A recovery in private debt performance

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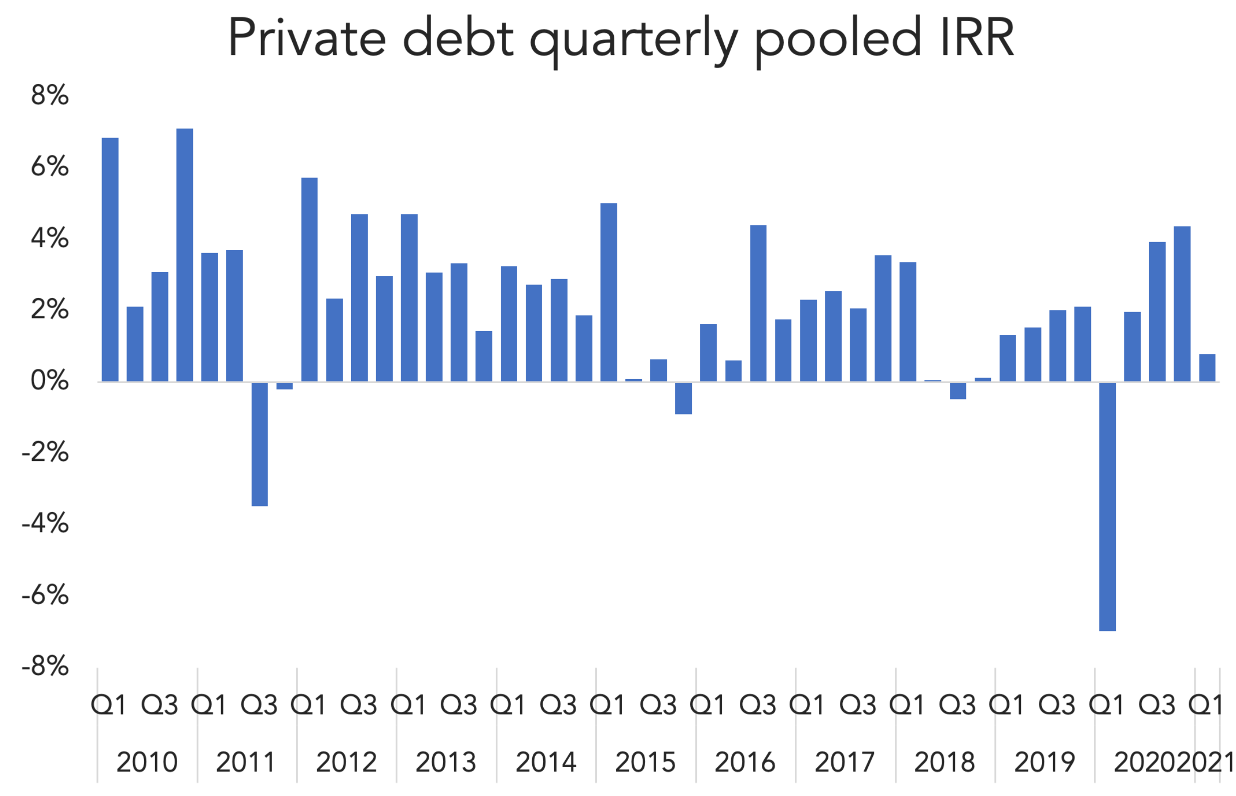

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As an asset class, private debt experienced its worst performance in a decade in Q1 2020. According to PitchBook's latest Global Private Debt Report, private debt funds fell by 7% that quarter on a pooled IRR basis, which includes both realized and unrealized changes to portfolio valuations. By the second quarter, performance improved to +2%, or around its pre-pandemic pace. It wouldn't be until the second half of 2020 that private debt funds got their footing back, posting +3.9% and +4.4% gains in Q3 and Q4, respectively. That quick recovery is largely due to an improving economy, forgiving credit markets and lower-than-expected default rates.

Overall, though, it mattered which sub-strategy was involved. Real asset debt enjoyed the most pronounced recovery, jumping by 11.9% in Q3 2020 compared to 3.9% overall. Venture debt, bespoke to the VC industry, saw +10.5% and +24.6% performances in Q3 and Q4, respectively. At the other end, strategies that tend to invest lower in the PE capital structure, including mezzanine, special situations and distressed debt, saw modest recoveries. According to Proskauer's Private Credit Default Index, middle-market loan default rates continue to fall, especially in direct lending. Companies with at least $50 million in EBITDA defaulted at a rate of just 1% in Q1 2021, compared to a 5.3% default rate in Q2 2020. That’s a good omen for the private debt market as a whole.

(Past performance is no guarantee of future results.)