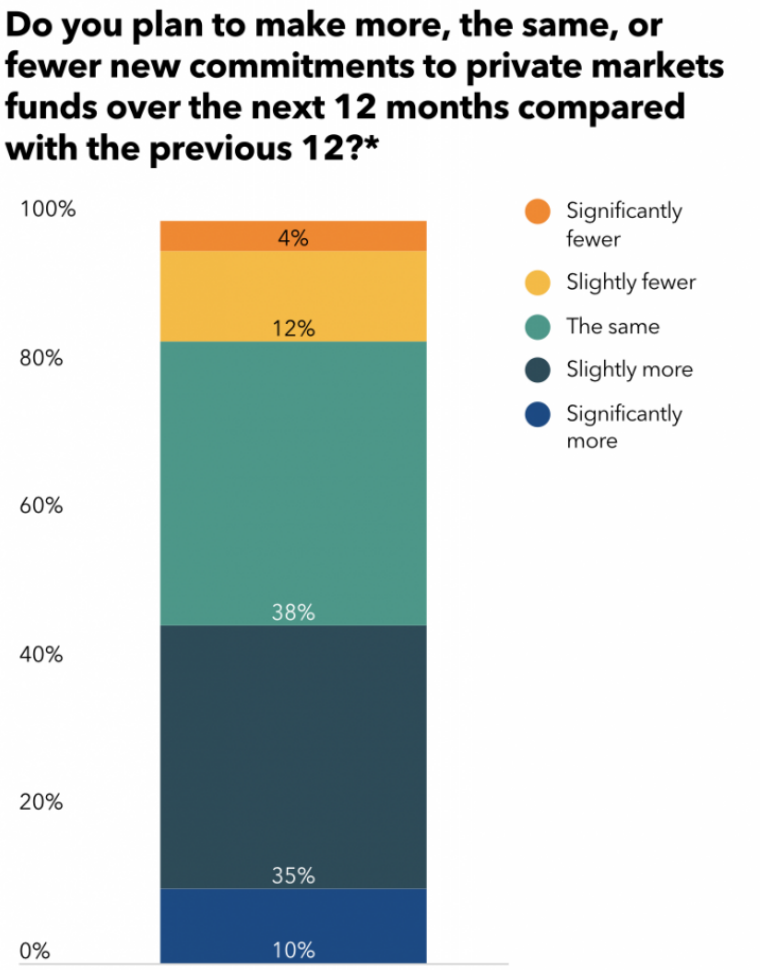
Allocations challenged, but sentiment is positive

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Last year saw limited partners rein back on their private credit commitments, but there's no lack of confidence in prospects for the asset class.

In 2023, limited partners were cautious about allocations to alternative assets in general – private credit may have suffered a little less than some other areas of investment, but it still suffered. Some of this was to do with concerns over the macroeconomic and geopolitical environment, some of it was a practical challenge created by the denominator effect.

But what this withholding of capital meant was that limited partners fell behind on their target allocations – a

trend made clear by our latest *PDI Perspectives* report for 2024. While only 34 percent of investors considered themselves under-allocated to private debt last year, that figure has now risen to more than half (52 percent).

With sentiment towards new allocations broadly positive, at least some of the "allocation gap" should be closed in 2024. Asked about their new commitment approach over the coming 12 months (see chart), 45 percent of investors indicated they would be committing more to private debt while only 16 percent were intending to commit less – with the balance looking to keep their allocation more or less the same.

In response to a question about why commitments might be further reduced, almost half of investors (47 percent) cited lack of distributions and market conditions in general. Where a lack of commitment to private debt does exist, performance is very rarely the reason: only 16 percent said this would be a consideration is keeping allocations low. Indeed, more than half of investors (56 percent) said private credit had met benchmarks over the last 12 months while 33 percent said it had exceeded benchmarks.

In terms of geographic focus – in relation to private markets in general rather than private credit specifically – our survey found that 87 percent of investors had either a greater interest (30 percent) or similar interest (57 percent) in North America. This makes it the most popular region, ahead of Western Europe in second and Asia-Pacific in third.