# Katch Investment Group Founder on Private Credit and Diversification amidst Uncertain Global Conditions

**On March 14 in the Salon Room at the Ritz Carlton in the Dubai International Finance Centre Hubbis and our exclusive partner for the lunchtime event, Katch Investment Group hosted a private gathering amongst wealth management decision makers and featuring insights on private credit strategies and opportunities from the firm's Laurent Jeanmart, the firm's Chairman & Partner. He founded Katch in 2018 together with Stephane Prigent and Pascal Rohner, and has since then focused the firm exclusively on investing in private debt, building up roughly USD700 million of AUM now in deals mostly in Western continental Europe and in the UK, with some 40 staff now located at offices in the UK, Europe, Asia, and South America. Hubbis has summarised some of Laurent's comments on Katch and their activities and the general market environment in this report.**

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**Laurent Jeanmart**
*Katch Investment Group*

**Katch Investment Group** is an asset management company dedicated to liquid, senior-secured private debt, focusing on investment strategies where capital is scarce with relatively high and stable returns. According to its website, in the aftermath of the global financial crisis, major central banks' liquidity injections inflated traditional asset classes, while new regulations reduced the banks' appetite and capability to lend to smaller businesses.

Katch identified these trends and decided to launch funds that invest in short-term lending and financing opportunities for businesses and smaller institutions that offer strong guarantees. The platform focuses on areas such as factoring, receivables monetisation, real estate bridge loans, litigation finance, and others.

## Six and counting…

Katch today manages six different investment vehicles with cumulative AUM in excess of USD700 million. Laurent explained that all these investment vehicles deploy capital in short-term funding opportunities, the safest and most liquid area within private debt with strong guarantees, such as real estate bridge lending, factoring, litigation funding, and others.

"We concentrate on short-term opportunities, deploying capital mostly for up to 24 months, but the vast majority of what we do is inside a year, which means that our track record is mostly realised. The capital comes back on a regular basis," Laurent told guests. "And when short-term interest rates go up, then we can recycle into higher yielding opportunities, for example. Everything we do is backed by collateral, which 95% of the time is real estate in the form of land or buildings."

## High rates and manageable risk

He explained that like a bank that would take a first lien on a house that it would finance for a client that puts in a certain amount of equity, so Katch enters a similar type of structure, but charge anywhere between 10% and 20% per annum for its funding.

"Private markets allow you to extract a premium that is substantial in relation to the risk compared to public markets," he told guests. "The collateral represents significantly more than the loan that we extend, so there is every incentive for the borrower not to default. Problems do occur and they represent some 3% to 5% of the portfolio at any point of time, in the form of late payments, but firstly we can charge default interest rates – those are typically around 25% per annum – and the borrower almost always finds a way to pay us back. If not, then we have the collateral as the asset."

## Laurent Jeanmart's background

When Laurent founded the firm in 2018, he had already built up some 20 years of investment experience in alternative asset management. Laurent's previous experiences include responsibilities at Fidelis Insurance Holdings Ltd., a London and Bermuda based insurance company where he was the group chief investment officer managing USD1.5 billion of assets.

Previously, he was also global head of investment at Platinum Capital Management Ltd., a global asset management platform, where his responsibilities included overseeing the firm's actively managed funds (hedge funds, equities, volatility, and commodities).

Laurent's early career included spells at BNP Paribas SA, Lazard LLC, GLG Partners LP, and Signia Wealth. Laurent graduated from Institut d'Etudes Politiques and Institut d'Administration des Entreprises, both in France, from INSEAD (France-Singapore), and he is a CFA Charter holder.

## The quest low or no correlation asset

He told guests at the Dubai event that their loan assets they generate are highly uncorrelated to anything else that most people have in their portfolio. And overall, they target returns that are between 7% net and 16% net per annum, which is what Katch has delivered historically, he stated, adding that investors do not need to lock up capital for perhaps 5 to 10 years, as they might in private equity. He said they are also conservative with no leverage applied.

Laurent reported that their main office is in London, and most of their loans are in Western Europe. The six funds are regulated in Luxembourg, and the firm is regulated by the UK's FCA. Having started the business in 2017, they now have 40 staff managing their roughly USD800 million of assets, with a variety of advisory mandates as well.

## Speed and agility

Laurent expanded on the typical structure, reporting that they lend to a commercial entity, not to private individuals, and the typical borrower is a developer, especially in the UK, where they do a lot of bridge lending related to the refurbishment of private residences. He said once refurbished those residences are easy to sell in what is a liquid housing market.

"We are able to lend quickly on a senior secured and shorter-term basis to developers in the UK at around 12% to 14% per annum," he explained. "The borrower typically contributes 30% to 35% of the value of the asset. These customers very often need rapid decisions and flexibility and are prepared to pay Katch's rates for that, which allows them to capture those opportunities."

## Risks and rewards

For example, he reported that if a borrower wants to buy property at auction, for example in the UK, they need to put down 10% of the value of the assets that day, and then they have 30 days to complete, so if they were to try to rely on bank financing for this, they would probably never get over the line.

"They need capital as rapidly as possible and with a firm commitment," he elucidated. "And then in parallel, they start the process of applying for credit line with a bank, for example, and then, maybe six months down the line, we get refinanced. The duration of our loans typically is less than a year in UK and anywhere. For our customers, paying high rates for a shorter period of time to allow them to access investment opportunities is a price worth paying and that they are able to pay."

## Across Europe

Katch enters plenty of interesting deals across Western European markets as well (but not into Eastern Europe).

Laurent explained, for example, that their Katch European Secured Lending Fund focuses on providing first lien real estate backed loans to professional investors, developers, sponsors and corporates seeking to seize and capitalise on lucrative deals and asset management opportunities. The loans typically come with good protection, such as first lien real estate collateral and corporate and/or personal guarantees. The Fund's focus is on the UK, Benelux, DACH, Nordic Regions, France and Spain.

He reported that this European Secured Lending Fund is a great alternative to traditional assets due to its non-correlation and high return profile. He offered the example of a Luxembourg borrower in the form of a private equity fund that needed a small line of capital as they were selling down assets towards the end of the PE fund's life. He said the PE fund had USD850 million of assets, they borrowed 10 million from Katch against USD250 million of collateral and paid 14% per annum. "The speed of decision making and delivery allows us to charge those types of rates," he reported.

## Lending to law firms? Really?

Another interesting vehicle is the Katch Litigation Fund that offers exposure to litigation funding with

a focus on individual claims in the United Kingdom, an emerging financing solution which enables parties to pursue their legal claims without having to disburse the expenses of the lawsuit. Focusing on a large number of simple claims of low value, Katch identifies fairly safe cases with double-digit returns.

"The Katch Litigation Fund is a great alternative to traditional assets due to its non-correlation and double digits return profile," Laurent reported. "Essentially, law firms borrow from us on a very highly secured basis, including insurance they must take out, and we charge over 25% per annum. These are fairly new types of deals in the UK, and the insurance policy allows investors to enjoy a high degree of protection, he added.

## Katching the right deals at the right time

Addressing the issue of higher rates and inflation, Laurent observed that the projects they participate in with their lending are much more profitable than the average project.

"The borrowers can borrow at these high rates and another percentage point or two when you are paying 12% is not a major change," he said. "And from our perspective, we have significant lines of defence in the collateral. Moreover, our stress testing focuses first and foremost on the collateral, and of course, we look at the credit quality of the borrowers. But really what matters the most to us, is the collateral, supporting our LTVs' which as I said are 60% to 65%."

Laurent said that collateral values of real estate could theoretically drop more than 35% to 40% in the worst-case scenarios before portfolio losses might be incurred, but it is extremely unlikely, and they also lend short-term, which he said means reloading the collateral value every time you lend. "Nothing is truly risk free, but we believe the premium for the risk is very attractive," he stated.

## Typical investors

As to the investors that work with Katch, Laurent explained that they are mostly multifamily offices, a sprinkling of private banks, particularly in Switzerland, and plenty of ultra-high net worth individuals.

"They are interested in private debt as it brings good returns with substantial diversification to their portfolios," he said on closing his comments. "This is particularly valuable at times when everything seems rather correlated. If these days you can find something that is different, that brings something different to the portfolio, it is rare." ■