Volatile times, but no distressed boom

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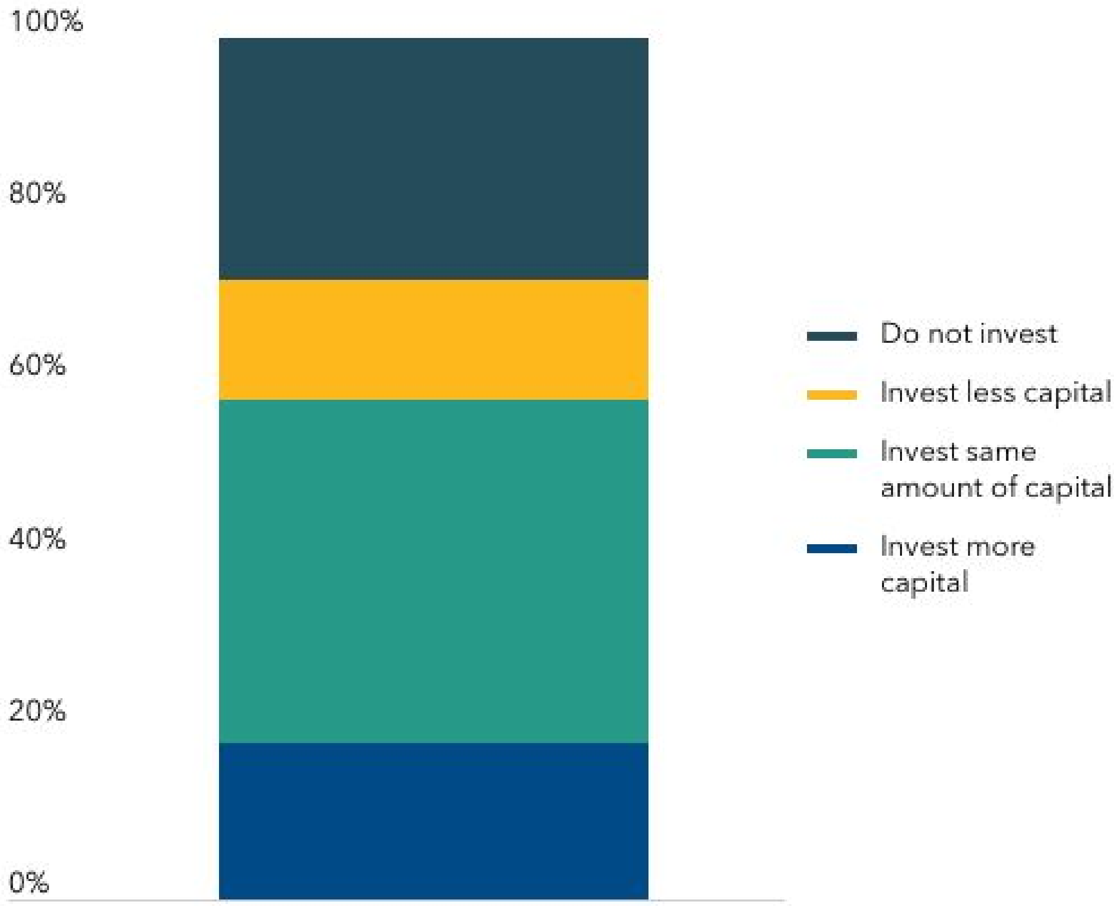
LPs' intentions regarding distressed and special situations debt strategies over the next 12 months (%)



Source: Private Debt Investor's LP Perspectives Survey

Private Debt Investor

Capital raising for distressed and special situations strategies has remained at modest levels since hitting a peak in 2019.

Fundraising for distressed and special situations strategies has remained remarkably consistent, even as the long-term effects of the covid pandemic, rising inflation, war in eastern Europe and the continuing fear of a major recession led to a period of severe volatility and economic upheaval.

Fundraising for these strategies only dropped off significantly in 2023, with $36.2 billion raised across 35 funds. It's worth noting, however, that this reduced fundraising for distressed strategies came against a backdrop of a broader decline in fundraising activity during 2023, across other private debt strategies and throughout the wider private markets space.

Figures from PDI's *2023 Fundraising Report* show that distressed fundraising as a proportion of all funds raised remained consistent with previous years, at 17 percent of all capital secured. However, this is markedly lower than in 2019, when distressed fundraising hit a high point of 26 percent of the private credit market.

In all cases, distressed remains a somewhat niche offering compared to subordinated and senior debt strategies. Even so, the past five years have also seen some very large vehicles raised to target distressed debt, with by far the biggest being Oaktree Opportunities Fund XI, which beat its target to secure $16 billion of capital for a final close in 2021. Several other major funds also beat their targets, including Lone Star Fund XI, which raised $8.2 billion to surpass its $6 billion target, and Ares Special Opportunities Fund II, which secured $7.1 billion, well above its $4 billion target.

Looking to the year ahead, PDI investor data found that just 18 percent of LPs are planning to increase their commitments to special situations and distressed debt, versus the 45 percent who want to increase their commitments to direct lending in 2024. With a further 14 percent wanting to reduce their distressed exposure and the majority looking to maintain it, we are unlikely to see a major expansion in distressed fundraising in the near future.