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Creditflux

global credit trading & investing

Angie Long is chief investment officer of Palmer Square Capital Management, a credit and alternative investment firm with more than $2 billion of assets under management.

The company manages structured credit funds and separate accounts, leveraged loan and high yield separate accounts, and a fund-of-funds business.

Palmer Square Capital Management is based in the Kansas City area and has 18 investment professionals, with back-office operations handled by its majority owner Montage Investments.

Before joining Palmer Square, Long worked for JP Morgan in New York, where she was part of the team behind many of the earliest developments in the credit derivatives market, and where she went on to run various credit trading businesses.

# Look for the right asymmetry in credit

What is the difference between being on the sell side and the buy side?
There are a lot of similarities. When I started in credit derivatives at JP Morgan in the late 1990s it was an incredibly entrepreneurial business.

I had responsibility for building a team, developing products and managing risk. That is not so different from now, when I am part of a recently established investment management business. Palmer Square has a collegial and collaborative culture. A significant percentage of the investment professionals are owners of the business. That leads to everyone taking a long-term view.

How has the credit market changed since you have worked in it?
In the late 1990s we felt ourselves to be part of a movement that was changing the way risk was structured. We believed that credit could be distributed more broadly by allowing different players to take the piece that suited them best. That was the vision; now it is the reality. It was fun to be part of that process and to watch these products grow.

You created the HYDI index, the first credit derivative index and predecessor of today's Markit CDX NA HY. How big did you expect that product to become?
We hoped we would trade maybe $1 billion in a year. It greatly exceeded all our expectations. I won a $100 dollar bet with my manager at the time that we would make a trade in the first day that HYDI launched.

What is your investment philosophy?
It is all about risk-reward. That was the case even when I was at JP Morgan helping to risk-manage the global credit trading book. It is also about making sure that any asymmetrical bets are asymmetrical the right way, so that we can quantify our possible losses, with gains to be made on the upside.

What are the best opportunities in credit right now?
You need to be careful about security selection. Yields in the high yield market – or perhaps it should it be the market formerly known as high yield – are at historical lows. Spreads are more compelling since they are about in line with historical averages. But there has been tremendous compression between spreads on good and bad credits, which means there is a need for good active management.

The CLO market offers very good value. For a double B CLO the spread over Libor is 650-700 basis points, which is more than twice the yield of a double B high yield corporate bond. The complexity of structured credit warrants something of a yield premium, but probably not that much.

What do you look for in a CLO manager?
We look for managers with the discipline not to reach for yield. When you invest in mezzanine tranches, as we often do, the individual loans are very important.

What was your best ever trade in credit?
I was long Mirant Americas and short Mirant Corp the day that Mirant filed for bankruptcy [in 2003]. This type of trade had the asymmetric pay-off we look for in that if Mirant Corp didn't file, we would have lost 1-2%. However, when it did file, we made more than 20%.

What was your worst ever trade in credit?
One of the worst was being long volatility in 2012. These positions were hedges and they were sized appropriately, so it was not a disaster. But they probably cost us a couple of points in returns that year.

 