PRIVATE DEBT

OVERVIEW

1 What is Private Debt?

Private debt refers to **any debt held by or extended to privately owned companies**. This includes loans and bonds but often means private credit—when asset managers lend to private businesses.

Various investors, including general partners (GPs), manage private debt funds. These funds often **focus on direct lending, distressed debt, mezzanine financing, real estate, infrastructure, and special situations**.

Private debt funds differ in focus. Some provide capital to sponsor-backed companies, others finance real estate projects, and some invest in distressed debt.

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2 Brief History

After the 2008 financial crisis, new regulations restricted banks, leading to **growth in private lending**. Private credit funds emerged to fill the gap, offering higher yields than public markets.

But **private debt existed before 2008**. In 1990, firms like Apollo and Oaktree were already raising private credit funds. Regulations like the Dodd-Frank Act, Basel III, and the US Guidance on Leveraged Lending accelerated the industry's expansion.

So why invest in Private Debt? Private debt has gained traction as companies turn to it during market volatility. Investors may view it as a **lower-risk alternative** to private equity and **a way to diversify**. Interest rates, regulations, and economic cycles all affect demand.

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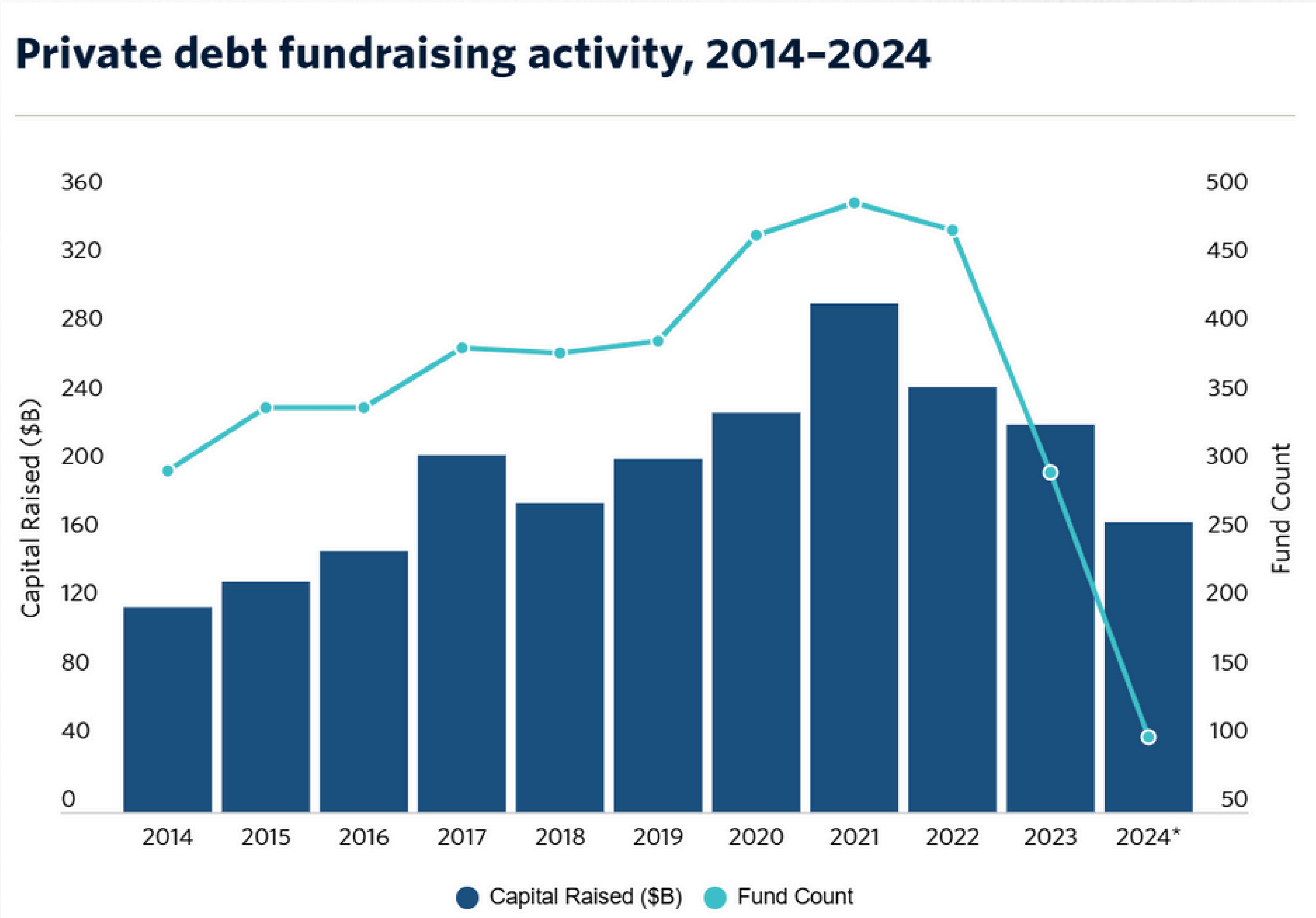
3 Market Trends

Private debt **fundraising grew steadily from 2014**, peaking in 2021 before fund count dropped sharply. By 2024, **fewer but larger funds dominate**, reflecting investor consolidation and **tougher fundraising conditions**. As of Q3-24, $169.2 billion had been raised, with late-reporting funds expected to push the total higher.



Source: PitchBook

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4 Types of Private Debt

Direct Lending	Private loans from non-bank lenders to businesses or borrowers.
Infrastructure Debt	Long-term debt for infrastructure projects.
Mezzanine Debt	Subordinated debt, often with equity-like features (e.g., warrants).
Real Estate Debt	Loans for property acquisitions and development.
Special Situations	Debt aimed at controlling distressed companies.
Distressed Debt	Below-investment-grade debt, often bought in the secondary market.
Venture Debt	Loans to VC-backed startups, helping extend their cash runway.

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5 Benefits of Private Debt

FOR COMPANIES	FOR INVESTORS
Flexible Financing Customized loan structures with tailored terms.	**Higher Returns** Higher yields to compensate for illiquidity.
Faster Execution Private lenders tend to act quicker than banks.	**Downside Protection** Senior secured debt reduces risk.
Stronger Relationships Direct lenders can offer strategic support.	**Diversification** Low correlation with public markets.
No Equity Dilution Avoids giving up ownership.	**Control Over Terms** Investors negotiate covenants and protections.

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6 Key Private Debt Terms

01 Loan Structure & Pricing

- Principal Amount
- Interest Rate
- Spread
- Payment-in-Kind (PIK)

02 Maturity & Repayment

- Loan Term
- Amortization
- Prepayment Terms

03 Fees & Costs

- Arrangement Fee
- Commitment Fee
- Exit Fees
- Prepayment Penalties

04 Other Key Terms

- Use of Proceeds
- Equity Kickers
- Default & Remedies

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