Private Debt Intelligence – 9/26/2016

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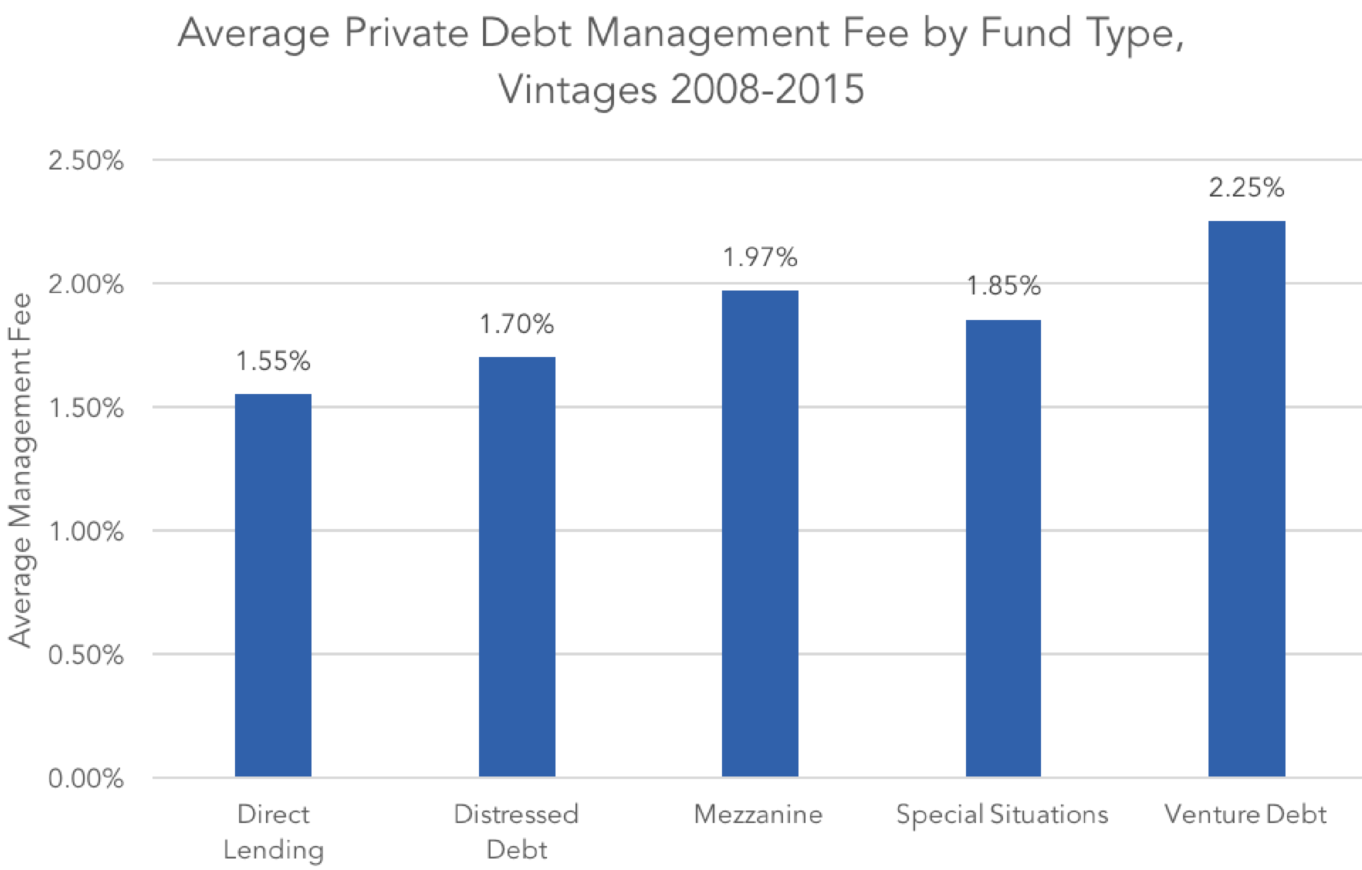
Average Private Debt Management Fees by Fund Type

Negotiating appropriately structured fund terms and conditions has long been a key issue for investors across the alternative assets industry. While investors are generally happy with the performance of the private debt industry, in Preqin's H2 2016 Investor Outlook just 60% of respondents stated that they felt fund manager and investor interests were properly aligned. Similarly, under a third (32%) felt that fund terms had changed in their favour in the past year; in both instances, these proportions of investors that are satisfied with their fund terms is the lowest of any asset class.



For vintage 2008-2015 funds, those with a venture debt strategy charge the highest average management fee of 2.25%, followed by mezzanine funds with a fee of 1.97%. The case for venture debt fees is unsurprising; the diligence and expertise needed to deploy early stage venture debt funding is significant, and these funds charge a commensurate fee.

In comparison, direct lending vehicles charge the lowest average management fees (1.55%), perhaps reflective of the lower risk/return profile of these funds. Additionally, distressed debt funds charge the second lowest average management fee at 1.70%. This relatively lower management fee can be explained by the fact that distressed debt funds, on average, are significantly larger in size than mezzanine or special situations funds, which leads to economies of scale. Essentially, larger funds are able to charge a lower proportion of committed capital to cover the costs and expenses of managing these vehicles, which also links back to the higher fee charged on venture debt funds.

As more than half of private debt investors intend to make further allocations to the asset class in the coming 12 months, managers across different strategies will strive to offer the best match possible for would-be investors. Growing competition for investor commitments may well force a rethink of terms and conditions from fund managers, as they seek to differentiate their vehicles.

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