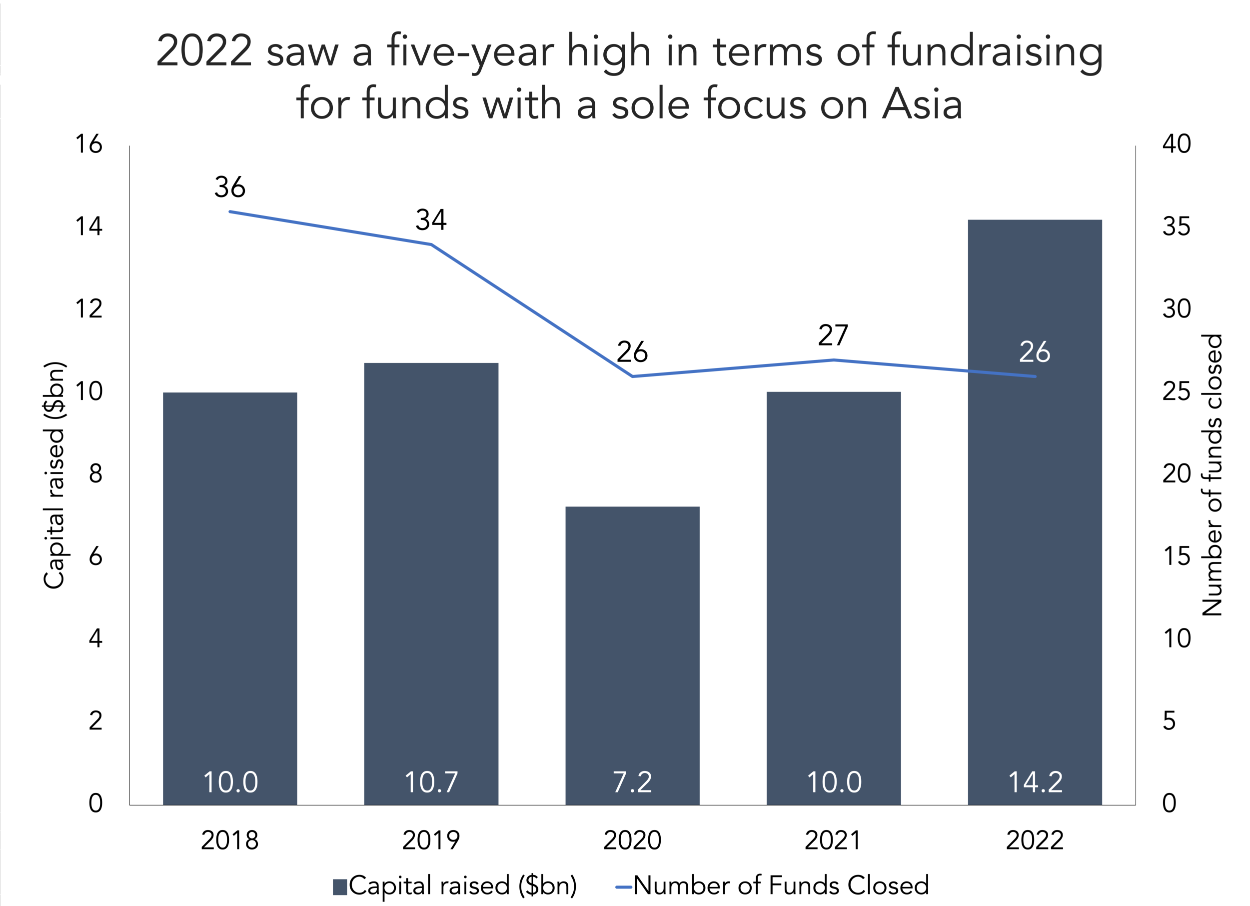
THE LEAD
https://theleadpc.com/pdi-picks-4-3-2023/

Direct lending on the rise in Asia-Pacific

PEI Private Credit | April 4, 2023



The strategy is outshining distressed debt in the region, but fundraising for all types of private debt may be more challenging over the next year.

Last week saw the Fairmont Singapore play host to our 2023 APAC Forum, with a record number of delegates keen to discuss the growth of private debt in the region.

Figures presented by *PDI* showed that, as recently as 2018, 49 percent of fundraising for Asia-Pacific was focused on distressed strategies with senior debt accounting for just 18 percent.

The region had been much slower to see the kind of banking regulation that handed a bigger slice of corporate mid-market lending to private funds in North America and Europe. But last year showed how much the strategic landscape has been transformed since then, with a near reversal of fortunes – senior debt accounting for 55 percent of the total and distressed 20 percent.

There was a view that some investors have ended up disillusioned with a distressed market that has not delivered as much as hoped, with direct lending income-generation preferable to the slow progression up the j-curve associated with distressed strategies as they eat up fees. There is also caution around legal frameworks that lag behind those in the West and may not give enough protection to creditors.

Asia-Pacific had a good year for fundraising last year (see chart) but a live audience poll revealed that 76 percent expected the environment to get tougher over the next 12 months compared with the last 12. Only 10 percent thought it would get easier, while 14 percent felt it wouldn't change much.

Gary Hui, senior vice-president and head of the Hong Kong office at Wilshire Associates, broadly agreed with that sentiment but added that things may not change much for blue-chip managers with long track records – investors want big names not new managers, he added.

Maiko Nanao, a managing director in investment research at Aksia Asia, agreed that the fundraising environment was tough but still thought the findings were "quite surprising as Asian GPs were generally quite optimistic and confident".

Perhaps most upbeat was Jingjing Bai, a senior adviser at Bfinance, who said she thought the worst of the denominator effect might be over. "Private credit is seen as one of the safest asset classes and some allocators are restarting their efforts. We have clients who want seasoned managers that have been through cycles and understand covenants and workouts. For established managers, the next year could be easier. "

(Past performance is no guarantee of future results.)