

# Investors Increase Exposure to Lower-Middle-Market Direct Lending in the US

## NXT Capital/Preqin report: investors view lower-middle-market direct lending as a desirable fixed income alternative in a low-yield environment

Investor appetite for direct lending in the US has grown steadily in recent years, and assets in the sector have now reached almost \$100bn. A Preqin/NXT Capital survey of almost 100 institutional investors active in the private debt space revealed that interest is focusing on the lower middle market in particular. The most cited reason for increasing allocations to lower-middle-market direct lending was the favourable risk/return profile of the sector compared to fixed income products. In the current low-yield environment, this appeal has led investors to commit more than \$65bn to North America-focused direct lending as a whole since the start of 2013, and consequently the assets held by US-based fund managers have grown to \$99bn as of June 2016.

**For the full results of the Preqin/NXT Capital survey of private debt investors' attitudes to lower-middle-market direct lending in the US, please see below:**

<https://www.preqin.com/docs/reports/Preqin-NXT-Report-May-2017.pdf>

### Key US Lower-Middle-Market Direct Lending Facts:

- Private debt is a distinct allocation segment for 91% of respondents, with **82% allocating specifically to US lower-middle-market direct lending.**
- This trend looks set to continue: **58% of respondents expect to increase their allocation** to US lower-middle-market direct lending in the next 12-24 months.
- The majority of respondents (52%) expect **senior debt products to offer the best opportunity** within private debt.
- Most investors in US lower-middle-market direct lending funds have high performance expectations. **Sixty percent of survey respondents are targeting returns of 8-12%** from their investments.
- **Direct lending funds have largely met those expectations**, returning almost 10% in the five years to June 2016.
- Key factors driving respondents' investment decisions are **the manager's track record (77%)** and **the rigor of the manager's investment process (52%).**

### Ryan Flanders, Head of Private Debt Products – Preqin:

“This report demonstrates the strength of the lower-middle-market direct lending industry in the US, and the important role it plays in many investors' portfolios. In a long period of depressed interest rates and low yields from traditional fixed income products, US lower-middle-market direct lending appeals to investors due to its risk/return profile, regular income, and low correlation to other asset classes. On this basis, it seems likely that interest and activity in the sector will continue to grow.”

### Robert Radway, Chairman and CEO – NXT Capital:

“This in-depth look at attitudes towards US lower-middle-market direct lending highlights the many reasons these assets are attractive to investors. The report also confirms the behaviour and sentiments we routinely observe as we meet with institutional investors, particularly their focus on seeking out experienced managers such as NXT Capital that have proven track records, strong direct origination networks and cycle-tested risk management practices.”

*Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests. **For more information, contact our dedicated press team at [press@preqin.com](mailto:press@preqin.com) or call (+44) 20 3207 0265.***

*NXT Capital ([www.nxtcapital.com](http://www.nxtcapital.com)) is a leading provider of structured financing to the middle market. The company's asset management platform offers investors proprietary access to primarily first lien senior secured loans that are not broadly traded or otherwise generally available without a loan origination platform. Investment offerings include levered and unlevered funds, separately managed accounts and CLOs. NXT's managed-program investor base includes public and private pension plans, insurance companies, endowments, foundations and other institutional investors. NXT Capital Investment Advisers, LLC, a subsidiary of NXT Capital LLC, is a Registered Investment Adviser. **For more information, contact Carole Shifman at [carole.shifman@nxtcapital.com](mailto:carole.shifman@nxtcapital.com) or call +1 312 450 8084.***