KEYNOTE INTERVIEW

Building credibility with investors

Managers need to be proactive in delivering meaningful insights to investors, especially as markets become more volatile, says Antares Capital's Stephanie Duloc

LPs have poured into private debt in recent years as they search for yield. In a highly competitive market that has been characterised by volatility since the start of the pandemic, LPs look to managers with in-depth market expertise to help educate and guide them through the risks and opportunities of the asset class.

Stephanie Duloc, head of investor relations at Antares Capital, tells *Private Debt Investor* that managers need to go beyond simply supplying LPs with data. To build trust, she says, managers need to be innovative in providing insight and connecting LPs with investment professionals.

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Q For the past two years we've experienced an exceptionally volatile market and now we see valuations declining in many important sectors. Are investors anxious?
There's no doubt that covid created market volatility, but one thing we learned over the past two years is that private credit is resilient. What we're experiencing now is very different but it's not a bleak scenario.

As we've shared with our investors, while rate hikes and inflation pose potential risk to economic growth, we remain constructive on the broader economic outlook. Corporate balance sheets in North America remain healthy, consumer spending coming out of the pandemic is encouraging and demand drivers remain favourable for most sectors. It all comes back to credit selection. At Antares, our portfolio is very diversified and includes many recession-resistant companies in industries like software, healthcare and business services.

That said, the downturn in valuations, especially for tech investments, has been a concern for investors. They are reassured by key data points around healthy loan-to-value ratios. We're first in the capital structure, and while leverage has ticked up some in recent years, rising purchase price multiples have been mostly absorbed by our private equity partners.

Q How does the changing nature of the LPs that invest in private debt affect your approach to investor relations?

In the search for yield, we've seen a lot of LPs that are more familiar with traditional fixed income products on the public side come into our space. They're used to getting a certain level of information and getting it at a certain time. We've worked to show how partnering with a lead agent can afford additional transparency despite it being a private market. For example, in the case of a troubled account, investors are receiving real-time strategy updates directly from the team working hand in hand with the PE sponsor and borrower.

Another trend we're seeing is global LPs with private equity investments who have come into private debt. Many of these LPs, in their diligence processes, have templates that are more tailored to a private equity lens. We've worked closely with them to ensure that they understand the differences and have guided them on how we think about risks versus what they are used to.

Q What do you need to do to make sure that information resonates with investors and is delivered in a timely way?

There's so much you can do to build out content, but it all starts with making sure that we really understand the LP. When they're in the prospect stage, we want to understand their platform and what's helpful to them. And then when they come in as an investor, we want to get a read on their preferred mode of communication and how we can partner with them to help them understand the performance of their investments.

We focus on going beyond supplying mountains of data to ensure we are connecting the dots and providing a feedback loop. We're not just disseminating views from the top. We gather insights from those closest to accounts and our sponsor relationships to determine what secular trends are emerging in our space, in specific industries and with the borrowers we lend to. This enhances partnerships internally enabling us to extract stronger proprietary insights that we can share with our LPs.

Q What changes are you seeing in how investors approach ESG and DE&I?

We've certainly seen a meaningful uptick in questions on ESG. Before the pandemic, questions on ESG mainly came from Europe, and ESG was typically a segment of LPs' standard due diligence process. Now, the interest in ESG and DE&I is much more uniform across our global investor base and many LPs have their own separate ESG DDQ.

This is no longer a box-ticking exercise. LPs are looking for managers to share more data points, case studies, details on scorecards; they want to understand our post-close monitoring around these transactions, and they want to understand how we're going about evaluating each of the various factors that comprise ESG and DE&I.

We're transparent about where we're at and we're also trying to share more information about where we want to go. Years ago, most managers would have said that they don't have control, as they're not the equity owner, so there's a limit to what they can do on ESG. The tone has certainly shifted. We have relationships with prominent LPs all over the world and we know we have to be very cognisant of the direction of capital that we're putting towards all of these respective accounts.

Q How do you go about building relationships with LPs?

We've developed an agile content platform that allows us to set the tone with investors on the kind of information they're looking for, whether that's perspectives on the market or performance. We use a consistent template so investors know that they can always rely on getting certain metrics and market information, but we aim to be nimble enough to layer in our house views on emerging trends.

For example, with interest rates rising, a lot of investors have been keen to understand the interest coverage ratio at both the borrower level and the portfolio level. Then, they want to know what we are thinking around that metric in relation to EBITDA trends and other profitability trends for our borrowers. So, our strategy is to go beyond putting out data, but to turn that data into a story that can help the investor reach conclusions on the risks and opportunities in the market.

Q How do you balance the imperatives of providing information to investors in a standardised format, versus responding to bespoke requests?

This is an issue that's really top of mind, particularly recently. Previously, we focused on larger ticket investors as part of our separately managed account business who want that high-touch model – that's what works with our sponsor coverage side, and we think it's really valuable with our investors, our lenders and our bondholders. But in order to do that at scale, and not have hundreds of people working on our asset management platform, we've been re-thinking the set of collateral that we use during our fundraising campaigns.

It's important that we pivot our thought process so that we can turn bespoke products into something that benefits a broader set of investors, particularly those that may be learning more about this space. So, we've been taking the questions that come from our anchor LPs and thinking about how we can put our responses to those in an effective format for a broader set of investors. That allows us to make information readily available, so that all investors can consume that information in our data room.

The other headwind we have is the shifting regulatory environment. I think LPs do understand that there has to be a level of standardisation as we maintain parity of information for investors. Of course, when they ask for information, we always want to be responsive.

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Q To what extent do you expect to see a return to in-person engagement with LPs as we move out of the pandemic?

Everyone agrees that virtual diligence is much more efficient. Our global investors don't always have to travel and see our offices. And it's so much easier to get our CEO or CIO on a virtual zoom at 8pm in this hybrid environment.

But I think LPs are eager to get back and meet in person. We have a lot of stakeholders that want to partner with us at many different levels and we're shifting our mentality to focus more on networking opportunities. So, we look for events where a larger group of investors, lenders and others can get together, share ideas and really collaborate.

Another thing that we've found is that many of our larger LPs are finding a lot of benefit from meeting with our investment professionals at different levels, as well as our CIO or other senior leaders. We have a really strong bench and it's a big strength that we can share diverse perspectives from across the platform. ■