PE CHALLENGES

-In the wake of rising interest rates investors have grown reluctant to fork out additional cash to start-ups

-The interest rate hikes that started in earnest last year have seen investors begin to question private as well as public company valuations.

-Private equity firms have been increasingly adding another layer of debt to their complex borrowing arrangements, raising concern among some investors about potential risks to the wider industry and the financial system.

-Hit by a drought of deals and dwindling cash, some buyout firms are starting to resort to backroom financing to help meet fund commitments or enable succession planning. The loans — backed by assets including the promise of future income — carry interest of as much as 19%, a rate that's more akin to the charges faced by consumers rather than corporate borrowing. Even a junk-rated company in the US paid 10% on a bond recently.

-Those high costs aren't deterring private equity firms and experts say demand is at an all-time high. While some of the biggest lenders — such as Carlyle Group Inc. — say these debts are relatively safe, others are already starting to take precautions by adding covenants that enable seizure of other underlying fund assets, highlighting worries about possible losses. Some are warning of perils when a firm faces claims from more than one type of loan simultaneously.

-As negative sentiment continues to dog most asset classes, those considering private equity have questions of their own: what mechanisms is the sector developing to weather challenging macroeconomic environments? How accurate are unlisted company valuations? What sectors continue to see steady levels of dealmaking? How does private equity as an asset class compare to other alternative investments? And more broadly what is the outlook for PE?

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