Oaktree Sees Market Disruption as Time to Buy

Distressed Debt Firm, Which Tied Up With Brookfield Last Year, Launches $1 Billion Fund

Howard Marks of Oaktree Capital Group isn't waiting for a market bottom to start investing. (Getty Images)

By Mark Heschmeyer
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Brookfield Asset Management's $4.8 billion purchase of a controlling 61% interest in Oaktree Capital Group last September was designed in part to boost the private equity giant's investment capabilities in markets good and bad.

That strategy is now being tested as the economy and asset values have tumbled from the ongoing fallout over global efforts to contain the coronavirus. To that end, Oaktree launched a new $1 billion fund this week. Officials from Toronto's Brookfield, which has $540 billion in assets under management, and Oaktree, the California-based distressed debt and credit specialist, declined to comment. Nonetheless, both firms have left clues online in recent days that Oaktree is getting ready to jump into the market in a big way. They appear ready to move whether the volatility is over or not.

"The bottom is the day before the recovery begins. Thus it's absolutely impossible to know when the bottom has been reached … ever. Oaktree explicitly rejects the notion of waiting for the bottom; we buy when we can access value cheap," Howard Marks, Oaktree's co-founder and co-chairman wrote in a website posting this week.

Deflated values in some assets now appear to be investing opportunities. Bloomberg reported the amount of distressed debt in the United States has quadrupled to nearly $1 trillion, reaching levels not seen since 2008.

"We have switched our focus for investments to the listed stock markets, and through our Oaktree franchise, the traded debt market," Brookfield posted in an update to shareholders on its website this week. "There are some stocks and debt starting to trade at a large discount to intrinsic value and we are focused on these."

Brookfield also said it was starting to receive calls from companies in need of capital, and it would look to be helpful "where it can."

Investing in debt would likely be of particular interest to Oaktree at this time.

"We partnered with Oaktree last year in anticipation of the debt markets unwinding. Now it's taking place," Brookfield said. "The team at Oaktree is accelerating the pace of deployment of their current distressed debt fund and preparing to launch their next fund, which we think could significantly exceed the size of their last. If this turns out to be the case, the addition of this business to ours will be very additive for us and our clients."

This week, Oaktree filed notice with the Securities and Exchange Commission for a new private equity investment vehicle called the Oaktree Latigo Investment Fund. It launched with $1 billion in cash from one investor who was not identified.

Oaktree's specialty of investing in distressed debt was viewed positively by Moody's Investors Service as a capability it would bring to Brookfield when the rating firm reviewed the acquisition last year.

Oaktree's $120 billion of assets under management would augment Brookfield's immense holdings, resulting in a firm with one of the largest combined bases of alternative investments in the world.

"Both firms are known as value investors in their respective asset classes. Brookfield has traditionally been known for its investments in real estate, but it also focuses on infrastructure, renewable power, and private equity, which it has scaled meaningfully over the years," Moody's wrote.