



Special situations An unusually broad opportunity set

For professional investors only | Marketing communication



Adam Phillips
Partner, Head of Developed
Markets Special Situations,
Leveraged Finance.
RBC BlueBay
Asset Management

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“We focus on identifying suitable opportunities using bottom-up research and fundamental credit analysis.”

Adam Phillips discusses our special situations approach and explains why the mid-market offers a highly compelling opportunity set.

The special situations option

Companies encounter credit stress for many reasons, such as economic cycles, sectoral stress, underperforming business lines, upcoming debt maturities, or just too much debt. But, in current market conditions, rolling over the debt is no longer straightforward, and in a rising rate environment, debt can become more challenging to service. For certain businesses no longer able to refinance their way out of difficulty, distressed investors can be the only source of capital, providing options for companies facing financial stress.

Our approach

We invest in bonds and loans in developed markets, selecting single-name corporate issuers where an identified event will likely provide a clear path to exit. Our investment process is predicated on maximising risk-adjusted returns and benefits from the skills of the wider BlueBay leveraged finance team, ensuring breadth and depth of issuer coverage.

Identifying opportunities

We focus on identifying suitable opportunities using bottom-up research and fundamental credit analysis. Our specialists have both the resources and knowledge to participate in and, in many cases, lead the restructuring process, which means we can provide our expertise from start to finish to drive a restructuring. And for us, the relationships and networks we have fostered over time are crucial to sourcing differentiated investment deals. BlueBay’s broader research channels, market-leading intellectual capacity and trading capabilities further enhance our team’s proprietary sourcing networks.

An unusually broad opportunity set

We believe there is always something to do, there are always pockets of opportunity, and distressed situations can emerge in any market environment, whether during an economic expansion or a contraction. That said, corporates are currently facing a number of challenges, and the opportunity set is unusually broad across multiple sectors and countries. Our watchlist of potential opportunities is now five times the size it was two years ago, consisting of over 300 names across multiple sectors and countries. Managing the list with discipline and process is essential to focus analysts in the right areas. Furthermore, we believe that the timeframe for the opportunity is likely to extend over several years.

The European mid-market

Growth in the opportunity set has been particularly evident in the mid-market sector – a space we broadly define as companies with EUR30-500 million in revenue. Mid-market companies, specifically, are less resilient to these shocks compared to their large-cap peers. We believe that Europe is the global epicentre of stress and distress and that mid-market companies in Europe are less diversified, less resilient and have less access to the capital markets. In short, we favour the European mid-market because there are more opportunities, and at the same time, we see less competition, as larger funds tend to focus on much larger capital structures.

A compelling future

For investors with the flexibility to pursue a special situations credit approach, the European mid-market presents an exciting opportunity set with the potential to deliver compelling risk-adjusted returns. We anticipate that this opportunity will be prolonged and that there is a strong case for investors to add an allocation to the strategy.

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