

Local network

Jonas Hybinette, co-founder and co-head of business development at RoundShield, answers SCI's questions.

Q: RoundShield, a private investment firm specialising in asset-backed credit across Western European markets, recently closed its fifth European special opportunities fund (Fund V) with over US\$1bn in commitments - surpassing its fundraising target by nearly US\$150m. Why does the firm focus on Western Europe and how do you identify opportunities in these jurisdictions?

A: Driss Benkirane, our managing partner, and I worked in similar roles at large private equity and credit firms in the US for several years. When we looked at Western Europe, we saw a less competitive private credit market than in the US, mainly because banks have historically dominated Europe.

Post-2008 regulations like Basel 4 have pulled banks back, creating space for alternative capital providers like us. Europe's fragmentation - different legal systems, languages and cultures - adds complexity and creates opportunities for firms like ours that have invested in building local networks.

That's how we find deals and avoid the competition that often saturates larger markets. Our sweet spot is in transitional deals between €30m-€120m - generally too complex for the banks and below the minimum size threshold for the larger private debt firms, leaving us facing less competition.

Q: What key factors contributed to Fund V's success?

A: A major factor was the strong support from our existing LP base, with over 80% of capital coming from repeat investors. Investors have recognised the ongoing opportunities in Europe and the advantages of private credit in this new interest rate environment. Our solid track record and experienced team - with nearly 25 years of market expertise - also contributed to investor confidence, especially in navigating Europe's complex legal and regulatory landscape.

Q: How do you plan to deploy this fund in asset-backed private credit investments?

A: We're focusing on key sectors like hospitality, student housing, residential, social and renewable energy infrastructure, specialty finance and, selectively, commercial real estate. Residential real estate (RRE) remains attractive due to a supply-demand imbalance exacerbated by the pandemic, inflation and delays in construction.

Given the current fiscal framework in most of our target jurisdictions, we also continue to see positive fundamentals in renewable energy and social infrastructure. Although the fund has a high level of capital structure flexibility, we prioritise senior-secured positions with attractive loan-to-value ratios to ensure downside protection.

Q: Fund V is classified under Article 8 of the EU's Sustainable Finance Disclosure Regulation. How do you integrate sustainability risks into your investment decisions?

A: Sustainability is central to our process, and we evaluate ESG factors when considering investments. We assess the borrower's sustainability policies and encourage improvements where possible. While we can't dictate changes like an equity owner, we still work to support ESG progress, and these considerations are always part of our final investment recommendations.

Q: What emerging ABF trends do you foresee flourishing in Europe?

A: We expect alternative credit opportunities to persist, as banks aren't likely to return to pre-2008 lending levels. With interest rates significantly higher than just a couple of years ago, many capital structures need restructuring, creating opportunities for alternative lenders like us to step in. In CRE, a large maturity wall over the next few years will drive demand for alternative financing.

Q: Does the European ABF market present a comparable opportunity to the US?

A: Europe and the US are different markets, but the European opportunity is extremely compelling. The US has a much more efficient capital market, but Europe's fragmented nature creates inefficiencies that present opportunities for us.

Many businesses in Europe still rely heavily on banks for financing, unlike in the US, where alternative capital providers are more widely known and utilised. It will likely take a generation for Europe to catch up, but that creates a vacuum for players like us, offering strong risk-adjusted returns, mainly when focusing on fully asset-backed, senior-secured investments.

Q: What are the biggest challenges you're currently facing and how are you addressing them?

A: One key challenge is knowing when asset values, particularly in real estate, have bottomed out. We mitigate this by focusing on conservative LTV ratios, ensuring we can recover capital even if values drop. Additionally, shifts in real estate usage - accelerated by the pandemic - require us to carefully assess which sectors and submarkets will offer the best opportunities as the market adjusts.

Q: How do you see the firm evolving over the next five to 10 years?

A: Europe, especially Western Europe, will remain the focus of our business. I don't foresee that changing.

Our core business comes from an asset-backed mindset and any new funds will continue to focus on the broader asset-backed universe. I don't see us moving into corporate cashflow-based lending, for instance.

We'll continue providing asset-backed capital, but I see us evolving by offering capital at different costs, catering to more mature assets. This should be a natural transition, allowing us to meet investor demand for higher current income without straying from our core strategy.

This article was published in [Structured Credit Investor](#) on 17 October 2024.