Markets

Ares Raises $3.5 Billion for Crisis-Hit Firms, Eclipsing Target

by Kelsey Butler
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► Special opportunities fund will focus on market dislocations

► Private-market distressed opportunities just beginning: CEO

Alternative investment firm Ares Management Corp. raised $3.5 billion for a new fund to sweep up debt and equity of companies scorched by the coronavirus pandemic.

The Ares Special Opportunities Fund LP will invest in stressed and distressed assets in the private and public markets, according to a statement on Monday. The vehicle surpassed its $2 billion fund-raising target with demand from pension and sovereign wealth funds to insurance companies and family offices.

Ares, which had $149 billion in assets under management as of March, joins firms including Bain Capital Credit, Blackstone Group Inc., Oaktree Capital Group LLC and Carlyle Group Inc. in seeking to capitalize on what they expect to be a prolonged period of turmoil in markets ravaged by the virus.

"The private distressed opportunity set is just getting started," Michael Arougheti, chief executive officer and president of Ares, said in an interview. "We are building liquidity bridges, but you have to appreciate that when you get to the other side of that bridge, it's not like you just flip a switch and go back to the way it was."

Flexible Capital

The special opportunities fund has invested and committed $1.7 billion to date, with about $1.3 billion of that put to work during the recent bout of virus-related market dislocation, according to the statement.

Ares began building out the strategy with the hiring of Scott Graves in early 2017. Since then, it's amassed a team under its private equity group including partners Craig Snyder and Aaron Rosen.

The strategy will provide flexible capital to help companies survive the financial distress, "whether they are over-leveraged or undergoing industry or business transformational change," said Graves, Ares' co-head of private equity and head of special opportunities, in the interview.

The distressed and stressed opportunities posed by the current crisis are distinct from the financial catastrophe in 2008, when the banking system was over-leveraged, there were structured product excesses, a real-estate mortgage crisis and extensive subprime consumer leverage, according to Graves.

Twin Shocks

"We are experiencing a pandemic-driven liquidity crisis and concurrent oil shock," he said. "Corporate balance sheets were not built to endure the level of demand shock currently underway. Companies are burning a tremendous amount of cash and will likely continue to be in need of incremental debt and equity financing."

The Federal Reserve's unprecedented steps to prop up markets may not diminish the distressed investing opportunity but could delay it, according to Arougheti. Much of the capital is also flowing to companies which don't necessarily need the cash, he said.

"The depth of demand destruction will have lasting effects, and when you come out the other side there will be problems like interest-rate challenges, and stressed municipal budgets," Arougheti said. "The Fed has pushed the opportunity set into the private markets and they have probably delayed and elongated the cycle."