HOW PRIVATE CREDIT IS RESHAPING WEALTH PORTFOLIOS

Gates open for affluent to invest in private credit

By Huw van Steenis, Ben Phillips, Laura Watkin, and Parth Agarwal

A version of this article was originally published in the Financial Times

Once the domain of pension funds, insurers, and the uber-wealthy, private credit is undergoing a quiet transformation.

Product innovation and technological advances are rapidly opening the door to a new class of investor: individuals who are affluent but not in the top tier of the ultra-rich. One blended fund that invests in public and private assets now has a minimum investment of just $1,000.

The result is one of the fastest-growing segments in investing. Private credit holdings by the wealthy have grown 2.5-fold in the last three years — four times faster than the traditional institutional business. On new estimates by Oliver Wyman, these investors now account for roughly 12% of the private credit assets of leading firms. Much of this is still concentrated in the hands of the ultra-rich, but the ambition is clear: to bring private credit into the mainstream of wealth portfolios. Oliver Wyman estimates the top seven firms have around $275 billion of private credit assets under management from the wealthy and the total industry to have between $325 billion and $375 billion.

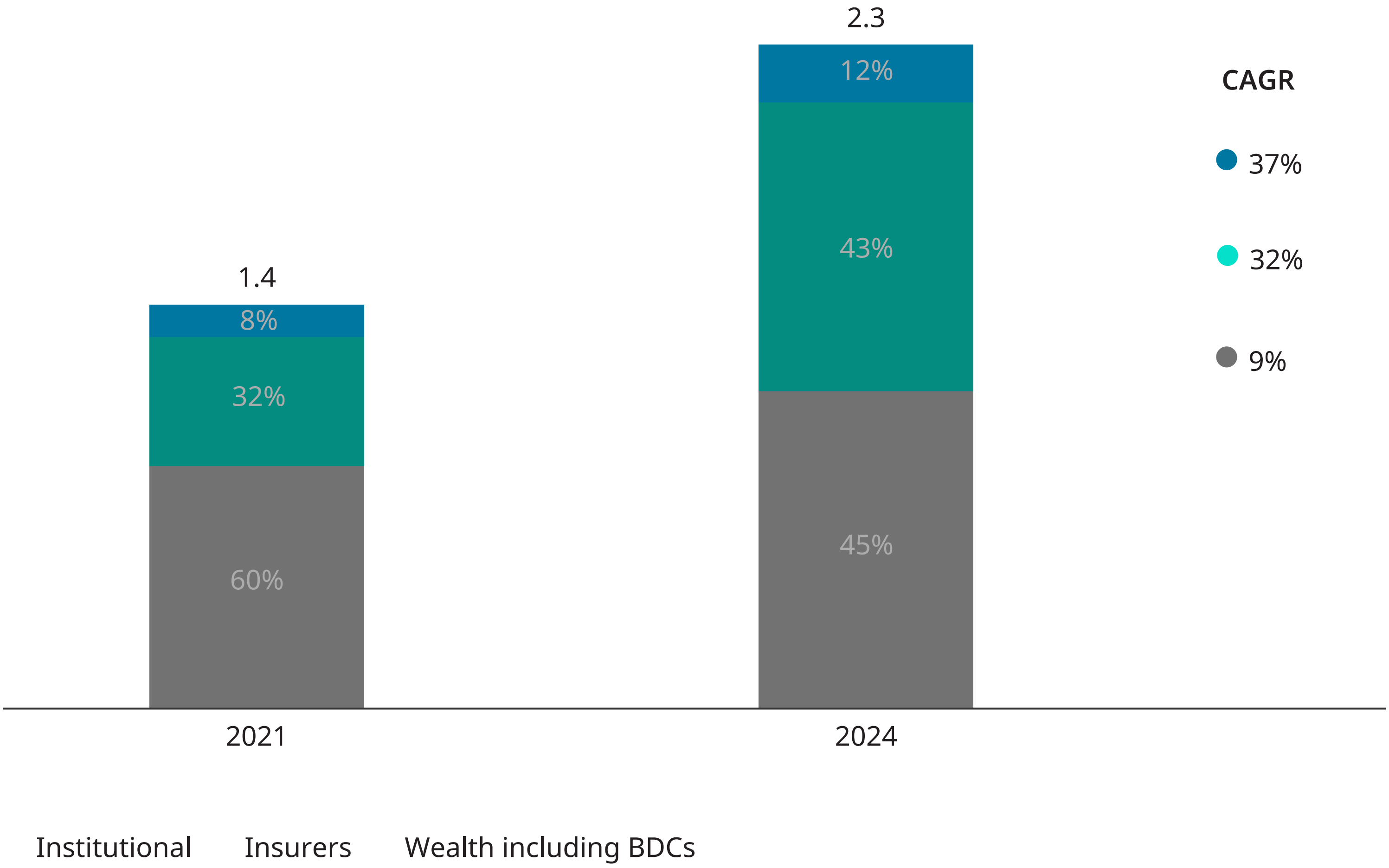
Evergreen funds, which allow new investors to buy and redeem their stakes periodically rather than invest for a fixed period, are transforming access. One key reason is the ability to put funds to work right out of the gate, unlike so-called drawdown funds which make complex cash demands on investors, calling in committed funds over time to deploy.

Investors are also rethinking what makes a diversified credit portfolio, asking why they should put 100% of fixed income investment into public assets. Many wealthy investors are starting to adopt a “barbell” strategy — combining low-cost bond ETFs at one end with higher-yielding, less liquid private credit at the other. This barbell effect, long a hallmark of equity investing, is now reshaping bond investing and has a very long way to run.

Read the original op-ed here (paywall).

Exhibit: Wealthy investors’ share of private credit climbs

Estimated AUM in credit for largest seven private markets firms by client segment



Notes: Client segments are as defined by each individual firm, although efforts have been made to normalize wherever possible. May include some assets in liquid credit strategies. See footnotes in the full PDF report for further details.

Source: Oliver Wyman estimates based on company disclosures, filings and earnings calls

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