SCRITTO IL 14 NOVEMBRE 2016.

Intervista a Etienne Boillot, CEO & Co-Founder di Eiffel eCapital

– Etienne, first of all, tell us about your professional experience as one of Europe's leading managers in the new asset class of P2P loans: how and when did you originally get involved in this?

EB – I became involved in the P2P asset class completely "by accident" when a friend introduced me to Renaud Laplanche, the founder of Lending Club, in April of 2009. Immediately after the meeting I opened a personal account and started out as a lender on his platform. At the time I was managing a single family office for a prominent French industrialist. Of course, the market and the concept were too young for us to allocate family office capital, but I followed the development of Lending Club and others in the industry and by 2011 we decided that there was sufficient track record to begin to make real commitments to the asset class. We were among the first and largest investors in Lending Club's in house "funds". We then began to look seriously at other platforms, particularly in Europe, and so became involved with Funding Circle in the UK and Younited in France. Eventually we moved a significant portion of the family's liquid assets to P2P or "digital" lending because the characteristics of the asset class were so appealing: higher yields, excellent cash flow, significant diversification, lack of correlation to traded markets.

– How much has the market for P2Ploans changed since you first started to get involved? What do you expect for the future of this emerging industry?

EB – The market has changed dramatically, at least in the more developed geographies (US and UK). First, it has grown dramatically (in 2016 we estimate US originations will exceed $20 Billion and UK originations will exceed GBP 3 Billion). Second, there has been an "explosion" of platforms in all forms of lending (consumer, small business, real estate, factoring, etc.). Third, the nature of the lenders and how they access the market has changed: 8 years ago the only lenders were retail customers (like me) and adventurous family offices. Then, in 2012-13 clever hedge fund managers discovered the market and started offering "actively managed funds" which generated "alpha" either by loan selection or by adding leverage (which, as we know, is not true alpha). In 2014 commercial banks in the US started purchasing loans from Lending Club, which underlined the quality of the underwriting. Then in 2015 we saw the first securitizations of portfolios of loans that had been assembled by some of these funds (and by now there have been over 50 such transactions in the US and 2 in the UK). And also in 2015 came the listed funds on the UK stock exchange (there are 4 today) and in 2016 we saw the launch of quasi-listed funds in the US (so called "interval funds" which operate under SEC supervision). Today, the largest investors in these loans are banks, insurance companies and institutional investors.

– As a successful fund manager in this new asset class you have raised significant money from investors. Can you tell us a bit more about your recent 100mn euros Eurozone fund?

EB – We began managing funds as a family office but after several years and establishing a track record and deep sector experience we were approached by larger institutional investors who were looking for a way to participate in the sector. Finally, during early 2016, we put together a consortium of major French insurance companies led by Aviva and AGRR who committed EUR 100mm for a 10 year fund to invest in this market in Europe with a focus on lending to SMEs. We are honoured to have these partners and are working hard to ensure that we'll be able to deliver a satisfactory return but also help the basic fabric of the European economy which consists of very small businesses. As we all know, in many markets banks have stopped or reduced lending to small businesses hence the opportunity.

– Outside of the UK there are very few European platforms with a decently long track record and generating enough consistent volumes of loans for large investors like your funds: how do you cope with this? How and when do you expect this to change?

EB – That is correct but a small number of European platforms do have a 3 year + track record and we have begun to work with those. Several others are getting close and we are monitoring them closely. For the ones with less of a track record we will occasionally allocate smaller amounts of capital if we feel the management and underwriting are very solid. In addition, there are structures which can be considered "safer" where the platform retains a first loss tranche which helps us get more comfortable with the risk we are taking.

– What do you look for in a platform for it to become an "investable originator" for your funds?

EB – Typically it will take us 3-6 months to get comfortable with all aspects of a Platform's business as an originator and to figure out how we can work together. We conduct an in depth due diligence process that includes quantitative and qualitative aspects. Of course we pay particular attention to the track record and the underwriting process. But we are also very focused on whether the platform has a viable plan to profitability because we want to be sure that we partner with the platforms that will become the leaders in their markets…..

– Sector wise: do you see better opportunities for investment in the personal loans segment or in the corporate loans one? And in which areas in particular ?

EB – In general we have found that small business lending tends to offer higher net yields than personal loans. This seems to be true in the UK and in Europe and of course in the US. We think it is because the banks have really reduced their lending to small businesses (due to regulatory pressures) while there are still a number of sources available for consumer credit. In many countries small business loans come with a personal guaranty from the owner or board of directors…so you can think of a small business loan as a consumer loan with a business asset in addition. However, it is generally more difficult to underwrite small business loans successfully…and they may be subject to higher write-offs in a recessionary environment.

- Geographically: which countries do you consider as most interesting for investing?

EB – Currently I think the US is the most interesting market. It has the longest track record, has the greatest opportunities for deploying significant capital, it is the most transparent and the yields are definitely the highest (except for very small markets like New Zealand). Of course it has a proven legal framework. After a difficult 2016 I would argue that the platforms that will survive will have gone through intense scrutiny and will therefore be even stronger than before. And, what is more, rates in the US have been rising while rates in Europe have generally been falling.

– Which funds do you currently manage? Are they open only to institutional investors or also to private individuals? How can private individuals get involved?

EB – We manage a range of SICAVs and other funds that invest across a range of strategies: Global, Europe, US, UK. Our investors are mostly institutional (pension funds and large family office and insurance companies). Some of our vehicles are open and some are closed. Most private individuals should look at the local market offerings as we rarely accept subscriptions below Eur 2mn.

– Returns: what should investors in your funds expect? Over which time horizon and with what kind of volatility?

EB – This really depends on the strategy, the geography and the open or closed nature of the vehicles. But in general, we target mid-single digit un-levered returns delivered fully hedged into Euros. My advice to investors is to be prepared to be invested for at least 3 years.

– What is your opinion on the UK listed "Permanent" capital vehicles (Funding Circle SME Income Fund, P2P Global Investments, etc.)? Is your firm considering similar set ups or are you more focused on "Open" fund structures?

EB – We think the permanent capital listed vehicles can provide a very easy way to access the asset class for the retail investor. In addition, because they are daily traded, these funds offer liquidity that is generally not available when investing in the underlying loans (or when investing in our funds for instance). However, liquidity does not equal price certainty/stability. Investors should look at daily traded volumes as well as the history of discounts to NAV that many of these listed vehicles have experienced before purchasing.

– What are the main issues that this immature industry still has to solve in order to truly become a new "mainstream asset class"?

EB – There a numerous hurdles here: volumes for example; regulatory certainty (this now exists in the UK); traversing a credit cycle so that one can see whether the quality of the underwriting is really solid; liquidity through a secondary market (this will take a lot of time). However, the underlying trends are strong (increased pressure on banks means that they are just less and less able to lend small amounts profitably).