



## Five minutes with... Michael Shone

PE Asia recently caught up with Michael Shone, chief executive officer of Commercial Intelligence. The Swiss-headquartered firm raises closed-ended funds, typically with a three- to five-year life, focused on emerging market debt recovery.

### *Commercial Intelligence operates in quite a niche sector; what's your business model?*

Our primary business used to be buying debt which was sold off by banks and insurers. But increasingly we have expanded the model, so we employ three strategies for our funds.

The first is buying distressed debt, the second is litigation funding to parties who otherwise could not fund their cases. We do litigation funding particularly in emerging markets. The third thing we do is to finance liquidators to recover monies due to insurance companies – if you have a company who is, say, involved in construction, and this company becomes insolvent and goes into liquidation, you have a liquidator appointed by creditors. He then sells off the assets and those assets are normally very easy to get rid of. You have cars, property, cranes, stocks, but the one thing you can't get rid of easily and which nobody can value and which is often the largest asset, is the receivables or debt. That segment is our niche market.

### *How do you separate yourself from other distressed debt funds?*

A typical distressed fund will buy distressed bonds or secured debt, they would normally pay between 10 cents or 30 cents for that debt, and they would be very lucky to sell for 50 cents that would see them a good profit. What we are doing is really working with companies that have gone beyond the bond issue. All the bonds have been defaulted, and what are left behind are typically the receivables and you will have a lot of companies in that category.

### *Has the current debt situation in Europe and the US affected your business in Asia?*

Most of our business tends to be in emerging markets, countries in Southeast Asia – particularly Thailand, Malaysia and to a lesser extent Indonesia and Africa. I haven't noticed any significant link between the markets in Europe and US and Asia. We haven't noticed any significant increase in opportunities, but that's not to say that there aren't a lot of opportunities at the moment. I think people are realising that distressed debt is to an extent, uncorrelated, with capital markets in an ordinary sense.

### *What is your LP base like?*

They are institutions in the classical sense, so pension funds, endowments principally in the US and UK, followed closely by family offices, high net worth individuals and some fund of funds. Because of liquidity issues, many investors tend to be of the institutional family offices type with a long to medium term horizon. They don't mind putting money to work in uncorrelated assets over a period of time whereas your typical fund of funds would want to have redemptions and some liquidity.

### *What type of returns have your funds been generating?*

We made an analysis of every single case that we have done between 1987 and 2010. And we worked out that the average net recovery was 4.5x the original investments over a period of three years. All of our funds have been [active] for at least three years plus additional time if needed. I understand some private equity [funds' lives] can be as long as 10 years. We tend to think five years would be the longest it would take for us to resolve any situations.

### *Where are the opportunities in Asia for debt recovery?*

What I can see is a large number of liquidation scenarios which will produce opportunities for us in financing the liquidators. The actual business of providing finance to companies to recover money when they are insolvent is almost a new idea. And I think we are certainly the first institution in emerging markets to offer that.