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Andes Asset Manager Expands Midsize Firms Private Loans

By Eduardo Thomson

(Bloomberg) -- HMC Capital is expanding its private-lending operation in the Andean region, filling a void left by traditional banks as economic slowdowns and tighter regulations reduce financing options for medium-sized corporations.

The Santiago-based firm, founded in 2009 by former partners at financial-services company Larrain Vial, is planning to raise as much as $300 million in the next 12 to 18 months to make loans in that sector, expanding its portfolio to about $435 million, Chief Investment Officer Daniel Dancourt said in an interview from Lima.

HMC, which manages $10 billion split among several alternative-asset strategies, will try to raise money from institutions looking for investments that outperform government debt, which on average generates returns roughly 5 percentage points lower than private loans. In Peru, for example, that translates to about 8 percent in dollar terms, Dancourt said.

"Regulatory requirements after the 2008 crisis have made it more expensive for traditional banks to provide access to medium-sized companies," Dancourt said. "The economic cycle hasn't helped these companies either."

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Demand for private loans should benefit from recent deregulation in Chile that allows private pension fund managers, known locally as AFPs, to invest in alternative assets including private debt. The category has been booming. Assets in Chilean investment funds that focus on private debt surged to $1.62 billion as of June from just $37 million in 2011, according to data from the fund-managers association, Acafi.

A slowdown in traditional lending has helped spur growth in private loans. In Chile, traditional loans are picking up this year after several years of slow growth. Commercial lending rose 6.9 percent in September from a year earlier after 0.8 percent growth the year before. In Peru, lending to companies advanced 7.3 percent for the same period, but loans to medium-sized companies only increased 2.8 percent, according to data from the country's central bank.

And Colombia's commercial-lending growth slowed to 3.4 percent in September from 12 percent two years earlier and a peak of 29 percent in 2006, according to data from the nation's central bank.

Warning Signs

Growth in the industry has prompted red flags from some regulators. Chile's central bank, in its 2015 Financial Stability Report, dedicated a chapter to the surge of private debt, and warned that "parallel banking" faces the same risks as traditional banks. Globally the so-called shadow-banking industry totaled about $45 trillion in assets as of 2016, according to a report from the Financial Stability Board.

Dancourt says HMC provides money where traditional banks don’t. In Peru, rather than providing direct loans, HMC sometimes advises smaller companies on how to issue local bonds, which they acquire and trade in the secondary market. HMC also doesn’t use leverage to boost returns, so if companies were to default on their loans, only investors in the fund suffer losses, he said.