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MEDIA RELEASE

Private credit opportunities rapidly growing in Asia

Asian private credit markets are nascent in their development and will almost certainly follow the growth path experienced in the US and Europe, affording good opportunities for those investors who get in early, according to managing partner at Tanarra Credit Partners, Peter Szekely.

The Asian private credit market remains a small segment comprising of only seven percent of the total global private credit market. However, it is rapidly growing, with private credit assets under management (AUM) in Asia doubling to US\$95 billion since 2018.

“Fundraising in Asia has increased significantly, and several global private credit managers have announced plans to expand in Asia in recent months.”

Mr Szekely says this increasing focus on Asia is a result of the strong economic growth and favourable demographics that are driving demand for capital in the region.

“Today, Asia is the fastest growing economic region in the world contributing to over two-thirds of total global growth.

“This strong growth outlook is also supported by favourable demographics, as there are large, young growing populations who are increasingly skilled.

“There is a corresponding need for significant capital in order to continue to finance the businesses that are driving this growth.”

Another factor driving this growth is the regulatory changes, increasing the burden on Asian banks, and driving the search for alternative financing sources,” Mr Szekely says.

“Banks in Asia are facing higher compliance requirements and increased funding costs in order to adhere to Basel III/IV requirements, making it difficult for many businesses to access bank loans.

“Private credit lenders are stepping in to fill this gap, providing capital to businesses that are struggling to access traditional sources of financing, including small and mid-sized companies.”

Mr Szekely says that the lending space for small and mid-sized companies has been particularly hard hit by its over-reliance on the bank market. While this segment comprises of more than 96 per cent of all Asian businesses, banks have generally turned their focus away from them, providing yet another opportunity for private credit lenders.

“Banks in Asia are looking to take advantage of the use of scarce regulatory capital and extract efficiencies and we are seeing more banks pivot towards larger relationships.

"For private credit lenders this creates opportunities. They are able to provide the much-needed capital for Asian small and mid-sized companies to continue their strategic objectives and growth."

Mr Szekely says that an allocation to Asian private credit in an investment portfolio offers several benefits.

"The Asian private credit market is under-penetrated making it an attractive investment. It also offers investors a stable regular cash income with lower volatility compared with traditional fixed income products. In addition, the floating rate structure provides a hedge against inflation and high interest rates.

"Asian private credit markets have attractive risk-adjusted returns with strong downside protection features including senior debt ranking, security and covenants.

"The geographic diversification and exposure to dynamic growth and demographic tailwinds in Asia is another factor making Asian attractive to investors.

"For Tanarra Credit Partners the Asian market stands out as a key focus region as private credit's centre of gravity shifts to this area," says Mr Szekely.

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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, acquiring the stake previously held by Grant Samuel.

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- 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
- Australian Entertainment Partners, to produce the AEP Screen Fund, an investment vehicle dedicated to supporting Australian film and television endeavours.

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