Asia-Focused Distressed Debt Fund Industry Booms

More funds come to market looking to capitalize on distressed assets in India and China

Following the 2014 collapse of the North America energy sector, many distressed debt funds were able to capitalize on the challenging market, and raised significant sums to acquire distressed assets. Six funds focused on the sector raised $8.7bn from 2014 to 2016, more than the $5.3bn raised by four funds from 2010 to 2013. In 2017, a similar trend may be emerging in Asia. Burgeoning concerns about corporate and personal debt in the region's two largest economies, India and China, have raised the prospect that assets in these markets will become likely targets for distressed funds. As a result, although just 13 funds have closed focused on the region in the past decade, in October 2017 there are six vehicles raising capital to acquire distressed assets in Asia.

For more information and analysis, see the full *November 2017 Private Debt Spotlight* here:
https://www.preqin.com/docs/newsletters/PD/Preqin-Private-Debt-Spotlight-November-2017.pdf

Key Asia-Focused Distressed Debt Facts:

- Over the past ten years, **13 distressed debt funds with a focus on India or China have closed, raising $4.4bn**.
- **Seven of the funds closed over this period were focused on India, while five funds targeted China**.
- Of the five funds targeting distressed assets in China, three were managed by Shoreline Capital, raising an aggregate $981mn in capital.
- The largest India-focused distressed debt vehicle closed in the past ten years was raised by Apollo Global Management – the only global manager to raise a distressed debt fund targeting the region over this period.
- Currently, **there are six Asia-focused distressed debt funds in market seeking $4.8bn**, all of which have exposure to India or China.
- The **aggregate capital targeted by these vehicles accounts for 62% of Asia-focused distressed debt fundraising over the last ten years**.
- Since 2016, **fund managers have accumulated $1bn in dry powder for Asia-focused distressed debt funds**.
- In fact, this is the highest amount of undeployed capital seen since 2007, and comes after two years of increasing levels of dry powder.

Ryan Flanders, Head of Private Debt Products:

"With the institution of the Insolvency and Bankruptcy Code by the Indian Government in 2016, the bankruptcy process has been expedited, and it is expected that it will be more efficient for fund managers to acquire distressed assets. Concurrently, in China, years of economic growth have led to high levels of corporate debt and, as the rate of growth has slowed, the government has begun to ease the process for foreign firms to help reduce privately held debt. These events seem to have helped cause an industry boom for Asia-focused distressed debt.

Although the similarities between the North America energy crash and the uptick in distressed debt fundraising soon after would seem to indicate a cause-and-effect scenario, it is still very early to say for sure that Asia-focused, and more specifically, India- and China- focused distressed debt is following the same trend. However, the six distressed vehicles in market, all of which have exposure to India or China, and their large aggregate targeted capital, indicate that fund managers see increased opportunities in the region. We may well see interest intensify further as the economic situation in the two countries develops."

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