

## PRIVATE DEBT

## **Risk, reward and private debt**

A new webinar hosted by **Ninepoint Partners** shines the spotlight on this alternative solution for retail investors

**INVESTING - PARTICULARLY** in a way that generates healthy returns – is becoming increasingly complex. The days of the simple 60/40 portfolio split are long gone, and alternative strategies are becoming commonplace for those seeking greater diversification. Private debt is one such option, and was the theme of a recent webinar held by newly director of its alternative income group, along with three other experts in the field: Arif N. Bhalwani, CEO and managing director of Third Eye Capital; Wayne Ehgoetz, president and CEO of Waygar Capital; and Natasha Sharpe, CIO of Bridging Finance.

Private debt is a market currently experiencing rapid growth, with the potential for a

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## Ramesh Kashyap, Ninepoint Partners

launched investment manager Ninepoint Partners. Under the leadership of founders John Wilson and James Fox, the firm (the former Sprott Asset Management) is aiming to become the asset manager of choice in the alternative space.

Hosted by WealthProfessional.ca editor Joe Rosengarten, the webinar featured Ninepoint's Ramesh Kashyap, managing lot more in the years ahead, as Kashyap explained. "According to AIMA, this industry is set to reach US\$1 trillion by 2020," he said. "The historic compound annual growth rate of the industry is 20%, and the sector has increased in size 14 times since 2000, reaching \$600 billion by the end of 2016."

Since the financial crisis, banks have been less inclined to lend to private enterprise,

prompting alternative lenders to step in to fill the void. This not only benefits those businesses, but also provides investment opportunities for those seeking a more diverse asset mix in their portfolios.

"Like private equity, private debt has traditionally been a space where institutional investors like pension funds, insurance companies, endowments and foundations have invested money, but this is changing," Kashyap said. "There is an increased flow of capital by high-net-worth individuals, family offices and wealth managers."

Ninepoint currently manages just over \$800 million in private debt funds, the majority coming from retail clients. Given the mounting trepidation about how long the current bull market can keep its legs, investors and advisors are increasingly turning to alternatives. There remains a stigma surrounding these investments, however, particularly when it comes to liquidity risk.

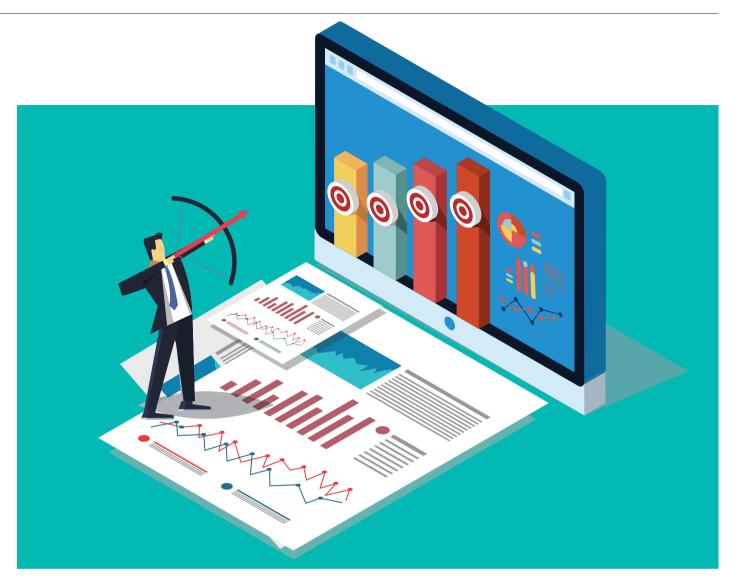
"The primary risk when people are making relative comparisons between traded credit and private debt really surrounds the liquidity," explained Third Eye Capital's Arif Bhalwani. "All of us are taking risk actively. Investors shouldn't expect to generate any money if they are not going to take some risk. The key is not about avoiding risk – it is about controlling risk. What that entails is being on top of the capital structure and being overcollateralized by a group of assets."

By taking on calculated risk, Bhalwani continued, investors are putting their faith in a company's future. "How we generate our returns is investing in those situations where perceived risk is worse than reality," he said. "Once we bridge that gap, we get to a situation where the market appreciates that company and it can refinance."

Natasha Sharpe of Bridging Finance, which specializes in bridge loans with shorter durations where clients are highly incentivized to pay out quickly, emphasized that risk isn't something that can be totally avoided in this process.

"I completely agree with Arif that there is





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no such thing as yield for free," she said. "When I was the chief credit risk officer for Sun Life Financial, it was a conversation I would have on a quarterly basis with the board of directors: You can't expect return without risk, and anyone who is promising you a risk-free strategy is going to be promising you, almost by definition, a return-free strategy as well."

The panel's conversation shifted to the topic of loan defaults, and Waygar Capital head Wayne Ehgoetz outlined how a lender can protect itself against such an eventuality.

"I understand why people put a risk label on what we do," he said. "Certainly we change a much higher rate - something in the low to high double digits. We are also lending to companies that generally the banks won't finance. To me, risk is mitigating the issues that create risk."

Ehgoetz went on to explain that doing so entails a level of due diligence over and above what the banks typically require, which allows the lender to protect its interests for all eventualities.

"In our type of lending, we use far more third-party opinions, as well as background checks and criminal checks on borrowers to establish the advance rates we should be lending to these companies," he said. "We look at risk as: If the company goes under and we have to sell every asset, would we get our money back? If we won't get our money back on that scenario, we go no further."