Igor Zaks, President, Tenzor Ltd Interview with Dr. Bertrand de Cominges, Global Head of Trade Finance Investments within Santander Asset Management

**IZ**

Hello. So it's my enormous pleasure to introduce Dr. Bertrand de Cominges, who is the Global Head of Trade Finance Investments within Santander Asset Management. So this recording is for BCR RFIx conference that is going to be 10th of March (postponed now to: 26-27 May), and both Bertrand and myself are going to speak at this event. So, Bertrand I know throughout his banking career, you know, since 2007, I believe. So we've been through a few crises and a few different things over time. So, and the interesting thing now is something that a bank started now - fund management operation focusing on trade finance. So my first question will be why? Because obviously, banks have been in trade finance for a long time, something that was a very big player. You obviously have been most of your career in trade finance. And the fund management was like more or less separate because other managers and banks were distributed into something like it. So what was the rationale of something that go into this business?

**BC**

Yeah, absolutely. We are Santander Group. We're not part of Santander Bank. We are part of the Santander Asset Management. As investment managers, we definitely see a big opportunity in investing in trade finance, because this is a very solid asset, very much attached to the real economy. And this is what our investors are after. Institutional investors are after this type of assets. But they are after this type of assets when managed by knowledgeable people, by those who actually understand the underlying asset class. That's the opportunity that trade finance is bringing to the fore these days, because it's not that common as an asset class for institutional investors. But they mostly understand it when it's playing, as we all understand it. That is not always the case, I must say.

**IZ**

And what will be your investment strategy now? So what do you invest and what you don't invest and how do you manage the funds today?

**BC**

Yeah, absolutely. Well, as you know, there are a lot of opportunistic funds out there. There are the reality funds investing in Africa, funds investing in very complex strata, trade finance solutions. Our philosophy is much simpler. The Big Three finance bank of assets are being funded by the top global banks around the world for the top global leading corporates in every single industry and segment. These are the assets we are after. We are perceiving trade finance as a liquidity asset class. This is an alternative asset class. It has very short term, and is very secure, and provides secure, stable returns for liquid assets. These are the assets we are after. So we tend to partner actually with the top global leading asset originators, meaning the top global leading banks majorly.

**IZ**

And when people say trade finance assets, different people mean different things. So some people think about more bank instruments; some people think more about receivables; some more think about supply chain finance. How do you define trade finance as asset class as far as your fund is going?

**BC**

Well, absolutely. Well, trade finance - we split this majorly in three different asset classes. This is contrary to the industry perception. This is contrary to what many people talk about trade finance as an asset class. In our view, there are three very distinct types of asset classes within trade finance. Number one, you have the traditional trade finance solutions. This is majorly financing institutional risk, and these are Letters of Credit, guarantees or a standby LC's in the United States. Secondly, you have what we call open account solutions. This is majorly receivables-driven solutions. On these you will put receivables finance solutions. Majorly we invest in global programmes for the top global leading corporates or supply chain finance or confirmed receivables by a buyer that is known as supply chain finance or reverse factoring. The third family will be a structured lending. And in trade finance structured lending can get as complex as you can guess in reality because there are very complex structures out there in the market to finance commodity flows in Africa, in South America and multiple other places. You have pre-export finance, payments, posting for finance and multiple other solutions that can get as complex as you can. So we actually split this in three different families or three different asset classes. Majorly we are focusing at this stage on the open account solutions. Why? Because we are participating in the programmes of the big top banks that move billions or hundreds of millions of assets every 30, 60 or 90 days with a pro rata participations. They provide liquidity. And if you work with the right partner, they are mainly well structured. And those are the assets we're after.

**IZ**

And one of the questions that is asked often is what role does insurance play in the structure because some people use various structures provided support from insurance market? How much have you experienced in your fund dealing with this structure? And what do you think as a core criteria of how it needs to be used correctly to provide value and not to create, you know, some type of problems?

**BC**

Well, all our product managers have extensive experience in trade finance. We have been working for the top leading structuring banks around the world. And we indeed invest in receivables finance that in some locations are covered by a proper wrap with a trade credit insurer. But these are with the top leading trade credit insurance. We review every policy. We review as well legal opinions on the actual treatment under Basel III, Basel IV for those policies. And we take on full tests on all our leading partners. Not all regulators accept trade credit insurance as a mitigation. So we focus on one or the other depending. But we review every single policy in our case, as well as our legal counsel tasks.

**IZ**

And this is extremely good to hear because we all know the case. But you know some people were not getting due diligence on this type of course. And I completely agree with you. I think it is an extremely good instrument, but it obviously requires a very competent management and proper due diligence, and then it's actually very efficient. And going from it like you mentioned, knowing you and several other members in your team, I know you all have very extensive experience in trade finance, what will be the core lessons you bring from being an originator? From doing this to the fund management? What did you learn over these years that now you apply when you do this type of structures?

**BC**

Well, number one is common sense. As you know, that's critical in the structuring of any trade finance facility. You know you need to follow the money. It's as simple as that. I need this to make sense. It needs to have an economical rationale, as well as a commercial rationale because that's fundamental. Second, you need to do your homework. You need to review their documentation. You need to understand that the right mitigations are in place, as well as the right recourse or limited recourse depending on the structure as well as multiple other elements. And that's fundamental for presenting this in front of our investment committee that is composed not only by asset management experts, but also by industry practitioners. We come with two independent members, Francois Lambert with over 37 years’ experience in banking, in trade finance, and Tom Jack with over 35 years’ experience as a global corporate treasurer. And though both bring in the right level of competence, knowhow, common sense as well to the review the facilities.

**IZ**

And following on what will be underwriting process. So you, for example, go to or a bank is coming to you and they're saying 'okay, you know, we want you to participate in our structure'. How would you make the decision? What type of process you will follow to make this type of decision?

**BC**

Yeah, well, we're engaged with multiple asset originators. We of course have all the right legal documentation in place to have an open dialogue among ourselves. We review portfolios that are on offer. In many occasions, we have done those facilities. We have participated in those or we are familiar to those programmes that are being offered at the end of the day. We then present these to the Investment Committee after reviewing legal documentation and selecting the right partner with the right deepness on asset originator, and stable asset originator. A point which is very important is the following. We don't like to take single big ticket positions. We do like to take pro rata in small participations in a portfolio. So we prefer 10 tickets of 10 million on 10 programmes than one single ticket of 100 million, to give you a very simple example, because we like to partner with asset originator. We see ourselves as a utility, a facilitator of assisting capital market investors into trade finance assets, therefore, a tool for the major originators to distribute risk, and participate the market in our core business that is trade finance for the top leading entities. And that's how we position that. That portfolio is presented then to the Investment Committee, sometimes is rejected; in many occasions is approved because, of course, it has been reviewed already by the portfolio managers and our legal teams. And we pass this into the fund. We start investing into it. In the meantime, we have the legal work that we do with our external counsel, as well as the counsel of the asset originator in defining either a no purchase programme, or MRPA, Master Risk Participation Agreement negotiation with our SPV. So we acquire assets in these two fashions, either through the note acquisition, or through an MRPA acquisition and not issuance from our SPV. Those are the two models.

**IZ**

And then the next question following a little bit from it. So there's a lot of discussions about, you know, trade finance becoming an investable asset class, and all this. Do you see this asset is prone to standardisation, or it's mainly going to be this very deep sort of bilateral due diligence and negotiation and it's not really going to become larger standards; it's still going to be mainly a private transaction? How do you see the development of the asset class?

**BC**

Well, I don't think it will be one or the other. As a reality, I think there will always be a number of dedicated special needs funds, dedicated to margin at the end of the day in trade finance. But we kind of forget they compete against venture capital, private equity, real estate funds and multiple other funds that provide as well significant deals into their investment. If we focus on the mainstream of trade finance, our investors are after liquidity. So what is very important at the end of the day that the asset originator provides, is a stable, simple way of first contracting the transfer of the assets. And I think there is no difference by asset originator. It is a straightforward process to do so. And second, a stable, simple way of transferring the data. Because the big particularity about trade finance is the massive amounts of volume. You can manage 100,000 invoice discounts a week in the front. And that's a significant amount of data that needs to be transferred and multiple other elements. One element that is very important, trade finance requires lots of education. So underpinning everything I just said, what we need to do is to educate investors. And to educate investors is actually segmenting the multiple asset class within trade finance, and focusing on two or three finance assets, assets that represent the real economy, assets that represent the day to day of our investors at the end of the day because this is what the trade finance industry is investing. I remember many years ago when we met, you were the global treasurer at a big consumer electronic company, if you remember? We are discussing here the acquisition of electronic components, consumer electronics, cloud computing systems, natural gas, gasoline for heating your house, your company, producing light. This is real economy and we need to manage that and the trade finance industry, educate the capital market investors into it. This is what you are investing into.

**IZ**

And again, follow on from it a little bit - being within your overall asset management, how would you present the trade finance fund? What do you do versus other asset class? From a return point of view, from risk point of view, from others. So if I'm an investor and I'm thinking, 'Do I want to invest in, you know, high yield bonds? Or do I want to invest in trade finance? Or do I want to invest in mortgage-backed assets?' How would you position? What would you say are the distinct characteristics that either make it attractive or make it more complicated for some of the investors to invest in this area? How would you position?

**BC**

It is very simple. You know our funds do best in core business of the biggest trade finance originating banks in the industry. You go hand in glove with them. In a pro rata basis you participate in the programmes they are funding with hundreds of billions of dollars every 60 days. That's number one. We provide you with weekly liquidity in our funds. And that's somehow unique, as well as the stable positive returns. In duel rival environment of -55, -58 basis points, we're able to provide you a stable, secure positive returns into your investment with weekly liquidity. That's a big selling point. Wise, very important participating in the business of the bank. We don't distribute unwanted assets. We participate in a pro rata basis on the portfolio of the big banks for the top clients.

**IZ**

That sounds really impressive strategy.

**BC**

It is very simplistic if you think of that. You've been in the industry for decades. Do you know that the big volumes on this industry are in that spot.

**IZ**

And you are all seeing that sometimes when you make things complex and lose common sense. It does really help. So keeping things simple seems to be the winner games.

**BC**

It is. Some people are after 7, 9, 11% returns in trade finance. We are quite skeptic about those numbers. You know, we offer liquidity.

**IZ**

What number do you think is reasonable?

**BC**

Well, we provide returns at north of your rival today in the 1800 basis points area. So positive returns in an environment of negative ones. Well, with liquidity.

**IZ**

As somebody was pointing out recently it's a boring but stable asset class.

**BC**

Exactly. It is. Many investors like it, but they need to...

**IZ**

Absolutely.

**BC**

We look for a strategic cash from our investors. We are not looking for operational cash that is used in the day to day and that you require daily liquidity. What we look for is some stable cash positions that every company keeps as a strategic cash that today are being penalised grossly by the current interest rate environment. That is very important. If LIBOR Euribor goes up again, this will be passed through into the investor straightaway through our funds so that they will benefit as well of any increasing interest rates. But we are looking for that strategic cash that provides a stable source for our partner banks to distribute assets, for those secure assets they have in the books. Let's not forget any bank out there, any proper bank out there, have 50, 100, 200, 300 billion dollars funding these assets with their own balances. This is the business we are participating for our investors.

**IZ**

Okay, thank you very much! A real great pleasure talking to you as always. Very good to hear some commonsense thoughts that is really what the industry needs.

**BC**

Yeah, well, we've been in the business for many years, Igor. And you know, common sense always prevails in trade finance and in many other parts of the trade finance.

**IZ**

Absolutely.

**BC**

It is. This has been all going on for centuries. This is not a new industry. It is simply we're trying to open up a new opportunity, I would say, with capital markets investors.

**IZ**

Okay. Okay. Thank you very much!