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Private Market Talks:

Exploring APAC’s Private Credit Frontier with ADM Capital’s Chris Botsford

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The Asia-Pacific private credit market has doubled in the past five years, presenting growing and intriguing opportunities for credit investors. Despite its growth, the APAC region remains a complex, diverse and often unfamiliar landscape that accounts for only about 7% of the global private credit market.

We spoke with Christopher Botsford, founding partner of ADM Capital, to delve deeper into the APAC private credit market and the opportunities it presents as well as its key differentiators from the American and European regions. With over three decades of experience in the area, Chris shares his approach to navigating this dynamic market and strategies for successful credit investing in one of the world’s most vibrant economic areas.

Peter Antoszyk: Welcome to Private Market Talks, a Proskauer podcast. I’m your host, Peter Antoszyk. Today, my guest is Chris Botsford of ADM Capital. Chris is the founding partner as well as a member of the executive committee and voting member of ADM Capital’s Investment Advisory Committee. Prior to establishing ADM Capital in 1998, Chris ran the Asia Pacific regional debt and derivatives operation for Republic National Bank of New York. The Asia Pacific is an area of immense opportunity and strategic importance for credit investors worldwide. However, it is also a complex, diverse and often unfamiliar landscape with unique challenges and opportunities across its many markets.

Today, we’ll explore how Chris and his team navigate this dynamic region. As with all our episodes, you can get a full transcript of this episode and other helpful information at privatemarkettalks.com. And if you enjoy this episode, drop us a note. We’d love to hear from you. And now, my conversation with Chris Botsford of ADM Capital. Chris, welcome to Private Market Talks.

Chris Botsford: Hi Peter. Thank you very much for having me on your podcast. It’s a great honor to be here amongst so many great people that you’ve interviewed before.

Peter Antoszyk: Well, it's great to have you here, Chris. And before we get into the credit investing environment in APAC, and ADM Capital specifically, can you put in perspective the investment opportunity?

Chris Botsford: Yeah. Sure. Asia is increasingly bifurcated, I guess like the world is geopolitically, and there's a sort of China camp and a Western camp. And then, there are people that are very successful at sitting in the middle, and probably first amongst those would be Singapore. Above all, what's dominant is an incredible entrepreneurial flair and work ethic. And so increasingly over the past 20 years, it's become the engine room of growth globally and the factory for the world's products. That is highly likely to carry on. In fact, I was in mainland China last week at the Canton Fair, and to see the cost competitiveness of so many products is unbelievable. Until you've been there and seen the scale of what's going on, it's really hard to take into account what really is happening here. And then, I went off to Thailand, and you see again a lot of new industrial activity, a lot of development, a lot of things really changing, happening and improving. And I think it's probably the most exciting place and exciting time to be here. It's just fantastic. Specifically, for what we do, we've got global growth over here, probably 50% or so of global GDP. And yet, of private credit, I think at the moment Asia represents something like six or seven percent. So, there's a misconnect between what's happening here in the economy and where we've got to with private credit. And I think that, for us, means we've got a lot of work to do and it's a really exciting opportunity.

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Peter Antoszyk: Why don't you think private credit has expanded faster in the region?

Chris Botsford: I think the reason perhaps that the private credit hasn't expanded as fast as it has in the West, and particularly the U.S., is because it is quite fragmented in terms of legal structure and quite complicated. And that means that, I suppose, there are certain barriers, funnily enough not to entry, because anybody can come and lend out money, but barriers to exit with your money back. And having been here, ADM Capital's been around for the past 25 years, we've seen a few things, we've learned a few tricks. There are a lot of interesting facets to lending money around Asia.

Peter Antoszyk: I can't wait to hear about some of those tricks. But before we get to that, in addition to the diversity of the region and the legal structures, what other barriers are there to entry?

Chris Botsford: I think one has to break up private credit into different parts. So if I look in the West, generally, in the States particularly, one looks at different segments. So, the biggest is sponsor finance, and that's driven by the private credit, the private equity market, and comes alongside it. And it's almost like deals are precooked, because you trust your private equity partner and then they want leverage either to take out capital from the company or possibly from expansion. And that's a really nice, self-contained business model, which is very efficient. In Asia, outside particularly Australia, the sponsor finance has been very limited. And so, what we're looking at is a very different sort of business which is much more driven by the inefficiencies of the banking system. And if we look at breaking down what's going on in the credit world in Asia, it's dominated by the banks and the banks are dominated either by family-controlled companies or by state-controlled companies. They tend to operate in a domain where they've got a comfort zone, and when they get out of the comfort zone, it's very difficult to get stuff done. So, if you look at, really, the penetration of private credit is all about where the banks don't want to go. Now, it used to be the international banks, the Credit Suisses and so on, were very good at filling that space, particularly for larger transactions. With the demise of some of those banks, particularly Credit Suisse, and with the repatriation of capital back to Europe, back to the States to support their domestic businesses, that's left a bit of a void. And where we as ADM Capital are is in a sort of missing middle. We're below where the bigger banks will go, which is generally 100 million plus, and that's where the bigger companies who've been doing private credit with brand names that are all over the world, they've come into that market, and the bottom end where, really, it's too complicated, too fiddly to do stuff. We're in that missing middle, and we tend to always examine, "Why are we so lucky to be looking at this deal? Why aren't banks in there? Why aren't other people in there?" And it's that missing middle and the cross-border element, for example, that really ends up being the sweet spot. And if you look at our deals, there's always a reason why there isn't somebody else in there.

Peter Antoszyk: Given the fact that the APAC region has historically been dominated by the banks, how are you able to break into the market?

Chris Botsford: If I go back to the start of ADM, we commenced business back in ‘98, which was just at the tail end of the Asia financial crisis. Everything, pretty much, was bankrupt. People had stopped doing research, particularly on equities, because most of the equities had very little value left. When I went to Thailand, most people couldn’t even afford to put the lights on, for example, so you’ve got to imagine that context. And we went round and we talked to people that were holding this distressed debt, and we thought, “What a wonderful opportunity. There’s no information, loads of sellers, must be money to be made.” So, we went round trying to set up a fund and what we found was pretty obvious. Everyone said, “You got to be mad if you think we’re going to give you money to go and buy more of this distressed debt that our balance sheet is full of.” So, we went back to the drawing board and we came up with an idea, which was to turn it on its head and say, “Why don’t you in specie your bad debt, your distressed debt, into our fund and we give back units in our fund.” People liked that and they said, “Well, how much is my distress worth compared to somebody else’s?” So, we developed a grid system by which we could put relative valuations on everybody’s distress. And we ended up, if you like being given lots of holdings of all sorts of things all over Asia, and what we started to do was to pick apart, using the trust documents, using all the different things we had, the collateral agreements, how do people circumvent? How did things go astray? What was the information? What were our rights? Where was the legal system good? And we learnt an awful lot. And through that, when, finally, people gave us money to manage, we knew so much about the structure of these things. We were able to put together a lending structure with the new money that I think really helped us to be much more robust when problems happened, and problems do happen.

Peter Antoszyk: And so, what did you learn?

Chris Botsford: Well, it's very much dependent on which country you're in. But if I take away the biggest learnings, one was really to be a friend to the borrower. Ever since then, our first idea was that we should become, if you like, unpaid advisors to the borrower. "Why do you need our, relatively, quite costly money, against what you could get from a bank? What's the issue? What's the problem? What's burning you up?" And then, we would work with them to structure borrowing, with suitable collateral that wasn't, if things turned down, going to hurt them that much to give them time to recover, to allow them flexibility to move on, but without allowing them to do whatever they wanted. So, to put constraints in which would prevent the kind of decisions they'd made before the crisis where they went off and bought golf courses or other, you know, ego projects. So, we had the constraints, but without sufficient restriction that, if tomorrow another downturn happened, like COVID happened, that we would force them into bankruptcy. So, the biggest decision we made was really, instead of taking other people's deals, was to work very closely with the borrowers and understand the issue and structure a product around them. Expensive to do, but it's been very rewarding over the past 25 years.

Peter Antoszyk: In addition to having been in the market for the past 25 years and having the benefit of establishing relationships, and we know how important relationships are in private credit in the APAC region, what would you say are your other differentiators?

Chris Botsford: I think what differentiates this from others is first, (in general) we don't use leverage and that gives us time. So if you have a downturn, if you have a situation like COVID or rates rising, you're not going to be in a position where you've got to pour money into somebody else's interest obligation. So, it gives you time and time gives you flexibility. Secondly, we tend to do our own deals. We've carried on doing that. 85% of our deals are originated directly with the borrower or non-traditional channels. Thirdly, we take interest on things like ESG, and inside the discussion we have with the borrower, we discuss with them their approach to ESG, and can we help them to understand their own position. And that's partly because we think it's the right thing to do, and because we're having a dialogue with the borrower, we can raise the issue. If I was buying a deal, or a part share or a syndication from a bank, I don't have that dialogue. I can't speak to the borrower and ask them why they don't understand their own carbon footprint or their water usage, why they don't have more efficiency in what they're doing. Because we originated our own deals, I can have that discussion. And then, we can blend in to our lending, perhaps, additional money to improve their ESG outlook. And I hear some people saying, "Well, why bother?" But I can tell you that, actually, it really helps us get refinanced. It helps the company attract new money and it positions them in a far better way competitively. I'll give you a case in point. And that is we financed a couple of call centers, BPOs, in the Philippines near the old Clark Air Force Base. And we insisted that the group borrowing the money put in sufficient green awareness, double glazing and so on, that they got a LEED certification. They couldn't understand why we did it, but we lent them additional money; they got LEED certification. Because they had LEED certification, they were the only BPO at the time to have it, they got international clients coming in and leasing their space because their carbon footprint was something of concern to them. Because they had international brand names, they were able to sell the buildings at a premium to where their other domestic counterparts were. So, it's win, win, win. Really nice outcome and there's lots of examples like that. So, it's not just for the benefit of a nebulous world. It's absolute, tangible financial return.

I think the awareness out here is growing. Sadly, it's still relatively new, or the awareness is relatively new, compared to where one would be in the U.S. or perhaps Europe. But it's very encouraging to see the response, and most of our borrowers who we've had this sort of outcome with are now ambassadors for ADM Capital and they are willing to be a referee or, indeed, call up their friends and say, "I'll tell you what. ADM may be slightly more expensive, but you get all this free help to move your company into a better space and that's terrific."

Peter Antoszyk: So, I'm curious. Because APAC is such a diverse region, how you are allocating capital across geographies?

Chris Botsford: I mean it's an interesting question we get asked a lot, but actually quite a lot of what we do is cross border, and then it's which geography we're talking about. A case in point is we financed a modular housing company in Vietnam and they built these amazing modules and they ship them off to places and they can build a 20-story hotel in three months if you've got the cement base. Incredible. And they were doing a development in Auckland, New Zealand, 176 apartments. And during COVID, they had some financial squeeze. We put the money in to help them and they had an off-take backstop from the New Zealand government. And so effectively, we're putting money into Vietnam, but the repayment source is backed by the New Zealand government. Do we call that New Zealand? Do we call it Vietnam? Now we're looking at other contracts in Australia, in the UK. We work very well with them as partners. We've got very good understanding on how everything works, so it becomes almost global how we look at these things. So, it's quite hard to just say, "Well, that's a Vietnamese product," because we take very good comfort that we've got not only New Zealand, but also Vietnam and maybe other places, too. And that's pretty typical across the portfolio.

Peter Antoszyk: Are there countries that you will avoid?

Chris Botsford: Well, the big elephant in the room, literally around us, I suppose, is China. And in general, we're doing still China outbound and that's still a very attractive business, and we are, unlike perhaps some others, take comfort from collateral in China. So, we see it as a double benefit that we have the collateral outside. Plus, we have strong comfort in what goes on in China and we're very close to China. But I'd say outside that, we're always looking at the political risk. We're always looking at what can happen next and, above all, how do we get repaid. So, if a country has gone out of fashion for whatever reason or liquidity has gone extremely tight, so we're allowed to get in there, we got to look at what's going to change that situation such that in the future, we can get repaid. And if we can't see a way through that, either through perhaps an equity placement or local banks getting comfortable to an end product, if we finished a factory or something, then probably we won't lend, because we can't get our money back and then we become equity. And that's not what we or our investors want.

Peter Antoszyk: Second only to China is India and I'd love to hear your strategy for India.

Chris Botsford: We've been in India for many years. We've done a lot of business there over time and, thankfully, got our money back and got in again. And there's so many wonderful people, wonderful things, wonderful energy. Also, on the negative, there's a lot of money gone in there, because as the China opportunity has scaled back, a lot of people that were looking at Asia are looking at India. And now it's pretty close to the fourth biggest economy. And the growth is exceptional, and you've got a pretty strong government. It is the country of choice for Asia. So, there's a lot of money chasing the deals. However, because we've got very good relationships, we get shown things that, perhaps in the format they come to us, are not something we'd take. But we work with the borrower to find something that they find acceptable. And because there's a certain amount of trust, perhaps they'll give us collateral that they wouldn't give to someone else. So, we've done some pretty interesting deals. We lent to one finance company, and that finance company was lending, it used to be, mainly to the student population. And when we got involved or started the discussion, they were about 85% male, because that's where most of the student population unfortunately is, it's dominated by the males. And we insisted that they went to a gender balance, and as you'd expect, their loan losses went down. And we structured a deal that it made a lot of sense for them to do that. And because they've done that, they then attracted a lot of new capital that otherwise wouldn't have gone into them because they had such a gender imbalance. So again, it was another case of win, win, win. We took something that perhaps other people would have shied away from. We saw it as an opportunity. We talked to them. We built up the trust and the understanding. Initially, there was resistance, and we ended up with a really nice outcome, I think, on that one, a very nice IRR. So, win, win.

It’s always changing, which is why it’s so interesting, so exciting and so uncorrelated to what’s going on in the global market. And it can be opportunities come up, because perhaps the head of a central bank has said something like, “In Korea, the banking system is quite tight at the moment, has remained so for a while.” And that leads to opportunities because there isn’t financing in, perhaps, a sector where there should be. It could be that something’s out of fashion. For example, China, where people have pulled back around the world, so there is a lack of capital going and supporting China outbound, because people don’t want China there. It could be that there’s a trust thing, that if there’s a cross-border transaction, a company wanting to acquire one in the region particularly, then there’s only a certain number of people they can trust, because if they go to their regular bank, perhaps that leaks out, and then they’ve got a competitive bid. So, the deals come from all over the place, and then you’re looking more at who the borrower is and whether you can trust them, rather than looking at specific situations.

Peter Antoszyk: Do you tend to focus on any particular industries?

Chris Botsford: Not really. If you have enough collateral, and that can be things producing cash flow or assets that you can get a hold of and then sell off over time, then for us, we’re reasonably comfortable. What we’re always looking at is, “What is the chance of that happening? How are we going to get paid?” And if an industry is something where the half-life of the product — so particularly, you know, “asset light”-type products, where you’re dependent on goodwill or a brand name or software or something like that — you’ve got to be pretty sure that somebody else is going to come and rescue you. Because if you have to take control and all you’ve got is some IP, and that IP has got a shelf life that’s quite short, then you’re lending without collateral. So, I guess we prefer hard assets in general, but we look at all sorts of things.

Peter Antoszyk: There was a recent headline in the *Wall Street Journal*, and it was entitled, “Barbarians at the Gate: Private Credit Storms Japan.” What are you seeing in Japan?

Chris Botsford: Well, Japan's very interesting. The private credit side, you're generating probably seven, eight percent net returns if you're lucky. And, again, you've got a fairly traditional banking system. You've got a lot of new interest in capital markets and perhaps a resurgence of interest in Japan, perhaps driven by the yen being so cheap and people looking for other areas apart from China to deploy capital. But if you take that seven or eight percent and then you add on your hedging spread back into U.S. dollars, you get back to 11% or so. Not a bad place to be. And I think that the difficulty there is for outsiders to come in, everything is Japanese. Japanese have a very special way of looking at things. Relationships are extremely important. You've got to find the right manager to put your money with. We've done quite a bit there. We're always looking at what we bring to the table. Our deals have mainly been cross border. And driven by a facet that a foreigner coming in to buy property or buy a company may not be that welcome or understood by the domestic banking system. And so, that leaves the gap. Once they've been there for a couple of years, once they prove their value, once they integrate into "Japan, Inc.," then they are lent to at extremely cheap rates. But until you're accepted, you've got this barrier to entry, and that's the opportunity.

Peter Antoszyk: So, as you mentioned earlier, one of the keys is getting your money back. And your method is having a good relationship with the borrower, making sure you're working with them and having long-dated capital unlevered so that if you need time to support the business, you have the time. I'm curious though, in those circumstances, what is your experience where things don't work? What are your legal consideration and mitigation strategies?

Chris Botsford: It's funny, and part of this is going back through history that when we picked up all these bits and pieces of debt after the Asia financial crisis, we would sometimes attend these big meetings where you had syndicates of lenders, and each lender would bring a lawyer along. And trying to move forward in any kind of robust way in a direction, whatever it may be, whether that was to liquidate the company, lend them more money or try and help them in some way, proved impossible. So, just as designing the product on the way in is so much easier if you're just having a bilateral discussion. When someone gets into trouble — and they do, and COVID, you know, led to lots of issues — if you've got just you and the borrower, you can have a very sensible discussion about what can be done. Are there friends, family that can put in money? Are there non-core assets that can be sold? Are there other things that can be done? With a big syndicate, there tends to be more of this legal approach, "Right, let's sue them. Let's put the case in court." As soon as you've done that, you've embarrassed the borrower, and then there's this great hostility. So, you've closed down a lot of information. And you've closed down access, friends, family and people hide things. It becomes a really difficult outcome. So, in 90% of the cases where there has been some short fall — and it's not that frequent, luckily — we will have a conversation. We will work with them, and we'll go through and find a strategy to move forwards. And usually, over time, like after COVID, things pick up, and new money comes in, and the borrower gets back on their feet. The one-time characteristic where that doesn't happen is when a borrower is being difficult, or perhaps fraudulent, to be stronger about it, and in that case, one has to go to litigation or come up with something, exercise a personal guarantee or whatever. And, what we're looking at it, from all these years — and we've bought portfolios of NPL, so we've been through the courts; we're pretty comfortable with it — is really finding a way through where there is a compromise. But if not, then you've got to foreclose. You take the asset, bearing in mind if they're cross border, sometimes the part of the asset, part of the collateral is actually in the West. Then, your foreclosure process is pretty clear. Maybe an asset here in Hong Kong, Singapore, where the legal system is pretty clear. You move on, you clear the asset, and then you go after the borrower for the rest. But it's pretty rare.

Peter Antoszyk: Sure, but as you point out, the legal systems vary considerably between regions. How do you factor that in your underwriting?

Chris Botsford: When someone offers a certain piece of collateral, you look at the value of that collateral to the deal based on our experience of how easy it would be to get hold of it and sell it. And I'll give you an example, there's one time we bought a portfolio of NPLs from a bank in Kuala Lumpur. And we looked through those NPLs and non-performing assets because they'd foreclosed on some of the assets but hadn't sold them. And we looked through how long it takes to go through each state, because Malaysia's a federal system, each state, and it varies from about 18 months in KLCC, Kuala Lumpur, and then out by the time you got Sabah, it's about 10 years. And things have improved a lot since then. But then, you would discount things. You'd look at discounted payoffs, you'd look at availability of credit, and you'd come up with a model on how you value everything. And we just use the same kind of grid, same kind of matrix, and then if someone's offering you shares as collateral, you discount it, depending on the language in there, the ability to be diluted. If you're looking at receivables, you've got collectability, inventory and so on. And you've got a grid from your experience, what works, what doesn't.

Peter Antoszyk: When you're talking to investors or potential investors, what would you say are the top three things that you tell them to keep in mind when they're considering investing in APAC or an APAC-managed fund?

Chris Botsford: I think above all for us, and it differentiates us, is to be wary of credit above you. If someone's putting leverage on, that could cause a lot of problems because with time, with the growth that's happening in Asia — and if you look at asset prices in general in Asia, there's plenty of upside, and indeed, the growth perhaps outside China, and Hong Kong a little bit, has been spectacular and will carry on being there. So, if you've got a lot of real estate, for example, as collateral, if you've got time, it's on your side. But if you've got leverage above you, you're going to get taken out, and that's not going to help you. I think having a manager that deals directly with the borrowers certainly is very useful because, again, when things go wrong, you want to have some kind of constructive dialogue, not very fragmented system of trying to work things out just because you do get things done. And I think people that have been here on the ground can really help you move forward and get you into the right sort of deals, get you into the right partnerships and so on. It's growing as an economy. It's growing as an area. Private credit is super small here, really, relative to the rest of the world, as we discussed — so, I'd encourage everyone to come and have a look.

Peter Antoszyk: Fundraising in the APAC region has been down for the last couple years. So, what are you seeing?

Chris Botsford: It's no question. It's one of the hardest markets we've seen in the past 25 years, but that's not because of the lack of opportunity. I think there's just a number of factors that have influenced what's going on. Obviously, geopolitics, and that's really had a big impact on what's gone on in China. But higher interest rates out here, difficulty of travel through COVID — I think that not being able to come to an area like Asia made people uncomfortable, so when you're looking to re-up or to make a new investment, if you haven't been out here a few times, you're less likely to do it. I think the strength of the opportunity in the States has been pretty dominant. However, I think because it's been so under invested, there's plenty of things that would excite people. We all buy products made in Asia. That hasn't stopped. So, I would encourage everyone to come and have another look.

Peter Antoszyk: I think your point is well taken that investors looking to penetrate the APAC region have to be willing to devote a lot of time to get to know the various jurisdictions, and how to navigate their complexities.

Chris Botsford: Or you'd latch onto the banks. But then what's your advantage? And when it goes wrong, these big, syndicated workouts are so difficult here because you haven't got the legal system to back you up. The banking system here is indeed quite rigid. And they do a lot. They insist upon amortizations and a lot of covenants and they're very strict on them. We insist on a lot of covenants, but that's mainly to have our own control, and then we can always free them up. But as far as cash flow is concerned, we're relatively flexible. We understand that not everybody gets it right and markets go up and down, and there are always issues. That's the nature of the place.

Peter Antoszyk: And I suppose that we think of covenants here in the States, not only as an early warning system, but a trigger to allow the earlier exercise of remedies, and I get the sense that your covenants are there because you want to start that conversation, but not just start it, but start it much, much earlier, and the conversations go on much, much longer. And that's because the legal systems there are less predictable.

Chris Botsford: Peter, you should come over here and work with us. You've got it.

Peter Antoszyk: I figured it out. But listen, this has been a fascinating conversation. Obviously, the APAC region is rich with possibilities. It's getting a lot of attention from investors, so getting your insights as someone who's been there for a fairly long period of time has been great. Appreciate you joining us on Private Market Talks.

Chris Botsford: Thank you. Thanks all!

Peter Antoszyk: And thank you, listeners, for listening to this episode of Private Market Talks.

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