FJP Investment

DEBT INVESTMENT: UNDERSTANDING INVESTOR SENTIMENT TOWARDS THE DEBT MARKET

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A NOTE FROM OUR CEO…

It's been almost six years since FJP Investment was founded, and in this time the UK's financial market has changed dramatically. The number of products and investment avenues has expanded, and for many investors, staying on top of the latest financial trends can seem like an exhaustive task.

Here at FJP Investment, we understand the importance of facilitating and nurturing open, transparent relationships with our investors. Having just opened our first London office (and third office in total), I am proud to say that we remain committed to supporting the needs of our investors through tailored investment products.

As a result, I am pleased to announce the launch of FJP's first market research report. **'Debt Investment: Understanding investor sentiment towards the debt market'** provides timely insight into how investors in the UK currently perceive the debt market when compared to other assets.

This report represents the first in a series of regular updates we will be providing to our network of investors, accompanied by FJP's industry-leading insight and expert knowledge.

By ensuring our investors are aware of the trends shaping the debt investment and property markets, our research reports will equip you with the knowledge needed to make confident and informed investment decisions.

Of course, should you have any questions about the research, or any future investment opportunities here at FJP, please don't hesitate to get in touch.

Jamie Johnson
Founder and CEO
FJP Investment

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DEBT INVESTMENT: UNDERSTANDING INVESTOR SENTIMENT TOWARDS THE DEBT MARKET

Investors have never had so much choice. The range of asset classes and investment types to decide between gives investors huge scope for diversifying their portfolios in ways that were previously unthinkable.

Furthermore, the globalisation of investment markets – with geographical boundaries increasingly permeable for those with the right knowledge and connections – has opened a wealth of new opportunities for retail, sophisticated and high net-worth investors to consider.

The rise of alternative investments (an investment that falls outside the traditional areas of cash, bonds and stocks) has been one of the main drivers of the greater choice now afforded to investors. Indeed, what was once deemed alternative is now increasingly mainstream; and within this broad category, which includes everything from private equity to real estate, there is one type of investment that has proven particularly popular: debt investment.

Broadly speaking, debt investments come in the form of a loan from which the investor expects to receive a return of their principal with interest.

From loan notes to peer-to-peer (P2P) lending, debt investment has risen in commonality over the past decade.

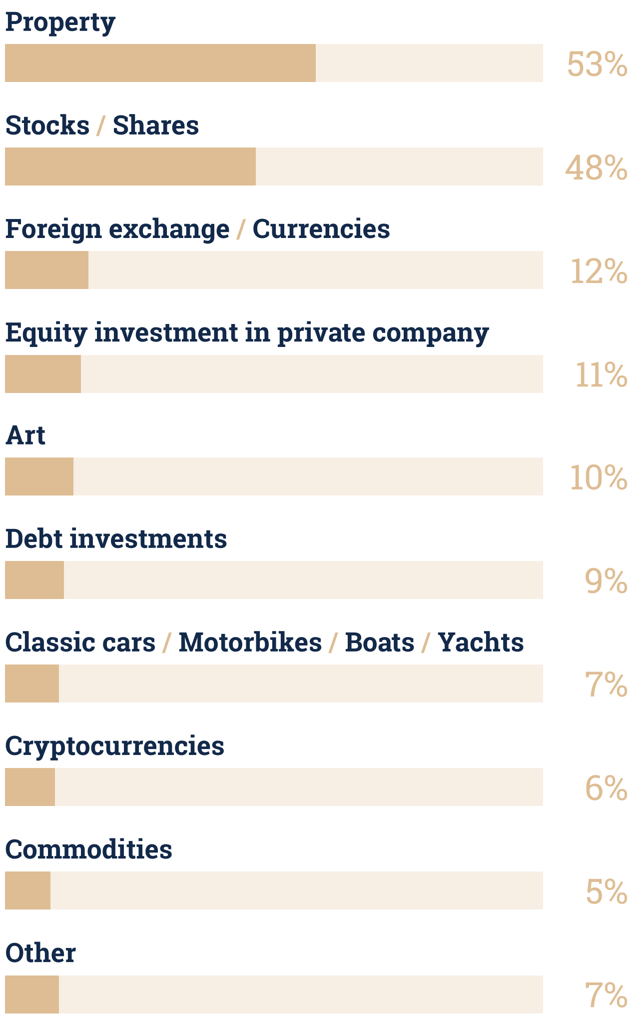
According to **Bloomberg**, in the past 10 years, private funds that lend directly to companies have raised almost $500 billion. Meanwhile, real estate debt funds – loans made from investors to organisations or individuals looking to purchase, develop or renovate property – have risen at pace over recent years; in 2018 real estate debt funds raised **$28.6 billion** globally, up from $23.6 billion in 2016 and $18.3 billion in 2015.

What makes debt investments attractive? And, in the current climate, what are investors' perceptions of this form of investment?

To answer these pertinent questions, FJP Investment has commissioned a survey among more than 950 UK-based investors. An independent third party carried out the research in May 2019, and the findings are outlined in this report.

THE PORTFOLIOS OF UK INVESTORS

To understand the make-up of their portfolios, FJP examined the different asset classes that UK investors currently hold investments in.



The research illustrates that property remains the most popular asset class among UK investors. This finding will not surprise many; Britain is often touted as having a 'love affair' with home ownership and bricks and mortar investment.

Traditional investments came a close second to real estate – almost half (48%) of those surveyed hold some form of investment in stocks or shares. This market has long been the bedrock of the investment sector, and clearly maintains a central position in many investors' portfolios.

What follows, however, is an even split between a range of other asset classes. Foreign exchange (12%), equity investments in private companies (11%), art (10%) and debt investments (9%) have all attracted interest from a sizeable number of investors.

However, FJP's research also uncovers clear divides between investors of different ages. For example, while 65% of investors aged over 55 hold a property investment, only 32% of those aged between 18 and 34 said the same. Conversely, 27% of younger investors have invested in foreign exchange and currency, compared to a mere 3% of the older group.

A similar trend can be noted when it comes to debt investment;

16% of investors aged 18-34 in the UK currently have some form of debt investment, which is four times the number recorded among the over-55s (4%).

Further to establishing the most common asset classes among UK investors, the study delves into debt investment in far more detail, discovering the factors that lure people towards or push them away from this type of investment.

HESITANCY REMAINS DESPITE BROADER APPEAL

FJP's study demonstrates a significant interest in debt investment, and particularly its ability to deliver more structured, pre-defined returns than other forms of investment. However, it also finds an underlying hesitancy among investors to explore this option.

At present, almost one in ten (9%) investors already holds some form of debt investment. Yet one of the main concerns holding others back from following suit is the ability of the individuals or organisations receiving the money to make the necessary repayments. Indeed, two thirds (67%) of the UK investors surveyed say they are wary of debt investment because they perceive there to be a risk that the promised repayments will not be met.

Structured as loans that are paid back over an agreed period of time with additional interest, the relative strength or weakness of a debt investment depends on the reliability of the borrower. Some forms of P2P lending, for instance, see retail investors lending money to other consumers for various financial reasons – in this case, the chance of the borrower defaulting on the loan can be higher.

More established firms who manage debt investments typically lend to groups or companies with a proven track record of repaying loans. Moreover, investors must have utmost confidence that the investment provider – the business arranging and managing the loan – has conducted thorough due diligence before releasing any investor funds to a borrower.

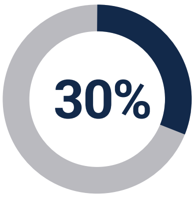
Jamie Johnson, Founder and CEO, FJP Investment: **"**Debt investment can be low risk if investment companies commit to carrying out extensive due diligence on the borrower. Ensuring they have the income or assets to repay the loan even if certain conditions change is the vital first step in ensuring debt investments are handled safely.

"People are right to be wary of loans not being repaid – unfortunately, past examples of firms not being stringent enough in vetting both investors and borrowers has led to negative views of debt investment among some people. However, if the preparation is right, these concerns can be allayed and risk can be significantly reduced.**"**

THE LURE OF DEBT INVESTMENT

Elsewhere, FJP's survey illustrates the relative strengths of debt investment. Specifically, these centre on not just the potential return on investment (ROI), but also the nature of these returns.

For example,



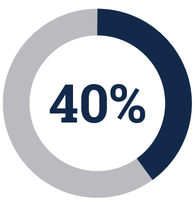
30% of **UK investors** are attracted to debt investment due to the fact it is positioned to deliver fixed, regular and pre-arranged returns.

Most other forms of traditional or equity investments do not provide such structured returns; there is the opportunity for capital growth if the asset increases in value, but incremental returns over a set period are rarer.

Similarly, the ability to avoid 'lock-in' with one's investment is evidently another important factor. More than a third (35%) of investors say they think one of the strengths of debt investment over other asset types is that the exit strategy is unambiguous – an investor parts with his or her capital to facilitate all or part of a loan, which is repaid with interest by a particular date. At this point, the investment lifecycle is complete and no further exit strategy is required.

Another popular characteristic of debt investment – and P2P loans in particular – is that they are increasingly decentralising the loan market and, in turn, democratising access to capital.

Two fifths (40%) say they see debt investment as a good means of supporting other individuals or organisations that require funds to achieve specific goals.



Jamie Johnson: **"**Whereas previously an individual or organisation would need to turn to a bank or mainstream lender to secure a loan, today private investors are able to make funds readily available. This is increasingly important, with many institutions becoming reticent to loan money in the current climate amidst tighter regulation governing the banking sector.

"Whether it's a loan to help a business scale, or capital so a developer can build more affordable homes, investors can now use debt investment to support a wide range of organisations and markets, which is subsequently helping the national economy grow. This is certainly one of the more popular characteristics of debt investment and P2P lending.**"**

LOOKING TO DEBT INVESTMENT IN THE CURRENT CLIMATE

As with any asset class, broader political and economic factors play an important role in determining the relative popularity of debt investment amongst investors. And FJP's research finds the current climate conducive to a significant number of people considering debt investment.

On 2nd May 2019, the Bank of England made the decision to hold interest rates at 0.75%. Indeed, interest rates have hovered at close to zero for the past decade; having been set at 5.5% in 2007, the onset of the global economic crisis a year later resulted in interest rates sitting below 1% ever since.

With interest rates so low, consumers are encouraged to spend money rather than leave it in the bank – investors, similarly, must look beyond traditional savings accounts to make their money go further. The survey shows that this is certainly affecting the way people see debt investment.

More than a third (36%) of investors surveyed believe debt investment is a good method for achieving high returns for their expendable capital due to interest rates standing at just 0.75%. Among younger investors (59% of 18-34 year olds) this was a particularly prevalent view.

Further to this, the uncertainty emanating from Brexit is another contributing factor. Almost half (44%) said the turbulent political and economic climate at present means it is more likely that they will focus on short- and medium-term investments this year, rather than buying into an asset with the view to achieving a long-term ROI at a time when the future financial landscape is particularly difficult to predict.

In total, **a fifth (20%)** of all the UK investors surveyed said they are considering making some form of debt investment in the 2019/20 financial year.

Jamie Johnson: "The combination of low interest rates and Brexit uncertainty is causing challenges for investors. On the one hand, they can no longer achieve healthy returns of, say, 5% by leaving thousands of pounds in savings accounts; at the same time, markets like Forex and commodities are increasingly hard to predict in the current political climate.

"Across the board, investors are focusing more on short-term investments – they are either adopting a 'wait and see' approach before committing to financial decisions, or they are making medium-term investments that help mitigate more long-term uncertainties.

"Debt investment is likely to feature more prominently on people's radars as a result of these two factors; set returns over three, four or five years, for example, can enable investors to achieve a competitive ROI while they await greater clarity on the future of certain industries, economies or markets."

LOOKING TO THE FUTURE

FJP Investment's research outlines several notable trends. It shows how debt investment has established itself as one of the more common alternative investment assets on the market – it also demonstrates the current sentiment of the wider investor community towards this asset class.

With 9% of UK investors currently holding a debt investment, and 20% considering doing so in the coming 12 months, it seems likely that the market will continue to grow in the near future. However, concerns must be allayed in the process.

Two thirds of investors are wary of debt investment out of fear borrowers could easily default on loans. It is, therefore, the responsibility of companies facilitating debt investment to conduct thorough due diligence, not just by only sourcing low-risk opportunities, but also in educating investors about how borrowers are vetted and how their funds are managed as safely as possible.

The research shows how debt investment is perceived to be well-placed to help investors overcome the current challenges they are facing – namely, helping them to achieve higher returns on available capital without locking them into long-term investments that could be harder to liquidate or fluctuate as a result of Brexit.

Jamie Johnson: "Ultimately, the growth of the debt and P2P market is something to be welcomed. Just like any asset class, debt investment won't be for everyone – but it holds an important place in the investment space for those who are unable to access or uninterested in traditional and equity investments.

"The debt investment market will undoubtedly mature in the years to come, and research such as that outlined in this report is extremely valuable in helping the industry understand the sentiments of investors. I believe education and transparency are going to be vital in the years ahead – this is how trust will be established between investors, lenders and borrowers, which in turn will enable all parties to benefit from this popular form of alternative finance."

Here at FJP Investment, we will monitor these trends closely over the coming months and years. Our goal is to provide timely insight into the way investors are planning and acting – understanding their attitudes towards certain marketplaces and asset classes is a key component of this, and we look forward to sharing further research with you in the future.

FJP Investment

Prospect House
2 Athenaeum Rd
Whetstone
London
N20 9AE
United Kingdom

Adelphi Mill
Grimshaw Lane
Bollington
Cheshire
SK10 5JB
United Kingdom

Phone +44 (0) 207 183 0343
Email info@fjpinvestment.co.uk
www.fjpinvestment.co.uk

Twitter: @FJPInvestment
LinkedIn: FJP Investment
Facebook: FJP Investment