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LPs: over-allocated but still optimistic

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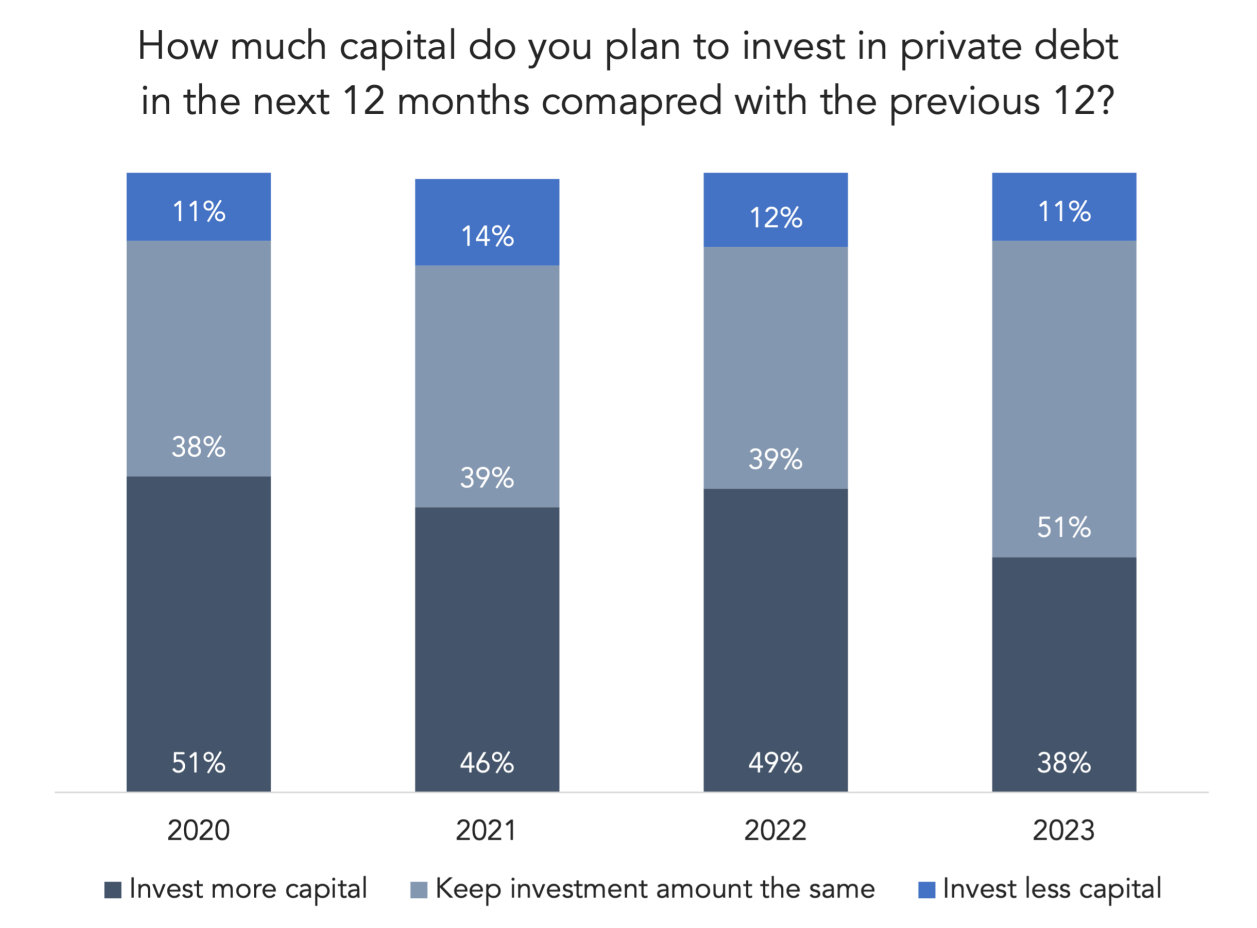

Our Perspectives 2023 study reveals some practical issues for investors but a determination to continue committing to private debt due to its strong performance.

As we head through the early months of 2023, some 18 percent of limited partners currently describe themselves as over-allocated to private debt. That is the highest proportion we have seen since our *LP Perspectives* survey began in 2018, double the previous high of 9 percent in 2021 and up significantly on the 3 percent that were over-allocated a year ago. Likewise, fewer LPs than ever before describe themselves as under-allocated – with just 34 percent feeling light on the asset class versus more than half a year ago.

But despite over-allocation issues, LPs are nevertheless planning to keep committing – 89 percent of LPs say they plan to invest the same or more capital in the asset class in the next 12 months compared to last year. When asked to describe their investment policy in the case of over-allocation, 44 percent of LPs say they will remain overallocated, 20 percent plan to wait for a market correction, 25 percent will adjust allocation targets and just 11 percent intend to reduce exposure in the secondaries market.

More LPs than ever before tell us that private debt has exceeded benchmarks over the past 12 months, with 39 percent saying it has outperformed and a further 52 percent saying it has met benchmarks. A year ago, just 21 percent saw the same level of outperformance in private credit.

Looking forward, investors are also more optimistic about the outlook for the asset class than they had been: 37 percent expect private debt to exceed benchmarks in the next 12 months, up from 21 percent in 2022. The practical issue of over-allocation notwithstanding, LPs appear to have considerable conviction in their private debt allocations and remain optimistic about future prospects.

(Past performance is no guarantee of future results.)