The Big Picture

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from Montage Investments

Christopher Long, president at Palmer Square Capital Management, answers SCI's questions

Q: How and when did Palmer Square Capital Management become involved in the structured finance markets?

A: Palmer Square was really set up in 2009 to take advantage of opportunities within credit, allowing us to exploit many opportunities within structured credit. Fountain Capital Management, which we recently acquired a majority interest in (SCI 9 January), has been involved since 1990. If you look across the Palmer Square/Fountain relationship, there is a lot of experience in structured corporate credit.

In fact, Fountain was one of the first issuers of CBOs, and at Palmer Square we have been involved in a direct investment basis in structured corporate credit, specialising in CLOs. Through our manager of managers business, however, we have also been involved in everything from TALF to many mortgage-related strategies. That is a big piece of our overall investment allocation.

Q: What are your key areas of focus today?

A: Our competitive advantage and expertise has always been the credit arena. Whether it has been in structured form or not, we have been involved across every niche credit asset class and that continues to be our focus.

A lot of our research energy goes into the corporate credit side, with high yield bank loans and the like. The acquisition of Fountain does not change too much in that regard.

Fountain provides an extension of our prior platform. It gives us a deep research team from a firm with a long history in the structured markets. The acquisition is actually very synergistic; we do not intend to do too many acquisitions, it just so happens that this one was really a perfect fit.

Q: How do you differentiate yourself from your competitors?

A: The corporate credit space we operate in will always be competitive and have a host of very, very strong players. Our differentiation lies in the depth of our expertise and the different elements we can bring together.

At Palmer Square, we understand the structure, we have the ability to do the underlying credit analysis, but then we can also combine the two. We offer an integrated approach, which brings together those structure and credit skills.

The other thing that is really important for us is that our team has a good pedigree when it comes to risk management. Angie Long, our cio, had been deputy head of credit trading – and head of credit derivatives trading – at JPMorgan, and that is the kind of experience we like to have in our management team; that pedigree really is an edge for us.

Q: Which challenges/opportunities does the current environment bring to your business?

A: The thing with this industry is that part of the opportunity comes from the challenge. For what we focus on, there are a lot of opportunities if you know what you are looking for. From a relative value standpoint, from a capital structure standpoint, from the long side or from the short side, we think there are all sorts of exciting opportunities out there.

We continue to see a lot of attractive value within the CLO space and that is true all the way down the capital structure, from triple-A all the way to equity. Each piece of that clearly offers a different risk/reward profile, but for the different types of products we have, each and every one of those areas fits in for us.

Q: What major development do you expect from the market in the future?

A: There are not really any particular changes we are holding out for and I do not think I have a better crystal ball in this regard than anyone else. The opportunities in our space are going to be driven by the continued uncertainty and volatility that exist out there in the wider markets, which certainly look like continuing for the foreseeable future.

For those investors that can do the precise security selection, that are adept at looking at structure and can risk manage, then this is a ripe environment. With that in mind, I think we would be very happy for this to continue for a little while yet!

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