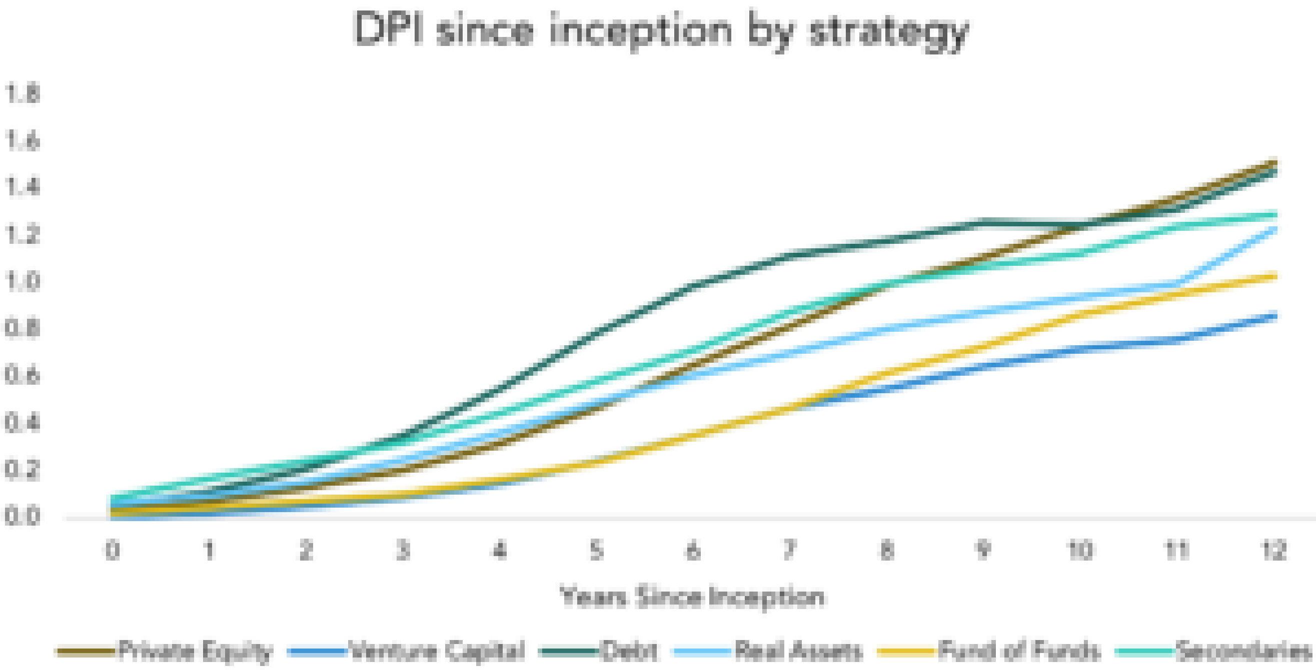
THE LEAD
https://theleadleft.com/pulse-private-equity-4-9-2018/

# A closer look at private debt performance

PitchBook | April 11, 2018




Download PitchBook's report click here.

As traditional PE strategies have become more crowded, the PE industry has seen a record-high expansion in private debt fundraising. Names like Thoma Bravo, BC Partners and Silver Lake have all branched out into the private debt space, following in the footsteps of larger "one-stop shops" like Blackstone and Apollo. While the public credit markets remain the cheapest and most available financing option for most borrowers, private debt funds have clear advantages in this market. Private lenders are more comfortable offering unitranche facilities, and borrowers are often willing to pay for the flexible terms from private funds while avoiding syndication risk from leveraged bank loans. The returns are enticing, too: versus the Bloomberg Barclays US Corporate High Yield Index, private debt funds outperformed their public counterparts in ten of the 15 vintages between 2001-2015. The recent surge in debt fundraising has brought down fees, as well, not only due to competition but also the relative ease of managing debt funds—traditional PE funds tend to be more labor intensive, niche PE strategies even more so. Relying on interest payments instead of principal appreciation, private debt funds return capital back to LPs at a faster clip. DPIs reach 1.0x (on a median basis) for private debt funds by year six of the fund's life, compared to eight years for private equity.

The question now is what happens next. One asset manager told the *Financial Times* last year that "if you can breathe fog in a mirror" you can qualify for one of these loans. The fog and mirror idiom may or may not be a harbinger as the economy hums along, and most expect interest rate increases to be done steadily and predictably. If they don't, however, a rise in adjustable rates could lead to an uptick in bankruptcies. Moreover, if leverage levels continue to rise as they have in recent years, the private debt funds themselves will be further exposed to any hiccups in the global economy. The current business cycle will turn over eventually. When it does, GPs and LPs alike may find that today's rates won't provide adequate redress for tomorrow's risks.

**Contact: Alex Lykken**
alex.lykken@pitchbook.com