Private Debt Intelligence – 5/6/2019

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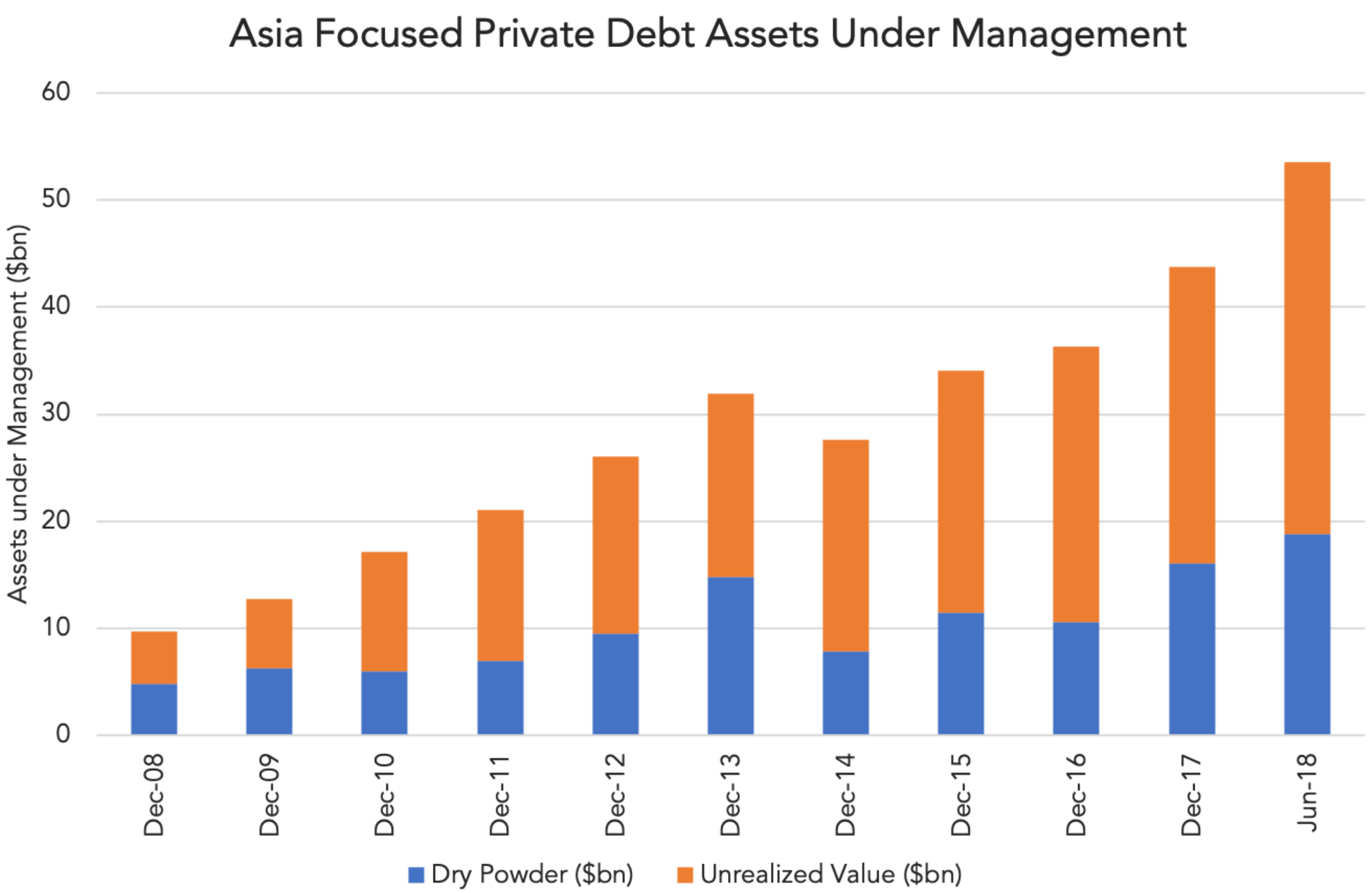
Private Debt in Asia Struggles to Gain Ground

Chart



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The Asian private debt market is still relatively small. While the industry has grown rapidly in the more developed markets of North America and Europe, expansion has been slower in Asia, and the region has yet to reach a ‘critical mass’, so activity remains cyclical.

This is likely in part because Asian financial markets are broadly less developed than other regions, but also because the approach to and regulation of non-bank lending can vary widely in such a diverse marketplace. While some countries like India have made efforts to lighten regulation and encourage investment, other countries remain averse to debt and so present limited opportunities for fund managers.

Asia-focused fund managers may find fundraising a challenging task, given that activity has been so variable in the past decade. The region did see fundraising peaks in 2012 and 2017, when fund managers secured an aggregate $9.4bn for investment. As of May, though, only 6 funds have closed so far in 2019, raising a combined $2.1bn – a decrease of almost 50% compared to last year.

Despite fundraising being challenging, the private debt market in Asia is growing. Assets under management have been increasing since 2008, and by June 2018 (the latest available data) Asia-focused fund managers held $54bn in assets, a fivefold increase compared to 2008.

Focusing on the different private debt strategies, Asia-focused fund managers appear to make more use of mezzanine and special situations strategies, with assets in these fund types totaling $16bn and $20bn respectively. This stands in contrast to the global market, in which direct lending and distressed debt are by far the most significant strategies.

Overall, it is clear that the private debt market in Asia is in a period of adjustment: regulation is changing across the region, and investors and fund managers alike are becoming more alive to the potential benefits the asset class offers. However, the market in Asia is unlikely to look the same as in North America or Europe, and it will be some time until the region is a central component of the global industry.

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