Private Debt Intelligence – 2/4/2019

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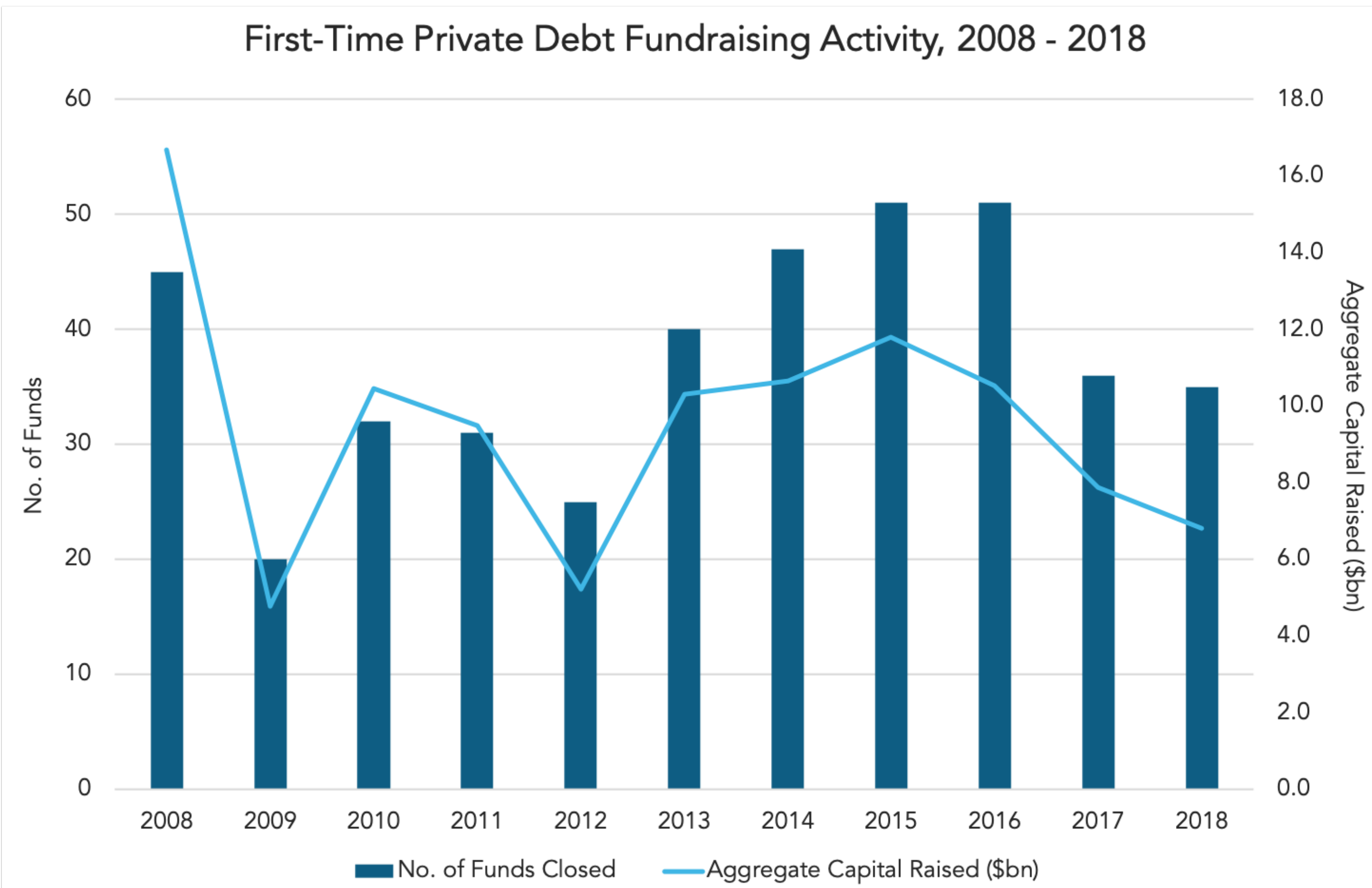
Are First-Time Private Debt Funds Worth It?

Chart



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The private debt fund market has been somewhat unforgiving towards first-time funds. Investors are wary of investing with a fund that lacks a proven track record and as a result, first-time private debt fundraising is falling further and further behind.

Overall private debt fundraising has increased steadily in recent years, but first-time fundraising has fallen to a six-year low. In 2018, just 35 first-time private debt funds held a final close, raising a total of $6.8bn in capital. This represented a third consecutive year of decline from a peak in 2015 when 51 funds raised $12bn.

Further indication of a challenging market for debutants is the decreasing size of the average first-time private debt fund: in 2018, first-time private debt funds raised an average of $194bn – the lowest average size in over a decade. By contrast, the average size of a non-first-time private debt fund has been over $650bn each year since 2015.

First-time vehicles also take longer to raise and more often fail to hit their initial fundraising target compared to non-first-time private debt funds. For funds that held a final close in 2018, first-time vehicles took an average of 17 months to raise capital, compared to 14 months for non-first-time funds. Furthermore, in 2018, just 58% of first-time funds met or exceeded their target, while 74% of non-first-time funds met or exceeded their target.

Despite all this, despite slower fundraising and lower success rates and a more challenging market, first-time funds nonetheless outperform their non-first-time counterparts. Grouped together, first-time private debt funds across all vintages may have a higher risk than non-first-time funds, but also have generated higher returns. Furthermore, for vintage years 2010 to 2015, first-time vehicles outperformed non-first-time funds consistently. Strong performance may in part be born due to the fact that many first-time managers are uniquely positioned. Many are experts in niche strategies or geographies, and their performance can reward those who take chances on debutants.

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