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MARKET INSIGHT FUND-RAISING WRAP

Distressed Debt Firms On Fund-Raising Warpath

By Sree Vidya Bhaktavatsalam

Distressed debt firms, smelling blood following record debt issuance this past year to finance buyout deals, are amassing large chunks of capital again.

Firms that invest in either the debt or the equity of troubled companies with an eye towards influencing their restructurings have collectively raised more than \$3.4 billion so far in 2005, compared to about \$2.1 billion at the same time last year. Among the largest funds closed so far this year is a \$1 billion distressed debt pool raised by **WL Ross & Co.**, which far surpassed the \$500 million to \$750 million that investors had originally expected.

Thanks to several large fund-raising underway, total distressed debt fund-raising this year promises to rival or even top the record \$7.7 billion collected by distressed debt managers in 2004.

Oaktree Capital Management is sporting a \$1.5 billion target for **OCM Opportunities Fund VI**, and may raise a “top-off” fund as well, once the expected wave of distressed debt opportunities materializes. **Avenue Capital** has set a \$1 billion target for its latest distressed debt

fund, which it will not begin investing until a wave of defaults start hitting the market over the next 12 to 18 months. **Blackstone Group**, meanwhile, is trying to raise \$500 million for its debut distressed debt offering – which will have some hedge fund-like characteristics.

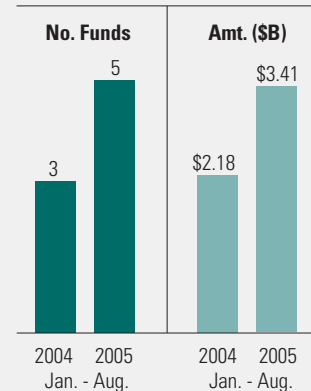
All these firms are banking on the fact that buyout-backed companies have racked up record amounts of debt – especially high-yield debt – to finance deals over the last couple of years.

“Distressed debt is an actuarially predictable business,” says Maria Boyazny, who manages a distressed debt fund-of-funds program for investment firm **Siguler Guff & Co.** She points to a Moody’s study showing that nearly 50% of CCC-rated issues default within the first three years.

These firms are likely to be even more successful than generalist buyout firms have been of late at raising money, especially as LPs are viewing distressed debt as a less efficient market, with the potential to generate higher rates of return.

“As the cycle heats up, we expect returns from control-style investors – who work on some of the hairier deals – that are north of 20%,” Boyazny says.

Distressed Funds Raised YTD, '05 Vs. '04

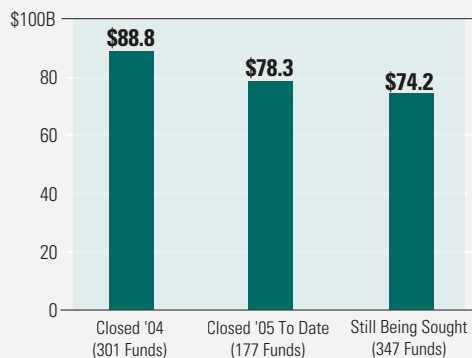


Source: Private Equity Analyst

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The Private Equity Market Monitor*

How 2005 Stacks Up Against 2004 (\$ in billions)



2005 Funds Through August (\$ in millions)

Type of Fund	Number	Amount
Corporate Finance	69	\$49,759.1
Venture Capital	71	\$16,559.6
Fund of Funds	23	\$6,910.7
Other Private Equity	7	\$4,055.0
Mezzanine	7	\$1,023.0
Total	177	\$78,307.4

*For more market statistics, check out our subscription service at www.PrivateEquityInteractive.com.