From left: Symon Drake-Brockman, Ben Gulliver and Mark Hickey

Not all about the UK

Amid extreme political uncertainty, having a pan-European approach is the way to avoid over-reliance on the UK claim senior executives at Pemberton

We caught up with four senior executives from fund manager Pemberton – Symon Drake-Brockman, Nicole Gates, Mark Hickey and Ben Gulliver – to hear about the firm's expansion into Europe, the importance of deep credit analysis and the demand for flexible capital.

Q What do you think are investors' main concerns regarding private debt and do you share them?

Symon Drake-Brockman: There are two main concerns: Is there too much dry powder; and is credit quality weakening? We've addressed the dry powder issue by establishing offices across Europe. That has allowed us to create a large pipeline of opportunity and deploy capital in a conservative and timely manner. Key for investors is the scale of your platform and whether origination capability is built in. We have 35 people today dedicated to our direct lending effort.

Nicole Gates: We have a very credit risk-led approach. All our analysts have got dual language skills and expertise in different jurisdictions.

SDB: Investors are very selective around which managers they want to work with and a lot of their focus is on scale of origination and analytics capability. A number of private debt fund managers are underscale in origination and end up focusing on the more easily accessible markets. We wanted to have an on-the-ground approach, so we could access the broadest pool of opportunities and reach the less highly competitive parts of the market.

Q Are there particular jurisdictions across Europe you favour? What is the best way to access deals in these areas?

Mark Hickey: We've always believed there are highly attractive opportunities in Germany, France, Italy and Spain, and we have invested in six countries in Europe to date. The best way to gain access is having experienced people on the ground. We source deals through private equity firms, advisers and banks and it's very hard to form relationships with those counterparties if you're flying from the UK. So, we have a presence in France, Germany, Italy and Spain.

A lot of debt funds can access deals in the UK and France. We've been very successful elsewhere, especially in Southern Europe where there have been a lot of negative stories but we think there are a lot of good companies there – just as strong and growth-focused as elsewhere with global footprints and diversified revenue streams. The challenge is to identify them.

The legal frameworks in Southern Europe have tended to be seen as less creditor-friendly traditionally but the governments in Italy and Spain have recognised that and made a number of improvements. As a result, the legal environment is more aligned with other European jurisdictions.

Q Your first strategy was focused on mid-market senior debt. Will your second strategy focus on senior debt as well?

MH: The investment thesis for the first strategy was the deleveraging of the banking sector and a shortage of capital. That still very much remains the case. We have seen growth in the direct lending market over the last few years and that will continue to be a core focus. We are nearly fully invested on our first vehicle and will launch a second one soon.

We have already closed on our 'Strategic Credit' strategy which is complementary as it focuses on second lien, mezzanine and providing senior debt to more storied credits. It enables us to provide a greater range of solutions to companies and clients.

Q You have attracted a significant amount of insurance money for this strategy. How much of this is due to the strategic investment in Pemberton from Legal & General?

SDB: Eighty-five percent of the firm's capital comes from Europe and we have been successful in penetrating the insurance market. The L&G investment was a strong endorsement of our firm and people. But what made the critical difference was the breadth of the platform, the origination capability and transparency around risk. European investors are more conservative than US ones and they want granular detail when it comes to risk. We have a dedicated credit department and the ability to draw on the best deals across Europe rather than being UK-centric.

NG: We also do internal ratings on our deals which helps to attract insurers.

Ben Gulliver: LP investors want this level of transparency. We offer an

"COMPETING FIRMS HAVE COME FROM THE CLO SPACE AND GONE INTO DIRECT LENDING. WE'VE ALWAYS BEEN INVOLVED IN DIRECT LENDING AND WE HAVE A DEEP CREDIT DNA"

Ben Gulliver

independent credit model and that's very important. We rate the company at the beginning and continue to track it through the life of the transaction.

Q What do you think is the best way to manage credit risk and downside protection in today's environment?

NG: My team members have worked at banks and at Moody's. We have a rigorous rating model and we can chart the credits through cycles. A lot of the team have worked through several cycles and you learn all the time through those cycles. I've personally worked through three of them. We don't do distressed investing but we have that background and it helps us to spot under-performance.

BG: Competing firms have come from the CLO space and gone into direct lending. We've always been involved in direct lending and we have a deep credit DNA.

SDB: You've got to be proactive and engage with management early when there are any issues relating to the business plan or managing working capital. We formalise that monitoring aspect and that's a big differentiator in a downturn. Early intervention always improves maximising the recovery, if you're facing a challenging scenario.

Q Pemberton launched its new credit opportunities strategy. What was the logic behind this and how do you define the opportunities?

BG: The reason why it exists is the need for more flexible capital. With the senior strategy, we were getting reverse inquiries for situations that we didn't have the capital for in the senior fund. So we knew the demand existed and we wanted to take advantage of that. We could see the banks were under increasing regulatory pressure from Basel III and there were things they would once have done that they were now unable to.

We offer flexible capital across the structure which banks can offer to their clients. The competitive unitranche market has made the banks fight back and they are using firms like us as partners. There are also non-sponsored opportunities where firms require non-dilutive capital; they don't want to dilute their shareholding but they want flexible capital for growth.

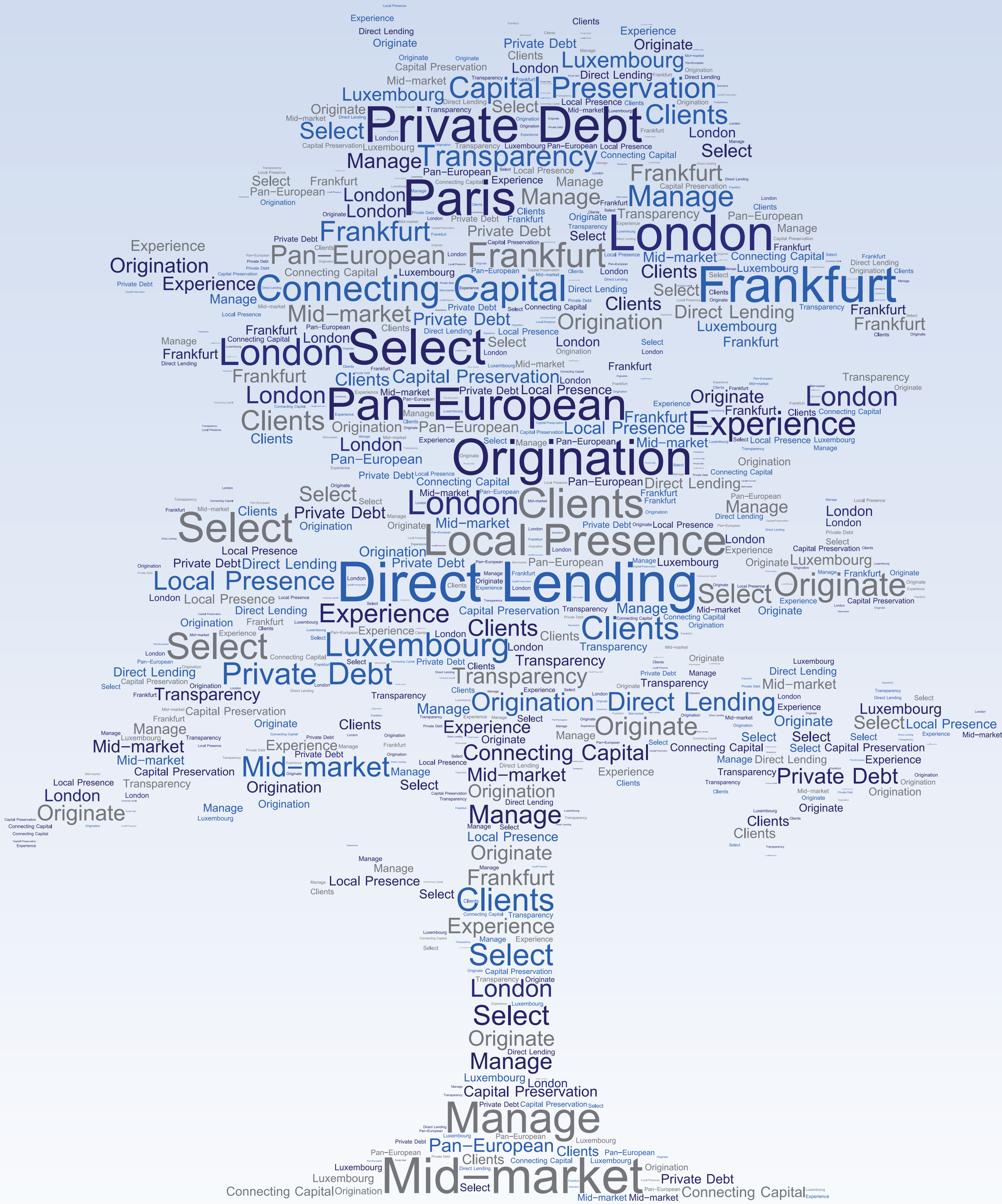
Q Is Brexit something that you spend a lot of time thinking about from an investment or credit perspective?

NG: We are pan-European so we look at all economies but Brexit is front and centre in our minds. There is an increasing uncertainty in the UK, the Prime Minister is being challenged, there is sterling depreciation and an overlay of changes in the job market. So UK deals involve a lot of stress testing. But we are still interested in defensive sectors such as food, pharmaceuticals and healthcare. We are also seeing growth in TV and media production. So we are still seeing interesting opportunities in the UK and we need to be creative.

SDB: Seventy percent of our investments are outside the UK so we can afford to be very selective inside the UK. We have found attractive opportunities but we also think that cost inflation through wages and materials will hit some businesses, so we need to do deep analysis. ■

Deepening our roots in European private debt

PEMBERTON
Connecting Capital Across Europe



www.pembertonam.com