

# PDI FIFTH ANNIVERSARY



Left to right: Gus Black (Dechart), Michael Romanek (Rise Partners), Garrett Ryan (Twin Brook Capital Partners), Paul Burdell (LCM Partners)

## Don't expect a bank comeback

Panellists at our fifth anniversary celebration advised not to expect a loosening of regulation to unleash fierce competition from the banks. **Andy Thomson** reports

**W**hile there has been a lot of anti-regulation talk emanating from the White House, this should not be expected to translate into a major effort by banks to claim back some of the market share they have lost to private debt funds in the years since the global financial crisis.

This was the view expressed on a panel held at *PDI's* fifth anniversary party in London hosted by law firm Dechert. The party attracted a large number of guests keen to reflect on the growth of private debt to date and consider its prospects in the years ahead.

"A lot of cost has been sunk by the banks into maintaining a certain stance in response to the regulators over the past five years. They're unlikely to move from that stance now," said Garrett Ryan,

a partner at US fund manager Twin Brook Capital Partners and head of capital markets in the firm's mid-market direct lending loan business.

Aside from the investment they have made, Ryan also suggested that market conditions were not to their liking in any case. "We're seeing some deals go above six times leverage and that's a major red flag for a US bank," he said.

Ryan added that any deal structure relating to a business with more than

\$40 million of EBITDA will almost certainly be covenant-lite, while those with EBITDA of between \$25 million and \$40 million are likely to be "covenant-wide" (also known as covenant-loose). These are some of the reasons his firm has sought sub-\$25 million EBITDA deals, where "it's more relationship-focused and you're not squeezing the last basis point out of a syndicate".

Paul Burdell, chief executive officer of London-based fund manager LCM Partners, indicated that the situation was pretty much the same in Europe. "Europe is over-regulated, and the banks don't have the same mentality they had before the Crisis," he said. "They're operating under restrictions and are more concerned about how the regulators look at them rather than making profits from loans."

**"A LOT OF COST HAS BEEN SUNK BY THE BANKS INTO MAINTAINING A CERTAIN STANCE IN RESPONSE TO THE REGULATORS"**

**Garrett Ryan**



As with many other fund managers today, Burdell said LCM is more concerned with bank collaboration than competition.

Asked about the limited partner view of private debt today, Michael Romanek, founder of London-based debt arrangement consultancy Rise Partners, said he was coming across more examples of investors seeking to do deals directly. “You’re getting groups that have previously only invested through funds saying, ‘here are some types of deals that we’d be happy to look at doing ourselves.’”

If that could potentially put a brake on the current record levels of fundraising, so could a mood of increasing wariness and determination to be selective. “LPs used to be all about yield and the illiquidity premium before,” said Ryan. “Now their focus is on downside protection. Two years into an uninterrupted bull credit market in the US, people are getting more appreciative of the different segments of the market. They will ask you why you are different

**“EUROPE IS OVER-REGULATED, AND THE BANKS DON’T HAVE THE SAME MENTALITY THEY HAD BEFORE THE CRISIS”**

**Paul Burdell**

and whether you have gone through a cycle before.”

While last year’s record fundraising total of \$180 billion captured the headlines, it was also notable that the number of individual fund closes was at its lowest level for many years. “LPs are providing

bigger tickets for fewer GPs – ones with which there’s a certain level of trust and the relationships have deepened,” noted Burdell.

“We’re not traders where there are winners on one side and losers on the other. We’re about relationships and trust – and that’s good, because LPs don’t want to end up looking stupid.”

Following the panel, which was moderated by Gus Black, global co-chair of Dechert’s financial services group, the celebrations and networking lasted long into the evening. Thank you everyone who was able to make it, and see you all again in five years for our next big birthday bash! ■