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Private credit finds its next big target: investment grade debt

Blue-chip companies bypass banks and bond markets to borrow from industry with $1.4tn war chest

Wireless carrier AT&T sold Apollo $2bn of preferred stock in a deal that allowed it to partially repay some outstanding preferred equity © David Paul Morris/Bloomberg

Eric Platt in New York
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Alternative asset managers such as Apollo, KKR and Blackstone are increasingly financing blue-chip companies, as businesses look for new sources of capital to help counteract the effects of higher interest rates and a slowing economy.

The deals — including two announced this month with AT&T and PayPal — underscore the growing reach of the private credit industry as it helps companies bypass traditional banks and bond markets to raise money.

Private credit has boomed in the decade since the global financial crisis into a sector with $1.4tn in assets. Loans from private credit typically went to companies that were smaller or riskier.

Now, alternative asset manager lenders are targeting larger, more stable companies. “Private credit is going investment grade,” said Akhil Bansal, head of credit strategic solutions at Carlyle, the private equity group.

Executives said the shift was a natural outgrowth of private credit’s fundraising spree, giving managers cash to lend. As well, most major private equity groups have bought or invested in an insurance company in the past five years, drawing in hundreds of billions of premiums to invest.

Supercharging the push has been Apollo, whose insurer Athene has amassed nearly $260bn in capital — roughly half of Apollo’s assets.

“We made a bet on private investment grade,” Marc Rowan, Apollo’s chief executive, told a conference this month. “We are also a beneficiary of this de-banking of the world because the assets that we need . . . were the kinds of things that used to go on to the balance sheets of banks, investment-grade private credit.”

Apollo is not alone. KKR in 2021 bought a majority stake in insurer Global Atlantic, adding $90bn to the group’s assets at the time. Carlyle purchased just under a fifth of reinsurer Fortitude Re from AIG in 2018 before striking a new deal last year that reduced its stake but boosted Carlyle’s assets by about $50bn. Blackstone, meanwhile, invests on behalf of insurers such as Corebridge through its insurance solutions division.

The insurance units are required by state regulators to invest the vast majority of their holdings in investment-grade rated debt, to safeguard policyholders.

But unlike traditional insurers, alternative investment managers have been more comfortable using financial wizardry to design private transactions that can provide a few extra percentage points of return compared with traditional investment-grade corporate bonds, which yield about 5.5 per cent.

That can prove attractive to companies needing to raise cash without tapping the investment-grade bond market, particularly when issuing more debt at the corporate level would influence a business’s credit rating.

The deals have taken several different forms, but often a company will move some assets — perhaps a manufacturing facility or real estate portfolio — to a subsidiary or new special purpose vehicle. Then companies raise preferred equity or debt against the unit, which brings in cash the parent can use to run its day-to-day business.

Rating agencies typically treat preferred stock deals more favourably than run-of-the-mill loans. And often, because the equity is raised in a special purpose vehicle, the parent company does not have to report it on its balance sheet.

Apollo bought $2bn of AT&T preferred stock in a deal that allowed the wireless carrier to partially repay some of its outstanding preferred equity. That followed a $1bn investment in German real estate group Vonovia in a similar structure.

The investment giant has done a handful of other well-known private financings, including for AB InBev — a deal secured by the brewer's plants — as well as for car rental provider Hertz and the Abu Dhabi National Oil Company.

Oaktree Capital Management LP Oaktree's Howard Marks warns of crunch time for private credit

Other deals, such as KKR's agreement last week to purchase up to €40bn of consumer loans originated by PayPal, have more closely resembled traditional asset-backed securities. In those transactions, a pool of assets — such as mortgages, credit card receivables or auto loans — are packaged together, with the interest payments funding new slices of debt that are sold on to investors.

The use of insurance capital and private credit is just the latest example of blue-chip companies pairing up with alternative asset managers.

Intel last year struck a $30bn deal with Brookfield and its infrastructure funds, with the asset manager investing $15bn in a new chip foundry.

Intel, like most companies entering into these agreements, did not say how much it would pay Brookfield for the investment. However, its chief financial officer David Zinsner told analysts last year that Brookfield would receive part of the cash flows the plant generates once it is operational, giving the investment firm a return somewhere between 4.4 per cent and 8.5 per cent.

“It will protect our strong balance sheet,” Zinsner said of the deal. “It allows us to tap into a new pool of capital while protecting our cash and debt capacity for future investments.”