TWIN BROOK CAPITAL PARTNERS

Chris Williams (left) and Trevor Clark

The boys are back in town

Twin Brook Capital Partners' two managing partners, **Trevor Clark** and **Chris Williams**, are both debt market veterans. The pair launched their new firm, the middle market credit arm of Angelo, Gordon & Co., last year. Here they answer questions on how they are building the business from the ground up and share their views on the US mid-market leveraged lending environment in 2016

Q From the founding of Madison Capital in 2001 and the establishment of Twin Brook in 2015, what has made the two of you so successful over your long tenure in middle market lending?

Trevor Clark: We each have 20-plus years of direct middle market lending experience and have worked together for more than 17 years. Throughout our careers we have had the opportunity to experience many different approaches to middle market lending (sponsored vs non-sponsored, banking environment vs finance company, and so on). Our view is that we understand what works best in terms of providing consistent, reliable execution for the private equity community. Our experience of founding a firm and building it to over $7 billion in assets under management over a 13-year period and managing a large portfolio through numerous credit cycles gives us a unique skill set compared to many of our competitors.

Q When looking for your next business partner, how did you decide to team up with Angelo, Gordon & Co.?

Chris Williams: We talked to a number of different institutions and types of asset management firms when trying to determine who we wanted to partner with for our next business. Many of the groups we spoke to were primarily focused on deploying capital as quickly as possible to gain scale and position for a trade three to five years into the future. Angelo, Gordon's focus on building a long-term business centred-around credit discipline stood out to us. We grew up in this business as underwriters so we understand the importance of having credit drive all investment decisions. Additionally, Angelo, Gordon's operational support allows our business to leverage off of their world-class back office for compliance, investor reporting, IT, marketing and so on. We could not be happier with the support we have received since we joined the firm.

Q Can you explain the relationship between Twin Brook and AG? Why did you opt for different branding and headquarters in Chicago?

CW: Twin Brook Capital Partners is a wholly owned subsidiary of Angelo, Gordon & Co. but the Twin Brook name allows us to differentiate our business from other asset strategies within Angelo, Gordon.

Our team has spent their entire careers in Chicago. It was important for us to bring together a highly experienced, cohesive group of individuals that had worked together previously. Chicago is a major hub for middle market lending and its central location is strategic for our business given the amount of travel our team does to visit potential borrowers. Lastly, the city has a wealth of talented individuals that have worked directly in the middle market.

Q What differentiates the Twin Brook platform from other middle market firms?

TC: We would highlight our highly experienced team and our ability to execute for our borrowers on a timely and consistent basis. Rich Christensen, Dave Gibson, Grant Haggard and Faraaz Kamran each bring over 20 years of relevant middle market lending experience. Private equity firms appreciate interacting with highly experienced individuals who have closed transactions across a wide range of varying industries. Being able to identify key credit issues early on in a transaction along with moving a deal process along timely and efficiently are important traits in our model. Over the course of their careers, the team has successfully closed over 1,100 transactions with 200-plus different middle market private equity firms.

Q How difficult has it been to create a new lender from scratch?

TC: The overall reception to our new platform has been extremely positive. Since our team fully came together in May of 2015, we have seen more than 400 opportunities from over 140 different private equity groups. We have committed roughly $400 million of capital since May, while our large capital base has allowed us to take sizeable hold levels and positioned us well to play a leadership role as administrative agent on several of these transactions.

Q This market has become a very popular asset class and that has resulted in a large number of managers professing to offer "unique" direct lending funds. What advice could you give to an investor in regard to trying to differentiate between managers?

CW: This is a real challenge for investors because of the proliferation of new direct lending managers over the last five years and the contradictory statements made by different managers. The middle market direct lending landscape can be broken down into some very clear transaction type buckets, which include: sponsored vs non-sponsored, asset-based vs cash-flow lending, domestic vs international, performing vs distressed and senior vs subordinated. An investor can find a high quality manager within any of these segments, but the risk/return profile of the segment must be considered before trying to choose a manager. Once an investor has determined the amount of risk they are willing to take on as part of their strategy, they can then move on to identifying the best managers within that sub-sector. When comparing different managers, it is important to look past broad statements of historical performance and consider the number of transactions the manager has reviewed and completed, how much experience the manager has through multiple credit cycles as well as the role the manager played in the transaction history being represented.

Q While investors have begun to grasp the benefits of middle market debt investment, there is a sense among some that the asset class has become too crowded. How would you respond to this?

CW: There are between 150,000 and 200,000 domestic middle market companies. That represents an immense target market. While certain strategies within middle market lending (like distressed lending) can sometimes suffer from a lack of opportunities, the overall market rarely feels this impact. The top managers in the middle market also have very robust origination operations and can source opportunities that are not made available to other lenders. As a case in point, over the last 15 years we have screened over 15,000 unique transactions from in excess of 300 sponsors and investment banks.

Q The last credit cycle dramatically changed the landscape of middle market direct lending. Do you see this happening again in the next credit cycle?

TC: As was the case in 2005-7, we are seeing a number of lenders display a lack of underwriting discipline. While this behaviour does not have an immediate impact in today's market where default rates remain well below historical averages, ultimately these lenders will pay the price of higher credit losses when the next credit cycle hits. Unlike the last credit cycle where poor credit underwriting was coupled with some lenders' unreliable funding structures, the current group of middle market lenders appear to have more stable funding sources. This will result in poor performing lenders surviving longer than during the last credit cycle which will ultimately create challenges for future fundraising rather than drive them immediately from the market on account of bad investments. ■