Private Debt Intelligence – 7/16/2018

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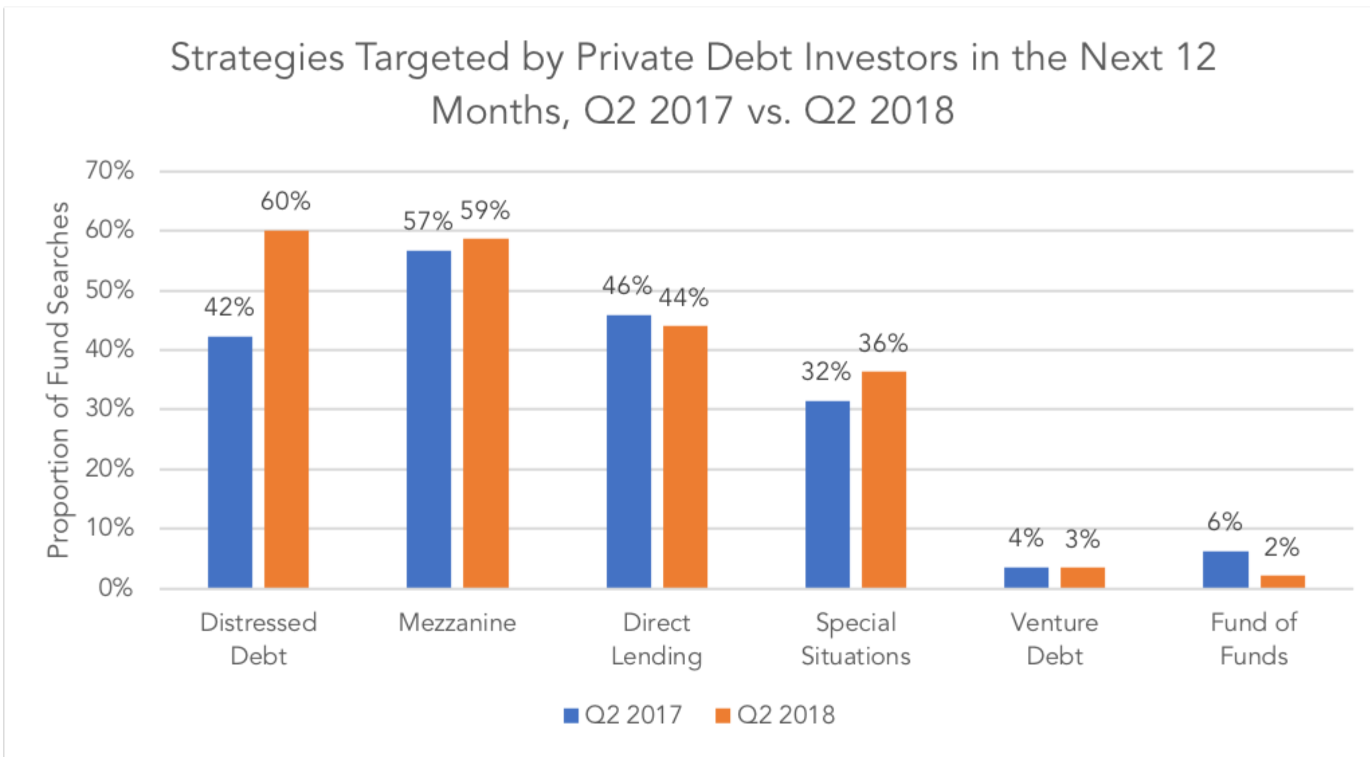
Investors Take Notice of Distressed Debt

Chart



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Preqin currently tracks more than 3,300 private debt investors globally. The majority (55%) of these investors are based in North America. A further 25% are based in Europe and 14% are based in the Asia-Pacific region. The 10 largest investors allocate a total of $66bn to the private debt asset class. StepStone, the Switzerland-based private debt fund of funds manager, currently allocates $16bn to the asset class, the highest allocation among known investors. The next largest allocator to private debt is the public pension fund Virginia Retirement System, which allocates a little under $13bn to the asset class.

Europe and North America remain the most favoured regions among private debt investors, as targeted by 64% and 52% of investors respectively in Q2 2018. This was a slight drop from Q2 2017, when 66% favoured Europe and 57% favoured North America. However, there has been an uptick in investor interest in the Asia-Pacific region, growing from 27% of fund searches in Q2 2017 to 30% in Q2 2018. Interest in emerging markets fell slightly, from 15% to 11% over the same time period.

The largest proportion (60%) of investors will seek distressed debt vehicles over the next 12 months, a significant increase from 42% in Q2 2017. In Q2 2017, the largest proportion (57%) of investors favoured mezzanine. In Q2 2018, mezzanine remains among the top three most targeted strategies, with 59% of investors seeking mezzanine vehicles in the coming year, followed by direct lending (44%). The jump in the proportion of investors looking at distressed debt comes as no surprise, following a Q2 in which distressed debt fundraising dominated. This could also be a reflection of investor sentiment; Preqin's end of 2017 survey found that 45% of investors believe a market correction is due. Investing in distressed debt funds could help investors position themselves strategically in anticipation of counter-cyclical opportunities.

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