CADWALADER

Fund Finance Friday

Player Profile: Ian Shanks

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Player Profile

FFF: How did you end up in fund finance?

I basically fell into this back in the late 90s when I was at Bank of Scotland – now part of Lloyds Banking Group. I worked in leveraged finance and also spent some time with a PE firm in Edinburgh called Dunedin Capital Partners, which was a great experience seeing the other side of PE transactions. When I came back into the Bank, I inherited its private equity portfolio of LP commitments which was around £100m and, like many banks at that time, this was done to support its leveraged finance business. Being honest, nobody really understood the LP positions and it was seen as an expensive "marketing spend" with a potential return. We put a strategy together to build the business supporting both the PE managers as well as our leveraged finance colleagues. Our approach was to pick a handful of PE managers and surround them with our capability and build a true long-term partnership with them. As we built this out over the next five years, we ended up with a multibillion LP book across many key GPs. As part of this, we provided LP-backed credit lines as well as supporting GPs in all manner of banking requirements including their GP commit. As we built the debt book we expanded out into secondary funds and fund of funds and then gradually moved into NAV lending structures where we did many "firsts" in transaction types. We continued to focus on GPs of quality, who could provide repeat business where there was a strong relationship play, something I strongly believe in still; and by the mid-2000s, we had a global business with over £10bn in debt – all before this was a "fashionable" sector, with only a handful of banks and lawyers involved at this time.

FFF: How has the first half of 2019 shaped up compared to 2018?

In 2018, at Aberdeen Standard Investments, we set up a new capability with our strategic partner, Phoenix Insurance Group, to become involved in fund financing with the aim to raise additional capital from other insurance clients as they see the benefit of participating in fund financing loans. Our deal sourcing comes from banks who wish to syndicate or via our PE activity, with the GPs bringing us in directly as part of a deal (we have invested in over 500 GPs). Importantly, our aim is not to compete for mandates with the banks, but rather to be a solution provider to them as the deals get bigger. From a standing start, 2019 has been very active and successful as our capability and approach have been well received by the banks and GPs.

FFF: Are there any emerging issues that might prove relevant for the fund finance markets?

As PE funds increase and LP credit lines get bigger, banks have limit constraints, whether on single loans, manager concentration or sector exposure. Despite many new bank entrants, capacity constraints will prove challenging. We see and hear of many banks seeking alternative sources of funding, and hopefully in some small way we are able to help this. Coming back into the market after a few absent years, the length and complexity of loan documents is interesting. I remember seeing simple documentation of around 30 pages, whereas our latest deal has 300+ pages. I think, like a lot of things in life, the market has tilted too far into complexities and we may be losing sight of the key lending fundamentals of these transactions.

FFF: Who has had the most influence on your career?

I would say Graham McDonald, who currently runs our ASI Private Equity business and who I have worked with for the last 15 years. We started the PE business basically from nothing but he gave us the room, autonomy and support to build the fund finance business, the confidence to keep pushing boundaries (it took us 2 years to do our 1st NAV deal) and reminded us to always trust, respect and look after your people, as we are nothing without them. Importantly, enjoy what you do – we are all here only for a short time.

FFF: What was your career high . . . and career low?

Surviving in the PE market for 20+ years. We had a great fund financing business at Bank of Scotland with the right people and attitude, and this was halted in its stride with the financial crisis, and stopped us building and supporting GPs as we wanted and needed to. Helping sell a famous Scottish football club albeit ending up in court over the deal. I will let you decide which are the highs and lows.

FFF: What do you think it takes to be successful in the fund finance industry?

Creativity and keep backing people you know. Trust and integrity are vitally important—deliver on what you say and do the right thing in times of difficulty. And finally, enjoy what you do.

FFF: If you could give the Fund Finance Association one piece of advice, what would it be?

Be more proactive to combat the negative press, focussing on the benefits of fund financing to the whole industry; and second, move conferences around. Seychelles, Mauritius and the Caribbean all sound like worthy spots for next time.

FFF: What do you like to do outside of the office?

I try and play a bit of golf. Based in Scotland, we are spoilt for choice and I have been incredibly lucky to play a huge variety of golf courses both here and abroad. My wife and I both love the Disney parks in Florida and have ventured over 15 times, which might be something to do with the fact that she gets all the Christmas shopping done in September while there, and which allows me time to play golf while she shops.

FFF: Tell us two truths and one lie about yourself?

I have played golf with a world number one, a U.S. and British Open Champion, as well as with a Ryder Cup Captain.

I played football for Scotland.

I have a pilot's licence and take cadets up gliding.

FFF: Any fund finance predictions for the rest of the year?

The market will get bigger; expect more negative press; and many more trees destroyed from the paperwork involved in deals.