INVESTOR SPOTLIGHT

First to the Finnish

Certior Capital, the Helsinki-based investor, is a leading backer of first-time funds. **John Bakie** finds out about the firm's strategic approach

Helsinki-based fund of funds Certior Capital was launched in 2011 by Ari Jauho, Pasi Pihlajamaa and Timo Hara. The three experienced individuals were looking for a more effective and flexible way to invest in private equity and private credit for institutional investors and fill the gaps in the market that weren't being served.

Certior, which seeks to maintain a rigid focus on investing and has no desire to build a large team in-house, has hired just two additional professionals since it was set up. "We outsource everything that is not core, and focus on making investments," Hara tells *PDI*. Certior has about 60 percent of its investments in the private credit space including primaries, secondaries and co-investments and, from the start, had wanted to focus on the asset class.

"As we were establishing ourselves, we could see that private credit in Europe was going to evolve in much the same way it already had in the US," explains Hara.

The team also had some experience in running mezzanine funds of funds so understood many of the key aspects of teams and strategies in the debt segment, which are distinct from private equity.The three partners have made commitments to more than 50 private credit funds and co-investments across Europe in the past 20 years.

Hara says the most interesting markets for Certior are Europe's big economies where the banks are under a considerable amount of stress, in particular Germany, Spain and the UK. It is also interested in Italy where banks have structural difficulties, though it is not considering the non-performing loans which have been a heavy political and economic factor in Italian debt investment in recent years.

Hara: smaller loans offer better characteristics

"Our investment approach aims to be quite flexible and agnostic around our core thesis, which is senior-term loans with some form of equity upside," Hara says.

However, the firm has also done some junior capital, though not in the form of traditional mezzanine and looks for strong control in such situations.

It also takes an agnostic approach to sectors. Its portfolio has tended to lean towards industrials, though this is largely due to these types of firms having trouble accessing bank finance due to volatility in their income streams.

One way in which Certior is looking to differentiate itself as an investor is through its focus on backing first-time funds. Not only is it interested in merely supporting first-time managers, it often acts as a cornerstone investor. Of the five European first-time funds in which it is currently invested, three of them were backed at first close.

Capital raised by debt funds **<€300m** in 2017

€5.1bn

Capital raised by debt funds **>€300m** in 2017

€81.6bn

Source: Certior Capital

While supporting first-time fund managers can be a risky prospect, Certior believes its investment rationale and due diligence can help it manage these risks to support winning teams. It targets teams with a complementary skillset, including corporate banking, private equity and investment banking to provide experience in proactive deal sourcing and flexible deal structuring.

Certior also looks for managers with good local knowledge and believes European investment requires a unique approach compared with the US.

"In the US you have managers that will have a centralised underwriting hub and then lots of satellites that source deals, but you can't replicate that model in Europe because there are too many differences in regulation and business culture," says Hara.

Because of this, Certior has a strong preference for teams with a local sourcing and underwriting approach in the geographies they target.

Certior says it would like to see more fund managers targeting the lower end of the mid-market in Europe, believing the larger end has become overcrowded in recent years, with many large funds that have a lot of dry powder to deploy likely to keep putting downward pressure on pricing and terms.

"In terms of risk-adjusted returns, funds focusing on smaller loans in the €5 million to €25 million range can be very interesting, offering a high cash yield, attractive all-in pricing with upside potential, as well as conservative capital structures with lender-friendly terms including full covenants," Hara explains. ■