

## **Firm Overview**

Monachil Capital Partners LP is a private credit-focused investment adviser specializing in asset-backed lending. Generally, our strategy uses collateralized lending structures (also known as “rediscount lending” or “warehouse lines of credit”) to advance capital against a pool of cash-generating financial assets, such as loans. This investment approach has enabled us to consistently generate attractive risk-adjusted returns for our investors since 2020. Unlike traditional direct lending, which focuses on EBITDA or corporate profitability, our collateralized facilities prioritize the credit quality of an underlying pool of loans or financial assets.

By lending at a discount (or “haircut”) against a pool of collateral that is, to some degree, isolated from the corporate entity, we are able take into account the value of assets serving as collateral in the transaction rather than solely relying on the trajectory and value of the underlying business. In the course of researching our opportunity set, we have noticed that our target market of specialty finance originators with loan books sizes of under \$30 million has been deeply affected by the retrenchment of banks over the past few years. This trend has increased the number of identifiable investments, and it has also served to make transaction terms more favorable for us as a lender. Benefiting in this sector of the private credit market from both quantity and quality of prospective investments, we believe our strategy is uniquely well-positioned to take advantage of the vast array of opportunities available to those who are willing to deviate from traditional direct lending investments.

## **Monachil’s Inspiration**

I would like to take a moment to put these investments in context. My finance career began at Goldman Sachs in 2004, where I had the opportunity to work across structured finance, derivative trading on ABS and CLOs, CLO warehouses, infrastructure financing, and warehouse lending. The inspiration for Monachil came from my last five years at the bank, where our team increasingly focused on financing solutions for specialty finance originators. Although we fielded inquiries from originators of all sizes, our large balance sheet and low cost of capital led naturally toward larger clients.

Over time, technology solutions (particularly through SaaS platforms) became more readily available for use by specialty finance originators, which significantly lowered barriers to entry in the industry. With SaaS products replacing the need for investment into fixed costs associated with building the infrastructure and expertise, specialty finance companies no longer needed to hit lofty growth targets to recoup their investment and become profitable companies. As such, new specialty finance companies emerged which would not achieve behemoth size but still manage to build substantial loan portfolios and to be quite profitable.

Providing financing to this classification of companies is not well suited for the balance sheet of a large bank, especially since these specialty finance originators were not the typical candidates for traditional bank financing structures. This further impeded small specialty finance originators from accessing debt capital, creating ample opportunities to generate more attractive risk-adjusted returns. In addition, debt investments with these originators can be structured to have even more credit enhancements than were achievable with later-stage, and sometimes pre-IPO, specialty finance companies.

Moreover, a lender to these specialty finance companies can benefit from their niche focus and their ability to originate unique and uncorrelated underlying assets. In many instances, these companies rightly believe in the strength of their process and products and are willing to provide additional credit enhancements in exchange for debt capital vital for expansion.

### **Current Factors and Trends Impacting Specialty Finance Lenders**

There are a few factors generating secular tailwinds for Specialty Finance companies. Most of these changes are driven by enhancements in technology solutions across different areas of lending, as virtually all aspects of the business cycle—from customer acquisition (i.e., finding borrowers) to risk management, loan servicing, and payment processing—have become more technology-driven.

Online origination, powered by digital lead-gen and advertising, has extended the reach of online lenders and has eased the process of expanding into new markets and territories. Administrative costs have generally declined, also, making business models for new types of specialty finance companies sustainable. At the same time, bank retrenchment from some of these markets has created more demand for the products of specialty finance originators.

### **Monachil's Position within Private Credit**

What sets Monachil apart from traditional private credit funds is our focus on asset-backed lending rather than direct lending or corporate credit. While many private credit managers concentrate on financing middle-market companies through unsecured or cash-flow-based loans, we take a different approach, specifically lending against tangible and financial assets at a significant discount while requiring the originator itself to hold the first loss piece. This emphasis on collateralized lending enhances our ability to mitigate risk while still capturing attractive risk-adjusted returns. Furthermore, our sourcing strategy is deeply rooted in established relationships in what are rather niche corners of the market, allowing us to access opportunities that are less exposed to competitive pressures.

While market conditions can impact the performance of the underlying collateral backing our loans, our approach to lending combines with our reliance on financial collateral to mitigate our exposure to business cycle fluctuations and other macroeconomic factors. By placing the first-loss risk with our counterparty, and keeping a low advance rate against the assets supporting a facility, we position ourselves more defensively, ensuring that losses on underlying loans must reach a relatively high threshold before impacting us.

Ali Meli  
Portfolio Manager  
Monachil Credit Income Fund

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If you would like to subscribe to receive monthly commentary, please contact us at [ir@monachilpartners.com](mailto:ir@monachilpartners.com).

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