Kilde's Co-Founder and CEO on Creating Alpha with Data-Driven Investments in Private Credit

As we look toward 2023, the need for smart and savvy investments has become paramount. Embracing technology to its fullest potential is essential in creating value-driven solutions that investors can trust - that's where Kilde comes in. Our team caught up with their CEO Radek Jezbera who dished on his data-backed investing strategies as well as some of their private credit exploits which have been game changers when it comes to secure investment portfolios.

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RADEK JEZBERA
Kilde

Can you introduce yourself and Kilde?

"Before co-founding Kilde, I have been a management consultant helping financial institutions with their consumer and SME lending strategies. Five years ago, my clients asked me to move to Singapore from London. I have never regretted the decision to move into the fastest growing economic hub. It was here where me and my co-founder Oleg Kryukovskiy we have birthed the business idea to create an investment asset class from consumer and MSME loans.

Kilde is an asset manager and income investing platform. We offer investors deals with 10-13% yearly returns with 3 to 36 months lock in period. Interest is distributed to investors as often as once a month.

We generate the returns by lending funds to leading consumer and MSME financing companies in Asia and Europe. Our loans are secured by receivables from the underlying consumer and MSME loasn. At Kilde, we work with every investor on the same conditions as we work with credit funds and family offices. Fairness is our promise, and we keep it."

Can you tell us more about data-driven investing in private credit and how it differs from traditional investment methods?

"Data-driven investing in private credit involves using the power of big data and artificial intelligence to identify lucrative fixed-income opportunities in private assets such as consumer and MSME loans. This method allows investors to reap large yields previously only available to banks.

For example, in consumer loans, by leveraging artificial intelligence, the software mines loan repayment data over short tenures, and it is possible to establish a reliable cash flow baseline used as collateral.

This method allows investing in short-term, rapidly changing assets that would otherwise be uneconomical to consider with traditional investment processes. For example, data sets on repayments of small consumer loans are so large that they do not fit into an Excel spreadsheet. We literally need to use cutting-edge data science tools to be able to cope with the sheer amount of data."

What returns can investors expect from different private credit asset classes?

"The returns can vary widely, depending on the specific asset class, the underlying credit quality, and the terms of the investment. Here are some examples of the typical returns investors can expect from different private credit asset classes from our experience.

Settlement finance can yield from 6-8% p.a. Settlement finance is a type of financing for remittance and payment companies. It bridges the gap between the time that real-time payment transaction occurs and the time that banks execute settlement. The settlement gap covered by external financing tends to be between 2-3 days. A charge on the settlement bank account typically secures the loans.

Returns on trade finance receivables can range from 8-18% p.a.. Trade finance receivables are short-term loans used to finance the purchase or shipment of goods. The loans are secured by the receivables from the sale of the goods, which provides a measure of security for the investor.

Returns on the securitisation of consumer and MSME loans can range from 12-15%. Securitisation involves pooling a portfolio of loans and issuing securities backed by the cash flows from the underlying loans. The securities can be structured to provide different levels of risk and return to investors.

Non-performing loans are loans that are in default or are at immediate risk of default. Investors can purchase non-performing loans at a discount to their face value, expecting to recover some or all of the principal and interest through restructuring or collection efforts. The returns on non-performing loans can be high, 15-20% p.a., but the risk is also higher than other private credit asset classes, and

recovery of the investments takes a substantially longer time."

At Kilde, we generated an 11.6% annualised return in 2022 across all our borrowers on our platform. This was due to our constant monitoring of their financial health to understand the business outlook and how they performed in the market.

What are some benefits and drawbacks of investing in private asset-backed credit compared to public market fixed-income investing?

"Generally, private credit offers higher yields than traditional fixed-income investments, especially in a low-yield environment which we experienced in the past. Many private credit investments have a variable yield component that offsets the opportunity costs of rising public markets' fixed-income yields.

With public markets being so competitive, generating alpha solely focusing there became very hard. Therefore, asset managers use hybrid strategies where private market investments complement public markets. Private market assets deliver the alpha, while public market assets represent the liquid portion of the portfolio.

In addition, the short tenure of the underlying assets allows for flexible investment redemptions, which is not always possible in public markets. Also, the highly diversified nature of the assets greatly reduces risks, and investors can invest in various asset classes.

Lastly, asset performance is correlated with broader economic performance rather than the public markets. We have observed that certain private asset classes are inversely correlated to the economy.

On the other hand, there are drawbacks as well. Despite early redemption options, private credit investments are generally less liquid than public market investments, which can pose a challenge for investors who need to sell quickly.

Data-driven investing in private credit may be more complex than public market fixed-income investing. It involves analysing data sets that are not publicly available, and these data need to be properly understood by industry insiders. I recommend choosing a qualified asset manager specialising in the specific asset class."

What happens if the borrower defaults on their obligations to investors?

"If a borrower defaults on their obligations to investors, the specific actions taken will depend on the terms of the investment agreement and the underlying asset backing the investment. Generally, if the borrower defaults on a loan, the investor has the right to seize the underlying asset or collateral that secures the loan to recover the investment.

For example, in the case of trade finance receivables, if the borrower fails to repay the loan, the investor has the right to seize the receivables used to secure the loan and recover their investment. We arrange a charge on the borrower's bank accounts through which the cash from the assets flows to make the receivables seizure instant. In our deals, we appoint a security agent to jump into action in cases like these.

Given the rigorous credit risk assessment and tight monitoring, we have not experienced any delays in payments to investors, let alone a default. We intend to keep it that way."

Alternative investments are known to be reserved for UHNWIs and institutions. This seems to be slowly changing with the emergence of WealthTech providers. What is the future of investing in alternatives?

"You are correct that, historically, alternative investments were primarily accessible to high-net-worth individuals and institutional investors due to their complexity, high investment minimums, and regulatory restrictions. However, the emergence of WealthTech providers has made it easier and more cost-effective for individual investors to access alternative investments, which has been helping to level the playing field.

WealthTech providers are using technology to provide investors with access to alternative investments through online platforms, making it easier for individual investors to invest in private equity, hedge funds, real estate, and other alternative assets. Some platforms also offer lower minimum investments, making it possible for more investors to participate.

At Kilde, we welcome individual investors to participate in asset-backed private credit investments self-directed or with the help of their investment adviser. Investors get an undiluted yield that they

deserve with the peace of mind that they invest in the exact same deal on the same terms as renowned private credit funds."

The year 2022 was a challenging year for many investors. How did you perform under stress, and what is your outlook for 2023?

"Indeed, 2022 was a very interesting year. Since we work in the private markets, the volatility of public markets has influenced us only indirectly. We were confident in the asset classes' uncorrelated nature and our borrowers' resilience. After all, they survived a much greater test in 2020 with COVID lockdowns. Despite the odds, we have achieved an 11.6% annual return for our private credit notes, keeping our investors safe with 160% asset-backed collateral cash coverage.

However, in the 3rd and 4th quarters of 2022, investors were sitting on cash, waiting for buying opportunities in both fixed-income and equity markets. That made raising funds for our deals way more challenging but also brought us a number of attractive deals that could not find funding at the public markets.

In 2023, I hope we break the spell of equities and bonds moving simultaneously southwards. Although we expect the interest rates to stop growing and even go down in the second half of the year, the new normal of single-digit risk-free interest rates are here to stay for the foreseeable future. I think it is good for the investors and the economy. It will end the exuberance of ample and almost free money.

Alternatives and private credit, in particular, are here to stay. They have now established themselves as a cornerstone of healthy portfolio allocation. Asset managers and distribution platforms like us will make alternatives even more accessible.

Kilde's goal for this year is to continuously work towards providing all our investors with the same outsized returns and even outperforming last year's results. In addition, we are also working closely with our borrowers to understand their business needs and how we can create value for them and expounding them to greater heights by leveraging our platform and network of investors." ■