

Pension Bridge: 'LPs need to demand transparency'

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Senior lenders on a credit panel at the event talked about the need for greater transparency, hidden risks in documentation and other concerns in the debt market.

Debt managers speaking on a Credit Strategies panel at the Private Equity Exclusive event in Chicago, talked of risks in the market, and how they can be better managed on the LP, GP and sponsor sides.

Panel Moderator Ruchit Shah, portfolio manager of alternative fixed-income and private credit at the Texas Treasury Safekeeping Trust Company, asked the managers what LPs undervalue.

Chris Flynn, co-chief executive officer at THL Credit, said LPs undervalue transparency. "Investors always say that they want transparency, but they have to demand transparency from GPs. If you're worried about what you don't know, that creates problems."

Greg Robbins, managing director at Golub Capital, replied using a popular Warren Buffet quote: "Only when the tide goes out do you discover who's been swimming naked." Robbins suggested that only when the markets turn, investors will appreciate who is being careful.

Golub focuses almost exclusively on senior loans and the firm has been cautious around new deals for some time, though Robbins suggested investors might only appreciate this when the market turns and more defaults crop up in credit portfolios.

Asked about what happens when the lenders' portfolio companies get into trouble, Robbins said his firm constantly monitors its investments. "If we see signs of distress, we'd talk to the sponsor and think about who might want to own the company."

Shah also noted that there is often a healthy tension between equity and debt managers in deals. "But what tricks are the sponsors trying to play on you?"

Flynn replied that it's often in the documentation. "We can place bets at the cocktail party tonight on who has negotiated the longest definition of EBITDA versus who has actually written one," he quipped.