

E X P E R T Q & A

Private credit's third act: Scale, flexibility and consolidation



Institutional investors are allocating more to alternative credit because of the excess returns and diversification, but they want deeper relationships with fewer managers, say Benefit Street Partners' David Manlowe, Allison Davi and Daire Wheeler

Q How would you describe the evolution of alternative credit in recent years?

David Manlowe: For nearly two decades, we have had a ringside seat on the developments and innovation driving the asset class forward.

There are two sides to the story of alternative credit: the managers who are originating assets by dealing with a variety of borrowers and the investors or allocators who are selecting managers based on various factors. The evolution of both has taken place across three phases.

First, post-global financial crisis, the market was defined by bank retrenchment, low rates and a gigantic funding gap for sub-investment grade companies

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– many good companies. Managers like BSP stepped in to provide billions in direct lending as an alternative to the syndicated market.

On the investor side, early capital largely came from private equity investors who recognised an opportunity to provide capital to alternative credit, where managers were creating phenomenal excess returns.

Phase two kicked in and was accelerated by covid, when you had a shutdown in the liquid credit markets. Once again, private credit managers stepped in to address the funding shortage. At that

point, many saw an ongoing, larger opportunity as more experienced firms like us – that had previously been doing direct lending to corporations – expanded into newer categories like asset-backed finance, infrastructure debt and commercial real estate.

For investors, the return experience seen in phase one was so compelling that institutions created new allocation buckets for private credit, which went from an opportunistic allocation to a standalone asset class.

What is happening today is phase three. On the investor side, our recent survey of global LPs shows that more than 75 percent now have an allocation of 5 percent or more to alternative credit and most plan to increase that over

the next 12 months. So, institutional demand is still growing, driven by the returns profile, but savvy investors want more flexibility and diversification. There is also a marked democratisation of the asset class happening with the wealth channel coming into play.

On the asset origination side, we are seeing borrowers being increasingly comfortable using syndicated debt or private debt – in a fluid fashion. There is a convergence of public and private credit underway so managers must analyse opportunities in this space or risk missing opportunities to generate true alpha for investors. We are positioning ourselves to offer the strongest possible alpha-generating engine to investors, in partnership with our owner Franklin Templeton.

Q How are institutional investors thinking about

diversification within alternative credit, and how do you see that driving market innovation?

DM: Investors are more familiar with this asset class now and understand that alternative credit is a broad term: direct lending, asset-backed financing, infrastructure debt, real estate debt, and so on. They are thinking about accessing maximum risk-adjusted returns by diversifying across different verticals within private credit, as well as geographies, which was not possible a decade ago. But they want to do this with fewer managers.

So, for a firm like BSP, we are all about finding new opportunities for excess spread and return and delivering that to our investor base. If you want to be in a dialogue with LPs today, you must have capabilities across all the geographies and all sub-asset classes that they want to allocate to. You need to be

in the sweet spot, and not all managers are.

With the rebranding we revealed in January, uniting Benefit Street Partners and Alcentra under a single BSP banner, we are showing the market we have all those capabilities globally. We are scaled at nearly \$100 billion in AUM and diversified across strategies and locations. We have built a specialised investment platform focused on excess returns and one that can be a partner to the large allocators wanting fewer but deeper relationships in this mainstay asset class.

Q How are institutions approaching decisions around fund structures and implementation, and is there still a need to build understanding?

Allison Davi: If you think of private credit as born out of private equity, then the fund structures and the documents

Q How do you see allocator demand evolving over different credit segments and regions?

Allison Davi: Direct lending and mezzanine lending have moved out of their historic private equity buckets and into their own credit allocations with their own sets of benchmarks. That has transformed private credit from a yield diversifier into an asset class in its own right – and now direct lending is understood as just one sub-set of private credit.

Today, we certainly see investors being much more sophisticated about what private credit means. They understand it includes dozens of distinct sub-asset classes and, as well as allocating to direct lending, they are starting

to explore and add those adjacencies to their portfolios.

For BSP, that dynamic is driving our move into anything that is non-core direct lending, whether via our acquisition of Apera – a leader in lower mid-market European direct lending, where we particularly like the returns profile – or in areas such as non-sponsored, infrastructure debt, commercial real estate and asset-backed lending.

We anticipate real growth in those diversifiers and adjacent strategies. More than 90 percent of LPs are either maintaining or increasing private credit allocations this year and many of them are doing that via macro diversifiers too. For example, US and APAC investors are starting to pay more attention to Europe and geographically rebalance their portfolios.



that you saw at the start were all equally just adapted from private equity structures and documents.

Today, that has completely changed. A lot of the fund types we saw in the market historically still exist, namely traditional drawdown structures with harvest mechanisms, but the desire for more flexible, open-end vehicles is now the greatest it has ever been. That is coming both from institutional investors seeking evergreen funds and the wealth channel seeking interval funds and business development companies, which we offer.

For institutions, evergreen funds are efficient, allowing them to continue to put additional capital into managers they like without having to constantly re-underwrite. That has driven a big shift. For retail and wealth, the market has perfected fund structures that are optimal from a tax, filing and regulatory perspective. So, we have seen a lot of growth there recently.

Now that people understand those fund structures, investors are expressing their preference and the onus is on managers to offer the options that their investors are looking for. Choice has ballooned. Where we used to have one fund with an onshore and offshore structure, we now offer a Luxembourg domiciled structure, insurance rated note feeders, evergreen vehicles, interval funds and separately managed accounts.

An important point is that this is about giving investors what suits them best in this environment. The ability of a sophisticated manager to provide all the different flavours of alternative credit, through all the different structures investors are looking for, is going to be a key differentiator going forward.

Q How are investors using different parts of the credit spectrum today?

Daire Wheeler: Investors today, who are more familiar with the full credit landscape, want the ability to move with relative ease between a variety of funds, products and strategies in search of good income, good downside protection, attractive alpha and a range of liquidity options. We offer exactly that. Our recent survey of 135 institutional investors shows that they are increasingly

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exploring everything from infrastructure debt to collateralised loan obligations (CLOs).

CLOs are a growing asset class and a derivative of a number of those different markets that started in the broadly syndicated lending space. We now see CLOs moving into the direct lending space and gaining momentum. For investors, those offer a compelling opportunity, whether it is highly secure AAA-rated loans or mezzanine debt with the potential for attractive risk-adjusted returns. And in that converging public-private space, with the wealth channel quickly moving into alternative credit, there are CLO ETFs being created.

What we have really observed is a shift from managers offering single products to instead working as partners with investors, offering a range of solutions that are designed to meet their bespoke requirements.

Q How are you responding to this demand for broader credit exposure, and where are you expanding the opportunity set?

DW: The fundamentals for private credit markets remain solid, which is why the vast majority of institutional investors plan to either maintain or grow their allocations to the asset class in 2026.

We are proactively responding to that demand by continuing to fine-tune our alpha-generating engine. Moving under a single, global brand – and knowing that investors want fewer but deeper relationships in a maturing but complex market – was part of that effort. We want to offer more clarity, better service and seamless execution.

There are a lot of managers out there just seeking to get bigger, which is not necessarily in the best interest of investors. We are trying to keep our focus on the segments of the market that we are in and stay very strong, while adding attractive adjacent strategies, remaining at a size where we are nimble enough to out-innovate larger competitors but big enough to be a deep partner. That's the sweet spot for alignment of interest. ■

David Manlowe is chief executive officer, Allison Davi is co-COO and head of business development and Daire Wheeler is co-head of Europe and head of European liquid credit at Benefit Street Partners – a Franklin Templeton company