PitchBook

H1 2024

GLOBAL Private Debt Report

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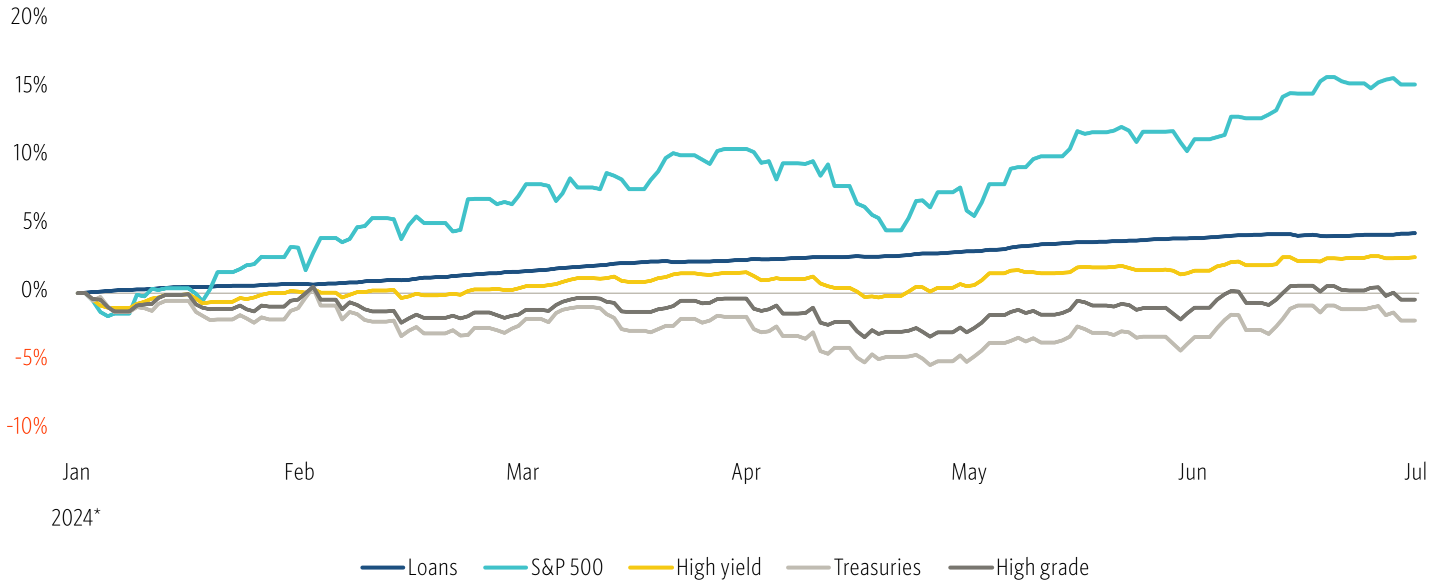
Key takeaways

YTD 2024 returns by asset class

Loans trail stocks but continue to outperform bonds



Sources: PitchBook | LCD; Morningstar; S&P Dow Jones Indexes • Geography: US • *As of June 30, 2024

After exceptionally strong performance in 2023, private debt funds continue to deliver historically high returns and attract strong flows. The US Morningstar LSTA Index, a good real-time proxy for returns that can be expected by private debt funds, gained 4.4% through the first half of the year, with the European equivalent doing a touch better at +5.0%. The US return is pacing above its 20-year historic average of 5.7% annually and follows on the heels of the second-highest return ever of 13.3% in 2023. Direct lending funds returned 11.1% in 2023 net of fees, beating buyout funds and most other private market strategies.

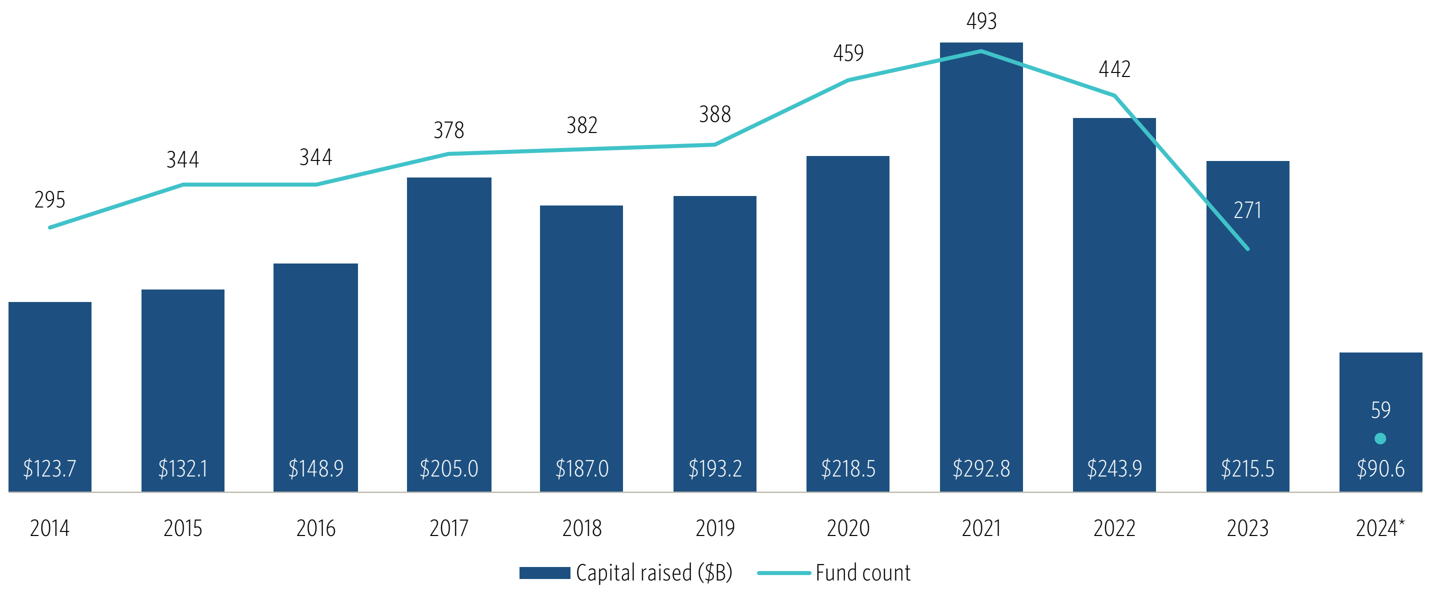
Private debt has been rewarded for its solid performance with strong fundraising momentum. In the traditional institutional channel—where it now ranks second to PE as the highest fundraising strategy—newly committed capital is on par with 2023, making it five straight years of $200 billion-plus raised globally. In the wealth channel, fundraising has accelerated by nearly 40% YoY and could exceed $60 billion in 2024 in the US alone. In the insurance channel, credit has accounted for 62% of trailing 12-month (TTM) gross inflows to the "big seven" US alternative asset managers, and half of that is from their insurance channels. Our analysis of the public and private debt breakdown of these flows indicates another $20.0 billion in incremental fundraising for the latter.

Direct lending continues to be the preferred strategy within private debt and accounted for 54.9% of the overall mix of funds closed YTD. Mezzanine and infrastructure debt funds, which were in high demand last year, have tapped out for the time being, creating a deceivingly monolithic appearance. Beneath the surface, private debt is anything but "vanilla." Fund sponsors continue to innovate and iterate on new strategies and substrategies, ranging from asset-backed to structured credit to fill the gaps left vacant by the withdrawal of traditional bank lenders.

Fundraising and dry powder

Private debt fundraising activity

When the dust finally settles, institutional flows to private debt funds will likely exceed $200 billion for the fifth consecutive year



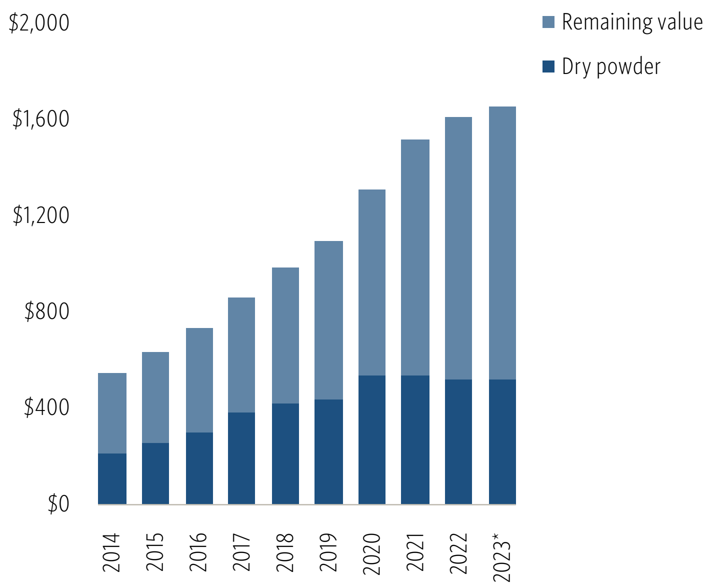
Source: PitchBook • Geography: Global • *As of June 30, 2024

In H1 2024, a total of $90.6 billion of committed capital was closed by traditional drawdown funds with private debt strategies. After adjusting for the expected lag in data from late reporting funds, which typically adds approximately 20% in total value, private debt fundraising is in line with 2023, which recorded $215.5 billion raised for the full year. Of note, the $90.6 billion raised in H1 does not include one of the largest-ever fund closings in private debt. In July, Ares Management announced it closed its third US direct lending flagship for $33.6 billion, consisting of $15.3 billion in equity capital and the balance in debt. This was nearly double the size of its predecessor fund and well above the $10 billion initially targeted in equity capital. As a reminder, our fundraising data solely counts equity capital and upon final closing only.

2024 was expected to be a flat year for institutional fundraising in private debt, and this appears to be playing out. The strategy is coming off four consecutive years of $200 billion-plus in global fundraising, hitting a peak of nearly $300 billion in 2021. Looking ahead, there is the backdrop of central bank rate cuts that are either in progress or expected in the back half of the year. Because private debt primarily comprises floating rate debt instruments or loans, its relative

Private debt institutional fund AUM and dry powder ($B)

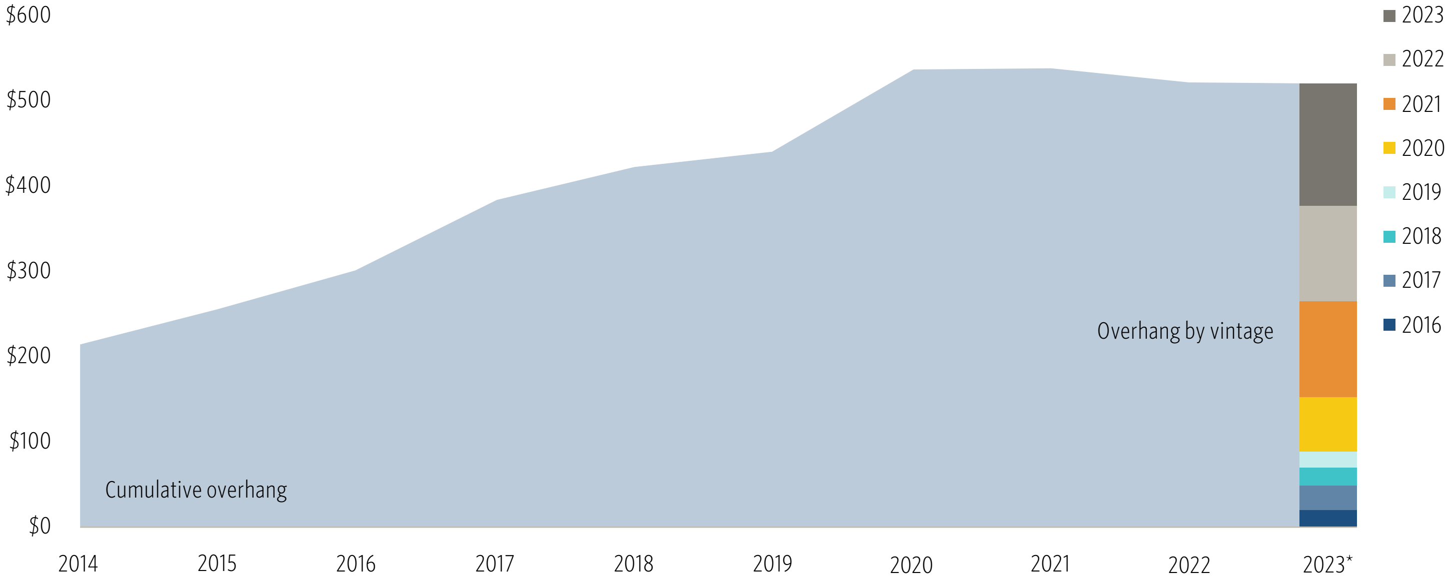
Institutional AUM exceeds $1.6 trillion with $520.2 billion in dry powder



Source: PitchBook • Geography: Global • *As of December 31, 2023

Private debt dry powder ($B) by vintage

The $520.2 billion in private debt dry powder has leveled off after a furious period of deployment but remains healthy at 31.0% of total AUM



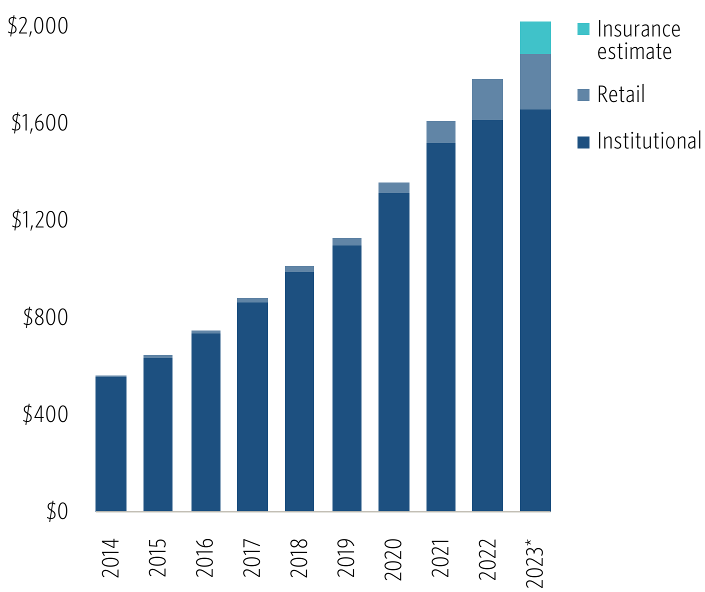
Source: PitchBook • Geography: Global • *As of December 31, 2023

attraction diminishes versus fixed income as a source of total return in a declining rate environment. A notable example is Athene, Apollo's insurance subsidiary with $354.0 billion in AUM, which announced it lowered its net floating rate portfolio by nearly 40% in its May investor meeting presentation.[1] While this is unlikely to impact our fundraising totals, as insurance firms typically use separately advised accounts when investing in the asset class, it does reflect the general sentiment.

Despite this slightly less favorable interest rate backdrop, demand has been supported by expectations of a soft economic landing. More gradual rate cuts by central banks make investors less eager to reduce exposure to one of the few strategies that worked during a period of rising inflation. Higher risk-adjusted returns and distribution rates relative to other private market strategies have also reinforced strong flows to private debt. Lastly, while set to decline in the short term, base rates will no doubt make higher lows than the nil levels they maintained for 10 of 13 years before the March 2022 rate hike. An elevated interest rate structure favors alternative income strategies longer term, which have held constant at 11% of all alternative investment AUM, with the rest representing pure equity strategies. This is a far cry from the 60/40 theoretical standard for public equity and debt allocation, but the potential is for private markets to move in that same direction.

Private debt institutional, retail, and insurance fund AUM ($B)

Private debt AUM exceeds $2.0 trillion inclusive of perpetual vehicles in the wealth and insurance channels

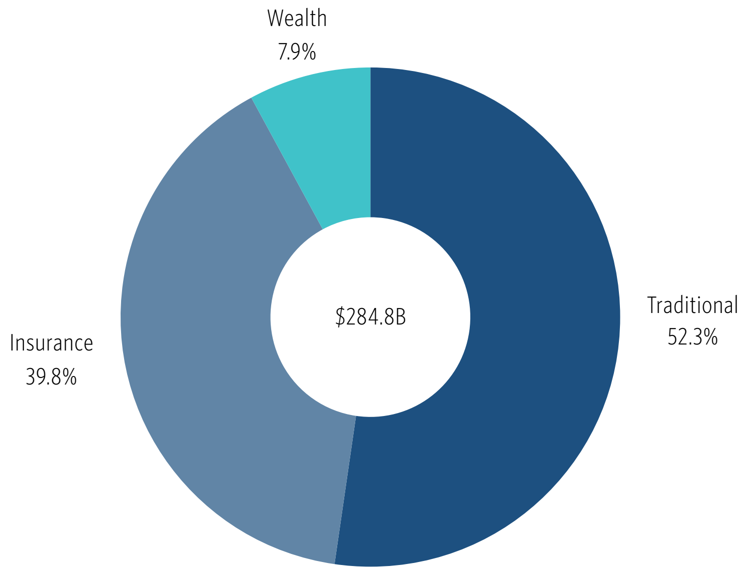


Source: PitchBook • Geography: Global • *As of December 31, 2023

1: "Athene Holding Ltd. Investor Meeting - Fixed Income," FactSet CallStreet, May 9, 2024.

2023 share of credit capital raised by top seven public US alternative asset managers by channel*

Retail and insurance investors account for nearly half of all credit fundraising at the top seven US-listed alternative asset managers



Source: Company reports • Geography: US • *As of December 31, 2023

Insurance platforms by public alternative asset managers*

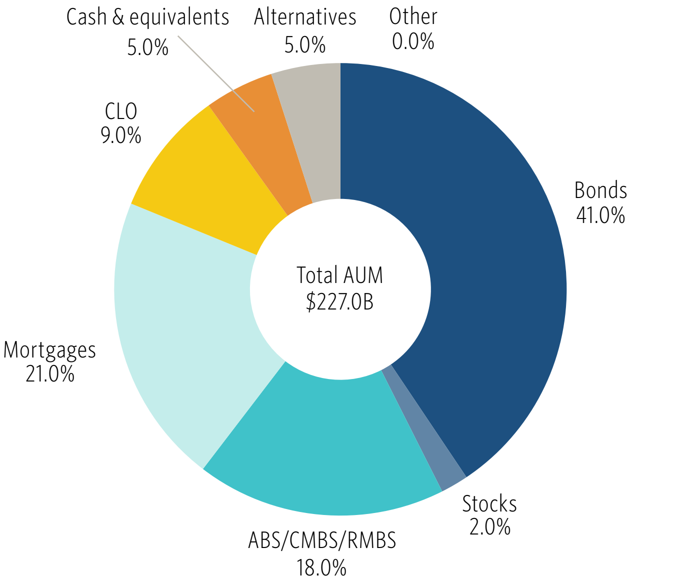
Insurance has become a core focus for these managers as they look to scale their credit strategies

Firm	Insurance platform(s)	Insurance AUM ($B)	% of total AUM	Insurance TTM inflows ($B)	Total TTM inflows ($B)	% of total TTM inflows	Date acquired	Share acquired
Apollo	Athene, Athora	$354.0	50.8%	$72.0	$144.1	50.0%	January 3, 2022	100.0%
Blackstone	4 core minority investments	$211.0	19.6%	$28.5	$151.5	18.8%	N/A	N/A
KKR	Global Atlantic	$183.0	30.4%	$30.0	$106.6	28.1%	February 1, 2021	100.0%
Carlyle	Fortitude	$79.0	18.2%	N/A	$40.9	N/A	March 31, 2022	71.5%
Blue Owl	Kuvare Asset Management	$27.6	14.4%	N/A	$19.2	N/A	April 3, 2024	100.0%
Ares	Aspida	$15.0	3.4%	$5.0	$86.4	5.8%	July 9, 2019	100.0%

Source: Company reports • Geography: Global • *As of June 30, 2024

Athene invested assets*

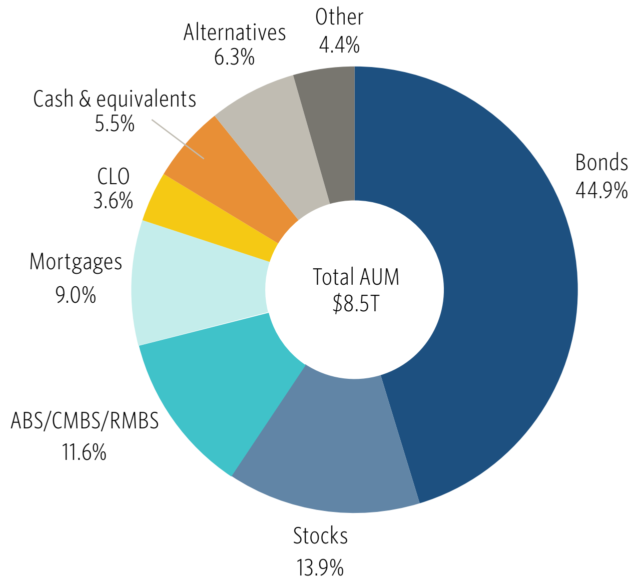
Athene is a good case study of a PE-affiliated insurer



Source: Company reports • Geography: US • *As of December 31, 2023

US insurance invested assets*

The industry has more in stocks and less in asset-backed loans, ABS, and CLOs



Source: NAIC • Geography: US • *As of December 31, 2023

At $187.4 billion in TTM fundraising, private debt has overtaken venture capital as the highest fundraising strategy in private capital markets, second only to private equity. Outside of the traditional complex of institutional drawdown funds, private debt has dominated private market fundraising in the insurance and wealth channels, which have emerged as important new sources of capital for the strategy. These are not finite-life drawdown funds but rather perpetual life vehicles with continuous offerings at net asset value. As noted in our [Q2 2024 US Public PE and GP Deal Roundup], credit strategies have accounted for 62% of all TTM fundraising among the big seven US alternative asset managers, and nearly half of that total is being sourced from perpetual vehicles in the wealth and insurance segments.

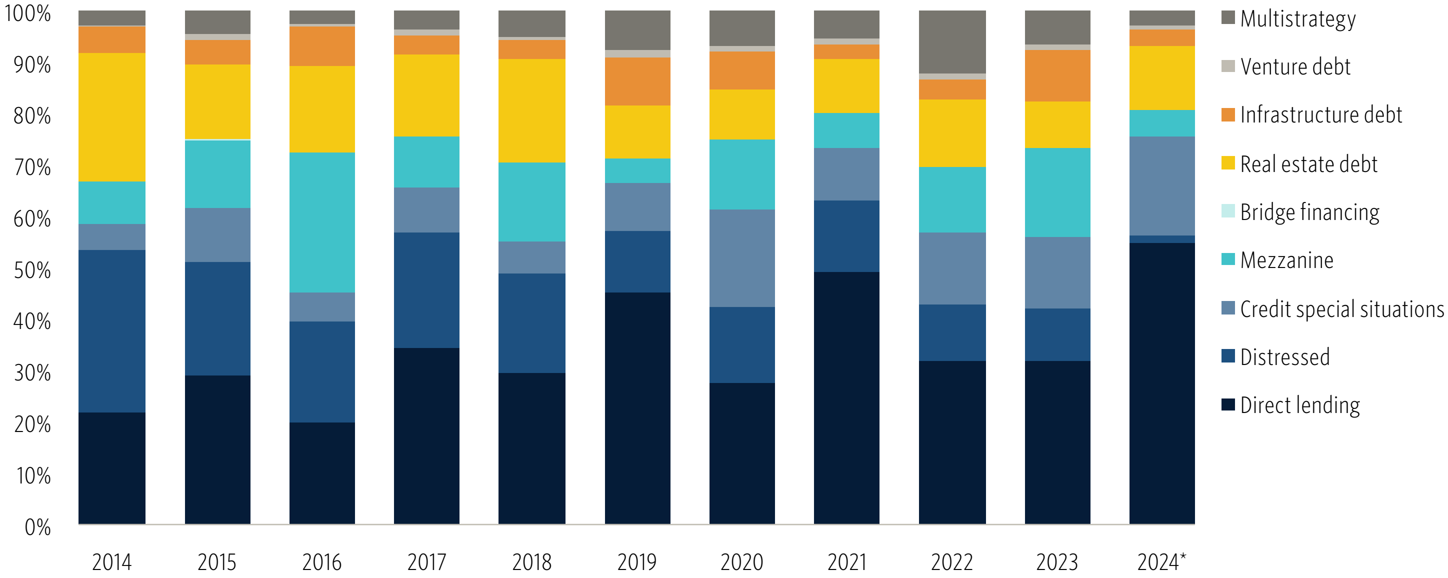
Perpetual vehicles for the private wealth investor, also known as semiliquid funds, are on track to raise $115.0 billion in 2024.[2] We estimate that 55% of that fundraising has flowed to private debt strategies ranging from nontraded BDCs to interval funds with broader mandates to tender offer funds with more opportunistic or specialty credit approaches. This puts the category on track to raise more than $63 billion for the year for various private debt strategies, an increase of approximately 40% YoY. This follows a pause in fundraising growth last year as the advisor network transitioned clients out of nontraded REITs and a redemption episode that challenged the promise of semiliquidity in these new structures; but that shift appears to be complete and fund flows are firmly in place with private debt as the primary beneficiary. Several of the mega alternative managers have targeted 25% of all fundraising to come from the wealth channel, and a few have already arrived—including Blue Owl, which derived $11.2 billion of its $15.7 billion in TTM fundraising from its private wealth product set, mostly in private debt.

Within the insurance segment, where capital is often managed in separate accounts or rated feeder funds for regulatory control purposes, flows to private debt have also been significant and growing at a robust clip. Looking at the top seven public US alternative asset managers where insurance inflows are disclosed, inflows to credit strategies topped $135 billion for the TTM period ending Q2 2024. However, this overstates the contribution to private debt. The vast majority is invested in liquid credit strategies such as government and corporate bonds to stay in compliance with the National Association of Insurance Commissioners (NAIC) and other regulatory entities that provide guidelines on what insurers can safely invest in.

2: "2024 Alts Fundraising Totals $67.3 Billion Through July; Non-Traded BDCs Surpass $20 Billion for Third Consecutive Year," The DI Wire, August 22, 2024.

Share of private debt capital raised by strategy

Direct lending has accounted for more than half of YTD fundraising as other strategies pause



Source: PitchBook • Geography: Global • *As of June 30, 2024

To get a better sense of what these flows might net to for semiliquid and illiquid private debt strategies, the reported holdings of PE-affiliated insurance firms, such as Athene, can provide a good baseline. Athene is one of the largest and longest running tie-ups between an insurer and a PE manager, dating back to its formation and initial funding by Apollo in 2009. In 2022, Apollo increased its stake to 100% ownership but not before building a decadelong track record of managing Athene's assets, primarily in liquid and illiquid credit strategies. The combination has benefited both parties, with Athene realizing a higher return on its investments to capture the top spot in US annuities with its higher yielding policies, and Apollo deriving half of its annual gross inflows from Athene. Many of the same strategies that helped generate excess returns to Athene are now being deployed by a perpetual fund that Apollo offers to its wealth segment, also known as AAA, which it positions as an "equity replacement" vehicle.

Comparing the broad strokes of the Athene's holdings with standard industry practice shows why. According to NAIC's annual report on invested assets,[3] US insurers reported a 13.9% allocation to stocks as of year-end 2023. This compares to less than -2.0% allocated to equity securities for Athene, as reported in its year-end presentation to investors.[4]

Other deltas are evidenced as well. Athene's allocation to collateralized loan obligations (CLOs) and other asset-backed securities (ABS) stood at 27.0% versus 15.6% for the industry. Also notable was the overweight that Athene held in nonsecuritized mortgages, which stood at 21.0% versus 9.0% for the industry. The allocation that Athene has to private debt and other alternative investments is consistent at 5.0% versus 6.3% for the industry. However, inclusive of real estate debt that has yet to be packaged into mortgage securities, Athene's exposure to private debt with illiquid or semiliquid characteristics is closer to 26.0% versus 15.3% for the industry. While not a perfect proxy for all seven of the alternative managers, if we conservatively assume a 15% allocation to private debt for the $869.0 billion in reported insurance AUM and the $135.5 billion in related TTM credit fund flows, that implies another $130.4 billion in AUM and $20.0 billion in fundraising that are incremental to our private debt totals for traditional institutional drawdown funds and perpetual capital retail funds.

In our last report, we called out an H2 2023 dip in fundraising and chalked that up to large funds staying open for longer. Whereas the average time to close a debt fund was just 13.6 months in 2016, that stretched to 18.8 months in 2023 and currently stands at 19.6 months. We also noted a much larger

3: "U.S. Insurance Industry's Cash and Invested Assets Rise to $8.5 Trillion at Year-End 2023," National Association of Insurance Commissioners, Michele Wong, n.d., accessed September 11, 2024.
4: "Athene Fixed Income Investor Presentation," Athene, February 2024.

Largest private debt institutional funds closed in H1 2024*

Credit special situations takes the top spot, but direct lending overwhelmingly represented in the top funds

Fund	Investor	Fund size ($M)	Close date (2024)	Fund type	Fund step-up	Location
HPS Specialty Loan Fund VI	HPS Investment Partners	$14,300.0	June 24	Credit special situations	1.2x	New York, US
West Street Loan Partners V	Goldman Sachs Asset Management	$13,100.0	May 29	Direct lending	1.8x	New York, US
Arcmont Direct Lending Fund IV	Arcmont Asset Management	$10,965.7	January 23	Direct lending	1.7x	London, UK
West Street Real Estate Credit Partners IV	Goldman Sachs Asset Management	$7,000.0	May 14	Real estate debt	1.0x	New York, US
BSP Debt Fund V	Benefit Street Partners	$4,700.0	January 24	Direct lending	N/A	New York, US
Golub Capital Partners 14	Golub Capital	$3,716.8	April 11	Direct lending	1.1x	New York, US
Capza 6 Private Debt	Capza	$2,710.1	June 14	Direct lending	1.6x	Paris, France
Global Infrastructure Partners Emerging Markets Fund	Global Infrastructure Partners	$2,670.0	March 5	Infrastructure debt	N/A	New York, US
Pemberton Strategic Credit Fund III	Pemberton Asset Management	$2,502.5	March 27	Direct lending	1.3x	London, UK
Blue Torch Credit Opportunities Fund III	Blue Torch Capital	$2,300.0	April 10	Direct lending	1.4x	New York, US

Source: PitchBook • Geography: Global • *As of June 30, 2024
Note: Fund size represents total committed capital.

crop of megafunds among the inventory of open funds that rolled into the new calendar year relative to prior years, which would provide a boost to H1 2024 fundraising as and when they closed. That appears to be playing out, with committed capital from final fund closings accelerating by 18.1% in H1 2024 from the back half of 2023. Collectively, the top 10 open funds that rolled into 2024 had already raised $54.6 billion—more than 3x that of the top 10 open funds that rolled from 2022 to 2023. A number of those funds have wrapped up, including Ares' third direct lending US flagship, which, as previously noted, closed on $15.5 billion in July that will be recorded in our H2 2024 total. Many other funds are still open and will likely close in the next few months, providing a further boost to the H2 total. That includes the largest-ever European direct lending fund—Ares' sixth European flagship—that has reportedly surpassed $15 billion in equity commitments.[5]

As with other strategies, more experienced managers have crowded out emerging managers, which we define as those with three or fewer funds. Experienced managers ran away with market share in 2022, as their larger platforms were better positioned to capture the sudden spike in demand arising from higher interest rates. The share of fundraising by emerging managers fell to 9.2% in 2022 from 14.8% in 2021 and remained stagnant at an anemic 8.6% in 2023. YTD, emerging firms have accounted for just 3.5% of the private debt fundraising total, although that is a premature analysis given the lag nature of reported closings, especially among emerging managers. Looking at full-year 2023 data, which is more settled, first-time managers accounted for 30 of the 77 emerging managers that closed funds and $4.5 billion of the $18.5 billion raised by emerging managers. It is still a tough fundraising market for newer private debt managers, despite the slight tailwind that the strategy is now enjoying.

In Q4 2023, private debt AUM reached $1.6 trillion globally and surpassed $2.0 trillion inclusive of perpetual capital vehicles in the wealth and insurance channels. Looking at just institutional drawdown funds, growth has been most explosive in direct lending—private debt's largest substrategy—which surpassed $592.0 billion in AUM at year-end 2023, up from $77.1 billion 10 years ago. That is a CAGR of 22.6% versus 10.4% for PE AUM growth during the same span. Some observers fear that is too far too fast. However, absolute AUM in PE still far exceeds that of direct lending at $5.4 trillion

5: "Ares Set to Close Record €20bn Direct Lending Fund," Private Equity Wire, January 11, 2024

Largest nontraded BDCs and private debt interval funds offered in H1 2024*

New breed of retail-oriented vehicles has allowed private debt sponsors to gather an additional $300 billion in AUM since 2020

Fund	Net asset value ($M)	Fund type	Strategy	Location
Blackstone Private Credit Fund	$35,000.0	Nontraded BDC	Direct lending	New York, US
Cliffwater Corporate Lending Fund	$21,300.0	Interval fund	Direct lending	Marina del Rey, US
Apollo Debt Solutions BDC	$7,300.0	Nontraded BDC	Direct lending	New York, US
HPS Corporate Lending Fund	$7,200.0	Nontraded BDC	Direct lending	New York, US
Blue Owl Technology Finance Corp.	$3,800.0	Nontraded BDC	Direct lending	New York, US
Cion Ares Diversified Credit Fund	$3,800.0	Interval fund	Multistrategy	New York, US
Cliffwater Enhanced Lending Fund	$3,600.0	Interval fund	Direct lending	Marina del Rey, US
Variant Alternative Income Fund	$3,100.0	Interval fund	Multistrategy	Portland, US
PIMCO Flexible Credit Income Fund	$3,000.0	Interval fund	Multistrategy	New York, US
Stone Ridge Trust V	$1,900.0	Interval fund	Multistrategy	New York, US

Source: Company reports • Geography: Global • *As of June 30, 2024

and $592.0 billion, respectively. This implies ample opportunity for private debt funds to grow into the PE footprint, especially as the bank-led market for sourcing debt continues to contract.

At 54.9%, direct lending consolidated its position as the top fundraising substrategy within private debt. After edging lower in prior years as the asset class continued to diversify, this year's reading represented a strong rebound from its five-year average share of 37.1%, and it is now on par with its prior peak in 2021 when direct lending garnered 49.0% of the total fundraising share for the full year.

Mezzanine funds have responded to the unmet need for subordinated debt. Mezzanine's junior position in the capital structure means that it does not count against limits on senior loan ratios—an appealing option for borrowers that need an extra turn of leverage. Additionally, mezzanine lenders are more comfortable with paid-in-kind structures, which are a popular feature in today's market to conserve cash flow. Despite this high demand, supply is constrained. 2023 marked the first in 20 years that second-lien loans were completely absent from the US leveraged finance market.

$37.1 billion in committed capital was closed for mezzanine funds in 2023, up 19.4% YoY and elevated relative to its five-year average of $25.0 billion. Just $4.7 billion has been raised for the mezzanine YTD as the strategy takes a breather from the three mega flagships that were closed by Crescent Capital, West Street, and HPS in 2023.

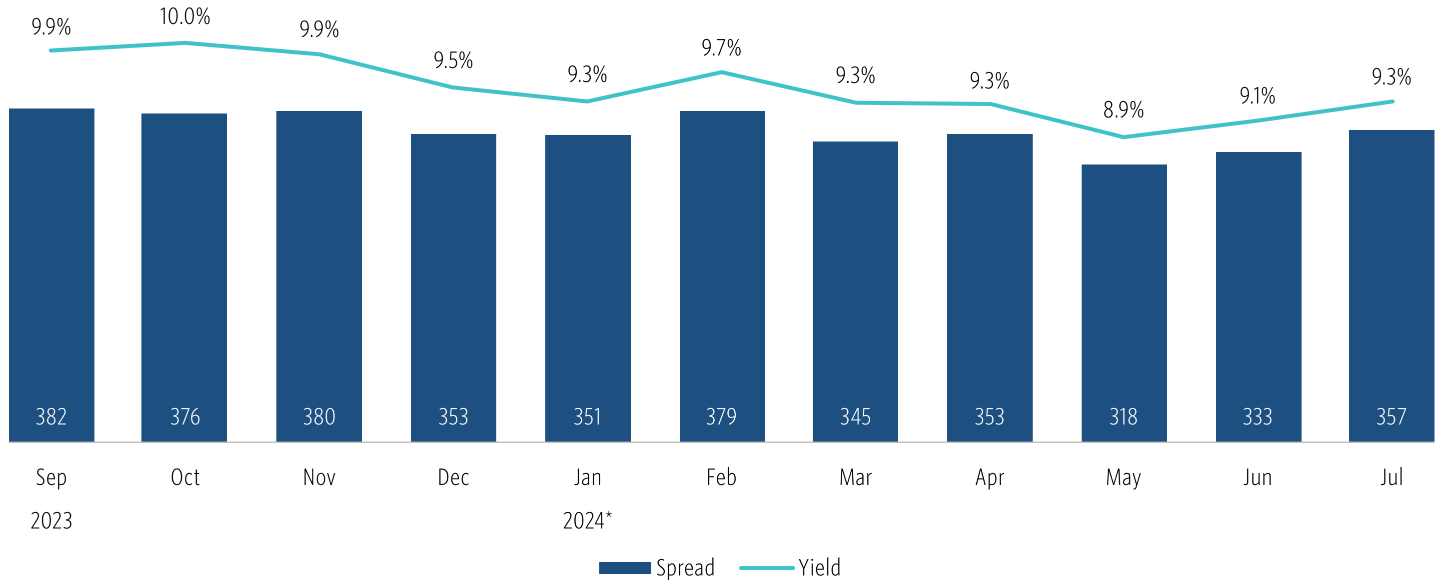
Infrastructure debt fundraising has followed a similar pattern. After doubling to $21.4 billion in 2023, fundraising has fallen back to just $2.8 billion YTD. Blackstone and Brookfield closed large flagships that accounted for more than $13.0 billion of the 2023 total, so their absence has been notable in 2024.

Of the top five funds closed during the quarter, three were direct lending funds, including West Street's fifth flagship at $14.3 billion, Arcmont's fourth flagship at nearly $11.0 billion, and Benefit Street Partners' fifth flagship at $4.7 billion. Away from direct lending, West Street again featured in the top five with the closing of its fourth real estate credit flagship at $7.0 billion, and HPS closed its Specialty Loan Fund IV at $14.3 billion that is part corporate direct lending but also asset-backed.

US and European market stats

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

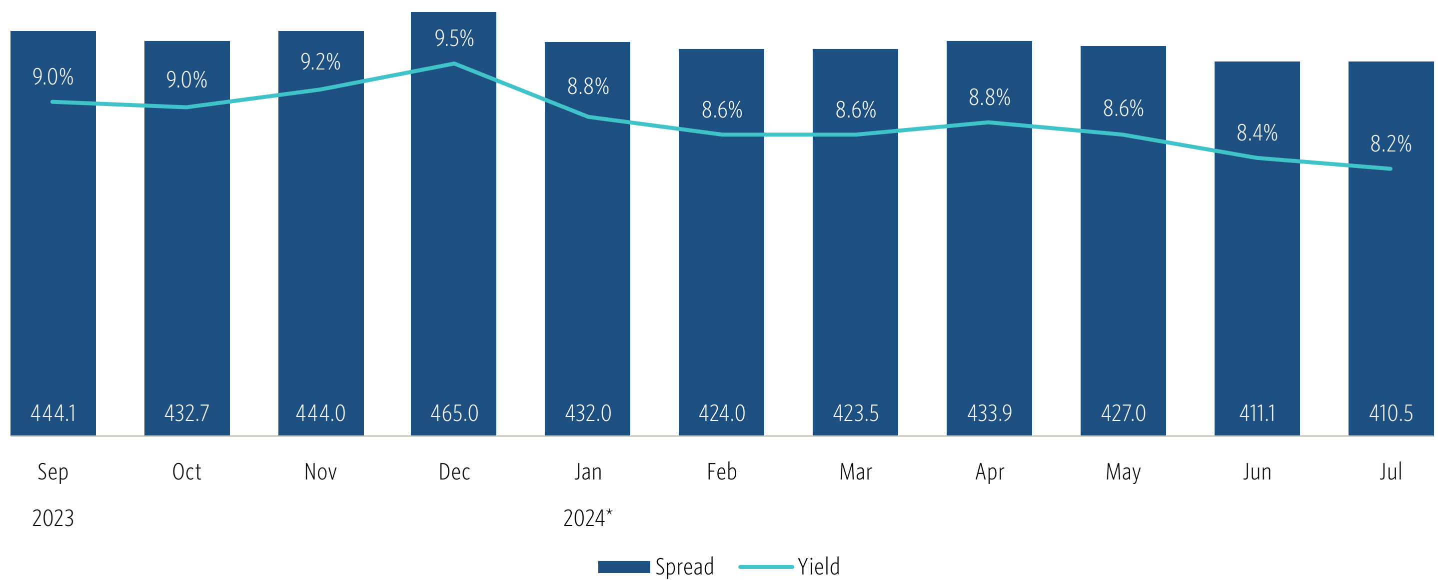
US loan yields and spreads have crept higher since May but are still lower than a year ago



Source: PitchBook | LCD • Geography: US • *Rolling 30-day average. As of July 31, 2024

Yield-to-maturity and spread on new-issue European leveraged loans

European loan yields have declined with lower base rates, though spreads remain higher than the US



Source: PitchBook | LCD • Geography: Europe • *Rolling 90-day average. As of July 31, 2024

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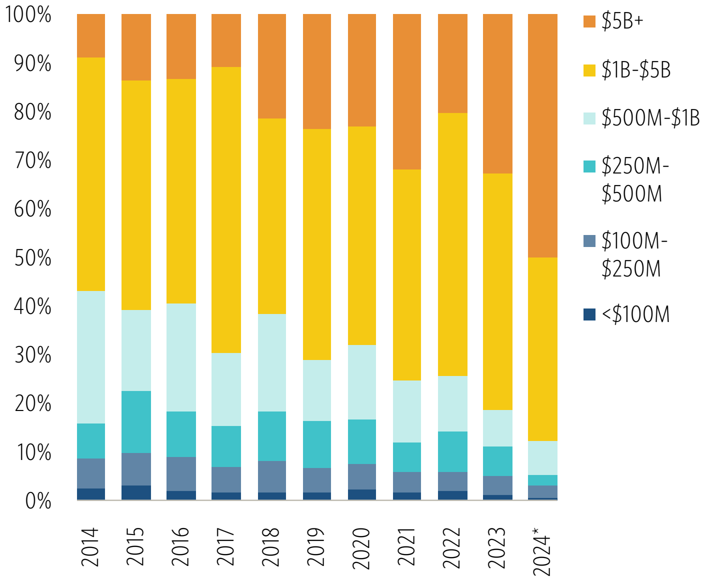
Private debt fund stats

Share of private debt capital raised by size bucket

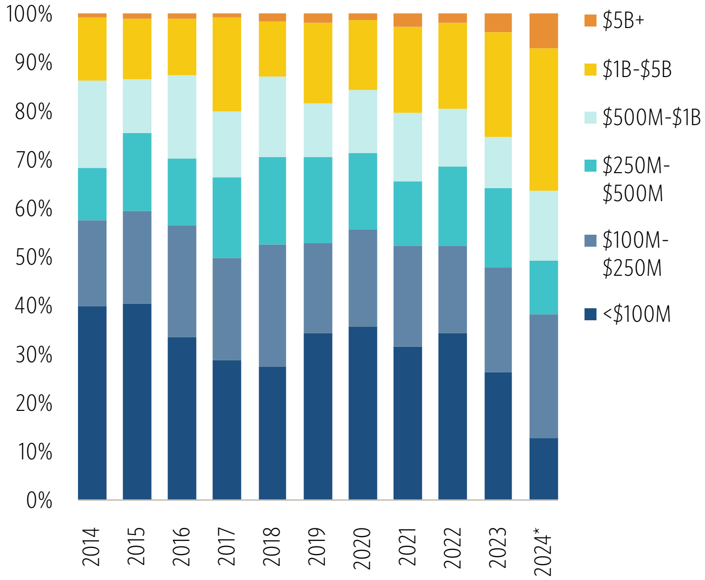
$5 billion-plus funds are gathering half of all new commitments to private debt



Source: PitchBook • Geography: Global • *As of June 30, 2024

Share of private debt fund count by size bucket

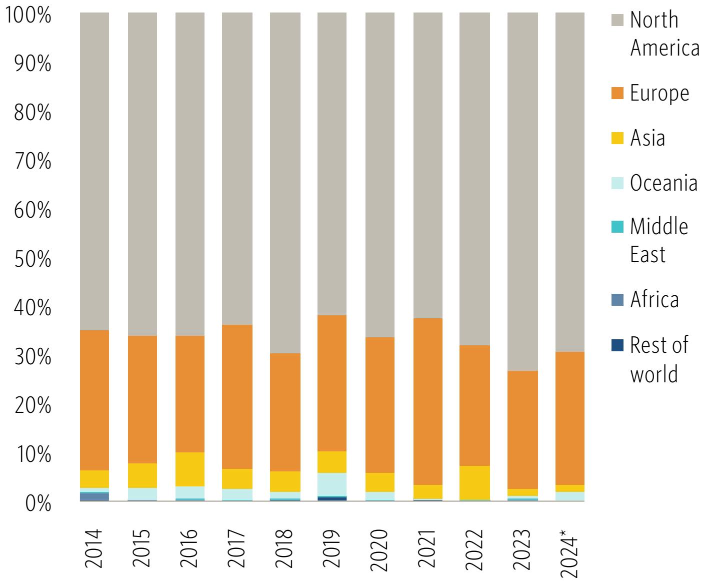
Most fund size buckets have expanded at the expense of the sub-$250 million category



Source: PitchBook • Geography: Global • *As of June 30, 2024

Share of private debt capital raised by region

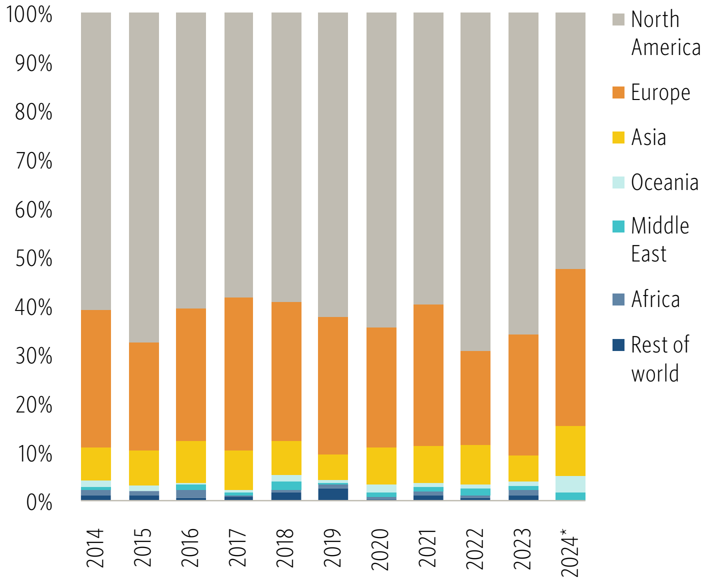
North America retains the vast majority of share in private debt fundraising



Source: PitchBook • Geography: Global • *As of June 30, 2024

Share of private debt fund count by region

The number of European vehicles has bounced back



Source: PitchBook • Geography: Global • *As of June 30, 2024

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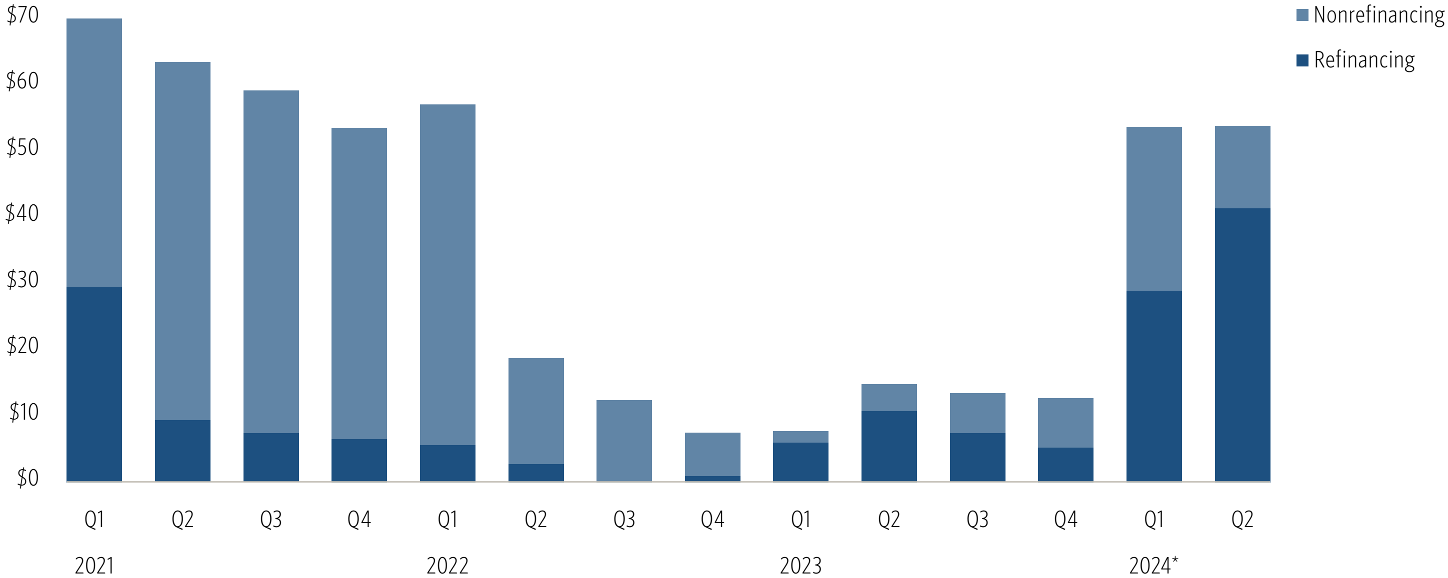
SPOTLIGHT

Lenders strengthen defenses against refi, repricing wave

Broadly syndicated loan (BSL) issuance volume by borrowers rated B-minus ($B)

B-minus borrowers are refinancing in the BSL market at the highest volume in years



Source: PitchBook | LCD • Geography: Europe • *As of June 18, 2024

Note: This spotlight is abridged from our Q2 2024 US Private Credit & Middle Market Quarterly Wrap. Please see the full report for additional analysis.

Abby Latour
Managing Editor, US Private Credit

Private credit providers are fighting back. They needed to get creative to defend territory from an onslaught of repricings and refinancings unleashed in the first quarter, and it is working.

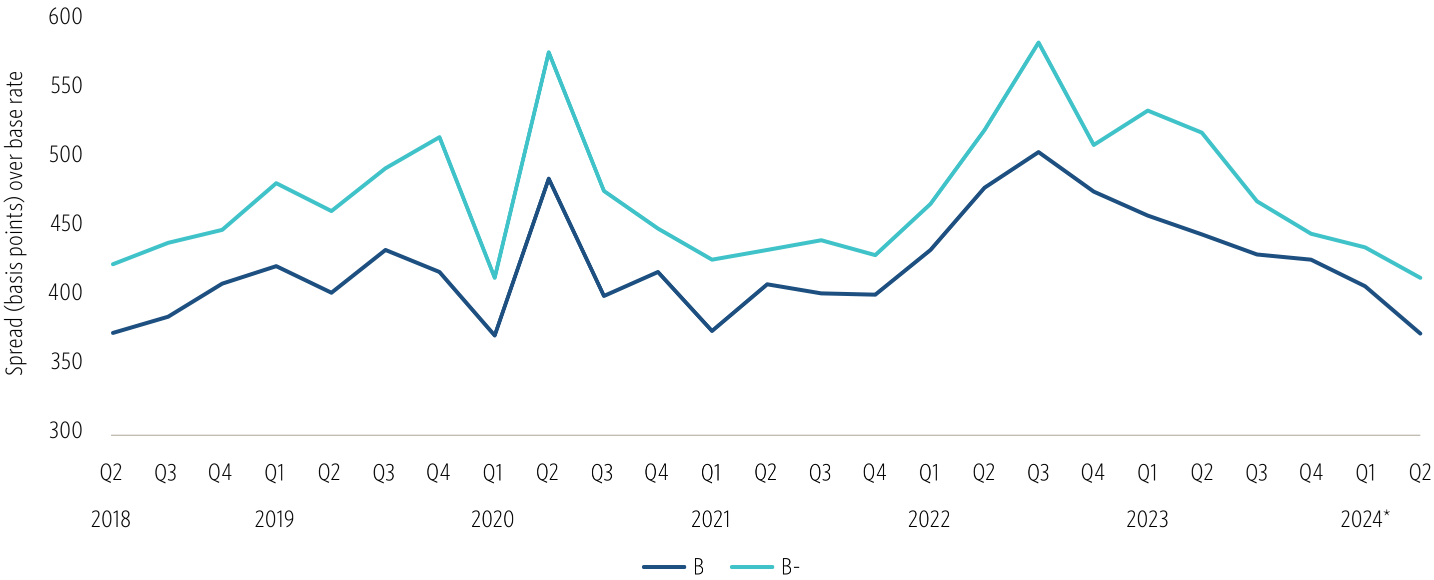
LCD data shows that the volume of private credit loans taken out by BSLs slowed in the second quarter of 2024. Private credit lenders have employed many ways to avoid losing deals. First and foremost, they have given up spread. Private credit loans have traditionally been known to be pricier than BSLs. While this remains true, spreads are much tighter on private credit loans than during other periods in recent years. The data clearly demonstrates this: A direct lending loan with a spread of at least S+600 in H1 2024 was far less common than in both the first and second halves of 2023. Yet, deals were still done in this range. Some were for dividend recapitalizations, highlighting another trend that accelerated in the second quarter.

While M&A is still less active than what private credit providers would prefer, spreads on BSLs and direct loans for acquisition-related deals are converging, LCD data shows.

One way that private credit lenders are grappling with the new market reality is by agreeing to cut spreads within existing lender groups. This may be the simplest way administratively. Lenders report calls from sponsors and agents with requests for spread reduction. Eye-watering savings by borrowers of as much as 300 basis points were available in the second quarter, with 175 to 250 basis points easily chopped from spreads just by asking.

New-issue TLB spread by borrower rating

A sharp contraction in B and B-minus spreads is driving the robust refi activity



Source: PitchBook | LCD • Geography: US • *As of June 11, 2024

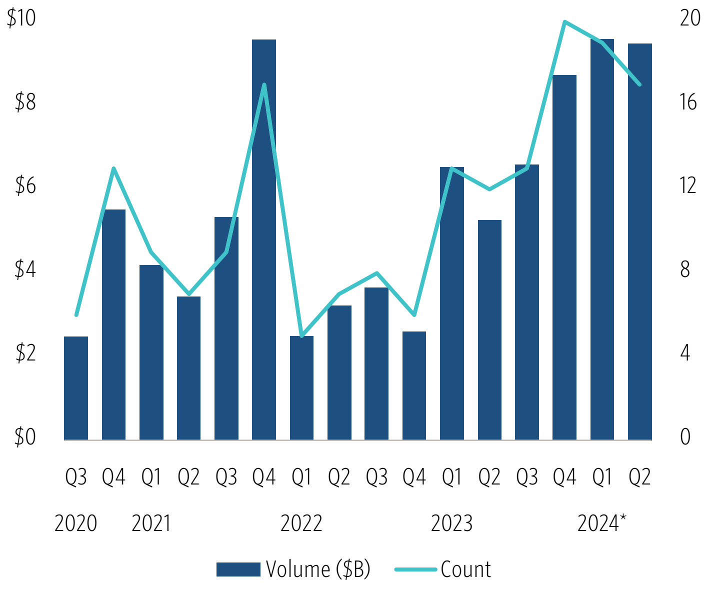
But there is no denying that the savings wrought by moving over to the syndicated loan market, away from private credit, were also worthwhile. Many borrowers chose this route, refinancing private credit loans in the BSL market. Particularly vulnerable were second-lien and unitranche loans that private credit lenders provided in recent years, enjoying juicy spreads. Of course, for borrowers, that is where the most cost savings were possible once other financing options emerged.

According to market participants, the potential for savings was less for the lower middle market, and refinancing risk was less severe there. But further upmarket, the hassle of drawing up new paperwork made sense. One of private credit's favorite arguments in favor of the asset class—that smaller lender groups are easier to work with—may have worked against them in this market. For example, Magnet Forensics, a portfolio company of Thoma Bravo that develops digital investigation products, cut the spread on a $535 million term loan to S+500, from S+800, via an amendment. Blue Owl is the sole lender. Notably, the company had considered refinancing the debt in the syndicated loan market.

The main driver behind the repricing and refinancing activity is that the syndicated loan market is again welcoming B-minus borrowers. As soon as the syndicated loan market got comfortable again with these lower-rated borrowers, the floodgates opened. The math was simply too compelling not to leave the private credit market behind, what with BSL spreads compressed to multiyear lows.

Private credit/middle-market CLO issuance

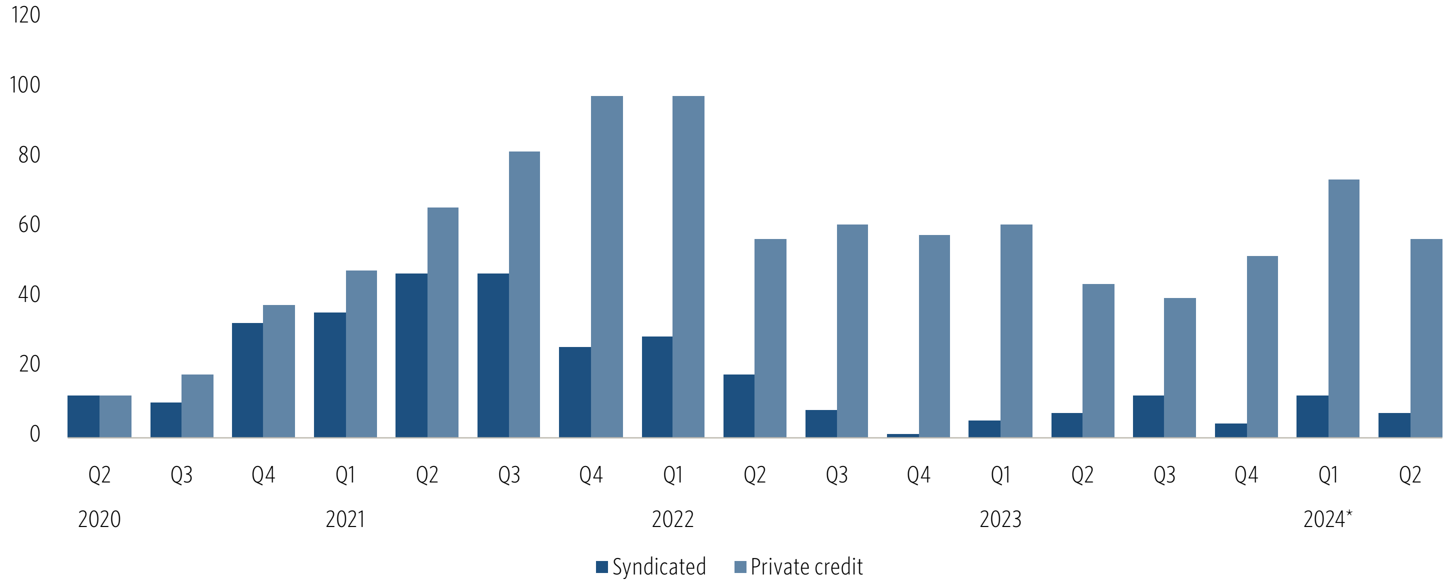
Record middle-market CLO issuance is helping fuel demand for new private credit loans



Source: PitchBook | LCD • Geography: US • *As of June 17, 2024

LBO count financed in BSL and private credit market

Even with the syndicated market's revival, private credit continues to lock up deals at a steady clip



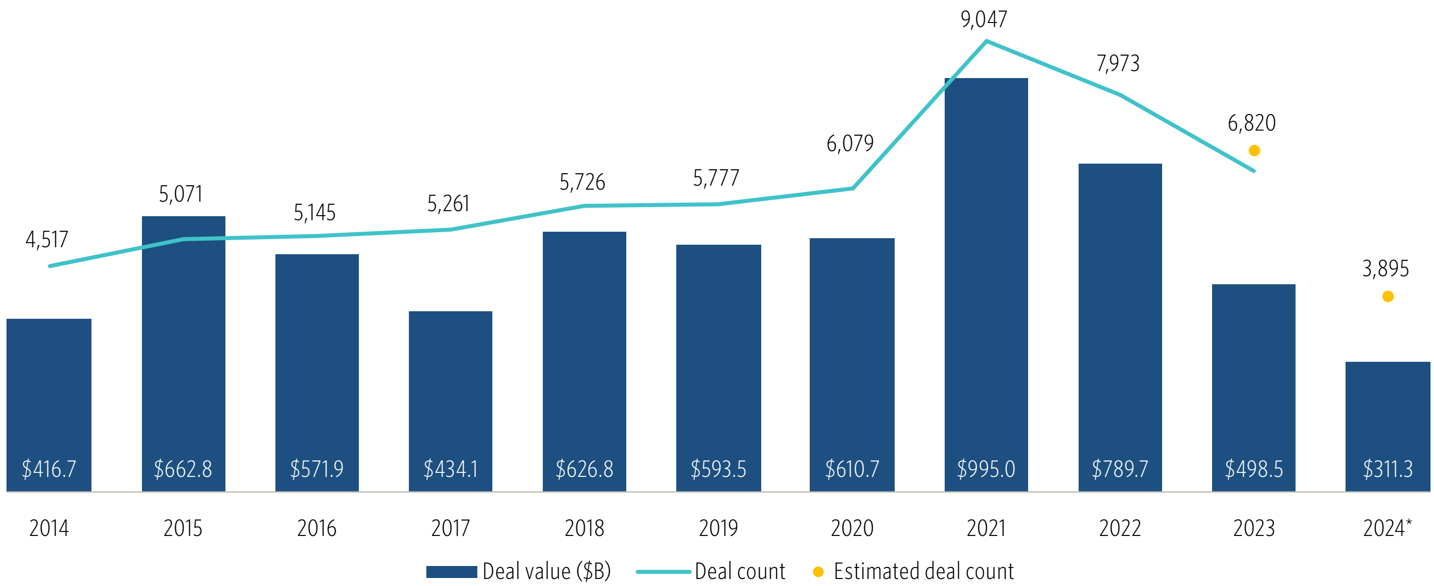
Source: PitchBook | LCD • Geography: US • *As of June 18, 2024

Note: Private credit count is based on transactions covered by LCD News.

LBO dealmaking and take-private update

Global LBO deal activity

Private credit deployment is strongly linked to PE LBO deal value, which is tracking 8.6% ahead of the prior year



Source: PitchBook • Geography: Global • *As of June 30, 2024

Take-privates provide a good window into the world of financing LBOs, as they involve public companies as acquirees. Take-privates are more transparent than LBOs, and as a result, they can point to broader trends in direct lending—at least at the top end of the market. Historically, private credit was shut out of large financings of take-privates. That began to change in 2022 when banks pulled back from underwriting large financings in the BSL market as the Federal Reserve embarked on the steepest rate hikes in 40 years, and large LBO announcements slowed to a trickle. 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 and again in Q4 2023 at just over $2.0 billion in completed US LBO-related volume, down 95.4% from the Q3 2021 peak. This provided an opening for private credit to take share at the top end of the deal financing market and at the same time consolidate the commanding presence it has always had in middle-market lending.

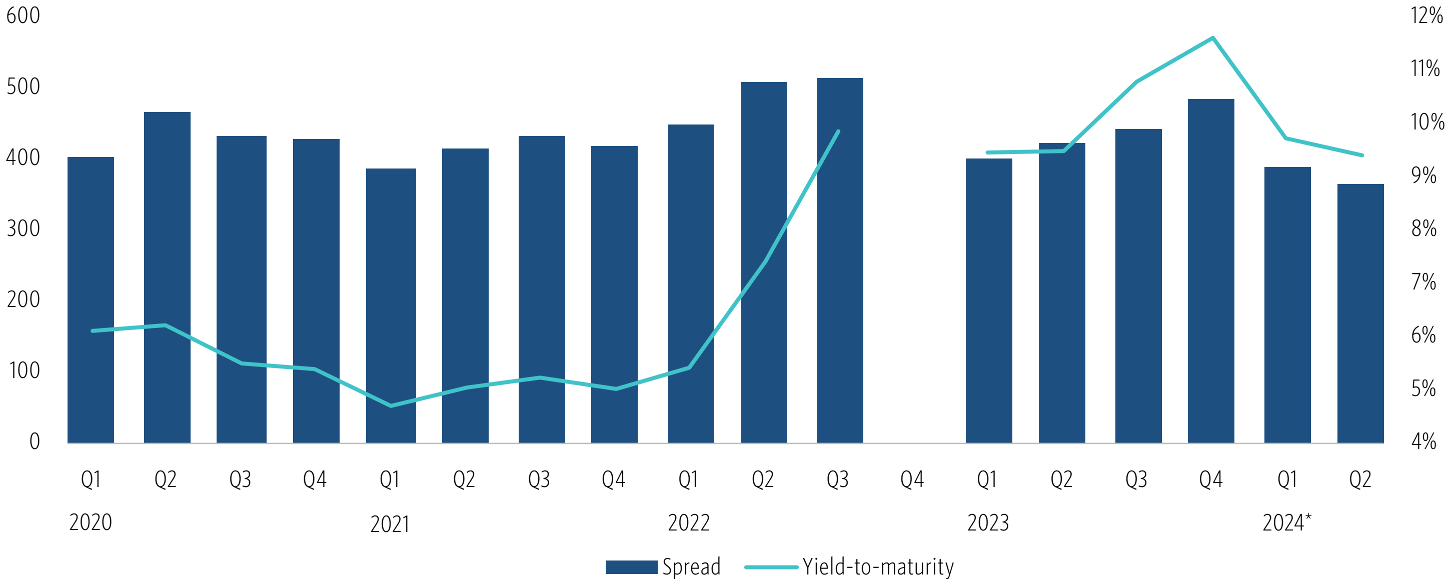
Banks are slowly making their way back to lending to LBO deals. In H1 2024, syndicated LBO loan volumes have more than doubled to $31.4 billion off of a very low base of $13.3 billion in H1 2023. Assuming that this momentum carries into the back half of the year, 2024 volume will still come in at roughly 57.0% below the 2021 peak and 38.0% below the “old normal” represented by the three-year annual average prior to the COVID-19 pandemic.

While banks have returned to the BSL funding market and are competing head-to-head with private credit lenders, the majority of new-issue activity has been refinancing related. Refinancings volumes soared by more than twofold in 2023 and have nearly doubled again to $166.0 billion through the first half of 2024. The BSL market is well on its way to smashing the prior all-time high of $213.1 billion in 2013. Historically, refinancings represented just one-third of BSL new-issue volume, but YTD, its share expanded to nearly two-thirds.

While competition between banks and private credit lenders remains fierce within the refinancings market, private credit has retained a tight grip on the deal lending market. In the

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

Borrowing costs for LBO deals funded in the BSL market eased to 9.4% in Q2 2024 from 11.6% in Q4 2023



Source: PitchBook | LCD • Geography: Global • *As of June 30, 2024

Note: There were not enough observations in Q4 2022 to provide a meaningful average.

middle-market space, private credit has always been left alone by banks to compete for that market, and that remains the case. At the top end of the LBO lending market, where banks traditionally dominated, private credit captured an unusually high share during 2023. Looking at public-to-private PE deals as a proxy, roughly 85% of all loan opportunities in 2023 were won by private credit lenders. In 2024, the share has been more evenly split between banks and private credit. Of the 46 public-to-private deals of $100 million or more announced in H1 2024, 24 have also announced their debt backing with 14 selecting banks and 10 selecting private credit lenders. Looking at the comparison between the two loan books on these 24 deals, bank versus private credit, they are very similar with an average loan size of approximately $800 million and loan-to-value ratios in the 40% to 50% range.

Notable H1 2024 deals include Permira's $6.9 billion take-private of Squarespace, which included a $2.7 billion loan from private lenders Blackstone Credit & Insurance, Blue Owl Capital, and Ares Capital. Other notable deals include the take-private of Hargreaves Lansdown for $6.9 billion, led by a consortium of Nordic Capital, CVC Capital Partners, and the Abu Dhabi Investment Authority. The consortium financed the deal with a $2.2 billion debt package from private lenders KKR, Apollo, HPS Investment Partners, and Blackstone.

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Notable public-to-private LBOs announced in H1 2024*

Private credit's share of jumbo loans backing take-privates has slipped to less than half after dominating in 2023, but lately it has been on a winning streak

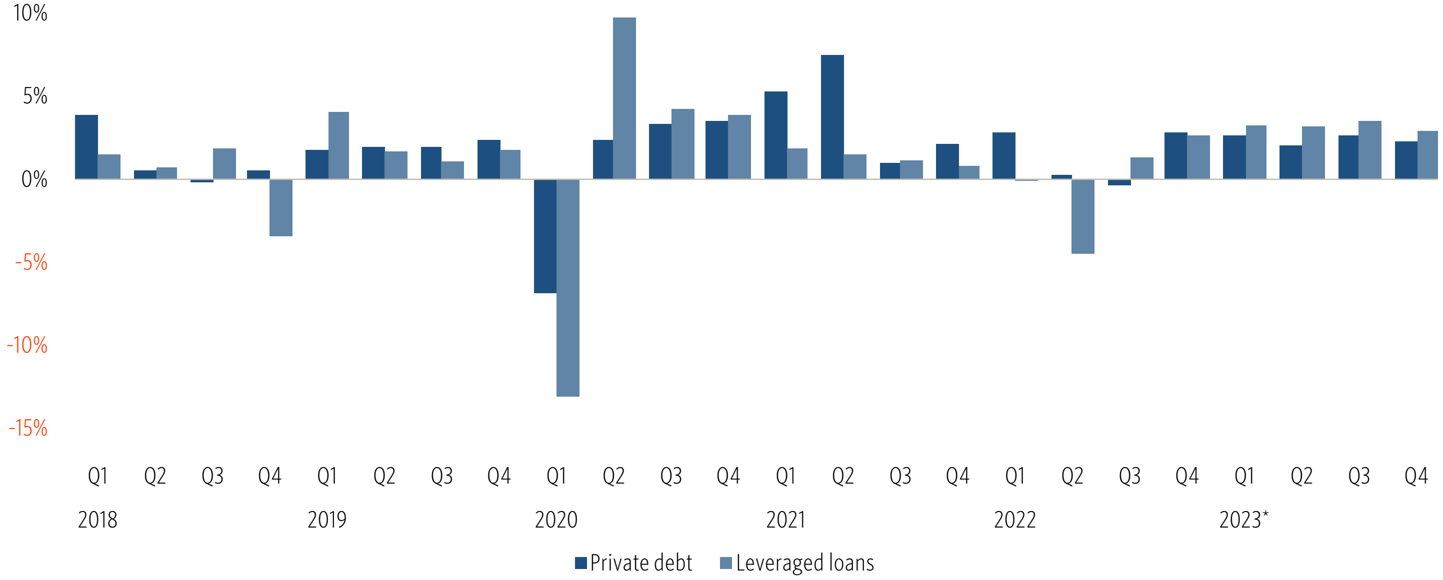
Company	Announced date (2024)	Loan type	Enterprise value ($M)	Loan value ($M)
Purmo Group	June 30	Bank	$918.7	$521.2
Alpha FMC	June 20	Private debt	$807.5	$410.7
Hargreaves Lansdown	June 18	Private debt	$6,876.4	$2,228.5
PowerSchool	June 7	Private debt	$5,600.0	$3,175.0
Surmodics	May 29	Private debt	$627.0	$450.0
Squarespace	May 13	Private debt	$6,900.0	$2,650.0
AGS	May 9	Bank	$1,100.0	N/A
Allete	May 6	Bank	$6,200.0	N/A
Perficient	May 5	Bank	$3,163.0	$1,135.0
Darktrace	April 26	Bank	$5,320.0	$2,295.0
U.S. Silica	April 26	Bank	$1,850.0	$1,100.0
AssetMark	April 25	Bank	$2,700.0	$1,600.0
Model N	April 8	Private debt	$1,250.0	$965.0
Endeavor	April 2	Bank	$25,000.0	$8,500.0
AdTheorent	April 1	Bank	$324.0	N/A
Nuvei	April 1	Bank	$6,300.0	$3,150.0
Doma Holdings	March 28	Private debt	$162.6	$22.5
Agiliti Health	February 26	Bank	$2,500.0	$400.0
HireRight	February 16	Bank	$1,650.0	$300.0
Whole Earth Brands	February 12	Private debt	$679.8	$375.0
ZeroFox	February 6	Private debt	$350.0	N/A
Everbridge	February 5	Private debt	$1,800.0	$900.0
Kaman	January 18	Bank	$2,802.1	$965.0

Source: PitchBook • Geography: Global • *As of June 30, 2024
Note: Only deals with disclosed loan types included.

Private debt fund performance

Returns for private debt funds versus leveraged loans

When markets turn, leveraged loans capture more of the upside than private debt funds, but also more of the downside



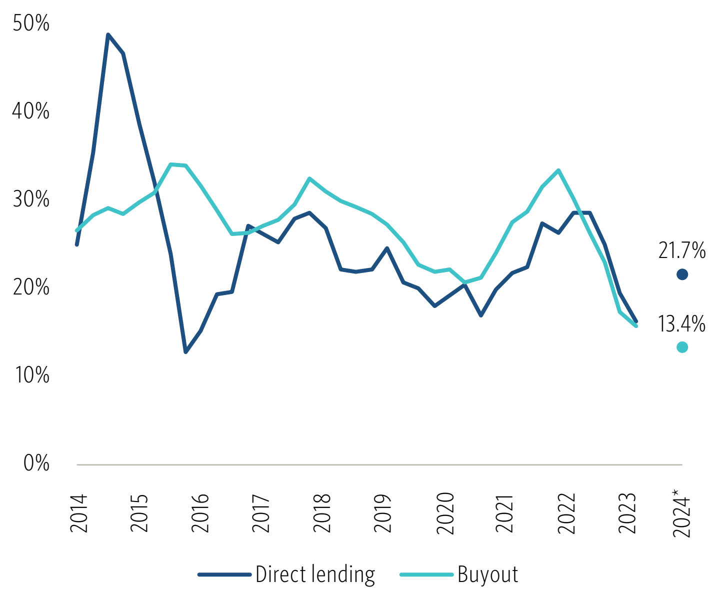
Source: PitchBook | LCD • Geography: Global • *As of December 31, 2023

Our final estimate of fund returns in private debt for 2023 is 9.2%, net of fees. 2023 was a banner year for floating rate loans, which constitute most of private debt fund holdings. The Morningstar LSTA US Leveraged Loan Index, which tracks the more liquid syndicated loan market, is the best proxy for measuring private debt and direct lending funds especially, allowing us to close the gap between lagged private fund returns and today. The index posted its second-best-ever return in 2023 of 13.4%. That compares with a return of 11.1% by direct lending funds, net of fees. The LSTA index includes both appreciation and coupon return (current interest received), whereas fund returns are mostly coupon-related due to the nontraded nature of the underlying loans. Excluding the appreciation factor, the LSTA index returned 9.9% in 2023. This compares with roughly 5% per annum between 2010 and 2021.

More elevated returns from floating rate loans have continued in 2024. In H1, the LSTA index returned 4.7% in coupon alone and 4.4% inclusive of a small valuation decline. This compares favorably with a total return of 2.6% in US high yield, -0.45% in US corporates, and -2.0% in US 10-year Treasuries.[6] Relative to public equity indexes, everything has trailed the S&P 500 Index return of 15.3% YTD. However, relative to the other seven major

Direct lending versus buyout fund distribution rates

Direct lending distribution rates are nearly double those of buyout funds

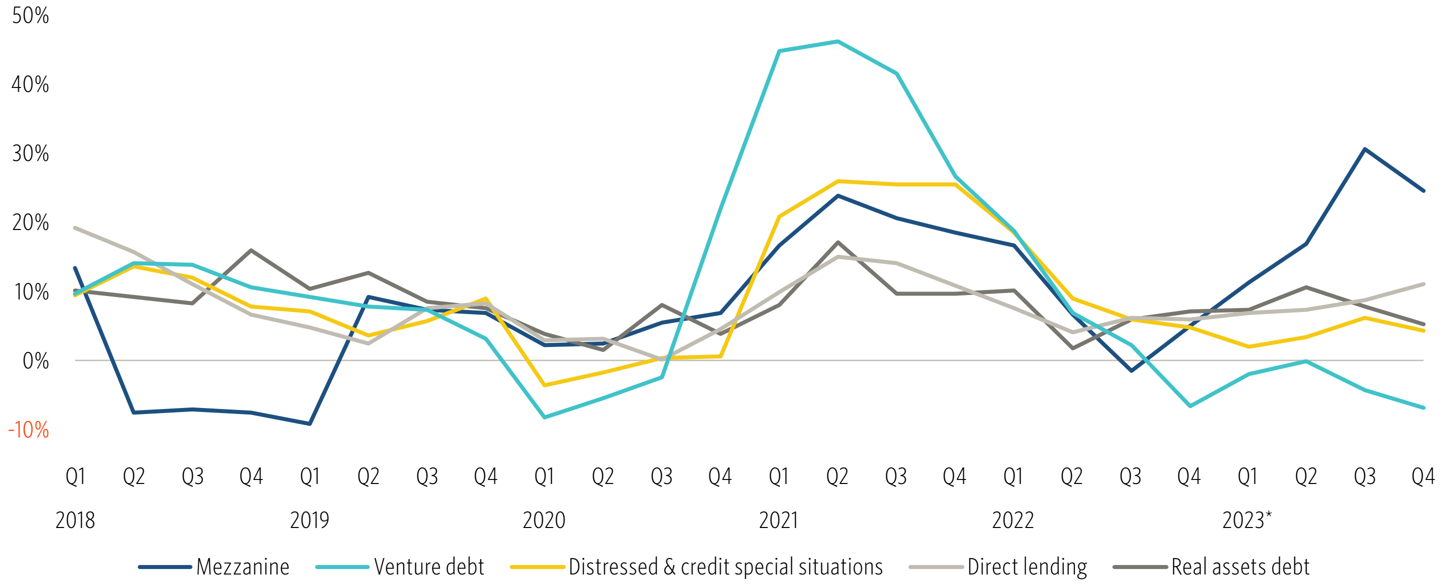


Source: PitchBook • Geography: Global • *As of December 31, 2023

6: "S&P U.S. Treasury Bond Current 10-Year Index," S&P Global, n.d., accessed September 11, 2024.

Private debt rolling one-year horizon IRR by type

One-year returns were historically strong across most strategies, with mezzanine leading and venture debt lagging



Source: PitchBook • Geography: Global • *As of December 31, 2023

private market strategies—all of which are equity in nature—private debt was eclipsed only by private equity in 2023. Even there, the gap was uncomfortably close given the higher risk premium that normally attaches to private equity investing relative to private debt. Our final estimate of private equity fund returns for 2023 was 10.5% versus 9.2% for private debt. We do not expect that will change much in Q1 2024, as our preliminary return estimates for both strategies are virtually identical at 2.0% apiece. As long as private debt ranks near the top of private market return tables while featuring historically low volatility, it should continue to attract strong flows from investors seeking attractive risk-adjusted returns.

Of the major substrategies and regions, mezzanine funds dominated in 2023 with a return of 24.5%. European debt funds handily beat North American funds at 10.9% and 8.9%, respectively, despite the fact that coupon returns were lower in Europe all year. The main risk to private debt returns at this juncture is steeper-than-expected rate cuts by global central banks, which would signal a hard landing by global economies. A recession would hurt noninvestment-grade credits the hardest, which describes most private debt borrowers. Additionally, steeper rate cuts would likely accelerate a rotation out of floating rate credit and into fixed rates, thus further exacerbating conditions for private debt borrowers and repayment prospects for lenders. As of now, a soft landing accompanied by more gradual rate cuts is the consensus view, and that is the ideal scenario for private debt returns and investors.

Private debt gross returns reported by manager*

One-year gross returns of private debt strategies managed by the "big seven" US alt managers ranged between 12% and 20% in Q2

Source: Company reports • Geography: Global • *As of June 30, 2024

Note: All returns are before the deduction of fees.

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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-plus 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: Opportunistic 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 or loans 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.

Multistrategy: General-purpose credit funds with broad mandates to invest across the debt capital structure, substrategies, and verticals 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 2024 Global Private Market Fundraising Report

Download the report here

Q4 2023 Global Fund Performance Report (with preliminary Q1 2024 data)

Download the report here

Q2 2024 Global M&A Report

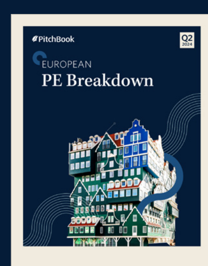
Download the report here

Q2 2024 US PE Middle Market Report

Download the report here

Q2 2024 US PE Breakdown

Download the report here



Q2 2024 European PE Breakdown

Download the report here

More research available at pitchbook.com/news/reports