

Princeton Looks To Capitalize On Event, ESG Catalysts

Princeton Asset Management sees the current fixed-income market providing catalysts for returns as well as the firm's success.

The majority women- and minority-owned firm offers a core fixed-income strategy that incorporates a catalyst driven overlay and an ESG overlay.

"We basically have a traditional strategy, but those two overlays are what makes Princeton's investment process unique and distinct," said CEO Rui Falcon, who launched the firm with her husband Adam Falcon, the firm's cio, in 2008. The firm is 51% owned by Rui Falcon, with the remaining 49% in a family trust.

The strategies were developed when the pair worked together at family office The Cline Group, where Adam Falcon served as executive director and chief investment strategist and Rui Falcon was the director of investments. Adam had previously worked as a fixed-income portfolio manager at PNC Bank, while Rui was a senior portfolio manager with Fannie Mae in its Treasury and Fixed Income Department.

The team also includes Senior Credit Analyst James Dressler and Client Service Specialist Marilyn Thomas.

Adam Falcon said that structural changes in the fixed-income and credit markets in spread sectors relating to liquidity, trading imbalances and bond market fragmentation have created opportunities for excess returns.

From a liquidity perspective, bond dealer inventories have shrunk by over 85% since 2007, which allows Princeton to step in and purchase bonds at an attractive yield-to-maturity when an event causes a deviation of a security's price from its underlying value, Adam Falcon said.

The trading imbalances have been created by regulatory changes, resulting in the total amount of bonds outstanding outpacing inventories and allowing Princeton to act as a trading counterparty in short-term and intermediate dislocations.

Lastly, the bond market fragmentation results in turnover not keeping up with the increased growth in new corporate issues, which can create excess return on trades.

Those factors have impacted the opportunity for excess return. "There are situations where the yield increases larger than it should. Princeton is very adept at identifying that and capturing that," Adam Falcon said.

While the firm's core fixed-income strategy deploys traditional bond management in the areas of duration, yield curve positioning and security selection, it also incorporates a catalyst driven overlay and an ESG overlay.

The catalyst overlay looks to identify opportunities where a catalyst is at work helping propel a bond upward toward its intrinsic value, Adam Falcon said.

A catalyst can fall into several categories, including a broad structural change in a particular industry such as oil barrel prices dropping, idiosyncratic reasons within a company such as a new product under development, geo-political risk around a particular company or sector and, lastly, the possibility of a credit upgrade.

To find a catalyst the firm screens on yield-to-maturity and the change in yield week-to-week and month-to-month to identify rising yields and widening spreads that constitute further investigation. The firm also relies on its own industry specific coverage to vet opportunities.

The ESG overlay has a primary focus on governance, as Adam Falcon said that factor "has the most impact relative to fixed-income investing...when you have companies that place a premium on strong shareholder communication, value transparency and have strong corporate governance, you avoid unexpected downturn surprises. You avoid losses."

The analysis can also help identify negative catalysts that keep the firm from owning bonds that will underperform.

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prove in that regard, we do feel that over the long term, it may not provide the best return for our investors," Rui Falcon said.

Ultimately, the underpinnings of the strategy create a portfolio of more than 100 holdings with attractive upside and downside capture, Adam Falcon said.

"For those institutions that want a very favorable upside capture and downside capture that is different than just receiving the index returns, Princeton would be ideal. Since inception, the upside capture of Princeton is 123% and the downside capture is only 41%, so that is very favorable," Adam Falcon said.

The firm's performance and asset growth has it believing now is the time to ramp up its marketing efforts.

The strategy has an annualized return of 6.00% since inception as of March 31, compared to 3.32% by the Bloomberg Barclays Aggregate Bond Index.

The firm has also grown to \$90 million in assets, including a recent hire by an undisclosed foundation following an RFP process.

"We were at the point where the asset level is significant that we feel it certainly is a process of launching the firm into the market and introducing ourselves is the right thing to do," Rui Falcon said.