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Private Market Talks:

Driving Growth with Corbin Capital Partners' Tracy Stuart

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Over the past 20 years, as Managing Partner and CEO, Tracy Stuart has transformed Corbin Capital Partners from a few hundred million to over $9 billion in AUM. In this episode, we explore what has driven Corbin's success and how its disciplined, research-focused strategy and client-centric philosophy will sustain it into the future. Tracy also shares what she has learned about leadership and offers advice to young professionals looking to make their mark in the industry.

Peter Antoszyk: Welcome back to Private Market Talks, a Proskauer podcast. I'm your host, Peter Antoszyk. Today, my guest is Tracy Stuart, CEO of Corbin Capital Partners. Tracy joined Corbin in 2004, and over the past 20 years, she has transformed the firm. She has grown it from a few hundred million to over $9 billion of assets under management — stunning growth for any firm. As CEO, Tracy has evolved Corbin into an alternative funds manager. It now focuses on hedge funds and credit investing, including spearheading a robust sustainability strategy. During our conversation, Tracy discusses Corbin's strategy as well as its keys to success. She provides insights into where she sees opportunities for growth as well as market headwinds. Finally, she shares her thoughts on diversity and provides some advice for young professionals starting out in the industry. As with all our episodes, you can get a full transcript of this episode and other helpful information at PrivateMarketTalks.com, and if you enjoyed this episode, drop us a note. We'd love to hear from you. And now, my conversation with Tracy Stuart, CEO of Corbin Capital Partners. Tracy, welcome to Private Market Talks.

Tracy Stuart: Thank you. So good to be here. I appreciate it.

Peter Antoszyk: As I mentioned in the introduction, when you joined Corbin Capital, it was just a few hundred million dollars, and over the last 20 years, it has grown to be over $9 billion. Walk us through how Corbin has evolved over the past 20 years.

Tracy Stuart: We've evolved a lot. We've had to survive, honestly, but when I first got into this part of the industry — hedge funds —the early 2000s, it was a very different time. Hedge funds were treated with kid gloves at that time by investors, and I came from a background of broader asset management and thought it was such a strange dynamic that the clients weren't the center of the universe. Hedge funds were. So, we looked at that and looked at what was happening in the space, and at that time, hedge fund funds were a big part of the hedge fund landscape. There's a better way to do it than what was largely being done in the market at that time. At that time, funds of funds were over-diversified. Clients had too many of them, and clients just weren't getting what they wanted out of the asset class. So, we looked at it. We had a chance to start something a little different because we were later in the game than many of our competitors. So, we decided to build a better mousetrap, which meant building concentrated portfolios, investing with new small managers, and we took an R&D approach to our research. And then, we can get into this, but after the crash of 2008, it really led to some other interesting ways of working with our partners and investing. That was early days. Then, after the crash, the landscape really cleared. The fund of funds business as it existed over the next — I don't know — decade largely went away. There's very few of us left that were called funds of funds back in the day, and frankly, it was because the space did not deliver for clients. Clients wanted better results, lower fees, stronger performance, improved transparency, lots of things. So, there was a real clearing out in the space and a shift. Fortunately, we were part of that shift. We were able to take advantage of the client moves, and what the clients were doing is consolidating, working with fewer partners. And those that stayed in the space consolidated with a handful of us. So, we benefited from what was happening in the hedge fund landscape.

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Peter Antoszyk: And what was the shift, specifically, in terms of either how that fund invested or was managed?

Tracy Stuart: Well, the shift for clients was to work with fewer and to have portfolios that were more focused on returns than they had been in the past. They had just been far too diversified. The shift for us, the reason we benefited from what was happening, is because we built a different mousetrap in the first place. Then, after the crash, we were able to really broaden our toolkit of investment options — and particularly in credit, because credit was so dislocated during that time. We looked around and said, "Wow, we could really make some money here," and, fortunately for us, we had some assets to put to work, which at that time was very valuable for our manager partners. We had invested with some of the top credit hedge funds in the world, and we went to the one with whom we had the most conviction and said, "Will you do this for us?" We wanted a slice of their portfolio. We wanted to pay half the fees. We did not want it to be in the fund. We wanted to have full transparency in the pricing, and they actually agreed, and we got a separate account, very targeted portfolio at low fees. And that really was the beginning of our opportunistic credit business, which has flown through our core strategies, but it's also given us a chance to build out a credit business.

Peter Antoszyk: And so, what does Corbin look like today?

Tracy Stuart: We're a little over 9 billion, as you mentioned. We have multi-strat hedge fund clients, both co-mingled; a large part of that businesses is in custom portfolios that have grown with us. We have a liquid credit business in co-mingled form. And we have a private credit business of various forms and flavors that has both been a return enhancer in our multi-strat portfolios, as well as a growth driver for us. We see, just as you've seen in the market with private credit, there's a lot of money flowing into the space. So, we are growing in that space as well.

Peter Antoszyk: So, one of the terms you used was that you're research-focused, your research-focused approach, and I think you alluded to the fact that that is a differentiator. Can you explain what you mean by that?

Tracy Stuart: I mentioned the, after the crash, starting to work with managers a little bit differently — basically, in the credit space, asking them to unbundle what they were doing so we could just choose a portion of what we thought was either their strongest capabilities or something that we really wanted in portfolios — and importantly, at lower fees with more transparency, more liquidity, etc. So, that started it, but what we did back then in 2008 is just an example of the way we invest, our mindset. We take, you mentioned, an R&D approach, which means if the investment team finds an interesting new opportunity, they can pursue it in a very small way as we learn about it and determine whether we can really add value in that particular space. If not, we'll stop. If so, we'll press on it, and if it's really working, we'll resource it. So, we've done that in a number of areas. First, with our opportunistic credit investing. We did the same with CLOs in 2011. CLOs after the crash — you know, all the acronyms were bad words. They were scary. They were not broadly used as they are today. And we started investing in the space. Clients were questioning it, but, we now have a pretty robust allocation to CLOs and tremendous expertise in that space. So, really across all sectors, but particularly in private credit, we try to be a little bit ahead of the curve. We are in very active, high-touch assets that are intensive. They can be complicated but worth it in terms of the differentiated return strengths we can get.

Peter Antoszyk: Obviously, as you mentioned, private credit has exploded, and it's an area that we've covered a lot on this podcast. What area of private credit do you specifically focus on? Because there has been a segmentation within the industry.

Tracy Stuart: The industry has grown tremendously. So many firms have piled in. The big private equity firms have piled in, all sorts of new players in the space over the past decade. We really invest across the spectrum and to varying degrees, depending on where the investment team is finding what they believe to be the best opportunities. Today, we do corporate lending, middle market corporate lending, we invest in asset backs, which I think you've covered pretty well on your program. We invest in secondaries, which is new-ish and growing because of the growth in private credit. We invest in litigation finance, which is more niche. You're starting to see more interest in that space, but we've been at it for 7 or 8 years and have a very interesting investment program in LitFin.

Peter Antoszyk: I'd love to peel that back a little bit. First, in terms of the private credit — I'm curious in terms of the secondaries; that has been a huge area of growth, particularly this past year. And of course, there's been growth both on the LP and GP side of secondaries. I'm curious, do you focus on a particular area? And, of course, credit secondaries in particular have started to take off, as well.

Tracy Stuart: Right.

Peter Antoszyk: I'm curious as to what your particular focus is.

Tracy Stuart: It syncs with our focus across credit, but, as you mentioned, private equity secondaries have been long-standing. So, there's familiarity there. It doesn't feel so weird in the credit space. And then, as private credit is growing—

Peter Antoszyk: Certainly on the private equity LP side, the GP side is a little bit newer.

Tracy Stuart: Yes. Thank you. So, we actually did our first private credit secondary in 2004, but those deals were few and far between. But we think the private credit secondary market is where the private equity secondary market was maybe a decade ago. So for us, we focus, as with other areas of credit, on less crowded parts of non-sponsor, asset-backed lending, as opposed to the larger end, sponsor-backed direct lending space. There are so many large firms competing for those deals and in that space. That's just not where we operate for most of what we do. We're below that. We're in the lower middle market space across asset types, and we're looking for parts of the asset space that are less competitive, right? We're looking for better returns with better terms and preferably not too much risk. We tend to work with smaller to mid-sized managers, fundless sponsors. And we've developed because of our core business and enormous network of partners, maybe 100 partners across all that we do, doing various things. We have sourcing, but also for the managers. We're also a client in some cases. They don't look at us as a competitor. So, it's an interesting seat to be in. And we have developed over the years very robust infrastructure on the investment team in the back-middle office to support that work, because it really is very hands on.

Peter Antoszyk: Given the depth and breadth of the number of partners that you're working with, what are you hearing from them in terms of activity trends? In terms of what they're seeing? Not only in terms of new deals, but also portfolio quality and performance.

Tracy Stuart: Well, you'd have to break that down, right? Because we work with a lot of different types of groups investing in very different spaces. You'd have to break it down into which part of the market you're talking about. But if you want to focus on credit or private credit, high level, I think everyone is pretty aware that valuations are pretty lofty. And credit spreads are tight, high yield's pretty tight. There's not a lot of obvious places to look for real value, at least in our team's view. In the credit space, we're somewhat defensively, not entirely, but somewhat defensively positioned. Even though the headlines are all that the fundamentals in place — hardly anyone predicted the fact that markets and the economy would be fine after 2022 with the surprise rate hikes. Hardly anyone anticipated that. But things have been pretty “Steady Eddie” since then. And we're now in a pretty normal rates environment. Rates at 4 to 5% are pretty typical. What we were experiencing after the crash was not typical. For us, what does that mean? As with others in private credit, take advantage of floating rates. Look past the headline levels of fundamentals being solid. Companies seem to be in decent shape. Default rates have been pretty benign. But if you look underneath that, there's a lot of noise. The credit markets have changed a lot. Under the surface, the higher for longer environment is taking its toll on lower quality companies that are highly leveraged. And so we can see that noise. It's nothing terrible yet, but we see that. And you don't really read a lot about that. Some of our managers are talking about that and also talking about the idea that the private credit markets really haven't been challenged since the big growth over the past decade, and all the new players have come in. We haven't really had a recession, so there will be trouble. I just can't predict the timing.

Peter Antoszyk: What kind of questions are you asking your managers in terms of how they are preparing defensively?

Tracy Stuart: Again, it depends on the space. But a huge focus of ours, both the manager perspective when we're investing in a fund or when we're investing in direct deals and co-investment, is just in credit to really understand that upside/downside. Unlike with equities where you have a lot of upside, with credit there's nowhere left side. You have your yield. So, you really have to focus on the downside. Losses are very painful, so you have to be very careful about that. And it's a different mindset. So, we're always looking at that, and particularly now in this environment, I'd say we've been, as I mentioned, just perhaps a little more defensively positioned. We try to keep the durations or the terms of our deals on the lower side, whereas some private credit deals or loans are maybe five, six, seven years. We really try to shrink that to get to walls in the two-year range. We just don't want to take a lot of duration risk. We just don't know what's happening out there in the future.

Peter Antoszyk: I would also suspect that, given the sector of the market that you're in, your documentation is probably tighter, and therefore, you're less susceptible to some of the gamesmanship that you read about in some of the larger capital market style credits.

Tracy Stuart: Yeah, it's a great point. The credit markets generally have changed so much. Private credit and bank intermediation — the banks have pulled back. The BSL market is huge, with huge players. Then you have private credit going; those used to be two distinct markets, and now they're converging. You've got the higher end of the market that's very competitive. A lot of large firms competing for the same deal. So you have lower rates, worse covenants. It's just crowded. But if you move down from the high end of the market to the lower end of market, particularly in private credit, you can negotiate bespoke terms. You can be more flexible for the borrowers, but you can get, on average, certainly better yields and much stronger covenants. So, we just think it's perceived as riskier and the companies probably are, but you can structure your terms in your favor because it's just a much less competitive space.

Peter Antoszyk: Since you're anticipating the potential for some headwinds, are you positioning yourself for distressed opportunities?

Tracy Stuart: Not really. We just had a discussion about this in the investment meeting this morning. That's a very difficult space to do well in, and we haven't really had a distressed market for quite some time.

Peter Antoszyk: I can't remember the last one, by the way. I used to do a lot of distressed debt, but that was, I don't know, two decades ago.

Tracy Stuart: So, in 2020 during that Covid situation, some of the managers started extension funds or something to take advantage of the opportunity that was coming. And then it never came, right?

Peter Antoszyk: Yes. The maturity wall.

Tracy Stuart: Yeah. Fed bailed everyone out, fiscal policy, etc. So, we haven't seen it. But what we do have — and we look for this with our partners when we're invested in funds and when we co-invest, and we build the capability ourselves — is to have strong asset management and work out experience and skills on these deals. Depending on the sector and whatnot that you're in, you really need to track these things very carefully and learn, as soon as something starts to turn, a lot goes in motion. So, there's a lot to it. But we're paid to take risk. So, we do take risk. We just try very hard to be smart about it, to shrink the duration and protect ourselves. We've gotten better and better at that with experience and the covenants and the lawyering and the terms and all of that.

Peter Antoszyk: You've mentioned private credit and the various areas that you're investing in. You've also mentioned litigation finance. Are there other areas that you're focused on?

Tracy Stuart: I think we discussed in the past briefly the asset-backed space. But I don't think that feels new to anyone. There might be variations on the theme that are newer, but that's been around. And cross credit broadly, we think corporate spreads are very tight. Not a lot of opportunity there, although we do invest. Structured credit can be more interesting. We have a CLO book and RMBS. We've been pretty short on the CMBS and in private credit. As I said, it's lower middle market lending, corporate and otherwise. We invest across the spectrum. We think the juicier returns right now are in litigation finance and various flavors of co-investing. Secondaries can be very interesting, because you can buy them at diversified portfolios at good discounts, and lending to the smaller companies that are still fairly underbanked. We have no shortage of ideas. We have more coming at us that we have money to put to work.

Peter Antoszyk: One of the areas of focus that is sustainability and impact investing.

Tracy Stuart: Right. Well, we had a multifamily office client come to us 5 or 6 years ago, and they had a big impact program, but on the private equity side, they asked us if we would create a hedge fund — an impact, ESG winners portfolio for them. You can't use that language today in this environment, but we had been looking at the space for a while, trying to understand what it was and what it meant from an investment perspective. So, we were pretty well versed in the space. We hired a director of sustainability a few years ago. And so, we did create a portfolio for that client. And what we found is most of the activity in that space — no one is using ESG anymore — but in that space, the activity is in public markets in long-only screened funds, semi passive funds. All that money in the impact space is in private equity and venture capital. So there was not a lot going on in the hedge fund space. We have found a handful of managers that we think are strong in this space, but perhaps more interestingly, with our private credit toolkit, if you will, we started applying an impact lens on our private credit deals a few years ago, and we found that a pretty big chunk of what we were doing really aligns with impact. So now we do a fair bit in private credit impact.

Peter Antoszyk: Can you give an example?

Tracy Stuart: In litigation finance, we funded opioids litigation on behalf of individuals and hospitals and some others that's still being worked out fully, but that it's going to work out well for the individuals and the hospitals and those involved. We have invested in electrification of buses in Australia, affordable housing in New Zealand. We've invested in greening brown fields, plants and areas in the States to turn offtake from manufacturing use into biofuels. So, there's actually a lot that you can do in lending that aligns with impact. It's new, it's coming, but we're seeing interest. So, we think that's an emerging growth area as well.

Peter Antoszyk: How do you think the current environment will affect that on a go-forward basis?

Tracy Stuart: I'll tell you, I don't have to think about it. People started changing their language a couple of years ago. And, not saying ESG but maybe saying sustainability. Superficial things to shift to be a little bit more in sync with the current political environment. My view is: for large firms, they have to change their language and be careful because of their very vast constituents and perhaps exposure to the government. But for those of us who are committed to the space and, frankly, under the radar, you need to make sure you're aligning with the legal environment; our lawyers are all over this. But, otherwise, what we're doing day to day isn't changing. The language might change. But those of us who know that having diversity of mindsets across lots of things in an organization adds value. There's no question, it's been datafied. We know that. We're not going to shift off of that. Investing in areas that are both good investments for clients that produce solid returns and are in sync with good behavior is both good from a risk perspective. You can promote the work we need to do for climate. You can promote work in social justice. There's just a lot going on out there where the Venn diagram of good investments and impact come together. And very few groups are doing this work in the way we are. We've built up, as you mentioned, a very robust capability in the space, and I'm not sure that in the States there will be huge demand short term, but I believe globally, especially among large family office groups, there is demand, and it will continue. I don't think it's going anywhere.

Peter Antoszyk: As you look out, as you said you're research driven, and you have your team in their laboratories looking for that next opportunity, that niche opportunity that will drive alpha, what are you not in today that is on your radar, that looks interesting?

Tracy Stuart: If it really looked interesting to us, we'd already be in it in some way. So, I can't think of anything the team has surfaced that we haven't explored. I mean, this isn't new: we've invested years and years ago, but we're revisiting the reinsurance market. Because a lot is going on in that space. Sometimes what we find may have been a theme that we liked ten years ago, but now we see value in it again, so we'll come back to it.

Peter Antoszyk: I'd like to pivot from investing to distribution fundraising. Obviously, the megatrend right now in the industry is tapping into the private wealth market. I don't believe — correct me if I'm wrong — I don't believe that is your focus necessarily, since your focus is institutional clients and family offices. What have you seen migrate from the institutional fundraising to the private wealth channel?

Tracy Stuart: I would bifurcate that into retail private wealth and then large family offices. We're not in the retail space at all. We are on a couple of bank platforms, we work with them as institutions. But their clients are high net worth, and the trend there is absolutely for the asset managers to provide alternative products to these clients, and clients are really looking for those sorts of products. So, the "retailization" of alternatives is happening, but we're really not part of that. We see that as a field primarily for the larger firms. We have to pick our spots. But what we're finding to be super interesting, which has not been a focus historically, is the multi-family office space, globally. And we've just been engaging over the past year. And that is enormous, if you call it a market or many markets. And what we're seeing there is super sophisticated families and family office groups specifically looking for alternatives and often niche alternatives. And they're looking for advice. So, we've come across a number of what you would call gatekeepers, almost like the consultants in the institutional space, that are working to source either good funds or often co-investments for these clients. And that group is one that has been particularly interested in our litigation finance work, along with other things. We get interest in the co-investment deals that we do. So we're looking at how and if we might be able to offer that to clients. We're working on that.

Peter Antoszyk: And what kind of questions are you getting from the family offices?

Tracy Stuart: Not that different from the institutions, but wearing different hats and with a different lens, perhaps. They are looking for strong, risk-adjusted returns. Low teens without taking on too much. Some are in private equity. Well, most probably are, and that space has been challenged. So, they want a little more liquidity, strong returns and interesting ideas. And I'd say that a lot of the questions we're getting are focused on the co-investment space. The large ones who group up and can do club deals, they want to go in on direct deals, and whether or not they're equipped internally to process that information effectively, not clear. But they like the idea of the results they can get, particularly in the private credit space, co-investments.

Peter Antoszyk: As you look out over the next three years, what are trends the impact of which you think might be undervalued by allocators and investors?

Tracy Stuart: And by that you mean macro-economic trends? Or just anything?

Peter Antoszyk: I'm not saying macro-economic trends. Macro trends that would impact how you think about your investing, your core investing strategies.

Tracy Stuart: Right. There's a lot going on. Now, I've told you we're not prognosticators. We don't believe that anyone does that effectively. However, you do need to take the current context into account when you're investing, particularly from a risk perspective. So, many things: My view, this isn't necessarily shared by our team, the geopolitical (emphasize political) environment right now, I think, markets discount. I think they discount the risks throughout the system globally and the noise in the system. Not sure exactly what you do about that, except maybe create fairly defensive portfolios. Another trend in the hedge fund space is the pod shops are in such demand, and they've created a huge vacuum, just enormous demand for talented individual portfolio managers. And there's a huge talent war going on there and crazy compensation. And I'm not sure what the implications of that are going forward, but that's something that's happening in this industry. Along with that, I think the long-short equity model is very challenged. If you look at the structure of the markets and how they've changed with so much money going into passive, so much money being managed by the shops and the pod shops, it seems there are structural changes in the market which might make it more difficult for the managers who are more focused on fundamentals and shorting on fundamentals. So that's something we're looking at. Traditionally we've invested with more fundamentally oriented, long-short managers or managers across the board, and that space has been challenged. I mean, money's been flowing out of that space, and it's just been harder, I think, for that group to make money in the same way as they used to. Some still do, it's just difficult. Along those lines, I've read and seen a little bit that portable alpha is making a comeback. So portable alpha was a thing before the crash, and I think largely those strategies blew up and went away. But I'm being told that's back. So, the credit, especially private credit, markets will be challenged and stressed at some point. And there's a lot of groups in the space now that have not been in there for a long time. That's usually not a recipe for smooth sailing. Absolutely. And people ask, I love it when I read something about the markets saying, "Oh, in these uncertain markets..." There's no certainty in our business. Never was, never is. If we could predict the next disaster, we wouldn't be here. So, you don't know what's coming next, when it's coming, but you can get indications based on valuations and what's happening in the world around you. And that's what we try to do without forecasting. We don't have any big forecasts.

Peter Antoszyk: And also, perhaps more importantly, is having the skill set to be able to manage through the volatility.

Tracy Stuart: Having the skill set and, honestly, the longevity and the working together as a team in these different market segments because you learn so much. I mean, Craig and I were around during the 2007 crash, the tech bubble, 1987 crash, I hate to admit.

Peter Antoszyk: So was I.

Tracy Stuart: You learn a lot. History rhymes. It doesn't repeat, but you did learn.

Peter Antoszyk: You've successfully steered Corbin over the last 20 years to where it is today. What have you learned along the way about leadership?

Tracy Stuart: I learned, fortunately for me, a lot about leadership prior to joining Corbin. I started as an investment consultant with Wilshire and there, when you're consulting, you learn the client side. You learn to think and work for the client. So that's sort of the most important lesson you can learn in this industry. Then I started a business with John Casey consulting to asset managers, some of the largest firms in the world, and we did strategic projects for them because of John's relationships that he had. So, I got in to see the inner workings of some of the largest asset management firms in the world and leadership, good, bad and ugly. It was fascinating and such a lucky seat to be in for a young person. And then hired by Goldman to start an open architecture program. So, learned about the inner workings of an asset management firm with incredibly talented people. So, all of that really brought me to Corbin and the skill set to understand the industry, the client investments and so importantly, leadership. When we started here, we put our heads together and said, "Who and what do we want to be?" And we were so clear on the message of delivering for clients, or we shouldn't be here, of building a very — this is such an overused statement — but strong and resilient culture so that we created the environment, the resources, the infrastructure for people to do their best work. But not the noise, not the nonsense, not the turf wars, not all the stuff I saw at other firms. And we work extremely, extremely hard on that. In fact, I did a little talk at our client conference a few months ago on culture. It's actually been studied now and datafied that strong cultures, they can connect to strong outcomes and a connection to strong or stronger investment returns. That's new work. But it's starting to be datafied. And in this industry, this isn't really something you heard much about ten years ago. So, just the fact that people are paying attention to culture is great.

Peter Antoszyk: What advice do you give young professionals today who are looking to navigate their way in this industry?

Tracy Stuart: Well, I tell everyone, people coming out of college and when they're starting their careers, to get career counseling or coaching. It's something most of us do sort of mid-career, midlife. But if you can do it early and learn how you're hardwired, that can really lead you to options that you're better or worse suited for. We're all wired very differently. And when we profile — we have not a test, but something we have people do before we hire them. It's a modern version of Myers-Briggs and really gets at how you're hardwired, and you will see the investment team members have very similar profiles, salespeople have similar profiles, etc. So, we're all hardwired differently. And those characteristics will make you more or less effective in a particular job or environment. It's a long-winded answer on the first one. I recommend a book called Open Mindset, which I love, and I think when you read it, you can look at people in your life and quickly identify who's open and who's closed mindset. Having an open mindset will take you a lot farther in life. Another thing I recommend, and we very much try to act on this at Corbin, is learn to receive and give constructive feedback. Within our organization we have kind of continuous feedback loops. We don't wait till the end of the year to give you some bad news or good news. To have a really rigorous culture, you need to give people feedback. You need to be honest. You need to be authentic and have a good dialogue, and that's hard for people. Most people have very difficult time with any sort of confrontation, and negative feedback can feel like confrontation. So that's something I urge people to learn to do early in life.

Peter Antoszyk: I have enjoyed this conversation, Tracy. I really appreciate the thoughts and insights you've given, and I want to thank you for joining us on Private Market Talks.

Tracy Stuart: Peter, thank you. It's my pleasure. I really do appreciate your having me on.

Peter Antoszyk: And thank you, listeners for listening to this episode of Private Market Talks.

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