

A low-angle photograph of a construction site. Several tall red tower cranes are visible against a cloudy sky. In the foreground and midground, there are buildings under construction, some with yellow scaffolding and others with glass facades. The overall scene is one of active urban development.

Financing the Economy 2017

The role of private credit managers in supporting economic growth

www.lendingforgrowth.org

Dechert
LLP

ALTERNATIVE
CREDIT COUNCIL

LENDING
FOR GROWTH

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Foreword

We are delighted to introduce this year's edition of *Financing the Economy*, the latest study of the private credit industry by the Alternative Credit Council (ACC), the private credit affiliate of the Alternative Investment Management Association (AIMA). This year's research, produced in collaboration with Dechert LLP, comes as the private credit industry reaches an important inflection point. Whilst previous editions of *Financing the Economy* focused on how the industry, already prominent in the US, established itself around the world as a credible alternative to traditional sources of finance, the past 12 months have seen it cement its place in the lending landscape globally.

Our research indicates that the private credit industry could pass the symbolic \$1 trillion milestone by 2020. The industry's growth underscores the increasing influence private credit is having on financing the economy at large. Having gained momentum from the 2007-8 financial crisis, the private credit industry is now lending to businesses at record levels, creating jobs and supporting economic growth around the world. Throughout this report, there are numerous examples which illustrate how private credit is contributing to financing the real economy.

This growth has fuelled further interest in private credit, and attracted new players with innovative strategies. That, in turn, has led to an expansion in the reach of the industry, and has allowed more borrowers than ever to finance their businesses using private credit. However, our research shows that increased market competitiveness has not compromised those key aspects of private credit that are most valued by borrowers. The industry still rapidly delivers flexible and attractive finance to businesses.

The flexibility shown by many private credit managers with respect to loan covenants is matched by their focus on lending standards and commitment to robust risk analysis. Concurrently, the preference of private credit managers for senior secured positions within the capital structure means that they are well placed to protect the interests of their investors. Participants in our research also affirmed their commitment to identifying and working with creditworthy borrowers, even if those borrowers have greater bargaining power than in previous years.

From an investor perspective, performance across the private credit sector continues to show strong yield relative to many other asset classes. Specifically, the potential returns of direct lending funds (reporting in a range of 10%-15% IRR returns on average¹), which generally maintain a position higher in the capital structure than mezzanine and distressed debt providers, remains an attractive prospect in alternative investing as we move into the end of 2017. This has helped fuel the fundraising uptick in the strategy, as investors hope to capture continued outperformance in the future.

Heading into 2018, the momentum in the development of the private credit industry shows no sign of slowing. As the value of this form of funding becomes better understood by policymakers, we are seeing the introduction of supportive legal and regulatory reforms. With private credit offerings emerging in new regions, the industry is now truly global.



Jack Inglis – CEO, AIMA



Stuart Fiertz –
Chairman Alternative
Credit Council and
President Cheyne
Capital



Stuart Martin –
Partner, Financial
Services, Dechert LLP

¹ Source Preqin, September 2017

Executive summary

Industry growth: The private credit industry is on track to reach around \$1 trillion in assets under management (AUM) by 2020, according to ACC and Preqin data. The historic compound annual growth rate of 20% of the industry has seen the sector increase in size 14-fold since 2000, reaching over \$600 billion by the end of 2016.

Global market: Private credit activity in the US remains strong. The popularity of the US market is also helping to fuel interest in the European and Asia Pacific markets, as managers look for new growth opportunities. Our survey identifies Germany, the UK, the US, France and Canada as the five countries that will offer the biggest opportunities over the next three years to 2020. Meanwhile, regulatory reforms in Europe and Asia Pacific are supporting the sector as it expands into new markets.

Lending to companies of all sizes: Smaller businesses are now the largest category of borrower, receiving over 40% of all lending by private credit firms. Almost a fifth (18.4%) of lending now goes to large corporates. Private credit managers are increasingly lending to infrastructure and real estate based operations via a host of arrangements supported by other private credit market participants or in collaboration with banks. While over 40% of managers target loan sizes between \$25-100m, around 20% of managers are targeting loan sizes in excess of \$100m.

Borrower satisfaction: Flexibility of terms, speed of decision making by fund managers and an ability to finance complex deals are regarded as the key attractions of private credit for borrowers. Borrower attitudes towards private credit financing as an alternative to equity financing are also becoming more favourable. Many borrowers, especially among SMEs, are wary of diluting their equity stake in their businesses and find the flexible approach of private credit more attractive.

Evolving borrower-manager relationship: Private credit managers are having to demonstrate more flexibility as both covenant and coupon terms have shifted more

favourably towards the borrower. Nearly half of private credit managers stated that covenants had become less demanding over the past three years with only 14.3% of firms said loan terms had become more demanding. Private credit managers are also responding to borrower preferences for covenant-lite structures (historically more common across larger syndicated loan transactions with institutional investors) to be included in private credit transactions.

Expansion of deal origination networks: Managers are diversifying the ways they source potential credit opportunities. Nearly one third say their primary avenue to source potential opportunities is through the relationships and networks they have established within their given industry. Managers are also continuing to look to banks, private equity managers and other industry advisors to help them source new financing opportunities.

Long-term investment: Nearly two-thirds of managers say their preferred target term for investments is now between two and six years, while almost a quarter have a target term of six years or greater (up from only 8% in 2015).

Fund manager discipline: Creditworthiness and sourcing viable opportunities remain the most resource intensive activity for 85% of private credit managers. Levels of leverage remain low across the sector where nearly half (44%) of all managers use no leverage at all.

Fund structures to support lending activity: Almost 70% of all participants have closed-end funds, with 52% being closed-end with fixed maturities. For the roughly 30% of managers with open-ended funds, lock-ups or other liquidity management tools restrict or prohibit fund withdrawals under certain circumstances.

Fund domiciles: The most common domiciles for private credit funds are Luxembourg, the Cayman Islands and the US. Other popular domiciles include Ireland, Jersey, and the UK.

Demographics of survey participants/ methodology

The findings contributing to this year's *Financing the Economy* paper come from three distinct sources. First, the Alternative Credit Council (ACC) encouraged its members to participate in an online quantitative survey – the results from which form the basis of this paper. Second, the ACC and Dechert engaged in a series of structured interviews with a variety of private credit managers from the US, the UK, Europe and Asia Pacific to explore the strategies that they deploy in their private credit investments and supporting operations. Finally, participants were invited to contribute a case study to the paper in order to give practical examples of how they are providing finance and support to the real economy. Evidence taken from these case studies can be found throughout this paper. All case studies, including those within the body of this paper, can be found in Appendix 1

Much of the overarching terminology used to describe the non-bank lending industry is applied interchangeably and regular participants will be familiar with phrases such as 'direct lending', 'alternative lending', 'non-bank lending', 'private credit' and 'private debt'. For the purposes of this paper, we use the term private credit as the umbrella term to describe all forms of debt finance provided by non-bank lenders. A glossary is also included at the end of this paper in Appendix 2, which identifies some of the other terminology used both within this paper and in the private credit industry more generally.

Figure 1: Where does your manager have its headquarters/primary asset management centre?

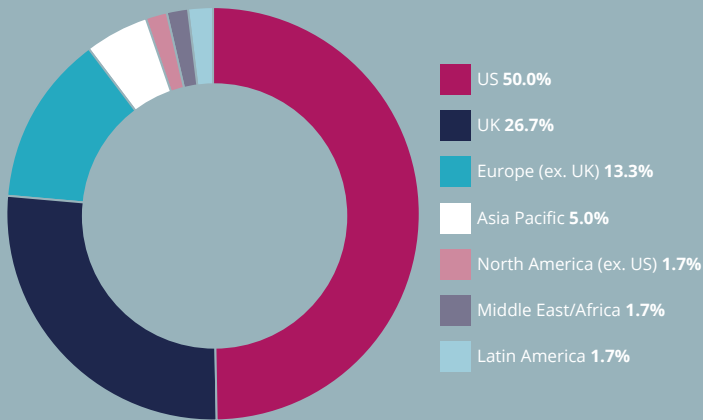
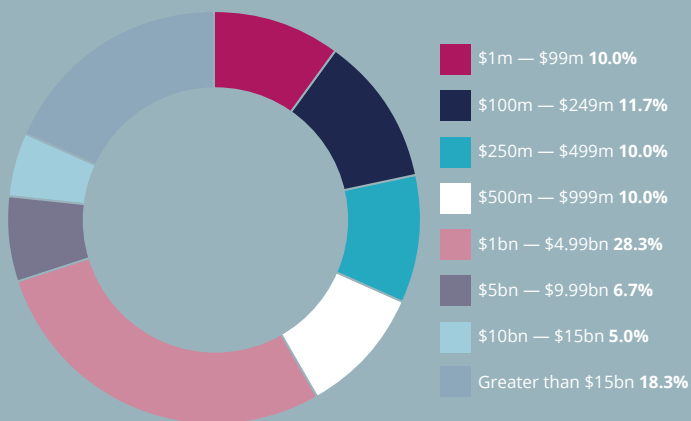


Figure 2: What is the estimated committed capital (i.e. excluding dry powder) allocated to private credit?



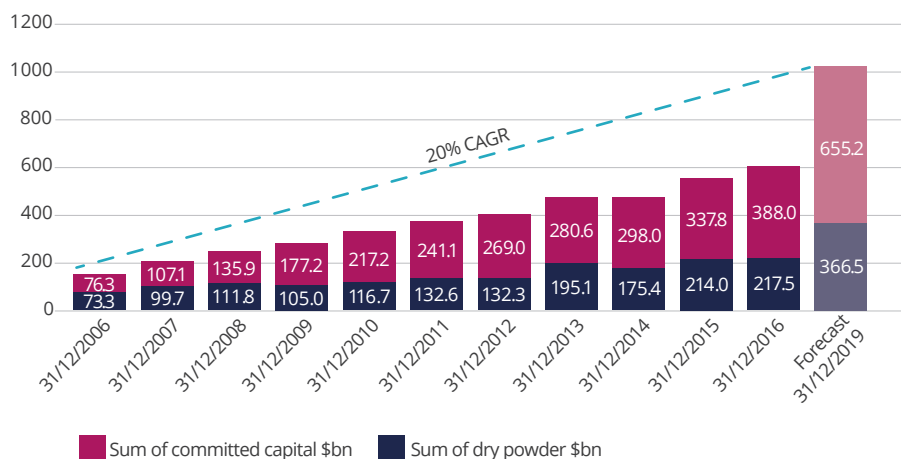
1 Private credit is now a globally established source of mainstream finance

A) Continued growth in private credit

In earlier editions of *Financing the Economy*, we highlighted the increasing influence of private credit within mainstream finance and its role supporting the real economy. While this trend (in certain jurisdictions) is still in its early stages, this year's analysis supports the view that the shift taking place from traditional bank lending towards private credit is a permanent one. Evidence of the continued development of the private credit market is provided by the 60 participants who contributed to this paper. As a measure of their influence, they collectively represent approximately \$500 billion in assets under management (AUM)², with more than \$350bn of that figure being allocated to committed capital³ and a further \$150bn (or approximately 30% of total capital) representing dry powder⁴.

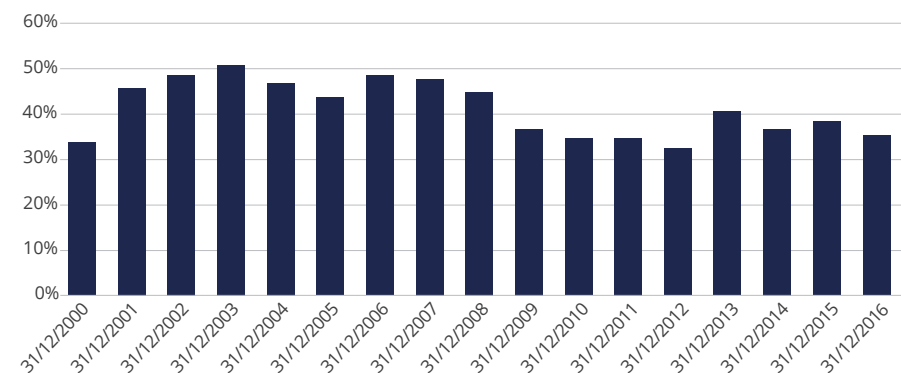
In making the comparison with other industry sources, Figure 3 and Figure 4 below chart the global industry AUM broken down by allocated committed capital and dry powder for the period 2000-2016. Some industry observers have expressed concern regarding the levels of dry powder increasing year on year as being an indication of there being not enough opportunities for investment. Upon closer examination of dry powder levels, and measuring the year on year percentage change of dry powder versus total AUM for the private credit industry (see Figure 4), they are among the lowest since 2000, and at the lowest level since the end of 2013.

Figure 3: Industry AUM and breakdown of committed capital and dry powder - Preqin FY 2016



Source: Preqin, ACC research

Figure 4: Dry powder as a percentage of overall private credit industry AUM (2000-2016)



Source: Preqin, ACC Research

² Calculated using the midpoint of the provided response ranges of estimated committed capital allocated to private credit and estimated dry powder designated for private credit.
³ Also known as drawn capital.
⁴ Also known as available capital.

Participants in the survey represent:

\$350 billion
in committed capital

\$150 billion
in dry powder

|| *The markets need more balance in the way capital is provided*

|| US private credit manager on the growth of private credit

Since 2000, the AUM of the private credit industry has grown nearly fourteen-fold, with a compound annual growth rate (CAGR) of just under 20%, as shown in Figure 3. In comparison, over the same period, the private equity industry grew four-fold, at a CAGR of 9.5%⁵.



Macquarie Infrastructure Debt Investment Solutions agrees a £502 million debt facility

In April 2017 the infrastructure debt division of Macquarie Group agreed a £502 million debt facility for a consortium purchasing a 61 percent interest in the UK’s National Grid. This was the largest debt facility for the £13.8 billion acquisition of the UK energy company’s 130,000 kilometre network of gas distribution pipelines.

Projecting the growth rate of the private credit industry over the next three years, it is quite conceivable that assets under management could grow to more than \$1 trillion by 2020. Such a growth rate has not been witnessed by a subset of the asset management industry since the earlier years of the hedge fund industry, when the compound average growth rate (throughout the 1990s⁶) for the industry was more than 25%.

Further, the findings of this paper indicate a growing market in which participants are becoming more experienced, and in which private credit lending is no longer just reserved to the mid-market. As shown in Figure 5, a significant percentage of managers are participating at the higher end of the lending market, aiding larger corporate borrowers and providing credit to infrastructure and real estate based operations via a host of arrangements supported by other private credit market participants, or in collaboration with banks.

At the smaller end of the market – typically private credit activity that supports trade finance, asset backed lending, and structured products – we observe that the appetite for lending (particularly in more developed markets) is a source of heightened competition amidst an increasing number of lenders looking to win market share. Of those managers participating in these markets, a significant number of them allocate more than half of their private credit committed capital to these sectors. Private credit managers are often specialists in their chosen markets and bring significant expertise to their dealings when working with their borrower clients. Discussions with managers confirm that they see such specialisation remaining an important feature of the market.



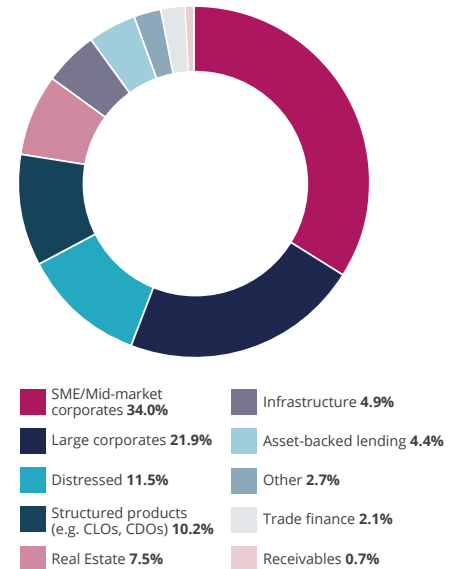
KKR provide a loan to grow a manufacturer of automobile parts

KKR Credit provided a €175m loan to Chassis Brakes International Group, one of the world’s largest manufacturers of automotive foundation brakes and foundation brake components. Chassis Brakes International employs 5,200 people in 16 countries at 13 manufacturing sites and 11 engineering centres or sales offices in Europe, Asia, South Africa, and North and South America. This debt facility provides a long-term sustainable capital structure to the company, allowing it to pursue organic and strategic growth initiatives.

In cross-referencing the above results with the level of capital being allocated to individual private credit markets, one particular finding stands out. As demonstrated in Figure 6, almost 19% of US committed capital is allocated to distressed debt compared to just 2% of European committed capital.

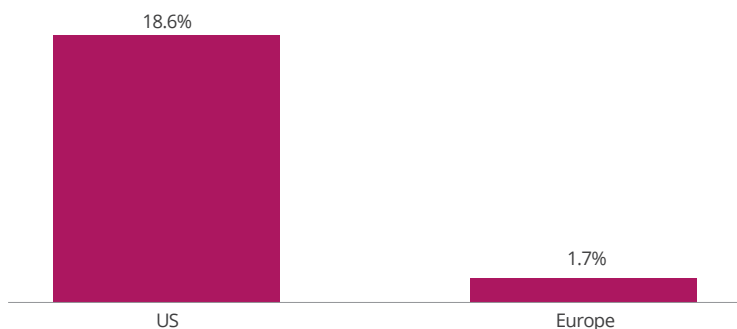
⁵ Preqin Private Equity Spotlight, March 2017.
⁶ As a measure of hedge fund AUM between 1992 and 2000.

Figure 5: Percentage of global industry committed capital assigned to individual private credit markets



This difference may be explained partly by the disparity in insolvency and restructuring regimes across Europe, which can hinder the ability of managers investing in distressed debt from achieving scale. Nonetheless, several managers expressed the view that there will be greater opportunities for investment in distressed debt over the coming years.

Figure 6: Percentage of committed capital assigned to distressed debt by US and European private credit managers



Many commentators, including some of the participants who contributed to this paper, argue that there is still room for further growth in private credit activity. This optimism is based on continued record high levels of private credit activity boosted by greater interest from institutional investors and the belief that there are still many jurisdictions where the opportunity for private credit finance to grow is on par with, or even likely to exceed, the traditional bank lending market in some sectors.

Given the persistent low interest rate environment, a dearth of attractive yield opportunities from investing in fixed income is impairing the ability of institutional investors to deliver on their basic objectives. Consequently, the attraction of demonstrably higher yield opportunities from private credit investments has resulted in an increasing number of those institutions allocating to this area.

Further, as private credit becomes more recognised as a viable portfolio solution for investors and its returns continue to outperform public market comparisons (such as the performance that could be further achieved from investing in the broader fixed income high yield indices), we expect institutional investors to increase their overall allocation to private credit.



Permira refinances Soho House in £375 million deal

Permira Debt Managers, the debt management arm of Permira, refinanced Soho House with a debt facility providing up to £375 million. The facility is comprised of a £275 million senior secured loan, plus an additional £100 million available should the borrower need more capital to support its growth. The facility also represents Permira's largest-ever private debt deal.

■ ■ ————— ■ ■
It's not a question of too much money being raised – some countries are just developing more slowly. It is a question of matching supply and demand.

■ ■ ————— ■ ■
US private credit manager discussing the European market

B) Expanding into new markets

Evidence of private credit's increasing influence can be seen through its broader take-up across countries in Europe and Asia Pacific, as well as in the industry's cornerstone US market. The continued strength of the US market is demonstrated by the finding that nearly half of all participants in this paper name the US market as being the market in which they are most active. As per Figure 7 the US, UK and France make up the top three largest private credit markets in which this paper's participants are most active. These three countries account for over 80% of the total size of the market in which participants in this paper invest.

Participants were also asked to predict which three jurisdictions (not including the ones in which they are currently most active) would most likely offer the biggest private credit growth opportunities for their funds over the coming three years. As per Figure 8, the most compelling opportunity appears to come from participation in the German private credit market, an opinion shared by over 40% of participants. Reforms to encourage private credit activity in Germany and the persistent strength of *Mittelstand* (commonly recognised as the SME market in Germany) borrowers are among the reasons why Germany appears to be the main beneficiary of this trend even if, today, the German market appears to be 'overbanked' and competition is very tough in the view of some market participants.

The increased competition that is being seen in the more established US and UK markets is one of the reasons pushing private credit participants to look further afield to comparatively less developed private credit markets, as well as to other emerging jurisdictions within Europe and Asia Pacific.

Figure 7: In which country are you currently most active?

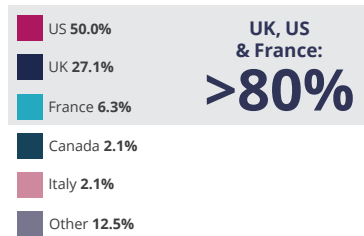
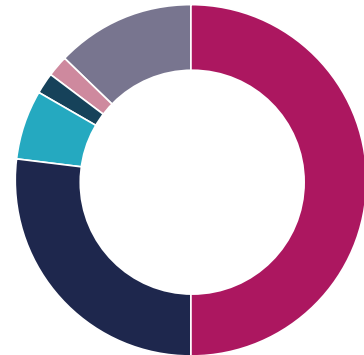
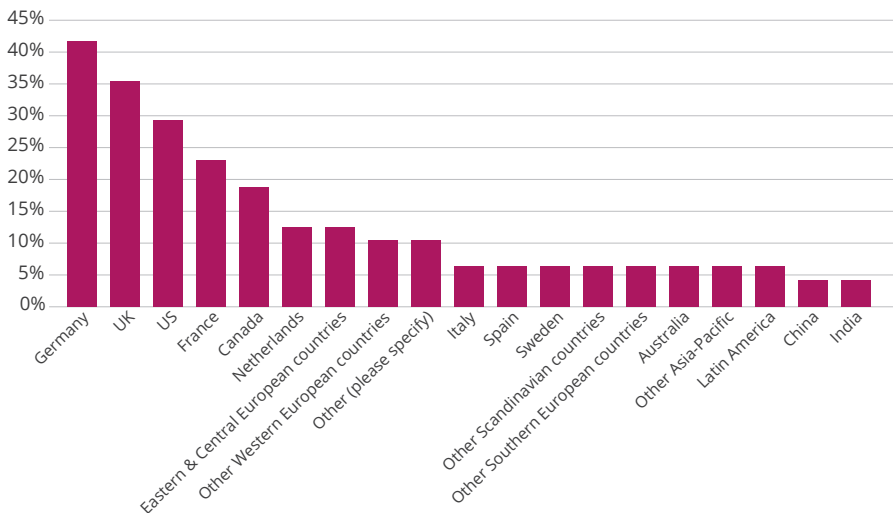


Figure 8: Apart from the country in which you are currently most active, in which 3 jurisdictions do you foresee the biggest growth opportunities for your manager in the next 3 years?



Some of these jurisdictions have huge potential to grow in importance for private credit managers over the coming years (for more discussion about these regions, see Section 4 of this paper) and this further underlines the increased actual and potential future role of private credit in a wide range of markets around the world.

2 Borrowers

A) Private credit is as attractive to borrowers as ever

The capability to provide tailored solutions to a borrower’s financing requirements has featured strongly in previous editions of *Financing the Economy*. Specifically, the top three factors that borrowers value most about private credit, as demonstrated by 85% of participants, include the ability to carry out complex structures, flexibility of terms, and speed of decision making (Figure 9). These findings support the view held by private credit lenders that borrowers typically consider non-price related factors to be particularly important when evaluating their financing options.

Almost one third of US participants cite speed of decision making as the feature that clients and prospective clients value most about private credit (Figure 10). In contrast, less than 14% of European participants noted that their target clients would say the same thing (Figure 11), with the majority suggesting that their borrowers value them most for their ability to carry out complex deal structures. Rounding off the top three reasons: just under one third of European participants and 28% of US participants state that their target clients value them most for their flexibility of terms.



OMNI Partners provides UK company loan to quickly purchase a property

OMNI Partners LLP provided a UK-based company with a £2.5 million loan. This loan was extended to allow the purchase of a substantial two-story detached house, with planning permission for a single story extension. The loan allowed the UK company to purchase the house quickly, securing it before it could be purchased by another party.

The ability of private credit managers to lend in size (i.e. provide the bulk or all of a financing solution) is attractive to borrowers. This factor is more prominent in the US, as a greater number of managers active in that region have the necessary scale to take on larger financing commitments. However, as markets in Europe and Asia Pacific develop, this factor is likely to become more prominent among borrowers in those regions as well.

Borrower attitudes towards private credit financing as an alternative to equity financing are also becoming more favourable. Many borrowers are wary of diluting their equity stake in their businesses and find the flexible approach of private credit more attractive. According to the participants interviewed for this paper, this view is particularly strong amongst SMEs in the growth stage of their business.

Figure 9: What do you believe target companies value most about private credit?

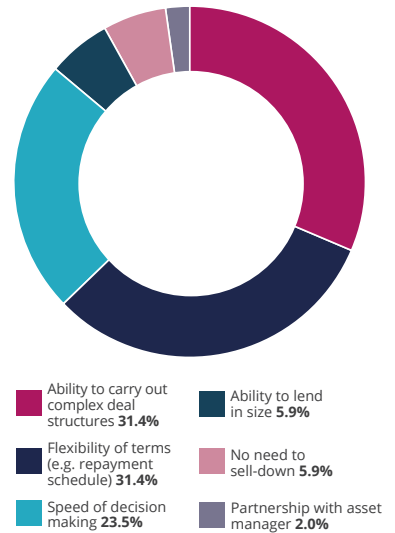


Figure 10: US private credit managers

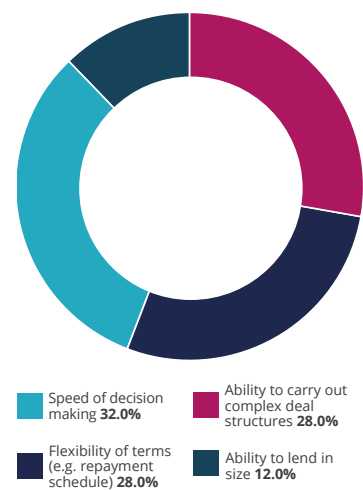
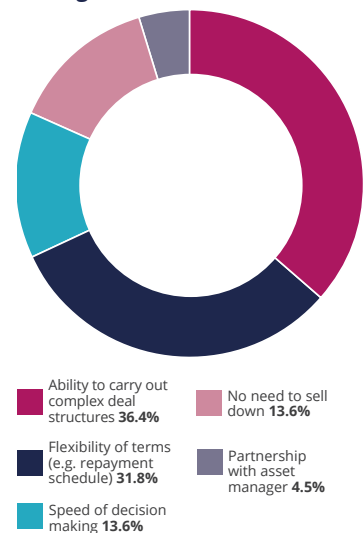


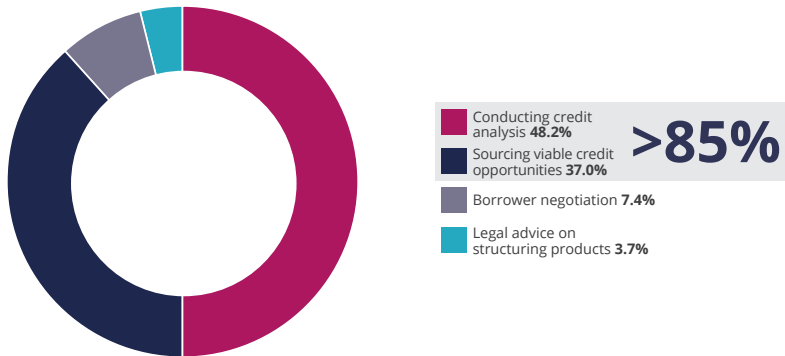
Figure 11: European private credit managers



B) Focus on the lending process

Private credit managers consider their expertise in credit risk analysis and due diligence on potential borrowers as a key competitive advantage over other types of lenders. In recent years, the private credit industry has built up a great deal of expertise in this area, allowing private credit managers to move away from the more standardised approach typically employed by traditional lenders.

Figure 12: Most resource intensive activities in carrying out private credit strategies?



Increased competition in the credit markets generally has led to speculation about how this could impact on the lending standards being employed by private credit managers. This paper's findings, shown in Figure 12, suggest that lending standards remain robust, with 85% of participants identifying either (i) conducting credit analysis or (ii) sourcing suitable credit opportunities, as their most resource intensive activity. Many participants are also quick to point out that lowering lending standards in the face of increased competition would be ultimately counterproductive.

Just under half of all US participants (Figure 13) state that their most resource intense activity is sourcing private credit opportunities. By contrast, only just over a quarter of European participants (Figure 14) identify this as their primary challenge; approximately 57% see credit analysis as their most resource intense activity. Although sourcing viable opportunities and credit analysis can be seen as two sides of the same coin, there is a pronounced difference in emphasis between these two regions. This divergence may be a symptom of fiercer competition for target borrowers in the US relative to the European markets.

What is the most resource intensive activity in carrying out private credit strategies?

Figure 13: US private credit managers

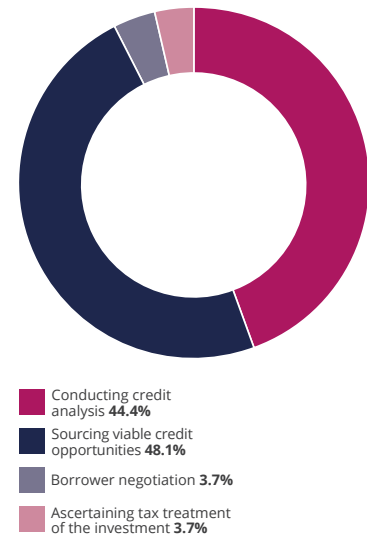
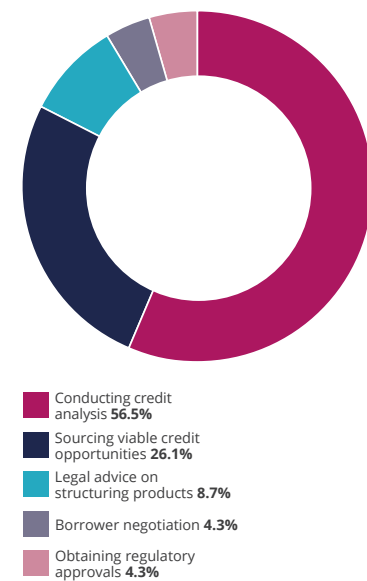


Figure 14: European private credit managers



C) Borrowers are in a strong position

Covenants provide security for both lenders and borrowers against the other party in the loan agreement acting in a way that is detrimental to their interests. Similarly, the price and structure of the loan coupon (i.e. pricing) aligns payments to suit either the lender or the borrower’s requirements. Changes in loan covenants and coupons can thus be a useful indicator of the relative balance of power between lenders and borrowers in the credit markets.

Figure 15: How has the degree of covenants in loan offerings changed over the past 3 years?

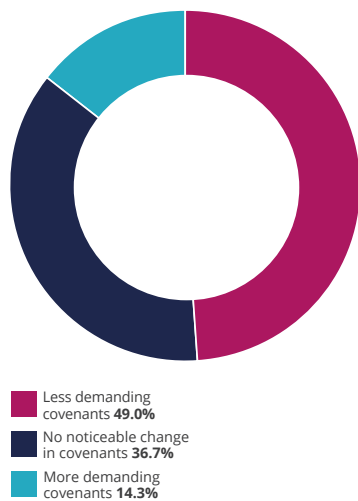
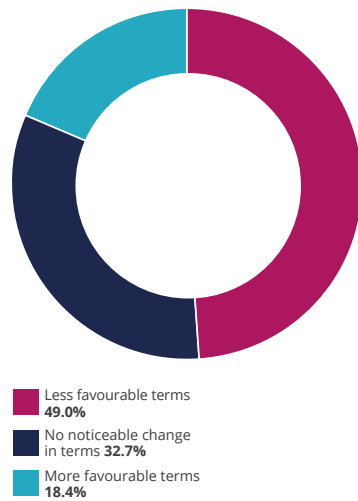


Figure 16: How has the coupon for a potential loan changed over the past 3 years?



This paper’s findings suggest that private credit managers are having to demonstrate more flexibility as both covenant and coupon terms have shifted more favourably towards the borrower.

 **CQS provides £22 million loan to UK telecoms provider, saving acquisition**

CQS provided a £22 million loan to a UK telecoms provider, without any co-investors. The telecoms provider was intending to purchase a listed IT provider using bank loans, but when the banks shrank their support at the last minute CQS stepped in and acted as the sole provider of a £22 million loan which allowed the acquisition to proceed.

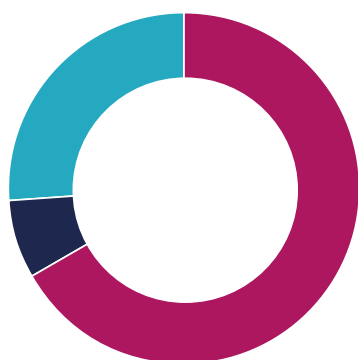
Many covenants go beyond pure financial indicators, and are structured in a way to best match the business of the borrower. Flexibility is a hallmark of private credit, so it is unsurprising that managers have been able to incorporate more accommodating terms into the loan structures they offer. As shown in Figure 15, nearly half of this paper’s participants are incorporating less onerous covenants into their private credit transactions, while only 14% believe that the covenants they agree with their borrowers have become more onerous over the same period. Private credit managers are also responding to borrower preferences for covenant-lite structures (historically more common across larger syndicated loan transactions with institutional investors) to be included in private credit transactions.

■ ■ —————
It is a good time to be a borrower in terms of covenants and competitive terms
 ————— ■ ■
 UK private credit manager on deal terms

In a similar fashion, there has been a change in sentiment regarding the level of deal pricing being achieved. Almost half of the participants confirm pricing terms are generally less favourable to them than was the case three years ago (illustrated in Figure 16). They attribute this downward pressure on pricing to current levels of competition across almost all private credit markets, as well as to prevailing low interest rates.

How has the degree of covenants in loan offerings changed over the past 3 years?

Figure 17: Larger private credit managers



Less demanding covenants **66.7%**
 More demanding covenants **7.4%**
 No noticeable change in covenants **25.9%**

Figure 18: Smaller private credit managers



Less demanding covenants **27.3%**
 More demanding covenants **22.7%**
 No noticeable change in covenants **50.0%**

Analysing these findings shows that participants who report committed capital of more than \$1bn (what this paper deems 'larger' private credit managers) are much more pessimistic about this aspect of the current market, with 67% of them reporting less demanding covenants in their loan offerings (Figure 17). This was significantly higher than the just over one quarter of managers with less than \$1bn of committed capital ('smaller' private credit managers) offering the same response (Figure 18). This suggests that the trend towards less onerous covenants and less favourable loan pricing for the lender is more prevalent at the upper end of the market.



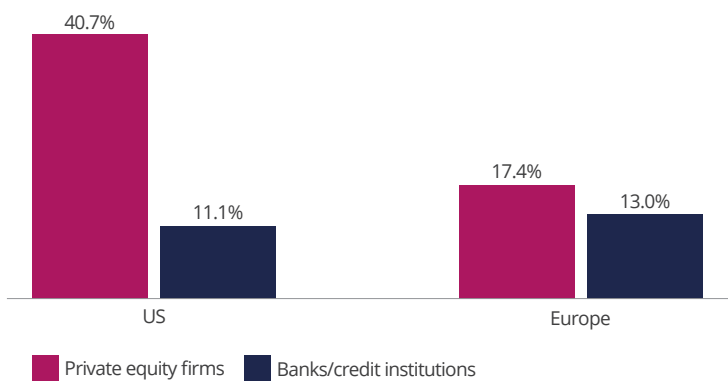
Muzinich & Co provides recapitalisation loan to growing UK recruitment company

Muzinich & Co, in conjunction with another financial institution, provided a loan worth £18 million to a UK-based recruitment agency. The agency is growing strongly and expanding internationally, and the loan will allow it to pay out an existing shareholder.

D) Expansion of deal origination networks

With the continued growth of the industry, private credit managers are diversifying the ways in which they source potential investment opportunities. As shown in Figure 19, nearly one third of all participants state that their primary avenue to source potential opportunities is through the relationships and networks they have established within a given industry. Instead, more managers are looking to banks, private equity managers and other industry advisors to help them source new financing opportunities. This shift suggests that private credit managers are adopting a pragmatic approach towards deal flow in the face of an increasingly competitive market.

Figure 20: Use of private equity, banks/credit institutions as common channels for sourcing potential credit opportunities by US and European private credit managers

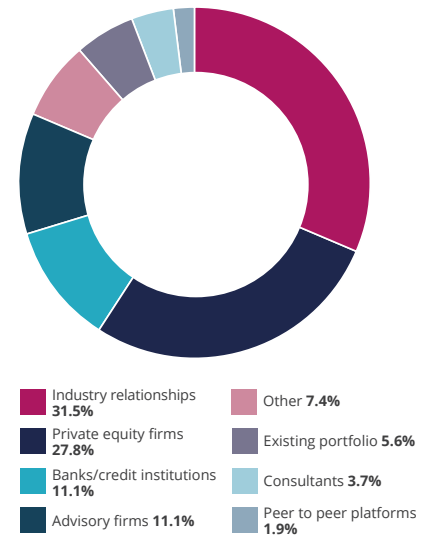


The relative popularity of private equity and bank channels for sourcing potential credit opportunities in the US and Europe can be seen in Figure 20. 40% of US participants state that their most common channel of sourcing potential credit opportunities is through working directly with private equity firms. In comparison, less than a fifth of European participants say the same, with the majority continuing to tap into various industry networks as their primary source in identifying credit opportunities.

Banks and credit institutions are also a popular channel for sourcing credit opportunities, with 11% of US participants and 13% of European participants identifying those institutions as their most common sources of potential lending opportunities. The influence of banks and credit institutions was also cited by participants as particularly important in jurisdictions where the market for private credit is less mature.

Further, as the private credit market becomes more established, some private credit managers are starting to generate repeat lending business from their existing portfolio of clients. The possibility of repeat business is a very effective way of winning a new mandate on a proven credit record. Several managers also comment that many new business opportunities arise from a recommendation by a former or existing client to one of their corporate peers. Given these benefits we could see private credit managers with a longer track record leverage this advantage over their competitors in the coming years.

Figure 19: What is the most common channel of sourcing potential credit opportunities?



There is one deal where we're onto the 4th generation, EBITDA has quadrupled on five or five years. We have accordingly stepped down in price as they have matured. Now there are opportunities to extend the relationship further

US private credit manager on repeat business

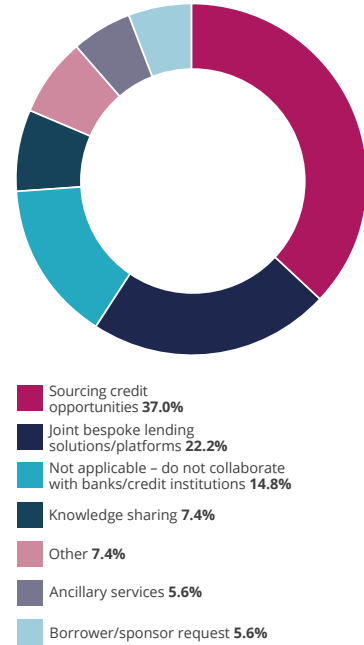
E) Collaboration between private credit managers and banks remains as strong as ever

Collaboration between private credit managers and banks or credit institutions in producing new lending solutions or sourcing new credit opportunities remains a prominent feature of the private credit market, as shown by Figure 21. From a bank's perspective, collaboration with private credit managers helps them deal with a number of familiar scenarios. These may include instances where a bank:

- prefers to syndicate the loan;
- is unable to provide both the working capital facility and loan simultaneously; or
- where the loan is too small to sit on its balance sheet.

In all these instances, collaboration with a private credit manager enables the bank to retain its relationship with the borrower despite not being able to service the entirety of that borrower's financing requirements. These arrangements continue to benefit borrowers across the industry as the combined strengths of banks and private credit providers working together make it more likely that they will receive the finance they need to invest in their business, support jobs and boost economic growth. As seen in Figure 22, 41% of US participants emphasise the importance of working with a bank to source credit opportunities. Upon closer examination of the US group, one third of them collaborate with banks and/or another credit institution to take advantage of the various bespoke lending solutions/platforms. In comparison, just 13% of European participants (Figure 23) do the same.

Figure 21: What is the most important reason for your collaboration with a bank/credit institution on private credit strategies?



What is the most important reason for your collaboration with a bank/credit institution on private credit strategies?

Figure 22: US private credit managers

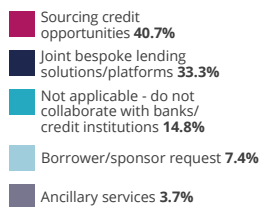
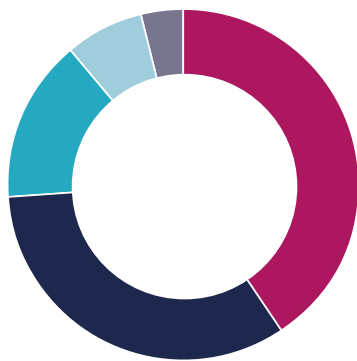
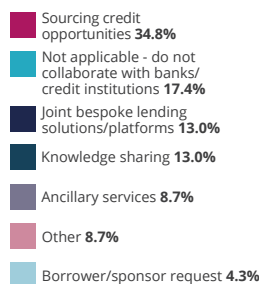
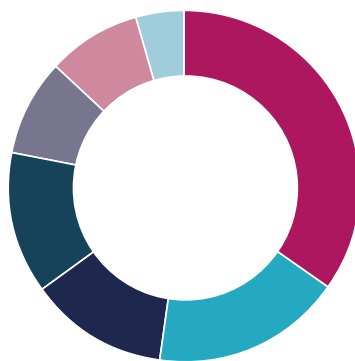


Figure 23: European private credit managers



F) Sponsor influence remains strong but sponsorless deals continue to grow in popularity

Sponsored lending describes loans to borrowers where a private equity sponsor owns equity in the borrower. In these transactions, the private equity sponsor's expertise and relationship with both the borrower and private credit manager often helps facilitate the loan. Borrowers backed by private equity sponsors represent only a small percentage of all businesses, yet the majority of finance provided by private credit managers typically involves sponsored lending.

Figure 24: Use of sponsors, 2017 vs. 2016

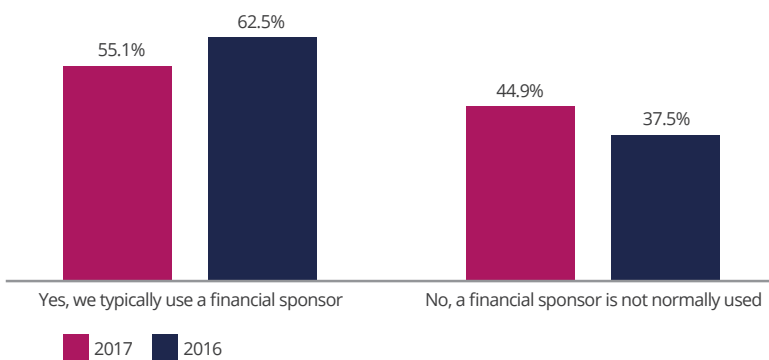
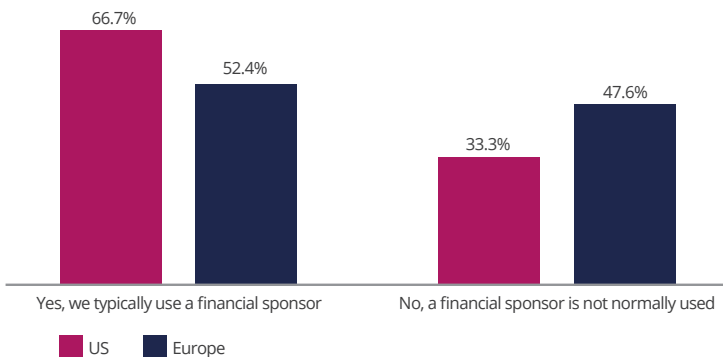


Figure 25: Use of sponsors, US vs. European private credit managers



This paper's findings (Figure 24) indicate that finance provided by private credit managers involving a sponsor remains popular, with 55% of participants confirming this. However, this is a reduction from the 62.5% reported in last year's paper, and if this trend continues we will soon see finance not involving a sponsor accounting for more than half of the private credit market. Whilst the relative role of sponsors may be receding generally, they remain a key feature of the US private credit market, where two-thirds of US participants stated that their activity normally involves a sponsor (Figure 25).

Sponsorless lending is seen by many private credit managers as a potentially fruitful source of growth for the sector. Although this type of lending is not inherently riskier than sponsored deals, it typically requires more due diligence and engagement with a borrower's management team than a similar line of finance which is sponsored. This has an impact on the resources employed by the private credit manager and helps explain partly why sponsored deals remain more popular. Despite this challenge almost all the managers interviewed for this paper state that they intend to do more sponsorless deals and that they are investing more resources to facilitate this.

It takes time to build up the non-sponsored side. Lenders are often unable to wait that long as they need to deploy money and the opportunity cost is too high

European private credit manager on the growth of non-sponsored deals

Historically, non-sponsored transactions have always been bigger in the US. Borrowers have focussed on the headline margin, but need to look beyond and see what it could create

US private credit manager on the influence of private equity

G) Managers are moving beyond the mid-market

Figure 26: What is the average size of the borrowers by EBITDA?

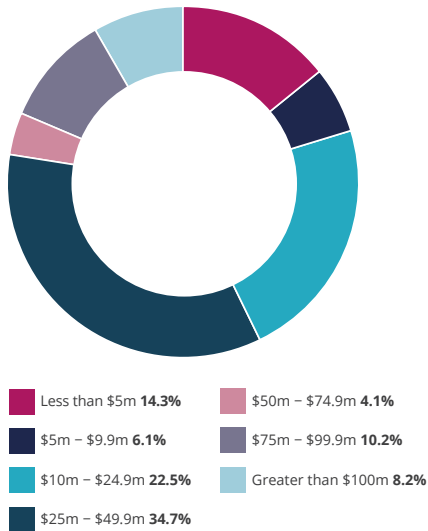
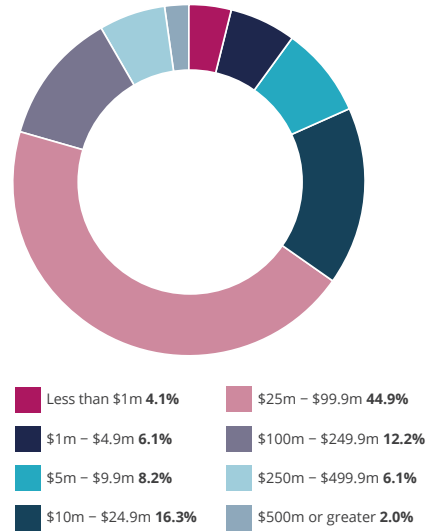


Figure 27: What is the typical target loan size for your manager?



Size is the main differentiator in the market. A number of people can write a 100m ticket, but a smaller number can write a 200m ticket.

UK private credit manager on changes in the market

This year's findings suggest that there has been a shift in the size of borrowers to whom private credit managers are typically seeking to lend. Private credit managers are now commonly providing finance to borrowers who have less than \$25 million earnings before interest, tax, depreciation and amortisation (EBITDA), as shown in Figure 26. As a measure of the total number of participants in this paper, these borrowers represent the biggest proportion of the private credit market with 43% of the total market share. At the other end of the scale, larger borrowers who have more than \$75 million EBITDA now make up over 18% of the market. Borrowers between \$25 million and \$75 million EBITDA make up the remaining 39% of borrowers within private credit, which is a significant change from the 54% reported in the 2016 edition of this paper⁷.

At the upper end of the market, this change in approach by some private credit managers targeting larger borrowers has been made possible following successful capital raising. This has provided them with additional scale to finance borrowers who might otherwise obtain finance through the public bond markets or via a loan syndicate. At the other end of the scale, smaller borrowers are benefiting from specialised private credit managers looking to establish or develop a niche by focussing on borrowers with smaller finance requirements. This demonstrates that borrowers of all sizes are benefiting from the growth of private credit.

We can also observe a similar pattern regarding the target loan sizes that participants favour (Figure 27) as the size of the borrower has a significant impact on their finance requirements. This shift towards targeting either larger or smaller borrowers by some managers is likely to be another symptom of the increasing competition within the private credit industry. Although we expect the mid-market will continue to be the backbone of the industry, it is likely that this trend towards financing both smaller and larger borrowers will endure and form an important part of the industry's future growth.

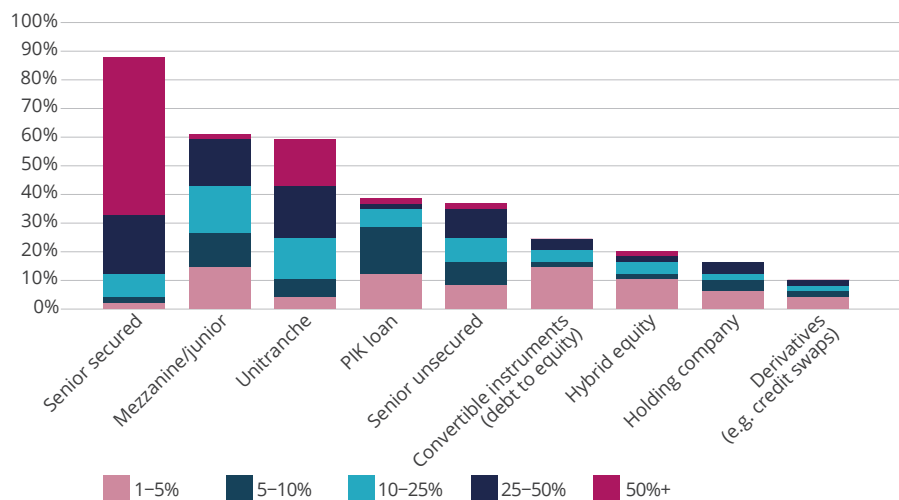
⁷ Figure 11 page 16 Financing the Economy 2016 - <https://www.aima.org/article/financing-the-economy2016.html>

3 Lenders

A) Capital structures used by private credit managers

Private credit managers are able to offer various types of funding structures to borrowers⁸. This is attractive for the borrower as it provides them with more options to suit their financing needs.

Figure 28: Approximately what proportion of your fund(s) in aggregate are allocated to the following capital structures?



Across all participants in this paper, senior secured financing is the dominant capital structure, being used by almost 90% of all private credit managers. Upon closer examination of Figure 28, 55% of all participants have more than 50% of their total funds structured as senior secured capital.

Any investment in such a structure tends to be secured by a full security collateral package. Under such a structure, the lender will receive payment in advance of other (i.e. more junior or subordinated) creditors, and this structure will typically involve regular scheduled interest payments. Although the perception of the private credit sector can sometimes be characterised as being more risky than traditional bank debt, the number of private credit funds opting for a more conservative “senior secured” structure suggests the contrary.



Ardian supports Sagard’s acquisition of Ipackchem

In February 2017 Ardian, the independent private investment company arranged a unitranche financing facility to support Sagard’s acquisition of Ipackchem, a leading global manufacturer of rigid plastic packaging. This will include a debt facility dedicated to financing Ipackchem’s potential future build-ups. Sagard’s acquisition of Ipackchem will give the management, who will remain shareholders, the financial and human resources to pursue further international development through both organic growth and acquisitions.

Investors are typically seeking strong returns but from unlevered positions. Risk parity approaches are not particularly common for this reason, and leverage is still a tainted phrase for many

UK private credit manager on investor preferences

⁸ For a more detailed description of the various types of fund structures (including those mentioned in this section), key debt products and characteristics of such products which make up the private credit market, please refer to the glossary in Appendix 2.

Unitranche structures (a combination of a senior tranche of debt and a junior tranche of debt in a single loan with a blended return) continue to grow in popularity across the pool of private credit managers who participated in this paper's research. This year nearly 60% of all participants indicate that they use unitranche structures. Taking a closer look at their appetite for this facility, close to 20% of participants state that they have between 25%-50% of their total private credit allocation in unitranche lending structures.

The unitranche facility is now commonly used to fund private equity backed transactions, management-led buyouts and other acquisition-related financing across the US and Europe.

Common features of unitranche financing include a bullet repayment requirement and a lack of amortisation (typically with a longer tenor than more traditional senior debt), more flexible covenant requirements and higher margins and non-call fees. Unitranche debt is typically provided in conjunction with a working capital facility (often referred to as a 'super senior' loan) made available by a more traditional bank. The working capital facility is provided on a *pari-passu* basis with the unitranche facility, but will have priority recovery in the intercreditor waterfall.

Similar to the level of interest being shown in allocating to the unitranche structure, mezzanine and other junior financing investments remain popular, being used by 60% of participants in this paper's research.

Interest in payment in kind (PIK) finance structures also continues to grow. This is a loan or bond whereby interest is not paid on borrowings in cash between the funding date and maturity of the debt product but instead is (in the case of a loan) capitalised, which is to say added to the principal balance of the loan or (in the case of non-loan debt securities) settled by way of the issuance of additional securities of the same type. The loans/bonds are often provided on a structurally subordinate basis to other secured financing of a borrower group. Approximately 16% of participants have between 5%-10% of their private credit investments allocated to this type of structure.

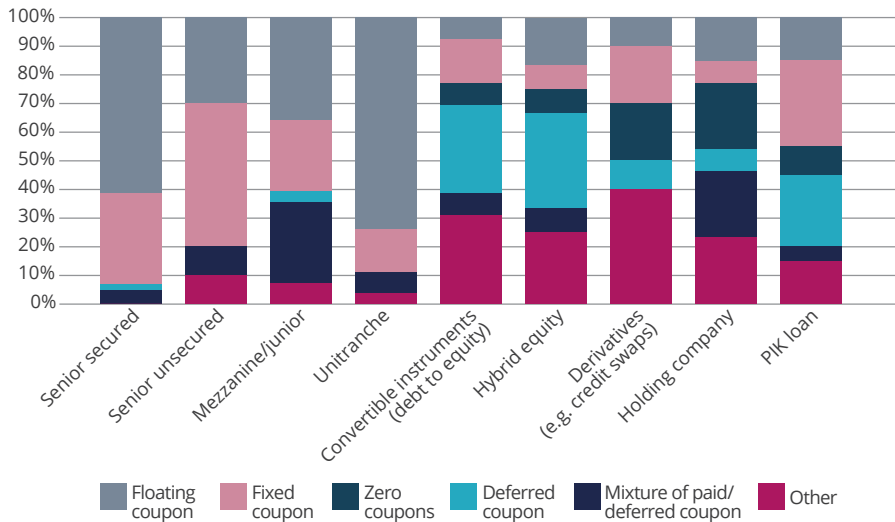
Of the remainder, over one third of the participants use a senior unsecured facility, while just over 20% use convertible instruments or a hybrid equity structure. In both cases allocations (as a measure of the total proportion of funds being allocated to capital structures) are relatively modest.

■ ■ ————— ■ ■
On the fundraising side, five years ago it was an investor education process. Now it is a manager selection process

■ ■
UK private credit manager on how attitudes towards private credit are changing

B) Common coupon structures used in lending

Figure 29: What is your most common structure of coupons for the following capital structures?



Across the various capital structures that were researched for this paper, the most popular pricing structure is the floating coupon, as shown in Figure 29. Notably, over 60% of all senior secured structures and over 70% of all unitranche structures are priced using floating rate coupons. These findings are arguably the broadest indication that borrowers of private credit finance are neither unduly concerned about interest rates being raised over the short term, nor about how any impact this would have on their ability to make payments on the financing being provided.



Monroe supports recapitalisation of healthcare services firm

Monroe Capital supplied a healthcare services company with a \$125 million financing. Monroe acted as sole lead arranger and administrative agent on the funding of the U\$125 million senior credit facility, which supported the recapitalisation of the healthcare services company. The Riverside Company made a simultaneous minority investment as part of the transaction.

However, fixed coupon payments are still a popular form of payment. A closer analysis of these findings reveals that half of all private credit manager participants who offer senior unsecured lending ask for fixed coupon payments. Fixed coupon payments are also the most popular payment demand across PIK loans, accounting for 30% of all participants using this structure. Finally, private credit managers providing financing to borrowers through PIK loans, convertible instruments and hybrid equity cite the use of a deferred coupon structure as being among the more popular forms of payment used.

Investors are taking a keener interest in origination platforms and capabilities

European private credit manager on how attitudes towards private credit are changing

C) Fund structures

Fund tenors, deal terms and structures across the participants in this paper’s research share some similarity to private equity funds. Typically the majority of private credit managers prefer a short-term investment period (two to four years), although longer maturities (six years or greater) are becoming more common mirroring the longer loan terms on offer to some borrowers.

Figure 30: What is your preferred/target terms for investments?

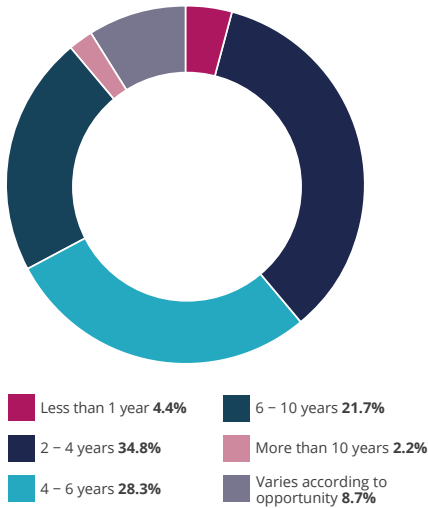
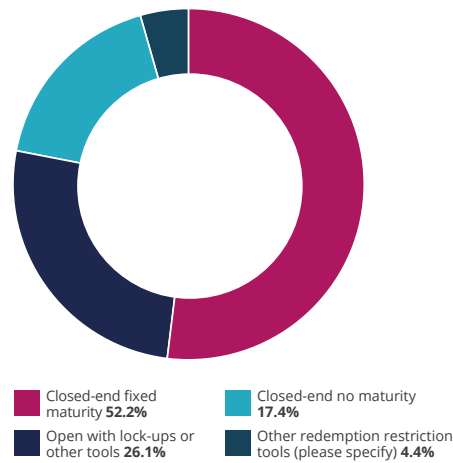


Figure 31: When can redemptions typically occur on your private credit investments?



As illustrated in Figure 30, over 60% of all participants state that their preferred target term for investments is between two and six years. In breaking this down further, just over one third of all managers state that their target investment term is between two and four years, while just under 30% have a preferred target term of between four and six years. Notably, the analysis this year finds that over 20% of participants have a preferred target term for their investments of six years or greater. This is a marked increase from the initial 2015 edition of *Financing the Economy*, in which the equivalent group accounted for approximately 8%.

In addition to providing long-term finance, private credit managers are in many cases structuring their loans as bullet payments that do not amortise over the cost of the financing. This has the potential of removing a good deal of the financial burden from the borrower, especially in the early phases of the projects, thereby theoretically freeing up cash for operational expenses, further acquisitions and investment in the business.

I. Fund liquidity

Almost 70% of all participants have closed-end funds, with 52% being closed-end with fixed maturities, as shown in Figure 31. These types of fund structures provide substantial safeguards in the face of concerns amongst some policymakers that private credit managers are carrying out maturity transformations.

Whilst it has taken time to educate some investors on the implications of a closed-end fund structure, the additional value of the liquidity premium on offer from investing in the private market convinced institutional investors in their search for yield. Furthermore, typical institutional investors that allocate to private credit have long term investment horizons that more closely fit the nature of private credit strategies – namely investments that tend to be more long term in nature. As a result, investors are fully aware at the outset of their committed investment period of the time it takes to unwind underlying private credit positions.

70%
of participants have
closed-end funds

Roughly 30% of all participants have open-ended funds with lock-ups or other liquidity management tools available to their investors, which can restrict or prohibit fund withdrawals under certain circumstances. Alternative investment fund structures (including private credit funds) are designed to deal with stressed market conditions and are often able to restrict investor redemptions through liquidity and maturity management techniques including longer maturity share classes, side-pockets and realising share class provisions and shareholder and fund level gates. Having these tools at their disposal allows managers to align the underlying investment strategy with the requirements and expectations of their investors.

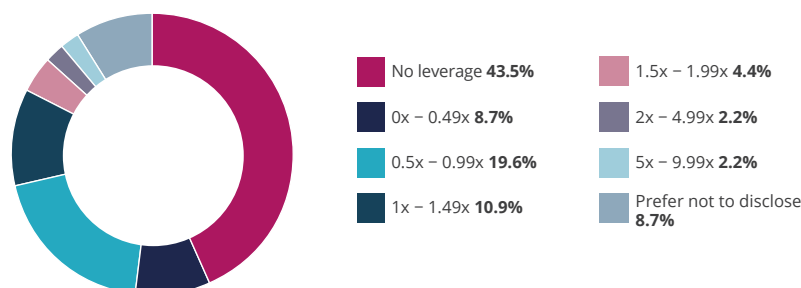


Beechbrook completes two debt deals

Beechbrook Capital made two debt deals from its Private Debt III fund (PDF III). Both financings are being used by private equity managers in the buy-outs of UK-based companies. The first deal supports the buy-out of UK merchandise company Brand Addition by Elysian Capital. Beechbrook has provided mezzanine financing on this occasion with HSBC being the senior lender. Beechbrook is also providing mezzanine financing to support the buy-out of recruitment firm Search Consultancy by H2 Equity Partners.

II. Use of fund leverage

Figure 32: How much financial leverage does your most levered private credit fund employ?



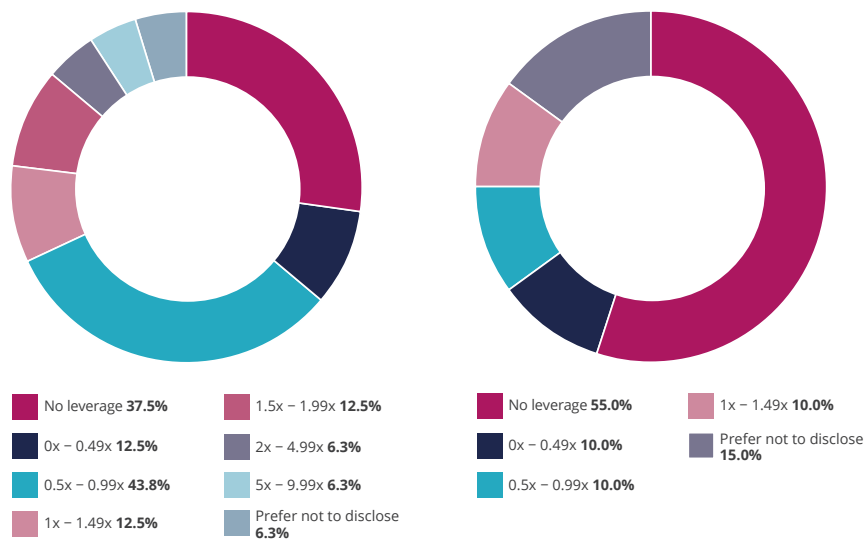
As illustrated in Figure 32, the use of leverage across private credit funds remains modest. Private credit managers tend to use all of their balance sheet in the event that they do use leverage; thus most leverage levels are negligible. Similar to the findings reported both last year and in the 2015 *Financing the Economy* findings, the majority of private credit funds, or 43% of all of this year’s participants, use no leverage at all.

Among those private credit managers using leverage at the fund level, it is only used to a minor degree. For example, close to 30% of the participants in this paper’s research deploy leverage of up to 1x the net asset value (NAV) at fund level (i.e. the equivalent of the fund’s Net Asset Value). Of the remainder, 11% of the total number of private credit managers operate on leverage between 1x-1.5x, and a further 10% deploy leverage levels of 1.5x or greater.

How much financial leverage does your most levered private credit fund employ?

Figure 33: US private credit managers

Figure 34: European private credit managers



Figures 33 and 34 highlight the difference in attitude regarding managers' use of leverage in the US versus Europe. In the case of the former, almost two thirds of all US private credit managers are deploying some form of leverage versus less than half of all their European contemporaries. Notably, of the 85% of European managers willing to disclose their leverage levels, none are using leverage greater than 1.5x their NAV. In comparison, when looking at the US participants appetite for leverage, 25% of them are using leverage greater than 1.5x NAV, with 6% of them using leverage between 5x-10x NAV.

The majority of private credit managers that deploy leverage do so through the use of balance sheet borrowing. As highlighted in last year's edition of this paper, there is a growing trend amongst mid-market lenders and banks (who are their main source of credit) to structure loans for the purpose of leverage through what is effectively a private CLO. This has the benefit for the lenders of obtaining commitment from the banks, but also allows banks to treat their balance sheet capital in a more efficient manner.

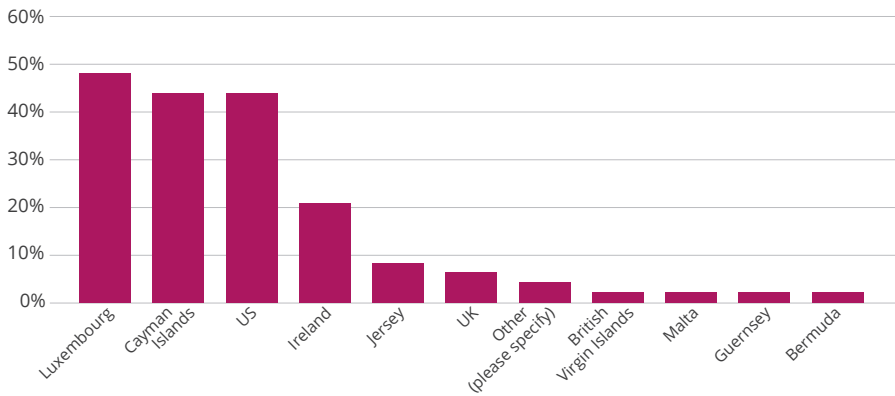
III. Fund vehicles

Luxembourg, the US and the Cayman Islands remain the most popular domiciles for debt funds, followed by the US US, Ireland, Jersey and the UK, as shown in Figure 35. Of European participants (Figure 36), biggest proportion domicile their funds in Luxembourg, followed by the Cayman Islands, Ireland and Jersey. It is an almost similar picture for the US participants (Figure 37): with the exception that the US is the dominant fund domicile, both the Cayman Islands, Luxembourg and Ireland are the next most popular fund jurisdictions.

As demonstrated in Figure 36, 70% of private credit managers that participated in this survey structure their funds as partnerships. Over one third of those surveyed use managed accounts to support their private credit fund vehicles, while a similar estimate invests via securitisation when participating in the private credit market. Recent efforts⁹ to reinvigorate the European securitisation market should enable greater participation by private credit managers. Further, it is hoped that this will help support the flow of finance to European businesses and improve financial resilience by reducing European borrowers' dependence on the banking system.

⁹ In June 2017, European policymakers finalised a revised regulation which seeks to revitalise the market for securitisation in the region.

Figure 35: In which of the following jurisdictions are your private credit funds domiciled?



Luxembourg,
the US and
the Cayman
Islands
the most popular jurisdictions

Figure 36: In which of the following jurisdictions are your private credit funds domiciled? (European private credit managers)

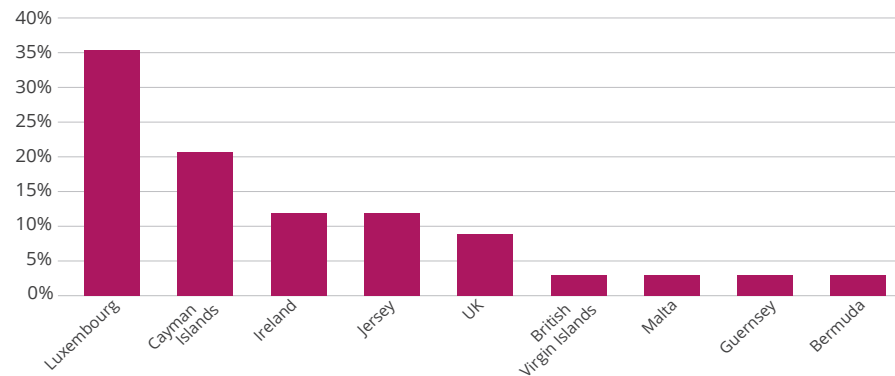


Figure 37: In which of the following jurisdictions are your private credit funds domiciled? (US private credit managers)

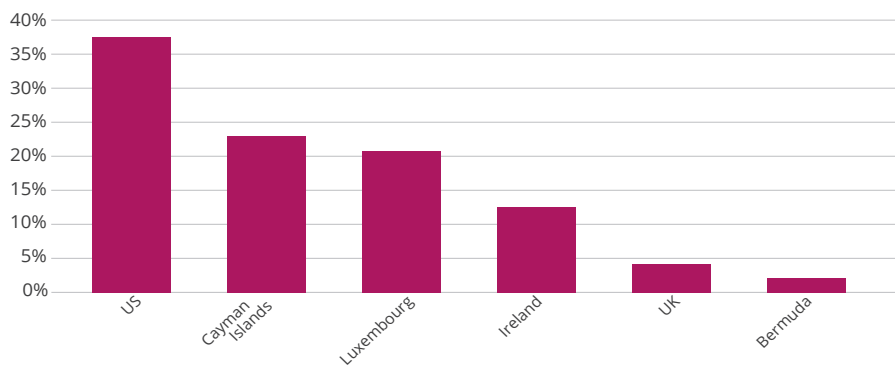
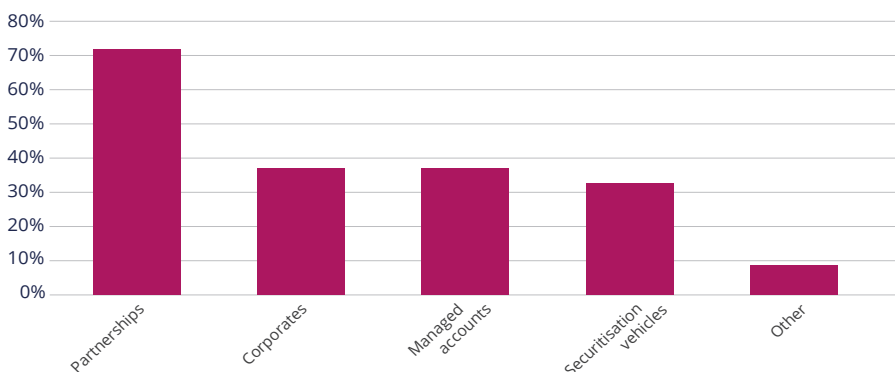


Figure 38: What structures do you use for your credit fund vehicles?

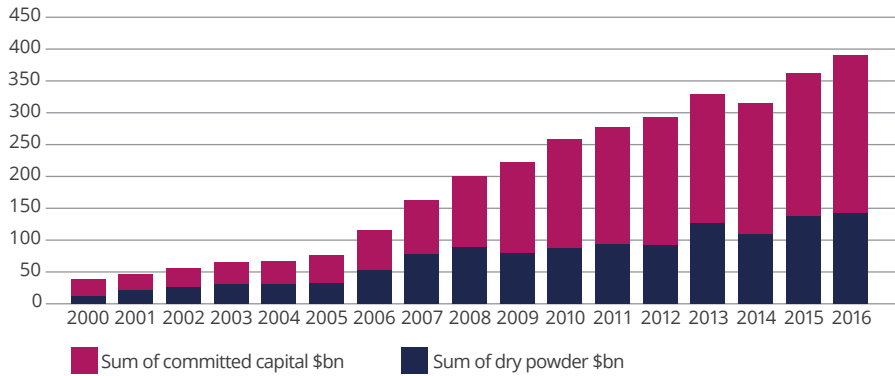


>70%
of funds are structured
partnerships

4 What's happening where you live?

A) USA

Figure 39: Dry powder vs. committed capital, by year, US \$bn (US private credit managers)



Source: Preqin

Private credit has existed in the US for much longer than in any other region, and represents the largest market globally for private credit by a considerable margin. As a measure of assets under management, the US private credit market is greater than the sum of the rest of the private credit world. The US is also home to the majority of investors and managers in private credit and typically the significant majority of all financing for US borrowers comes from sources other than banks.



Capitala Group provides refinancing loan to US retailer

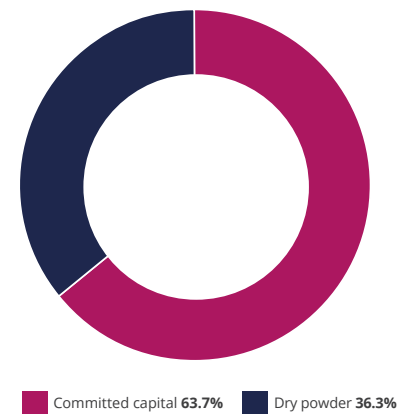
Capitala Group provided a loan to a US retailer, in order to refinance impatient debt capital out of the company. This was done to support the retail company as it enters into a complex capital expenditure and growth strategy. The loan was provided in conjunction with a bank, which provided an additional \$50 million in financing.

Given that it is a more developed market, structurally the US market is not currently changing to the same significant extent as the European and Asia Pacific markets. However, several of the findings captured in this paper underline that there are still some important areas where the US private credit market is evolving. These include:

- US managers having to work harder to source additional and more suitable credit opportunities than their peers outside of the US;
- US private credit participants (specifically investors and managers) being more comfortable using fund leverage; and
- a trend towards more borrower friendly loan pricing and terms.

Participants in this paper highlighted the increasing levels of competition in the US market as being the biggest single influence on the development of private credit in the region. Each of the features described above are at least partly a consequence of the greater competition in this market. The source of this is generally acknowledged to be the increase in the number of active private credit managers rather than any reduction in the demand for private credit. Indeed, one could point to the high levels of dry powder in the US private credit market as evidence of this.

Figure 40: Breakdown of dry powder vs. committed capital, 2016 (US private credit managers)



Source: Preqin

The popularity of the US private credit market is also fuelling interest in the European and Asia Pacific markets. It has improved general levels of familiarity amongst managers and investors about private credit as an asset class. Competition in the US market is also encouraging private credit managers and investors to look beyond the US market and be more active in regions such as Europe or Asia Pacific.



Ares Capital Corporation finances the acquisition of Cozzini Bros by Birch Hill Equity Partners

Ares Capital Corporation served as administrative agent and sole lender for the senior secured credit facility to support the acquisition of Cozzini Bros by Birch Hill Equity Partners. Cozzini Bros is a leading provider of subscription-based commercial knife and cutlery sharpening services and related products to customers ranging from local restaurants to large national chains and nationwide kitchen services organisations.

Demand for private credit in the US is likely to remain strong. Regulatory reform of the banking sector remains favourable to the further growth of private credit, with the impact of Basel III and the US Federal Reserve Leverage Guidelines likely to offer a further boost. Whilst some have speculated that the US government may become less stringent in its approach to the banking sector, these regulatory reforms are already baked into the system and are unlikely to be reversed entirely.

The maturity of the US market generally means that it does not face regulatory barriers that often characterise private credit markets in other parts of the world. One area where reforms are being pursued relates to the role of Business Development Companies (BDCs). BDCs are vehicles which customarily provide finance to smaller American businesses. The legislation underpinning BDCs is an area where the ACC¹⁰ and others have called for reforms to modernise the requirements imposed on these types of structure. If implemented, these reforms would make BDCs an even more attractive vehicle for private credit managers, and we hope that our recommendations are acted upon by US policy makers.

■ ■ ————— ■ ■
In the US there has been recent pressure on fees. But, if you generate good returns, they'll come back to you

■ ■
US private credit manager on competition in the US market

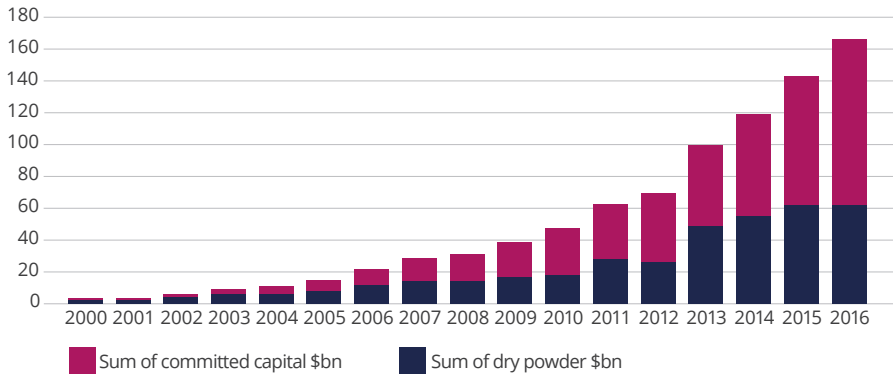
■ ■ ————— ■ ■
US investors are more used to the product and so are keener for leverage. The rest of the world want unlevered

■ ■
UK private credit manager on the use of leverage

¹⁰ <https://www.banking.senate.gov/public/index.cfm/economic-growth>

B) Europe

Figure 41: Dry powder vs. committed capital, by year, US \$bn (European private credit managers)



Source: Preqin

Whilst the US private credit market is the most established global private credit market, Europe is closing the gap quickly, having witnessed huge growth in the sector since the financial crisis. Notably, over the past few debt cycles the European private credit market has enjoyed significant fundraising success. For the first time in 2015 fundraising for private credit funds in Europe raised more capital than its US counterpart. While the rate of increase against 2015 slowed, fundraising levels for the region ended 2016 at its second highest total, matching 2014 amounts. Over the past year, 288 transactions have been completed by 59 private credit funds in Europe alone, compared to 262 and 243 in the previous two years¹¹.



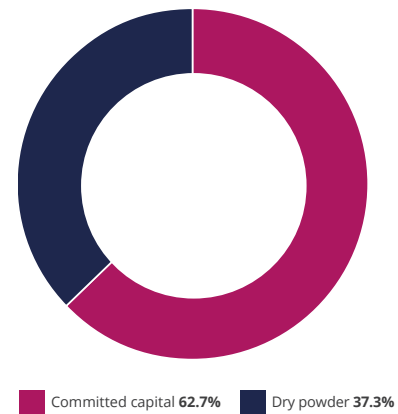
Intermediate Capital Group provides loan to finance UK higher education company's growth

Intermediate Capital Group provided a leading UK provider of higher education with a €60 million senior loan. This loan will allow the company to refinance existing debt, but will also include an acquisition facility to fund future growth.

Although the UK, France and Germany make up the top three European private credit markets, much of Europe's private credit activity centres on the UK. The UK's prominence rests on a number of factors. First, the majority of the EU's alternative asset management industry is already located in the UK, which itself is a reflection of the way in which the UK implemented the Alternative Investment Fund Managers Directive.

Unlike most large EU member states, the UK (and very broadly the Netherlands) are amongst the least restrictive EU member states, imposing minimal regulatory restrictions and no licensing requirements for funds wishing to grant non-consumer loans in their respective jurisdictions. Further, the UK's legal jurisdiction is supportive of higher recovery rates in circumstances where debt restructuring is required.

Figure 42: Breakdown of dry powder vs. committed capital, 2016 (European private credit managers)



Source: Preqin

¹¹ Deloitte Alternative Lender Deal tracker which tracks primarily mid-market deals across Europe with up to €300m of debt, Q2 2016 -Q1 2017.



KKR provides loan to Dutch leisure company to finance acquisition

KKR provided a loan of €125 million to a leading Dutch holiday park developer and operator. The company generates the majority of its revenue from renting accommodation and operating holiday park facilities. The loan will help the company in an acquisition, thus increasing its revenue potential.

Today, the European private credit market serves companies of varying sizes – some without private equity sponsors – and encompasses a wide range of target returns and risk appetites through tranching (senior and subordinated) and unitranche loan structures. Whilst previously more restrictive, the German market has also benefited from the country's central bank relaxing lending laws to enable non-banks to lend and provide finance solutions. Last year, the German central bank introduced new legislation stipulating that EU alternative investment funds (AIFs) will not require a banking license if they lend directly to German borrowers (provided that certain requirements are complied with).

German companies have long been used to the *Schuldschein* market, traditionally a source of easy finance for the *Mittelstand* but now attracting a wider range of larger German and other European companies. Given these factors coupled with the ongoing economic attractiveness of the country, the potential for further expansion in the private credit market is significant.

Historically, France has been much more restrictive; despite also introducing new legislation in 2016, loan origination to French borrowers is only permitted by ELTIFs and certain French AIFs. Similarly, recent legislative amendments in Italy have provided the possibility for certain closed-ended AIFs to engage in lending activities, but the position here is also more restrictive (amongst other requirements, the AIF must be authorised to originate loans and the AIFM must apply for permission from the Bank of Italy) and only applies to commercial lending. In Spain, the position rests on where the accounts associated with the lending activities are based, with lending activities through accounts based outside of Spain negating the need for registration. Austria, Norway and Portugal are amongst those European jurisdictions which still typically require a banking licence.

Reforms seeking to promote private credit in Europe can broadly be categorised into measures which address regulatory requirements for private credit managers looking to lend, and reforms to improve protections for lenders in the event of credit defaults. Of the former, we have already noted the measures introduced by some European jurisdictions. The European Securities and Markets Authority (ESMA) has published an opinion setting out potential features of a pan-European regulatory framework for origination funds¹². The ACC will continue to work with policy makers to ensure that any new regulatory initiatives support the sustainable development of the sector.

■ ■ ————— ■ ■
There are no natural buyers of middle market paper in Europe, and no regional CLO market, so it is difficult for a domestic bank to underwrite these deals

■ ■ ————— ■ ■
 US private credit manager on the growth of private credit in Europe

■ ■ ————— ■ ■
Many European companies are at a disadvantage to their US counterparts who are able to access this type of finance more readily. Opening up the private credit market in Europe would be a significant benefit to the real economy in Europe

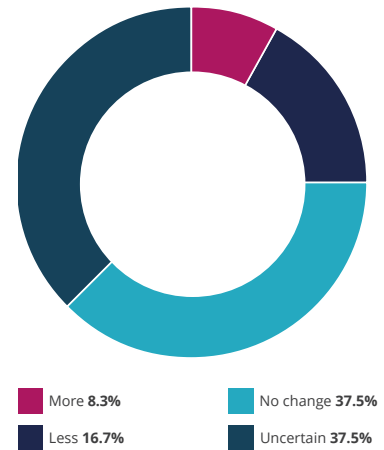
■ ■ ————— ■ ■
 US private credit manager on how private credit can support economic growth

¹² See: https://www.esma.europa.eu/sites/default/files/library/2016-596_opinion_on_loan_origination.pdf

There has also been a trend within Europe towards the introduction of preventative restructuring regimes and reformed insolvency frameworks. The efficiency of insolvency frameworks varies widely across EU member states, with World Bank indicators suggesting recovery rates varying between 30% and 90%. In November 2016, the European Commission published proposals aimed at harmonising restructuring and insolvency frameworks across the EU to increase lender certainty of recovery. Some individual European states have already introduced amendments to their domestic legislation to mimic some of the processes commonly seen in the UK and US.

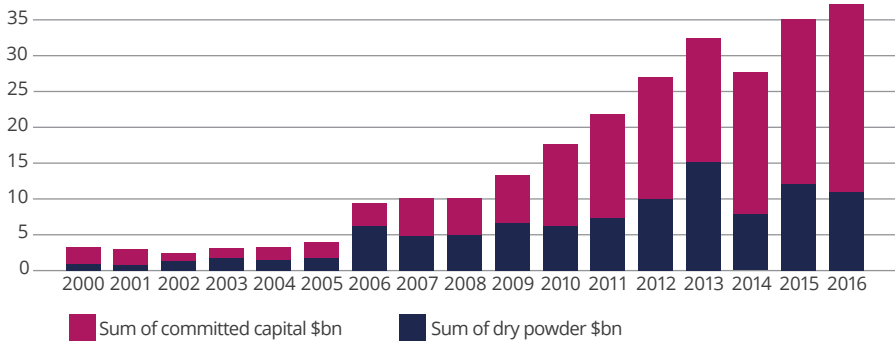
Echoing the results of Figure 43, private credit participants are still very much in a “wait and see” mode regarding how best to position themselves in a Brexit environment (with the UK scheduled to leave the EU in 2019). In the short term, as the UK looks to negotiate the terms for its exit from the EU, and until there is greater clarity on what the ramifications will be for the UK and wider European markets, banks are likely to become more risk averse. Our expectation is that this could well create opportunities for private credit managers who have locked in capital to target companies looking for financing solutions, thereby accelerating the growth of the private credit market further.

Figure 43: Does the UK's vote to leave the European Union make the UK a more or less attractive proposition for lending to UK businesses?



C) Asia Pacific

Figure 44: Dry powder vs. committed capital, by year, US \$bn (Asian private credit managers)



Source: Preqin

This is the first year that the ACC has chosen to focus on the Asia Pacific region. This reflects the increased attention that the Asia Pacific region is receiving from investors and private credit managers, who see great potential for the region.

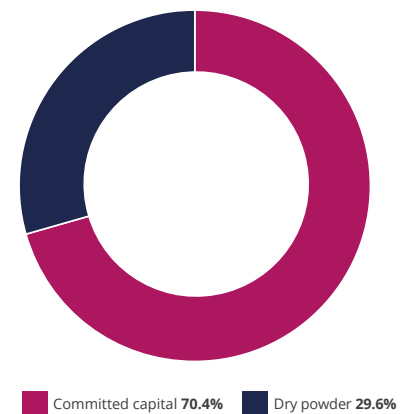
The IMF¹³ recently described the economic outlook for the Asia Pacific region as being among the strongest in the world. This was tempered with a note of caution about near-term risks and the necessity of macro-economic policy and structural reform for the region to realise its potential. This context is important, as it outlines how current levels of projected economic growth in the region could be deemed more favourable than the US or European markets.

Similar to developments in the US and in Europe, the banks operating in Asia Pacific have also adjusted their lending activity in response to changing regulatory capital requirements, such as those introduced by Basel III. As we have seen in the rest of the world, this retrenchment from certain lending markets has created a financing gap that private credit providers have been willingly filling.

Despite the relatively benign economic conditions within the Asia Pacific region, the success of private credit managers being able to raise capital for deployment in the region is mixed. Many of our Asia Pacific-focussed managers mention that capital raising, rather than deal origination, is the single biggest challenge for the private credit industry in the region. This differs significantly from the experience of private credit managers across the US and Europe which has seen record levels of capital being raised. This suggests that familiarity with the underlying lending markets is a key issue for investors considering allocations to the region despite the opportunities presented by the region's economic growth. Shaping these perceptions through investor education will be vital for private credit managers raising capital for deployment in the Asia Pacific region.

One of the more obvious features of private credit in the Asia Pacific region is that there are a smaller number of active participants than in either the European or US markets. The reduced pool of sponsors, advisors, and private credit managers in the region means that there are fewer established finance structures to facilitate lending to borrowers. This means local knowledge and access to networks take on an even greater importance than elsewhere.

Figure 45: Breakdown of dry powder vs. committed capital, 2016 (Asian private credit managers)



Source: Preqin

¹³ See <https://www.imf.org/en/Publications/REO/APAC/Issues/2017/04/28/areo0517>

Sponsors of private credit transactions in Asia Pacific often include promoters, entrepreneurs, local banks or leasing managers rather than private equity managers. This differs from other markets, where the term sponsor is more regularly associated with private equity managers. Similarly, it is harder for private credit managers to apply a single due diligence checklist as many deals often require the lender and borrower to take a more bespoke approach.

These features of the private credit market in Asia Pacific limit the ability of a private credit manager to standardise its operations in the region. Whilst this can create additional costs for the manager, it also encourages them to invest in their own infrastructure and networks to capitalise on the idiosyncrasies of this emerging market. It remains to be seen whether the growth of private credit in Asia Pacific will increase demand for more standardisation or agreed market practices along the lines we see in the US and European markets.

Any private credit manager looking to participate in the Asia Pacific region will have to navigate the legal and regulatory frameworks of the different jurisdictions in which they operate. In particular, certain jurisdictions in Asia Pacific have their own forms of legislation to tackle unlicensed moneylenders (for example, Malaysia, Singapore and various Indian states), and therefore, unless exempted (e.g. a licenced bank) or unless it has a moneylender's license, a private credit manager would be unable to make loans to third parties. Some jurisdictions in Asia Pacific also have laws in place to mitigate any potential macroeconomic instability that may arise from lending activity. These apply equally to banks, although in certain circumstances it may be more challenging for private credit managers to meet the requirements.

In Indonesia, Bank Indonesia requires all borrowers with external debt in a currency other than the Rupiah to fulfil three requirements, namely a minimum hedging ratio in order to mitigate currency risk, a minimum forex liquidity ratio to mitigate liquidity risk and a minimum credit rating to mitigate overleverage risk, each of which makes external debt more expensive for Indonesian borrowers.



Altico commits \$27 million to Indian project

India's non-banking financial company Altico Capital committed INR 1.8 billion in debt finance to a residential project in India. The facility will be used for the construction of Project Zuri, a residential project in Thane developed by Sheth Group. The project has a development potential of 0.6 million square feet and has received a good response in its recent pre-launch sales, according to Altico.

The State Bank of Vietnam's approval is required for offshore foreign currency loans in Vietnam; it also regulates interest rates and prohibits certain types of loan restructurings and other terms of loan agreements. A number of jurisdictions in Asia Pacific also have thin capitalisation rules which limit the amount of debt raised by the borrowers as a proportion to their equity. Further, local regulation will also have to be considered when obtaining collateral for loans, making it difficult to obtain collateral in the context of a leveraged finance transaction, or to enforce against share collateral. Here, jurisdictions such as India, Singapore and Malaysia have borrowed the concept of financial assistance from the UK, but in the case of India and Malaysia, no whitewash is allowed for certain types of companies.

■ ■ —————
China is too big a market to not be in

————— ■ ■
Asia Pacific private credit manager on the growth of private credit in APAC

■ ■ —————
SMEs are very poorly served for growth capital so we are offering a service that is not currently provided

————— ■ ■
Asia Pacific private credit manager on the attractions of private credit for borrowers in the APAC region

In the People's Republic of China, although there are no corporate benefit requirements or financial assistance prohibitions, a guarantee or security given by a Chinese company securing an obligation of an offshore borrower in a foreign currency would also require approval by, or filing with, the State Administration for Foreign Exchange. Further, given the foreign ownership restrictions in jurisdictions such as the People's Republic of China, Thailand, Indonesia and India amongst others, the ability to freely exercise conversion rights in connection with a convertible loan or exercise rights under an exchangeable loan would also be restricted.

The net result of these requirements is that private credit within the Asia Pacific region remains localised. Some jurisdictions within the region are naturally seen as being more favourable towards private credit generally. As the market develops further we may see other countries within the region mimic the features of those jurisdictions.

When questioned on reforms to support the growth of private credit in the region, several participants asserted that further reform of creditor protection and insolvency regimes would be the single biggest catalyst for growth.

Conclusion

Given the anticipated growth trajectory, we estimate that the private credit industry will have \$1 trillion of assets under management by 2020. This rapid growth – a more than twenty-fold increase from 2000 – is evidence that businesses value the finance that private credit managers are providing. Coupled with the fact that the industry's dry powder, as a percentage of total assets under management, is already at its lowest level in four years, we can see a clear trend emerging. Across the world, there is strong demand for private credit.

Private credit is not, however, expanding just beyond its geographical and financial borders. Increasingly, the industry is offering its services to a broader base of borrowers. Where once the core of private credit activity was in the SME market, private credit managers are now participating in larger scale transactions – historically the preserve of traditional bank lending or the public bond markets. Meanwhile, private credit firms are also regularly lending to smaller, newer companies, providing growth capital for the businesses of tomorrow and fuelling dynamism in the world economy.

Borrowers appreciate the flexibility of private credit and how it enables them to rapidly secure financing on terms tailored to their circumstances. These hallmarks of private credit reflect the specialist knowledge that private credit managers have developed in particular business sectors, and are likely to remain a key feature of private credit as the industry matures.

We are also beginning to see a growing trend in private credit: repeat business. The industry now has an established track record with borrowers who are returning to their existing lending partners for their next round of financing. This is not simply a proof of concept for the industry as a whole: it is also a boon to both parties in a loan agreement. For private credit managers it means spending less time looking for opportunities or conducting due diligence and credit risk analysis. For borrowers, on the other hand, it means working with a manager that already knows their business well.

Not all aspects of the private credit industry, however, are changing. Private credit managers continue to primarily use closed-end fund structures as well as modest levels of leverage. These results are in keeping with the overall character of the industry: cautious and rigorous in its approach to lending. This rigour has been an essential ingredient in the maturing of the private credit industry.

When the *Financing the Economy* series was first launched in 2015 the private credit industry was in a state of flux. This year we can say that the industry has truly arrived as a global player; it has solidified previous gains and made new ones. From the corner store in Chicago, to the medical devices company in Leeds, to the steel mill in Guangzhou, private credit is acting as an engine of growth for the real economy.

Private credit is now a permanent feature of the lending landscape, with a host of different stakeholders (lenders, borrowers, investors, and regulators) recognising its value. The industry is also reaching beyond its traditional market of the USA to Europe and Asia Pacific. As regulatory reforms within those regions take root the ACC will continue to work with regulators to ensure the sustainable growth of the private credit industry around the world.

Appendix 1

The establishment of alternative credit over the past two years is most vividly highlighted in case studies taken from real world examples, where asset managers are providing finance to SME's and other larger businesses.

Case studies provided in response to the survey

Pemberton provides acquisition financing facilities for UK pork producer

Pemberton provided the total term debt supporting CapVest's acquisition of Karro Food Group, a leading British pork producer with annual turnover of over £500 million and a high reputation for animal welfare standards and high quality pork produce. Headquartered in Malton, North Yorkshire, Karro employs around 3,100 people across the UK and has divisions in England, Scotland, Northern Ireland and Ireland. This continues Pemberton's approach of supporting companies that contribute to UK economic growth.

KKR provide a loan to grow a manufacturer of automobile parts

KKR Credit provided a €175m loan to Chassis Brakes International Group, one of the world's largest manufacturers of automotive foundation brakes and foundation brake components. Chassis Brakes International employs 5,200 people in 16 countries at 13 manufacturing sites and 11 engineering centres or sales offices in Europe, Asia, South Africa, and North and South America. This debt facility provides a long-term sustainable capital structure to the company, allowing it to pursue organic and strategic growth initiatives.

Capitala Group provides refinancing loan to US retailer

Capitala Group provided a loan to a US retailer, in order to refinance impatient debt capital out of the company. This was done to support the retail company as it enters into a complex capital expenditure and growth strategy. The loan was provided in conjunction with a bank, which provided an additional \$50 million in financing.

Cheyne Capital finances affordable residential housing development

Cheyne provided a £37.5 million senior development loan to complete the build of a mid-market residential project in East London. The development is for 152 apartments, of which 32 are social rented and 120 are for private sale. The site is 300 metres from DLR and Overground rail stations and will be next to a new Crossrail terminus which will provide transport to Central London in 20 minutes and to Canary Wharf in 8 minutes.

KKR provides loan to Dutch leisure company to finance acquisition

KKR provided a loan of €125 million to a leading Dutch holiday park developer and operator. The company generates the majority of its revenue from renting accommodation and operating holiday park facilities. The loan will help the company in an acquisition, thus increasing its revenue potential.

Muzinich & Co provides recapitalisation loan to growing UK recruitment company

Muzinich & Co, in conjunction with another financial institution, provided a loan worth £18 million to a UK-based recruitment agency. The agency is growing strongly and expanding internationally, and the loan will allow it to pay out an existing shareholder.

Intermediate Capital Group provides loan to finance UK higher education company's growth

Intermediate Capital Group provided a leading UK provider of higher education with a €60 million senior loan. This loan will allow the company to refinance existing debt, but will also include an acquisition facility to fund future growth.

CQS provides £22 million loan to UK telecoms provider, saving acquisition

CQS provided a £22 million loan to a UK telecoms provider, without any co-investors. The telecoms provider was intending to purchase a listed IT provider using bank loans, but when the banks shrank their support at the last minute CQS stepped in and acted as the sole provider of a £22 million loan, which allowed the acquisition to proceed.

OMNI Partners provides UK company loan to quickly purchase a property

OMNI Partners LLP provided a UK-based company with a £2.5 million loan. This loan was extended to allow the purchase of a substantial two-story detached house, with planning permission for a single story extension. The loan allowed the UK company to purchase the house quickly, securing it before it could be purchased by another party.

Cheyne Capital finances mixed-use real estate development

Cheyne provided a £136.8m whole loan to finance the development of a mixed-use office and residential scheme located in Central London. The scheme provides 184 residential units, 97,684 square feet (sqft) of B1 office space that has been pre-let to WeWork, 15,759 sqft of affordable commercial space and 45,671 sqft of speculative commercial space. Situated in the heart of Hoxton the scheme is in close proximity to good transport links as well as the vibrant leisure destinations that Hoxton and nearby Shoreditch have to offer.

Case studies sourced from company sources

Allianz GI provides a loan to support the expansion project for the port of Dover

A £250 million expansion of the port in Dover was supported by investors managed by Allianz Global Investors infrastructure debt team. The Allianz Group provided £55 million, with the rest of the capital for the project provided through loans from the European Investment Bank and short-term revolving loans from the Royal Bank of Scotland and Lloyds Bank.

Source: <https://uk.allianzgi.com/en-gb/our-firm/press-centre/press-releases/2017-01-26-agi-invests-redevelopment-dover-western-docks>

Investec finances acquisition of industrial chemical firm

Investec Growth & Acquisition Finance provided debt capital to facilitate the acquisition of German-based chemicals provider SAFECHEM Europe by private equity sponsor CBPE Capital. Investec provided €20 million of senior secured debt as part of the financing and a €2 million revolving credit facility to support the further growth of the to-be-acquired company.

Source: https://www.investec.com/en_gb/business-finance/corporate-lending/deals/safechem.html

Ares Capital Corporation finances the acquisition of Cozzini Bros by Birch Hill Equity Partners

Ares Capital Corporation served as administrative agent and sole lender for the senior secured credit facility to support the acquisition of Cozzini Bros by Birch Hill Equity Partners. Cozzini Bros is a leading provider of subscription-based commercial knife and cutlery sharpening services and related products to customers ranging from local restaurants to large national chains and nationwide kitchen services organisations.

Source: <http://www.arescapitalcorp.com/news/ares-capital-corporation-highlights-first-quarter-2017-financing-commitments>

Arrowgrass Capital Partners provides finance to renovate and operate a multi storey car park

Arrowgrass Capital Partners provided money to renovate and operate a car park near the Dreamland leisure complex in Margate, UK. The opening of the car park to the public is expected to have a positive impact on local people and businesses, as well as on the large volumes of tourists that visit the area in the summer.

Source: <https://www.dreamland.co.uk/press-centre/press-releases/381-dreamland-margate-announces-15m-park-upgrade>

Permira facilitates the acquisition of a Belgian medical equipment provider

Permira Debt Managers has extended a debt facility to private equity firm G Square Healthcare Private Equity. The facility is being used to assist the acquisition of Belgian medical equipment provider Duomed, a company which focuses on providing equipment for minimally invasive surgeries. The debt facility is being provided through Permira's Credit Solutions III fund, and is worth more than €100 million.

Source: <http://www.permiradebtmanagers.com/news/permira/2017/pcs-3-acts-as-sole-lender-in-the-acquisition-of-duomed>

Macquarie Infrastructure Debt Investment Solutions agrees a £502 million debt facility

In April 2017 the infrastructure debt division of Macquarie Group agreed a £502 million debt facility for a consortium purchasing a 61 percent interest in the UK's National Grid. This was the largest debt facility for the £13.8 billion acquisition of the UK energy company's 130,000 kilometre network of gas distribution pipelines.

Source: <http://www.macquarie.com/uk/about/newsroom/2017/quad-gas-group/>

Tosca has provided a £10 million senior facility to a fintech firm operating in the consumer finance space.

Tosca Debt Capital, the private debt arm of Toscafund Asset Management, provided a £10 million senior loan facility to fintech firm Quint Group, which specialises in online consumer credit services. The facility will be used in the re-financing of Quint, allowing its chief executive to increase his stake in the company by buying-out an existing stakeholder.

Source: <http://www.toscadebtcapital.com/investments/quint/>

M&G Investments provides £85 million for housing development

In February 2017 M&G Investments provided a long-term £85 million loan to UK-based housing association One Housing. The loan is being used to expand the number of affordable properties developed by the company. One Housing is hoping to develop 1,050 homes for social and affordable rent by 2020.

Source: http://www.onehousing.co.uk/sites/default/files/onehousing-press-release-1450homes-deal-m%26g-investments_0.pdf

Permira refinances Soho House in £375 million deal

Permira Debt Managers, the debt management arm of Permira, refinanced Soho House with a debt facility providing up to £375 million. The facility is comprised of a £275 million senior secured loan, plus an additional £100 million available should the borrower need more capital to support its growth. The facility also represents Permira's largest-ever private debt deal.

Source: <http://www.permiradebtmanagers.com/news/permira/2017/permira-debt-managers-agrees-375-million-refinancing-of-soho-house>

Pricoa provides financing for UK data provider

March 2017 Pricoa Capital Group provided debt financing for British data provider 118 Group. The financing consists of debt in multiple levels of the capital structure. The financing of 118 Group will allow its co-chief executives to take a greater ownership stake in the business. The financing has been provided as a combination of a senior facility, a senior accordion facility, subordinated notes, and preferred equity.

Source: <http://borrower.pricoacapital.com/118-group-limited-pages-1692.php>

Ardian supports Sagard's acquisition of Ipackchem

In February 2017 Ardian, the independent private investment company arranged a unitranche financing facility to support Sagard's acquisition of Ipackchem, a leading global manufacturer of rigid plastic packaging. This will include a debt facility dedicated to financing Ipackchem's potential future build-ups. Sagard's acquisition of Ipackchem will give the management, who will remain shareholders, the financial and human resources to pursue further international development through both organic growth and acquisitions.

Source: https://www.ardian.com/sites/default/files/press/Press%20Release%20-%20Ipackchem%20EN_20170221_0.pdf

Twin Brook lends \$55 million on electrical company recap

Twin Brook Capital Partners provided a \$55 million financing to assist Incline Equity Partners' recapitalisation of an electrical parts manufacturer. The mid-market lender, a subsidiary of Angelo Gordon, served as joint lead arranger on the deal. Twin Brook targets such deals in the lower mid-market.

Source: https://www.twincp.com/Download.aspx?ID=13bb4d40-0.pdf&Name=Dec_2016

Beechbrook completes two debt deals

Beechbrook Capital made two debt deals from its Private Debt III fund (PDF III). Both financings are being used by private equity managers in the buy-outs of UK-based companies. The first deal supports the buy-out of UK merchandise company Brand Addition by Elysian Capital. Beechbrook has provided mezzanine financing on this occasion with HSBC being the senior lender. Beechbrook is also providing mezzanine financing to support the buy-out of recruitment firm Search Consultancy by H2 Equity Partners.

Source: <http://www.beechbrookcapital.com/news/title/pdiii-three-first-investments>

Starwood Capital provides debt funding for three deals

Starwood Capital's property debt fund, Starwood European Real Estate Finance Limited (SEREFL) carried out three debt deals focusing on real-estate and infrastructure. In each case First, SEREFL provided €18.85 million in a three-year floating-rate whole loan to facilitate the acquisition of an office development in Dublin, Ireland. Second, the fund provided a €46 million four-year floating-rate loan facility enabling the acquisition of a Barcelona-based hotel. Finally, SEREFL is financing the acquisition of a portfolio of industrial assets across Central and Eastern Europe with a three-year floating-rate loan of €68.5 million.

Source: http://irpages2.equitystory.com/websites/rns_news/English/1100/news-tool---rns---eqs-group.html?newsID=1614643&company=starwoodeuropeanfinance

Monroe supports recapitalisation of healthcare services firm

Monroe Capital supplied a healthcare services company with a \$125 million financing. Monroe acted as sole lead arranger and administrative agent on the funding of the U\$125 million senior credit facility, which supported the recapitalisation of the healthcare services company. The Riverside Company made a simultaneous minority investment as part of the transaction.

Source: <http://www.monroecap.com/news/02-14-17/monroe-capital-provides-125-million-credit-facility-healthcare-services-company>

Macquarie leads £210 million financing in triple UK wind deal.

A portfolio of three UK wind farms with a combined capacity of 151 megawatts reached financial close after securing a £210 million debt package. Developer Banks Renewables received £140 million of the total from Macquarie Infrastructure Debt Investment Solutions, which provided long-term liquidity comprising of both fixed rate and CPI-linked tranches. The remainder of the financing was provided by ING, National Australia Bank and Rabobank in a deal arranged by Santander. The three wind farms are now all set to be built by 2019.

Source: <http://www.macquarie.com/uk/about/newsroom/2017/MIDIS-delivers-140-million-cpi-linked-long-term-infrastructure-debt-banks-renewables/>

WhiteHorse provides refinancing to UK-ad firm

HIG WhiteHorse, the credit-focused affiliate of Boston-based HIG Capital, provided debt refinancing to UK-based advertising firm Primesight Limited. The £27 million unitranche facility will allow Primesight to invest in additional digital billboards and other technology.

Source: <http://pt.higcapital.br.com/news/release/988>

Merseyside fund works with LendInvest on £12 million real estate deal

Merseyside Pension Fund (MPF) partnered with marketplace lender LendInvest on a £12 million loan supporting a real estate development in the Canary Wharf area of London, UK. The capital will assist the developer in purchasing a site in the surrounding area.

Source: https://www.lendinvest.com/media_centre/lendinvest-completes-first-loan-syndication-12000000-property-loan-merseyside-pension-fund/

Sweden's Ellevio receives BlackRock financing

BlackRock Real Assets agreed to an undisclosed long-term debt financing agreement with Swedish utility company Ellevio. The New York-based private equity firm said its deal with Ellevio provides a number of benefits including long-term, stable cash flows from an electricity system operator in Sweden, as well as an opportunity to successfully complete a transaction in Swedish krona.

Source: https://www.blackrock.com/corporate/en-gb/newsroom/press-releases/article/corporate-one/press-releases/blackrock-real-assets-closes-swedish-debt-financing_GB

KKR finances European coffee merger

In March 2017 the KKR Special Situations Fund provided debt financing to coffee services provider Selecta. The financing was used to support the acquisition of another coffee services provider, Pelican Rouge Group. It consisted of €375 million worth of leveraged loans, and the resulting merger will create a company with roughly €1.3 billion in annual revenue. The combined new entity will also have an EBITDA of approximately €200 million.

Altico commits \$27 million to Indian project

India's non-banking financial company Altico Capital committed INR 1.8 billion in debt finance to a residential project in India. The facility will be used for the construction of Project Zuri, a residential project in Thane developed by Sheth Group. The project has a development potential of 0.6 million square feet and has received a good response in its recent pre-launch sales, according to Altico.

Source: <http://alticocap.com/media/equitypandit-march-03-2017.html>

Ares and Gastar agree to \$425m transaction

In February 2017 Ares Management agreed to a \$425 million debt refinancing deal with Gastar Exploration that will let the Houston-based oil and natural gas exploration company continue developing its North American reserves. Gatar will be able to access a \$250 million first secured loan, \$125 million second lien secured convertible notes, and a \$50 million common stock issuance.

Source: <http://ir.gastar.com/releasedetail.cfm?releaseid=1015779>

Monroe provides \$100 million to Florida finance firm

Monroe Capital provided a \$100 million senior secured credit facility to Florida-based DRB Financial Solutions. The financing will be used to purchase Echelon Group, a firm focused on purchasing medical-related account receivables. As well as funding the acquisition the financing package will also be used to help Echelon in purchase additional receivables.

Source: <http://www.monroecap.com/news/03-06-17/monroe-capital-provides-100-million-credit-facility-support-growth-drb-financial-solut>

Appendix 2 – Glossary

PRIVATE CREDIT GLOSSARY OF TERMS

Bullet Loan	A loan which has a single repayment at the end of its term and does not require any amount of that loan to be repaid during its term.
Collateralised Loan Obligation (CLO)	A CLO is a form of securitisation where payments from various underlying loans are pooled together and passed on to different classes of new owner in tranches.
Covenant-Lite	Loans that do not contain the usual protective financial maintenance covenants found in more traditional loan facilities. A 'covenant-lite' loan may also allow the borrower more flexibility to undertake actions (such as pay dividends, incur additional indebtedness, repay junior debt and make investments) that would generally be more strictly controlled or prohibited in a traditional loan facility.
Covenant-Loose	Loans where the lenders benefit from the inclusion of just one or two financial maintenance covenants (for example a leverage covenant or leverage and interest cover covenants). The covenant ratios may also be set with significant headroom.
Loan-to-Value	A financial or lending risk assessment metric that measures the ratio of the quantum of a loan or borrowings to the value of an asset or assets being purchased.
Non Call Fees	This feature requires a borrower to pay a fee or premium (sometimes structured as a reducing amount during that period) to the lender calculated on the basis of the expected return on the debt for that period. Sometimes referred to as 'make whole' arrangements.
Pari-Passu	Equal in right of payment. In the context of an insolvency, creditors ranking pari passu with one another should, subject to any agreement to the contrary between themselves, recover equally as creditors in that insolvency.
Payment in kind (PIK)	A credit arrangement whereby interest is not paid on borrowings in cash between the funding date and maturity of the debt product but instead is capitalized i.e. added to the principal balance of the loan or, in the case of non-loan debt securities, settled by way of the issue of additional securities of the same type.
Recourse and Non-Recourse	In the context of invoice financing, where entered into on a recourse basis, the finance provider will have direct recourse to the borrower if the invoice is not subsequently paid when due; where entered into on a non-recourse basis, the risk of non-payment transfers to the finance provider when the invoice is initially 'sold' to it as part of the invoice financing arrangement.
Springing	A springing financial covenant only comes into effect if a specified trigger event occurs. In the context of a revolving credit facility, typically, this only applies where the percentage of that facility that has been drawn by the borrower exceeds an agreed threshold.
Warrant	An instrument that gives the holder the right (but not the obligation) to buy or sell an equity interest (usually small) upon the occurrence of one of a number of specified events at a nominal price relative to the real value at the time.

Acknowledgements:

Many thanks to the members of the Alternative Credit Council and the following named persons below from Dechert for their contribution to this paper:

- Jay Alicandri, Partner, Leveraged Finance, Dechert
- Philip Butler, Partner, Leveraged Finance, Dechert
- Paul Fleming, Partner, Financial Restructuring, Dechert
- Christopher Gardner, Partner, Financial Services, Dechert
- Gus Black, Partner, Financial Services, Dechert
- David Miles, Partner, Leveraged Finance, Dechert



About AIMA

AIMA, the Alternative Investment Management Association, is the global representative of the alternative investment industry, with more than 1,800 corporate members in over 50 countries. AIMA's fund manager members collectively manage more than \$1.8 trillion in assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. The ACC currently represents over 80 members that manage \$300 billion of private credit assets globally. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors). For further information, please visit AIMA's website, www.aima.org



About ACC

The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents over 80 members that manage \$300bn of private credit assets. The ACC is an affiliate of the Alternative Investment Management Association (AIMA) and is governed by its own board which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SME's, commercial and residential real estate developments, infrastructure as well the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry.



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