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## **2017 Presents Potential Opportunities for Credit**

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The Granite Springs Total Return Fund successfully launched in June 2016. Potential tax, regulatory, and fiscal changes present a unique opportunity set for the Fund in 2017.

### **2016 Highlights**

- The Granite Springs Total Return Fund (GSTR'F or "the Fund") was launched on June 7, 2016 with **seeding provided by a multi-billion dollar pension fund**. GSTRF is only available to accredited investors.
- GSTRF is an actively managed fund that invests primarily in investment grade corporate bonds. The Fund seeks to **hedge interest rate exposure** while actively managing credit and sector exposures. GSTRF utilizes a variety of strategies to exploit credit inefficiencies arising from dynamic market conditions and valuation anomalies.
- GSTRF is managed by **Kenny Klein and Randy Masel**, two industry veterans with successful track records and almost 65 years of combined experience in the credit markets.
- The Granite Springs Total Return Fund has posted a cumulative total return of 6.30% since its launch in June 2016, **outperforming its benchmarks** as follows: (1.40%) for the Barclays U.S. Aggregate Index, (0.39%) for the Barclays U.S. Credit Total Return Index, and 2.84% for the U.S. Credit Excess Return Index.

### **2017 May Provide a Ripe Climate for Corporate Bond Spreads**

GSTRF, by buying corporate bonds and shorting U.S. Treasuries on a duration-weighted basis, is long corporate bond spreads as its primary investment vehicle. A number of potential tax, regulatory, and fiscal changes that may occur given a Trump presidency have the potential to be very positive for corporate bond spreads.

These possible changes and implications include:

- A **tax holiday on repatriated corporate cash** held overseas could meaningfully reduce corporate bond issuance in 2017. Bank of America Merrill Lynch (BAML) has estimated that new issuance could be reduced by \$50 billion in 2017. Moreover, this analysis does not account for the

possibility that repatriated cash could be used for bond buybacks. BAML is projecting a 17% reduction in corporate bond new issuance in 2017 and a 42% reduction in net supply (i.e., net of maturing bonds).<sup>1</sup>

- The **potential repeal of interest expense deductibility** in exchange for immediate 100% depreciation of capital expenditures would also create a meaningful, although unquantifiable, reduction in corporate bond new issuance.
- Any **reduction in corporate tax rates** will lessen the tax shield and hence the attractiveness to corporations of issuing bonds to finance stock buybacks, acquisitions, etc. At the same time, any **reduction in personal income tax rates** will increase the appeal of corporate bonds as an investment by improving their after-tax returns relative to municipal bonds and qualified dividend income producing stocks.
- **Higher interest rates** caused by Federal Reserve rate hikes and/or expansionary fiscal policy should be good for corporate bonds spreads. As interest rates rise, corporate bond spreads tend to tighten as they become a smaller component of a bond's overall yield. At the same time, expansionary fiscal policy and a looser regulatory regime are likely to stimulate corporate earnings and improve corporate credit quality.
- The **potential loosening of Dodd-Frank** may result in banks being more willing to trade and inventory corporate bonds. This could create a more robust trading environment and improve the liquidity in the corporate bond market.

The Granite Springs Total Return Fund is well positioned to capitalize on these potential opportunities in 2017 given its focus on corporate bond spreads. Moreover, Granite Springs is seeking seed investors for a long/short credit hedge fund to take advantage of idiosyncratic events that are likely to take place in 2017.

The Fund is available to accredited investors only. Please contact Randy Masel at (212) 935-0755 with any questions or inquiries.

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<sup>1</sup> Bank of America Merrill Lynch *Credit Market Strategist*, "2017 US high grade outlook: Let's do the twist." (21 November 2016)

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