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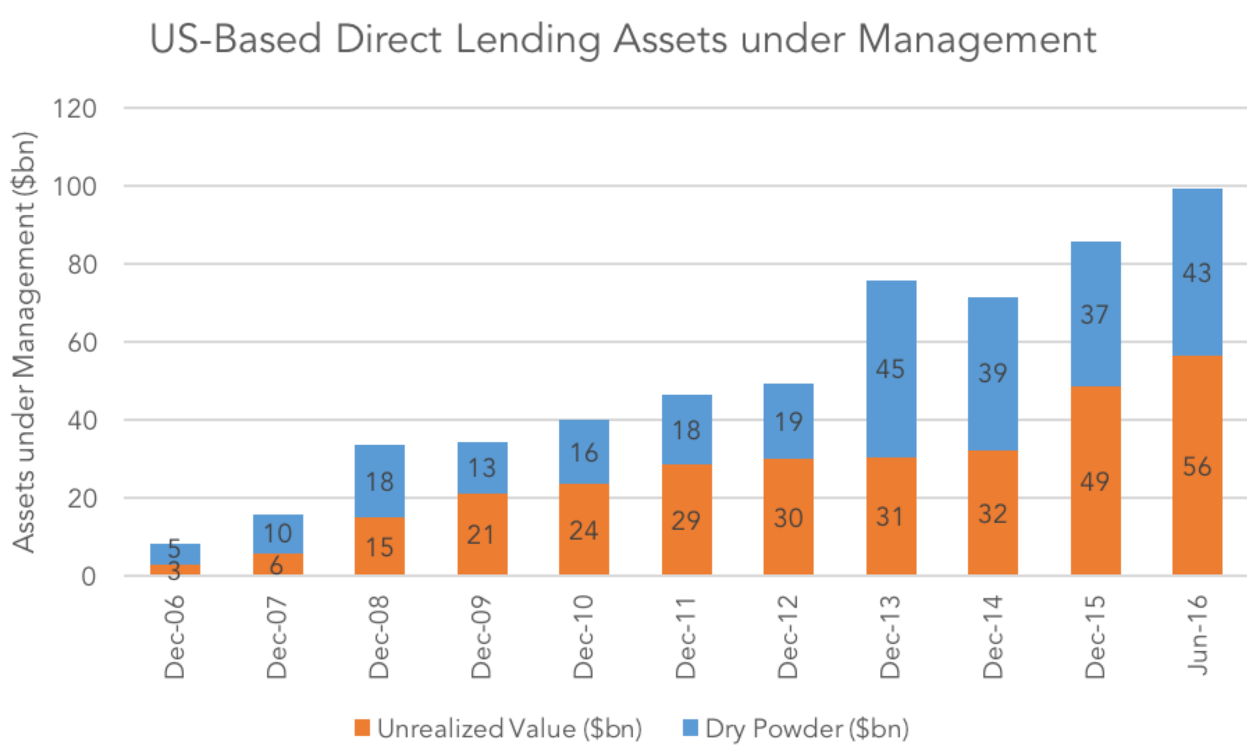
US Direct Lending Funds Approach $100bn in AUM

Chart



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The direct lending market in the US has been growing consistently since the Global Financial Crisis (GFC). Given the long-term low-interest environment, many investors have been looking for alternatives to supplement their fixed income investments, which have seen yields remain low. Direct lending, in this context, is an attractive alternative: it offers the prospect of regular returns, low correlation to other asset classes, and sits quite low on the risk/return curve.

These factors have seen its appeal to investors increase over recent years, and this has resulted in increasing levels of capital being committed to direct lending, particularly in the US. Four of the five highest annual fundraising totals for US-based direct lending funds came in the period 2013-2016, with 2014 seeing a record $20bn secured from investors. Overall, direct lending funds in the US have raised over $80bn since the start of 2013, and 148 vehicles have reached a final close.

This flow of capital into direct lending funds has seen assets managed by firms in the US almost triple since the end of 2008. US-based direct lending funds held $34bn in AUM at the time of the GFC; as of the end of June 2016, assets had reached $99bn, an annual growth rate of around 15%.

Preqin currently tracks 83 direct lending funds based in the US which are currently seeking capital from investors, and these funds are targeting an aggregate $34bn in capital commitments. Given this, and investors' appetite for direct lending funds, it seems likely that this segment of the private debt market will continue to grow in the near future.

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