PRIVATE DEBT IN THE UK VS SOUTH AFRICA – A TALE OF TWO MARKETS

Private debt is maturing globally, with South Africa emerging as a promising but distinct opportunity set

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Private debt, often referred to as private credit, broadly refers to the provision of debt financing to companies by non-bank lenders — typically through private funds rather than public bonds or traditional bank loans. These transactions are privately negotiated between borrowers and lenders and are not traded on public markets. Most funds are structured as closed-ended vehicles, though some offer limited liquidity via open-ended formats.

Over the past few decades, private debt has become a fundamental part of the alternative investments ecosystem. It has matured rapidly in developed markets like the UK, while gaining meaningful traction in emerging markets such as South Africa. However, the two markets remain at very different stages of development.

THE UK: A MATURE AND EVOLVING MARKET

The UK private debt market is well-established and globally significant. It gained real momentum after the 2008 Global Financial Crisis (GFC), as banks scaled back lending to repair balance sheets and comply with tighter capital regulations. Into this gap stepped private debt funds, backed by institutional investors already familiar with the asset class from its US origins in the mid-1980s.

In the early 2000s, only a handful of independent private credit managers operated in the UK. Early deals typically involved funding medium-sized, sponsor-backed businesses, with deal sizes ranging from £25 million to £50 million. These were often club deals, funded by small groups of private credit funds. Leverage levels were around 4x–5x Ebitda, pricing ranged from 500 to 800 basis points above base rates (then three-month Libor), and deals were relatively tightly structured (typically requiring three financial covenants).

Fast forward to today, and the market has scaled dramatically. European institutional investors are allocating increasing capital to the asset class, drawn by its compelling risk-adjusted returns. More than 250 independent private credit managers now operate in the UK[1], covering the full spectrum from venture debt and SME lending to mid-market and large-cap corporate lending.

Importantly, beyond the growth in the number of managers, a handful of dominant players now manage tens if not hundreds of billions of dollars in European direct lending strategies alone. These include Ares Capital ($150 billion+), Blackstone ($100 billion+), KKR ($50 billion+), Bain Capital Credit ($50 billion+), ICG ($30 billion+), and Arcmont ($20 billion+). A recent survey suggests that around 40% of LPs intend to increase their allocations to private debt in the coming year[2].

This influx of capital has led to significantly larger transaction sizes — now commonly in the £100 million to £300 million range, with larger club deals reaching £3 billion to £4 billion. However, the heightened competition has also led to some margin compression and easing of loan terms. Leverage has edged up to 5x–6x Ebitda, pricing has narrowed to 500-550 basis points above base rates (now three-month Sonia – the sterling overnight index average), and covenant packages have softened, dropping from the typical three covenants per deal to one or two, often with greater headroom. ESG-linked margin ratchets have also become standard.

Despite these shifts, the asset class has shown remarkable resilience. Default rates have remained consistently low (around 1%), outperforming both bank-led leveraged loans (c.1.3%) and high-yield bonds (c. 3.2%). The market has weathered multiple macroeconomic shocks, including the GFC, Brexit, Covid-19, geopolitical conflicts, supply-chain disruptions, and tariff uncertainty.

Globally, private debt assets under management (AUM) have grown 40-fold from $40 billion in 2000 to $1.6 trillion in 2024, and are projected to reach $2.6 trillion by 2029[3]. Of this, about 70% is managed from the US and Canada, with Europe (including the UK) accounting for the remaining 30%. The UK itself represents around 65% of the European private debt market.

Credit: Luca_Nicoletti_unsplash

SOUTH AFRICA: AN EMERGING OPPORTUNITY

By contrast, the South African private debt market remains relatively nascent, arguably 10 to 15 years behind the UK in its development. Several structural factors explain this gap.

First, South African banks continue to dominate corporate lending. Unlike their UK counterparts, local banks were relatively unscathed by the GFC and faced less regulatory disruption, allowing them to retain strong balance sheets and market share.

Second, institutional investor recognition of private debt as a distinct and attractive asset class is more recent. In the early stages, private debt strategies were typically managed within the on-balance sheet credit portfolios of large insurers and asset managers such as Old Mutual, Sanlam, and Stanlib, either participating in syndicated bank loans or structuring direct loans in a similar fashion to traditional bank lending.

Independent private debt managers began to emerge more meaningfully in the early 2000s. Early movers included Vantage Capital, Greenpoint Capital, and Chrysalis Capital, who raised dedicated private debt funds before 2012. More recently, newer entrants such as Tamela, Westbrooke Alternatives, Maia Capital, Kholo Capital, and Stonefield Credit have added depth and competition.

Unlike in the UK, most South African private debt deals are sponsorless, focusing on founder- or family-owned mid-sized businesses rather than private equity-backed firms. Deal sizes are smaller, typically ranging from R50 million to R300 million, and leverage levels are more conservative, at 2x–3x Ebitda. Pricing, however, is higher: margins typically range from 500 to 800 basis points above base rates (three-month Jibar, transitioning to Zaronia – the South African rand overnight index average), reflecting smaller lending counterparties, both lower corporate valuations and a more conservative risk appetite.

As in the UK, the use of proceeds includes acquisition financing, growth capital, refinancings, and recapitalisations. However, there is proportionally less sponsor-led leveraged buyout (LBO) activity in South Africa.

Momentum is nonetheless building. Several credible managers with multi-decade track records are demonstrating that the strong risk-adjusted returns seen in developed markets are achievable over the long term in South Africa too. Institutional investors are increasingly treating private debt as a permanent feature of the local alternatives landscape. The growing investor appetite, increased borrower awareness, and regulatory changes permitting larger allocations to unlisted investments are all contributing to the local market's growth.

LOOKING AHEAD

Private debt is no longer a niche asset class — it has become an integral part of the corporate funding ecosystem and a core allocation within alternative investment portfolios. In both the UK and South Africa, the asset class has proven resilient, adaptable, and capable of delivering value across market cycles.

As competition intensifies and conditions evolve, the real differentiator will be manager quality. Long-term success in private debt isn't about chasing short-term returns, but about preserving capital, managing downside risk, and building robust, long-term lending relationships. As in the UK, those South African managers who can demonstrate strong, cycle-tested track records in their local markets will be well positioned to succeed in this expanding landscape.

References

[1] *British Venture Capital Association (BVCA), as at Sept-24*

[2] *Global Private Equity Barometer - Dec-24, Coller Capital*

[3] *Future of Alternatives 2029 Report, Prequin*

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