Private Credit Panel[1]

By Justin Keller and Deborah Low

This panel discussion offered insights into the current trends and dynamics shaping the private credit market, a market that has markedly expanded over the last decade and a half, having grown from roughly $100 billion in 2008 with expectations to exceed $2.5 to $3 trillion by 2028. Private credit is an asset class defined by non-bank lending. Drawing upon historical perspectives, the panelists addressed changes in deal structures, the role of private equity sponsors, the increasing complexity of transactions, and the growing influence of retail investors, among other topics.

- **Growth in the Private Credit Market**. Beginning with historical perspectives, the panelists discussed the evolution of the private credit market over the last ten to fifteen years. Private credit has gained 10 to 15% of the leveraged loan market over the last half decade, today comprising about one quarter of the $4 to $5 trillion dollar market. There is increased lending capacity of direct lenders today, and there has been a development of financing structures beyond the traditional first lien/second lien or senior-secured/mezzanine structures that historically have dominated the space. The panelists also noted the likelihood of continued expansion in product offerings as private credit funds seek to offer greater flexibility to investors with differing strategies and needs.

- **Evolution of the Investor Base**. Evolution in the private credit investor base is a salient theme. A number of panelists noted the growth of retail investors in the private credit space, which has traditionally been dominated by institutional investors, as retail investors seek alternatives to traditional equity and fixed income investments. They emphasized the high-touch nature of retail fundraising efforts compared to institutional fundraising, highlighting the need for comprehensive education and engagement strategies. There was also a recognition of the importance of innovation and diversification in fundraising efforts. Finally, there has been an expanding effort to reach investors in Europe, Asia, and the Middle East, indicating a global trend towards embracing private credit as an investment option.

- **Role of Private Equity**. The importance of private equity sponsors within the private credit market was another significant theme of discussion. Private equity sponsorship impacts deal flow, credit risk assessment, and overall market dynamics. Private equity sponsors play a significant role in the private credit market as both borrowers and investors. As a result, the panelists noted the importance of strong relationships with private equity sponsors, who are integral to sourcing deals and tend to control the composition of lender groups in the private credit market. Additionally, private equity sponsors bring

[1] Panelists included (1) Fazillah Durante | Managing Director, U.S. Financial Sponsors & Fund Finance | Scotiabank; (2) Laurie Lawler | Managing Director, Head of Capital Call Financing, Deputy Head of FI Origination | Société Générale; (3) Monica Kelsey | Chief Financial Officer | Antares Capital; (4) Kelli Marti | Senior Managing Director, Head of CLO Management | Churchill Asset Management; (5) Meenal Mehta | Managing Director | Blue Owl; and (6) Karina Stahl | Managing Director, Chief Financial Officer – Investment Funds | Monroe Capital.

valuable industry expertise and operational support to portfolio companies, which can enhance the creditworthiness of the underlying assets. This deep industry knowledge enables private credit lenders to assess risks more effectively and structure financing solutions that align with the sponsor's strategic objectives.

- **Competition Between Traditional Bank and Non-Bank Lenders**. The panelists acknowledged that traditional bank lenders have re-entered the leveraged loan market, leading to headlines about the resurgence of banks in the space and the effects of the resulting competition. However, they emphasized that this shift is more cyclical than structural, with direct lending being an established part of the leverage loan universe and the return of traditional bank lenders being an indicator of robust and healthy capital markets. The panelists highlighted that sponsors have options between the syndicated loan market and direct lending, with pros and cons to each approach. The panelists also downplayed the effect of competition between direct lenders and traditional bank lenders on loan documentation, arguing that this competition has not eroded the quality of financial covenants. On the contrary, the panelists argued that private credit loan documentation always includes at least one financial covenant, is tighter than in the bank syndicated loan market, and includes protections against collateral leakage that do not exist in the bank syndicated loan market.

- **Financing Solutions for Private Credit**. There are a number of considerations and challenges with respect to obtaining financing throughout the lifecycle of private credit funds, highlighting the importance of optimizing leverage at different stages of the fund's development to maximize returns while managing risk effectively. During the initial ramp-up phase, the panelists noted the use of warehousing facilities to provide seed capital for investments. As a fund matures and assets accumulate, the panelists emphasized the need for flexible financing solutions that can adapt to changing asset mixes and investor preferences. This may include leveraging subscription lines of credit heavily in the early stages to build a critical pool of assets. There is also importance in diversifying financing sources and structuring options to match the evolving needs of the fund. This involves considering various options such as SPV financing or corporate-level revolvers based on factors like asset mix, fund size, and investor preferences. Furthermore, the panelists highlighted the importance of building strong relationships with lending partners who can provide tailored financing solutions and adapt to the fund's changing requirements over time. This involves proactive communication and collaboration to ensure alignment between the fund's investment strategy and its financing structure.

The landscape of the private credit market continues to grow and evolve – with expectations of operations in the trillions within the next five years. Such growth will bring new and different opportunities in the fund finance space. Not surprisingly, strong relationships and ongoing discussions will be common features of the continued success of the private credit market.