

Private Debt Management Fees Drop to Eight-Year Low

Fees are on a long-term downward trend, with direct lending funds charging the lowest average rate

The average management fee charged by private debt funds during their investment period has been on a downward trend over the past four years, and reached an eight-year low among 2016 vintage funds. Research for the forthcoming **2017 Preqin Global Private Debt Report** finds that the average management fee has hovered around 1.75% for the past eight years; 2013 vintage funds represent a high point with a mean fee of 2.08% which declined to 1.63% for 2016 vintage funds. However, the complexity of portfolio management differs by strategy and fund size, which the spread of management fees across separate strategies reflects. Direct lending funds charge the lowest fees as vehicles without an equity component are less costly for the manager, whereas venture debt funds have higher fees due to the intensive resources needed to deploy early stage funding.

For the sample pages of the forthcoming 2017 Preqin Global Private Debt Report, please view:
<https://www.preqin.com/docs/newsletters/pd/Preqin-Private-Debt-Spotlight-March-2017.pdf>

Other Key Private Debt Fund Terms and Conditions Facts:

- For 2009-2016 vintage private debt funds, **the mean management fee is 1.81% and the median fee stands at 1.75%.**
- **Only direct lending and distressed debt funds do not charge above the industry benchmark** with mean management fees of 1.44% and 1.81% respectively.
- **Venture debt funds have the highest mean and median management fees** in the private debt industry of 2.17% and 2.00% respectively.
- **The majority of investors (55%) expect to pay fees only on capital deployed by the fund manager**, but almost half (43%) think fee structures will vary according to the strategy of the fund.
- **A third of investors think fees are the biggest concern facing the private debt industry in 2017**, though a higher proportion stated valuations and deal flow were key issues.
- Just 6% of private debt investors never invest due to proposed terms and conditions, while **a fifth frequently opt not to invest and 74% occasionally choose not to invest due to fund terms.**

Ryan Flanders, Head of Private Debt Products:

“Fund terms and conditions within the alternative assets industry have been of particular focus in recent years, as investors have largely united to push managers for greater transparency and improved alignment of interests. Fees across the private debt industry have largely been decreasing as a result: however, individual strategies must assess the cost of management and the size of the vehicle in order to tailor their fund structures fairly.

The majority of private debt investors do believe that their interests are aligned with those of their fund managers, and a quarter believe that terms have changed in their favour over the past few year. This general consensus and the diminution of the average industry-wide management fee charged by private debt managers suggests that investors are making ground in moves to equalize the trade-off between fees and fund manager expertise.”

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

For more information, contact our dedicated press team at press@preqin.com or call (+44) 20 3207 0265