations, while in 2018, 47% of investors actively invest in the strategy. Similarly, while just over half (55%) of private debt investors in Australia actively invested in distressed debt in 2015, in 2018, 69% invest in the strategy. A spike of interest in distressed debt could be due to that many investors believe there is a sign of significant market correction on the horizon. By contrast, interest in mezzanine funds has remained somewhat constant: in 2015, 41% showed interest in the strategy and in 2018, 44% allocate to mezzanine funds.

According to Preqin's latest report on superannuation schemes in Australia, allocations have traditionally tilted towards real assets such as infrastructure and real estate. In fact, 29% of Australia-based investors allocating to private debt also invest in real estate and infrastructure debt vehicles. Allocating to real estate and infrastructure debt alongside general private debt helps investors further diversify their portfolios and helps to suppress volatility.

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