The Interview – Thomas Ferris, Sagres: “Investors currently have a short investment horizon and a focus on manager transparency, but they are still seeking above-average returns”

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Thomas Ferris, chief executive of specialist consumer debt asset manager Sagres, says the firm’s new Recovery Capital Partners fund is poised to benefit from advantageous market conditions, including a decline in competition as less capitalised firms have been forced out of the business as well as an improvement in key relationships with sellers of debt.

GFM: What is the background to your company and funds?

TF: The Sagres Company was established for the purpose of purchasing and managing portfolios of charged-off consumer receivables from major credit granting institutions in the US and providing accounts receivable management services under a proprietary process. As founder and chief executive of the company, I have extensive experience within the debt collections profession and written extensively about industry conditions and trends.

Sagres was the managing partner of two closed-ended funds, Recovery Asset Group I and Recovery Asset Group II, both of which successfully invested in and exited from investments consisting of distressed receivables from all 50 US states, the District of Columbia and Puerto Rico.

Sagres acquired a USD26m Title One loan portfolio from the US Department of Housing and Urban Development for USD171,235 or 0.66 per cent of face value. In less than a year, portfolio revenues topped USD3.1m or USD18.104 per dollar invested.

In 2006, Sagres created a USD10m institutional joint venture to purchase forward flow from a major issuer that continued through March 2007. As easy credit led to higher pricing of portfolios, the company scaled down purchasing volume and became even more selective throughout 2007 and into 2008.

The joint venture was successfully concluded in the final quarter of 2008, generating a net investor internal rate of return of 34.39 per cent, but the funding source was in the midst of collapse, leaving the company without a large-scale vehicle for purchasing portfolios as pricing normalised relative to expected collection volumes in 2009.

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In 2010 the principals made the decision to return to the fund business and create Recovery Capital Partners as the vehicle to drive future growth and insure investment capital for future acquisitions.

GFM: What is the structure of your funds?

TF: Recovery Capital Partners is a Delaware limited partnership open to qualified purchasers managed by Sagres Capital Management, a Delaware limited liability company, with a leveraged feeder above the fund to help manage unrelated business taxable incomeand foreign investor tax issues.

GFM: Have there been any recent changes to the management team?

TF: We recently added John Hartman as managing director of capital markets. With more than 25 years of capital markets and fundraising experience, he oversees the capital markets group for the Sagres Company as well as Sagres Capital Management, manages Recovery Capital Partners, and is a member of the investment committee.

GFM: How and where do you distribute the funds? What is the profile of your current and targeted client base?

TF: We distribute funds both internally and with through the services of placement agents. Our investment profile includes family offices, endowments, pension funds and funds of funds.

GFM: How would you assess the impact of the recent global financial crisis and economic downturn on your business?

TF: Acquisition prices have dropped dramatically from their peak and collection rates have dropped by 25 to 30 per cent. Competition has faded as less capitalised firms have been forced out of the business and key relationships with sellers of debt have improved.

GFM: What is your investment process?

TF: The company's investment process employs a number of proprietary tools including its due diligence platform. This is used to collect the raw data entered into the proprietary evaluation engine, which facilitates the comparison of dissimilar portfolios. Primary considerations include product type, geographical location, age and average balance of the accounts. In addition, it takes into consideration the history of how the portfolio has been issued and serviced, including any previous collection efforts.

Upon review of the qualitative factors in combination with the quantitative output of the company's proprietary models, portfolios are subject to review by senior executives, and determination is made to either purchase or pass on the portfolio. At this juncture, market conditions and investor or fund objectives are taken into consideration in ultimately deciding whether to make the investment.

GFM: How do you generate ideas for your funds?

TF: The company reviews sector analysis within the debt market, bankruptcy professionals, consumer and commercial lenders and the government. Portfolio selection begins with a proprietary customer relationship management database containing more than 300 known sellers and approximately 800 known buyers.

In addition to existing relationships and forward commitments, the company combines telephone canvassing, e-mail and occasional mailing campaigns to develop further and maintain a pipeline of investment opportunities.

GFM: What is your approach to managing risk?

TF: We manage risk through a 17-year track record of experience, extensive internal due diligence and our proprietary processes. We monitor economic indicators in deciding how long to collect on a

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portfolio before selling into the secondary market.

GFM: How has your recent performance compared with your expectations and track record?

TF: Initial liquidations are currently taking place on portfolios purchased 12 months ago, and while the numbers aren't all in, recoveries are solid and prices are low, so we are expecting above-average returns from recent and current purchases. Traditionally we have seen unleveraged returns of 20 to 25 per cent, and believe a window exists to increase those returns.

GFM: What opportunities are you looking at right now?

TF: We are currently looking at distressed credit card and government loans.

GFM: What events do you expect to see in your sector in the coming year?

TF: We foresee the bottoming out and stabilisation of prices, new entrants coming into the business, and continuing mergers of existing industry participants. These developments will solidify Sagres' position as an industry leader, perhaps moving us to top 10 status.

GFM: How do you assess investors' current expectations?

TF: They currently have a short investment time horizon and a focus on transparency from the manager, but are still seeking above-average returns.

GFM: What differentiates you from other managers in your sector?

TF: We offer flexibility, nimbleness and no legacy issues to hinder performance.

GFM: How do you view the environment for fundraising over the coming 12 months?

TF: Investors are coming back into the market and inflows to funds in 2010 should increase substantially from those last year.

GFM: Are you considering any mergers or acquisitions in the foreseeable future?

TF: Not at present, but we are always seeking cost-effective ways to grow the business and are keeping our options open.

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