Press Release – For Immediate Release

21st May 2019

Distressed Debt Funds Stall in 2019

Market conditions suggest a potential opportunity for distressed debt funds, but fundraising has yet to pick up

Distressed debt has long been a major component of the private debt industry. At the time of the Global Financial Crisis (GFC) distressed debt funds raised record levels of capital and saw record performance, as funds took advantage of distressed opportunities. The majority of investors now feel the market is at a peak again, and 35% expect a correction within the next 12 months. But distressed debt funds have not yet seen the same uptick that they witnessed in 2008. For the time being, the strategy remains less attractive to investors than either special situations or direct lending funds, and fundraising has totalled just $2.5bn in 2019 so far. Performance has been lacklustre too, lagging both mezzanine and direct lending funds in the year to September 2018.

For more information and analysis, see the full *Distressed Debt in 2019* factsheet here:
http://docs.preqin.com/reports/Preqin-Distressed-Debt-Waiting-for-the-Boom-May-19.pdf

Tom Carr, Head of Private Debt:

"Given that many investors feel we are late in the market cycle, we might expect to see increased interest in distressed debt funds. These vehicles managed to capitalize on the previous major market correction, but investors do not yet seem to be flocking to them in this cycle. This may be partly because investors believe sectors like direct lending – which was very much a nascent industry in 2008 – will offer better opportunities in a downturn. But it may also be simply a case of capital build-up. While the unrealized value of assets held by distressed funds has grown by 19% since 2013, dry powder has ballooned by 82%. Investors may be waiting for managers to put some of their $87bn in dry powder to work before committing further capital."

Key Distressed Debt Facts:

- Distressed debt fundraising reached a peak of $45bn in 2008 – **a record that has never been equalled**.
- Sixty-one percent of private debt investors think the equity market is at a peak in 2019, and **35% expect a correction within the next 12 months**.
- But the first five months of 2019 have seen **just four distressed debt funds close, raising $2.5bn**. 2018 as a whole saw 25 funds secure $23bn.
- The largest proportions of investors believe the best opportunities are in direct lending (44%) and special situations (43%) funds. But **distressed debt is the third most sought-after, with 36% of investors targeting it**.
- Distressed debt performance has lagged other major private debt strategies. Mezzanine funds and direct lending vehicles gained 16.1% and 6.6% respectively in the year to the end of September 2018, while **distressed debt funds lost 1.14% on average** in the same period.
- While distressed debt assets under management have grown from $165bn to $226bn between December 2013 and June 2018, this has been weighted toward dry powder. **Available capital has grown by 82% in this period**, compared to 19% growth in the value of unrealized assets.

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