THE LEAD
https://theleadleft.com/letter-from-singapore-part-two/

Letter from Singapore (Second of Two Parts)

THE LEAD | April 11, 2023

Besides private credit, there's growing volume in Singapore around private equity, real estate, and even venture capital. And investors there are researching specialty finance areas such as royalty financings, asset-backed, aviation, and legal settlement.

Fundraising for APAC private debt amounted to $14 billion in 2022, a rather modest figure compared to US and Europe, but a tick up from 2019's $11 billion.

Under the private credit umbrella, direct lending has garnered interest, though skewed in favor of larger cap, more leveraged issuers where the banks do not play. Based on one of the PDI panels, there's also keen Asia-Pacific appetite for more opportunistic and distressed paper.

There the yields are higher and the deal flow more idiosyncratic. It's not clear if this translates to consistent income generation over the long-term.

At APB's conference, an informal survey of attendees we spoke with revealed private wealth likes the asset class but also is seeking ready liquidity. The current investment climate is fraught with uncertainty regarding the direction of rates and the economy. Investors – in Singapore, Asia and globally – are accordingly taking a wait and see approach.

In some ways we were surprised how investors' appreciation and concerns around the asset class were echoed in our travels in the US, Europe, Asia and the Middle East in past months. They have discovered how flexible and resilient an asset class private debt really is. But at the same time they worry about the effect of sustained higher interest rates.

Investor concerns also include valuation multiple contractions, the high cost of debt, earnings deterioration, and the J-curve. But they appreciated the consistency of private debt returns. "REITs are also popular here," we were told. "But because they are interest rate sensitive they got hit hard in the last twelve months."

One attendee, an investment consultant, told us that "not a lot of private equity is being done here." The large cap deals, to the extent they happen, are being taken up by the larger US managers. Otherwise, said another, "it's hard to get buyouts done." She explained in between panels, "Founders in Asia tend to be older and simply don't sell their companies as often."

The hesitant approach to private debt here by institutional investors is more strategic than tactical, explained one of our senior Nuveen managers. "It's not that they aren't interested in private debt. In fact, it's become a core part of their alternatives holdings. It's rather that they are thinking more about timing.

"Think about it from their perspective," he concluded. "Private debt has given them excellent value and a great income stream all through the pandemic. Now we're coming out on the other side into a more uncertain future. They can afford to wait a bit, and see what happens."