From Wall Street to Bond St

We ask three of the top legal minds at Weil why so many US fund managers are making the trip across the pond

MAYFAIR. 8AM. RESERVATIONS only. Egg-white omelette. Wheat-free muesli. While the setting may be classically English, the clientele is decidedly American. As US funds find opportunities on home turf in decline, they are crossing the Atlantic for investments – and they are starting to make their mark on London.

Popular opinion has US funds beating a hasty retreat from Europe as a result of onerous regulation (think AIFMD), yet similar regulatory overhaul stateside has failed to put an increasing number of funds off Europe. In particular, the European distressed debt market is now attracting serious hedge fund attention.

In fact, the fallout from such regulatory capital requirements coupled with political pressure following bailouts has led many financial institutions in Europe – until recently keeping a grip on their assets – to divest. Consequently US funds with capital to deploy see Europe as a relatively untapped opportunity for restructuring and debt trading.

Our American counterparts are picky about more than their omelettes: once bitten by emerging markets, their focus is very much on the UK and Europe, which give rise to opportunities in varied industries. Now more than ever, local enforcement is central to credit risk. The prospect of a drawn-out court process is enough to keep many US funds away.

It is well publicised that a number of US hedge funds have already made smart bets on debt trading in major insolvencies such as MF Global and Lehman. Further, securitised assets (for example CMBS and whole business securitisations) trading at low levels creates additional opportunities to realise significant upside through trading. Although both areas are relatively easy to enter for European newcomers, the more ambitious and established US funds are seeking to get their hands dirty in full-on balance sheet restructurings.

European funds are also looking at enterprising ways to extract value through restructurings. Such investors are becoming increasingly inquisitive as to the potential use of unique European restructuring tools, such as English schemes of arrangement, to turn debt acquisitions into profitable equity positions. While such loan-to-own strategies invite negative press, undeterred established funds simply adopt less aggressive approaches to safeguard reputations.

The breakfast-table conversation may well turn to real estate as funds continue to open new London offices. Recent years have seen the demise of European banks, failed funds and high-profile fund startups, and combined with pressure on bonuses, these conditions have seen London become awash with talent, which has allowed US funds to choose the cream of European investment professionals and to capitalise on their local knowledge, connections and reputations. Thus, while London branches of major US players may still be relatively small, with deals sometimes being coordinated or overseen from across the pond, the bigger US funds make sure they have a team on the ground with the local expertise to identify opportunities before they are sprawled across Debtwire.

Certain US funds have now successfully established reputations with European financial institutions. When competing in an auction process, they can be seen as offering the best of both worlds: a fresh source of cash (which is always welcome) in otherwise illiquid European markets, but also an investor with the credibility and experience to execute deals quickly and efficiently. Expediency is becoming increasingly important as banks selling NPLs, for example, will be looking for a streamlined bid process with minimal costs. In that situation, a prospective

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bidder will often be discounted unless they can demonstrate they can actually execute the transaction and, once in the process, will need to stay light-touch on documents to be in with a chance of winning.

US funds aren't just sipping cappuccinos with lawyers in the hunt for opportunities. There's often room at the table for more than one fund (and not necessarily with back-to-back transactions) as a growing number explore the benefits of teaming up to share the costs, risks and returns of distressed investments. In certain instances, US funds have even directly approached shareholders seeking to align themselves with existing management (often in family-run organisations), which provides a more appetising seat at the table than the role of "aggressive fund looking to enforce and cram down".

Regulatory change, the rise of European restructuring and the abundance of talent have combined to create unmissable opportunities in London (and beyond). Perhaps breakfast really is the most important meal of the day… H

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