Sun Life's $338M acquisition of Crescent Capitalunderscores confidence in direct lending

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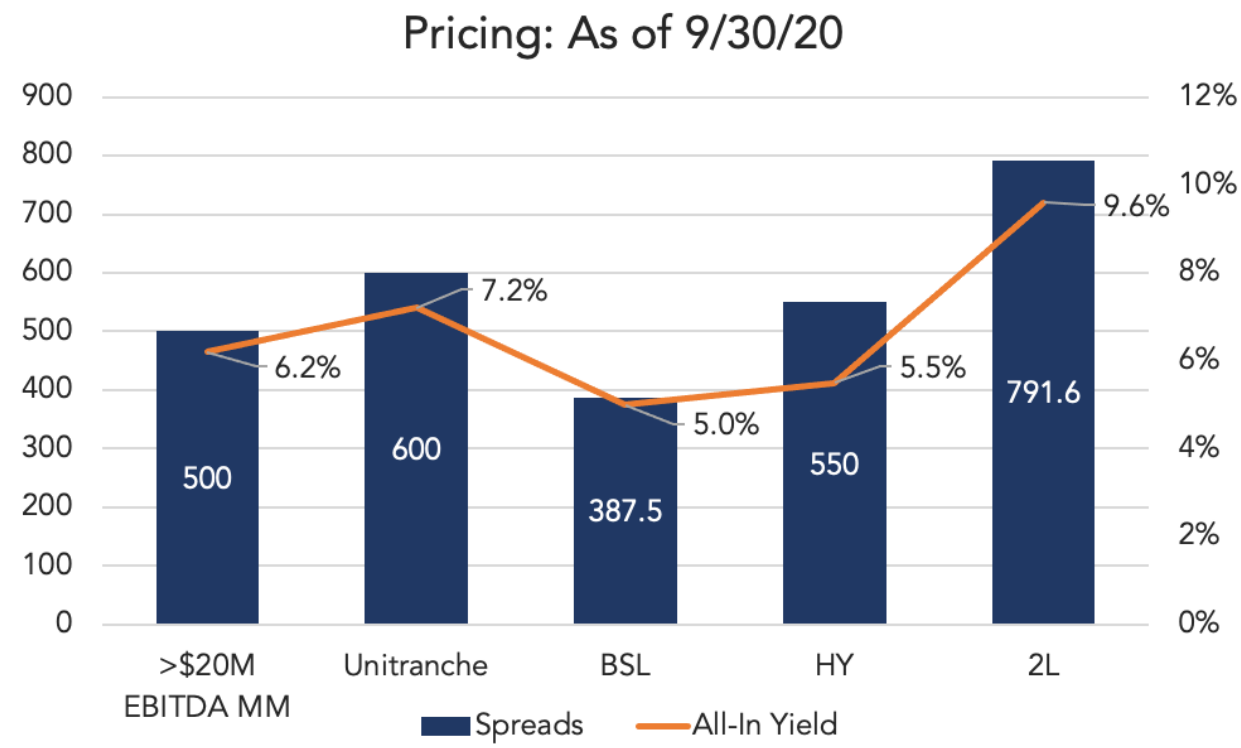

Sources: S&P Global LCD, DLD

Sun Life Financial's $338 million acquisition of Los Angeles-based **Crescent Capital** underscores investor confidence in direct lending, even as the Covid pandemic has upended global economies.

Sun Life, a Toronto-based insurance company that has a small direct lending team within its $193 billion alternative investment group SLC Management, is expanding private credit with Crescent's $28 billion lending platform.

"If I could wave a magic wand, I would love to have private credit as a big third-party offering," Stephen Peacher, head of SLC Management, told Institutional Investor last year when Sun Life brought its alt investments — including fixed income and leveraged loans— under the then-new SLC brand.

Voila!

Sun Life is picking up Crescent's credit expertise and track record with institutional clients, which are allocating more capital to alternative credit in search of yield, especially now that interest rates have returned to near zero and the Fed indicating rates will remain there through 2023.

(See chart above)

Direct lending accounted for 55% of private capital raised last year, according to Preqin. That was up from 41% in 2018 and edges out 2017's 54%, the biggest annual share in the past five years. Covid interrupted the fundraising machine and has since made logistics challenging, but direct lending stands at 42% of private credit year to date, in line with 2018.

Arizona State Retirement System allocated capital to direct lending late last year, and, like Sun Life, insurer **Aflac** bought a stake in **Varagon Capital** in early 2020.

Those were pre-Covid moves, but direct lending interest has not waned through the pandemic. **California State Teachers' Retirement System**, for example, this month announced a $1 billion allocation to direct lending asset manager **Owl Rock Capital**.

The Crescent package

Sun Life said it will commit up to $750 million in Crescent's investment strategies to support the launch of new products and to create alignment with Crescent's investors.

Formed in 1991, Crescent is one of the longest tenured credit managers in the industry. The firm invests across the capital structure: mezzanine debt, middle market direct lending in the US and Europe, high-yield bonds and broadly syndicated loans.

Recent transactions in direct lending include Crescent as sole arranger on a second-lien term loan that supported **Odyssey Investments Partners**' acquisition of **ProPharma Group** this month, and a unitranche loan backing the buyout of web security company **Sectigo** by **GI Partners**.

Sun Life is acquiring a 51% interest in Crescent consisting of an upfront payment of $276 million and a future payment of up to $62 million based on certain milestones.

Crescent will continue to operate independently under its current leadership and will retain its distinct brand, office locations and clients. The firm also will remain the investment adviser of Crescent BDC.

Closing is expected by the end of the year.