New ways of accessing private debt for hungry LPs

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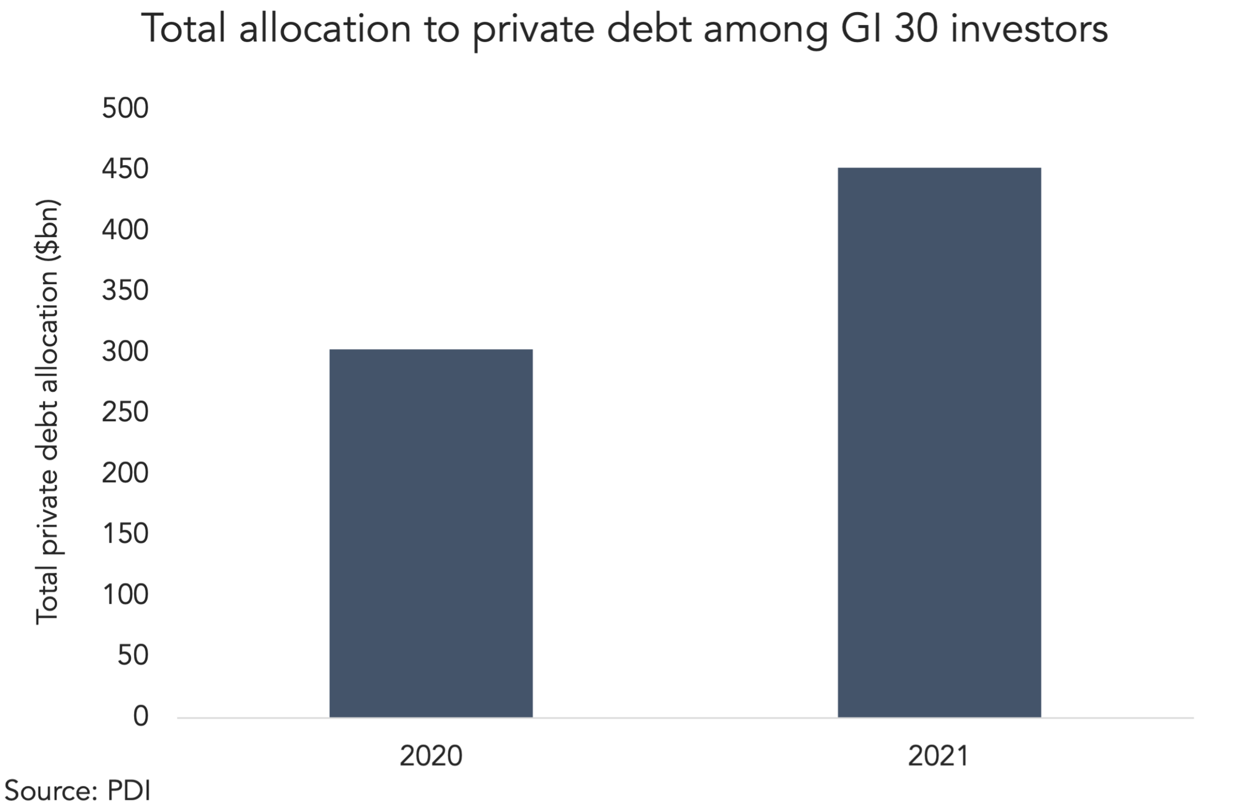

Permanent capital is the holy grail for fund managers looking to expand their fundraising potential even further.

In the previous edition of *PDI Picks*, we provided a glimpse of our *Global Investor 30* ranking of the largest LPs in private debt and included a table of the top ten. In this week's chart (above), you can see how the combined allocations of the top 30 have increased markedly compared with 12 months prior.

No one should be expecting private debt fund managers to be resting on their laurels, however. One thing they have long sought is ways to access permanent capital, thereby achieving a readily available pool of capital that reliably generates fee incomes and delivers a stable AUM base.

In the US, permanent capital has typically taken the form of business development companies (BDCs), for which billions of dollars have been raised since the structure first came into being in the 1980s. As of April 2021, there were 47 publicly traded BDCs in the US with a combined market capitalisation of $49 billion, according to Closed-End Fund Advisors.

But lawyers say they continue to be asked to set up permanent capital vehicles for clients looking to innovate. An alternative to the BDC is an interval fund, which is a way of giving investors periodic liquidity but still enabling them to access alternative assets. The Carlyle Group and OppenheimerFunds have both previously used such vehicles to target high-net-worth investors.

Permanent funds allow managers to better time their exits from investments but, going forward, their most compelling characteristic will undoubtedly be tied to their ability to grow the private credit asset class.

Fabian Chrobog, founder and chief investment officer at fund manager North Wall Capital, says: “Evergreen funds are interesting because they give LPs an option to come in and out of a fund and open up LP participation to LPs that traditionally wouldn’t be able to participate.

“Permanent capital allows managers to tap into pools of capital that they have not necessarily been able to tap into before. Using these to attract retail investors is just a question of time – once those products make it through and are understood by the sales force that caters for high-net-worth individuals, we will see a huge new inflow of capital.”

(Past performance is no guarantee of future results.)