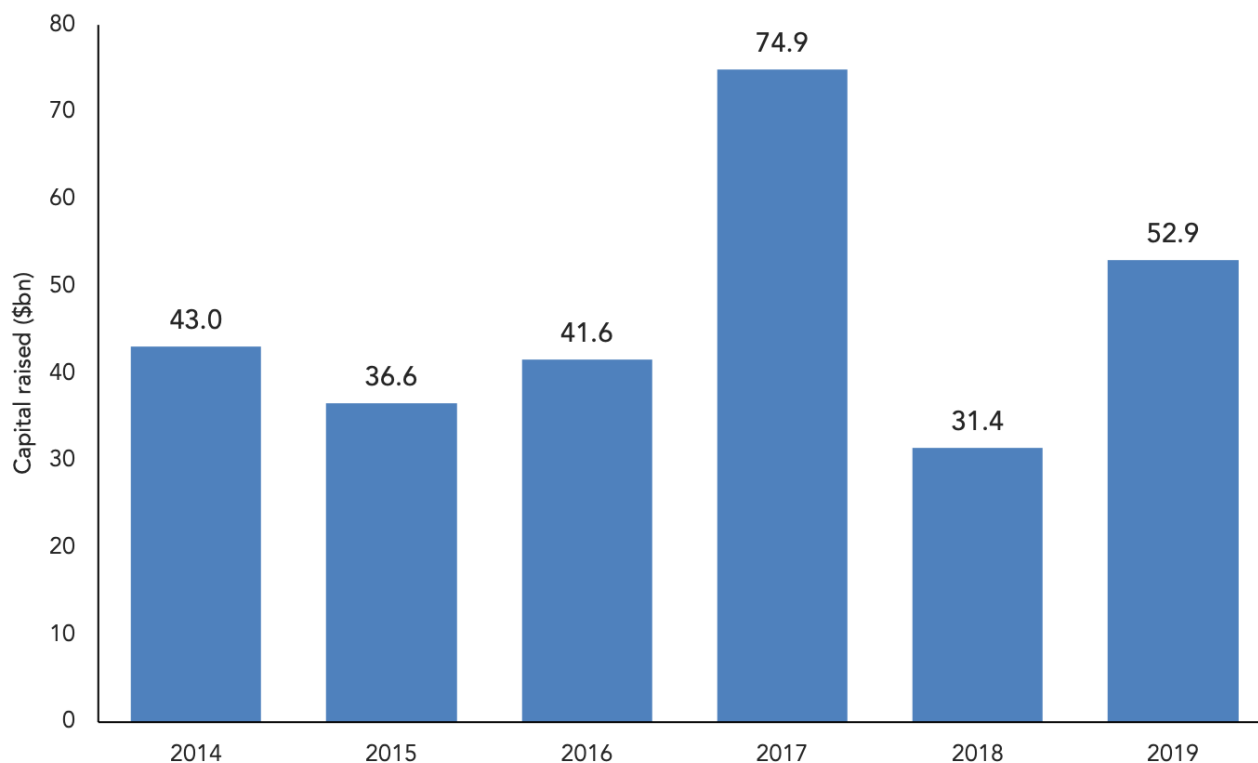


Is this the macro event that will drive distressed?

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Distressed debt fundraising, 2014-19



With Covid-19 spreading to more countries around the world, the climate for businesses is changing fast.

Fund managers at the pure end of the distressed market are only happy when it rains, as the song goes. But up until now, it hasn't been raining.

Given a largely benign scenario since the end of the global financial crisis, many advisors have been wary of pushing limited partners to increase their distressed debt allocations until clear evidence of a downturn emerged. A great deal of head-scratching has taken place about how to avoid being too late to take advantage of distressed debt opportunities while not being too early either.

Many of those keen to take advantage of distress when it comes along, while not leaping prematurely, have been choosing to commit to funds with contingent structures. This is where capital is committed by LPs for distressed opportunities, but capital is not called, or fees paid, until a broad-based downturn materialises.

One advisor source told *Private Debt Investor* around a month ago: "We think that in the US in particular, distressed activity will remain pretty limited during 2020 in the absence of major macro events."

But now, of course, that “major macro event” has arrived in the form of Covid-19, the disease arising from the spread of coronavirus. Amid plunging stock markets and a tumbling oil price, fears are growing of recession – possibly even of a global nature.

This is maybe the point at which those investors which have kept faith with distressed as a strategy claim their rewards. However, there is also the likelihood of others trying to come to the party too late. One source told us that when a big crisis hits, investors should have 20 or 30 percent of their private debt allocation in distress. But to get there from zero would be a big ask indeed.