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Palmer Square sees 50% asset growth in 2020, thanks largely to this

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Mission Woods-based Palmer Square Capital Management grew its assets by 50% in 2020, surpassing \$15 billion.

Driving that performance in large part was a niche the company carved out in the Collateralized Loan Obligation (CLO) market. A CLO gathers investors to raise a pool of money, then invests in large bank loans for big corporations like Dell Computer, Aramark, Veriphone, Burger King and similar companies.

Palmer Square built nine CLOs in 2020, including three in Europe, making it the No. 1-ranked global issuer of CLOs last year. The total number of CLOs managed by Palmer Square hit 21.

Just issuing a CLO doesn't breed success, especially given 2020's uncertainty from the pandemic and market downturns, which can lead to bad debt and losses. But Palmer Square is in rare company as one of only nine CLO managers of 128 in the industry to have zero downgrades.

"One of the reasons we had such a successful year, and what's been a key for us for the past 12 years, is that we have a higher-quality buy-in," Chairman and CEO Chris Long said. "We select loans and bonds, always trying to find the highest

quality. Then if the market dislocates and falls apart, we're in a preferred position, and it's with a high-quality company that is most likely to pay us back."

The end result is an investment product that can generate double-digit returns at less risk than the equity markets. That's an attractive investment for high-net-worth and institutional clients, and having a strong track record through a tough market cycle makes it easier to raise money to launch new funds.

"It's in tough times when you're really able to distinguish yourself in this business," Long said. "When everything is going up, everyone probably is doing fine. But when things get rocky, you really have an opportunity to show the strength of your team and your processes and put a mark on it."

Palmer Square launched several CLOs in 2020 that fit the standards to qualify as Environmental, Social and Governance (ESG) funds. Palmer Square uses a proprietary scoring system to evaluate companies to see how they perform as far as being stewards of the environment; managing social relationships with employers, customers and communities; and how leadership deals with executive pay, audits, internal controls and shareholder rights.

"We did our entire European rollout all as ESG compliant, so that's three CLO funds," Long said. "ESG has been really



Chris Long is CEO of Palmer Square Capital Management.

big in Europe. They're a bit ahead of us on investor demand for ESG products. Every conversation we've had with European investors, they asked about it. People want to know what we're doing with ESG. In the U.S. it's not like that yet, but the volume of conversations is increasing. A lot of the ESG-friendly companies are also higher-quality companies, so it's really something we've looked at for a long time, but now we've formalized it by putting products into that format."

Palmer Square also raised about \$750 million in 2020 to launch a private business development company (BDC). These BDCs invest in companies with less than \$250 million in market value that are in the initial stages of development or are financially distressed.

Long said his firm's BDC is set up to go public eventually, through an IPO. It would be Palmer Square's first publicly traded vehicle.