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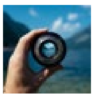
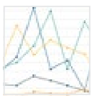
Global private debt trends & strategies whitepaper

Key industry trends

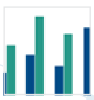
POBA seeks five direct lending fund managers



The changing focus of European private debt



Confidence in distressed is growing again



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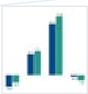


World's largest pensions hold alts exposure steady

Global private debt fundraising charts H1 2019

- Learn their strategies: Pension funds key allocations
- Year-on-year fundraising by strategy
- Fundraising strategy breakdown
- Regional focus of capital
- Amount targeted by funds in market

PEI

POBA seeks five direct lending fund managers

The Korean investor is to allocate $250m to North American and Asian mid-market corporate lending strategies.

By Adalla Kim | 11 September 2019

The Public Officials Benefit Association (POBA), a Seoul-based institutional investor, is looking for four private debt fund managers that invest in mid-market corporates in North America and one manager that lends to corporates in Asia-Pacific, a source familiar with the matter told *Private Debt Investor*.

It is understood that the Korean investor plans to commit $50 million to each of the fund managers. The $250 million in planned commitments will be invested in mid-market senior secured corporate lending strategies.

The investment team that oversees POBA's senior debt mandate said yesterday that the institution would exclude business development companies from the search. Submissions are due on 26 September and the final decisions will be announced in October.

The pension fund is increasing its allocations to mid-market loans globally. As reported in January, POBA also sought Europe-focused mid-market direct lenders. Further details, including target returns for the strategy, could not be disclosed.

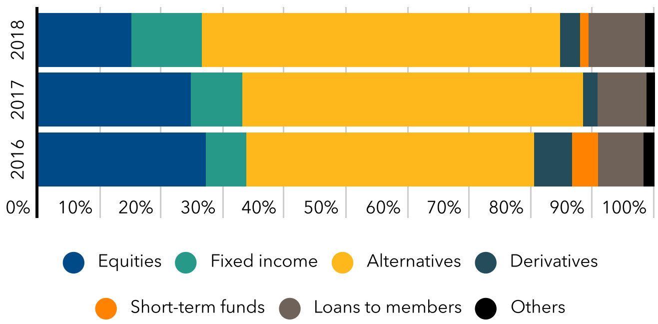
According to a white paper from Ares Management, a Los Angeles-headquartered alternative asset manager, the effective yields for senior first-lien mid-market loans across the US and Europe ranged from 6.5 percent to 8 percent as of August 2018.

PDI understands that POBA's private debt manager roster as of the end of June 2018 included Alcentra, Antares Capital, Ares Management, Barings, Benefit Street Partners, Golub Capital Partners, Guggenheim Partners, Medley Private Debt, Park Square Capital and Permira Debt Managers.

The latest disclosures showed that POBA managed 12.3 trillion won ($10.3 billion; €9.3 billion) in assets as of 31 December 2018. ■

POBA'S ALTERNATIVES BUYING SPREE

The latest disclosures show the pension allocated 58% of its total assets to global alternatives as of the end of 2018



Source: public disclosures by POBA

The changing focus of European private debt

A recent roundtable revealed managers have new strategic priorities and different sources of capital to target.

By Andy Thomson | 19 September 2019

What's at the front of European private debt professionals' minds today? This was the question posed to representatives from EQT, Patrimonium, Paul Hastings and Pemberton at *PDI's* Europe roundtable. Below is a selection of highlights, with the full version to be found in our upcoming Europe Report.

Preferences are shifting, appetite remains strong

With Deloitte's Alternative Lender Deal Tracker showing a 9 percent increase in direct lending deals and Europe's share of global fundraising at 29 percent in 2018 (just shy of the 31 percent peak in 2014), the data suggest that LPs are continuing to view the continent as an attractive place to commit capital. Assuming a downturn will arrive at some point – though one participant wryly observed that they had been calling the top of the market since 2015 – LPs are showing more interest in special situations. Europe is still waiting, however, for a material number of restructurings to arise – a trend that is beginning to be detected in the US.

Fundraisers need to cast the net far and wide

Although the private debt deal market is still strongly biased towards North America and Western Europe, pools of LP capital targeting the asset class are popping up across the globe. A relaxation of laws relating to investment scope has seen South American institutions – in Argentina and Brazil, for example – take a keener interest. Meanwhile, regulation in Japan is now more closely aligned with European regimes, and investors in the country are becoming more comfortable with private debt as a result. The same is true of South Korea, where the perception of private debt firms as "shadow bankers" has diminished and regulations have been tweaked to simplify the process of committing capital.

There are concerns around fund finance

Is the amount of fund leverage being offered to fund managers sustainable? It's a rhetorical question until such time as market stress puts the matter to the test. One thing's for sure: there has never been such competition as there is now to provide facilities for private debt funds as banks pile into the market, thereby putting pressure on terms and pricing. Fund leverage has been around for a long time in the US and the structures there are consequently well tested. There are doubts that some of the structures being seen in Europe will prove equally robust as and when the current benign conditions take a turn for the worse.

The UK is a no-no … almost

There are industry-specific concerns in the UK, where the retail sector in particular is being viewed with caution. But there are no prizes for guessing that the big drag on activity is Brexit. The expected tightening of UK lending is now a reality and pan-European managers have never kept a tighter rein on their UK exposures. However, some fears may be overblown, and managers are finding themselves educating investors on the differences between a domestic business focused on the UK and an international business with its headquarters in the country. There is also a kind of 'QE' aimed at UK private debt, with the British Business Bank and some insurers supporting small speciality funds and the government examining potential tax breaks and the possible facilitation of new fund structures. ■

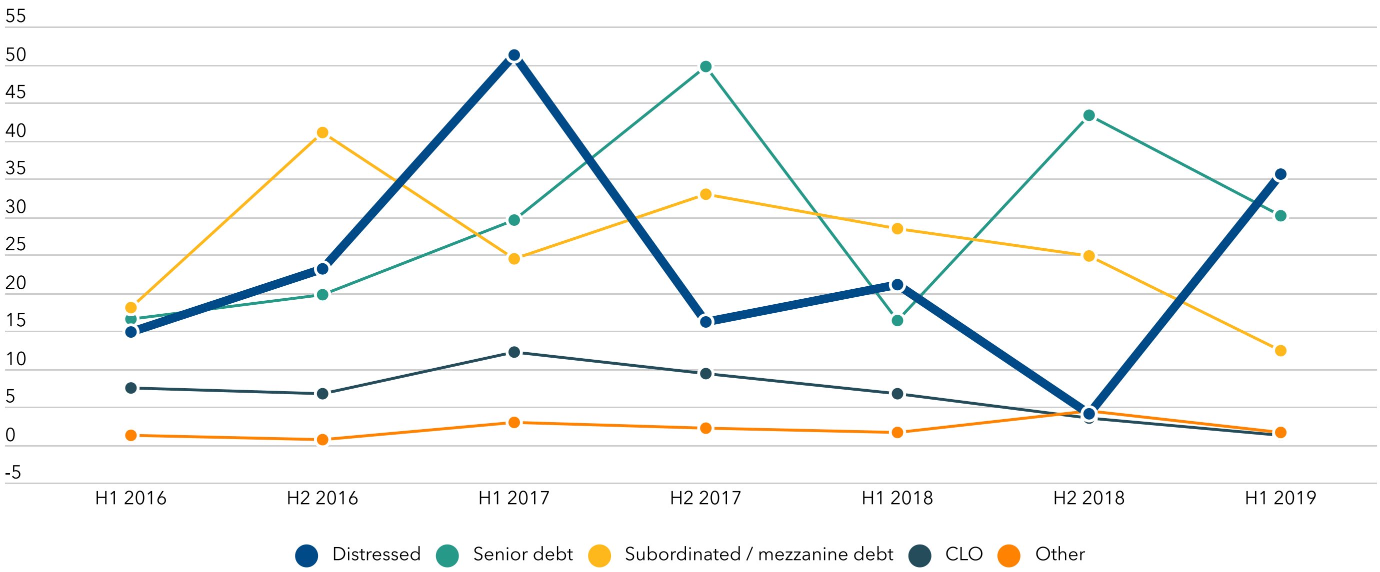
Confidence in distressed is growing again

Distressed debt fundraising is one of the most cyclically affected strategies in private credit, and in the first half of 2019 it was back with a vengeance, writes John Bakie.

By John Bakie | 3 September 2019

DOUBLING UP ON DISTRESSED

Capital raised by strategy ($bn)



Source: PDI

Unsurprisingly, distressed debt funds tend to be most popular late in the credit cycle and do less well in more benign market conditions, which leads to major swings in fundraising activity. With most industry experts expecting a change in economic fortunes in the near future, it is no surprise to see that distressed debt fundraising was booming in H1.

PDI's statistics show that more than $35 billion was raised for distressed funds during this period. This was more than for any other strategy, including senior and subordinated debt. By comparison, in the second half of 2018 just over $4 billion was raised for distressed debt strategies globally.

However, this is not the first time during the current credit cycle that there has been a boom in demand for distressed debt. Back in the first half of 2017, when private credit generally was seeing unprecedented levels of fundraising, distressed vehicles raised $51 billion from institutional investors.

Top 10 largest funds raised in H1 2019

Strategy	Fund Name	Current Size ($bn)
Distressed	Lone Star Fund XI	8.2
Senior debt	BlueBay Direct Lending Fund III	6.8
Distressed	Lone Star Real Estate Fund VI	4.7
Distressed	GSO Energy Select Opportunities Fund II	4.5
Senior debt	Broad Street Senior Credit Partners II	4.4
Distressed	Cerberus Global NPL Fund	4.1
Distressed	American Industrial Partners Capital Fund VII	3.0
Senior debt	AG Direct Lending Fund III	2.8
Subordinated / mezzanine debt	Levine Leichtman Capital Partners VI	2.5
Subordinated / mezzanine debt	Taiga Special Opportunities Fund	2.5

Source: PDI

That now appears to have been a false dawn. Although there was much talk about the severe economic consequences of international events, including aggressive trade rhetoric from the newly elected US President Donald Trump and the UK's recent decision to leave the EU, a recession did not materialise. On the contrary, the global economy entered a new phase of growth that limited the scale of distressed opportunities available for fund managers.

Opportunities ahead

However, if you wait long enough then a recession becomes a certainty, and more recent developments may be once again presenting fertile ground for investors in distressed debt. Although the global economy is still growing, there are signs of weakness. Germany's GDP has stumbled in recent quarters, and the UK is starting to feel the impact of uncertainty owing to its failure to ratify an agreement over its planned exit from the EU.

While a turn in the credit cycle may not yet be imminent, the signs of more difficult market conditions are beginning to appear. Some sectors are already running into difficulty.

Retail in particular has been hit by reduced confidence in the short term and by more long-term shifts in shopping habits. The latter may offer distressed players opportunities to restructure the businesses affected.

Many of the top 10 funds raised during the first half of 2019 were distressed-debt vehicles, with two from Lone Star leading the pack. Lone Star Fund XI raised $8.2 billion while the firm's Real Estate Fund VI raised $4.7 billion. Three other distressed funds make the top 10: GSO Energy Select Opportunities Fund II with $4.5 billion; Cerberus Global NPL Fund with $4.1 billion; and American Industrial Partners Capital Fund VII with $3 billion. ■

Senior debt funds show return longevity

Research from Burgiss shows that senior debt funds garner strong returns at the 10-year mark, but still lag behind private equity.

By Rebecca Szkutak | 25 June 2019

Senior debt funds age like fine wine, according to data from Burgiss, a private capital data and analytics company.

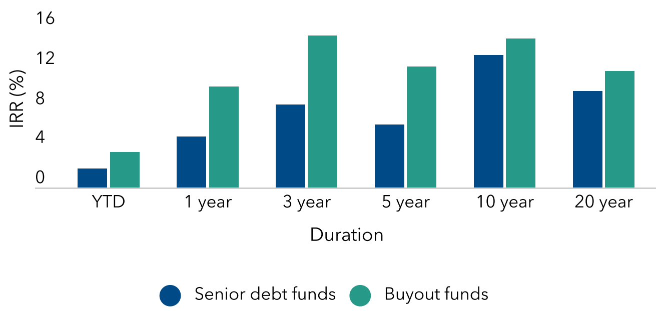
Burgiss data found that, on average, senior debt funds generated strong double-digit returns at the 10-year mark. They garnered a pooled 10-year internal return rate of 13.32 percent, net of fees, compared with the five-year average of 6.29 percent.

Private equity buyout funds, on average, grew their IRR from the five-year average of 12.15 percent to 14.94 percent at the 10-year mark.

Senior debt funds closed on more than $59.21 billion in 2018, according to *PDI* data. The strategy has raked in $30 billion so far in 2019. ■

10-YEAR TRIUMPH

Senior debt funds garner strong returns at the 10-year mark, but still trail private equity



Source: Burgiss

World's largest pensions hold alts exposure steady

The world's 20 largest sovereign and public pension funds allocated 22% of their assets to alternatives and cash last year, according to Willis Towers Watson.

By Carmela Mendoza | 3 September 2019

The world's largest pensions maintained their approach to alternatives last year as they rode out a more challenging market.

According to Willis Towers Watson's latest *Pensions & Investments World 300* report, the top 20 pension funds in Asia-Pacific, North America and Europe allocated 22 percent of total assets, or $1.6 trillion, to alternatives and cash in 2018 – an amount that was little changed from the figure for 2017.

A tougher market environment in 2018 meant growth in assets under management paused, the report noted, with the total asset value of the top 20 pension funds falling by 1.6 percent over the year. This was the first fall in the top 20 funds' share of the total since 2012.

Among the top sovereign pensions are the $1.4 trillion Government Pension Investment Fund of Japan, South Korea's $573 billion National Pension Service and the $377 billion California Public Employees' Retirement System.

CalPERS, which ranks sixth in the top 20 funds, has an 8 percent target exposure to private equity; its actual exposure stood at 7.1 percent as of June. The pension invested $4.2 billion in fund commitments and co-investments last year. Canada Pension Plan Investment Board, which is eighth in the ranking, has a 23.9 percent exposure to PE against a 21 percent target, according to data from *PDI* sister title *Private Equity International*.

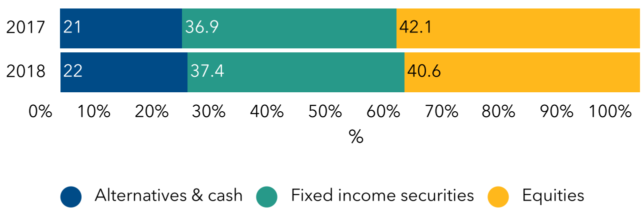
Overall, the world's 300 largest pensions had a 0.4 percent decrease in total assets in 2018 to $18 trillion, a reversal of the 15.2 percent increase in 2017.

The report noted that the underlying trend remained one of growth in pension markets worldwide, with scale being an advantage.

"Many of the most interesting and important developments start with the largest funds," said Bob Collie, head of research for the Thinking Ahead Group, in a statement accompanying the report. "As new investment ideas like the total portfolio approach and universal ownership gain traction in these organisations, they influence the whole market."

WORLD'S LARGEST PENSION FUNDS: IN DIGITS

The world's 20 largest pension funds allocated 22% or about $1.6trn to alternatives & cash in 2018, roughly the same as in 2017

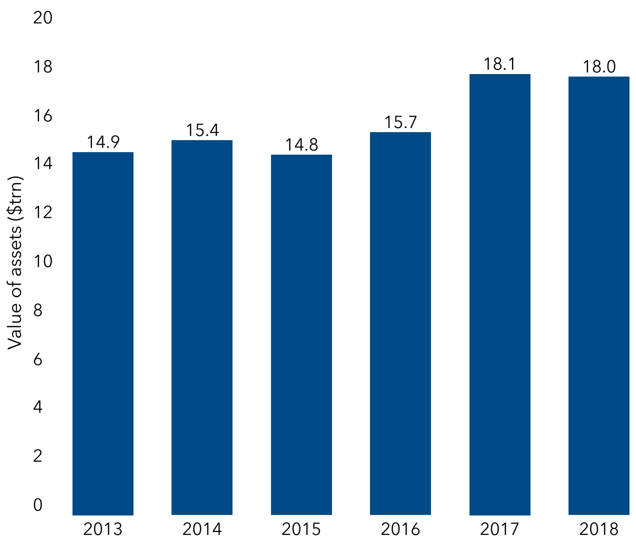


Top 20 pension funds

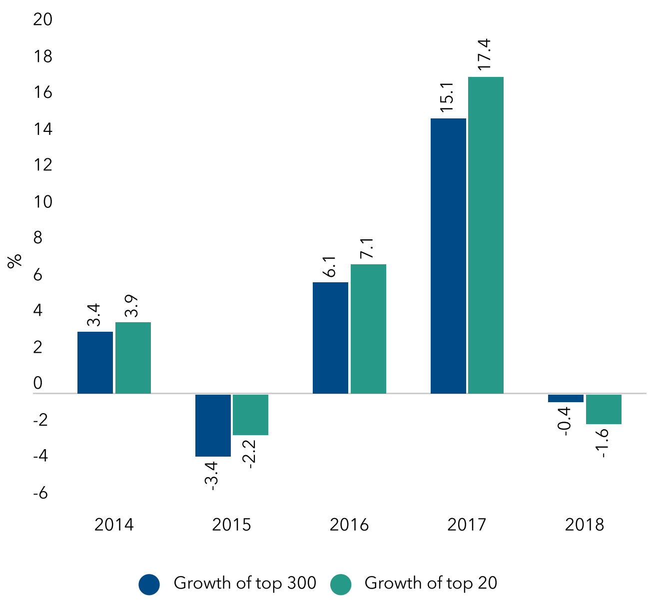
Ranking	Fund	Country	Total AUM ($bn)
1	Government Pension Investment Fund	Japan	1,374.5
2	Government Pension Fund	Norway	982.3
3	Federal Retirement Thrift Investment Board	US	578.8
4.	National Pension Service	South Korea	573.3
5	Algemeen Burgerlijk Pensioenfonds (ABP)	Netherlands	461.7
6	California Public Employees' Retirement System	US	376.9
7	National Social Security Fund	China	371.68
8	Canada Pension Plan Investment Board	Canada	287.4
9	Central Provident Fund	Singapore	287.0
10	Pensioenfonds Zorg en Welzijn (PFZW)	Netherlands	248.3
11	California State Teachers' Retirement System	US	230.2
12	New York State Common Retirement Fund	US	213.2
13	Employees Provident Fund	Malaysia	201.7
14	New York City Employees' Retirement System	US	200.8
15	Local Government Officials	Japan	199.5
16	Florida State Board of Administration	US	174.7
17	Teacher Retirement System of Texas	US	153.1
18	Employees' Provident Fund	India	145.4*
19	Ontario Teachers' Pension Plan	Canada	140.1
20	Arbejdsmarkedets Tillægspension (ATP)	Denmark	129.1

*Estimates

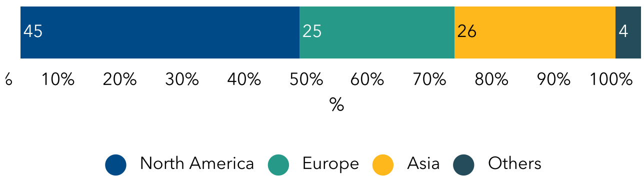
A tougher market in 2018 meant AUM growth paused, decreasing 0.4% from the previous year



Growth of top 20 funds decreased in 2018



North America remains the largest region in terms of AUM, accounting for nearly half of total asset of the world's largest pensions



Source: Willis Towers Watson

Diversification, sustainability and responsible investment were some of the significant financial considerations of the top 20.

Nearly half pointed to geopolitical tensions as an important element affecting returns. Trade barriers were cited as a significant element of the uncertainty surrounding these tensions.

North America remained the largest region in terms of AUM, accounting for 45.2 percent of all assets in the research. Asia-Pacific was the second largest, making up 26.2 percent of total assets, while Europe was third with 24.9 percent.

Asia-Pacific had an average annualised growth rate of 5.2 percent between 2013 and 2018. North America was slightly ahead, and had the fastest growth rate at 5.8 percent. Europe's growth remained almost flat, with an annualised average rate of 0.5 percent over the period. ■

Private debt fundraising charts H1 2019

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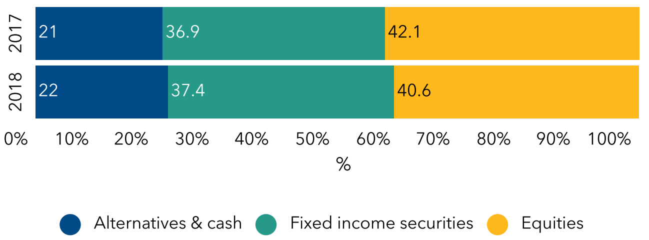

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13	Employees Provident Fund	Malaysia	201.7
14	New York City Employees' Retirement System	US	200.8
15	Local Government Officials	Japan	199.5
16	Florida State Board of Administration	US	174.7
17	Teacher Retirement System of Texas	US	153.1
18	Employees' Provident Fund	India	145.4*
19	Ontario Teachers' Pension Plan	Canada	140.1
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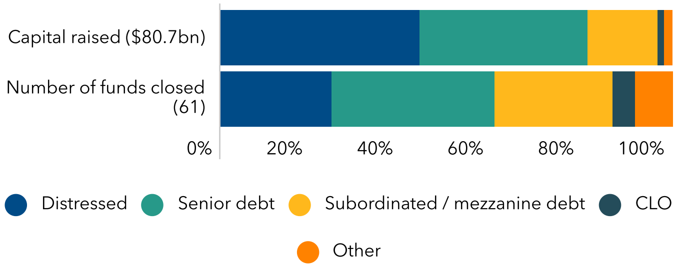
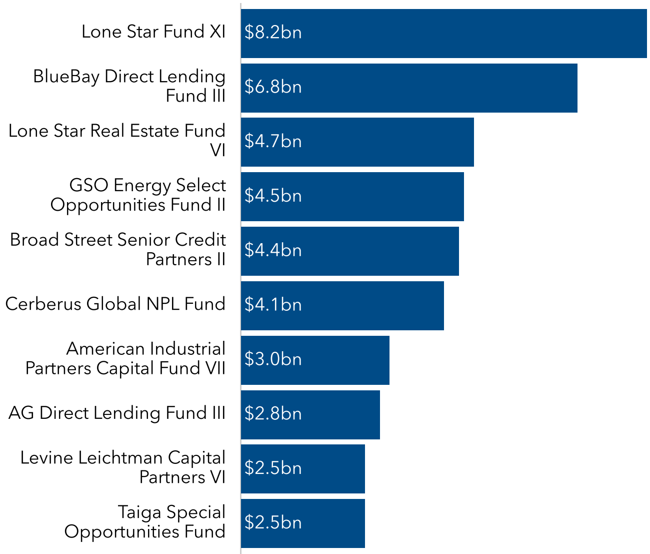
*Estimates

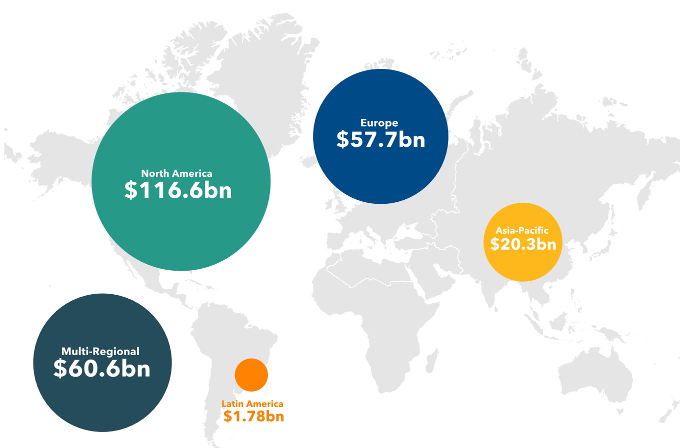
FUNDRAISING STRATEGY BREAKDOWN



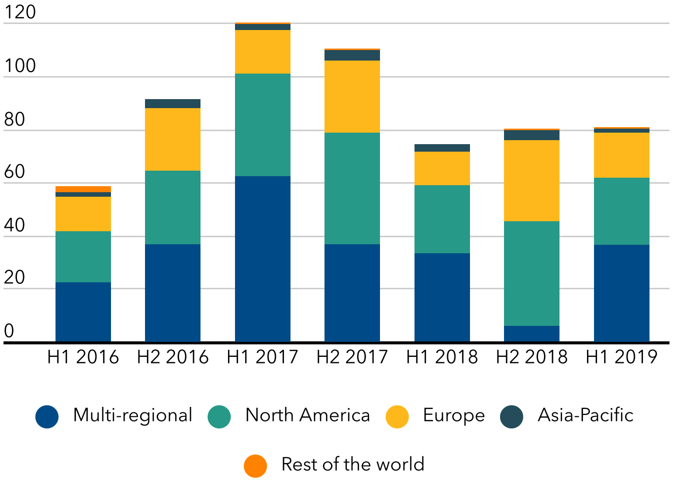
LARGEST FUNDS RAISED IN H1 2019

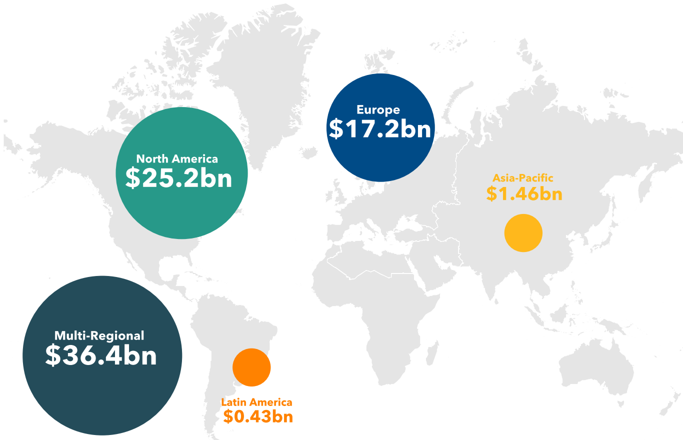


AMOUNT TARGETED BY FUNDS IN MARKET



REGIONAL FOCUS OF CAPITAL





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Confirmed LP attendees include:

- ABL Life Insurance
- AIALife Korea
- Asahi Mutual Life Insurance
- AXA Life Insurance
- Daido Life Insurance
- DB Insurance
- DBJ Asset Management
- DENSO Pension Fund
- DGB Life Insurance
- Farmers' Pension Fund
- Gibraltar Life Insurance
- Government Employees Pension Service
- Government Pension Investment Fund (GPIF)
- Hanwha Life Insurance
- Hyundai Marine & Fire Insurance
- Idemitsu Pension Fund
- Japan Post Insurance
- KB Life Insurance
- KDB Life Insurance
- Korea Fire Officials Credit Union
- Korea Investment Corporation (KIC)
- Kyobo Life Insurance
- Manulife Life Insurance
- MetLife Insurance
- MG Non-Life Insurance
- Military Mutual Aid Association
- National Federation of Fisheries Cooperatives
- National Federation of Mutual Aid Associations for Municipal Personnel
- National Kyosai Federation of Japan Agricultural Cooperatives (ZENKYOREN)
- National Pension Fund Association
- National Pension Research Institute
- National Pension Service of the Republic of Korea
- Nippon Life Insurance
- Nomura Funds Research and Technologies
- NongHyup Life Insurance
- Orix Life Insurance Corporation
- Pension Fund Association for Local Govrnment Officials (CHIKYOREN)
- Public Officials Benefit Association (POBA)
- Samsung Fire & Marine Insurance
- Samsung Life Insurance
- Seoul Guarantee Insurance
- Sumitomo Mitsui Trust Bank
- Sungdam
- T&D Financial Life Insurance
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