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THE CREST OF A WAVE

ANNUAL REVIEW 2013
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EDITORIAL COMMENT

The crest of a wave

Dear Reader,

It’s been a momentous year for private debt, and for this publication. When we mulled the idea of a title focused on this emerging asset class, we thought long and hard about whether the development of alternative credit providers was simply a short term reaction to a short-lived problem (lack of financing for alternative assets or corporates), or something more fundamental.

Looking back at a test issue we published one year ago before our formal launch, the Europe-focused roundtable we conducted in London makes for interesting reading. Participants then were firmly of the view that the changes in the debt markets were fundamental, that the rise of the private debt industry wasn’t simply a flash in the pan, and that it would continue to develop and thrive even as the global economic environment improved.

In January this year, we published a second European roundtable, and the participants this time were even more bullish about private debt’s longevity.

Putting together this Annual Review, our first since our inception, helped to remind the team here of just what a varied and interesting 12 months it’s been. Looking back on 2013, we’ve charted the progress of funds in market space and development, not only increased commitments, but sought to develop bespoke private debt portfolios through managed accounts.

Some have carved out allocations to specific segments of the debt spectrum, others have hired portfolio managers with relevant credit backgrounds. An increasing number have not only increased commitments, but sought to develop bespoke private debt portfolios through managed accounts.

Before I let you loose on the Review, I’d like to offer a huge thank you from the team here at Private Debt Investor. Without your support, all that we’ve achieved in our first year of existence would not have been possible. And as the asset class continues to develop and grow, we look forward to focusing ever more keenly on what differentiates good manager from bad, and bringing you the high quality content you’ve come to expect in our cover in the magazine or online.

Thank you for your support, and we hope you enjoy the Review.

Oliver Smiddy
Editor
oliver.s@peimedia.com

Most encouraging for both us and you was the increasing appetite for the industry from investors.

A common refrain a year ago was that investors, even very sophisticated ones, didn’t quite know how to categorise private debt funds. Does a real estate mezzanine fund fit within an alternatives allocation? Is a senior debt fund really suitable in a fixed income portfolio? Speaking to LPs and the consultant community now, it’s apparent that many LPs have become comfortable with the asset class.

The Annual Review 2013 | March 2014
CONTENTS

FEATURES

4 Regional overview - North America
Non-traditional lenders found favour with LPs increasingly eager to allocate to the asset class.

9 Building momentum
The real estate debt industry featured a number of high profile partnerships last year as firms built out their capabilities.

12 Regional overview - Europe
As the European economy stepped back from the brink, private debt came of age.

16 Skin the game
The CLO market enjoyed a resurgence last year, despite regulatory pressures and a lack of inventory.

18 Heating up
Unitranche financing rose in popularity as the lending markets warmed up in 2013.

20 Under pressure
Mezzanine providers were impacted by the popularity of other financing tools, but the best funds still managed to thrive.

22 Bridging the gap
A discussion of the evolving infrastructure debt market in 2013.

24 Regional overview - Asia-Pacific
Global groups and local players carved a path for private debt in the region.

DATA

43 High Yield
The European high yield market in 2013.

44 Leveraged Loans
European leveraged loan data for 2013.

46 Global fundraising in 2013
PDI’s Research & Analytics team brings you an overview of global fundraising.

OPINION

1 The Crest of a wave
Private debt funds rode a wave of positive sentiment in 2013, delivering further liquidity to borrowers and luring investors with the promise of stable yield.

48 The Last Word
“They said what?” A collection of the year’s best quotes.

PDI ANNUAL AWARDS 2013

28 Duelling it out
With more than 1,400 votes cast, the level of competition for PDI’s inaugural awards was fierce.

30 The Americas
We reveal the winners in the world’s deepest, widest and most established market for private debt.

35 EMEA
The top firms in Europe, the Middle East and Africa triumphed in one of the world’s fastest growing markets.

39 Asia-Pacific
The region’s best and brightest firms included homegrown groups and international heavyweights.
We thank the readers of Private Debt Investor for voting Oaktree Capital Management, L.P.

- AMERICAS, EMEA AND ASIA DISTRESSED DEBT INVESTOR OF THE YEAR
- ASIA DEAL OF THE YEAR
- AMERICAS FUNDRAISING OF THE YEAR

Oaktree is a leader among global investment managers specializing in alternative investments, with $83.6 billion in assets under management as of December 31, 2013. Oaktree emphasizes an opportunistic, value-oriented and risk-controlled approach to investments in distressed debt, corporate debt (including high yield debt and senior loans), control investing, convertible securities, real estate and listed equities. Headquartered in Los Angeles, the firm has over 800 employees and offices in 16 cities worldwide.

For more information about Oaktree, please visit our website at www.oaktreecapital.com (http://www.oaktreecapital.com)

These awards were based on an industry wide global survey conducted by Private Debt Investor. In each category, Oaktree was listed as one of three firms suggested by the editorial board of PEI Media. In addition, survey participants could nominate another firm not listed in the category. The awards may not be representative of any one client’s investment experience. These awards are not indicative of future results and are no guarantee of future performance.
It’s the biggest, broadest, oldest private debt market in the world. Many North American managers have built such scale that they can rightly consider themselves true global players, and new firms are appearing all the time.

By the close of 2013, most knew the arguments supporting the growth of private debt in the US by rote. Banks refuse to lend, borrowers are desperate for alternative forms of financing, investors demand yield. Rinse, repeat.

But as much as those observations are now something of a cliché – at least among managers describing their views – it doesn’t make them any less true. That consistent, well-known set of trends continued to fuel activity in the US private debt market last year, and on into 2014.

Private debt fund managers have also finally begun to step to the forefront of the conversation, embracing their role in a market that shares little in common with that which preceded the financial crisis. Several firms – such as Kohlberg Kravis Roberts and The Blackstone Group – held marquee fundraises for their products. Others emerged as important players in the separately managed account business, which limited partners continue to engage whenever they seek access to new opportunities.

As to the latter point, LP demand continues to drive the market, and fund managers have been quick to answer the call.

THE BIG FUNDRAISE
Institutional investors committed $216.6 billion to US private equity funds in 2013, according to Dow Jones research. In a December presentation at JPMorgan’s Mid-Cap Conference, mid-market financing specialist Ares Capital Corporation reported that roughly $328 billion in US private equity capital still needed to be put to work.

Although banks remain dominant figures in the world of buyout financing, the role of non-traditional lenders has grown to take on a significant portion of the market. If liquid markets provide any indication, non-bank lenders now provide the bulk of leveraged financing, according to a recent Hewitt EnnisKnupp report on leveraged loan markets.

“Banks are still active and aggressive, but with less capital due to balance sheet deleveraging,” according to the report, which was included in February meeting materials for the Ohio Public Employees Retirement System. “[There is] significant capital coming from record new CLO issuance and new leveraged loan funds.”

Indeed, US leveraged loan volumes topped $600 billion in the US last year, well above pre-crisis levels. In January, Forbes reported that US banks’ share of leveraged loans to mid-market companies fell to just 9 percent, thanks largely to inflows of institutional capital.

Interestingly, the bulk of last year’s sponsor activity was driven by refinancing recapitalisations. Although leveraged buyout activity ticked slightly upwards last...
year, according to Mergermarket data cited by The Blackstone Group, it remained subdued compared to pre-crisis levels.

Many have attributed the relatively tepid M&A market to the US’ unstable political and regulatory environment. At the start of the year President Barack Obama and the new Congress seemed poised to attempt negotiations on tax reform initiatives, something that has yet to occur and may be untenable politically at this point. Instead, a seemingly endless series of debates over the so-called fiscal cliff, sequestration and the debt ceiling dominated political discussions and added a level of uncertainty to a recovering economy. With liquidity available and concerns over further political or regulatory strife in the US subdued, it’s possible that M&A activity could provide even greater volumes for institutional capital moving forward.

“You have huge levels of corporate liquidity, low levels of debt, high levels of stock price, and what should be happening is that there should be a real dramatic increase in M&A activity. What’s held that back is basically political uncertainty, regulatory uncertainty, and a whole variety of issues of that type that have really gotten in the way of a normal cycle,” Blackstone’s Stephen Schwarzman told investors during a recent fourth quarter earnings call. “I think as some of those conflicts recede then there will be more confidence in the business community and that typically leads to M&A activity.”

Private debt managers have already begun to demonstrate an ability to provide capital in support of sponsor-backed acquisitions, particularly in the lower-to-mid market. Although banks remain an important player in the buyout world, their ability to provide capital to smaller deals has been contained by new regulatory burdens. The end result has provided a boon for non-traditional lenders – banks issued 73 percent of mid-market loans last year, a steep decline from the 81 percent they provided in 2012, according to a recent Financial Times report.

The enhanced abilities of private debt and direct lending funds have also contributed to a reduction in the banks’ role. Last year, The Blackstone Group’s credit affiliate GSO Capital closed on $5 billion for its latest rescue lending fund and Kohlberg Kravis Roberts closed its debut special situations vehicle on $2 billion, doubling its initial target. Those closes – as well as the continued success of Oaktree Capital Management and other firms with debt strategies – represent something of a sea change when it comes to how institutional investors address the market opportunity presented by borrowers’ demand for alternative forms of financing.

RISING DEMAND
US LPs have certainly developed a healthy appetite for private debt funds.

Although fundraising totals for US distressed and mezzanine funds remain depressed – the former due to an improved economy, in all likelihood – several market sources have told Private Debt Investor that investors are beginning to treat private debt as its own unique asset class.

In June, The San Diego City Employees’ Retirement System established a 2-3
percent sub-allocation to opportunistic real estate within their “Opportunity Fund”, which is designed to invest in assets that don’t fit within other allocations. The retirement system’s investment committee later approved a $50 million commitment through the opportunity fund to Torchlight Debt Opportunity Fund IV. The retirement system eventually approved an additional 2 percent allocation to general credit opportunities within its Opportunity Fund in January.

“We just think this is a really compelling opportunity right now,” chief investment officer Liza Crisafi told Private Debt Investor at the time.

Crisafi also indicated the retirement system would likely pursue the strategy through a separately managed account, a format several other LPs engaged as a means of accessing the market last year. The San Bernardino County Employees’ Retirement Association, The Pennsylvania Public School Employees’ Retirement System and The Los Angeles County Employees Retirement Association all approved separately managed accounts in 2013. LACERA’s were particularly notable – the retirement association established four $200 million accounts with Ares Management, Beach Point Capital Management, Oak Hill Advisors and Sankaty Advisors.

In LACERA’s case, retirement association documents indicate that the firms’ respective interests in the European

UP IN SMOKE? THE TALE OF A TEXAN BUYOUT

Back in the mid 2000s, the buyout industry celebrated the so-called ‘Golden Age of Private Equity’ with aplomb. Why not? Asset valuations were on the rise, limited partners dispersed commitments like candy on Halloween, and clubbing together on multi-billion dollar deals had become the norm.

Almost a decade removed from the relative glitz of that era, GPs and LPs alike face several stark reminders that all that glitters is not gold, as the maxim goes. Chief among them: Energy Future Holdings, also known as the largest buyout in private equity history.

Kohlberg Kravis Roberts, TPG Capital and Goldman Sachs acquired Energy Future Holdings (then known as TXU) in a $48 billion buyout in 2007. The deal included $8.3 billion in equity from the deal’s sponsors, with more than 80 percent of its enterprise value accounted for via debt financing.

The deal’s sponsors were essentially betting that natural gas prices would continue to rise. Instead, the burgeoning shale gas movement – prompted by advances hydraulic fracturing – created a boom in the natural gas supply.

In April 2013, EFH attempted to negotiate a restructuring of $32 billion of its $40 billion-plus debt load in a transaction that would have sent one of its major subsidiaries into Chapter 11 bankruptcy.

Under the proposals, first lien creditors would have exchanged their claims for a combination of EFH equity and a pro rata share of $5 billion cash or new long-term debt of the subsidiary (known as Texas Competitive Electric Holdings Company).

EFH’s private equity sponsors informed creditors that they would support the restructuring if they could retain a 15 percent stake in EFH’s equity interests, thereby granting the creditors the remaining 85 percent of the company. The sponsors also indicated they would provide additional equity capital to facilitate the deal.

The proposal would have given TCEH access to $3 billion in liquidity, comprised of a $2 billion first lien revolver and a $1 billion letter of credit facility, along with $5 billion in new long-term debt.

EFH’s creditors turned down the deal.

Almost a year later, the company’s fortunes haven’t improved. In February this year, The Wall Street Journal reported that EFH was in the process of preparing to file for bankruptcy protection.

“The two sides may yet reach a last-minute agreement, but prospects for a streamlined bankruptcy where creditors agree in advance on a restructuring plan have dimmed,” according the report, which cites sources familiar with the matter.

With the market awash with liquidity, EFH should act as an important reminder for sponsors, LPs and borrowers alike of the perils of overleveraging an asset. The use of leverage will only propel returns if market trends support the investment.
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market also helped generate a commitment. Although an improved economy may have tamped down demand for US-focused distressed funds, demand for those strategies in European markets appears to be on the rise, sources tell Private Debt Investor.

“Maybe two years ago, ‘Europe’ in the US was a dirty word,” Tavneet Bakshi of First Avenue Partners tells Private Debt Investor. “That’s almost gone 180 degrees.”

“It went from ‘scared of’ to ‘curious’ to ‘real opportunity,’” echoes Bruce Barrett, a principal of the same firm. “We’re seeing [demand] across public funds, endowments, family offices and insurance companies.”

The widespread nature of the demand for these products – particularly from investors with greater tolerance for risk, such as family offices – is indicative of just how quickly private debt has emerged as an alternative source of yield.

LOOKING FORWARD
As much as private debt’s development reveals the improved sophistication of the LP community and the fund managers it supports, the opportunity set remains highly volatile, and subject to change over a relatively short period.

A striking example: the fact that senior and unitranche providers have worked their way into the mid-market has pushed mezzanine funds into smaller cap deals. The development of unitranche, coupled with a strong high yield market, made it increasingly difficult for mezzanine fund managers to deploy capital, according to the Hewitt EnnisKnupp report. As a result, many of those managers requested investment period extensions from their LPs.

If purchase prices rise, there’s a chance those funds will be able to improve their deal flow. In the meantime, it’s clear that private debt managers must be wary of the time horizon on their opportunity. As with most things in the debt world, finding a way to evolve will be key.

NORTH AMERICA

Institutional capital flooded the leveraged loan and high yield markets this year. With interest rates at all-time lows and debt capital markets booming, 2013 offered a significant opportunity for US borrowers in need of refinancing. But that liquidity could be sowing the seeds of future distress.

This liquidity may not last long however. With the Federal Reserve accelerating the tapering of its quantitative easing programme – the central bank announced plans to scale back its monthly purchase of Treasury and mortgage-backed securities in December – the low rate environment that became the norm in 2013 does not appear long for this world. As US borrowers that refinanced in 2012/2013 come up against maturities over the next several years, they may face a less hospitable lending environment, sources told Private Debt Investor.

Easy access to capital for refinancings and acquisitions may have pushed companies to expand beyond their means, for example. In December, Highland Capital Management’s Trey Parker argued that the lack of natural, GDP-led growth in recent years had forced many companies into high leverage deals. If the economy is hit with any other shocks, those companies will face substantial difficulties in paying down their debts.

“I don’t think we’ll see default rates ticking up much in the next 12 months,” Highland Capital Management head of credit research Trey Parker said in December. “But what’s happening now is sowing the seeds.”

The point was echoed by 3i Debt Management’s John Fraser in the new year.

“When you look at the marketplace as a whole, it’s awash with liquidity,” he told Private Debt Investor. “Investors and managers seem willing to finance just about anything.’

“It will have long term implications for investors who don’t consider the quality of the companies in which they invest,” he added. “We’re going to see defaults increase. There’s no doubt in my mind that we’re setting ourselves up for another default crisis.”

EFH should act as an important reminder for sponsors, LPs and borrowers alike of the perils of overleveraging an asset. The use of leverage will only propel returns if market trends support the investment.
The real estate debt industry gained considerable momentum in 2013, writes Oliver Smiddy, with a number of high profile partnerships helping managers to increase scale and access new markets.

There is more than $1 trillion-worth of commercial real estate loans due to mature over the next three to four years. As with corporate debt, banks’ ability and willingness to refinance that debt has been significantly reduced as a result of the slew of regulatory measures enacted since the financial crisis.

This equates to a compelling opportunity for non-bank lenders, both in refinancing existing debt and providing a new source of funding for future deals. Over the course of 2013, a number of asset management groups looked to drill into this opportunity.

JOINING FORCES

Many sought to build exposure through partnering, either with peers, or with LPs through managed accounts and joint ventures.

MetLife, for example, partnered with SunTrust Banks on a commercial real estate debt venture. Under the terms of the three year agreement, MetLife agreed to source and conduct due diligence on CRE mortgage origins, with SunTrust then providing financing of up to $5 billion of those loans.

Square Mile Capital Management and USAA Real Estate also launched a commercial real estate debt platform that the pair expects to invest as much as $1 billion in the US by the end of 2014.

New York-based investment management firm Knighthead Capital Management partnered with real estate finance company Silo Financial to form Knighthead Funding, which will deploy the capital of the Knighthead Special Situations Real Estate Fund. That fund held a final close in August on $155 million.

Related Companies and Highbridge Principal Strategies (HPS), a credit investment firm, formed a joint venture to manage a new real estate debt platform. Related and Highbridge are looking to invest $800 million in equity in real estate debt, particularly gap financing for real estate projects in the US.

“We actually have very complementary skill sets on the debt side,” said Justin Metz, managing principal of Related Fund Management. Despite having a very large credit platform, Highbridge lacked a presence in real estate and saw the joint venture as a way to expand into real estate lending, he explained. “We decided that our expertise in real estate, combined with their expertise on the credit side, would make for a good joint venture partnership.”

Chicago-based LaSalle Investment Management closed LaSalle Residential Finance I, a £238 million fund with Dutch pension fund APG. That fund will target whole loan development finance for the London residential and UK student housing sectors in major university towns across the UK.

The arrangement was the first venture of its kind for the pair and is the follow-on to LaSalle’s LaSalle Special Situations UK Real Estate Fund I and LaSalle Junior Loan Programme.
**FINDING THE FUNDRAISING FORMULA**

While there were plenty of firms tapping into investors’ appetite for the asset class via managed accounts, many managers took the traditional route with closed-ended funds.

In 2012, 23 funds raised a combined $5.2 billion for real estate debt, in what was then the highest amount since 2008. Last year, 28 funds closed worth a combined $12.8 billion according to PDI’s Research and Analytics division – more than double the amount.

These included some sizeable vehicles. Oak Hill Advisors raised a $1.2 billion fund, while Pacer Real Estate Investors closed its Longbow UK Real Estate Debt Investments III fund on $1.1 billion. Fortress also raised a fund in the $1 billion-and-over bracket, garnering $1.1 billion for Fortress MSR Opportunities Fund II.

There’s plenty more where that came from too. By year end, PDI’s research and analytics division found there were 59 real estate debt funds in the market, aiming for a collective target of $23.2 billion.

US real estate debt specialist Pembrook Capital Management launched its third fund – PCI Investor Fund III – in September with a $450 million target and a hard cap of $650 million. If successful, the fund will dwarf its predecessor, which closed on $154 million earlier in the year. The higher total reflects investors’ increased enthusiasm for the asset class, and the greater number of investment opportunities as markets improve.

There were a slew of distressed real estate debt fund launches last year too, including a new fund from Colony Capital targeting $1 billion.

In Europe, ICG:Longbow closed its Real Estate Debt Investments Fund III at its £700 million hard cap in May, making it almost triple the size of its predecessor. Earlier in the year, ICG closed its Senior Secured UK Property Debt Investments vehicle on £105 million.

Aviva Investors, the asset management arm of the UK insurer, launched a CRE debt-focused fund with a £500 million target and had already reached £100 million by last summer.

The fund’s manager, James Tarry, said: “We see attractive opportunities in the senior part of the capital structure, where the supply and demand imbalance is at its greatest and there is scope to deploy significant volumes of capital into good quality loans. We believe the opportunity in the market for senior debt investors is compelling enough for managers such as Aviva Investors to replace the space previously occupied by banks.”

Zencap Asset Management launched a real estate-focused mezzanine fund with a £100 million target in September. “There’s a gap in the market that we’re trying to address with this fund,” deputy chief executive Thomas Piget told PDI at the time. “Banks and senior debt providers are willing to provide 65-70 percent LTV on core real estate assets, but if sponsors aren’t willing to provide 30-35 percent equity on a deal, we can help to close the gap.”

London-based residential lender Pluto Finance launched a new £250 million (£294 million; $392 million) business to provide financing for housing developments in London and the south east of England in June.

The vehicle provides developers with a single loan of up to 90 percent of the cost of the development. The loans take the form of stretched senior development finance, combining senior and mezzanine debt.

And in the US, AllianceBernstein closed its first CRE debt fund in July with more than $700 million raised. The fund supplements the asset manager’s real estate equity operation, launched in 2009.

**IMPORTING EXPERTISE**

High quality teams continued to migrate from investment banks to both new and established asset managers, and have brought with them expertise not just in lending, but in some cases, in the management of real estate assets too. Significantly, there seems to be a growing realisation of the importance of fundamental credit analysis, so that loans issued in today’s market are appropriately structured.

Private debt funds focused on real estate are often able to provide credit with higher loan-to-value ratios than banks are willing to consider. This is perhaps down to greater appetite for risk, but the expertise such managers have when it comes to analysing the underlying asset allows them to get comfortable with that risk. Private debt funds are also willing to consider backing non-prime assets with a ‘story’ to them, assets that banks would typically steer clear of.

Among those firms building out their teams last year was Cornerstone Real Estate Advisors. It hired Chris Bates from private debt advisory group Harville to be head of European real estate finance as the US group looked to increase its footprint outside its home market.

Cornerstone chief executive Charles Weeks commented at the time: “With a significant appetite for investment into the European real estate lending market from our existing US client base, [Bates'] appointment marks a further major milestone in the development of our European debt investment platform, as it provides us with the expertise to originate transactions in-house – something that we had always planned to do.”

Standard Life Investments (SLI), the asset management arm of insurance group
Standard Life, was also building out a real estate lending practice, and appointed Neil Odom-Haslett as head of the new unit. Odom-Haslett, who had previously worked for Natwest, Fortis, Eurohypo and RBS, joined from German lender Deutsche Pfandbriefbank (formerly Hypothekenbank Frankfurt in the UK (formerly Hypo Real Estate).

London-based Hermes Real Estate Investment Management (HREIM) sought to build a presence in the real estate lending market, hiring Marcus Palmer as head of real estate debt from Chalkhill Partners, a London-based boutique financial services firm.

AN NPL BONANZA

On the deal front, non-performing loan portfolios drew widespread interest.

Speaking at the launch of an Ernst & Young report (‘Flocking to Europe: Ernst & Young 2013 non-performing loan report’) in April, partner Daniel Mair said: “NPLs collateralised by commercial properties in Germany, the UK, Ireland and Spain are currently attracting the greatest interest from investors. German and UK banks have already experienced a fair amount of distress but clearly investors anticipate more product is waiting in the wings and these remain highly popular investment markets.”

“The US market has not reached the sale volumes expected by investors and with banks continuing to recover, opportunities for investors become more limited as time moves on. Yet, a substantial amount of NPLs remain on their books,” said Christopher Scyfarth, another partner at E&Y.

Perhaps the most egregious example of this trend came in July when German lender Commerzbank sold around €1.3 billion of non-performing loans to Dallas-based Lone Star Funds, and a larger portfolio of performing credits to Wells Fargo. The latter also agreed to buy the entire operational real estate financing arm of Hypothekenbank Frankfurt in the UK (formerly known as Eurohypo) in order to expand its CRE financing business in Europe.

The combined €5 billion deal had been well trailed in the European property press. Commerzbank said the sale price was a “low discount” of about 3.5 percent to book value.

The portfolio consisted of loans in the range of €25 million to €200 million although it does also contain smaller assets that have been syndicated and some mezzanine loans. There were reportedly around 25 loans above 100 percent loan-to-value. The sub-performing loan book consists mainly of loans against UK assets and some assets in UK regions.

Commerzbank, Eurohypo’s parent company, decided in June to eliminate its €53 billion specialist property lender in order to strengthen its balance sheet to comply with European banking regulations.

Elsewhere in Germany, real estate specialist-iii-investments made its first debt investment in June, having earlier received a commitment from another institutional LP for its blind-pool vehicle. Together with a €200 million managed account, the firm has more than €300 million of capital at its disposal.

Fledgling real estate debt group Tyndaris, established by former Deutsche Bank executives Heath Forusz and Clark Coffee, also began deploying capital, agreeing in January its third deal since inception. For both old and new firms then, 2013 represented a coming of age for the asset class. With investors allocating to real estate debt in great numbers and with greater commitments, the future looks bright.

“WE SEE ATTRACTIVE OPPORTUNITIES IN THE SENIOR PART OF THE CAPITAL STRUCTURE, WHERE THE SUPPLY AND DEMAND IMBALANCE IS AT ITS GREATEST”

James Tarry, Aviva Investors

COMPLEMENTARY SKILLSETS

The acquisition of AREA Property Partners by Ares Management last year turned heads. Here was an established private debt group moving into real estate, and doing so through the acquisition of a reputable, established manager. It created a combined group with more than $8 billion of committed capital managed by a team of more than 70 investment professionals.

The deal, which included Ares buying out National Australia Bank’s 35 percent stake in AREA that was acquired in March 2011, marked a logical step for both firms. Not only have some sources called this transaction a ‘best of both worlds’ scenario for both Ares and AREA, but it also points to a possible consolidation trend that a number of industry insiders have been discussing.

Tony Ressler, senior partner and co-founder of Ares Management, explained the thesis when the deal was announced: “AREA’s expertise in value-added and opportunistic equity investing and mezzanine debt will complement our real estate group’s current capabilities in real estate private lending. The entire Ares Management platform will greatly benefit from AREA’s geographic reach, industry relationships and investment professionals,” he added, citing in particular AREA’s chief executive officer Lee Neibart and head of Europe and India William Benjamin.

Ares began its push into real estate in 2011 through the acquisition of Wrightwood Capital’s investment platform. That gave it a foothold in the US commercial real estate finance sector. The AREA acquisition however now gives it a platform on the equity side. It’s a smart move, in light of the fact many investors are looking to rationalise their GP relationships, placing more capital with managers able to invest in a number of different market segments.

With additional reporting by James Comtois.
Think back to the first quarter of 2013. The UK had just assumed presidency of the G8. The incumbent Pope announced his resignation. Moody’s cut the UK’s AAA credit rating to AA1, warning of “sluggish” growth over the next few years. And on 24 March, the European Union and International Monetary Fund extended the offer of a $13 billion bailout to Cyprus.

In the immediate aftermath of the latter, many feared for the future of the Eurozone. Equities traders dumped stock precipitating fears of a run on European banks. Sovereign bond yields soared – Portuguese 10 year bonds jumped 20 bps to 6.194 percent for example, and their Spanish equivalents leapt 11 bps to 5.04 percent.

Already in a parlous state following the global financial crisis, many European economies looked increasingly fragile. People entertained the unthinkable: France, one of the chief architects of the Euro, leaving the single currency; Greece reverting to the drachma; Germany going it alone freed from the shackles of its Latin neighbours.

Lars Seier Christensen, chief executive of the Danish investment bank Saxo, told reporters at the time: “I believe it could be the beginning of the end for the eurozone as this is an unbelievable blow to the already challenged trust that might be left among investors.”

Almost a year later, the world seems a very different place. Confidence has returned to the market, growth projections are being revised upwards, Cyprus is mulling a relaxation of its capital controls, and if you listen very carefully, there’s hushed talk of a recovery.

In the interim, the private debt industry made hay. In a record low interest rate environment, investors sought yield wherever they could. That drove the high yield bond markets in the US and Europe skywards, but it also caused investors to consider, if they hadn’t already, allocating to private debt.

Private debt funds with an EMEA-focused mandate in the three main segments (corporate debt, real estate debt, and infrastructure debt) raised a total of $18.4 billion (€13.4 billion) according to PDI’s Research and Analytics division, across 32 funds. By comparison, 66 North America-focused funds raised a combined $27.7 billion.

Of particular interest, however, was the number of funds in market by year end. There were 63 funds with an EMEA focus targeting a combined $39.28 billion (€28.7 billion) in commitments as of 31 December 2013. That target amount far exceeded the figure for North America-focused funds, with 108 funds targeting a combined $28.8 billion.

It’s fair to say that Europe has gone from being something of a pariah to a market where competition for assets is fierce. The ugly duckling of a year ago is now a swan.

IN SEARCH OF (NOT SO LOW HANGING) FRUIT

The savviest investment groups have been quietly transacting throughout the turmoil, however, and often in unlikely places. The likes of ICG and KKR Asset Management have been investing in unloved locations like Spain and Italy which at the time were seen as off-piste destinations.

Take the latter’s €320 million investment in Spanish building materials group Uralita (for more on this deal, read the March issue of PDI). “The European building materials sector was on its knees. No-one wanted to touch Spain 12 months ago. So it was a very contrarian play for us at the time,” says Mubashir Mukadam, head of the firm’s European special situations business.
Benoit Durteste, ICG’s head of European mezzanine, tells PDI the market had conformed to expectations in 2013. “The base case was that it would be slow progress in terms of economic recovery. We never thought countries like Spain and Italy were terminal cases, and we’ve been transacting in both for the last two years. The market now is stable, and although everyone would prefer higher growth, the environment is perfectly suited to debt investing.

“In the last few months we’ve noticed a significant pick-up in the volume of transactions and in the availability of credit generally. Both feed off each other. Although we’re nowhere near pre-crisis levels, it’s getting back to a market where credit is available for sponsors and companies – it’s a far more normalised market,” he adds.

Real estate debt investors were equally positive about the European market. “We’re back to a more risk-on environment,” says John Barakat, head of real estate finance at M&G Investments. “There’s more stability in the market. Five years on from the crisis, people are starting to say, ‘Let’s invest’.

“Continental Europe has filtered back into the frame for international investors. 12 months ago there was a very dark cloud hanging over the region. Back then, most people wouldn’t have touched Spain and Italy but now there’s a degree of enthusiasm for markets like those,” he adds.

**THE BALANCE SHIFTS**

Much was made of the so-called ‘refinancing wall’ that had built up - the huge amount of leveraged loans used to fund boom era buyouts which would have started to mature in 2013 and the ensuing few years. Sponsors have however been proactive in addressing the issue, aided by the surge in liquidity and low interest rates. As a result, refinancing activity outstripped new deal financings in 2013 in Europe - a depressing indictment of the lack of M&A activity perhaps, but also evidence of the sponsor and lending communities’ willingness to work together to find workable solutions.

“People wouldn’t have expected refinancings to have been greater in number than acquisition financings at the start of 2013, yet that’s what happened,” says Jonathan Guise, a partner at Marlborough Partners. “Equally unexpected was the level of liquidity injected into the market at all levels of the market by new CLO issuance, non-CLO institutional capital and high yield. In retrospect, the year exceeded most people’s expectations.

“There’s no doubt that 2013 underperformed when it came to M&A activity, and therein lies the supply / demand imbalance that has led to the borrower-friendly conditions that manifested themselves,” he adds.

**THE INEXORABLE RISE OF PRIVATE DEBT**

Almost every market participant PDI encounters is firmly of the view that private debt funds are here to stay, and that 2013 was their break-out year.
There are interesting trans-Atlantic dynamics at work which support this thesis. First, there’s the accepted wisdom that the European market is undergoing a transformation, coming to rely less on traditional bank lending and more on institutional capital. That process of institutionalisation, which took decades in the US, is in Europe taking only a few years, many believe, lent impetus by post-crisis regulation intended to refashion the banking landscape.

“You’ll start to see more private debt funds in Europe,” says Guise. “A number of sponsors are looking to set up mid-market lending vehicles. Demand for credit in the US and Europe exceeds supply.”

GE Capital and Ares Management applied their Senior Secured Loan Program joint venture blueprint to Europe, with great success. “We’ve built up good momentum, and have already closed five deals whilst committing to two more,” reveals GE Capital executive director Chris Fowler. “To date, the JV has committed more than €1 billion in capital.”

Fowler adds that across all product lines and geographies, the group closed 59 deals last year, and has carried that momentum into 2014. “Q1 this year is looking very promising,” Fowler says.

Trends in loan and bond structuring are migrating eastwards from the US too. The traffic is not all one-way however. European borrowers made liberal use of US investors’ appetite for yield in 2013.

“US appetite for European credit is very strong at the moment, and US market requirements for European borrowers are becoming less stringent,” Guise points out. “The US ‘hook’ is being diluted as a result. The issue then is becoming one of currency swaps. How will European investors respond? They will have to become more accepting of covenant-loose and covenant-lite structures. There may be a limit to how low pricing can go in Europe—there’s a level beyond which CLO arbitrage doesn’t work.”

Paul Buckley, founder of placement agent First Avenue, has had a front row seat from which to view the development of the asset class on both sides of the Atlantic. “2013 was the year that private credit arrived on people’s radars,” he tells PDI. “Fundraising volumes picked up to levels that were notable to those in the wider placement community and those who track capital flows into funds. Europe came back onto the radar because the macroeconomic situation here calmed down. US investors with lots of capital decided to allocate to that opportunity as a result. Competition for private debt assets picked up.”

**CHALLENGES AHEAD?**

Sentiment is certainly positive as far as Europe is concerned. There’s significant room for the private debt industry to grow—the funding gap that’s appeared since the crisis won’t be going away anytime soon—but there are still challenges to overcome.

Calum McPhail, head of corporate private placements at M&G Investments, spoke at PDI’s recent European roundtable about the ingrained scepticism people have

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**A FINE YEAR FOR FUNDRAISING**

There were a number of notable fundraising successes from European firms in 2013.

ICG kicked off the year by raising its biggest mezzanine fund to date, holding a final close for ICG Europe V on a cool €2.5 billion.

And in a landmark deal for the European market, CVC Credit Partners launched its first listed credit fund, CVC Credit Partners European Opportunities Ltd, raising £351 million. Chief investment officer Steve Hickey, interviewed in January this year, said: “It was a big moment—the establishment of a publicly listed, retail product for leveraged finance in Europe. People have been trying to develop that for many, many years.”

Paris-headquartered group Idinvest Partners held a final close for its senior debt fund on €281 million, having already deployed a fifth of it. In the UK, start-up Beechbrook Capital held a first close for its maiden mezzanine fund having garnered two thirds of its £100 million target.

La Banque Postale Asset Management raised an innovative real estate debt and infrastructure debt fund. The fund, which had raised £600 million by the time LBPAM held a first close in March, will deploy capital in roughly equal measures to finance both real estate and infrastructure deals.

CLO issuance showed signs of a resurgence, with firms including 3i Debt Management, The Carlyle Group, ICG and GSO Capital Partners all launching European CLOs.
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towards new sources of capital. “I think there is still a cultural shift that needs to take place,” he argued. “It’s true that companies are beginning to recognise the need to develop other sources of funding. But we are trying to change a long history of very close relationships with banks, where the pricing in those relationships has been driven by the ‘relationship banking’ model – [so] companies [get] cheap debt, but the banks [provide] all the ancillary services as the compensation for that. So having to go to a market where they’re having to pay something like the true economic cost of borrowing can be a bit of a shock as to what that actually entails.”

The amount of capital directed towards private debt funds has also had an impact. “Spreads narrowed [for European senior debt funds], from between 350-300 bps to around 200-150 bps, as capital begun to flow into the asset class,” says First Avenue’s Buckley. “That inflow of capital also puts pressure on fees, particularly when it comes to senior debt funds.”

Then there are the overarching macroeconomic factors. The Bank of England warned a year ago that over-leveraged buyouts posed a systemic threat. “A distressed corporate sector can have an adverse impact on the health of the financial system,” said the Bank of England’s David Gregory. “The refinancing challenge associated with the approaching hump in maturing debt compounds this risk.” While the refinancing wall is much lower now, it still exists and should not be taken lightly.

Average leverage multiples are gently ticking up, according to a recent Marlborough Partners report, reaching 4.7x for the whole year and 5.2x in Q4, but they’re still well short of the 5.9x peak reached in 2007.

The banking community is far from out of the woods too. Last March, PwC warned that despite the massive deleveraging process many banks had undergone since the crisis, the volume of non-core assets held by the continent’s banks remained largely unchanged thanks to new issuance almost matching the amount of loans run off or sold. This year’s report will make for interesting reading.

Banks have had to grapple with the twin pressures of deleveraging to reach regulatory requirements, and issuing credit to the European corporate sector in a bid to foster growth. It’s no easy task, but in the private debt industry, the banks have a useful ally. The recent news of partnerships between banks and private debt funds in Europe, as with BlueBay Asset Management and Barclays, suggests the two groups can work side by side to help solidify Europe’s recovery.
**Skin in the game**

Despite the negative impact of regulation, the CLO market showed signs of a resurgence on both signs of the Atlantic last year, writes Simon Meads.

When Cairn Capital sold a €300.5 million collateralised loan obligation in February last year, it marked the renaissance of a securitisation structure not seen in Europe since before the credit crisis.

Back then, the threat of toxic loans sent investors scurrying from complex collateralised products, while regulators threatened to clamp down on any financial vehicles and managers seen as potential carriers of risk to the global economy.

Since Cairn’s offering, a host of other CLO funds followed from firms such as The Carlyle Group and 3i Debt Management, listed debt manager ICG and US asset manager Ares Capital Management. Pension funds, insurers and banks – starved of options for generating yield – have flocked to buy the slices of their funds, carved as before the crisis into tranches with varying risks and rewards.

As any CLO manager is quick to point out, these products proved to be a haven for investors during the crisis, rather than an exacerbating influence on it. Even those with exposure to some of the larger, heavily geared buyouts enjoyed very low default rates.

But the CLO industry is not as it was. Some of the banks have returned as buyers of CLOs’ most secure AAA-rated tranches, but Structured Investment Vehicles (SIVs) have not. With fewer buyers and continued caution, the rewards investors expect are significantly higher.

“There may be bumps along the road and some of those are driven by regulation, but the market is back,” said Andrew Bellis, a managing director at 3i Debt Management.

3i Group set up its debt management business in 2011, acquiring the European platform of Japanese bank Mizuho. It added a portfolio of European CLO funds from Invesco and moved into the US through a strategic deal with WCAS Fraser Sullivan a year later. Following two new US CLOs, 3iDM closed its first new issue European CLO – the €310 million Harvest VII – in September last year.

All told, 20 CLOs for an aggregate €7.4 billion were issued in Europe in 2013. By way of comparison, $81.8 billion of CLOs were issued in the US, according to S&P Capital IQ/LCD figures, also the highest level since the crisis.

The market in Europe may be small, but it points to a change in attitudes that permeates the investment universe. Economic growth has returned to large parts of Europe and the Eurozone remains intact, so investors feel it’s a good time to buy into the recovery.

“Non-European investors have, for obvious reasons, been a little nervous about Europe. It was a question of waiting for the confidence to return,” believes Dagmar Kent Kershaw, head of credit fund management at ICG. The FTSE 250 company said at its half-year results in November it had issued two new European CLOs, St. Pauls II and III, with combined firepower of €950 million.

Confidence among investors may be coming back, but spreads are wider than...
they were before the crisis. In 2007, an AAA-rated tranche may have priced at 20-25 bps above the prevailing interbank lending rate. Banks would often buy protection on those investments and end up with what they assumed to be a risk-free investment. Those safest parts of the CLO structure now price at about 145 bps over Euribor in Europe – and 155 bps above Libor in the US – reflecting in part new regulation and the costs of bank capital, and also a continued caution about the space, where few as yet dare to tread.

“There is a general view in the market that AAA CLO paper is cheap, very cheap. But I think it takes a while for some banks and insurance companies to come back into that market,” 3iDM’s Bellis said. He believes the list of buyers will grow over the next 12-24 months and that the spreads will tighten.

European managers have had to contend with a particular piece of legislation – Article 394 of the Capital Requirements Directive – which has, according to some, had a dampening effect on new issuance.

The so-called ‘Skin in the game Directive’ provides that a European credit institution will suffer a punitive capital charge if it invests in a securitisation transaction in which the originator, sponsor or original lender does not hold a minimum 5 per cent of the net economic exposure of the transaction. The retention can be held in a variety of ways, including in the form of a vertical slice of the capital structure of the transaction or as the most subordinated class of securities in the capital structure.

That regulation stands to curtail issuance by limiting the number of CLO managers – there are only so many firms out there able to hold such large tranches of a deal. But it has also concentrated the market in the hands of experienced debt management groups with financial strength, an added attraction for investors looking for low-risk investments.

“The managers who are going to be issuing in this new 2.0 world are the managers with financial strength, so the smaller managers are effectively shut out of the market,” said ICG’s Kent Kershaw.

There were 15 issuers in 2013, compared with about 60 before the crisis. That can be reassuring for investors who want to deal with large investment firms with financial clout and a long track record in the credit business. Still, debt firms would rather not have to buy as much of the issuance as they are forced to do, even if they are able to find financing to cover a portion of their requirements.

As Europe learns to live with regulation, uncertainty about legislation in the US is beginning to curtail new CLO issuance. The Loan Syndications and Trading Association sent a letter to federal regulators in August, arguing that risk retention would decimate manager numbers from around 500 to just 70. Scaremongering? Perhaps, but in a separate study, it said the move would “bring undue harm” to corporate borrowers by reducing the CLO market by $170 billion to $250 billion.

The threats are travelling both ways across the Atlantic. Large, liquid and cheap US debt markets are poaching borrowers from Europe’s lenders. The trend started at the end of 2011, when US firm Apollo bought chemicals group Taminco from CVC in a €1.2 billion deal, and looked to finance a portion of the acquisition in the US market. While Europe’s banks were still licking their wounds and some only getting to grips with deleveraging, US debt markets were motoring again, thanks to booming investor demand in the high-yield market. Pricing remains favourable for those who want to raise debt in the US.

The European market is recovering, with lenders issuing €67.4 billion of new European loans in 2013, according to S&P figures. Still, refinancings accounted for almost €40 billion, the highest proportion of the loan total in almost 10 years, and total issuance was still less than half the amount of 2007.

“One of the biggest issues is number of deals. You can’t issue a CLO unless you have got diversity, and when you are not issuing lots of new primary paper you can’t create diversity,” argues David Parker, managing partner at debt advisory firm Marlborough Partners.

But while the proportion of new M&A-related loan issuance may be a worry for some, the CLO managers see room to grow. There are 15 new CLOs planned for the first half of the year, according to ICG’s Kent Kershaw. Regulation may create potential pitfalls to negotiate on both sides of the Atlantic, but the investor base continues to grow.

“Investors are becoming more comfortable returning to structured credit market as they look for yield. The opportunities to find yield in the current environment are challenging but CLOs are a very good source of yield with high ratings,” she said.
Last year represented the strongest 12-month period for European leverage loans since the credit crunch, and by some margin. The European market witnessed €67.4 billion of new issuance, representing a 136 percent increase on 2012, according to figures from debt advisory firm Marlborough Partners.

More than half of new issuance, 58 percent, involved refinancings or dividend recaps as financial sponsors took advantage of more favourable market conditions, and that played into the hands of alternative debt providers, many of whom are adept at structuring unitranche deals. Unitranche proved particularly attractive, both for its simplicity and for its ability to push leverage higher.

Marlborough’s figures show sponsors paid themselves around €6 billion in dividends in 2013, more than twice the amount achieved across the whole of the preceding five-year period.

“Those recaps are about returning as much money as possible to shareholders,” says William Allen, managing partner at Marlborough. “So borrowers want as high a leverage [multiple] as they can get, which means the unitranche product is much better suited. We have seen a mushrooming of alternative debt providers coming into the market.”

Unitranche debt combines senior and subordinated debt into one instrument, with a single interest rate blending the usual rates for senior and subordinated notes. Providers are typically very competitive on terms against traditional bank lenders, but pricing has historically been a big issue, not least because European banks have favoured ‘relationship banking’, whereby borrowers get cheap debt in exchange for using the bank’s other services.

THE TREND LAST YEAR IN THE MID-MARKET SPACE WAS FOR ALTERNATIVE CAPITAL PROVIDERS TO ACTUALLY GET TO EXECUTE DEALS

Mark Wesseldine, Ropes & Gray

Lending in Asia-Pacific

Syndicated lending in the Asia Pacific region increased more than any other region last year, according to Thomson Reuters data, growing 38.8 percent year-on-year against a 28.7 percent global leap, a 36.1 percent increase in the Americas and a 26.1 percent rise in Europe.

Within the region, North Asia, and China in particular, recorded the biggest growth in syndicated lending, with a 78 percent hike in loans across North Asia to $243 billion. There was a sizeable 178 percent jump in loans in China in particular, up to $112 billion from 320 deals, the highest volume on record.

Japan saw its global loans market drop in 2013, down 15 percent from $324 billion in 2012 to $275 billion last year, and that despite the world’s third largest syndicated loan being Softbank’s, a $19.9 billion refinancing package in September. Excluding Japan and Australia, Shuanghu International’s $4 billion loan to fund the acquisition of Smithfield Foods was the largest Asia deal.
In the US there was also a record level of syndicated loan issuance and a boom in private equity recapitalisations and refinancings in 2013. US loans totalled $2.3 trillion, up 40 percent on 2012 and representing 54 percent of global volume. Non-bank lenders are far more established in America, and it was therefore unsurprising that more than a quarter of the loans extended to mid-market corporates were issued by such funds, according to data from Thomson Reuters. Banks issued 73 percent of mid-market loans in 2013, compared to 81 percent in 2012, showing private debt funds are gaining market share.

Alternative lenders face a challenge in the US from the high yield markets, however, and also from the Term Loan B market, both of which have been thriving as US investors search for yield.

Kipp deVeer is senior partner and co-head of direct lending at Ares Management, which has a joint venture with GE Capital. The pair’s Senior Secured Loan Programme invests in first lien senior secured loans to mid-market companies in both the US and Europe.

He says mid-market borrowers have become accustomed to borrowing in the 4.5-6.5 percent range, but that alternative lenders typically come in closer to 8.5 percent. But an upsurge in demand from borrowers has addressed some of that gap: “In the last 12 months a lot of those businesses have realised that they had to do something about their capital structures, whether event driven or refinancing, and they saw that bank lenders are still not there to the extent that they need them. So the real trend in the second half of 2013 was that the alternative lenders were able to do deals.”

The recapitalisation of rail ticket retailer Thetrainline.com in September illustrated this point. The company raised £190 million in the recap to pay a dividend to private equity owner Exponent. The deal included a £140 million unitranche loan paying 7.5 percent over Libor, provided by funds Ares Management, Babson Capital and BlueBay. There was also a £50 million revolving credit facility provided by Barclays and HSBC.

Allen suggests that alternative debt providers worked on about 25 major financings in Europe last year, a five-fold increase on where they were two years ago. Amongst the other most active unitranche lenders are Highbridge, Haymarket Financial, ICG and Ardian, formerly known as AXA Private Equity.

Where these providers have an advantage over the senior banks is in terms. Most don’t need amortisation, can be flexible on cash sweeps where excess cash is used to pay down debt instead of being returned to shareholders, and can give more headroom on covenants than the banks. They are typically more willing to contemplate mechanisms that allow the business to deleverage, and sometimes allow for portability, such that the financing package can remain in place if the business is sold to another private equity house.

Allen says: “If unitranche can continue to be competitive from a pricing perspective, continue to offer more leverage because providers are less focused on refinancing risk than senior lenders are, and remain flexible on terms and conditions, I can really only see the alternative debt providers continuing to make inroads into the senior lending space this year, as they did last year.”
The recovery of European and North American high yield and loan markets, combined with new forms of finance such as unitranche loans, put the squeeze on mezzanine lending last year, as borrowers found they had more options and cheaper terms on debt than at any time since the credit crisis.

These factors also helped to concentrate funds in the hands of fewer players and increasingly blurred the lines between providers of high interest rate junior debt and private equity investors.

Debt markets boomed in 2013 as many parts of Europe emerged from downturn and the US continued to motor ahead. Both enjoyed their highest volumes since the credit crisis. High-yield markets also took off and coupons plummeted. The Barclays US Corporate High Yield index went below 5 percent for the first time in May, signalling low interest rates for borrowers and enormous appetite from investors.

Yet mezzanine debt was virtually non-existent in some regions. According to data from European financial markets body AFME, new issuance of the high-yielding, unsecured debt tranche totalled just €38 million in the first three quarters of 2013.

“When markets are on fire, mezzanine typically gets squeezed out,” said David Parker, managing partner at debt advisory group Marlborough Partners. “We deployed €90 million of capital last year,” says Rafael Calvo, a partner at MezzVest. “We would like to have deployed more, but it’s a very competitive marketplace.”

Mezzanine, positioned just before equity in the capital structure, can pay interest up to about 14 percent, including a portion of payment-in-kind. It comes into its own when traditional lenders become more cautious, or when borrowers seek to leverage their investments more highly than traditional lenders permit. But it is often viewed as high risk, as mezzanine lenders have few rights when businesses struggle to service debt, and can often be squeezed out by deals between powerful senior lenders and equity investors looking to protect their capital.

While appetite among investors for mezzanine is some way off the peak of 2008, when $31.2 billion was raised, fundraising has remained solid with $16.1 billion raised by 38 firms in 2013 – on a par with 2007, according to figures from data group Preqin.

However, two mezzanine funds from US-based firms Highbridge Capital and Crescent Capital, raised almost half that total between them, garnering €7.8 billion in combined commitments. Of the US funds, only Sankaty Advisers also raised more than $1 billion, for its Middle Market Opportunities Fund.

Unsurprisingly, European fundraisings were generally smaller. ICG however bucked the trend, closing ICG Europe V on €2.5 billion, comfortably ahead of its €2 billion target. The fund documentation gives ICG plenty of freedom, however, to slew up and down the capital structure to take account of market factors and attractive opportunities.

Another fundraising highlight in Europe was the close of MezzVest III, which garnered €585 million in commitments.

With large piles of dry powder in the hands of some groups and resurgent debt markets cutting off the supply of new mezzanine deals, many funds were therefore left looking for different deals and new structures such as preferred equity, which guarantees a certain level of return to the capital provider before the sponsor is paid, to put money to work.

“The unitranche product clearly has had an impact on the demand for conventional mezzanine”

Doug Oppenheim, Hutton Collins
As a result, the market is evolving rapidly, with mezzanine funds having to be increasingly imaginative about how they position themselves.

For mezzanine fund investors, the attraction of the space is obvious – high interest rates translate into high rates of return. According to an analysis of 439 mezzanine transactions made between 1989 and 2009 by Swiss fund manager Partners Group, released last year, the deals made a pooled multiple of 1.59 times and a median annualised return 18.7 percent. Moreover, the study found that the mezzanine deals only lost 1.8 percent of invested capital for each year between 1989 and 2009.

But while the risks might not appear that great, bust-ups can be high-profile and experiences bruising. When The Carlyle Group-backed IMO Carwash defaulted on its debt in 2009, senior lenders hatched a plan to transfer the assets to a new company and squeeze out mezzanine lenders. The mezzanine lenders argued the senior lenders were getting the company on the cheap, but a UK judge disagreed, marking a serious blow for mezzanine rights everywhere.

Five years after the crash, mezzanine faces another threat. The rise of unitranche loans, which blends low-rate senior debt with higher-rate junior debt into one product, is eating into its market.

“The unitranche product clearly has had an impact on the demand for conventional mezzanine,” said Doug Oppenheim, partner at investment group Hutton Collins, a specialist in preferred equity, minority investments and mezzanine.

The cash interest rate on unitranche loans can often be higher than the blended rate of senior debt and mezzanine, Oppenheim argues. But when many buyers are after speed in fast-moving auction processes, or just simplicity in volatile markets, dealing with just one finance provider, rather than two or more, can be preferable. It puts some debt firms off the mezzanine market altogether.

**ASIAN MEZZANINE**

The US and Europe remain the core markets for mezzanine issuance. Of the five largest funds raised in 2013, and the five largest in the market in 2014, according to Preqin, eight had a primary focus on North America and just two on Europe.

However, mezzanine providers are looking to Asia and finding potential in one of its hitherto most moribund markets, Japan. Monetary policies put in place by prime minister Shinzo Abe have started to turn around years of stagnant economic performance. Many hope strategic reforms to open the economy and make it more competitive can drive growth in the long-term. Against this backdrop, Intermediate Capital and Japanese bank Nomura last year agreed to allocate 10 billion yen each – some $100 million – to a mezzanine debt venture targeted at Japan, the world’s third largest economy.

“As the market in Japan benefits from the current government’s economic initiatives, the demand for mezzanine is anticipated to rise,” ICG and Nomura said in their statement.

“As far as we can see there is very little new mezzanine issuance in Europe,” said Andrew Bellis, managing director in 3i Debt Management arm. “A lot of dry powder is available already for this asset class and so it’s not something we are looking at currently.”

But competition for deals from other alternative lenders is making mezzanine providers behave more like private equity firms. Rather than just providing debt, they are setting out their stall to provide strategic direction to entrepreneurs and business owners, and aim to deepen those ties with equity investments in companies they choose to back.

Hutton Collin’s investment in Italian hospital information systems group Dedalus, completed early this year, combined a subordinated loan with a minority equity stake purchase. The capital injection was so the majority owner could buy out some existing investors and provide finances for the company to expand in markets where it is growing rapidly, including China, Latin America and South Africa.

Borrowing money to buy back a stake may come with high interest rates. But it can be preferable to bringing in another equity investor for the full amount, as it can allow a company owner to take more profits from growth in the business further down the line. It can also come with fewer constractive terms than traditional bank lending.

For providers, positioning themselves as flexible capital as opposed to expensive borrowing can help win deals in a tricky market for mezzanine. It is also an important distinction that resonates with companies which have been through some testing times.

“I think many people have learned some hard lessons from the crisis and we see that reflected in the way people think about financing their businesses. Companies are looking for greater financial flexibility. Whilst businesses are expecting to grow as the economy recovers, they want to be prepared for the downs as well as the ups along the way,” Oppenheim said.
As with other segments of the debt markets, banks’ reduction in lending to infrastructure projects has left room for institutional capital to bridge the gap. During a recent roundtable in London, a group of industry professionals gather to talk about how the industry has developed over the last 12 months.

“A lot of the banks, including those who were very active in project finance such as WestLB, are simply not in the market anymore,” says Sergio Ronga, UK managing director at DC Advisory, an international advisory firm. “In reality, there are currently very few banks that will look at every opportunity that’s out there.”

But while it’s easy to assume – six years on from the financial crisis breaking – that the situation has now stabilised, there is a view that this may not be the case. “There is still some evolution to come with respect to the role of banks – it was not fully worked out in 2008,” suggests David Cooper, investment director of debt investments at Melbourne-headquartered IFM Investors.

Cooper adds: “In some banks, there is still a debate about whether they want to continue being in project finance. There can be political reasons why you carry on doing five- to seven-year project finance, but there may also be strategic pressure in the other direction.”

Furthermore, Cooper believes that banks are effectively fronting for institutional investors on some transactions. “They say they will lend £100 million or £150 million on the basis that institutions will take £50 million to £75 million pounds of it,” he contends. “So I’m sceptical of ticket sizes. They won’t hold it all. They think they have someone lined up, and that someone will be an institution, not another bank.”

If it’s accepted that the banks are generally not as committed to long-term infrastructure debt as they once were, the question then becomes whether institutional investors such as pension funds and insurance companies can step in to fill the gap.

“There’s not a shortage of liquidity. Capital for infrastructure is still available,” asserts Tim Cable, a director of infrastructure debt at Hastings. He believes the capital markets are increasingly being seen as a solid financing source in Europe (as well as in the US, where the capital markets have traditionally been front and centre in infrastructure finance). As an example, he points to the refinancing of German motorway services provider Tank und Rast towards the end of 2013, which included the successful placement of €460 million of senior second-lien high yield bonds.

Another transaction that gets a mention in this context is the placement of £200 million in inflation-linked bonds by UK airport operator Heathrow towards the end of January. The deal – which was a three-tranche issue (two tranches of £75 million and one of £50 million), maturing between 2032 and 2049 – was struck with a single investor, the identity of which was not disclosed but was known to be a European insurance company.

Institutional capital is a compelling solution for those seeking finance argues James Wilson, senior managing director and chief executive of Macquarie Infrastructure Debt Investment. “There is some competition from the bond market, but we’re really offering something different to borrowers. Our investors are primarily focused on opportunities where borrowers don’t have ready access to the public bond markets.”

Cable agrees that the key point is not competition but increased sources of liquidity. “It reinforces that there’s a big place in the market for private debt,” he asserts. “Whether it’s a transaction like Heathrow, or the emergence of infrastructure debt funds, it all goes to show that this is a good place for private investors whether institutions want large tickets or whether they want value and diversification through fund vehicles.”
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Governments have attempted to incentivise institutions to finance infrastructure projects (such as the European Investment Bank's project bond initiative, or the UK government’s guarantee scheme), but the panel feels such efforts were not required.

The general view is that – even if the market 'boosters' once served a useful purpose – that time has probably come and gone. “The market has moved on since the various credit support mechanisms were put in place and there's no question that there's now sufficient well-priced liquidity for most deals to get done without them," maintains Wilson.

“The market in general doesn’t need support,” adds Cable. “Some markets may still benefit from additional liquidity, such as some sectors in Spain for example, but Northern Europe doesn't require this and there is a risk of crowding out of private capital.”

One deal that frequently crops up when infrastructure investors dwell on the subject is Greater Gabbard, the offshore transmission (OFTO) link, which in December last year became the first UK project to utilise the EIB's project bond credit enhancement initiative. Investors in the project included AMP Capital, which earlier in the year held a first close on $300 million for its second infrastructure debt fund.

Hailing the Greater Gabbard deal, Guenther Oettinger, European Commissioner for Energy, said at the time: “Unlocking support of institutional investors to provide long-term investment in European energy infrastructure is crucial for stimulating economic growth and creating new jobs.”

The need for infrastructure finance has remained largely unchanged however.

"Infrastructure project finance has a funding need globally of around $100 billion a year and that figure has been consistent for about the last five or six years," argues Cable. “So the need is stable, even though the participants have changed a lot. My view is that the supply of capital is right for the current environment. The banks will continue to step away from long-term funding and institutions will continue to invest.”

Investors have warmed to the asset class, having gotten comfortable with the risks and increased their knowledge of what they will be investing in thanks to the work of fund managers and consultants.

Cable believes good progress is being made: “The awareness level is much higher. Institutional investors understand that the deals are there and that they represent good risk-adjusted value.”

The message certainly seems to be getting through, with several notable groups pledging their support for the asset class in 2013. AXA Investment Managers committed in June to investing up to €10 billion in infrastructure debt over the next five years, and hired Charles Dupont, formerly at French fund manager Antin Infrastructure Partners, to helm its new infrastructure debt platform. Allianz Global Investors has also bet big on infrastructure debt, bringing in Deborah Zurkow to lead its initiative, and committing several hundred Euros to the asset class. It’s unlikely to be the last such commitment as investors are lured by the attractive risk-adjusted returns on offer.
The Asian tiger took a bit of a breather in 2013. GDP growth in the Asia-Pacific region’s economies slowed by varying degrees (from 7.7 percent in China in 2012 to 7.6 percent last year, for example), causing some to question whether the seemingly unstoppable momentum achieved by the likes of China might actually have been overstated. Indeed, concerns grew over the level of stress in the Chinese and Indian economies in particular.

Against that backdrop however, the private debt industry thrived. The region’s traditional banking community has reacted in similar fashion to its western counterparts in the wake of the global financial crisis, opening a gap into which a number of brave, savvy private debt funds have been only too happy to step.

The uncertain and patchwork regulatory landscape is certainly a barrier to entry, which is why the successful firms in the region tend to fall into two camps: homegrown groups with entrenched local relationships and an intimate knowledge of the regulatory regime, and global asset managers with the infrastructure, expertise and networks to overcome the region’s challenges.

Dealmaking in the region certainly requires more creativity than it does in more developed markets – it’s far less intermediated, for example, making origination a key skill.

It’s perhaps for this reason that firms often look to partner with their peers.

HELPING TO BOLSTER BILLABONG
In one of the most interesting deals of the year, US-headquartered firms Centerbridge Partners and Oaktree Capital Management combined to table a proposal for the restructuring of distressed Australian surfwear brand Billabong. The company’s board, having earlier accepted a $309 million loan from Altamont Capital Partners, approved the pair’s proposal.

Billabong attracted focus as “it was the kind of deal we are used to seeing in the US,” a distressed market expert explained. “It amounted to a pretty sophisticated debt-equity control stake, involving two sets of savvy institutional distressed players – GSO, the Blackstone Real Estate arm and Altamont versus Oaktree and Centerbridge – and their battle for control of a well-known corporation.

“The deal put Australia on the map in terms of a market for distressed debt players,” he said.
KKR Asset Management (KKRAM) also made headway in Australia, where the country's four large banks typically provide senior debt for deals and "there are not a lot of players in the junior space," co-head of special situations Jamie Weinstein told PDI. "We continue to be very active in Australia – less on the distressed market and more on strategic capital deals."

Weinstein's firm has made several deals in Australia in recent months. At the tail end of 2013 for example, it partnered with Findex (Financial Index Wealth Accountants) to acquire wealth management advisory Centric Wealth. The deal, announced in January this year, created one of Australia's largest non-aligned financial advisory businesses, with more than A$7.6 billion funds under advice. KKRAM provided the acquisition funding and has an equity interest in the merged group.

Another highlight for the firm during 2013 was its foray into Indonesia with its combined debt and equity investment in snack food maker Tiga Pilar Sejahtera Food (TPS). Despite TPS' management explaining to KKR the company was not for sale, it was willing to explore the potential for alternative financing solutions. Even though the business was public it was majority-owned by the founding family, who sought refinancing help. As a result of a constricted bank-lending environment, "they had real trouble refinancing debt with a domestic bank," Weinstein said.

KKRAM provided liquidity lending money via a structured loan and additionally bought a block of TPS stocks. The combined debt and equity deal gave KKR a stake of about 10 percent in the company. This was funded from the group's global special situations fund, which had a final close at the end of 2013 at $2 billion.

The firm also continued to beat a path into the primary Indian market. The NBFC (Non-Banking Financial Company) is the licensed lending entity which structures deals and the India Alternative Credit Opportunity Fund I invests alongside it in those deals. "We invest in both stressed and distressed as well as companies which can't raise conventional forms of capital," explains Weinstein.

"We are a primary lender in India – predominantly to corporates, though we will begin to extend credit to real estate companies," Weinstein says. "The corporate NBFC has been active for about three to four years. We have lent over US$1.5 billion in primary lending activity."

As a result of the pressure on companies to get funding, Weinstein and others see growing amounts of stress and thus increasing opportunities. "The potential for growth is huge but there is a lot of pressure on companies," Weinstein says about India. "Structurally there are impediments to growth particularly in the regulatory area."

Along with other concerns, "They don't have a well-formed insolvency regime, so it's more difficult to come up with solutions for companies in insolvency - you have to be even more creative," he adds.

CRACKING CHINA
Hong Kong-based alternative asset manager Adamas Asset Management sees a
similar pattern in China. Adamas held a first close on $79 million for its second fund, Greater China Credit Fund II, last year and anticipates further closes in 2014 as it looks to raise $200 million (the fund has a hard cap of $275 million).

Adamas sources primary deals in China and estimates a funding gap of up to $1 trillion exists there. “Chinese banks are heavily underweight when it comes to extending loans to SMEs, and this is the market we focus on. It is growing quite rapidly,” Conor MacNamara, partner and head of business development at Adamas, told PDI.

Deals in China are typically non-recourse but MacNamara explains that Adamas structures lending to Chinese SMEs whereby collateral is secured outside of mainland China.

Project Wealth is an investment from Fund II, agreed in August, providing HK$80 million of high yield bonds to a company to acquire a resource trading company engaged in iron sand concentrate with secured off-take agreements with suppliers in the Philippines and a stated-owned enterprise (SOE) buyer in China. It has a coupon rate of 20 percent over 24 months, with an optional 12 month extension, and a projected IRR of 23 percent.

“We have shares of the Hong Kong Listed Company; assignment of off-take agreements; and first lien rights on one of the mines which is worth $50 million representing an LTV of below 30 percent. It is a very safe investment with a very attractive coupon,” MacNamara explains.

Adamas is also planning an IPO of a Chinese healthcare company listed on the Hong Kong exchange in June later this year. “[It] could be our most profitable deal so far. We invested via a convertible debt to delist the company from OTCBB with a P/E multiple of 5.5 x. We expect the company to relist in HK with at least 12 x P/E multiple.”

Indeed, convertible bonds are increasingly seen as an opportune way to access the Asian markets, particularly if special situations increase.

**GEMS IN JAPAN**

Japan-based Diamond Realty Management (DREAM), the real estate fund management arm of Mitsubishi Corporation, has made huge strides in the region. It has been working on its mezzanine platform since September 2010 and sees both its timing, after the big banks retreated, and its parent, as key to its current success. “Our competitive edge is that we can use Mitsubishi’s account to warehouse the loans and later repackage them into fund products,” a spokesperson said. It held a final close on its second fund at $110 million during the year and spent much of the year busily investing it in greater Tokyo retail and residential property.

DREAM also expects to launch a semi-blind fund this year. Investor appetite is coming back to Japan, the biggest market in Asia, according to a DREAM spokesperson. “Sentiments have changed. More people are paying attention Japan – which has been ignored for a long time. Most of our investors are Japanese institutional investors, but we are getting more approaches from Asian and European investors, particularly those interested in mezzanine debt,” he explains.

In November, ICG announced a partnership with investment bank Nomura to launch a joint venture focused on mezzanine investments in Japan. In a 50:50 partnership managed by a combined local team, each party will allocate ¥10 billion ($99 million; €74 million) to the venture as initial seed capital, which will be topped up by institutional investors. The pair predicts demand for mezzanine financing will rise as Japanese government economic initiatives take effect.

AMP Capital is also seeing a lot of demand from Asian investors. It had its first close on its Infrastructure Debt Fund II (IDF II) during 2013 at $300 million and two thirds of the investors were from Asia. “We are still in the middle of fundraising and a final close is expected mid-year. We are targeting $1 billion,” head of infrastructure debt Andrew Jones told PDI. “The defensive nature of our strategy and yield focus is a nice match for the risk appetite of pension funds and insurance companies in the region.”

Looking forward to 2014 and beyond, market participants interviewed by PDI were largely optimistic about the region’s prospects. The stress that exists in the banking systems of China and India, while potentially a cause for concern on a macro level, also provide a wealth of opportunity for private debt funds. “One of the biggest competitors prior to the financial crisis was proprietary desks in banks,” says Weinstein. “With the cutbacks in the banks and the regulatory overhang of the Volcker rule and Dodd-Frank, there has been a shut-down or significant pull-back of capital for these desks. Funding for highly stressed deals is entirely gone or dramatically reduced. This is one of the biggest reasons a window has been created for [private debt] firms to get more involved.”
Welcome to Private Debt Investor’s first annual awards – the only awards decided solely by the industry, for the industry. It’s been a year of unprecedented growth for private debt as an asset class. Countless new firms stepped into the market, whilst a slew of veteran managers continued to scale their businesses by launching new funds, acquiring complementary platforms, and building out their teams.

Dealflow has been strong, buoyed in part by the seemingly inexhaustible supply of refinancing opportunities but also by resurgent M&A markets.

So for our editorial team, the task of putting together shortlists in each of the 29 categories, across all three geographies (the Americas; Europe, the Middle East and Africa; Asia-Pacific), was a laborious but enjoyable one. We drew on our colleagues across the PEI group’s three offices in London, New York and Hong Kong, and canvassed opinion from trusted sources in the market.

The voting then lay in your hands. The response we received was incredible. More than 1,400 votes were cast (and remember, respondents were forbidden from voting for their own firm), underlining the fact that these awards genuinely represent the views of one’s peer group – no sponsor, no judging panel, just the views of your friends, competitors and colleagues.

Surveying the results demonstrated just what a vibrant and varied industry private debt is, with an interesting mix of established firms and relative newcomers. There can be few surprises about some of the winners. Oaktree Capital Management underscored its worldwide reputation for excellence by scooping no fewer than five awards, including a clean sweep in the ‘Distressed debt investor of the year’ category.

Its partnership with Centerbridge to table a restructuring proposal for ailing Australian surfwear brand Billabong proved fruitful, the pair successfully fighting off competition from other investors to eventually see their offer accepted by the company’s board. Although the process remains ongoing, the pair’s solution to the company’s parlous financial state evidently found favour with their peers.

Another partnership also bore fruit – Ares Management and GE Capital have had a longstanding relationship in the US with their Senior Secured Loan Program. The joint venture is approaching $12 billion of assets under management, and its recently launched European counterpart is aiming to match its sibling’s spectacular growth. Between them, Ares and GE Capital won five awards.

In Europe, venerable listed asset manager ICG triumphed in three categories, including the top ‘Lender of the year’ award. It’s long since diversified beyond its roots as a mezzanine investor, although the success of its flagship junior debt fund, ICG Europe V, at the start of the year, was proof that investors still rate its capabilities very highly indeed in that segment.

It’s worth drawing attention to the highly commended firms who featured in our shortlists. In today’s marketplace, firms compete not only for deals but for investors’ capital. Yet competition from one’s peers can only be a good thing, driving firms to succeed. 2013 was an important year for the industry, and the firms featured in the following pages undoubtedly played an integral part in demonstrating the valuable role private debt can play in the global economy.
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PDI ANNUAL AWARDS 2013

THE AMERICAS

It’s the world’s deepest, widest and most established private debt market. So to win plaudits from one’s peers in such a competitive environment represents a significant achievement. Sam Sutton brings you the winners in the Americas region.

Lender of the year
GE Capital
Highly commended
GSO Capital Partners
Babson Capital Management

GE Capital has been considered a leader in the private debt universe for some time, so it’s no great surprise that the Keith Sherin-helmed lender managed to secure Private Debt Investor’s top award in the Americas, ‘Lender of the year’.

Although Babson and GSO had strong showings, GE’s size and scope proved to be a deciding factor for voters. In 2013, GE Capital’s sponsor finance business issued more than $13 billion in loans across 170 transactions. Its joint venture with Ares Capital – the Senior Secured Loan Program – secured another $4 billion in loans across 33 transactions.

The firm clearly maintains an active relationship with its borrowers as well. In May, GE acted as co-lead arranger, bookrunner and administrative agent on Greenbriar Equity Group’s acquisition of EDAC Technologies – arranging an $89.5 million senior facility in support of the transaction. Two months later, GE arranged another $145 million senior facility in support of EDAC’s acquisition of Parkway Aerospace & Defense. A stalwart of the US mid-market and a deserving winner.

Senior lender of the year
Ares Capital Corporation & GE Capital
Highly commended
Monroe Capital
GSO Capital Partners

Although both are formidable in their own right, the joint venture between Ares Capital Corporation and GE Capital has emerged as one of the most prolific players in the non-traditional lending space.

Ares and GE co-invest in first lien senior secured loans of middle market companies through the Senior Secured Lending Program, which has provided $12.4 billion in gross commitments to mid-market borrowers since 2010. The venture was particularly active through the first 10 months of 2013, executing approximately $3.2 billion loans across 23 transactions. Sponsors included Partners Group, Sterling Investment Partners and Greenbriar Equity Group.

The partnership’s success through its first few years has prompted the firms to increase their commitment to the venture. In November, the firms announced that they had increased the total available capital available through the SSLP from $9 billion to $11 billion. GE Capital and an affiliate agreed to make up to approximately $8.7 billion available to the SSLP, with Ares Capital pitching in an additional $2.3 billion. In just four years, the SSLP has almost tripled in size from its initial $3 billion in capital, illustrating just how successful with borrowers and investors alike it’s been.

Junior Lender of the year
Crescent Capital
Highly commended
Northstar Capital
Farragut Capital Partners

Despite limited partners cooling attitude towards this segment of the market, several managers have proven that demand for mezzanine funds can be found when you have the track record to back it up.

Crescent Capital closed on $3.4 billion for its sixth mezzanine fund last year, surpassing its target by a massive $900 million. Limited partners clamored for the vehicle, thanks in no small part to its track record. Crescent received commitments from the Finnish Local Government Pensions Institution, the Florida State Board of Administration, the Massachusetts Pension Reserves Investment Management Board, the Michigan Department of Treasury and the Oregon Investment Council, according to PDI’s Research and Analytics division.

The firm has already begun putting capital to work through the vehicle, having invested $209.4 million across a pair of companies in 2012 as well as committing capital to Bunker Hill Capital’s Hubbardton Forge buyout last year.
“We are particularly grateful to the significant number of existing limited partners that chose to participate in this fund,” said Crescent managing partner and co-founder Jean-Marc Chapus in a statement marking the fund close. “We are also pleased to welcome the support of a number of new investors in Fund VI.”

**Unitranche Lender of the year**

**Monroe Capital**

**Highly commended** -

**Ares Capital Corporation**

**Golub Capital**

Few firms have made more of an effort to publicise and promote unitranche products than Monroe Capital. Although it has long been known for its mezzanine and senior lending capabilities, the Chicago-based firm put made unitranche lending a core part of its offering last year, deploying more than $200 million in December alone, bringing their total to roughly $750 million on the year, president and chief executive officer Ted Koenig told *Private Debt Investor*.

Unitranche transactions comprised half of the firm’s 44 transactions during 2013, he added. The firm boasts an impressive network of sponsors, having provided unitranche facilities for companies backed by Z Capital Partners, Wafra Partners, Thurston Group and Chicago Growth Partners, among others, over the course of the last year. Having closed its latest Senior Secured Direct Loan Fund, which includes unitranche in its investment mandate, expect an active 2014 as well.

“We try to be easy to work with,” Koenig said. “We’re relationship focused. And that drives a lot of our business.”

**Distressed Debt Investor of the year**

**Oaktree Capital Management**

**Highly commended** -

**Lone Star**

**Apollo Global Management**

Over the course of its 19-year history, Oaktree Capital Management has come to be regarded as the benchmark for distressed investment. 2014 was no different.

The Howard Marks-helmed firm realised several key investments over the last year, including its position in Clear Channel Communications and Charter Communications. All in all, the firm’s closed-end distressed debt funds generated a 24 percent gross return in 2013, chairman Howard Marks said in a fourth quarter earnings call.

Oaktree was active on the deal front as well – agreeing to purchase troubled furniture design and manufacturing company Furniture Brands late last summer. The firm also reportedly took positions in Masonite International, Hornbeck Offshore Services and Air Lease.

The firm’s ability to deliver consistent returns through its distressed business extended to its strategic credit business as well. Considered a ‘step-out’ from the distressed debt mandate, strategic credit has generated 18 percent gross returns. The firm’s ability to deliver consistent returns has certainly helped on the fundraising front; Oaktree raised $4.1 billion in gross capital during the fourth quarter and $12.5 billion on the year.

**CLO Manager of the year**

**CIFC**

**Highly commended** -

**The Carlyle Group**

**Highland Capital Management**

US CLO issuance hit $81.8 billion in 2013, the largest volume since before the credit crisis. With investor demand for yield on the rise, the opportunity was ripe for relative newcomers to enter the scene with a bang.

In its relatively short history, CIFC has done just that with its emergence as a force to be reckoned with in the CLO universe. CIFC was founded less than a decade ago, but the firm has already grown to be the eighth largest CLO manager in the world through the fourth quarter, according to Creditflux league tables.

Through September, CIFC had priced four CLOs, bringing its total number of post-2011 CLOs to seven. The total includes the pricing of a new CLO during the third quarter that grew the firm’s total assets under management by $500 million to $12.3 billion.

“We co-invest in our equity, we are a meaningful investor in our own investments,” Oliver Wriedt told *Private Debt Investor*, adding that the firm warehouses their deals in advance of the pricing date, which allowed them to cherry pick new issuance.

In addition to its CLO business, New York-based CIFC also handles separately managed accounts and corporate credit loans.
Infrastructure Debt Fund Manager of the year
**Prudential Capital Group**
*Highly commended*

**Hastings Industry Funds Management**

The financing gap for infrastructure projects presented an attractive opportunity set for investors last year - one that is expected to grow as institutions commit more capital to infrastructure debt allocations. And whilst a number of firms sought to tap into the space in 2013, few were as active as Prudential Capital Group.

Last year, Prudential invested in the long-term debt of several noteworthy infrastructure projects, including a deal for San Juan, Puerto Rico’s Luis Munoz International Airport, university parking at Ohio State University and improvements at Lincoln Financial Field (home to the NFL’s Philadelphia Eagles).

“These transactions are examples of the US private placement market playing an important role in providing long-term financing solutions that are well-suited to the needs of owners of infrastructure assets,” the spokesperson told PDI in a statement.

Prudential’s non-energy infrastructure team purchased more than $600 million in assets within the infrastructure segments in 2013, a total driven largely by projects, developers’ and companies’ desire to refinance bank debt through longer-term institutional markets. The team expects similar deal flow in 2014, a spokesperson told Private Debt Investor.

Real Estate Debt Investor of the year
**MetLife Real Estate Investors**
*Highly commended*

**Mesa West Related Companies**

MetLife Real Estate, the real estate arm of MetLife Investments, announced a number of major financings last year. In the latter half of 2013, the firm provided $235 million in financing for a Houston office building, $161.5 million for Marathon Oil Tower (also in Houston) and agreed to invest $300 million into a San Francisco luxury tower.

Beyond its deal flow, MetLife Real Estate also entered into a pair of agreements with banks to provide investment capital to the real estate sector. Its partnership with SunTrust Banks could invest up to $5 billion over a three year period, and its joint venture with Norges Bank has already announced three transactions.

Deal of the year
**GSO Capital Partners: American Energy**
*Highly commended*

**Apollo / Hudson Realty:**
Banksville Georgia Community Bank portfolio; KKR Asset Management: Harden Healthcare

Ten years ago, the US imported most of the oil and natural gas its citizens consumed. Now, thanks to the opportunities that have emerged from the shale gas boom, US political leaders are calling on President Barack Obama to lift the country’s ban on oil exportation.

Of course, the shale gas boom has required its share of financing as well. In October, GSO provided $290 million of a $450 million five-year second lien term loan to American Energy.

Shale gas has grown as a proportion of US fossil fuel production, and the financing for this $1.7 billion deal will be used to acquire 110,000 acres of territory on the southern Utica Shale, which is located in eastern Ohio.

**PCG financed improvements to the home of the Philadelphia Eagles**

**MetLife funded the acquisition of the Marathon Oil Tower in Houston**

**American Energy used the financing to acquire territory on the Utica shale**
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“I sit in an office full of investors … our energy business is just busy as bees and everything else is soft,” said GSO senior managing director Dwight Scott during a presentation on natural gas opportunities delivered to the New Jersey State Investment Council last year.

He was similarly optimistic on the viability of investments in shale drilling: “You’re going to have better results in some areas, worse results in others. But you’re not going to find nothing.”

**Fundraising of the year**

Oaktree Capital Management  
Highly commended  
GSO Capital Partners  
Crescent Capital

GSO and Crescent’s inclusion in the fundraising category should come as no surprise. Those firms held landmark closings last year - GSO on $5 billion for its second rescue lending fund and Crescent on $3.4 billion for its mezzanine vehicle.

Through the first three quarters of 2013, Oaktree matched the combined total raised by those landmark funds. Oaktree raised $12.5 billion in gross capital last year, $4.1 billion in the fourth quarter alone. 2013 marked the seventh consecutive year that the Howard Marks-led firm had raised over $10 billion.

“New clients and new products were key elements in our asset growth during the year, as 40% of the $12.5 billion of capital raised in 2013 was for strategies and investment products that didn’t exist three years ago, and one-third of the capital raised was from investors new to Oaktree,” principal executive officer John Frank said in a fourth quarter earnings call.

The firm should continue that roll into this year. Oaktree will be raising capital for its latest Principal Fund and Mezzanine Fund IV, Frank said.

**Bank of the year**

JPMorgan  
Highly commended  
Citigroup  
Goldman Sachs

Never underestimate the power of the investment banking sector. Even as private equity firms dedicate more and more resources to building out their debt and advisory platforms, the debt capital markets are still very much the territory of the investment banks.

Last year, JPMorgan ran the book on $142 billion of US debt capital markets volume, according to Wall Street Journal league tables. The bank acted as a bookrunner on three of the five largest debt capital markets deals of the year and was the top bookrunner in terms of high yield, investment grade and structured finance on the year.

JPMorgan also boasted a healthy loan business, acting as bookrunner on $379 billion as of 31 December. Its nearest competitor in terms of deal volume was BofA Merrill Lynch, which acted on $342.6 billion.

In addition to debt capital and loan markets, JPMorgan finished the year ranked first in M&A advisory, working on roughly $532 billion in volume last year.

If North America is private debt’s heartland, Europe is its Wild West. Non-bank lenders are helping to refashion the continent’s credit landscape, aided by regulation and investors’ thirst for yield. **Oliver Smiddy** reveals the firms who made hay in 2013.
**FEATURE**

**EUROPE**

**Lender of the year**

**ICG**

*Highly commended*

**Tikehau Group,**

**CVC Credit Partners**

**Ares Management**

What a year it was for ICG, one of the European private debt industry’s true veterans. It certainly made clear its international ambitions agreeing a joint venture with Japanese bank Nomura, hiring fundraising Nyree Hu in Hong Kong, and launching a senior loans business in Australia. But Europe remains its heartland.

“We are delighted by these awards. 2013 has been an excellent year for the ICG globally, but particularly in Europe,” Benoit Durteste, head of European mezzanine at ICG, told *Private Debt Investor*. “The year started with flying colours with our biggest ever flagship mezzanine fund.”

Together with its new CLOs, the continuing development of its real estate financing platform ICG-Longbow, and a host of other initiatives, ICG’s fundraising efforts saw assets under management swell considerably.

“This was all good news in terms of being able to increase our firepower across all our product lines, but it was also very satisfying how we were able to deploy capital last year. Fund V is now close to 60 percent invested, for example, having closed last January.”

**Senior lender of the year**

**Partners Group**

*Highly commended*

**BlueBay Asset Management**

**Ares Management**

The Zug-headquartered manager has been one of private debt’s foremost champions in Europe. By the end of 2013, it had raised more than $800 million for its senior secured leveraged loan-focused fund.

Juri Jenkner, managing director and co-head of private debt, commented: “Investors are facing an investment environment that is characterised by low growth, negative real yields in many jurisdictions and continued volatility. We believe providers of credit to mid cap private equity-backed companies can benefit significantly from the lack of alternative capital in this space. We had a very active private debt investment year in 2013, capitalizing on this opportunity by investing in over 40 credits on behalf of our clients during the first nine months alone.”

**Junior lender of the year**

**MezzVest**

*Highly commended*

**ICG**

**Metric Capital Partners**

MezzVest faced strong competition in 2013, not just from its peers but from the stretch senior and unitranche market segments. For a firm that has (literally) made its name with mezzanine, the success of its latest fundraising underscored investors’ faith in its ability to deliver alpha.

“The fundraising was a very successful endorsement of the work we’ve done over the last 12 years,” partner Rafael Calvo told *PDI*.

At €585 million, MezzVest III was comfortably the firm’s largest vehicle raised since its inception in 2000. Director Miguel Tony remarked: “We were particularly pleased to bring new LPs into the fund, thereby broadening and deepening our investor base. We began new relationships with UK pension funds, for example, and also with LPs who are willing and able to co-invest alongside us.

“LPs liked the consistency of our strategy and of course our track record. But they also appreciated the stability in the team we have here, and the fact we’re an independent firm,” he added.

The firm also deployed €90 million of capital in 2013 - not as much as it would have liked, but it has already put to work 30 percent of MezzVest III and is in no rush to deploy the remainder with 4.5 years of investment period remaining. Deals included Unilabs, Wood Mackenzie, and Acer Solutions.

**Unitranche lender of the year**

**Ares Management & GE Capital**

*Highly commended*

**Permira Debt Managers**

**Ardian**

It’s interesting that Ares and GE’s joint venture, the Senior Secured Lending Program, should triumph in the senior category in North
America, while its European sibling dominate, the unitranche category on the other side of the Atlantic.  

The two groups are looking to replicate the success of the US venture in Europe, and made significant progress in 2013. To date, it’s deployed more than €1 billion of its total €1.75 billion war chest, which the group is poised to expand later this year.

They’ve evidently done a good job of educating the market regarding the merits of their particular brand of unitranche.  

“For us it’s a buy-to-hold strategy,” remarked GE Capital executive director Chris Fowler. “People recognise our track record and they know we won’t sell out chunks of debt to third parties.”

“It’s taken time to educate the market about the merits of unitranche, particularly as we define it,” he told PDI. “For some managers, particularly those with a background in mezzanine, it has more in common with a bond. But we very much see it as a loan product, more akin to stretch senior or blended senior plus mezzanine.”

**Distressed debt investor of the year**  
*Oaktree Capital Management*  
*Highly commended*  
*Lone Star*  
*Centerbridge*

Oaktree’s hegemony of the global distressed debt market continued in 2013. The firm raised a cool $912 million for its European private debt strategy, and although founder Howard Marks has been underwhelmed by the number of opportunities in Europe, the firm is still ubiquitous when it comes to large restructuring processes in the region.

It enjoyed a windfall following the listing of UK estate agent Countrywide halfway through the year. Oaktree had bought into the company via its (distressed) debt and assumed a substantial stake via a debt-for-equity swap back in 2009. It was an investment that had all the hallmarks of an Oaktree transaction - patience, prudence, robust negotiation and an eye for detail.

Other deals in 2013 included the restructuring of French concrete product manufacturer Consolis, owned by LBO France, in May.

**CLO manager of the year**  
*ICG*  
*Highly commended*  
*3i Debt Management*  
*CVC Credit Partners*

The European CLO market enjoyed something of a resurgence in 2013, and although relative to the heady pre-crisis days of 2006 issuance last year seemed trifling, it nonetheless represented a meaningful upturn in fortunes.

One of the key protagonists in Europe was ICG, which alongside its established junior lending strategies has made a real name for itself as a CLO manager. Demand for its paper was so high that it decided to increase the size of its St. Pauls III CLO from €400 million to €550 million in November, making it the largest CLO raised in Europe last year. It was ICG’s fourth new issue CLO since the financial crisis, and its second of the year - St.Pauls II raised €400 million.

Both CLOs accounted for 15 percent of Europe’s total new CLO issuance in 2013, and added to its existing stable of eight such vehicles.

“We were successful in helping to revive the flagging European CLO market with the launch of two new CLOs,” said ICG managing director Benoit Durteste. “It’s good to see some life in that market.”

**Infrastructure debt fund manager of the year**  
*ING*  
*Highly commended*  
*Hastings*  
*AllianzGI*

Lenders and investors alike have long grappled with the best way to finance infrastructure projects. Dutch bank ING won plaudits - and PDI’s award for ‘Infrastructure debt fund manager of the year in Europe’ - for its innovative solution to this long-term financing conundrum: PEBBLE.

This ‘open source’ project involves a tripartite structure...
“Great works are performed not by strength, but by perseverance.”
Samuel Johnson

MezzVest. A partner for success.

We are delighted to accept the award for PDI’s EMEA Junior Lender of the Year. For more information, email lgresh@mezzvest.com

that aims to bring together banks and institutional lenders into one consortium.

Financing packages using the PEBBLE platform typically involve an A note pitched at the institutional market, and a B loan (plus revolver) aimed at the banks.

In October, ING teamed with Dutch peer NIBC to deploy a variation on the PEBBLE theme when the pair backed a €300 million prison project in the Netherlands.

“This is an important step in the development of public-private partnerships in the Netherlands,” said Theo Bruijninckx, chief executive officer of infrastructure group Ballast Nedam, at the time of the deal. “The market parties have shown themselves capable of attracting long-term capital through institutional investors.”

That ability to innovate and attract capital from investors with very different needs and appetites make ING a worthy winner.

Real estate debt fund manager of the year
M&G Investments
Highly commended
GE Capital Real Estate
Laxfield Capital

M&G Investments’ real estate finance group, helmed by John Barakat, spent a lot of 2013 raising a lot of money. “We had a very successful fundraising year in 2013 on the debt side,” Barakat told PDI. “We raised around £3 billion of external capital, to which we can add the significant amount of capital we can invest on behalf of Prudential.”

The group has developed a strong reputation with both investors - its funds in 2013 were heavily oversubscribed - and borrowers.

“We believe loans are living, breathing instruments and the properties they’re secured against require managing. Our borrowers know they can pick up a phone at any time and speak to someone at M&G to deal with their request,” Barakat added.

Then there’s the firepower at the group’s disposal. “We think we’re unique in being able to write big cheques right through the capital structure, and anywhere from 0 to 85 percent LTV. We have a huge degree of flexibility. We can offer borrowers a
compelling alternative to cobbling together a bunch of lenders in multiple tranches. And importantly, we’re an invest-to-hold fund – we generally invest to hold to maturity.’

Deal of the year
KKR Asset Management: Uralita
Highly commended
CVC Credit Partners: CVC Credit Partners European Opportunities Ltd;
Lone Star & Credit Suisse: Royal Park Investments

The firm’s European special situations team, led by Mubashir Mukadam, proved its willingness to invest in troubled companies in unpopular locales, providing a €320 million 7-year facility to Spanish building materials company Uralita to help it refinance existing debt. Coming early in 2013 at a time when serious concerns persisted about the fate of the Eurozone and the Mediterranean economies in particular, the deal represented a very contrarian play for Mukadam’s team.

But the deal illustrated how a savvy private debt firm with a long-term view could step into the breach and deliver liquidity, as well as an exit for existing lenders. It was, as head of European communications Ludo Bammens admitted, “a win-win situation for everyone”.

The deal also underscored KKR’s ability to bring its whole raft of talents to bear. Mukadam’s special situations team drew on the local expertise of the firm’s Spanish private equity team and its global operational improvement unit Capstone when it came to structuring a financing package that would see the company through a business plan designed to return it to profitability. That holistic approach to investing underscores just why so many voters felt Uralita was the pick of European deals in 2013.

Fundraising of the year
ICG
Highly commended
Partners Group
EQT Credit
Cerberus Capital Management

PDI readers evidently have long memories. In the dim and distant days of January 2013, ICG held a final close for its flagship fund, ICG Europe V. The fund met its hard cap of €2.5 billion, and comfortably exceeded its initial target of €2 billion.

There are a number of possible reasons ICG’s fundraising effort drew praise from peers. Perhaps it was the fact the fund was ICG’s biggest mezzanine vehicle to date. Perhaps it was the deftly structured terms which allow the firm, prudently, to tweak the definition of mezzanine to its absolute limits in the hunt for attractive opportunities. Perhaps it was the speed of the fundraising, which concluded three months ahead of schedule. Or perhaps it was simply ICG’s good fortune to be raising a Europe-focused private debt fund at a time when LP sentiment was shifting firmly in favour of credit investing on the continent.

It’s probably fair to say it was no doubt a combination of these factors. In what remains a taxing fundraising climate, the firm ran a tight process that broadened its LP base - two thirds of LPs in the fund come from outside Europe - and set a new internal benchmark for fundraising performance. Other firms globally may have raised more, but bigger isn’t always better.

Bank of the year
Credit Suisse
Highly commended
Goldman Sachs
GE Capital

When asked to comment on this award, Credit Suisse corporate communications vice president Adam Bradbery couldn’t muster a spokesperson amongst the bank’s ranks, or indeed call to mind any remarks about CS’ performance last year of his own. “Our bankers are so busy in fixed income”, was all he could manage.

Fortunately for the Swiss bank, what it lacks in the PR team it makes up for in its capital markets divisions, where it matters. Its leveraged finance prowess remains undiminished and its fund placement group remains a market leader. It also demonstrated strategic acumen in partnering with Lone Star Funds to hoover up the structured credit portfolio that once belonged to Belgian bank Fortis in a hefty €6.7 billion deal.

Spare a thought too for Goldman Sachs and GE Capital. Goldman is ubiquitous when it comes to large European deals, as valued for its advisory work as it is its ability to arrange and underwrite financing for sizeable sponsor-backed deals. It also acted as global co-ordinator for the float of CVC Credit Partners’ listed fund. GE Capital meanwhile enjoyed a tremendous year in Europe.
Whilst still a predominantly bank-dominated market, the Asia-Pacific region has played host to a number of innovative indigenous private debt firms eager to provide local competition to the global behemoths that come looking for out-of-the-way deals. Anna Devine reveals the region’s best and brightest from both camps.

**Lender of the year**

**KKR Asset Management**

*Highly commended*

Adamas Asset Management

Oaktree Capital Management

In one of the most closely fought categories, Kohlberg Kravis Roberts Asset Management just pipped Adamas Asset Management and Oaktree Capital Management. Adamas had a strong year, building out its portfolio and sealing its first close on the Greater China Credit Fund (Fund II) at $79 million, while Oaktree agreed a number of notable deals, including the high profile restructuring of Australian surfwear brand Billabong.

KKR Asset Management (KKRAM) however demonstrated its global reach with a number of deals in Asia. The firm has been one of the first global managers to invest in India in a major way. The firm has an India-focused credit fund which has been active for several years and has provided more than $1.5 billion of primary loans. It also expects to diversify into real estate financing.

The NBFC (Non-Banking Financial Company) platform allows KKRAM to originate and syndicate domestic credit deals from its India Alternative Credit Opportunity Fund I, in which domestic LPs invest. The vehicles have given KKR a foot in the door and an opportunity to create a relationship with Indian business owners. “We invest in both stressed and distressed situations as well as into companies which can’t raise conventional forms of capital,” Jamie Weinstein, co-head of special situations, explained.

Deal highlights included an INR 5.5 billion (€65 million; $90 million) financing package for Indian hospital chain Apollo Hospitals. It also made its first foray into Indonesia with a debt-for-equity investment in snack food maker Tiga Pilar Sejahtera Food (TPS).

And with the group’s global special situations fund to call on – Weinstein says a “substantial minority” of its $2b billion will be deployed in Asia – KKRAM is poised to cement its position as an Asian powerhouse.

**Distressed debt investor of the year**

**Oaktree Capital Management**

*Highly commended*

Secured Capital (PAG)

KKR Asset Management

Oaktree Capital Management made it a clean sweep in all three regions in the ‘Distressed debt investor of the year’ category, testament to the global reach and peerless ability of the worldwide team Howard Marks has assembled.

Spare a thought, then, for the runners up. Secured Capital raised an impressive $1.5 billion for distressed debt investments in corporates and real estate in both Japan and the wider Asian region while KKR raised an India-focused debt vehicle, KKR India Alternative Credit Opportunities Fund I.

But it was Oaktree’s partnership with China Cinda Asset Management to launch a distressed debt-focused joint venture, as well as its takeover of Billabong with Centerbridge, that grabbed the attention of our readers. It also played a key role in the restructuring of Australian TV network Nine Entertainment.

In November, Oaktree and China Cinda entered into an agreement to jointly invest in distressed assets in China and to cooperate in distressed investments outside China. *PDI* sources confirmed that each party had committed up to $500 million to invest in China’s distressed debt market, meaning total investment could reach $1 billion.

In an earnings results call in February 2014, principal executive officer and managing principal John Frank said it was an opportunity “to learn more about China, to invest shoulder-to-shoulder with probably the entity in China that is best positioned to invest in distressed assets, particularly distressed real estate assets.”

Overall, Oaktree’s AUM increased to US$83.6 billion as at December 2013. Chairman Howard Marks described the year as its “strongest year of operating performance ever.”
On the Asian and broader emerging markets, chairman Howard Marks commented that they had “barely scratched the surface” in relation to debt. “Taking our existing capabilities to the emerging markets leaves us a lot of runway,” he said.

**Real estate debt fund manager of the year**

Diamond Realty Management

*Highly commended*

Merricks Capital

Balmain Investment Management

Diamond Realty Management Inc. (DREAM) took the ‘Real estate debt fund manager of the year’ title, narrowly pipping Merricks Capital and Balmain Investment Management. Merricks launched its seventh special opportunity fund last year, while the venerable Australian manager Balmain Investment Management was also fundraising for an A$500m fund.

However, the Mitsubishi Corporation’s equity and debt fund management arm DREAM triumphed thanks to a successful year of fundraising that saw it close its second mezzanine fund, DREAM Mezzanine Debt Fund II, on $110 million in April last year. Its flagship DREAM Private REIT reached $1 billion, and together with the mezzanine fundraising, helped to swell DREAM’s assets under management to $4 billion.

According to a spokesperson for DREAM, timing was one of the reasons the firm has edged ahead of the competition. “We entered the market at the right time [in September 2010]. All the foreign banks had retreated and that’s when we started our mezzanine business,” the spokesperson said.

“Key to our success is our parent Mitsubishi Corporation. It is one of the most recognised brands in Japan and opens a lot of doors,” the spokesperson said. “We are also able to use the business’s balance sheet to warehouse mezzanine debt. Our competitive edge is that we can use mezzanine money from Mitsubishi’s account to warehouse the loans and later repackage them into fund products.”

Australia groups have been pioneering infrastructure debt investing in the Asia-Pacific region, so it’s no surprise to see three of their number contest this category. At one of the spectrum you have Hastings, which has rapidly expanded globally and celebrates its 20th anniversary this year, at the other Canberra-based Infradebt which is only one year old, (albeit with a team reads like a who’s who of regional investment specialists).

However, it was Sydney-headquartered AMP Capital’s ability to attract investors which evidently played well with voters. The firm held a first close for its second infrastructure debt fund (IDF II) on $300 million last year after garnering commitments from more than 17 institutional investors.

Andrew Jones, head of infrastructure debt at the firm, told *PDI* that about a third of its investors come from outside the Asia-Pacific region. “We are still in the middle of fundraising and a final close is expected mid-year. We are targeting $1 billion,” he said.

AMP Capital benefits from the strong support of Mitsubishi UFJ Trust and Banking Corporation, which is also a 15 percent shareholder. IDF II follows the success of AMP Capital’s first fund which closed in 2012 after raising $503 million from 30 global institutional investors. Jones said AMP’s main achievement over 2013 was fully deploying that fund, and harnessing its track record to attract LPs to its successor. “The rates of return on that fund supported and attracted investors to IDF II.”

Emerging markets specialist Cordiant’s $10 million investment in CAEPCO to help the Kazakhstan-based energy company modernise demonstrated that debt investing can have a positive environmental and social impact. KKR meanwhile showed its global reach
DIAMOND REALTY started its mezzanine debt business in 2010 as one of the first players to enter the market after the Global Financial Crisis. The company has since established a superior track record by utilizing its strength as a comprehensive real estate asset manager and the resources of its parent company, Mitsubishi Corporation. The company has provided approximately $700,000,000 of mezzanine debt to the Japanese market, and launched two mezzanine debt funds in 2011 and 2013. DIAMOND REALTY continues to identify and seize opportunities in the mezzanine debt strategy, and thanks the readers of this publication for the award.

Diamond Realty Management Inc.

http://www.mc-dream.com/
tel. +81-3-5212-4811
e-mail : info@mc-dream.com
with a cleverly structured INR 5.5 billion deal in India which allowed Apollo Hospitals to consolidate its existing debt and could see KKR converting its debentures into shares after five years.

But the Billabong restructuring, which developed into a brutal tussle for control of the Australian surf brand between the Oaktree and Centerbridge pairing on the one hand, and a GSO Capital Partners and Altamont-led consortium on the other, demonstrated that the distressed debt market was reaching new levels of competitive tension in unfamiliar territory. In so doing, it landed ‘Deal of the year’ for its two key protagonists.

The shareholders and the company’s board eventually opted for the Oaktree / Centerbridge plan, which offered a longer term solution for the company’s financial woes. The bid included A$150 million in cash – more than double the amount that it would receive under Altamont’s bid - and new term debt of A$325 million. And while the deal has yet to reach completion, Oaktree and Centerbridge’s dogged determination and robust proposal appears to have won admiration from their peers.

**Fundraising of the year**

**Secured Capital (PAG)**

**Highly commended**

ICG & Nomura, Hony Capital

Secured Capital was voted Fundraiser of the Year in Asia amid fierce competition from its peers. ICG’s global ambitions were underlined by an audacious but strategically smart tie-up with Japanese bank Nomura, seeding a Japan-focused mezzanine fund with ¥10 billion as a platform to attract further institutional capital. Hony Capital - better known as a private equity shop - branched out into junior debt, hitting its $160 million target for its maiden mezzanine vehicle.

It was Secured Capital’s final close on $1.5 billion though, having launched in late 2011, that brought the curtain down on one of the region’s most successful distressed debt vehicle fundraises in recent memory. The Japan-based real estate arm of private equity group PAG exceeded its initial target of $1 billion.

The fund will focus primarily on distressed real estate and debt opportunities in Japan, but might also leverage its pan-Asian team to source opportunities across the region, J-P Toppino, president and chief investment officer of Secured Capital and Managing Partner of PAG Real Estate, said in an announcement at the time of closing in November.

Since launching the fund, it has closed 11 deals totaling $1.8 billion in Japan, Korea and Australia. The fundraising cements Secured Capital’s status as one of Asia’s leading real estate investment management companies with more than 100 professionals and in excess of $9 billion of real estate assets under management.

**Bank of the year**

China Development Bank

Highly commended

Standard Chartered, ANZ Bank

China Development Bank was crowned Bank of the Year staving off competition from two of the region’s major players, Standard Chartered and Antipodean lender ANZ Bank. Standard Chartered has been a particularly egregious presence in the Asian real estate debt market, backing sponsors including Carlyle, Phoenix and ARA, while ANZ Bank topped the leveraged loan issuance charts at the end of November. ANZ arranged $464 million in debt across nine deals and was also an active backer of infrastructure projects in the Asia-Pacific region.

However, China Development Bank enjoyed a strong 2013. Highlights including providing $211 million of debt to finance the take-private of NASDAQ-listed Yongye International in a deal worth $339 million, and the bank continues to build its reputation for big deals following its involvement in the Alibaba Group share repurchase in 2012.

CDB has said it will prioritise support to a new urbanisation process, affordable housing projects, railroads, industrial restructuring and poverty alleviation development.

As of the end of 2013, CDB’s total assets stood at more than RMB 8 trillion, outstanding bonds were RMB 5.9 trillion and outstanding loans were RMB 7.04 trillion. It non-performing loan ratio came in at 0.48 percent, (below 1 percent for the 35th consecutive quarter) emphasising its credit discipline.
European high yield bond issuance soared in 2013 as borrowers sought to sate the appetite of yield-hungry investors.
Although still well below pre-crisis highs, leveraged loan issuance continued its upward trajectory as banks, many having successfully cleaned up their balance sheets, returned to lending and confidence returned to the European market.
The greater proportion of loans used not for refinancing but for new leveraged buyouts reveals the extent to which M&A activity picked up last year.
The following tables show data relating to funds in market as of 31 December 2013. It's interesting to compare these figures to funds closed over the course of the year - for example, more capital is being targeted at European opportunities in real estate debt and infrastructure (and the gap is much closer in private corporate debt) than at North American opportunities.

### PRIVATE CORPORATE DEBT FUNDS IN MARKET BY GEOGRAPHIC FOCUS

<table>
<thead>
<tr>
<th>Geographic Focus</th>
<th>Number of funds</th>
<th>Aggregate Target Size ($m)</th>
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</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
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<tr>
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<td><strong>Total</strong></td>
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### PRIVATE CORPORATE DEBT FUNDS IN MARKET BY GP HEADQUARTERS

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### PRIVATE REAL ESTATE DEBT FUNDS IN MARKET BY GEOGRAPHIC FOCUS

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<th>Geographic Focus</th>
<th>Number of funds</th>
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<tr>
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<td>EMEA</td>
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### PRIVATE REAL ESTATE DEBT FUNDS IN MARKET BY GP HEADQUARTERS

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<tr>
<td>EMEA</td>
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<td>North America</td>
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<td><strong>Total</strong></td>
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<td><strong>23,228</strong></td>
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### PRIVATE INFRASTRUCTURE DEBT FUNDS IN MARKET BY GEOGRAPHIC FOCUS

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<tr>
<th>Geographic Focus</th>
<th>Number of funds</th>
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### PRIVATE INFRASTRUCTURE DEBT FUNDS IN MARKET BY GP HEADQUARTERS

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<tr>
<td><strong>Total</strong></td>
<td><strong>12</strong></td>
<td><strong>7,469</strong></td>
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The total amount of capital raised by private (corporate) debt funds was almost triple the amount raised by their real estate debt counterparts. North American continued to be the dominant market, attracting more capital than EMEA or Asia-Pacific except in infrastructure debt.
<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Fund Manager</th>
<th>Capital Raised ($m)</th>
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<td>Prime Finance Partners III</td>
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<td>Blackstone Special Situations Fund I</td>
<td>The Blackstone Group</td>
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<td>Madison Realty Capital</td>
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<td>Blue Ocean Fund</td>
<td>LVF Capital</td>
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<th>Fund Name</th>
<th>Fund Manager</th>
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<th>Geographic Focus</th>
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<td>IL&amp;FS Infrastructure Debt Fund</td>
<td>Infrastructure Leasing &amp; Financial Services Ltd (IL&amp;FS)</td>
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</tr>
</tbody>
</table>
**THE LAST WORD**

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"Finally, debt is sexy"

"HEINZ IS A BIG AND BAD ENOUGH COMPANY; IT CAN DO WHAT IT WANTS"
A European banker shrugs off the decision to go for an all-dollar debt package to underpin the $28 billion Heinz buyout

"WE'RE SELLING EVERYTHING THAT'S NOT NAILED DOWN, AND IF WE'RE NOT SELLING WE'RE REFINANCING"
Apollo's Leon Black describes the pricing environment during the Milken Institute conference

"IMAGINE YOU'RE A VP AT A PRIVATE EQUITY FIRM. YOU TAKE A DEAL TO A PARTNER, AND NOT ONLY DO YOU PITCH THAT YOU'LL FINANCE IT WITH A DEBT INSTRUMENT HE'S NEVER HEARD OF, BUT YOU'RE GOING TO SOURCE IT FROM A FIRM HE'S NEVER HEARD OF EITHER. IT'S A TOUGH SELL"
A London-based private debt fund manager reveals there's still work to do to educate sponsors about the asset class

"THEY SHOULD PROBABLY CHANGE THE NAME. THEY'RE BONDS, AND THEY PROVIDE YIELD, BUT THE 'HIGH' BIT ISN'T NECESSARILY APPROPRIATE THESE DAYS"
An experienced debt lawyer suggests the high yield market isn't quite what it's cracked up to be

"IF YOU PITCHED A £10 BILLION TAKE-PRIVATE NOW, YOU WOULDN'T BE VIEWED AS BARKING MAD. THREE MONTHS AGO YOU'D HAVE BEEN LAUGHED OUT OF TOWN"
A senior banking source admits the Dell and Virgin deals changed market perceptions of big buyout financing

"WHEN WE FIRST STARTED ... THERE WERE PROBABLY 10 PEOPLE SITTING IN A ROOM DOING HIGH YIELD BONDS"
GSO Capital Partners co-founder Tripp Smith speaks about the firm's humble origins

"I'M PERSONALLY REALLY EXCITED ABOUT THE EUROPEAN MARKET AND HAVE VOTED WITH MY FEET"
Smith again, on why he's made the move to London

"I'VE BEEN WORKING IN THIS INDUSTRY FOR MORE THAN 25 YEARS, AND NOW, FINALLY, DEBT IS SEXY"
David Cottam, partner and co-founder of Park Square Capital on the benefits of playing the long game

"ONCE YOU'VE CONSUMMATED ONE, TWO, OR THREE TRANSACTIONS WITH FOLKS, THEY KNOW EXACTLY WHAT THE STRIPES OF THE TIGER ARE"
THL Credit chief executive James Hunt explains how familiarity breeds trust.

"TO PARAPHRASE OUR CONSULTANT: I WANTED TO HATE EVERY SINGLE PART OF IT, BUT I COULDN'T FIND A SINGLE THING WRONG WITH IT"
New Jersey Division of Investment director Timothy Walsh on a proposed add-on to a GSO Capital Partners separate account

"THERE ARE TIMES IN THE CREDIT MARKET WHERE YOU JUST SHOULDN'T BE INVESTING. IT'S IMPORTANT TO GO TO THE BEACH"
Park Square Capital co-founder Robin Doumar on the importance of keeping your powder dry

"BETTER TO PAY A PREMIUM AND WIN THE DEAL THAN NOT PAY AND COME SECOND"
Olivier Berment, head of private debt at Ardian, talks tactics

"TOO MANY BUSINESSES WITH TOO MUCH DEBT ARE BEING KEPT GOING BY BANKS UNWILLING TO TAKE WRITEDOWNS. WE SHOULD BE SEEING A WHOLESALE RECYCLING OF ASSETS INTO MORE EFFICIENT HANDS. THERE ARE A LOT OF COMPANIES MERELY EXISTING, RATHER THAN INVESTING IN GROWTH - THEY 'RE BEING STRANGLED SLOWLY"
Matthew Prest, co-head of Europe in Moelis & Company's restructuring group

"YOU HAVE TO BE CAREFUL WHO YOU GET INTO BED WITH. IT'S USEFUL TO HAVE A GOOD RELATIONSHIP WITH YOUR DEBT PROVIDER IN CASE THINGS DON'T GO TO PLAN AND YOU HAVE TO WORK THINGS OUT. THAT CAN BE AN ISSUE WITH DEBT FUNDS"
A financial sponsor prefers entrenched banking relationships to the new kids on the block

"YOU CAN'T OPEN A NEWSPAPER WITHOUT A GOVERNMENT SAYING 'THE KEY TO THE FUTURE IS INFRASTRUCTURE, WE JUST DON'T HAVE ANY MONEY NOW'"
Allianz Global Investors CIO Deborah Zurkow on investment opportunities in infrastructure debt
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