Private Debt Intelligence – 6/5/2017

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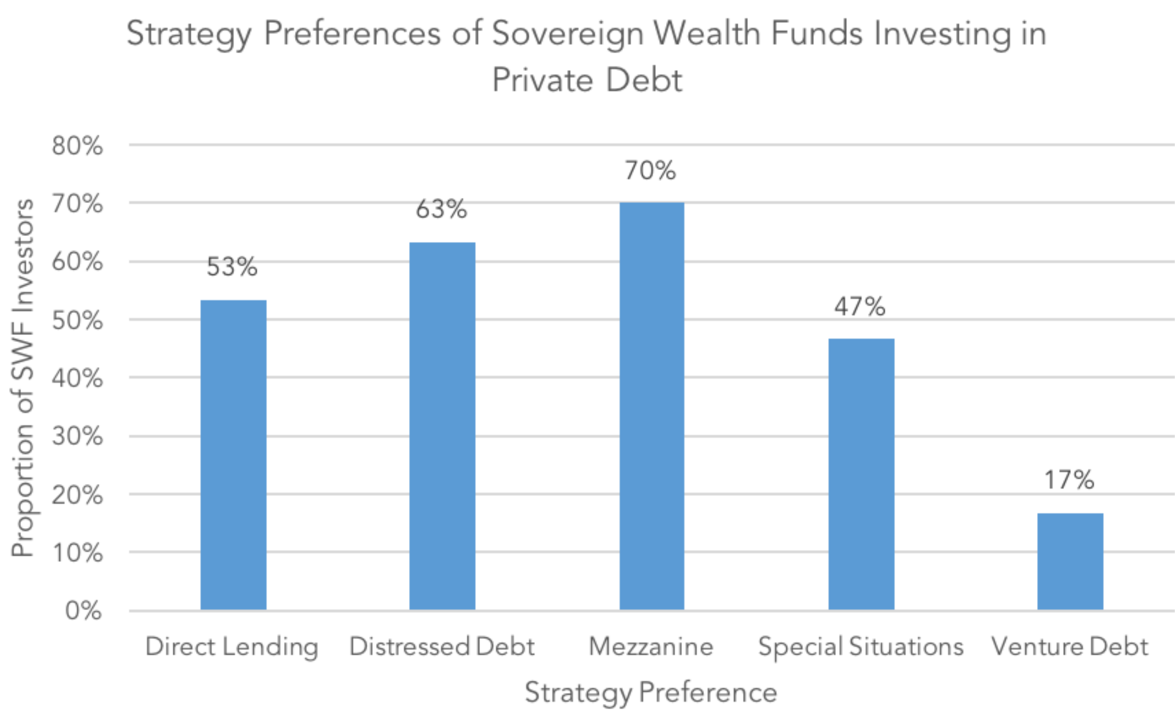
Sovereign Wealth Funds Look to Private Debt

Chart



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Sovereign wealth fund investors are increasingly looking to make private debt investments an element of their portfolios. The latest research from Preqin finds that the proportion of sovereign wealth funds currently investing in the asset class has increased by five percentage points over the past 12 months. The majority of sovereign wealth funds with over $10bn in assets now allocate to the asset class, including two-thirds (67%) of those managing $250bn or more, and all of those managing $100-249bn. However, overall participation remains relatively low compared to other asset classes: 39% of sovereign wealth funds globally currently look to make investments in private debt, including just 18% of those with less than $10bn in assets.

The makeup of sovereign wealth investors in private debt does not fully reflect the overall makeup of the investor class. Private debt is particularly sought after by non-commodity-funded sovereign funds, which do not receive capital from the state sale of natural resources: these investors make up 43% of sovereign wealth funds active in the asset class, despite comprising just 37% of the total sovereign wealth fund universe.

At the same time, sovereign wealth funds are not typically seeking the lowest-risk, longest-term investments that might be expected given their general investment priorities. Mezzanine investments are the private debt fund type most appealing to sovereign wealth funds, with 70% targeting the strategy over the next 12 months. Distressed debt is targeted by 63% of sovereign wealth funds active in the industry, while direct lending is sought by just 53%. Perhaps because direct lending is not as well-established as the other debt types, its increased prominence in the industry is not reflected in appetite from these investors.

Contact: William Clarke
william.clarke@preqin.com