

## FACE TO FACE SYMON DRAKE-BROCKMAN

### Direct Lending

# The farmer turned banker who watched history being made

INTERVIEW

From JPMorgan and Barings to RBS, Symon Drake-Brockman had a ringside seat as crises unfolded

LAURENCE FLETCHER

Few executives better embody the seismic shift that has taken place in the debt markets over the past decade than Symon Drake-Brockman.

The 58-year-old was once a senior banker at Royal Bank of Scotland, running its global debt markets business before overseeing its frantic efforts to reduce US mortgage exposure during the credit crisis.

Today he heads Pemberton Capital Advisors, one of Europe's biggest direct lending funds. Managers in this fast-growing corner of the financial markets step in to provide the corporate loans that banks would once have made but, because of tight post-crisis regulations, now often turn away.

The genial Australian has just returned from a round-the-world trip – taking in the Rugby World Cup final in Japan and Saudi Arabia's 6,000-delegate Future Investment Initiative conference – when we meet in Pemberton's London headquarters opposite Victoria station.

Over coffee and flapjacks he tells me about his decision a decade ago to leave an RBS reeling from a record £24bn loss and to jump ship to start his own venture.

"The great growth in the financial services industry from the early '80s through to 2005 was banking, but it was quite clear to me [in 2009] that the great growth in the financial services industry is alternatives now," he says.

He founded Pemberton in 2011 and, so far at least, the decision is paying off. While banks in Europe battle with tougher regulations, direct lenders are enjoying a tailwind as policymakers look to encourage lending they see as less systemically risky to small businesses.

Mr Drake-Brockman's firm, which is 40-per cent owned by insurer Legal & General, recently raised €3.2bn, taking total assets to €5.5bn. He has big ambitions – by the end of next year he expects that number to have grown to around €15bn, while he points to direct lending funds in the US that

run \$100bn.

An adventurous spirit obviously runs in the family. His ancestors were among the first to arrive in present-day Fremantle in 1829 when the colony was established. They were also the first family

to introduce sheep and wheat farming to Western Australia.

Mr Drake-Brockman grew up on a 4,000-acre farming property, but an interest in finance saw him start as a graduate trainee at JPMorgan in London in 1985.

Since then, he has seemingly made a habit of popping up during some of the biggest events in the financial world of the past quarter century or so.

After a stint in Japan in 1987-88 during the stock market's incredible bull run, and a business venture in the US, he was approached in 1994 by the Barings family. They offered him a job in Hong Kong setting up their equity derivatives and equity trading businesses within Barings Securities.

There he crossed paths with the bank's most infamous employee – rogue trader Nick Leeson. Concerned about the profitability Mr Drake-Brockman says he warned Mr Leeson's boss, Mary Walz, that the bank might have a problem.

However, before an audit team could get to the bottom of the situation, the Kobe earthquake hit in January 1995, sending stocks tumbling and turning Mr Leeson's loss-making position into a hole that brought down the bank. "If they'd found the position one month earlier the cost to Barings would have been £50m-£60m,"

says Mr Drake-Brockman, rather than the £830m eventual loss.

He was part of the management team assigned to clean up the mess. Impressed with his handling of the clean-up, ING Barings offered him the role of head of debt products.

He arrived back in London just in time for the Russian debt crisis. He spent most of 1999 and 2000 running a series of large debt restructurings, the biggest being a restructuring of Ukraine's sovereign debt into longer-term bonds that were eventually repaid.

In 2001 he moved to RBS as head of credit markets, riding a wave of new bond issuance following the creation of the euro in 1999. "It was a huge opportunity. Capital markets were really opening in Europe."

He helped drag RBS up the league tables in underwriting, and worked alongside names that would later become much better known, including Brian Crowe and Johnny Cameron.

At the start of 2008, as the credit crisis was biting, he moved to the US as CEO of the Americas to undertake the huge task of de-risking the bank's US mortgage business.

He arrived to find the US employees "in shock". In a manic period, in which he says he worked every single day of 2008 from the moment he got up until midnight,

### Pemberton Capital Advisors

Established 2011

Assets €5.5bn

Employees 75

Headquarters London

Ownership 60% Pemberton senior management and partners, 40% Legal & General

he sold assets at steep discounts and wrote off roughly \$3.5bn of mortgages.

Nowadays, he is keen to point out that, unlike the banks he once worked at, his funds have no leverage and match long-term lending to long-term funding, "so there's no risk to the system".

"I think the regulators recognise that we are structurally a more stable structure than potentially what a bank is," he says.

But is there not a risk that a bubble could be forming in this fast-growing area of the lending market?

The private credit sector has already grown to almost \$800bn in size, according to the Alternative Credit Council, which also found in a study this month that 68 per cent of respondents plan to increase lending to small and medium companies, "despite the sense that this core market is suffering from saturation".

Well, no and yes, says Mr Drake-Brockman. In Europe, he believes that the flood of new money into the sector will be soaked up by an expanding number of opportunities.

He points to the higher ratio of loans to deposits in Europe than in the US or Japan. "The downsizing of the banking market in Europe has still got such a huge way to go," he says.

But there could be cause for concern elsewhere. US direct lending is "not in balance", he says. In contrast to Europe, where funds are still a minority of loans, direct lending funds in the US already dominate the market. Private loans in the US are also priced much closer to tradeable leveraged loans than in Europe, he says, indicating a saturation of lenders in the private market.

The leveraged loan market, meanwhile, "today carries a huge amount of increased risk versus where it was 10 years ago" because of the lack of covenants. "I think you're going to see recovery rates in tradeable bank loans come down dramatically from where they were in the last downturn in 2008-09," he says.

However, Mr Drake-Brockman, who has seen more corners of the global debt markets than most, is betting European direct lenders will not emulate the riskier practices of the banks that eventually led to disaster.

"It's much more akin to what banking was in the '80s, before everything changed," he says.

CV
<b>Born</b> 1961 Perth, Western Australia
<b>Total pay</b> Not disclosed
<b>Education</b> 1983 Bachelor of Commerce, University of Western Australia
<b>Career</b> 1985-89 JPMorgan, fixed income trading 1989-90 Kleinwort Benson, head of high yield trading 1990-94 BSI Investment Management, head of structure assets 1994-2001 ING Barings, global head of debt markets 2001-09 RBS, global head of debt markets 2008-09 RBS, chief executive, global banking and markets for the Americas 2011-present Pemberton, founder and managing partner