



Lipper HedgeWorld & Schwartz Cooper “2007 Insolvency Survey”

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Executive Summary

Today's hedge fund managers are facing a modern day "Catch-22" in the midst of a tumultuous financial market in the U.S. – they are concerned about their current investments levered to financially troubled companies, yet are still positioning themselves to capitalize on additional investment opportunities in insolvent companies, according to respondents to the Lipper HedgeWorld & Schwartz Cooper "2007 Insolvency Survey."

Facing increased pressure from investors amidst subprime and credit concerns on Wall Street, Lipper HedgeWorld and law firm Schwartz Cooper surveyed 100 leading hedge fund managers to uncover their sentiment regarding the impact of various insolvency issues on the marketplace and their respective portfolios.

Highlights of the Lipper HedgeWorld & Schwartz Cooper 2007 Insolvency Survey include:

- **Hedge funds responding to our survey are conflicted about their investments in insolvent companies. They recognize the risk that investment in financially troubled companies represents, but, at the same time, realize that they can not afford to miss a potentially lucrative investment opportunity.**
 - Despite the overwhelming expectation that financially troubled companies will "become riskier" in the next 12 months, 63 percent of hedge fund managers report having at least some percentage of their portfolios invested in financially troubled companies.
 - At the same time, 60 percent of respondents are either "strongly concerned" or "somewhat concerned" about the potential for insolvency issues to affect assets in their investment portfolios.
 - Additionally, of the respondents who told us that they are "unaware of [their] legal rights in an insolvency situation," more than 50 percent expect to invest in a financially troubled company within the next 12 months, further illustrating the pressure among hedge funds to exploit every investment opportunity available.
 - Respondents are almost split evenly regarding their willingness to make additional "bail out" investments in a company experiencing financial instability: 46 percent are willing to make these bail out investments, while 53 percent are not.
 - Nearly one in three hedge funds has consulted a turnaround or workout professional regarding positions in its portfolio.

- **Despite the recognition that the risk profiles of financially troubled companies are increasing, hedge funds are preparing themselves to capitalize on various investment opportunities in insolvent companies:**
- Nearly half of our survey respondents have invested in some form of distressed debt in the past 12 months.
 - Over half of the hedge funds responding to our survey expect lending activity to insolvent companies will increase during the next year.
 - Nearly 40 percent of hedge fund managers expect to purchase assets from a financially troubled company within the next year.
 - The overwhelming majority of hedge fund managers investing in distressed debt have selected secured loans or subordinated debt (69 percent), vehicles which provide the greatest ownership opportunity should these companies become insolvent.
 - Looking ahead, respondents expect that the housing, energy, automotive and construction sectors will present the most attractive debt investment opportunities in the coming year.