Press Release

20th February 2018

Investment Consultants Push Private Debt

Majority of surveyed consultants recommend increasing allocations to asset class in 2018

Preqin's year-end surveys of alternative investment consultants* finds that four out of 10 feel private debt has outperformed their expectations in 2017 – the highest proportion of any asset class. As a result, even as fundraising and assets under management reach record highs, the majority (53%) are recommending that investors increase their allocations to private debt in 2018. In fact, 8% of consultants now recommend that private debt investments form more than 15% of investors' portfolios, a proportion that no surveyed consultant advised a year before. These recommendations come despite key issues facing the industry in 2018: three out of four consultants note that central banks raising interest rates in key markets will be a challenge for the market in 2018.

For more information and analysis, see the full *February Private Debt Spotlight* here:
http://docs.preqin.com/newsletters/pd/Preqin-Private-Debt-Spotlight-February-2018.pdf

Key Investment Consultant Outlook Facts:

- **Forty percent of investment consultants report that private debt exceeded their expectations in 2017**, the highest proportion of any asset class. Just 16% felt it had underperformed.
- As a result, **53% of consultants are recommending that investors increase their allocations to private debt in 2018**, compared to 14% that are recommending decreasing them.
- Although 54% of consultants still recommend that private debt form 5% or less of investors' portfolios, **21% are now recommending it constitute more than 10**%, and 8% are suggesting it should be more than 15%.
- **Direct lending funds are most favoured by consultants**, with 81% recommending investing the same or more capital in the strategy in 2018. A significant 29% are recommending investors invest less in mezzanine funds.
- Consultants remain focused on the established markets of Europe and North America, with those regions recommended by 94% and 80% respectively. **No more than a third recommend investing in any other region**.
- Although primary investments remain the key method of entry, recommended by 86% of consultants, **significant proportions now also recommend separate accounts (43%) and direct investments (28%)**.
- **Seventy-four percent of consultants cite interest rates as a key challenge for the industry in 2018**, the largest proportion. Prominent proportions also note that deal flow (68%) and governance (55%) will be issues.

Ryan Flanders, Head of Private Debt Products:

"The rapid expansion of the private debt market in recent years means the industry now has raised more money and holds more assets than at any time before. Despite this, four out of 10 investment consultants report that the industry has exceeded their expectations, and the majority are telling investors to double down on private debt in the year to come. More than that, they are beginning to suggest that private debt holdings should comprise a much larger part of investors' portfolios than they have historically.

This is great news for fund managers – even though the fundraising market is more competitive than ever, it suggests that influxes of capital will remain high through 2018. In the longer term, consultant recommendations to make private debt a fixture of investment portfolios can only improve the long-term prospects of the asset class. However, managers should take note that almost one in three consultants are recommending a drawback from mezzanine investing in 2018, and they can expect little leeway if they do not maintain the strong performance that currently sees them so well regarded."

Results are based on a survey of 36 alternative investment consultants active in private debt conducted by Preqin in November 2017.

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