Private Debt Intelligence – 7/31/2017

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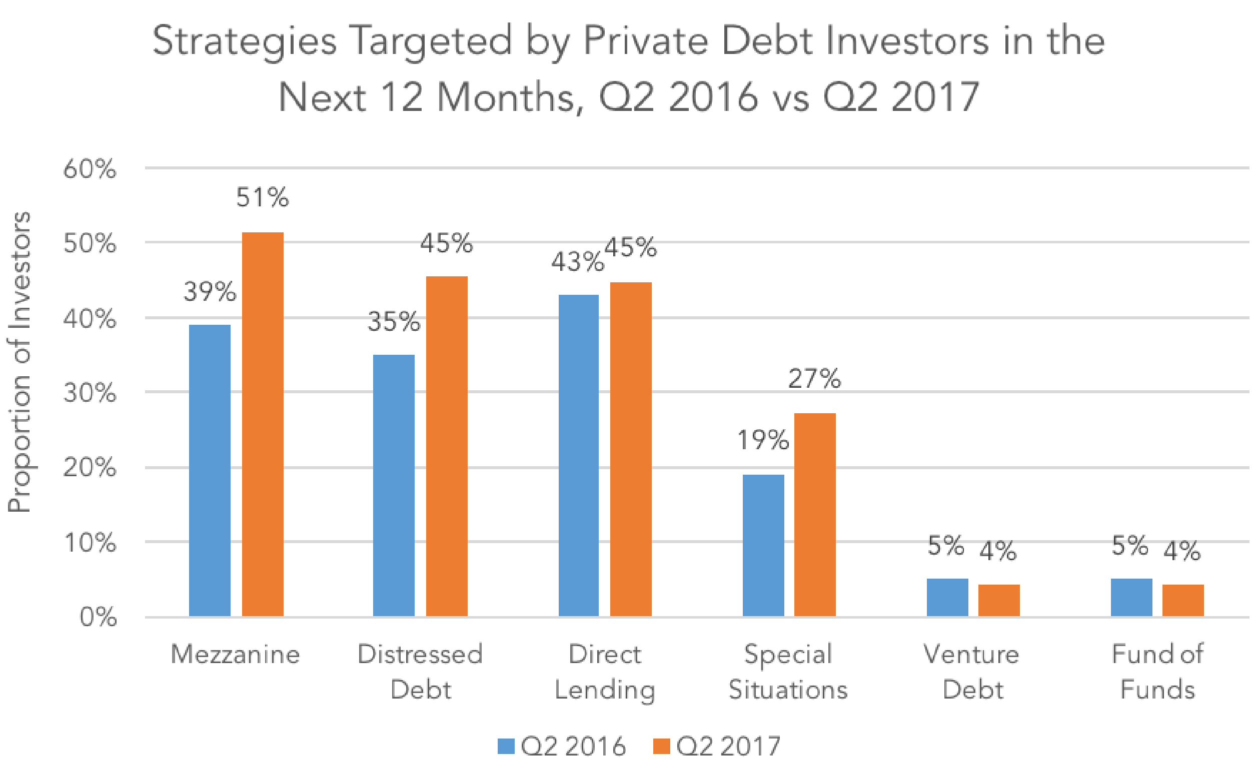
Private Debt Investors Look to Mezzanine Funds

Chart



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As part of its Q2 review of the private debt asset class, Preqin evaluated the strategy preferences of the almost 2,800 investors currently active in the industry. It found that investors were targeting fund types at very different rates compared to 12 months ago,

perhaps indicating that a shift in allocation patterns may become evident in the coming months.

The largest change is in the proportion of investors targeting mezzanine vehicles. At the end of Q2 2016, 39% of investors indicated that they would seek to make commitments to mezzanine funds over the next 12 months. A year later, that proportion has risen to more than half (51%), making mezzanine vehicles the most sought-after private debt type.

This is particularly significant given recent fundraising patterns. Nine mezzanine funds raised a total of $2.1bn in Q2 2017, less than half the amount secured by either distressed debt ($5.5bn) or direct lending funds ($6.4bn). If more investors are now seeking to invest in mezzanine funds, we may see the balance of fundraising shift in the second half of the year.

Similarly, there have been significant increases in the proportion of investors targeting distressed debt and special situations funds. Forty-five percent of investors will look to make distressed debt commitments over the next 12 months, an increase of 10 percentage points. Given that Q4 saw record distressed debt fundraising, a rise in investor interest for the fund type may indicate that further robust fundraising is likely.

Interest in special situations funds, meanwhile, rose from 19% of investors in Q2 2016 to 27% in 2017. This is notable because the largest private debt fund currently in market, 3G Special Situations Fund V, will look to make investments of this type. If investor interest for special situations is rising, then we may see more capital flow to this and other funds in the sector.

Contact: William Clarke
william.clarke@preqin.com