

# ARE DEPOSIT TAKING BANKS AMAZONED?

INVESTING IN THE DISRUPTORS:  
FINTECH, SPECIALTY FINANCE AND  
NICHE LENDING

Alan Snyder

Shinnecock Partners

# Is the Search for Yield an Impossible Quest?



- **Investors demand:**
  - Compelling yield now
  - Protection from the unexpected
  - Liquidity
  - Low correlation
  - Portfolio complement
  - Cash income
  - Quality controls
  - Simple
- **Are we Don Quixote in a Zero Interest Rate Environment?**

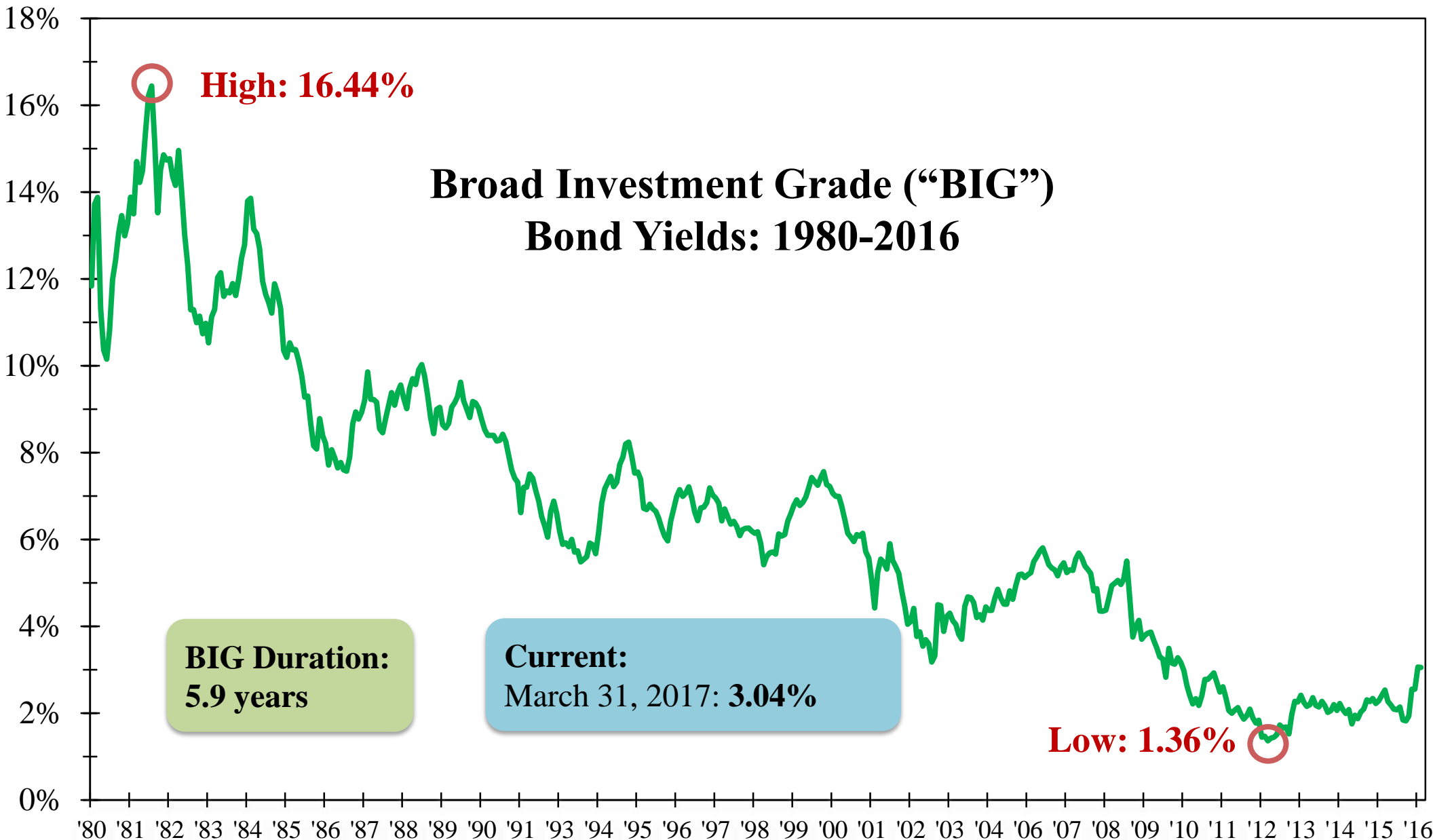
# Alternative Lending Trumps Other Choices

Investment Type	Yield	Rising Rate Protection	Downside Protection	Liquidity	Correlation to Market	Volatility	Transaction Costs
<b>Alternative Lending</b>	<b>High</b>	<b>Yes</b>	<b>Yes</b>	<b>Moderate</b>	<b>Low</b>	<b>Low</b>	<b>Low</b>
<b>High-Yield Bonds</b>	High	No	Moderate	Moderate	Moderate	Moderate	Moderate
<b>Dividend Stocks</b>	Low	No	Moderate	High	High	Moderate	Low
<b>REITs</b>	Moderate	Maybe	No	High	Moderate	High	Low
<b>MLPs</b>	High	No	No	High	Moderate	High	Low
<b>Closed-end Bond Fund</b>	High	No	No	High	Low	High	Low
<b>BDCs</b>	High	Maybe	No	High	Moderate	High	Low
<b>SBA Loans</b>	High	Maybe	Moderate	Low	Low	Moderate	Moderate
<b>Yield Co's</b>	Moderate	Maybe	No	Moderate	Low	High	Moderate
<b>Income Property</b>	Moderate	Maybe	No	Low	Low	Low	High

**Additional Considerations:**

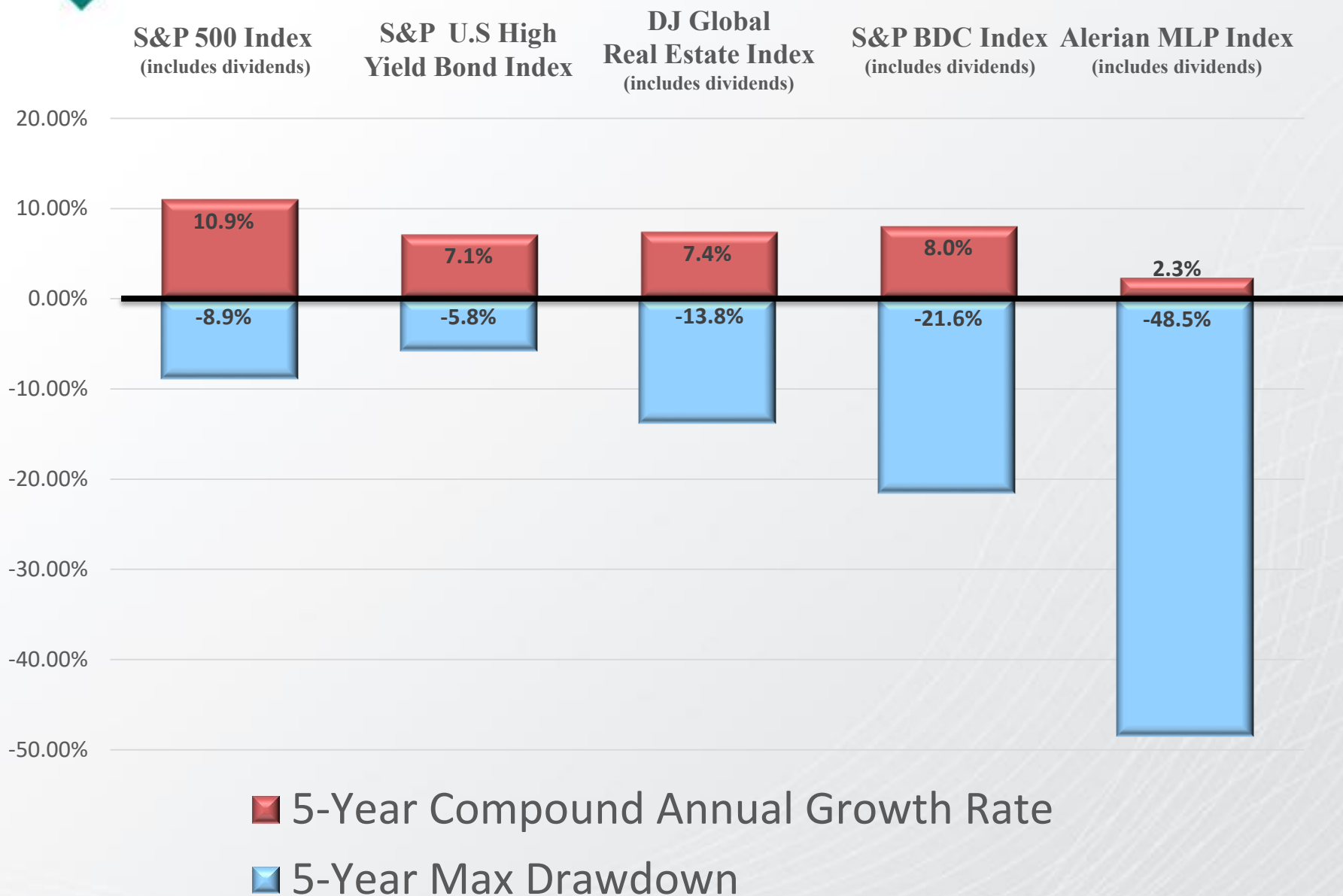
- Investment time horizon; the relative importance of each characteristic is investor determined. This chart is meant to be a generalized view.

# Low Discount Rates Drive High Asset Valuations



# Historical Perspective

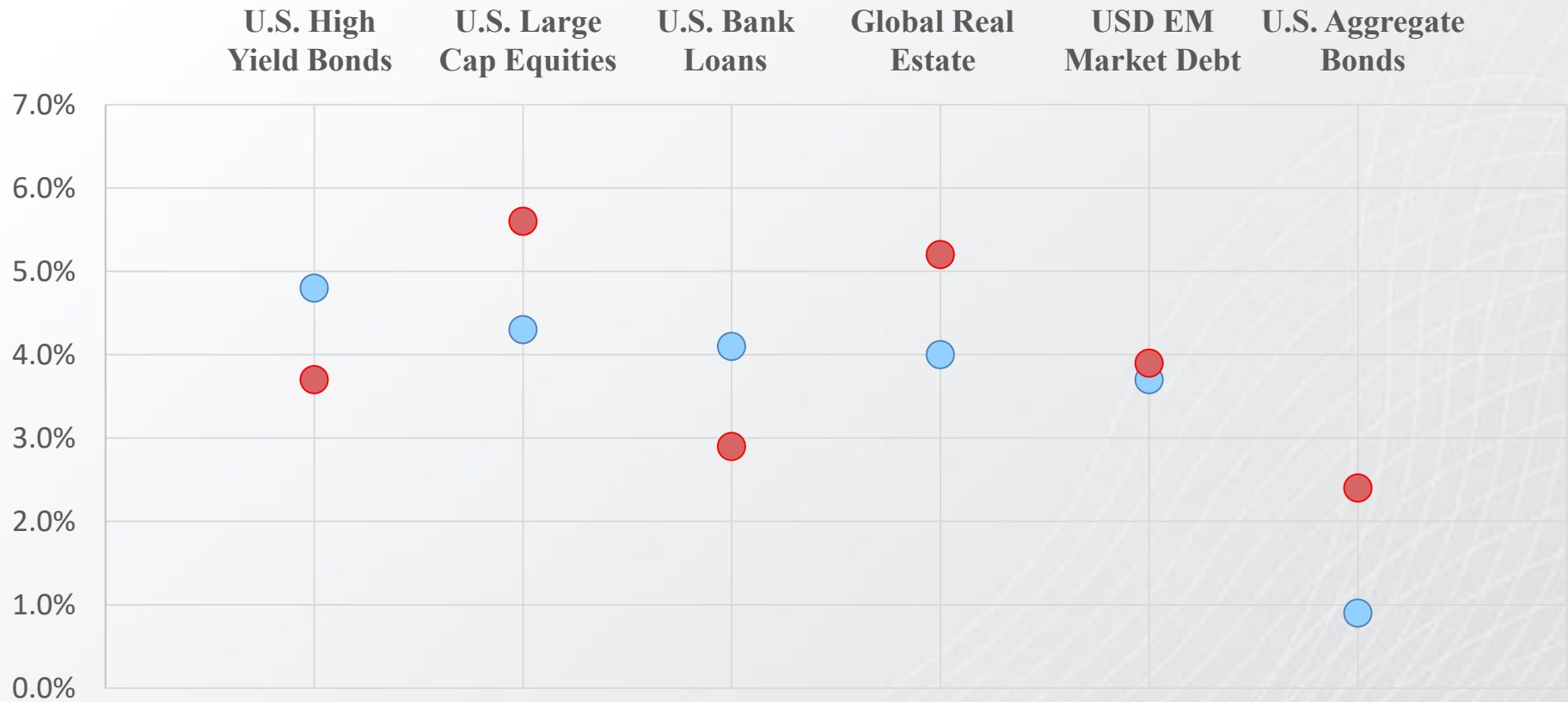
April 2012 to April 2017



# BlackRock Projects Low Future Returns

● Five-year expected return  
(0.9% - 4.8%)

● Ten-year+ expected return  
(2.4% - 5.6%)



Market assumptions provided by the BlackRock Investment Institute.  
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# Alternative Lenders, Non-Bank Banks and Shadow Banks All Mean the Same Attractive Thing!



- **\$51 trillion rapidly growing global market serviced by “non-bank” financial institutions\***
- **Traditional lenders hamstrung by bloated bureaucracies, dated technology, restrictive regulation and need to repair balance sheets**
- **Alternative lenders as distinguished from traditional banks:**
  - Do not accept deposits
  - Act as intermediaries, pooling loans
  - Provide a conduit between investors and borrowers
  - Enjoy a substantial cost advantage
  - Usually specialize in a particular niche

\*Financial Stability Board Report 2013

# Alternative Lenders are the Disruptors



- **Disrupting the market through:**
  - **New Technology:** “big data” analytics level the playing field, improving lenders’ ability to evaluate credit
  - **Efficient Customer Acquisition:** new media channels enable lenders to source borrowers at lower costs
  - **Focused and “Purpose Built” Organizations:** allow lenders to offer loans at lower rates than traditional players
- **JPMorgan Chase CEO Jamie Dimon famously said:**  
**“Silicon Valley is coming”\***

\*JPMorgan Chase & Co. 2014 Annual Report



# Respected Third-Party Validation\*



**Goldman Sachs:** Alternative lenders are “the future of finance”

**Financial Stability Board:** Broad global reach

**Morgan Stanley:** 51% CAGR through 2020

**Harvard Business School:** Small business credit opportunity is compelling

**McKinsey:** Alternative lenders beat banks

**Towers Watson:** Multi-strategy execution is superior to a single strategy allocation

**Credit Suisse:** Fin tech is real

**Moody’s:** More securitizations

**The Wall Street Journal:** “The Uberization of Finance”

**Conning:** Greater growth ahead in life settlements

# Enormous and High Growth Market



- **\$12 trillion in outstanding U.S. loans, including\*:**
  - \$843 billion in consumer loans
  - \$186 billion in small and medium business loans
  - \$832 billion in leveraged business lending
  - \$2.35 trillion in commercial real estate debt
  - \$1.17 trillion in mortgage originations
  - Over \$6.50 trillion in other loans (e.g. securitizations)
- **From these segments, approximately \$1.6 trillion is forecasted to move quickly to alternative lenders with annual net profits of \$11 billion for investors**
- **Global market in trade finance of \$18 billion\*\***
- **Conning estimates a \$180 billion life settlement market... “a growing unmet need” and an “increasing opportunity”\*\*\***

\*Goldman Sachs Global Investment Research, Equity Research, “The Future of Finance Part 1”, March 3, 2015

\*\*Oliver Wyman: *The Future of Transaction Banking Volume 2: Trade Finance*

\*\*\*Conning Research Report - 2014

# Portfolio Tradeoffs

## Strategy Diversification



### Portfolio Balance

- Yield
- Leverage
- Duration
- Collateral
- Liquidity
- Correlation

### Loan Selection

Self-Selected  
vs.  
Domain Experts

Today – Explore, Find and Learn About:

# Yield Solutions

