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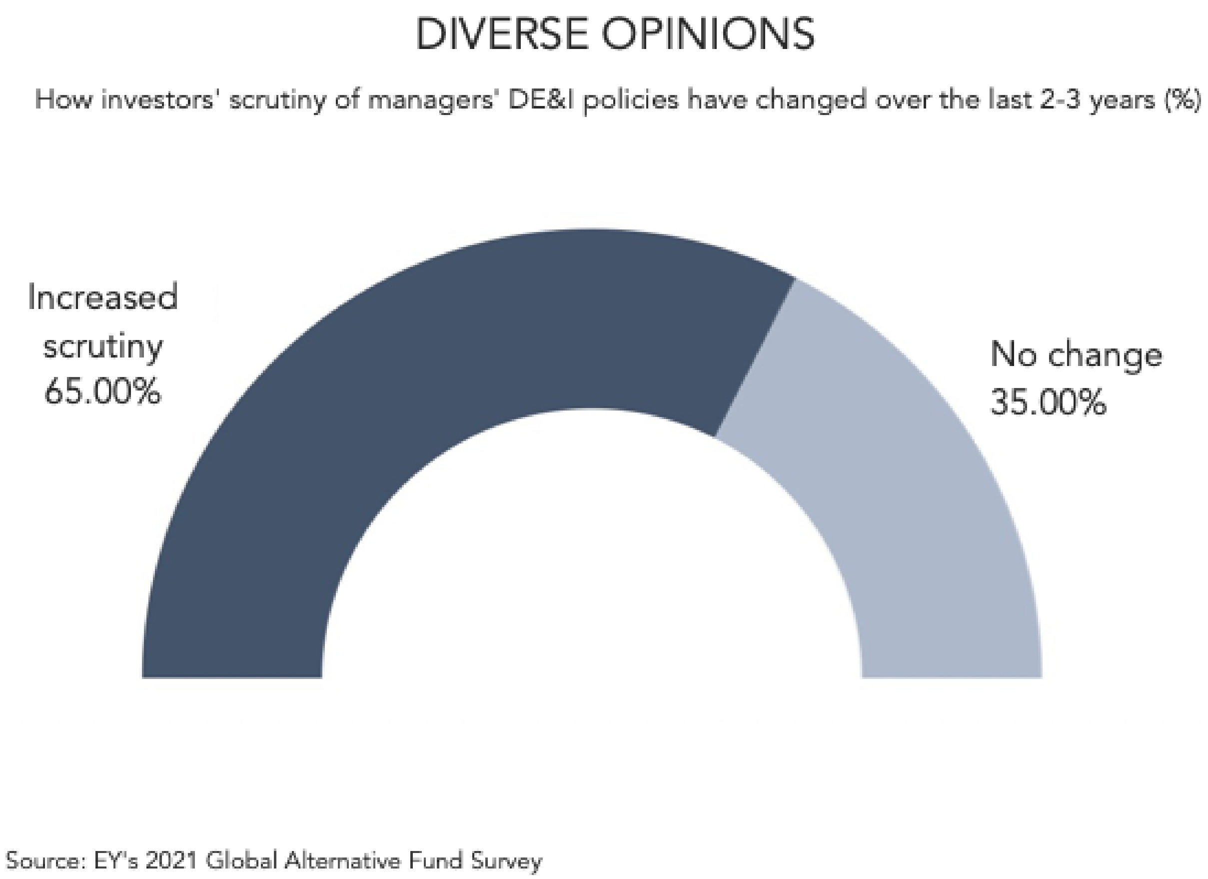
Priorities for the future

Private Debt Investor | November 8, 2022



PDI's recent Future of Private Debt report highlighted a number of key issues raised by sources in the market. Here's a selection of them.

LPs want more flexibility in terms of fund structures: Fund managers report that investor appetite for more flexible open-ended fund structures in private debt is gathering pace. As the maturing of the asset class drives demand for innovation, LPs want greater flexibility and longer terms for private debt funds.

This has resulted in surging demand for evergreen funds that offer all the benefits of private credit alongside enhanced liquidity options, and have the potential to appeal not only to existing large institutional investors, but also to newer investor bases coming to the asset class for the first time.

Diversity at fund managers is under the microscope: Institutional investors are becoming increasingly vocal on diversity issues, as the topic becomes a flashpoint for LP board members amid reports of heated discussions on the subject (see chart above).

In June, the Pennsylvania State Employees' Retirement System investment committee approved a $125 million commitment to Sentinel Capital Partners despite accusations that the firm misled the pension on its diversity efforts. Affiliate Buyouts reported the investment committee was split 7-3 on the decision after discovering the firm did not in fact have a mentorship programme for women and minorities.

There's still hope for emerging managers: Capital constraints are making the fundraising environment tougher than ever, especially for emerging managers. But the annual *Buyouts Emerging Manager Survey*, conducted in partnership with Gen II Fund Services, has some cheer for first-time funds.

While more than 40 percent of emerging managers say fundraising has become markedly more challenging since covid struck, the good news for the new kids on the block is that savvy investors view emerging managers as a route to superior returns: over half of investor respondents agreed that the risk/return profile for emerging managers versus established managers is attractive.

The digital era is dawning: Fund managers are targeting the retail market via tokenisation. Individual access to private markets took a big step forward this year when KKR, working with digital assets securities firm Securitize, offered tokens in its latest $4 billion healthcare-focused private equity fund. The tokens can be sold on a Securitize-managed secondary market just one year after purchase.

While this was for a private equity fund, the implications of this initiative may be even more significant for private debt. Partly that's because while private equity currently provokes a nervous reaction, private credit is seen as offering relative safety with the potential for upside. Moreover, it's seen as a more liquid option thanks to the yield component.

(Past performance is no guarantee of future results.)