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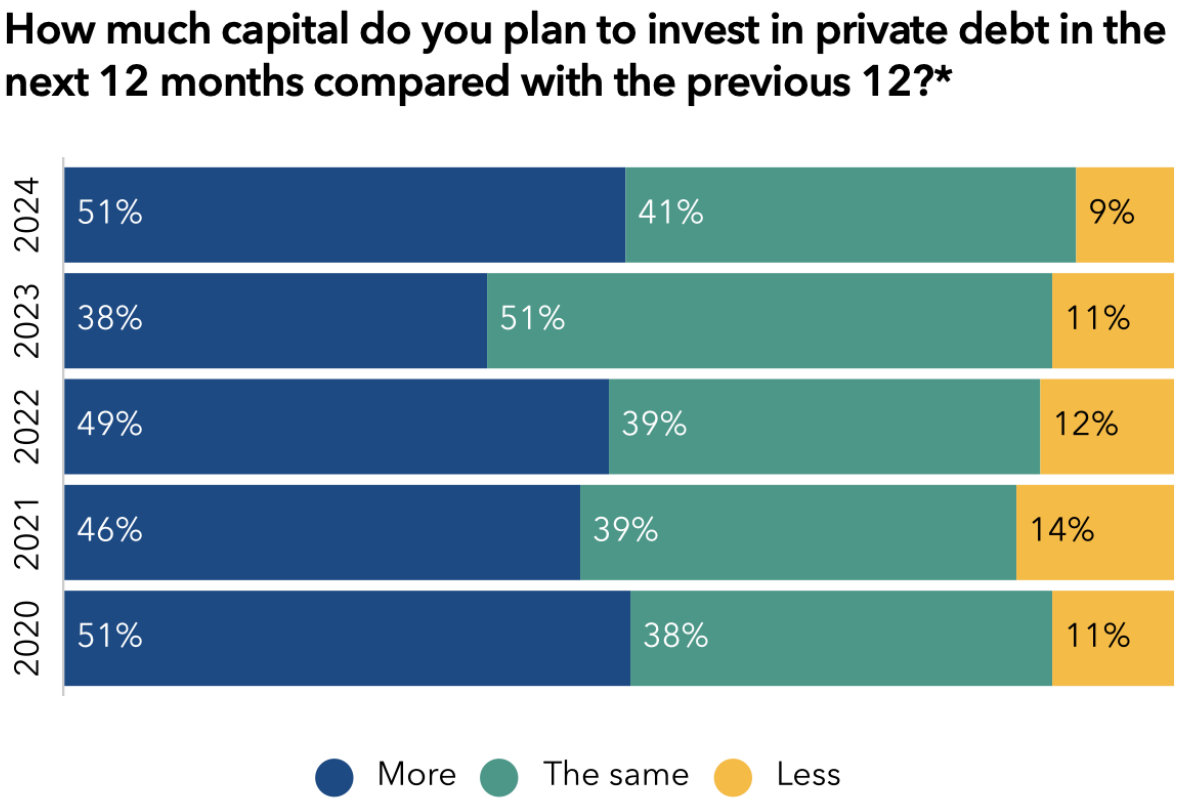
The investor view from Asia

PEI Private Credit | April 16, 2024



*Figures have been rounded
Source: Private Debt Investor LP Perspectives 2024 Study

The need for income and the attractive risk/return profile of senior strategies are among the reasons why private debt is popular among LPs based in APAC.

Private Debt Investor's recent APAC Forum in Singapore featured many views and insights from leading investors in the region. As our chart shows, appetite for private debt among global LPs remains strong – and in Asia-Pacific it's no different.

David Chua, chief investment officer at Singapore-based insurance company Income Insurance, spoke on a panel about how and why investors have embraced private debt.

"Since you have the well-known challenges on the banking side, insurers have become more prominent," he said. "With public markets highly volatile, we want to avoid that noise and friction in our portfolio so we look at what role private debt can play. We find that it's attractive for its income and price stability and it acts as a

diversifier within fixed income. We also think debt will play a more important role relative to equity in this environment."

"Private debt has been a large and growing part of portfolios," added Kerrine Koh, a managing director in the client solutions group and head of the Singapore office at Hamilton Lane. She sees allocations going up as part of a search for income, with some of the capital coming from new strategic allocations to private debt while some comes from private markets or fixed income/public credit buckets.

Koh also observed a trend of favouring senior debt where "the returns versus the risk are very attractive". This approach is seconded by Chua, who said: "When you can obtain low double digits in senior lending, why would you stretch for an additional 200 basis points?"

Lulu Wang, a portfolio strategist in private markets solutions at Abrdn, said her team has backed some pan-Asia special situations strategies in the past but is also now allocating more to senior debt. This conservatism is partly based on caution around the changed backdrop against which managers are operating:

"Many managers haven't been tested and, in a zero-rate environment, it's unsurprising that you have low losses and defaults," she said. "We're now transitioning to a new environment. Can managers continue to source deals effectively when private equity activity is lower?"