

Bank Loan Report

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Babson's Upbeat About 2005 Euro Market

The loan team at **Babson Capital Management LLC** has seen some major changes over the past year — changes that vice chairman, head of corporate securities, **Roger Crandall**, believes will further boost the firm's growing loan business in both the US and abroad. To support its growth, the firm acquired Europe's **Duke Street Capital Debt Management** in May 2004, which bolstered Babson's presence abroad. Also, Babson expanded into US middle market lending last fall, when Babson kicked off a joint middle market lending venture with the **Jefferies Group**, called **Jefferies Babson Finance LLC** (*BLR*, 10/11/2004).

On the global side, Babson is confident about its prospects in Europe, where Duke Street — which has since been renamed **Babson Capital Europe Limited** — is one of the largest (non-bank) loan investors in Europe, making the firm one of the only major global leveraged loan managers in the US and Europe. Babson Europe's assets are up 40% (€1.6 billion to €2.3 billion) since the acquisition closed last May, Crandall said.

That's, in part, because Babson is optimistic that its growth coupled with a positive market environment will mean a strong year for European CLOs in 2005. "We are very optimistic on loans in Europe," Crandall said. And thanks, in part, to the increased interest from money managers and hedge funds, the market there is growing in a similar way that the US market did in the early 1990s, he said. "Interest in the asset class is growing even more rapidly, so I expect to see spreads tighten in Europe," he noted. "That said, we think the risk/return is very attractive, so we expect it to be a very good year for the European loan market."

To be sure, the managers at Babson Europe run their funds a little differently than other European managers, noted a recent **Standard & Poor's** report. For one, Babson Europe's **Duchess I** and **Duchess II**, both collateralized debt obligations (CDOs), are among the largest European transactions, and the firm's assets are split between denominations in euros and pounds sterling. Also, the loan team aims

to invest in the secondary market to ensure that CDO portfolios are as fully invested as possible, S&P said. The collateral management team is headed up by **Ian Hazelton**, CEO, and **David Wilmot**, managing director responsible for loan origination and credit quality. Crandall is head of the credit committee.

Years Of Experience

Babson's long tenure in the institutional loan market has allowed the firm to establish a solid name for itself in the business. Crandall, who led the firm's effort into the syndicated loan market in 1993, said having been a part of the market since its early years has shaped Babson's approach to the loan business. "There were virtually no Wall Street firms involved in the business, no trading desks at **Morgan Stanley** or **Goldman Sachs**," he recalled. "[There was] much less liquidity, much less transparency of pricing. It was very much a private market — a buy-and-hold market."

Now, under current market conditions — which Crandall believes are positive for the time being, but a downturn looms on the horizon — Babson takes a bottom-up approach to lending, rigorously reviewing all components of the loan and the company before making any decisions. "We're not a firm that says we like the oil industry so we're going to buy all loans in the oil industry," he explained. "We're very focused on every specific investment. This is the time in the market, in our opinion, [that] we need to focus on fundamentals."

And while Babson is focusing on the fundamentals of its funds' larger loan market investments, it is also expanding its middle market lending capabilities. Last year, the firm invested more than \$400 million in small and middle market private mezzanine securities — an effort the firm plans to continue this year. In October 2004, Babson also formed **Jefferies Babson Finance** and although it hasn't led a deal yet, Crandall said he is even more optimistic about the venture's prospects now than



Roger Crandall

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when it kicked off four months ago. “The ongoing evolution of the loan market is getting more people comfortable with middle market loans,” he said, adding that this increased interest in the sector should translate into growth in raised capital.

Assets Under Management

Overall, as of Dec. 31, 2004, Babson had a whopping \$89.7 billion in assets under management in the US and abroad — \$10 billion of which is in leveraged loans. It has one of the largest credit portfolio staffs in the US, Crandall said, with 34 people dedicated solely to US bank loans — including analysts, portfolio managers, traders and a team focused on managing the firm’s CLOs.

Babson’s loan team runs 16 CDOs (mostly CLOs), ranging from about \$300 million to \$1 billion in size, Crandall said. In addition, the firm manages un-leveraged bank loan portfolios and advises funds that are divided between high yield bond and bank loan investments. Babson has a sizable high yield business, which is kept separate from its bank loan business, with about \$5.4 billion in assets.

The Management Team

The firm’s loan team is split among offices in New York, Massachusetts and North Carolina. Crandall works out of

Springfield, Mass., while **Tom Finke**, who heads the bank loan team, is based in Charlotte, N.C.

Recently, there have been some notable changes in Babson’s upper management. Earlier this month, Crandall was named vice chairman, and **Bill Glavin**, chief operating officer, was appointed president of the firm. Crandall said these changes reflect, in part, the need to share responsibilities within the firm as it continues to grow. Meanwhile, **MassMutual**, Babson’s parent, announced its acquisition of **Baring Asset Management** from **ING Group** late last year.

Indeed, Babson has a unique relationship with MassMutual. In 2000, MassMutual merged its investment management division with Babson, which had mostly handled equity (At the time, Babson was formally called **David L. Babson & Co.**, but its name was changed to Babson Capital Management to better reflect the diversity of the firm’s services and capabilities, Crandall said (*BLR*, 7/5/2004)).

Essentially, the 2000 merger left MassMutual without an investment division. “[Babson is] the investment department of MassMutual,” Crandall said. This makes it even more vital that each of Babson’s investments is worthwhile, since MassMutual invests in all of Babson’s deals. “We need to be pretty comfortable it’s a [good] time to invest, not just a time to make money,” Crandall noted. — *KK*

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