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Private credit : An investment opportunity but also a path to regional growth

Singapore's increased investment in private credit shows the city is embracing alternative investments and more complex financial services. As international investors warm to Southeast Asia at a time of growing geopolitical uncertainty, Singapore has a real opportunity to increase its share of global capital flows and drive growth.

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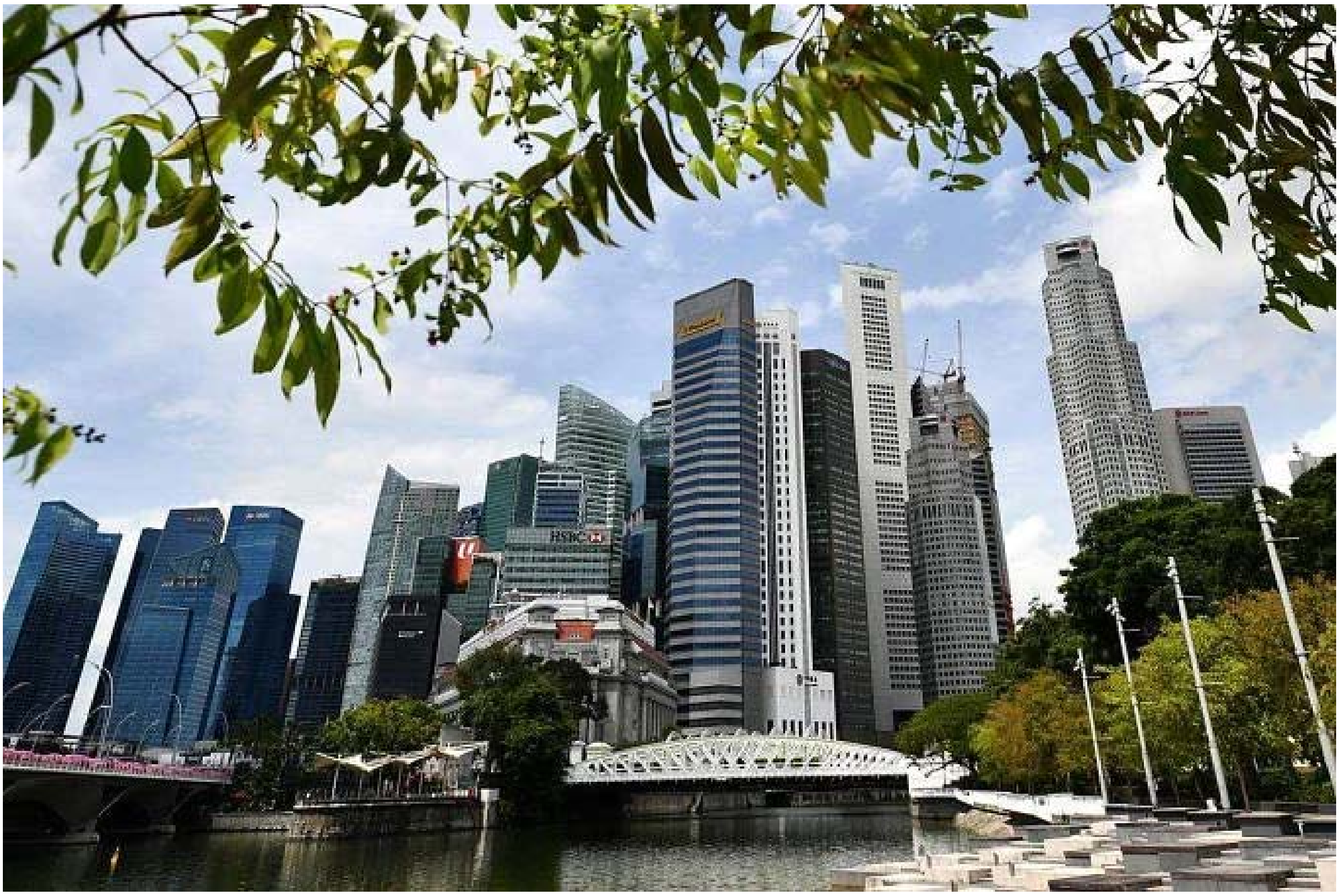

Private credit provides Singapore with an opportunity to enhance its status as a leading financial centre for the region. THE STRAITS TIMES

RAVI Menon, managing director of the Monetary Authority of Singapore (MAS), laid out the case for an increased allocation to private markets during a keynote speech at the SuperReturn Asia conference in September.

“Private equity (PE) and venture capital (VC) managers are more nimble than investors in public markets,” he said. “Compared to public equity investment managers, PE and VC managers typically have more control and influence over their portfolio companies, and greater access to information on their financial and sustainability performance.”

This advantage of private over public investors also holds true for alternative credit managers and is reflected by increasing allocations to private credit strategies by institutional investors such as pension funds and insurance companies. The MAS is among these investors; Menon also announced an additional US$1 billion investment in private credit, taking MAS’ private markets programme to US$6 billion.

The case for alternative investments is indeed compelling at a time of such volatility in the public capital markets. Yet, private credit is much more than just an investment opportunity for Singapore: It’s a chance to build the international competitiveness of the country's financial system and drive its growth as a financial centre for the wider region.

Embracing alternative asset classes like private credit increases Singapore's appeal to investors who are looking for opportunities beyond the public markets. It also opens another channel for fast-growing companies in Southeast Asia to connect with regional and global money managers, and it will accelerate the development of a local talent pool for complex financial advisory services.

All of this helps position Singapore as a financial hub for all seasons – with the capacity to support regional capital formation during times of optimism and provide expertise for corporate restructuring during more difficult periods.

Building on bank lending

Singapore is home to some of the region's best-run banks. Domestic lenders have been highly successful in supporting Singapore's economic miracle over the past five decades and extending their reach across the region. Today, they finance a wide range of enterprises, from the country's biggest companies to an increasing number of its small and medium-size enterprises.

There are natural limits, though, to the banks' ability to finance non-investment-grade credits, especially on an unsecured basis. Even when they participate in the leveraged and acquisition finance market, banks typically lend against hard assets or on the basis of a comprehensive security package.

That reflects prudent risk management, but cannot always meet the needs of the modern economy, in which asset-light technology firms are becoming a more important driver of growth and companies are looking for a broader range of financing options.

Singapore can diversify and deepen its capital markets – as well as strengthen its economy – by supporting market participants in providing the piece that is missing from today's funding jigsaw: private credit.

Singapore-based institutional investors will benefit from the growth of this new asset class because it will give them more options for diversifying their portfolios. Society should also benefit from a stronger connection between local savings and investments.

As the local market becomes more sophisticated, commercial banks may also seek to provide wholesale financing to the alternative credit community, which will serve as a further engine of growth for the banking sector. In today's uncertain market environment, having a modern form of debt-denominated risk capital available for growing young companies can only help shield Singapore from the vagaries of a changing international monetary order.

A well-developed private credit ecosystem is also a requirement for a thriving private equity sector, which typically draws heavily on private credit to finance its investments. Private debt is a complementary form of capital that allows higher corporate leverage than traditional bank financing – at a price. That allows private equity firms to diversify their capital and retain more funds for reinvestment. Demand for this kind of financing also creates a higher-yielding debt product that is sought after by a growing number of institutional investors.

The right framework

Private credit provides Singapore with an opportunity to enhance its position as a leading financial centre for the region.

The growth of alternative capital, though, is only possible with the right institutional framework in place. In order to model expected risks and returns, investors need to have confidence that their rights will be respected when things go wrong.

Singapore has taken action to improve its insolvency regime since 2017, introducing a number of features to allow speedier resolutions and make it easier for companies to keep operating during the process – similar to the US Chapter 11 framework. As a track record develops, we expect these provisions to be seen favourably by international investors, helping stressed companies raise essential funding during a crisis and facilitating more creative solutions.

The restructuring of Singapore container shipping company Pacific International Lines – completed last year following a US$600 million investment from Heliconia Capital Management – sets a key precedent with an accelerated timeline that preserved cash and allowed the company to continue operating throughout.

We expect more Southeast Asian companies to choose to restructure in Singapore as the framework is properly tested. That will position Singapore as the regional hub for international arbitrations and restructurings – and a meaningful alternative to a UK or US process.

Alternative capital pools and insolvency frameworks are important components of a world-class financial sector. There is no reason why Singapore cannot be a leader in these areas given its gilt-edged international reputation, strong institutions, deep local talent pool, and fast-growing investment industry.

The writer is senior advisor to global investment bank Houlihan Lokey

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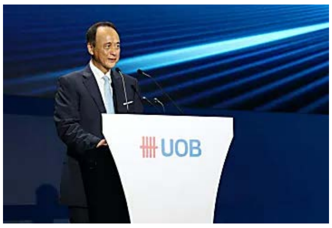

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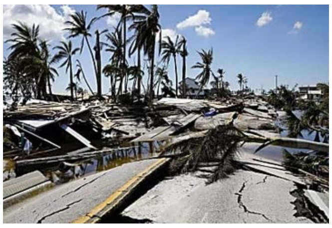

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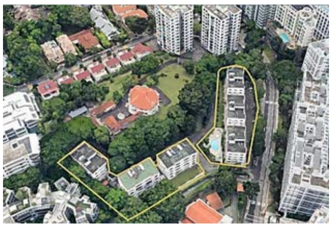

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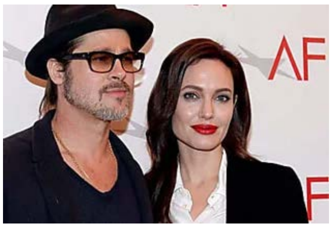

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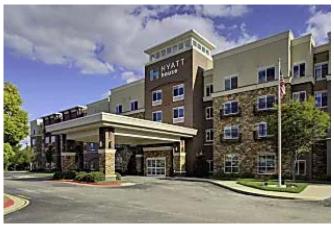

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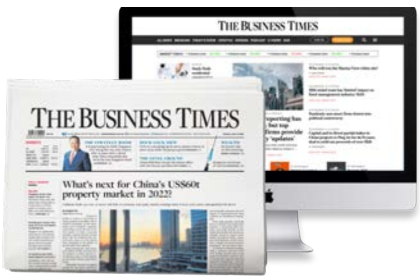

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