Private Debt Intelligence – 1/7/2019

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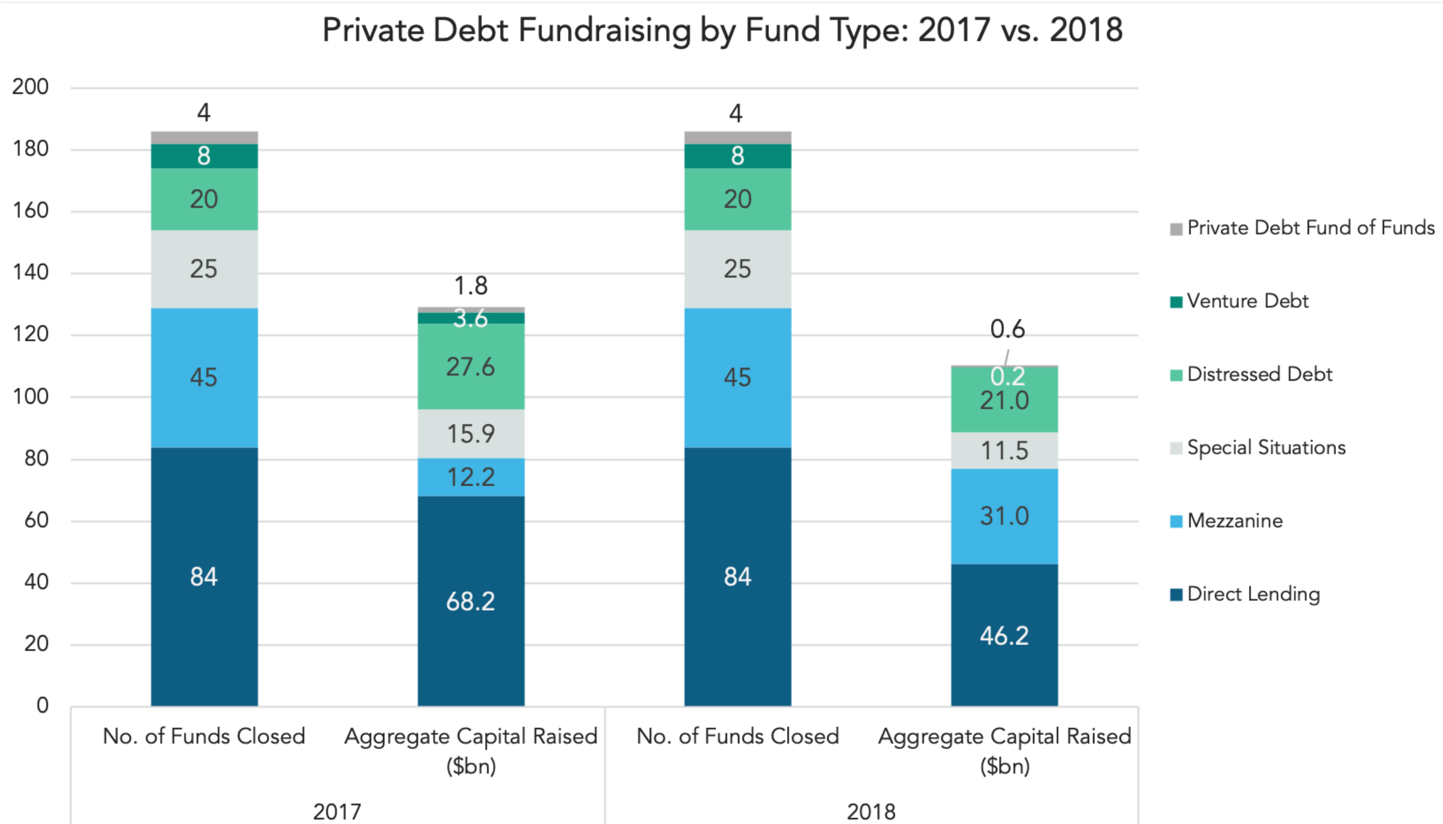
Direct Lending Fundraising Dips in 2018

Chart



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Total private debt fundraising fell in 2018, with 162 funds securing an aggregate $110bn throughout the year. In comparison, in 2017, 186 private debt funds held a final close and raised $129bn. Although direct lending continued to represent the largest bulk of fundraising activity, direct lending fundraising dipped steeply this year. In 2018, 68 direct lending vehicles securing a total of $46bn in capital, marking a downward shift in activity from 2017 when 84 funds raised $68bn. By contrast, mezzanine fundraising saw a jump: in 2017, 45 mezzanine vehicles reached a final close and raised just $12bn, while in 2018 47 mezzanine funds held a final close and secured a total of $31bn.

In many ways the fall in direct lending fundraising came as a surprise: direct lending has seen rapid growth, quickly rising to become one of the dominant private debt strategies over just the course of a decade. Furthermore, according to Preqin's H2 2018 Investor Update, the largest proportion (31%) of investors surveyed reported that they view direct lending as presenting the best opportunities.

On the flip side, over half (56%) of investors allocating across all alternative assets believe we're at the peak of an equity cycle. Although this proportion of investors crosses across private debt into other asset classes, such as those investing in hedge funds and private equity, this could imply that a significant number of industry players think that we're also at the peak of the private debt cycle. Concerns regarding the potential for an equity market downturn could make investors less inclined to provide funding components of deals that may be exposed in the event of a correction, perhaps making this the reason for the dip 2018's direct lending fundraising.

Contact: Naomi Feliz
Naomi.Feliz@preqin.com