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Bad news bears: a sign of the times

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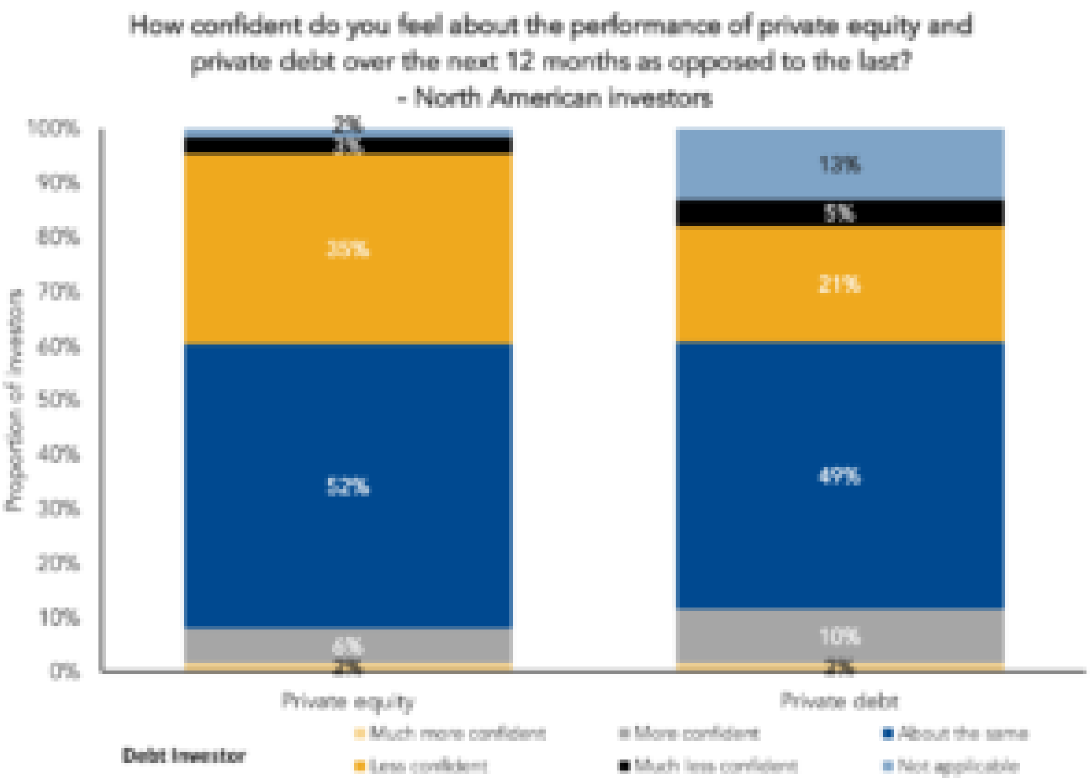

Last year saw a huge amount of money raised by private credit firms, making it a record year according to PDI *data. North American LPs might be lowering their expectations though.*

Earlier this year, *Private Debt Investor* conducted its annual LP survey, asking investors about their allocation plans and return expectations for the coming year.

It was notable that when North American respondents were asked how confident they felt about private credit's performance over the next year compared to the last 12 months, 26 percent said they were either less confident or much less confident about the asset class – more than twice the number that were more confident or much more confident (12 percent).

While 49 percent expected the asset class to hum along, that more than one-quarter of LPs in the world's most mature private credit market expressed a contrary view is worthy of attention. LPs in the US especially have embraced the asset class as an attractive place to pick up yield for a decent risk-adjusted return.

Credit managers pitch locked-up capital as a good place to stay inoculated from the gyrations of the credit markets and as a way of hedging exposure to rising interest rates. But private credit funds' exposure to private equity firms is another story, given that leveraged buyouts, add-on acquisitions and the like provide much of the deal flow for private debt firms.

North American LPs weren't particularly optimistic on private equity either. *PDI* sister publication *Private Equity International* sent out the same survey to investors and found that some 35 percent of respondents were less confident and 3 percent much less confident about private equity's performance over the next 12 months as opposed to the last year. Some 52 percent expected private equity to stay the course.

Private equity firms are running auctions aggressively, sometimes offering final bids – signed, sealed and delivered – on the date letters of intent are due and direct lenders are signing onto such deals after shorter periods of diligence.

LPs have tossed buckets of cash at private investment firms. But that sentiment may be shifting. They are beginning to look down.