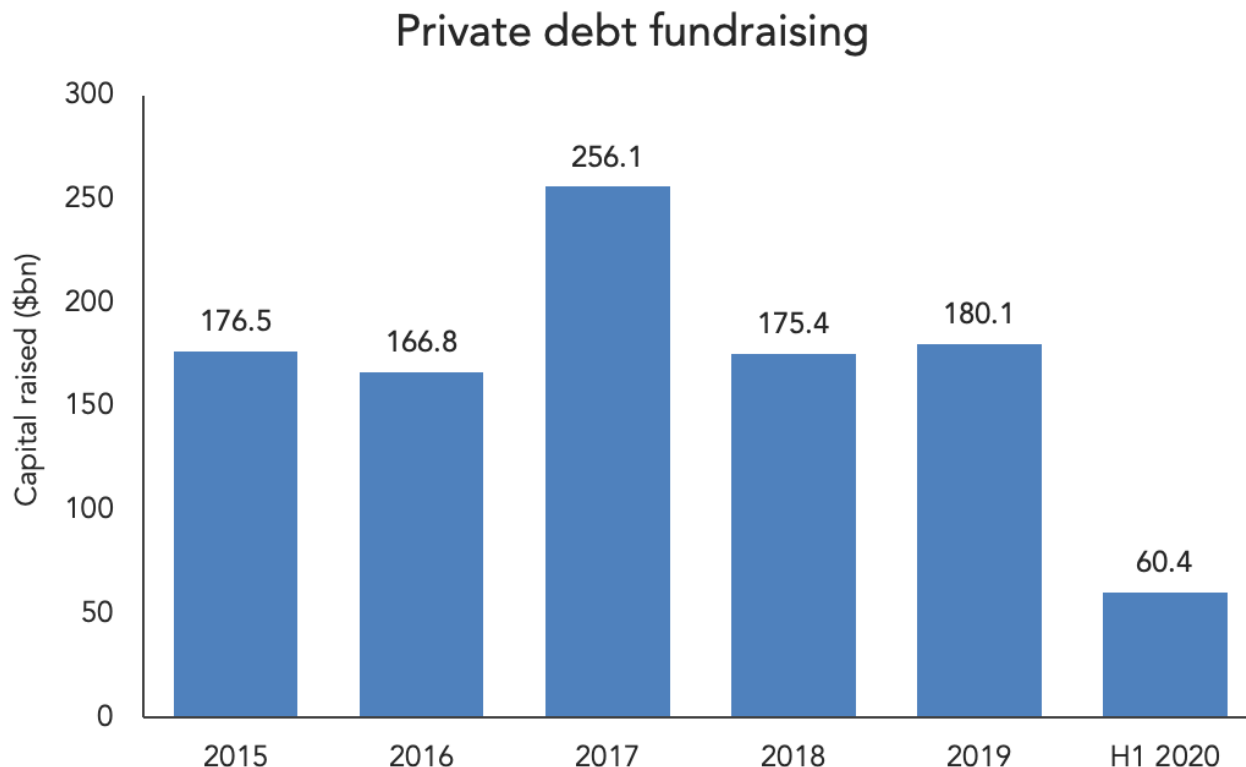


Dislocation, yes – but direct lending still rules the roost

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Apollo's \$12bn tie-up with Mubadala shows there's plenty of life left in direct lending yet.

Gaining momentum after a very slow start, our preliminary fundraising figures for the first half of this year show around \$60 billion raised for private debt globally – around \$25 billion of it in the first quarter and \$35 billion in the second (see chart).

As discussed in previous editions of this column, much of the fundraising momentum so far this year has come from dislocation funds as managers seek to take advantage of short-term discounts on public markets as well as longer-term opportunities in private markets. The largest example so far was KKR's \$4 billion dislocation strategy, comprising a \$2.8 billion fund and more than \$1.1 billion in separately managed accounts.

The overall picture is of a subdued fundraising market, however, which – at the halfway point – looks unlikely to challenge last year's total of \$180 billion, never mind the record total of \$256 billion in 2017. It appears there is little that dislocation funds can do to significantly move the needle, despite their obvious popularity with investors.

What we did see this week was a potential game-changer from the rather more familiar territory of direct lending, as Apollo Global Management announced a new \$12 billion platform together with Mubadala, the Abu Dhabi-based sovereign wealth fund.

The platform, known as Apollo Strategic Origination Partners, will make loans of \$1 billion to \$2 billion to large established companies over the next three years and hold them to maturity. John Zito, Apollo's deputy chief investment officer of credit, told us the firm had identified "white space between the middle market and the general corporate market".

With much speculation about the health of some direct lending portfolios, it's perhaps unsurprising that attention has shifted to the distressed opportunity. But it's worth reminding ourselves that direct lending remains the investor favourite – with huge amounts raised in recent years and no clear sign of enthusiasm waning. Its approach to the space may not be typical, but Apollo has placed direct lending right back in the spotlight.