

BAI Newsletter I/2023 – February 2023

Editorial article from Frank Dornseifer, Managing Director, BAI e.V.

Dear Ladies and Gentlemen, dear members,

Main topic private debt / BAI-Symposium

One of the most prominent topics on every media channel over the last weeks was and is ChatGPT! Reason enough to try out what ChatGPT offers on the main topic of this newsletter, private debt. You can see the result for yourself – including the translation by DeepL –in the next seven paragraphs:

“Private Lending, also known as non-bank lending, has increased sharply in recent years, as institutional investors seek higher yields in a low interest rate environment. A popular form of private debt are loan funds, which offer investors access to a diversified portfolio of corporate debt and loans to other entities.

However, to the same extent that the global economy is recovering from the COVID-19 pandemic, there are growing concerns over potential challenges that private debt securities and debt funds are facing. Especially rising inflation and rate hikes could lead to increased payment defaults and insolvencies of businesses, which take out loans from these funds.

In addition, restrictive financing conditions such as stricter lending standards and higher equity requirements could make it more difficult for companies to access the financial resources they need to grow and remain competitive. This could negatively impact economic growth and job creation.

Institutional Investors, which are major players in the private debt market, are also exposed to significant risks. Upon interest rate hikes, their bond portfolio value will decline while the default risk in their credit portfolio could increase.

In light of these challenges, it is important that policy makers and supervisors monitor the market for private bonds carefully and take measures to mitigate potential risks. This could encompass the introduction of stricter regulation and supervision, to ensure, that investors are fully informed on the associated risks with private debt securities and credit funds.

Additionally, policy makers could consider targeted support for small and medium enterprises that run into difficulties accessing financial resources, because they are more susceptible to the effects of stricter financing conditions.

In summary, it can be said that credit and loan funds can be important financing sources, but that this form of lending is also tied to considerable risks. To ensure the lasting economic growth and stability, policy makers and regulators must take proactive steps to mitigate these risks.”

Who has not already tried ChatGPT themselves and was impressed by the results, not only in quantitative, but also in qualitative regard, may now be amazed and must acknowledge that we are in the middle of a new era of artificial intelligence.

For short, the differentiated and multifaceted inventory of ChatGPT does justice to the topic of private debt in this compact format: Private debt plays an increasingly important role, not only in the financing of, for example, mid-sized companies, but also for investors, that want/need to diversify their portfolios and capture new yield opportunities; at the same time, the fulminant role and development of private debt is associated with risks and supervisory authorities around the world are taking a closer look at the market and its participants (keyword “non-bank financial intermediation” (NBFi), respectively the term often used in the past “shadow banking”).

So, where do we go from here with private debt, also independent of the view of ChatGPT?

First off, I may point for the broad and profound discourse on this topic to the – unfortunately fully booked – BAI Private Debt Symposium on March 9, which I neither want nor can anticipate; because this themed day is not just top-class cast but is in service of leading this discourse on the topic of private debt from the view of the industry and investors. So, I can be brief here. But, in view of the event, I can proclaim that the asset class arouses interest in the industry as well as in investors, although many fundamental parameters are currently changing while their effects are difficult to assess.

Especially rate hikes and recession scenarios are likely currently worrying managers and investors. How stable are the valuations of portfolio companies? Can they forward rising financing costs to customers or is there a threat of significant payment defaults or even insolvencies? Are traditional strategies outperforming private debt again after the turnaround in interest rates? Questions upon questions, and naturally, supervisory authorities are also asking these questions, as they care about the stability of the financial market across the entire NBFi-sector. Managers that pay special attention to the underwriting process, especially on the topics of debt servicing and covenants, should be in a good position, so that the private debt asset class continues to have a lot of potential and can play to its strengths. Yet it can be observed that investors, for a multitude of reasons – at least in part – are choosing traditional fixed-income strategies again. How sustainable this trend is, will show in the future. So please discuss with us at the Private Debt Symposium on March 9 or at the BAI Alternative Investor Conference (AIC) from April 24 to 26, that naturally has a thematic focus on private debt as well. On October 19, there will also be a further symposium – this time on real assets. We will inform you on this shortly.

AIC 2023 and Pre-Event on new developments in the fund and structuring praxis

You have probably already seen the nearly final agenda of our flagship-conference AIC. With Prof. Monika Schnitzer, Chair of the German Council of Economic Experts, Prof. Jörg Rocholl, president of ESMT, Prof. Reiner Braun, Chair of Entrepreneurial Finance of the TUM and Prof. Dirk Zetzsche, Chair of Financial Markets Law and Coordinator of the House of Sustainable Governance & Markets at the University of Luxembourg, we again have an absolutely top-class scientific keynote agenda. The topics are highly relevant for industry and investors and future portfolio alignment alike. A glance into his portfolio will be granted by Mr. Richard Gröttheim, CEO of the well-known Swedish pension fund AP7, in his investor talk. Another highlight of the AIC. And of course, our member and sponsor presentations and different panel discussions are something to be seen. A varied and informative program awaits you, just as you are accustomed to and may expect.

Following the first set Pre-Event was welcomed very well last year, we continue this format once again this year and present brand-new and from praxis, among other things, new funds structures around

ELTIF 2.0, semi-liquid funds, evergreen and continuation funds, present AIFMD 2.0 and EU-wide novelties for credit funds and guide you, in the context of a use-case through the praxis of sustainable reporting for alternative investment funds. In short, the day before the AIC has it all and you should not miss this event.

The AIC will be rounded off on the evening of the first conference day of course with an illustrious get-together-speech of Prof. Ricarda Rehwaldt, professor of psychology and expert on the topic of happiness at work. Be surprised and become even more happy at work!

All keynote speakers are also guests at the investor dinner which follows the joint get-together at Westhafen-Pier. And as usual, the exclusive investor workshop at the beginning of the second conference day must not be missing.

We are hoping on a new participant record and are looking forward to the exchange with you on the AIC!

BAI members meeting on March 30 / BAI monthly / new BAI logo

Our members have just received the invitation to this year's members meeting. Not only an exciting and successful year of the association lies behind us, on which we may report there; we also have an ambitious agenda for the running year – and following that – and will present this there as well. Once again, the members meeting will take place online and we are hoping on lively participation.

A review (in German) well worth reading on the activities of the associations, market and regulation on the year 2022 you can find on our Homepage at [BAI Review 2022 | Bundesverband Alternative Investment eV: Home \(bvai.de\)](#).

In the future, we will provide a concise monthly review with all important information on the association of the last month and the most important topics and dates of the following month. This way, you have all important topics and information in one view and we reduce the amount of single mailings that, under certain circumstances, can be overlooked from time to time. Please take note of the pertinent posts, dates, et cetera, which we are posting on our members platform tixxt. We are expanding this as the central information and discussion platform for our members. Incidentally, there are close to 700 representatives of members companies signed on and active on the platform by now. A great success!

And in view of novelties in the association we may finally point out that, after our anniversary year, we are running a new logo with a new slogan and hope that you like it to it just as we do. Diversification matters still, of course, but after 25 years and a plethora of asset classes and strategies, which we also established for investors, we want to embrace this asset-class-spanning approach of the association and our role for the industry – EU-wide as well – more strongly.

Regarding the articles of the newsletter

As usual, we present to you in this newsletter as well a plethora of articles well worth reading on the topic of private debt. Many thanks to all authors that contributed to this newsletter. And if you are interested in positioning in the new point of view format with an opinion article on an industry-relevant topic, please contact our team.



I wish you – as hopefully always – an informative and entertaining reading of the BAI Newsletter.

Frank Dornseifer