Press Release

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Distressed Debt Fundraising Slumps in 2018

A majority of investors are targeting the strategy, but the fundraising market remains relatively small and tightly focused on the US

Investor interest in distressed debt currently outstrips all other private debt fund types, with 52% of institutions targeting the strategy in Q1 2018. However, fundraising has slumped in 2018 so far, with just three distressed debt funds having reached a final close as of the end of April. Further, funds currently in market are seeking $36bn, less than half the $77bn sought by direct lending vehicles and only marginally ahead of the $28n sought by mezzanine funds. This may be in part due to the size of distressed vehicles: funds in market are seeking $987mn on average, suggesting each one can cater to more investors than a typical mezzanine or direct lending fund. But overall, the distressed debt market remains largely focused on the US, which accounts for two-thirds of the capital being targeted. With 60% of investors targeting Europe in Q1 2018, they are served by just six distressed debt vehicles which will focus on the region.

For more information and analysis, see the full *May Private Debt Spotlight* here:

http://docs.preqin.com/newsletters/pd/Preqin-Private-Debt-Spotlight-May-2018.pdf

Key Distressed Debt Fundraising Facts:

- As of the end of Q1 2018, **52% of investors are seeking distressed debt investments**, up from 46% a year prior.
- This is despite **strong fundraising in 2017**, which saw 18 distressed vehicles secure a combined $28bn.
- In 2018 YTD, however, just **three distressed debt funds have closed**, raising a total of $9.5bn. This is primarily accounted for by the closure of the $7.4bn GSO Capital Solutions Fund III.
- **Distressed debt funds are the largest private debt vehicles on average**: close sizes have exceeded $1bn in every year since 2012, and funds currently in market are seeking an average of $987mn.
- However, **funds in market are currently seeking $36bn from investors**, less than direct lending funds ($77bn) and marginally above mezzanine funds ($28bn), despite distressed funds being most sought-after by investors.
- Furthermore, **two-thirds of the targeted capital is in North America-focused funds**, while just six Europe-focused vehicles are targeting 19% of the total capital.
- This is despite **six out of 10 investors saying in Q1 2018 that they were seeking investments in Europe**, a higher proportion than are looking to invest in North America (52%).

Tom Carr, Head of Private Debt Products:

“The current market for distressed debt investments is contradictory, and perhaps reflects the uncertainty within the industry as to where exactly we are in the current market cycle. On the one hand, the conditions for distressed debt are good: the fund type recorded strong fundraising in both 2016 and 2017, and investor appetite has grown in the past 12 months to the point where a majority of investors are looking to invest in the strategy. On the other hand, only three vehicles have closed in the first four months of the year; beyond that, funds currently in market are seeking less than half the capital targeted by direct lending vehicles, and seem more on par with mezzanine funds.

There are a few possible explanations for this. In part, it may be that because distressed debt vehicles tend to be larger than other debt funds, they can absorb more investor interest within each vehicle. As such, the smaller number of funds in market may have less impact than it would appear. But there is also an indication that investors may feel that they are not finding distressed debt vehicles with the focus they would prefer. As of the end of Q1 six out of 10 investors are targeting investments in Europe, a greater proportion than are focusing on North America. However, two-thirds of distressed debt capital being sought is earmarked for North America, with just 19% headed for Europe. It may be this disconnect that is prompting relatively depressed distressed debt fundraising despite such strong appetite.”

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