The Interview – Robert Press, Trafalgar Capital Advisors: “The global financial crisis has allowed us to strengthen our processes and risk mitigation techniques”

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Robert Press, chief investment officer for the TCA Global Credit Fund, argues that the Cayman-based fund is unique in offering short- to medium-term senior secured financing instruments to small and medium-sized companies in combination with hands-on merchant banking services

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

RP: The TCA Global Credit Fund is the successor vehicle to Trafalgar Capital Specialized Investment Fund, a Luxembourg-domiciled Specialised Investment Fund that was the first European-based fund dedicated to debt-related financing for mainly listed small cap equities. The group also has a UK investment banking boutique that provides advisory services to its clients.

The management team is unchanged from that of the fund’s predecessor vehicles, is headed by myself as chief investment officer and Andrew Garai, and currently manages more than USD100m. We believe the fund is unique in offering a combination of short- to medium-term senior, secured financing instruments with hands-on merchant banking services.

GFM: What is the structure of your fund?

RP: The TCA Global Credit Fund is a Cayman Islands-domiciled master-feeder structure, registered with the Cayman Islands Monetary Authority. The investment manager has its main office in London, and one in South Florida with a small office in Zurich.

GFM: Who are your key service providers?

RP: We have assembled a team of top-shelf service providers. KPMG is the fund’s auditor, with Deutsche Bank acting as custodian and Admiral as administrator. Sadis & Goldberg is the fund’s US legal counsel along with Walkers in the Cayman Islands and Hamlins in the UK.

GFM: What is the profile of your current and targeted client base?

RP: The target profile of the fund is family offices, small pension funds and foundations, some select funds of funds, small institutions and high net worth investors. While the bulk of the distribution efforts and funds remain institutional, the team continues to seek out private clients and high net worth investors through their respective agents.

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

RP: The global financial crisis affected our business in a variety of ways. First, it was disruptive to many of TCA's original investors, and second, it provided challenges for our investee companies on an unprecedented scale as well. The team has worked through both of these sets of issues and we believe, has helped to further refine business practices, instruments, due diligence and credit models. Additionally, the lack of available credit to small and medium-sized enterprises has created new opportunities.

GFM: What is your investment process?

RP: Our business begins with the origination process from which TCA obtains its pool of potential portfolio transactions. This is sourced through various channels such as investment banks, research boutiques, house brokers, investor relations firms and single deal finders and agents.

GFM: How do you generate ideas for your fund?

RP: The global financial crisis has served to increase the number of potential investee companies dramatically. This of course has been tempered a bit by the reluctance of SMEs to take on new projects and personnel due to the uncertainty of the near- and mid-term economic and regulatory outlook.

GFM: What is your approach to managing risk?

RP: The principal risk in our business is credit risk – the fund does not take currency or market risk. Managing this credit risk is done in a variety of ways. First is our due diligence process, which, among other things, stresses delivery of company cash flows and assumptions. The fund always acts as a senior secured lender and the credit 'box is fairly narrow including must-haves such as tangible cash-producing assets such as contracts and receivables as collateral.

Each investee company is monitored closely and produces fortnightly reporting. Additionally, exposures are kept to a very small percentage of the portfolio, which is highly diversified both across industry segments and geographically. Lastly, the team has extensive workout, restructuring and administration experience which assists in recoveries in the event of distress and default.

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

RP: While there are no guarantees, we believe the global financial crisis has allowed us to further strengthen our processes and risk mitigation techniques. This, combined with the lack of available credit to small cap issuers, should enable us to maintain performance within the boundaries and goals the team seeks.

GFM: What opportunities are you looking at right now?

RP: Given the nature of the fund's lending and merchant banking roles, we see a variety of opportunities in locations as far afield as Australia, Singapore, Germany and Italy as well as the UK, Canada and the US. We are in due diligence or discussions for bridge loans, contract financing, receivables and event financing with these potential counterparties.

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

RP: We believe that the current economic uncertainty and lack of availability of credit for SMEs will continue. Small to mid-cap companies have historically suffered from the unavailability of growth capital, and the recent crisis has basically vaporised the few programmes that were in place to bridge the gap. TCA and its peers in the space are really the only sources left that these companies can rely on.

GFM: How will these developments affect your own portfolio?

RP: We continue to keep our eye on the duration of its positions and seek out opportunities with the most liquid collateral features for financing.

GFM: How do you assess investors' current expectations?

RP: Investors continue to be nervous and are acting with trepidation with respect to new investments or asset classes. A move toward more conservative alternative asset classes can be expected that will highlight credit. The key words are trust and transparency – we always have and continue to provide both.

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

RP: TCA's business model has always been difficult to classify in terms of 'sector'. There are elements of high yield debt; elements of asset backed lending; elements of trade receivable financing; and because a good portion of our return attribution is fee income-related, elements of merchant banking.

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

RP: The fund's Cayman domicile allows access to investors worldwide. Our Luxembourg vehicle didn't allow investors from North America, for instance, for tax reasons. While this opens up new markets for distribution of the fund, the environment is very challenging. Even with a long-term track record, five-star Morningstar rating and a presence in a very socially acceptable business segment, we believe investor scepticism and general nervousness will continue to make capital-raising a longer and more arduous process.

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