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Philip Raciti

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Syndicated loans: Achieving a real time view of risk

With higher volatility in the loan market and pressure on margins, asset managers need to eliminate the information and process gaps that lead to risk and missed opportunity.

A new approach to data and workflow management is required for firms to benefit from real time information and to optimise how they manage loans.

Philip Raciti discusses how CVC Credit Partners connects front, middle and back office teams in pursuit of a real time view of risk.

Why is CVC Credit Partners so focused on applying technology solutions to information and operational challenges in the loan market?

I've always had a technology bent, so it is natural for me to think about how we improve what we do on a day to day basis, how we update our workflow and how we reduce friction in our systems and processes. When we started the fund in 2005, one of our first goals was to build a propriety database to help us process credit information, ratings, downgrades, amendments, etc.

Ten years later, we have a huge data warehouse and have worked hard to be very data driven. After we merged firms, Apidos Capital and CVC Cordatus in 2012, we knew it was important for the new combined CVC Credit Partners to share a common platform and business process for credit portfolio management so we worked hard to standardize how our teams operate.

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How do you manage growth at CVC Credit Partners while preserving a standardised investment process?

In 2005, we were a committee of three or four people, all in the same room. Now, with a performance committee, credit opportunities committee, middle market committee, and a direct lending committee in the US plus a similar structure in Europe, we have to focus on avoiding duplication of work. It is not uncommon for us to have four traders and multiple portfolio managers wanting to participate in a single trade, so we have to aggregate our orders between the US and London. The complexity of some routine actions has grown significantly for us.

Our database helps us track trades and approvals, but even with a central warehouse that sends out alerts, it creates a challenge to manage and process a high volume of messages. The question becomes how do you identify the specific piece of information that you want? How do you create a notification for our operations specialist that's going to close this trade to make sure they talk to the right person when they receive a series of ten emails on the same subject?

Another challenge is sharing workflow. For example, our analysts document any asset changes in our system, so if there is paperwork that has to be completed, the operations specialist can pull it right up and search for action items and know exactly what they need to do. If someone is on vacation we should have a history of all of their entries so we can actually see the thought process and any work in progress.

Our recent focus is making sure that we're tracking our risk on a real time basis and part of that is reducing friction over trades, amendments and other events.

It sounds like CVC Credit Partners is raising the bar on how people communicate across the front, middle and back offices.

Yes, everything we do is supposed to go through our front office system so when a trader executes a trade, they book the trade in our system and it is communicated to the back office. Anything you can do to streamline that process and help everyone involved understand exactly what's happening makes things easier. We now have one person doing trades, one person doing cash management, one person doing memo processing, so if something happens in one area, the person from the other area is not going to know.

Centralising data is key to a system that gives that other person the bigger picture, directs information appropriately and provides proper notification so when you go to one area, you can see recent events affecting this asset. If I'm trying to close a trade and it's on hold, I need to see that there's an amendment expected to be executed on a future date, so now I know when I'm likely to be able to close this transaction. This is critical as firms grow and there's no longer that one person who knows everything, because there's so much happening.

It's similar for areas like managing public/private restrictions. A large manager simply cannot handle that with a spreadsheet anymore. The liability is just too great. We centralise the data and then hook in to our internal brokerage accounts to ensure we don't breach restrictions. Centralising the restrictions information also helps our compliance team cross reference our database.

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What are some of the market trends that create pain points between front and back office? What do you see as the next phases of improving the investment management process?

Clients' expectations are changing and in many ways clients are raising the bar on managers, particularly in the area of reporting.
We get a significant amount of investor requests focused on current market volatility. They want to understand how we're managing their risk in a real time basis. Some requests are standard reporting, but many are unique. We want to be as responsive as possible and will provide the information that is requested, even if we are not required by our investment agreements.

We've created our own tools and built queries to collect information from Markit WSO, our internal system and third party sources, but it's a challenge to manage exactly what goes out when, especially when you layer in complex requests and ad hoc requests.

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You talk about achieving a real time view of risk. Can you give an example of what worries you today?

The current challenge is that an order goes out and generally you don't know the status until they put the trade through our database system, so there's a lag between when the trade has happened and the trade has booked, and then there's a lag between when the trade is booked to when the trade hits Markit WSO. If there's a headline affecting a credit, we want to see how much risk we can take off and how quickly. Sometimes there's an information gap and we are relying on people and on a blotter to tell us where we are. That's something I want corrected.

If we can process things in real time and actually see risk in real time, it improves decision making.

If we have an order to move 10 million of one bond and we can't move that volume and it's been an hour on that order, we may reverse course and look to move something else. The communication in that scenario happens over terminals, chat and telephone, so the information about a trade status is fragmented and hard to track. I think some of that friction can be cleaned up by having a real time view of risk.

On the portfolio level, we're going to want to see a higher-up view of the world, but using the same data. The trick is organizing it differently for each person's perspective within their organization.

So much of what you discuss in terms of operating more efficiently and getting a real time view of risk tracks back to putting the right information in the hands of the right people at the right time. Your database system gave you a foundation, but how should others targeting the same results think about build versus buy?

We have the tools, but we've also invested a lot of time and money building up supporting systems. The key in any technology today is open and configurable. I don't know what our data needs are going to be three to five years from now and that's why I say open and configurable. You need a solution designed to show multiple views of risk. Operations are the managers of our counterparty risk. They're also risk managers for a host of processes that they manage. Our portfolio managers focus on market and credit risk. Senior management likes to look at things in a more holistic way, but it's the same underlying data used by everyone else.

In the future, we will stream data from multiple sources, including social media to our analysts who want everything related to their sectors and our traders who want to evaluate our blotters and view of industries. On the portfolio level, we're going to want to see a higher-up view of the world, but using the same data. The trick is organizing it differently for each person's perspective within their organization. Again, the goal is to reduce friction, to reduce custom report requests, to reduce email required for simple tasks. It's surprising that it has actually taken so long to get to this point.

Where do you see the growth opportunities in the loan market?

We see growth in the CLO business and we are working on our approach to risk retention and compliant funding. Despite the changes in the CLO market, I think there is a lot of opportunity for larger mangers that can commit the capital and for smaller managers that can be creative. The managed account business has been good to us and we expect that to grow. Volatility and higher default rates might temper the direct lending segment, but we expect continuing demand, as businesses look for new ways to access capital markets.

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CVC Credit Partners

CVC Credit Partners manages $13.6 billion in assets (as of September 30th 2015) across 41 vehicles globally. The firm has expertise investing across the capital structure and operates dedicated vehicles for Performing Credit, Credit Opportunities, Special Situations and Private Debt. CVC Credit Partners has 14 offices in Europe and the US.

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