

## FUND FORMATION



From left: Justin Mallis, senior project manager credit; Ben Schryber, head of private credit; Tavneet Bakshi, head of project management and due diligence; Paul Buckley, managing partner; David Hunter, head of European sales

# Hunting for the next big thing

Having been an early mover into the private debt space, placement agent First Avenue is now on the lookout for niche strategies. **Andy Thomson** caught up with the team

**W**e may be living through interesting times now, but turn the clock back a decade and – if you looked hard enough – you could begin to see the signs of something huge brewing in the financial system.

Paul Buckley, managing partner of London-based placement agent First Avenue, says that when the firm was established in 2006 the idea was to focus on alternative assets – which meant hedge funds, private equity and real estate. At the time, private credit funds were simply not on the radar.

But having begun to ramp up its

fledgling activities, along came the financial crisis, which, “changed everything” and saw investor demand for hedge funds plummet to “rock bottom”, says Buckley.

Investors were now clamouring for something entirely different. “They wanted downside protection and certainty of return, which meant income,” he says. “We saw a secular allocation coming out of low-yielding fixed income into private debt and infrastructure. There was dislocation in the credit markets and our phones started ringing off the hook.”

With credit looking very cheap, First Avenue began raising capital for funds

focused on dislocated securitised products – and so began an association with private debt that would mark the firm as a pioneer in the space. The first such fund advised by First Avenue was the highly successful Strategos Deep Value Mortgage Fund, which attracted other managers to the firm, says Buckley. Since then, it has represented 14 credit managers raising a total of 22 funds.

In 2008-09, the firm was “in the right place at the right time with the right people”, adds Buckley.

“Cashflows were mispriced and credit was the new equity,” he says. “Some of

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these funds had access to contractual fixed payments that were trading at 20 cents on the dollar. We'd done three or four of these funds before anyone else spotted the opportunity."

Buckley says that because First Avenue had only recently been established, it could be fleet of foot in shifting to cover the space – potential rivals had large teams which had been focused on private equity for some time, and which could not adjust quite as easily.

Furthermore, the adjustment proved to have more long-term benefit than originally envisaged.

"We had thought the opportunity in credit would be no more than a three- to seven-year window – now we realise it's much more," says Buckley.

Indeed, at PDI's recent Germany Forum in Munich, an audience poll showed 93 percent of those present were convinced that private debt represents a long-term structural opportunity rather than being short-term and opportunistic. "We're seeing a seismic shift out of traditional fixed income to target the opportunity," says Ben Schryber, a First Avenue principal.

Exploiting that potential, however, is not straightforward because, even now, private debt remains a relatively new and challenging concept for many investors.

"Our rivals struggle because they don't know the buyers of traditional credit," Schryber claims. "When we sell credit, we are effectively acting as consultants as it's an educational process. Private equity, by contrast, is very hands-off because investors know how to due diligence PE funds on their own."

Tavneet Bakshi, a partner at the firm, adds: "We have a good understanding of the different risk profiles within private debt – whether senior secured versus subordinated, sponsored versus non-sponsored, etc. That understanding has developed over the years."

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First Avenue's track record features names such as Permira, Hastings Funds Management, M&G Investments and MezzVest. Its current pipeline includes leading mezzanine debt providers along with top-tier special situations funds.

## VIVE LA DIFFERENCE

Looking to the future, amid what is now intense competition for capital in a widely populated private debt market, First Avenue is seeking diverse propositions. "We look at GPs in a strategic way and want managers that do different things," stresses Justin Mallis, a principal.

"We're peering around the corner and looking for what might be complementary to investors' existing portfolios. We ask ourselves: what we can go to an investor with that they will be excited about? We

don't mind working with first-time funds, and we've done a number previously."

But is there the appetite for innovative private debt funds on the investor side? David Hunter, a partner at the firm, offers one example in support of an affirmative answer: "A UK pension came to us and said that it wants to be shown anything on the credit side that they would be the first to invest in."

There are other ways in which First Avenue is seeking to further enhance its pioneering reputation in private debt. One is separately managed accounts, which offer tailored solutions for sophisticated investors. "It's not all about fund formats," points out Bakshi. "Some investors are not dogmatic about buckets; they just want something suitable."

Another is by helping to develop the secondary market. "In private debt, you have inefficient secondary markets," says Schryber. "A BDC came to us wanting to reduce its energy exposure but there was not an efficient market for it. It's an area we're exploring and where we're looking to intermediate between GPs and LPs."

Buckley says that the firm's long-term aim is to further develop all of its alternatives coverage – private equity, real estate and infrastructure as well as private credit – and try to become the leader in each area. With 56 people based in five offices, Buckley thinks the firm needs to add no more than another five to seven to its headcount in the foreseeable future.

One thing that will not change is First Avenue's constant search for the next big thing. "We will always have an eye on what's next," says Buckley. "One thing we're looking at at the moment is impact investing and social and environmental returns rather than just financial returns."

Equally, private debt will remain a priority, he emphasises. "Rates are so low that private debt has impetus and it won't be going away any time soon." ■

## FIRST AMONG EQUALS

### First Avenue

**Established:** 2006

**Headcount:** 56

**Offices:** 5

#### Private credit mandates:

- Permira Credit Solutions II (€800 million, August 2015);
- Hastings European Infrastructure Debt Fund (undisclosed, April 2015);
- M&G European Real Estate Debt II and III (£1.35 billion, February 2014);
- MezzVest Fund III (€585 million, December 2013)

Source: First Avenue