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The global private credit market, an alternative source of financing for small and medium sized enterprises, is flourishing, with institutional capital supporting increased lending in Europe in particular, according to a report by the Alternative Credit Council (ACC), a private credit industry body affiliated with the Alternative Investment Management Association (AIMA), and Deloitte, the business advisory firm.

The private credit market has grown from $440 billion last year, to $560 billion today. The research, Financing the Economy 2016, found that institutional capital is boosting lending in Europe and much of this growth has been driven by demand from European businesses. However, the US still remains the largest private credit market, both in terms of overall assets under management, and new assets raised in 2015.

The research is the second paper to be published by the ACC and Deloitte, and is based on a survey of alternative lenders, representing assets under management totalling $670 billion, of which $170 billion is allocated to private credit strategies.

Stuart Fiertz, the Chairman of the ACC and President of Cheyne Capital, said: "As the recovery from the financial crisis continues, business innovation and demand for credit shows no signs of slowing. Alternative lenders are primed and ready to continue to fill the lending gap, but this is not necessarily at the expense of the traditional lenders. We see a cooperative relationship occurring between banks and alternative asset managers."

Floris Hovingh, Head of Alternative Capital Solutions at Deloitte, said: "In the last couple of years, alternative lending has seen huge growth in Europe and is likely to accelerate over the next 24 months as a result of Brexit. As trade negotiations get underway, alternative lenders could be well positioned to navigate the increased risk in the market and price this accordingly."

87% of global alternative lenders surveyed prior to the UK's referendum said that the best lending opportunities are currently in the UK. This is followed by France (62%), Germany (54%), Spain (54%) and the US (50%).

Pension funds were cited by 57% of respondents as the biggest investor category, while a further 30% said pension funds were their second biggest source of capital. Insurance companies, endowments, foundations and sovereign wealth funds were other investor types cited as sources of capital for private debt funds.

The research found that most financing is going to businesses with pre-tax profits of $10 million or more. Most loans are greater than $5 million in size and half are in the $25m-$100m range. In comparison, bond market financing, a common form of non-bank finance for larger corporates, is in the $100m-$300m range.

The research also found that most private credit funds use little or no leverage, have low default rates and are structured in a way to prevent liquidity mismatches, bank-style runs and other financial stability problems. Fund managers said growing demand was partly driven by the flexibility, responsiveness and expertise of alternative lenders.

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