

Private Debt Investors Pursue Mezzanine Funds

Mezzanine funds account for greatest proportion of active investor mandates in July 2017, as investors say it has the best risk/return profile

Preqin's most recent survey* finds that institutional investors view mezzanine funds as one of the most promising areas of the private debt market, leading to increased fundraising for the fund type in recent quarters. Almost half see mezzanine funds as offering the best risk/return profile, and four out of ten think they offer the best opportunities at present. As a result, investors are seeking out mezzanine investments: the greatest proportion of active investor mandates tracked by Preqin are for mezzanine vehicles. Increased investor interest may partly explain strong fundraising in recent years – 2016 was a record year for mezzanine funds. However, it does not seem as though 2017 will match that total, and the number of mezzanine funds in market is in decline.

For more information and analysis, see the full [August 2017 Private Debt Spotlight](https://www.preqin.com/docs/newsletters/pd/Preqin-Private-Debt-Spotlight-August-2017.pdf) here:
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Key Private Debt Mezzanine Facts:

- **Forty percent of private debt investors see mezzanine funds as currently offering the best opportunities.** This is second only to the proportion that cited direct lending (62%), and is greater than for distressed debt (32%).
- **Almost half (48%) of investors view mezzanine funds as presenting the best risk/return profile,** significantly more than any other fund type.
- As a result, **41% of active investor mandates tracked by Preqin in July 2017 were for mezzanine funds,** more than were for direct lending (37%) or distressed debt (34%).
- This may be in part because mezzanine funds have outperformed distressed debt across investment horizons by median net IRR: **they returned an annualized 12.2% in the five years to September 2016,** and exceeded overall returns for private debt funds (11.0%) in the same time period.
- Investor appetite has boosted fundraising activity: **2016 was a record fundraising year for mezzanine funds,** as 43 vehicles secured a combined \$31bn.
- However, **2017 does not look set to match this total:** in the first seven months of the year, 18 mezzanine funds have raised just \$4bn.
- At the same time, **the number of funds in market declined by 11% in the 12 months from June 2016, and aggregate capital targets declined by 55%.** This suggests new large funds are not being launched to replace funds that closed in 2016.

Ryan Flanders, Head of Private Debt Products:

“Despite being a longstanding element of the private debt industry, market share for mezzanine funds has fallen behind that of distressed debt and direct lending in recent years. However, Preqin’s latest surveys find that investor sentiment towards mezzanine vehicles is very favourable, with investors seeing it as one of the most attractive private debt fund types at present.

This has spurred fundraising over recent quarters, and 2016 marked a record year for mezzanine vehicles. However, it also saw the closure of most of the largest funds that were seeking investment, and fewer new large funds have come to market to meet investor demand. As such, momentum for mezzanine fundraising seems to have stalled in 2017 so far, despite positive investor sentiment. If new mezzanine vehicles are launched in the remainder of the year, it seems that the high level of investor appetite indicated by Preqin’s survey could assist in their fundraising efforts.”

** Results based on a survey of 53 private debt investors conducted by Preqin in June 2017.*

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.

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