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Private Debt Intelligence – 3/23/2020

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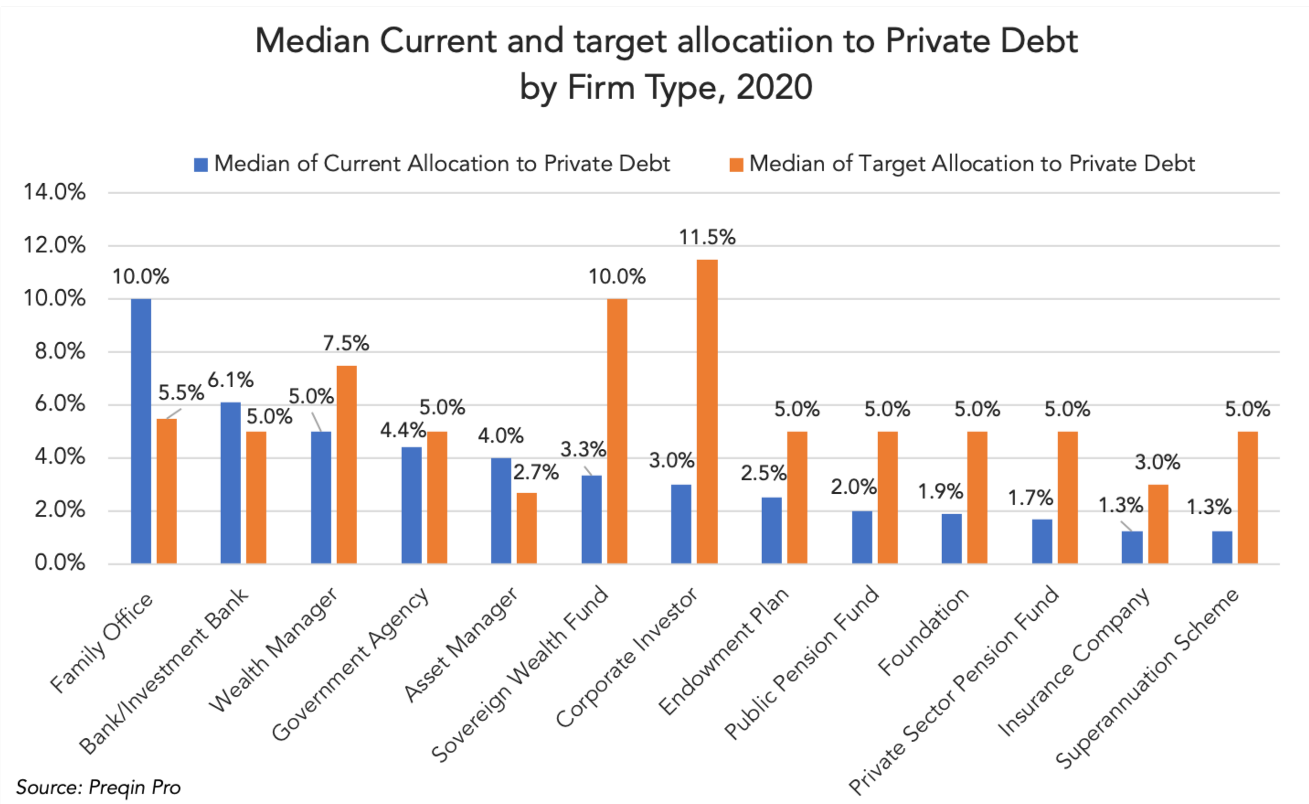
Private Debt: Rise of Covenant-Lite Loans

Chart



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The growth in covenant-lite issuance in the loan market has sparked heavy discussion. The growth of supply in mid-market lending has led to a loss of value, which has in turn brought about a rise in weaker covenants. As investors allocate to private debt, they find themselves increasingly unable to avoid the risk.

Ninety-one percent of surveyed investors have indicated they intend to either maintain or increase their allocation to private debt in the long term. With the deals market set to remain competitive, manager selection and strategically diverse private debt portfolio will be of greater concern for investors than the prevalence of covenant-lite loans. The rise of covenant-lite loans means that investors are faced with accepting weaker covenants, or potentially losing out on attractive lending opportunities.

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