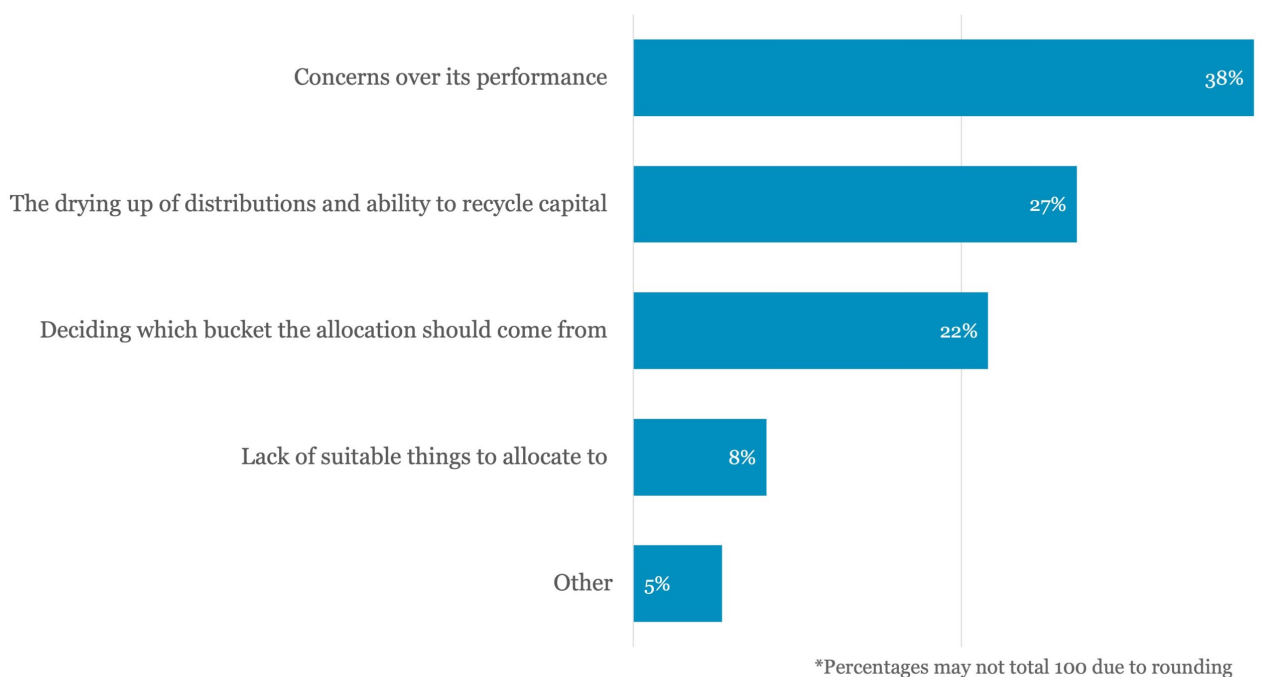


Performance and regulation are worries for LPs

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What is the biggest obstacle to allocating capital to private debt?



Our latest test of investor opinion finds tougher market conditions impacting the responses.

In this column we offer readers of the *Lead Left* a sneaky peek at some of the findings emerging from the latest version of our *LP Perspectives* annual survey, which will form part of the December/January issue of *Private Debt Investor* and be published online in full on 1 December.

What it indicates are hints of anxiety at the levels of stress that may be lurking in private credit portfolios – not panic, by any means, but certainly a recognition that tougher times may be ahead. This is reflected, for example, in the view of 38 percent of LP respondents that concern over its performance is the biggest obstacle to allocating capital to private credit at the current time (see chart).

Also notable are the 22 percent of LPs saying they are looking to invest more in distressed debt and special situations, up from 13 percent in the equivalent survey a year ago. Other popular strategies include asset-based finance – with 35 percent wanting more of it compared with 24 percent a year ago – and structured finance, with 19 percent wanting more versus just 3 percent a year ago.

While direct lending remains the most popular private credit strategy, there are some indications of investors want to diversify away from it. In this latest survey 42 percent say they want more direct lending exposure – and,

while this is impressive on the face of it, it's down from the 53 percent that said they wanted more direct lending this time last year.

Aside from concern over performance, the study also revealed some worries over regulation – unsurprising perhaps given the recent slew of news stories about regulatory agencies around the world taking a keener interest in the asset class. A year ago, this concern was already fairly evident with 43 percent saying they either had a lot of concern or were a little concerned – that figure has risen this year to 59 percent.