

DECEMBER 2024

The Tides of Credit: Opportunity in Dispersion

KEY TAKEAWAYS

- In 2023, we posited that credit markets were on the verge of an “old-fashioned” distressed cycle due to higher base rates and elevated leverage.¹ Defaults—when factoring in distressed exchanges—have risen since then and have been dominated by liability management exercises (LMEs). Across different parts of the corporate credit market, however, there is significant dispersion in default rates, prices and recoveries, which we believe portends an extended cycle with multiple overlapping waves.
- Distressed exchanges have increased tenfold over the last three years to their highest level since the Global Financial Crisis, a trend driven by corporate borrowers and sponsors embracing LMEs to address strained liquidity and difficult refinancings as rates rose 525 bps from March 2022 over 16 months—the steepest increase in over 40 years. Floating rate loans were hit first and hardest, and the prevalence of LMEs has led to a much higher default rate for leveraged loans than for high yield bonds.
- Meanwhile, fixed rate borrowers and direct lenders have been able to “kick the can down the road.” Nearly two-thirds of fixed rate issuers locked in lower rates before the rate hike cycle, while elevated payment-in-kind (PIK) coupons in direct lending have postponed private credit defaults.
- The dispersion in recovery rates underscores the need to be highly selective about investing in companies that might pursue LMEs. Credit underwriting needs to factor in how a company is likely to perform, what the documents will allow and the various possible outcomes under different process scenarios. Sometimes the best entry point can be after an LME, when the process risk is mitigated but the taint of the transaction continues to weigh on pricing.
- Capital structures across both public and private credit markets will eventually be forced to confront the current higher rate environment as it becomes the new normal. Ultimately, LMEs may fail to stem eventual bankruptcies; many PIK-toggle capital structures will require deleveraging; and even fixed rate issuers will have to refinance.

The early innings of this credit cycle have been characterized by: (1) a larger price dispersion between the widest and tightest trading credits; (2) historically wide variance in the default rates of leverage loans and high yield bonds; and (3) high levels of volatility around recovery rates.

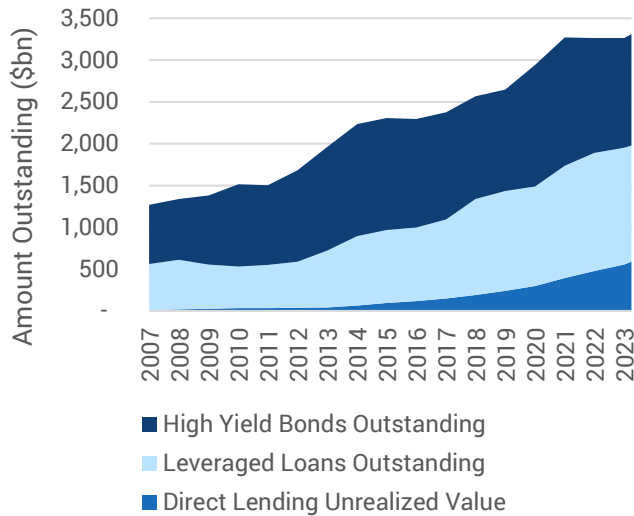
The opportunity set borne out of these dynamics could be massive given that the total amounts outstanding for leveraged loans, high yield bonds and direct lending now stand at approximately \$3.3 trillion.² This market has grown 260% since 2007, far exceeding U.S. GDP growth over the same period. The increase was driven by low interest rates from post-GFC through

2021, which enabled companies to be capitalized with more debt. During this period, leverage ratios (defined as debt over EBITDA) rose from ~4.5x to ~5.5x.³

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Exhibit 1 shows the growth of this non-investment grade corporate credit market since 2007 as well as the increasing proportion of direct lending, which has grown from 3% to 18% of this market over the past decade.

Exhibit 1: The \$3.3 Trillion Market
(High Yield Bonds, Leveraged Loans & Direct Lending)



Source: BofA Global Research, LSTA Trade Data Study, Preqin Ltd. & DKCM Research. As of March 31, 2024.

Since 2021, this market has remained essentially flat as companies have had to contend with higher rates, which have stressed floating rate issuers as well as fixed rate issuers that need to refinance.

Across leveraged loans, high yield bonds and direct lending, there are significant differences in sector concentration, coupon structure and document terms. Issuers increasingly move across the credit spectrum, and the public and private markets, to take advantage of the most advantageous (read: most lenient) terms available.

The stress from higher rates has depressed prices and consequently increased return profiles for lower-rated credits. For some credits, this widening has been appropriate on a risk-adjusted basis. But there have been, and will continue to be, situations where prices overreact and, as a result, attractive returns could be generated in either primary or secondary opportunities.

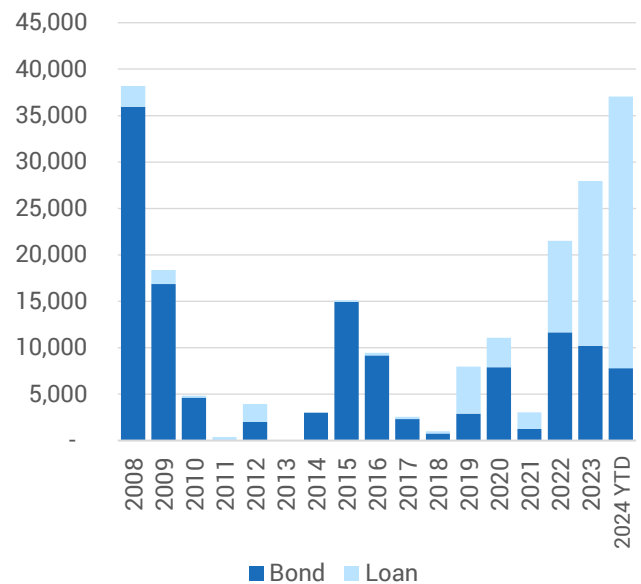
As companies adjust to a higher cost of capital over what we expect to be an extended multi-year cycle, we believe there will continue to be a range of attractive investment opportunities across public and private markets, from determining the best entry point in public names to providing capital solutions in private transactions as an existing or third-party lender.

DISTRESSED EXCHANGES HAVE RETURNED WITH A VENGEANCE

Since rates increased in 2022, defaults have been dominated by LMEs. As higher rates strain capital structures formed in a lower rate environment, many sponsor-backed companies have opportunistically exploited loopholes in covenant-lite credit agreements to raise “priming” new money and capture discounts on existing debt through coercive exchanges (see Appendix: A Primer on Liability Management for an illustration of such an “Up-Tier Transaction”). LMEs have allowed companies to raise capital that would otherwise have been prohibitively expensive, thereby extending the runway for those companies and their owners who have seen their equity value deteriorate.

Exhibit 2 shows that total exchanges in 2024 are on track to exceed full-year 2008 levels. As depicted in the chart, leveraged loans have comprised the majority of the total distressed exchange volume, as well as the majority of the increase, since 2021.

Exhibit 2: Distressed Exchanges to Exceed \$37B in 2024



Source: Courtesy J.P. Morgan Chase & Co., Copyright 2024. As of September 30, 2024.

An LME might be sufficient to stabilize a company’s credit profile, but not always. In some cases, borrowers and sponsors are merely delaying the inevitable restructuring or postponing additional cash contributions—akin to rearranging the deck chairs on the Titanic. So far in 2024, 38% of defaults have been by “repeat offenders”—a historic high!⁴

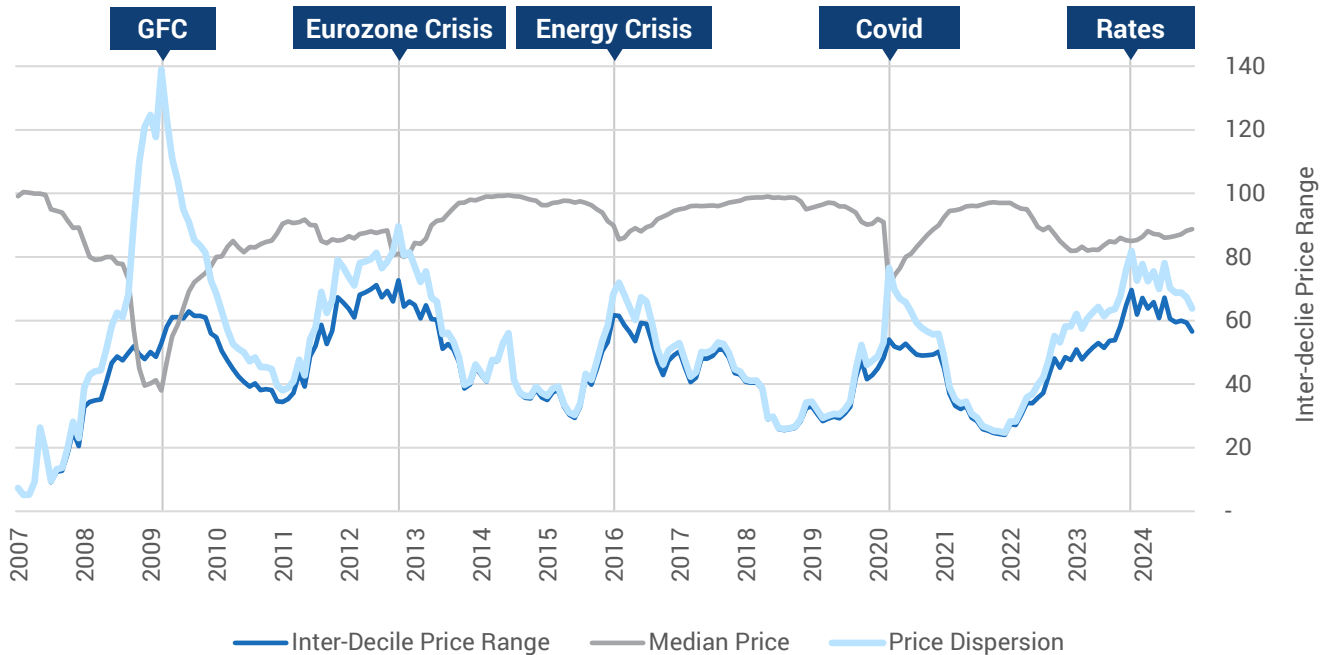
FINDING AN ASSET IN LIABILITY MANAGEMENT

The combination of higher rates and increased LMEs has resulted in idiosyncratic volatility and price dispersion in the loan market. These dynamics are most pronounced among CCC-rated leveraged loans. Price dispersion in the CCC-rated leverage loan market is currently more

dispersed than it was during the Covid-induced selloff in 2020. The dispersion for CCC-rated loans is currently 64 cents, which we calculate as the range of the 10th and 90th percentile normalized by the median.

Exhibit 3 shows the price dispersion of CCC-rated loans since 2007; the current level of dispersion ranks in the 72nd percentile over that period.

Exhibit 3: CCC-Rated Loan Price Dispersion Levels Across Various Financial Crises Since 2007

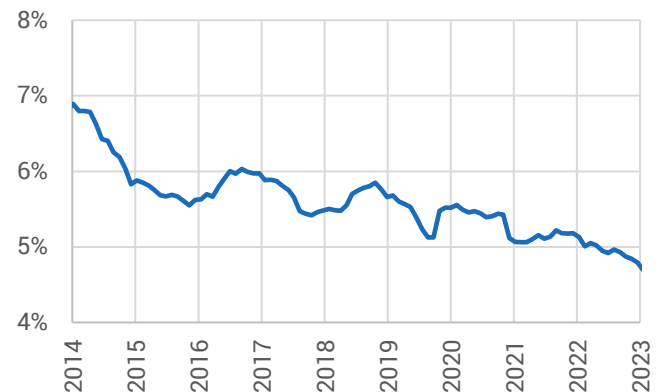


Source: PitchBook Data, Inc. & DKCM Research. As of November 1, 2024.

At the same time that price dispersion has been elevated, liquidity in the leverage loan market has been trending towards a historic low. As demonstrated in Exhibit 4, liquidity has pulled back meaningfully since the implementation of the Volcker Rule in 2015, which limited proprietary trading by banks. With increased regulation, banks limited market-making activities that required use of their balance sheet.

While the aggregate amount of public loans has grown from \$405 billion in 2007 to \$1.38 trillion today—a 340% growth—liquidity has steadily declined. Illustrating this trend of deteriorating liquidity, loans traded as a percentage of loans outstanding has declined from a monthly average of 7.8% in the period from 2007-2009 to 4.9% since 2020, a reduction in market liquidity of 37%.⁵

Exhibit 4: U.S. Public Loan Market Liquidity Has Steadily Declined Since 2014
(Trailing Monthly Average Volume as % of Outstanding)



Source: PitchBook Data, Inc., LSTA Trade Data Study & DKCM Research. As of September 30, 2024.

This decline in market-making by banks means there can be significant inefficiency in the loan market, which at times means better opportunities to build a position as creditors are not competing with bank trading desks.

In fact, some banks have exited distressed trading as a result of post-GFC regulatory changes. This can create windows of opportunities for active managers to capture excess spread in the secondary market.

THE SITUATION MAY NOT BE AS ROSY AS IT SEEMS, MR. (HIGH YIELD) BOND

Lower locked-in rates and a higher quality mix have led to lower default rates for high yield bonds, but that is not necessarily indicative of the finances of small and medium sized companies.

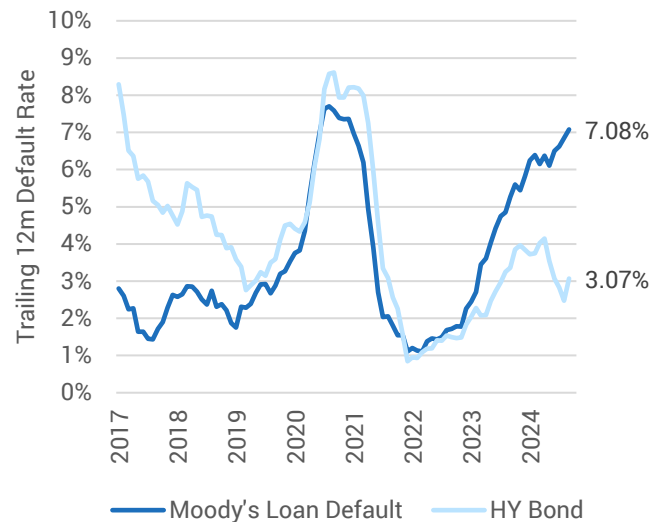
As one might expect, the 525-bps spike in base rates from March 2022 to July 2023 had an immediate impact on floating rate debt. As a result, LMEs have disproportionately targeted loans, which generally have floating rates, and much of the distressed exchange activity has been in the loan market.

The Moody's issuer-weighted loan default rate, which includes a broad listing of over 2,000 speculative grade issuers (including those that are not in the LCD loan index) as well as distressed exchanges (including LMEs), is in our view the best measure of financial health in the leveraged loan market.

Exhibit 5 shows the current gap in default rates between loans and bonds in public markets. At 7.1%, the Moody's issuer-weighted loan default rate is the highest since May 2020 and significantly higher than the average default rate of 4.2% since 1983.⁶

“This decline in market-making by banks means there can be significant inefficiency in the loan market, which at times means better opportunities to build a position as creditors are not competing with bank trading desks.”

Exhibit 5: High Yield Bond vs. Leveraged Loan Defaults (Issuer-weighted; including Distressed Exchanges)



Source: Moody's Ratings & PitchBook Data, Inc. As of October 30, 2024.

Given the number of large debt issuers currently pursuing LMEs, we believe these loan defaults will continue to grow.

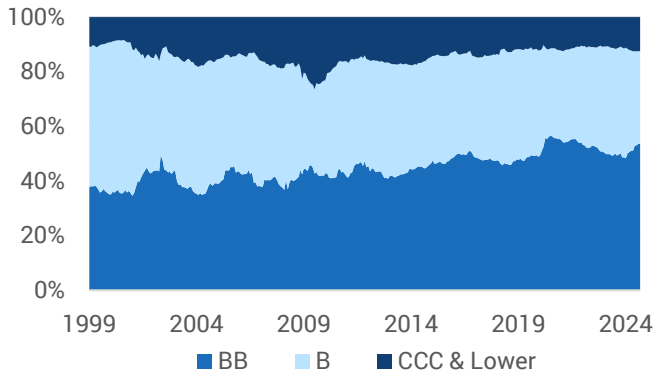
In contrast to floating rate issuers, bond issuers have largely benefited from opportunistically locking in fixed rates during the low-rate environment and for longer terms—much like the current situation for homeowners with low-rate mortgages. In fact, 65% of outstanding investment grade and high yield bonds have the benefit of low interest rates that were locked in before March 2022. However, this debt will eventually have to be reset at market rates. Between now and 2029, approximately 40% will come due.

Another factor that explains the current default gap is the higher quality mix of high yield bonds relative to leveraged loans. Exhibit 6 shows that the portion of BB credits in the high yield bond index is at 54%, which is close to the all-time high of 57% in 2020 and well above the 28-year average of 45%. This is a function of the crossover investors (e.g., core+, insurance, pensions) who purchase high yield bonds being more focused on BB-rated credits and the fallen-angel dynamic that has also led to quality improvement in high yield over time.

Meanwhile, the mix of issuers in the U.S. leveraged loan market has moved in the opposite direction from a quality standpoint. Exhibit 7 shows that the portion of BB-rated credits in the loan market is at 23%, the lowest in 25 years, while the portion of B-rated credits is the highest ever, at 68%. This has been amplified by CLOs owning nearly 65% of leveraged loans⁷ and their tendency to target B-rated credits in order to maximize yield, in turn leading to more LBOs being funded in the leveraged loan market.

Quality Has Improved in the High Yield Bond Market with a Higher BB-Rated Mix...

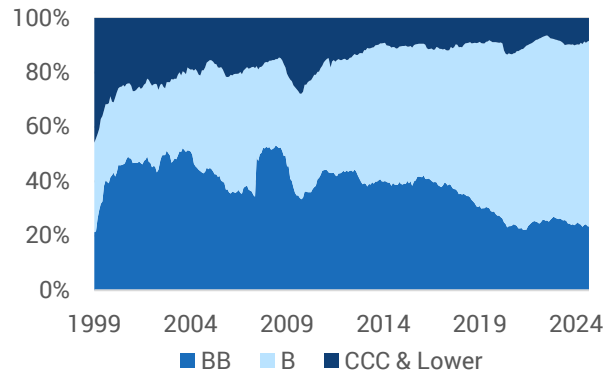
Exhibit 6: HY Quality Composition (1999-Sept 2024)



Source: ICE Data Indices & DKCM Research. As of September 30, 2024.

...Meanwhile, the Ratings Mix in the Loan Market Has a Higher Concentration of B-Rated Issuers

Exhibit 7: LL Quality Composition (1999-Sept 2024)

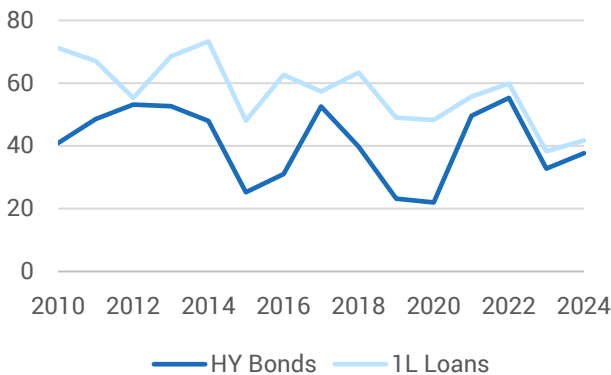


Source: PitchBook Data, Inc. & DKCM Research. As of September 30, 2024

LMEs TAKE A BITE INTO LEVERAGED LOAN RECOVERIES

Recovery rates for first-lien (1L) leveraged loans have historically been higher than those for high yield bonds. However, recovery rates on leveraged loans have deteriorated significantly since 2010, while recoveries for high yield bonds have remained relatively stable.⁸ Exhibit 8 shows the convergence of 1L loan and high yield bond recoveries over the last few years.

Exhibit 8: HY Bond and 1L Loan Recoveries Are Converging, 2010-Sept 2024



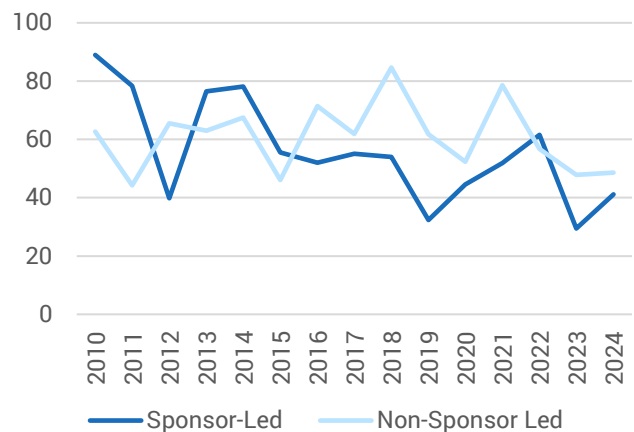
Source: Courtesy J.P. Morgan Chase & Co., Copyright 2024; DKCM Research. Data as of September 30, 2024.

Leveraged loan recoveries have deteriorated because of the predominance of weaker credit documents in sponsor-backed deals, which comprise nearly 60% of the leveraged loan market.⁹ Financial sponsors, in our view, tend to be more opportunistic about diverting value from creditors in order to extend the debt maturities of their portfolio

companies or salvage equity value, which can lead to lower recoveries in a default. With the growth of direct lending, sponsors do not have to worry about angering creditors as there are enough lenders willing to finance their next LBO even after aggressive activity. And with over 90% of the leveraged loan universe now considered covenant-lite (up from 20% in 2007),¹⁰ there are more opportunities than ever for financial sponsors to employ aggressive LME tactics, such as drop-down transactions (see Appendix: A Primer on Liability Management).

Exhibit 9 shows that recoveries for sponsor-led 1L loans have trended lower since 2010. In fact, the average recovery rate over the last 10 years for sponsor-led 1L deals is 11 points lower than that for non-sponsor led 1L deals!

Exhibit 9: Recoveries for Sponsor-Led 1L Loans Are Trending Lower, 2010-Sept 2024



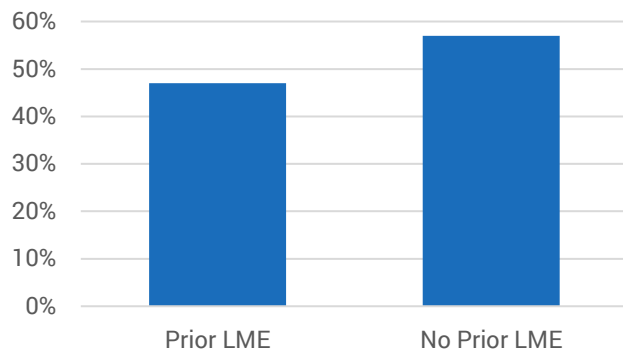
Source: Courtesy J.P. Morgan Chase & Co., Copyright 2024; DKCM Research. Data as of September 30, 2024.

While the trend for loan recoveries has declined since 2010, we note that the dispersion of recoveries has expanded as a result of LMEs. In 2023, the standard deviation in defaulted loan recoveries was 40% for speculative grade loans, higher than the typical 30% in prior years.¹¹

Moreover, LMEs that eventually lead to bankruptcy tend to result in lower recoveries. Exhibit 10 shows that in 2023, the 1L debt recovery rate for issuers that executed prior LMEs was 10 points, or 18%, lower than for issuers that had not.¹²

Exhibit 10: LMEs That Lead to Bankruptcy Tend to Result in Lower 1L Recoveries

(2023 1L Recovery Difference Due to Prior LME)



Source: Moody's Ratings

The prevalence of LMEs is representative of the headwinds that private equity is facing from record vintages that preceded the higher rates from 2022 onward. In many instances, the debt of these portfolio companies is covered but the loan-to-value ratio is far higher than at the initial purchase, and the financial sponsor is looking for a partial recovery of equity rather than a return on equity. Our analysis of private equity returns shows that IRRs for the record fundraising 2021 private equity vintage are tracking more than 40% below the average IRRs for three years of seasoning for vintages going back to 2000.¹³

Private companies with sophisticated financial sponsors are keen to take advantage of price weakness in their traded debt to implement a transaction that accomplishes the dual goals of raising financing and capturing discounts. Some companies may even pursue LMEs before they actually need liquidity if there is downward pricing pressure in the capital structure; in these instances, price transparency becomes the catalyst for an opportunistic LME.

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“PIK-ING” THE CAN DOWN THE ROAD

While these opportunistic LMEs have accelerated defaults for public loans, PIK-coupons tend to “kick the can” for private credit defaults.

The gap in default rates between direct lending and broadly syndicated loans—5.0% and 7.1%, respectively¹⁴—can be explained by the prevalence of opportunistic LM-driven defaults in the public loan markets (as previously discussed) as well as the prevalence of PIK-toggle coupons in direct lending.

PIK-toggle coupons in direct lending allow a borrower to convert a portion of a debt facility’s coupon payment to principal instead of settling it in cash. As a result, the issuer is deferring payment to a later date. Companies use PIK-toggle coupons to preserve liquidity in order to avoid default. As of Q2 2024, 16% of business development company (BDC) direct loan portfolios use PIK-toggle coupons, which is an all-time high.¹⁵ Considering that BDCs are required to distribute at least 90% of their income to investors, the increasing share of PIK loans could be troublesome.

Notably, these PIK-toggle coupons are critical for avoiding defaults in direct lending, which generally has higher leverage and lower cash flow coverage compared to leveraged loans and high yield bonds.¹⁶ While defaults have been relatively modest thus far, recoveries have actually underperformed recoveries for traditional syndicated loans despite the covenants that direct lenders boast are structured into the loan.¹⁷ We would expect the number of defaults to rise in the future as sponsors continually reassess which companies to support in this higher interest rate environment.¹⁸ With more pronounced direct lending maturities from now through 2027 on a percentage basis relative to leveraged loans and high yield bonds, we believe many PIK-toggle capital structures will require deleveraging.

WILL DIRECT LENDING'S OVER-INDEXING OF SOFTWARE COMPANIES SPELL TROUBLE?

Direct lending has a much higher exposure to software companies—at 21%—than the high yield bond and leveraged loan markets, at 3% and 12%, respectively.¹⁹ Among the 25 largest BDCs that are direct lenders, the range of PIK as a percentage of overall coupon income ranges from 0% to 38%, with an average of 15%.²⁰ This variance is driven in part by certain direct lenders focusing more on software companies and therefore tolerating a high percentage of PIK to allow cash flow negative or neutral companies to grow into their capital structures.

Interestingly, the sector with the highest default rate in the Fitch universe is technology software, at 8.1%. There is debate in the software space over whether AI efficiencies will eventually lead to “seat compression,” or decreased volumes (software companies often charge on a per-user basis), which could impact the ability of borrowers to repay their debt. It will be critical to see how this sector concentration plays out over time in credit performance.

ONLY WHEN THE TIDE GOES OUT...

We believe we are in the first wave of a multi-year corporate credit cycle as many companies have yet to fully adjust to the higher cost of capital. The first wave has been characterized by stress and opportunity in the public loan market, as reflected by the 7.1% leverage loan default rate (according to Moody's) and the CCC-rated loan credit spreads, which are higher than the 15-year non-recession average.

As maturities come due across the leveraged loan, high yield bond and direct lending markets, we expect to see companies with capital structures that were designed for a zero-interest rate environment in need of deleveraging.

As depicted in Exhibit 11, a company that was capitalized in the low-rate environment and grows EBITDA by 25% will have 21% less debt capacity at maturity; if the same company grows EBITDA by only 10%, it will have 45% less debt capacity at maturity.

This dynamic will create a range of opportunities in public and private markets. During this multi-year cycle, we expect the elevated dispersion in pricing and recoveries across the credit spectrum to continue. We believe the next few years will be very active in both primary and secondary credit markets, especially for experienced credit investors.

Exhibit 11: Illustrative Impact of Higher Rate Environment on a Hypothetical Company's Debt Capacity

Base Case EBITDA Growth (\$millions)	Low Rate Environment	Current Environment	Low Case EBITDA Growth (\$millions)	Low Rate Environment	Current Environment
Base Rate	1.00%	4.75%	Base Rate	1.00%	4.75%
Spread	3.75%	3.15%	Spread	3.75%	3.15%
All-In Rate	4.75%	7.90%	All-In Rate	4.75%	7.90%
Assumed EBITDA	\$100	\$125	Assumed EBITDA	\$100	\$110
Assumed Capital Expenditures	\$65	\$75	Assumed Capital Expenditures	\$65	\$75
Unlevered Free Cash Flow	\$35	\$50	Unlevered Free Cash Flow	\$35	\$35
Assumed Interest Coverage Ratio	1.1x	1.2x	Assumed Interest Coverage Ratio	1.1x	1.2x
Max Interest Allowed Under Coverage Ratio	\$32	\$42	Max Interest Allowed Under Coverage Ratio	\$32	\$29
Implied Max Debt Capacity At All-In Rate	\$670	21% Less → \$527	Implied Max Debt Capacity At All-In Rate	\$670	45% Less → \$369

Source: DKCM

TAKEAWAY FOR INVESTORS

Elevated dispersion in recovery rates underscores the need to be highly selective about investing in a company that might pursue LMEs. An investor will need to (1) leverage position size, relationships and have a view on how the process is likely to play out or (2) stay away and revisit the situation after the LME. Sometimes the best entry point can be after an LME when process risk is mitigated but the taint of the transaction continues to weigh on pricing. At other times, a capital structure prices in the risk of a potential LME, but the situation unfolds more favorably for creditors due to business improvements. An investor’s underwriting will need to factor in how the company is likely to perform, what the documents allow and outcomes under different process scenarios.



Spotlight on Envision Healthcare:

It is important to note that the overall picture of default recoveries does not show the dispersion—or very different paths and outcomes of recovery—that exist within a single capital structure as a result of an LME followed by a bankruptcy.

Envision Healthcare is an illustrative example. The exhibit below shows that the average headline recovery for 1L creditors of Envision Healthcare is 58.2c. However, depending on whether a creditor participated in the original drop-down transaction or subsequent up-tier transactions (see Appendix: A Primer on Liability Management), recoveries ranged from 0.5c to par.

Envision Healthcare Legacy 1L Recoveries Exemplify the Range of Outcomes Within a Capital Structure

Debt Tranche	Recovery (%)
AmSurg New Money First Lien Term Loan	100
AmSurg Roll-Over Second Lien Term Loan	73
Envision New Money First-Out Tranche	100
Envision Uptiering Transaction Second-Out Tranche	29
Envision Uptiering Third-Out Tranche	0.5
Envision Uptiering Transaction Fourth-Out Tranche	0.5
Par-Weighted Recovery	58.2

Source: BofA Global Research & Fitch Solutions

Spotlight on Lumen:

Post-LME capital structures can often feel “left for dead” as many existing investors are fatigued by the situation and look for opportunities to move on. While LMEs may be favorable to some creditor groups at the expense of others, we find that reasonably tight documents are almost always put in place post LME. This can create a situation where an investor may benefit by closely following the business and waiting until there is process clarity after the transaction closes.

The Lumen structure provides an example of how an investor with an understanding of structural complexity and a differentiated view on business fundamentals can capitalize on the “fatigue” that can be priced in post LME.

In early 2024, an LME came together that involved new money to Lumen’s subsidiary (Level 3), maturity extensions and the elevation of certain creditors in seniority. Despite meaningful improvements in the credit document and collateral/guarantor profile, a significant portion of the Lumen structure continued to trade at deeply distressed levels.

The trading liquidity in Lumen remained strong post-transaction, unlike many other post LME structures. Some firms had made money in the deal and were taking profits while others moved on due to a variety of factors. Six months later, with Lumen winning AI datacenter connectivity deals with several hyperscalers as well as idiosyncratic positive fiber M&A data points (e.g. Verizon/Frontier, T-Mobile/Metronet, Bell Canada/Ziply), that debt now trades close to par.

APPENDIX: A PRIMER ON LIABILITY MANAGEMENT

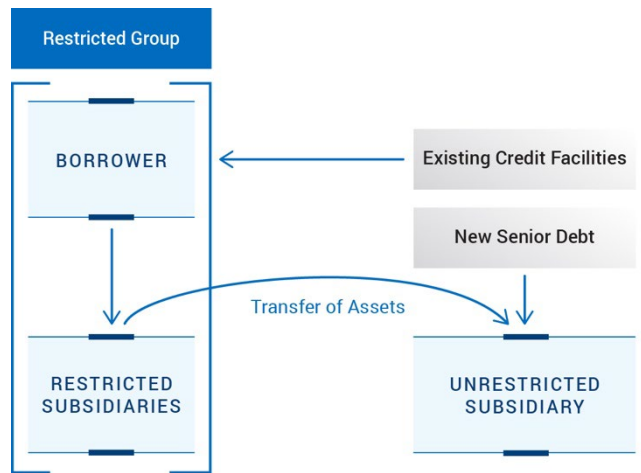
Covenant-lite documents began to proliferate around 2017, but it was only after the Covid-19-driven liquidity shock that companies broadly began to exploit loopholes in covenant-lite documents. As a result, companies have been able to raise capital, often in the form of less expensive senior debt versus junior debt or equity, in order to extend the runway for the company and its owners who have seen their equity value deteriorate due to a combination of inflation, supply chain shocks, labor shortages and higher rates. These “liability management exercises” (LMEs) leave existing credits primed, with less asset coverage. What had previously been deemed aggressive behavior has now been normalized.

Takeaway for Investors: In situations where there is a new money need, creditors need to model the worst-case scenario for recoveries. These LMEs have upended the absolute priority rule, or waterfall payment structure, that creditors rely on. As a result, creditors should anticipate aggressive transactions and position themselves accordingly. Creditors may choose to avoid those capital structures where it’s difficult to have a high level of confidence due to “process risk.” Alternatively, creditors may delay entering a position until after the LME, as spreads often remain wide for a period of time after the event. While some LMEs are sufficient to solve a company’s liquidity needs and avoid an eventual bankruptcy, it is not always the case. Credit selection is paramount.

Since 2022, LMEs have represented the majority of default volumes in the U.S. Even with the rise of cooperation agreements and two recent bankruptcy court decisions that might result in less aggressive transactions going forward, advisors will likely continue to enable issuers to exploit loopholes and raise priming capital at the lowest possible cost. We believe the public loan default rate could rise in the medium term and that LMEs will continue to represent the majority of defaults.

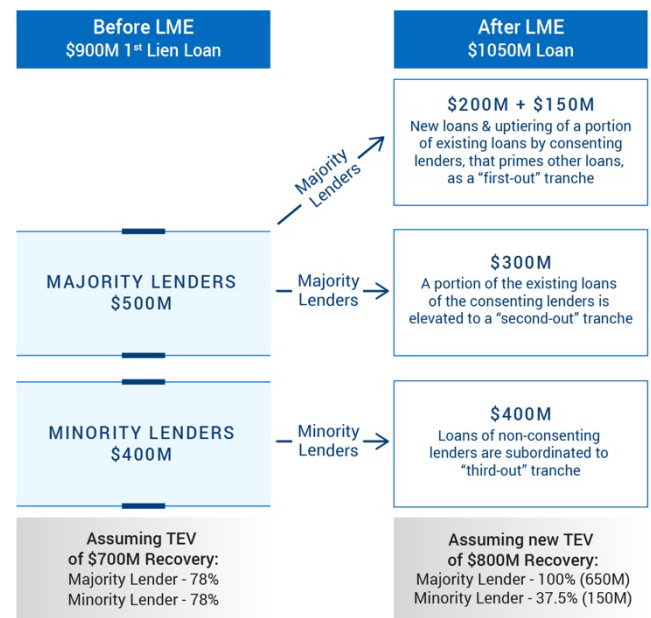
The below diagrams illustrate how two of the most common LMEs work, sometimes in combination with one another. The goal of these drop-down and up-tier transactions is some combination of (1) raising new money as cheaply as possible, (2) capturing a discount on legacy debt in an exchange and/or (3) extending maturities.

A Drop-Down Transaction (Asset Stripping)



A drop-down transaction involves leveraging a loophole in a credit document and transferring an asset to an unrestricted subsidiary in order to raise new senior/lower cost financing.

An Up-Tier Transaction



An up-tier transaction involves a majority of creditors amending a credit document to allow for super-priority, priming debt. These creditors then provide financing on a super-priority basis and roll up existing debt into the super senior tranche. Opening these transactions to more creditors (versus a slim majority) makes them less subject to challenge but negates the benefit for the majority sub-group. Backstop fees and varying roll-up ratios are utilized as another form of asset transfer.

ABOUT DAVIDSON KEMPNER

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¹ “Back to the Future: Are We on the Verge of an Old-Fashioned Distressed Cycle?” (October 2023), available at www.davidsonkempner.com.

² Source: BofA Global Research, LSTA Trade Data Study, Preqin Ltd. & DKCM Research (March 2024).

³ Source: PitchBook Data, Inc.

⁴ Source: J.P. Morgan Chase & Co.

⁵ Source: BofA Global Research, LSTA Trade Data Study & DKCM Research. As of September 30, 2024.

⁶ Source: Moody’s Ratings.

⁷ Source: BofA Global Research.

⁸ The 5-year average recovery rate for high yield bonds (including distressed exchanges) is 44.8%. The 16-year average is 45.3%.

⁹ Source: PitchBook Data, Inc.

¹⁰ Source: PitchBook Data, Inc.

¹¹ Source: Moody’s Ratings.

¹² Source: BofA Global Research.

¹³ DK Analysis based on Cambridge Associates US Private Equity Index, by S&P Dow Jones Indices. The Cambridge Associates US Private Equity Index contains the historical performance records of 1,205 institutional quality private investment funds with vintage years between 2000 and 2021. All data through June 30, 2024. The information and data provided herein (the “data”) is the proprietary property of Cambridge Associates, LLC, S&P Dow Jones Indices LLC and/or their respective affiliates (together, the “Data Provider”). Cambridge Associates, LLC and/or its affiliates calculate and administer the data but are not authorized as “administrators” under any relevant benchmark regulations or principles and the data cannot be used as a “benchmark” under such regulations or principles. The data has been licensed for use. The Data Provider does not make any warranties or representations as to the accuracy, fitness for purpose or results to be obtained by using the data and disclaims all liability in this regard.

¹⁴ 5.0% according to Fitch versus the 7.1% for broadly syndicated loans accordingly to Moody’s.

¹⁵ Source: Goldman Sachs.

¹⁶ Source: BofA Global Research, Fitch Solutions, PitchBook Data, Inc. & Morgan Stanley.

¹⁷ Source: Financial Times, “How is Private Credit Weathering its First Big Rate Hiking Cycle?”, November 21, 2024.

¹⁸ Source: Fitch Solutions Q324 U.S. Private Credit and Middle Market Chart Book.

¹⁹ Source: PitchBook Data, Inc. Based on Global Industry Classification Standard (GICS).

²⁰ Source: J.P. Morgan Chase & Co., BDC Collateral.