Gallantree - Just Cause

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The Australian financial credit landscape is at a crossroads.

A vacuum effect is taking place that few are following between the traditional banks of Australia and the non-bank finance community for private credit issuance. There is a race to fill this vacuum and many of the current non-banks are ill-equipped to scale into the size of this vacuum.

Banks (even Macquarie) are going back to 'core' offerings over the rise of compliance and regulation post Royal Commission. It will only get harder from here. For Australian Banks, a combination of regulation increases, increased Bank directors liabilities, more stringent capital adequacy requirements and industry-sector knowledge erosion have left our banking community ill-equipped and uncompetitive against peers overseas. Foreign Banks in Australia like UBS or Goldman Sachs either do not have the licensing authorisations or bring a heavily reduced version of their capabilities to Australia compared to Zurich, London or New York. For foreign Banks, the appetite for revenue is ever there, but the tools locally available limit their impact.

The Australian non-bank sector is heavily focused on vanilla offerings, usually sourced from tightly connected family offices in specific suburbs in Melbourne or Sydney. Few do corporate credit well compared to US rivals. Based on direct interviews from owners of these fund managers, most admit to copying each other's strategies, mimic the same marketing strategies and follow the same blueprint for capital access. Most just copy compliance requirements from others, mis-interpret or don't implement robust credit-risk underwriting, and their strategy for documentation, risk frameworks revolves around paying Deloitte or KPMG to do it. Companies like BlackRock, TPG, Apollo, Blackstone, Ares, PIMCO, Citadel, Point72 and Janus Henderson are non-banks that operate like streamlined banks and with bespoke systems or platforms to enable themselves, but without the licence or compliance burden. The rise of these companies has been rapid as most are less than 20 years old and easily exceed AUM against HSBC, Wells Fargo or CBA.

This recipe for capital access for fund managers in Australia has also evolved overtime as financial planners and wealth managers now have stringent approved product lists (APLs) which prioritise heavy-weight fund managers with too-big-to-fail profiles. HUB24 and Netwealth exist as both access points and guard-rails enablers for wealth managers which means few look at the investment strategy or objectives as they are all pretty much the same.

Tracking the successes of fund manager launches over the last 5 years in Australia, the majority have acquired a book or spun out of something out of a dysfunctional manager - usually continuing a similar strategy for issuance and distribution. Innovative strategies are few and far between. Rarely do these managers have skills or knowledge of capital vehicles internationally and are happy to stick to the status quo.

After spending several years working in the states, the credit and fund manager landscape is motivated by an entirely different agenda, out of the box thinking and technology adoption is highly advanced which has enabled these firms with an unfair advantage and a moat that is difficult for rivals to mimic or copy.

Industry specific credit is a term you hear in the states, rarely in Australia. The best portfolio managers at US firms mentioned above now code python and extract intelligence from data in new ways to make investment or credit decisions. Most have built and innovated custom platforms to manage their credit or equity portfolio over using excel or rely on the fund administrator to do the boring parts.

For capital access, instead of having the capital access via something like HUB24 and speaking at a few conferences for capital, the US managers think differently. They focused on a tapestry of capital access points and strategies enabling capital access via products like collateralized loan obligations (CLOs), over-the-counter commercial mortgage-backed-securities (OTC-CMBS), reinsurance structured hybrids (RSHs) and the equivalent of VCCs (Variable Capital Company) allocations from institutional investors, money managers and wealth managers.

This is just the capital side.

On the borrower front, the majority of smart Australia mid-market companies in industries like mining, agriculture, aviation, telco, trade, energy and even financial services are enabling their credit from overseas markets over taking up what is available in Sydney or Melbourne. Companies are staying private longer which means larger appetites for private equity over equities funds. In forming our mission, we've had regular meetings with directors of wealth managers and brokerage firms - all are concerned of the ASX fruit bearing in the next 2-5 years choosing to remain private, with the worst of the litter attempting a listing. The best are aiming to stay private.

For mining or mining services companies as an example, most can't even change their lease due to ESG now being embedded in the credit underwriting of Banks. For energy, the majority of mid-to-large scale projects use international capital with a hint of bank finance for the simple loan requirements. Royalties, nordic-style bonds, prepayments, trade finance and just some of the products you'll rarely find in Australia. And we can say the same thing for industry-specific products mentioned in the above sectors.

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Since being founded in 2021, our mission or 'just cause' is built on enabling industry specific capital in Australian key sectors supporting the inspiring aspirations of Australian business owners and fund managers. This mission is built on a series of strategies using our thinking, speed and entrepreneurial spirit to our advantage. It's hard to be entrepreneurial when you've spent 10 years at Goldman Sachs or KPMG and the smart money managers look at funds like startups these days.

The business strategy is to blend advanced capital capabilities with our take on modern-merchant banking enabling long-term relationships with clients and partners. This means we operate partially like Accenture, but for business and capital alignment and elevation, not to please middle-management or government bodies. This enables us to always be at the forefront of the direction of the client and limits the likelihood of middlemen or brokers.

The product strategy is to offer traditional product offerings alongside industry-specific or SPV ones strategically going direct and via partner fund managers. The industry specific focus is partially a beach-head into clients before servicing the wider needs better than their current providers.

The capital strategy is to enable a series of onshore and offshore investment vehicles around securitisations, MIS, CLO, SPVs and MBS each with a clearly defined approach towards enabling at-scale credit for both Gallantree borrowers (direct) and partner fund managers (in-direct or partner-aligned). We can then blend our requirements with partner fund managers, enabling stronger defensibility of origination and lowers the overall cost-of-capital (CoC). This engine room only works over $1bn FUM. Naturally, we still add a margin and fees from our partner fund managers - making revenue as they grow and deploy, however it will still be more cost competitive than getting it from HUB24 or banks individually.

Like the capital strategy, the origination strategy is divided into direct and in-direct. For direct, we enter strategic relationships with key clients offering a combination of products they'd normally be required to source overseas, with traditional options at competitive rates. For in-direct, we partner with hand-picked fund managers (credit, equity and alts) enabling a component of our capital via an agreed mandate which is reviewed every two years. This turns potential rivals into allies and incentivises the better fund manager partners to lift their approach.

The technology strategy is to continually innovate our platform enabling our core to enable advanced credit decisioning, loan management, enable credit strategies/ validations, treasury & portfolio, funds management and supporting our capital programs and capital partners. Our platform's strategy is to enable intelligent automation and use of data to better understand risk to make better decisions. The platform is going to be handling both loans and investments which is forecast to be over 200 loans/ investments a quarter, most of which are complex and structured. 75% of loans are originated by third-party partners therefore access controls are key. We also aim for direct vertical integrations with clients or to enable industry data to advance credit or equity strategies for specific SPVs. The aim is to innovate and integrate at our own pace, not be reliant on redundant or limited solutions most rivals use today.

Our overall advantage is to continue to enable A-grade talent aligned to our values, beliefs and why we exist. Our HR strategy evolves around hand-picking strong talent with great experience, reputation and knowledge. From the beginning we created a list of people we want to recruit as we build out the capabilities. We'd rather pay above market value for great people that often do the work of 2, 3 or even 5 standard people, than pay for a team of people. This enables us to attract and retain high performing team members over mediocre ones, and helps to solve middle-management fattening problems and too many chef issues.

At scale, the best mid-market businesses and capital partners will wonder how they functioned without Gallantree. Selected fund managers will be enabled with an unfair advantage over competitors, turning the 'capital' water off limited fund managers. Vanilla strategy will be the minority, over the majority.

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Finally, we intend to play the infinite game, being careful in our foundational work and not chasing fads or short term wins at the rebuke of our long term strategy. This means setting up each person in the Company for success aligned with our own vision and whys of things. This means building lasting relationships with our clients and investment partners, being more like a trusted family member than a capital provider or advisor. Our aim is to not only stay in the game, but elevate it while staying true to our cause and keep hungry and frugal. New players, cheaper capital or better technology may come to rival us, nonetheless in the long run, our focus on cultivating deep client relationships, values and constant striving for excellence will set us apart.

Like a surfer, 'the search for the perfect wave' always remains and we will not rest until we reach $5bn FUM. At that point, I'll write a new one of these.

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This memo was formed and tested alongside conversations with several people including Gary Dransfield, Colin McKenzie, Cameron Mitchell, Philippe Roger, Eric Williamson, Adam Lindell, Gerd

Schenkel, Todd Pepper, Brad Scott, Steve Johnson, Leon Allen, Allan Cullen, Daniel Fogarty, Guy Hamilton, Micah Brafford, Ray Picard, Doug Snell, David Gall, Chris Bradley, Richard Green, Andrew McKie, Steve McLean, Bill Keogh, Matthew Findlay, Edward Burns, Kevin Roche, Richard Vidaic, Rod Delgado, Nathan Lord, Andy Tsao, Mike Ye, Alan Moss. I thank them for their time, input and support.