

Gallantree - Just Cause

9th June 2023

Irrespective of the quality of projects or companies, we keep hearing that 'the capital is out there' or 'capital is in a cycle'. These are common narratives in the finance and investment industry.

While there may be some truth to this narrative, after spending the last few years in the capital markets, deploying capital or raising capital, whether for clients or fund managers, we believe the capital market is growing towards being a challenged and misaligned market, particularly when headwinds are apparent. The investor market has narrowed focus on a select few finance companies with a one-track mentality. Their only mission is supply capital to drive calculated returns for investors, and rarely on advancement of the recipient or industry they service.

Afterall, strengthening borrowers means a higher chance of a greater return of capital. The capital industry suffers from a combination of being at best myopic at worst mismanaged in a rush to be the senior lender against last year's earnings, or preferred equity with increasingly alarming hooks and dagger terms and conditions. Displaying bipolar traits in investment parameters and is too focused on its view of what's to come near term and not in the long term future.

Through either our research or direct conversations with funders, banks or investment firms, we discovered where they get their capital from is often the same or similar sources with the same investment parameters. Rarely is their access to capital unique or offer them an ability to be transformative. Even the language that funding companies use in their annual reports or market updates are return-obsessive and primarily focused on shareholders or unitholders first, customers second.

This focus is driving business owners or industry leaders into replication or to fit a model in order to gain funding, thereby limiting their vision to serve an investor return mechanism.

Charting the family office landscape and being a point of connection between unique opportunities and their capital is a unique undertaking. Succession planning can be either 'on target', or 'off the reservation' with mixed results. What's most important for family offices when it comes to being an investment manager is trust in the team, being discreet in the process, trust in the investment strategy and to be part of the mission, not a number. They most of all want to be ahead of the game, not investing in a bygone era or yesterday's strategy.

With this landscape in mind, Innovation in capital itself appears to be lacking.

As an example, Australia is the top country in lithium production which supplies the battery industry globally. Yet for our battery projects, Australia buys our batteries from Japan, South Korea or China. This type of investment is actually an investment in the industry not a project therefore a clearly defined and collective strategy is paramount. The access to capital for advanced manufacturing in Australia is at-best sporadic, yet the business model to support the world's battery technology is becoming highly profitable. This is one example of capital markets and know-how not aligning for maximum value to Australian's. There are countless verticals inside industries that are misaligned by limited access to innovative capital or the ambition to be the catalyst.

To be clear, this doesn't mean deploying indefinite amounts of capital into industries or businesses with shaky business models and praying for a positive outcome is the way forward either. What we are finding is even with all the boxes ticked, the capital is either not there, capital terms are not remotely competitive or it's incredibly expensive. It is worse for even slightly innovative approaches where finance companies will mark down business leaders for being innovative, instead of being rewarded.

For servicing Australian companies, the battle is to find strong capital partners on both debt and equity sides. These companies often navigate abroad to find financiers with broader mandates, larger appetites or a better understanding of niche markets or business models inside mainstream categories. This is true for companies in Agriculture, Renewable Energy, Mining and even in large scale property projects.

Flipping to buy-side or finance side and it's rare that an advisor will showcase to a progressive investor an opportunity that hasn't had the 'value' taken out already or been shopped around. When syndication is required due to the size of the capital requirement, few advisors are equipped to manage or navigate this capital requirement. For us and our investor pools, cultivating an ecosystem of great opportunities with well understood, strong sponsors, solid fundamentals alongside an 'unfair advantage' when the market hasn't yet seen it is what we aim to deliver at scale. This means to bring institutional-like products and offerings into Australian businesses without the heavy cost requirements or limited scope as seen from today's providers.

We've iterated our strategy for some time, however finding the words and validation has been a process and not something one can articulate from day one. Our entry to market has been a constant build up rather than 'a flash in the pan'. Our collective knowledge and experience over decades alongside a common and shared vision help us to realise our reason for being or 'just cause'.

At Gallantree, we have a mission to inspire business owners to advance their own companies, industries, knowledge, capabilities and business strategies alongside capital partners that 'get it'.

We do this by providing a combination of vertical specific, leading-edge advisory elevating each client's potential and outcomes alongside intelligent capital - debt and equity. Thereby building end-to-end investment outcomes and deploying capital conscious of both risk and return profiles.

For investors and investment partners, we offer unique access to some of Australia's best investment strategies and opportunities either directly or through our capital sophisticated stacks. We offer Austrian-bank style privacy, transparency and discreteness offering tailored diversification while investing alongside great sponsors. Particularly as family offices can be clients sourcing capital for their businesses or as investment partners, we offer an ecosystem of solutions and considered approaches to elevate wealth and knowledge.

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We intend to play the infinite game, being careful in our foundational work and not chasing fads or short term wins at the rebuke of our long term strategy. This means setting up each person in the Company for success aligned with our own vision and whys of things. This means building lasting relationships with our clients and investment partners, being more like a trusted family member than a capital provider or advisor. Our aim is to stay in the game, re-inventing ourselves when needed but staying true to our cause. New players, cheaper capital or better technology may come to rival us, nonetheless in the long run, our focus on cultivating deep client relationships, values and constant striving for excellence will set us apart.

Like a surfer, 'the search for the perfect wave' always remains.