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A New Year's wish: More of the same

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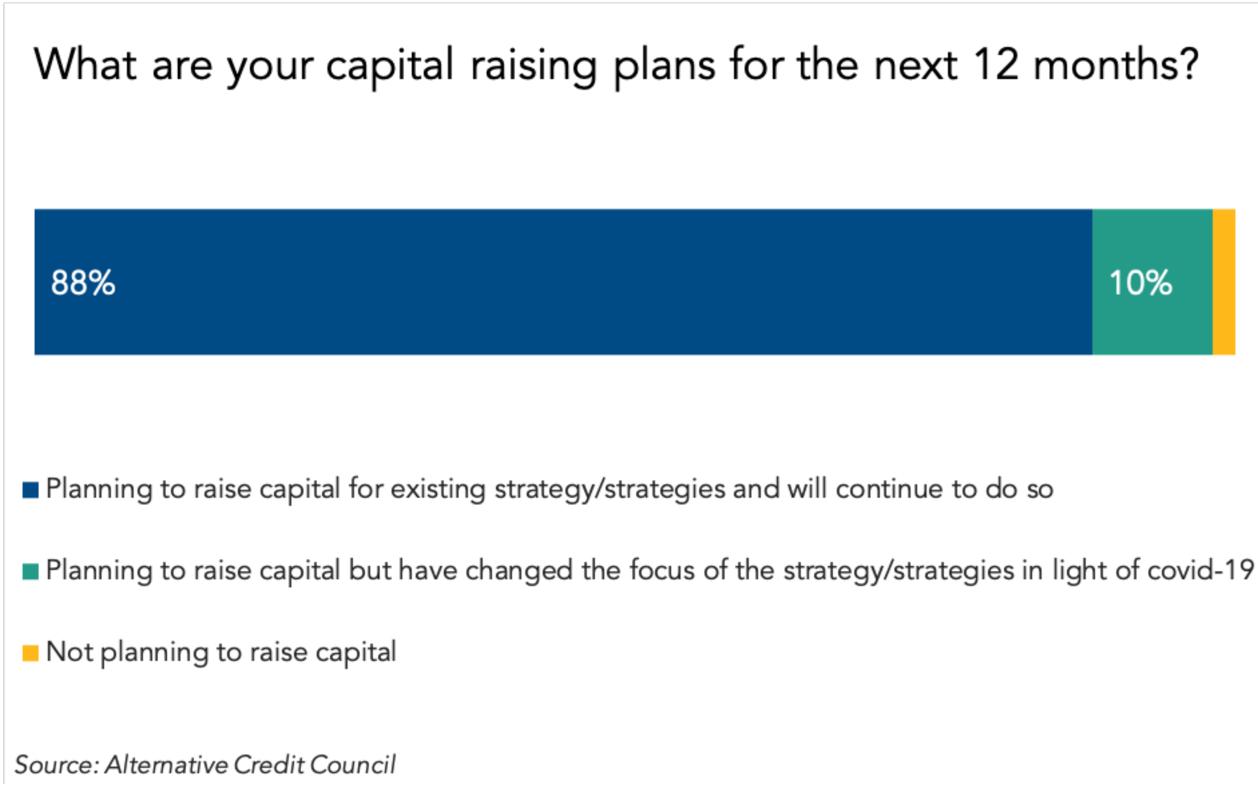

After a tumultuous year, private debt managers are hoping the strategies that have served them well so far will retain LP support.

"Sticking to the knitting" is a phrase beloved of private markets fund managers. What it's meant to convey is that, when chaos is all around and the temptation is strong to commit the cardinal sin of "strategy drift" in response to changed circumstances, the most sensible managers will keep doing what they have always done. Whatever that thing is, it's what they are most comfortable with and know most about, and it will always come good no matter how turbulent the backdrop.

As can be seen from the accompanying chart, private debt managers certainly appear to have a "stick to the knitting" mentality at the current time, with very few intending to adapt the strategies they are presenting to investors despite the continued devastating impact of a global pandemic.

In the aftermath of covid-19's initial peak earlier in the year, such consistency and determination of purpose was brought into question. Fundraising screeched to a halt as investors tried to take stock in a very changed world. There could have been little complacency at that point that private debt would simply pick up where it had left off. There were fears that direct lending portfolios may have taken a severe hit. Where would that leave a strategy that has become so dominant in the private debt universe?

In our conversations with LPs, there are still concerns expressed about direct lending. In the first half of the year, some portfolios were written down by substantial margins. Since then, things appear to have improved but not necessarily to the point where it can be assumed all will be well. However, in the “lower for even longer” environment, where demand for income and yield remains incredibly high, private debt continues to be an attractive option for investors. And that means there’s no reason why managers can’t have a happy new year, even if they may have that nagging sense of LPs keeping a very close eye on their performance.