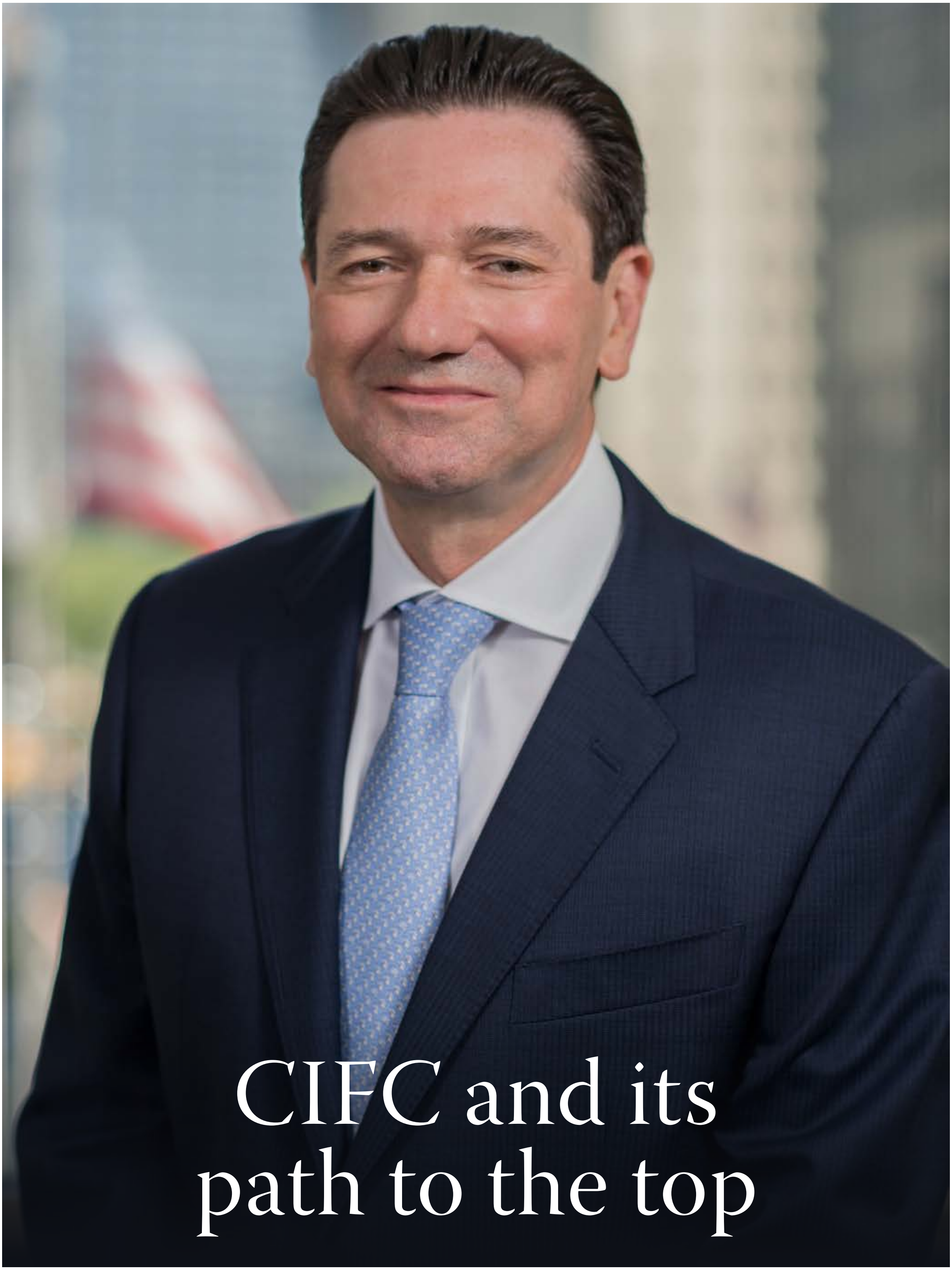

CIFC and its path to the top

Alt Credit sits down with Steve Vaccaro, co-founder and CEO of CIFC Asset Management, following an eventful year for the firm which saw it hit $20bn in assets and open a new European office

By James Harvey

Last year was a big year for Steve Vaccaro and CIFC Asset Management, the credit-focused asset manager he co-founded in 2005. Known for most of its history as a manager of leveraged loans and US CLOs, CIFC surpassed $20bn in assets under management in September.

At a time when most managers appear to be avoiding traditional long/short credit, CIFC launched a new fund targeting exactly this strategy, while also building a new strategy targeting structured credit investments. And, in keeping with a recurring theme in *Alt Credit* over the past six months, the firm is looking ahead to a turn in the credit cycle, having completed the acquisition of distressed debt manager Logen Asset Management in September.

Meanwhile, alongside this US expansion activity, the firm was opening a new office in London, led by Apollo's performing credit head Dan Robinson, with a view to launching a new European CLO business later this year.

But getting to this point wasn't an easy ride. In the years following the crisis, CIFC struggled to hold its own against bigger – and deeper-pocketed – competitors, and a protracted sale process in 2015 and 2016 kept the firm out of the new issue market for some time. And in May 2018, the firm was hit by the surprise departure of long-serving co-CEO Oliver Wriedt, who left to pursue other interests.

In an exclusive interview with *Alt Credit*, Steve Vaccaro discussed CIFC's journey from being a relatively small pre-crisis CLO manager to a diversified $20bn credit firm, how to navigate an overseas expansion, and the firm's plans for the year ahead.

Early years

CIFC initially launched in 2005 with backing from Boston-based private equity firm Charlesbank. The firm began life as a CLO manager, taking advantage of the red-hot 1.0 market in 2006 and 2007 to raise seven funds for a total of $3.6bn in AuM.

"Our goal when launching CIFC was always to create a diversified asset management firm," Vaccaro says. "We began as a CLO issuer because of the ease of issuance. We had plans to diversify, but the crisis got in the way."

The financial crisis proved to be a turning point for CIFC, which was one of only a handful of $3bn+ CLO managers never to have tripped a junior overcollateralisation test or missed a payment to equity.

However, CIFC emerged from the crisis considerably smaller than other survivors, such as CLO management giants GSO Capital Partners, Highland Capital and Credit Suisse Asset Management, and set about looking to expand amid the wave of consolidation in the CLO industry following the recession – a plan that was easier said than done.

"We must have looked at or bid on 20-25 managers in the years following the crisis, and lost every single auction we entered," Vaccaro says. "Because we were owned by private equity, rather than being a large public company, we were subject to a much higher cost of capital."

2015. However, in late 2015, the firm's owner, ColumbusNova, decided to exit its position, with CIFC retaining JP Morgan to hold a public auction – a process which proved to be more protracted than expected.

The auction was finally completed in August 2016 when FAB Partners (now Centricus) agreed to purchase the firm for $333m in cash – but the timing of the auction tied CIFC's hands in the CLO market and the firm issued just one deal that year. The uncertainty also meant that, at first, CIFC was unable to develop a solution to risk retention, which came into effect in December 2016.

"We spent the early part of 2017 playing catch-up on risk retention," says Vaccaro. "But we probably benefited from early work by other managers and lawyers determining which structures worked, so we were able to find a solution relatively quickly."

CIFC then set its sights on long/short credit, following its hire of ex-Brigade Capital and Magnetar Capital portfolio manager Jordan Teramo in early 2017. John DiRocco, former COO at Reef Road Capital, joined shortly afterwards to develop the operational side of the strategy, which targets US and European high-yield bonds and CDS.

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However, the firm did manage two M&A deals, acquiring Boston-based CypressTree Investment Management in 2010, before completing a reverse-merger with Deerfield Capital Corporation in April 2011 – taking the firm's AuM to $10bn. Shortly afterwards, Deerfield's owner ColumbusNova bought out Charlesbank's stock, becoming the largest shareholder in CIFC.

Diversifying and hitting $20bn

As the dust began to settle from the crisis, CIFC set about its original goal of diversifying its platform. In 2012, the firm brought in Stan Sokolowski, formerly of JP Morgan, to run a new total return loan fund, before launching a new structured products business in 2014 targeting CLO warehouses and CIFC minority equity positions.

While broadening its platform, CIFC's bread-and-butter business as a CLO issuer kept ticking over, with the firm launching four deals in 2013, five funds in 2014, and four more in

But why look to expand into long/short credit at a time when managers and investors are increasingly turning to long-lockup strategies, such as direct lending or buy-and-hold CLO equity?

"The long/short strategy was partly driven by reverse-inquiry, with a couple of investors specifically asking us to manage money for them on this basis," Vaccaro explains. "At the moment, we consider ourselves to be 'incubating the concept' of the long/short fund, while adopting a wait-and-see attitude over the longer term. We're pleased to say that the business has been profitable this year. From our perspective, long/short credit has a lot of option value."

CIFC has also been expanding its structured credit offering beyond its initial focus on CIFC-managed CLO warehouses and equity tranches. In January, the firm announced the hire of Jay Huang, formerly head of CLO and CDO trading at Citi, as its new head of structured products investments.

And in September, CIFC ticked off another major credit strategy when it bought a team from Logen Asset Management to run a new distressed debt strategy.

While defaults have remained low in the US and Europe for several years, and the major rating agencies expect this trend to continue for the foreseeable future at least, several managers have begun turning their attention to distressed strategies given that the credit cycle is now entering its 11th year – a trend we explored in *ACI 44*.

"Our view is that it makes sense to start preparing for the end of the cycle now," Vaccaro opines. "It's not going to happen tomorrow, but it takes a long time to raise capital and go through the various due diligence processes involved with setting up new funds. For us, it makes sense to start doing that now."

However, despite this rapid expansion into three new strategies, Vaccaro says CIFC's back-office function has coped well. "Fortunately, our new strategies are fairly consistent with what we've always done. Moving from CLOs to loan funds, and then to structured credit – it's all really the same animal – continuing to leverage our core competencies. We're not really branching into anything that is materially different, from an investment, operational or accounting standpoint, to what we've already been doing."

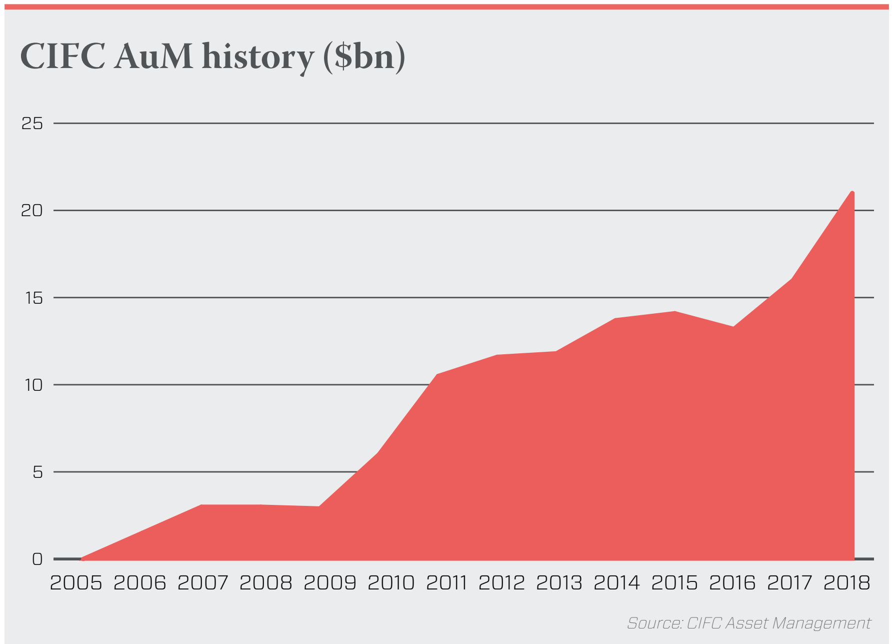
Crossing the Atlantic

As if building a new long/short business, hiring a structured credit team and buying a distressed debt unit weren't enough, last year saw CIFC make a push into Europe as it opened a new office in London. "We've been looking at Europe for some time, and we spent quite a bit of time debating 'build vs buy'," Vaccaro notes.

"We went down a couple of roads along the way that didn't reach fruition, which led us to the conclusion at the end of 2017 that the best way to establish the sort of platform we want in Europe was to build it."

Vaccaro says that the CIFC's approach to setting up in Europe was to start by hiring for two key positions: a head of marketing to build awareness of the brand, and someone to lead the investing effort.

In May of last year, the firm hired Josh Hughes, most recently the head of global distribution at Muzinich, to serve as head of European marketing. Shortly afterwards, Apollo investment professional Dan Robinson joined CIFC as the firm's CIO for Europe. "Dan and Josh are an excellent cultural fit for us. It's important given that, while they'll be geographically far away from us, we want to be seen as a truly global firm rather than as a company with two different offices," says Vaccaro.



The firm is also set to bring in two analysts in the coming weeks, with another two joining slightly further down the line. Vaccaro says that the hiring process for the investment team took some time, with the senior management at CIFC beginning screening candidates before Robinson arrived.

And while *Alt Credit* has reported on European credit firms focusing heavily on 'indirect' skills like foreign language fluency when hiring analysts, Vaccaro says CIFC's approach to its London office has been more traditional.

"Our primary focus when hiring is, quite simply, on credit skills, followed by cultural fit. We want analysts who take the same approach to risk that we do, and we pride ourselves on teamwork. Most of the team we've hired in London have excellent language skills, but that's a bonus, rather than the main issue."

What about Brexit?

With Britain set to leave the European Union on 29 March and continuing uncertainty over the country's future relationship with the bloc, it might seem like an odd time to open a new office in London.

"Let's put it this way – we haven't signed any 10-year leases yet," Vaccaro points out. "Our focus is on remaining flexible. Having said this, every other financial services firm in London is in the same boat as us, so we aren't uniquely affected by Brexit."

But why London, given that other cities within the EU – such as Dublin, Paris and Frankfurt – have been pitching themselves as the future hubs of the finance industry post-Brexit? "We've set ourselves up in London because London has historically been the place to be for asset managers, but if that changes, we are open to moving to a different jurisdiction within Europe," says Vaccaro.

For the actual business of fund formation, CIFC has chosen to set up all of its vehicles in Luxembourg – the domicile option which has proven most popular with credit managers preparing for Brexit, according to an analysis in *ACI 41*.

Looking ahead

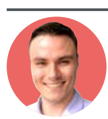
With the new London office (almost) fully staffed and most new hires in the US settled in, 2019 is shaping up to be a busy year for CIFC.

Having already launched a structured credit interval fund late last year, the firm is turning its attention to its European debut, which will likely be a Ucits strategy targeting high-quality structured credit tranches. Other managers, such as Highland Capital Management, have also taken this approach when pushing into the European market.

Alongside the Ucits strategy, Vaccaro says CIFC has registered Luxembourg vehicles which will let it launch European CLOs, loan funds and separately managed accounts.

Meanwhile, in the US, the firm is preparing to hold a first close on its third CLO opportunity fund this month, which will target structured credit investments.

"From our perspective 2018 was about putting all of the pieces in place – 2019 is the big year for us," Vaccaro concludes.



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