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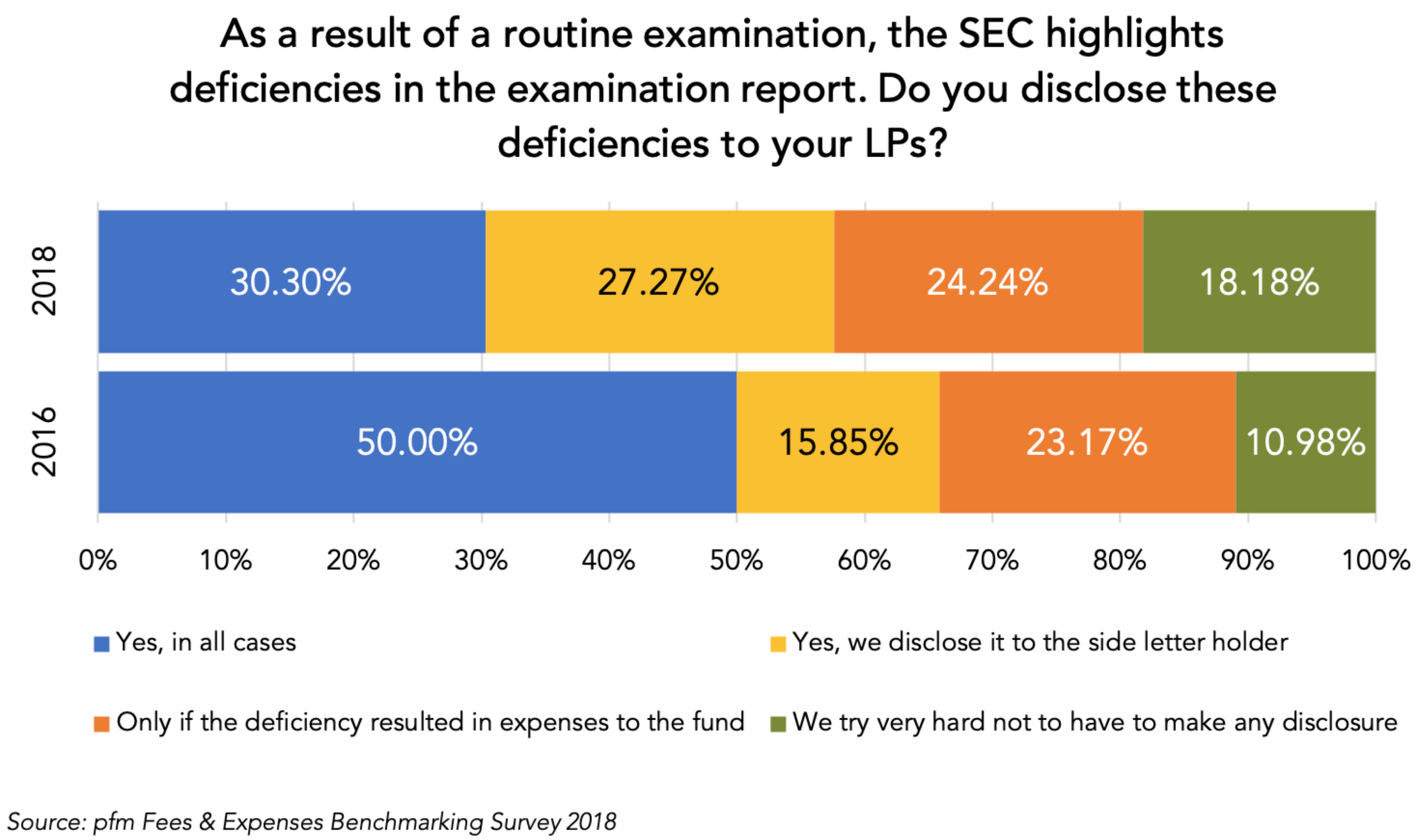
Opening the books to investors

Private Debt Investor | November 21, 2018



In a survey from sister publication pfm, the number of managers trying "very hard" not to disclose a deficiency uncovered via a routine exam by regulators increased by 7%.

Perhaps the only thing worse than a realised credit loss for alternative lenders is when the Securities and Exchange Commission comes a knocking; even when private debt managers have followed every rule in the book, federal regulators showing up and setting up camp in the main conference rooms can be quite distracting.

The results of such an exam may also make for difficult conversations with a firm's LPs – or at least theoretically. Private Debt Investor sister publication pfm surveyed private markets managers and found that 18 percent of all respondents "try very hard not to make any disclosure" when a deficiency is found. That figure is up from 11 percent in 2016, the last time pfm asked the question.

Some 30 percent of respondents – which were heavily tilted toward firms with equity-based strategies – said they would disclose it to investors in all cases. That's 20 points down from the previous survey, which would seem to be trending in the wrong direction.

Of the remaining respondents, 27 percent said they disclose any deficiency to the side-letter holder and 24 percent disclose it only if the finding results in expenses to the fund.

Among private markets managers favourite numbers to tout are their performance and deal selectivity statistics, something they will argue differentiates them. Transparency is another – and perhaps a key – way for firms to set themselves apart from one another, and should be seen as a process rather than an end goal.