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Private Credit – where are the people coming from?

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Despite otherwise challenging conditions, there is one part of the investment banking market which has been growing strongly in 2023 and for which the outlook is good. Private credit funds have grown from $875bn in 2020 to more than $1.5trillion at the start of this year, and seem likely to top $2trn in 2024. This White Paper looks at the implications of this growth for hiring, and the kinds of candidates who find a way into private credit jobs.

Having begun as a niche strategy for private equity houses, private credit funds have now been launched by all the major multi-strategy hedge funds like Citadel, Millennium and Balyasny, as well as many mainstream asset managers. Even the banks themselves are getting into the space; Goldman Sachs has had Special Situations and Merchant Banking teams for a long time, but banks like Citi, Deutsche and Nomura are now allocating billions of dollars, with consequent recruiting needs. According to specialist recruiter The Risch Group, the first six months of 2023 saw 1,211 moves globally in private credit, made up of 375 marketing staff and 836 investment professionals. Since average salaries are high in this industry – the most recent published accounts of Ares Group suggest that their 350 employees earn over $700k on average – there is a substantial and growing source of demand for top talent.

So where are all the people going to come from? In order to get some hard data on the subject, we analysed publicly available information on 50 randomly selected mid-career professionals (senior Associates to junior Executive Directors) to see which route they had taken into private credit. The results were consistent with other surveys such as the quarterly report from Pearse Partners on previous employers of their private credit candidates. They give some picture of the kinds of people who are sought after by private credit employers.

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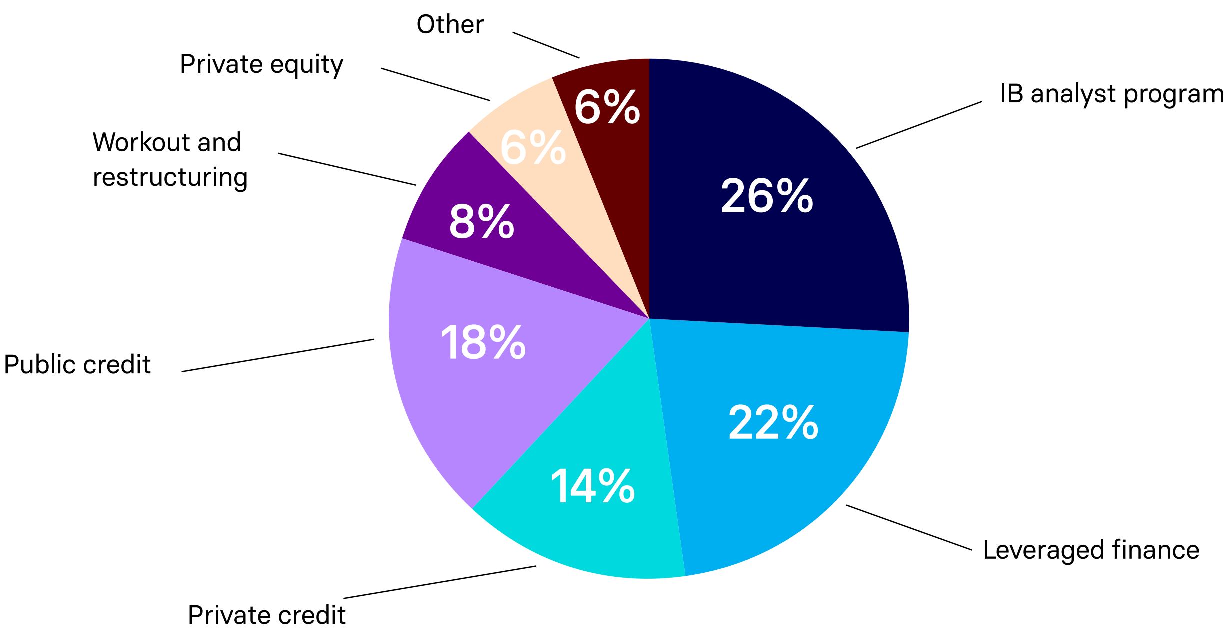

Source: eFC analysis

> "The biggest supplier of personnel to the industry, however, is the investment banking sell side."

Mainly coming from the sell side

It can be seen that the career backgrounds of private credit professionals reflect the structure of the industry, its rapid growth and its relationship to private equity. The majority of mid-career private credit employees appear to be in their first private credit job, with only 14% of the sample identifiable as having moved from one private credit firm to another. The boundary lines of "private credit" may also be somewhat blurred – some employees have moved from specialised "public" credit investment roles into "private" ones dealing with similar underlying assets.

The biggest supplier of personnel to the industry, however, is the investment banking sell side. Many private credit Associates and Vice-President level employees appear to have come directly from investment banking analyst programmes, in the normal autumn recruitment cycles. Almost as many, however, have been recruited after completing the analyst program and gaining some experience in leveraged finance on the sell side. (Anecdotally, several recruiters suggest that alumni of the Goldman Sachs leveraged finance team are particularly sought after). Workout and restructuring experts are also represented; this appears to be the main route by which candidates move into private credit from the big accounting and consultancy firms.

The missing bankers

Interestingly, despite the widespread publicity about private credit funds moving into areas traditionally covered by the commercial banking industry, this does not seem to be a material source of employees. There are a few reasons why this might be the case. For one thing, although some firms are expanding outside the traditional market, private credit portfolios are currently dominated by lending to leveraged buyout firms. This is why, when the private credit firms take people from the sell side, they tend to look first at those with experience in making exactly this kind of lending decision.

But it is also the case that credit functions in many large commercial banks have been centralised and computerised. Commercial bankers are, for the most part, relationship managers whose job focuses on cross-selling other value-added services and driving market share. In most cases,

they are seen by the private equity industry as lacking the directly relevant skills of credit analysis and investment decision making. This may change in the future, however; as the industry grows beyond its roots, the line between private credit investing and "vanilla" banking is likely to become more blurred, and as technology and quantitative credit analysis are increasingly used by private credit firms, softer skills and deal origination capabilities may become more valuable skills.

Skills for the private credit market

What are those skills? According to companies like Peak Frameworks and Wall Street Oasis, who prepare candidates for the private credit recruitment process, selection is based on "case" interviews which are meant to test candidates' ability to understand and build financial models, as well as understanding of credit metrics and financial covenants. Ideally, candidates are expected to have direct experience on deals; in the absence of this, employers are likely to set a high standard of technical knowledge. This is particularly the case for funds which are specialised in complicated capital structure arbitrage or distressed debt, in which case employees will be expected to demonstrate a deep understanding of legal issues.

Compared to private equity investment, private credit provides fewer opportunities to add value through restructuring and management; consequently, the main opportunity to create value is by selecting and pricing the deals correctly in the first place. Because of this, private credit puts more emphasis on candidates' ability to absorb and integrate information, and to express themselves clearly in a deal memo or to an investment committee. It is common for junior employees with limited deal experience, or those from a commercial banking background, to be set a model-building test in which they are expected to create a three-statement financial model in two or three hours.

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Conclusions

It might be concluded from analysing the current structure of private credit recruitment that the Managing Directors and principals of private credit funds tend to have themselves come from leveraged finance and from complex special situations investment in public markets, and to have largely recruited in their own image. This picture might even be accurate. However, as private credit becomes an asset class to rival others, at a time when the investment banking sell side may be reducing their own headcount (and therefore their ability to supply candidates), the industry may need to look beyond the most obvious sources and concentrate on skills rather than backgrounds.

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