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# Private Credit industry on track to reach $1trillion by 2020: global borrower and institutional investor bases expand

- Private credit industry on-track to grow to $1 trillion of assets under management by 2020
- 70% of all private credit committed capital now comes from institutional investors
- Managers expect to continue deploying capital, cautiously optimistic amidst a prolonged credit cycle
- Financial Stability Board, chaired by Bank of England Governor Mark Carney, recognises industry with new term 'non-bank financial intermediation'

**According to research published today by the Alternative Credit Council (ACC) – the private credit affiliate of the Alternative Investment Management Association (AIMA) – and global law firm, Dechert, private credit is now a globally established source of mainstream finance for borrowers around the world, with the industry on-track to grow to $1 trillion of assets under management by 2020.**

## Private Credit is a Global Source of Finance

The *'Financing the Economy 2018'* report draws on an industry wide, international survey of nearly 70 private credit managers with a collective $470 billion of private credit assets under management across a broad cross-section of jurisdictions and strategies. The report comes as the Financial Stability Board, Chaired by Bank of England Governor Mark Carney, recognises market-based finance with the new term 'non-bank financial intermediation'.

While half of respondents' capital (51%) is allocated to SMEs or mid-market borrowers - more than ever before - managers are also increasingly lending to a far wider variety of borrowers outside of the mid-market: from smaller businesses and start-ups, to larger corporations, real estate and infrastructure projects. One in five private credit managers surveyed provide financing to companies with Earnings Before Interest, Tax, Depreciation and Amortization (EBITDAs) of over $100 million and over 40% surveyed are lending to companies with EBITDAs of less than $25 million.

## A Growing Institutional Investor Base

The investor base of private credit continues to grow, with over 70% of all private credit committed capital now coming from institutional investors, according to the research. The industry's diversity is offering attractive strategies for smaller or non-institutional investors such as family offices, which account for 5% of committed capital allocated to private credit. 38% of committed capital today comes from North American investors and 31% from Europe (excluding the UK), indicating that the European market is becoming a core region for private credit.

## Managers are Experienced

The majority of the private credit managers surveyed have long-standing experience of the sector, with two thirds of respondents having been operating for over six years and 45% for over 10 years; managers are experienced across multiple fund ages and loans types.

**Private Credit Managers are Working Closely with Borrowers**

Private credit managers continue to provide borrowers with bespoke financing that offers greater flexibility on coupon and covenant terms than traditional bank lending.

The survey data supported this with almost four times as many respondents reporting that arrangement fees are decreasing rather than increasing. Twice as many respondents reported financial covenant protection weakening than strengthening over the past year. The picture on loan coupons is more nuanced, with a third of respondents reporting that coupons have lowered over the last 12 months.

However, while private credit managers may be showing more flexibility around covenants than in previous years, there are still risk baselines they will not cross.

**Industry Growth Expected but Managers Cautious of Possible End to Current Credit Cycle**

Private credit managers expect continued growth across the asset class, with more respondents predicting to increase their allocation, rather than decreasing it, across every sub-sector of the private credit market. Optimism is highest across SME and mid-market lending, where a third of respondents plan on increasing allocations over the coming three years. Respondents anticipate nearly the same amount of growth in the distressed debt market, expecting that interest rates will rise making it harder for some borrowers to meet their existing loan commitments or refinance.

However, managers are also preparing for the possibility of an end to the current credit cycle and tougher economic conditions for borrowers. As such, managers are increasingly lending at positions higher in the capital structure and moving away from cyclical sectors.

**Levels of Available Capital and Leverage are Relatively Low**

Capital continues to be put to work with dry powder – also known as available capital – remaining at approximately one-third of the industry's total assets, which is below the sector's long-term average.

Financing is being used sparingly, with more than half of all managers and investors surveyed preferring unleveraged private credit strategies. Where leverage is used, it tends to be at relatively low levels, although those levels have risen slightly over the last year.

**A Source of Long-Term Capital for Borrowers**

The capital invested in private credit funds is matched to the needs of borrowers in the real economy. Nearly 66% of surveyed managers use closed-ended commitment and drawdown fund structures. This benefits the financial system by ensuring that borrowers know they can put money to use for the whole period pre-agreed with the private credit fund manager. This means borrowers can be more certain of financing in times of market fluctuations, as funds cannot be withdrawn by investors.

**Jiri Krol, Deputy CEO, of the ACC commented:** "It's exciting to see the continued growth and success of our industry both in terms of geography, different strategies and underlying asset classes. We are now being recognised as an important and unique source of finance by the policy makers. That said, most in the industry are thinking about what happens next in the cycle as the era of extremely loose monetary policy slowly comes to an end."

**Stuart Fiertz, Chair of the ACC, commented:** "I'm proud that we've managed to establish Alternative Credit Council as the leading global voice for asset managers active in the private credit markets. This survey is the biggest and most comprehensive to date and will provide greater transparency on our activity to the market, the investors and the regulatory community. Looking forward, our sight is set on further lowering barriers to non-bank lending activities in those jurisdictions where they still exist. We will also continue to focus sharing sound practices and raising awareness about private credit among the investor and borrower communities."

**Gus Black, Co-Chair of the Financial Services Group at Dechert LLP, commented:** "Once again, we are very pleased to support this report, which gives a good sense of the important role private credit now plays in funding the real economy."

**- Ends -**

**Notes to Editors**

**About the Alternative Credit Council**

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 over 100 members that manage $350bn 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.

**About Dechert LLP**

Dechert delivers deep legal expertise and practical commercial judgment for high-stakes matters in sectors with the greatest complexities, intricacies and regulatory demands.

Dechert is organized by practice area, not geography. The firm's 27 offices around the globe are seamlessly integrated.

This approach allows Dechert to deliver a team responsive to unique project requirements and provide the resources needed to complete work with speed-to-market execution. The firm's lawyers understand the current marketplace, as well as rapidly evolving commercial and regulatory challenges, making us a preeminent full-service advisor.

Dechert are a global, mobile workforce of diverse skills and areas of expertise. We use a project management approach to our workflow, enabling us to quickly adapt to changing client needs, maximize technology, drive efficiency and deliver value to our clients.

Dechert's work is widely recognized within the legal industry, including top global-wide rankings for corporate investigations, international arbitration, investment funds and life sciences (Chambers Global, 2017).

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