

SPOTLIGHT

New Mountain's Riley on Adopting the Private Equity Approach to Long/Short Investing

Daniel P. Riley, managing director at **New Mountain Capital LLC** and co-chief investment officer of its long/short equity hedge fund **New Mountain Vantage**, spoke to Bloomberg's Nathaniel Baker about his fund's investment style.

Q: Vantage started in 2006 as an outgrowth of New Mountain's private equity business that dates to 2000. Have there been any particular challenges of starting a hedge fund out of a private equity-type infrastructure?

A: We think our private equity roots are a big advantage. That said, in public equity you have daily mark-to-market. In private equity you have the liberty of taking a very long-term view and not being worried about the next quarter. We do try to take a long-term view – not as long term as private equity – but we are also very mindful of what is going on in the near term. The important thing is marrying the understanding of what makes a good business, while also being aware of what's going on in the market.

Q: How is that reflected in your investment style? Would it be fair to call it value-driven?

A: We're definitely value investors but I would describe it more as value with a catalyst. We take a long-term horizon with the stocks we look at, but we also want to know how we're going to make money. In some cases, we have been able to work with management to drive shareholder value.

Q: Are there any particular sectors that you look at?

A: We will look at anything. We tend to gravitate more toward non-cyclical, defensive growth businesses. We spend a lot of time in healthcare, business services, telecom, media, technology. We do some work in less cyclical parts of energy as well, such as pipelines and MLPs, but not as much in commodity cyclicals.

Q: How long do you typically hold your investments?

A: We like to be concentrated in our best

ideas and that usually ends up with the top 10 investments being 40 percent to 60 percent of the portfolio. For names where we've decided to make a big commitment, we generally hold those for 18 months.

Q: How has that gone this year?

A: It's been an interesting year, with the sell-off over the summer, the European crisis and what's going on in Washington. As we look forward, we have plenty of macro concerns and things we worry about, however we are seeing more opportunities from a bottoms-up perspective. We're finding more and more stocks that look cheap to us. So we get excited about that but we temper it with the concerns about the macro picture.

Q: So would you subscribe to the argument that corporate balance sheets in the U.S. are in pretty good shape and that the market is just looking for the European thing to be over with to start a big rally?

A: Well I don't know how easy it is for the European mess to just go away. I don't know how quickly that can happen. But going back to the macro versus micro point earlier, from a bottoms-up point of view there's definitely things that seem interesting to us. We definitely look at things from a private equity mindset just given our back-

ground. There are lots of large corporates with plenty of debt capacity, lots of cash on the balance sheet, etc. We spend most of our time in the \$1 billion to \$10 billion market-cap range and we've been very successful over the last couple of years to have numerous takeouts in our portfolio, both from large corporates and also from private equity buyers. We never buy something just for the M&A but we buy a lot of things that large strategics or private equity would like to own.

Q: Any particular industries?

A: We've become very interested in insurance, reinsurance and the insurance brokers. Valuations are assuming a continued soft market, continued weak economy, continued low ROEs. We think that's been too heavily discounted. To be able to buy, on the carrier side especially, some pretty great businesses at substantial discounts to book value seems attractive to us.

Q: How active are you on the short side?

A: We like to find things where there's going to be a fundamental change to the business model; either a new competitive threat or the industry structure is changing – something along those lines. We've found successful opportunities this year doing this, especially the consumer and technology space.

AT A GLANCE



Age: 33

Hometown: San Diego

Lives: Upper West Side, New York

College/University/Grad School(s): Princeton University (2000)

Professional Background: Credit Suisse First Boston (2000-2002), New Mountain Capital.

Family: Wife Sophia, daughter Caroline (18 months), son Jack (2 weeks).

Hobbies: Chasing daughter around the playground.

Mentor: Dad

Jets or Giants: San Diego Chargers

Favorite NYC Restaurant: Used to be Lupa...