Less for distress

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Year of fund close	Capital raised ($bn)
2008	58.00
2009	18.47
2010	21.69
2011	33.62
2012	42.61
2013	43.31
2014	44.33
2015	39.63
2016	44.48
2017	73.08
2018	30.94
2019	54.52
2020	10.80

The coronavirus crisis may have been expected to lead to a fundraising surge for troubled companies. But investors are wary of making bad moves.

Investors may be convinced of the intellectual case for changing their private credit allocations in reaction to the coronavirus crisis and its huge policy response. However, this crisis presents obstacles both old and new to moving from thinking they should do something to actually doing it.

This is partly because of the usual risk aversion that occurs during downturns – but there is a special coronavirus twist. Many investors see distressed opportunities in sectors hit by the pandemic. However, few investors want to allocate money – even to highly skilled distressed managers – if they say upfront: 'We're going to be in energy, hotels and airlines.' Most fear that if something goes wrong, it's a big career risk. "If my investment fails, people will say, how could I have allocated money to troubled sectors when the coronavirus was not really over?" one source told *PDI*.

This wariness about seizing the opportunities provided by hard-hit sectors helps explain why distressed fundraising was muted in the first half of 2020 (see chart above). At $10.8 billion globally according to *PDI* data, it is barely more than a quarter of the corresponding number for H1 2019. If fundraising stays at this level in the second half, 2020 will be the worst year for distressed fundraising since 2009. Its share of total private credit fundraising, at only 17 percent, was also far below normal in H1 2020.

Given this background, the protracted nature of the current distressed opportunity could be just what limited partners need, if they are initially wary of distressed. This time round, “both GPs and LPs have the opportunity to get pre-positioned with thoughtful capital, to help distressed companies. Because the distressed cycle is extended, limited partners can see things playing out, and gradually allocate a bit to distressed, and later on a bit more,” another source remarked.