Press Release 13th November 2014

Direct Lending Set to Spur Further Growth in the Private Debt Alternative Asset Class

72% of institutional investors active in the private debt asset class plan to invest in direct lending funds over the next 12 months, a higher proportion than for any other private debt fund type

Direct lending funds have continued to gain traction in the private debt marketplace, and are the prevailing strategy for private debt fund managers established since 2008. Almost three-quarters of institutional investors active in the private debt space plan to allocate fresh capital in the coming year to direct lending funds, which are often considered a better fit for more conservative investors in the private debt market, given their similar structure to fixed income investments compared to more private equity-style methods such as mezzanine and distressed debt funds.

Fundraising in the private debt space reached a peak in 2013, when 137 private debt funds raised an aggregate $77bn in capital. While fundraising so far in 2014 has seen a dip, with 69 funds raising a total of $37bn in capital, funds currently in market are targeting in excess of $100bn, highlighting the capacity the market has for significant growth in 2015 and beyond.

Other Key Facts on the Private Debt Marketplace:

- The number of private debt funds closed in 2013 (137) was up 46% on 2012 (94).
- Europe has accounted for its biggest share of overall fundraising, with 33% of capital raised by funds closed in 2014 so far focused on the continent, compared to 21% in 2013.
- 40% of private debt fund managers established since 2008 have a primary strategy of direct lending, compared to 36% which are focused on mezzanine investments.
- Direct lending funds of vintage 2001-2011 have a median net IRR of 8.9%.
- While half (48%) of investors allocate to private debt from their private equity allocations, 8% invest from their fixed income portfolios. A further 9% invest from a dedicated private debt allocation at present.

For more information and analysis, please see the full report:
https://www.preqin.com/docs/reports/Preqin-Special-Report-Private-Debt-November-2014.pdf

Comment:

"The increase in investor preference for exposure to direct lending funds is reflected in the amount of vehicles raised in recent years. This shift towards direct lending vehicles is likely due to the market opportunity for lending by non-bank entities in the wake of financial regulation and bank deleveraging, as well as the fund type providing favourable risk/return profiles compared to other similar investments. This continued growth in non-bank lending or alternative credit bodes well for the middle market borrower whose needs for capital has not been filed via the traditional banking relationship.

Exposure to this evolving asset class may continue to be attractive to institutional investors in a low-yield environment. Preqin has witnessed many investors set up dedicated allocations to the asset class, which looks set to continue as private debt grows and becomes more defined throughout 2015."

Ryan Flanders – Head of Private Debt Products, Preqin

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q'.

For more information, please contact: Ryan Flanders +1 646 376 7069 or rflanders@preqin.com
For more information, please contact: Nicholas Jelfs +44 (0)20 7645 8882 or press@preqin.com