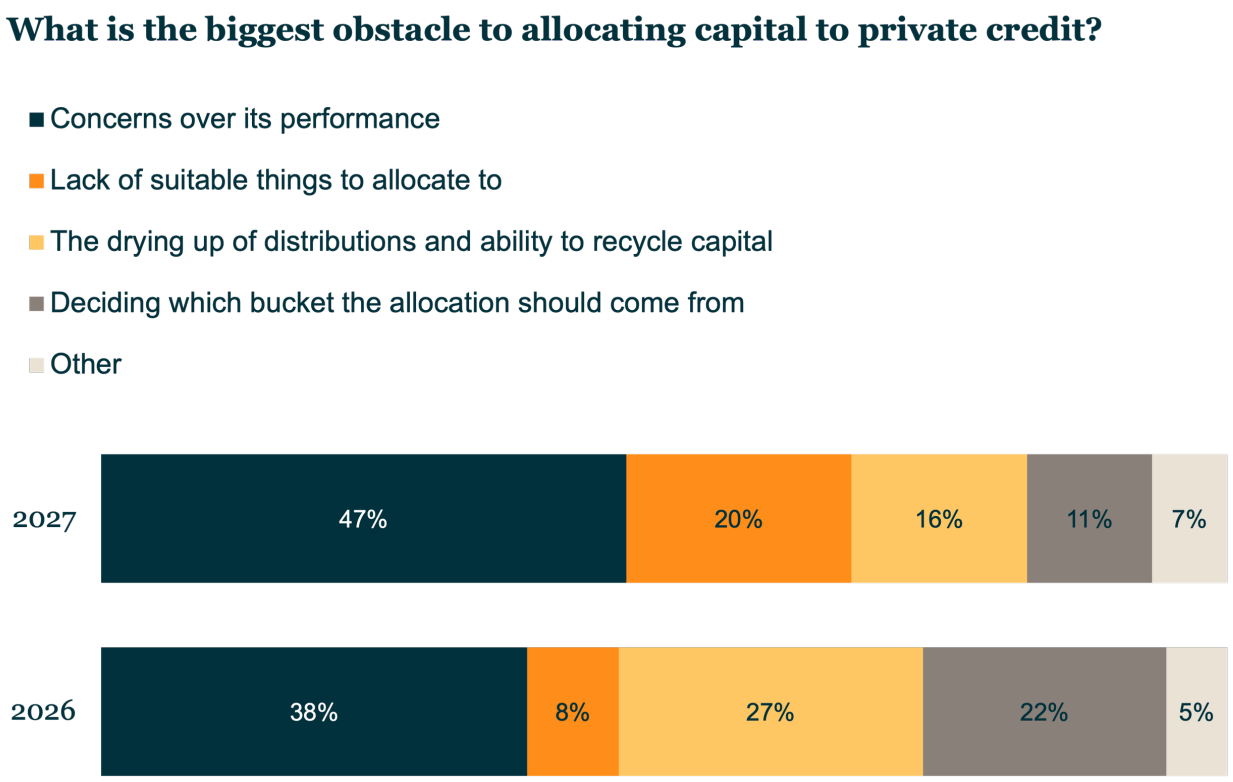
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Is direct lending losing its lustre?

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Our Investor Perspectives survey shows asset-backed finance gaining in popularity as LPs reconsider where to allocate their dollars.

The importance of performance is hard to overstate. You can have considerable affection for an asset class or strategy built up over many years of solid performance – but when it looks like returns could be heading south, loyalty may quickly dissolve.

It's been a challenging year for direct lending, with alarmist headlines around the redemption panic in the US semi-liquid market, claims that some managers are over-exposed to AI-disrupted parts of the software sector, talk of too much leverage in deals and funds, and fears that portfolio stress disguised in the short term will become apparent in the long run.

This has made performance a major investor worry. In the latest version of our Investor Perspectives survey, nearly half of investors (47 percent) say performance is now the biggest obstacle to allocating capital to private credit – compared with 38 percent in the same survey a year ago (see chart).

Moreover, it's clear that direct lending is at the centre of those concerns. Only just over a quarter of investors in

the survey (26 percent) said they would be looking to invest more capital in direct lending in the next 12 months compared with the previous 12 months – the lowest percentage in our records, going back to 2020. Last year, the equivalent figure was 42 percent.

Perhaps even more starkly, 20 percent said they would be investing less over the next year versus the previous year – the highest figure on record and, in strategy terms, second only to the 24 percent intending to invest less in mezzanine and subordinated debt.

Asset-backed finance appears to be a major beneficiary of this change in sentiment, with 37 percent of investors looking to increase their investment in that area over the next year – the highest percentage for any strategy and slightly up on the 35 percent figure last year. ABF appears to have a bright future ahead as direct lending fights to maintain its traditional pre-eminence.