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Letter From Milan

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When it comes to private capital, institutional investors in Italy have an increasing variety of options. Exposure to US private equity, for example. And while specialized strategies have emerged (e.g. venture capital), the focus on established buyout funds has been prevailing.

Private equity issuance has been particularly active. For the first quarter of 2024, even with economic, geopolitical headwinds, and the slowdown of global M&A, 104 transactions were recorded. Per a recent ICLG report, this was the most Italian deal volume since 1988.

Italian credit investors have historically been big buyers of fixed-income. While current exposure to private debt has been limited, appetite is growing and follows the same path of PE with some nuances dictated by regulators. For instance, insurance companies are one of the largest investor categories in private debt, even though, when it come US currency exposure, the accounting and Solvency II implications may add an extra layer of complexity.

As an asset class private credit, here as elsewhere, should benefit from a general rotation to alternatives. Investors look at US private markets with renewed interest. As European private markets programs grow and expand, the need for diversification becomes even more critical.

This is true even with what can now be defined as a trend of investing locally to support the Italian economy, either with equity or debt. Diversification means adding a goal of greater geographical and sector diversification outside the country.

So, we have witnessed a tremendous growth of European exposure as Italian investors believed this to be the natural evolution of their domestic allocation. With more familiarity with the asset class, the demand for a US exposure has been increasing, especially among those investors with more advanced private debt programs in place.

Wealth managers have also been active in exploring US private opportunities, predominantly within PE, even though debt has been expanding more rapidly over the last year or so. Product innovation is essential here as wealth managers move towards semi-liquid structures.

Conversations with Italian investors last week revealed increasing demand for dedicated US versus European exposure or global exposure blending both. Currency risk and yield differential between Europe and US were often mentioned as key concerns. Beyond diversification benefits, accessing the US middle market (measured as the third largest GDP in the world) with the appeal of well-developed business service sectors will lead to more US programs.

Broadly speaking, allocation of private debt for Italian institutional investors has been in the low single-digits, with some willing to increase to 10%. Our sense today is that, as with other jurisdictions we've visited, private debt in Italy is poised to expand within institutional portfolios for years to come.