LPs keen to address under-allocations

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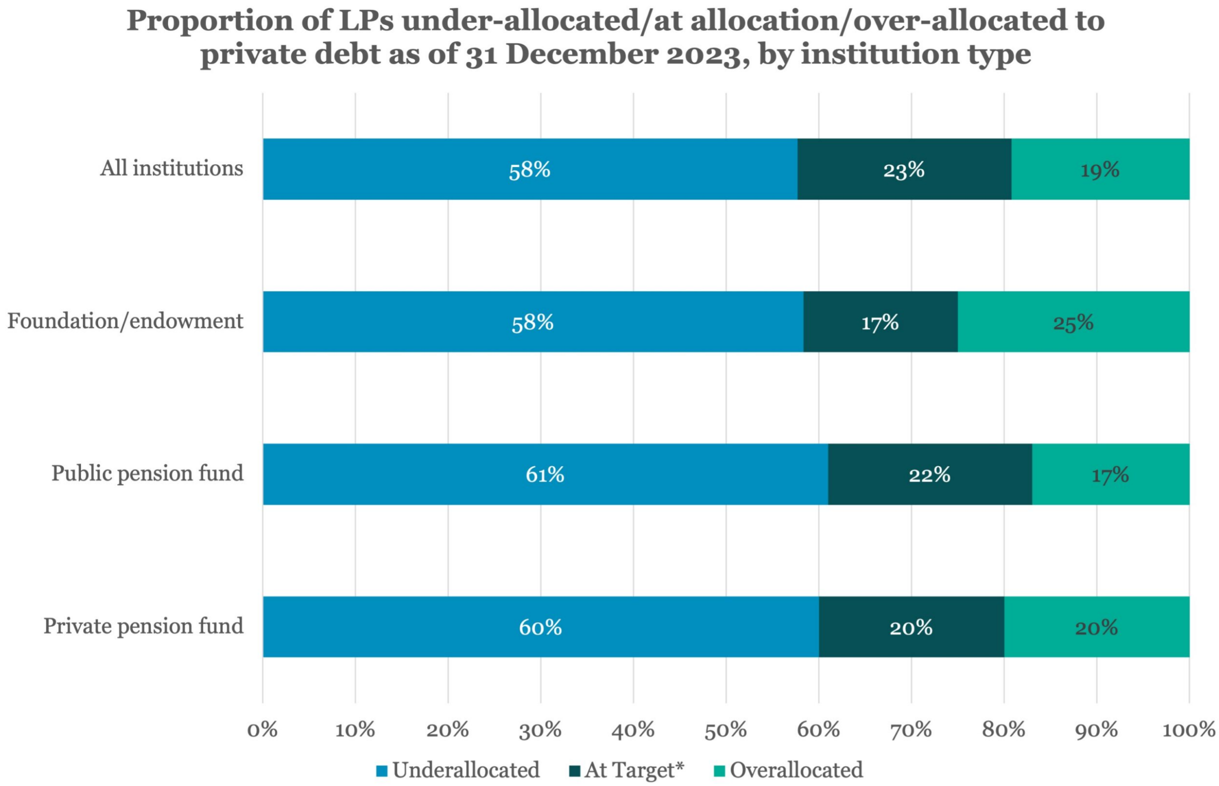

The latest version of PDI's Investor Report shows many investors have a long way to go to reach target exposures in private debt – but the intent is there.

Private debt, along with other alternative asset classes, found last year to be a tough one on the fundraising trail – with total capital raised falling to a seven-year low. However, neither surveys of limited partner sentiment nor our own conservations with investor groups indicate anything other than continued appetite to invest more in private debt.

Not least, many LPs remain under-allocated – as evidenced by our latest *Investor Report* for full-year 2023. This revealed that, as at the end of last year, 58 percent of all institutions were under-allocated to private debt (see chart), a figure that rises as high as 61 percent for public pension funds. By contrast, only 17 percent of public pension funds say they are over-allocated.

The survey confirmed that the actions of public pensions plans matter disproportionately in private debt, especially those based in the US. Our research into the most active limited partners – measured by number of known commitments to private debt vehicles last year – found New York State Common Retirement Fund (with 17 commitments), Illinois Municipal Retirement Fund (15) and Teachers' Retirement System of Louisiana (11) making up the top three.

However, when it comes to the average current allocations to the asset class, it’s a rather different story. Here, insurance companies top the chart with an average allocation of 7.11 percent, followed by private pension funds (6.18 percent), public pension funds (5.39 percent) and sovereign wealth funds (3.57 percent).

Looking ahead to the next 12 months it appears that a concerted attempt is underway to bring allocations closer to targets. More than half of survey respondents (51 percent) said they would be investing more capital into private debt over the coming year, with 41 percent intending to keep their level of investment about the same and only 9 percent planning to commit less.