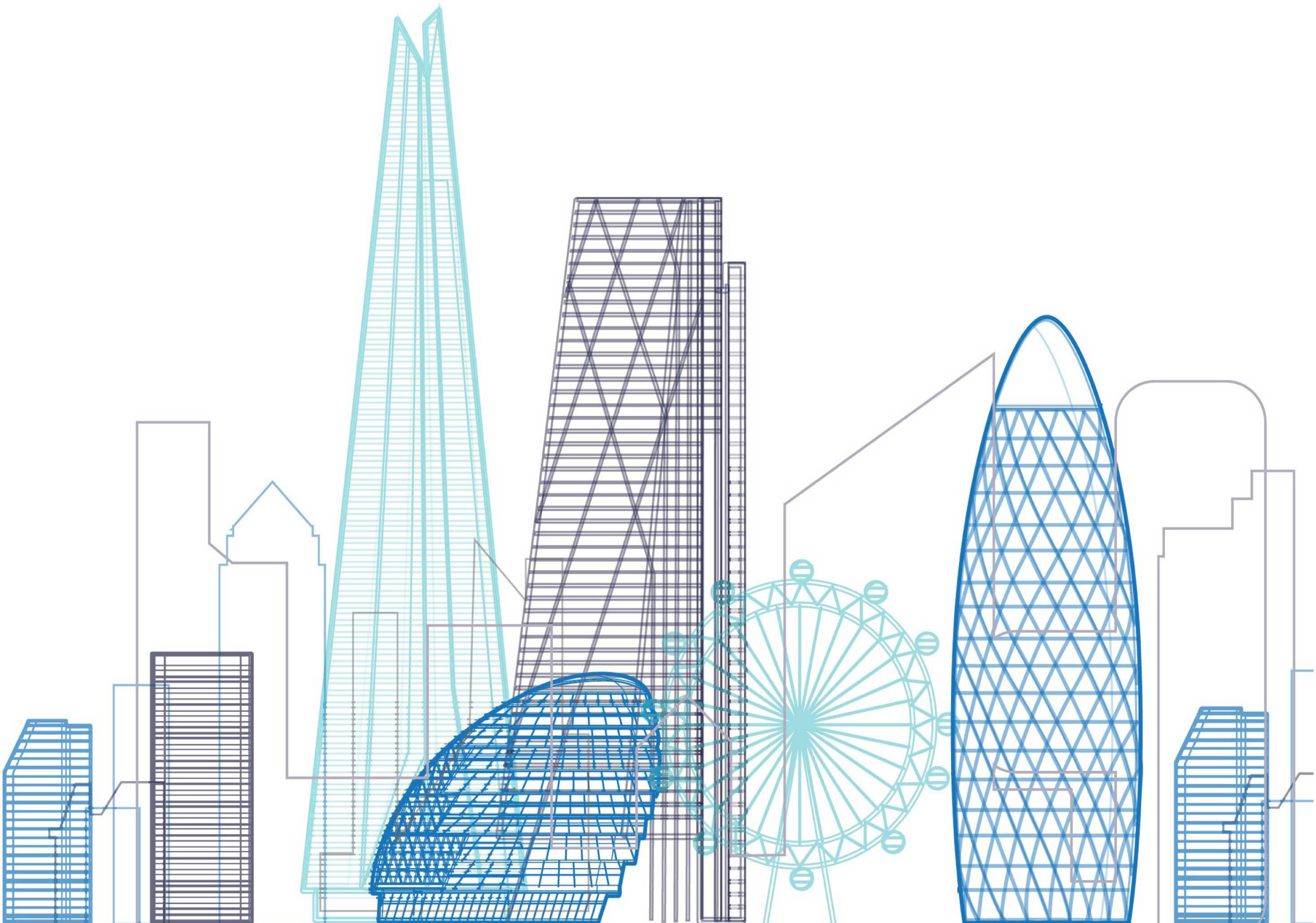
Alternative Credit Council Global Summit 2022



KEY TAKEAWAYS

Private credit is a multi-speed asset class with opportunities for all types of lenders

The growing depth and scale of direct lending markets needs to be considered alongside the breadth and dynamism that exists in the market more generally. Direct lending continues to mature and, despite signs of compression and potential overheating, the secular trends supporting its growth remain intact and will arguably become even stronger should macro-economic risks continue to increase. A cautionary note was sounded by some speakers for more recent fund vintages which may struggle to match their predecessors in developed markets. On a more positive front, APAC was seen as the main region for expansion in the next five to 10 years with broad agreement on this point. Another prediction was the strong opportunities for smaller managers ahead. Many niche strategies will offer investors potential alpha and diversification compared to their existing core allocations to direct lending. Such opportunities will often lack scale either initially or long-term to interest larger players but offer a lot of potential to those in a different weight class.

170+ attendees from 15 countries

"Absolutely not the time to pause…there is still so much white space for private credit to expand into"

Institutional investors know what they want and how they want it

Many institutions are now seasoned investors in private credit and are increasingly sophisticated in how they expect to manage their exposure through their relationships with GPs. One of our speakers summarised this as the 'age of the great customisation' with LPs increasingly seeking bespoke arrangements across reporting, investment structuring, adherence to ESG requirements, as well as fee levels and fee design. While this is causing more pain for GPs it is also a good problem to have. The investment required on behalf of LPs to design and establish these relationships suggests a permanence to their allocation and long-term faith in the asset class.

"We're in the age of the great customisation for investors"

Retail and semi-professional investors are shaping the market in more ways than one

The pivot towards retail and other non-institutional investors as a source of capital is now a central trend in the market. While almost all firms are looking at this market, raising capital from these investors often requires almost an entire rethink of how firms are designing and marketing products, as well as how they manage potential reputational and regulatory risk. Our panel on DC pension schemes brought this home, with these investors seeking innovative approaches to liquidity, fees and ESG from credit fund managers rather than slightly modified versions of their existing products.

100%
of those polled saw liquidity management as the key challenge for DC pensions looking to invest in private credit

"We expect there will be some pricing readjustment to reflect current market risks"

Putting the KPI in ESG

Sustainability-linked loans are clearly the next frontier for the integration of ESG into their investment process by private credit funds. Sustainability loans typically link the terms – whether financial or non-financial – in the loan agreement to KPIs around pre-agreed ESG criteria such as reducing energy usage. Such loans are still relatively rare but this area is one where plenty of innovation is taking place across deal terms and loan agreements. As with all things ESG, there is no right answer yet in terms of what 'good' might look like but there are also incentives for the market to develop greater consistency and standardisation on key loan terms.

42%
women speakers across the programme

Staying on top of market developments

Our afternoon programme introduced a masterclass format to the ACC Summit for the first time. These expert-led breakout sessions provided delegates with technical insight from leading industry practitioners on regulatory initiatives including the new Long-Term Asset Fund (LTAF) and UK Qualifying Asset Holding Company (QAHC). In addition, we were also able to provide delegates with a data-led presentation on the EU private credit market and an expert introduction to the growing private credit secondaries market. The presentation slides for these sessions can be requested by contacting our events team.

< $2bn
estimated average private credit fund size

"Long-term, Asia is fascinating. The growth of PE capital in the region means there is a huge opportunity for lenders who can understand the legal and operational risk"

The ACC would like to thank the speakers who have made the ACC Global Summit possible

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The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US$600bn of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure as well the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.