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
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.

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...
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.
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.

MORE PRIVATE DEBT RESEARCH FROM PREQIN:

In addition to our monthly Spotlight newsletters and regular private debt blogs, Preqin also publishes a wealth of free private debt research publications on our Research Center, in the form of factsheets, Quarterly Reports, Special Reports and more.

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## PREQIN GLOBAL DATA COVERAGE

**PRIVATE EQUITY**
- **Investor Coverage:** 6,372 Active Private Equity LPs
- **Fund Coverage:** 20,985 Private Equity Funds
- **Firm Coverage:** 10,739 Private Equity Firms
- **Performance Coverage:** 6,632 Private Equity Funds
- **Fundraising Coverage:** 2,438 Private Equity Funds

**HEDGE FUNDS**
- **Investor Coverage:** 5,123 Active Hedge Fund Investors
- **Fund Coverage:** 23,359 Hedge Funds
- **Firm Coverage:** 8,688 Hedge Fund Firms
- **Performance Coverage:** 15,346 Hedge Funds
- **Fundraising Coverage:** 15,739 Hedge Funds

**REAL ESTATE**
- **Investor Coverage:** 5,527 Active Real Estate LPs
- **Fund Coverage:** 6,119 PE Real Estate Funds
- **Firm Coverage:** 3,743 PE Real Estate Firms
- **Performance Coverage:** 1,623 PE Real Estate Funds
- **Fundraising Coverage:** 1,048 PE Real Estate Funds

**INFRASTRUCTURE**
- **Investor Coverage:** 2,916 Active Infrastructure LPs
- **Fund Coverage:** 1,133 Infrastructure Funds
- **Firm Coverage:** 516 Infrastructure Firms
- **Performance Coverage:** 228 Infrastructure Funds
- **Fundraising Coverage:** 298 Infrastructure Funds

**PRIVATE DEBT**
- **Investor Coverage:** 2,463 Active Private Debt Investors
- **Fund Coverage:** 2,185 Private Debt Funds
- **Firm Coverage:** 1,405 Private Debt Firms
- **Performance Coverage:** 786 Private Debt Funds
- **Fundraising Coverage:** 293 Private Debt Funds

**NATURAL RESOURCES**
- **Investor Coverage:** 2,435 Active Natural Resources Investors
- **Fund Coverage:** 1,642 Natural Resources Funds
- **Firm Coverage:** 874 Natural Resources Firms

### Alternatives Investment Consultants Coverage:
- 544 Consultants Tracked

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

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

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- Over 200 research, support and development staff
- Global presence - New York, London, Singapore, San Francisco, Hong Kong and Manila
- Depth and quality of data from direct contact methods
- Unlimited data downloads
- The most trusted name in alternative assets

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As at 3 January 2017

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*Private Equity includes buyout, venture capital, distressed, growth, natural resources and mezzanine funds.

**Buyout deals: Prequin 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: Prequin tracks cash-for-equity investments by professional venture capital firms in companies globally across all venture capital stages, from seed to expansion phase. The deal figures provided by Prequin are based on announced venture capital rounds when the capital is committed to a company.
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.

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.

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.

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.

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 PENSION GARANTI
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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- INFRASTRUCTURE

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www.preqin.com/reports

Also in this series: The 2017 Preqin Global Private Debt Report and the 2017 Preqin Global Natural Resources Report are due for release in March 2017.
# Conferences

## February 2017

<table>
<thead>
<tr>
<th>Conference</th>
<th>Dates</th>
<th>Location</th>
<th>Organizer</th>
<th>Preqin Speaker</th>
<th>Discount Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cayman Alternative Investment Summit (CAIS)</td>
<td>15 - 17 February 2017</td>
<td>Grand Cayman</td>
<td>CAIS Ltd.</td>
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<td>SuperReturn International</td>
<td>27 February - 2 March 2017</td>
<td>Berlin</td>
<td>KNect365</td>
<td>Mark O'Hare</td>
<td>10% Discount - FKR2428PRQW</td>
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## March 2017

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<th>Discount Code</th>
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<tbody>
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<td>6 - 7 March 2017</td>
<td>New York</td>
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<td>20% Discount - Preqin17USA</td>
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<td>Global Sovereign Wealth Forum</td>
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<th>Discount Code</th>
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<th>Discount Code</th>
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<td>15 - 17 May 2017</td>
<td>Montreux</td>
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<td>ASK 2017 Private Debt &amp; Equity Summit</td>
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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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