Pension Bridge: ambitions in mezz

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While junior debt has caught a bad rep in some circles, several panelists at The Private Equity Exclusive conference in Chicago this week talked up its merits.

Mezzanine debt has been proclaimed “dead” by many industry practitioners, though with a healthy crop of big and small managers still handling these strategies, some think the sector has merits.

Panelists speaking at The Pension Bridge’s annual Private Equity Exclusive event in Chicago this week said junior debt can enhance returns in a private markets portfolio and managers still handling the strategy say they are finding deals.

Pete Keliuotis, senior managing director at consulting firm Cliffwater, said that while his firm doesn’t normally look for mezzanine managers specifically, he wants his clients’ private markets portfolios to be well diversified and mezzanine can usually be added to the mix to enhance returns. “Mezzanine can be a constructive part of a broader portfolio and can get you to your return objective,” he said.

Asked about projected returns in mezzanine, Whit Edwards, a partner at Five Points Capital, said he expects 13 percent to 15 percent net returns from junior debt. Keliuotis put the performance expectations in the high single digits. Some attendees later told PDI that the teen returns seemed too ambitions and Keliuotis’ view was probably the more realistic of the two.

Erik Falk, global head of private credit at KKR, highlighted the disintermediation of banks and the death of traded high-yield. High-yield isn’t liquid anymore, he noted, and now that part of the market has in some ways been replaced by private mezzanine loans.

KKR is in the process of raising its second mezzanine fund, as PDI previously reported. Falk said the firm has been putting money to work quickly, so much so that the firm lowered its investment period for the fund to three from five years.