Channeling HNW interest in private debt

Those pools of capital held by wealthy individuals which are seeking alternative investments are increasingly finding a home via private debt deals. This bodes well for platforms which can put the right parties and deals together, says Andrew Veale of Asiadealbox.com.

Private debt deals play to the preferences, experience and familiarity of HNW entrepreneurs in Asia perhaps more than in any other part of the world.

Indeed, growth of this asset class in general has been one of the standout features of the global alternatives industry in recent years.

And it seems HNW and UHNW individuals in Asia are eyeing the potential benefits from allocating capital to private debt opportunities, such as the prospect of strong risk-adjusted returns in a low interest rate environment.

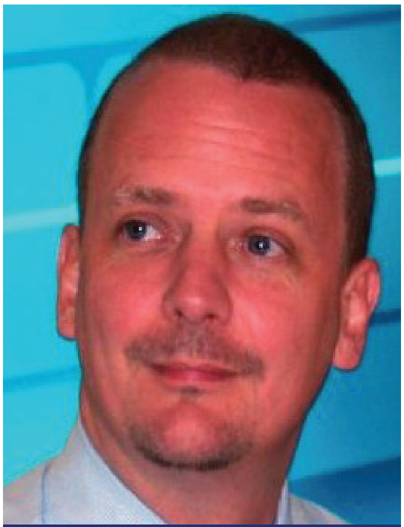
"More and more people are allocating a large share of their wealth to direct lending," says Andrew Veale, managing director of Asiadealbox.com. "Access to pools of capital in this way are also becoming more popular given it is now tougher for small and medium-sized enterprises (SMEs) to go down the traditional route of a bank loan."

Insights from Preqin, an alternative assets data and research firm, suggest that the global private debt fundraising market is at an all-time high; as of January 2015, there were 193 private debt funds on the road targeting aggregate capital commitments of over USD 108 billion.

These pools are very different, he explains. They range from wealthy individuals and syndicates of HNW investors, to small, medium and large family offices, and small, medium and multi-billion dollar investment firms.

TARGETED APPROACH

Veale's company is one specifically set up to play a pivotal role in the private debt space – essentially as a middle man – as it gains traction in Asia as a new disruptor in the investment world. "We identify and originate businesses looking for capital and connect them to pools of capital which are specific to that sector," he explains.



ANDREW VEALE
Asiadealbox.com

SMEs have been forced since 2008 into finding alternative routes to raise expansion capital. Traditional lenders, for example, have retreated, due to regulatory and capital constraints. And the larger Asian banks have gradually been raising threshold deal sizes and counterparty criteria.

At the same time, the universe of nimble, public and private pools of capital which are looking for Asian opportunities has continued to quietly grow, effectively replacing the global banks as key lenders.

Two-year old Asiadealbox.com aims to fill the subsequent gap via a secure, privately accessed online platform.

The firm taps into its network throughout its offices in Singapore, Bangkok, Jakarta and Manila to originate and share deals.

"Born in June 2013 as an extension to an existing real network of principal finance groups, investors, funds, business owners and intermediaries across Asia, we aim to connect capital more efficiently and timely to where it is most needed," explains Veale.

So far the concept seems to be finding favour. The number of registered investors on the platform, for instance, is growing far quicker than the number of deals being originated.

Yet that is increasing too. "In 2014, we averaged one successfully-closed deal a quarter. This year, we are on track to double that," confirms Veale.

FINDING THE RIGHT MATCH

Despite the interest in private debt as an emerging asset class, a key challenge for Veale and his team is originating quality transactions.

Two-thirds of the proposed deals that come across his desk each week don't even justify initial investigation. "Because the wall of private money is ever greater, there is more competition between the pools of capital looking for deals."

Using its experience in understanding what collateral is viable, Asiadealbox.com assists in all negotiations between parties throughout the due diligence process, right through to term-sheet and closure.

"Key to any transaction and not wasting time is the collateral," says Veale, "in terms of its jurisdiction, how transferable it is, and the real value of it."

The first round of vetting involves meeting the borrower face-to-face for Veale and his colleagues to do their own due diligence, including looking at the supporting documentation.

"If we think the deal will receive attention, we have a formal engagement with the borrower, by whom we get paid," he explains. "We negotiate a transaction fee based on the amount of capital we plan to raise."

Viability of a deal will depend on various factors. For example, if there are tangible assets in a jurisdiction where foreign ownership is restricted or complex, such as India, this narrows the pools of capital which will show interest.

On the flipside, where foreign ownership rules change to ease access, as happened as of July 2015 in Vietnam, Asiadealbox.com isn't adverse to reviewing earlier deals which might have been difficult to sell to investors before.

Attracting interest also depends on what the specific pools of capital are looking for. "Some are sector agnostic, while others look at specific opportunities," says Veale, adding that he has seen a lot of real estate and developer-led deals come to market more recently.

Leading a team of ex-bankers rather than techies, Veale is quick to disassociate the firm from any likeness with the crowd-funding or peer-to-peer lending firms.

"Our approach is about lending directly to businesses with secured collateral," he emphasises. "We are the only firm focusing on that in Asia." ■

How it works

To use the Asiadealbox.com platform, business owners and intermediaries register and post headline bullet points of their deals.

This includes details such as country, sector, capital required, purpose of the fund-raising, tenor, and collateral type.

They are not obligated to reveal any further information about their deal publicly until Asiadealbox.com matches and introduces interested parties.

For investors, they access the platform via a secure login at any time, and they scroll through posted deals to identify those that match their investment criteria.

If they want to know more, Asiadealbox.com will contact and introduce the deal, business owner and, where appropriate, arrange for direct meetings or conference call.