



TDC Insights:

The Potential of Technology in the Private Credit Market

The rapid pace of technological advancement and associated digital revolution that has impacted every sector and industry has resulted in a constantly evolving blend of risks and opportunities. As a growing Private Credit fund manager with over £170m of Assets Under Management, this is no different for Tosca Debt Capital ('TDC'). Being alive and receptive to the potential of relevant technology and data management is vital for any organisation looking to develop efficient processes, operations, and improved decision making.

As the UK's only regionally focused credit fund, our approach at TDC is based on local autonomy, speed of decision making and a relationship-driven focus. However, we are embracing innovative software platforms to inform and improve our operations allowing focus to remain on this core ethos. With this in mind, we have recently partnered with leading software provider Black Mountain to integrate a customised system to support fund operations.

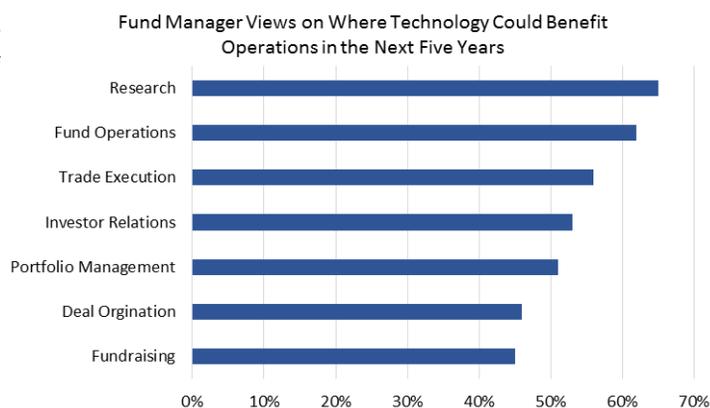
With no attachment to cumbersome legacy systems that can be present in some longer-standing organisations, the Black Mountain platform will supplement TDC's operations across the board. From investment origination through to portfolio management and investor reporting, the partnership with Black Mountain will ensure we are providing a best-in-class offering to both our investors and portfolio companies.

"Technology is influencing everything from which private credit managers LPs invest in to which companies receive credit financing to how fund managers run their back-office operations¹."

Portfolio Monitoring

The Black Mountain operating platform facilitates rapid analysis of large volumes of data and supports workflow processes throughout the lifecycle of an investment. This includes the creation of automated portfolio reporting to compliment and support current analysis, and provides access to granular level data at both an investment and portfolio level at any given point, in real time. According to Preqin, just 39% of private credit funds currently use portfolio monitoring software, despite investors repeatedly citing portfolio transparency and clarity of data as being a key selection criteria when it comes to asset allocation.

The increased automation of data capture, analysis and improved operational performance that Black Mountain offers ultimately frees up capacity for the side of investment management that cannot be automated – namely that of data interpretation and the exercising of judgement based on the output of this data.



Source: Preqin Fund Manager Survey, June 2018

Investment Origination

At the initial stage of the private credit investment lifecycle, the Black Mountain system provides a sophisticated CRM and origination platform to allow for the efficient capture and tracking of new investment opportunities. The platform ensures consistency of data recording and accurate monitoring of all aspects of the origination process, with the cloud-based system allowing latest pipeline and developments to be viewed from any location.

"The number of data points requested by LPs is set to significantly grow, best practice and process are increasingly valued as differentiators by LPs²."

¹Private credit: an industry on the move, Knect 365, April 2019

²Preqin, The Future of Alternatives, 2018

³SEI Preqin Survey of Private Debt Managers and Investors, 2018

Investor Reporting

Given private credit investors are looking for increasing levels of clarity and transparency when it comes to reporting and valuation, the use of third party platforms provides an independent, impartial verification of the methodology used to reach valuation figures. The independence of the valuation process is particularly important given the unlisted nature of private debt assets.

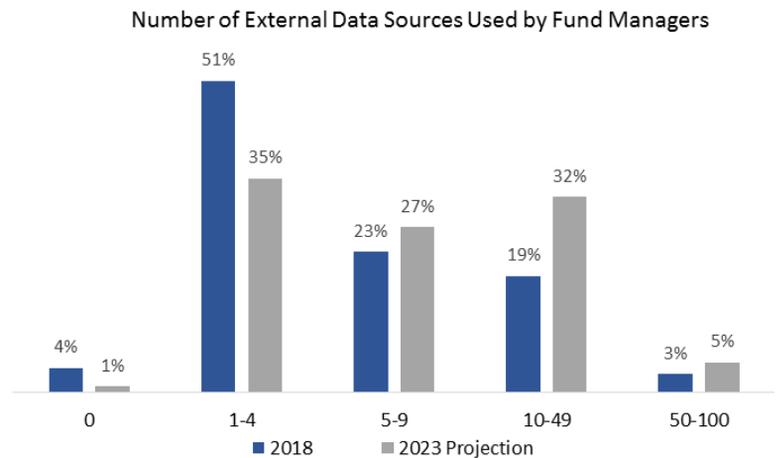
“Static client reports can take a quantum leap forward by channeling data through a central repository³.”

With 20 investments across two funds and the launch of Fund III imminent, Black Mountain’s platform will provide TDC with cutting edge reporting and monitoring systems that will support our key differentiator of being the UK’s only regionally focussed private credit fund. Putting in place best-in-class infrastructure at this relatively early-stage of TDC’s establishment will ensure we are providing both our investor base and portfolio companies with a first-rate offering that is fit for purpose both in the short term, and as the business grows and develops over time.

Speed of Decision-making

The power and potential of clear, accurate and concise data is huge. The benefit is principally felt through more informed, and subsequently improved, decision making. An ability to view the big picture whilst simultaneously appraise the finer aspects and details of a data set is immensely powerful. We expect the rise and increasing influence of “big data” to be no different in the private credit market, especially as both industry and individual fund data builds in light of the record fundraisings in recent years.

That being said, there are differing views in parts of the private credit market regarding just how far data analytics can take you in the deal origination and underwriting process. In the micro company segment of the market, where the lending model typically consists of a large number of small loans, broad data and credit scores can be one of the few sources available to the lender. However when the funding requirement reaches a certain size, just as important as quantitative aspects is understanding the qualitative features of the borrower, their place in the market and the associated security of the lend.



The unique nature of each investment means that data appraisal has to be combined with the softer and more personal evaluation of the borrower, rather than relying solely on hard data.

“The trick is to harness technology to not only process more data but also make better decisions³.”

TDC believe that the nature of private credit means that it will remain first and foremost a relationship-driven, people business, although ultimately, the most successful fund managers will be those that effectively combine and harness the potential of technology and data analytics allowing focus to remain on the traditional elements of credit appraisal and underwriting.

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