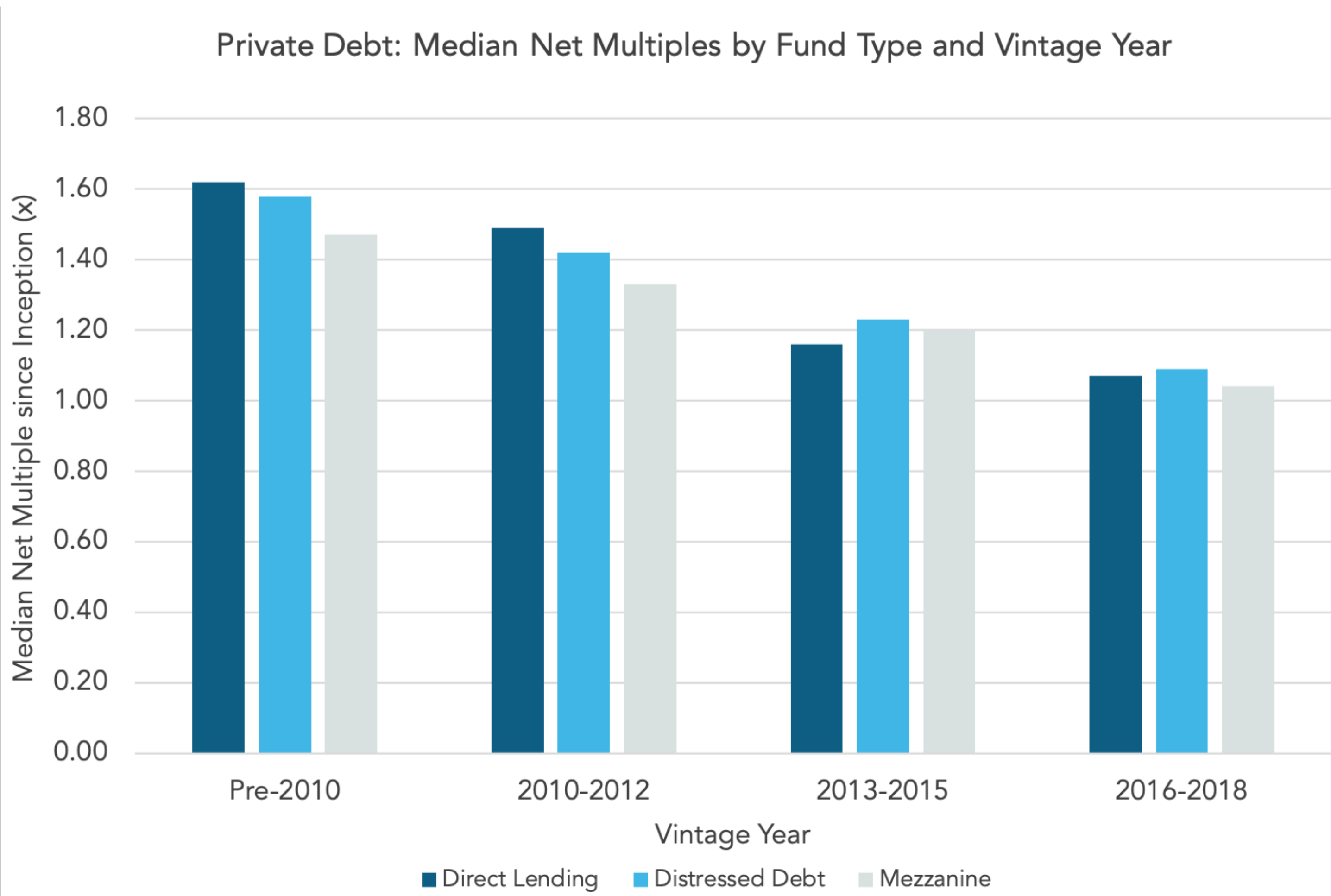
Private Debt Intelligence – 2/18/2019

THE LEAD | February 19, 2019

An Insight into Private Debt Returns

Chart



Download Data

[wpdm_package id='23146?]

Private debt has flourished in recent years: the asset class has raised over $100bn each year for the past four years and assets under management has reached a record $769bn as at the end of June – the latest data available. And while almost a third (32%) of investors surveyed by Preqin intend to invest more in 2019 than in 2019, the private debt environment has become increasingly challenging.

Although it is encouraging that across all vintage year groupings private debt funds have median net multiples in excess of 1.00x, the high returns that have marked historic performance are increasingly difficult to achieve. Median multiple performance across all private debt fund types is falling. Direct lending in particular has seen its multiples drop: while pre-2010 vintage direct lending funds have a 1.62x multiple, 2016-18 vintage funds have a 1.07x multiple.

However, investors' primary motivation to enter the private debt industry is not strong returns, but diversification: 63% of investors surveyed by Preqin at the end of 2018 cited portfolio diversification as the main reason to invest in private debt. With a comparatively low return environment across other asset classes, private debt offers attractive risk/return profile, especially considering its relatively lower volatility and positioning within the capital structure.

Within private debt, different strategies offer varying risk/return profiles. While direct lending funds (of all vintages pooled) have the lowest median net IRR at 9.4%, they also have the lowest associated risk, with a standard deviation of 4.7%. At the other end of the scale, distressed debt funds have a median net IRR of 11.9%, but the standard deviation of returns is 15.3%, which is indicative of a higher risk/return profile. Perhaps because direct lending offers lower volatility than other strategies, the largest proportion (43%) of surveyed investors think that the strategy presents the best opportunities. In comparison, 35% believe distressed debt will provide them with favourable returns.

Contact: Naomi Feliz
Naomi.Feliz@preqin.com