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FOR THE WORLD'S PRIVATE DEBT MARKETS

ANNUAL REVIEW 2017 STILL ON THE RISE



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ISSN 2051-8439

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EDITORIAL COMMENT

A year we reached dizzying heights

Going into 2017, the overall sentiment was one of optimism. Despite a politically fraught 2016, the market had a relatively good prognosis. Fundraising was down, but we still saw a healthy \$111 billion raised at a time when the broader global markets were braced for a rough ride.

Fast forward 12 months and the optimists seem to have been vindicated. Not only did fundraising rebound in 2017, but it also reached new heights with private debt funds raising more than \$180 million in aggregate. Though, it must be said, more capital raised does not mean more

champagne corks being popped. The number of fund closes by individual managers was at a five-year low as the industry incumbents absorbed the lion's share of LP commitments. While 2017 was a good year for the big guys, things were not as easy for first-time managers.

There is also the sense the market could yet be a victim of its own success. One topic that has cropped up several times in this review – and throughout the year – is the weight of all the dry powder that needs to be deployed. The opportunities may not yet be thin on the ground, but managers will still have to work harder to find and win new deals in a more competitive environment.

All the while, the industry faces the prospect of the tide eventually turning in the context



**"MORE CAPITAL
RAISED DOES
NOT MEAN MORE
CHAMPAGNE CORKS
BEING POPPED"**

of a broader downturn. This sentiment came across in our US report in September when managers asked whether the market was now into an extra innings. The fact six of the largest 10 funds currently in market are targeting distressed opportunities, certainly suggests some GPs are already preparing for all possibilities.

That said, if the last two years have shown us anything, it is that making predictions is a precarious business. Whatever the future holds, this annual review provides an indispensable record of where the asset class stands

today and, with the publication of our fifth annual awards, a view on the major players that are making their mark on the industry now.

Enjoy the review,

Andrew Woodman

Special Projects Editor

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Senior lender
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SDP III
£5.2bn

Oct 2017

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€162m

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OVERVIEW

What we learned in 2017

Bigger funds, niche strategies and friendlier banks were just a few of the trends to emerge over the last 12 months, writes **Andrew Woodman**

MORE CAPITAL IS GOING INTO FEWER HANDS

One of the most significant takeaways from our annual fundraising report is that more capital is being raised by fewer funds. As the private debt market matures, investors are gravitating towards managers able to demonstrate a track record, can leverage immense scale and have a global footprint. Over a third of the capital raised in 2017 was gathered by just 10 managers. Apollo's hybrid debt and equity fund was the largest vehicle, raising \$24.7 billion; Oaktree raised the largest pure debt vehicle with an \$8.9 billion final close for Opportunities Fund Xb.

Beyond fundraising, we have also seen consolidation at the manager level. A high-profile example came in early 2017 when Ares completed its acquisition of American Capital. The deal has put Ares on course to hold even larger positions and write even bigger cheques.



NICHE STRATEGIES ARE ON THE RISE

As more capital is funnelled towards the large and increasingly powerful global funds, smaller managers are having to differentiate by specialising in specific sectors or strategies.

"There are the dealflow players, such as Ares, Alcentra and ICG, which have the geographic coverage, track record and resources that act as a multiplier effect, and they can easily raise money and deploy it," said Luke McDougall, partner, corporate department, Paul Hastings, in our November Europe roundtable.

"Then you have the boutiques, which can only operate in certain sectors, such as

technology and software, where they have an advantage over the dealflow players."

The kind of investments smaller private debt managers are exploring include sector-focused strategies where managers can leverage specific expertise. There are also more exotic offerings, such as venture debt and asset-based lending, in which managers hope to generate higher returns than plain vanilla direct lending. More managers are also looking to do more non-sponsored SME financing in specific jurisdictions, like Germany, where knowledge of local markets and regulations can give local managers an advantage.



DISCIPLINE IS GETTING HARDER

One of the things that managers and investors alike have stressed repeatedly in 2017 is the “need for discipline”. While fund-raising data reveal plenty of demand, that money still needs to get deployed.

“There is not a direct correlation between capital raised and investment opportunity,” said Cyril Tergiman, a partner at EQT Credit in November. “In 2008, the investment opportunity was great, but you couldn’t get capital from investors. Now you can get the capital, but can you spend it wisely? You need to stay disciplined and rigorous on sourcing, stay

disciplined on risk and relative value, and fight for the deals you believe in. I sense there is a degree of discipline slippage in risk management.”

While increased competition for fewer opportunities can impact due diligence, deal terms are also loosening. On both sides of the Atlantic there have been reports of more covenant-lite loans being issued. This is generally seen as a sign of borrower strength, as they are able to extract more favourable terms from lenders – including the ability to lengthen the timeframe before a company goes into default.



BANKS ARE FRIENDS NOT FOOD



The withdrawal of banks from the loan market following the financial crisis may have helped the growing private debt industry, but banks can still be valuable partners for private debt managers. Specifically, private debt funds are using bank relationships as a way of originating loan opportunities. This topic was one of the highlights of the *PDI* Capital Structure Forum in November, where several debt fund managers described how relationships with traditional banks enabled both parties to do better business.

“By partnering with banks, we benefit

from their origination teams and see a high volume of opportunities, and we can then choose the best ones to lend to,” said Joseph Buckley, director of private debt and CLOs at Hermes Investment Management, when he revealed his firm was working closely with several banks, including Royal Bank of Scotland, as a way of accessing deals.

For banks, a partnership – which can either come via a long-term relationship or a more ad-hoc deal – can offer a way to address a client’s needs, while making money through other aspects of their banking relationship.

UNCERTAINTY IS THE NEW NORM

If there is one thing the last few years have taught us it is that nothing is guaranteed. While the dust of 2016’s political shocks may have settled, between the impulsiveness of the 45th president of the United States and the UK’s chaotic Brexit negotiations with Europe, private debt managers in the US and Europe still crave clarity on their fate vis-à-vis tax and regulation. Then there is the matter of the current



cycle. For some time, industry players have been grumbling about exuberance, bubbles and loose terms, but a downturn is yet to materialise. While the doomsayers are still to be proven right, it is a matter of “when” not “if” the music stops. At the time of writing, the global stock markets were seeing record losses for the start of February indicating that, if anything, 2018 will bring more uncertainty. ■

EUROPE

Tailored solutions

Private debt investors have increased dealflow across Europe, providing bespoke structures for predominantly event-based financings

JOINED-UP THINKING

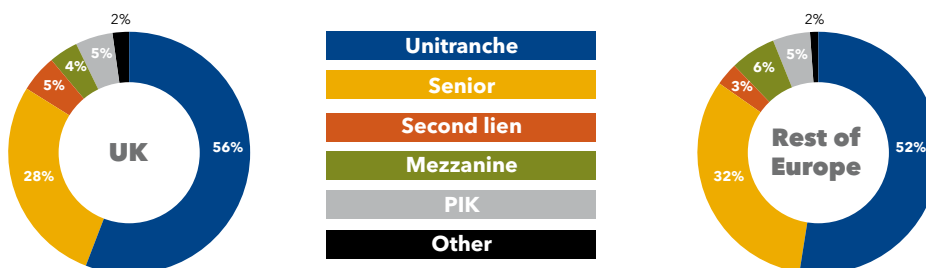
Deal data show 61% of deals completed in Europe involved an M&A transaction



Source: Deloitte Alternative Lender Deal Tracker Q3 2017

DOMINANT STRUCTURES

Unitranche deals dominate in Europe and the UK, while first lien deals account for 85% of transactions



Source: Deloitte Alternative Lender Deal Tracker Q3 2017

LANDMARK LENDING

The biggest unitranche deals completed in the first nine months of 2017 were in the UK, Netherlands and France

BORROWER	COUNTRY	UNITRANCHE (€m)	LENDER	SPONSOR	DATE
Zenith	UK	534	Goldman Sachs	✓	Mar 17
JVH Gaming	Netherlands	310	Ares	✓	May 17
Consolis	France	300	GSO Capital Partners	✓	Apr 17
Non-standard Finance	UK	225	Alcentra	-	Aug 17
Chassis Brakes International	Netherlands	175	KKR	✓	Jul 17
Daltys	France	150	Permira	✓	Oct 17
Bergman Clinics	Netherlands	140	ICG	✓	Jul 17
Siblu Holdings	France	130	Alcentra, Barings, HSBC	✓	Aug 17
Schuelerhilfe	Germany	130	Alcentra	✓	May 17
Duomed	Netherlands	100	Permira	✓	May 17

Source: Deloitte Alternative Lender Deal Tracker Q3 2017

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2017

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REGULATION



Calculated cuts

At first glance, the US government's tax bill is business friendly. But for the private debt industry it is a double-edged blade, writes **Irwin Speizer**

Even as most US businesses hailed two key initiatives of President Donald Trump's administration – corporate tax relief and deregulation – the private debt industry watched with some uncertainty. Much of that concern is more about the indirect impact on private debt funds than the direct impact.

For example, private equity funds – which sponsor most private debt deals – will see a cap on the deductibility of interest payments under the tax bill. That deduction is important to PE firms when structuring deals. Any cap on interest payment deductions could reduce the appetite for debt financing among PE managers. This in turn could put a damper on private debt dealflow.

The emphasis on financial deregulation also suggests a roll back of rules enacted after the economic collapse. These restrictions caused banks to retreat from riskier business loans, providing an opening for private debt funds. Could banks now be encouraged to return to business lending, creating much more competition for private debt?

One development was an announcement in January by Dell Technologies that it would explore going public again. Dell went private in 2013 in a deal financed with a hefty dose of debt. One of the main stated reasons for exploring a return to the public markets is to raise equity and reduce the debt load. Company CEO Michael Dell wrote an op-ed in December in which he decried the stingy write-offs for loan interest.

"Dell was a large loan issuer," says John Nagykeri, senior vice-president of structured products at Morningstar Credit Ratings. "If a lot of companies start thinking like Dell, it could have an impact."

CLEVER ACCOUNTANTS

But the tax bill also hands out generous corporate tax cuts that could be enough to offset the loss of interest rate deductions. And there may be other benefits from the business-friendly tax bill.

As several observers pointed out, tax rules are the playground of very clever accountants and lawyers who are now searching ways to optimise the bottom

line effects on businesses and their borrowing practices.

Similarly, legal and accounting experts have been closely monitoring the administration's positions on financial deregulation. While there has been little movement toward overturning the Dodd-Frank Act enacted following the financial meltdown, there has been some chipping away at the law's application and enforcement.

One of the most powerful agencies created by Dodd-Frank was the Consumer Financial Protection Bureau, an autonomous agency charged with protecting consumer interests in banking and finance. The Trump administration has sought to reign in the CFPB by limiting enforcement.

In a January report on the new mission of the CFPB, Mick Mulvaney, director of the Office of Management and Budget, wrote: "If there is one way to summarise the strategic changes occurring at the bureau, it is this: we have committed to fulfil the bureau's statutory responsibilities, but go no further."

That mission statement sums up the

administration's less-is-more view on financial regulation. The CFPB may be the first high-profile arena where that approach is being tested, but it is far from the only area of financial regulation that could see relaxed enforcement and oversight.

Carrying forward the relaxed enforcement theme to banks could be a concern for private debt managers. Banks were saddled with a host of new regulations following Dodd-Frank. If enforcement loosens, banks could be freed to jump back into more business lending, including the important middle-market lending field.

"There is definitely an opportunity for banks if regulation is rolled back," Nagykerly says.

NEW BARRIERS

But numerous barriers to entry remain that could make such a move difficult for banks, which now lack the expertise and connections that private debt funds have in the mid-market. Banks are still risk-averse entities, so even if they were provided an opportunity to expand lending, their interest would probably be in working with the strongest companies and providing loans at the top of the capital structure.

Even so, successful private debt funds now have the luxury of taking just the top 3-5 percent of deals they review. If banks start competing for those loans, debt funds might be forced to cast a wider net and potentially loosen underwriting standards.

Christopher Acito, founder and CEO of credit investor Gapstow Capital Partners, points out that the Trump administration has been more inclined to help small and mid-size banks than large banks when it comes to regulation. Indeed, Treasury Secretary Steven Mnuchin has focused on community banks and credit unions as top-of-the-list institutions needing regulatory relief, prompting moves toward

IS HINDSIGHT 20/20?

Not everyone thinks Dodd-Frank is responsible for the post-GFC Cambrian explosion of private debt

The idea deregulation could unleash banks on the private debt market hinges on the notion that banks once played a much more important role in mid-market lending. But in a recent paper, Tod Trabocco, managing director of the credit investment group at Cambridge Associates, argues there never really was a widespread retreat by banks from financing PE deals. Instead, he credited the rise of private debt financing to innovations by private debt managers that were appealing to mid-market borrowers, including unitranche loans.

"The data quite clearly demonstrate that Dodd-Frank really had no impact on bank lending," Trabocco says. "If banks were completely unconstrained, would they want to do this lending to the extent that direct lenders do? I don't think so. The risk culture you see in banks is different from what you see in direct lending."

easing some regulatory requirements on community banks.

Acito says that while looser restrictions on community and regional banks could provide a window for them to enter lending fields dominated by private debt, he doubts those banks would opt to do so. Community banks may be smaller, but they share similar aversions to risk that big banks hold, and their expertise and capability is in much smaller loans than those sought by PE firms.

SMALLER BANKS

What could happen, Acito says, is smaller banks might be encouraged to expand lending in their specific areas of expertise. For example, a community bank holding 20 percent of its loan portfolio in commercial real estate might edge up to 30 percent. In some cases, smaller banks could find themselves competing with private debt lenders, but the overlap would likely be quite small.

"THERE IS DEFINITELY A ROLE FOR BANKS IF REGULATION IS ROLLED BACK"

John Nagykerly

"I don't think community bank lenders are looking for wholesale changes," Acito says.

While much of the regulatory focus has been on the Trump administration, a court ruling could become one of the more significant regulatory rollbacks.

In February, the US Court of Appeals for the District of Columbia ruled that CLOs should be exempt from Dodd-Frank risk retention rules that require the firms to retain at least a 5 percent stake to align manager interests with those of their investors.

The court ruled that extending the requirement to CLO managers was improper. That change could be a boon to CLO managers, particularly smaller managers who felt more constrained by the risk retention requirement.

While the court ruling is viewed as a direct and positive gain for CLO managers, other government actions represent a mixed bag for debt and credit managers. Less vigorous enforcement of existing regulations could ease the burden on debt and credit managers.

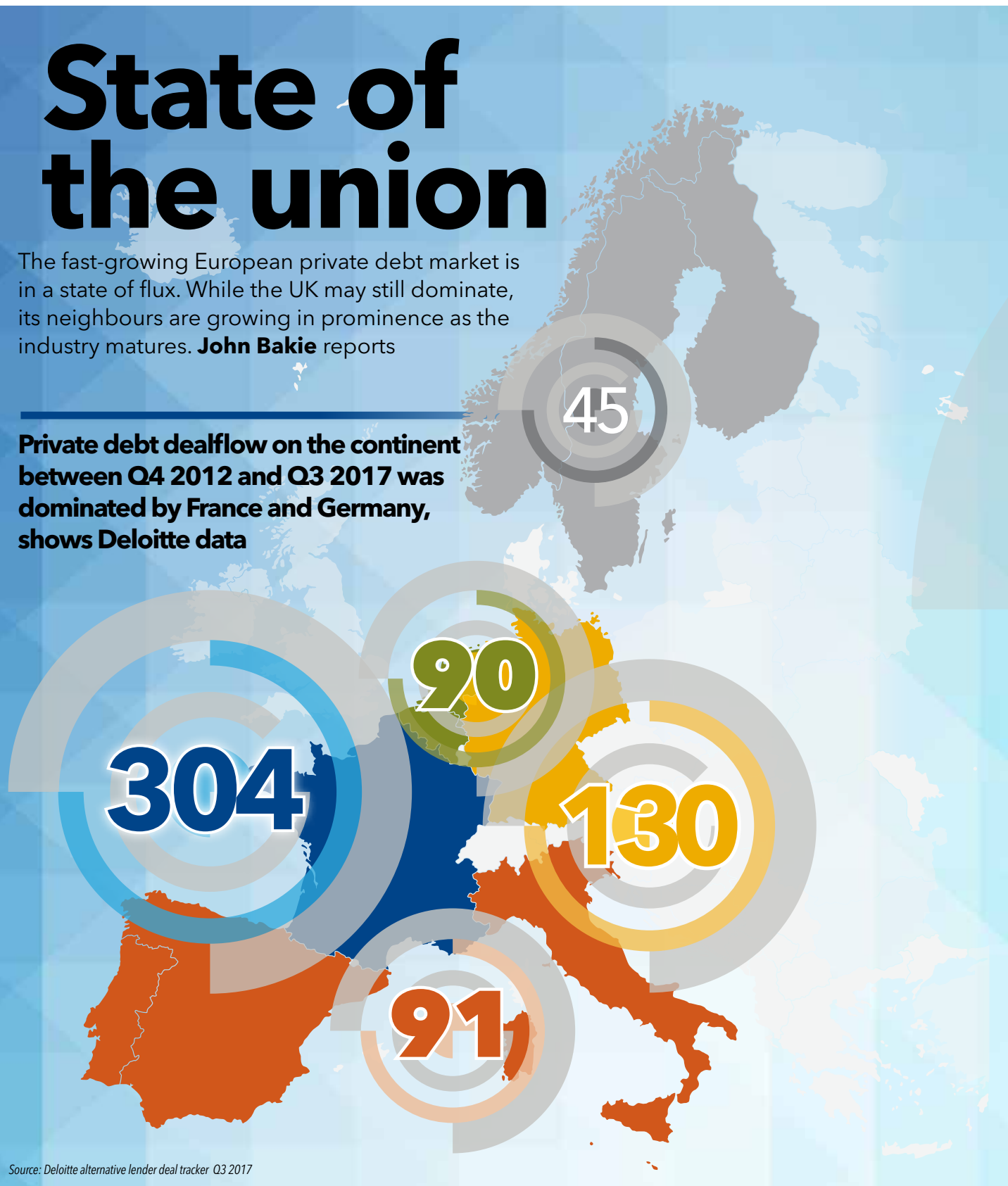
But moves to roll back banking regulations could pose challenges to those managers, as could the tax bill's reduction in interest deductions. ■

EUROPE

State of the union

The fast-growing European private debt market is in a state of flux. While the UK may still dominate, its neighbours are growing in prominence as the industry matures. **John Bakie** reports

Private debt dealflow on the continent between Q4 2012 and Q3 2017 was dominated by France and Germany, shows Deloitte data



Source: Deloitte alternative lender deal tracker Q3 2017

FRANCE

France is by far the most developed private debt market on the continent and a healthy dealflow means it will soon challenge the UK's dominance. However, regulatory issues mean debt investors need to be careful when doing deals in the country.

Lending in France is subject to a banking monopoly which only authorises certain entities to directly grant loans in the country. Credit funds, therefore, must use one of several exemptions to get around the law, such as using instruments not covered by the monopoly, acquiring loans from a fronting bank as a secondary transaction, or originating the loan directly through one of several acceptable vehicles domiciled in France.

There are some recurrent issues in withholding tax on foreign receivables in France and an ongoing debate on the application of double tax treaties as to whether an intermediary holding company is needed to mitigate issues around foreign withholding tax.

However, once these obstacles have been dealt with, the French market has reacted very positively towards private debt. Thierry Vallière, global head of private debt at Amundi, says: "France has fewer mid-sized companies than Germany, but the French market is much more aware of private debt and disintermediation is far more developed."

As with other markets, being able to originate good deals is the main barrier to entry, and in France a local presence and tie-ups with the major banks can be the best way to access opportunities.

"FRANCE HAS FEWER MID-SIZED COMPANIES THAN GERMANY, BUT THE FRENCH MARKET IS MUCH MORE AWARE OF PRIVATE DEBT AND DISINTERMEDIATION IS FAR MORE DEVELOPED"

"GERMAN BANKS ARE VERY COMPETITIVE, BUT IT'S ALSO A REALLY FRAGMENTED MARKET AND RELATIONSHIPS CAN ONLY GET YOU SO FAR. THIS MAKES IT AN INHERENTLY TOUGH MARKET FOR DEBT FUNDS TO GET INTO"

GERMANY

It's Europe's biggest economy, the manufacturing heartland of the continent, and yet private debt hasn't really taken off in the country as it has in France and the UK. Both regulatory factors and business culture issues have combined to cause sluggish growth in private debt deal numbers.

Like France, Germany has restrictive rules on which firms can lend money and a banking licence has been required for many types of firm. However, the law is beginning to be relaxed with a new framework for lending by alternative investment funds established in 2016.

But, unlike France, business culture in Germany has been more resistant to changing its debt finance model, making it a more difficult market to crack, despite the wealth of mid-market companies in the country which offer attractive prospects for alternative lenders.

"German banks are very competitive, but it's also a really fragmented market and relationships can only get you so far. This makes it an inherently tough market for debt funds to get into," says Jaime Prieto, managing partner at Kartesia.

In particular, Germany has many small regional banks that have strong relationships and brand recognition in the areas where they operate. These banks have long served the German mid-market and have the kind of local knowledge needed to bring them origination opportunities that outsiders may struggle to access. These banks are also able to offer much lower rates than most private debt investors which is often crucial in the banks' decision making process.

EUROPE

SOUTHERN EUROPE

While still quite small, Southern Europe is attracting a relatively healthy number of private debt deals. The Italian market tends to suffer from having many countries with high levels of leverage and complicated capital structures. Having a solid understanding of the local market and target companies is vital to operate in Italy. Messy finances can lead to taking a more conservative approach to terms in Italy, usually with shorter tenors and charging a premium rate of interest.

Spain has many opportunities, though usually smaller companies than would be seen in either France or Germany, and has typically been dominated by local banks. "It's more difficult to find deals than in Italy, because of a lower level of disintermediation in Spain," adds Amundi's Vallière.

Spain is also benefitting from a solid economic recovery following several difficult years after the financial crisis and with the upset of the Catalonia crisis now apparently easing, 2018 could see further growth in the country.

BENELUX

The low countries are in many ways polar opposites. While Belgium has seen very little private debt deal activity, the Netherlands has seen much more and, considering its size, is doing far better than Germany.

A relatively open and developed market, close ties to the UK and a range of mid-market companies make the Netherlands an attractive place to lend. Solid rule of law and protection for creditors are also likely to help the Netherlands continue to punch well above its weight in attracting private debt.

Belgium, however, suffers from issues with its withholding tax which was increased to 30 percent in 2017, making it unattractive for debt funds.

It is also worth noting that Luxembourg is likely to remain the predominant fund domicile for the industry, though it is facing increasing competition from Dublin that is likely to intensify as the UK leaves Europe.

"A RELATIVELY OPEN AND DEVELOPED MARKET, CLOSE TIES TO THE UK AND A RANGE OF MID-MARKET COMPANIES MAKE THE NETHERLANDS AN ATTRACTIVE PLACE TO LEND"

NORDICS

A popular destination for private equity activity, but still in the early stages of private debt growth. Norway has proven popular as a location for infrastructure debt owing to its energy industry. The country is reportedly well disintermediated with companies that have sensible financial structures, all important for private debt investors.

Sweden has attracted a fair bit of capital to its real estate sector but private credit provision to Swedish companies has remained sluggish. However, the Nordic region is one to watch with

the high level of disintermediation expected to result in more deals in the future as firms look to alternatives to bank finance.

Expected benefits from problems with Denmark's banking system several years ago have, thus far, failed to produce any significant increase in activity.

Yet despite all this, the Nordic region is viewed positively by fund managers who believe growing awareness of private debt and good levels of disintermediation will enable many more deals to be sourced in the north of Europe.

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Thank you.



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ASIAN LPs

Pacific prospects

Asian investors have traditionally had a relatively small footprint in the world of private debt, but some institutions are becoming more active. **Adalla Kim** reveals some of the Asian insurers that are now making their mark

The Asian investor universe has been evolving, with many LPs becoming increasingly sophisticated in their willingness to commit to alternatives. More than ever, institutional investors are under pressure to diversify their portfolios amid a low-yield environment. Chief among them are the insurance

companies that are seeking assets with higher absolute returns as they aim to match their investment assets and insurance liabilities. Below we highlight some of the insurance companies that could feature more prominently in the private debt industry in the future.



Harbouring ambitions:
China Taiping ups
alternatives exposure

CHINA TAIPING INSURANCE

Headquarters: Hong Kong,
AUM: HK\$587.3 billion
(€60.2 billion; \$75 billion)

Among the conglomerates moving into alternative investments is China Taiping Insurance. The Hong Kong-headquartered insurance firm tells *PDI* that it is now actively allocating its assets to alternatives and revamping its private credit exposure.

"We are focusing on private credit investments with asset-backed, corporate and personal guarantees, mainly in Hong Kong and China," an investment manager with China Taiping tells *PDI*. The firm says it typically commits to US dollar-denominated products with investment horizons of three to five years and target return rates of high single-digits.

According to China Taiping's 2017 interim report, the group's alternative investments amounted to HK\$138.5 billion, representing approximately 23.6 percent of the total assets. Its real estate debt assets accounted for HK\$16.3 billion.

The firm operates as an investment holding company, which is engaged in the underwriting of the direct life insurance business, property and casualty insurance business and reinsurance business.

In July 2017, the insurance firm agreed to acquire majority stakes in Tellon Development Limited, an investment holding company that operates in property rental, infrastructure construction and real estate management, according to a stock exchange filing. China Taiping Insurance Holdings Company - formerly the China Insurance International Holdings Company - is listed on the Hong Kong Stock Exchange.

MIRAE ASSET LIFE INSURANCE

Headquarters: Seoul, AUM: 24.1 trillion won (€17.8 billion; \$22 billion)

Mirae Asset Life Insurance is an insurance arm of Mirae Asset Global Investments, the largest Korean asset management group. The insurance unit is seeking mid-sized offshore deals to gain exposure to real estate debt strategies in 2018 on a deal-by-deal basis.

"Given the current risk-based ratio charge on blind funds, we are reluctant to commit to both equity and debt blind fund vehicles," Jun Kim, director at Mirae Asset Life Insurance told industry participants at the *PERE* 2017 Seoul Investor Forum.

Kim noted that as blind funds are designed to be tax efficient, the Korean regulator categorises them as equity-type investments that have a maximum capital charge of 49 percent.

"We plan to review investment opportunities on a deal-by-deal basis. The benefits from such an approach include better understanding of the industry, greater control on investments and transparency, learning opportunities from global managers, and networking opportunities," Kim said.

The firm is also expanding its variable account businesses where the firm manages policyholders' assets with an investment component. For instance, Mirae Asset Life agreed to buy PCA Life insurance, a Korean subsidiary of a UK-based financial services group, Prudential, in May 2017. It plans to complete the merger by 28 February.

NH LIFE INSURANCE

Headquarters: Seoul, AUM: 61.8 trillion won (\$56.9 billion; €46.3 billion)



Eyes across the ocean: Seoul-based NH Life is targeting US debt

Seoul-headquartered life insurance company NH Life Insurance tells *PDI* that it started building its private debt investment portfolio in 2015.

Out of a total offshore alternatives allocation of 1.5 trillion won, in fiscal year 2017, the insurer committed 750 billion won to offshore real estate debt funds.

"Like our peer group, we are focusing on real estate debt investment opportunities in the US," a Seoul-based senior investment manager at the investment financing division

of the insurance firm tells *PDI*, adding that "European debt opportunities are not necessarily suitable for us as we think the current base rate in the region is too low to bear."

Equity investment is not an easy choice for many insurance companies in Korea, given the highest risk-based capital charge on private equity and high pricing of offshore real estate assets.

NH Life will continue to allocate around 750 billion won to real estate debt in 2018, according to the investment manager.

NIPPON LIFE INSURANCE COMPANY

Headquarters: Tokyo, AUM: ¥64.80 trillion (\$609.1 billion; €553.7 billion)

Since 2017, when the Tokyo-headquartered Nippon Life Insurance Company revealed its three-year management plan, the firm has been investing in renewable energy and power plant projects across developed countries.

Nippon Life has been investing in direct lending and infrastructure debt strategies for some time. Now, the firm plans to continue expanding its exposure to alternatives as the low-to-negative interest rate environment, in both onshore and offshore markets, pushes them to seek higher returns. The firm told *PDI* in February last year that it may grow its exposure to private credit via direct lending strategies.

In terms of its risk profile, the insurance firm has invested in mezzanine tranches with a focus on corporate debt and infrastructure debt exposure. Specifically, the insurance firm has committed to an infrastructure debt fund managed by Munich-headquartered financial services company Allianz.

Nippon Life Insurance Company, part of the Nissay Group, is the second largest life insurance company in Japan. Nissay is looking look to expand its asset management business. The firm is also looking to buy a stake in TCW Group, a Los Angeles-headquartered asset management company, from Carlyle,



Powered up: Tokyo-based Nippon has been targeting energy infrastructure debt

according to media reports. Nippon Life allocates 1.3 percent of its assets to global alternative investments. Its typical fund commitment size ranges from \$40 million to \$70 million apiece.

LP ALLOCATIONS

Dry powder and diversity

Following a standout year of fundraising, **Tavneet Bakshi** and **Christian Allgeier**, partner and director at placement agent First Avenue Partners, respectively, offer insight on LP perspectives

Last year was a new record for private debt fundraising with a combined \$180 billion raised across 163 funds. The majority of this demand was driven by investors searching for higher risk-adjusted real yields, led by public and corporate pension funds, often with heavy consultant or gatekeeper involvement. Likewise, insurers continued to reallocate from traditional fixed income to private debt. All are seeking the panacea of an illiquidity premium.

Foundations, endowments, family offices and smaller institutional investors were also more active though most have newer credit programmes and, as such, have often focused their attention on more vanilla strategies and backing more established GPs where they see less operational risks.

Parallel to increased investor demand, competition between GPs for capital has never been so high. We saw a marked uptick in the number of new GP entrants to this market, adding to established managers raising ever larger funds. Consequently, LPs are now more nervous of the sheer number of funds and amount of capital managers need to deploy. Slow deployment rates, yield compression and notable deal overlap across GPs have been common groans among LPs invested in this space, particularly at the larger end of the market. LPs are now far more selective. Although brand recognition, experience and a strong track record continue to be fundamental, differentiation is now key and increasingly difficult to find. GPs able to demonstrate differentiated origination and/or track records that stretch across market cycles stand out.



Christian Allgeier

We continued to see definitive regional trends from an allocation perspective. Investors from regions mired with low and stagnant yields – Japan, Germany, UK – remained big buyers of senior secured unlevered private debt strategies. In contrast we found that investors in the US expressed a far greater appetite for levered returns, typically from senior lending strategies. In many cases, we reviewed managers who were applying 2-3x fund level leverage and charging fees on gross assets. The money still came in.

US-based investors have also been ahead of the pack in the search for higher returning private credit strategies for their more mature debt programmes. Asian – and to a lesser extent European – investors are now following their lead. Opportunistic credit has come to the forefront as investors seek diversification, typically to complement a direct lending exposure. We expect this trend to continue and to also

encompass demand for special situations and distressed strategies.

A plethora of asset-backed lending strategies have firmly taken their place within private debt allocations. From the more mainstream real estate and infrastructure debt opportunities to the niche areas like aircraft, shipping and trade, the drivers remain the same: stable yield, secured on tangible assets. LPs are also looking to diversify their corporate credit risk, especially at this point in the cycle. We expect this type of debt to weather well during the next down credit cycle.

Lastly, we found that investors expressed clear preference for US or pan-European strategies. While country-focused funds have been able to demonstrate differentiated dealflow and in some cases stronger pricing, these funds are often seen as too specific and remain difficult to place. The exception is the UK, which is the deepest lending market in Europe.

We believe that 2018 will continue to be a very strong year for private credit given the demand for higher yields. Clear GP leaders have emerged in both the US and Europe, and new GPs face an increasingly discerning LP audience. The need to differentiate will create further depth to this young asset class and will enable more diversified programs. Alongside a staple offering of direct lending strategies, investor appetite for shorter duration speciality lending strategies, asset-backed lending and stressed/distressed opportunities should all increase. The true test of the private credit market will be the next credit cycle downturn. The real GP winners will only be known then. ■

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² Source: INREV Fund Manager Survey - May 2017



PRIVATE DEBT INVESTOR

FOR THE WORLD'S ALTERNATIVE ASSET CLASSES

ANNUAL AWARDS 2017



ON THE RISE

Now into their fifth year, *PDI*'s annual awards are our biggest yet. Nominees were chosen following a vigorous selection process across 47 categories, with shortlists compiled by our editorial team after extensive consultation with the market. These lists then went to our readers for an industry-wide vote that attracted more than 4,000 responses, a new record.

Of the 47 categories, five are new: European SME lender of the year, Americas sell-side analyst of the year, speciality finance lender of the year for Europe and the Americas and Global fundraisings of the year. This reflects the growing scope and diversity of our industry.

There are plenty of familiar names returning to this year's awards. The likes of Golub Capital, Monroe Capital and SSG Capital, have all picked up honours every year on record. Others, including some well-established brands, have only just made their awards debut this year. Among them is Antares, which picked up CLO manager of the year for the Americas, while in Europe, Madrid-based Oquendo Capital topped off a successful 2017 by winning lower mid-market lender of the year.

Private equity giant Apollo has also made an impressive first show, picking up awards for distressed debt investor of the year in Europe and walking away with our inaugural global fundraising of the year award for its mammoth \$24.7 billion hybrid fund (about 20 percent will be trained on private debt). We have also seen some winning streaks broken, with AXA being chosen as Europe's infrastructure debt manager of the year, usurping three-time winner Macquarie.

Thanks to those who shared their insight and took the time to cast their votes, the *PDI* awards are as insightful as they have ever been and set an upbeat tone for what is sure to be an exciting year ahead for the private debt industry.





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With more than \$70 billion in AUM¹ and approximately 235 investment professionals, the Ares Credit Group is one of the largest global alternative credit managers across the non-investment grade credit universe. Ares is also one of the largest direct lenders to the U.S. and European middle markets, operating out of twelve office locations in both geographies.

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Note: As of December 31, 2017. The performance, awards/ratings noted herein may relate only to selected funds/strategies and may not be representative of any client's given experience and should not be viewed as indicative of Ares' past performance or its funds' future performance.

1. AUM amounts include funds managed by Ivy Hill Asset Management, L.P., a wholly owned portfolio company of Ares Capital Corporation and a registered investment adviser.

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ROLL OF HONOUR

GLOBAL

Fund manager	Ares Management
Newcomer	AlbaCore Capital
Sponsored deal	Synerlab (ICG, Goldman Sachs)
CLO manager	CIFC Asset Management
Distressed deal	Toys R Us (Angelo Gordon, HPS)
Fundraising	Apollo Global Management

THE AMERICAS

Lender	Ares Management
Senior lender	Golub Capital
Junior lender	Crescent Capital
Lower mid-market lender	Monroe Capital
BDC	Golub Capital
Distressed debt investor	Oaktree Capital Management
CLO manager	CIFC Asset Management
Infrastructure debt manager	BlackRock Real Assets
Real estate debt manager	Brookfield Asset Management
Deal	Ares acquisition of American Capital
Fundraising	Apollo Global Management
Investor	PSP Investments
Law firm	Dechert
Placement agent	Morgan Stanley
Speciality finance lender	Fortress Investment Group
Fund financier	Wells Fargo
Sell-side analyst	Wells Fargo

EUROPE

Lender	Kartesia
Senior lender	Intermediate Capital Group
Junior lender	Kartesia
Lower mid-market lender	Oquendo Capital
Distressed debt investor	Apollo Global Management
CLO manager	Spire Partners
Infrastructure debt manager	AXA Investment Management
Real estate debt manager	AXA Investment Management
Deal	Soho House (Permira Debt Managers)
Fundraising	Intermediate Capital Group
Investor	Caisse de dépôt et placement du Québec
Fund financier	Investec
Law firm	Dechert
Placement agent	Credit Suisse Private Fund Group
Speciality finance	Wells Fargo Capital Finance
SME lender	Beechbrook Capital

ASIA-PACIFIC

Lender	SSG Capital Management
Distressed debt investor	SSG Capital Management
Infrastructure debt manager	Mizuho Global Alternative Investments
Real estate debt manager	SSG Capital Management
Deal	Laser Clinics Australia (Partners Group)
Fundraising	SSG Capital Management
Law firm	Dechert
Placement agent	Mercury Capital Advisors

TwinBrook

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\$5.6+ Billion
of committed capital

\$5.1 Billion
of commitments issued to date

164
closed transactions

Since 4th Quarter 2014 inception

\$44M

Air Filtration Holdings

Sole Lead Arranger & Administrative Agent
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the edgewater funds

JANUARY 2018



Sole Lead Arranger & Administrative Agent
Recapitalization



JANUARY 2018



Sole Lead Arranger & Administrative Agent
Leveraged Buyout



DECEMBER 2017

\$52.2M



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Add-On Acquisition



NOVEMBER 2017

\$50M



Sole Lead Arranger & Administrative Agent
Leveraged Buyout



NOVEMBER 2017

\$77M



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Growth Investment



NOVEMBER 2017

\$61M



Sole Lead Arranger & Administrative Agent
Leveraged Buyout



NOVEMBER 2017



Sole Lead Arranger & Administrative Agent
Leveraged Buyout



NOVEMBER 2017

\$350M



Joint Lead Arranger & Co-Syndication Agent
Add-On Acquisition



NOVEMBER 2017

\$90M



Sole Lead Arranger & Administrative Agent
Acquisition



SEPTEMBER 2017

\$25M



Sole Lead Arranger & Administrative Agent
Leveraged Buyout



SEPTEMBER 2017

\$74.5M



Sole Lead Arranger & Administrative Agent
Leveraged Buyout



SEPTEMBER 2017

Experience matters.

GLOBAL

Fund manager of the year

- 1. Ares Management**
- 2. Apollo Global Management**
- 3. Kohlberg Kravis Roberts**

"We're not the only global manager, but we're one of only a few with really deep direct-lending capabilities in the US and Europe," says Kipp deVeer, director and CEO of Ares Capital Corporation and partner and head of Ares Credit Group. "We got into direct lending early in both regions and we've remained very committed."

In the year to September 2017, Ares had raised almost \$7 billion in new equity and debt commitments across its US direct lending vehicles. It also – within the first few days of the new year – completed a ground-breaking strategic move when Ares Capital Corporation acquired American Capital, further increasing the size of the what is already the largest BDC in the US.

In Europe, where the firm has been

operating for 10 years, it saw its direct lending team pass the \$10 billion mark in assets under management. The firm also showed its funding power by structuring a €310 million financing package for Dutch gaming company JVH.

Overall, the Ares credit platform had approximately \$70.5 billion in assets under management at the end of September with \$40.7 billion of direct lending AUM – \$29 billion in the US and \$11.7 billion in Europe. Its private direct lending funds in the US have more than tripled their AUM over a five-year period to around \$9 billion as of the same date.

Looking ahead, deVeer says: "It continues to feel a bit stretched and we have been preaching conservatism. There's some sloppy underwriting around, so we



DeVeer: market feels a bit stretched

have been increasingly focused on transactions where we are the incumbent, utilising our well-established relationships with sponsors and borrowers as a source of repeat business."

Newcomer of the year

- 1. AlbaCore Capital**
- 2. BC Partners**
- 3. Blue Torch Capital**



Allen: short ramp-up

Formed in 2016, London-based fund manager AlbaCore Capital quickly secured investment from Canada's PSP Investments, providing the firm with a €500 million vote of confidence. AlbaCore could quickly focus on investing which was, by chief investment officer David Al-

len's admission, "somewhat doing things backwards". By the end of the year, AlbaCore was well on course to hit, and even exceed, its €1 billion target. Allen is a fan of rapid progress. Going into 2018, the fledgling firm had deployed about 70 percent of its capital in around 30 deals, delivering a little over 15 percent net returns. The firm wouldn't comment on fundraising or returns.

"A common complaint with some larger funds is that it takes a long time for them to ramp up. Our ramp-up has been very quick. My goal was to put cash to work and not have capital sitting around," says Allen.

At the heart of the AlbaCore strategy is its focus on capital preservation and

staying disciplined. "We have a 'no arrogance' policy," says Allen. "If we're not sure about something we don't have confidence in our ability to make predictions, and we avoid sectors where you can win big or lose big. What we did last year was seek simple businesses which were market leaders with predictable revenues and margins. We like that predictability."

With around 30 years' investment experience, Allen says he was delighted to "get the band back together", with several former colleagues from Canada Pension Plan Investment Board – such as Bill Ammons and Deborah Cohen Malka, plus Matt Courey from his Morgan Stanley days in 2001-02 – joining him at AlbaCore. The firm now has nearly 20 professionals.

BEECHBROOKcapital



SME Lender of the Year,
Europe

Beechbrook Capital is a leading private debt fund manager focused on the European lower mid-market. Recent transactions include:

Private Debt III:

Debt and equity solution to help finance the acquisition of 90% of shares in Beinbauer by HIG Capital

Beinbauer Group
December 2017

Unitranche loan to finance the acquisition of Kuldeteknisk by Nord Kapitalforvaltning

Kuldeteknisk
August 2017

Mezzanine loan for the acquisition of Search Consultancy by H2 Equity Partners

Search Consultancy
May 2017

UK SME Credit I:

Debt and equity solution to refinance debt and support further growth

Voltcom Group
October 2017

Unitranche loan to support the group's buy-and-build strategy

ICP Nurseries
August 2017

Debt and equity solution to support a shareholder realignment in Wilton & Bain

Wilton & Bain
May 2017

We would like to thank the readers of Private Debt Investor for voting Beechbrook Capital as the 2017 SME Lender of the Year.

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GLOBAL

Sponsored deal of the year**1. Synerlab (Intermediate Capital Group, Goldman Sachs)****2. State Highway 130 (Strategic Value Partners)****3. Qlik Technologies refinancing (Ares Management)**

When ICG and Goldman Sachs jointly provided a €160 million unitranche package to support the refinancing of French pharmaceutical manufacturing company Synerlab's existing debt, it brought together two compelling themes: healthcare and growth.

Synerlab, a pharmaceutical development and processing firm, has been in growth mode for some time. Backed by private equity firm 21 Centrale Partners since 2013, by the time of ICG and Goldman Sachs' financing in July last year, it had seen sales growth increase 30 percent and was anticipating taking sales revenue from €130 million per annum to €200 million over the next two to three years. It also had two pending acquisitions in the pipeline.

Healthcare is still considered a niche area of lending but, for those with sufficient expertise, can potentially offer higher returns than when lending to more bread-and-butter type businesses.

Formed in 2001, Synerlab is a phar-



Pharma niche: ICG and Goldman Sachs target higher returns

maceutical contract development and manufacturing organisation which develops drugs in value-adding niches, specialising in small and medium-sized batches. It has spotted the opportunity to consolidate in an industry where third-party principals are reducing the number of partners they have.

"We have undertaken a new stage in our development both in France and internationally," said Pierre Banzet, chief

executive of Synerlab, at the time of the deal. "The refinancing will provide us with additional means to pursue our ambitions."

Synerlab fought off competition from many other notable deals last year. Among them, our runner-up State Highway 130 was a rare example of a distressed debt investor (Strategic Value Partners) gaining the rights to operate an infrastructure asset.

CLO manager of the year**1. CIFIC Asset Management****2. Spire Partners****3. Fortress**

Despite dire predictions it would be brought down by a series of challenges, the CLO market saw them all off with US CLO issuance ahead of 2016's full-year figures by September.

Falling energy prices, stiffer regulation and compressed yields were all cited as reasons to be bearish on CLOs in 2017, but the top fund managers weathered the storm with CIFIC taking the crown in a close contest.

CIFIC completed 12 large CLO trans-

actions accounting for \$7.3 billion of issuance last year. By the time summer rolled around it had already issued \$6 billion, with four new CLOs worth \$2.9 billion, while also refinancing three of its 2013 vintages and a further three 2014 vehicles.

CIFIC also launched a dedicated fund to support its CLOs, the CIFIC CLO Strategic Partnership, which supported all four of its newly issued 2017 vehicles and had raised \$117.3 million as of August 2017.

It will be used to address the new capital requirements of US risk retention rules.

More recently, the firm issued a \$1.2 billion CLO, CIFIC 2017-V, announced in October, to be managed by the CIFIC CLO Manager II partnership with the Healthcare of Ontario Pension Plan.

Spire Partners took the award in 2016 and was nominated again in 2017. While it could not quite match the might of CIFIC globally, it has clinched the award for European CLO manager.

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GLOBAL

Distressed deal of the year

- 1. Toys R Us (Angelo Gordon, HPS)**
- 2. Gymboree (Apollo Global Management)**
- 3. Liberbank (Bain Capital)**

The difficult circumstances surrounding Toys R Us, which became one of the most high-profile bankruptcies in the US last year, exacerbated as it went through the process of seeking Chapter 11 protection in the run up to Christmas, the most crucial time of year for any toy retailer.

Angelo Gordon and HPS Investments joined several other investors to facilitate access to up to \$2.3 billion of capital to help Toys R Us refinance its existing debt. It is thought to be the largest ever debt-or-in-possession finance package made available to a retailer and comprised a \$1.85 billion commitment from JPMorgan and other banks, along with a \$450 million first-in, last-out finance from a syndicate of lenders. This was accompanied by a \$450 million term loan and an extra



It's no game: ailing Toys R Us was in need of refinancing

\$375 million internal financing for non-bankrupt affiliates.

Angelo Gordon provided \$126.72 million of the \$450 million FILO loan, while HPS loaned \$18.3 million, according to court filings.

The complex financing package follows on from a 2002 private equity buy-out of the US toy retailer by Bain Capital, KKR and Vornado Realty Trust. The \$6.6 billion deal was highly leveraged and reports suggest Toys R Us was spending up to \$400 million per year just to service its debts at a time when it faced increasing competition from generalist retailers like WalMart and online services such as Amazon. Dealing with this fast moving and complex financing situation has earned the deal our distressed award this year.

As our awards are announced, it appears the rescue package is having results, with Toys R Us successfully achieving bankruptcy protection and announcing a plan that will see about 170 of its 880 US stores closed to stabilise the company.

Fundraising of the year

- 1. Apollo Global Management**
- 2. Alcentra**
- 3. Hayfin**

The first time we have had a global fundraising of the year award is, coincidentally, also the year private debt fundraising hit an all-time record of over \$180 billion worldwide, according to PDI data. This enormous amount of capital was raised from fewer funds than in 2016, which means 2017 saw some of the largest vehicles ever seen in the asset class. So, it's no big surprise that our winner's fund is a monster.

Apollo raised an enormous buyout fund in 2017, worth \$24.7 billion, from which it will allocate 25 percent to distressed debt. Such an amount would constitute a substantial debt fund in its own right and is far above the 1 percent of its Fund VIII. Much of this comes from

reduced allocation to buyout activity, indicating Apollo's growing thirst for debt over equity.

It's not every year funds this large come along and that such a large proportion of it is being assigned to debt investment from one of the world's best-

"IT'S NOT EVERY YEAR FUNDS THIS LARGE COME ALONG AND THAT SUCH A LARGE PROPORTION OF IT IS BEING ASSIGNED TO DEBT INVESTMENT FROM ONE OF THE WORLD'S BEST-ESTABLISHED PRIVATE EQUITY PLAYERS"

established private equity players may one day be looked back on as a milestone for the asset class.

Impressively, the mega-fund was raised in just six months after it launched in December 2016 showing strong investor appetite for the mixed strategy that will cross distressed debt, corporate carve-outs and opportunistic buyouts.

The other firms shortlisted also raised funds worth billions of dollars in 2017, making a significant contribution to the fundraising record. With some investors expecting 2018 to be an even bigger fundraising year, could we see even larger vehicles dominating this award category next time?

THE AMERICAS

Lender of the year

1. Ares Management

2. Golub Capital

3. KKR

Ares Management achieved several landmark events in 2017. The biggest event was its BDC, Ares Capital Corporation, closing its \$3.62 billion acquisition of American Capital. Ares also reached a \$3.4 billion final close for its debut junior capital fund.

"We've been focused on being conservative and investing additional capital in our current best companies," says Kipp deVeer, CEO of Ares Capital and head of Ares Management Credit Group. "The benefits of being an incumbent lender is you are somewhat insulated from the market."

The 300-plus portfolio companies already held by Ares' BDC can be an advantage when generating dealflow. More than 40 percent of the firm's completed transactions in 2017 came from current investments, says deVeer.

The firm's junior debt fund, Ares Private Credit Solutions, will let the firm increase its hold-size, Michael Smith, co-head of Ares' credit group, told *PDI* in December. The average ticket size for the fund will be between \$150 million and \$250 million.

Senior lender of the year

1. Golub Capital

2. KKR

3. Antares Capital



One-stop shop: Golub president David Golub

Golub Capital defended its title in 2017, posting its third win in a row for this category. Last year the firm raised its largest fund yet, the \$2.52 billion Golub Capital Partners 11. The firm also closed its largest deal: the expansion of a loan to Radiology Partners, a New Enterprise Associates portfolio company Golub first backed four years ago.

"Since we first partnered with the company in 2014, we've supported their successful growth with a one-stop facility that we have successively expanded," says Golub president David Golub. "At year end this facility grew to \$1 billion - our largest lead deal to date - to give Radiology Partners additional capacity to execute on their acquisition strategy."

That deal topped Golub's previous record also set in 2017. In June, Golub led a \$675 million one-stop facility that refinanced the existing debt structure of PetVet Care Centers, an Ontario Teachers' Pension Plan portfolio company.

Junior lender of the year

1. Crescent Capital Group

2. Ares Management

3. GSO Capital Partners



Careful considerations: Crescent Capital MD Chris Wright

Crescent Capital Group has taken the top spot again after closing on \$4.6 billion for its Crescent Mezzanine Partners VII fund in January. The vehicle is approximately 35-40 percent deployed, says managing director Chris Wright.

Crescent's mezzanine arm has passed on several deals recently as the credit market continues to reflect looser standards and challenging market conditions, Wright adds. Junior debt pricing continues to be tight;

some transactions now stand at LIBOR plus 7 percent when spreads during normal market conditions put interest rates at LIBOR plus 8-10 percent.

"We want to ensure that we do not compromise our credit analysis or change the way we look at companies," Wright says. "We take a careful look at the company's cashflow and take into account all the other aspects the banks, management teams and sponsors are trying to sell. There are some legitimate EBITDA addbacks, but we like to think we judge them well."

Lower mid-market lender of the year

1. Monroe Capital

2. Twin Brook Capital

3. THL Credit

Monroe Capital has won this category for the third year in a row after deploying \$2.1 billion in 2017. Among the firm's deals was the increase to \$231 million of a credit facility lent to OSG Billing Services, an Aquiline Capital Partners portfolio company, to support the acquisition of Diamond Communications Solutions.

"We did the same thing in 2017 that we have done in previous years," says firm chief executive Ted Koenig. "We tried to find areas where we could generate 'alpha' for our limited partners and public shareholders. 2017 was a competitive year in fundraising and deals."

Monroe is now expanding its product set beyond bread-and-butter lower mid-market lending. The firm hired Melody Capital Partners co-founder and managing partner Cesar Gueikian to help lead its new special situations vehicle, which will be raising \$1.5 billion, *PDI* previously reported.

THE AMERICAS

BDC of the year

1. Golub Capital
2. Ares Capital Corporation
3. TPG Specialty Lending



Taking the lead: Golub refinanced PetVet Care Centers

Golub Capital BDC traded on NASDAQ at a premium all year, allowing the vehicle to close two accretive stock offerings at a time when many BDCs were trading at a discount. In addition, the firm received approval for its third SBIC licence.

"We always approach borrower friendly periods the same way: we increase our selectivity and we lean hard on our competitive advantages to win the deals we want to win," says David

Golub, the BDC's chief executive.

He cited portfolio incumbency as an area of particular strength for the BDC. One example is PetVet Care Centers, which was already a BDC portfolio company when it refinanced its existing debt with the \$675 million one-stop loan.

Distressed debt investor of the year

1. Oaktree Capital Management
2. Apollo Capital Management
3. GSO Capital Partners

Since the inaugural *PDI* awards in 2013, Los Angeles-based Oaktree Capital Management has yet to be dethroned.

The firm synonymous with distressed debt proved yet again it deserves the title: its Oaktree Opportunities Fund X posted a 25.3 percent net internal rate of return as of 31 December in a relatively benign credit environment. Fund X is 81 percent invested, and the firm's Fund Xb still has another \$8.87 billion to deploy, meaning the firm is well-stocked for the next downturn.

In January, Oaktree joined a consortium of funds including HPS Investment Partners and Beach Point Capital Management in taking control of cancer care provider 21st Century Oncology. In addition, Oaktree is reportedly looking to raise C\$300 million (\$237.95 million, €194.13 million) for Neo Performance, the remnants of Molycorp, a rare earth mining company Oaktree took control of through a bankruptcy.



West Coast kings: Los Angeles-based Oaktree wins for the fifth time

CLO manager of the year

1. CIFC Asset Management
2. Golub Capital
3. Antares Capital

After selling itself in 2016 and closing one deal in December of that year, CIFC Asset Management came rocketing back in 2017, issuing five new CLOs and resetting or refinancing 10 existing deals.

"We thought market conditions were favourable [going into 2017], and we wanted to try to frontload our issuance as much as possible around our view that loans were attractively priced," says Oliver Wriedt, CIFC's co-chief executive. "The CLO arbitrage looked compelling as a result of tighter liabilities."

Wriedt says the firm did three of the five new issuances in the first six months of 2017. The largest deal was its first new issue at \$815.8 million. "We focused on doing the right thing for our equity investors," he adds, explaining market conditions provided a "great opportunity for the firm to focus on the resetting and refinancing of 10 transactions".



Eye on arbitrage: CIFC's co-CEO Oliver Wriedt

Infrastructure debt manager of the year

1. BlackRock Real Assets
2. Orion Energy Partners
3. Global Infrastructure Partners

BlackRock's infrastructure debt group raised at least \$2.4 billion across 13 separate accounts in 2017. The firm also raised its first Colombia-focused infrastructure debt fund, gathering the equivalent of \$280 million from local investors. In addition, the global team deployed \$1.8 billion across 23 transactions.

"We have invested in some market deals, but our origination platform, which seeks to invest in transactions directly with the sponsor or in a club group with another few lenders, is how we have deployed in most deals," says Jeetu Balchandani, head of North America infrastructure debt.

"The dealflow is heavily skewed toward power and energy. In North America, the deregulated nature of the power and energy sectors has meant a lot of dealflow has been in those two sectors. Our deployment was 85-90 percent in those transactions."

Among those deals was an investment in an operational offshore vessel in the Gulf of Mexico. BlackRock negotiated and structured the financing and was the sole investor, providing 100 percent of the debt with its co-investors.



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2017 LOWER MID-MARKET
LENDER of the YEAR, AMERICAS



2016 LOWER MID-MARKET
LENDER of the YEAR, AMERICAS



2015 LOWER MID-MARKET
LENDER of the YEAR, AMERICAS



2014 SENIOR
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THE AMERICAS

Real estate debt manager of the year

1. Brookfield Asset Management

2. PIMCO

3. KKR



Andrea Balkan: 'safer alternative'

Brookfield Asset Management closed its fifth real estate mezzanine debt vehicle, Brookfield Real Estate Finance Fund V, on \$3 billion. This is more than double the \$1.38 billion raised by its predecessor.

"We are looking to invest and lend below intrinsic value, and lend in assets that are located in strong markets with barriers to entry," says Andrea Balkan, a managing partner in Brookfield's real estate debt arm. She cites Boston, Los Angeles,

New York and San Francisco as examples of cities Brookfield invests in.

Real estate debt has gained popularity among investors, something Balkan attributes to it being a "safer alternative" to real estate equity as the economy gets further along in the credit cycle, as well as investors getting regular distributions.

"In real estate equity you're getting your return on the back-end. Our investors are getting a very high current return," she adds, citing the monthly interest payments on each of their loans.

Deal of the year

1. Ares Capital Corporation's acquisition of American Capital

2. Antares CLO 2017-1

3. Strategic Value Partners/SH-130

Ares Capital Corporation rang in 2017 by closing its acquisition of American Capital, a \$3.62 billion transaction that increased Ares' position as the largest BDC by assets. Ares has also adroitly managed the legacy American Capital assets. It has since done away with the acquired BDC's CLO management platform and its private debt operations in Europe.



Stateside consolidation: New York-headquartered Ares bolstered by purchase

"These are all assets that we at Ares understand well because of the breadth and diversity of our platform," says Kipp deVeer, CEO of Ares Capital. "The integration of ACAS has gone really smooth; there have not been any material downside events that we didn't underwrite when we announced the acquisition almost two years

ago." Ares had rotated out lower-yielding investments, reducing the \$2.5 billion portfolio to \$1.7 billion. This took the book's yield at fair value from 7.4 percent to 7.8 percent, as of 31 December. The firm had realised gains of \$85 million.

Fundraising of the year

1. Apollo Global Management

2. Owl Rock

3. KKR

Apollo Global Management turned heads when it raised almost \$25 billion for the latest iteration of its flagship buyout fund, Apollo Investment Fund IX. The firm also raised massive funds on its credit side, including \$4.5 billion for its third vehicle targeting European non-performing loans and other financial assets.

Not only will Fund IX deploy capital into buyouts, the firm will set aside up to 25 percent of the capital for distressed debt. This gives it close to \$6.25 billion earmarked for investing in troubled businesses. Alongside Oaktree, Apollo will have a vast war chest to put into companies undergoing financial restructuring or facing a Chapter 11 bankruptcy proceeding.

If recent turmoil in stock markets across the globe is a harbinger of the future, Apollo will be well positioned to participate in some of the largest deals.

Investor of the year

1. PSP Investments

2. HOOPP

3. PennPSERS

Once again a Canadian firm has been named investor of the year after Canada Pension Plan Investment Board picked up the award in 2016. PSP had a good 12 months, posting a one-year return of 27.5 percent.



Keeping it in the family: Montreal-based PSP holding up the Canadian side for a second year

"The secret sauce is not being a one-trick pony," says David Scudellari, PSP's head of principal debt and credit investments. "We're not limited to just doing unitranche, we're not limited to doing just first lien or second lien or mezzanine. We cover the whole spectrum.

"The other thing, from a secret sauce standpoint, is we continue to add to our capabilities. Twelve months in, we added revolver capabilities. We've added preferred shares. As we look forward, one thing we're looking at right now is adding, to the team with a senior person, rescue financing."

A Leader in — Real Estate Debt Investing

Brookfield, a leading global alternative asset manager with \$155 billion of real estate assets under management, is one of the largest and longest running debt fund platforms.

We recently closed our \$3 billion commercial real estate finance fund, Brookfield Real Estate Finance Fund V, and are pleased to be awarded the **2017 PDI Real Estate Debt Manager of the Year (Americas)**.

Brookfield

THE AMERICAS

Law firm of the year

1. Dechert
2. Paul Hastings
3. Ropes & Gray

Dechert has now won this award for three years in a row. The firm served as legal advisor to FS Investments in its move to form a joint venture with KKR to run FS Investment Corporation. FS and current sub-advisor, GSO Capital Partners, plan to sever ties. The firm also helped KKR's Corporate Capital Trust's public listing, one of two to do so in 2017. However, investors are looking more closely at such private vehicles. "The private BDC has become an interesting vehicle that clients are wanting to hear more about," says partner Thomas Friedmann, citing tax advantages as one reason investors might like a private BDC over a traditional private fund.

Placement Agent of the Year

1. Morgan Stanley
2. First Avenue Partners
3. UBS Securities

In a record fundraising year for private debt – credit managers rounded up some \$180.1 billion in 2017, according to *PDI* data – Morgan Stanley played a role in raising several of 2017's larger funds. It helped PIMCO raise almost \$4.2 billion for real estate debt investments via its PIMCO BRAVO Fund III and aided Ares Management in raising its \$3.4 billion Ares Private Credit Solutions, which will target larger junior debt deals.

In addition, the New York-based investment bank helped The Carlyle Group raise several funds, including its private BDC and a CLO investment fund. Carlyle, which took its TCG BDC public in 2017, raised almost \$300 million for its private BDC, TCG BDC II, and locked down \$800 million for third-party CLO investments in its Carlyle Structured Credit Fund.

Speciality finance lender of the year

1. Fortress Investment Group
2. Solar Capital Partners
3. Caisse de dépôt et placement du Québec

In 2017, Fortress Investment Group raised \$590 million for its first speciality finance vehicle, Fortress Secured Lending Fund, beating its \$500 million target.

"Part of our strategy is to finance companies before they are on the radar of the investment banks and securitisation markets," says Dominick Ruggiero. "We want to help them take the step from friends-and-family capital and more aggressive hedge fund capital into a structured lending vehicle." Market sources previously

told *PDI* that there is a growing interest in the speciality finance markets, particularly as LPs are filling out their corporate cashflow direct lending strategies. Speciality finance strategies could be considered the next step in the process of building out a portfolio.

"We'll continue to see substantial competition," he says. "I think there's interest from both investors and credit managers in speciality finance lending as an interesting vertical in the broader direct lending market."

Fund financier of the year

1. Wells Fargo
2. Goldman Sachs
3. Sun Trust/JPMorgan

In 2017, Wells Fargo upped its subscription facility to Owl Rock Capital Corporation, increasing it from \$550 million in January and \$850 million in November. The larger loan came as Owl Rock, a New York-based BDC started in early 2016, was nearing its \$5 billion fundraising goal. The borrower has since surpassed that, racking up \$5.44 billion in capital.

The firm also provided the \$785 million syndicated loan facility for NXT Capital's latest vehicle, NXT Senior Loan Fund V. The fund held a final close on \$415 million, beating its \$350 million target. With the equity commitments and the leverage facility, NXT will have \$1.2 billion of investable capital, making it the Chicago-based lender's largest fund.

Sell-side analyst of the year

1. Wells Fargo
2. Jefferies
3. Raymond James

Last year, competitiveness was a marquee theme as more players entered the private credit space, making groups like the Wells Fargo private credit research team even more valuable. When analysing and rating credit managers, Wells Fargo Securities managing director Jonathan Bock says he puts an emphasis on "prudent balance sheet management as well as willingness to leave [credit] spread on the table in order to protect potential downside".

The successful managers set themselves apart last year in a competitive deal environment characterised by ever-inflating EBITDA definitions, looser covenants and shorter timeframes allowed for due diligence.

"A lot of them got smart and decided to promise less of a return or diversify into more specialised lending niches," says Bock. "If you have a unique set of loans, you take pressure off your traditional sponsor finance deal folks in a highly competitive environment."

EUROPE

Lender of the year

1. **Kartesia**
2. **Alcentra**
3. **Ares Management**



Prieto: a local presence with a continental reach

The European private debt market has grown rapidly as the region recovers from the long slump following the financial crisis. With regulations restricting banks, local and international debt funds have been able to step in to provide the capital needed to drive growth.

While mega-funds have dominated the news this year, a more modest fundraising from Kartesia of €870 million for its fourth

fund took the award.

The fund closed just nine months after launching and raised 70 percent more than its predecessor. The firm focused on expanding its investor base for the new vehicle after existing investors re-upped for the new fund. Kartesia managing partner Jaime Prieto says the firm's reach across continental Europe has been a major factor in attracting LPs. "At the lower end of the market it's very important to have that local presence to source deals," he says.

- ## Senior lender of the year
1. **Intermediate Capital Group**
 2. **Alcentra**
 3. **BlueBay Asset Management**

While many private debt funds can expect to raise more capital as interest in the asset class grows, this year's senior lender of the year took things to new heights. ICG Senior Debt Partners Fund III originally targeted €3 billion, the same amount raised as ICG's previous vehicle back in 2015. However, a huge level of investor demand saw it smash through this target to close on €5.2 billion after just five months.

After this rapid fundraising round, ICG has recently announced



New heights: London-based ICG smashed its target for Fund III

it is going to up its game by doubling its annual fundraising target from €3 billion to €6 billion. With its last fund shooting so far over its target, ICG is likely to set an even higher goal for its next vehicle.

Junior lender of the year

1. **Kartesia**
2. **Intermediate Capital Group**
3. **Park Square Capital**

Junior lending has become one of the more exciting areas of private debt finance in recent years as firms look away from private equity-sponsored deals to more complex non-sponsored packages. Kartesia told *PDI* it is increasing its own focus on these types of deals, and managing partner Jaime Prieto says: "We're now more interested in sponsorless deals, but you have to be able to structure a custom finance package for the company and you need a good team to support this."

Flexibility is very much key in the junior finance space, with firms often having complicated financing requirements and lenders facing equally complex risk assessments which call for bespoke arrangements that are typically unavailable from banks.

Lower mid-market lender of the year

1. **Oquendo Capital**
2. **Beechbrook Capital**
3. **Harbert Management Corporation**

Oquendo Capital had an incredibly busy 2017. It finished investing its second fund and successfully raised its third - which was already oversubscribed at the first close - all the while completing eight deals.

This feat alone is impressive, but Oquendo has achieved this in two of Europe's least developed private debt markets: Spain and Portugal. The firm has played a major role in bringing the private debt formula to this largely unexploited region that Oquendo says is ripe with opportunities in the lower mid-market. "There is an untapped market in Spain and Portugal and the development of private debt is a few years behind other countries. The market is smaller but we see a lot of dealflow and the economy in Spain is doing well so we expect that will continue," says Oquendo partner Alfonso Erhardt.



Erhardt: targeting the untapped

Distressed debt investor of the year**1. Apollo Global Management****2. Cerberus Capital Management****3. AnaCap Financial**

It might be expected that, at a time when the world economy is making a strong recovery from the aftershocks of the financial crisis, there would be little room for distressed debt funds. Despite this, Apollo Global Management has raised enormous sums devoted to such opportunities. In 2017, it raised \$4 billion for its European Principal Finance Fund III, which targets distressed and repossessed real estate assets and non-performing loans. It also launched a €1 billion joint venture with Palmira to acquire NPLs.

Tightening regulation, particularly in Europe, has caused many banks to unwind their NPL holdings and Apollo's fundraising means it is well poised to take advantage of the situation.

It finished off the year announcing a \$25 billion private equity fund with a significant allocation to distressed debt opportunities, which means the fund manager sees many opportunities to benefit from private debt in the years ahead.

CLO manager of the year**1. Spire Partners****2. Alcentra****3. BNP Paribas**

Bennett-Britton: focused on returns

CLO management is typically dominated by the major players with vast sums of capital to deploy, but Spire Partners came through a David and Goliath-style battle to take home the award this year.

The manager said 2017 was a critical year for the firm as it crossed the €1 billion threshold for the first time and reached a final close on its third CLO vehicle, Aurium CLO III DAC.

"This is an acknowledgement that we have been more returns focused in a field typically dominated by large institutions who are globally diverse and where it is unusual to see small boutiques competing," says partner Phil Bennett-Britton.

Partner Oliver Drummond Smith adds: "Being smaller in this market means we can be more nimble in the way we manage our fund and it makes it easier to only select the best assets."

Infrastructure debt manager of the year**1. AXA Investment Management****2. Allianz Global Investors****3. Schroders**

In late 2016 AXA Investment Management hit the ground running with the launch of a new infrastructure debt vehicle. The fund held a first close of €730 million before going on to raise a total €1.2 billion.

The fund forms part of its Real Assets division and will look to invest in primary and secondary opportunities, particularly on brownfield sites. However, it will also look to co-invest alongside the firm's infrastructure finance team to secure larger deals.

Allianz Global Investors just missed out this time. It is thought to be approaching a first close for its second UK infrastructure debt fund at £500 million (\$704 million; €563 million). This would be well ahead of the £265 million raised for its first vehicle and may well put it in the running to win next year's awards.

Real estate debt manager of the year**1. AXA Investment Management****2. Cerberus Capital Management****3. LaSalle Investment Management**

Real estate debt is the kind of investment that can take a lot of time to come to fruition and this year's winner is a firm that has been in the game for a very long time. In 2017 AXA Investment Management closed its 10th real estate debt fund, CRE Senior 10, on €1.5 billion.

However, despite this legacy, this latest fund is the first time AXA IM has expanded its geographic mandate into the US and is able to allocate up to 25 percent to this market. AXA has not only been busy on the road fundraising but also investing at a brisk pace, with more than a quarter of the fund now thought to be deployed in various investments.



Legacy leaders: AXA is now onto its 10th real estate fund



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EUROPE

Law firm of the year

1. **Dechert**
2. Paul Hastings
3. Macfarlanes



Black: Dechert quick to respond to evolution

"What we are good at is helping our clients do what they want to do," says Gus Black, partner and global co-chairman of Dechert's financial services group. In 2017, this included plenty of structuring of direct deals and co-investments, as well as helping investors gain access to niche strategies.

Among the firm's structuring activities last year were establishing a closed-ended master feeder structure in Delaware and Cayman investing in US oil and gas royalties for a European special situations manager; and advising on the launch of two closed-ended loan origination funds available to US tax-exempt, US tax-paying and international investors.

On the deals front, Dechert advised on a number of transactions completed by Ares Management and also on CVC Credit Partners' provision of facilities for the TWMA Group deal.

Reflecting on the way in which Dechert pushed hard into private debt following the GFC, Black says: "Relatively few law firms have put a huge emphasis on private debt in the way we have. A lot have legacy banking practices and have been slower to see the evolution from banks to alternative lenders."

Placement agent of the year

1. **Credit Suisse Private Fund Group**
2. Arbour Partners
3. Probitas Partners

"We continue to see new LPs coming to us and wanting to access the asset class," says Will Hayles, director in the Credit Suisse Private Fund Group. "Although some investors are sitting and waiting to see how their initial investments play out."

Where this ongoing demand exists, Credit Suisse PFG has proved itself adept at identifying and engaging with it. Among the firm's mandates last year was advising on the €2.2 billion Hayfin Special Opportunities Fund II. The group has also been very successful in tapping the European investor base, having raised about \$7.5 billion from Europe for its global fundraising mandates by the end of November last year.

Active since the late 1990s, Hayles says his firm has "known the investor base for such a long time. We can look across their portfolios and see where they are missing exposure and which new and appropriate strategies we can bring to them".

Speciality finance provider of the year

1. **Wells Fargo Capital Finance**
2. Investec Aviation Finance
- 3= IPF Partners
- 3= Prime Capital

"ABL is viewed as a reliable solution for its core users, and although it's not the most exciting area of finance, it is growing in popularity. Primarily because it's increasingly viewed as an alternative form of financing predicated on supporting good old-fashioned businesses that power UK plc," says Steven Chait, head of the EMEA region for Wells Fargo Capital Finance, referring to asset-based lending.

At his former employer Burdale Financial and for the last six years at Wells Fargo, Chait and his team have been banging the drum for a relatively below-the-radar type of lending. The award for speciality finance provider of the year is a strong hint that deserved recognition is now forthcoming.

In 2017, Wells Fargo backed the likes of Nisa Retail, the convenience store operator, and aerospace firm Arlington Industries. "We compete with non-regulated funds and the leverage market, but along with increased awareness and our ability to tailor facilities, firms can get very competitive pricing through our ABL solutions," says Chait.

SME lender of the year

1. **Beechbrook Capital**
2. Octopus Investments
3. Funding Circle

"There continues to be a significant opportunity as there is limited competition from other managers and the banks are not as aggressive as they are in the mid-market and upper mid-market," says Paul Shea, co-founder of Beechbrook Capital, of the European SME lending space. In 2017, London-based Beechbrook closed its UK SME fund on £150 million (\$211 million; €169 million) and completed 12 deals, putting to work around £83 million of capital.

While there are an estimated 40,000 SMEs in Beechbrook's target size range in the UK alone, Shea says the key to investing successfully is to have "the depth and breadth of experience to analyse and select the best SMEs to invest in, as well as being able to execute deals and manage the investments. These companies are not always polished diamonds when you first invest".

Despite Brexit-related political uncertainty, Shea says he is "not expecting any major shocks" and is "cautiously optimistic about the UK and European economies" in the year ahead.

Credit Suisse Private Fund Group would like to thank the readers of Private Debt Investor for recognising us as Placement Agent of the Year, Europe.

Over the last 20 years we are proud to have represented 61 private debt funds, totaling \$87 billion of commitments.

Placement Agent of the Year, Europe



Placement agent of the year,
Europe

Deal of the year

- 1. Soho House
(Permira Debt Managers)**
- 2. Synerlab (Intermediate Capital Group,
Goldman Sachs)**
- 3. TWMA (CVC Credit Partners)**



Soho House: Permira's largest private debt deal

A strong brand, low turnover of members and valuable property were among the reasons why Permira Debt Managers was drawn to Soho House, the private members' club business.

It was in 2013 that PDM first backed the firm, taking a 10 per cent slice of a high-yield bond issue. That foot in the door meant that "we got to know the business well and became increasingly positive about the opportunity for capital to drive growth", says Thomas Kyriakoudis, PDM's chief investment officer.

He says the business was highly cash generative and that capex could be deployed to genuinely support its expansion. The culmination of getting to know Soho House was the £375 million refinancing led by PDM in April, which was the fund manager's largest-ever private debt deal.

Kyriakoudis says doing large deals such as this is a continuing ambition. "As funds under management have grown, bigger and higher quality companies have come more within reach."

Fundraising of the year

- 1. Intermediate Capital Group**
- 2. Kartesia**
- 3. Hayfin Capital Management**

Size and speed were two of the defining characteristics as Intermediate Capital Group, the London-listed fund manager, took Europe's fundraising of the year crown. The size aspect was impressive as the third vintage of ICG's Senior Debt Partners (SDP III) strategy raked in €5.2 billion, beating a €3 billion target and becoming the largest direct lending fundraising globally in 2017.

The speed of the raise was also striking. Typically, such funds take around a year-and-a-half to wrap up: ICG's was put to bed in a mere five months. Sources tell us the fund was significantly oversubscribed, drawing strong support from existing and new investors. It also helped to push ICG into larger deal territory. ICG fended off competition in this category from Kartesia, which beat its fundraising target after less than nine months on the road, and Hayfin, which reached €3.6 billion for its second direct-lending strategy – beating a €2.25 billion target.

Investor of the year

- 1. Caisse de Dépôt et
Placement du Québec**
- 2. British Business Bank**
- 3. PensionDanmark**

As a statement of intent, it was impressive. In September last year, Caisse de Dépôt et Placement du Québec, the \$286 billion Canadian pension fund, announced the hire of Luis Mayans as head of private debt in Europe.

Mayans had already carved out a reputation for himself on the GP side as managing director at Avenue Capital Group, where he played a key role in the firm's direct lending strategy, including portfolio construction and monitoring. He also spent a decade in the leveraged finance unit at GE Capital.

With the asset class arguably playing catch up with other alternative asset classes on the 'high-profile LP' front, here was a move that was never going to go unnoticed. Observers will be waiting with anticipation to see how CDPQ shapes its strategy going forward, with Mayans centre-stage.



Taking on talent: Quebec City-based CDPQ hires industry veteran

Fund financier of the year

- 1. Investec**
- 2. RBS International**
- 3. Macquarie Settlement Solution**

It was a year of innovation in fund finance, with the likes of "back-end" and "umbrella" financings making their mark. At the cutting edge was Investec. With 27 professionals spanning offices globally, the fast-growing Investec team had a successful year providing leverage and liquidity to private capital funds.

There were two areas of focus for Investec in 2017, which may have played a big role in winning the support of peers. One was the firm's creative embedding of derivatives into risk management solutions for funds; the second was helping to provide GPs with solutions around succession planning and diversity.

Asked for his thoughts on what may define the market in the year ahead, Investec global head of fund finance Simon Hamilton says: "The big topics are where we are in the cycle, risk management and protecting value. People are focused on whether companies and their structures can withstand any headwinds."

ASIA-PACIFIC

Lender of the year

1. SSG Capital Management

2. CLSA

3. Adamas Asset Management

For the third year in a row, Hong Kong-headquartered private credit and special situations asset management firm SSG Capital Management has won lender of the year. Despite strong contenders in the category, including CLSA's lending platform and Adamas Asset Management - which is targeting \$500 million for its latest China-focused direct lending fund - SSG secured a clear majority of votes.



Wong: private lending is in great demand

SSG, founded in 2009, has pulled in \$2.5 billion for two of its latest funds: SSG Capital Partners IV, its fourth special situations fund, which surpassed its original target of \$1.25 billion to raise \$1.7 billion in the middle of 2017; and Secured Lending Opportunities II, its second senior debt vehicle that raised \$815 million last year.

SSG launched its first senior debt fund - SSG Secured Lending Opportunities I - in 2015. The vehicle (SLO) took less than six months to surpass its \$300 million target, raising \$325 million. SSG then quickly raised more than double for its successor with most LPs also making commitments to SSG's latest flagship distress fund.

The firm says its Secured Lending Opportunities series aims to provide growth financing to corporates across the region with a focus on quality credit. According to SSG's CIO Edwin Wong - who recently described the firm's latest SLO vehicle as "a performing loan vehicle" with a growth mandate - direct lending is in great demand thanks to a growing investor base that favours the combination of enhanced returns, regular cash yields and quality Asian credit. According to *PDI* data, SSG has been delivering returns of over 15 percent for its unlevered secured lending series. SSG Capital Management has raised \$1.7 billion to date for SSG Capital Partner IV.

Distressed debt investor of the year

1. SSG Capital Management

2. Bain Capital

3. Apollo Global Management

Distress specialist SSG Capital Management saw off competition from private equity behemoths Bain and Apollo to secure this award for the third year in a row, helped by its focus on maintaining a strong local presence in the countries it operates

in. The firm invests across Asia-Pacific with offices in Shanghai, Singapore, Hong Kong and Mumbai and a remit that covers India, China and South-East Asia. SSG is also active in South Korea and Australia. "We have been able to differentiate ourselves by combining our local reach and experience with the breadth of our onshore and offshore platforms to come up with unique solutions for our clients," SSG CIO Edwin Wong said at the HKVCA Asia Private Equity Forum in January.

The firm had over \$4 billion in assets under management at the end of December 2017. The lion's share of that comes from the latest iteration of its flagship fund SSG Capital Partners IV, which held a final close of \$1.7 billion in August 2017, garnering commitments from San Francisco Employees' Retirement System and the University of Michigan, among others. The vehicle nearly doubled the \$915 million raised for its predecessor, SSG Capital Partners III, in 2014.

Infrastructure debt fund manager of the year

1. Mizuho Global Alternative Investments

2. AMP Capital

3. Ping An Life Insurance



Rising sun: Tokyo-headquartered Mizuho steals the crown from AMP

This is the first time this category has not been won by Australia's AMP Capital. Tokyo-headquartered Mizuho Global Alternative Investments picked up the infrastructure debt fund manager of the year award after clinching more than half the votes.

The alternatives arm of Japan's Mizuho Financial Group is recognised for raising more than \$300 million for its maiden project finance fund. The new vehicle will target project financing and offshore brownfield projects.

"The biggest advantage is that we could capitalise on the platform of our parent company, Mizuho Bank," says Jack Wang, an investment officer in MGAI's project financing team. He adds that the bank has been building up a track record in project finance for over 30 years. "As the fund only invests in projects with expected return rates that are 150 basis points [over the base rate of the project], we are aiming at plus 200 basis points in the original currency."

As far as Wang is concerned, the biggest risk the firm is trying to mitigate is the default of a project. MGAI has a senior-only

ASIA-PACIFIC

approach for infrastructure debt investments so that the recovery rate can be higher than with other positions in the capital structure.

Real estate debt fund manager of the year

1. SSG Capital Management
2. IDFC Alternatives
3. MaxCap Group

SSG Capital Management has picked up real estate debt fund manager of the year for a second time. SSG, which also won the award in 2015, has been carving out a niche for itself in Asia by investing in developed markets like Australia and addressing structural gaps in emerging markets such as China and India.

A prolonged slowdown in the real estate sector has fuelled corporate demand for private debt solutions in India where banks will typically not lend against land for development. Meanwhile, in China, SSG has provided financing to local developers to complete mixed-use residential and commercial projects. The firm is also investing in distressed situations in the country to unlock the value of underlying real estate assets after restructuring.

SSG has also provided capital for the acquisition and redevelopment of two separate commercial properties in South Korea, which are expected to be repositioned and brought back to the market.

Deal of the year

1. Laser Clinics Australia (Partners Group)
2. Pepper Group (KKR)
3. Global Gateway Logistics City (BPE Asia Real Estate)

Partners Group made its mark in Australia with a unitranche loan in support of KKR's acquisition of a majority stake in Laser Clinics Australia. When it comes to due diligence, Partners Group says it seeks good companies with solid credit metrics, a healthy bal-

"THE KEY QUESTION IS, 'CAN THE COMPANY STAND ON ITS OWN FEET AND IS IT ABLE TO SERVICE THE DEBT THAT THE SPONSORS PUT ON THE BALANCE SHEET?'"

Edward Tong

ance sheet and the prospect of a good return to compensate for the risk being taken.

"The key question is, 'Can the company stand on its own feet and is it able to service the debt that the sponsors put on the balance sheet?'" says Edward Tong, a Singapore-based senior vice-president and head of private debt in Asia-Pacific at Partners Group.



Tong: made mark in Australia

As a credit investor, Tong focuses on issues such as looser terms and higher leverage. He says

lenders compete most on pricing and terms. On the corporate LBO side, he estimates there are more than five Asia-domiciled private equity managers in the region with over \$3 billion in dry powder that are increasingly looking at cross-border opportunities in the US and Europe.

"I see the opportunity to support their financing needs globally as an upcoming trend," says Tong, who considers healthcare, information technology and software as sectors with the most potential for his credit investments.

Fundraising of the year

1. SSG Capital Management
2. Adamas Asset Management
3. AMP Capital

Special situations specialist SSG Capital Management had one of its most successful fundraising years in 2017. The firm pulled in over \$2.5 billion across two vehicles in 2017, including a sidecar.

SSG enjoys the support of a broad base of blue-chip limited partners, with most of the capital coming from US pension funds, sovereign wealth funds, insurance companies, endowments, family offices and funds of funds. The firm raised \$1.7 billion for its fourth special situations fund, SSG Capital Partners IV. SSG's second direct lending vehicle raised \$815 million, hitting its hard-cap.

"How fast we come back to the market depends on the opportunity set. So far, we are seeing a good pipeline of dealflow," says Tobias Damek, a managing director at SSG.

Its first performing loan vehicle, SSG Secured Lending Opportunities I, held a final close at \$325 million in September 2015. Its special situations fund, SSG Capital Partners III, closed at \$915 million in May 2014. According to PDI data, SSG Capital Partners IV is the largest Asia-focused special situations fund to-date.

Credit & Special Situations Investors in Asia



Distressed debt investor
of the year, Asia-Pacific



Lender of the year,
Asia-Pacific



Real estate debt fund manager
of the year, Asia-Pacific



Fundraising of the year,
Asia-Pacific

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ASIA-PACIFIC

Law firm of the year

1. **Dechert**
2. **Hogan Lovells**
3. **King & Wood Mallesons**

In addition to providing deal structuring advice to private debt managers, Dechert has a strong track record of fund formation mandates in Asia. The team, based in Singapore and Hong Kong, works as part of a 200-strong global fund formation effort.

Funds established last year included those targeting direct lending and distressed debt. Dean Collins, from Dechert's Singapore office, led the establishment of a \$500 million fund focused on Chinese non-performing loans for a London-based investment firm. The vehicle was formed in conjunction with a Chinese asset management company.

"We continue to see the growth of private credit in Asia and are making sure that all of the technology and experience gained from our colleagues in the US and Europe is appropriately applied and adapted for the Asian markets," says Collins.

In terms of fundraising, Dechert is seeing more mandates involving Asian private credit managers trying to raise funds in Europe, which often requires a different approach. "Because investor preferences and the regulatory environment have evolved in Europe, it is harder to solely raise a Cayman vehicle," Collins says, adding that more sponsors are setting up European structures in parallel with their Cayman Islands-domiciled structures.

Placement agent of the year

1. **Mercury Capital Advisors**
2. **Shinhan Investment Corporation**
3. **MVision**

This year is the second consecutive win for Mercury Capital Advisors. The New York-headquartered private fund placement and

investment advisory firm has continued its rise by advising fundraises for Hong Kong-based SSG Capital Management.

The firm helped SSG raise three of its special situations funds and its second secured direct lending vehicle. *PDI* understands Mercury is also acting as an advisor to Baring Private Equity Asia for its Indian credit fund that launched in 2017 with a \$500 million target.

The firm was co-founded in 2009 by Michael Ricciardi, Alan Pardee – both based in New York – and Enrique Cuan who splits his time between Singapore and London. Cuan is responsible for advising investors in Europe and Asia on alternative investments, as well as originating new fundraising mandates for the firm. All three were formerly Merrill Lynch managing directors in its private equity fundraising group.

Asked about the growth opportunities in the Asian private credit space, Cuan says: "We are still in the very early innings of a huge market trend."

He adds that while more than a dozen Asian credit funds may have raised capital in the past two years, the amount of dry powder available is still a drop in the bucket relative to the opportunity.

Globally, Mercury covers over 2,500 institutional investors and its Asian coverage is growing with around 200 investors based in Asia. The firm says it had raised 13 oversubscribed funds in Asia, consecutively, as of the end of 2017.

The firm also provides advisory services in the areas of secondaries, co-investments, joint ventures and direct placements.



Enrique Cuan: in the early innings



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LOOKING AHEAD

Partner predictions

Two senior industry figures share their thoughts on the themes of 2018

Ted Goldthorpe,
managing partner
and head of
BC Partners Credit



Andrew Konopelski,
partner and head
of *EQT Credit*



Q What surprised you most in 2017?

The definition of “middle market lending” continues to evolve. A lot of large platforms are pushing up hold sizes into direct competition with the large banks. A few BDCs’ average EBITDAs are now greater than the top end EBITDA range of the definition of the middle market from only a few years ago.

The continued tightening of the credit markets. The level of enthusiasm across all asset classes was considerable in 2017. We anticipated some of the froth might come off the leveraged loan and bond markets this past year, but it was quite the opposite.

Q What do you expect will be on LPs’ minds in the year ahead?

Strong fundraising has led to questions about the deployment of capital and future returns. LPs are increasingly differentiating segments of the middle market when allocating capital. LPs are increasingly looking for differentiation among managers and for increased specialisation. Certain areas of the market have experienced less spread compression and erosion of terms, but disciplined underwriting is still paramount.

The timing of the turn in this cycle and what will cause it. In primary strategies like direct lending, LPs are focused on the defensiveness of existing portfolios. They are also considering how to take advantage of a downturn by moving to more stressed/distressed strategies. But their focus continues to be navigating the low-yielding environment, with many investors increasing their private debt allocation.

Q Which region do you think will be the most exciting in 2018?

The US market will provide better relative value opportunities in private credit as compared with other developed nations.

We continue to be focused on Germany, Benelux and the Nordics, where we see a strong flow of core opportunities, while we like some situations in Spain and France on an opportunistic basis. However, the UK is over-represented in the European loan markets, especially direct lending.

Q Which strategies are likely to be the most compelling over the next 12 months?

We anticipate continued widening between sponsor-backed deals and non-sponsor deals both in terms of covenants and pricing. Competition in mid-market sponsored deals has reached unprecedented levels and managers with diverse and unique originating capabilities will have an edge.

Direct lending. The European economy has considerable momentum. However, EQT Credit is focused on lending to more recession-resilient businesses. Unitranche facilities have an attractive yield, but are highly illiquid. As your maximum return is largely capped, outperformance through the next cycle will be delivered by limiting potential losses.

Q What do you think will be the biggest challenge facing the industry in 2018?

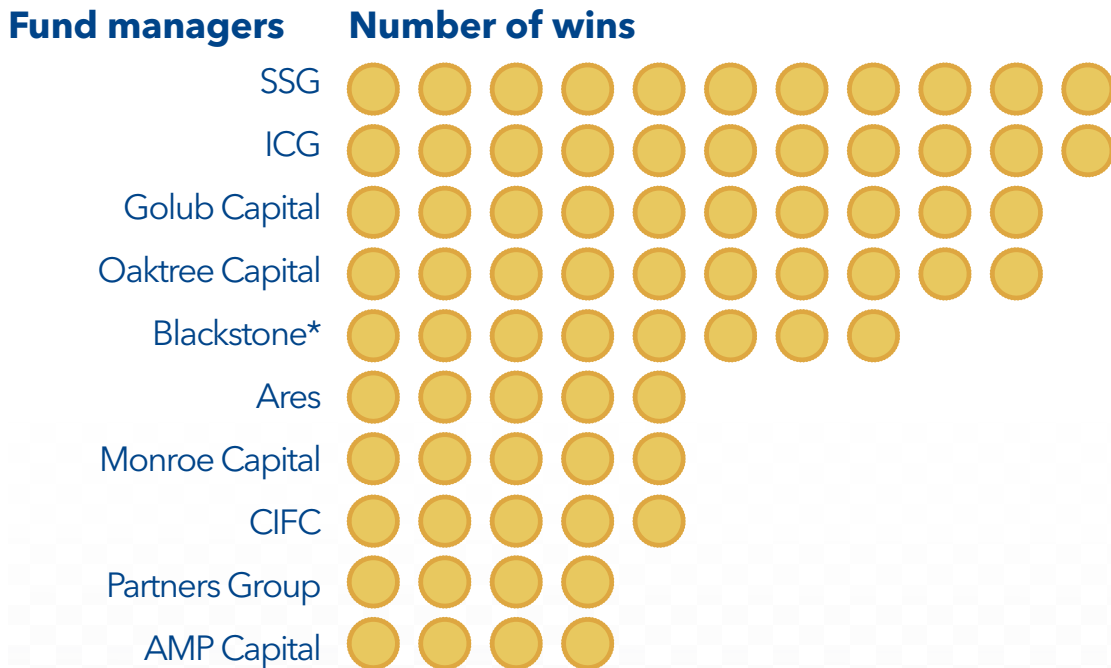
Given persistent LP demand for private credit, managers need to stay honest about the capacity of their strategy relative to the opportunity set. Underwriting standards should never be compromised in order to win dealflow.

Complacency. In bull markets, it can be difficult to remain disciplined. This is especially true when fund sizes are growing and GPs only earn fees when they deploy capital. There is a dose of “risk amnesia” in today’s market and a big question mark around how much time managers are spending to really understand the companies they lend to.

HALL OF FAME

Champions' league

After five years of the PDI Awards, a handful of firms stand out above the rest



*Includes subsidiaries GSO Capital and Blackstone Real Estate Debt Strategies

Service providers and intermediaries



2017 FUNDRAISING

Land of the giants

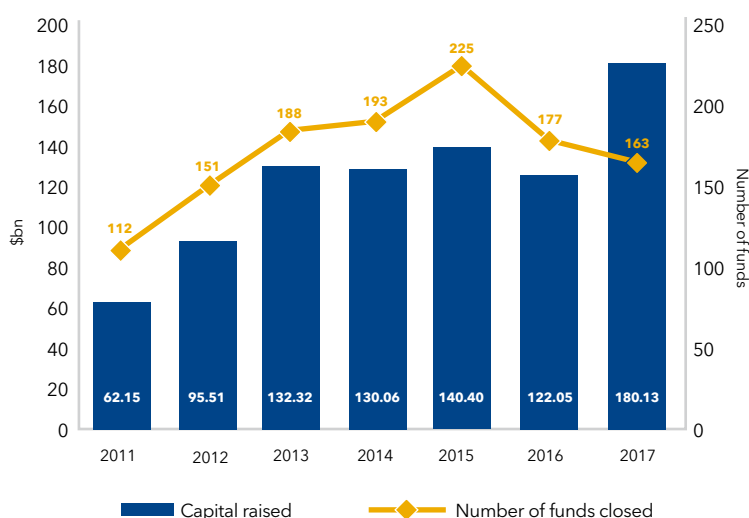
As predicted in H1, 2017 revealed itself to be the biggest fundraising year on record

The market had a truly standout year in 2017. By close of Q4, \$180 billion had been raised across 163 funds, surpassing all past full-year totals. Yet, while it was a blockbuster year for capital raised, fewer managers reached a close than in any year since 2012. This means private debt is following a trend already well established in other private markets: the emergence of an elite group of large, consolidated fund managers. On paper, the biggest vehicle is Apollo's mammoth \$24.7 billion Fund IX – but it is worth noting just 20-25 percent of the fund is earmarked for private debt, while the rest goes to traditional private equity. Still, there are pure play giants including Oaktree Opportunities Xb, which is targeting \$8.87 billion. Overall, 50 out of 163 funds closed in 2017 held a final close on \$1 billion or more – amassing \$134.4 billion between them.

The trend is even more stark when looking at how the average fund size has increased over the past year. While Apollo Fund IX helped move the needle, even if we strip this out the 2017 average still stands at \$959 million. Because of this growth, private debt groups – which have traditionally been restricted to mid-market investing – are gaining the ability to replace banks in the financing of larger deals.

CAPITAL BOOST

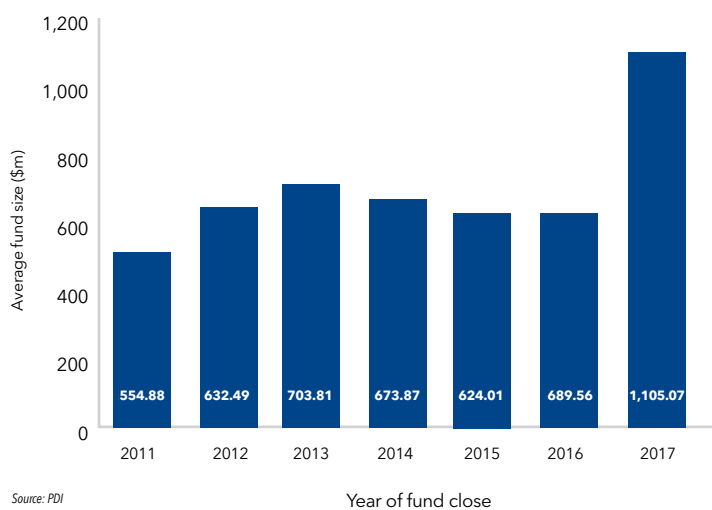
2017 was a record year for capital raised



Source: PDI

BIGGER BEASTS

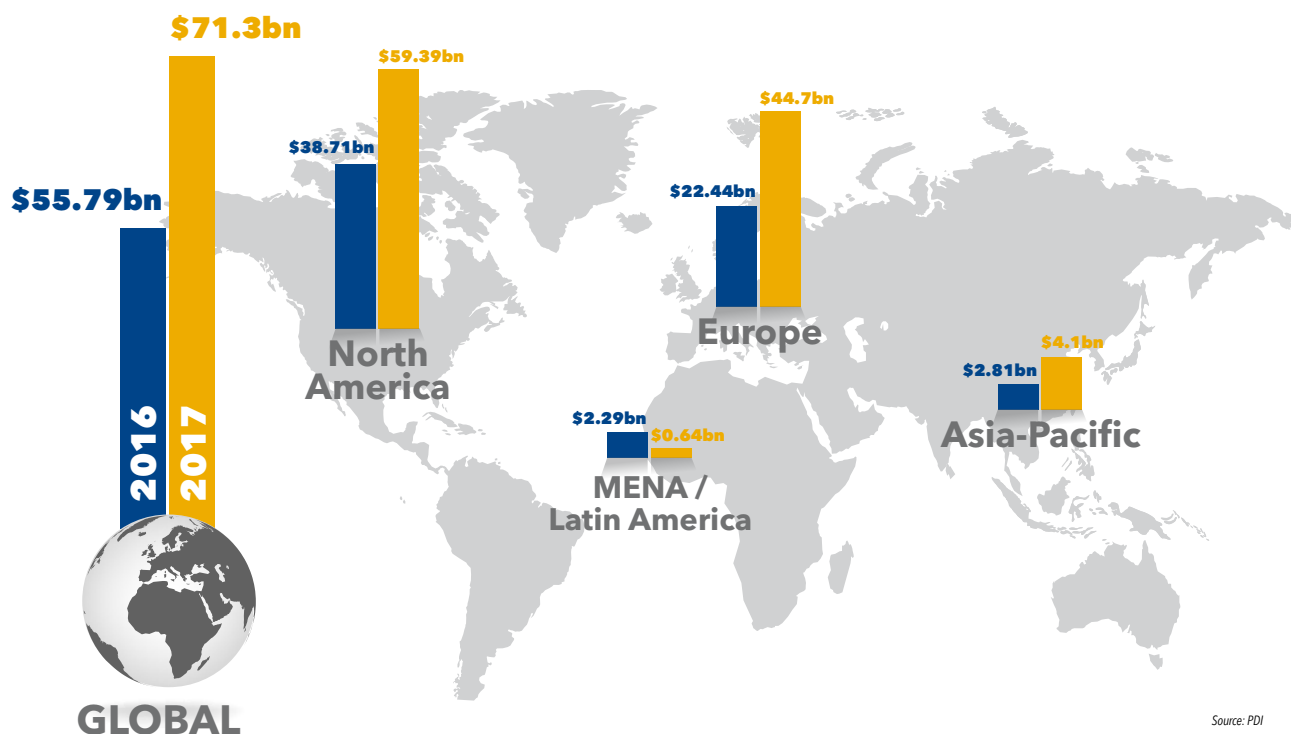
The average private debt fund size is larger than ever



Source: PDI

DEVELOPED MARKET DOMINANCE

Capital raised by regional focus in 2017 reveals emerging markets remain on the fringe



For the second year in a row, region-agnostic funds dominated fundraising, taking \$71 billion, or 40 percent, of total capital raised by vehicles reaching a close during 2017. North America-focused funds followed with over \$59 billion raised.

Meanwhile, Europe saw the largest increase in capital raised against the previous year, growing by nearly 100 percent.

Emerging markets are still a small portion of private debt investments, despite the emergence of Asia as a hotspot in recent years. Asia-focused fundraising was up 45 percent from 2016, the most capital raised since 2013. Only two regions attracted less capital than the previous year: MENA and Latin America.

TOP 10 FUND CLOSES IN 2017



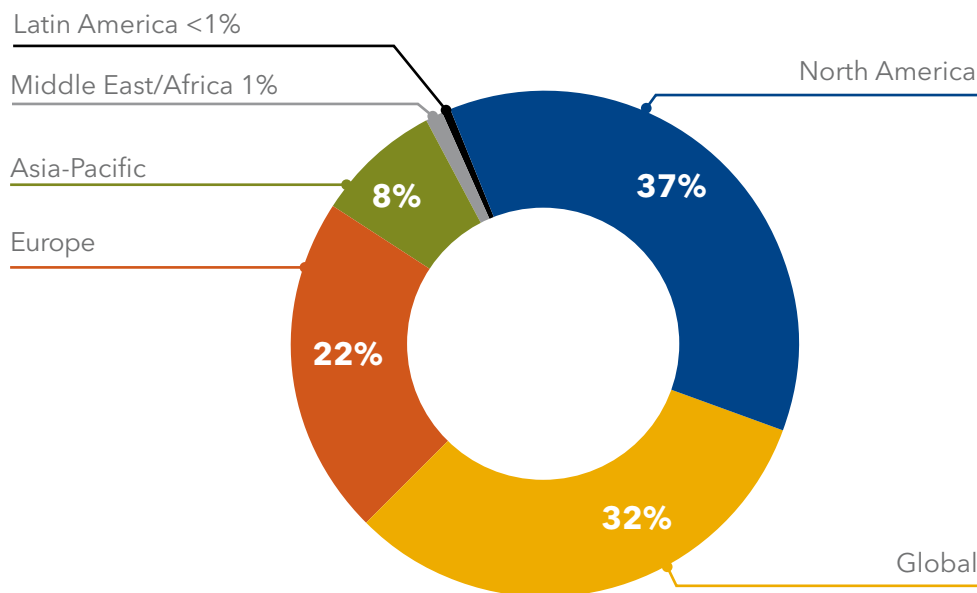
2017 FUNDRAISING

FOCUSED GEOGRAPHIES

More capital is being targeted by region-specific funds

At the time of writing, there were 558 private debt funds in market targeting \$250.3 billion in total. Only 32 percent of these have a global strategy – defined as targeting more than one region.

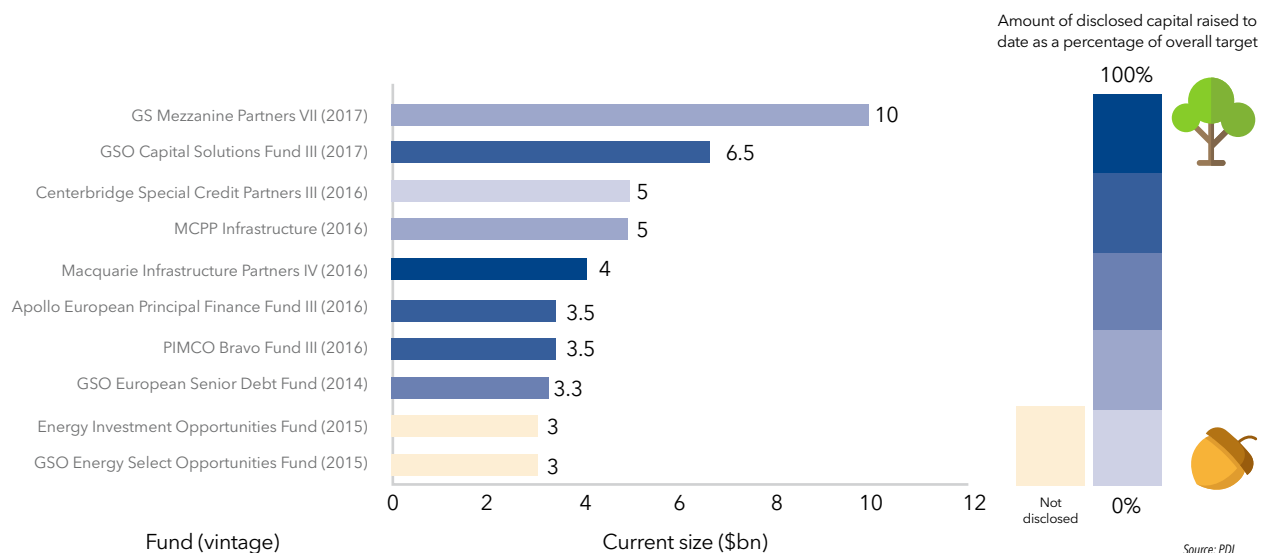
This compares with 40 percent of capital raised by funds closed in 2017. The top 10 funds currently in market are targeting a collective \$46.8 billion, or a fifth of total commitments sought.



Source: PDI

IN THE PIPELINE

The top 10 private debt funds in market are targeting a collective \$47bn. Nearly half are at or near target



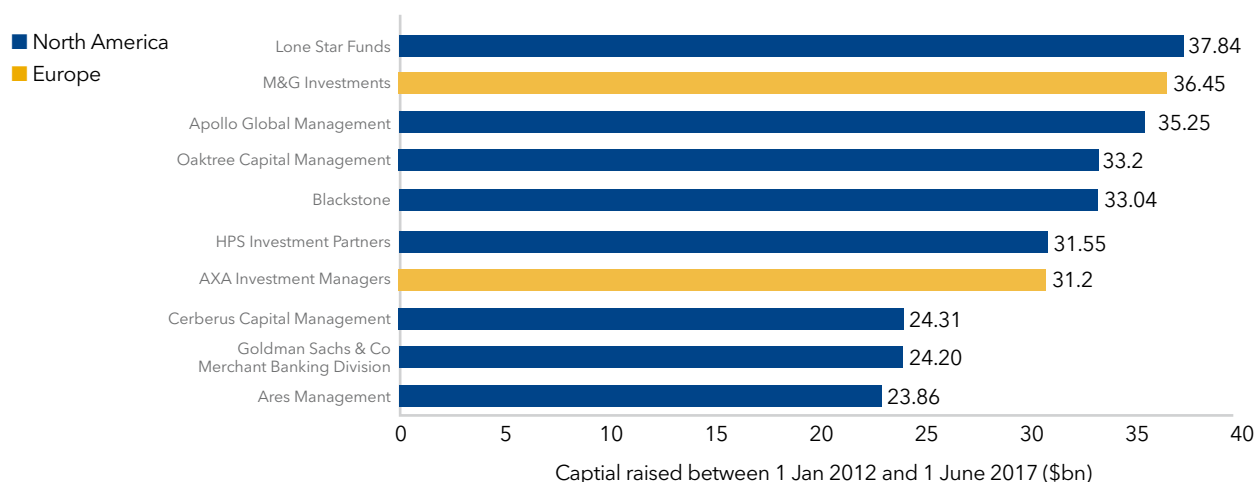
Source: PDI

BIG IN AMERICA

There were a couple of notable exceptions to North American dominance of the leading private debt firms

The *PDI* 50, a ranking of the largest private debt fund managers by capital raised over a five-year period, showed the top 50 firms amassed \$653.2 billion between 1 January, 2012, and 1 June, 2017 – a record for the ranking. This is around \$110 billion more than the 2016 total, which in turn is \$110 billion more than in 2015. The

top 10 are responsible for almost half of the total amount raised. Lone Star holds the top spot with around \$38 billion of private debt capital raised over the five-year period, with M&G Investments second (\$36.5 billion), making it the highest ever ranked non-US-based firm. Only \$14 billion separates the top 10.

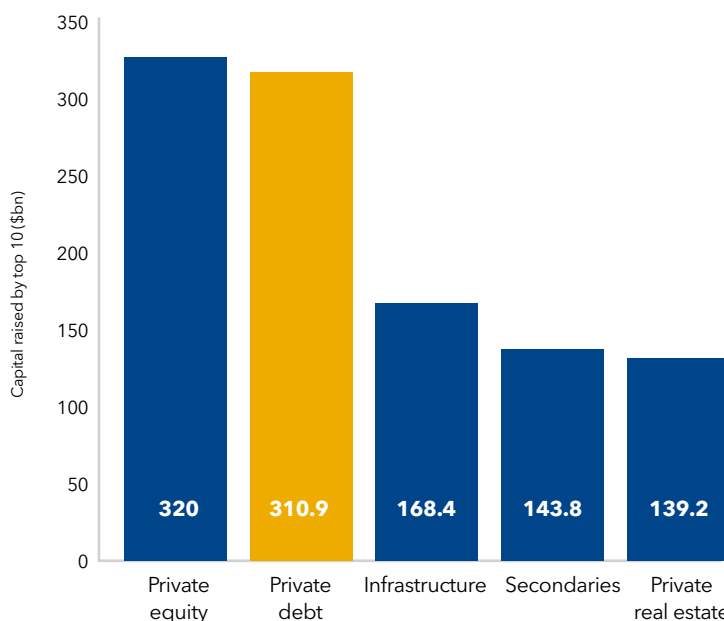


Source: *PDI*

DEBT RIVALS

Total capital raised by private debt's top 10 is nearly on a par with traditional private equity

PEI, the publisher of the *PDI* 50, also publishes rankings for private equity, private real estate, infrastructure and secondaries. Each track fundraising over the same five-year time-frame. The top 10 private debt fund managers are almost on a par with their top 10 private equity counterparts with \$310.9 billion raised from 2012 to 2017.



Source: *PDI*

2017 IN QUOTES

FEBRUARY

"It's not as if some sort of get-out-of-jail-free card has been taken away from us by the referendum result. It was a more complicated evolving debate anyway"

Tim Hames, director-general of the British Private Equity and Venture Capital Association, tells a Guernsey Funds Masterclass that an AIFMD passport is not necessarily the best way to market funds to European investors

MARCH

"The market's embrace of Donald Trump and his 'make America great again' chants is showing signs of wear"

Eric Platt, US capital markets correspondent of *The Financial Times*, reflects on European stocks outperforming their US counterparts since the Dutch election saw Prime Minister Mark Rutte see off the challenge of populist Geert Wilders

APRIL

"Only 4 percent of owners reported that all their borrowing needs were not satisfied, up 1 point and historically low"

The US-based **National Federation of Independent Businesses** notes in its latest optimism index a general satisfaction among small-business owners regarding their ability to borrow

"Earnings pressures will lead to more defaults and credit losses. This environment is especially tough on firms under pressure to deploy capital quickly now in an effort to achieve scale before the music stops"

Lawrence Golub, CEO at Golub Capital, sees rocky times ahead for private debt with EBITDA among US mid-market companies declining slightly

MAY

"This is likely to create further opportunities for unregulated private debt funds, as credit institutions are likely to become more risk averse and abstain from participating in

highly leveraged syndicated loans"

Law firm **Hogan Lovells** to clients commenting on the ECB's leverage rules

JUNE

"I would say German investors are 10 years behind those in the US, maybe three years behind the Nordics and probably also two to three years behind the UK – but maybe two to three years ahead of southern Europe"

Daniel Heine, of fund manager Patriumonium, shares his views on where the German investor base lies in terms of its receptiveness to private debt



Heine: maps out private debt in Europe

"Until there is some certainty on the servicing of portfolios, and we can ensure we're the owner of the assets, it remains difficult for us to invest, although Greece is on our radar"

Natalia Joubрина, director at Carval Investors, on why Greek non-performing loans aren't as attractive an investment as their Italian counterparts

AUGUST

"A full turn-and-a-half above 2016's average debt multiple and on pace to top any other year over the previous 10"

A report by valuation firm **Murray Devine** finds average debt multiples in US private equity transactions stood at 7.2x EBITDA in the first half of 2017

"There's enough to worry about, but the market's not doomed"

David Scudellari, head of principal

debt and credit investments at Canada's Public Sector Pension Investment Board, when asked what he thinks about levels of competition and pricing in private debt

SEPTEMBER

"Some withdrawal of monetary stimulus is likely to be appropriate over the coming months in order to return inflation sustainably to target"

From the minutes of a **Bank of England Monetary Policy Committee** meeting, which led to speculation that UK interest rates are likely to rise soon

OCTOBER

"The record amount of debt and leverage that US corporate borrowers are carrying is making many of them as vulnerable to downgrades and defaults as they were in the run-up to the 2007-08 Global Financial Crisis"

S&P Global Ratings report

"A rate rise – and the promise of more to come – should help sterling and take some of the inflationary pressure off consumers"

Andrew Sentance, former member of the Bank of England's Monetary Policy Committee, calls for higher interest rates in *The Guardian* newspaper

DECEMBER

"It wasn't a big surprise to those of us in the sector that Donald Trump's proposed changes ... haven't yet come to fruition. In fact, it feels familiar: Barack Obama also came to office with an infrastructure expansion plan, which was swiftly side-lined"

Dylan Foo, head of Americas infrastructure equity at AMP Capital, on infrastructure-related disappointment in the US

"The absence of yield has driven investors to consider ever-more esoteric areas of the debt markets"

Andrew Jackson, head of fixed income, Hermes Investment Management Finance

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