Private Debt Intelligence – 8/13/2018

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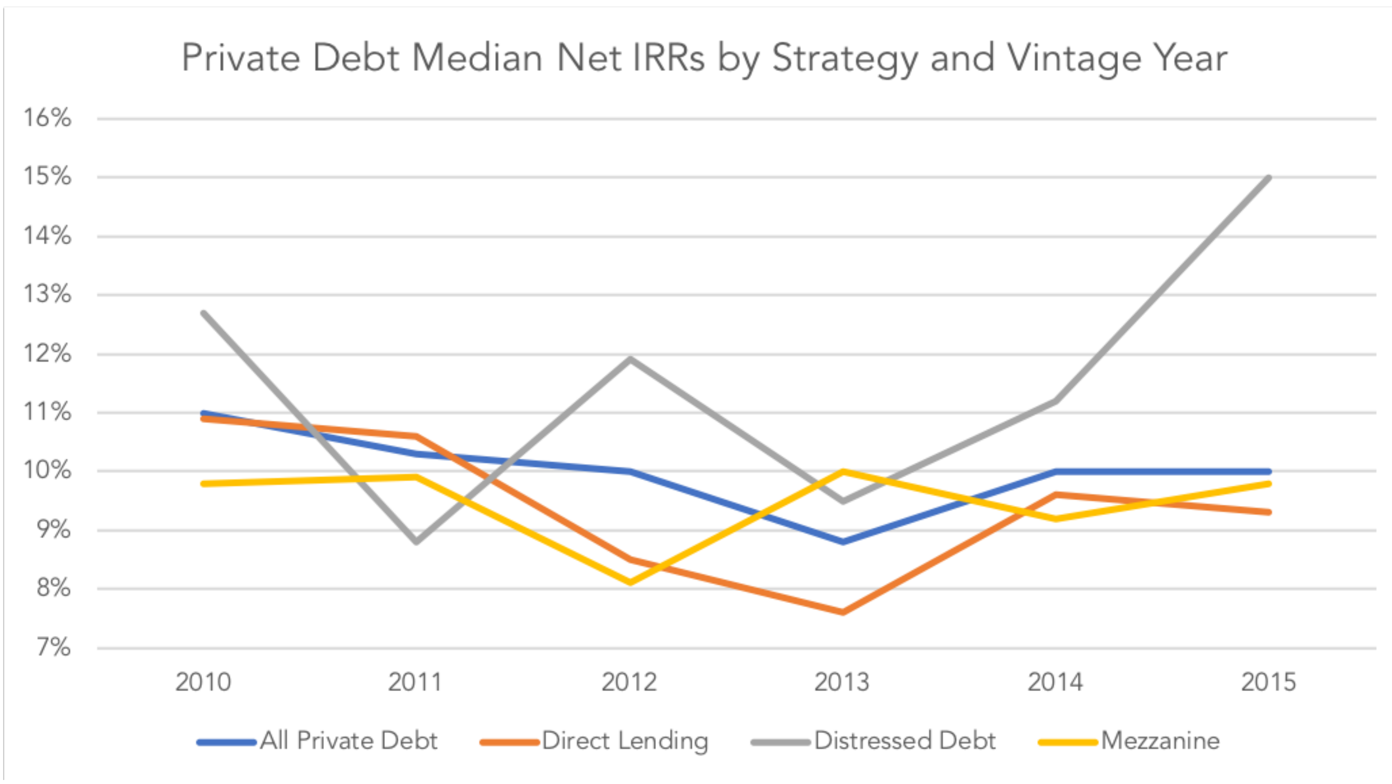
Distressed Debt Outperforms Other Private Debt Strategies

Chart



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The private debt industry has historically been dominated by three main strategies: direct lending, distressed debt and mezzanine, which collectively account for around four-fifths of private debt assets under management. Median returns for these strategies, and for private debt overall, have been strong, and returns have consistently hovered around 8-10% for vintages 2010-2015. Of direct lending, distressed debt and mezzanine vehicles, distressed debt returns have been the most volatile, but also have produced the greatest returns. For four of the

2010-2015 vintage years, distressed debt returns outpaced those of mezzanine and direct lending strategies. Additionally, distressed debt funds have performed the best of any private debt strategy for the most recent vintages, a trend that could very well persist for future vintages. Furthermore, the strategy produced a notable 13% for funds of a vintage 2010 and 15% for vehicles of a 2015 vintage.

The highest performing private debt fund ever is distressed debt vehicle Wazee Street Opportunities Fund which has generated 156% in returns. All of the five top-performing distressed debt funds, including Wazee Street Opportunities Fund, are North America-focused. The top-performing mezzanine fund is Northcreek Mezzanine, which has posted 31% returns. The top-performing direct lending fund is the 2008 vintage fund, Apollo Credit Opportunities Fund I, which has generated returns of 27%. Both of these vehicles look to focus their efforts on investment opportunities in North America, as well.

Consistent returns tend to correlate with confidence in private debt, and investor satisfaction with the asset class could very well be in part due to these consistently positive returns. In fact, over half of investors surveyed in 2015, 2016 and 2017 all reported having a positive perception of the asset class. Additionally, just one-fifth of investors surveyed in 2017 believe that private debt will see decreased performance. Looking ahead, interest in private debt could grow further as the asset class continues to generated positive returns.

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