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Letter from Down Under (First of Two Parts)

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In our continuing series on global private credit, we next cover the history and outlook for the asset class in Australia.

In a visit to Melbourne and Sydney last week, we met with a number of clients and firms with exposure, appetite, or interest in private debt. What became clear in these conversations was how important context is to understanding how participants think about alternatives.

Australia's economy is well known for being resilient. Before the Covid pandemic in 2020, it enjoyed one of the longest uninterrupted expansions – almost thirty years – among developed economies. While seeing some slowing in the current environment, that growth has given the continent a measure of stability compared to the volatility across global markets.

Additional support for that economic foundation is provided by a significant wealth of natural resources as well as major investments from China in real estate and infrastructure. Current and future growth also appears to be supported by being the third most popular destination for overseas students – behind the US and UK. And it's projected to overtake the UK in the next few years.

Australia's economic stability is matched by a very efficient credit market. Its major banks, CBA, ANZ, NAB, and Westpac, have about a 90% share of the leveraged loan market. And while those banks managed to avoid the worst effects of the GFC, tighter regulation has had the same chilling effect on leveraged loans as in the US and Europe.

There's also a strong middle market in Australia consisting of 20,000 companies with revenues between AU$10 – 250 million. These companies are mostly banked through the retail branches of the banks, so theoretically are ripe for opportunities among private debt arrangers.

Until the last year or so, the credit focus was on the domestic market with very little interest in off-shore investing. That included non-sponsored financings and high-yield. Now there's new-found appetite for US and European private debt opportunities.

Institutional investors told us that disintermediation from the banks to private debt managers began with commercial real estate debt. That in turn led to appetite for private corporate debt including private equity backed businesses.

As a result of the rapid rise of interest rates over the past year the demand for private credit shifted into a higher gear. "We went from no one wanting to talk about it, to everyone wants to talk about it," said one client told us in Melbourne.

"There's been an explosion of private credit offerings" in Australia from a number of large global asset managers, another client told us.

But how do you distinguish between these managers and their strategies?