Foresight Analytics & Ratings submission to ASIC DP February 2025

Australia's evolving
capital markets:
A discussion paper on the dynamics
between public and private market

April 2025

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Background to ASIC DP February 2025

ASIC's Discussion Paper, February 2025, seeks engagement from participants in Australia's capital markets, their advisers and other interested persons on important issues and implications arising from evolving changes in Australia's capital markets. It sets out critical questions to continue building the regulators understanding of evolving market dynamics and to gather actionable ideas on regulation that is likely to enhance the operation of the Australian capital markets. The DP is expected to assist ASIC in fulfilling its objectives of maintaining, facilitating and improving the performance of the financial system and the entities within it, and promoting confident and informed investor and consumer participation in the financial system.

As a research and ratings house, we are aware that multiple private credit funds have received a 20-page questionnaire from ASIC, seeking those details and giving firms a deadline of April 14 to respond. ASIC is conducting its review of the private credit sector in two stages. The regulator will focus initially on private credit funds that have raised money from wholesale investors. The second stage will examine practices of private credit funds that have raised funds from retail investors and are therefore subject to more stringent disclosure requirements.

While ASIC's paper and focus is on broader private capital market, our submission and analysis is focused on private credit sector, an area that is of deep interest to us and our clients.

About Foresight Analytics & Ratings

Foresight Analytics, an independent Sydney-based firm, provides investment ratings, data analytics, assurance and advisory solutions to leading investment management companies, superannuation funds and wealth groups across the Asia Pacific.

Foresight's innovative, evidence-based approach blends both human and forensic insights into the analyses of economies, markets, themes, investments, products and portfolios. Foresight Analytics was founded in 2015 by Jay Kumar, a former executive of Morningstar, Optimix Investment Management, ANZ Wealth & Private Bank and the Reserve Bank of Fiji.

Foresight Analytics & Ratings platform provides investment and operational due diligence ratings on both public and private market strategies. As a niche investment ratings house, Foresight Analytics & Ratings focuses on complex alternative investments, including domestic and international alternative credit.

For more information on our capabilities, please visit our website on www.foresight-analytics.com and social media platforms via LinkedIn, Facebook or Twitter and streaming channels YouTube and Podcast.

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Australian Private Credit State-of-Play

Over the last decade, and particularly the last 5 years, there has been a proliferation of private debt strategies issued by fund managers in Australia. The segment has evolved into a distinct asset class, with private debt fund managers now offering Australian investors access to a multiplicity of underlying loan exposures. These include:

- Australian commercial real estate (CRE) loans with property development, residual stock and land sub-division purposes
- SME loans secured by assets such as mortgages (property-backed cashflow loans); invoices (invoice lending); property, plant and equipment loans (largely business auto loans)
- legal disbursement lending
- livestock lending (feedlot lends)
- direct lending to mid-size or non-listed corporates (mid-market corporate lending).

To fund the increased lending opportunity set, the sector has attracted considerable capital across the spectrum of investor types, including superannuation funds, institutional investors, family offices, high-net-wealth (HNW) individuals and wholesale and retail investors. Most importantly, it has delivered on its stated investment benefits, which include strong capital preservation, relative income stability, attractive risk-adjusted returns, and low or negligible correlation to listed asset classes, including publicly listed debt (bonds/floating-rate notes).

Meanwhile, there has been a decline in the velocity and availability of money through traditional banking channels (ADIs) as the latter have largely retreated to residential mortgages on the back of the profitability of Basel III mandated risk-weighted asset/capital requirements.

Concurrently and consequently, there has been both a proliferation of non-bank lending originators (notably in the SME vertical) and a proliferation in the number of private debt managed funds.

The Australian private debt asset class has over the last few months received a heightened degree of business media press. This press has focused on 2 issues: 1) ASIC is increasing its supervision of private equity funds, private credit funds and their advisers; and 2) several prominent private debt managers incurring defaults or distress, predominantly in relation to multi-level, high rise construction developments. We will address both matters below. But suffice to say, the Australian private debt sector overall continues to deliver on its dual mandate: elevated income and capital downside preservation.

This note is designed to provide an update on the current private credit market landscape and insights on the forces shaping this growing asset class. In providing this analysis, we draw upon various whitepapers and research our analysts have written over the past two years. We cross-reference some of this work in the paper and provide detailed references at the end of this paper.

Australian Private Credit Market Size

Similar to the US and Europe, the Australian private credit market has grown rapidly over recent years.

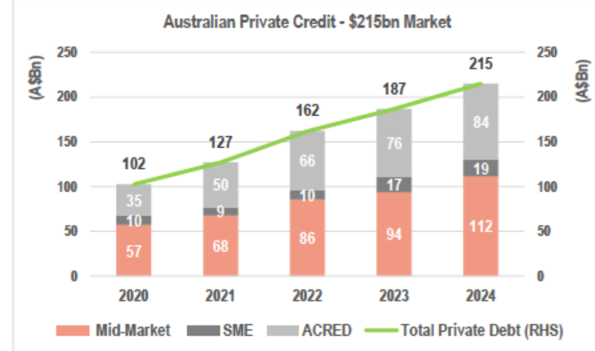
Based on the December 2024 data, Foresight Analytics and Ratings estimates the non-bank private credit market in Australia to be worth $215 billion. This compared with $187billion at the end of 2023, representing 16% growth, year on year. Over the past 5 years, the market size has increased from $102 billion in 2020 to $215 billion in 2024, representing 112% cumulative growth.

Three key segments are represented in the non-bank private credit market – (1) ACRED – Australian Commercial Real Estate Debt (41%), (2) SME Credit (9%) and Mid-Market Corporate (51%). Over the past 5 years, ACRED sector grew by cumulative 148%. This equated to annual growth rate of approximately 30% p.a, putting ACRED as the fastest growing segment of the non-bank private credit market.

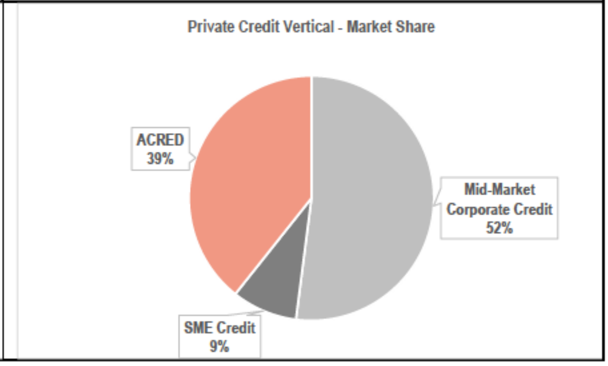
With the current and future hyper growth rate of the ACRED segment that's backed by a range of secular and cyclical tailwinds, the sector could potentially represent 50% of total Australian PC market in the future.

EXHIBIT 1: Australian Private Credit Market Size

Australian Private Credit - $215bn Market

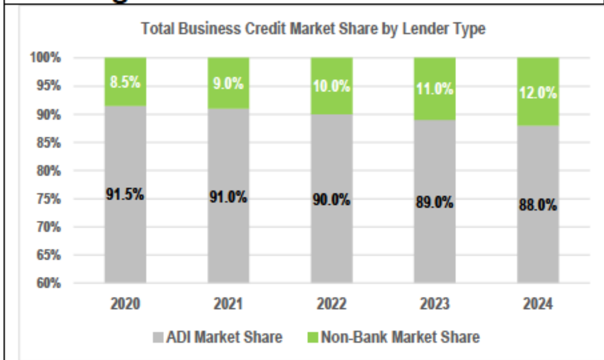


Private Credit Vertical – Market Share

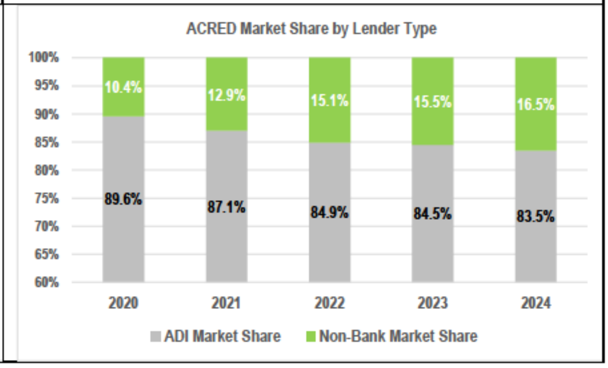


Source: Foresight Analytics & Ratings

Private Credit Share – Corporate, SME Lending



Private Credit Share – Commercial Real Estate



Source: Foresight Analytics & Ratings

ACRED Market Segment Growth Rate

The key takeaway from Foresight Analytics and Ratings strategic market sizing analysis is that the ACRED (Commercial Real Estate Segment) managers have a substantial long-term runway for asset growth.

Foresight's Base Case underpinned by Basel III

Given the inherent uncertainties associated with forecasting, Foresight Analytics is of the view that a scenario-based analysis is appropriate to provide future growth guidance for the non-bank segment. In Foresight's view, the two key pillars of most significance include:

1. **Total Australian CRED market growth, and**
2. **Market share changes of the non-bank, alternative lender segment.**

Foresight's base case forecast is predicated on a 7.5 p.a. CAGR for the total Australian CRE debt sector over the medium term (deemed to be 5-years). This is a conservative assumption relative to the system level CAGR rate observed over the last 4 years.

Additionally, we assume a base case annual market share growth rate of 1.25% of the non-bank lender segment. Again, we believe this is conservative relative to the plus 5% market share gain recorded over the last 3 years.

The first table is based on Foresight's assumption of 7.5% annual system-wide growth over the forecast period and a 1.25% annual market share gain by the NBL ACRED segment as a percentage of total CRE lending volumes.

The second table presents a sensitivity analysis with respect to the two key assumptions of growth and market share gain, with the highlighted box reflecting Foresight's assumed 'orbit' of more probable outcomes based on the +1.25% annual market share growth of the NBL segment.

Row 1 provides various total CRE market annual growth rates (6 to 9%), with Row 3 the consequent total market size in 5 years' time. Column 1 provides various annual market share gains assumptions for alternative CRE private debt lenders, with Column 2 highlighting the consequent total market share by December 2028. Foresight's base case scenario equates to a market size of $160 billion (1.9X) by December 2028, a $80 billion opportunity for alternative, non-bank lenders.

EXHIBIT 2: Australian Private Credit - ACRED Segment – Expected Growth Trajectory

Forecasts	Calendar Year ACRED Market Growth & NBL Market Share						
Calendar Year	**1H24**	**2024**	**2025**	**2026**	**2027**	**2028**	**5-Year**
Total CRE Market ($Bn)	501.9	520.7	559.8	601.8	646.9	695.4	721.5
CRE Private Debt ($Bn)	80.3	86.6	100.1	115.1	131.8	150.4	160.5
CRE Private Debt Mkt Shr (%)	16.00%	16.60%	17.90%	19.10%	20.40%	21.60%	22.30%
Cumulative ACRED Growth ($Bn)	0	6.3	19.8	34.8	51.5	70.1	**80.2**

Source: Foresight Analytics & Ratings

Assumptions			**Annualised Growth Rate of Total CRE Sector (5-year Forecast)**						
			6.00%	6.50%	7.00%	7.50%	8.00%	8.50%	9.00%
Total CRE Market		80.3	671.7	687.7	704	720.6	737.5	752.9	769.1
Annual Mkt Shr Gain by Non-bank Lenders	0.75%	19.75%	132.7	135.8	139	142.3	145.7	148.7	151.9
	1.00%	21.00%	141.1	144.4	147.8	151.3	154.9	158.1	161.5
	1.25%	22.25%	149.5	153	156.6	**160.3**	164.1	167.5	171.1
	1.50%	23.50%	157.8	161.6	165.4	169.3	173.3	176.9	180.7

Source: Foresight Analytics & Ratings

On a most pessimistic scenario of 6%, 5-year system growth rate and market share gain of 0.75% p.a over 5 years, the non-bank lender CRED market is expected to be $133 billion by December 2028.

Conversely, on our most optimistic scenario of 9%, 5-year growth rate and market share gain of 1.5% p.a over 5 years, the total market size for non-bank lenders is expected to be $181 billion by December 2028, representing a $100 billion opportunity for non-bank lenders.

Overall, our analysis suggests that the CRED sector will continue to grow and non-bank lenders that have scale and capacity to seize the opportunity will win market share. As always, growth will be uneven, both in aggregate terms but also at the non-bank lender level. We believe the biggest opportunity exists, for mid to large sized lenders with significant origination, underwriting and funding capacity.

Market Sector Growth Drivers

Market growth in all 3 verticals is being driven by a range of structural factors, product offer / service factors, and large growth in investor demand. We provide a summary below of what we believe to be key tailwinds to the sector growth.

1. Post GFC Banking Regulations – Bank Disintermediation

Post GFC Banking Regulations. The rise of the private debt asset class globally has been driven by the Basel banking regulations introduced post GFC with Basel III the latest iteration. Basel III and the retreat of bank lending is currently the single most important structural dynamic in the Australian private debt landscape. In short, Basel III imposes Risk Weighted Asset (RWA) requirements on banks based on different lending vertical segments. That is, the regulatory capital that banks need to set aside on a particular lending vertical loan book. The rules are highly restrictive on ACRED lending in particular but also on SME lending.

Basel III

Before Basel III, CRE loans would have typically been assigned a risk-weighting of 100% (i.e. credit risk agnostic). From 1 January 2015, CRE loans were assigned a risk-weighting of 150%, which has led to a seismic shift in banks' funding for such loans. All up, such lending has become less profitable/efficient for banks, which are now required to hold more regulatory capital against their risk exposures. There are additional limitations as well – LVRs most notably. There is a reason Australian banks have largely retreated to residential mortgage lending.

The impact of Basel III on the growth of non-bank lending (i.e. private debt) cannot be overstated. It has changed Australian banks' lending practices in most segments other than the residential mortgage sector (which is where the banks have largely been retreating). The Basel III framework, introduced by the Basel Committee on Banking Supervision, aimed to strengthen the stability of the global banking system after the financial crisis of 2008. We discuss its key impacts in more detail below: However, if these points seem all a little too esoteric, on page 9 we provide a very practical example, in this case the CRE segment, which should clearly bring home the very significant tailwind Basel III provides to private debt.

- Capital Adequacy Requirements – Basel III increased the minimum capital requirements for banks, including common equity Tier 1 (CET1) capital. Australian banks had to raise their capital levels to comply with these requirements. This made it more expensive for banks to lend to many segments, as they had to set aside more capital, potentially reducing the amount available for lending.

- Liquidity Standards – Basel III introduced liquidity requirements, including the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). These regulations required banks to hold sufficient high-quality liquid assets to meet short-term and long-term funding needs. Meeting these requirements may have influenced banks to prioritise larger, more liquid loans over CRE and SME lending, which is often seen as riskier when compared to exposure to a large, publicly rated corporation.

- Risk-Weighted Assets – Basel III introduced more risk-sensitive methods for calculating risk-weighted assets (RWA). While this aimed to make the capital requirements more reflective of the actual risks banks face, it made CRE and SME lending more capital-intensive, as both groups of loans are perceived to be riskier when compared to loans on residential mortgages. This has led to banks being more selective in their SME lending activities.

- **Credit Assessment and Risk Management** – Basel III emphasised the importance of robust credit assessment and risk management practices. Australian banks may have improved their credit assessment processes, leading to better-informed lending decisions in the CRE and SME sectors. However, stricter risk management has also resulted in more conservative lending practices for both types of loans.

- **Impact on Interest Rates and Loan Availability** – The increased capital requirements and risk sensitivity have influenced interest rates for CRE and SME loans. Banks have charged higher interest rates to compensate for the capital costs, making borrowing more expensive for SMEs. Additionally, the availability of credit for CRE loans and SMEs has been affected, as banks have reduced their exposure to the sector to manage capital and liquidity constraints.

- **Alternative Funding Sources** – In response to Basel III, some property developers and SMEs have sought alternative funding sources, such as non-bank lenders, peer-to-peer lending platforms, or equity financing. This has provided SMEs with more diverse financing options outside of traditional bank loans.

2. Superior Product/Service Proposition from NBL

There are a range of service and production value propositions that have also underpinned the strong growth in the private debt sector. In the SME space, using superior technology, (and being unencumbered by the old technology systems of the big banks), non-bank lenders have the ability to rapidly assess the creditworthiness of prospective borrowers. They are more efficient and more flexible than the big banks, providing prospective borrowers with a markedly quicker turn-around time on loan applications. In the ACRED segment, the significantly quicker approval times and greater loan flexibility of non-bank lenders, notably higher LVRs and lower pre-sale requirements, can materially improve overall developer profitability. Many developers hitherto long-term ADI borrowers have moved across to non-bank lenders.

There are a range of service and production value propositions that have also underpinned the strong growth in the PD sector. The points below relate to the non-bank lending sector in general, some of which seek funding via the securitisation markets (ABS/RMBS), and others offer PD managed funds to wholesale and retail investors.

- **Superior Technology, Superior Human Touch** – With the emergence of new technologies (and being unencumbered by the old technology systems of the big banks), non-bank lenders have the ability to rapidly assess the creditworthiness of prospective borrowers. They are more efficient and more flexible than the big banks, providing prospective borrowers a markedly quicker turn-around time on loan applications. Technology is complemented by human skills on both the credit and loan serviceability side, with the non-bank segment showing a very proactive and high-touch approach regarding the latter.

- **Arrears Management is Critical to Non-bank Lenders** – A non-bank lender's ability to fund itself is directly related to its arrears through its warehouse facilities and its securitisation transactions, or for those providing PD managed funds, its FUM prospects. Non-bank lenders are hugely focused on arrears because they directly impact the lender's effective cost of funding and FUM growth. This is not the case for the big banks (term deposit investors don't give a hoot about the bank's arrears, for example).

- **Greater Flexibility has Led to More Rigorous Credit Assessment** – On the whole, non-bank lenders have proven to be considerably more flexible when it comes to loan eligibility and loan terms. In turn, this flexibility and the higher complexity of the loans have necessitated a more detailed approach to credit assessment. In contrast, banks focus on standard prime residential mortgages with a cookie-cutter approach to credit assessment.

- **Relationship-Driven** – Borrowers tend to work more closely with their private debt lenders, and deals can be executed more quickly and with more certainty of pricing than with a large syndicate of lenders. The speed at which amendments were struck in the private debt markets as the pandemic unfolded highlighted the benefits of these relationships. Non-bank lenders know the quality, status and reputation of the developers, which are essential to mitigating credit risk and expediting loan approval times.

- **Less Cyclically Driven** – Banks typically tend to be very cyclically driven in terms of the economic outlook and their predilection to extend loans. This has been evident in the current economic environment, where bank lenders again have retreated to a degree from ACRED lending. The non-bank ACRED lenders we have spoken to recently have all stated that they have seen a marked increase in loan inquiries, with a portion of that coming from solid developers that previously had long-standing relationships with banks but have either been turned away or subject to onerous equity requirements. In the U.S., the Federal Reserve Board conducts a quarterly survey to gauge the degree to which financial conditions are changing. This is called the SLOOS, the Senior Loan Officer Opinion Survey on Bank Lending Practices. Commercial real estate (CRE) lending standards have tightened by far more than commercial and industrial loans. Demand for credit has also declined to levels not seen since the Global Financial Crisis (GFC). Even sectors such as Multifamily which are performing relatively well in a fundamental sense are experiencing a sharp tightening in lending standards. APRA does not collate consolidated survey data on lending conditions, several banks conduct their own surveys. NAB completes a quarterly survey on commercial property markets where borrowers have reporting difficulties in accessing credit with availability in line with pre-COVID levels. This suggests that credit standards for real estate lending are tightening in Australia.

3. Lending Type Proliferation

ACRED and mid-market corporate lending is relatively uniform in loan types. However, in the SME vertical it is anything but. There has been a significant proliferation in niche lending verticals, and in the providers of such, in the SME lending vertical. A few examples include medical centre finance, royalty finance, real estate vendor finance, childcare centre operating lease finance, payroll finance, bank guarantee finance, strata finance and research and development finance. In the middle of 2024, Foresight Analytics & Ratings undertook a SME market sizing exercise and counted circa 160 SME lending originators, and we are aware that this list was far from comprehensive. Responding to this proliferation of lending options, a record number of traditional real estate brokers have diversified their business models to include providing origination services to prospective SME borrowers on what has evolved to become a far more tailored and product-specific SME lending market.

4. Proliferation in Private Debt Fund Offerings

Tapping into these evolving dynamics, the rising investor demand for private debt (not simply for the traditional mainstay of CRE lending) and the attractive risk-return potential, has seen the increasing proliferation of SME-specific private debt funds across both direct lending and non-direct lending structures as well as liquid/semi-liquid managed products. We have observed traditional equities managers acquiring private debt managers. We have observed a rapid exposure drift from traditional fixed-income managers to asset-backed securities and warehouse-type structures, offering leverage to the rapidly growing SME lending market. We have observed highly reputable global private debt managers entering the market. All this provides greater investor choice.

5. Performance - Attractive Risk-Return Profiles

The Australian private debt sector has attracted increasing numbers of investors because it has delivered on its stated investment benefits. These include strong capital preservation, relative income stability, attractive risk-adjusted returns, and low or negligible correlation to listed asset classes, including publicly listed debt (bonds/floating-rate notes). Australian private debt has and continues to pay a premium over other major developed markets, notably Europe and North America. In short, this is a scarcity premium. There is simply less big money in the Australian private debt sector, meaning relatively less competition for Australian private debt investment managers. While the banks have been in retreat in Australia, the degree of disintermediation is significantly less than in the North American and European markets. Partly for this reason, we believe the scarcity premium (the supply/demand imbalance) will persist over the foreseeable future.

Notwithstanding the recent headlines, the sector is continuing to perform as per stated objectives with the vast majority of managers. Defaults remain very low. Loss-given-defaults (LGDs) negligible. Income returns remain very elevated in the current RBA Cash Rate environment. All in stark contrast to the ructions roiling the equities markets or even the volatility in the government bond markets. We acknowledge the defaults reported in the press, the majority being in ACRED with a few in the mid-market corporate market. In relation to the former, there is no doubt that for high-rise developments, if the developer goes into administration, it is far more complex to work that situation out. But we note, most ACRED managers lend into the high-end 8-20 unit luxury development space – the only segment where there is a strong chance for developers to make good profits. And not all managers are the same, as per any asset class.

6. Diversifying and Growing Investor Base

The investor base continues to grow. It is growing in terms of numbers, and it is diversifying in terms of investor type. The segment is no longer simply largely attracting HNW investors. There has been a proliferation of not just wholesale funds but also retail funds. Institutional monies have increased, much coming out of Asia and which reflects the relative attractiveness of Australian debt. Not just based on returns but also the superior legal protections offered in Australia. That is, lower risk. Fund managers are increasing their engagement with investor groups, serving to expedite the growth and diversification trend we have witnessed, particularly over the last 2 years. Also, private debt is an excellent retirement income asset as the likes of Apollo, Blackstone, KKR, etc will testify to (referring to their more recent acquisitions of US insurance companies). The ageing demographics – the Baby Boomers – many can see the appeal. And perhaps more so following 2022 when the 60/40 allocation broke down completely.

7. Size Matters – the Big are Getting Bigger

With the growth of the private debt asset class has come a growing awareness and sophistication amongst investors. They have become more discerning and selective regarding investment manager choice, a dynamic aided by the increase in fund options from which to select. Scale, resourcing, length and quality of track record, and investor communications all matter. Unless you are a reputable global player, the time for new domestic entrants is over. Traditional mortgage fund managers who subsist at the lower levels of FUM scale will find life difficult. We believe there will be rationalisation to a degree.

Australia is witnessing a range of highly experienced private debt asset managers entering the market directly by way of equity investments, or through co-investments. This has largely been in the ACRED sector, but not invariably, with some offering Australian investors exposure to US and European private debt. Notable global entrants include Ares, PGIM, Barings, CapitaLand Investments, Nuveen, Brookfield (via LaTrobe), and Blackstone (via MaxCap). Whatever the form of 'investment', it is a strong validation of the asset class. These players are attracted to the Australian private debt market due to a range of factors including: a lender-friendly legal system, opportunities for non-bank lenders created by Basel III, property sector opportunities underpinned by demographic shifts, rental growth prospects, market resilience, acute demand-supply imbalance, and a relatively elevated risk-return lending profile.

8. Liquidity

The Australian PD sector is relatively liquid, with Australian managed funds offering redemptions on either a monthly or quarterly basis. This liquidity profile is well-founded on the basis of the respective underlying loan book portfolio. That is, Australian PD managed funds rarely have a weighted average loan expiry (WALE) of greater than 9 months, and in some SME Warehouse structures, it can be as low as a 3-month WALE. In contrast, institutional investors in the U.S. or European direct lending markets have effectively no liquidity/exit options during the stated term of the fund (typically 5 years). This is not the case for wholesale and retail investors in Australian PD funds (the exception being a Contributory Mortgage Scheme, in which there is a typical term of circa 12-15 months). Which leads us to an important point – the so-called need for an illiquidity premium in private debt. Refer to page 8 for a discussion on this misconception.

9. Insolvency Laws – The Australian Advantage

Australian insolvency laws focus significantly more on protecting creditors than the U.S. and U.K. laws, which are perceived to be focused on the debtor company. Secured creditors in Australia have effective control over companies they lend to, meaning they can take action against the company or security and either sell assets or restructure the debt. In other words, Australian insolvency laws give priority to the interests of creditors, especially secured lenders.

10. The Fund Manager Business Model Proposition

We have seen an increasing number of equities and fixed-income fund managers enter the Australian PD market, either directly by hiring experts or indirectly by gaining exposure through warehouse structures. There are 4 main reasons for this. Firstly, it is a growth market. Secondly, it can provide a consistent fee income without the FUM/fee vagaries of listed strategies (e.g., Growth vs Value, Small- vs Large-Cap, Australia vs International, Resources vs Banks, Fixed vs Floating, IG vs HY, Bonds vs Leveraged Loans). Thirdly, PD investor bases can be highly loyal to good PD managers. Fourthly, it is a source of fee income portfolio diversification (particularly important for listed equities fund managers).

Summary of key forces driving Private Credit

EXHIBIT 3: Supply Side Drivers

Supply Factors – Growing Investment Options that Support Sector Growth

The Retreat of Banks	Superior Technology	Service Competitive A dvantages	What the Banks Cede, PD Managers Take	The Fund Manager Business Model Appeal of PD
New Basel III / IV capital rules made it less profitable for traditional banks to lend to certain market sectors. For borrowers, lower LVRs and slower approval turnaround times can materially adversely impact borrowers' business models.	The emergence of new technologies and new non-bank lenders provides a more efficient and relatively more flexible service. This, tied with more general service competitive advantages, has created strong relationships between NBLs and borrower cohorts.	NBLs and private debt investment managers have gone to market with a distinct competitive advantag e in service value proposition for prospective borrowers.	Asset managers working within the 'search for yield' paradigm were happy to step in and provide debt financing to finance-starved business and household lending segments.	New fund managers from equities and fixed income backgrounds are entering the space attracted by consistent and potentially growing fees and the characteristic loyal investor base in PD strategies. The upshoot – increasing fund choice and new investors to the asset class.

EXHIBIT 4: Demand Side Drivers

Demand Factors – Funding That Supports Strong Growth in the Sector

1 Australian Private Debt Premia

Australian private debt has a scarcity premium due to less competition and disintermediation, driving the asset class.

2 The Ideal Retirement Stage Asset Class

PD is ideally suited for investors at or close to retirement age. It pays monthly or quarterly income and, with limited downside risk (lower sequencing risk).

3 Strong Collateral Protections

The borrower-lender power imbalance in Australia Favor's lenders, resulting in more favorable credit terms. Few defaults or losses in private debt strategies.

4 Strong Performance

Private debt mandates have almost invariably delivered on both returns and, importantly, downside protection stated objectives.

5 A True Portfolio Diversifier

Private Debt lowers overall portfolio risk whilst enhancing portfolio returns. Risk/return features of Private Debt are lowly or negatively correlated with other major asset classes(including real estate), and thereby enhance overall portfolio performance.

6 Diversifying Funding Channels

Institutional investors have increasingly invested in Australian Private Debt, either by way of warehouse facilities, offering their own private debt funds, or acquiring equity stakes in existing Australian Private Debt players.

ASIC Seeks to Increase Private Debt Supervision

As private markets grow in size and complexity, it is understandable that ASIC is seeking to increase its supervision of private equity funds, private credit funds and their advisers. In 2025, ASIC's thematic surveillance of private equity and private credit funds is focusing on fund governance, valuation practices, management of conflicts of interest and fair treatment of investors. With any increased supervision, it is important that greater transparency via disclosure is encouraged and where possible, minimum licensing conditions (AFSL, ACL or both) are required to achieve compliance and responsible practices. This will lead to further tightening of operations by lending clubs and other schemes that operate outside the NCCP.

Additionally, for retail private credit funds, ASIC may test compliance with disclosure and distribution obligations.

Many fund managers that we deal with have stated they welcome the additional scrutiny and transparency. This makes sense as a way to keep the industry healthy and sustainable in the long run so it can play a part in continued financing of critical pillars of our economy such as housing, small, mid and large corporates as well as the emerging opportunity set such as speciality finance – insurance premiums, factoring, invoice financing, litigation and so on.

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