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MEDIA RELEASE

Australian private debt market to grow as investors seek lower volatility

Private credit investment is gaining in popularity in Australia with returns sitting above 10 per cent for senior secured debt. Tanarra Credit Partners expects robust growth in this asset class over the remainder of 2024 with potentially greater merger and acquisitions activity (M&A) pushing businesses to seek private credit funding while investors seek lower volatility.

Assets under management for the global private debt market sit at almost $2 trillion and this number is set to grow as banks continue to pull back from financing. Investors too are realising the benefits of this fixed-income asset class given less volatility compared to publicly traded corporate bonds, according to Tanarra managing partner, Peter Szekely.

"Private credit such as senior secured debt offers investors gross yields above 10 per cent and this represents an attractive opportunity for investors to benefit from regular income, irrespective of the prevailing economic conditions.

"Compared to share markets, which are fully valued and at risk of falling, private credit provides investors with attractive all-cash returns and low volatility, in a more senior part of the capital structure, so they are arguably an important addition for investors' portfolios," Mr Szekely said.

"The additional appeal to investors is that direct lending to companies potentially provides investors with higher returns and greater influence over loan structure, terms and conditions compared to lending into large syndicated deals or publicly traded bonds," he said.

The private credit sector has been on a strong growth trajectory worldwide, as traditional lenders tighten lending to companies. Globally, total assets in private credit have nearly doubled since 2020 to US$1.6 trillion in 2023 and the asset class is projected to increase to US$2.3 trillion by 2027.

"In Australia, private credit has gained popularity among institutional investors. Superannuation giant AustralianSuper, for example, has invested more than $4.5 billion in private credit globally and it expects to triple the exposure to private credit in the coming years.

"In addition, we expect greater M&A activity this year, which could add to demand for private credit. Generally, private credit follows M&A activity, as buyers such as private equity groups often use private credit to finance deals. M&A activity fell in 2023 with higher inflation and rates, but corporate M&A activity has picked up in the last six months. The private equity community is looking at a lot more transactions and we expect that dry powder to create greater demand for private credit," Mr Szekely said.

"Lower volatility will be increasingly sought by investors given rising geopolitical uncertainties in the Middle East and what is a huge election year for many economies, including the US. We are still seeing inflationary pressure and historically high asset valuations when compared to more traditional investment products, so private credit offers investors the potential for downside protection, as well as attractive returns in this higher inflation environment."

Tanarra Credit Partners formed a partnership late last year with GSFM to provide retail investors in Australia with access to Australian private debt assets. These assets typically offer investors a complementary exposure alongside traditional fixed income products, with a higher yielding, floating rate cash return profile.

"With so much uncertainty, it remains a challenging environment for investor allocations. While cash rates at around 4 per cent arguably offer a reasonable return, it is less attractive in real terms considering inflation in many nations is around that level. In this environment, private credit offers investors diversification into an attractive, defensive asset class with features and characteristics that mitigate several investor concerns.

"However, it is important to invest with an experienced fund manager to maximise the benefits offered by the asset class. A manager with a strong focus on deal selection will be key to success in 2024 and beyond as higher interest rates challenge some sectors of the economy," Mr Szekely said.

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About GSFM

GSFM was established in 2007 as a subsidiary of the Grant Samuel Group. In 2016 Canadian wealth manager CI Financial Corp (CI) purchased an 80 per cent stake in the business, previously held by Grant Samuel.

GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors, and has formed partnerships with eight specialist investment managers:

- New York based Epoch Investment Partners, Inc.
- Tribeca Investment Partners, a successful Australian boutique manager headquartered in Sydney
- Payden & Rygel, a Los Angeles based independent investment management firm
- Munro Partners, an independent global equity manager based in Melbourne
- London-based Man Group plc
- Tanarra Credit Partners, a specialist in private credit instruments
- Access Capital Partners, European independent private asset manager
- Australian Entertainment Partners, to produce the AEP Screen Fund, an investment vehicle dedicated to supporting Australian film and television endeavours.

GSFM represents approximately $9.56 billion funds under management (as at 31 March 2024).

www.gsfm.com.au

About Tanarra Capital Partners

Tanarra Credit Partners is a private credit specialist with a demonstrated ability to originate a diverse pool of unique, high quality investments across its broad professional network. The TCP Private Debt Income Fund is distributed by GSFM in the Australian market. It aims to provide investors with attractive risk-adjusted returns with a focus on capital preservation. TCP seeks to deliver a differentiated asset class exposure compared to other offerings in the private credit market.