2015 Preqin Global Private Debt Report

Sample Pages

ISBN: 978-1-907012-81-5
$175 / £95 / €115
www.preqin.com

preqin
alternative assets. intelligent data.

The 2015 Preqin Global Private Debt Report
Contents

Data Source:

The **2015 Preqin Global Private Debt Report** contains the most up-to-date data available at the time of going to print. For information on how to access the very latest statistics and data on fundraising, institutional investors, fund managers and performance, or to arrange a walkthrough of Preqin's online services, please visit:

www.preqin.com/privatedebt

Data Pack for the 2015 Preqin Global Private Debt Report

The data behind all of the charts featured in the Report is available to purchase in Excel format. The data pack also includes ready-made charts that can be used for presentations, marketing materials and company reports. To purchase the data pack, please visit:

www.preqin.com/gpdr

Outlook for Private Debt in 2015
- Ryan Flanders, Preqin

Fundraising

Private debt fundraising saw a slight reduction in both the number of funds closed and aggregate capital raised in 2014, after witnessing five-year highs for both metrics in 2013. However, fundraising for direct lending vehicles reached an all-time high, with 45 direct lending funds securing a combined $29.1bn in 2014. There is a belief in the fund manager community that opportunity is on the horizon for both direct lending and to some extent distressed debt investing in 2015 and beyond. European capital markets are undergoing a fundamental shift in debt providers, and instability in sectors such as energy could potentially lead to distressed or situational investment opportunities in future.

Mezzanine fundraising saw a drop in both total capital raised and number of funds closed in 2014, as managers had difficulty attracting capital, potentially under pressure from the growth of unitranche direct lending funds. Twenty-seven mezzanine vehicles raised $8.6bn in aggregate capital last year, down 50% on the 2013 total of $17.3bn. It is likely that competition will remain firm in 2015, as traditional mezzanine shops seek ways to pivot within the evolution of debt capital markets.

Investor Appetite

As lower risk private debt strategies at the top of the capital structure continue to gain prominence as viable fixed income alternatives, investors are increasing their allocations to private debt. Fifty-five percent of investors active in private debt intend to invest more capital in the asset class during 2015 compared to 2014, with only 13% of investors planning to commit less. This appetite is driving growth and is unsurprising given the current low interest rate environment offering lacklustre returns on capital when compared to private debt alternatives on a risk-adjusted basis.

Direct lending has become a point of interest for many investors seeking the types of attractive risk-adjusted returns targeted by fund managers in the space. With sights set on the growing European alternative lending market, direct lending can offer the advantages of investing in senior debt and accessing the expertise of fund managers with knowledge of the regions in need of non-bank loan activity in 2015.

Regulation

Europe will be an area of interest in 2015, as regulatory changes in the region are set to take effect this year. The ECB has set forth standardized liquidity requirements for the banking sector, and this is likely to result in a scaling back of banks from traditional lending. Currently, banks in Europe provide the majority of financing to borrowers, compared to the US, which has an established alternative lending market. The incoming ECB mandates in 2015 will likely become a catalyst for the growth of alternative lending and therefore well-positioned debt providers in the space could see opportunity to write loans in Europe.

Furthermore, the Alternative Investment Fund Managers Directive (AIFMD) put forward by the European Union has established regulation for alternative funds marketed and operated in European territory. The measures of the directive affect fund managers in the areas of risk management, valuation, remuneration, reporting and more. As the regulations come into play, managers must focus on compliance.

Outlook for 2015

Dry powder levels for private debt currently stand at $154bn (as of March 2015), demonstrating the amount of capital fund managers will be looking to put to work in the asset class in the near future. The US market remains the largest and most developed for the majority of alternative lending strategies, and will continue to be a cornerstone of operations for many of the largest global fund managers.

The increase in investor appetite for certain areas of private debt, notably direct lending, is likely to drive growth in assets under management for fund managers, as long as growth and stable economic conditions remain in the US and certain European regions. Large, sophisticated institutional investors with the capacity to enter into long-term closed-end fund structures are increasingly combining that ability with fixed income strategies such as direct lending and other growing areas within private debt.

A Look into the US Private Debt Market

- John Brignola, Managing Partner, LBC Credit Partners

What changes have you seen in the US private debt market over the past 12 months?

2014 was an interesting year, and one that has kept us on our toes. Pricing came under pressure in the first half of 2014, followed by a relatively steady increase throughout the rest of the year. We saw a lot of our competitors reach for yield, which was something we needed to be mindful of. We took a step back as we saw this unfold and kept true to our discipline. In terms of dollars, 66% of the deals we closed in 2014 were funded in the second half of the year.

Where do the opportunities lie within the space for 2015?

We have seen an increase in M&A activity which has led to more deal flow from our sponsor partners. We are still seeing opportunities from our private owner network, but we have noticed a bigger spike on the sponsor side.

With such high (purchase price) multiples witnessed in the mid-market and lower-market private equity space, have you seen this translate into less deal flow in the private credit space?

Not at all, in fact our deal flow has actually increased over 20% in the TTM period. We have a strong, senior team of investment professionals that are out in the market every day building our brand with sponsors, bankers and a multitude of other deal sources. We are very lucky to have our existing group of partners. They know us well and have worked with us for many years. I think being an established and trusted lender in the space for over 10 years has really kept our pipeline consistent.

Despite increased multiples, private equity sponsors are still putting money to work. Overall, there is a decent amount of dry powder out there, and sponsors are continuing to raise capital. What we look for in our sponsor partners is commitment to the businesses in which they are investing, which means financially and operationally supporting them throughout their ownership term. That gives us an alignment of interest between the equity owners and LBC.

As investors across the capital structure, did 2014 present more opportunity in the senior part of the capital structure or among more subordinated debt? Do you see this holding true in 2015?

Absolutely, from a risk-adjusted perspective we have seen better opportunities on the senior side. This actually has been a favorable environment for us. We tend to overweight senior in the debt stack; our goal for our investors is to provide current income while preserving principal. It is a balance that we have maintained throughout our 10 years of business and we are proud of that discipline, and our investors have come to expect that from us.

2015 is likely to play out like last year. The better risk adjusted returns are likely to be in the senior part of the capital stack. It is difficult getting an appropriate return for junior risk today. If the market perceives a changing default environment, we may see some more opportunity on the junior side, but for now the market does not seem to be pricing in an elevated default rate.

When will we see a rise in interest rates and how could this affect the private debt markets? Near-term effects and long-term effects?

We think this is going depend on several factors, not least of which is the outlook for jobs and wages, both of which have shown solid growth in the final months of 2014. Based on the short-term interest rate curves, we think a rate increase will happen sometime in mid-2015. As long as LIBOR rises gradually, companies should be able to adjust to higher interest rates. If the increases are accelerated, we may see some companies struggle with the higher debt service. In the long-term, companies will learn to adjust to higher borrowing costs. From an M&A perspective, elevated rates may put a damper on purchase prices.

Has the explosive growth in private debt within Europe affected the markets here in the US? Has this created a more international allocator base here in the US?

I think the growth in the European markets is positive for investors looking to diversify their private debt portfolios. I do not think it will impact our ability to attract investors because it is not what we do; we are focused on North America-based borrowers. Investors that want European exposure are not going to be looking to us, and I do not see increased activity in European private debt cannibalizing our investor base.

LBC Credit Partners

Founded in 2005, LBC is a leading provider of middle market financing solutions including senior term, unitranche, second lien, junior secured, and mezzanine debt; and equity co-investments to companies with EBITDA generally greater than $5mn. LBC follows a long-term approach to investing adhering to a "lend and hold" strategy and typically invests $10mn to $50mn per transaction supporting acquisitions, growth strategies, refinancing, recapitalizations, and restructurings.

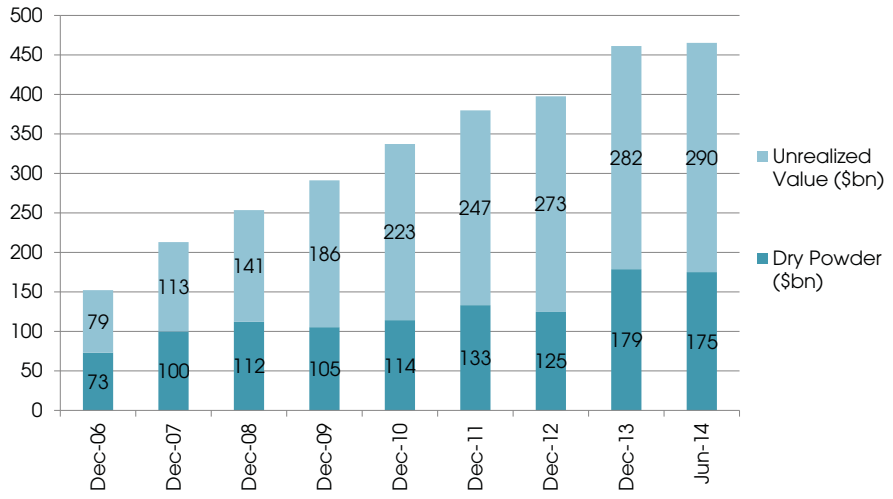
John Brignola is a founder of LBC Credit Partners and chairs the firm's Investment Committee. He is responsible for LBC's origination, research and credit underwriting functions. Mr. Brignola has 26 years of senior debt, junior debt and special situations investing experience. Prior work experience includes various positions at Citadel Investment Group, PPM America and AT&T Capital. He is a board member of Supply One Holdings, LLC, an LBC portfolio company, former board member of the Turnaround Management Association and a member of the Association for Corporate Growth, Turnaround Management Association and Commercial Finance Association.

www.lbccredit.com

Assets under Management and Dry Powder

Since 2006, the private debt industry's assets under management (AUM), defined as the uncalled capital commitments (dry powder) plus the unrealized value of portfolio assets, have continued to increase year on year. As shown in Fig. 3.1, the unrealized portfolio value has increased considerably since 2006, with the amount of dry powder fluctuating, although generally on an upward trend, indicating that managers have found attractive opportunities to put capital to work in the industry. In June 2014, AUM reached an all-time high of $465bn, and with a significant number of managers on the road looking to secure investor capital in 2015, this figure looks set to grow further in the coming year.

Fig. 3.1: Private Debt Assets under Management ($bn), December 2006 - June 2014

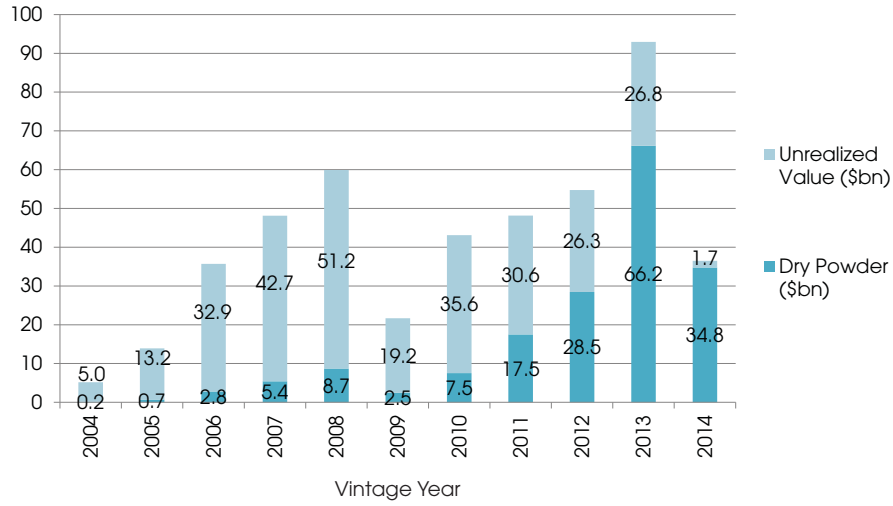


Source: Preqin Private Debt Online

Assets under Management by Vintage Year

Fig. 3.2 shows the breakdown of dry powder and unrealized portfolio value by fund vintage year and, as expected, funds with an older vintage typically have less dry powder and more unrealized value as they have had longer to put their capital to work. It is interesting to note that there is still a significant amount of dry powder ($66.2bn) from funds with a 2013 vintage, a year when large amounts of capital were raised.

Fig. 3.2: Private Debt Assets under Management by Vintage Year as of June 2014 ($bn)



Source: Preqin Private Debt Online

Assets under Management by Fund Type

As shown in Fig. 3.3, distressed debt funds hold the highest proportion of both unrealized portfolio value and dry powder, representing 40% and 35% of the total industry respectively. Mezzanine funds represent around 31% of unrealized value but only 19% of dry powder, illustrating the decline in mezzanine fundraising over recent years. For direct lending funds, however, the opposite is true; direct lending funds hold 14% of the industry's unrealized portfolio value, but nearly a third (32%) of dry powder, showing that significant capital has been raised by managers for this fund type in recent years. With direct lending funds making up the highest proportion of funds currently seeking capital, both in terms of absolute number and the amount of capital targeted, it seems likely that direct lending as a proportion of total private debt AUM will rise in the coming years.

Dry Powder

Current dry powder estimates show that $154bn of capital is available to fund managers to make investments as of March 2015 (Fig. 3.4). Since 2006, there has been a rise in dry powder, particularly in the years following the 2008 market crash. However, while there has been an overall rise in the value of dry powder, which can be explained by both an increase in fundraising coupled with a struggle to find investment opportunities, by the end of 2014 there had been a fall in dry powder across most strategies, with the exception of special situations. In 2014, dry powder fell by $40bn in total, with the biggest fall occurring in the direct lending market, which dropped by $26bn, indicating a greater level of deal activity.

Dry Powder by Geographic Focus

Fig. 3.5 shows dry powder by primary geographic focus, demonstrating that

Distressed Debt Fundraising

Global distressed debt fundraising fell for a second consecutive year in 2014; economic growth and relative stability in North America and certain European economies have put pressure on fundraising and opportunities for distressed investment since 2012. As a highly opportunistic strategy, the relatively low default rate, driven by low interest rates across industries, has caused a slight lull for distressed investing. In 2014, 19 distressed debt funds closed, securing an aggregate $16.8bn, approximately a third less than in 2013, as shown in Fig. 4.16.

Geographic Breakdown

Funds focused primarily on North America accounted for nearly 82% of total capital raised by distressed funds closed in 2014, although total fundraising for the region declined by 27% compared to 2013. The sheer size of the North American market dwarfs all other regions, as has been the case historically. The countercyclical nature of distressed debt investing has produced a lull in fundraising activity as economies in the US and Europe grow or remain flat. In 2014, just four Europe-focused distressed debt funds closed securing aggregate commitments of $2.7bn.

Fundraising Momentum

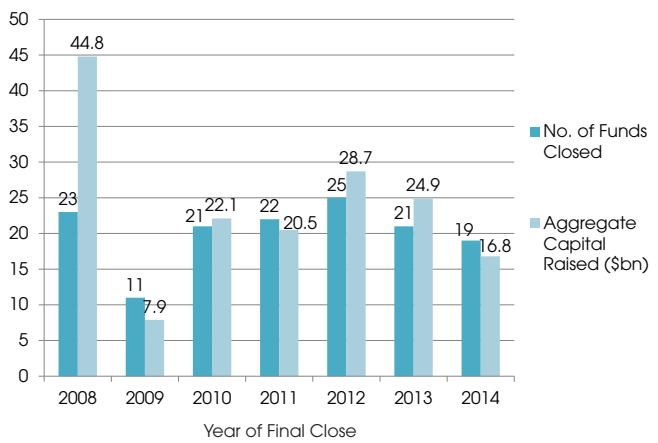
Distressed debt funds holding a final close in 2014 spent a shorter amount of time raising capital, at an average of 11 months from launch to final close, than funds closed in 2013, which took 17 months on average (Fig. 4.17). This suggests that managers have found more success among their investor base in 2014 and could continue to raise and deploy capital in 2015.

Outlook

Distressed debt funds have the potential to attract significant capital in 2015, depending on industry-specific events, such as the Q1 2015 fall in the price of oil producing distressed opportunities in the energy sector. Demand for distressed debt in the form of non-performing loans is increasing, and banks are warming to the idea of offloading this paper to interested investors. There are currently 35 distressed debt funds in market, including a $10bn mega fund from Oaktree Capital Group, the largest global distressed debt fund manager by capital raised in the last 10 years. Furthermore, eight of the top 10 largest distressed debt funds in market are US focused, as the region remains at the crux of activity for the asset class.

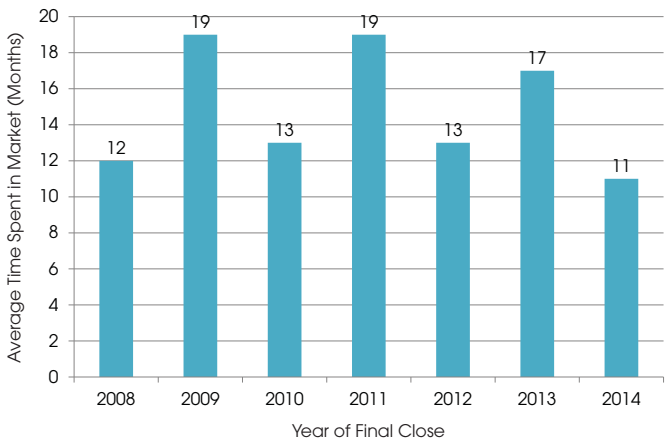
The availability of alternative debt sources as well as bank financing where applicable could continue to constrict the volume of opportunities in the space. Investors may wish to continue to incorporate the strategy opportunistically though, as uncertainty on the macroeconomic level in Europe and a rise in direct lending could present opportunities for distressed debt activity in coming years.

Fig. 4.16: Annual Distressed Debt Fundraising, 2008 - 2014



Source: Preqin Private Debt Online

Fig. 4.17: Average Time Spent in Market by Distressed Debt Funds, 2008 - 2014



Source: Preqin Private Debt Online

Data Source:

Preqin's **Private Debt Online** contains comprehensive profiles for over 300 distressed debt funds closed historically and in market, as well as over 100 distressed debt fund managers globally.

For more information, please visit:

www.preqin.com/privatedebt

Investor Appetite for Private Debt in 2015

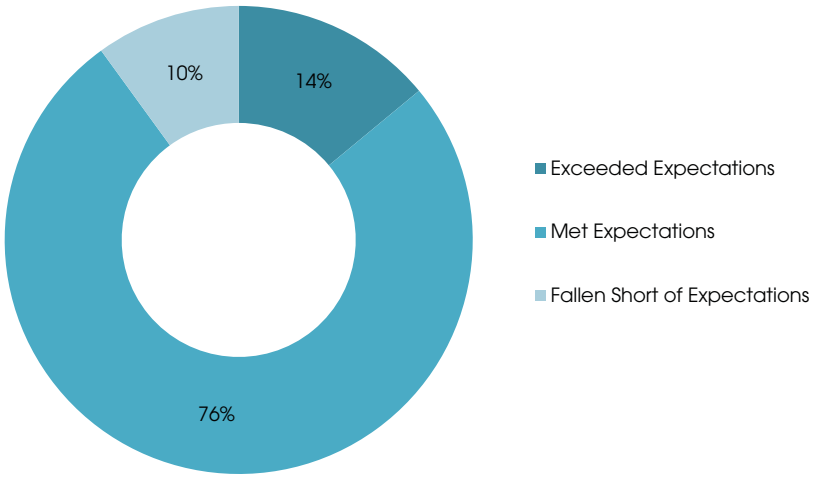
The growth of private debt as a standalone asset class has been a relatively recent occurrence and therefore many investors are either inexperienced at investing in the asset class, or are looking to make their first commitment to private debt. As a result, many investors are exploring how best to gain exposure to the asset class, with their preferences likely to evolve as they become more comfortable with private debt and how it fits into their investment portfolio. With this in mind, it is vital that fund managers remain aware of changing investor appetite towards private debt to make sure their offerings continue to match the needs of investors.

In early 2015, Preqin interviewed over 50 global institutional investors that actively invest in private debt in order to gain an insight into their current attitudes and their future investment plans. The results paint a positive picture for private debt, with strong investor appetite for the asset class both over the coming year and the longer term.

Investor Sentiment

As shown in Fig. 7.5, the vast majority of investors surveyed are satisfied with the returns they have received from their private debt investments, with over three quarters (76%) stating that private debt investments have lived up to expectations. A further 14% felt that private debt investments had exceeded expectations.

Fig. 7.5: Proportion of Investors that Feel Their Private Debt Fund Investments Have Lived up to Expectations over the Past 12 Months



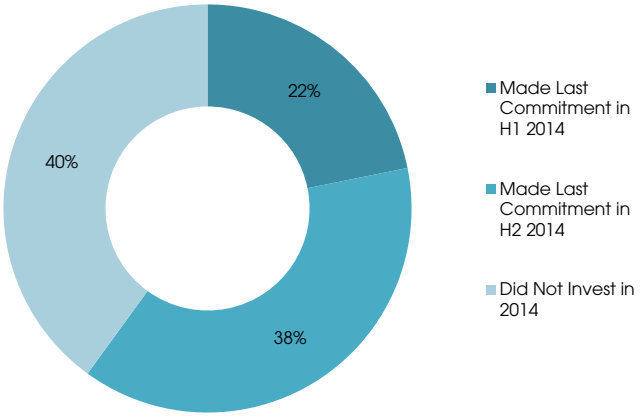
Source: Preqin Investor Interviews, February 2015

This is especially important given that private debt operates much like a fixed income product, paying a coupon, meaning there is less scope for outperformance than with equity-based instruments. However, there is still the possibility of significant downside if loans in the portfolio default. The fact that the majority of investors indicated that their investments in the private debt space have either met or exceeded expectations can be viewed positively for the industry and its ability to mitigate downside risk. In addition, 84% of respondents stated that they had either a positive or neutral view of the private debt industry at present, with only 16% expressing a negative view towards the asset class.

Investors' Private Debt Commitments in 2015

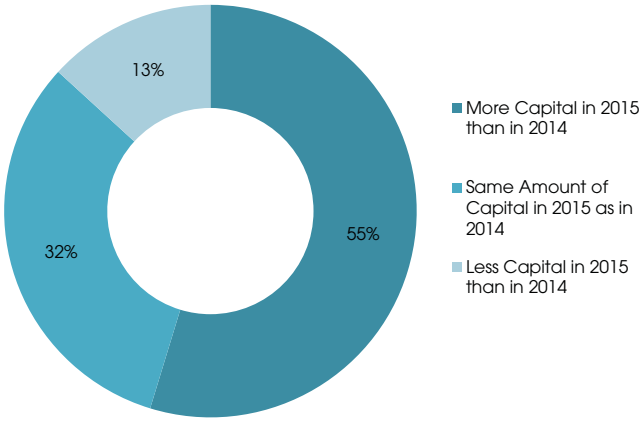
As shown in Fig. 7.6, 60% of investors surveyed made new commitments to the asset class in 2014, including 38% that made a new commitment in H2 2014. It is important to note, however, that 40% did not make new commitments, either

Fig. 7.6: Proportion of Investors that Made New Private Debt Fund Commitments in 2014



Source: Preqin Investor Interviews, February 2015

Fig. 7.7: Investors' Expectations for the Amount of Capital They Will Commit to Private Debt in 2015 Compared to 2014



Source: Preqin Investor Interviews, February 2015

2015 Preqin Global Alternatives Reports

preqin

alternative assets. intelligent data.

The 2015 Preqin Global Alternatives Reports are the most comprehensive reviews of the alternatives investment industry ever undertaken, and are a must-have for anyone seeking to understand the latest developments in the private equity, hedge fund, real estate, infrastructure and private debt asset classes.

Key content includes:

- Interviews and articles from the most important people in the industry today.
- Detailed analysis on every aspect of the industry with a review of 2014 and predictions for 2015.
- Comprehensive stats - including fundraising, performance, deals, managers, secondaries, fund terms, investors, placement agents, advisors, law firms.
- Numerous reference guides for different aspects of the industry - where are the centres of activity? How much has been raised? Where is the capital going? Who is investing? What are the biggest deals? What is the outlook for the industry?

For more information visit: www.preqin.com/reports

I would like to purchase:

PRINT:

Name	1 Copy	✓	2 Copies (10% saving)	✓	5 Copies (25% saving)	✓	10 Copies (35% saving)	✓	Data Pack* (Please tick)
Private Equity	$175/£95/€115		$315/£170/€205		$655/£355/€430		$1,135/£620/€750		
Hedge Funds	$175/£95/€115		$315/£170/€205		$655/£355/€430		$1,135/£620/€750		
Real Estate	$175/£95/€115		$315/£170/€205		$655/£355/€430		$1,135/£620/€750		
Infrastructure	$175/£95/€115		$315/£170/€205		$655/£355/€430		$1,135/£620/€750		
Private Debt	$175/£95/€115		$315/£170/€205		$655/£355/€430		$1,135/£620/€750		
All Titles (25% Saving!)	$655/£355/€430		$1,180/£635/€765		$2,455/£1,330/€1,610		$4,255/£2,325/€2,810		

Shipping Costs: $40/£10/€25 for single publication
$20/£5/€12 for additional copies

(Shipping costs will not exceed a maximum of $60/£15/€37 per order when all shipped to same address. If shipped to multiple addresses then full postage rates apply for additional copies)

If you would like to order more than 10 copies of one title, please contact us for a special rate

DIGITAL:

Name	Single-User Licence	✓	Enterprise Licence**	✓	Data Pack* (Please tick)
Private Equity	$175/£95/€115		$1,000/£550/€660		
Hedge Funds	$175/£95/€115		$1,000/£550/€660		
Real Estate	$175/£95/€115		$1,000/£550/€660		
Infrastructure	$175/£95/€115		$1,000/£550/€660		
Private Debt	$175/£95/€115		$1,000/£550/€660		
All Titles (25% Saving!)	$655/£355/€430		$3,750/£2,060/€2,475		

*Data Pack Costs: $300/£180/€220 for single publication.
**Enterprise Licence allows for unlimited distribution and printing within your firm. Printing is disabled on Single-User Licences.
Digital copies are exclusive of VAT where applicable.

Completed Order Forms:

Post (to Preqin):

New York
One Grand Central Place
60 E 42nd Street
Suite 630
New York
NY 10165

Tel: +1 212 350 0100
Fax: +1 440 445 9595

London
3rd Floor
Vintners' Place
68 Upper Thames Street
London, EC4V 3BJ

Tel: +44 (0)203 207 0200
Fax: +44 (0)87 0330 5892

Singapore
One Finlayson Green
#11-02
Singapore
049246

Tel: +65 6305 2200
Fax: +65 6491 5365

San Francisco
One Embarcadero Center
Suite 2850
San Francisco
CA 94111

Tel: +1 415 316 0580
Fax: +1 440 445 9595

Email:
info@preqin.com

Payment Details

☐ Cheque enclosed (please make cheque payable to 'Preqin')

☐ Charge my: ☐ Visa ☐ Mastercard ☐ Amex

☐ Please invoice me

Card Number: _____

Name on Card: _____

Expiration Date: _____

Security Code: _____

American Express, four digit code printed on the front of the card.

Visa and Mastercard, last three digits printed on the signature strip.

Shipping Details:

Name: _____

Firm: _____

Job Title: _____

Address: _____

City: _____

State: _____

Post/Zip: _____

Country: _____

Telephone: _____

Email: _____