

The Q1 2015 Preqin Quarterly Update

Private Debt

Insight on the quarter from the leading provider of alternative assets data

Content includes...

Fundraising

North America-focused funds dominate Q1 2015 fundraising.

Funds in Market

Direct lending funds account for the largest amount of capital targeted.

Investors in Private Debt

Strong investor appetite for private debt in the year ahead.

Fund Performance and Dry Powder

Europe-focused funds witness the largest increase in dry powder over Q1.





Foreword - Ryan Flanders, Preqin

There were 19 private debt funds which held a final close in the first quarter of 2015, the lowest number of fund closes since Q3 2012, when 15 vehicles held final closes. The amount of capital secured also decreased compared to the previous quarter, but was up when compared to Q1 2014. As a result, average fund size has reached \$941mn, up from \$528mn in Q1 2014, driven by several mega fund closures. Additionally, the five largest funds closed in the first quarter were either direct lending or mezzanine funds. Trends in private debt fundraising seem to suggest investors are increasingly willing to invest with established fund managers that have the capability to deploy private financing capital on a large scale.

Though Preqin figures do show a drop in total fundraising for private debt funds in Q1 2015 compared to Q4 2014, dry powder within the industry has increased by 14% over the quarter to a total of \$158bn across all private debt strategies. There seems to be optimism within the private debt fund manager and institutional investor communities towards the development of the European private debt market; funds with a focus on Europe saw the largest increase in dry powder available for investment during Q1 2015. This growth is particularly interesting given the relatively recent development of the alternative lending marketplace in Europe to be presumably funded by direct lending vehicles in the space, and defined within the scope of economic and liquidity reorganization by the ECB.

We hope you find this report useful, and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com.

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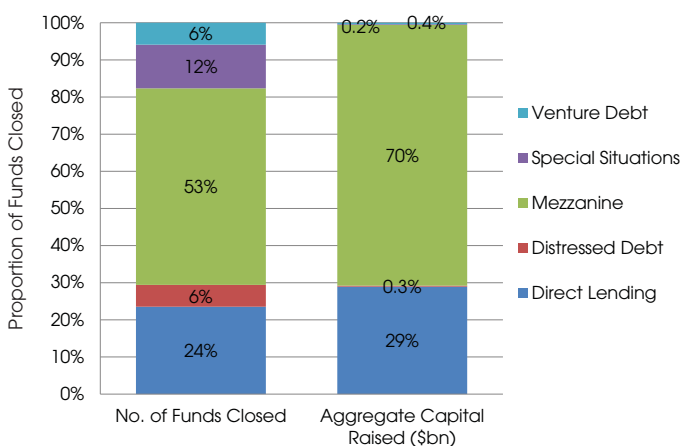
Fundraising in Q1 2015

Q1 2015 saw 19 private debt funds reach a final close, securing an aggregate \$16bn in commitments. This is a drop on the \$22bn raised in Q4 2014 by 28 funds, but an increase on the amount of capital raised in the first quarter of 2014, when \$12bn was accumulated (Fig. 1).

Mezzanine fundraising accounted for the vast majority (70%) of capital raised in Q1 2015, with the bulk of this being raised by GS Mezzanine Partners VI, which closed in February having raised \$8bn. Direct lending accounted for most (24%) of the remaining capital raised in the quarter, with limited capital raised across other debt strategies (Fig. 2).

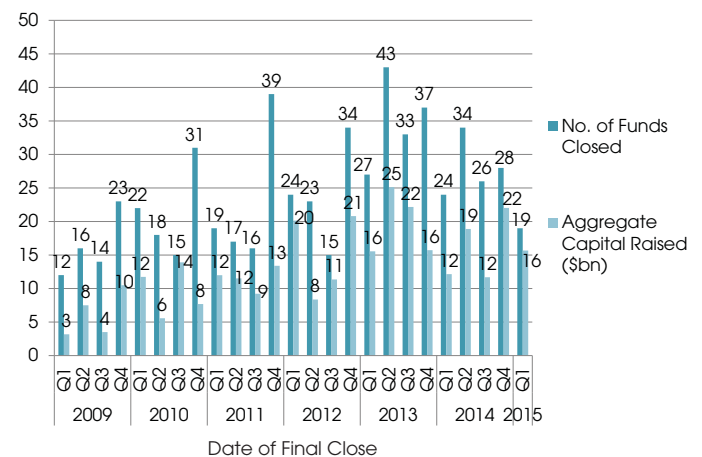
North America continued to dominate the fundraising market in Q1 2015, with funds closed during the quarter that target the region raising an aggregate \$11.8bn; however, this figure is again primarily made up of Goldman Sachs Merchant Banking Division's \$8bn mezzanine fund. Two Europe-focused funds held a final close raising a total of \$3.2bn, while one Asia-focused fund raised \$330mn and one Rest of World-focused fund secured \$350mn.

Fig. 2: Breakdown of Private Debt Fundraising in Q1 2015 by Fund Type



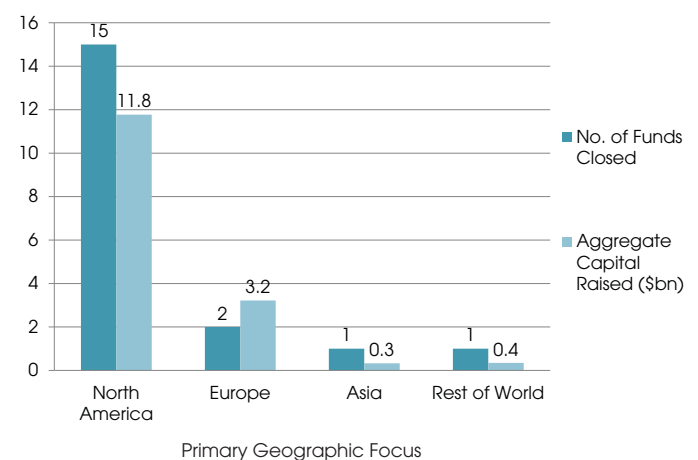
Source: Preqin Private Debt Online

Fig. 1: Global Quarterly Private Debt Fundraising, Q1 2009 - Q1 2015



Source: Preqin Private Debt Online

Fig. 3: Breakdown of Private Debt Fundraising in Q1 2015 by Primary Geographic Focus



Source: Preqin Private Debt Online

Fig. 4: 10 Largest Private Debt Funds Closed in Q1 2015

| Fund | Firm | Fund Type | Fund Size (mn) | Location Focus |
|---------------------------------------|---|----------------|----------------|----------------|
| GS Mezzanine Partners VI | Goldman Sachs Merchant Banking Division | Mezzanine | 8,000 USD | North America |
| European Loan Programme | Ares Management | Direct Lending | 3,189 USD | Europe |
| Morgan Stanley Credit Partners II | Morgan Stanley Credit Partners | Mezzanine | 1,000 USD | North America |
| OrbiMed Royalty Opportunities Fund II | OrbiMed Advisors | Mezzanine | 924 USD | North America |
| NXT Capital Senior Loan Fund III | NXT Capital Venture Finance | Direct Lending | 800 USD | North America |
| Cordiant Emerging Loan Fund (CELF IV) | Cordiant Capital | Direct Lending | 350 USD | Rest of World |
| Tokio Marine Mezzanine Fund | Tokio Marine Mezzanine | Mezzanine | 328 USD | Asia |
| Argosy Investment Partners V | Argosy Private Equity | Mezzanine | 300 USD | North America |
| Escalate Capital III | Escalate Capital | Mezzanine | 235 USD | North America |
| Vista Equity Debt Fund I | Vista Equity Partners | Direct Lending | 196 USD | North America |

Source: Preqin Private Debt Online



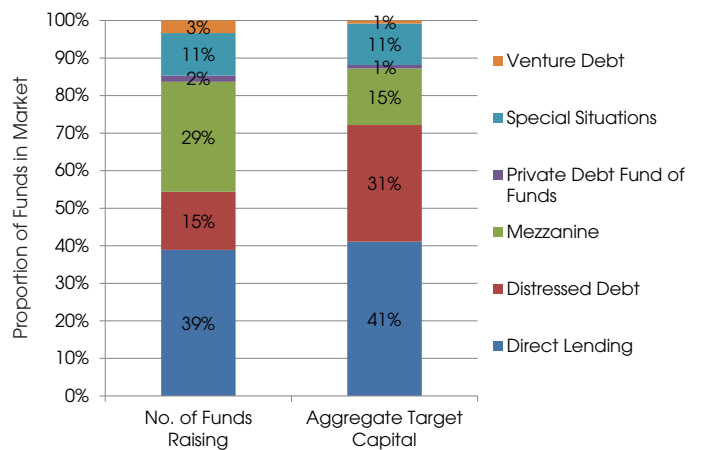
Funds in Market

At the start of Q2 2015, there were 237 private debt funds in market targeting \$122bn in aggregate capital commitments. Direct lending funds account for the highest proportion of these funds, both in terms of number and the amount of capital being targeted, as shown in Fig. 1.

A notable proportion of funds have been on the road raising capital for less than six months (29%), while a third of funds have been in market for more than 18 months (Fig. 2).

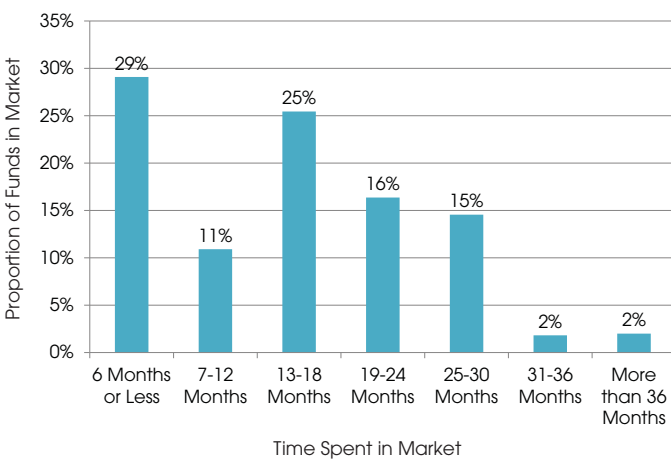
North America continues to account for the largest amount of capital currently targeted (\$63bn across 125 funds); however, Europe continues to grow as a region for private debt fundraising, with 66 funds looking to secure total commitments of \$46bn (Fig. 3). Outside of these more developed markets, private debt fundraising is also starting to gain increased traction, with a significant 46 funds in market looking to secure \$13bn for investments in Asia and other regions outside North America and Europe.

Fig. 1: Breakdown of Private Debt Funds in Market by Fund Type



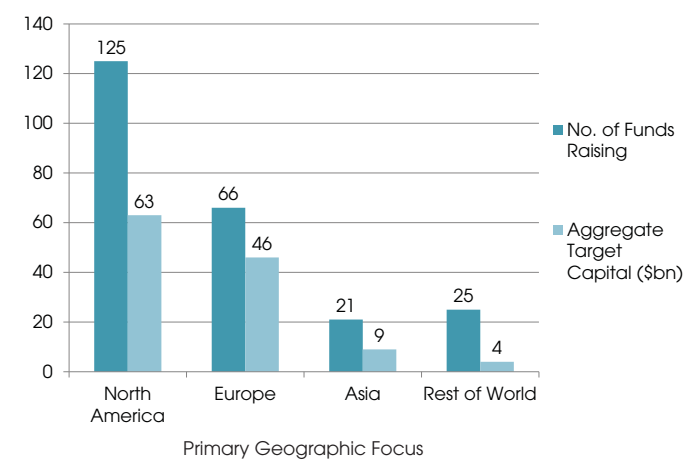
Source: Preqin Private Debt Online

Fig. 2: Breakdown of Private Debt Funds in Market by Time Spent in Market



Source: Preqin Private Debt Online

Fig. 3: Breakdown of Private Debt Funds in Market by Primary Geographic Focus



Source: Preqin Private Debt Online

Fig. 4: 10 Largest Private Debt Funds Currently in Market

| Fund | Firm | Fund Type | Target Size (mn) | Location Focus |
|---------------------------------------|----------------------------------|--------------------|------------------|----------------|
| Oaktree Opportunities Fund X | Oaktree Capital Management | Distressed Debt | 7,000 USD | North America |
| Fortress Credit Opportunities Fund IV | Fortress Investment Group | Distressed Debt | 4,000 USD | Europe |
| Mount Kellett Capital Partners III | Mount Kellett Capital Management | Special Situations | 4,000 USD | Asia |
| Senior Debt Partners II | Intermediate Capital Group | Direct Lending | 3,401 USD | Europe |
| Sankaty Credit Opportunities VI | Sankaty Advisors | Distressed Debt | 3,000 USD | North America |
| TCW Direct Lending Fund | TCW Group | Direct Lending | 3,000 USD | North America |
| Oaktree Opportunities Fund Xb | Oaktree Capital Management | Distressed Debt | 3,000 USD | North America |
| MHR Institutional Partners IV | MHR Fund Management | Distressed Debt | 2,750 USD | North America |
| ICG Europe Fund VI | Intermediate Capital Group | Mezzanine | 2,682 USD | Europe |
| AXA Private Debt III | Arrian | Direct Lending | 2,565 USD | Europe |

Source: Preqin Private Debt Online



Global private equity fundraising

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Cyprium Partners

We congratulate the Cyprium team on the successful closing of Cyprium Investors IV.



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Institutional Investors in Private Debt

Investors surveyed by Preqin in Q1 2015 conveyed a strong appetite for exposure to private debt funds, with 57% of respondents expecting to increase their allocation within the next 12 months (Fig. 1). An even larger proportion (65%) expects to increase their allocation to private debt in the longer term, while only 8% expect to decrease their exposure. It is clear that institutional investors are becoming increasingly familiar with the sub-strategies within private debt, and have shown a favourable outlook on well-performing or promising areas of the asset class.

Looking further into activity in 2015, 44% of respondents plan to make their next commitment in the first half of the year, with 20% anticipating making a commitment during the second half of 2015, as shown in Fig. 2. Only 11% of respondents do not anticipate investing in private debt during 2015, with the remaining 25% unsure of commitment plans.

In terms of fund types within private debt considered as currently presenting the best investment opportunities, 62% of respondents view direct lending as the most promising type, an unsurprising

conclusion after fundraising success within the strategy in 2014. Furthermore, half of respondents identified special situations as presenting strong opportunities, followed by distressed debt (30%) and mezzanine (28%).

As shown in Fig. 4, Europe is currently viewed as presenting the most favourable investment opportunities for 69% of investors, followed by North America (57%) and Asia (14%).

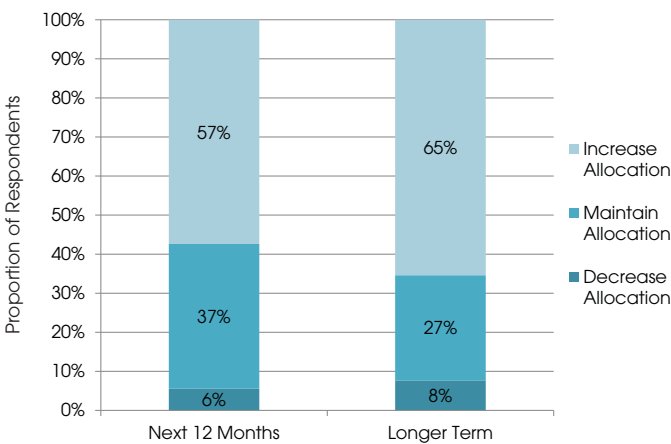
Data Source:

Preqin's **Private Debt Online** tracks in-depth data on over 1,500 active investors in private debt around the world. Search for investors based on their current allocation to private debt, location, investment preferences and much more.

For more information, please visit:

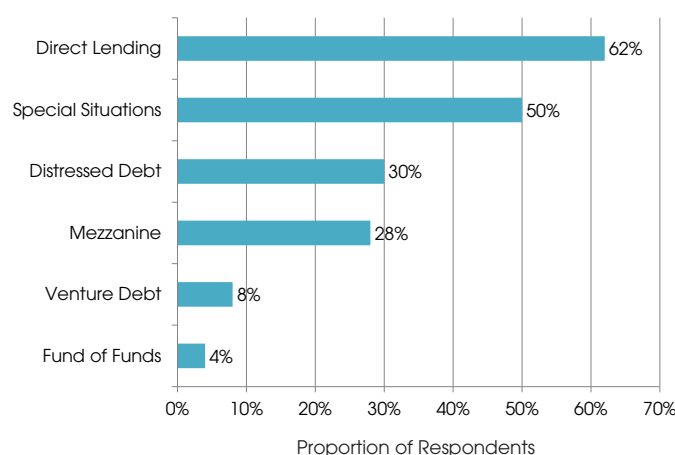
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Fig. 1: Investors' Intentions for Their Private Debt Allocations



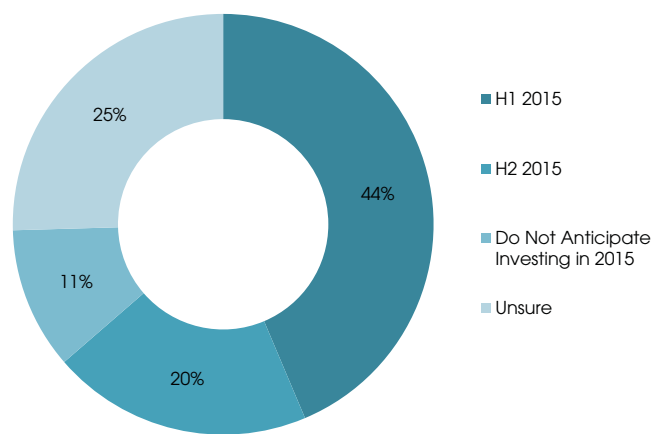
Source: Preqin Investor Interviews, February 2015

Fig. 3: Private Debt Fund Types Investors View as Currently Presenting the Best Investment Opportunities



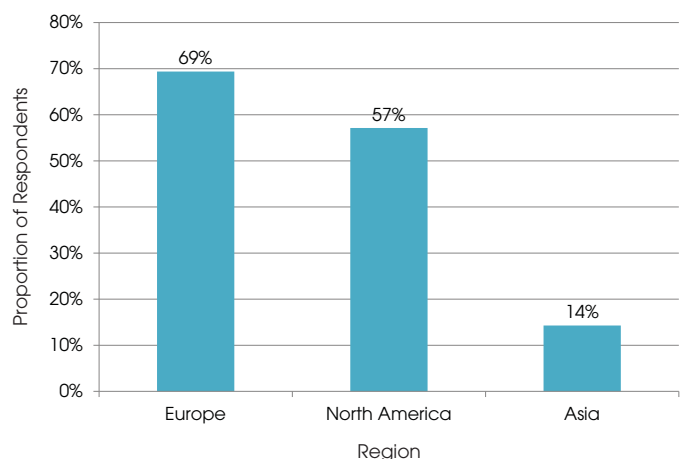
Source: Preqin Investor Interviews, February 2015

Fig. 2: Investors' Timeframe for Their Next Intended Commitment to Private Debt Funds



Source: Preqin Investor Interviews, February 2015

Fig. 4: Regions Investors View as Currently Presenting the Best Investment Opportunities



Source: Preqin Investor Interviews, February 2015



Fund Performance and Dry Powder

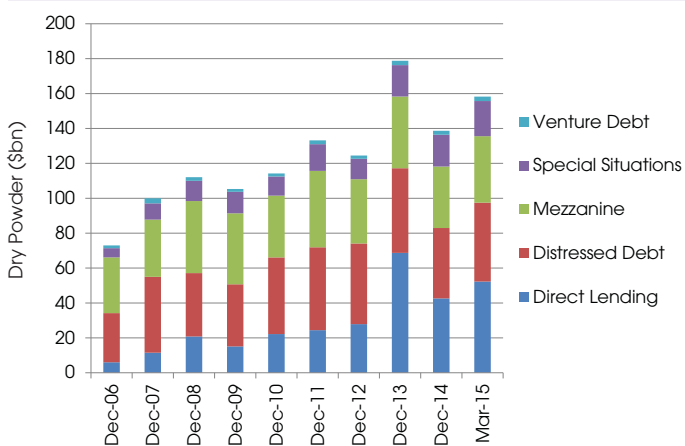
Fig. 1 shows that total dry powder available to private debt fund managers globally at the end of Q1 2015 has increased by 14% since December 2014 and currently stands at \$158bn, the highest level since \$179bn at the end of 2013. Following a successful year for fundraising in 2014, direct lending funds have a total of \$52bn in available capital, while distressed debt and mezzanine funds have also grown dry powder reserves via successful fundraising cycles, with levels currently standing at \$45bn and \$38bn respectively.

Through Q1 2015, Europe-focused funds witnessed the largest proportional increase in dry powder, increasing by 25% since

December 2014, with available capital now standing at \$46bn, as shown in Fig. 2.

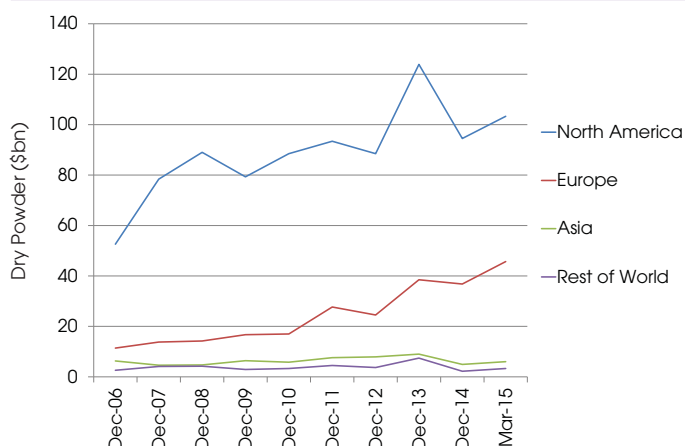
Median net IRRs for private debt funds with vintage years 2007-2012 typically hit the low double digits as shown in Fig. 3. As the private debt asset class continues to grow, manager track records and performance data will help investors to determine in which bucket to place their investments. Fig. 4 shows risk-return profiles for various alternative strategies, with direct lending and distressed debt positioned relatively attractively on the spectrum in terms of return per unit of standard deviation.

Fig. 1: Private Debt Dry Powder by Fund Type, December 2006 - March 2015



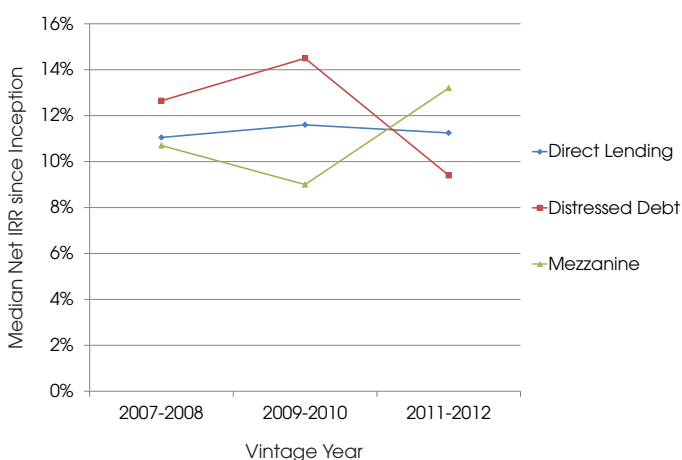
Source: Preqin Private Debt Online

Fig. 2: Private Debt Dry Powder by Primary Geographic Focus, December 2006 - March 2015



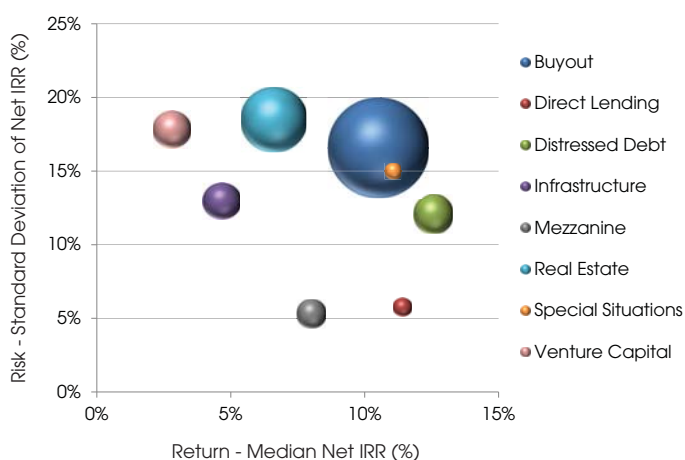
Source: Preqin Private Debt Online

Fig. 3: Median Net IRRs by Vintage Year: Direct Lending, Distressed Debt and Mezzanine



Source: Preqin Private Debt Online

Fig. 4: Risk and Return by Strategy (Vintage 2002-2012 Funds)



Source: Preqin

Data Source:

Preqin's **Private Debt Online** contains net-to-LP performance data, with full metrics for over 630 named vehicles.

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The Q1 2015 Preqin Quarterly Update: Private Debt



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Find the most relevant investors, with access to detailed profiles for over 1,500 institutional investors actively investing in private debt, including information on their current fund searches and mandates, direct contact information and sample investments.

Identify potential investment opportunities

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