Podcast Precis

Abi: Could you give us a little background on yourself? I read that you were a talented speed skater with Olympic ambitions when you were younger. Also, you are a Canadian gold medalist and have broken a national record. Why not hockey?

Brett: *As I have grown up in Canada, where there are a lot of cold winter months, hockey and speed skating made a lot of sense. I grew up playing both at an active level, and at a certain point, I had to choose which to specialize in and noticed that speed skating was interesting for me. Competing nationally and internationally gave me an interesting ability to travel and experience different places in the world. One thing I always liked about speed skating is that there are no excuses, you either put in the effort and are successful in competing or, you are not. You cannot blame your teammates or anybody else. I liked that and found it a fun way to engage in life.*

Abi: How has the experience in being a competitive athlete led you to launch Star Mountain Capital, why you got to that point, and where have you come now?

Brett: *I sit on the global board of Harvard's entrepreneurial alumni association and a lot of different studies and research that we have seen, talk about grit and persistence. Yes, some people in life get lucky, being at the right time and the right place, but luck is not a strategy. If you want to have a high probability of an outcome, you need to think long-term and develop a focused game plan. Speed skating taught me to work hard and take a long-term focus. Talking about luck, I did not end up going to the Olympics, although, I was a part of the Olympic training team while going to college. I knew there is no money in speed skating which led me to plan B, where I decided that, I do not want to devote a big part of my life to the next Olympics. I am thankful that I learned to diversify. As we built Star Mountain Capital, we focused extensively on diversification and thinking about risk management.*

Abi: I want to talk about what you are doing at Star Mountain Capital. But first, I would love to get your view on the overall market, and as a Canadian, I am sure you know the Wayne Gretzky quote, "I skate to where the puck is going, not where it has been“. Where do you think the puck is going as far as opportunities for investing in credit?

Brett: *In the short-term, when the Q2 financial results come out, you are going to see a bad quarter for the US economy, most of the global economies, and most businesses. S&P 500 is currently trading at about 22 times forward earnings, which is dramatically higher in the last couple of decades, indicating bubble valuations.*

As we get into Q3 and Q4, I believe the economy will start on its path to recovery. I think it is going to take probably until the end of 2021 to get back to the end of 2019 levels of economic activity, GDP, and so forth. Also, the US economy will be in a better shape relative to other developed economies due to its resiliency, ability to innovate, and the government's stimulus.

Abi: As a lender, you have invested in companies that are both sponsor-backed and non-sponsor backed businesses. How have you seen your engagement with those companies vis-a-vis sponsored vs. non-sponsor backed investments?

Brett: *We do not have anything against sponsor-owned deals but, we have found that one needs a strong operator to work through downturns. The businesses that we have backed, have been through, on average, at least two other recessions. Being a senior executive, one has to make tough decisions. People who had that experience, moved very quickly to bring in new revenue opportunities and communicate with lenders & clients. Some private equity firms are great operators, and some are not. Part of our underwriting is focused on making sure that the business we are backing, have great operators. From a non-sponsored perspective, to generate better returns on an absolute and risk-adjusted basis in a market downturn like today is phenomenal. This is because, to have the bandwidth to underwrite the non-sponsored deals, there is always a trade-off and the trade-off in non-sponsored lending and backing founder/owner-operated business is time-consuming.*

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Abi: You have put a lot of attention to the culture of your firm and developing talent. Can you talk about why that is so important, specifically in this environment, as people are working remotely and may continue to in the future? How are you thinking about maintaining and developing the culture?

Brett: *When I did an executive program at Harvard Business School, spending three weeks per year for three different years, living on campus with around 150 other CEOs around the world, was a game-changing way of how I viewed the world. I believe that team and culture are the absolute and the most valuable assets of our business. Whether it is sports teams or any other long-term leading organizations that continue to persist through changing economic environments, it comes down to a strong, focused, aligned, and motivated team.*

Abi: As you have a team with us at TresVista, can you speak about how outsourcing as a strategy complements the internal culture?

Brett: *One of the things I noticed when I left Citigroup/Salomon Smith Barney, was that most of the big investment banks, at least, to my knowledge, have outsourced offices, most if not all, in India. When we restructured to form Star Mountain Capital, 11 years ago, we hired our first person in India through an outsourced partnership like TresVista, and, as we grew further, adding competencies, not only expands capacity and bandwidth but, also gives you the ability to process information overnight. It helps even our junior-most people to look up to folks that they can ask for help and there is an uplifting psychological feeling, when they feel overwhelmed, by asking for help to fill in some data, prepare some spreadsheets, etc.*

Abi: Can you speak about the different strategies that you are currently managing and how do you see each of those in the short-term and long-term as far as the strongest opportunities?

Tom: *One of our two primary strategies that are particularly attractive today is what we call acquisition financing. Finding a good company to acquire from an older business owner or a challenged business and when combining the two businesses, they often have a higher valuation multiple so there are good synergies in that. That type of opportunistic acquisition lending tends to do well in market downturns, including a bit of an all-weather strategy, but particularly today, given the continued aging of our population and now the distressed economic environment.*

The second is our secondary strategy, where we are purchasing either assets or portfolios of assets, including, buying limited partnership interests in lower middle-market funds. There are approximately a thousand lower middle-market funds in the US that are within our target market with tens of thousands of LPs who want or need early liquidity on their assets. Having the ability to analyze the assets bottoms-up is a critical capability, given the complexity to purchase what we believe can be good assets at discounted valuations and that tends to be a counter-cyclical strategy.