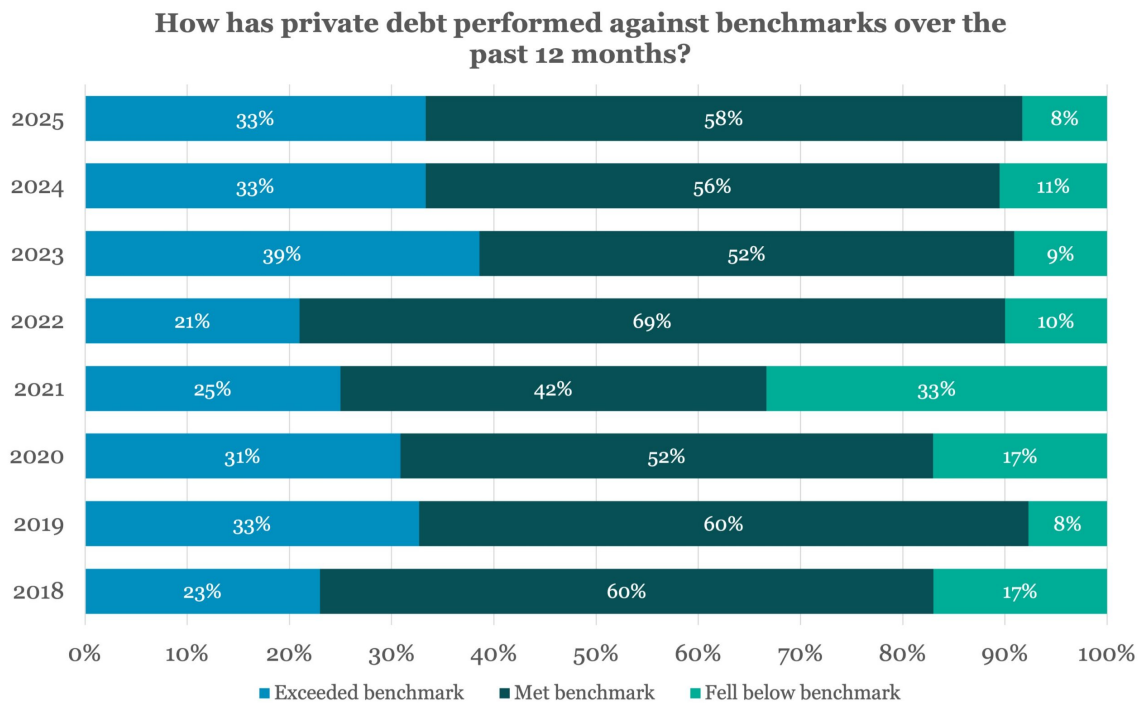


Performance driving LP confidence

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Investors are by and large happy with what private debt has achieved, even if they do have some reservations.

In a column before the holidays, we reflected on preliminary findings from our *LP Perspectives* study showing that 58 percent of investors wanted to invest more in private debt over the next 12 months.

Perhaps the biggest factor in this finding was performance. Of those surveyed, 58 percent said private debt had met its performance benchmarks and 33 percent said it had exceeded benchmarks – with predictions for the future similarly positive.

“The truth is nothing has really blown up in a big way in private credit,” Reji Vettasseri of Swiss-based wealth management firm Decalia told us. “You’ve got defaults here and there but it’s hardly been a disastrous environment given everything that’s happened.”

He added: “I think most people are reasonably happy and some have been surprised to the upside. People who were investing in 2020 and hoping to just scrape something acceptable from a debt allocation at zero interest rates have been pleasantly surprised that, when you transition to slightly different conditions, you can generate some really meaningful alpha.”

At the same time there is a view that some managers and funds are at risk from something unexpected happening because of exposures that are challenged but likely to recover as long as they don't get another adverse push. There is also concern over the covenant-lite nature of many deals, given they have potential to mask issues to the point where it's too late to address them.

"In a lot of our funds the covenants got tripped in the most affected deals in 2022 and they're now in a recovery phase," says Vettasseri. "A lot of the weakest performing assets are beginning to see the light at the end of the tunnel because actions that were taken are making a difference. The firms to be scared of are actually those who say they have no covenant breaches, because that means they've normally included no covenants."