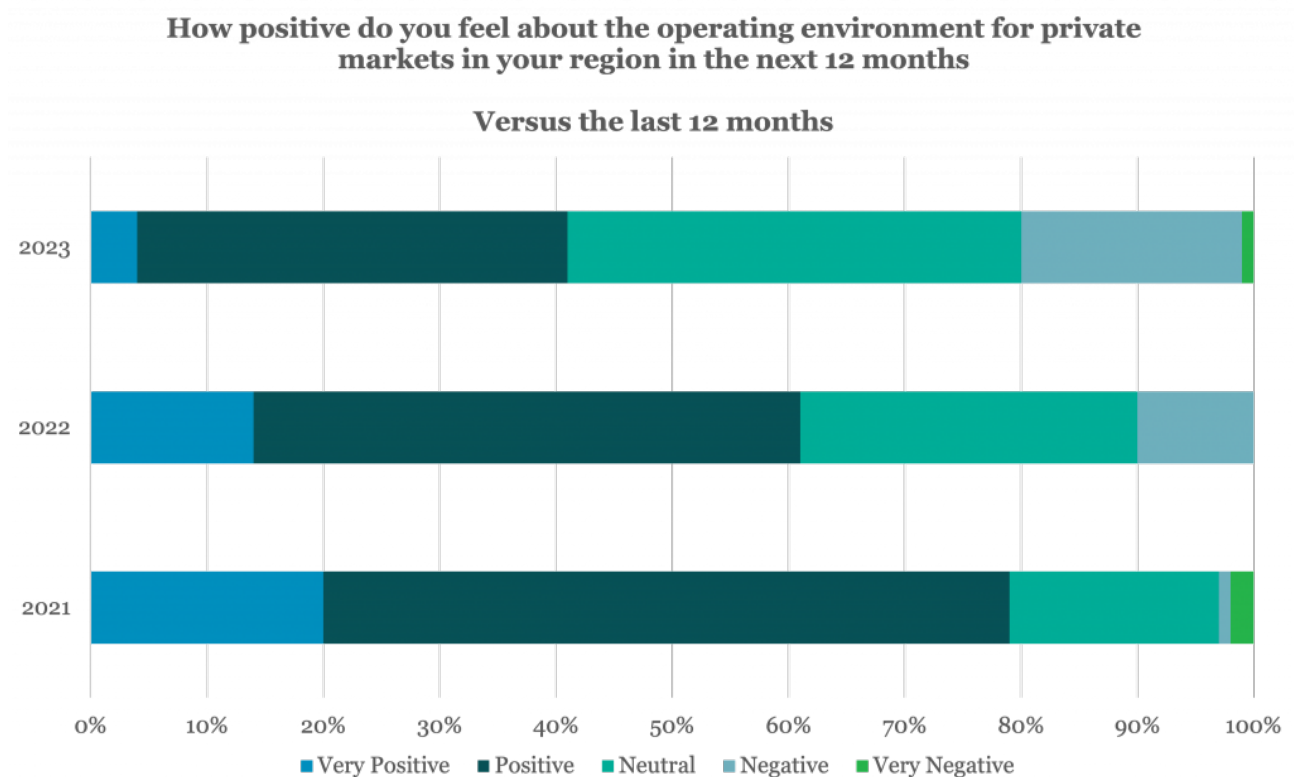


Fund managers will be put to the test

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In a challenging new environment, reporting and investing processes are likely to come under greater scrutiny.

“Reputations will be made and lost in the next few years, and character will matter as much as technical brilliance,” one of a select group of investors told *Private Debt Investor* as we sought LPs’ views on private debt’s present and future.

What this comment implied was that, in a period where life for private markets firms is expected by many to become more challenging (see chart), structural innovation can help GPs to take advantage of emerging opportunity sets. But being first on the scene with new products and approaches is not necessarily the be all and end all. The “character” LPs are looking for in managers is embodied in old-school traits like investment discipline and sticking to core competencies in a time of change.

One view offered was that, while progress has undoubtedly been made, private debt GPs still need to aim for higher standards. Perhaps most obviously, this relates to the service side where LP expectations in areas such as reporting regularity and transparency, plus standardisation and comparability of portfolio information, are important areas of focus.

But it also relates to the investment side. In stressing the need for each loan to be individually underwritten, priced properly and structured diligently, one LP said they accepted it sounded like a statement of the obvious. But the same LP contended that they had seen recent examples of quality being compromised for volume – with accompanying concentration risk – and that such things would not be tolerated in a more demanding environment.

It begs the question as to whether managers might then move too slowly to take advantage of the opportunity in front of them. The widely held view is that, while private debt fund managers may experience challenges with existing portfolios, the upcoming vintage for new deals looks inviting to say the least. The truth is though, even as LPs acknowledge this argument, they would still rather see managers invest in a measured way.