Broadridge

5 KEY TRENDS

Private debt firms strengthen technology and operations

Fueled by excellent performance, fundraising in private markets continues to gather momentum. In 2021, private debt assets surpassed $1.2 trillion as investors piled into the strategy. Private capital managers are strengthening their operations through a digital transformation of technologies, processes and data analytics. Broadridge looks at what the coming year might hold for the private debt industry.

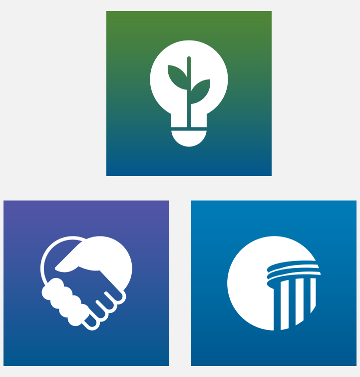
TREND #1

Growth will continue irrespective of inflationary fears

Despite a slowdown in fundraising in the third quarter of 2021, fueled predominantly by mounting fears about long-term inflation risk, private debt funds still stormed past the $1 trillion AUM (assets under management) threshold – a new record. Experts argue that inflation risk is overstated in private debt as loans are typically floating rate, meaning they are shielded from interest rate increases. According to Preqin, 73% of investors plan to commit to one private debt fund over the next 12 months suggesting growth in the industry will continue in 2022.

$1T

private debt AUM



TREND #2

ESG is here to stay

Of the $8.52 trillion invested in private capital, Preqin calculates around $3.1 trillion is managed by firms committed to ESG (environment, social, governance). Preqin continues that private debt has the highest amount of ESG commitments of any asset class, with 49% of its AuM committed to ESG. This comes as investors and regulators increasingly insist that asset managers – including private debt – integrate ESG into their strategies. Many are already doing so with special situations, and distressed debt managers are now inserting ESG requirements and clauses into their borrower credit terms. Accordingly, ESG adoption is only going to accelerate in private debt circles.

TREND #3

Hybridization gathers apace

The COVID-19 crisis and the following volatility have reinforced the importance of diversification. With alternative asset managers looking to diversify their distribution footprint, many private debt funds are branching out and launching hedge fund and private equity strategies. The same is true for hedge funds and private equity, many of whom are taking a plunge and developing private debt products. As such, managers will need to work with multi-asset class service providers who can support a wide range of strategies. This trend towards diversification is likely to continue in the coming year.

TREND #4

Technology adoption on the rise in private debt

Private debt firms have been automating their operations for some time now, having previously been reliant on manual processing. Not only is automation generating cost efficiencies, but it is also eliminating duplication and errors. Similarly, the industry is also making better use of data and using it to strengthen their investment decision-making, risk analysis and reporting activities. This growing appetite for automation and increased adoption of new technologies will be a common theme for private debt.

TREND #5

Private credit financing of private equity deals takes off

Private equity managers are bypassing banks and going directly to private credit funds to obtain financing for deals. Dechert's report said 45% of private equity firms have increased their use of private credit financing in buyouts. Many private equity firms note that borrowing from private credit funds is a more seamless process than soliciting financing from banks. As the borrowing process is much easier, deals can be executed incredibly quickly. In addition, private credit funds are also reportedly offering private equity borrowers more leverage than what they would receive from a bank. As such, private credit funding of private equity transactions will certainly intensify next year.

Read more about our solution for private debt.