Private Debt Intelligence – 4/30/2018

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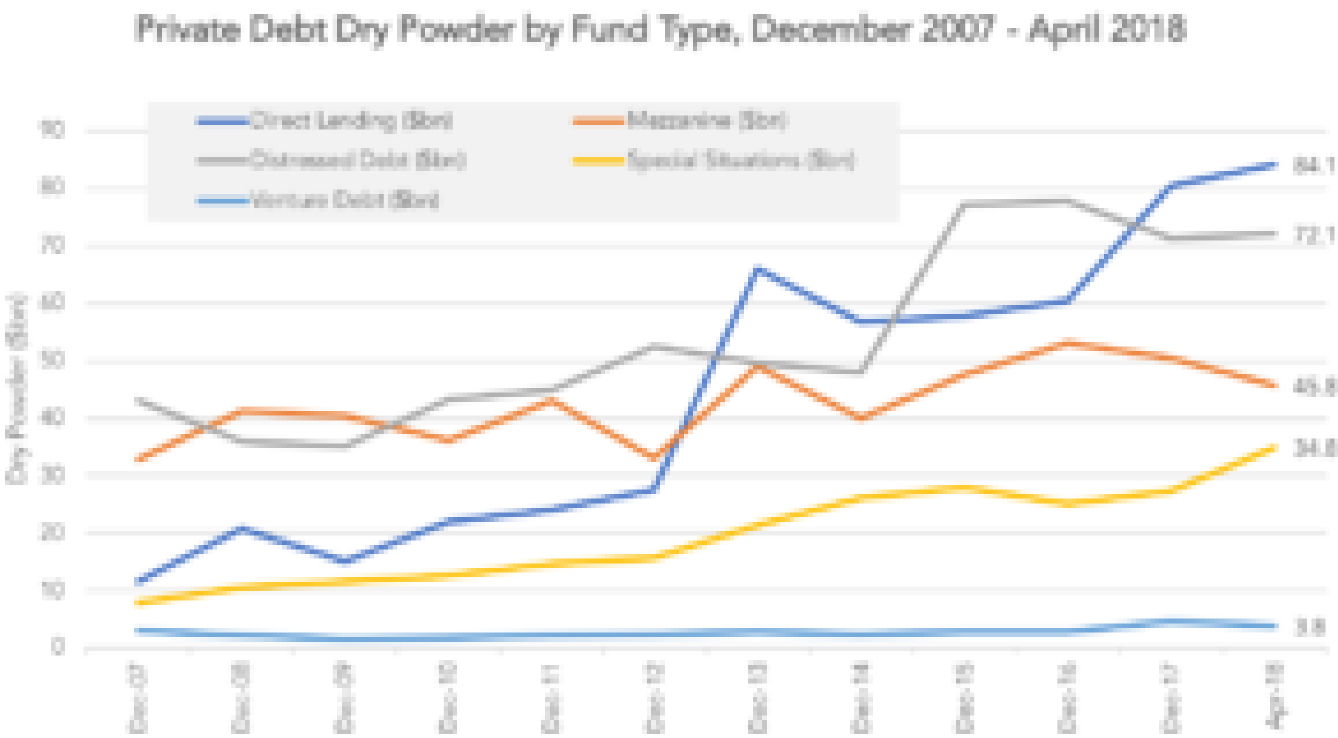
Direct Lending Drives Dry Powder Growth

Chart



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The private debt industry has seen relatively small increases in dry powder (capital waiting to be deployed) in recent years. After spiking by 23% across 2015, annual rises in 2016 and 2017 were just 3% and 7% respectively, with a further 3% rise to the end of April 2018. This is encouraging news for the deal making market – although the overall total now stands at a record $241bn, the low increases indicate that the industry is deploying as much capital as it is collecting, and that managers are finding suitable investment opportunities.

However, this steady rate of deployment masks that the composition of the available capital is changing, and direct lending funds now account for more than one out of every three dollars waiting to be deployed by fund managers. The fund type saw sharp increases in dry powder through 2013 and 2017, as record fundraising brought in unprecedented levels of capital. This total has reached over $84bn as of April 2018, significantly more than any other fund type, and direct lending is the only fund type to see its available capital grow consistently in recent years.

Distressed debt funds, by contrast, have accounted for a declining share of available capital in recent years. They represented almost half (44%) of dry powder at the end of 2007, but this proportion has fallen to 30% as of April 2018. This is in part because total distressed dry powder has not changed much in the past three years, declining from $77bn in 2015 to $72bn in 2018. Similarly, mezzanine, and venture debt funds have seen their dry powder stores decline in the past few years, while special situations funds have seen marginal increases. This leaves direct lending funds alone as the key driver of total capital available in the private debt industry.

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