

The Game Changers: Technology Providers in Private Credit

Kanav Kalia, chief sales and marketing officer at Oxane Partners, shares some observations, based on the firm's experience of working with global clients, on what private credit investment firms look for in a technology partner.

The rise of private credit

In the aftermath of the Global Financial Crisis (GFC), the private credit industry has come a long way to become one of the fastest-growing institutional asset classes globally. At the end of 2021, Preqin estimated that total assets under management (AUM) stood at more than \$1.21trn, clocking an average 13.5% annual growth rate over the last ten years. By 2023 it is estimated that private credit would become the second-largest alternative investment asset class and, by 2026, reach a staggering \$2.69trn in AUM.

Such growth, and accompanying increasing investor interest and scrutiny, has brought with it its own set of challenges for private credit investment firms, which have traditionally been on a lower rung of the technology ladder.

The pandemic has brought in some change, as managers are now accelerating digital transformation projects to enable constant access

to investment data and improve operational efficiencies. There are many lessons we believe will stick with investment managers – chief among them being the criticality of establishing a robust technology infrastructure.

Having worked closely with private credit investment firms for nearly a decade and seeing the space undergo a gradual shift, we have been able to identify the key drivers that they look for when evaluating their technology partners.

Flexibility and scalability

First and foremost, investment managers desire a solution that has the flexibility to support a broad range of private credit asset classes – such as middle-market loans, asset-backed trades, consumer and SME loans, residential and commercial mortgages, and so on – all in a single technology ecosystem.

This ability to capture the nuanced nature of private credit investments while supporting a wider

range of asset classes provides investment managers with the agility to capitalise on new opportunities. A single ecosystem also ensures they are able to maintain tight risk controls.

Integration capabilities

A growing number of investment managers today look for a solution that has an open-ended framework – one with strong integration capabilities that can link with multiple upstream/downstream systems, both internal and external.

Strong integration capabilities mean there is a streamlined flow of information on the 'data highway' between the various systems in a firm's technology stack. With rising data volumes, and the need to manage multi-asset portfolios, a solution that seamlessly integrates with existing systems to create a coherent 'golden source' view and ties in well with existing systems allows investment managers to derive insights from data much faster.



Adoption and support model

One of the biggest challenges private credit investment firms face is implementing the change management transformation required to adopt any new technology system. Solution providers that understand this pain point are better equipped to design their adoption and support models for a successful transformation.

Facilitating a seamless transition of the existing investment data to the new system – while ensuring continuous support with an expert team of credit analysts to perform all operationally heavy tasks, enables investment managers to continue to focus on their core functions with zero disruption to business operations. We see this as one of the most critical steps in such transformation projects – a step that differentiates successful outcomes from unsuccessful ones.

Robust security framework

In today's data-prolific world, it is imperative for solution providers to maintain strong security controls over clients' data and processes. For

instance, any solution partner that works with European investment managers needs to be GDPR-compliant, which ensures stringent control on data privacy and protection.

Other key considerations investment managers scrutinise before signing up with a new solution include regular audits of organisational practices/processes, data confidentiality provisions, regular penetration testing of applications, audit logs, real-time system monitoring, vulnerability assessments, data encryption, security training processes, and software development best practices.

People as enablers

To enable the right investment management solution, private credit investment firms prefer technology providers that bring in deep asset class expertise and do not require extensive handholding or training. They are increasingly striving to find solution providers that have the optimal balance between technology and domain expertise.

Service providers that deploy an experienced team of credit ana-

lysts to collaborate with the clients' teams – and therefore speak their language – are better placed to address the needs of investment managers and set them up for successful digital transformation.

The solution provider's perspective

The private credit market today is growing not only in size but also in complexity. As a result, we have found that investment firms are either already investing or setting up roadmaps to significantly bolster their digital capabilities, to secure an advantage over their peers. To help lower the barriers to digital transformation, progressive service providers are continuously enhancing their solutions offerings.

Looking ahead, we believe that the growing appetite among investors to increase their allocation to private credit will further drive digital evolution in this space. In response, solution providers must mirror developments in the private credit industry, to continually build on their solutions so they deliver increasing real value to private credit investment managers.