

The Q2 2015 Preqin Quarterly Update

Private Debt

Insight on the quarter from the leading provider of alternative assets data

Content includes...

Fundraising

Number of funds closed and aggregate capital secured decline for a second quarter.

Funds in Market

North America-focused funds in market are seeking the most capital.

Investors in Private Debt

Investors are looking to commit capital to a diverse range of strategies in the year ahead.

Fund Performance and Dry Powder

Capital available to invest in private debt at record high.





Foreword - Ryan Flanders, Preqin

The second quarter of 2015 saw 25 funds across private debt strategies reach a final close securing an aggregate \$16.5bn, marking the second consecutive quarter in which both the number of funds closed and the aggregate total capital secured within private debt decreased. Despite this, there are currently 233 private debt funds in market targeting \$126bn in aggregate capital commitments, suggesting the fundraising market has the potential to pick up during the second half of the year.

Dry powder in the private debt space continued to stack up throughout the first half of 2015 to reach the highest level witnessed within the asset class. Strong distressed debt fundraising paired with the continued growth of direct lending's role within capital markets has brought more overall capital into the industry. The credit space has seen nearly seven years without a downturn, which is the main catalyst for gathering of assets among strategic distressed managers. It will be interesting to see how the global credit story develops in the wake of Greek debt issues affecting European and world economies.

Investor appetite for the industry as a whole remains strong, with investors showing the most appetite for direct lending funds at present. Mezzanine and distressed debt funds are also viewed favourably by investors and are likely to attract sufficient capital in the year ahead. North America- and Europe-focused funds are expected to receive the bulk of capital committed to private debt funds over the next 12 months.

Preqin's **Private Debt Online** is an indispensable tool for all firms looking to market funds, develop new business or find new partners in the coming months. Behind every data point in this report is a wealth of individual firm- and fund-level data available on Private Debt Online. We hope you find this report useful, and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com.

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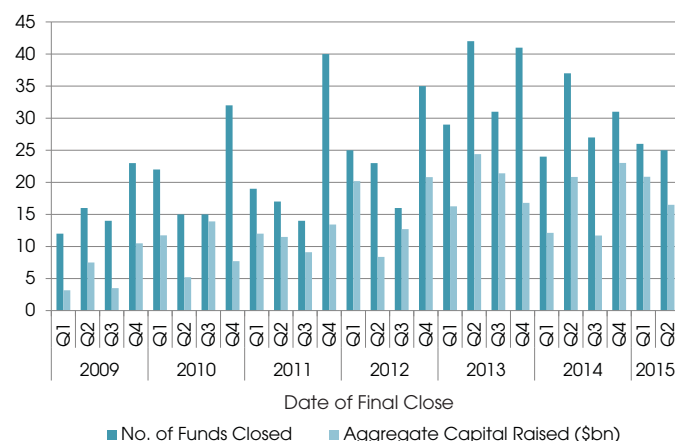
Fundraising in Q2 2015

Q2 2015 saw 25 private debt funds reach a final close, securing an aggregate \$16.5bn in commitments. This is a decrease on the \$21bn raised in Q1 by 26 funds and an even greater decline compared to Q4 2014 when 31 funds raised an aggregate \$23bn (Fig. 1).

Direct lending funds accounted for 39% of the capital raised in Q2 2015 (Fig. 2), with the bulk being raised by Park Square Capital Credit Opportunities II, which closed on \$2.4bn in June (Fig. 4). Compared to Q1 2015, mezzanine funds saw a steep drop in terms of the proportion of aggregate capital raised in Q2, although this was due to an exceptionally large mezzanine fund having reached a final close in Q1.

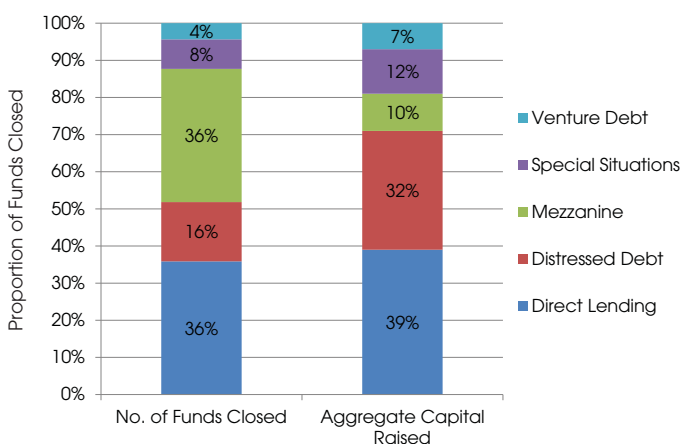
With 14 funds raised in Q2 2015 targeting the North American market, the region attracted aggregate capital commitments of \$11.6bn (Fig. 3). Europe-focused funds secured a total of \$3.8bn. Asia- and Rest of World-focused funds raised limited capital at \$640mn and \$485mn respectively.

Fig. 1: Global Quarterly Private Debt Fundraising, Q1 2009 - Q2 2015



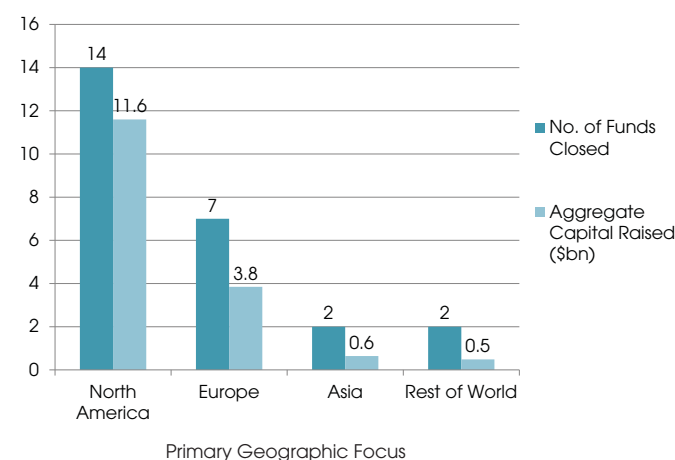
Source: Preqin Private Debt Online

Fig. 2: Breakdown of Private Debt Fundraising in Q2 2015 by Fund Type



Source: Preqin Private Debt Online

Fig. 3: Breakdown of Private Debt Fundraising in Q2 2015 by Primary Geographic Focus



Source: Preqin Private Debt Online

Fig. 4: 10 Largest Private Debt Funds Closed in Q2 2015

Fund	Firm	Fund Type	Fund Size (\$mn)	Geographic Focus
CVI Credit Value Fund III	CarVal Investors	Distressed Debt	3,000	US
Park Square Capital Credit Opportunities II	Park Square Capital Partners	Direct Lending	2,389	Europe
Ares Special Situations Fund IV	Ares Management	Special Situations	1,500	US
KKR Lending Partners II	KKR	Direct Lending	1,340	US
Athyrium Opportunities Fund II	Athyrium Capital Management	Venture Debt	1,227	US
Monarch Alternative Capital Partners III	Monarch Alternative Capital	Distressed Debt	1,220	US
Brightwood Capital Fund III	Brightwood Capital Advisors	Direct Lending	950	US
York European Distressed Credit Fund II	York Capital Management	Distressed Debt	534	Europe
Shoreline China Value III	Shoreline Capital	Distressed Debt	500	Asia
Highbridge Principal Strategies Cactus Direct Lending Fund	Highbridge Principal Strategies	Direct Lending	500	US

Source: Preqin Private Debt Online



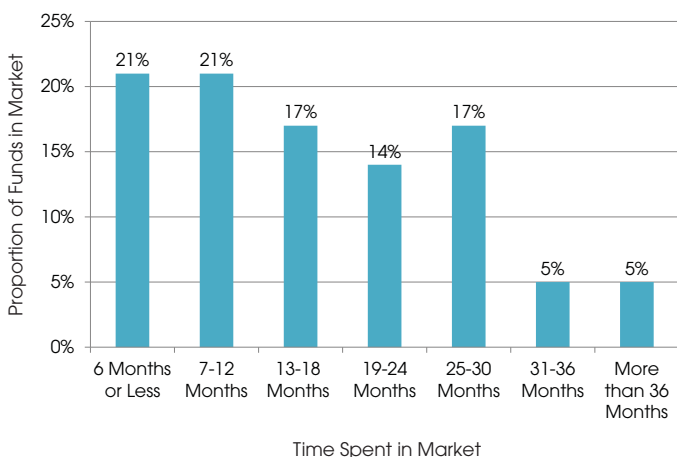
Funds in Market

At the start of Q3 2015, there were 233 private debt funds in market targeting \$126bn in aggregate capital commitments. Direct lending funds continue to account for the largest proportion of these funds, both in terms of number and the amount of capital being targeted, as shown in Fig. 1. Mezzanine funds and distressed debt funds also each account for a notable proportion of debt funds in market. While the number of distressed debt funds in market is fewer than the number of mezzanine funds, the average target size of distressed debt funds is significantly larger, with distressed debt funds accounting for 35% of the overall amount of capital being targeted.

Twenty-one percent of private debt funds currently in market have been on the fundraising trail for six months or less, as illustrated in Fig. 2, compared to 29% at the start of Q2 2015. This would suggest a slight slowdown in fundraising activity with fewer funds being launched in the second quarter of 2015.

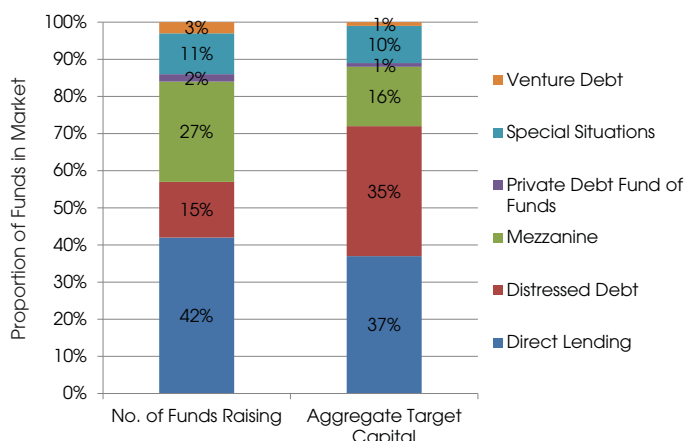
North America-focused private debt funds in market continue to be the most numerous and seek the most capital, as shown in Fig. 3. Europe follows, with 67 funds focused on the region seeking an aggregate \$48bn.

Fig. 2: Breakdown of Private Debt Funds in Market by Time Spent in Market



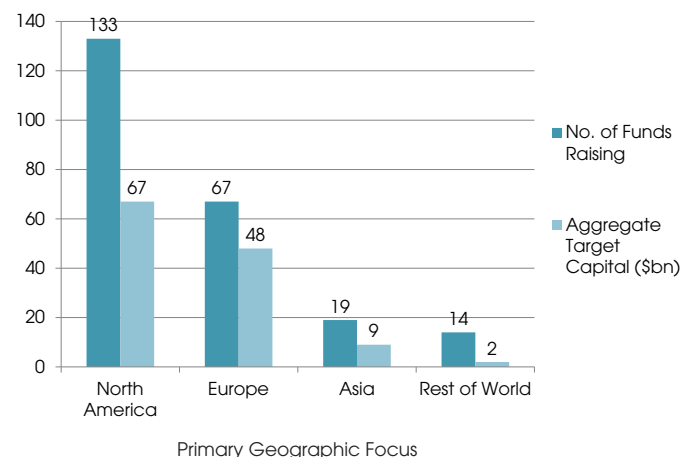
Source: Preqin Private Debt Online

Fig. 1: Breakdown of Private Debt Funds in Market by Fund Type



Source: Preqin Private Debt Online

Fig. 3: Breakdown of Private Debt Funds in Market by Primary Geographic Focus



Source: Preqin Private Debt Online

Fig. 4: 10 Largest Private Debt Funds Currently in Market

Fund	Firm	Fund Type	Target Size (\$mn)	Geographic Focus
Oaktree Opportunities Fund Xb	Oaktree Capital Management	Distressed Debt	7,000	North America
Fortress Credit Opportunities Fund IV	Fortress Investment Group	Distressed Debt	4,000	Europe
Mount Kellett Capital Partners III	Mount Kellett Capital Management	Special Situations	4,000	Asia
Senior Debt Partners II	Intermediate Capital Group	Direct Lending	3,401	Europe
Cerberus Institutional Partners VI	Cerberus Capital Management	Distressed Debt	3,000	North America
Crescent Mezzanine Partners VII	Crescent Capital Group	Mezzanine	3,000	North America
Oaktree Opportunities Fund X	Oaktree Capital Management	Distressed Debt	3,000	North America
Sankaty Credit Opportunities VI	Sankaty Advisors	Distressed Debt	3,000	North America
ICG Europe Fund VI	Intermediate Capital Group	Mezzanine	2,800	Europe
MHR Institutional Partners IV	MHR Fund Management	Distressed Debt	2,750	North America

Source: Preqin Private Debt Online



Institutional Investors in Private Debt

Investors currently tracked by Preqin's **Private Debt Online** continue to show a strong appetite for exposure to private debt funds. Fig. 1 shows that the top 10 investors in private debt have an aggregate current allocation to the asset class of \$48bn. Four of the 10 largest investors are public pension funds, which represent a vital source of capital to fund managers.

Over the next 12 months, 65% of investors will consider making commitments to direct lending funds, which is unsurprising given past fundraising success and growth within the strategy in 2014 (Fig. 2).

Moving into Q3, mezzanine and distressed debt fund structures are viewed more favourably by investors when compared to Q1 2015. A large proportion (61%) of investors view mezzanine as a viable fund structure to commit capital to in the year ahead, while 56% plan to invest in distressed debt funds, up from 28% and 30% respectively in the previous quarter. This surge in interest

could be due to the recent fundraising efforts of large mezzanine and distressed debt managers.

As shown in Fig. 3, North America is viewed as a favourable region for private debt investment over the next 12 months by 68% of investors, followed by Europe (67%) and Asia (28%).

Data Source:

Preqin's **Private Debt Online** tracks in-depth data on over 1,700 active investors in private debt around the world. Search for investors based on their current allocation to private debt, location, investment preferences and more.

For more information, please visit:

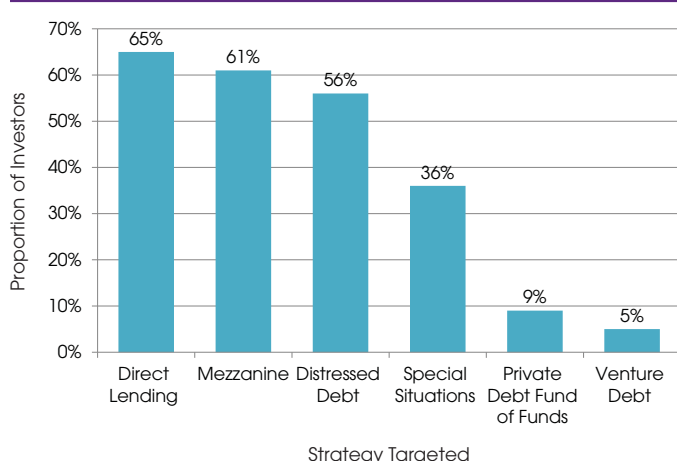
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Fig. 1: 10 Largest Investors in Private Debt Globally by Current Allocation

Investor	Current Allocation to Private Debt (\$bn)	Investor Type	Location
Netherlands Development Finance Company	6.0	Government Agency	Netherlands
Partners Group	5.9	Private Equity Fund of Funds Manager	Switzerland
African Development Bank	5.3	Bank	Ivory Coast
New York State Teachers' Retirement System	5.2	Public Pension Fund	US
LIG Insurance	5.0	Insurance Company	South Korea
California Public Employees' Retirement System (CalPERS)	5.0	Public Pension Fund	US
IFM Investors	4.4	Asset Manager	Australia
Florida State Board of Administration	4.4	Public Pension Fund	US
Oregon State Treasury	3.5	Public Pension Fund	US
Future Fund	3.1	Sovereign Wealth Fund	Australia

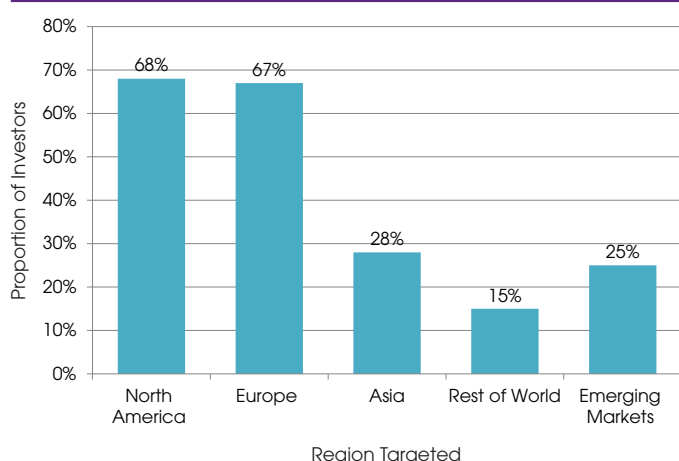
Source: Preqin Private Debt Online

Fig. 2: Strategies Targeted in the Next 12 Months by Private Debt Investors



Source: Preqin Private Debt Online

Fig. 3: Regions Targeted in the Next 12 Months by Private Debt Investors



Source: Preqin Private Debt Online



Fund Performance and Dry Powder

Fig. 1 shows the relationship of annualized contributions and distributions, as well as the net cash flows, for an investor with a \$10mn commitment to a direct lending fund. This examination of the typical cash flows to and from an investor further highlights the relative illiquidity of the private debt asset class. Given the lower risk/return profile of direct lending funds, net cash flows typically break even earlier than other private debt strategies, during the sixth year of the investment on average. As shown in Fig. 2, mezzanine fund net cash flows break even mid-way through its eighth year of investment, illustrating a significantly longer delay in expected positive cash flow to the underlying investor.

Fig. 3 shows that total dry powder available to private debt fund managers globally has increased by 29% in the period since December 2014. The total figure currently stands at \$179bn, the highest level witnessed to date. Direct lending funds currently hold the highest amount of dry powder at \$62bn, up 45% compared to December 2014. Distressed debt and mezzanine funds have

also seen notable increases in the amount of dry powder they hold, with increases of 16% and 33% since December 2014 respectively.

Through Q2, Europe-focused private debt funds witnessed large increases in dry powder, up 51% since December 2014, with available capital now standing at \$56bn, as shown in Fig. 4. Dry powder available to North America-focused funds stands at \$113bn, up 20% compared to December 2014.

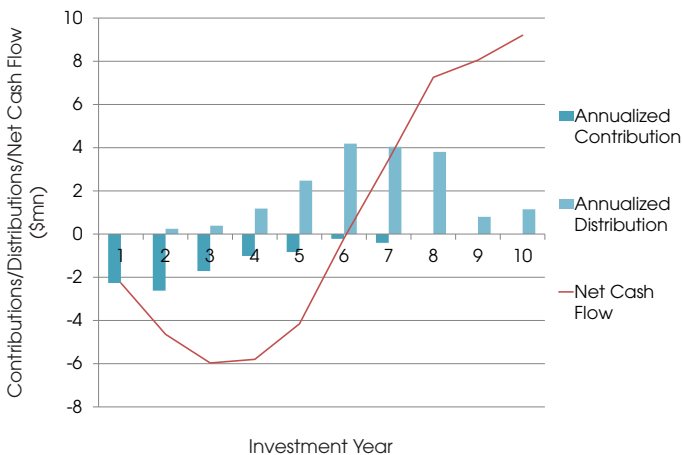
Data Source:

Preqin's **Private Debt Online** contains net-to-LP performance data, with full metrics for over 650 named vehicles.

For more information, please visit:

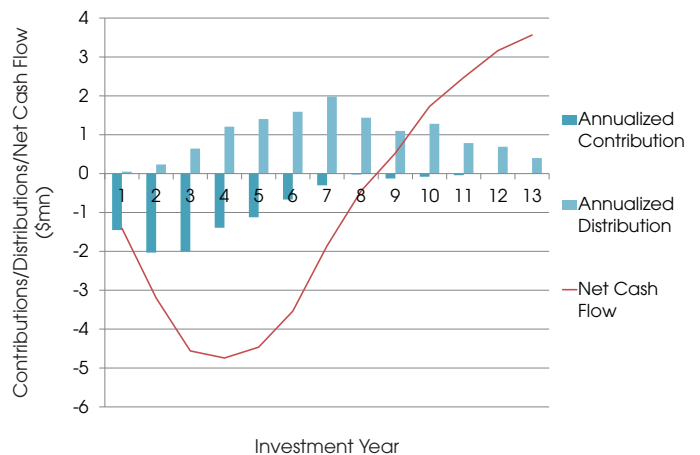
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Fig. 1: Direct Lending: Annual Contributions and Distributions with Net Cash Flow (LP with \$10mn Commitment)



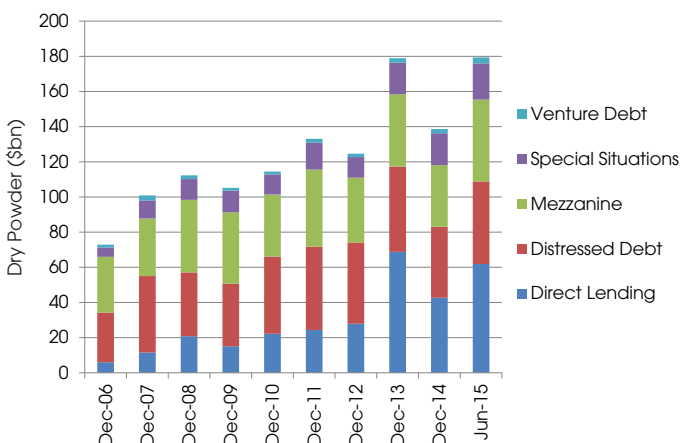
Source: Preqin Private Debt Online

Fig. 2: Mezzanine: Annual Contributions and Distributions with Net Cash Flow (LP with \$10mn Commitment)



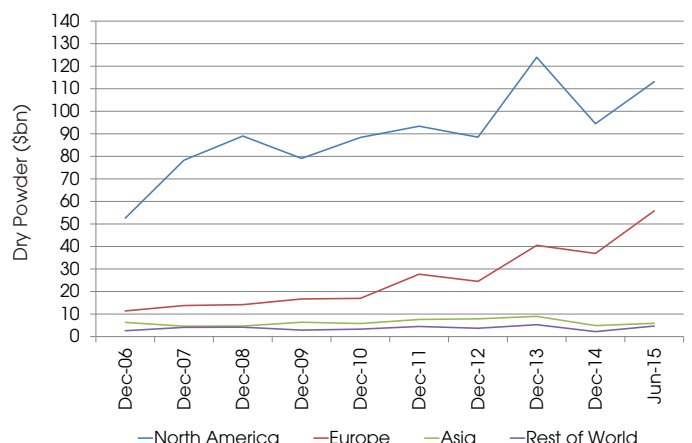
Source: Preqin Private Debt Online

Fig. 3: Private Debt Dry Powder by Fund Type, December 2006 - June 2015



Source: Preqin Private Debt Online

Fig. 4: Private Debt Dry Powder by Primary Geographic Focus, December 2006 - June 2015



Source: Preqin Private Debt Online



Source new investors for funds
Identify new investment opportunities
Conduct competitor and market analysis
Track firms with capital available to invest
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Preqin Private Debt Online

With global coverage and detailed information on all aspects of the private debt asset class, Preqin's industry-leading Private Debt Online service keeps you up-to-date on all the latest developments in the private debt universe.

Source new investors for funds

Find the most relevant investors, with access to detailed profiles for over 1,700 institutional investors actively investing in private debt, including information on their current fund searches and mandates, direct contact information and sample investments.

Identify potential investment opportunities

View in-depth profiles for over 1,600 unlisted private debt funds, including information on investment strategy, geographic focus, fundraising progress, service providers used and sample investors.

Find active fund managers in private debt

Search for firms actively targeting private debt investments. View information on key contacts, firm fundraising and performance history, and applied strategies of the firm.

Analyze the latest private debt fundraising activity

See which firms are currently on the road raising a private debt fund and which will be coming to market soon. Analyze fundraising over time by fund type, manager location and regional focus, and conduct competitor analysis.

Benchmark performance

Identify which fund managers have the best track records, with performance benchmarks for private debt funds and performance details for over 650 individual named funds.

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Search for administrators, placement agents and law firms active in the private debt industry by type and location of funds, and the managers they work with.

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