KEYNOTE INTERVIEW

Trust, collaboration and diversification: The three pillars of strong investor partnerships

CIFC's Steve Vaccaro reflects on building a global credit platform that meets investors' needs irrespective of market conditions

Q CIFC has recently reached its 15-year anniversary and crossed $30 billion in assets under management. How do you reflect on those landmarks?

As we've grown and crossed these landmarks there's some commonality around what has driven our success: nurturing a strong culture and having our people aligned with that culture. Achieving these milestones is not a one-person exercise – it's truly a team effort that requires everybody to be behind the stated goals that we're seeking to achieve. Further, self-assessment is critical, and you must be willing to be flexible and make changes. As we grow, we are continuously re-examining whether our processes and procedures continue to support our growth efforts or whether any part of them hinders our ability to scale and diversify the platform.

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We have demonstrated that size does not necessarily diminish performance. That was a main consideration as we began to extend our platform. Being able to maintain performance not only in the face of growth but across market cycles has been a key contributor to our success. I'm also immensely proud of our people without whom none of our success would be possible. We've achieved quite a bit and there's much more to come over the next few years.

Q You have diversified into numerous different strategies. How have you gone about that and are there are other areas under consideration?

This is a question I get asked periodically by investors. Our approach to diversification has always been to remain true to our core competencies in corporate credit, and as we've grown, we have built on leveraging our individual product expertise that we've brought in-house across various strategies. CIFC is not a firm where we create silos. Our culture is collaborative and encourages teamwork among different disciplines, allowing each strategy team to gain value and information from one another.

Collateralised loan obligations have always been an important part of our business and make up the largest portion of our assets. We also manage total return loan and bond funds, long/short credit, structured credit, opportunistic credit and, more recently, multi-asset credit. We expanded our operations footprint into Europe and offer these customised client solutions globally. Our structures include commingled funds, UCITS and separately managed accounts. We provide different risk and liquidity profiles for our investors to suit their needs.

Looking ahead, we're always evaluating ways to expand into new areas and one particular focus is direct lending, which we view as highly complementary to our liquid credit businesses. We are in active conversations with multiple parties about the prospect of combining with CIFC and it is highly probable we will do so in the near term.

Q How do you ensure you're maintaining the right culture as the business expands and diversifies into new areas?
That's a critical question and at the core of our planning as we contemplate continued expansion. We moved into Europe and had employees geographically separated from the New York headquarters. Maintaining our culture and teamwork is absolutely first and foremost in our hiring practices and how we approach growth initiatives. We want people who want to be here and want to share our vision both in terms of how we run this firm and our goals of creating a best-in-class global alternative credit platform.

For us, that entails working together and having a 'firm first' attitude. Our different product teams don't sit in isolation from one another, they all sit together on one trading desk and there's a constant dialogue around risk and markets. It's about leveraging off one another, and working as a close-knit team, which is fundamental to our philosophy of how we want to continue to expand the business.

Q With different strategies under one roof, how do you seek to ensure they complement each other?
We believe in the fundamental premise that investors don't want to change managers when they want to reallocate within credit. A primary reason for this is trust, which is at the centre of our partnerships with our investors. Additionally, there is a significant time commitment that investors must make in order to evaluate managers, which makes it difficult for them to bring in a new manager every time the opportunity shifts in the marketplace. Therefore, we view a multi-strategy platform as an advantage, as it allows us to offer investors different risk and liquidity profiles and gives them the ability to stay invested on our platform and allocate between strategies when it's deemed necessary or appropriate. Having a large investor solutions team allows us to support all of our strategies globally.

On the investment side, we have cross collaboration across strategies, with expertise in one strategy providing information and support to others. In my opinion, the most important point about having multiple strategies under one roof is that it allows us to make better decisions. In difficult times, the more products you manage, the more information you have, and the more information you have, the better decisions you can make. There is always a relative value opportunity somewhere that can be exploited to the benefit of investors, which becomes easier to identify and execute with a large and diversified platform.

Q Clearly, DE&I and ESG are vitally important areas for asset managers to consider. What are your thoughts on this, from a CIFC perspective and from what you observe in the wider market?
For us, ESG is at the core of everything we do. It's how we invest and govern the firm. We have long recognised that ESG is an important consideration and good business practice. Our expansion into Europe, where ESG has been at the forefront for many years, reinforced this view. We are a signatory to the UN PRI and incorporate ESG into our underwriting and investment processes. DE&I is equally at the forefront for us, having a formal DE&I committee that's responsible for ensuring an inclusive workplace and upholding our core values. We've had these processes in place for some time; it's not new for us. I believe reflection and actionable

feedback has allowed us to become a better firm.

Nonetheless, we recognise there has been a lack of industry co-ordination around these issues and we want to have a part in changing that. This past year, we established the CLO Initiative for Change, a philanthropic programme associated with our CLO issuance that is dedicated to supporting organisations that are striving for social, economic and environmental change. With our deal partners, we came together and made a collective donation of $145,000 to Black Girls CODE.

It is our intention to replicate this type of donation at least annually. More importantly, firms across the market are starting to address these issues as well, which was our hope. We strive to be a leader in the space and appreciate the recognition we have received from our peers, who've expressed a strong desire to replicate these efforts with similar initiatives.

We will continue to evaluate and evolve our practices around ESG and DE&I to ensure that they meet best-in-class standards.

Q How did CIFC navigate the market uncertainty of the last year and what role did the government play in supporting credit markets and the economy?

I'm very pleased with how our funds have performed through this period, demonstrating CIFC's capacity to do well during an economic downturn. What we did was a basic blocking and tackling exercise of re-underwriting every name in our portfolio and trying to assess what each company's liquidity profile and access to capital might be. Based on this, we ranked the companies on their ability to succeed through the pandemic and tried to mitigate as much risk as possible. It was quite a herculean exercise that took several weeks to work through, and we were very active in the markets, buying and selling names, repositioning our portfolio to reduce risk.

I would say government assistance was absolutely critical in getting everyone through this unique period. It gave markets confidence and enabled them to remain open and function properly. It also allowed access to liquidity that was beyond what most people anticipated. Companies were able to gain access to sufficient capital to support them through the most difficult period and liquidity was the result of government policies being very accommodative at a critical point in time.

Q What's investor appetite like today and how do you go about serving investors effectively?

As investors search for yield, it is apparent the traditional 60/40 model is broken. How do you find yield and acceptable risk that doesn't have high correlation? For us, being able to offer a platform with multiple avenues of accessing credit allows us to engage investors in solutions-orientated conversations. The CLO market is very much in favour and a lot of that has to do with how it has consistently performed through periods of stress over the last couple of decades. While sometimes there can be negativity around credit, I don't think many people envisioned how robust these structures are in terms of the protection they provide, the non-mark to market nature, the diversification, and the excess spread.

The CLO investor base really began to evolve and expand from niche to mainstream following the great financial crisis. The product itself has also become mainstream with banks and insurance companies at the top of the capital structure. It's become an attractive asset class for family offices and other alternative investors that are looking for yield. Overall, the investor base has shifted significantly from a trading to a 'buy and hold' philosophy.

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During the pandemic, we observed that if you understood the fundamentals, you could get exposure at very attractive prices. The market has since quickly returned to pre-pandemic levels of health. Demand in 2021 has been fuelled by this challenging environment we find ourselves in, and the fact that returns from CLOs are really quite attractive. I don't see this fading and I think we're going to have strong demand right through to year end.

Q What do you predict for the credit markets in general in the period ahead?

The economy continues to be strong as we work through the reopening. However, we still face the impact of the pandemic globally and resulting growth concerns. We have an internal debate on a daily basis about inflation – whether it's transitory or not and how much growth will slow once we get past the reopening. Taking a step back to look at the broader picture, we believe credit is fundamentally sound.

Our view is that over the coming period we're likely to see more price risk than credit risk. The default forecasts coming out of the banks and the various rating agencies have been tracking lower down and frankly tracking the actual results that we've been seeing. We're going to have volatility. However, I do not necessarily think we're going to have a material spike in credit risk. I believe credit is in good shape with robust liquidity, low interest rates and continuous cashflow generation. ■

Steve Vaccaro is chief executive officer and chief investment officer of CIFC Asset Management, a global credit specialist