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# Letter from Singapore (Part One)

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In our second visit to Asia this month, we again found both variety and vitality of interest among managers and investors in private markets.

Two stellar industry conferences in Singapore, the PDI's APAC Forum and Asian Private Banker's Alternatives in Focus, headlined speakers from top global and regional shops. Attendees were, at PDI's event, leading institutional investors, and for APB, a concentration of private wealth firms. Topics ranged from private credit, to real estate, infrastructure, and distressed debt.

APAC's opening keynote set the tone for the discussions. Chen Khai Lim of the Monetary Authority of Singapore spoke of the importance of "supporting the growth of the private credit eco-system." He also outlined the challenges. Similar to Europe, Southeast Asia comprises different countries with varying legal frameworks and regulatory sophistication.

And banks remain the dominant provider of leveraged loans, representing 75% of the market. But the region is affluent with a growing middle class and (in contrast to Japan) a younger population. China provides a significant share of the economic growth, a factor that mitigates some of the concerns around that nation's approach to foreign private ownership.

Our perspectives on Asia debt markets prior to our visit were that they were a less-developed version of Europe. That is generally true but may even then be an oversimplification. Like Europe, APAC is a heterogeneous region with different jurisdictions. Each country also has different economic strengths and weaknesses.

Australia has the region's dominant capital markets activity with roughly a 50% share. Singapore has no natural resources, yet its highly educated workforce and strategic geographic position in the region make it a commercial powerhouse. Singapore's finance-driven economy has resulted in a 2% GDP, with the other countries (ex China) averaging 6% growth.

Interestingly its major banks, DBS, UOB, and OCBC, are significant players in middle market lending. They are cash rich and active mostly in non-sponsored deals. The bank market in Asia is reminiscent of US lenders back in the early 1990's. Loans are three-year term loan A structures with two times Ebitda leverage and cheap pricing. Basel IV requirements will make holding leveraged loans more difficult, including higher costs for risk assets. That will give borrowers (and investors) fewer exit options.

Of late the Asian broadly syndicated loan market has been characterized by very slow deal flow. Last year, one attendee remarked, "there were only two CLO transactions done and both of them were infrastructure deals!"

Yet bank dominance has retarded private credit growth relative to Europe and certainly the US. But PC is becoming a core part of institutional investors' portfolios. As one manager told us, "they're beginning to ask for it."