Private credit funds:
Challenges and opportunities

Changes in the mainstream lending landscape and the market's less volatile nature drive more fund managers toward the private credit space. Preqin recently estimated the market's growth rate is accelerating to 17.4% annually, with private debt becoming the second largest private capital asset class in 2023. Global Custodian sits down with **Bhagesh Malde**, global head of SS&C's fund servicing unit, SS&C GlobeOp, and **Karen Geiger**, SS&C's alternatives technology leader and co-head of SS&C Advent, to discuss opportunities and challenges in the market and how the firm's private credit offering is standing out from the competition.

Could you tell us a bit about the interest that SS&C is seeing in private credit and what type of managers are starting funds?

Karen Geiger: We're seeing fund managers of all types diversifying to private markets — private equity, private credit, pure hedge; everybody is going hybrid now. This trend started around five years ago, but it has accelerated recently. With the current volatility in the market and interest rates rising, we're seeing a lot more interest in private credit. We've aligned our product roadmap around this trend, focusing on loans and credit functionality within our system to support this type of diversification.

Who would you say are the main types of institutional investors exploring private credit? What obstacles are there for those investors?

Bhagesh Malde: Almost everyone is focused on private credit, with varying degrees of success. We're seeing growth in hybrid funds, mostly private credit variants. Hybrid funds are a global trend in North America, Europe, and Asia.

The withdrawal of banks from mainstream lending is part of it. Secondly, it's attractive to private equity and hedge fund managers to invest in this space because it's much less volatile than other things they're investing in. If you have a portfolio of loans, you can almost measure your bad debt ratio across the broad spectrum of firms you're lending to. You're carving out niches for yourself, so there's lots of data out there helping you analyze and understand what your risk ratios are going to be.

Thirdly, the deals I've seen tend to be at variable interest rates. And so you're taking away some of that interest rate risk you might have if you do fixed-rate lending. Variable lending is very attractive for all those reasons, and then the sheer demand from companies worldwide for credit drives it.

Considering that interest, why are there so few private credit funds at the moment - and what can we expect moving forward?

BM: I think a lot of funds being formulated right now will hit the market in future quarters, so we'll see a significant change once they come to market later this year. The recent trend of banking collapses will only increase the velocity of those private credit funds coming to the market.

KG: There is also the possibility funds may not be labeled explicitly as private credit — they might be hybrid. Previously, a fund with loans would be around 90% syndicated loans and 10% private. The private segment may account for 30-40% or even higher.

What are the main challenges for running private credit funds?

KG: They tend to be very complex and bespoke, meaning these can be negotiated and have their contract terms, including cash flow, timing, and fee structures. Fee structures, in particular, are not standard. There can be all kinds of arrangements on the side to be accounted for to calculate at the investor level what the fees are. The funds are complex, and there's added fee pressure in general, which means you get these bespoke arrangements. You need system flexibility to manage to account and report around these loans.

BM: In typical private equity or private equity real estate, you might only have a small number of investments you're making, around 10 or 12 investments. Still, the number of entities you have in your credit fund structure could be dozens. It's not uncommon to come across a fund structure with ten investments but 100 mid-tier entities in that structure below the fund level in our private markets business.

We have some clients making thousands of loans, which adds to the complexity. A typical private equity accounting platform isn't geared up for that. Every single loan you make could have different terms and conditions. And keeping track of all that information and the covenants you have with those loans can be very difficult without an experienced fund administrator with great technology.

How does SS&C's solution for private credit stand out among amongst the competition?

KG: We offer the flexibility to manage any type of loan and configure accounting and reporting on SS&C Geneva. We want to be a hub for all loan data, whether syndicated, private, or whatever the source may be. Whether it's coming directly from agent banks, the loan holders themselves, or other data providers who have access to loan data, we want all that information flowing through our pipes to be a single one-stop shop for loan holders.

Our technology is built to handle any structure and offers complete visibility from the fund level to the investor allocations—liquid or illiquid. There's a trend toward firms wanting a single platform to do all of the above, because everyone diversifies.

BM: In this hybrid space, you need private equity accounting technology and strong asset accounting technology to talk to each other. That's where SS&C comes to the fore compared to our competitors — we own all of those technology platforms.

We're also masters in hedge fund administration and private equity style administration and there are few firms expert at both.

What's in the pipeline for SS&C's private credit solution?

KG: What I touched on earlier regarding loan data — that's a new area for us. It's a very paper-based industry, and we have technology leveraging machine learning to read agent notices and does straight-through processing into your back-office systems. We continue developing those processes to be that hub, regardless of the data coming in on a piece of paper or through more digitized formats.

How does ESG play into private credit reporting requirements?

BM: With ESG, it depends on where in the world you are. It's a big topic in the EU. Given the politics involved, I suspect it's becoming a smaller topic in the U.K. Some states in the U.S. may avoid investing in your fund if you mention ESG, but if you're marketing to Scandinavian pension funds, it's probably the first question they're going to ask you.

The trend towards ESG has paused because of this polarisation managers are seeing from investors and political pressure.

I'm sure it will come right back in a big way and large parts of the world are very focused on it. The data you're collecting to be able to report on ESG is complicated for a manager. That's why they need service providers like us to collect all the underlying data, including governance, social responsibility and environmental impact. If you are going to report ESG, you're going to have to analyze multiple factors and then do it consistently. Solutions like SS&C's ESG Reporting can help.

Learn more about SS&C's Private Credit Solutions and Services here.


Bhagesh Malde, global head of SS&C's fund servicing unit, SS&C GlobeOp, and Karen Geiger, SS&C's alternatives technology leader and co-head of SS&C Advent