

Lead Left Interview – Niels Bodenheim

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This week we chat with Niels Bodenheim, senior director of debt research for bfinance. bfinance is an investment consultant that specializes in the implementation of investment strategy, including fund manager research and selection, customized portfolio design, monitoring and fee analysis.

Previously Niels was executive director at Mubadala GE Capital, the commercial finance joint venture owned by the Government of Abu Dhabi's investment vehicle, Mubadala and General Electric.

The Lead Left: Niels, thanks for your time today. Your practice sits within private markets at your firm?

Niels Bodenheim: Yes. We have research teams within all asset classes. Ours sits within private markets. We've hired professionals with principal investing backgrounds. There's been a huge amount of growth in private credit. I joined at the beginning of last year. My experience prior to that was primarily at GE Capital and Mubadala managing a collective book that was eventually sold to Apollo.

TLL: Could you describe bfinance? I'm not sure our readers are familiar with your firm.

NB: bfinance is a small organization, but it's certainly not a new one. We've been in business for seventeen years with offices in Montreal, Sydney and four European offices. London is our headquarters. We're building a footprint in the US, starting with an office in Chicago within the next six months.

We've been working with asset managers since 2000 and have clients in thirty countries. These include institutional investors of all sizes and types – pension funds, wealth managers, sovereign wealth firms, banks, etc. We've done over 800 searches and overseen over \$150 billion in investments. That's a meaningful contribution to the asset management world. We focus on implementation, monitoring, search and selection for investors, and on allocations.

TLL: What are the implications of private credit's rapid expansion in the asset management world?

NB: Private markets are certainly one of the fastest growing categories. Within that, private credit is the biggest contributors to that growth. Roughly 75% of my work in private credit is related to direct lending. Since I've joined we've conducted over twenty private credit searches/engagements for clients. That's across a combination of risk levels – senior debt, leveraged lending, unitranche – in the US and Europe. Less so in Asia. Also we've had engagements for second lien and subordinated debt.

TLL: What about credit opportunity funds or special situations.

NB: Less so in special situations since these allocations tend to come from fixed income. Special sits comes from other areas.

TLL: We'd love your perspective on what's driving the demand for private credit.

NB: There's a variety of factors, many of which have been well discussed. There's private equity's reduction in returns, less of a J-curve with private credit, inflation protection, as well as being a floating rate asset class. Also we've seen compression in returns from traditional markets. To gain an illiquidity premium investors are willing to be ok with investing in a closed end fund.

TLL: *Do you think investors truly understand the differences among the different risk levels you cite?*

NB: In general, yes. There are a number of unknowns we try to assess – the investor, the issuer, and the fund. But there's also the speed of deployment and the return of capital. We often see under-allocation in private credit because the deployment is not as instant as traditional asset classes. As the rest of the portfolio grows, there's already dilution in credit at the onset of a first allocation

Also the terminology is confusing. What's the difference between direct capital and direct lending? The former involving equity and the latter debt. Or between unitranche and stretch senior debt?

TLL: *Yes, that kind of education is critical. How do you work within bfinance?*

NB: We have relationship managers throughout the world who are equivalent to investor relations professionals. They are the main contacts between research – where I sit – and the investor client. I'm engaged when the client wants to know more. Once we're engaged we want to show them optionality – different managers and different strategies. We help them analyze solutions. Of the twenty searches in direct credit we've had, seventeen have been completed. With thirteen different managers appointed, by the way.

TLL: *Thirteen different managers?*

NB: There are a variety of choices out there. That's supported by our customized process and confirmed by the clients' requests.

TLL: *Do you have a check-list for the kind of things you look for in a manager?*

NB: We generate proposals through an RFP process that includes asking for the managers' definitions of things like unitranche, what's their fee structure, how much turnover of management has there been, etc. Also we focus on tax issues and methodologies. We then review with the client.

Our analysis also looks at the manager's variety of products, depending on the risk appetite of the investor. Does the manager have a stable platform? Or are they moving around? What about the stability and the experience of the team? It's critical to align the team with the investor.

In a closed end structure, we examine the taxes and fees closely. Outside the US there's also a fast-growing emphasis on ESG [Environment, Social, and Governance] investing. We score all these criteria then rank the managers. What's important for one investor may not be important for another.

To be continued the week of Oct 23

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