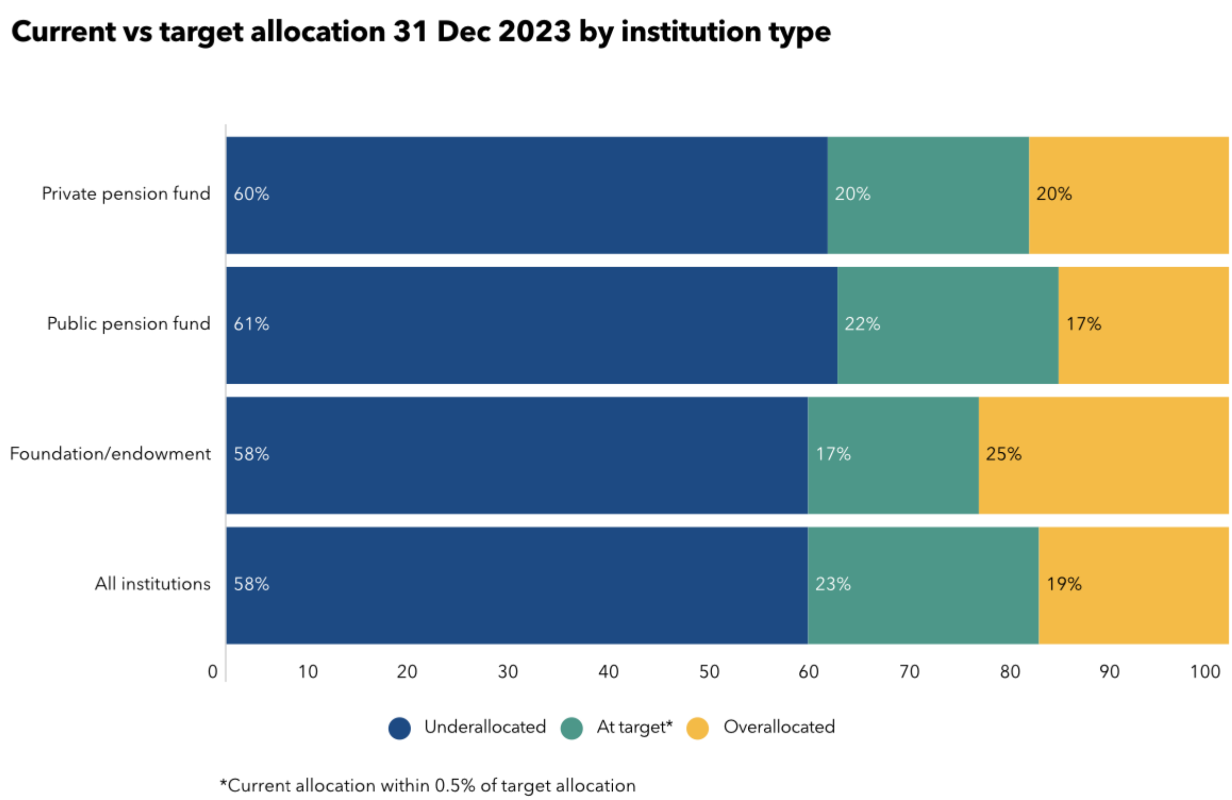
Under-allocations laid bare

Private Debt Investor | August 7, 2024



Limited partners have struggled to invest as much in private credit as they would like, as our new study shows.

Having been through a period where the denominator effect and slower distributions combined to hamper their allocation efforts, limited partners now find themselves substantially under-allocated to private credit.

This is one of the key findings of *Private Debt Investor's 2024 Investor Report*, which shows between 58 percent and 61 percent of institutional investors (depending on type of organisation) are currently under-allocated. Between 17 percent and 25 percent, by contrast, say they are over-allocated.

It remains to be seen whether limited partners will be able to address these under-allocation issues any time soon, although some of the pressures on making new allocations appear to be easing. The report indicates confidence on the LP side, with more than half (51 percent) saying they intend to invest more in the asset class this year and just 9 percent wanting to invest less.

One strategy that has remained popular throughout a relatively dry period for fundraising is direct lending. Our report confirms its continuing appeal, with 45 percent of LPs saying they are wanting to invest more capital into the strategy this year and only 6 percent wanting to invest less. This puts it well ahead of all other private debt strategies in terms of popularity.

Our report found US pensions dominating known commitments to private debt funds last year, with New York State Common Retirement Fund leading the way with 17 commitments in total, ahead of Illinois Municipal Retirement Fund (15) and Teachers' Retirement System of Louisiana (11).

The giant California Public Employees' Retirement System was responsible for three of the five largest private debt fund commitments last year: $1.5 billion to Blackstone Real Estate Debt Strategies V, just over $1.3 billion to Ares Capital Europe VI, and $500 million to Ares Senior Credit Investment Partnership.