GLOBAL REACH, LOCAL KNOWLEDGE

KKR Asset Management (KKRAM) also made headway in Australia, where the country's four large banks typically provide senior debt for deals and "there are not a lot of players in the junior space," co-head of special situations Jamie Weinstein told *PDI*. "We continue to be very active in Australia – less on the distressed market and more on strategic capital deals."

Weinstein's firm has made several deals in Australia in recent months. At the tail end of 2013 for example, it partnered with Findex (Financial Index Wealth Accountants) to acquire wealth management advisory Centric Wealth. The deal, announced in January this year, created one of Australia's largest non-aligned financial advisory businesses, with more than A$7.6 billion funds under advice. KKRAM provided the acquisition funding and has an equity interest in the merged group.

Another highlight for the firm during 2013 was its foray into Indonesia with its combined debt and equity investment in snack food maker Tiga Pilar Sejahtera Food (TPS). Despite TPS' management explaining to KKR the company was not for sale, it was willing to explore the potential for alternative financing solutions. Even though the business was public it was majority-owned by the founding family, who sought refinancing help. As a result of a constricted bank-lending environment, "they had real trouble refinancing debt with a domestic bank," Weinstein said.

KKRAM provided liquidity lending money via a structured loan and additionally bought a block of TPS stocks. The combined debt and equity deal gave KKR a stake of about 10 percent in the company.

This was funded from the group's global special situations fund, which had a final close at the end of 2013 at $2 billion.

The firm also continued to beat a path into the primary Indian market. The NBFC (Non-Banking Financial Company) is the licensed lending entity which structures deals and the India Alterative Credit Opportunity Fund I invests alongside it in those deals. "We invest in both stressed and distressed as well as companies which can't raise conventional forms of capital," explains Weinstein.

"We are a primary lender in India – predominantly to corporates, though we will begin to extend credit to real estate companies," Weinstein says. "The corporate NBFC has been active for about three to four years. We have lent over US$1.5 billion in primary lending activity."

As a result of the pressure on companies to get funding, Weinstein and others see growing amounts of stress and thus increasing opportunities. "The potential for growth is huge but there is a lot of pressure on companies," Weinstein says about India. "Structurally there are impediments to growth particularly in the regulatory area."

Along with other concerns, "They don't have a well-formed insolvency regime, so it's more difficult to come up with solutions for companies in insolvency - you have to be even more creative," he adds.

CRACKING CHINA

Hong Kong-based alternative asset manager Adamas Asset Management sees a

ASIA-PACIFIC

similar pattern in China. Adamas held a first close on $79 million for its second fund, Greater China Credit Fund II, last year and anticipates further closes in 2014 as it looks to raise $200 million (the fund has a hard cap of $275 million).

Adamas sources primary deals in China and estimates a funding gap of up to $1 trillion exists there. "Chinese banks are heavily underweight when it comes to extending loans to SMEs, and this is the market we focus on. It is growing quite rapidly," Conor MacNamara, partner and head of business development at Adamas, told *PDI*.

Deals in China are typically non-recourse but MacNamara explains that Adamas structures lending to Chinese SMEs whereby collateral is secured outside of mainland China.

Project Wealth is an investment from Fund II, agreed in August, providing HK$80 million of high yield bonds to a company to acquire a resource trading company engaged in iron sand concentrate with secured off-take agreements with suppliers in the Philippines and a stated-owned enterprise (SOE) buyer in China. It has a coupon rate of 20 percent over 24 months, with an optional 12 month extension, and a projected IRR of 23 percent.

"We have shares of the Hong Kong Listed Company; assignment of off-take agreements; and first lien rights on one of the mines which is worth $50 million representing an LTV of below 30 percent. It is a very safe investment with a very attractive coupon," MacNamara explains.

Adamas is also planning an IPO of a Chinese healthcare company listed on the Hong Kong exchange in June later this year. "[It] could be our most profitable deal so far. We invested via a convertible debt to delist the company from OTCBB with a P/E multiple of 5.5 x. We expect the company to relist in HK with at least 12 x P/E multiple."

Indeed, convertible bonds are increasingly seen as an opportune way to access the Asian markets, particularly if special situations increase.

GEMS IN JAPAN

Japan-based Diamond Realty Management (DREAM), the real estate fund management arm of Mitsubishi Corporation, has made huge strides in the region. It has been working on its mezzanine platform since September 2010 and sees both its timing, after the big banks retreated, and its parent, as key to its current success. "Our competitive edge is that we can use Mitsubishi's account to warehouse the loans and later repackage them into fund products," a spokesperson said. It held a final close on its second fund at $110 million during the year and spent much of the year busily investing it in greater Tokyo retail and residential property.

DREAM also expects to launch a semi-blind fund this year. Investor appetite is coming back to Japan, the biggest market in Asia, according to a DREAM spokesperson. "Sentiments have changed. More people are paying attention Japan – which has been ignored for a long time. Most of our investors are Japanese institutional investors, but we are getting more approaches from Asian and European investors, particularly those interested in mezzanine debt," he explains.

CHINESE BANKS ARE HEAVILY UNDERWEIGHT WHEN IT COMES TO EXTENDING LOANS TO SMES.

Conor MacNamara, Adamas Asset Management

In November, ICG announced a partnership with investment bank Nomura to launch a joint venture focused on mezzanine investments in Japan. In a 50:50 partnership managed by a combined local team, each party will allocate ¥10 billion ($99 million; €74 million) to the venture as initial seed capital, which will be topped up by institutional investors. The pair predicts demand for mezzanine financing will rise as Japanese government economic initiatives take effect.

AMP Capital is also seeing a lot of demand from Asian investors. It had its first close on its Infrastructure Debt Fund II (IDF II) during 2013 at $300 million and two thirds of the investors were from Asia. "We are still in the middle of fundraising and a final close is expected mid-year. We are targeting $1 billion," head of infrastructure debt Andrew Jones told *PDI*. "The defensive nature of our strategy and yield focus is a nice match for the risk appetite of pension funds and insurance companies in the region."

Looking forward to 2014 and beyond, market participants interviewed by *PDI* were largely optimistic about the region's prospects. The stress that exists in the banking systems of China and India, while potentially a cause for concern on a macro level, also provide a wealth of opportunity for private debt funds. "One of the biggest competitors prior to the financial crisis was proprietary desks in banks," says Weinstein. "With the cutbacks in the banks and the regulatory overhang of the Volcker rule and Dodd-Frank, there has been a shut-down or significant pull-back of capital for these desks. Funding for highly stressed deals is entirely gone or dramatically reduced. This is one of the biggest reasons a window has been created for [private debt] firms to get more involved." ■

ASIA

Whilst still a predominantly bank-dominated market, the Asia-Pacific region has played host to a number of innovative indigenous private debt firms eager to provide local competition to the global behemoths that come looking for out-of-the-way deals. **Anna Devine** reveals the region's best and brightest from both camps.

Lender of the year
KKR Asset Management
Highly commended
Adamas Asset Management
Oaktree Capital Management

In one of the most closely fought categories, Kohlberg Kravis Roberts Asset Management just pipped Adamas Asset Management and Oaktree Capital Management. Adamas had a strong year, building out its portfolio and sealing its first close on the Greater China Credit Fund (Fund II) at $79 million, while Oaktree agreed a number of notable deals, including the high profile restructuring of Australian surfwear brand Billabong.

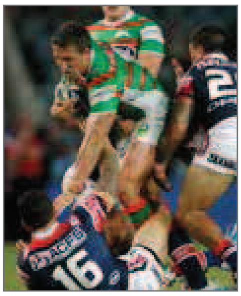
KKR Asset Management (KKRAM) however demonstrated its global reach with a number of deals in Asia. The firm has been one of the first global managers to invest in India in a major way. The firm has an India-focused credit fund which has been active for several years and has provided more than $1.5 billion of primary loans. It also expects to diversify into real estate financing.

The NBFC (Non-Banking Financial Company) platform allows KKRAM to originate and syndicate domestic credit deals from its India Alternative Credit Opportunity Fund I, in which domestic LPs invest. The vehicles have given KKR a foot in the door and an opportunity to create a relationship with Indian business owners. "We invest in both stressed and distressed situations as well as into companies which can't raise conventional forms of capital," Jamie Weinstein, co-head of special situations, explained.

Deal highlights included an INR 5.5 billion (€65 million; $90 million) financing package for Indian hospital chain Apollo Hospitals. It also made its first foray into Indonesia with a debt-for-equity investment in snack food maker Tiga Pilar Sejahtera Food (TPS).

And with the group's global special situations fund to call on – Weinstein says a "substantial minority" of its $2b billion will be deployed in Asia – KKRAM is poised to cement its position as an Asian powerhouse.

Distressed debt investor of the year
Oaktree Capital Management
Highly commended
Secured Capital (PAG)
KKR Asset Management


Oaktree helped to restructure Nine Entertainment, which broadcasts Australia's NRL

Oaktree Capital Management made it a clean sweep in all three regions in the 'Distressed debt investor of the year' category, testament to the global reach and peerless ability of the worldwide team Howard Marks has assembled.

Spare a thought, then, for the runners up. Secured Capital raised an impressive $1.5 billion for distressed debt investments in corporates and real estate in both Japan and the wider Asian region while KKR raised an India-focused debt vehicle, KKR India Alternative Credit Opportunities Fund I.

But it was Oaktree's partnership with China Cinda Asset Management to launch a distressed debt-focused joint venture, as well as its takeover of Billabong with Centerbridge, that grabbed the attention of our readers. It also played a key role in the restructuring of Australian TV network Nine Entertainment.

In November, Oaktree and China Cinda entered into an agreement to jointly invest in distressed assets in China and to cooperate in distressed investments outside China. *PDI* sources confirmed that each party had committed up to $500 million to invest in China's distressed debt market, meaning total investment could reach $1 billion.

In an earnings results call in February 2014, principal executive officer and managing principal John Frank said it was an opportunity "to learn more about China, to invest shoulder-to-shoulder with probably the entity in China that is best positioned to invest in distressed assets, particularly distressed real estate assets."

Overall, Oaktree's AUM increased to US$83.6 billion as at December 2013. Chairman Howard Marks described the year as its "strongest year of operating performance ever."