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WITH ELI

Eli Appelbaum, Partner in the Alternative Credit strategy at Ares Management, discusses their purpose-driven investment approach, his expectations for the market environment and the strategy's charitable tie-in that reflects Ares' commitment to making a positive impact.



Debt Business Magazine sits down with Eli Appelbaum, Partner in the Ares Alternative Credit Strategy at Ares Management. Appelbaum discusses his background in asset-focused investing, the major milestones and achievements of the Alternative Credit strategy at Ares, and the approach to investing given the current complex environmental factors. He also highlights the sectors and asset classes the company is focused on investing in, any increase in portfolio valuation risk, and how investors like Ares are thinking about returns in the current market. Appelbaum further explains the company's approach to ESG and impact investing and shares information about their quarterly newsletter.

Tell us a little about your background and what led you to your current role.

I've been involved in asset focused investing throughout my 17+ year career. In the early part of my career, I worked in US and Japan, and for the last 12 years I've been based in London and focused on investing in Europe and the UK. I now lead the European efforts of the Alternative Credit strategy at Ares.





What major milestones or achievements have you had with Ares and the Alternative Credit strategy?

Ares' Alternative Credit strategy is part of the Ares Credit Group, a leading global platform that manages more than \$214 billion as of December 31, 2022. The Alternative Credit strategy, which manages more than \$21 billion and has approximately 60 investment professionals, invests through a family of funds that were formed to address gaps in the capital markets between credit, private equity and real estate. The flagship fund, Pathfinder, held its final closing in March 2021 with total commitments of approximately \$3.7 billion. Pathfinder also has a unique social impact purpose, which reflects Ares' culture and vision for alternatives. Ares and Alternative Credit portfolio managers have committed to donating at least 10% of the Fund's carried interest profits to global health and education charities. We believe Pathfinder is the first institutional private investment fund to utilize a predefined structure to make such a substantial commitment to charitable activities.

What is your approach to investing given the current complex environmental factors, and how has your approach changed in the last couple of years?

We are facing a vastly different environment today that we were two years ago. As we know, the massive government intervention during the pandemic led to a bull market in virtually all asset prices and valuations across all the subsectors in which we invest. As the economy and asset owners come to terms with a high inflation and high rate environment we are seeing increasing dislocation in the capital markets in the face of a potential economic slowdown and heightened risk of recession. This will take time to play out, and we are anticipating higher default rates across the market as liquidity dries up and hedges continue to roll off. Given the scale and breadth of our Alternative Credit strategy offering and position as the preferred counterparty for borrowers, we believe there is significant opportunity for our strategy as markets continue to dislocate. Notably, while most of our investments range from \$50 to 250 million, we have the ability to invest as much as \$500 million to \$1 billion in a single transaction, further differentiating our capabilities.



What sectors and asset classes are you focused on investing in now?

We continue to target investments across the capital structure – debt, preferred equity and equity – in specialty finance, lender finance, loan portfolios, equipment leasing, structured products, net lease, cash flow streams (royalties, licensing, management fees) and other asset-focused investments. We look to support assets that can't effectively access the capital markets during periods of dislocation like that which we face today. One of our more successful themes recently has been providing capital solutions to GPs whether in the private equity, real estate, infrastructure, or structured credit sectors, where we see the continued growth in the space. We are likewise focused on private ABS space, triple net lease portfolios and scaled solutions for owners of granular real estate portfolios where there is a dislocation between book valuations and the valuations implied by the capital markets.





Have you noticed any increase in portfolio valuation risk given the macro headwinds?

We have observed a consistent bid ask spread on valuations of asset portfolios – especially in the real estate sector. However, we are starting to see these come down as pricing expectations decline and we see increased demand for structured solutions, such as convertible preferred instruments and other hybrid capital solutions.

How are investors like Ares thinking about returns in the current market?

In our Alternative Credit business we deploy from a variety of pools across the return spectrum – anywhere from investment grade all the way through to opportunistic return funds – so we expect to find attractive opportunities and see investments continue to perform in a challenging market environment.

Does your investment strategy focus on ESG and/or impact?

Our flagship funds have a charitable tie-in where Ares and Alternative Credit portfolio managers have committed to donating a percentage of carried interest profits to health and education charities, which we believe have the potential to make a substantial positive impact on people and communities around the world. Members of the team recently visited India to see some of the work we are supporting with one of our charitable partners, and it was a transformational experience for our team to see the impact of some of our efforts. We hope that this theme continues to spread across our peers in the asset management industry.

How can we learn more about your strategy and focus areas?

Our team produces a quarterly newsletter – “In the Gaps” – that details our view on current market trends and our expectations for the economy in the near- to medium-term. We like to identify and understand market phenomena and spotlight select partner charities that shine a light on important issues facing the world. This is available both on the Ares website and on our LinkedIn page.

