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2023 Private Debt

Magellan
Private Debt
Newsletter

January

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Market Outlook

PRIVATE DEBT

Since the global financial crisis, private debt has taken off, with more than $1.4trn in assets, according to data from Preqin. Private debts expansion is expected to continue as public financing retreats and companies continue to seek capital. On the other hand, there are concerns that private debt investors will see higher default rates and , eventually losses, if borrowers are not able to keep up with the increasing costs of servicing their debt as interests rise. In times of market uncertainty, even the ever-increasing risk of middle market loan defaults , private debt can be an ideal option for investors, offering lower volatility with returns dependably above those of public markets (IW).

PRIVATE CREDIT

According to the latest report by the Alternative Credit Council, the private credit affiliate of the Alternative Investment Management Association, more than 80 percent of private credit managers globally are either bullish or cautiously optimistic about the market's prospects over this year. The UK and U.S. remain the two countries which private credit managers see the highest potential for growth in the next one to three years. The rest of Europe and Asia have also emerged as attractive investment destinations However, private credit managers have highlighted the difficulties posed by the deteriorating economic backdrop. Fifty-five percent of managers have identified inflation and other macroeconomic risks as the biggest challenges affecting borrowers in their portfolios, followed by labour market constraints and company-specific risks (II).

PRIVATE DEBT GROWTH

91%

Proportion of surveyed investors that intend to maintain or increase allocations to private debt over the long term.

$2.6tn

Projected global private debt AUM by 2026

Source: Preqin

A GROWING ESG FOCUS

52%

Of investors view ESG as one of the 3 main factors driving successful investment in private debt.

90%

See ESG monitoring tools as one of the 3 most important digitalization developments in private debt over the next 5 years.

Source: Natixis

"Some of the largest private debt firms have launched record-breaking funds that have some level of ESG consideration. The momentum behind ESG in private debt will be driven by investors, and [we] expect it to grow in tandem with the asset class itself."

Source: Preqin

Senior Hiring

Brad Marshall | Global Head of Private Credit Strategies | Blackstone

Brad Marshall, Senior Managing Director, has been promoted to the new role of Global Head of Private Credit Strategies, after nearly two decades with the firm. At the same time, Jonathan Bock has joined Blackstone as co-CEO of Blackstone's two business development companies, Blackstone Private Credit Fund and the Blackstone Secured Lending Fund. He will serve alongside Marshall, who had been sole CEO of Blackstone's two BDCs. Bock had been CEO of Barings BDC, a business development company. Bock stepped down as CEO of Barings BDC on Dec. 16 and was replaced by Eric Lloyd, according to an SEC filing (P&I).

The new leadership roles correspond with the significant expansion of Blackstone Credit, where total assets under management have grown 135% over the past five years to $234 billion. PCS makes up approximately half of Blackstone Credit’s business today and includes the BDCs. (BLS).

Don Dimitrievich | Head of Energy Infrastructure Credit| Nuveen

Asset manager Nuveen is boosting its efforts in sustainability by hiring Don Dimitrievich to oversee its efforts in energy infrastructure, with an emphasis on financing renewable energy projects. Having arrived in November from HPS Investment Partners, Dimitrievich will build a team focused on North American energy infrastructure credit as part of Nuveen’s private capital business. He has more than two decades of experience in this area, both at HPS and at Citi Credit Opportunities.

At Nuveen, which manages $1.1 trillion in assets, a large part of it for institutions, he will take charge of sustainable energy and the broader energy and power markets. Specifically, he will oversee debt and credit-like investments aimed to further assist companies’ efforts to curb carbon emissions, advance the electrification of the industry and ensure energy supply and reliability (CIO).

Suhail Shaikh | Co-Head of Private Credit | Investcorp

Investcorp announced the appointment of Suhail Shaikh as Co-Head of Investcorp's Private Credit business. Based in New York, Shaikh will co-lead the private credit business alongside current Co-Head, Mike Mauer. Shaikh brings with him approximately $200 million of assets under management and three team members from his previous firm Alcentra, expanding the private credit team to 14 professionals and team-managed assets to approximately $500 million. Current Co-Head, Chris Jansen, will take on an advisory role and retire later this year after ensuring a smooth transition.

Shaikh has over a decade of private credit investment experience. He joins from Alcentra, where he led their U.S. Private Credit business. Prior to that, he was a Partner and Senior Investment Professional at SLR Capital Partners (formerly Solar Capital Partners) (PNW).

Team Buildouts

BNP Paribas Asset Management | Forms €30bn Private Assets Team

BNP Paribas Group has created a new division for private assets, within its Investment and Protection Services (IPS) arm, bringing together more than €30bn in assets under management and advisory. The new business unit will be led by David Bouchoucha, who was previously responsible for BNP Paribas Asset Management's private debt and real assets investments. Bouchoucha will become head of private assets, reporting directly to chief executive Sandro Pierri. It will become operational from January 2023 and will look to raise funds from third-party clients, institutional and individual investors.

The division will focus on direct management in corporate financing, real assets and individuals' financing, as well as indirect management through private assets funds. The division will combine existing capabilities under the group, including the private asset management activities of Principal Investments and its subsidiary BNP Paribas Agility Capital. The new division is being created as part of the group's growth, technology and sustainability (GTS) 2025 strategic plan. BNP Paribas is the latest group to create a dedicated private assets division (CW).

Ambienta | Hires Three Upon Closing of First Private Debt Fund

Ambienta, a sustainability-focused private equity firm, has hired serval people in its fledging credit team as it aims for a final close of its debut private debt fund this year. Nishan Srinivasan, a former Director at Credit Suisse, has joined as a Partner and Head of Credit Origination. He is joined on the credit team by newly appointed Chief Operating Officer Isobelle White, formerly of private equity manager Attestor, and Credit Suisse's Andrew O'Flaherty. Srinivasan, White and O'Flaherty will be based in the London office.

Ambienta, which is headquartered in Milan, is targeting a final close for its €500m private credit fund in the middle of 2023. It is understood that Ambienta has a considerably higher target for its second fund, likely to be launched in 2024. The strategy is designed to build on Ambienta's reputation as a sustainability-focused manager. It has a flexible mandate to invest across direct lending, complex and bespoke transactions, secondary credit deals and special situations. The strategy targets a gross internal rate of return of around 10%. The appointments follow Ambienta's credit hiring of Ran Landmann, former Senior Managing Director at CVC Credit, as Chief Investment Officer in April 2022, to launch the corporate credit strategy. Ambienta is looking to expand its credit team further in the short term (GC).

OTHER SENIOR HIRING

- Naseem Hossain | Head of Private Credit Risk | Aviva to M&G Investments
- David Scudellari | Head of International Investment | PSP to AIMCo
- Bernard Galea | Senior Private Credit Analyst | Muzinich & Co to Pantheon
- Charles Asfour | Special Sits Origination | Aves Capital Management to Comvest
- Sophie Littler | Investor Relations: Private Debt | Lendinvest to Fidelity
- Rai Katimansah | Real Assets Fund Manager | Sung Hung Kai & Co to SC Capital
- Joshua Wood | Head of Private Credit Sales: EMEA | Eurazeo to Partners Group

Fidelity Launches First Business Development Company, Fidelity Private Credit Fund

Fidelity Investments today announced the expansion of its rapidly growing alternative investments product line-up with the launch of the Fidelity Private Credit Fund, a business development company (BDC). The new BDC is available for individual investors and distributed through financial advisors and intermediaries in most states. Fidelity Private Credit Fund will be managed by Fidelity Diversifying Solutions LLC, an investment adviser that was established to support the growth of Fidelity's alternative investment capabilities and development of alternative products and solutions. Fidelity established its direct lending business in 2021 and the team, including portfolio managers David Gaito, Therese Icuss, and Jeffrey Scott, continues to grow. (BW).

Fund Closures

Goldman Sachs AM closes $15.2 billion Mezzanine Fund

Goldman Sachs Asset Management (Goldman Sachs) announced the final close of West Street Mezzanine Partners VIII, the latest in a series of flagship mezzanine vehicles. The Fund closed on $11.7 billion of equity, with a total fund size of $15.2bn inclusive of expected long-term asset financing. The Fund is managed by the Private Credit business within Goldman Sachs Asset Management, with a global team of over 150 experienced credit investors drawing on the wider platform and resources of Goldman Sachs to source investments and add value to portfolio companies (MM).

Ares closes first infrastructure debt fund at $5 billion

Ares Management Corporation (Ares) announced the final closing of its Infrastructure Debt Fund V, which is focused on making subordinated investments across the digital, utilities, renewables, energy and transportation sectors. IDF V held its final close on December 29, 2022, at approximately $5.0 billion, including General Partner commitments and related transaction vehicles. With more than 25 investment professionals across the U.S., Europe, Australia and Asia, Ares' Infrastructure Debt team maintains deep local relationship networks that provide robust direct origination and high-quality deal flow capabilities (BW).

Audax Private Debt closes Audax Direct Lending Solutions Fund II, LP with $4.5 billion

Audax Private Debt (Audax), a leading provider of financing solutions for middle market private equity sponsors, announced today that it successfully closed Audax Direct Lending Solutions Fund II, LP (DLS Fund II) with $3.0 billion of capital commitments. The new fund, which reached its hard cap, exceeded its fundraising target of $2.25 billion and, including targeted leverage, provides New York-based Audax Private Debt with $4.5 billion of total investable capital. DLS Fund II attracted commitments from a diverse mix of global institutional investors from the U.S., Canada, Europe, Asia-Pacific, the Middle East, and Latin America (BW).

Hong Kong's PAG closes APAC largest private credit fund at $2.6 billion

Hong Kong headquartered alternative investment firm PAG has closed its fifth pan-Asian direct lending fund worth $2.6 billion. The fund is the largest of its kind in Asia-Pacific to date. It received capital commitments from 20 institutional investors, including sovereign wealth funds, pension funds, and endowments located in North America, Europe, the Middle-East and Asia-Pacific. PAG's direct lending fund aims to provide financing solutions across the Asia-Pacific region. The firm has more than $50 billion in assets under management (DSA).

Angelo Gordon Twin Brook Capital Income Fund launches with more than $800 million in assets

Angelo Gordon, a $52 billion alternative investment firm focused on credit and real estate investing, announced that AG Twin Brook Capital Income Fund (TCAP) has launched with more than $800 million in total assets. TCAP is a non-traded business development company (BDC) that has approximately $530 million in equity and over $1 billion in total investment commitments at launch. Effective January 1, TCAP completed its merger with AGTB Private BDC, with TCAP as the surviving company; AGTB Private BDC, TCAP's predecessor vehicle, was an affiliated, privately offered BDC with the same investment manager and investment objective as TCAP. Perpetually Offered BDC Seeks to Provide Income-Focused Individual Investors with Access to Angelo Gordon's Differentiated Middle Market Direct Lending Business, Twin Brook Capital Partners (AG).

Muzinich & Co closes pan-European debt fund at €800 million

Muzinich & Co has held the final close of the Muzinich Pan-European Private Debt Fund II, which provides flexible debt capital solutions to lower middle-market companies across Europe and the United Kingdom, with €800 million in capital commitments. The fund, which is classified as Article 8 under the EU's Sustainable Finance Disclosure Regulation (SFDR) makes investments according to Muzinich & Co's proprietary ESG scorecard which assesses company ESG credentials (PEW).

M&A Outlook

GLOBAL M&A

Goldman Sachs top dealmakers are bullish on a recovery in global mergers & acquisitions (M&A) in the second half of 2023 despite a slowdown in economic growth and a weak credit market. As economic forecasts turn gloomier, executives at the Wall Street powerhouse - including Dan Dees and Jim Esposito, who jointly run its global banking and markets division said they are primed for a recovery when financing markets ease up, potentially as early as the second half of 2023. The projections come after global M&A values slumped 36% to $3.78 trillion in 2022, from a record $5.91 trillion in 2021, according to Dealogic data. Big investors are sitting on piles of cash preparing to fund transactions, and large companies earning solid profits are looking to diversify their businesses - but they are waiting for economic uncertainty to fade (REU).

"I remain quite bullish, maybe not on the first quarter, but certainly as we go forward," said Stephan Feldgoise, global co-head of M&A. Still, there are "clear headwinds in the first part" of 2023, he said. Mark Sorrell, Feldgoise's counterpart in London, sees corporate clients jumping on deals when financing is available because their underlying motives are still intact, such as gaining new customers, new products or geographic expansion. Companies are staying on the sidelines because their creditors have pulled back from making riskier loans for buyouts as interest rates rise, but that could change rapidly, he said (REU).

LATAM M&A

The volume of M&A deals in Latin America fell 35% this year, to $86 billion, according to Refinitiv data. Bankers predict M&A volumes will grow up to 20% in the region next year as Latin America becomes more relevant among emerging markets. Many emerging market investors have already backed out of Russia due to the war in Ukraine, and are now reducing exposure to China, worried over the impact of erratic COVID policies, tension with Washington and opaque finances of Chinese firms. Latin America has a great opportunity to increase its share among emerging markets, said LatAm M&A co-head at Citigroup Nicolas Roca (PEI).

ASSET MANAGEMENT M&A

According to PwC, M&A activity in asset management is expected to slow over the near-term caused by the macroeconomic uncertainty, volatility in valuations (EV/EBITDA multiples for listed traditional asset managers are down to 9x from a high of 15x as recently as February 2022) and divergence in expectations between bidders and sellers. However, negative flows and significant drops in equity and fixed income indices throughout the year are resulting in higher margin pressures across the board, which should spur greater consolidation in 2023. Many large players will look at scale, and new capabilities (e.g., ESG/solutions, distribution, technology capabilities) as they look at potential M&A options (PwC).

ASSET & WEALTH MANAGEMENT M&A

Source: Piper Sandler & Co

355 2022 Deals

Transacted AUM $1.493trn

Through the end of November, asset and wealth management firms had announced 355 transactions which involved total transaction AUM of around $1.493trn (PI).

346 2021 Deals

Transacted AUM $3.177trn

That compares with 346 transactions in the same period of 2021, but transacted AUM amounted to $3.177trn – more than double the 2022 figure (PI).

PwC stated that they expect alts managers who are currently operating within the private credit space to be serial acquirers as they meet high yield demands of LPs of alternative funds. Diversification has come to the forefront for private equity managers, especially as private equity fundraising faces volatile markets heading into 2023 (PwC).

M&A Activity

HSBC Asset Management Acquires Energy Specialist to Boost Alts Business

HSBC Asset Management is adding energy transition infrastructure boutique Green Transition Partners (GTP) to its alternatives business line up. Details of the "business transfer agreement", which brings employees and certain assets of Hong Kong-based GTP to the consolidated alternatives business division HSBC set up in 2021 were not disclosed. GTP, a specialist asset manager investing in green energy infrastructure such as "storage, grids, charging and hydrogen infrastructure" across Asia, launched in 2021 but its team has been working together for more than five years. HSBC Alternatives had combined assets under management and advice of $52 billion as of Sept. 30 (PIO).

Icona Capital Acquires 40% Stake in Stoneweg

Icona Capital, an independent, London-based investment firm focused on real estate, credit, private equity, special situations and growth equity, has acquired a 40% minority stake in global real estate investment company, Stoneweg. The strategic partnership creates a combined €8 billion platform leveraging both partners' capital sourcing, deal flow origination and asset distribution capabilities. Stoneweg has been identifying real estate opportunities and structuring investment products in Switzerland, Spain, Andorra, Italy, UK, Ireland and the US since 2015. The company has enjoyed a strong period of growth since its inception and now employs over 140 professionals managing more than €5 billion of real estate assets (PEW).

KIC Expands Private Credit Capabilities with Landmark Investment

Korea Investment Corporation (KIC) is aiming to increase its direct investment capabilities in private credit after acquiring a passive, non-voting, minority stake in US private credit asset manager Golub Capital and its management companies. The investment marks the sovereign wealth fund's first direct equity investment in an asset management firm. KIC's assets totalled $176.6 billion at the end of August, with alternative assets accounting for 21.3%. KIC plans to gradually increase its alternative investment allocation to 25% by 2025 (AI).

Mubadala Forms $2.5billion Private Credit Joint Venture

Sovereign wealth fund Mubadala Investment Co., Abu Dhabi, will co-invest 9 billion dirham ($2.5 billion) in global private credit over the next five years via a joint venture with UAE conglomerate Alpha Dhabi. Mubadala, which has $284 billion in assets, owns 80% stake in the joint venture, with the remainder held by Alpha Dhabi. The wealth fund will leverage its long-term and strategic partnership with alternative money manager Apollo to access high-quality private credit investment opportunities. In February, Mubadala expanded its partnership with Apollo to originate transactions across various asset classes over the next five years (PIO).

Market Insight

WHY IS RISK AT THE START OF LP CALCULATIONS

With tough tomes ahead, investors are assessing their strategic options. Most will stay on the course in private debt one way or another. Some investors have urged their peers to up their allocations to private debt, and private markets in general. But others say the pressure of interest rate rises on borrowers will create problems the likes of which private debt has never had to deal with before, and that risk is aft all-time highs.

Given the volatility of the current economy, it seems surprising that some investors appear keen to avoid traditionally safe, lower-return parts of the market. But it speaks to risk-reward calculations. There is a view that the public markets may now offer a similar return for less risk and, in order to still obtain a sensible premium, investors should be setting their sights more on the opportunistic end of the credit spectrum. Some investors cited enthusiasm for venture debt. As rates go up, the strategy is seeing higher coupons, warrant coverage going up, higher pre-penalties and a growing constituency of borrowers need. With venture companies tending to stay in the private domain for longer, they need the capital to stretch further but have no desire to give up equity. Instead, they are turning to loans with duration of two or three years. But whilst the general mood it to stay on course with private markets, one investor posed the question as to whether public markets might be a better bet in times of stress (PDI).

SPANISH TAXATION OF CARRIED INTEREST

Whilst other EU countries such as France and the UK have rules in place addressing the tax treatment of carried interest, in Spain, only the Provincial (Foral) Territories of Guipúzcoa, Vizcaya, Álava and Navarra have approved rules regulating this matter and, at a national level, Spanish legislation has to date remained silent in this respect.

On the 1 December 2022, the Spanish Congress approved a Law promoting the start-ups ecosystem which sets out various different legal and tax measures that have the aim of attracting investment into Spanish start-ups. Included among these measures are new rules on the taxation of carried interest. According to the Start-Up Law, income obtained by private equity executives directly or indirectly from shares or rights, including variable fees, that grant special economic rights in certain closed-ended Alternative Investment Funds (AIFs) or in analogous entities, should be treated as employment income for Spanish tax purposes.

However, carried interest employment income taxation will be subject to a 50% reduction provided that certain requirements are met – these are discussed in further detail below. Considering that Madrid's highest marginal employment income tax rate is currently 45%, the effective tax rate of a private equity executive would be around 22.5% if these conditions are met. The new carried interest regime will have effect from 1 January 2023 (FBD).

PRIVATE REAL ESTATE GETS TO GRIPS WITH DE&I

Source: PERE

1/3

Nearly a third of institutional investors consider DE&I a 'highly important' factor in considering allocations, according to an Escalent survey.

Source: Escalent

78%

Share of investors saying diversity and inclusion was a priority governance issue to be addressed for real assets stakeholders, according to a 2021 GRESB survey .

Source: GRESB

Private real estate – like many industries is looking at issues of diversity, equity and inclusion in a different light. DE&I has taken center stage for many managers, especially during the past two years. Common hurdles facing the industry include a lack of prioritization by firm leadership, a skepticism about the business benefits of DE&I and budgetary constraints, Ferguson Partners Global Real Estate DEI Survey found. A more fundamental issue facing many professionals in, and around private real estate is measuring progress internally and against their peers. A lack of industry standardization or independent certification means firms can only measure themselves against their own targets or those set by their investors.

Source: PERE

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Sources

IW: Investment Week, II: Institutional Investor, PQ: Preqin, NAT: Natixis, P&I: Pensions & Investments, BLS: Blackstone, CIO: Chief Investment Officer, PNW: PR Newswire, CW: CityWire, GC: Global Capital, BW: Business Wire, MM: Markets Media, DSA: Deal Street Asia, AG: Angelo Gordon, PEW: Private Equity Wire, REU: Reuters, PwC: PricewaterhouseCoopers, PEI: Private Equity Insights, PS&C: Piper Sandler & Co, FE: Funds Europe, PIO: PI Online, AI: Asian Investor, BL: Bloomberg, PDI: Private Debt Investor, PERE: Private Equity Real Estate, FBD: Freshfields Bruckhaus Deringer, Escalent, GRESB: Global Real Estate Sustainability Benchmark

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