Lead Left Interview – Mark Gold

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This week we speak with Mark Gold, chief executive officer/chief investment officer, Hillmark Capital Management LLC and its affiliate NewMark Capital LC. Hillmark is a NY-based investment management firm focusing on broadly syndicated loans through CLO vehicles.

The Lead Left: *Mark, it's been a while since we checked in on you. How large is the firm now?*

Mark Gold: We are $1.8 billion in AUM. When we spoke last we had two '1.0' CLOs and I believe I had just bought out my partner. That was 2010. We've completed two transactions in the '2.0' world. A third one is in the works.

TLL: *You started Hillmark in 2006, as I recall.*

MG: Yes, we raised over $1 billion within about a year of opening our doors and then we walked into the credit crisis.

TLL: *Were you worried?*

MG: Yes! We learned to live within our senior fees only, in anticipation of our subordinated fees being disrupted. Our team sacrificed the short-term for the sake of the long-term. We decided to manage the business for the long run and focused on holding on to good credits and even adding, while selling names if we felt ultimate recovery value would be below the current trading value. Happily there weren't too many stressed trades.

TLL: *And you did that in the 2008-2009 timeframe.*

MG: Yes, and we bought assets at what we felt were good prices despite the fact that we didn't get an immediate OC boost.

TLL: *Meaning your overcollateralization test.*

MG: Yes. So we knew it wasn't helping us right away with our CLO covenants which meant we couldn't generate distributable cash. So we accepted the fact that we would fund the business ourselves, take no salaries, in order to get our money back and do the right thing for the investors.

TLL: *Wow. That was a tough decision.*

MG: It was, but in retrospect, it was the right thing to do. We found several managers selling assets to force a distribution, and the payment of their fees. We felt that was akin to chopping up the furniture to heat the house and eventually you ended up chopping up the floor boards to feed the fire!

TLL: *Then what?*

MG: We wanted to get back into the market and become an issuer of CLO 2.0's. It was clear that the market would come around eventually. And of course it has. We did our first 2.0 vehicle last year.

TLL: *What are the big differences between the pre- (1.0) and post- credit crisis (2.0) versions?*

MG: The cost of capital is about four times higher, for one thing. The rating agencies have changed their criteria and indenture documents have tightened significantly.

TLL: *How about the amount of equity contribution?*

MG: Equity commitments have gone from about 7% to 10%, with 15% probably the number for middle market CLOs. Investor road shows are more compacted time-wise, since there's a contracted universe of buyers.

TLL: *CLO equity doesn't seem to be a problem to raise for the right manager.*

MG: Given how much money was made in the last credit crisis this has lead to hedge funds and CLO equity funds being raised. The problem is that this money is "hot money" which can create volatility when it exits.

TLL: *Who are the triple-A providers?*

MG: The CLO market post credit crisis rebirth was led by the major money center banks including JPMorgan, Citibank, Deutsche Bank and Wells Fargo who effectively arbitraged TARP funding against AAA CLO liabilities which reached spreads of LIBOR +175 and greater.

Recently, with the implementation of Dodd Frank and concerns over risk based capital, the major money center banks have become a lot more cautious as a provider of AAA capacity. We have seen the return of several Japanese banks on a very select basis, and insurance companies.

TLL: *Mark, we're seeing a rush by managers to issue ahead of risk retention rules. Is this temporary?*

MG: Yes, we believe this burst of activity is in response to risk retention. We also believe this demand has driven up liability prices.

To be continued the week of August 11

Contact: Mark L Gold

mark.gold@hillmarkcapital.com

Phone: (212) 710-1880