PEI Alternative Insight

PRIVATE DEBT INVESTOR

FOR THE WORLD'S ALTERNATIVE ASSET CLASSES

SPECIAL REPORT

THE PDI 30

Change at the top

Globally focused multi-asset managers continue to dominate our proprietary ranking of private debt fund managers, but a different firm has topped the rankings this year, writes **Oliver Smiddy.**

A year on from *Private Debt Investor*'s inaugural ranking of private debt fund managers, and while the global alternative lending market has developed enormously, there's a ring of familiarity to the second PDI 30 list.

Based on a simple metric - the amount of capital raised over the last five years for discreet private debt strategies - the ranking provides insight into the capital raising success of the top firms.

Many of the managers we speak to trumpet their ambitions to build scale, and the firms featured in this list have certainly done that, particularly at the top end. The very largest firms manage vast portfolios of assets, dwarfing those firms rounding out the list. It's unsurprising that the variation between the top and bottom of the list is so much greater than in similar rankings produced by our sister titles focused on private equity, infrastructure and real estate, simply because the asset class is that much younger.

The top three is dominated by distressed debt specialists, who have profited greatly from the economic crisis. All three have been active buyers of non performing loan portfolios and other distressed assets, capitalising on the deleveraging process underway within the global banking community.

It's also interesting to note that there are still relatively few European-headquartered managers in the top 30, and still no Asia-Pacific firms. M&G Investments remains the leading European manager, breaking into the top 5 this year, while AXA Group also places highly.

Over the next few pages, we'll take a closer look at the top 10 firms, as well as break out separate rankings for European firms and CLO managers (whose efforts were not counted as part of the main ranking).

THE METHODOLOGY

How we determine the 2014 ranking

The PDI 30 ranking is based on the amount of capital raised by private debt investment programmes over a roughly five-year period. This year, the five-year window spans from 1 January 2009 until 1 June 2014.

Accuracy, confidentiality

We give highest priority to information that we receive from or confirm with the private debt fund managers firms themselves. When private debt fund managers confirm details, we seek to "trust but verify". Some details simply cannot be verified by us, and in these cases we defer to the honour system. In order to encourage cooperation from private debt fund managers that might make the PDI 30, we do not disclose which firms have aided us on background and which have not.

Lacking confirmation of details from the firms themselves, we seek to corroborate information using firms' websites, press releases, news reports, limited partner disclosures, etc.

Definitions

Private Debt: For the purposes of the PDI 30, the definition of private debt is capital committed by investors to a dedicated programme of investing in the debt of private companies, or the debt financing of leveraged buyouts, infrastructure projects and real estate. This includes all elements of the capital structure except equity, including senior, unitranche and mezzanine investments. Asset-backed lending, distressed debt or credit-oriented special situations funds are also included, as are Business Development Companies (BDCs).

Capital raised: This means capital definitively committed to a private debt investment programme. In the case of a fundraising, it means the fund has had a final or official interim close after 1 January 2009. You may count the full amount of a fund if it has a close after this date. And you may count the full amount of an interim close (a real one, not a "soft-circle") that has occurred recently, even if no official announcement has been made. We also count capital raised through other means, such as co-investment vehicles, deal-by-deal co-investment capital, publicly traded vehicles, recycled capital, and earmarked annual contributions from a sponsoring entity.

What does NOT count as private debt?

High yield bond funds, sovereign / government debt funds, traditional fixed income vehicles, CLO funds do not count as private debt funds in this context. We do not count hedge funds, meaning funds that primarily target liquid securities or trading strategies. Some hedge funds have target allocations to private debt deals – we do not count these. We do count private debt capital formed in strictly segregated fashion in a hedge fund if these pools of capital are brought to our attention. We only count special situations funds if their focus is on credit investments.

Rank	Firm	Headquarters	Five-Year Fundraising Total ($m)
1	Lone Star Funds	Dallas	28,000
2	Oaktree Capital Management	Los Angeles	23,037
3	Apollo Global Management	New York	21,957
4	The Blackstone Group / GSO Capital Partners	New York	20,097
5	M&G Investment Management	London	19,870
6	Goldman Sachs Merchant Banking Division	New York	15,155
7	Oak Hill Advisors	New York	14,049
8	Cerberus Capital Mnagament	New York	13,830
9	Avenue Capital Group	New York	11,300
10	Golub Capital	Chicago	11,228
11	EIG Global Energy Partners	Washington DC	11,054
12	Ares Management	Los Angeles	10,277
13	AXA Real Estate	Paris	10,213
14	Fortress Investment Group	New York	9,575
15	Intermediate Capital Group	London	9,355
16	Highbridge Principal Strategies	New York	8,175
17	Pacific Investment Management Co (PIMCO)	Newport Beach	8,070
18	Hayfin Capital Management	London	7,990
19	Crescent Capital Group	Los Angeles	6,712
20	Angelo Gordon	New York	6,684
21	Babson Capital Management	Boston	6,443
22	Bain Capital / Sankaty Advisors	Boston	5,874
23	Quadrant Real Estate Advisors	Alpharetta	5,868
24	Kohlberg Kravis Roberts (KKR)	New York	5,439
25	TCW Group	Los Angeles	5,311
26	CarVal Investors	Minnetonka	5,028
27	Medley Capital	New York	4,748
28	Starwood Capital Group	Greenwich, CT	4,491
29	TPG	Fort Worth	4,300
30	Varde Partners	Minneapolis	4,150

Source: PDI Research & Analytics

1 Lone Star Funds

In the limelight: Lone Star founder John Grayken

The Dallas-headquartered firm founded in 1995 by John Grayken has become synonymous in recent years with big, aggressive non-performing loan portfolio acquisitions.

The firm is a fundraising powerhouse, as both the size of its funds and the rapid pace with which it raises them testify. Its eighth fund closed on $5.1 billion in May last year, and yet its insatiable appetite for deals meant it was soon back in market. The ink is barely dry on Lone Star Fund IX which closed in July on $7.2 billion. Limited partners in Fund IX include the Dallas Fire and Police Pension, New Mexico Educational Retirement Board and the Teacher Retirement System of Texas, according to PDI's Research and Analytics division.

Then there's its third dedicated real estate debt (and equity) fund, Lone Star Real Estate Fund III, which raised $7 billion last year against a target of $6 billion.

The firm brings far more than just a big cheque-book, however. Its ability to handle complex restructuring or distressed scenarios gives it a real edge, demonstrated earlier this year by its acquisition of ailing French office complex Coeur Défense. Lone Star only began work on the deal in late 2013, working through the Christmas break to bring the deal to fruition.

Cyril de Romance, co-founder of First Growth Real Estate Advisors, said Lone Star had a major advantage when it approached the asset.

"Real estate investors who understand financial engineering and structuring have a tremendous advantage over those who take the narrower, property-only approach. Both approaches are key in this market.

"Real estate advisors were preparing for the asset sale and institutional investors were expecting a neat info memo. Lone Star had a shrewd strategy by approaching the various creditors in the capital stack to gain control of Coeur Défense through its debt."

Other deals include the acquisition of Commerzbank's UK real estate lending arm in partnership with Wells Fargo last year, and its acquisition of €4.4 billion of the same bank's Spanish loan portfolio, in partnership with JPMorgan. Indeed, real estate advisory firm Cushman & Wakefield estimates Lone Star has deployed more capital in the first half of this year than any other firm when it comes to loan portfolio deals.

Lone Star's senior team has also seemingly begun to think about succession planning, with André Collin given the newly-created role of president in January. Collin is tasked with overseeing the firm's global operations, while founder Grayken focuses on sourcing investments and developing overall strategy for the firm. ■

THE TOP 10 CLO MANAGERS

Although the PDI 30 ranking excludes capital raised for CLOs, we felt it would still be worth pulling together a list of the top CLO managers as a separate ranking. Several firms, including 3i Debt Management and ICG, have made real inroads into a CLO market which is enjoying a genuine renaissance. New CLO 2.0 issuance in Europe has even started to pick up, helped by many of the firms listed here. The timespan was the same as for the main PDI 30 list. Sourcing was based on firms' own submissions.

Rank	Institution Name	Five year CLO capital total ($m)
1	AXA Real Estate	8,138
2	Apollo Global Management	6,300
3	The Carlyle Group	6,267
4	Ares Management	5,476
5	Oak Hill Advisors	4,651
6	3i Debt Management	4,382
7	Oaktree Capital Management	4,145
8	Intermediate Capital Group (Including ICG-Longbow)	3,700
9	Babson Capital Management	3,374
10	Neuberger Berman	2,170

Source: PDI Research & Analytics

2 Oaktree Capital Management

Oaktree founder Howard Marks

The Howard Marks-led firm has developed an impressively broad suite of funds, enabling it to raise an equally impressive amount of capital - $6 billion for its closed ended funds in the last 12 months.

It's also been very successful at securing managed accounts with leading institutional investors who rate the firm's ability to deliver outsized returns.

On a recent earnings call, managing principal John Frank said Oaktree's closed-end funds had delivered an aggregate gross return of 3.7 percent in the second quarter, bringing the returns for the year to 18.4 percent. Long-term as of June 30, the gross IRR for all the closed-end funds since inception was 20 percent.

It hasn't all been plain sailing however, and inevitably at a firm with such a broad mix of strategies, there are bound to be differences of opinion. Oaktree's head of mezzanine, Bill Sacher, left the firm this summer after 13 years following a disagreement about the best way forward for the firm's mezzanine unit.

The firm is developing its direct lending expertise and is in the process of raising its fourth mezzanine fund, expected to be of a similar size to its $1.6 billion Fund III. It's recently begun raising CLOs, and has energy-related, infrastructure and enhanced income funds in the works too. ■

3 Apollo Global Management

Last year's top firm has slipped to third as the funds it raised in 2008 fall out of the five year window for inclusion, but it's a safe bet that Apollo will be back with a bang next year.

Credit investing is integral to the Leon Black-led firm's DNA. Indeed its credit operations grew to $106 billion at the end of June (against total assets of $168 billion), compared to $62 billion at the same point last year. It's the fastest-growing part of the business.

Speaking on a recent earnings call, co-founder and senior managing director Joshua Harris remarked: "We're continuing to operate amid a backdrop of three major credit themes, which will go on for a long time, including the impact of secular change from financial re-regulation, the deleveraging of bank balance sheets globally, particularly in Europe and continued investor demand for yield and opportunistic credit in a low-rate environment.

Leon Black

"These market dynamics are allowing us to step into pockets of the credit markets such as shipping or aircraft leasing, which have historically been occupied by more traditional providers of capital," he added.

Funds raised over the last couple of years include Financial Credit Investment II ($1.5 billion), Apollo European Principal Finance Fund II ($3.7 billion) and the Apollo European Credit Fund ($293 million). In the second quarter this year, it secured $800 million in commitments for its new credit funds, half of which was allocated to Credit Opportunity Fund III. And while they don't count towards this ranking, Apollo's success at raising CLOs has seen it maintain its position as the largest CLO manager in the US. ■

4 The Blackstone Group / GSO Capital Partners

With $69.5 billion of total assets under management, GSO Capital Partners is bigger than Blackstone's core buyout unit (which manages $68 billion), and not far behind its $80 billion real estate division. Of that total AUM, $56.1 billion are fee-earning assets, the firm said on a recent earnings call.

GSO, founded by Bennett Goodman, Tripp Smith and Doug Ostrover a decade ago before its acquisition in 2008 by Blackstone, has developed a wide range of credit-related products, in common with the other large managers in this ranking.

GSO co-founder Bennett Goodman

GSO's custom strategies account for $23.5 billion of its assets, while it also manages $23.5 billion of CLO capital, $7.7 billion of mezzanine funds, $8.7 billion of rescue lending funds and $9.3 billion of credit-related hedge funds.

Blackstone president Tony James has also spoken vociferously of the merits of private debt, or "market-based lending" as he put it in a persuasive letter to the Wall Street Journal earlier this year. Evidently, Blackstone believes private debt will continue to be an integral part of its business for years to come. ■

5 M&G Investment Management

For the second year running M&G Investment Management is the highest placed non-US firm on the PDI 30 list. Under Simon Pilcher's stewardship, the group has grown into a lending powerhouse.

Within its fixed income group, it operates strategies in direct lending, leveraged finance, infrastructure finance, private placements and real estate debt, together with public debt investing. The overall team has swelled from 30 people back in 1998 to more than 230 today across its various offices.

"We have a simple philosophy: the only commodity that we have to offer is investment performance," Pilcher told PDI last year during an in-depth interview. "If we deliver investment performance then our clients will entrust us with more money and new clients will want to come and join us. It's really that simple."

The firm has raised $19.9 billion over the last five years, and much of that has come through managed accounts. It helps perhaps to have the backing of a brand-name insurer like Prudential behind it, but M&G has grown into a thriving and reliable asset manager in its own right.

Because of its scale, it's able to compete with banks, offering longer tenors and bigger tickets than traditional lenders are able to offer.

"We're now in a position where we look at the money that we manage on behalf of Prudential, together with the third party client money, and we can contemplate half a billion, even a billion pound transaction without syndicating it, taking it in its entirety," Pilcher explained. With firepower like that, M&G should be considered a serious player. ■

6 Goldman Sachs Merchant Banking Division

Goldman has long been a heavyweight in the mezzanine market, although its most recent mezzanine vehicle, GS Mezzanine Partners V, raised its eye-watering $13 billion in 2007 and so now falls outside of the period encompassed in this ranking.

Goldman's Merchant Banking Division has raised $46 billion of leveraged capital since its inception across mezzanine, senior secured lending, distressed debt (via its 2010-vintage, $2.6 billion GS Opportunity Partners fund) and real estate credit, according to its website.

It's been building momentum in that latter segment in particular in recent years, closing its second Broad Street Real Estate Credit Partners fund on $4.2 billion in May. Its predecessor raised more than $3.5 billion.

Jim Garman, the London based co-head of MBD's real estate investing group, said in May: "The size of our capital pool combined with the depth of our local real estate knowledge allows us to provide borrowers with customized loan structures on large, complex transactions with speed and certainty of execution. We are excited to add credit investing to our European platform which will allow us to build upon our long history of investing in this region."

It's currently marketing Broad Street Loan Partners, a $1.3 billion senior debt-focused vehicle. ■

TOP 10 EUROPEAN MANAGERS

Only four European managers make it onto the main PDI 30 list, reflecting the relative infancy of private debt in Europe compared to the far better-established US market. The ten managers here have together raised a combined $63 billion for private debt strategies over the last five years, and it won't be long before many of them elbow their way onto the main list, given the pace of change within the European market.

European Ranking	Global Ranking	Institution Name	Headquarters	Ranking Amount ($m)
1	5	M&G Investment Management	London	19,870
2	12	AXA Real Estate	Paris	10,213
3	15	Intermediate Capital Group	London	9,355
4	18	Hayfin Capital Management	London	7,990
5	34	Ardian	Paris	3,831
6	37	Proventus Capital Management	Stockholm	3,148
7	41	Park Square Capital	London	2,880
8	53	ECS Capital	Lisbon	2,177
9	56	Cheyne Capital	London	2,004
10	57	Idinvest Partners	Paris	1,918

Source: PDI Research & Analytics

7 Oak Hill Advisors

Oak Hill Advisors, founded in 1991, now manages more than $23 billion across its suite of funds, which included distressed debt, credit-focused hedge funds, specialty credit vehicles and managed accounts.

Led by founder and chief executive Glenn August, the firm's senior team is rounded out by three senior partners: president William Bohnsack, portfolio manager Scott Krase, and chief investment officer Robert Okun. It has offices in New York, London, Sydney, and Fort Worth, Texas, and opened a fifth in Los Angeles in January this year.

The firm closed a $1.2 billion distressed US mortgage fund last year (OHA Newbury Partners), and has been bulking out its team, appointing Steve Jones and Eric Karp as senior advisors in March. It also won a separate account mandate worth $200 million from the Los Angeles County Employees' Retirement Association in September last year, the latest in a string of managed accounts overseen by the firm. ■

OHA chief executive and founder Glenn August

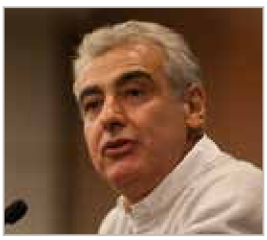
8 Cerberus Capital Management

Along with the likes of Lone Star, Cerberus has become one of the go-to firms when it comes to the sale of large loan portfolios. In July this year, the firm snapped up a large portion of NAB's UK commercial real estate loan book for about £625 million.

In April, Ireland's National Asset Management Agency (NAMA) sold a portfolio of loans worth £4.5 billion to the US group, the largest disposal yet by the country's 'bad bank'. In December, the group bought almost €1 billion of non-performing loans from UniCredit. And in November, it paid €1 billion to Lloyds Banking Group to acquire its Project Bravo and Project Charlie loan portfolios.

Having raised $13.8 billion over the last five years, Cerberus has had plenty of firepower at its disposal, and with banks worldwide continuing to deleverage and offload non-core assets, its deal pipeline is unlikely to taper off any time soon. ■

9 Avenue Capital Group



Avenue Capital co-founder Marc Lasry, who owns the Milwaukee Bucks basketball team.

Avenue Capital has moved up two places since last year. The Marc Lasry and Sonia Gardner-led firm recently began raising its first fund dedicated to investing in the debt of struggling companies in the energy sector.

It's had plenty of experience in that market segment, buying up some of the unsecured debt of Energy Future Holdings, the Texan power company acquired at the top of the market by KKR, TPG and Goldman Sachs in a record $48 billion deal which has since filed for bankruptcy. Avenue stands to make a significant profit on its investment once a restructuring has been completed.

The firm has raised $11.3 billion over the last five years, and is set to supplement that with a UK-focused distressed debt fund in the pipeline along with the energy fund mentioned earlier. It has discreet strategies for the US, European and Asia markets, and also manages a portfolio of CLOs. ■

10 Golub Capital

Breaking into the top 10, having placed 27th last year, Golub Capital is a firm with big ambitions. For an in-depth interview with the firm's senior team, turn to page 28.

The firm held final closes for two funds this year, Golub Capital Partners VIII (on $1.7 billion), and Golub Capital Partners International VIII (on $1.2 billion).

It's been a busy 12 months for the firm, which has closed a string of deals across an eclectic mix of industries. It backed boot retailer Boot Barn last year with a $100 million one-loan facility, fibre optic infrastructure company Wilcon Holdings with a $59 million facility in October, and fertility company California Cryobank last month.

The firm places great store in its ability to originate deals, and bolstered its abilities in that area in August by hiring Michael Meagher and Hyun Chang from Deutsche Bank and JPMorgan respectively. ■