Discussion: Private Equity Debt Investors

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2^{nd} Annual Private Markets Research Conference, July 6, 2018

Summary

- Preferences of PE-affiliated CLOs for loans from firms sponsored by connected PE division (Own Debt Bias)
- Two explanations:

  (1)funding support (or price pressure) channel

  - debt investments (funding) from PE-affiliated CLOs (primary loan market)

    cost of borrowing $\downarrow \Rightarrow$ fund's equity returns $\uparrow$

  (2) information spillovers

  - private information from PE to affiliated CLO $\Rightarrow$ profitable trading in secondary loan market

- interesting and relevant topic
- very innovative research question
- robustness tests to address different perspectives

Summary

- How is the paper related to previous literature?
  - new implications on syndicated loans in private markets
  - benefits from funding channel and information spillovers
    - specific outcome for private markets?
    - maybe stronger contrast to syndicated loans in banking sector: underperformance of asset management divisions of commercial banks (conflict of interest?)
    - open door for future research: comparison in terms of systemic risk, inefficiencies, misallocation of resources, conflicts of interests...
  - results related to literature on conflict of interests
    $\Rightarrow$ apparently, no conflict of interest in private markets?

Some Possible Refinements

- Data
  - representativeness of CLO-i data over sample period
  - more representative over time, especially after 2008?
    $\Rightarrow$ time trend?
  - sample split: before/after 2008?

- 6,333 affiliated trades out of 504,915 transactions ($< 2\%$)
  - affiliated trades increasing over time?
  - affiliated trades related to market size of PE companies?

- further explore cross-sectional differences in Own-Debt-Bias for affiliated CLO managers and relation to CLO/PE characteristics $\Rightarrow$ mutual benefits (for PE and affiliated CLO) related to market size/market power of PE?

Some Possible Issues to Explore

- Costs of borrowing: spread over LIBOR/EURIBOR (market-based measure) and price discount

  $\Rightarrow$ further analyze cross-sectional variation of price discount

  - related to explanatory PE characteristics?
  - price discounts as adjustment mechanism to create forced price pressure on peer lenders?

- Role of credit supply constraints
  - interaction term between affiliated funding and borrower characteristics (e.g., credit risk) or additional funding investments from peers (demand pressure)
  - %-share of affiliated/non-affiliated funding?

Some Possible Issues to Explore

- Information Spillovers from PE to CLOs

  $\Rightarrow$ private information or learning?

- Alternative Story:

  CLO benefits from past experience about PE-affiliated trades in primary market $\Rightarrow$ comparative advantage when purchasing comparable facilities in secondary market

  - placebo test with quasi-natural experiment?
  - if private information available, no advantage after change in affiliation $\Rightarrow$ rule out learning

Thank you for your attention!