

Convergence of Credit Markets: The Blurring of Lines Between Private and Public Credit Webinar

Hello and welcome to the first in a series of private market credit webinars hosted by CFA Institute and sponsored by PGM.

My name is James Adams at CFA Institute based in New York City, and I'll be moderating the series starting with today's session.

Today I'm delighted to kick off the webinar series with our speakers Afsaneh Mastouri and Matt Douglass. Afsaneh is MSCI Global Head of Fixed Income Investing, where she leads a team conducting research in both public and private debt markets. Afsaneh held previous positions in interest rate strategy at Credit Agricole and Royal Bank of Scotland and has a master's degree in finance from the London Business School. Matt is Head of Private Credit at PGIM. He has held numerous senior roles at PGIM since joining in 1993, and I'm pleased to say he's also a CFA charter holder. Matt has an MBA from Columbia University and ABA from Swarthmore College.

In today's discussion, we will evaluate the blurring lines between public and private credit, which has reshaped capital markets since the global financial crisis. According to a study released by PGIM earlier this year, private credit grew tenfold over the 15 years following the GFC and is now at near \$3 trillion in assets under management.

Hi Afsaneh and Matt, thanks for joining us today. Interesting to start.

Yeah, great.

Thanks, Afsaneh. Thank you for having us. Let's get started with the origins of private credit. I think our audience is pretty familiar with the story, but I'd love to hear your take on it. So private credit has been around for a long time, but it's really expanded following the global financial crisis. So this is a combination of the retreat of banks, you know, from traditional lending. They had an overhang of non-performed loans, then they had capital constraints and then we had low rates. So we had investors reaching for yield due to ultra-low policy rates. And so if Afsaneh, you know, we've seen continued growth in private credit since the GFC despite, you know, rising rates obviously that a Fed cut yesterday, but since that time. And so I'd like to get a sense from you in terms of why we've seen this continued growth in private credit.

Sure. First of all, thank you so much for having me here today. It's a pleasure to be in a panel with Matt and yourself. It says it doesn't happen in many people's career like the tenure in the career that they see a new asset class is generated. So I'm actually very excited about the perspective of this new recorded new asset class. It has been there for a very long time. Lending is one of the oldest businesses in the world. So, it's quite exciting to see that such an asset class which is very relevant for different participants of the capital market is created in my lifetime and then it's growing so fast, and it seems that there is a lot of momentum going to this.

So to answer your question, you're absolutely right. Some of the tail beams that supported the growth, creation and growth of the private, private credit market, private debt market the way that we know it today, as we know it today, some of those tailwinds are abated, but they are replaced by a structural drivers that I think they're going to support the momentum going forward. So if I want to categorize them, I would like to go through different kind of elements of the market, almost start with different group of participants in the market.

Thanks.

Banks still have some of the constraints also somehow, I'll do some of the regulatory constraints that we have seen post financial crisis. Some of them are released because of the bank balance sheet has changed. But banks are still dealing with some with some of the regulatory or expected regulatory changes that can keep their cost of capital weighted risk capital quite high.... tree and gain how the European banks are treated in terms of the regular liquidity requirements etcetera, etcetera. So even though their balance sheet is significantly improved, the constraints around the business have remained quite the same in the last two decades. So that limits their appetite and impacts the cost of capital in starting details.

There is another element into this. Banks are finding somehow a new role for themselves in this new kind of like a playground. Because as you can see that between partnership between banks and financial and the private capital providers, they are taking somehow the role of originator because of their extensive relationship with different elements of the economy. And through the mechanism of risk transfer and partnership in the, in the, in these portfolios are transferring some of the risk from their books to investors via private credit vehicles that exist in the market.

So banks are benefiting from that, although they are not directly involved.

Second... That's great to hear. So I want to hold that thought for a moment because I want to bring the conversation, Matt, give us a sense of the types of borrowers and lenders that have emerged in the private credit spaces market participants. Obviously, a lot of the players are there, but we'd like to understand, you know, have they been absent from this market for 10 or 15 years? You know, how do others gain credit to this market? So just give us a little bit of a sense.

Yeah, no, thanks, James. And thank you also for having me today. And Afsaneh, you know. She touched on the banks. I mean, if you look at this industry for me, it's funny because I've been in the private credit business for about 30 years. PGIM is owned by an insurance company, by a large life insurance company, Prudential, I'm sure many of us on the call recognize that that firm. But private credit has existed for decades and decades.

It's kind of a quiet place and it was really the domain of commercial banks, as Afsaneh was saying, in insurance companies. And because one of the hallmarks is we'll go through this conversation of, of private credit is the illiquidity associated with private credit. There's not loans you can typically trade. And we'll talk about the blurring of lines. And now it's starting to be traded a little bit more. But you know, insurance companies, you know, have long tailed liabilities and, and so they've been a big consumer private credit for decades. And so then what you did so, so those parties have always been out there. And 30 years ago, we competed with banks and that was it in my business. And then, you know, talk about the GFC. But there was this trend even before the GFC pressure on banks to kind of take private credit off their balance sheet for the reasons Afsaneh highlighted. And then you just saw this proliferation of different providers to fill that gap of you know, with just institutional funds, hedge funds. You see the, you know, the explosion of CLOs, BDCs, business development companies, different vehicles for attracting capital from pensions, sovereign wealth fund, you name it. Just large pools of capital now more and more retail all kind of coming in to replace banks and seek out those premiums that you can get in the private space if you're willing to live with a degree of illiquidity. So, and the latest trend there is about, you know, is ABF is now as more securitizations come off of bank's balance sheet. So you name it, people are in it. And that's been happening for, you know, really accelerated in the last, you know, 15 years, even the last five especially. So those are the types of players that have been out there. And there are the issuers, you know, it's interesting. The issuers though kind of are the same, although that's changing. I'm sure we'll get into that today.

But you know, private companies, it's always been historically who accessed the private credit markets. It was companies who couldn't access the public markets. So they were too small or they were highly private and they didn't want their information out there. For example, keep it confidential. So, you know, see, it's really the domain of smaller private companies, even medium sized companies, but private entities and also smaller public companies that still can't issue enough debt to get enough liquidity and really access to public debt markets, even though it might be a public, you know, publicly listed company. But I'm sure we'll get into that's changing. Now you're seeing issuers that we go to the public markets actually going to the private markets and you see it in certain spots which I'm sure we'll elaborate on.

No, that's great. Thank you. Matt and I and you're right about ABF, our third webinar is going to be fully on that subject. So it's great to mention that already. Get up for you.

You talk about borrower benefits, and I think one of the things we've seen is some borrowers actually going back and forth between, you know, different markets. You mentioned the small end of the market, but then there are, you know, those larger firms that have tapped both public and private markets in the recent past. So for corporate issuers, what factors are now driving this choice between issuing capital in public versus private credit markets? Are you seeing hybrid deals? You know, what's the trend? That's what the convergence of public and private is happening on both sides. It's happening in the investor side. We're getting into it, but it's also on the issuer side. And I would say, look, I talked about how historically accessing those who access the private markets where companies just didn't have an option to get to the public markets for whatever reason because they couldn't wear too small or whatever. But now what you're seeing is I think you know, more and more larger companies coming to the market and really for two reasons, you go to the private market, complexity and convenience of getting, you know, something done on a bespoke basis.

And so, you know, there's a couple examples I could give you. And I think one of the best examples is kind of where a lot of the real private credit craze when it really became headlines was in the direct lending space maybe about 8-10 years ago. And the large private equity backed private credit providers, they develop private credit arms, and they all own a whole host of private, you know, companies that would normally have gone the large companies that they buy out to the high yield market or the broadly syndicated loan market. And do you know CLO issuance, you know, the kind of paper that ends up in liquid CLOs? And that's where they would go. Well, what these groups started doing is private equity back firms, they would have deep pockets. Now private credit, they developed, they would club, they would pull together instead of going out to the high yield market or the BSL market, they would pull 3 or 4 to get a billion-dollar deal done. They take two or three firms and you can get that done really easily and execute without them, you know, having to deal with the vagaries of the market and pricing swinging around on you. So what had happened?

And for those companies, those PE backed, you know, larger companies, they now have three options in the market, you know, the high yield market, they go DSL market or the private credit market depending on relative pricing and so forth. And they can, and issuers will pay a premium in the direct lending world relative to other options to get something done quickly or certainty of execution or in a choppy market. So there's a, there's a perfect example where firms will, will, you know, decide which route to go public or private, depending on, you know, what they're trying to get done. And now they have access to all, to both sides of it. And pricing has converged too over time a little bit. There's still a premium that you can get in the direct bar in the, in the private credit market for, for the, for the convenience and the, and the complexity of getting a deal done quickly.

That's great. So an expanded menu for sure based on, you know, compared to what we had prior pre crisis and obviously a lot more alternatives for borrowers and, and for investors.

So Afsaneh, I want to come back to you, what are the, you know, Matt touched on this said prices are converging, but what is the data telling us about where new private versus public debt deals, credit deals are being priced relative to one another in today's market because we are seeing people take advantage of this menu more frequently?

Sure. Certainly, maybe it's better for me to answer the question kind of added created in two-fold. The one area is that when we are thinking about the actually the new deals that come to market or the new kind of structures that they are priced, we see quite a substantial element or segment of the market. Given the nature of the business that we have. We certainly see some degree of competition is picking up some degree of compression of the spreads compared with historical levels. We see as I mentioned, this is signs of specifically some of the sectors of the market, signs of competition. I don't want to call it crowdedness, it's still a big, you're not there yet, but there are certainly some signs of competition. Even though Matt mentioned it that the market is moving in very interesting direction. We have we see deals that they are quite simple and straightforward. I don't want to call them simple, but they're quite a straightforward lending process. Those tend to have it tighter or the competition is hiring them. Those companies that are pretty much in the Triple B kind of category, the borrowers in that area, tend to see some competition there. Outside of that one thing that we are very mindful of is a lot of deals in public market in private market are very structured as Matt mentioned because the intention is to offer flexibility of a practical financing structure. So we are always mindful of comparing a spread one to one across market. The other fold that if I may add one minute to that is for the reaction of the marks that we see because we look at these things from asset owners' perspective.

So we get quarterly update on the value of the loans and details in portfolio. And it was. It's a nice thing to see that actually the level of the markdowns or the level of the write downs that they are happening on the quarterly mark that we receive from the from these deals are very much correlated with the other markets to saying it simply is that even though the performance is looking smoother, it seems that there is a large premium to be collected. It's not that there are, it's not that the risk and the downside risk is not along with the rest of economy.

Got it, very interesting. I'm going to stick with you Afsaneh and both of you have touched on some of the dynamics in the space, right. Matt, you said you started an insurance and this was really an insurance market. It's since evolved. You know, we've got private equity firms with debt divisions. We got you know, business development companies that's what they do. And then you have the traditional banks going full circle. You know, my alma mater JP Morgan opened I think it was earlier this year, \$50 billion direct lending balance sheet fund. And so help us break down this landscape Afsaneh because we maybe for our listeners, it would be very helpful to understand what it means to select a private credit manager. I know that MSCI has developed private capital bank benchmarks in the space, but how do you help investors navigate that?

Sure. Certainly we have got you mentioned that private credit indices that we have and the breaking news is that we're going to have a more strategy based and more currency based strategy geography i.e. the more complete to tough indices that they are going to reflect the behavior of the market at the fund level i.e. it's a comparison between different performance of the fund managers available to investors by end of October I believe. So that's one dimension is always having a comparable benchmark based on the performance of other asset managers or the GPS in data space helps investors to understand basically how their fund manager is doing.

The other aspect, the other work that we have done and we recently launched a partnership with Moody's, MSCI Moody's credit assessment framework that gives an even deeper insight into the credit quality of the credit worthiness of borrowers than the credit quality of the fund and portfolios that the investors are investing in. So we are working hard day and night to offer investors, asset owners or client with more and more tools that gives them shooting 1 deep insight into their portfolio. And 2nd is that allows them to have, as Matt mentioned as well, to have this flexibility in choosing the menu between public and private rather than having them isolated into...

Got it. That's very helpful. You know, Matt, you mentioned at the outset of the conversation, you've been with PGIM over 30 years. You've been in this business for a very long time and, and in the private markets and you've seen the evolution. So, to help us understand, you know, from a PGIM perspective, you know what that means? What's happening at your firm with your clients? And I know recently, I guess it was just this week, you had another announcement. So, help us understand kind of how things are looking, how things have looked and evolved at PGIM and where they're headed.

Yeah, I mean we talked about this acceleration in the industry and the change and it really being post GFC really was accelerated and driven by really a handful, and some would even argue maybe one firm that really changed this kind of marriage of insurance and asset management. It's such a natural marriage, particularly in the world of credit, just given the nature of what insurance liabilities need to be backed by is a lot of credit. And if you can do it in the private world, you get premiums and that enhances your returns and the competitiveness of your products. And that was really, you know, that was the kind of, I'd say the real catalyst to set us all off on this path of change. But I think the next order of that that's now happening again, I think being driven by those, a lot of those same firms is what we're here talking about today is this convergence of public and private. And what has happened is, you know, our clients, there's really, I would say 3 trends that we're responding to that everyone's had to respond to. Clients first want to deal with one manager more and more, you know, fewer providers of investment capabilities, but a broader set. And so that's an element of what's driving a lot of business and why you're seeing some consolidation and all this partnering you're seeing going on is really response to institutional clients wanting it.

Second is, you know, firms don't want it. Allocators don't want to think of public and private credit in the binary way the way they have in the past, but this kind of spectrum of credit and illiquidity along it and complexity. And so that's been another driver that we've been trying to respond to. And then there's outside the institutional world, a big push into retail flows that trying to bring private assets, private credit in particular to retail investors starting in kind of a high-net-worth space. So those 3 trends are going on. And so some ways we've been responding because our clients are saying the same thing.

I mean, we're \$1.4 trillion asset manager and a \$1 trillion credit platform for \$300 billion of private credit embedded in there and all sorts of elements of it. You know, that makes this one of the largest in the world. And we really weren't making the most of that because we were still kind of siloed a bit for the old model. And so we put that all together this year. So we've announced those changes. We're busy doing it. And what it's resulting for in clients is 2 things. First, we've centralized distribution. So, unfortunately some of our clients have four or five different asset classes, all from PGIM calling on them. We now have one centralized distribution team bringing all our products. And then second, with that, what they're getting is multi asset class strategies. We are, you know, combining public and private capabilities or maybe a bundle of public, I'm sorry, private capabilities, 3 or 4 different asset classes, direct lending, ABF infrastructure, whatever it might be. So really trying to respond that way and it's making a huge difference with our clients already. So those are some of the changes we made. And you alluded to a recent announcement, which was just yesterday. Didn't time it that way.

James, I know you asked me that when we got on the call. We announced yesterday. This gets to the third trend I alluded to the push into retail. We announced the partnership with Partners Group where you know they're well respected private equity firm as I think sure everyone knows in this call where we're putting together products of alts, illiquids, high yielding, they're bringing equity, we're bringing credit, trying to put that together and go to the retail market so we can bring more of this asset class to high net worth retail sophisticated investors. Driving a lot of change at our firm, for sure, a lot of good change.

No, absolutely. And it's great to hear the whole evolution and you've, you've lived it. So it's you're the right person to tell the story.

Afsaneh, I'm going to come back to you and actually for both of you, but you touched Matt on, on things like liquidity and pricing and transparency. Obviously, if you're doing the research and you're doing the analysis, you know, price discovery, transparency is evolving in the private debt market. And so you know, how is this, Afsaneh, you looking at both just like Matt has looked at both public and private, you've been looking at public and private. How are you seeing, what are you seeing the effect on the liquidity premium of public versus private from your perspective at MSCI?

Sure. As I mentioned in my previous comments, actually James, we are very what, what we see is that that comparison cannot be 1 to 1 in all honesty because of the different structures that we see and they are serving. Those structures are designed to serve the private market. So every time that we are looking at these spreads and how they are moving versus each other, we are very mindful that we are comparing a little bit apple and maybe pears here, not 100% oranges, but there are a little bit of differences in the structures as well. And what we see is actually there are a couple of evolutions in the market that is helping the price discovery to be to be to grow farther and then help the asset class but also helps the price discovery.

One is the structures, new structures like indices that represent public and private for the sake of building ETF based on those. So this when you are bringing more and more NAV, front NAV assessment in front of the investors, you need to offer frameworks that that are those for price discovery. So that element of market development is helpful.

One thing that we are what we're doing at MSCI is that we are partnering with a lot of asset managers to create those types of indices offering models for now casting. As I mentioned, we have a wealth of data on private market and we can see a lot of data changes that we can use those leverage those to be able to come up with aggregated pricing indicators of the market.

And the third one and potentially it's not directly priced, but it's about transparency is that on top of the rating that I mentioned to you that Moody's MSCI assessment, we also offer transparency kind of data to portfolios. So an investor can see the elements in terms of the nature of borrowers and the deals. They can see the elements that impacted the value of the deal and the premium for all of the deals that they have in different portfolios that they have. So it gives them a better sense of what is happening within their portfolios rather than being just a bunch of black boxes that you just get the quarterly return of that and that's it. So, yeah, that's very helpful.

Thank you so much. So I just want to pause for a second reminder audience before I turn to Matt that we are taking some questions and I'm seeing some interesting ones popping up here, both in the subject of liquidity and other things. So one of them touches on secondaries. And so, Matt, as I weave this into our conversation here, I wanted to hear from you about, you know, the trading of private debt assets. You know, we hear a lot more about secondaries in the private equity market. What can you tell us about the maybe the following barriers between trading in some public and private debt instruments and, and how that's evolving?

I mean, look, that sort of course changing as well. And I do think, you know, as you look out over in the future, I mean an evolution of secondary trading and private credit is just inevitable and then and almost needed. I almost like the markets do this sort of thing, right? They get obsessed with a certain asset class and hey, I love they're obsessed with private credit right now. It's great for me and my teams and everything. But, you know, people are loading up on it. And I do have to say, I think people are people, investors to some degree. I think people are saying liquidity doesn't matter as much and it does. I think you could see in the future, you know, there's going to need to be a market that's going to need to develop to provide liquidity. It's not going to come from the borrower paying you back. And that's because that's when you're in the real illiquid stuff. That's what you got to wait for is that that company's got to pay you back. You can't trade it. And historically this will still be the case. If you had to sell, you know, into a tougher market, something private, you're going to get crushed. I mean, it's just too illiquid. So I just think a lot of this that's going to come back and you're going to see much like you see in the private equity secondaries business, just a natural turnover that's being provided by certain by different investors and or asset managers of the world. So, I think it's already happening.

I think the other thing you're saying in the private credit secondaries world too is, you know, and Afsaneh knows this, I'm sure very well too. Like there's been so little turnover with the M&A markets have been so down that we're not getting the turnover of deals amongst asset managers that you normally see certainly in private equity and in private credit that's

supporting a lot of the private equity buyouts. And so LPs are looking for other ways to get liquidity than they've had in the past because it's the cycle's just gone too long. And so you are seeing this private credit secondaries market of LP interest starting to trade more and more, even GP interest. GP is trying to find their LP's ways out to get them some liquidity and turn over the asset base.

You know, continuation vehicles and other form of credit where you'll, you'll have a, an equity fund or even, or a private credit fund at the end of its life, there's maybe 7 or 8 investments left and actually selling that portfolio onto a new vehicle of new investors to kind of manufacture liquidity. Even though those, you can't get those companies individually to sell because they might still be often very good companies. So, those are that's evolving. We're right there with it, evolving with it.

And you know, I think we are used to being in a world of just kind of this binary world of illiquid and non-liquid and there's just now a spectrum. So when you talk about transparency and pricing and that sort of thing, it does go back to how ultimately this all comes back to the issuer for me. The tougher the issuer is to get a hold of the smaller the company, the harder to find the more illiquid it is.

Like when you think of the middle market versus large, large cap, bigger premiums to be earned, tougher to find, tougher to trade. I think the winners are going to be over a long period of time, including in secondaries, people who can figure out that spectrum get really unique access to assets whether it's primary or secondary in the tougher areas of sourcing in the market or finding good trades space.

That's great. Now that's very helpful. Go ahead, Afsaneh.

Sure. Yeah, I wanted to kind of like a pick on one point that Matt mentioned. And I think it's important that how the market is growing and how the market is evolving now we're not really dealing satellite investment in private credit anymore as a part of alternative. This is a spectrum of credit with different criteria and different type of risk and the investors interested in harvesting those premiums, but they need tools to be able to see that through that and market is moving quite accelerate with accelerated pace in that direction.

That's great. It's almost as though, Sonny, you read my mind because not only do I was I going to ask you about due diligence and risk management, obviously, you know, liquidity premium often must be earned, right? And a lot of extra work may be going into this.

And I also see a question about maybe how that might impact underwriting standards and things like that. So, you know, when you think about private debt origination and I'm monitoring borrowers that might be smaller, maybe there's limited disclosure might be opaque, it might be non-standard types of structures, collateral valuation, you name it, all kinds of things that that add to the potential for that liquidity premium. How are you seeing investors overcoming these challenges Afsaneh? I think you mentioned a black box earlier in the conversation and we're moving away from that. So how are how are these investors overcoming these challenges to be able to scrutinize and risk manage their exposures?

Sure. So let me answer this question by three types of demand that we hear from our investors generally as a three category of demand.

One category of questions is that I'm an investor in fixed income universe. I'm doing it for income and stability of that income and cash flow matters. So there are there are a level of questions about how these funds and how they're changing their endowed underwriting practices, how competition is going to impact the cash flow, the liquidity and income profile of the fund that I'm going to have. That's in primary market, secondary market CLO structures that they are becoming quite popular as well. And all of the spectrum of the private.

The second one is that the in type of kind of the in relation to this is that I am I have I want to have a very much this in this spectrum. I want to make sure that I am not exposed to any specific sector economy sector of economy size wise or industrialized. So they are interested in having it kind of like a look true view of what the drivers of the risk are, credit risk specifically because Matt, you're absolutely right that most of the investors in this space as the space group they would need to demand for liquidity. That's certainly the case and it's inevitable. But some of the large number of investors in private, in credit in general as well tend to have a long investment horizon and holding horizons, so for them credit element of that becomes important. Hence, all of these questions about the really the quality of what is happening inside from credit perspective. And the third one is that at the end of the day is an asset cost that the right the rest of economy is exposed to business cycles, the cycles of the capital market cycles, credit cycles and other. So how what is the beta that I have in this

market versus the rest of the market, how my returns are impacted. So these are the three categories of the kind of main concerns that people when it comes to or they express that when it comes to looking for how the asset process evolved when they do their regions.

That's great. And Matt, I want to come back to you. We had talked before the session about some, you know, the importance of being able to access and the challenges of getting illiquid credit in this type of in this type of market as these markets converge. So maybe you can shed some light on that for our audience.

Yeah, I mean, it's funny, you know, the question to ask Afsaneh was, you know, transparency and opaqueness and all these things. That's the beauty of it. But this is about market inefficiency.

I grew up in the middle market where you've got to go. You know, we built an origination network across the world, 15 offices, local folks in the regions diving into the markets and knowing the issuers because it's all about the issuer and getting access and banks have found a hit right on it. Banks are the best historic, they're just there. They've got thousands of people on the ground talking to people and companies about giving credit. And that's why, you know, large asset managers are partnering up with them because the banks have the best access in the world. We try to mimic bank access, but we just can't. But we have pretty good access ourselves. But it's all about, did you get into how do you manage it? How do you, how do you know what's going on? You know, every, you don't have a lot of information. The fact of the matter is you just have to be close to these companies. You have to be close to them to get access to it. You have to be close to them to underwrite because you have to get your own private information out of them. You have to be able to get that out of them. And you can't just, you know, do it off of, you know, AI is not going to help you with that. You know, the company's got to give you the information you're looking for and they got to let you in. You can't just buy what you want. They have to let you in. So you also got to be personable. You got to be able to want them. You want them to do business with you. And then finally to manage it, you got to be close to it too, for valuations and all the benchmarking and everything you have to do there.

So the tough thing about private credit, especially in the middle market from a business standpoint, is it's tough to scale because of that. And so what you, you know, you have a lot of people, a lot of effort on the ground to get this information for investors. The premiums are very durable because of that, because it's harder to get at it. And you have to have a whole ecosystem around that that can ride through credit cycles and not try and time it because you get killed. I think if you try to time private credit, you got to know how to work yourself out of bad situations when the cycle turns on you, but still be able to access it at that time because that's when you get your best deals too, right? So it's a very complicated ecosystem that really starts with getting closer to the bar, you got to get to the access of that credit issuance better than others. For example, if you take there was a big deal done in the market, there's been a few big deals that, you know, a company like Intel is very well publicized, great deal for a lot of investors, very good under information underpinning that though, right?

You know, you know, everyone knows Intel, but they have a highly structured deal on that example of that deal. But you know, there's, you know, it's billions of dollars. Are there going to be huge premiums in that? Probably not.

There's good information under flow. You know, there's lots of investors in that deal. You can get liquidity. So that's the other end of the spectrum. It's still private credit, but you want to get to the juicier stuff. You got to kind of get down to the other end of the spectrum. That's hard to that's hard to, it's hard to do. But that's where the fun and the excitement is for me, for the investors, because that's where you can really generate a lot of extra excess value. That's super.

No, that's just great insight. Thank you so much.

You know, it's interesting.

I know, Matt, you probably like me, did your CFA charter a long time ago, but you know, given the importance of this sub asset class, we've actually dedicated a full reading on, on private debt in our Level 3 pathway. And we have a lot of people taking that exam here in 2025. So, lot of folks are headed down this headed down this path, learning more about it, understanding the differences in the variations in private credit. And like you say, a lot of this just gets right back to the, the basics, if you will. But what I wanted to ask you both, maybe starting with you, Afsaneh is where do you see the most opportunity today in the private credit universe?

It's a very good question and the hard question to get to answer because that's six months from now, a year from now, I can be judged based on that. But one thing that we see is that given a lot of features that Matt pointed to and they're so astute, frankly there are this is this is you can have some of those content for the CFA courses.

Given the complexities that exist in the process and the nature of the process, one thing that we expect, and we actually see that already in the market is to see more and more new areas of lending to be added to this whole set of kind of different type of options rather than rather than for example direct lending goes ahead and become within next two years to take over the whole balance sheet of the fact. So what I'm trying to say is that we see more of a horizontal growth going forward rather than vertical growth that we have expanded in the first phase. And by that horizontal growth, what I mean is that Europe is ripe for given the fact that most of the capital, capital markets is smaller than banking system in Europe, that gives an opportunity.

So that's bringing new currencies, new geographies to the table. That's one dimension of and the other one is that as I mentioned, the new type of asset-based space lending some of the securitized kind of like nature of the lending. So we expect to see the growth continue or on the horizon by adding the dimensions of assets and underlying asset.

That's super helpful. I'd love to get your perspective. Matt, you've been in this business for so long. Where do you see the opportunities going forward? You've seen the entire evolution, what's next?

Look, I mean, I've already touched on a couple of them because I think because like we talked about where a lot of this started, the private credit craze was more in kind of talked about the PE, you know, large cap PE businesses. We've talked about now large, more large cap issuers and having a lot of issuance around that, that spectrum of the part of the spectrum. I do think these headlines are starting to subtly change on private credit. You're starting to hear things like your middle market, right? For the reasons I've already alluded to, better premiums down in that area can be better. There's good value along the whole chain, the combination of equity or, I'm sorry, liquidity and premium. But if you want larger premiums, you got to go further down the market. Non sponsored starting to creep into this lexicon.

Why diversification, not only just, you know, just getting different types of issuers in your in your portfolio, but you know, one of the challenges that investors have in allocators, especially they're in the doing private equity and private credit. You can have the same company, you can be in funds that have the same underlying company and you're in the equity and the credit. And so you have some correlations there, right?

So the more you can even get away from non-sponsored, you're getting yourself kind of, you know, more diversification in your portfolio. And we talked about secondaries. I won't go on about secondaries. We did talk about I just think that's going to be it's just it just has to happen. And I think there will be really powerful dynamics if you get in a little early as an investor, because I think you already see it, the dynamics of how much, you know, interest in LP trading there is versus, you know, buyers taking it. So I think that'll be another one. Internationally, as Afsaneh alluded to. The other one that everyone, I think a lot of people are trying to figure out is Asia, because if you look at, you know, and I and it's even, it's so opaque, meaning, you know, there's, there's so many different countries, so many, you know, the banks are the banks do everything. Still, you read numbers that say the overall Asian market can be larger than the US market and maybe the European market combined in terms of available credit. That's just still on all sorts of balance sheets. And so, you know, how do you get to it? How do you underwrite it?

I mean, as I think of like, we don't do much in Asia, not because we, we're just not there, but you know, if you combine it with you have to get close to these companies, you got to know the language, you got to know the law, you got to know all those things. How are folks, you're starting to see a lot of shops pop up there and trying to find ways to access Asian credit. And I think, I think it's be tricky to figure out, but I think that's, that's going to be probably, you know, 5-10 years from now, we're going to be talking about a lot of Asian issuance and people are trying to figure it out. We will figure it out.

That's really interesting and takes me kind of into, you know, my thought about looking forward. You talk about other regions of Afsaneh, you've put together an index that is, is really anticipating different currencies, different markets.

Afsaneh, I'm going to turn my attention to you. What are you, where are you seeing the most interest in the usage of those things and, and where do you see some of these opportunities being unlocked by some of the same structural changes that you have here perhaps in the U.S.?

Yeah, sure. From investor perspective, we see that the demand from insurance sector actually all of the elements of the institutional market including insurance sector, pension funds, manage pension funds and others. We expect to see this process of moving from alternative investment allocation to the core credit allocation as a part of this spectrum of the tools available to credit investment to continue. We had been coming from a period that the spreading credit market was so tight that a lot of allocation into fixed income and credit shrank. But this kind of extra premium that can be achieved from private market and controlling for the risk can add to the attraction of the asset class on that side. We don't expect growth to stall anytime soon. And the other aspect that is opening now is the retail markets outside of the institutional market. It comes with a lot of innovation related to itself. As I alluded to some of them, the creation of ETFs, the indices that they are kind of allocating cross spectrum. I'm going to use this spectrum term that you use Matt any conversation.

So it's a spectrum of the ...I don't have to separate them anymore. So that's the creation of indices. A lot of actually innovation is happening just on that. And to make to bring this asset class, open up the asset class for our individual investors.

I want to add one more thing as well that we didn't touch on. And that's the kind of structure of the funds like evergreen funds that the nature are very much they kind of bring the asset class into a completely different footing. They put it very close to the rest of the credit market that we know, and we expect to see growth there because both by demand from investors and retail investors and also the nature of the asset class and the demand from borrowers. Because if you need to borrow for a business, you continue the leverage, it's not something that is going to disappear tomorrow.

So yeah, that's super interesting. And you know, Matt, I'm going to kind of bring this home with you. And you know, you talked a lot about enough son to touch on it as well about retail and how, you know, this is obviously, broadly speaking in the private markets, the case that everyone is talking about it, maybe more private equity, maybe not as much debt. But sitting where you sit, how do you see this? How do you see the appetite for retail expanding based upon, you know, how you're structuring it might be the evergreen funds and other types of innovations that you have in your shop and what you're seeing in the market that would be super helpful, I think, for our audience.

Yeah, well, look there. I mean, Afsaneh hit on it. I mean, I think the next when you look at the size of the DC market, the 401K market, you start to look at those, you know, they're obviously massive. They're untapped with respect to private asset classes. You know, there's always been a feeling the retail markets of, you know, retail investors don't it's almost unfair. They don't have access to these, you know, to private equity or now private credit. It always happens. You know, the value is kind of taken by the private equity shops, for example, before you know, those issuers become available in public market.

So, I think it's a good thing to try to help to bring that called the democratization of assets to people. I think you have to be really careful though. I mean, I do think it's, if there's a light on, I think everyone's focused on it. We're focused on it, including that announcement we made yesterday. We have evergreen vehicles that we're creating and you know, you're generally things are targeted towards the high net worth individuals at this point, which are a little bit more quote sophisticated investors by the deficit of the law that should be able to get, you know, understand, you know, the asset class, but it comes back everything we started with liquidity like these are illiquid assets and they can be enticing because of the higher yields. But when things turn and well retail investors, they need to understand that you might you can get gated, you might not be able to get your assets out. And so I think there needs to be a lot of education. I think regulators have to be careful. I think there's, you know, there should be limits on allocate, you know, max allocation, you don't want someone putting 50% of their assets in private credit and certainly not private equity, even more illiquid. So you know that one of, you know, there is a, there's a lot of good to be created there for individuals and, and for asset managers and, and, and you know, there's a, there's a win in there. But I want to just be real careful with it because it's got to be done right. And illiquidity is a real thing. And you don't, you got to just make sure people understand it and they're probably not going to understand it to the degree they should. And so you probably have to make sure there's good measures in there. So they can't get, too. People can't get too overexposed. I guess that's the way I feel about it. We're, but we're going after it too. We think it's we've got great products for that market.

That's great. Any final words Afsaneh from you?

I couldn't agree with you Matt more on that. And that's I think that it's opening up some of the opportunities for innovation in that market. But I could not agree more with you on that. So everything comes with its own challenges, and every challenge openly introduces an opportunity for the market to grow in terms of those value and education and the level of sophistication of participants.

Well, I want to thank you both Afsaneh and Matt. This has been a great way to kick off this webinar series, the 1st in the 3-part series. So thank you for joining us today and a special thanks to PGIM for sponsoring today's webinar. So please plan to join us. We'll be back next week for a session on real estate credit and the following week we'll be talking about asset-based lending, two really interesting areas in the broad world of private credit. So thanks again to both of you. Thanks so much, PGIM, and we'll see you soon.

Thanks, James.

Thanks.

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