Still on the road for growth in 2025?
Outlook for private debt

Private debt has become an essential component in the portfolios of institutional investors for quite some time now and its attractiveness keeps increasing.

Over the past decade, private markets have shown remarkable growth. From 2019 to 2023, the private debt asset class grew by 70% and the market is expected to continue expanding. According to a report by Preqin on the future of alternative investments, the AuM in private debt is projected to reach an all-time high of US$2.64 trillion by 2029[1]. This is a good reason to take a closer look at this asset class and the forecast for the coming year.

The Private Debt Decade - Outlook

In the last decade, private debt has been one of the fastest-growing segments in private markets, a trend that has continued through 2024 and is expected to persist in 2025. In particular, the secondary market is expanding, and we anticipate increasing opportunities for co-investments. There will be more competition for these types of investments as they can contribute to diversification and acceleration of capital deployment. Investors who can rely on strong relationships with relevant market players are best positioned to access these opportunities and secure attractive deals.

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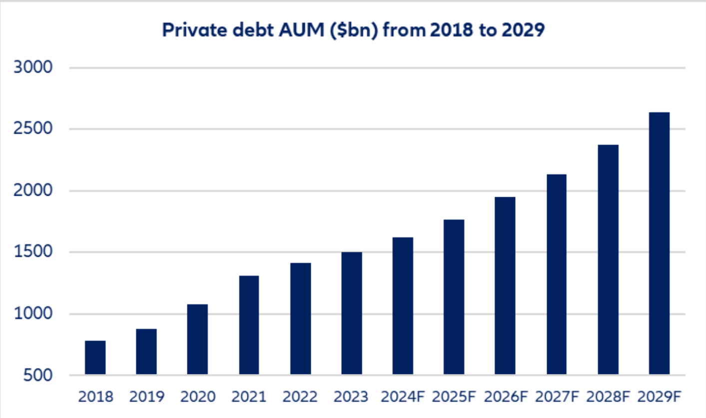
Transforming Infrastructure



Source: Preqin, Future of Alternatives 2029.

The economic outlook remains uncertain at the moment, particularly in Europe. With the market environment becoming challenging for certain sectors and potentially more companies facing increased pressures, risk management and work-out capabilities will become even more decisive and likely be put to the test. For investors that can look back on proven processes and a broad set of investment capabilities and data, it will be easier to navigate tougher markets and structure transactions in line with the targeted risk-return-profiles. Diversification remains a key risk-mitigation tool. A strategy that pursues a global investment strategy across different managers, vintages, sectors and regions across primary, secondary and co-investments further contributes to building a broadly diversified portfolio. To meet and further develop standards for sustainable investments in line with ambitious ESG criteria, experienced large-scale investors will play a leading role in shaping the market.

Private debt is benefiting from new market segments

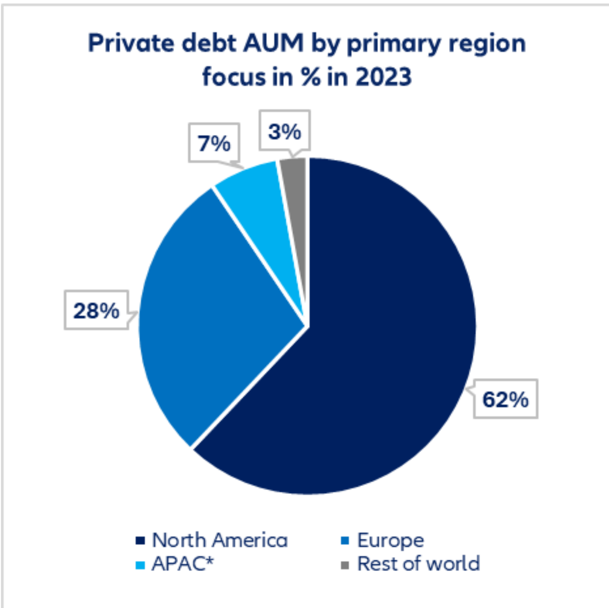
As shown in the graphic to the right, the largest private debt market is in North America, followed by Europe. Asia is still a very young but growing market, and we expect Asia to play a larger role in private debt portfolios in the future. North America not only has an established primary market for private debt financing but also a well-developed secondary market. In recent years, Europe has caught up with North America. A similar growth trajectory is expected in Asia in the coming years.

Beyond regional expansion, the private debt asset class is continuing to develop and is also benefiting from emerging investment themes, such as the energy transition and the markets in Asia. The investment demand for projects that help drive the energy transition and the decarbonisation path remains high. The range of potential projects is not limited to renewables energy but also encompasses the decarbonisation of transportation, decarbonisation of end use sectors, as well as circular economy initiatives. These translate into projects such as green molecules, smart metering systems, electric vehicles in both public and private sector, e-waste recycling, etc. to name a few.

The Asia Pacific region is key for global decarbonisation. This transformation must be achieved in an environment driven by strong economic development, favorable demographics and continued industrialisation. Therefore, now more than ever, it is essential to enhance the usage of technologies that are more efficient and take up less of the very finite global carbon budget.

The regulatory and market environment is increasingly supportive of sustainable investments in Asia, providing strong tailwinds for private debt financing into the sector. There is a large swathe of investment opportunities opening up to support the energy transition. Huge investments are required for the expansion of renewables and adjacent sectors but also for the decarbonisation of industries and sectors. Asia will act as a meaningful source of production of green molecules that will advance Energy Transition in Asia and Europe. To tap into this market, however, many years of experience, in-depth knowledge of the market and corresponding partnerships are required.

This can lead to a win-win situation. Experienced private debt investors can play a decisive role in the implementation of the energy transition and at the same time achieve high risk-adjusted returns for their investors.



Source: Preqin, The Future of Alternatives 2029

Secondaries – second hand, first choice?

Secondaries have been a key part of the private equity market for years and are now becoming increasingly relevant in private debt. While they may be considered "second-hand shares", they are by no means second-class investments, as depending on the fund's term, market environment, and the seller's situation, they can offer attractive entry opportunities for institutional investors to support their portfolio construction.

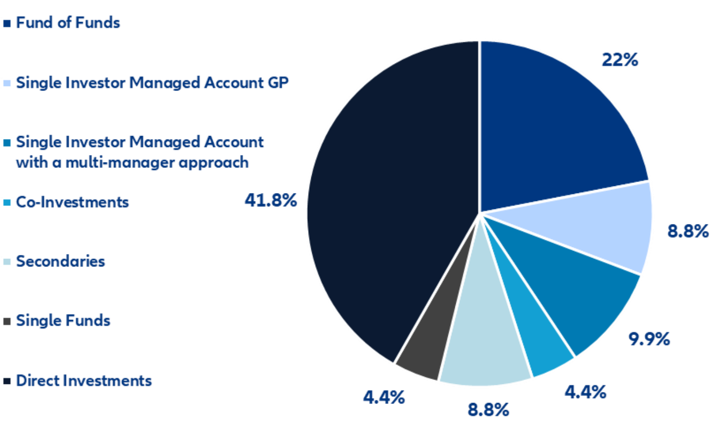
Generally, there are two types of secondary market transactions:

LP-led secondaries: These transactions occur when Limited Partners or LPs (fund investors) seek liquidity in the short or medium-term or wish to rebalance their portfolios. They offer their fund units on the secondary market.

GP-led secondaries: Fund managers (General Partners or GPs) initiate GP-led secondaries by offering portions of their portfolios that haven't been liquidated as expected. This may happen, for instance, when closing funds and distributing returns to investors. Notably, "tail-end" transactions often arise during GP-led secondaries, involving the sale of a fund's last remaining portfolio companies.

Smaller institutional investors such as pension funds, smaller insurance companies, and pension schemes, as well as investors who have only recently decided to engage in private markets, often face barriers to entry. Therefore, most German institutional investors invest alongside larger and more established investors, often through fund investments. According to the BAI, 8.8% of German investors already have access to private debt through secondary market transactions (see pie chart)[2].

Private Debt entry opportunities for institutional investors



Source: BAI Factsheet: Corporate Private Debt, May 2023

Investors without strong international networks tend to rely on large, globally active market participants with deep experience, specialised transaction knowledge, and direct access to key secondary market players. These include leading private market fund managers, investment banks, and brokers, who act as intermediaries for investors looking to sell.

Current market volatility and shifts in target allocation within private market portfolios have led more LPs to explore exit options via private debt secondaries. At the same time, secondaries are gaining importance on the GP side. Against the backdrop of economic uncertainty and banks' reluctance to lend, the private debt market plays a key role for institutional investors.

Sector-focused secondary portfolios are also gaining traction as a strategic portfolio construction tool for institutional investors. The attractiveness of secondaries lies particularly in the attractive discounts that can often be achieved. These are often in the double-digit range and can be significantly higher than in the private equity secondary market as a result of the lack of liquidity.

The potential for attractive returns, accelerated capital deployment, and broad diversification makes secondaries a valuable addition to rapidly growing portfolios. They furthermore allow for quicker allocation in private markets compared to primary fund investments.

Experts predict faster growth in the market for private debt secondary transactions in the coming years. Both general partners (GP) and limited partners (LP) are looking for liquidity options on the secondary market to free up capital. Currently, GP-led transactions, or offers from fund managers, dominate. As a result, private debt secondaries have recently gained traction: according to the "Private Debt Investors' LP Perspectives 2024 Study," 21% of investors plan to invest in such funds in the near future — the highest percentage in the study's history[3]. Industry experts forecast that the volume of secondary market transactions in private debt could reach $50 billion by 2026[4]. A similar development to the private equity secondary market, which emerged after strong growth in the primary segment, is expected. Although the projected growth of the private debt secondary market is high, it is likely to be slightly lower than that of the private equity secondary market due to shorter fund lifecycles and the generally higher liquidity of the debt market.

Given the current market environment, we believe there could be interesting entry opportunities for established market participants. Due to the growing supply of secondary funds, smaller investors can also benefit from the expertise and network of experienced institutional investors and use secondaries to build their portfolios alongside them.

Co-investments in private debt – partnership pays off

Co-investments have become increasingly important for many investors. This is for good reason, as co-investments offer a way to accelerate capital deployment and focus on specific areas within a portfolio. Fund managers (GPs) provide their investors (LPs) with the option to invest alongside a fund in a portfolio company. This segment has particularly developed in infrastructure and is now gaining momentum in the private debt segment as well.

According to PDI, more than 40% of investors plan to pursue co-investment opportunities in the next 12 months[5]. This is the highest figure PDI has ever recorded, highlighting the growing significance of this space. Within the private equity space, co-investment opportunities are well-known among institutional investors for their potential upside and lower fees in comparison to traditional fund structures. In private credit, the thesis of enhanced economics that co-investments offer to investors holds true as well, complemented by an increased deal flow and a rising number of GPs seeking to handle higher transaction volumes and build strategic partnerships with LPs. Investors make co-investments either independently or in a fund in which they invest, which usually allows them to benefit from economies of scale while diversifying their portfolio more broadly.

Cooperation is a prerequisite for co-investment opportunities, which are often a result of trusted partnerships between asset managers and large primary investors with capabilities and expertise to execute on such deals. Institutional investors may face several barriers to entry for co-investments, including the speed required for deal execution, staffing constraints, and constrained deal flow. Not every investor has the in-house resources necessary for quick investment decisions. Additionally, co-investment opportunities are typically offered to a select group of large investors, making it challenging for smaller investors to participate. Co-investments, similarly, to secondaries, can significantly enhance a portfolio not only by offering higher net returns to LPs but also by enabling rapid capital deployment. Moreover, participating in co-investments can help strengthen existing and establish new relationships with the GPs, simultaneously unlocking unique access to deals and bolstering returns through better economic turns.

2025: Private Debt continues trending

Private debt, encompassing primary market investments, secondaries, and co-investments, has become a staple in the portfolios of most institutional investors. The asset class is expected to continue growing in the coming years, leading to an increase in secondary market transactions and co-investments. While the largest private debt markets are in North America and Europe, Asia, still a very young but growing market, is expected to play a larger role in private debt portfolios in the future.

Despite a challenging market environment, alternative investments, particularly private debt, remain in high demand, as shown by a BAI study[6]. Given the market challenges, investors with strong relationships with key market participants, proven processes, and comprehensive investment capabilities will have an advantage.

Sources:

1) Preqin – 2025 Global Report: Private Debt

2) BAI – Factsheet: Corporate Private Debt, May 2023

3) Private Debt Investor – The growing appeal of credit secondaries, February 2024

4) PitchBook – Private debt secondaries flooding the market overwhelm limited capital, February 2023

5) Private Debt Investor – Co-investment opportunities come to life, February 2024

6) BAI – Investor Survey 2024

March 2025