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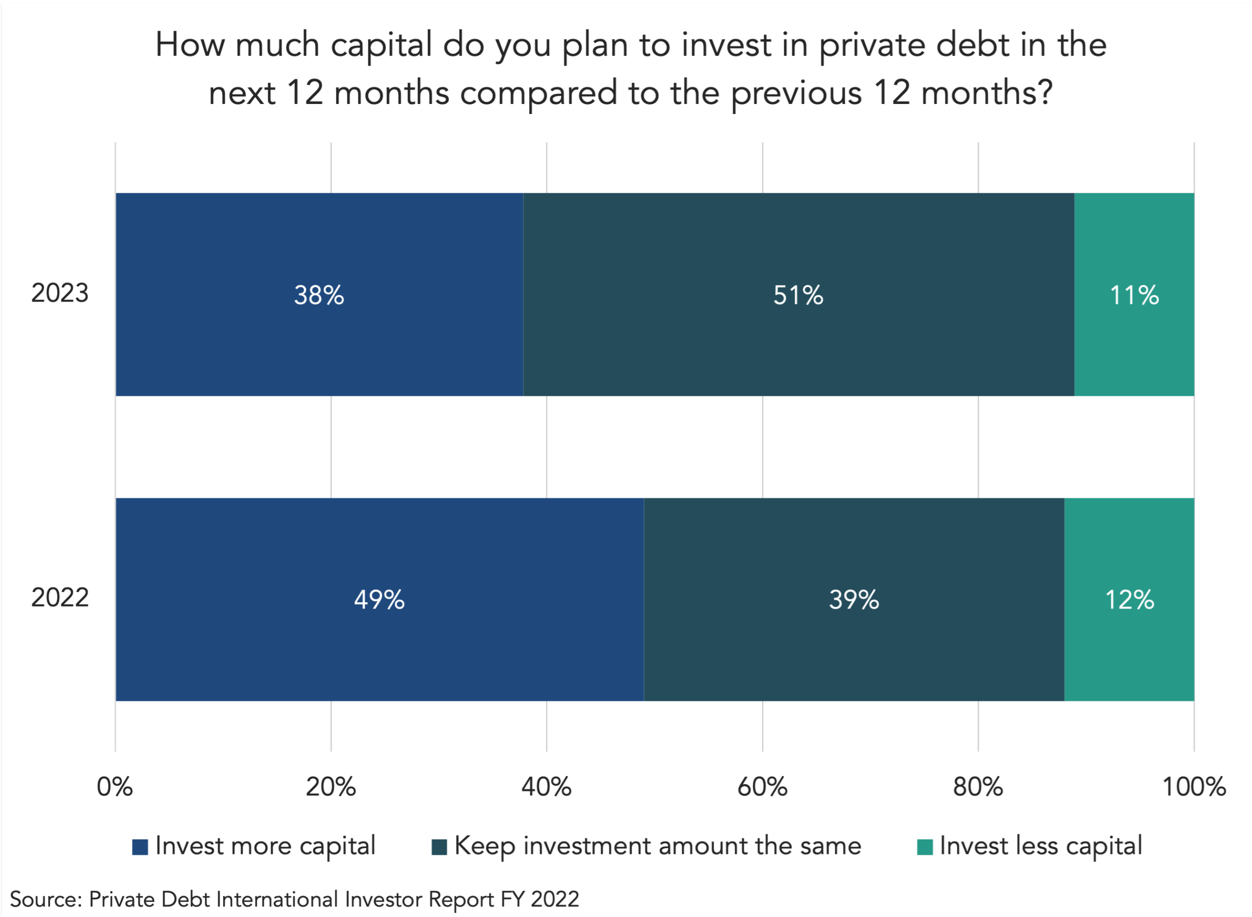
Few signs of waning appetite

PEI Private Credit | February 28, 2023



While economic pressures grab the headlines, private debt is forging ahead with investor support apparently remaining solid.

There may be over-allocation issues for some investors but there are few signs that current macroeconomic pressures are translating into waning appetite for private debt.

Indeed, *Private Debt Investor's* latest *Investor Report* shows that a vast majority of limited partners are either planning to increase their exposure or keep it the same (89 percent) versus just 11 percent seeking to reduce their slice of the pie. This represents a slightly improved picture compared with 2022 – when 12 percent of LPs were seeking a reduction – although more LPs this year are looking to keep their allocation the same (rather than increase it) compared with last year.

Although there have been some negative observations around the level of competition in direct lending – and the allegedly "me too" nature of some approaches – just 3 percent of respondents to our survey said they would be looking to invest less capital in direct lending in 2023. Of the remaining 97 percent, 47 percent said they would invest more in direct lending and the same percentage said they would keep their allocation the same.

In three of five other strategies named in the survey, more investors were looking to increase their allocations than decrease: distressed/special situations (29 percent versus 24 percent); mezzanine/subordinated (21 percent versus 18 percent); and specialty finance (18 percent versus 6 percent). In two of the strategies, the percentage wanting to increase and decrease was exactly the same (18 percent for structured finance and 7 percent for venture debt).

Our survey found that institutional allocations to private debt typically range between 4 and 6 percent, with private pension funds having the highest allocations out of six institution types surveyed, and foundations/endowments having the lowest.

(Past performance is no guarantee of future results.)