Private Debt Intelligence – 10/23/2017

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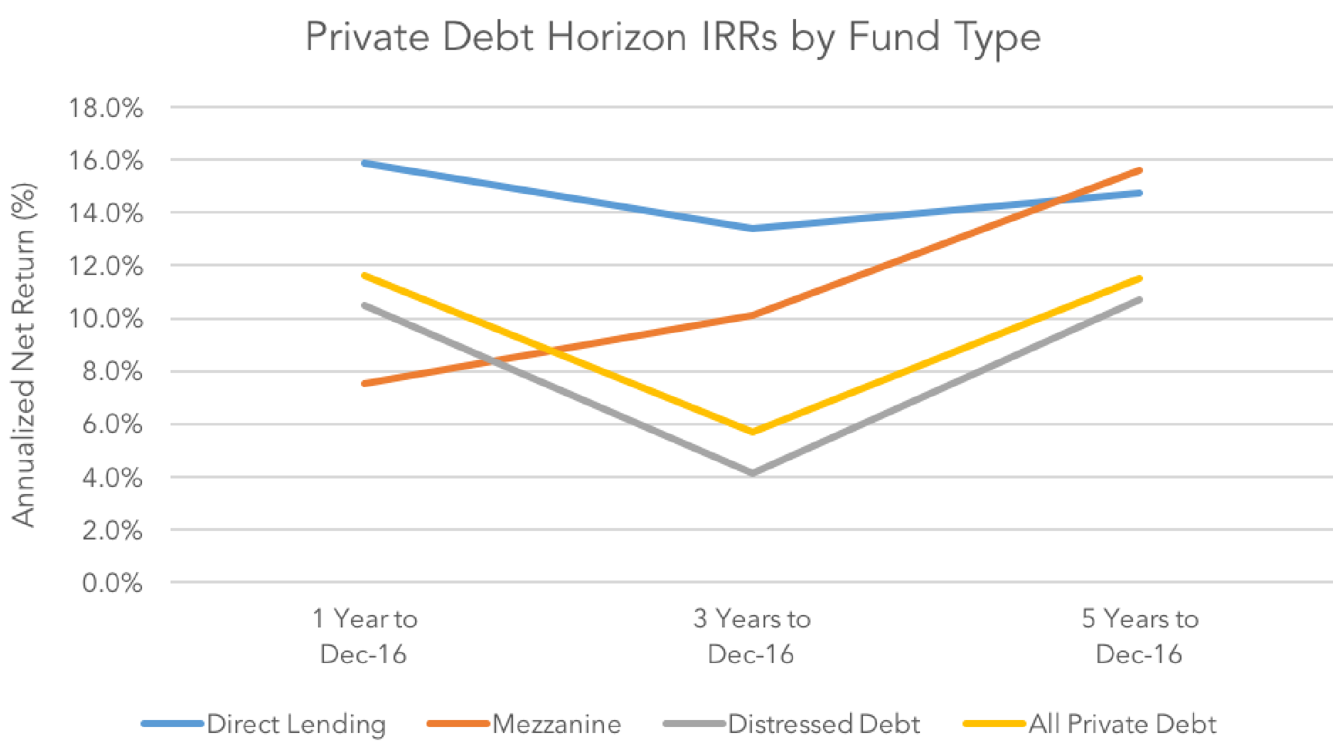
Direct Lending Drives Private Debt Performance

Chart



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Preqin's latest review of private debt fund performance finds that direct lending funds have been the driving force behind the asset class posting strong recent returns. The strategy has posted horizon IRRs of 15.9% in the year to the end of 2016, significantly higher than any other fund type. In fact, both mezzanine and distressed debt funds have posted median gains below those of the private debt asset class as a whole (+11.6%), suggesting that direct lending vehicles are largely responsible for the robust gains seen in 2016.

This trend continues when looking at the three years to December 2016, with direct lending vehicles again seeing the highest median annualized performance of 13.4%. Distressed debt funds have the lowest median performance in this time frame, returning just 4.2%, but mezzanine funds made annualized gains of 10.1% across three years, reflective of their strong performance in 2014-15. Over five years, this becomes more pronounced, and over the longest timeframe mezzanine funds have the highest median performance of 15.6%, surpassing even direct lending funds' 14.7% gains. All private debt fund types posted double-digit performance over the five years to the end of 2016, displaying the consistent strength of the asset class' ability to deliver for investors.

Investors seem to be taking note of the strong gains made by private debt funds. In particular, the outsized returns of direct lending compared to the private debt asset class overall have clearly helped fuel recent strong fundraising for the fund type, as investors hope to capture similar outperformance in the future. The prospect of a higher position in the capital structure than both mezzanine and distressed debt providers, as well as consistently robust returns, remains attractive in alternative investing moving into the end of 2017. Mezzanine funds, while posting relatively low gains over the short term, have the highest five-year returns of any fund type, and this may help explain why it is the most sought-after strategy by private debt investors in 2017.

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