THE LEAD
https://theleadpc.com/letter-from-the-persian-gulf/

Letter from the Persian Gulf

THE LEAD | April 1, 2025

It had been a while since our last MENA visit, so on a recent trip there with our teams, clients and friends, the difference in levels of activity and interest around private credit was palpable.

Most large sophisticated institutional investors in the Gulf, including sovereign wealth and pension funds, now have a dedicated allocation to private credit. They have been extremely selective, hiring top managers with scaled platforms and key differentiation points. These include consistency of underwriting disciplines, fully equipped tool kits of creative capital solutions, time-tested, all-cycle track records, and commitments to the region in the form of a local presence.

We’ve also seen many, if not all, of these same institutions setting up teams dedicated to private credit, knowing that allocations to this area had often been handled by their fixed income or special situations teams. And having begun in-market with intra-regional strategies, now graduating to non-“local” managers and strategies.

The large institutions have allocations tied mainly to the upper market cap managers given their lofty ticket size, need for scale, and appetite for sizable co-investment deals. But with premium yields, more conservative structures and deployment of cash towards new buyout financings, some are now considering a dedicated commitment to leading middle market direct lenders.

Not surprisingly, wealth managers in the region have more recently joined the game, setting up their direct lending strategies to distribute to end clients seeking the income generation aspect of the asset class. The preference, however, is for semi-liquid evergreen fund structures, with non-traded BDCs as good examples.

By wealth managers, we typically mean regional private banks and wealth management arms of those banks, not global financial institutions. Private credit – and in most cases this has been direct lending – has been the first alternatives product offered to clients outside of real estate. There’s been a major upswing in conviction around the asset class since our 2023 visit.

Access has come via three avenues. First, there are intermediaries distributing off-the-shelf products; second, intermediaries providing feeders into funds; finally, larger, sophisticated intermediaries launching bespoke closed-ended products with one manager. Family offices have also allocated to private credit. Some make their manager selections directly while others with smaller teams are using intermediaries as consultants and advisors.

As we’ve noted in other geographies, specialty finance corners of the private credit market are also gaining momentum in the Gulf. These include wholesale strategies such as NAV finance and SRTs (significant risk transfers), the latter a popular tool to help optimize bank balance sheets. Our team has also seen investor appetite in ABF, real estate debt, and CLOs.

With MENA one of the fastest growing geographies for private capital, we look forward to providing more updates this year as these trends further evolve. Eid Mubarak!