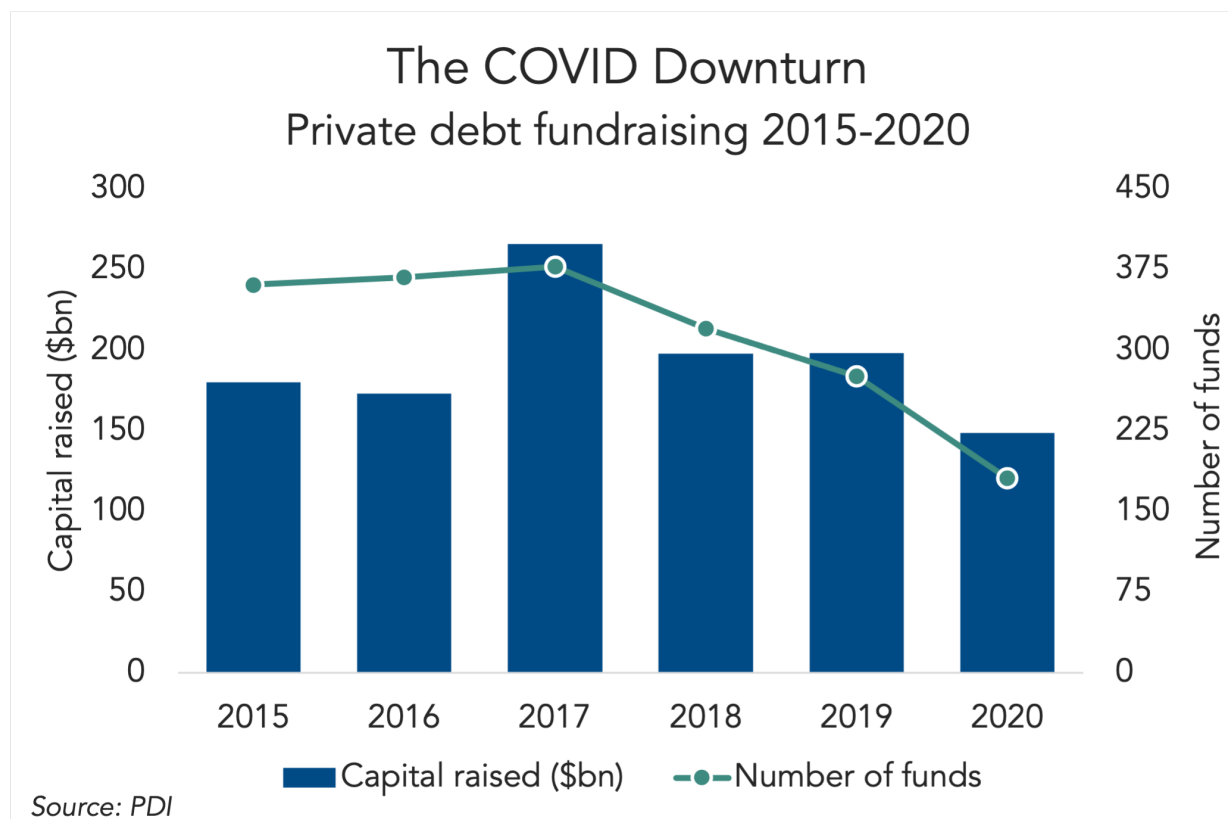


Completing the cycle

PEI Private Credit | February 9, 2021



The global pandemic will give investors more visibility into how private debt performs in tough times.

Private debt did not have a great time on the fundraising trail in 2020, as can be seen from our chart above. From the fundraising peak of 2017, the amount raised has declined significantly and last year saw the lowest annual total recorded for the last six years.

However, there were some fears that, in the face of the biggest crisis since the GFC, fundraising would virtually come to a halt. Clearly this did not happen and many say private debt once again has an opportunity to claim more market share at the expense of the banks, even though the banks are now better capitalised and have less leverage than in the aftermath of the GFC.

At *Private Debt Investor*, we have been reflecting on the covid crisis one year on and the opportunities and challenges it has presented to the asset class. One thing that is clearly no longer valid is the claim that private debt has always operated against a benign backdrop, making it difficult to distinguish the best from the rest. It will now be able to claim a full-cycle track record, which LPs will be keen to examine.

What we hear from sources is cautious approval for how private debt has come through the crisis so far, with sponsors having been quick to provide support to portfolio companies and the default rate staying lower than

during the GFC. Looking ahead, many are anticipating plenty of opportunity arising from refinancings from late this year onwards. And many think investors will be keen to move more into private debt and away from public markets, where it's perceived that a bubble may be forming.

There are concerns too, however. While refinancing is on the agenda, deal flow on the whole is patchy, with the M&A market showing signs of picking up but from a low level. When it comes to the current portfolio, there is a question over what happens when support schemes come to an end – just because little pain has been experienced so far doesn't mean there won't be a reckoning at some point.