

Private Debt Performance Spurs Further Investor Inflows

Investors hold a positive view of recent performance, and are set to increase their commitments to private debt over the next 12 months as a result

Preqin's survey of over 160 institutional private debt investors reveals that they view recent performance of their investments very positively, and many plan to commit increasing levels of capital to the asset class over the next 12 months. Almost a fifth (18%) of private debt investors stated that their private debt investments have exceeded their expectations in the past 12 months, and a further two-thirds (66%) said that their expectations had been met. Consequently, investors view the industry optimistically; 59% stated they held a positive perception of private debt, compared with just 9% which have a negative opinion. Moreover, over a quarter of investors (27%) stated that their confidence in the ability of private debt to achieve portfolio objectives has increased in the past 12 months.

As a result of this investor confidence, the private debt industry could be set for increased inflows; the majority (51%) of surveyed investors plan to make their next private debt investment either in H2 2016 or H1 2017. Additionally, 46% of investors anticipate committing more capital to the asset class in the next 12 months than in the previous year, with a further 41% planning to maintain their current level of investment. In the longer term, more than two-thirds of investors (67%) plan to increase their allocation to private debt compared to just 17% which aim to decrease participation in the industry. Given that over a third (38%) of investors remain under their current target allocation to private debt, the fundraising market in the second half of 2016 could see many investors looking to commit large amounts of fresh capital.

Other Key Private Debt Investors Facts:

- **Fund Selection:** When selecting a private debt manager, **the highest proportion of investors (23%) stated that fund strategy was the most important factor to consider.** Investors are also keen for evidence of previous success, with a fifth citing the length of track record, and 13% past performance, as key factors.
- **Strategies Targeted:** Over the next 12 months, **direct lending (56%), mezzanine (53%) and distressed debt (49%) strategies are being targeted by the highest proportions of investors.** Over a quarter of investors (27%) intend to make at least one special situations commitment within the next year.
- **Regional Preferences:** North America has traditionally seen the greatest level of private debt activity, and **47% of investors believe the region currently presents the best investment opportunities.** Thirty-six percent of investors are targeting investment in Europe, while 17% are looking towards Asia and other regions.
- **Target Allocation:** Managers raising or launching private debt funds should have a broad group of investors to aim for, as **more than a third of investors (38%) are currently under allocated to the asset class.** Half of investors stated that they had reached their target allocation, while 12% have exceeded their target allocation.
- **Source of Allocation:** More than half (54%) of private debt investors commit to the asset class through their private equity allocation. **The proportion of investors with a separate private debt allocation sits at 12%,** a slight increase from 11% six months earlier.

To access further information and analysis, please see the Private Debt section (pp.41-46) of the full *Preqin Investor Outlook: Alternative Assets, H2 2016*:

<https://www.preqin.com/docs/reports/Preqin-Investor-Outlook-Alternative-Assets-H2-2016.pdf>

Comment:

"Having once been considered a niche part of the alternative assets market, the private debt industry is continuing to cement its position as a fixture in many investors' portfolios. The recent performance of their private debt investments has met or exceeded the expectations of most investors, and as a result, the general perception of the asset class is currently very positive.

Perhaps buoyed by this satisfaction, the majority of investors plan to make fresh commitments to private debt in the coming 12 months, and in both the shorter and longer term many indicate that they are looking to increase the amount of capital they invest in these funds. With the current fundraising market remaining very competitive, managers of varying sizes and strategies will be competing to attract these incoming investments."

Ryan Flanders – Head of Private Debt Products, Preqin

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Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

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