

## Sovereign Wealth Funds Look to Private Debt

### Almost two-fifths of sovereign wealth funds now actively invest in the asset class

Sovereign wealth fund investors are increasingly looking to make private debt investments an element of their portfolios. The *2017 Preqin Sovereign Wealth Fund Review* finds that 39% of sovereign wealth funds now invest in the asset class, an increase of five percentage points over the past 12 months. The majority of sovereign wealth funds with over \$10bn in assets now allocate to the asset class, including two-thirds of those managing \$250bn or more, and all of those managing \$100-249bn. Sovereign wealth funds are attracted to private debt investments due to their strong risk-adjusted returns and low correlation to other asset classes.

**For more information and analysis, see the full *Preqin Private Debt Spotlight: June 2017* here: <https://www.preqin.com/docs/newsletters/pd/Preqin-Private-Debt-Spotlight-June-2017.pdf>**

#### Key Sovereign Wealth Funds in Private Debt Facts:

- **Thirty-nine percent of sovereign wealth funds now invest in private debt**, up from 34% that did so 12 months ago.
- While only 17% of funds with less than \$1bn in AUM currently invest in the asset class, **67% of the largest funds with more than \$250bn are active investors.**
- **Private debt is sought after by non-commodity-funded sovereign funds:** these investors make up 43% of sovereign wealth funds active in the asset class, despite comprising just 37% of the total sovereign wealth fund universe.
- **Mezzanine investments are the private debt fund type most appealing to sovereign wealth funds**, with 70% targeting the strategy over the next 12 months.
- Distressed debt is targeted by 63% of sovereign wealth funds active in the industry, while **direct lending is sought by 53%.**
- **Sixty percent of sovereign wealth funds will target Europe** in the next 12 months, ahead of 53% that will seek investments in North America. A significant **43% of funds are looking for opportunities in emerging markets.**

#### Ryan Flanders, Head of Private Debt Products:

“This latest research shows that private debt is an increasingly attractive asset class to sovereign wealth funds. The five-percentage-point increase in the proportion of sovereign wealth funds investing in the asset class over the course of just 12 months reflects the positive investor sentiment towards the industry: almost all private debt investors report to Preqin that they are satisfied with the performance of their portfolios.

Sovereign wealth funds comprise some of the largest investors in private capital, so their increased participation in private debt is likely to have a significant impact on the future of the asset class. Given their overall tendency to prefer longer-term, lower-risk investments, as more sovereign wealth funds become active in the space we may see a swing towards direct lending investments. At the same time, sovereign wealth funds’ ability to commit large sums of capital to vehicles may provide a further boost to future fundraising.”

*Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.*

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