

Opalesque Roundtable Series '18

ALTERNATIVE CREDIT

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Editor's Note

Since the financial crisis, alternative credit has gone through a major boom. Pension funds are increasingly making alternative credit a **strategic part** of their asset allocation, not a tactical or opportunistic one. In a recent survey, alternative credit strategies now account for 7.0% of total assets of pensions.

However at this point, concerns abound about being late in the credit cycle, spread compression and that covenants have never been weaker. We are also starting to see defaults quietly pick up in the direct lending space, but people aren't really talking about it.

Meanwhile, investors are still desperate for uncorrelated income streams. And so, *rather than continuing to allocate to an on the run market, investors may want to analyze what (risks) they have in their portfolio, get away from beta, focus on credit selection and look for niche opportunities and places that can do well even in market shocks.* Alternative or private credit can potentially still be an option for that.

The Opalesque ALTERNATIVE CREDIT Roundtable, sponsored by SANNE, took place in New York with:

1. Henry (Hank) D'Alessandro, **Managing Director, Head of Morgan Stanley Credit Partners**
2. John Steinhardt, **Co-CIO & Co-Managing Partner, KLS Diversified Asset Management**
3. Egidio (Ed) Robertiello, **CFA, CIO & Managing Partner, Blueprint Capital Advisors**
4. Jonathan Berger, **CEO & CIO, Birch Grove Capital**
5. Mark Tecotzky, **Partner, Ellington Management Group**
6. Brian deLucia, **Managing Partner, Arrivato**
7. Jeffrey Hahn, **MBA, CPA, Managing Director, FLSV Fund Administration Services, a Sanne Group Company**

The group also discussed:

- **The top "do's and don'ts" of alt credit investing (page 17-20). Sourcing and due diligence (page 20-21). Size constraints (page 8). Monitoring and risk management (page 21-23)**
- Why Morgan Stanley Credit Partners does not participate in the traditional middle to upper middle sponsor leverage loan market (page 8). What does quantitative tightening mean for (alt) credit markets? (page 9)
- **Opportunities in non-QM mortgages, asset-based lending to retail companies (page 9), lower middle market senior loans & the broader private debt market non sponsored companies (page 10), cherry-picking in the idiosyncratic credit space (page 10), M&A-focused credit opportunities (page 11), niche specialty lending (page 11), reverse mortgage originators (page 14), smaller balance commercial bridge loans (page 16), restructuring opportunities (page 24), Europe (page 25)**
- Risks and limits of the cash advances model (page 15-16). Update and viability of **peer-to-peer lending & FinTech (page 15-16)**
- Has the bank disintermediation story ended? What drives alternative credit, private debt from a macro and micro perspective now? (page 13-14)
- **Alt credit from the family office perspective.** When and how do family offices engage in alt credit, and what are they looking for? (page 11-14)
- The benefits of being a value added lender (page 13, 20-21)
- Trends, Outlook & Risks: **Canaries in private debt mines?** (page 23-26)

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles



(LEFT TO RIGHT):

John Steinhardt, Brian DeLucia, Jonathan Berger, Henry D'Alessandro
Jeffrey Hahn, Ed Robertiello, Mark Tecotzky

Introduction

Henry D'Alessandro
Morgan Stanley

My name is Hank D'Alessandro and I am responsible for Morgan Stanley's private credit business where we run two strategies – lower-middle-market senior loan strategy, and a mid-market junior debt strategy.

Jonathan Berger
Birch Grove Capital

I'm Jonathan Berger. I am the founder and CIO of Birch Grove Capital. We are a multi-strategy credit asset management firm and manage a number of strategies including absolute return funds, direct lending funds, fixed income funds as well as collateralized loan obligations.

Brian DeLucia
Arrivato

My name is Brian DeLucia, I am the managing partner at Arrivato. We are a single-family office and mainly had been real estate development and telecom development centric over the last 30 years. Outside of that, we also handle the US business interests for large non-US families in real estate, alternative energy, oil and gas and agriculture strategies.

John Steinhardt
KLS Diversified

John Steinhardt. I am one of the Founding Partners, Co-CIO, Co-Managing Partner of KLS Diversified, which is a fixed income asset manager.

KLS invests approximately \$4 billion all across fixed-income; that includes structured products, credit products, which is my specialty, and rates products globally – both developed and emerging markets. We manage accounts that include all of these strategies and accounts that focus on exposure to one or a combination of these products. Each of our partners has 35-40 years experience in fixed income products.

Mark Tecotzky
Ellington Management Group

I'm Mark Tecotzky, I'm a partner at Ellington Management Group. We focus on structured credit and manage about \$7.4bn in private debt vehicles, hedge funds, and separate accounts. We issue our own CLOs and we also have two public companies.

Ed Robertiello
Blueprint Capital Advisors

I'm Ed Robertiello. I'm the Chief Investment Officer and Managing Partner for Blueprint Capital Advisors. Blueprint is an investment platform that provides institutional investors access to niche alternative investment managers and strategies.

Blueprint specializes in strategies and managers that traditional and alternative consulting firms avoid due to their complexity, specialization and capacity constraints. These strategies have attractive return characteristics such as double digit un-levered returns, low to no correlation to traditional asset classes, high current yield, no J curve and downside protection. Blueprint has developed a platform with structures that make it easier and more economical for investors to access these strategies.

Jeffrey Hahn
SANNE

My name is Jeff Hahn, Managing Director of Alternative Assets in the Americas at SANNE. As proud sponsor of today's roundtable I look forward to the discussion and would like to thank all our participants for joining.

I cut my teeth in accounting and then worked for over 17 years at Morgan Stanley as CFO of the private equity infrastructure businesses; Hank was one of my colleagues there.

In 2009 I had the opportunity to spin out with Morgan Stanley as my client, and I grew the New York platform, where today, as a fund administrator, we administer more than \$70bn of committed capital across closed-end funds only, not hedge funds.

We service everything from leverage buyout to venture capital to real estate, to every part of the debt structure. We have about 12,000 limited partners on our platform and over 90 people in New York with another 80 people in Belgrade, Serbia. In 2016, I realised the world is getting smaller and a lot more complex, particularly with AIFMD and other regulatory issues, and I therefore felt we need to become part of a global platform. SANNE was a perfect fit for us. Also in retrospect this turned out to be a good idea because 25% of my clients are now receiving services from SANNE in our Luxembourg and Dublin operations. SANNE's global footprint employs more than 1,300 people across 17 locations and as a group we are spread across the US, Europe, Africa, Asia.

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Matthias Knab

If you look at any asset class, it can actually only grow when there's investor demand. So, over last 10 years, since the financial crisis, alternative credit has gone through a huge boom.

You may have seen the [recent paper from Gapstow](#) where they examined nearly 1,000 credit allocations from 40 pension plans who control over \$1 trillion in assets. The report found that pensions are increasingly making alternative credit a strategic part of their asset allocation, not a tactical or opportunistic one. Alternative credit strategies now account for 7.0% of total assets of those pensions. This growth in alternative credit allocations is typically associated with a systematic decrease in the use of traditional investment grade credit strategies.

I was wondering if you can add some color to those findings from your own businesses and your interactions with your investors. Is your alt credit business still growing?

Jonathan Berger: From our perspective alternative credit is still growing, even though there's a lot of concern about where we are in the credit cycle.

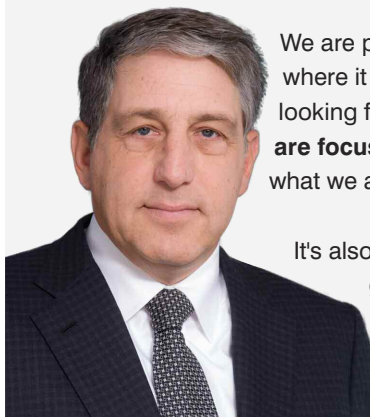
Everyone is talking about being late in a cycle, however investors are still desperate for uncorrelated income streams. Our focus is not on the broadly syndicated market. We create uncorrelated returns in areas that can do well even in market shocks. Opportunistic private credit is one option.

There's a demand, but investors want to be uncorrelated. They want to focus more on credit selection and not try to buy the market.



John Steinhardt: I agree with Jonathan. There are, of course, different investor groups and they look for a lot of the same things but also different things too. I agree that they are certainly looking for uncorrelated returns.

The other thing is that by now most investors will have realized that rates globally and certainly in the US are going higher and not lower – and want to get away from beta and investments that are correlated to where interest rates are going – which can also include stocks over the next x-years. Whether we are in the 6th inning or the 9th inning in this credit cycle, nobody really knows, but a lot of people are worried.



We are probably somewhere in the latter part of the cycle – I wouldn't give you a prediction as of exactly where it is and I don't think it really matters, unless we are really at the end. So correctly, people are looking for uncorrelated returns and I think they are out there, but it also worries me that a **lot of people are focused on the same narrow places that many other investors are jumping into**; but that is not what we are doing as a firm.

It's also interesting to note that nobody in this room seems to be engaged in those spaces, which is a good thing. Some large players have been in those spaces a long time and today, a number of small players are as well, and we think that may end badly. But, there are a lot of places to find uncorrelated and good returns in fixed income today.

Let's look at return expectations for a moment. If people are out there looking for 15% or 20% returns in crowded spaces, they may be unhappy at the end of the cycle, when they don't get those returns. If they are looking for reasonable high single-digit, maybe low double-digit returns over the next few years and in an uncorrelated fashion, I think there are plenty of places to find those – not in huge volumes, but in reasonable size. But I think if you are looking for a higher return than that, you'll end up unhappy with the result in the longer term unless you're going very idiosyncratic.

Ed Robertiello: I believe the Gapstow paper was referring to primarily middle market direct lending strategies. I agree they have been overcapitalized and their returns are likely to disappoint. I also agree with Jonathan and John, **there are uncorrelated return opportunities in the Alternative Credit markets but there are size constraints.**

In the strategies we are allocating to, managers are raising a \$500M or \$750M fund. Most of our clients are pension funds and large institutions that can allocate large amounts to a single manager. They do not want to be a large percentage of the AUM in a single fund. Our platform allows them to make a large single commitment but get exposure to multiple strategies providing low to mid-double digit unlevered and uncorrelated returns. Unlike a fund of funds, the investor chooses the strategies to which they want exposure.



Henry D'Alessandro: We are very much alpha-focused, but active in one of the crowded markets John referred to – direct middle market lending – which has been dramatically commoditized over the last three or five years in particular. We are careful to avoid being forced to invest market priced and structured investments

I wanted to share a quick anecdote. Early today I was reviewing with my team an upper middle market senior loan. It was a reasonable business and first lien leverage was 4.5x. I asked if there was a maintenance covenant and was told there indeed was a covenant. However, the covenant was set at 8.5x first lien leverage which was the purchase price multiple. It appeared likely that there would be a payment default before this covenant would be triggered. Additionally, the borrower, once leverage decreased one turn, could make unlimited restricted payments. It also had a large free and clear basket and unlimited ratio debt. Needless to say, we quickly turned down this deal.

This deal reminded me why we do not participate in the traditional middle to upper middle sponsor leverage loan market. Many liquid market provisions obtain and pricing is tight as this market has become commoditized.

The traditional sponsor senior loan market has become too efficient and it is very difficult to generate alpha. Senior leverage multiples are higher than ever and covenants have never been weaker. So, I agree with John this will end badly with record low recoveries on senior loans.



Mark Tecotzky: We are in a market now where at least our own Federal Reserve is now doing **quantitative tightening** as opposed to quantitative easing. Now in the 4th quarter they are *withdrawing \$50bn a month from the markets, and the most commoditized sectors of the credit markets that unambiguously benefited from the huge quantitative easing programs of a few years ago are definitely beginning to experience some head winds.*

High yield bonds are going down, investment grade spreads a little bit wider. So it makes great sense looking for the sort of road less taken strategies that were not the recipients of these vast pools of capital that were reallocated when the Fed and the ECB were doing QE. Staying away from those and going into sectors where, under really conservative assumptions, you can see decent yields – sectors where for whatever reasons banks haven't entered, that is, where investors can get good, uncorrelated returns where in addition you also don't have to believe these sort of extremely optimistic outlooks of the economy to justify them.

A lot of what we do is consumer-facing. For example, we do **non-QM mortgages**. These are mortgages that don't go through Fannie Mae, Freddie Mac and Ginnie Mae. This market developed post-crisis in response to the qualified mortgage rules. We have some strategies where we invest in unsecured consumer loans. One thing we look at is evaluating the consequences of post financial crisis reform, and one major effect of that is the deleveraging on the consumer level. Along with that, the home ownership rates had gone down, and loan to value ratios are going down in the mortgage market while the consumers have increased their savings rate and deleveraged a little bit.

Hank was talking about the leverage ratios you see now in the bank loan market, right? Well, we didn't see the same regulation coming down on bank loans. One thing that is interesting is that since 2007, the US has built about five million single-family homes. We used to have about a 100 million and now are in the area of about a 105 million, but if you look at the total amount of mortgage indebtedness, whether it's saying a Fannie, Freddie, Ginnie Mae pool or whether it's sitting on a bank balance sheet, the total mortgage indebtedness hasn't grown at all. We are at the same levels of debt as in 2007, and so as a result, loan to value ratios have come down. If you look at the amount of equity US homeowners are sitting on – so what's the value of these 105 million single family homes and subtract from that all the debt on these single-family homes, first and second lien, some equity lines of credit – you see that it's the biggest equity cushion consumers have had. This is one of the reasons why we believe that it's a nice diversification for institutional portfolios to introduce some consumer-facing debt. If you look at the institutional credit and bond portfolios, they are mostly in high yield bonds, investment grade bonds or bank loans, which are all corporate obligations.

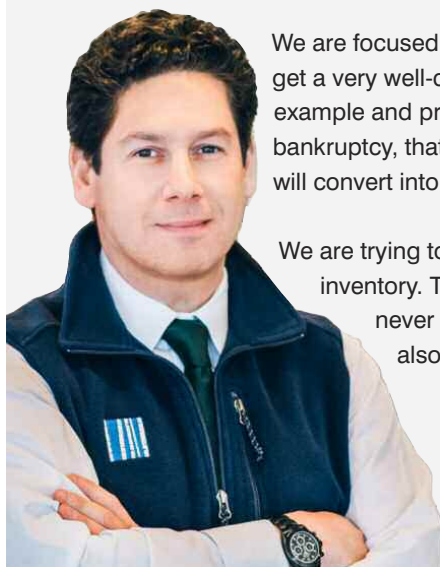


Matthias Knab

Where else do you see attractive investment options in alternative credit at an acceptable risk?

Jonathan Berger: I don't think there's one asset class that looks cheap to me at this point. Within all the different segments that we might look at, there are idiosyncratic situations. So, one area that we have been focused on – and it's more a distressed area – is asset-based lending to retail companies that we believe will go through a liquidation or bankruptcy. Clearly, the consumer market has been hit with massive secular changes, the move from bricks and mortar to online. This has impacted companies like Sears, Bon-Ton stores, Gymboree, etc... there's a long list of them.

In many cases there are opportunities to do financings where you're senior to the first lien loans. *The quality of a lot of the first liens out there today is so poor that you can layer in on top of them real asset-based loans that are very well secured.*



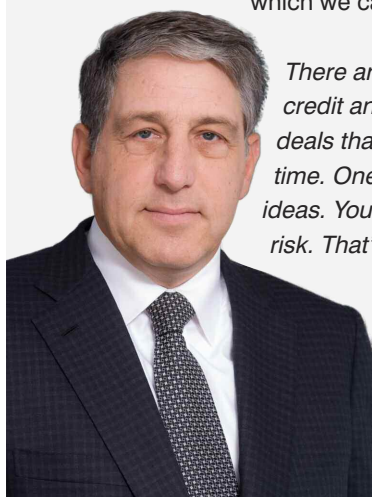
We are focused on this segment of the market. It's a good example of an area where you can go in and get a very well-covered return. We are looking at inventory, not real estate in most cases. Sears is a good example and probably one of the largest out there. There's a \$750m asset based-loan in Sears. Post-bankruptcy, that loan probably has a bid of 101 because it's so well covered, it's LIBOR plus 750 and it will convert into the DIP of Sears. That's a large example, and there are others.

We are trying to stay away from places where you don't have a lot of history in the liquidation of the inventory. There are plenty of examples of companies going through this where the inventory has never been liquidated, and so you cannot really understand what it's going to look like. We are also trying to avoid retail real estate given the secular headwinds there.

Henry D'Alessandro: There are two areas where we still see value today. **Lower middle market senior loans**, so small companies, less than \$15 million of EBITDA, you can generally get very good covenants, solid amortization and excess cash flow sweeps, reasonable leverage and good pricing. And in the **broader private debt market non sponsored companies**, there seems to be much less competition, and so ability to get well structured, well-priced deals even today still exists. However, sourcing non – sponsored deals costs more and takes more work versus sponsored deals where the process is a efficient, albeit in an auction environment.



John Steinhardt: In the idiosyncratic credit space, without taking much beta risk, we are continuing to find longs and shorts which we can identify through our credit analysts in a “stock-picker” style.



There are a lot more good short ideas in the credit space today, as well. Not surprisingly some are pure credit and some are structurally inferior, really covenant challenged situations. Think about some of the deals that have been issued in the last several quarters with some of the worst covenant packages of all time. One might want to short those on an option adjusted-basis against some of your better credit long ideas. You can put those kinds of positions on as packages and have modest credit beta with little market risk. That's one area that we found that is still profitable without taking much market risk.

We have two accounts that are both capped in size at \$500m – I agree with Ed's point before, you can't do these things big, but they are doable in reasonable size. One employs a special situations strategy that does “control and influence” trades only. We have done a dozen or so of them in the last three years and have an intent of doing another dozen over the next two

with a couple of year workout period. There's a lot to do there in smaller size over a couple year period in our view. This strategy is largely cycle-agnostic – but, again you can't do this in a big size.

So, this is an interesting small space where there is some competition, but the big guys can't participate because the companies aren't big enough, and you need to have a skilled restructuring group and the ability to partner with management teams to do it. For this strategy you need to have a sort of a PE focus as well as a credit expertise at the same time.

The other account employs a **credit opportunities strategy** and is sized at about \$250m currently with max size of roughly \$500m. It has almost no volatility – though it is taxable. We think it's very difficult to replicate. It's very M&A-focused and only depends on an active M&A environment in the high-yield space to make money. But if there's no activity, we won't make money – but we don't expect to lose money either. So, there are things to do, but in limited size. They also aren't dependent on a rally or on a credit tightening which would be hard to predict.

So, my take is that there is still a lot to do on an idiosyncratic basis, there are plenty of places in credit, but not in big size.

*If you need to get \$10 billion dollars put to work, you are forced to play beta, which seems like a weak hand to play. The only place we believe things can be done in large size is in the **rates space** where there is some volatility again, and therefore plenty to do. In corporate credit or structured credit, where Mark is more of an expert than I am, it would be difficult to see a lot to do because it's hard to see anything really moving in a direction where one will want to put a lot of capital behind it.*

Ed Robertiello: Matthias, thank you for asking that question on opportunities. We see in fact **lots of opportunities in niche specialty lending** and other alternative strategies, namely commercial real estate bridge loans, litigation lending, restaurant franchise lending, healthcare royalties, maritime and other transportation lending, venture lending, trade finance, etc. Again, these are strategies that provide high yields and high net IRR's and no J curve. The investments are usually senior secured, with tight covenants, low LTV's and high quality collateral.



Brian DeLucia: Let me share with you some thoughts how we see this space from the **family office perspective**.

Just in general I would say that we are in an interesting position. Many different people reach out to us from all types of industries – it's almost like anytime someone is looking to raise capital or they got some great idea or are facing some significant challenge, they start reaching out to family offices. They have the image that all family offices are lending or joint-venturing, that they are venture capitalist.

The other interesting aspect within the family office community is that there are a lot of different families that all specialize in various industries or strategies. This then opens me up to learning more about what is happening in the real world and along Main Street in the heart of traditional communities.

For example, a friend of mine handles all the investments for an extremely large family that has two real estate development companies. For several years they have been running a special situation strategy where they were both acquiring assets as a principal and lending on



transactions that had a story behind them if there was a compelling economic reason to write a check. At this time, they are not doing quite as much lending, but they have a number of other families within their circle that are all multi-billion-dollar families that look at such situations that are happening on Main Street. You can then also come across scenarios that can be very niche – for example, somebody having access to shipping containers that they are bringing over from another country and converting those containers into housing products. What happened in this scenario is that is that this gentleman spent all his own money in the last year putting together the model. And now, he has these purchase orders and he doesn't have any capital because he spent all his capital as well as that of his friends and family as well to basically bring this whole model together, and so he is looking for financing.

These are example of situations we come across on a regular basis. Telecom is of another area right now where there is a lot of activity. We see a lot of mom-and-pop type operations with a lot upside, or certain individuals that are doing essentially partnership buyouts or M&A where they need essentially higher leveraged capital, which is just not something they secure through traditional lending channels.

So, where are some of those opportunities right now? From our perspective in terms of families, we are always looking opportunities where you have really sharp people, strong collateral – so if something does go wrong, you can dispose the collateral within 60 to 90 days – and there has to be a compelling economic reason to write that check.

And we certainly have seen some opportunities like that, as we were just discussing the shipping container transaction a few moments ago. One of our friends is giving this gentleman a \$2 million loan to execute on his purchase orders with an agreement to pay back \$3 million in six months. As you can see, there is a compelling economic reason to write a check. We see a lot of those situations on an everyday basis.

Matthias Knab

So 100% annualized is certainly a great return. What do you think would be an average minimum return with which a deal or a direct lending strategy become interesting to a family office?

Brian DeLucia: Well, whether it's us or other families in our circle, I would say for example, we were looking at something recently where a land developer was seeking financing to deliver 250 lots for a major home builder, and when it was all set and done, it was a 17% IRR. A 17% IRR for a retail investor would be outstanding. As for a formal Ultra-High Net Worth Family, a 17% IRR where the investor is providing all the capital is not overly compelling for this type transaction. There are other deal structures where the lender would also get a certain split of the profit which could take him north of 30% return, and that certainly would have been a much more compelling situation.



Matthias Knab

We are seeing through your examples that the institutional investors' the family offices' activities in private credit are really two different worlds.

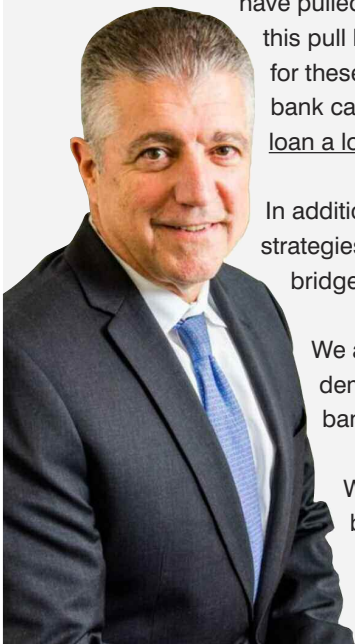
Brian DeLucia: Yes, absolutely. Within our circles, this is especially true when we are reviewing so many small, niche scenarios. A lot of these scenarios would not appeal to the institutional sector. We see a lot everyday situations that where capital can be secured if there is the right alignment of interests and a compelling economic reason to write a check.

Jeffrey Hahn: In my experience, it's easier to do this when you have a billion dollar family client than when you have smaller net worth clients. The flexibility and appetite just isn't there.

Brian DeLucia: Correct, that would be difficult. For a family of that caliber, this would not be your primary investment strategy.

You might have a smaller allocation of capital set aside to pursue these transactions and that is why there must be a very compelling reason to make that effort. As an example, I know a large family which set aside a \$15 million bucket for such smaller opportunities over the next several months.

Matthias Knab Let's take a look at some of the fundamentals. What drives alternative credit, private debt from a macro and micro perspective and how?



Ed Robertiello: Obviously, everyone has heard the **bank disintermediation story**; as banks and other traditional lenders have pulled back, that has opened up major opportunities in mid to large market direct lending. However, this pull back has also created opportunities in smaller markets. Regulation has increased capital charges for these types of loans and additional reporting requirements have significantly lengthened the time a bank can close on a loan. So, many of these lenders exist because they can produce and close on a loan a lot quicker than a bank. This is especially true in the short-term real estate lending sector.

In addition, some of the strategies we invest in have, in fact, never been financed by banks. Such strategies may include litigation lending, royalties, restaurant franchise lending or commercial real estate bridge loans.

We at Blueprint look at things that have a **supply and demand imbalance**. When there is a lot more demand than supply, there is often some complexity around it, and this is again another reason why banks don't touch it.

We also look for lenders who are specialists in the industry to which they are lending. They tend to be **value added lenders** providing services or advise to their borrowers.

Mark Tecotzky: *I couldn't agree more. On top, there has also been a narrative that banks are hobbled, they're sitting on their hands and don't want to lend. That was really true 2011, 2012, 2013, but since then banks have recovered a lot, and a lot of the regional banks want to grow their loan portfolios. So, that bank disintermediation did create enormous opportunities, but now you need to really focus on areas where banks either historically have never been, which was what Ed was talking about, or in sectors where there has been a body of regulation that was created post-crisis and either for compliance or reputational reasons, banks now don't want to focus on.*

For example, we own a **reverse mortgage** originator. Banks were active in the reverse mortgage space pre-crisis, but post-crisis – for a combination of regulatory and reputational reasons – they don't want to be involved in that market. But that market has very compelling demographics. When we look at the mortgage space, post crisis some people wanted to compete on jumbo mortgage loans which are something the banks are very interested in holding in their portfolios, those are the exact kind of clients they want to target. But really, when banks want to get in the space, you can't compete with them. They have the massive war chest of deposits and pay almost nothing for it, so they have incredible funding. So regarding the narrative of that bank disintermediation, you really have to specifically go into areas where banks were never involved or where there is reputational risk or capital charges now that preclude them from being involved. But when you find those sectors, it really is a great opportunity.



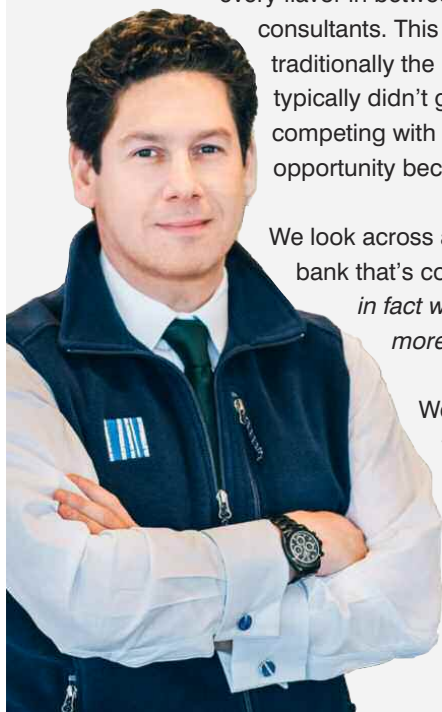
Jonathan Berger: I think both of you were more speaking from the supply of investment opportunities which I totally agree with.

I think it's also worth commenting on the **demand side**. Institutional investors have been increasing the alternative and private credit buckets, so going beyond even hedge funds and using private credit as a replacement for other asset classes.

And so today, you can see everything from private credit as a fixed income replacement trying to earn a mid-single digit return, all the way up through to a more opportunistic or even distressed strategy targeting a mid-to-low teens return and kind of every flavor in between. Demand is driven by pension funds, foundations, insurance companies and consultants. This demand side is meeting the supply and maybe even expanding it, because, as we said, traditionally the private or alternative credit market was geared towards investments where banks typically didn't go. But now we also have, for example even in the LBO financing market, direct lenders, competing with banks for larger deals. So I believe that in the smaller end of the market there's more opportunity because the banks aren't spending the time doing it.

We look across asset classes, so we trade liquid credit to direct lending, so we might get a call from a bank that's competing against a large direct lender that has billions to allocate. *The direct lender may in fact win not just based on price, but based on speed and/or execution, and so we are seeing more of that.*

We also see **spread compression** in this market which is a cause for concern. But there is this migration now even to larger deals in the private credit market which for some investors is becoming more of a fixed income replacement as opposed to an investment that generates equity-like returns.



Matthias Knab

At Opalesque we recently reported on a [Morgan Stanley Investment Management study on online alternative lending](#).

Born out of peer-to-peer lending, this sector has gone mainstream and currently involves \$50bn annual origination in the US, spanning more and more categories, including unsecured consumer, small-business and other forms of specialty lending. Do you have a comment on that?

Ed Robertiello: We just did some work on a manager that has established a fund to purchase these types of loans from origination platforms. The origination, processing and servicing of these loans is heavily reliant on technology as is the strategy and process for analyzing the loans for investment. The application of FinTech has allowed the origination platforms to significantly expand the volume of loans they issue. These small balanced, primarily unsecured loans, are issued with high coupons even after factoring in higher default rates. They can offer net IRR's in the mid-teens for institutional investors if executed in a risk averse approach. Choosing loans from prime borrowers with a large quantity of small balance loans diversified by geography, coupled with applying a macro overlay to the selection process, can reduce losses and deliver a solid cash flow and net IRR.

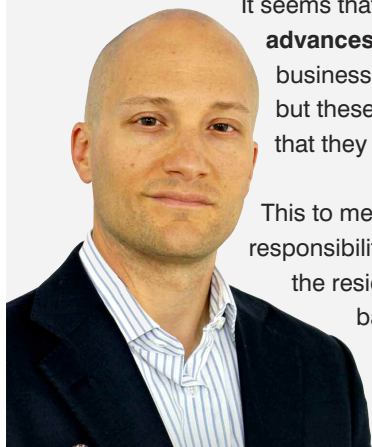
This strategy may also qualify as an impact or ESG investment especially in the small business loan arena as many small businesses are minority and/or women owned enterprises.



Brian DeLucia: Another thing that we see in our circles or through people that reach out to us are these cash advances and small businesses. I remember a case from a couple of years ago, and I'm really surprised that this hasn't developed into a crisis or maybe it is starting to, but I remember some loan broker informing us on a certain borrower who would be in crisis mode right now. I had another friend who specializes on such and underwrites them. She came back to me the next day, and she says, "I'm going through their bank statements and found they currently have six cash advances that they are paying over the last few months which are being deducted from their bank account." That is something that was very scary. I have another friend who runs a small fund, and he came up with a program to basically go in and consolidate all that debt. He's been doing a lot of volume with that the last couple of years now because he also sees this as a pretty significant crisis.

It seems that a lot of these business capital brokers are just carelessly throwing people into these **cash advances**, and it begins to choke them at a certain point, not only just on the cash flow. If their businesses go under because they are being choked by these advances, it not only affects the business, but these business owners are also usually paying home mortgages or rents or other consumer loans that they won't be able to pay because their businesses are basically failing.

This to me is one area that has to be a concern because there doesn't seem to be the required level of responsibility with these different types of loan products, just similar to what happened many years ago in the residential mortgage business. You had those teaser loans that originally were designed to basically address a very small percentage or niche borrowers, but then once the loan brokers got a hold of these things, they just started throwing everybody into these loan products to outcompete each other and win the deal essentially, saying like, "Oh don't worry about it. We'll



refinance you,” and eventually that music stopped.

So I believe we have to look more carefully at the small business communities, also because so many jobs and other interactions with our general communities depend on them.

Ed talked about royalties before, and indeed that was something I was involved in twice over the last three years with music publishing catalogs. In one incidence they also dealt with a bank, and I agree with what you said that a lot of banks just don't understand some of these products. I don't know how it can take a bank 10, 11 months when you can clearly see and analyze a portfolio that has been historically producing \$1.1m to \$1.3m in revenue and \$800,000, \$900,000 in EBITDA. It's a very simple business to understand, but how an it take a bank almost 12 months to underwrite something that should have been able to be underwritten within 60 days. So, I think also royalties are creating some very interesting opportunities.

Mark Tecotzky: It's interesting what you said, Brian, about these cash advances. We have been pitched all the time for these merchant cash advances, and we see extraordinarily high fees, 10 points of fees.

First you hear the story of all these small businesses. Some guy wants to put in a pizza oven, but the banks won't lend to them, or a dry cleaner needs a new piece of equipment, and the bank won't lend to them. But then when you really drill down, you find that they are just going through businesses that have already gotten one of these loans. And so, this is a very adversely selected group of borrowers that you are ultimately presented with.

Matthias mentioned the FinTech and online lending area. Our view has been that you first have to start defining the borrower base you want to target. If you just hang up your shingle and say, “I'm going to give out unsecured loans, 10 grand to whoever goes to my website,” you will get swamped with a lot of hackers at your new website at 2:00 a.m.

What you really need to do is think about who are the borrowers you want to target and then how do you get to them. I used to work at Credit Suisse, and I remember we used to have a program where we would buy a lot of lines of credit from a company but targeting very carefully, for example the nursing industry. That is a sector with chronic employment shortages, so there is very low unemployment, and it is a demographic group that historically has been very good at paying their bills. So you would prefer to lend to them. And so the next step is then thinking how to get to that group. But if you don't think about who you want to lend to, you are going to get adversely selected when it comes to the people that are looking for loans from you.

We do a lot of **smaller balance commercial bridge loans**, and I agree that is one area where the non-banks have an advantage because of certainty of closing, and quickness of closing. So, we are not bureaucratic, our governance is designed to give PMs the ability to be opportunistic within guardrails, and so we can make credit decisions very quickly. Even if a bank might be interested in the same loan we wrote, they can't respond fast enough. That's a great advantage you can have as an alternative lender. But this notion that you are just going to go to the internet and get all these great borrowers coming to you, that's not how it works.

The great borrowers, you have to go find them. There are certain great borrowers that banks won't lend to, and so you have to have some ability to identify and attract them, and if you don't do that, you're going to wind up with a very adversely selected borrower.



Matthias Knab

Would you have some specific recommendations to investors in alternative credit? What were some of the top lessons you yourself have learned? Are there some “do's and don'ts”?

Henry D'Alessandro:

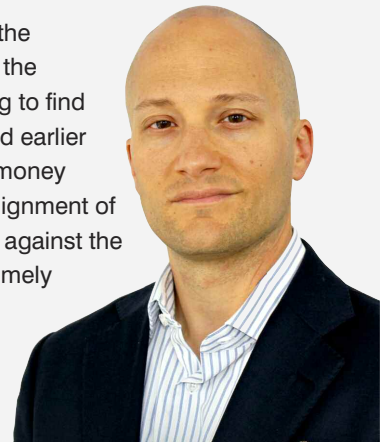
One approach which is very consistent among this group is to focus on niche markets which are less commoditized and thus more opportunity to generate alpha.

Additionally, given where we are in the credit cycle, it is more prudent to invest more slowly and not ramp up assets in the next 12-18 months. So, I think those are the two key things that I would recommend.



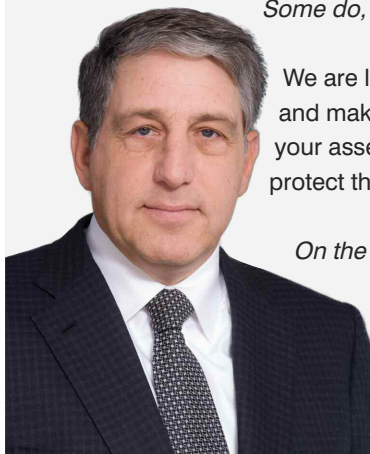
Jonathan Berger: We like event driven situations in a number of sectors: Consumer, TMT and Healthcare. We have been expressing this view in convertible arbitrage trades. Effectively, creating a clear call option on the event without taking market risk.

Brian DeLucia: Certainly, while the analytical side is extremely important, I also believe one of the probably most under talked about or underrated aspects is the **alignment of interest** between the people. Mark mentioned the need to clearly define the borrowers, and for sure, you're not going to find them just sitting there and waiting for them to come over the internet, and – as I have referenced earlier in our discussion – there are lot of various different intermediary parties out there between the money and the clientele or the borrowers. I believe it is important to always take a careful look at the alignment of interest with those individuals as well – are they kind of hiding things or throwing up everything against the wall because of their self-interest. So definitely, alignment of interest among all involved is extremely important.



John Steinhardt: That's a great point, Brian. Alignment of interests is critical. My other recommendation would be **make sure you diversify**, it's critical.

I look at a lot of the big trades that are happening and I just know they are a mistake. Single big trades usually don't work. Some do, and people get rich on those trades, but most don't.



We are late in the cycle, we said that before, but this means that you really need to focus on liquidity and make sure, and Jonathan said it as well, to really make sure you are matching your liquidity with your assets, period. If you have illiquid assets, it's imperative to make sure you have the liquidity terms to protect those assets.

On the "don't" side, don't ever agree to work with or give money to somebody who says they don't lose money and don't make mistakes, because they will and they have, and if they think they haven't or they're not going to, they will with your money, and probably big time. So that's critical.

Brian DeLucia:

I just asked a manager the other day, "What is your track record over the last distressed or downturn market?" If for example a real-estate strategy didn't go through the last downturn that we had in the market 10 years ago, I'd rather first want to see them come go through one and then come out of it, and then we would be having our conversation down the road. I think that is very important also regarding John's point with guarantees or "we'd never failed at anything". Well, let's see what their performance was last time we had some distress in the marketplace.

John Steinhardt: *I mean, everybody in this room has enough age. We are now in a 10-year cycle after the events of 2008. A lot of people in finance haven't been through a down cycle. You need to be with people who have been through one, two, three, four, five. All of those downturns were different. Most of them happened by surprise and you need to have that perspective when things go bad.*

Early in my career, I was told that I'd be getting a new boss, and that person claimed he'd never had a bad trade. I told my higher-ups, "I will not work for that person. I'd rather leave because it's not possible to do what we do – trade stuff, invest in things – and not make mistakes. And you better learn from your mistakes."

So, if you haven't made any mistakes, something is wrong. And if I am an investor, if I'm giving somebody my money, I want to hear about their misses, I want to hear them explain to me why they made mistakes and what they have learned, because if they really learned from them, they are highly unlikely to make the same mistake next time. I'll make some other mistake, but hopefully, I'm not going to make the same one again. But to me, saying "I never made a mistake," – that's a cardinal sin.



Mark Tecotzky: I have a “don’t” – **don’t have the tenure of your loan exceed the usable life for the asset.** This sounds like common sense, but it’s not happening everywhere. So you need to watch out for that trap.

For example, we are involved in auto lending, and what you can see in the subprime part of the auto lending space is that the length of a loan gets longer and longer. Now, all of sudden, you can see seven-year loans on cars that are 10 years old that have 100,000 miles on them. So this means that you need that car to be on the road until it’s a 17-year-old car so that you can get all your money out of that loan. It’s possible, yes. Is it likely? No. And what’s much more likely is four years into that loan there will be a transmission problem, or some fairly large expense so that the car would still be usable, but which may exceed the value of the car. But the consumer is not dumb, and so he walks away from the loan.



You see these things definitely develop late cycle having started with a three-year loan on a 10-year-old car, and then a four-year, five-year, six-year loan, now it’s a seven-year loan. So, you need to **guard yourself against that late-cycle behavior**, the loans simply have to make sense.

You have to make sure the tenure of the loan should not exceed the rational expected usable life for the asset. You saw the same thing in the manufactured housing market in the early 2000s, right? All of sudden you have long loans, 25 or 30-year loans on manufactured housing that depreciates much quicker than a single-family house. This doesn’t make sense, even more, should there be stress in the economy, the irrational characteristics of such loans can cause large problems.

Ed Robertiello: I agree with what everyone has said, and my point to add is **not to forget the basics** when you are looking at alternative credit strategies.

So, do your due diligence on the strategy and make sure you understand it, and do your due diligence on the manager. Make sure you understand the leverage both in the underlying asset and at the fund level. Get a breakdown of the attributes of the net IRR. How much return is from the coupon, origination fees, equity participation, leverage, other fees, etc. Then get details on items that reduce the gross IRR, management fees, carry, operating expenses.

Investors can be attracted to private lending and private credit strategies because they have no volatility or no correlation to public markets. Obviously, this is a result of the absence of mark to market price fluctuations.

But there are macro correlations and changes in value of the collateral due to macro forces. Investors cannot necessarily apply traditional measures of risk i.e. standard deviation, sharpe ratio, duration, credit ratings, spreads, etc. A qualitative approach may provide a better understanding of the imbedded risk in these strategies. It is important to consider loss in a default which is often tied to value fluctuations in the underlying collateral. Lending to transportation assets, (shipping, aircraft, railcars) have different economic cycles. Real estate may have a very different cycle and will differ depending on geography. When a manager tells you, they lend on properties at a max 65% LTV, is that based on today’s valuation or did they stress the valuation to a period of economic stress like the global financial crisis. Understanding these factors is important to successful investing in the alternative credit strategies on which we focus.





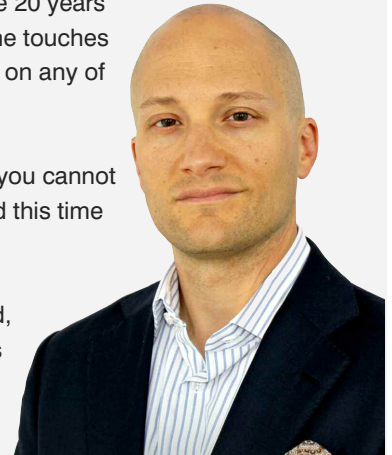
Jeffrey Hahn: I'm not an institutional investor, but one thing that I can identify with from a private alternative asset investor's perspective is cyclical, which includes the ability to ride through the cycles and being prepared for them.

Pre burst of the tech bubble – in 2000 or the end of the 90s, I recall venture capital fund portfolio company valuations went through the roof; investors were going home with 10X or more on their commitments. As a result, successor funds, with first time investors, became over-subscribed, but did poorly due to the dot.com bust. The new investors shied away from subsequent opportunities, missed the up-cycle and thereby locked into losses.

Brian DeLucia: That's a good point, and that reminds me on another fallacy I also fell for some 20 years ago when I was first in business, it's when you hear things like “**Midas Touch**” or “everything he touches turns to gold” or words like “magic”, “wonderboy” or “investment superstar” – you cannot rely on any of this.

This sounds like so fundamentally simple, but it's true. Even though track record is important, you cannot just assume, “Well he's hit big with his last two or three ventures or funds, so it's automatic and this time I'll be on board with him when he's going to hit big again.”

That certainly is not the case, he could have miscalculated something, and as John mentioned, everybody makes mistakes and if you don't, it's suspect. We always try to keep that in mind as we look at different opportunities out there.



Matthias Knab

Is there anything you want to mention regarding sourcing and due diligence in alternative credit?

Henry D'Alessandro: We think it is important to differentiate ourselves in the private market, and one of the ways that we do that is by trying to be a **value-added lender**. For example, we try to leverage our network to provide borrowers, usually relatively small companies, access to industries, or companies or geographies they can't gain on their own. Or, similar to a private equity firm, we can help them consolidate up an industry or give them advice as part of being their partner. At Morgan Stanley, we also have centralized purchasing, and we make our purchasing available to these portfolio companies.

This means that in a lot of cases they can buy at the Morgan Stanley rate for many different services and products. Very few of our peers are doing that, particularly in the middle and lower middle-market space.

And the other thing we try to do to differentiate ourselves is help them through risk management on various levels. We have a database of proven executives, CEOs, CFOs, so we can help if a company need to replace or upgrade management. We can also assist with hedging Fx or interest rate risk things such as helping them hedge FX or interest risk. In this way, we try to bring a **private equity approach to lending** and in that way not just only compete on monetary terms.



Ed Robertiello: That's a really good point, Hank, and indeed, many of the alternative credit managers we look at offer some value-added component to the borrower other than capital.

For example, a commercial real estate bridge loan manager we like writes a lot of their loans for refurbishment of properties. Once that has been completed and the quality of the property has improved, they help the lender to get a mortgage to refi their more expensive short-term loan. They connect the borrower with a traditional mortgage lender. So, in a way, they offer a prepackaged loan. They help the borrower obtain long term funding and actually help themselves because they have provided the exit for their loan.

The litigation finance manager that we work with has their lawyers consult with the law firm that they are lending to, helping them make sure the case is set up correctly, and proceeds expeditiously. So, I agree, there is an extra added value aspect that we look for which often times allows the lender to extract a higher coupon or equity participation from the borrower and a higher and safer return for the investor.



Matthias Knab

Once you have your portfolio and you are invested in private debt, alternative lending, what happens after that? How does your monitoring or risk management look like?

Henry D'Alessandro:

We do **very intense portfolio monitoring**. We typically get monthly financials and also typically have board observation rights in our portfolio companies, and so we are extremely involved.

And then, if there is a problem portfolio company, we are very engaged, so we have daily or certainly weekly communications with any underperforming portfolio companies. Careful portfolio monitoring can absolutely reduce risk in a portfolio and thus it is very important.



Jonathan Berger: I think risk management takes many different forms in alternative credit. There's the direct lending side where there is no trading component, but monitoring and working with portfolio companies and their management teams. We also run several liquid alternative strategies within the alternative credit space, and for those we created a number of **proprietary risk management tools** since many of those tools don't really exist for the different forms of over-the-counter credit such as CLOs, liabilities or mid-market loans. We are very proactive and try to come up with the best solutions in what we do, including risk management and hedging.

On the less liquid credit side, it's much more about a proactive approach with those borrowers early and trying to utilize the structures that we have negotiated. So structure is important.

John Steinhardt: Risk management for us runs the gamut from what I would call standard risk management using tools, like the RiskMetrics of the world – to things we designed for ourselves for more illiquid assets.

So really, we tackle a broad range of activities, from direct lending, including consumer assets or commercial assets, either direct or in a funded structure, to investments where we are in a “control position”, taking board seats and redirecting management focus.

In some cases, we literally take the risk of basically taking over the company, writing a new business plan, with specific ideas on how to run the new company with management. In that context, we need a wide variety of risk management tools.

So, risk management for a firm like ours, the scope is broad – from standard and simple to very esoteric – depending on the situation. It includes interest rate tools for big liquid rates markets to our Board work, constructing business plans, putting them in place, and persuading management on course-corrections.



Mark Tecotzky: I think that firms in our space always dislike the fact that no matter how much due diligence we do, many aspects that will affect almost all our investments are unpredictable. Just look at the weather outside – if you make real estate investments, there are hurricanes, flooding, earthquakes, all those things are unpredictable, and so **diversification** really is key. Where are your real estate investments, how are they diversified? Or look at oil which was 25 bucks a barrel and went up to 100 bucks a barrel. I think very few people predicted that, and a number of investments can be greatly impacted by the price of some of these commodities which are very unpredictable.

This means that ultimately you are left with stress tests, no? For our portfolios, we will run really big shocks in everything we do, not because they are likely, but because they are informative.

When we run housing shocks, we may be down 15%, down 30%, not because we think it’s likely, but illustrative. And also, if you get housing down 5%, people are going to want to know how do these investments look when they are down 15%.

We also mentioned loan-to-value ratios. Now someone can quote a 70% loan-to-value ratio now, but if that’s in Denver, in Seattle, or in San Francisco, that’s a 100% loan-to-value ratio based on where it was two years ago, right? And so, someone telling you that you have a loan that’s 100% loan-to-value ratio based on 2016 valuations, that sounds a lot riskier than a 70% loan-to-value ratio now.

My point here is about the need of everyone, managers and end investors, to acknowledge that there are exogenous factors that are unpredictable, and which leave us with stress tests as an important risk management tool.



I think just going in to acknowledge that is a much better approach than to naïvely believe that every investment is going to work out according to the pro forma when reality is that almost nothing works out according to the pro forma.

There are always some changes, there is always some evolution in the economy, disintermediation, or changes in the political landscape which impacts the investments you make. And the real art is to recognize that early and have the flexibility and experience to manage around it.

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Ed Robertiello: We invest primarily in managers, and almost all are closed end funds with a three-year, five-year, or seven-year term. Even if we negotiate a fund of one or separately managed account, the fund will maintain a similar term. So, when we are in, we're in and there isn't much you can do except to monitor.

This means that a lot of our risk management is imbedded in our **upfront due diligence**.

We always ask a manager what kind of stresses have you put your portfolio through, and what do valuations look like there? What are the risks you are monitoring? What's the worst case? How much can we lose? If a manager doesn't have a credible view, you need to wonder if he is really thinking about the risks in this portfolio.



Matthias Knab

Any comments on trends, developments and outlook for alternative credit?

Henry D'Alessandro: Given the large amount of money raised in the middle market, especially the upper middle market, I believe that there will be a **convergence of pricing, leverage and covenants with the broadly syndicated market**.

Today the senior leverage multiples in the middle market and broadly syndicated market has never been closer, this is decidedly not due to low leverage multiples in the broadly syndicated market.

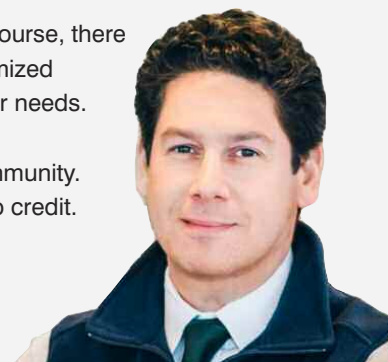
Covenant lite deals in the upper middle market are not unusual today. Private managers with very large pools of capital will disintermediate the lower end of the broadly syndicated market.

It is unclear if the pricing, leverage and covenant differentials will be adequate to offset illiquidity. Ultimately, the market will decide if the alpha is sufficient to justify a lack of liquidity.



Jonathan Berger: One trend I am seeing is the creation of customized access products. Of course, there have been SMAs for long periods of time, but what is happening now is the creation of customized vehicles that are aligned with strategies you execute, but which are tailored to specific investor needs.

Another trend I see is the growth of access products for alternatives to the high net worth community. We see more and more of those access products for everything from private equity through to credit.



Brian DeLucia: Trends are one thing and then there is also something like **chasing the flavor of the year**, especially in our environment. Two years ago, it was cannabis. Last year it was cryptocurrency and ICOs. In 2018, it's Blockchain and opportunity zones. So we are seeing a lot of different fundraising activities, specifically on those niches and people in family office environment are essentially being pursued very aggressively on these specific trends that weren't mainstream industries just two or three years ago, which is interesting in a lot of ways.

There are pluses and minuses, so there could be a significant upside, but at the same time, there's a lot of volatility in these space as well, and certainly no historical trends to underwrite these opportunities against. The bottom line is reviewing who are you getting involved with, but generally chasing the flavor of the year makes me a little bit nervous.



John Steinhardt: On Hank's point, I think we are actually **starting to see defaults quietly pick up in the direct lending space**, but people aren't really talking about it.

There's no database source like JPM or BAML for the institutional credit markets. Looking at the default rate in public leveraged loans excluding iHeart, it's about 1.5% for the last 12 months. People exclude iHeart just because it's a large cap structure and heavily skews the dollar amount on its own. And so if you take it out, we are at 1.5%. We think that the default rate in small business direct lending is about 5% – nobody can really prove it because there's little sourcing, but that's what we think the number is today.

In the next down cycle, we think the default rate is going to be a lot higher than the public loan market. Nobody knows how much higher, but we think a lot higher and the recovery rates will be a lot lower.

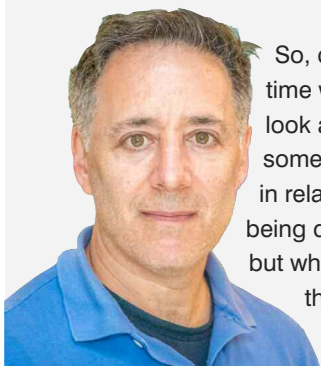
We are concerned with where that comes out, but also think that it will be a really interesting **restructuring opportunity**. A lot of firms involved in direct lending don't have the expertise to manage a restructuring process. That is actually why we are concerned about investors giving money to shops that don't have the skill set to restructure. When default rates go up, who knows what the recovery is going to be. We think the likely increase is a notable yellow flag but there's no database for it and so as of now no way to track it.

We are finding some ways to develop the information, but it's difficult. So, that's something we are starting to look at as we also believe this is part of the next opportunity.



We don't know when that will happen. It's not next week, it is not next month. We also didn't see the mortgage collapse coming. Honestly, we are not one of the 50 guys that now claim they did when we all know there were very few who did. We are not sure when, but when it does, it will be bigger than people think.

Mark Tecotzky: Brian talked about the hot sectors such as cannabis, crypto, special zones, etc. One thing we think about is that there are highly **increased political risks** for a lot of things and countries have gotten clearly more polarized, we think this is a fact regardless of your political orientation. It seems like it's more difficult for centrists to get through the primary process, at least in our presidential election.



So, cannabis is something that has political risks to it, same thing with crypto. All of that is coming at a time when the possibility of more extreme views coming from our political leaders are more likely. If you look at just the change in the state and local taxes and the tax deductions on property taxes, that wasn't something on people's radar a couple of years ago. That is very significant legislation with major impacts in relative change in regard to home places – states that have high state taxes and the high property taxes being disadvantaged relative to others. And that's just another example of things you have to think about but which are very difficult to predict. When it comes to your investments, they need to be able to withstand that kind of uncertainty.

Ed Robertiello: We are seeing an **increase in alternative credit opportunities from Europe** in areas of lower to middle market corporate, consumer and real estate lending. European banks need to deleverage as their balance sheets grew to over 300% of GDP during the global financial crisis.

The European banks have been progressively withdrawing from highly regulated capital consumption lending as a result of Basel III. The bank deleveraging process has only started as compared to the US. The bank disintermediation process is in full swing in Europe. They are exiting non-core lending and reducing non-performing loans. This environment, combined with the limited ability to lend due to increased regulation, has created significant opportunities for non-traditional lenders.



Jeffrey Hahn: There's been a lot of discussion about niche investing and finding niche opportunities, and I contrast that to the old days that I still remember when you could launch one global private equity fund and that was okay. Since then, I think all institutional investors are looking more at specifically mandated funds to build out and diversify their portfolios. So, it is one fund for this and another for that, and that includes having dedicated funds for every level of the capital structure.

15 years ago, I don't think there was much going on in credit funds or loan funds, but since then you can invest in everything from senior loans to mezzanine to expansion credit, and everything in-between.



Matthias Knab

We talked a lot about a coming downturn. John mentioned he is monitoring defaults in private debt, and even if they hard to measure, they are there and may be increasing. Can you think of any other market signs, leading indicators or parameters that people should watch? Are there canaries in the private debt mines?

Jonathan Berger: Generally, credit metrics in leveraged loans have been deteriorating over the last few years. This has also been the case in the direct lending market. The ownership of those assets is primarily in non-mark to market vehicles, like CLOs and Private Credit Funds, therefore there are no systemic risks like in 2008. Secular changes in certain industries will create distressed sectors. Consumer retail has been hit particularly hard by the move online. We think changes from technology disruption will have a positive and negative impact going forward across all sectors.



John Steinhardt: *I wouldn't make a prediction either, but I'd add this. Corporate earnings are great, coverage is as high as it's been in 10 years, leverage in the high yield space is coming down. Those are great things. But covenants are the weakest they have ever been. This is a really negative indicator and the PE firms are not slowing down, because they have tons of capital to deploy. We are especially concerned with covenants that offer a lot of restricted payment flexibility.*



We are near the end of the cycle. I'm not saying we are in the 8th or 9th inning, but the paper that is getting sold today – and I don't mean the quality of the companies, companies are fine – but the covenants that they are getting away with in both the public and the private market are pretty aggressive. We don't think it can go on for much longer.

That's not a prediction that the economy is about to tank because it isn't. But how we are dealing with debt can't go on for much longer. We will not buy this stuff for our investors. It's very hard to price. Because when it turns, you can't sell the stuff down 20 points. There's no value to something where they can take a dividend, even if they are in default and that's the kind of paper being issued today. So, we're close.



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When done correctly, all you need is one video to build up highly targeted traffic for a really long time.

– Carey Lowe / Marketing Consultant

Video marketing is the most effective way for you to get someone's attention and engage them for a substantial period of time. Keeping someone engaged is the best and quickest way to gain their trust. Gaining trust is the only way to convert your audience into happy, long-term clients and customers.

– David Grimes / Marketing Manager

Video solidifies your online presence while building deep and meaningful relationships with your customers. It adds a personal touch to your brand while increasing your conversions! Videos are now an expected component of any website.

– Lilach Bullock / Marketing Consultant – Forbes top 20 women power influencers

It's more effective:

Video attracts two to three times as many monthly visitors, doubles their time spent on the site and has a 157% increase in organic traffic from search engines like Google.

– Marketing Sherpa

And more cost effective:

Video promotion is 600% more effective than print and direct mail combined.

– Diode Digital

One minute of video is worth 1.8 million words.

– *Forrester Research*

Video content can increase the chances of front page Google ranking by 53 times

– *Cisco*

And did you know that:

Online video is shared 1200% more times than links and text combined.

– *Simply Measured*

75% of executives watch videos while working.

– *Forbes*

“The Opalesque videos are a clever solution to the persistent problem of getting to know managers’ style and philosophy within a dizzyingly large universe of possibilities and with increasingly limited time. More managers would be wise to step out of their 20th century shells to embrace the new economy of communication technology to find more efficient ways to convey their story and message to existing and prospective investors.”

Adam Choppin, Manager Research & Investment Strategy of FIS Group

Opalesque videos are regularly featured among the best in any top 10 or top 20 hedge fund / investor video ranking, such as this one which lists 4 Opalesque videos out of a total recommended of 19 videos.

Opalesque started shooting manager videos in 2009 - you will probably know that **Julian Robertson, Izzy Englander, Jim Chanos, Jeffrey Ubben, Danny Yong, Elena Ambrosiadou**, and many other hedge fund legends have produced videos with Opalesque. We have also produced videos for some of the **biggest institutions** as well, such as **Morgan Stanley, State Street Global Advisors, M&G Investments.**

Save up to 50% in travel costs by making your first meeting the second one

Have you ever spent time and money to take a trip to present your fund, only to hear, *"Thank you for coming to our office, and please keep sending me your reports ..."*?

What if you had known before that the investor is looking for something else?

By sending their video to prospects **before the meeting**, the manager wins twice. Should the investor be looking for something else, the manager can focus his efforts on those investors who watched the video **and liked** what they saw.

In these cases, managers tell us that the first real meeting becomes more like a 2nd meeting (the 1st one being the video) as the groundwork has been laid and the meeting will be much more successful and achieve much more compared to a regular first meeting. By better **qualifying your leads**, you can basically halve your travel budget and raise more assets quicker.

Compliant

- Opalesque.TV videos are produced to comply with your regulatory requirements
- Allow for true reverse solicitation

You're in control

When you're doing a custom Opalesque.TV video, you have full control about any aspect of your message. This is not a given in any other regular media coverage.

A manager portrait on Opalesque.TV is generally designed to simulate a first time meeting with a prospective investor, meaning that questions like the following will be discussed:

- Please introduce yourself and your firm
- What is special about your strategy?
- How are you different from your competitors?
- What else is important regarding the asset class?
- Opportunities you focus on

Working with a trusted partner

Over 1.3 million people have watched one or more Opalesque.TV videos, which means that the people you may be targeting will already be familiar with Opalesque.TV videos.

Managers like **Julian Robertson, Izzy Englander, Jim Chanos, Jeffrey Ubben, Elena Ambrosiadou, Anthony Scaramucci**, and many others have done Opalesque videos, as well as institutions like **Morgan Stanley, State Street Global Advisors, M&G Investments**.

Broad distribution

You can either produce a private video with us, which will only be hosted on the non-public part of your website, or we can offer you the broadest possible multi-channel distribution on Opalesque.TV and our partners like Reuters and other leading platforms. Contact us to discuss your custom distribution package.

Managers have **quadrupled assets** thanks to our video (\$700m to \$2.4bn in 1 year) and also received a book contract or **invitation to speak at the World Economic Forum or at TED** through our video:

- View count: Over 1.5 million views (hundreds of thousands of people)
- Thousands of investors will view your presentations
- Longterm effect: Views do not drop significantly over time
- Without investing a single additional minute of your time - time required to record a video is approximately 90 minutes.

Costs

For a 10 minute video the all-inclusive package price is US\$10,000 which includes: travel (Europe and NY tristate), full production at your office, multiple edits (cuts), provision of the final video file, and a global, multi channel distribution package. A 15 minute video is \$15,000, so \$1,000 will be billed for each additional 2.5 minute above 10 minutes. The client determines the final length of the video.

Links

Opalesque.TV video which got 104 views over 2016 Christmas:

<http://www.opalesque.tv/hedge-fund-videos/patrick-stutz/>

Opalesque.TV videos sorted by number of views:

<http://www.opalesque.tv/most-viewed-hedge-fund-videos/>

Opalesque.TV videos sorted by number of social media shares:

<http://www.opalesque.tv/most-shared-hedge-fund-videos/>

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