FINANCIAL TIMES

Broadridge®

Private Editorial Roundtable

DISCUSSION SUMMARY

TURNING HARD TIMES INTO OPPORTUNITIES?
How Private-Debt Funds in Asia Can Adapt to the COVID-19 Crisis

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FINANCIAL TIMES LIVE

TURNING HARD TIMES INTO OPPORTUNITIES?

Overview

Before COVID-19 sickened the world's financial markets, private debt as an asset class was doing well in Asia. The economic turmoil from the outbreak has upended the conventional investment ecosystem, including curtailing bank and non-bank financing for private companies. Much after the impact of the pandemic weakens, certain operational shifts are likely to remain, along with low consumer demand and distressed businesses. But can these hard times offer opportunities for private-debt managers and investors in Asia?

Possibly—if they can adjust quickly to changed borrowing needs in a changed administrative and fundraising environment. There is a precedent. Private-debt funds were sorely tested by, but survived, the global financial crisis of 2008. In the COVID-19 predicament, struggling companies in Asia, especially small and mid-sized enterprises, are likely to turn to private lenders for liquidity and long-term finance. New targeted funds could catch these and other evolving opportunities. But private-debt funds would need to operate more efficiently and more remotely, ramping up the digitalisation of processes, data analysis and information gathering that had begun prior to the pandemic.

Financial Times Live, in partnership with Broadridge, hosted an online discussion to identify evolving trends in the region's private-debt markets, some triggered by the pandemic. The conversation examined how private-debt managers and investors in Asia could adapt to the current crisis, and the technological tools at their disposal to get them back on their feet.

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Summary

Private debt as an asset class has become increasingly important to institutional investment portfolios in the years following the global financial crisis, as unprecedented monetary easing has pushed bond yields to historic lows and public equities to eye-watering highs.

But the current deep economic downturn threaten to upend this trend, with cashflows at businesses in industries such as airlines, retail and hospitality significantly curtailed if not entirely frozen. The current crisis has also shone a spotlight on the difficulties investors can face with regulatory and reporting requirements for what can be an illiquid asset class that often relies on bespoke technological solutions.

At a virtual roundtable hosted by the Financial Times and Broadridge Financial Solutions, some of the leading lights of Asia-Pacific's investment industry discussed how they were rising to the opportunities and challenges that the current crisis has presented to private debt.

While the crisis has stretched balance sheets across the region – some participants were quick to point out that a substantial gap between supply and demand had created an opening for investors.

"A lot of companies are stuck between inefficient bank finance and issuing equity," said the head of Asian credit for a large private equity group, who highlighted the fact that the region is the world's largest credit market, but represents just 7 per cent of global private debt assets under management. "There is a massive mismatch between demand for more flexible capital across the corporate spectrum in Asia versus what the supply is."

But several participants in the event underscored the importance of selectivity in allocating to private debt. While many businesses have seen their cashflows obliterated by the crisis, the true scale of corporate defaults may not become apparent until 2021, when various government support schemes have expired.

"The default cycle this time around might be more prolonged," said an asset allocator at a government investment fund. Like other investors taking part in the event, he is looking closely at opportunities in infrastructure around the region.

"What's been unique about this cycle is the effect of government policy and the impact on specific industries like tourism, restaurants and retail have been really hard hit by what's going on," said another fund manager. "We're going to see a have and have-not kind of recovery among businesses."

Attendees also agreed that unprecedented central bank easing has raised urgency among investors in terms of investors increasing their allocations to alternative assets such as private debt. Pension funds, challenged by rising liabilities as populations age, face a difficult hunt for income with trillions of dollars of government debt now yielding zero or negative interest.

"The next problem isn't the $15tn of negative yielding debt - it's the 25tn of debt that's yielding less than 50 bps," said the head of Asian credit at a Wall Street asset manager. "Where are investors going to go? Where do you find your income and yield?"

But capitalising on opportunities in private debt, like many things, has become significantly harder than compared to a year ago with much of the global economy still in lockdown and tight restrictions on travel in place.

Participants said they had rapidly adopted technologies such as video conferencing as means of communicating with target companies and investors, but that conducting aspects of due diligence had become difficult under this "new normal". One credit investor with an international asset manager said his company had deployed drones to inspect a pipeline project as a means of getting around these restrictions. Others pointed out that trying to raise funds over platforms like Zoom had proved challenging.

But those who took part largely concurred that technology had taken on added importance in managing private debt investments since the pandemic began. In addition to rising regulatory requirements, participants said their investors were pushing for better reporting capabilities for the asset class, an issue exacerbated by the fact that private debt investments are often far more bespoke than their public market counterparts.

"It's a piece of the puzzle that more and more investors are demanding," said the Asia chief investment officer of an international asset management group.

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