Fundraising still lagging – for now

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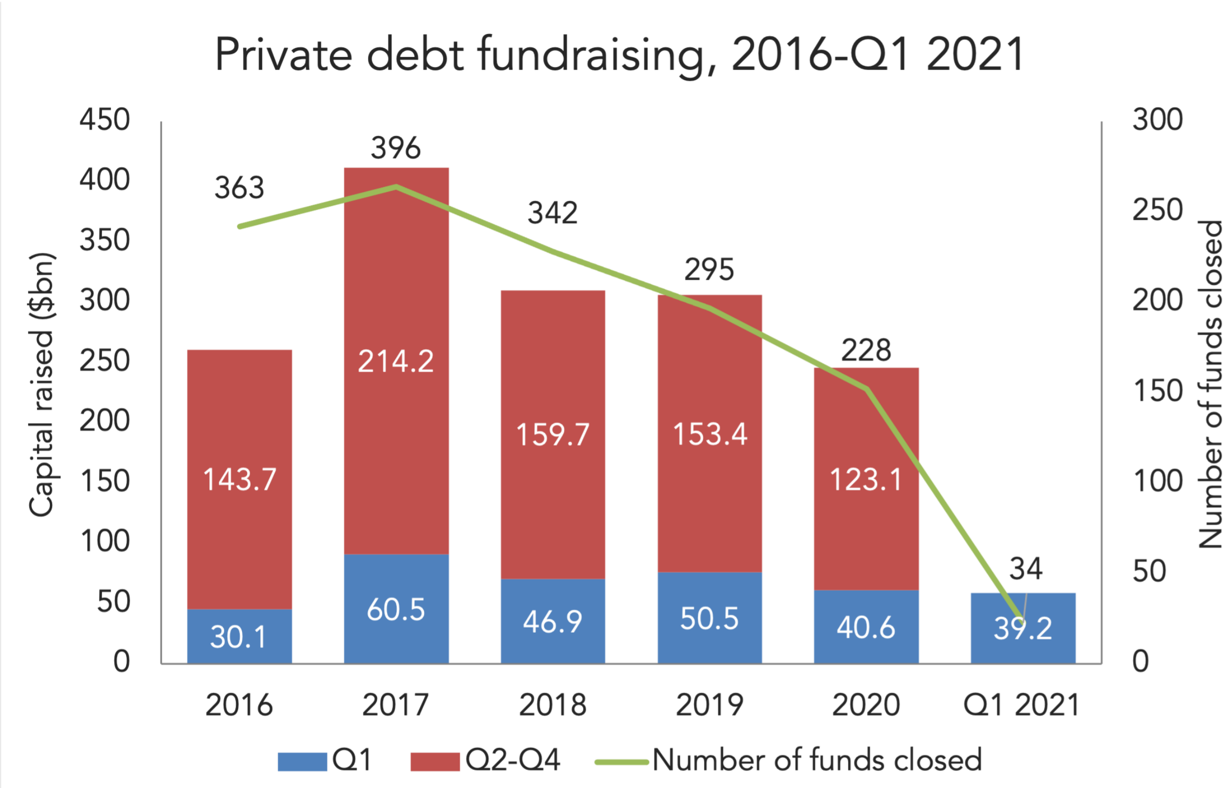

Private debt fund managers are still struggling to attract investor commitments, but the asset class looks well placed going forward.

The numbers are in – and provide disappointment for anyone hoping for a rapid turnaround in the fortunes of private debt fundraising. As can be seen from the chart above, the total raised in the first quarter of this year was less than $40 billion and amounted to the lowest first-quarter total seen since 2016.

Perhaps even more striking was the fact that just 34 fund closes were recorded in total. This shows further acceleration of a trend towards fewer fund closes that has been clear since 2017. In that record-breaking year, almost 400 funds posted a closing of one kind or another; but, by last year, this had fallen to 228. Unless there is a big pick-up over the next few quarters, 2021 could plummet significantly lower still.

But before anyone gets too maudlin about the fundraising scene, it is worth bearing in mind that private debt remains a very popular asset class among investors. Having already won over plenty of hearts and minds prior to the outbreak of coronavirus, the common view since is that the asset class has weathered the storm very well. Given the continuing underperformance of fixed income, the volatility on public markets and fears over a private equity bubble, private debt looks a relatively safe option while also being capable of delivering good returns.

The truth is, we were never likely to see a turnaround in fundraising fortunes this quickly. Last year was a struggle for many asset classes as investors paused from making commitments to see how the dust settled. Even when they had regained confidence, the challenges of conducting remote due diligence on managers meant that LPs were necessarily hesitant. Our data shows the time taken by managers before achieving a final close is as lengthy now as it has ever been.

Without in any way wishing to downplay the ongoing challenges with covid in many parts of the world, there is nonetheless a growing sense of optimism about the advances of vaccination programmes and gradual opening of economies. Against this more promising backdrop, private debt fundraising has a good chance of regaining momentum as the year advances.