

# MANAGEMENT FEES

The 2017 Preqin Private Capital Fund Terms Advisor compiles data from over 3,300 private capital funds to provide detailed insight into fund terms and conditions within the industry. Here we look at private debt management fees and analyze the current trends.

Average management fees for private debt funds are at their lowest point across the last 10 vintage years, with the median for vintage 2017 funds at 1.50%, compared to 1.75% for vintage 2016 funds. Downward pressure on fees has been a theme across alternatives for years, as investors continue to push for greater alignment of interests with their fund managers. Management fees for private debt vehicles have traditionally ranged from 1% to over 2% within the investment period and tend to lower thereafter, as deployment costs are offset by the more predictable costs of fund monitoring and administration.

As seen in Fig. 1, both mean and median management fees for private debt funds have been moving down since the highs for vintage 2013 funds, dropping to a mean of 1.52% for 2017 vintage funds. This could be a response to more and more managers launching vehicles in recent years, combined with the increasingly efficient practices and lending platforms in place to help keep costs low and preserve spreads.

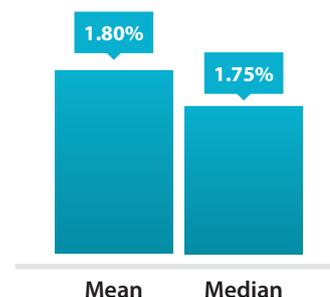
Fig. 2 shows average management fees for all private debt strategies for vintages 2008-2017 combined, illustrating the fee gap between direct lending and the other major private debt strategies which typically carry equity components.

Direct lending funds, which typically account for the largest number of funds in market and aggregate capital targeted, tend to offer the lowest average fees, with a mean of 1.57% and a median of 1.50%. Direct lenders generally offer lower targeted returns than distressed debt or mezzanine managers, which can command a more sizeable premium for management.

Venture debt funds have the highest mean and median management fees over the vintage years examined, while special situations funds typically charge a median of 2.00%. Distressed debt and mezzanine funds of vintage 2008-2017 both share a median of 1.75%.

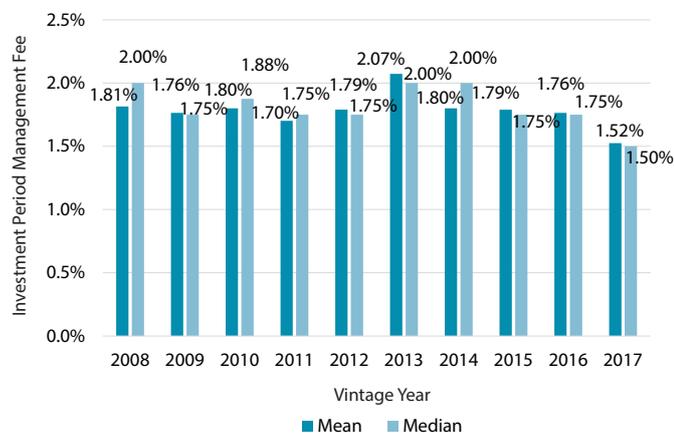
It is likely that management fees will continue to see contraction in the near term, as competition for institutional

## AVERAGE INVESTMENT PERIOD MANAGEMENT FEE OF PRIVATE DEBT FUNDS (VINTAGE 2008-2017 FUNDS CLOSED)



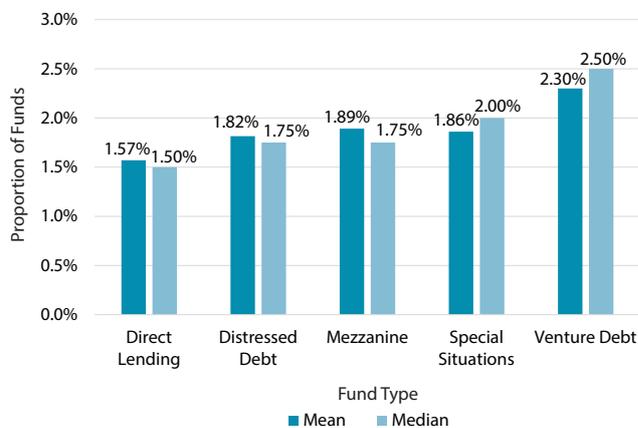
capital remains high among lenders of similar strategies. However, manager specialization in certain industries or regions could see these specialists able to hold off fee contraction due to increased demand for their particular expertise.

Fig. 1: Average Investment Period Management Fee of Private Debt Funds by Vintage Year



Source: The 2017 Preqin Private Capital Fund Terms Advisor

Fig. 2: Average Investment Period Management Fee of Private Debt Funds by Fund Type (Vintage 2008-2017 Funds Closed)



Source: The 2017 Preqin Private Capital Fund Terms Advisor