Lead Left Interview – Eric Lloyd (Part 2)

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This week we continue our conversation 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. ***Second of two parts – View part one***

The Lead Left: Do you do more lead transactions, or participations?

Eric Lloyd: It moves around quarter-to-quarter. We look first for attractive investments. We try not to let ego get in the way. We do our own due diligence and carefully review all the documentation. We've led over half of all our transactions, but if we don't lead, we're ok with that also as long as we are doing our own direct due diligence.

TLL: What's your minimum yield requirement?

EL: We have some lower yielding vehicles, so that allows us to do deals in the high [Libor +] 400's to low 500's. It depends on the vehicle. We look at the deal, then find the right fund to put it in.

TLL: Eric, what do you think the virtues of private credit are today?

EL: Historically, the asset class has proven through cycles to outperform, if you can withstand the illiquidity. Timing your entrance into private credit is very difficult. From the time you pitch a new fund strategy to the time you start investing, conditions may have dramatically changed. Even within the period it takes to ramp the same vehicle. Within 18 months, we may see several different risk return environments.

We have to work harder today to find the right balance between risk and reward. It's a little more challenging, yes, but that's ok. It's also a little bit more competitive.

TLL: What's the outlook for the year?

EL: Our average senior debt to ebitda has been remarkably consistent for the past three years. It hasn't moved up much with the markets. We're continuing to see opportunities in the U.S., Europe and in the Australia/New Zealand and developed Asia markets, and while we've seen value between these markets ebb and flow over the last year or so, deal terms and structures remain in reasonable territory. We have an investment process that we stick to which we believe will serve us well through economic cycles.

TLL: What's your biggest concern when you look at recent events?

EL: There's the geopolitical uncertainty; from time to time one-half of our investments are outside the US. So we look at relative dynamics – Brexit, Australia, the US, or some bad event like terrorism. Those underwritten events are our concern.

Also, as the world gets more competitive, we need to take care of our talent. That's a major concern of mine.

TLL: What keeps people in their jobs these days?

EL: I came out of the large corporate world; when I was there I was a bit of a culture nut and remain that way today. I believe in basic things: empowerment, meritocracy, respect, and upward mobility.

We've listened very carefully to the concerns our people have. What we know is it's important to be there for them if a tough personal event happens. How you deal with that means so much to people. If you take care of them, they're unlikely to leave for 10-15% more money.

In our industry we are incredibly blessed to do what we do. We've hired people from investment banks, private equity and everything in between.

TLL: Back to investing: What sectors do you like?

EL: It's more about things we won't do. As I mentioned, we shy away from cyclical businesses. We're not big on turnarounds. There's no number-one thing, but if it's something you talk about at a cocktail party, it's probably not for us. Senior debt's goal is to get your 7% plus unleveraged return, and get your money back. We don't want to take on significant risk for that kind of return.

TLL: Where do you think we are in the business cycle? Seventh inning like everyone else?

EL: I don't know. We assume that we'll hold our investment for the life of the asset. Wherever we are in the cycle, really doesn't matter. We assume something will happen to impact that asset. We are not top down investors; we are fundamental investors. We know we're going to cycle eventually.

TLL: What's been your biggest surprise this year?

EL: On a global basis, my biggest surprise has been the general rise of the populist movement. And it's not just coming from the UK or the US.

TLL: What about in North America?

EL: I'm surprised there hasn't been more movement from young people starting their careers into direct lending from other areas. If I was advising a young person, I would tell them it's the place to be. You own the investment, you wear it. There's something that's very compelling about that for me.

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