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Private Market Talks: Powering Family-Owned Businesses

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Sengal Selassie is the founder and CEO of Brightwood Capital Advisors, a private credit firm with more than $5 billion in assets under management. Brightwood is a unique investor, providing financing to both non-sponsored backed businesses as well as sponsor-backed companies across the middle market. They also invest in just five distinct industry verticals: technology & telecommunications, healthcare, business services, transportation & logistics and franchising.

Our conversation covers Sengal's path to the creation of Brightwood, the evolution of its investment strategy and how he thinks about investing with sponsor-backed and non-sponsor backed companies. We also explore the unique challenges and special gratification of working with family-founded, entrepreneur-owned businesses, including Brightwood's sourcing, underwriting and risk management strategies. Finally, Sengal discusses what he looks for in prospective team members and his thoughts on the importance of diversity in building a strong team.

Peter Antoszyk: Hello, welcome to *Private Market Talks*. I'm your host, Peter Antoszyk. Today I'm talking with Sengal Selassie, co-founder and CEO of Brightwood Capital Advisors. Brightwood Capital is a private credit fund headquartered in New York. We've covered a number of private credit funds, but what makes Brightwood unique is that it invests in founder, family and entrepreneur-owned middle market businesses that form the backbone of our economy. Sengal talks to us about how this investment strategy drives Brightwood's underwriting and risk management, as well as how he has built the investment team. He also discusses the opportunities and challenges faced by these founder, family, entrepreneur-owned businesses. I think you'll find this to be an engaging and thought-provoking conversation, and as usual, you can get a transcript of this episode, as well as links to other useful information at privatemarkettalks.com. And with that, here is my conversation with Sengal Selassie, founder and CEO of Brightwood Capital Advisors. Sengal, welcome to Private Market Talks.

Sengal Selassie: Thank you, Peter. Happy to be here.

Peter Antoszyk: I appreciate it. I'd like to start off by getting a little background about you and the origins of Brightwood Capital, and what inspired you to start Brightwood Capital.

Sengal Selassie: Sure. In terms of background, I was born and raised here in New York City, so I stayed at home and started my career in investment banking. First, with Goldman Sachs, and then Morgan Stanley. And then, about 25 years ago, I went into the principal investing side with SocGen, who was starting a merchant bank that would do private equity and private debt investments into the same companies that we invest in today. And so, I had a nice 12-year career there where I rose to ultimately run the U.S. merchant bank for SocGen. And then, as we've seen in in many forms throughout the private credit industry, the banks decided to get out of the direct space. And so, in 2010, I spun the business out and then ultimately started Brightwood.

Interestingly — and the choice between private equity and private credit, which we've done both of before — I thought the real opportunity set was in the credit space, because there were a number of middle market private equity firms, but with the transition going on in the lending market, not as many firms who were capable of providing the leverage to these structures. So, that seemed like the opportunity at the time. In 2010, the world was a very different place; we were coming out of the GFC, capital was quite scarce, so, in some ways, it would seem like not the right time to start it, but that, in hindsight, always is the best time — when there's not a lot of people going into that space. So, we were one of the early players in the senior direct lending area and have been there close to 15 years currently.

Peter Antoszyk: And so today — fast forward — what are your assets under management and the number of investments that you have currently?

Sengal Selassie: Sure. So, we have more than five billion in assets under management, just pursuing this one strategy of U.S. middle market direct lending. And since we've started, we've deployed capital to more than 250 unique borrowers and deployed more than $12 billion into the space.

Peter Antoszyk: What makes Brightwood Capital unique in the, sort of, ecosystem of private lending?

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Sengal Selassie: Yes. So, I think you touched on it in your opening, Peter, but one of the things that makes us unique is we lend to both non-sponsored — which we call family-founded entrepreneur owned businesses — as well as private equity backed businesses. And I'd say the vast majority of the industry really focuses only on the private equity buyouts, and we think there's a huge opportunity in the non-sponsored markets. So, that's one of the areas that makes us unique. Secondly, we focus on five core industry verticals ¾ so we're specialists, not a generalist ¾ where we spend all of our time. Those are healthcare services, business services, tech, telecom, transportation, logistics and franchising. And we think it's better to be focused and know your verticals and domain very well, versus more of a generalist. And then the last piece is that I think we seek to be a value-added partner to the companies we partner with. So, not just providing capital but providing operating resources, you know, industry networks and the like to our portfolio companies, and so it's really somewhat different, we think, than your traditional direct lender.

Peter Antoszyk: So, we've had a number of private credit lender representatives on *Private Market Talks* and most of them, as you point out, in the industry focus on sponsor backed companies. The fact that you're focused on non-sponsored backed companies, I find really interesting, and I would be curious on a number of levels. First, why? Why did you pick that sector when, in some ways, doing sponsor-backed deals may be easier?

Sengal Selassie: Now, it's a great question. Look, absolutely, from a sourcing perspective, sponsor deals are a lot easier. They come with, sort of, your package neatly wrapped up in a bow from the private equity firm, and you know there's a transaction certainty because the majority of sponsored lending is usually to fund an acquisition or change of control, where there is a transaction that is expected in a finite time period. In terms of why we do like the non-sponsored area — and again, we do it 50/50, non-sponsored and sponsored — is when you look at the middle market, that really reflects the ownership that you see in the middle market. Only about half of the companies are sponsor owned. Now, interestingly, from a private credit perspective, they do generate about 85% of the direct lending business.

Peter Antoszyk: Right.

Sengal Selassie: And why is that? Private equity firms use much more leverage than family-owned businesses. It's core to how they drive their returns and if they want to generate 20% for their LP's, they're not just doing that on the asset level. Leverage is critical to doing that, so they tend to leverage probably two to three times the level that you'd see in a family-owned business. And then the second thing is the change of control, which you don't have in a family-owned business. Every time there's a buy or sell, that creates an additional level of volume that you don't have in the non-sponsored world. So, it is the vast majority of direct lending. But when you look at the underlying companies, it's about 50/50.

And so, we actually wanted to cover the broader segment of the middle market, and, you know, to fish in the broader, bigger pond, so to speak. And so, we really look to find the best businesses in our verticals, whether they happen to be owned or not by a private equity firm, and we don't need that private equity firm there, per se, to do a transaction. In some ways, our DNA from the merchant banking world, where we did do private equity and private debt, we were comfortable on analyzing the equity without an equity player there as well. So, I think it somewhat comes from our backgrounds and skill set.

Peter Antoszyk: So, I love the fact that you do both, and it allows you to compare and contrast the differences between the two, which you've laid out some differences. But I'd like to peel that back a little bit more, and I'd love to hear from your perspective some of the differences beyond what you've described so far in terms of underwriting, sourcing, underwriting and managing a non-sponsored transaction.

Sengal Selassie: Sure. And look, there are a number of differences. To maybe start with the sourcing. It is, we think, more difficult to source the family, founder, entrepreneur owned businesses for a couple of reasons. You know, each deal is a bespoke deal. You're not going to get three or four deals in a fund from an individual private equity firm. So, you have to cast a much broader net. You need to be local, and you need to be known to these companies.

Peter Antoszyk: So how do you go about that?

Sengal Selassie: We do it in a number of ways. Even though we're based in New York, we do have professionals in Chicago, Los Angeles, Dallas and Austin. So, we want to not just be centered in our home market. Most private equity firms are headquartered here, so it's easy to do that if you're just a New York direct lender.

Secondly, a lot of our operating. The folks who we partner with are spread in even more cities, so probably 20 cities. We’re very referenceable in the local business communities for those, because the family-owned business is not going to take a call and say, “We can save you 100 basis points on your loan, so, you know, go with us.” They really want somebody they know and they can reference. And it also goes to the type of originator we have, who's a very experienced professional, typically 20 plus years of experience, who comes with relationships. So, about half of the companies that we've lent to you could actually tie a pre-existing commercial relationship between the borrower and that individual, even before they were at Brightwood.

And then you have to talk to the law firms, the accounting firms and the advisors to these businesses. It helps being industry focused — from that perspective — both from an offensive and a defensive perspective.

Peter Antoszyk: What do you mean by that?

Sengal Selassie: It's interesting, when you — I think you need to do that to be able to do FF&E lending because when you lend to a private equity backed business, you can be a generalist because the private equity firm is bringing that domain knowledge, and you sort of have the warm blanket, the PE firm. So, if we're doing that, we again — like, the differentiation there, but we have to bring a lot of that value. The companies we're lending to, our companies that are often getting called by private equity firms multiple times a week looking to buy their businesses, but they want to keep them as independently owned businesses. But they realize there's value from an institutional partner. And so, we seek to, again, be more of that value added partner than just a capital provider, where the PE firm is providing that value —

Peter Antoszyk: So, you have a lot of industry experience that you're able to bring to bear.

Sengal Selassie: Yes. And that's why you need that industry experience. But from the offensive side, it allows us to be present at a lot of the industry [events] where industry folks gather for those conferences, the thought leadership areas there and to be a known player in that space. And so, that does make it easier to originate in our verticals as we are focused on those areas, and we're well known, and we are very visible and present.

Peter Antoszyk: Take me to the next step from origination to underwriting; how is that different?

Sengal Selassie: From the underwriting perspective, again, very different. One of the nice things on the family, founder, entrepreneur side is that there often isn't a fuse in terms of PE firm having a 30- or 45-day exclusivity to get a deal done. And, by definition, you're only going to get as much diligence done as you as you have time to in that case. I think about two thirds of sponsor lending is change of control acquisition finance; that's only about a quarter of what we do.

Peter Antoszyk: And you get a nice, neat legal memo and diligence package from the sponsor.

Sengal Selassie: Yes. So, we're doing a lot more primary diligence. A lot of going through work papers, spending time with the management team. I think one of the things we like a lot is that direct relationship that's built with the leadership of the borrower. We often have board observer rights, in probably about half of what we do ¾ and we become a trusted partner of the borrower. In the PE context, typically very different. You often will get a management presentation before the transaction. And then afterwards, 90 plus percent of your dialogue is with the sponsor, and — what I like to say is, family-owned businesses choose who they partner with. And so, there is a sort of a courtship phase, a relationship phase, and we enjoy that. I mean, we enjoy getting close to the businesses that we partner with and really bringing the benefit of the breadth that we see across multiple players in this space to help them in their business.

Peter Antoszyk: It's interesting. You talk about building that relationship. You mentioned the timeline for a sponsored deal can be very compressed. How long does it take to build that type of relationship before you actually get a transaction done? How much energy?

Sengal Selassie: It can sometimes take years. As we said, a number of them are pre-existing relationships that date back 10 or 15 years. Now, since we are known within our industries, we are easier to reference, so you might have somebody who would come through a trusted source for the company. That can progress maybe as short as 60 days, but often it's meaningfully longer. But where I say you really see the relationship blossom is after we make the initial loan. So, about a quarter of each fund are repeat borrowers from prior vintages. And so the nice thing is, although non-sponsored deals are more difficult to originate, they tend to have longer live[s], because the PE firm by its charter has to sell a business after three, five or seven years, and chances are, even though it's easier to originate that deal, you'll lose it, because if it sells to a strategic, they usually don't use private credit, or if it sells to a PE firm that has different relationships, you'll lose it. So, there are a number of companies where we've led three or four different facilities because once we become their lender and we show that we're a good partner, you know, there isn't that sale at the end. The average center of our business is about 30 years old, so these are long term companies, long term relationships, and there's always a question, “Well, this, Brightwood says they'll offer value, but do they offer value there?” And if we're doing our job well, we really build that relationship, and it has a lot of add on effects to the initial investment.

Peter Antoszyk: So, it's in some ways a more stable portfolio, as opposed to the turn that you might see in a sponsor?

Sengal Selassie: Correct, correct. And look, I think in an environment like this, where PE firms are driven primarily by acquisition finance, where, for the past 13 years, from, say the end of the GFC in ‘09 to 2021, probably went up 8 to 12 percent per year, so about a four- or five-fold increase in M&A. In the current environment, M&A has fallen about 50% over the last two years, and so the diversification and the ability to build a diversified book in a PE only lending fund is a lot less. And so, we like the fact that we have the broader pool, so we're still generating very diversified portfolios, because we're not just tied to the M&A market. So, it does build longer relationships, but it also helps in our portfolio construction.

Peter Antoszyk: How do you think about documentation as compared to a sponsored deal and a non-sponsored deal? Is there a difference?

Sengal Selassie: I'd say there is. I'd say the non-sponsored deals kind of look like the credit agreements we grew up with 15, 20, 25 years ago. Very tight documents, structured, appropriate cushions. But, you know, tighter cushions than what you see now. And the private equity world has moved to market as about a 30 to 35 percent cushion to the plan before covenant is tripped. You know, the definitions of EBITDA do allow a lot of add backs, etc. And so, in a number of cases, you're probably more likely to have a payment default before a covenant default in certain deals. Well, in the non-sponsored space you really have tighter documentation. You're really at the table and having conversations with the companies on a regular basis. And so, it is a part that we like about the industry. It tends to be more 20 to 25 percent cushion set to plan. And the other thing is, you do tend to get more true deleveraging in that space. So, we think, from a credit profile perspective, it's better in a couple of ways.

One, there's less leverage on average at inception. Again, with PE firms, it's a much more normal course to have four, five or six times leverage on a loan; family-owned businesses have a lot less leverage to begin with. But then, as they deleverage, as everyone has seen, to help drive the private equity returns, if the company performs and de-levers, the initial ask is, “Okay, let's take leverage back up, and let's do a dividend recap.” So, often, the deleveraging that you model in your credit memos, you know, would be interesting to back test whether that truly happens in the sponsor case. And, well, we feel like we do get that true deleveraging in the non-sponsored case, and in an environment like this where growth is maybe a little bit slower and costs are going up, having that conservative credit profile is very appropriate for the market, we think.

Peter Antoszyk: What do the default ratios look like, sponsor versus non sponsor? Do you track the differences in those two pools?

Sengal Selassie: We do. And we think the right metric to look at is loss rate, and loss rates between the two are very similar. Now, you arrive at it in a different way. Because the covenants are tighter, you will have more defaults in the non-sponsored case, because again, it's a very high threshold to have a default in the PE backed scenario. But because you're at the table a lot earlier, you can work with the company to take protective actions and corrective actions. You tend to have very strong recoveries. So, it's been similar across the two. The markets, however, have been benign in the last number of years, so I think that would really get tested in the next three to five to seven years as we go through a true default cycle. And, we probably haven't had an environment like this for, I'd say, 25 years. A lot of the recent recessions were more deep and sharp. Not sort of long and drawn out. And so, I think this will be an interesting test of the market, but we'd expect it to be the same. And if anything, we're seeing borrowers be more conservative on the leverages that they take, particularly in the non-sponsored case, and so we would expect recoveries to continue to be very strong.

Peter Antoszyk: And in those, where you've had some troubled credits and non-sponsor transactions, how important are the relationships that you've built with the owner, entrepreneur?

Sengal Selassie: Very [important]. I'd also say their relationship with their constituents. We find that family-owned businesses are more than just a business. They care about the employees, they're often very impactful in their local communities and the towns. We've seen in every case, in the non-sponsored case, that the families have said, “There are bumps. Look, we want to put more capital into the business, we want to support it.” So the behavior is truly of a partnership. You know, they're less likely to consider restructuring and in-court restructuring. It's typically negotiated. If anything does go bump, it's negotiated; I wouldn't say “amicably,” but it's negotiated.

Peter Antoszyk: Well, it's very personal.

Sengal Selassie: Yes, it's very personal.

Peter Antoszyk: You know, it's a family-owned entrepreneur or someone who's built the business.

Sengal Selassie: Yes, their name is tied with their business.

Peter Antoszyk: That dynamic of dealing with an owner, operator, entrepreneur in those types of circumstances is completely different than dealing with a sponsor matter — which, by the way, relationships with sponsors are very important, and you look for those that “do the right thing. But there's a difference. There's a different dynamic to it.

Sengal Selassie: Yes, I mean, if you look at the numbers, a PE firm can have a meaningful loss in the name and still have a good fund. Family has all their assets tied in there, so it leads to the conservatism again on the leverage side. But also, I think that they tend to be more constructive in a downturn.

Peter Antoszyk: That must be — from your side of the table — very gratifying to deal with the owner operators where you have a positive outcome in something like that.

Sengal Selassie: I'd say most of our family, founder, entrepreneur owned borrowers would say the strength of the relationship was really built when there was some chop, and it's never a straight line. The plans that we get when we're underwriting a deal, we can almost guarantee they won't be the actual plan — like, they’ll be better or worse, and there'll be some twists and turns throughout the life of a loan, and that's how people behave in challenging times versus good times. It really builds the relationship. And I think, based on that, that even cements even more so the closeness with our borrowers where — again, if they can save 200 basis points with somebody else, they'd say, “Look, we’d rather have a trusted partner than just look at the shiny objects.”

Peter Antoszyk: Right. So, how do you think about risk management in the sponsor versus non sponsor investments?

Sengal Selassie: It's an interesting question. I'd say, at the highest level, we do think about it summarily, which is that we always want multiple ways home. So, we start by underwriting a company and say, "Let's assume the worst. Let's assume the cash flows don't materialize. Let's assume there's an unforeseen external shock that neither us nor the company could have anticipated. How do we feel comfortable? We still will get a full recovery, and there's value in the asset away from just the cash flows that it generates strategic value and the like." And so, those different ways home will vary from business to business. But we always want to model that in a theoretical way, or in a financial, excel way. But really, what are the paths that we think the company would take if something did go bump to get value back? Now, you know, when you get a level deeper, I think one of the nice things about being in the middle market versus the lower middle market is that a lot of the families that we're dealing with do have the wherewithal of a middle or lower middle market PE firm. So, we do diligence their ability to support the company if things do run into challenges, and I think we, again, have actually seen that, in almost 100 percent of the cases in the non-sponsored and probably 80 to 90 percent in the PE case, where thinking about it more clinically, they won't put good money after bad if something has really gone off the rails.

And then we look for depth of management team, since probably one of the biggest risks in the FF&E space is when everything is really concentrated in a very small leadership team. Now, that is something on the PE side that they will often augment through, operating partners and the like. So, a lot of diligence on the breadth of the team, and really making sure that there's — both from a financial support basis as well as a broad leadership team — redundancy in that. And then, you know, we've actually taken the step that you see more on the PE side, where we partner with a lot of operating folks, almost the, maybe equivalent of operating partners in the PE context. We don't have the governance, so we don't call them operating partners, but within all of our industry verticals, we have sort of a cadre of operating executives who also helped provide a lot of value to the borrowers as we partner with them. And so, the nice thing for them is, again, they're getting solicited by PE firms all the time. They want to stay independent. And so, we can bring a lot of that value that they would get from a PE firm without having to give up the governance and the dilution.

Peter Antoszyk: When you're talking to the CEOs and founders and entrepreneurs that you've invested in, what are you hearing from them in terms of the challenges that they're facing in today's economy?

Sengal Selassie: After a long period of low rates and a fairly benign last decade, it's really been quite a different experience in the last couple of years. There's probably three pressures they're facing significantly. The first is rising interest rates and borrowing cost. So, we went from a decade of near zero-base rates or risk-free rates, and now, the risk-free rate is in the mid-single digits and even a little higher in some instances. So, adjusting to a higher interest rate environment is a key concern for a lot of our portfolio companies.

The second piece I'd say is wage inflation. The great exodus from the workforce. It’s really impacted not just the cost of labor but the availability of labor in the marketplace. And so, you know, I think companies are paying up to keep their best people and their best talent, and that puts pressure on the cost line. But it's a very good investment, because, particularly if you have a skilled employee base that's very hard to replace, very costly to replace, even in a looser labor market, but even more so in the current conditions that we find ourselves currently.

And then, I say the third is just the general inflation, non-wage inflation, where the cost of inputs is going up, and so we spend a lot of time on underwriting our portfolio companies’ abilities to at least pass on cost increases and their pricing power in the current environment. Inflation, we feel, is here to stay, and it's really driven by the cost side, and it's just getting passed through to the revenue side. There's a lot that keeps them up at night. As a result of that, we try to actually create a lot of forums for our companies to connect with each other. In that way, we almost act like a private equity firm in connecting some our CEOs, because being the CEO of a family-owned business can be a very lonely position. You don't have, necessarily, the sounding boards, etc. Within our industry verticals, we'll look at best practices, maybe having sessions on cybersecurity or more managing change and some of the things that are top of mind, and it's very nice to see the organic relationships that come out of that. And again, that's very different than PE lending, where you really don't have that same level of connectivity to the underlying borrowers.

Peter Antoszyk: That must be very valuable to them, I would think.

Sengal Selassie: Yep. And, and us as well, because it’s always great to hear what's top of mind from their sides.

Peter Antoszyk: Given those pressures, are there industries that you tend to focus on? Are you seeing any particular trends, or are you deemphasizing some industries over others?

Sengal Selassie: Yeah, it's interesting. Within each of our industries, we have sub-industries or verticals that we like and don't like in different parts of the cycle. So, even within our industry verticals, we're not generalists. We have areas that we think are better. You know, better risk-reward. For example, in the healthcare space, we're spending a lot of time in the — covid U.S. aside — people are living longer, healthier lives, and most of your spend happens after 60 years old. And given the growth of life expectancy, that area of spend is growing at about 20, 25 percent per annum. And so that, we feel, is a nice place, even if, in a flattish economy, we like to spend our time in areas that have clear reasons to grow. In tech telecom we're spending a lot of time, really, on the infrastructure and infrastructure services side. That sort of insatiable demand for connectivity, for 24/7 access, for bandwidth, for streaming. Again, we feel that is independent of some of the headwinds that the economy is facing. So, within each of our five verticals, we have certain core areas that we really think provide safety and risk — and good risk return in the current environment.

Peter Antoszyk: So, the industry [private credit] has enjoyed 20 years of very impressive double-digit year over year growth. Where do you see the industry going over the next five to 10 years, and where do you see Brightwood’s position in that ecosystem?

Sengal Selassie: It's an evolving landscape. I'd say, relative to other areas within private alternative assets, private credit is one of the newer areas. And on the senior context where we play, it really came of age right after the GFC. So, prior to that, it was very nascent, and there are a number of private credit players who go back before then, but they were more in the mezzanine, or, as we talked about, the structured space. So, true traditional senior direct lending is really that. I think what you're seeing is what you typically see in any industry as it's growing; could be industrials, where, when there's a new industry, there tends to be above market returns, and there tends to be a rush of players that enter into it. And a lot of the growth was not primary growth, but really was a function of the banks exiting and non-banks and private credit firms coming in their place. So, big rush in.

Now I think we're at phase two, which is where you see consolidation. I'd say the last two to three years there's been a significant amount of M&A, and the number of players, so unless the dollar is getting raised and the volume, but the number of players is probably less than half of what it was a few years back. And so, I think you will tend to see almost a little bit more of a barbell structure where you'll have a number of larger players and then a handful of mid-sized players. And I think Brightwood is a mid-sized player in this space. We really like our ability to be nimble and to focus on our end of the market. With all the M&A, a lot of our players are not going out of bed for a 20, 30, 40 million EBITDA business. They really are looking at the companies kind of 100 million or north.

And so, in some ways, there's been a winnowing out, and we're seeing some of the best deal flow that we've seen, because there are fewer players really focused on what we think of as the core middle market that's there. We think you'll see this trend only continue, and you can just look at all the reports recently of some of the large transactions that have taken place and the high level of interest strategics in the area.

Peter Antoszyk: I still don't think the market — the industry — has been tested in a downturn situation, where you've really seen defaults tick up. And maybe that's a testament to the industry in terms of their capacity to manage the portfolios and make good underwriting decisions, but I would have expected to see a little bit more stress than I've seen.

Sengal Selassie: I would agree with you. Again, the last really true drawn-out recession was the early ‘90s, which, unfortunately, I'm old enough to remember.

Peter Antoszyk: You and me both.

Sengal Selassie: So, I think what we have seen are a number of sharp and deep shocks, but then they tended to be shorter. Whether it's the tech correction, whether it's GFC, whether it was COVID, you go down the list. So, I think there will be a winnowing out in the industry because it has been such a long time, but look, we underwrite to the downside case, and while some players are pulling back to the current environment, we don't think we can truly say we underwrote to the downside case, and when there's choppy water, saying we can't underwrite, well, then, something we were saying before was off. But we try to underwrite our loans conservatively, and we feel that protects in the current environment.

Peter Antoszyk: This has been a great conversation. I really appreciate it. I have just a couple wrap up questions, if you will. Firstly, as you know, the asset management industry isn't known for diversity of women or minorities, and I'm wondering what diversity means to Brightwood?

Sengal Selassie: Well, look, we think it's critical to be good stewards of capital. So, we look at diversity on all levels. First of all, we really want diversity of background on our team. We have folks who — on our origination side ¾ built their career on the restructuring side and come to this room. We've had some who have been, actually, entrepreneurs and business owners on their way as well. So, whenever we look and and sit around and talk about a credit, we want people coming at it with as many different thought patterns as possible. I think if you find firms where everybody is sort of from a certain DNA, I think you'll only get one perspective. You’ll get that very strongly, and that could be a very good perspective, but we think there's variety in looking at things as many different ways as possible.

From the traditional diversity definitions, we think that is critical as well. You know, what I like to say is our team reflects the diversity of New York City, which is where we happen to be headquartered. As you pointed out, the industry has not been very diverse historically, and I think private credit has been one of the least diverse areas in the landscape.

I think anecdotally, what we've been told is we, in terms of firms whose primary focus is senior, direct lending in the U.S., we're the only firm who’s north of a billion dollars of AUM that's either majority woman or minority owned, focused on that space. But it's much more than the ownership. It goes down to the team. Our team is 50 percent diverse, 40 percent women.

And it’s that broad perspective, that ability to look at things from as many different angles as possible and to relate to as many different people as possible — I mean, you know, both the investors that we serve, I mean, the clients that we serve on the investment side. Again, our team looks probably a lot more like their beneficiaries. If you think about some of the large pension plans, etc., it also matches the diversity that you often see within our companies that we lend to. And so, there is a relatability that's there that you don't often see, we think, in other areas.

But look, we're credit folks, so we want to look at things from many different angles as possible, where glass is half empty by nature, and so we do like that and think it's good. We think it's critical, and we think it's a key advantage that we have in the marketplace.

Peter Antoszyk: So, what do you do to relax in your off time and take your mind off the business?

Sengal Selassie: Well, there's not much time to do that, but —

Peter Antoszyk: Well, you're an entrepreneur like those that you invest in. And so, I can imagine it doesn't allow for a lot of time.

Sengal Selassie: Yes, no. It's interesting you touch on that. That is one of the things that does resonate with the family-owned businesses that we lend to versus some of the mega shops where, you know, there’s a relatability of, “Look, we are an independently owned business, we have to do all things you do, make payroll, make strategic planning decisions, etc.” But no, I think first and foremost, it's spending time with, with family, you know, with my wife, with two teenage kids who we probably want to spend more time with them than they do with us. But that's normal at the time. And then, look, we, we enjoy traveling. You know, we think the more places you see, the smaller you feel, but the broader perspective that you have. So, it's something my wife and I love to do, and when we do get moments, we like to try to see different places and different cultures and learn and grow from them.

Peter Antoszyk: Well, this has been fantastic. I certainly learned a lot from this conversation, and I appreciate you taking the time to be with us on *Private Market Talks*.

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