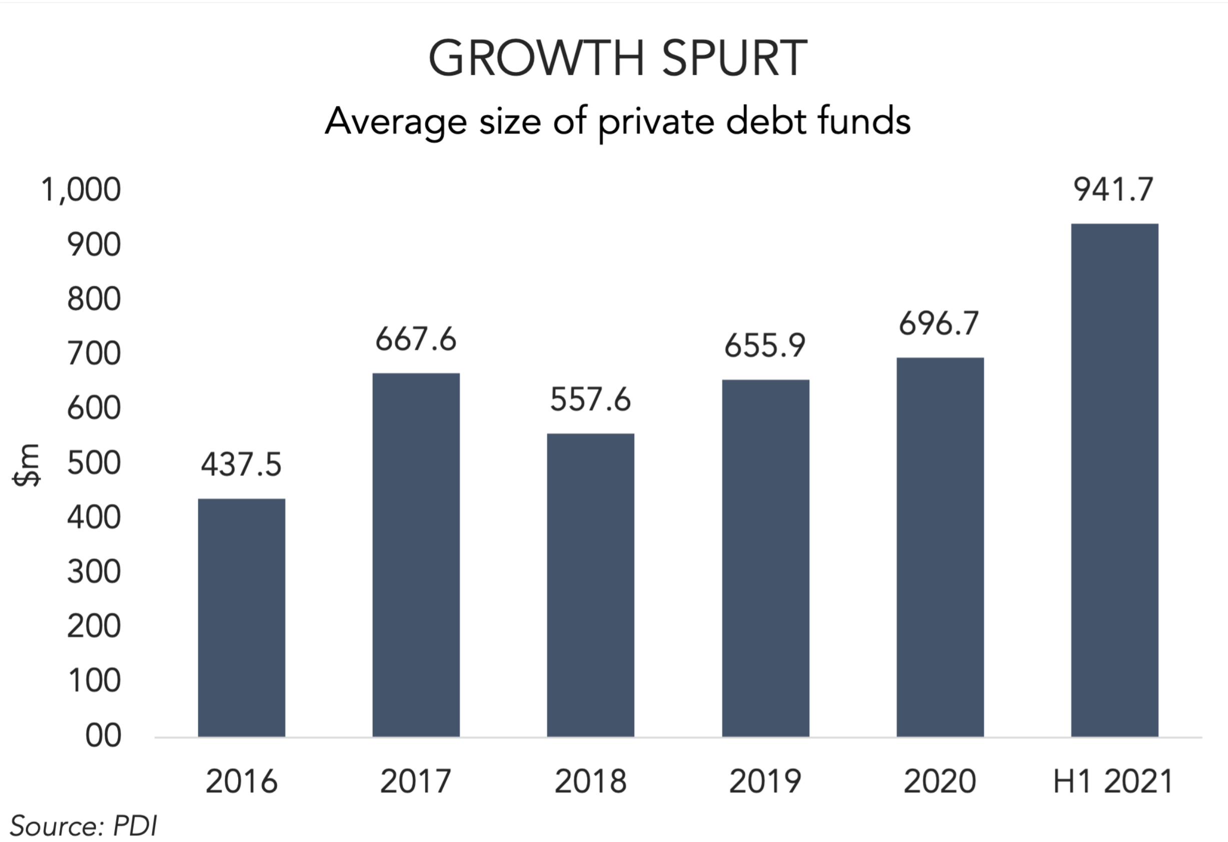
The new era of the supersized loan

Private Debt Investor | August 10, 2021



A recent financing underlines the ever-larger amounts of capital that the biggest private debt managers are now able to deploy.

When Ares Management announced a loan to RSK Group, the UK-based environmental and engineering business, earlier this week, most of the attention was focused on the sustainability angle. It was the first time the manager had included ESG-linked terms in a direct loan and was hailed as the "largest private credit-backed sustainability-linked financing to date".

But also notable was the sheer size of the loan, at £1 billion ($1.4 billion). It's not the first time that a private credit financing has breached the billion milestone, although deals of this heft are certainly a rarity. What they indicate is the growing ability of private debt to compete with banks at the larger end of the debt financing market – and, if our latest fundraising data is anything to go by, this is a trend that will only accelerate as time goes on.

As can be seen from the chart above, the average size of private debt funds has increased markedly over the last five years, from less than $500 million in 2016 to almost $1 billion in the first half of this year. Prior to the pandemic, there was already a tendency for limited partners to back a smaller number of trusted fund managers, and to write those favoured managers larger and larger checks. In the new world of remote due diligence, this concentration of capital in the hands of an elite group has been exacerbated as investors shy away from taking a chance on new managers that they may not be able to meet in person.

Our latest *PDI 50* ranking showed that, over a five-year period, $408 billion had been raised by the ten largest private debt fund managers globally. This was almost as much as the $472 billion raised the other 40 firms in the ranking put together. Loans such as the one written by Ares this week may not be a rarity for much longer.

(Past performance is no guarantee of future results.)