Lead Left Interview – Dee Dee Sklar (Part 2)

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This week we continue our conversation with Dee Dee Sklar, Vice Chair of Subscription Finance, Asset-Backed Finance, Wells Fargo Securities. ABF provides direct structured lending as well as the underwriting and distribution of asset-backed securities for over 550 clients and a risk portfolio of approximately $122BN across consumer, commercial, residential, corporate debt finance and subscription finance. ***Second of two parts – View part one.***

The Lead Left: *Who is the competition? How does Wells Fargo distinguish yourself from them?*

Dee Dee Sklar: Noting my previous comments about the size of the funds and the size of subscription needs, often your competitors are your partners. I would say there are about ~75 banks participating in subscription financings, ranging from the large money center banks to much smaller regional or "local" banks. The majority are not capable of managing a syndication process or managing multi-bank lines after closing. Therefore, sponsors need a strong and stable agent bank. This is why we carefully navigate our role to agent transactions.

We have a dedicated syndication team, headed by Michele Simons. When it comes to corporate debt funds we are often leading both Subscription and Asset Level Financings and both are large syndicated financings. Our relationship with partner banks is very important in terms of our sponsors needs and the partner bank's needs.

Among all banks globally, we are the largest centralized subscription team. Our centralized approach is appreciated by our clients. We support them through various cycles some of which have been challenging.

TLL: *What is the universe of clients? How many relationships do you have?*

DDS: We are focused on the top sponsors in both the US and Europe and provide needs for these sponsors when they raise funds dedicated to investing in Asia. When you ask how many relationships we have, they are many, yet as large as our business is, we tend to go deeper with our clients adding multiple lines rather than looking broader. We take a relationship approach therefore, we connect with clients that are looking to work with us long term.

TLL: *How do you source an opportunity?*

DDS: All of our senior bankers have been providing subscription financing a long time and have deep client relationships. We have numerous instances of providing subscription financing to clients across multiple strategies. Layer this with Wells Fargo's coverage of alternative investment managers and we have a broad reach. Although we are approached by many PE sponsors, we are selective and as I said earlier, we want connectivity to our colleagues, businesses and products on the Wells Fargo platform.

TLL: *How do the mechanics of subscription finance work? (advance rates, etc.)*

DDS: There are a few financing structures in the market and most are predominately committed and secured facilities. Our financings are tailored in many ways depending upon the fund structure, limited partnership clarity, the mix of investors and the strategy needs pertaining to each fund including but not limited to currencies, FX and derivatives hedging, and asset level financing.

With all our subscription financing's we develop a borrowing base according to each investor's direct credit eligibility to determine underlying advance rates and we consider individual commitment concentrations in a fund. For example, a typical $1 billion fund with an LPA allowing for a 30% facility will typically have rated and non-rated investment grade investor commitments as well as non-investment grade commitments, most advance rates at the beginning life of a fund range between 65% – 90%. The borrowing base will determine how long the line utility will last in conjunction with the pace of the sponsor calling capital and if the LPA permits recycling of capital. Most sponsors per fund hold back about ~10% of original uncalled capital, recyclable capital or a combination there off until near the end of the fund life to have a working capital account. Financings needed late cycle relying on NAV or partially on assets are not as prevalent, yet when available are priced accordingly.

TLL: *What worries you about the business and the economy generally?*

DDS: One of the most paradoxical blessings to offer a person is "May you live in interesting times." The irony of course is that times of peace and prosperity are relatively boring, while times of shock and turmoil are more noteworthy and therefore more "interesting." We went for a longer than usual time without a correction and some volatility addressing imbalances is not bad. I am watching credit spreads and financial products for widening, thus far not much. We anticipate this will change as rates increase.

Our past experience tells us when there is less transparency, buying and selling slow.

When it comes to PE sponsors, I worry some are not committing enough in a timely manner to their back office operations to manage growth, which we have discussed has been significant over the past several years.

The forthcoming market corrections will not be due to a lack of liquidity. I expect some market volatility yet I expect positive growth in the US.

TLL: *What has been your biggest surprise since starting with Wells Fargo?*

DDS: While in my prior role at WestLB, I knew a few good smart people at Wells Fargo. That number was a fraction of the number of smart, high caliber colleagues I know today ~6 years later. The culture and partnership from Tim Sloan our CEO and below through all businesses and products is simply the best I have ever experienced throughout my career. The bank's vision and values are shared across the platforms. Chris Pink heads Asset Backed Finance and I remember him from his early days in finance in London. Being a part of the management team, partnering with the other ABF businesses and working with the Subscription Finance team provides me with a learning experience everyday working with some of the brightest people in our industry.

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