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LP appetite strong, but some concerns are voiced

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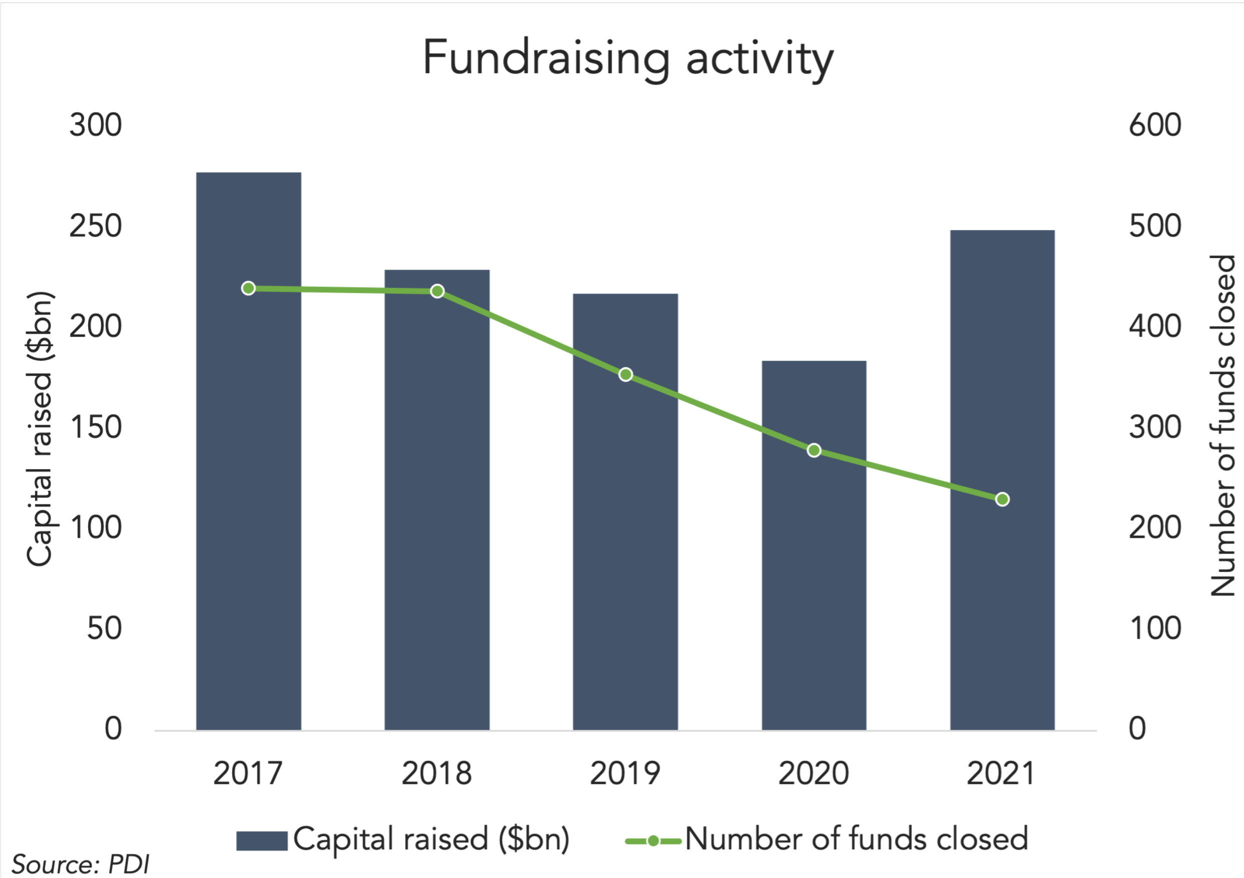

Inflation and high valuations are among the factors making investors a little more uncomfortable than normal about private credit's prospects.

The release of our annual *LP Perspectives* study is a chance to probe LPs on their allocation strategies for the private debt market over the next 12 months. Year after year the story has been one of increased appetite for credit strategies and the chart above shows how, in 2021, this translated into an upsurge in fundraising for the asset class.

However, in our latest survey of 111 institutional investors, conducted in August and September 2021, signs emerged that LPs are less optimistic than in the past. Over the next 12 months, 21 percent of LPs expect private debt returns to exceed their benchmarks, a significant fall from the 31 percent with this sentiment last year.

A cause of concern is that the proportion expecting above benchmark returns is notably lower than in the other asset classes we surveyed – private equity, venture capital, private real estate and infrastructure.

Is this an indication of the end of the bull market, perhaps? Well not quite. Only one in ten expects their private debt portfolio to fall below benchmarks over the next year, and almost 50 percent expect to increase their allocations over the year – higher than any other asset class bar infrastructure.

But there are threats on the horizon: higher inflation is cited by 40 percent as a hurdle for private market portfolios – up from less than 10 percent last year – and two-thirds of LPs are concerned about extreme market valuations, compared with half of investors a year ago. And the proportion worried about a covid-related hit to private debt markets remains at above 60 percent, which suggests that the pandemic, perhaps unsurprisingly, continues to weigh on sentiment.

Private debt remains one of the most attractive assets for institutional investors. But there are signs of a slight softening in LP sentiment, which suggests the need for a disciplined approach in 2022 if credit is to remain an enticing investment opportunity over the next 12 months.

(Past performance is no guarantee of future results.)