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2016's Most Innovative Hedge Fund Manager: USA/Europe

The Prudent Group are a highly innovative company who provide working capital to the small and midsize corporate market segment sector. We spoke to Dennis Klemming, Chairman of Prudent Group, to find out more about their firm and the solutions they offer.

To start us off, could you please give us an overview of your company and what you are about?

The Prudent Group strive to provide the very best supply chain financing solutions to suppliers of well established, often globally, recognised companies. The firm's ambition is to create long-term relationships with counterparties that allow for highly predictable transaction patterns.

How long has the firm been going for and where are your offices based?

Since the firm's inception, the Prudent Group has remained focussed on Brazil, where the firm has operational offices in Sao Paulo and Porto Alegre. The team has been built up over many years with a lot of our colleagues bringing in more than 25 years of industry experience. During this time, different departmental teams have joined forces to form the firm's current corporate family culture built up throughout 2009-2016. Although Brazil is our prime area of interest, the administrative support functions and investor relations are spread out in Luxembourg, Vienna, Miami and New York.

As a company working in highly competitive industry, how do you stand out from the crowd?

What make us different boils down to a few basic assumptions. Firstly, the Prudent Group believe that the alpha pockets in the traditional investment segments are already overcrowded. Secondly, our focus is to create repeatable proprietary value added transactions by exploring the unique set of circumstances that exist in certain low risk market segments, within specific industries for short-term financing of commercial transactions.

Thirdly, the Prudent Group are focussed on the shadow banking area, where we see plenty of opportunities to take advantage of. Traditional banks generally are too large and bureaucratic and often too slow to adapt, which leaves many excellent companies without traditional bank financing to meet all of their financial needs. Lastly, we emphasise different forms of collateral to back up the underlying commercial transactions.

Can you go into more detail about the areas your company specialises in?

Our company is firmly focussed on transaction flows that have predictable transaction patterns, such as a food supplier delivering truckloads of pasta

every week to a chain of supermarkets. In general, Consumer Staples is a preferred sector over a heavily cyclical occasional delivery pattern. We prefer suppliers that have a proven long-term track record and who are familiar to our key team members. As such, clients that have better balance sheets, better payment track records and provide a good collateral are preferred.

What kind of clients do you serve and how do you approach them?

There is a market of about 150,000 companies in Brazil alone that use a product such as ours in one way or another. Our strong commercial team with 20 specialists is always out looking for new candidates. The Prudent Group are fortunate to have experienced colleagues with excellent networks to build from across most sectors, and geographical areas in Brazil. Typically, a client is a family-run business second or third generation with 50 to 2000 employees, and a long-term history that is familiar to our team.

On the subject of people, what role do your staff play in the successes of your firm?

The Prudent Group's business model is built around the concept of a process type of operation, where each part plays a very important role. The different parts can be described as: commercial client acquisition, data review, credit analysis, transaction monitoring and collection. If one department fails, the whole process lingers.

This is very much a people business where experience counts while we at the same time use sophisticated electronic transaction systems to handle the large volume of transactions. At the Prudent Group, we are however very fortunate to benefit from highly predictable and repetitive transaction patterns, which makes the task easier for our teams.

According to the Barclays Hedge Fund Index, 70% of hedge funds grew within March 2016, with an average growth of just under 2.5%. With this being the sharpest rebounding of such funds since October 2015, why is now the perfect time for the major players in the industry to showcase their services?

From our experience, there will never be a better time than right now for any type of value added product to deliver excess performance! The global pension system is starved for investment products

that can meet the increasing saving demands. The current experiment with negative rates in many countries is a dangerous one, at best with yet unforeseen negative consequences.

The key to resolving the problem lies, in the Prudent Group's opinion, to provide easier access to capital for smaller entrepreneurial companies. No one can run a business at full speed without access to sufficient working capital! This is a time when we all need to participate in the best we can to avoid major financial headaches later on. The Hedge Fund industry plays a vital role in ameliorating these global economical misalignments in the financial system.

Can you give any examples of any successes your company has had lately, such as achieved above-average returns, attained strong Sharpe Ratios and overall alpha generation or any other appropriate examples?

The Prudent Group recently set up a real time direct electronic link up with the ordering system for GPA. GPA (Grupo Pao de Acucar) is one of the world largest retailers, listed at NYSE with a Global AA investment grade rating. This allows us to select certain orders and help the supplier to get quicker access to more working capital. In addition, the Prudent Group recently signed an agreement with Petrobras, where this aforementioned firm now offer our services on their website to their suppliers. Every new client that we can help generate more business transactions, leaves us with a sense of satisfaction.

We work with over 200 different suppliers and generate 1000's of transactions each month. The Prudent Group purposely try to avoid maximising margins on each transaction. In the long run, the client and ourselves benefit, if we are both reasonable. The client does not need to look elsewhere for working capital and we do not need to chase new clients as often. In our opinion, each transaction should have two winners!

Can you tell us about your career background prior to attaining your current position?

I studied law and business and worked as a financial analyst, but over the years I have worked with different financial products, spanning from corporate finance, institutional sales and international fund distribution. I have had Brazilian exposure over the last 16 years and much financial market experience during the last 30 years.

As a hedge fund manager, what opportunities and challenges do you encounter in a daily basis?

None of us considers ourselves to be hedge fund managers to start with, which might help us to approach the challenge differently. Most of the operational people involved have never worked in the so-called Wall Street or London City financial industry. The opportunities that present themselves have been there for a long time, but we simply did not connect the dots. Now, we do!

Each transaction leads to another opportunity through references and word of mouth. Every satisfied customer knows at least one more potential client! As time goes by, the Prudent Group is becoming better and better in our execution and more accepted as an investment alternative, and therein lies the opportunity. Hard work and attention to detail is key to the firm's future success!

The recent crisis in Brazil has been a great opportunity for us. Good companies have a hard time getting the service they need from the banking system. Instead they bring excellent business opportunities to us. As a consequence, the firm's current local single A investment grade rating will hopefully improve as the quality of our portfolio is gradually improving.

The challenges that the Prudent Group face on a daily basis are several, often related to maintaining focus on the task at hand and minimising distractions. A concrete challenge is to ensure that the financial information available on our borrowers reflect the true conditions. We have an extremely talented chief credit officer, as well as a separate head of credit research, leading this important work. In addition, the ongoing efforts to expand the firm's research competence in order to establish the financial standing of our borrowers and the financial soundness of the collateral we accept, is a critical task we believe.

It also means that the Prudent Group puts significant emphasis on keeping the channel of communication open between credit and commercial officers who bring in the business. We are putting emphasis on incentivising the commercial officers to prepare standardised call reports when they visit the client and more importantly incentivising the commercial officers to care about loan quality and collateral quality. Thus, to overcome this challenge, that of having insufficient accurate financial data and achieve the excess returns available in financing short-term commercial transactions, we are investing heavily in our operating staff and human capital.

The good news for the firm's business model in general is that there are very few unknown variables to deal with. If we fail to deliver our target returns, the Prudent Group has no one else to blame other than ourselves, which is wonderful!

Looking ahead, do you have any plans for 2016 and beyond that you would like to share?

Yes, we have recently been approved to distribute our fund products locally in Germany and Sweden

to well-informed investors. In addition, the Prudent Group are opening up a new sub-fund, entitled the Prudent Enhanced Yield Fund, that will have an insurance wrapper from a leading Global AA-rated insurance company. This product will target very large corporate payees, often with their own investment grade ratings. This implies that we will provide investors with a chance to benefit from a more secure transaction model. Our target is to generate close to double digit annual interests on an unleveraged basis with a global investment grade receivable (Payee) backed by a global AA- insurance company guaranteeing the payments.

Lastly, how does it feel to have been awarded 2016's Most Innovative Hedge Fund Manager: USA/Europe?

Here at the Prudent Group, we are extremely surprised! While the financial industry worldwide is filled with clever people delivering great products, the Prudent Group is simply running an operational business providing working capital to smaller companies.

Ultimately, the Prudent Group sincerely appreciate the recognition on behalf of its 65-man strong team. It would be a pleasure to welcome any enquiries from Acquisition International's readers to see if this investment product is right for them.

"This award is not only for our investment team, represented by some of our colleagues in the picture such as our local head Giovanni Cataldi, Edivaldo Albuquerque, Edson Luis Paulino, Mario Delbianco, Ralph Levy, Jacob Gitman, Luciano de Claro, Jon Malmsater, Isaias Melo, Alfred Neimke and David Kallus, but for all of the hard working team members in Brazil and elsewhere.

Please note that the firm's investment product is registered in Luxembourg and is focused towards professional investors, family offices or high net worth individuals. The investment products are not offered for sale to any retail investors. Feel free to reach out to info@prudentgroup.us for more information about the Prudent investment family. So on behalf of the Prudent investment family, thank you!

