CITYWIRE SELECTOR

PRIVATE DEBT | 12 JUN, 2024

Private credit 'shakeout' on the way, says Churchill AM's CEO

Churchill Asset Management CEO Ken Kencel expects a shakeout of the industry in the coming years.

BY **SELIN BUCAK**

For asset managers entering private credit, it will now be challenging to succeed, according to Churchill Asset Management president and CEO Ken Kencel.

Speaking to Citywire at SuperReturn, Kencel said four factors will determine who the winners will be in the red-hot private credit market that has been attracting numerous new entrants.

Churchill, a private debt and private equity firm, is an affiliate of Nuveen, the asset management arm of insurance company TIAA. It was set up in 2006, but became a part of Nuveen in 2015 and has more than $50bn (€36.9bn) in committed capital.

Across the globe new businesses have been setting up, including 5C Investment Partners in the US, backed by Michael Dell's family office, and existing asset managers launching dedicated divisions, like Fidelity International. The likes of BlackRock and PGIM have acquired existing firms to add to their private debt capabilities.

However, not everyone is succeeding in tapping the rising demand for private debt.

Fidelity International established a private credit team in early 2021 to launch a range of strategies. It then continued hiring into this team, bringing in 12 people, including senior people in direct lending, in 2022.

The firm has now decided to stop developing that business following a strategic review. It said it will instead partner with third parties to serve its client needs and that some roles will be impacted by the decision.

'There is going to be a shakeout, like in any other industry,' Kencel said. 'You have early adopters and firms that have scaled over time. A challenging macroeconomic environment will now lead to the winners being distinguished.'

What's needed

What will determine success, in his opinion, will be scale, track record, alignment and differentiated sourcing.

He said funds must be able to write a cheque for the full financing of solutions, otherwise 'they may be doing smaller transactions or pieces of deals that nobody else wants.' If funds can deploy $400m in a single transaction and still maintain portfolio diversification, he believes they will be at an advantage.

Kencel also highlighted the importance of having a track record because it will determine who is able to raise money.

'You are going to see certain firms start to fail in terms of being able to raise money. They will fall behind or they won't be able to raise capital because they've had turnover and are now trying to retell the story. Track record begets capital raising.'

The other important factor in this race will be alignment, or access to seed capital from the likes of a parent company, like Churchill has with insurance group TIAA.

And finally, as competition intensifies it is becoming even more difficult to source unique and differentiated deals, with everyone seeing the same companies and going through the same processes.

'How do you source your deal flow in varying market environments and how sticky are your relationships?' Kencel said. 'If you're a new entrant without scale, a top-tier team and a longstanding track record, if you are only looking at deals and competing on price and leverage, you are at a clear disadvantage.'