ATALAYA

Private Debt Investor AWARDS 2021

SPECIALTY FINANCE LENDER OF THE YEAR

We are thrilled to be recognized for our longstanding leadership in specialty finance. We believe our success is built upon the strong relationships with our partners, counterparties, and investors. Thank you for your support.

Specialty Finance Highlights

$9bn+
cumulative capital committed

250+
cumulative transactions

2021 Highlights

$2.8bn
capital committed

56
transactions

Atalaya is a privately held, SEC-registered alternative investment advisory firm. We focus on asset-based private credit and special opportunities investments across three core asset classes: specialty finance, real estate, and corporate.

One Rockefeller Plaza, 32nd Floor | New York, NY 10020 | www.atalayacap.com | SpecialtyFinance@atalayacap.com

EXPERT Q&A

Attractive and uncorrelated returns make speciality finance an increasingly compelling part of the evolving private credit market, says Ivan Zinn, founding partner and chief investment officer at Atalaya Capital Management

Speciality lending: The next generation for private credit

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Q Atalaya focuses on asset-based investing. Can you tell us a bit more?

We are a private credit and special opportunities firm primarily focused on buying credit and credit-oriented assets or lending in asset-based situations. We do this through several different strategies, the longest standing of which is our opportunistic strategy – it looks to generate high-teens gross returns while also providing downside protection via the asset-based nature of its investments. Over our 15 years, we've also developed additional strategies, including our consumer and commercial lending strategies focused on income generation.

A common thread across the platform is the emphasis on speciality finance, ranging from equipment leasing to consumer lending. We like this space for its attractive relative and absolute returns. These assets have historically provided better returns versus corporate credit and done so with less volatility.

How? One key driver for the return premium is that these assets are typically harder to source, originate and understand. Because of this, there is less capital chasing these opportunities. These assets are generally also self-amortising, which means historically less volatility, even in the public equivalent – the ABS market.

Importantly, speciality finance provides investors with diversification benefits. We are big believers in the consumer, and despite a large opportunity set, most investors are massively underweight in this exposure versus corporate. But they shouldn't be – this is a different, next-generation version of private credit.

Q What differentiates Atalaya in speciality finance?

Let's first define speciality finance. Speciality finance can be a catch-all for many things like litigation finance, royalties, etc. At Atalaya, we focus primarily on the consumer and commercial sectors, which are the largest components of the broader market.

Within that, we target smaller-balance, amortising assets that would otherwise fit into asset-backed securitisations. We differentiate ourselves through our relationship-centric approach and ability to underwrite complex assets. These may sound like token answers but they have a different weight in speciality finance.

Atalaya is playing a key role for these companies – capital is their lifeblood. Think of a consumer credit company: it cannot operate if it does not have capital for its customers. As you can imagine, these borrowers need to trust that we are going to be there with the right orientation, even in turbulent periods like we saw in March 2020. Throughout that period, we proved again that we understand the assets underlying our loans, take a long-term partnership approach, and are a stable, reliable source of capital.

On top of this, we work with businesses that may borrow and repay at frequent intervals (for example, weekly) – there is a lot of information to synthesise at the asset level. Across our platform, we estimate that we are monitoring data on over one million different loans.

We are enabled by our years of experience and data science capabilities, which serve us well and allow us to keep building. Several hundred speciality finance investments later, we're adept at assessing and evaluating investments, even as we enter what appears to be uncharted territory.

At Atalaya, a core tenet is relentless forward progress. We need to evolve and adapt as consumer and commercial lending businesses change and contend with new market environments. Fintechs, for example, have come along and changed the landscape; we can't just do what we did in 2006. In this way, experience is not just about having done things before but also knowing how to evolve to continue to stand out in the private credit ecosystem.

Q Why should institutional investors have speciality finance in their portfolios?

Diversification, better risk-adjusted returns and downside protection. We see speciality finance as the pillar of next-generation private credit. People have built allocations in their portfolios for corporate direct lending as an alternative to fixed income; this is a more sophisticated, graduate-level version of that.

In addition, speciality finance is uncorrelated to the corporate credit risk that investors already have throughout their portfolios. We've written white papers studying the consumer through market cycles and, despite the common misperception, consumers are more resilient than the corporate counterparts.

The earliest-moving investors recognised these dynamics a decade ago and that adoption trend continues today. We still think the market is coming up the learning curve, leaving the asset class relatively under-penetrated.

That said, interest in this space has been gradually increasing over time – covid-19 actually provided a great opportunity for us to demonstrate the resilience of our portfolio and of consumer credit in times of economic uncertainty, further confirming our thesis on the space.

Q What is your perspective on the outlook for private credit and speciality finance?

We have a strong outlook for private credit and specifically speciality finance. We expect investor demand for the asset class to grow, even in a rising interest rate environment, given the benefits we noted earlier and continuing strong performance – performance we don't see diminishing soon. In fact, the volatility that the public markets are currently experiencing in the first quarter should drive investor demand for assets that are less volatile.

Consumer credit is particularly attractive because we have had very under-levered consumers since the global financial crisis and that continues to be one of the pockets of opportunity for speciality finance.

The opportunity set has grown as a result of fintech vessels that make it possible to get a loan on your phone and buy now, pay later on most websites. As long as the consumer stays where it is in terms of financial health, which we expect to be the case, then we like that space a lot.

To summarise, we like periods of volatility, which we may see more of. These periods allow stable lenders like us to be strong counterparties and to be the resilient asset class that investors should seek within their private credit allocations. ■

Q How is Atalaya using data science to drive its investment strategy?

We started using data science about five years ago with the immediate goal of being a better partner to our borrowers. Now it's become a meaningful input in how we screen and partner with our counterparties.

Taking a step back, there are limitations to traditional forms of data analysis, rooted in Excel, and so we started out defensively. Then our approach moved from defence to offence, as we began using data science to better analyse our counterparties and provide real-time asset-level monitoring. Today we are continuing to develop our offensive capabilities. We can look at the newest fintech start-ups, how they underwrite and the models they use to make informed decisions on their viability – even if they do not have years of history.