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Press Release

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Average Private Debt Management Fees Fall to 1.50%

Mean and median fees continue downward trend among 2017 vintage vehicles

The average management fee charged by private debt funds has fallen to a 10-year low among 2017 vintage funds. The median fee applied during the investment period is just 1.50%, while the mean fee charged is marginally higher at 1.52%. This is down from median and mean fees of 1.75% and 1.76% respectively for 2016 vintage funds, and is the fourth consecutive year that management fees have stayed flat or fallen. This is driven in part by the proliferation of direct lending funds, which charge the lowest median fee of any debt type at just 1.50%. However, not all private debt fund types have average fees of less than 2.00%, and in fact the average fees charged by venture debt funds sit significantly above that, with a mean of 2.30% and a median of 2.50%. This may be in part because the investment process for venture debt deals is more labour-intensive, or because specialized and oversubscribed funds are better able to resist downward fee pressure.

For more information and analysis, see the full *December 2017 Preqin Private Debt Spotlight* here:
http://docs.preqin.com/newsletters/pd/Preqin-Private-Debt-Spotlight-December-2017.pdf

Key Private Debt Management Fee Facts:

- The **average management fee charged by private debt funds reached a peak among 2013 and 2014 vintage vehicles**, with a median fee of 2.00% and a mean fee of 1.80%.
- Since then, though, the median management fee has fallen to 1.75% among 2015 and 2016 vintage funds, and a **record low of 1.50% among 2017 vehicles**.
- At the same time, **the mean management fee has fallen for four consecutive vintage years**, reaching just 1.52% among 2017 vintage funds, a 10-year low.
- Direct lending funds account for a large portion of this downwards pressure as they compete to attract investors. **Direct lending funds of vintage years 2008-2017 have a median fee of 1.50%**, the lowest of any fund type.
- By contrast, mezzanine and distressed debt funds each have a median fee of 1.75%, while special situations funds charge 2.00% and **the median venture debt fund charges 2.50% in management fees.**

Ryan Flanders, Head of Private Debt Products:

"As the private debt market has grown over the past decade, it has become increasingly distinct from the private equity industry. One area in which this is evident is the management fees for private debt funds now sit far below the rates seen in their private equity counterparts. In particular, direct lending funds primarily account for this downwards pressure: the debt type typically draws lower fee rates than other, more labour-intensive fund types, and the proliferation of direct lending funds coming to market has increased competition and driven fund managers to lower their fees to distinguish themselves from their competitors.

However, it should be noted that average management fees are not equal across the industry. Among special situations and venture debt funds, median fees remain at 2.00% or higher, while mezzanine and distressed debt funds have fees significantly above those of direct lending vehicles. Additionally, fund managers which specialize in niche areas, or fund managers with a strong performance track record, are more able to resist downward fee pressure and to preserve higher rates while still attracting investor capital."

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