FUNDfire

Public-Private Debt Convergence Puts the Squeeze on Smaller Managers

As more private debt managers partner with larger traditional firms to take advantage of their origination capacity and relationships, smaller players could feel the crunch.

By Justin Mitchell | May 16, 2025

Public and private debt markets are increasingly converging, and fund managers that do not have the built-out origination capacity, relationships or distribution capabilities of major public managers are going to face problems unless they provide a specialized enough product to set them apart from the crowd, industry watchers say.

As the private credit industry is maturing, there is an increasing bifurcation between larger, scaled managers and smaller, niche managers, said Georg Wunderlin, CEO of Schroders Capital, the private markets arm of Schroders.

"You're either ultra, ultra, ultra specialized, or you are large and diversified, and you operate at scale," he said. "There's very little in between."

As investor appetite has grown for private credit, that market is taking notice, as exemplified by the rash of acquisitions, product launches, and partnerships over the last couple of years. On the acquisition front, BlackRock last year announced plans to acquire private credit manager HPS Investment Partners, while in 2023 TPG acquired private credit and real estate firm Angelo Gordon, and Manulife bought multi-sector alternative credit manager CQS, among other examples. Also last year, Citigroup and Apollo Global Management partnered to pursue $25 billion in private credit deals, and just this month UBS and General Atlantic announced a similar partnership.

These dynamics are leaving larger, diversified managers and their new private markets allies well-situated, but leave smaller providers with a less clear path forward.

Simple Thesis

The thesis for the bigger firms is simple: they already have built out either public debt capabilities or capacity on the private side and adding the other gives them flexibility. Maintaining silos or constraints to a portfolio creates "sub-optimal outcomes," said **Gabriel Rivera**, managing director of securitized products at **PGIM**, at a recent lunch with reporters.

"You don't want to be in any sort of situation where it's just public or it's just private," he said. "We want to make sure that we have all these tools at our disposal."

Institutional allocators increasingly want managers to be able to invest in both environments, especially as they strive to keep up with the rapidly expanding menu of opportunities in the private markets, added **Phil Waldeck**, CEO of PGIM's multi-asset solutions business.

"How do you navigate all that? Well, you potentially ask managers to do more, meaning more strategies, public and private, [and] more flavors of private," he said. "And that's where the breadth of capabilities can be valuable."

Even in more specialized brands of debt like asset-backed finance, clients sometimes want access to both public and private options, said Yulia Alekseeva, head of consumer ABS at Barings' private placement and asset-based finance group.

"If you're nimble, it's a huge competitive advantage," she said.

The next generation of portfolio managers will have to learn to speak the "two languages" of public and private debt fluently, she added.

"People who can do both [public and private debt], and also understand the unique skill set which is integral to doing both in a very alpha-generative kind of way, I think that is really where the future will be made," she said.

Retail Demand

Beyond the institutional space, one of the biggest sources of demand for private credit is the retail space, said Neil Pardasani, a managing director at Boston Consulting Group. It's also where many partnerships are forming as private managers try to find the right way to harness this demand, he said.

"It's an arrow that I think every asset manager is going to want to have in their quiver," he said.

Many alternatives firms are linking with bigger traditional asset management groups to launch retail products, such as KKR and Capital Group's recently approved public and private credit interval funds, Barings' plan to link up with Invesco to deliver private credit products for the wealth channel, and Blackstone, Vanguard and Wellington's three-way partnership to develop multi-asset portfolios, among a host of other recent examples.

But while larger private credit shops are well-positioned to strike these sorts of partnerships with the largest traditional managers to distribute their offerings, managers outside the top 10 or 20 in the space face a more difficult path, said Daniil Shapiro, director of product development at strategic consultant Cerulli Associates.

"That's where questions start as to whether you have the resources, whether you have the reach in order to a form your own distribution team and whether you have the brand name in order to form a partnership," he said.

Mid-sized private credit managers will need to ensure that they are specialized enough to attract both institutional and high-net-worth investors, Shapiro added.

"Otherwise, you either need to be acquired or you need to very quickly strike one of these partnerships, which may be difficult to do," he said.

Mid-sized managers that do not see much headroom in the institutional space will face the biggest challenge, and many will look to the retail market for partners to provide the distribution capacity that they lack, Pardasani said. It would not make as much sense for mid-sized private managers to flip the script and try to add public credit investment capabilities or acquire public managers, he added.

"Just having the investment capabilities doesn't get you all that far if you don't have the retail distribution," he said.

In the end, with less access to bulge bracket partnerships, it will come down to how smaller managers perform, Pardasani said.

"The best [smaller debt managers] are going to continue to do well," he said.

In this "industrializing" section of the financial markets, managers are left with three options, Schroders' Wundlerin said.

"You either specialize, or you've got scale, or you're dead," he said.