FACING UP TO THE DEMANDS OF MULTI-JURISDICTIONAL PRIVATE DEBT FUNDS

Investors in private debt funds are enjoying continued strong returns, not only in the United States, but around the world.

At the end of 2018, 91 percent of investors said they were satisfied with their portfolio's prior 12-month performance. And nearly all—95 percent—said they will maintain or increase their allocation to this asset class over the long term. That follows a trend that goes back to 2008, when assets under management totaled $245 billion. By 2017, the amount had increased to $667 billion. According to Preqin, private debt funds are expected to be double that by 2023.

Among the more promising opportunities are multi-jurisdictional private debt funds. Two things are driving investor appetite for them.

The first is the expected returns. Forty-six percent of investors believe they can achieve an annual absolute return of 8 to 12 percent. According to the same report, 74 percent say they expect their portfolios to perform the same or better year-over-year, even though many believe rising interest rates may be a threat.

Second is the counter-cyclical opportunities offered by some private debt funds in the event of a market downturn. Of the investors who think this is a possibility, 43 percent believe that special situation funds will present opportunities this year, while 36 percent look to distressed debt to balance their portfolios.

The appeal of private debt fund investing isn't limited by geography. While 68 percent of investors feel the US presents the best opportunities, 53 percent look to Western Europe and 34 percent to the UK for favorable returns. China, other parts of Asia, and Brazil have also caught the attention of some private debt fund investors.

Did you know...

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Investor Behavior

As private fund investors view this asset class as an increasingly important aspect of their portfolios, some of them are rethinking their current relationships. For instance, just 23 percent say they will work only with their current fund manager this year. A greater number— some 40 percent—plan to work with their current fund manager and also develop relationships with new managers. And 20 percent of investors will rely mostly on new fund managers. That means the risk of losing business and the potential to gain business are both very real.

To maintain existing relationships and avoid attrition, fund managers must be well-equipped to handle investors' demands for tax-efficient investments, competitive returns, diversification, access to global funds, and comprehensive data and transparency.

"The increasing need for data is a major trend," says Stuart Wood, Managing Director at Alter Domus. "But these demands put a huge burden on fund managers. When attempting to meet these expanding expectations, managers risk diminishing their capacity to expand their own business."

The Changing Global Economy

To build multi-jurisdictional private debt fund structures, fund managers have a broad range of operational considerations to make that are specific to this asset class. According to Wood, to take advantage of this expanding market, fund managers must have:

- Access to experts who understand the rapidly-changing global private debt fund landscape and can inform them about how trade, political change, and regulatory requirements will affect their fund.
- Substance. In the past, jurisdictions allowed fly-ins and fly-outs, so managers weren't concerned about setting up shop in multiple places. But things have changed. For instance, if you manage a fund in Luxembourg, you'll need a Board of Directors with two members who live there and a commitment to comply with laws and requirements.
- A solution for investors' demands for data and transparency, including access to a dedicated data system.

"Lacking the necessary systems to provide investors with the real data and transparency they require with a multi-jurisdictional private debt fund is a monumental roadblock," says Wood. "We looked around and quickly determined that there aren't a lot of suitable software solutions dedicated to this asset class, so we built one. That, combined with our proprietary web portal investor interface, gives managers and investors the ability to instantly access data and create dynamic reports, charts, and graphs at the click of a button."

Scale Your Business

The globalization of the market has undoubtedly created new opportunities for fund managers, and many find greater opportunity to build clientele and new funds when they outsource their administrative functions such as investor reporting, allocations, and financial reporting.

An administrator can also act as an agent for credit and allocate funds between multiple fund loan administrative products, which frees up managers to build their next fund. Unique to Alter Domus is the ability to offer managers use of trade closers for the trade settlement process, eliminating the need for them to hire specialized resources for activities that ebb and flow dramatically.

"We only consider ourselves successful when our fund managers reach their highest potential," says Wood. "Working with us gives them the ability to access the global stage of investors and investments by engaging in experience-based strategic conversations. By evaluating various fund structures and their tax implications, receiving on-the-ground expertise in jurisdictions targeted by their fund, and leveraging industry leading data systems, fund managers can take advantage of the opportunities that today's private debt market presents."

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