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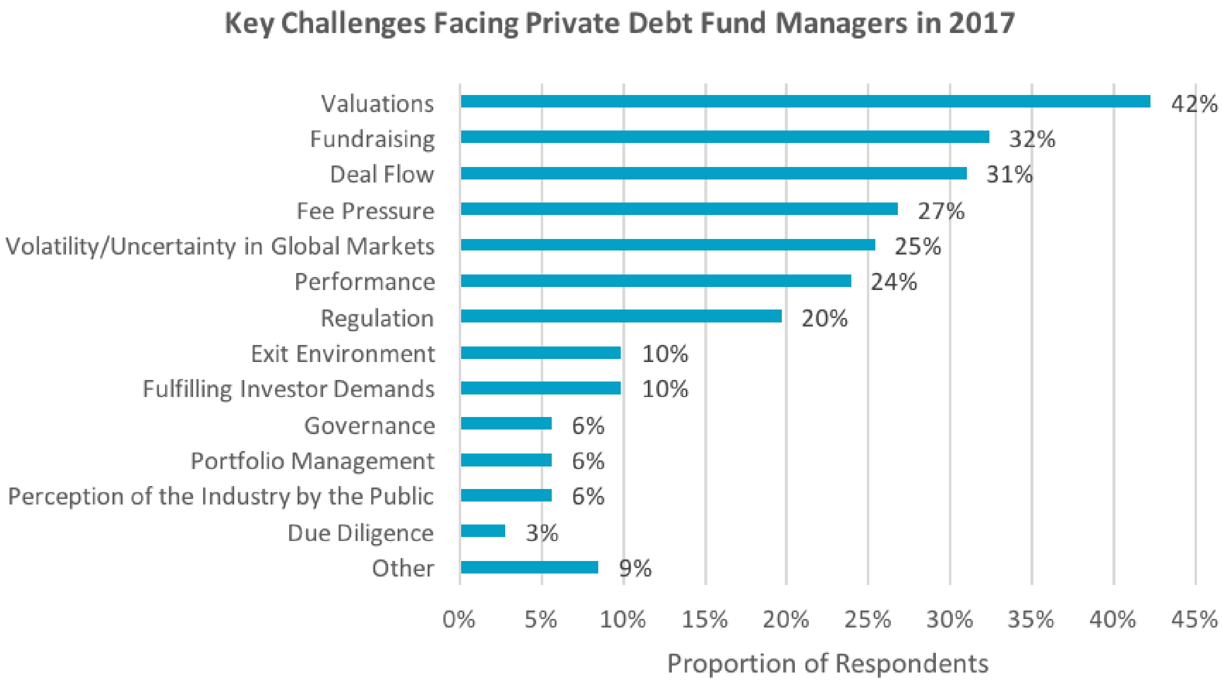
Private Debt Fund Manager Outlook: H1 2017



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A Preqin survey of 73 private debt fund managers conducted in November 2016 finds that private debt fund managers intend to deploy more capital in 2017 than the previous year, despite concerns surrounding an environment of high valuations and stiff competition for investor commitments.

Almost four out of five managers (79%) stated that they plan to increase their investment over the course of the year, while half of all fund managers reported plans to commit significantly more capital to private debt in 2017. No firms intend to decrease their capital allocations to the industry, in a clear indication that the private debt market is in rude health, and fund managers are optimistic that the growth seen in recent years can continue with further industry expansion forecasted.

However, managers did note that valuations are a key challenge facing the industry, with 42% reporting that the price of deals is a concern. As such, it is of little surprise that the majority (55%) are seeing more competition for transactions than a year ago, while nearly a third (31%) noted that it was harder to source deals, leading managers to review more opportunities and deploy more capital.

Despite these challenges, private debt firms do not expect their performance to suffer and the vast majority are confident that they will be able to meet investor expectations in 2017, as just 10% of respondents cited their ability to fulfill investor demands as a major issue in the coming year. Similarly, public perception of the industry (6%), portfolio management (6%), governance (6%) and due diligence (3%) were all seen as lesser concerns among fund managers.

Private debt fundraising has been strong in recent quarters – Q4 2016 alone saw managers raise over $50bn of investor capital – and investor appetite remains robust. As such, it is unsurprising that fund managers are intending to ramp up the level of capital they deploy in the coming months. Although concerns surrounding the deals and fundraising environment exist within the industry, firms are maintaining their confidence that they can secure investor commitments and find attractive opportunities to put that capital to work.

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