

Content Includes:

Preqin Special Report: Distressed Debt in North America and Europe

In Focus

A comprehensive overview of the distressed debt market in North America and Europe.

February 2016

Dry Powder

Almost 95% of distressed debt dry powder is focused on opportunities in North America or Europe.

Fundraising

Distressed debt fundraising remained strong in 2015, increasing on figures seen in 2014.

Funds in Market

A look at the largest distressed debt funds currently in market.





Foreword

As the economic crisis of the late 2000s was unfolding, distressed debt-focused fund managers found themselves in an excellent position to capitalize on new investment opportunities. 2007 saw a then record \$37.3bn raised by new funds focusing on Europe and North America, over six times as much as the \$6bn committed in 2006. 2008 was bigger yet, with strong institutional investor appetite enabling managers to close funds with commitments totalling \$43.7bn – a record to this day.

What is striking about this period is the speed at which distressed managers were able to put this capital to use. Although there was a rise in dry powder of 72% between 2006 and 2007, from \$23.3bn to \$40bn, this is far below the 500%+ increase in capital raised between these two vintages. Distressed debt dry powder levels actually fell between 2007 and 2008 by 17%, falling again slightly in 2009 before increasing consistently since.

Dry powder reached a record \$54.7bn in 2015 before declining slightly to \$52.9bn in January 2016 – more than 30% higher than in 2007 and 2008. Although annual fundraising for distressed debt funds has been consistently increasing since the nadir of \$8bn committed in 2009, it has yet to recover to the pre-economic crisis levels – 2015 saw \$23.3bn raised, 53% of the 2008 record.

The reason for this disparity between fundraising levels and dry powder has to do with the rate at which managers have put capital to work. Record investment followed record fundraising in 2008, while capital has been called at a more leisurely pace in recent years – allowing dry powder to rise while fundraising has recovered more slowly compared with historic highs.

With more capital sitting in older vintages, the pressure to put this dry powder to work is growing – most distressed debt funds employ a five year investment period during which investors expect capital to be called and put to use. At present, we estimate 20% of current dry powder to be held by funds of vintage 2012 or older, with that figure rising to 43% when 2013 funds are included.

Within this report we seek to uncover which managers have capital to spend and look at the prospects for managers seeking capital for new investments in a competitive fundraising environment. We hope you find this report useful, and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com.

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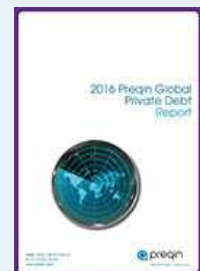
Coming Soon! 2016 Preqin Global Private Debt Report

The **2016 Preqin Global Private Debt Report** is due for release in March 2016 and forms part of the **2016 Preqin Global Alternatives Reports** series.

Covering a wide range of topics, with expert commentary, key trends from recent years, historical statistics, league tables and survey results, the report is an essential tool for anyone seeking to understand the latest developments affecting the private debt industry.

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Distressed Debt - Key Facts

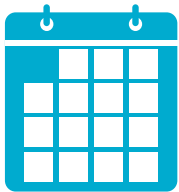


\$21.4bn

Aggregate capital raised by North America- and Europe-focused distressed debt funds closed in 2015.



Number of distressed debt funds that held an interim or final close in 2015.



15 Months

Average time taken to reach a final close for distressed debt funds closed in 2015.



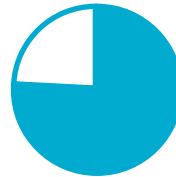
\$52.9bn

Total dry powder for North America- and Europe-focused distressed debt funds as at January 2016.



\$1.5bn

Average target size of a distressed debt fund currently on the road, notably higher than other private debt strategies.



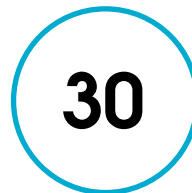
77%

North America-focused distressed debt funds in market are targeting the majority of total capital sought by the strategy.



\$43.5bn

Aggregate capital targeted by distressed debt funds currently in market globally.



Number of distressed debt funds on the road as of January 2016.

Data Source:

Preqin's **Private Debt Online** service is the leading source of data and intelligence on the growing private debt industry. This comprehensive resource tracks all aspects of the asset class, including fund managers, fund performance, fundraising, institutional investors and more.

Constantly updated by our team of dedicated researchers, **Private Debt Online** represents the most complete source of industry intelligence available today, with global coverage and all fund managers and investors profiled.

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Distressed Debt in North America and Europe

Of the 120 private debt managers implementing distressed debt strategies globally, Fortress Investment Group has the largest current cache of dry powder, with more than \$6.8bn tagged for the strategy as of January 2016 (Fig.1). This figure tops the rankings of large diversified credit managers that have raised capital in the last 10 years, and is made up of estimated available capital from their five distressed debt funds raised in the decade. Even with industry dry powder at near record highs (\$52.9bn) at the end of 2015, fundraising shows no sign of slowing down, with 28 vehicles in the market targeting Europe or North America, seeking an aggregate \$42.8bn. As always, investor sentiment will continue to dictate fundraising success in the upcoming year.

There are currently 114 institutional investors with active mandates for distressed debt funds according to Private Debt Online, putting the strategy as 3rd most favoured by investors behind direct lending and mezzanine at the beginning of 2016. There have been two large investor commitments to distressed debt funds to date in 2016, with the Pennsylvania Public School Retirement System and the New York State Common Retirement Fund pledging \$250mn (Sankaty Credit Opportunities VI) and \$300mn (Stellex Capital Partners) respectively.

Fig. 1: 10 Largest Private Debt Fund Managers by Estimated Distressed Debt Dry Powder

Firm	Total Funds Raised in Last 10 Years (\$mn)	Estimated Dry Powder (\$mn)
Fortress Investment Group	15,842	6,884
GSO Capital Partners	19,403	4,970
Centerbridge Capital Partners	17,640	4,724
Sankaty Advisors	13,184	3,595
Oaktree Capital Management	55,686	3,590
CarVal Investors	13,968	2,499
Avenue Capital Group	19,041	2,133
Castlelake	4,269	1,999
The Catalyst Capital Group	3,269	1,967
Cerberus Capital Management	9,329	1,923

Source: Preqin Private Debt Online

Fig. 2: 10 Largest North America-Focused Distressed Debt Funds Closed, 2013 - 2016 YTD (As at 12 January 2016)

Fund	Firm	Final Close Date	Fund Size (mn)
Centerbridge Capital Partners III	Centerbridge Capital Partners	Oct-14	6,000 USD
GSO Capital Solutions Fund II	GSO Capital Partners	Jul-13	5,000 USD
CVI Credit Value Fund III	CarVal Investors	Jun-15	3,046 USD
Wayzata Investment Partners III	Wayzata Investment Partners	May-13	2,716 USD
Cerberus Institutional Partners V	Cerberus Capital Management	Mar-13	2,611 USD
GSO Energy Select Opportunities Fund	GSO Capital Partners	Sep-15	2,500 USD
Sankaty Credit Opportunities V	Sankaty Advisors	Jan-13	2,500 USD
CVI Credit Value Fund II	CarVal Investors	Jul-13	2,323 USD
Varde Fund XI	Värde Partners	Jun-14	2,000 USD
Castlelake IV	Castlelake	Jul-15	1,900 USD

Source: Preqin Private Debt Online

Fig. 3: 10 Largest Europe-Focused Distressed Debt Funds Closed, 2013 - 2016 YTD (As at 12 January 2016)

Fund	Firm	Final Close Date	Fund Size (mn)
Fortress Credit Opportunities Fund IV	Fortress Investment Group	Mar-15	5,000 USD
KKR Special Situations Fund	KKR	Dec-13	2,000 USD
Strategic Value Special Situations Fund III	Strategic Value Partners	Nov-14	1,310 USD
EQT Credit Fund II	EQT	Oct-13	845 EUR
East Prospect Fund	EPF Capital	Nov-13	1,000 USD
H.I.G. Bayside Loan Opportunity Fund III	Bayside Capital	May-13	1,000 USD
Alchemy Special Opportunities Fund III	Alchemy Partners	Mar-14	600 GBP
Fortress Italian NPL Opportunities Fund	Fortress Investment Group	Dec-14	800 EUR
York European Distressed Credit Fund II	York Capital Management	Apr-15	534 USD
Enterprise Investment Fund	Framtakssjodur Islands	Sep-13	54,000 ISK

Source: Preqin Private Debt Online



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Fundraising and Dry Powder

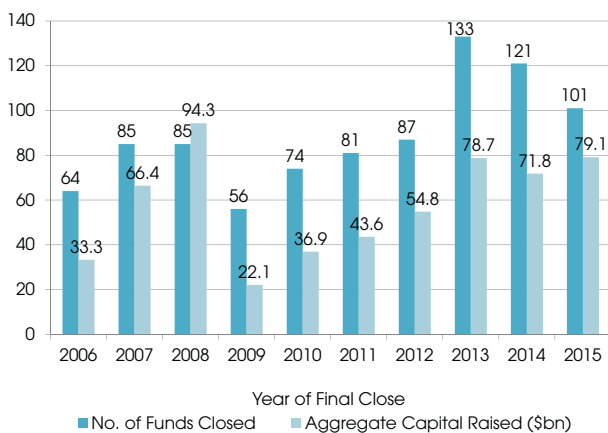
Fig. 4 shows that across all private debt strategies, North America- and Europe-focused private debt funds closed in 2015 secured an aggregate \$79.1bn*. When compared with the \$78.7bn and \$71.8bn raised in 2013 and 2014 respectively, the 2015 figure represents the third year of highly successful fundraising in the asset class. Fig. 5 shows annual fundraising in these regions solely within the distressed debt space, with a post-crisis high seen in 2012 at \$27.7bn. Figures for 2015 include 11 funds closed, securing \$21.4bn* in total, surpassing the \$20.2bn secured for funds closed in 2014, even with five fewer funds closed.

Fig. 6 illustrates the growth in dry powder available for investments in North America and Europe since 2006, with increases particularly prevalent since 2013. Institutional investors are now allocating more capital to the asset class, with dry powder in Europe-focused funds increasing by nearly a third since 2013. January 2016 dry powder for North America-focused distressed debt funds specifically tops \$38bn.

Although North America-focused fund managers have historically seen large amounts of capital committed to vehicles focused on opportunities in the region, activity within Europe has picked up substantially since 2012, with dry powder for funds focused on the region increasing year-on-year. As at the end of 2015, Europe-focused distressed debt dry powder stood at \$15.2bn, a substantial increase from \$2.1bn at the end of 2009 and \$2.3bn in 2010. This increase could signal the beginning of a sizeable market for distressed debt in Europe, as well as the overall private lending industry.

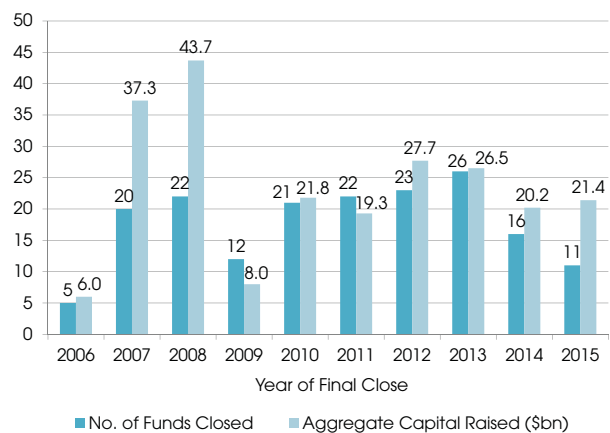
Fig. 7 shows that as of January 2016, distressed debt dry powder focused on North America and Europe accounts for a significant proportion of overall private debt dry powder at 30% (\$52.9bn), second only to direct lending with 35% (\$62.7bn). Not surprisingly, almost 95% of dry powder held in distressed debt funds is focused on either North American or European investment.

Fig. 4: Annual North America- and Europe-Focused Private Debt Fundraising, 2006 - 2015*



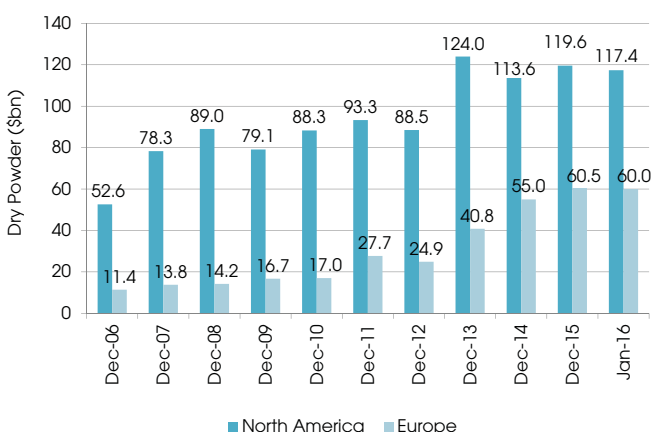
Source: Preqin Private Debt Online

Fig. 5: Annual North America- and Europe-Focused Distressed Debt Fundraising, 2006 - 2015*



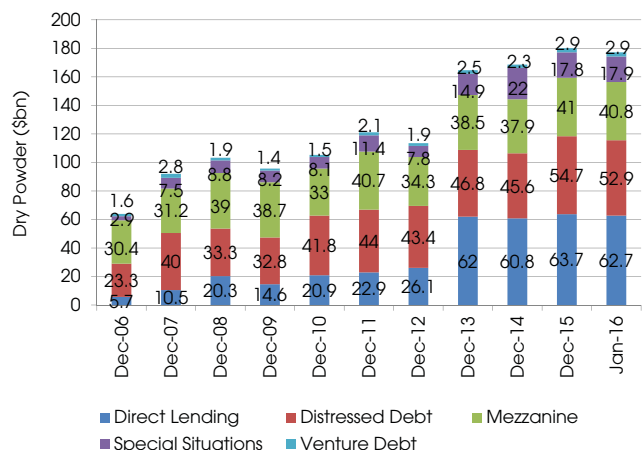
Source: Preqin Private Debt Online

Fig. 6: North America- vs. Europe-Focused Private Debt Dry Powder, December 2006 - January 2016



Source: Preqin Private Debt Online

Fig. 7: North America- and Europe-Focused Private Debt Dry Powder by Strategy, December 2006 - January 2016



Source: Preqin Private Debt Online



Funds in Market

Fig. 8 and Fig. 9 list the largest private debt funds in market focused on North America and Europe respectively as of January 2016. Seven of the 10 largest North America-focused private debt funds employ a distressed debt strategy, compared with just three of the top 10 Europe-focused funds. Two distressed mega funds are on the road at the beginning of 2016, with Oaktree Opportunities Fund Xb and Centerbridge Special Credit Partners III seeking a combined \$13bn.

In terms of market size, there are currently 21 distressed debt funds in market, seeking an aggregate \$33.9bn for North American opportunities, compared with seven distressed debt funds seeking \$8.9bn for investment in Europe.

For Europe-focused private debt funds in market, the top of the league table shows a more diverse mix of fund strategies than for North America-focused vehicles. The growth of the direct lending industry in Europe continues to hit its stride going into 2016, much like the growth witnessed in recent years in the US, as is reflected in three of the five largest funds on the road in Europe classified as direct lending vehicles. Distressed debt funds currently account for 22% of capital sought by Europe-focused private debt funds in market, compared with 46% for North America-focused distressed debt funds.

Fig. 8: 10 Largest North America-Focused Private Debt Funds Currently in Market (As at 12 January 2016)

Fund	Firm	Type	Target Size (mn)
Oaktree Opportunities Fund Xb	Oaktree Capital Management	Distressed Debt	7,000 USD
Centerbridge Special Credit Partners III	Centerbridge Capital Partners	Distressed Debt	6,000 USD
Cerberus Institutional Partners VI	Cerberus Capital Management	Distressed Debt	3,000 USD
Crescent Mezzanine Partners VII	Crescent Capital Group	Mezzanine	3,000 USD
Oaktree Opportunities Fund X	Oaktree Capital Management	Distressed Debt	3,000 USD
Sankaty Credit Opportunities VI	Sankaty Advisors	Distressed Debt	3,000 USD
MHR Institutional Partners IV	MHR Fund Management	Distressed Debt	2,750 USD
Oaktree Principal Fund VI	Oaktree Capital Management	Distressed Debt	1,800 USD
Griffin-Benefit Street Partners BDC	Benefit Street Partners	Direct Lending	1,500 USD
Guggenheim Private Debt Fund II	Guggenheim Investment Management	Direct Lending	1,500 USD

Source: Preqin Private Debt Online

Fig. 9: 10 Largest Europe-Focused Private Debt Funds Currently in Market (As at 12 January 2016)

Fund	Firm	Type	Target Size (mn)
KKR Special Situations Fund II	KKR	Distressed Debt	3,500 USD
Hayfin Direct Lending Fund II	Hayfin Capital Management	Direct Lending	2,250 EUR
Alcentra European Direct Lending Fund II	Alcentra Group	Direct Lending	2,000 EUR
Ares Capital Europe III	Ares Management	Direct Lending	2,000 EUR
Avenue Europe Special Situations Fund III	Avenue Capital Group	Distressed Debt	2,000 USD
LCM Credit Opportunities Fund III	LCM Partners	Distressed Debt	1,500 EUR
Highbridge European lending Fund	Highbridge Principal Strategies	Direct Lending	1,500 USD
Hayfin Special Opportunities Credit Fund II	Hayfin Capital Management	Special Situations	1,000 EUR
Park Square Capital Partners III	Park Square Capital Partners	Mezzanine	1,000 EUR
Pemberton Mid-Market European Debt Fund	Pemberton Capital Advisors	Direct Lending	1,000 EUR

Source: Preqin Private Debt Online

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February 2016

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