

Are First-Time Private Debt Funds Worth It?

The number of first-time private debt funds closed hit a six-year low in 2018

As overall private debt fundraising levels have increased steadily in recent years, first-time fundraising has fallen to a six-year low. In 2018, just 35 first-time private debt funds held a final close, raising a total of \$6.8bn in capital, the third consecutive decline from 2015's most recent peak. First-time fundraising therefore accounts for 21% of the total number of private debt funds closed and just 6% of capital raised in 2018. Further indication of a challenging market for first-time funds is the decreasing size of the average first-time private debt funds: in 2018, first-time private debt funds raised an average of \$194bn, compared to \$814mn for follow-on funds. Although this is just a slight decrease from \$231bn in 2015, average size has consistently been falling over the past five years. However, first-time funds have nonetheless generated strong returns, consistently outperforming non-first-time funds for vintage years 2010 to 2015.

For more information and analysis, see the full *First-Time Private Debt Funds* factsheet here:

<http://docs.preqin.com/reports/Preqin-First-Time-Private-Debt-Fundraising-February-2019.pdf>

Tom Carr, Head of Private Debt:

"The private debt market has notoriously been unforgiving towards first-time funds, as investors are wary of investing with a fund manager without a proven track record given their concerns about the current market cycle. As a result, first-time fundraising is falling further and further behind, and debut funds struggle to raise capital as quickly or as successfully as experienced managers. However, first-time funds are nonetheless uniquely positioned: many first-time managers are experts in niche strategies or geographies, and their performance can reward those who take chances on debutants. We've seen this in the performance of first-time funds, which tend to generate stronger returns than their more established peers."

Key First-Time Private Debt Funds Facts:

- **First-time private debt fundraising activity has decreased consistently over the past few years**, with 35 funds securing a total of \$6.8bn in 2018 – the lowest level of activity seen since 2012.
- In 2018, **first-time fundraising activity accounted for 21% of the number of private debt funds closed and just 6% of capital raised**. This is the fifth consecutive year that first-time funds have accounted for a falling proportion of funds closed.
- While non-first-time funds have gotten bigger in recent years, **the average size of first-time vehicles has steadily decreased**. In 2018, first-time funds closed on an average of \$194bn, marking the lowest average size in a decade.
- **First-time funds tend to take longer to raise than non-first-time funds**. For funds that held a final close in 2018, first-time vehicles took an average of 17 months to raise capital, compared to 14 months for non-first-time funds.
- **First-time funds also had a lower fundraising success rate** than non-first-time funds. In 2018, 58% of first-time funds met or exceeded their target, while 74% of non-first-time funds met or exceeded their target.
- However, **first-time funds of more recent vintages have generated stronger returns**. For vintage years 2010 to 2015, first-time vehicles outperformed non-first-time funds.

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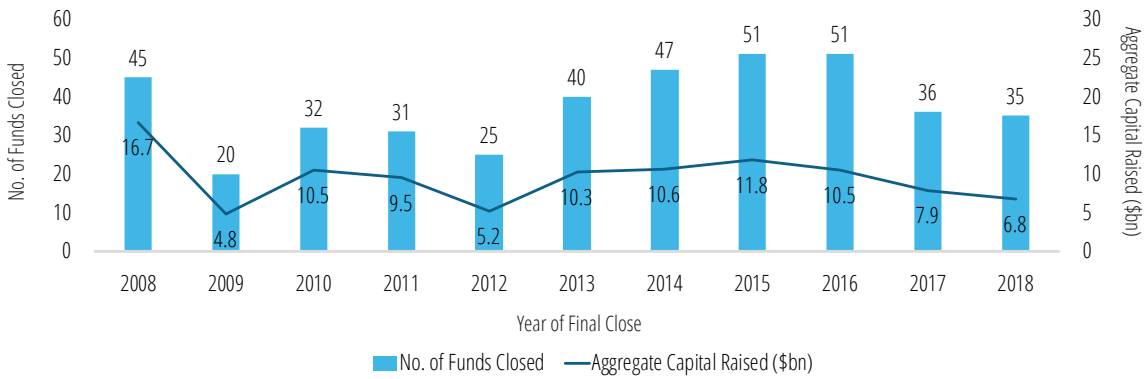
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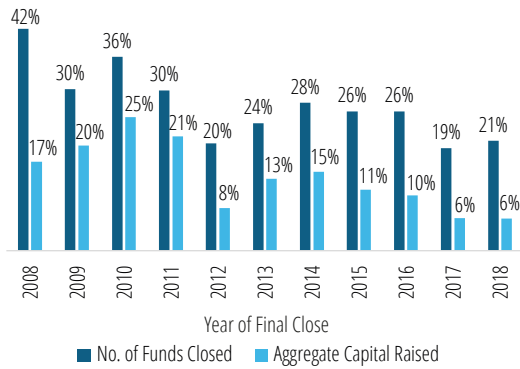
FIRST-TIME PRIVATE DEBT FUNDRAISING

Fig. 1: Annual First-Time Private Debt Fundraising, 2008 - 2018



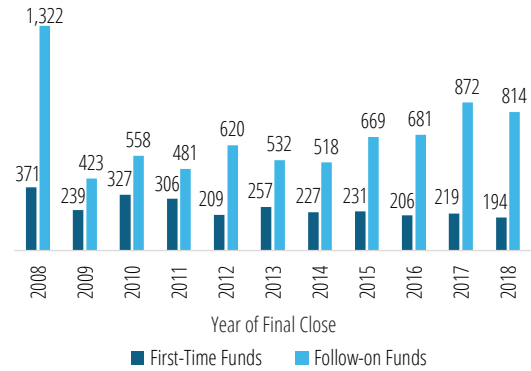
Source: Preqin Pro

Fig. 2: Annual First-Time Private Debt Fundraising as a Proportion of Total Private Debt Fundraising, 2008 - 2018



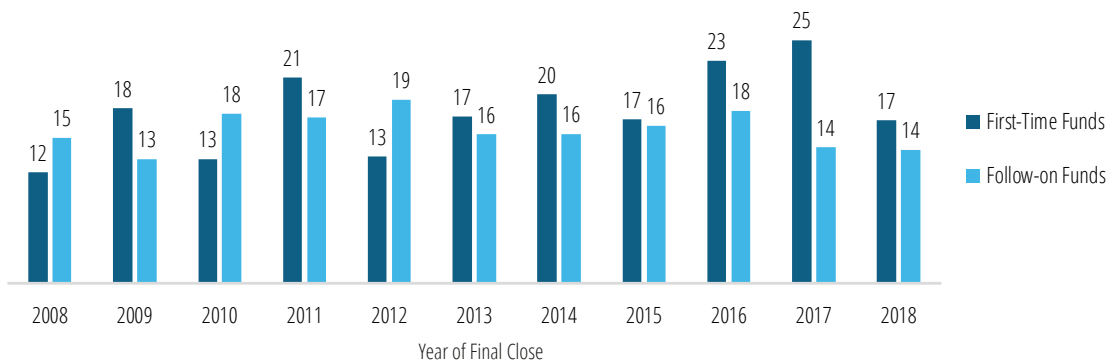
Source: Preqin Pro

Fig. 3: Average Size of Private Debt Funds (\$mn): First-Time vs. Follow-on Funds, 2008 - 2018



Source: Preqin Pro

Fig. 4: Average Time Spent on the Road (Months) by Private Debt Funds Closed, 2008 - 2018



Source: Preqin Pro