Private Debt Intelligence – 3/26/2018

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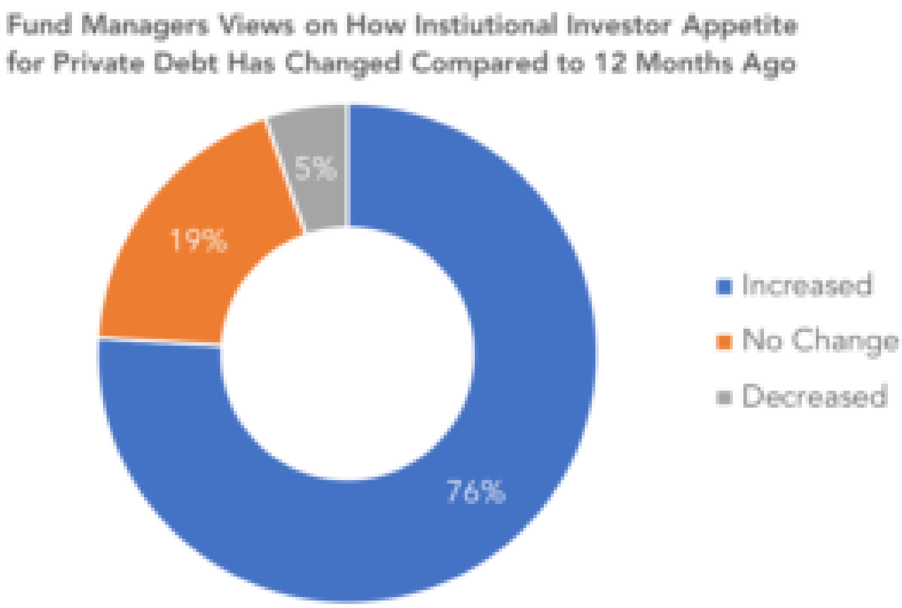
Private Debt Fund Managers Are Optimistic Despite a Challenging Market

Chart



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As the private debt industry has matured, issues that have historically affected other alternative classes – high valuation and increased competition for transactions – have become increasingly prominent concerns. Almost half (49%) of private debt managers cite valuations as a key challenge facing the industry in 2018, according to a survey of 94 private debt fund managers conducted in November 2017. The next largest proportion (37%) are concerned about deal flow.

Fund managers also report increased competition for transactions: 70% believe there is more competition for deal-making opportunities compared to 12 months ago, while none report that there is less competition. For comparison, in the survey conducted in November 2016, 55% of private debt fund managers reported an increase in the level of competition for transactions, while 7% reported seeing a decrease.

As a result of increased competition for transactions, fund managers are seeing increased difficulty in finding attractive investment opportunities compared to 12 months. While 46% of fund managers are finding it more difficult to find attractive investment opportunities, a little over half (52%) are finding that the level of difficulty remains unchanged compared to 12 months ago and just 3% are finding it slightly easier to find attractive investment opportunities. No fund manager reports that it has become significantly easier to find attractive investment opportunities.

Despite an increasingly challenging private debt environment, fund managers continue to be optimistic about the future of the industry, in part due 2017 marking a record year for fundraising and capital distributions to investor. In fact, the vast majority of private debt fund managers (76%) find that investor appetite for private debt has increased over the past 12 months. By contrast, 19% believe that there hasn’t been a change in investor appetite and just 5% find that there has been a decrease.

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