

Shoreline, Oaktree Team Up for \$168M Chinese Nonperforming Loan Deal

LBO Wire,
Shasha Dai,
July 10, 2015,
(c) 2015 Dow Jones & Company, Inc.

Credit-focused private equity firms Shoreline Capital Management and **Oaktree Capital Group** have teamed up to purchase a portfolio of nonperforming loans in China for a total of \$168 million, said people familiar with the matter.

Shoreline contributed 51% of the deal value, with Oaktree taking the remaining 49%, the people said.

The portfolio consists of loans issued to Chinese companies and typically secured by the companies' hard assets. Sellers of the loans include Chinese banks and one of the country's "bad bank" asset management companies that buy bad loans at a discount from banks and other financial institutions. These asset management companies are in general tasked with auctioning off the loans to local and foreign investors such as Shoreline and Oaktree.

The people familiar with the matter declined to name the sellers.

The presence of the two credit specialists in China's distressed-debt market demonstrates the appetite of global private equity firms for troubled Chinese assets amid that country's deepening credit problems. After the 2008 financial crisis, the Chinese government encouraged banks to make more loans in an effort to stimulate economic growth, leading to a lending boom between 2009 and 2011.

Some of the loans weren't made based on stringent underwriting standards. As China's economic growth slowed over the past few years, a large volume of loans came due, with some businesses defaulting on their debt.

The transaction represents one of the first few Chinese investments by Oaktree, the Los Angeles firm better-known for its distressed-credit plays in U.S. and Europe.

Oaktree first established a foothold in China's distressed market in November 2013 through a **forming a joint venture with China Cinda Asset Management Co.**, one of the bad banks. The joint venture aimed to invest as much as \$1 billion in Chinese distressed assets. As part of that deal, **Oaktree also bought a minority stake in Cinda** ahead of Cinda's initial public offering in late 2013.

Shoreline, which has focused on buying nonperforming loans and lending to cash-strapped businesses in China since 2004, has had a longer track record in that country. The firm, which is registered in British Virgin Islands and has offices in China and the U.S., recently closed its third fund, Shoreline China Value III LP, at \$500 million, as well as a smaller, companion vehicle.

<http://www.oaktreecapital.com>

<http://www.shoreline-capital.com>

Write to Shasha Dai at shasha.dai@wsj.com. Follow her on Twitter at @ShashaDai1

Document DJFLBO0120150710eb7aboz5m