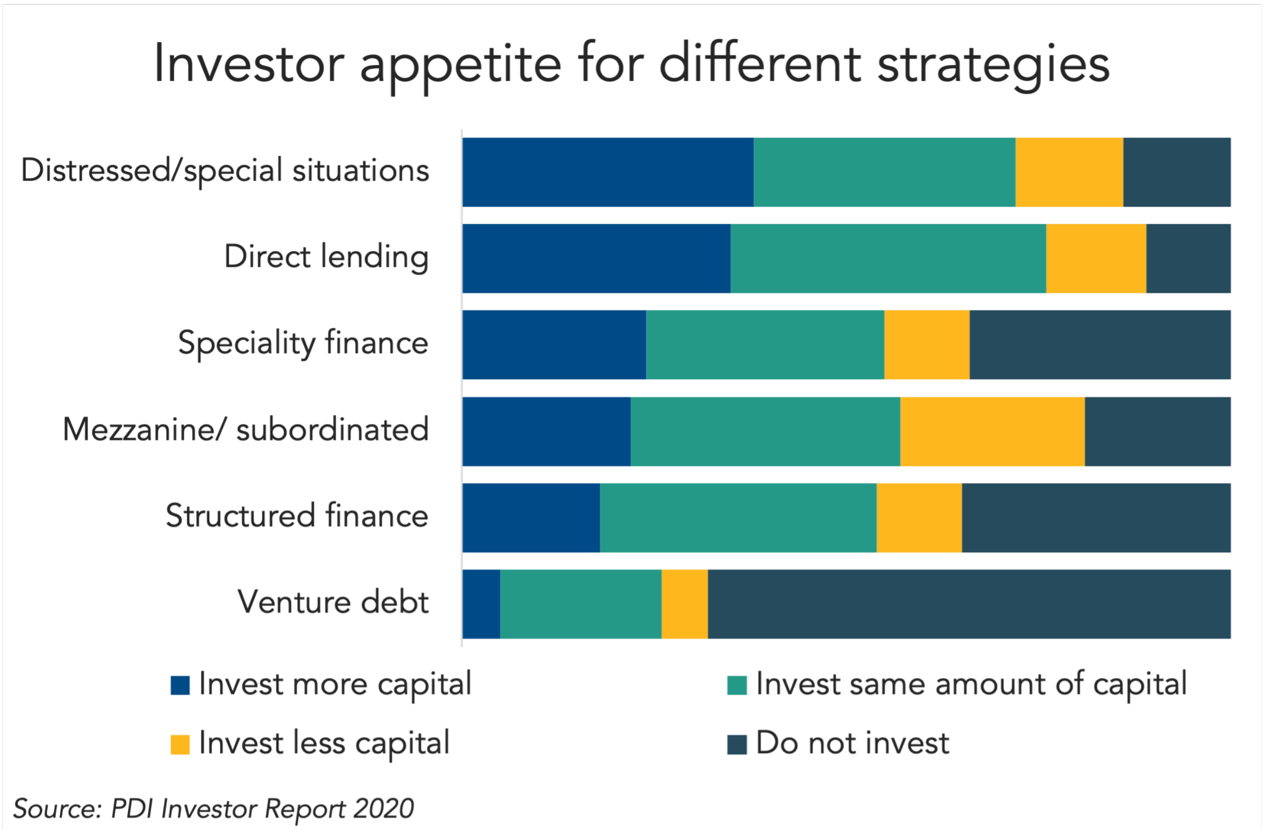
THE LEAD
https://theleadleft.com/pdi-picks-2-1-2021/

Views from the investor frontline

Private Debt Investor | February 3, 2021



Distress, recession and mature markets are all front of mind for LPs keeping the faith in private debt.

Our latest study of investors in private debt unearthed the following findings:

Distressed and special sits move into focus: As can be seen from the chart above, more than a third of limited partners are planning to increase allocations to distressed and special situations strategies this year, the obvious strategic beneficiary as market distress become more apparent. There is also a growing appetite for direct lending, while more capital looks set to flow into speciality finance as LPs seek less crowded markets. Asset-based lending tied to products such as residential mortgages, student loans, credit card receivables and ship financing is dominated by banks outside the US but looks increasingly fruitful for private debt as well.

Recession becomes a reality: Top of mind for LPs right now when it comes to what could impact performance in the next 12 months is recession in core markets, which should come as little surprise given the volatility of public markets and the increasing certainty that the effects of the pandemic will be felt well into 2021. Next in line is the covid-19 outbreak, followed by extreme market valuations. Concern around the US-China trade war has dropped as coronavirus worries have taken over.

Enthusiasm cools on emerging markets: Investors are showing increased appetite toward the more established private equity markets of North America, Western Europe and Asia-Pacific over emerging markets. The enthusiasm for Asia-Pacific in particular is perhaps a reflection of that region's economies being further along in their recoveries, and thus far not facing widespread second waves of the covid-19 pandemic. On KKR's third-quarter earnings call, for instance, the firm credited its relative weighting to Asia as benefiting its performance.

Confidence in private debt stays strong: Despite a challenging 2020 for GPs, there is little evidence of investors losing faith in senior secured private debt and most maintain strong expectations for performance in the asset class for 2021. Coronavirus provided the first major test for private debt after its rapid growth in the past decade, and it delivered: LPs are more confident in 2021 than they were a year ago.