EXPERT Q&A

Investment in new tech solutions is required to prepare for future growth, as reporting and monitoring demands multiply, says Greg Myers, global segment head of debt capital markets at Alter Domus

The data challenge for private debt

Q As we emerge from the pandemic and government stimulus programmes come to an end, what kind of opportunities are credit managers identifying in the markets?

This is really interesting because different countries – particularly the US and Europe – have taken different approaches to the stimulus programmes. Companies in the US that have received a lot of support remain relatively strong and there are a lot of opportunities in certain sectors post-pandemic, thinking about the pent-up demand in the travel industry, for example.

What we don't yet know is how the end of stimulus is going to affect real estate and real estate credit. Something like $280 billion was raised to invest in commercial real estate mortgage defaults last year and not a single deal has been done so far because the stimulus package meant the distress that was predicted didn't materialise. Still, the pandemic is going to transform the demand for commercial real estate and that is going to impact real estate credit, which has really done well in the past decade.

Talking to clients, most have seen few material defaults in their loan books, so they are nervous about certain sectors but haven't yet seen the severe impact that might have been anticipated in parts of leisure and entertainment.

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Q What kinds of additional operational challenges do you see managers facing?

Alongside the pandemic, LIBOR is being phased out and new reference rates are being established for a lot of the credit books and credit agreements that underpin these loans. ESG mandates are also being put in place by a lot of institutional investors, so the need for more granularity and system capabilities is increasing, hand-in-hand with the increased non-financial data monitoring that is going to be needed.

With more information having to be tracked, people need more robust systems for their portfolios and ongoing administration to do that reporting. As data requirements increase, many legacy systems relating to LIBOR and other reference rates need to be means tested against the new environment.

We are in the process of testing all our systems, and meanwhile many managers are looking to us to help construct more robust data regimes to feed into their data warehouses and upgrade them for ESG reporting and monitoring. ESG is a wholly different way of underwriting a company and requires a much deeper dive into the borrower's operations and infrastructure.

Q How have investor expectations of credit managers evolved during the pandemic, particularly in relation to tech-enabled solutions?

The pandemic has changed a fair amount of reporting; if you're an investor in a co-mingled fund you're used to getting capital statements of the fund itself with a listing of the portfolio and the performance of the portfolio. There has been much more demand for granularity. Adding on succinct, clear and transparent information on risk ratings across the portfolio and ESG metrics is somewhat different – a portfolio administration system wouldn't necessarily historically record non-economic data.

With our systems, we have the ability to input, track and analyse that information, but the challenge is the sources of that information and who is going to perform that additional layer of review of the data coming in from the borrower. We are developing a service around that.

There is a standard set of data points, but the format of how that is to be presented to investors is still evolving. Currently, managers are focused on how to capture the information, particularly in situations where borrowers don't routinely track it. Then we need to look at how we verify it.

"A lot of this is about us becoming not only a service provider but a technology provider"

Q What kind of innovations are you observing in the fintech space that will support credit managers going forward? Where do you expect that innovation to focus in the years to come?

We have spent a fair amount of money developing our internal systems over the years, responding to demand from clients. We are by no means a fintech operation, but we have built a suite of technology that either tracks information out of our underlying systems or directly feeds from our operations teams through a client portal.

One example is our trade blotter, which has been really well received by the market and allows our teams to interact with trades and provide real-time feedback on their status. We also recently acquired Credit-Vision, a credit monitoring tool for asset managers that essentially want to look into the financial health of the borrower and be able to channel financial data from multiple sources into a single access point. It's a newer way of doing the analytics and credit monitoring in an outsourced function, allowing us to take the financials from the borrower, upload them into Credit-Vision, then manage and monitor that over time to provide the analytics and reporting that would previously have been done in-house by credit managers. It makes the underlying data flow better, with more consistency in what goes back to clients and an easing of the operational burden.

Going forward, there will be an expectation that fund administrators have a very solid technology platform to provide not just reports but data feeds on the underlying portfolio and the funds.

Q Finally, how do you see the demands placed by lenders and debt fund managers on service providers such as Alter Domus evolving over the next few years?

A lot of this is about us becoming not only a service provider but a technology provider. The amount of information that we provide through our various service portals continues to evolve, while the ability to provide real-time data to our clients on their loans, cash positions, trades or deals on which they are agents is increasingly critical. It is becoming more of a gating point with our big global managers; they want their teams to be able to access data and for our technology infrastructure to support that.

There are still some aspects to be determined on the ESG front in terms of how lenders are going to require borrowers to report but having the technology to consume that data and then report on it will be key for us. ■