# Lead Left Interview – Eric Green and Mark O'Keeffe

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**This week we chat with Eric Green and Mark O'Keeffe of Muzinich and Co. Muzinich is a global institutional asset manager specializing in corporate credit; headquartered in New York, the firm has offices in London, Manchester, Paris, Frankfurt, Zurich, Milan and Madrid.**

***The Lead Left: Gentlemen, what's your take of what's going on in private credit today?***

**Eric Green:** Well, it's nice to see it's an identifiable asset class. That question is behind us. Strategically now pensions, insurance companies and other institutional investors will be part of this global asset class. Of course, there are many components of private debt, including mezzanine. Just like private equity is a big tent, so is private debt. Consultants are figuring out the mix.

***TLL: Why is that?***

**EG:** Many asset classes haven't consistently delivered 6-8%. In the pension and life communities, these return assumptions exist. Illiquidity premiums matter, as firms like LCD have demonstrated. To pick a simple example, there's a 32% premium between issuers less than $50 million in ebitda and those greater than $50 million. We've seen that same differential in bid/offer spreads. The old argument twenty years ago was that private equity could deliver 20% greater returns than the public markets.

***TLL: Do you think all this interest has created too much capital coming into the asset class?***

**EG:** If you look at the analysis Preqin does for the amount of private equity dry powder – that's money raised but not invested – shows there should be plenty of supply to keep up with investor demand. Coming out of the last cycle, PE activity was way up. Today PE is certainly less active, but private debt dry powder is flat.

**Mark O'Keeffe:** Also, there's the issue of investing time horizons. Private debt has roughly a four year average life vs. about six to eight years for PE. Debt deployment rates are quicker. Also private debt involves transaction-based financings. There are always events, whether refinancings or sales, to take us out. PE has a much longer-term outlook.

***TLL: Do you have a sense of the size of the private debt market?***

**EG:** I think it was Mike Arougheti at the Wells conference who recently sized it at about $200-300 billion in the US. That's compared to between $800 billion – $1 trillion for the broadly syndicated loan market. If you assume about 25% per year of the $300 billion is recycled, that's about $50-75 billion of annual deal flow. Compare that to the $25 billion raised so far this year. We estimate the actual need could be two times that number.

Has there been a lot of money raised? Yes. Are some deals less financeable than others? Yes. Are there going to be ebbs and flows in volume? Yes. But there will be plenty of deals.

**MOK:** It's always tough to put money to work. But the same metrics still matter. What percent of equity is the sponsor putting in? What's the leverage? Is there good interest coverage? It all relates to making sure you're accounting for all future credit cycles.

***TLL: Speaking of which, where in this credit cycle do you think we are?***

**EG:** Lots of smart people thought we would have had a correction by now. They were wrong. It's harder to determine with the low rates we have now. Yes, they are rising, but they are still low by historical standards. It will be a long way before we get to 5% Libor.

The central banks are doing things no one thought would have happened. The world thought we'd have double-digit inflation, but that hasn't happened. You need to commit to funds across several vintages. No one is forecasting a recession here or in Europe. The flattish scenarios for growth are good for credit, not necessarily equities. You need to be thoughtful so you can pick up any opportunities in the back half of the cycle.

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