Safety first

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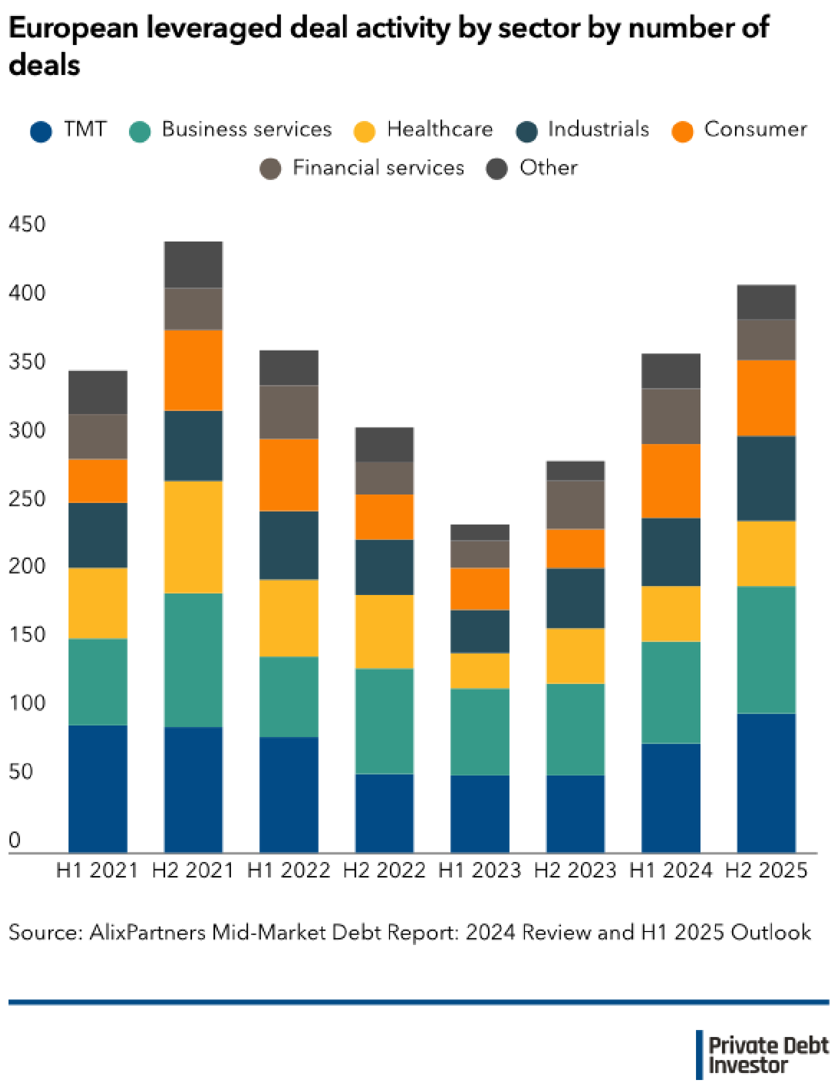

Amid a volatile macro-economic and geopolitical backdrop, private credit funds are doubling down their investments in trusted sectors.

US tariff uncertainty is leading to a flight to safety among private credit funds, particularly in terms of sector specialisms.

In *Private Debt Investor's* soon-to-be-published *Mid-Market Report*, we found evidence to support one professional's claim that "everyone is looking for the same thing right now" by trying to avoid volatility and focusing on assets that have strong revenue visibility and cash generation.

Software is one of the sectors proving popular as a result. There is also a lot of appetite for healthcare deals that benefit from strong fundamentals and demographic tailwinds. Business services is a third sector acting as a magnet for investor dollars. The valuations on some deals in these sectors are very aggressive – possibly north of 20 times EBITDA – even amid the tariff-induced turbulence and whispers of possible recession.

Investors are, naturally, a key driver of this trend. “Sector specialisation is certainly something that we are asked about by LPs and it seems to be something that resonates,” one fund manager told us.

One advantage of building deep knowledge of just a handful of sectors is that it can lead to better relationships with private equity firms, enabling decisions to be reached quickly. On the other hand, there is a danger of high levels of competition for deals in the chosen sectors – as well as concentration risk for fund managers and investors. Particularly for managers with large funds, awkward questions may be raised about a lack of diversification.

A survey from Alix Partners (see chart) provides evidence of this gravitation to certain sectors. Its tally of European leveraged deals for the second half of last year showed business services and TMT accounting for 195 transactions between them out of a total of 414 – not far short of 50 percent of the overall total.