Subordinated debt bucks fundraising trend

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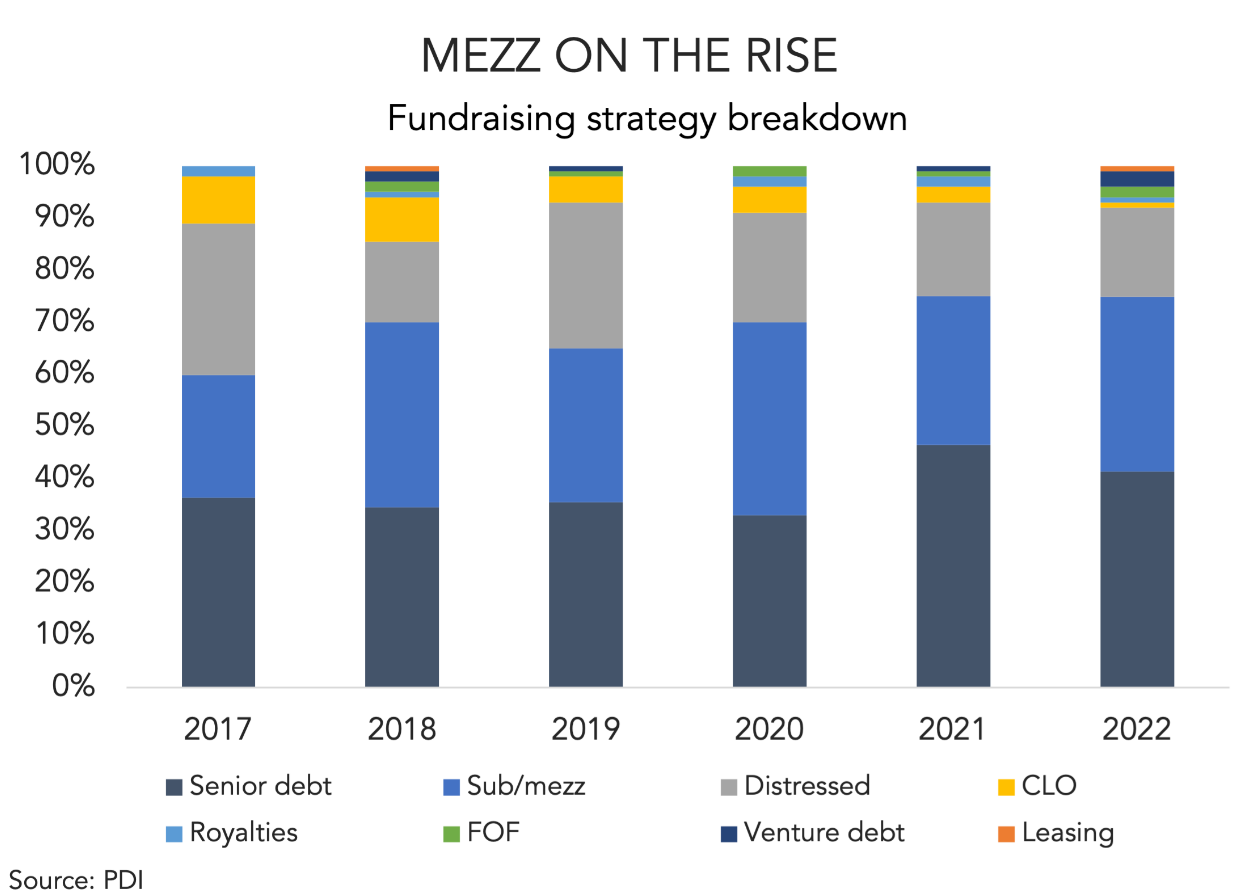

The strategy appears to be claiming market share as fundraising shows signs of coming under pressure.

Largely as a result of the denominator effect, but also due to investors taking stock of a challenging economic and geopolitical situation, it was always feared that 2023 might turn out to be a tough one for those fund managers attempting to gather fresh capital. Evidence from the first few months of the year does little to assuage such fears.

According to preliminary data from *Private Debt Investor*, the first quarter of 2023 saw just over $42 billion of capital raised by private debt funds globally – the lowest Q1 amount for at least the last six years and well below the $62 billion raised in the first quarter of last year.

By way of context, this drop in activity was mirrored across all alternative asset classes in the first quarter – and, indeed, was a less precipitous decline in private debt than was seen elsewhere. There are also still hopes that it may be a temporary pause for evaluation rather than portending anything grave for the future of capital raising.

One strategy that was going strong up to the end of last year was mezzanine/subordinated debt (see chart), and that trend appears to have accelerated in Q1 2023. Of course, one needs to be wary of a small sample size given the subdued nature of fundraising overall, but it's nonetheless striking that subordinated debt accounted for 60 percent of funds raised in the first three months. Senior debt, which had been the dominant private debt strategy in 2021 and 2022, saw its share fall to 27 percent in this period.

According to our data, the total amount being targeted by private debt funds in the market as at 24 April 2023 was more than $334 billion – of which more than $145 billion was being targeted by funds with a focus on North America. Those managers will no doubt be hoping that the positive investor sentiment around private debt will ultimately prevail over any concerns.

(Past performance is no guarantee of future results.)