Private Debt Intelligence – 3/27/2017

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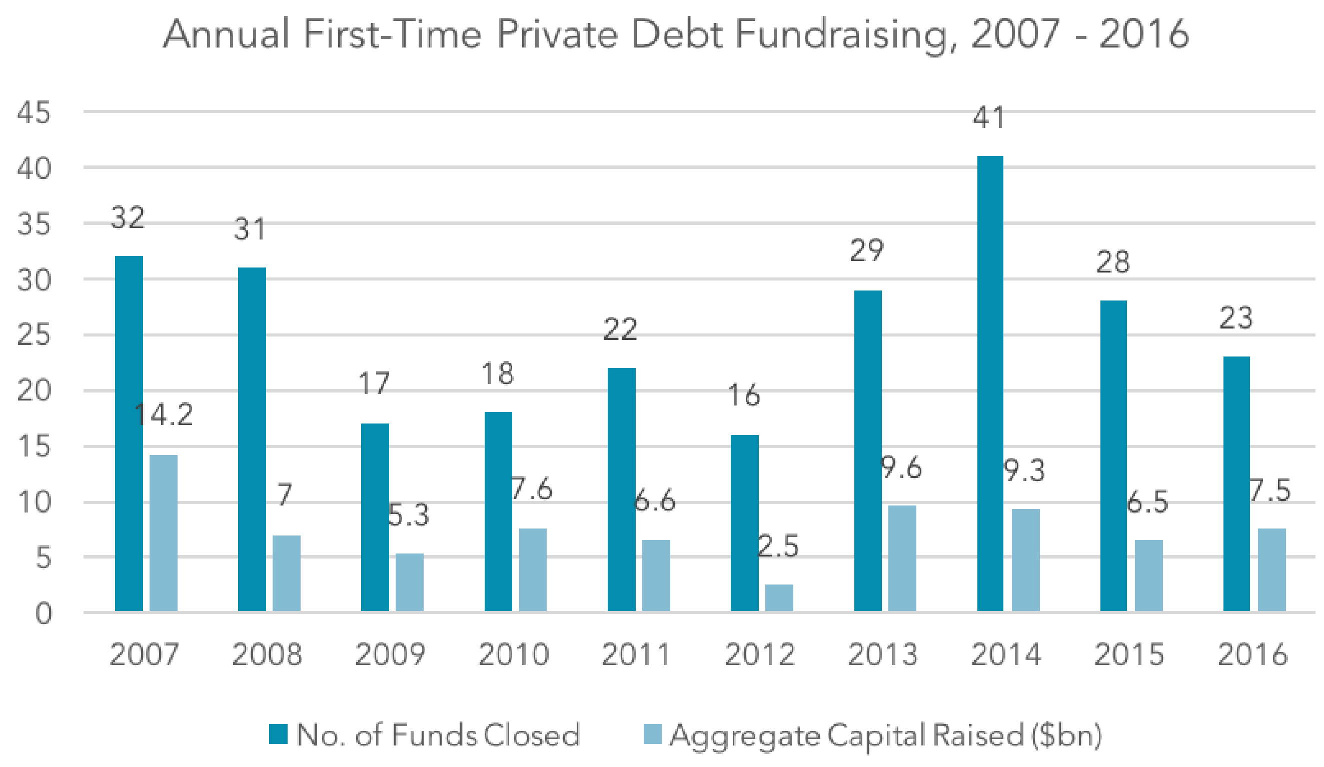
First-Time Fund Managers



The environment for first-time private debt managers has begun to stabilise in recent years as the industry continues to mature. Fundraising has been consistently robust, performance has been strong, and investors are increasingly open to the prospect of committing to managers without a proven track record.

First-time private debt managers secured a record total in 2013 ($9.6bn), and in the years 2013-14 firms have raised over $23bn as the market continues to develop. Moreover, first-time vehicles that closed in 2016 experienced greater fundraising success than in the preceding year: 38% of funds exceeded their target size compared to a third that closed in 2015. This still marks a downtick from more experienced fund managers as over half (54%) of funds run by such firms that closed in 2016 managed to secure more investor capital than they initially targeted.

While under a third (32%) of investors will definitely invest in first-time funds, and 16% will consider doing so, it remains clear that a proven track record and industry experience remain significant factors in the fund selection process. However, those investors that are able to spot the most skilled teams have the potential to receive attractive returns. First-time funds have outperformed all other funds across five of the seven vintages between 2007 and 2013 and median net IRRs for first-time vehicles have been in double digits for all vintages except 2007 and 2013.

US-based Atlantic Street Capital’s maiden private debt vehicle is a good example of the potential returns that can be generated by first-time firms. The fund secured $42mn in capital commitments for investment in mid-market special situations opportunities across a range of consumer and retail sectors. The 2008 vintage fund has achieved a net IRR of 61.4%, surpassing all other first-time vehicles in that timeframe.

As the private debt industry has undergone rapid expansion, a number of new participants have entered the market and so the strength of the first-time market will be key to further growth. It bodes well that these managers are managing to generate healthy performance and that nearly half of all investors will consider investing in these vehicles.

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