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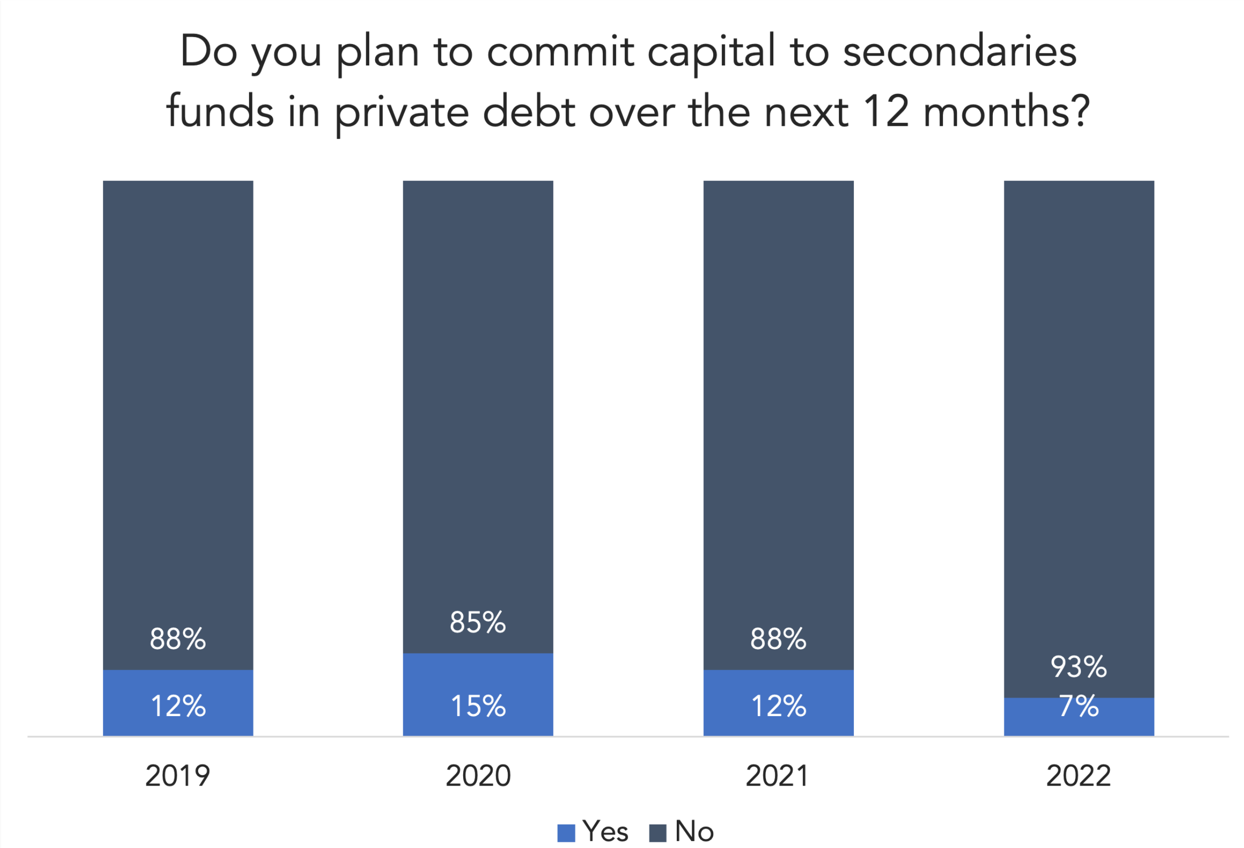
The secondaries puzzle

Private Debt Investor | February 10, 2022



There are signs of growth in the debt secondaries market, but investors appear less then enthusiastic about new commitments.

Nearly all the indicators seem to be going one way: increased appetite for private credit secondaries. In this context, the record $1.4 billion fundraising for Coller Capital's Credit Opportunities I fund last week was no great surprise. The vehicle raked in almost double the $750 million it set out to achieve in May last year.

Readers will have noted that the opening sentence included the word 'nearly'. As yet, private credit dealflow is still small, with a disclosed figure of around $2 billion per annum. But the significant thing may be what's undisclosed. In the February 2022 issue of *Private Debt Investor*, an article from Daniel Roddick of advisory firm Ely Place Partners suggested that much of the dealflow is accounted for by unreported transactions such as co-investment portfolio financings and the sale of warehoused assets into separately managed accounts. Add in these deals and the total rises to around $10 billion-$15 billion a year, he thinks.

But there is something of a puzzle to be found within our LP Perspectives Study, also part of our February edition. The study canvassed the views of well over a hundred investors and discovered that only 7 percent were planning to invest in private credit secondaries funds over the next 12 months (see chart). This represents a decline from the 12 percent planning such investment at the beginning of 2021 and a high of 15 percent at the start of 2020.

Part of the explanation for the thus-far stunted growth of the market may be private debt's self-liquidating nature. Contrary to other types of alternative asset, loans last for fixed terms before being repaid or refinanced. Debt fund lives are also typically shorter, lasting six to eight years as opposed to private equity's 10 to 12, so there are fewer natural sellers. It may also be that LPs are expecting a quieter period for fundraising following the leaps forward over the past 12 months.

So far, at least, we have a rather odd-looking state of affairs: a market where the largest fundraising announcement so far coincides with a reluctance from LPs in general to throw their weight behind the strategy.

(Past performance is no guarantee of future results.)