THE GLOBE AND MAIL

An 'old-school' approach to lending allowed this investment fund to generate decades of positive returns

TIM SHUFELT INVESTMENT REPORTER

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With 326 consecutive months of positive returns, Romspen Investment Corp. might have the country's most consistent investment fund.

As a provider of high-interest mortgages to property developers who typically don't qualify for bank loans, the fund may not appear at first glance to be built for an almost absurd level of steadiness.

After all, the private debt space in Canada is still tainted in some investors' minds by the Bridging Finance debacle, which is ultimately expected to cost investors more than $1-billion.

But no manner of scandal, shock or disaster has managed to compromise Romspen's performance – until the pandemic.

Managing partner Derek Jenkin spoke with The Globe and Mail about those fraught early days in March, 2020, and how the fund got back on track.

This fund has returned an annual average of 7.6 per cent since the mid-1990s with next to no volatility. How?

Yeah, that typically shouldn't happen. You're supposed to either be subject to fluctuations in the equity markets or interest-rate changes. But there's nothing complicated about it. It's an old-school lending tenacity that hasn't been messed with. When I joined in 2015, it was surprising that it wasn't much larger of a fund – it was only about $1.4-billion. It's the best-kept secret in investing.

Describe "old-school lending."

These are first mortgages, so we're always in control. We require a great deal of collateral. One of the key components of the process is that when we have a loan that fails on us, we'll take the property over if we have to.

How does that work?

We have teams internally that can complete the work and look to maximize the value of the property. In the traditional model, you would just sell it off and crystallize a loss. And to offset that, you would take on leverage to issue additional loans. You could borrow at 3 per cent and lend out at 10 per cent. Now you have a burn rate, and you still have to pay the 3 per cent on a non-performing asset, so you're going to be highly motivated to get it off your books, even at a loss.

Did many of your borrowers stop making payments when the pandemic hit?

We saw a big spike of non-performance – into the 40-per-cent range. We certainly could have started foreclosure on a large number of our borrowers, but it wasn't the market for that. Labour markets are disrupted. Trade routes, supply chains are all disrupted. Banking is disrupted. Courts are closed, permit offices are closed. You can’t get engineers to a site to do inspection. Everything you need to complete construction projects, it’s all in chaos. So we decided to work with our developers to help them get back on track. About five months into the pandemic, we started to see the fruits of that labour.

You had to cut your monthly distributions and freeze withdrawals from the fund. What went into those decisions?

Monthly distributions are like the heartbeat of our fund. And you can see the impact of a pandemic put us into a bit of a cardiac arrest. What do you do? You don’t have good data to work with, so you can’t make good decisions. So we paused the fund – we paused redemptions and we no longer took in new money. We had to make sure we protected our investors’ capital. By the end of the year, we were back to our normal distribution. And on Jan. 1, we started to complete redemptions. Since then, we’ve issued over half a billion dollars in redemptions.

Did you lose investors after the Bridging Finance story broke?

It certainly rocked the boat. Many investors thought it was best to leave the sector for a while.

Did you take any lessons away from the scandal?

For us, it’s about transparency. Each one of our mortgages is public record. We publish all of our audited statements online, even though as a private lender, we are under no obligation to do this. Romspen is the gold standard in this space.

This interview has been edited and condensed.