Democratization: The Next Golden Age?

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Much has been made about the so-called "Golden Age of Private Credit." However, to characterize the emergence of the asset class as being attributable to a specific moment in time implies that it's not the result of more permanent secular shifts that have occurred over the previous 25 years.

Regulations affecting bank lenders, borrower preferences, and the general growth of the industry, positioning private credit as a differentiated and reliable source of capital, have each contributed to the industry's transition from niche to prevailing source of M&A financing. McKinsey & Co. has quantified that since 2009, private credit lending balances had grown approximately tenfold, approaching $2 trillion at the start of 2024.

Given historical trends, coupled with forecasts for a revitalized M&A market, the easy 2025 prediction points to further momentum. Less obvious is where growth and inflows will come from. At the risk of spoiling the conclusion, the answer lies in the ongoing democratization of private capital. But again, this didn't happen overnight and all signs point to a more enduring shift, also decades in the making.

No silver bullet will democratize private capital in one fell swoop. But there has been incremental movement creating opportunity. On the regulatory front, when the SEC updated its "accredited investor" definition in 2020 to de-emphasize income and net-worth tests, it marked a momentous shift from policymakers to level the playing field with regards to access. Parallel to this, product innovation—from private BDCs and REITS to interval funds, ETFs and multi-manager products, more recently—continue to move the needle.

Still, according to a Cerulli Associates 2024 survey, fewer than two out of every five advisors currently provide exposure to alternative assets. And of those who do, the allocations, on average, represent barely two percent of client portfolios.

The reason for optimism is that with the maturation and growth of private assets—stress-tested across cycles and rate environments—the burgeoning demand coupled with product innovation should provide a tailwind. A separate survey from CAIS and Mercer showed that advisors overwhelmingly believe access to alternatives deliver competitive advantages. And of those with exposure, 85% expect to increase allocations.

As it relates to private credit, the industry is at roughly the same stage of maturation as the long-only investment

complex decades ago. Initially, long-only equity was a monolith, but with continual education, product innovation, and growth, advisors now have at their disposal a supermarket of choices to diversify by geography, sector, market cap, and product types. Advisors, in turn, can calibrate client portfolios to meet very specific needs around investment timelines, return and income expectations, risk appetites, etcetera. Access on its own is no longer a differentiator; manager selection, instead, distinguishes advisors.

Like the emergence of private credit, one innovation or one regulatory change won't instantaneously open the floodgates. Our approach at Audax Private Debt has been to meet investors where they are. Since inception, we've raised $32 billion across 37 funds and SMAs. Over that time, the proportion of HNW investors and RIAs in our investor base has grown to nearly 20%, drawn to the domestic middle-market exposure we provide and the choice we facilitate through structure and risk-adjusted returns.

Democratization, for us and many managers, has been a slow and steady build. But 2025 could be the year the rest of the world takes notice. ■

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