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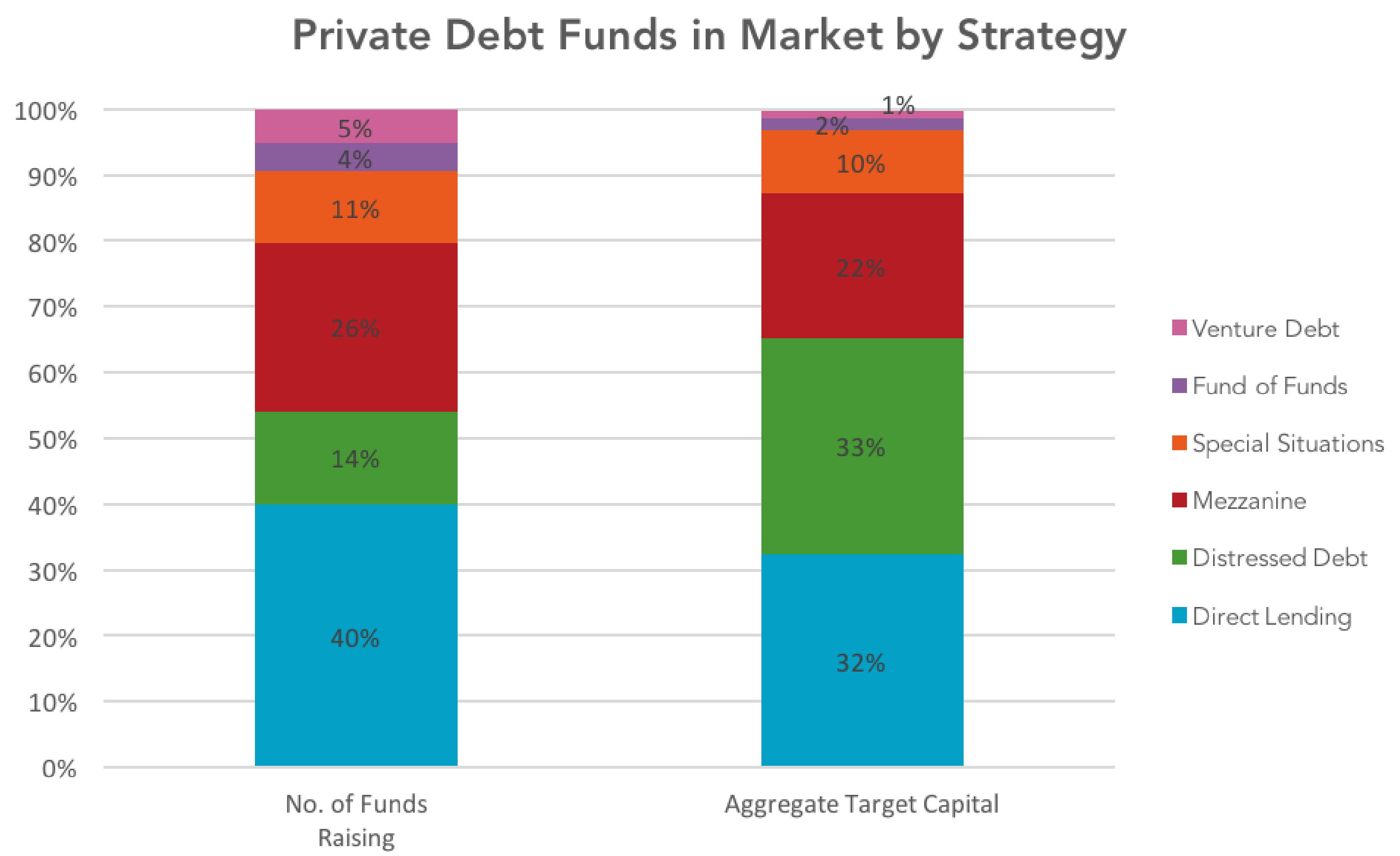
Private Debt sees Imbalanced Fundraising Landscape

As of the start of Q3 2016, there were 247 private debt funds in market, targeting an aggregate $141bn in capital commitments. However, the landscape currently shows an imbalanced ratio in terms of the debt types which have the most funds on the road, compared to the corresponding proportion of capital targeted.

Direct lending funds account for the largest proportion (40%) of funds in market by number, while mezzanine funds also represent over a quarter (26%) of all vehicles out seeking commitments. However, direct lending funds are targeting just under a third (32%) of total private debt target capital with mezzanine-type vehicles representing 22% of the aggregate capital sought by fund managers. Direct lending funds have raised the most capital of any debt type for three consecutive years, so it is unsurprising that it remains the most sought after strategy in the private debt asset class.



Distressed debt funds, however, account for a third of all targeted capital, the most of any strategy and more than double the strategy's proportion of the number of vehicles in market (14%). This indicates that the distressed debt funds in the midst of their fundraising process are targeting, on average, far greater sums of capital than any other strategy. Such fund sizes are necessary as, by nature, distressed debt investment requires deep reservoirs of credit to resurrect struggling enterprises, as well as a high level of fund manager expertise.

The opposite of this trend is evident for venture debt funds; despite representing 5% of the total number of funds in market, they are targeting just 1% of the aggregate capital. This is indicative of the small size of deals that are typically transacted in the industry, despite the average size of venture debt financings rising in recent years. Meanwhile, special situations funds account for 11% of all vehicles on the road and a tenth of the combined capital sought by private debt firms.

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