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Lead Left Interview – Eric Lloyd

THE LEAD | July 20, 2016

This week we chat with Eric Lloyd, the head of Global Private Finance for Babson Capital Management. Babson is one of the world's leading asset management firms with investment teams on four continents managing over $243 billion in assets for clients in more than 20 countries around the world.

The Lead Left: Eric, give us a bit of background on Babson.

Eric Lloyd: We are probably most well-known as a large fixed income manager – high-yield, emerging markets, and investment grade, etc…..and we've also been investing in non-traded credit for decades, which for us, consists of both middle market corporates and infrastructure debt.

TLL: How many locations do you have?

EL: Within our Global Private Finance Group, which includes middle market lending, private placements and infrastructure debt, we have three U.S. offices – Springfield (where our parent company, MassMutual, is headquartered), Charlotte, and Chicago. The Springfield office has been around for twenty years. We also have a London office that was established over 10 years ago. In Asia, we're located in Sydney and Hong Kong – that's been active for about five years.

TLL: Do you favor one part of the capital structure over another?

EL: In terms of direct lending, we cover everything up and down the capital structure, from senior debt to mezzanine debt, in all three of our markets [North America, Europe, and developed Asia Pacific].

Our guiding principle is to be a full capital markets provider, and to have local origination in the markets we're in. That includes local investment committees, plus additional managers outside of the geographies. That makes us a hybrid of a local and global presence.

TLL: I know you have a private equity business as well. How is that related?

EL: Our global private equity business, which focuses on allocating capital as well as making direct investments manages about $5 billion dollars and is actually part of a separate vertical within Babson. That said, we work closely with them in various capacities and we find there can be synergies and benefits of scale when it comes to middle market sponsor relationships and other related areas.

TLL: How do you think about investing under current market conditions?

EL: Really it's on a holistic basis. Through our global vehicles we look to find relative value. For example, we've looked carefully at the difference between lending in the US vs. Europe. It's very different today than it was two or three years ago. So we weight things differently. We don't go in or out of asset classes, strategies or geographies completely.

The idea is to create bespoke portfolios for our investors. And given our breadth of product, it's seamless for us to do that.

TLL: How do you fund yourselves?

EL: We do manage money for our parent company, MassMutual. We have also managed third party money for over a decade and in fact over the past eighteen months or so, we've raised third party capital in over ten different countries. It's a very global investor base, primarily institutional investor class, such as pension firms, family offices, and insurance companies.

TLL: What's your capacity to invest?

EL: It differs by region. But in the middle market corporate vertical, we've invested $1 billion annually on an asset-level basis for several years now. Most of our investing is through fund vehicles and SMAs.

TLL: We just received your 2Q 2016 investment activity announcement. $400 million in commitments. That's a healthy quarter.

EL: Yes, that represented twenty deals.

TLL: What percent of your portfolio represent sponsor backed companies?

EL: We are primarily a sponsor finance business and over 95% have private equity ownership.

TLL: What's your ideal transaction size?

EL: In North America we will go as low as high single digits of ebitda, to $40 million and up. The average is in the mid-teens to mid-twenties. That varies depending on whether it's first lien or mezz. The $20 million average we did last quarter is lower than the average; we did a little more mezz in 2Q.

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