2024 IPC Current Issues in Alternatives Symposium

Ropes & Gray | 1211 6th Ave, New York City
April 22, 2024

12:30 – 1:00 CHECK-IN & LIGHT LUNCH

1:00 – 2:45 SESSION I: PRIVATE CREDIT: WHAT DOES "THE CYCLE" HAVE IN STORE?

Session Chair: Greg Brown, *UNC Kenan-Flagler Business School*

Are Direct Lenders More Like Banks or Arm's-Length Investors – [**Presentation** & **Paper**]

Abstract: I study whether direct lenders, which have been displacing banks in private equity (PE) buyouts, lend more like banks or arm's-length investors. Using a novel database for direct lender-held loans to PE buyouts, I find that nearly all senior loans originated by direct lenders include financial covenants. Upon covenant violation, direct lenders frequently impose additional restrictions on firms' activities during renegotiation, resulting in more conservative investment and financial policies. During the COVID-19 pandemic, direct lenders exhibited greater flexibility than banks in resolving distress through out-of-court renegotiation, in part facilitated by more equity injection from the firms' PE sponsors. Furthermore, direct lenders' prior relationships with PE sponsors were associated with more favorable continuation lending during the pandemic. Overall, similar to banks, direct lenders appear to actively monitor and engage in relationship lending.

Young Soo Jang, *University of Chicago Booth School of Business*

Private Equity & Debt Contract Enforcement: Evidence from Covenant Violations – [**Presentation** & **Paper**]

Abstract: Using the Shared National Credit supervisory data, we find Private Equity (PE) sponsored firms violate loan covenants more often than comparable non-PE firms. However, upon covenant violation, PE-sponsored borrowers experience relatively smaller reductions in credit commitments, suggesting lenders are more lenient with these borrowers. Consistent with this limited-punishment effect, sponsor-backed borrowers experience a smaller increase in loan spread and reduction in loan maturity upon covenant violations. Limited punishment is driven by repeated deals and sponsor reputation, as well as the higher bargaining power of sponsors in loan renegotiation. Our results indicate sponsors generate financial flexibility by dampening debt contract enforcement for distressed borrowers.

Sharjil Haque, *Federal Reserve Board*
Anya Kleymenova, *Federal Reserve Board*

Panel Discussion: Private Credit – The View from the Ground

Moderator: David Sheng, *Aksia*
Panelist: Charles Cohen, *International Monetary Fund*
Panelist: Chrissy Lamont Svejnar, *Ares*
Panelist: Mohamed Elkordy, *NY Common*
Panelist: Giannina Sy, *Neuberger Berman*

2:45 – 3:15 NETWORKING BREAK

Symposium Contact: Brooke Dever (brooke_dever@kenan-flagler.unc.edu)

3:15 – 5:00 **SESSION II: WHAT DO WE REALLY KNOW ABOUT ALTERNATIVE INVESTMENT PERFORMANCE?**

Session Chair: Oleg Gredil, *Tulane University, Freeman School of Business*

Institutional Fund Performance – [**Presentation** & multiple papers cited including IPC's recent **white paper** and hedge fund **research note**]

Abstract: Assessing risk and return of alternative investments is an ongoing challenge for investors. This presentation presents the most recent evidence on private fund performance characteristics for a wide range of alternative asset classes including private equity, private debt, real estate, infrastructure and hedge funds. Methods for generating unbiased datasets and understanding underlying asset features are also discussed.

Christian Lundblad, *UNC Kenan-Flagler Business School*

Scale Economies, Bargaining Power, and Investment Performance: Evidence from Pension Plans – [**Presentation** & **Paper**]

Abstract: We explore the relation between the size of a defined benefit pension plan and its choice of active vs. passive management, internal vs. external management, and public vs. private markets. We find positive scale economies in pension plan investments; large plans have stronger bargaining power over their external managers in negotiating fees as well as having access to higher (pre-fee)-performing funds, relative to small plans. Using matching estimators, we find that internal management is associated with significantly lower costs than external management, reinforcing the enhanced bargaining power of large pension plans that have fixed-cost advantages in setting up internal management.

Tjeerd de Vries, *University of California, San Diego*
S. Yanki Kalfa, *University of California, San Diego*
Allan Timmermann, *University of California, San Diego*
Russ Wermers, *University of Maryland*

Panel Discussion: The Future of the Alternatives Industry

Moderator: Bryan Jenkins, *Hamilton Lane*
Panelist: Clodagh Coghlan, *StepStone*
Panelist: Derek Krouner, *Blackrock*
Panelist: Patrick McCauley, *Mubadala Capital*
Panelist: Gwyn Roberts, *PivotalPath*

5:00 – 6:00 **RECEPTION**

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