PGIM PRIVATE CAPITAL

THE ONGOING EVOLUTION OF DIRECT LENDING

As demand for non-bank capital increases and yields remain high on a historical basis, direct lending continues to grow as an asset class. While the conditions for growth last year were far from ideal – with central banks continuing to tighten monetary policy for much of 2023 and rising financing costs across the marketplace – direct lending continued to gain market share and remained resilient.[1]

That resiliency was primarily driven by direct lending's natural protection against inflation through floating rate loans. The increases in central bank rates have translated into higher yields, and risk premiums also remained at historically wide levels.[2]

While the high-interest-rate environment has resulted in improved returns, allocators may wonder about its impact on borrower cash flows and their ability to service debt. PGIM Private Capital's (PPC) fundamental approach to underwriting credit on a cash-flow basis – focusing on a company's ability to service debt while also covering its fixed expenses – is key to navigating the credit cycle.

Focusing on the middle market

In recent years, the direct lending market has seen increasing segmentation as it continues to mature. PPC focuses on the core middle market, companies with EBITDA of between $20 million and $50 million.

"We believe the core middle market offers opportunity, in light of the fact that many larger direct lenders have moved to pursue larger company financings, which brings them into competition with providers of syndicated loans," said Matthew Harvey, Head and Partner of PGIM Private Capital's Alternatives Direct Lending Group. "At PGIM Private Capital, we finance companies that are owned by private-equity sponsors as well as family- or management-owned businesses that are looking to expand, recapitalize or make acquisitions."

PPC's international network of 15 offices organized into nearly 50 deal teams, comprised of more than 200 investment professionals, supports building well-established relationships with companies and private-equity sponsors in their local markets.

1 Source: S&P LCD Leveraged Lending Review as of 12/31/2023.
2 Source: Leveraged Commentary & Data; Morningstar LSTA US Leveraged Loan Index as of 4/10/2024.

"Our global origination capability allows us to work with a diversified pool of borrowers from both a sector and geographical perspective," Harvey said. "We focus on the more conservative end of the market. Specifically, we work with companies that have leverage of no more than four times EBITDA, with a typical loan-to-enterprise value of 40%. We believe these parameters are specifically important throughout during periods of economic stress."

PPC continues to expand in the core US market, as well as in Europe, Australia and New Zealand, and Latin America. The increasing liberalization of the direct lending market outside the US has played a key role, with PPC closing inaugural financing for issuers and sponsors in countries such as the Netherlands.

Looking ahead

2023 was a record year for PGIM Private Capital's direct lending business. Despite the challenging environment for M&A and leveraged-loan activity, PPC's direct lending team generated new direct-loan originations worth nearly $2 billion across 50 transactions. Looking forward, as the macroeconomic backdrop continues to stabilize, this will likely lead to a resumption of M&A activity as well as general capital investment.

PGIM Private Capital's ability to position itself as a first-lien senior secured investor, it's emphasis on cash-flow coverage in the underwriting process, and multi-decade experience are key factors as the direct lending space continues to evolve.

DISCLOSURES

For Professional Investor Use Only. All investments involve risks, including possible loss of principal. Past performance is not indicative of future results.

The information contained herein is provided by PGIM, Inc., the principal asset management business of Prudential Financial, Inc. (PFI), and a trading name of PGIM, Inc. and its global subsidiaries. PGIM, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Registration with the SEC does not imply a certain level of skill or training.

In the United Kingdom, information is issued by PGIM Limited with registered office: Grand Buildings, 1-3 Strand, Trafalgar Square, London, WC2N 5HR. PGIM Limited is authorized and regulated by the Financial Conduct Authority ("FCA") of the United Kingdom (Firm Reference Number 193418). In the European Economic Area ("EEA"), information is issued by PGIM Netherlands B.V. with registered office: Gustav Mahlerlaan 1212, 1081 LA Amsterdam, The Netherlands. PGIM Netherlands B.V. is, authorized by the Autoriteit Financiële Markten ("AFM") in the Netherlands (Registration number 15003620) and operating on the basis of a European passport. In certain EEA countries, information is, where permitted, presented by PGIM Limited in reliance of provisions, exemptions or licenses available to PGIM Limited under temporary permission arrangements following the exit of the United Kingdom from the European Union. These materials are issued by PGIM Limited and/or PGIM Netherlands B.V. to persons who are professional clients as defined under the rules of the FCA and/or to persons who are professional clients as defined in the relevant local implementation of Directive 2014/65/EU (MiFID II). In Italy, information is provided by PGIM Limited authorized to operate in Italy by Commissione Nazionale per le Società e la Borsa (CONSOB). In Japan, information is provided by PGIM Japan Co., Ltd. ("PGIM Japan") and/or PGIM Real Estate (Japan) Ltd. ("PGIMREJ"). PGIM Japan, a registered Financial Instruments Business Operator with the Financial Services Agency of Japan offers various investment management services in Japan. PGIMREJ is a Japanese real estate asset manager that is registered with the Kanto Local Finance Bureau of Japan. In Hong Kong, information is provided by PGIM (Hong Kong) Limited, a regulated entity with the Securities & Futures Commission in Hong Kong to professional investors as defined in Section 1 of Part 1 of Schedule 1 of the Securities and Futures Ordinance (Cap. 571). In Singapore, information is issued by PGIM (Singapore) Pte. Ltd. ("PGIM Singapore"), a regulated entity with the Monetary Authority of Singapore under a Capital Markets Services License to conduct fund management and an exempt financial adviser. This material is issued by PGIM Singapore for the general information of "institutional investors" pursuant to Section 304 of the Securities and Futures Act 2001 of Singapore (the "SFA") and "accredited investors" and other relevant persons in accordance with the conditions specified in Section 305 of the SFA. In South Korea, information is issued by PGIM, Inc., which is licensed to provide discretionary investment management services directly to South Korean qualified institutional investors on a cross-border basis.

These materials are for informational or educational purposes only. The information is not intended as investment advice and is not a recommendation about managing or investing assets. In providing these materials, PGIM is not acting as your fiduciary. These materials represent the views, opinions and recommendations of the author(s) regarding the economic conditions, asset classes, securities, issuers or financial instruments referenced herein. Distribution of this information to any person other than the person to whom it was originally delivered and to such person's advisers is unauthorized, and any reproduction of these materials, in whole or in part, or the divulgence of any of the contents hereof, without prior consent of PGIM is prohibited. Certain information contained herein has been obtained from sources that PGIM believes to be reliable as of the date presented; however, PGIM cannot guarantee the accuracy of such information, assure its completeness, or warrant such information will not be changed. The information contained herein is current as of the date of issuance (or such earlier date as referenced herein) and is subject to change without notice. PGIM has no obligation to update any or all of such information; nor do we make any express or implied warranties or representations as to the completeness or accuracy or accept responsibility for errors. These materials are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial instrument or any investment management services and should not be used as the basis for any investment decision. No risk management technique can guarantee the mitigation or elimination of risk in any market environment. Past performance is not a guarantee or a reliable indicator of future results and an investment could lose value. No liability whatsoever is accepted for any loss (whether direct, indirect, or consequential) that may arise from any use of the information contained in or derived from this report. PGIM and its affiliates may make investment decisions that are inconsistent with the recommendations or views expressed herein, including for proprietary accounts of PGIM or its affiliates. Any projections or forecasts presented herein are as of the date of this presentation and are subject to change without notice. Actual data will vary and may not be reflected here. Projections and forecasts are subject to high levels of uncertainty. Accordingly, any projections or forecasts should be viewed as merely representative of a broad range of possible outcomes. Projections or forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. PGIM has no obligation to provide updates or changes to any projections or forecasts. PGIM does not establish or operate pension plans.

PGIM and its affiliates may develop and publish research that is independent of, and different than, the recommendations contained herein. PGIM's personnel other than the author(s), such as sales, marketing and trading personnel, may provide oral or written market commentary or ideas to PGIM's clients or prospects or proprietary investment ideas that differ from the views expressed herein.

Prudential Financial, Inc. of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom.

留意事項

※ 本資料は米国 SEC の登録投資顧問会社である PGIM インクが作成したものです。
※ 本資料は情報提供を目的としたものであり、特定の金融商品の勧誘又は販売を目的としたものではありません。また、本資料に記載された内容等については今後変更されることもあります。
※ 記載されている市場動向等は現時点での見解であり、これらは今後変更することもあります。また、その結果の確実性を表明するものではなく、将来の市場環境の変動等を保証するものでもありません。
※ 本資料に記載されている市場関連データ及び情報等は信頼できると判断した各種情報源から入手したものですが、その情報の正確性、確実性について当社が保証するものではありません。
※ 過去の運用実績は必ずしも将来の運用成果等を保証するものではありません。
※ 本資料は法務、会計、税務上のアドバイスあるいは投資推奨等を行うために作成されたものではありません。
※ PGIMジャパン株式会社による事前承諾なしに、本資料の一部または全部を複製することは堅くお断り致します。
※ 本資料内で取り上げられた資産クラス、個別セクター等はあくまで例示目的であり、推奨ならびにこれらにかかる将来性を明示・暗示的に示唆するものではありません。
※ 本資料に掲載された各インデックスに関する知的財産権及びその他の一切の権利は、各インデックスの開発、算出、公表を行う各社に帰属します。
※ "Prudential"、"PGIM "、それぞれのロゴおよびロック・シンボルは、プルデンシャル・ファイナンシャル・インクおよびその関連会社のサービスマークであり、多数の国・地域で登録されています。
※ PGIM ジャパン株式会社は、世界最大級の金融サービス機関プルデンシャル・ファイナンシャルの一員であり、英国プルーデンシャル社とはなんら関係がありません。

PGIM ジャパン株式会社
金融商品取引業者　関東財務局長（金商）第 392 号
加入協会：一般社団法人投資信託協会 、一般社団法人日本投資顧問業協会、一般社団法人第二種金融商品取引業協会

3685789-20240704