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# Direct lending stays in favour with LPs

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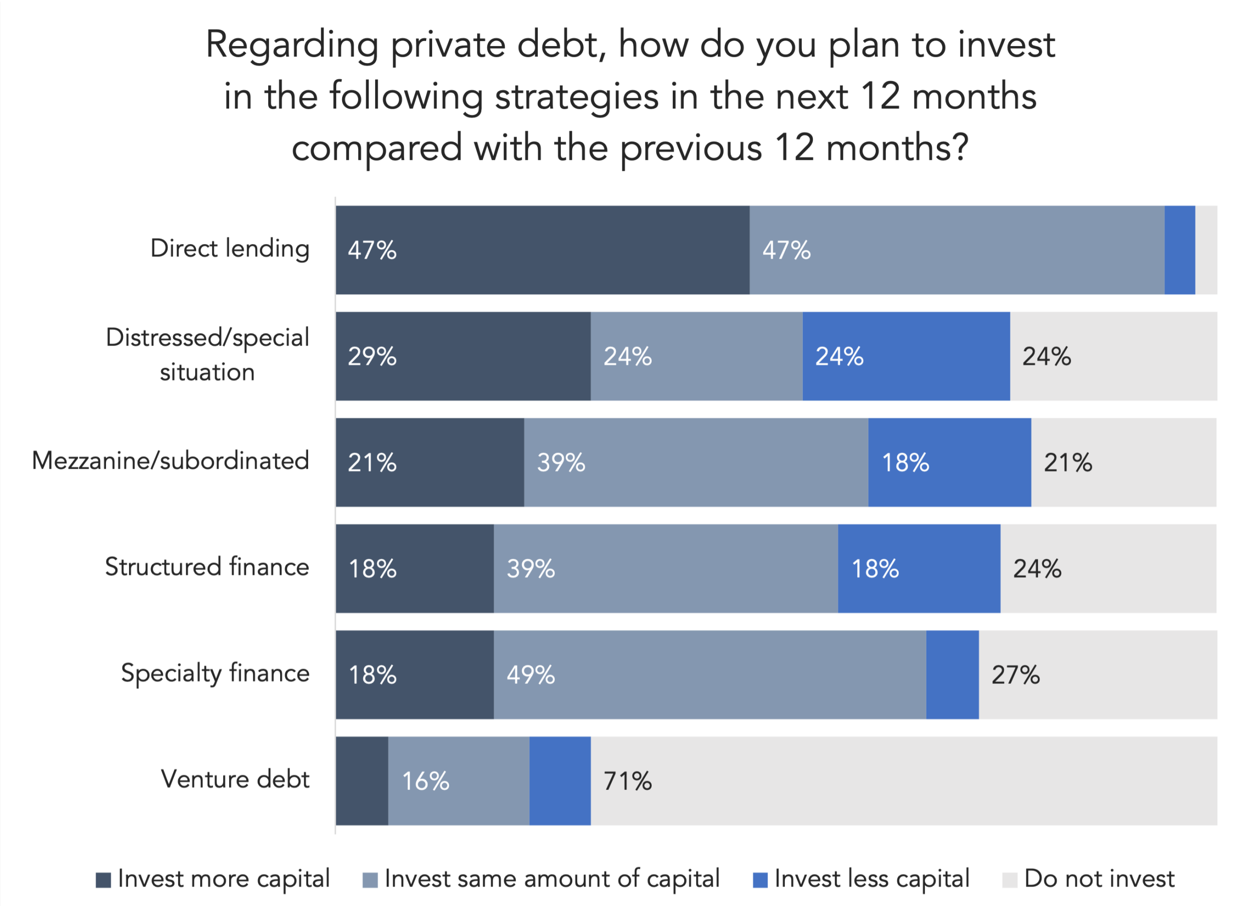


*With few signs of trouble emerging the strategy is still going strong, but for distress the outlook is more mixed.*

Direct lending strategies remain top of the shopping list for investors in private debt, with 47 percent of LPs planning to invest more in those strategies during 2023 than they did last year according to P*rivate Debt Investor* ’s latest *LP Perspectives* study.

An overwhelming 94 percent of LPs plan to invest either the same amount or more capital in direct lending over the coming year, well ahead of the 67 percent that feel the same way about speciality finance and the 60 percent that plan to invest the same or more in mezzanine and subordinated debt.

Said one respondent to the survey: “Direct lending has been fortunate because it has not suffered significant stress. Everyone was concerned about that in the midst of covid, but there was no material impact on direct lending strategies and as a result LPs continue to re-up with their current relationships in the direct lending space, and those will continue to be a core part of their portfolios.”

Others agree that in a market where investors are anticipating more risk, direct lending appeals because it allows them to stay senior in the capital structure and relatively well-protected. “Within direct lending, we see investors moving towards non-sponsored lending,” another source said. “That is a big trend. We are also seeing investors moving down the size scale to support more lower mid-market managers, because there is a recognition that some of the larger-cap strategies are really where credit standards have loosened the most.”

Investors are split on distressed and special situations strategies, with 29 percent intending to invest more and 24 percent pulling back this year. Meanwhile, speciality finance continues to please investors, with 67 percent planning to either invest the same or more capital in the strategy in 2023.

Across all asset classes, LPs anticipate the proportion of their total assets under management that will be allocated to private markets to grow by 6.1 percent over the next five years. Nearly a third of investors (31 percent) expect to have a greater interest in North America within private markets over the next year, while 20 percent will increase their interest in Western Europe and Asia Pacific, and around a quarter (26 percent) plan to reduce their interests in Central and Eastern Europe.

*(Past performance is no guarantee of future results.)*