Fundraising: Down but not out

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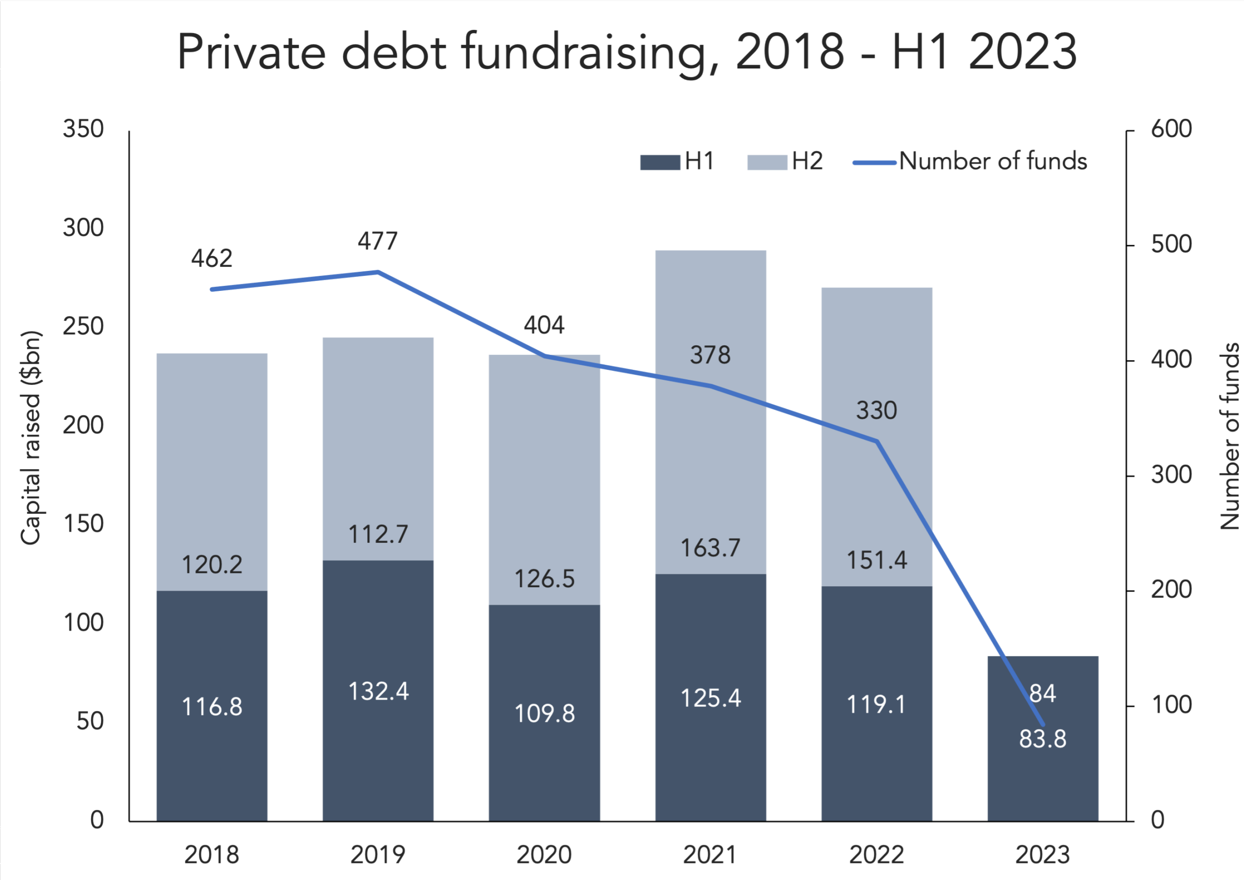

Capital raising has proved a tough task so far this year, but investor support may be about to return.

On the face of it, the fundraising market for private debt looks rather gloomy. In common with similar findings across the alternative asset universe, the private debt market saw a marked decline in new capital raised in the first half of this year. Our figures show less than $84 billion collected during that six-month period, compared with more than $119 billion in the first half of last year (see chart).

The number of vehicles closing also tumbled, with just 84 reaching completion in the first half of this year, compared with 330 in the whole of last year and a peak of 477 in 2019. As capital gravitates to a small group of perceived elite GPs, the average size of individual funds reached over $1 billion for the first-ever time in H1 2023.

But, while the figures may not indicate it, there is plenty of cause for optimism. LPs are noting portfolio company resilience through the economic challenges. This is helped by many GPs having focused their efforts only on selected sectors in which businesses have justified the use of high levels of leverage with strong performance. This is encouraging greater confidence.

This leads sources in the market to predict a strong fundraising pick-up towards the end of this year and into next year, with many institutions still looking to allocate to the asset class for the first time. While moving allocations from fixed income to private debt has been a trend for some time now, it is believed to still have a long way to play out. Reports suggest many first-time LPs in private debt are looking at allocations of 2-3 percent, or even as much as 5 percent.

It has long been pointed out that, with its ability to benefit from rate rises and provide strong protection against inflation, private debt looks well positioned for relative prosperity in today's environment. It may not be long before that is once again evidenced on the fundraising trail.

(Past performance is no guarantee of future results.)