Private Debt Intelligence – 7/23/2018

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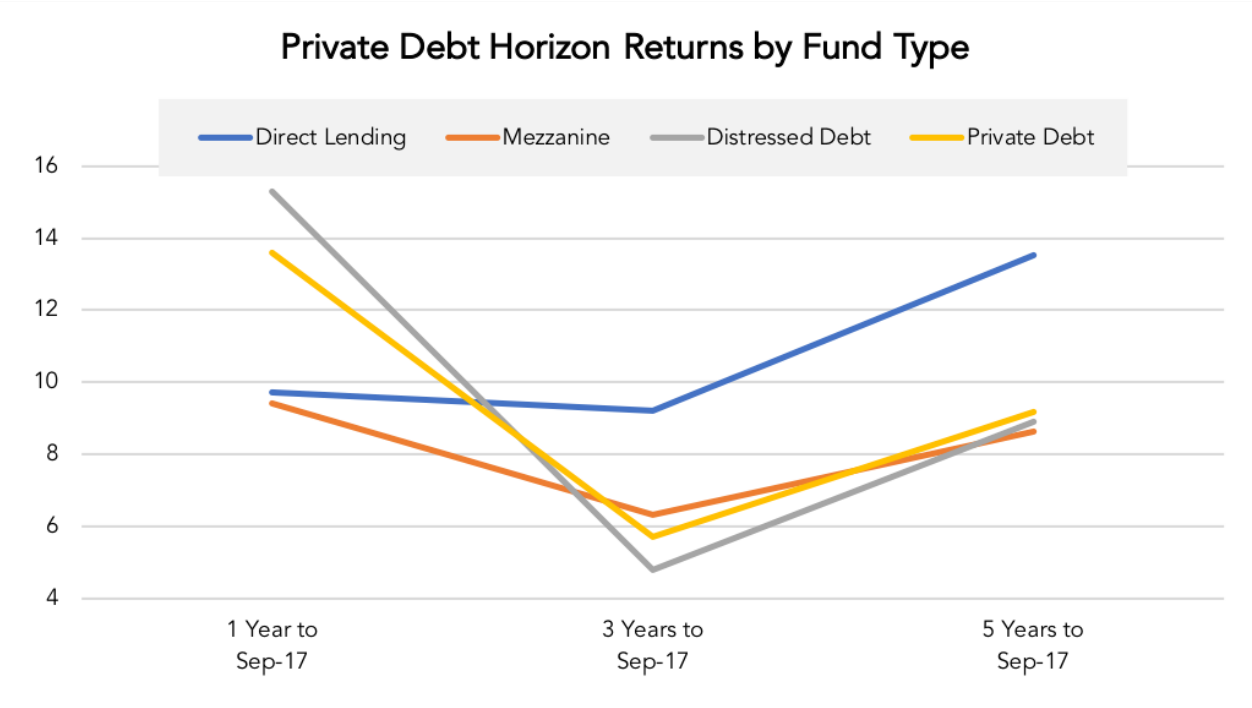
Distressed Debt Sees Strong Performance

Chart



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Distressed debt has seen strong success, particularly in Q2 2018: the strategy led private debt fundraising during the quarter and the majority (60%) of investors tracked by Preqin are planning to seek out distressed debt vehicles over the next 12 months. The fund type has also seen favourable returns, even generating stronger returns than other private debt strategies in the most recent time horizon. In fact, distressed debt outperformed all private debt strategies over the one-year horizon to September 2017, generating returns of 15.3%. With the credit cycle likely to see a shift in the coming years, the strategy could very well see continued outperformance against

other private debt strategies.

Over the same time horizon, direct lending vehicles generated returns of 9.7% and mezzanine funds returned 9.4%. Private debt overall saw returns of 13.6%. Over longer time horizons, however, direct lending outperformed other strategies. In the three years to September 2017, direct lending generated 9.2%, while mezzanine saw returns of 6.3% and distressed debt returned 4.8%. Direct lending outperformed other strategies in the five years to September 2017 as well, with the strategy generating 13.5%, while mezzanine generated 8.6% and distressed debt saw returns of 8.9%.

Distressed debt has also outperformed other private debt fund types for vehicles of the most recent vintage years. Distressed debt funds with a vintage year of 2015 generated returns of 15.0%. This is significantly more than direct lending (9.3%) and mezzanine funds (9.8%) of the same vintage year. Privat debt overall generated returns of 10.0% for vehicles of the vintage year 2015. Similarly, distressed debt funds of 2014 vintage year performed well, generating returns of 11.2%, outperforming direct lending (9.6%) and mezzanine vehicles (9.2%) of the same vintage year.

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