Corpay Institutional

Forward Points: Ideas from Corpay Institutional

By Andrew Shortreid,
Global Head of Corpay Institutional

Forward Points is an editorial series created by Corpay Institutional. It explores the practical challenges that alternative fund managers, investors, and service providers face as a result of their cross border investment activities, providing readers with novel insights and actionable strategies to address these challenges and enhance the way they think about their international activities.

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Forward Points I: Macro trends in global funds and institutional investment

By Andrew Shortreid, Global Head of Corpay Institutional

In this piece, Andrew Shortreid introduces Corpay Institutional, and expands on the broad trends in the global institutional space and implications for mid-market managers.

This transcript is based on our recent podcast. It has been edited for length and clarity.

Many mid-market managers are expanding into international markets, both for capital raising and investment activities. This diversification broadens the range of investment opportunities and potential for higher returns. It also naturally increases the potential for new risks, with foreign exchange risk at the top of the list.

Introducing Corpay Institutional

Corpay is a global non-bank provider of foreign exchange and currency risk management services, with 21,000 active clients.

Our institutional segment is a subset of the larger business, which has grown through a combination of acquisition and development of key professional areas.

We operate regionally from institutional FX desks based in London, Toronto, and Sydney, but our overall team is spread more broadly. We have local professionals working with institutional customers out of our branches in Jersey, Madrid, Dublin, Rome, Los Angeles, New York, Singapore, and other key financial hubs around the world.

We're a relatively new enterprise within the broader Corpay organization, but it's an area where we see a tremendous amount of growth. We know that there's a bright blue sky ahead for us as we put the resources of our business behind establishing ourselves in this industry vertical.

Our Vision

I expect that we will become, within a relatively short time, the go-to provider and trusted partner for FX risk management, payments, and alternative banking solutions to a broad subsection of the institutional mid-market.

That includes alternative funds, investors like family offices, and service providers like fund administrators and FX risk advisors. We are at present working with all these client groups, establishing strong foundational relationships from which to build on.

One of the ways we're building our practice is through creating trust and credibility within the marketplace. The product knowledge and industry expertise of our top-tier team is tremendous, in my view. The global breadth of products that we are able to offer is unmatched, and the innovative solutions we bring to meet the unique challenges and particular needs of this customer segment are critical differentiators for us.

Our scope

We look at the institutional business as comprising four distinct customer types.

- **Alternative funds:** Principally funds investing capital in private markets, such as private equity, private credit, private real estate, infrastructure and venture capital funds;
- **Global investors:** Family offices, asset managers and other institutional investors like pensions, foundations and endowments;
- **Service providers:** Fund administrators, placement agents, legal counsel and other providers who help to setup and operate fund structures, as well as some of the FX risk management advisors that work with clients in this space;
- **Supporting entities:** All of the ancillary entities that support, or are otherwise involved in, typical fund structures: feeders, SPVs[1], GPs[2] and management entities, as well as the portfolio companies owned by these funds.

We deal with everybody, from very large publicly-listed asset managers on national stock exchanges, to first-time fund managers that are just setting up. We provide a variety of services to large, globally renowned private equity firms and their portfolio companies, as well as to a large subset of the fund administration markets. We have great presence around the world in all of these asset classes. companies, doing a variety of services as well as a large subset of the fund administration markets. We have great presence around the world in all of these asset classes.

[1] Special Purpose Vehicles
[2] General Partnerships

Geographies

While we work with customers from each one of those areas in every region, there are some particular strengths that we see in different markets.

In APAC, for instance, we're quite active in real estate. In Europe, we're very strong in private equity, and in North America, it's a bit of a mix.

Each region has different strengths, based on the types of managers domiciled there and the particular asset allocation demands of their client base from year to year.

Trending: Increasing interest in diversification and international investment

There are number of factors that are driving this change in behavior from investors and managers, and it's been a slow build over a long period of time.

It's one of those 'gradually and then suddenly' scenarios: whereby something happens to rapidly bring new ideas and new trends to the fore.

First, there is a tremendous amount of capital sloshing around in the world. The liquidity that has been created by central banks and capital markets over the last, say, 15 years, has been nothing short of astronomical. You see it in terms of the debts and the balances that governments and central banks hold. Though we've recently gone through a period of tightening monetary conditions, that capital hasn't evaporated and is always looking for a home.

So the global stock of capital to be invested is significantly higher today than it was, or has been, at any point in history.

Second, the period of very low interest rates that we experienced after the global financial crisis and until fairly recently, incentivized investors to look to different avenues for generating returns. In many cases, investors and asset managers were interested in swapping out liquidity and marketability for additional risk premiums like illiquidity and duration.

Over the protracted period of low interest rates, managers were becoming more experienced—more seasoned—in those new strategies.

EY published a report towards the end of 2023 where they looked at private debt markets in North America. In 2012, there was about $250 million allocated to private debt strategies, direct lending and other private credit-related investments. EY estimated that by the end of 2023, that will have grown to almost a trillion dollars. So in about 12 years, you have a 40X growth of an asset class.[3]

That's been replicated to a lesser extent in other areas of the alternative investment space, but certainly not as dramatically anywhere else, where an asset class grew from effectively nothing to a trillion-dollar industry in just over a decade. And we expect that this rapid growth will continue.

So: lots of capital; more experienced managers; and a pool of domestic opportunities that doesn't necessarily satisfy the appetite of managers looking to grow. As a result, these managers have started to look internationally, both to source new investment capital and as a way to uncover new and interesting deployment opportunities.

The increased demand for foreign asset classes also increases risk.

Those are a couple of the reasons why we're starting to see a continued increase, continued interest in cross-border investment opportunities and particularly in the alternative fund space.

Trending: Market growth in alternative funds: due to more regulatory oversight?

I think the growth we've observed in the private capital space is largely a result of macroeconomic and regulatory changes, and how these factors have impacted risk appetite at global financial institutions. This has created a vacuum in the financial economy that private investors have happily emerged to fill.

Certainly banks are more conservative in the current market environment, and the regulatory screws are tightening. In my view, it has to do with a slowdown in the global economy: rates being higher, debt service ratios getting tighter, and leverage being fairly high within the system—within the commercial lending markets as well as for consumers, and in other areas as well.

Regulators want to protect the financial system; banks want to protect their balance sheets. And I think these are common discussion points at the higher levels of risk committees now.

[3] https://www.ey.com/en_lu/insights/wealth-asset-management/private-debt-an-expected-but-uncertain-golden-moment

I also think that, from the standpoint of credit underwriters at the banks, credit quality has generally been deteriorating, to a point where under their more conservative metrics, they're not as keen to extend credit to private enterprise.

It's unfortunate, but it's also an opportunity for direct lenders and private credit funds to fill that gap.

We're seeing this at the mid-market level, where smart investors with smart ideas are able to put money to work and generate relatively outsized returns, because the growth opportunities in that segment of the market are so much higher.

We see it in Private Equity (PE) funds, where the valuations on buyouts or growth equity investments are a lot more attractive than, perhaps, at the higher end of the market. Investors have a lot more leverage in terms of negotiating deals with the mid-market segment than with the larger 'prestige assets' out there. How well a fund does on its exits is going to be driven in part by the valuations at which it can acquire those assets.

Trending: private credit

I think the most significant investment trend—that has been part of every conversation this past year—is private credit.

As I noted earlier, banks are pulling back, creating a bit of a vacuum in the funding space. In some cases, we've seen banks telling companies that they're not going to renew their credit facilities and sending them to alternative providers of credit.

> ...[W]e saw more and more investors moving from public markets to private markets, seeking to generate higher returns in those sectors of the financial marketplace.

Private capital sources are comprising an increasing share of small and mid-cap company financing needs. Large investors, like pension funds who have been very vocal about reducing hedge fund allocations due to fees and performance issues, have been similarly vocal about their intentions to increase investments in private markets.

In private equity, the big trends have been related to secondaries and NAV[4] lending. These areas have been growing extremely fast in North America and in other regions as well.

Given where the public markets have been the last few years, valuations are a bit compressed and the IPO market has been cool. We've not seen as many PE exits as I think were hoped for, and as a result there is a large stock of un-exited companies that are still being groomed for either a strategic buyer or an IPO.

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They are still owned by PE funds which in some cases are facing time constraints to return capital. Sideways markets and sluggish economies aren't great for PE funds that ideally want to see quick value creation and capital returns to maximize investor IRRs[5]. But they are capital-constrained and can't call fresh funds, so they are either borrowing funds to keep injecting growth capital or selling down some positions at discounts to get liquidity.

Trending: Follow-on and secondary investments

A follow on investment is when you make a subsequent investment into an investment in your portfolio at a later stage to continue to provide growth capital to the business.

A secondary investment is essentially a transaction whereby one private equity fund buys a portfolio asset from another private equity fund, or something of a similar structure.

Secondary transactions are useful on both sides. The selling fund may like it because they need to exit a position for liquidity purposes, or because it's reaching end-of-life, or for a few other reasons. The buyers like secondaries because they are usually getting relatively mature assets and their expected holding period is going to be shorter for a secondary position than with a primary PE investment, in the range of three or four years versus seven or ten.

[4] Net Asset Value
[5] Internal rates of return

Trending: Cleantech; impact investment

While the number of funds being raised in these areas is increasing, it's still very small from an overall market standpoint: in terms of both numbers and the capital that would be allocated to them. But these concepts are important to many institutions and the adoption of investment principles in this area is certainly growing.

It's important that we frame this trend within the context of the market. Capital raising in the private funds market or the alternative funds space has been dominated in the last couple of years by large players, in terms of total dollars raised.

It has been a bit tougher for smaller funds, startup funds, first-time funds, to raise significant amounts, especially over the last 12 or 18 months. A lot of the funds looking at impact investments are still relatively niche, and there aren't many managers with a long track record in this space, either.

So, the big guys who can raise big funds aren't out there raising a $5 billion cleantech fund because they can't realistically deploy it. There's just not enough assets to buy. And there aren't enough smaller guys with the track records and market pedigree to be successful in raising new funds to make a dent in the overall industry figures.

The investments are there, just not at the same level as the more traditional targets. The reality is the market is still very small in the context of the broader economy.

What Corpay Institutional offers

First and foremost, let's talk about our customers. We're dealing with tremendously sharp professionals in this industry. These are people who are finding ways to do difficult things really well every day, and the tolerance that they have for things like bureaucracy, or ineffectiveness in service providers, is often incredibly low.

So when we are working with them, defining and scoping their needs, understanding their business, and determining how we can help, we are doing so with a clear focus on speed and flexibility, and ensuring that we can always meet their needs.

We tailor our approach, our offering, to exactly what they need and deliver on that in a time frame that no traditional financial institution can really hold a candle to.

> In our commercial approach,...we are always looking for ways to say 'yes' to the business.
>
> ...[W]e provide a focused expertise in FX markets and the related areas.
>
> We focus on doing just one thing and doing it extraordinarily well.

In our commercial approach to doing business in this space, we are always looking for ways to say yes to the business.

We have a commercial, responsive team across our entire organizational structure. Onboarding, risk, credit underwriting for hedging lines, our regulatory and compliance onboarding teams, all are aligned in terms of our desire and our focus on ensuring that we can make this as smooth a process as possible for new and existing clients.

Another thing I think we do really, really well is this: we provide a focused expertise in FX markets and the related areas. We don't have any other products that we're looking to sell. There's no investment banking, there's no advisory relationships, there's no insurance, wealth management type businesses, that we're looking to cross-promote.

We focus on doing just one thing and doing it extraordinarily well.

Our people are a critical asset. We have an exceptional team with global presence. We're able to source a tremendous wealth of knowledge and experience from our entire business to help solve problems for our customers in real time.

Finally, another thing that's incredibly important to our customers in this space, is having an institutional grade counterparty: working with a broker with the financial strength and stability of a bank, but the agility and commercial approach of a fintech in terms of our product set and technology stack; and our ability to deliver tailored credit offerings and a sophisticated product suite in a very responsive way.

From the theoretical to the practical: What's next?

A lot of what we talked about today is theoretical in nature: about the institutional marketplace, about global investment trends and why the appetite for international investment opportunities is growing. In our series, we will start to delve into more practical aspects of implementing FX risk management strategies.

How do we scope and design, assess exposures and then understand what our tolerance for managing those might look like? That's where we'll take this next.

About the author

Andrew Shortreid
SVP, Global Head of Corpay Institutional

With over 20 years' experience across a range of capital market verticals, Andrew is a dynamic, well-regarded and experienced investment management professional. Over the course of his career, Andrew has founded and grown two successful businesses with private equity partners in the asset management space, was the lead Portfolio Manager at a top ranked multi-strategy hedge fund, and most recently was the CFO of one of North America's largest litigation finance funds. Andrew's unique mix of entrepreneurial, institutional and sales leadership experience make him well suited to lead Corpay's Global Institutional Sales team.

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Read more here

To learn more about Corpay, or to set a meeting with Andrew and his global team, please connect with us for a call-back.

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About Corpay Institutional

Corpay Cross-Border's Institutional team supports practitioners across the spectrum of the international funds and institutional sector, providing a portfolio of foreign exchange, global payments and currency risk management solutions tailored to their unique needs.

The team operates from institutional FX desks based in London, Toronto, and Sydney, with local professionals working with institutional customers from branches in Jersey, Madrid, Dublin, Rome, Los Angeles, New York, Singapore, and other key financial hubs around the world.

About Corpay

Corpay, Inc. (NYSE: CPAY) is a global S&P500 corporate payments company that helps businesses and consumers pay expenses in a simple, controlled manner. Corpay's suite of modern payment solutions help its customers better manage vehicle-related expenses (such as fueling and parking), travel expenses (e.g. hotel bookings) and payables (e.g. paying vendors). This results in our customers saving time and ultimately spending less.

Corpay Cross-Border refers to a group of legal entities owned and operated by Corpay, Inc. Global businesses and institutions trust Corpay Cross-Border Solutions to power their international payments, execute plans to manage their currency risk and support their growth around the world. We aim to deliver unmatched service and expertise with respect to moving money globally.

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