Q&A

Trump's Policies Should Give All Investors Pause: Innovatus's Schiff

David Schiff, Founding Partner and CEO, Innovatus Capital Partners

- The Trump administration adds "another dimension" to investment decisions, says Schiff
- There are not clear drivers for global consumption growth, says Schiff, who is "not bullish" on global GDP
- Innovatus is a private credit investor, pursuing an asset-backed strategy, founded in 2016

Interviewed by Ainslie Chandler on Feb. 10. Comments have been edited and condensed for clarity.

Q: How does the new Trump administration play into your investment strategy? Has it made you reconsider anything?
A: It ought to give all investors pause. And it certainly adds another dimension to making thoughtful investments. You are going to look at everything including the tax regime, and who the winners and losers are, and what it means for a specific investment. But there is still a lot of detail missing. Once you get beyond tax policy and you talk about the rollback of regulation like Dodd-Frank and global market implications because of foreign policy or cross-border tax policy, that adds another dimension to analysis.

But cash is an investment decision and we are not in any rush to put a lot of cash out.

Q: What would the repeal of Dodd-Frank mean for you?
A: That is a big statement, 'the repeal of Dodd-Frank'. The question is, is it in part, in pieces? And how will it roll out? Banks have been sidelined in terms of acquisitions. One thing to think about is whether banks will get back into the acquisition game. Will they buy specialty finance businesses? It's really early to tell. It's a fun time.

We're cautious because the picture is not clear and you are not getting rewarded in today's market, given values, for taking risks on those variables. There is still a lot of liquidity in the world, you haven't seen a rise in bankruptcies, the stock market is fully priced.

What changes all of that? We are no better than anyone else at predicting but it seems that a lot of the world is not pricing in the risk we are seeing. Including what happens to rates.

Q: What is your view on interest rates?
A: We are not terribly bullish on global GDP. I can make a case that the rollback of regulation and a change in tax policy is very bullish. And that companies bringing back money from abroad could have a big stimulus effect here. But right now I am not sure what the global growth driver is and what is going to drive consumption. We are very cautious as a result.

I wouldn't be surprised to see the short end of the curve continue to go up. It all depends on whether someone wants to cause an inflationary cycle or not. You are in a world where the Bank of Japan and the ECB are painting markets and a lot of the central banks are acting. They are not normal markets.

Q: Where do you see the most opportunities, in terms of industries and in terms of the capital stack?
A: In life sciences, we are going to be senior in capital stack because we are concerned about venture values, broadly speaking. We are looking for companies that have devices or diagnostic tools that save lives or save money, where there is a clear need for the product.

In commercial real estate, it's a big enough space and we are small and nimble enough that there is always going to be situation-specific opportunities. And that is up and down the capital stack.

You have to be mindful of technology as a disruptive force. If you looked at taxi cab medallions 10 years ago and today, they have had a profound and dramatic change in valuation, so you begin to look around the world and say 'what is immunized to that?'. Those are kind of things that we either find a way to take advantage of or get taken advantage of on.

Q: What is your biggest concern about the market?
A: How prepared the market is for volatility. When people get offside, that can create a deeply catastrophic event as it did in '08. Here you have a different set of circumstances, where you can argue that consumer businesses are in better shape but the central banks are less well equipped, given how they have expanded their balance sheets to deal with crises. You have a whole other level of unpredictability; Brexit or Greece or French elections. Clearly there are a lot of unhappy people. As a society, and as an investor, we need to think hard about where that ends. It's unclear to me that the people who voted for change are going to be very satisfied with the changes. So then what comes after?

At a Glance

Age: 46 **Based in:** Brooklyn, NY **Hometown:** Coram, NY

Brief career history: Founding Partner and CEO, Innovatus Capital Partners; various roles including Partner, Perella Weinberg Partners, 2008-2016; CEO, Broadworth Capital, 2007; Managing Director, Amaranth Advisors, 2005-2006; Director, Wachovia Securities; 2003-2005; various roles, ABS and Securitization Groups, JP Morgan
Degrees: B.S. with distinction in economics, Cornell University
Recommended book: Powerbroker by Robert Caro
Favorite toy (car, boat, electronics, camera etc.): Hoyt bow
Hobbies/favorite pastimes: Farming, outdoor sports (hiking, skiing, fishing and archery)