# The Lincoln Senior Debt Index (First of Three Parts)

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Back in January we featured content from Lincoln International's Valuations and Opinion team [link]. Topics included Covid's impact on private credit terms, structures and pricing.

Shortly thereafter the team reached out to road test a loan index created from Lincoln's quarterly valuations of 2,400 private companies. Metrics included total return, price, spread, and yield to maturity.

Since that conversation, Lincoln managing director Larry Levine has been working on enhancements. Private debt practitioners have noted the shortage of credible benchmarks against which to compare various managers' performance. Leveraging its valuation expertise across its broad middle market portfolio affords Lincoln the opportunity to contribute meaningful data to investors.

We caught up with Mr. Levine recently to ask about various aspects of Lincoln's Index.

Larry, could you give us more detail about the composition of the Index, and why it's significant?

"Lincoln's Senior Debt Index is comprised of the private companies we value that are primarily owned by private equity funds and levered with debt financing provided by direct lenders. Besides total return, price, spread, and yield to maturity, we provide loan-to-value, and how the quarterly change in total return is impacted by changes in interest rates and changes in credit.

"The direct lending market has and is expected to continue to grow rapidly. Over the last decade the market has up to between $750 billion to $1.2 trillion. Private debt overall is expected to grow roughly 50% over the next 5 years.

"Our Index allows lenders and investors to easily assess portfolio performance and benchmark returns in an otherwise opaque market."

What has been the performance of the direct lending market?

"Compared to broadly syndicated loans, total returns in the direct lending market are less volatile but also provide higher total returns. Total returns never fell below 0%, thanks to interest income offsetting any capital gain declines (except for Covid's impact in Q1 2020).

"On average, loans in the direct lending market yield about 4.0% greater returns than broadly syndicated loans. The higher returns are a result of a higher illiquidity (as secondary trading for middle market loans is episodic at best) as well as the perception of higher credit risk. Smaller middle-market companies have less scale and less access to capital than their larger counterparts in the broadly syndicated loan market."

*Next week: We cover yield and prices in the direct lending market as measured by the Index.*