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An Artichoke Moment

By Alan Snyder



During the recent iGlobal Specialty Finance Summit at which we spoke, we experienced an “artichoke moment.” Fortress Investment Group, Apollo Investment Management, Wells Fargo Capital Finance, Macquarie Capital, Lee Equity Partners, and a Russian oligarch family office among other notables, were seriously engaged. The big kahunas were there.

Pictured above is the ugly vegetable of which we speak. The artichoke is shrouded in brown-green leaves with prickly points (a.k.a. bracts) to be eaten carefully by aficionados who gnaw off the leafy edible residue and, after the resultant defrocking plus some careful surgical work, enjoy a delicious center. Antioxidant rich and full of phytonutrients (eclipsing even blueberries), the artichoke triumphs.

As artichoke haters are put off by the vegetable’s first-blush appearance, alternative lending is frequently dismissed, given the unusual spaces many of the investments occupy. Yet, as further validated by the conference attendees, diving in is worth the effort.

Eating the artichoke requires hard work, as does examining the market for alternative lending. Pulling the leaves off through intensive due diligence can reveal an unusually well performing yield investment with uncommon downside protection. Prudence dictates eating more than one. And investing in alternative lending demands diversification more than ever. Call it Trump uncertainty and regime change.

What will be our future economic environment?

- Rising rates and high GNP growth
- Continued slow growth with rates steady as political divisions persist, limiting change
- Stagflation as unproven fiscal policies are sampled with deficit-busting spending yet gain no meaningful traction
- Incipient recession from a record-long yet anemic expansion tipping over in the next year or two

No one seems to know the answer with high conviction, but capital must find a home and cannot sit 100% in cash while it earns little. Alternative lending, we believe, is one of the best risk-adjusted solutions.

There are many ways for an investor who has the time, knowledge, skill and wherewithal to participate:

1. **Special purpose vehicle (“SPV”)** - The investor lends to a SPV. The loan originator populates the SPV with loans meeting investor-defined criteria, earns any spread between the investor loan rate and what the loan portfolio generates and agrees to over-collateralize the pool to protect the commitment of buying back any loans in arrears. In the event of originator breach, the investor owns the SPV with full management rights and has a claim against the originator.
2. **Warehouse loan** – The investor loans money directly to the loan originator, generally on a senior secured basis. Loan originators preferring this structure are most typically balance sheet lenders themselves. Covenants are critically important to safeguard against double pledging of loans.
3. **LP/LLC pool** – The investor participates as a limited partner or member in a pooled vehicle established by the loan originator to hold loans that they have extended on behalf of the investor pool participants.
4. **Equity** – The investor purchases equity directly in the loan originator and /or its management company. Equity can be broadly defined as common or preferred stock or convertible debt, and may or may not include extra emoluments such as warrants. Moreover, larger-sized investments in any of the other structures above may create opportunities for equity participation including preferred fee arrangements.

Each of these alternative structures has unique advantages and disadvantages. Usually, SPVs and warehouse loans are only merited for larger investments given the relatively high initial legal costs and time to negotiate documents.

After five years of investing in alternative lending and 28 years in business, Shinnecock seeks to minimize risk and produce consistent monthly returns by:

1. Excruciating due diligence – there can never be too much
2. Widespread diversification
 - a. Consumer - unsecured and secured
 - b. Small business - from hard money to loans with equity
 - c. Bridge real estate - from multi-family to commercial
 - d. Trade finance
 - e. Life settlements
 - f. Film receivables
 - g. Other niche executions
3. Multiple subject matter experts
4. Low correlation to equities and interest rates
5. Heavy weighting to collateralized lending
6. Low leverage
7. Flexible loan structures
8. Blue chip service providers looking over our shoulder
9. Putting our own money side-by-side with our investors.

The list is long and the work is legion. However, the payoff is substantial. The “Rule of 72” works, even with modest return expectations and low volatility in this asset class while large drawdowns in so many other asset classes can hammer any possible long term compound return. Check out our website at www.shinnecock.com for more torture on this great investment space. Better yet, call us and leverage the work we have done to your advantage.

Upcoming Events

See attached schedule of industry related events at which Shinnecock will be sharing more in-depth information and let us know if you’ll be attending so we can look for you!



Upcoming Events

Shinnecock will be in attendance and Alan Snyder will be speaking at the following events. We'd be happy to have you join us!

January 30-31 – Miami Beach

Context Summits Alternative Lending 2017 (Speaking, sponsor, and a booth)

Fontainebleau Hotel

4441 Collins Ave, Miami Beach, FL 33140

For information and registration: <https://www.contextsummits.com/altlending#register>

February 1-3 – Miami Beach

Context Summits - Miami 2017 (We will have booth #317)

Fontainebleau Hotel

4441 Collins Ave, Miami Beach, FL 33140

For information and registration: <https://www.contextsummits.com/miami>

March 10 – Austin

IvyFON – Austin, TX - SXSW

*More details to come

For information and other events: <http://www.ivyfon.com/>

April 27 – New York

CTA Expo/Emerging Manager Forum

Affinia Hotel Manhattan

371 Seventh Ave, New York City, NY 10001

For information and registration: <http://ctaexpo.com/new-york/>

July 24-26 – Newport

Family Office & Private Wealth Management Forum 2017

Gurney's Newport Resort & Marina

1 Goat Island, Newport, RI 02840

For information and registration: <http://opalgrou.net/conferences/>