

Private Debt Fees & Expenses

April 22, 2024¹

Findings

In this updated fee survey for investment management services for private middle market corporate lending funds covering **66 firms** managing **\$1.1 trillion** in direct lending assets², we find:

1. Total Fees and Expenses:

- a. **Total fees and administrative expenses** for private debt funds average **4.12%** of net asset value (NAV).
- b. The 4.12% total cost is comprised of “**effective**” **management fees**³, **carried interest**, and **administrative fees** averaging **1.86%**, **1.78%**, and **0.48%**, respectively.
- c. The 4.12% total cost compares to 3.94% in our prior 2023 study, a **0.18% increase**. Rising interest rates pushed carried interest higher, from 1.50% to 1.78% of net assets, partially offset by a decline in effective management fees from 1.96% to 1.86%.
- d. Fees as a percent of NAV vary significantly across lenders from a low of 3.22% (10th percentile) to a high of 5.36% (90th percentile), explained by differences in the management fee rate, whether management fees are charged on net or gross assets, and the degree of leverage.
- e. Focusing just on fees and deducting administrative costs and historical credit losses⁴ from current middle market yields, on average private fund investors (LPs) can expect to pay lenders **3.68%** in exchange for a **13.43% net portfolio yield**. Net of all fees, expenses and credit losses, the average private debt fund investor can expect a **9.75% net fund return**, up from 9.68% in 2023.

2. Management Fees:

- a. 65% of firms charge their management fee rates on gross asset value (GAV)⁵ and 35% charge management fee rates on net asset value (NAV). The proportion of firms charging management fees on GAV is unchanged over the last three years.
- b. Management fee rates in 2024 average **1.00%** when charged on GAV and **1.26%** when charged on NAV, down slightly from values of 1.03% and 1.28%, respectively, in 2023.
- c. The lowest⁶ management fee rates are 0.75% and 1.00% when charged on GAV and NAV, respectively.
- d. Firms charging management fees on GAV have an effective, or NAV-equivalent, management fee equal to **2.18%**, accounting for an average leverage level of 1.18x NAV, well above the **1.26%** average fee for firms charging management fees on NAV.

¹ Similar Cliffwater fee studies in 2018, 2020, 2022, and 2023.

² This information was derived from marketing materials provided by the GP, dialogue and correspondence with the GP, or publicly available information.

³ An important distinction in this survey is between management fee rates and effective management fees. Management fee rates refer to the percentage of assets taken as management fees. In instances where management fee rates are charged on gross assets (GAV), effective management fees convert the rates to a percentage of net assets (NAV). Effective management fees could also be identified as NAV-equivalent management fees.

⁴ Historical private credit losses average 1.03% per year on unlevered assets. Source: CDLI.

⁵ Gross asset value (GAV) includes assets acquired through a credit facility (leverage).

⁶ 10th percentile value.

- e. Differences in management fee levels have no statistically significant relationship to borrower EBITDA, sponsor-backing, leverage level, borrower seniority, or lender AUM for lenders charging management fees on NAV. There is a statistically significant (negative) relationship between management fee rates and leverage for lenders charging fees on GAV, but no significant finding for the four other factors.
 - f. Management fee rates average 1.10% for the combined 66 lender survey group.
3. Carried Interest and Preferred Return:
- Carried interest and preferred return average **12.4%** and **6.1%**, respectively, for lenders charging management fee rates on GAV and **15.3%** and **6.7%**, respectively, for lenders charging management fee rates on NAV.
4. Administrative Expenses:
- Administrative expenses average **0.48%** of NAV and are estimated using a sub-sample of 26 funds that have an operating history of greater than two years and net assets greater than \$100 million. The operating history criteria is meant to exclude one-time expenses realized early in a fund's life.
5. Portfolio Characteristics:
- Average portfolio statistics for the 66-lender study group include 1.15x leverage, 88% first lien loan, 86% sponsor-backed, and \$81 million average EBITDA.

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