Q&A

CIFC Asset Management

CIFC begins launch into Europe

US credit specialist CIFC Asset Management recently announced it was launching into Europe. CIO and CEO Steve Vaccaro explained to journalists in London what prompted the move, how plans will unfold and what the business has to offer.

Why would anyone in Europe take much interest in CIFC?

It's a good question – I think we do have something distinctive to offer. CIFC currently has three lines to our business – structured credit, total return loan funds and CLOs. All three have strong track records and I think that comes down to outstanding fundamental credit research and risk management.

In simple terms, we don't buy and go to sleep. Our risk management culture is to re-underwrite what we own almost daily to reassess whether our view remains the same as it did on the day we bought it. Many of us at CIFC are ex-bankers and we bring that disciplined, old-school banker approach to credit to the way we operate today.

All asset managers are facing fee compression, which has required us to scale risk decision making, essentially leveraging our greatest asset – our people – so they don't run out of bandwidth. As a result, we've invested heavily in technology which allows for complete knowledge across the firm of what's going on in portfolios and our real-time risk limits. We employ two dedicated IT specialists who are constantly looking at ways to improve the technological infrastructure to minimise the time staff spend weighed down by admin and maximise the time they spend thinking about risk. This allows us to get the most out of the 28 investment specialists working for CIFC.

What plans have you got for Europe?

The important point to make is that we're here to stay. We're not here for a trade. We'll build as prudently and as expeditiously as we can as the most precious thing we have is our reputation. We look forward to partnering with the right people, producing the right products and executing on a strategy consistent with the way we work in the US, which has been very successful for us to date.

We've made our first hire with Josh Hughes from Muzinich, who knows the European credit market inside out. It was important to us that we started out by really understanding the products and structures required by European investors and Josh helps us to do that. We're already exploring the UCITS structure and how to incorporate our strategies within it, and we're looking at fund domiciles too.

Several of our senior people in New York have worked for many years in the UK – Stan Sokolowski, our Deputy CIO and Senior Portfolio Manager, spent a decade in London building and managing the par and distressed debt trading business for JPMorgan. So we're well placed to support the European team. That said, I think it's very important to have a strong local presence with experienced credit specialists on the ground and we've now begun the process of building that and look forward to continuing to grow our UK team.

What's your view of the credit environment today?

We're clearly in the later part of a credit cycle, but I think there's still some time to go and I think we're not alone in that view. If the default spike is at midnight then we're probably at 10.30pm. You have to step back from the emotions and angst around rising interest rates. The fact is, the US economy is doing quite well by every measure and credit performance seems to be pretty good. We don't see much on the horizon that we can point to that's likely to derail the economy any time soon, though of course there's always the chance of an unforeseen systemic shock. We are seeing signs of leverage creeping up and loan documentation is the most borrower-friendly it has been since the financial crisis. We don't believe weaker covenants affect default rates but they may eventually lead to lower recoveries. They influence how tolerant you should be of underperformance, and they do mean that you must have strong risk management systems in place to ensure you're aware of exactly what's being written into loan documents.

Where are you seeing most demand in the credit markets?

We're seeing yield compression across most markets, so there's a global search for yield, and we've got a rising-rate scenario, particularly in the US. There's a lot of appeal for floating rate, senior secured debt that offers attractive returns and extra protection from rising interest rates and potential defaults. This makes many of our products at their most potent at this point in the cycle and that's reflected in market demand. At the end of 2016 we had $13 billion AUM. In the past 18 months we've seen a substantial growth in the platform to over $18 billion.

What are the key differences you see between the European and US markets?

The US is further on in its economic recovery – and that means Europe probably has longer to go before the current recovery runs its course. In relation to credit markets, a lot of people have expressed the view that Europe is treading the same path as the US in terms of developments. Changes that happened 10 years ago in the US are now unfolding in Europe.

Take for example the US, where banks used to provide nearly all the loans – when they couldn't hold all the risk, capital markets emerged. Now US banks are responsible for about 5% of the loan market. In Europe we're seeing a similar trend – banks are reducing ownership of loans, creating more liquidity and more paper for asset management to own. I think that creates an opportunity for businesses like ours, with such a strong track record and experience.

To learn more about CIFC's range of investment products and services, contact:

Josh Hughes
Head of European Marketing

CIFC Asset Management LLC
7-9 St James's Street, London, SW1A 1EE

(D) 0207 139 4546
(M) 0776 930 9229

About Steve Vaccaro

Steve Vaccaro is Chief Executive Officer and Chief Investment Officer. Prior to helping launch CIFC in 2005, he spent 25 years at JPMorgan, where he covered merchant banking, including mezzanine and equity co-investing and roles as a credit supervising officer in the bank's Corporate Banking department. He was a member of the bank's Credit Audit group. Steve holds a BA in Economics from Cornell University.

About CIFC

CIFC Asset Management is a corporate and structured credit investment firm serving institutional investors globally. The firm manages approximately $18 billion in assets* across collateralised loan obligations, corporate credit funds, structured credit funds and separately managed accounts. CIFC's investors include pension funds, sovereign wealth funds, endowments, insurance companies, banks and family offices. The New York-based firm has 28 investment professionals. An emphasis on fundamental credit analysis has helped the firm deliver outstanding returns since its launch in 2005. The firm opened its London office in June 2018.

*As of 31st May 2018.