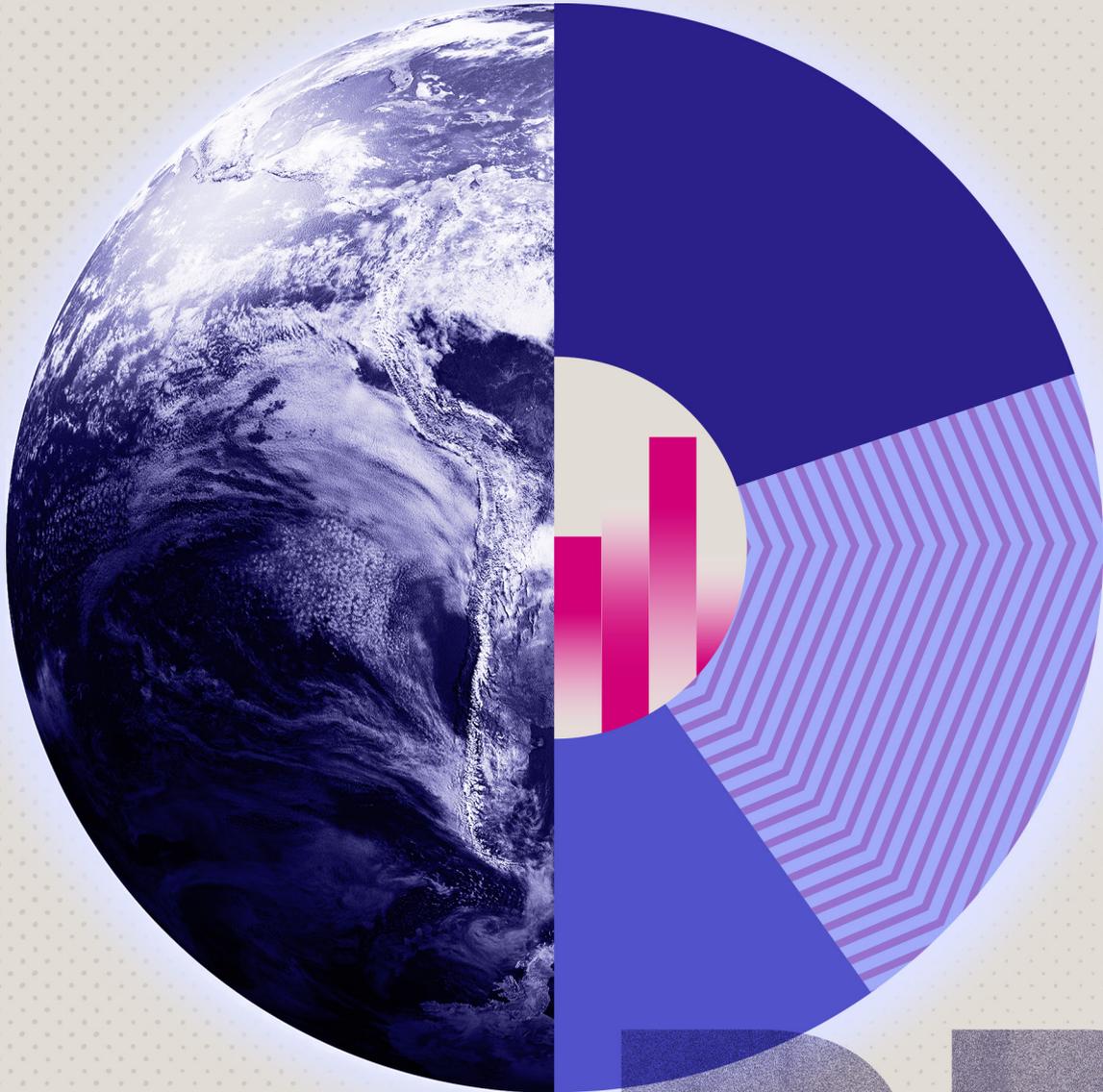


insights⁺

Preqin Global Report

Private Debt 2025



PPD

PREQIN

End-User License Agreement (EULA) for Single Users

END-USER LICENSE AGREEMENT FOR **Preqin Digital Publications** Single-User License.

IMPORTANT - PLEASE READ THE TERMS AND CONDITIONS OF THIS LICENSE AGREEMENT CAREFULLY BEFORE CONTINUING: Preqin Ltd's End-User License Agreement ("EULA") is a legal agreement between you (either an individual or a single entity) and Preqin Ltd. for the Preqin Ltd product(s) identified above, which may include associated media, information, artwork, text, or pictures (collectively, "Content"). By downloading and otherwise using the Content, you agree to be bound by the terms of this EULA. This license agreement represents the entire agreement concerning the Content between you and Preqin Ltd, (referred to as "licenser"), and it supersedes any prior proposal, representation, or understanding between the parties. If you do not agree to the terms of this EULA, do not complete the download of the Content.

The Content is protected by copyright laws and international copyright treaties, as well as other intellectual property laws and treaties. The Content is licensed, not sold.

1. GRANT OF LICENSE

The Content is licensed as follows:

(a) Download and use

Preqin Ltd. grants you the right to download and use the Content on a personal computer and/or e-book reader running validly licensed software for which the Content was designed.

(b) Reproduction/copying

The terms of this license permit the creation of copies of the Content for backup and archival purposes only. Any other form of reproduction of the Content is strictly prohibited.

2. DESCRIPTION OF OTHER RIGHTS AND LIMITATIONS

(a) Maintenance of copyright notices

You must not remove or alter any copyright notices on any and all copies of the Content.

(b) Distribution

This license is for the sole Authorized User only. You may not distribute copies of the Content to any third party, either partially or fully, without the express written consent of Preqin Ltd.

(c) Prohibition on reverse engineering, decompilation, and disassembly

You may not reverse engineer, decompile, or disassemble the Content, except and only to the extent that such activity is expressly permitted by applicable law notwithstanding this limitation.

(d) Rental

You may not rent, lease, or lend the Content.

(e) Compliance with applicable laws

You must comply with all applicable laws regarding use of the Content.

3. TERMINATION

Without prejudice to any other rights, Preqin Ltd. may terminate this EULA if you fail to comply with the terms and conditions of this EULA. In such event, you must destroy all copies of the Content in your possession.

4. COPYRIGHT

All title, including but not limited to copyrights, in and to the Content and any copies thereof are owned by Preqin Ltd. All title and intellectual property rights of the Content are the property of the owner and may be protected by applicable copyright or other intellectual property laws and treaties. This EULA grants you no rights to use such material. All rights not expressly granted are reserved by Preqin Ltd.

5. NO WARRANTY AND LIMITATION OF LIABILITY

Preqin Ltd. expressly disclaims any warranty for the Content. The Content is provided 'As Is' without any express or implied warranty of any kind, including but not limited to any warranties of merchantability, non-infringement, or fitness of a particular purpose. The information presented in the Content is for information purposes only and does not constitute and should not be construed as a solicitation or other offer, or recommendation to acquire or dispose of any investment or to engage in any other transaction, or as advice of any nature whatsoever. If the Authorized User seeks advice rather than information then he/she should seek an independent financial advisor and hereby agrees that he/she will not hold Preqin Ltd. responsible in law or equity for any decisions of whatever nature the reader makes or refrains from making following its use of the Content.

While reasonable efforts have been made to obtain information from sources that are believed to be accurate, and to confirm the accuracy of such information wherever possible, Preqin Ltd. does not make any representation or warranty that the information or opinions contained in the Content are accurate, reliable, up-to-date or complete.

Although every reasonable effort has been made to ensure accuracy, Preqin Ltd. does not accept any responsibility for any errors or omissions within the Content or for any expense or other loss alleged to have arisen in any way from use of the Content.

Contents

Acknowledgements	4	Executive summary
Lead analyst RJ Joshua, CFA	5	Key findings
Research Insights analysts Nicholas Mairone, CFA Brigid Connor, CFA, CAIA	6	Chart of the year
Head of production Colin Leopold	7	Year in review: 2024
Executive editor Lizzie Carroll	20	How private debt is developing and why investors are looking for quality – <i>Laura Parrott, Nuveen</i>
Editors Dan Bloch Rupert Gilbey Kathy Gordon Sam Noble	23	Private debt: Preqin's forecasts through 2029
DRM contributors Abel Fitsum Abraham Clara Bleda Tiffany Chik Elliott Donnelly Danniel Fuentes Emily Garza Melina Heintl-Powell Milan Hirani Juaquin Hong Senthoran Kalaimohan Aishwarya Krishnan Yoshiko Kubo Vincent Li Lauren Mason Thomas Mulready Michael Phua Anil Poonia Christina Taufan Adam Wasserman	28	Get ready to reap the benefits of private credit 2.0 – <i>Zach Lewy, Arrow Global</i>
In-house designers Jimmy Flanagan Tim Short	31	The evolution of direct lending
	37	Still early days for BDCs
	43	Performance in private debt
	48	Private debt proves resilient despite elevated interest rates – <i>Drew Maloney, American Investment Council</i>
	49	Regulatory drivers
	55	Private debt in APAC
	63	Our survey: Taking the pulse
	73	Private debt: Fees and terms
	80	Predictions

Executive summary

Private debt continues to be favored despite a challenging year



RJ Joshua, CFA
VP, Head of Private Debt and Fees
rj.joshua@preqin.com

Private debt had a slow start to 2024, with momentum building for fundraising from the second quarter. Overall, the results are likely to show weaker full-year fundraising than 2023. However, this should be put in context. Macroeconomic data has improved over the course of 2024, with improved prospects of a soft landing for the global economy driven by continued lower inflation. This has allowed central banks to begin monetary easing, with an improvement in risk sentiment as a result. Along with other risk assets, private debt will likely benefit from this, as deal flow should increase and managers deploy more capital in a lower-rate environment. However, investors are concerned about the effect of lower rates on performance, which may temper near-term deployment.

In our latest survey, North America has been the clear regional favorite for investors in 2024, with 92% of investors rating the US as the developed market presenting the best opportunities. This has been backed up by fundraising data, with 72% of funds raised attributed to North America-focused funds as of the end of the third quarter.

Direct lending has seen strong investor sentiment and allocations in 2024, with fundraising hitting \$93bn as of the end of the third quarter. It was not distressed debt's year, likely due to the same strong economic data that powered interest in direct lending. Our latest survey results show a decline in interest toward direct lending, with investors citing concerns about interest rates and competition for assets.

Investors continue to allocate disproportionately to the largest managers. The share of fundraising for funds outside the top 50 fell from 18.5% in 2023 to 5.3% in 2024. The share lost by those outside the top 50 was taken by the top 10 largest funds. The survey results show strong positive long-term sentiment toward further allocations to private debt, but the dollars allocated suggest caution.

We see a defensiveness, with investors allocating mostly to the best-known geography (North America), the simplest and best-known strategy within private debt (direct lending), and disproportionately to the best-known managers (the largest). Investors may remain positive on private debt in the long term, but overall be less adventurous than 12 months ago.

The past year has been one of significant growth for Preqin and the Research Insights team. Thanks to the continued support of our clients, we have been able to significantly expand our research output. In this year's Global Report, we are pleased to showcase some of the most relevant and impactful research from throughout the year.

Overall, 2024 was a year of investors catching up with changing fundamentals. We see the second quarter as the turning point, with allocations improving thereafter. In the medium term we expect flat fundraising in 2025 and growth in 2026, although this could get pulled forward. In the shorter term, our investor survey analysis suggests increased caution compared with last year, while investor sentiment remains strong toward the asset class in the long term.

Key findings

1 Fundraising recovering after a difficult Q1

Full-year fundraising in 2024 is expected to be down on 2023, principally due to a weak first quarter. The subsequent quarters have seen a substantial recovery, but not enough to catch up the ground lost during the first three months of the year. There was a turning point in the second quarter as improved economic data and the increased probability of a soft landing led to higher fundraising. By the end of the third quarter of 2024, private debt fundraising reached \$118bn, which would suggest a full-year figure below 2023's \$214bn and more in line with the 10-year average annual fundraising amount of \$161bn.

2 Direct lending favored by investors in 2024, though sentiment weakening into 2025

Direct lending has secured the majority of funds raised in the first three quarters of 2024. While our latest survey still shows direct lending as the most favored major strategy, we have seen a pullback in investor sentiment compared with the same time 12 months ago (see the 'Our survey: Taking the pulse' chapter). In the long term, the fundamentals support the strategy's continued growth, which we examine in the chapter 'The evolution of direct lending'.

3 Potential changes in bank regulation provides opportunities for private debt

Regulatory changes for banks may open up ground for private debt to expand in new loan markets, such as asset-backed lending, trade finance, and significant risk transfers. In the 'Regulatory drivers' chapter, we explore these drivers in detail. Private debt has generally been a beneficiary of increased bank regulation after the Global Financial Crisis. For example, direct lending was helped by 2013 guidance from the Federal Reserve on leveraged lending. Now the Securities Industry and Financial Markets Association (SIFMA) expects changes to banks' risk-weight assets calculations. We see signs of this affecting private debt; among niche strategies, asset-backed lending has gained investors' interest (see the 'Our survey: Taking the pulse' chapter).

4 Fees show a shift in the balance of power between GPs and LPs

Weaker fundraising appears to be impacting fee levels in 2024, with the mean management fee for direct lending slipping by 0.26% to 1.42% year on year. In the 'Private debt: Fees and terms' chapter, we find that fee pressure may continue for direct lending until fundraising is forecast to improve in 2026. However, other strategies, such as mezzanine, distressed debt, and special situations, tend to have higher levels of fees, reflective of the active management required in those strategies. The median management fee for non-direct lending strategies was 2.00%, compared to 1.50% for direct lending.

Chart of the year

Experienced managers' funds grow even larger

Average private debt fund size: first-time vs. experienced fund managers*



*We define experienced managers here as those with four or more funds.
 **2024 YTD to end-Q3 2024.

Source: Preqin Pro

“ In 2025 we expect that new managers may favor niche strategies where competition is more limited ”

Experienced private debt fund managers have gained ground over first-time managers in 2024, continuing a trend that has been firmly in place since 2020. The blue bars in the chart above show the average fund size for first-time managers declining in dollar terms since 2022. This is all the more remarkable given private debt’s growth in assets under management over the period. With most investors favoring established managers, new entrants will struggle to establish themselves without solid investor backing. In 2025, we expect that new managers may favor niche strategies, where competition is more limited and track records can be shorter.

→ Year in review: 2024

Improving economic indicators likely to benefit private debt in 2025





RJ Joshua, CFA
 VP, Head of Private Debt and Fees
rj.joshua@preqin.com

The year has not played out as expected for private debt investors. Below we examine our predictions for 2024 from last year’s Preqin 2024 Global Report: Private Debt¹ and compare them to the events of recent months to understand where the asset class is currently positioned.

Fundraising lags in 2024 due to weak Q1

We expected fundraising would be higher in 2024 versus 2023. This has not happened and is unlikely to be the case by year-end due to a weak first-quarter fundraising figure. The second and third quarters were much stronger, but not enough to recoup the ground lost in the first quarter in a year-on-year comparison.

In 2025F we have forecast broadly flat fundraising, followed by stronger fundraising in 2026F and 2027F, aligning with our long-term forecast of private debt assets under management (AUM) reaching \$2.64tn by 2029F.²

Improving macroeconomics benefiting direct lending over distressed

We expected distressed debt would benefit from credit stress in the wider economy, in part due to an increase in the number of US bankruptcies. There has been little increase in demand for distressed debt, with default rates for private debt remaining low at 1.95% in the third quarter, according to the Proskauer Private Credit Default Index.³ Our June investor survey showed distressed debt has reverted to being seen as a niche strategy, with 35% of investors favoring it versus 51% at the same time last year. All that said, we view distressed debt as adding useful diversification to investors’ portfolios, as it is likely to be a relative winner compared with other private debt strategies in a weaker economic scenario.

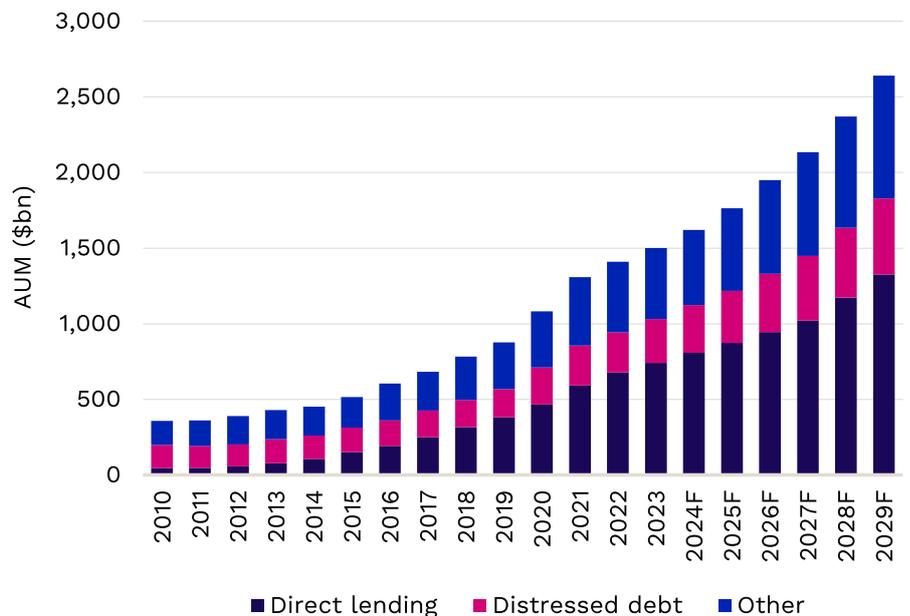
1 <https://www.preqin.com/insights/global-reports/2024-private-debt>

2 <https://www.preqin.com/insights/research/reports/future-of-alternatives-2029?chapter=high-hopes-for-private-debt>

3 <https://www.proskauer.com/report/proskauer-q3-private-credit-default-index-decreases-to-195>

Fig. 1.1: Direct lending forecast to show strongest growth

Global private debt AUM* by strategy



Source: Preqin. All figures are nominal

*AUM figures exclude funds denominated in yuan renminbi. To avoid double counting, totals exclude funds of funds.

With inflation and interest rates declining year-to-date, our sense is that investors are more optimistic about the economy than this time last year. Investor sentiment on inflation has shifted again during 2024, according to our latest survey carried out in November 2024 (see the ‘Our survey: Taking the pulse’ chapter). Given this is the case, we predict direct lending will be the strategy most favored by investors,⁴ in line with our investor survey results as well as our long-term forecasts.

North America dominant in fundraising

Last year we expected to see no large shift in North America’s share of fundraising, although we did highlight that there was risk to the upside. That is what came to pass, as investors have favored North America heavily over other regions. Fundraising to North America represents 72% of funds raised so far in 2024. Looking to 2025, we expect the trend to continue, due to direct lending being a predominantly North American strategy and the most favored strategy. Over the medium term, we forecast North America to grow its AUM faster than Europe or APAC, reaching \$1.74tn in 2029F,⁵ an annualized growth rate of 10.99%.

New structures unlock democratization of alternatives

Finally, we highlighted our optimism that the investor pool for private debt would widen, and we have seen positive developments on this front. In North America, business development companies (BDCs) have shown steady growth⁶ (see the ‘Still early days for BDCs’ chapter). In Europe, the introduction of the updated European Long-Term Investment Funds regulation, ELTIF 2.0, in the EU and wider adoption of Long-Term Asset Funds (LTAFs) in the UK has seen a spate of significant fund launches in 2024.⁷

A strong year for risk assets, with improving macroeconomic indicators

Through 2024 we have seen continued positive performance in equities, with the MSCI World Index up by around 15.08% to the end of October 2024. The Bloomberg Global Aggregate Index was essentially flat over the same period. Similarly, Preqin’s Private Debt Index shows performance to the end of the second quarter of 4.45%. This illustrates the higher returns on offer from private debt, and may increase further once we confirm the third-quarter data and are able to do a like-for-like comparison.

The first quarter saw a substantial change in interest rate expectations. At the start of the year markets were pricing in six quarter-point interest rate cuts over 2024, but by April this was down to just two. This shift was due to persistently high inflation data in combination with a stronger-than-expected labor market.⁸ Against this backdrop, we saw LPs pull back from new commitments with fundraising reaching \$118bn by the end of the third quarter, which as we describe below is likely to land behind 2023’s figure.

In retrospect, the second quarter of 2024 appears to have been pivotal in the recovery of fundraising for private debt. Interest rate expectations were more settled during this quarter⁹ and we saw a sharp recovery in quarterly fundraising. US GDP continued to grow at a steady pace, with the Bureau of Economic Analysis (BEA) in late June announcing an annual increase of 1.4% for the first quarter.¹⁰ On the other hand, headline consumer price index (CPI) inflation remained above target. CPI in May was at 3.3% and the personal consumption expenditures (PCE) price index, the Federal Reserve’s (Fed) favored inflation metric, was at 2.6%. By the second quarter, market expectations had shifted to just one quarter percentage point cut by the end of 2024.

⁴ <https://www.preqin.com/insights/research/sector-in-focus/strategy-in-focus-direct-lending>

⁵ <https://www.preqin.com/insights/research/reports/future-of-alternatives-2029?chapter=high-hopes-for-private-debt>

⁶ <https://www.preqin.com/insights/research/research-notes/private-wealths-path-into-us-private-debt>

⁷ <https://www.preqin.com/insights/research/reports/fundraising-from-uk-pensions-a-guide-to-raising-capital>

⁸ <https://www.preqin.com/insights/research/quarterly-updates/q1-2024-private-debt>

⁹ <https://www.preqin.com/insights/research/quarterly-updates/q2-2024-private-debt>

¹⁰ <https://www.bea.gov/sites/default/files/2024-06/gdp1q24-3rd.pdf>

There was a much-anticipated pivot in interest rates in the third quarter, with the Fed announcing a 0.50% cut in rates. Economic data points have been broadly supportive for risk assets, with the BEA’s third second-quarter GDP estimate at 3.0%,¹¹ the PCE price index heading back toward target at 2.2%¹² in August, and the unemployment rate little changed over the quarter at 4.1% in September.¹³ Taken together, easing inflation has provided the Fed with the latitude to intervene and support credit markets. Markets are expecting further easing, albeit at a slower pace.

There are signs that private debt may avoid some of the challenges facing other asset classes. As mentioned, the Proskauer Credit Default Index¹⁴ shows a default rate of 1.95% for the third quarter at the time of writing. In comparison, Fitch Ratings published a default rate of 4.68%¹⁵ for leveraged loans for the trailing 12 months to September 2024. This suggests that private debt continued to benefit from its unique features, such as direct relationships between borrower and creditor.

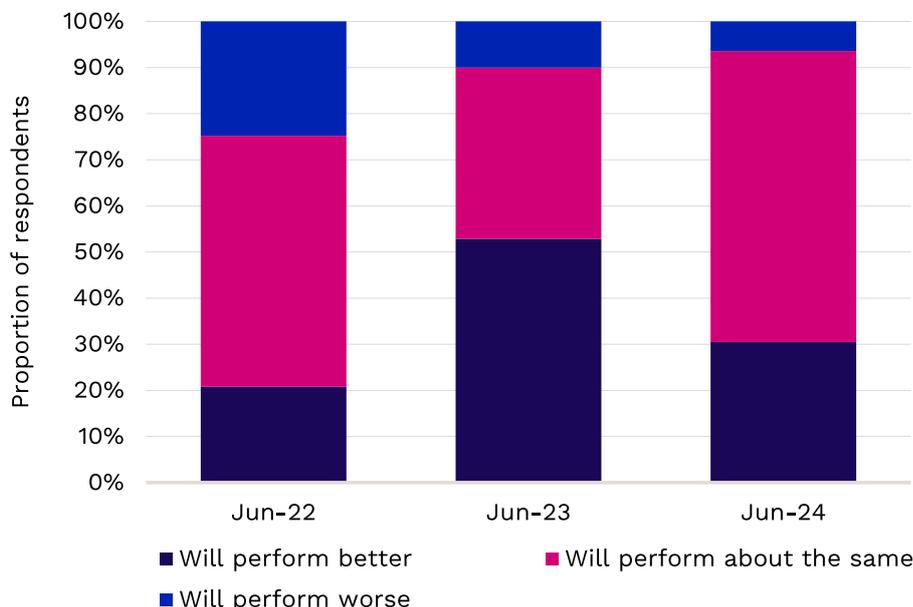
Overall, the macroeconomic environment has improved over 2024, with moderate easing likely to spur renewed confidence. If this translates to an improved deal environment for private equity, we should see an uplift in deal activity for private debt in 2025.

Full-year fundraising likely to end below 2023’s figure, close to long-run average

By the end of the third quarter of 2024, private debt fundraising reached \$118bn (Fig. 1.4). If fundraising maintained the same pace to year end, this would suggest a full-year total of \$157bn, down on 2023’s \$214bn but close to the 10-year average of \$161bn. The risk here is likely to the upside, as there is typically some seasonality in fundraising figures; this year there is the additional factor of the US election, the resolution of which may give investors the certainty they need to allocate.

Fig. 1.2: Investors expecting steady returns in the near term

Investors were asked: ‘How will the next 12 months’ performance compare to the previous 12 months?’



Source: Preqin Investor Surveys, June 2022–2024

11 <https://www.bea.gov/news/2024/gross-domestic-product-third-estimate-corporate-profits-revised-estimate-and-gdp-0>

12 <https://www.bea.gov/news/2024/personal-income-and-outlays-august-2024>

13 https://www.bls.gov/news.release/archives/empsit_10042024.pdf

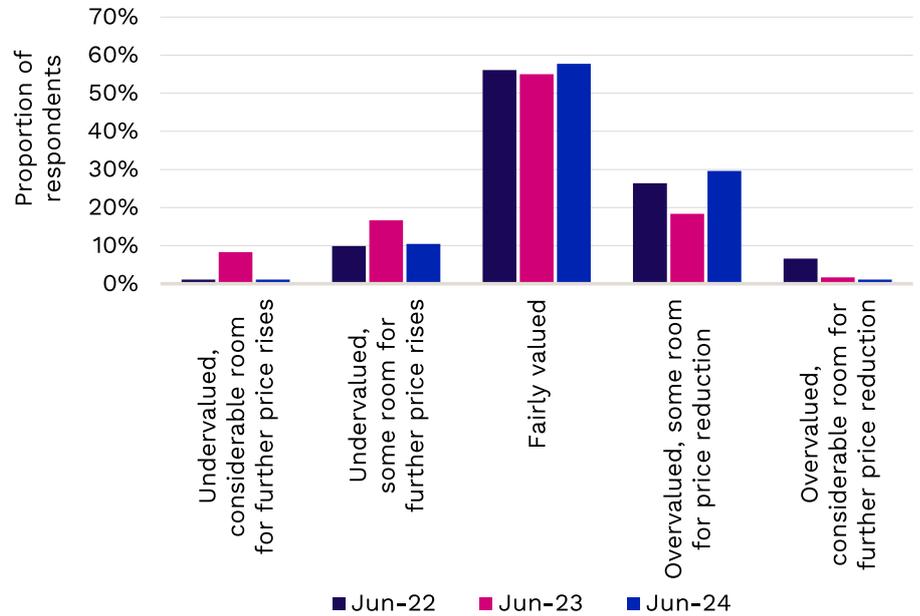
14 <https://www.proskauer.com/report/proskauer-q3-private-credit-default-index-decreases-to-195>

15 <https://www.fitchratings.com/research/corporate-finance/us-distressed-default-monitor-october-2024-31-10-2024>

We have seen recent signs of investor caution in our investor surveys (Fig. 1.2), with investors less likely to say their portfolio assets are undervalued (see Fig. 1.3). Investors overall remain satisfied with private debt, with the vast majority saying it had met or exceeded their expectations.¹⁶

Fig. 1.3: Continued confidence in asset pricing from investors

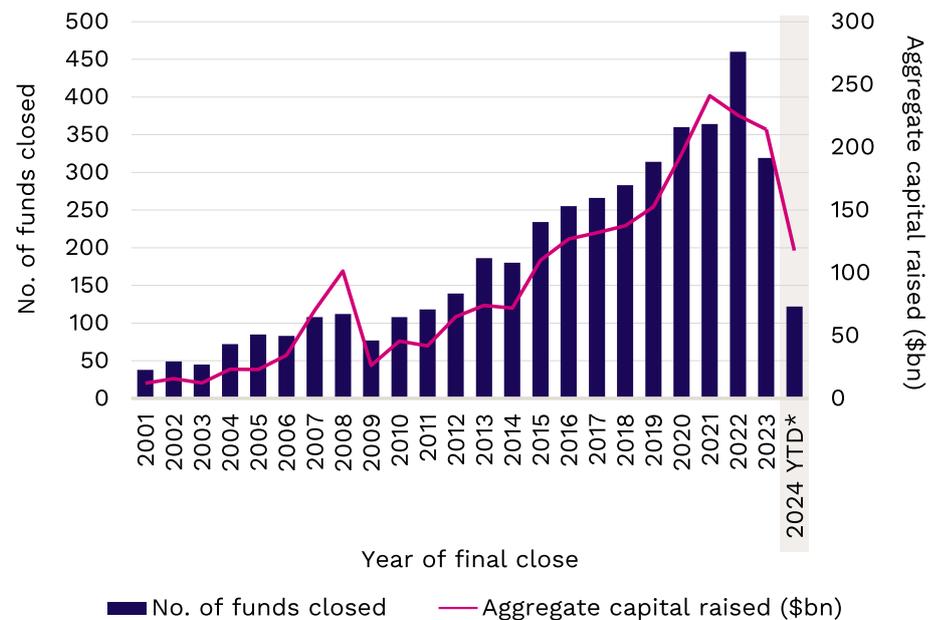
Investors were asked: ‘How do you view portfolio company/asset pricing?’



Source: Preqin Investor Surveys, June 2022–2024

Fig. 1.4: Fundraising to Q3 is tracking behind last year

Global private debt capital raised and number of funds closed



*2024 YTD to end-Q3 2024.

Source: Preqin Pro

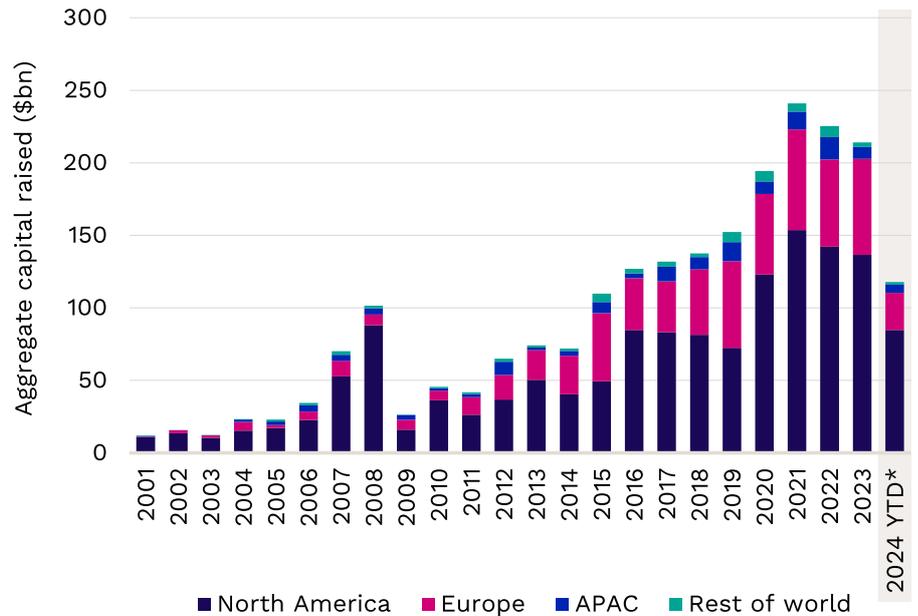
¹⁶ <https://www.preqin.com/insights/research/investor-outlooks/investor-outlook-h2-2024?chapter=private-debt>

North America wins more share of dollars raised, though Europe still sees investor interest

In terms of geographic split, North America has extended its lead in fundraising. The region captured 72% of funds raised in private debt up to the end of the third quarter, up from 64% in 2023, with Europe losing share by a similar amount. It is notable, however, that Europe’s share is practically unchanged when you look at the number of funds closed. This suggests that investors are still spending time on allocating to Europe, just not in the size they are willing to in North America (Fig. 1.5 and Fig. 1.6).

Fig. 1.5: North America gains share of capital raised...

Fundraising by private debt funds closed by primary geographic focus

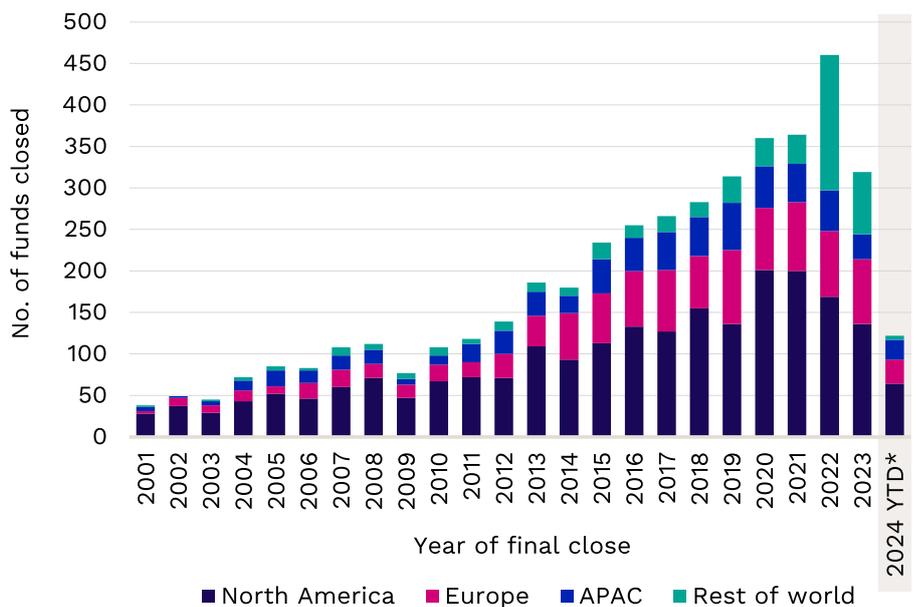


*2024 YTD to end-Q3 2024.

Source: Preqin Pro

Fig. 1.6: ...but number of funds closed shows Europe holding share

Private debt funds closed by primary geographic focus



*2024 YTD to end-Q3 2024.

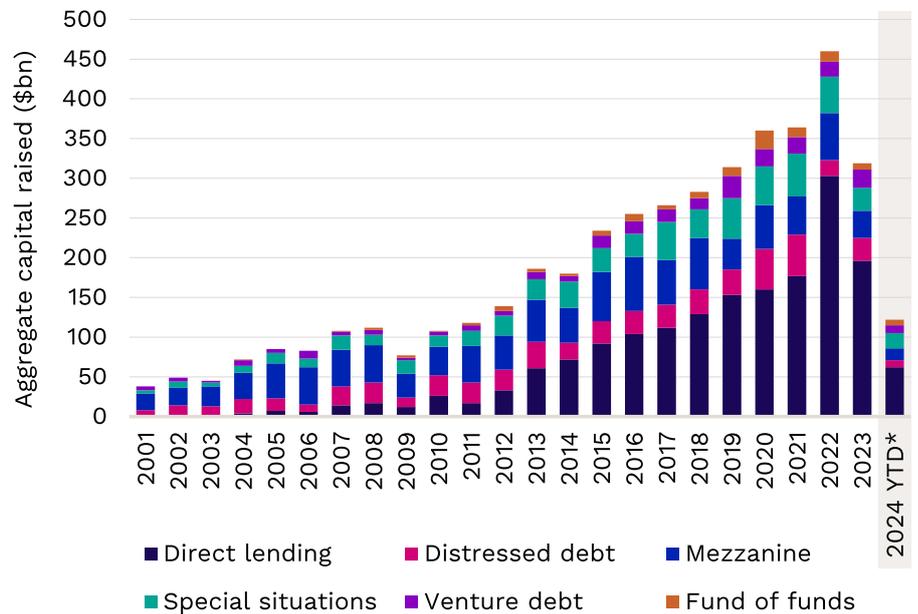
Source: Preqin Pro

Given North America is several decades ahead of Europe in developing its private market alternatives ecosystem, we would expect North America to tend to have a higher share of total fundraising in the long term. At the moment, we also have a differential in economic growth between the two regions, which is likely exacerbating Europe’s weak fundraising. The rest of world category shows a spike for funds closed in 2022, which can partly be attributed to Preqin’s improved coverage of fund closes in Brazil. As a result, we are reluctant to draw any long-term conclusions from this spike until additional years are added.

Our current fundraising figures show that the top 10 funds have secured 60% of the funds raised in private debt for the year as of the end of the third quarter, up substantially on the 39% secured last year. Mid-sized funds have mostly held on to share, with the effect most pronounced for those outside the top 50 (Fig. 1.9). LPs are concerned about ensuring diversification, but the pronounced increase in manager concentration may make that more difficult.

Fig. 1.7: Fundraising count little changed by strategy

Private debt funds closed by type

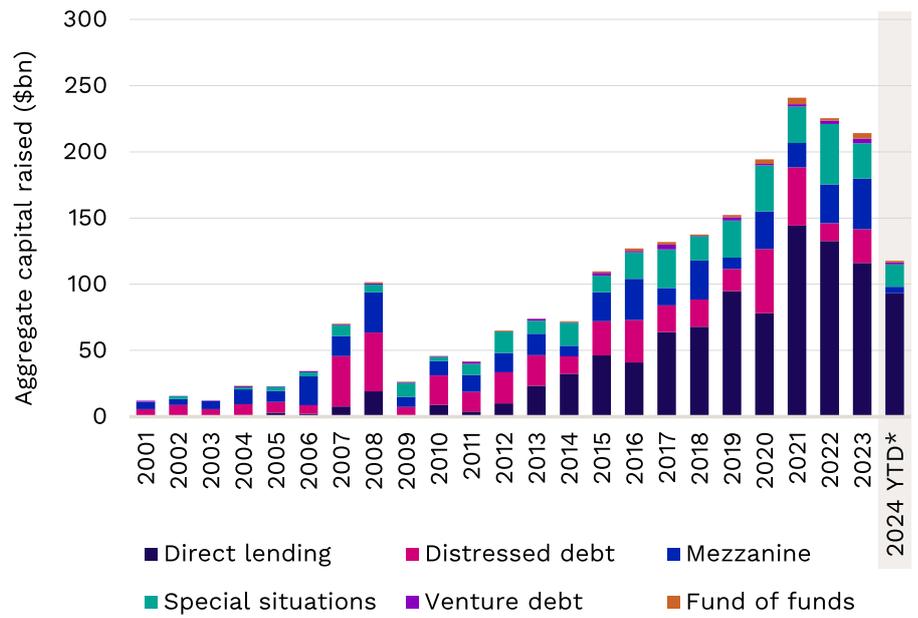


*2024 YTD to end-Q3 2024.

Source: Preqin Pro

Fig. 1.8: Substantial increase in direct lending's share of fundraising

Aggregate capital raised by private debt funds closed by type

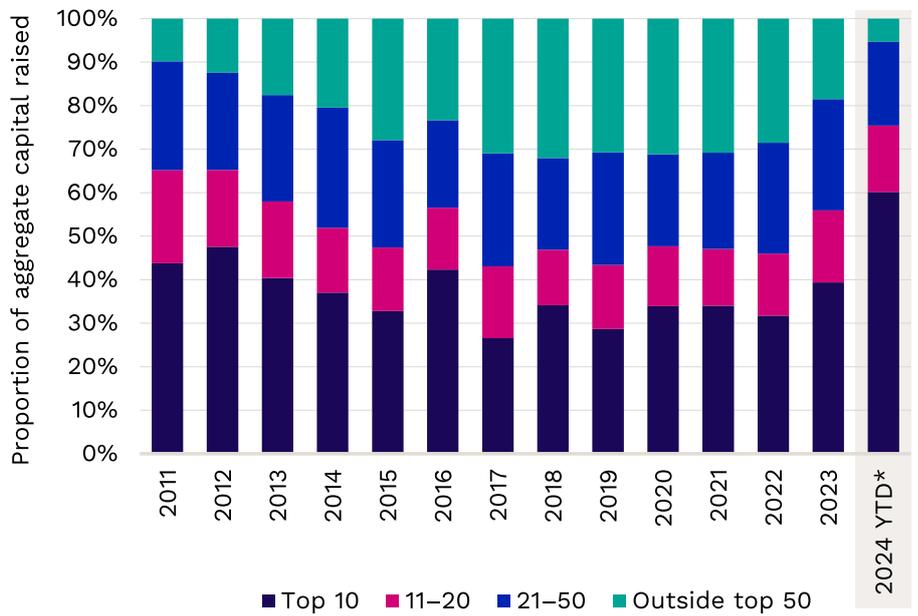


*2024 YTD to end-Q3 2024.

Source: Preqin Pro

Fig. 1.9: 10 largest private debt funds take more than half capital raised

Proportion of aggregate capital raised by the largest private debt funds closed



*2024 YTD to end-Q3 2024.

Source: Preqin Pro

Experienced managers gain ground as new entrants struggle

Our analysis shows another note of caution from investors as they appear less willing to allocate to new managers than in the past, as their average fund size has declined for the third year running (Fig. 1.11). By contrast, the average fund size for experienced managers is at a 10-year high. We expect this ‘incumbency advantage’ to persist and strengthen as the industry matures, favoring larger established players.

Fig. 1.10: Direct lending predominant in top 20 largest funds closed

Largest private debt funds closed in 2024 YTD*

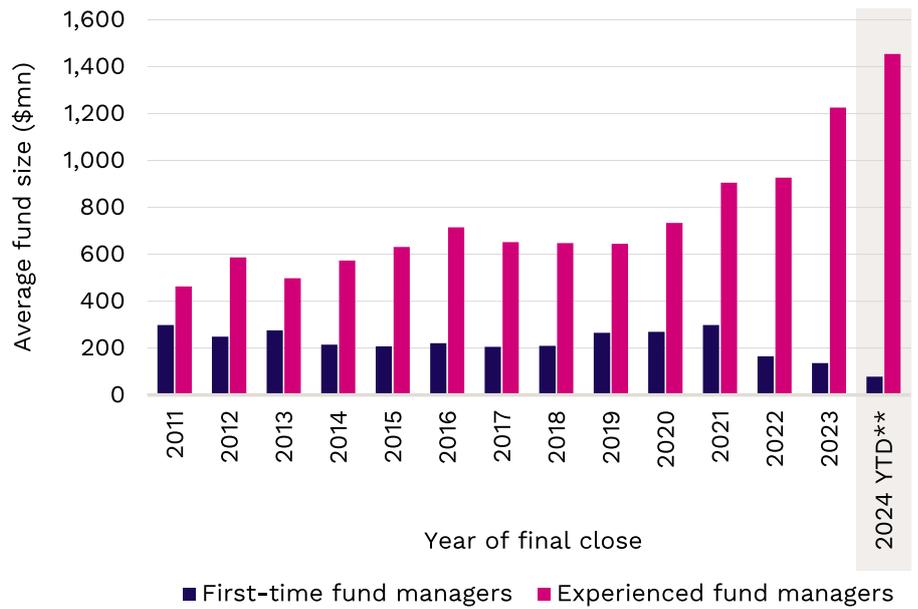
Fund	Firm	Fund size (\$bn)	Fund type	Geographic focus	Final close date
Ares Senior Direct Lending Fund III	Ares Management	15.0	Direct lending	North America	Jul-24
West Street Loan Partners V	Goldman Sachs Asset Management	13.1	Direct lending	North America	May-24
HPS Specialty Loan Fund VI	HPS Investment Partners	10.4	Direct lending	North America	Jun-24
Apollo/Athene Dedicated Investment Program II	Apollo Global Management	6.0	Special situations	North America	Aug-24
Benefit Street Partners Debt Fund V	Benefit Street Partners	4.7	Direct lending	North America	Jan-24
Silver Point Specialty Credit Fund III	Silver Point Capital	4.6	Direct lending	North America	Sep-24
AG Direct Lending Fund V	Twin Brook Capital Partners	3.9	Direct lending	North America	Aug-24
Park Square Capital European Loan Partners II	Park Square Capital	3.8	Direct lending	Europe	Sep-24
CAPZA 6 Private Debt	CAPZA	2.7	Direct lending	Europe	Jun-24
Atlantic Park Strategic Capital Fund II	General Atlantic	2.7	Special situations	North America	Jan-24
Chorus Capital Credit Fund V	Chorus Capital	2.5	Direct lending	Europe	Jul-24
Pemberton Strategic Credit Fund III	Pemberton Asset Management	2.5	Direct lending	Europe	Mar-24
Blue Torch Credit Opportunities Fund III	Blue Torch Capital	2.3	Direct lending	North America	Apr-24
GEMS Fund 6	Golub Capital	2.0	Direct lending	North America	Apr-24
Kartesia Senior Opportunities II	Kartesia	2.0	Direct lending	Europe	Jun-24
PCP Corporate Credit Fund V	P Capital Partners	1.8	Direct lending	Europe	Apr-24
PineBridge Private Credit III	PineBridge Investments	1.7	Direct lending	North America	Jan-24
Abry Advanced Securities Fund III Continuation Fund	ABRY Partners	1.6	Direct lending	North America	Aug-24
West Street European Middle Market Credit Fund	Goldman Sachs Asset Management	1.5	Direct lending	Europe	Mar-24
GoldenTree Private Credit Fund	GoldenTree Asset Management	1.4	Direct lending	Rest of world	Mar-24

*2024 YTD to end-Q3 2024.

Source: Preqin Pro

Fig. 1.11: Experienced managers' funds grow even larger

Average private debt fund size: first-time vs. experienced fund managers*



*We define experienced managers here as those with four or more funds.
 **2024 YTD to end-Q3 2024.

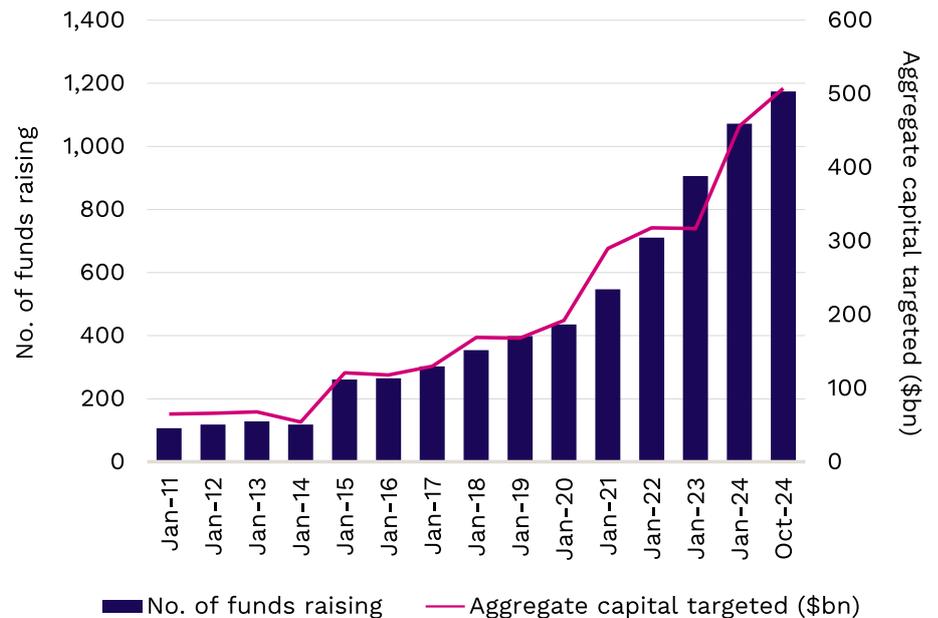
Source: Preqin Pro

Substantial increase in direct lending's share of fundraising

Direct lending's share of fundraising jumped from 54% in 2023 to 79% in 2024 as of the end of the third quarter (Fig. 1.8). One reason to explain this is investors' focus on income, which was the number one reason for investors to allocate to private debt.

Fig. 1.12: Over 1,000 private debt funds raising capital

Private debt funds in market



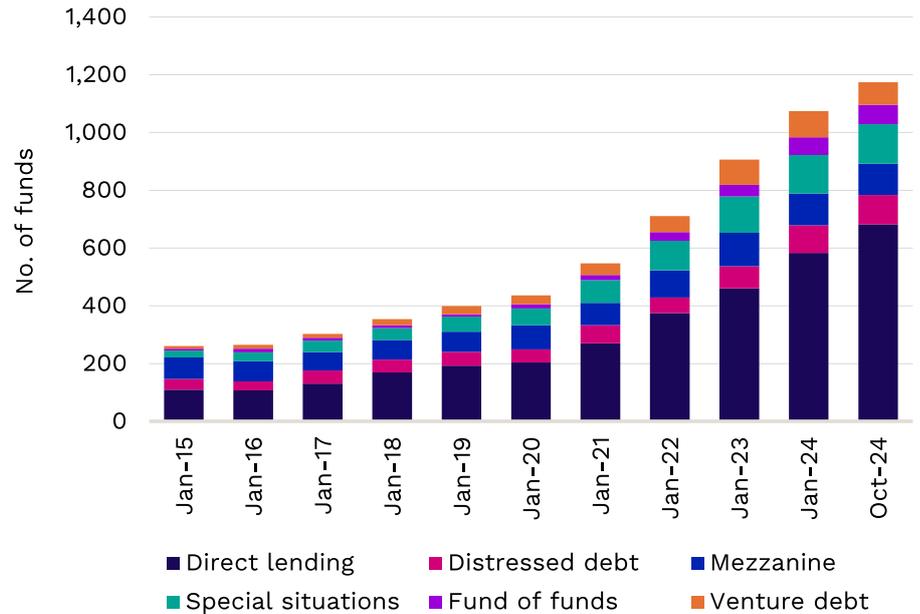
Source: Preqin Pro

Funds in market show that direct lending remains in focus

We can aggregate all the fundraising targets of GPs to get a sense of what we can expect in the year ahead. The data shows a modest 10–11% year-on-year increase in both the number of funds in the market and the aggregate capital targeted (Fig. 1.12). Looking into the detail, we see that the types and geographies of funds offered remain fairly stable, with direct lending increasing its share by four percentage points to 58%, but otherwise little change across the asset class (Fig. 1.13 and Fig. 1.14). This points to the success of direct lending being led by LPs, rather than a function of a changing opportunity set.

Fig. 1.13: Consistent share for funds in market by strategy

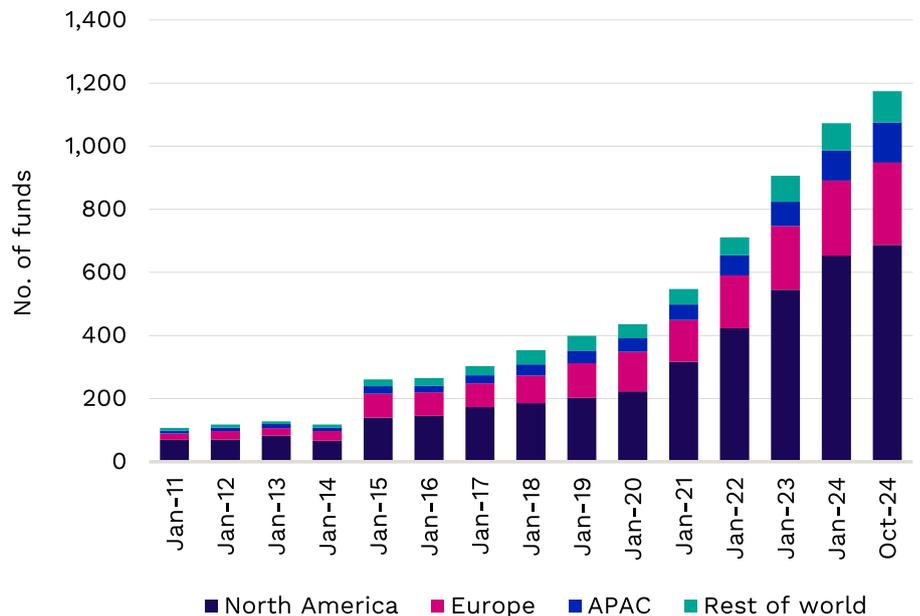
Private debt funds in market by fund type



Source: Preqin Pro

Fig. 1.14: Consistent share for funds in market by geography too

Private debt funds in market by primary geographic focus



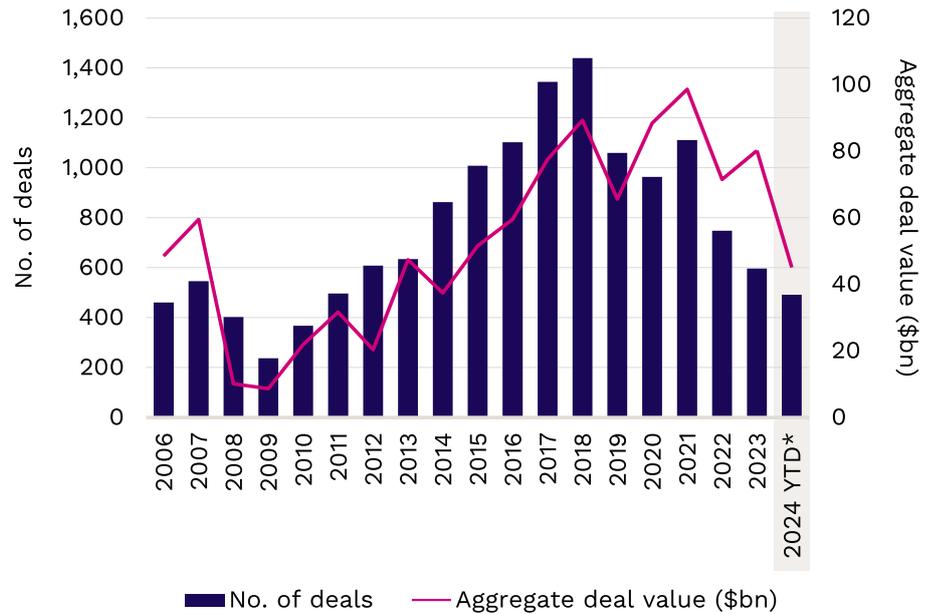
Source: Preqin Pro

Signs that pace of deals has improved may be a tailwind for fundraising in 2025

Over the first three quarters of 2023, Preqin tracked 491 deals with an aggregate value of \$45bn. If we focus on the count of deals, where data coverage is strongest, we see that deal activity in 2024 is at a similar pace to last year (Fig. 1.15). The 491 deals to the end of the third quarter suggests an annual pace of 654, compared with 596 for the full year of 2023. This is likely positive for future fundraising, as we expect LPs to be more willing to make new commitments as they see their capital being successfully deployed in existing ones.

Fig. 1.15: Deal volume broadly holds up in a challenging market

Global annual private debt deals



*2024 YTD to end-Q3 2024.

Source: Preqin Pro

Fig. 1.16: Europe regains share of deal count

Annual number of private debt deals by region



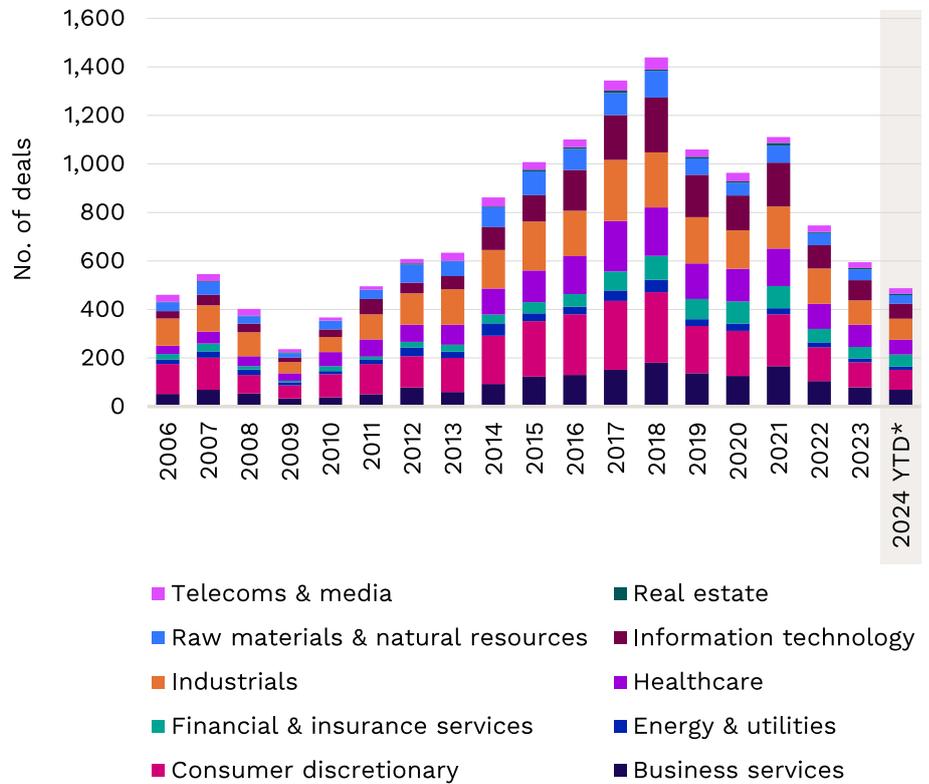
*2024 YTD to end-Q3 2024.

Source: Preqin Pro

Across geography and industry, and focusing on deal count, we see that the composition of deal activity is little changed over the last few years. North America is the largest region, with 63% of deals (Fig. 1.16). Industrials is the largest sector for deals at 18%, narrowly ahead of consumer discretionary at 17% (Fig. 1.17).

Fig. 1.17: Industrials leads private debt deployment

Annual number of deals by industry



*2024 YTD to end-Q3 2024.

Source: Preqin Pro

Over 2024 we have seen a steady improvement in the macroeconomic environment. Looking to 2025, we expect any improvement to private equity’s deal environment to positively impact deal flow for private debt. While investors will ask about the impact of lower interest rates on performance, demand for credit may substantially mitigate or even exceed this effect. All the while, the democratization of alternatives, in the form of semi-liquid structures in the US and EU, will allow a wider pool of investors to benefit by diversifying their portfolios with allocations to private debt.

How private debt is developing and why investors are looking for quality

Nuveen's Laura Parrott explains why infrastructure credit is offering new opportunities, and how insurance companies are looking to lock in on higher rates

What innovations are we seeing in private markets, and particularly private debt?

As the private credit market expands, both from capital flowing in as well as issuance that has traditionally been in the public market, we are seeing all sorts of new opportunities within private credit. Specifically, we are seeing innovation in infrastructure credit with new opportunities to help fund the energy transition and other infrastructure needs. There's quite a tailwind there, with innovative structures around infrastructure.

One of these strategies, which Nuveen has been a first mover on, is commercial PACE – or Property Assessed Clean Energy – an opportunity to invest in energy efficiency upgrades to commercial real estate. This is a credit product that can help financing within real estate, an example of an innovative credit solution for a specific area of the marketplace. As an investor, it is a good diversifier away from traditional corporate exposure, while having structural protections and collateral.

Why could private debt be an attractive asset class in a recession?

Whether it's in a recession or just in general, there remains a lot of market uncertainty, particularly geopolitical. Of course, we're seeing recessionary concerns. There is interest-rate volatility globally as central banks are starting or continuing to make moves, and institutional investors are starting to recognize that traditional portfolios might be a little too exposed to these types of risks.

Private credit allows investors to diversify from those more traditional areas within your portfolio, but it can also serve as a ballast from the liquid markets where there could be more volatility. In the private markets, we generally don't see volatility in the same way because, for the most part, there are structural protections in these private credit instruments. And in infrastructure, there's oftentimes collateral that gives certainty of interest payments. All of this combined can provide more comfort going into a potential credit cycle or recessionary period, adding stability to your portfolio.

Why are investors placing a greater emphasis on quality?

In our surveys of Nuveen's institutional clients, there's an increased interest in investment grade opportunities (Fig. 1). Part of this goes back to what we've talked about – in a period of potential global geopolitical instability, recessionary pressures and interest-rate volatility, having investment grade exposure can be a ballast to some of the more volatile areas.



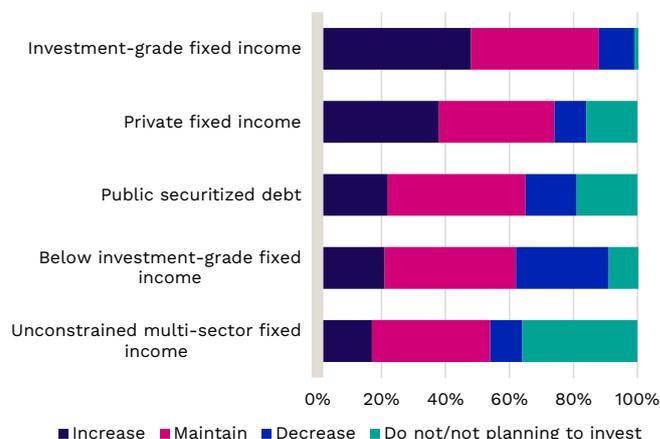
Laura Parrott

Senior Managing Director, Head of Private Fixed Income, Nuveen

The other argument would be that right now, investment grade is very attractive vis-a-vis what we're seeing for below investment grade credit. The delta between an investment grade yield and a below investment grade yield, isn't very significant given historically tight spreads. So now that we're out of the zero-rate environment and in a more historical norm from an underlying yield perspective, those investment grade exposures become more appealing to add back into your portfolio. Investors are not taking as much risk, but they're still enjoying an attractive yield. In private markets, investors also benefit from yield enhancement from the liquidity premium, so it's even more attractive.

For those reasons, we're seeing a lot more interest in the asset class and, when there is capital coming into an asset class, there is more issuance. Issuers recognize that there's capital there, and certainty of execution. When the two marry, that means the market in total is expanding.

Fig. 1: How are institutional investors shifting fixed income allocations over the next two years?



Source: Nuveen 2024 eEquilibrium global institutional survey
nuveen.com/equilibrium

What other trends are you observing in alternative assets?

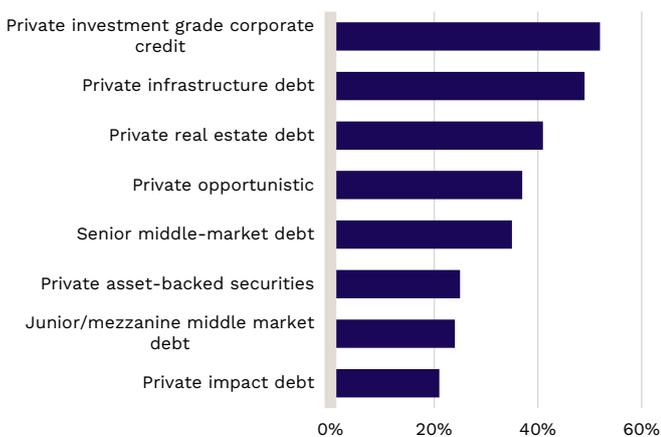
One of the other trends that we're seeing is infrastructure credit investing, in both the investment grade and the below-investment-grade context (Fig. 2).

I already mentioned our commercial PACE product, which is a nascent market that's really starting to grow and a great investment opportunity in the investment grade securitization space.

Along those lines, I'd be remiss if I didn't mention the growth in the private asset-backed security market. It's an option for issuers wanting to move away from the public ABS market, and it's also an option to help finance more esoteric types of collateral pools. That has been an area of focus for us, and we've seen a tremendous amount of innovation within the ABS market.

The tailwind here is not just the capital coming in and issuers wanting the certainty of execution and access to that capital. We also have an environment where banks have been somewhat dislocated due to regulatory issues. So there simply is white space for other institutions to come in and capture that issuance, and we're seeing that in a significant way. That will remain a real source of growth for the private credit market, and we're excited about how we can participate and lead in that market.

Fig. 2: Within private fixed income, where are institutional investors increasing allocations over the next two years?



Source: Nuveen 2024 eEquilibrium global institutional survey
nuveen.com/equilibrium

Laura Parrott is a Senior Managing Director and Head of Private Fixed Income at **Nuveen**, responsible for the growth and commercialization of private corporate credit, infrastructure debt, credit tenant loans, and private ABS. Laura also oversees the Nuveen Green Capital and the Energy Infrastructure Credit investment teams.

Nuveen offers a comprehensive range of outcome-focused investment solutions designed to secure the long-term financial goals of institutional and individual investors. Nuveen has \$1.3tn in AUM as of September 2024 and operations in 27 countries. For more information, please visit www.nuveen.com.

Nuveen and CoreData surveyed 800 institutions globally spanning North America (NORAM); Europe, Middle East and Africa (EMEA); and Asia Pacific (APAC) in October and November 2023. Respondents were decision-makers at corporate pensions, public/governmental pensions, insurance companies, endowments and foundations, superannuation funds, sovereign wealth funds, and central banks. Survey respondents represented organizations with assets of more than \$10B (53%) and less than \$10B (47%), with a minimum asset level of \$500 million. The survey has a margin of error of $\pm 3.5\%$ at a 95% confidence level. For more information visit nuveen.com/equilibrium

How is the role of insurance-based investors changing as new entrants forge their way in alternatives? Are you seeing any changes in the types of investor or sources or capital in the private debt market?

We're certainly seeing more interest in private capital, below investment grade but especially, as we discussed, in the investment grade construct. Nuveen conducts its Equilibrium Survey every year, where we survey 800 clients globally to gauge their desires, which helps us know where the market is going (Fig. 1 and Fig. 2).

What we have found is that the majority of respondents are looking to increase their exposure to investment grade and private credit. And that's across our institutions. Insurance companies in particular are looking for ways to capitalize and lock in on the higher rates we've been enjoying over the past couple of years. Even with the rate cuts we've seen, we're still seeing attractive rates. So you can capture and lock them in for a longer duration and still enjoy the benefits that private capital provides. We mentioned structural protection, but the yield enhancement through the illiquidity premium and call protection are other features that that this market enjoys. These are all attributes insurance companies are interested in and so, we've heard first-hand from our clients that this is an area they're looking to expand their investment horizon in. As an investor focused on the market, this is something that we are experiencing in real time.

Power deeper performance analysis with **Preqin Benchmarks**

Leverage the most comprehensive fund and asset-level performance data in alternatives



Our trusted data and cutting-edge technology help investors to benchmark performance, identify and evaluate new investment opportunities, and stay one step ahead of the market.

[REQUEST A DEMO](#)

PREQIN

→ **Private debt:**

Prequin's forecasts through 2029

Global private debt AUM is forecast to reach an all-time high of \$2.64tn in 2029F, following a trough in 2025F





RJ Joshua, CFA
 VP, Head of Private Debt and Fees
rj.joshua@preqin.com

In 2024 the global economy, and particularly the US economy, has continued to perform against the market consensus expectations. The yield curve inversion has been widely interpreted as a sign of impending recession, which so far has not manifested.

At the time of writing, there is increasing consensus among policymakers that inflation is easing, based on improving data, and so there is a decreasing probability of further rate hikes. Evidence of this was seen over the second quarter, when the 2s10s spread (the difference between the 10-year yield and the 2-year yield) narrowed substantially, finally closing to 0 basis points in August for the first time since July 2022.

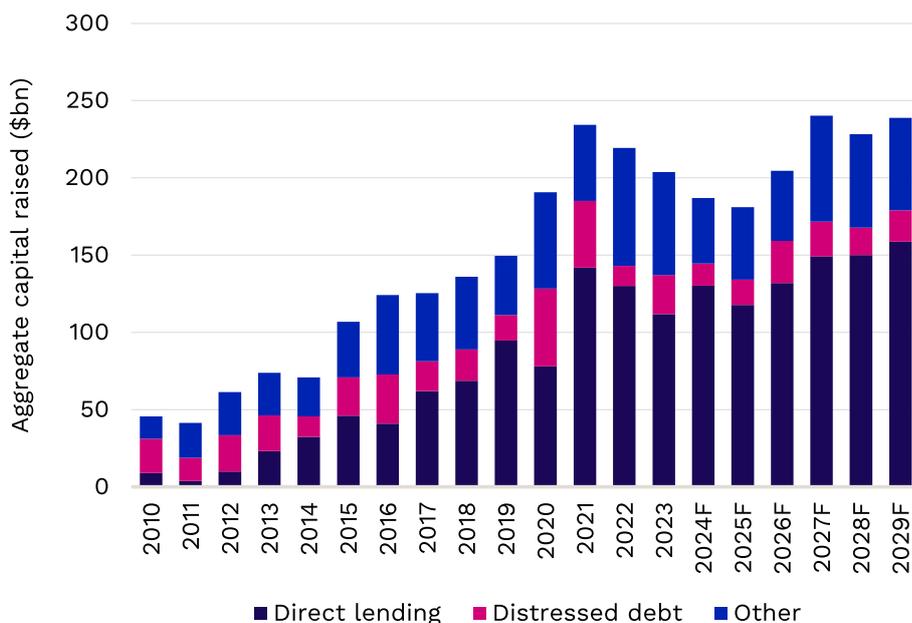
Against this backdrop, fundraising for private debt has slowed over the last couple of years. In the first half of 2024, fundraising was 74% of the amount raised in the first half of 2023, indicating that fundraising headwinds are persisting in the short term.

Direct lending as a share of fundraising is expected to increase from 55% at the end of 2023 to 66% in 2029F (Fig. 2.1). This is in line with recent trends and reflected in our Investor Outlook: H2 2024,¹ where 70% of investors said direct lending presented the best investment opportunities. This is mainly at the expense of ‘other’ strategies like higher risk/return mezzanine and special situations.

¹ <https://preqin.com/insights/research/investor-outlooks/investor-outlook-h2-2024>

Fig. 2.1: Direct lending to increase share of fundraising over forecast period

Aggregate fundraising* by sub-strategy



Source: Preqin. All figures are nominal

*Capital raised figures exclude funds denominated in yuan renminbi. Values relate to end of year. To avoid double counting, totals exclude funds of funds.

Looking across major geographies, we forecast North America and APAC will grow steadily, at 3.40% and 3.35% respectively. Fundraising growth for Europe, however, is forecast to be flat over the period. European fundraising will trough in 2025F at \$42bn before recovering back to 2023 levels of \$61bn in 2029F.

Putting this in context, fundraising for private debt was exceptionally strong in 2021, with \$234bn raised. What we have seen since is a decline, which we forecast will trough in 2025F at \$181bn before recovering to an all-time high of \$240bn in 2027F.

Investors remain committed to private debt for the long term

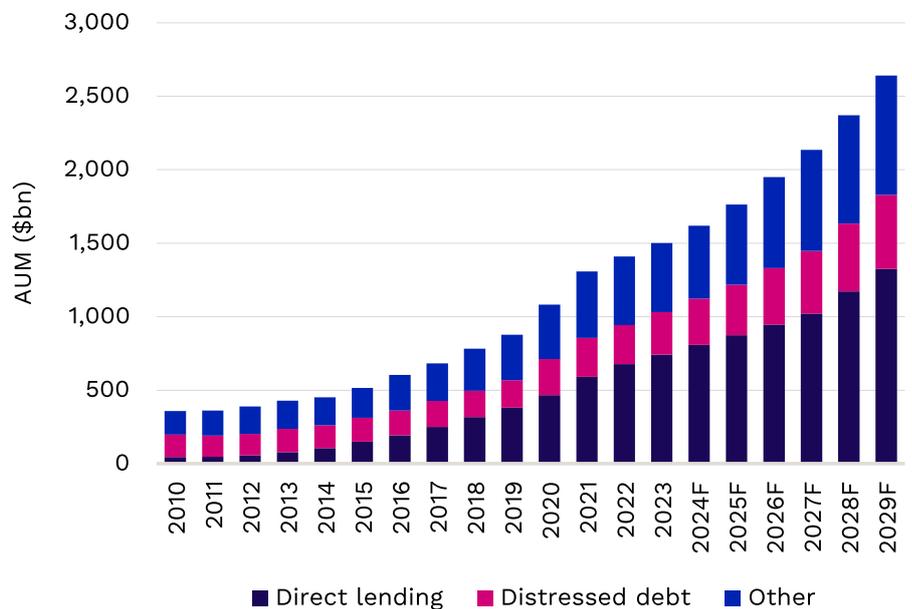
Investor sentiment, measured by responses to our investor survey and highlighted in our Investor Outlook: H2 2024,² suggests the outlook for private debt remains bright, despite concerns about interest rates and the economy. According to the June 2024 survey, 86% of respondents said that private debt met or exceeded expectations. The majority of respondents intend to either maintain (46%) or increase (53%) their allocations in the longer term. Just 1% of respondents plan to decrease allocations in the long term.

Direct lending AUM to increase to \$1.33tn in 2029F

We forecast that total private debt assets under management (AUM) will grow at a compound annual growth rate of 9.88% from the end of 2023 to 2029F to reach an all-time high of \$2.64tn – 1.8x the 2023 figure of \$1.50tn (Fig. 2.2). By comparison, during the 2017–2023 period, private debt AUM grew by 14.04%.

Fig. 2.2: Direct lending to show strongest growth

Global private debt AUM* by strategy



Source: Preqin. All figures are nominal

*AUM figures exclude funds denominated in yuan renminbi. Values relate to end of year. To avoid double counting, totals exclude funds of funds.

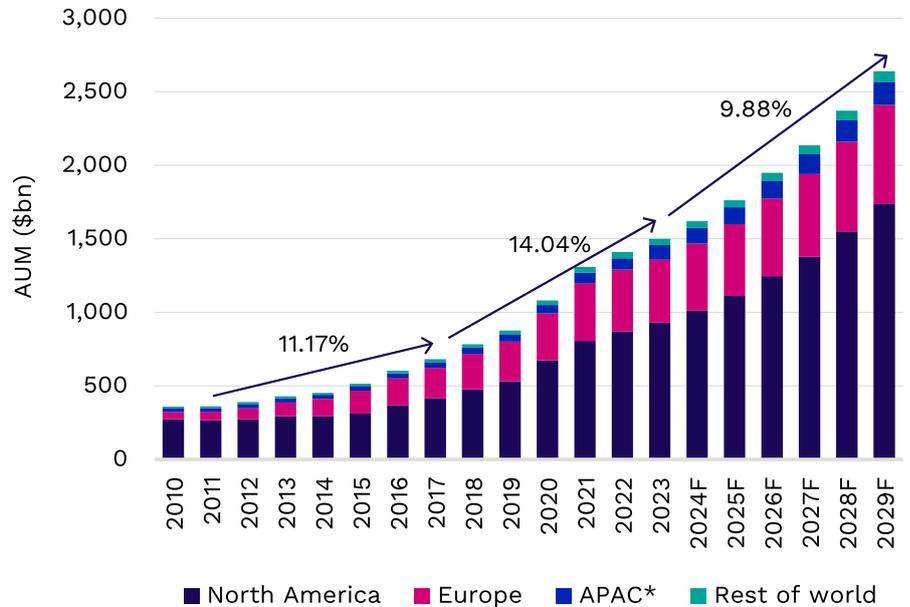
There may be further upside to fundraising if interest rates decline by more than expected. In this scenario, a surprise decrease in interest rates would likely spur a rally in risk assets. This could also improve the outlook for deal flow in private equity, which would translate to improved deal flow in private debt, because much of private debt deal activity is sponsor-backed. The improvement in deal flow for private debt would probably more than offset the modest decline in performance due to a slightly lower risk-free rate (as private debt loans are floating rate).

² <https://www.preqin.com/insights/research/investor-outlooks/investor-outlook-h2-2024>

We expect AUM in North America to increase substantially, from \$1.01tn in 2024F to \$1.74tn in 2029F – an annualized growth rate of 10.99% (Fig. 2.3). Europe’s AUM is forecast to grow at 7.76%, showing that private debt is expected to remain resilient against a more difficult economic environment. With fundraising forecast to remain static in Europe, there may be upside to the forecast with lessened competition for deals.

Fig. 2.3: Private debt assets set to hit all-time high

Private debt AUM* by primary region focus



Source: Preqin. All figures are nominal

*AUM figures exclude funds denominated in yuan renminbi. Values relate to end of year. To avoid double counting, totals exclude funds of funds.

We forecast that direct lending will be the strategy with the strongest AUM growth at 10.18%, reaching \$1.33tn in 2029F (Fig. 2.2). Direct lending will remain the largest part of private debt.

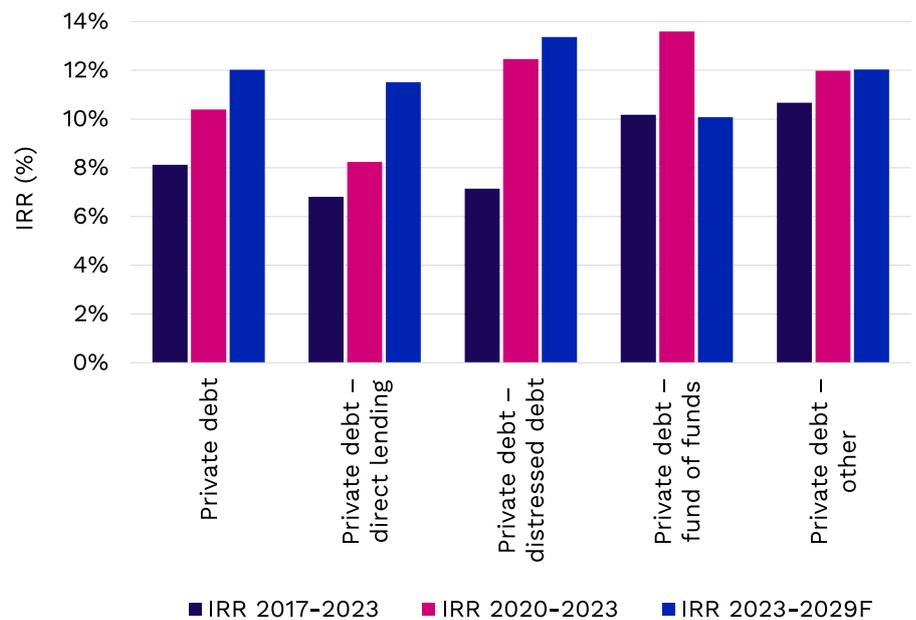
Distressed will perform best but with lower pick-up in return for risk

The performance of private debt is expected to strengthen, with the internal rate of return (IRR) rising from 8.12% in 2017–2023 to an average of 12.03% between 2023 and 2029F (Fig. 2.4).

Of the different private debt strategies broken out in our model, distressed debt is forecast to produce the highest return: performance is forecast to rise from 12.46% for 2020–2023 to 13.36% over end-2023–2029F. However, the difference in performance between private debt overall and distressed debt specifically is expected to narrow. Considering investors expect a premium for investing in risky strategies such as distressed debt, the forecast decline in this spread may be indicative of a more settled macro and credit environment. This may be especially true in the case of a decline in interest rates, which could lead to fewer defaults and distressed debt opportunities. Given the nature of the strategy, investors need to be positioned with an allocation ahead of any credit cycle distress, as opportunities for investing at discount to par may be substantial but short-lived.

Fig. 2.4: Distressed debt IRRs expected to spike

Private debt historical and forecast performance*



Source: Preqin. All figures are nominal

*When we calculate performance we exclude funds denominated in yuan renminbi. Values relate to end of year. To avoid double counting, totals exclude funds of funds.

The performance of direct lending is forecast to increase from 8.24% IRR in 2020–2023 to 11.51% over the forecast period end-2023–2029F. With demand from borrowers remaining resilient even though interest rates have increased, we expect credit spreads to be at least maintained, despite risk-free rates that are elevated compared with the recent past. Upside will be capped by increased competition from other sources of financing (such as banks) if spreads widen out excessively.

The potential upside to this forecast would most likely come from higher-than-expected credit spreads, because the effect of an improved deal-making environment from rate cuts could outpace the absolute effect on returns of those rate cuts. This would benefit private debt returns overall, but would likely result in a narrower spread between lower- and higher-risk strategies as risk aversion decreases.

The potential downside to this forecast would most likely come from negative economic events (such as unexpected further inflation) resulting in tighter credit markets. This would probably lead to reduced deal-making activity, although the pick-up in credit stress would likely create opportunities for distressed debt, resulting in performance in excess of the forecast rate.

Private debt remains a strategy that allows investors to position themselves to benefit from economic growth, but uniquely provides resilience and opportunities in more difficult environments as well.

Get ready to reap the benefits of private credit 2.0

As banks continue to derisk, the opportunity set for private credit funds is growing exponentially, but success outside of direct lending requires a new approach and a different business model

What factors are driving the growth in distressed debt investment opportunities in Europe?

The factors driving distressed debt investment opportunities in Europe vary widely across countries due to unique economic pressures. For instance, Germany, historically advantaged by affordable energy and low interest rates, now faces pressures due to rising input costs, particularly in its heavily industrial and construction-focused economy. This has created significant financial strain, a trend seen in other manufacturing-oriented northern European economies as well.

In sectors like real estate, especially residential construction, rising interest rates and housing shortages across multiple regions have disrupted growth, however, we are seeing renewed activity as interest rates decrease. In countries where pre-sale deposits are commonly used to fund projects, construction has been particularly affected by the combination of higher costs and a slowdown in pre-sales.

On a broader level, macroeconomic trends like aging populations, labor shortages, rising defense costs, and the ongoing energy crisis are creating additional pressure across sectors. However, certain bright spots, such as tourism and stable sectors like agriculture, continue to offer opportunity and resilience.

Interest rates remain a dominant factor from a distress perspective. When rates were zero or negative, banks, facing minimal opportunity costs, were often reluctant to address awkward loan positions. It was essentially a marriage of convenience. But now, as the cost of loan extensions rises, certain borrowers face greater strain, leading to a surge in restructurings – an area where we are highly active.

What role do non-core banking assets play in Europe's current private debt market?

For a whole host of regulatory reasons, it's possible – trending towards probable – that the role of banks has fundamentally shifted. Banks are starting to function more like utilities, shifting much of their risk management activities into their asset management arms. Here, they aren't subject to the same capital requirements and can focus on increasing fee income.

This shift benefits us greatly, as capital for high-risk investments is increasingly channeled toward private credit and third-party asset management. Given the ongoing response to the Global Financial Crisis, there's little debate left on the role banks should play. Core banking activities are contracting, and as a result, other lending categories – construction loans, bridge loans, agricultural loans, buy-to-



Zach Lewy
Founder, CEO, CIO,
Arrow Global

let mortgages, specialized mortgage products, margin loans, leveraged buyouts, and similar areas – are becoming non-core and increasingly open to private capital.

Which sectors in Europe are most likely to experience an increase in non-performing loans, and why?

Some industries are super complicated, and they suffer more in challenging times. For example, airlines face a range of challenges, from strict regulatory oversight to high capital expenditures, extensive inventory and marketing costs, exposure to fuel and commodity price fluctuations, and complex financing needs. Managing these variables is a significant challenge, especially in the current environment.

The office sector is another area facing difficulties, impacted by shifting demand patterns and a growing realization among investors that office properties are not a reliable substitute for bonds. This combination of changing demand and limited investment reliability is a deeply negative double impact on the sector.

Nonetheless, certain areas present opportunities. Tourism, for example, is booming, although the question remains whether this trend is structural or cyclical. With people more mobile and the rise of 'work from anywhere,' economic activity is shifting in new directions, creating unique opportunities across sectors. In retail, while investment in shopping malls has slowed, locations that meet daily needs retail and are proximate to consumers remain promising. E-commerce comprises 21% of European retail, yet large portions of the remaining 79% are still highly valuable.

Green energy capex is another area showing strong demand. Although the ESG agenda has decelerated, particularly in the US, renewable installations, such as solar panels, continue to be popular as people invest in sustainability.

Arrow has been recognized for its successful track record in distressed situations. What are the key success factors?

You need to know your circle of competency. Success in distressed situations requires a deep understanding of core

competencies. While it's crucial to know the relevant processes and strategies, true expertise comes from accurately assessing asset value and knowing what you're willing to pay. With a team of 3,000 people across 22 platforms, we have the skills and resources to capitalize on these opportunities effectively.

Beyond valuing the asset, a key success factor is the technical skill to manage it and implement value-add steps that ultimately drive a profitable exit. These three competencies – valuing, managing, and exiting – are essential for delivering strong returns.

We can do that well against granular asset-backed real estate in most countries in Europe. We can do it against tourism and hospitality assets because of the different platforms we own. We can do it in parts of real estate and in mortgages. We prefer real assets as collateral over corporate exposures, which aligns with our focus on sectors where we can leverage our strengths and available resources. It's about knowing what you can do and having the resources to do it.

Is this private credit's golden moment? Will it last?

Is this a golden moment? There's certainly extensive potential ahead. Five years ago, private credit was one bucket and most of it was direct lending. Now it's clearly evolving and diversifying. There's direct lending, real estate lending, construction lending, litigation finance, capex finance, and infrastructure debt, to name a few. Private credit is significantly broader now, and I do believe it's going to be a huge asset class.

And it's important to stress that much of private credit remains symbiotic with traditional banks. Banks aren't exiting the private credit space; they simply don't wish to act as last-mile lenders in every activity. But they will still be there providing capital behind the scenes.

We are moving toward a stable equilibrium where private credit often fulfills the last-mile lender role outside mass-market categories. In cases where banks seek exposure to these specialized sectors, they are likely to do so through warehousing or loan-on-loan leverage.

While the generational opportunity in direct lending may be behind us, we are in a second wave, expanding into new categories and with an exceptionally long runway of growth ahead.

How does asset-based lending compare to corporate lending, and what are the key factors for success in this area?

I'm hugely in favor of asset-based loans. Asset-based lending is a compelling area for investment. Would you rather lend at 3–4 times corporate earnings or at a 60% loan-to-value on a property?

When you look at the metrics, asset-based lending is superior to corporate lending, though the model is inherently less scalable. You must be local. The assets physically exist in the real world, and it's regulated in most jurisdictions, so you need the local expertise and compliance position.

This development represents an exciting evolution for us, as it aligns with our local platform-led approach. Asset-based lending differs from corporate private credit, which necessitates a different business model and distinct operational structures.

What trends are you excited about in real estate credit across Europe?

Real estate is a big boom area. Banks are exiting specialty lending categories, creating a gap that funds are ready to fill. Bridge loans, construction loans, agricultural loans, mixed-use mortgages, and other products are increasingly shifting into the realm of fund-based lending.

This shift presents unique opportunities, especially for funds with the expertise and structure to handle complex real estate transactions across varied European markets.

How will changes in the interest rate environment affect private credit?

Rising rates obviously benefited private credit, as most loans are floating rate. However, we have safeguards for when rates decline. For example, we may lend at SONIA plus 400 basis points but with a floor of 300bps on SONIA, or there's a minimum multiple on redemption, or a redemption fee. These are different ways of achieving the same minimum return from those activities.

While it may be demanding to replicate the returns seen at higher rates, there are enough tools available to continue delivering strong results for investors, regardless of the interest rate environment.

The ESG movement has lost some momentum. Is ESG still important to you?

Lending aligns very well with ESG goals, allowing for comprehensive assessments using sustainability scorecards. For instance, in real estate, around 60% of European housing stock dates to before 1980. As the market shifts to newer, energy-efficient stock, we see improvements in insulation, heating sources, energy provision, and other sustainability measures.

Aligning lending practices with ESG standards is essential. As private market players continue to grow and extend into other categories, they will play an ever larger role in social causes. We have participated in multiple affordable housing deals, bringing clear benefits to local communities and aligning with municipal objectives.

Our operational model means we have literally thousands of people in these local communities, allowing us to engage meaningfully and act as positive contributors to the local economies. This approach supports our long-term relationships, as community engagement, local planning support, and sustainable impact are crucial. There are questions about measurement and trade-offs but being a positive force in the regions where our employees, their families, and our clients live is central to running a business like ours.

Arrow Global was founded in 2005 by **Zach Lewy**, CEO, CIO, with the ambition of creating Europe's leading private credit and real estate investment platform. Arrow's platform franchise creates sustainable value across a range of alternative asset classes including opportunistic credit, real estate lending, and real estate equity. With the added benefit of key European regulatory licences, it services approximately €90bn of third-party AUM.

Empower your LPA negotiations with Term Intelligence

Tap into a wide universe of fund terms based on hundreds of recent vintage LPAs across the alternatives industry to:

- Benchmark fund terms against a relevant peer group
- Verify if LPA terms are aligned to market standards
- Uncover trends on fees and expenses
- Confirm whether terms are compliant with ILPA Principles 3.0

Get in touch to see
Term Intelligence in action

[SCHEDULE A DEMO](#)

PREQIN

→ The evolution of direct lending

The tightening of bank regulations after 2008 and growth in private equity deal-making have made direct lending a popular strategy for investors



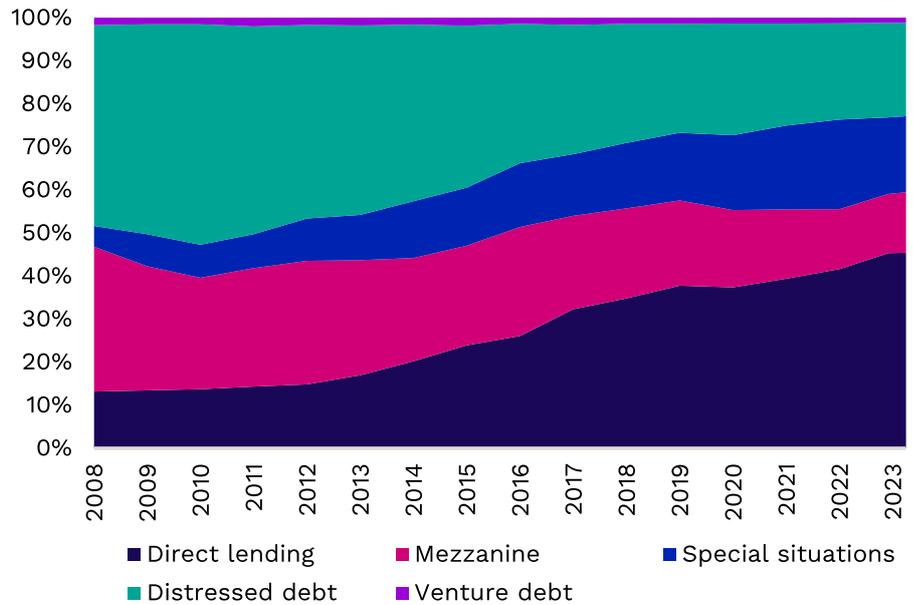
Nicholas Mairone, CFA
 AVP, Macro and Regulation
nicholas.mairone@preqin.com

One of the largest long-term trends in private debt globally has been its evolution into more and different types of debt-focused strategies, reducing the share of distressed debt and higher-risk strategies, such as mezzanine. This shift occurred broadly in the years following the Global Financial Crisis (GFC), Preqin data shows.

By the end of March 2024, direct lending strategies comprised 45.4% of overall North American assets under management (AUM), up from 13.2% at the end of 2008 (Fig. 3.1). Originally this move was into direct lending funds, but we would increasingly expect more wide-ranging offerings from fund managers.

Fig. 3.1: Direct lending is largest share of North American private debt

North America private debt AUM by strategy*



Source: Preqin Pro

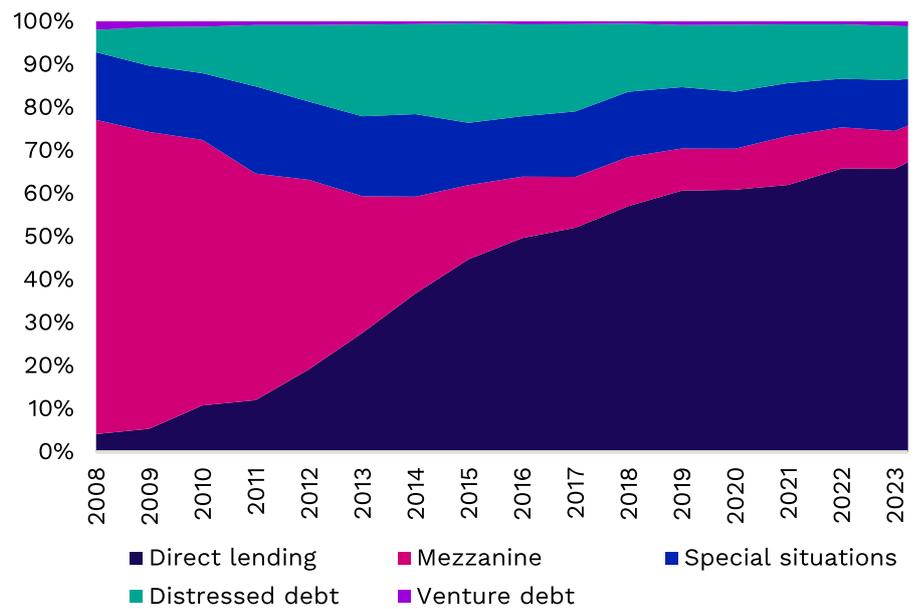
*Total AUM excludes funds of funds and secondaries.

There are two core reasons why lending strategies have gained popularity. First, the tightening of bank regulations after 2008 resulted in unmet loan demand as banks were balance-sheet constrained. This offered more opportunities for private debt funds to make loans. Second, the growth in private debt has coincided with growth in private equity. As discussed below, the majority of lending in this space goes to firms owned by private equity sponsors.

New private capital strategies have long originated in North America, and private debt is no different (although strategies have originated elsewhere). Even as the asset class has evolved, with direct lending rising significantly, North America's strategy mix has been, and remains, more diverse than that of Europe (Fig. 3.2). This is partly because many new strategies originate in North America, but we also believe it is partly due to North American regulators allowing a larger non-bank financial sector to develop compared with many of their European peers.

Fig. 3.2: Direct lending has taken spotlight from mezzanine in Europe

Europe private debt AUM by strategy*



Source: Preqin Pro

*Total AUM excludes funds of funds and secondaries.

Private equity deal-making has supported direct lenders

As private equity has rapidly grown, the need for financing has grown alongside it, pushing funds to find new sources of credit. Our surveys consistently show direct lending as the strategy LPs are most interested in within private debt. This is likely due to it meeting the risk profile investors are seeking in private debt, being on the safer side while also offering more attractive yields than public bond markets.

Direct lending competes for deals most directly with banks’ leveraged-lending desks, with those leveraged loans ending up in collateralized loan obligations (CLOs). We explored CLOs to some extent in the Preqin 2024 Global Report: Private Debt.¹ In recent years, CLO issuance has been lower than prior periods due to high interest rates weighing on demand. This in turn weighs on the demand for leveraged loans, which are traditionally packaged and placed into CLOs. We have seen a slight recovery in 2024 compared with 2023, but it is still far below the issuance seen in 2021 and prior years.

This lack of CLO issuance has been supportive of direct lending funds over the past two years. However, there is some concern that as interest rates normalize, opportunities for direct lending funds could decrease as leveraged-loan desks become more competitive. As the private equity market recovers, improved overall deal flow may actually increase the overall demand for financing, and somewhat offset any recovery in leveraged loans (i.e., a slightly smaller slice of a bigger pie). LPs may continue to express interest in direct lending even if rates normalize, because owning the exposure to the underlying whole loans versus tranching exposure to CLOs is appealing. Ultimately, some LPs may find the risk/return trade-off attractive while not necessarily requiring the rated exposure that CLOs bring.

¹ <https://www.preqin.com/insights/global-reports/2024-private-debt>

In the near term (one to two years), we would expect that the continued recovery of private equity deal-making and increased investor interest in whole-loan exposure, combined with growing sophistication and scale in the direct-lending market, should outweigh increased competition from other lending channels. Margins on deals may compress, but this should not be enough to deter new direct lending funds from launching.

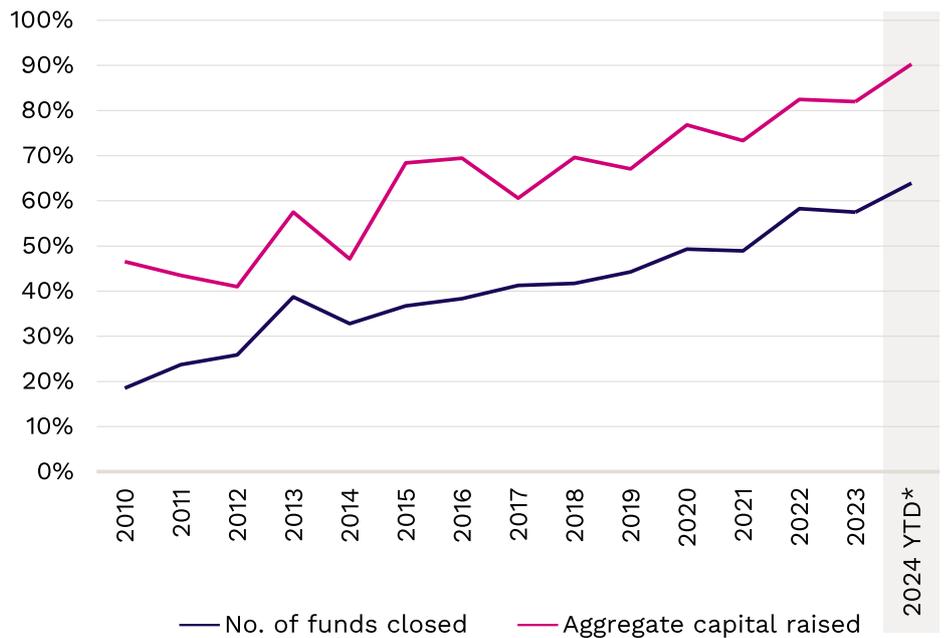
Competition from other strategies within private debt increasing

Speaking with investors, there is increasing interest from both the GP and LP side in more novel funds. There are now a wide range of funds possibly fitting this description. One such example is net asset value (NAV) lending funds, which offer credit facilities based on the NAV of an obligor’s portfolio.

However, there are other areas where private debt managers may attempt to launch new products, including, but not limited to, novel forms of asset-backed finance, trade finance, and project finance. These strategies tend to be highly collateralized and tied directly to underlying assets. These alternative strategies offer differentiated risk/return profiles for investors and can better fit wide-ranging allocation needs. They are also some of the oldest types of lending offered by banks and as regulatory rules around bank capital shift, new doors are opened for private fund managers.

Fig. 3.3: Experienced fund managers dominate fundraising

Fourth fund or later private debt fundraising as a proportion of total



Source: Preqin Pro

*2024 YTD to end-Q3 2024.

As private debt grows, fund managers are looking to fill more of their borrowers' needs, leveraging relationships to expand business. This has been one of the advantages that experienced, larger managers have over many of the new entrants into private debt (Fig. 3.3). The knowledge that a GP will remain invested in the market over the long term can give borrowers some reassurance that their lenders will be available for refinancing or additional credit in the future.



ACHIEVE

With solutions designed to support your global business goals, we'll help you achieve success.

Get the expert insights and end-to-end administration you need for your private debt, private credit and hedge fund servicing.

Together, we can build toward what's next.

usbank.com/globalfundservices

Investment products and services are:

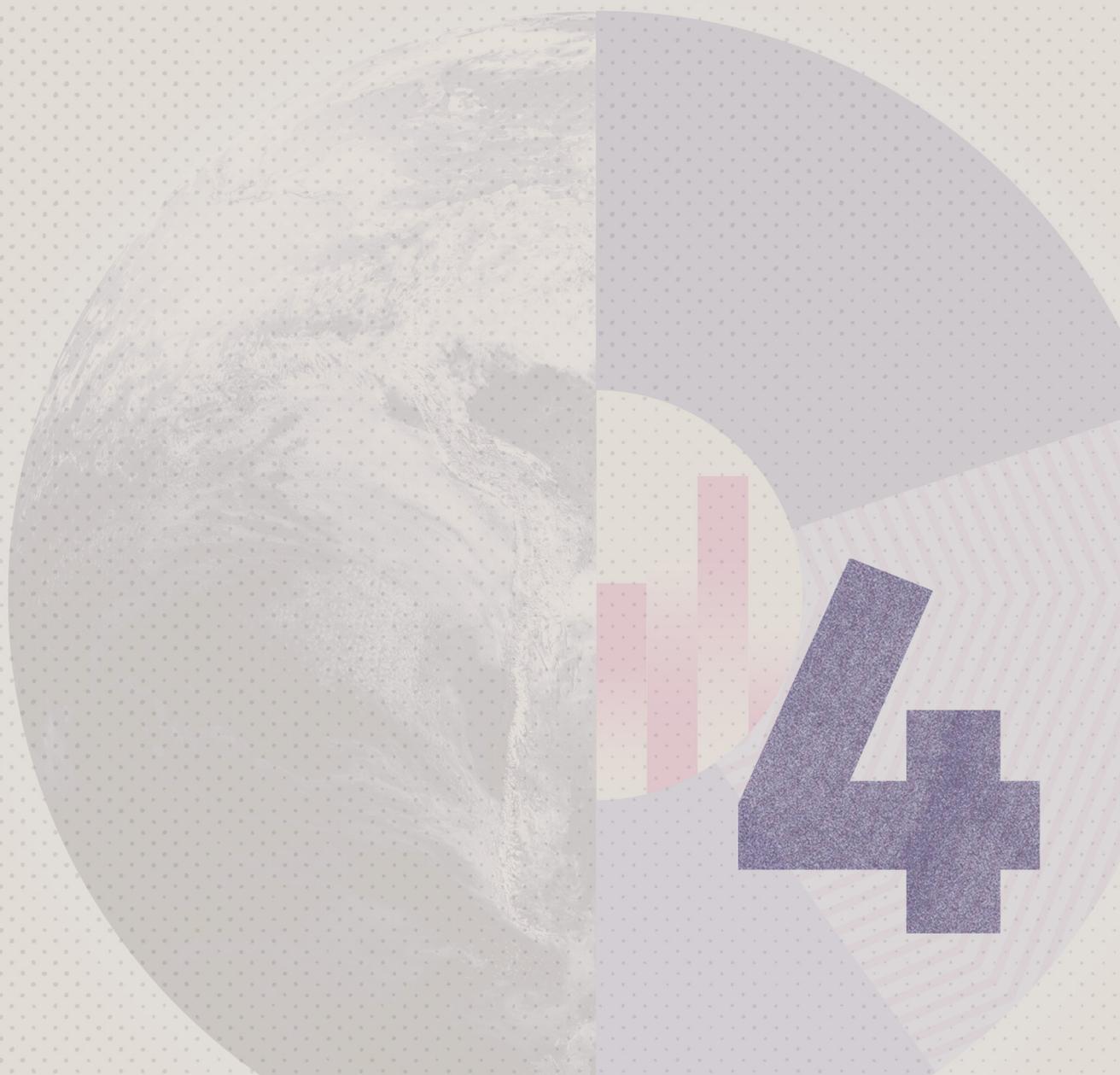
NOT A DEPOSIT • NOT FDIC INSURED • MAY LOSE VALUE • NOT BANK GUARANTEED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

U.S. Bank Global Fund Services is a wholly owned subsidiary of U.S. Bank, N. A. Custody and lending services are offered by U.S. Bank, N.A. U.S. Bank Global Fund Services (Ireland) Limited is regulated by the Central Bank of Ireland. U.S. Bank does not guarantee products, services or performance of its affiliates and third-party providers.

©2024 U.S. Bank 1273402 (9/24)

→ Still early days for BDCs

The US BDC structure has the capacity to grow further with traditional private debt fundraising, as shown by its recent performance





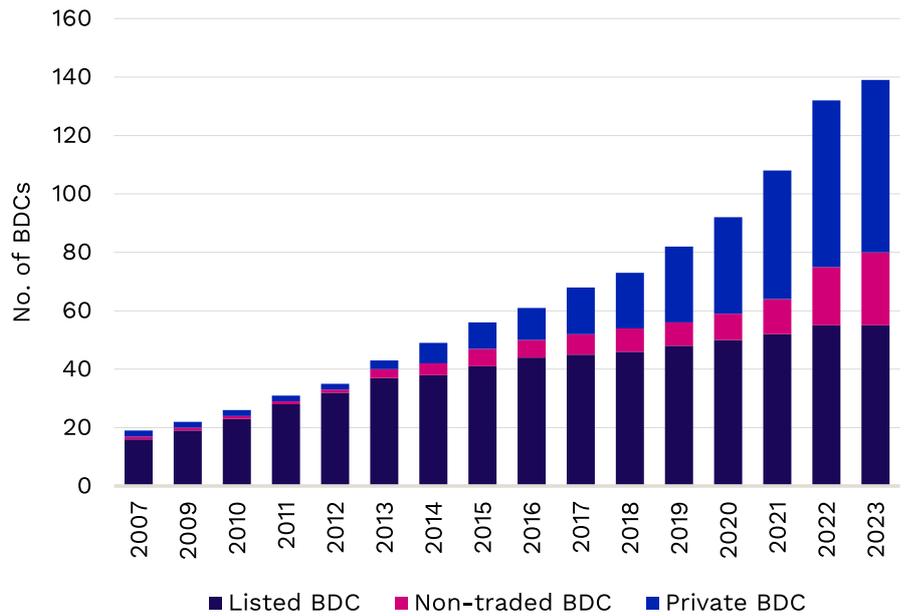
RJ Joshua, CFA
 VP, Head of Private Debt and Fees
rj.joshua@preqin.com

Despite being created by the US Congress in 1980, business development companies (BDCs) have only seen rapid growth in fund launches in recent years. Over half the funds ever formed have been launched in the last five years, and the number of BDCs has more than tripled in the past decade to 2023. In 2022, the number of BDCs grew by 22%, although this growth slowed to only 5% in 2023 (Fig. 4.1).

We also see the rise of non-traded and private BDCs which made up just 9% of the BDC universe in 2012, but have steadily grown to 60%, or 84 funds. The effect of the rise of these new structures is reflected in recent data, which shows that non-traded BDCs now make up 42% of BDCs by assets, and private BDCs make up 21% (Fig. 4.2).

Fig. 4.1: BDCs have seen a rapid increase in launches in recent years

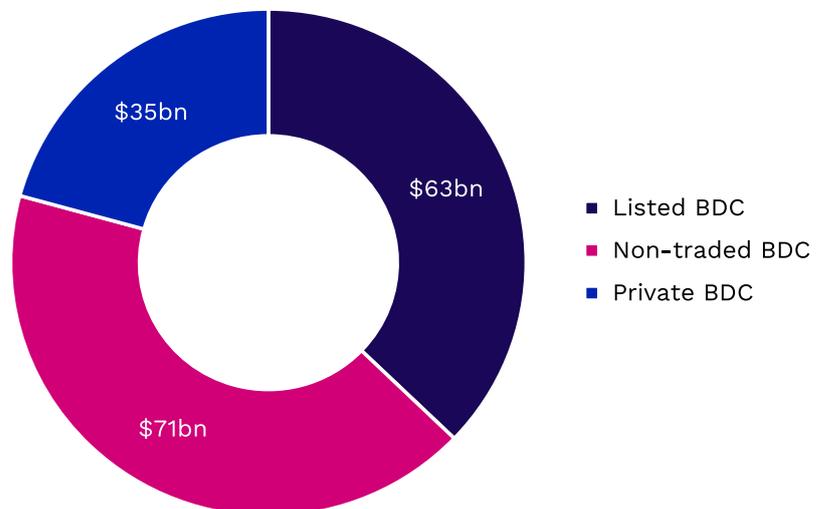
Total number of BDCs since 2007



Source: Preqin Pro

Fig. 4.2: The rise of private and non-traded BDCs

BDCs split by NAV*



*Open-ended valuations – NAV (\$bn)

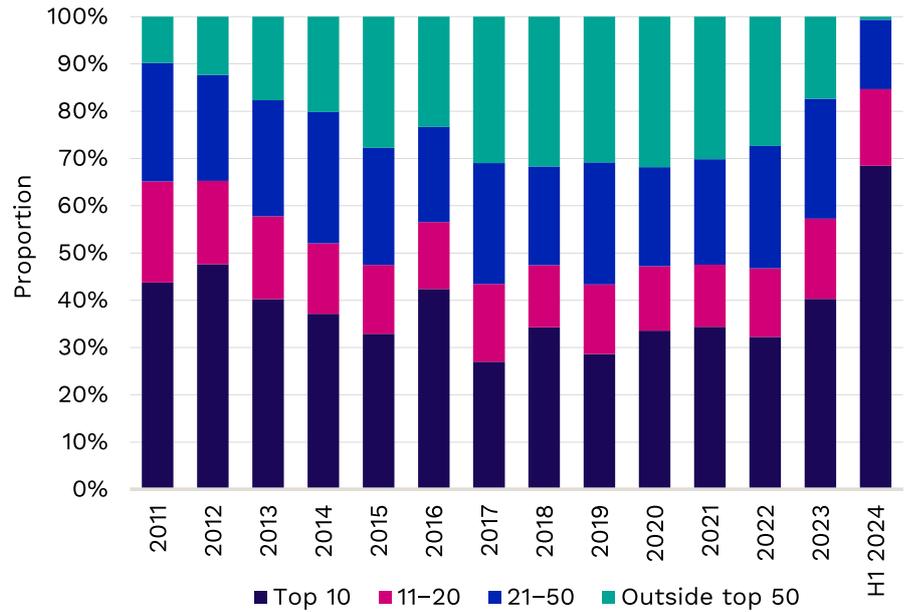
Source: Preqin Pro. Data as of March 31, 2024

Significant concentration in BDCs poses diversification challenge for investors

Private debt fundraising is becoming more concentrated, with 34% of the average capital raised going to the top 10 funds over the five years to 2023, before jumping to 68% in the first half of 2024 (Fig. 4.3). We see similar concentration within the BDC market, with the top 10 funds by net asset value (NAV) making up 52% of assets in the first quarter of 2024 (Fig. 4.4). This makes sense as both asset classes benefit from economies of scale. The increased concentration of fundraising may impact investors by making it more challenging to diversify across managers for those who want to avoid smaller funds.

Fig. 4.3: 10 largest private debt funds take more than half of the capital raised

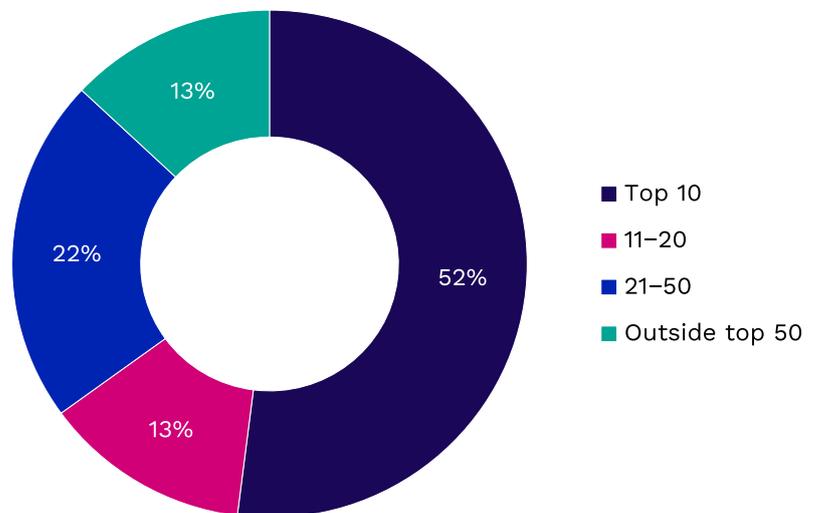
Proportion of aggregate capital raised by the largest private debt funds closed



Source: Preqin Pro

Fig. 4.4: 10 largest BDCs have over half the assets

Proportion of NAV by largest BDCs, Q1 2024



Source: Preqin Pro

BDCs offer returns on par with private debt in aggregate

Preqin's North America Private Debt Index has averaged 11.22% over the last five years to the first quarter of 2024 (Fig. 4.5). The S&P BDC Index has shown performance of 11.33% over the same period. It is worth noting that both of these are broad indices. The Preqin Private Debt Index includes direct lending, which is directly comparable to BDCs, but also other strategies such as mezzanine, distressed, and special situations. Nevertheless, it is clear that BDCs offer returns on par with private debt in aggregate. It is also worth noting that the S&P BDC Index tracks the returns of publicly traded BDCs, which are now a smaller part of the BDC universe due to the rise of private and non-traded BDCs.

Fig. 4.5: North American private debt and BDC returns closely aligned

Five-year returns to end of Q1 2024; private debt, BDCs

Index	Return
Preqin – Private Debt	9.82%
Preqin – Private Debt – North America	11.22%
Preqin – Private Debt – Europe	7.20%
S&P BDC Index Total Return	11.33%
Morningstar LSTA US Leveraged Loan	5.47%
ML US High Yield (BB-B) Total Return Index	4.02%

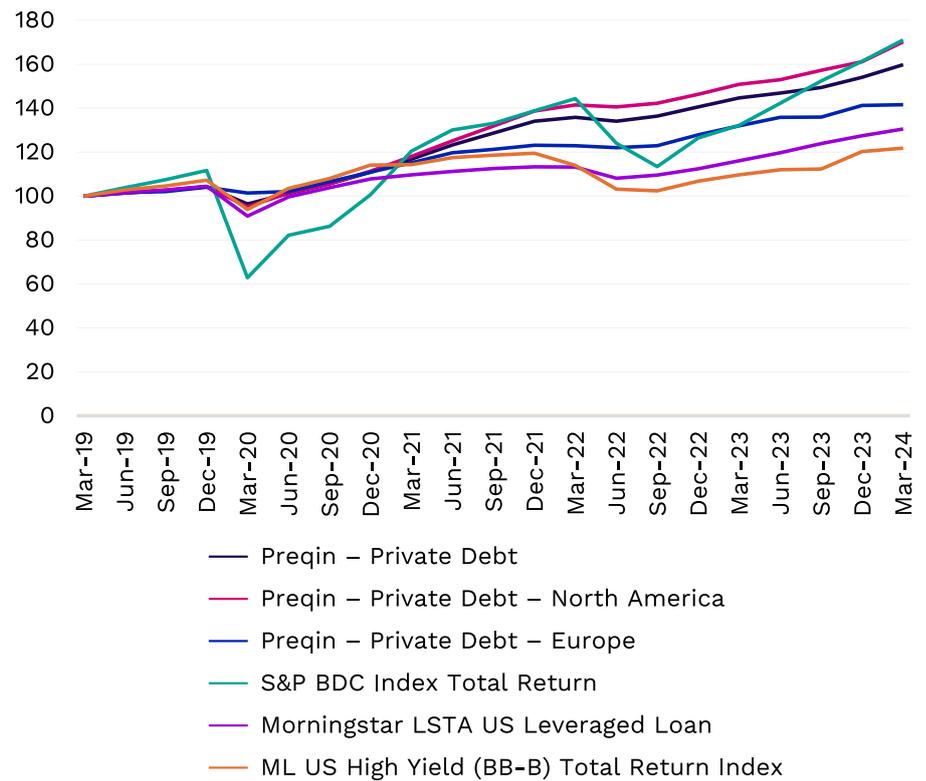
Source: S&P Capital IQ, Preqin

Both private debt and BDCs have benefited from the higher interest rate environment. The Fed Funds rate increased from 0.07% at the end of 2021 to a peak of 5.33% in July 2023. This has been a key factor in investor confidence in private debt valuations, as the value of floating rate loans is not directly affected by changes in the market interest rate. Looking ahead, we can see parallels between private debt and BDCs. BDCs are exclusively US-focused and overwhelmingly focused on direct lending. Currently, the US is the most favored geography and direct lending is the most favored strategy for institutional private debt investors. This suggests BDCs' structural constraints (which include a need to distribute income and be focused on lending to US businesses) are likely to be less of a constraint on performance, as investors without these constraints are making similar allocation decisions with regard to private debt.

When we compare quarterly returns over the last five years, a more nuanced picture emerges (Fig. 4.6). While total returns for listed BDCs have been gaining ground, now narrowly exceeding Preqin's North America Private Debt Index, we see a significant underperformance in 2020. This is because the S&P BDC Index tracks listed BDCs, the value of which can drift from NAV. The S&P BDC Index was hit by COVID-19 to a greater extent than Morningstar's LSTA US Leveraged Loan Index or Preqin's Private Debt Index. However, it has since recovered in the face of comparable volatility, increasing by 28% in 2023, and a further 6% in the first quarter of 2024. In 2024 returns have been steady, despite a drawdown in the index over the August period – as of September 30, the total return for the BDC index was 9.83%.

Fig. 4.6: BDC returns do not always track private debt funds

Five-year returns to end of Q1 2024; private debt, BDCs



Source: S&P Capital IQ, Preqin

Institutional investors have good reasons to prefer private debt funds

Our investor survey data points to consistent but minority interest in open-ended structures. BDCs are typically targeted at high-net-worth individuals (HNWIs) and other non-institutional investors – they allow investors to access strategies they otherwise typically would not have access to. Although BDCs are not typically aimed at institutional investors, we have seen steady interest in open-ended funds, with 23% of institutional investors saying they are targeting open-ended structures in the next 12 months.

We expect that larger institutions will likely continue to favor private debt funds, as they can offer more customized products and terms. They may, however, take some small stakes in BDCs for liquidity and diversification reasons. Key reasons are that, as larger investors, private debt funds allow them to negotiate better terms, such as bespoke fee terms, as well as allowing them to keep their capital entirely isolated through separately managed accounts.

BDCs clearly have a role to play in the future of private debt, though we do not think they will replace the current LP structure. There are likely too many advantages for LPs in being able to negotiate terms with GPs. Instead, BDCs complement the private debt market and allow expanded access to the space, especially for smaller investors, such as private wealth, HNWIs, and retail investors. As private debt matures, BDCs will provide a greater amount of capital to firms and GPs than would otherwise be possible, while potentially democratizing the private debt process.

Outlook of BDCs for private wealth

With private debt funds remaining popular, and interest rates still elevated compared to the recent past, the outlook for BDCs is positive. The structure has drawn interest from smaller investors who have traditionally been shut out of private markets. For these investors, BDCs provide an opportunity to invest in the asset class in smaller increments. Ease of access may also be attractive to some investors who might otherwise find participation in new funds difficult without prior experience.

GPs will likely take a positive view of the potential to tap a new pool of capital. As institutional investors have increasingly built out their private debt allocations, BDCs provide a valuable source of new flows from investors who have previously been unable to build allocations. It is worth noting that many of the largest BDCs are well-known private equity or private debt houses.

→ Performance in private debt

Another steady year of returns in private debt despite concerns about credit stress





Nicholas Mairone, CFA
 AVP, Macro and Regulation
nicholas.mairone@preqin.com

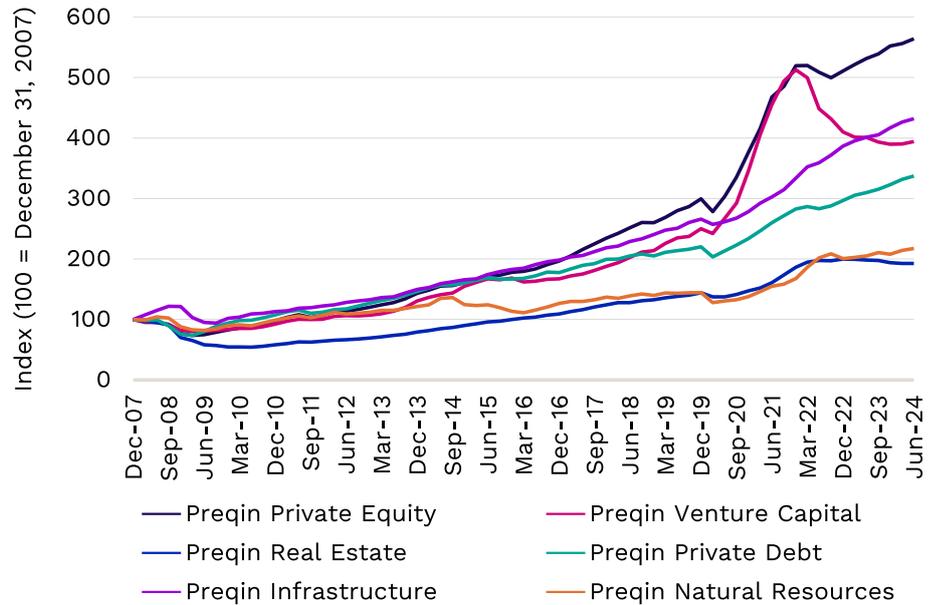
The narratives surrounding markets in general shifted significantly through 2024. Whereas 2023 focused on rate hikes and policy to slow inflation, 2024 moved into a market where the timing of rate reductions became crucial. The US election and policy consequences for rates, inflation, and growth also moved to the fore in the second half of the year.

The S&P 500 Total Return index returned 22% from January to September 2024, a robust return for the first three quarters of the year. In the same period, US 10-year Treasury yields fell from 3.95% in January to 3.8%. Note that while the partial-month data for October saw modest further gains in equity markets, that month saw a dramatic increase in yields due to concerns about potential shifts in policy post-election.

Our Preqin Private Capital Indices show that private debt returns through the first half of 2024 were steady, with a 4.5% return from the end of 2023 (Fig. 5.1). Though investors held concerns about how a higher rate environment may introduce credit risk to borrowers, that did not show in data. It may take time for this to take place, as the passthrough of higher rates to refinancing risk is gradual. However, with lower rates reopening syndication markets and private debt funds still retaining dry powder, conditions for re-financing and rolling over debt are improving.

Fig. 5.1: Private debt funds show steady returns

Preqin Private Capital Indices (rebased to 100 as of December 31, 2007)

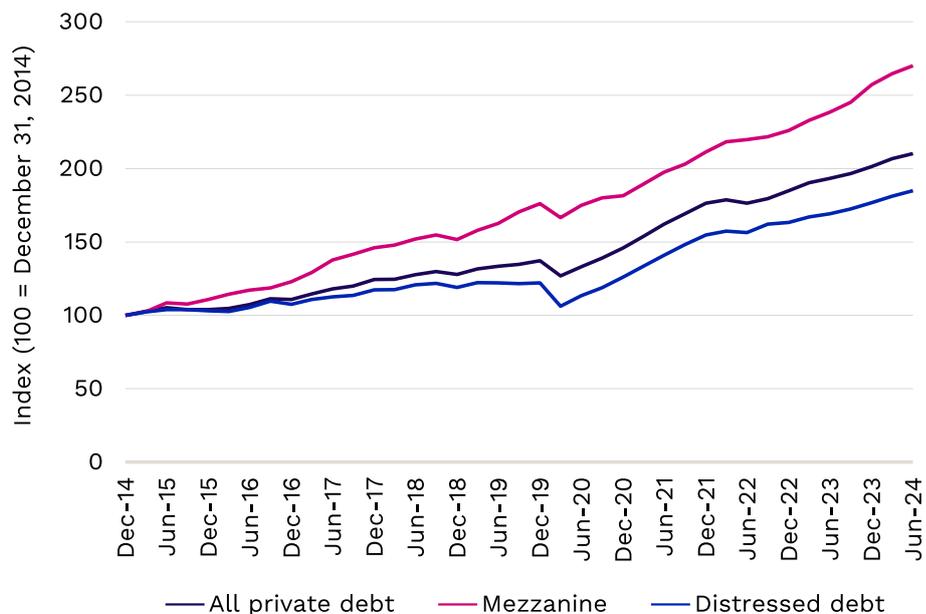


Source: Preqin

Over time, across debt strategies, mezzanine funds have outperformed while distressed debt funds have struggled (Fig. 5.2). That is not to say this will remain the case; the 2010s were particularly favorable conditions for mezzanine funds. Low and steady interest rates with aggressive central bank interventions to stave off large waves of credit stress make for a robust environment for subordinated debt. At the same time, that policy limits the opportunity set for distressed funds. Those conditions are unlikely to be in place in the next few years.

Fig. 5.2: Mezzanine outperformed over the past decade

Preqin Index: private debt strategies (rebased to 100 as of December 31, 2014)



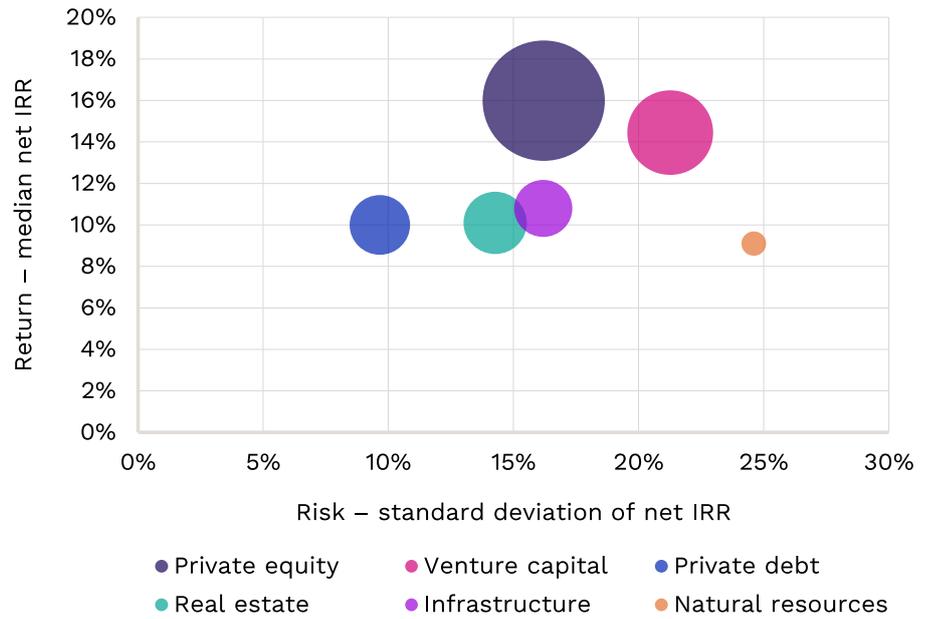
Source: Preqin

Private debt strategies broadly fulfil role in portfolio

When looking at the performance of private debt funds over time, we see that the asset class’s risk-return profile aligns with its broad intent. Returns across private debt funds are generally lower than other asset classes, but the same is true for their risk (Fig. 5.3). Though this may differ strategy by strategy, it is consistent with an asset class seen as a fixed income alternative.

Fig. 5.3: Private debt offers an attractive risk-return trade-off for LPs

Risk-return by fund type (vintages 2009–2022)

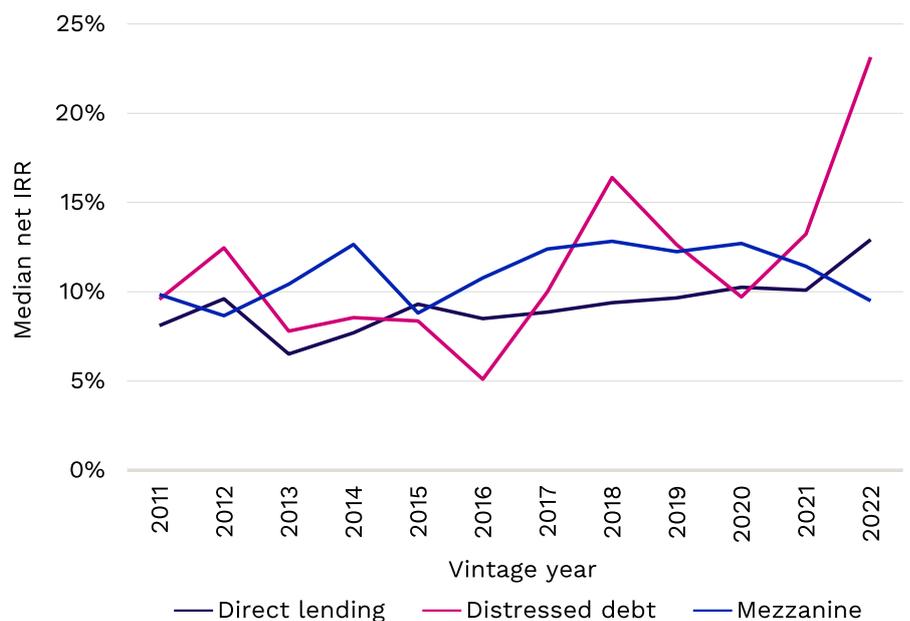


Source: Preqin

Our view is that private debt strategies tend to meet their objective of preserving capital and offering a robust risk-return trade-off. Returns are broadly consistent across vintages (Fig. 5.4). This is consistent with our investor surveys, which show LPs investing in private debt funds for diversification and income streams. While returns in direct lending strategies may be less than equities, they also are not exposed to the same levels of duration risk that may face fixed income assets given their floating rate nature.

Fig. 5.4: Direct lending performance most stable across vintages

Private debt median net IRRs by fund type and vintage year



Source: Preqin

Additionally, LPs have stated their satisfaction with private debt returns in our surveys. Fewer LPs believe debt strategies outperformed expectations, but that is to be expected given limited upside for many debt strategies such as direct lending, which makes up the largest share of debt investment. Those LPs who believe debt funds exceed expectations may also be investors in mezzanine funds, which enjoyed robust returns in the 2010s relative to the risk profile of the underlying loans.

Looking forward to 2025, the focus for investors in private debt will be on how firms adjust to the rate environment. In 2022–2024, high base rates attracted some LPs. Falling or stabilizing rates may change that as the bank syndication market reopens. Greater competition from syndication desks may compress spreads on some loans and may also change the quality of loans available. This may be offset by a rejuvenated deal market for private equity firms due to lower rates. With a supermajority of direct lending deals being to sponsor-backed companies, this is positive news in terms of demand for loans.

More important for near-term returns is the ability for firms to more easily roll over debt with a newly opened lending market, reducing credit stress. Potential refinancing options through the newly opened syndication market likely would not be enough to offset this.

Private debt proves resilient despite elevated interest rates

The American Investment Council is providing education and research on the asset class so regulators appreciate that private debt is resilient and drives middle-market growth

Over the past few years, private debt has become one of the hottest asset classes in finance. Extended periods of historically low interest rates combined with regulatory reforms in the aftermath of the financial crisis, along with increasing allocations to private equity, have set the stage for private debt funds to shine. According to a Preqin investor survey in June 2024, '86% of investors said that private debt had met or exceeded expectations'.

Institutional investors dealing with the low yields from their fixed income portfolio began allocating more dollars to private debt funds. Not needing the liquidity offered by more traditional fixed income instruments, these investors were able to capture the illiquidity premium offered by these products without taking on more credit risk.

Private debt has grown from a niche product that helped the middle market and private equity-backed businesses access critical financing to a trillion-dollar asset class that helps businesses of all types and in all situations. This growth has invited scrutiny from policymakers all over the world. As a result, the American Investment Council (AIC) is increasing our education to policymakers to ensure that they fully understand that private debt is a safe, resilient option – and a critical source of capital for businesses of all sizes.

For example, the Bank of England has voiced concerns regarding the risk of private credit to financial stability, while the US National Association of Insurance Commissioners is also examining increasing allocations to private credit by insurance companies searching for additional yield.

The AIC is actively educating regulators on what private credit is and why it is an appropriate investment that presents no risk to financial stability. The past year of elevated interest rates combined with questions about the US economy's health did not lead to a wave of defaults. In fact, over the past 18 months private debt has proven resilient. Though defaults have risen, they remain below the default rates of the broadly syndicated loan market.

According to Proskauer, private credit defaults in the second quarter of 2024 rose to 2.71%, while defaults in the broadly syndicated loan market were approximately 4.33%.



Drew Maloney

President and Chief Executive Officer (CEO),
American Investment Council (AIC)

This points not only to the strong underwriting capabilities of private debt managers, but also the flexibility that these lenders offer borrowers when issues arise. Fortunately, policy-makers have acknowledged that systemic risk associated with private debt is limited.

Speaking at an industry event in October, SEC Commissioner Hester M. Peirce recognized the unique characteristics and structure of the private debt market: 'We should not build it up into a monster of our own imagination. If anything, the growing private credit sector may highlight the need for streamlining our public market regulation.'

In addition, the Federal Reserve began lowering interest rates in September, further easing concerns.

Private debt is an important asset class for all stakeholders. Investors see value in the increased yield, borrowers benefit from additional options, particularly small and medium-sized businesses, and communities benefit from well-capitalized firms that are a source of jobs.

The AIC will continue to educate policymakers on the value of private debt on Main Streets and across the American economy.

¹ <https://www.pionline.com/regulation/sec-commissioner-hester-peirce-says-private-credit-isnt-so-scary>

Drew Maloney is President and Chief Executive Officer (CEO) of the **American Investment Council (AIC)**. The AIC is an advocacy and resource organization that represents the private equity and private credit industry and promotes the industry's successful record of investing in every state across the US.

→ Regulatory drivers

With discussions on changing Basel standards ongoing, we explore the potential implications of these adjustments for the future of private debt

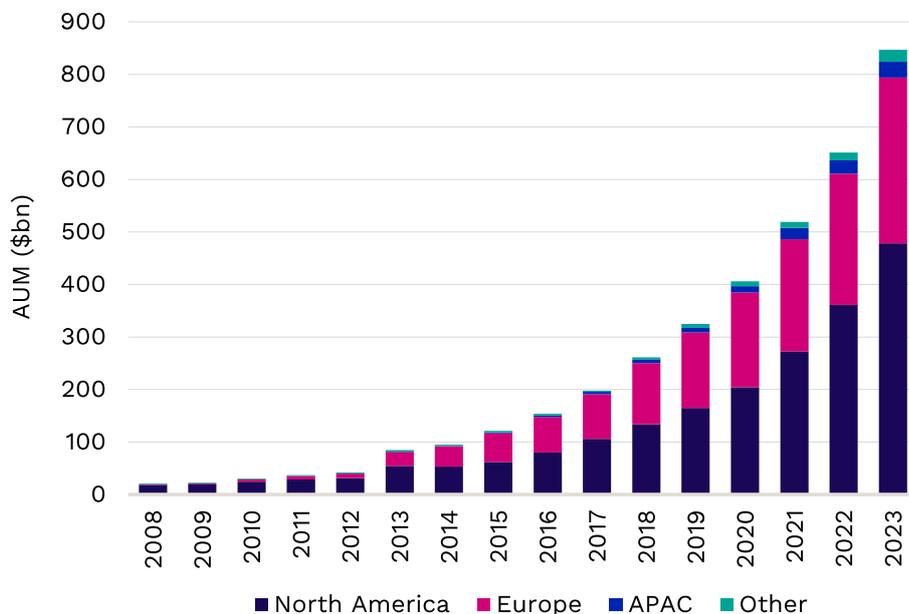


Nicholas Mairone, CFA
 AVP, Macro and Regulation
nicholas.mairone@preqin.com

Policy plays a significant role in shaping markets. The 2013 Interagency Guidance on Leveraged Lending¹ played no small part in determining the path of direct lending strategies, where assets under management (AUM) have reached \$846.7bn globally as of the end of 2023 (Fig. 6.1). Regulatory developments following the Global Financial Crisis also changed how financial markets function, both public and private.

Fig. 6.1: Rapid growth in direct lending since GFC

Direct lending AUM by region



Source: Preqin Pro

The Basel III framework is a set of banking regulations set up by the Basel Committee on Banking Supervision in the aftermath of the GFC in order to improve bank stability. Revisions to this framework, which are ongoing, will further change how banks make lending decisions and may open more doors for private debt funds to implement new strategies. Changes to the current regulatory regime could encourage more asset-backed and other lending funds, which could further expand the client base or asset pool for fund managers as they can fill different portfolio needs. Bank partnerships may also become more popular as banks look for ways to offload assets.

After the GFC, many non-bank financial services businesses took advantage of more stringent regulations by filling gaps in credit markets. While current revisions to Basel are unlikely to have as significant an impact on markets as the post-GFC regulatory shifts, their implications will be closely watched, especially as the private debt market is now more sophisticated than it was when Basel III was initially implemented.

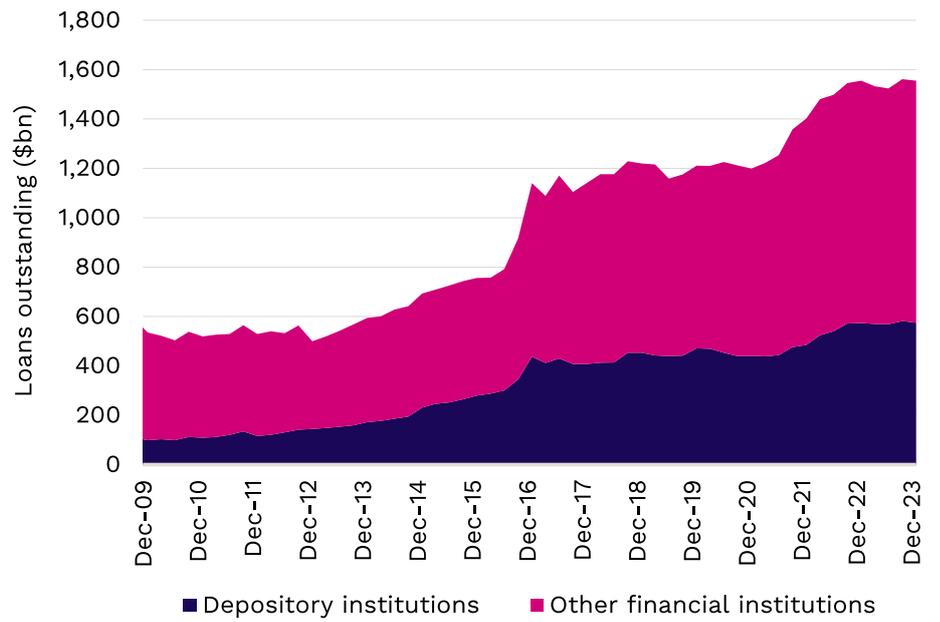
Regulatory policy played a significant role in shaping syndicated loan markets

At the beginning of the process, when the Basel Committee released its 2017 revisions, one of the major concerns for regulators was the effectiveness of risk-weighted asset calculations, which instruct banks how much capital they need to hold against a given loan. This was a key factor in the development of the non-bank syndication market (Fig. 6.2). Regulators were concerned that there was too much leeway in assessing risk weightings and that other risks were not necessarily accounted for appropriately, such as operational risk. Banks and other market participants argue that these changes will significantly increase the capital they carry and that would impact both their business and the flow of credit in the economy (and overall economic growth) without meaningfully increasing stability (Fig. 6.3).

¹ <https://www.federalreserve.gov/supervisionreg/srletters/sr1303.htm>

Fig. 6.2: Syndicated debt market has more than doubled in size

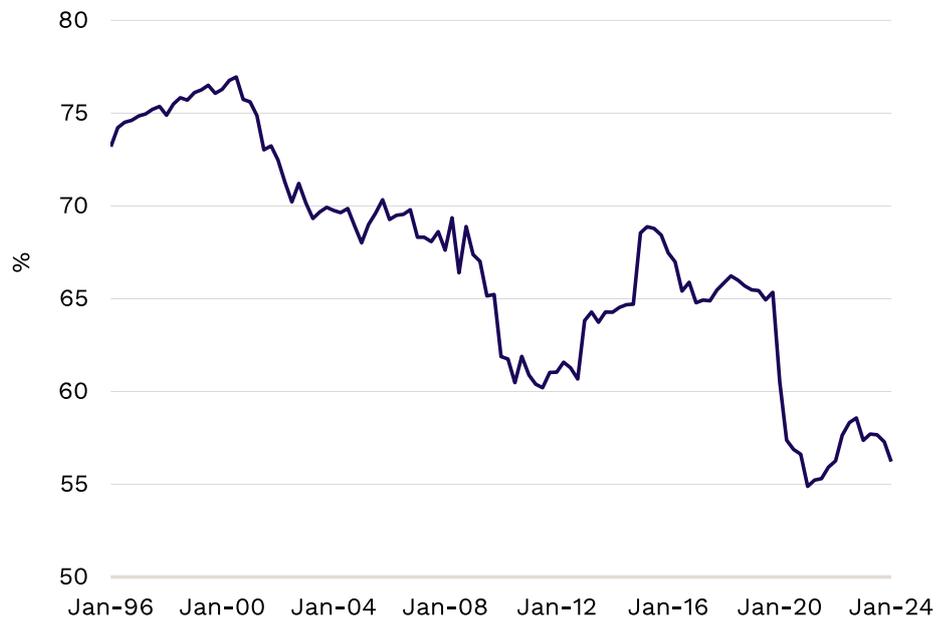
US syndicated term loan portfolio of domestic entities



Source: Federal Reserve Board

Fig. 6.3: Risk-weighted assets show steady reduction in long term

US banks' risk-weighted assets as a percentage of total assets



Source: New York Fed

The Securities Industry and Financial Markets Association, a trade association representing broker-dealers, investment banks, and asset managers, expects the proposal by the Federal Reserve around changing the approach to risk-weighted assets to increase capital requirements across the board for banks.² Moreover, tighter controls on risk weightings would lead to some changes in bank loan compositions. Both these factors open up avenues for private debt funds to enter new loan markets.

Changing regulation opens new doors for private debt funds

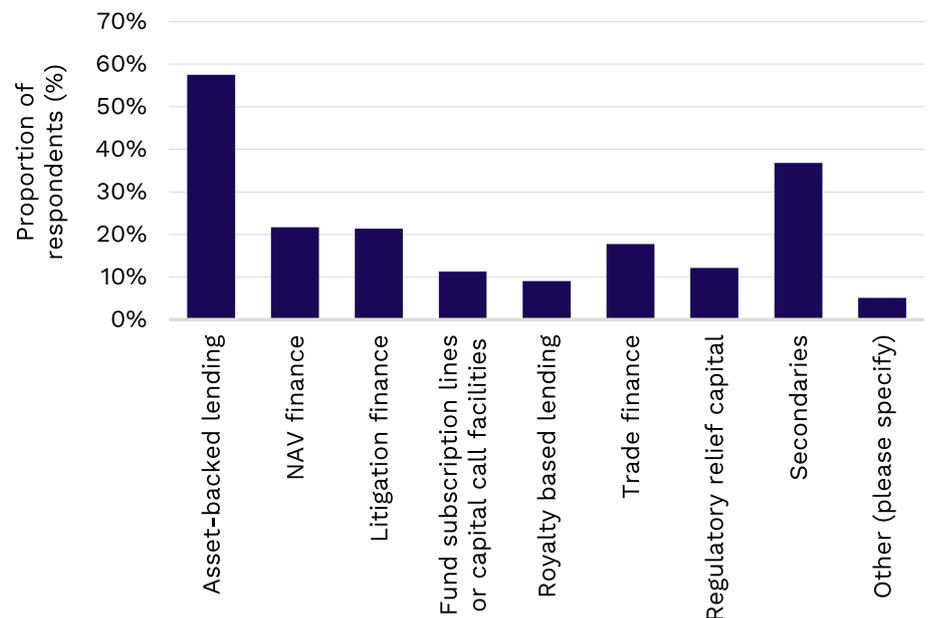
Investor optimism in private debt opportunities is supported by recent regulatory shifts which have affected bank lending decisions. When we have spoken with market participants over the past few months, interest in the development of a private debt market for asset-backed lending has been high. Other sectors traditionally dominated by banks, such as trade finance and consumer lending, have also seen some optimism. In addition, the significant risk transfer market has garnered attention.

Investor interest in asset-backed lending was elevated early in 2024 (Fig. 6.4). Over time, private debt managers have expanded their offerings, and they continue to do so. This is reflected in the changes in the composition of private debt’s AUM in the past decade (Fig. 6.5). In our conversations with fund managers, we have heard of new products launching across the lending spectrum as private debt funds take advantage of this disintermediation. In many cases, private debt managers are launching new funds by partnering with banks.

² <https://www.sifma.org/wp-content/uploads/2024/06/Basel3-Endgame-Blog-Series-v3.pdf>

Fig. 6.4: Asset-backed lending draws most interest

Private debt investors were asked: ‘What types of emerging private debt funds will present the best opportunities in the next 12 months?’

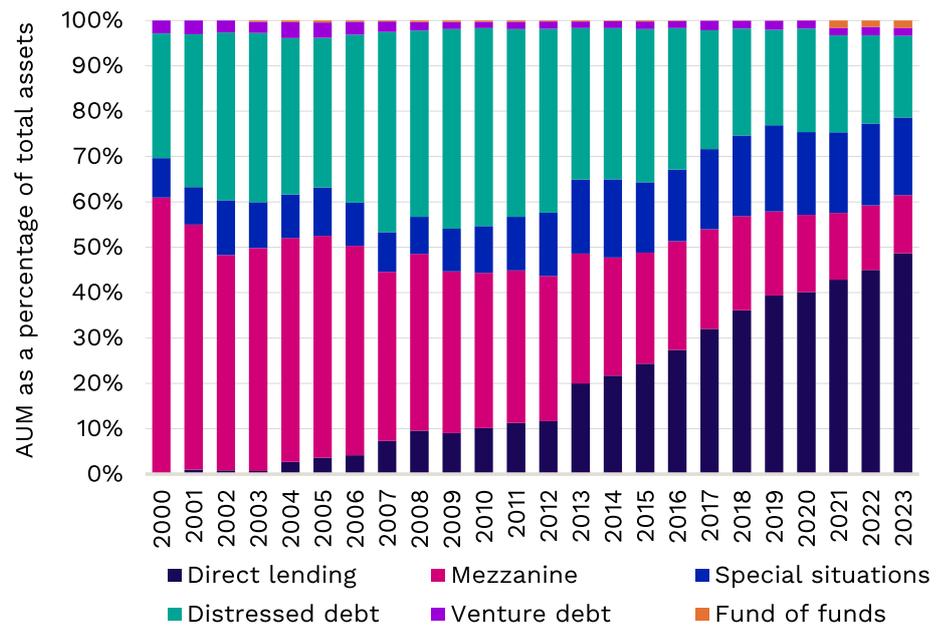


Source: Preqin Investor Survey, June 2024

Yet it might not be as easy to eat into bank market share in some of these spaces as it was to break into the direct lending market. Asset-backed lending has traditionally been an area where banks are reluctant to reduce their market share. The risk-adjusted return on capital, which accounts for the risk weighting under regulatory standards, tends to be attractive. Trade finance is in a similar position – its low-risk weighting makes it attractive to banks even if the overall interest rate is low. Still, adjustments to the current risk-weighting process and calculations from the original Basel III standards may mean that banks need to increase their capital overall and change lending decisions, opening the door for private funds to fill the gap.

Fig. 6.5: Shifting composition of private debt asset class

Private debt AUM by strategy as a percentage of total assets



Source: Preqin Pro

Should Basel standards push additional lending off bank balance sheets, private credit funds may be better placed to take market share in traditional bank-based credit products than other peers. The structure of private funds – including ones with open-ended features – allows them to better handle illiquid, long-term loans. For example, long-term project finance loans, which are backed by an underlying infrastructure project, are probably too illiquid to fit into a traditional publicly traded product. Many of these illiquid loans, such as trade finance products and credit revolvers, would fit well into private market structures.

By offloading riskier assets to private credit funds and instead focusing on the lower-risk parts of their business, banks reduce the risk they carry. This can protect depositors and the stability of the banks themselves, while shifting that risk to the debt funds. This is not to say that there is no risk and that regulators are completely unconcerned; use of structured credit products (including some private debt fund structures) by certain insurers has raised some concerns with regulators. The calculations for debt funds tend to differ from banks. Banks are maximizing their risk-adjusted return on capital, which operates within the risk-based leverage rules, while debt funds are maximizing traditional risk/return considerations.

Still, this impact should not be overstated – risk remains present in the financial system. For example, the bank could simultaneously offer credit facilities to the fund, which, while carrying a lower risk weighting than the original loan, does not fully negate the risk and exposure.

The other concern is that the regulators no longer have full disclosure from lenders because private debt funds, for the most part, fall outside the scope of many traditional bank regulators who imposed these requirements in the first place. For this reason, we expect policymakers to implement some mandatory disclosure rules in the future. Disclosure rules are already being considered for certain types of LPs and their exposure to structured products. It is unlikely that new disclosure rules will only focus on funds moving into the debt markets currently dominated by banks; instead, they would be broad based.



Locust Point Capital delivers an opportunistic way for institutional investors to invest in the lower middle market of the U.S. seniors housing industry.

Locust Point Capital is a credit focused alternative asset manager specializing in direct lending to the U.S. seniors housing industry.

The U.S. Seniors Housing sector has historically provided investors higher returns with lower risk compared to other real estate asset classes (as reported by NCREIF in their 1Q 2024 Market Performance Report). Given the potential for dramatic growth over the next two decades resulting from the aging of America, we believe that institutional investors will have multiple investment opportunities within this sector. Locust Point Capital invests exclusively in the U.S. seniors housing sector and can use its experience and direct owner operator relationships to help guide institutional investors within this niche asset class.

For more information on investing in the U.S Senior Housing Sector please contact:

Eric Smith, CEO & Managing Partner
732.945.7459 | esmith@locustpointcapital.com



www.locustpointcapital.com

→ Private debt in APAC

We consider the long-term growth outlook for private debt in APAC, which represents a small proportion of global AUM despite recent outperformance

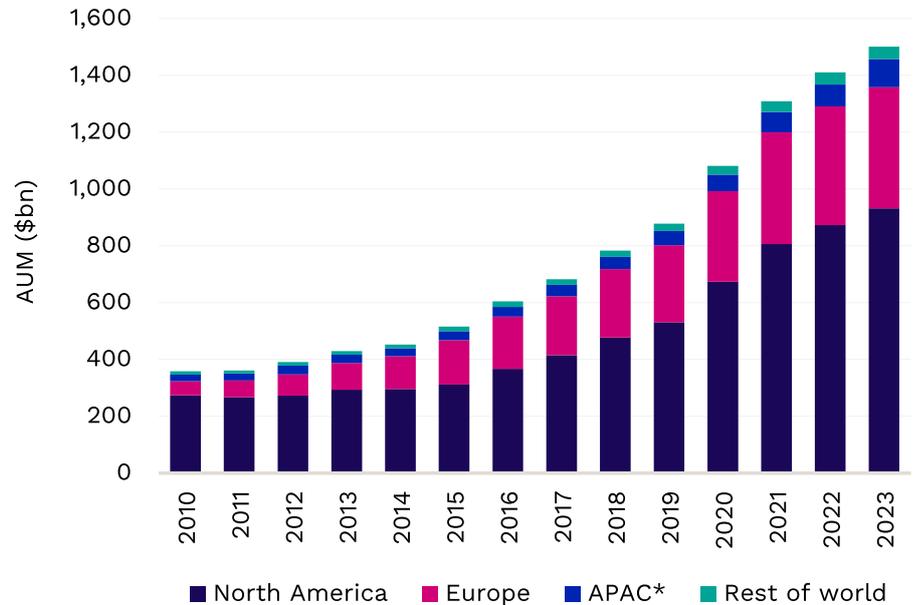


RJ Joshua, CFA
 VP, Head of Private Debt and Fees
rj.joshua@preqin.com

Private debt targeting APAC has seen consistent growth in assets under management (AUM). Between 2010 and 2023, AUM increased by 4.2x, a compound annual growth rate (CAGR) of 11.6%. Over this period, private debt AUM targeting APAC has outpaced North America, which grew at 9.9%, and lagged Europe, which grew substantially faster at 18.0% (Fig. 7.1). Overall, APAC has kept pace with the global growth of private debt AUM, with both recording a CAGR of 11.6% over 2010–2023.

Fig. 7.1: APAC holds steady on share of private debt

Private debt AUM* by primary region focus



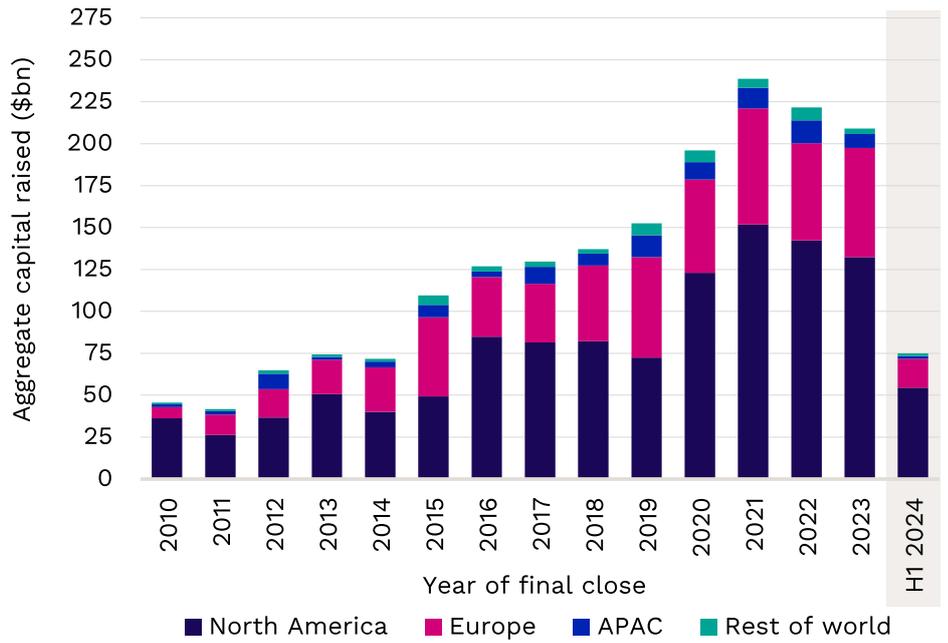
*AUM figures exclude funds denominated in yuan renminbi. Source: Preqin. All figures are nominal

More recently, however, private debt AUM targeting APAC has outpaced other regions, growing at 19.5% from 2020 to 2023, compared with the global average of 11.5%. Private debt now stands at \$1.50tn globally, of which just 6.6% was attributed to APAC, or \$99.3bn, as of the end of 2023.

While APAC’s share of AUM has fluctuated in a narrow band of 5.4% to 7.8% between 2010 and 2023, averaging 6.1%, its share of fundraising has shifted more significantly over time. APAC’s share of fundraising has ranged from 2% to 14% over the same period, averaging 6% (Fig. 7.2 and Fig. 7.3). This shows that investor interest may fluctuate in the short term, but in the longer term investors appear committed to a meaningful APAC allocation.

Fig. 7.2: APAC’s share of fundraising has seen large swings

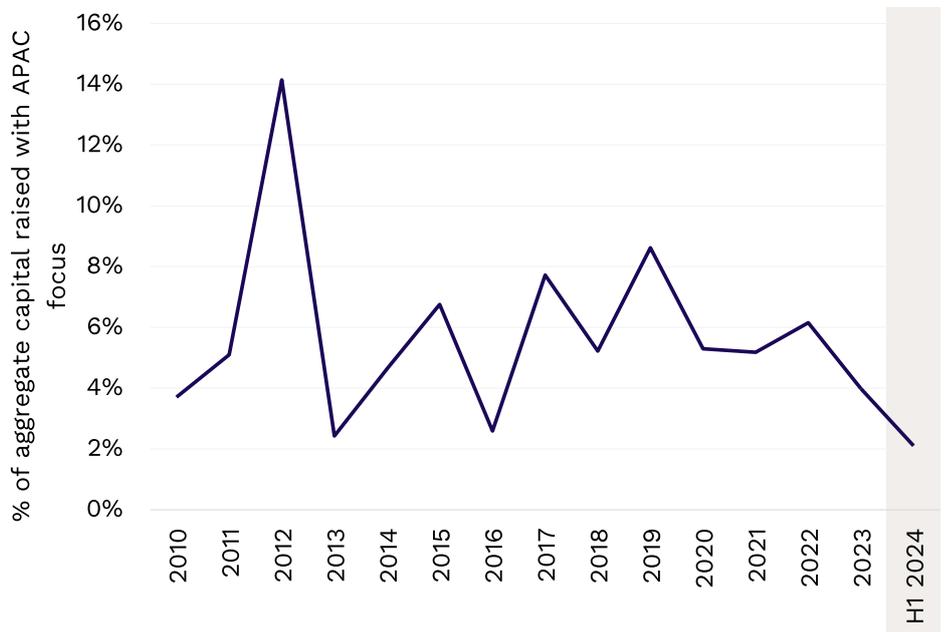
Fundraising by private debt funds closed by primary geographic focus



Source: Preqin Pro

Fig. 7.3: APAC’s share of fundraising has seen large swings

Share of fundraising by private debt funds closed with APAC focus



Source: Preqin Pro

Private debt AUM share does not reflect role of APAC in global economy

In the long run, we would expect a region’s share of economic activity to be roughly the same as its share of private debt AUM. If we examine, for example, GDP adjusted for purchasing power parity, we find APAC accounts for 46% of global GDP! This is in contrast to APAC’s significantly smaller share of private debt. There are a few structural reasons why we think private debt has been held back in APAC: if these change then we could see a supernormal growth rate for the region.

Analysis of private credit opportunities in APAC by Ares shows that businesses in the region are much more reliant on traditional banks for credit,² lagging Europe and North America, where non-bank credit has grown. To illustrate this, the report showed that 77% of financings to APAC businesses were from traditional bank loans, in contrast to just 20% in Europe and 12% in the US in 2020. Private debt’s origins in the US and subsequent development in Europe suggest the same trend may play out in APAC – namely, the development of non-bank financial institutions that compete with banks to provide credit to business – pointing to substantial room for growth in private credit in the region.

Deal flow is vital for attracting investors and growing AUM, and the strongest available data relates to the number of private debt deals. Here we see the recent trend is a steady increase in APAC’s share of deals, from 1% in 2017 to 9% in 2023, although the latest data for the first half of 2024 shows this share has slipped to 6% (Fig. 7.4). The largest markets for private debt deployment in APAC, according to Preqin data, are currently India, South Korea, and Australia.³ Increased deal flow in the region could lead to a virtuous circle of increasing deal share, fueling LP interest and fundraising.

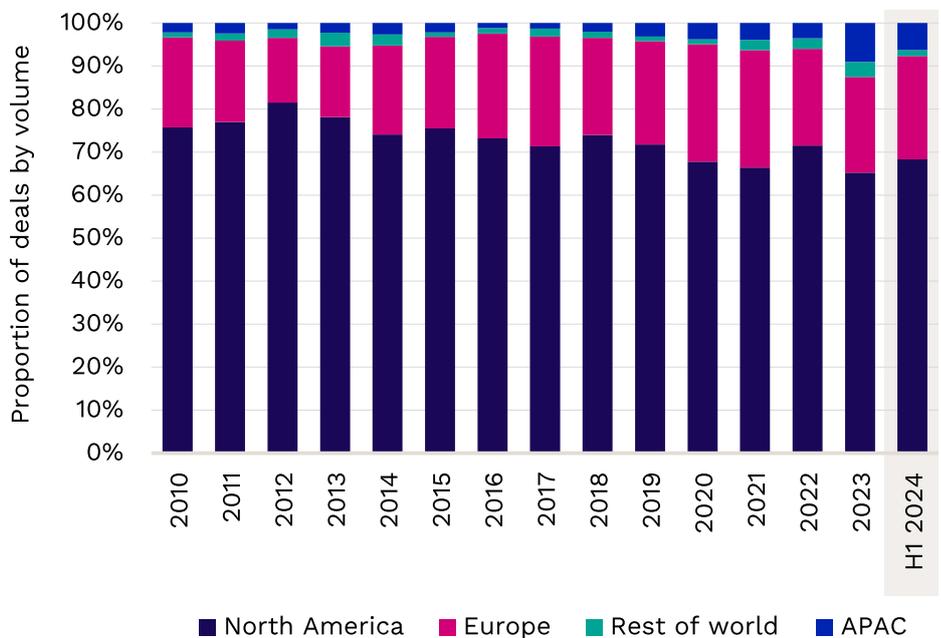
1 <https://www.imf.org/external/datamapper/PPPSH@WEO/APQ/AS5>

2 <https://www.aresmgmt.com/sites/default/files/2023-10/Private-Credit-Opportunities-in-Asia-Pacific.pdf>

3 18 months to June 30, 2024

Fig. 7.4: APAC sees steady growth of deal activity

Proportion of private debt deals by region

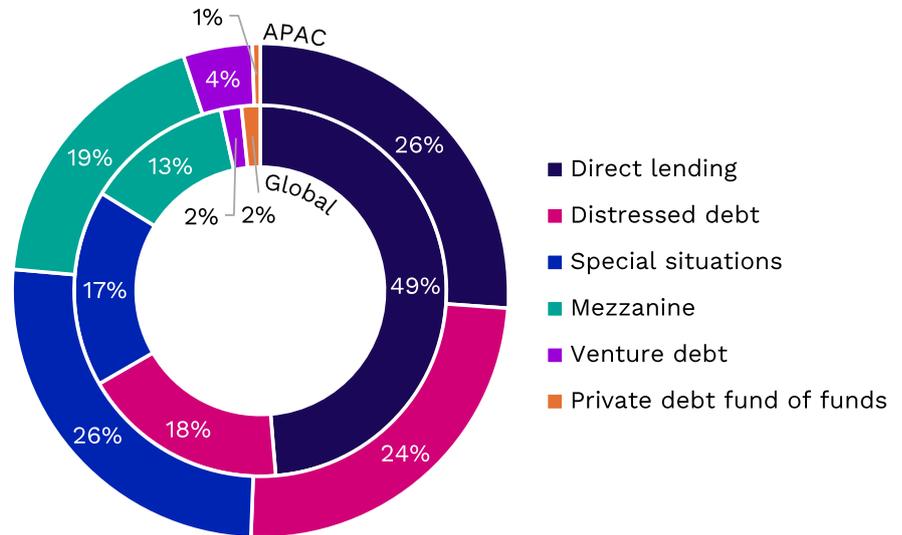


Source: Preqin Pro

There are good reasons why APAC’s private debt AUM is expected to grow, but when we examine the strategy mix we see important differences between this and the global average. Globally, direct lending is the largest strategy with 49% of AUM, followed by distressed debt with 18% of AUM. Within APAC, direct lending is much smaller at 26% of AUM, followed by distressed debt at 24% of AUM (Fig. 7.5).

Fig. 7.5: Direct lending smaller in APAC

Strategy AUM by primary regional focus of fund



Source: Preqin Pro

The relatively smaller size of direct lending within APAC may be due to the difference in banking regulation. In other geographies, such as North America, regulations have been put in place to constrain the ability of banks to lend, including monitoring and advice from central banks.

APAC outperforms Europe and North America

Investor interest in APAC private debt may be triggered by focusing more on the region’s performance, where it has recently delivered stronger returns than the global average. Between 2020 and 2023, APAC private debt funds returned 14.2%, compared with 10.4% for private debt globally (Fig. 7.6).

APAC also outperformed the key region of North America in the flagship direct lending strategy, returning 9.2% compared with 8.9%. So why are investors seemingly ignoring the higher returns on offer? From our conversations with clients, a few hypotheses have emerged.

Fig. 7.6: APAC private debt outperforms North America and Europe recently

Regional private debt historical performance by sub-strategy

Performance*	IRR 2017-2023	IRR 2020-2023
Private debt	8.12%	10.39%
North America – private debt	8.85%	11.56%
North America – private debt – direct lending	7.13%	8.85%
North America – private debt – distressed debt	8.20%	14.80%
North America – private debt – other	11.64%	12.30%
Europe – private debt	6.53%	7.47%
Europe – private debt – direct lending	6.19%	7.01%
Europe – private debt – distressed debt	4.65%	6.49%
Europe – private debt – other	8.35%	9.21%
APAC – private debt	9.18%	14.23%
APAC – private debt – direct lending**	7.23%	9.16%
APAC – private debt – distressed debt**	4.69%	11.60%
APAC – private debt – other**	10.84%	16.97%

*Values relate to end of year.

Source: Preqin. All figures are nominal

**When we calculate performance we exclude funds denominated in yuan renminbi. To avoid double counting we exclude funds of funds from all the remaining aggregates.

1. Returns are not sufficient for investors who demand an ‘emerging market risk premium’

APAC may deliver higher returns, but they may not be high enough to entice wary Europe and North America investors away from well-known developed markets. Developed APAC markets, such as Japan, Australia, New Zealand, Singapore, Hong Kong, and South Korea, should be considered separately, given their different economic characteristics.

2. Investors are cautious about the increased complexity of APAC investments

For example, APAC loans may be collateralized by another company in the same group. A further example is collateral being held in a jurisdiction commonly used as a financial center. These features add to the due diligence efforts investors must take to gain sufficient comfort. Some investors may conclude that ‘the juice isn’t worth the squeeze’.

3. Resurgence of North America

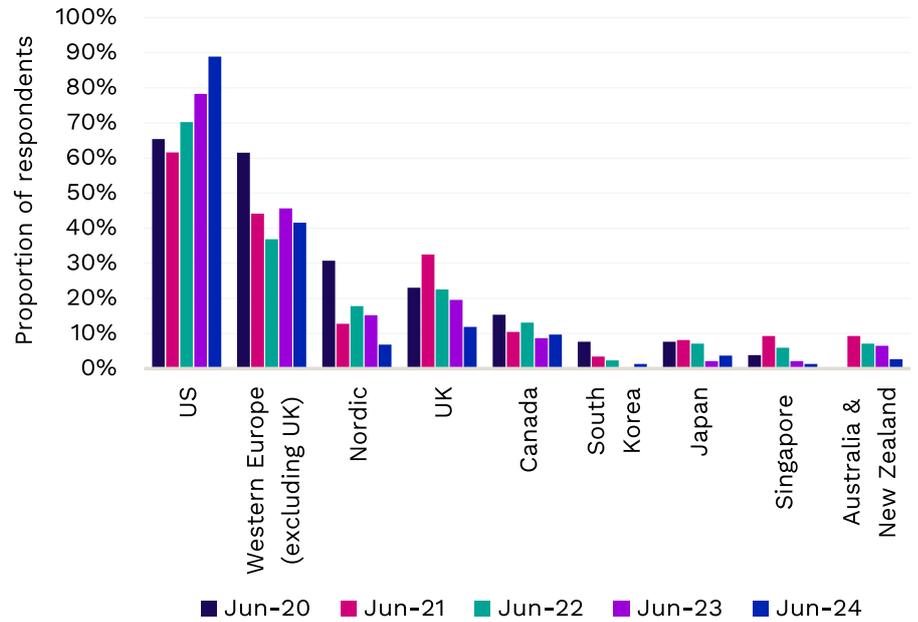
North America has gained ground against all other geographies. Fundraising GPs are increasingly based, networked, and comfortable operating in the US. APAC, with its diverse cultures, languages, and legal regimes, demands significantly more operational commitment for successful growth.

One of the best steers on the short-term outlook for APAC comes from our biannual survey of investors. Within developed markets, investors favor the US strongly, with 89% selecting it as one of the developed markets with the best opportunities (Fig. 7.7).

The results from our investor surveys show a clear break between developed and emerging markets in the APAC region (Fig. 7.7 and Fig. 7.8). Within developed Asia, sentiment has remained fairly consistent over the last two years, holding steady at around 10% of survey respondents saying the developed Asia markets present the best opportunities (11% in 2023 and 9% in 2024).

Fig. 7.7: US remains the most promising developed market

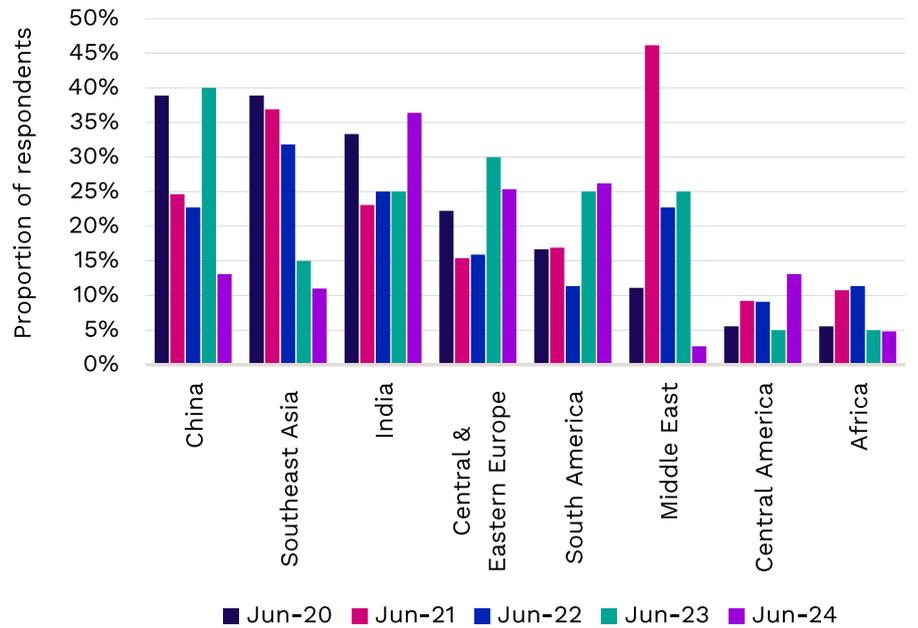
Private debt investors were asked: ‘Which developed markets present the best opportunities?’



Source: Preqin Investor Surveys, June 2020–2024

Fig. 7.8: Emerging Asia sees strong growth in interest

Private debt investors were asked: ‘Which emerging markets present the best opportunities?’



Source: Preqin Investor Surveys, June 2020–2024

By contrast, interest in emerging Asia has declined more substantially, albeit from a far higher base, down from 80% in 2023 to 60% in 2024. We think this may be driven primarily by concerns over the global economy, as investors favor the safe haven of US direct lending within private debt.

Looking forward, if we see an improvement in the global economy, the resulting deal activity in private equity would likely create improved sentiment toward APAC, driving further growth of private debt as private equity deals need financing.

→ Our survey: Taking the pulse

Our latest survey of private debt investors and managers reveals concerns about returns and competition for assets moving into 2025



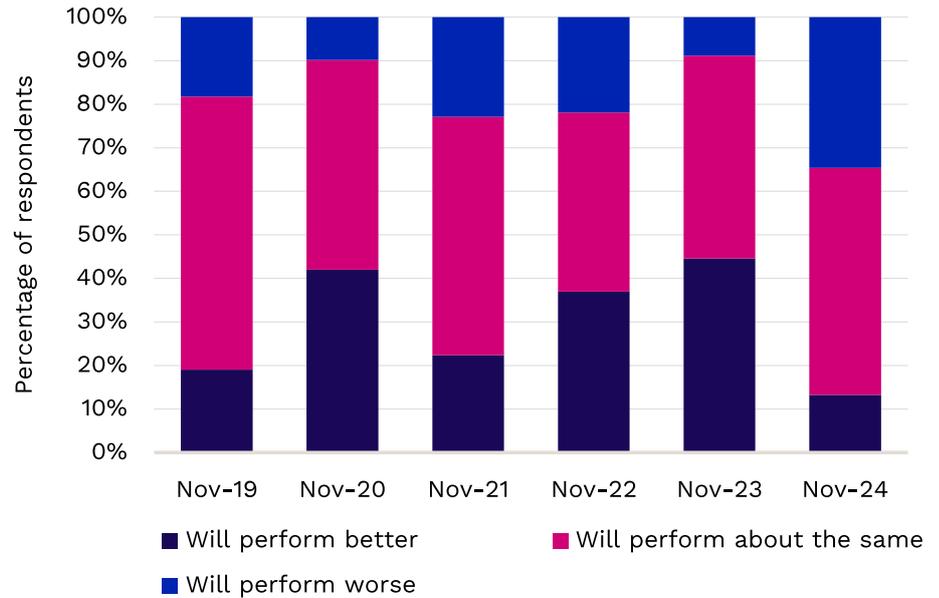


Nicholas Mairone, CFA
 AVP, Research Insights
nicholas.mairone@preqin.com

LPs are growing more concerned about private debt performance. This comes as the Federal Reserve (Fed) is engaging in a rate-cutting cycle. As of November 8, the CME’s FedWatch tool, which derives interest rate expectations from futures contracts, sees a 73.6% chance that the Fed’s target range will be 4.00–4.25% or lower by May 2025, down from 4.50–4.75% at time of writing. In our November 2023 survey of LPs, only 9% of respondents believed private debt would perform worse over the next 12 months; that figure has risen to 35% in our latest survey in November 2024 (Fig. 8.1).

Fig. 8.1: Worse performance expected for private debt

Investors were asked: ‘How will the next 12 months’ performance compare to the previous 12 months?’

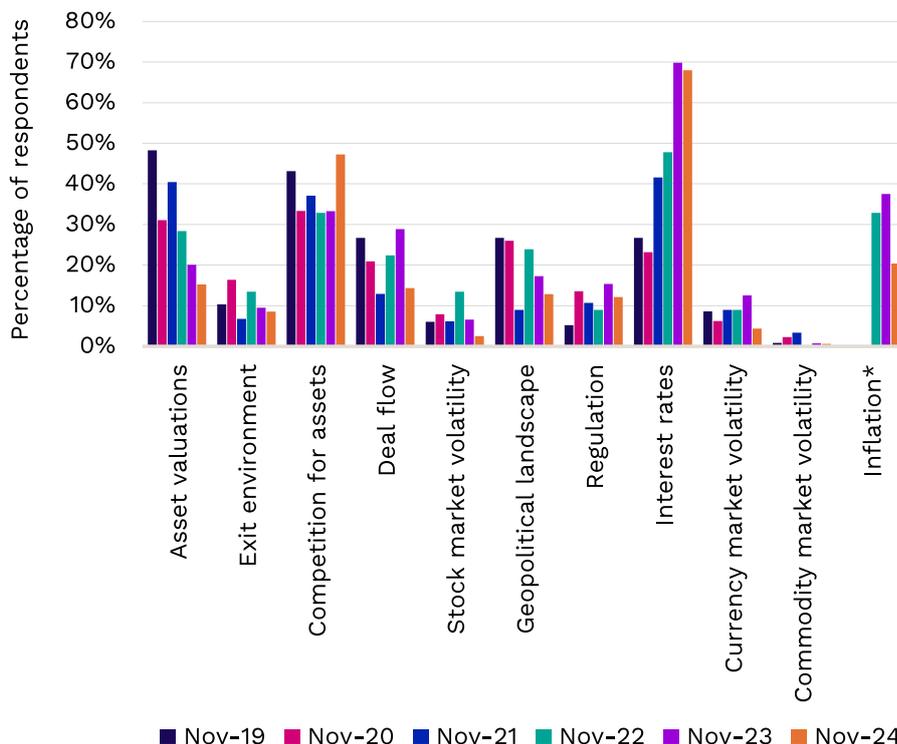


Source: Preqin Investor Surveys, November 2019–2024

Based on conversations with market participants, there are a few causes for this. First, with base rates falling, the overall interest rate captured by funds will decline. Most loans in direct lending portfolios are floating rate, consisting of the risk-free rate – or the secured overnight financing rate in the US – plus some spread. As rates rose, these portfolios benefited. As they fall, the headline interest rate will as well. Concern is also evident when our latest survey asked about challenges to returns going forward, with 68% responding that interest rates are a challenge (Fig. 8.2). Though this is similar to the 70% in the prior November survey, both these figures coincide with when the Fed began discussing rate cuts for the second half of 2024.

Fig. 8.2: Declining rates are LPs’ main concern for 2025

Investors were asked: ‘What are the key challenges for return generation in the next 12 months?’



Source: Preqin Investor Surveys, November 2019–2024

*Inflation was included as a challenge from 2022.

Declining base rates are not the only issue linked to interest rates going forward. Alongside falling risk-free rates, some market participants have also raised concerns about deal competition in discussions. This is reflected in our survey as well: competition for assets the second largest concern for LPs, with 47% of respondents seeing it as a challenge, up from 33% the previous year. With lower rates re-opening the syndication market and more money entering debt markets, spread compression is a concern for LPs.

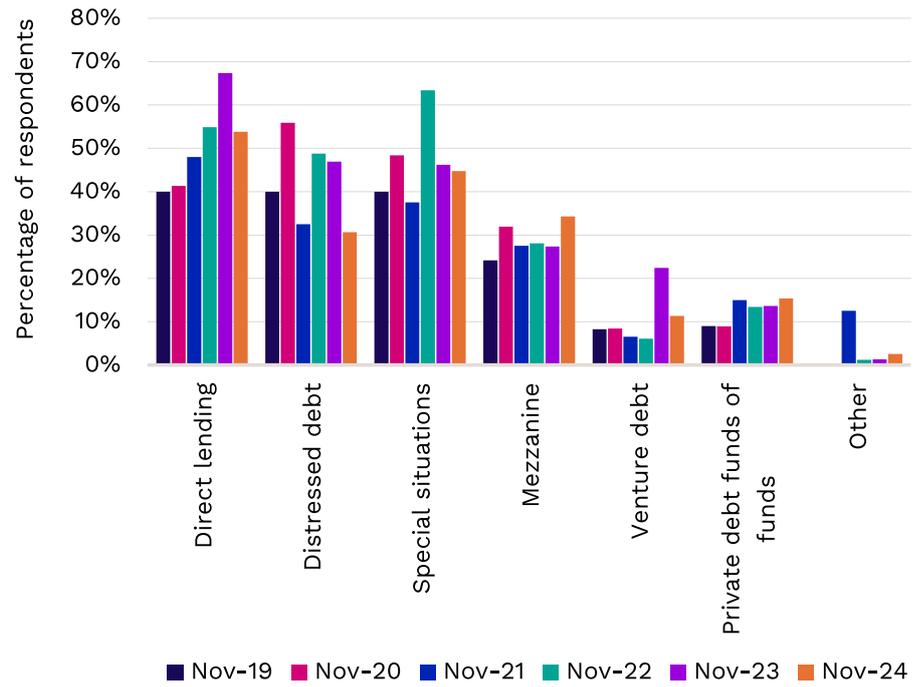
Credit quality may also be a concern for some LPs in the near term. A prolonged period of high interest rates may weigh on borrowers’ ability to service their obligations.

In line with this, LP interest in direct lending funds fell compared with the November 2023 survey, when 67% of respondents stated that direct lending funds presented some of the best opportunities. In the November 2024 survey, that figure fell to 54% (Fig. 8.3). Interest in mezzanine funds rose to 34% from 27%; some LPs may view lower base interest rates as advantageous for these funds, which can take on more risk while corporates refinance their existing obligations.

Investor reticence is also evident when LPs were asked about their commitment intent over the next 12 months, with 37% of respondents stating they intended to increase commitments, down from 51% in November 2023 (Fig. 8.4). Meanwhile, 17% of investors stated an intent to commit less capital in the next 12 months. This is a significant change and is reflective of the aforementioned risks.

Fig. 8.3: Direct lending remains popular, though interest has fallen

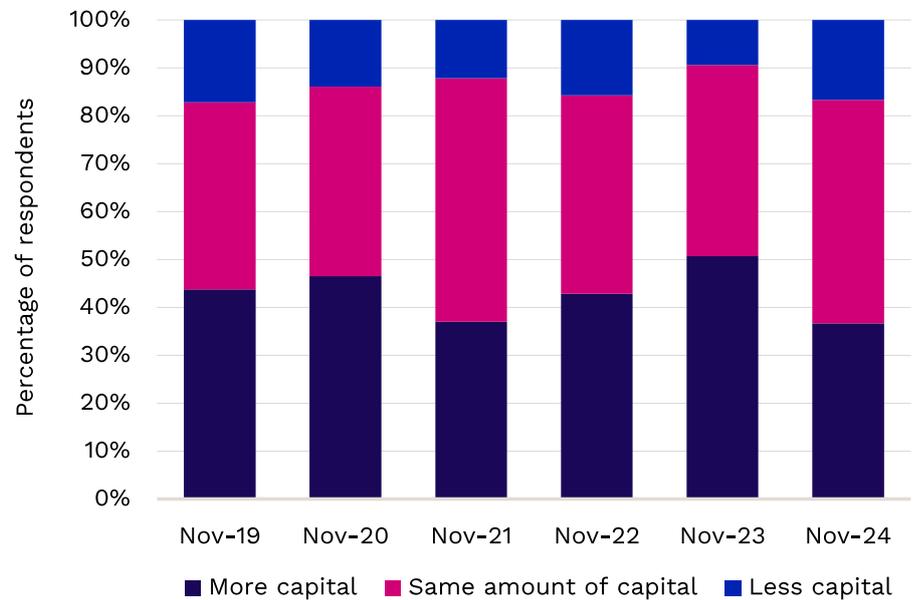
Investors were asked: ‘Which fund types present the best opportunities?’



Source: Preqin Investor Surveys, November 2019–2024

Fig. 8.4: More LPs on hold amid uncertainty...

Investors were asked: ‘How much capital will you commit in the next 12 months?’

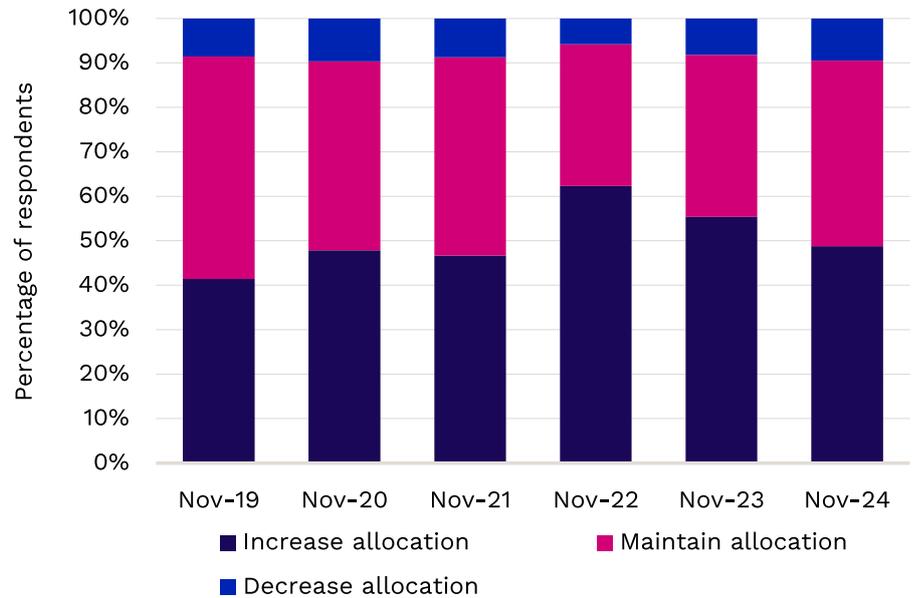


Source: Preqin Investor Surveys, November 2019–2024

When asked about their long-term plans, there was no significant change in the amount of investors intending to decrease their allocation, with 9% of respondents stating they would reduce allocations (Fig. 8.5). This compares with 8% in the November 2023 survey. Though fewer respondents intend to increase allocations (49% vs 55% prior), a near majority remain committed to increasing allocations. This reflects commitment to the asset class despite the turning of the rate environment.

Fig. 8.5: ...but they appear committed in long run

Investors were asked: ‘How will you allocate to private debt over the longer term?’



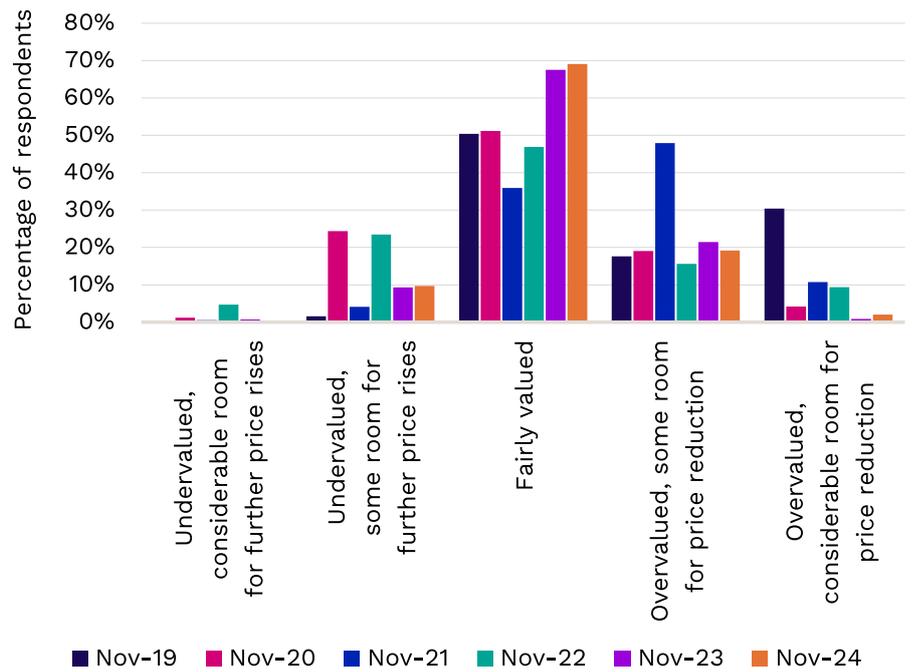
Source: Preqin Investor Surveys, November 2019–2024

It may simply be the case that LPs are worried about conditions over the next 12 months and more aggressive allocations will return once current concerns abate. With rates falling, syndication desks re-opening, and private equity deal-making yet to increase substantially, LPs are nervous. Yet these are unlikely to be permanent features of the market.

When asked about current valuations, 69% stated they believed their assets were fairly valued, similar to the 68% in the prior survey (Fig. 8.6). In effect, there was no change in views on current portfolio valuations. Combined with LP views on the next 12 months and their long-term views, the picture is one of uncertainty clouding the current market, rather than a structural turn away from debt strategies.

Fig. 8.6: Investors view private debt assets as fairly valued

Investors were asked: ‘How do you view portfolio company/asset pricing?’

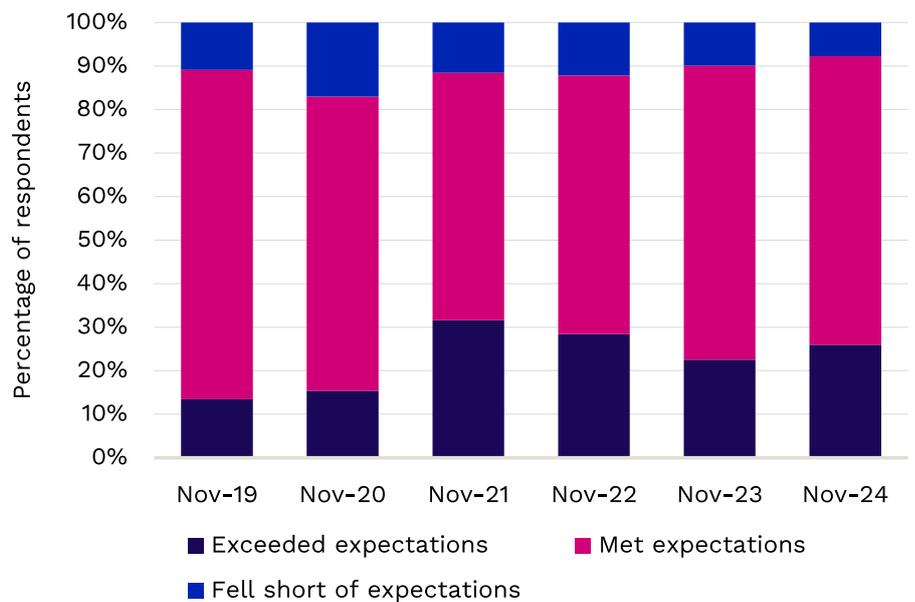


Source: Preqin Investor Surveys, November 2019–2024

When asked about performance over the prior 12 months, LPs were satisfied. The number of respondents saying that private debt underperformed expectations fell to a low of 8% (10% in the prior survey), while 26% stated that it exceeded expectations (Fig. 8.7). This is consistent with the above view that rather than a broad turn away from the asset class, uncertainties in the near term are making LPs more hesitant.

Fig. 8.7: Investors are satisfied with 2024 performance

Investors were asked: ‘Have investments met expectations over the past 12 months?’



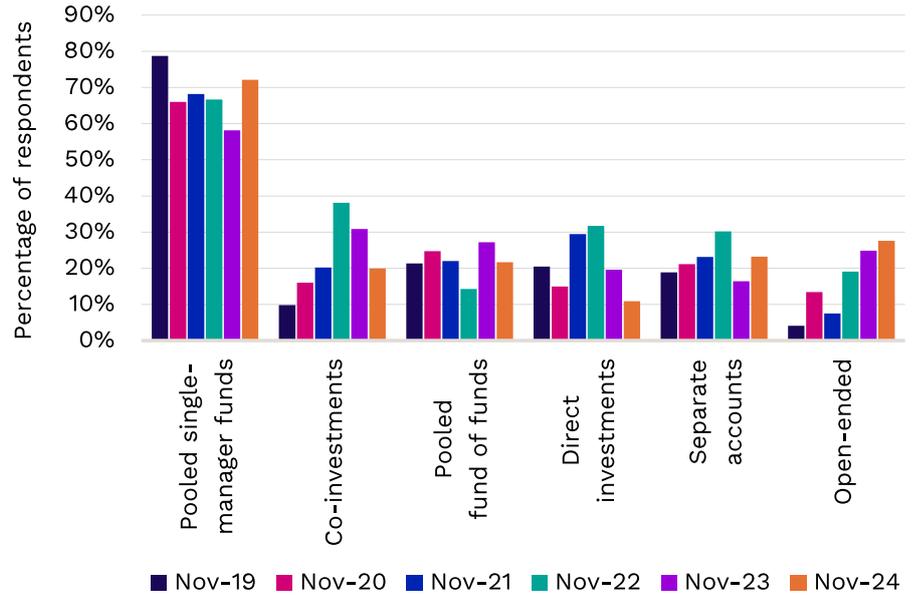
Source: Preqin Investor Surveys, November 2019–2024

Overall, the survey indicates that LPs are pausing to take a breath after years of enthusiasm about private debt. They are taking a wait-and-see approach to future commitments, watching how funds perform in a more uncertain market environment.

The steady trend of LPs becoming more interested in open-ended funds continued in our latest survey, rising to 28%, up from 25% in 2023 and 4% in 2019 (Fig. 8.8). This is consistent with a sense that many private debt investors treat the asset class as an alternative to some fixed income assets. When asked their reason for investing in private debt, 57% of respondents stated it was for income purposes, the highest of any alternative asset class (Fig. 8.9).

Fig. 8.8: Interest in open-ended funds continues to rise

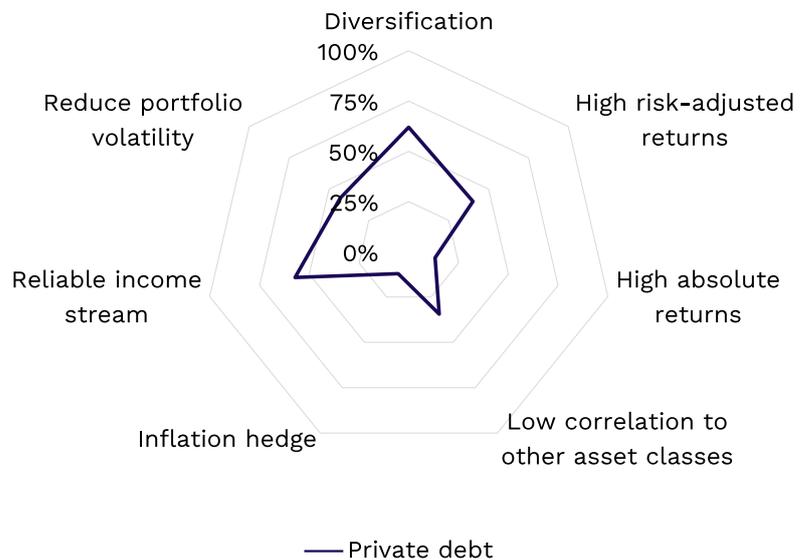
Investors were asked: ‘What fund structures are you targeting in the next 12 months?’



Source: Preqin Investor Surveys, November 2019–2024

Fig. 8.9: Private debt LPs seek income and diversification

Investors’ main reasons for investing in alternative assets

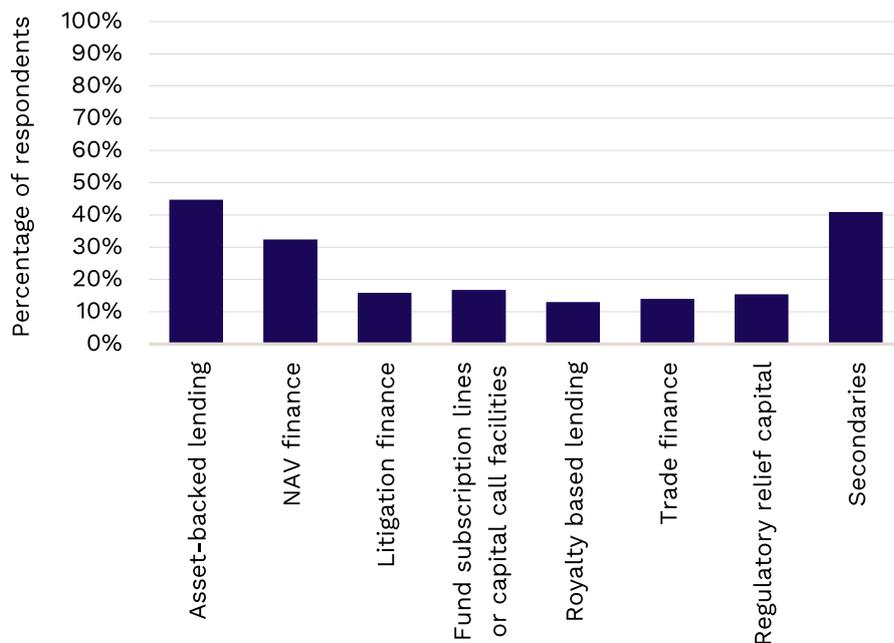


Source: Preqin Investor Survey, November 2024

LPs remain quite interested in novel private debt strategies. When asked, 45% stated they believe asset-backed lending strategies present some of the best opportunities among emerging strategies in the asset class (Fig. 8.10). Following this, 41% were interested in secondaries strategies. Asset-backed strategies seem to fit the profile of what LPs are seeking in private debt: a strategy focused on generating steady income while offering diversification to a portfolio.

Fig. 8.10: LPs indicate interest in asset-backed strategies

Investors were asked: ‘What types of emerging private debt funds do you think will present the best opportunities in the next 12 months?’



Source: Preqin Investor Survey, November 2024

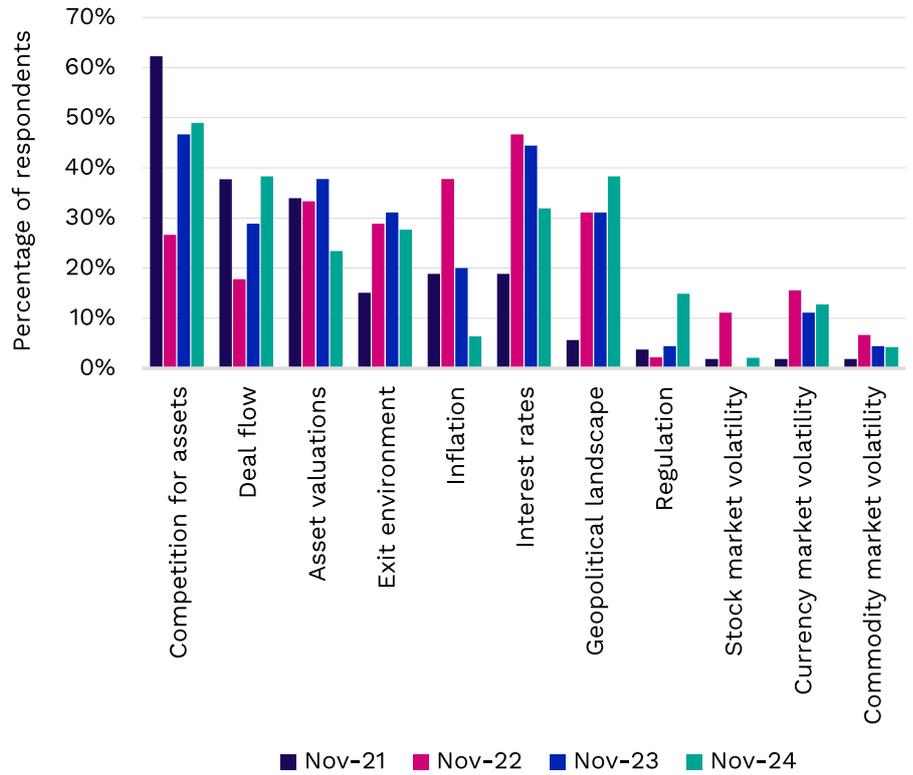
Fund managers express different views

Alongside our survey of LPs, we ran a survey of fund managers, which ended with slightly different results. They are less concerned about the interest rate environment – 32% viewed it as a top concern, compared with 44% in our 2023 survey (Fig. 8.11). This is lower than competition for assets (49%), deal flow (38%), and geopolitical risk (38%). Elevated concern about deals and asset competition may stem from the impacts of higher rates and challenges in the current market that are second-order effects.

According to managers, there was a notable drop in the favorability of deal terms, reflecting increased competition for deals. More dollars chasing the same or fewer deals leads to effects beyond just rates, such as changes to covenants. In November 2023, 63% of respondents stated that deal terms were better than 12 months ago. In November 2024, that same figure was 8%, with 28% saying that terms were worsening (Fig. 8.12). Looser credit conditions mean some direct lenders are competing with syndication desks, and the ability of borrowers to refinance puts pressure on creditors to either compress spreads or loosen covenant terms.

Fig. 8.11: Fund managers are concerned about the deal-making environment

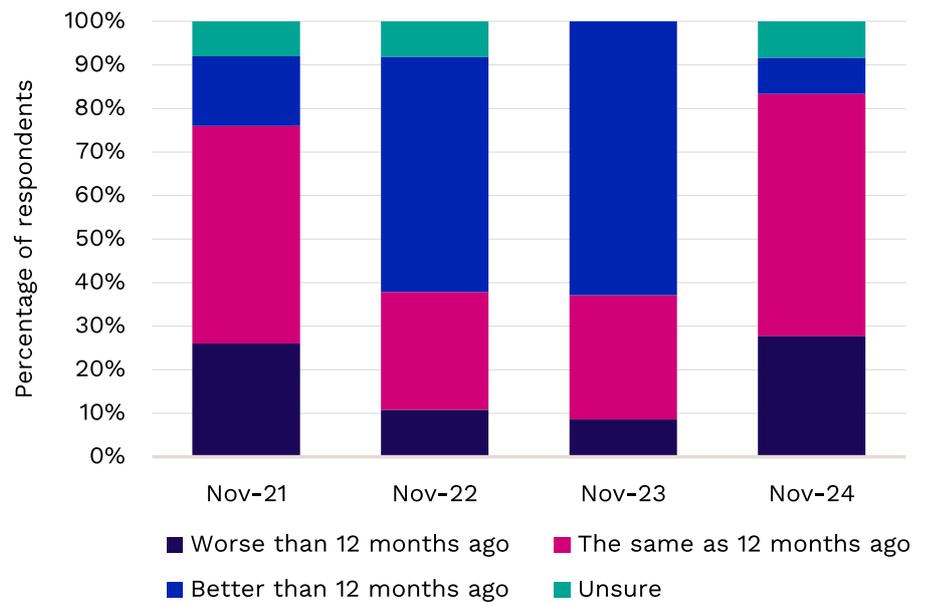
Managers were asked: ‘What do you see as being the main challenges to return generation in the next 12 months?’



Source: Preqin Fund Manager Surveys, November 2021–2024

Fig. 8.12: Fund managers believe deal terms are worsening

Managers were asked: ‘As a lender, how have the terms of debt financing for investments changed from 12 months ago?’

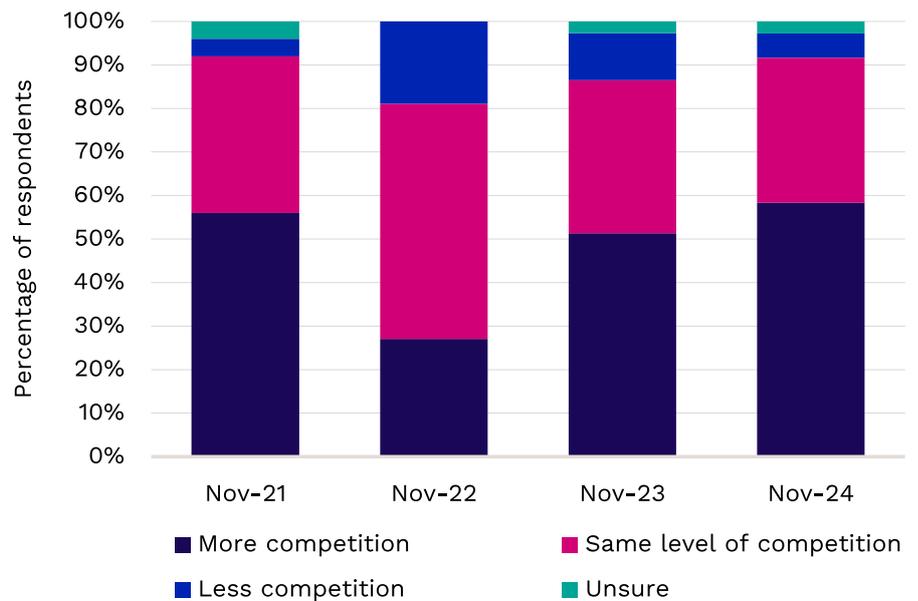


Source: Preqin Fund Manager Surveys, November 2021–2024

Competition has been a challenge for managers, with 58% stating that competition for deals is increasing. This is up from 51% in the prior year (Fig. 8.13). Moving into 2025, this will likely remain a concern with interest rates declining. Until there is a significant increase in private equity deal flow, competition will likely be a challenge. With most direct lenders focusing on senior debt for sponsor-backed deals, there is significant exposure to the private equity pipeline.

Fig. 8.13: Managers see greater competition for deals

Managers were asked: ‘How has the level of competition for transactions changed over the past 12 months?’



Source: Preqin Fund Manager Surveys, November 2021–2024

Between both surveys, a cautious picture emerges for private debt in 2025. LPs are concerned about near-term performance and risk, even as they remain optimistic in the long run. Fund managers are concerned that in a lower-rate environment where private equity deals have yet to recover, deal flow will be challenging.

→ Private debt: Fees and terms

Fundraising pressure has affected mean management fees while carry rates are little changed



Brigid Connor, CFA, CAIA
 AVP, Fees Research Lead
brigid.connor@preqin.com

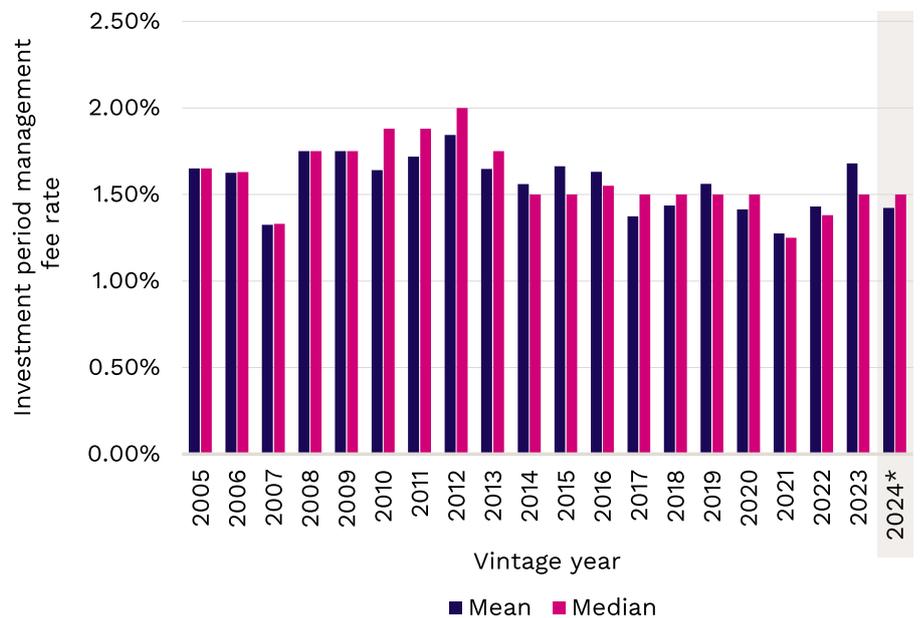
In this chapter we examine private debt management fees and performance fees. Fees can vary by strategy, vintage, fund size, and geography; the largest difference in private debt fees is found between direct lending and non-direct lending strategies. Where possible, we distinguish between fees in direct lending and non-lending strategies.

Management fee rates mostly steady but see slight downward pressure

Mean management fee rates in private debt have seen the effects of softer fundraising. With direct lending fundraising lower last year, the mean management fee rate slipped 26 basis points (bps) in 2024¹ to 1.42%. However, the median was steady at 1.50%. Since 2014, the mean and median management fee rates have been close to around 1.50% (Fig. 9.1). If fundraising forecasts are any guide, we could see direct lending management fee rates continue to slip until fundraising turns around in 2026, as forecast in Preqin’s Future of Alternatives 2029.²

Fig. 9.1: Direct lending management fee mean rates decline but within longer-term average range

Direct lending funds – average management fee by vintage year



*2024 (funds raised YTD and closed)

Source: Preqin Pro. Data as of June 2024

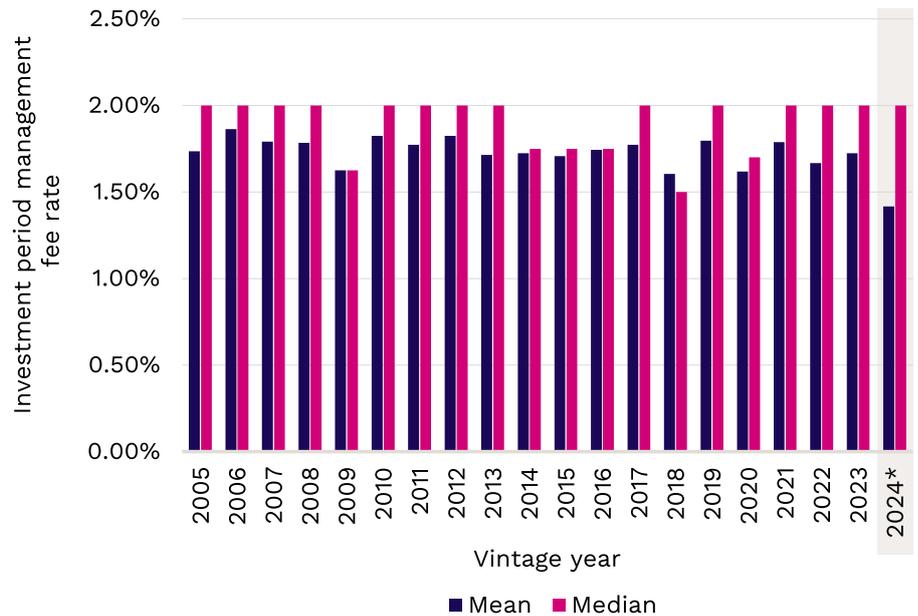
For non-direct lending strategies, which include mezzanine, distressed debt, and special situations, the management fee rate level is generally higher than that of direct lending. This reflects the former group’s higher level of risk and greater need for active management. In 2024, non-direct lending mean management fee rates decreased to 1.42% while the median was flat at 2.00% (Fig. 9.2). Since 2014 the mean fee rate has fluctuated around 1.75% and the median has bounced mostly between 1.75% and 2.00%. Based on Preqin’s fundraising forecasts, non-direct lending management fee rates could continue to see pressure as GPs compete for LP commitments.

1 As of June 2024.

2 <https://www.preqin.com/insights/research/reports/future-of-alternatives-2029>

Fig. 9.2: Non-direct lending management fee mean rates decline but median stable

Private debt funds (non-direct lending) – average management fee by vintage year



*2024 (funds raised YTD and closed)

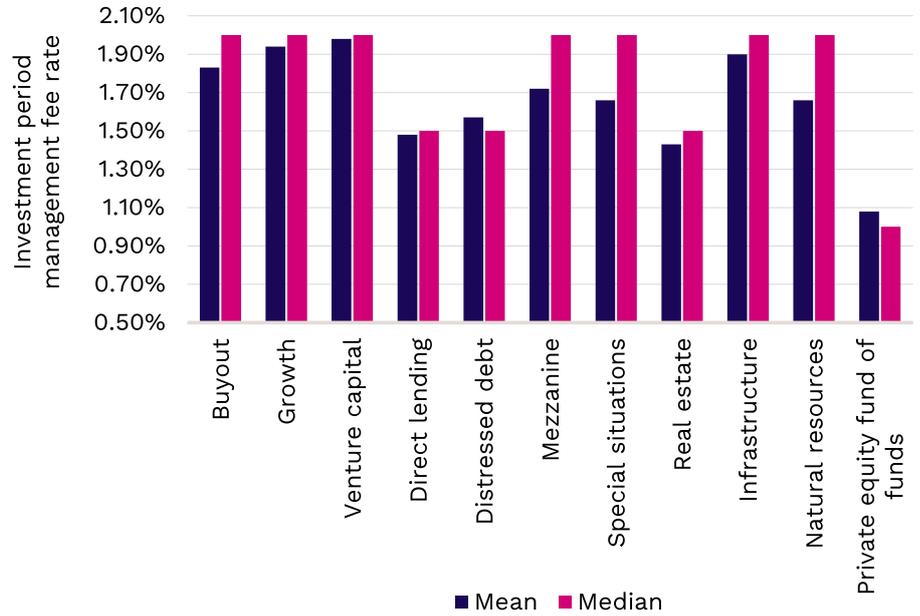
Source: Preqin Pro. Data as of June 2024

Private debt fees are lower than other asset classes; net fees are lower still due to discounts

Across strategies, private debt fees paid are generally lower than other private capital asset classes’ fees for three reasons. First, the fee rates are lower than other asset classes outside of real estate (Fig. 9.3). Second, the term over which management fees are paid is shorter (Fig. 9.4). The investment period for private debt strategies outside of mezzanine was between three and four years. A fund’s life is typically twice the investment period, meaning private debt management fees can range from six to nine years, shorter than the 10 or more years typical in private equity, infrastructure, and others. Third, the basis on which private debt management fees is levied is actively invested capital in over 50% of limited partnership agreements (LPAs). Actively invested capital is almost always a lower basis than initial commitment, which is generally the basis for management fees in other asset classes.

Fig. 9.3: Private debt fee rates range by strategy but lower than other asset classes

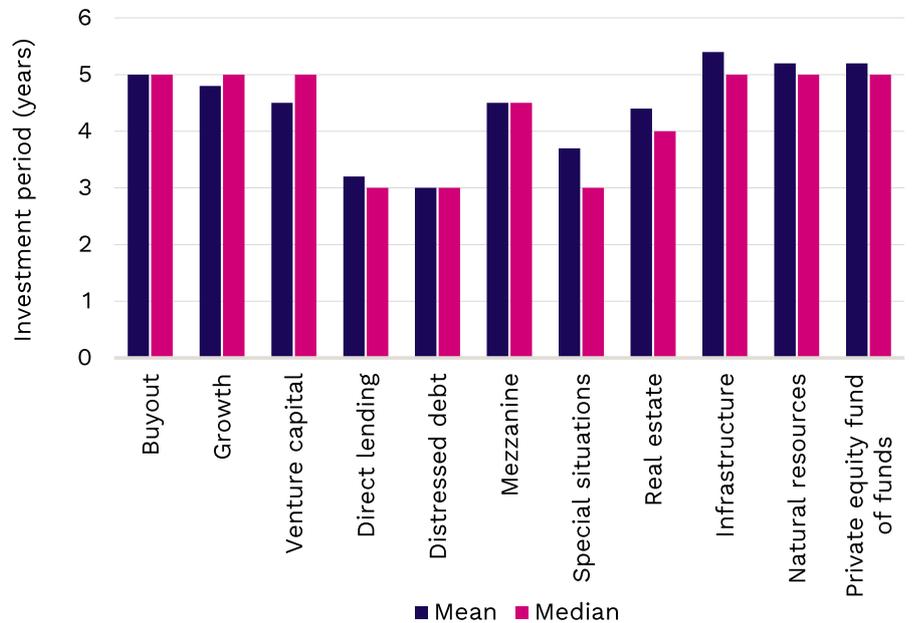
Average management fee rate during investment period by fund type (raising, and closed 2023 and 2024 funds)



Source: Preqin Pro. Data as of June 2024

Fig. 9.4: Aside from mezzanine, private debt investment periods shorter

Average length of investment period by fund type (raising, and closed 2023 and 2024 funds)



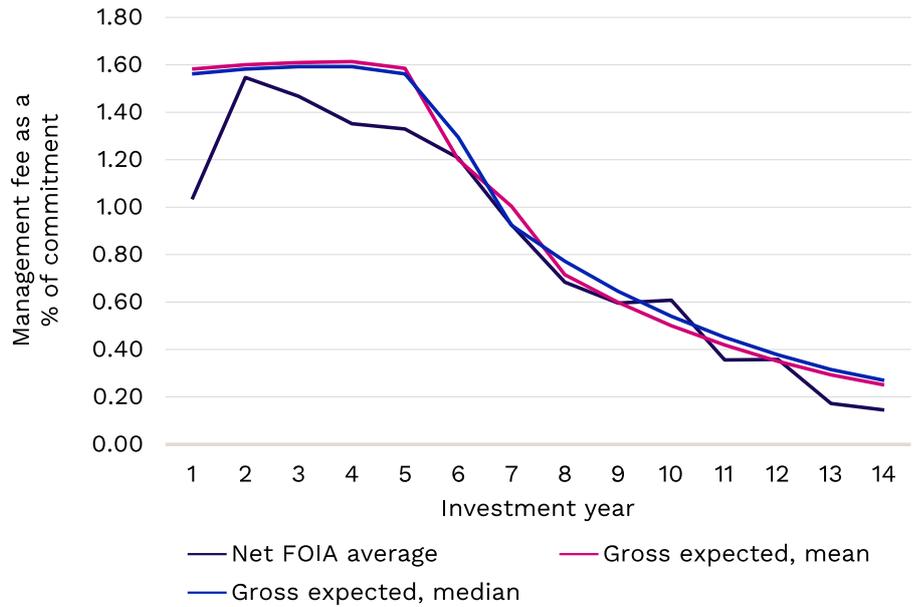
Source: Preqin Pro. Data as of June 2024

Based on Freedom of Information Act (FOIA) data, private debt net management fees paid are lower than the expected gross fees that are found in LPAs (Fig. 9.5). Much of the gross-to-net spread is attributed to management fee offsets and discounts. According to Preqin Term Intelligence³ data, just under a quarter of private debt LPAs offer discounts (Fig. 9.6). Discounts are available to investors who commit before the

3 <https://www.preqin.com/our-products/term-intelligence>

Fig. 9.5: Management fees paid in investment period often lower than headline rates

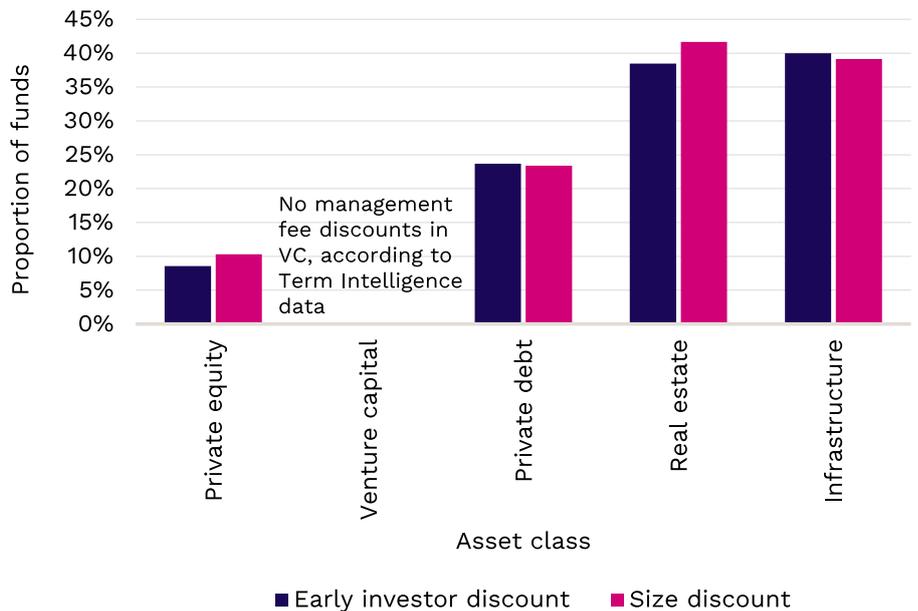
Average length of investment period by fund type (raising, and closed 2023 and 2024 funds)



Source: FOIA, Term Intelligence. Data as of July 17, 2024

Fig. 9.6: Private debt funds offer fee discounts in less than a quarter of LPAs

Incidence of management fee discounts by asset class (vintages 2020 onward)*



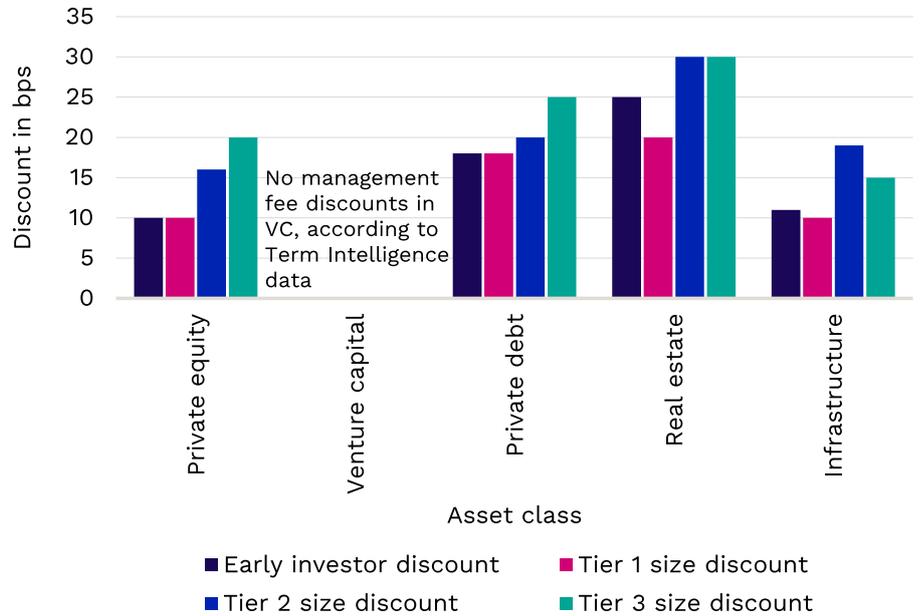
*All funds are closed.

Source: Term Intelligence

first close or to investors with large ticket sizes. What qualifies as a large ticket size varies by fund. The median discount for an early investor in a private debt fund is 18bps and the median discount for a large investor could be 20 or 30bps (Fig. 9.7). We note that the discounts may apply to investment period only rather than the whole term.

Fig. 9.7: Real estate funds have largest discounts

Amounts of median management fee discounts in basis points (vintages 2020 onward)*

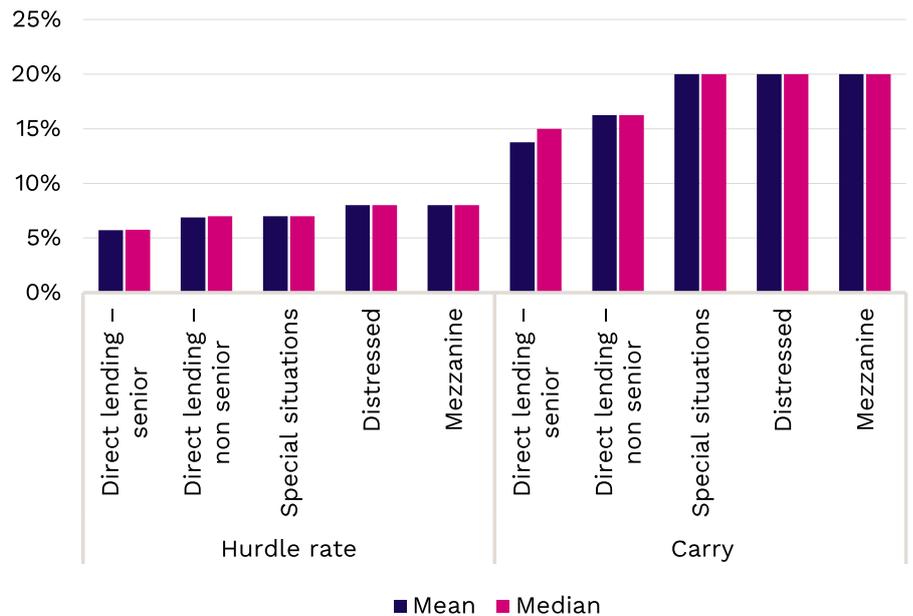


*All funds are closed.

Source: Term Intelligence

Fig. 9.8: Hurdle rates increase with strategy's risk

Hurdle rate and carry rate for private debt strategies (vintages 2020 onward)*



*All funds are closed.

Source: Term Intelligence

Carry and hurdle rates vary by private debt strategy

In theory, performance fees incentivize GPs to pursue outsized returns. In contrast to management fees, carried interest rates and hurdle rates have seen little movement in the past 20 years. As with management fees, the level of performance fees varies based on the strategy. Generally, the lower the risk, the lower the fees. On the low end of the risk spectrum, senior direct lending funds have a median hurdle rate of 5.75% and a median carry rate of 15.00% (Fig. 9.8). On the upper end, mezzanine funds have a median hurdle of 8.00% and a median carry rate of 20.00%. Non-senior direct lending and special situations sit in the middle.

For more information on private debt fees, please see *The 2024 Preqin Private Capital Fund Terms Advisor*,⁴ where we explore additional aspects of private debt fees, including how they vary by fund size and management fees in relation to performance quartile.

⁴ <https://www.preqin.com/insights/research/reports/the-2024-preqin-private-capital-fund-terms-advisor>

Predictions

1 North America will tighten its grip on the private debt industry

We expect North America to once again remain the most fertile ground for investment. Our latest investor survey shows the US is by far the most favored geography among developed economies, with 92% of polled investors saying that the US presents the best opportunities for investment. This is consistent with our long-term forecast for North America private debt assets under management to grow faster than any other region at 10.99% a year, ending at \$1.74tn by 2029F¹

With a benign macroeconomic backdrop, positive investor sentiment in the short term, and our quantitative model agreeing in the long term, we expect North America to go from strength to strength in 2025.

2 Direct lending will be the most popular major strategy

Direct lending has grown its share of fundraising in 2024, setting up the strategy for a strong 2025. Our long-term forecast expects a slight decrease in its share by 2029F, albeit against a substantial increase in the absolute dollars raised. Our survey results also show that direct lending remains the most favored strategy, although sentiment has reverted to 2022 levels.

Direct lending returns can be conceived of as a floating overnight risk-free rate plus a credit spread. As interest rates decline, the overnight rate also declines. But lower borrowing costs may spur further demand from borrowers, resulting in a widening in the credit spread, which can partially make up for any hit from the reduction in the reference overnight interest rate.

3 Fundraising to remain challenging, recovery may come early

With some weakening of overall sentiment toward private debt evident in our latest investor survey (see the 'Our survey: Taking the pulse' chapter), we expect fundraising to remain challenging in 2025. This aligns with our long-term forecast, which also expected fundraising in 2025F to be very nearly flat on 2024F. However, we see risk to the upside, as economic data continues to be fairly benign for risk assets. If there is an abatement in interest rate and political risk, there could be an acceleration on the recovery previously forecast for 2026F.

4 Semi-liquid structures to grow, especially in Europe

With the launch of the updated European Long-Term Investment Funds regulation, ELTIF 2.0, in the EU (see Fundraising from UK Pensions: A Guide to Raising Capital²), we expect to see growth in semi-liquid strategies in the region. This may echo the rapid growth in business development companies in 2022 and 2023, but with a delay due to the later launch of the structure in the EU. A similar structure in the UK, the Long-Term Asset Fund, provides a route for defined contribution pension schemes to allocate to private assets.

¹ <https://www.preqin.com/insights/research/reports/future-of-alternatives-2029?chapter=high-hopes-for-private-debt>

² <https://www.preqin.com/insights/research/reports/fundraising-from-uk-pensions-a-guide-to-raising-capital>

