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Fund Finance Friday

How Will PE Inflows Impact Facility Utilization?

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At the cusp of a new decade, the flood of capital into private funds risks becoming too much of a good thing. None of this is news to astute *FFF* readers: Equity strategies in many cases face a “buy high” proposition given rich buyout target valuations while debt strategies operate in a flat forward curve matrix with uninspiring credit fundamentals. Bloomberg journalists again traversed this familiar terrain in an **article** earlier this week titled "‘Peak’ Private-Equity Fears Are Spreading Across Pension World." The consensus: An ever-growing pile of money chasing a finite number of deals means lower future returns.

For fund lenders, downward pressure on facility utilization rates may be the first-order effect moving into the "roaring ’20s." High asset valuations are giving sponsors pause and, as a result, dry powder is piling up. Unspent capital targeting North American buyouts sits at a record $771.5 billion as year-to-date buyout transactions have dropped to lows last seen in 2014, according to Preqin data **cited by** *The Wall Street Journal*.

Of course, private capital doesn’t operate in a vacuum – robust inflows can continue even as returns move lower. This, in fact, appears to be the status quo for now. Public equity funds continue to experience significant outflows ($46.7 billion globally year-to-date through October, according to ICI data), while a number of investors are moving to up their private market allocations. So, while expectations for private vehicle returns may be moving lower, confidence in the outlook for public markets is not exactly running high.