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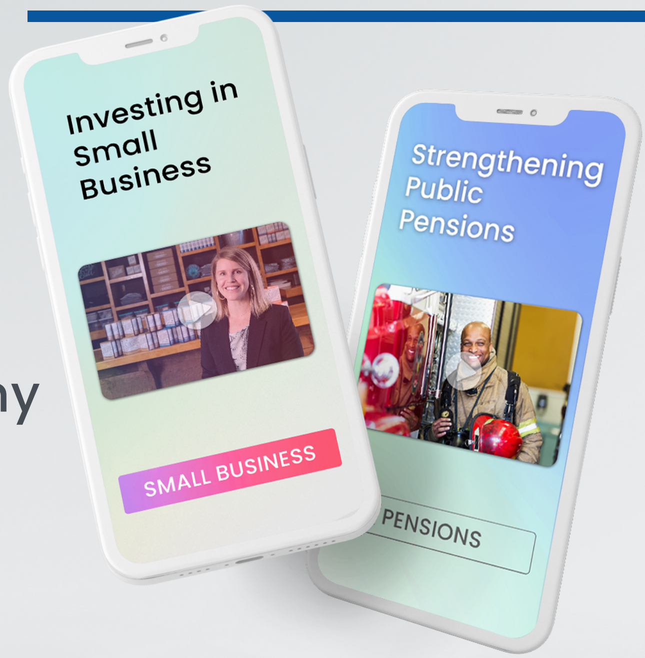
# Global Private Debt Report

H1 2021

# PRIVATE CREDIT
## INVESTING IN AMERICA

From urban to rural and everywhere in between, private credit is making a positive impact across America and investing in every community to:

- Provide a critical source of capital for businesses looking to expand and hire new workers
- Boost the American economy
- Strengthen public pensions




The American Investment Council (AIC) is an advocacy and resource organization established to develop and provide information about the private investment industry and its contributions to the long-term growth of the U.S. economy and retirement security of American workers. Member firms of the AIC consist of the country's leading private equity, growth capital, and private credit firms united by their successful partnerships with limited partners and American business.

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*Note on methodology: This edition of the report includes mezzanine funds as part of the private debt universe. Historical fundraising and performance figures will differ accordingly.*


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*Click here for PitchBook's report methodologies.*

# Executive summary

**Private debt fundraising kept a steady course in the first half of 2021.** Low interest rates, subdued default rates, and the longer-term pivot toward alternative strategies aided allocators in committing $72.5 billion across 81 vehicles. Direct lending continues to stand out, accounting for about half of all capital raised. Fundraising for distressed debt and special situations funds is about on track with 2020, but opportunities for deploying capital may be few and far between due to the lack of distress in the market.

**At the outset of the pandemic, private debt funds experienced their worst quarter in the last decade, but portfolios have recovered rather quickly alongside an improving economy, surging liquid credit markets, and low default rates.** QoQ performance has been positive for each of the last four quarters, but preliminary data from Q1 2021 suggests the advances will fall short of H2 2020's results.

**Over the past decade, venture debt has emerged as a major alternative source of financing for high-growth startups that have traditionally opted to solely finance through equity VC.** More than $20 billion has been loaned to VC-backed companies in the US during each of the past three years. Though interest rates could potentially rise, it would likely take a significant move to materially affect the market. The nondilutive properties of venture debt will continue to benefit companies as they grow within the private markets.

Dylan Cox
Head of Private Markets Research

PitchBook

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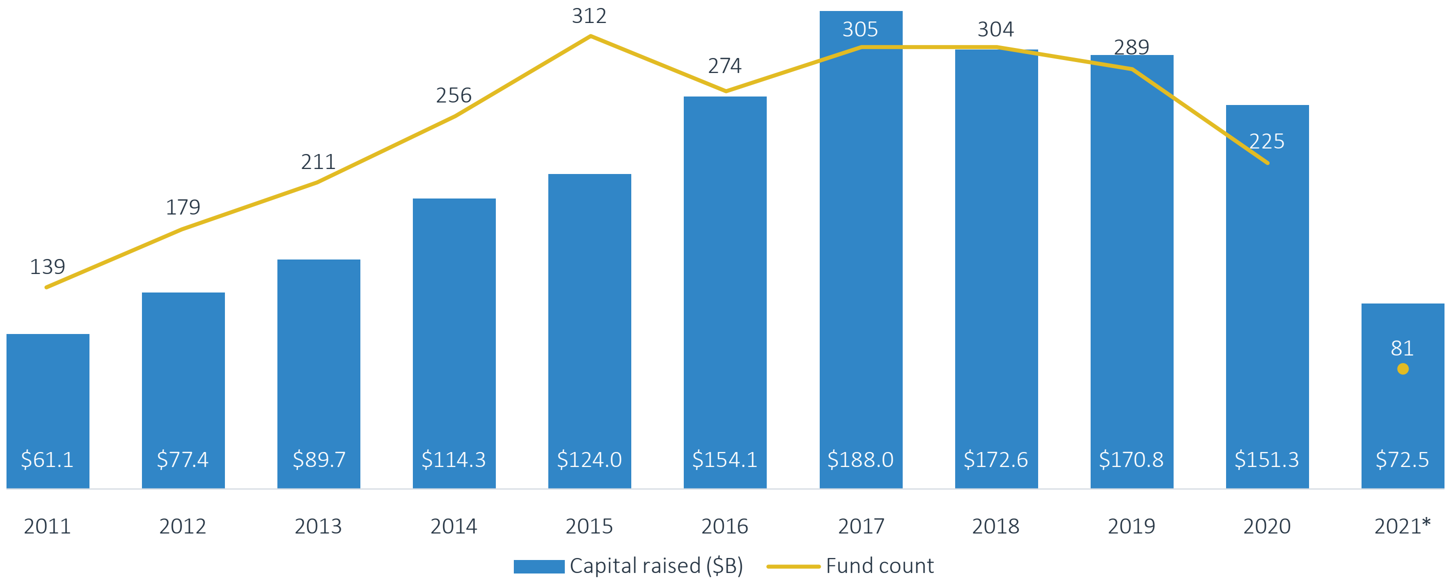
# Fundraising

## Private debt fundraising activity

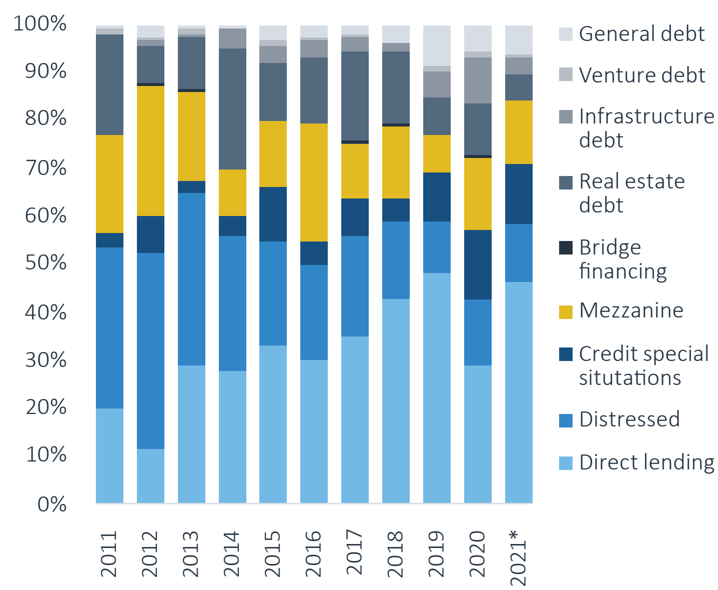



**Source**: PitchBook | **Geography**: Global
*As of June 30, 2021

Following a resilient 2020, private debt fundraising remained on a steady course in the first half of 2021. The $72.5 billion raised across 81 funds is approximately on pace with the last few years and may even surpass five-year averages once final data is collected. Continually low interest rates, subdued default rates, and a broader pivot toward alternatives continue driving investors into private debt strategies.

Direct lending continues to be the standout strategy within private debt market, accounting for a majority of capital raised in the space. After a middling 2020 in terms of fundraising, direct lenders picked up the pace in the first half of 2021. Managers raised $33.5 billion across 28 vehicles, already more than three-quarters of the amount they raised in the entirety of 2020. Ares Capital Europe raised its fifth fund totaling €11.0 billion (about $13.1 billion USD), the largest private debt fund to close so far this year. The fund also exemplifies the growth of private debt within Europe, which has seen other parts of its private capital ecosystem—such as PE and VC—mature rapidly.

## Private debt fund value by fund type

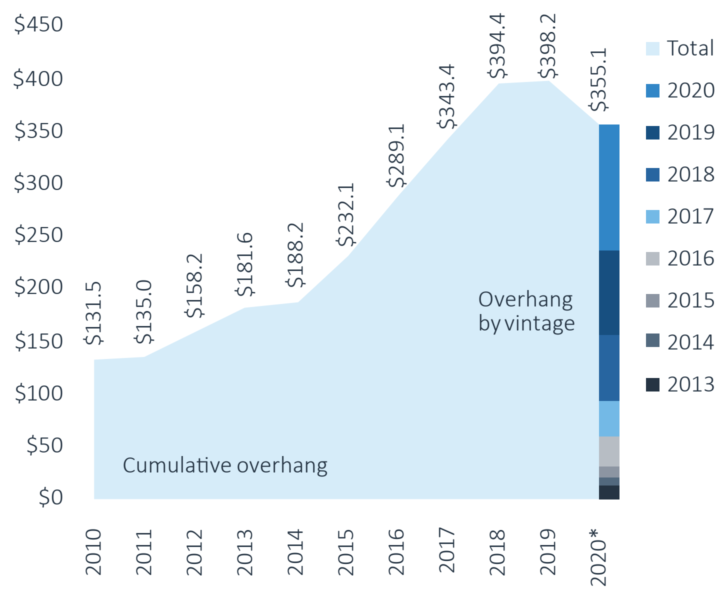



**Source**: PitchBook | **Geography**: Global
*As of June 30, 2021

Though fundraising has posted strong results in recent years, the amount of available capital (dry powder) in private debt funds has fallen. At year-end 2020, private debt funds held $355.1 billion of dry powder—an impressive sum, but still about 10% below the highs of the prior two years. Heavily dependent on other private capital strategies and M&A for deal flow, private lenders and debt investors have had no shortage of deployment opportunities in the last year. In fact, LP contributions to private debt funds reached a record $172.1 billion in 2020, having grown at a CAGR of 12.3% since 2010. Given the record-setting dealmaking environment across the private capital ecosystem in the first half of 2021, we expect capital deployment from private debt funds to continue its torrential pace.

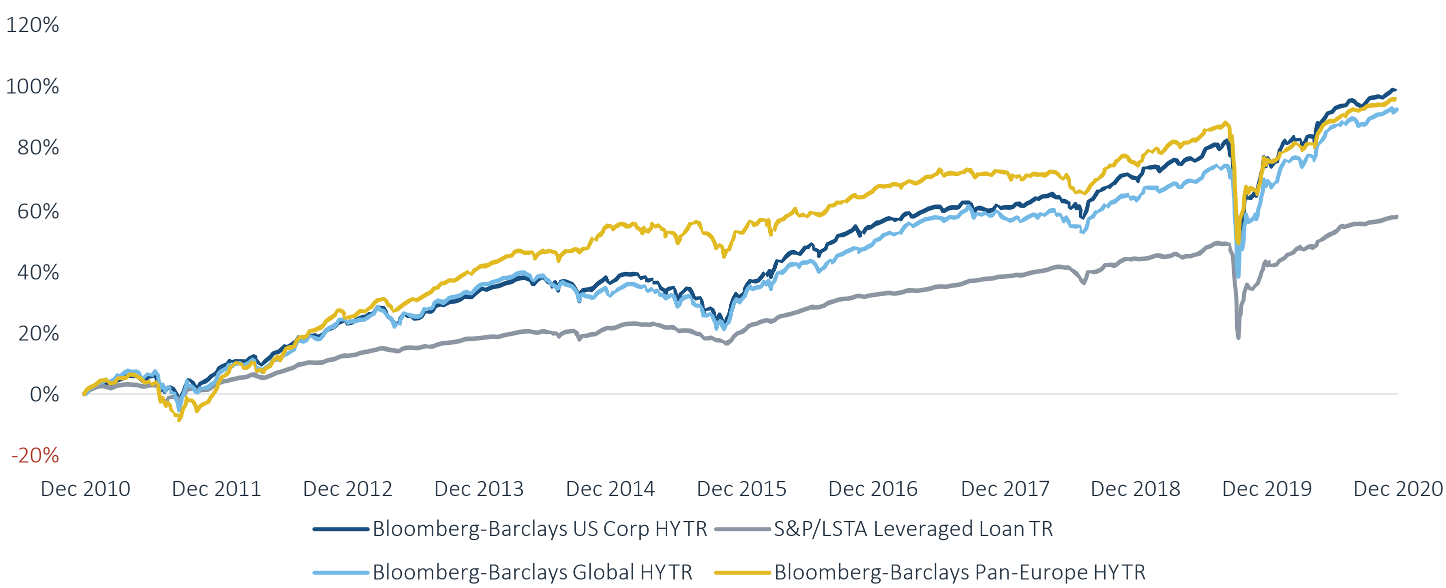
Fundraising for distressed debt and special situations funds is about on track with last year, but opportunities for deploying capital may be few and far between due to the lack of distress in the market. Despite the lingering effects of the pandemic—especially outside the US—a combination of central bank easing (in the form of lower rates and bond buying programs), strong fiscal spending, and animal spirits has kept many would-be-bankrupt companies afloat. More liquid markets tell a similar story. High-yield credit spreads have tightened to below pre-pandemic levels, suggesting a more borrower-friendly market. High-yield bond indices for both the US and Europe are trading above pre-pandemic levels. The same is true of leveraged loans, often seen as the closest proxy for private debt. Combined, these factors suggest a difficult dealmaking environment for distressed debt managers, which may only change when central banks let off the gas.

## Private debt capital overhang ($B)




**Source:** PitchBook | **Geography:** Global
*As of December 31, 2020

## Total returns of select credit indices

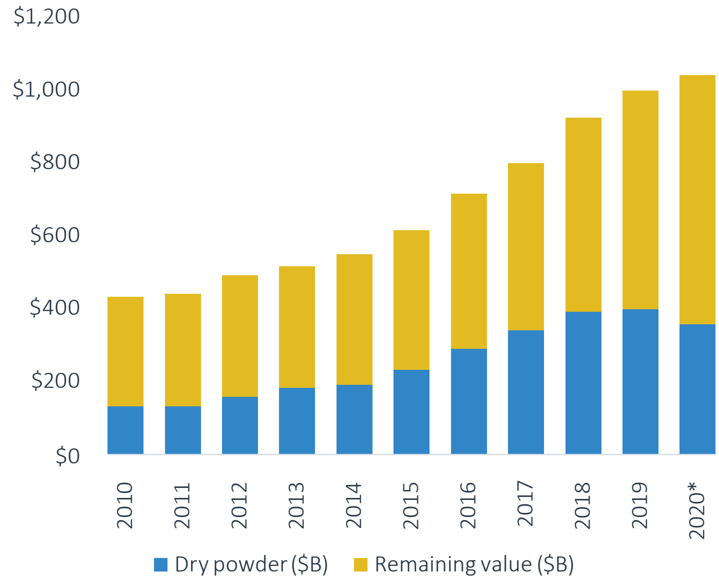



**Source:** Morningstar | **Geography:** Global
*As of June 30, 2021

## ICE BofA US high-yield OAS


**Source**: Federal Reserve Bank of St. Louis | **Geography**: US
*As of June 30, 2021

## Private debt AUM




**Source**: PitchBook | **Geography**: Global
*As of December 31, 2020

Though there is much debate about whether current inflation is transitory, there are some signs that we will see a rate hike before the end of 2022. Following higher inflation figures in recent months, St. Louis Fed President, James Bullard, recently estimated interest rate hikes could begin as early as the second half of 2022—before the original expectations of 2023 at the earliest. Any change in interest rates presents a double-edged sword for private debt managers. On the one hand, near-zero rates for much of the last decade have nudged would-be fixed-income investors into alternatives. Lower rates have also meant lower debt service for portfolio companies, keeping defaults relatively low. On the other hand, the floating rate nature of these loans keeps private debt investors relatively insulated from rate hikes and would increase yield premiums compared to existing fixed-rate debt. Rising rates would also signal an improving economy, thereby benefiting the underlying credits in most portfolios.

## 10 largest private debt funds closing in H1 2021

| Fund name | Size ($M) | Fund type | Location |
|---|---|---|---|
| Ares Capital Europe V | $13,130.7 | Direct lending | London |
| Ares Pathfinder Fund | $3,700.0 | Credit special situations | New York |
| CVI Credit Value Fund V | $3,600.0 | Distressed debt | Minneapolis |
| Blackstone Capital Opportunities Fund IV | $3,310.0 | Mezzanine | New York |
| Marathon Distressed Credit Fund | $2,500.0 | Distressed debt | New York |
| Apollo Accord Fund IV | $2,337.0 | Credit special situations | New York |
| Park Square Capital Partners IV | $2,160.4 | Mezzanine | London |
| Kennedy Lewis Capital Partners Master Fund II | $2,100.0 | General debt | New York |
| Kayne Senior Credit Fund IV | $2,000.0 | Direct lending | Los Angeles |
| Capzanine V | $1,909.9 | Direct lending | Paris |

**Source**: PitchBook | **Geography**: Global

# Q&A: American Investment Council

**What is the American Investment Council?**

The AIC is an advocacy and resource organization in Washington, DC, established to develop and provide information about the private investment industry and its contributions to the long-term growth of the US economy and retirement security of American workers. Member firms of the AIC consist of the country's leading private equity, growth capital, and private credit firms united by their successful partnerships with limited partners and American businesses. Our goal is to educate policymakers and the public on the benefits of private capital investment and to protect the industry's license to operate.

**Historically, the AIC has represented private equity firms. What inspired the organization's move to educate and advocate for private credit, or private debt, firms as well?**

Private credit plays a positive role in supporting businesses and jobs in communities across America. In recent years, because of low interest rates, institutional investors have allocated more and more capital to private debt strategies, including direct lending and structured credit. As concerns about corporate debt have grown, policymakers have begun to ask questions about these investments. For instance, leveraged lending has been a topic of interest among some policymakers. As private debt investors continue to raise significant capital, we see more and more private debt being used to fund transactions that were previously the domain of banks. Throughout the last two decades, and particularly in the aftermath of the global financial crisis, traditional banks have reduced lending, especially to small and middle-market businesses. These loans are vital to the growth and health of these businesses. Given the relationship between private equity and private debt, we believe it is more important than ever to advocate for private credit and ensure this remains a lifeline for businesses across America.

**Drew Maloney**

*President and CEO*
*American Investment Council*

*Drew Maloney is President and CEO of the American Investment Council (AIC). The AIC is an advocacy and resource organization that represents the private equity and private credit industry and promotes the industry's successful record of investing in every state across the country.*

*Prior to joining AIC, Maloney served as the Assistant Secretary of the Treasury for Legislative Affairs. Unanimously confirmed by the US Senate, he served as the principal liaison between Treasury and Congress. In this role, he worked on a range of major issues including the passage of the first major tax reform effort in more than three decades, financial services reform, foreign investment reform, trade policy, and sanctions. Maloney received Treasury's Distinguished Service Award for his achievements and leadership.*

**What are the goals of AIC's advocacy?**

We are working to make sure more decision makers understand how private investment supports jobs, businesses, and pensions in every state. Our goals are to protect the industry's license to operate, ensuring that legislative and regulatory action does not overburden private credit, preventing it from providing critical capital to help businesses operate and grow. Our job is to educate these policymakers on what private credit is and how it poses no risk to the financial system. In fact, government agencies such as the Government Accountability Office and the Federal Reserve have correctly found that private debt poses no systemic risk.

We recently met with regulators and released a report to educate policymakers on private credit strategies. Private credit has become a growing and increasingly mainstream source of funding for a broadening array of corporate borrowers, particularly those with the least access to finance. It offers investors a path to achieve higher and diversified returns. It also increases the strength and resilience of the US economy.

**What are some of the biggest challenges in educating policymakers on private credit?**

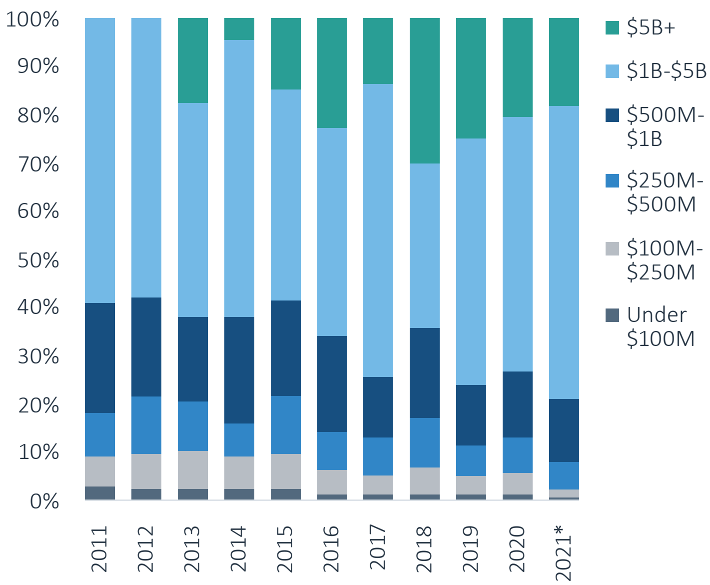
Private credit is an important lending tool for businesses in the main street economy—particularly smaller and midsized companies. But many policymakers are currently not as familiar with private credit as they are with other types of investment vehicles, such as insurance companies or banks. We have to level set efficiently with policymakers who often handle hundreds of complex and diverse issues at the same time. When policymakers understand that private credit is actually quite regulated, helping to fuel the economic recovery and foster the growth of small and midsized businesses, appropriate policy choices come into much clearer focus. Additionally, we must combat a deep skepticism of Wall Street that is expressed by some policymakers as well as the bad memories of the financial crisis, which was in no way caused by private debt. Unlike banks, private credit funds are not backstopped by the federal government and in most cases, managers need to have some "skin in the game." These managers must thoroughly evaluate their investments given the financial and reputational risks involved. We believe the more policymakers learn about private credit, the more they will appreciate how our industry is supporting businesses and jobs in communities across America.

**COVID-19 was considered the first real test for the private debt market, and the consensus is that it performed excellently. Please expand on the sturdiness of private debt funds and their future in the private markets.**

Many predicted a wave of corporate bankruptcies as a result of the COVID-19 crisis. While we are not entirely out of the woods, those predictions of doom never came true. One of the great benefits of private debt is the flexible capital solutions it can provide. Private debt providers were quickly able to assess the needs of their own borrowers by providing covenant relief, thereby giving these borrowers time to ride out the crisis. Additionally, private debt providers jumped in to help businesses address their liquidity needs by providing capital to businesses that faced considerable pressure as the world shutdown in order to combat the crisis. One of the important attributes of private credit is the speed with which it can fund transactions. For example, Apollo Global Management, an AIC member firm, managed to deploy nearly $50 billion—mostly private debt—during the first quarter of 2020 to businesses that faced liquidity shocks as a result of the crisis. During the COVID-19 crisis, AIC members have played an incredible role in fueling the economic recovery and helping businesses keep their doors open and their workers employed.

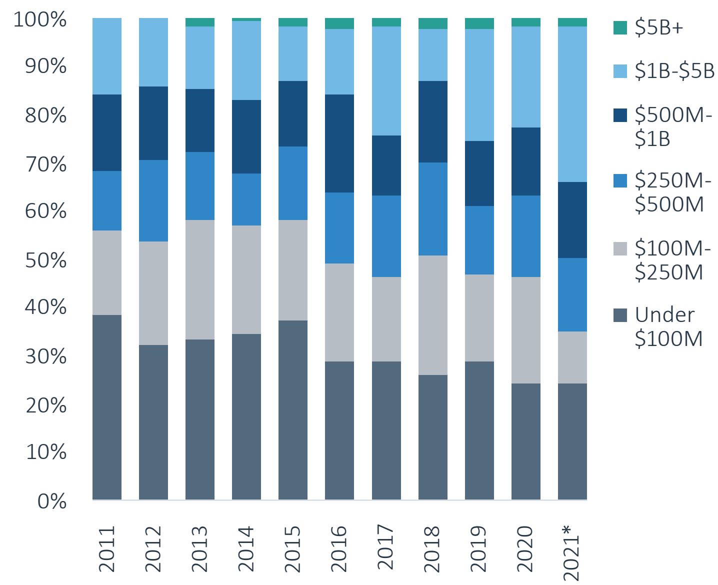
# Funds by size and region

## Private debt fund value by size



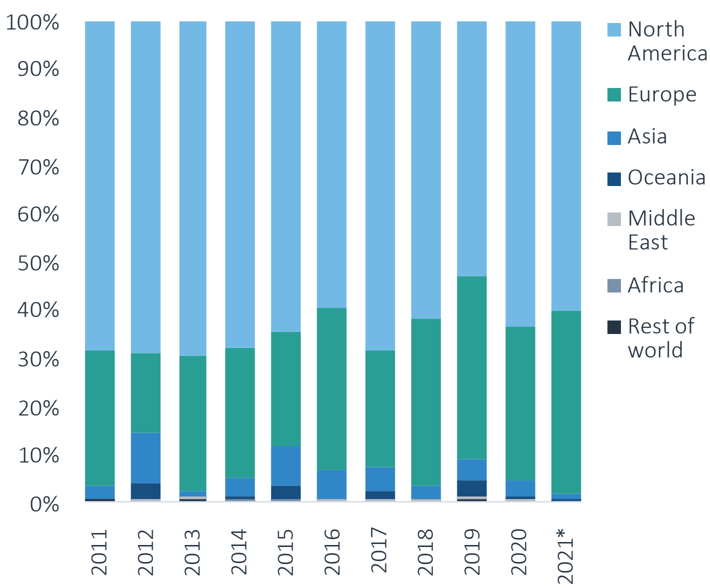

**Source:** PitchBook | **Geography:** Global
*As of June 30, 2021

## Private debt fund count by size



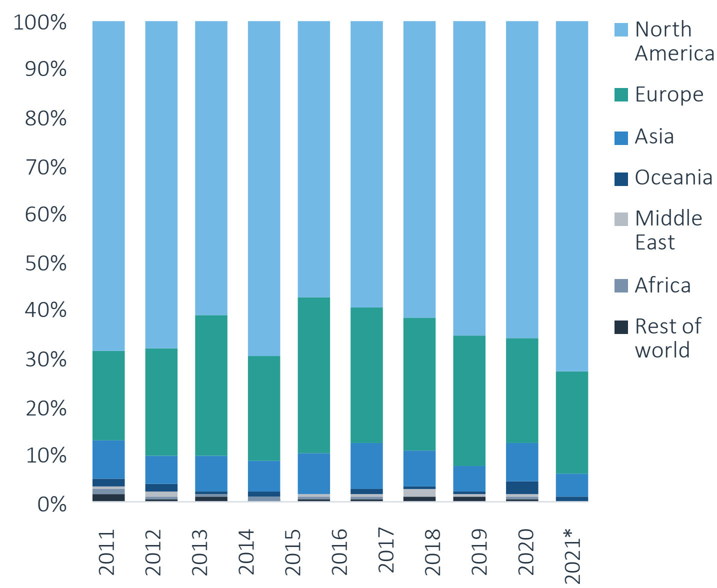

**Source:** PitchBook | **Geography:** Global
*As of June 30, 2021

## Private debt fund value by region




**Source:** PitchBook | **Geography:** Global
*As of June 30, 2021

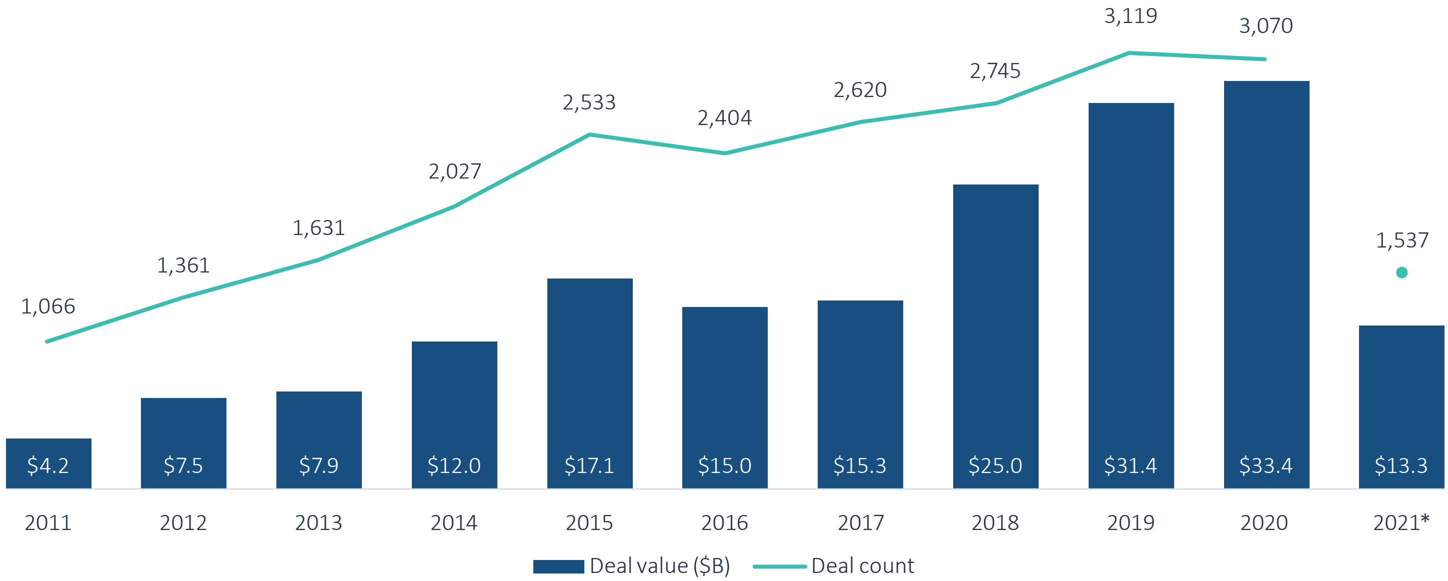
## Private debt fund count by region




**Source:** PitchBook | **Geography:** Global
*As of June 30, 2021

# Spotlight: Venture debt

## US venture debt activity




**Source**: PitchBook | **Geography**: US
*As of June 30, 2021

**Kyle Stanford, CAIA** Senior Analyst, VC
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*A version of this spotlight was originally published in the PitchBook Analyst Note: Venture Debt a Maturing Market in VC on March 22, 2021. The charts used in this spotlight include updated data.*

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Over the past decade, venture debt has emerged as a major alternative source of financing for high-growth startups that have traditionally opted to solely finance through equity venture capital. More than $20 billion has been loaned to VC-backed companies in the US during each of the past three years, and the number of debt financings for VC-backed companies has grown at a higher rate than the VC market overall.

Through H1 2021, more than 1,500 debt financings have been completed to US VC-backed companies. With those products equating to just over $13 billion in debt financings, this year is currently on track to surpass $25 billion in loans to become the fourth consecutive year that has occurred, while also being the third straight year to exceed 3,000 financings. Though those levels can be seen as arbitrary, they are significantly higher than where the venture debt market was just a decade ago—in 2011 just 1,066 debt financings contributed $4.3 billion to the US market.

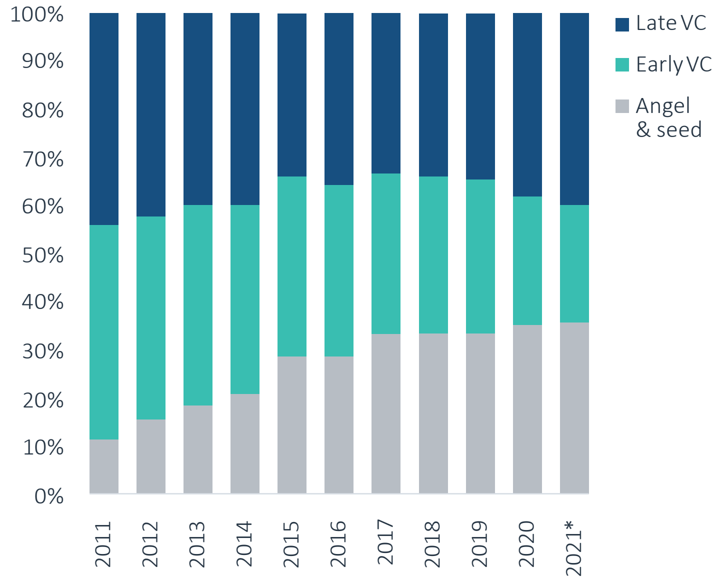
While our venture debt methodology encompasses many different debt products, including bank loans, lines of credit, and equipment leasing, we can see the overall usage of debt in the venture capital stack has played an increasing role in today's market. Much of the dollar amount of venture loans derives from those to late-stage companies, but early-stage and seed-stage companies have seen increasing debt financing counts in recent years. Together these earliest stages have accounted for an average of 64.5% of the completed loans to VC-backed companies.

The overall growth the venture debt market has realized is due to several factors. First, this market has largely followed patterns of the broader venture capital market, increasing the demand for debt as a non-dilutive capital base to fund growth. Second, venture debt opportunities have increased substantially. No longer is debt provided solely by banks, as venture debt funds have taken a place in the venture lending arena to provide capital into areas of the market that banks have left. We must also take into account the low interest rate environment that the US has been in during the past decade. Low rates have driven down the reference rates that these loans are tied to (often PRIME or LIBOR), which has increased the attractiveness of both raising debt and of investing in debt funds, which typically have strong risk-adjusted returns while providing exposure to fixed-income securities for LPs.

The bulk of venture loans are financed to tech and life sciences-focused companies, increasing the mirror effect of the venture market as these two segments account for a large portion of the industry. Roughly 79% of the venture loans in 2021 have gone to tech companies, as the SaaS and other recurring revenue products within the industry help model out loan payback schedules and decrease financing risks associated with the low-revenue companies that are found at the early stages of venture.

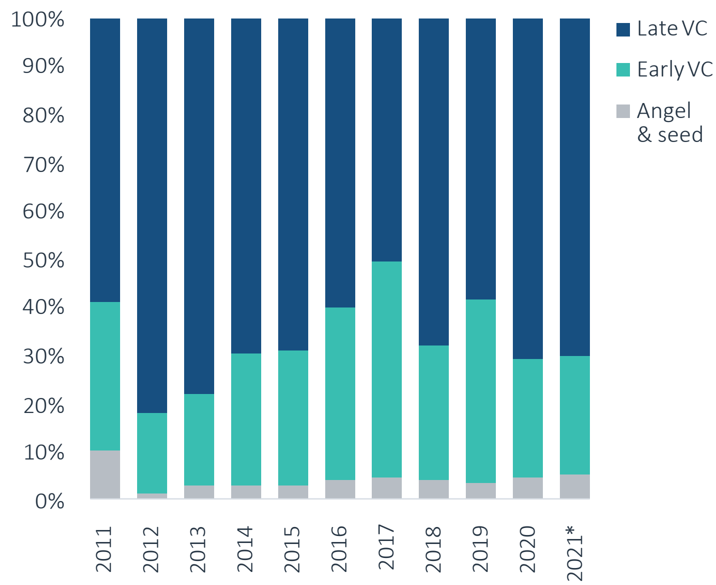
We expect the venture debt market in the US to continue following equity financing trends and continue its growth overall. Though there is the potential for interest rates to rise, it would likely take a significant move to materially impact the venture debt market as the non-dilutive properties will continue to provide benefits to companies as they continue growth within the private markets.

## US venture debt count by stage




**Source**: PitchBook | **Geography**: US
*As of June 30, 2021

## US venture debt value by stage




**Source**: PitchBook | **Geography**: US
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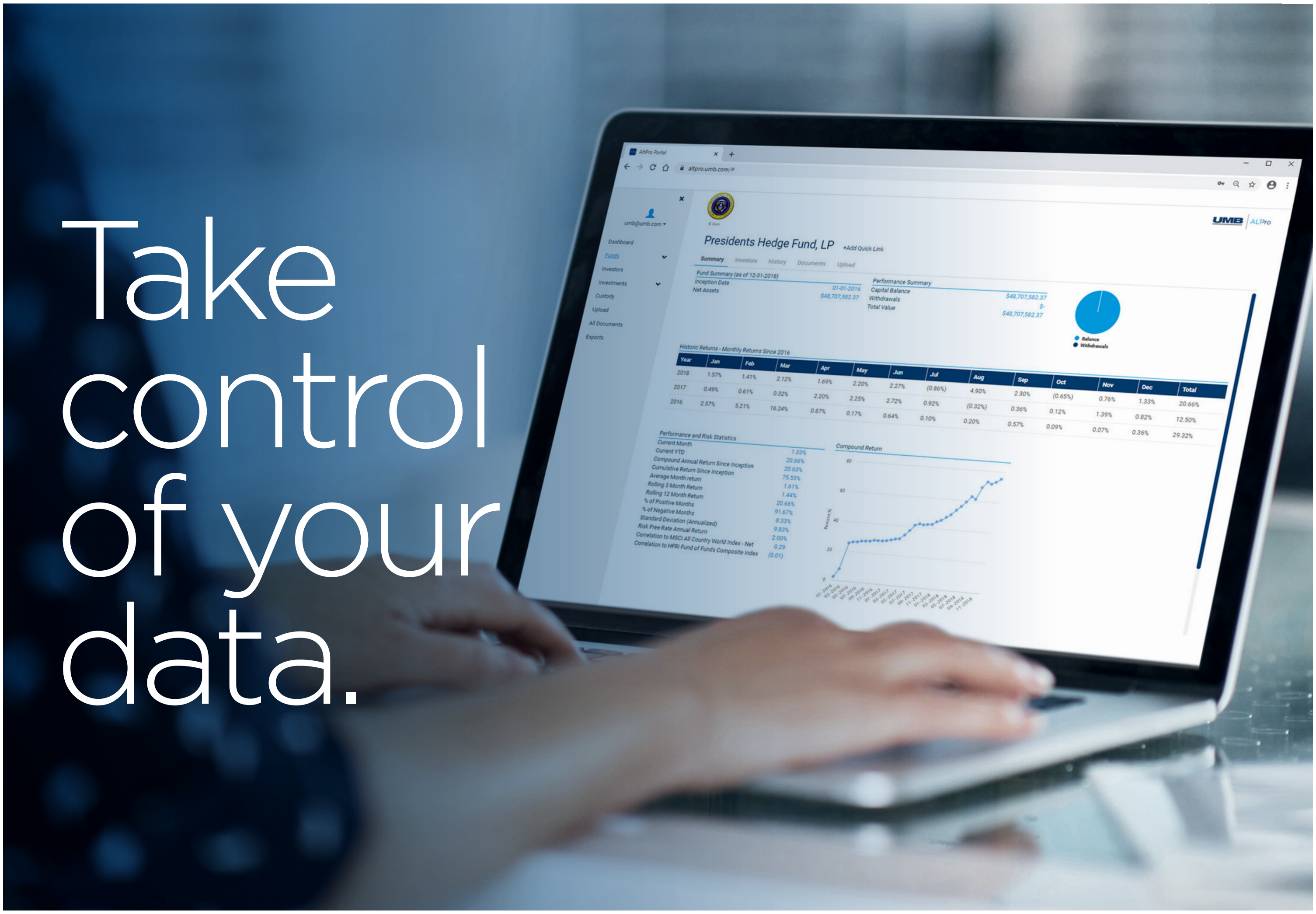


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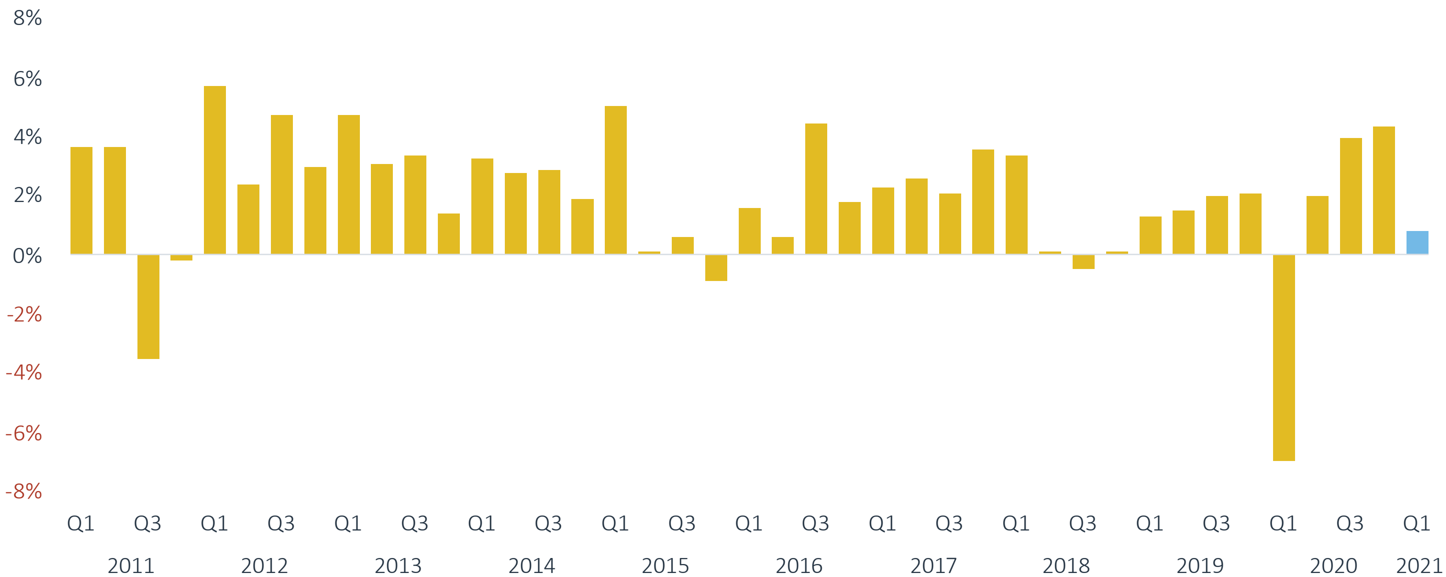
# Performance

## Private debt quarterly pooled IRR



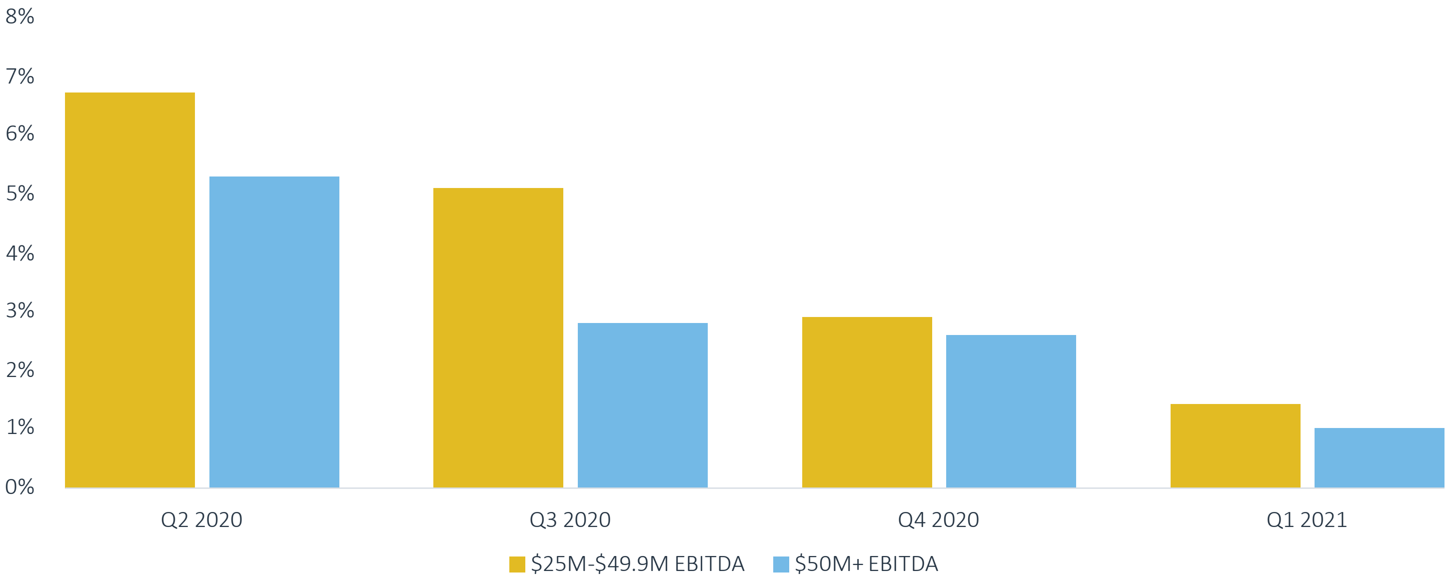

**Source**: PitchBook | **Geography**: Global
As of March 31, 2021 (preliminary figure)

At the outset of the pandemic, private debt funds experienced their worst quarter in the last decade. The quarterly pooled IRR—which includes both realized and unrealized changes to portfolio valuations—dropped to -7.0% in Q1 2020. But portfolios have recovered rather quickly alongside an improving economy, surging liquid credit markets, and low default rates. QoQ performance has been positive for each of the last four quarters, but preliminary data from Q1 2021 suggests the advances won't be as large as they were in the second half of 2020.

The performance of most substrategies within private debt track with each other over the longer run, but meaningful differences sometimes emerge. Real assets funds, including both real estate and infrastructure debt, have seen the most pronounced recovery since the pandemic began. Real assets debt funds posted a one-year horizon IRR of 10.2% in Q3 2020. On the other hand, substrategies that tend to invest lower in the capital structure, including mezzanine, distressed debt, and special situations funds, have lagged for the last year. Performance will continue to fluctuate with the broader economy as the pandemic causes real disruption for some portfolio companies (and their associated credits) but opportunities for others.

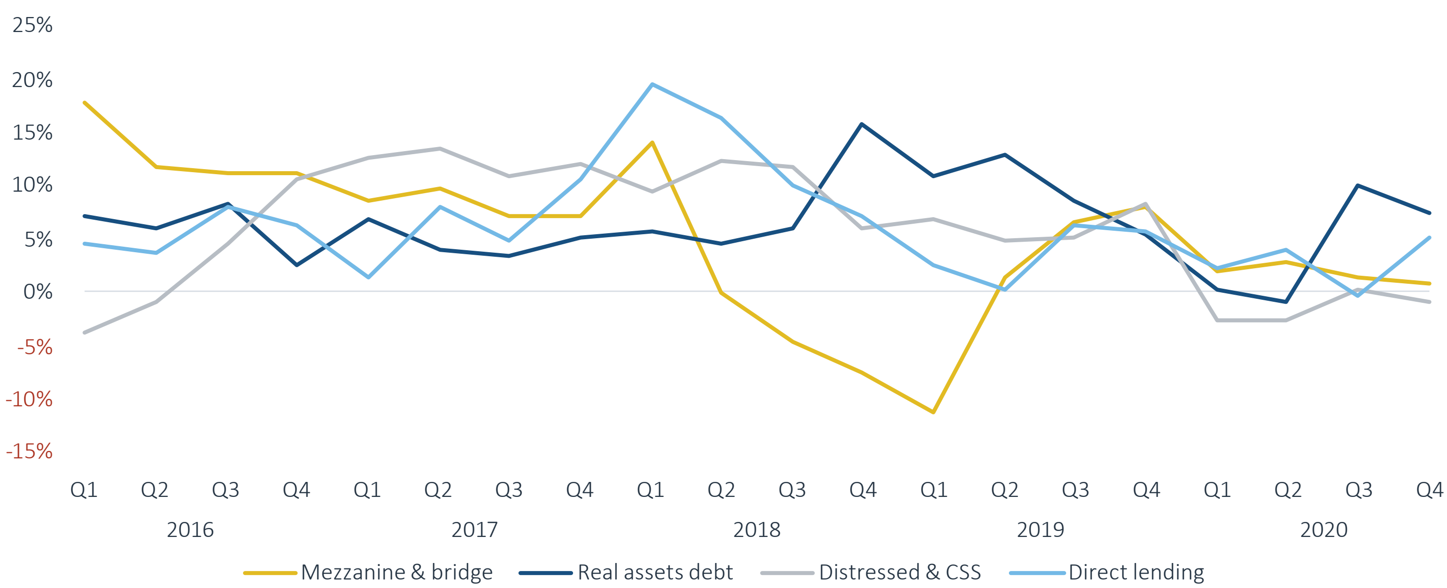
Default rates for middle-market loans continue to fall, indicating strength, especially in direct lending portfolios. The Proskauer Private Credit Default Index indicates that the default rate for companies with at least $50 million in EBITDA fell to just 1.0% in Q1 2021, compared to a high of 5.3% in Q2 2020. There is a similar trend for smaller companies (less than $50 million in EBITDA), with the most recent default rates falling to 1.4%, compared to a peak of 6.7%.

## Default rate of middle-market loans




**Source**: Proskauer Private Credit Default Index | **Geography**: Global

## Rolling one-year horizon IRR for private debt substrategies




**Source**: PitchBook | **Geography**: Global
As of December 31, 2020