HMC Capital's ex-Macquarie banker targets $5b for private credit arm

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HMC Capital wants to build its new private capital outfit into a $5 billion-plus business, joining larger investment firms looking to capitalise on the growth of private credit.

The asset manager will wrap up its acquisition of Melbourne's Payton Capital next week, after it inked a $100 million capital raise that funded the $127.5 million purchase, according to chairman Matt Lancaster.

Matthew Lancaster will chair Payton Capital, the private credit vehicle bought by HMC Capital for $128 million. **Louie Douvis**

David Di Pilla's HMC will pick up about 70 staff spread across Melbourne, Sydney and Brisbane from Payton, which currently manages about $1.7 billion in assets. Mr Lancaster, an ex-Macquarie banker who co-founded its principal finance business, said Payton's assets should swell to about $2.5 billion by June next year.

"It is starkly apparent to me that we are still in a very nascent stage of the development of the private credit markets [in Australia]," Mr Lancaster, who worked for Macquarie in New York, told *The Australian Financial Review*.

"It feels like what I saw in the States more than 10 years ago." The *Financial Review* first reported on [https://www.afr.com/markets/equity-markets/di-pilla-s-hmc-buys-payton-capital-in-5b-private-credit-push-20240524-p5jgca] HMC's purchase of Payton in May.

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Asset management firms from Tanarra Capital to Regal Funds have piled into private credit. Fund managers have raised billions of dollars for such vehicles, which then lend to businesses that typically cannot get traditional bank financing. Swathes of investors such as family offices and institutional money have latched onto funds that promise returns in the early- to mid-teens.

HMC-backed Payton is targeting returns between 10-12 per cent for investments in commercial real estate and subsequent property [https://www.afr.com/property/commercial/di-pilla-s-hmc-plots-20bn-mini-blackstone-with-energy-and-ai-moves-20240220-p5f6a6] development financings. Payton will eventually branch out into other areas, including asset-based finance that targeted between 9-15 per cent in returns.

Payton's business is mostly residential, real estate finance across Australia's eastern states. Mr Lancaster, however, said Payton to date had largely relied on family offices and wealthy individuals for capital, and there was appetite from deep-pocketed institutional money.

"I have spent about six months going through the Payton business. To date, it has not tapped institutional funding sources to any material degree," the former Macquarie operative said.

While investors are lining up for a piece of private credit funds, the asset class has drawn scrutiny from market observers because of its opacity. Making private capital available to a wider part of the investor universe introduced "significant operational complexities" for asset managers, Moody's Investors Service wrote in a note in May.

Australian Prudential Regulatory Authority chairman John Lonsdale said the regulator watched "all the risks" including those inherent to private credit, speaking at an event on Wednesday.

To mitigate risks to investors, Mr Lancaster said the firm would provide monthly updates on the performance of the vehicles, and believed there was enough evidence in real estate to de-risk investments.

"The short answer is we are investors. We adopt an evidence-based lens, and the beauty of commercial real estate is there is a lot of evidence," he argued.

Mr Lancaster and HMC founder Mr Di Pilla had worked to get a deal with Payton done since last Christmas. Founded as an accounting firm, Payton was revised into an investment manager in 2012.

The pair have already lined up $500 million in credit from two investment banks, taking the fund manager's loan book above $2 billion. Mr Lancaster refused to disclose which two banks Payton had secured credit from.

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