Greenpoint unveils 2021 launch to target sub-Saharan special situations

With South Africa's private credit market still in its infancy, Greenpoint are established as a niche player providing capital solutions to local businesses

Cape Town-based Greenpoint Capital, which specialises in private debt, plans to raise a new fund in the first quarter of 2021, focusing on special situations in sub-Saharan Africa.

Greenpoint is a private credit fund manager, with a track record in investing in mid-market companies in South Africa since 2011.

Co-founder and CEO Ryan Wood-Collier took over the credit investment activities of Greenpoint Capital in 2014, on his return from 14 years in UK where he was primarily focused on credit and restructuring of both private and listed UK/European businesses. In the UK, he was part of the European restructuring and debt group of merchant bank Close Brothers, and assisted in establishing the restructuring and debt business of Lincoln International, a US-based mid-market investment bank. Prior to that, he was at PwC in London, focusing on M&A and restructuring advisory. He has a BCom Finance from Natal University and completed his CFA while in London.

Wood-Collier is joined by Nic van Zyl who returned from the UK in 2017 to assist in building out Greenpoint's investment activities. Van Zyl has spent the last 10 years operating in the UK and South African leveraged finance and private equity markets, and was previously part of the growth & acquisition team at Investec in London, which he joined after qualifying as a CA(SA). He completed his BCom Financial Accounting at Stellenbosch University followed by a Masters degree in Management Research from the University of Oxford.

The team includes COO Nic Wooloway, who joined Greenpoint in 2017 with over 17 years' experience in investment banking and asset management. Prior to Greenpoint, he was COO of RECM for four years, having spent eight years BlueCrest Capital Management and three years with UBS in London. Wooloway is a qualified CA(SA) and CFA.

Wood-Collier describes the alternative asset management market as primarily divided private equity, hedge funds, property and private credit – with private credit, at least in the local South African market, being the least established.

At a high level, private credit can be divided into two primary strategies: firstly, direct lending and secondly, special situations investing. Direct lending strategies typically involve a credit fund making a privately negotiated financing facility available to either private or, less commonly, listed companies, where the financing is typically funding a healthy growth situation. Special situation strategies typically seek out idiosyncratic opportunities that present themselves as a result of market dislocations – they often deploy capital into stressed or restructuring situations where there is a viable operating company but a broken capital structure. The investments can be in the form of privately structured loans or acquiring existing loans at a discount.

"Nic and I both spent a lot of time in the UK, covering direct lending and special situations primarily in the mid-market space," says Wood-Collier. "Our aim is to provide constructive capital solutions to businesses here in the local market that replicate the kinds of strategies that are commonplace offshore."

The team has unique insight into the asset class with experience in both the developed UK market and less developed South African market, as well as investing across various economic cycles, including both the Global Financial Crisis of 2007/08 and now the Covid-19 crisis.

Wood-Collier notes that the confluence of a structurally weak local economy exacerbated by the effect of Covid-19, a South African lending market dominated by large relationship banks, and a relatively inexperienced restructuring market present a very compelling market opportunity for specialists with appropriate pools of dedicated capital.

"Despite being very well capitalised pre-Covid, the core South African senior lenders are finding themselves with large exposures to non-performing assets, with an inability to follow their funding due to overall credit limits and regulatory capital requirements," notes Van Zyl. "The restructuring departments are overwhelmed with requests and there is a lack of resources within the banks to deal with the complexity that the situations present. We are not looking to replace senior lenders in any way, rather work cooperatively alongside them in providing constructive capital solutions to fundamentally good businesses with stressed balance sheets."

Opportunities in the current market are by no means limited to existing bank loan exposures. "We currently have the largest pipeline of self-originated opportunities that we have seen in our nine-year history," notes Wood-Collier. "These range from our more traditional direct lending opportunities in the c.R100m range to larger restructurings involving new capital in excess of R1 billion per transaction."

"Our UK/European network has served us well as we are now also seeing tremendous opportunity in partnering with offshore credit funds that we have longstanding relationships with in funding local transactions – with the trade-off typically being attractive opportunities in a relatively uncrowded market versus currency and macro considerations. Our offshore partners take a lot of comfort investing alongside us as their local partner in transactions as we bring an 'on the ground' presence with an ability to navigate the nuances of the local market."

The current market opportunity for private credit is clear, but established funds managing existing portfolios have had to weather the impact of the weak economy and Covid-19. "This period has been the single largest acid-test for the investment strategy," say Wood-Collier. "The benefit that private credit has over traditional liquid credit is that transactions are typically structured with stringent financial documentation and specific security that provides an underpin to the investment. We spend a significant amount of time structuring transactions to mitigate the specific risks that we identify in our initial due diligence processes."

"We are also very focused on the management teams behind the businesses we invest in – while an exceptional management team may not always be able to outperform a failing economy or sector, behaviour is critical in working together,

Ryan Wood-Collier

Nic Van Zyl

Nic Wooloway

specifically in navigating trickier situations," adds Van Zyl.

Investors and LPs in private credit funds are also using the current environment to test their initial investment thesis on the asset class, being a combination of the following: strong risk-adjusted returns, diversification, relative uncorrelation with other asset classes, low volatility with contractual underpin to returns, some cash yield, a healthy liquidity premium and an embedded option on restructuring scenarios.

"While our portfolio has not been immune to the impact of Covid-19, our investments have performed well. We spent a lot of time with management teams at the onset of the pandemic and throughout the lockdown, understanding the specific needs of their businesses. We have only had one portfolio company that required some support, the others have weathered the storm very well," said Van Zyl. "Most of our investments are variable with a fixed margin – so while overall returns have dropped in line with base rates, we have maintained our margin over benchmark with our return profile remaining stable, as compared to significant volatility over this period experience by other asset classes."

With increasing demand and a growing profile amongst senior lenders, Greenpoint is now getting involved in bigger deals, prompting plans for a second fund. It is working with an institutional anchor investor on the new fund, and will start capital-raising from the beginning of 2021.

"While capital-raising is never easy, we have both the track record and, in particular, the restructuring and special situations skillset and expertise," says Wood-Collier. "Our second fund will focus on special situations in Southern Africa."

The team typically invests R50 million to R150 million per transaction, with R75 million their sweet spot. To date, it has executed 55 deals and realised 47, with the typical investment duration being 2-4 years.