From €4m to €40+ Billion of Assets: The Tikehau Capital Story and Strategy - With Mathieu Chabran, Co-Founder

Mathieu Chabran

We're talking about aerospace, we're talking about energy transition, cybersecurity, which is one of the big threat and opportunity here, but for that, you have to be prepared to make the investment. Europe is not going anywhere.

Simon Brewer

Welcome to the Money Maze Podcast. I'm Simon Brewer and Will Campion and I have created this show to explore and unravel some of the mysteries surrounding the investment business. You can keep up to date by visiting moneymazepodcast.com. And please sign up to our newsletter to ensure you won't miss a release. If you enjoy the show, please subscribe. And we'd love you to tell a friend or colleague about it. Thank you for listening.

Simon Brewer

Whilst financial organizations around the world try to entrench their competitive positions through growth, branding and performance, inevitably they lose talent as motivated individuals seek to leave and develop their own practices. In this regard, we've become accustomed to the US leading the charge. And whilst it's a universal pattern, Europe's emerging asset management entrepreneurs have often struggled to achieve the scale to compete globally. Therefore, for two people to start 19 years ago with only €4 million of friends', personal and family capital, and yet today oversee nearly €40 billion euros should make us pay attention. Established in 2004 in Paris by Mathieu Chabran and Antoine Flamarion, then age 28 and 31 respectively, they gave birth to a global alternative asset management firm, investing across private credit, private equity, real assets and capital market strategies. And today, that group, Tikehau Capital consists of 14 offices and more than 700 professionals globally and is listed on the Paris Euronext Exchange. Their stated aim is to become the 'Blackstone of Europe'. So I'm delighted to welcome one of the two founders, Mathieu Chabran, to the Money Maze Podcast today. Welcome Mathieu.

Mathieu Chabran

Thank you Simon. Good morning.

Simon Brewer

Well, you have come overnight from New York and we're sitting here in sunny London, so it's very nice to meet you. And you've actually revealed that London might be one of your favorite cities in the world, if not the favorite, so it's great to be sitting here. Now, we love to just start with a little bit of context, and just what stays with you most about growing up?

Mathieu Chabran

I mean, first of all, thanks for this recap of our journey. All of a sudden, that dates me. I realize I left London almost 20 years ago, but for an exciting journey. I grew up in the south of France. Nothing was written that I would end up in the financial markets whatsoever. And I guess, it's really about meeting people. And these meetings, these people you come across during this journey, all of a sudden, it's about seizing the opportunity and giving it a go, and I guess, that's what we did with Antoine and Tikehau.

Simon Brewer

And you chose two degrees, if I'm right, you were at Sciences Po in Aix-en-Provence. So that must have been close to home. And then, you go to business school as well, which France has had a very technical education system generally. What made you compelled to go and take a second degree?

Mathieu Chabran

Effectively, studying in Aix-en-Provence, best memories ever, political sciences. Maybe you're too young when you study this, and I wish I could study that now. And effectively, after this first degree in political sciences, joining business school in Paris was making the academic chapter more technical to your point, and then gave this opportunity to start at Merrill Lynch and that was the kickstarting of the journey. But don't tell anyone, please, but when I first joined my first internship at Merrill Lynch, equities, fixed income was still a very vague concept for me despite this technical education.

Simon Brewer

Well, when I interviewed at Salomon Brothers, I'm not sure I even understood what a bond was, which is probably why Michael Lewis, a previous guest, who wrote Liar's Poker, got the job and I didn't. But a question we like to ask our guests, but I smiled as I was just thinking about it, is how did you earn your first, sometimes, pound, dollar? I was going to say euro, but actually, it could have been a French franc, couldn't it?

Mathieu Chabran

It was definitely a French franc, in a bulb manufacturing factory, south of France. That was a summer job, and that was for six weeks. It was probably 40 degrees in this and making effectively what was, back then, maybe a thousand francs a month, which is €150 and change. And I guess, maybe that's when I realized maybe I should take a second degree in finance.

Simon Brewer

Okay, so you begin your career at Merrill Lynch. Just talk us through that part. And then, you moved to Deutsche Bank, I think, to join the real estate team. Tell me a little bit about your thinking and what you did?

Mathieu Chabran

Merrill Lynch, Paris, at the time, this French business school offered the opportunity to take a one-year gap where you would join a company. Some people were doing four times three months, sometimes two times six months, and I went for 12 months at Merrill Lynch. That's actually where I met Antoine, my co-founding partner. He's a first year analyst then, I'm an intern for one year. I remember as an anecdote, when he interviewed me and he said, "I'm not going to ask you any technical question because the reality is that you know nothing. You think you know, you know nothing. The only thing I'm going to ask you, I'm going to test whether we would get along or not because we're going to be working 17 hours a day together." That's what happened, and now it's been 24, 25 years we've been working together. That was a great opportunity to step into the industry, this gap year. After this 12 months in Paris, they sent me to the summer program here in London. First time I was spending a few months in London. Very technical rotations on desks, high yield capital market, sales desk, trading desks.

Met some great people, late '90s, Merrill Lynch, booming leverage finance times. And at the end of these two months, here's a job offer. So you go back to school and you already have the job offer to join back Merrill Lynch in June of the following year. Sending you to New York, two, three years of training program, probably the best professional time in a career. And off we went.

Simon Brewer

I noticed you didn't flinch when he said 17 hours a day we'll spend, so we'll come back to that work ethic in building a business in a minute. But at what point did you and Antoine think about creating a business yourselves?

Mathieu Chabran

So as far as he's concerned, very quickly, he comes from an entrepreneurial family. His father effectively launched what has become one of the largest real estate asset management businesses in France. So very early on he had this idea to start his own business. I came from a less entrepreneurial environment, my father was a doctor, but yet growing up in the City of London in the early 2000 and seeing around all these American franchises; I can name a few, the Blackstones and the like, I was at Merrill Lynch in the leverage finance department and we were financing a buyout for Blackstone, which at the time, we were managing an amazing $20 billion. But back then, that was the thing. And we were looking at all these entrepreneurs, albeit in financial services, which is certainly not something very well spread in France, I mean, in Europe and in France in particular. And after a few years I then moved to Deutsche Bank, as you said, Antoine went to Goldman Sachs for a few years. And we said, "We have to give it a go." I was 28, he was 30. And maybe we were a little bit crazy, but we looked at others doing it and we're like, "Why can't we try?"

Simon Brewer

When you join with a partner, you have to reflect, I guess, on your respective skills and to be able to be optimal working together in a very much more high-pressured environment. How did you think about your respective skillsets?

Mathieu Chabran

I guess we did not overthink it. Let me put it this way, the €4 million you refer to and the management structure, let's say 2%, was bare, €80,000 euros of turnover annually, which could not even pay your rent even in Paris. It's about your 24/7, you're all in financially as you said and personally. And then, I guess, over time, people naturally flourish where their best, maybe on the investment side, let's say Antoine might be more real estate, when I was more credit, by background he's definitely a very commercial person when maybe I was a bit more analytical. And naturally we grew the business. And to that day, almost 20 years later, starting Tikehau, it's been extremely complementary and certainly a strength of our platform.

Simon Brewer

And what was the first significant transaction you did?

Mathieu Chabran

That was all credit to Antoine when he started, I joined him a few months later and he secured an exclusivity to acquire from the Rothschild family and trust and another French buyout fund, the flea market in Paris. So if you are or some of you are an antiques fan in the outskirts of Paris, that would be a little bit like the Portobello of London if you will. That was a 20-and-change million euro transaction, which at the time for us, that was a lot of money. And we acquired what was a real estate transaction with some kind of a private equity component in it. We secured that. We put half of the capital we had raised. We raised from co-investors, maybe we'll come back to that in terms of the model. Even back then, some additional capital, we had to do the deal twice, for ourselves, to make sure that that was a transaction we were comfortable putting a lot of our capital in, and then, the second time, to convince people who had not given you full discretion on the capital to come in. We capped the deal a couple of years later, we sold it to Grosvenor, the Duke of Westminster here. And to that day, it remains one of our iconic transactions, great financial multiple and a story I can tell 20 years later.

Simon Brewer

Terrific. Maybe just help everybody understand the firm's mission and vision today.

Mathieu Chabran

So today, I'm not saying it's a bit easier than it was almost 20 years ago, but scale and reach matters. We've been lucky in the sense that when we started, or even 10 years ago, the alternative asset managers maybe were not as well identified as they are today. Remember shadow banking 10 years ago, alternative was very much about the hedge fund format. Not digging to history, but remember what happened during the GFC around the securitization. Fast-forward, 2023, with the GFC in the middle with this all interest rates monetary policy situation we've been going through for the past 10 years, all of a sudden, alternative asset manager are well identified as a legitimate source of capital, be debt or equity, even real assets when it comes to providing equity solution. The financial market has changed a lot. I mean, banks have changed a lot. Insurance companies have changed a lot. And so, partly here in Europe, this asset class has emerged and is now a very well-identified and legitimate both for investors, we'll come back to that, but also for corporate and companies. So that, in itself, is a very significant structural step, and what was originally a cyclical opportunity has become a structural opportunity. Being now, as you said, around €40 billion AUM, which clearly in Europe makes us a relevant platform, but at a global scale, today, you have to reach to Asian investors, North American investors, Middle East investors. They all tend to reduce the number of counter parties to increase the amount of capital they're allocating to the managers. I guess, what we've managed to succeed at Tikehau is to create a different spin by the skin in the game we have in our own platform. Many people in this industry, Simon, are prepared to make money with someone else money, but less so are prepared to make money with their kids' money, which is, I guess, is the definition of an entrepreneur. That's what we've managed to develop, I guess, at Tikehau, having this partnership mentality, this partnership approach where people put significant skin in the game, they write a check to join us and it creates some kind of solidarity within partners so that whenever we decide to launch secondary private credit in the US, to buy a REIT in Singapore, to pioneer the energy transition, growth equity strategies in Europe, we put some real capital and we need to have this partners approach, but which are very interesting. Now, at this stage of our development, the industry has changed structurally. What we do remains effectively to provide capital and flexible capital to any given situations. And we are at a tipping point, certainly in Europe, to create, for the next 10 years, what will be the winning platform in this alternative, quote unquote, "manager landscape" because we'll be able to make a difference for the years to come.

Simon Brewer

Yes, and we can debate later on whether really alternative is the right description of what are, certainly, I guess, real estate, relatively straightforward assets that have formed part of wealthy people's and institution's portfolios. But with those four strands of the business, you are a portfolio manager at one level because you have to think about the concentration, opportunity. How do you weigh up those four silos, which at times, will have one being less or more sought after and yet you want to, presumably, keep a balance or relative balance between those activities?

Mathieu Chabran

That's right. I guess, the starting point when looking at the structure of our firm is being now as you mentioned, publicly traded and with what I would call an oversized balance sheet relative to our AUM, roughly €5 billion for the €40 billion we manage, this capital is always invested in every single strategy we launch or promote to third party investors. So we will never put capital for the sake of making it appealing. We'll put capital because we've got a very strong conviction in the strategy. That's step one. Step two is that we've got some fiduciary duties and the way we are allocating our capital as we publicly stated as a publicly traded company is to generate low to mid-teens type of return on equity. So you do leverage loans, it's, well, nowadays, with your eyeball, it's a 6-7% type of return, you do special ops, it's a 20-25% type of return. So you allocate your capital in a fairly bubbled way to generate this blended return that in turn will compound your balance sheet at this 10-15%. So, the allocation is from private credit, real assets, private equity, even our capital market strategies is effectively an allocation where we're always trying to go for a real conviction on the strategy that will generate on the standalones or on a blended basis, this type of a return on capital. And last but not least, we'll get traction with third party investors. We really see this balance sheet as enabler to our asset management business and so far, it has proven to be a differentiating factor. We've been public six years now and so we see that, effectively, once you get to the cruising altitude of having deployed your capital in your own strategy, then you get to this compounding effect. And I guess, that even more so given the new cycle and chapter we're entering into. I'd like to say that, over the past few years, I met a lot of people who wanted to make a 10X in a year because everybody was throwing dices and it was double six. Now I'm seeing a lot of people were asking to make 10% for the next 10 years. So I guess we're back to this compounding approach that our asset allocation should be able to generate.

Simon Brewer

So I'm going to absolutely try and dissect that new landscape in a minute. Of your four strategies, the one I wanted you to give me an example of was the capital market strategies because that could mean a lot of things to a lot of people.

Mathieu Chabran

So what we call capital market strategies is very much our securities business, so bonds and equities. We launched that in the very early days of the Tikehau journey, 2006/7, partly on the credit side. If you remember, Simon, pre-GFC, credit, fixed income as we call it on the sales side, was not something that was very much spread. People knew what bond, gilt and BTP and OAT was and then, they were reading in the press, oh, there is a distressed play on the euro debt. But in between, the whole corporate bond play was not that widely spread, it was very much an institutional play. The GFC, all of a sudden, with the liquidity squeeze that happened and the dislocation opened a whole market opportunity for asset managers and their investors; institutional allocators, retail to then allocate to these asset class. So we started very much on the bond side, high yield, crossover, subordinated financials. That's been a terrific opportunity over the past 15 years. When you think about what has happened in the banking landscape, starting with the GFC all the way to, if I may say, the Credit Suisse saga a few weeks ago, playing the capital of a bank balance sheet has been an extremely interesting place. Obviously, we love the floating rate nature of some bonds and the loans because on the way down, obviously, people were focused on having your EURIBOR or LIBOR flow, but now, on the way up, you're effectively moving with the tide. So you are being paid for the credit risks and at times, on a private strategy, the illiquidity risks that you're getting on your credit, but you can mitigate the duration risks. So yeah, capital market strategy is one we can scale greatly. It's one where our research, our analysts, they've all been added by the same person since 2007, so he's been 16 years with us, Rodolfo, that's my friend, and we still cycle together. And so, it becomes very synergetic in the platform because you'll be looking at what's happening on the financial market on screens when your colleague on the private markets, obviously, are working on a longer timeframe than effectively what would happen on the Bloomberg run the next day. But all that creates some real collective intelligence.

Simon Brewer

So let's talk about your partners because the thing that struck me as I reviewed your business is you have, on the one hand, a very interesting set of equity partners. I'm going to pause on that. But you have business partners as you enter into these transactions. You've joined forces with Airbus, Safran, Thales, and the Dassault Group around aeronautical investments. How do you think about who and when and where?

Mathieu Chabran

Very good point you picked up on the corporate partners. If I step back a minute, the Tikehau journey, as we mentioned earlier, has been a really entrepreneurial story where I wish I had reached out to a global sovereign wealth fund 20 years ago to ask them for a billion, but when you're managing €4 million, it's a little bit of a challenge! So our growth and journey was fueled by private investors, families, family offices, some of them well organized or they're much more entrepreneurial who like the ideas and the approach that what we're trying to develop was, first and foremost, our own business and we're all in on that, so as I said, they were saving the opportunity to allocate to an asset class or a strategy they would not be offered otherwise. Then we got into the more financial and institutional landscape, insurance companies, retirement plan in Europe and then in Asia, more recently, in North America and the Middle East. And then, came five, six years ago, some opportunities to team up with corporates because when you are in the money management business, the investment management business, very often, people are trying to grab what I would call, not being judgmental, passive capital that are looking for a manager to help them deploy. And then, we started discussing with very active, obviously smart, but active and nimble capital, the corporate capital who's looking at deploying to some blind spots of what they would be doing otherwise in their industrial businesses and create some leverage with partners like us, an asset manager, to give them access to things they would not see otherwise. So we started effectively on the energy transition. We were fairly early in the energy transition in 2017, '18, I guess. Now it has become very much bread and butter, but at the time, I think it was relatively forward-looking. And we teamed up with Total Energy, the global energy company who said, "Okay, you guys are seeing stuff we might not be focusing on." Obviously, they might be seeing it, but not focused because of the scale. We started together an energy transition fund, a decarbonization fund focusing on profitable, mid-market, growing company who needed some capital in to scale and massify the solution they had. We raised a billion too for a first-time strategy, first-time fund, first-time partnership. And the partnership with them, what they bring at the corporate, beyond the capital, the reach, as you can imagine, of this platform has been a real game changer. I mean, today, we've got, obviously, many competitive solutions in the market where we're about to raise vintage number two and I'm expecting that to be a real success. Then we replicated that, to your point, with the aerospace defense and cybersecurity landscape with Airbus, Dassault, Thales, Safran in the middle of COVID when there was a great opportunity to help restructure the aerospace industry. Same thing, they invested €200 million, we invested €230 million from our own balance sheet, again, the skin in the game. We had the team led by our partner in Marwan Lahoud who was running Airbus for a long time, and so we knew we had a differentiating angle to then go and raise what is now a billion-plus fund. More recently, in the regenerative agriculture space, don't tell anyone I know nothing about that personally, but we know how to bring people, skillset, knowledge, expertise. We teamed up with Unilever under the leadership of my partner Cécile Cabanis, who had worked for 20 years at Danone. So we put together the asset management toolbox, Tikehau, the reach into a global investor pool. We bring the expertise, we put the team together, and here you've got a very differentiating proposal. So that's how we've been approaching, not only raising third party, as I call it, passive capital, but this very active capital. And by putting all that together, you can tell a differentiating story. And I guess, in the current environment, that's what investors are looking for, a differentiating story.

Simon Brewer

So those business partnerships are clear, somewhat unusual as well. Your equity partners are another story because I note that you have Temasek, the Singapore sovereign wealth fund, you told me, which I didn't know coming in, Morgan Stanley, I think you have recently taken on board part of the family of the Anheuser-Busch InBev, et cetera. Tell me a little bit about why they want to partner with you.

Mathieu Chabran

The story, once again, of the Tikehau journey, people we met along the way who bring a bit of capital, a lot of capital along the way, but again, just some expertise. We've been lucky to meet all of these people and the relationship we've developed over time, and you can name many others, family offices along the way that have backed us, sometimes, out of the box and yet today are still capital. I guess, we're giving them access to investment opportunities, once again, they wouldn't see otherwise because the way they organize will be only focusing on one geography, one asset class, when they're covered, obviously, by the private banks, they would see only part of the deal flow. And the Tikehau platform that you described, I mean, 14 offices today, three continents, just focusing on Europe. We've had a local presence in every single western European market. For us, it's not just about developing a dialogue with investors, it's about the sourcing. I have this saying I have been saying many times, good deals have no wheels. By the time some smart investors see an opportunity in the City of London through an investment bank coming out of Madrid, Frankfurt, Milan, I can tell you that a lot of smart investors in the ground can get their hand around that. So being local has given us this edge, multi-local, I like to call it, this edge to giving access to a deal flow that people wouldn't see otherwise. Remember, what we do is very much mid-market, it's extremely granular. You would not find, within the Tikehau story, one, big flagship transaction, multi-billions that we made the cover page of the Journal, it's getting access to alternative private markets that are all bespoke, all manufactured, it's handmade and I guess, they're certainly valuing that. That's for the sourcing. I come back to this very important point because now with the benefit of a few years, the fact that, not only the two of us, Antoine and I, at the beginning, our whole partners and even most of the old team, I mean today the team owns 57% of the publicly traded company. I think it's a second to none skin in the game in Europe and maybe in North America where each time we use a hundred from the balance sheet is 57 coming from the partners and the team. And that's a multiple of what they would normally be used to in a traditional, let's say GP/LP commitment, which again, I'm not debating, but that has also been a great differentiating aspect in our story that those entrepreneurs, those equity partners as you call them, have given us a lot of credit for.

Simon Brewer

And that does beg the question that all these investments are in the private sphere and yet you decide to list. There are merits and demerits in being a listed company. What swung it for you?

Mathieu Chabran

First step was for us to rationalize what has been a fairly intense journey of a corporate structure that had developed over the years, over the geographies, over the jurisdiction and bring the whole Tikehau platform under one brand, one name, one P&L, one umbrella. Tikehau Capital is one publicly traded company active across the various markets you define. So there was a real branding exercise to it. When you're public, you're fully transparent. Every quarter, every year you're fully naked in front of your investors, in front of your LPs and we believe that our industry benefits from this transparency. Second thing is, remember, we've been developing a fairly capital intensive model at Tikehau because we put our money where our mouth is and so we want capital to invest side-by-side with our LPs. That has been a great way. Since going public, we tapped twice the equity capital market in '17 and '19. We see that €1.5 billion which was roughly our book value. We raised since then roughly €1.5 billion today it's a €4 billion change market cap. So we can use that as a corporate tool getting a public rating. We are now a corporate bond issuers. We tap the US private placement market. So it's a real tool and as an entrepreneur that's great because obviously you are as good as your last fund, but you don't live and die on the merit of the next fundraising. You've got this evergreen, discretionary, very flexible and patient pool of capital as an enabler, as I said, to fuel your business. That was step one. The other thing I would mention, Simon, is unlike other IPOs, sometimes IPOs is a way to monetize some entrepreneurs and partners, we never sold a single share. Quite the contrary, since creating Tikehau and even with the recent fundraising, we ourself because we believe that's what entrepreneurship should be, being fully aligned. And the last thing I would say, because when people oppose being a private partnership versus publicly traded entity, if you create a full alignment of interest, which is I raise capital, I invest into my strategies, I go and raise third party capital...and by the way, I don't have any carried interest, Antoine doesn't have any carried interest, none of our partners have carried interest because that's what creates a little bit of the asymmetry when you are publicly traded. So we are fully aligned with the public shareholders but also the LPs given the amount of capital we invest side by side them in a fund format. So it's been a very interesting journey six years of being publicly traded, we've been using this tool. It's a tool, right? It's an enabler. As someone told me because last year, if you remember, many asset managers, the pricing was a little bit challenge, the stock price and as someone put it to me, he said, "Well, some people take it private, others take it to the next level," and that's what we're trying to do.

Simon Brewer

When we were thinking and talking about the investment pond in which you fish, we're going to talk about the climate in a minute, but as an investment process, you've got lots of ideas coming at you. How do you organize the investment prioritization?

Mathieu Chabran

First of all, if we double click on the Tikehau organization, it's not a two-man show, it's 80 Partners who are all, as I said, heavily invested and committing into the business who all have their own dedicated team within this integrated platform. And that's where we are effectively investing a lot as a platform is to make sure that whenever we launch energy transition, we've got the skillset, we've got the resources, we've got the investment capacity and sourcing capacity still within the Tikehau umbrella and organization. When we launched secondary private credit, brand new strategy over there in New York, same thing. Reg and Ag, as I mentioned. And it goes on and on. Having dedicated, responsible partners who are not just focusing on their own little playground, being only incentivized on their little business, "little”, quote, unquote, but effectively being a contributor to the whole. So our organization is really twofold, is three Co-CIOs, one in Asia, one in Paris, one here in London. I used to be one of them in New York, making sure that we can provide some aspiring partnership to our colleagues at the fund level.

And then when it comes to using the capital, if you're a Tikehau partner and you've got a great idea to launch a new strategy and you want to ask a hundred, 200 million to the partnership, you will come and make your case, you'll make the case to the partnership that the balance sheet should commit a hundred to 200 million in your strategy. And the strategy will have to stand on its own financially and then to be an enabler to a third-party fundraising success. And here again, the model, which might not be perfect, but that's how we've developed, has generated a culture and approach that is very much partnership approach. I remember when I first landed in New York, Simon, you would appreciate that since you worked there also, a lot of people, gray hair people were telling me, "Oh, that looks very much like the old style merchant banking where partners are together, there is a solidarity within the partners and the capital." So I don't know if it's merchant banking 2.0, but what I know for sure is that when you got your capital at stake and that you've convinced your partners, that's normally the best risk management you can have.

Simon Brewer

So I noted at the Milken Institute you said liquidity has a price and credit has a value. I've been in the camp that has been dismayed, firstly, by central bank's inaction in the face of monetary crisis and inflation pressures. And now, we have the wind in our face creating possibly more tensions than might've been imagined given the pace of tightening. I see monetary contraction is now in the US at the fastest pace since the 1930s, that's going to cause breakage. Tell me a little bit about how you assess the risk/reward of opportunities ahead, but also, portfolio companies.

Mathieu Chabran

If I may, I'll step back a bit. So I'm an investment banker by background, that's how I started here. So very boring. It's all about downside analysis. I must say that, the past, let's say 5, 7, 8 years, at times, we've been vocal and public about that we're a little bit lost in the way assets were valued because I think there's a difference between the price of an asset and the value of an asset. And that was, obviously, all driven by interest rates. And it's easy to say that today and no backing on my part, but when you got negative interest rates, no risk premium, what I learned at Merrill Lynch doing a discounted cashflow model, that didn't work. So when interest rates started to raise a year ago roughly, I was surprised to see that many people surprised that asset pricing were moving. Credit has always been a leading indicator and that's what happened this time last year, spring, summer. And here we are today effectively in a world where liquidity has a price because when LIBOR, EURIBOR offering is now whatever, four, 5% just to get a seat at the table is what you have to pay and no one has given you any money at that point. So yes, liquidity has a price. And then, you borrow money or people invest equity in you and the risk premium is no longer 200 basis points, but it could be 500, 600 basis points. So all of a sudden your cost of funding has moved from two, 3% to 10%. Again, back to basics, corporate finance 1.0, when you put this type of discounting rate, the asset you thought was worth a hundred maybe was 80, 60 or even lower. We are of the view at Tikehau that we're not expecting any interest rates cut anytime soon, certainly not in the US, but even more so in Europe where we've been lagging, I think the cost of liquidity should be increasing. So I don't think it's a threat, that's the current statute. Now the opportunity is that, all of a sudden, this abundant capital that has been flooding the market, the private markets rather in an indiscriminate way over the past 10 years is becoming a very valuable asset both for companies, entrepreneurs, but also for investors because now you're going to be able to generate in a market that has different entry costs, some discriminated returns, hopefully. So we started Tikehau in 2004, your EURIBOR was at 5%, that's... when, back right now in 2004/5, I mean, the world was not coming out of this inflationary environment that people have been worried about and using effective monetary policy. So the way we're looking at it, and our partner Thomas Friedberger has been very vocal about that, it's not simply a debate of inflation versus recession and how should we be playing with interest rates, there is a third component to that which is the liquidity. And I guess, too many people, including us, I mean, the market participants, have taken liquidity for granted for the past 12 years. I think, capital in a capitalist world remains a scarce resource and we're probably just at the beginning of this new chapter. It should be very interesting to be a capital allocator in this environment.

Simon Brewer

And very specifically, you sit in the US, you worked in the real estate debt management team at Deutsche Bank. Are you seeing or should I say, hearing the echoes as the commercial property market in the US gets squeezed and what are you thinking?

Mathieu Chabran

Obviously, real estate and commercial real estate has been a levered play because you got a contractual contract, a tenant paying you rent, so you're putting some leverage in front of that because you've got a recurring contractual coupon. And by the way, the lender as a security, a collateral, a first lien mortgage and if things go wrong, he can repossess the asset. Basic 1.0. There's been effect as a consequence of everything we discussed and inflation in asset prices because people were paying lower and lower capitalization rate because that was tied and correlated with the underlying risk-free rate. Lenders were lending a bit more money because value was going up as a consequence to that. And here we are at this inflection point with interest rates going up, cap rates going up, I would not even get into the work from home and the fact that commercial real estate might be less appealing for businesses to invest into and to have this type of assets on the balance sheet, but yet you have to factor in. Ageing real estate also. And so, effectively, we're at these crossroads now where, I mean, real estate crashes have been very cyclical. I started my career at Merrill Lynch on this desk in the late '90s with Antoine because at the time, we're coming out of the early '90s real estate crisis in Europe and in France in particular. And that's what Merrill Lynch was doing, they were buying non-performing loans. And remember the MSREF at Morgan Stanley, Merrill Lynch was doing that on balance sheet. It's been a great way to start my career in on this asset class. And so right now it doesn't take to be genius to see that effectively you've got all these aged inventory on banks' balance sheet attached to some declining commercial real estate value and you'll need to effectively work that one way or another. So if it's a CMBS, it's a bond, there is a process and if there is a payment default, it's a default. The referee whistle and it's a default. The banks they can do like they did on the buyout 10 years ago, the amended extend, they call it the 'pretend and extend'. So there'll be a bit of that, but I mean, real estate is not going anywhere, so it's about, effectively, entry price, basis cost, location. Obviously, I think Marc Rowan of Apollo last week at Milken said that it was not good time to be an office owner in San Francisco or Chicago, for example. But by the same token, I can tell you that a few weeks ago we closed on a building in the City of London, Blackfriars, at 40% lower than the ask price, fully let seven plus seven, nice tenant. And just because you had a motivated seller define as someone somewhere decided that they wanted to reduce their allocation, and markets are efficient. And the private markets, effectively, would find their equilibrium price based on the supply/demand equilibrium. In the US, clearly people are nervous about the commercial real estate because that's make up a lot of the regional banks' balance sheets, and I won't come back on what happened over the past few weeks. It's also true in Europe, but we see that as an opportunity because once again, it's a yield play, it's a compounding play, it's an inflation hedge play through the leases and selling the lease back, while tenanted or repositioning an asset. We own one on Pall Mall right here at Tikehau that we acquired a year ago which we are converting. That will be some interesting plays.

Simon Brewer

We had Huw Van Steenis on a few weeks ago who is really one of the great bank analysts and commentators, and Vice Chair of Oliver Wyman. And he was making the point that many of us, I think, appreciate is that because of regulation and all sorts of other reasons, the European banking system is largely less leveraged and more constrained than its US counterpart. Which leads me to my question, which is the US, in many areas, is overvalued, the equity market versus others? Always there's an explanation, particularly at the top of a market, about why technology dominates the rest of it. But Europe is intriguing, we have Philipp Freise from KKR who came on and talked about the opportunities. You are very active in Europe, but there's a big contradiction isn't there? You've got this high-level sclerosis governments that have not instituted supply side reform, whose taxation rates are arguably too high, who in the case of France, a groundswell of resistance to change. So macro, you can paint quite a dark picture of that Eurosclerosis, but bottom-up, I'm getting the impression that you are really quite excited. How do you reconcile those two positions?

Mathieu Chabran

The fact you're mentioning bottom up is the key here because it's not just top-down and the perception, what you see on screens. The reality is that Europe, as a whole, France in particular, but Europe as a whole has become a real entrepreneur's playground. And we see more and more in the young generation, but also the not that young generation; people coming out of large corporates, effectively going their own way and having ideas, creating processes, creating products, and you have to scale them. And the capital market in Europe, and that ties back to your point, are maybe less efficient than, let's say in the US. If you are a FTSE, DAX, CAC 40 company, you have access to almost everything you want, debt and equity. But if you're a mid-market company, which is what the European market is made up of, like a mittelstand in Germany, Northern Italy, you have fewer alternatives, you have less alternatives. If you want to sell your business, you have all the buyout shops you can think of, based here in London or elsewhere, to buy the control of your company. But if you're looking for some capital, debt or equity, to scale your 25, 50, even a hundred million EBITDA business, you have less alternatives. In the US, asset managers have been key component of the financial market industry for a long time. They've got BDCs, business development companies, non-banking institutions providing credit. Here in Europe, we don't have that. So I've seen a number of times, lately, the golden age, it was more on the private credit, but for me, it's for the private market because the traditional players, again, banks, insurance companies, those of us in Europe who have sovereign wealth funds or quasi-sovereign wealth funds, but you've got this whole playground for asset managers and there is no shortage of good entrepreneurs, good companies, good ideas. But for that, you have to be local and at times, at times, hopefully, for our major US competitors, it's easier or it used to be easier to operate from London and do a fly in, fly out to whatever, Madrid, Milan, Frankfurt, Berlin than having the local teams on the ground. So I would echo what your KKR guest said, platform and firms with the right setup locally with the right sourcing, and I come back to my skin in the game, will make a massive difference because here again, Europe is not going anywhere. And quite the contrary, in terms of the bedrock of entrepreneurs, I mean, we're talking about aerospace, we're talking about energy transition, cybersecurity, which is one of big threat and opportunity here. But for that, you have to be prepared to make the investment. I'm bullish on Europe.

Simon Brewer

I was astonished when Nicolas Dufourcq who runs the French sovereign wealth, BPI, told me that in a survey they'd done, 50% of French youth wanted to be entrepreneurs. You have been incredibly entrepreneurial, but you've now got a big organization. How do you retain that entrepreneurial spirit?

Mathieu Chabran

Well, first of all, I don't know if we are a big organization. I can tell you that since I moved to New York, the closer you get to Park Avenue or a 9 West 57th, the smaller you feel. So it's a great way to remain on the edge and not to get too comfortable because I guess, comfort is the first step to complacency. So that's the first thing. And I can tell you that Antoine and I, we are as we were the very first day, if not maybe even more excited because now we've got more resources, a bigger platform. And that's what we try to do every day with our teams and only attracting people. But the day-to-day, the way we operate with our team is to maintain this little 'je ne sais quoi', maybe, Simon, where people would join us rather than join a competitor because they would find something different to make the most of what they want to do. And to come back to Nicolas Dufourcq and BPI comment, they've been great partners of ours. It's great that they can highlight that, which ties back to what I was telling you. Being an entrepreneur or launching a project, an idea or startup, whatever you want to call it, over the past 10 years, you had this abundant capital. The people who are going to be doing that next month rather than last year, they're going to be even more particular to monitor because it takes quite a bit to leave a comfortable position today in 2023 than it was maybe five years ago. Most of the biggest success the recent past 10 years, company success, have been created during a recession or after a crisis. I'm not saying that's where we are right now, but when capital is most selective, the one who's going to make it here will be the winning stories.

Simon Brewer

I've had a question from Martin Armstrong who's the Founder and Chairman of Armstrong International who understands recruitment better than most, and he said, which area of your business do you find the most challenging to source top talent?

Mathieu Chabran

Okay, so I'll open the trunk a minute. We had, a month ago, our management offsite, two days in the countryside in Paris. We said, no pitch books, no slides, no presentations, none of all that. I stood up, I wrote on the board three words, I wrote 'people', 'performance' and 'process'. And I asked all my partners and all the people who were attending this session for two days just to debate and discuss around three words, they were opening and leading to some discussions; people, performance, process. And you see that I'm putting people first because people will drive performance, but people will be critical to processes. And without processes, you don't get performance. Without performance, you don't get investors. And investors don't come if you don't have the processes. And so, all that comes back to people. 750 people at Tikehau today, we started the two of us. And joining Tikehau 15 years ago is obviously very different than joining Tikehau 15 months ago. But we're trying to maintain this approach where both us at a senior leadership role, but day-to-day in operations, we gave all the focus. So we are in an apprentice business, so you can hire people from the top schools, from the top investment banks, from the top consulting firms, what have you, like it used to be when I was a young analyst or associate, but the reality, and I applied that to myself by the way, plenty of stuff that we've been doing over the past 20 years, I knew nothing and I still to the day know little about, but you bring the expertise and you build this collective intelligence. It's interpersonal skills, it's softer skill sets. Goes back to what I was saying earlier that we'll be getting along because we're going to be working 17 hours a day with those people.

Simon Brewer

So some closing questions. If you're a young person thinking about the world of finance as a career, what words of advice will you offer?

Mathieu Chabran

Be curious, work hard, be on the ball. The world of finance, it's interesting because it's been driving the modern world for a long time, but it's either a commodity because everywhere there is some capital, or you make it something different. I think that what we enjoyed working in investment bank in the late '90s and then developing our own platform with alternative asset management is trying to make something different. We have this saying at Tikehau, which says ‘create don't compete’. And that's what young talent willing to join the industry should think about. Where can I make a difference, not by benchmarking myself to what others are doing, but by bringing something different? It's true at the micro level in a team, but also the macro level when it comes to coming up with an idea and a proposal and putting that in motion.

Simon Brewer

I have to ask you, Tikehau, which if people haven't read, the name is T-I-K-E-H-A-U, which I think is a French Polynesian island, made me think that one of you two founders must have spent too much of your idle youth hanging around in the southern Pacific.

Mathieu Chabran

No, it all goes back to Antoine's personal life and his daughter Riva and her mother coming from Polynesia when he started and launched the company in June '04, and when I shortly joined later on, that's how we named the company. Remember at the time, a number of firms were named after some street names here in London and he went way, way further away over there in the Pacific. But to your point, because you had to spell it, it's true that now we're also going with the acronym TKO, which is also our Bloomberg ticker. And as I landed in the US, that's when this American in the Midwest told me, "So that means ‘technical knockout’!"

Simon Brewer

God dammit! Tell me this, one week's holiday anywhere in the world, you want to switch off from markets, where do you want to go?

Mathieu Chabran

South Corsica.

Simon Brewer

South Corsica, Spérone?

Mathieu Chabran

South Corsica, wider.

Simon Brewer

One of the lovely golf courses. I have to say that I've been lucky enough to play. That's been a really fascinating conversation. I'm going to try and take three points that struck me that in your business scale and reach matter. Number two is that there is a significant opportunity in the European mid-market space that doesn't naturally find itself able to attract capital. And despite the macro story which has forever appeared bearish in Europe, actually hides a host of opportunities bottom up. And the three-piece, people, process, and performance, underpin a lot of the way you think about the business. So Mathieu, thank you very much for being with us today.

Mathieu Chabran

Thank you, Simon.

Simon Brewer

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