



## Small Managers - BIG ALPHA - Report 89



### A good time for European distressed debt

B. G., Opalesque Geneva:

The latest [Weil](#) European Distress Index suggests that European corporate distress is deepening amidst persistent challenges in profitability and lack of investment. This is a time for credit hedge funds to seize the day. Ironshield Capital Management is one of them, and believes distressed

opportunities will abound in the medium to long term.

London-based [Ironshield](#) specialises in European low-grade credit investments - ranging from high-yield bonds (aka junk bonds) on an event-driven basis to distressed credit (obligations of companies that have filed for bankruptcy or are very likely to do so soon).

David Nazar, before starting the firm in 2007, had gained credit investing experience at several investment banks. Like many hedge fund founders, he decided to go it alone to escape the regulatory burden imposed on investment banks and create more value for his investors. And value he did create. His [flagship fund](#) generated net returns of 31% in 2021 and 22% in 2022.

The firm's strategies mainly invest in two instruments: bonds and loans, which are more often than not incepted as leveraged loans (that are extended to companies that already have considerable amounts of debt) and leveraged bonds. They might be from private equity-type capital structures or fallen angels. The manager also looks for events (such as restructurings, M&A, bankruptcy, spinoffs, takeovers, etc.) in individual credits.

### Making sense

Nazar likes the challenge of understanding complex credit opportunities, making sense of the contradictory or incomplete information that comes with them, and assessing their worth.

As each credit is a puzzle to be solved before anything is decided, he believes a key component for being successful at this strategy is not to deviate from the focus until one gets the final answers. "A key mistake that people can make in our space is to be satisfied with answers which on the surface appear to make sense but they haven't been questioned enough (and) the thesis hasn't been pulled to pieces," he explains during a recent [Opalesque video](#) interview. His team meets regularly to do just that.

Nazar loves his strategy as there is never a dull moment. "It allows you to really understand corporates, value, capital structures, cash flow... all those basics all wrapped up into one strategy. And so you have to be a master of all of the different aspects of finance and valuation."

### The European advantage

The reasons why he focuses on Europe are many: the first one is that Europe is his home and his expertise. The second is that Europe, with its different jurisdictions and bankruptcy processes, is a much more fragmented market than the U.S. This fragmentation creates a much less efficient market with bigger pricing

dispersion - which means more opportunity to create alpha. Thirdly, there is less competition in the European distressed credit field than there is in the US.

And finally, "if you look at the European bankruptcy processes versus Chapter 11 (which involves the reorganization of a debtor's business affairs, debts, and assets) in the U.S., the European processes tend to be less adversarial than Chapter 11. Chapter 11's characteristic is more towards becoming a bigger creditor and becoming an activist creditor, whereas in Europe it's more toward being an analytical investor because there's less of a differential between outcomes for different creditors than there is in the U.S." He prefers the analytical approach because it is a more efficient way of making money.

### **Credit opportunities have multiplied**

Opportunities for credit investors have recently multiplied, he says. That is because "there are more credits that the market is going to have difficulty pricing because they're either stressed or distressed or riskier than the market perceived," and also because there is more dispersion.

When he started, the European high-yield market was worth about €100bn and it is now seven times as much - similar thing for the leveraged loan market. "So you've had an incredibly aggressive expansion of leveraged credit over the last decade because rates were so low that many more companies could afford that leverage. So, you've got a very significant change in the cost of debt coming at a time when there is a record ever level of sub-investment grade credit. That's what makes our space so interesting."

Also interesting is the outlook for the strategy. Companies with stressed or distressed debt are going to find the new interest rates unaffordable and need to restructure their balance sheet.

"The end of free money means that corporates are going to have problems and we specialise in corporates that have problems," he sums up.

You can **watch the full interview on Opalesque TV here.**

David Nazar will also participate in the forthcoming **Small Managers - BIG ALPHA Episode 14** interactive webinar on March 26th at 11 am ET.

Full details here: <https://www.opalesque.com/webinar/>

The graphic features a blue background with a faint grid pattern. At the top left, the text "Small Managers" is written in large, bold, red letters. To the right, a yellow box contains the text "Episode 14" in red. Below this, four circular headshots of the speakers are arranged in a row. Each headshot is accompanied by the speaker's name and company in white text on a black background. At the bottom left, the date and time "Tuesday March 26th 11am ET" are written in red, followed by the URL "https://www.opalesque.com/webinar/" in white. On the bottom right, the text "Big Alpha" is written in large, bold, light blue letters.

**Small Managers**

**Episode 14**

**Christian D'Urso**  
TradeWinds Asset Management

**David Nazar**  
Ironshield Capital Management

**Eric Chan**  
Aura Group

**Thomas Bleimuth**  
Anbruggen Capital

**Tuesday March 26th 11am ET**  
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**Big Alpha**