

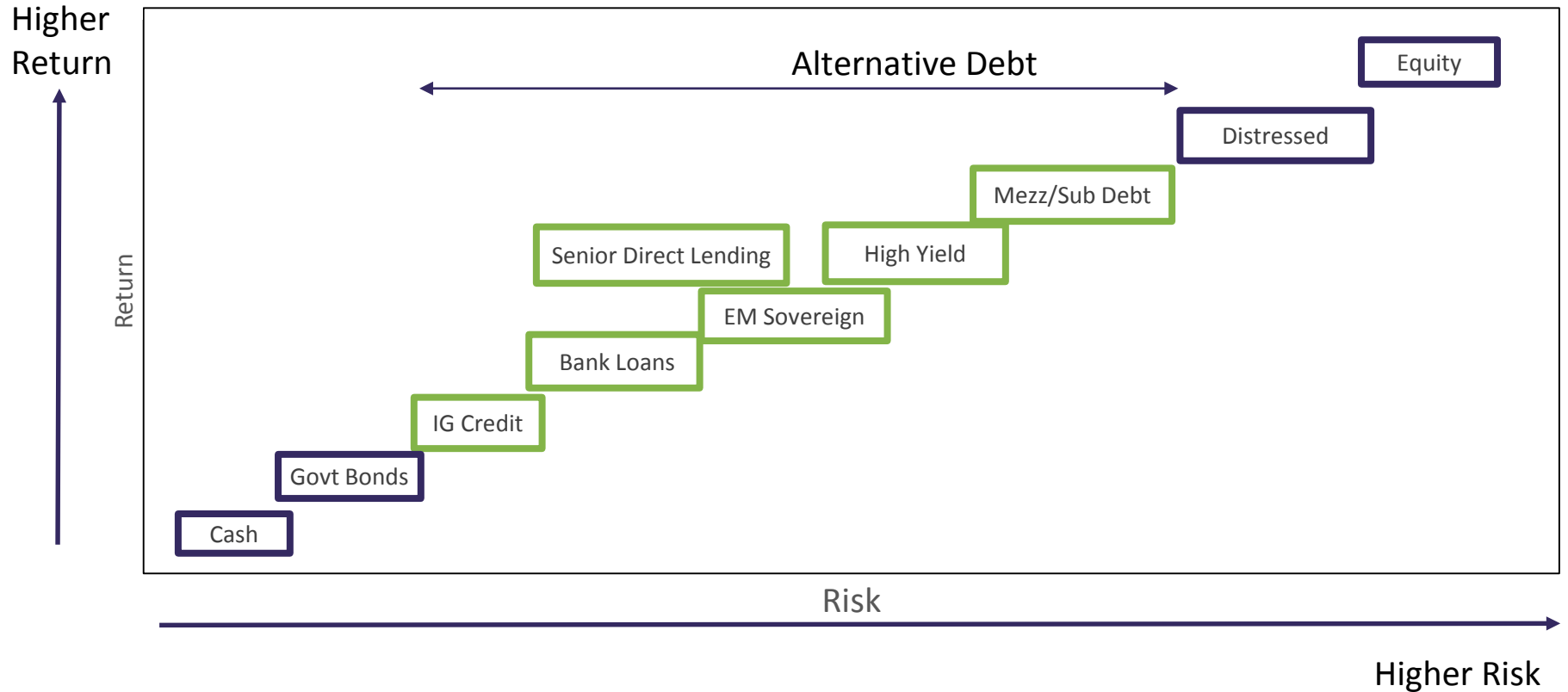


# Alternative Debt – Direct Lending

Breakout Session A – Room 1

# Direct Lending: Where does it fit?

Stylised Risk and Return



Source: Frontier

# Comparing Direct Lending with Liquid Markets

## Characteristics

	Direct Lending	Bank Loans	High Yield Bonds
Nature of exposure	Floating rate loan	Floating rate loan	Fixed rate bonds
Type of Borrowers	Middle market private companies	Larger borrowers (some are publicly listed)	Larger borrowers (some are publicly listed)
Company Size - EBITDA	~\$10m-100m	Typically above \$100m	Typically above \$100m
Borrowers credit quality	Implied rating range BB/B	BB/B/CCC	BB/B/CCC
Leverage level (Debt/EBITDA)	~4.2x-4.7x	~5x	~5x-5.3x
Loan size	Generally < \$200m	Generally >\$200m	Generally >\$200m
Maturity/tenor	Legal maturity up to 5-7 years, average life 2-3 years	Tenor typically 5-7 years, average life 3 years	Longer tenors – can be longer than 10 years
Security / Covenant quality	Secured, full covenant	Secured, mostly cov. light	Unsecured
Loan monitoring	High, intensive	Lower	Lower

Bloomberg, Frontier

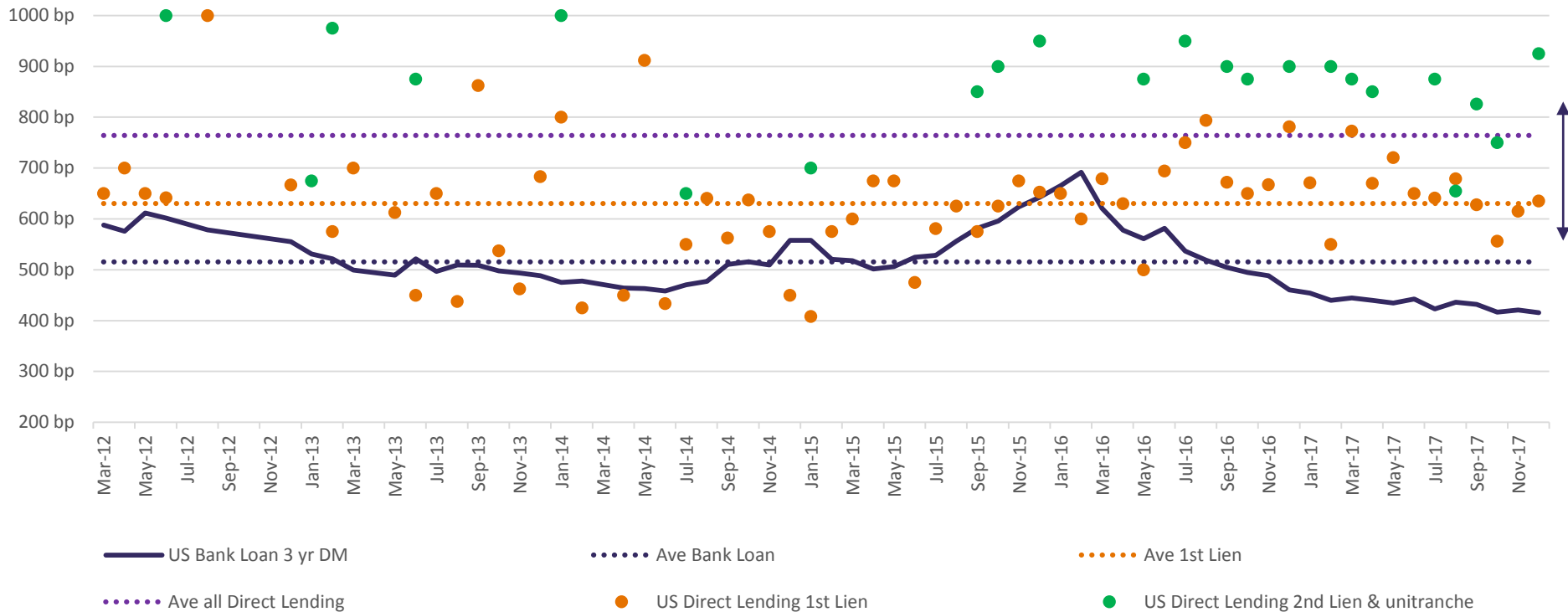
# 2018 Frontier Direct Lending Survey

- 25 managers surveyed in Q1 2018 across:
  - European, US and Australian strategies
- Data points collected across 626 deals over the last 5 years including
  - 210 US deals, 185 European, 177 UK and 54 Australian deals
- Characteristics sourced included:
  - Loan seniority, size, upfront fees, leverage, credit spread, EBITDA, gearing, syndication type
  - Estimated forward default rates

# Direct Lending: Assessing the illiquidity premium

US Senior Direct Lending vs Bank Loans

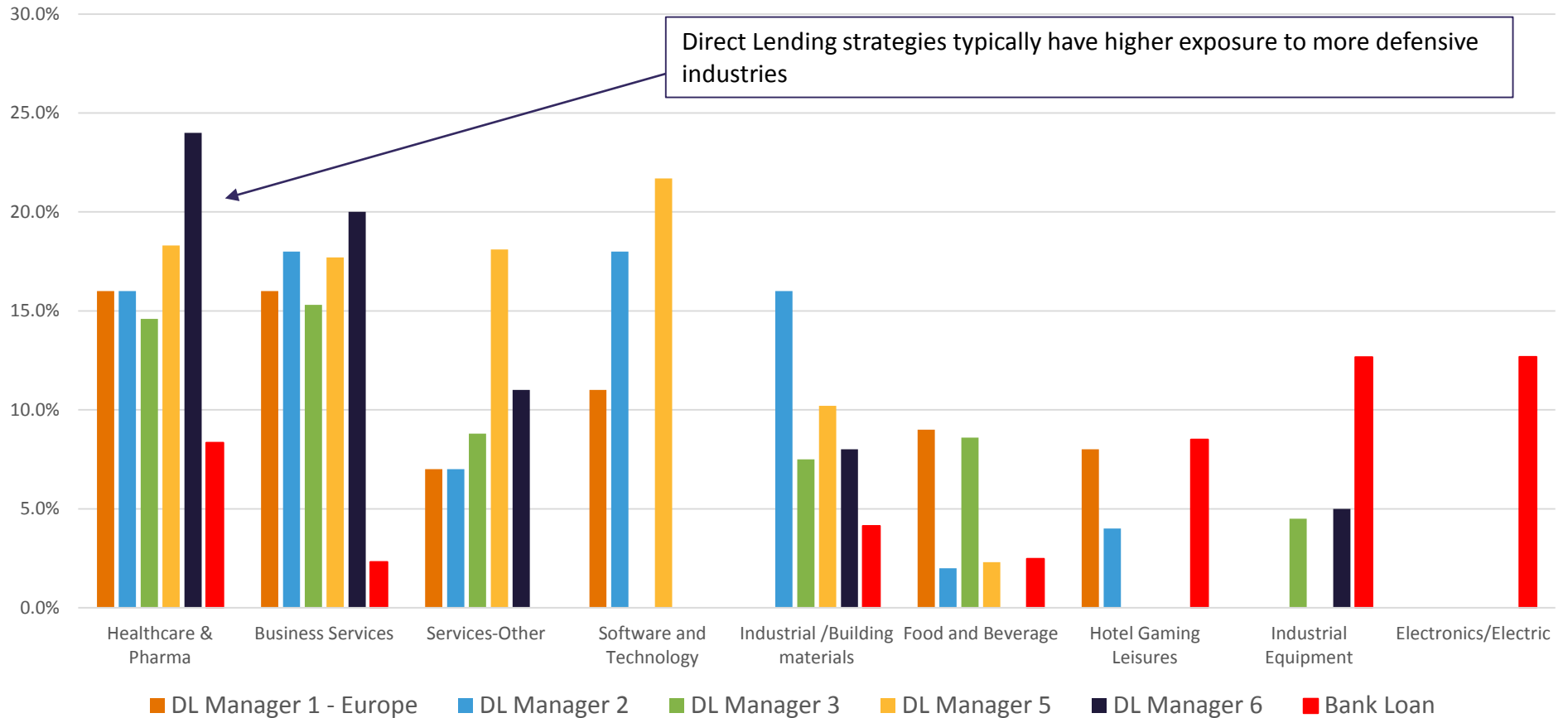
Direct Lending has average spread premium ~150 - 250bps p.a. over bank loan. An additional ~60bps p.a. is available through upfront fees.



Source: Credit Suisse, FRED, Frontier's direct lending manager survey

# Direct Lending offers a different profile to Bank Loans

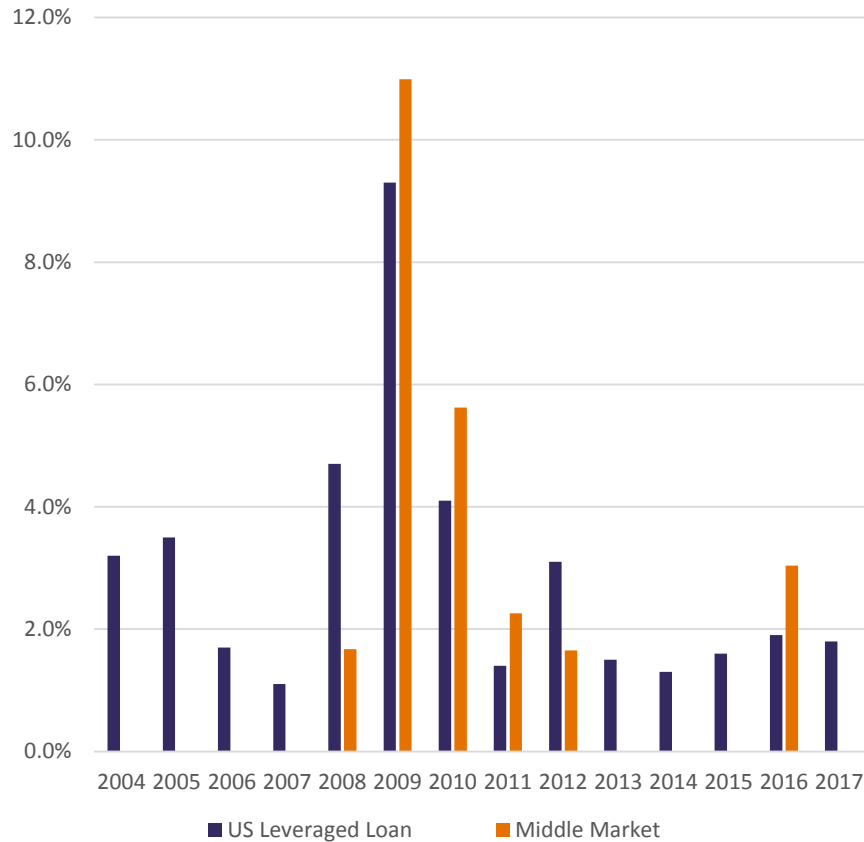
Largest industry exposure of key Direct Lending Managers versus Bank Loan exposure



Source: Direct Lending Managers, S&P

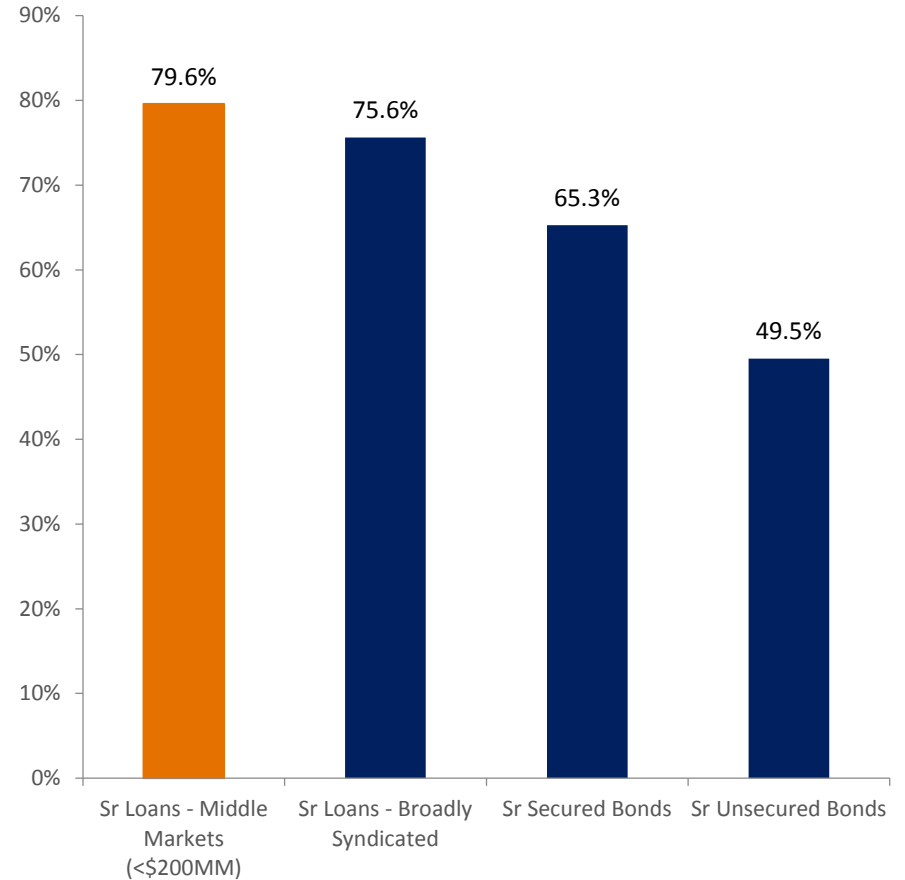
# Where are we in the credit cycle?

Average historical default rates



Source: S&P

Recovery rates – last 20 years



Source: S&P, Credit Suisse

# Preserving the Illiquidity premium: Fees are very important!

Surveyed Management / Performance Fees Paid

Manager Focus	Av. Base Fee (bps)	Av. Perf Fee	Hurdle
US	75-125	10-15%	6%
Europe / UK	75-125	10-15%	6%
Australia	50-70	-	-

2017 Average Upfront Fees Received

Region	Upfront Fees (bps)
US	188
Europe / UK	260
Australia	293

Source: Frontier Direct Lending Survey

Source: Frontier Direct Lending Survey

- Tiered flat management fees are preferable but where not offered, performance fee structures that cap the all in fees can also be appropriate.
- Performance fees with “catch-up” provisions are less desirable.
- Fees should be charged on invested capital.
- For open ended structures, exit fees (designed to protect remaining investors) should be quantified and understood.



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