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# Timing is key in distressed debt

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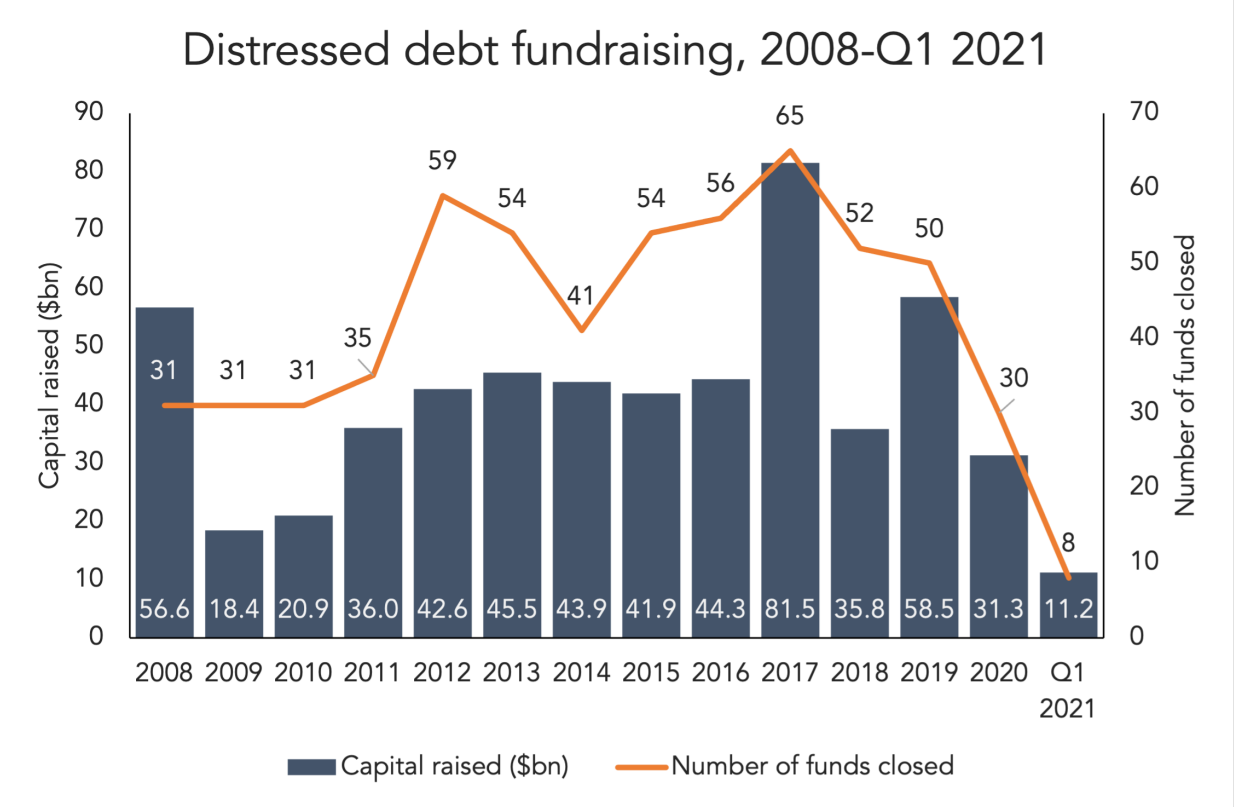


*The global pandemic provided another reminder that moving fast when opportunity arises is vital for managers in the space.*

When covid began spreading swiftly around the world early last year, a key facet of distressed debt investing was reinforced – the importance of timing. As public and private markets alike experienced a sudden bout of volatility, some fund managers smelt opportunity and attempted to urgently corral investors into dislocation funds. Anecdotal reports suggest that some of these funds shot the lights out, but the timeframe for making serious profits was short. Left too late, the window to take action was slammed shut.

Some of the capital for dislocation funds may well have come from capital raised in 2019, a good year for distressed debt fundraising with 50 funds gathering $58.5 billion (see chart above). This was around the time that talk of a possible market downturn was growing louder, even though no one could reasonably have predicted the turn of events of the following year. One of the criticisms of distressed debt from the limited partner side is that capital, once committed, can be left sitting idle for a long period of time – while still generating fees for the manager. The global pandemic may have saved some managers from uncomfortable conversations.

In today's market environment it might have been anticipated that the economic pressures brought about by the pandemic would have produced a bottleneck of distressed deals. Instead, given the liquidity that has been

pumped into the system in the form of business support schemes, many potential issues for portfolio companies have been kicked into the long grass. This does not mean to say that these issues will not surface at some point once the support schemes have been wound down.

Capital continues to be raised for distressed strategies but in relatively modest amounts. Compared with a peak of $81.5 billion in 2017, last year saw just $31.3 billion raised. However, interest certainly still flickers. While the three largest fundraises in the first quarter of this year were all senior debt funds, distressed debt funds accounted for four of the top ten, led by Cerberus Capital Management's $2.8 billion Institutional Real Estate Partners V. They'll be hoping they've got the timing right.

*(Past performance is no guarantee of future results.)*