Värde and the top trends in the world of ABF

Missy Dolski, partner and global head of ABF at Värde Partners, answers SCI's questions

Q: Can you walk us through how you found your way into ABF?
A: I have a very untraditional background. I actually started my career more on the corporate side of things, both on the lending side within a bank and on the investing side, focused on high-yield. Post-GFC, I took an expat assignment to London to work on a non-core portfolio that Wells Fargo had inherited after its purchase of Wachovia, and that was a real turning point for me in my career, given I had essentially worked myself out of a job by the time the assignment was over. Eager to gain more exposure in what was a very large and growing institution, I returned to the US and took a role in the bank's ABF business, a line of business Wells Fargo didn't have. The combination of Wachovia and Wells Fargo was powerful, as you now had deep structured products expertise, in addition to a balance sheet to put to work.
Värde was actually one of my clients while I was at Wells Fargo, and in 2017, they were looking for a capital markets person to help scale their real estate lending business. So, I moved to the other side of the table. In short order, I was running the broader capital markets group at Värde, centralising how we approached and managed the Street, which naturally meant sourcing investment opportunities from the banking channels as well. Last year, I stepped into running Värde's global ABF strategy, an asset class in which the firm has invested for the better part of 30 years.

Q: In your opinion, what does good underwriting look like in ABF, and how does data infrastructure play into that?
A: First, you need a deep understanding of the underlying assets in focus, including what drives performance, what the cash flows coming off the assets are, etc. Second, often, to do that, you need proper infrastructure to manage an ABF strategy. When you think about the granularity of a lot of the underlying assets, there is an incredible amount of data you're getting from counterparties. You need a proper setup to intake that data, digest it, and get it into formats where you can actually do something with it, both from an underwriting and a monitoring perspective.
We have a team of 11 data scientists who monitor all the data that comes into Värde's systems. It's coded so we can really drill into different scenarios, run tests across different vintages, etc. It's a very robust setup.
You really do need to be set up to ingest large amounts of data — and then, with an understanding of the assets, focus on the core KPIs per asset class that really allow you to structure and monitor risk accordingly.

Q: Värde is known for its work in the middle market. What does ABF look like in that segment?
A: When we talk about the middle market, we're focused on deal sizes of US$50m to US$150m that would be our equity checks per deal, and we very much take a solutions-oriented approach to the market. That means marrying up the needs of the platform with where Värde is comfortable investing in the capital stack given our ability to buy loans (and therefore take first dollar loss risk), finance loans (unitranche or mezz) or lend to platforms directly at the corporate level (at the opco, but still an asset underwrite given the nature of the types of platforms we are capital provider to). You can get paid more, candidly, for coming up with that type of solutions-oriented approach versus when you get to more of the US$200m and up deal sizes. Those platforms tend to be much more well-established. They tend to have very efficient access to financing, often through securitisation markets, and it's much more of a pricing exercise than a solutions-oriented approach. So, that's why we like the middle-market space. We think we get paid outsized returns,

the business is stickier and more repeatable, and, at the end of the day, it's a relationship business.

Q: Where are you finding the biggest opportunities in ABF at the moment?

A: We set ourselves up by asset class. We have a consumer finance vertical, a commercial finance vertical, and a fund finance vertical. Think of consumer and commercial as your more granular ABF asset classes. Importantly, we focus on asset classes where we have a deep history and a right to play, which is key to underwriting and deal flow. In commercial finance, you find us most active right now in SME lending, particularly through the merchant payment processors, as well as in equipment leasing. In consumer finance, we are pretty cautious about subprime and are spending more time financing loans than taking first-dollar risk, though we will do so for more prime/homeowner-type pools. And we think the fund finance space is really interesting, given the scale and sophistication of the solutions GPs are using.

Q: Last summer, you launched Värde's fund finance platform, eyeing this sector as the next big ABF opportunity. Almost a year in now, how are you seeing the sector?

Fund finance is a little different from our other ABF verticals. It is a similar theme: it's a very large asset class that, in a way, is outgrowing the banking sector, so it is ripe for non-banks to invest in it in a more programmatic way.

We have a program focused on subscription lending, which, in and of itself, is a trillion-dollar asset class growing at the same rate as private capital. We think the direction of travel for that product is into the capital markets, and we are positioning ourselves to be an early mover in that. And then, on the back of that, we can be offering those same clients more sophisticated fund finance products, such as NAV loans and GP commit financing.

I think, if you fast-forward five years, fund finance will be a standalone vertical within private credit, just as ABF is becoming now.

Q: Värde has also been active in the SRT market. How are you finding the opportunities there?

A: We were very active in the SRT market when Basel III Endgame guidance came out a number of years ago, and there was a lot of activity amongst banks, particularly the US banks, to shore up capital.

The reality is that the regulatory environment with US banks tends to shift with every administration. And so now you've seen a big rollback of all those capital requirements for banks, at the same time, there had also been a lot of dedicated SRT capital raised in the market, so spreads tightened pretty massively. As a result, IG asset classes aren't as attractive from a yield perspective to us right now.

However, we find that we can still be a good solutions provider to banks in asset classes that we know and understand really well.

Q: Do you have any concerns about the ABF market heading into the 12-18 months?

A: There's a lot of focus on ABF as an asset class right now. There's a lot of capital coming into ABF, and I think much of it lacks a deep history in the space or an understanding of the assets. So, some of what keeps me up at night is whether the new capital doing deals that end up in the headlines could cause the whole industry to take five steps backwards.

I think when you really peel back the onion, there are a much more finite number of players who are set up properly, who really understand these asset classes, and who can structure investments in a way that protects their capital. Our underwriting is shaped by decades of investing in these asset classes through cycles. But the flood of less-experienced capital could be detrimental to the broader ABF market's growth. And so that, if anything, is what keeps me up at night.

Marina Torres

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