PitchBook

H1 2023

GLOBAL Private Debt Report

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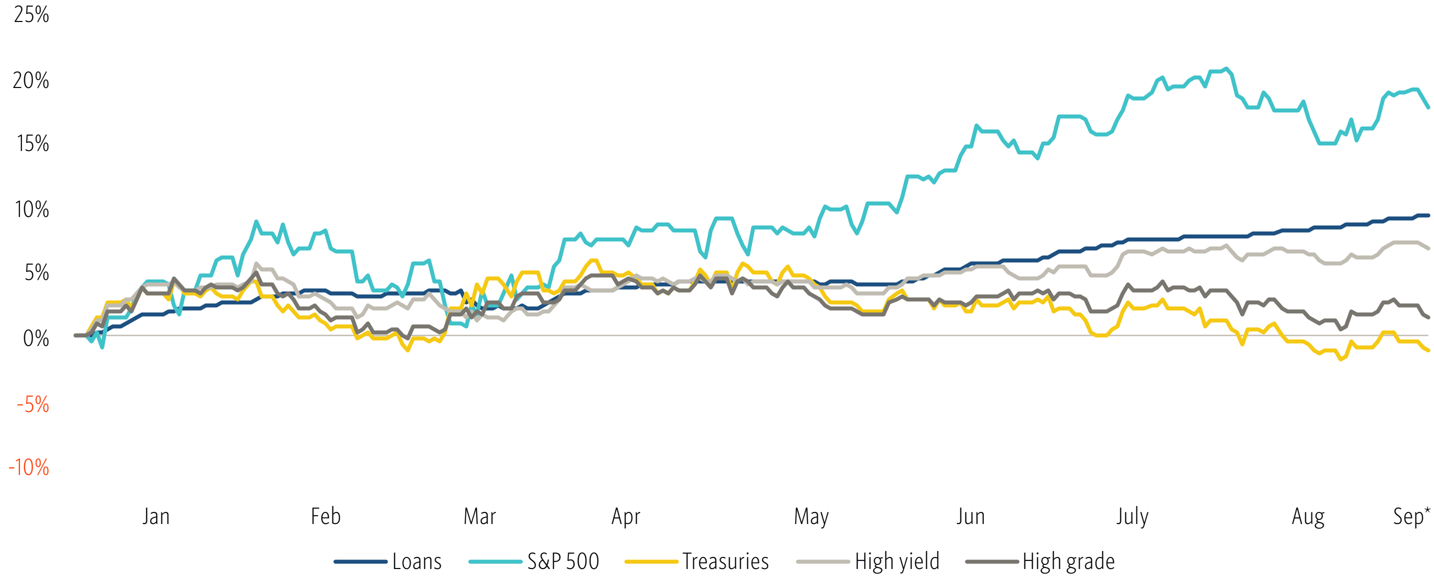
Click here for PitchBook's report methodologies.

Key takeaways

2023 cumulative returns by asset class

Loans trail stocks but continue to outperform bonds



Sources: PitchBook | LCD, Morningstar, S&P Dow Jones Indices • **Geography:** US
*As of September 6, 2023

Strong inflows continue. Private debt strategies continue to draw strong interest from institutional investors, with H1 2023 fundraising commitments at $94.9 billion, well ahead of H1 2022's $91.4 billion. With the stronger historical seasonality in H2, we believe 2023 will be the fourth year in a row with institutional commitments exceeding $200 billion.

Retail fundraising gets more crowded. Retail continues to be an important growth vector for private credit managers, but activity slowed in H1 2023, and competition is increasing. An estimated $16.6 billion in retail funds were committed to private debt funds in H1 2023, which is below the 2022 quarterly average of $12.0 billion. Additionally, more sponsors are jostling for share with Fidelity, Eaton Vance, KKR, PIMCO, and Variant all launching new credit-oriented perpetual vehicles during the first half of 2023.

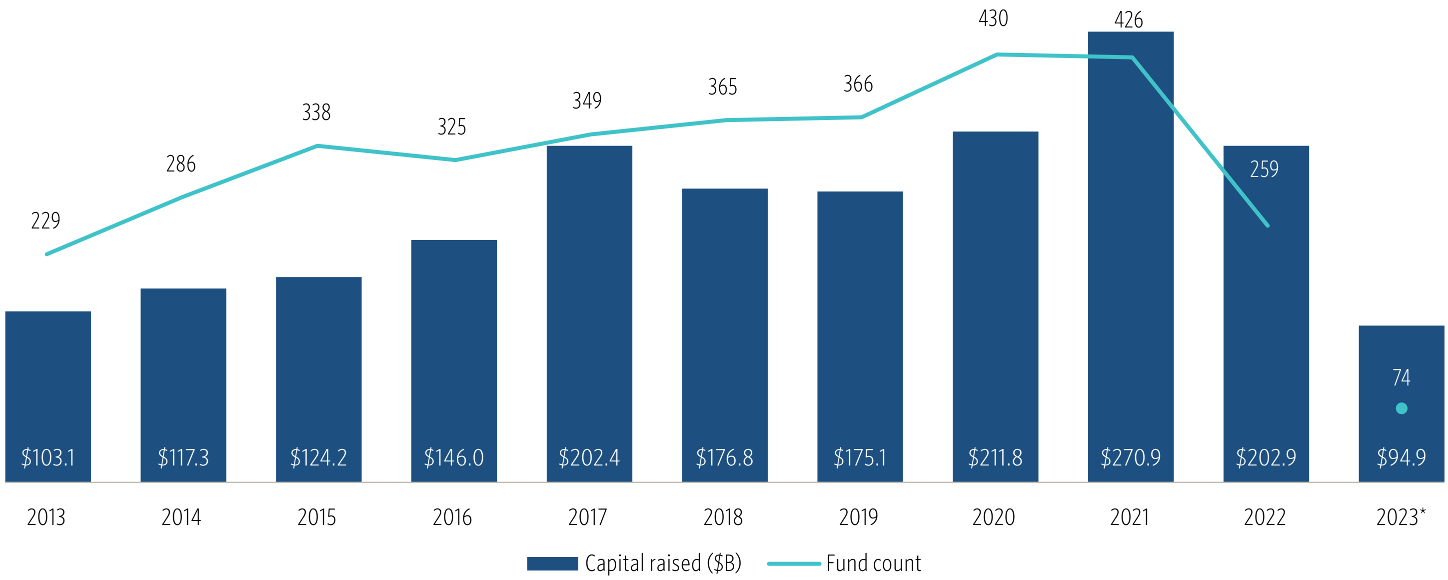
More diversity at the top. Direct lending continues to be the preferred substrategy in private debt and accounted for 32.0% of the overall mix of funds closed in H1 2023, with mezzanine a close second at 27.9%. While direct lending's share grew a stout 470 basis points YoY, mezzanine achieved a stellar 1,580-basis-point increase in mix relative to H1 2022 and contributed several of the largest funds.

Strong performance carries into 2023. Private debt strategies protected principal and delivered attractive relative returns in 2022, benefiting from floating-rate structures and diligent underwriting. While stock and fixed-income investors suffered large losses of 18.1% on the S&P 500 and 15.7% on high-grade corporate bonds in 2022, the Morningstar LSTA US Leveraged Loan Index was relatively unchanged at -0.6%. Private debt funds performed even better, returning 4.2%, according to PitchBook's final estimate of fund performance. Private debt ranked ahead of most other private market strategies and exceeded the private equity aggregate, which returned -1.2% for the year. Our preliminary estimate for Q1 2023 points to a return of 0.4% for the quarter.

Fundraising and dry powder

Private debt fundraising activity

Institutional flows to private debt funds are on track to exceed $200 billion for the fourth consecutive year



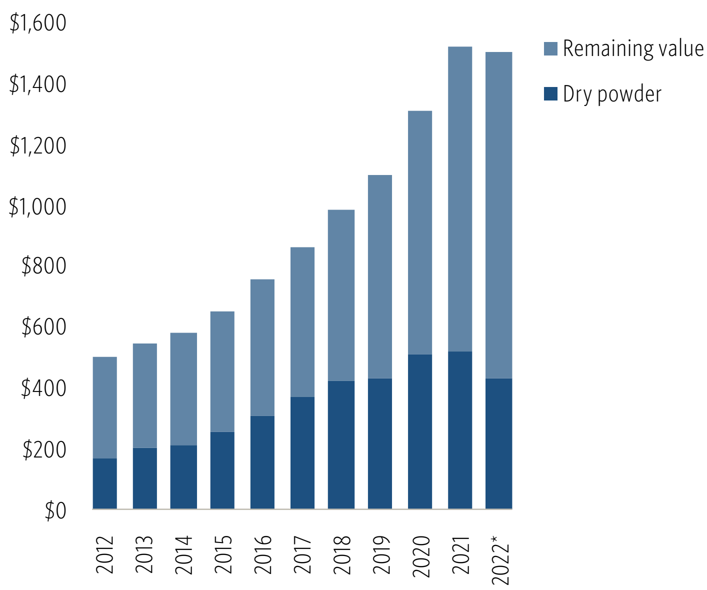
Source: PitchBook • **Geography:** Global
*As of June 30, 2023

In the private debt space, institutional funds closed on a total of $94.9 billion in committed capital in the first half of the 2023—a strong start given that the second half is often the seasonally stronger of the two. Fundraising is tracking well ahead of last year and is likely to exceed $200 billion for the fourth consecutive year. Private debt has overtaken venture capital as the private market strategy with the highest fundraising totals, second only to private equity.

As with other strategies, larger, more-experienced managers crowded out smaller managers in 2022, with the top 10 funds accounting for just over 30% of all fundraising. Kicking off in H1 2023, it would appear the market is broadening with emerging managers, defined as having three or fewer funds, grabbing 12.8% share versus 7.5% in 2022. Of the top 10 funds closed in H1, two were closed by emerging managers—Arrow Global and Willow Tree Credit Partners—which represented spots eight and 10 on the list. This runs counter to what many market observers assert when they state that scale and a seasoned track record will favor large managers over small ones. While this may come to pass during periods of stress, at present allocators are willing to spread their dollars among newer managers with specialized approaches and a differentiated alpha.

Private debt institutional fund AUM ($B)

AUM exceeds $1.5 trillion with $434.4 billion in dry powder



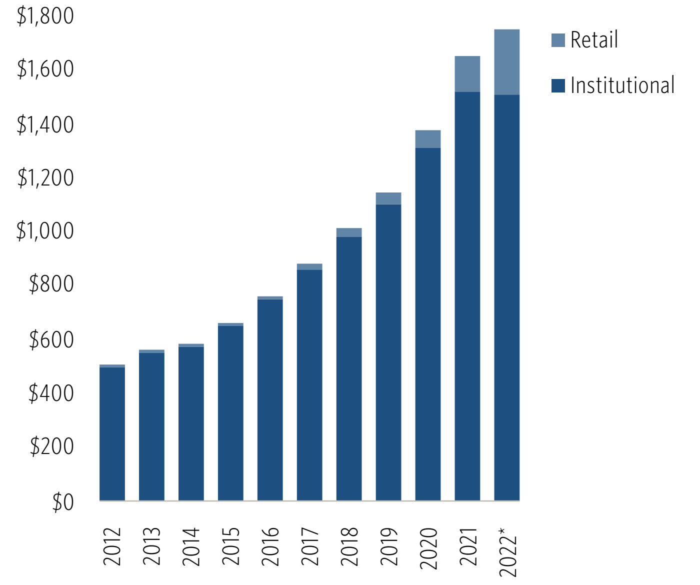
Source: PitchBook • **Geography:** Global
*As of December 31, 2022

Fundraising for retail-oriented vehicles such as nontraded business-development companies (BDCs), interval funds, and tender-offer funds slowed significantly. An estimated $16.6 billion in retail capital was reportedly raised by private debt sponsors in H1 2023, down from 2022's $12.0 billion quarterly average.[1] This did not slow the flow of sponsors attempting to penetrate this market, with Fidelity, Eaton Vance, KKR, PIMCO, and Variant all launching new credit-oriented perpetual vehicles during the first half of 2023.

While continuously offered private funds are not a new structure, especially for institutional investors, these nontraded SEC registered funds with public offerings are a relatively new phenomenon. The structure has allowed sponsors to gather assets from the retail channel and has gained legitimacy with the 2020 launch of Blackstone's nontraded private credit BDC (BCRED) which went on to amass $51.6 billion in gross assets, including borrowed funds. With so many managers seeking new avenues of AUM growth, and investors flocking to the floating income streams that private credit offered, these new vehicles have proliferated over the last three years. We estimate that AUM from these retail-oriented credit vehicles grew by more than $200 billion during that span, pushing the combined AUM total in private debt institutional and retail funds to more than $1.75 trillion.

Private debt institutional and retail fund AUM ($B)

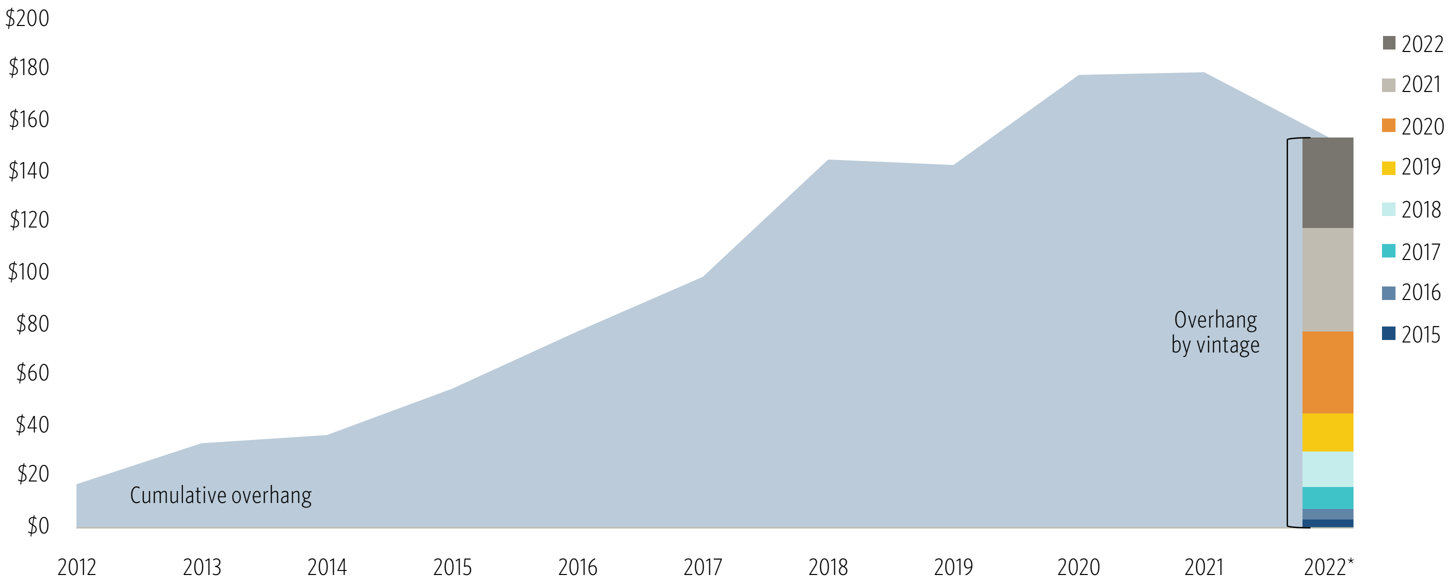
Private debt AUM exceeds $1.75 trillion inclusive of nontraded BDCs, interval funds, and other retail-oriented vehicles



Source: PitchBook • **Geography:** Global
*December 31, 2022

Direct lending dry powder ($B) by vintage

The $153.2 billion in direct lending dry powder filled the void left by an inactive syndicated loan market



Source: PitchBook • **Geography:** Global
*As of December 31, 2022
Note: Figures exclude retail funds and BDCs.

1: "Non-Traded REIT Fundraising Rebounds to $597 Million in June, BDCs Raise $1.3 Billion," The DI Wire, July 26, 2023.

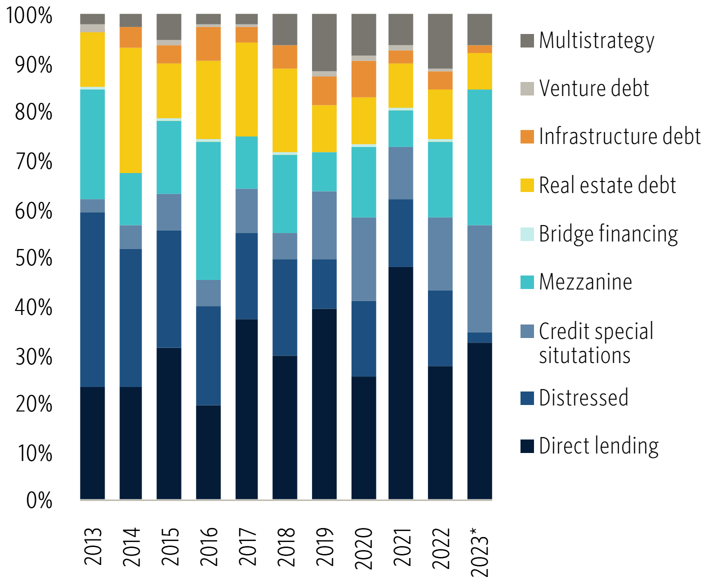
At 32.0%, direct lending has edged the 27.9% going to mezzanine fundraising this year. Given that mezzanine has averaged only 12.3% of private debt fundraising over the past five years, this has been a banner year for the strategy.

These direct lenders are in high demand by private equity sponsors, which have seen access to senior secured loans significantly curtailed in 2023, even in the unitranche space. Mezzanine's subordinated position in the capital structure does not count against senior loan leverage ratios, and mezzanine lenders are more amenable to paid-in-kind structures—a popular feature at present in order to conserve cash flow.

Pure distressed strategies have fallen off sharply, garnering just 2.3% of fund closings YTD. However, its close cousin, special credit situations, saw elevated fundraising at 22.3% of the total. This strategy provides structured debt and structured equity alternatives, which are also gaining popularity among borrowers. HPS Investment Partners was the top fundraiser in Q2, closing a total of $19.3 billion between its fifth mezzanine flagship fund ($12 billion) and its second senior direct lending fund ($7.3 billion). Notable launches this quarter include Ares, with two funds seeking a total of $15 billion, including its third direct lending fund, and Pathfinder, a special situations fund that will donate a portion of its performance fee to social impact causes.

Share of private debt capital raised by type

Mezzanine and special situations almost at parity with direct lending



Source: PitchBook • **Geography:** Global
*As of June 30, 2023

Top private debt funds closed in H1 2023*

Mezzanine, special situation, and emerging managers break into the top ranks, demonstrating how fundraising has diversified from direct lending megafunds only

Fund	Fund value ($B)	Fund type	Location
HPS Strategic Investment Partners V	$12,060.0	Mezzanine	New York City, US
West Street Mezzanine Partners VIII	$11,650.0	Mezzanine	New York City, US
Crescent Credit Solutions VIII	$7,770.0	Credit Special Situations	Los Angeles, US
HPS Core Senior Lending Fund II	$7,300.0	Direct Lending	New York City, US
Permira Credit Solutions V	$4,580.0	Direct Lending	London, UK
LCM Credit Opportunities Fund IV	$4,433.0	Credit Special Situations	London, UK
Bridgepoint Direct Lending III	$3,720.0	Direct Lending	London, UK
Audax Direct Lending Solutions Fund II	$3,019.9	Direct Lending	Boston, US
Arrow Credit Opportunities Fund II	$2,919.0	Credit Special Situations	Manchester, UK
Willow Tree Fund II	$2,400.0	Direct Lending	New York City, US

Source: PitchBook • **Geography:** Global
*As of June 30, 2023
Note: Includes dry powder plus remaining value

Top nontraded BDCs and private debt interval funds offered in H1 2023

This new breed of retail-oriented vehicles has allowed private debt sponsors to gather an additional $200 billion in AUM since 2020

Fund	Fund value ($B)	Fund type	Location
Blackstone Private Credit Fund	$23,795.0	Direct lending	New York, NY
Cliffwater Corporate Lending Fund	$12,011.9	Direct lending	Marina del Rey, CA
Blue Owl Credit Income Corp	$6,693.6	Direct lending	New York, NY
HPS Corporate Lending Fund	$3,933.0	Direct lending	New York, NY
Blue Owl Technology Finance Corp.	$3,485.2	Direct lending	New York, NY
PIMCO Flexible Credit Income Fund	$2,835.8	Multistrategy	New York, NY
Variant Alternative Income Fund	$2,817.0	Multistrategy	Portland, OR
Cion Ares Diversified Credit Fund	$2,655.2	Multistrategy	New York, NY
Apollo Debt Solutions BDC	$2,635.8	Direct lending	New York, NY
Stone Ridge Trust V	$2,177.4	Multistrategy	New York, NY

Source: Company reports • **Geography:** Global
*As of June 30, 2023

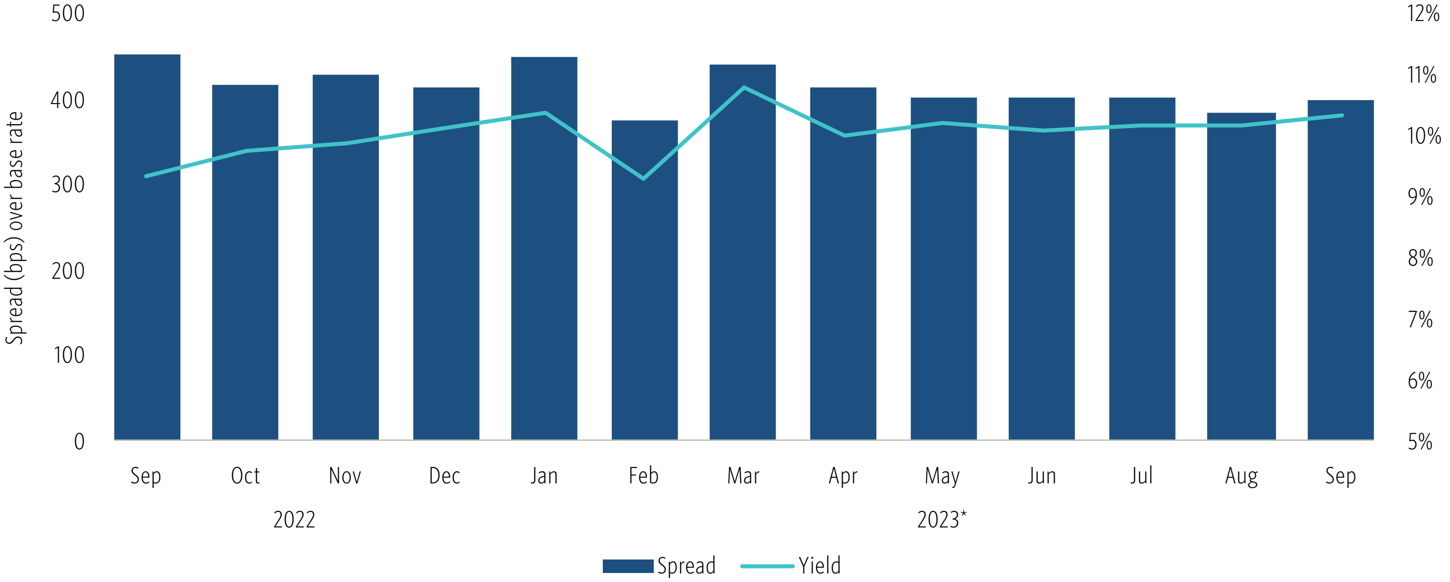
In a new strategy development, private debt sponsors are increasingly taking aim at asset-backed finance (ABF), another lending market traditionally dominated by banks. With $45 billion of its $78 billion in private credit AUM tied to asset-backed finance, KKR positions itself as the current leader in the ABF space.

The firm expects to launch a new nontraded business-development company later this year focusing on ABF and direct lending. Other firms are becoming active in the ABF space, partnering with or taking share from banks due to new regulatory constraints. Ares' alternative credit funds acquired a BankWest portfolio in June 2023 consisting of $3.5 billion in commitments and $2.1 billion in funded investments. Blackstone announced that it either has executed or has in progress $6 billion in partnerships with multiple banks. Angelo Gordon, soon to be part of TPG, launched an ABF fund targeting $1 billion, and Apollo is believed to be preparing its own ABF fund launch targeting $5 billion.

US and European market stats

Yield-to-maturity and spread on all new-issue US leveraged loans

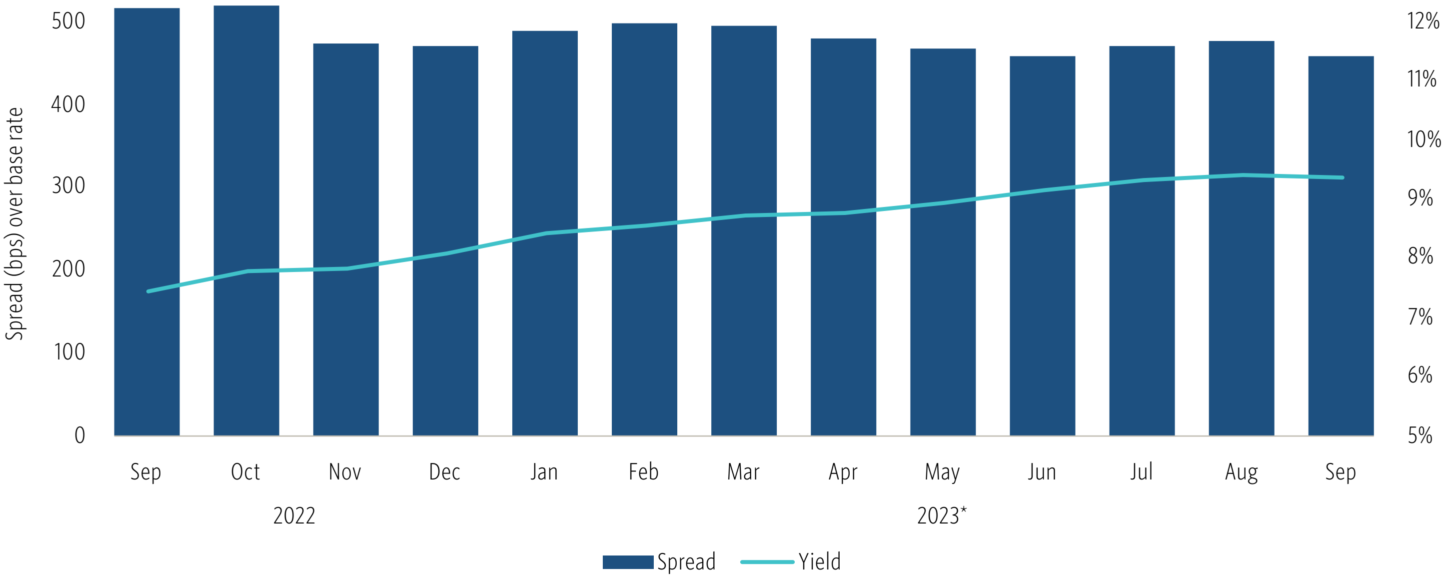
US loan yields continue at double digits on new issues



Sources: PitchBook | LCD • **Geography:** US
*As of September 10, 2022

Yield-to-maturity and spread on all new-issue Europe leveraged loans

European loan yields in the high single digits

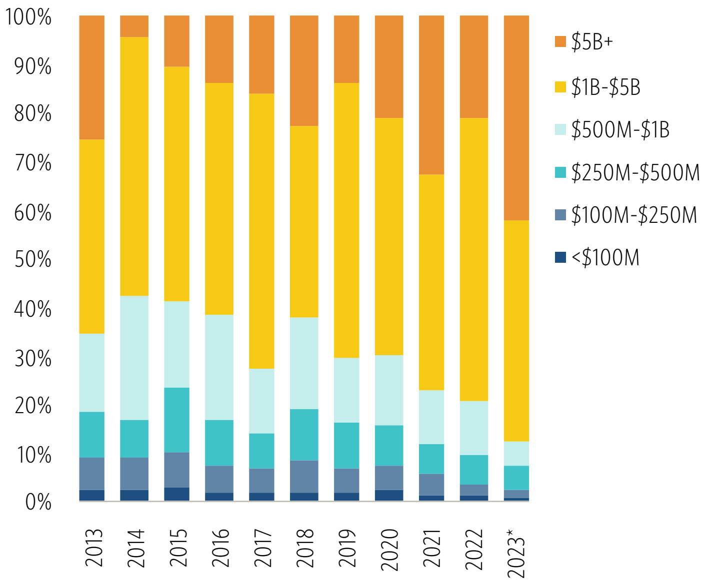


Sources: PitchBook | LCD • **Geography:** Europe
*As of September 10, 2023

Private debt fund stats

Share of private debt capital raised by size bucket

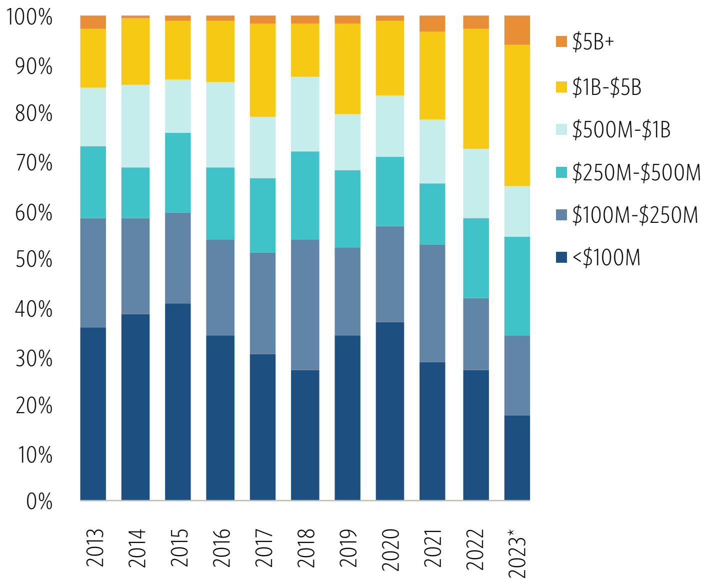
$5-billion-plus funds are becoming more common in the private debt space



Source: PitchBook • **Geography:** Global
*As of June 30, 2023

Share of private debt fund count by size bucket

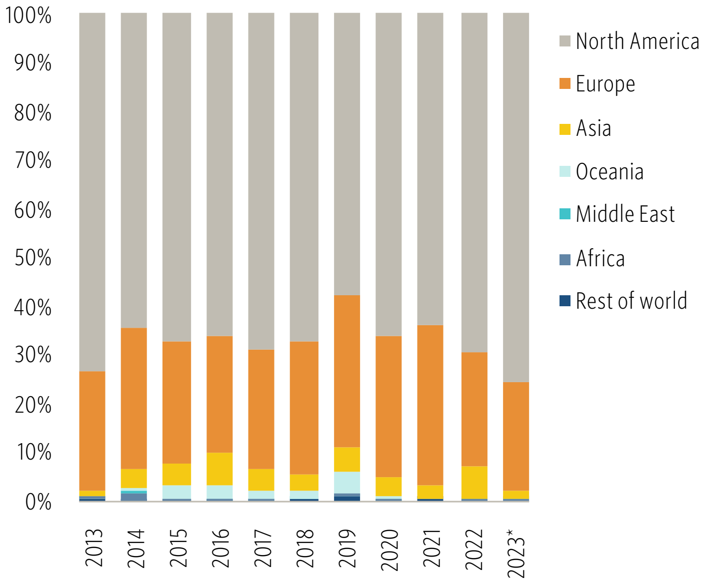
Most fund size buckets have expanded at the expense of the sub-$250 million category



Source: PitchBook • **Geography:** Global
*As of June 30, 2023

Share of private debt capital raised by region

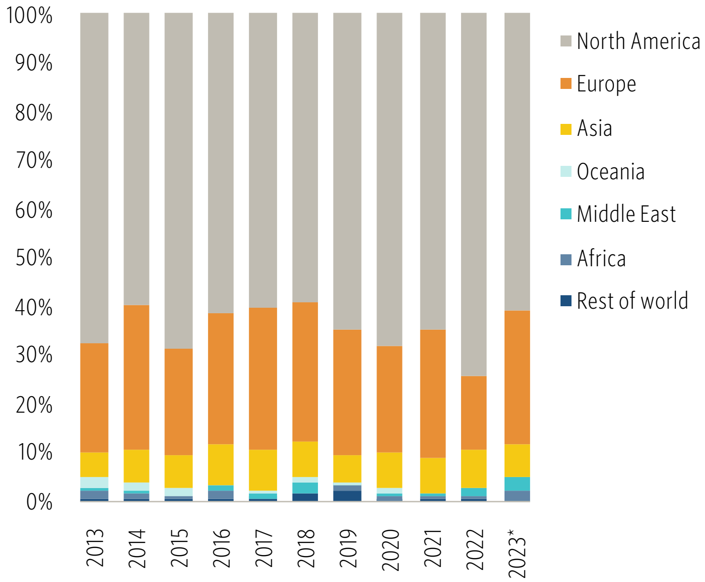
North America has grabbed the vast majority of fundraising



Source: PitchBook • **Geography:** Global
*As of June 30, 2023

Share of private debt fund count by region

The number of European vehicles has bounced back



Source: PitchBook • **Geography:** Global
*As of June 30, 2023

A WORD FROM TRITON DEBT OPPORTUNITIES

The once-in-a-decade opportunity for European credit

1. What is opportunistic credit?

Opportunistic credit is a flexible approach to investing in private debt. At Triton Debt Opportunities (TDO), we do this through investing primarily in first-lien senior secured debt (at more than 90% of our portfolio). We also invest in fundamentally sound European businesses facing temporary cyclical or operational headwinds, or situations where we are able to invest in debt at an attractive price due to a forced or motivated seller. We selectively acquire the loans on the secondary market at a discount—typically $0.75 to $0.80 on the dollar—then hold that debt for two to four years until maturity or until there is a refinancing, to benefit from both capital appreciation and income. These secondary loans make up over two-thirds of our opportunistic credit portfolios where approximately half of returns are generated at the expense of sellers through discounted purchases and the other half is generated by interest income.

We then supplement this with more opportunistic lending. This can be primary direct lending in companies with some short-term complexity, or asset-backed lending, and occasionally debt-for-equity opportunities during market dislocations. These opportunistic investments comprise a third of our portfolios.

The advantage of opportunistic credit investing is that it can deliver midteen net unlevered returns with a similar risk profile and downside protection to that of direct-lending funds—that is, a loss rate of less than 1% through the cycle.

2. What are the benefits of being a debt fund that is part of a private equity business?

We see being an integrated part of an alternative investment platform like Triton as a big advantage. There are no Chinese walls between Triton Debt Opportunities and Triton's private equity strategies. We therefore have access to over 85 investment professionals, a team of six debt financing experts, a network of senior industry experts, and over 69 operational and functional specialists in areas ranging from environmental, social & governance investing/sustainability; leadership & culture; digital; full potential; and more.

Amyn Pesnani
Managing Partner
Head of Triton Debt Opportunities

Amyn joined Triton from Strategic Value Partners where he focused on European distressed debt investments. Previously he was in the London office of Clayton, Dubilier & Rice and focused on European leveraged buyout opportunities. He also worked for the investment banking division of Goldman Sachs in New York and London. Amyn has an MBA from Harvard Business School and a Bachelor of Arts, with honors, in economics and computer science from Dartmouth College.

As we focus on the same regions and sectors as Triton Private Equity funds, around 80% to 90% of the target investments we look at are already familiar to Triton as an organization. Many of them are companies we might have bid on in the past and lost on the private equity side, others are customers, suppliers, or competitors to our private equity portfolio companies, and the management teams of many companies are well known to our operating partners. While the TDO team does its own dedicated and independent due diligence, we are able to tap into all of the aforementioned knowledge base and connections, which really enables us to do very extensive due diligence on the business before investing.

The other big advantage is that we have holistic relationships with over 100 banks where we have been fee payers on the private equity side, which helps give us access to proprietary, off-market European deal flow on the debt side.

3. What trends do you see in the deal-sourcing market?

We believe that the pipeline for opportunistic credit investors in Europe will be strong in the coming years because many industries are facing macroeconomic headwinds. These otherwise quality businesses are grappling with wage cost increases, input cost increases, and softening demand.

Sourcing debt in these situations often requires an ability to identify and engage in one-on-one discussion with existing lenders. Triton has been operating in Northern and Western

Europe for over 25 years and has developed very strong banking relationships in the region.

The TDO team maintains a strong dialogue with over 100 banks across Europe, and no one banks accounts for a significant share of our pipeline. These banks view TDO as a credible and trusted counterpart. TDO also benefits from having a very holistic relationship with these banks. While we might be looking to buy debt from some of these lenders, Triton as an institution has paid a significant amount of M&A, financing, and IPO fees to these banks and this helps TDO in having a more comprehensive dialogue.

4. How do you continue to operate in a downturn environment?

The way that we pursue opportunistic investing is all-weather in nature. We look for fundamentally sound companies whose senior secured debt can be acquired at an attractive price due to short-term issues. This also means we are not reliant on the M&A market or an active buyout market to put capital to work. When primary issuance slows down due to a dearth of leveraged buyout deals, it is not a problem.

If anything, economic volatility and earnings volatility produce some of the best investments for TDO. When you have the type of volatility that you saw in 2022 and parts of 2023, we are able to purchase debt in fundamentally sound businesses at very attractive prices and returns. Additionally, the total stock of outstanding leveraged loans in Europe has doubled over the past ten years and continues to grow. As TDO invests in existing loans and bonds, the market for us has continued to grow, and we are extremely excited about the opportunity set over the next few years.

5. How important is downside protection in today's market?

At Triton Debt Opportunities we have an obsessive approach to downside protection because we hate losing money. I think it is important to have a strategy that can work throughout all economic cycles, which is why we target fundamentally good companies that have temporary issues.

We build downside protection in our investments through three key pillars. First, we only focus on companies and sectors (for example, industrials, businesses services, consumer, and health) that are already familiar to us. That helps us properly assess the risks and downside to any investment.

Second, we focus on investing at the top of the capital structure. Historically, 85% to 90% of our investments have been in first-lien senior secured debt.

Third, we like to buy senior secured debt at a purchase price that gives us a big buffer of safety. For most of our investments, we buy debt at around $0.80, where the loan/value ratio is 60% to 70%. Therefore, at our purchase prices we have a 40% to 50% margin of safety.

It is nevertheless vital to prepare for the worst-case scenario. Part of Triton's DNA is to not just assess the downside case but to model the "armageddon" case and see if we are losing money in that scenario. The question we always ask ourselves before investing is, "would we be happy to own this company?" This is just in case we find ourselves in a situation where we have to. Having access to the full Triton organization and its operating partners ensures that, should we find ourselves in the situation of having to take over the equity, we are well prepared to run the business and generate outsized returns.

6. What is the opportunity for opportunistic credit investors right now?

I believe we are facing a once-in-a-decade opportunity to invest in credit markets in Europe, if you have the sector knowledge, sourcing capabilities, and a rigorous due-diligence-led approach.

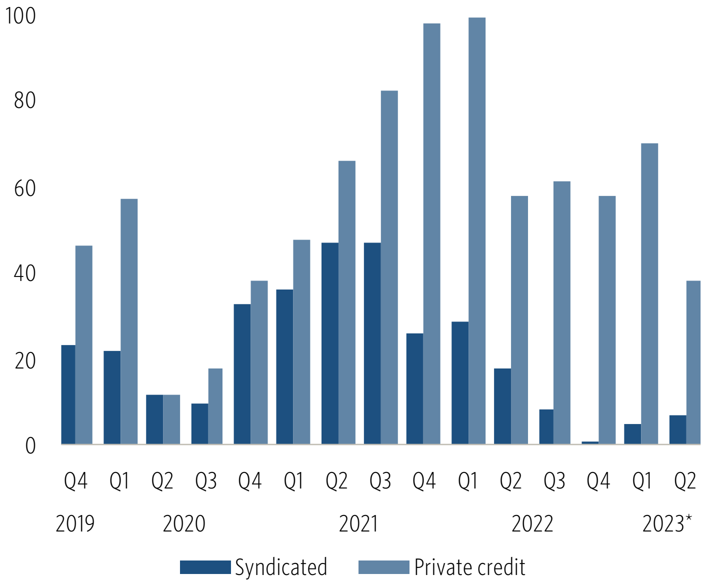
The European leveraged loan market has doubled in size in the past decade, with total leveraged loan and high-yield bond issuance reaching close to €2 trillion across the 2018 to 2021 period. Crucially, many of these loans were underwritten with record leverage levels—at an average of 5.1x EBITDA—with an assumption of continued 0% interest rates and stable earnings growth. Clearly, the reality today is very different, which means that there is a maturity wall coming in 2024, 2025, and 2026, where many of these loans may be difficult to refinance and the capital structures of European businesses may be untenable. This provides an incredible opportunity for funds like TDO to invest at attractive prices, as many lenders might become forced sellers as they are unable or unwilling to extend these loans, especially at a time of earnings volatility.

SPOTLIGHT

Direct lending slows, but outpaces syndicated loans

LBO count financed in BSL versus private credit markets

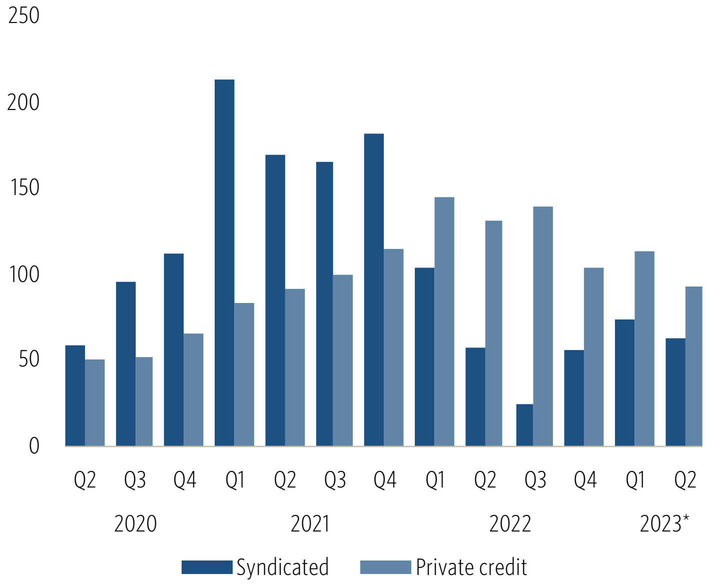
Though origination has slowed, private credit has remained the financing of choice for LBOs



Sources: PitchBook | LCD • **Geography:** US
*As of June 20, 2023
Note: Private credit count is based on transactions covered by LCD News.

Non-LBO count financed in BSL versus private credit markets

Private credit lenders have met with more competition lately for non-LBO loans



Sources: PitchBook | LCD • **Geography:** US
*As of June 20, 2023
Note: Private credit count is based on transactions covered by LCD News.

Abby Latour
Editorial Lead, LCD

In Q2 2023, private credit providers and investors searched for clues as to when M&A activity would pick up and defaults would accelerate. Neither question received a firm answer. As deal volume was subdued with buyers and sellers struggling to converge on valuation expectations, private credit remained the financing of choice for private equity sponsors financing leveraged buyouts in the second quarter, based on issuer count, according to LCD data.

Notable activity in the quarter included an attempted sale of a stake in healthcare technology concern Cotiviti. While the deal ultimately fizzled out, it was poised to incorporate a $5.5 billion unitranche loan, underwritten by private credit providers Apollo and HPS Investment. It would have marked the largest-ever financing of this type and highlights the expanding capabilities of private credit lenders.

In terms of structure, another second-quarter trend was the contraction of delayed-draw term loans (DDTLs). Previously, borrowers could place a DDTL roughly equal in size to a funded loan. Now, they are a fraction of a loan's funded portion, with one anecdotal estimate placing the amount at 10% to 20% of the overall size of the funded loan with ticking fees, as lenders are requiring borrowers to pay for exactly what they get.

Add-on acquisitions were a notable pocket of activity. Anecdotally, private equity sponsors can still find "decent" value among small tack-on purchases for existing portfolio companies, even in the new reality of higher interest rates.

LCD News reported on 32 such transactions in the second quarter, up from 14 in the first quarter. Other relative hot spots in the second quarter included mezzanine financing and collateralized loan obligations in the middle market.

On the flip side, turmoil at US regional banks left market participants fearing the fallout in lending and in the economy generally. But by quarter-end, those worries seemed largely in the rearview mirror.

Long-time, broadly syndicated loan issuer Melissa & Doug opted for a direct lending solution to extend an existing term loan in early April. Two weeks prior, the company, a toymaker, brought to the broadly syndicated loan (BSL) market a transaction to push out the maturity of its $260 million first-lien term loan by two years, to June 2026. The deal highlighted a trend that private credit providers have often cited: Borrowers, faced with dislocation and increased uncertainty in the syndicated markets, will opt for the relative immediacy and certainty that direct lenders say they provide.

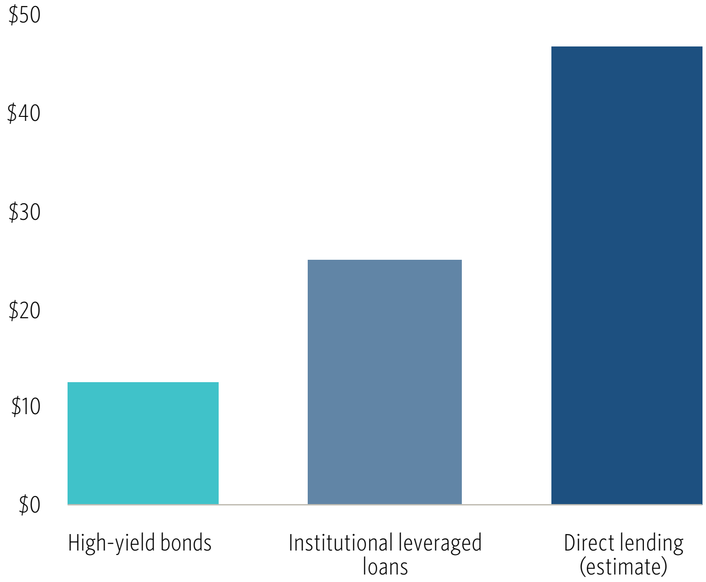
Despite complaints about a lack of deals, plenty of transactions did close amid the elevated volatility. LCD estimates that the volume of M&A financed via directly originated loans totaled $46.8 billion, a number that exceeded both syndicated loans and high-yield bonds. The volume figure is partly based on estimates that take into account the average size.

Private equity sponsors had more options for financing in the second quarter of 2023, as it featured a continued reopening of the syndicated bank-loan market. Private-equity-backed borrowers raised $66.4 billion in the syndicated loan market in the year ending June 30, 2023, but more than half of this amount supported refinancings. In addition, investor appetite for the riskiest borrowers—those falling into the B-minus ratings bucket—remains limited. Only 34% of H1 2023 syndicated loan volume to PE-backed borrowers came from this ratings category, the lowest reading in seven years, down from 64% in 2022.

The leveraged-finance pendulum is expected to move slightly further in the direction of the syndicated loan market in the second half of 2023 and away from private credit. This would come as no surprise, as since Q2 2022, private credit likely had 100% market share of large-cap buyout financings. But those days are gone, at least for now. Large leveraged buyouts (LBOs) are taking a breather. Anecdotally, Investors continue to see opportunities in the middle market and lower-middle market. This could be why the volume of deals financed by a single lender has grown relative to deals financed by three or more lenders, according to LCD data.

New-issue volume ($B) to fund M&A in H1 2023

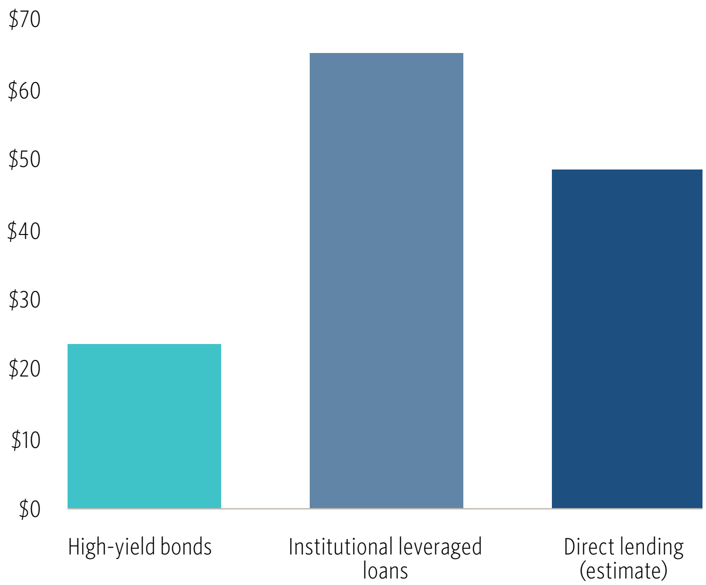
M&A financed via private credit exceeded both syndicated loans and high-yield bonds at $46.8 billion



Sources: PitchBook | LCD • **Geography:** US
*As of June 20, 2023
Note: Direct lending analysis is based on transactions covered by LCD News.

New-issue volume ($B) for PE-backed borrowers in H1 2023

Half of the $66.4 billion raised in the BSL market by PE-backed companies were for refinancings



Sources: PitchBook | LCD • **Geography:** US
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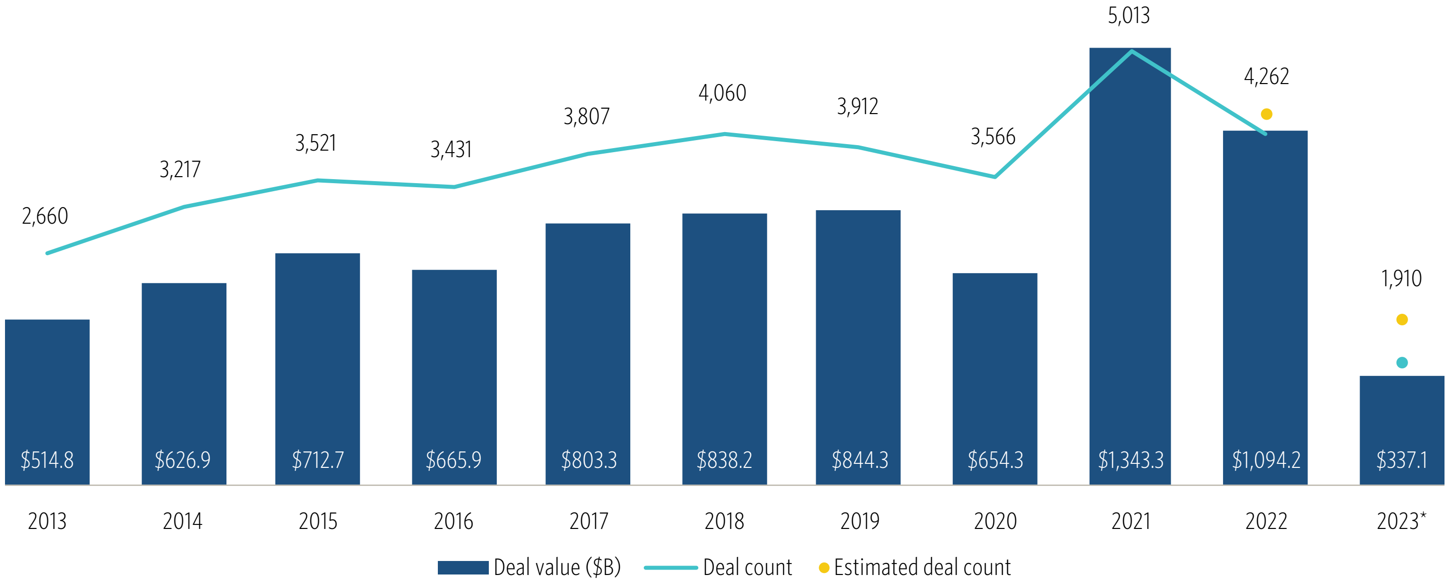
Note: Direct lending analysis is based on transactions covered by LCD News.

LBO dealmaking and take-private update

Global LBO deal activity excluding add-ons

Private debt is linked to PE deal value, which is down 50.7% YTD, excluding add-ons and growth equity



Sources: PitchBook | LCD • **Geography:** Global
*As of June 30, 2023

The LBO has been the main stock-in-trade of the PE industry for generating outsized returns to investors. However, it was dealt a serious blow when the Federal Reserve embarked upon one of the fastest tightening cycles in more than 40 years, concentrated in the back half of 2022. This turned the spigot off for what had become the main vehicle for financing LBOs: the BSL market led by banks. After peaking at $146.0 billion in new-issue volume and a 14-year high in 2021, the BSL market came to a virtual standstill in Q4 2022, with just $2.1 billion in completed US LBO-related volume, down 95.4% from the Q3 2021 peak. Volumes have improved slightly to $13.3 billion In H1 2023, but the recovery is shallow.

Direct lenders that had spent the last several years amassing capital in the form of business-development companies and private debt funds moved in to fill the void. These funds have taken significant share of the LBO lending market during the seven-month moratorium when banks stopped making new commitments to large LBOs. This can best be seen in the flow of LBOs of public companies. Of the 37 take-privates announced between early June 2022 and early February 2023 in the US and Europe, totaling more than $54.0 billion in aggregate value, not a single deal was funded by banks and the BSL market; these deals relied instead on private debt funds or all-equity structures.

New-issue spread and yield-to-maturity of loans backing LBOs

Borrowing costs for LBO deals doubled in 2022

Sources: PitchBook | LCD • **Geography:** US
*As of June 27, 2023
Note: There were not enough observations in Q4 2022 to provide meaningful averages.

Since that time, banks have slowly waded back to the BSL market and are making new commitments to large LBOs, though they are now competing with private credit lenders in splitting up deal flow. In the six months following the early February reopening of the BSL market, 11 mandates on announced take-privates have been won by bank syndicates for loan commitments totaling $16.9 billion, and 12 have been awarded to private credit lenders for $6.8 billion. While banks have clawed back some market share in the jumbo-loan space, it is a far cry from the dominate position and high volumes they enjoyed prior to the disruption in the back half of 2022.

Public-to-private LBOs announced in H1 2023*

Banks and private credit funds have been taking turns lending to large take-privates since early February 2023

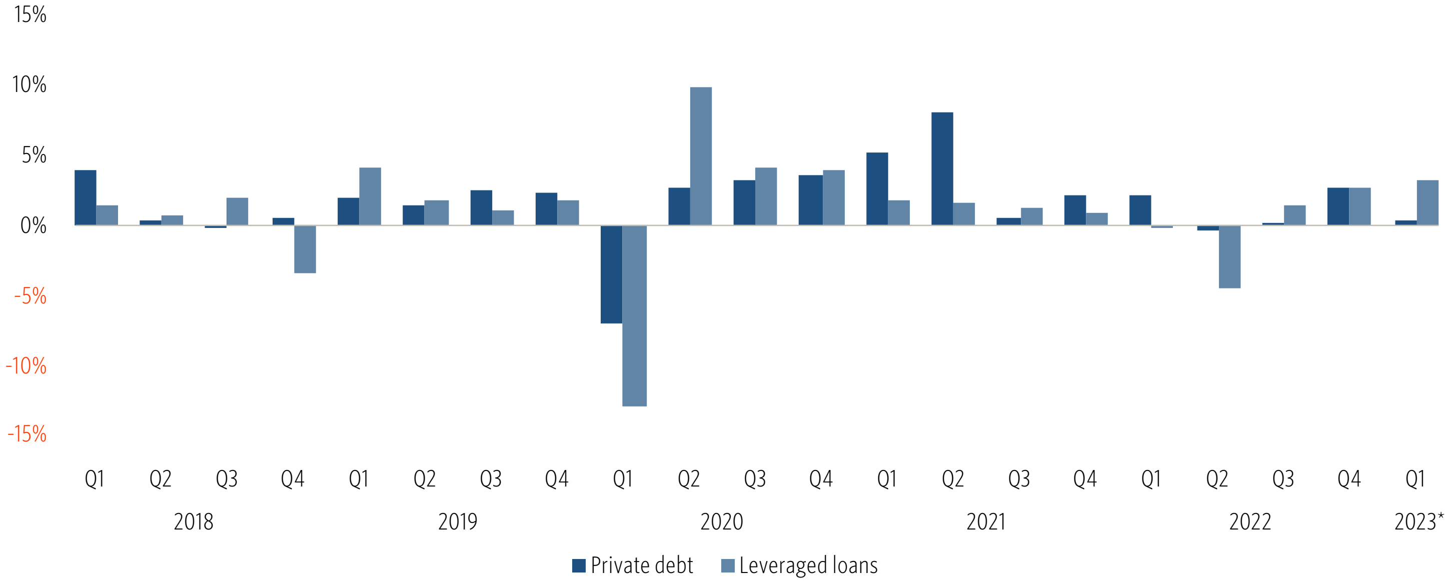
Company	Announced date (2023)	Loan type	Enterprise value ($M)	% discount 52-week high
Applus+	June 30	Nonbank	$1,333.1	-4.7%
IRRAS	June 29	Nonbank	$143.0	-4.2%
Quotient Technology	June 20	Private debt	$430.0	-5.9%
CIRCOR International	June 5	Private debt	$1,600.0	2.3%
Dechra Pharmaceuticals	June 2	Private debt	$5,564.6	-0.5%
Franchise Group	May 10	Nonbank	$1,664.0	-32.2%
Syneos Health	May 10	Bank	$7,100.0	-46.1%
Arconic	May 4	Bank	$5,200.0	-4.0%
Medica Group	April 24	Private debt	$340.8	-57.7%
Software AG	April 21	Bank	$2,624.6	-6.4%
SignUp Software	April 17	Nonbank	$229.4	-6.8%
Consolidated Communications	April 12	Nonbank	$296.0	-42.9%
Tessco Technologies	April 12	Bank	$161.0	2.4%
Hyve Group	March 15	Nonbank	$384.8	-5.4%
Cvent	March 14	Bank	$4,600.0	1.4%
Univar Solutions	March 14	Bank	$8,100.0	1.5%
SYNLAB International	March 13	Nonbank	$1,379.3	-44.5%
Momentive	March 13	Private debt	$1,500.0	-48.8%
Diversey	March 8	Bank	$4,600.0	-21.3%
Qualtrics	March 6	Bank	$12,500.0	-41.4%
Quantafuel	March 1	Nonbank	$102.2	-77.9%
Ciech	February 13	Nonbank	$302.6	10.0%
Sumo Logic	February 8	Private debt	$1,700.0	-4.9%
Focus Financial Partners	February 2	Bank	$7,100.0	-2.9%
Dignity	January 23	Nonbank	$318.4	-22.5%
Atlas Technical Consultants	January 21	Private debt	$1,050.0	-9.7%
Magnet Forensics	January 20	Nonbank	$1,332.2	0.3%
Meltwater	January 18	Nonbank	$581.1	-37.8%
Duck Creek Technologies	January 9	Private debt	$2,600.0	-37.3%
Curtis Banks	January 6	Nonbank	$290.9	-89.9%

Source: PitchBook • **Geography:** North America and Europe
*As of June 30, 2023
Note: This table only includes deals of $100 million or more. "Nonbank" indicates deals using private credit or all-equity structures or those not broadly syndicated by banks at present.

Private debt fund performance

Returns for private debt funds versus leveraged loans

Leveraged loans capture more of the upside than private debt funds when markets turn but also more of the downside



Source: PitchBook | LCD • **Geography:** Global
*Preliminary as of March 31, 2023

Private debt proved its mettle in 2022 despite a rising interest rate environment. Floating-rate loans, which comprise most private debt fund holdings—and the entirety of its more liquid counterpart, the BSL market—protected principal and delivered attractive relative returns. While stock and fixed-income investors suffered large losses of 18.1% on the S&P 500 and 15.7% on high-grade corporate bonds,[2] the Morningstar LSTA US Leveraged Loan Index was relatively unchanged at -0.6%. Private debt funds performed even better, returning 4.2% in 2022 according to PitchBook's final estimate of fund performance. Private debt ranked ahead of all other private market strategies, with the exception of real assets and real estate, and exceeded private equity which returned -1.2% for the year.

The last time private debt consistently outperformed other private market strategies was in the four quarters ending Q2 2013. However, that outperformance was driven more by a balance-sheet recovery from the wreckage of the global financial crisis (GFC)—a different setup than today's cycle, which has been more interest-rate driven.

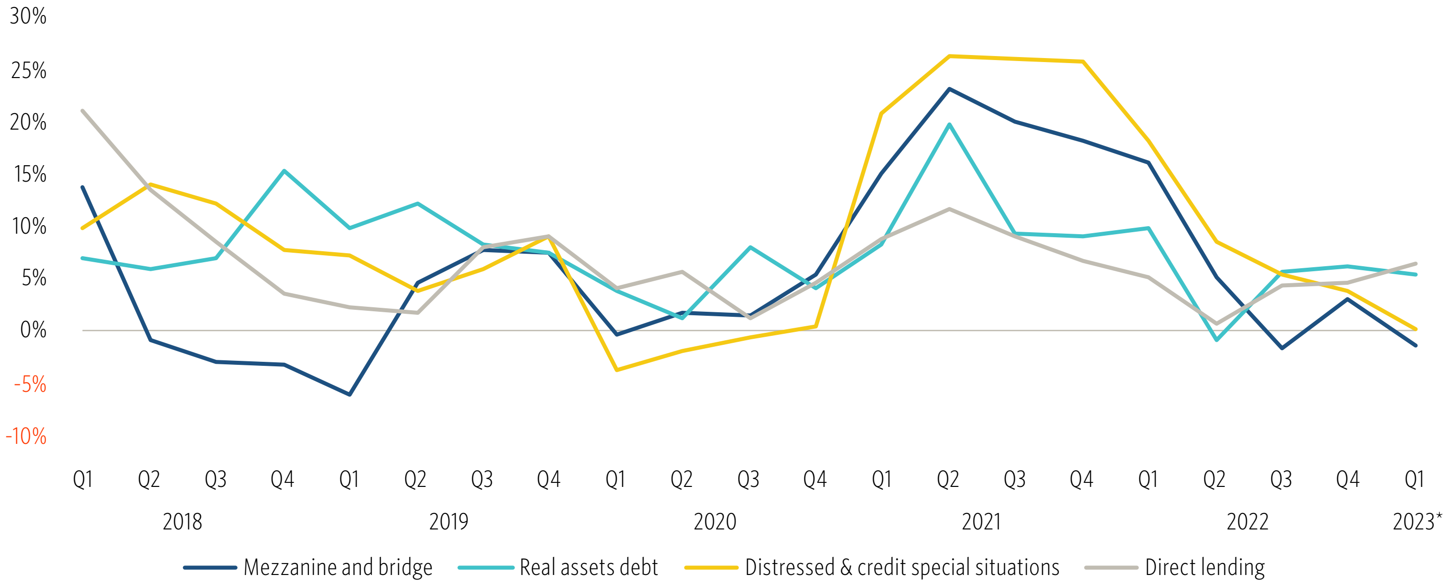
Drilling into the main substrategies, returns were in a very tight range in 2022. Direct lending, the largest and least-risky strategy within private debt, returned 4.6% for the year, compared with distressed and mezzanine returning 3.7% and 3.0%, respectively. Normally, the spread is much wider. In 2021, for example, distressed and special-situation funds returned 25.7% versus 6.7% for direct lending funds, well above the typical gap that has averaged 360 basis points over the past 10 years.

Looking into Q1 2023, our preliminary figure points to a return of 0.4% with less than half of our typical population of funds yet to report. Meanwhile, the Morningstar LSTA US Leveraged Loan Index—a close proxy to private debt, only with daily pricing—is on track for its best year since the GFC, with a return of 9.4% through September 6, 2023. While leveraged loans have lagged the sharp recovery in public equities, that is to be expected coming out of a bear market. The LSTA Index continues to outperform other areas of fixed income including high-yield bonds, up 6.7% YTD.

2: According to the Morningstar US Corporate Bond Total Return Index

Private debt rolling one-year horizon IRR by type

One-year returns stayed mostly positive across all private debt strategies despite rout in public fixed income markets



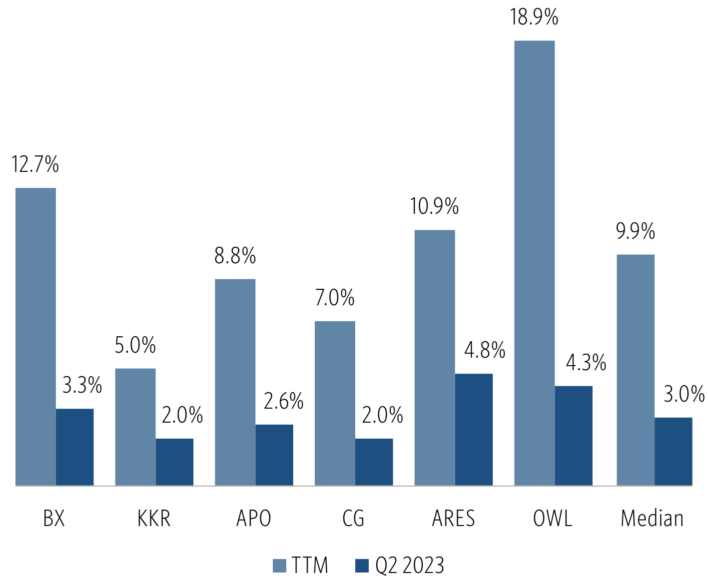
Source: PitchBook • **Geography:** Global
*Preliminary as of March 31, 2023

Reported results by the public alternative (alt) asset management firms also provide a good barometer of recent performance achieved by private debt strategies. Private credit funds run by the six largest US-listed alt managers recorded a median quarterly gross return of 3.0% and trailing 12-month (TTM) return of 9.9% as of Q2 2023. This compares to a median TTM return of 9.0% for private equity funds and 12.0% for the S&P 500 with far less volatility and dispersion in fund performance. Collectively, these six managers have raised $151.1 billion for their private credit strategies over the last 12 months, or 39.6% of total fundraising at those firms across all private market strategies.[3]

This all bodes well for private debt funds extending their run of strong performance for the rest of 2023.

Gross private debt returns reported by manager

The "big six" US-listed alternative asset managers with private credit strategies all reported positive Q2 returns in their funds



Source: Company reports • **Geography:** Global
*As of June 30, 2023

3: Figure excludes insurance.

Fund type definitions

Direct lending: Generally senior loans made to middle-market companies without the use of an intermediary but may include revolving credit lines and second-lien loans. Unitranche facilities, which combine different debt instruments under a single umbrella, are also becoming more common.

Real estate debt: The most common real estate debt strategy is direct lending for real estate acquisitions but may also include the buying and selling of securitized real estate loans in the secondary market. Risk profiles vary based on the nature of the underlying assets.

Infrastructure debt: Debt used for infrastructure development (for example, greenfield) and investment in existing assets (for example, brownfield), generally with longer terms (30+ years) due to the extended useful life of the assets.

Mezzanine: Subordinated debt, generally with features similar to preferred equity, such as warrants. Often used in LBO transactions.

Special situations: Debt or structured equity investments (such as convertible debt, convertible preferred, and debt with warrants) made with the intent of gaining control of a company, generally one in some type of financial distress. Special situations can involve direct origination with these hybrid structures or trading in the secondary market where manager believes price dislocation is present.

Distressed debt: This debt type differs from special situations in that it generally involves the purchase of securities in the secondary market, rather than new origination of debt or structured equity. Distressed strategies likely involve identification of the "fulcrum" security, or the most subordinated part of the capital stack to be paid back in a bankruptcy or other restructuring, which can trade at steep discounts to net asset value.

Venture debt: Debt financing extended to companies with venture capital backing. For entrepreneurs, venture debt serves as a way to extend the runway to exit without further diluting ownership.

Bridge Financing: Private debt funds that provide short-term loans, also called swing loans, made in anticipation of intermediate-term or long-term financing.

Multi-strategy: General-purpose credit funds with broad mandates to invest across the debt capital structure, substrategies, and verticals in order to capture the entire opportunity set in private credit. These funds will often invest in public debt as well as private debt on a dynamic and opportunistic basis.

Additional research

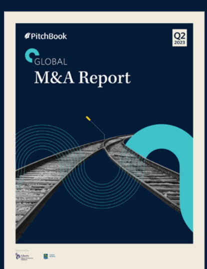
Private markets

Q2 2023 Global Private Market Fundraising Report

Download the report here

Q2 2023 Global Fund Performance Report as of Q4 2022 with preliminary Q1 2023 data

Download the report here



Q2 2023 Global M&A Report

Download the report here

Q2 2023 US PE Middle Market Report

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