KEYNOTE INTERVIEW

Innovative investing in changing times

Aggregating ever-growing pools of global capital presents unique opportunities and challenges, says Antares Capital's Donna Yip

Investors have no shortage of options as they seek to deploy capital in current conditions. As the global economic recovery gathers pace, many investors are tempted to give up some of their bespoke requirements by joining pools of capital to allow them to access the opportunities presented by larger funds.

But whether they aggregate with other pools or go it alone with a separately managed account, investors are placing ever-growing requirements on private debt managers, including around ESG and diversity. At the same time, investors are focusing intently on minimising expenses. We spoke to Donna Yip, managing director at Antares, to find out more.

SPONSOR
ANTARES CAPITAL

Q How can investors benefit from aggregating pools of capital?

We are seeing more capital becoming available to us to create bigger pools of what we are calling asset purchase power. We find that investors might start off with a fairly bespoke set of requirements, but once we help them understand the asset purchase power that comes with larger funds, they are more willing to let go of a little bit of flexibility. Then they have the opportunity to put large tickets into commingled vehicles so that the particular assets that are attractive to them can be larger and also shared.

As investors around the world look to minimise expenses and achieve cost-effectiveness, these aggregated pools of capital are becoming more attractive. It is really a balance between how much flexibility the investor requires, versus the pool of capital that is available in which to buy assets.

Q What challenges does aggregation present for a manager like Antares?

We often have certain investors that are from a country that has a tax treaty with the US and others from a country that does not. So, we have to create a structure as economically efficient as possible to all investors that are participating in the bigger pool of capital. That might mean we use a traditional master-feeder structure, but we also look from jurisdiction to jurisdiction and understand the tax implications and make sure we are able to mitigate and limit negative tax consequences.

In North America, there are insurance companies that incur capital charges based on the way they deploy their capital and an equity charge on how it is rated. There are investors in Asia that also must be cognisant of the types of securities they are invested in. We navigate this by looking at things like a rated feeder structure, where a rating can help insulate service capital charges for insurance companies, as well as help deal with the regulatory issues in other jurisdictions.

Q How do investor concerns over how to approach financing affect the structuring of a fund?

We are finding that investors are more focused on the cost of financing. As the pandemic took off and dragged on for much longer than first predicted, terms got a little bit tighter. But now the market has picked up and utilisation of financing is returning to the pre-pandemic levels.

As we start to increase the complexity of funds, for example by tacking on a rated feeder into a commingled fund, the risk profile feels a little different to the base. When you are looking at one investor, you are looking at one set of concerns and risks, and when you are looking at aggregated structures, there is an aggregation of risk.

When securing financing for programmes, we have to work with banks in reviewing investor and asset profiles that may be easier to underwrite on a one-off basis, but in a larger programme is an aggregation of different risks. These conversations navigate the fine line between the amount of leverage, the cost and terms of such leverage and how effectively you are able to show the bank that the programme and terms protect certain of their downside risks. Essentially, we are structuring and negotiating the structural nuances rather than actually changing the risk profile of the assets or the investors they are underwriting.

Q What more can you do to ensure good communication with LPs?

With bigger pools and more competition, there is huge focus on listening and innovating. There is a competitive market to show who is having the more constructive conversation with their investors.

Typically, we look for different ways to engage investors in one-to-one meetings so that they can take a deep dive into our operations. We also offer investors the chance to take part in what we call reverse internships. There are investors who want to get to know us on a deeper level, so they will ask for the opportunity to go to a credit training, or to talk to us about general investment trends. We are seeing more and more requests for either formal or informal learning experiences.

Covid has made this more difficult, but it has not stopped us from hosting virtual events, and this is still a great way to cultivate relationships. Antares has developed – and continues to develop – these relationships with investors where we become their trusted adviser, whether on a specific asset class or on a more macro level.

"We are finding that investors are more focused on the cost of financing"

Q Has covid-19 affected your ability to close deals with investors?

The pandemic elongated the conversations. If you're able to sit down and talk to investors face-to-face, it can be easier to come up with a creative solution to their concerns that might fit into either a commingled or a separately managed account approach. With covid, we obviously couldn't travel and meet with potential investors. As a manager whose fundraising was disrupted by the onset of covid, we had to make an affirmative decision to accommodate a longer fundraise period to allow for engaged prospects to satisfactorily conduct their due diligence.

During the pandemic, we found that people reviewed the same set of risks but innovated in the ways they were performing their underwriting. Prospects vetted Antares in the pandemic by asking for additional meetings or additional due diligence questionnaires looking into risk metrics and some even engaged third-party consultants to review us as an asset manager.

Q Are investors more cautious about entering into separately managed accounts in present conditions?

With an SMA, the investor gets to make all the decisions – everything runs through them and they have their customised solution allowing for more flexibility. Coming to a meeting of minds between the investor and manager is a little bit easier than working with a limited partner advisory committee or other LPs in a specific vehicle. And if the investor is feeling sensitive to a particular risk, then the process to amend the investment guideline is easier than when you have to go through a council of other investors to make sure everyone is aligned on how to approach the risk.

In an SMA, the investor retains ultimate control but also bears all the costs. In the current climate, with sensitivity to expenses, investors in SMAs are working with managers like us to come up with savings. They are asking, for example, if they really need multiple vehicles or if they can create savings within a specific vehicle.

"We are seeing more capital becoming available to us to create bigger pools of what we are calling asset purchase power"

"LPs are now starting to ask about how we embrace diversity and inclusion, and in what initiatives we participate"

Q What do managers need to do to act as a good partner for an investor in an SMA?

We need to focus on the investor's immediate concerns, but we also need to understand the things that might crop up throughout the cycle of their investment. So, before we get to day one, we need to advise the investor of the risks they might want to mitigate down the road. Our job is to listen, but also to think.

For example, we might tell the investor in an SMA that they might not need a rating for a tranched structure today, but – based on our experience – they might require one in the future when they bring in certain pools of capital. They have to think about the portfolio composition and the limitations of leverage that the rating agencies might want to see.

Q How are investor expectations changing around ESG?

How we position ourselves on ESG and diversity is one of the things investors take into account as they consider partnering with us. This all comes back to the way that, in recent years, investors have wanted to get to know their manager in a more wholesome, 360-degree type of way. The relationship between the LP and a manager like Antares has expanded beyond "what's in my portfolio and how is it doing?"

LPs are now starting to ask about how we embrace diversity and inclusion, and in what initiatives we participate. Conversations like that are still pretty new. Considering we are coming from a debt perspective, a lot of the questions are fairly broad – but there is definitely an awakening on these topics from investors around the world.

As we closed our last fund, we received more ESG questionnaires than ever before. So, investors are aware of the times we are living in and they are aware that regulators are increasingly focused on ESG. ■