

## Oaktree Says China Is Head-Scratcher for Bad Debt Investors (1)

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By Lianting Tu and Yvonne Man

(Bloomberg) -- You'd think that China's move to allow defaults in recent years and a surge in non-performing loans to a 12-year high would offer plenty of opportunities for distressed-debt managers.

Yet Los Angeles-based Oaktree Capital Group LLC says it's just too difficult to predict how bankruptcies will pan out, giving it pause to committing capital. The world's biggest distressed-debt manager, Oaktree had dipped its toes in non-performing loans in China, but has found that asserting creditor rights isn't as clear-cut as in the U.S.

"While we are getting our feet wet in China in NPLs, I don't think anyone who sits here today can say they know what the outcome is going to be of a bankruptcy there," Howard Marks, co-chairman of Oaktree, said in a forum in Hong Kong Wednesday.

Global investors have long expressed concerns at the lack of transparency in China, which bond legend Bill Gross once dubbed the "mystery meat" of emerging markets. While authorities have been trying to open up the nation's capital markets, foreign holdings of China's local bonds remains low at around 2 percent. Lack of creditor protection has often been raised by overseas investors as a key issue that keeps them from investing in China.

"In the U.S., it is very simple -- if you owe me money, then you don't pay me, I give you the company," Marks said. But in China, "do you wanna be the guy who walks into a state-owned enterprise who didn't pay the bonds and say you didn't pay the bonds and I own the company now?"

"Undependability" is one of the big sources of risk when it comes to investing in emerging markets, including China, he said.

In China's short history of bond defaults, bailouts by local authorities have allowed investors to emerge relatively unscathed. But there's also a group of defaulted issuers that hasn't released information on repayment plans and Moody's Investors Service has bemoaned the lack of a transparent restructuring process. At least 20 local bonds have missed payments so far this year, compared with 29 for the whole of 2016.

Read: Diverging Stock, Bond Markets a Concern, Oaktree's Marks Says

To be sure, China made it clear in an Oct. 10 plan last year that the government is encouraging wider adoption of bankruptcies to cut corporate leverage. Still the country is at early stages of using the law to tackle payment failures.

The reliability of bankruptcy outcomes "is an integral part of distressed-debt investing. And that's the part that's missing in China," Marks said. "I don't think you can be too optimistic or go too far in committing capital."

To contact the reporters on this story:

Lianting Tu in Hong Kong at [ltu4@bloomberg.net](mailto:ltu4@bloomberg.net); Yvonne Man in Hong Kong at [yman9@bloomberg.net](mailto:yman9@bloomberg.net)

To contact the editors responsible for this story:

Neha D'silva at [ndsilva1@bloomberg.net](mailto:ndsilva1@bloomberg.net)

Chan Tien Hin, Christopher Anstey