Dear Readers,

I am very pleased to present to you our newsletter with a focus on private debt. It comes as no surprise that this asset class is growing in popularity among institutional investors. This is due not only to the persistent low interest rate environment and corporate and government bonds that are still rather unattractive from a yield perspective, but of course also to the fact that banks do not adequately serve medium-sized financing at the lower end of the investment grade or below, and have therefore increasingly been selling market shares to debt funds since the beginnning of the Covid 19 crisis.[1]

The attractiveness of private debt also results from the versatility of the asset class. Although corporate private debt accounts for the largest share, lending for infrastructure and real estate is also growing steadily. Additionally, there is a growing demand for co-investments in addition to primaries and secondaries, either as co-investment funds or as sidecars, i.e. as a vehicle parallel to a primary fund or as a direct co-investment. Investors focus on debt co-investments as they are a way to invest substantial sums quickly in times of high dry powder and direct debt co-investments (compared to equity co-investments) sometimes mean less complexity and time spent on due diligence.

Another reason for the growing demand for corporate private debt is the corona pandemic, which offers particularly attractive opportunities for investors. This was demonstrated by returns from funds launched immediately after the global financial crisis (even if this crisis differs characteristically from the financial crisis). On the one hand, there is a short-term need for credit to close temporary liquidity gaps; on the other hand, longer-term maturities will be in greater demand again as the M&A market picks up.

The number of private debt funds is currently at an all-time high with almost 500 funds, with capital being sought not only for direct lending, but also for distressed debt, special situations, as well as venture debt. Due to the faster cash return, loans for special situations often seem more attractive than distressed debt. Accordingly, Special Situations Debt reported the highest fundraising in Q2 2020 (compared to other private debt strategies) at around USD 12 bn.[2]

It may be assumed that, as a precautionary measure, investors prefer to mandate large, long-established providers for the distressed debt and special situations strategies, as they generally expect to find the necessary special know-how there (although this does not rule out the possibility that there are also extremely competent, younger managers in this segment).

Annette Olschinka-Rettig, BAI e.V.

Assets under management for direct lending have grown steadily in recent years, a trend that has become more restrained due to the pandemic, but which is continuing overall. It is likely, however, that investors will become more cautious in the current uncertainty and pay more attention to debt ratios, EBITDA definitions, coverage ratios, covenants, and the structure of collateralisation. Simultaneously, they have higher return expectations than before the crisis.

In addition to the articles in this issue that are well worth reading, we would also like to draw your attention to recent publications by BAI on the corporate private debt asset class, including a compact fact sheet, the private debt information brochure, which deals extensively with the types and empirical aspects of private debt, and the Due Diligence Questionnaire Private Debt Single Fund Manager.

Apart from private debt, there are of course plenty of other current alternative investment topics:

One milestone is the recently presented draft bill for the introduction of electronic securities, a key element of the German government's block chain strategy. It creates a legal basis for the transformation of a paper-based world into a digital one, which not only reduces the costs for trading and custody of securities (initially bonds), but also accelerates processes. In the case of electronic securities, the obligation to produce securities certificates will be dropped and replaced by an entry in a register (presumably Clearstream). A distinction is to be made between these and crypto-securities (security tokens), where registration is decentralised.

Short-selling is a further topic: not only the increasing shortselling restrictions, which have varied from country to country since the beginning of the corona pandemic, but also the developments surrounding Wirecard are reason enough to take a closer look. The BAI information brochure on short selling published in August 2020 and further articles on this topic deal with this issue in detail and can be found on the BAI homepage.

Surveys

BAI has been conducting the BAI Investor Survey annually since 2013. We will once again be contacting numerous investors in September and asking them to participate in this survey. We are curious to see which current trends and opinions can be derived from this anonymous survey, especially against the background of this very particular corona situation. Thanks in advance to all participants who will support us in this project!

We are also continuing to pursue the topic of co-investments in all their forms and across all asset classes, and are planning on publishing a paper on this topic later this year, which will also include a survey of asset managers on this subject.

I would like to take this opportunity to draw our members' attention to another survey that aims to close a research gap on the investment interests of asset managers in Switzerland, Austria, Germany and Liechtenstein in digital assets (including crypto valuations). The research is conducted by Prof. Dr. Martin Angerer from the University of Liechtenstein, Prof. Dr. Fabian Schär from the University of Basel and Prof. Dr. Philipp Sandner from the Frankfurt School of Finance & Management. Members of BAI are asked to participate in this survey in order to obtain the broadest possible picture of public opinion. The completion of the survey should not take more than 15 minutes. As a thankyou, BAI members will be provided exclusively with detailed analyses even before the official publication. You can find the link to the survey here:

Link

Science

One of the goals of the BAI is to promote the topic of alternative investments in academia, which we are currently implementing through the annual awarding of the Science Prize for Bachelor's, Master's, Doctoral, and other scientific papers. In addition, we are also grateful to receive suggestions from members, students, and research departments for scientific papers on alternative investments. We will be happy to assist you in finding suitable partners so that these publications can be realised.

Webinars

Finally, a word about our BAI webinars: It is important to us as an association to offer a comprehensive range of alternative investment topics, especially in this very special year 2020. It is all the more gratifying that this has also been so successful virtually. In the run-up to the summer break alone, we recorded over 3,600 participants in our webinars this year. This record participation is due on the one hand to our participating members, with whose support we are continually able to present current and highly interesting topics, and on the other hand of course to the numerous and often loyal participants. I am already looking forward to welcoming you at further, diverse webinars and virtual workshops in the coming months, although we certainly hope to see you again in person soon.

General Assembly

At this point, we would like to remind you of the BAI general assembly planned for October 26, 2020. This will most likely take place virtually. Our members will be informed about further progress in due time.

About this issue

BAI is delighted to report a very positive response to the topic of private debt. Accordingly, we are able to offer you numerous current contributions on this topic from a variety of different perspectives:

- Credit marketplaces: Access to credit as an attractive asset class, by Daniel Zakowski and Jonas Thiel, auxmoney GmbH
- Credit funds weathering the Corona-Storm, by Manuel Köppel, BF.capital GmbH
- Middle Market Direct Lending - Advantages of implementing 'sponsored' and 'non-sponsored' transactions, by Stefan Bauer, Franklin Templeton
- Navigating Private Debt: A Deep Dive into Historical Risk and Returns, by Dr. Daniel Schmidt and SimonTang,CEPRES
- Proactive crisis and risk management - the key to success in private debt funds, by Abhik Das, Golding Capital Partners

- Private credit managers with a dose of "healthy paranoia" and crisis experience will hold their own in the post-COVID downturn, by Nicole Downer, Freya Field, MV Credit Partners LLP, and Lukas Neubauer, Natixis Investment Managers
- Private Credit: Seizing opportunities in the medium-sized segment and mastering current challenges, by Romina Smith, Nuveen
- Is Private Debt the new Hedge Fund? by Marc Schwarz, SS&C Advent
- Private Debt: An asset class not just for booming markets, by Dr. Sofia Harrschar, Universal-Investment

We also recommend the interview on "Project Finance in Eurasia - Infrastructure (Debt) Projects along the New Silk Road" with Prof. Dr. Detlev Hummel, Professor of Business Administration with a focus on financing and banking at the University of Potsdam. The interview was conducted by Philipp Bunnenberg, BAI e.V.

We are also excited to feature the article "Offsetting negative values in VAG reporting for alternative investments" by Jegor Tokarevich and Lukas König (SOF).

I hope all readers enjoy this extremely worthwhile summer read.

Annette Olschinka-Rettig

[1] Preqin Quarterly Update Private Debt Q2 2020
[2] Finance-Magazin online, Diese Debt Fonds machen derzeit die meisten Deals, 14.8.2020