Tried and trusted approach embraced by LPs

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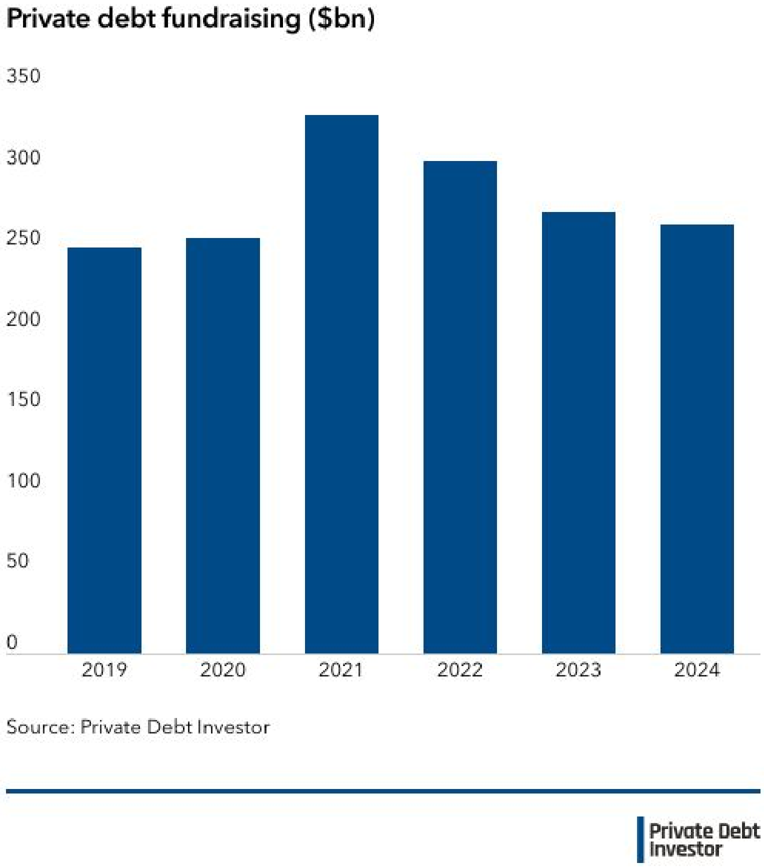

Many are expecting a recovery in private credit capital formation in 2025, but it's the long-established direct lending strategy that's expected to benefit most.

"Higher for longer" interest rates are not good news for everyone – ask placement agents for example. These are the professionals that make their living from pitching niche and/or emerging GP strategies to limited partners – helping them gain exposure and allowing LPs to invest in propositions they may not otherwise have been aware of.

What this relies on, however, is an appetite for the more exotic. And, in today's private credit market, that appears to be in short supply. Asked which strategy they would favour in 2025, our Investor Report found that direct lending – the long-established LP favourite – was the preferred strategy for no less than 53 percent of those canvassed. In previous years, this figure has typically been around 35-40 percent.

Placement agents we speak with say that if base rates had dropped to the levels once expected, direct lending returns could have come under pressure – especially given what is now a highly competitive environment – and investors may have been tempted to diversify their private credit exposures. But with rates staying reasonably high and returns expected to hold up, “we’re not going to see this inflexion point where people start pivoting to other areas of private credit,” according to one source.

Anecdotally, from conversations with a range of GPs and LPs, there are high hopes for an improved year ahead for private credit fundraising after a couple of years of relative hardship (see chart). But, if predictions of an increasing direct lending stranglehold on capital formation prove accurate, much of the new capital will find its way into the already bulging coffers of the largest private credit firms.

That’s not to say certain niche areas won’t flourish. Placement agents say certain areas of asset-based lending along with opportunistic credit and specialty finance offer alpha for investors inclined to be a little more adventurous. But private credit’s fundraising revival is likely to come with a “trust what you know” flavour.