

欧州金融の 新潮流

ダイレクトレンディング
を正しく理解するために



序章-ダイレクトレンディングとは?

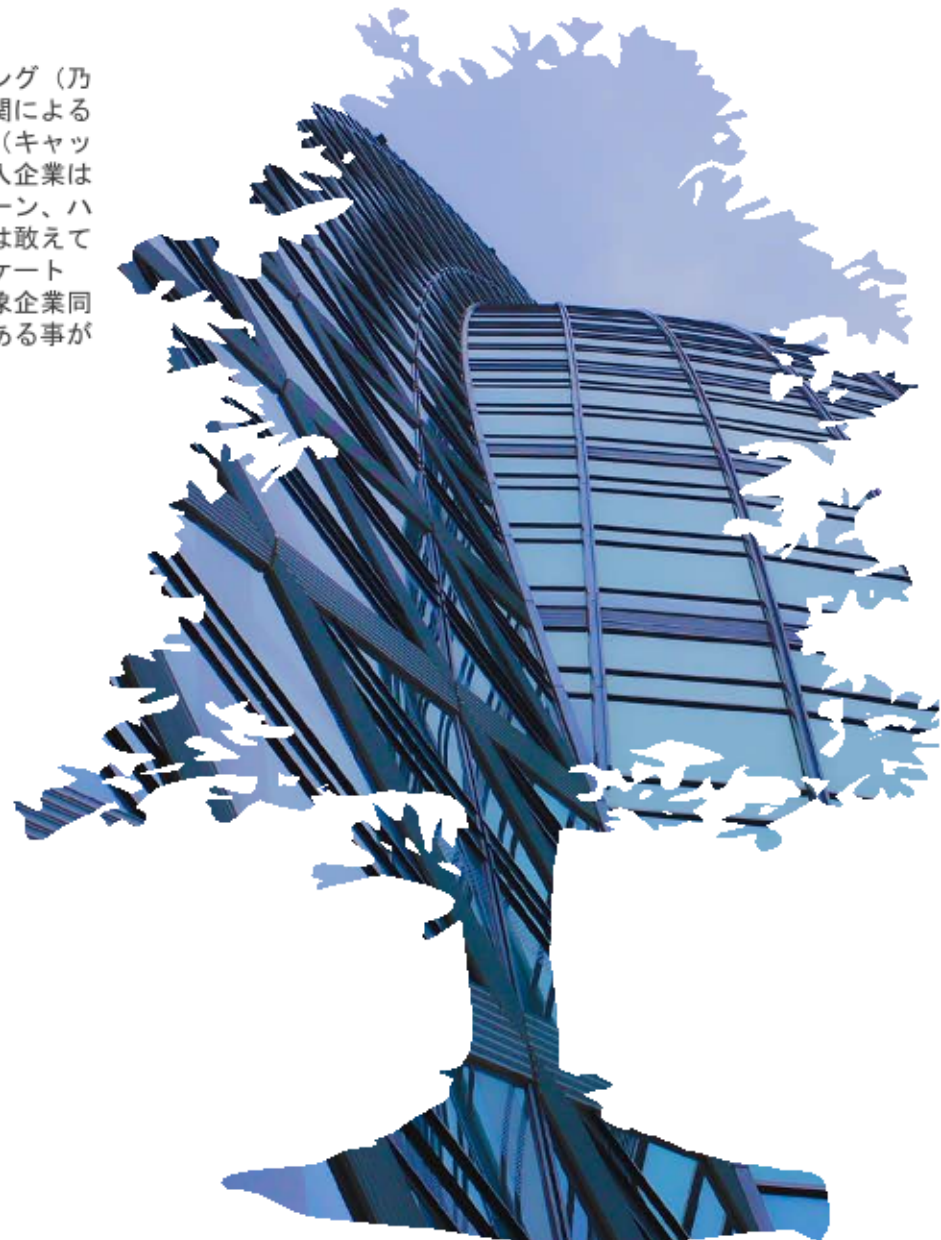
欧州ダイレクトレンディング市場は近年急速に拡大し市場参加者からの認知も高まってきているとはいえ用語が統一されていない面も散見されるため本論考では以下の通り定義する。

プライベートデット

銀行以外の機関（ノンバンク）が提供する負債性金融商品でパブリック市場で取引がなされないもの。これらには不動産やインフラストラクチャーを担保とする融資のほか企業の創出するキャッシュフローを裏付けにする融資（キャッシュフローレンディング）も含む。

ダイレクトレンディング

プライベートデットのうちダイレクトレンディング（乃至はプライベートクレジット）は銀行以外の機関によるキャッシュフローを裏付けにする企業向け融資（キャッシュフローレンディング）をいう。一般的に借入企業はパブリックデット市場（社債、シンジケートローン、ハイイールド債）へのアクセスを有さず（若しくは敢えてアクセスしないことを選択）、信用力はシンジケートローン（バンクローン）やハイイールド債の対象企業同様に非投資適格だが売上や利益はより小規模である事が多い。



何故今、欧州ダイレクトレンディングか?

欧州では金融危機以前、企業向け貸付の8割超が銀行により提供され、中小企業の資金調達には銀行に頼る以外に無かった¹。然しながら2008年の金融危機以降、金融規制の強化と銀行のビジネスモデルの転換が相まって銀行の貸出能力は急速に低下した。その結果2008年以降の10年間で欧州銀行の与信残高は概ね1,200兆円（\$11trillion）程度減少した²。

他方2010年以降（2012年、2013年を除き）欧州経済は概ね年率2%程度で堅調に成長を続けたことから自ずと中小企業の借入需要は100%充足されず銀行以外の資金の出し手が必要となる状況が出現。当社の見解ではこの傾向は長期にわたる不可逆的なもので欧州ダイレクトレンディング市場には足元のみならず今後も妙味ある投資機会が存在し続ける。

欧州市場 vs 米国市場

下記表（表1）から見て取れるように欧州は経済規模、成長率、中小企業数の点で米国と同等だが人口では米国を上回る。他方貸出市場を見ると欧州銀行のGDP比バランスシートは米国対比大幅に大きく長期貸出に占める銀行の割合も米国比高い。近年、欧州ダイレクトレンディング市場は米国対比急速に拡大しているが上記の背景から当面拡大余地が存在すると考えられる。

表1：米国市場と比較しても魅力的な欧州市場

欧州市場と米国市場 主要統計数値の比較

	欧州	米国
人口 ('19) / 名目GDP ('19)	5億1千万人 / 18.7兆ドル	3億3千万人 / 21.3兆ドル
実質GDP 成長率 ('20-'24見通)	~1.64% p.a.	~1.70% p.a.
中小企業数 ('18) ¹	~23万社	~23万社
銀行総資産対GDP比率 ('18)	1.71x	0.96x
長期融資に占める銀行比率 ²	83%	25%
ダイレクトレンディング総資産 ('18) / '13-'18年平均成長率	1,100億ドル / ~34%	1,400億ドル / ~18%

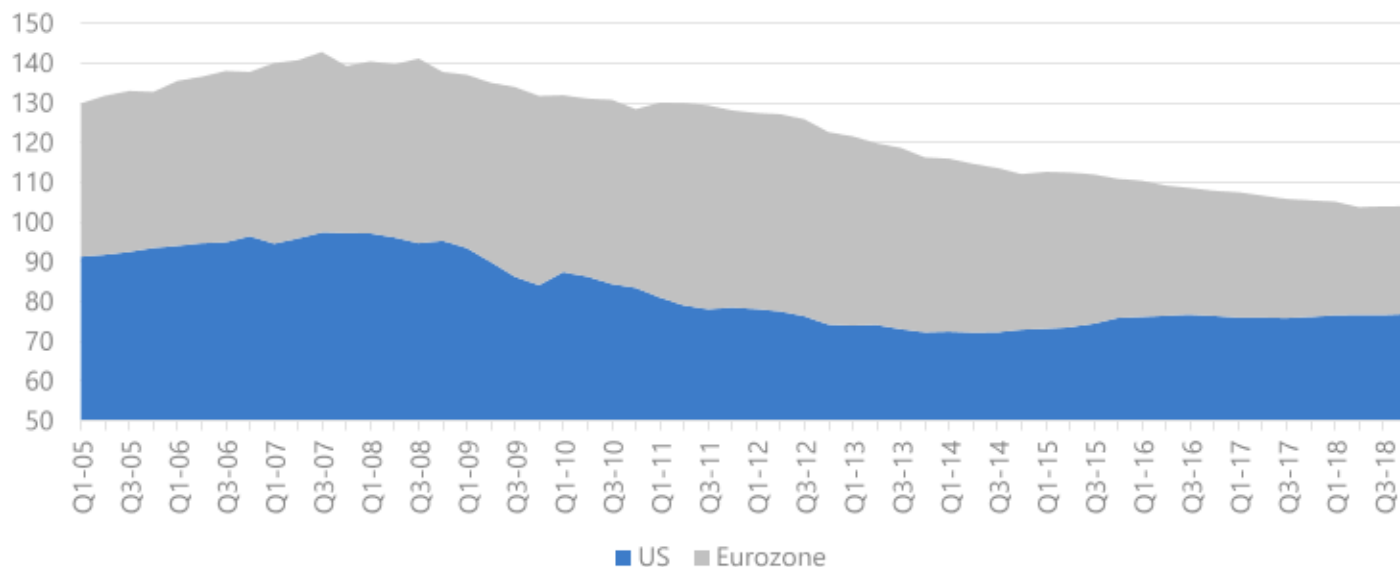
Note: ¹ Enterprises with employees between 50-250; ² Europe (2017) and US (2016), Europe - Total Loans vis-à-vis NFCs/Loans vis-à-vis NFCs by MFIs
Source: IMF (Population, GDP, GDP growth); BIS (domestic bank lending data); EC (# of companies, Europe); NAICS (# of companies, USA); ECB (bank lending %, Europe); EBF (bank lending %, US); Preqin (Direct Lenders' AUM / CAGR); Pemberton Capital Advisors LLP, October 2019

¹ ECB

² Bank for International Settlements, December 2018. Data captures the outstanding amount of credit in France, Germany, Italy, Spain and the U.K. at the end of the reference quarter. Credit is provided by domestic banks, all other sectors of the economy and non-residents. In terms of financial instruments, credit covers the core debt, defined as loans, debt securities and currency & deposits.

表2：欧州銀行預貸率の急激な低下

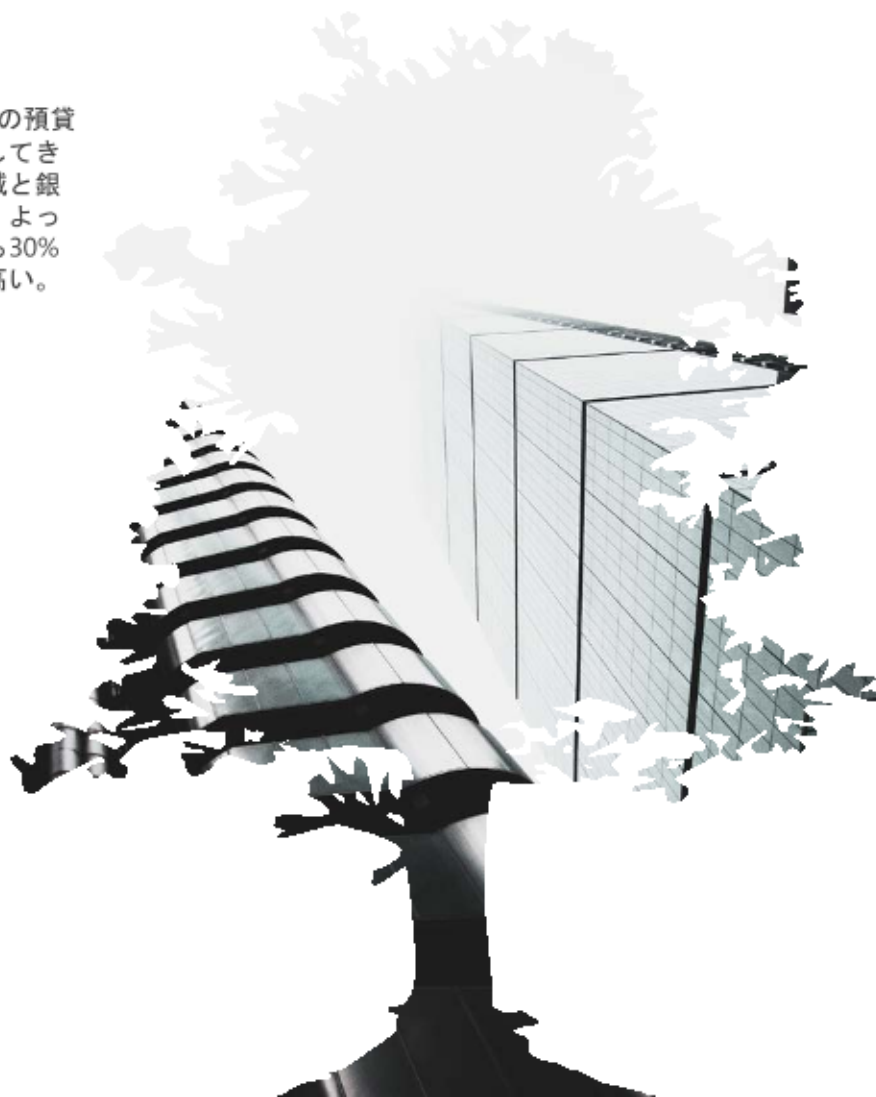
欧米銀行預貸率推移 (%)



Source: Eurostat Risk Assessment Indicators, March 2019, Bloomberg ALCBLOAN Index, March 2019

欧州市場 vs 米国市場 (続)

同様に上記表（表2）から読み取れる通り欧州銀行の預貸率は融資の減少を反映し金融危機以降急激に低下してきている。当社は欧州銀行セクターのリスク資産削減と銀行の統廃合がさらに進展する可能性が高いと予測。よって中期的に銀行のバランスシートは現行レベルから30%程度縮小し預貸率は米国並みに低下する可能性が高い。



ダイレクトレンディング vs バンクローン - 特性

ダイレクトレンディングはシンジケートされるバンクローンと並び称されることがあるが、当社は両社は明らかに異なるリスク資産と認識しており、両者の相違点を正しく理解することは極めて重要と考える。

表3：ダイレクトレンディングとバンクローンの比較・相違点

	ダイレクトレンディング	シンジケートローン ("バンクローン")
債務者格付	非投資適格 (外部格付け無し ¹)	非投資適格 (外部格付け有り)
債務者規模 (平均 EBITDA)	€20-50m	€250m
債権者数 (ローン毎)	少 (ペンバトンは原則過半を保有)	多
貸出審査方法	ダイレクトレンダーによる個別の詳細デューデリプロセス	参加メンバー全社に提供されるデューデリパッケージ
コベナンツ数	1-4	90% コベナンツライト
コベナンツの重要性	低 (コベナンツブリーチの6-12か月前から経営陣との交渉を開始する事も)	高 (コベナンツブリーチ発生までは経営陣との交渉は困難)
時価評価 (変動率)	理論時価 (低変動率 - 他債権者の影響限定的)	市場時価 (高変動率 - 他投資家の売買動向の影響)
モニタリング	月次財務データ	四半期財務データ
経営陣との交渉	直接可能	無
流動性	無 (原則満期保有)	有 (取引金額は限定的/混乱時には流動性枯渇)
ワークアウト時の機動性	ローンの過半を保有することでより迅速かつ能動的なワークアウト (回収率最大化) が可能	債権者数が多く迅速な意思結集が困難

脚注：¹ペンバートンの実行する全ての融資は欧州規制当局の承認を受けた先進的内部格付モデル (A-IRB) を用いた内部格付を付与し公開している
Source: Pemberton Capital Advisors LLP, October 2019

ダイレクトレンディング vs バンクローン - 特性 (続)

ダイレクトレンディングとバンクローンの特性の相違をより良く理解するために以下では各投資段階毎に両資産クラスの特性の違いを解説する（投資段階：ソーシング、デューデリ/引受審査、モニタリング、資金回収/ワークアウト）。ダイレクトレンダー毎に異なる戦略があるのでここでは当社の投資戦略（自社ソーシング、過半のポジションを保有等）に沿って説明をする。

投資段階: ソーシング

より広範なソーシング

大手ダイレクトレンダーは欧州各国のオリジネーション拠点から非常に広範かつ多数の新規案件フローがあり、良質と判断する案件にのみ投資をしている。バンクローン市場にアクセスする企業数はそもそも限定的であるのに対し、ダイレクトレンディングでは資金需要のある多くの中小企業群から自社の投資戦略に合致した企業を選択できるという面がある。

ペンバートンはオリジネーション拠点としてダイレクトレンダーとしては最大の欧州7か国にオフィスを有する。各国の金融市場で長くレパレッジファイナンス業務に携わってきた人材を各拠点に配置し、主に以下のチャンネルから新規案件のソーシングを行っている。

- プライベートエクイティスポンサー
- 地場有力銀行
- デットアドバイザー
- 事業会社との直接交渉
(既存ポートフォリオ企業のリファイナンスを含む)

一般的にダイレクトレンダーは新規案件獲得で銀行と競合していると考えられがちであるが必ずしもそうではない。銀行は年々厳しくなる資本規制に加え個社当たりの貸出上限額も厳しく管理されているため取引先の資金需要全額に単独で対応することが難しく貸出パートナーを必要としているのが現実。

従来銀行は企業の資金需要全額に対応するためには競合他社数行と「クラブ」を組むことが一般的であったが、このことは取りも直さず為替や送金といった融資関係から派生する資本効率の高い周辺業務を他行に一部譲るリスクを意味していた。このリスクを回避するために銀行はノンバンクと組むことを年々志向するようになってきており、このようなケースではダイレクトレンダーは銀行が全額出せないローンの残額を融資する一方、周辺業務を脅かすことないという意味において銀行の大切なパートナーと位置付けられる。巷間言われる「ダイレクトレンダーは銀行が懸念する企業のリスクを負わされている」という認識（ネガティブセクション）も実態を正しくとらえているとは言えない。

投資段階: デューデリ / 引受審査

ダイレクトオリジネーション

多くのダイレクトレンダーは案件をプライマリーで直接ソーシングしており個別に詳細かつ厳格なデューデリを行い融資判断前には企業への直接ヒアリングも行う。また融資条件や融資契約詳細も借手企業と最初から直接交渉し、契約上期中の経営陣への直接アクセスを明記することも珍しくない。一方、バンクローンのデューデリ及び引受審査はアレンジャー銀行が作成するパッケージがベースになる上、貸出条件や融資契約詳細を借手と直接交渉することは無い。このようなことからダイレクトレンディングではバンクローンと比較して借手とより緊密な関係を構築でき、融資条件などに関する交渉力も高い。

当社は各々のローン毎に過半を獲得することを原則としている（最低でも1/3超）。それゆえ融資条件は当社が単独ないしは中心になって交渉し、他の貸手がいる場合でも融資契約詳細を詰めるプロセスは当社が担う。

コベナンツ数

ここ数年バンクローンにおける融資規律の緩みが指摘されておりダイレクトレンディングにおいても融資規律の緩和傾向は存在する。但し足元でも当社が取り組む融資は最低でもコベナンツが1つは存在し（多くの案件はそれ以上）、新規案件の90%が“コベナンツライト”であるバンクローンとはその程度は大きく異なる。

投資段階: モニタリング

頻度 / モニタリングの質

ダイレクトレンディングでは債務者からの月次財務情報に基づききめ細かなモニタリングを行う。モニタリングは主要経営指標の推移を確認するのみならず、例えば EBITDA Adjustmentの達成度など、より細かな数値をモニターすることが一般である。またダイレクトレンダーは、特に融資の過半を有する場合には交渉力を活用して、業績悪化時にはスポンサーや経営陣に直接アクセスし改善方針・施策を細かに協議をする。これらのアクションはコベナントが実際に抵触するより相当に早い時点で行うことが一般的（かつ効果的）である。

一方のバンクローンでは全ての貸手が同一の財務レポートを四半期ごとに受領する。また年に一度アレンジされるバンクミーティングで経営に関するプレゼンテーションを受ける以外に経営陣と直接交渉する機会は与えられない。

時価評価 / 時価変動率

原則ダイレクトレンディングの融資はセカンダリー市場で取引されることが無いため時価評価は市場で観測される取引価格ではなくモデルを用いた理論価格である。ゆえにダイレクトレンディングにおける時価評価は市場における一般的な市場センチメントや一部の投資家の売買行動による影響を受けることが無く比較的安定的といえる。

他方バンクローンはセカンダリーの取引市場が存在するため市場で観測された取引価格を用いて時価評価することが可能である。この点に注目してバンクローンは（プライベートデットより）望ましい商品であると評価されることがある。然しながらバンクローンのセカンダリー市場で取引される金額は€3m x €3m程度と比較的少額である事も少なくなく、それ以上の金額を取引する場合には市場価格が大きく変動することが一般的である。

金融危機以降（証券会社や銀行のリスク許容度が低減したため）市場の流動性は大きく低下し、最近では2018年末に経験したように、一般的な市場センチメントや一部の投資家の売買行動により時価が大きく変動することが有りうる。

投資段階: 資金回収 / ワークアウト

流動性

ダイレクトレンディングはセカンダリー取引市場が存在せず満期保有を原則とし期中の市場売却による資金回収を想定していない。

他方バンクローンはセカンダリー取引市場が存在し、投資家は市場売却により資金回収を図ることが可能である。但し混乱時には市場流動性は著しく低下することは近年何度も経験している通りである。またそのような混乱時には価格変動率が非常に高まる傾向があり一定の取引ルール（ロスカットルールなど）がある場合に投資家は強制売却による損失確定を余儀なくされる場合がある。

ダイレクトレンディングは企業業績悪化時にも上記のような強制売却は行われぬ。専門チームを有するダイレクトレンダーは早期にスポンサー・経営陣と業務改善策を協議・策定・実行することにより金利も含めた資金回収を図ることが可能となる。

ワークアウト（事業への関与）

ダイレクトレンディング、バンクローンともに非投資適格の企業を対象とするため中には投資期間中（通常7年前後）に業績が悪化する企業がある可能性は否定できない。通常の景気サイクル並びにクレジットサイクルの影響は当然当初の引受審査時に検討をするが、それ以外にも企業業績に負の影響を与えうる要因は企業の外部・内部共に存在する。

外部要因

当初想定していなかった経済や産業における事象が事業に影響を与える場合がある。これにはBREXITやその他の地政学的な事象を含む。また新しい技術革新が既存ビジネスの潜在収益に大きな影響を与える場合がある。

内部要因

厳密なデューデリに基づいた当初の投資判断が妥当で大きな見落としが無くとも企業業績が予測通りに順調に進展するとは限らない。ダイレクトレンダーはあくまでもローン債権者の立場であり正常時は企業に対し株主と同レベルの関与を行わない（若しくは関与は意図されていない）。ローン債権者は通常ビジネスプランの遂行・実現をスポンサー・経営陣に委ねているが、スポンサー・経営陣を厳密にデューデリしてもスポンサー・経営陣の力量次第ではビジネスプランが未達となる場合がある。

投資段階:資金回収/ワークアウト（続）

ワークアウト（事業への関与）（続）

一方、企業業績が悪化する局面ではダイレクトレンダーはローンの過半を有し（コベナンツ違反時に非常に大きな権限を持つ）利害関係者として企業の運営に干渉することが可能であり、ファンド投資家の利益を保護するためには適時適切な干渉を行うことが求められる。このことは取りも直さずダイレクトレンダーにはきめ細かなモニタリングを通じて業績悪化の兆しを早期に捕捉する事が求められる上、必要に応じて異なる言語、商習慣、法制度に応じた実効性あるワークアウトを遂行する能力が求められる。

2018年12月に発表されたEU指令³により（2019年6月にEU官報に正式記載）各加盟国は原則2021年7月までに企業倒産関連法制を修正し発効させる義務を負った。これは加盟国間での企業倒産・再生に係る法務と実務の同等性を確保することによりEU資本市場の透明性・利便性を高めることと従来より迅速な企業再生を何れの国でも可能にすることが企図されている。

ダイレクトレンディングでは、レンダーが過半を有することも多く、企業の経営陣へのアクセス（直接交渉）ができる場合が多い。企業業績に悪化の兆しが生じた場合にダイレクトレンダーはコベナンツ違反の有無に関わらず迅速に行動を起こすことが求められる。企業と密接な対話を開始し、問題点の特定、業績改善策の策定を行うことが求められるだけでなく、経営陣に計画を適正に履行させる交渉力と綿密なフォローアップが極めて重要となる（コベナンツ違反の1年も前から企業と改善策を協議する場合も珍しくない）。

他方バンクローンでは経営陣への直接アクセスは年次の定期ミーティングを除いて無いことが一般的。そのため企業との業績改善策などに掛かる交渉も実際のコベナンツ違反までは開始できないことが多い。コベナンツ違反時も債権者の数が通常は多いため債権者総体としての意思結集に時間が掛かる。このような理由から企業が実質破たんの危機に瀕した場合ダイレクトレンディングのように迅速な法廷外の私的整理は困難。

³ EC - EU agrees new rules on business insolvency (19/12/2018)

<https://www.consilium.europa.eu/en/press/press-releases/2018/12/19/eu-agrees-new-rules-on-business-insolvency/>

ダイレクトレンディング vs バンクローン (利回り比較)

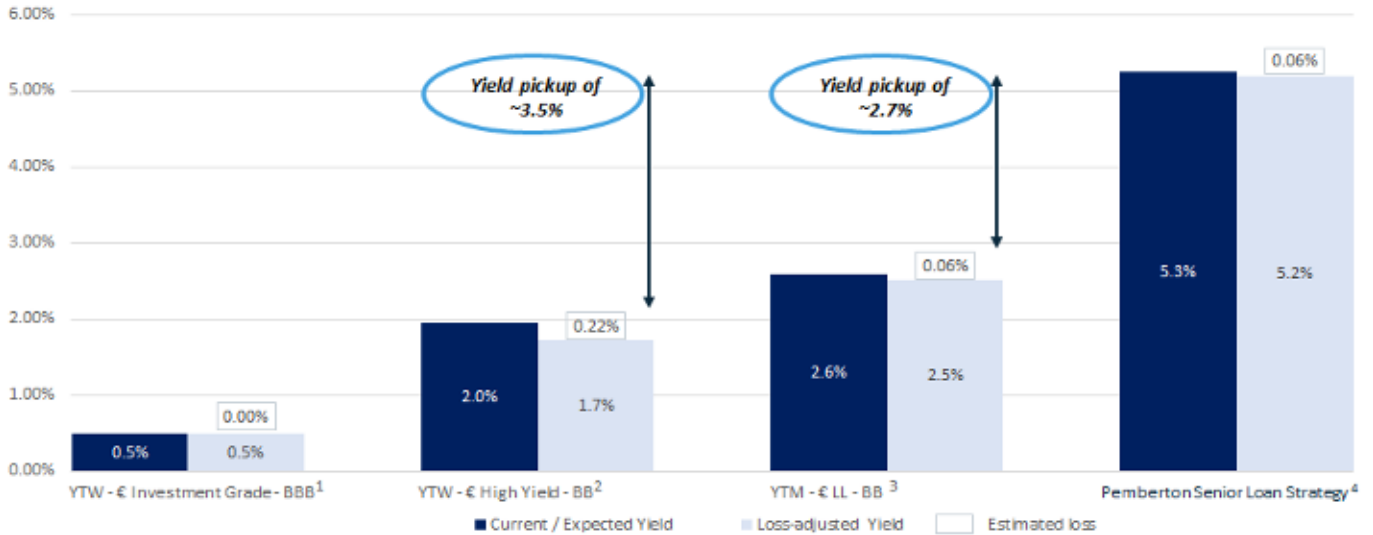
これまで見てきたようにダイレクトレンディングとバンクローンなどのパブリック市場の金融商品には多くの相違点があるが期待利回りも大きく異なる。下記表4は当社のシニアローン戦略（平均BB-格相当を予定）と同格付けのバンクローン、ハイイールド債（BB格付け）との利回り比較となる。ダイレクトレンディングは同格付けのハイイールド債対比約300bps、バンクローン対比270bps程度利回りが高いといえる。

ここでは当社のシニアローン戦略とバンクローンの回収率を同レベル想定している（2014年-2017年の第1順位担保付優先ローンの平均回収率）。近年のバンクローンにおける融資規律の緩みにより今後の回収率は低下する可能性も否定しえず、ここで試算している利回り差は保守的な推定ともいえる。

表4：ダイレクトレンディングの魅力的な利回りピックアップ

当社シニアローン戦略と市場のBBB/BBクレジットリスクとの利回り比較

CURRENT / EXPECTED YIELD (AS OF SEP-END, 2019), %



Note: Loss-adjusted yield calculated based on average loss rate and recovery rate during 2015-2017 (Moody's), Investment Grade and High Yield Bonds - average loss rate and recovery rate for senior unsecured bonds; Loans - average loss rate and recovery rate for 1st Lien loans; Source: ¹ S&P Eurozone BBB Investment Grade Corporate Bond Index; ² Credit Suisse Western European High Yield Index; ³ Credit Suisse Western European Leveraged Loan Index; ⁴ Expected return of the Pemberton Senior Loan Strategy - There is no guarantee that target returns will be achieved; Moody's 2018 Annual Default Study; Pemberton Capital Advisors LLP, October 2019.

表5：バンクローンの緩い融資規律を勘案すると利回り差はより大きい可能性

リスク（期待損失）調整後利回り試算

資産クラス	表面利回り	デフォルト率 (年率期待値)	回収率	期待損失	リスク調整後利回り
€ BBB 社債	0.49%	0.0%	41.0% ¹	0.00%	0.49%
€ BB ハイイールド債	1.95%	0.4%	41.0% ¹	0.22%	1.73%
€ BB バンクローン	2.58%	0.2%	69.4% ²	0.06%	2.52%
当社シニアローン戦略	5.25% (ターゲット)	0.2%	69.4% ²	0.06%	5.19%

Note: ¹ 2015-2017 average recovery rate for senior unsecured bonds; ² 2015-2017 average recovery rate for 1st Lien loans; There is no guarantee that target returns will be achieved.

Source: Moody's 2018 Annual Default Study, S&P Data, Credit Suisse Data, Pemberton Capital Advisors LLP, October 2019,

まとめに

欧州ダイレクトレンディング市場はより長い歴史を持つ米国市場と規模と成長力で類似した市場と言える。欧州市場は近年米国対比より急速に成長してきたが、商業銀行の更なるリスク削減圧力と業界内の更なる統廃合が見込まれる中、企業からの資金需要は引き続き堅調と想定され、ダイレクトレンダーを含めた銀行以外の貸手の存在意義は益々高まると予想される。

バンクローンはダイレクトレンディングには無い市場価格が観測できる事や流動性というメリットがある一方、ダイレクトレンディングには企業の業績悪化時に能動的に行動することで企業価値の棄損を食い止める事を通じてより確実に元本回収を図れるといった側面がある。近年の融資規律の緩みはバンクローンにおける同様の投資家保護の側面が希薄化されていると考えることも出来る。

これまで議論してきた様々な相違点や利回り差からダイレクトレンディングはダウンサイドにより強い事に加え、リスク調整後の利回りが魅力的な資産クラスであると言える。特にこれからの景気サイクルを考慮し、より保守的なポートフォリオ構築を意図する投資家には適合性が高い資産クラスと当社は考える。



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略歴

慶應義塾大学経済学部卒業後、1988年4月日本長期信用銀行入行。東京、ロンドンにて企業融資、デリバティブトレーディング、仕組債組成ビジネスに従事。

1998年1月米国ドイツ証券入社、本邦大手金融法人向けクレジットセールス営業に従事。2000年12月以降ドイツ証券東京でクレジットセールス、リレーションシップマネジメント統括、資本市場統括などを歴任。

2014年10月三井住友信託銀行ロンドン支店入社。主に市場性クレジット投資業務の立上げに従事。

2017年9月Pemberton Capital Advisors LLPのロンドン本社に入社し、アジアビジネスの拡大及びリレーションシップマネジメントを担当。

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慶應義塾大学経済学部卒業後、2006年4月にドイツ証券（東京）に入社。グローバルマーケット本部、金融法人営業部にてクレジット・円金利セールス業務に6年間従事。

米ノースウェスタン大学ケロッグ経営大学院にてMBA取得後、2014年9月戦略コンサルティングファーム、Bain & Company Inc. のロンドンオフィスに参画、欧州企業・政府機関等の幅広い戦略立案プロジェクトに5年間従事。

2019年6月Pemberton Capital Advisors LLPのロンドン本社に入社し、アジアビジネスの拡大及びCEO直下で全社の戦略プロジェクトに携わる。

These are just a few thoughts based on our view of the market.

We'd love to hear your opinions. So please feel free to contact our Business Development team on businessdevelopment@pembertonam.com or

+44 (0) 20 7993 9300 with any questions or comments.

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EUROPEAN DIRECT LENDING

WHAT IS DIRECT LENDING?

DIRECT LENDING ("DL") VS
BROADLY SYNDICATED
LOANS ("BSL")

Intro - What is direct lending ("DL")?

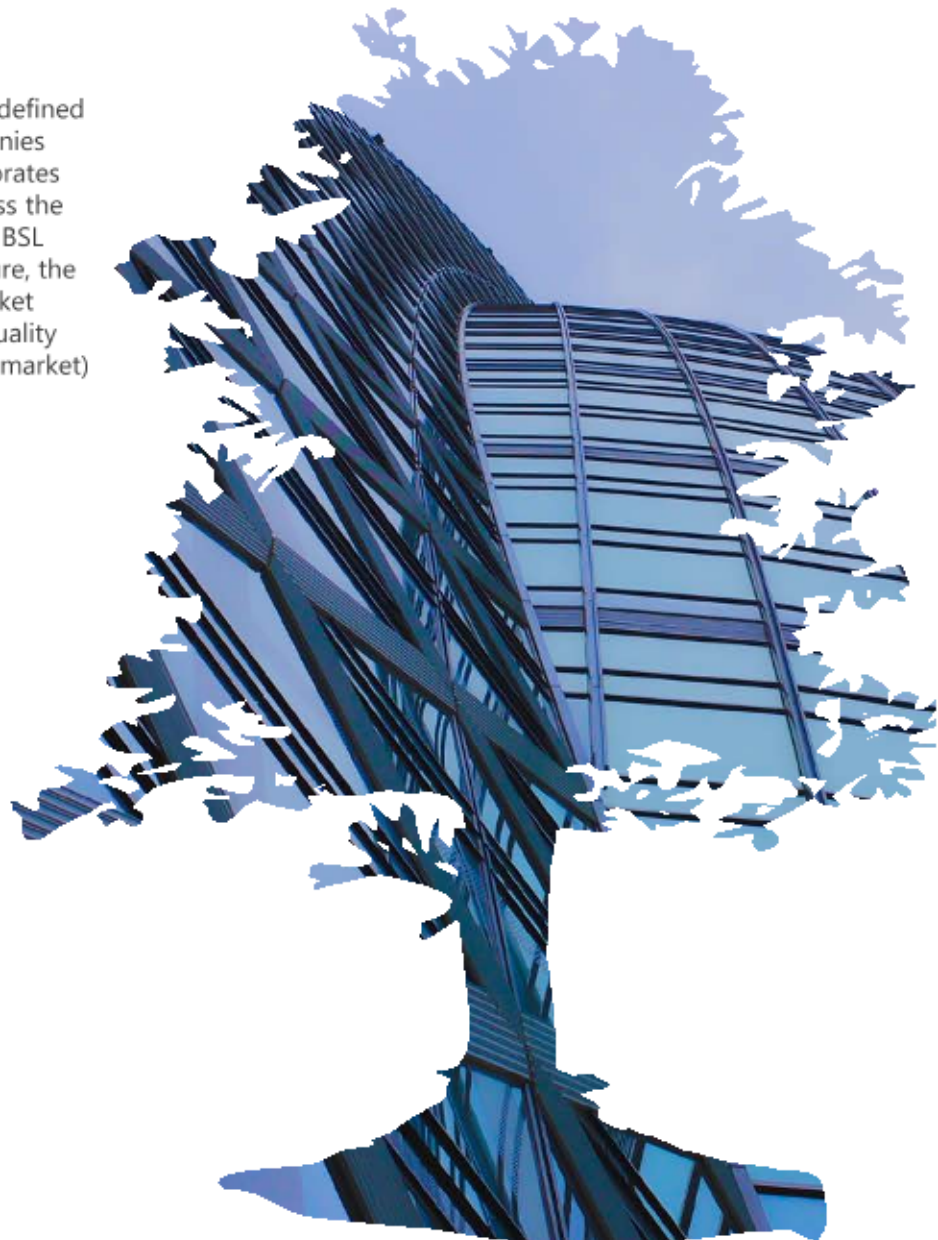
The European DL market has shown strong growth over the past several years. Although the understanding of the market has increased, there still remains a difference in terminology used by different market participants. To avoid any confusion, we would like to define the terms as the following:

Private debt

Private debt is defined as debt instruments provided by non-bank entities which are not traded in the public markets. These include loans backed by real estate, infrastructure and business cashflow.

Direct Lending

Within Private debt, DL (or private credit) can be defined as loans provided by non-bank entities to companies based on their business cashflow. It targets corporates that don't have access to / or choose not to access the public debt market (e.g., corporate bond market, BSL market, high yield bond market). Due to this nature, the general characteristic of the borrower is mid-market companies with a non-investment grade credit quality (similar credit quality to BSL and high yield bond market) but smaller in size.



Why European direct lending?

Historically, more than 80% of corporate funding in Europe has been provided by banks¹. As a result, European mid-market companies are reliant upon banks for debt funding to meet their financing needs. Since 2008, increasing regulatory requirements and changing business models have restricted many banks' ability to lend, contributing to the withdrawal of approximately \$11trillion of domestic and cross-border bank financing from the core European markets during this period².

This withdrawal of capital, coupled with comparatively strong year-on-year GDP growth since 2010, has led to a general shortfall in the supply of bank financing to European mid-market companies that has fundamentally changed the credit markets in Europe by driving demand for financing from sources other than banks. We see this as a long-term, structural shift that will provide European direct lending strategies with access to attractive investment opportunities throughout its investment period and beyond.

European market vs US market

The below table (Exhibit 1) compares the European market with the US market. As you can see (from the top 3 rows), the European market is a comparable market with the US market in terms of GDP level, GDP growth rate and the # of mid market companies but with higher population.

On the other hand, when you compare the lending market statistics of the two markets (bottom 3 rows), European banks have much larger balance sheet (vs GDP) and the share of bank lending as a % of long-term financing is also much higher in Europe than in the US. Although the AUM of direct lenders has grown much faster in Europe, there remains headroom for the European direct lenders' AUM level to grow.

Exhibit 1: European market is an attractive market even compared to the US market

High-level comparison of European market and the US market

	Europe	US
Population ('19) / Nominal GDP ('19)	~510m / ~\$18.7tn	~330m / ~\$21.3tn
Real GDP growth forecast ('20-'24)	~1.64% p.a.	~1.70% p.a.
# of Mid Market companies ('18) ¹	~232K	~231K
Total Bank B/S to GDP Ratio ('18)	1.71x	0.96x
Bank lending as a % of long-term financing ²	83%	25%
Direct Lenders' AUM ('18) / '13-'18 CAGR	\$110bn / ~34%	\$140bn / ~18%

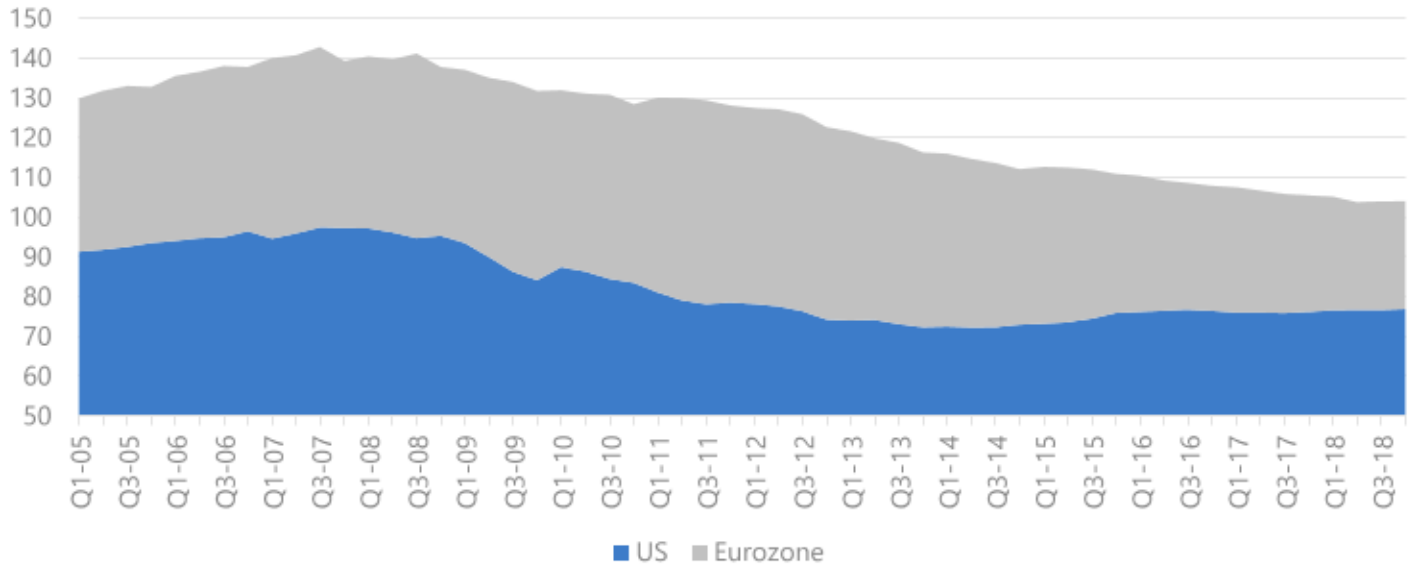
Note: ¹ Enterprises with employees between 50-250; ² Europe (2017) and US (2016), Europe - Total Loans vis-à-vis NFCs/Loans vis-à-vis NFCs by MFIs
Source: IMF (Population, GDP, GDP growth); BIS (domestic bank lending data); EC (# of companies, Europe); NAICS (# of companies, USA); ECB (bank lending %, Europe); EBF (bank lending %, US); Preqin (Direct Lenders' AUM / CAGR); Pemberton Capital Advisors LLP, October 2019

¹ ECB

² Bank for International Settlements, December 2018. Data captures the outstanding amount of credit in France, Germany, Italy, Spain and the U.K. at the end of the reference quarter. Credit is provided by domestic banks, all other sectors of the economy and non-residents. In terms of financial instruments, credit covers the core debt, defined as loans, debt securities and currency & deposits.

Exhibit 2: Significant reduction in banks' Loan To Deposit ratios

US & EURO AREA BANK LOAN TO DEPOSIT RATIOS (%)



Source: Eurostat Risk Assessment Indicators, March 2019, Bloomberg ALCBLOAN Index, March 2019

European market vs US market (cont'd)

Similarly, as you can see from the above (Exhibit 2), loan-to-deposit ("LTD") ratios of European banks have rapidly decreased from pre-crisis highs to levels considered more structurally stable as banks have reduced their lending volumes. However, Pemberton expects further reductions in European banks' LTD ratios in the future as banks continue to focus on de-risking and as the banking sector further consolidates, potentially shedding up to 30% of assets to bring Europe's banking sector more into line with the US over the medium term.



Why direct lending vs BSL – characteristics

Direct lending is often compared against syndicated loans (BSL). In our mind, these two instruments are fundamentally very different and should be considered very differently.

Exhibit 3: Direct lending and BSL have very different characteristics

Comparison of private loans and public loans

	Direct lending (Private Loans)	Broadly Syndicated Loan (Public Loans)
Borrower Rating	Non-investment grade	
Borrower Size (avg. EBITDA)	€20-50m	€250m
#of Debtors	Few (Pemberton often being the majority Lender)	Many
Due Diligence Method	Independent due diligence by the direct lender	Based on materials provided by the syndication banks
# of Covenants	1-4	90% covenant lite
Importance of Covenants	Low (Often holding influence as the majority lender 6-12 months before an actual covenant breach)	High (Hard to intervene until actual covenant breach)
Mark-to-Market (volatility)	Model price (Low volatility – not directly impacted by others)	Market Price (High volatility – impacted by others)
Monitoring	Monthly financial info	Quarterly financial info
Management Access	Direct	None
Liquidity	No (Generally hold-to-maturity)	Yes (Although size may be limited / liquidity might dry up during stressed times)
Workout Considerations	Majority Lender position enables proactive workout methods to increase / maximise recovery	Hard to form a consensus amongst the debtors

Source: Pemberton Capital Advisors LLP, October 2019

Why direct lending vs BSL – characteristics (continued)

To elaborate further on the characteristic differences, in the following section, we would like to focus on the key differences direct lending has (vs BSL) in each part of the investment cycle (i.e. sourcing, due diligence / loan underwriting, monitoring, exit / workout). Certain characteristics can vary depending on the specific strategy of the direct lender. Here, we would elaborate based on the strategy Pemberton focuses on (e.g., direct sourcing, lending at majority position).

Investment cycle: Sourcing

Diversified sourcing source

Top-tier European direct lending platforms have a well-diversified deal flow coming directly from the local origination market in each country. Direct lenders access the local deal flow from various countries and select only the assets that meets the portfolio guideline and assets that the direct lender is willing to include in their portfolio. Compared to the BSL market where you can only access the selected number of companies that choose to tap the public loan market, direct lending market has a much wider deal funnel the direct lenders can select from.

Pemberton has the largest direct lending platform in Europe having 7 origination offices across Europe with highly experienced individuals connected to the local loan market in each location. Leveraging this strong footprint across major countries across Europe, we directly source deals from the below channels:

- Private equity (“PE”) sponsors
- Banks
- Debt advisors
- Direct corporate inquiry (incl. refinancing of existing portfolio companies)

It is often thought that the direct lenders are competing with banks, but this is not necessarily reflecting the current dynamics. With increasing capital requirements and stringent single name limits, it is getting difficult for banks to lend to these mid-market corporates in full size and banks are looking for a partner.

Traditionally, banks brought together few other banks to form a “club” and jointly lent money to corporates. However, this potentially implies introducing competitors into the relationship with the bank’s corporate clients and could put lucrative ancillary businesses (e.g., cash management, FX transactions) at risk. To maintain the relationship with the corporate clients and not to put the ancillary businesses at risk, banks are looking for a non-bank partner which can underwrite the loan beyond their single name limit. Under such circumstance, we are often co-lending with the banks and not competing with the banks. Hence, the misperception that the direct lenders are only getting deals which the banks rejected is also not accurate.

Investment cycle: Due diligence / loan underwriting

Direct origination

Direct lenders generally originate loans directly with the borrower allowing the direct lenders to perform stringent due diligence (incl. direct management access) and negotiate the terms / documentation directly with the borrower. Compared to the BSL market where you are performing the diligence purely based on the diligence pack provided by the syndicate banks and have no direct control of the terms / documentation, direct lending market generally has much closer relationship with the borrower and better control of the terms / documentation.

Pemberton’s current strategy is to become the majority lender (and blocking minority at minimum). This allows us to directly negotiate with the borrower on the terms for all our loans and drive the documentation process directly with the borrower even when there are other participants in the loan.

of Covenants

Although it is hard to deny the fact that the trend of loosening documentation in the syndicated loan market is creeping into the direct lending market, the degree of loosening is very different. In the direct lending market, we still have at least one covenant (and often more) when it is said that nearly 90% of the BSL issues are now “covenant-lite”.

Investment cycle: Monitoring

Frequency / quality of information

Direct lenders can monitor the performance of the company very closely using the monthly financials direct lenders receive directly from the borrower. Based on this information, direct lenders track not only the key performance indicators but also more granular information (e.g., the realisation of the EBITDA adjustment included in the base case). Also, in a situation of an underperformance, leveraging the position as the majority lender, direct lenders often have access to the management to identify the cause of the underperformance and discuss the plan to turnaround the situation (even if the covenant is not breached).

For the BSLs, you are monitoring your position with a quarterly financials provided and being one of the many lenders in the broadly syndicated market, you generally don't have direct access to the management apart from the yearly presentation the borrower provides to all lenders.

Valuation / price volatility

By definition, direct lending assets don't have a secondary market and the valuation of the direct lending assets is a calculated price (using a model) and not a price observed in the market. Due to this nature, valuation of direct lending assets are not impacted by the general market sentiment / behaviour of other market participants and it is less volatile.

On the other hand, BSLs do have a secondary market and you can mark-to-market using a market observed price. Based on this, it is often mentioned that syndicated loans are a better product since there is an observable price in the market. However, it is also true that the price observed in the market is only for a certain size (e.g., 3m x 3m) and the price can be significantly different if you want to (need to) trade a larger size. Since the global financial crisis ("GFC"), the market liquidity has dramatically reduced for credit products and as we experienced several times (most recently in December 2018), the public market can experience high price volatility depending on the market sentiment / behaviour of other market participants.

Investment cycle: Exit / workout

Liquidity

As mentioned above, direct lending assets don't have a secondary market and by definition, doesn't have liquidity. Direct lenders are hold-to-maturity investors and do not expect to exit the credit by selling it in the market.

On the contrary, for BSLs, there is a secondary market and investors can liquidate their position by selling the position in the market. However, as we experienced several times (most recently in December 2018), the liquidity in the public market can dry-up very quickly during stressed times (only liquid in normal times). Also, due to the volatility during these times, investors can be forced to sell and crystallise the loss at the bottom of the market due to internal trading rules.

In direct lending, even if the credit underperforms, the direct lender will not be forced to sell (and crystallise the loss). A capable direct lender will work with the sponsor / management of the borrower to turnaround the company and workout to get the loan repaid in full with interest.

Investment cycle: Exit / workout (cont'd)

Step-in / workout

Especially considering the fact that direct lending (and also BSLs) is targeting non-investment grade corporates, it is statistically true that some companies in the portfolio are going to experience certain difficulties during the investment period. Beyond the normal economic / credit cycle we consider during the due diligence phase, difficulty can be caused by both external and internal factors:

External factors:

Unexpected shifts in the market / industry the portfolio company operates in can result in underperformance of an asset. This can include macro events (e.g., Brexit, geopolitical events) and technological events (e.g., innovation disrupting the market's profit pool) which might have been difficult to predict when a certain investments were made.

Internal factors:

Having the right investment thesis doesn't automatically result in good performance. Being a debt holder, direct lenders don't have the same control of the business (or don't intend to have control unless absolutely necessary) as the equity owners. As we have less control, we are initially relying more on the shareholders and the management of the business to drive and deliver the business plan. Although we perform rigorous diligence on both the PE firm (for sponsor deals) and the management, there can be situations where the PE firm and/or management fails to deliver according to plan.

In these situations, direct lenders can and would need to step-in to protect the limited partners' ("LPs") interest by leveraging the position as the majority lender. For this very reason, the capability / experience to monitor the performance closely, to step-in at the right timing and to lead the turnaround / workout process (in various jurisdictions requiring various language capabilities and cultural / business practice understandings) becomes critical for any direct lender.

It is worth noting that in Dec 2018, EU announced a new directive on business insolvency to reduce the differences in member states' restructuring and insolvency frameworks and to enhance the rescue culture in the EU³. Once fully implemented (member states will then have maximum 3 years to implement the new rules in their national legislation), this would enable experienced direct lenders to perform workout / turnaround more efficiently going forward.

In the direct lending market (where the direct lender is often the majority lender), you have direct management access and direct lenders don't need to wait to form a consensus amongst the debtors. When things are not going according to plan, capable direct lenders will immediately notice the potential issue and will take a proactive approach to start the discussion with the management without waiting for an actual covenant breach (e.g., discussion with the management can even occur 12 months prior to the expected covenant breach).

For the syndicated loans, it is rare to have management access apart from the scheduled yearly presentation to all debtors. Also, you will have to wait until an actual covenant breach occurs to make any action. Even when making an action, since you have many debtors, it generally takes a lot of effort and time reach a consensus amongst the debtors. For these reasons, in a situation where you require turnaround / workout, you often fall behind the curve and forced to be more reactive than proactive.

³ EC - EU agrees new rules on business insolvency (19/12/2018)

<https://www.consilium.europa.eu/en/press/press-releases/2018/12/19/eu-agrees-new-rules-on-business-insolvency/>

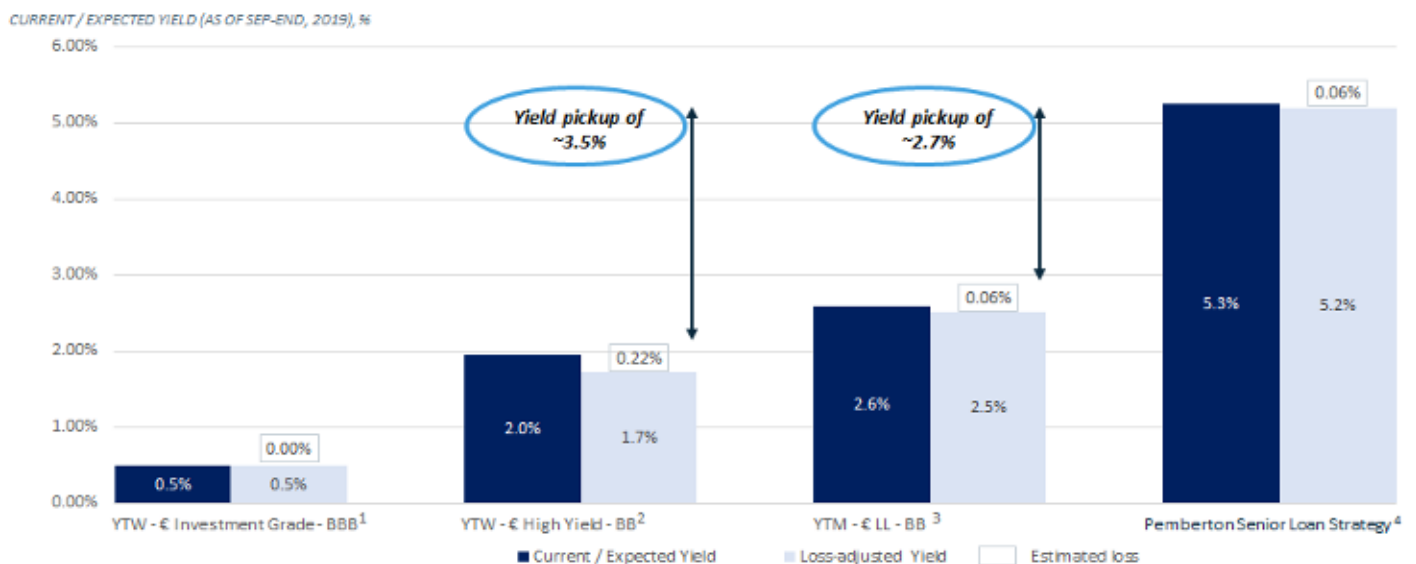
Why DL vs BSL – yield pickup

Along with the difference in characteristics, the risk adjusted return direct lending assets and public market instruments offer is also very different. The below (Exhibit 4) compares the target return of Pemberton’s Senior Loan Strategy (target avg. rating of BB-) to other public instruments with similar rating. As illustrated below, direct lending asset provides a c.350bps risk adjusted yield pickup vs HY bonds and a c.270bps risk adjusted yield pickup vs BSLs.

It is worth highlighting that the c.270bps pickup vs the BSL assumes a same recovery rate between the Senior Loan Strategy and the BSL market (based on the average recovery of 1st lien loans during 2014-2017). Considering the recent trend of loosening documentation in the BSL market, the recovery rate of BSL market is expected to have deteriorated and this c.270bps pickup is still a conservative estimate.

Exhibit 4: Direct lending market offers an attractive risk adjusted yield pickup

Expected performance of Pemberton’s senior loan strategy vs BBB/BB rated public instruments



Note: Loss-adjusted yield calculated based on average loss rate and recovery rate during 2015-2017 (Moody’s), Investment Grade and High Yield Bonds - average loss rate and recovery rate for senior unsecured bonds; Loans - average loss rate and recovery rate for 1st Lien loans
 Source: ¹ S&P Eurozone BBB Investment Grade Corporate Bond Index; ² Credit Suisse Western European High Yield Index; ³ Credit Suisse Western European Leveraged Loan Index; ⁴ Expected return of the Pemberton Senior Loan Strategy - There is no guarantee that target returns will be achieved; Moody’s 2018 Annual Default Study; Pemberton Capital Advisors LLP, October 2019.

Exhibit 5: Considering recent documentation trends, c.270bps pickup is still a conservative estimate

Risk/loss-adjusted avg. yield comparison

Instrument	Gross Yield	Annual Default Rate	Recovery Rates	Estimated Losses	Loss-adjusted Yield
€ Investment Grade - BBB	0.49%	0.0%	41.0% ¹	0.00%	0.49%
€ High Yield - BB	1.95%	0.4%	41.0% ¹	0.22%	1.73%
€ LL - BB	2.58%	0.2%	69.4% ²	0.06%	2.52%
SLS Target Yield	5.25%	0.2%	69.4% ²	0.06%	5.19%

Note: ¹ 2015-2017 average recovery rate for senior unsecured bonds; ² 2015-2017 average recovery rate for 1st Lien loans;
 There is no guarantee that target returns will be achieved.
 Source: Moody’s 2018 Annual Default Study, S&P Data, Credit Suisse Data, Pemberton Capital Advisors LLP, October 2019.

Conclusion

European direct lending market targets a market with similar size and potential as the more matured US market. Although the European direct lending market has grown significantly over the past few years, the fundamental driver behind the growth is a long-term, structural shift in the financial sector and the continued trend of bank de-risking and the banking sector consolidation is expected to bring further capital demand to a non-bank entity which private lenders (incl. direct lenders) can play a significant part in.

It is true that the more traditional public loan market (e.g., BSL) has certain characteristics which the direct lending market doesn't have (e.g., market price visibility, liquidity). However, it is also true that certain aspects of direct lending markets offer significant downside protection while the recent developments in the public market (e.g., loosening documents) are decreasing the protection the public loan instruments offer to the investors.

With the differences in characteristics and the potential yield pickup, direct lending assets can be seen as a more defensive asset class which offers attractive risk-adjusted return suitable for various investors who is looking to take a defensive approach considering the phase of the current credit cycle.



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Shintaro Mori has over 30 years' banking experience in sales, structuring and trading roles.

Shintaro joined Pemberton in 2017 and is responsible for capital raising and business development in APAC.

Before joining Pemberton, Shintaro was responsible for building non-traditional credit investment platform at SMTB London between 2014 and 2017.

Between 1998 and 2014, Shintaro held a number of positions within Deutsche Bank Group in London, NY and Tokyo that includes co-head of DCM and Head of Structured Credit Sales at DB Tokyo.

Shintaro started his career at The Long Term Credit Bank of Japan in 1988 where he held a few different roles from retail banking to credit structuring.

Shintaro graduated from the Keio University (Tokyo) with a BA in Economics.

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Jun Narui has a unique background combining financial experience with management consulting capability / experience.

Jun joined Pemberton in June 2019 and takes various roles including business development in APAC and leading strategic projects within the firm.

Before joining Pemberton, Jun was a Manager at Bain & Company in their London office, advising global corporates and public sector entities in Europe.

Jun started his career in 2006 as a new graduate at Deutsche Securities (Tokyo) covering Japanese financial institution as structured credit sales and yen-rates sales.

Jun graduated from the Keio University (Tokyo) with a BA in Economics and holds an MBA from Kellogg School of Management, Northwestern University.

These are just a few thoughts based on our view of the market.

We'd love to hear your opinions. So please feel free to contact our Business Development team on businessdevelopment@pembertonam.com or

+44 (0) 20 7993 9300 with any questions or comments.

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