VOLUME 2, ISSUE 1 ■ FEBRUARY 2017

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PRIVATE DEBT SPOTLIGHT

IN THIS ISSUE

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INVESTOR APPETITE FOR PRIVATE DEBT IN 2017

61%

The majority of institutional investors interviewed at the end of 2016 do not plan to change their level of investment in the UK over the next 12 months as a result of the Brexit vote; in fact, 11% expect to invest more capital in the region in the coming year.

Find out more on page 2

AT THE FINISH LINE: PRIVATE DEBT FUNDRAISING

$76bn

Total private debt fundraising figures for 2016 represent a $20bn drop in capital raised from the previous year.

Find out more on page 4

Alt Credit Intelligence European and US fund Services Awards: Best Data and Information Provider | Africa Global Funds Awards 2016: Best Research and Data Provider | The Queen's Award for Enterprise: International Trade | HedgeWeek Global Awards: Best Global Hedge Fund Research Provider | CAIA Corporate Recognition Award

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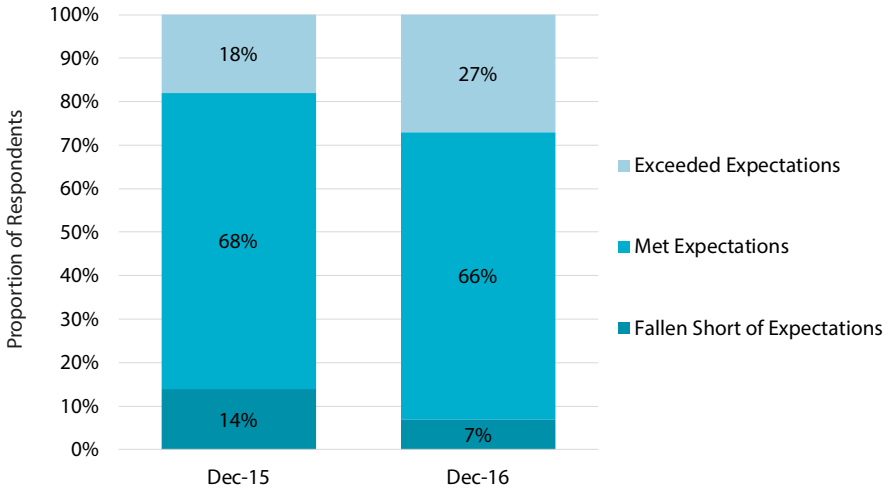
INVESTOR APPETITE FOR PRIVATE DEBT IN 2017

SATISFACTION WITH THE ASSET CLASS

More than a quarter (27%) of private debt investors interviewed at the end of 2016 stated that the performance of their private debt portfolios in the past year had exceeded their expectations, an increase of nine percentage points compared to the end of 2015 (Fig. 1). Over the same time period, the proportion of respondents whose private debt portfolios fell short of expectations decreased to just 7% in 2016 from 14% the previous year.

Fig. 1: Proportion of Investors that Feel Their Private Debt Investments Have Lived up to Expectations over the Past 12 Months, 2015 vs. 2016



Source: Preqin Investor Interviews, December 2015 - December 2016

INVESTOR ALLOCATIONS

On the heels of a successful 2016 for the private debt asset class, Preqin's recent interviews with institutional investors suggest another strong year is ahead for private debt in 2017. The majority (57%) of respondents plan to invest more capital in private debt over the next year than they did in the previous 12 months (Fig. 2), while nearly two-thirds (62%) stated that they will increase their allocations to the asset class over the longer term (Fig. 3).

IMPACT OF BREXIT

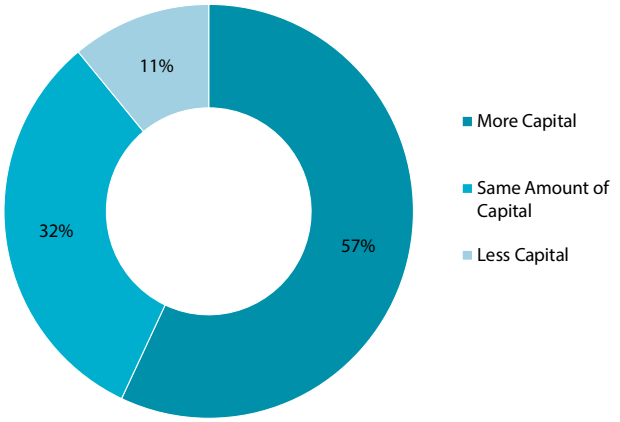
When asked how the outcome of the Brexit vote might affect their private debt investments, over a quarter (28%) of respondents indicated that they expect to invest less in the UK over the next 12 months, whereas 11% plan to invest more in the UK over the coming year. Over the longer term, the proportion of investors that plan to invest less in the UK is smaller at 23% (Fig. 4).

Approximately the same level of respondents foresee themselves investing less in the rest of the EU (excluding the UK) over the long term (19%) as over the next 12 months (18%, Fig. 5). However, a larger proportion (6%) of respondents believe that they will invest more in the rest of the EU over the long term than over the next 12 months (4%).

FUND TERMS AND CONDITIONS

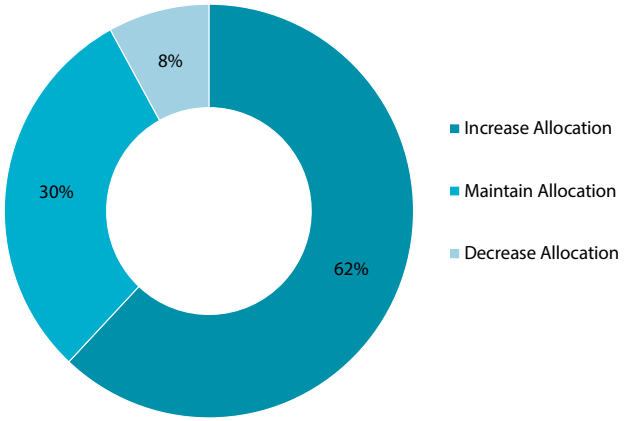
The dynamics between fund managers and investors continue to evolve as recent calls for transparency among investors in the asset class have resulted in an industry-wide shift towards better communication practices. A quarter of investors have seen changes to fund terms and conditions in their favour over the course of the past 12 months, compared with 9% that have seen changes in favour of fund managers (Fig. 6). The majority (68%) of investors surveyed believe that management fees form an area of fund terms and conditions

Fig. 2: Investors' Expected Capital Commitment to Private Debt Funds in the Next 12 Months Compared to the Past 12 Months



Source: Preqin Investor Interviews, December 2016

Fig. 3: Investors' Intentions for Their Private Debt Allocations over the Longer Term



Source: Preqin Investor Interviews, December 2016

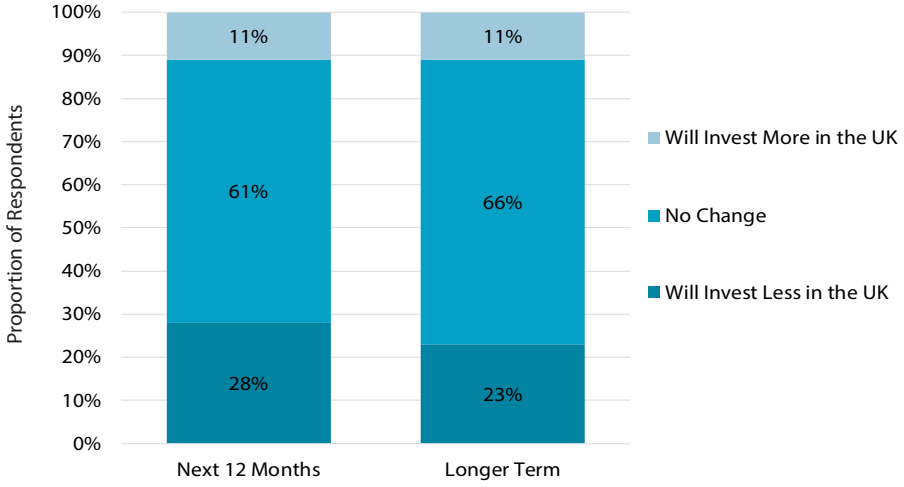
in which the alignment of interest between both parties could be improved (Fig. 7). Respondents also believe there is room for improvement in the alignment of interests regarding performance fees, both with regards to the amount (43%) and how they are charged (55%).

A notable 45% of respondents believe that increased transparency at fund level would better align the interests of investors and fund managers. With technology and industry standardization – ILPA's reporting template for fund managers as an example – constantly evolving within the alternative assets industry, transparency will likely continue to improve.

OUTLOOK

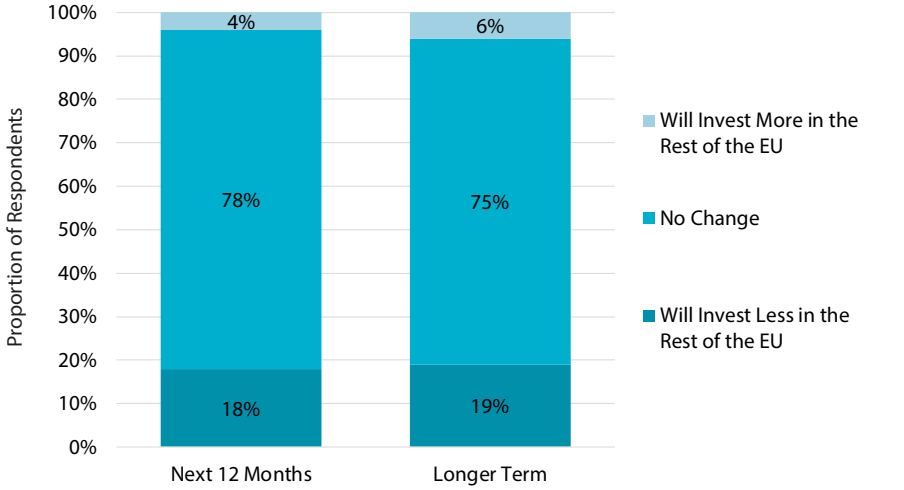
Investment in private debt funds has become increasingly widespread among the institutional investment community over the past few years, with strong performance driving up allocations. However, investors are becoming increasingly demanding of fund managers, and fund managers will have to continue to differentiate product offerings and tailor investor terms in order to compete within the asset class.

Fig. 4: Investor Views on the Impact of Brexit on Future Private Debt Investments in the UK



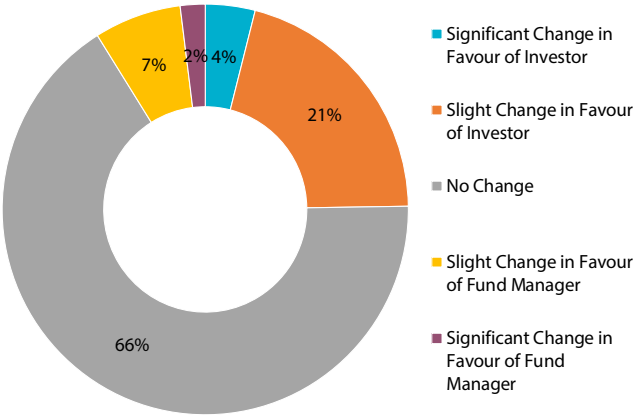
Source: Preqin Investor Interviews, December 2016

Fig. 5: Investor Views on the Impact of Brexit on Future Private Debt Investments in the Rest of the EU



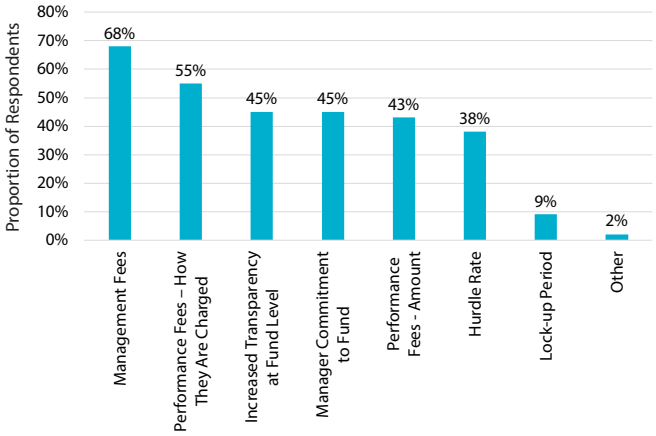
Source: Preqin Investor Interviews, December 2016

Fig. 6: Investor Views on whether There Has Been a Change in Private Debt Fund Terms and Conditions over the Past 12 Months



Source: Preqin Investor Interviews, December 2016

Fig. 7: Investor Views on Areas of Fund Terms and Conditions in Which the Alignment of Interests Can Be Improved



Source: Preqin Investor Interviews, December 2016

AT THE FINISH LINE: PRIVATE DEBT FUNDRAISING

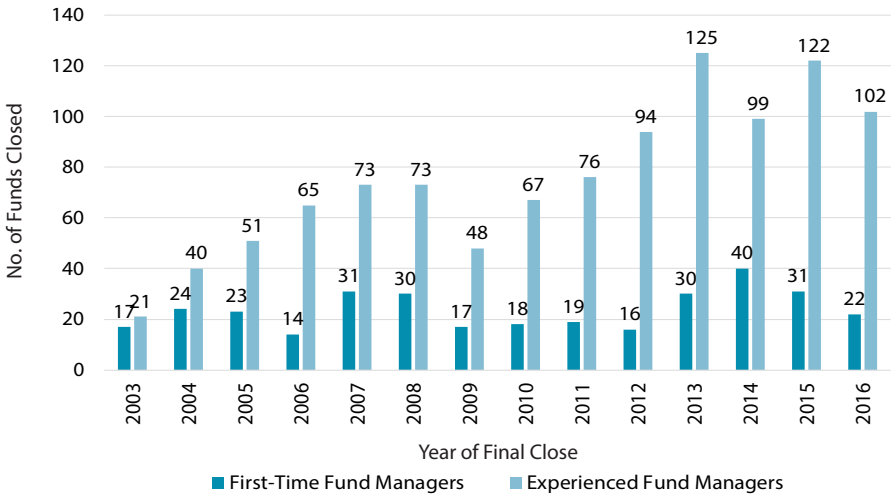
With 2016 drawn to a close, private debt fund managers have finished their end-of-year push to attract and finalize capital commitments from institutional investors. Preqin's **Private Debt Online** shows the total capital raised for private debt funds closed in 2016 was $76bn. While strong, this figure is lower than the record fundraising levels reported for 2015, when 153 funds raised an aggregate $96bn.

Despite a sluggish first quarter that saw just $11bn in committed capital, managers raised $22bn across 39 funds in the second quarter, finishing out the first half of the calendar year on a high note. As for the third quarter, 30 funds brought in a total of $12bn and Q4 saw 35 funds close which collectively raised over $31bn. The majority of private debt funds closed in 2016 were raised by experienced fund managers, as shown in Fig. 1. Likewise, the majority of capital raised was secured by experienced fund managers, as has historically been the case (Fig. 2). First-time fund managers raised an aggregate $7.5bn compared to the $68bn raised by managers with prior private debt fund experience.

As at January 2017, there are 287 private debt funds in market targeting an aggregate $127bn. New managers are targeting $20bn via 74 funds, with experienced managers responsible for the remaining 213 funds and $107bn in targeted capital.

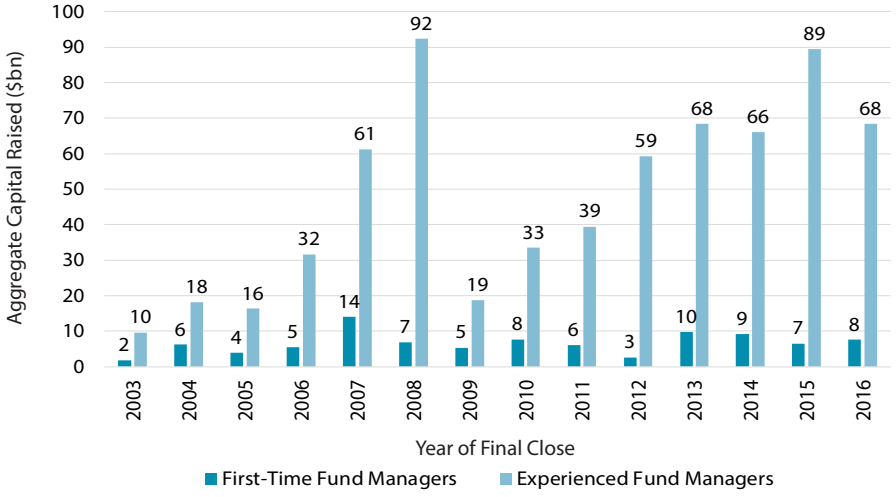
As a result of growing investor appetite for the asset class – as demonstrated in Preqin's December 2016 interviews with institutional investors – the steady fundraising growth in private debt since 2009 is expected to continue through at least the next 12-24 months. New managers establishing their first private debt fund are now building relationships that will serve as footholds in an increasingly competitive fundraising environment.

Fig. 1: Number of Private Debt Funds Closed: First-Time vs. Experienced Fund Managers 2003 - 2016



Source: Preqin Private Debt Online

Fig. 2: Aggregate Capital Raised by Private Debt Funds: First-Time vs. Experienced Fund Managers, 2003 - 2016



Source: Preqin Private Debt Online

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	PRIVATE EQUITY*	HEDGE FUNDS	REAL ESTATE	INFRASTRUCTURE	PRIVATE DEBT	NATURAL RESOURCES
INVESTOR COVERAGE	6,372 Active Private Equity LPs	5,123 Active Hedge Fund Investors	5,527 Active Real Estate LPs	2,916 Active Infrastructure LPs	2,463 Active Private Debt Investors	2,435 Active Natural Resources Investors
FUND COVERAGE	20,985 Private Equity Funds	23,359 Hedge Funds	6,119 PE Real Estate Funds	1,133 Infrastructure Funds	2,185 Private Debt Funds	1,642 Natural Resources Funds
FIRM COVERAGE	10,739 Private Equity Firms	8,688 Hedge Fund Firms	3,743 PE Real Estate Firms	516 Infrastructure Firms	1,405 Private Debt Firms	874 Natural Resources Firms
PERFORMANCE COVERAGE	6,632 Private Equity Funds	15,346 Hedge Funds	1,623 PE Real Estate Funds	228 Infrastructure Funds	786 Private Debt Funds	467 Natural Resources Funds
FUNDRAISING COVERAGE	2,438 Private Equity Funds	15,739 Hedge Funds	1,048 PE Real Estate Funds	298 Infrastructure Funds	293 Private Debt Funds	250 Natural Resources Funds

DEALS COVERAGE	BUYOUT		VENTURE CAPITAL		REAL ESTATE	INFRASTRUCTURE
	50,231 Buyout Deals**	+ 23,385 Exits	111,665 Venture Deals***	+ 13,739 Exits	28,430 Real Estate Deals	24,724 Infrastructure Deals

Alternatives Investment Consultants Coverage:
544
Consultants Tracked

Funds Terms Coverage: Analysis Based on Data for Around
15,350
Funds

Best Contacts: Carefully Selected from our Database of over
381,744
Contacts

PLUS

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+ Depth and quality of data from direct contact methods
+ Unlimited data downloads
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*Private Equity includes buyout, venture capital, distressed, growth, natural resources and mezzanine funds.
**Buyout deals: Preqin tracks private equity-backed buyout deals globally, including LBOs, growth capital, public-to-private deals, and recapitalizations. Our coverage does not include private debt and mezzanine deals.
***Venture capital deals: Preqin tracks cash-for-equity investments by professional venture capital firms in companies globally across all venture capital stages, from seed to expansion phase. The deals figures provided by Preqin are based on announced venture capital rounds when the capital is committed to a company.

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As at 3 January 2017

INDUSTRY NEWS

RECENTLY CLOSED FUNDS

The fourth quarter of 2016 saw 35 private debt funds reach a final close, led by the $6.5bn closure of GSO Capital Opportunities Fund III, which hit its hard cap target. The mezzanine fund is nearly 2.5x larger than the second largest fund closed in Q4, OHA Strategic Credit Fund II, a distressed debt vehicle from Oak Hill Advisors. Both funds share a similar geographic focus, which includes North American and European opportunities.

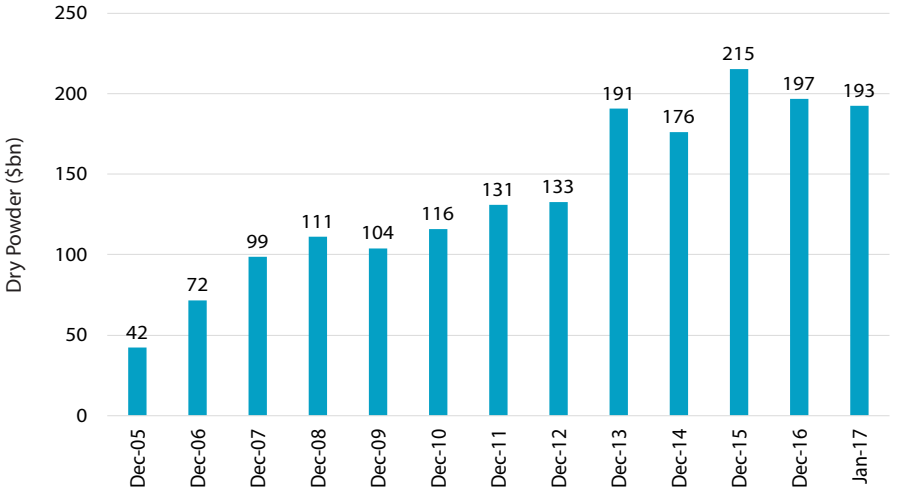
Of the 10 largest funds closed in Q4, six are direct lending funds, two are distressed debt, one is a special situations vehicle and the other is a mezzanine fund. Furthermore, seven of the largest funds closed in Q4 2016 have a primary geographic focus on the US, while the remaining three funds are targeting European investments.

FUNDS IN MARKET

Of the 10 largest private debt funds currently in market, nine primarily focus on the US, with just one, Apollo European Principal Finance Fund III, targeting Europe. Distressed debt funds hold five of the top 10 spots, followed by direct lending, with three funds on the road; two mezzanine funds feature. Crescent Mezzanine Partners VII and Oaktree Opportunities Fund X are the only 2015 vintage funds to make the list, currently on their first and fifth closes respectively.

CHART OF THE MONTH

Private Debt Dry Powder, 2005 - 2017



Source: Preqin Private Debt Online

As of January 2017, nearly 1,400 active private debt fund managers collectively hold $193bn in dry powder. Untapped capital committed to private debt funds continues to accrue for North America-focused funds, with dry powder held by funds focused on the region increasing by nearly $13bn since December 2015 to reach $132bn. In contrast, dry powder held by Europe-focused funds dropped by just over $6bn over the same period to $54bn.

RECENT INVESTOR COMMITMENTS

Private debt investor commitments continued steadily throughout Q4. OHA Strategic Credit Fund II, a $2.7bn distressed debt vehicle which reached a final close in October 2016, did so with the help of 11 known public investors. The commitments were headlined by $250mn from New York State Common Retirement Fund and $150mn from Municipal Employees' Retirement System of Michigan.

Private Debt Online also has details on investors in the recently closed GSO Capital Opportunities Fund III, which received commitments from 10 public pension funds, including Teacher Retirement System of Texas, San Francisco Employees' Retirement System, and Florida State Board of Administration.

KEY FACTS

8

of the top 10 private debt fund managers by dry powder are based in North America, with two Europe-based managers completing the list.

$4.13bn

Estimated capital available to Ares Management, which currently holds the most dry powder among managers that have direct lending as a main debt strategy.

$6.36bn

Total reserves of Intermediate Capital Group, which has the largest amount of dry powder among private debt firms based in Europe.

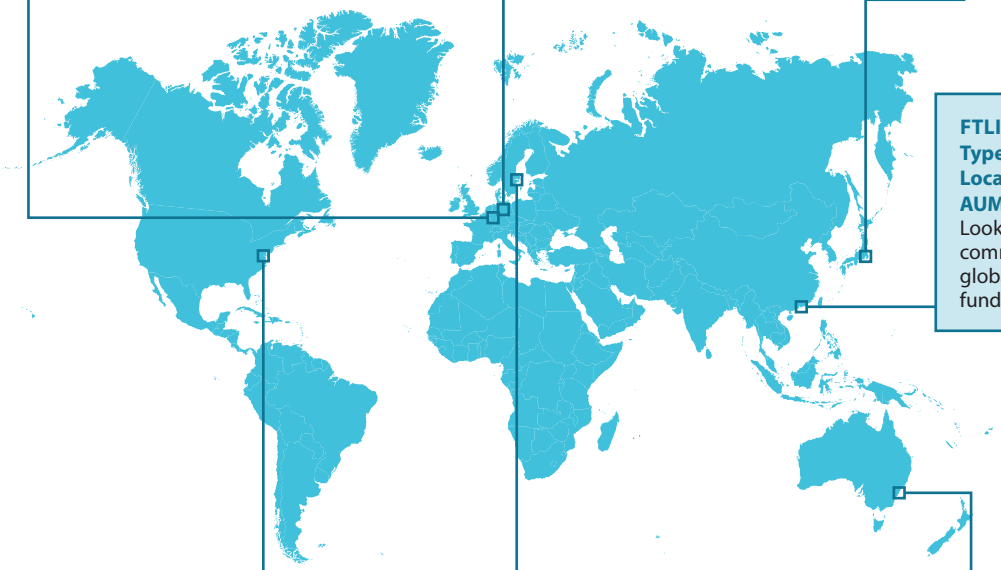
SAMPLE INVESTORS TO WATCH IN 2017

Here, we take a look at examples of institutional investors that are looking to invest in the private debt asset class in the next 12 months:

HELABA INVEST
Type: **Investment Company**
Location: **Frankfurt, Germany**
AUM: **€160.0bn ($167.5bn)**
Seeking direct lending funds within Europe. The investment company typically commits up to €20mn per investment.

WEGA SUPPORT
Type: **Family Office**
Location: **Munich, Germany**
The family office will consider investing in distressed, mezzanine, direct lending and special situations funds focused on Europe and North America.

DIC CORPORATION PENSION FUND
Type: **Private Sector Pension Fund**
Location: **Tokyo, Japan**
AUM: **JPY 117.2bn ($995.1mn)**
The Japan-based institution plans to focus on senior debt direct lending vehicles across the US and Europe.



FTLIFE INSURANCE COMPANY
Type: **Insurance Company**
Location: **Hong Kong**
AUM: **$3.0bn**
Looking to make its maiden private debt commitment. Will consider opportunities globally, targeting USD-denominated funds.

WHITMAN COLLEGE ENDOWMENT
Type: **Endowment Plan**
Location: **Walla Walla, Washington, US**
Will invest $25mn in one or two funds; considering distressed debt and mezzanine strategies.

PRI PENSIONGARANTI
Type: **Private Sector Pension Fund**
Location: **Stockholm, Sweden**
AUM: **SEK 3.0bn ($323.65mn)**
Will invest SEK 25-50mn in up to two direct lending funds globally.

CHRISTIAN SUPER
Type: **Superannuation Scheme**
Location: **Sydney, Australia**
AUM: **AUD 1.1bn ($831.5mn)**
Will invest in mezzanine or distressed debt vehicles in the US market.

DATA SOURCE:

The **Fund Searches and Mandates** tool on Preqin's **Private Debt Online** contains detailed information on over 400 fund searches conducted by institutional investors seeking investment in the private debt asset class.

Search by investor type, location, fund type preference and geographic preference. Click **here** to log in and access this feature.

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CONFERENCES

FEBRUARY 2017

Conference	Dates	Location	Organizer	Preqin Speaker	Discount Code
Cayman Alternative Investment Summit (CAIS)	15 - 17 February 2017	Grand Cayman	CAIS Ltd.	–	–
SuperReturn International	27 February - 2 March 2017	Berlin	KNect365	Mark O'Hare Elias Latsis Tom Carr	10% Discount - FKR2428PRQW

MARCH 2017

Conference	Dates	Location	Organizer	Preqin Speaker	Discount Code
Family Office Winter Forum 2017	1 March 2017	New York	Opal Financial Group	–	–
LendIt USA 2017	6 - 7 March 2017	New York	LendIt	–	20% Discount - Preqin17USA
LPGP Connect Private Debt London	7 March 2017	London	LPGP Connect	Ryan Flanders	–
6th Amsterdam Investor Forum	7 - 8 March 2017	Amsterdam	ABN AMRO	–	–
North American Pensions Summit	20 - 21 March 2017	Chicago, IL	marcus evans Summits	–	–
Global Sovereign Wealth Forum	29 - 30 March 2017	London	IRN	–	–

APRIL 2017

Conference	Dates	Location	Organizer	Preqin Speaker	Discount Code
Private Wealth Management Summit APAC 2017	10 - 12 April 2017	Macau	marcus evans Summits	–	–
Impact Investing Forum 2017	23 - 25 April 2017	Boca Raton, FL	Opal Financial Group	–	–
Latin Private Wealth Management Summit	27 - 28 April 2017	Panama City	marcus evans Summits	–	–

MAY 2017

Conference	Dates	Location	Organizer	Preqin Speaker	Discount Code
European Pensions and Investments Summit 2017	15 - 17 May 2017	Montreux	marcus evans Summits	–	–
LPGP Connect Private Debt New York	16 May 2017	New York	LPGP Connect	Ryan Flanders	–
ASK 2017 Private Debt & Equity Summit	17 May 2017	Seoul	ASK Summit	Ryan Flanders	–

LENDIT USA

DATE: 6 - 7 March 2017
INFORMATION: www.lendit.com
LOCATION: Javits Center, New York, NY, USA
ORGANIZER: LendIt Conference LLC

LendIt USA unites 5,000+ attendees to share ideas, network and learn the latest in lending and fintech. With 8 tracks, including The Investor's Perspective and Innovation in Lending, as well as the PitchIt@LendIt startup competition, there truly is something for everyone. Preqin contacts save 20% with VIP code Preqin17USA.

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