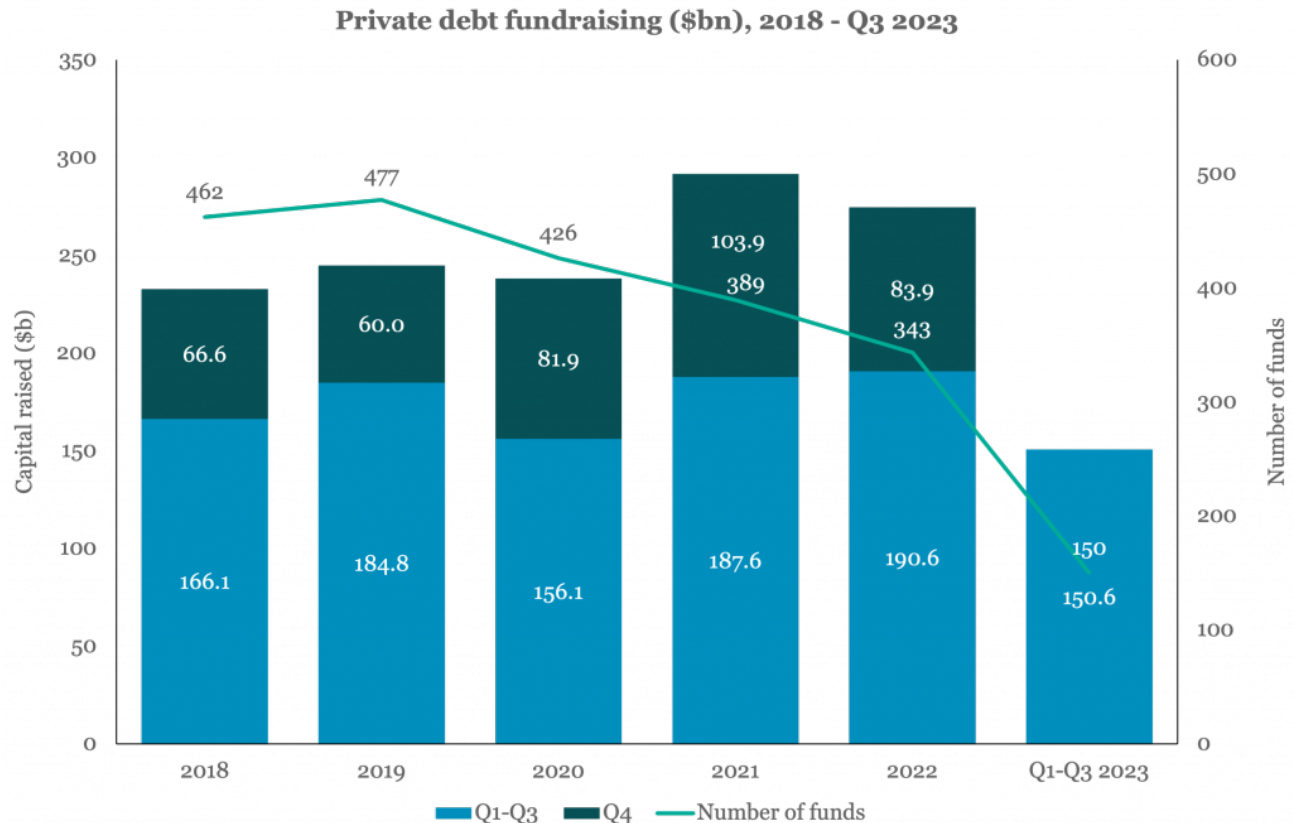


LPs remain cautious on fundraising

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The current environment for deal-doing in private debt appears to be strong, but there are reasons why GPs may still struggle to attract investor support.

Sleigh bells may not quite be ringing yet, but at *Private Debt Investor* we decided that we were close enough to the end of the year to reach out to investors for their thoughts on some of the key challenges and opportunities facing private debt as a new year comes into view.

As discussed here last week, this year was a tough one for [private debt fundraising](#), with just \$150 billion collected in the first nine months – representing the lowest opening nine-month period since 2016. While this naturally provokes the question as to whether we will see a fundraising recovery next year, the answer is elusive.

In theory, things should be looking better. Our cohort of LPs were largely in agreement with the argument that, for new deals, private debt has never had it so good. Better terms and conditions, stronger covenants, a wide range of new opportunities (including those created by stress) and increased equity cushions... ingredients that should add up to a high-performing vintage. “The current risk-performance profile is definitely in favourable waters for new deals,” was how one LP put it.

But while [a recent survey from Aeon Investments](#) did indeed reach positive conclusions about LP commitments to private debt next year (with around three-quarters saying they expected to dig deeper into their pockets), things may not be quite that simple. For one thing, our LPs made the point that they prize liquidity – which is something they may be prepared to forego when the public markets are getting hammered, but not so much when they are doing better. This succinct quote sums it up nicely: “Many investors are happy to postpone their private debt commitments as liquid credit is providing attractive returns.”

There’s also a sense that economic headwinds could take a toll on GPs that some argue have not been seriously tested over the years. Then there’s the reliance that many fund managers have on a leveraged buyout market confronted with a lack of M&A dealflow. Investors are worried that, seeing their core business drying up, some managers might fall into the trap of strategic drift – lured into apparently attractive areas such as distress and speciality finance that may test their skillsets and operational capacity beyond breaking point.

So, a private debt fundraising revival next year? Quite possibly, but it’s not as nailed down as you might think.