

## **Distressed Debt Shop Monarch Sees Busy 2008**

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By Kelly Holman

Monarch Alternative Capital is gearing up for a busy 2008.

The New York firm, which completed its spinout from the New York private equity firm Quadrangle Group this past week, has launched investment operations as an independent organization. Formerly known as Quadrangle Debt Recovery Advisors since its establishment in 2002, Monarch repurchased minority ownership interests held by Quadrangle for an undisclosed sum as part of the split from its former parent.

Additional financial details were not released.

Monarch founders Michael Weinstock, Andrew Herenstein and Christopher Santana will continue to oversee the firm's helm alongside managing principal Josiah Rotenberg and principal TJ Vigliotta. Like Quadrangle managing principals Steven Rattner, formerly a deputy chairman at Lazard, Peter Ezersky, Michael Huber and Joshua Steiner, the five executives are Lazard alums. Weinstock and Herenstein bring a combined 16-year distressed debt investing palate to Monarch, which manages \$3 billion in assets across three diversified distressed debt-focused hedge funds.

"We expect to raise money and grow our assets under management to take advantage of distressed debt investment opportunities. We think it's a great time to invest in distressed debt," said Weinstock, a founding principal at Monarch Alternative Capital. "We're seeing them [investment opportunities] in the logical places like home building and mortgage finance, cyclical industries like retailing and trucking, and a wide variety of other companies undergoing distress."

Weinstock says the default rate will be significantly higher in 2008 than 2007, meaning Monarch could well have a banner year of investment opportunities in front of it. Although the Monarch executive downplayed the split from Quadrangle in connection with a market-timed investment opportunity, he cited an increase in dialogue between creditors and managers of troubled companies as one sign pointing to a potential increase in default rates.

If a report issued by Standard & Poor's in December offers any indication, the time for investing in the distressed debt couldn't be better. The New York credit ratings agency said that last year's credit crunch raised borrowing costs to levels such that investors are betting on a surge in corporate defaults.

"The demise of this borrowers' market in the wake of the residential mortgage-backed securities and subprime-mortgage market disruption augurs a true turn in the credit cycle and will almost certainly bring on defaults on billions of dollars of debt in the coming year," said Standard & Poor's managing director Nick Riccio.

Quadrangle's investors, meanwhile, were informed in November well before the New Year about the split off of the distressed unit. Like many management teams of private equity units that have spun out from Wall Street's investment banks in the last five years, Weinstock says Monarch's founders had a long-standing desire to own their own business. "We are of the size and scale that we could contemplate being an independent organization," he adds.

Weinstock, formerly a partner at Lazard and co-portfolio manager of the \$300 million Lazard Debt Recovery Fund, brought over a team of debt specialists from Lazard to form the group at Quadrangle, which will continue to run its asset management, public equity and private equity businesses. The group departed the Lazard fold after concerns arising over potential conflict of issue matters with Lazard serving as both an advisor and creditor in restructurings became untenable.

Monarch's name refers to the butterfly-like metamorphosis distressed companies undergo in the process of restructuring or bankruptcy, according to Weinstock.

Monarch's investment effort is supported by three vice presidents, four associates and three administrators, according to its website.

Quadrangle, meanwhile, will continue to provide Monarch with operational support in connection with its transition to an independent organization.