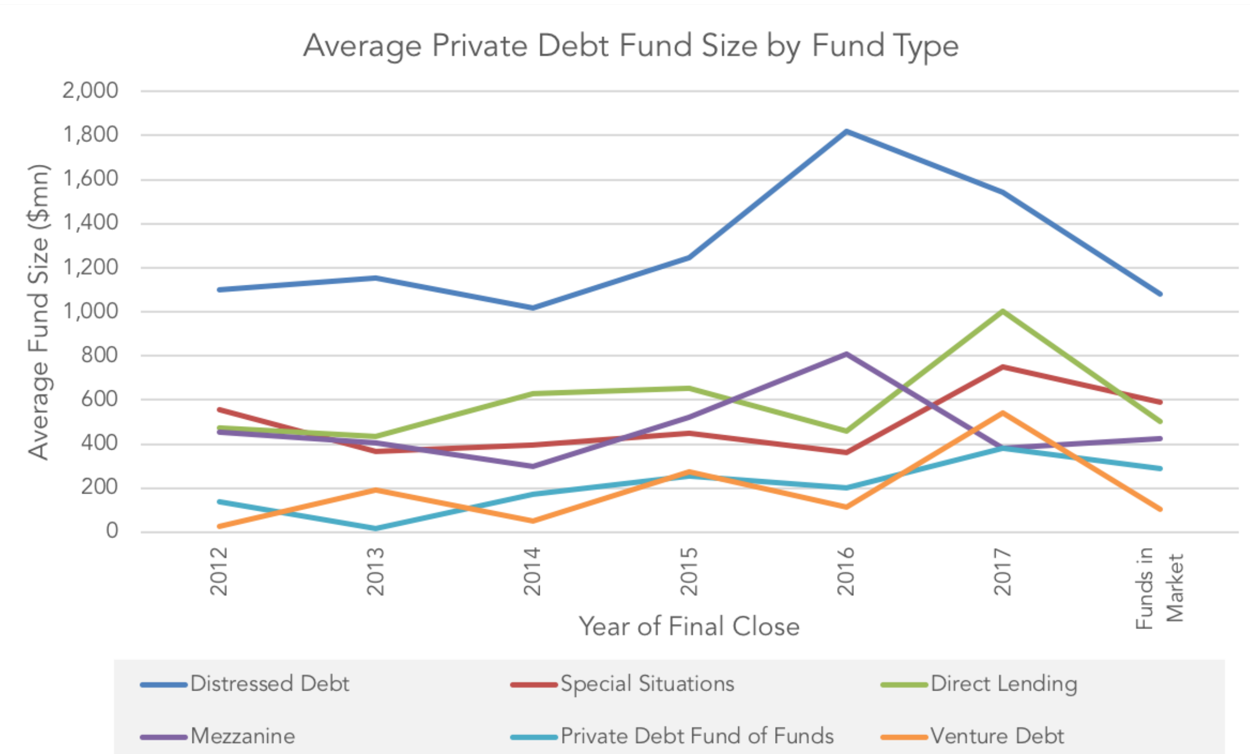
Private Debt Intelligence – 1/22/2018

THE LEAD | January 22, 2018

Average Private Debt Fund Sizes Peak in 2017

Chart



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2017 was a record fundraising year for the private debt industry, as 140 vehicles secured a total of $106bn from investors. The average size of funds rose to $843mn, continuing a trend seen over the past five years of vehicles becoming larger and larger. Average fund size dipped to a low of $497mn for funds closed in 2013, but since then has increased year-on-year to reach 2017’s peak.

However, there is no single driver behind this trend, and when looking by fund type there is much more variance in the size of funds closed each year.

For instance, distressed debt funds have registered the largest average fund size every year Preqin has recorded. But after staying relatively level for funds closed 2012-14, the average size climbed sharply to an all-time high of $1.8bn in 2016, before falling to $1.5bn the following year. Mezzanine funds saw the same trend, spiking to an average of $809mn in 2016 before falling sharply to an average size of $381mn for funds closed in 2017.

By contrast, both special situations funds and direct lending vehicles saw average fund sizes remain steady for funds closed 2012-15. This average fell in 2016, before rising to an all-time record of $1.0bn for direct lending funds and $748mn for special situations funds in 2017. This helped to offset declines in average size for distressed debt and mezzanine funds, which had historically comprised the largest funds closed in a given year.

Looking ahead to 2018, early indications are that the year will not match 2017's bumper fundraising. Although there are a substantial number of funds in market, the average level of capital being targeted has fallen for almost all fund types compared to the size of funds closed in 2017. This indicates that there are fewer large vehicles in market, perhaps due to the industry pausing before beginning another fundraising cycle. Given that the annual number of fund closures seems to be in a long-term decline, funds that do close will need to become ever-larger in order to maintain fundraising momentum.

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