ADVISORY | INDUSTRY INFORMATION

OPAL Group Private Credit Summit 2024

Members of our private credit group have identified their key takeaways from the sessions they attended at OPAL Group's Private Credit Summit 2024. To find out more about our services, please click here.

Session: Private Credit Fundamentals and the Direction of Travel for Credit Markets

It was interesting to hear panellists exchange views on the impact of higher interest rates on borrowers, particularly in terms of how bigger companies were able to push through bigger EBITDA increases to service their debts. Have we seen the worst of the impact of higher rates? Time will tell. Panellists spoke about increased private credit deal activity in H1 of 2024 driven, in part, by the fact that private credit lenders are getting comfortable on rates, inflation and other macro-economic factors. Panellists also shared their thoughts on the potential impact of decreasing rates on private credit lenders and how private credit lenders will adapt to the new market dynamics, including by adding value in other ways. It was interesting to hear how continued bank retrenchment and the trend towards disintermediation may lead to real market share gains and opportunities for private credit lenders in Europe.

Paddy Rath

Partner

Session: Public Credit versus Private Credit Strategies: The landscape, differentiating features and intersection

The main differentiating feature discussed by the panellists was retaining lender protections / control, particularly on the downside. It was noted that direct lenders focus on this whilst also having the flexibility to go back to the borrower and support if issues arise. The panel touched on the European vs U.S. market. Well-underwritten European deals are higher priced and often more complex given multiple jurisdictions (i.e. different work out regimes and regulatory landscapes.) Major bank and private credit partnerships were discussed by the panel. These partnerships are not new and, more recently, regulation has meant that some banks have more limited allocation. There are also opportunities for private credit to support banks where banks might keep the relationship with a borrower whilst obtaining capital from the private credit market – a "balance sheet extension solution".

Julia Keppe

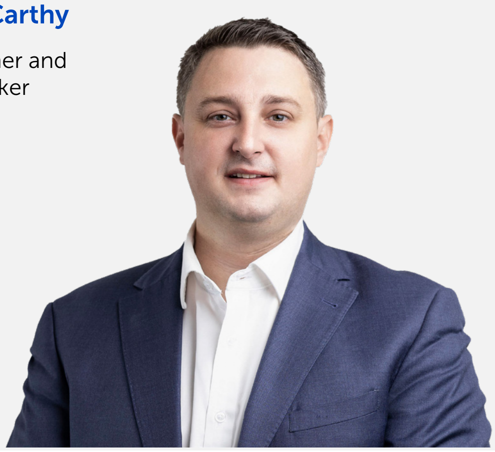
Partner

Session: Legal & Regulatory Updates that pertain to Private Credit

AIFMD II introduces a set of harmonised pan European rules for EU loan origination funds with an EU AIFM. Graham Roche and I shared our thoughts on why managers should now be considering the impact these new rules can have on their products and the five-year transitional provisions available. Sam Terry shared his thoughts on why private credit managers should consider if their funds will fall into scope for the reporting requirements of Article 7 of the Securitisation Regulation. It was interesting to hear that there is strong interest in the reformed European Long-Term Investment Fund 2.0 (ELTIF 2.0) which can invest in both illiquid and liquid ELTIF eligible asset classes and be marketed to both retail and/or professional investors. Graham Roche and I shared our insights on why Ireland will be a key hub for professional/qualifying investor ELTIFs using the 24-hour authorisation process. It was interesting to hear how the new Solvency II Rules are expected to be positive for the ELTIF 2.0 products due to the related reduction in the capital weighting for insurance company investments in in ELTIF's and the elimination of look-through reporting requirements.

Aongus McCarthy

Partner and Speaker



Session: The Evolution of Ratings across Private Credit/Capital

It was interesting to hear about some of the drivers behind the advent of rated feeder structures in the private credit space (i.e. desire among institutional money (including insurers) to invest through structures that can result in optimal regulatory capital treatment, internal requirements for ratings amongst certain classes of institutional investors and the growing demand from some LPs for more transparency and ratings). It was also interesting to hear how rated feeders can function as a conduit for institutional investors to private markets. Although the rating technology for these structures is still nascent, the expectation is that the demand for rated feeders will continue to grow as the private credit markets continue to expand.

Paddy Rath

Partner

Session: Women in Private Credit

The market is not all doom and gloom! The panel discussed how with time and patience we will start to see more senior women in positions across the industry. For larger firms with formalised programmes this is easier and more likely due to increased resources and diversity becoming a regular talking point when it comes to RFPs. Some advice to women coming through the ranks included perfecting your basic skills and acquiring a broad foundation in credit, e.g. analytics, structuring, cash flow modelling and then apply your skills across private credit more broadly.

Julia Keppe

Partner

Session: Exploring Alternative Private Credit Strategies

There is a vast universe of underlying private credit strategies, including NAV lending, SRT, asset finance, credit card receivables, auto-loans receivables, CRE, RMBS, working capital loans. To give an idea of the distribution across public and private markets, CRE is roughly 70% banks and 30% private credit and consumer debt is roughly 80% banks and 20% private credit. It was interesting to hear about why "credit ratings" are used in the context of private credit, including lender constraints (namely balance sheet limitations, uncorrelated private capital growth and regulatory/structural considerations), investment capacity liquidity and efficiency. Between 2005 and 2023 the primary market grew by x15 reaching $1.6trn, per Preqin and is expected to double again in the next five years. The secondary market grew from next to nothing to in excess of $10bn, according to market participants, and it is thought that this is just the beginning.

Catherine Overton

Partner

Roundtable: Private Credit Funds Roundtable, a discussion with GP leaders

The panellists were asked to give their views on current trends in the private credit market that they see continuing into 2025. The panellists expect that the middle market will continue to be the predominant target market for most private credit lenders but also noted that new entrants into the market are exploring opportunities at the lower end of the market where borrowers' liquidity needs are not being met. Panellists were also of the view that the larger private credit lenders would "dabble" in the higher end of the market opportunistically, rather than target it specifically. The panel expect that we will see further collaborations between private client lenders and traditional lenders on direct lending opportunities, with private credit lenders leveraging traditional lenders' client network and traditional lenders "renting" private credit lenders' balance sheets. However, the panellists noted that the balance of power in these collaborative relationships is starting to lean towards the private credit lenders.

Alex Wickens

Partner

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