Private Debt Intelligence – 11/12/2018

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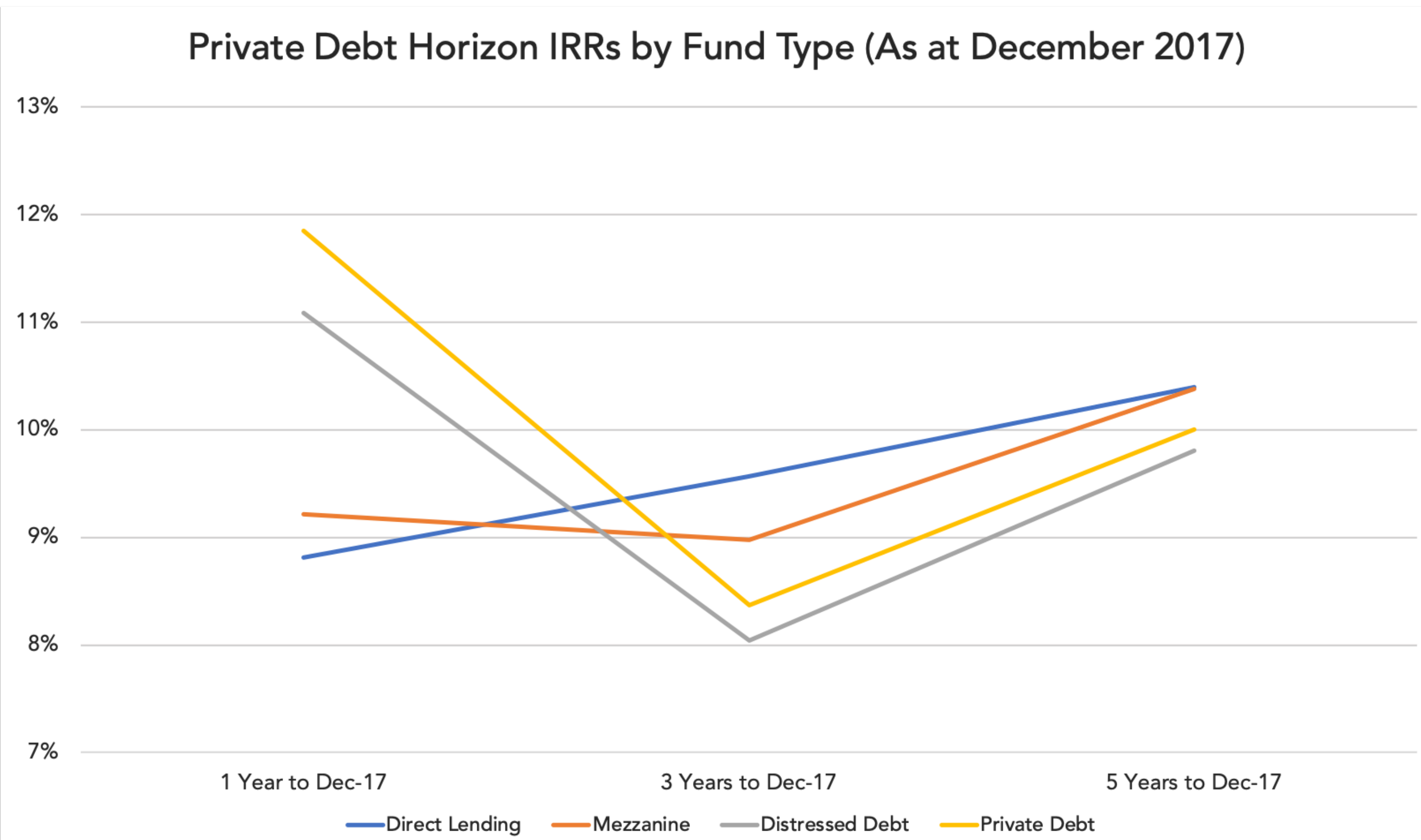
Strong Private Debt Performance Pushes Dry Powder to Record Highs

Chart



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Distressed debt has outperformed the other private debt strategies examined over the one-year horizon to December 2017, generating returns of 11%. Direct lending, however, has been the strongest strategy over the three- and five-year horizons, generating returns of 9.6% for the three years to December 2017 and returning over 10% in the five years to December 2017. Total private debt returned 12% in the one year to December 2017, 8% in the three years to the end of 2017 and 10% in the five-year horizon.

Preqin's latest median net IRR for private debt funds shows that vintage 2015 funds are posting a top quartile boundary of 15% and a median net IRR of 10%, with a bottom quartile boundary of 7.5%. This looks to be on par with 2014 vintage vehicles which also posted a median net IRR of 10%, with top quartile funds generating 14% and bottom quartile funds posting a net IRR of 7%.

Except for 2014, capital available to private debt fund managers has increased year on year since 2009. Due to consistent strong performance, private debt dry powder has reached a record high of $281bn as at September 2018.

Although a decade ago, mezzanine funds and distressed debt accounted for the largest proportions of private debt dry powder, over the last five years, direct lending dry powder has increased quickly to account for the largest proportion of total private debt dry powder. As at September 2018, $107bn of dry powder is targeting direct lending opportunities, accounting for 38% of all of private debt dry powder. A further $76bn is targeting distressed debt, and another $60bn is targeting mezzanine funds. Venture debt is the only strategy to have seen a drop in dry powder since the end of 2017, and the strategy has just $3.3bn in dry powder.

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